

LafargeHolcim

Price CHF41.84

Declared interests for the Lafarge India assets, says the press

Fair Value CHF50 (+20%)

BUY

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	72.9 / 34.1
Market Cap (CHF)	25,393
Ev (BG Estimates) (CHF)	45,591
Avg. 6m daily volume (000)	2,103
3y EPS CAGR	19.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.5%	-17.8%	-26.5%	-16.8%
Cons & Mat	10.7%	-4.1%	-1.8%	-4.1%
DJ Stoxx 600	7.4%	-7.7%	-6.0%	-7.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	31,814	30,144	30,741	32,518
% change		-5.2%	2.0%	5.8%
EBITDA	6,495	5,723	6,204	7,234
EBIT	3,765	2,993	3,474	4,504
% change		-20.5%	16.1%	29.7%
Net income	1,247	1,005	1,445	2,127
% change		-19.4%	43.8%	47.2%

	2014	2015e	2016e	2017e
Operating margin	11.8	9.9	11.3	13.9
Net margin	5.3	3.1	4.1	7.2
ROE	3.3	2.7	3.9	5.6
ROCE	3.4	3.4	4.0	5.2
Gearing	41.6	43.9	42.1	36.8

(EUR)	2014	2015e	2016e	2017e
EPS	2.06	1.66	2.39	3.51
% change		-19.4%	43.8%	47.2%
P/E	20.3x	25.2x	17.5x	11.9x
FCF yield (%)	1.9%	3.4%	7.7%	13.4%
Dividends (EUR)	1.30	1.50	1.75	2.00
Div yield (%)	3.1%	3.6%	4.2%	4.8%
EV/Sales	1.4x	1.5x	1.5x	1.3x
EV/EBITDA	6.7x	8.0x	7.3x	6.0x
EV/EBIT	11.6x	15.2x	13.0x	9.7x

A local newspaper said yesterday that numerous groups would be interested in Lafarge India, while the bidding process could start in a month's time. Pricing remains uncertain, but the combination of a decent interest level, solid cement volume consumption in January and promising infrastructure spend commitment in the 2016-17 government budget (+23% y/y) will certainly help. A favourable outcome for LafargeHolcim looks possible now, after several months of uncertainty.

Remember that due to anti-trust demands, LafargeHolcim has to divest some assets in India. The initial deal signed last August with Birla Corp. (5.15mt of cement capacity sold for INR50bn or USD740m) has been cancelled due to legal issues (mining rights impossible to transfer). Early February, LHN announced that it has received the anti-trust approval to sell Lafarge India as a whole (11 mt).

According to *The Financial Express* website yesterday, numerous entities have submitted "expressions of interest" for the sale of Lafarge India : cement groups Votorantim (Brazil), CRH (Buy, FV EUR30), HeidelbergCement (Buy-top pick, FV EUR86), private equity players KKR and Blackstone or India conglomerates Piramal or JSW. No element of pricing has been disclosed, but several deals have been concluded in India in 2016 so far : in February, Birla Corp. has paid approx. USD700m or 129 per ton (every EV/t are based on our calculations, notably based on Q1 forex) for the 5.5mt cement capacities of Reliance Infrastructures and Ultratech has acquired the 22.4mt of Jaypee for USD2.4bn or 109 per ton (compared with seller initial expectations of USD138/t, but Jaypee was under pressure to sell to repay its debt). Besides, the initial deal signed between Birla Corp. and LHN was equivalent to USD143/t of EV. Based on a USD109-143 range, Lafarge India EV could stand between USD1.2bn and 1.5bn (similar figures in CHF).

Apart from the level of interest (decent, apparently), we see positive supports for the transaction : **1)** after a subdued 2015 (1.5% cement volume consumption increase), January has been stronger with a 9% y/y increase (datastream), while comp base was not especially easy (vol. flat last year in January). This needs to be confirmed in the course of the year, though; **2)** the recent deals confirm market concentration continues, while the first four players today account for half of the capacity installed, which is favourable for pricing and might partly compensate the current overcapacity (c100mt, corresponding to ~70% utilization rate); **3)** the 2016/17 Indian Budget (presented end of Feb, to be passed early April) includes ~23% higher spend on infrastructures to USD33bn (this segment represents ~20% of cement consumption).

ANALYSIS

- The completion of the Indian sale would be positive news for LHN, as it is the last uncertainty on the anti-trust side. Besides, if the price is fine, that would reflect an improving outlook for India, while 2015 has not been easy.
- However, we are not convinced that nor CRH neither Heidelberg would be that interested, as they are focussed, respectively, in restoring the debt metrics or in acquiring Italcementi. Basically, everything is possible of course, but it doesn't seem to be the subject today.
- LHN will continue to be a key player in India with 62 mt of capacities, relatively well spread in the country. Streamlining of the 2 subsidiaries ACC and Ambuja has still to be cleared, though.
- Any positive news on India would be positive for LafargeHolcim, as this country represents approx. 17% of LHN cement capacities and more than 10% of sales.

VALUATION

- CHF50 FV derived from the application of historical EV/EBITDA multiple of 7.5x to our 2017 estimates, discounted back. Current EV/EBITDA stands at 7.3x 2016e, vs 7.8x for the sector (under coverage). Current EV/ton stands at CHF121.

NEXT CATALYSTS

- FY 2015 results due to be published on 17 March

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