

## LafargeHolcim

Price CHF42.88

## Follow-up on the LafargeHolcim / CRH "price adjustment mechanism" issue

Fair Value CHF50 (+17%)

BUY

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | LHN VX      |
| Reuters                    | LHN.VX      |
| 12-month High / Low (CHF)  | 72.9 / 34.1 |
| Market Cap (CHFm)          | 26,024      |
| Ev (BG Estimates) (CHFm)   | 46,222      |
| Avg. 6m daily volume (000) | 2,205       |
| 3y EPS CAGR                | 19.5%       |

The press made various comments last week on a possible issue regarding the price paid by CRH for LH assets. We contacted both LafargeHolcim and CRH regarding the terms of the agreement of the EUR6.5bn (EV) asset disposal. Both parties have actually made some comments on the subject in their annual reports, but both considered it was not worth mentioning at the analysts' meeting. While this needed following up, we do not expect significant consequences from this specific issue.

The companies made the following comments:

In the LafargeHolcim 2015 annual report: "In connection with the sale of assets to CRH in 2015, LafargeHolcim has received from CRH several notices claiming a reduction of the purchase price. LafargeHolcim is contesting those claims. In view of the information available to the management and on current analysis, CRH's claims to a further price reduction under the price adjustment mechanism in the sale agreement are considered to be without merit and are not accepted."

In the CRH annual report: "In accordance with the terms of the acquisition agreements, CRH and LafargeHolcim are currently engaged in a process to finalise the postcompletion consideration for the acquisition of the LH Assets as detailed above. That process is not sufficiently advanced to make a financial adjustment in respect of the final purchase price. CRH will continue to monitor the situation and will reflect any financial adjustments when there is sufficient evidence."

## ANALYSIS

- LafargeHolcim's IR made no further comments, apart from saying that the group had not considered it worthwhile to mention the subject at the analysts' meeting.
- Meanwhile, CRH's IR said nothing really different and also said the group had considered the subject was not worth mentioning at the meeting. Additionally, CRH insisted that this certainly does not mean it is not satisfied with the assets acquired. The Irish group is actually very satisfied with the quality of the assets acquired. Besides, as reported by CRH, 2015 sales and Ebitda (EUR820m run-rate / EUR368m consolidated by CRH in 2015 vs EUR2.2bn total EBITDA) from the LH assets in 2015 were "ahead of expectations".
- So, what's the issue? Basically we understand that the terms of the agreement included adjustments related to various details, for instance, cash, debt, pension commitments, etc... within the assets acquired, that needed to be "trued-up". We suppose that in view of the significant size of the deal, CRH wanted to be protected from any surprises. CRH said it is a usual process.
- Are we talking about a lot of money here? No, it sounds more like fine-tuning in our view. Otherwise the subject would have been mentioned properly to investors and analysts at the analysts' meeting, we believe. That said, it may perhaps not be entirely negligible either, otherwise it would not have been mentioned at all, we suppose.
- In all, we expect no significant consequences from this issue. Actually, the LafargeHolcim share price made gains on Friday (+2.10%), as well as CRH (+1.15%).

## VALUATION

- CHF50 FV derived from the application of historical multiples to our 2017 est., discounted back.

## NEXT CATALYSTS

- Q1 2016 results to be released in May

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|                | 1 M   | 3 M    | 6 M    | 31/12/15 |
|----------------|-------|--------|--------|----------|
| Absolute perf. | 11.3% | -11.7% | -24.6% | -14.8%   |
| Cons & Mat     | 4.3%  | -0.8%  | 0.5%   | -2.6%    |
| DJ Stoxx 600   | 3.9%  | -5.4%  | -3.7%  | -6.6%    |

| 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             | 20.8x | 25.8x  | 18.0x | 12.2x |
| FCF yield (%)   | 1.8%  | 3.3%   | 7.5%  | 13.1% |
| Dividends (EUR) | 1.30  | 1.50   | 1.75  | 2.00  |
| Div yield (%)   | 3.0%  | 3.5%   | 4.1%  | 4.7%  |
| EV/Sales        | 1.4x  | 1.5x   | 1.5x  | 1.4x  |
| EV/EBITDA       | 6.8x  | 8.1x   | 7.4x  | 6.1x  |
| EV/EBIT         | 11.7x | 15.4x  | 13.2x | 9.9x  |



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|         |   |
|---------|---|
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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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