

6th April 2016

Construction & Building Materials

## Heidelbergcement

Price EUR72.95

### Integration plan for Italcementi announced

Fair Value EUR86 (+18%)

BUY-Top Picks

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | HEI GY      |
| Reuters                    | HEIG.F      |
| 12-month High / Low (EUR)  | 77.0 / 60.1 |
| Market Cap (EURm)          | 13,708      |
| Avg. 6m daily volume (000) | 658.6       |

|                | 1 M   | 3 M   | 6 M   | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | 3.9%  | -1.3% | 14.1% | -3.5%    |
| Cons & Mat     | -0.4% | -1.2% | 1.3%  | -3.2%    |
| DJ Stoxx 600   | -4.0% | -8.6% | -8.4% | -10.3%   |

|               | 2015  | 2016e | 2017e | 2018e |
|---------------|-------|-------|-------|-------|
| P/E           | 17.1x | 14.8x | 10.5x | 8.5x  |
| Div yield (%) | 1.8%  | 2.1%  | 3.8%  | 5.3%  |

### ANALYSIS

- After market close yesterday, HEI announced the integration plan for Italcementi. This plan will take a fair amount of time and is only expected to be completed in 2020.
- The local industrial network, plants and brands will be maintained in Italy and Italcementi's Bergamo-based R&D centre, i.Lab, will become the product R&D centre for the whole group.
- On the SG&A side, in order to streamline the organisation, 170 people are to receive "relocation offers" and 230 to 260 are likely to be made redundant. Although the head of Italian operations is to remain in Italy, this will not be equivalent to a proper regional headquarter. Hence some centralisation process has to be implemented. Overall, 400 job positions out of the 2,500 in Italy are to be impacted by this streamlining policy.
- On the anti-trust side, the disposal of Belgian subsidiary "CBB" (Companies des Ciments Belges, around 2mt of capacity) has been proposed to the European Commission. In the US, the process is ongoing. Definitive decisions are expected "before the end of May". Note that the deal includes EUR1bn in disposals, EUR240m of which have already been secured with Italmobiliare.
- The EUR400m synergies target has been reiterated. The first step of the deal (the acquisition of 45% of ITC from Italmobiliare) is expected to be completed by early July.

### VALUATION

- EUR86 FV from the application of historical multiples to our 2017 estimates, discounted back.

### NEXT CATALYSTS

- Q1 results to be reported on 4th May 2016

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|         |   |
|---------|---|
| BUY     | Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.      |
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## Distribution of stock ratings

BUY ratings 59.6%

NEUTRAL ratings 32.4%

SELL ratings 8.1%

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