

12th May 2016

## Construction &amp; Building Materials

## LafargeHolcim

Price CHF44.07

Disappointing Q1 figures, below consensus. Reassuring FY guidance.

Fair Value CHF50 (+13%)

BUY

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	72.3 / 34.1
Market Cap (CHF)	26,746
Ev (BG Estimates) (CHF)	46,388
Avg. 6m daily volume (000)	2,331
3y EPS CAGR	29.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.7%	29.4%	-23.2%	-12.4%
Cons & Mat	0.4%	15.4%	-3.2%	-2.1%
DJ Stoxx 600	0.6%	10.3%	-11.6%	-8.5%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	31,437	29,483	30,090	31,715
% change		-6.2%	2.1%	5.4%
EBITDA	6,438	5,751	6,181	7,096
EBIT	3,765	3,078	3,508	4,423
% change		-18.3%	14.0%	26.1%
Net income	989.2	1,047	1,407	2,167
% change		5.8%	34.5%	54.0%

	2014	2015e	2016e	2017e
Operating margin	12.0	10.4	11.7	13.9
Net margin	5.3	-3.0	4.4	7.3
ROE	2.6	2.9	3.9	5.9
ROCE	3.4	3.5	4.0	5.1
Gearing	41.6	44.6	42.7	37.3

(CHF)	2014	2015e	2016e	2017e
EPS	1.63	1.73	2.32	3.58
% change	-	5.8%	34.5%	54.0%
P/E	27.0x	25.5x	19.0x	12.3x
FCF yield (%)	1.8%	5.1%	7.3%	12.5%
Dividends (EUR)	1.30	1.50	1.75	2.00
Div yield (%)	2.9%	3.4%	4.0%	4.5%
EV/Sales	1.4x	1.6x	1.5x	1.4x
EV/EBITDA	7.0x	8.1x	7.5x	6.3x
EV/EBIT	11.9x	15.1x	13.1x	10.1x



LHN has reported flat Q1 2016 revenues (+0.1% I-f-I) at CHF6,062m (vs CHF6.2bn expected by the consensus) and adjusted EBITDA down 17% I-f-I at CHF824m (vs CHF929m exp.). Guidance is promising, with a "high single digit I-f-I increase" in adjusted EBITDA. Q1 is not representative of the full year trend and we do not expect the probably-negative market reaction to last long today. The conference call at 10.00am should be reassuring. Buy.

LHN has reported a sluggish Q1 performance. EBITDA margin is down 235bps at 13.6% vs 16.3% last year in Q1. The performance suffered from lower prices, down y/y, in particular in Nigeria, India and China (CHF-170m) and "challenging conditions in a limited number of markets", in particular Nigeria, Brazil and India (CHF160m negative impact). Forex had a -CHF43m impact on sales.

On the positive side, underlying prices were up 2.1% sequentially, with price increases implemented in two third of LHN markets in Q1. Moreover, synergies generated in Q1 stand at CHF104m, on track to exceed CHF450m in 2016 as previously announced.

Outlook is promising, with a "high single digit like-for-like increase in adjusted operating EBITDA". The consensus expects growth between 1% (IBES) and 2% (Inquiry Financial, mean figure), while we are more aggressive with a 7.5% forecast. Forex have to be taken into account, though.

## Q1 2016 performance against expectations

CHFm	BG est.	Consensus	Reported	y/y I-f-I (%)	% vs cons
Revenues	6362	6209	6062	0.1	-2.4
EBITDA (adjusted)	1013	929	824	-17.0	-11.3

## Organic performance by zone in Q1 2016 vs 2015 performance

I-f-I y/y change (%)	SALES			Adj. EBITDA		
	FY 15	Q4 15	Q1 16	FY 15	Q4 15	Q1 16
Europe (20% 2015PF EBITDA)	-2.4	-1.2	-3.5	-8.7	-11.7	-28.0
North America (19%)	5.4	3.1	10.1	12.0	11.6	100.6
Latin America (14%)	2.8	1.3	-1.7	0.1	-7.0	-9.2
Africa Middle-East (22%)	1.9	3.7	-4.4	-4.6	-12.9	-25.6
Asia-Pacific (25%)	-1.7	2.6	0.9	-8.6	-6.5	-15.5
<b>Total</b>	<b>0.1</b>	<b>1.7</b>	<b>0.1</b>	<b>-4.6</b>	<b>-8.4</b>	<b>-17.0</b>

Source : Company Data; Bryan Garnier &amp; Co. ests.

## ANALYSIS

- The Q1 2016 performance was clearly poor, penalised by EM (including in Europe with Russia). Difficult markets, prices y/y decline, forex and comparable figures explained the counter-performance.
- On the positive side however: **1)** volumes rose y/y (1.4% for cement), with a strong increase in the US (+19%) decent in Asia (+6.6%) although down in LatAM (-11%); **2)** prices increases were implemented in Q1, including in India and will positively impact the rest of the year; **3)** energy costs were down 9% in Q1, which suggest the price vs cost delta will gradually improve; **4)** some key markets are doing well (Indonesia, Philippines, US) **5)** Guidance is maintained (2% to 4% market demand, synergies in 2016, as well as 2018 targets). No change in the CHF3.5bn divestment programme though, with still one third of it secured (CHF13bn of 2016 debt guidance includes it).
- We do not expect a probably-negative market reaction to last long today, as guidance is reassuring. That should be emphasized during the conf. call. Besides, Q1 is a modest quarter (Q115 EBITDA equals to 18% of FY15 fig.) and usually doesn't reflect the rest of the year trends.

## VALUATION

- CHF50 derived from the application of historical ratios to our 2017 estimates, discounted back.

## NEXT CATALYSTS

- Conference call today at 10.00AM. Q2 2016 to be released on 05th August 2016.

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