

13th May 2016

Construction & Building Materials

**LafargeHolcim**

Price CHF43.47

**Buying the stock ahead of the expected improvement**

Fair Value CHF50 (+15%)

**BUY**

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	72.3 / 34.1
Market Cap (CHFm)	26,382
Ev (BG Estimates) (CHFm)	44,747
Avg. 6m daily volume (000)	2,345
3y EPS CAGR	35.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	23.0%	-22.5%	-13.6%
Cons & Mat	-0.2%	12.4%	-2.0%	-2.5%
DJ Stoxx 600	-0.5%	6.6%	-10.6%	-8.9%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	29,483	30,059	31,837	33,259
% change		2.0%	5.9%	4.5%
EBITDA	5,751	6,022	6,946	7,418
EBIT	3,078	3,349	4,268	4,740
% change		8.8%	27.5%	11.1%
Net income	1,047	1,459	2,218	2,621
% change		39.4%	52.0%	18.1%

	2015	2016e	2017e	2018e
Operating margin	10.4	11.1	13.4	14.3
Net margin	-3.0	4.5	7.4	8.8
ROE	3.3	4.6	6.9	7.8
ROCE	4.0	4.4	5.7	6.4
Gearing	48.7	46.1	39.4	31.8

(CHF)	2015	2016e	2017e	2018e
EPS	1.73	2.41	3.66	4.33
% change	-	39.4%	52.0%	18.1%
P/E	25.2x	18.0x	11.9x	10.0x
FCF yield (%)	7.9%	8.0%	12.7%	14.4%
Dividends (CHF)	1.50	1.65	1.80	1.95
Div yield (%)	3.5%	3.8%	4.1%	4.5%
EV/Sales	1.5x	1.5x	1.4x	1.2x
EV/EBITDA	7.9x	7.4x	6.2x	5.5x
EV/EBIT	14.7x	13.4x	10.1x	8.7x

**Strong share price volatility yesterday, as the market successively reacted to poor Q1 first and then to optimistic comments from management during the conference call. We have adjusted our estimates and continue to believe on the gradual recovery of the results dynamic over the course of 2016. Hence, we are still above consensus with a CHF6bn EBITDA in 2016, corresponding to a 7% organic growth, while consensus look more cautious. Buy reiterated.**

We have adjusted our estimates, with slightly lower EBITDA in 2016 (-2%) and in 2017 (-3%). We're a bit more cautious on the dividend side (CHF1.65 vs CHF1.75) but we're still more optimistic than the consensus (CHF1.6). We have made various adjustments on the capex side, as well as the working capital change side, and our net debt is now more in line with the consensus. These changes have a overall negative CHF0.8 per share impact on our valuation (unrounded FV down from CHF50.3 to CHF49.5) and we stick with our CHF50 FV.

Regarding our key assumptions for 2016, we are a bit more bullish on the volumes side (2% vs 1%), but a bit more prudent on the price effect (~2% vs 2.3%). We got 2.9% underlying cost inflation for the FY in line with Q1 and we apply the CHF450m of synergies guided for this year, although our long term assumptions continue to consider only 88% of total CHF1.1bn pre-tax synergies, because of India. Finally, we have fine tuned our forex estimates, previously too low. Guidance from CFO is a slightly negative FX effect for the FY.

During the conference call yesterday, the management has particularly insisted on the expected recovery of the prices across various regions. Not only sequential price increase will be reported for the rest of the year (in Q1 it was +2.1% excluding India, 1.2% otherwise), but the full year price effect should be positive too. Additionnaly, comments on some key markets remains positive: **1)** Nigeria, which has been very difficult in Q1, should benefit from better pricing trends (Dangote has announced reduction in discounts in March 2016); **2)** in Brazil, the group will address the difficult situation with further self-help measures (restructurations/cost cutting), while a new so-called "low-cost plant" will soon be in service; **3)** in India, the group effort on costs will continue while volumes are clearly better this year; **4)** in China, the market is likely to become healthier, with production capacities currently closing (not LHN's ones), reducing the vast amount of overcapacities in this country.

**ANALYSIS**

- Our EBITDA estimates are still above consensus (+4% in 2016, +8% in 2017) but we believe the gap will narrowed over the course of the year, with better publications to support earnings upgrade
- Adjusted from negative ~CHF130 forex impact on EBITDA, we estimate a like-for-like growth at ~7% in 2016, which is consistent with the company guidance.
- Although we do not know the portion of scope and forex in the CHF5.8m EBITDA provided by the consensus, we could mention that organic growth would stand at 3% if based on similar forex assumptions than us. We consider here that the consensus doesn't already take into account any perimeter effect. This might be wrong, as we know that disposal are ongoing, but in Q1 no scope effect has been reported. This 3% suggests there might be some room for consensus upgrade.
- We are confident LHN will deliver on their plan to increase sequentially prices, mostly because volumes are increasing and should gradually compensate pricing pressure. We do not expect strong prices recovery though, but a slight positive impact on the full year basis.

**VALUATION**

- CHF50 derived fro the application of historical ratios to our 2017 estimates, discounted back. Current share price suggest 7.4x EV/EBITDA 2016e and 6.2x EV/EBITDA 2017e.

**NEXT CATALYSTS**

- Q2 2016 to be released on 05<sup>th</sup> August 2016.

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BUY ratings 57.1%

NEUTRAL ratings 33.6%

SELL ratings 9.3%

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