

## LafargeHolcim

Price CHF45.69

Strong upturn of EBITDA margin in Q2

Fair Value CHF50 (+9%)

BUY

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	66.3 / 34.1
Market Cap (CHF)	27,730
Ev (BG Estimates) (CHF)	46,095
Avg. 6m daily volume (000)	2,220
3y EPS CAGR	49.1%

Revenues declined in Q2 (-2.1% l-f-l), but adjusted EBITDA stands at CHF1,705m (6% above consensus of CHF1,608m). This is a strong upturn: the EBITDA margin stands at 23.4% up 210 bps y/y after a difficult Q1 (EBITDA mg down -275bps), through a combination of cost control and a price sequential growth increase in Q2 (+2.2%). Guidance unchanged based on slightly less positive market assumptions. CHF3.5bn divestment program exceeded (and extended to CHF5bn in 2017).

## Key figures in Q2

CHFm	Sales	vs cons.%	Q1 lfl%	Q2 lfl%	EBITDA	vs cons.%	Margin%	Δbps Q1	Δbps Q2
Europe	1968	-2	-3.5	-3.1	458	+9	23.3	-242	235
NAM	1538	-5	10.1	0.7	393	-8	25.6	370	149
LatAm	684	-4	-1.7	-5.0	211	+15	30.8	-73	659
Africa ME	1081	-4	-4.4	-7.0	329	0	30.4	-687	-352
Asia-Pac.	2194	-3	0.9	-0.1	438	+16	20.0	-313	300
Adjust	-185	-	-	-	-124	-	-	-	-
Total	7280	-4	0.1	-2.1	1705	+6	23.4	-275	209

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

## ANALYSIS

- Volumes of cement were down in Q2 (-3.0% vs +1.4% in Q1), but up for aggregates (+3% vs +1%). Q2 sales organic growth is thus rather modest (-2.1% vs +0.1% in Q1) and Q2 revenues are 5% below consensus at CHF7,280m.
- But price trends are improving, with +2.2% sequential growth in Q2 vs +1.2% in Q1. Combined with a cost improvement through synergies (CHF273m YTD vs a FY target of EUR450m), fixed cost reduction (eg Brazil), best practice (LatAm) and energy mix improvement (China, India), explain the rebound of the EBITDA margin in Q2 for every region except Africa-Middle East.
- In particular, LHN is mentioning "good earnings growth" in the Philippines, Mexico, US; Algeria and Lebanon; "signs of recovery" in China and "strong progress" in India.
- The negative effect in Africa is explained by Nigeria, despite a growing market. The business has been impacted by gas shortages and the naira devaluation. The equipment will be adapted to use other fuels (positive effect expected at end 2016) and a new kiln will come into service this year. Adj. EBITDA would have risen by +13% in Q2 without Nigeria's negative effect (-CHF96m).
- With numerous deals/divestments announced (India, China, Saudi Arabia, Morocco, South Korea, Sri Lanka and - at USD140m/t - Vietnam) the objective for CHF3.5bn of disposals this year has been exceeded and LHN announced its extension to CHF5bn at end 2017. This will further streamline the organisation.
- 2016 guidance is unchanged, in particular "at least a high-single-digit like-for-like increase in adjusted operating EBITDA" (we got 7% today and we think the consensus is lower). The environment is not improving, however: LHN's market demand is expected to be up 1% to 3% in 2016 (vs 2% to 4% previously), according to LafargeHolcim.
- LafargeHolcim has also announced some changes to the Executive Committee this morning.

## VALUATION

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

## NEXT CATALYSTS

- Q3 results reporting date: not disclosed yet

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	1 M	3 M	6 M	31/12/15
Absolute perf.	12.6%	2.9%	18.4%	-9.2%
Cons & Mat	5.8%	2.1%	8.1%	-0.4%
DJ Stoxx 600	2.4%	1.8%	2.8%	-7.6%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	29,483	29,993	31,809	33,231
% change		1.7%	6.1%	4.5%
EBITDA	5,751	6,017	6,954	7,421
EBIT	3,371	3,344	4,272	4,740
% change		-0.8%	27.8%	10.9%
Net income	787.5	1,452	2,209	2,608
% change		84.3%	52.2%	18.1%

	2015	2016e	2017e	2018e
Operating margin	11.4	11.1	13.4	14.3
Net margin	-6.9	4.5	7.3	8.7
ROE	2.5	4.6	6.8	7.7
ROCE	4.4	4.4	5.7	6.4
Gearing	48.3	46.1	39.5	31.9

(CHF)	2015	2016e	2017e	2018e
EPS	1.30	2.40	3.65	4.31
% change	-	84.3%	52.2%	18.1%
P/E	35.1x	19.1x	12.5x	10.6x
FCF yield (%)	0.5%	7.6%	12.1%	13.7%
Dividends (CHF)	1.50	1.65	1.80	1.95
Div yield (%)	3.3%	3.6%	3.9%	4.3%
EV/Sales	1.6x	1.5x	1.4x	1.3x
EV/EBITDA	8.1x	7.7x	6.4x	5.7x
EV/EBIT	13.8x	13.8x	10.4x	9.0x



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