

29th September 2016

Construction & Building Materials

LafargeHolcim

Price CHF52.65

China cement capacities reduction: positive news

Fair Value CHF50 (-5%)

BUY

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	57.7 / 34.1
Market Cap (CHFm)	31,954
Avg. 6m daily volume (000)	1,808

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.6%	37.8%	23.2%	4.7%
Cons & Mat	0.4%	17.0%	8.8%	5.7%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

	2015	2016e	2017e	2018e
P/E	40.5x	22.0x	14.4x	12.2x
Div yield (%)	2.8%	3.1%	3.4%	3.7%

ANALYSIS

- French daily Les Echos (citing the "South China Morning Post") reports this morning that Chinese cement players are requesting the help of the government to accelerate the sector restructuring. 390 mt of capacity would have to be shut down.
- This is certainly not surprising. The Chinese cement market is notoriously in an overcapacity situation. Annual consumption is presumably around 2.5 billion tons while capacity is at around 3 bn. This is translated into modest prices (USD35-45 per ton).
- Any further closure or restructuring is also positive news (390 mt might not be sufficient), as it would rebalance offer vs demand. Actually, LafargeHolcim's management said this year some plants closures have started. Reduced offer combined with better volumes (last August LHN mentioned some "signs of recovery" in China), might be translated into a less painful price impact (-CHF31m in Q1 2106 and CHF-21m in Q2 2016 from China).
- Following several reorganisations, LHN has approximately 3 mt of cement capacity in China only but roughly 80 mt including associates.

VALUATION

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

NEXT CATALYSTS

- Capital Markets Day on 18th November

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