

Sector View

Construction & Materials

US elections follow-up: LHN out of the Top Picks. CRH new FV at EUR34.8 (vs EUR30.0).

	1 M	3 M	6 M	31/12/15
Cons & Mat	-0.3%	0.0%	6.9%	4.6%
DJ Stoxx 600	-0.5%	-2.3%	1.1%	-7.5%

*Stoxx Sector Indices

Companies covered

CRH	BUY	EUR34.8 vs. 30
Last Price	EUR32,5	Market EUR27,030m
EIFFAGE	BUY	EUR78
Last Price	EUR61,14	Market EUR5,997m
HEIDELBERGCEMENT	BUY	EUR95
Last Price	EUR86,95	Market EUR17,252m
IMERYS	BUY	EUR72
Last Price	EUR65,84	Market EUR5,239m
LAFARGEHOLCIM	BUY	CHF60
Last Price	CHF56,05	Market CHF34,017m
SAINT GOBAIN	BUY	EUR46
Last Price	EUR41,215	Market EUR22,874m
VICAT	NEUTRAL	EUR61
Last Price	EUR55,6	Market EUR2,496m
VINCI	BUY	EUR74
Last Price	EUR60,03	Market EUR35,850m

The initial reaction was positive for European players exposed to North America, like CRH or HEI, but we have identified two categories under pressure, penalised by fears of higher rates: infrastructure-related stocks and those exposed to emerging markets. In this context, CRH looks like a safe haven (valuation roll-over applied: new FV at EUR34.8 vs EUR30). On the contrary, it makes sense being cautious in the short term on DG and FGR, as well as LHN, that we have removed from our Top Picks list.

Share price performance between 08/11/16 and 14/11/16

Contractors		Build. Mat.		EM players	
BOUYGUES	4,2%	CRH	5,8%	INDOCEMENT*	-7,8%
VINCI	-5,6%	LHN	3,5%	ACC**	-7,1%
EIFFAGE	-7,8%	HEIDELBERG	-1,5%	AMBUJA**	-10,3%
FERROVIAL	-4,6%	VICAT	1,9%	CEMEX	-16,7%

* HeidelbergCement got 51% in Indocement and LafargeHolcim got 63% in Ambuja, while ACC is a subsidiary of Ambuja.

Source : IBES; Bryan Garnier & Co. ests.

ANALYSIS

- **There is some correlation (albeit not perfect) between infrastructure stock performances and long term rates.** This is true for pure players, but also to some extent for diversified contractors like Vinci and Eiffage. Indeed, any 10bp move in the risk-free rate increase implies a ~EUR0.45 and ~EUR0.40 per share negative impact on the SOTP of Vinci and Eiffage, respectively. Besides, for convenience purposes, our model only assesses the impact on large toll roads and airports, while the valuations of mid and small concessions or PPPs remain unchanged.
- However, the negative impact caused by higher rates on our DCF valuations is likely to be offset - eventually - by higher inflation. Vinci and Eiffage concession asset contracts, in particular French toll roads, include an inflation-based formula for tariffs. But while the market tends to quickly apply risks related to rates, it needs more time to consider a higher inflation environment. This can place some short-term pressure on infrastructure stocks - and might provide some buy opportunities.
- Among the French contractors, Bouygues, with a very modest concessions portfolio, will be less impacted by higher rates - but not totally immune due to its property development business. Note that Vinci and Eiffage's gross debt has limited exposure to variable rates. 61% of Vinci's gross debt was fixed at end June 2016, while Eiffage gross debt is mostly fixed, too (90% in FY15).
- **The negative impact on emerging markets players is indirect.** Higher US rates means cash is likely to return to the US. Hence, EM currencies might decline (at least vs the USD), with an possible impact on debt (if denominated in USD for instance), operating costs (for any portion in USD) and of course on dividend repatriation. This is potentially negative for the EM macro environment and hence for European players with significant EM exposure, like LHN and to a lesser extent HEI or Vicat. Of course, this could be mitigated by a lower EUR/USD or lower CHF/USD, but not totally balanced as some costs are in USD anyway (about 20% of costs in Egypt for LHN for instance).

Exposure to North America and Emerging markets (% before elimination and trading if necessary)

%	Exposure to NAM		Exposure to EM	
	Revenues	EBITDA	Revenues	EBITDA
2015				
LHN*	19	21	56	61
HEI (pro forma)**	25	26	45	52
CRH***	52	59	2	4
VCT	14	9	37	43
2015				
SGO	13	19	20	33
NK	24	-	27	-

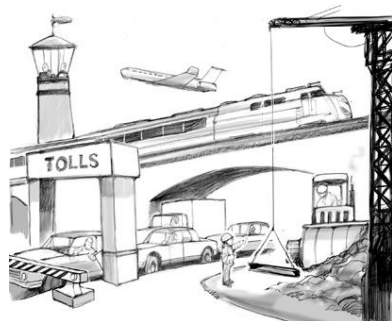
*EM : the world excluding Europe and NAM

** EM : Northern & Eastern Europe, Central Asia, Asia-Pacific, Africa, Eastern Mediterranean basin

*** NAM corresponds to "Americas", which includes LatAm (modest figures). EM is Asia only,

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

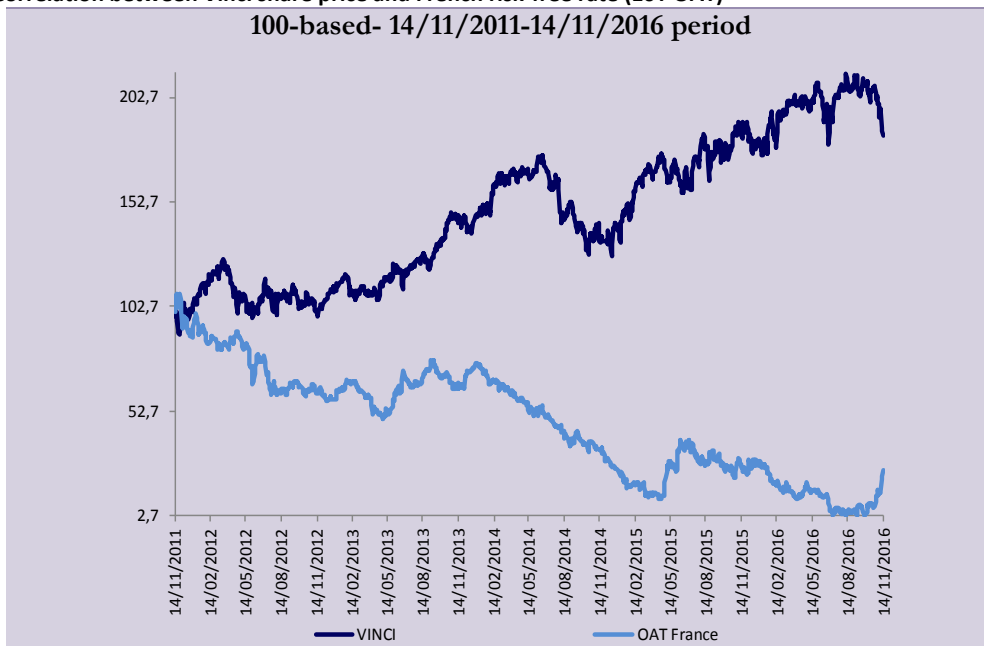
- In this new context, and considering the very good share price performance in Q4 so far (+7% in CHF, +9% in EUR), we have decided to remove LafargeHolcim from our Top Picks list. We are



sticking to our Buy recommendation ahead of the Capital Market Day, organised on Friday 18th November.

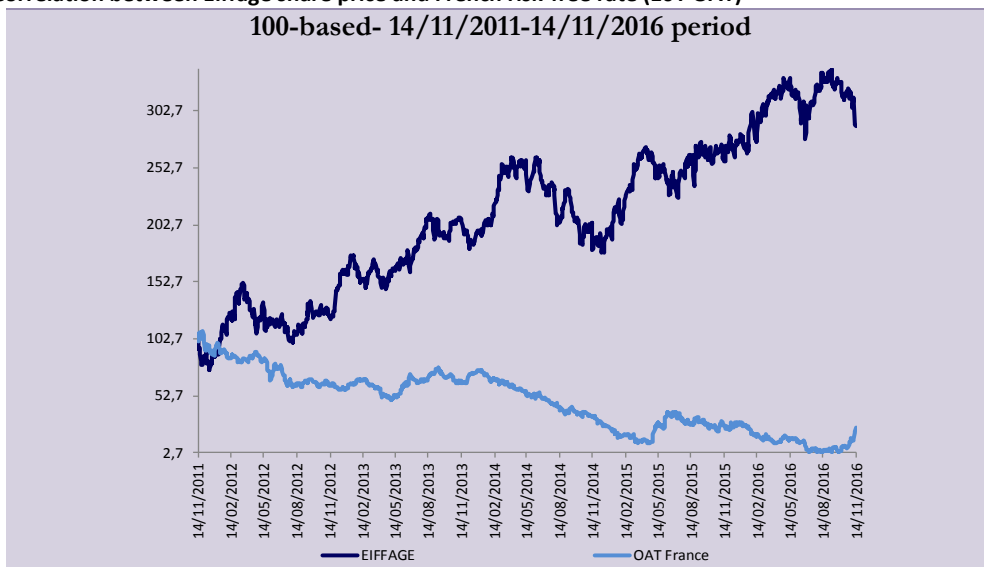
- On the contrary, within the building materials universe, the safest player seems to be CRH, with limited exposure to EM and high exposure to NAM infrastructure. Hence, we take the opportunity to update our FV. We have applied an EV/EBITDA multiple of 10x to our 2018 estimates (vs 2017 previously), and discounted it back. We have now implemented the roll-over for all building materials stocks under our coverage.

Correlation between Vinci share price and French risk-free rate (10Y OAT)



Sources: Bryan, Garnier & co

Correlation between Eiffage share price and French risk-free rate (10Y OAT)



Sources: Bryan, Garnier & co

NEXT CATALYSTS

- CRH trading update tomorrow before market opened. Conference call at 9h30 CET.
- LHN Capital Market Day on 18th November 2016.

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