

Heidelbergcement

Price EUR88.23

Q3 EBITDA a bit low but HEI well placed to benefit from USD1trillion Trump infra plan

Fair Value EUR86 (-3%)

BUY

Bloomberg	HEI GY
Reuters	HEIG.F
12-month High / Low (EUR)	88.2 / 60.1
Market Cap (EURm)	17,506
Ev (BG Estimates) (EURm)	28,511
Avg. 6m daily volume (000)	541.9
3y EPS CAGR	28.0%

While revenues were roughly in line, Q3 EBITDA was 4% below expectations at EUR1009m, up 1% on a like-for-like basis, while 9 month organic growth stood at 6%. Integration of Italcementi's assets is ongoing. The group is confident it can exceed the EUR400m synergy target. Guidance reiterated. With CRH, HeidelbergCement is the best European player to benefit from D. Trump's USD1trillion infrastructure plan. This should support the stock today, despite lower-than-expected Q3 results.

ANALYSIS and read-across US Elections

- Q3 revenues were roughly line with expectations at EUR4588m vs EUR4520m for the consensus. Cement volumes rose 5%, with weak volumes (+2%) in North America; penalised by the weather. Q3 revenues fell 2% in organic terms (0% over 9M). EBITDA was a bit low, down 2% I-f-I in Q3 (vs 6% in 9M), and EBITDA margin was down 170bps at 22.3%. This sounds a bit disappointing.
- However, with CRH (59% of EBITDA in North America, of which approx. one third used to be directly exposed to infrastructures), HeidelbergCement (approx. 30% of EBITDA in North America) is the second European player which should benefit from any infrastructure plans in the US.
- Note that Donald Trump has revealed a USD1trillion infra plan, notably financed by revenue-generating projects (such as toll roads), while Hillary Clinton announced a USD275bn plan. Trump's idea is to fund this plan largely through private investment (tax credit can be put in place). Of course, political hurdles exist (acceptance of tolls in particular).
- Of course, HEI and CRH figures will be impacted by a lower USD, but this will be a translation effect only, as their businesses are mostly local. On the contrary, LafargeHolcim might benefit from its Swiss status.
- Other players are less likely to be affected, either because they have a relatively limited exposure to the US (c10% of revenues for Vicat and Bouygues through Colas mostly, c6% for Vinci, which might play a role if toll roads are developed) or limited exposure to US infrastructure (13% of Saint-Gobain sales but much lower exposure to infrastructure).

VALUATION

- EUR86 FV derived from the application of historical multiples to our 2017 estimates.

NEXT CATALYSTS

- Capital Market Day tomorrow in London.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	5.0%	16.4%	15.3%	16.7%
Cons & Mat	-0.5%	1.8%	6.7%	3.3%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	13,465	17,993	19,358	20,548
% change		33.6%	7.6%	6.1%
EBITDA	2,412	3,327	3,904	4,357
EBIT	1,645	2,160	2,737	3,190
% change		31.3%	26.7%	16.6%
Net income	800.2	932.3	1,481	1,773
% change		16.5%	58.8%	19.7%

	2015	2016e	2017e	2018e
Operating margin	12.2	12.0	14.1	15.5
Net margin	7.3	6.7	9.2	10.4
ROE	5.4	5.8	8.6	9.9
ROCE	5.6	5.7	7.4	8.3
Gearing	33.1	49.1	40.3	33.9

(EUR)	2015	2016e	2017e	2018e
EPS	4.27	4.71	7.48	8.96
% change	-	10.3%	58.8%	19.7%
P/E	20.7x	18.7x	11.8x	9.9x
FCF yield (%)	4.2%	7.0%	9.0%	9.9%
Dividends (EUR)	1.30	1.70	3.00	4.00
Div yield (%)	1.5%	1.9%	3.4%	4.5%
EV/Sales	1.8x	1.6x	1.4x	1.2x
EV/EBITDA	10.1x	8.6x	7.0x	5.9x
EV/EBIT	14.9x	13.2x	10.0x	8.0x

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Distribution of stock ratings

BUY ratings 72%

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