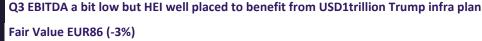
### **Construction & Building Materials**

### Heidelbergcement

Price EUR88.23

Bloomberg Reuters 12-month High / Market Cap (EUF Ev (BG Estimates Avg. 6m daily vo 3y EPS CAGR	HEI GY HEIG.F 88.2 / 60.1 17,506 28,511 541.9 28.0%			
	1 M	3 M	6 M 3:	1/12/15
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	<b>2017</b> e	<b>2018</b> e
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	<b>2017</b> e	<b>2018</b> e
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	<b>2016</b> e	2017e	<b>2018</b> e
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



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.

**BUY** 

### **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; penlisaed 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 revenusgenerating 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, policical 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.

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### Stock rating

BUY

Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL

Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL

Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

### Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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