

Heidelbergcement

Price EUR87.12

A more cautious view; downgrade to Neutral.

Fair Value EUR95 vs. EUR86 (+9%)

NEUTRAL vs. BUY

Bloomberg	HEI GY
Reuters	HEIG.F
12-month High / Low (EUR)	92.1 / 60.1
Market Cap (EUR)	17,286
Ev (BG Estimates) (EUR)	27,905
Avg. 6m daily volume (000)	560.8
3y EPS CAGR	17.8%

HEI has reacted positively to the US Elections. With 25% of its EBITDA in the US, the German player is well placed to benefit from the D. Trump' USD1trillion infrastructure plan. New FV at EUR95 (rollover, new estimates). Share price still offer some upside, but we prefer LHN. We see reasons to be more cautious: uncertainty surrounding the Trump plan, the possible difficulties in the last phase of ITC integration and a very decent share price performance (15% YTD, 22% 12M). Downgrade to Neutral.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.0%	10.6%	14.7%	15.2%
Cons & Mat	0.9%	-0.1%	6.7%	4.5%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	13,465	15,493	19,288	20,633
% change		15.1%	24.5%	7.0%
EBITDA	2,412	2,911	3,567	4,036
EBIT	1,645	1,924	2,300	2,669
% change		17.0%	19.5%	16.0%
Net income	800.2	937.3	1,008	1,380
% change		17.1%	7.5%	36.9%

	2015	2016e	2017e	2018e
Operating margin	12.2	12.4	11.9	12.9
Net margin	7.3	7.7	6.8	8.7
ROE	5.4	5.9	6.2	8.1
ROCE	5.6	5.4	6.5	7.4
Gearing	33.1	50.6	43.9	37.9

(EUR)	2015	2016e	2017e	2018e
EPS	4.27	4.73	5.09	6.97
% change	-	10.9%	7.5%	36.9%
P/E	20.4x	18.4x	17.1x	12.5x
FCF yield (%)	4.2%	5.2%	7.9%	7.5%
Dividends (EUR)	1.30	1.70	2.00	3.10
Div yield (%)	1.5%	2.0%	2.3%	3.6%
EV/Sales	1.8x	1.8x	1.4x	1.2x
EV/EBITDA	10.1x	9.6x	7.6x	6.3x
EV/EBIT	14.9x	14.5x	11.7x	9.5x



- HEI is well placed to benefit from D. Trump's ambitions in infrastructures. At end September 2016, the German group generates 25% of its revenues and c30% of its EBITDA in North America (approx. 25% in the US only), on a proforma basis. Besides, in relative terms, there are more revenues generated by the aggregates business in North America than for the group as a whole (35% vs 20%), while aggregates are firstly used in infrastructures. Plus, HeidelbergCement, like CRH, has some asphalt business in North America too. Hence, the share price has positively reacted to the US election, and was up 4.4% last Wednesday. However, some uncertainty remains, in particular how the plan will be financed, although we know tolls roads are one possibility.
- As underlined at its Capital Market Day of 10th November, the group is now on track to finalise the integration of Italcementi assets within the HeidelbergCement organisation. The German player has increased several if its targets: higher synergies than initially expected (more than EUR400m vs EUR175m, but this was often mentioned previously), greater reduction of staff (FTE down by 1500 vs 460 inially planned) and a bit more cash from disposals than targeted (EUR1140m vs at least EUR1.0bn). All in all, this not fresh news for the market, and is already priced in.
- The group has reiterated its ambition to return cash to shareholders though dividends (40% to 45% payout vs 31% in 2015). Based on the 2019 EPS target of EUR11, the dividend per share could jump from EUR1.30 in 2015 to cEUR4.5 to cEUR5.0; excluding any additional share-buy-back. The group is confident it can achieve more than EUR20bn of revenues by 2019 (we have EUR22bn) and more than EUR5bn in EBITDA (EUR4.8bn expected). The IBES consensus stands below our estimates.
- Downgrade to Neutral vs Buy. HEI did not react positively following the CMD (-4,36% on Friday – the sector as a whole was down though), but it had previously benefited from the election of D. Trump. Admittedly, the company is well placed to benefit from any infrastructure plan in the US, but at the current share price level, we prefer to be more cautious: Firstly, the share price performance is very good (+ 15% YTD, + 22% on 12M) and the multiples are not that far from historical level (EV/EBITDA 2017e at 7.3x vs 7.5x). Secondly, the Trump infrastructure plan needs to be financed (federal gas tax has not been increased since Clinton was president, toll acceptance is not self-evident etc...) and passed by Congress. Thirdly, we can't exclude unexpected difficulties from the Italcementi acquisition. After all, a deal of that size is not supposed to be nice and easy.
- We have updated our estimates, unchanged for a long time and too aggressive. We have decreased our EBITDA estimates by c8% in 2017e and 2018e. We are still a bit higher than the consensus, especially in 2018. We have updated our valuation with a roll-over to 2018 (vs 2017) but we continue to apply the similar historical 7.5x EV/EBITDA. Our new Fair Value stand at EUR95. Upside is not negligible, but we think LHN should benefit from a more favourable momentum in the near future (share price status improvement, EM macro improvement, CMD on 18th November).

VALUATION

- EUR95 derived from the application of historical multiples to our 2018 estimates, discounted back.

NEXT CATALYSTS

- FY results to be released on 16th March 2017.



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SELL ratings 11,5%

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