



Smart Industries

7th March 2019

LAFARGEHOLCIM

- Smart Industries
- Innovative Materials & Construction

NEUTRAL

Fair Value	CHF47(-5%)
Share price	CHF49.62
EPS 3Y Cagr	21.0%

FY 2018 results within guidance and close to consensus.

Q4 2018 revenues slightly below consensus but within guidance

Q4 2018 revenues stand at CHF6831m, up 5.1% lfl, slightly below (c2%) consensus expectations (CHF6984m, as reported by LafargeHolcim), on the back of a solid performance in Asia-Pacific (+7.3% lfl growth in Q4 y/y), Europe (6.2%). Latam growth softened somewhat in the second part of the year but remained positive in Q4 (+4.5%), while Middle-East Africa revenues were less negative (-0.5%). North America reported 2.1% growth in Q4. In all, quarterly trends in organic revenue growth remained solid: 3.1% Q1, 6.2% Q2, 5.8% Q3 and 5.1% Q4. FY revenue came in at CHF27,466m, up 5.1% lfl (within the company guidance of a 4% to 6% lfl growth in 2018).

Solid Q4 EBITDA performance

Q4 recurring EBITDA was solid at CHF1665m, up 6.5% lfl, slightly above (c1%) consensus expectations (CHF1647m), yielding a 24.4% margin, up 80bps y/y. The quarter confirmed the improvement in profitability, as EBITDA margin was down -185bps in Q1, down -107bps in Q2 then up 64bps in Q3. This was also reflected in EBITDA organic growth (-7.7% in Q1, 1.5% in Q2, then 8.1% in Q3). FY 2018 EBITDA came in at CHF6016m, up 3.6% lfl (within the company guidance of 3-5% lfl growth), mostly driven by volumes while the price/cost delta remained negative, yielding a 21.9% margin, still down 26bps y/y though. Although lfl growth in Asia-Pacific EBITDA was particularly strong (+22.4% in Q4), as in Europe (+11%), Middle-East Africa EBITDA was down 32%, penalised by difficult market conditions and cost inflation; Latam EBITDA was down 9.4%, due to cost inflation and North America EBITDA up 3.1% in Q4.

Outlook: guidance reiterated

While net income was up 10.8% to CHF1569m, management confirmed its previous guidance communicated at the Capital Markets Day (3-5% lfl growth in sales and at least 5% lfl growth in EBITDA). Comments are generally positive regarding market trends in 2019, with either growth (North America, Europe, Asia-Pacific) or stabilizing markets conditions or demand in Latam and Middle East Africa. Stable dividend per share at CHF2.0.

Neutral rating maintained

The "Building for Growth" strategy is progressing well, with CHF400m in SG&A cost savings already achieved (vs Q1 2019), the divestment plan (CHF2bn until end 2019) well on track with the sale of Holcim Indonesia (closed, CHF1.4bn for 81%, according to our calculations), the closure of four corporate offices and various bolt-on acquisitions. However, we continue to question the merits of buying a cyclical stock, as uncertainties regarding the trade war between the US and China have not disappeared, various political problems remain (notably in Europe) and global macro growth is not accelerating.

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Market Data

Bloomberg / Reuters	LHN VX/LHN.VX
Market Cap.	CHF30,115m
E.V.	CHF44.781m
Free Float	87,9
Avg. Daily volume (6m)	2 300
12m high / low	56.3 / 39.4
Ytd Perf.	22.5%

CHFm	12/17	12/18e	12/19e	12/20e
Sales	27,021	27,228	28,231	29,923
% Change		0.8%	3.7%	6.0%
EBITDA	5,990	5,829	6,002	6,588
% Change		-2.7%	3.0%	9.8%
EBIT	-764.0	3,247	3,556	4,128
% Change		NS	9.5%	16.1%
Net Income	1,417	1,945	2,077	2,502
% Change		37.3%	6.7%	20.5%
ROE	0.05	0.07	0.07	0.08

	12/17	12/18e	12/19e	12/20e
EV/Sales	1.7x	1.6x	1.6x	1.5x
EV/EBITDA	7.5x	7.7x	7.4x	6.6x
EV/EBIT	NS	13.8x	12.5x	10.6x
EPS	2.37	3.25	3.49	4.20
% change		37.3%	7.2%	20.5%
P/E	20.9x	15.3x	14.2x	11.8x
Div Yield	4.0%	4.2%	4.4%	4.6%

Next Catalyst:

Q1 2019 on 15th May 2019

Last rating Change:

2017-3-2, Steady acceleration in EBITDA growth in Q4.

Last FV Change:

2018-10-26, Strong EBITDA in Q3 but guidance slightly adjusted downward for the FY

Last Reports:

2018-11-28, Guidance confirmed ahead of the Capital Market Day

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NEUTRAL

Fair Value	CHF47(-5%)
Share price	CHF49.62
Market Cap.	CHF30,115m
EPS 3Y CAGR	21.0%

Simplified Profit & Loss Account (CHFm)	2016	2017	2018e	2019e	2020e
Revenues	26,904	27,021	27,228	28,231	29,923
Change (%)	14.1%	0.4%	0.8%	3.7%	6.0%
Adjusted EBITDA	5,950	5,990	5,829	6,002	6,588
Adjusted EBIT	2,838	-764	3,247	3,556	4,128
Change (%)	-	-126.9%	-	9.5%	16.1%
Reported EBIT	2,963	-478	3,529	3,852	4,438
Cost of the net debt	-917	-958	-744	-716	-685
Financial results	-161	-753	-744	-716	-685
Pre-Tax profits	2,883	-1,180	2,835	3,189	3,809
Tax	-835	-536	-701	-795	-964
Profits from associates	81	51	50	53	55
Minority interests	299	-41	51	57	68
Net profit	1,792	-1,675	2,084	2,337	2,777
Restated net profit	1,273	1,417	1,945	2,077	2,502
Change (%)	31.2%	11.3%	37.3%	6.7%	20.5%
Cash Flow Statement (CHFm)					
Change in working capital	-694	-925	61	-6	-109
Operating cash flows	3,295	3,040	3,969	4,095	4,331
Capex, net	-1,636	-1,355	-1,950	-1,950	-1,950
Free Cash flow	1,659	1,685	2,019	2,145	2,381
Dividends	-909	-1,212	-1,196	-1,256	-1,311
Financial investments, net	2,342	679	0	0	0
Others	-489	-561	0	0	0
Net debt change	2,603	591	822	889	1,070
Net debt	14,724	14,346	13,757	13,114	12,300
Balance Sheet (CHFm)					
Tangible fixed assets	32,052	30,152	30,002	29,852	29,702
Intangibles assets	17,264	15,595	15,595	15,595	15,595
current assets	7,466	7,545	7,603	7,883	8,355
Other assets	7,839	5,907	5,951	6,048	6,243
Cash & equivalents	4,923	4,479	4,479	4,479	4,479
Total assets	69,544	63,678	63,630	63,857	64,374
Shareholders' funds	30,822	27,787	28,674	29,755	31,221
Minorities	3,925	3,188	3,005	2,817	2,628
Provisions	4,805	4,254	4,254	4,254	4,254
L & ST Debt	19,647	18,825	18,236	17,593	16,779
Current liabilities	6,247	6,924	7,042	7,316	7,680
Others liabilities	4,098	2,700	2,700	2,700	2,700
Total Liabilities	69,544	63,678	63,912	64,435	65,263
Capital employed	50,535	46,368	46,157	46,013	45,972
Ratios					
EBITDA margin	19.5%	19.4%	19.6%	20.0%	20.8%
Operating margin	12.9%	12.6%	12.7%	12.8%	14.0%
Apparent cost of the avrg gross debt	0.0%	0.0%	4.8%	4.8%	4.8%
Tax rate	29.8%	-43.5%	28.0%	28.0%	28.0%
Net margin	7.8%	-6.4%	7.8%	8.5%	9.5%
ROE (after tax)	4.1%	5.1%	6.8%	7.0%	8.0%
ROCE (after tax)	3.9%	-2.4%	5.1%	5.6%	6.5%
Gearing	42%	46%	43%	40%	36%
Net debt / EBITDA (x)	2.81	2.74	2.57	2.32	1.98
Pay out ratio	95.2%	84.4%	64.6%	63.1%	54.8%
Number of shares, diluted	606	598	598	596	596
Data per Share (CHF)					
EPS	2.96	-2.80	3.48	3.92	4.66
Restated EPS	2.10	2.37	3.25	3.49	4.20
% change	31.2%	12.7%	37.3%	7.2%	20.5%
BVPS	50.79	45.78	47.84	50.49	52.98
Operating cash flows	5.44	5.08	6.64	6.87	7.27
FCF	2.74	2.82	3.38	3.60	4.00
Net dividend	2.00	2.00	2.10	2.20	2.30

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

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NEUTRAL ratings 38,1%

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