Holcim (Liban)

BLOMINVEST BANK S.A.L.

FULL YEAR UPDATE FOR 2012

Sector:	Basic Materials & Industrial Products
Country:	Lebanon
Date:	12 August, 2013

Share Price (USD):	14.41
Target Price (USD):	15.10
Downside:	4.79%
Recommendation:	HOLD

Maintaining a HOLD recommendation with a lower target share price of USD 15.10 after accounting for revised forecasts

Sales decline pressured by feeble local demand and export halt

Revenues at Holcim Liban (HL) returned to 2010 levels, declining by 4.5% in 2012 to reach $186.8 million, led by a slowdown in domestic sales amid an unstable political climate. The size of the Lebanese grey cement market declined by 4.4% to 5.31 million tons in 2012, of which HL was able to satisfy 2.14 million tons. Exports were almost non-existent due to company's focus on local demand. Despite the unrest in the region, we estimate 2013 sales to increase by 1.5% to $189.5 million as cement deliveries have been on the rise during the first few months of 2013. As for white cement, sales increased by 4% y-o-y to $14.45 million as the surge in the local demand offsets the sharp fall in exports that resulted from the mounting political conflict in Syria.

Profit margins fall on rising production costs

HL's production costs increased 6% to $137.6 million in 2012, driving down the gross margin from 33.7% in 2011 to 26.4%, its lowest level in the past seven years. However, we expect an improvement to this margin in the future as the Waste Heat Recovery power generation began in May 2013 and is estimated to reduce production costs by around $3 million per year. Hence, gross income shrank by 25.2% to reach $49.3 million on lower local demand and higher cost of coal and fuel oil. Similarly, earnings declined by 36.5% to reach $18 million compared to $28.3 million in 2011. Net profit margin reached 9.6%, down from 14.5% in 2011. We estimate 2013 earnings to increase by 14.8% to $20.6 million.

A reduction in cash balance amid controlled level of debt

During 2012, HL's current assets and liabilities fell by a respective 13.6% and 19.0%, leading to a stable current ratio of 1.7. As for the cash ratio, it declined to 0.3 from 0.39 in 2011, while the net working capital ratio increased slightly to 0.42 from 0.39 in 2011. Controlled debt levels continue to contribute to HL's financial health. The debt-to-equity ratio remained almost unchanged at 7% in 2012. We expect the leverage ratio to remain stable in the future as the company has not announced any new major capital expenditure plans.

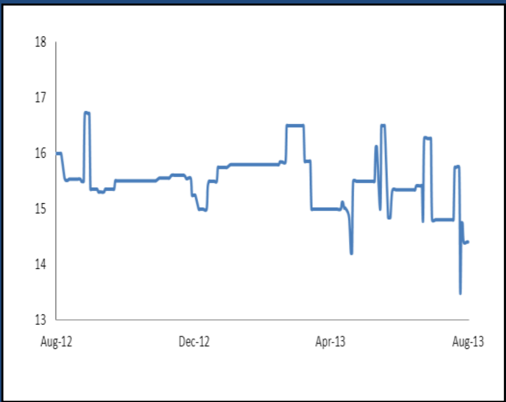
Target price lowered on ongoing political tensions

The shaky regional and domestic situation continues to negatively impact Holcim's share price despite the attractive 5%-7% dividend yield. Hence, we lower our target price to USD 15.10 from USD 15.21 previously, maintaining a HOLD recommendation with a discount rate of 15% and a 3% terminal growth. Holcim Liban appears to be undervalued with a price-to-earnings ratio of 13.62 compared to 15.65 for the average of the industry in the Middle East. We attribute the slight discount that HL trades at to the intensification of the conflict in Syria.

Share Data

Bloomberg Symbol	HOLC LB
Reuters Symbol	HOLC.BY
Market Cap	281,226,136
Number of Shares	19,516,040
Free Float	17.8%
Price-to-Earnings 12	13.62
Price-to-Book 12	1.79

Share Performance



Source: Bloomberg

1 Month Return	-2.70%
3 Month Return	-7.03%
6 Month Return	-8.80%
12 Month Return	-9.94%
52 Week Range	13.5 - 16.72

Contact Information:

Equity Analyst: Malak Hawa
malak.hawa@blominvestbank.com

Head of Equities: Issa Frangieh
issa.frangieh@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

Performance and Forecasts

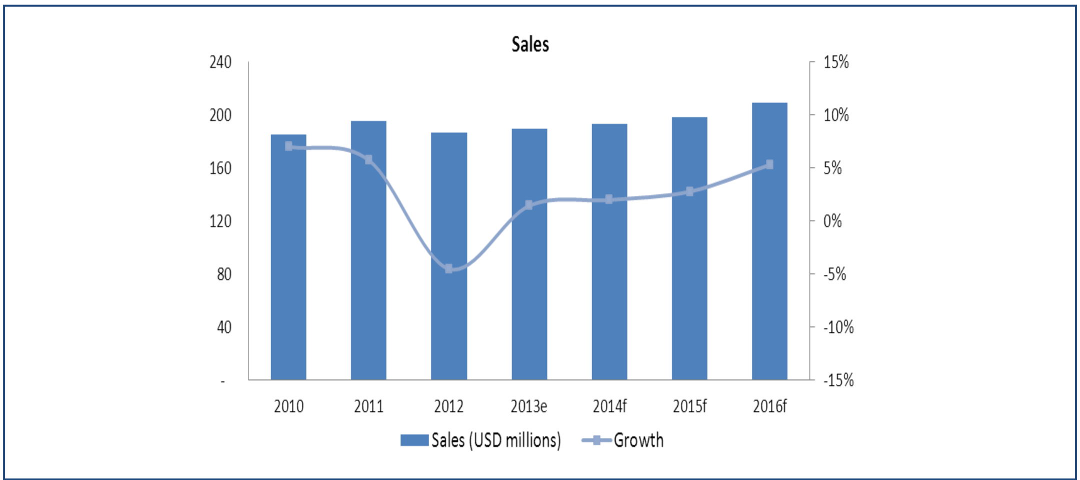
Year	2011	2012	2013e	2014f	2015f
Revenues (USD millions)	195.6	186.8	189.5	193.3	198.7
Net Income (USD millions)	28.3	18.0	20.6	24.3	27.0
EPS (USD)	1.45	0.92	1.06	1.24	1.38
BVPS (USD)	8.18	8.06	7.97	7.98	8.07
ROA	9.6%	6.2%	7.3%	8.6%	9.5%
ROE	13.1%	8.5%	9.9%	11.4%	12.5%

Source: Company Financials, Blominvest Estimates

INCOME STATEMENT HIGHLIGHTS

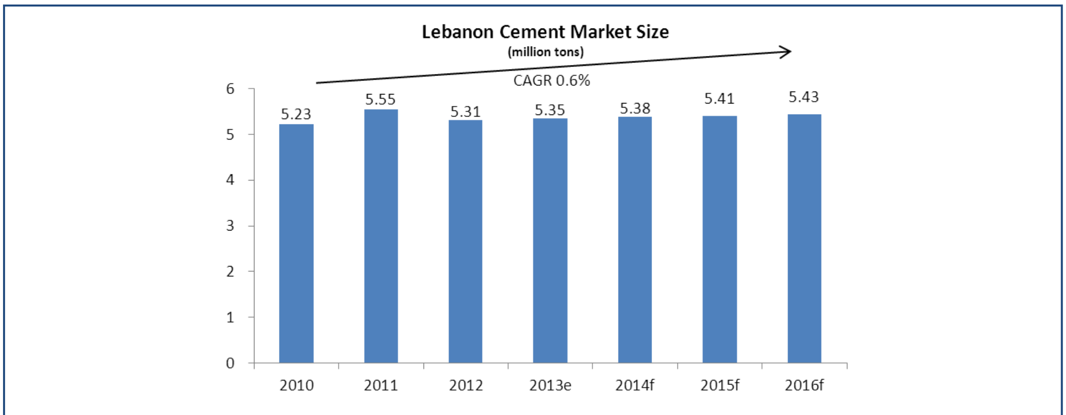
Slower demand drags Holcim's top-line with ongoing reliance on grey cement and local sales

Revenues at Holcim Liban (HL) returned to 2010 levels, declining by 4.5% in 2012 to reach $186.8 million, led by a slowdown in domestic sales amid a shaky political climate. According to Lebanon's Central Bank, cement deliveries fell 4.4% to 5.31 million tons in 2012 after recording consecutive rises of 6.2% and 6.7% in 2011 and 2010 respectively, pointing to a slowdown in the real estate sector. HL's share of the Lebanese market remains high at 40.3% in 2012. Out of the 2.14 million tons produced by the company, grey cement sales constituted 97% of revenues in 2012 and this trend is expected to continue. Revenue has been traditionally generated from local sales with international revenues driven mainly from markets in Syria and Iraq. However, domestic sales constituted the majority of HL's revenue in 2012 with exports almost non-existent due to company's focus on local demand. Despite the unrest sweeping most Arab countries, we estimate 2013 sales to increase by 1.5% to $189.5 million as cement deliveries rose during the first five months of 2013 to 2.11 million tons as opposed to 2.01 million tons registered a year earlier.



Source: Holcim, Blominvest

Societe Libanaise des Ciments Blans (SLCB), HL's subsidiary white cement producer, registered a 4% increase in revenues during 2012 to reach $14.45 million. Sales of white cement reached 64.6 thousand tons with export sales falling sharply, representing only 13% of total white cement revenues. Political turmoil in Syria has largely been pressuring white cement export sales which used to contribute to almost 40% of the company's top-line.

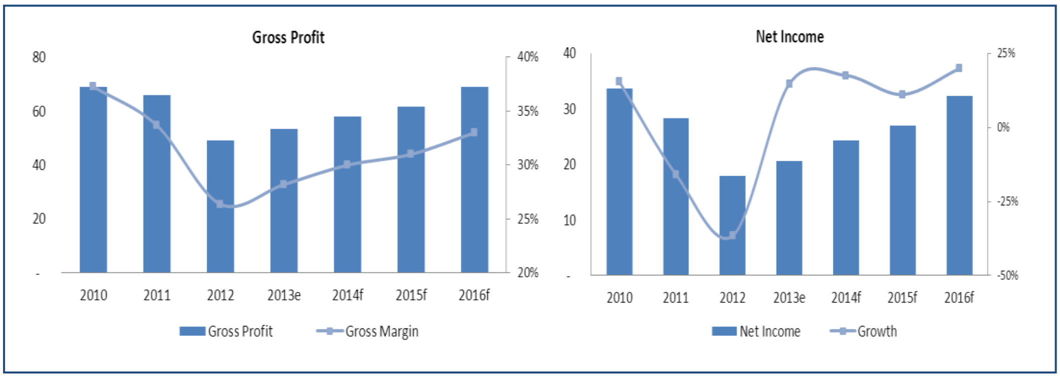


Source: BdL, Blominvest

BLOMINVEST BANK S.A.L

Bottom-line pressured by higher production costs

The performance of Holcim Liban contracted during 2012 as gross income shrank by 25.2% to reach $49.3 million due to feeble local demand and higher cost of coal and fuel oil. Production costs increased 6% to $137.6 million, driving down the gross margin from 33.7% in 2011 to 26.4%, its lowest level in the past seven years. However, we expect an improvement to this margin in the future as the Waste Heat Recovery (WHR) power generation began in May 2013 and is estimated to reduce production costs by around $3 million per year. HL will benefit from the WHR project by reducing fuel consumption and lowering its profit variability in relation to oil prices.



Source: Holcim, Blominvest

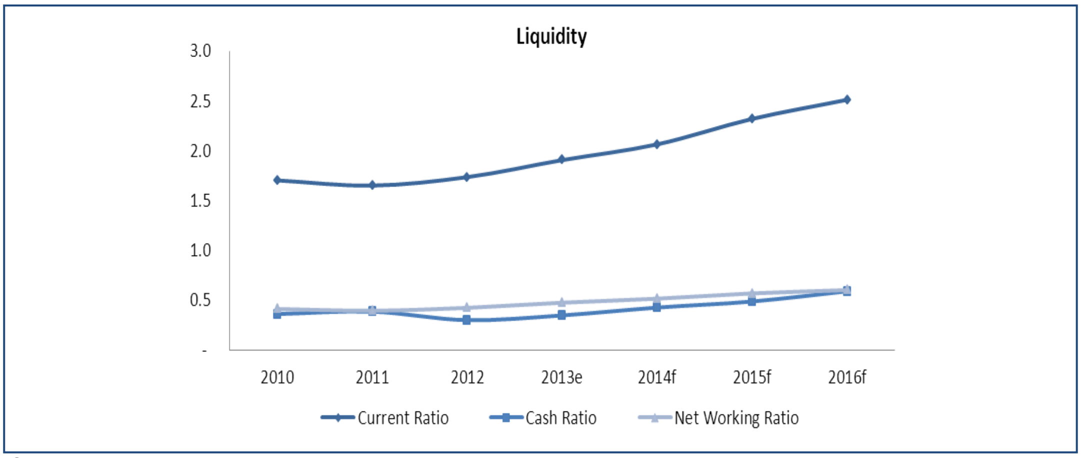
Similarly to its gross margin, Holcim's earnings followed suit dropping by 36.5% to reach $18 million compared to $28.3 million in 2011. As a result, net profit margin reached 9.6%, down from 14.5% in 2011. As for 2013, we expect net income to increase 14.8% to $20.6 million driven by lower production costs and a more efficient operation.

BALANCE SHEET HIGHLIGHTS

Liquidity

Holcim Liban's total assets declined by 6.6% during 2012 to $281 million, mainly due to a 36.5% and 10.6% drop in cash and inventories to $15 million and $50 million, respectively. The company's current assets and liabilities fell by a respective 13.6% and 19.0%, leading to a stable current ratio of 1.7. The cash ratio declined to 0.3 from 0.39 in 2011, while the net working capital ratio increased slightly to 0.42 from 0.39 in 2011. Special efforts were made in December 2011 to reduce Working Capital to a very low level and it included two shipments of fuel oil that were paid early in 2012. However, payables were lower in December 2012 as only a half shipment payment was required with the other half postponed to 2013.

Current Ratio = Current Assets / Current Liabilities
Cash Ratio = Cash / Current Liabilities
Net Working Capital Ratio = (Current Assets – Current Liabilities) / Current Assets



Source: Holcim, Blominvest

Dividend payment

HL distributed $15.4 million in dividends on 2012 earnings for a gross dividend yield of 5% on the year-end 2012 closing share price of $15.75. In 2011, the company distributed $25 million in dividends on the profits of 2011 for a dividend yield of 7.6% on the year-end 2011 closing share price of $16.98 per share. HL's dividend payout ratio remained high at 85.6% in 2012 compared to 88.8% and 89.8% recorded in 2011 and 2010 respectively.

As for the white cement producer, Societe Libanaise des Ciments Blans, it approved the distribution of $2.2 million in dividends to common shareholders on the profits of 2012, which is equivalent to $0.25 per share with a dividend payout ratio of 86.4%.

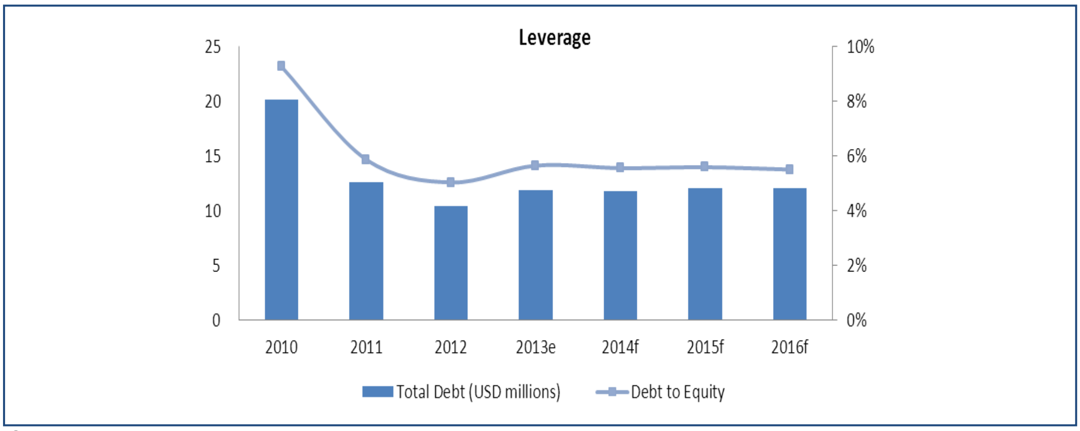
	2007	2008	2009	2010	2011	2012
Price / Share	20.75	15.93	12.52	17	16.98	15.75
Dividend Paid / Share	0.908	0.698	0.898	1.55	1.29	0.79
Dividend Yield	4.4%	4.4%	7.2%	9.1%	7.6%	5.0%
Earnings/Share	0.96	1.06	1.50	1.73	1.45	0.92
Dividend Payout Ratio	94.4%	66.0%	60.0%	89.8%	88.8%	85.6%

Source: Holcim, Blominvest

BLOMINVEST BANK S.A.L

Financial Leverage

HL’s debt-to-equity ratio remained almost unchanged at 7% in 2012. We expect the leverage ratio to remain stable in the future as the company has not announced any new major capital expenditure plans.



Source: Holcim, Blominvest

VALUATION

Maintaining a HOLD on ongoing political tensions

We maintain a HOLD rating with a target price of USD 15.10 per share using a Discounted Cash Flow method based on a 5-year forecast. The discount rate is kept at 15% as the risk associated with the current turmoil in Syria impacting the Lebanese market is already reflected in our forecasts. Additionally, we maintain the terminal growth rate at 3% taking into account the outlook of the company and inflation in Lebanon.

Holcim Liban appears to be undervalued with a price-to-earnings ratio of 13.62 compared to 15.65 for the average of the industry in the Middle East. We attribute the slight discount that Holcim trades at to the elevated political tensions occurring in neighboring Syria. However, worth noting, HL's shares are currently yielding a very attractive 5% - 7% in dividends.

Revenue forecasts were extended over a five-year period assuming no additions in production capacity. Production costs (as a percentage of revenues) are expected to decline gradually in the next five years, turning to its historical average of 65% of revenues in 2016. We estimate 2013 production costs at 71.8% of revenues, lower than 73.6% for 2012 as it has been operating below its full capacity, thus increasing its overall production cost ratio.

(in USD million)	2013	2014	2015	2016	2017	2018	
Net income	20.6	24.3	27.0	32.3	36.5	38.5	
Add: Depreciation	13.5	13.1	12.7	12.2	11.7	11.2	
Less: CAPEX	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	
Less: Change in Net Working Capital	(8.2)	(3.7)	(4.5)	(4.2)	(4.2)	(0.7)	
Add: Net Borrowing	(1.8)	0.1	(0.2)	(0.3)	(0.2)	(0.0)	
FCF	18.1	27.7	29.1	34.0	37.8	43.0	
Terminal value							368.8
Discounted FCF	18.1	24.1	22.0	22.4	21.6	21.4	183.3
Holcim Value	**294.8**						
Number of shares (in millions)	19.5						
Target Share Price (in USD)	**15.10**						

Source: Blominvest

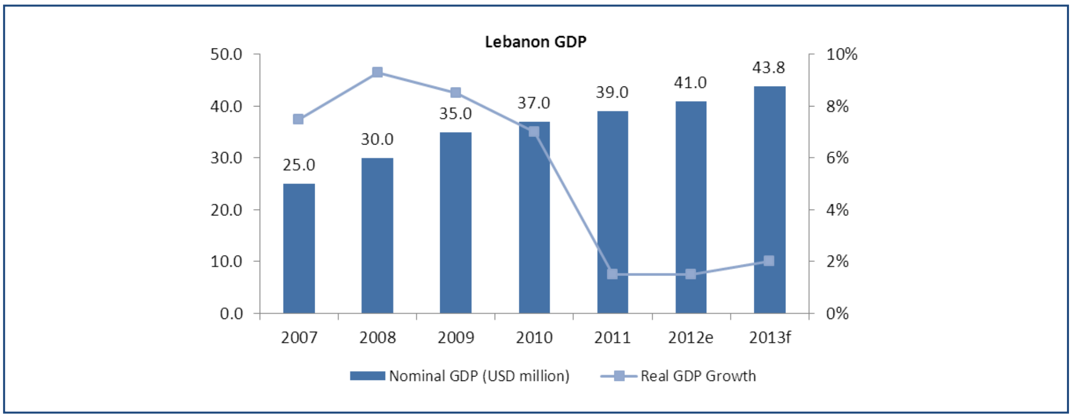
Sensitivity Analysis

Discount Rate	Terminal Growth	Fair Value/Share	Upside
20%	2%	10.06	-30.19%
20%	3%	10.41	-27.78%
20%	4%	10.80	-25.08%
15%	2%	14.30	-0.78%
15%	**3%**	**15.10**	**4.79%**
15%	4%	16.06	11.43%
10%	2%	23.95	66.20%
10%	3%	26.63	84.83%
10%	4%	30.21	109.68%

Source: Blominvest

OUTLOOK

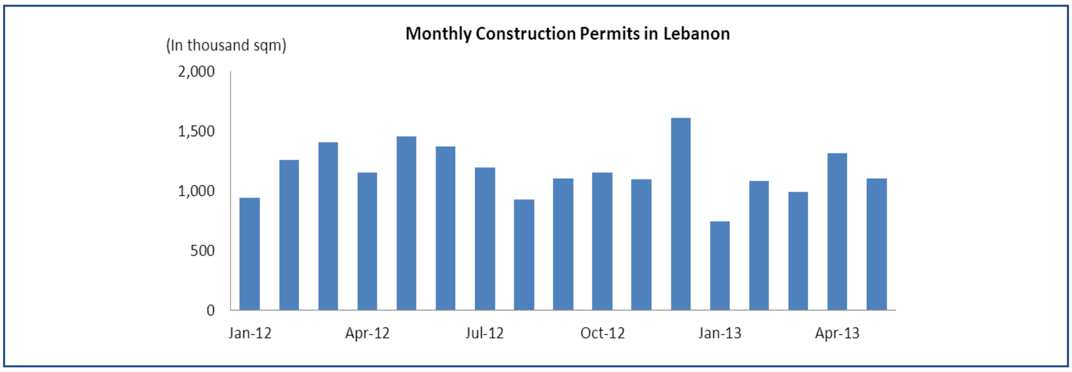
2012 was a year of challenge for the Middle East as the Arab spring caused a slowdown in the regional economies and a significant fall in investments. The Lebanese economy was pressured by the local political tensions and the unstable countries in the region, especially the intensification of the conflict in Syria, which affected private investment, tourism, and FDI. However, the cement industry has been resilient to local and regional events but witnessed a slowdown over the year, heavily impacted by the full-blown civil war in Syria that caused a deceleration of demand for cement.



Source: International Monetary Fund

Demand for cement and construction continue to be driven by real estate

The real estate sector counts as the main driver of the cement industry in Lebanon as the slight decline in the construction activity in 2012 after recording persistent growth in the past few years, negatively affected the cement market. This was the result of the slowdown in the Lebanese economy and the growing political tensions in the region. The number of construction permits in Lebanon, an indicator of future demand for cement, decreased by a slight 0.8% in 2012 to 18,193 transactions as opposed to 18,347 transactions authorized in 2011, as the construction activity started to pick up in May 2012 compared to a year earlier, partially offsetting the slowdown registered in the first few months of the year. However, the downward trend continues during 2013 as the number of construction permits dropped by 1.6% up to May 2013 to reach 7,238 permits compared to 7,353 transactions authorized in 2012. Moreover, Construction Area authorized by Permits contracted by 15.8% to 5.24 million square meters (sqm), showing a shift to small and medium sized construction projects.



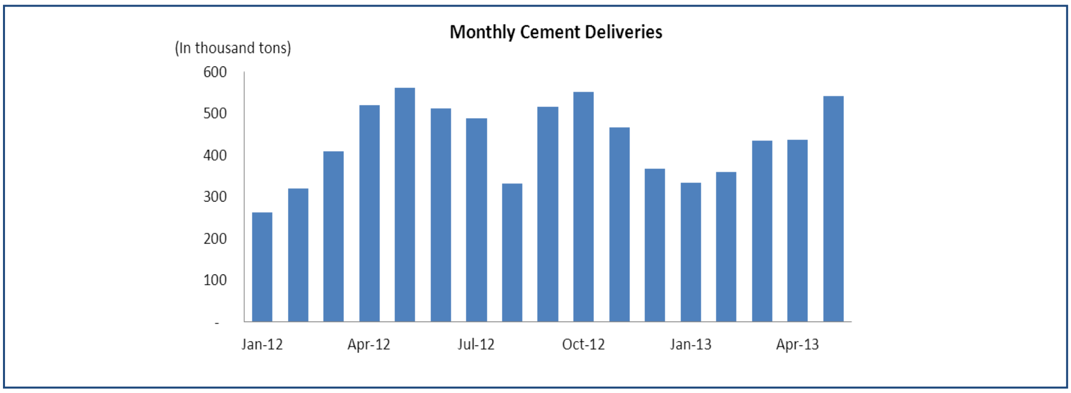
Source: Order of Engineers in Beirut and North

The other driver of the cement industry is government infrastructure which is currently almost non-existent in Lebanon. This may cause a downside in the cement market through the coming few years, unless the development of infrastructure through potential public private partnership boosts demand for cement.

Demand in the Lebanese real estate sector pressured by political unrest

On the demand side, the Lebanese real estate sector registered a significant drop during the first few months of 2013, suffering from the unrest in the Arab world. Property sales transactions decreased by 8.2% to 26,042 transactions up to May 2013 compared to 28,369 recorded a year earlier. Similarly, the total value of real estate transactions reached $3.02 billion, down by 8.6% from a year earlier.

However, although the Lebanese market is considerably affected by the unrest in neighboring Syria, cement deliveries rose during the first five months of 2013 to 2.11 million tons as opposed to 2.01 million tons registered a year earlier. Hence, we expect the demand for cement to increase from 5.31 million tons in 2012 to 5.35 million tons in 2013, which will have a tangible impact on Holcim Liban's revenue growth potential.



Source: BdL

Opportunity to re-enter the Syrian market

The medium-to-long term prospects of the Lebanese cement industry is strong as the size of the ongoing destruction in Syria remains large. The reconstruction phase that will follow the current war will require significant amounts of cement. Hence, we expect demand on the commodity to rise, along with the reconstruction campaign in the aftermath of confrontations in Syria. Holcim Liban is studying several options in preparation for the construction boom in Syria yet to come.

Stagnant cement prices amid feeble demand to persist

The selling price of cement for the Syrian market has been declining due to the lower demand resulting from the unfolding events. As for the Lebanese market, in our financial model, we believe the price of grey cement and white cement will remain at 2012 levels, around $96 and $178 per ton, respectively. The burden of import tariffs by the Lebanese government - which can reach up to 75% for grey cement, clinker and related products and 25% for white cement - will continue to aid Lebanese cement producers.

PROJECTED INCOME STATEMENT

In USD million	2010	2011	2012	2013e	2014f	2015f	2016f
Sales of Goods	185.0	195.6	186.8	189.5	193.3	198.7	209.3
Production Cost of Goods Sold	(116.1)	(129.8)	(137.6)	(136.1)	(135.3)	(137.1)	(140.2)
Gross Profit	69.0	65.9	49.3	53.4	58.0	61.6	69.1
Distribution & Selling Expenses	(16.6)	(18.9)	(18.3)	(18.6)	(18.8)	(19.1)	(19.9)
Administrative Expenses	(5.1)	(5.8)	(5.7)	(5.7)	(5.8)	(6.0)	(6.3)
Other Income	1.5	1.9	2.1	1.0	1.0	1.0	1.0
Other Expenses	(6.5)	(6.3)	(4.9)	(5.0)	(5.0)	(5.0)	(5.0)
Interest Income	0.2	0.3	0.2	0.3	0.3	0.4	0.4
Finance Costs	(2.2)	(1.5)	(1.5)	(1.2)	(1.2)	(1.2)	(1.3)
Profit Before Tax	40.3	35.6	21.2	24.3	28.5	31.7	38.0
Income Tax Expense	(6.6)	(7.3)	(3.2)	(3.6)	(4.3)	(4.8)	(5.7)
Profit for the Year	33.7	28.3	18.0	20.6	24.3	27.0	32.3
% growth in NI	15.4%	-15.9%	-36.5%	14.8%	17.6%	11.1%	19.9%
Number of Shares (in millions)	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Earnings per Share (In USD)	1.73	1.45	0.92	1.06	1.24	1.38	1.66

Source: Holcim, Blominvest

PROJECTED BALANCE SHEET

In USD million	2010	2011	2012	2013e	2014f	2015f	2016f
Current Assets							
Cash & Cash Balances	17	24	15	17	20	25	29
Inventories	40	56	50	55	58	60	65
Accts Receivables & Prepayments	23	24	24	23	23	24	25
Total Current Assets	80	103	89	94	102	108	119
Non-Current Assets							
Property, plant & equipment	143	137	136	132	128	125	119
Investment Properties	11	11	10	11	11	11	11
Goodwill	18	18	18	18	18	18	18
Intangible assets	32	27	24	22	20	18	16
Other Financial Assets	4	4	3	4	4	5	5
Total Non-Current Assets	207	197	192	187	182	177	170
Total Assets	288	301	281	282	283	285	289
Current Liabilities							
Loans & Borrowings	8	2	4	3	4	4	6
Accounts Payable & Accruals	33	55	43	39	38	36	36
Taxes Payable	7	5	3	5	5	5	5
Provision for Risks & Charges	0	0	0	0	0	0	0
Total Current Liabilities	47	63	51	47	47	45	47
Non-Current Liabilities							
Loans & Borrowings	12	10	10	10	8	8	7
Provision for employee benefits	4	4	6	6	6	6	6
Provision for risks & Charges	6	8	7	8	8	8	8
Deferred Tax Liability	1	0	0	0	0	0	0
Total Non-Current Liabilities	24	23	23	24	23	23	21
Shareholders' Equity							
Share Capital	129	129	129	129	129	129	129
Statutory Reserve	19	23	26	27	29	31	33
Revaluation Reserve	34	34	34	34	34	34	34
Dividends Declared	30	30	31	19	23	26	31
Retained earnings	35	29	18	20	21	23	24
Total Equity	217	215	207	211	214	217	221
Total Liabilities & Equity	288	301	281	282	283	285	289

Source: Holcim, Blominvest

BLOMINVEST BANK s.a.l.

Research Department
Verdun, Rashid Karameh Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 747 802
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 747 802 Ext: 1234

Issa Frangieh, Head of Equities
issa.frangieh@blominvestbank.com
+961 1 1 747 802 Ext: 1208

Malak Hawa, Equity Analyst
malak.hawa@blominvestbank.com
+961 1 1 747 802 Ext: 1260

Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%
Accumulate: Fair Value higher than Market Price by 10% to 20%
Hold: Fair Value ranges between -5% to +10% in relation to Market Price
Reduce: Fair Value lower than Market Price by 5% to 15%
Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

IMPORTANT DISCLAIMER