

UPDATE FOR H1 2014
Sector: Basic Materials & Industrial Products

Country: Lebanon

Date: 20 October, 2014

Share Price (USD): 15.50

Target Price (USD): 15.28

Upside: -1.5%

Recommendation: HOLD

Maintaining a HOLD rating on Holcim Liban with a Target Price of USD 15.28 per share amid persistent political instability

We value Holcim Liban (HL) at USD 15.28 per share, maintaining our HOLD recommendation as the ongoing presidential vacuum on top of the deteriorating situation in Syria continue to threaten Lebanon's internal stability, negatively impacting Holcim's share price despite the attractive 6% in dividend yield. When comparing HL to its regional peers, we find that with a P/E ratio of 13.9, the cement producer may be undervalued against its peers which hold an average P/E of 14.7. However, we believe this slight discount is justifiable as it could be attributed to Lebanon's shaky political and economic situations in addition to the intensification of conflict in neighboring Syria.

HL's top-line up on growing cement market

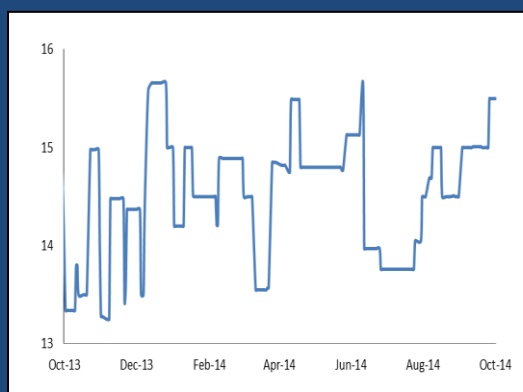
The Lebanese cement market continues to show strong signs of recovery, registering an impressive 5.2% y-o-y growth in H1 2014 to reach 2.8 million tons, of which HL captured a market share of 39.4%. HL benefited from the mounting demand and revenues came in line with our estimates, rising by 4.9% y-o-y to reach USD 93.2 million in H1 following a 5.7% jump in sales volumes to 1.1 million tons. In details, grey cement, which is mainly used for most construction works and buildings, edged up by 5.3% to 1.05 million tons, accounting for 95.5% of total sales volume. As for white cement, sales surged by 13.1% to 52,700 tons but revenues at Societe Libanaise des Ciments Blancs (SLCB), HL's subsidiary and the only producer of white cement in Lebanon, plunged by 45.3% to USD 7.9 million, mainly due to lower sales prices. Looking forward, we believe the cement market will maintain its strong footing during the rest of the year as cement deliveries are keeping the upward trend that started in 2013, while construction permits, an indicator of future demand for cement, already climbed by 11.4% y-o-y to 9.4 million sqm up to August 2014. Based on the above, we revise up HL revenues estimates for 2014, expecting an increase of 2.8% to USD 195.4 million, which is still slower than the cement market growth, as the absence of any capacity expansion plan in the near-term may continue to impact HL's opportunity to fully benefit from the swelling local demand. Moreover, we wait to see the market reaction after HL increased grey cement prices by USD 2 to USD 94/ton during H1 2014, contrary to its two main competitors.

Margins widen on lower production costs

HL recorded higher gross margin of 30.7% in H1 2014 compared to 26.7% a year earlier. Production costs fell to 69.3% of sales from 73.3% in H1 2013 as both the use of Pet coke instead of coal and lower fuel oil prices weighted positively on Holcim's efficiency. This translated into a 20.7% y-o-y surge in gross profit to reach USD 28.6 million. Earnings followed suit, showing a 15.2% rise to USD 9.4 million, further supported by a USD 319,000 lower finance expenses as HL continues to reduce the amount of outstanding debt it carries on its balance sheet. Looking forward, we expect 2014 earnings to increase to USD 23.8 million, mainly due to slightly higher revenues, lower production costs and more efficient operations. Moreover, we anticipate growth at a CAGR of 16.3% in the coming three years as we believe once HL Waste Heat Recovery (WHR) starts operating at full capacity, margins will improve by lowering profit variability in relation to oil prices and cutting production costs by USD 2 million per year.

Share Data

Bloomberg Symbol	HOLC LB
Reuters Symbol	HOLC.BY
Market Cap	302,498,620
Number of Shares	19,516,040
Free Float	17.8%
Price-to-Earnings 2014e	13.86
Price-to-Book 2014e	1.89

Share Performance


Source: Bloomberg

1 Month Return	3.3%
3 Month Return	12.6%
6 Month Return	4.6%
12 Month Return	16.2%
52 Week Range	13.25 – 15.66

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Performance and Forecasts

Year	2011	2012	2013	2014e
Revenues (USD millions)	195.6	186.8	190.0	195.4
Net Income (USD millions)	28.3	18.9	21.8	23.8
EPS (USD)	1.45	0.97	1.12	1.22
BVPS (USD)	8.18	8.06	8.65	8.49
ROA	9.6%	6.5%	7.6%	8.2%
ROE	13.1%	9.0%	10.4%	11.2%

Source: Holcim, Blominvest

PROJECTED INCOME STATEMENT

<i>In USD million</i>	2011	2012	2013	2014e
Sales of Goods	195.6	186.8	190.0	195.4
Production Cost of Goods Sold	(129.8)	(137.0)	(132.4)	(134.8)
Gross Profit	65.9	49.9	57.6	60.6
Distribution & Selling Expenses	(18.9)	(18.2)	(18.3)	(18.8)
Administrative Expenses	(5.8)	(5.5)	(5.9)	(6.1)
Gain (Loss) on Disposal of Investment Properties	(0.0)	0.8	4.1	-
Other Income	1.9	1.4	1.5	1.3
Other Expenses	(6.3)	(4.9)	(11.1)	(8.0)
Interest Income	0.3	0.2	0.3	0.0
Finance Costs	(1.5)	(1.5)	(1.3)	(1.0)
Profit Before Tax	35.6	22.2	26.7	28.0
Income Tax Expense	(7.3)	(3.2)	(4.9)	(4.2)
Profit for the Year	28.3	18.9	21.8	23.8
Number of Shares (in millions)	19.5	19.5	19.5	19.5
Earnings per Share (In USD)	1.45	0.97	1.12	1.22

Source: Holcim, Blominvest

BALANCE SHEET

<i>In USD million</i>	2010	2011	2012	2013	H1 2014
Current Assets					
Cash & Cash Balances	17	24	15	37	9
Inventories	40	56	50	44	38
Accts Receivables & Prepayments	23	24	24	29	45
Total Current Assets	80	103	89	109	93
Non-Current Assets					
Property, plant & equipment	143	137	136	126	122
Investment Properties	11	11	10	9	9
Goodwill	18	18	18	18	18
Intangible assets	32	27	24	20	17
Other Financial Assets	4	4	3	10	10
Total Non-Current Assets	207	197	192	183	177
Total Assets	288	301	281	292	269
Current Liabilities					
Bank Overdraft	-	-	4	0	0
Loans & Borrowings	8	2	1	1	1
Accounts Payable & Accruals	33	55	43	45	22
Taxes Payable	7	5	3	5	2
Provision for Risks & Charges	0	0	0	6	0
Total Current Liabilities	47	63	51	57	25
Non-Current Liabilities					
Loans & Borrowings	12	10	10	9	8
Provision for employee benefits	4	4	6	6	6
Provision for risks & Charges	6	8	7	8	8
Deferred Tax Liability	1	0	0	0	0
Total Non-Current Liabilities	24	23	23	23	22
Shareholders' Equity					
Share Capital	129	129	129	129	129
Statutory Reserve	19	23	26	27	27
Revaluation Reserve	34	34	34	34	34
Retained earnings	35	29	18	22	31
Total Equity	217	215	207	212	222
Total Liabilities & Equity	288	301	281	292	269

Source: Holcim

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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

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