HeidelbergCement AG

HeidelbergCement: mixed bag Premium

Industry trends look broadly negative but weak trading figures should not endure

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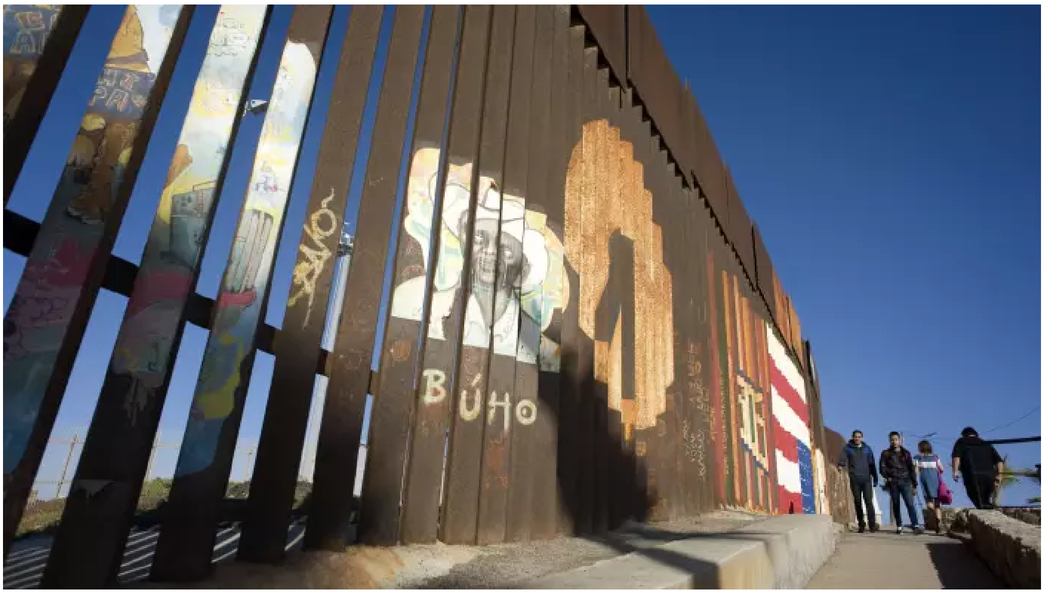

While plans for the US-Mexico border wall remain incomplete, HeidelbergCement must keep busy elsewhere © Bloomberg

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The heavy materials market has been looking to the US for the next big construction surge as Asia's boom quietens. So far, infrastructure plans, such as Donald Trump's "big, beautiful" border wall, remain incomplete. Germany's HeidelbergCement must keep itself busy elsewhere.

The problem for the world's second-largest cement maker is that trends are broadly negative. Cement may be dominated by global groups but it remains a localised business; the stuff is simply too heavy to transport far. Companies are exposed to local cycles and Heidelberg is more present than LafargeHolcim in areas where demand is weakening, such as the UK.

But weak quarterly trading figures — like-for-like revenues were down 0.4 per cent — should not endure. Calendar effects account for some of the setbacks in the two largest markets, with Ramadan and Easter costing work days in Indonesia and the US. Comparisons will be easier in the next quarter. Europe's economic recovery should support sales.

Of more concern is higher than anticipated net debt at €10bn, equal to 3.2 times earnings before interest, tax, depreciation and amortisation. Debt has been a problem in the past; buying UK building materials group Hanson in 2007 cost Heidelberg its investment-grade credit rating and sent net debt above 6 times ebitda just as the construction cycle turned.

Since then, Heidelberg has improved its acquisition record with the 2015 purchase of Italcementi, a deal now expected to deliver more than the forecast €500m of cost savings.

Until the next acquisition or construction boom, Heidelberg should look to cut costs. Energy accounts for about a third of cement's production overheads and rising coal prices could increase Heidelberg's costs 9 per cent this year. Alternative energy sources might reduce them. In Germany, over half of energy comes from fuels other than oil and coal. In the US and Asia it is just 5 per cent. Something to work on while waiting for the wall building to start.

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