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European E&Ps

Too far too fast: cutting oil prices and E&P ratings

Equities

Europe including UK
Oil Companies, Secondary

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Cutting 2018-20 and long-term crude oil price forecasts by \$5/bbl

In [our Q&A note published overnight](#) we confirm our expectation for a \$60/bbl average Brent price in 2017. OPEC's intervention in November was an important signal and helps tip the physical market into undersupply from 2Q17. However significant tightening is a 2018 event - the point at which the 2014-16 collapse in conventional project sanctioning begins to impact supply, and the point at which we see prices moving back into an incentive range of \$60-80/bbl. We are however lowering our 2018 and 2019+ forecasts by \$5/bbl to \$65-70/bbl, reflecting the price dampening effect of the shale rebound. 2018-20 EBITDA falls by an average 7% and NAVs by 8%.

E&P valuations looking stretched - sector discounting \$70/bbl long-term

The E&P sector has de-coupled from 5-year Brent and is up 19% over the past 3 months. The macro backdrop (rising oil prices; trough costs) is supportive, and we are likely through the worst for balance sheets: we are reducing PT discounts to NAV across the board. But the sector now trades at a premium to commercial asset value, a phenomenon not seen since 2014, which prompts us to turn more cautious.

Downgrading Africa Oil, EnQuest, Lundin and Tullow after strong performance

Tullow and Lundin were among the best performers last year but we now struggle to make valuation work. We believe both will generate free cash for the first time since 2011 this year, but 2017E FCF yields of ~4% are not that compelling in the context of the wider sector. Moreover at a 13% and 22% premium to RENAV respectively, we are concerned both Lundin and Tullow are pricing in perfect base execution and considerable exploration success: we downgrade the shares to Sell. We are also downgrading Africa Oil and EnQuest to Neutral after strong recent performance.

We still see value in Cairn and Ophir shares - our top E&P picks into 2017

We see Cairn and Ophir as well capitalised explorers sitting on low-cost assets in Senegal and Equatorial Guinea, with valuations that work at the forward curve. In both cases we see near-term catalysts that should de-risk key projects: appraisal work to narrow the resource range at Cairn's SNE field, and project financing milestones ahead of Fortuna FID for Ophir. We believe both companies have interesting drilling upside this year which, at today's 0.7x NAV (the cheapest outside Kurdistan) looks like option value for investors.

Figure 1: European E&Ps: changes to ratings, price targets and NAVs

	Currency	Market Cap (\$m)	New Rating	Old Rating	Local Price	New Target	Old Target	Upside	Core NAV	New NAV Commercial NAV	RENAV	Core NAV	Old NAV Commercial NAV	RENAV
Africa Oil	SEK	946	Neutral	Buy	18.4	20.5	18.0	11%	8.8	20.9	22.0	8.8	22.3	23.7
Aker BP	NOK	6307	Neutral	Neutral	157.9	155.0	135.0	-2%	114.2	156.6	159.4	101.0	123.2	125.1
Cairn Energy	£	1736	Buy	Buy	2.43	2.75	2.55	13%	2.10	3.55	3.68	2.13	3.70	3.84
DNO	NOK	1175	Neutral	Neutral	9.2	9.5	9.5	3%	10.4	14.0	15.2	11.1	14.8	15.9
EnQuest	£	755	Neutral	Buy	0.54	0.60	0.55	12%	0.66	0.68	0.68	0.89	0.90	0.90
Genel	£	285	Neutral	Neutral	0.83	0.90	0.90	9%	1.29	3.80	3.93	1.35	3.87	4.01
Lundin	SEK	7455	Sell	Neutral	194.8	175.0	160.0	-10%	150.6	164.6	172.2	129.0	143.5	150.7
Ophir Energy	£	862	Buy	Buy	0.93	1.15	1.15	23%	1.03	1.35	1.45	1.13	1.51	1.55
Soco	£	630	Neutral	Neutral	1.55	1.60	1.60	4%	1.46	1.69	1.69	1.48	1.72	1.72
Tullow Oil	£	3517	Sell	Neutral	3.11	2.60	2.60	-16%	1.09	2.45	2.56	1.33	2.82	2.95

Source: UBS estimates, DataStream. Priced as of COB 17/10/2017. Increases to NAV for Aker BP/Lundin reflect reduced cost of capital assumption.

MITIE Group

New year, new management, new start?

Progress is painful - for now. PT falls to 205p on c9% recurring EPS downgrades

Mitie's third profit warning inside 5 months means that we now forecast FY17e EBITA at roughly half the level we anticipated a year ago, but on a seemingly undemanding c11.5x forward PE any turnaround does not look priced in. We believe leverage is manageable, profits can (partially) re-bounce, and can see a path back to long-term growth... but we remain Neutral as we do not think Mitie is past the turning point yet (e.g. key balance sheet review yet to be completed). Our EPS estimates fall 40% for FY17e due to one-offs, but 11%/9% in FY18/19e, and as a result our price target falls to 205p.

New strategy in May must convince on profit growth beyond an FY18 rebound

A new CEO and CFO team will present a new strategy in May, and we expect an emphasis on differentiation (via technology – the [next paradigm in FM](#), in our view) and restructuring. Revenues have not been that weak, but with underlying margins to fall to 4.1% (excluding Healthcare and the one-off 'review items') vs. 6.0% in FY14 it is clear the cost base needs re-aligning. Market analysis suggests 5-6% remains a reasonable target in time, but the pace of recovery is uncertain (UBSe >5% margins by FY21e).

Balance sheet review still to come; leverage now to reach 2.4x ND/EBITDA

FY17e includes £14m of 'balance sheet review' charges, but the *full* review will only come at FY17 results – we do not see this as de-risked yet. There is wide uncertainty on impact (UBS recently published views on [IFRS 15](#)), but the key concern has been Mitie's receivables. Neither mobilisation costs (£29m as of FY16) nor accrued income on 'long term complex contracts' (£77m) are that significant in group context, but revenue and profit (not cashflow) could be reduced by any changes. However 2.4x ND/EBITDA for FY17e (1.8x FY18e) is still within covenants at 3.0x, if with reduced headroom. An early focus for new management will need to be working capital improvements.

Valuation: PT falls to 205p; EPS -40%-9% FY17-19e

We reduce our FY17e EPS by c40% due to non-recurring provision increases, further work delays, and cost underperformance. Some of this is non-recurring and we see our FY18e/19e EPS reduce by just 11%/9%, and our price target falls to 205p (based on 7% target FCF yield, in-line with other growth-challenged companies in the sector).

Equities

United Kingdom
Industrial Services

12-month rating **Neutral**

12m price target **205p**
Prior: 220p

Price **203p**

RIC: MTO.L BBG: MTO LN

Trading data and key metrics

52-wk range	294p-180
Market cap.	£0.72bn/US\$0.88bn
Shares o/s	353m (ORD)
Free float	100%
Avg. daily volume ('000)	2,266
Avg. daily value (m)	£4.7
Common s/h equity (03/17E)	£0.34bn
P/BV (03/17E)	2.1x
Net debt / EBITDA (03/17E)	2.4x

EPS (UBS, diluted) (p)

	From	To	% ch	Cons.
03/17E	17.8	10.7	-40	16.0
03/18E	19.2	17.1	-11	18.5
03/19E	20.4	18.6	-9	19.7

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Highlights (£m)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenues	2,142.6	2,266.2	2,231.9	2,187.3	2,139.7	2,172.2	2,243.1	2,316.5
EBIT (UBS)	127.5	128.6	128.9	63.8	94.1	100.2	108.3	116.8
Net earnings (UBS)	87.3	89.3	92.3	37.8	60.4	65.5	72.3	79.8
EPS (UBS, diluted) (p)	23.5	24.2	25.7	10.7	17.1	18.6	20.5	22.6
DPS (p)	11.0	11.6	12.1	5.9	8.2	8.8	9.8	10.8
Net (debt) / cash	(181.0)	(177.8)	(178.3)	(212.3)	(208.3)	(200.4)	(187.2)	(172.8)
Profitability/valuation	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
EBIT margin %	6.0	5.7	5.8	2.9	4.4	4.6	4.8	5.0
ROIC (EBIT) %	21.4	21.7	20.9	10.0	14.4	15.1	15.9	16.6
EV/EBITDA (core) x	8.5	8.1	8.4	10.9	8.2	8.0	7.3	6.3
P/E (UBS, diluted) x	12.5	12.4	11.7	18.9	11.9	10.9	9.9	9.0
Equity FCF (UBS) yield %	7.3	5.8	6.2	1.8	5.2	5.9	6.8	7.2
Net dividend yield %	3.7	3.9	4.0	2.9	4.0	4.4	4.8	5.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 203p on 19 Jan 2017 16:02 GMT

Natixis SA

16Q4 Preview: Natixis likely to match last year dividend, ahead of consensus

Natixis likely to match the EUR0.35 DPS of last year

We believe management will propose a EUR0.35 DPS for 2016e, flat vs last year and some 6% above consensus estimates. There are two main reasons why we are confident that Natixis can pay such a level of dividends: first, under these assumptions Natixis CET1 ratio remains at 10.5% at the end of 2016e remains significantly above its 2017 Pillar 2 requirement of (9% fully loaded) and in line with management target (10.5%). Secondly the strong organic capital generation of the group (c.110bps pa prior to dividends) should give management and the market comfort that Natixis can build up capital quickly in the event of a harsh regulatory outcome. But even under such a scenario, a long period of transitional arrangement looks likely meaning that regulation is not currently a constraint to dividend distribution for Natixis in our view.

Geared to CIB but little operating leverage

Natixis business model is heavily geared to CIB where it allocates as much as c.50% of its capital. Looking at US banks' Q4 reporting so far, this looks to be a good thing. But similarly we would urge investors not to get too carried away as the level of operating leverage of Natixis' CIB operations isn't huge. In 16Q3 for example, revenues and costs were up 15% and 13% respectively. For 16Q4, we pencil in a 17% yoy growth in total CIB revenues and a 13pct cost increase. This puts the cost income ratio of the Wholesale Bank at 64% in 16Q4e and 61% for the FY2016, some way above management's target of 55% for 2017.

Fund flow dynamics in Asset management drive the share price

Asset Management represents roughly 40% of the group's valuation in our sum-of-the parts. This means that flow dynamics at Natixis Global asset Management (NGAM) is an important driver to Natixis' share price. In 16Q4e, we expect inflows at Harris Associates due to the recent rotation out of fixed income into equities in US. But similarly we expect outflows at Loomis Sayles & Co. Putting it all together, we expect net neutral flows at NGAM for the quarter with margins trending up slightly in the US.

Valuation: Reiterate Neutral and new TP of EUR5.0 excluding dividends

Our higher sum-of-the-parts based TP derives from positive EPS revisions as we become more positive on CIB trends on the back of a positive outlook relayed by US banks.

Equities

France
Banks, Ex-S&L

12-month rating **Neutral**

12m price target **€5.00**
Prior: €4.40

Price **€5.50**

RIC: CNAT.PA **BBG:** KN FP

Trading data and key metrics

52-wk range	€5.64-3.08
Market cap.	€17.3bn/US\$18.4bn
Shares o/s	3,137m (ORD)
Free float	27%
Avg. daily volume ('000)	5,469
Avg. daily value (m)	€27.0
Common s/h equity (12/16E)	€19.4bn
P/BV (12/16E)	0.9x
Tier 1 ratio	13%

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/16E	0.31	0.34	9	0.38
12/17E	0.38	0.39	4	0.43
12/18E	0.42	0.44	4	0.46

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	7,240	7,514	8,704	8,532	8,862	9,143	9,456	9,842
Profit before tax	1,656	1,830	2,472	2,110	2,260	2,484	2,806	2,964
Net earnings (local GAAP)	976	1,079	1,288	1,139	1,235	1,365	1,552	1,643
Net earnings (UBS)	971	1,054	1,318	1,050	1,235	1,365	1,552	1,643
Tier 1 ratio %	11.1	12.0	12.1	12.7	12.8	12.8	13.1	13.4
EPS (UBS, diluted) (€)	-	-	0.42	0.34	0.39	0.44	0.50	0.52
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
ROE (UBS) %	5.2	5.7	6.9	5.4	6.3	6.9	7.7	8.0
P/POP (diluted)	5.0	7.7	7.0	7.5	6.9	6.3	5.7	5.4
P/BV x	0.5	0.8	1.0	0.9	0.9	0.9	0.8	0.8
P/BV (UBS) x	0.6	1.0	1.2	1.1	1.1	1.1	1.0	1.0
P/E (UBS, diluted)	-	-	14.6	16.4	13.9	12.6	11.1	10.5
Net dividend yield %	5.1	6.6	5.7	6.4	6.4	6.4	6.4	6.4

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €5.50 on 19 Jan 2017 15:32 GMT

Remy Cointreau

Improving China depletions offset US slowdown, Raise mid-term EPS +1-3%

3Q17 sales beat to drive c.2% upgrade to FY17E consensus, but valuation full

Rémy's Q3'17 (to Dec) sales grew +9.0% organically (vs consensus/UBSe of +4.2%/+6.7%) driven by improving product mix in cognac, particularly China. In US cognac, Rémy noted a slowdown in December and now expects "normalised" growth in the high-single digits vs the recent double digit run-rate. Overall the CFO expects consensus estimates for FY17 organic EBIT to increase +1-2%, but flagged any further gross profit upside will be reinvested. This implies growth of 9-10% (UBSe +10%, unchanged). Given improved cognac mix trends we raise our mid-term Rémy Martin margin and hence our FY18-20E+ EPS by 1-3% and hence our DCF-driven price target rises to €86 (prev. €82). We remain Neutral as we believe the superior growth outlook is already fairly reflected in the valuation. See [organic trends & key charts p3-4](#).

China cognac trends strong (even excl. CNY timing benefit) driven by mix

We estimate Asia cognac organic sales grew +45% in 3Q with c.10% boost from Chinese New Year (CNY) being 11 days earlier (€5mn benefit for Greater China and €1mn in Travel Retail). Management flagged 3Q volume depletions were up "high single digits" while value was up "solid double digits" driven by very strong 3Q mix trends (particularly Rémy's ultra-premium brand *Louis XIII*). The CFO also noted "positive early signs" on CNY. For 4Q17 we forecast Asia cognac organic sales +9%, as with underlying trends offset by the reverse impact of CNY timing and tougher comps.

US cognac trends 'normalising' to high single digit (from double digit) growth

Management is now guiding to a more normalised level of organic sales growth in US cognac of "high single digits", compared to the strong double digits of the past 2 years. Rémy expects to continue to gain share and remains focused on the premium segment of the market (VSOP+) including *Louis XIII*. The CFO also noted soft December trends impacted by unfavourable trading days in 3Q and soft weather. We now forecast FY17E Americas cognac organic sales +14% y/y and FY18E +7-8%.

Valuation: 29.3x calendar 2017E P/E a 48% premium to Consumer Staples

In our view, Rémy trades at a significant premium to Beverage/Staples given the best-in-class mid-term growth and unique positioning within premium US and China cognac. We value Rémy Cointreau using a DCF-based methodology in line with our European Beverages coverage universe. For Rémy we apply a WACC assumption of 8% and terminal FCF growth of 3.0%.

Equities

France
Distillers & Brewers

12-month rating **Neutral**

12m price target **€86.00**
Prior: **€82.00**

Price **€87.08**

RIC: RCOP.PA BBG: RCO FP

Trading data and key metrics

52-wk range	€87.08-58.14
Market cap.	€4.26bn/US\$4.54bn
Shares o/s	48.9m (ORD)
Free float	44%
Avg. daily volume ('000)	114
Avg. daily value (m)	€8.8
Common s/h equity (03/17E)	€1.15bn
P/BV (03/17E)	3.7x
Net debt / EBITDA (03/17E)	1.7x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
03/17E	2.63	2.60	-1	2.54
03/18E	3.07	3.10	1	2.94
03/19E	3.53	3.61	2	3.25

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Highlights (€m)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenues	1,031.6	965.0	1,050.7	1,091.8	1,177.0	1,265.0	1,354.1	1,446.0
EBIT (UBS)	150.2	156.0	178.4	207.8	237.9	271.5	302.4	334.4
Net earnings (UBS)	80.2	94.6	105.7	126.5	150.4	175.2	198.4	221.8
EPS (UBS, diluted) (€)	1.63	1.95	2.17	2.60	3.10	3.61	4.08	4.57
DPS (€)	1.27	1.53	1.60	1.60	1.70	2.24	2.53	2.83
Net (debt) / cash	(413.5)	(466.7)	(458.2)	(389.0)	(334.7)	(253.8)	(213.9)	(164.7)
Profitability/valuation	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
EBIT margin %	14.6	16.2	17.0	19.0	20.2	21.5	22.3	23.1
ROIC (EBIT) %	12.1	11.6	12.6	14.6	16.8	18.9	20.5	21.8
EV/EBITDA (core) x	-	18.9	17.3	20.1	17.6	15.6	14.0	12.7
P/E (UBS, diluted) x	45.5	31.5	29.3	33.4	28.1	24.2	21.3	19.1
Equity FCF (UBS) yield %	(0.6)	0.3	2.4	3.3	3.0	3.7	3.4	3.9
Net dividend yield %	1.7	2.5	2.5	1.8	2.0	2.6	2.9	3.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €87.08 on 19 Jan 2017 20:02 GMT

Rotork

Feedback from meeting in China

Supportive meeting in Shanghai

We met with Rotork CEO Peter France and the Chinese management team in Shanghai on 12 January. There was no comment on current trading beyond a reiteration of the more stable outlook indicated at Q3. However, the visit provided a supportive insight in to the continued growth opportunities, not just in China, but for the wider group. We retain a Neutral rating as while there is significant recovery potential in the business this is captured in the valuation in our view.

China returning to growth

We estimate that Rotork has close to 20% of sales into China. The business in China is significantly more power skewed than the rest of the group – weak demand driven in part by anti-corruption has impacted all Rotork's business in China over 2015-16, but this drag now seems to be subsiding. Rotork is seeing a return of activity in the Power markets in China. The water market is the one that has remained robust and even as other markets have declined has continued to show progress, this has reflected both a desire for increased functionality supporting Rotork's core actuators, and increased market penetration using the Centork brand. The oil & gas market is more nascent in China, but Rotork is well established with a c50% market share and should benefit from increased infrastructure in areas such as pipelines and refineries. Overall China has historically been a double digit growth market for Rotork until 2015 and we expect it to show positive momentum in 2017.

Forecasts updated for FX and Q3 guidance

We have updated our forecasts for both the slightly ahead of expectations guidance for 2016 provided with Q3, as well as the more stable outlook comments for 2017 provided at the same time. When this is combined with updated currency spot rates our EPS rises by +4% for 2016E and +11% for 2017E.

Valuation: 255p price target

Our price target rises to 255p from 210p based on our higher estimates as well as rolling forward our valuation to 2018E reflecting the recovery potential of the business. We use a target EV/EBITDA of 16x which is at an unchanged 10% premium to our UK engineering coverage average multiple.

Equities

United Kingdom
Industrial, Diversified

12-month rating **Neutral**

12m price target **255p**
Prior: 210p

Price **249p**

RIC: ROR.L BBG: ROR LN

Trading data and key metrics

52-wk range	267p-153
Market cap.	£2.16bn/US\$2.68bn
Shares o/s	868m (ORD)
Free float	99%
Avg. daily volume ('000)	3,613
Avg. daily value (m)	£8.2
Common s/h equity (12/16E)	£0.45bn
P/BV (12/16E)	4.8x
Net debt / EBITDA (12/16E)	0.7x

EPS (UBS, diluted) (p)

	From	To	% ch	Cons.
12/16E	9.3	9.7	4	9.5
12/17E	9.6	10.7	11	10.2
12/18E	10.7	11.9	12	11.2

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Highlights (£m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	578.4	594.7	546.5	585.0	615.1	642.9	668.9	696.0
EBIT (UBS)	151.4	157.2	125.3	117.5	129.3	142.4	153.7	161.3
Net earnings (UBS)	108.3	114.1	90.2	84.2	92.8	103.9	112.6	118.6
EPS (UBS, diluted) (p)	12.4	13.1	10.4	9.7	10.7	11.9	13.0	13.6
DPS (p)	4.8	5.0	5.1	5.2	5.4	5.6	5.8	5.9
Net (debt) / cash	66.7	25.2	(71.1)	(89.8)	(55.9)	(14.2)	34.5	88.3
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	26.2	26.4	22.9	20.1	21.0	22.1	23.0	23.2
ROIC (EBIT) %	54.3	44.1	27.1	21.1	21.5	23.5	25.1	26.0
EV/EBITDA (core) x	15.0	13.6	14.4	18.2	16.6	14.8	13.5	12.5
P/E (UBS, diluted) x	22.4	19.9	21.1	25.7	23.3	20.8	19.2	18.2
Equity FCF (UBS) yield %	4.1	3.7	4.7	3.2	4.0	4.1	4.5	4.8
Net dividend yield %	1.7	1.9	2.3	2.1	2.2	2.2	2.3	2.4

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 249p on 18 Jan 2017 08:13 GMT

Spirax-Sarco

Upgrade to Buy - Top "Quality"

Upgrading from Neutral to Buy

We are upgrading Spirax to Buy as: (1) Our forecast 5% per annum sales CAGR to 2020E is c2x the sector average for what we see as one of the highest quality businesses in our coverage (NB Spirax has achieved a 30 year organic sales CAGR of 6%); (2) Our meetings with Spirax and other companies in China have increased our confidence in the outlook in what is a key swing region and we have upgraded our profit expectations for Asia by c5%; and (3) it has one of the higher FX benefits in our group at a c9% EBITA tailwind for 2017E. These drivers do not fit in our view with a 2017E EV/EBITA only in line with the rest of our UK engineering group versus its premium rating of 39% on average over the last 5 years.

Upgrading forecasts to 6% above consensus

We are upgrading our forecast for 2017-18E by c4% per annum driven by more positive assumptions on Asia as well as FX and acquisition impacts. 17% Y/Y EPS growth in 2017E reflects a mix of FX (c9%), acquisitions (c2%) and underlying growth (6%). We estimate that our underlying forecast is at least 3-4% above consensus.

Supportive meeting in China

We met with Spirax China President, Charles Song, in Shanghai last week. The visit highlighted the continued positive medium term opportunity in China for Spirax. China is c10% of group sales for Spirax. The business delivered a 2005-13 sales CAGR of 18% per annum. 2014-15 sales were broadly flat but there was a pick up through 2016 and the outlook for 2017 would seem positive too. The longer term opportunity is driven by an increased focus on efficiency in China. Lower energy prices in China means that payback on their products can be 1.5-2 years (ie c2x some other markets), but they believe this is still compelling and the total opportunity size is very large.

Valuation: £48.50 price target

Our price target of £48.50 is raised from £47.50 in line with our higher forecasts. It is based on an unchanged target multiple of 17x EBITA, this implies a c10% premium to the UK engineering peers. Our DCF valuation is also at £48.54 with an assumption of fading growth and reducing margins over the next decade (potentially conservative vs its 30 year organic sales CAGR of 6% per annum with consistent rising margins).

Equities

United Kingdom
Industrial, Diversified

12-month rating **Buy**
Prior: Neutral

12m price target **4,850p**
Prior: 4,750p

Price **4,259p**

RIC: SPX.L **BBG:** SPX LN

Trading data and key metrics

52-wk range	4,669p-2,725
Market cap.	£3.10bn/US\$3.84bn
Shares o/s	72.8m (ORD)
Free float	98%
Avg. daily volume ('000)	122
Avg. daily value (m)	£5.2
Common s/h equity (12/16E)	£0.48bn
P/BV (12/16E)	6.4x
Net debt / EBITDA (12/16E)	NM

EPS (UBS, diluted) (p)

	From	To	% ch	Cons.
12/16E	169.2	170.3	1	166.5
12/17E	193.7	200.6	4	188.6
12/18E	205.4	212.7	4	199.0

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Highlights (£m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	689	678	667	762	878	922	968	1,017
EBIT (UBS)	152	153	152	179	210	223	236	250
Net earnings (UBS)	106	106	106	125	148	157	166	176
EPS (UBS, diluted) (p)	137.8	139.5	141.9	170.3	200.6	212.7	225.6	239.1
DPS (p)	59.0	184.5	69.0	72.0	80.0	84.0	88.2	92.6
Net (debt) / cash	16	52	5	24	81	151	225	304
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	22.0	22.5	22.8	23.5	23.9	24.2	24.4	24.6
ROIC (EBIT) %	33.6	33.6	32.9	34.6	36.1	36.8	37.8	38.8
EV/EBITDA (core) x	12.1	12.5	13.8	15.3	13.0	12.0	11.0	10.1
P/E (UBS, diluted) x	19.9	20.6	22.6	25.0	21.2	20.0	18.9	17.8
Equity FCF (UBS) yield %	4.4	3.9	4.0	3.2	3.6	4.2	4.4	4.7
Net dividend yield %	2.1	6.4	2.2	1.7	1.9	2.0	2.1	2.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 4,259p on 18 Jan 2017 17:31 GMT

Stainless Steel Market Update

2017 demand growth modest and valuation rich

Equities

Europe including UK
Steel

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European stainless sector discounts above average normalised margins

We forecast only a modest stainless steel consumption growth of 1.1% in 2017. The growth is relatively modest compared to 6.4% in 2016. However, we do not forecast another stimulus, which could push China's stainless steel demand even higher in 2017. Utilisation rates in Europe are improving and reached 75% in 2016 already. However, globally stainless steel utilisation rates will remain <70% until 2019, according to our estimates. Re-stocking has mainly played out globally and inventories are back to normal levels. Still, the entire European stainless sector is trading 22% above its historical average. Even after lifting our EBITDA for the sector by 29% and 24% for 2017 and 2018 on average to reflect improving base prices and ferrochrome prices in particular, valuation looks stretched to us.

Lifting EBITDA by 29% on average to reflect recent increase in base price

We increase our EBITDA for the EU stainless steel sector by 29% on average for 2017 and 24% for 2018 to reflect higher base prices at the end of 2016 and higher alloy surcharges, especially FeCr. Due to strong upward revisions in the ferrochrome price, we lift Outokumpu's EBITDA by 88% in 2017 and 65% in 2018. Outokumpu is the only stainless steel stock with vertical integration into ferrochrome in our coverage universe. However, that is already reflected in the share price, in our view. We update our forecasts for stainless steel base prices and surcharges as we reflect the recent changes in FeCr and nickel. Those changes have a positive impact on our EPS forecasts for ACX, APAM, and OUT1V, which we detail further in the company sections.

Global stainless steel demand for 2017 to increase by 1.1% y/y

We forecast global stainless steel demand to increase by 1.1% in 2017 y/y a solid growth rate but moderate vs 6.4% in 2016e. The main reason behind the growth moderation is de-stocking in China in 2017, leading to only zero per cent consumption growth in 2017. A better outcome in stainless steel consumption could only arise from higher FeCr and/or nickel prices but we doubt those will serve as drivers in 2017. Based on our analysis, FeCr supply is likely to recover, putting downward pressure on FeCr prices. Nickel is unlikely to serve as a support either due to the potential ease of the Indonesian nickel ore export ban.

Valuation: Rich throughout the sector, we stay cautious

The EU stainless steel is currently discounting €290/t norm. EBITDA – a 22% premium to historical average. Risk rewards are not looking favourable, hence we stay cautious.

European Building Materials

Great expectations

Equities

Europe including UK
Building Materials

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Cyclical upturn hopes drive re-rating

We expect growth in the US to continue (after 6 years of recovery), but with additional infrastructure spend only to impact 2018/19. Recovery has commenced in Europe in 2016 after 7 years of decline and is expected to continue into 2017. Emerging markets have stabilised in 2016 but we expect trends to remain varied in 2017. Since the US elections, the European building materials sector has seen material re-rating and now trades on 16.5x P/E (35% premium to LT avg.) and 8.6x EV/EBITDA 2017E (25% premium to LT avg.). Expectations are relatively high with our forecasts implying c9% LFL EBITDA growth and 19% EPS growth in 2017.

Positive view on cycle, biggest risk is valuation

We remain positive on the cyclical outlook for the sector and expect growth in the US in particular to remain robust. Europe is also expected to grow, with the worst fears around the UK following the EU referendum proving to be unfounded. Areas of downside risk in 2017 include (1) rising cost inflation; (2) disappointment on quantum and timing of a US fiscal stimulus; (3) idiosyncratic country risk including the UK and selected emerging markets. Overall, we think the bigger risk is valuation, which now discounts strong growth in the sector over the coming years.

Top picks: Buzzi Unicem, CRH, Wolseley and Kingspan

Our top picks are: Buzzi Unicem (US exposure, Italian consolidation), CRH (US exposure, M&A potential), Wolseley (re-rating potential to US peers) and Kingspan (structural growth, M&A potential). We also have a more contrarian Buy rating on Travis Perkins (over-discounted) and Ibstock (high SD FCF yield). We are Neutral on Ahlsell, HeidelbergCement, LafargeHolcim and Wienerberger and have Sell ratings on St. Gobain (valuation) and SIG (structural market share losses).

Figure 1: European Building Materials sector coverage

		Curr	Share	Market	Rating		Price target (1c)		Upside	Comment
		price (1c)		cap (USDm)	New	Old	New	Old	(downside)	
Buy	Buzzi Unicem	EUR	23.4	4,662	Buy	Buy	26.0	23.0	11%	US growth and European turn around potential leave upside
	CRH	EUR	2,792	28,647	Buy	Buy	3,150	2,800	13%	At the epicentre of US infra growth
	Ibstock	GBP	177	887	Buy	Buy	210	205	19%	Attractive 9% underlying FCF yield; balance sheet optionality
	Kingspan	EUR	27.1	5,153	Buy	Buy	30.5	28.0	12%	High quality structural growth; balance sheet optionality
	Travis Perkins	GBP	1,466	4,532	Buy	Buy	1,725	1,800	18%	Quality franchise at a discount - value play on the UK
	Wolseley	GBP	4,928	15,381	Buy	Buy	5,475	4,660	11%	More re-rating potential as US reflation
Neutral	Ahlsell	SEK	52.3	2,657	Neutral	Neutral	53.0	53.0	1%	Growth potential in Nordics priced in
	HeidelbergCement	EUR	85.7	18,167	Neutral	Neutral	87.0	87.0	2%	Risk of rising costs, EM balances synergy, refinancing and US growth
	LafargeHolcim	CHF	51.1	30,812	Neutral	Neutral	49.5	49.5	(3%)	Emerging market headwinds offset cash return potential
	Wienerberger	EUR	17.0	2,136	Neutral	Neutral	16.5	16.5	(3%)	European recovery underway but priced in after recent share price move
Sell	St. Gobain	EUR	45.5	26,696	Sell	Sell	37.0	35.0	(19%)	High valuation overdiscounting growth outlook
	SIG	GBP	104.7	765	Sell	Sell	90.0	90.0	(14%)	Structural headwinds from increased competition in the UK

Source: Company data, UBS estimates

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European Building Materials

UBS Research THESIS MAP

MOST FAVORED

LEAST FAVORED

Buzzi, CRH, Kingspan, Wolseley

St Gobain, SIG

PIVOTAL QUESTIONS

Q: How will inflationary pressures impact the sector?

2017 will see a return to cost inflation for the sector. With most energy prices and commodity prices up, we expect a return to product price inflation. We expect pricing power to remain the highest in the US, with other geographies likely still varied due to low utilisation rates.

Q: Can the US deliver on high expectations?

Expectations for the US have increased significantly following the US elections on the back of proposed infrastructure spend increases and tax cuts. While we see some risks of disappointment against high expectations, we expect the US to remain the driver of growth for the sector in the coming years.

WHAT'S PRICED IN?

We believe the sector is pricing in a cyclical upturn for the coming years. At 8.6x 2017E EV/EBITDA and 16.5x P/E, the sector trades at a 25-35% premium to historical averages. While we are positive on the cyclical outlook, we see elevated multiples as a risk and see limited ability for further multiple expansion.

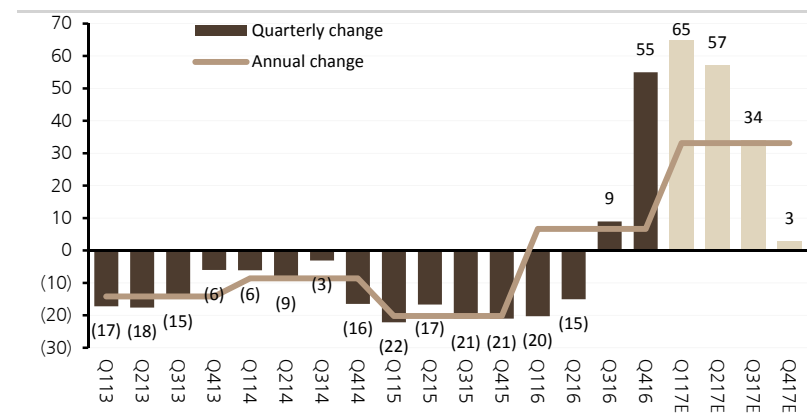
UBS VIEW

Our view remains to stick to US exposed plays, notwithstanding the risk of elevated expectations. Given re-rating of the wider sector, we prefer to stick to the "epicentre" of likely growth, which we expect to be in the US. We see some value opportunities in the UK given aggressive de-ratings following the EU referendum. While EM trends have stabilised, we believe overcapacity and varied end market performance means we continue to avoid this exposure.

EVIDENCE

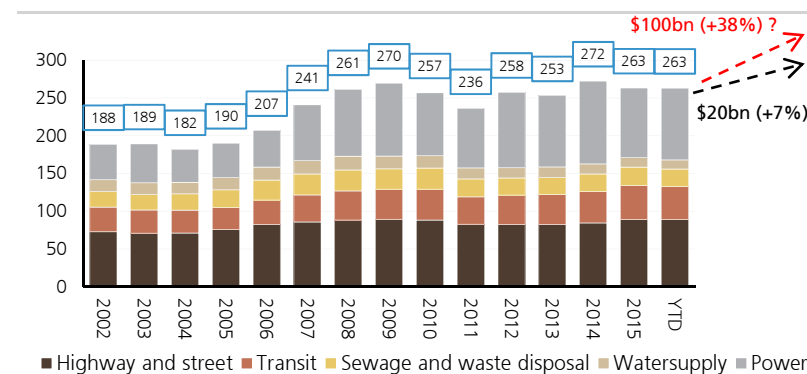
Volume and pricing trends point to a gradual recovery in Europe and good pricing momentum in the US with growth somewhat slower in H2. Emerging market trends remain extremely varied although appear to be stabilising overall.

Figure 2: South Africa coal price (% y/y in US\$)



Source: Note: yellow based on extrapolating spot prices
Source: Thomson Financial

Figure 3: US total infrastructure spending (US\$bn)



Source: US Census

UBS recommendations

Overall we continue to have a bias towards US exposure (**Buzzi Unicem**, **CRH**, **Wolseley**) despite the stock outperformance and see some value opportunities in the more UK exposed names (**Travis Perkins**, **lbstock**). We also like **Kingspan**'s product penetration potential and strong pricing power. We are more cautious about the outlook in emerging markets although believe trends have bottomed in 2016, and think some improvement is already being discounted in **LafargeHolcim**. We see **Ahlsell** (Nordic exposure), **Wienerberger** (pan-European exposure) at around fair value and **Heidelberg** discounting growth in the US and the integration of Italcementi. We see downside potential in **St. Gobain** as a recovery potential appears to us overly discounted and **SIG**, which faces structural headwinds from competitive pressures across its portfolio.

MOST FAVORED

- Buzzi Unicem
- CRH
- Kingspan
- Wolseley

LEAST FAVORED

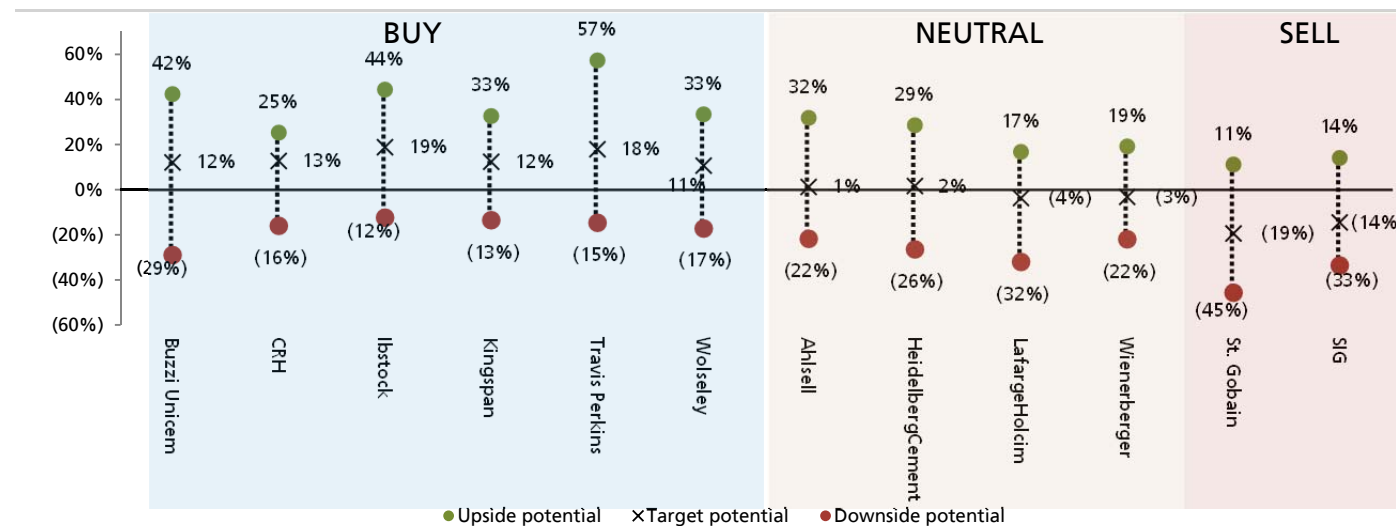
- St. Gobain
- SIG

Figure 4: UBS Building Materials sector coverage

		Curr	Share	Market	Rating		Price target (lc)		Upside	Comment
		price (lc)	cap (USDm)	New	Old	New	Old	(downside)		
Buy	Buzzi Unicem	EUR	23.4	4,662	Buy	Buy	26.0	23.0	11%	US grow th and European turn around potential leave upside
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	Travis Perkins	GPB	1,466	4,532	Buy	Buy	1,725	1,800	18%	Quality franchise at a discount - value play on the UK
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	HeidelbergCement	EUR	85.7	18,167	Neutral	Neutral	87.0	87.0	2%	Risk of rising costs, EM balances synergy, refinancing and US grow th
	LafargeHolcim	CHF	51.1	30,812	Neutral	Neutral	49.5	49.5	(3%)	Emerging market headw inds offset cash return potential
	Wienerberger	EUR	17.0	2,136	Neutral	Neutral	16.5	16.5	(3%)	European recovery underw ay but priced in after recent share price move
Sell	St. Gobain	EUR	45.5	26,696	Sell	Sell	37.0	35.0	(19%)	High valuation overdiscounting grow th outlook
	SIG	GBP	104.7	765	Sell	Sell	90.0	90.0	(14%)	Structural headw inds from increased competition in the UK

Source: UBS estimates

Figure 5: UBS Building Materials – Up/downside scenarios



Source: UBS estimates

Where does the sector valuation stand now?

Valuation at upper end of range

Our European building materials coverage trades at the high end of historical ranges:

- **12m forward EV/EBITDA** multiples stand at 8.6x vs a long-term average of 6.9x and somewhat below the highs in 2015.
- **12m forward P/E** is similarly high at 16.3x consensus vs a long-term average of 12x.

Our conclusion is that the market is already discounting material earnings growth. We see only very limited room for further multiple expansion and expect a de-rating over time as earnings deliver on growth expectations.

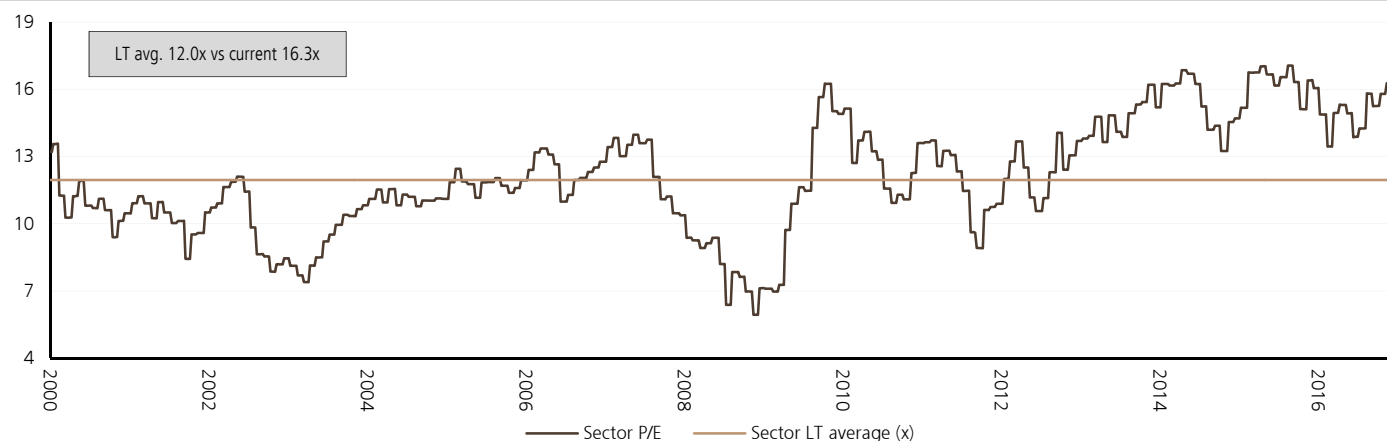
As a results, the biggest risk facing the sector is a delay to expected earnings growth with the multiple only having limited ability to expand from the current levels, in our view.

Figure 6: EV/EBITDA (x) 12m forward – Building Materials



Source: Datastream, Company data, UBS estimates

Figure 7: P/E (x) 12m forward – Building Materials



Source: Datastream, Company data, UBS estimates

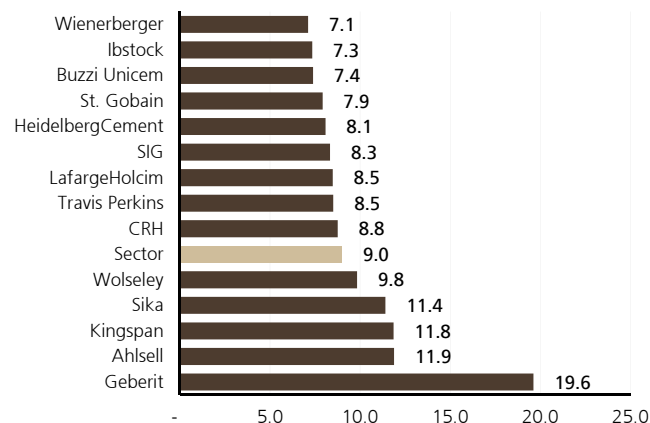
Where do company valuations stand now?

2017E valuation ranges are relatively wide on an EV/EBITDA basis ranging from around 7x (Wienerberger, Ibstock) to over 10x in the more asset light space and high return businesses (Sika, Kingspan, Ahlsell and Geberit).

There is similar disparity on a P/E basis, with UK exposed names trading at substantially lower P/E ratios (Travis Perkins, Ibstock) and most of the sector in the 15-17x P/E range.

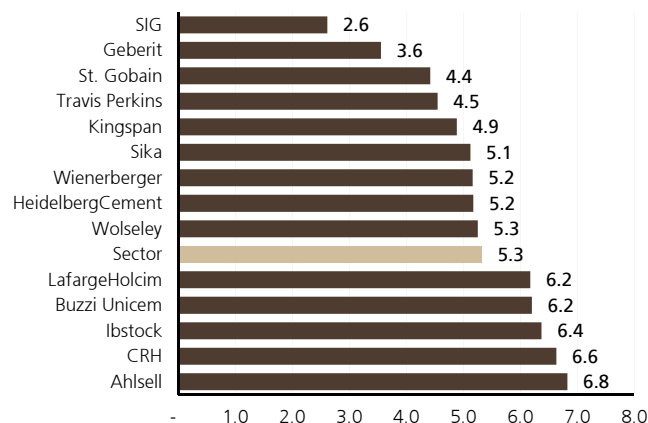
We like to benchmark companies on FCF yield, although recognise the potential flaw if large capital investment programmes distort individual years. For 2017E, we see the highest FCF yield at CRH (6.6%) and Ahlsell (6.8%), while SIG (2.6%) and St. Gobain (4.4%) screen towards the low end of the sector. In 2018E, FCF yields become more attractive with HeidelbergCement, LafargeHolcim and Buzzi around 8% and Ibstock above 10%.

Figure 8: EV/EBITDA 2017E (x), by company



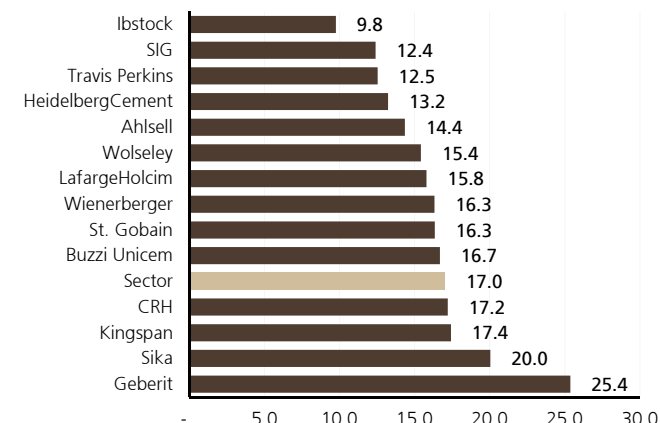
Source: Datastream, Company data, UBS estimates

Figure 10: FCF Yield 2017E (%), by company



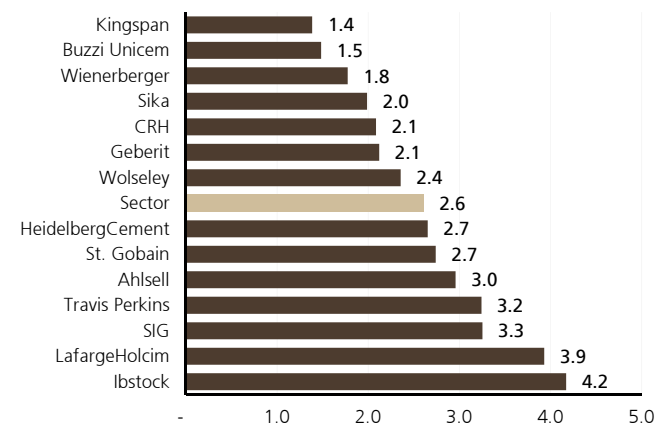
Source: Datastream, Company data, UBS estimates

Figure 9: P/E 2017E (x), by company



Source: Datastream, Company data, UBS estimates

Figure 11: Dividend Yield 2017E (%), by company



Source: Datastream, Company data, UBS estimates

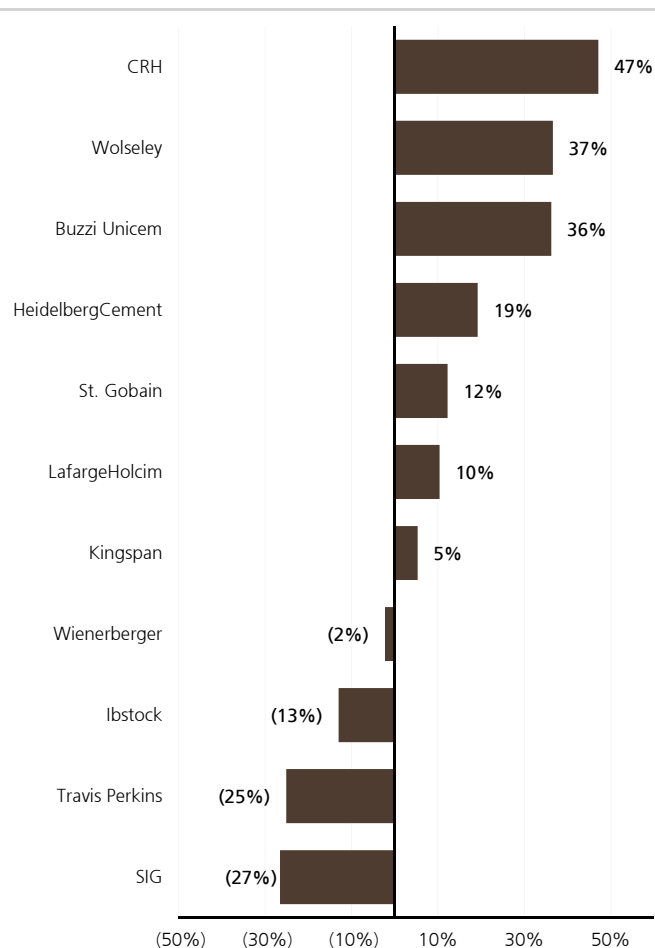
Stock performance in 2016

2016 performance was characterised by strong performance by US exposed businesses (Buzzi, CRH and Wolseley, HeidelbergCement) and material underperformance of US exposed businesses (Ibstock, SIG and Travis Perkins).

Companies with European performance had mixed performance, With Wienerberger slightly down and St Gobain performing relatively well.

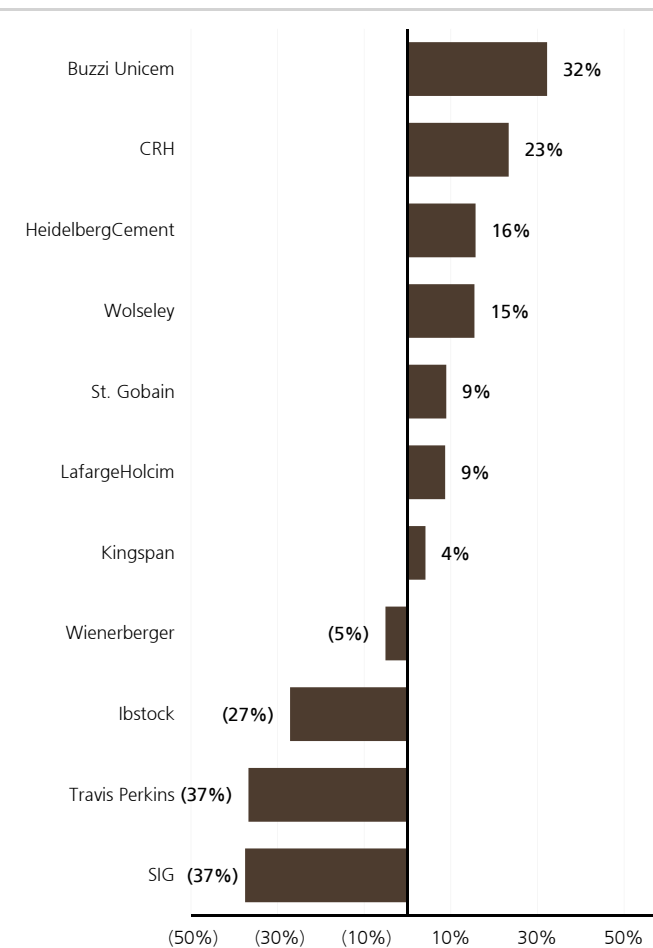
Overall, the sector benefitted from the market rotation into cyclicals, which gathered pace following the US elections, which has resulted in market expectations of a wider cyclical upturn and reflation driven by fiscal stimulus, in particular US infrastructure spending

Figure 12: Local-currency performance in 2016



Source: UBS estimates, Datastream

Figure 13: USD-denominated performance in 2016



Source: UBS estimates, Datastream

Dissecting sector performance

We show long-term TSR performance of the stocks under our coverage.

Stocks with the highest long-term TSR are Sika, Geberit and Kingspan, all of which we believe are characterised by high ROCE and structural growth.

Figure 14: UBS Building Materials sector coverage

	Total return (\$-terms, %y/y)																		Total return (%)		Annual return CAGR (%)	
Company	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD	2000-2016	2000-2016	-10yr	-5yr
LafargeHolcim	(6.6)	(31.1)	(20.1)	37.8	34.9	14.7	39.2	18.9	(45.4)	50.3	(0.8)	(27.6)	38.5	4.4	(2.7)	(25.2)	8.7	1.8	22.3	1.2	(2.2)	2.7
HeidelbergCement	(40.7)	4.0	(18.1)	41.7	45.8	51.6	66.4	7.3	(71.1)	67.9	(8.1)	(31.6)	42.1	27.6	(5.4)	16.6	15.7	(1.3)	99.6	4.1	(2.7)	18.3
CRH	(12.5)	5.2	(28.6)	68.7	32.7	11.3	44.2	(15.1)	(25.3)	26.0	(20.4)	(1.0)	6.3	29.1	(1.5)	23.7	23.4	0.2	207.1	6.8	2.7	15.6
Buzzi Unicem	(12.8)	(21.7)	10.2	72.6	30.0	9.6	85.5	(0.9)	(40.6)	3.9	(27.8)	(23.4)	59.5	30.5	(29.3)	42.3	32.2	7.8	221.6	7.1	(0.6)	22.6
Saint Gobain	(10.5)	(0.5)	(21.2)	79.0	31.0	(0.5)	45.1	14.3	(49.4)	39.7	(2.4)	(25.4)	16.8	33.9	(19.3)	5.0	8.9	4.8	101.6	4.2	(1.6)	7.6
Sika	(9.7)	(20.2)	20.0	73.3	42.1	40.7	89.9	23.5	(54.0)	93.5	44.1	(11.8)	24.7	58.5	(15.8)	25.0	35.8	(0.6)	2147.1	20.1	14.7	23.1
Geberit	(16.1)	(18.8)	31.6	76.3	52.0	10.8	98.4	(9.0)	(20.1)	74.4	35.4	(14.0)	17.7	42.4	14.9	2.1	21.0	2.1	1750.4	18.7	13.4	18.9
Wienerberger	(15.3)	(18.7)	30.7	56.2	84.2	(14.0)	53.0	(3.9)	(69.0)	22.7	4.6	(52.5)	2.6	76.0	(12.0)	35.4	(5.1)	4.3	26.4	1.4	(9.4)	15.4
Ahl-Sell	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10.4	1.2	-	-	-	-
Kingspan	19.5	(16.7)	(40.5)	217.0	83.5	32.4	112.7	(42.2)	(70.1)	103.7	17.0	(16.7)	35.0	65.1	(2.0)	53.4	4.2	8.4	1060.9	15.5	1.8	28.4
Wolseley	(6.8)	26.2	3.7	79.4	35.8	15.1	17.5	(36.7)	(61.8)	(12.5)	59.1	6.0	45.6	23.0	4.0	(3.1)	15.5	(0.8)	198.5	6.6	(2.9)	15.8
SIG	(33.3)	42.6	(28.9)	121.3	99.3	14.2	64.0	(24.8)	(81.7)	(14.5)	11.3	(34.7)	54.3	81.5	(20.7)	(20.1)	(37.5)	4.0	(47.0)	(3.7)	(21.0)	2.1
Travis Perkins	(0.7)	22.2	33.4	44.3	48.1	(26.3)	65.0	(36.9)	(78.4)	257.1	21.1	(24.1)	46.0	78.5	(4.7)	2.4	(36.7)	(0.6)	202.5	6.7	(3.2)	10.0

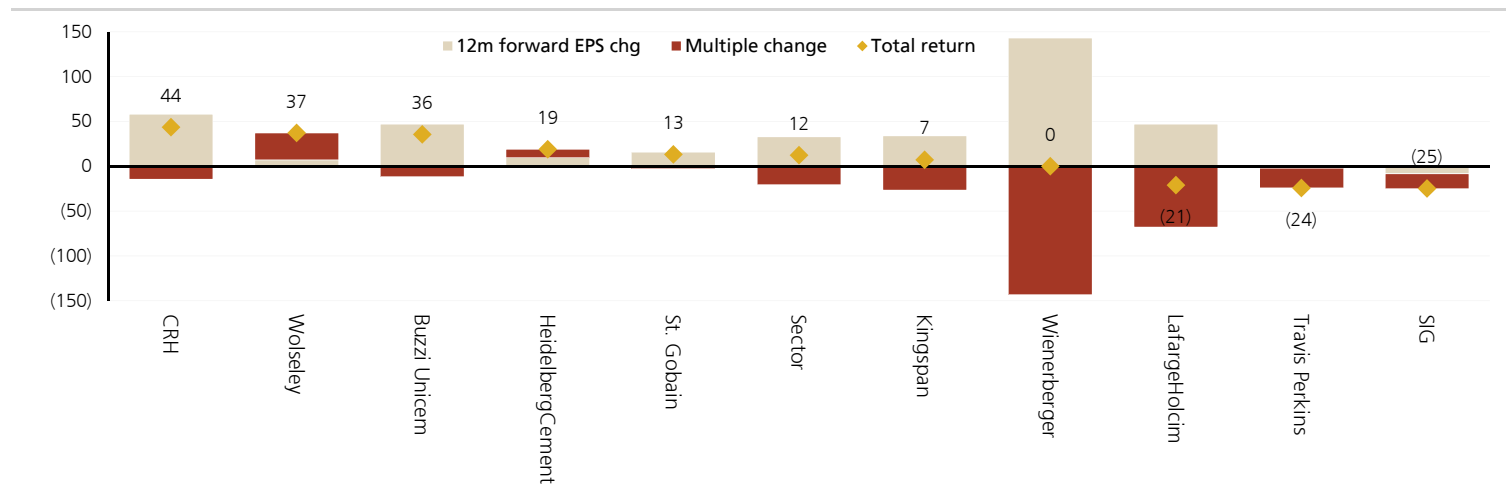
Source: UBS estimates

Dissecting 2016 performance into multiple and earnings changes.

Importantly, 12m forward expectations do not necessarily reflect consensus upgrades but can also reflect delivery of previously expected growth rates. Overall the sector de-rated slightly in 2016.

- **Stock that de-rated in 2016** include CRH, Buzzi Unicem, Kingspan, Wienerberger, LafargeHolcim and Travis Perkins;
- **Stocks that re-rated in 2016** include Wolseley and HeidelbergCement.

Figure 15: Break down of total return since 1st January 2015 into EPS growth and multiple change (% , local currency)



Source: UBS estimates

UBS estimates – (%) changes and vs. consensus

We update our forecasts for recent moves in FX rates and some modest changes in underlying assumptions. Specifically, we upgrade our 2018/19 volume growth in the US cement/aggregates from around 3-4% to c5% to reflect the potential for additional infrastructure spending.

- **Buzzi Unicem / CRH:** we raise estimates slightly due to FX moves and higher US infrastructure growth in 2018;
- **HeidelbergCement:** we trim estimates slightly for FX and weaker emerging market trends;
- **lbstock:** we upgrade EPS by c7% following the recent trading update on higher UK brick volumes and prices;
- **Kingspan:** we update for FX and integrate recent bolt-on deals;
- **LafargeHolcim:** we reduce our estimates due to the negative impact from India's de-monetisation;
- **St. Gobain:** we increase our estimates to reflect revised FX rates, bolt-on deals and slightly higher inflation rates;
- **Travis Perkins:** we re-launch our model and increase EPS by 3-4% on a less steep UK decline;
- **Wolseley:** we increase estimates mostly to reflect moves in Sterling;
- Our estimates changes at **Ahlsell**, **SIG** and **Wienerberger** are negligible.

Figure 16: UBS change of estimates

	FX	EBITDA (2017E)			EBITDA (2018E)			EPS (2017E)			EPS (2018E)		
		New	Old	%chg	New	Old	%chg	New	Old	%chg	New	Old	%chg
Ahlsell	SEK	2,409	2,409	0.0	2,530	2,530	0.0	3.64	3.64	0.0	3.84	3.84	0.0
Buzzi Unicem	EUR	628	632	(0.6)	708	707	0.2	1.37	1.39	(1.3)	1.63	1.64	(0.7)
CRH	EUR	3,632	3,534	2.8	4,014	3,803	5.5	1.89	1.87	1.4	2.27	2.17	4.8
HeidelbergCement	EUR	3,467	3,516	(1.4)	3,769	3,807	(1.0)	6.43	6.56	(1.9)	7.60	7.68	(1.1)
lbstock	GBP	117	110	5.7	121	115	5.6	18.07	16.87	7.1	18.44	17.22	7.1
Kingspan	EUR	434	426	1.9	466	458	1.9	1.57	1.54	2.0	1.70	1.67	2.0
LafargeHolcim	CHF	6,002	6,095	(1.5)	6,626	6,724	(1.5)	3.24	3.28	(1.1)	4.05	4.04	0.2
SIG	GBP	106	106	0.0	115	115	0.0	8.49	8.49	0.0	9.43	9.43	0.0
St. Gobain	EUR	4,250	4,167	2.0	4,474	4,388	2.0	2.79	2.69	3.7	3.14	3.04	3.5
Travis Perkins	GBP	479	488	(1.8)	510	530	(3.7)	117.68	114.68	2.6	126.46	121.23	4.3
Wienerberger	EUR	419	417	0.6	450	448	0.4	1.04	1.03	1.6	1.28	1.27	0.8
Wolseley	GBP	1,278	1,246	2.6	1,418	1,345	5.4	306.02	297.41	2.9	344.86	324.83	6.2

Source: UBS estimates

Figure 17: UBS vs. consensus

	EBITDA			EBIT			EPS		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Ahlsell	3	(1)	(3)	n.a.	9	6	n.a.	4	1
Buzzi Unicem	(0)	2	3	(2)	(2)	0	(1)	3	3
CRH	(0)	4	7	(2)	5	10	(3)	3	10
HeidelbergCement	6	1	1	3	1	2	(0)	4	3
lbstock	1	3	0	6	9	4	1	4	(2)
Kingspan	0	0	2	2	3	5	1	2	4
LafargeHolcim	3	2	2	6	11	8	5	7	5
SIG	(1)	(9)	(8)	0	(10)	(10)	3	(10)	(10)
St. Gobain	(0)	(1)	(4)	1	0	(4)	1	0	(1)
Travis Perkins	(1)	(4)	(5)	5	(1)	(0)	6	(2)	(4)
Wienerberger	1	(1)	(0)	1	(2)	1	(6)	1	1
Wolseley	0	3	7	6	7	10	1	5	9
Sector	1	1	1	2	3	3	1	3	4

Source: UBS estimates, Thomson Reuters

Market positioning – sell-side consensus

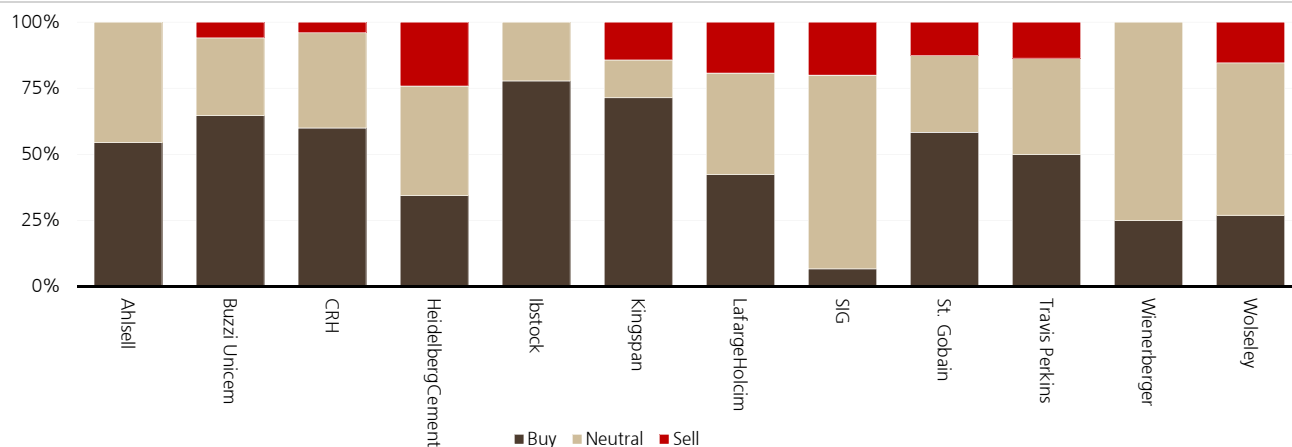
We show sell-side positioning by measuring consensus recommendations and short interest data.

- **Sell-side consensus Buy ratings** include Buzzi Unicem, CRH, Ibstock and Kingspan;
- **Sell-side consensus Sell/Neutral ratings** include HeidelbergCement, LafargeHolcim, SIG, Wienerberger and Wolseley.

The stocks with the highest amount of stock on loan are SIG (14%), HeidelbergCement (9%), Buzzi Unicem (6%) and Travis Perkins (5%). Stock on loan data can sometimes be misleading if shares have collateralised loans. Nevertheless we believe it is indicative of investor positioning.

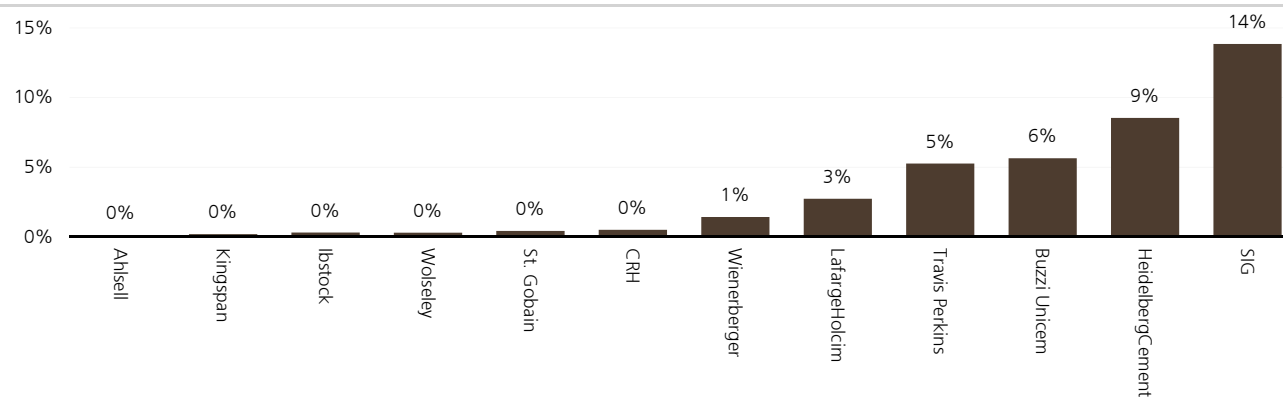
LafargeHolcim has relatively low short interest at 3% with the rest of the stocks under our coverage at 1% or below, i.e. negligible short interest

Figure 18: Sell-side rating distribution



Source: Thomson Financials

Figure 19: Short Interest as % market cap – Jan/17



Source: UBS

Upcoming catalysts

Figure 20: Sector catalysts – chronological order

Date	Company	Event	Our expectation	Catalyst
27-Jan-17	Ahlsell	FY16	We expect Q4 sales of SEK6,482m (+7.4% y/y and +2.9% LFL), driven by Sweden +3.2% LFL, Norway +2.6% and Finland +2.5%. This should result in FY16 sales of SEK24,187m (+7.1% y/y and +5.8% LFL). We expect adj EBITA of SEK613m (+9.3% y/y), and group margin to 9.4%, +10bps. We expect SEK325m of one off refinancing /IPO charge to impact results and therefore expect a SEK15m net profit. We expect net debt of SEK7.2bn, 3.2x EBITDA. We expect an outlook for 2017, in which further growth albeit at a slower rate than in 2016.	Neutral
09-Feb-17	Buzzi Unicem	FY16	We expect FY16 sales of €2,670m (+0.3% y/y and 1.3% LFL), and EBITDA of €550m (margin 20.6%, +260bps y/y) ahead of guidance of €520m and consensus of €545m. We estimate volume growth in the US for FY16 stood at -0.8% y/y mostly driven by bad weather during Q3-Q4, while pricing was strong at 5.7% y/y and cost savings from the new Maryneal plant start to come through. We estimate PTP of €334m and EPS of €1.07. We expect EBITDA guidance for FY17 to be relatively cautious as usual (UBSE: €628m +14% y/y; vs consensus at €608m), and estimate PTP of €427m (+28% y/y) with the recent debt refinancing to be a major contributor.	Positive
17-Feb-17	Kingspan	FY16	We expect FY16 sales of €3,068m (+10.6% y/y and +5.7% LFL) and EBITA of €335.5m (margin 10.9%, +170bps y/y). Kingspan already guided to trading profit of €335m in November and therefore should not come as a major surprise. We expect net debt of €390m (+€60m y/y) after €216m of M&A activity in the year. Key focus will be commentary on trading in the UK and input cost inflation (steel and chemicals) and efforts to pass this on to customers. We expect positive commentary on both issues with the results.	Positive
22-Feb-17	Wienerberger	FY16	We expect FY16 sales of €2,972m (0% y/y and +1.7% LFL) and EBITDA of €400m (margin 13.4%, +20bps y/y) slightly ahead of guidance/consensus of €395m (incl. €15m of property profits) mostly due to slightly better Q4 FX moves. We estimate PTP of €170m and EPS of €0.72. With the recent refinancing, we expect the €222m hybrid to be brought into the balance sheet and estimate a FY16 Net Debt position of €674m. For FY17E, we estimate EBITDA of €419m (in line with consensus), PTP of €192m and EPS €1.04.	Neutral/Positive
23-Feb-17	Saint Gobain	FY16	We expect FY16 sales of €38.9bn (-1.7% and +2.6% LFL) with a Q4 LFL sales growth of +2.5% LFL after +2.1% in Q3. We expect operating profit in line with consensus at €2.8bn, up +6.4% and +9.5% LFL. We expect pre-ex EPS of €2.42 (PY: €2.07) and net debt of €4.9bn. We expect the outlook to be open-ended at this point and expect guidance for LFL operating profit growth, driven by some return of inflation and some growth in France.	Neutral
01-Mar-17	CRH	FY16	We expect FY16 sales of €27.7bn (+2.2% and +4.7% LFL). We expect EBITDA of €3.13bn (+13.7% y/y and +10.6% LFL), consistent with Nov-17 guidance of above €3bn. We expect net debt of €5.6bn, implying 1.7x net debt/EBITDA. We expect guidance to be for further (but unspecified) growth in 2017, with our expectation for slightly over €3.6bn EBITDA (+9.6% LFL growth). We note relatively challenging comps in H117 in the US but expect underlying growth in infrastructure and wider construction growth to come through.	Neutral

Source: UBS estimates

Figure 21: Sector catalysts – chronological order

Date	Company	Event	Our expectation	Catalyst
02-Mar-17	Travis Perkins	FY16	We expect FY16 sales of £6.2bn (+4.4% and LFL +2.5%) with Q416 LFL growth of +1.9%. We expect EBITA of £413m (flat) including €20m of property profit (PY £24m). We expect earnings to be up in General Merchandising and Consumer, slightly down in Contracts and materially down in P&H. We believe the outlook will be cautious given limited visibility, but feel this is priced in. We expect net debt of £485m (+£38m) after £189m of capex. We expect Travis to hold its strategy of increasing market share notwithstanding wider macro uncertainties.	Neutral/Positive
02-Mar-17	LafargeHolcim	FY16	We expect FY sales of CHF27.4bn (-7% y/y, -1.9% LFL) and EBITDA of CHF5.75bn (flat y/y, +6.8% LFL), i.e. below guidance of "at least high single digit LFL growth". For Q416, we expect CHF1.54bn EBITDA, +20% LFL helped by easy comps in certain markets such as Nigeria. We expect the shortfall against guidance in Q4 to come from weakness in India, which has been impacted by demonetisation. We project net debt of CHF13.35bn, in line with guidance. We expect FY17 guidance to be for growth as restructuring measures progress, but note that to achieve 2018 targets a relatively ambitious +15% LFL EBITDA growth p.a. is required for 2017 and 2018.	Negative
07-Mar-17	lbstock	FY16	lbstock already provided a trading update so results should not be a surprise. We expect FY16 sales of £431m (+5%), adj EBITDA of £110m (+3%) and pre-ex EPS 16.7p (+1%). We expect net debt of £135m, resulting in leverage of 1.2x. We expect a positive outlook for 2017, helped by 3-4% UK brick price increase and volume growth in UK bricks, driven by an end to de-stocking in the merchant chain and housebuilder volume growth.	Neutral/Positive
14-Mar-17	SIG	FY16	SIG already issued a trading update for FY16, with Group sales of £2,738m (+7% y/y and LFL of +0.3%) and PTP guidance reiterated of £75-80m (UBSE: £77m), thus we do not think results should bring any major surprises. We believe the key highlight will be an update on the new management team (CEO appointment pending) and perhaps more details on the de-leveraging strategy.	Neutral
16-Mar-17	HeidelbergCement	FY16	We expect FY16 (pro-forma) sales of €17,273m (-0.3% y/y and +1.2% LFL) and EBITDA (inc JVs) of €3,265m (+3.6% y/y and LFL +6.8% LFL). In Q416 we expect EBITDA (inc JV) of €869m (+6.2% y/y and +6.3% LFL). We expect net debt of €8.9bn, bringing leverage to 2.7x net debt/EBITDA. We expect a 2017 outlook that will likely look for EBITDA growth (UBSE +13% LFL) based on synergy delivery of the Italcementi acquisition, growth in the US and most of Europe, in part offset by headwinds in emerging markets (Indonesia and Africa) and energy costs.	Neutral/Negative
28-Mar-17	Wolseley	H117	We expect Q2 sales of £3,922m (+21% y/y and +2.3% LFL) and EBITA of £203m (+27% y/y and +1.5% LFL). We expect US LFL growth of +5.0% (after +4.2% in Q1), driven by lower deflation. We expect the other geographies (UK, Nordic, Canada & CEE) to be down 2.5-3% LFL. For H117 we expect EPS of 138p (+25% y/y). We expect a positive outlook as US deflation starts fading and volumes hold up, driving improved operational leverage.	Neutral/Positive

Source: UBS estimates

KEY THEMES

Q: How will inflationary pressures impact the sector?

Energy costs are one of the largest variable costs for building materials companies, in particular cement.

The table shows the percentage of sales that is accounted for by energy costs and the split into its various components.

Importantly, oil is not a major driver of costs but rather electricity, coal, petcoke and in some cases gas and bitumen are the largest costs.

It is challenging to forecast energy costs precisely as companies generally source locally, have long-term supply agreements and therefore international pricing moves are only partially relevant.

So far, only **LafargeHolcim** has indicated on the expected price increase for 2017 on energy of around 10%. We expect most heavyside businesses to see price increases of 5-10% in 2017, which will require price increases to pass on.

Figure 22: Fuel cost mix, by company

	Buzzi Unicem	CRH	Heidelberg	lbstock	LafargeHolcim	St Gobain	Wieneberger
	EUR	EUR	EUR	GBP	CHF	EUR	EUR
	2015	2016E	2016E	2016E	2016E	2016E	2015
Sales	2662.1	27,671	17,273	431	27,400	38,938	2,972
Energy cost	368	1,937	1,900	43	3,500	1,500	293
% of sales	13.8%	7.0%	11.0%	10.0%	12.8%	3.9%	9.8%
Total mix							
Electricity	50%	20%	45%	27%	50%	45%	30%
Bitumen	-	50%	-	-	-	-	-
Coal	16%	3%	28%	-	21%	-	-
Petcoke	23%	2%	7%	-	13%	-	-
Gas	9%	5%	6%	73%	5%	45%	62%
Oil/diesel	1%	12%	11%	-	6%	10%	-
AFR	2%	1%	1%	-	2%	-	-
Other fuel	0%	7%	3%	-	3%	-	0.06

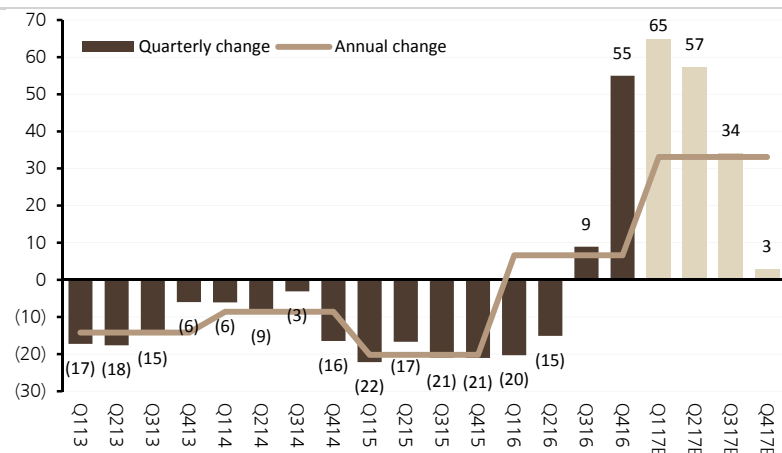
Source: UBS estimates

2017 will undoubtedly be a year of rising input costs. All major commodities, in particular energy related ones, have seen significant increases throughout 2016.

We calculate that coal prices will rise around 12% in Asia and over 30% in Europe (based on South African coal prices).

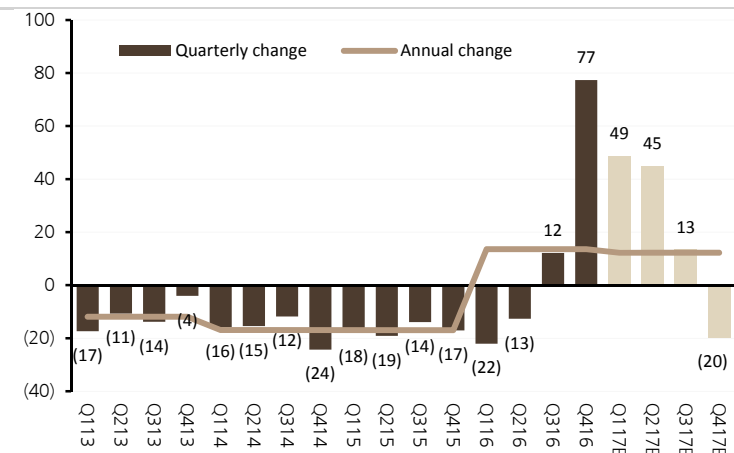
Natural gas prices have similarly risen and are trending up around 30% in the US and 45% in Europe

Figure 23: South Africa coal price (% y/y in US\$)



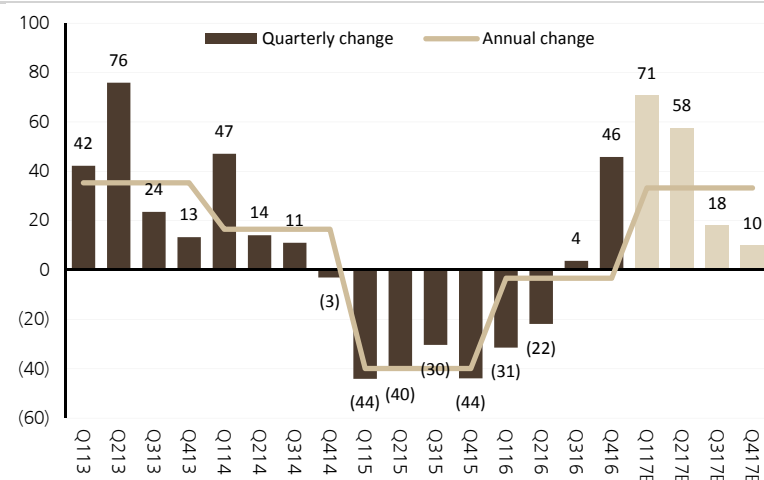
Note: yellow based on extrapolating spot prices
Source: Thomson Financial

Figure 24: Australia coal price (% y/y in US\$)



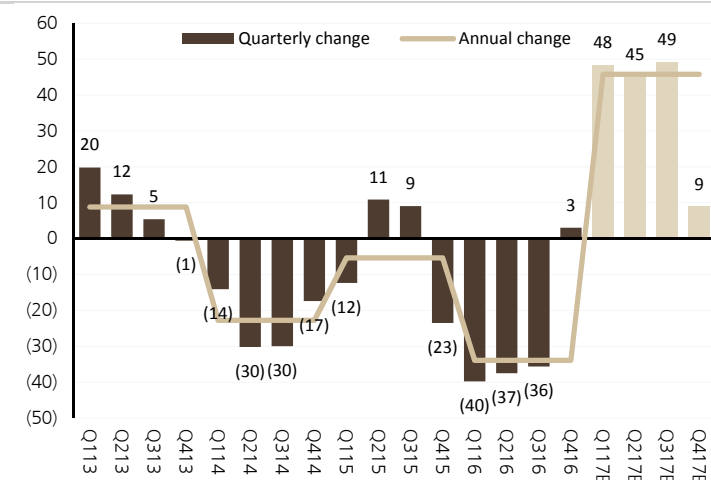
Note: yellow based on extrapolating spot prices
Source: Thomson Financial

Figure 25: US natural gas price (% y/y in US\$)



Note: yellow based on extrapolating spot prices
Source: Thomson Financial

Figure 26: Europe natural gas price (% y/y in €)



Note: yellow based on extrapolating spot prices
Source: Thomson Financial

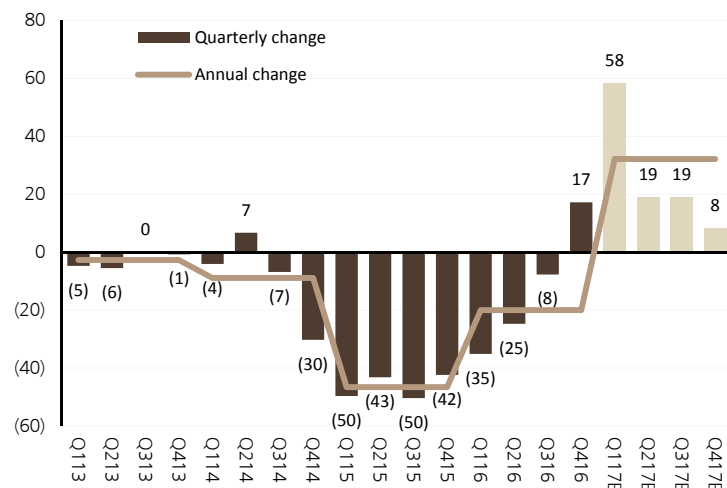
Oil prices have also rebounded and at current spot prices will be up c30% in 2017.

US diesel prices, used in US aggregate manufacturing and relevant for distribution costs, have also increased but at spot are only up c13%.

US bitumen prices, mostly relevant for asphalt manufacturing, are still trending down c5% at spot although may see seasonal increases throughout the rest of the year.

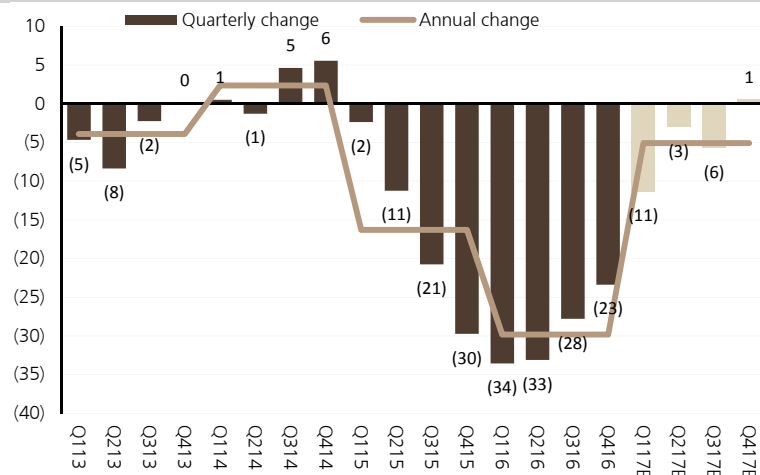
Petcoke prices have also started to increase and in the US are up over 20% for 2017 at current spot rates.

Figure 27: Brent oil price (% y/y in US\$)



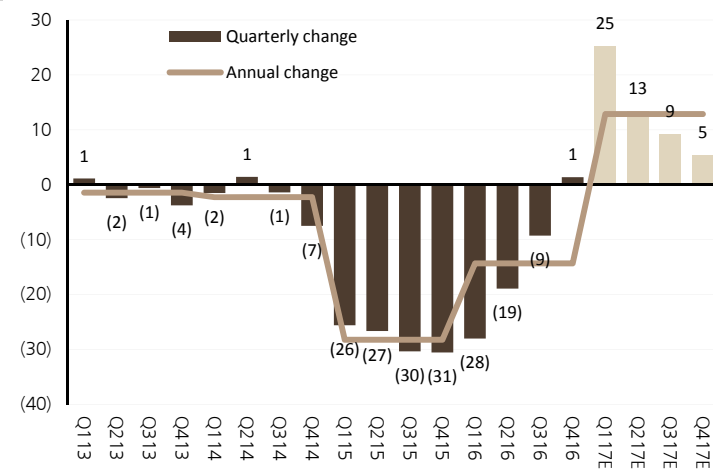
Note: yellow based on extrapolating spot prices
Source: Thomson Financial

Figure 29: US bitumen price (% y/y in US\$)



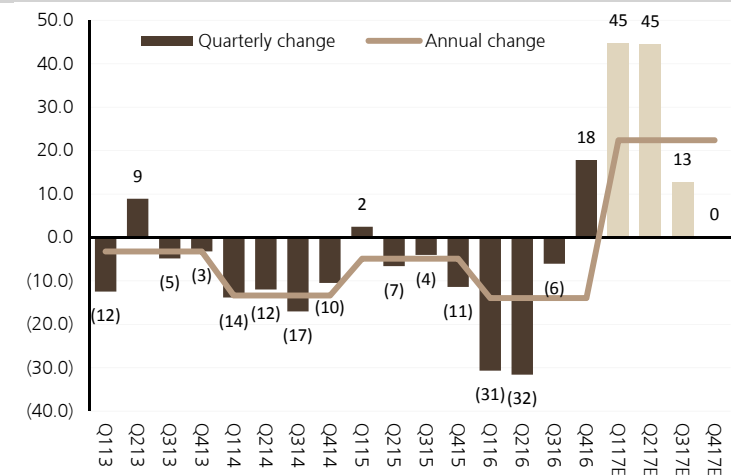
Note: yellow based on extrapolating spot prices
Source: US state DOTs, UBS estimates

Figure 28: US diesel price (% y/y in US\$)



Note: yellow based on extrapolating spot prices
Source: Thomson Financial

Figure 30: US petcoke price (% y/y in US\$)



Note: yellow based on extrapolating spot prices
Source: Bloomberg

Q: Can the US deliver on high expectations?

US infrastructure

In Oct-16 (before elections), **Trump advisors discussed a plan that would create a \$167bn private equity fund that could in turn lend up to ~\$1 trillion of infrastructure spend.** We note that the policy paper was published before the election, and thus should be considered as campaign material, at least to a certain extent.

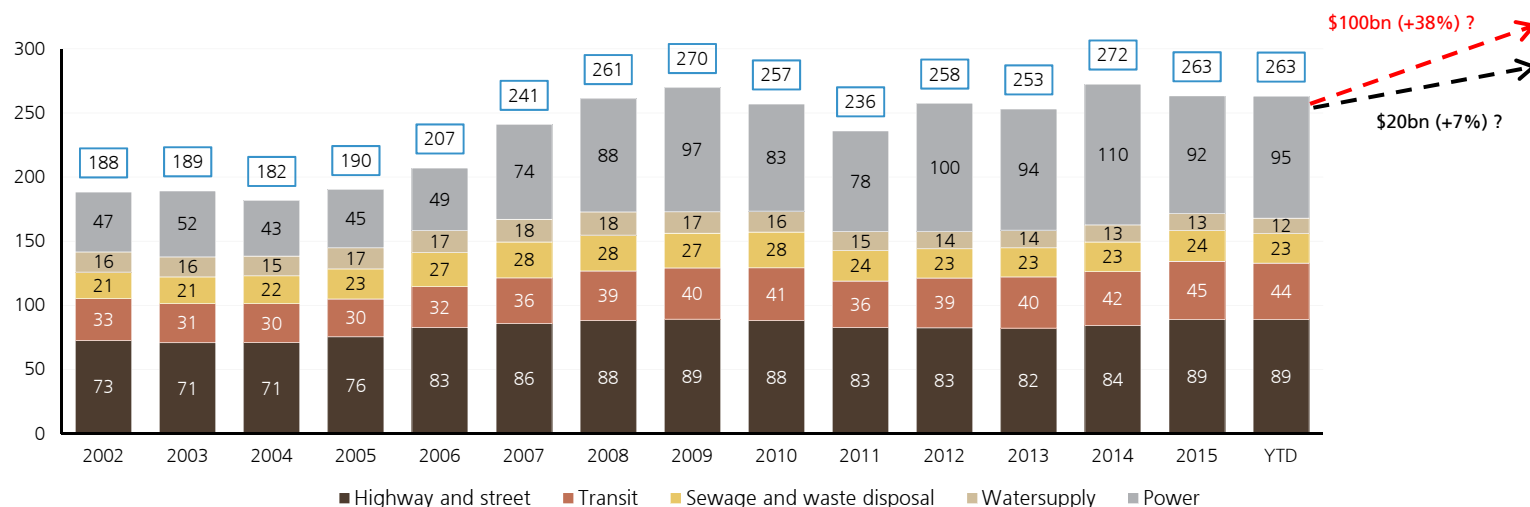
Total US infrastructure spending was \$265bn in 2015. Assuming 100% of the proposed \$1tn over 10 years, the impact on infrastructure spending could in theory be significant.

While we think there is upside to infrastructure investment, but a smaller spending scenario is more likely. Finding additional meaningful funding for infrastructure is always difficult, and political and economic practicalities remain challenges.

Our base case scenario assumes \$200bn program over ten years, resulting in incremental spending of ~20bn pa, i.e. c7% of current annual spending levels.

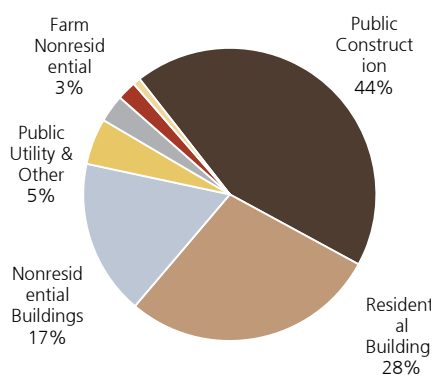
[Q-series: How could a new wave of infrastructure spending impact the construction sector?](#)

Figure 31: US total infrastructure spending (US\$bn)



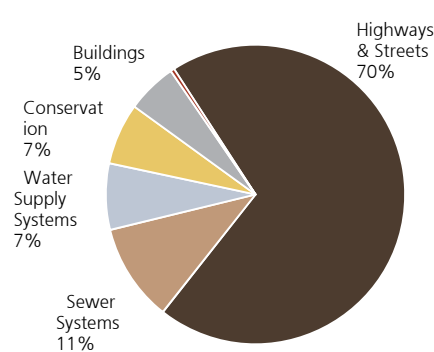
Source: US Census

Figure 32: US cement demand (%)



Source: PCA, Nov-16

Figure 33: US infra cement demand (%)



Source: PCA, Nov-16

Figure 34: Exposure to US infrastructure spending

FY15	LHN	HEI	CRH	BZU
	CHF	EURm	EURm	EURm
Total revenues	29,483	17,331	27,138	2,662
North America (construction)	5,678	4,157	13,981	1,109
% US	60%	85%	92%	100%
US Construction	3,407	3,533	12,837	1,109
Infrastructure	50%	50%	35%	50%
US infrastructure	1,703	1,767	4,493	555
% Exposure	6%	10%	17%	21%

Source: Company data, UBS estimates

US cement and aggregates market outlook

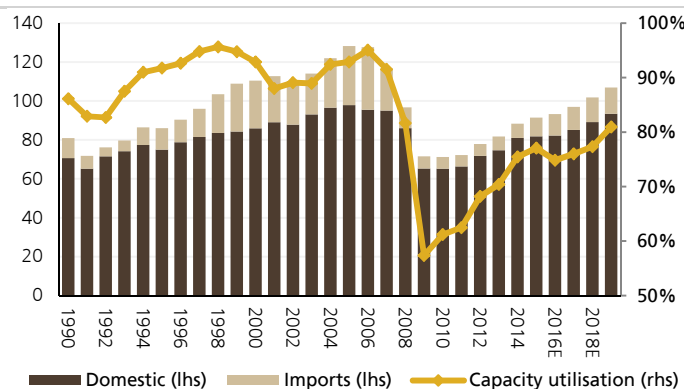
The US cement market has recovered reasonably well from the bottom but overall consumption is still 29% below the prior peak of 2005, whereas aggregate volumes are 26% below prior peak levels.

For our US exposed stocks, we become more optimistic, raising our forecasts for cement volume growth to 4-5% pa over the next 4 years (from 3-4%), as a result of the FAST highway bill, increased state spending and our base case scenario for potentially new infrastructure spending under new administration.

While we expect some net additions to cement capacity in the coming years, based on our forecasts we expect utilization rates to improve from over 75% currently, although not returning to the levels seen before 2008 of 95%.

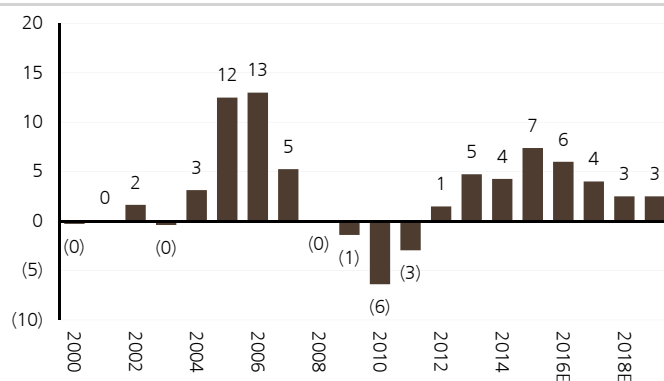
As a result of tight market conditions, we expect positive pricing momentum of around 3-4% going forward, after +6% y/y in 2016.

Figure 35: US cement consumption (m tn) vs utilisation (%)



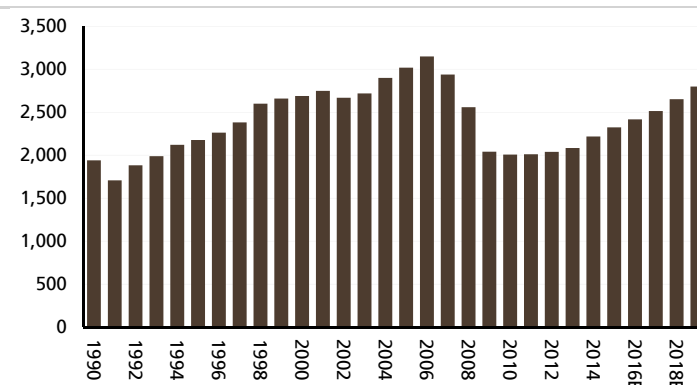
Source: USGS, UBS estimates

Figure 37: US cement price inflation (% y/y)



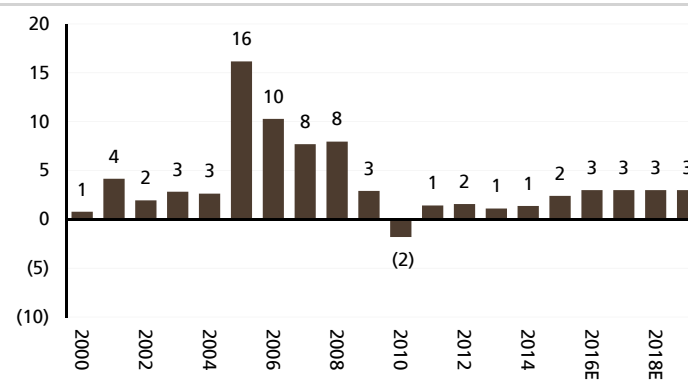
Source: USGS, UBS estimates

Figure 36: US aggregate demand (m tn)



Source: USGS, UBS estimates

Figure 38: US aggregate price inflation (% y/y)



Source: USGS, UBS estimates

US Construction

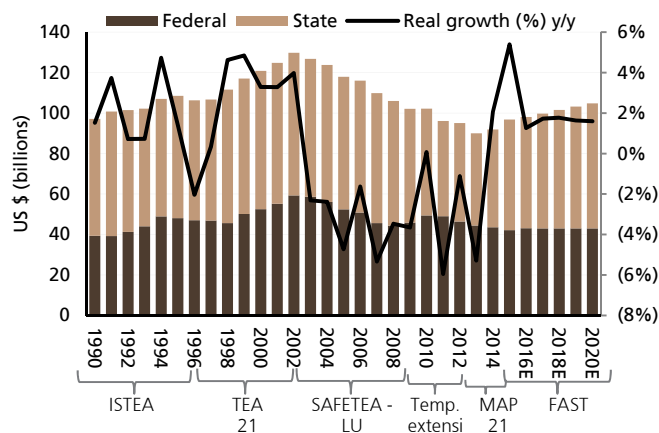
Highway spending – 70% of US public infrastructure consumption:

In Dec-15, the US passed a new transportation bill ("Fixing America's Surface Transportation" Act), designed to provide federal funding of US\$305bn for FY16-20. The federal spend in FY15 was US\$43bn, which implies an increase of 5% y/y in 2016, followed by gradual increases from 2.1% to 2.4% in the following years.

Non-residential spending: The American Institute of Architects's (ABI) generally leads construction spending by 9-12 months. In Dec-16 it increased to 55.9, reaching a peak since 2006 (a score above/below 50 indicates an increase/decrease in demand for design services).

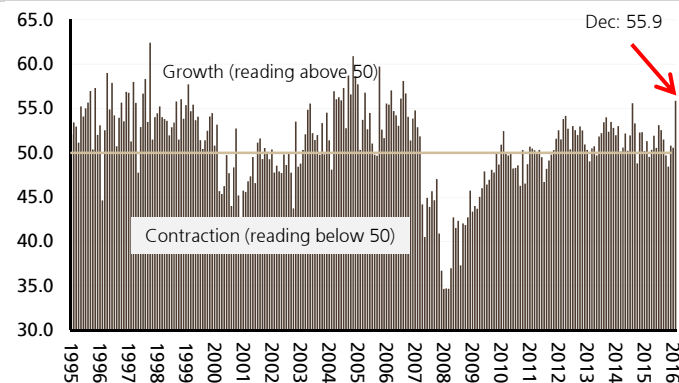
Residential: In 2015 the US saw an 11% increase in housing starts to 1.1m, which followed an 8% y/y growth in 2014, 18% in 2013 and 28% in 2012. UBS economists expect 2017 housing starts of 1.3m (+c11%).

Figure 39: Real (US\$ bn) highway spending vs growth y/y



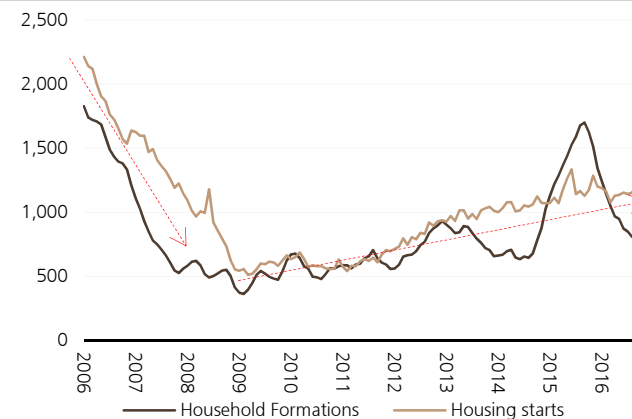
Source: CBO, UBS estimates

Figure 41: Monthly National Architectural Billings Index



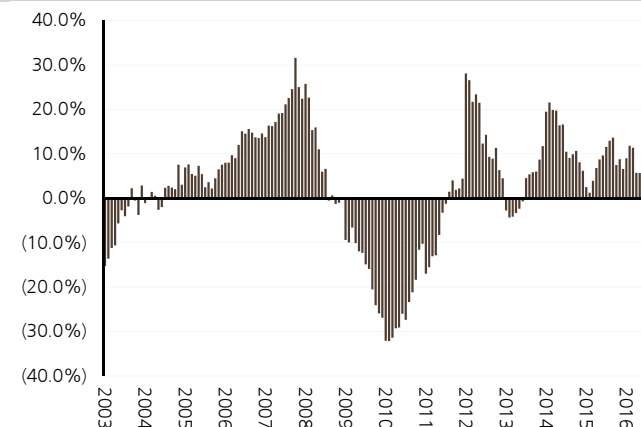
Source: American Institute of Architects

Figure 40: Housing starts and household formations ('000)



Source: Census Bureau; Note: Seasonally adjusted annualised

Figure 42: US Non-Res (Private) construction spending y/y



Source: US Census

Tax reform

President elect Donald Trump has proposed significant reductions to corporation tax.

At this point the ultimate outcome is highly uncertain but the key proposals of House Speaker Paul Ryan include:

- Lowering of headline corporation tax from 35% to 20%;
- Abolition of tax deductibility of interest expense;
- Immediate capex expensing.

There are also talks of different treatment of imported goods versus exported goods although this is largely not relevant for the sector, as most goods sold are produced domestically.

We analyse the impact of a simplistic tax rate reduction on EPS (table above). Unsurprisingly the companies with the highest US exposure benefit the most.

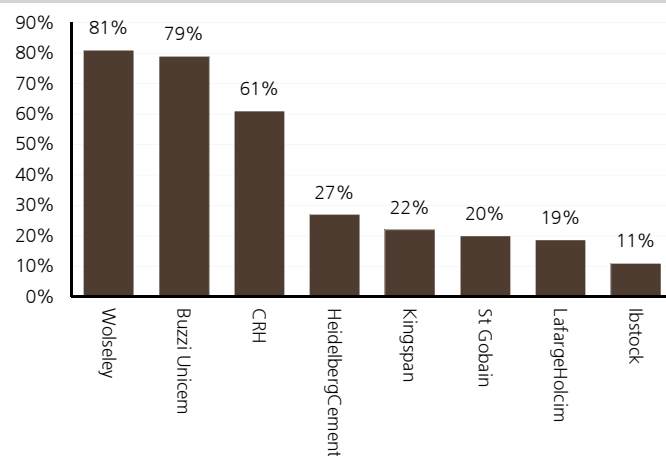
However, we caution that companies that currently use inter-company loans to minimise the US tax bill will likely see a mitigated effect. In particular we believe this is used at Wolseley and CRH. We also note that HeidelbergCement has significant US tax losses which may become less valuable in the event of a US corporate tax rate reduction.

Figure 43: EPS upside from lower US corporate taxes

	% EBIT 2016E	Group Tax rate	% EPS upside from	
	US		from 5ppt decline in US tax	10ppt decline in US tax
Wolseley	81%	28%	6%	11%
Buzzi Unicem	79%	33%	6%	12%
CRH	61%	28%	4%	8%
HeidelbergCement	27%	27%	2%	4%
Kingspan	22%	19%	1%	3%
St Gobain	20%	30%	1%	3%
LafargeHolcim	19%	29%	1%	3%
lbstock	11%	22%	1%	1%

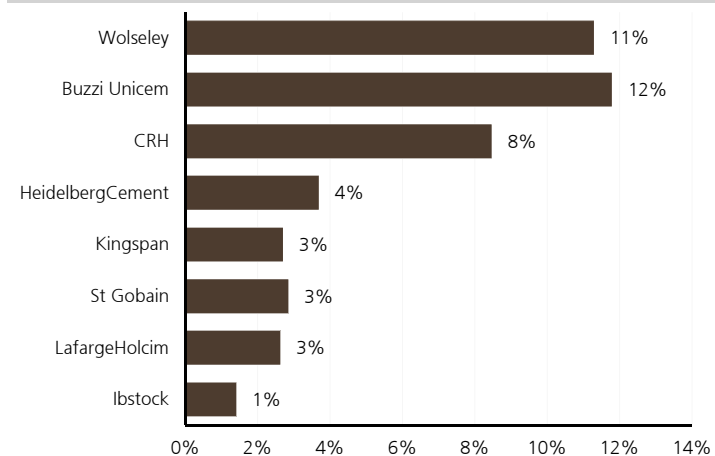
Source: UBS estimates

Figure 44: % of EBIT in US, by company



Source: UBS estimates

Figure 45: % EPS upside from 10ppt decline in US tax



Source: UBS estimates

Q: Will European recovery accelerate?

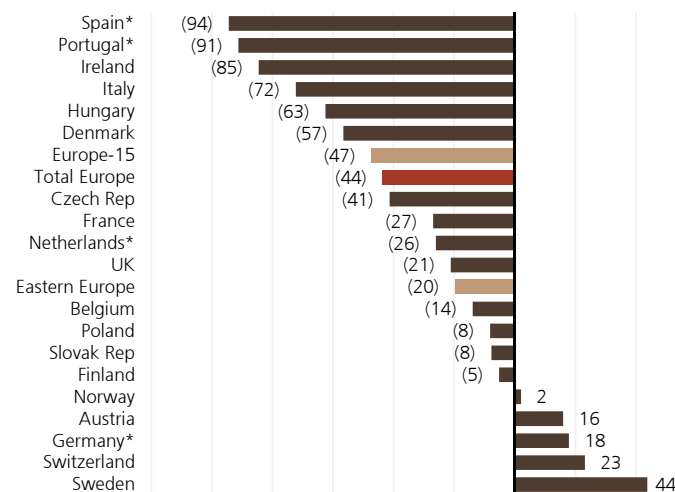
The recovery potential in Europe remains material, with housing starts down 44% between the peak in 2005-7 until 2016.

A slow recovery is now under way since 2014, but remains slow considering the depth of the decline.

Thus far, the recovery has been led by Northern Europe, particularly the UK, Germany and Nordics. More recently, signs of a recovery in France and Eastern Europe. In Southern Europe it has generally been non-existent with markets still declining in 2016.

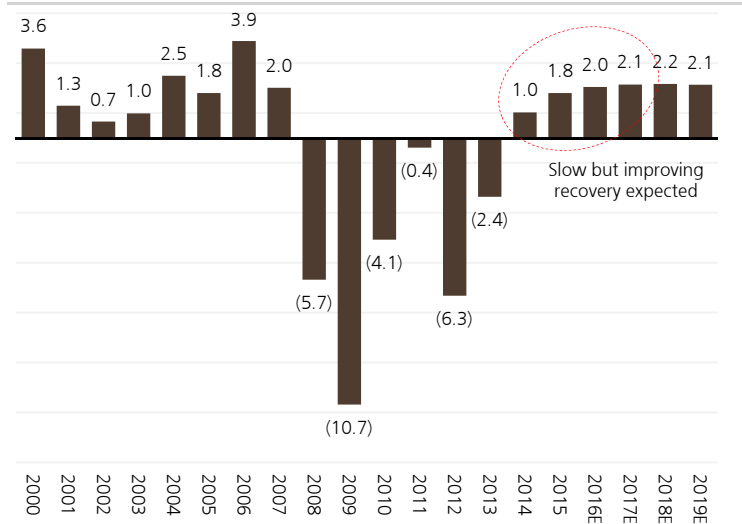
Fiscal policy in Europe has been relatively pro-cyclical, mainly as a result of Eurozone stability criteria. However, fiscal drag over 2010-14 has turned in a slight fiscal expansion in 2016 and is expected to remain so in 2017, albeit at a modest quantum. We do not expect material fiscal stimulus across Europe akin to the US proposals at this stage.

Figure 46: 2016E housing starts versus 2005-7 peak (%)



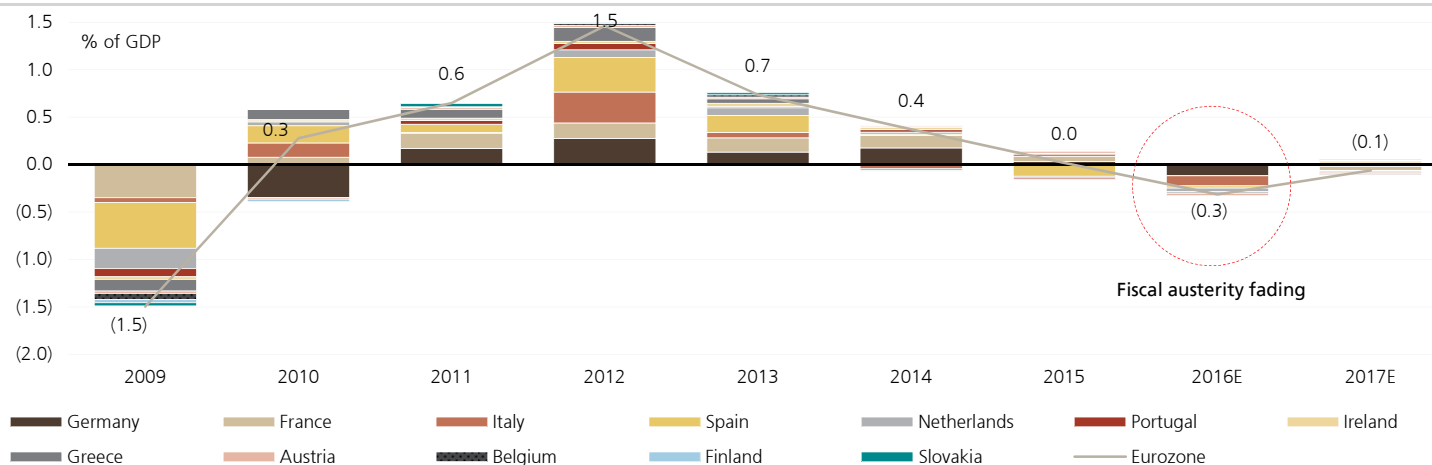
* Completions
Source: Euroconstruct

Figure 47: European construction output growth (%)



Source: Euroconstruct

Figure 48: "Fiscal effort" (reduction in structural budget deficit) in the Eurozone (% of Eurozone GDP)*



Source: UBS European Economics Team, EU Commission; * Contribution from individual countries is GDP weighted

Q: UK – what downturn?

Since the EU referendum outcome there have been persistent fears around a downturn in the UK construction market. The contribution from the UK is material with most companies at least partially exposed to the UK construction market (see chart).

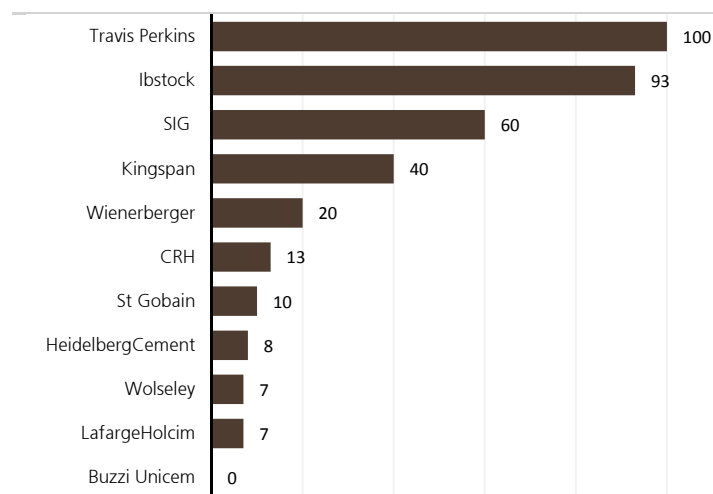
Thus far, evidence of a downturn in the UK are non-existent. UK housebuilder sales rates, a good lead indicator of residential new build activity, are up 7% y/y in H216.

Similarly, builders' merchant sales have continued to be up y/y in H2 according to the BMF.

Undoubtedly the biggest risk remains (1) real wage pressure as a result of the decline in Sterling and (2) reduced business investment as a result of policy uncertainty.

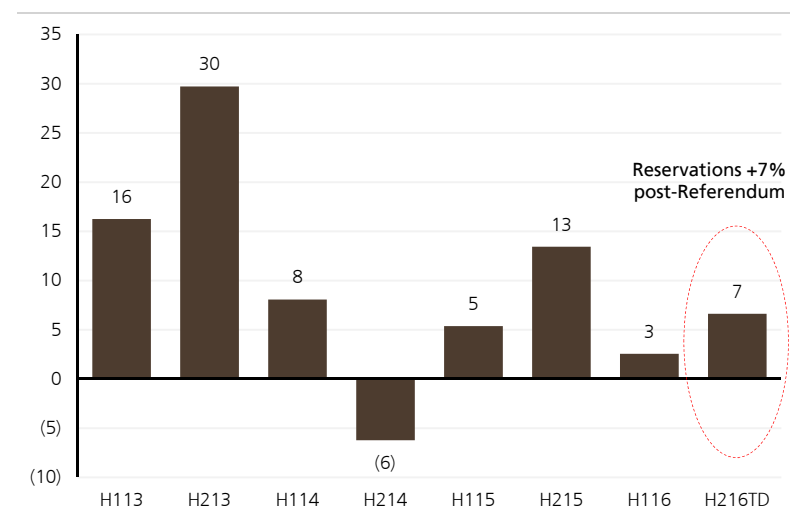
Our forecasts include a slight decline in 2017 construction activity and one key areas of positive surprise in 2017 could be a more resilient outcome.

Figure 49: 2015 UK EBIT/DA exposure (% of total)



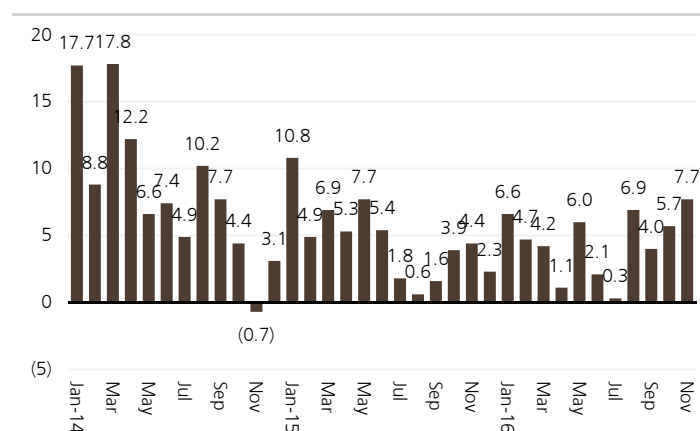
Source: Company data, UBS estimates

Figure 50: UK housebuilder per site reservation rate growth (% y/y)



Source: Company data, UBS estimates

Figure 51: Builders' merchant sales growth (% y/y)



Source: BMF

Q: France – recovery at last?

The French construction market has lagged other major European markets and continued to disappoint in 2016.

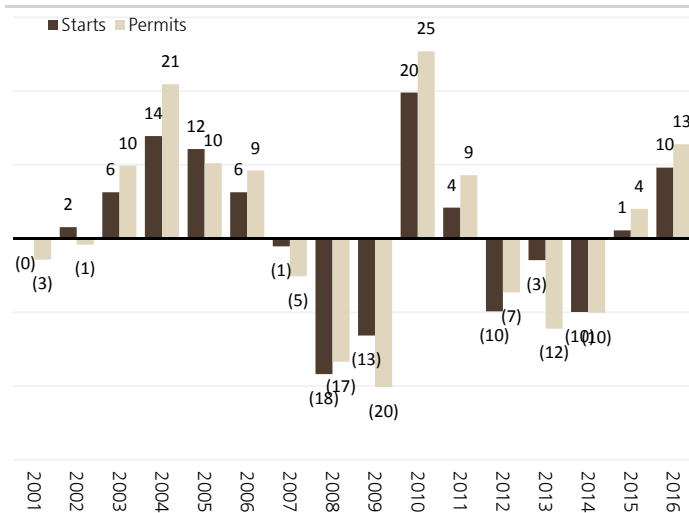
Individual end markets have shown signs of improvement, most notably new residential construction which grew by around 10% in 2016 (based on housing starts up to November).

Civil engineering spend also started to improve with mid-single digit growth and recently more material order intake, although this can be lumpy.

The key disappointment has been in the RMI/DIY markets. Recent DIY data suggests there is no material growth in this end market at this point. This is also reflected in St Gobain's organic sales growth, which has stabilised throughout 2016 but has seen no material growth.

We expect 2017 to show improvement but expect growth overall to remain low for the overall market.

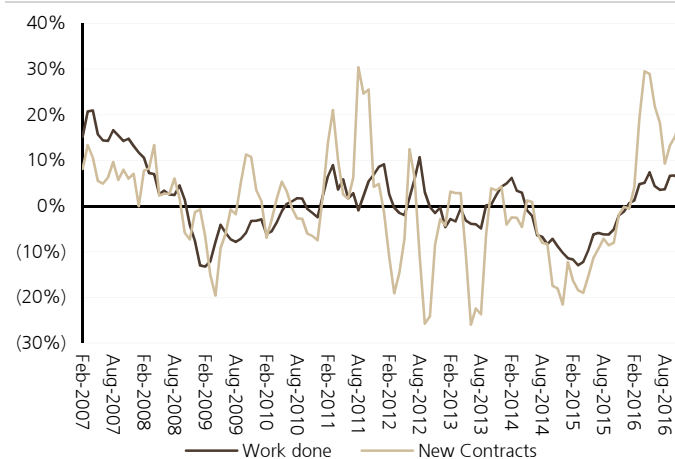
Figure 52: France housing starts and permits



Note: 2016 up to November

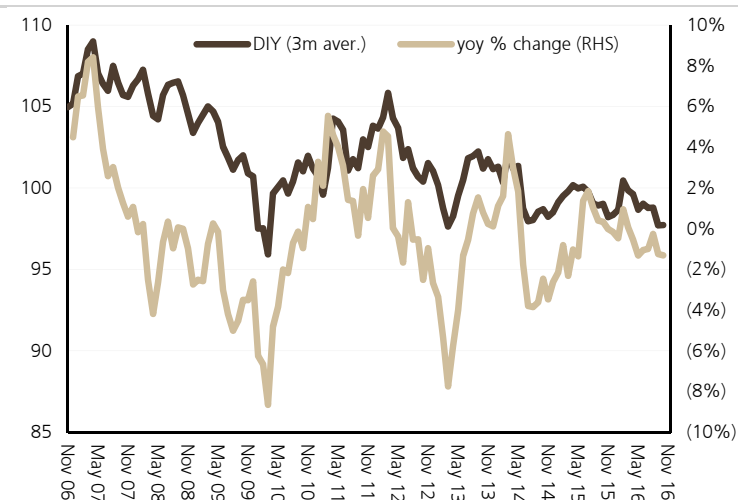
Source: Thomson Financial, UBS estimates

Figure 54: French civil engineering growth (3m rolling % y/y)



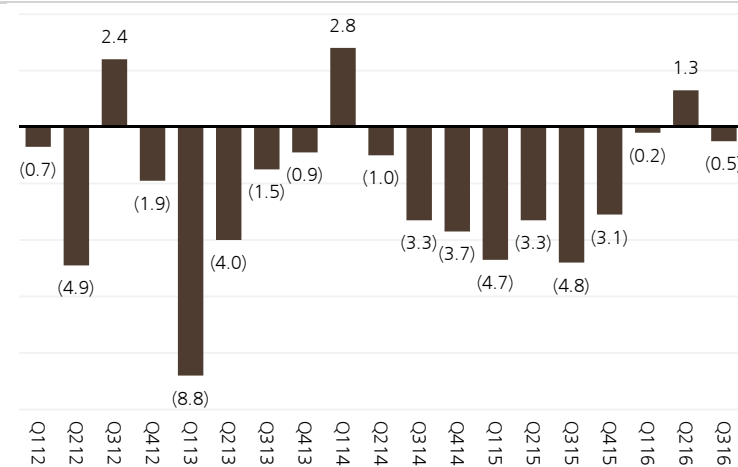
Source: FNTF

Figure 53: France DIY sales (2006-2016)



Source: Banque de France

Figure 55: St Gobain France LFL sales growth (%)



Note: includes export sales from France

Source: Company data

Q: Emerging Markets

India – Demonetisation impact halting growth in the short-term

India is the second largest cement market globally after China.

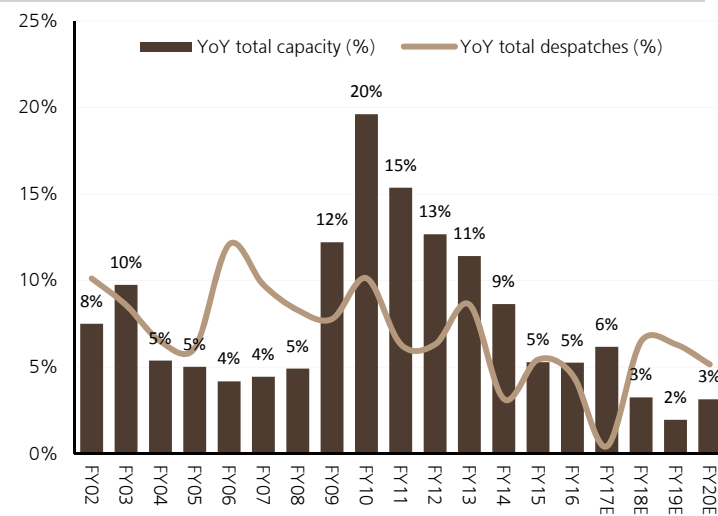
Exposure is particularly relevant for LafargeHolcim, that generates slightly below 10% of group EBITDA from this market on a fully consolidated basis.

After a weak Q116, prices had started to recover to mostly match prior year levels in Q2 and Q3 against an environment where costs were still down.

Since the demonetisation announced in November 2016, there has been a slowdown in demand which likely also led to some sequential pricing pressure which comes at a time when energy costs have increased, most notably coal and petcoke.

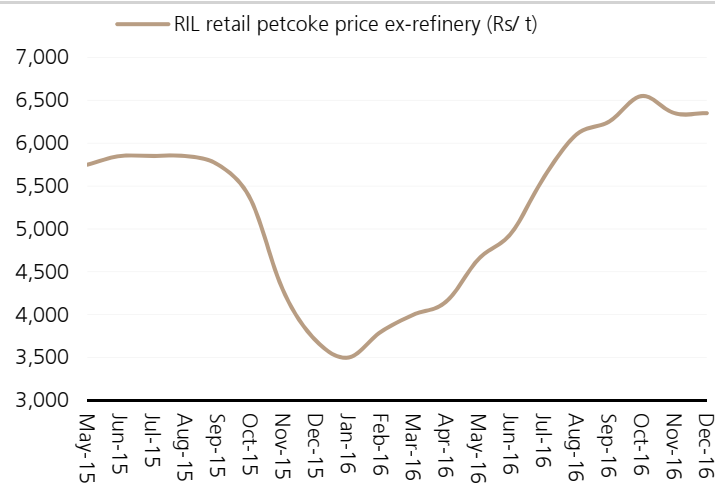
As a result we expect Q416 be subdued and likely to some extent also H117. Over the coming years, as a result of improving utilisation rates, we expect margins to pick up but remain substantially below historical levels.

Figure 56: India consumptions vs capacity growth (%)



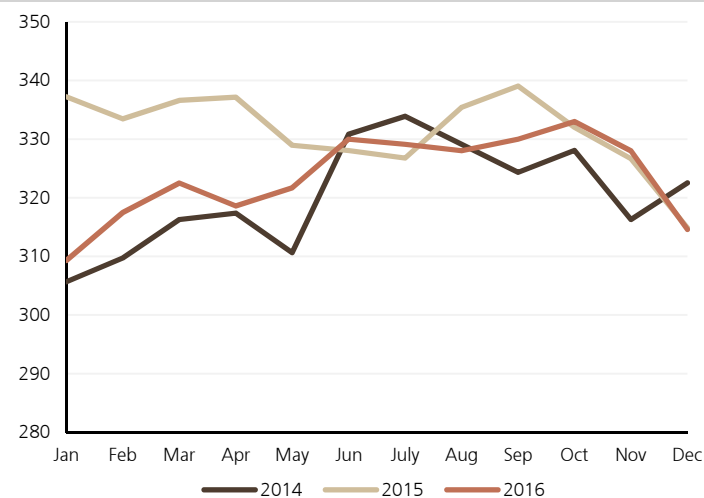
Source: CMA, UBS estimates; Note: year-to-March

Figure 58: Petcoke price (Rs/tonne)



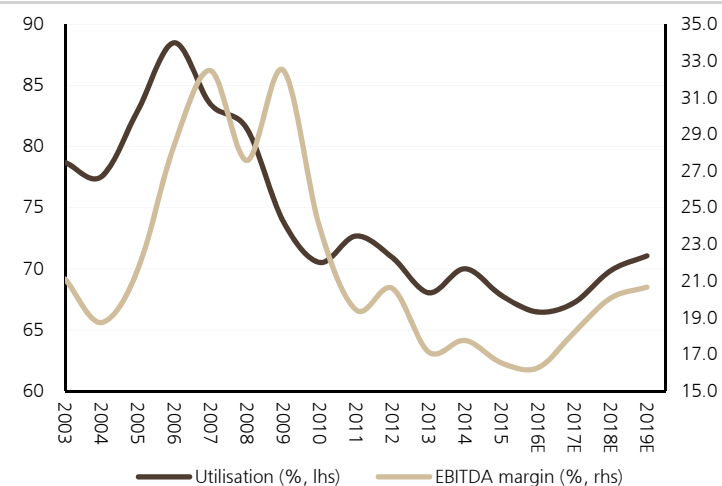
Source: India Coal Market Watch

Figure 57: Indian cement price (Rp per bag, 2014-16)



Source: Crisil, UBS estimates

Figure 59: India utilisation vs EBITDA margin (%)



Source: Company data, CMA, UBS estimates

Indonesia – Overcapacity impacting prices and margins

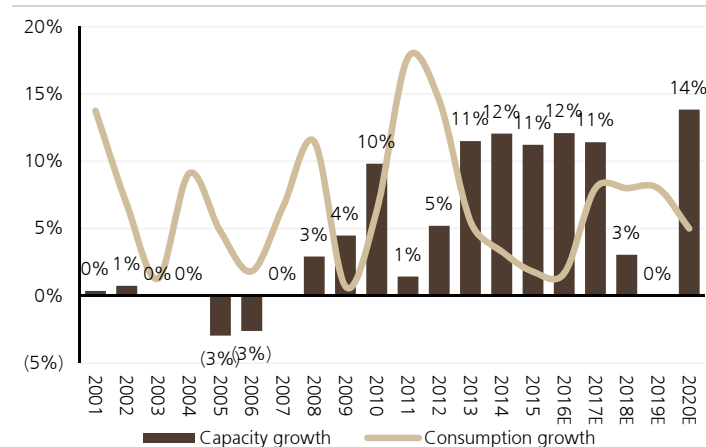
Indonesia continues to suffer from significant supply additions and subdued demand growth, leading to overall industry margin compression.

In 2016, prices have dropped by around 9% in a deflationary cost environment. Nevertheless, we expect margins to continued a downward trend which started in 2013 off high levels.

Supply addiitons are expected to continued in 2017 with a pause in 2018/19, although timing of commissioning may mean this trajectory unfolds somewhat differently.

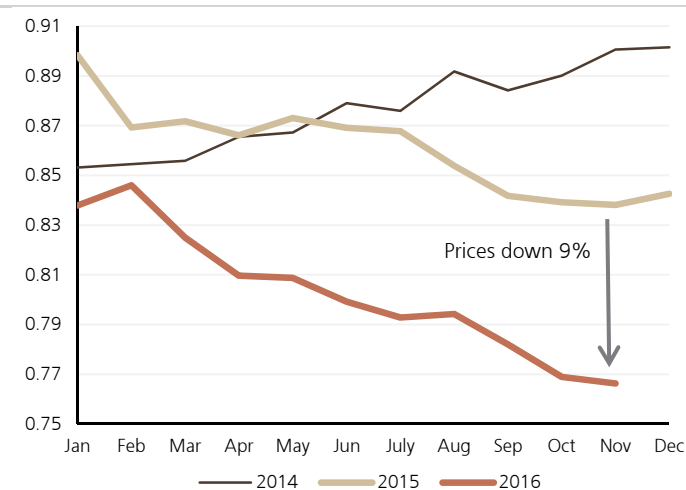
Indonesia is the only major market where Chinese domestic players have expanded through direct capacity investment.

Figure 60: Indonesia consumptions vs capacity growth (%)



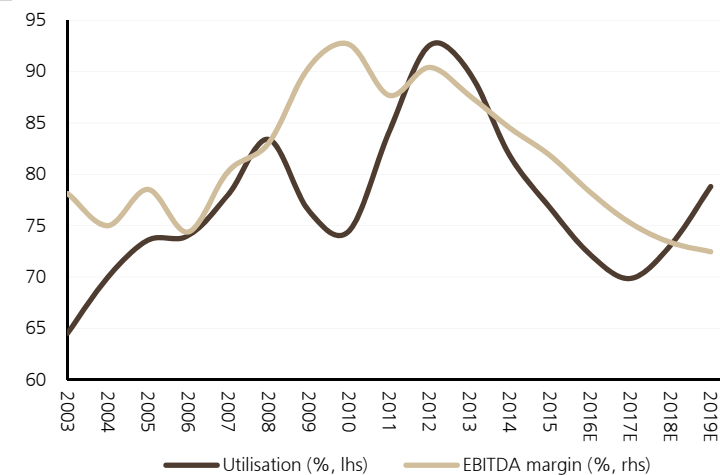
Source: CMA, UBS estimates; Note: year-to-March

Figure 61: Indonesia cement price (mIDR per tonne, 2014-16)



Source: Crisil, UBS estimates

Figure 62: Indonesia utilisation vs EBITDA margin (%)



Source: ASI, Semen Indonesia, Indocement, UBS estimates

Q: Will M&A continue to feature in 2017?

Pick up in M&A over last 3 years

M&A has picked up noticeably in the last 3 years with the merger of Lafarge and Holcim and the acquisition of Italcementi by HeidelbergCement. 2016 was a year of consolidation, with mostly LafargeHolcim disposing of assets in order to streamline the portfolio and de-leverage.

One noticeable exception was the (still pending) bid for Braas Monier by Standard Industries in the US, portraying some signs of confidence in the recovery potential of the European construction markets.

Possibility of more spend in 2017

Into 2017, we expect M&A to continue to feature but believe that LafargeHolcim and HeidelbergCement will continue to focus on integration and largely stay absent from the market.

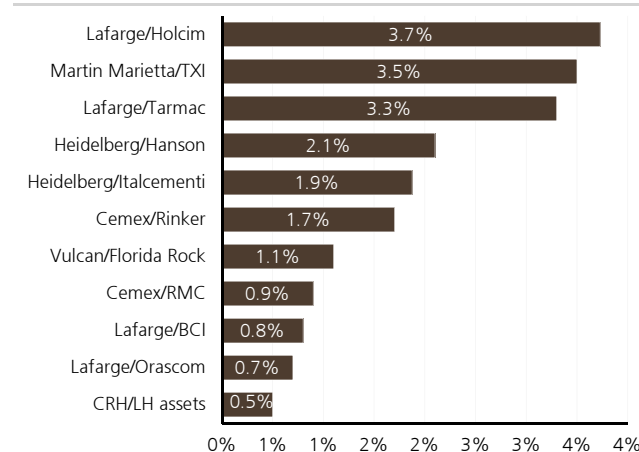
We see potential for the likes of **Kingspan, CRH, Wolseley and Buzzi Unicem** to increase M&A spend given strong balance sheet positions (see next page).

Figure 63: 2016 announced M&A transactions

Asset / company	Asset type	Announced	Acquirer	Type	Seller	Currency	Announced EV (100%)	Historic EV/EBITDA (x)	Current EV/EBITDA (x)
Sacci	Italian Cement	1/14/2016	Cementir	Industrial	Creditors	EURm	125		
Lafarge Halla Cement (South Korea)	Korean Cement	3/17/2016	Glenwood / Baring Asia	Private equity	LafargeHolcim	CHFm	465	6.6	
Lafarge India	Indian Cement	7/11/2016	Nirma Limited	Industrial	LafargeHolcim	USDm	1,400	10.4	
Holcim Lanka	Sri Lankan Cement	7/25/2016	Siam City Cement	Industrial	LafargeHolcim	USDm	400	10.0	
Cie des Ciments Belges	Belgian Cement	7/25/2016	Cementir	Industrial	HeidelbergCement	EURm	312	7.4	
Shui On assets	Chinese Cement	8/3/2016	Huaxin	Industrial	LafargeHolcim	CHFm	376		2.9
Holcim Vietnam	Vietnamese Cement	8/4/2016	Siam City Cement	Industrial	LafargeHolcim	CHFm	867		12.4
Martinsburg plant	US cement plant	8/18/2016	Cementos Argos	Industrial	HeidelbergCement	USDm	660	15.7	
Fairborn plant	US cement plant	9/12/2016	Eagle Materials	Industrial	Cemex	USDm	400		12.1
Cemento Polpaico	Chile cement	7/10/2016	Hurtargo Vicuna Group	Industrial	LafargeHolcim	CHFm	220		8.8
Giant Cement (55% stake)	US cement plants	12/01/2016	Elementia	Industrial	Cementos Portland	USDm	705		17.5
Braas Monier	European roof tiles	12/20/2016	Standard Industries	Industrial	Public shareholders	EURm	1839	9.4	8.9

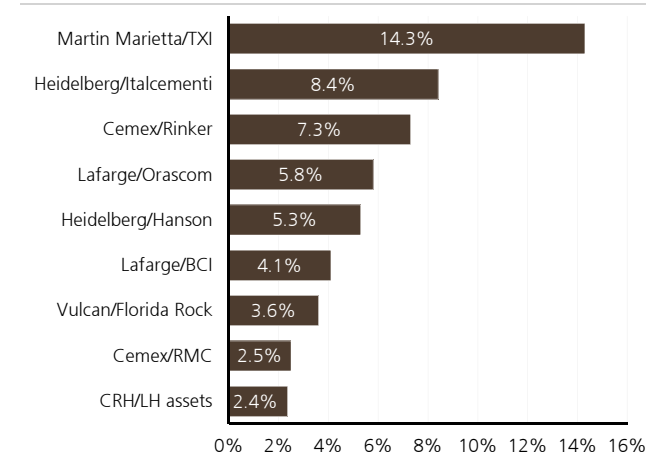
Source: Company announcements, UBS estimates

Figure 64: EBITDA synergies as % of pro-forma sales



Source: Company data, UBS estimates

Figure 65: EBITDA synergies as % of target sales



Source: Company data, UBS estimates

Q: Leverage and refinancing potential

Room for re-leveraging

Leverage in the sector is at relatively low levels with the sector at 1.7x 2016 net debt / EBITDA and expected to de-leverage to 1.2x by 2017.

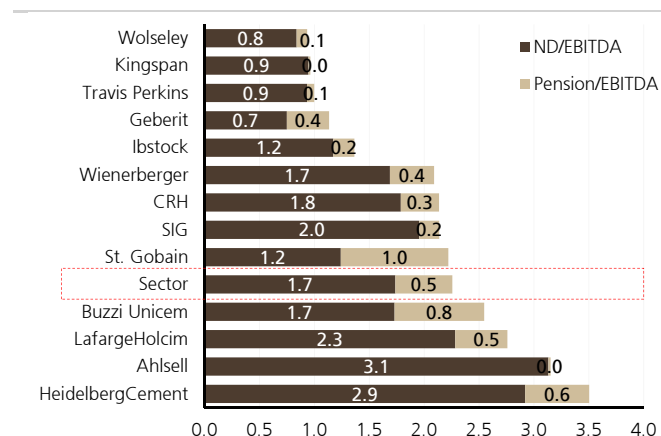
We believe this leaves room for more substantial deal making after a quieter year as a number of the major focussed on integration of 2015 acquisitions.

We believe likely candidates for increase M&A spend include Kingspan, CRH, Wolseley and Buzzi Unicem.

We expect LafargeHolcim and Heidelberg to focus on de-leveraging in 2017.

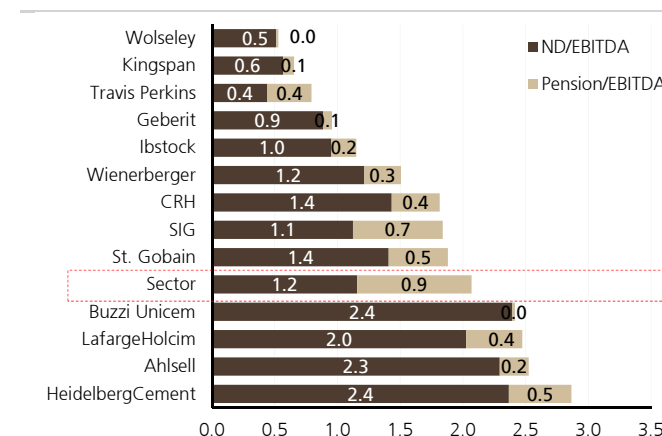
We also show the current cost of debt within the sector. With bond yields substantially low compared to a few years ago, there is still material upside from refinancing at lower rates, especially at HeidelbergCement.

Figure 66: Leverage ratios 2016E (x)



Source: UBS estimates, Datastream

Figure 67: Leverage ratios 2017E (x)



Source: UBS estimates, Datastream

Figure 68: Cost of debt vs current bond yields

Company	Currency	Cost of gross debt	Gross debt	Comment
Ahlsell	SEKm	c2%	(7,750)	Refinanced in Q416 as part of IPO
Buzzi Unicem	EURm	4.0%	(1,666)	Excluding convertible
CRH	EURm	3.3%	(7,111)	H116 value
HeidelbergCement	EURm	c6%	(10,220)	Q316 value
Ibstock	GBPm	2.6%	(200)	Cost of term loan
Kingspan	EURm	2.25%	(776)	Post recent refinancing
LafargeHolcim	CHFm	4.8%	(21,130)	Q316 value
St Gobain	EURm	3.9%	(9,500)	H116 value
Travis Perkins	GBPm	4.5%	(609)	H116 value
Wienerberger	EURm	3.6% (4.8% incl. hybrid)	(731) / (1,215 incl. hybrid)	Q316
Wolseley	GBPm	3.2%	(1,301)	FY16 balance sheet fixed rate debt

Source: Company data, UBS estimates

Q: Where are we in the cycle?

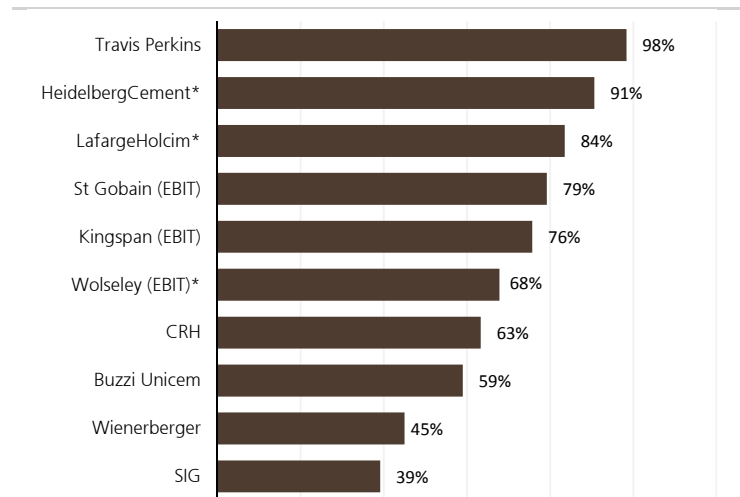
We attempt to show how EBIT/DA'16 compares on an organic basis to the prior peak of 2007. This is challenging because of significant M&A and FX movements, making historical comparisons difficult.

While imperfect, we take an approach where we simply multiply the annual organic EBIT/DA growth rates over 2008-16 to come up with an indexed figure. For companies with significant M&A (Lafarge-Holcim, Heidelberg/Italcementi and material restructuring at Wolseley) we made historical pro-forma adjustments.

We conclude that all company's earnings are still below prior historical peaks. Only Travis Perkins is close (98%), followed by HeidelbergCement (91%, pro-forma for Italcementi). Surprisingly, CRH and Buzzi remain substantially below prior peaks (c40% down), which reflects still low earnings in Europe. The most depressed are Wienerberger (45%) and SIG (39%).

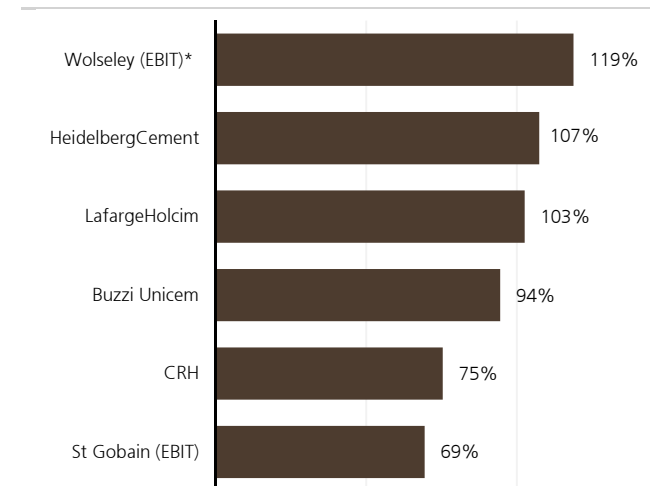
We conduct the same analysis for North American. In general, earnings recovered to prior historical peaks and in some cases exceeded them, although material Canadian businesses at LafargeHolcim and HeidelbergCement help. The laggards are CRH (75% of peak) and St Gobain (69%), mainly due to higher residential housing exposure which continues to be materially below prior peak levels.

Figure 69: 2016E Group Organic EBIT(DA) as % of 2007 peak



*pro-forma adjusted for changes in scope
Source: UBS estimates

Figure 70: 2016E North American EBIT(DA) as % of 2007 peak



*pro-forma adjusted for changes in scope
Source: UBS estimates

Figure 71: Like for like annual EBIT(DA) growth, 2008-2016

Year to Dec	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Buzzi Unicem	(0%)	(46%)	(27%)	11%	(2%)	5%	10%	3%	16%
CRH	(9%)	(28%)	(22%)	(3%)	(5%)	(6%)	11%	15%	11%
HeidelbergC + Italcementi	(4%)	(22%)	(5%)	(2%)	3%	7%	7%	3%	7%
<i>HeidelbergCement</i>	5%	(25%)	(1%)	2%	5%	6%	10%	8%	
<i>Italcementi</i>	(19%)	(16%)	(16%)	(12%)	(4%)	9%	(1%)	(12%)	
LafargeHolcim	(6%)	(14%)	(7%)	(4%)	4%	6%	3%	(4%)	7%
<i>Lafarge</i>	(2%)	(23%)	(7%)	(8%)	7%	4%	4%		
<i>Holcim</i>	(9%)	(5%)	(6%)	(0%)	1%	7%	2%		
Kingspan (EBIT)	(33%)	(57%)	(1%)	25%	6%	8%	16%	23%	30%
SIG	(11%)	(55%)	(3%)	23%	4%	5%	11%	(14%)	(20%)
St Gobain (EBIT)	(11%)	(39%)	40%	11%	(19%)	(4%)	10%	1%	10%
Travis Perkins	(9%)	(23%)	6%	5%	5%	6%	8%	6%	(1%)
Wienerberger	(24%)	(50%)	(1%)	12%	(20%)	(4%)	16%	13%	6%
Wolseley (EBIT)*	(12%)	(59%)	(8%)	34%	13%	11%	8%	11%	1%

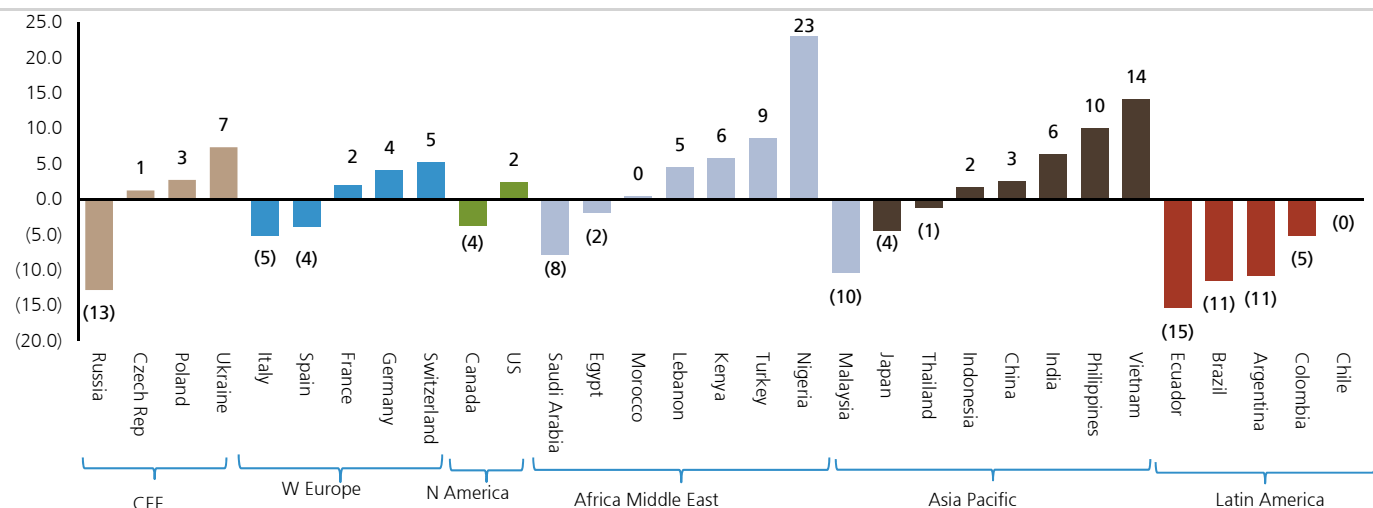
*Based on current scope of business
Source: Company data, UBS estimates

Global cement market expectations

2016 saw contrasted performance across global cement markets. Major markets including Russia and Brazil saw significant declines in volumes. Emerging markets were weak overall, with Ecuador, Argentina, Colombia all down and growth in key markets such as Indonesia disappointing. The upside surprise, after a weak 2015, was in China, which grew +3% up to November. Trends in Europe have been varied with generally Northern Europe performing well but Southern Europe still lagging. North America volumes disappointed, in particular in the US while Canada saw some volume pressure as Western Canada was impacted by lower oil&gas capex.

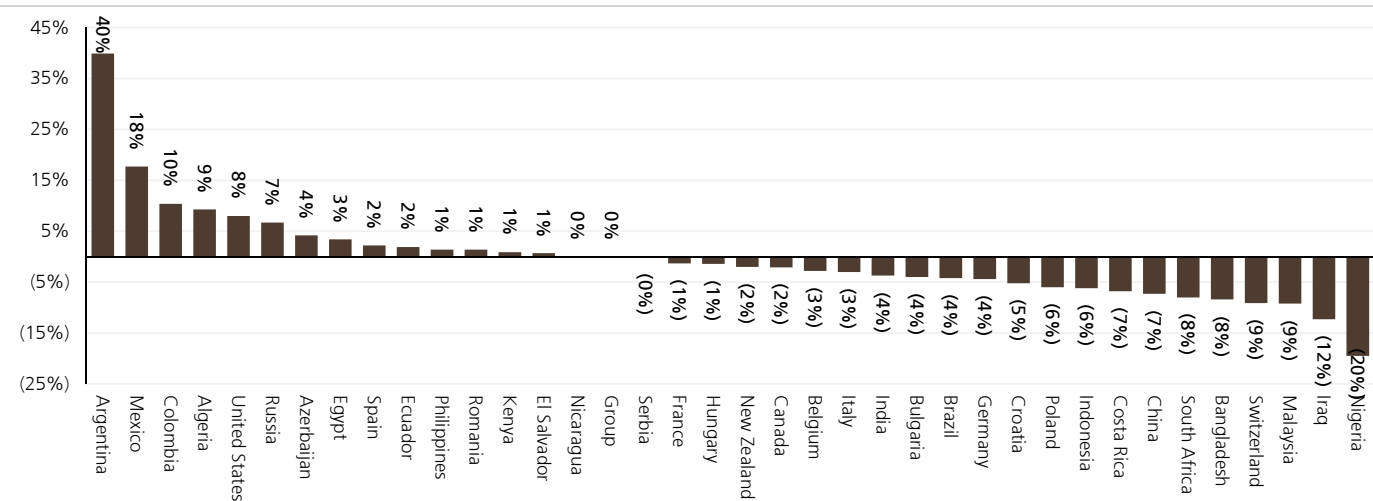
Pricing was overall weak with a significant number of markets seeing price declines. Notable exceptions were the US and Mexico, which saw good price momentum in 2016. In part, price declines reflect a deflationary cost environment which should reverse in 2017 as cost push pressures pick up. In addition, overcapacity in various markets, such as Indonesia, Brazil, Nigeria, Malaysia and other parts of Europe has caused further pricing pressure.

Figure 72: 2016 cement volume trends (year to date, % change)



Source: National sources

Figure 73: Cement prices (Year to date 9m16, local currency)



Source: LafargeHolcim

Introducing a global cement S/D model

We have re-built our supply and demand model for the global cement market.

Consumption outlook: we expect 2016 cement consumption (ex China) across the UBS universe to be flat, mainly driven by material headwinds in oil producing nations such as Ecuador, Russia and Malaysia as well as Brazil. Growth in mature market remained sluggish overall.

In 2017, we expect a pick-up in growth to +3% as the major headwinds seen in 2016 mostly fade, especially in oil producing regions. We then expect a return to more "normal" historical growth of +4% p.a.

Figure 74: Global cement market demand growth, 2011-18E

	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Cement consumption growth (%)	(5%)	4%	6%	2%	3%	3%	1%	1%	3%	4%	4%	4%
Africa/Middle East	7%	7%	8%	3%	6%	1%	2%	3%	3%	4%	4%	3%
Algeria	4%	4%	3%	8%	7%	18%	3%	2%	3%	3%	3%	3%
Egypt	25%	3%	(2%)	1%	(2%)	4%	4%	3%	3%	3%	3%	3%
Iraq	(0%)	3%	37%	13%	19%	(15%)	0%	(9%)	0%	7%	7%	3%
Morocco	4%	0%	10%	(1%)	(6%)	(5%)	1%	(1%)	3%	3%	3%	3%
Nigeria	10%	8%	9%	5%	16%	(1%)	2%	9%	5%	8%	5%	5%
South Africa	(13%)	(8%)	3%	6%	2%	(1%)	8%	(2%)	3%	3%	3%	3%
Turkey	(0%)	20%	11%	2%	10%	2%	1%	5%	3%	3%	3%	3%
Asia Pacific	7%	5%	7%	5%	4%	3%	3%	3%	4%	6%	6%	5%
Australia	(14%)	5%	1%	2%	3%	1%	(2%)	0%	0%	0%	0%	0%
India	14%	7%	8%	2%	2%	4%	2%	5%	3%	6%	6%	5%
Indonesia	1%	6%	18%	15%	6%	3%	2%	2%	8%	8%	8%	5%
Malaysia	(5%)	4%	7%	11%	8%	4%	(1%)	(10%)	3%	5%	5%	5%
Philippines	10%	6%	1%	18%	7%	9%	15%	7%	10%	9%	8%	8%
South Korea	(4%)	(6%)	(2%)	(2%)	3%	(3%)	16%	0%	0%	0%	0%	0%
Thailand	2%	9%	5%	11%	10%	(1%)	(1%)	0%	5%	4%	4%	4%
Europe	(20%)	(2%)	5%	(7%)	(2%)	1%	(3%)	(4%)	1%	2%	2%	2%
Central and Eastern Europe	(24%)	8%	16%	5%	4%	3%	(5%)	(10%)	0%	3%	3%	3%
Czech Republic	(19%)	(12%)	2%	(10%)	(6%)	1%	13%	5%	5%	5%	5%	5%
Poland	(10%)	0%	21%	(17%)	(6%)	7%	5%	1%	1%	1%	1%	1%
Russia	(28%)	13%	16%	13%	7%	3%	(8%)	(13%)	0%	4%	4%	4%
Western Europe	(13%)	(1%)	10%	(5%)	(0%)	0%	(3%)	3%	0%	1%	1%	1%
Belgium	(8%)	5%	13%	(2%)	(6%)	1%	5%	1%	1%	1%	1%	1%
France	(16%)	(3%)	8%	(7%)	(4%)	(5%)	(12%)	2%	2%	1%	1%	1%
Germany	(8%)	(3%)	13%	(4%)	(1%)	2%	(2%)	4%	1%	1%	1%	1%
Switzerland	1%	6%	6%	(5%)	5%	(5%)	(8%)	4%	1%	1%	1%	1%
UK	(24%)	2%	8%	(7%)	10%	8%	5%	3%	(3%)	2%	0%	0%
Southern Europe	(23%)	(11%)	(11%)	(26%)	(17%)	(4%)	(0%)	(3%)	2%	2%	2%	2%
Greece	(25%)	(20%)	(35%)	(23%)	(20%)	17%	(5%)	0%	0%	5%	5%	5%
Italy	(14%)	(6%)	(3%)	(22%)	(15%)	(8%)	(3%)	(4%)	2%	2%	2%	2%
Spain	(32%)	(15%)	(16%)	(33%)	(21%)	1%	5%	(3%)	2%	2%	2%	2%
Latin America	(1%)	8%	7%	3%	1%	3%	(3%)	(7%)	(1%)	3%	3%	3%
Argentina	(5%)	10%	12%	(8%)	12%	(4%)	7%	(11%)	4%	4%	4%	4%
Brazil	1%	16%	8%	7%	2%	1%	(9%)	(12%)	(5%)	3%	3%	3%
Colombia	(6%)	6%	14%	3%	4%	10%	4%	(5%)	4%	4%	4%	4%
Ecuador	6%	(0%)	8%	6%	9%	(1%)	(10%)	(13%)	(2%)	2%	2%	2%
Mexico	(1%)	(2%)	1%	1%	(5%)	8%	7%	2%	3%	3%	3%	3%
North America	(25%)	1%	1%	8%	4%	8%	3%	2%	4%	5%	5%	4%
Canada	(17%)	10%	0%	8%	(4%)	1%	1%	(3%)	0%	0%	0%	0%
US	(26%)	(1%)	1%	8%	5%	9%	4%	2%	4%	5%	5%	4%

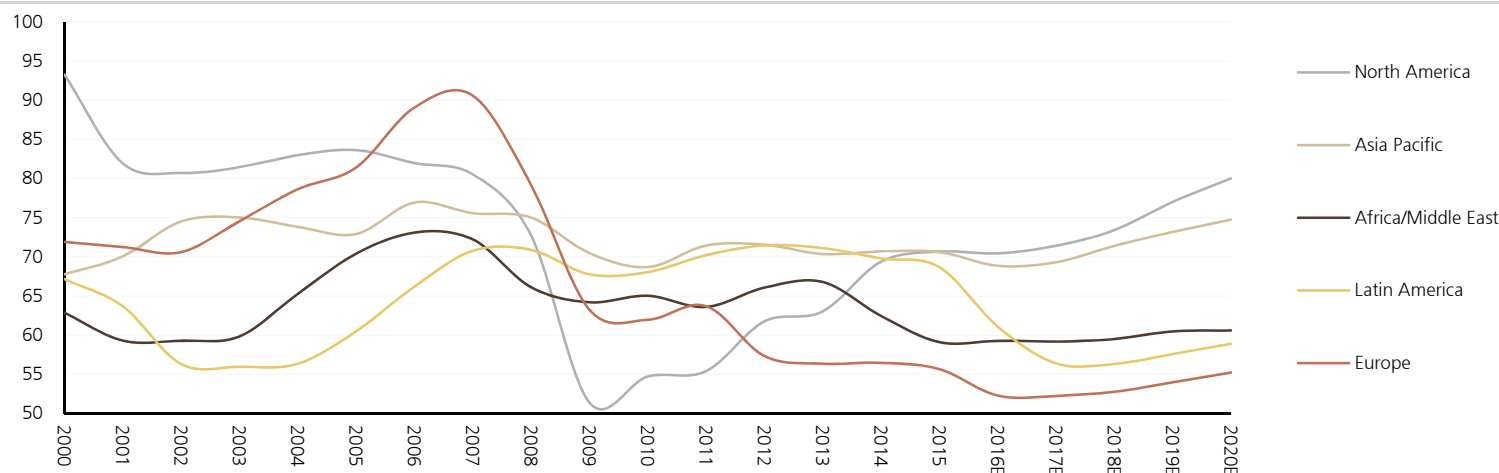
Source: Global Cement Review, local sources, UBS estimates

Capacity utilisation has dropped in most geographies since the peak in 2007 and has only materially recovered in North America. We expect some tightening of markets in Asia and Europe (from low levels) over the coming years, while Latin America sees softening utilisation rates and Africa & Middle East are broadly stable

Globally the cement industry has seen significant build up in overcapacity over 2008/9, a period where consumption declined but capacity continued to grow as a result of investment decisions made over 2005/06. 2015 and 2016 continued to see capacity build of 5-6% p.a. despite low volume growth of 0-1%.

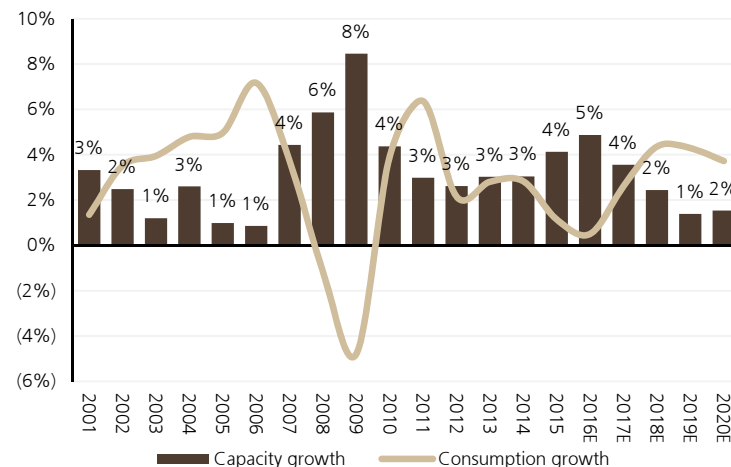
In **Emerging markets**, capacity growth had continued to be high relative to consumption growth. In particular, **Africa & Middle East** has seen significant capacity build over recent times resulting in falling utilisation rates.

Figure 75: Regional capacity utilisation trends (%)



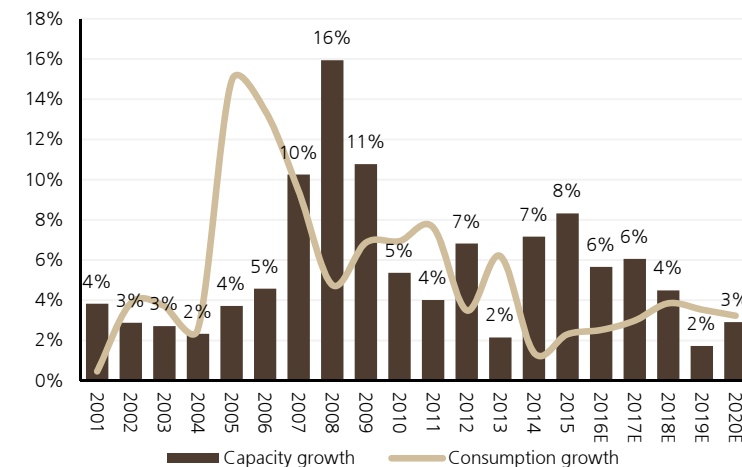
Source: Global Cement Review, UBS estimates

Figure 76: Global (ex China) capacity vs consumption growth (%)



Source: Global Cement Review, UBS estimates

Figure 77: Africa & Middle East capacity vs consumption growth (%)



Source: Global Cement Review, UBS estimates

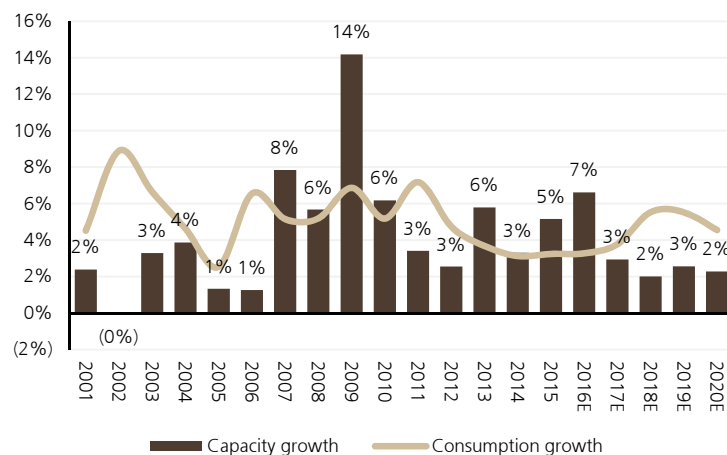
Asia Pacific has also seen high capacity additions, driven by Indonesia, although this should abate over 2017-20E. In **Latin America**, we see a build up in excess capacity over 2014-16 extending to 2017, before capacity growth grinds to a halt by 2019 as current expansion projects finish.

In general, capacity additions in mature markets tend to be rare due to existing excess capacity as well as environmental regulations that prevent significant additions to capacity.

In **North America**, the supply & demand balance has been tightening since 2011 as a result of limited capacity additions and consistent demand growth.

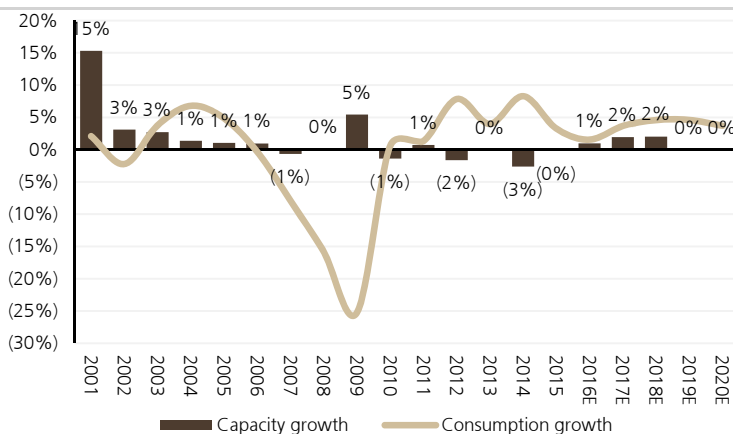
In **Europe**, the market continues to be oversupplied although there are virtually no capacity additions (with some exceptions such as Russia). We expect a gradual tightening of the market although expect this process to be slow owing to a slow growth outlook. We expect some capacity rationalisation in heavily oversupplied markets such as Italy although this will likely require industry consolidation.

Figure 78: AsiaPacific (ex-China) capacity vs consumption growth (%)



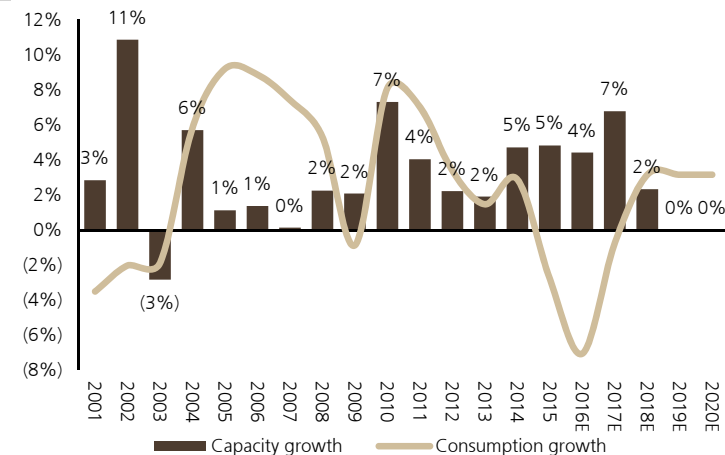
Source: Global Cement Review, UBS estimates

Figure 80: North America capacity vs consumption growth (%)



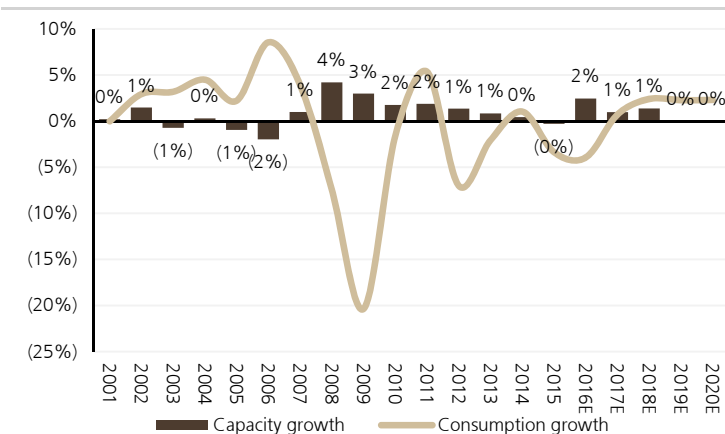
Source: Global Cement Review, UBS estimates

Figure 79: Latin America capacity vs consumption growth (%)



Source: Global Cement Review, UBS estimates

Figure 81: Europe capacity vs consumption growth (%)



Source: Global Cement Review, UBS estimates

COMPANY SECTION

Ahlsell AB

A Nordic growth story

Valuation reflects strong market position and growth outlook

We believe the current valuation of 14.4x 2017E P/E and EV/EBITA of 13x appropriately reflects the strong market position in Sweden, recovery potential in Norway and Finland as well as some of the M&A value creation potential. Our base case valuation assumes long-term EBITA margins of 9% and attributes cSEK1.2bn (cSEK3 per share) of value for future M&A value creation. Our upside valuation of SEK69 assumes higher LFL growth, long-term EBITA margins of 10% and a SEK9 per share M&A pipeline valuation, while our downside scenario of SEK41 assumes long-term EBITA margin of 8% and no M&A pipeline valuation. Based on this we see risk-reward as broadly balanced. We initiated on Ahlsell on 8-Dec-16 with a Neutral rating and PT of SEK53.

A leading Nordic distributor of installation products, tools and supplies

Ahlsell is a leading distributor of HVAC and plumbing, tools and supplies and electrical products across the Nordics. In 2015, 63%/88% of sales/adj EBITA were from Sweden. Norway generated 21%/5% and Finland 12%/5% of sales/adj. EBITA. Ahlsell has established a dominant business in Sweden, which has successfully leveraged multiple product categories to extract economies of scale and enable cross-selling, resulting in sector-leading EBITA margins of over 12%. The attempt to replicate this model in Norway and Finland has been of limited success with margins around 2-3%, but there is potential for improvement as markets recover and further acquisitions are executed.

We expect more growth and quick de-leveraging

We expect c7% adj. EBITA CAGR over 2015-20E which does not include unannounced M&A and could therefore boost this figure. Management is targeting c2% of annual sales growth from bolt-on acquisitions. Following the IPO which did not raise any primary equity, we expect net debt/EBITDA to be at 3.2x 2016E but rapidly de-leverage to 1.9x by 2018E (target range 2.0-3.0x). We expect strong FCF generation as a result of low capex to sales of 0.8%, efficient working capital (c8% of sales) and low financing cost of 2% after the refinancing as part of the IPO process. For Q416, we expect LFL sales growth of +3% and adj EBITA of SEK612m (+9.5% y/y).

Valuation: Neutral, PT SEK53

Our price target is based on DCF using a 7.5% WACC, 2% long-term growth, 9% long-term adj EBITA margin and a M&A pipeline valuation of cSEK3 per share.

Equities

Sweden

Industrial Services

12-month rating

Neutral

12m price target

SKr53.00

Price

SKr52.30
RIC: AHSL.ST **BBG:** AHSL SS

Trading data and key metrics

52-wk range SKr56.00-51.00

Market cap. SKr22.8bn/US\$2.55bn

Shares o/s 436m (ORD)

Free float 40%

Avg. daily volume ('000) 675

Avg. daily value (m) SKr35.6

Common s/h equity (12/16E) SKr7.98bn

P/BV (12/16E) 2.9x

Net debt / EBITDA (12/16E) 3.2x

EPS (UBS, diluted) (SKr)

	UBS	Cons.
12/16E	3.12	1.66
12/17E	3.64	3.49
12/18E	3.84	3.82

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Highlights (SKrm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	20,435	21,780	22,585	24,187	25,574	26,399	26,927	27,696
EBIT (UBS)	1,774	1,742	1,853	2,091	2,225	2,336	2,413	2,587
Net earnings (UBS)	807	692	924	1,363	1,590	1,677	1,737	1,872
EPS (UBS, diluted) (SKr)	-	1.59	2.12	3.12	3.64	3.84	3.98	4.29
DPS (SKr)	0.00	0.00	0.00	0.29	1.55	1.64	1.71	1.87
Net (debt) / cash	(7,406)	(9,192)	(7,854)	(7,200)	(5,768)	(4,795)	(3,768)	(2,683)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	8.7	8.0	8.2	8.6	8.7	8.8	9.0	9.3
ROIC (EBIT) %	-	11.0	12.0	13.8	14.7	15.6	16.3	17.7
EV/EBITDA (core) x	-	-	-	13.2	11.9	10.9	10.2	9.2
P/E (UBS, diluted) x	-	-	-	16.7	14.4	13.6	13.1	12.2
Equity FCF (UBS) yield %	-	-	-	5.7	6.8	7.2	7.6	8.0
Net dividend yield %	-	-	-	0.5	3.0	3.1	3.3	3.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of SKr52.30 on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Are the EBITA margins in Sweden sustainable?**

Yes. Despite very attractive adj. EBITA margins of over 12% we expect these margins to slightly increase over time as end markets continue to grow, albeit at a more modest pace.

[Ahlseil AB – "A Nordic growth story" 08 December 2016](#) →

Q: Can Norway and Finland profits recovery meaningfully from current levels?

Yes. We expect margins to improve in both geographies, but stay well below the level achieved in Sweden.

Q: How much value could execution of M&A targets add?

Yes, but only over the long-term. The long-term success of Ahlseil is deeply founded in acquisitive growth and will continue to be an important contributor to growth going forward, but management guidance implies M&A is likely only going to contribute c2% to annual revenue growth.

UBS VIEW

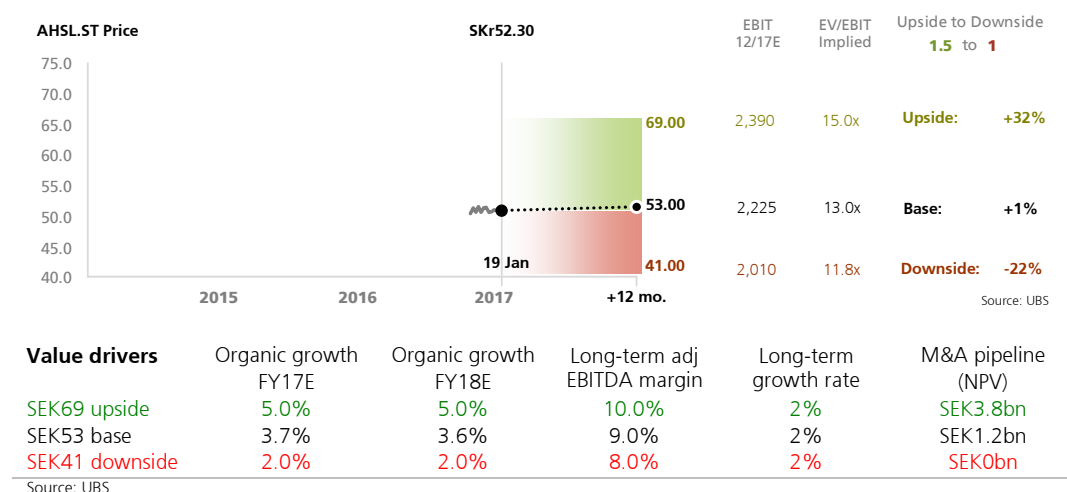
Ahlseil offers a pure play exposure to the Nordic market, with a dominant business in Sweden as the profit engine, and optionality on recovery in Finland and Norway. Ahlseil has over the long-term generated significant value through M&A, but we believe the contribution from this will become smaller over time. We believe the risk-reward is broadly balanced considering the point in the cycle of Swedish margins and the growth opportunities of the business.

EVIDENCE

Ahlseil's #1 market position in Sweden has resulted in the company generating industry leading margins, with a considerable distance. The attempt to replicate this highly successful business in Norway and Finland is mixed, but recently margins have started to improve off a low base. Bolt-on M&A continues to feature.

WHAT'S PRICED IN?

Trading on 14.5x P/E, 13x EV/EBITA 2017E, we believe the share price appropriately values Ahlseil's growth prospects and market positions. Our DCF valuation implies the shares are pricing in 9% long-term adj EBITA margins and SEK3/share for M&A value creation.

UPSIDE / DOWNSIDE SPECTRUM**COMPANY DESCRIPTION**

Ahlseil is a leading Nordic B2B distributor of products within HVAC and plumbing, electrical, and tools and supplies.

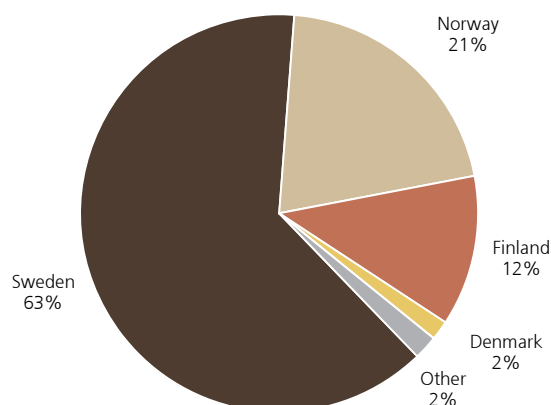
COMPANY DESCRIPTION

Ahlsell is a leading Nordic B2B distributor of products within HVAC and plumbing, electrical, and tools and supplies. In 2015, the group derived 63% of sales and 88% of adjusted EBITA from Sweden, where it has a number one market position. Some 21% of sales and 5% of adjusted EBITA came from Norway, and 12% of sales and 5% of adjusted EBITA were derived from Finland. The group also has small positions in Denmark, the Baltics and Russia. The group has historically grown organically and through M&A. CVC owns c60% of the share capital.

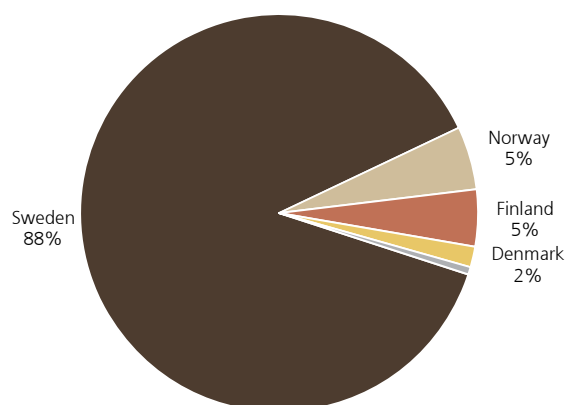
Industry outlook

We expect the Nordic distribution market to see growth over the coming years. Ahlsell's internal forecasts expect 4% sales CAGR in the distribution market over 2016-18. Euroconstruct expects 3.4% real construction output growth and 4.3% housing start over that period. We note, however, that growth is in general expected to grow after a very strong 2016 performance, in particular in Sweden.

Revenues by region (2015, %)



Adj. EBITA by product segment (2015, %)



Source: Company data

Figure 82: Ahlsell divisional profit and loss, 2015-20E

Year to Dec (SEKm)	Q1	Q2	Q3	Q4	2015	Q1	Q2	Q3	Q4E	2016E	2017E	2018E	2019E	2020E
Sales	5,383	5,798	5,369	6,036	22,585	5,480	6,344	5,880	6,482	24,187	25,574	26,399	26,927	27,696
Sweden	3,392	3,667	3,326	3,943	14,328	3,572	4,102	3,699	4,239	15,612	16,445	17,038	17,378	17,865
Norway	1,161	1,241	1,100	1,189	4,690	1,082	1,267	1,185	1,313	4,847	5,265	5,402	5,510	5,686
Finland	642	689	727	710	2,768	651	787	789	732	2,960	3,088	3,165	3,228	3,318
Denmark	93	90	93	83	359	93	95	88	76	352	359	370	377	385
Other	95	112	123	110	440	82	93	120	122	417	417	425	434	442
LFL growth	1%	4%	1%	4%	2.6%	6%	7%	7.9%	2.9%	5.8%	3.7%	3.6%	2.0%	2.0%
Sweden	8%	6%	3%	6%	5.8%	7%	8%	8.3%	3.2%	6.4%	4.0%	4.0%	2.0%	2.0%
Norway	(15%)	1%	(3%)	2%	(3.1%)	6%	6%	9.8%	2.6%	5.8%	4.0%	3.0%	2.0%	2.0%
Finland	(2%)	(2%)	(3%)	0%	(1.9%)	2%	8%	6.8%	2.5%	5.0%	3.0%	2.5%	2.0%	2.0%
Denmark	13%	4%			3.0%	2%	(1%)	(5.9%)	(4.3%)	(2.0%)	2.0%	3.0%	2.0%	2.0%
Other	4%	(2%)			(2.0%)	(10%)	(14%)	(1.8%)	(7.4%)	(8.0%)	0.0%	2.0%	2.0%	2.0%
UBS adj EBITA	380	426	495	553	1,853	391	554	539	606	2,091	2,225	2,336	2,413	2,587
Adj EBITA	386	432	501	559	1,878	397	560	546	612	2,116	2,249	2,360	2,438	2,611
Sweden	368	419	426	516	1,729	391	522	451	561	1,925	2,073	2,153	2,204	2,290
Norway	22	5	41	33	101	13	25	60	39	137	169	191	211	246
Finland	9	22	37	22	91	10	34	45	22	111	122	133	142	159
Denmark	9	6	11	7	33	7	9	10	6	32	33	34	35	35
Other	0	5	5	1	12	1	2	4	1	8	8	11	12	13
LTIP charge										0	(50)	(50)	(50)	(10)
Central	(22)	(25)	(20)	(20)	(87)	(24)	(32)	(25)	(17)	(98)	(106)	(112)	(115)	(121)
UBS adj EBITA margin					8.2%					8.6%	8.7%	8.8%	9.0%	9.3%
Adj EBITA margin	7.2%	7.5%	9.3%	9.3%	8.3%	7.2%	8.8%	9.3%	9.4%	8.7%	8.8%	8.9%	9.1%	9.4%
Sweden	10.9%	11.4%	12.8%	13.1%	12.1%	10.9%	12.7%	12.2%	13.2%	12.3%	12.6%	12.6%	12.7%	12.8%
Norway	1.9%	0.4%	3.7%	2.8%	2.2%	1.2%	2.0%	5.1%	2.9%	2.8%	3.2%	3.5%	3.8%	4.3%
Finland	1.4%	3.2%	5.1%	3.2%	3.3%	1.5%	4.3%	5.7%	3.0%	3.8%	4.0%	4.2%	4.4%	4.8%
Denmark	9.7%	6.6%	11.5%	8.3%	9.2%	7.9%	9.4%	11.6%	7.7%	9.2%	9.2%	9.2%	9.2%	9.2%
Other	0.0%	4.4%	4.3%	1.2%	2.7%	1.1%	1.9%	3.7%	1.0%	2.0%	2.0%	2.5%	2.8%	3.0%
Other items	0	(28)	0	(13)	(41)	0	0	(7)	(50)	(57)	0	0	0	0
EBITA	386	404	501	546	1,837	397	560	539	562	2,059	2,249	2,360	2,438	2,611
Acquired amortisation	(77)	(77)	(76)	(77)	(307)	(77)	(78)	(77)	(77)	(309)	(309)	(309)	(309)	(309)
Non-acqu amortisation	(6)	(6)	(6)	(6)	(25)	(6)	(6)	(6)	(6)	(25)	(25)	(25)	(25)	(25)
Interest	(316)	(318)	(299)	(341)	(1,274)	(302)	(232)	(188)	(434)	(1,157)	(186)	(186)	(186)	(186)
Pre-tax profit	(13)	3	120	121	232	12	244	267	44	568	1,729	1,840	1,918	2,091
Tax	(2)	(1)	(82)	51	(34)	(38)	(89)	(111)	(29)	(267)	(380)	(405)	(422)	(460)
Tax rate	-15%	33%	68%	-42%	14%	317%	36%	42%	65%	47%	22%	22%	22%	22%
Net income	(15)	2	39	172	198	(26)	155	156	15	301	1,349	1,435	1,496	1,631
Adjusted P&L														
Adj EBITA	386	432	501	559	1,878	397	560	546	612	2,116	2,249	2,360	2,438	2,611
Amortisation	(6)	(6)	(6)	(6)	(25)	(6)	(6)	(6)	(6)	(25)	(25)	(25)	(25)	(25)
Core interest	(183)	(185)	(124)	(177)	(668)	(141)	(71)	(25)	(108)	(344)	(186)	(186)	(186)	(186)
Pre-tax	197	241	371	376	1,185	250	483	514	498	1,747	2,039	2,150	2,227	2,401
Tax	(43)	(53)	(82)	(83)	(261)	(55)	(106)	(113)	(110)	(384)	(448)	(473)	(490)	(528)
Tax rate	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Adj net income	154	188	289	293	924	195	377	401	389	1,363	1,590	1,677	1,737	1,872
Shares (av, m)	436.3	436.3	436.3	436.3	436.3	436.3	436.3	436.3	436.3	436.3	436.3	436.3	436.3	436.3
EPS (reported)	(0.03)	0.00	0.09	0.40	0.45					0.69	3.09	3.29	3.43	3.74
EPS (UBS adj)	0.35	0.43	0.66	0.67	2.12					3.12	3.64	3.84	3.98	4.29
DPS										0.29	1.55	1.64	1.71	1.87

Source: Company data, UBS estimates

Figure 83: Ahlsell cash flow, 2015-20E

Year to Dec (SEKm)	2015	2016E	2017E	2018E	2019E	2020E
Adj EBITA	1,878	2,116	2,249	2,360	2,438	2,611
Depreciation	152	155	160	170	180	180
Working capital	60	120	(73)	(73)	(42)	(43)
LTIP charge	0	0	50	50	50	10
Other	(52)	(50)	(50)	(50)	(50)	(50)
Operating FCF	2,038	2,341	2,336	2,457	2,576	2,708
Capital expenditure	(171)	(193)	(205)	(211)	(215)	(222)
Fixed asset disposal	11	73	0	0	0	0
Interest paid	(595)	(525)	(163)	(163)	(163)	(163)
Tax paid	(26)	(200)	(411)	(436)	(453)	(491)
Other cash flows	(90)	(205)	0	0	0	0
Equity FCF	1,167	1,290	1,557	1,647	1,744	1,833
Acquisitions	(58)	(457)				
Disposals	0	0				
Dividend paid	0	0	(124)	(674)	(718)	(748)
Repayment of SH loan	0	0				
Share issues	0	0				
Other movement	229	(180)				
Change in net debt	1,338	654	1,433	973	1,027	1,085
Starting net debt	(9,192)	(7,854)	(7,200)	(5,768)	(4,795)	(3,768)
Change in net debt	1,338	654	1,433	973	1,027	1,085
Ending net debt	(7,854)	(7,200)	(5,768)	(4,795)	(3,768)	(2,683)
Adj EBITDA	2,030	2,271	2,409	2,530	2,618	2,791
Net debt/adj EBITDA (x)	3.9	3.2	2.4	1.9	1.4	1.0

Source: Company data, UBS estimates

Figure 84: Ahlsell sales and adj. EBITA bridge, 2015-20E

Year to Dec (SEKm)	2015	2016E	2017E	2018E	2019E	2020E
Starting sales	21,779	22,586	24,187	25,574	26,399	26,927
FX	(131)	(108)	325	(0)	0	0
M&A	215	271	333	0	0	0
Working days	147	144	(185)	(86)	0	230
Organic	576	1,295	914	912	528	539
Ending sales	22,586	24,187	25,574	26,399	26,927	27,696
Total growth	3.7%	7.1%	5.7%	3.2%	2.0%	2.9%
LFL sales growth	2.7%	5.8%	3.7%	3.6%	2.0%	2.0%
Working days	0.7%	0.6%	(0.8%)	(0.3%)	0.0%	0.9%
FX	(0.6%)	(0.5%)	1.3%	(0.0%)	0.0%	0.0%
M&A	1.0%	1.2%	1.4%	0.0%	0.0%	0.0%
Starting adj EBITA	1,764	1,878	2,116	2,249	2,360	2,438
FX	(4)	(2)	10	0	0	0
M&A	10	21	23	0	0	0
Working days	41	42	(17)	(25)	0	67
Organic	67	177	118	136	78	107
Ending adj EBITA	1,878	2,116	2,249	2,360	2,438	2,611
Total growth	6.5%	12.7%	6.3%	4.9%	3.3%	7.1%
LFL adj EBITA growth	3.8%	9.4%	5.6%	6.0%	3.3%	4.4%

Source: Company data, UBS estimates

Buzzi Unicem

Can Buzzi deliver on higher expectations?

Will the US deliver on higher expectations?

We remain positive on Buzzi's outlook over the coming years and see further upside on the share price to our new PT of €26/sh. While the shares have re-rated strongly in the last 2 months to 7.4x EV/EBITDA'17E (12% discount to large-cap peers), we note the high FCF Yield of 6%. We believe most of the re-rating has been on the back of higher volume growth expectations in the US (~60% of EBITDA'16E) which we incorporate into our estimates at 4% y/y in FY17E and 5% y/y going forward. The US remains our preferred global cement exposure, due to (1) potential for a material increase in infrastructure spending and (2) good pricing momentum with most players having already announced price increases for FY17 (UBSE for Buzzi: +4% y/y). At the current share price, the market is pricing in Buzzi's US assets at 9x EV/EBITDA'17E (or \$370/tn) and the European assets at 3x, which allows for further upside potential.

Will 2017 see a game-changing turnaround in Italy?

We expect Buzzi's European markets to keep gradually recovering, with Italy being the key market for earnings potential. We believe FY17 could finally be the start of a meaningful turnaround in Italy, where recent consolidation moves by peers suggest better prospects for capacity rationalization and more pricing discipline. We estimate Buzzi will reach break-even in FY19E but we recognize upside risk to our estimates if capacity utilisation improves faster than we anticipate, from a low base of around 50%.

FCF optionality: Italian consolidation, minority buy-outs, higher dividend?

Without any further expansion capex planned, we believe the next step for Buzzi's high FCF generation might be to: (1) participate in Italy's market consolidation, following last year's unsuccessful bid for Sacchi of €120m; (2) reduce the dividend leakage from its Mexican subsidiary, which is net cash and a high FCF generator; (3) increase the dividend payout ratio from the current 9% to 25-30%. We calculate €900m of fire-power in FY17E if Buzzi was to re-leverage from 1.1x Net Debt/EBITDA'17E to 2.5x (last 5 years average).

Valuation: Buy, PT €26.0 (up from €23.0)

Our PT is based on DCF using WACC of 8%, and moves up on 2% EPS upgrades over FY17-20E and a higher LT EBIT margin assumption of 15% (from 14.25%).

Equities

Italy
Building Materials

12-month rating **Buy**

12m price target **€26.00**
Prior: €23.00

Price **€23.47**

RIC: BZU.MI **BBG:** BZU IM

Trading data and key metrics

52-wk range	€24.09-12.10
Market cap.	€4.38bn/US\$4.67bn
Shares o/s	165m (ORD)
Free float	42%
Avg. daily volume ('000)	836
Avg. daily value (m)	€17.6
Common s/h equity (12/16E)	€2.73bn
P/BV (12/16E)	1.8x
Net debt / EBITDA (12/16E)	1.7x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/16E	1.07	1.07	NM	1.08
12/17E	1.39	1.37	-1	1.33
12/18E	1.64	1.63	-1	1.59

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	2,753	2,506	2,662	2,670	2,875	3,065	3,255	3,454
EBIT (UBS)	238	235	284	350	413	488	562	636
Net earnings (UBS)	6	154	134	221	282	335	396	451
EPS (UBS, diluted) (€)	0.03	0.75	0.65	1.07	1.37	1.63	1.93	2.19
DPS (€)	0.05	0.05	0.08	0.10	0.35	0.40	0.48	0.55
Net (debt) / cash	(1,076)	(1,063)	(1,030)	(951)	(706)	(437)	(106)	261
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	8.6	9.4	10.7	13.1	14.4	15.9	17.3	18.4
ROIC (EBIT) %	6.2	6.6	8.0	9.5	11.0	13.0	15.0	17.0
EV/EBITDA (core) x	8.6	6.9	6.4	8.7	7.3	6.1	5.1	4.3
P/E (UBS, diluted) x	NM	16.5	21.7	21.9	17.1	14.4	12.2	10.7
Equity FCF (UBS) yield %	4.5	4.9	1.7	3.2	6.1	7.8	9.4	10.7
Net dividend yield %	0.4	0.4	0.5	0.4	1.5	1.7	2.1	2.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €23.47 on 19 Jan 2017 16:02 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Will the US continue to deliver double-digit EBITDA growth?**

Yes. We estimate 11% y/y EBITDA LFL growth in FY16E, while incorporating -0.8% volume growth and +6% pricing. Going forward, we estimate 11% y/y in FY17E and 13% in FY18E, driven by 4-5% volume and pricing, as well as €18-27m annual cost savings from the newly expanded Maryneal plant.

[Buzzi Unicem – "US deep dive: Anticipating a multi-year upturn" 30 November 2016 →](#)

Q: What is the medium term EBITDA potential in Italy?

We believe 2017 could be the start of a turnaround in Italy, driven by an improved pricing environment, from recent consolidation moves by Heidelberg/Italcementi and Cementir/Sacci. We estimate Buzzi's Italian EBITDA to go from €-30m in FY16E to break-even in FY19E

Q: How much could Buzzi potentially spend on M&A through FCF generation?

We estimate €900m of fire power in FY17E if Buzzi re-leverages from 1.1x Net Debt/EBITDA to 2.5x. We think the next step could be small bolt-on acquisitions in Italy or further vertical integration. Reducing the dividend leakage from its Mexican subsidiary (33% equity stake) might be an option, as the company runs a net cash balance and will potentially keep paying a high dividend stream.

UBS VIEW

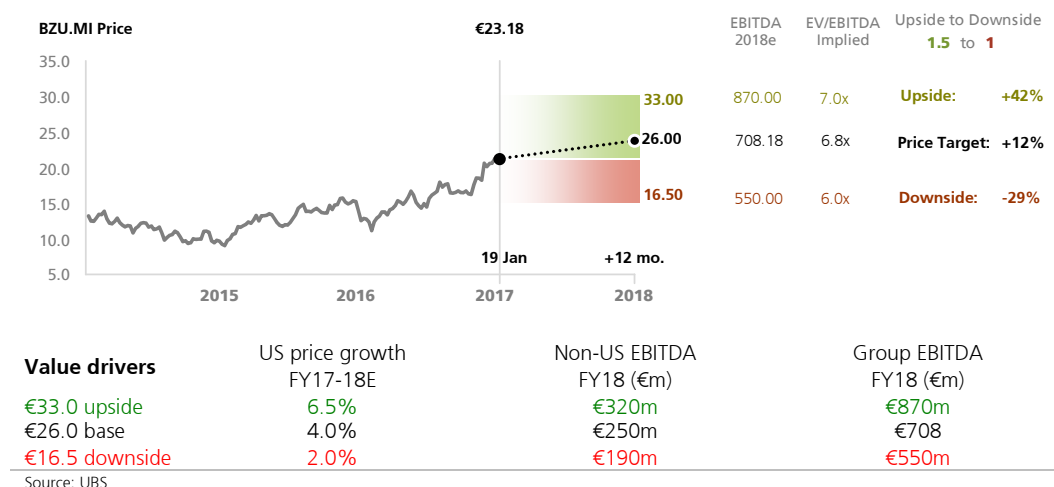
Buzzi remains highly geared to the US (over c60% of 2016E EBITDA) which is seeing strong pricing dynamics. In addition, the company offers optionality on market repair in Italy and growth in Mexico. While arguably the shares should trade at a discount to larger diversified peers due to low liquidity (2 share classes and low free float), we believe the current discount to the sector is too wide.

EVIDENCE

EBITDA still showing strong growth: US pricing cycle, new cost savings and European stabilization paves the way towards double-digit EBITDA growth in 2016-18E. FCF yield for FY17E at 6%, as capex requirements fall following the completion of the capacity expansion in the US.

WHAT'S PRICED IN?

Using a SoP based valuation methodology, the current share price effectively assumes investors are willing to pay 9.0x EV/EBITDA'17E EBITDA for the US business, and attribute 3.0x for the remaining European assets. 9.0x EV/EBITDA for the US business means US\$370/t which is broadly in line with previous US transactions, while there is an option for a broader European recovery.

UPSIDE / DOWNSIDE SPECTRUM**COMPANY DESCRIPTION**

Buzzi Unicem is an Italian based manufacturer of cement (60% of sales) and ready-mix concrete (40%) with operations in 12 countries, in Europe and America.

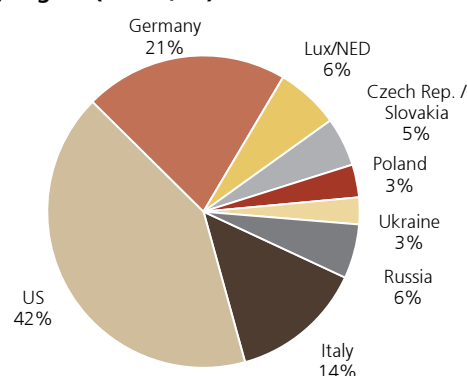
COMPANY DESCRIPTION

Buzzi Unicem is an Italian manufacturer of cement (60% of sales) and ready-mix concrete (40%) with operations in 12 countries, mainly in mature Europe and America. The company has established strong market positions in Italy (#2), Germany (#2), several eastern European markets and, most importantly, the US (#5). The Buzzi family owns 47% of the total share capital and has 58.6% of voting rights.

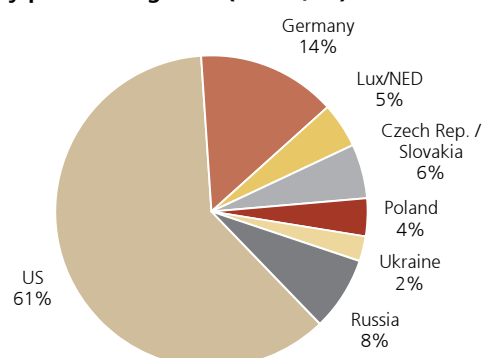
Industry outlook

The cement industry tends to be driven by local economic conditions. Generally, capacity utilisations globally are low in mature markets. This has constrained pricing power in the industry although recently, against subdued energy cost inflation, has become less of an issue. The key concern remains further slowdown in emerging markets (especially Russia) and a lack of European recovery. We currently expect a stabilisation in European cement markets after 6-7 very difficult years and expect the recovery in the US to continue, which should result in a tightening of the supply and demand balance.

Revenues by region (FY16E, %)



EBITDA by product segment (FY16E, %)



Source: UBS estimates

Figure 85: Buzzi Unicem profit and loss, 2015-20E

Year to December (€m)	Q115	Q215	Q315	Q415	FY15	Q116	Q216	Q316	Q416E	FY16E	FY17E	FY18E	FY19E	FY20E
Sales	513	725	760	664	2,662	540	721	737	675	2,674	2,864	3,030	3,185	3,342
Italy	84	105	94	98	381	84	103	92	94	373	392	415	440	462
US	205	290	330	285	1,109	244	287	302	299	1,131	1,265	1,366	1,448	1,535
Germany	115	154	160	144	574	112	159	158	142	572	578	589	604	619
Lux/NED	36	48	42	43	169	38	50	44	46	178	187	194	202	210
Czech Rep. / Slovakia	21	39	41	35	136	22	39	41	35	137	142	147	153	159
Poland	18	31	28	21	97	15	29	30	19	92	94	98	102	107
Ukraine	10	19	23	17	70	9	23	29	15	76	78	80	82	84
Russia	34	50	53	31	167	26	41	51	34	153	166	177	189	201
Eliminations	(8)	(10)	(11)	(10)	(39)	(8)	(10)	(10)	(10)	(38)	(37)	(36)	(35)	(35)
EBITDA (ex-CO2)	23	142	187	126	478	47	172	194	128	541	627	701	768	830
EBITDA (recurring)	24	142	187	127	479	51	172	194	128	545	627	701	768	830
Italy	(12)	(6)	(2)	(18)	(37)	(8)	(2)	(7)	(19)	(36)	(24)	(13)	(0)	5
US	30	76	110	100	316	46	97	112	101	355	414	464	505	549
Germany	(1)	25	29	23	75	(0)	30	32	22	84	86	89	92	95
Lux/NED	(2)	8	8	7	20	8	6	7	7	27	29	31	33	35
Czech Rep	1	11	12	7	31	0	13	13	7	33	34	36	37	39
Poland	(0)	10	10	(0)	20	0	12	10	1	23	24	25	26	28
Ukraine	(1)	3	3	(0)	4	(1)	6	8	3	15	16	16	16	17
Russia	9	15	17	8	48	6	11	21	7	44	49	53	58	63
EBITDA margin (recurring) (%)	4.7	19.6	24.6	19.1	18.0	9.4	23.8	26.3	19.0	20.4	21.9	23.1	24.1	24.8
Italy	(14.3)	(5.8)	(1.7)	(17.8)	(9.8)	(8.9)	(1.7)	(8.0)	(20.3)	(9.6)	(6.2)	(3.1)	(0.1)	1.1
US	14.7	26.2	33.5	35.1	28.5	18.9	33.7	37.0	33.7	31.4	32.7	34.0	34.9	35.8
Germany	(0.6)	16.1	17.8	15.7	13.1	(0.2)	18.8	19.9	15.7	14.6	14.9	15.1	15.2	15.4
Lux/NED	(5.6)	16.1	17.8	15.2	11.7	19.9	12.0	15.9	14.2	15.2	15.7	16.0	16.3	16.5
Czech Rep. / Slovakia	4.8	29.0	30.2	19.3	23.2	1.4	32.0	31.1	20.2	23.8	24.1	24.3	24.5	24.7
Poland	(1.1)	33.2	36.8	(0.5)	20.9	0.0	40.2	34.2	4.4	24.7	25.3	25.5	25.7	25.9
Ukraine	(13.6)	15.3	12.1	(1.7)	5.7	(13.3)	25.7	25.9	19.2	19.8	19.9	20.0	20.0	20.1
Russia	25.2	30.6	31.8	25.9	29.0	21.9	26.9	40.2	20.4	29.1	29.3	30.0	30.6	31.2
Depreciation	(46)	(49)	(49)	(50)	(195)	(46)	(47)	(50)	(56)	(200)	(215)	(215)	(215)	(215)
Operating profit	(19)	94	138	77	284	4	125	143	72	345	412	486	553	615
Operating margin (%)	(3.7)	12.9	18.2	11.6	10.7	0.8	17.3	19.4	10.7	12.9	14.4	16.0	17.4	18.4
Non-recurring	6	(4)	0	0	(6)	3	(3)	0	0	0	0	0	0	0
Impairments					(14)	0	0							
EBIT	(14)	90	138	77	264	8	121	143	72	345	412	486	553	615
EBIT margin (%)	(2.7)	12.4	18.2	11.6	9.9	1.5	16.8	19.4	10.7	12.9	14.4	16.0	17.4	18.4
Gains on disposals	0	6	0	0	6	0	(0)	0						
Net interest	(43)	(9)	(32)	(21)	(105)	(14)	(23)	(41)	(8)	(86)	(52)	(52)	(38)	(35)
Associates	16	14	20	7	57	14	22	24	10	71	67	69	72	74
PBT (pre-exceptionals)	(46)	99	126	63	236	8	121	126	74	329	427	503	586	654
PBT (post-exceptionals)	(41)	100	126	63	222	9	121	126	74	329	427	503	586	654
Tax	5	(22)	(41)	(27)	(94)	(2)	(36)	(37)	(34)	(109)	(141)	(166)	(194)	(216)
Tax (%)	12%	22%	32%	42%	42%	18%	30%	29%		33%	33%	33%	33%	33%
Net income before minorities	(36)	78	85	36	128	7	84	89	40	221	286	337	393	438
Minorities	0	(1)	(1)	(1)	(3)	(0)	(1)	(1)	0	(2)	(3)	(3)	(3)	(4)
Net income (reported)	(36)	77	85	36	125	7	84	88	41	218	283	334	390	435
EPS (reported)	(0.18)	0.39	0.42	0.17	0.60	0.03	0.00	0.43		1.06	1.37	1.62	1.89	2.11
EPS savings shares	(0.18)	0.39	0.42	0.17	0.63	0.03	0.00	0.43		1.08	1.40	1.65	1.92	2.13

Source: Company data, UBS estimates

Figure 86: Buzzi Unicem cash flow and net debt summary FY15-20E

Cash flow	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Operating profit	284	350	413	488	562	636
Depreciation	195	200	215	220	220	220
Working capital	(9)	(6)	(22)	(29)	(29)	(30)
Other	(25)	(10)	(10)	(10)	(10)	(10)
Operating cash flow	445	534	596	669	743	817
Dividends from associates	40	50	51	70	74	78
Net Interest paid	(65)	(75)	(41)	(41)	(27)	(24)
Tax paid	(68)	(110)	(141)	(167)	(197)	(224)
Capex	(305)	(260)	(200)	(190)	(180)	(180)
Equity free cash flow	47	138	265	341	413	466
Acquisitions	1	(44)				
Divestments	19					
Total dividends	(11)	(15)	(21)	(72)	(82)	(99)
FX	23					
Other	(45)					
Starting net (debt) / cash	(1,063)	(1,030)	(951)	(706)	(437)	(106)
Change in net debt	34	79	245	269	331	367
Closing net (debt) / cash	(1,030)	(951)	(706)	(437)	(106)	261
Net Debt / EBITDA (x)	2.2x	1.7x	1.1x	0.6x	0.1x	-0.3x
Gearing (%)	40.3%	34.4%	23.3%	13.3%	2.9%	-6.6%

Source: Company data, UBS estimates

Figure 87: Buzzi Unicem sales and EBITDA quarterly bridges FY15-20E

Sales bridges	FY15	Q116	Q216	Q316	Q416E	FY16E	FY17E	FY18E	FY19E	FY20E
Start	2,535	522	735	771	674	2,701	2,708	2,914	3,105	3,295
FX	101	(1)	(21)	(11)	7	(25)	57	(1)	0	0
Scope	29	(2)	(3)	(1)	0	(5)	0	0	0	0
LfL	37	29	21	(13)	(0)	36	149	192	190	199
Volume	(10)	30	16	(22)	(1)	23	73	104	112	119
Price	49	10	15	25	1	51	76	88	79	80
Mix	(3)	(11)	(10)	(16)	(0)	(37)	0	0	0	0
Other	(0)	0	(0)	1	0	1	0	0	0	0
End	2,701	549	731	747	681	2,708	2,914	3,105	3,295	3,494
Sales growth (%)										
FX	4.0%	(0.2%)	(2.8%)	(1.4%)	1.1%	(0.9%)	2.1%	(0.0%)	0.0%	0.0%
Scope	1.1%	(0.3%)	(0.4%)	(0.1%)	0.0%	(0.2%)	0.0%	0.0%	0.0%	0.0%
LfL	1.5%	5.5%	2.8%	(1.7%)	(0.0%)	1.3%	5.5%	6.6%	6.1%	6.0%
Volume	(0.4%)	5.7%	2.2%	(2.9%)	(0.1%)	0.8%	2.7%	3.6%	3.6%	3.6%
Price	2.0%	1.8%	2.1%	3.2%	0.2%	1.9%	2.8%	3.0%	2.5%	2.4%
Mix	(0.1%)	(2.0%)	(1.4%)	(2.0%)	(0.1%)	(1.4%)	0.0%	0.0%	0.0%	0.0%
Other	(0.0%)	0.1%	(0.0%)	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	6.6%	5.1%	(0.5%)	(3.1%)	1.1%	0.2%	7.6%	6.6%	6.1%	6.0%
EBITDA bridges	FY15	Q116	Q216	Q316	Q416E	FY16E	FY17E	FY18E	FY19E	FY20E
Start	423	27	140	185	126	473	550	628	708	782
FX	35	0	(5)	(3)	3	(5)	18	(0)	0	0
Scope	4	0	0	0	0	0	0	0	0	0
LfL	13	23	38	4	10	74	61	80	74	75
Volume	1	11	6	(8)	(0)	9	26	38	41	43
Price	50	10	15	25	1	51	76	88	79	80
Cost	(38)	3	16	(13)	9	15	(41)	(46)	(46)	(48)
Other	(0)	0	(1)	7	0	7	0	0	0	0
End	473	51	172	194	134	550	628	708	782	857
EBITDA growth (%)										
FX	8.2%	1.1%	(3.9%)	(1.5%)	2.2%	(1.0%)	3.3%	(0.0%)	0.0%	0.0%
Scope	0.9%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LfL	9.0%	1.1%	(3.8%)	(1.5%)	(1.5%)	(1.0%)	3.3%	(0.0%)	0.0%	0.0%
Volume	3.0%	84.5%	26.9%	2.3%	7.6%	15.7%	11.0%	12.8%	10.4%	9.6%
Price	0.3%	39.7%	4.6%	(4.2%)	(0.4%)	1.9%	4.8%	6.0%	5.7%	5.6%
Cost	11.7%	35.4%	10.8%	13.5%	0.9%	10.7%	13.8%	14.0%	11.2%	10.2%
Other	(9.1%)	9.5%	11.5%	(6.9%)	7.1%	3.1%	(7.5%)	(7.3%)	(6.5%)	(6.2%)
Total	(0.0%)	1.4%	(0.5%)	3.7%	0.0%	1.4%	0.0%	0.0%	0.0%	0.0%

Source: UBS estimates

CRH

At the epicentre of growth

At the epicentre of growth

We continue to favour CRH in the large-cap building materials space. CRH's exposure to the US (c55% of EBITDA) should benefit from continued volume and price momentum over the coming years. Europe remains significantly depressed and has been on a slow recovery path in 2016 which we expect to continue. The biggest opportunity for CRH is a material increase in US infrastructure spending, an end market that accounts for around 18% of group EBITDA. However, it also poses the most significant risk if hopes of increased spend under a new US administration end up disappointing. Valuation multiples have re-rated and the shares now command somewhat of a premium on EV/EBITDA of 8.8x and 17x P/E 2017E vs the sector and closes European peers, but still materially trail "purer" plays in the US. We would flag the strong FCF generation with the shares yielding one of the highest FCF yields of 6.6% in 2017E.

US momentum set to continue

Over 2016E, we expect CRH to have posted 11% LFL EBITDA growth driven by Europe +4% and Americas +15%. We expect similar growth of 10% in 2017E, although more balanced between the two geographies. We now factor in higher growth in 2018/19E in the US, raising our volume growth estimates by around 1.5% to reflect some additional US infrastructure spend. We recognise the ultimate outcome is highly uncertain and elect to only factor on marginal better growth before seeing policy specifics.

Good pricing power; balance sheet optionality

With costs set to rise in 2017E as commodity prices have rebounded, we look for companies with good pricing power. We believe CRH provides this, in particular in the US. The balance sheet provides additional optionality at 1.8x 2016E net debt/EBITDA and 1.2x 2017E. We calculate re-leveraging to 2.1x would result in M&A firepower of €4.5bn and EPS accretion of 18%. After a year of integration following €8bn EV of deals in 2015, we expect CRH to return to acquisitions in 2017, with the focus likely on lightside products and distribution to re-balance the business following material spend on the heavy side in 2015.

Valuation: Buy, PT 3,150p (up from 2,800p)

Our PT is based on DCF using LT EBIT margins of 9.5% and WACC of 7.75%. Our PT increases due to revised estimates and devaluation of Sterling.

Equities

United Kingdom
Building Materials

12-month rating **Buy**

12m price target **3,150p**
Prior: 2,800p

Price **2,792p**

RIC: CRH.L **BBG:** CRH LN

Trading data and key metrics

52-wk range	2,878p-1,637
Market cap.	£23.2bn/US\$28.6bn
Shares o/s	830m (ORD)
Free float	100%
Avg. daily volume ('000)	1,858
Avg. daily value (m)	£50.6
Common s/h equity (12/16E)	€13.3bn
P/BV (12/16E)	2.0x
Net debt / EBITDA (12/16E)	1.8x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/16E	1.52	1.48	-2	1.53
12/17E	1.86	1.89	1	1.84
12/18E	2.17	2.27	5	2.07

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	18,031	18,912	23,635	27,671	29,236	30,776	32,312	33,646
EBIT (UBS)	750	966	1,321	2,063	2,540	2,914	3,219	3,485
Net earnings (UBS)	434	590	776	1,227	1,575	1,892	2,195	2,446
EPS (UBS, diluted) (€)	0.60	0.80	0.95	1.48	1.89	2.27	2.63	2.94
DPS (€)	0.63	0.63	0.63	0.64	0.68	0.70	0.73	0.75
Net (debt) / cash	(2,973)	(2,525)	(6,618)	(5,591)	(4,410)	(3,061)	(1,490)	272
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	4.2	5.1	5.6	7.5	8.7	9.5	10.0	10.4
ROIC (EBIT) %	5.9	8.1	8.4	10.7	13.3	15.1	16.7	18.1
EV/EBITDA (core) x	10.0	10.2	12.2	10.7	8.7	7.6	6.6	5.8
P/E (UBS, diluted) x	28.1	24.0	26.2	22.1	17.1	14.2	12.3	11.0
Equity FCF (UBS) yield %	5.9	6.6	7.6	5.0	6.7	7.4	8.3	9.1
Net dividend yield %	3.7	3.3	2.5	2.0	2.1	2.2	2.2	2.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 2,792p on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Are earnings already near a cyclical peak?

No. We think earnings remain well below prior cyclical peaks. Overall we think Europe is still near trough and the US has partially recovered though volumes remain well below prior peaks.

[CRH – "Plenty of road ahead \(Part #2\)" 26 August 2016 →](#)

Q: How accretive could M&A be?

From an earnings perspective, we believe a re-leverage to 2.1x could add up to 18% to EPS. Value accretion clearly would be less material and would rely on the realisation of synergies over time. CRH has a long-term track record of successful acquisitive growth and we expect it to return to the M&A market in 2017, after having successfully deleveraged the balance sheet in 2016

Q: What impact would enhanced fiscal spend have on CRH

CRH derives around 30% of EBITDA from infrastructure, 12% in Europe and 18% in the US. As a result, on UBSe, 10% additional infrastructure spend should enhance revenues by c3% at the group level, EBITDA by 6-7% (assuming 25% drop through) and EPS by 20%, using 2016E as a base.

UBS VIEW

We still think CRH offers value as investors look out to normalised earnings, cyclical recovery and upside to the full integration benefits of the LafargeHolcim assets as well as optionality on further value accretive M&A.

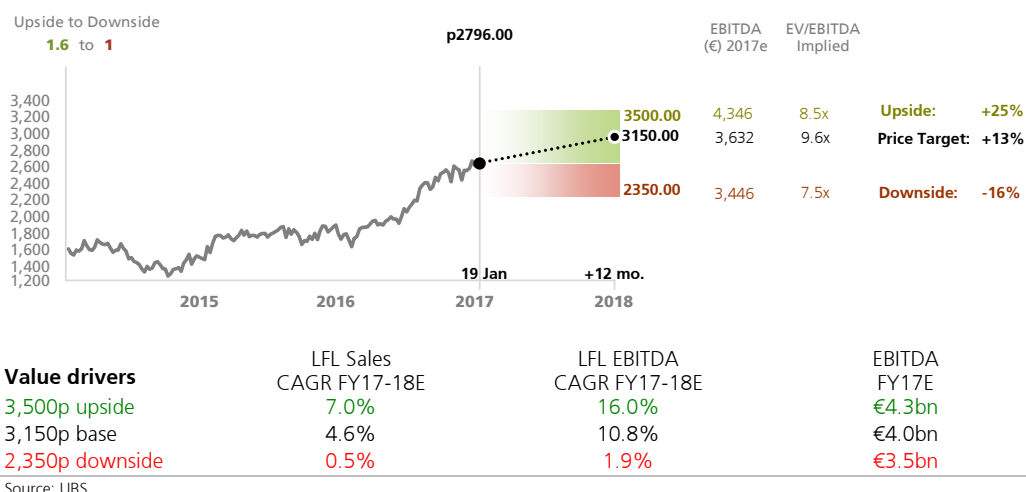
EVIDENCE

We calculate European EBITDA to be still down c50% from prior peaks and Americas c25%, suggesting CRH still has material road ahead in terms of recovery potential.

WHAT'S PRICED IN?

We believe valuation partly discounts a cyclical recovery given shares trading on 8.8x 2017E EV/EBITDA (LT avg 7x) and P/E of 17x (LT avg 14x). However we believe the EFCF yield of 6.6%, which has the potential to be materially enhanced through M&A, remains attractive and we believe the share can grow into its multiple.

UPSIDE / DOWNSIDE SPECTRUM



COMPANY DESCRIPTION

CRH is an international building materials group active in 31 countries. The group manufactures cement, aggregates, asphalt and various downstream products, as well as distributing building materials.

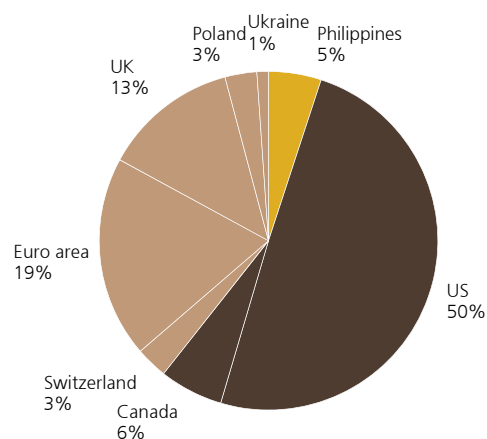
COMPANY DESCRIPTION

CRH is an international building materials group active in 31 countries. The group manufactures cement, aggregates, asphalt and various downstream products, as well as distributing building materials. The group's revenues are broadly equally split between Europe and North America. The company has a long history of acquisitive growth and has traditionally focused on bolt-on acquisitions. CRH has recently agreed to acquire EUR6.5bn (EV) of assets from Lafarge/Holcim, which will materially enlarge its scale.

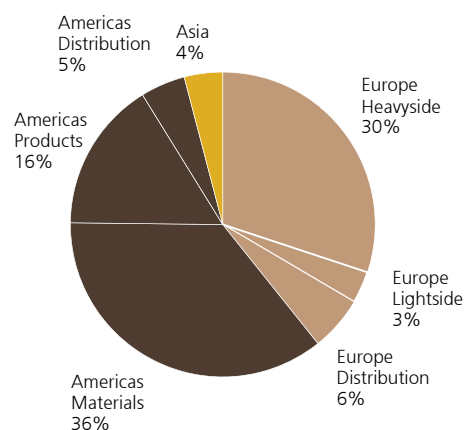
Industry outlook

The outlook for CRH's end markets are improving overall. We expect decent growth in the US to continue in 2016, driven by private construction and a slow recovery in government funded construction projects. Pricing power is robust in the US and we expect further pricing gains in 2016. CRH's European portfolio remains more mixed, with expectations for modest growth overall. Pricing is likely going to remain subdued given generally low utilisation rates across the board.

EBITDA by region (2015PF, %)



EBITA by segment (2015PF, %)



Source: Company data

Figure 88: CRH divisional profit and loss, 2015-20E

Year to Dec (€m)	H115	H215	2015	H116	H216E	2016E	2017E	2018E	2019E	2020E
Sales	12,348	14,790	27,138	12,693	14,978	27,671	29,236	30,776	32,312	33,646
Europe Heavyside	3,721	3,795	7,516	3,637	3,713	7,350	7,290	7,572	7,855	8,121
Europe Lightside	475	486	961	477	510	987	1,034	1,076	1,119	1,163
Europe Distribution	2,010	2,148	4,158	1,982	2,096	4,078	4,180	4,347	4,521	4,702
Americas Materials	2,731	4,813	7,544	2,975	4,913	7,888	8,660	9,308	9,928	10,429
Americas Products	2,147	2,061	4,208	2,249	2,216	4,465	4,908	5,154	5,412	5,628
Americas Distribution	987	1,242	2,229	1,099	1,283	2,382	2,598	2,715	2,838	2,923
Asia	277	245	522	274	248	522	565	604	641	679
Organic EBITDA growth (%)				18.7	6.5	10.6	9.6	10.5	7.8	6.3
Europe Heavyside				3.0	5.0	4.0	7.0	8.0	7.5	6.5
Europe Lightside				11.1	7.2	9.0	5.4	5.3	5.2	5.2
Europe Distribution				5.7	1.7	2.9	4.9	7.7	7.4	7.2
Americas Materials				69.6	7.4	15.8	12.4	15.0	8.7	6.7
Americas Products				18.9	7.7	12.8	8.2	7.4	7.2	5.7
Americas Distribution				26.3	4.4	10.4	6.9	6.7	6.6	4.3
Asia				7.4	9.5	8.3	9.1	8.3	6.6	6.5
EBITDA	934	1,818	2,752	1,120	2,009	3,129	3,632	4,014	4,327	4,601
Europe Heavyside	380	389	769	362	437	799	878	948	1,019	1,086
Europe Lightside	46	54	100	49	61	110	117	123	130	137
Europe Distribution	54	117	171	88	119	207	217	234	251	269
Americas Materials	136	864	1,000	251	947	1,198	1,445	1,661	1,807	1,928
Americas Products	222	250	472	264	280	544	664	713	765	808
Americas Distribution	38	102	140	48	108	156	174	186	198	206
Asia	58	42	100	58	56	114	136	147	157	167
EBITDA margin (%)	7.6	12.3	10.1	8.8	13.4	11.3	12.4	13.0	13.4	13.7
Europe Heavyside	10.2	10.3	10.2	10.0	11.8	10.9	12.0	12.5	13.0	13.4
Europe Lightside	9.7	11.1	10.4	10.3	12.1	11.2	11.3	11.5	11.6	11.7
Europe Distribution	2.7	5.4	4.1	4.4	5.7	5.1	5.2	5.4	5.6	5.7
Americas Materials	5.0	18.0	13.3	8.4	19.3	15.2	16.7	17.8	18.2	18.5
Americas Products	10.3	12.1	11.2	11.7	12.6	12.2	13.5	13.8	14.1	14.4
Americas Distribution	3.9	8.2	6.3	4.4	8.4	6.5	6.7	6.8	7.0	7.1
Asia	20.9	17.1	19.2	21.2	22.6	21.9	24.1	24.4	24.5	24.6

Source: Company data, UBS estimates

Figure 89: CRH profit and loss, 2015-20E

Year to December (€m)	H1	H2	2015	H1	H2	2016E	2017E	2018E	2019E	2020E
Sales	9,370	11,847	23,635	12,693	14,978	27,671	29,236	30,776	32,312	33,646
EBIT	189	1,132	1,321	588	1,475	2,063	2,540	2,914	3,219	3,485
Margin (%)	2.0	9.6	5.6	4.6	9.8	7.5	8.7	9.5	10.0	10.4
Interest - group	(161)	(190)	(351)	(206)	(183)	(389)	(366)	(336)	(269)	(190)
Associates (PAT)	1	43	44	5	25	30	33	38	43	43
Profit on disposal of assets	18	21	39	20	19	39	30	30	30	30
Exceptional items	16	(36)	(20)	0	(30)	(30)	0	0	0	0
PTP	63	970	1,033	407	1,306	1,713	2,237	2,646	3,023	3,368
Tax	(16)	(288)	(304)	(114)	(374)	(488)	(626)	(714)	(786)	(876)
Tax rate (%)	25.4	29.7	29.4	28.0	28.6	28.5	28.0	27.0	26.0	26.0
Net income	46	678	724	279	918	1,197	1,575	1,892	2,195	2,446
Pre-ex PTP	47	1,006	1,053	407	1,336	1,743	2,237	2,646	3,023	3,368
Tax (pre exceptional)	(12)	(260)	(272)	(114)	(374)	(488)	(626)	(714)	(786)	(876)
Tax rate (pre exceptional (%))	25.4	25.8	25.8	28.0	28.0	28.0	28.0	27.0	26.0	26.0
Minorities	(1)	(4)	(5)	(14)	(14)	(28)	(35)	(39)	(43)	(46)
Preference dividend	0	0	0	0	0	0	0	0	0	0
Net income (pre-exceptional)	34	742	776	279	948	1,227	1,575	1,892	2,195	2,446
Stated EPS (€c)	5.7	82.6	89.1	33.8	110.2	144.4	189.1	227.2	263.5	293.8
Pre exceptional PTP	47	1,006	1,053	407	1,336	1,743	2,237	2,646	3,023	3,368
Pre exceptional EPS (€c)	4.2	90.5	95.6	33.8	113.8	148.0	189.1	227.2	263.5	293.8
DPS (€c)	18.5	44.0	62.5	18.8	45.2	64.0	67.5	70.0	72.5	75.0

Source: Company data, UBS estimates

Figure 90: CRH cash flow, 2015-20E

Year to December (€m)	2015	2016E	2017E	2018E	2019E	2020E
Operating profit	1,321	2,063	2,540	2,914	3,219	3,485
Depreciation and amortisation	898	1,066	1,092	1,100	1,108	1,116
Working capital	585	(125)	(73)	(108)	(108)	(93)
Other	(16)	(30)	(50)	(50)	(50)	(50)
Operating cash flow (pre tax/interest)	2,788	2,974	3,509	3,856	4,169	4,458
Interest	(332)	(338)	(313)	(283)	(216)	(137)
Dividends received	53	30	35	40	40	40
Dividends to minorities	(4)	(20)	(21)	(27)	(29)	(32)
Tax	(235)	(488)	(626)	(714)	(786)	(876)
Operating cash flow	2,270	2,158	2,583	2,872	3,178	3,453
Capital expenditure	(882)	(900)	(950)	(1,045)	(1,108)	(1,172)
Acquisitions	(8,026)	(173)	(60)	(60)	(60)	(60)
Disposals	1,352	75	0	0	0	0
Sale of fixed assets	142	88	150	150	150	150
Other	0	0	0	0	0	0
Share issues	1,779	176	0	0	0	0
Dividends paid	(511)	(523)	(542)	(568)	(589)	(610)
Translation	(217)	126	0	0	0	0
Inflow / (outflow)	(4,093)	1,027	1,182	1,349	1,571	1,761
Net debt (start)	(2,525)	(6,618)	(5,591)	(4,410)	(3,061)	(1,490)
Change in net debt	(4,093)	1,027	1,182	1,349	1,571	1,761
Net debt (end)	(6,618)	(5,591)	(4,410)	(3,061)	(1,490)	272
Year to Dec (€m)	2015	2016E	2017E	2018E	2019E	2020E
EBITDA	2,219	3,129	3,632	4,014	4,327	4,601
Working capital	585	(125)	(73)	(108)	(108)	(93)
Other (incl. pension)	(16)	(30)	(50)	(50)	(50)	(50)
Net cash from operations	2,788	2,974	3,509	3,856	4,169	4,458
Interest	(332)	(338)	(313)	(283)	(216)	(137)
Tax	(235)	(488)	(626)	(714)	(786)	(876)
Dividends received/paid to minorities	53	10	14	13	11	8
Capital expenditure	(882)	(900)	(950)	(1,045)	(1,108)	(1,172)
Fixed asset sales	142	88	150	150	150	150
Equity free cash flow	1,534	1,346	1,783	1,977	2,220	2,431
Cash flow yield (%)	7.5	5.0	6.6	7.3	8.2	9.0

Source: Company data, UBS estimates

Figure 91: CRH sales and EBITDA bridge

Reconciliation of Sales	2015	H116	H216E	2016E	2017E	2018E	2019E	2020E
Beginning	18,912	9,370	14,265	23,635	27,671	29,236	30,776	32,312
Forex	2,198	(255)	(217)	(472)	465	(0)	0	0
Annualised LH/CRL effect		2,978	525	3,503				
Restated sales	21,110	12,093	14,573	26,666	28,136	29,236	30,776	32,312
Acquisitions	2,738	68	87	155	67	0	0	0
Divestments	(855)	(317)	(80)	(397)	(14)	0	0	0
<i>Organic</i>	642	850	397	1,247	1,047	1,540	1,536	1,333
Ending	23,635	12,693	14,978	27,671	29,236	30,776	32,312	33,646
EBITDA bridge (€m)	FY15	H116	H216	FY16E	FY17E	FY18E	FY19E	FY20E
EBITDA start	1,641	555	1,664	2,219	3,129	3,632	4,014	4,327
Forex	218	(25)	(35)	(60)	63	(0)	0	0
Annualised LH/CRL effect		379	154	533				
Restated EBITDA	1,859	909	1,783	2,692	3,192	3,632	4,014	4,327
Acquisitions	215	16	9	24	25	0	0	0
Divestments	(100)	(9)	(8)	(17)	2	0	0	0
<i>Organic</i>	258	169	115	284	306	382	313	274
Restructuring costs	22	8	112	120	107	0	0	0
Carbon profits	(7)	(4)	2	(2)	0	0	0	0
One off	(28)	32	(4)	28	0	0	0	0
EBITDA end	2,219	1,120	2,009	3,129	3,632	4,014	4,327	4,601
Reported EBITDA growth	35.2	101.8	20.7	41.0	16.1	10.5	7.8	6.3
LFL EBITDA	14.7	18.7	6.5	10.6	9.6	10.5	7.8	6.3

Source: Company data, UBS estimates

HeidelbergCement

What to watch out for in 2017

Risk-reward broadly balanced

We assess the key potential share price drivers for HeidelbergCement into 2017. We believe key areas of upside are (1) synergy delivery of Italcementi; (2) substantially reduced financing costs as legacy bonds mature; (3) boost from increased US infrastructure spending, though this will likely only impact in 2018. Against this we see further risks of (1) margin pressure in Indonesia; (2) increased energy costs after a long period of deflation and (3) less growth potential in a number of countries which are already on relatively high levels, such as Australia, Canada, Scandinavia and the UK (c25% of EBITDA). Overall we see risk-reward as broadly balanced and therefore retain our Neutral rating a price target of €87.

Synergies ambitious but realistic; upside from refinancing

Management made a compelling case for synergy delivery at Italcementi which is ambitious at 8.5% of sales (EBITDA synergies only) but realistic in our view given inflated cost structure at Italcementi. Refinancing brings further upside: we now expect a 30% reduction in financing costs over the next 3 years to 2019E, with some upside if current rates prevail. We remain substantially below management's 2019 target of €5bn EBITDA inc JVs (UBSe €4.3bn) and EPS of €11 (UBSe €8.7). We believe the implied 15% EBITDA CAGR to hit targets is too optimistic at this stage.

Valuation broadly fair

Trading on 8.1x 2017E EV/EBITDA and 13.4x P/E, the shares do not screen particularly expensive against peers. However, our forecast assumes 13% LFL EBITDA growth in 2017E, driven by synergy delivery (c40% of this growth) and underlying market growth (60% of this growth), which is reasonably ambitious and may be at risk if emerging markets come under pressure or energy cost inflation is not fully passed on. Our DCF valuation now implies the market is already discounting 14% long-term EBIT margins vs 11.5% in 2016E, i.e. a reasonably substantial permanent improvement in profitability.

Valuation: Neutral, PT €87

Our PT is based on DCF using a WACC of 8% and long-term EBIT margins of 14%. Our price targets moves up as a result of earnings revisions and a 0.5% lift in EBIT margin assumption over the long term.

Equities

Germany
Building Materials

12-month rating **Neutral**

12m price target **€87.00**

Price **€85.70**

RIC: HEIG.DE **BBG:** HEI GY

Trading data and key metrics

52-wk range	€92.13-60.12
Market cap.	€17.0bn/US\$18.1bn
Shares o/s	199m (ORD)
Free float	75%
Avg. daily volume ('000)	569
Avg. daily value (m)	€49.2
Common s/h equity (12/16E)	€15.2bn
P/BV (12/16E)	1.1x
Net debt / EBITDA (12/16E)	2.9x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/16E	4.90	4.89	0	4.89
12/17E	6.56	6.43	-2	6.16
12/18E	7.68	7.60	-1	7.40

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	13,936	12,614	13,465	17,273	18,058	18,933	19,866	20,794
EBIT (UBS)	1,607	1,424	1,645	1,981	2,366	2,658	2,931	3,209
Net earnings (UBS)	646	797	848	970	1,277	1,508	1,727	1,908
EPS (UBS, diluted) (€)	3.45	4.24	4.51	4.89	6.43	7.60	8.70	9.61
DPS (€)	0.60	0.75	1.30	1.40	2.25	3.04	3.91	4.32
Net (debt) / cash	(7,523)	(6,957)	(5,286)	(8,941)	(8,200)	(7,361)	(6,433)	(5,487)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	11.5	11.3	12.2	11.5	13.1	14.0	14.8	15.4
ROIC (EBIT) %	7.8	7.3	8.5	9.0	9.7	10.8	11.8	12.6
EV/EBITDA (core) x	8.9	9.0	8.1	9.4	8.1	7.2	6.5	5.9
P/E (UBS, diluted) x	15.7	13.8	15.4	17.5	13.3	11.3	9.9	8.9
Equity FCF (UBS) yield %	2.3	3.5	4.0	8.0	5.1	7.7	9.1	10.3
Net dividend yield %	1.1	1.3	1.9	1.6	2.6	3.5	4.6	5.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €85.70 on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Can EBITDA synergy targets be achieved?

Yes. While the synergy target is ambitious at 8.5% of sales, we believe HeidelbergCement has a strong track record in achieving cost reductions.

[HeidelbergCement – "What will drive the stock in 2017?" 19 December 2016](#) →

Q: Are 2019 targets achievable?

No. We think the €5bn EBITDA and €11 EPS targets are too optimistic and forecast €4.3bn and €8.7, respectively.

UBS VIEW

We see risk reward into 2017-18 as broadly balanced: we see clear growth coming from (1) Synergy delivery at Italcementi; (2) falling interest expense from refinancing of high coupon bonds and (3) growth from the US, driven by infrastructure. However, we also see risks from rising energy costs and margin pressure in Indonesia. We also believe certain parts of the portfolio have limited cyclical recovery potential, in particular in Australia, Canada, Scandinavia and the UK.

EVIDENCE

Heidelberg has built up a strong track record of synergy delivery and cost cutting over time. Current refinancing rates are materially below expensed coupons. Spot energy costs indicate material energy cost inflation into 2017. Indonesia pricing is under clear pressure, making margin pressure likely. US infrastructure potential remains uncertain at this point and we will await indications in early 2017 once the new administration takes over.

WHAT'S PRICED IN?

Heidelberg currently prices in broadly our base case scenario of €4.3bn EBITDA by 2019E and long-term operating margins of 14%. Multiples are at somewhat of a premium to the long-term average, with P/E of 13.4x (UBSE) vs the long-term average of 10.6x and EV/EBITDA of 8.1x vs long-term average of 7.8x.

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Volume growth CAGR FY17-19E	Cumulative gross margin move (net pricing)	Synergy delivery (EBITDA level)	EBITDA (incl JV) FY19E
€110 upside	4.5%	+2.0ppt	€150m	€4.8bn
€87 base	2.8%	+0.6ppt	€260m	€4.3bn
€62 downside	1.0%	-0.5ppt	€260m	€3.5bn

Source: UBS

COMPANY DESCRIPTION

HeidelbergCement is one of the largest global producers of cement, aggregates and ready-mix concrete. The group operates across the world. The group has expanded materially over the last decade with the acquisition of Hanson in 2007 and the recent acquisition of Italcementi. Ludwig Merckle owns 25.5% of the shares.

COMPANY DESCRIPTION

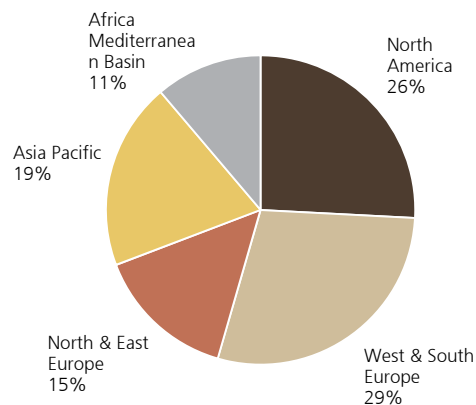
[return](#) ↑

HeidelbergCement is one of the largest global producers of cement, aggregates and ready-mix concrete. The group operates across the world. In 2015, pro forma for the acquisition of Italcementi, the group derived 27% of its EBITDA from North America, 36% from Europe, 24% from Asia-Pacific (including its 51% stake in Indocement), and 14% from Africa and the Middle East. The group has expanded materially over the last decade with the acquisition of Hanson in 2007 and the recent acquisition of Italcementi. Ludwig Merckle owns 25.5% of the shares.

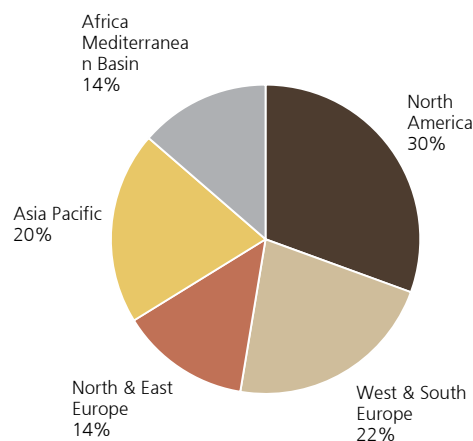
Industry outlook

The cement industry is in its nature local and therefore dynamics are dictated by local economic conditions and supply & demand balances. We expect growth in the US to continue in the coming years, driven by infrastructure spending. We expect more stable developments in Australia, Canada, Scandinavia and the UK. In Emerging markets, we see more risks, in particular in Indonesia where pressure on margins will likely persist. Energy costs will become a key feature into 2017 after a period of deflation, which will require material price increases to offset.

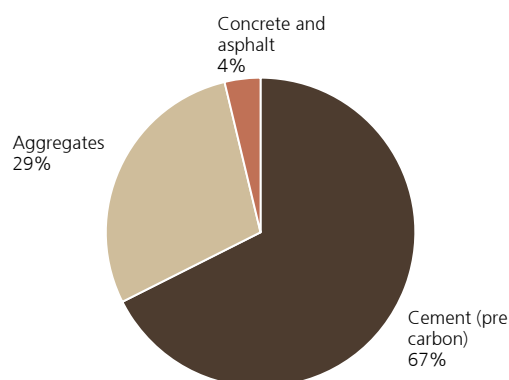
Revenues by region (2016E, %)



EBITA by region (2016E, %)



EBITDA by product (2016E, %)



Source: UBS estimates

Figure 92: HeidelbergCement pro-forma profit and loss, 2015-16E

Year to December (€m)	Q115	Q216	Q315	Q415	2015	Q116	Q216	Q316	Q416E	2016E	2017E	2018E	2019E	2020E
Sales	3,735	4,707	4,531	4,358	17,331	3,735	4,569	4,520	4,448	17,273	18,058	18,933	19,866	20,794
North America	678	1,137	1,289	1,053	4,157	783	1,120	1,267	1,126	4,296	4,864	5,204	5,556	5,876
West & South Europe	1,087	1,353	1,275	1,192	4,907	1,064	1,339	1,227	1,141	4,771	4,736	4,870	5,008	5,150
North & East Europe	404	637	630	586	2,257	444	695	688	632	2,459	2,598	2,725	2,859	2,997
Asia Pacific	854	879	773	844	3,350	782	801	777	904	3,265	3,462	3,625	3,819	4,026
Africa Mediterranean Basin	498	497	431	492	1,919	504	447	426	488	1,865	1,748	1,825	1,905	1,989
Group Services	323	339	254	320	1,236	268	274	280	288	1,110	1,165	1,223	1,285	1,349
Reconciliations / intra group	(109)	(136)	(120)	(129)	(494)	(108)	(106)	(146)	(132)	(493)	(515)	(540)	(567)	(593)
EBITDA incl JVs	399	941	996	818	3,153	395	992	1,009	869	3,265	3,676	3,985	4,277	4,572
North America	15	263	346	236	859	54	326	362	261	1,003	1,252	1,387	1,513	1,631
West & South Europe	57	244	211	177	688	53	252	209	187	702	739	806	855	905
North & East Europe	9	137	156	100	402	11	152	182	105	450	485	521	563	606
Asia Pacific	216	213	199	205	832	178	188	182	195	744	789	815	862	919
Africa Mediterranean Basin	130	121	105	109	465	122	112	99	132	465	490	534	561	588
Group Services	13	9	6	11	39	10	5	5	10	30	28	32	36	38
Reconciliation / intra group	(41)	(46)	(26)	(20)	(132)	(34)	(43)	(31)	(20)	(128)	(108)	(111)	(113)	(115)
JVs (post tax)	38	50	58	55	201	31	50	69	53	203	209	216	224	230
EBITDA	361	891	938	763	2,952	364	942	940	816	3,062	3,467	3,769	4,053	4,343
Depreciation and amortisation	(267)	(280)	(276)	(285)	(1,108)	(265)	(272)	(271)	(272)	(1,080)	(1,101)	(1,111)	(1,122)	(1,134)
Operating profit	94	611	662	478	1,845	99	669	669	543	1,981	2,366	2,658	2,931	3,209
Operating profit margin (%)	2.5	13.0	14.6	11.0	10.6	2.7	14.6	14.8	12.2	11.5	13.1	14.0	14.8	15.4
JV income	38	50	58	55	201	31	50	69	53	203	209	216	224	230
Results from participations						(5)	11	15	(3)	18	31	32	34	36
Additional ordinary result						(4)	(12)	(82)	(80)	(178)	(190)	0	0	0
Financial results						(146)	(138)	(142)	(141)	(566)	(486)	(436)	(386)	(386)
PTP						(25)	580	530	373	1,458	1,930	2,470	2,802	3,088
Tax						(36)	(112)	(169)	(75)	(392)	(560)	(716)	(813)	(895)
Tax rate (%)						(145.1)	19.3	31.9	20.0	26.9	29.0	29.0	29.0	29.0
Net income (continuing)						(60)	468	361	298	1,066	1,370	1,754	1,989	2,192
Net income from discontinued operations						(10)	(13)	20	0	(2)	(25)	(25)	(25)	(25)
Total net income						(70)	455	381	298	1,064	1,345	1,729	1,964	2,167
Minorities						(54)	(80)	(44)	(48)	(227)	(228)	(246)	(263)	(285)
Group share of net income						(124)	375	336	251	837	1,117	1,483	1,702	1,883
Dividend (paid)										(244)	(278)	(447)	(603)	(777)
Retained earnings										593	839	1,036	1,099	1,106
EPS stated (€ per share)						(0.63)	1.89	1.69	1.26	4.22	5.63	7.47	8.57	9.48
EPS pre exceptionals (€ per share)						(0.57)	2.00	1.87	1.58	4.89	6.43	7.60	8.70	9.61
DPS										1.40	2.25	3.04	3.91	4.32

Source: Company data, UBS estimates

Figure 93: HeidelbergCement cash flow, 2015-20E

Year to December (€m)	2015	2016E	2017E	2018E	2019E	2020E
EBITDA (pre JVs)	2,412	2,787	3,467	3,769	4,053	4,343
Working capital	(22)	350	(55)	(59)	(63)	(62)
Pension (cash over P&L charge)	(107)	(103)	(91)	(91)	(91)	(91)
Other	(111)	(250)	(215)	(60)	(35)	(35)
Operating cash flow (before interest/tax)	2,172	2,784	3,106	3,559	3,864	4,155
Interest paid	(491)	(471)	(446)	(396)	(346)	(346)
Tax paid	(353)	(392)	(560)	(716)	(813)	(895)
Dividends received	183	201	214	214	221	229
Operating cash flow	1,511	2,123	2,314	2,661	2,927	3,142
Intangible fixed assets	(23)	(17)	0	0	0	0
Capital expenditure	(885)	(1,131)	(1,430)	(1,289)	(1,298)	(1,307)
Fixed asset disposals	152	225	215	170	170	170
Net capital expenditure	(756)	(923)	(1,215)	(1,119)	(1,128)	(1,137)
Disposals	1,322	905	100	0	0	0
Acquisitions	(113)	(5,897)	0	0	0	0
Cash from changes in consolidation scope	21	0	0	0	0	0
Net acquisitions / (disposals)	1,230	(4,992)	100	0	0	0
Share issue	0	788	0	0	0	0
Dividend paid	(141)	(244)	(278)	(447)	(603)	(777)
Dividend to minorities	(228)	(116)	(225)	(231)	(243)	(256)
Exchange rate effects	136	(233)	0	0	0	0
Discontinues operations	(67)	(25)	(25)	(25)	(25)	(25)
Other	(14)	(33)	70	0	0	0
Total change	1,672	(3,655)	741	839	928	947
Starting net debt	(6,958)	(5,286)	(8,941)	(8,200)	(7,361)	(6,433)
Change	1,672	(3,655)	741	839	928	947
Ending net debt	(5,286)	(8,941)	(8,200)	(7,361)	(6,433)	(5,487)
EBITDA (inc JVs)	2,613	3,265	3,676	3,985	4,277	4,572
Net debt/EBITDA (x)	2.0	2.7	2.2	1.8	1.5	1.2

Source: Company data, UBS estimates

Figure 94: HeidelbergCement sales and EBITDA bridge, 2016-20E

€m	2015	Q116	Q216	Q316PF	Q416PFE	2016PFE	2017E	2018E	2019E	2020E
Sales										
Start	12,614	2,835	3,635	3,606	3,389	13,465	17,273	18,058	18,933	19,866
Italcementi				925	969	3,866	0			
Pro-forma start	12,614	2,835	3,635	4,531	4,358	17,331	17,273	18,058	18,933	19,866
FX (ex services)	584	(88)	(147)	(98)	18	(377)	(41)	0	0	0
Adjusted start	13,198	2,747	3,488	4,433	4,376	16,954	17,232	18,058	18,933	19,866
M&A	76	56	73	57	51	236	0	0	0	0
Group services	(17)	(52)	(62)	27	(33)	(126)	55	58	61	64
Volumes	37	94	57	94	36	313	421	507	535	507
Price	154	(16)	(11)	(64)	21	(106)	371	336	363	383
Other/reconciliation	17	3	30	(26)	(2)	2	(22)	(25)	(27)	(26)
End	13,465	2,832	3,575	4,520	4,448	17,273	18,058	18,933	19,866	20,794
Sales growth (%)										
FX	4.6	(3.1)	(4.0)	(2.2)	0.4	(2.2)	(0.2)	0.0	0.0	0.0
Volumes	0.3	3.4	1.6	2.1	0.8	1.8	2.4	2.8	2.8	2.6
Price	1.2	(0.6)	(0.3)	(1.4)	0.5	(0.6)	2.2	1.9	1.9	1.9
LFL revenues	1.4	2.8	1.3	0.7	1.3	1.2	4.6	4.7	4.7	4.5
Total	6.7	(0.1)	(1.6)	(0.2)	2.1	(0.3)	4.5	4.8	4.9	4.7
EBITDA (ex JVs)										
€m	2015	Q116	Q216	Q316PF	Q416PFE	2016PFE	2017E	2018E	2019E	2020E
Start	2,117	261	703	806	642	2,412	3,062	3,467	3,769	4,053
Italcementi				131	121	540	0			
Pro-forma start	2,117	261	703	938	763	2,952	3,062	3,467	3,769	4,053
FX	107	(14)	(23)	(14)	2	(58)	30	0	0	0
Adjusted start	2,224	247	680	924	764	2,894	3,092	3,467	3,769	4,053
M&A	4	(1)	1	9	3	11	0	0	0	0
LFL	180	51	61	7	48	197	392	302	284	290
Volumes	6	40	29	45	16	152	175	214	218	212
Price	154	(16)	(11)	(17)	(97)	(106)	371	336	363	383
Cost	20	28	42	(56)	79	66	(319)	(343)	(297)	(306)
Synergy	0	0	0	35	50	85	165	95	0	0
One-offs (net delta)	5	(7)	(0)	0	0	(40)	(17)	0	0	0
CO2	0	0	0	0	0	0	0	0	0	0
End	2,412	290	741	940	816	3,062	3,467	3,769	4,053	4,343
EBITDA growth (%)										
FX	5.0	(5.4)	(3.3)	(1.5)	0.2	(2.0)	1.0	0.0	0.0	0.0
M&A	0.2	(0.4)	0.1	1.0	0.4	0.4	0.0	0.0	0.0	0.0
LFL (pre CO2)	8.1	20.7	8.9	0.8	6.3	6.8	12.7	8.7	7.5	7.1
Other (incl CO2)	0.2	(2.7)	(0.1)	0.0	0.1	(1.4)	(0.6)	0.0	0.0	0.0
Total	13.9	11.1	5.5	0.3	7.0	3.7	13.2	8.7	7.5	7.1

*Heidelberg stand alone

Source: Company data, UBS estimates

Ibstock plc

Setting up for growth in 2017

End of merchant de-stocking and new build growth

We expect UK brick volumes to advance in 2017 and now factor in 3% volume growth for Ibstock. The end to the de-stocking seen in the merchant supply chain in H216 and positive trading from the UK housebuilders bode well for volume progression into 2017. In addition, Ibstock should benefit from the ramp up of its new roof tile facility. Successful implementation of a 3-4% brick price increase in the UK should mostly cover cost inflation. Overall we now expect adj. EBITDA to grow by +6% in 2017. We raise our EPS by c7% over the forecast horizon to reflect higher prices and volumes in the UK and the de-valuation of Sterling.

Market fundamentals still robust

We believe the UK brick market fundamentals remain strong: (1) supply additions are limited and mainly include Ibstock's 100m brick facility in Leicester; (2) The weakness in Sterling is making imports less attractive. The demand side is macro dependent but we expect the residential new build sector to remain robust and supported by Government measures to boost housing supply. We see the immediate threat from increased concrete brick usage as relatively low, though are cognisant on the impact this threat may have longer-term on price levels.

Attractive valuation and balance sheet optionality

The shares trade on 10.3x 2017E P/E and a 9%+ FCF yield (before expansionary capex), which we believe is attractive. With net debt/EBITDA of 1.2x 2016E, falling to 1.0x 2017E, we see potential for expansionary investments (capex and M&A) as well as increased shareholder returns over the medium term.

Valuation: Buy, PT 210p (up from 205p)

Our PT rises to 210p (from 205p) and is based on DCF with a LT EBITDA margin of 20% and WACC of 8%.

Equities

United Kingdom
Building Materials

12-month rating **Buy**

12m price target **210p**
Prior: 205p

Price **177p**

RIC: IBST.L **BBG:** IBST LN

Trading data and key metrics

52-wk range	224p-115
Market cap.	£0.72bn/US\$0.88bn
Shares o/s	406m (ORD)
Free float	63%
Avg. daily volume ('000)	627
Avg. daily value (m)	£1.1
Common s/h equity (12/16E)	£0.30bn
P/BV (12/16E)	2.4x
Net debt / EBITDA (12/16E)	1.2x

EPS (UBS, diluted) (p)

	From	To	% ch	Cons.
12/16E	16.5	16.7	1	16.5
12/17E	16.9	18.1	7	17.4
12/18E	17.2	18.4	7	18.8

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Highlights (£m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	317	373	413	431	468	500	528	551
EBIT (UBS)	20	48	91	94	100	101	112	116
Net earnings (UBS)	13	37	67	68	73	75	84	87
EPS (UBS, diluted) (p)	-	9.2	16.5	16.7	18.1	18.4	20.6	21.5
DPS (p)	-	0.0	4.4	7.2	7.4	7.6	9.3	9.7
Net (debt) / cash	14	54	(145)	(135)	(111)	(64)	(10)	38
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	6.3	12.9	22.1	21.7	21.3	20.2	21.2	21.1
ROIC (EBIT) %	4.4	13.9	26.2	20.2	21.1	21.4	24.3	25.8
EV/EBITDA (core) x	-	-	9.1	7.9	7.3	6.6	5.7	5.2
P/E (UBS, diluted) x	-	-	12.3	10.6	9.8	9.6	8.6	8.2
Equity FCF (UBS) yield %	-	-	8.4	5.0	6.4	10.8	12.2	12.0
Net dividend yield %	-	-	2.2	4.1	4.2	4.3	5.3	5.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 177p on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Can UK brick volumes grow in 2017?**

Yes. We expect +2% volume growth in 2017 after +1% growth in 2016 despite the de-stocking impact in the merchant chain.

[Ibstock – "All not as bad as feared?" 24 November 2016 →](#)

Q: Do concrete bricks constitute a structural risk in the UK?

Not right now. Persimmon's announcement to build a concrete brick factory capable of producing 80m bricks p.a. has raised some concerns. We see the issue as mostly isolated given commentary from other major housebuilders.

Q: Are margins and returns sustainable?

We expect margins to normalise over the long-term towards a group EBITDA margin of 20% (2015: 26%) as investment on new plants is still highly attractive and to adjust for cyclical risk.

UBS VIEW

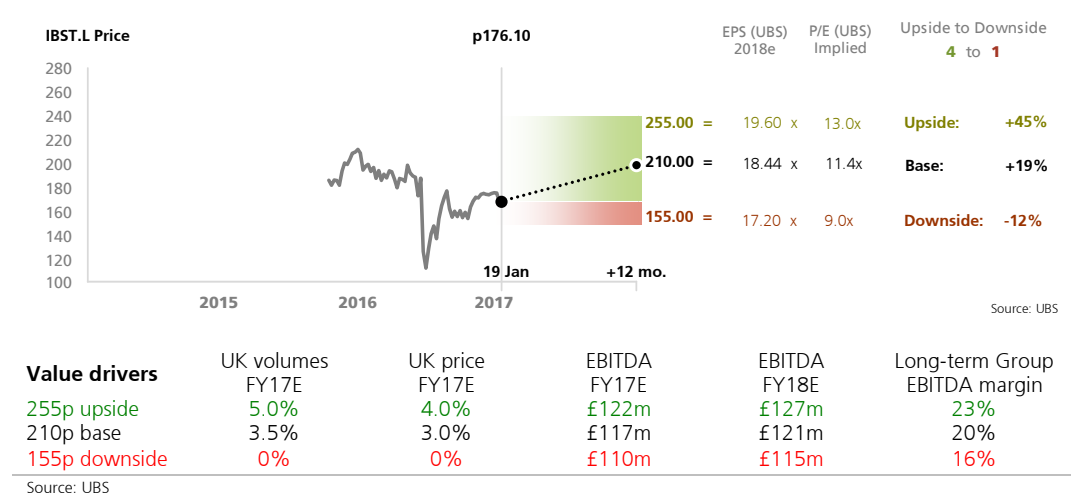
We believe Ibstock's earnings outlook is better than the market is currently anticipating. Good trends from UK housebuilders as well as an end to merchant de-stocking means H216 should see some volume growth and also sets up relatively well for 2017, despite wider economic uncertainties. Given the consolidated structure of the industry and lower imports, we expect pricing to remain positive. We see the threat from concrete bricks as not particularly significant at this stage.

EVIDENCE

UK housebuilder reservation rates in H216 to date are running up c6% y/y, an acceleration from H116 which was up +3% y/y. This bodes well for the new build side of the business, which accounts for over 50% of UK brick volumes. The outlook for RMI is more uncertain although 2017 should benefit from an easy comparison basis given the de-stocking seen within the UK merchanting chain in H116.

WHAT'S PRICED IN?

We believe the market is pricing virtually no long-term growth for Ibstock and is essentially pricing in no earnings growth. Our reverse DCF implies long-term EBITDA margins of 18% being priced in across the group.

UPSIDE / DOWNSIDE SPECTRUM**COMPANY DESCRIPTION**

Ibstock is the leading manufacturer of bricks in the UK, with a 41% share of domestic dispatches (excluding imports). The group also owns concrete products businesses in the UK, and is a regional market leader in bricks in the Midwest and Northeast of the US.

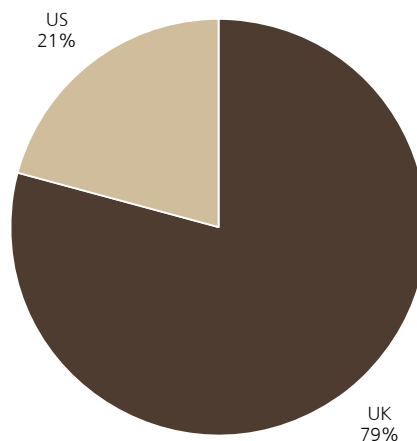
COMPANY DESCRIPTION

lbstock is the leading manufacturer of bricks in the UK, with a 41% share of domestic dispatches (excluding imports). The group also owns concrete products businesses in the UK, and is a regional market leader in bricks in the Midwest and Northeast of the US. In 2015, the group derived 81% of revenues and c93% of EBITDA from the UK, with the balance from the US. The business is mostly exposed to new residential construction and repair, maintenance and improvement (RMI).

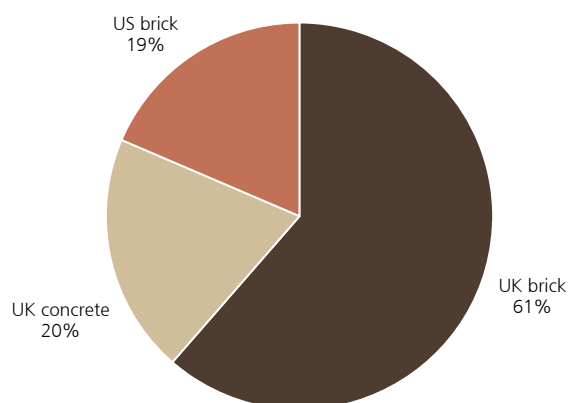
Industry outlook

The outlook for the UK brick market is closely linked to the UK housing market and as a result to the overall evolution of the UK economy. Uncertainties have increased significantly since the EU referendum, although overall the new build market in particular appears to be resilient. We expect the market to be broadly flat in 2017, with lbstock benefitting from new capacity in its brick plant at Leicester and new roof tile plant. Margins are overall at high levels compared to history, and we anticipate modest erosion. However, given (1) a highly consolidated industry structure and (2) movement of Sterling making imports less attractive, we expect pricing discipline in the industry to remain solid into 2017.

Revenues by region (2015A, %)



Sales by product segment (2015A, %)



Source: Company data

Figure 95: Ibstock profit and loss, 2015-20E

Year to December (£m)	2015	2016E	2017E	2018E	2019E	2020E
Sales	413	431	468	500	528	551
UK	336	342	362	384	401	418
US	77	90	107	117	127	134
Adj EBITDA	107	110	117	121	132	136
UK	99	98	102	103	111	114
US	8	12	15	18	21	22
Adj EBITDA margin	25.9%	25.5%	24.9%	24.2%	25.0%	24.7%
UK	29.5%	28.6%	28.1%	26.9%	27.7%	27.3%
US	10.5%	13.8%	14.0%	15.3%	16.5%	16.5%
Depreciation (ex FV)	(16)	(16)	(17)	(20)	(20)	(20)
Adj EBIT						
Interest cost	91	94	100	101	112	116
Adj PTP	(7)	(7)	(5)	(5)	(5)	(4)
Tax	84	86	94	96	107	112
Tax rate (%)	(17)	(19)	(21)	(21)	(24)	(25)
Ajd Net income	20%	22%	22%	22%	22%	22%
Net exceptional items	39	0	5	0	0	0
Depreciation (fair value)	(3)	(6)	(6)	(6)	(6)	(6)
Amortisation (fair value)	(6)	(7)	(7)	(7)	(7)	(7)
Reported EBIT	121	82	93	89	100	104
Interest cost	(18)	(7)	(5)	(5)	(5)	(4)
PTP	103	75	87	84	95	100
Tax	7	(16)	(19)	(18)	(21)	(22)
Tax rate (%)	-7%	22%	22%	22%	22%	22%
Net income	110	59	68	66	74	78
Shares (av)	406.1	406.1	406.3	406.3	406.3	406.3
Shares (end)	406.1	406.3	406.3	406.3	406.3	406.3
EPS (pre ex)	16.5	16.7	18.1	18.4	20.6	21.5
EPS (stated)	27.0	14.4	16.7	16.1	18.3	19.2
DPS	4.4	7.2	7.4	7.6	9.3	9.7

Source: Company data, UBS estimates

Figure 96: Ibstock cash flow, 2015-20E

Year to December (£m)	2015	2016E	2017E	2018E	2019E	2020E
Adj EBITDA	107	110	117	121	132	136
Working capital	(6)	(0)	(6)	(5)	(4)	(9)
Pension cash cost	(2)	(2)	(2)	0	0	0
Operating cash flow (before tax / interest)	99	108	109	116	128	127
Interest paid	(6)	(5)	(5)	(5)	(4)	(4)
Tax paid	(9)	(12)	(21)	(21)	(24)	(25)
Operating cash flow	84	91	83	91	100	99
Maintenance capex	(9)	(13)	(13)	(13)	(13)	(13)
Development capex	(6)	(42)	(24)	0	0	0
Adj Equity free cash flow	69	36	46	78	87	86
Lecacy net cash flow impact	(14)	0				
Asset disposals	0	2	8			
Reported equity free cash flow	55	37	54	78	87	86
Early debt redemption fee	(30)					
Share issue (net)	80					
Dividends paid	0	(28)	(30)	(30)	(33)	(38)
Acquisition of group (net)	(285)					
Total change in net debt	(199)	10	24	47	54	48
Starting net debt	54	(145)	(135)	(111)	(64)	(10)
Change	(199)	10	24	47	54	48
Ending net debt	(145)	(135)	(111)	(64)	(10)	38
Adj EBITDA	107	110	117	121	132	136
Net debt / EBITDA (x)	1.4	1.2	1.0	0.5	0.1	(0.3)

Source: Company data, UBS estimates

Kingspan

Structural grower

More upside as growth unfolds

We re-iterate our Buy rating on Kingspan with a new price target of €30.5. We see growth to continue into 2017 as the group's structural penetration of its end markets continues and cyclical tailwinds continue to unfold. In addition, we see significant potential for accretive M&A, with net debt/EBITDA of 1x end 2016E, dropping to 0.5x 2017E. €500m of deals would be 10% EPS accretive before synergies. Kingspan's track record is strong with acquisition returns over recent years materially outpacing its 15% ROCE target.

Risk on UK and input price inflation overdone

The main risk remains an adverse movement to the UK market (c28% of sales) although evidence of a material slowdown is not evident as of yet. We also believe the commodity price inflation (especially MDI) is less significant than the market expects, with MDI inflation in Europe materially below other parts of the world. We view our forecasts as already factoring in these issues: our LFL EBITA growth of 4% in 2017E is materially below recent years (2014: +14%; 2015: +23%; 2016E: +30%) and we believe is sufficiently conservative at this point.

Fundamentally different set up to 2007

We believe Kingspan is fundamentally better positioned than 10 years ago: the scale of the business is materially larger at over €3bn of sales (c€1.9bn in 2007) as a result of significant consolidation steps undertaken by Kingspan. Pricing power should also be better as a result and we therefore expect most of the commodity price inflation to be passed on. The UK has dropped from around 70% of sales to below 30%, with Kingspan now 40% exposed to Europe and 20% to North America. This makes exposure to individual countries less of an issue than in the past.

Valuation: Buy, PT €30.5 (up from €28.0)

Our PT is based on DCF with 8% WACC and 11.5% EBITA margins. Notwithstanding a strong recovery in the share price following the lows post the EU referendum, we see further upside potential as the structural growth story unfolds.

Equities

Ireland
Building Materials

12-month rating **Buy**

12m price target **€30.50**
Prior: €28.00

Price **€27.14**

RIC: KSP.I **BBG:** KSP ID

Trading data and key metrics

52-wk range	€27.74-18.09
Market cap.	€4.83bn/US\$5.14bn
Shares o/s	178m (ORD)
Free float	83%
Avg. daily volume ('000)	374
Avg. daily value (m)	€9.1
Common s/h equity (12/16E)	€1.46bn
P/BV (12/16E)	3.3x
Net debt / EBITDA (12/16E)	1.0x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/16E	1.43	1.44	0	1.43
12/17E	1.53	1.56	2	1.51
12/18E	1.66	1.69	2	1.60

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	1,790	1,891	2,774	3,068	3,457	3,631	3,839	4,060
EBIT (UBS)	119	149	256	335	362	390	425	461
Net earnings (UBS)	88	113	196	258	280	304	333	363
EPS (UBS, diluted) (€)	0.51	0.65	1.09	1.44	1.56	1.69	1.85	2.02
DPS (€)	0.14	0.16	0.25	0.35	0.38	0.42	0.46	0.50
Net (debt) / cash	(108)	(125)	(328)	(390)	(220)	(11)	218	471
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	6.6	7.9	9.2	10.9	10.5	10.7	11.1	11.4
ROIC (EBIT) %	12.0	14.1	18.0	18.9	19.4	20.6	21.9	23.4
EV/EBITDA (core) x	12.0	12.5	12.4	13.0	11.7	10.4	9.2	8.1
P/E (UBS, diluted) x	20.8	20.3	18.7	18.9	17.4	16.1	14.7	13.4
Equity FCF (UBS) yield %	4.1	4.5	7.4	4.2	5.0	5.8	6.3	7.0
Net dividend yield %	1.3	1.2	1.2	1.3	1.4	1.5	1.7	1.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €27.14 on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Will the UK exposure halt Kingspan's earnings momentum?

No. While the UK remains an important part of the business at somewhat under 30% of sales and 40% of EBITA, there is no clear sign of a sharp slow down in the UK at this stage.

[Kingspan - "Powering on" 23 August 2016](#) →

Q: Has the commodity price tailwind peaked?

Yes. Kingspan has a strong track record of recovering input price inflation and remains so, though a certain lag could be a possibility.

Q: Can Kingspan successfully expand to adjacent product categories?

We believe so. Kingspan has indicated it aims to expand its product offering to industrial insulation, daylighting (and ventilation) and roofing membranes, all of which are complementary to the core insulation product offering of the group.

UBS VIEW

We believe Kingspan offers an attractive structural growth story at a reasonable price, with the valuation impacted by perceived risks around the UK exposure. We believe there is additional upside from (1) margin preservation at high levels; and (2) additional M&A and expansion into adjacent product areas.

EVIDENCE

Kingspan's UK business has continued to grow mid-single digit post the EU Referendum. Pricing power over recent years has been a good indicator of the company's ability to pass on rising costs.

WHAT'S PRICED IN?

While shares have recovered off the lows post the EU referendum, we believe the shares remain relatively attractive at 17x 2017E P/E and 11.6x EV/EBITDA, having de-rated from over 20x P/E in 2016. We believe upside risk to consensus forecasts, M&A optionality and some re-rating potential make the shares attractive.

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Sales LFL growth FY17E	EBITA margin FY17E	M&A spend FY17E	EPS FY17E
€36.0 upside	7.0%	12.4%	€709m	€1.86
€30.5 base	5.8%	10.5%	€209m	€1.52
€23.5 downside	-5.0%	9.1%	€209m	€1.15

Source: UBS

COMPANY DESCRIPTION

Kingspan is Europe's leading manufacturer of insulated panels (roofs and walls of industrial and commercial buildings), which consist of steel sheets bonded by a layer of insulation.

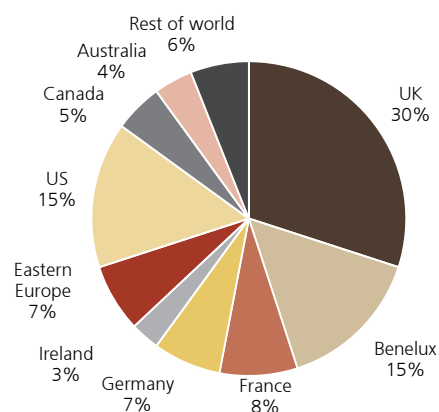
COMPANY DESCRIPTION

Kingspan is Europe's leading manufacturer of insulated panels (roofs and walls of industrial and commercial buildings), which consist of steel sheets bonded by a layer of insulation. It also sells insulation boards, which are used in new construction. Its environmental business supplies tanks to manage fuel and water storage in environmentally friendly ways. Its raised access floors business supplies new office construction in the UK and the US. Some 30% of sales are generated in the UK/Ireland, 39% in Europe, 20% in the Americas and 4% in Australia.

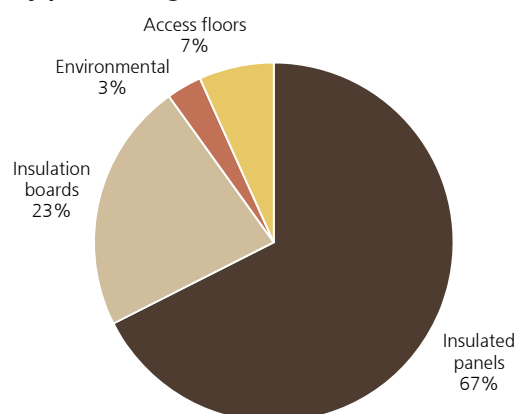
Industry outlook

Kingspan is exposed to the commercial and industrial markets (70%), residential (18%) and office construction and data centre markets (10%). End market growth is modestly positive across the geographic mix of business and is expected to remain so going forward. Kingspan insulation market is showing above average growth and is enhanced by penetration growth rates from its alternative product in the given end markets.

Revenues by region (2015A, %)



EBITA by product segment (2016E, %)



Source: Company data, UBS estimates

Figure 97: Kingspan profit and loss, FY15-20E

Year to December (€m)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Total sales	2,774.3	3,068.2	3,456.6	3,631.0	3,839.3	4,059.7
Insulated panels	1,776.6	2,038.3	2,384.1	2,503.1	2,653.3	2,812.5
Insulation boards	662.8	685.0	714.7	750.4	787.9	827.3
Environmental	159.0	163.9	168.4	178.5	189.2	200.5
Access floors	175.9	181.0	189.6	199.0	208.9	219.4
Total EBITA	255.9	335.5	362.4	390.3	424.7	461.0
Insulated panels	165.2	226.6	250.8	269.8	294.9	321.4
Insulation boards	61.3	75.6	76.5	82.2	88.2	94.5
Environmental	8.1	10.7	11.5	12.7	14.1	15.5
Access floors	21.3	22.6	23.7	25.6	27.5	29.6
EBITA margin (%)	9.2	10.9	10.5	10.7	11.1	11.4
Insulated panels	9.3	11.1	10.5	10.8	11.1	11.4
Insulation boards	9.2	11.0	10.7	11.0	11.2	11.4
Environmental	5.1	6.5	6.8	7.1	7.4	7.7
Access floors	12.1	12.5	12.5	12.8	13.2	13.5
Interest	(14.8)	(14.8)	(15.5)	(14.3)	(13.1)	(11.9)
PBT - (pre-ex, pre-am)	241.1	320.7	346.9	376.0	411.6	449.1
Tax (pre-ex)	(43.0)	(60.3)	(65.2)	(70.7)	(77.4)	(84.4)
Tax rate (pre-ex) (%)	17.8	18.8	18.8	18.8	18.8	18.8
Minority	(2.5)	(2.0)	(1.5)	(1.5)	(1.5)	(1.5)
Net income (pre-ex, pre-am)	195.6	258.4	280.2	303.8	332.7	363.2
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	(9.1)	(9.5)	(11.0)	(7.0)	(7.0)	(7.0)
PBT	232.0	311.2	335.9	369.0	404.6	442.1
Tax	(41.4)	(58.5)	(63.1)	(69.4)	(76.1)	(83.1)
Tax rate (%)	17.8	18.8	18.8	18.8	18.8	18.8
Minority	(2.5)	(2.0)	(1.5)	(1.5)	(1.5)	(1.5)
Net income	188.1	250.7	271.2	298.1	327.0	357.5
Shares (m) (av)	176.2	177.7	178.2	178.7	179.2	179.7
Shares - diluted (m) (av)	179.2	179.7	179.7	179.7	179.7	179.7
EPS (c) - basic	106.7	141.1	152.2	166.8	182.5	198.9
EPS (c) - basic, pre-ex	111.0	145.4	157.2	170.0	185.7	202.1
EPS (c) - diluted	105.0	139.5	150.9	165.9	182.0	198.9
DPS (c)	25.00	35.27	38.05	41.71	45.62	49.74

Source: Company data, UBS estimates

Figure 98: Kingspan EBITA bridge, 2015-20E

Year to December (€m)	2015	H116	H216E	2016E	2017E	2018E	2019E	2020E
EBITA	255.9	167.3	168.2	335.5	362.4	390.3	424.7	461.0
Price	(6.5)	0.0	26.2	26.2	87.0	34.6	36.3	38.4
Variable costs	26.7	32.5	(8.8)	23.7	(91.0)	(34.6)	(36.3)	(38.4)
Volume	13.1	20.5	7.0	27.4	18.0	27.9	34.4	36.3
Organic	33.3	53.0	24.4	77.3	14.0	27.9	34.4	36.3
FX	21.6	(5.5)	(6.6)	(12.1)	(4.5)	(0.0)	0.0	0.0
M&A	52.6	8.1	6.3	14.4	17.4	0.0	0.0	0.0
Total growth	107.5	55.6	24.0	79.6	26.9	27.9	34.4	36.3

Source: Company data, UBS estimates

Figure 99: Kingspan cash flow, 2010-20E

Year to December	2015	2016E	2017E	2018E	2019E	2020E
EBITA	255.9	335.5	362.4	390.3	424.7	461.0
Depreciation	60.5	68.0	72.0	76.0	78.0	81.0
Working capital changes	37.9	(40.0)	(21.3)	(20.9)	(25.0)	(26.4)
Other	25.4	8.0	8.0	8.0	8.0	8.0
Operating cash flow (pre interest/tax)	379.7	371.5	421.1	453.4	485.7	523.6
Interest	(14.8)	(14.8)	(15.5)	(14.3)	(13.1)	(11.9)
Tax	(28.7)	(52.7)	(63.1)	(69.4)	(76.1)	(83.1)
Operating cash flow	336.2	304.0	342.5	369.7	396.5	428.6
Capex	(69.5)	(100.0)	(100.0)	(90.0)	(90.0)	(90.0)
Equity free cash flow	266.7	204.0	242.5	279.7	306.5	338.6
Acquisitions	(500.4)	(216.0)	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(31.8)	(47.8)	(71.7)	(70.4)	(77.3)	(84.7)
Share issues	71.0	(0.2)	0.0	0.0	0.0	0.0
Payment to minority	0.0	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Other	(8.3)	(1.4)	0.0	0.0	0.0	0.0
Inflow / (Outflow)	(202.8)	(61.9)	170.4	208.9	228.8	253.5
Opening net cash / (debt)	(125.5)	(328.3)	(390.2)	(219.7)	(10.8)	218.0
Total movement in year	(202.8)	(61.9)	170.4	208.9	228.8	253.5
Closing net cash/(debt)	(328.3)	(390.2)	(219.7)	(10.8)	218.0	471.5
Net cash / (debt)	(328.3)	(390.2)	(219.7)	(10.8)	218.0	471.5
Shareholders funds	1282.4	1446.2	1653.8	1889.5	2147.2	2428.0
Gearing (%)	25.6	27.0	13.3	0.6	(10.2)	(19.4)
Net debt/EBITDA (x)	1.0	1.0	0.5	0.0	(0.4)	(0.9)

Source: Company data, UBS estimates

LafargeHolcim Ltd

Can ambitious targets be achieved?

2017 growth targets challenging

LafargeHolcim's 2018 EBITDA target of CHF7bn implies approximately 15% LFL growth over 2017 and 2018 per annum. We believe that this could be challenged due to the following reasons: (1) selected emerging market headwinds, with most recently the outlook in India more uncertain following de-monetisation; (2) substantial energy price increases of +10% in 2017 guided, which coupled with other cost increased will likely require 3-4% price increases globally.

Cutting EBITDA estimates by 1.4% over 2016-17E

We reduce 2016E EBITDA by 1.3% to CHF5.75bn, mainly reflecting the expected headwind from India in Q4 as a result of the negative impacts on de-monetisation. A lower base effect as well as small incremental FX headwinds means we reduce EBITDA in 2017E by 1.5% to CHF6bn and 2018E to CHF6.6bn. On a LFL basis our forecast for 2018E stands at CHF6.5bn vs target of CHF7bn, i.e. 7% below. We note that our forecasts also require relatively ambitious 14% LFL EBITDA growth in 2017E and 10% in 2018E.

Valuation fair, some potential for cash returns

With trading multiples towards the top end of the historical range at 8.6x EV/EBITDA and 16.5x P/E 2017E, there is some support from a FCF yield of 6.8% 2017E and 7.7% 2018E. As we have argued before, we see upside potential as relatively limited: even on 2018E targets we see (undiscounted) fair value at CHF57-62 based on 7-8x EV/EBITDA and CHF58-67 based on 7.5-6.5% EFCF yield. However, given (1) discounting to NPV and (2) the fact our forecasts are below the target, we believe the share price already prices in our base case outlook.

Valuation: Neutral, PT CHF49.5

Our PT is based on DCF, using a WACC of 8% and LT EBITDA margin of 23%.

Equities

Switzerland

Building Materials

12-month rating **Neutral**
12m price target **CHF49.50**
Price **CHF51.10**
RIC: LHN.S **BBG:** LHN VX

Trading data and key metrics

52-wk range CHF56.95-34.06

Market cap. CHF30.9bn/US\$30.7bn

Shares o/s 606m (ORD)

Free float 67%

Avg. daily volume ('000) 1,980

Avg. daily value (m) CHF106.3

Common s/h equity (12/16E) CHF31.3bn

P/BV (12/16E) 1.0x

Net debt / EBITDA (12/16E) 2.3x

EPS (UBS, diluted) (CHF)

	From	To	% ch	Cons.
12/16E	2.62	2.58	-1	2.46
12/17E	3.27	3.24	-1	3.03
12/18E	4.04	4.05	0	3.86

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Highlights (CHFm)	-	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	-	31,440	29,483	27,387	26,589	28,049	29,448	30,888
EBIT (UBS)	-	3,745	3,272	3,538	3,984	4,619	5,063	5,499
Net earnings (UBS)	-	975	757	1,568	1,964	2,455	2,735	3,021
EPS (UBS, diluted) (CHF)	-	1.60	1.25	2.58	3.24	4.05	4.51	4.98
DPS (CHF)	-	1.30	1.50	2.00	2.05	2.10	2.26	2.49
Net (debt) / cash	-	(17,900)	(17,266)	(13,350)	(12,151)	(10,808)	(9,528)	(8,103)
Profitability/valuation	-	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	-	11.9	11.1	12.9	15.0	16.5	17.2	17.8
ROIC (EBIT) %	-	-	5.9	7.1	8.4	9.7	10.6	11.5
EV/EBITDA (core) x	-	-	10.4	8.9	8.4	7.4	6.8	6.2
P/E (UBS, diluted) x	-	-	46.0	19.8	15.8	12.6	11.3	10.3
Equity FCF (UBS) yield %	-	-	(1.1)	4.6	6.2	7.8	8.2	9.0
Net dividend yield %	-	-	2.6	3.9	4.0	4.1	4.4	4.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of CHF51.10 on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: What is required to hit 2018 targets?

We calculate that LH needs to deliver over 15% LFL EBITDA growth for the next 2 years to deliver the 2018 target of CHF7bn EBITDA, which we believe is challenging.

[LafargeHolcim – "Now it's down to execution \(and pricing\)" 22 November 2016 →](#)

Q: Will there be material excess capital?

Potentially yes, but not before 2018. LH's target is to be solid investment grade, which we believe implies around 2x net debt/EBITDA. Following asset disposals announced to date, we expect 2.4x (PF) 2016E and 2.0x 2017E.

UBS VIEW

While we recognise earnings momentum has stabilised during 2016, we believe the share price was quick to reflect this and we see limited upside to the shares, even if 2018 company targets are achieved. We do not believe there is a material cash return story over the next two years. Overall we still see execution risk in achieving targets, with recent headwinds in India likely to impact short-term performance.

EVIDENCE

Supply & demand dynamics remain challenging in a number of markets with volume trends still subdued. We also note that neither Lafarge nor Holcim (legacy) have ever seen a prolonged period of double digit LFL EBITDA growth, as is implied by the 2018 targets. Our analysis of disposals does not suggest any material value is being created by asset disposals.

WHAT'S PRICED IN?

We believe the LafargeHolcim share price is close to pricing in the 2018 company targets, on a NPV basis. We see a NPV of CHF52 assuming 7.5x EV/EBITDA target and CHF56 at 8.0x. We would see some upside if the shares moved to a FCF yield based valuation in which case we would see a valuation of CHF52-59 (NPV) applying a 7-6% yield.

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Volume growth	Price inflation	Cost inflation	EBITDA FY18E
CHF60 upside	2.5%	2.5%	2.2%	CHF7.3bn
CHF49.5 base	1.8%	1.7%	1.9%	CHF6.7bn
CHF35 downside	0.5%	1.0%	2.5%	CHF5.3bn

Source: UBS

COMPANY DESCRIPTION

LafargeHolcim is the largest global cement, aggregates and concrete producer, with a presence in 90 countries. The group was created by the merger of Lafarge and Holcim in 2015.

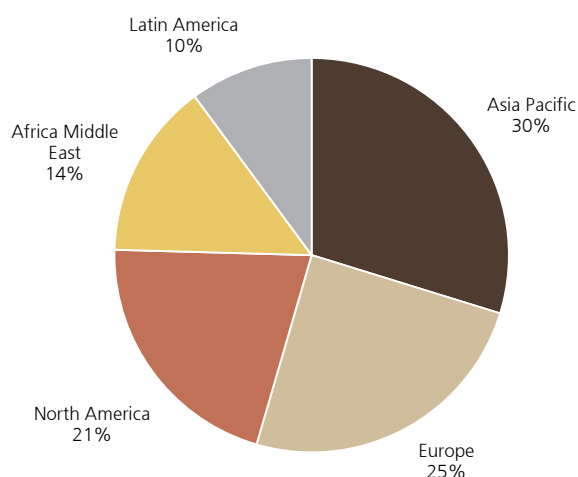
COMPANY DESCRIPTION

LafargeHolcim is the largest global cement, aggregates and concrete producer, with a presence in 90 countries. The group was created by the merger of Lafarge and Holcim in 2015. On a pro-forma basis, the group generated 25% of EBITDA in Asia-Pacific, 22% in Africa and the Middle East, 14% in Latin America, 20% in Europe and 19% in North America in 2015. The group had a pro-forma cement capacity of 373mt at the end of 2015.

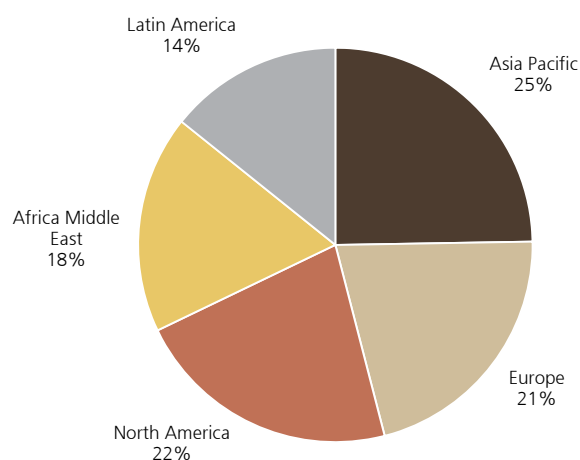
Industry outlook

We expect trends in cement industry to remain highly regional depending on local supply and demand conditions. Overall, we expect emerging markets to remain challenged from pressured utilisation rates although note some exceptions such as India which we expect to perform better. We expect continued growth in North America and a gradual recovery in Europe. The cement industry is undergoing material consolidation following the Lafarge-Holcim merger and the pending acquisition of Italcementi by HeidelbergCement. While this could bring localised improved pricing conditions although we do not expect this to be broad based.

Revenues by region (2016E, %)



EBITA by region (2016E, %)



Source: UBS estimates

Figure 100: LafargeHolcim pro-forma divisional profit and loss, 2015-20E

Year to December (CHFm)	Q1	Q2	Q3	Q4	2015	Q1	Q2	Q3	Q4E	2016E	2017E	2018E	2019E	2020E
Sales	6,412	7,805	7,825	7,441	29,483	6,062	7,280	7,035	6,946	27,387	26,589	28,049	29,448	30,888
Asia Pacific	2,215	2,334	2,136	2,363	9,048	2,148	2,193	1,894	2,096	8,331	7,005	7,452	7,980	8,552
Europe	1,552	2,022	1,999	1,783	7,356	1,497	1,968	1,890	1,571	6,926	6,859	7,031	7,204	7,381
North America	776	1,513	1,892	1,497	5,678	866	1,538	1,801	1,650	5,855	6,489	6,897	7,221	7,530
Africa Middle East	1,164	1,225	1,065	1,082	4,536	1,049	1,081	882	1,034	4,046	4,112	4,437	4,697	4,956
Latin America	809	808	842	782	3,241	682	684	716	682	2,829	2,707	2,846	2,991	3,145
Corporate / eliminations	(104)	(97)	(109)	(66)	(376)	(180)	(184)	(148)	(88)	(600)	(583)	(614)	(645)	(677)
Operating EBITDA (pre merger / restr)	1,048	1,661	1,642	1,400	5,751	824	1,705	1,685	1,540	5,754	6,002	6,626	7,066	7,508
Asia Pacific	424	392	350	399	1,565	344	438	338	419	1,539	1,386	1,519	1,692	1,884
Europe	161	423	376	304	1,264	119	457	418	327	1,321	1,353	1,434	1,489	1,546
North America	(26)	364	519	326	1,183	3	393	574	392	1,362	1,590	1,777	1,891	1,989
Africa Middle East	364	416	309	273	1,362	256	328	240	289	1,113	1,186	1,292	1,360	1,425
Latin America	255	196	238	218	907	210	211	234	231	886	903	932	961	991
Corporate / eliminations	(130)	(130)	(150)	(120)	(530)	(108)	(122)	(119)	(117)	(466)	(417)	(327)	(327)	(327)
EBITDA margin (%)	16.3%	21.3%	21.0%	18.8%	19.5%	13.6%	23.4%	24.0%	22.2%	21.0%	22.6%	23.6%	24.0%	24.3%
Asia Pacific	19.1%	16.8%	16.4%	16.9%	17.3%	16.0%	20.0%	17.8%	20.0%	18.5%	19.8%	20.4%	21.2%	22.0%
Europe	10.4%	20.9%	18.8%	17.0%	17.2%	7.9%	23.2%	22.1%	20.8%	19.1%	19.7%	20.4%	20.7%	20.9%
North America	(3.4%)	24.1%	27.4%	21.8%	20.8%	0.3%	25.6%	31.9%	23.8%	23.3%	24.5%	25.8%	26.2%	26.4%
Africa Middle East	31.3%	34.0%	29.0%	25.2%	30.0%	24.4%	30.3%	27.2%	27.9%	27.5%	28.8%	29.1%	28.9%	28.8%
Latin America	31.5%	24.3%	28.3%	27.9%	28.0%	30.8%	30.8%	32.7%	33.8%	31.3%	33.4%	32.7%	32.1%	31.5%
Depreciation	(605)	(629)	(646)	(599)	(2,479)	(547)	(591)	(534)	(544)	(2,216)	(2,018)	(2,007)	(2,004)	(2,010)
Operating income	443	1,032	996	801	3,272	277	1,114	1,151	996	3,538	3,984	4,619	5,063	5,499
Other operating income	434	(444)	620	(3,022)	(3,423)	(48)	(104)	382	(133)	97	(264)	(100)	(100)	(100)
Associates and JV net profit	33	62	34	59	157	21	48	54	42	165	199	196	193	190
Net interest expense	(338)	(331)	(321)	(348)	(1,353)	(225)	(199)	(182)	(233)	(839)	(776)	(741)	(673)	(595)
Profit before tax	572	319	1,329	(2,510)	(1,347)	25	859	1,405	672	2,961	3,143	3,974	4,483	4,994
Tax					(738)	(88)	(374)	(312)	(195)	(969)	(853)	(1,096)	(1,244)	(1,393)
Tax rate (%)					nm	nm	46%	28%	31%	33%	29%	29%	29%	29%
Net income					(2,085)	(63)	485	1,093	477	1,992	2,289	2,878	3,239	3,601
Minority interest					(151)	(60)	(99)	(58)	(58)	(275)	(325)	(424)	(504)	(579)
Discontinued operations						17	15	11	0	43				
Net income after minorities					(2,236)	(106)	401	1,046	419	1,760	1,964	2,455	2,735	3,021
Post tax merger costs						26	58	58	72	214	0	0	0	0
Other non-recurring items						0	59	(481)	16	(406)				
Pre-ex net income					600	(33)	518	623	460	1,568	1,964	2,455	2,735	3,021
Av share count (m)					606	606	606	606	606	606	606	606	606	606
EPS (CHF)					(3.69)	(0.18)	0.66	1.73	0.69	2.91	3.24	4.05	4.52	4.99
EPS (CHF) - pre-ex					0.99	(0.05)	0.86	1.03	0.76	2.59	3.24	4.05	4.52	4.99
DPS (CHF)					1.50					2.00	2.05	2.10	2.26	2.49

Source: Company data, UBS estimates

Figure 101: LafargeHolcim cash flow, 2015-20E

Year to December (CHFm)	2015	2016E	2017E	2018E	2019E	2020E
EBITDA	5,751	5,754	6,002	6,626	7,066	7,508
Merger/restructuring cash costs	(784)	(400)	(384)	(100)	(100)	(100)
Working capital	(638)	(35)	(181)	(146)	(140)	(144)
Other	(148)	150	(52)	(52)	(52)	(52)
Operating cash flow (pre interest/tax)	4,181	5,469	5,384	6,328	6,774	7,212
Interest paid	(1,287)	(948)	(716)	(666)	(598)	(520)
Tax paid	(500)	(969)	(853)	(1,150)	(1,306)	(1,463)
Dividends received	156	160	145	157	162	167
Dividend to minorities	(335)	(280)	(248)	(293)	(381)	(453)
Operating cash flow	2,215	3,432	3,712	4,376	4,651	4,943
Maintenance capital expenditure	(1,148)	(1,050)	(1,050)	(1,050)	(1,200)	(1,250)
Capitalised merger costs	0	(53)	(248)	0	0	0
Growth capital expenditure	(1,453)	(900)	(500)	(900)	(900)	(900)
Equity free cash flow	(386)	1,429	1,914	2,426	2,551	2,793
Disposals	1,462	3,755	496	159		
Acquisitions	(564)	(630)				
Share issues	(735)	3	0	0		
Dividends paid	(809)	(909)	(1,211)	(1,241)	(1,272)	(1,368)
Exchange rate	600	(255)				
Accounting change	124	0				
Fair value change	190	200	0	0	0	0
Other change in net debt	751	323				
Total change in net debt	634	3,916	1,199	1,343	1,279	1,426
Starting net debt	(17,900)	(17,266)	(13,350)	(12,151)	(10,808)	(9,528)
Change in net debt	634	3,916	1,199	1,343	1,279	1,426
Ending net debt	(17,266)	(13,350)	(12,151)	(10,808)	(9,528)	(8,103)
Fair value	(745)	(334)	(145)	0	0	0
Net debt pre fair value	(16,521)	(13,016)	(12,006)	(10,808)	(9,528)	(8,103)
Net debt / EBITDA (x)	3.0	2.5	2.0	1.6	1.3	1.1

Source: Company data, UBS estimates

Figure 102: LafargeHolcim sales and EBITDA bridge, 2015-20E

Year to December (CHFm)	2015	Q116	Q216	Q316	Q316E	2016E	2017E	2018E	2019E	2020E
Sales bridge										
Start	31,440	6,412	7,805	7,825	7,441	29,483	27,387	26,589	28,049	29,448
FX	(2,072)	(222)	(180)	(202)	(338)	(942)	(162)	0	0	0
Scope out	0	(20)	(92)	(236)	(265)	(613)	(2,147)	0	0	0
Adjusted start	29,368	6,170	7,533	7,387	6,838	27,928	25,078	26,589	28,049	29,448
LFL	115	(108)	(253)	(352)	172	(541)	1,510	1,460	1,400	1,440
Scope in	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
End	29,483	6,062	7,280	7,035	7,010	27,387	26,589	28,049	29,448	30,888
EBITDA bridge										
Start	6,440	1,048	1,661	1,642	1,400	5,751	5,754	6,002	6,626	7,066
FX	(377)	(42)	(38)	(52)	(101)	(233)	(74)	0	0	0
Scope out	0	(3)	(20)	(73)	(49)	(144)	(405)	0	0	0
Adjusted start	6,063	1,003	1,603	1,517	1,251	5,374	5,275	6,002	6,626	7,066
LFL	(255)	(121)	101	157	250	388	727	624	440	442
Carbon (delta)	(65)	(17)	1	0	16	0	0	0	0	0
One off (delta)	8	(41)	0	12	22	(8)	0	0	0	0
Scope in	0	0	0	0	0	0	0	0	0	0
Other	0	(0)	0	(0)	1	0	(0)	0	0	0
End	5,751	824	1,705	1,685	1,540	5,754	6,002	6,626	7,066	7,508
<i>LFL EBITDA growth</i>	(4.2%)	(12.0%)	6.3%	10.3%	20.0%	7.2%	13.8%	10.4%	6.6%	6.3%
<i>LFL EBITDA growth (ex syn)</i>	(6.4%)	(22.6%)	(3.3%)	(3.2%)	3.7%	(3.4%)	8.1%	8.2%	6.6%	6.3%
Cost inflation (gross)	2.3%	1.9%	(0.5%)	(1.2%)	(1.2%)	0.5%	3.4%	2.5%	2.4%	2.5%
Volume growth	(0.2%)	2.5%	(1.8%)	(4.7%)	(1.4%)	(1.5%)	2.5%	2.9%	2.7%	2.6%
Price inflation	0.6%	(3.1%)	(0.4%)	0.5%	4.3%	0.4%	3.5%	2.7%	2.4%	2.4%

Source: Company data, UBS estimates

Saint Gobain

Over-discounting a recovery

Increased inflation a mixed blessing

After a year of slightly deflation in 2016E, we expect inflation to return to +1.3% in 2017E. We believe this is a mixed blessing: while positive in general for distribution, in the manufacturing business we see this mostly acting to pass on rising input costs. We expect France to progressively improve in 2017E after still a lacklustre year in 2016E, where a lack of RMI growth held back overall performance. The upside surprise mainly came from other European countries, including Germany and Scandinavia, as well as growth in the flat glass business which has been boosted by a strong auto market.

Raising estimates to integrate inflation, FX and bolt-ons

Our 2017E EBIT estimate rises by 2.6% to reflect (1) recent US\$ strength (c20% of EBIT); (2) increased inflation rates and (3) integration of bolt-on acquisitions. Our forecasts implies 7% organic EBIT growth which we believe is appropriate. As a result our forecasts are broadly in line with 2017E consensus estimates.

Valuation elevated, maintain Sell rating

We believe St Gobain has benefitted from a general cyclical re-rating and hopes of reflation. However, we see a risk that recovery is drawn out and remains slow, especially in Europe. We note that while France has recovery potential, it only accounts c25% of sales and 10% of EBIT. With the share now trading over 16x P/E and 8x EV/EBITDA, a multi-year high, we see valuation as over-discounting a recovery in earnings. We also note a particularly low EFCF yield of 4.5%, one of the lowest within the sector.

Valuation: Sell PT €37.0 (up from €35.0)

Our PT rises to €37 (from €35) to reflect new estimates. Our PT is based on DCF with a long-term EBIT margin of 9% and WACC of 7.75%.

Equities

France

Building Materials

12-month rating

Sell

12m price target

€37.00
Prior: €35.00

Price

€45.54
RIC: SGOB.PA **BBG:** SGO FP

Trading data and key metrics

52-wk range €45.63-32.07

Market cap. €25.0bn/US\$26.6bn

Shares o/s 549m (ORD)

Free float 86%

Avg. daily volume ('000) 1,484

Avg. daily value (m) €62.4

Common s/h equity (12/16E) €19.3bn

P/BV (12/16E) 1.3x

Net debt / EBITDA (12/16E) 1.2x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/16E	2.40	2.41	0	2.39
12/17E	2.68	2.78	4	2.78
12/18E	3.02	3.13	3	3.18

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	42,025	41,054	39,623	38,938	40,450	41,826	49,654	51,576
EBIT (UBS)	2,764	2,797	2,636	2,806	3,045	3,241	4,449	4,731
Net earnings (UBS)	1,027	1,103	1,165	1,334	1,519	1,689	1,931	2,107
EPS (UBS, diluted) (€)	1.89	1.97	2.06	2.41	2.78	3.13	3.62	3.97
DPS (€)	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24
Net (debt) / cash	(7,521)	(7,221)	(4,797)	(4,928)	(4,915)	(4,658)	(4,909)	(3,681)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	6.6	6.8	6.7	7.2	7.5	7.7	9.0	9.2
ROIC (EBIT) %	9.9	10.2	9.7	10.4	11.1	11.6	15.1	15.2
EV/EBITDA (core) x	7.2	7.9	8.2	8.5	8.0	7.5	7.4	6.8
P/E (UBS, diluted) x	17.9	19.8	19.5	18.9	16.4	14.6	12.6	11.5
Equity FCF (UBS) yield %	4.7	(0.7)	4.7	4.1	4.4	5.0	7.7	8.2
Net dividend yield %	3.7	3.2	3.1	2.7	2.7	2.7	2.7	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €45.54 on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Will the end market mix be sufficiently strong over 2017-18 for St Gobain to outperform?

No. While we expect France to improve off a low base we believe other parts of Europe (UK, Germany, Nordics) have less recovery potential given already high activity levels.

[Saint Gobain – "Optionality on France priced in" 01 March 2016 →](#)

Q: Will a return to inflation be margin accretive?

No. We believe rising input costs will mostly drive inflation and not act as a net price contributor.

Q: Will St Gobain walk away from the bid to acquire a controlling stake in Sika?

In our view this is unlikely, although final outcome and timing remains uncertain at this point. We believe the strong operating performance of Sika has strengthened St Gobain's desire and we find it highly unlikely that the group would (voluntarily) walk away from the acquisition.

UBS VIEW

Our Sell rating on St Gobain is predicated on our view that we see a sharper recovery priced into the stock than we expect over the coming years. In particular, while we see recovery potential in France, we expect growth to be slow. We are also concerned that parts of the portfolio (e.g. UK, Nordics, auto's, US industrial) have already mostly recovered and leave less cyclical upside.

EVIDENCE

Lead indicators in France (permits, starts, transactions) all point to an improvement from here, though renovation trends remain mixed.

WHAT'S PRICED IN?

Long-term P/E of the stock is 11-11.5x compared to 16.5x 2017E (UBSe) suggesting the market is already discounting significant earnings recovery.

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Volume growth FY17E	Volume growth FY18	EBIT margin FY18E	EBIT (€) FY18E
€53 upside	4.0%	4.0%	8.8%	€3.8bn
€37 base	2.0%	2.0%	7.7%	€3.2bn
€30 downside	0.0%	0.0%	7.0%	€2.8bn

Source: UBS

COMPANY DESCRIPTION

St Gobain is a diversified producer and distributor of building and industrial products.

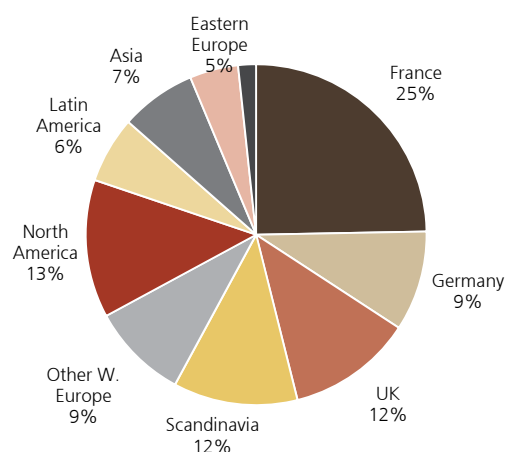
COMPANY DESCRIPTION

Saint Gobain is a leading manufacturer and distributor of building materials and industrial products. In 2015, sales were split into: flat glass 13%, high-performance materials 11%, interior construction products 16%, exterior construction products 14% and distribution of building products 46%. Mature markets dominate (Europe at 67%, with France alone 25%, and the US at 13% by sales), but emerging markets exposure is increasing steadily (20% sales) and EMs make up a higher proportion of the industrial asset base (33%).

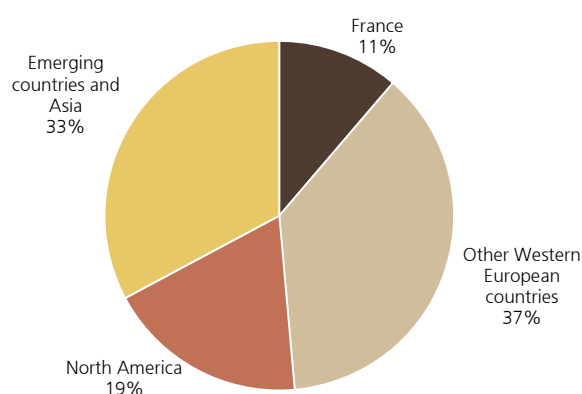
Industry outlook

St Gobain is exposed to a number of end markets ranging from construction and various other industries including automotive. We expect a gradual recovery in France, growth in the rest of Europe and a slower environment in emerging markets. In North America, we expect construction markets to grow and industrial end markets to remain subdued.

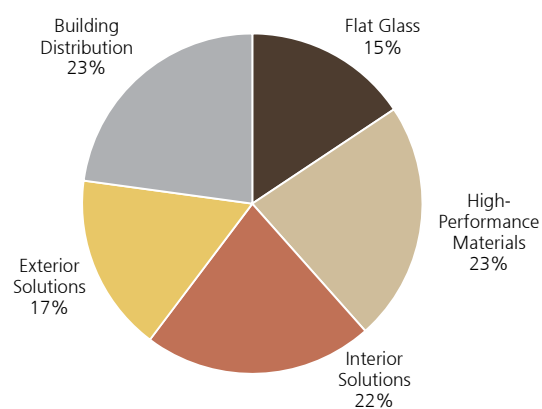
Revenues by country (2015, %)



Operating profit by region (2015, %)



Operating profit by segment (2015, %)



Source: Company data

Figure 103: Saint Gobain divisional profit and loss, 2016-20E

Year to December (€m)	H115	H215	FY15	H116	H216	FY16E	FY17E	FY18E	FY19E	FY20E
Total Sales	19,861	19,762	39,623	19,549	19,389	38,938	40,450	41,826	49,654	51,576
Flat Glass	2,633	2,584	5,217	2,656	2,666	5,322	5,508	5,701	5,900	6,107
High-Performance Materials	2,297	2,205	4,502	2,264	2,246	4,510	4,871	5,090	5,319	5,558
Construction Products	6,080	5,932	12,012	6,008	5,932	11,940	12,495	12,937	19,952	20,883
- Interior Solutions	3,197	3,288	6,485	3,297	3,293	6,590	6,833	7,072	7,320	7,576
- Exterior Solutions	2,913	2,686	5,599	2,753	2,701	5,454	5,768	5,969	6,178	6,395
- Sika (100%)									6,559	7,018
Building Distribution	9,338	9,511	18,849	9,104	9,003	18,107	18,553	19,109	19,682	20,273
Reconciliation	(487)	(470)	(957)	(483)	(457)	(940)	(977)	(1,010)	(1,199)	(1,246)
Operating Income	1,275	1,361	2,636	1,368	1,438	2,806	3,045	3,241	4,449	4,731
Flat Glass	194	219	413	234	241	475	497	520	544	569
High-Performance Materials	310	292	602	318	310	628	673	699	725	753
Construction Products	529	493	1,022	564	523	1,087	1,187	1,272	2,366	2,530
- Interior Solutions	288	288	576	335	307	642	678	719	761	805
- Exterior Solutions	241	205	446	229	216	445	509	553	598	645
- Sika (100%)									1,007	1,080
Building Distribution	242	361	603	253	367	620	692	754	818	884
Reconciliation	0	(4)	(4)	(1)	(3)	(4)	(4)	(4)	(4)	(4)
Operating Income margin (%)	6.4	6.9	6.7	7.0	7.4	7.2	7.5	7.7	9.0	9.2
Flat Glass	7.4	8.5	7.9	8.8	9.0	8.9	9.0	9.1	9.2	9.3
High-Performance Materials	13.5	13.2	13.4	14.0	13.8	13.9	13.8	13.7	13.6	13.5
Construction Products	8.7	8.3	8.5	9.4	8.8	9.1	9.5	9.8	11.9	12.1
- Interior Solutions	9.0	8.8	8.9	10.2	9.3	9.7	9.9	10.2	10.4	10.6
- Exterior Solutions	8.3	7.6	8.0	8.3	8.0	8.2	8.8	9.3	9.7	10.1
- Sika (100%)									15.3	15.4
Building Distribution	2.6	3.8	3.2	2.8	4.1	3.4	3.7	3.9	4.2	4.4
Gains on disposals	14	35	49	15	10	25	25	25	25	25
Recognition of negative goodwill	0	0	0	0	0	0	0	0	0	0
Restructuring costs	(70)	(109)	(179)	(86)	(94)	(180)	(200)	(200)	(200)	(200)
Provisions for claims & litigations	(73)	(52)	(125)	(56)	(29)	(85)	(85)	(85)	(85)	(85)
Impairment charge	(55)	(991)	(1,046)	(47)	0	(47)	0	0	0	0
Other Income	(11)	(30)	(41)	(38)	(2)	(40)	(40)	(40)	(40)	(40)
EBIT	1,080	214	1,294	1,156	1,323	2,479	2,745	2,941	4,149	4,431
Margin (%)	5.4	1.1	3.3	5.9	6.8	6.4	6.8	7.0	8.4	8.6
Interest income	15	10	25	10	10	20	25	25	25	25
Interest expense	(228)	(216)	(444)	(197)	(187)	(384)	(365)	(350)	(360)	(330)
Other financial items	(115)	(95)	(210)	(100)	(110)	(210)	(210)	(210)	(210)	(210)
PBT	752	(87)	665	869	1,035	1,904	2,195	2,406	3,604	3,916
Tax	(236)	(12)	(248)	(261)	(307)	(568)	(657)	(696)	(1,043)	(1,134)
Tax rate (%)	31.4	(13.8)	37.3	30.0	29.7	29.9	29.9	28.9	28.9	28.9
Pre-ex PBT	821	876	1,697	906	1,051	1,943	2,213	2,424	3,622	3,934
Pre-ex tax	(246)	(243)	(489)	(270)	(313)	(583)	(664)	(703)	(1,050)	(1,141)
Pre-ex tax rate (%)	30.0	27.7	28.8	29.8	29.8	30.0	30.0	29.0	29.0	29.0
Minority Interest	(27.0)	(16.0)	(43.0)	(14.0)	(26.9)	(40.9)	(42.9)	(45.0)	(655.7)	(703.8)
Net income	558.0	745.0	1,303.0	596.0	701.0	1,295.0	1,501.7	1,671.3	1,913.5	2,089.0
Net income (pre-ex)	548.0	617.0	1,165.0	624.0	711.6	1,333.6	1,519.5	1,689.0	1,931.3	2,106.7
EPS (stated)	0.99	1.33	2.32	1.07	1.27	2.35	2.76	3.11	3.61	3.96
EPS (diluted)	0.99	1.32	2.31	1.07	1.27	2.34	2.75	3.10	3.59	3.94
EPS (pre-ex)	0.98	1.10	2.07	1.12	1.29	2.42	2.79	3.14	3.64	3.99
EPS (pre-ex, diluted)	0.97	1.09	2.06	1.12	1.29	2.41	2.78	3.13	3.62	3.97
DPS	0.00	1.24	1.24	0.00	1.24	1.24	1.24	1.24	1.24	1.24

Source: Company data, UBS estimates

Figure 104: Saint Gobain cash flow, 2015-20E

Year to December (€m)	2015	2016E	2017E	2018E	2019E	2020E
Operating profit	2,636	2,806	3,045	3,241	4,449	4,731
Depreciation	1,208	1,171	1,205	1,233	1,477	1,515
Change in working capital	84	(92)	(110)	(124)	(114)	(158)
Asbestos payment	(59)	(59)	(59)	(59)	(59)	(59)
Pension	(116)	(165)	(210)	(210)	(210)	(210)
Other	(255)	(220)	(240)	(240)	(240)	(240)
Operating cash flow (pre interest/tax)	3,498	3,441	3,632	3,841	5,304	5,580
Tax paid	(591)	(568)	(657)	(696)	(1,043)	(1,134)
Interest paid	(438)	(374)	(350)	(335)	(345)	(315)
Operating cash flow	2,469	2,498	2,625	2,811	3,915	4,131
Capital expenditure	(1,484)	(1,529)	(1,584)	(1,637)	(1,855)	(1,923)
Industrial disposals	122	100	100	100	100	100
Equity free cash flow	1,107	1,069	1,141	1,274	2,160	2,308
Acquisitions	(310)	(111)	(104)	0	(2,342)	(177)
Disposals	2,460	(10)	0	0	0	0
Share issues	412	137	0	0	0	0
Share buy backs	(545)	(416)	(315)	(315)	(270)	0
Dividends	(695)	(684)	(675)	(666)	(658)	(654)
Dividends to minorities	(37)	(33)	(34)	(36)	(233)	(249)
Other net debt movements	32	(83)	0	0	1,092	0
Beginning net debt	(7,221)	(4,797)	(4,928)	(4,915)	(4,658)	(4,909)
Movement in net debt	2,424	(131)	13	257	(251)	1,228
Ending net debt	(4,797)	(4,928)	(4,915)	(4,658)	(4,909)	(3,681)

Source: Company data, UBS estimates

Figure 105: Saint Gobain sales and EBIT bridge, 2016-20E

Year to December (%)	H116	H216	FY16E	FY17E	FY18E	FY19E	FY20E
Price	(0.6)	0.4	(0.1)	1.3	1.5	1.5	1.3
Volume	3.5	1.8	2.7	1.9	1.9	1.5	2.2
Organic	2.9	2.3	2.6	3.1	3.4	3.0	3.5
FX	(3.5)	(2.5)	(3.0)	0.5	(0.0)	0.0	0.0
M&A	(1.0)	(1.6)	(1.3)	0.2	0.0	15.7	0.3
Total	(1.6)	(1.9)	(1.7)	3.9	3.4	18.7	3.9
Change in trading days (%)	1.3	(0.8)	0.3				
Like-for-like sales growth	1.6	3.1	2.3				
Group LFL sales growth	2.9	2.3	2.6	3.1	3.4	3.0	3.5
Flat glass	6.5	5.7	6.1	3.5	3.5	3.5	3.5
HPM	2.0	2.4	2.2	4.5	4.5	4.5	4.5
Interior solutions	5.2	2.4	3.8	3.2	3.5	3.5	3.5
Exterior solutions	(2.0)	0.7	(0.7)	3.0	3.5	3.5	3.5
Distribution	3.1	1.3	2.2	3.2	3.0	3.0	3.0
Sika				4.5	4.5	4.5	4.5
EBIT bridge (€m)							
Start	1,275	1,361	2,636	2,806	3,045	3,241	4,449
Price	(9)	128	119	281	345	357	436
Volume	73	50	122	128	142	147	198
Distribution	12	32	44	77	62	64	66
Cost	55	(92)	(37)	(300)	(368)	(381)	(447)
Cost savings	0	0	0	15	15	15	15
Organic	131	118	249	201	196	202	269
FX	(48)	(32)	(80)	24	0	1,007	0
M&A	10	(10)	0	15	0	0	13
End	1,368	1,438	2,806	3,045	3,241	4,449	4,731
EBIT bridge (%)							
Price	(0.7)	9.4	4.5	10.0	11.3	11.0	9.8
Volume	5.7	3.6	4.6	4.6	4.6	4.5	4.5
Distribution	0.9	2.4	1.7	2.7	2.0	2.0	1.5
Cost	4.3	(6.8)	(1.4)	(10.7)	(12.1)	(11.8)	(10.0)
Cost savings	0.0	0.0	0.0	0.5	0.5	0.5	0.3
Organic	10.3	8.7	9.5	7.2	6.4	6.2	6.0
FX	(3.8)	(2.3)	(3.0)	0.8	0.0	31.1	0.0
M&A	0.8	(0.7)	0.0	0.5	0.0	0.0	0.3
Total	7.3	5.6	6.4	8.5	6.4	37.3	6.3

Source: Company data, UBS estimates

SIG plc

Structural question marks, reiterate Sell

Structural question marks, reiterate Sell

We retain our Sell rating as we do not see any of the following pressures abating in the near term: (1) soft trading in the UK led to 1.1% LFL growth in FY16, considerably below peers and widening further market share losses; (2) gross margin pressures (-60bps y/y in H216) are likely to remain driven by further disruption on costs; (3) significant step-up in investments needed to improve SIG's competitiveness and (4) no positive catalyst over the foreseeable future with a new CEO appointment pending, and CFO Nick Maddock to start in Jan-17.

Recent UK pressures to continue in the near-term

LFL growth in FY16 was significantly lower at SIG (+1.1% y/y) than Grafton's Merchanting (+2.9%) and Travis Perkins' Contracts division (UBSE +4.5%) highlighting further market share losses. We believe new non-residential and RMI residential construction activity in the UK (>c.50% of UK revenues) will remain subdued over FY17 and forecast -1.6% LFL growth in FY17E. Competitive pressures will likely remain high in our view. We forecast further gross margin erosion in FY17E (-24bps) despite the announced upgrade on self-help measures. We remain cautious on the full integration of cost savings given the low historical retention from a number of initiatives. Without a management team in place or a clear strategy to reverse recent pressures, we struggle to see how SIG can keep up with peers, who are heavily investing to take share.

Full revision of our model, EPS'16-20E cut by 10%

We have integrated PTP guidance for FY16 (£75-80m) at £77m (-11% y/y) and lowered our forecasts by 10% over FY17-20E. We expect Group LFL growth of -0.7% y/y in FY17E and a further 50bps y/y decline on EBITA margin to 2.7% (from 3.8% in FY15). We also think that margin recovery is increasingly difficult to see significant improvements, and forecast LT margin to stand at 3.5% (vs 6.5% at FY07 peak).

Valuation: Sell, PT 90p

Our valuation is DCF based, assuming LT EBITA margins of 3.5% (FY15: 3.8%), WACC of 8% and terminal growth rate of 1.5%.

Equities

United Kingdom
Building Materials

12-month rating **Sell**

12m price target **90p**

Price **105p**

RIC: SHI.L **BBG:** SHI LN

Trading data and key metrics

52-wk range	149p-87
Market cap.	£0.62bn/US\$0.76bn
Shares o/s	591m (ORD)
Free float	100%
Avg. daily volume ('000)	2,702
Avg. daily value (m)	£2.7
Common s/h equity (12/16E)	£0.67bn
P/BV (12/16E)	0.9x
Net debt / EBITDA (12/16E)	2.0x

EPS (UBS, diluted) (p)

	UBS	Cons.
12/16E	9.91	9.66
12/17E	8.49	9.46
12/18E	9.42	10.52

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Highlights (£m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	2,720	2,603	2,566	2,832	2,882	2,918	2,967	3,016
EBIT (UBS)	101	110	99	90	79	86	96	106
Net earnings (UBS)	63	69	66	59	50	56	63	71
EPS (UBS, diluted) (p)	10.61	11.68	11.18	9.91	8.49	9.42	10.68	11.97
DPS (p)	3.55	4.40	4.60	3.96	3.40	3.77	4.27	4.79
Net (debt) / cash	(121)	(127)	(236)	(237)	(243)	(243)	(238)	(210)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	3.7	4.2	3.8	3.2	2.7	3.0	3.2	3.5
ROIC (EBIT) %	12.0	13.3	11.5	9.8	8.4	9.0	9.9	10.8
EV/EBITDA (core) x	9.3	9.2	10.6	7.6	8.3	7.7	7.0	6.2
P/E (UBS, diluted) x	16.3	15.7	16.2	10.6	12.3	11.1	9.8	8.8
Equity FCF (UBS) yield %	2.6	3.9	(0.2)	3.9	2.6	3.5	4.5	8.8
Net dividend yield %	2.1	2.4	2.5	3.8	3.2	3.6	4.1	4.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 105p on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Can UK market shares be recovered?

Not in our view. While SIG has a strong niche market position, it has suffered in the past 3 years as competitive pressures have built. LFL growth in Q3 was significantly lower at SIG (-1.1% y/y) than Travis Perkins' Contracts division (+5.7%) and Grafton's Merchandising (+1.2%) highlighting further market share losses. Without a management team in place or a clear strategy we struggle to see how SIG can keep up with peers over the longer-term.

[SIG – "Structural question marks, reiterate Sell" 12 January 2016 →](#)

Q: Can European businesses become a major profit driver?

Yes, however we view this as a longer term story. European construction markets activity remains subdued, across both residential and non-residential markets, while Germany is pressured. While we acknowledge longer term optionality, we see limited ability to significantly grow earnings near term. We forecast flat Sales LFL growth over FY16-18E and EBITA margins to bottom at 2.9% in FY18E (from 3.9% in FY15) for the European division.

Q: Can the distribution strategy deliver gross margin gains?

Potentially, although competitors might simply compete more aggressively to take share, pressuring price and gross margins further, which may continue to weigh on profits.

UBS VIEW

We think SIG will continue to lag peers, perhaps more so in a declining market. Europe remains under pressure and we are not convinced of a recovery back to peak margins in the coming years. There are many changes going on within the company, as it moves towards more centralised procurement and distribution; while cost re-investment and price competition look likely to weigh on margins, we have limited evidence prior cost out is being retained.

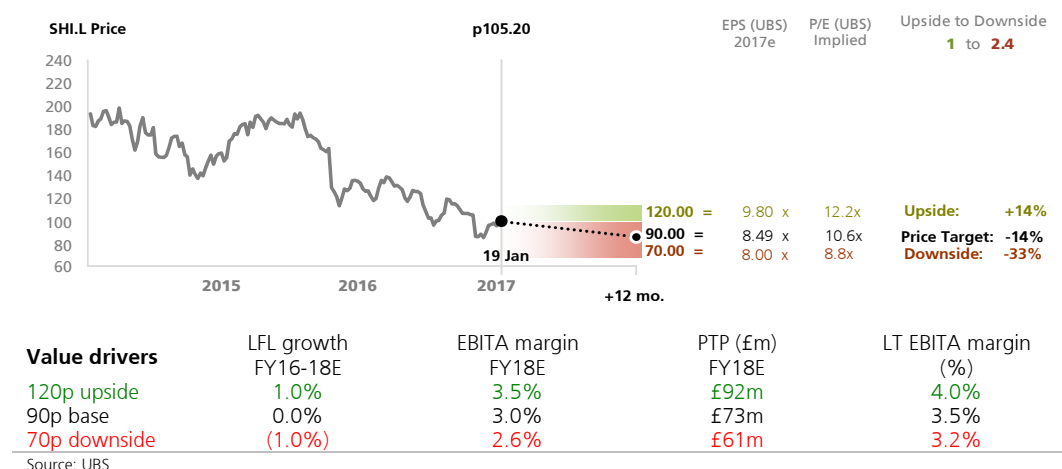
EVIDENCE

SIG has materially underperformed peers on a LFL sales growth basis. In addition, SIG's trading update in Nov-16 highlighted further erosion on gross margin despite the announced upgrade on self-help. However, SIG has shown little historical retention of announced cost savings (e.g. in FY15, SIG's PTP decreased by £11m y/y while delivering strategic initiatives of £13m and it grew 0.3% y/y LFL).

WHAT'S PRICED IN?

In our view, the market is unprepared to pay away for long term earnings growth until SIG can demonstrate an ability to retain cost benefits and display meaningful earnings growth.

UPSIDE / DOWNSIDE SPECTRUM



COMPANY DESCRIPTION

SIG is a distributor of specialist building materials: insulation, roofing materials, commercial interiors, and niche speciality and safety products.

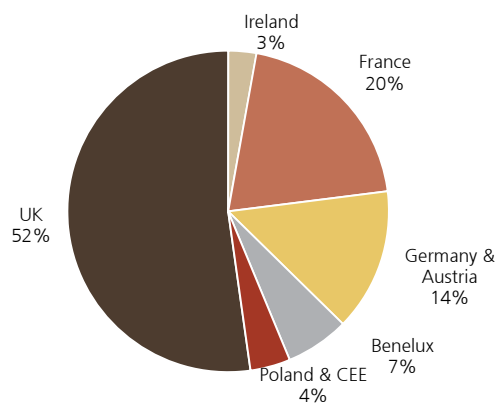
COMPANY DESCRIPTION

SIG is a distributor of specialist building materials: insulation, roofing materials, commercial interiors, and niche speciality and safety products. The group's end-market exposure is 47% non-residential, 43% residential, and 10% industrial. Its business model works on the assumption that general merchants cannot match the expertise or product range of specialists, thereby taking market share. It has businesses in the UK, Ireland, France, Germany, Poland, Benelux, the Czech Republic, and Austria. New management is focusing on strategic initiatives to deliver operational efficiency savings in the coming years.

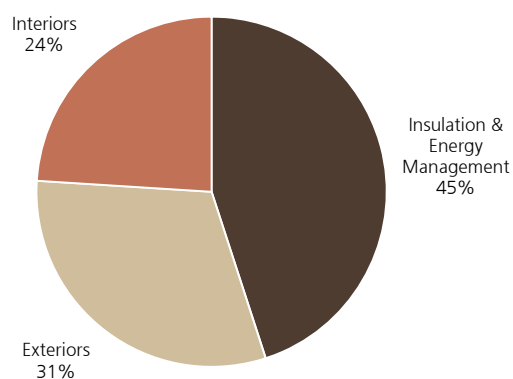
Industry outlook

SIG is mainly exposed to the construction markets in the UK, Germany and France. We expect the UK construction markets to continue to grow, led by housing, and eventually non-residential recovery, which we believe is showing some faltering signs of early promise. SIG is more geared to non-residential end markets which are later-cycle in nature and should therefore recover with some lag. In Europe, trends are likely more difficult, with France and Germany both not as cyclically depressed as the UK, but with strength in Poland and rebound in the Benelux (Netherlands).

Revenues by region (FY15, %)



Market exposure by product line (FY15, %)



Source: Company data

Figure 106: SIG P&L summary

Year to December (£m)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Sales	2,566	2,832	2,882	2,918	2,967	3,016
UK & Ireland	1,413	1,495	1,476	1,500	1,530	1,561
UK	1,341	1,388	1,360	1,381	1,409	1,437
Ireland	72	92	101	104	106	108
Europe	1,154	1,337	1,406	1,418	1,437	1,455
France	517	593	622	629	641	654
Germany & Austria	368	422	439	439	439	439
Benelux	164	198	214	218	222	227
Poland & CEE	104	117	124	126	127	128
EBITA	99	90	79	86	96	106
UK & Ireland	61	57	48	54	61	67
Europe	45	42	40	41	44	47
Central costs	(7)	(8)	(8)	(8)	(8)	(8)
EBITA margin (%)	3.8	3.2	2.7	3.0	3.2	3.5
UK & Ireland	4.3	3.8	3.2	3.6	4.0	4.3
Europe	3.9	3.1	2.8	2.9	3.0	3.2
Interest	(11)	(13)	(13)	(13)	(13)	(13)
PTP (bef. amort. & excep.)	87	77	66	73	83	93
Amortisation	(10)	(10)	(10)	(10)	(10)	(10)
Exceptionals	(26)	(10)	(15)	(15)	(15)	(15)
PTP	51	57	41	48	58	68
Tax	(15)	(14)	(10)	(12)	(14)	(16)
Tax rate (%)	29.2	24.0	24.0	24.0	24.0	24.0
Minority	(0)	0	0	0	0	0
Net income	36	43	31	36	44	51
EPS (p) - pre-exceptional	11.2	9.9	8.5	9.4	10.7	12.0
EPS (p) - reported	6.1	7.3	5.2	6.2	7.4	8.7
DPS (p)	4.6	4.0	3.4	3.8	4.3	4.8

Source: Company data, UBS estimates

Figure 107: SIG Cash flow summary

Year to December (£m)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
EBITA	99	90	79	86	96	106
Depreciation	26	26	27	29	30	32
Profit on sale	0	0	0	0	0	0
Working Capital	(35)	(18)	(11)	(13)	(14)	3
Interest paid	(10)	(11)	(11)	(11)	(11)	(11)
Tax paid	(11)	(14)	(10)	(12)	(14)	(16)
Other	(25)	(10)	(15)	(15)	(15)	(15)
Operating cash flow	44	64	59	65	72	100
Capex	(46)	(40)	(43)	(44)	(45)	(45)
Acquisitions	(75)	0	0	0	0	0
Disposals	0	0	0	0	0	0
Dividends	(28)	(26)	(22)	(21)	(23)	(26)
Other	(3)	0	0	0	0	0
Total Cash Flow movement	(109)	(2)	(6)	1	4	28
Net Debt (End)	(236)	(237)	(243)	(243)	(238)	(210)
Net Debt / EBITDA (x)	1.9	2.0	2.3	2.1	1.9	1.5
Gearing (%)	36.3	35.6	36.1	35.1	33.5	28.6

Source: Company data, UBS estimates

Figure 108: SIG sales bridge

Sales bridge	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Group Sales						
Start	2,603	2,566	2,832	2,882	2,918	2,967
FX	(133)	170	71	1	0	0
M&A	88	100	0	0	0	0
Organic	8	(5)	(21)	35	48	49
Total	2,566	2,832	2,882	2,918	2,967	3,016
% y/y						
FX	(5.1)	6.6	2.5	0.0	0.0	0.0
M&A	3.4	3.9	0.0	0.0	0.0	0.0
Organic	0.3	(0.2)	(0.7)	1.2	1.7	1.7
Total	(1.4)	10.3	1.8	1.3	1.7	1.7
UK & Ireland Sales						
Start	1,336	1,413	1,495	1,476	1,500	1,530
FX	(7)	25	5	0	0	0
M&A	64	50	0	0	0	0
Organic	20	7	(23)	24	30	31
Total	1,413	1,495	1,476	1,500	1,530	1,561
% y/y						
FX	(0.5)	1.8	0.3	0.0	0.0	0.0
M&A	4.8	3.5	0.0	0.0	0.0	0.0
Organic	1.5	0.5	(1.6)	1.6	2.0	2.0
UK	0.8	0.0	(2.0)	1.5	2.0	2.0
Ireland	12.7	10.0	5.0	3.0	2.0	2.0
Total	5.7	5.8	(1.3)	1.6	2.0	2.0
Europe Sales						
Start	1,267	1,154	1,337	1,406	1,418	1,437
FX	(125)	145	66	1	0	0
M&A	24	50	0	0	0	0
Organic	(11)	(12)	3	12	18	19
Total	1,154	1,337	1,406	1,418	1,437	1,455
% y/y						
FX	(9.9)	12.6	5.0	0.1	0.0	0.0
M&A	1.9	4.3	0.0	0.0	0.0	0.0
Organic	(0.9)	(1.0)	0.2	0.8	1.3	1.3
France	(2.8)	(2.0)	0.0	1.0	2.0	2.0
Germany & Austria	(2.3)	(2.0)	(1.0)	0.0	0.0	0.0
Benelux	7.8	3.0	3.0	2.0	2.0	2.0
Poland & CEE	2.3	1.0	1.0	1.0	1.0	1.0
Total	(8.9)	15.9	5.2	0.9	1.3	1.3

Source: Company data, UBS estimates

Figure 109: SIG EBITA bridge

EBITA bridge	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Group EBITA						
Start	110	99	90	79	86	96
FX	(5)	7	2	0	0	0
M&A	9	4	0	0	0	0
Gross margins	(3)	(10)	(7)	(0)	4	4
Top line leverage	(7)	(1)	(5)	9	12	12
Cost inflation	(8)	(21)	(15)	(12)	(12)	(12)
Cost cutting	0	13	14	10	6	6
Central costs delta	3	(1)	0	0	0	0
Total	99	90	79	86	96	106
EBITA margin	3.8	3.2	2.7	3.0	3.2	3.5

UK & Ireland EBITA

Start	66	61	57	48	54	61
FX	(0)	1	0	0	0	0
M&A	6	2	0	0	0	0
Gross margins	(5)	(9)	(7)	(1)	1	2
Top line leverage	0	1	(6)	6	7	8
Cost inflation	(6)	(13)	(10)	(8)	(8)	(8)
Cost cutting	0	13	14	10	6	6
Total	61	57	48	54	61	67
EBITA margin	4.3	3.8	3.2	3.6	4.0	4.3
Cost inflation	2.1	4.0	3.0	2.5	2.5	2.5
Drop through rate	0	20	25	25	25	25

Europe EBITA

Start	54	45	42	40	41	44
FX	(4)	6	2	0	0	0
M&A	3	2	0	0	0	0
Gross margins	1	(1)	0	1	2	2
Top line leverage	(7)	(2)	1	3	5	5
Cost inflation	(1)	(8)	(5)	(3)	(4)	(4)
Cost cutting	0	0	0	0	0	0
Total	45	42	40	41	44	47
EBITA margin	3.9	3.1	2.8	2.9	3.0	3.2
Cost inflation	0.5	2.5	1.5	1.0	1.0	1.0
Drop through rate	(0)	20	25	25	25	25

	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Gross profit	688	750	756	765	782	798
UK & Ireland	376	388	376	380	390	399
Europe	313	362	380	385	392	399
Gross margin (%)	26.8	26.5	26.2	26.2	26.3	26.5
UK & Ireland	26.6	26.0	25.5	25.4	25.5	25.6
Europe	27.1	27.0	27.0	27.1	27.3	27.4
Change in GM (bps)	(8)	(35)	(24)	(1)	12	12
UK & Ireland	(10)	(64)	(50)	(10)	10	10
Europe	10	(5)	0	10	15	15

Source: Company data, UBS estimates

Travis Perkins

UBS Evidence Lab: Quality franchise in trickier times

Quality franchise in more uncertain times

We transition coverage of Travis Perkins and re-iterate our Buy rating with a new price target of 1,725p. While there are some risks in the UK into 2017 as real wages come under pressure, our UBS Evidence Lab survey suggests a dramatic cut to home improvement spending is currently not on the cards. We see the risks of non-Sterling denominated COGS impacting gross margins as overblown. We believe the share price is discounting a weaker scenario than we currently envisage and see current valuation as an attractive entry point for investors prepared to take a longer-term view on the potential of Travis Perkins' market leading franchise. [Link to full note](#)

Not deviating from strategic course despite macro uncertainties

Travis Perkins is holding its strategic course of organic investment into the business with the aim of leveraging scale and gaining market share. Investment will therefore remain at high levels (albeit somewhat lower than previously anticipated). While we think the payback on investments has generally trailed expectations, we believe this in part reflects weaker end markets which have diluted the potential to leverage investments such as the new distribution centres at this point. While P&H had already been restructured over recent years, there is now a recognition the customer proposition needs a fundamental review, likely leading to development of a more significant online platform and range review. The outcome of this review will be presented in 2017.

Initial 2017 outlook – uncertain for now

One key feature for 2017 will be the return of inflation. We model +4% (mainly due to £1bn of non-Sterling COGS) after slight deflation in 2016. However, we model -3.5% volumes and gross margin pressure of 50bps to reflect (1) focus on gaining share and (2) some negative flow through from higher product pricing. Overall this implies we expect EBITA to decline c6% y/y in 2017E, though we recognise the uncertainty around the this projection remains relatively wide.

Valuation: Buy, PT 1,725p (down from 1,800p)

Our DCF based price target drops to 1,725p (from 1,800p) which we believe is based on relatively conservative long-term assumptions, including a 6.5% EBITA margin and WACC of 8%.

Equities

United Kingdom
Retailers, Specialty

12-month rating **Buy**

12m price target **1,725p**
Prior: 1,800p

Price **1,466p**

RIC: TPK.L **BBG:** TPK LN

Trading data and key metrics

52-wk range	1,964p-1,313
Market cap.	£3.67bn/US\$4.50bn
Shares o/s	250m (ORD)
Free float	100%
Avg. daily volume ('000)	1,379
Avg. daily value (m)	£19.4
Common s/h equity (12/16E)	£2.94bn
P/BV (12/16E)	1.2x
Net debt / EBITDA (12/16E)	1.0x

EPS (UBS, diluted) (p)

	From	To	% ch	Cons.
12/16E	130	126	-3	121
12/17E	112	116	3	121
12/18E	119	124	5	132

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Highlights (£m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	5,149	5,579	5,942	6,204	6,337	6,573	6,843	7,126
EBIT (UBS)	348	384	413	413	386	413	444	473
Net earnings (UBS)	250	291	307	320	293	315	344	367
EPS (UBS, diluted) (p)	100	116	121	126	116	124	136	145
DPS (p)	31	38	44	47	47	51	55	59
Net (debt) / cash	(348)	(358)	(447)	(485)	(424)	(330)	(218)	(97)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	6.8	6.9	6.9	6.7	6.1	6.3	6.5	6.6
ROIC (EBIT) %	12.2	12.7	12.9	12.3	11.1	11.6	12.3	12.8
EV/EBITDA (core) x	9.9	10.2	11.0	8.4	8.6	7.9	7.2	6.5
P/E (UBS, diluted) x	15.4	15.1	16.7	11.6	12.7	11.8	10.8	10.1
Equity FCF (UBS) yield %	4.0	1.0	0.2	1.9	4.6	5.6	6.3	6.9
Net dividend yield %	2.0	2.2	2.2	3.2	3.2	3.5	3.8	4.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 1,466p on 19 Jan 2017 17:32 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Are the investments delivering the appropriate return?**

Yes, but we expect a lag on the return on investment so the benefits will only become visible over time.

[Travis Perkins – "UBS Evidence Lab: Quality franchise in trickier times" 20/01/2017→](#)

Q: Can the group successfully take market share?

Yes. We believe the investment into new branches as well as supply chain logistics will support continued end market outperformance.

Q: Will FX moves lead to material margin headwinds?

No. While the Sterling decline will import inflation we believe it will likely be mostly passed to customers.

UBS VIEW

Travis Perkins' proposition of organically taking market share has come under question as its strategy has exerted gross margin pressure across the industry. The macro uncertainties as a result of the EU referendum result have further put in question the heavy investment the group is currently undertaking. While we agree the returns of the investments made so far are somewhat disappointing, we believe patience is required. We believe the group remains best positioned within the industry to take share, outperforming its peers by a factor of up to 10-1.

EVIDENCE

Our analysis of outperformance shows some evidence of TPK taking market share, although it depends on the product category and market segment. The market outlook remains uncertain, with mixed macro indicators into 2017 casting somewhat of a shadow.

WHAT'S PRICED IN?

We believe the share price has gone from being c50% accounted for by long-term growth expectations to just 7% today. This implies the market is now expecting a short-term earnings decline and very limited long-term growth. While we also factor in an earnings decline in 2017, we believe the long-term assessment of growth is currently too negative.

UPSIDE / DOWNSIDE SPECTRUM**Value drivers**

	Sales CAGR FY17-20E	EBITA margin FY20E (ex-PPT)	EBITA FY20E (ex-PPT)	EBITA CAGR FY17-20E
2,300p upside	8.9%	7.4%	£567m	9.6%
1,725p target	5.5%	6.4%	£453m	3.6%
1,250p downside	2.1%	5.3%	£352m	-2.7%

Source: UBS

COMPANY DESCRIPTION

Travis Perkins is the largest builder's merchants in the UK and a major DIY retailer. Travis is 100% exposed to the UK market.

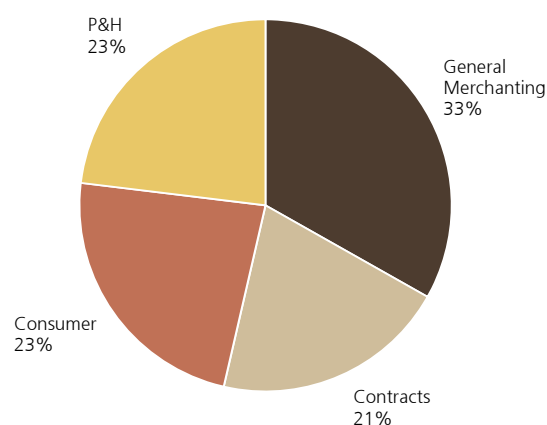
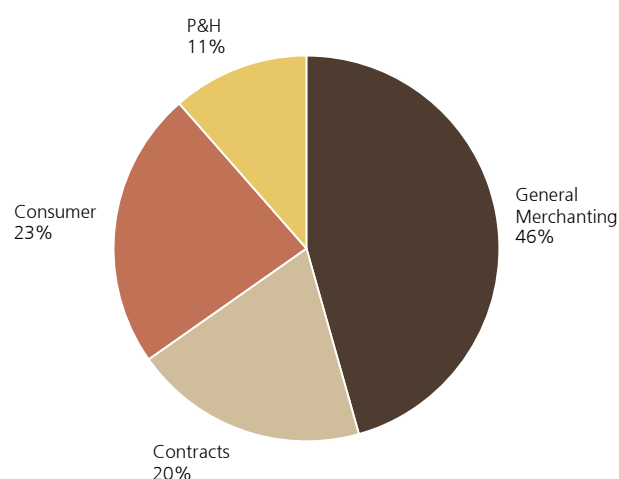
COMPANY DESCRIPTION

[return](#) ↑

Travis Perkins is the largest builders' merchant in the UK and a major DIY retailer. The group operates through four divisions: general merchandising (via its Travis Perkins and Benchmarx brands), consumer (Wickes, Tile Giant and Toolstation), contracts (Keyline, CCF and BSS), and plumbing and heating (City Plumbing, PTS and F&P). The group has grown organically and through acquisition over time. The company is the market leader in the UK with industry-leading margins in merchandising, and the number-three DIY retailer in the UK.

Industry outlook

Travis Perkins is 100% exposed to the UK market. The majority of its sales are into the residential repair, maintenance & improvement (RMI) markets but the group is also exposed to other construction end markets such as infrastructure and new build. Following the outcome of the EU referendum, the outlook for end markets is uncertain and we expect some volume decline into 2017. In addition, competitive dynamics in the industry are somewhat more challenging than in the past, in part due to Travis Perkins' strategy of organically taking market share rather than the traditional route of M&A. This strategy is currently having the side effect of gross margin pressure across the industry.

Revenues by division (2016E, %)**EBIT by division (2016E, %)**

Source: UBS estimates

Figure 110: Travis Perkins profit and loss, FY14-20E

Year to December (£m)	FY14	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Total sales	5,579	5,942	6,204	6,337	6,573	6,843	7,126
General Merchancing	1,873	1,972	2,084	2,146	2,232	2,344	2,461
Contracts	1,072	1,214	1,261	1,261	1,299	1,364	1,432
P&H	1,352	1,371	1,357	1,330	1,370	1,397	1,425
Consumer	1,282	1,386	1,502	1,600	1,672	1,739	1,808
LFL sales growth	7.3	3.8	2.5	0.5	2.7	3.1	3.1
General Merchancing	12.9	3.9	2.3	0.0	3.0	4.0	4.0
Contracts	11.8	8.5	4.5	0.0	3.0	4.0	4.0
P&H	(1.9)	(1.4)	(2.0)	(2.0)	3.0	2.0	2.0
Consumer	6.7	5.3	5.5	4.0	2.0	2.0	2.0
Adjusted EBITA	384	413	413	386	413	444	473
Adjusted EBITA (ex property)	358	389	393	366	393	424	453
General Merchancing	169	182	192	185	198	214	230
Contracts	71	78	74	60	66	74	78
P&H	54	46	34	28	35	41	47
Consumer	77	93	102	103	106	108	112
Property profit	26	24	20	20	20	20	20
Group Overhead	(13)	(10)	(10)	(10)	(11)	(13)	(13)
<i>Adjusted EBITA growth</i>	10%	8%	0%	(6%)	7%	7%	6%
<i>Adjusted EBITDA growth (ex prop)</i>	8%	9%	1%	(7%)	7%	8%	7%
Adjusted EBITA	6.9	6.9	6.7	6.1	6.3	6.5	6.6
Adjusted EBITA (ex property)	6.4	6.5	6.3	5.8	6.0	6.2	6.4
General Merchancing	9.0	9.2	9.2	8.6	8.9	9.1	9.3
Contracts	6.6	6.4	5.9	4.8	5.1	5.4	5.4
P&H	4.0	3.3	2.5	2.1	2.6	2.9	3.3
Consumer	6.0	6.7	6.8	6.4	6.3	6.2	6.2
Sales growth (%)							
Total volume	7.0	4.3	3.7	(3.5)	1.3	1.8	1.8
Total price	0.3	(0.5)	(1.2)	4.0	1.5	1.3	1.3
Total LFL	7.3	3.8	2.5	0.5	2.7	3.1	3.1
Expansion	1.0	1.7	1.5	1.6	1.0	1.0	1.0
Working days	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Acquisition	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Group growth	8.4	6.5	4.4	2.1	3.7	4.1	4.1

Source: Company data, UBS estimates

Figure 111: Travis Perkins profit and loss, FY14-20E

Year to December (£m)	FY 14	FY 15	FY 16E	FY 17E	FY 18E	FY 19E	FY20E
Sales	5,579	5,942	6,204	6,337	6,573	6,843	7,126
EBITA (ex-property)	357.7	388.6	392.8	366.2	393.5	424.1	452.9
Property	26.0	24.0	20.0	20.0	20.0	20.0	20.0
Reported EBITA	383.7	412.6	412.8	386.2	413.5	444.1	472.9
Interest	(21.7)	(30.5)	(24.3)	(25.1)	(25.1)	(25.1)	(25.1)
Amortisation of intangibles	(17.6)	(18.0)	(18.0)	(18.0)	(18.0)	(18.0)	(18.0)
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional items	(23.3)	(140.6)	(45.0)	0.0	0.0	0.0	0.0
Pre-tax profit	321.1	223.5	325.4	343.0	370.3	400.9	429.8
Tax	(62.7)	(55.8)	(74.1)	(65.0)	(70.4)	(72.2)	(77.4)
Tax rate (%)	19.5	25.0	22.8	18.9	19.0	18.0	18.0
Minority interest			(0.6)				
Net income	258.4	167.7	250.7	278.1	299.9	328.8	352.4
Pre-tax profit (pre-ex)	362.0	382.1	388.4	361.0	388.3	418.9	447.8
Tax (pre-ex)	(71.5)	(75.2)	(77.4)	(68.2)	(73.7)	(75.4)	(80.6)
Tax rate (% , pre-ex)	19.8	19.7	19.9	18.9	19.0	18.0	18.0
Minority interest			(0.6)				
Net income (pre-ex)	290.5	306.9	310.5	292.8	314.7	343.5	367.2
EPS (p)	105.8	67.8	100.8	111.7	120.5	132.1	141.6
Pre-ex EPS (p)	119.0	124.1	124.8	117.7	126.5	138.1	147.6
Diluted pre-ex EPS (p)	115.5	121.3	122.6	115.6	124.2	135.6	145.0
DPS (p)	38.0	44.0	47.0	47.0	50.6	55.2	59.0

Source: Company data, UBS estimates

Figure 112: Travis Perkins cash flow, 2014-20E

Year to December (£m)	2014	2015	2016E	2017E	2018E	2019E	2020E
EBITA (ex property)	357	386	393	366	393	424	453
Depreciation	75	83	84	93	97	101	106
Working capital	(107)	(96)	(91)	(32)	(21)	(24)	(25)
Other	(15)	(23)	(15)	(20)	(10)	(10)	(10)
Operating cash flow (pre-interest/tax)	310	350	371	407	459	491	524
Interest paid	(15)	(24)	(24)	(24)	(24)	(24)	(24)
Tax	(50)	(48)	(107)	(55)	(60)	(62)	(67)
Operating cash flow	245	279	239	328	375	405	433
Replacement capex	(50)	(55)	(55)	(60)	(65)	(68)	(70)
Expansion capex	(115)	(238)	(134)	(120)	(125)	(125)	(130)
- IT	(29)	(28)	(35)	(40)	(45)	(45)	(47)
- Freehold property	(35)	(104)	(49)	(30)	(30)	(30)	(31)
- Other	(51)	(106)	(50)	(50)	(50)	(50)	(52)
Property disposals	31	51	30	30	30	30	30
Equity free cash flow	111	37	80	178	215	242	262
Acquisitions	(45)	(35)	(7)	-	-	-	-
Disposals	-	-	-	-	-	-	-
Dividends	(81)	(100)	(111)	(117)	(121)	(130)	(141)
Share issue	14	10	2	-	-	-	-
Other	(9)	(1)	(2)	-	-	-	-
(Debt) / cash at start of year	(348)	(358)	(447)	(485)	(424)	(330)	(218)
Movement during year	(10)	(90)	(37)	61	94	112	121
(Debt) / cash at end of year	(358)	(447)	(485)	(424)	(330)	(218)	(97)

Source: Company data, UBS estimates

Figure 113: Travis Perkins divisional sales growth, 2015 – 2019E

Sales growth (%)	Q115	Q215	Q315	Q415	FY15	Q116	Q216	Q316	Q416E	FY16E	FY17E	FY18E	FY19E
Group	7.2	8.4	5.5	5.0	6.5	5.1	6.8	4.6	3.0	4.4	2.1	3.7	4.1
Trading days	0.0	0.0	0.0	0.0	0.0	(1.2)	2.8	0.0	(0.0)	0.4	0.0	0.0	0.0
Expansion / acquisition	2.1	2.1	2.9	3.6	2.7	2.1	1.7	2.6	1.0	1.5	1.6	1.0	1.0
LFL	5.1	6.3	2.6	1.4	3.8	4.2	2.3	2.0	1.9	2.5	0.5	2.7	3.1
General merchandising	9.4	6.2	3.3	2.8	5.3	6.0	7.4	3.8	5.7	5.7	3.0	4.0	5.0
Trading days	0.0	0.0	0.0	0.0	0.0	(1.6)	3.2	0.0	0.0	0.4	0.0	0.0	0.0
Expansion / acquisition	1.3	0.9	1.6	1.8	1.4	2.9	3.1	3.2	2.8	3.0	3.0	1.0	1.0
LFL	8.1	5.3	1.7	1.0	3.9	4.7	1.1	0.6	2.9	2.3	0.0	3.0	4.0
Contracts	17.3	18.5	11.1	6.9	13.2	1.4	4.4	4.0	5.4	3.9	0.0	3.0	5.0
Trading days	0.0	0.0	0.0	0.0	0.0	(1.6)	3.2	0.0	0.0	0.4	0.0	0.0	0.0
Expansion / acquisition	2.2	5.6	5.6	5.4	4.7	0.9	(1.9)	(1.7)	(1.5)	(1.0)	0.0	0.0	1.0
LFL	15.1	12.9	5.5	1.5	8.5	2.1	3.1	5.7	6.9	4.5	0.0	3.0	4.0
P&H	(3.7)	2.3	4.5	2.4	1.3	0.9	2.3	(3.9)	(4.9)	(1.0)	(2.0)	3.0	2.0
Trading days	0.0	0.0	0.0	0.0	0.0	(1.6)	3.2	0.0	0.0	0.4	0.0	0.0	0.0
Expansion / acquisition	2.4	1.3	2.8	4.3	2.7	0.3	0.5	0.2	(0.2)	0.6	0.0	0.0	0.0
LFL	(6.1)	1.0	1.7	(1.9)	(1.4)	2.2	(1.4)	(4.1)	(1.2)	(2.0)	(2.0)	3.0	2.0
Consumer	8.7	8.5	4.9	10.0	8.0	10.8	10.9	9.1	6.0	8.4	6.5	4.5	4.0
Trading days	0.0	0.0	0.0	0.0	0.0	0.0	1.6	0.0	0.0	0.4	0.0	0.0	0.0
Expansion / acquisition	2.7	1.6	2.6	3.9	2.7	3.5	2.9	2.8	3.2	2.5	2.5	2.5	2.0
LFL	6.0	6.9	2.3	6.1	5.3	7.3	6.4	6.3	2.8	5.5	4.0	2.0	2.0

Source: Company data, UBS estimates

Wienerberger

Lacking a strong catalyst for further re-rating

European residential recovery underway...but limited upside risk

We believe the European housing recovery is boding well for Wienerberger as we expect further earnings momentum into FY17. We estimate WIE's European Clay business (65% of EBITDA'15) to contribute to 80% of the Group's EBITDA expansion over FY16-20E, given the significantly improved operating leverage as volumes pick up. However, we stand 5% below WIE's 2020 EBITDA target given less optimistic but already ambitious margin recovery assumptions and some risks in the Pipes business (30% of EBITDA'15). Post the hybrid refinancing in Dec-16, we do not see a strong catalyst that could re-rate the shares further from 7.2x EV/EBITDA'17E and 5% FCF Yield. Further upside risk could come from accretive M&A, although these might be small transactions given the Group's relatively high adj. ND/EBITDA'17E of 2.8x.

UK market fundamentals robust...but better for locals

The UK market (c20% of WIE's EBITDA'15) should benefit from an easy comp in H117 due to the de-stocking effect seen in the merchant supply chain and has been more resilient than initially expected in H216 with positive trading updates from UK Housebuilders. We expect the demand/supply balance to remain tight with limited new capacity being brought into the market (mostly Istock's 100m brick plant in Leicester). However, Sterling weakness has made WIE's imports from the Netherlands and Belgium less attractive and cost inflation should also pick up to 3% y/y.

Recent US market consolidation is encouraging but not enough

The US brick market (5% of WIE's EBITDA'15) is still very fragmented, with the top 5 players accounting for c65% of the market, but with 30+ other manufacturers within the remaining 35%. Inventory levels remain low (~50% utilisation) as pricing pressures to protect market share continue. However, the recent merger Boral-Forterra US could lead to capacity rationalisation given geographic overlap, potentially driving better pricing discipline. At this stage though, we think it is still too early to see any benefits as no material capacity shutdowns or price increases have been announced.

Valuation: Neutral. PT €16.5

Our PT is based on DCF assuming a LT EBITDA margin of 14% and WACC of 8%.

Equities

Austria
Building Materials

12-month rating **Neutral**

12m price target **€16.50**

Price **€17.02**

RIC: WBSV.VI BBG: WIE AV

Trading data and key metrics

52-wk range	€17.54-11.94
Market cap.	€2.00bn/US\$2.13bn
Shares o/s	118m (ORD)
Free float	100%
Avg. daily volume ('000)	266
Avg. daily value (m)	€4.3
Common s/h equity (12/16E)	€1.56bn
P/BV (12/16E)	1.3x
Net debt / EBITDA (12/16E)	1.7x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/16E	0.71	0.72	2	0.77
12/17E	1.03	1.04	2	1.04
12/18E	1.27	1.28	1	1.27

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	2,663	2,835	2,972	2,972	3,067	3,174	3,292	3,414
EBIT (UBS)	55	100	185	200	219	255	293	328
Net earnings (UBS)	(48)	5	59	85	122	150	180	208
EPS (UBS, diluted) (€)	(0.42)	0.04	0.50	0.72	1.04	1.28	1.54	1.78
DPS (€)	0.12	0.15	0.20	0.25	0.30	0.35	0.40	0.45
Net (debt) / cash	(539)	(621)	(534)	(674)	(600)	(499)	(387)	(257)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	2.1	3.5	6.2	6.7	7.2	8.0	8.9	9.6
ROIC (EBIT) %	1.9	3.6	6.9	7.2	7.6	8.8	10.0	11.1
EV/EBITDA (core) x	8.4	8.2	7.3	8.2	7.1	6.5	5.8	5.2
P/E (UBS, diluted) x	(24.2)	NM	29.9	23.5	16.3	13.3	11.1	9.6
Equity FCF (UBS) yield %	6.4	5.1	6.7	6.0	5.2	6.8	7.7	8.8
Net dividend yield %	1.2	1.3	1.3	1.5	1.8	2.1	2.4	2.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €17.02 on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Will the European Clay business keep driving earnings upgrades?**

Yes. We believe the European Clay business will be Wienerberger's main growth driver over the next 3-4 years, mostly on the back of an ongoing housing recovery in Europe. We expect 2% volume growth p.a. across the Clay business, with significant operating leverage to lead to margin expansion

[Wienerberger – "Time to take stock, downgrade to Neutral" 19 December 2016](#) →

Q: Can Wienerberger benefit from recent consolidation moves in the US?

Yes. We believe the geographic overlap of the recently formed JV between Boral and Forterra US will see capacity rationalisation and improved pricing discipline for the brick market.

Q: Will Wienerberger achieve its EBITDA target for 2020?

Not on our estimates. We incorporate 3-4% top-line organic growth and €10m of cost savings per year. Our EBITDA forecasts are still 5% below FY20E underlying EBITDA target of €550m, and we do not incorporate any potential M&A contribution into our estimates at this stage.

UBS VIEW

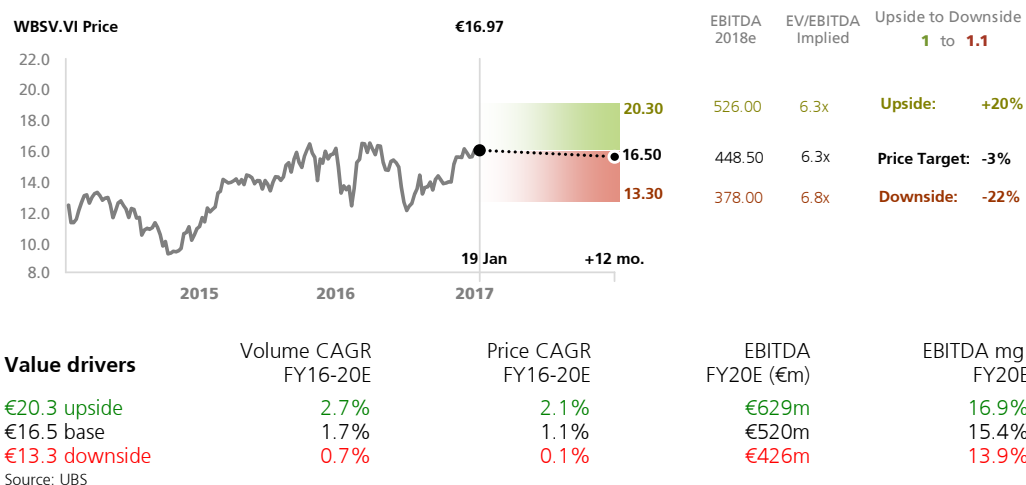
Long term, we like Wienerberger for optionality on European recovery (90% Revenues'15 in Europe), the restructuring undertaken and potential for future M&A. We see potential for US recovery given recent end-market consolidation. Nearer term, we see a gradual European residential market recovery, while the pricing environment remains somewhat challenging (ex-UK) given low utilisation levels.

EVIDENCE

Euroconstruct housing starts across Europe show positive trends, namely in CEE, Germany, France, and the Netherlands, while Belgium, Italy, Switzerland and Russia remain weak. In the UK, housebuilder reservation rates in H216 to date are up c6% y/y, an acceleration from H116 (3% y/y), boding well for the new build sector. The outlook for RMI is more uncertain. The Pipes business still faces near term declines as infrastructure spend in CEE remains weak and international projects subdued.

WHAT'S PRICED IN?

Our DCF suggests 55% of the current share price is explained by current (capitalized) EPS, a further 45% from our forecasts, and 0% from long term recovery potential. Although the shares trade in line with the LT average EV/EBITDA of 7x, this analysis shows that recovery potential is mostly priced in.

UPSIDE / DOWNSIDE SPECTRUM**COMPANY DESCRIPTION**

Wienerberger is the world's largest producer of bricks. It is also the second-largest manufacturer in the European roofing market.

COMPANY DESCRIPTION

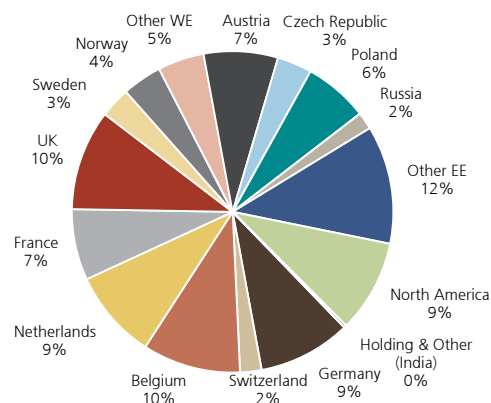
[return](#) ↑

Wienerberger is the world's largest producer of bricks. It is also the second-largest manufacturer in the European roofing market. The company holds leading positions in paving bricks in Europe, is the largest producer worldwide of hollow bricks, and the third-largest European plastic pipe producer, since acquiring 100% of Pipelife. It is the largest player in facing bricks in Europe and the second-largest player in the US. Sales are split into 30% central and eastern Europe, 60% western Europe and 10% US. The company has traditionally expanded through acquisition and organic growth.

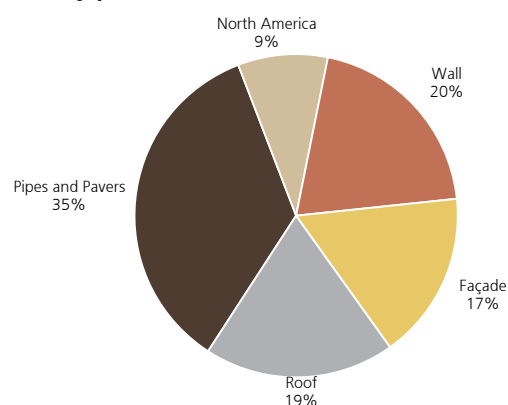
Industry outlook

Wienerberger remains a play on a European housing recovery, with 90% of sales from Europe of which c70% are from residential construction. EBITDA is down c30% from peak levels of 2006/7. The company believes it can ultimately generate c€600m of EBITDA (1.3x the 2016 targeted level). High financial leverage (including hybrid bond), as equity only presents 70% of the EV, means there is material share price upside potential in a recovery scenario.

Revenues by country (2015, %)



Revenue by product (2015, %)



Source: Company data

Figure 114: Wienerberger profit and loss financial statements

	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Sales	2,972	2,972	3,067	3,174	3,292	3,414
Clay Building	1,643	1,681	1,750	1,823	1,903	1,987
Western Europe	1,170	1,173	1,204	1,251	1,304	1,358
Eastern Europe	473	508	546	571	599	628
Pipes and Pavers	1,044	990	988	1,010	1,035	1,061
Western Europe	593	574	579	590	605	620
Eastern Europe	451	416	409	419	429	441
North America	278	292	320	332	344	356
Holding & Other	8	8	9	9	10	10
Consolidation	0	0	0	0	0	0
EBITDA	393	400	419	450	483	518
Clay Building	249	278	302	325	351	378
Western Europe	167	176	188	203	219	237
Eastern Europe	83	102	114	123	132	141
Pipes and Pavers	108	95	95	101	107	114
Western Europe	66	60	62	65	69	72
Eastern Europe	42	34	33	36	38	41
North America	32	34	39	42	45	48
Property	23	15	5	5	5	5
Holding & Other	(20)	(22)	(22)	(23)	(25)	(26)
EBITDA margin	13.2	13.4	13.7	14.2	14.7	15.2
Clay Building	15.2	16.5	17.3	17.8	18.4	19.0
Western Europe	14.2	15.0	15.6	16.2	16.8	17.4
Eastern Europe	17.5	20.0	20.9	21.5	22.0	22.5
Pipes and Pavers	10.3	9.6	9.7	10.0	10.4	10.7
Western Europe	11.1	10.5	10.7	11.0	11.3	11.6
Eastern Europe	9.4	8.3	8.1	8.5	9.0	9.4
North America	11.6	11.6	12.2	12.6	13.0	13.4
Depreciation	208	200	200	195	190	190
Total EBIT	185	200	219	255	293	328
Total interest	(56)	(30)	(28)	(28)	(28)	(28)
Associate income	4	7	7	7	7	7
Net Interest	(42)	(33)	(35)	(35)	(35)	(35)
Other net financial	(18)	(4)	0	0	0	0
Extraordinary result (net)	(22)	0	0	0	0	0
PTP	107	170	192	228	265	301
Tax	(37)	(51)	(56)	(64)	(72)	(78)
Tax rate (%)	35	30	29	28	27	26
Net profit	70	119	136	164	194	222
Minorities	(1)	(2)	(1)	(1)	(1)	(1)
Hybrid bond	(33)	(33)	(14)	(14)	(14)	(14)
Attributable	37	85	122	150	180	208
Dividends	(18)	(23)	(29)	(35)	(41)	(47)
Retained profit	19	61	93	115	139	161
Stated EPS (€)	0.31	0.72	1.04	1.28	1.54	1.78
EPS pre-ex (€)	0.47	0.72	1.04	1.28	1.54	1.78
DPS (€)	0.20	0.25	0.30	0.35	0.40	0.45

Source: Company data, UBS estimates

Figure 115: Wienerberger cash flow statement

Year to Dec (€m)	2015	2016E	2017E	2018E	2019E	2020E
EBIT	163	200	219	255	293	328
Depreciation	201	200	200	195	190	190
Change to long term provisions	17	0	0	0	0	0
Other items	(19)	(10)	(10)	(10)	(10)	(10)
Changes in working capital	(38)	(7)	(17)	(21)	(24)	(24)
Operating cash flow	324	382	392	419	449	484
Interest paid	(41)	(33)	(35)	(35)	(35)	(35)
Tax paid	(23)	(51)	(56)	(64)	(72)	(78)
Total investments in fixed assets (net)	(137)	(150)	(166)	(171)	(176)	(181)
Capex	(148)	(170)	(175)	(180)	(185)	(190)
Sale of fixed assets	25	20	9	9	9	9
Sale of financial assets	(14)	0	0	0	0	0
Acquisitions	0	(15)	0	0	0	0
Hybrid coupon paid	(21)	(33)	(33)	(14)	(14)	(14)
Equity FCF	103	100	104	136	155	179
Dividends	(18)	(23)	(29)	(35)	(41)	(47)
Dividends received	2	4	0	0	0	0
Hybrid redemption	0	0	(222)	0	0	0
Movement in cash (debt) during year	87	81	(147)	101	114	132
Net cash (debt) end of year	(534)	(453)	(601)	(500)	(386)	(254)
Hybrid debt	(491)	(491)	(272)	(272)	(272)	(272)
Pension	(161)	(161)	(161)	(161)	(161)	(161)
ND / EBITDA	1.4x	1.1x	1.4x	1.1x	0.8x	0.5x
ND (incl. Hybrid) / EBITDA	2.6x	2.4x	2.1x	1.7x	1.4x	1.0x
ND (incl. Pension) / EBITDA	1.8x	1.5x	1.8x	1.5x	1.1x	0.8x
ND (incl. Hybrid+Pension) / EBITDA	3.0x	0.0x	2.5x	2.1x	1.7x	1.3x

Source: Company data, UBS estimates

Figure 116: Wienerberger sales and EBITDA bridge FY15-20E

Sales bridge	FY15	Q116	Q216	Q316E	Q416E	FY16E	FY17E	FY18E	FY19E	FY20E
Group Sales start	2,835	612	862	808	691	2,972	2,972	3,067	3,174	3,292
FX	57	(12)	(17)	(17)	(4)	(51)	6	(1)	0	0
Scope	57	0	0	0	0	0	0	0	0	0
LFL	18	9	13	19	8	49	88	107	117	122
Volume	(57)	2	(1)	17	9	27	47	66	73	77
Price	74	7	14	2	(1)	22	41	42	44	45
Group Sales end	2,972	610	857	810	695	2,972	3,067	3,174	3,292	3,414
Sales growth (% y/y)										
FX	2%	(2%)	(2%)	(2%)	(1%)	(1.7%)	0.2%	(0.0%)	0.0%	0.0%
Scope	2%	0%	0%	0%	0%	0.0%	0.0%	0.0%	0.0%	0.0%
LFL	1%	2%	2%	2%	1%	1.7%	3.0%	3.5%	3.7%	3.7%
Volume	(2%)	0%	(0%)	2%	1%	0.9%	1.6%	2.1%	2.3%	2.3%
Price	3%	1%	2%	0%	(0%)	0.8%	1.4%	1.4%	1.4%	1.4%
Group Sales end	5%	(0%)	(1%)	0%	1%	0.0%	3.2%	3.5%	3.7%	3.7%
EBITDA bridge	FY15					FY16E	FY17E	FY18E	FY19E	FY20E
Group EBITDA start	317	34	147	119	93	393	400	419	450	483
FX	4	(1)	(3)	(3)	(1)	(7)	0	(0)	0	0
Scope	6	0	0	0	0	0	0	0	0	0
LFL	54	9	8	8	(1)	24	29	32	35	36
Volume	(20)	1	(0)	6	3	21	21	23	26	27
Price	74	7	14	2	(1)	22	41	42	44	45
Cost inflation	0	3	(13)	(1)	(4)	(26)	(43)	(43)	(45)	(47)
Cost savings	0	(2)	8	1	1	7	10	10	10	10
Property delta	15	2	(13)	(1)	3	(8)	(10)	0	0	0
Holding	(3)	(1)	(1)	0	(2)	(2)	0	(1)	(2)	(1)
Group EBITDA end	393	44	139	124	93	400	419	450	483	518
EBITDA growth (% y/y)										
FX	1.1%	(2.0%)	(2.0%)	(2.1%)	(0.6%)	(1.8%)	0.1%	(0.0%)	0.0%	0.0%
Scope	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LFL ex-property	17.1%	26.3%	5.3%	6.8%	(1.0%)	6.2%	7.4%	7.6%	7.7%	7.5%
Volume	(6.3%)	2.5%	(0.2%)	4.9%	3.3%	5.4%	5.2%	5.6%	5.8%	5.7%
Price	23.2%	19.8%	9.4%	1.8%	(0.5%)	5.7%	10.3%	10.0%	9.7%	9.4%
Cost inflation	0.1%	9.8%	(9.0%)	(0.8%)	(4.3%)	(6.7%)	(10.6%)	(10.3%)	(10.0%)	(9.6%)
Cost savings	0.0%	(5.9%)	5.1%	0.8%	0.5%	1.8%	2.5%	2.4%	2.2%	2.1%
Property delta	4.7%	7.1%	(8.8%)	(0.7%)	3.3%	(2.1%)	(2.5%)	0.0%	0.0%	0.0%
Holding	(0.8%)	(1.6%)	(0.4%)	0.0%	(2.0%)	(0.6%)	0.0%	(0.2%)	(0.4%)	(0.2%)
Group EBITDA end	23.9%	29.7%	(5.9%)	4.0%	(0.3%)	1.7%	5.0%	7.4%	7.3%	7.3%
Operating EBITDA	393	44	139	124	93	400	419	450	483	518
EBITDA mg. (%)	13.2	7.2	16.2	15.3	13.4	13.4	13.7	14.2	14.7	15.2

Source: Company data, UBS estimates

Wolseley

Re-rating potential as US reflation

We see re-rating potential as the US reflation

We see potential for further multiple re-rating as Wolseley's business mix becomes increasingly dominated by the US, which we expect now accounts for 85% of EBITA in FY17E. Our SOP analysis suggests peer valuation multiples would imply a £59 valuation on Wolseley. We see several fundamental potential positives for the stock: (1) a switch from commodity deflation to inflation which should drive LFL growth and margins; (2) general pick up in US activity as secondary effects of stimulus come through and industrial headwinds fade and (3) potential savings from lower US corporate taxes. [Link to full note](#)

From deflation to reflation

The US business has been suffering from around 2-2.5% deflation for the past 5 quarters. We expect deflation to ease and turn into inflation by Q417 (i.e. CYQ217) which should result in improved underlying earnings growth in the US over the coming quarters. We continue to factor in around 6-6.5% volume growth for the foreseeable future in the US, helped by (1) underlying market growth and (2) some outperformance as the group continues to take share. The impact of tax reform is highly uncertain at this stage but ultimately could be positive for earnings. We believe the current corporate structure reduces the tax rate by 7ppt to around 28%, so any reduction in the headline rate which comes with abolition of interest deductibility would therefore likely be partly mitigated.

Moving to the US?

At its last FY results Wolseley described itself as a "large, specialist US distributor with international operations". While no specifics have been announced, we believe a possible first step could potentially be a dual listing that could start to build the profile in the US market, helping to close the multiple gap.

Valuation: Buy, PT 5,475p (up from 4,660p)

We introduce a new valuation methodology based on our DCF value of £50.5 (50%) and SOP value of c£59 (50%), resulting in a new fair value of £55. Our PT rises as a result of Sterling's devaluation as well as moving to reflect US peer multiples through our SOP valuation weight, which we think is appropriate to reflect the optionality towards a US listing and lower US tax rates.

Equities

United Kingdom
Retailers, Specialty

12-month rating **Buy**

12m price target **5,475p**
Prior: 4,660p

Price **4,928p**

RIC: WOS.L **BBG:** WOS LN

Trading data and key metrics

52-wk range	5,025p-3,230
Market cap.	£12.4bn/US\$15.3bn
Shares o/s	252m (ORD)
Free float	100%
Avg. daily volume ('000)	754
Avg. daily value (m)	£35.0
Common s/h equity (07/17E)	£3.26bn
P/BV (07/17E)	3.8x
Net debt / EBITDA (07/17E)	0.6x

EPS (UBS, diluted) (p)

	From	To	% ch	Cons.
07/17E	295.8	304.3	3	292.8
07/18E	323.0	343.0	6	317.6
07/19E	352.0	371.6	6	349.6

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Highlights (£m)	07/14	07/15	07/16	07/17E	07/18E	07/19E	07/20E	07/21E
Revenues	13,130	13,332	14,429	17,189	18,288	19,108	19,944	20,821
EBIT (UBS)	755	855	917	1,118	1,251	1,349	1,432	1,519
Net earnings (UBS)	521	598	629	772	870	942	1,004	1,069
EPS (UBS, diluted) (p)	195.1	229.2	246.8	304.3	343.0	371.6	396.2	421.7
DPS (p)	82.5	90.8	100.0	110.0	121.0	133.0	133.0	133.0
Net (debt) / cash	(711)	(804)	(936)	(809)	(393)	41	535	1,088
Profitability/valuation	07/14	07/15	07/16	07/17E	07/18E	07/19E	07/20E	07/21E
EBIT margin %	5.8	6.4	6.4	6.5	6.8	7.1	7.2	7.3
ROIC (EBIT) %	21.1	24.5	24.9	27.4	29.2	30.3	31.0	31.7
EV/EBITDA (core) x	-	11.0	10.4	10.5	9.2	8.3	7.6	6.8
P/E (UBS, diluted) x	17.0	16.3	15.5	16.2	14.4	13.3	12.4	11.7
Equity FCF (UBS) yield %	2.8	4.7	5.8	5.2	5.5	6.0	6.7	7.1
Net dividend yield %	2.5	2.4	2.6	2.2	2.5	2.7	2.7	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of 4,928p on 19 Jan 2017 21:36 GMT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Can the US LFL growth pick up?

Yes. We expect FY17E LFL growth of +5.5% (after +4.1% FY16) and +7% in FY18E, mainly as a result of deflation turning into inflation.

[Wolseley – "Re-rating potential as US reflation" 20/01/2017 →](#)

Q: Has the US already peaked in margins?

No. While we are clearly at a later stage of the cycle and incremental margins have slowed, we believe margins can progress, especially once commodity prices start contributing to growth.

Q: Will further capital allocation to the US drive a re-rating?

Yes. We expect the US to account for 85% of EBITA in FY17E. With the other remaining businesses under pressure and undergoing restructuring, we believe further capital will be mostly allocated to the US.

UBS VIEW

We believe Wolseley still offers an attractive investment case despite the weakness seen in the non-US businesses. Around 85% of EBITA derived from the US which is a business that we believe can continue to grow and take market share. We believe the weakness in the UK and Nordic is mostly a distraction and we expect management action to stabilise results over time. At 15.2x CY17E P/E, similar to the wider markets and at a discount to US peers we still believe there is value in the shares.

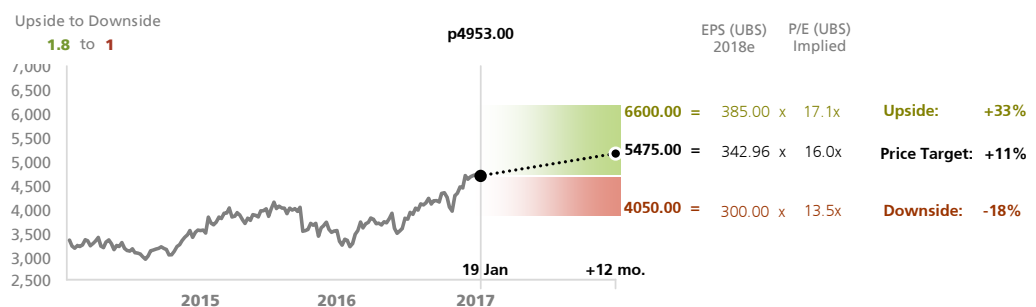
EVIDENCE

Key commodities for Wolseley copper, plastic and steel are now mostly inflationary and we expect pricing headwinds to become a tailwind throughout FY17. We also see increased signs of management moving towards seeing itself as mostly a US business which we believe will over the long-term result in further capital allocation in the US and possibly moving to a dual listing.

WHAT'S PRICED IN?

Wolseley has re-rated over the past 12 months from around 13x P/E to slightly of 15x (based on UBS estimates CY17E). We believe there is further re-rating potential as growth in the US picks up and the mix of business further moves towards as capital is increasingly allocated there. We see SOP based upside to c£59 based on current peer trading multiples.

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	US LFL growth FY17E	US LFL growth FY18E	US EBITDA margin FY18E	Non-US EBITDA (£m) FY18E	EPS (p) FY18E
6,600p upside	6.5%	8.0%	8.6%	£191m	393p
5,475p base	5.0%	7.0%	8.5%	£147m	352p
4,050p downside	3.0%	3.0%	8.1%	£98m	307p

Source: UBS estimates

COMPANY DESCRIPTION

Wolseley is the world's largest specialist trade distributor of plumbing and heating products and building materials to professional builders. Its most important markets are the US (63% of sales), Nordic (14%), the UK (15%), Canada (5%) and central Europe (3%).

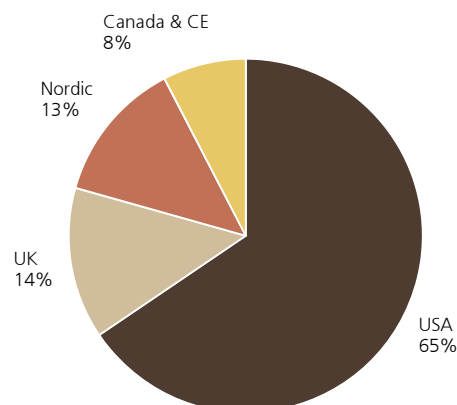
COMPANY DESCRIPTION

Wolseley is the world's largest specialist trade distributor of plumbing and heating products and building materials to professional builders. Its most important markets are the US (65% of sales), Nordic (13%), the UK (14%), Canada (5%) and central Europe (3%). Following a number of divestments over recent years, the group has refocused on these core markets, and is aiming to grow both organically and through bolt-on acquisitions. Around 59% of sales are to the residential and non-residential RMI end market, 29% into new build and 12% into infrastructure.

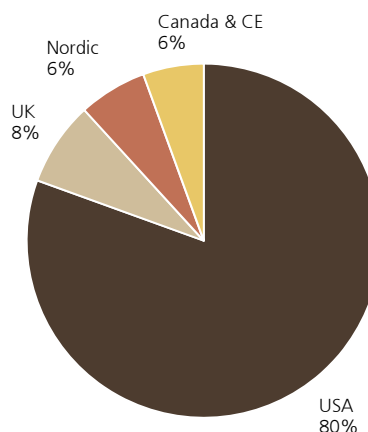
Industry outlook

Wolseley is predominantly exposed to the US, which accounted for 80% of EBITA in FY16. Over recent quarters growth had been negatively impacted by (1) commodity deflation and (2) and industrial decline. We expect both of these issues to fade and result in an overall pick up in organic growth. The UK is expected to remain competitive with most market participants restructuring. The Nordic business is currently under strategic review given in part tough trading conditions and internal issues.

Revenues by region (FY16, %)



EBITA by product segment (FY16, %)



Source: Company data

Figure 117: Wolseley quarterly profit and loss, FY16-17E

Year to July (£m)	Q116	Q216	Q316	Q416	FY16	Q117	Q217E	Q317E	Q417E	FY17E	FY18E	FY19E	FY20E	FY21E
LFL sales growth (%)	3.2	2.3	2.8	1.5	2.4	1.8	2.3	2.6	4.0	2.6	5.4	4.5	4.2	4.2
USA	4.5	4.0	5.0	3.1	4.1	4.2	5.0	5.5	7.1	5.5	7.0	5.5	5.0	5.0
UK	(1.1)	(2.9)	(0.4)	(2.1)	(1.6)	(2.9)	(3.0)	(5.0)	(5.1)	(4.0)	1.0	2.0	2.0	2.0
Nordic	5.5	2.4	(2.6)	(2.3)	0.6	(2.9)	(3.0)	(2.0)	(0.3)	(2.0)	2.0	2.0	2.0	2.0
Canada & CE	(2.8)	(1.7)	0.0	0.3	(1.1)	(2.7)	(2.5)	(1.5)	(1.4)	(2.0)	2.0	2.0	2.0	2.0
Sales	3,557	3,239	3,658	3,976	14,429	4,369	3,922	4,313	4,583	17,189	18,288	19,108	19,944	20,821
USA	2,256	2,125	2,414	2,660	9,455	2,945	2,731	3,029	3,243	11,952	12,999	13,753	14,482	15,249
UK	510	486	529	471	1,996	499	467	492	437	1,894	1,885	1,904	1,942	1,980
Nordic	503	382	457	539	1,881	582	434	502	566	2,082	2,106	2,127	2,169	2,213
Canada & CE	288	246	258	306	1,097	343	291	290	337	1,260	1,299	1,325	1,351	1,378
Trading profit	250	160	230	278	917	303	203	282	330	1,118	1,251	1,349	1,432	1,519
Continuing trading profit	250	160	230	277	917	303	203	282	330	1,118	1,251	1,349	1,432	1,519
USA	196	149	204	226	775	251	195	259	285	992	1,105	1,182	1,251	1,323
UK	19	15	24	16	74	17	15	21	7	60	71	82	86	90
Nordic	25	(2)	7	30	60	24	(5)	7	32	58	62	68	75	81
Canada & CE	22	8	7	17	53	21	7	7	19	53	58	62	66	70
Corporate	(12)	(10)	(12)	(11)	(45)	(10)	(10)	(12)	(13)	(45)	(45)	(45)	(45)	(45)
Operating profit margin (%)	7.0	4.9	6.3	7.0	6.4	6.9	5.2	6.5	7.2	6.5	6.8	7.1	7.2	7.3
USA	8.7	7.0	8.5	8.5	8.2	8.5	7.1	8.6	8.8	8.3	8.5	8.6	8.6	8.7
UK	3.7	3.1	4.5	3.4	3.7	3.4	3.3	4.3	1.6	3.2	3.8	4.3	4.4	4.5
Nordic	5.0	-0.5	1.5	5.6	3.2	4.1	-1.0	1.4	5.6	2.8	2.9	3.2	3.4	3.7
Canada & CE	7.6	3.2	2.8	5.4	4.9	6.1	2.5	2.3	5.6	4.2	4.5	4.7	4.9	5.1

Source: Company data, UBS estimates

Figure 118: Wolseley profit and loss, 2016-21E

Year to July (£m)	H1	H2	2016	H1E	H2E	2017E	2018E	2019E	2020E	2021E
Sales	6,795	7,634	14,429	7,782	9,407	17,189	18,288	19,108	19,944	20,821
UK & Ireland	996	1,000	1,996	966	929	1,894	1,885	1,904	1,942	1,980
US	4,381	5,074	9,455	5,680	6,273	11,952	12,999	13,753	14,482	15,249
Nordic	885	996	1,881	502	1,581	2,082	2,106	2,127	2,169	2,213
Canada & CE	533	564	1,097	635	626	1,260	1,299	1,325	1,351	1,378
EBITA	410	507	917	507	611	1,118	1,251	1,349	1,432	1,519
UK & Ireland	34	40	74	32	28	60	71	82	86	90
US	345	430	775	447	544	992	1,105	1,182	1,251	1,323
Nordic	23	37	60	19	39	58	62	68	75	81
Canada & CE	36	45	81	28	25	53	58	62	66	70
Group central costs	(22)	(23)	(45)	(20)	(25)	(45)	(45)	(45)	(45)	(45)
EBITA margin (%)	6.0	6.6	6.4	6.5	6.5	6.5	6.8	7.1	7.2	7.3
UK & Ireland	3.4	4.0	3.7	3.4	3.0	3.2	3.8	4.3	4.4	4.5
US	7.9	8.5	8.2	7.9	8.7	8.3	8.5	8.6	8.6	8.7
Nordic	2.6	3.7	3.2	3.8	2.4	2.8	2.9	3.2	3.4	3.7
Canada & CE	6.8	8.0	7.4	4.4	4.0	4.2	4.5	4.7	4.9	5.1
EBITA	410	507	917	507	611	1,118	1,251	1,349	1,432	1,519
Interest	(20)	(20)	(40)	(20)	(20)	(39)	(35)	(31)	(28)	(24)
PTP (pre-ex)	390	487	877	488	592	1,079	1,216	1,318	1,404	1,495
Pre-ex tax	(109)	(139)	(248)	(139)	(169)	(308)	(347)	(376)	(400)	(426)
Pre-ex tax rate (%)	27.9	28.5	28.3	28.5	28.5	28.5	28.5	28.5	28.5	28.5
Minority	0	0	0	0	0	0	0	0	0	0
Pre-exceptional net income	281	348	629	349	423	772	870	942	1,004	1,069
Discontinued operations	3	151	154							
Exceptional items/intangible impairment	0	(96)	(96)	(100)	0	(100)				
Intangible amortisation	(24)	(29)	(53)	(24)	(24)	(48)	(30)	(15)	(15)	(15)
PTP	369	513	882	364	568	931	1,186	1,303	1,389	1,480
Tax	(103)	(128)	(231)	(132)	(161)	(293)	(338)	(371)	(396)	(421)
Tax rate (%)	27.9	25.0	26.2	36.2	28.4	31.5	28.5	28.5	28.5	28.5
Minority	0	9	9			0	0	0	0	0
Net income	266	394	660	232	406	638	849	932	993	1,058
EPS (p)	104.3	156.1	260.4	91.9	161.1	253.0	336.5	369.5	394.0	419.6
Pre-ex EPS (p)	110.2	138.0	248.1	138.2	167.8	306.0	344.9	373.6	398.1	423.8
DPS (p)	33.3	66.7	100.0	36.7	73.3	110.0	121.0	133.0	133.0	133.0

Source: Company data, UBS estimates

Figure 119: Wolseley cash flow, 2015-21E

Year to July (£m)	2015	2016	2017E	2018E	2019E	2020E	2021E
Operating profit	855	917	1,118	1,251	1,349	1,432	1,519
Depreciation and amortisation	117	140	159	167	168	172	172
Working capital	(8)	(44)	(13)	(80)	(103)	(99)	(104)
Other	(26)	6	(75)	(45)	(25)	(25)	(25)
Operating cash flow (pre tax/interest)	938	1,019	1,190	1,292	1,389	1,479	1,561
Interest paid	(43)	(39)	(39)	(38)	(34)	(31)	(27)
Tax paid	(210)	(193)	(277)	(347)	(376)	(400)	(426)
Operating cash flow	685	787	874	908	980	1,049	1,108
Capital expenditure	(231)	(218)	(230)	(230)	(230)	(220)	(220)
Equity free cash flow	454	569	644	678	750	829	888
Sale of assets	86	65	20	24	0	0	0
Acquisitions	(105)	(113)	(216)	0	0	0	0
Issue / (buyback) of shares	(251)	(299)	0	0	0	0	0
Dividend paid	(222)	(238)	(261)	(287)	(315)	(335)	(335)
Other	(55)	(116)	(60)	0	0	0	0
Net cash inflow / (outflow)	(93)	(132)	128	415	434	493	553
Debt at end of year	(804)	(936)	(809)	(393)	41	535	1,088
Receivables factored	0	0	0	0	0	0	0
Adjustment to get to average net debt	(130)	(120)	(120)	(120)	(120)	(120)	(120)
Total adjusted net debt	(934)	(1,056)	(929)	(513)	(79)	415	968
Adjusted net debt/EBITDA (x)	1.0	1.0	0.7	0.4	0.1	(0.3)	(0.6)

Source: Company data, UBS estimates

Figure 120: Wolseley sales and EBITA bridge, FY16-17E

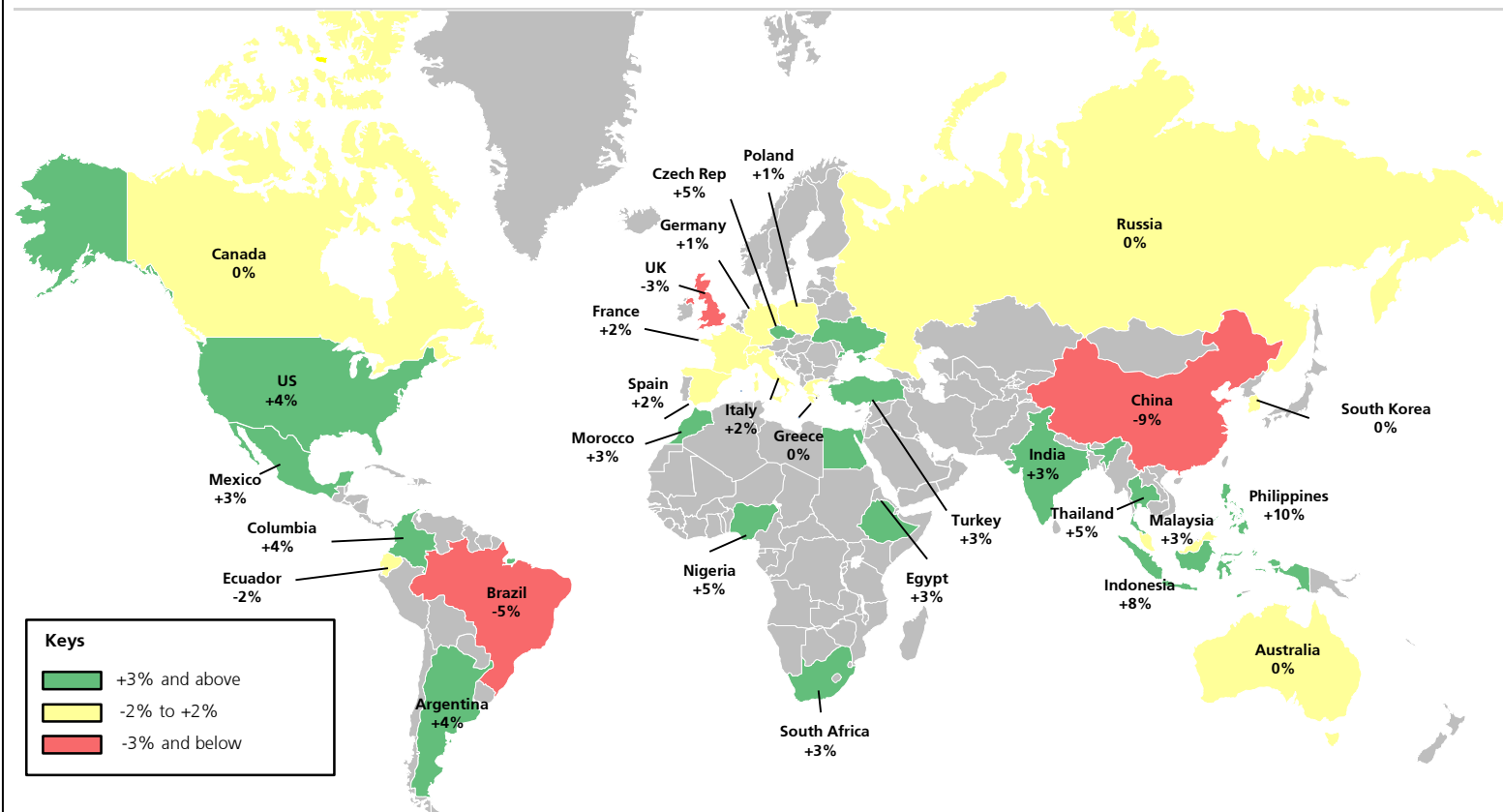
Year to July (£m)	Q116	Q216	Q316	Q416	FY16	Q117	Q217	Q317	Q417	FY17E	FY18E	FY19E	FY20E	FY21E
Sales														
Beginning	3,394	3,048	3,306	3,584	13,332	3,557	3,239	3,658	3,975	14,429	17,189	18,288	19,108	19,944
Forex	45	33	164	310	552	599	471	432	546	2,049	168	0	0	0
Disposals	(17)	(5)	(5)	(5)	(32)	0	0	0	0	0	0	0	0	0
Acquisitions	61	75	54	55	245	64	43	48	29	183	10	0	0	0
Organic (LFL)	108	70	92	49	319	64	74	93	160	381	922	821	795	833
Other	(35)	19	47	(18)	13	86	95	81	(128)	147	(2)	(1)	41	43
Ending	3,557	3,239	3,658	3,975	14,429	4,369	3,922	4,313	4,583	17,189	18,288	19,108	19,944	20,821
LFL growth (%)	3.2	2.3	2.8	1.5	2.4	1.8	2.3	2.6	4.0	2.6	5.4	4.5	4.2	4.2
EBITA														
Beginning	238	151	194	272	855	250	160	230	277	917	1,118	1,251	1,349	1,432
Forex	6	6	11	23	46	48	31	34	35	149	13	0	0	0
Disposals	(2)	3	1	0	2	0	0	0	0	0	0	0	0	0
Acquisitions	1	0	2	3	6	10	6	6	5	26	1	0	0	0
Organic	15	3	20	(28)	9	(13)	2	8	19	17	119	98	83	87
One-offs (delta)	(2)	(2)	(3)	13	6	2	4	3	(7)	2	0	0	0	0
Bad debt	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (incl. trading day)	(6)	0	6	(6)	(6)	6	0	0	0	7	0	0	0	0
Ending	250	160	230	277	917	303	203	282	330	1,118	1,251	1,349	1,432	1,519
LFL EBITA growth (%)	6.3	1.8	10.2	(10.4)	1.1	(5.2)	1.5	3.6	7.0	1.9	10.7	7.8	6.1	6.1

Source: Company data, UBS estimates

Appendix

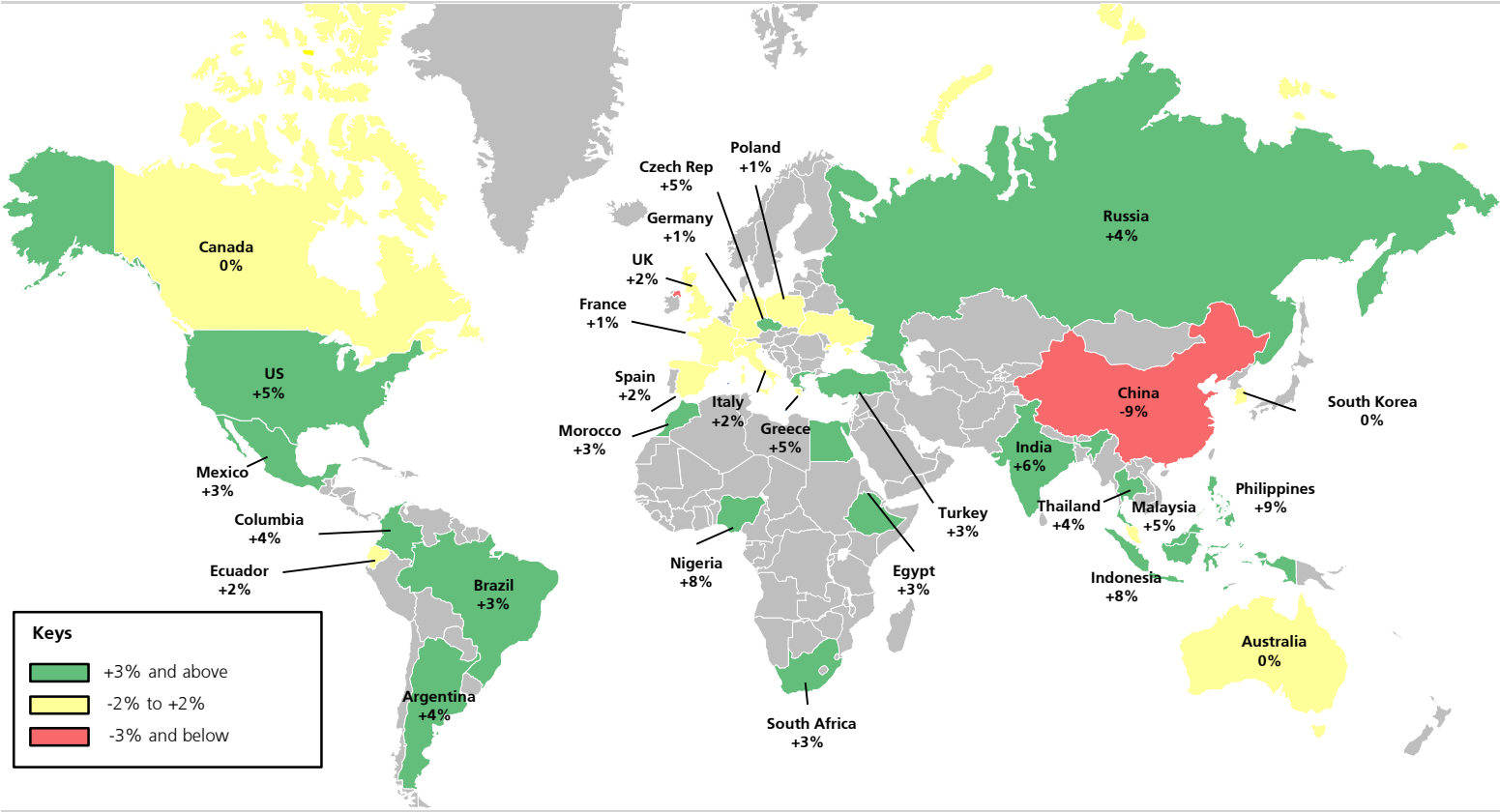
Global cement volume forecasts

Figure 121: Global cement volume forecast y/y%, 2017E



Source: UBS estimates

Figure 122: Global cement volume forecast y/y%, 2018E



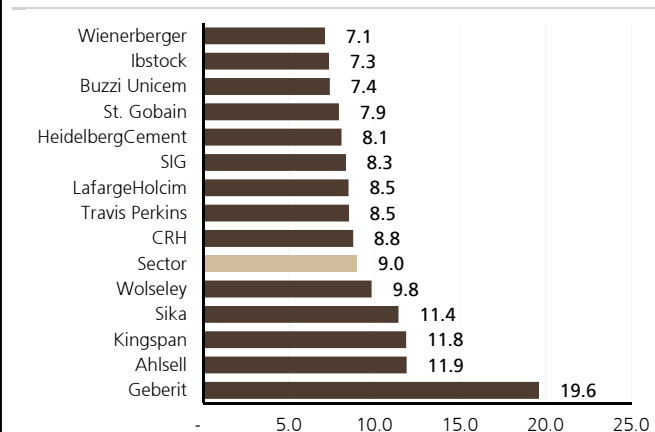
Source: UBS estimates

Figure 123: Monthly cement volume growth (% change year on year)

	2015												2016												Quarterly												Annual							
volumes % y/y	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD16	Q114	Q214	Q314	Q414	Q115	Q215	Q315	Q415	Q116	Q216	Q316	Q416	FY11	FY12	FY13	FY14	FY15	FY16	
Global (ex- China)	0.7	(1.0)	0.1	0.0	1.5	3.7	1.7	5.4	(2.0)	6.5	2.1	4.9														4.5	2.6	2.3	1.7	(0.1)	1.8	1.6	4.5											
Africa / Middle East	(6.5)	(5.8)	4.5	4.4	10.5	(6.7)	8.9	14.1	(9.4)	24.0	10.5	7.9														6.8	(0.3)	(0.9)	1.4	(2.2)	2.6	3.8	13.7											
Egypt	(10.6)	(2.6)	11.6	5.9	40.3	(28.9)	6.6	9.3	(13.7)	25.5	8.4	6.7	(2.0)	66.2	11.5	(17.7)	4.2	(6.9)	(6.7)	(59.2)	(8.1)	55.2				14.3	1.9	2.3	0.1	0.2	1.6	0.1	12.6	14.6	(3.4)	(0.8)	(1.7)	(0.9)	(5.1)	4.5	3.7			
Kenya	18.4	17.8	15.0	10.8	3.2	10.4	6.9	8.6	16.4	7.8	1.0	1.2	5.8	2.1	25.7	2.0	5.0	8.4	6.1	12.9	8.9	(3.9)	(4.6)			21.3	30.6	15.6	20.6	17.0	8.0	10.7	3.4	9.3	6.5	5.6	24.7	1.7	8.4	21.8	9.4			
Lebanon	(38.8)		(2.7)	(17.5)	(12.1)	(11.7)	(3.1)	(0.3)	(12.1)	4.8	26.9	0.6	4.6			7.0	20.2	0.7	(11.3)	(2.7)	9.1	3.4	11.0			7.3	3.7	(8.6)	(19.7)		(13.7)	(5.5)	9.8		2.5	3.6	6.2	(4.4)	9.9	(5.4)	(12.8)			
Morocco	5.6	(0.5)	(2.4)	3.4	(6.3)	(6.3)	4.4	17.2	(21.2)	18.6	15.6	(1.6)	0.4	12.1	3.9	2.5	(2.7)	6.1	(10.8)	2.9	3.8	(19.1)	8.4	(3.5)	(12.5)	(3.2)	(5.5)	(8.6)	(4.4)	0.6	(3.0)	(1.5)	9.9	5.9	(2.2)	(3.9)	(2.7)	10.6	(1.6)	(6.3)	(5.4)	1.4	(0.7)	
Nigeria	(5.9)	6.2	(6.5)	3.5	(12.1)	(1.3)	(2.9)	(2.9)	(2.9)	19.7	19.7	19.7	23.0	27.1	27.1	27.1	19.0	19.0	19.0							1.4	1.0	1.4	(7.1)	(2.4)	(3.5)	(2.9)	19.7	27.1	19.0									
Saudi Arabia	16.3	14.3	12.6	11.2	10.8	(3.5)	16.3	22.0	(7.6)	26.2	6.1	3.8	(7.8)	5.9	3.5	(0.4)	(5.1)	0.0	(26.0)	0.3	(9.9)	(21.7)	(13.7)	(21.9)		(7.5)	(3.1)	1.8	16.3	14.3	6.3	8.4	10.8	2.9	(9.4)	(11.5)								
South Africa	15.6	15.6	15.6	1.5	1.5	1.5	7.8	7.8	7.8	7.2	7.2	7.2														(5.4)	(5.1)	4.6	1.7	15.6	1.5	7.8	7.2											
Turkey	(32.5)	(32.8)	(5.6)	(0.1)	8.7	5.0	12.5	19.8	(12.1)	31.5	13.3	13.9	8.7	(3.4)	50.8	17.0	16.2	1.3	3.1	(4.0)	7.2	(4.7)	16.8			27.0	0.3	(5.1)	(5.1)	(22.6)	4.6	5.6	19.3	20.7	6.6	0.1								
Asia Pac	17.2	0.6	(17.6)	(6.3)	(4.5)	(4.2)	(3.8)	(2.4)	(2.0)	(1.5)	(5.1)	(1.4)														3.9	3.9	3.4	(0.3)	(2.7)	(5.0)	(2.7)	(2.7)											
Asia Pac (ex-China)	3.3	2.2	(2.5)	0.0	2.7	5.9	2.2	8.6	2.4	9.6	0.3	5.5														2.8	4.5	4.8	2.1	0.8	2.8	4.3	5.1											
China	22.3	0.1	(21.2)	(7.6)	(5.9)	(6.1)	(5.0)	(4.4)	(2.9)	(3.7)	(6.3)	(3.0)	2.6	(11.1)	(7.4)	24.8	3.6	2.8	2.3	1.0	1.3	2.9	1.3	4.2		4.2	3.8	3.1	(0.8)	(3.8)	(6.5)	(4.1)	(4.3)	3.6	2.9	1.7								
India	0.2	2.2	(3.7)	(1.4)	2.6	2.6	1.3	5.4	(1.1)	11.5	(2.6)	3.2	6.4	9.0	13.5	11.9	4.4	2.6	10.6	1.5	3.1	5.4	6.7	0.7		1.5	9.6	9.7	4.5	(0.5)	1.3	1.8	3.9	11.4	5.8	3.3								
Indonesia	6.1	(4.8)	(4.9)	0.3	(6.8)	(1.8)	(9.3)	17.8	0.9	14.4	4.8	1.5	1.7	7.5	5.2	3.8	0.5	6.2	1.8	5.8	8.7	(0.8)	(7.9)	(5.3)	0.9		3.7	4.0	2.3	4.1	(1.2)	(2.9)	3.8	7.0	5.6	2.9	4.3	(4.4)						
Japan	(10.2)	(3.3)	(7.8)	(5.1)	(10.3)	0.2	(5.6)	(3.2)	(11.8)	(3.3)	(7.9)	(5.0)	(4.5)	(12.9)	(3.8)	(3.4)	(5.6)	(8.7)	(5.6)	(4.4)	(0.5)	(1.5)	(8.1)	5.1			7.3	0.4	(1.7)	(7.2)	(7.1)	(5.0)	(7.1)	(5.4)	(6.5)	(6.6)	(2.2)							
Korea	12.1	2.2	11.5	3.6	11.6	21.3	13.6	28.6	28.9	18.3	4.3	39.2															(1.5)	(5.0)	1.1	(6.1)	9.1	11.9	23.3	19.4										
Malaysia	9.7	(0.5)	(4.2)	(4.8)	3.1	(4.0)	2.4	0.9	1.1	(1.9)	(1.5)	(6.6)	(10.4)	(3.3)	(11.2)	(1.8)	(1.1)	(18.5)	(15.6)	(24.2)	(7.3)	(11.9)	(8.6)	(11.6)		5.8	7.1	3.6	2.1	1.5	(2.0)	1.5	(3.4)	(5.2)	(11.8)	(14.4)								
Philippines	9.6	9.6	9.6	12.5	12.5	12.5	18.6	18.6	18.6	16.7	16.7	16.7	10.1	12.8	12.8	12.8	9.0	9.0	9.0	8.6	8.6	8.6							15.7	9.6	12.5	18.6	16.7	12.8	9.0	8.6								
Thailand	(3.1)	(0.5)	2.6	(2.1)	0.6	2.7	(1.1)	(4.1)	(3.2)	(2.3)	(1.7)	1.4	(1.2)	(0.8)	4.1	(0.9)	1.6	(0.0)	(2.7)	(3.8)	(0.5)	(3.4)	(4.3)	(2.5)		2.7	3.1	(0.4)	0.4	(0.2)	0.5	(2.8)	(0.8)	0.7	(0.5)	(2.6)								
Vietnam	26.8	20.0	(3.5)	9.3	14.5	27.7	14.0	18.0	16.0	10.9	10.2	11.9	14.1	17.3	14.3	9.1	20.3	11.1	15.0	12.3	10.2	15.5	16.4	12.3		7.3	(4.9)	(1.3)	5.5	12.0	16.7	16.0	11.0	13.4	15.4	12.6	13.5							
CEE	0.1	0.4	(7.1)	(14.6)	(8.9)	8.2	(4.3)	(7.9)	(6.2)	(4.6)	(9.4)	(7.4)		(27.9)	(6.7)	(10.1)	0.0	(7.0)	(16.1)							10.8	6.9	(1.2)	(3.7)	(2.6)	(3.9)	(5.7)	(6.2)	(13.1)	(12.0)									
Czech Rep	13.4	13.4	13.4	14.7	14.7	14.7	9.1	9.1	9.1	10.9	10.9	10.9	1.3	(4.1)	(4.1)	(4.1)	4.2	4.2	4.2							37.1	10.2	(2.8)	5.8	13.4	14.7	9.1	10.9	(4.1)	4.2									
Poland	16.6	(1.6)	0.8	(1.1)	1.5	7.6	2.6	1.5	0.8	(5.8)	3.8	20.9	2.8	(33.4)	28.4	(7.4)	12.8	0.6	7.6							62.5	5.8	(6.0)	(2.2)	3.4	2.6	1.6	3.3	(4.1)	6.9									
Russia	(3.4)	0.0	(8.0)	(15.3)	(11.4)	9.3	(6.6)	(10.7)	(8.6)	(4.9)	(15.6)	(17.9)	(12.8)	(28.6)	(17.1)	(13.0)	(8.0)	(9.7)	(23.2)	(7.0)	(7.5)	(10.9)	(12.1)	(10.5)		1.8	9.7	2.3	(2.0)	(4.4)	(4.9)	(8.6)	(11.7)	(18.3)	(14.9)	(8.4)								
Ukraine	5.2	7.0	(14.4)	(32.3)	(6.2)	(0.5)	2.1	0.8	(0.4)	0.2	12.5	50.3	7.4	(9.0)	18.0	3.4	37.6	(0.8)	9.4	4.1	13.4	5.1	7.5	(9.1)		17.5	(10.1)	(16.7)	(20.1)	(4.8)	(12.9)	0.8	13.6	5.8	12.7	7.5								
Latam	(0.1)	(2.6)	5.5	1.8	(0.7)	6.4	0.9	(2.2)	(3.1)	(5.0)	(7.1)	2.5		(11.4)	(2.5)	(11.1)	(6.6)	(7.1)	(7.1)	(6.1)	(6.6)					4.1	(1.5)	2.0	2.1	1.0	2.4	(1.5)	(3.3)	(8.5)	(6.9)									
Argentina	1.3	11.7	7.6	16.2	7.9	17.9	11.0	(2.2)	7.0	1.7	(1.3)	3.6	(10.8)	(8.6)	(9.9)	(8.9)	(27.4)	(11.3)	(18.6)	(20.8)	6.5	(11.1)	(17.6)	2.1		(1.7)	(6.4)	(3.7)	(3.5)	6.6	13.9	5.2	1.3	(9.1)	(19.2)	(8.9)	(5.6)							
Brazil	(5.8)	(13.2)	4.1	(7.0)	(7.7)	2.2	(6.0)	(7.8)	(13.4)	(13.4)	(15.9)	2.2	(11.5)	(20.9)	(6.1)	(16.1)	(11.0)	(15.2)	(14.7)	(11.7)	(14.7)	(13.0)	(18.1)	(3.5)		6.2	(2.5)	(0.3)	0.3	(5.0)	(4.3)	(9.1)	(9.6)	(14.8)	(13.7)	(13.1)	0.0							
Chile	2.8	5.7	(2.0)	(0.2)	11.8	13.8	1.6	4.5	0.0	(2.6)	16.3	11.6	(0.1)	5.9	0.6	(2.1)	0.3	(1.3)	(2.4)	(7.1)	4.9	3.8	(2.9)			(7.4)	(12.4)	(9.3)	(8.2)	2.0	8.2	2.0	8.0	1.4	(1.1)									
Colombia	14.5	6.2	3.7	4.4	2.7	10.2	8.8	8.6	5.2	6.6	2.6	11.0	(5.2)	1.2	6.1	(6.7)	5.9	(5.3)	(1.5)	(19.7)	(1.7)	(11.2)	(14.5)	(4.6)		14.3	8.4																	

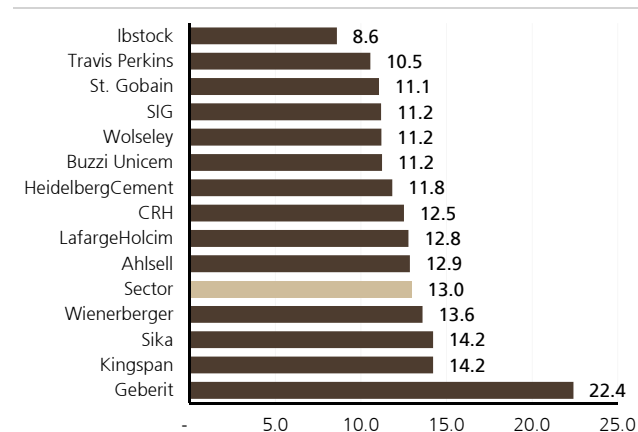
Sector valuation comps

Figure 124: EV/EBITDA (x) 2017E



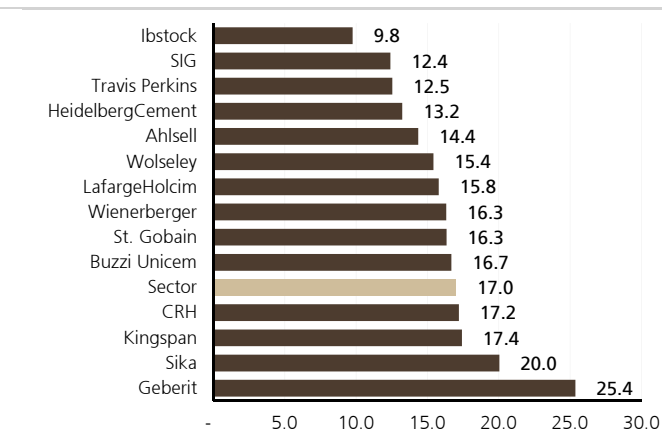
Source: Company data, UBS Estimates

Figure 125: EV/EBIT (x) 2017E



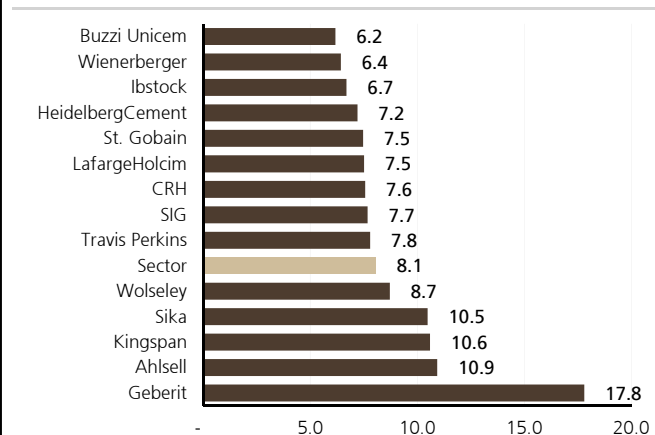
Source: Company data, UBS Estimates

Figure 126: P/E (x) 2017E



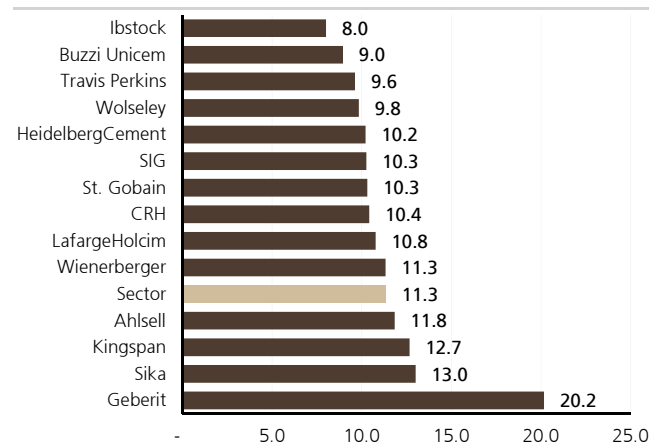
Company data, UBS Estimates

Figure 127: EV/EBITDA (x) 2018E



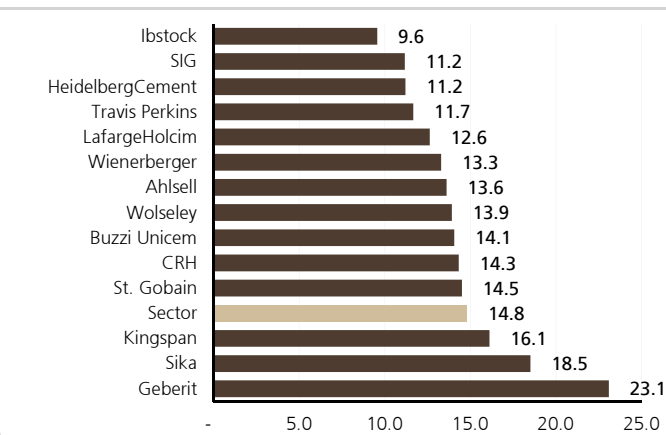
Source: Company data, UBS Estimates

Figure 128: EV/EBIT (x) 2018E



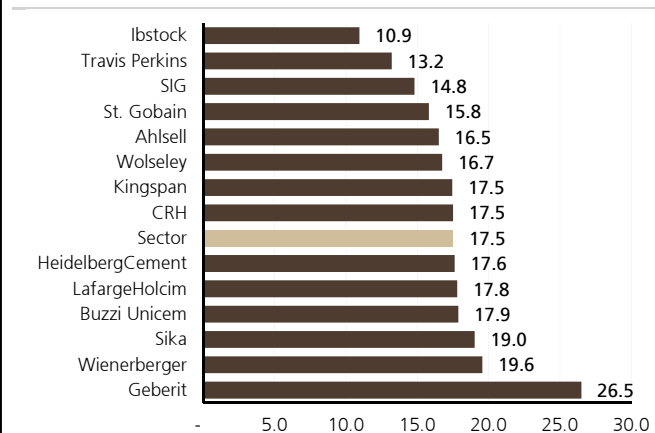
Source: Company data, UBS Estimates

P/E (x) 2018E



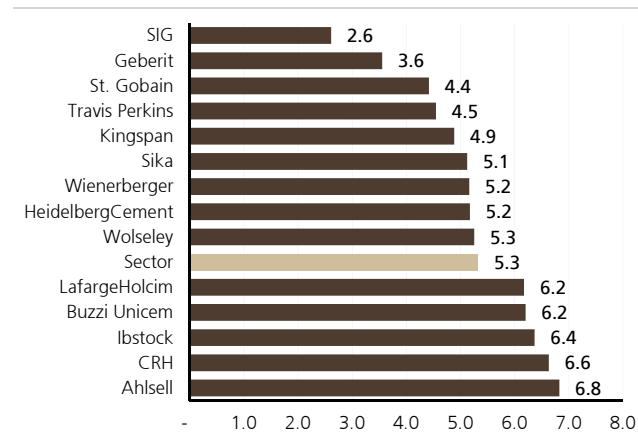
Company data, UBS Estimates

Figure 129: EV/NOPAT (x) 2017E



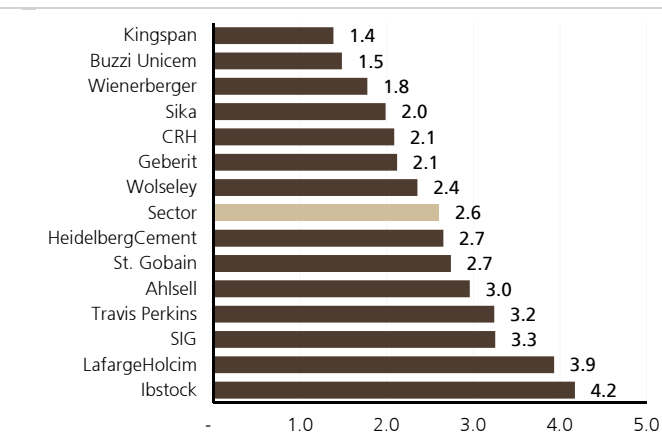
Source: Company data, UBS Estimates

Figure 130: FCF Yield – total (%) 2017E



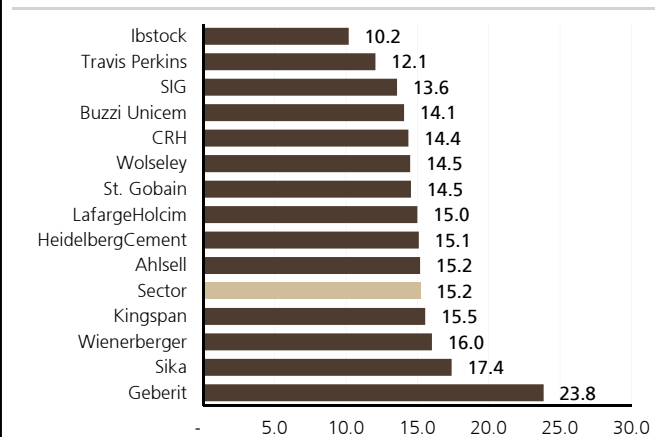
Source: Company data, UBS Estimates

Figure 131: Dividend Yield (%) 2017E



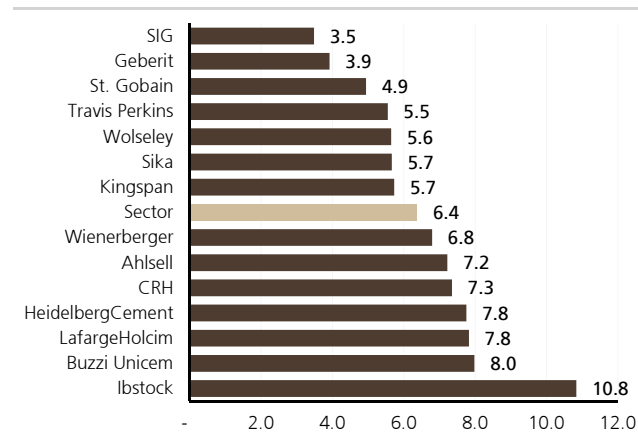
Company data, UBS Estimates

Figure 132: EV/NOPAT (x) 2018E



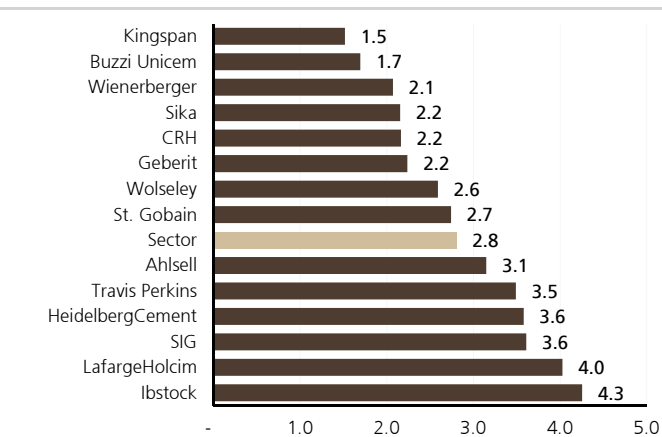
Source: Company data, UBS Estimates

Figure 133: FCF Yield – total (%) 2018E



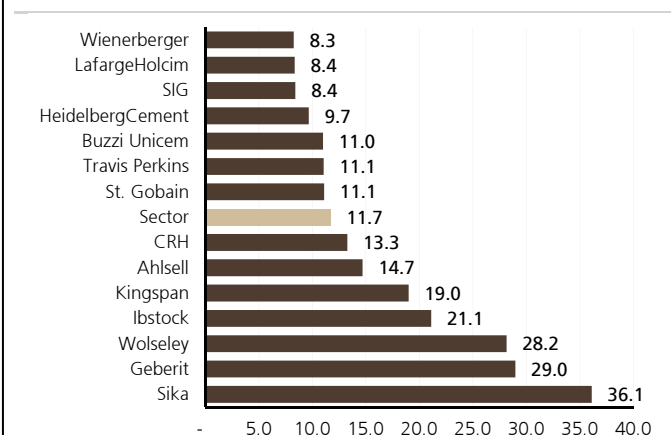
Source: Company data, UBS Estimates

Figure 134: Dividend Yield (%) 2018E



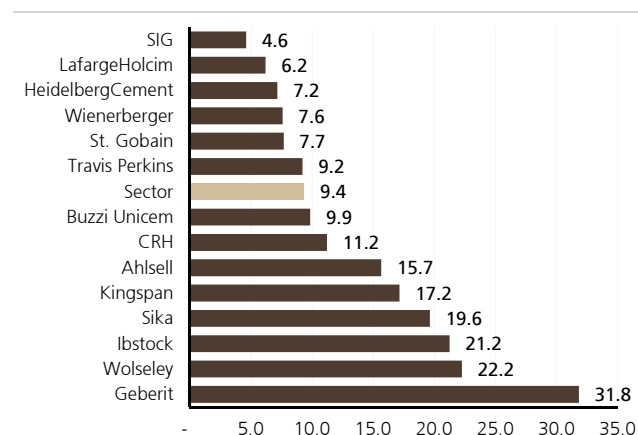
Returns

Figure 135: Pre-tax ROIC (%) 2017E



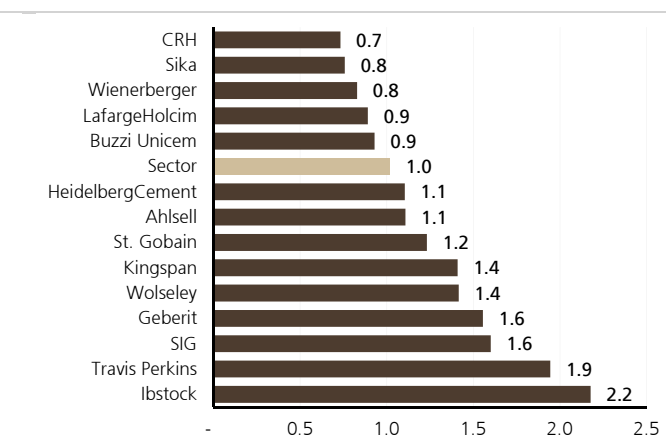
Source: Company data, UBS Estimates

Figure 136: ROE (%) 2017E



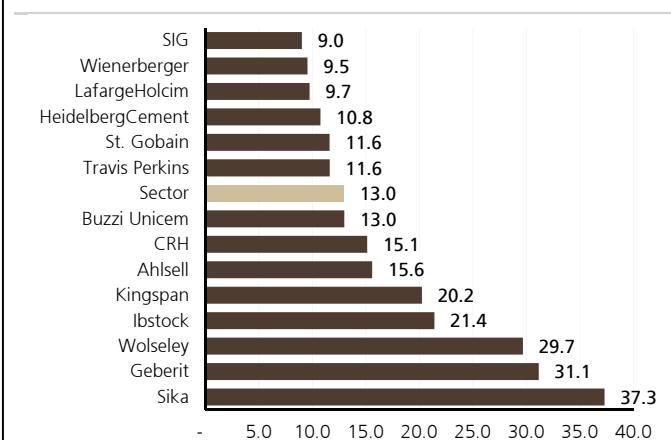
Source: Company data, UBS Estimates

Figure 137: CAPEX/Dep. (x) 2017E



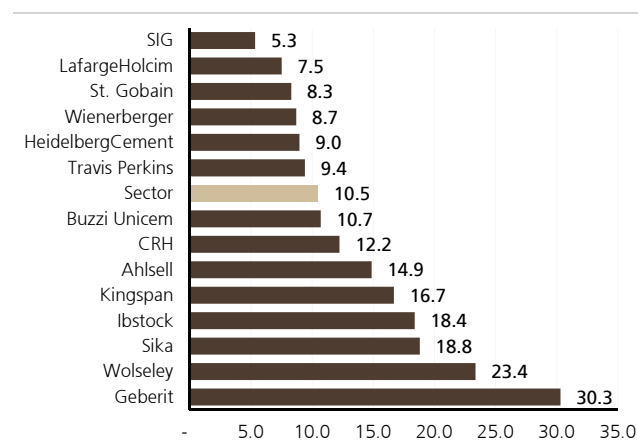
Company data, UBS Estimates

Figure 138: Pre-tax ROIC (%) 2018E



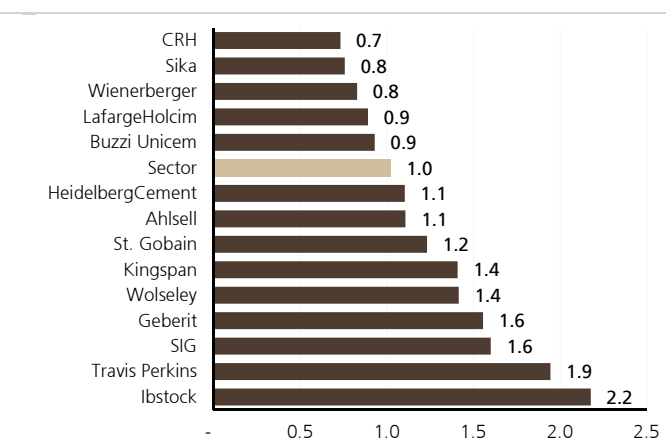
Source: Company data, UBS Estimates

Figure 139: ROE (%) 2018E



Source: Company data, UBS Estimates

Figure 140: CAPEX/Dep. (x) 2018E



Company data, UBS Estimates

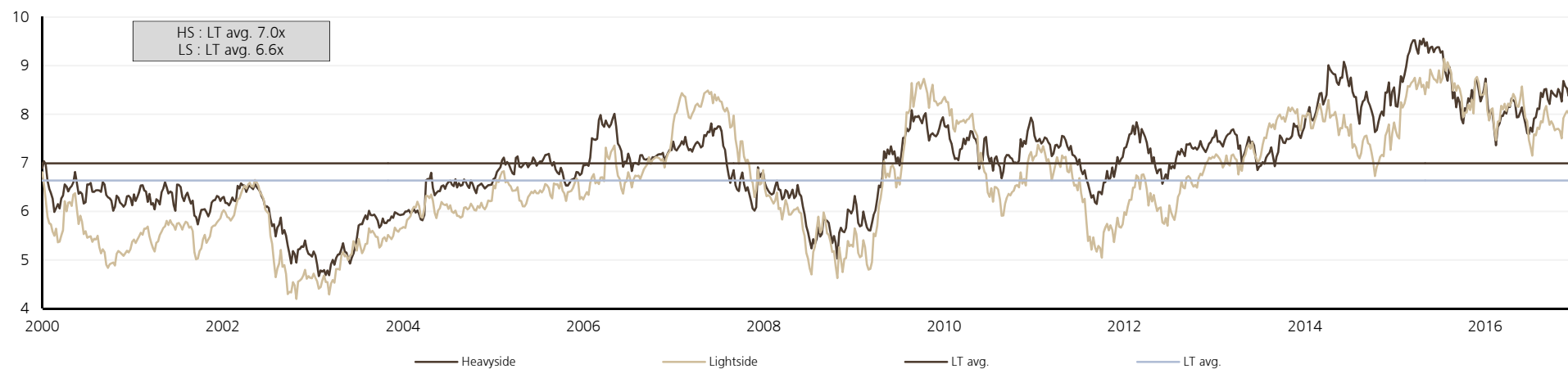
Long term valuation multiples

Figure 141: Sector long-term EV/EBITDA (x)

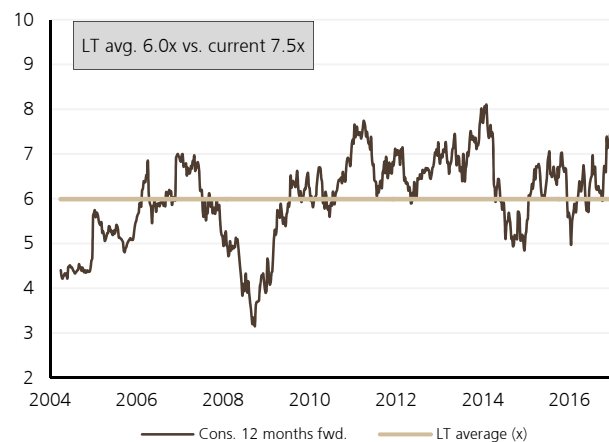


Source: Company Data, Datastream, Bloomberg, UBS estimates

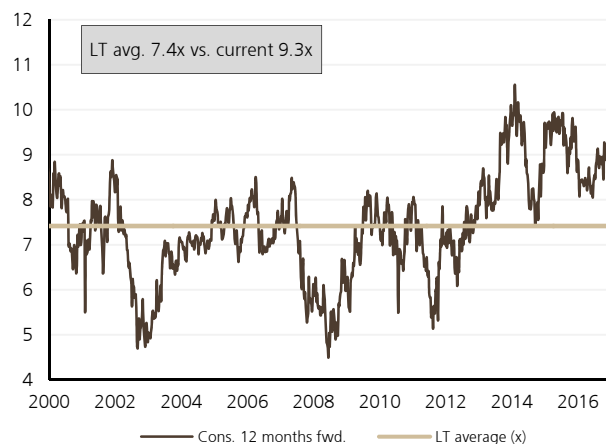
Figure 142: Heavyside vs Lightside long-term EV/EBITDA (x)



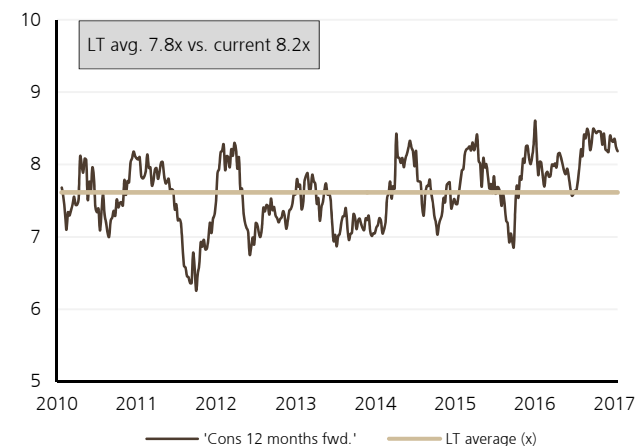
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 143: Buzzi Unicem EV/EBITDA (x)

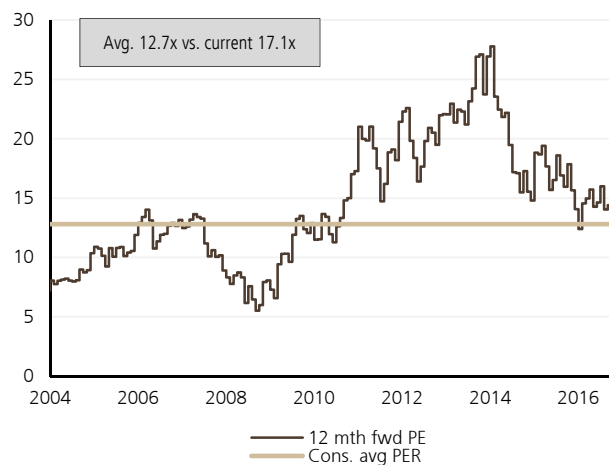
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 144: CRH EV/EBITDA (x)

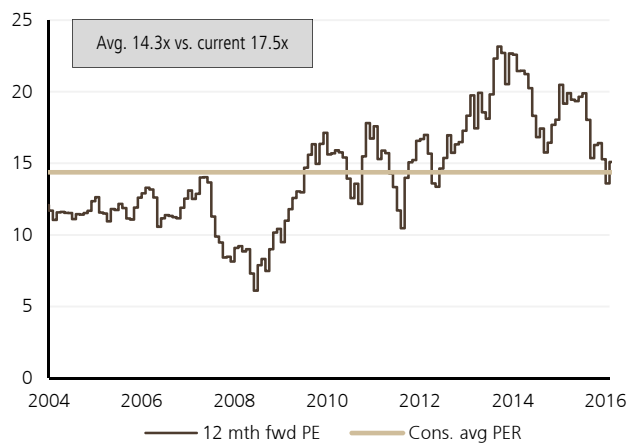
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 145: Heidelberg Cement EV/EBITDA (x)

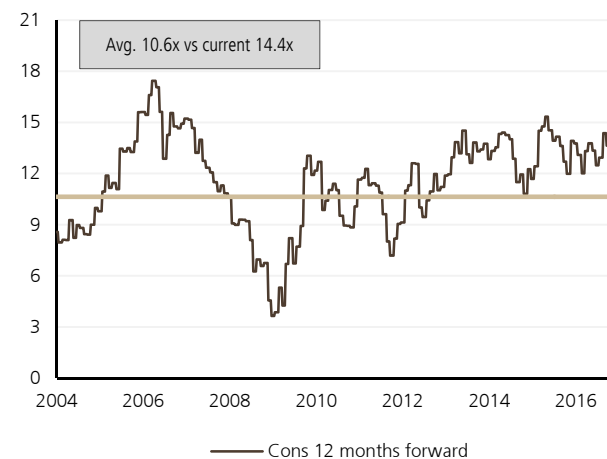
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 146: Buzzi Unicem P/E (x)

Source: Company Data, Datastream, Bloomberg, UBS estimates

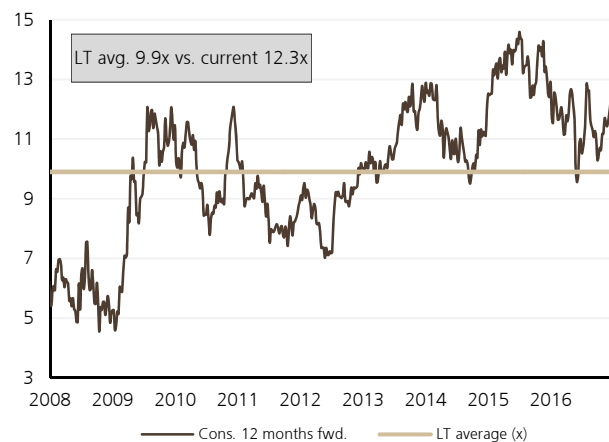
Figure 147: CRH P/E (x)

Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 148: Heidelberg Cement P/E (x)

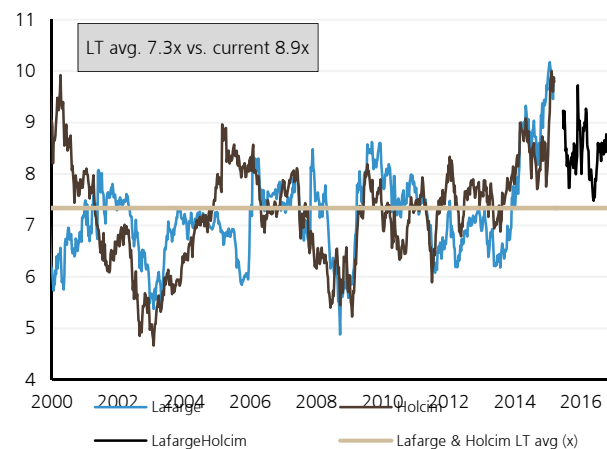
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 149: Kingspan EV/EBITDA (x)



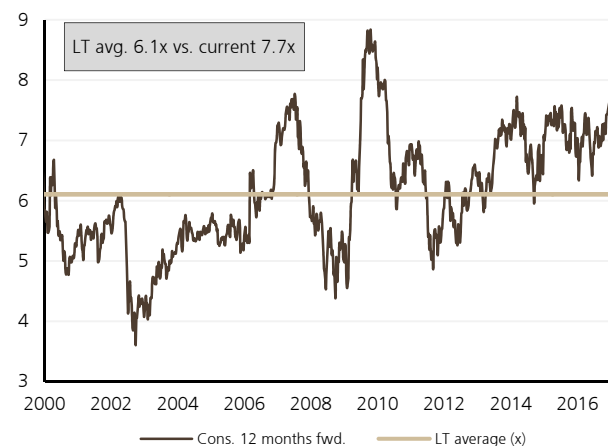
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 150: LafargeHolcim EV/EBITDA (x)



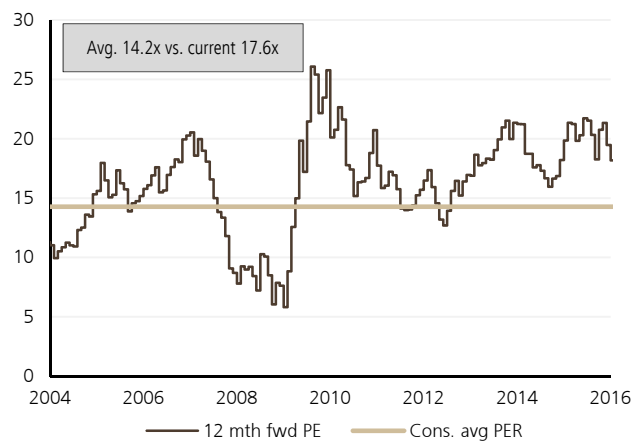
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 151: Saint Gobain EV/EBITDA (x)



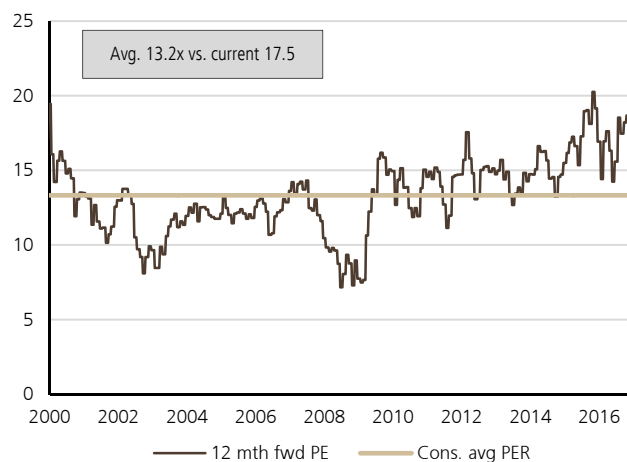
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 152: Kingspan P/E (x)



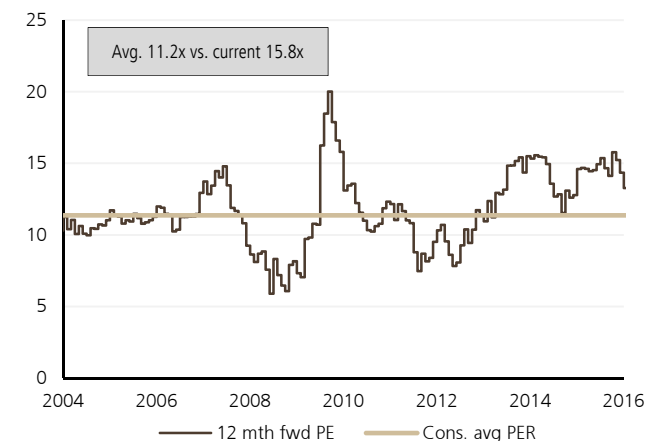
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 153: LafargeHolcim P/E (x)

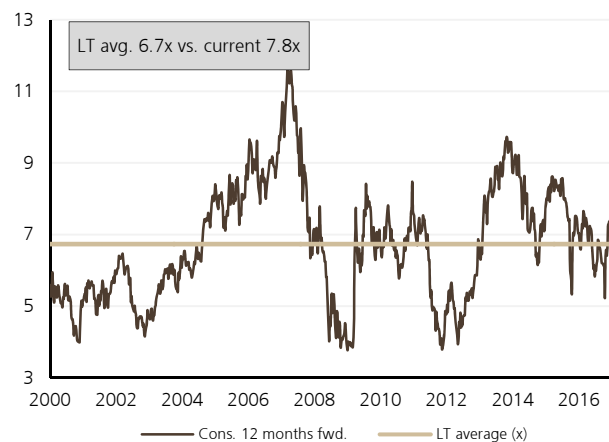


Source: Company Data, Datastream, Bloomberg, UBS estimates

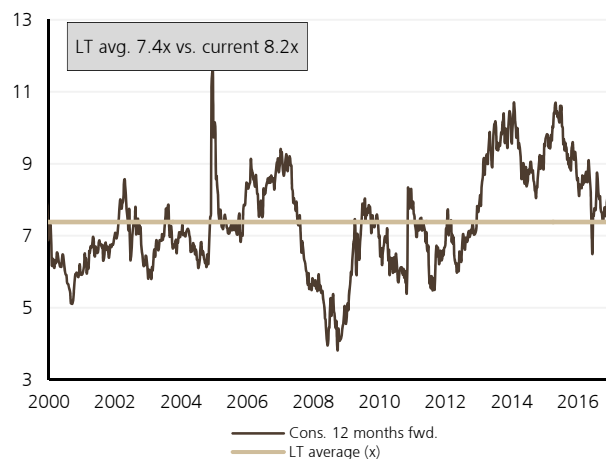
Figure 154: Saint Gobain P/E (x)



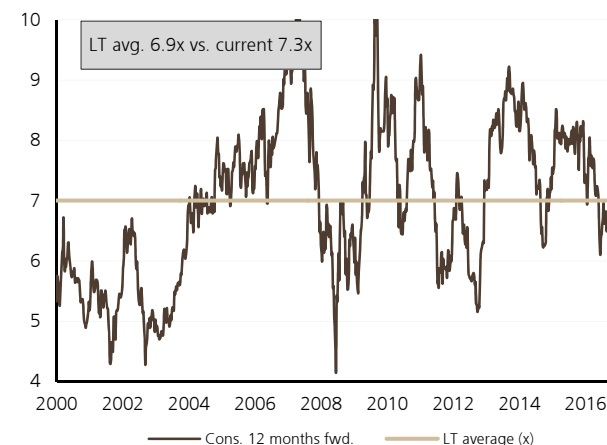
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 155: SIG EV/EBITDA (x)

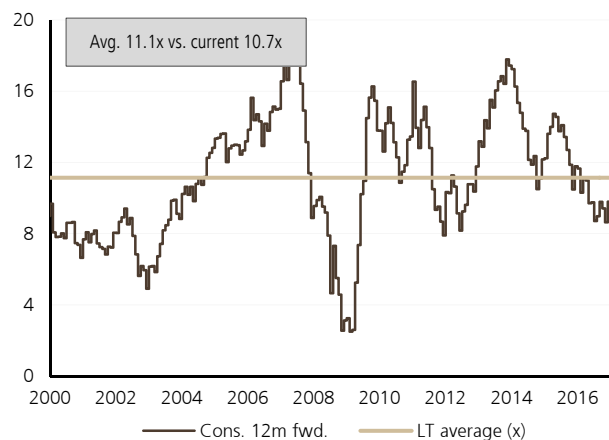
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 156: Travis Perkins EV/EBITDA (x)

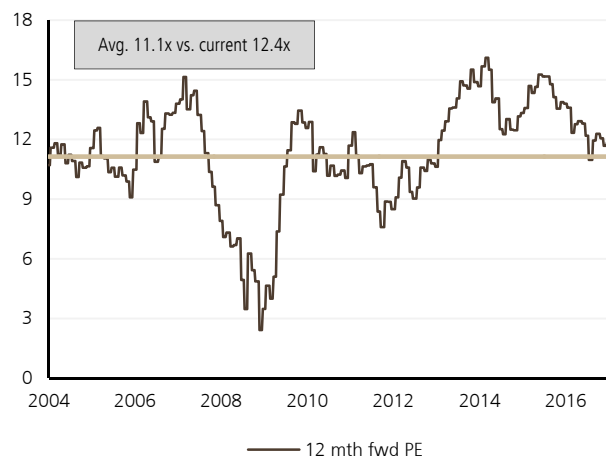
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 157: Wienerberger EV/EBITDA (x)

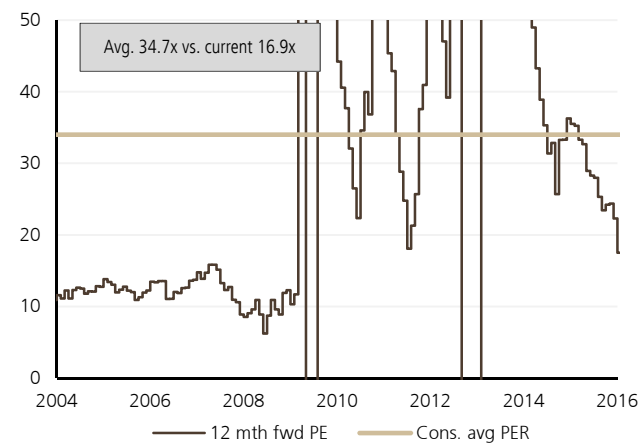
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 158: SIG P/E (x)

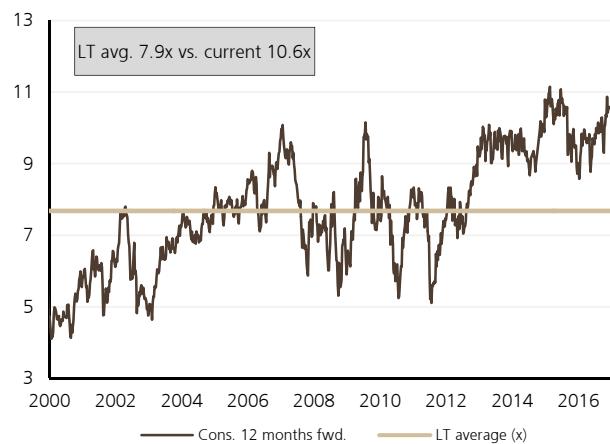
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 159: Travis Perkins P/E (x)

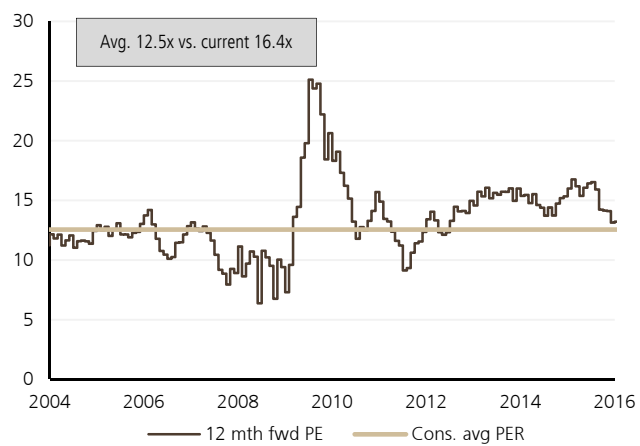
Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 160: Wienerberger P/E (x)

Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 161: Wolseley EV/EBITDA (x)

Source: Company Data, Datastream, Bloomberg, UBS estimates

Figure 162: Wolseley P/E (x)

Source: Company Data, Datastream, Bloomberg, UBS estimates

Sales and EBITDA bridges

Figure 163: 2016E sales and EBITDA bridge

Sales %	Buzzi	CRH	Heidelberg	LafargeHolcim	Cement	Ahlsell	SIG	Travis Perkins	Wolseley	Distributors	lbstock	Kingspan	St Gobain	Wienerberger	Lightside	Sector
FX	0.0	(1.7)	(2.8)	(3.2)	(2.4)	(0.5)	6.6	0.0	4.1	3.0	2.2	(4.7)	(3.0)	(1.7)	(3.0)	(1.5)
Volume	0.0	3.3	2.4	(1.5)	1.2	5.8	0.0	3.7	2.3	2.7	1.2	5.0	2.7	0.5	2.7	2.0
Price	0.0	1.3	(0.8)	0.4	0.5	0.0	0.0	(1.2)	0.0	(0.3)	1.1	1.0	(0.1)	0.8	0.1	0.2
Organic growth	0.0	4.7	0.6	(1.9)	1.2	6.4	0.0	2.9	2.4	2.6	2.2	6.0	2.7	1.2	2.8	2.0
M&A	0.0	(0.9)	1.8	(2.1)	(0.8)	1.2	3.7	1.5	1.5	1.7	0.0	10.1	(1.3)	0.5	(0.5)	(0.2)
Reported sales growth	0.0	16.9	(0.4)	(7.2)	3.2	7.1	10.3	4.4	8.1	7.3	4.5	11.3	(1.7)	0.0	(0.7)	2.7
EBIT(DA) %																
FX	(1.0)	(2.2)	(2.4)	(4.1)	(3.1)	(0.1)	6.8	0.0	5.4	3.4	0.7	(4.7)	(2.9)	(1.7)	(2.8)	(2.3)
Volume	1.9	13.3	6.4	(3.1)	3.4	8.7	(0.9)	8.9	1.0	3.8	(4.8)	11.3	4.4	1.2	4.2	3.7
Price-variable cost	0.0	(2.7)	(1.7)	(0.2)	(1.2)	0.0	(30.0)	0.0	0.0	(2.0)	4.8	20.5	2.3	2.9	3.4	(0.1)
Cost savings	0.0	0.0	3.6	10.3	5.7	0.0	12.3	0.0	0.0	0.8	0.0	0.0	0.0	1.0	0.1	3.7
Organic	1.9	10.5	8.4	7.0	8.0	8.7	(18.5)	8.9	1.0	2.6	0.0	31.7	6.7	5.1	7.7	7.3
One-offs / CO2	0.5	5.4	(1.7)	(0.1)	1.0	2.1	0.0	(0.7)	(0.0)	0.0	0.0	0.0	0.0	(2.1)	(0.2)	0.5
M&A	0.0	0.3	0.5	(2.6)	(1.1)	1.0	3.9	1.5	0.9	1.3	0.0	5.9	(0.1)	0.5	0.3	(0.5)
Reported EBIT(DA) growth	1.4	41.0	4.5	0.1	9.9	11.7	(8.8)	9.7	7.3	7.4	0.8	31.1	3.4	1.7	4.7	8.2
Currency	€m	€m	€m	CHFm	€m	SEKm	£m	£m	£m	€m	£m	€m	€m	€m	€m	€m
Sales (start)	2,662	23,635	13,465	29,483	66,813	22,585	2,566	5,942	13,332	29,052	413	2,774	39,623	2972	45,873	141,738
FX	0	(472)	(377)	(942)	(1,713)	(108)	170	0	552	870	9	(130)	(1,192)	(51)	(1,362)	(2,205)
Adjusted start	2,662	26,666	13,088	28,541	68,603	22,477	2,736	5,942	13,884	29,922	422	2,644	38,431	2,921	44,511	143,036
Volume	0	892	313	(424)	817	1,295	0	220	319	795	5	132	1,054	13	1,206	2,818
Price	0	355	(106)	107	347	0	0	(71)	0	(87)	5	26	(32)	23	23	283
Other	0	0	(124)	(224)	(330)	144	0	24	13	60	(0)	0	0	0	(0)	(270)
Organic growth	0	1,247	83	(541)	834	1,438	0	173	332	768	9	158	1,023	36	1,229	2,831
M&A	0	(242)	236	(613)	(569)	271	100	90	213	520	0	266	(516)	15	(235)	(283)
Sales (end)	2,670	27,671	17,273	27,387	72,741	24,187	2,832	6,204	14,429	31,205	431	3,068	38,938	2,972	45,505	149,452
EBITDA (start)	479	2,219	2,412	5,751	10,386	2,030	99	413	855	1,882	107	256	3,844	393	4,623	16,892
FX	(5)	(60)	(58)	(233)	(337)	(2)	7	0	46	64	1	(12)	(113)	(7)	(131)	(404)
Adjusted start	474	2,692	2,354	5,518	10,583	2,028	105	413	901	1,946	108	244	3,731	386	4,492	17,021
Volume	9	357	152	(169)	362	177	(1)	37	9	74	(5)	27	164	5	190	625
Price-variable cost	0	(73)	(40)	(13)	(125)	0	(32)	0	0	(39)	5	50	86	11	154	(10)
Cost savings	0	0	85	570	608	0	13	0	0	16	0	0	0	4	4	628
Organic	9	284	197	388	845	177	(20)	37	9	51	0	77	250	20	347	1,243
One-offs / CO2	2	146	(40)	(8)	101	42	0	(3)	(0)	0	0	0	0	(8)	(8)	93
M&A	0	7	11	(144)	(114)	21	4	6	8	25	0	14	(5)	2	12	(77)
EBITDA (end)	550	3,129	3,062	5,754	12,020	2,271	90	413	917	1,973	110	335	3,976	400	4,846	18,839

Source: UBS estimates

Figure 164: 2017E sales and EBITDA bridge

Sales %	Buzzi	CRH	Heidelberg	LafargeHolcim	Cement	Ahlseil	SIG	Travis Perkins	Wolseley	Distributors	lbstock	Kingspan	St Gobain	Wienerberger	Lightside	Sector
FX	0.0	1.7	(0.2)	(0.6)	0.4	1.3	2.5	0.0	14.2	8.4	2.8	(1.3)	0.5	0.2	0.4	2.0
Volume	0.0	2.2	2.4	2.3	2.2	3.7	0.0	(3.5)	2.3	0.9	3.5	3.0	1.8	1.5	1.9	1.8
Price	0.0	1.5	2.2	3.2	2.2	0.0	0.0	4.0	0.0	0.9	2.7	2.9	1.3	1.4	1.4	1.7
Organic growth	0.0	3.7	4.8	5.5	4.5	3.0	0.0	0.5	3.2	2.3	5.7	5.9	3.1	2.9	3.3	3.6
M&A	0.0	0.2	0.0	(7.9)	(2.7)	1.4	0.0	1.6	1.1	1.1	0.0	8.3	0.2	0.1	0.8	(0.8)
Reported sales growth	0.0	5.6	4.6	(2.9)	2.2	5.7	2.5	2.1	18.5	11.8	8.4	12.8	3.9	3.2	4.5	4.8
EBIT(DA) %																
FX	3.3	2.0	1.0	(1.3)	0.3	0.4	2.5	0.0	16.2	9.3	1.4	(1.3)	0.8	0.2	0.6	1.3
Volume	4.6	7.9	5.6	3.9	5.5	5.2	(5.6)	(0.6)	1.6	1.1	4.0	5.4	5.2	4.0	5.1	4.9
Price-variable cost	0.0	1.7	1.7	3.6	2.4	0.0	(24.0)	0.0	0.0	(1.2)	0.4	(1.2)	0.0	0.3	(0.1)	1.4
Cost savings	0.0	0.0	5.3	5.3	3.7	0.0	15.2	0.0	0.0	0.8	0.0	0.0	0.4	1.9	0.5	2.5
Organic	4.6	9.6	12.7	12.8	11.5	5.2	(14.4)	(0.6)	1.6	0.7	4.3	4.2	5.6	6.1	5.5	8.8
One-offs / CO2	(0.6)	3.4	(0.5)	0.0	0.7	(0.8)	0.0	0.0	0.8	0.4	0.0	0.0	0.0	(2.5)	(0.2)	0.4
M&A	0.0	0.8	0.0	(7.1)	(2.9)	1.0	0.0	1.4	2.4	1.9	0.0	5.3	0.5	1.1	0.9	(1.4)
Reported EBIT(DA) growth	7.5	16.1	13.2	4.3	9.7	5.9	(12.2)	0.8	21.9	12.6	5.8	8.0	6.9	5.0	6.8	9.3
Currency	€m	€m	€m	CHFm	€m	SEKm	£m	£m	£m	€m	£m	€m	€m	€m	€m	€m
Sales (start)	2,670	27,671	17,273	27,387	73,133	24,187	2,832	6,204	14,429	29,701	431	3,068	38,938	2972	45,478	148,311
FX	0	465	(41)	(162)	274	325	71	0	2,049	2,488	12	(41)	196	6	174	2,936
Adjusted start	2,670	28,136	17,232	27,225	73,407	24,512	2,903	6,204	16,478	32,189	443	3,027	39,133	2,978	45,652	151,248
Volume	0	632	421	615	1,626	914	0	(215)	381	287	15	90	723	46	877	2,790
Price	0	415	371	878	1,605	0	0	248	0	287	12	87	498	41	640	2,532
Other	0	0	33	17	49	(185)	0	0	147	151	(2)	0	0	0	(3)	198
Organic growth	0	1,047	825	1,510	3,280	729	0	33	528	726	25	177	1,221	87	1,515	5,520
M&A	0	53	0	(2,147)	(1,948)	333	0	100	183	363	0	252	95	2	349	(1,236)
Sales (end)	2,875	29,236	18,058	26,589	74,944	25,574	2,882	6,337	17,189	33,253	468	3,457	40,450	3,067	47,515	155,713
EBITDA (start)	550	3,129	3,062	5,754	12,102	2,271	90	413	917	1,882	110	335	3,976	400	4,839	18,823
FX	18	63	30	(74)	42	10	2	0	149	176	2	(4)	30	1	28	246
Adjusted start	568	3,192	3,092	5,680	12,144	2,281	92	413	1,066	2,058	112	331	4,006	400	4,867	19,068
Volume	26	253	175	224	663	118	(5)	(3)	17	24	4	18	209	16	248	934
Price-variable cost	0	53	52	203	294	0	(22)	0	0	(26)	0	(4)	0	1	(2)	266
Cost savings	0	0	165	300	445	0	14	0	0	16	0	0	15	8	23	483
Organic	26	306	392	727	1,401	118	(13)	(3)	17	14	5	14	224	25	268	1,684
One-offs / CO2	(3)	107	(17)	0	87	(17)	0	0	9	8	0	0	0	(10)	(10)	85
M&A	0	27	0	(405)	(350)	23	0	6	26	39	0	17	20	5	42	(269)
EBITDA (end)	628	3,632	3,467	6,002	13,319	2,409	79	386	1,118	2,086	117	362	4,250	419	5,167	20,572

Source: UBS estimates

Figure 165: 2018E sales and EBITDA bridge

Sales %	Buzzi	CRH	Heidelberg	LafargeHolcim	Cement	Ahlsell	SIG	Travis Perkins	Wolseley	Distributors	lbstock	Kingspan	St Gobain	Wienerberger	Lightside	Sector
FX	0.0	(0.0)	0.0	0.0	(0.0)	(0.0)	0.0	0.0	1.0	0.6	0.0	(0.0)	(0.0)	(0.0)	(0.0)	0.1
Volume	0.0	3.8	2.8	2.9	3.1	3.6	0.0	1.3	5.3	3.8	4.6	4.0	1.9	2.1	2.1	2.9
Price	0.0	1.5	1.9	2.7	1.9	0.0	0.0	1.5	0.0	0.3	2.2	1.0	1.5	1.4	1.5	1.5
Organic growth	0.0	5.3	4.8	5.5	5.0	3.2	0.0	2.7	5.3	4.0	6.8	5.0	3.4	3.5	3.6	4.4
M&A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.1
Reported sales growth	0.0	5.3	4.8	5.5	5.0	3.2	0.0	3.7	6.3	4.9	6.8	5.0	3.4	3.5	3.6	4.6
EBIT(DA) %																
FX	(0.0)	(0.0)	0.0	0.0	(0.0)	0.0	0.0	0.0	1.1	0.7	(0.1)	(0.0)	0.0	(0.0)	(0.0)	0.1
Volume	6.0	12.1	6.2	4.9	7.3	5.6	11.2	5.8	10.5	9.0	5.6	7.7	4.9	5.5	5.2	6.9
Price-variable cost	0.0	(1.6)	(0.2)	3.2	0.9	0.0	(15.0)	0.0	0.0	(0.7)	(1.6)	0.0	0.0	(0.5)	(0.1)	0.5
Cost savings	0.0	0.0	2.7	2.2	1.7	0.0	12.9	0.0	0.0	0.6	0.0	0.0	0.4	2.4	0.5	1.3
Organic	6.0	10.5	8.7	10.4	9.8	5.6	9.1	5.8	10.5	8.9	4.0	7.7	5.3	7.4	5.6	8.6
One-offs / CO2	0.0	0.0	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	(0.0)
M&A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Reported EBIT(DA) growth	6.0	10.5	8.7	10.4	9.8	4.6	9.2	6.7	11.8	9.7	3.9	7.7	5.3	7.4	5.6	8.7
Currency	€m	€m	€m	CHFm	€m	SEKm	£m	£m	£m	€m	£m	€m	€m	€m	€m	€m
Sales (start)	2,875	29,236	18,058	26,589	74,941	25,574	2,882	6,337	17,189	33,250	468	3,457	40,450	3067	47,515	155,707
FX	0	(0)	0	0	(0)	(0)	1	0	168	196	0	(0)	(1)	(1)	(1)	194
Adjusted start	2,875	29,236	18,058	26,589	74,941	25,574	2,883	6,337	17,358	33,446	468	3,456	40,449	3,066	47,514	155,901
Volume	0	1,102	507	774	2,330	912	0	79	922	1,255	21	140	754	65	984	4,569
Price	0	439	336	718	1,443	0	0	95	0	110	10	35	623	42	711	2,264
Other	0	0	33	(32)	3	(86)	0	0	(2)	(11)	0	0	0	0	0	(8)
Organic growth	0	1,540	876	1,460	3,777	826	0	174	920	1,353	32	175	1,377	107	1,696	6,826
M&A	0	0	0	0	0	0	0	61	10	83	0	0	0	0	0	83
Sales (end)	3,065	30,776	18,933	28,049	78,908	26,399	2,918	6,573	18,288	34,923	500	3,631	41,826	3,174	49,210	163,041
EBITDA (start)	628	3,632	3,467	6,002	13,319	2,409	79	386	1,118	2,086	117	362	4,250	419	5,167	20,571
FX	(0)	(0)	0	0	(0)	0	0	0	13	15	(0)	(0)	0	(0)	(0)	14
Adjusted start	628	3,632	3,467	6,002	13,318	2,409	79	386	1,131	2,100	116	362	4,250	419	5,167	20,585
Volume	38	441	214	295	968	136	9	22	119	188	7	28	208	23	267	1,424
Price-variable cost	0	(59)	(7)	194	114	0	(12)	0	0	(14)	(2)	0	0	(2)	(4)	96
Cost savings	0	0	95	135	221	0	10	0	0	12	0	0	15	10	25	258
Organic	38	382	302	624	1,303	136	7	22	119	186	5	28	224	31	288	1,778
One-offs / CO2	0	0	0	0	0	(25)	0	0	0	(3)	0	0	0	0	0	(3)
M&A	0	0	0	0	0	0	0	4	1	5	0	0	0	0	0	5
EBITDA (end)	708	4,014	3,769	6,626	14,664	2,530	86	413	1,251	2,292	121	390	4,474	450	5,455	22,410

Source: UBS estimates

Enterprise value calculations

Figure 166: Enterprise value calculations, by company

	Share price (local)	Number of share (m)	Market cap (local, m)	Net debt (2017E end)	Minorities	Pensions and other debt deemed liab.	Non-core assets	Other EV items	EV	Market cap + Minority as % of EV	EBITDA 2017E	EV/EBITDA(x) 2017E
Ahlsell	52.3	436	22,818	5,768	0	49	0	49	28,635	80	2,409	11.9
Buzzi Unicem	22.9	205	4,325	706	31	449	(956)	(476)	4,555	96	628	7.3
CRH	2811	733	26,782	4,410	730	1,088	(1,295)	523	31,715	87	3,632	8.7
HeidelbergCement	85.1	188	17,071	8,200	3,970	1,784	(2,806)	2,947	28,218	75	3,467	8.1
Ibstock	176.3	406	716	111	0	22	0	22	849	84	117	7.3
LafargeHolcim	51.2	606	31,035	12,125	8,119	2,693	(4,439)	6,373	49,533	79	6,095	8.1
Kingspan	26.9	178	4,821	220	26	7	0	33	5,074	96	434	11.7
SIG	105	591	620	243	1	22	0	23	887	70	106	8.4
St. Gobain	45.6	544	25,152	4,915	643	3,901	(325)	4,219	34,286	75	4,250	8.1
Travis Perkins	1475	249	3,635	424	0	35	(10)	24	4,083	89	479	8.5
Wienerberger	17.0	118	1,994	600	298	161	(62)	397	2,991	67	419	7.1
Wolseley	4967	252	12,511	635	0	118	(23)	95	13,241	94	1,336	9.9

Source: UBS estimates

Geographic exposure by company

Figure 167: Geographic revenue exposure for Building Materials (sorted by North America exposure)

Sales (2015, %)	North America			Western Europe										CEE	Africa/ ME	Asia Pacific	Latin America
	US	Canada	Total	UK	Germany/Austria	France	Benelux	Iberia	Italy	Ireland	Switzerland	Nordic	Other	Total			
Buzzi Unicem	41		41		21		6		14					42	17		
Cemex	29		29	9	3	6		2					4	25	8	5	34
CRH	45	7	52	13	6	4	9			2	6	2	2	44	4		1
Geberit	3		3	4	33	5	7	1	6		10	9	0	83	8	2	3
HeidelbergCement (PF)	21	4	25	8	6	7	3	1	3			6	1	35	6	11	19
Kingspan	15	5	20	29	7	8	15			3			2	65	7	4	4
LafargeHolcim (PF)	12	7	19	7		4					2		6	19	6	15	30
Saint Gobain	13		13	12	10	25		3				12	6	67	5	2	7
SIG				52	14	20	6			3				96	4		6
Travis Perkins				100										100			
Wienerberger	8	1	9	10	17	7	19				2	7		62	14		
Wolseley	63	5	68	15			2				2	14		32			
Total	26	2	28	11	5	7	1	2	0	0	1	2	4	34	2	7	21

Source: UBS estimates

Housing starts and permits data

Figure 168: Housing Permits and starts by company (% change y/y)

		2014				2015				2016									
% y/y		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		YTD16	FY11	FY12	FY13	FY14	FY15
Housing Permits																			
Western Europe																			
Austria	Permits	4.1	(0.3)	(4.8)	15.4	(5.6)	9.5	8.9	6.8	20.7	28.3	(8.8)	20.7	18.5	(11.7)	14.7	3.1	5.1	
France	Permits	(22.9)	(6.4)	1.8	(8.8)	(9.7)	5.7	3.9	16.9	9.9	12.8	17.3	12.8	8.6	(7.3)	(12.2)	(10.1)	4.0	
Germany	Building Permits	3.1	(2.2)	(6.8)	3.4	(1.6)	2.5	13.4	15.9	23.9	7.2	(7.6)	4.9	19.1	(3.4)	3.6	(1.0)	7.6	
	Single Family Permits	1.1	(2.7)	(7.1)	4.6	(1.6)	3.1	14.7	15.9	23.0	2.8	(12.4)	1.0	19.6	(5.8)	1.1	(1.4)	8.1	
	Two Family Permits	5.5	(4.9)	(13.5)	(7.9)	(5.4)	(3.4)	13.4	19.5	26.8	10.9	2.8	12.7	7.3	3.6	13.3	(5.8)	5.4	
	Multi-family Permits	22.5	5.4	5.1	6.2	2.9	5.8	0.3	18.4	23.7	36.7	22.0	26.8	26.8	13.3	22.3	8.8	7.0	
Italy	Permits	(20.5)	(2.3)	(18.8)	(5.1)	(0.3)	(18.9)	(11.2)	(19.2)					(5.9)	(27.0)	(34.9)	(11.8)	(12.9)	
Spain	Permits	(11.7)	37.5	(10.7)	27.5	(17.8)	7.8	24.8	13.2	31.4			31.4	(17.1)	(24.3)	(45.7)	7.7	5.6	
Scandinavia																			
Denmark	Permits	50.2	27.0	35.8	35.2	15.0	41.1	28.2	43.7	12.4	(18.8)	(38.9)	(18.7)	1.2	(29.0)	(7.0)	35.8	32.4	
Finland	Permits	22.1	(2.2)	28.8	(0.3)	(8.2)	1.6	17.3	11.2	29.3	35.2	1.5	22.3	5.2	(8.1)	(16.4)	9.9	4.8	
Sweden	Permits	9.6	17.8	56.6	9.0	31.5	36.7	(5.1)	42.2	1.0	(4.3)	(15.5)	(6.1)	3.1	(13.3)	30.1	22.0	25.3	
Benelux																			
Netherlands	Permits	36.5	19.7	75.1	65.6	156.3	42.8	2.9	(2.9)	(49.6)	3.3	26.6	(12.0)	(8.6)	(33.0)	(29.9)	50.3	38.1	
Belgium	Permits	43.2	29.0	(8.6)	(20.0)	(38.4)	(25.1)	13.8	10.8	43.2	26.3	(16.3)	16.7	(11.1)	5.5	4.9	11.0	(15.1)	
CEE																			
Poland	Permits	(5.1)	(1.4)	(1.0)	(1.8)	12.0	12.8	13.6	14.5	12.5	11.3	10.2	11.0	(1.8)	(8.1)	(14.9)	(1.7)	13.7	
North America																			
US	Permits	7.7	4.7	7.6	5.1	5.1	21.3	5.8	11.3	7.6	(8.1)	5.0	0.7	3.2	32.9	19.4	6.2	11.2	
Australia	Permits	24.9	14.4	15.0	9.9	1.5	4.8	0.9	(1.6)	(0.5)	1.9	(2.6)	(0.7)	(14.6)	(4.6)	11.1	15.6	1.4	
Housing Starts																			
Western Europe																			
France	Starts	(18.4)	(13.3)	(7.8)	0.4	(2.2)	(2.1)	3.2	5.1	6.7	13.4	7.4	9.6	4.2	(9.9)	(2.9)	(10.0)	1.1	
UK	Starts	38.2	14.5	5.3	(5.1)	5.0	(4.5)	1.5	17.2	(10.8)	7.1	9.4	1.6	2.4	(10.8)	23.5	12.8	3.8	
Scandinavia																			
Denmark	Starts	48.2	18.5	35.5	80.0	(13.8)	20.3	(2.5)	(11.2)	39.2	(36.0)	(58.4)	(26.2)	8.0	(16.1)	(24.2)	41.7	(1.5)	
Finland	Starts	(15.0)	(6.5)	(1.8)	(2.2)	17.7	6.2	22.7	55.0	18.0	12.2	24.1	18.9	(2.0)	(9.4)	(7.4)	(6.2)	22.6	
Norway	Starts	(21.2)	10.2	(6.7)	(17.0)	19.5	(2.6)	11.3	24.3	7.8	25.1	25.1	16.6	31.3	8.7	0.0	(9.3)	12.4	
Sweden	Starts	15.2	16.0	16.6	24.8	30.7	37.1	44.7	(1.3)	20.0	(1.0)	13.4	10.3	(2.8)	(20.4)	43.9	18.5	25.4	
CEE																			
Czech Rep	Starts	4.8	15.9	7.4	12.2	(7.1)	17.7	5.1	15.5	2.0	(7.0)	3.4	(1.1)	(2.1)	(13.4)	(7.3)	10.1	8.3	
Poland	Starts	49.4	6.9	8.8	13.8	(1.3)	21.2	12.8	20.2	7.8	7.2	(2.0)	3.7	2.6	(12.6)	(10.2)	16.3	13.7	
North America																			
Canada	Starts	1.3	3.9	2.3	(4.5)	3.7	(1.9)	6.4	5.2	8.5	2.0	(4.4)	1.2	2.1	10.8	(12.5)	0.7	3.3	
US	Starts	(1.0)	12.5	15.9	5.0	4.2	16.6	13.0	7.3	16.1	0.7	(1.6)	4.8	3.7	28.2	18.5	8.5	10.8	

Source: National Sources

Recent UBS publications in the sector

Figure 169: Building Materials most recent research

Company	Title	Date
Ahlsell	A Nordic growth story	08-Dec-16
Buzzi Unicem	US deep dive: Anticipating a multi-year upturn Don't let the weather put you off	30-Nov-16 07-Nov-16
CRH	Plenty of road ahead (Part #2) Plenty of road ahead	26-Aug-16 10-May-16
HeidelbergCement	What will drive the stock in 2017	19-Dec-16
Ibstock	All not as bad as feared? Not just a (UK) brick business A golden brick: Initiate with Buy rating	24-Nov-16 05-Aug-16 02-Dec-15
Kingspan	Powering on	23-Aug-16
LafargeHolcim	Now it's down to execution (and pricing) ERRATUM What you need to believe for upside from here	22-Nov-16 15-Aug-16
SIG	Structural question marks, reiterate Sell	12-Jan-17
Saint Gobain	Improved Q3 but no major trend change Reasonable results; consensus likely unchanged	27-Oct-16 28-Jul-16
Travis Perkins	UBS Evidence Lab: Quality franchise in trickier times	20-Jan-17
Wienerberger	Time to take stock, downgrade to Neutral	19-Dec-16
Wolseley	Re-rating potential as US reflation Route may be different but destination remains	20-Jan-17 28-Sep-16

Buzzi Unicem Investment case

Buzzi remains highly geared to the US (over c60% of 2016E EBITDA) which is seeing strong pricing dynamics. In addition, the company offers optionality on market repair in Italy and growth in Mexico. While arguably the shares should trade at a discount to larger diversified peers due to low liquidity (2 share classes and low free float), we believe the current discount to the sector is too wide. Our PT is based on DCF using WACC of 8%, and moves up on 2% EPS upgrades over FY17-20E and a higher LT EBIT margin assumption of 15% (from 14.25%).

CRH Investment case

We still think CRH offers value as investors look out to normalised earnings, cyclical recovery and upside to the full integration benefits of the LafargeHolcim assets as well as optionality on further value accretive M&A. Our PT is based on DCF using LT EBIT margins of 9.5% and WACC of 7.75%. Our PT increases due to revised estimates and devaluation of Sterling.

Wolseley Investment case

We believe Wolseley still offers an attractive investment case despite the weakness seen in the non-US businesses. Around 85% of EBITA derived from the US which is a business that we believe can continue to grow and take market share. We believe the weakness in the UK and Nordic is mostly a distraction and we expect management action to stabilise results over time. At 15.2x CY17E P/E, similar to the wider markets and at a discount to US peers we still believe there is value in the shares. We introduce a new valuation methodology based on our DCF value of £50.5 (50%) and SOP value of c£59 (50%), resulting in a new fair value of £55. Our PT rises as a result of Sterling's devaluation as well as moving to reflect US peers multiples through our SOP valuation weight which we think is appropriate to reflect the optionality towards a US listing and lower US tax rates.

Valuation Method and Risk Statement

Building material, construction and housebuilding companies are by their nature exposed to national building cycles which are influenced, in our view, by the level of interest rates, the rate of growth of GDP, employment growth, population growth and the general conditions of buildings and infrastructure (both public and private). Companies' sales are also sensitive to selling prices, which can vary as capacity and demand levels fluctuate. Costs can be impacted by fuel costs, labour costs and other raw material costs, as well as planning and permitting costs and delays. International companies in our coverage list are also sensitive to exchange rates, although this is generally only through translation effects. The companies also face political risk and can be affected by weather.

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Buy	FSR is > 6% above the MRA.	45%	29%
Neutral	FSR is between -6% and 6% of the MRA.	39%	27%
Sell	FSR is > 6% below the MRA.	15%	16%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

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UBS Limited: Gregor Kuglitsch; Miguel Borrega.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Ahlsell AB ^{2, 4, 5}	AHSL.ST	Neutral	N/A	SKr52.30	19 Jan 2017
Buzzi Unicem	BZU.MI	Buy	N/A	€23.40	19 Jan 2017
CRH ^{2, 4, 5, 7, 14, 16}	CRH.L	Buy	N/A	2,792p	19 Jan 2017
HeidelbergCement ^{4, 13}	HEIG.DE	Neutral	N/A	€85.70	19 Jan 2017
Ibstock plc ^{2, 14}	IBST.L	Buy	N/A	177p	19 Jan 2017
Kingspan ¹⁴	KSP.I	Buy	N/A	€27.14	19 Jan 2017
LafargeHolcim Ltd ^{2, 4, 5, 6a, 6b, 7}	LHN.S	Neutral	N/A	CHF51.10	19 Jan 2017
Saint Gobain ⁵	SGOB.PA	Sell	N/A	€45.54	19 Jan 2017
SIG plc ²⁴	SHI.L	Sell	N/A	105p	19 Jan 2017
Travis Perkins	TPK.L	Buy	N/A	1,466p	19 Jan 2017
Wienerberger	WBSV.VI	Neutral	N/A	€17.02	19 Jan 2017
Wolseley ⁵	WOS.L	Buy (UR)	N/A	4,928p	19 Jan 2017

Source: UBS. All prices as of local market close.

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3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Acerinox SA	ACX.MC	Sell	N/A	€12.60	19 Jan 2017
Africa Oil	AOIC.ST	Buy	N/A	SKr18.80	18 Jan 2017
Aker BP⁵	AKERBP.OL	Neutral	N/A	NKr159.50	18 Jan 2017
Aperam	APAM.AS	Sell	N/A	€42.86	19 Jan 2017
Cairn Energy⁵	CNE.L	Buy	N/A	242p	18 Jan 2017
DNO ASA^{20a}	DNO.OL	Neutral (CBE)	N/A	NKr9.16	18 Jan 2017
EnQuest PLC^{20a}	ENQ.L	Buy (CBE)	N/A	53p	18 Jan 2017
Genel Energy PLC^{20b}	GENL.L	Neutral (CBE)	N/A	83p	18 Jan 2017
Lundin Petroleum AB	LUPE.ST	Neutral	N/A	SKr195.60	18 Jan 2017
MITIE Group^{4, 5, 7, 14}	MTO.L	Neutral	N/A	196p	18 Jan 2017
Natixis SA^{5, 7}	CNAT.PA	Neutral	N/A	€5.45	18 Jan 2017
Ophir Energy Plc	OPHR.L	Buy	N/A	92p	18 Jan 2017
Outokumpu^{20a}	OUT1V.HE	Suspended	N/A	€8.36	19 Jan 2017
Remy Cointreau	RCOP.PA	Neutral	N/A	€87.08	19 Jan 2017
Rotork^{5, 14}	ROR.L	Neutral	N/A	261p	18 Jan 2017
SOCO International⁵	SIA.L	Neutral	N/A	151p	18 Jan 2017
Spirax-Sarco	SPX.L	Neutral	N/A	4,259p	18 Jan 2017
Tullow Oil^{20a}	TLW.L	Neutral (CBE)	N/A	312p	18 Jan 2017

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Additional Prices: Bodycote, 640p (18 Jan 2017); Fenner, 300p (18 Jan 2017); Halma Plc, 941p (18 Jan 2017); IMI Plc, 1,071p (18 Jan 2017); Melrose Industries plc, 197p (18 Jan 2017); Morgan Advanced Materials PLC, 300p (18 Jan 2017); Renishaw, 2,722p (18 Jan 2017); Rotork, 261p (18 Jan 2017); Smiths Group, 1,494p (18 Jan 2017); Spectris, 2,488p (18 Jan 2017); Vesuvius plc, 440p (18 Jan 2017); Weir, 2,028p (18 Jan 2017); Source: UBS. All prices as of local market close.

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