

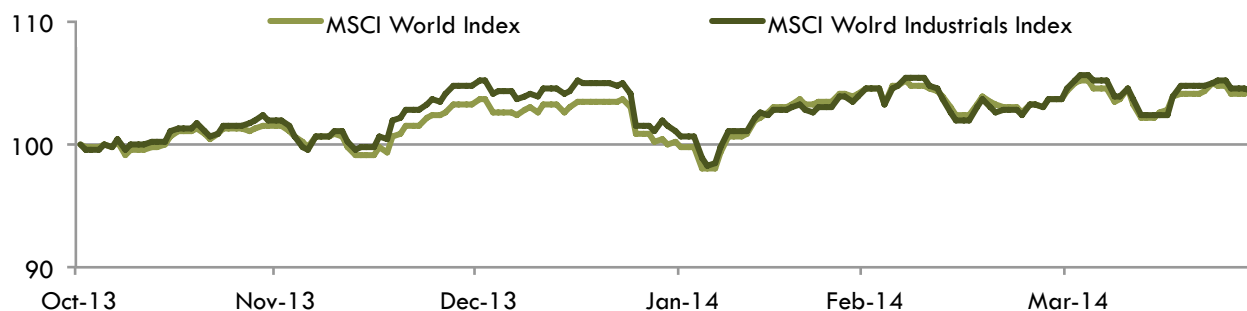
Industrials

Sector Review – April

1. Sector Overview

- April appears to be a month of change in what comes to Industrials M&A. The sector that has been hit hard in the global meltdown going from a peak of about \$100bn in 3Q2007 to just about \$10bn in 2Q2009 has seen a sluggish growth in the past four years. Followed by a 44.3% decline in M&A value in 1Q2014, compared to the previous quarter, things appear to be finally beginning to pick up.
- This increased M&A activity in the sector has been felt with an increased number of mega-deals. Starting with the Holcim-Lafarge \$40bn merger, which will be analyzed in detail further ahead, Astrazeneca rejecting Pfizer's \$106bn bid, up until the \$16.9bn GE's bid for Alstom's power and energy business, currently involved in a bidding war with Siemens AG. Industrials M&A has been making the headlines all month.
- The general improvement on the industrials sector has come with a renewed overall economic sentiment. Since these companies have been sitting on piles of cash since the financial crisis, investment in the sector has also been increased. Total has invested \$16bn in an Angola offshore project, whilst a Chinese consortium has made a bid to acquire a copper mine in Las Bambas from Glencore Xstrata for at least \$5.85bn.
- On the other end of the spectrum, Peugeot Citroen has shown to be struggling to reach profitability. After closing a deal in February with China's Dongfeng Motor Group, Europe's second largest carmaker has seen its shares drop 5% amid earnings announcement fears.

2. Industrials Sector vs. Overall Market



- The graph above shows that the Industrials Sector, represented by the MSCI World Industrials Index, continued to exhibit a behavior very similar to that of the market, represented by the MSCI World Index. Having fallen about 0.15% this last month, investors can now rely on Industrials for stronger growth. Industrial stocks are usually hit bad by crisis or sluggish periods (as can be seen from the 55% fall in 2009 against the -45% of the S&P500). However these stocks also end up bouncing back better than its counterparts (since the crisis, the S&P500 has grown 149% whilst US industrials have grown by 230%). This may be an opportunity for investors to buy cheap.

Industrials Universe:

- Boeing
- Volkswagen
- Pfizer
- Mota Engil
- Lafarge

This month's detailed company review:

- Lafarge



Maria da Cunha
maria.cunha@nova
investmentclub.com



Tomás Relvas
tomas.relvas@nova
investmentclub.com

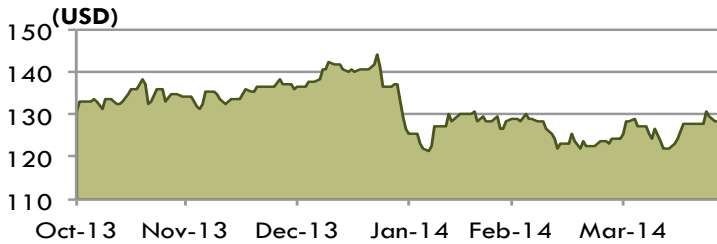
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3. Followed Companies

Boeing (Ticker: BA US)

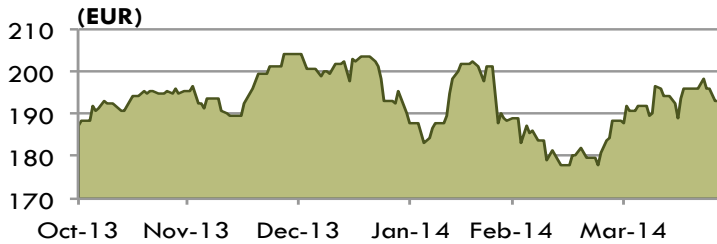
- On the April 23rd Boeing released its first quarter results positively surprising investors with \$2.1bn in profits, implying EPS of \$1.76 compared to analyst's expectations of \$1.54. In addition it has uplifted its expected yearly results to a range from \$7.15 to \$7.36 per share (up by \$0.15 from previous announcements), signaling strength to the markets.



Price (USD):	↑	127.04
Target Price (USD):		152.00
Up/downside:		19.6%
Performance 3M:		-7.3%
P/E Ratio:		21.3x
ROC/WACC:		1.4x

Volkswagen (Ticker: VOW3 GY)

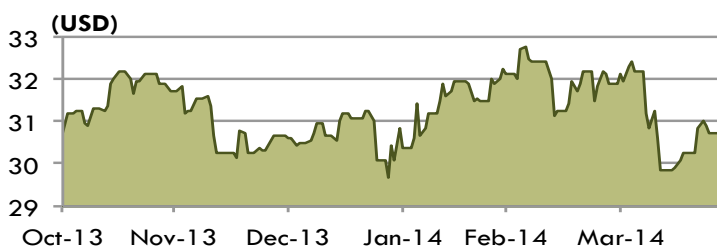
- Volkswagen is set to announce first quarter profits on May 6th and these are expecting to be record breaking with operating profits topping \$16bn, in addition to an expected increase in sales in China of 10% for 2014. However, it is important to note the setbacks of the company on its Scania deal, as the truckmaker's third largest shareholder has rejected the offer.



Price (EUR):	↑	194.55
Target Price (EUR):		215.00
Up/downside:		10.5%
Performance 3M:		-0.5%
P/E Ratio:		9.9x
ROC/WACC:		0.9x

Pfizer (Ticker: PFE US)

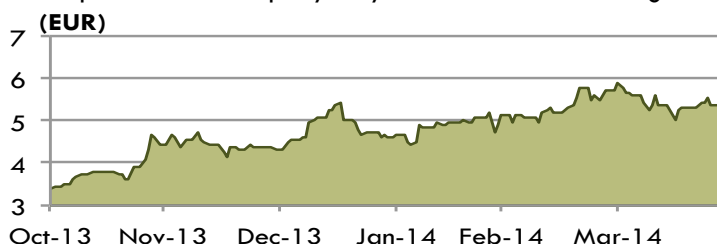
- Pfizer has been on the headlines not so much for its quarterly results but more to its M&A activity. Its \$106bn bid for Astrazeneca is record breaking among pharmaceuticals and is much needed in a consolidating industry (GSK-Novartis \$11bn trade deal). Its announcement on May 5th is expected to show EPS of \$0.55 per share, down from \$0.56 in 4Q2013.



Price (USD):	↑	32.04
Target Price (USD):		34.00
Up/downside:		6.1%
Performance 3M:		5.3%
P/E Ratio:		13.3x
ROC/WACC:		1.5x

Mota Engil (Ticker: EGL PL)

- The separation of the African unit of Mota-Engil is worrisome for investors. In need of a capital raise, this unit is to start floating in the London Stock Exchange (if not, Lisbon) with 30% of its capital, valuation the company in €900mm. Even though analysts have increased the target price of the company they still believe it is trading too high.



Price (EUR):	↓	5.27
Target Price (EUR):		4.50
Up/downside:		-14.6%
Performance 3M:		13.0%
P/E Ratio:		20.5x
ROC/WACC:		1.1x

4. Stock Analysis: Lafarge

Corporate News

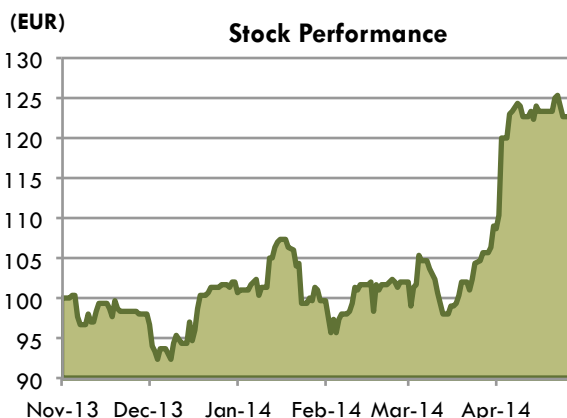
- On April 7th, Lafarge and Holcim announced a €39 billion merger, in an attempt to create the most advanced group in the building materials industry. The combined entity will have sales of €32 billion and an EBITDA of €6.5 billion and is expected to be in the best position to address market current challenges, such as urbanization.
- This merger of equals was structured as a public exchange offer with an exchange ratio of 1 share of Holcim for each Lafarge's share.
- The management team expects synergies of €1.4 billion through three years, with 1/3 on the first year. The merger will also enable a stronger global presence: c.a. 80% of Holcim sales come from Asia while Lafarge has a strong presence in the Middle East.
- The expected completion date is the first half of 2015, a quite long period due to competition processes. To prevent some of those problems, a €5 billion asset sale of high quality cement plants is planned. In a market characterized by over-capacity due to the slowdown in the construction industry, analysts consider the risk of not being able to sell those assets. Also, the size and complexity of both companies increase the risk of failing to integrate them.

Market Performance

- After the announcement of the abovementioned merger, Lafarge's shares closed up 2.57% at €65.74, reflecting market's positive view of the deal. The perspectives of creating a global leader on the building materials industry led to a 13.18% appreciation of the share price.

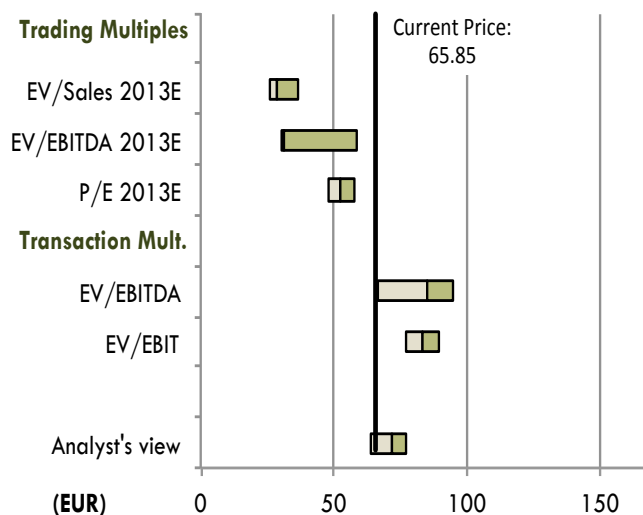
Valuation Summary

- Lafarge seems to be overvalued through the trading multiples perspective, but undervalued in terms of comparable transactions, specially in terms of EBIT (which will be considerably lower than EBITDA in such a capital intensive industry). The share price is aligned with analysts perspectives, but slightly undervalued.



Lafarge (EUR)	
Current Price (30/04/2014)	65.85
52-week high % change	-2.5%
Median Target Price	69.99
Market Capitalisation (mn)	18,834
Return on Common Equity	4.0%
Dividend Yield	1.5%
Beta (vs. S&P500)	1.2x
Total Debt/Equity	83.0%

Valuation Summary (Price per Share)



Comparable Analysis

Company Name	Currency	M Cap (m n)	e Value (m n)	EV/Sales			EV/EBITDA			P/E		
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E
Lafarge	EUR	18.834	31.135	1,3x	1,2x	1,2x	4,0x	5,8x	7,6x	45,1x	21,2x	15,6x
Holcim	CHF	25.627	38.254	1,6x	1,5x	1,4x	6,9x	8,1x	9,7x	21,9x	18,0x	14,3x
Glencore Xstrata	GBP	42.391	127.015	1,4x	1,3x	1,2x	-18,2x	8,8x	11,3x	16,4x	14,3x	10,9x
Heidelberg Cement	EUR	11.692	19.397	1,0x	0,9x	0,9x	6,2x	5,7x	6,9x	16,3x	15,7x	12,5x
Cemex	MXN	200.234	422.393	1,5x	1,4x	1,4x	-8,2x	-1,7x	4,3x	N/A	N/A	38,3x
75th Percentile				1,5x	1,4x	1,4x	6,2x	8,1x	9,7x	27,7x	18,8x	15,6x
Median				1,4x	1,3x	1,2x	4,0x	5,8x	7,6x	19,2x	16,9x	14,3x
25th Percentile				1,3x	1,2x	1,2x	-8,2x	5,7x	6,9x	16,4x	15,4x	12,5x

- Lafarge seems to be in line with EV/Sales and EV/EBITDA multiples, but overvalued in terms of P/E. It is important to take into consideration that the stated price takes into consideration the recent appreciation of the share price due to the merger announcement. Therefore, the latter multiple does not reflect the firm intrinsic value, it is inflated by the market reaction to the recent event. Notice that Holcim is also trading at higher P/E than the industry median, which corroborates the above mentioned argument.
- Cemex, the Mexican cement producer with sales of \$15.2 billion, is trading at negative multiples of EV/EBITDA reflecting its capacity problems – it has sold a tenth less cement last year than in 2009 and has \$16bn in debt. Also, it is not being able to generate positive free cash flow after maintenance Capital Expenditures.

Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
07-Apr-14	Lafarge SA	FR	Holcim Ltd	CHF	27.298	8,5x	13,2x
29-Mar-12	Cimpor Cimentos de Portugal SGf	PT	Camargo Correa SA	BZ	4.071	12,5x	17,5x
14-Jun-07	Hans on Ltd	UK	HeidelbergCement AG	GER	13.660	11,1x	15,1x
19-Feb-07	Florida Rock Industries Inc	US	Vulcan Materials Co	US	3.410	11,4x	14,1x
06-Feb-07	Lafarge Noth America Inc	US	Lafarge SA	FR	2.462	8,0x	11,6x
02-Aug-05	BPB Ltd	UK	Cie de St-Gobain	FR	6.176	9,9x	14,0x
75th Percentile						11,3x	14,8x
Median						10,5x	14,1x
25th Percentile						8,8x	13,4x

- In the past month not many big acquisitions took place in the Industrials sector. Therefore, the table above presents some transactions comparable to the merger of Lafarge and Holcim that has been analyzed throughout this report.
- The biggest transaction after the abovementioned was the acquisition of Hanson (a British heavy materials company) by the German HeilderbergCement with the purpose of increase market share and boost margins. The transaction valued the target on £8bn, which represented a 34% premium to the average closing price for the three months before the announcement of the transaction. It is a significant premium compared to other deals on the sector, such as the Vulcan Materials acquisition of Florida Rock Industries.