

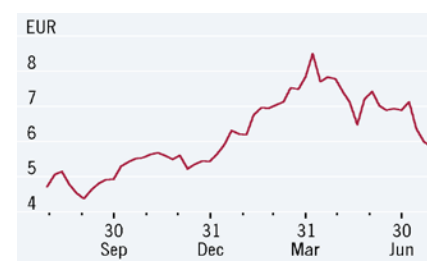
Italcementi Group (ITAI.MI)

Results: Q2 Broadly in Line, Outlook Unchanged

- **Citi's Take** — Q2 results were broadly in line with consensus recurring EBITDA similar to last year's level at €209m while our expectation was slightly higher at €212m. Recurring EBITDA benefitted from higher prices (especially in Egypt) and CO2 sales and were offset by weaker volumes and adverse exchange rate movements. Management confirmed its target of delivering recurring EBITDA growth for the full year and we do not expect significant changes to consensus on the back of this update with current consensus implying c.6% growth in EBITDA for H2.
- **Like-for-like Q2 EBITDA declined in France-Belgium, North America and India** — Italy posted a modest decline in volumes and weaker pricing on competitive pressures while EBITDA improved supported by efficiency savings and CO2 sales. France showed significantly weaker volume trends while Belgium faced some stiff pricing pressure. North America posted weaker trends affected by poor markets in Canada and Puerto Rico. Egypt posted higher EBITDA driven by higher prices while markets in Morocco remained weak. In Asia, Thailand posted healthy performance despite lower volumes affected by political turmoil in the region while India posted lower results affected by significant input cost pressures.
- **Net debt at the end of the period came in at €1.85bn** — The group has indicated a proforma net debt at the end of the period of €2.07bn (c.€138m higher) factoring in all the transactions from the recent capital restructuring initiative. The ongoing capex projects in Italy, Bulgaria and India remain on track.
- **Outlook comments confirm a recurring EBITDA growth for the full year** — Although underlying markets in Europe remain unfavorable, group's efficiency measures are likely to deliver improvement in operating margins in the second half. Underlying markets in Egypt and Asia remain positive while growth in Morocco looks slower than expected.
- Management will host a conference call on 31st July at 2:30pm UK time. Dial in +39 02 3600 9867 to join the conference.
- **Implications** — the stock trades on a relatively undemanding EV/EBITDA of 7.5 times for 2014E on our estimates and we continue to be cautious of its weaker markets of Italy and France.

Neutral	2
Price (30 Jul 14)	€5.84
Target price	€7.00
Expected share price return	19.9%
Expected dividend yield	1.2%
Expected total return	21.1%
Market Cap	€2,040M
	US\$2,735M

Price Performance (RIC: ITAI.MI, BB: IT IM)



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Italcementi Group

Valuation

We have a price target of €7.0 per share on Italcementi. We calculate our target price by using a weighted average methodology which incorporates an EV/EBITDA valuation, P/NAV and DCF. We use an EV/EBITDA multiple of 7.5x (50% weighting), a P/NAV of 0.65x (40% weighting) and a DCF (10% weighting) within this calculation. We have rolled forward our valuation year to 2015. Our EV/EBITDA multiple is slightly higher than its long-run average, factoring in the arguably cyclically low level of its earnings.

Risks

Italcementi principally operates in the heavy end of the building industry and as such it is more exposed to infrastructure and the initial stages of new building rather than renovation and improvement. We would highlight the most important company-specific risks that could prevent achievement of our target price as:

- Energy costs could rise significantly again. We believe that every 10% increase in fuel costs dilutes profits by 4-5%, *ceteris paribus*.
- The key swing markets for the group are Italy, France, Egypt, US, India and Morocco but it is exposed to more than 20 countries in total.
- If volumes are significantly weaker than expected in 2014, cement prices in Italy are at risk of coming under pressure again.

If the impact on the company from any of these factors proves to be less negative than we anticipate, the stock could materially outperform our target.

Appendix A-1

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Italcementi Group (ITAI.MI)

Ratings and Target Price History Fundamental Research

Analyst: Aynsley Lammin
Covered since December 5 2012



	Date	Rating	Target Price	Closing Price
1	9-Aug-11	2H	*4.99	4.36
2	13-Sep-11	*3H	*3.50	3.86
3	7-Oct-11	Stock rating system changed		
4	8-Oct-11	*3	3.50	4.10
5	27-Apr-12	3	*3.59	4.16

* Indicates change

	Date	Rating	Target Price	Closing Price
6	6-Jul-12	3	*3.15	3.24
7	9-Aug-12	*2	3.15	3.05
8	6-Sep-12	*3	3.15	3.63
9	14-Dec-12	*2	3.15	3.67
10	7-Feb-13	2	*3.94	3.85

	Date	Rating	Target Price	Closing Price
11	7-Mar-13	2	*4.46	4.03
12	2-Aug-13	*3	4.46	4.99
13	9-Dec-13	*2	*5.25	5.22
14	12-Mar-14	2	*7.09	7.49
15	19-Jun-14	2	*7.00	6.94

Rating/target price changes above reflect Eastern Standard Time

Italcementi Group (ITAI.MI)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Aynsley Lammin
Covered since December 5 2012



	Date	Rating	Target Price	Closing Price
1	13-Sep-11	*ADD LP	-	3.86

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-May-12	*REM LP	-	4.15

Rating/target price changes above reflect Eastern Standard Time

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Citi Research Equity Ratings Distribution

Data current as of 30 Jun 2014

Citi Research Global Fundamental Coverage

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
49%	40%	12%	0%	100%	0%

% of companies in each rating category that are investment banking clients

55% 53% 46% 0% 54% 0%

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