

European Construction Outlook

Alert: Latest Euroconstruct Forecasts

- **Euroconstruct has broadly kept its forecasts similar to what they were six months ago** — at its six monthly conference in Prague today. This is consistent with recent leading macro indicators suggesting that things are not getting any worse in the Euro area with signs of stabilization into 2014. After a fall of -2.7% for 2013, it expects +0.9% growth in total construction output in 2014 followed by sluggish growth of +1.7% and +2.1% in 2015 and 2016 respectively.
- **Some changes to forecasts between individual countries** — but overall not that significant. Of the Big 5, Germany and the UK are expected to enjoy the strongest growth in 2014 of +2.7% (previously +2.0) and +2.4% (+1.3%) with the upward revisions made to the UK forecasts notable. France has been downgraded with a -1.5% contraction expected next year, from -0.8% previously expected. Spain is expected to see the worse performance in 2014 at -6.7% and Italy unchanged with effectively flat markets. Other notable changes are Ireland which has been upgraded sharply with close to double-digit growth expected for the next three years, albeit from a low base. Nordics expected to deliver some of the best growth that is to be had in Europe and the Benelux is expected to broadly stabilize in 2014. Poland should also register some growth next year (+3.5%).
- **End market trends** — Residential markets seem to be leading what growth there is with some pockets of good growth (UK, Germany & Sweden). Non-residential work is expected to lag with another lackluster year expected in 2014 and only +1% growth expected in 2015. Civil Engineering is expected to be only better than flattish until 2015. Renovation work is expected to hold up steadily with c.+1-2% growth expected over the 2014-16E period. Overall picture is one of sluggish markets across all end markets with some pockets of strength in individual countries.
- **Not a big surprise in the forecasts** — with Europe looking to be in for another year of sluggish volumes in 2014. This is what is factored into most forecasts, so any surprise on the upside to this macro outlook would likely see European sourced consensus earnings move upwards. However, we would continue to be wary of expecting too much growth in Europe and be disciplined on valuation in the context of geographical exposure. Sector share prices have sharply re-rated on the fact that macro trends have stabilized in Europe with the average EV:EBITDA multiple at c.8 times for 2014E. At this point, we would prefer to be exposed to stocks which have greater visibility of growth into next year, given the recent re-rating. The Merchants with UK exposure look relatively well placed in this context.

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Appendix A-1

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