

Heidelberg Materials AG

Europe Satellite*

Recommended since 23.01.2025

23.01.2025



Country DE	Market capitalization (bn) EUR 24.4	Perf. since reco. (%)
Sector Construction & Materials	Free float 69.4%	Heidelberg Materials AG 0.0
Factset HEI-DE	Closing price EUR 133.85	Sector 0.0
ISIN DE0006047004	ESG Risk score* 26.2 Medium risk	

Profile

Heidelberg Materials (formerly HeidelbergCement) is the world's 2nd largest cement manufacturer (c. 51% of sales, c. 170 million tonnes/year of capacity for c. 130 cement plants worldwide) behind Switzerland's Holcim, a producer of aggregates (c. 22% of sales, c. 600 quarries - world no. 1) and ready-mix concrete (c. 27% of sales, c. 1,300 production sites). Its presence is worldwide, with a European bias (c. 46% of sales), but also c.25% in North America, where HEI is no. 1 in aggregates. The group employs 51,000 people and is headquartered in Heidelberg, Germany.

Strengths/opportunities

- Strong positions in its three core businesses
- No good surprises built into the share price - sharp discount
- Potential in the event of a German stimulus
- Possible US listing of US businesses

Weaknesses/threats

- European economic momentum
- High CO2 emissions by nature

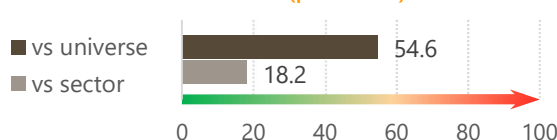
Investment case

- Heidelberg Materials is a solid group, both industrially and financially (see Net Debt/Ebitda ratio, Return on Capital Employed and free cash flow generation - which has not always been the case). This recommendation is like a 'free option' on any good news that might brighten up the situation in Europe. Indeed, the share price is at a significant discount to European building materials peers: c. 40% discount in PE and EV/Ebit for 2025-26th, c. 50% in PE relative to expected earnings growth to 2026, i.e. PEG at 0.9x vs 1.8x for the peer group and c. 55-60% in P/B 2025-26th for a return on equity only c. 20-25% lower.
- This reflects a share price in value territory, with virtually no good news from Europe (comparables are on average less exposed to the region). We therefore believe that any good news, be it a recovery of any kind in Germany after the early elections scheduled for 23.02.2025 or an agreement on the Ukrainian issue, would at the very least have a positive effect on sentiment and, in practice, potentially on the business outlook over the next few years.

Valuation

The 2025-26th PE stands at 10-9x, in value territory. We are aiming for at least a reduction in the discount to comparable shares, with an initial target of EUR 150 and, if the positive risk is realised (option Europe), a cancellation of this discount, i.e. EUR 190.

ESG risk vs. universe & sector (percentile)*



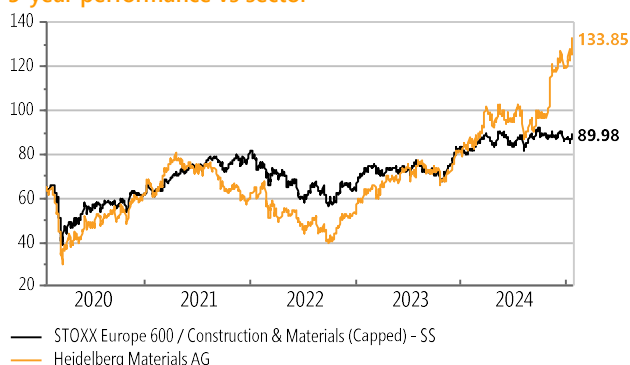
EUR	12/2023	12/2024e	11/2025e
Sales revenue (mio)	21 178	21 185	22 370
Sales growth	0.4%	0.0%	5.6%
EBIT adjusted (mio)	2 678	3 152	3 440
% of sales	12.6%	14.9%	15.4%
Net income (mio)	2 033	2 081	2 337
Net income growth	26.6%	2.4%	12.3%
FCF/Sales	9.1%	9.1%	9.4%
Net debt/Ebitda	1.4x	1.1x	0.9x
Dividend yield	2.2%	2.4%	2.6%
PE	ns	11.9x	10.4x
P/BV	0.9x	1.3x	1.2x

Factset estimates

ESG - risks and key points

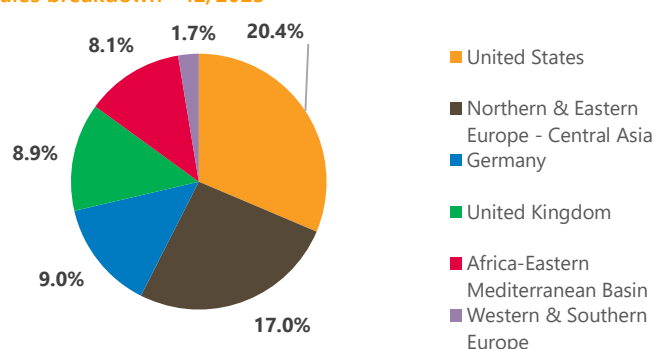
- HEI presents a medium risk of financial impact linked to ESG factors, due to a high exposure to risk, mitigated by strong governance, as evidenced by its risk vs. sector.
- CO2 emissions are the 1st detrimental factor and inherent to the cement production process. The industry is firmly committed to decarbonisation. HEI has reduced its emissions per tonne produced by c. 30% compared with 1990, to 529 kgCO2/t, and is aiming for 400 kgCO2/t by 2030.

5-year performance vs sector



Source: FactSet

Sales breakdown - 12/2023



*: see overleaf

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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