Frankfurt am Main, March 18, 2019 -- Moody's Investors Service ("Moody's") has today affirmed LafargeHolcim Ltd's (LafargeHolcim) long term and short term issuer rating at Baa2 and P-2 respectively. The agency has also affirmed the senior unsecured, the subordinate and other short term ratings of LafargeHolcim Ltd's and its subsidiaries at Baa2, Ba1 and P-2 respectively. The outlook has been changed to stable from negative.

RATINGS RATIONALE

Today's rating action was prompted by a solid operating performance of LafargeHolcim in 2018 against a difficult market environment and the announcement of financial policy measures that will support the improvement of the group's credit profile in 2019 by temporarily reversing aggressive shareholder payouts in the past.

LafargeHolcim posted a 5.1% increase in like-for-like revenues in 2018 and a 3.6% increase in recurring EBITDA with an acceleration in H2 2018 and a solid finish to the year, which bodes well for a good start into calendar year 2019. LafargeHolcim's operating performance was achieved against difficult market conditions with material cost energy inflation and harsh weather conditions in North America and Europe in early 2018. However, the credit profile of LafargeHolcim improved only slightly in 2018, held back by still high restructuring charges of CHF300 million charged to the P&L, negative currency effects and the group's high dividend payout. Leverage as measured by Moody's adjusted Debt/EBITDA dropped to 3.7x in 2018 from 4.0x in 2017. Moody's adjusted Retained Cash Flow / net debt improved to 19.1% in 2018 from 17.4% in 2017.

LafargeHolcim's credit profile should further improve in 2019 supported by a still positive market backdrop (easy comparison basis in H1 and lower energy / currency headwinds at current spot rates) and the scrip dividend announced at the full year 2018 results presentation. On a 2018 proforma basis, assuming a take up of around 50% in shares on the offered scrip dividend, LafargeHolcim's RCF/net debt ratio would improve by approximately 400bps to approximately 23%-24%, and it will improve LafargeHolcim's free cash flow generation (Moody's definition) by roughly CHF 600 million. FCF has been weak in the past, to a large extent driven by the high dividend payout and high capex. Coupled with the closing of the sale of the group's Indonesian operations for an EV/EBITDA of around 14x, we estimate a pro-forma 2018 RCF/net debt of around 25% and a Moody's adjusted Debt/EBITDA ratio of 3.4x (assuming the application of cash proceeds to gross debt reduction).

Looking at 2019, Moody's expects LafargeHolcim's leverage as measured by Moody's adjusted Debt/EBITDA to trend slightly above 3.0x supported by a recurring EBITDA growth of 3% to 5% and a normalization of restructuring charges. RCF / net debt should improve from 19.1% towards 25% flat against the pro-forma 2018 ratio of 25% calculated above.

Year-end 2019 expected ratios should offer LafargeHolcim a sufficient buffer against a potentially more challenging market environment in 2020 hence the stabilization of the outlook. However we remain wary that some of the cushion built into the credit metrics is directly related to the scrip dividend that is not a permanent reduction in the company's dividend. Given current growth perspective, the company's payout ratio may remain significantly above that of its peer group for several years, assuming the dividend of CHF 2 per share remains unchanged. For memory the dividend payout ratio for 2019 will be around 75% of 2018 net income attributable to common shareholders and around 38% taking into account a 50% scrip take up. As such the maintenance of a sufficient buffer for the current rating might be predicated on maintaining the scrip dividend beyond 2019.

LIQUIDITY

Moody's regards LafargeHolcim's liquidity profile as strong. At 31 December 2018, the group's liquidity position consisted of CHF2.5 billion available cash & cash equivalents and approximately CHF6.2 billion availability under committed credit lines with no financial covenants.
Moody's notes, however, that a portion of the group's cash balance is not immediately available as it is constrained in fully consolidated but not fully owned subsidiaries or in countries with limitations on the transfer of foreign currency (e.g. China or Egypt). Even excluding that effect, LafargeHolcim's cash sources together with its funds from operations and the expected cash inflows resulting from the asset disposals and considering the balanced maturity profile should be more than sufficient to cover cash outflows such as debt repayments, capex, working capital changes and dividends during the next 12 months.

WHAT COULD CHANGE THE RATING UP / DOWN

The rating could be upgraded if retained cash flow/net debt were to reach at least 25% and debt/EBITDA were to drop to below 3.0x on a sustainable basis.

The current rating would come under pressure if LafargeHolcim failed to maintain retained cash flow/net debt of at least 20% on a sustainable basis and to maintain leverage below 3.5x.

LIST OF AFFECTED RATINGS:

Issuer: Holcim Capital Corporation Ltd.
Affirmation:
....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative

Issuer: Holcim Finance (Australia) Pty Ltd
Affirmations:
....BACKED Other Short Term, Affirmed (P)P-2
....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2
....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative

Issuer: Holcim Finance (Belgium) S.A.
Affirmation:
....BACKED Commercial Paper, Affirmed P-2

Issuer: Holcim Finance (Luxembourg) S.A.
Affirmations:
....BACKED Subordinate Regular Bond/Debenture, Affirmed Ba1
....BACKED Other Short Term, Affirmed (P)P-2
....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2
....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative

Issuer: Holcim Overseas Finance Ltd.
Affirmation:
....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative
.Issuer: Holcim US Finance S.a r.l. & Cie S.C.S.
Affirmations:
....BACKED Commercial Paper, Affirmed P-2
....BACKED Other Short Term, Affirmed (P)P-2
....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2
....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative
.Issuer: Lafarge SA
Affirmation:
....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative
.Issuer: LafargeHolcim Finance US LLC
Affirmations:
....BACKED Commercial Paper, Affirmed P-2
....BACKED Other Short Term, Affirmed (P)P-2
....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2
....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative
.Issuer: LafargeHolcim Ltd
Affirmations:
.... LT Issuer Rating, Affirmed Baa2
.... ST Issuer Rating, Affirmed P-2
....Other Short Term, Affirmed (P)P-2
....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2
....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2
Outlook Action:
....Outlook, Changed To Stable From Negative
Issuer: LafargeHolcim Sterling Finance (Netherlands)

Affirmations:

....BACKED Other Short Term, Affirmed (P)P-2

....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

The principal methodology used in these ratings was Building Materials Industry published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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