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Research Update:

LafargeHolcim Outlook Revised To Stable On Deleveraging And Supportive Financial Policy; 'BBB/A-2' Ratings Affirmed

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Rating Action Overview

- We view LafargeHolcim Ltd.'s operating performance in 2018 as broadly stable, with S&P Global Ratings-adjusted EBITDA of Swiss franc (CHF) 5.6 billion amid challenging market conditions, notably in the first half of the year.
- At the same time, we take into account management's prudent financial policy and commitment to deleveraging, evident from its intention to use the proceeds from the sale of Holcim Indonesia for debt reduction.
- We are therefore revising our outlook on LafargeHolcim to stable from negative and affirming our 'BBB/A-2' long- and short-term issuer credit ratings on the company. We are also affirming our issue ratings on all LafargeHolcim's outstanding senior unsecured bonds and hybrid securities.
- The stable outlook reflects our forecast that LafargeHolcim's adjusted funds from operations to debt will remain comfortably above 22% in the coming years, benefiting from supportive demand for heavy building materials, notably in Europe and North America.

Rating Action Rationale

The outlook revision reflects our view of LafargeHolcim's prudent financial policy and commitment to maintain the current rating and to deleverage, against the backdrop of a challenging environment. A more conservative financial policy is evident from the cancellation of its share buyback program in early March 2018, the flexibility of shareholder remuneration thanks to the introduction of a scrip dividend, and the use of the proceeds from the sale of Holcim Indonesia for debt reduction. We understand that while the company may pursue bolt-on acquisitions, these would be limited and financed from internally generated cash flows.

The stable outlook also factors in our view that LafargeHolcim will benefit from the broadly supportive market conditions in the building materials industry in the next 18-24 months and as such, will deliver S&P Global Ratings-adjusted funds from operations (FFO) to debt of about 25%-27% in 2019 and about 26%-30% in 2020. These ratios are comfortably above 22% that we view as commensurate with the 'BBB' rating. Our forecast factors in ongoing healthy demand for cement, notably in Europe and North America, and ongoing supportive pricing in China thanks to reduced capacity in the country as a result of increased environmental regulation. We also anticipate that LafargeHolcim will be able to pass higher raw material prices onto customers, for example in India, where the company reported significant pressure on energy and raw material costs in 2018.

Still, we believe that the company underperformed on the operating cash flow generation in 2018, notably due to sizable working capital outflows. We understand that the management will be focused on delivering a rapid improvement in that area in 2019, targeting the approach to inventory management across the organization.

Outlook

The stable outlook reflects our forecast that LafargeHolcim's adjusted FFO-to-debt ratio will remain comfortably above 22% in the coming years, benefiting from supportive demand for heavy building materials, notably in Europe and North America. We also factor in our understanding that LafargeHolcim will maintain a conservative financial policy, with a commitment to deleveraging and a balanced approach to investments, acquisitions, and dividends.

Upside scenario

Rating upside could arise if LafargeHolcim achieves further deleveraging, for example by reducing gross debt to reach an adjusted FFO-to-debt ratio of comfortably above 30%. A financial policy commitment to a higher rating would be important in any upgrade considerations.

Downside scenario

Pressure on the rating could arise if LafargeHolcim deviated from its conservative financial policy, which we view as unlikely, for example, by pursuing larger acquisitions or dividends than we anticipate, or by resuming the share buyback program. A negative rating action could also result from a deterioration in operating performance without any near-term recovery prospects, for example due to a sharp decline in profits from Latin America or the Middle East Africa leading to weakening of the FFO-to-debt ratio below 22%.

Company Description

LafargeHolcim is among the world's largest producers of heavy building materials, including cement (270 cement plants and grinding plants with capacity of 312.9 million tonnes at end-2018); aggregates (663 plants at end-2018); and ready-mix and other construction materials (1,448 plants at end-2018). The group has extensive geographic and asset diversification, with more than 2,300 production sites in about 80 countries, and operates with a high level of vertical integration. In 2018, the company generated CHF27.5

billion in total revenue, resulting in S&P Global Ratings-adjusted EBITDA of CHF5.6 billion and adjusted debt of CHF17.1 billion.

LafargeHolcim products are used in various projects and applications, including infrastructure projects, such as transport, roads, energy, and sports and cultural facilities, as well as in the mining industry; and building projects comprising individual housing, collective housing, office buildings, industrial and commercial buildings, and institutional buildings.

The company is the result of the merger by incorporation in July 2015 of France-based Lafarge S.A. into Switzerland-based Holcim Ltd., which was renamed LafargeHolcim Ltd. Following the completion of a squeeze-out in November 2015, Lafarge S.A. was delisted. LafargeHolcim Ltd. is headquartered in Jona, Switzerland.

Our Base-Case Scenario

LafargeHolcim's 2018 operating performance was broadly stable amid challenging market environment, with adjusted EBITDA of CHF5.6 billion on a 20.3% margin. In our base case for 2019-2020, we assume:

- Like-for-like revenue growth of 2%-5% annually in 2019 and 2020, thanks to broadly supportive market conditions in Europe, North America, and Asia-Pacific, and notwithstanding the potentially ongoing challenging environment in the Middle East and Latin America.
- Slightly improving adjusted EBITDA margin of about 21%-22%, benefiting from the company's cost-saving initiatives and lower restructuring costs.
- Progressively lower working capital requirements in 2019-2020, in comparison with 2018, recognizing management's efforts to tighten outflows.
- Investments including capital expenditure (capex) and bolt-on acquisitions of about CHF2 billion.
- In 2019, about CHF1.1 billion of net proceeds from the sale of Holcim Indonesia, which we assume will be used for debt reduction.
- Dividend payments in line with the financial policy, recognizing the flexibility of payments thanks to the introduction of the scrip dividend.

Based on these assumptions, we arrive at the following:

- Adjusted EBITDA of about CHF5.8 billion–CHF5.9 billion in 2019 and about CHF6.0 billion in 2020.
- Adjusted debt to EBITDA of 2.6x-2.8x in 2019 and about 2.5x-2.7x in 2020.
- Adjusted FFO to debt of about 25%-27% in 2019 and about 26%-30% in 2020.

Liquidity

We assess LafargeHolcim's liquidity as strong. We forecast that LafargeHolcim's sources of liquidity will exceed its uses by more than 1.9x over the 12 months from Dec. 31, 2018, and by 1.8x over the subsequent 12 months. Our view is also supported by our view of LafargeHolcim's solid relationships with banks, committed undrawn lines, and prudent risk management. The outstanding corporate debt and committed bank lines are free of rating triggers, financial maintenance covenants, and material adverse change clauses.

Principal Liquidity Sources

We forecast that the main liquidity sources in the 12 months from Dec. 31, 2018, are:

- A cash balance of about CHF2 billion;
- Fully undrawn committed credit lines of CHF6.2 billion;
- Our forecast of cash FFO of around CHF4.3 billion; and
- Proceeds from the sale of Holcim Indonesia of about CHF1.1 billion.

Principal Liquidity Uses

- Contractual debt maturities of around CHF3 billion over the next 12 months;
- Investments, including capex and bolt-on acquisitions, in the range of CHF2 billion;
- Progressively lower working capital requirements in 2019-2020, in comparison with 2018, recognizing management's efforts to tighten outflows; and
- Dividend payments in line with the financial policy, recognizing the flexibility of payments thanks to the introduction of the scrip dividend.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Business risk: Strong

- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Building Materials Industry, Dec. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed; Outlook Action

	To	From
LafargeHolcim Ltd.		
LafargeHolcim Sterling Finance (Netherlands) B.V.		

LafargeHolcim International Finance Ltd. LafargeHolcim Helvetia Finance Ltd. LafargeHolcim Continental Finance Ltd. LafargeHolcim Albion Finance Ltd. Lafarge S.A. Lafarge North America Inc. Holcim US Finance S.a r.l. & Cie S.C.S. Holcim Overseas Finance Ltd. Holcim GB Finance Ltd. Holcim Finance (Luxembourg) S.A. Holcim Finance (Canada) Inc. Holcim Finance (Belgium) S.A. Holcim Finance (Australia) Pty Ltd Holcim European Finance Ltd. Holcim Capital (Corporation) Ltd.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2
LafargeHolcim Ltd. Holcim Capital (Corporation) Ltd. Holcim Finance (Australia) Pty Ltd Holcim Overseas Finance Ltd. LafargeHolcim Albion Finance Ltd. LafargeHolcim Continental Finance Ltd. LafargeHolcim International Finance Ltd. LafargeHolcim Sterling Finance (Netherlands) B.V.		
Senior Unsecured	BBB	
Holcim Finance (Belgium) S.A.		
Commercial Paper	A-2	
Holcim Finance (Luxembourg) S.A.		
Senior Unsecured	BBB	
Subordinated	BB+	
Lafarge S.A. LafargeHolcim Finance US LLC Holcim US Finance S.a r.l. & Cie S.C.S.		
Senior Unsecured	BBB	
Commercial Paper	A-2	
LafargeHolcim Helvetia Finance Ltd.		
Senior Unsecured	BBB	
Junior Subordinated	BB+	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.