



Lafarge Republic, Inc(LRI)

Initiating coverage with a Buy

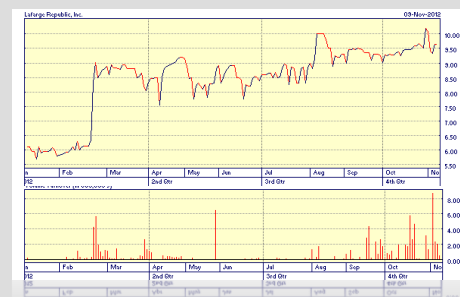
November 12, 2012, Monday

Company Snapshot

Price (P)	9.65
Price Target (P)	11.02
Shares O/S (million)	5,823
Market Cap (P million)	55,909
52-week High (P)	10.38
Low (P)	5.07
12-mo Avg. Value T/O (P'm)	5.28
Shareholders	
Lafarge Holdings (Philippines)	39%
South Western Cement	24%
Free float	6%

Price Performance

	1m	6m	12m
LRI	2.8%	14.2%	83.1%
PSEi	1.8%	5.3%	27.6%



Cheap Cement Coming Your Way

➤ Pump-priming just about to begin

This year and for the next few years, cement companies will be a direct beneficiary of stronger public and private investments in the country. LRI's revenue growth is estimated at a conservative 10% for 2013 and 2014. A target PE of 19x, below the average of LRI and Holcim 2013E PE ratios, is used to arrive at a target price of P11.00 per share.

➤ Upcoming increase in liquidity provides comfort to investors

Illiquidity of a stock is a main concern for investors. In the case of LRI, the lack of supply in shares is partially due to Southeast Asia Cement Holdings, Inc.'s (CMT) current ownership of ~24% of LRI's common shares. To improve liquidity, CMT will swap most of its public shares at an exchange ratio of 3.73 CMT shares for one LRI share. CMT's tender offer would free up at least 233M LRI shares, increasing the liquidity and public ownership of the stock.

Financial & Valuation Highlights

in P'million	2010A	2011A	2012E	2013E	2014E
Revenues	19,171	17,279	19,657	21,623	23,785
EBITDA	7,170	4,575	5,187	6,026	6,974
EBITDA margin, %	37	26	26	28	29
Net profit	4,191	2,481	2,822	3,426	4,374
EPS (P)	0.72	0.42	0.48	0.58	0.74
ROE, %		12.4%	13.8%	15.6%	17.4%
P/E (x)	13.4	22.8	20.0	16.5	12.9
P/B (x)	2.15	2.04	1.97	1.88	1.71
EV/EBITDA (x)	8.36	13.48	12.06	10.55	9.28
Dividend yield, %	2.50	2.92	4.38	1.25	1.25

Source: Wealth Securities estimate, company data

A = Actual calendar/fiscal year results; C = Bloomberg consensus; I = Annualized interim results; E = Wealth Securities estimates

Sarah D. Uy

T: 634.5038 local 8160

E: sarah.uy@wealthsec.com



➤ **Government spending recharged**

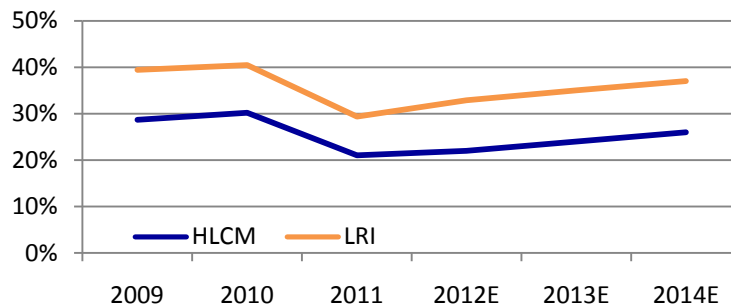
Last year, cement companies experienced a decline in their revenues due largely to a decline in public spending for infrastructure. The first half of 2012, however, showed a 23% YOY increase in cement demand brought about by government spending. This translated to a 12% YOY increase in 1H2012 net sales for LRI. The pick-up in public spending will be sustained over the next couple of years as delayed Public-Private Partnership (PPP) projects get going in 2013.

Delayed Big Ticket PPP Projects		
Project Name	Status	Cost (P'billions)
LRT Line 1 Extension (DOTC)	Bid Process Ongoing	60 (50% subsidized)
NAIA Expressway Phase II (DPWH)	NEDA Approved	16

➤ **Cement market prices rebounding**

A further consequence of weak demand was the decline in cement market prices. Hence, 2011 saw a drop in gross margins for cement companies. Conversely, 2012's boost in public spending resulted in a slight rebound in the selling prices of cement products. 2013 should then see a further recovery in market prices bringing gross margins closer to 2009 and 2010 levels.

Gross Margin



➤ **CMT tender offer to increase LRI's tradability**

CMT is offering to buy backup to 93% or 989M of its publicly owned shares at an exchange ratio of 3.73 CMT shares for every LRI share plus P0.0277/share of CMT to cover transaction costs. Not only will the tender offer allow LRI to comply with the minimum public float requirement of 10% but will also boost the stock's liquidity. At least 233M LRI shares are expected to be swapped by CMT. This will increase LRI's free float from 6% to 10%, thereby decreasing CMT's ownership to 20%. The offer period ends this Wednesday, November 14, 2012 at noon.

Also note that last September 3, 2012, CMT sold 136 million of its LRI shares to domestic institutional investors at PhP 8.40/share. Not only did this help increase its free float, but it also provided a floor price for the stock.

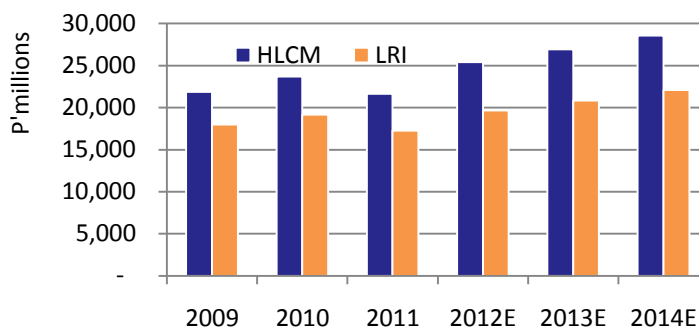
➤ **Cheaper than Holcim**

CMT's tender offer will cause it to be delisted from the exchange leaving LRI and Holcim as the only listed cement manufacturing companies. Between the two, LRI is much cheaper trading at 16.5x 2013E PE; Holcim is trading at 25x.

➤ **Head-to-head with HLCM**

In terms of cement sales, LRI has a smaller share of the pie compared to Holcim. This is not too concerning since neither of the two companies is operating at full capacity. Hence, with the onset of PPP projects, both LRI and Holcim will experience a boost in revenues over the next few years.

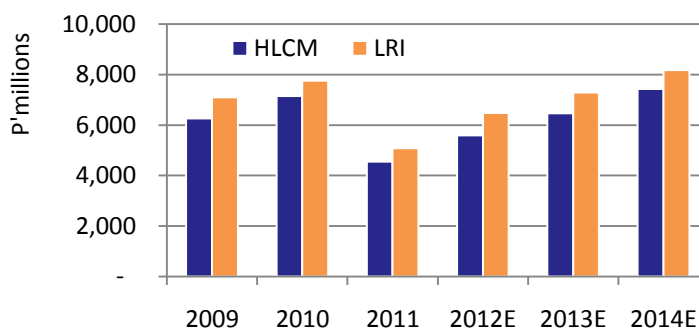
Revenue



➤ **Significantly better gross margins than Holcim...**

Although Holcim's revenue exceeds LRI's, the latter's gross profit manages to surpass the former's. This is more likely an indication of product mix rather than pricing power. Specifically, bagged sales comprise 77% of total cement sales for LRI versus bulk sales of 23%. This mix is not disclosed for Holcim.

Gross Profit

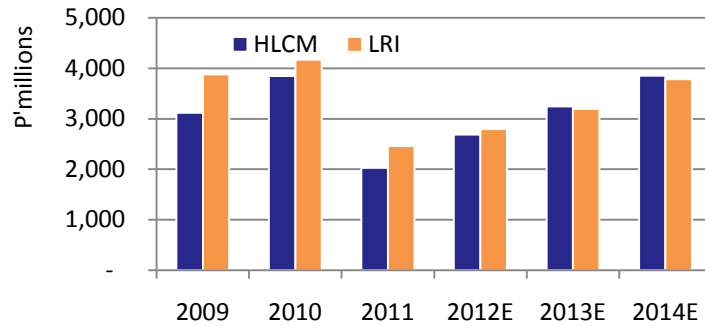


➤ **... but rising opex a concern**

For the first half of 2012, operating expenses grew a whopping 37% YOY. Historically, LRI seems to have difficulty containing its costs. For 2012, operating profit of Holcim may slightly exceed LRI's. Moving forward, if LRI is unable to rein in rising opex, its P/E multiple may rise, making it not much cheaper than HLCM.

Operating Expenses (P'millions)						
	2009	2010	2011	2012E	2013E	2014E
LRI	1,516	1,633	1,847	2,487	2,742	3,026
YOY Growth		7.7%	13.1%	34.6%	10.4%	10.4%
Holcim	1,361	1,399	1,482	1,582	1,664	1,750
YOY Growth		2.8%	6.0%	6.7%	5.2%	5.2%

Net Income Att. to Parent



➤ **Unharmed by Mining EO**

It was initially feared that cement companies would be collateral damage of the mining executive order (EO). Fortunately, the amended EO clarified that cement companies may continue to expand and renew existing mining contracts. LRI currently has several MPSAs (Mineral Production Sharing Agreements), none of which are expiring soon.

➤ **Paying for growth**

Although LRI may seem expensive in terms of PE, its 2013E and 2014E PEG ratios are below 1 (0.79 and 0.47, respectively). When it comes to paying for clear growth, LRI becomes an attractive stock. At its current price of P9.60, the stock provides cheap exposure to the cement industry and an upside of 14.8%. Thus, we recommend that investors BUY the stock.

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RATINGS DEFINITION



Jerome Gonzalez
Research Head
T: 634.5038 local 8127
jerome@wealthsec.com

Bernard Aviñante
Conglomerates, Power & Gaming
T: 634.5038 local 8121
bernardavinante@wealthsec.com

Miguel Agarao
Mining & Property
T: 634.5038 local 8164
miguel.agarao@wealthsec.com

Nikki Yu
Consumer
T: 634.5038 local 8150
nikki.yu@wealthsec.com

ND Fernandez
Banking, Telcos & Transport
T: 634.5038 local 8152
ndfernandez@wealthsec.com

Sarah Uy
Construction
T: 634.5038 local 8160
sarah.uy@wealthsec.com



Wealth Securities, Inc.
2103 East Tower, PSE Center,
Exchange Road, Ortigas Center,
Pasig City 1600
Telephone: 02.634.5038
Facsimile: 02.634.5043