

## Construction Update

Clearing a path amid prolonged uncertainties

Rabobank International  
Industry Knowledge Team

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**Leontien de Waal**

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# Executive summary

## Contraction in many construction markets in 2012, Dutch market at the start of new consolidation wave

### Macro economic outlook

- After digesting the worldwide recession, most European countries have shown economic growth again in 2011. However, GDP growth in the Eurozone is forecasted at approximately 1.6% in 2011, 2012 will have to cope with a firm relapse to -0.3%.
- Economic growth forecasts have been lowered in last months, forecasters have become more careful due to the governmental budget deficits, which are difficult to master. Following the problems in Greece and the bail-out of Ireland, European countries have now entered a European debt crisis. With the fear that the Euro area might break apart, forced public spending cuts will hamper a quick recovery of European economies
- Looking at GDP forecasts in the Euro zone, the UK and Germany seem to be the brightest spots in 2012. However, the UK might increasingly suffer from the growing separation from Europe. Currently, the EU accounts for half of the U.K.'s overall trade of goods and services

### Construction market developments

- Most European construction markets reached their trough already in 2009/10 and were expected to bottom out in 2011. However, the current sovereign debt crisis is postponing the recovery process within the sector. Although the market decline rates are slowing down, the Irish and Spanish construction markets will continue to decrease in the 2011-2014 timeframe
- Last year, the Euroconstruct institute forecasted that the Dutch construction market would grow by 3.7% in 2011 (2010:-10%), taking advantage of mild winter conditions in 1Q11. Euroconstruct is forecasting a meagre growth of 0.4% in 2012, but Rabobank foresees a decrease of 1.5-2% in 2012. Production shrinkage is driven by a relapse in residential new-built production, the start of structural reforms in the housing market, low non-residential demand (oversupply offices) and substantial lower investments in the infra sector (austerity at local authorities)

### Valuation & strategy construction companies

- Share prices of the top 23 European listed constructors deteriorated further in 2011 (-11% YoY) after a weak 2010 (-2% YoY). The majority of European constructors underperformed the Dow Jones index. A weak share price performance is in our view due to the uncertainties surrounding the recovery of the construction markets. Dutch listed companies have to deal with limited upside potential for earnings growth in the near future. Current valuations of 2011 EV/EBITDA of 6.5 and 2011 P/E of 10.2 are well below the peak levels seen in the past
- The challenge for large Dutch constructors lies in the repositioning of the business model and acquiring a long term attractive activity profile. Other European constructors are already more clearly moving in direction of high-level project integrator instead of local 'capacity' player

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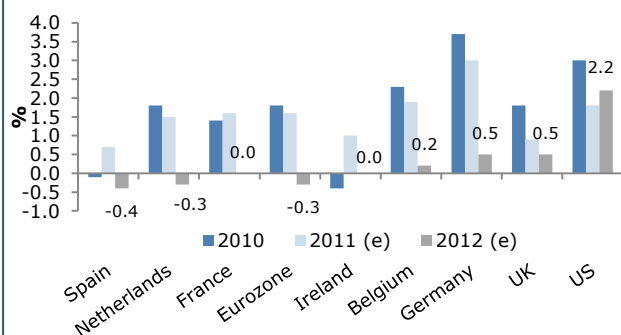
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# More European hurdles before reaching the turning point

Economic recovery has lost traction, recession approaching, financial volatility and risks are increasing

## GDP forecasts (% Δ YoY)



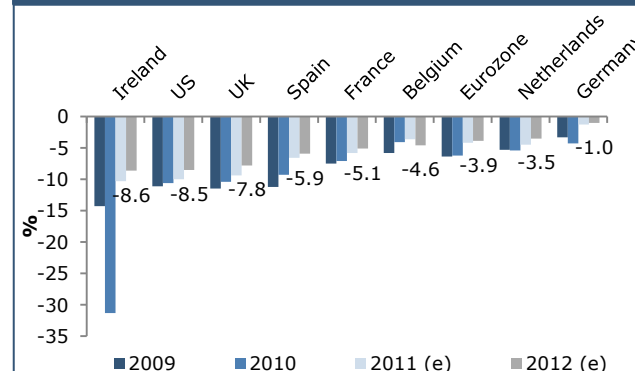
Source: Consensus forecasts, Rabobank Research, January 2012

## Construction outlook

	Volume 2009	Volume 2010	Volume 2011	Volume 2012
<b>Netherlands</b>	-4.9%	-10.4%	3.7%	0.4%
<b>Germany</b>	-1.4%	2.3%	3.7%	1.8%
<b>UK</b>	-12.3%	7.7%	-2.0%	-2.8%
<b>Ireland</b>	-34.2%	-29.9%	-17.5%	-8.5%
<b>France</b>	-7.4%	-5.9%	3.8%	1.7%
<b>Belgium</b>	-1.8%	-0.1%	3.9%	2.7%
<b>Spain</b>	-22.3%	-17.5%	-19.4%	-9.0%
<b>US</b>	-14.6%	-10.1%	2.1%	6.2%

Source: Euroconstruct, FMI corporation

## Government budget balance (% of GDP)



Source: Rabo Economic Research, European Commission

## Looming recession tames construction

- Many European enterprises will probably muddle through another recession as from 1Q12. Economic growth will be held hostage by weak sovereign and banking sector developments
- Being late-cyclical and being highly dependent on debt funding, especially construction firms will experience a lengthy period of contraction alternated with moderate growth opportunities

## No return to pre-crisis level before 2015

- An upcoming recession will interrupt the recovery in European construction
- Growth in 2013-2014 will not be sufficient to return to the European production level of EUR 1,490bn reached in 2008. Construction output will be comparable to levels at the start of the current century
- US forecasters cautiously suggest that 2016 might be the year for full absorption of the earlier construction decline

## Sovereign problems adding to 'toxicity'

- The PIGS countries are being punished for the year after year structural expansion of public debt. Belgium appears to become the next sovereign debt victim, causing another fierce blow to the Eurozone
- The combination of poor growth perspective, unstable politics, high unemployment and weak public sector financials create a toxic mix which will prevent economic growth to get 'airborne'

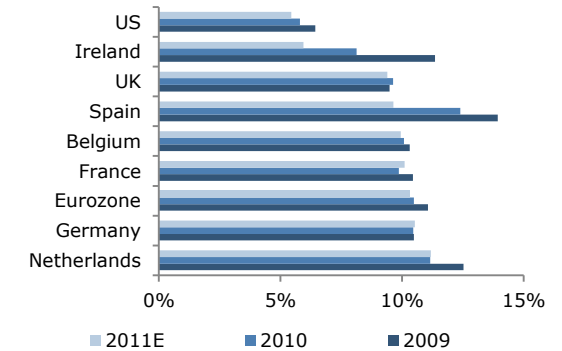
# Imbalances US-Europe increasing, current crisis worrisome

## Strict ECB and fiscal policies will ultimately delay recovery of European construction

### Construction curbed by austerity, high Dutch' dependence on the sector

- The Spanish, Dutch and Irish economy were all strongly dependent on construction sector developments. The share of their construction output to GDP was well above the Eurozone average in 2009. However, countries like Spain have undergone strong detox programmes. The Netherlands is at the top of the list where it comes to construction exposure
- Stimulus programmes have supported European economies and have cushioned losses in construction production. On the back of the new crisis, governments drastically cut back public spending. On top of these cuts, the Netherlands is suffering from a non-sustainable fiscal policy in the housing market. Approaching new elections in 2014, demand for new housing will decrease with terminated social housing incentives and the prospect of the abolishment of the 'Hypotheekrenteaftrek'

### Construction output in % of GDP

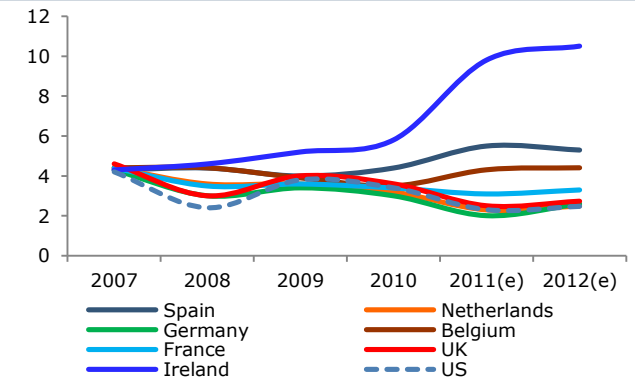


Source: Euroconstruct, BEA, US Census Bureau

### Divergence interest rates drives imbalance Eurozone, corporate lending costs increase

- When the Euro was introduced, the ECB accepted bonds of member states at face value and included terms at a discount window. Banks loaded up with bonds of weaker countries and interest rates were brought together. Germany, a strong performer, has undergone strict economic reforms in earlier periods. On the other hand, there have been housing and real estate booms in Spain and Ireland. This resulted in the convergence of interest rates which led to a divergence of competitiveness. These problems that remain unsolved in the current crisis are reflected in long term interest rates
- ECB support loans to banks will largely be used to pre-fund bank refinancing needs to respond to new capital rules. It will not stimulate corporate lending and if loans are granted, it will be at high costs. Tighter public long-term funding conditions are reflected in bank loan offerings

### Long term interest rates – govt. bonds (%)



Source: ECB, Fed, Consensus Forecasts, 10-year govt. bond yield, last available data: 31 December 2011

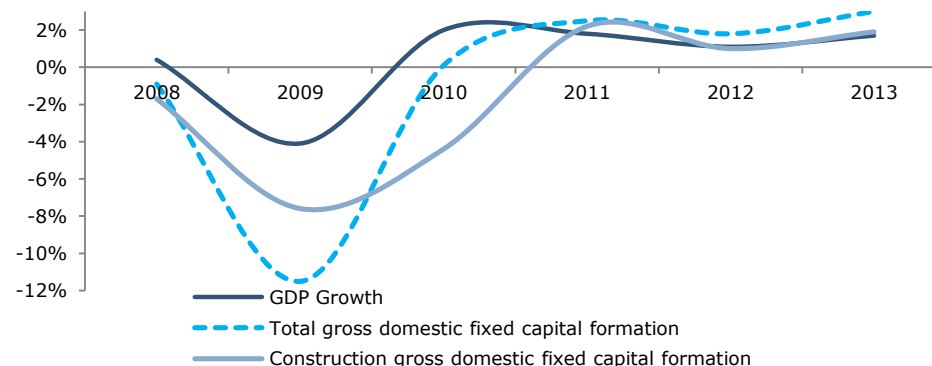
# European construction recovery delayed by a year ?

Meagre growth prospects intensified by public debt crisis, slow and bumpy upturn expected

## Several uncertainties clouding already weak recovery pattern

- After a mild winter season and a relatively strong 2011, the European economy is stumbling again. Increases in commodity prices are smoothing, restocking has ended and stimulus measures have come to an end. Furthermore, the sovereign debt crisis is far from being resolved as illustrated by S&P downgradings
- The general outlook for most European countries is one of a weak recovery between 2012-2014, driven by low consumer and producer confidence and influenced by jerkily adjusted economic imbalances
- Collapsing confidence is discouraging a further recovery of investments in fixed capital in the short term (see graph)

## European GDP growth & Gross fixed capital formation (% Δ YoY)



Source: Euroconstruct, Euroconstruct-19 countries, 15 Western European countries, 4 Eastern European countries, December 2011

## Construction recovery will demand structural reform

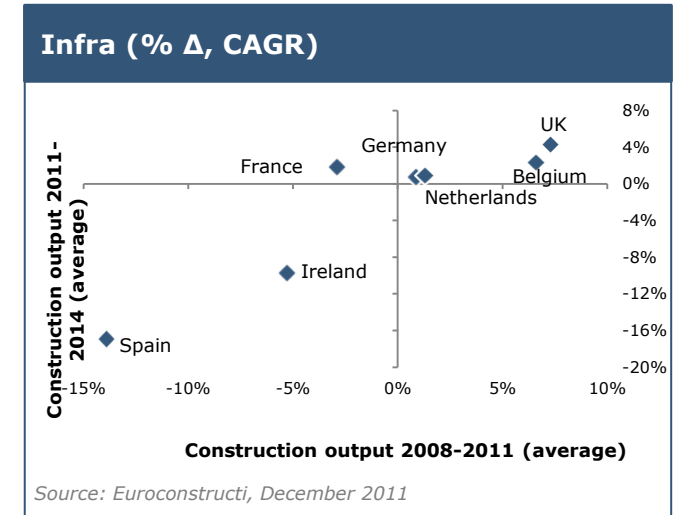
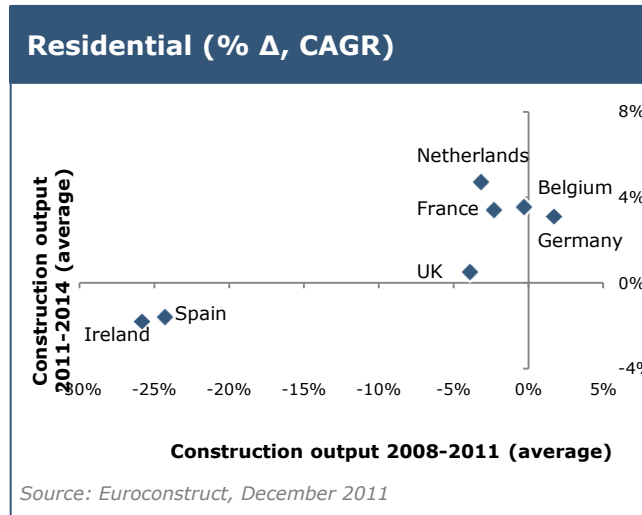
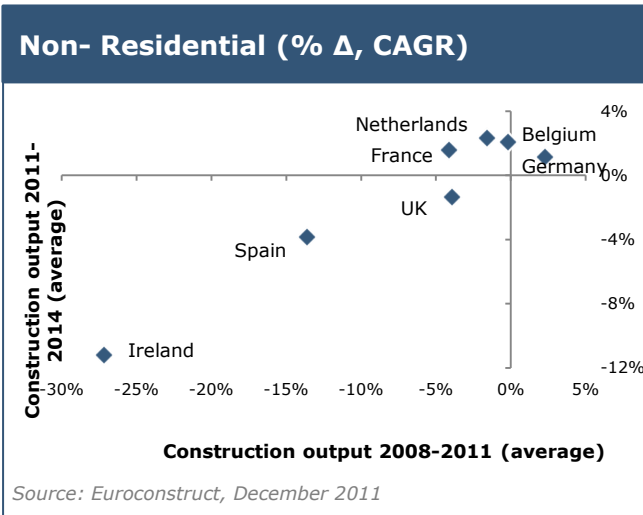
- The recent crises have left their marks in the construction sector and the upturn will be slow. Besides slowness, future construction production can be structurally lower when macro economic issues (see table) are not being solved in a more sustainable way
- Many European countries face the challenge of setting up strict monitoring and regulation systems in the public and private sector, preventing e.g. huge oversupply situations in the real estate sector and too large dependencies on public finances
- All said, the forecasted recovery by the Euroconstruct research institute, postponed by a year, is perhaps a too optimistic scenario

## Impact macro issues on mid-term construction growth

Macro economic factors	Consequences for construction industry
Changes in household income and inflation	In 2014 most European countries will have felt the major effects of fiscal pressure and precautionary extra savings will decrease somewhat
Recovery of business investments	The recovery of business investments will be hampered by difficulties to obtain financing and tighter lending conditions. An increase in foreign trade will pave the way for recovery
Financial situation of central and local governments	Budget deficits and austerity will lower the ambitions of primarily local governments in amenities & infrastructure
Level of interest rates	Interest rates will rise dependent on unconventional measures by central banks which provide liquidity and temper too fast tightening of lending conditions
State of the housing market	The extent to which residential markets will suffer from structural oversupply /surplus, and phasing out of temporary stimulus measures

# Diverging regional recovery patterns, less support from Infra

## Construction sector bottoming out in main European countries except for Ireland and Spain



- The Euroconstruct forecasts are based on the assumption that the Eurozone will find a solution to the current debt crisis shortly
- Logically, the medium term outlook for the non-residential sector is very meagre, further driven by weak producer confidence and high vacancy rates and in many office and retail real estate markets
- Germany takes over pole position from the UK as largest European non-residential market, due to a continued decline in the UK market. However, even German 'growth' will be far from spectacular

- In the residential market again Germany is the strongest performer, supported by a very strong growth of new residential production in 2011, somewhat smoothed in the years after
- The absence of a real estate boom has kept German mortgages relatively cheap, thus supporting new-residential output
- However, recent macro economic relapse and increasing unemployment should have produced a weaker picture than shown in the graph, which is also true for the Netherlands, Belgium and France

- Infra construction traditionally shows a relatively countercyclical pattern, levelling off the peaks and lows in other construction segments
- The vicious cycle of sovereign debt growth is coming to an end and infra construction is losing a main financing source. Public cuts and lower sovereign ratings imply a greater reliance on PPP projects, which are also troubled by tighter lending conditions. UK output could turn out to be slightly more resilient than in other countries due to the relatively more mature PPP market

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# Familiar shrinkage scenario Dutch construction in 2012

## Postponed recovery due to European head winds and increased uncertainties

- In December 2011 Euroconstruct published its new construction outlook for the Netherlands with some changes compared with the last forecast released in June 2011. The new forecast for 2011 was increased substantially from a 1.4% increase to 3.7% increase YoY, due to unexpected mild winter conditions in 1Q11 compared to 1Q10 and the positive contribution of renovation projects at the start of 2H11. Nevertheless, Euroconstruct was clear about a new relapse in the recovery of the residential and non-residential markets, resulting in an increase of 0.4% in total construction output in 2012 instead of the 3.2% mentioned in June 2011
- We foresee a stronger relapse of the residential and non-residential market in 2012 than Euroconstruct has projected. Main reasons are the issues in the housing market creating increased uncertainties (see also slide 13) and the impact of the deteriorated macro economic environment on investment decisions by the business community
- Looking at the order portfolios, the (non)-residential order backlog circled around 6.2 months for the last year. At infra, the order backlog temporarily peaked at 6.9 months in May 2011, but decreased to 6.1 months in October 2011. Although this is considerably higher than during the previous economic recession (2003), we expect lower order books due to the accelerated phasing out of stimulus funds and extra budget cuts
- All said, we pencil a decline of construction output in 2012 in the 1.5-2% range. It remains to be seen what the impact will be on sales, but many companies will adjust their pricing heavily in order to jack up orderbooks which are relatively low compared to the start of the previous recession

### Construction Output forecasts

#### Forecast Euroconstruct - November 2011 (prices 2010)

	2009	Δ%	2010	Δ%	2011	Δ%	2012	Δ%	2013	Δ%
Residential market	30,789	-9.0	27,543	-10.5	28,904	4.9	29,787	3.1	31,271	5.0
-new building	15,221	-12.4	12,820	-15.8	13,588	6.0	14,132	4.0	15,121	7.0
-repair and rebuilding	15,568	-5.4	14,723	-5.4	15,316	4.0	15,655	2.2	16,150	3.2
Non-residential market	22,135	-5.1	19,559	-11.6	20,136	3.0	19,869	-1.3	20,630	3.8
-new building	12,309	-6.2	10,408	-15.4	10,685	2.7	10,480	-1.9	10,933	4.3
-repair and rebuilding	9,826	-3.6	9,151	-6.9	9,451	3.3	9,389	-0.7	9,697	3.3
Infrastructure market	18,985	5.5	17,321	-8.8	17,745	2.4	17,403	-1.9	17,518	0.7
-new building and repair	10,783	7.2	9,475	-12.1	9,738	2.8	9,555	-1.9	9,659	1.1
-maintenance	8,202	3.4	7,846	-4.3	8,007	2.1	7,848	-2.0	7,859	0.1
<b>Total</b>	<b>71,909</b>	<b>-4.3</b>	<b>64,423</b>	<b>-10.4</b>	<b>66,785</b>	<b>3.7</b>	<b>67,059</b>	<b>0.4</b>	<b>69,419</b>	<b>3.5</b>

### Orderbacklog (non)- residential & infra



Source: EIB, 2011

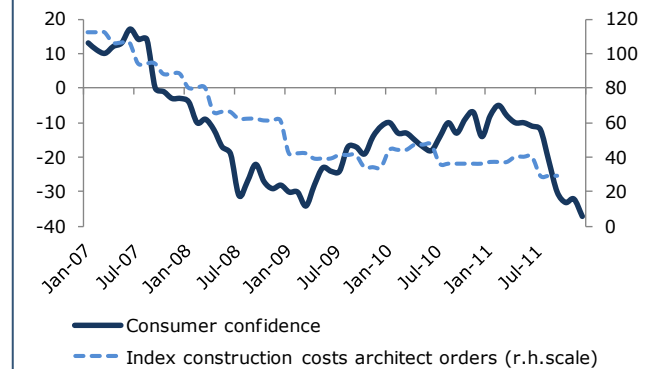
# Confidence at all-time low, comeback will be crawling?

Low confidence level will add to meagre home-buying activities and increased bankruptcies

## Consumer confidence seems to rock bottom, value architect orders develops similarly

- Dutch consumer confidence declined strongly in 2H11 and stands at an all-time low of -37 in December 2011, after it showed signs of stabilisation in 1H11. Dutch consumers are particularly negative about their financial situation in the next 12 months and worry about the unemployment levels. Low consumer confidence puts a break on willingness to buy a new home and is also holding back spending in non-durable goods
- Apart from consumer confidence, the index of construction costs for architect orders (residential & non-residential) can be seen as an early indicator for construction sector recovery. However, after initial stabilisation in 1H11, the index bounced back to 29 in 3Q11, indicating a 20% YoY decline. The shrinking index is caused by (i) smaller orders, (ii) less lengthy order books and (iii) lower prices than during the pre-crisis era

## Consumer confidence & architect orders

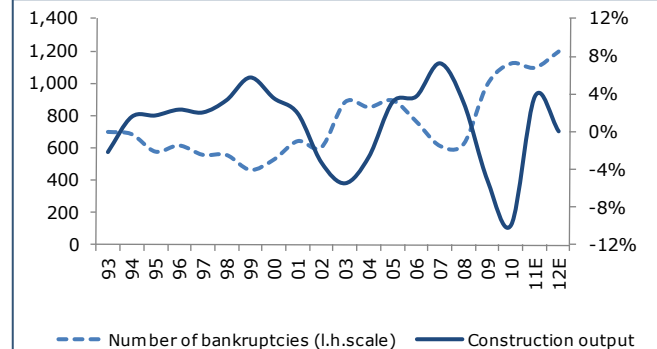


Source: CBS, 2011, index 2007=100

## Revisited recession will inflate the high level of bankruptcies

- The rise in construction bankruptcies seems to keep pace with the late cyclical development of the construction output. We expect a slight decline the total number of bankruptcies in 2011 to around 1100, but 2012 will be another dreadful year. Many companies have already lost everything they 'saved' for a rainy day. Moreover, the Dutch construction sector is facing structural overcapacity in the light of socio-demographic changes. Most of the overcapacity has been kept alive by supportive fiscal incentives (e.g. mortgage interest tax deduction) which will be restricted more and more
- We expect that bankruptcies will grow to a record level of 1200 (not seen since 1993), due to accelerated consolidation within the sector and the disintegration of quite a few large and mid-sized business groups

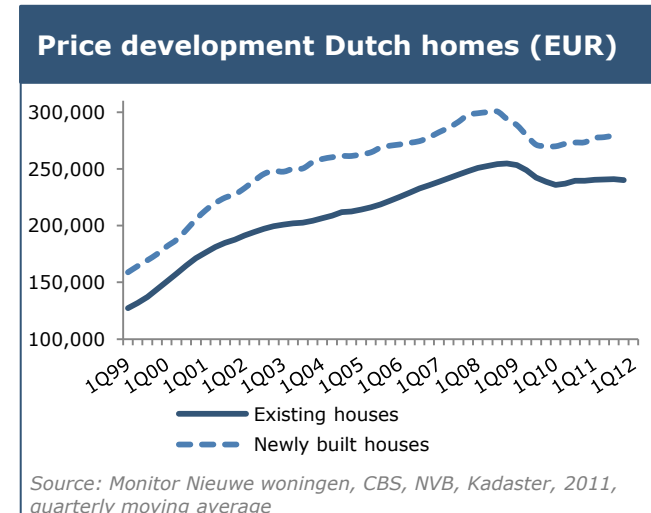
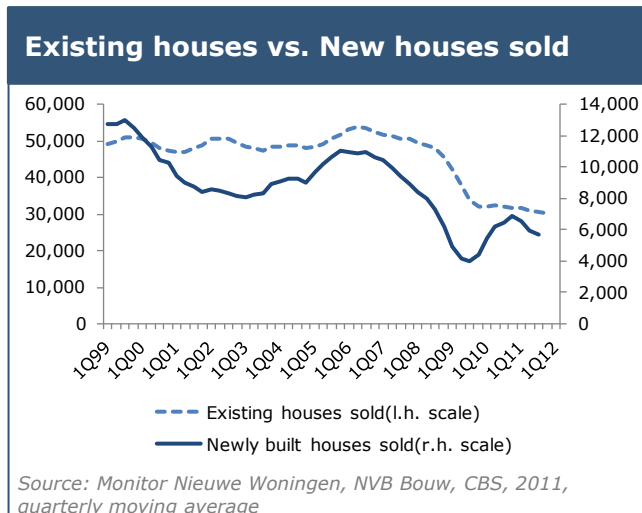
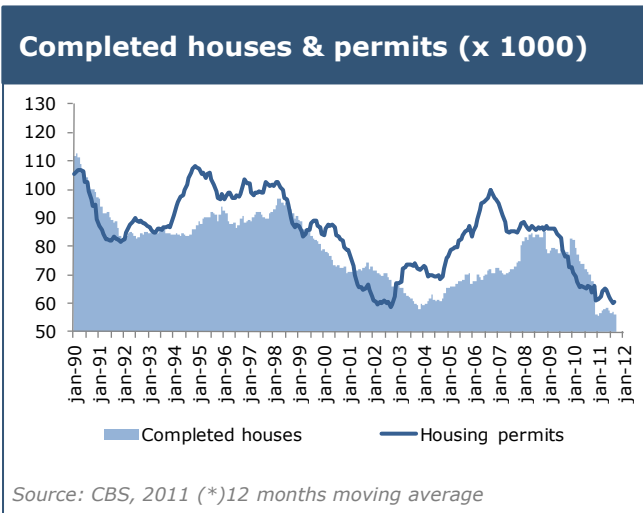
## Dutch construction bankruptcies



Source: CBS, Euroconstruct, 2011

# Residential: effect of crises enhanced by fiscal measures

Demand for new homes tempered by 'reservoir' of existing homes, housing prices will decline further



- In 9M11 the Dutch housing market is not offering growth perspectives in the medium term. Housing permits showed a YoY decline of 8% (-14% 9M10), while the number of completed houses dropped 20% (-10% 9M10) in the same period
- On the back of improving signs in 2H10, we expected a further improvement in the number of permits issued in 2011, but unfortunately the relief from the lower conveyance tax was counterbalanced by various unpopular (fiscal) measures reducing the appetite for new homes

- Sales of existing and newly built houses have declined substantially since 2007. After an initial improvement as of 3Q09 (lower prices by developers), sales numbers of newly built homes declined again as of 2Q11
- The ongoing increase in the large reservoir of existing homes is fueled by the feared mandatory 'addition' of 1.8m corporation homes (former rental homes). Appetite for newly built owner-occupied homes will be overshadowed by unsold existing properties trading at competitive prices

- Existing houses are ca. 10% cheaper in 4Q11 compared to the peak level in 2008, while the average price of a newly built house is currently 8% lower. We expect a yearly average decline in housing prices between 3-5% in the coming 4 years
- Forced by new market constraints, new homes have become less spacious and thus cheaper. However, the average price of new homes and existing homes increased slightly as of 1Q11, probably caused by a mix effect: sales of starter homes declined stronger than sales of expensive homes

# Residential: restrictive measures outweigh bright spots

Worries about high mortgage debt tempting authorities to stimulate stricter lending conditions

## Confidence & spending power held hostage by regulation

- When interpreting the main measures taken in the residential market for owned property, we come to the conclusion that the measures taken will in general lead to more restrictive financing facilities for home buyers
- Much was expected from the lowering of the conveyance tax and the temporary VAT reduction. Positive effects from these measures have been wiped out by worsening economic conditions in 2H11 and increased sovereign debt problems, resulting in below freezing point consumer confidence and an absent home buying appetite
- The already low consumer confidence is further kept in the doldrums by authorities like DNB and AFM. They seem to stress the importance of a reduction of mortgage debt, securing financial stability and thus 'steady' sovereign and bank ratings
- The banks and budget institute NIBUD are more or less forced to comply to newly issued statements by DNB/AFM. Recently, AFM disapproved of the expanded lending options for double-income couples in 2012 NHG/Nibud rules. Most banks openly comply to this instruction, avoiding to be labeled as irresponsible financiers
- New topics on the agenda will be (i) the reduction of the maximum loan amount to 90% of the home value (Knot, DNB), (ii) fiscal stimulation of mortgage loan repayments (CDA a.o.). Conclusion: all initiatives cause more uncertainties and trigger low demand and further price decline in the residential market

## Impact of main measures in the residential market

Measure	Description	Impact	2011	2012
Restriction interest only mortgages (as of August 1 <sup>st</sup> 2011)	Only 50% of total mortgaged amount can be interest-only Maximum loan amount of 106% (% of home value)	Reduced spending power consumers through higher monthly costs		
Temporary VAT lowering (From October 1 <sup>st</sup> 2010 until October 1 <sup>st</sup> 2011)	Low VAT tariff (6%) labour costs concerning renovation and maintenance works	Beneficial to smaller contractors and handyman companies		
Increase NHG threshold loan amount (Sept 2009- Jul 2012)	Higher maximum loan amount (350k -265k)	Lower monthly costs for home buyers (lower interest), not for home improvement		
Stricter NHG standards (as of January 1 <sup>st</sup> 2011)	Lowering of loan- to- income norms defined by Nibud	Reduced loan amount (20%), higher monthly costs for lower income groups up to EUR 23.000		
'Double' mortgage interest deduction (January 1 <sup>st</sup> 2011- January 1 <sup>st</sup> 2013)	Temporary extension period of interest deduction for second home from 2 years to 3 years	Higher monthly costs for home owners with unsold property, distressed property sales		
Cancelling of starters facilities (as of 2011)	Governments limit subsidies and low interest loans for starters	Reduced buying power in starter home segment, lower circulation in housing market		
Lower conveyance tax (July 2011- July 2012)	Lowering conveyance tax from 6% to 2%	Improved affordability existing homes		

# Non-residential: toxic mix austerity and low private spending

Oversupply, lower investments public sector and recovery in market sector comes to a standstill

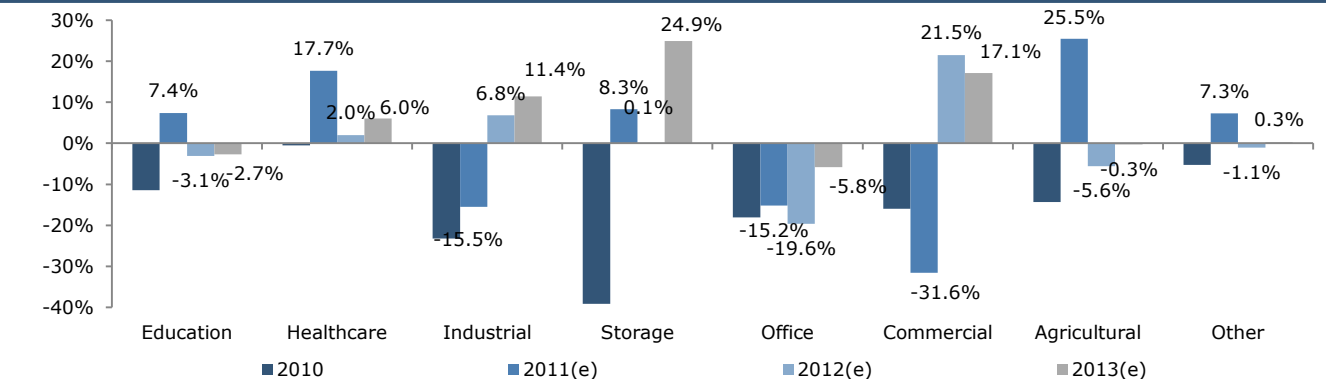
## Oversupply commercial real estate and Euro crisis hindering quick fixes

- Non-residential recovery will be halted in 2012. Before 2013 we do not expect significant growth of new-built activities in the Dutch market. After two years of firm decline, new non-residential production increased by a meagre 2.7% in 2011. Besides the office market (30% of total construction volume), oversupply is also becoming an issue in other segments. Furthermore, a new recession is looming, the public sector is shrinking and high leverage project (re)-financing opportunities have diminished quickly. This will result in an overall decline of ca. 2% in 2012 and – at best- a modest recovery in the years after
- Many builders active in the private sector, have jumped to (semi)-public niches like healthcare & education. Meanwhile, margins in these segments have come down substantially and the flow of major new projects is shrinking, likely due to cost cutting

## Unrivalled decline in value permits

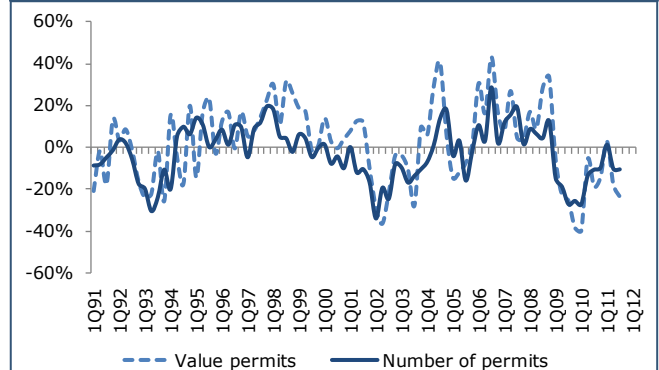
- The number of permits for new non-residential buildings plummeted by 11% YoY in 3Q11, reaching slightly calmer waters. The drop in value of permits was 23%, a rate of decline last seen in 3Q09
- Instead of new-built activities, constructors are focussing stronger on renovation projects, rendering opportunities to display sustainable knowledge and skills

## Outlook new non-residential production by segment (2011-2013)



Source: Euroconstruct

## Value non-residential permits (% Δ YoY)



Source: CBS, quarterly developments

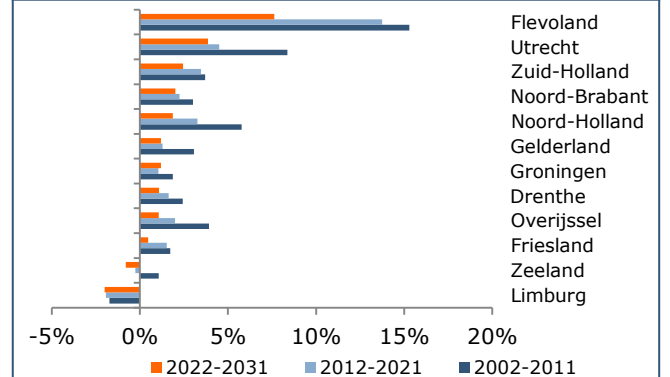
# Socio-demographic trends both threat and opportunity

## Regional variation population growth and changing household composition demand new approach

### Decelerating population growth, until 2025 shrinkage in one third of municipalities

- In the recent past most constructors had a quite homogeneous view regarding the developments in the residential and non-residential market. Nowadays, it is more important to focus on local socio-demographic developments and differentiate their market approach
- In the next decades there will be more divergence in regional population growth. As shown in the graph, except for Limburg and Zeeland all provinces will keep growing, albeit at a decelerating pace. Between 2010 and 2025 the Dutch population will grow by 900.000 people, of which 80% will take place in the Randstad. One third of Dutch municipalities will experience shrinkage, adding up to 180.000 people in total
- Outside the Randstad the population will mainly increase in urban areas with intra regional facilities like colleges and universities

### Population growth per province (% Δ)

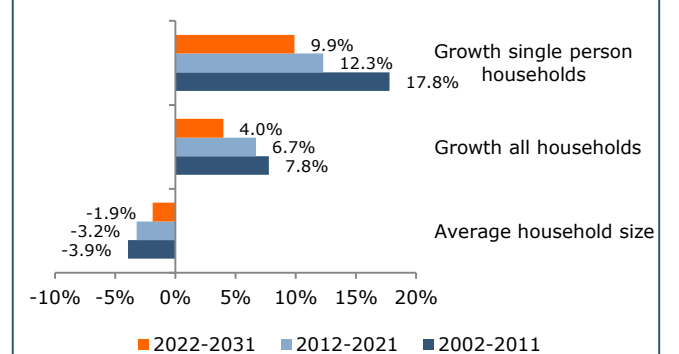


Source: CBS, PBL

### Strong increase of single person households

- Although total population growth is decelerating in the Netherlands, the growth of single person households is still developing stronger than overall household growth
- The increase in single person households is for a large part driven by increased greying, as the share of people older than 65 will grow from 15% in 2010 to 24% in 2030. Another important factor influencing the growth of single person households and the development in the average household size is the individualisation trend
- All said, the need for creative solutions seems clear and constructors need to assess local developments in more detail. In order to keep local facilities like schools cost-effective and keep the occupancy rate of e.g. offices acceptable, more flexible concepts like 'Het nieuwe werken' and joint municipal developments are needed

### Household growth & size (% Δ)



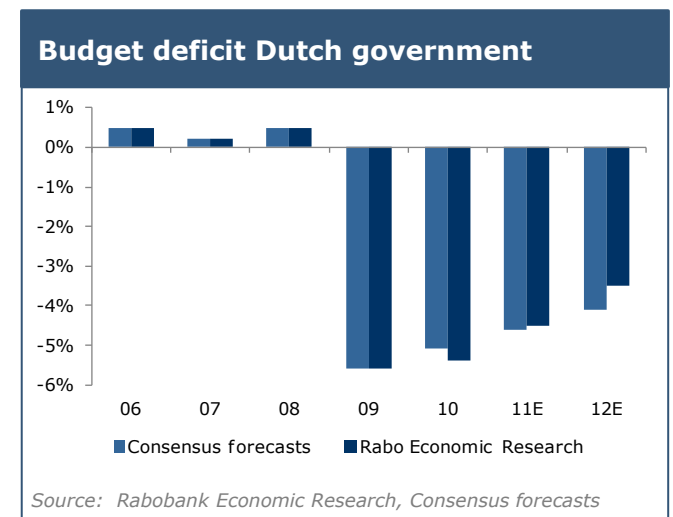
Source: ABF, Primos Prognose

# Infra: reduced spending power at local authorities

## Collapse in demand at local authorities, central government keeps spending and promotes PPP projects

- During the previous recession in 2008-2009, public spending in the Dutch infra sector was relatively unaffected. After a strong decline in 2010 of 8.8%, the infra production will show a moderate increase in 2011 (2.4%), before declining again in 2012. Meagre budgets at local authorities and the private sector were the main cause of the decline in 2010 and will also drive the decrease in 2012. The marginal improvement as of 2013 will be dependent on improved private sector demand as budget consolidation will not be finished by that time
- Based on the MIRT 2012 (multi-year programme Dutch infra spending by the central government), minister Schultz is in favour of supporting large mobility projects (roads) around larger cities like Amsterdam, Rotterdam and Eindhoven. Although total available infra means will decrease by EUR 400m to EUR 7.6bn in 2012, this will primarily affect spending on main water systems. Spending on maintenance will largely be kept at the same level in the coming years
- Possible extra budget cuts at the central government will probably be moderate in the infra sector and will mainly affect the residential market
- As an outcome of austerity, the use of PPP (Public Private Partnerships) contracts for large (clustered) projects will increase in the coming years (see table on the right). These mega projects lead to high tendering costs for constructors and – taking into account the associated risks – tight risk management should be in place within construction companies
- When participating in PPP projects, contractors will ask for long term committed financing by banks. Due to e.g. Basel III regulations it is increasingly difficult to secure long term funding for PPP projects at banks. Therefore it is necessary that pension funds take their share in the financing of PPP projects. As the central government currently allows for inflation indexed financing within DBFM (PPP), pension fund APG has shown its interest in the N33 road project which will be awarded this summer
- A steep increase of ‘PPP light’ initiatives for smaller builders in combination with local authorities is not foreseen in the short term as complexity is a difficult topic to tackle in the near term

Overview main Dutch PPP projects			
Project	Size in EURm	Completion	PPP type
A15 road	1,095	2015	DBFM 25 yrs
A12 road	260	2014	DBFM 23 yrs
N33 road (Assen-Zuidbroek)	152	2014	DBFM 20 yrs
A6/A9/A1 roads	4,000	n.a.	DBFM
Local Rail track Groningen (Regiotram)	300	n.a.	DBFMO
Trainstation area Utrecht	3,000	2030	Area PPP
Sea lock IJmuiden	800	n.a.	DBFM



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# Lower economic activity hurting activities large constructors

Results of listed companies give a mixed picture, strong performers benefit from infra projects

- We start our review of the European construction market by taking a closer look at the performance of main listed construction companies. Most of the largest ten European construction companies showed moderate sales developments in 3Q11 compared to a year earlier. This is largely caused by the moderate GDP recovery and European infrastructure spending hurt by austerity
- The sales and EBITDA of Hochtief were boosted by a strong improvement in the performance at Hochtief South-East Asia/subsidiary Leighton, largely recovering the losses at two main infrastructure projects in Australia. Bear in mind that on average 90% of Hochtief's sales are being realised outside Europe
- BAM also showed a massive EBITDA improvement due to the strong reduction of the operational losses in the Dutch Property division
- FCC's dependence on the Spanish market was illustrated by the decrease in EBITDA margin due to the decline in activity level in the infra sector and accompanying fiercer price competition
- Only a few constructors managed to grow their order backlog in 3Q11. Although the decrease in order backlogs is partly the result of seasonal patterns, Vinci profited from a few projects wins in the rail construction area (both nationally and abroad). Skanska also benefited from various subway and non-residential assignments in the UK the US and in the Nordics

## Interim data European listed construction companies

Company	Sales 3Q11	Chg. YoY	Order backlog (bn) 30 Jun 11	Order backlog (bn) 30 Sep 11	Chg. QoQ	EBITDA 3Q11 Chg YoY
Vinci*	3,399	-8.1%	17.40	17.90	2.9%	n.a.
Bouygues*	2,381	4.8%	15.50	15.26	-1.5%	-6.9%
Hochtief	5,382	15.1%	46.97	44.50	-5.3%	102.6%
Skanska (in SEK)	32,051	-1.9%	139.40	147.50	5.8%	n.a.
Ferrovial*	1,159	-8.3%	9.90	9.92	0.3%	0.3%
Eiffage*	871	4.8%	n.a.	n.a.	n.a.	n.a.
Strabag	3,792	-1.6%	14.88	14.06	-5.5%	-3.0%
Balfour Beatty (in GBP)	n.a.	stable	15.50	15.50	0.0%	n.a.
BAM	1,903	3.4%	11.40	11.10	-2.6%	82.7%
Bilfinger Berger	2,223	2.5%	8.22	7.78	-5.4%	-1.5%
FCC*	1,771	2.9%	10.31	9.92	-3.8%	-25.9%

\*) construction activities only

Source: company reports, websites

# EBITDA margin stabilisation foreseen in 2012

Order backlogs weakening in the face of a new recession, downwards revision of earnings forecasts

## Most order backlogs showing a decline in 2011, further deterioration expected

- The order backlog of the top 10 European construction companies developed negatively in the first nine months of 2011, indicating that most European construction markets are facing a new recession. We expect that European constructors will not fall back to the trough in production seen during the previous recession. Nevertheless, the contraction might be stronger when the sovereign debt crisis is worsening
- Only Vinci and Bouygues showed an increase, probably due to its strong international profile. Vinci actively targets the downsizing of its building activities and is simultaneously trying to win orders in specialty civil engineering services (e.g. special foundations, waste/energy, oil & gas infrastructure), while Bouygues' orderbook has profited strongly from winning the largest European infrastructure PPP to date; the LGV high-speed rail line Sud-Europe/Atlantique

## Order backlog changes YTD (EURbn)

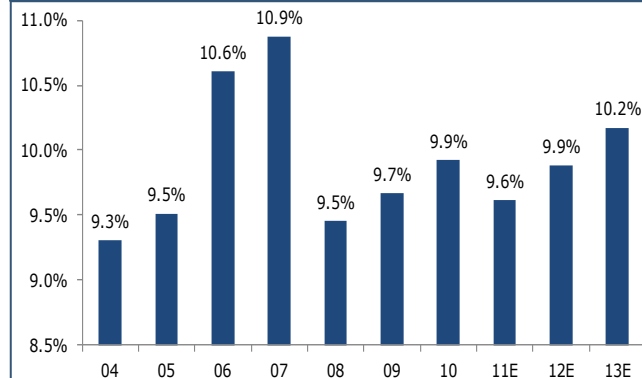
	31 Dec '10	30 Sep '11	Change
Vinci	14.50	17.90	23.4%
Bouygues	10.90	15.26	40.0%
Hochtief	47.49	44.50	-6.3%
Skanska (SEK)	147.10	147.50	0.3%
Ferrovial	9.98	9.92	-0.6%
Eiffage	4.62	n.a.	n.a.
Strabag	14.74	14.06	-4.6%
Balfour Beatty (GBP)	15.20	15.50	2.0%
BAM	12.10	11.10	-8.3%
Bilfinger Berger	8.59	7.78	-9.4%
FCC	9.98	9.92	-0.6%

Source: Company reports

## Improvement EBITDA margin questionable, limited room for further cost cutting

- Despite the minor decline in Western European construction market (-0.9%), the EBITDA margin of the top 23 players has decreased in 2011. The margin is based on all the company's activities, because we do not have forecasts available of the construction divisions separately
- After the margin increase in 2010, the 2011 results suffered from the phasing out of major cost cutting programmes. Contrary to the estimates shown in the graph, we do not expect the combined EBITDA margin of constructors to increase in 2012. Consequently, we expect the increase in EBITDA will be very moderate, while the sales increase will be a bit stonger. Despite tight working capital management, EBITDA levels are more likely to stabilise in the coming year, due to ongoing fierce price competition in European markets

## European constructors total EBITDA %



Source: Company reports, Datastream, Consensus estimates

# Reliability Euroconstruct estimates per country (I/II)

Dutch numbers seem relatively reliable, while UK estimates show larger deviations

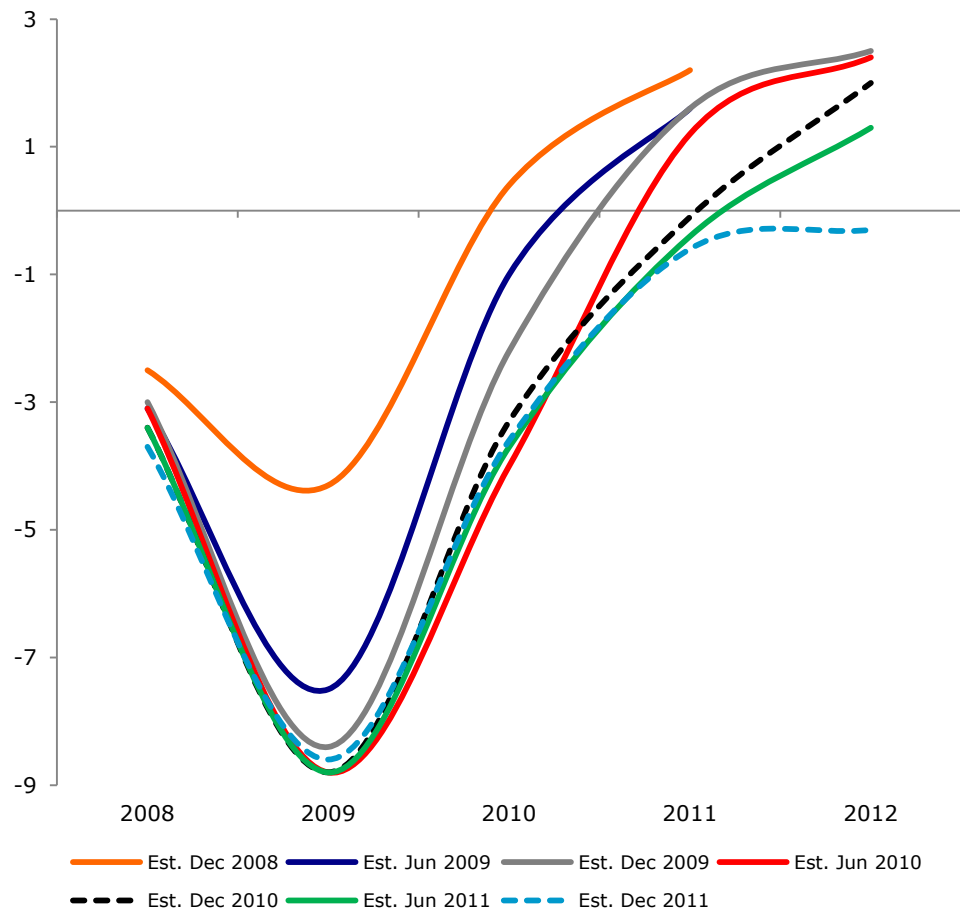
(e) = estimates (a) = actuals all numbers mentioned are percentages

Country	2008(e)	2008 (a)	% difference (a) & (e)	2009(e)	2009(a)	% difference (a) & (e)	2010(e)	2010(a)	% difference (a) & (e)	2011(e)	2012(e)
<b>Netherlands</b>											
Forecast June 2008	3.1	4.6	48.4	1.1	-4.3	-490.9	0.1	-10.4	n.a.	-	-
Forecast Dec 2008	2.4	4.6	91.7	-4.2	-4.3	2.4	-5.0	-10.4	108.0	0.4	-
Forecast June 2009	2.7	4.6	70.4	-5.8	-4.3	-25.9	-9.0	-10.4	15.6	-0.6	-
Forecast Dec 2009	4.0	4.6	15.0	-6.0	-4.3	-28.3	-9.3	-10.4	11.8	-1.4	2.5
Forecast June 2010	5.7	4.6	-19.3	4.9	-4.3	-12.2	8.0	-10.4	30.0	0.0	1.3
Forecast Dec 2010	5.5	4.6	-16.4	-4.9	-4.3	-12.2	-9.4	-10.4	10.6	1.0	2.4
Forecast June 2011	5.5	4.6	-16.4	-4.9	-4.3	-12.2	-10.4	-10.4	0.0	1.4	3.2
Forecast Dec 2011	4.6	4.6	0.0	-4.3	-4.3	0.0	-10.4	-10.4	0.0	3.7	0.4
<b>Germany</b>											
Forecast June 2008	1.2	2.1	75.0	1.5	-1.4	-193.3	1.5	2.3	53.3	-	-
Forecast Dec 2008	3.1	2.1	-32.3	-0.5	-1.4	180.0	1.1	2.3	109.1	1.4	-
Forecast June 2009	3.1	2.1	-32.3	-3.7	-1.4	-62.2	1.8	2.3	27.8	0.3	-
Forecast Dec 2009	2.6	2.1	-19.2	-1.2	-1.4	16.7	0.8	2.3	187.5	0.1	1.0
Forecast June 2010	2.6	2.1	-19.2	-0.7	-1.4	100.0	0.4	2.3	475.0	0.4	1.4
Forecast Dec 2010	2.5	2.1	-16.0	-0.9	-1.4	55.6	3.4	2.3	-32.4	1.3	1.6
Forecast June 2011	2.2	2.1	-4.5	-1.0	-1.4	40.0	1.9	2.3	21.1	1.7	1.8
Forecast Dec 2011	2.1	2.1	0.0	-1.4	-1.4	0.0	2.3	2.3	0.0	3.7	1.8
<b>UK</b>											
Forecast June 2008	-0.5	-2.5	400.0	1.1	-12.3	-1218.2	1.5	7.7	413.3	-	-
Forecast Dec 2008	-1.1	-2.5	127.3	-3.2	-12.3	284.4	0.3	7.7	2466.7	1.0	-
Forecast June 2009	-0.2	-2.5	1150.0	-7.5	-12.3	64.0	-1.6	7.7	-581.3	1.6	-
Forecast Dec 2009	4.0	-2.5	-162.5	-6.0	-12.3	105.0	-9.3	7.7	-182.8	-1.4	2.5
Forecast June 2010	-0.7	-2.5	257.1	-11.0	-12.3	11.8	-1.3	7.7	-692.3	1.8	1.5
Forecast Dec 2010	-0.3	-2.5	733.3	-10.4	-12.3	18.3	3.1	7.7	148.4	0.2	1.5
Forecast June 2011	-0.9	-2.5	177.8	-10.4	-12.3	18.3	6.0	7.7	28.3	-2.2	-0.7
Forecast Dec 2011	-2.5	-2.5	0.0	-12.3	-12.3	0.0	7.7	7.7	0.0	-2.0	-2.8
<b>Belgium</b>											
Forecast June 2008	2.7	1.7	-37.0	1.2	-1.8	-250.0	1.5	-0.1	-106.7	-	-
Forecast Dec 2008	0.5	1.7	240.0	-0.8	-1.8	125.0	0.6	-0.1	-116.7	0.7	-
Forecast June 2009	0.4	1.7	325.0	-2.2	-1.8	-18.2	-2.2	-0.1	-95.5	0.2	-
Forecast Dec 2009	1.1	1.7	54.5	-2.2	-1.8	-18.2	-3.2	-0.1	-96.9	1.9	1.9
Forecast June 2010	1.7	1.7	0.0	-2.6	-1.8	-30.8	-2.7	-0.1	-96.3	1.5	2.3
Forecast Dec 2010	1.5	1.7	13.3	-3.0	-1.8	-40.0	-0.6	-0.1	-83.3	0.7	2.4
Forecast June 2011	1.7	1.7	0.0	-3.5	-1.8	-48.6	-0.1	-0.1	0.0	1.8	1.4
Forecast Dec 2011	1.7	1.7	0.0	-1.8	-1.8	0.0	-0.1	-0.1	0.0	3.9	2.7

# Reliability Euroconstruct estimates per country (II/II)

Reassessment historic data combined with changing market dynamics foster adjustments of estimates

## YoY % $\Delta$ construction output (Euroconstruct 19 countries)



## Estimates important tool in preparation of budgets

- Many large constructors use the estimates of Euroconstruct and other institutes for the preparation of 2012/2013 budgets, in combination with order intake and actual price developments
- Euroconstruct forecasts are based on the intelligence of specialised research institutes in the Euroconstruct member countries. Subsequently, these research institutes often derive a large part of their data from national statistics offices
- When e.g. looking at the UK data from researcher Experian, it should be taken into account that the UK Office for National Statistics has substantially revised historic construction output data. This might partly explain the substantial deviations in actuals and estimates
- Furthermore, forecasts are based on periodical market surveys. However the scope of the interviewee differs widely. While Experian is reviewing property agents and producers besides contractors, the EIB questionnaires are more exclusively focused on contractors
- Dutch forecasts, based on research and estimates by the EIB research institute, prove to be relatively reliable in recent years. Within the two year timeframe 2009 -2011 (see previous slide), actuals and realisations do not deviate more than 26%, which is moderate compared to UK estimates and actuals

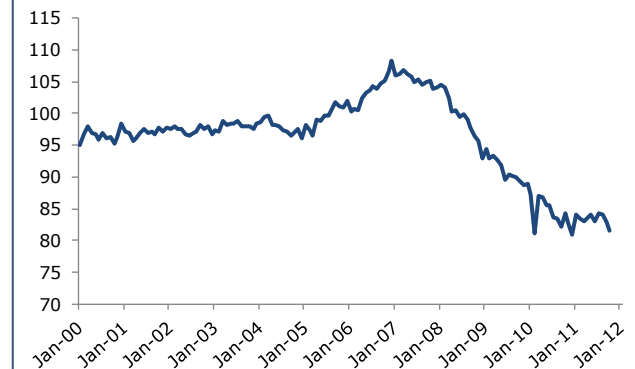
# Indicators European construction will soon head downwards

Long-term production growth estimated at 2% per annum in Western Europe

## Halted recovery and no developments which indicate a firm rebound after 2012

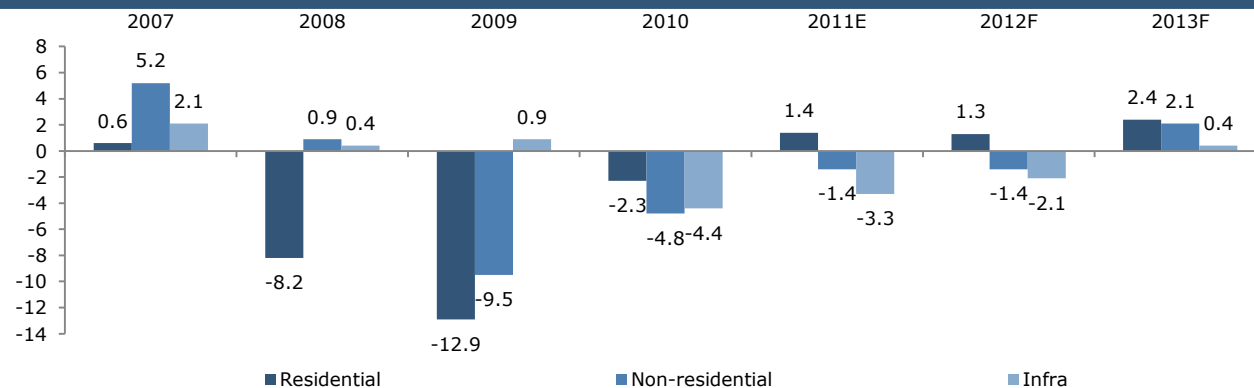
- Rumour has it that confidence in the European construction sector has recently collapsed like a fragile plasterboard. The level of activity in the European construction sector has not shown any upward movement since January 2007, 2011 was a year of stabilisation
- Earlier we expected that we would see a bottoming out of the production index in 2011. However, the construction sector, specifically the (non)-residential sector, is traditionally suffering stronger from austerity than other industries. Now that Eurozone problems have become more pregnant, we expect a downwards adjustment of new order intake and production figures (due to cancellations)
- We deem an average yearly production growth of ca. 2% in 2012-2016 in Western Europe a likely scenario, whereas Eastern European production growth will be higher with ca. 5% p.a.

## EU monthly production index\* (2005=100)



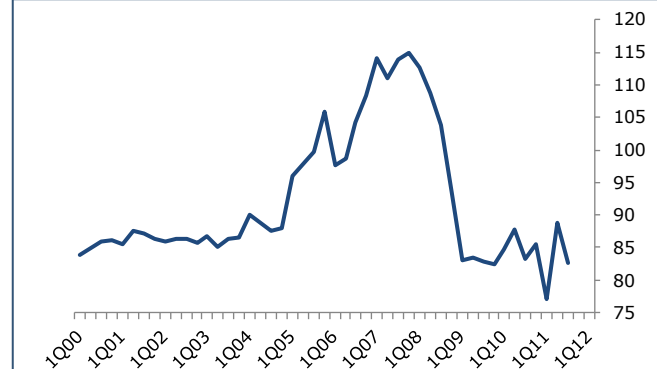
Source: Eurostat, (\*) Euro area 16 countries

## EU construction production by sector (% Δ YoY)



Source: Euroconstruct, EC 19 countries

## EU quarterly new orders index\* (2005=100)



Source: Eurostat, (\*) Euro area 16 countries

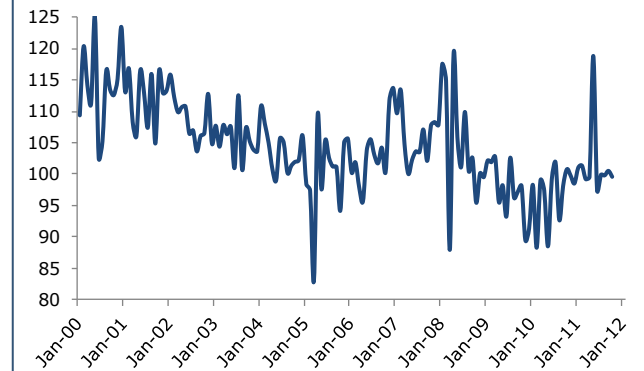
# Belgium: substantial residential slowdown expected

No clear upward trend in housing production in 2012 due to phasing out stimulus

## Renovation strong foundation within residential sector

- The production index does not seem to correspond with current order intake trends. Looking at new order index developments, the trend is not reflecting the market developments in 2012 and beyond. Research by the Belgian Building Confederation showed that residential permit issuance declined by 25% YoY in 8M11 and the full year decline is expected to be -14%, due to the scrapping of energy saving incentives by the federal government and the transfer of responsibility of fiscal support measures (mortgage interest) to local authorities
- Non-residential growth will be curbed by austerity measures of the federal government. Infra construction seems to be backed by federal state support for road maintenance and civil engineering projects until 2012, but will experience a spending gap as of 2013 due to lengthy processes around the late 2012 local elections within the Walloon and Flemish regions

## Belgian monthly production index (2005=100)



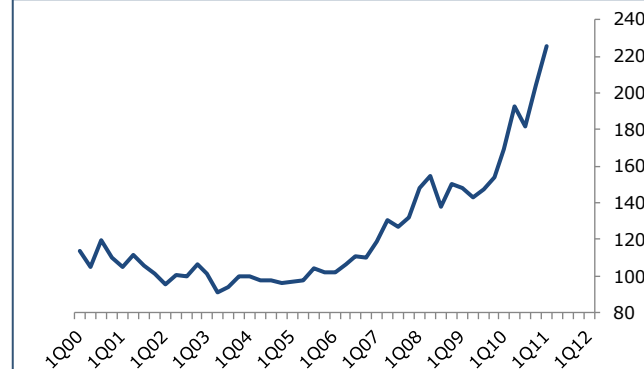
Source: Eurostat

## Belgian construction production by sector (% Δ YoY)



Source: Euroconstruct

## Belgian quarterly new orders index (2005=100)



Source: Eurostat

# France: residential demand will be strong foundation

Residential construction remains strong based on household growth and public stimuli

## Solid demand for housing will support construction production

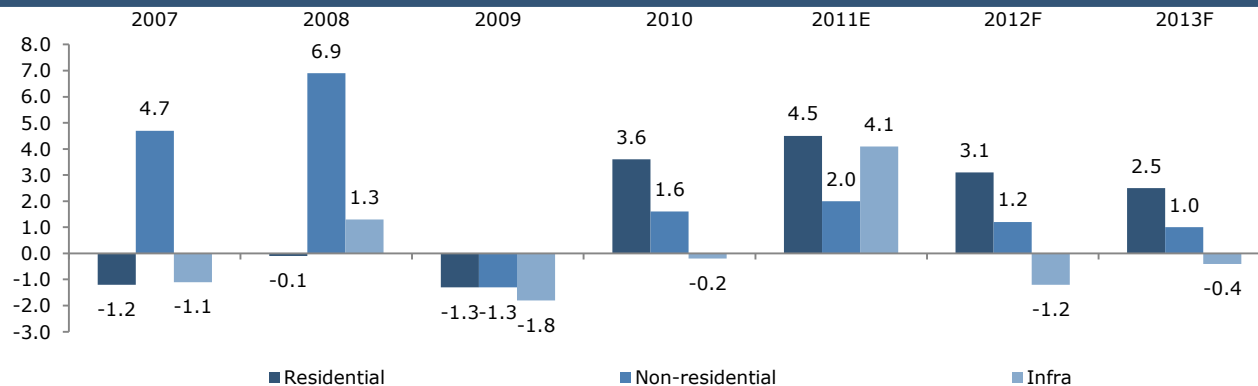
- After the plunge in order intake in 2008, the order index improved quite strongly in a relatively short time span. However, the production index more or less stabilised in 2011, a.o. the result of the phasing out of the fiscal benefits for non-residential properties
- Due to the tax benefits for new home buyers, housing sales were strongly stimulated in 2010 and 2011. In 2012 this law will be abolished, but other stimuli will be kept in place and form a strong foundation under the residential sector in coming years. Although Dutch constructors are hardly active in France, the country will remain the residential champion in Europe, with a forecasted average housing production of 350,000 homes annually in the next years
- As shown below, the French government is seriously trying to reduce its budget deficit, thus increased investments in infrastructure are absent before 2014 (municipal elections)

## French monthly production index (2005=100)



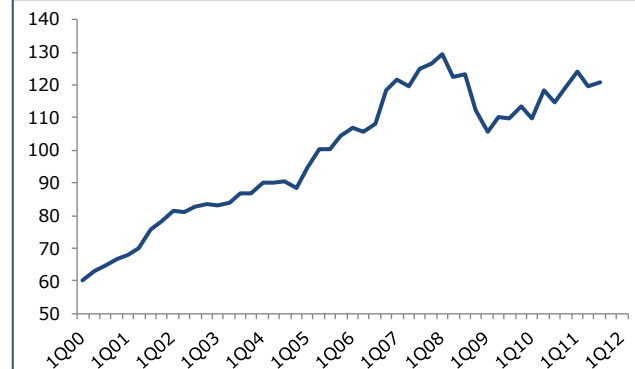
Source: Eurostat

## French construction production by sector (% Δ YoY)



Source: Euroconstruct

## French quarterly new orders index (2005=100)



Source: Eurostat

# Germany: relatively resilient European 'engine' still running

Marginally affected by recession, slight deterioration foreseen

## (Non)- residential production supported by investors preferences

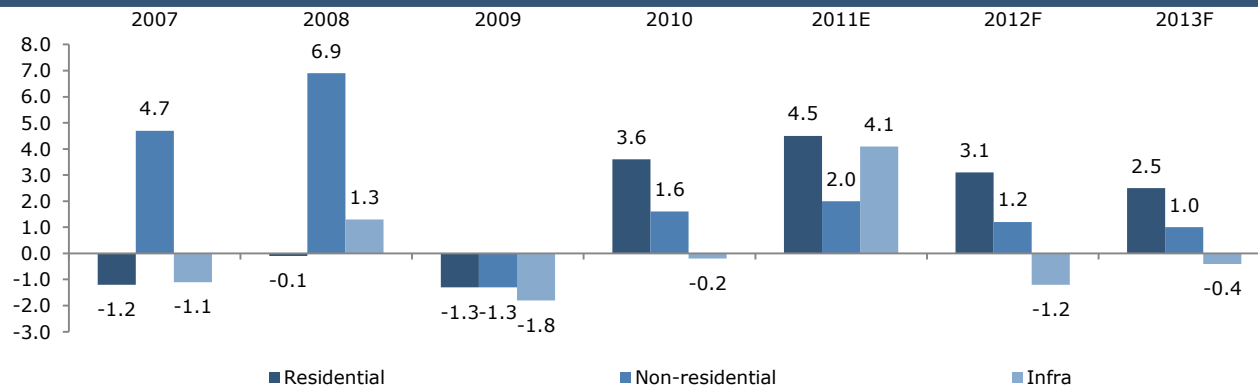
- The German production index has developed in a moderately upward way, reflecting the rippling movement of the new order index. Like in 2011, residential and non-residential construction (offices) will benefit from capital market uncertainties in 2012, i.e. investors divert their investments partly into real estate. Evidence is found in building permits in major cities like Berlin, Frankfurt, Hamburg and Munich, which have increased by 40% YoY in 10M11
- Infra production has improved in 2011 as a result of stimulus. Despite resilient economic growth, local authorities keep focussing on sustainable budget consolidation and do not allocate extra money for investments in 2012 and beyond. Particularly roads and water supply projects will suffer, but Deutsche Bahn will invest EUR 4.5bn in maintenance in 2012. Moreover, renewable energy projects will be abundant (phasing out of nuclear power)

## German monthly production index (2005=100)



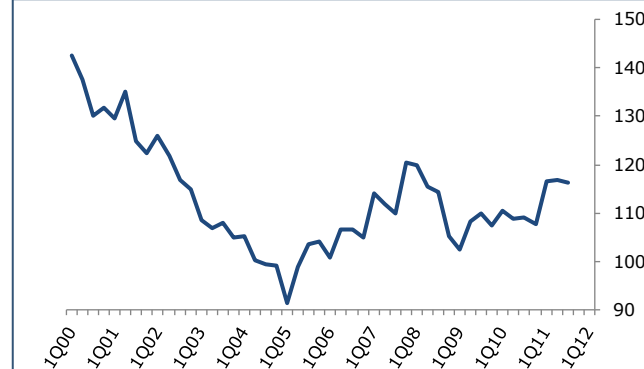
Source: Eurostat

## German construction production by sector (% Δ YoY)



Source: Euroconstruct

## German quarterly new orders index (2005=100)



Source: Eurostat

# Ireland: getting close to stable situation in 2012?

Cautious sparkle of early stage bottoming out process (non)-residential, infra remains in bad weather

## Encouraging signs in residential market after four and a half years of contraction

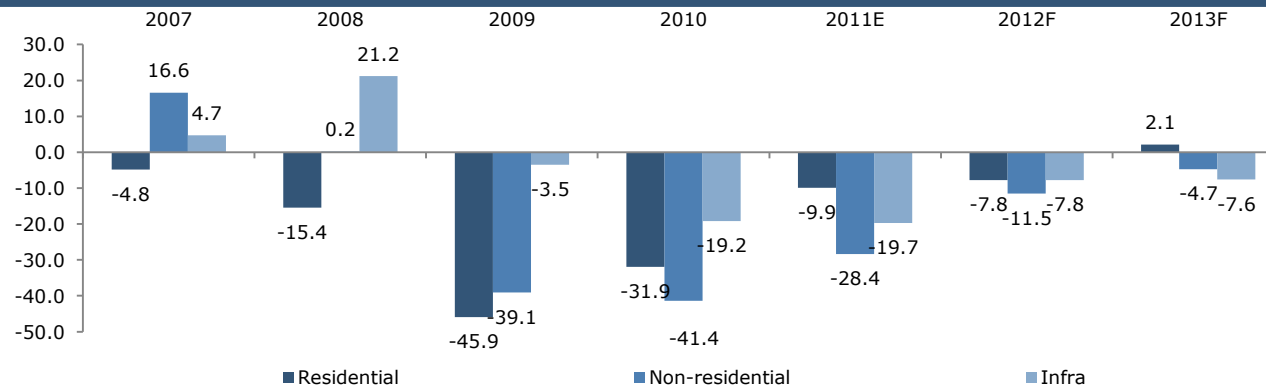
- In 2011 the number of housing completions declined by 20% to 7,000 homes, which is far away from the pre-crisis level of 90,000 homes. By 2007 the Irish building industry accounted for 25% of GDP, while currently this is only 6%. However, we expect that the situation has been normalised as all speculative property incentives have been halted and underlying statistics indicate (non)-residential activity to approach the 'zero' line
- The underlying activity indicator (not shown in graph) for the infra sector suggests that the sector continues to underperform. We think the forecasted decline in infra production might turn out to be stronger as EU sovereign debt woes are remaining and the US seems to report a weaker than expected recovery (Ireland's largest export partner). Lower growth implies lower tax revenues, demanding extra austerity measures, specifically in infra spending

## Irish PMI construction activity indicator



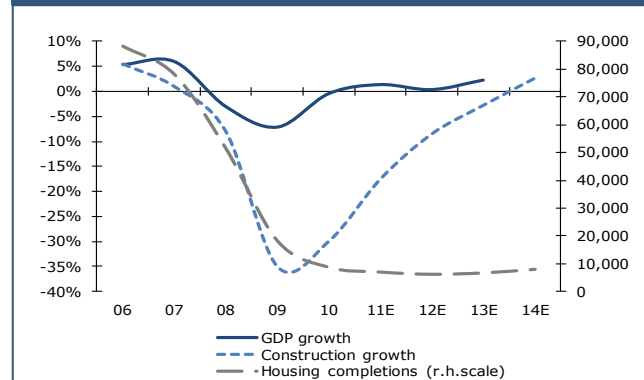
Source: Ulster Bank, Markit Economics

## Irish construction production by sector (% Δ YoY)



Source: Euroconstruct

## GDP, construction & housing completions



Source: DKM research, Euroconstruct

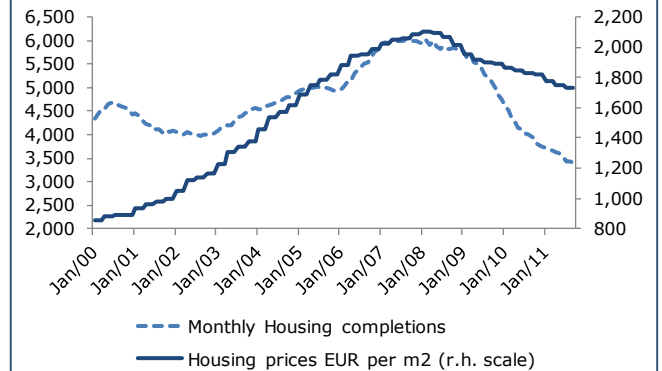
# Spain: still in the twilight zone in 2012

Banks frustrate residential purification, more cancellations in non-residential and infra

## Normalisation of housing market held hostage by Spanish banks with own property

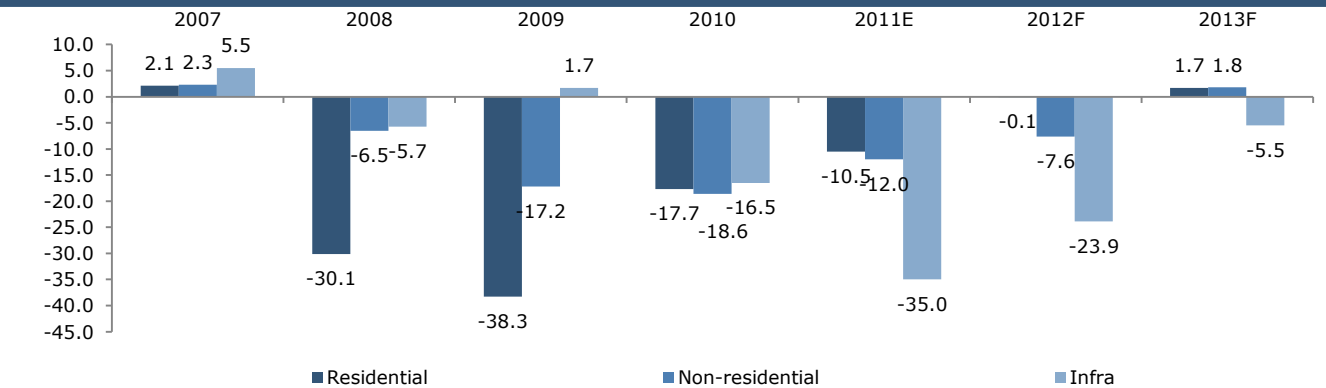
- In our opinion, Spain is far from being past the (residential) 'real estate bubble'. Home values have fallen by only 17% since Spain's residential property market peaked in 2008, according to government estimates. By contrast, Irish real estate prices have dropped 46% and U.S. values have declined 32% from their highs. Additionally, housing prices (see graph) only declined by 18% since the peak in January 2008. Banks seem to artificially keep prices high. Research by Bloomberg suggests that banks are forcing potential home buyers to purchase one of the bank's own assets and otherwise they will refuse to lend money for another home
- For the other construction categories, deficit reduction by the government is crucial for a return to growth. We do not expect the order index to pick up in the near term. Apart from PPP projects, many non-residential and infra projects will be put on hold or cancelled in 2012

## Housing completions & prices



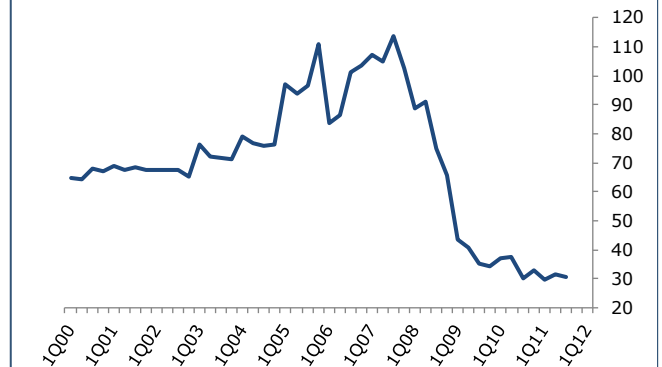
Source: National statistics Spain, (\*) 12 months moving average

## Spanish construction production by sector (% Δ YoY)



Source: Euroconstruct

## Spanish quarterly new orders index (2005=100)



Source: Eurostat

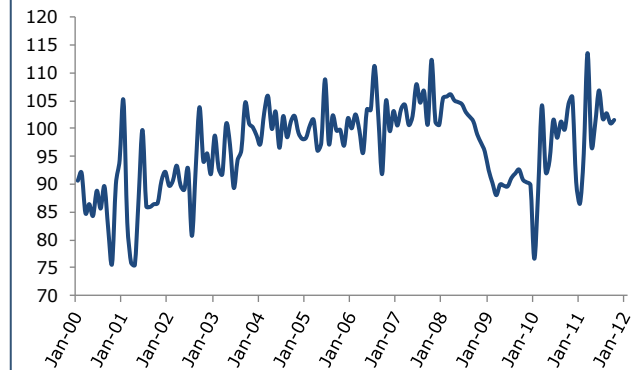
# UK: decline partly mitigated by powerful infra sector

Temporary dip infra sector due to completion large projects and lower road budgets

## Infra construction exceptionally strong, but PPP financing being scrutinized

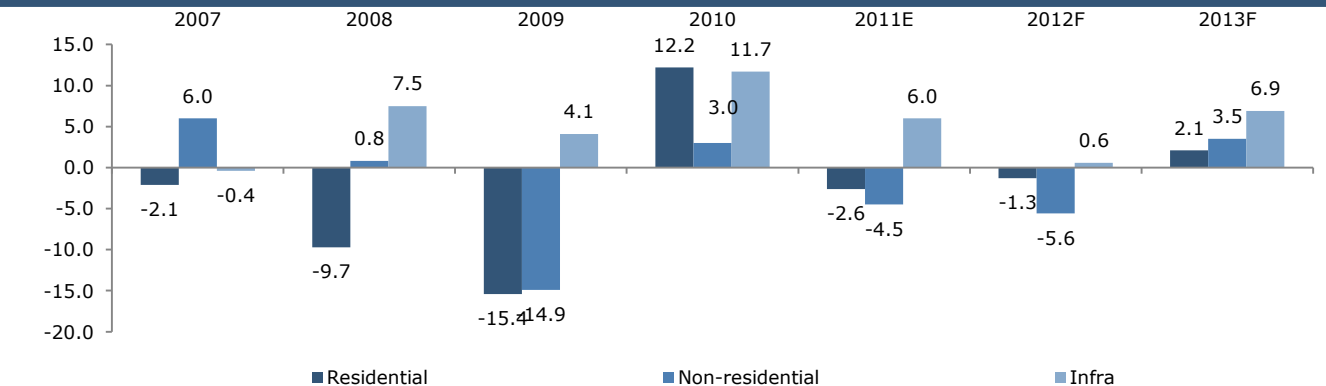
- The non-residential sector is accounting for a high proportion of construction output, namely 46%. Apart from the London area, cutbacks in public spending will affect non-residential activity. Moreover, cutbacks (>60%) in public housing policies and tighter mortgage credit conditions will be felt in 2012. Total construction production climbed up in 2011, but the relapse in the order book will be consumed, albeit with a delay in 2012
- Infra construction will keep increasing in the coming years, whereby the completion of e.g. the M25 road widening and the 45% budget cut (EUR 0.4 bn) by the Highways Agency need to be consumed in 2012. Prospects for railways, ports and power remain strong, although financing of projects might become more difficult as PPP financing is perceived as 'poor value for money' and existing projects are currently under review by the UK government

## UK monthly production index (2005=100)



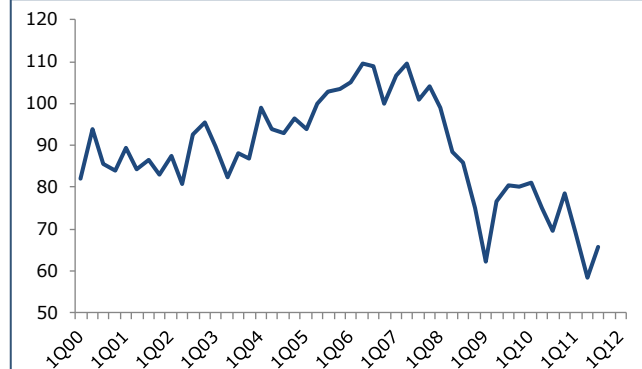
Source: Eurostat

## UK construction production by sector (% Δ YoY)



Source: Euroconstruct

## UK quarterly new orders index (2005=100)

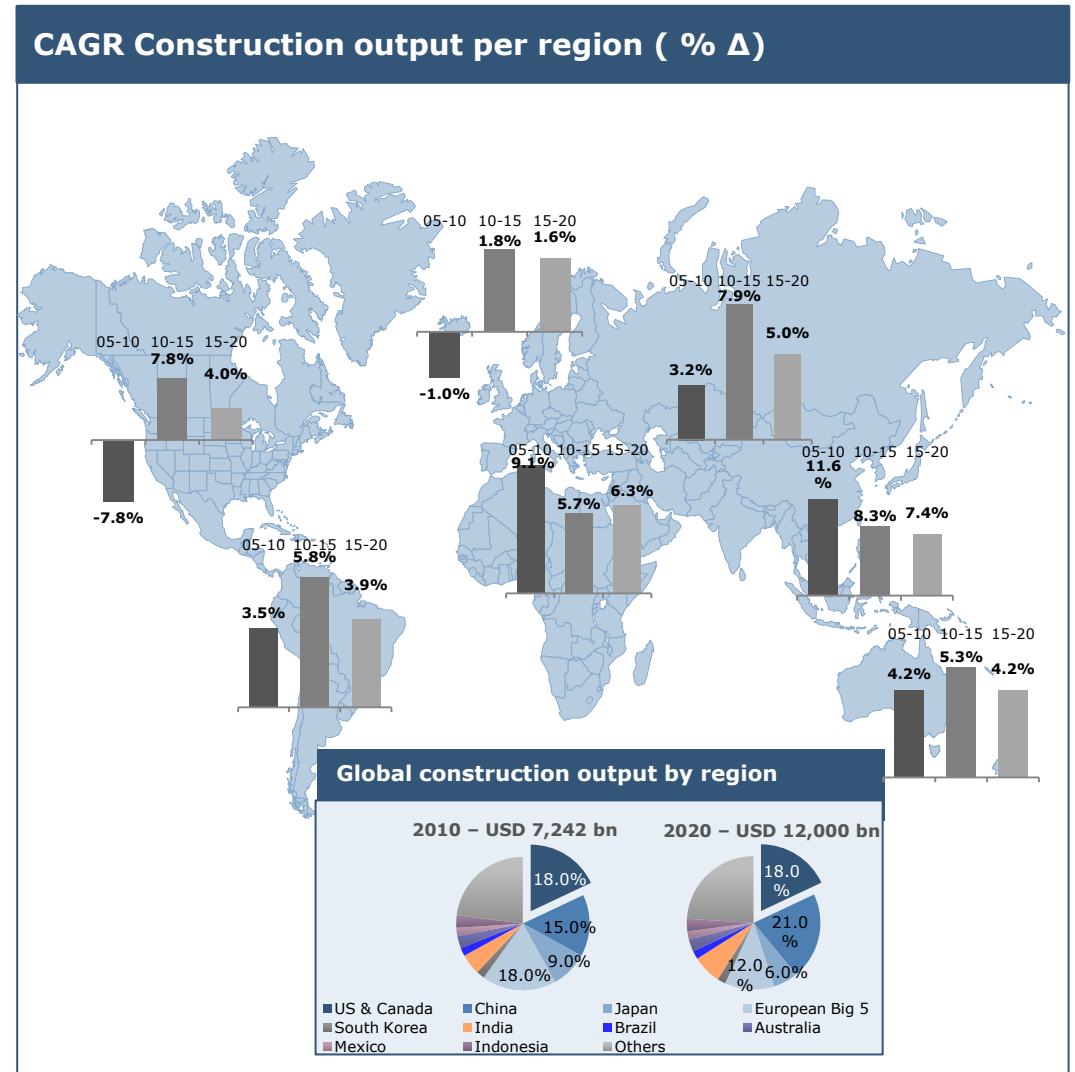


Source: Office for National statistics

# Discovering new horizons key for large European builders

Challenges are expansion in high growth regions and establishing an 'integrator' role

- As shown in the picture on the right, the construction growth pattern in (Western) Europe is strongly lagging behind other regions in the world. By 2020 China will be the largest construction market of the world (21%), followed from a distance by other developing economies (India, Brazil, Mexico, Indonesia) which jointly make up for 14% of global output. The share of the Big five European countries will shrink from 18% to 12%
- The ongoing increase in global trade and population implies that the majority of the future construction demand will be concentrated around new infrastructure works
- In order to maintain certain economies of scale (infra segment) and to remain one of the larger European contractors, companies need to expand into countries outside Western Europe
- Additionally, traditional construction activities will face strong competition from local consolidation in the medium sized companies segment. Large builders need to become service & project integrators, operating in a more high-level mode. Looking at other European countries, large constructors seem to have adopted the integrator role in a faster way than in the Netherlands
- All said, both challenges should be accompanied by strict risk management. For example the integrator role could imply a transition into an engineering contractors business model with increasing risks. If companies deliver proof of a sensible approach towards internationalisation and changing business models, this should be reflected in valuation multiples in due time



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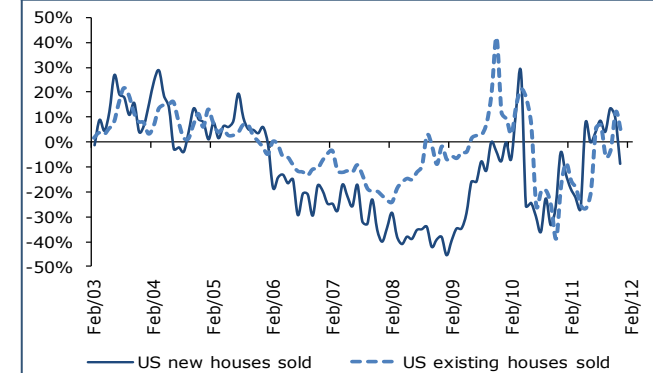
# United States: doubtful upward swing in housing

Rising sales existing homes, but ongoing pressure on home prices because of foreclosures

## Upward housing trend might be first sign of sustained economic recovery

- At its peak, residential construction accounted for 53% of total construction value, while currently it accounts for only 30%. Total residential construction output has increased by approximately 9% YoY in 2011, but monthly new home sales only really started to recover since 2H11. Total new home sales decreased by ca. 7% YoY in 2011, which is a strong improvement compared to the 15% decline in 2010
- However, the expected Euro zone recession and the gradual fiscal tightening are expected to slow economic growth in the United States during 1H12. The Fed seems prepared for further support for the US economy, still suffering from an 8.5% unemployment rate. The recent increase in credit card use, the relapse in new home sales in December and a foreseen ramp-up in foreclosures are important signals for worsening housing market conditions

## Monthly home sales (Δ % YoY)

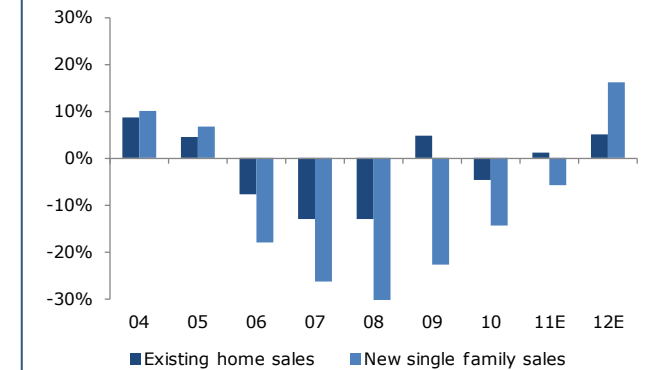


Source: National Association of Realtors, US Census Bureau

## Large quantities of vacant existing homes hampering firm construction resumption

- The US economy is expected to recover further in 2012 and according to the S&P/Case-Shiller index home prices seem to stabilise. However, the housing market remains weak, taking into account the ca. 14.5 million vacant homes, which is 11% of the total inventory. In the last three decades the vacancy rate has averaged around 8%. Before new built construction will firmly pick up, there are still 4 million homes 'in excess', leaving out the so called shadow pipeline of homes e.g. still being in the foreclosure process
- The outlook of the National Association of Realtors (see graph) looks a little bit too bright in the light of the described developments. Nevertheless, the recent increase US homebuilder sentiment looks promising. The NAHB/Wells Fargo Housing market index climbed to the highest level in four and a half years in January 2012, suggesting the worst might be over

## Outlook new & existing houses sold



Source: National Association of Realtors

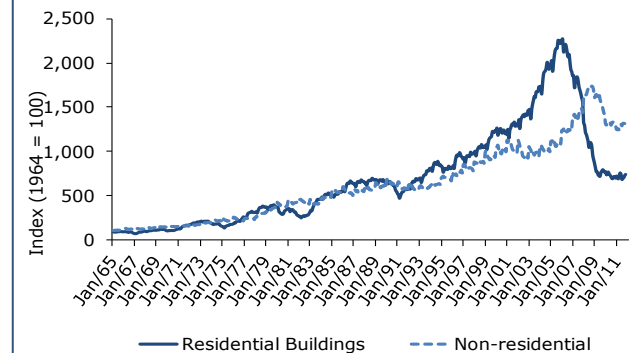
# United States: volume increase in all segments in 2012

## Residential construction instrumental in continuing construction recovery as of 2012

### Meagre non-residential construction growth questionable in 2012

- Total non-residential construction output likely slumped by 12-15% YoY in November 2011. The non-residential market kept up well until April 2009, but in 2010 it declined by 20% compared to a year earlier, after having declined by 12% in 2009
- Concerns over the economic outlook is acting as a drag on non-residential construction. Output in the near term will be limited to some extent by commercial developers who will slow construction on some projects already started and delay some projects scheduled to start because of dimmer prospects for profit when buildings are completed. Offsetting this will be continued by low long-term interest rates for those projects which can obtain funding
- Although demographics are driving demand for e.g. health care and educational buildings, state governments will have to deal with depleted budgets in 2012

### US residential & non-residential output

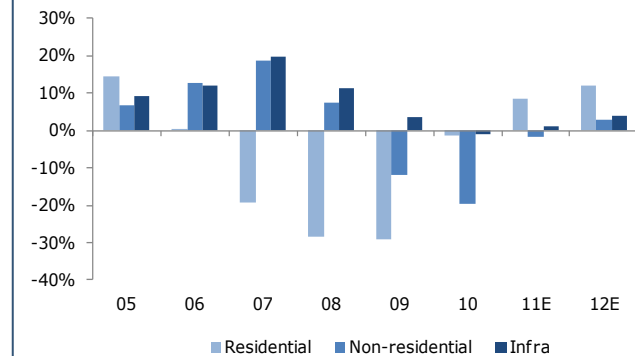


Source: US Census Bureau

### Elections likely to delay funding decisions in non-residential and infra

- Total US construction output increased by 2% YoY in 2011, which is indicating recovery compared to the YoY decline of -10% in 2010. Although total construction has grown, non-residential and infra have deteriorated
- Despite of projected growth in all construction segments in 2012 (see graph), the US market is far removed from a new peak. The total output of the construction market in 2012 will still be 24% below the peak realized in 2006
- A new spending impulse in non-residential and infra construction is not expected within the current federal election year. The Highway Trust fund could be cut by 35% when the highway bill will not be passed by Congress in March 2012. The forecasted 2012 construction growth by FMI of 6% is highly dependent on continued positive residential developments

### US Construction market outlook



Source: FMI Corporation, December 2010

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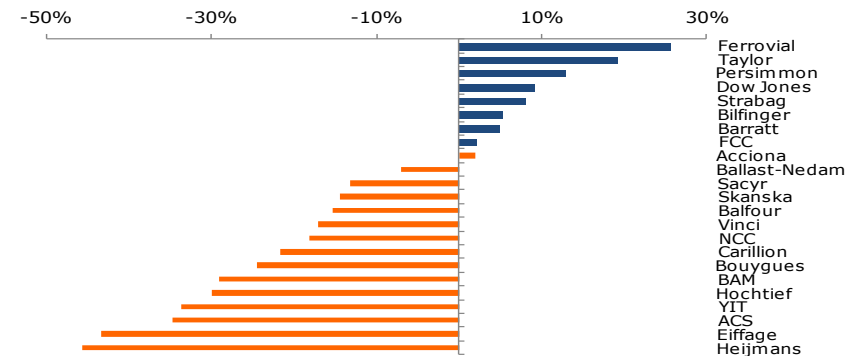
# Another meagre year for most listed companies in 2011

## More companies underperforming Dow Jones Index in 2011

### Further deterioration stock price performance in 2011

- After the disappointing performance in 2010, 2011 was weak again, albeit the performance during the year fluctuated with relative stabilisation in 1H11 and decline in 2H11. Measuring the share price performance in EUR, only three companies (2010: 8 companies) outperformed the Dow Jones index (see blue bars in graph); Ferrovial, Taylor Wimpey and Persimmon, whereas 20 companies underperformed, including all Dutch listed constructors
- Three Spanish stocks saw an increase in stock price: Ferrovial, FCC and Acciona. In general, stock prices rose due to cost cutting, international strength, non-core spin-offs and PPP projects

### Change in share prices (% Δ YoY in 2011)

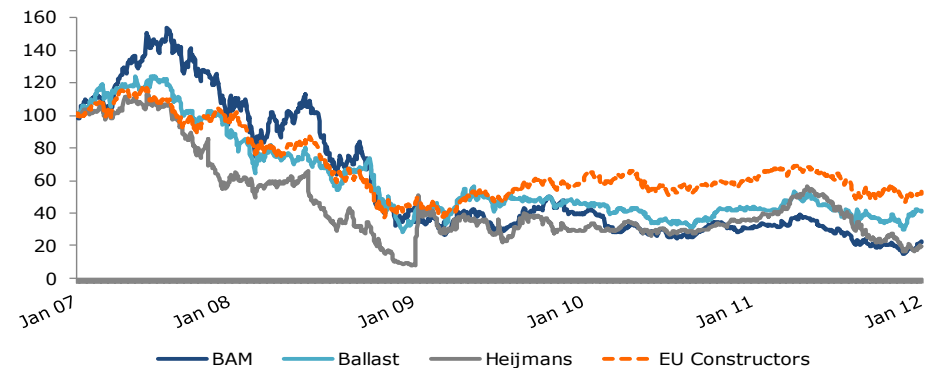


Source: Datastream

### Dutch constructors underperforming European peers

- All Dutch construction companies underperformed the Dow Jones Index in 2011, particularly Heijmans (46%) following continued weak performance in the property and non-residential activities. However, Ballast (-7%) outperformed its European peers (-13%) thanks to the company's project wins in infra and expansion in profitable niches
- In general, weak share price performances can mainly be explained by weak national trading conditions in combinations with event driven news (e.g. alleged fraud, delays in selling non-core assets)

### Relative share price performance (in 2007-2012)



Source: Datastream

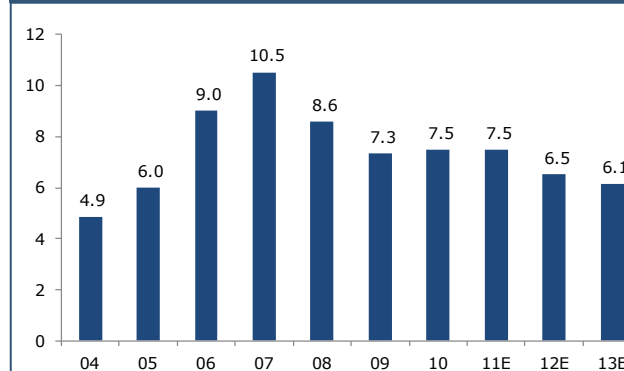
# Lower multiples due to weak earnings growth perspectives

Cost cutting initiatives will not be followed by a quick market recovery

## EV/EBITDA levels reflecting slowing recovery of European markets

- The EV/EBITDA multiple of the top European construction companies stood at 8.0 for 2010 and at 7.7 for 2011 in December 2010. Currently the multiple is 7.5 for both 2010 and 2011, confirming the less strong than expected recovery of earnings in European markets. This is well below the peak of 10.5 in 2007, but well above the 4.9 in 2004
- The EV/EBITDA multiples in the period 2009-2011 were rather stable. In 2009 total EBITDA dropped in line with the total company's EV. In 2010-2011 the EV increased due to an increase in market caps. EBITDA growth was more or less in the same range as EV growth
- On the back of further cost cutting and the bottoming out of European construction markets, low EBITDA growth in 2012 is foreseen, and therefore the sector's EV/EBITDA multiple is somewhat lower in 2012 and 2013

## European construction: EV/EBITDA

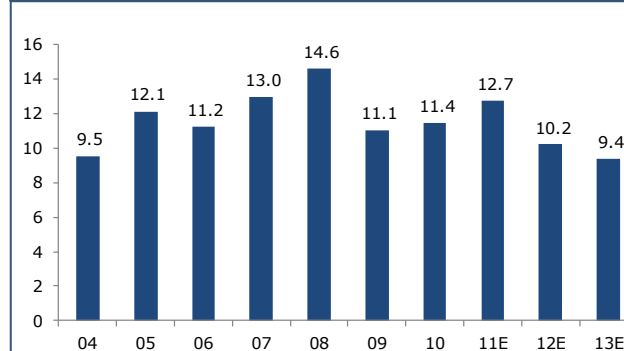


Source: Bloomberg consensus estimates

## P/E ratio moving further away from peak level in 2008

- The European constructor's 2011 P/E and 2012 P/E stand at 12.7 and 10.2, respectively, expectedly diving under 2004 levels in 2013 and are well below the peak of 14.6 reached in 2008. The peak in 2008 was caused by sharply lower earnings, whereby the share price decrease lagged behind
- The decline in P/E ratio in 2012 likely will be driven by an improvement in earnings (net profits), while a sluggish recovery of construction markets is expected, possibly reducing forecasted future earnings growth and thus current pricing levels

## European construction: P/E



Source: Bloomberg consensus estimates

# Valuation multiples reflect meagre years of recovery

## Increasing divergence among Dutch players

### Multiples indicate sector is not out of the woods yet

- Spanish construction companies still report high EV/EBITDA multiples as they are still suffering from the depressed local markets which have practically come to a standstill
- Disappointing figures and a profit warning released by BAM led to weak share price performance in 2011. However, there seems to be market consensus that most unpleasant, but necessary measures have been taken
- Although Ballast-Nedam reconfirmed its operational earnings outlook for 2011 in October 2011, the company's share price steadily declined until year-end 2011. In the last 10 days of 2011 the share prices was boosted by the announced sale of the Canadian leisure resort and the capacity reduction within the regional infra companies
- Heijmans issued some unpleasant surprises in its 3Q11 trading update, while it was expected that the company would finally be able to reap more fruits of its LEAN SixSigma programme, focussed on efficiency and cost reductions
- Looking at 2012 P/E multiples, the multiples of BAM and Heijmans are substantially below the average of the total sector. Regarding EV/EBITDA multiples, BAM and Ballast-Nedam's 2011 multiples exceed the sector's average due to the estimated relatively weak earnings levels in 2012

### Ranking European listed construction companies

Company	EV/EBITDA			P/E		
	2011E	2012E	2013E	2011E	2012E	2013E
Vinci	6.5	5.9	5.6	11.5	10.2	9.8
Bouygues	3.8	3.3	3.1	8.8	6.6	6.1
Hochtief	5.0	2.6	2.4	-46.0	10.6	10.0
Skanska	6.6	7.1	6.6	13.4	14.1	13.0
Ferrovial	13.2	13.8	13.4	41.3	76.6	53.6
Eiffage	8.6	7.5	7.0	13.1	7.1	6.0
Strabag	3.3	3.5	3.4	12.9	13.7	13.3
Balfour Beatty	4.9	4.5	4.4	8.4	8.0	7.4
BAM	8.6	7.8	7.1	7.5	6.4	5.8
Bilfinger Berger	4.6	4.6	4.5	10.1	12.9	13.0
ACS	8.6	5.5	5.2	9.9	7.4	7.0
FCC	7.5	7.4	7.2	9.8	11.8	11.7
Taylor Wimpey	8.2	6.8	5.4	16.2	14.6	10.9
NCC	7.9	6.0	5.6	6.6	4.6	4.9
Sacyr	22.4	20.1	18.7	47.3	9.2	7.9
Carillion	6.9	5.3	4.8	8.9	7.0	6.6
Barrat Developments	7.1	5.6	4.4	13.6	8.6	5.8
Persimmon	8.5	7.5	6.3	13.1	11.2	8.7
Acciona	8.3	7.8	7.2	24.1	20.7	15.5
Heijmans	6.5	3.5	2.7	15.0	5.2	3.8
YIT Corporation	10.4	7.5	6.4	14.3	9.8	8.3
CFE	4.2	3.7	3.3	8.7	7.9	7.1
Ballast Nedam	9.2	8.4	7.8	15.2	14.8	10.2

Source: Bloomberg, consensus estimates

# Equity research – BAM Groep (Buy, PT EUR 5.00)

## Performing well in difficult markets

### Company profile: strong position in The Netherlands and the UK

- BAM is the largest construction and infrastructure company in the Netherlands with annual revenues close to EUR 8bn. Next to the Netherlands, the company has home market positions in the UK, Belgium, Germany and Ireland. In addition, 4% of total group sales is realised in other regions (ROW) like Eastern Europe, Middle East, Africa and Asia with its subsidiary BAM International (infrastructure and building) and Consultancy & Engineering subsidiary Tebodin. BAM has a strong position in the West European PPP market. Recently BAM divested its 21.5% stake in dredging company Van Oord for EUR 185m and the company stated that Tebodin is up for sale.

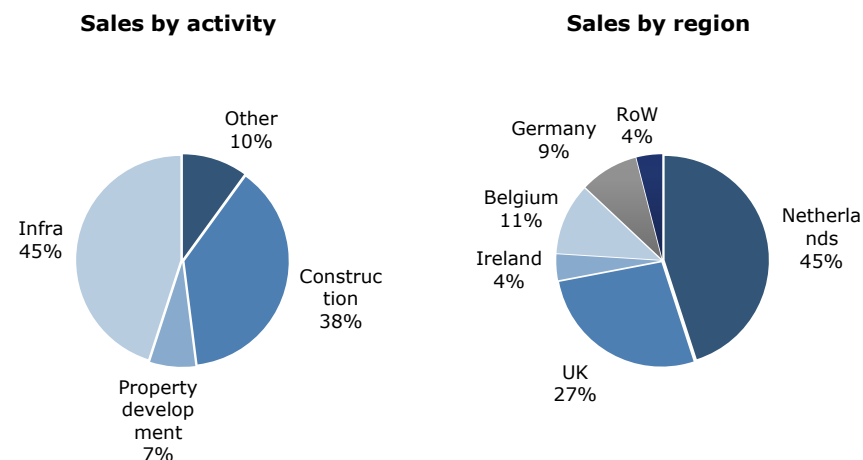
### Investment case

- BAM is a deep value investment for investors with a high risk appetite and relative long investment horizon. We expect that the building, infrastructure and property development markets will remain under pressure in 2012 and 2013. Triggers are: 1) The divestment of consultancy & engineering company Tebodin in 2012 Q1 (we estimate the proceeds at EUR 120m), 2) A continuing positive earnings contribution of the Infrastructure and Building divisions and an around break-even result in property development in the years to come, 3) Progress in divesting Property Development assets (Q3: EUR 1,626m). We expect that divesting EUR 150m is a realistic scenario until the end of 2013. 4) Landing of new PPP projects, 5) Divestments of PPP equity stakes. Management expects additional divestments to PGGM in 2012 and 2013.

### Valuation: sum of the parts indicate fair share price of EUR 5.00

- Our detailed sum of the parts analysis, based on 2013 (substantially below mid cycle) earnings and an additional 30% write off on the book value of the property development assets, arrives at a fair value of EUR 5.60. The free cash flow yield is approximately 15-20% per annum (before investments in PPP projects and including on average EUR 50m proceeds due to the divestment of property development assets). Based on the recent divestment of Van Oord we believe that the EUR 0.15 cash dividend for 2011 is secured, and that the company might even decide to slightly lift its payout to investors.

### Breakdown of sales (2010)



Financials	2010	2011E	2012E	2013E
Sales (EUR)	7,611	7,735	7,446	7,299
EPS recurring (EUR)	0.48	0.54	0.46	0.40
P/E recurring	7.0	6.2	7.3	8.4
FCF Yield (%)	4.3	15.5	16.2	15.6
EV/EBITDA	7.1	6.3	7.6	9.1
Dividend yield (%)	0.9	4.5	4.5	4.5

# Equity research – Heijmans (Reduce, PT EUR 8.50)

## Several activities are currently loss making

### Company profile

- Heijmans is one of the largest Dutch construction companies with a strong position in residential property development (top 3 player). Heijmans also has a strong market position in Dutch infrastructure and road building and is active in technical services and non-residential construction. In addition, the company is active in Germany (infrastructure & building) and Belgium (mainly infrastructure). The last years, Heijmans increased its focus on risk management and reduction of the net debt level.

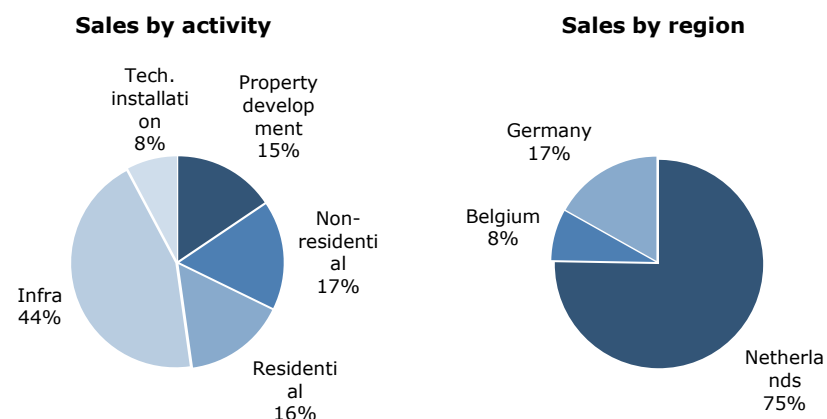
### Investment case

- Heijmans surprised the market in a negative way in 2011 at the publication of the 2011 H1 results and the 2011 Q3 trading update. For 2011, Pre fab production, Oevermann (Germany) and non-residential construction (again) are expected to be loss making. In addition, the company announced it will take some minor write-offs on its land bank (invested capital 2011H1 EUR 512m). This means that Heijmans will show only a small profit in 2011 while markets are expected to deteriorate further in 2012 and 2013. Going forward, we like to see some more proof that management is in control and in our view the risk profile is rather high, also due to the still high exposure to the very difficult local construction market, the high exposure to the troubled Dutch housing market and the announced change of management. We reiterate our Reduce rating and PT of EUR 8.50 based on the dented execution track record and risk profile.

### Valuation

- Heijmans is trading at undemanding multiples, however the fact that the company fails to report black figures in the current difficult market is somewhat worrisome. In addition, like some of its peers Heijmans never took a substantial write-down on the book value of its Property Development assets. The weak results also implies that our dividend forecast of EUR 0.35 per share is uncertain.

### Breakdown of sales (2010)



Financials	2010	2011E	2012E	2013E
Sales (EUR)	2,680	2,433	2,359	2,314
EPS recurring (EUR)	1.10	0.85	1.03	1.11
P/E recurring	11.8	9.8	8.1	7.5
FCF Yield (%)	42.8	-13.7	16.2	20.0
EV/EBITDA	4.8	6.4	5.7	5.2
Dividend yield (%)	4.2	4.2	4.4	5.0

# Equity research - Ballast Nedam (Hold, PT EUR 15)

## Shifting to higher added value activities

### Company profile

- Ballast Nedam is a Top-Six Dutch construction company, mainly active in the Netherlands (c. 95% of sales). The company operates in property development and construction (both housing and non-residential), and civil engineering. In the past few years, management has entered and expanded in niche segments such as offshore wind energy, sand & gravel trading, a natural gas distribution network and public private partnerships to broaden its portfolio and to become less dependent on (local) construction markets. However, construction and infrastructure remain by far the dominant activities.

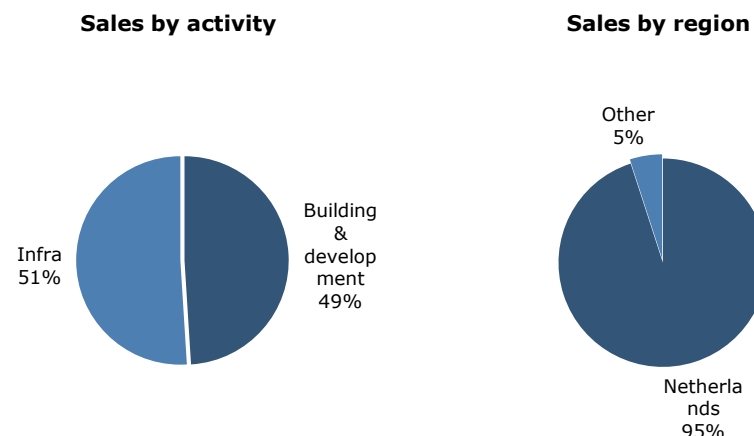
### Investment case

- We expect that earnings momentum will remain poor due to the continuing weakness of the Dutch construction markets. This has also a negative effect on the performance of the (specialist) niche activities. However, we conclude that management is in control in difficult market circumstances. The expansion towards higher profit generating niche activities is growing steadily and especially the offshore windfarm business is growing fast. Clear trigger could be a modest improvement of the Dutch residential market and further industry consolidation.

### Valuation

- Ballast Nedam is trading at an attractive valuation if we take into account the relatively successful expansion towards higher added value niches and an increasing focus on more complicated/higher margin projects. The free float and market capitalization is only limited, which is a hindering factor for potential new investors. We reiterate our Hold rating and price target of EUR 15.

### Breakdown of sales (2010)



Financials	2010	2011E	2012E	2013E
Sales (EUR)	1,359	1,343	1,358	1,409
EPS recurring (EUR)	0.80	0.95	0.96	1.40
P/E recurring	16.3	14.3	14.1	9.7
FCF Yield (%)	n.m.	2.1	3.9	7.2
EV/EBITDA	8.5	6.3	6.2	5.3
Dividend yield (%)	2.6	3.2	3.3	4.9

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# Contact details

## **Rabobank international**

Corporate Clients Netherlands  
Industry Knowledge Team

### Visiting address

Croeselaan 28  
3521 CB Utrecht

### Postal address

P.O. Box 17100  
3500 HG Utrecht  
The Netherlands

Leontien de Waal

Industry analyst

T. +31 30 712 2718

M. +31 62 029 0481

E. [Leontien.de.Waal@rabobank.com](mailto:Leontien.de.Waal@rabobank.com)

Richard Brakenhoff

Industry analyst

T. +31 30 712 2715

M. +31 62 383 4591

E. [Richard.Brakenhoff@rabobank.com](mailto:Richard.Brakenhoff@rabobank.com)

Michel Aupers

Equity analyst

T. +31 30 712 4462

E. [Michel.Aupers@rabobank.com](mailto:Michel.Aupers@rabobank.com)

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