# CRH

**Materials**
**NYSE: CRH**
**Market Outperform | Buy**

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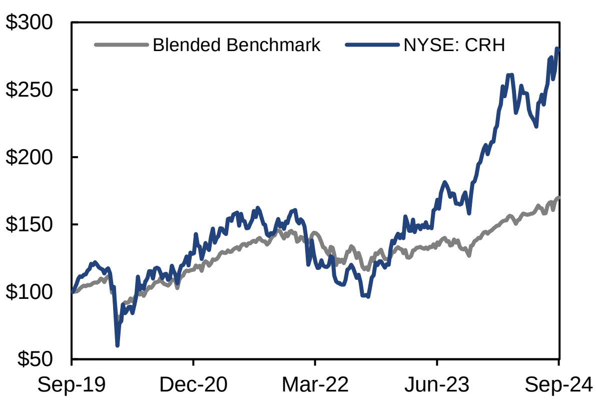
| Return on Investment | |
|---|---|
| Current Share Price | $92.74 |
| Target Price | $101.00 |
| Dividend Yield | 1.50% |
| Implied Return | 10% |
| Conviction Rating | 1 |

| Market Profile | |
|---|---|
| 52-Week Range | $51.59-$94.14 |
| Market Capitalization (US$mm) | $63,535 |
| Net Debt (US$mm) | $11,572 |
| Enterprise Value (US$mm) | $75,833 |
| Beta (5-Year Monthly) | 1.38 |

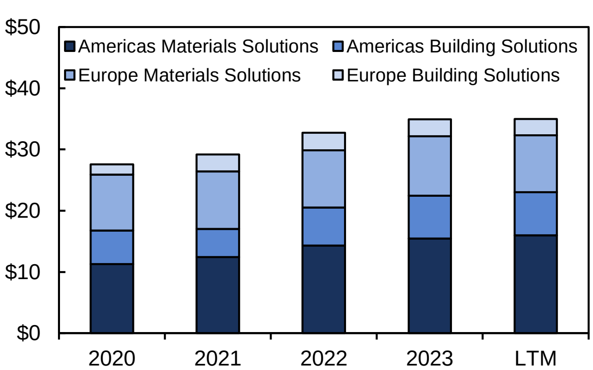
| Metrics | 2023A | 2024E | 2025E |
|---|---|---|---|
| Revenue (US$mm) | $34,949 | $38,115 | $41,622 |
| EBITDA (US$mm) | $6,123 | $6,485 | $7,009 |
| EPS | $4.33 | $5.05 | $5.51 |
| EV/EBITDA | 12.4x | 11.7x | 10.8x |

**Historical Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: Revenue Segmentation (US$B)**




Source: Company Filings

## Business Description

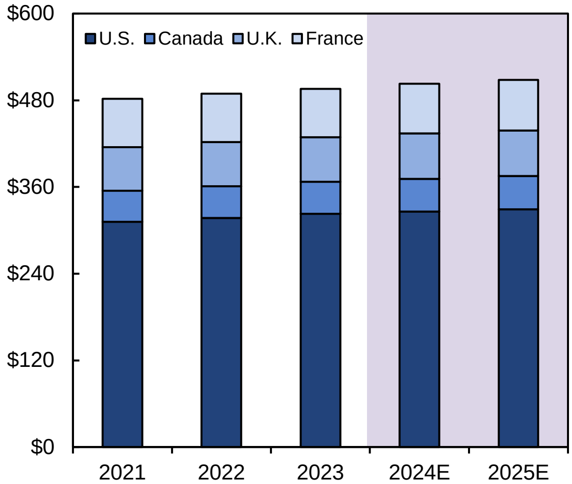
CRH plc (NYSE: CRH) is a leading global provider of building materials solutions, with operations in 28 countries across four continents, headquartered in Dublin, Ireland. The Company is one of the largest manufacturers and distributors of aggregates, cement, concrete, asphalt, and other heavy building materials, as well as a major contractor of public infrastructure projects. CRH operates through four segments: (1) Americas Materials Solutions, (2) Americas Building Solutions, (3) Europe Materials Solutions, and (4) Europe Building Solutions. The Materials Solutions segment provides solutions for the construction and maintenance of public infrastructure and commercial and residential buildings. The Building Solutions segment combines materials, products, and services for use in the building and renovation of utility infrastructure, commercial and residential buildings, and outdoor living spaces. These two functional methods of operation are further subdivided by geography.

## Industry Overview

CRH's core business is in the manufacturing and distribution of heavy construction materials, competing primarily with North American aggregate and concrete producers. Major operators in North America, including Eagle Materials (NYSE: EXP), Martin Marietta (NYSE: MLM), Summit Materials (NYSE: SUM), and Vulcan Materials (NYSE: VMC), produce cement aggregate by quarrying sand, gravel, and crushed limestone and granite.

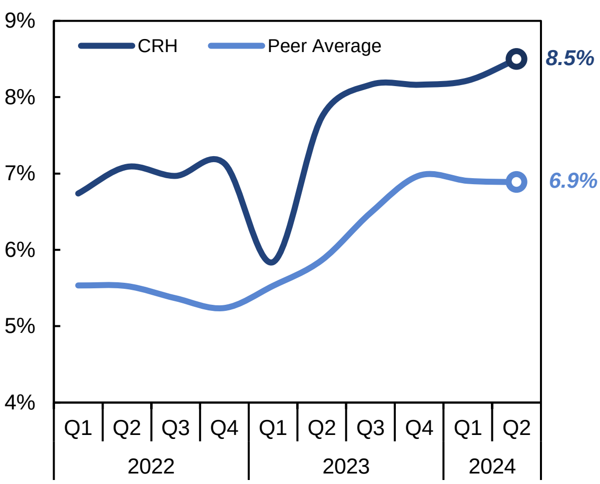
Aggregate pricing is sensitive to public and private infrastructure spending, as well as commercial and residential construction rates. Consequently, pricing fluctuates by region, creating heavy incentives to diversify operations and buy into competitive construction markets. Since aggregate producers are price takers, major operators must compete on a pricing basis to remain regionally competitive and frequently engage in M&A to achieve economies of scale and access strategic distribution locations. Acquisition activity has reached peak levels in 2024, as major operators have increasingly focused on bolstering existing infrastructure with both geographically diverse and synergistic assets. Aggregates are combined with cement and water to produce concrete, with ready-mix concrete being the most commonly used type in construction. CRH, CEMEX (NYSE: CX), Holcim Group (SWX: HOLN), and Heidelberg Materials (ETR: HEI), are some the largest producers of concrete in North America and Europe, and vertically integrate all levels of the value chain to maintain pricing power and market share. CRH is one of the only vertically-integrated majors to also provide infrastructure building solutions to end markets, competing with operators such as Aecom (NYSE: ACM) and Sterling Infrastructure (NASDAQ: STRL) over contracted infrastructure developments, such as critical utilities (water, energy, and telecommunications), road infrastructure, and maintenance solutions. Vertical integration in this sector remains highly competitive, as cyclical exposure in end markets such as residential and commercial construction have placed high pressure on smaller operators to streamline business lines. This has allowed major operators to acquire assets at accretive valuations and realize benefits from country-wide high aggregates and concrete pricing.

**Figure 2: U.S. & Europe Infrastructure Spend (US$B)**



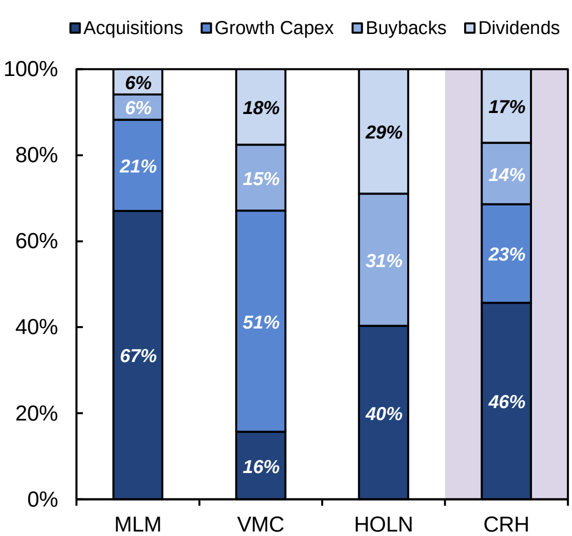

Source: G20 Global Infrastructure Outlook

**Figure 3: ROIC vs Peers**




Source: S&P Capital IQ

**Figure 4: Capital Allocation Outlook vs Peers**




Source: Company Filings

Major infrastructure investment programs in the U.S. and Europe, such as the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the European Green Deal, have contributed to significant increases in construction and maintenance backlogs for major international operators. In the U.S., the IIJA and IRA represent over US$800B in new-build funding and over US$600 in planned funding for critical infrastructure and energy transition initiatives. The vast majority of funding allocated to Department of Transportation projects in states with increasingly high infrastructure loads, due to EV's and population growth, has sparked a "golden age" for U.S. heavy materials contractors. This has fueled intense commercial competition among operators for the capital, with major operators with proven track-records poised to benefit the most.

## Acquisition Strategy

In July 2024, CRH completed the acquisition of a majority stake in Adbri, a leading building materials business previously listed on the Australian Securities Exchange. The Company acquired 57% of Adbri at a 9.0x EV/EBITDA multiple, with the remaining ownership retained by the private Barro Group company. This acquisition is expected to create additional avenues for growth and development in CRH's existing Australian business.

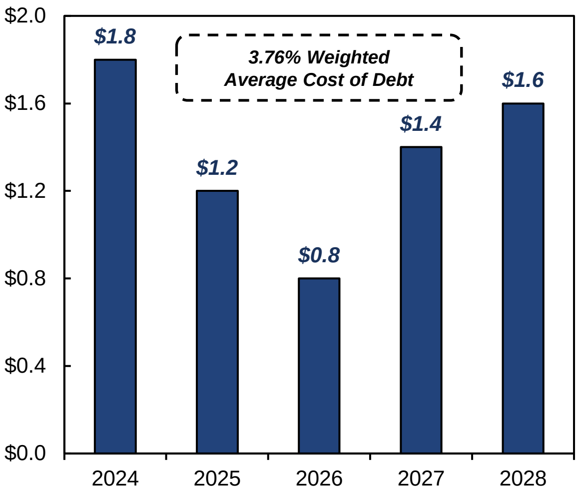
During Q1 2024, CRH acquired Hunter, a portfolio of cement and ready-mixed concrete assets and operations in Texas, for total consideration of ~US$2.2B. The Company also made seven smaller acquisitions to expand exposure toward developing its integrated solutions strategy in the areas of road infrastructure, critical utility infrastructure, and outdoor living.

## Mandate Fit

**Quality Management:** Albert Manifold assumed the role of CEO in 2014 after 16 years with CRH, during which he held a variety of senior positions. Although Manifold is set to retire at the end of 2024, CRH has a strong succession plan in place, with current CFO Jim Mintern set to take the CEO role in 2025. Mintern has over 30 years of experience in the building materials industry and 22 years with CRH, during which he led the 2023 transition of the Company's primary listing to the NYSE. CRH intends to ease the transition by keeping Manifold on as a strategic advisor to the Company for one year after his departure. Manifold and Mintern's 2023 compensation were 85% and 83% at-risk, respectively.

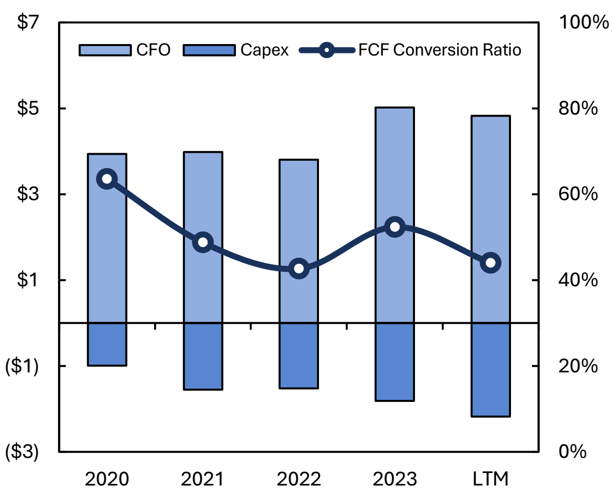
**Competitive Advantage:** CRH's competitive advantage is driven by its vertically integrated, end-to-end, solutions-based business model. In contrast to many heavy materials producers and infrastructure developers, who split the contracting process into materials, engineering, and construction, CRH is uses its scale as the largest aggregate producer, asphalt paver, and concrete producer in the U.S. to provide one-stop-shop solutions for state and federal transport and infrastructure projects. As such, the Company has achieved significant operational expertise in transportation contracting, and has built out a dominant position of assets in both the U.S. and Europe. This has rewarded CRH with a historically premium ROIC vs pure-play peers. CRH has also established leading positions in high-growth markets in the U.S., particularly Texas and Florida, which have experienced a major influx of interstate migration from high cost-of-living geographies. Among the Company's North American peers, CRH stands to benefit the most from both the necessary increase in public infrastructure spend and increase in residential construction in high-growth states. Additionally, aging transportation and utility infrastructure (cont'd)

**Figure 5: Debt Maturity Schedule (US$B)**



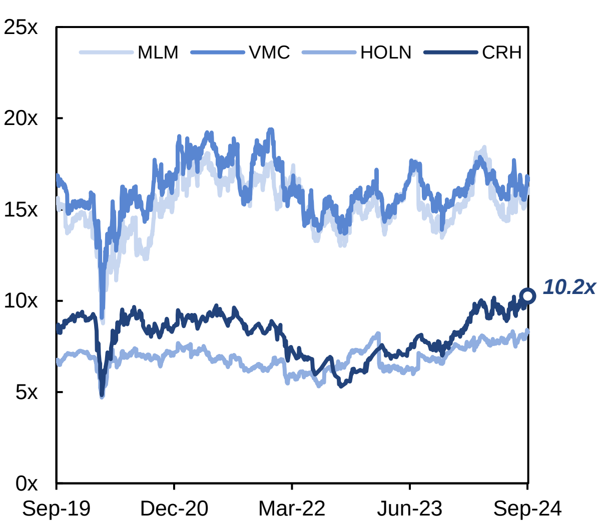

Source: Bloomberg, Company Filings

**Figure 6: LHS CFO & Capex (US$B) vs RHS FCF Conversion**




Source: S&P Capital IQ

**Figure 7: NTM EV/EBITDA vs Peers**




Source: S&P Capital IQ

across the U.S. are poised for replacement and heavy subsidization by the IRA and IIJA acts. By facilitating the raw materials and building materials production, logistics, design, and construction of infrastructure developments, CRH simplifies the public-private contracting process by being a one-stop-shop contractor.

**Strong Balance Sheet:** CRH possesses a Net Debt/EBITDA ratio of 1.6x and an interest coverage ratio of 13.7x, relative to peer averages of 2.1x and 12.3x, respectively. The Company ended Q2 2024 with ~$US3B in cash and equivalents, which is sufficient to meet all maturing debt obligations within the next year. CRH also has ~US$4B in undrawn credit facilities which are available through 2028. The Company possesses BBB+ stable and Baa stable credit ratings from S&P and Moody's, respectively.

**Growing FCF:** CRH has demonstrated a robust track record of financial discipline, with a FY2023 FCF conversion ratio of 53%. The Company's US$35B five-year capital allocation plan includes up to US$24B, or ~70%, allocated towards acquisitions and growth capex. The remaining 30%, or US$11B, is expected to be distributed to investors through dividends and share buybacks. In FY2023, CRH returned over US$3B to shareholders via buybacks and is on track to repurchase over US$1B in FY2024.

## Risks

**Regional Cyclicality:** As infrastructure development is regionally and nationally cyclical, CRH's end-to-end development model is exposed to fluctuations in public infrastructure and private construction spending. Aggregates, cement, and concrete cannot be transported on a cost-effective basis over long distances, so contracted work is subject to regional economics. CRH mitigates this through high geographic diversification across North America and Europe, across a multitude of critical infrastructure end-markets.

**Public Infrastructure Spending:** Federal and State government spending on infrastructure projects is a key driver of CRH's financial performance. Political shifts causing reductions in critical infrastructure spending or delays in government-funded programs could lower demand for CRH's base materials and contracted services. Recent major allocations of government funding for public infrastructure programs includes the relevant elements of the IIJA, IRA, and CHIPS act in the U.S., as well as European initiatives.

## Investment Thesis

CRH was valued at US$101 using a five-year DCF with a WACC of 8.5%. The terminal value was determined using a 50/50 blend of (1) the Gordon Growth method, using a terminal growth rate of 2.5%, and (2) an EV/EBITDA exit multiple of 12.0x.

The CPMT favours CRH's dominant position in the U.S. and Europe's heavy building materials and infrastructure development market. The Company's vertical integration and strategic assets in key growth regions in the U.S. stand to significantly outperform peers in the current public infrastructure investment environment. Structural population shifts into CRH-dominant markets, North American nearshoring trends, and increased state and federal funding for critical infrastructure serve as strong tailwinds for the Company. The Fund believes that CRH's building materials and infrastructure solutions are undervalued at the current NTM EV/EBITDA multiple of 10.2x relative to U.S. aggregate peers at 15x. As such, the CPMT believes CRH's strong capital allocation strategy, clean balance sheet, and dominant asset base will realize significant multiple expansion in the long-term.