



Cementir Holding

Cement & Aggregates / Italy

Value in white

Initiation cov. - 02/08/2019

The core of Cementir business model is to combine the higher growth and margin potential of white cement, a niche market of some 20mt of production, with grey cement, aggregates, ready-mixed concrete and waste activities.

We initiate coverage of Cementir with a Buy recommendation and c.40% upside.

Cementir has a c.€1bn market cap.

Business model and market cap

Cementir is about white cement, a niche that offers growth and better margins as a higher value-added product. It controls 20% of the addressable market.

Cementir makes money because it is a specialist in a niche business too small for mega players to invest in. The white cement niche is seeing steady growth but white cement is relatively scarce and thus can command higher prices and as a result can be exported, which is unusual in the commodity side of construction materials. While part of the higher realisation prices is absorbed in higher energy costs, the business is intrinsically a better FCF generator than the grey variety. The company appears to have been nimble in expanding by acquisition and extending its network (and thus its logistics efficiency), has been careful about capital spending and the management is good at running a mid-sized operation. The obvious limit is that with 20% of the white cement market already, growing more rapidly than the market is likely to entail declining ROCEs.

The white cement business model is similar to that of Sika and Imerys. The family-controlled business appears to be run as a tight ship with a long-term view.

Cementir has a c.€1bn market.

Recommendation, upside and main earnings drivers

We initiate coverage of Cementir with a Buy recommendation and c.40% upside.

Main earnings drivers:

- A stable Denmark and Belgium/France (about 40% of grey and white cement capacity combined) should continue to offer the company the ability to deploy cash in other countries thanks to a very high cash conversion rate.
- Improvements expected in Turkey (some 40% of grey and white cement capacity) and Egypt (8% of grey and white cement capacity) over the coming years: in Turkey, a bottom should have been reached in Q2 19 and Q3 19 should be better with a slightly positive profitability thanks to the replacement of the CEO and the implementation of a cost-cutting exercise of about €10m; while Egypt is about white cement, namely an export-driven business, and where the number of players has fallen from three to two meaning a price increase is fairly likely.
- Integration of LWCC, a US white cement company, with sales synergies (used as an import hub for Egyptian and Danish exports) and re-positioning through pricing actions in order to gain market share and reach



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AlphaValue is contracted by Cementir Holding to provide equity research on Cementir Holding, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

Buy **Upside: 38.8%**

Target Price (6 months) € 8.67

Share Price € 6.25

Market Cap. €M 995

Price Momentum **GOOD**

Extremes 12Months 4.56 ▶ 6.85

Bloomberg CEM IM Equity

Reuters CEMI.MI


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PERF	1w	1m	3m	12m
Cementir Holding	-4.29%	-2.04%	-1.16%	-8.77%
Building Prod. & Materials	-2.88%	-3.46%	-4.37%	-1.83%
STOXX 600	-0.47%	-0.41%	-0.94%	-0.55%

Last updated: 02/08/2019	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	8.92	12.9	10.9	9.80
Dividend yield (%)	2.24	2.24	2.24	2.24
EV/EBITDA(R) (x)	5.71	5.38	4.82	4.31
Adjusted EPS (€)	0.70	0.48	0.57	0.64
Growth in EPS (%)	8.63	-31.0	18.8	10.9
Dividend (€)	0.14	0.14	0.14	0.14
Sales (€M)	1,196	1,250	1,278	1,309
EBITDA/R margin (%)	19.9	20.0	20.5	20.8
Attributable net profit (€M)	127	77.0	91.5	101
ROE (after tax) (%)	14.4	7.61	8.52	8.65
Gearing (%)	40.0	24.4	18.3	9.49

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the 50% target of white cement exports to production.

Need to know

There are three essential points to note:

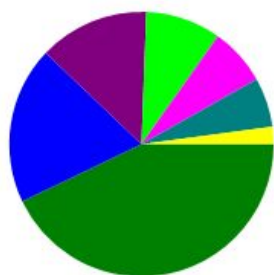
- Cementir will see a trough in its net profit in 2019.
- The business is family-owned and controlled with a long-term strategy in place.
- The free float is low at slightly less than 30%.

Next trigger

Like Vicat, Cementir is a family-driven business that has maintained a solid balance sheet through the cycle with its net debt/EBITDA always below 3x. It is a remarkable story in that the management avoided making costly acquisitions during the top of the cycle (2007-08) and, hence, the need for fresh-but-dilutive capital at the bottom of the cycle (2008-09).

We evaluate the likelihood of an acquisition in grey cement as more likely than another buyout of a white cement business but, as always, any acquisition would take place at a fair price and be strategically-located with well-maintained assets. Past deals helped to develop a white cement franchise with strong and recurrent cash flows (mainly linked to the renovation market) which could be the cash cow to a careful expansion in the bigger but more cyclical grey cement market.

Sales by Geography



Nordic states	(42.9%)
Belgium	(19.2%)
Turkey	(13.5%)
North America	(9.2%)
Asia	(7.0%)
Italy	(6.0%)
Egypt	(2.1%)

Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	€M	1,196	1,250	1,278
Change in sales	%	4.93	4.50	2.25
Change in staff costs	%	0.90	5.55	2.23
EBITDA	€M	239	250	262
EBITDA(R) margin	%	19.9	20.0	20.5
Depreciation	€M	-61.5	-80.0	-81.5
Underlying operating profit	€M	156	144	154
Operating profit (EBIT)	€M	153	145	156
Net financial expense	€M	30.4	-28.5	-17.5
of which related to pensions	€M		-0.06	-0.08
Exceptional items & other	€M			
Corporate tax	€M	-35.9	-29.5	-34.9
Equity associates	€M	1.05	0.00	0.00
Minority interests	€M	-8.47	-10.2	-12.1
Adjusted attributable net profit	€M	112	77.0	91.5
NOPAT	€M	110	102	109

Cashflow Statement

		12/18A	12/19E	12/20E
EBITDA	€M	239	250	262
Change in WCR	€M	-3.68	-3.25	-1.70
Actual div. received from equity holdi...	€M	1.23	0.00	0.00
Paid taxes	€M	-42.3	-29.5	-34.9
Exceptional items	€M			
Other operating cash flows	€M	-27.2	-6.00	-30.0
Total operating cash flows	€M	167	211	196
Capital expenditure	€M	-66.6	-72.0	-73.3
Total investment flows	€M	155	-72.0	-73.3
Net interest expense	€M	30.4	-28.5	-17.5
Dividends (parent company)	€M	-21.0	-22.3	-22.3
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M			
Total financial flows	€M	-328	-50.7	-39.7
Change in cash position	€M	-7.86	9.61	82.6
Free cash flow (pre div.)	€M	130	111	105

Per Share Data

		12/18A	12/19E	12/20E
No. of shares net of treas. stock (year...	Mio	159	159	159
Number of diluted shares (average)	Mio	159	159	159
Benchmark EPS	€	0.70	0.48	0.57
Restated NAV per share	€			
Net dividend per share	€	0.14	0.14	0.14

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 9.97	35%	■ Buzzi
NAV/SOTP per share	€ 8.94	20%	■ CRH
EV/Ebitda	€ 9.36	20%	■ Heidelbergcement
P/E	€ 6.55	10%	■ LafargeHolcim
Dividend Yield	€ 5.42	10%	■ Vicat
P/Book	€ 6.53	5%	
TARGET PRICE	€ 8.67	100%	

NAV/SOTP Calculation

Balance Sheet

		12/18A	12/19E	12/20E
Goodwill	€M	354	354	354
Total intangible	€M	577	580	582
Tangible fixed assets	€M	790	797	805
Financial fixed assets	€M	93.8	94.7	95.6
WCR	€M	72.3	75.5	77.2
Other assets	€M	88.0	88.9	89.8
Total assets (net of short term liab.)	€M	1,623	1,638	1,652
Ordinary shareholders' equity	€M	997	1,027	1,120
Quasi Equity & Preferred	€M			
Minority interests	€M	131	133	134
Provisions for pensions	€M	31.8	23.2	23.3
Other provisions for risks and liabilities	€M	43.3	43.8	44.2
Total provisions for risks and liabilities	€M	75.1	67.0	67.5
Tax liabilities	€M	159	161	162
Other liabilities	€M	4.77	4.82	4.86
Net debt (cash)	€M	255	246	163
Total liab. and shareholders' equity	€M	1,623	1,638	1,652

Capital Employed

		12/18A	12/19E	12/20E
Capital employed after depreciation	€M	1,533	1,547	1,560

Profits & Risks Ratios

		12/18A	12/19E	12/20E
ROE (after tax)	%	14.4	7.61	8.52
ROCE	%	7.21	6.57	7.00
Gearing (at book value)	%	40.0	24.4	18.3
Adj. Net debt/EBITDA(R)	x	1.07	0.98	0.62
Interest cover (x)	x	-5.19	5.07	8.88

Valuation Ratios

		12/18A	12/19E	12/20E
Reference P/E (benchmark)	x	8.92	12.9	10.9
Free cash flow yield	%	13.1	11.1	10.5
P/Book	x	1.00	0.97	0.89
Dividend yield	%	2.24	2.24	2.24

EV Calculation

		12/18A	12/19E	12/20E
Market cap	€M	995	995	995
+ Provisions	€M	75.1	67.0	67.5
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	255	246	163
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M	93.8	94.7	95.6
+ Minority interests (fair value)	€M	131	133	134
= EV	€M	1,362	1,345	1,263
EV/EBITDA(R)	x	5.71	5.38	4.82
EV/Sales	x	1.14	1.08	0.99

Analyst : Felix Brunotte, Changes to Forecasts : 02/08/2019.