ALPHAVALUE CORPORATE SERVICES

Cementir Holding

Cement & Aggregates / Italy

9M 21: well managed cost inflation

Earnings/sales releases - 12/11/2021

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Cementir Holding has published a good set of 9M 21 results. All regions saw a good rally in demand. Denmark was the only region that experienced negative EBITDA growth driven by a low price-cost mix (as prices are updated in Q4) but this trend might reverse from the next year. Management is confident to achieve the set targets for FY21 comfortably. Since the guidance and 9M performance are in line with our expectations, we will not make any significant changes to our model.

Fact

- Revenue: €1,008m, up 12.4%.
- EBITDA: €215m, up 20.8%.
- EBIT: €133m, up by 36.5%.
- Net financial debt at €100m (including €28.8m of share buy-backs).
- FY21 guidance reiterated.

Analysis

Cementir Holding announced a good set of 9M 21 results, demonstrating a resilient performance. Cement volumes were up by 8.2%, driven by Turkey, Belgium and Denmark. Higher contributions from Turkey (increase in internal demand as well as exports) and Belgium (higher volume and prices) led to the 20.8% increase in EBITDA, with the EBITDA margin now standing at 21.3% vs 19.9% in 9M 20. D&A was in line with last year's and net financial expenses were down by €4.2m.

Performance by segment

- The Nordics and Baltics (revenue: €460.6m, up by 10.2%): These regions, which contribute more than 50% to the group's EBITDA, saw an increase in demand for all products with incremental volumes expected from Q4 from infrastructural projects. EBITDA declined by 0.4% with a more profound decline of 5.5% in Denmark, which overshadowed the EBITDA growth of 21.5% in Norway/Sweden. This happened mainly because, in Denmark, cost inflation could not be passed on to customers because Cementir Holding signs about 80-85% of its annual contracts during the current quarter. Hence, we should see an increase in profitability next year.

- Belgium and France (revenue: €205.1m, up by 9.7%): This region was supported by good weather conditions and growth in all market segments. EBITDA increased by 15.9% and the EBITDA margin by 130bp to 23.4%, supported by a good pricing environment.

- North America (revenue: €115.8m, up by 0.6%): Demand for white cement grew by 6% but was overshadowed by weaker pricing due to competition and price mix and by the devaluation of the USD by 6.3%. there was an over-proportional increase in the EBITDA by 9.6% due to better managed fixed costs despite higher variable costs.

Add	Upside: 14.2%
Target Price (6 months)	€ 10.6
Share Price	€ 9.30
Market Cap. €M	1,480
Price Momentum	GOOD
Extremes 12Months	6.55 ▶ 9.74
Sustainability score	2.7 /10
Credit Risk	BBB
Bloomberg	CEM IM Equity
Reuters	CEMI.MI

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PERF	1w	1m	3m	12m
Cementir Holding	1.64%	8.64%	-3.53%	39.4%
Building Prod. & Materials	1.28%	4.51%	-4.14%	33.2%
STOXX 600	0.43%	6.14%	2.31%	24.9%

Last updated: 29/07/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	9.22	12.3	10.9	10.3
Dividend yield (%)	2.34	1.51	1.51	1.51
EV/EBITDA(R) (x)	4.49	5.43	4.62	4.11
Adjusted EPS (€)	0.65	0.76	0.85	0.90
Growth in EPS (%)	16.2	16.4	12.6	5.71
Dividend (€)	0.14	0.14	0.14	0.14
Sales (€M)	1,225	1,349	1,411	1,474
EBITDA/R margin (%)	21.5	22.0	22.5	22.4
Attributable net profit (€M)	102	120	136	143
ROE (after tax) (%)	9.71	10.8	10.9	10.3
Gearing (%)	17.1	6.58	-2.95	-11.4

Company Valuation - Company Financials

- Turkey (revenue: €129.2m, up by 28.8%): Here there was a sharp turnaround in EBITDA, with the EBITDA margin at 10.8% (vs -5.3% in 9M 20). Turkey currently has a very healthy market with strong internal sales in the backdrop of >20% inflation and higher exports. Turkey is out of the EU ETS system and, with the increasing CO2 costs, most European countries are sourcing cement from Turkey. The additional cost of CO2 at €60/tonne is way above the additional freight charges of €20-30/tonne. So, until CBAM is fully rolled out in 2026, we can expect export demand to remain high in Turkey. To give some context, exports from Turkey increased from an average of €10m in the last 10 years to €30m this year.

- Egypt (revenue: €37.8m, up by 18%): Egypt continued to show a return to normalcy with higher volume sales supported by lower fuel costs. We maintain our positive outlook for this region.
- Asia Pacific (revenue: €76.6m, up by 28.6%): APAC saw higher demand for white cement, with sales volumes up by 8% in China and by 21% in Malaysia, supported by several projects in China and an easy comparison base for Malaysia. However, new lockdowns were put in place in June and July, leading to a 35% reduction in sales volumes in Q3 21.

CO2 cost could increase by €4-5m next year

Under its industrial plan, Cementir Holding had indicated that it will require 600,000 tonnes worth of CO2 rights from 2022 onwards, but management is most likely to provide an update on the CO2 shortage by January-February next year. It expects the shortage to be reduced from 600,000 to 400,000 tonnes. But, on the other hand, the price in the former industrial plan was €30…it currently stands at €60. So, in the end, there could be a net increase of €4-5m, but the group's balance sheet is strong enough to absorb this increase.

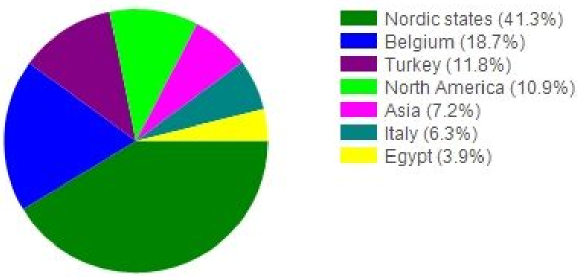
Guidance for 2021 unchanged

The group has re-iterated its FY21 guidance. It expects to achieve consolidated revenues of c.€1.35bn and EBITDA of €295-305m. It has left its guidance unchanged for net debt at €30m, even though it is more likely that the group will end the year with a stronger balance sheet.

Impact

Since the group's result was in line with our expectations, we will not make any significant changes to our model.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 13.9	35%
NAV/SOTP per share	€ 9.78	20%
EV/Ebitda	€ 10.8	20%
P/E	€ 8.60	10%
Dividend Yield	€ 3.75	10%
P/Book	€ 7.94	5%
TARGET PRICE	€ 10.6	100%

NAV/SOTP Calculation

Largest comparables

- Buzzi
- Heidelbergcement
- Holcim
- Vicat

Consolidated P&L Accounts

		12/20A	12/21E	12/22E
Sales	€M	1,225	1,349	1,411
Change in sales	%	1.07	10.1	4.63
Change in staff costs	%	1.91	12.5	4.56
EBITDA	€M	264	297	317
EBITDA(R) margin	**%**	**21.5**	**22.0**	**22.5**
Depreciation	€M	-86.8	-87.9	-89.0
Underlying operating profit	€M	159	190	209
Operating profit (EBIT)	**€M**	**157**	**190**	**209**
Net financial expense	€M	-15.2	-15.3	-11.1
of which related to pensions	€M		-0.37	-0.41
Exceptional items & other	€M			
Corporate tax	€M	-33.2	-45.5	-51.5
Equity associates	€M	0.57	0.29	0.31
Minority interests	€M	-7.36	-9.48	-11.5
Adjusted attributable net profit	**€M**	**103**	**120**	**136**
NOPAT	€M	112	134	147

Cashflow Statement

		12/20A	12/21E	12/22E
EBITDA	€M	264	297	317
Change in WCR	€M	38.4	-5.77	20.6
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-37.9	-45.5	-51.5
Exceptional items	€M			
Other operating cash flows	€M	-20.7		
Total operating cash flows	€M	243	246	286
Capital expenditure	€M	-58.5	-69.0	-67.0
Total investment flows	€M	-60.2	-96.0	-110
Net interest expense	€M	-15.2	-15.3	-11.1
Dividends (parent company)	€M	-30.9	-22.3	-22.3
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	-4.54	-23.0	
Total financial flows	€M	-88.8	-98.6	-143
Change in cash position	€M	82.6	51.0	33.4
Free cash flow (pre div.)	**€M**	**170**	**161**	**208**

Per Share Data

		12/20A	12/21E	12/22E
No. of shares net of treas. stock (year...	Mio	159	159	159
Number of diluted shares (average)	Mio	159	159	159
Benchmark EPS	**€**	**0.65**	**0.76**	**0.85**
Restated NAV per share	€			
Net dividend per share	**€**	**0.14**	**0.14**	**0.14**

Balance Sheet

		12/20A	12/21E	12/22E
Goodwill	€M	330	330	330
Total intangible	€M	526	528	530
Tangible fixed assets	€M	691	705	719
Financial fixed assets	€M	83.6	84.4	85.2
WCR	€M	20.0	25.7	5.13
Other assets	€M	83.0	83.0	83.0
Total assets (net of short term liab.)	€M	1,531	1,553	1,550
Ordinary shareholders' equity	**€M**	**1,057**	**1,178**	**1,318**
Quasi Equity & Preferred	€M			
Minority interests	€M	126	125	124
Provisions for pensions	€M	36.8	28.4	29.1
Other provisions for risks and liabilities	€M	30.4	30.4	30.4
Total provisions for risks and liabilities	€M	67.3	58.8	59.5
Tax liabilities	€M	155	155	155
Other liabilities	€M	2.93	2.93	2.93
Net debt (cash)	**€M**	**122**	**32.8**	**-111**
Total liab. and shareholders' equity	€M	1,531	1,553	1,550

Capital Employed

		12/20A	12/21E	12/22E
Capital employed after depreciation	€M	1,447	1,469	1,466

Profits & Risks Ratios

		12/20A	12/21E	12/22E
ROE (after tax)	**%**	**9.71**	**10.8**	**10.9**
ROCE	%	7.71	9.11	10.0
Gearing (at book value)	**%**	**17.1**	**6.58**	**-2.95**
Adj. Net debt/EBITDA(R)	x	0.94	0.54	0.05
Interest cover (x)	x	10.4	12.7	19.6

Valuation Ratios

		12/20A	12/21E	12/22E
Reference P/E (benchmark)	**x**	**9.22**	**12.3**	**10.9**
Free cash flow yield	%	17.8	10.9	14.1
P/Book	x	0.90	1.26	1.12
Dividend yield	**%**	**2.34**	**1.51**	**1.51**

EV Calculation

		12/20A	12/21E	12/22E
Market cap	€M	953	1,480	1,480
+ Provisions	€M	67.3	58.8	59.5
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-4.78	-94.1	-238
+ Leases debt equivalent	€M	127	127	127
- Financial fixed assets (fair value)	€M	83.6	84.4	85.2
+ Minority interests (fair value)	€M	126	125	124
= EV	€M	1,185	1,612	1,467
EV/EBITDA(R)	**x**	**4.49**	**5.43**	**4.62**
EV/Sales	x	0.97	1.19	1.04

Analyst : Sejal Varshney, Changes to Forecasts : 29/07/2021.