# Cementir Holding

Cement & Aggregates / Italy

## H1 21: all regions in recovery mode

Earnings/sales releases - 29/07/2021

**Sejal VARSHNEY**
buildingmaterials@alphavalue.eu
+33 (0) 1 70 61 10 50
cs.alphavalue.com

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| **Buy** | **Upside: 24.1%** |
|---|---|
| Target Price (6 months) | € 11.2 |
| Share Price | € 9.02 |
| Market Cap. €M | 1,435 |
| Price Momentum | **GOOD** |
| Extremes 12Months | 5.12 ▶ 9.72 |
| Sustainability score | 2.6 /10 |
| Credit Risk | BBB ➔ |
| Bloomberg | CEM IM Equity |
| Reuters | CEMI.MI |

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| PERF | 1w | 1m | 3m | 12m |
|---|---|---|---|---|
| Cementir Holding | 1.69% | 2.15% | -0.28% | 55.2% |
| Building Prod. & Materials | 1.47% | 0.75% | 5.74% | 44.6% |
| STOXX 600 | 1.70% | 1.49% | 4.95% | 25.6% |

| Last updated: 29/07/2021 | 12/20A | 12/21E | 12/22E | 12/23E |
|---|---|---|---|---|
| Adjusted P/E (x) | 9.22 | 11.9 | 10.6 | 10.0 |
| Dividend yield (%) | 2.34 | 1.55 | 1.55 | 1.55 |
| EV/EBITDA(R) (x) | 4.49 | 5.28 | 4.48 | 3.97 |
| 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

**Cementir Holding has published its H1 21 results. All regions saw a strong rally in volume sales due to a weak comparison base and the revival/start of some projects. Denmark was the only region that experienced a negative EBITDA growth driven by a low price-cost mix (as prices are updated in H2 rather than H1). Hence, its pricing power in this region still remains unquestionable. Following this result, we will raise our estimates, but to the lower end of updated guidance.**

### Fact

- Revenue: €665m, up 16.5%.
- EBITDA: €134m, up 36.6%.
- EBIT: €79m, up by 83%.
- Net financial debt at €137.6m (including €23m of share buy-backs).
- FY21 guidance raised with revenues and EBITDA now expected at €1.35bn and €295-305m respectively.

### Analysis

Cementir Holding announced a good set of H1 21 results, with growth observed in all segments. Cement volumes were up by 18.7%, driven by Turkey, Belgium and Denmark. Higher contributions from Turkey (increase in demand) and Belgium (easy comparison base) led to the 37% increase in EBITDA, with the EBITDA margin now standing at 20.1% vs 17.1% in H1 20. D&A was in line with last year and net financial expenses were down by €1m due to lower interest charges and the impact of the valuation of derivatives. Group net profit, once non-controlling interests were accounted for, amounted to €47.9m (vs €20m in H1 20).

**Performance by segment**

- The Nordics and Baltics (revenue: €305.6m, up by 12.5%): The Nordic and Baltic region, which contributes more than 50% to the group EBITDA, saw an increase in demand for all products due to the recovery and kick-start of some projects in both the public and private sectors. EBITDA was up by 32% in Norway/Sweden, but it was overshadowed by an EBITDA decline in Denmark due to cost inflation on raw materials that could not be transferred to the customers yet because, being the key cement player, the company has arrangements with the authorities to increase the prices only once a year, in H2. So we don't see price-cost parity as a key issue in Denmark in H2.

- Belgium and France (revenue: €139.9m, up by 16.4%): This region was severely hit by the lockdowns in H1 20, which provided a favourable comparison base. EBITDA increased by 25.2% and EBITDA margin by 150bp to 20.8%, but we don't expect the margin to be sustainable in H2 due to increasing raw material costs in this region.

- North America (revenue: €76.2m, up by 1.2%): This region saw sustained volume growth of white cement and registered 1.2% increase in revenue despite a 10% USD devaluation vs EUR. We continue to have a positive outlook for the US, especially in the public sector.

- Turkey (revenue: €82.6m, up by 44.4%): The Turkish market saw a sharp turnaround in the EBITDA, with the EBITDA margin at 8.9% (vs -15.5% in H1 20). Even though the Turkish market observed a strong demand with grey cement sales up by as much as 29% and RMX demand up by 80%, the de-valuation of the lira (-33%) impacted its overall performance. Nevertheless, with skyrocketing $CO_2$ prices in Europe, Turkey could benefit from a further increase in exports, especially to Africa.

- Egypt (revenue: €23.6m, up by 19%): 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: €48.6m, up by 28.6%): APAC saw higher demand for white cement, with sales volumes up by 16% in China and by 48% in Malaysia, supported by several projects in China and an easy comparison base for Malaysia.

**Limited impact from 'Fit for 55' until 2027**

Cementir's in-house decarbonisation plan assumes a reduction of free allocations by 30% in the next decade, that is by 3% per annum. So up to the end of 2027, this implies a 21% reduction in the allocations. Under 'Fit for 55', the allocations are expected to remain at the same level as now until 2025, and then to decrease rapidly by around 10% per annum from 2026 onwards. So by the end of 2027, this implies a reduction in allocations by 20%, in line with what the company has already modelled in. However, accelerating the allocation reduction later on rather than a gradual reduction now has an added advantage. In seven years, we can see the company make significant progress in decarbonising its products and, hence, it would require fewer carbon rights in the future than it would require now.

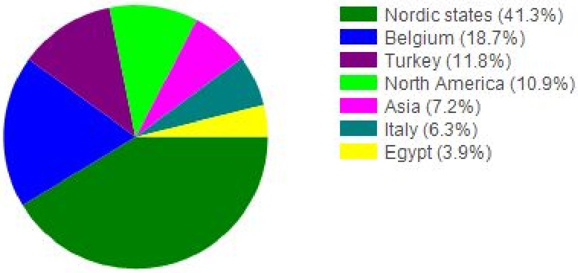
**Guidance for 2021 raised**

The group has raised its FY21 guidance. It now expects to achieve consolidated revenues of c.€1.35bn (vs €1.3bn earlier) and EBITDA of €295-305m (vs €285-295m earlier). It has left its guidance for the net debt at €30m mainly due to a higher cash outlay related to the buy-back programme than estimated.

## Impact

Inflation of raw material costs has been the key concern this year. Management expects the impact of raw materials to be €22m for FY21, equally divided in H1 and H2 (higher costs partially offset by price increases in the Nordics in H2). Since the impact of increasing costs is below our expectations, we will revise our EBITDA upwards, but still in the lower end of the guidance as we have a conservative view regarding the costs.

## Sales by Geography




## Valuation Summary

| Benchmarks | Value | Weight |
|---|---|---|
| DCF | € 14.0 | 35% |
| NAV/SOTP per share | € 9.78 | 20% |
| EV/Ebitda | € 12.2 | 20% |
| P/E | € 10.2 | 10% |
| Dividend Yield | € 4.22 | 10% |
| P/Book | € 8.90 | 5% |
| TARGET PRICE | € 11.2 | 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** | **11.9** | **10.6** |
| Free cash flow yield | % | 17.8 | 11.2 | 14.5 |
| P/Book | x | 0.90 | 1.22 | 1.09 |
| **Dividend yield** | **%** | **2.34** | **1.55** | **1.55** |

## EV Calculation

| | | 12/20A | 12/21E | 12/22E |
|---|---|---|---|---|
| Market cap | €M | 953 | 1,435 | 1,435 |
| + 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 | 1,567 | 1,423 |
| **EV/EBITDA(R)** | **x** | **4.49** | **5.28** | **4.48** |
| EV/Sales | x | 0.97 | 1.16 | 1.01 |

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