Cementir Holding

Cement & Aggregates / Italy

FY 20: performance beyond full-year guidance

Earnings/sales releases - 05/02/2021

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Add	Upside: 13.4%
Target Price (6 months)	€ 8.51
Share Price	€ 7.51
Market Cap. €M	1,195
Price Momentum	STRONG
Extremes 12Months	4.25 ▶ 7.51
Bloomberg	CEM IM Equity
Reuters	CEMI.MI

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PERF	1w	1m	3m	12m
Cementir Holding	7.29%	12.6%	33.2%	18.1%
Building Prod. & Materials	2.25%	3.60%	14.2%	15.2%
STOXX 600	1.52%	2.14%	12.7%	-2.13%

Last updated: 25/11/2020	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	11.3	13.2	13.7	12.2
Dividend yield (%)	2.27	2.34	1.86	1.86
EV/EBITDA(R) (x)	4.86	5.29	5.59	5.08
Adjusted EPS (€)	0.54	0.45	0.55	0.62
Growth in EPS (%)	-22.5	-16.8	21.4	12.4
Dividend (€)	0.14	0.14	0.14	0.14
Sales (€M)	1,212	1,177	1,227	1,255
EBITDA/R margin (%)	21.8	19.7	20.9	21.8
Attributable net profit (€M)	82.3	71.9	87.3	98.2
ROE (after tax) (%)	8.06	6.58	7.47	8.03
Gearing (%)	23.7	17.6	11.9	8.21

Company Valuation - Company Financials

Cementir Holding has published better than expected preliminary FY20 results with revenue 4% and EBITDA 13% above our expectations. The positive surprise is mainly from the strong performance in the Mediterranean and land revaluations which completely offset the one-offs recorded until Q3.

Along with the guidance for FY21, the group has provided an updated Industrial Plan 2020-23, which revolves around the same pillars as the Industrial plan 2019-22, but has more aggressive targets.

Fact

Key information

- Cement volumes up by 12.9%, thanks to solid performance in Egypt and Turkey
- Revenue up by 1.1% at €1,225m
- EBITDA stable at €263.7m
- EBIT up by 3.6% to €157.2m
- Guidance for 2021: revenue at €1.3bn, EBITDA at €285-295m, Net financial debt at €30m
- Industrial Plan 2020-23 announced

Analysis

Cementir Holding published better than expected FY20 results with revenues up by 1.1% to €1,225m, thanks to a strong performance in the Mediterranean (cement volumes were up by 13%, thanks to a 39% increase observed in Turkey). EBITDA was almost flat, with the one-offs recorded up to Q3 completely offset by a €6.7m rise in land revaluations.

With sustainability as the biggest concern in this sector, the group did not fail to address this issue. Its CO_2 emission target is <500kg CO_2/ton for grey cement and 808kg CO_2/ton for white cement by 2030 (from 696 and 926kg CO_2/ton respectively in 2019). Due to its small market size, white cement is currently not in the taxonomy of the regulations and, hence, its <500kg CO_2/ton target for grey cement is to be compared with peers.

Guidance for 2020

For the year 2021, the group expects to achieve consolidated revenues of c.€1.3bn and EBITDA of €285-295m, growth supported largely by the Turkish market, which under the positive macro-economic backdrop, continues to see cement demand under-served despite imports from Africa. New aggregate business in Turkey will contribute further. Additionally, the group expects financial debt to be c.€30m, including investments of c.€95m. A significant M&A is unlikely as the group is focusing more on organic growth. It is, however, still open for white cement greenfield opportunities in China.

New industrial plan proves 'coming out stronger from the pandemic'

The impact of COVID-19 on 2020 EBITDA was about €20m and, hence, the company had to take multiple steps to heal its wounds. To preserve its profitability and cash, the group managed its working capital more efficiently and deferred non-essential capex. As a result, the company could not take a step forward towards digitalisation and sustainability (aka initiate green capex) too. Thus, the group has come up with a new Industrial Plan, which revolves around the same pillars as before, but with more aggressive financial targets. It now expects a top-line CAGR of 6.3% and EBITDA CAGR of 8.8% over 2020-23 instead of 3% and 4.4% respectively for 2019-22. The cumulative green capex has been increased from €100m to €107m, and the group now expects to reach a net cash position of €250m by 2023.

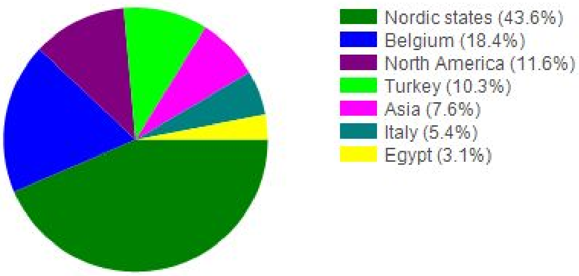
Capital allocation of utter importance

Since the group is expected to have a net cash position of about €250m by the end of 2023, resulting in one of the strongest balance sheets in its peer group. Hence, capital allocation will be of utter importance. We believe that the group will reinvest the cash to boost organic growth, rather than going for a big acquisition. It is carbon rights long only to the end of this year and, hence, upgrading its kilns and lowering its opex sustainably will be its target. It is also still considering a greenfield project in China to match with the growing demand in the lucrative south of China market. Lastly, we expect the dividend to remain constant at the current level until 2023, but the group may remunerate its shareholders further through share buy-backs.

Impact

We will be revising our model upwards following the better-than-expected results. This could have a positive impact on our recommendation.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 8.77	35%
NAV/SOTP per share	€ 9.43	20%
EV/Ebitda	€ 9.52	20%
P/E	€ 7.11	10%
Dividend Yield	€ 5.63	10%
P/Book	€ 7.62	5%
TARGET PRICE	€ 8.51	100%

NAV/SOTP Calculation

Largest comparables

- Buzzi
- Heidelbergcement
- LafargeHolcim
- Vicat

Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	€M	1,212	1,177	1,227
Change in sales	%	1.31	-2.85	4.18
Change in staff costs	%	4.86	-2.38	5.81
EBITDA	€M	264	232	256
EBITDA(R) margin	**%**	**22.8**	**19.7**	**20.9**
Depreciation	€M	-88.0	-87.6	-91.2
Underlying operating profit	€M	156	125	144
Operating profit (EBIT)	**€M**	**152**	**125**	**144**
Net financial expense	€M	-25.4	-15.4	-18.4
of which related to pensions	€M		-0.08	-0.08
Exceptional items & other	€M			
Corporate tax	€M	-37.5	-31.7	-31.4
Equity associates	€M	0.31	0.19	0.22
Minority interests	€M	-6.86	-5.89	-7.15
Adjusted attributable net profit	**€M**	**86.5**	**71.9**	**87.3**
NOPAT	€M	109	87.6	101

Cashflow Statement

		12/19A	12/20E	12/21E
EBITDA	€M	264	232	256
Change in WCR	€M	12.4	0.57	-5.66
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-32.4	-31.7	-31.4
Exceptional items	€M			
Other operating cash flows	€M	-19.9	-29.9	-29.9
Total operating cash flows	€M	224	171	189
Capital expenditure	€M	-63.3	-60.0	-100
Total investment flows	€M	-57.1	-65.0	-100
Net interest expense	€M	-25.4	-15.4	-18.4
Dividends (parent company)	€M	-27.2	-22.3	-22.3
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M			
Total financial flows	€M	-69.1	-69.4	-35.6
Change in cash position	€M	98.3	36.3	53.4
Free cash flow (pre div.)	**€M**	**135**	**95.3**	**70.6**

Per Share Data

		12/19A	12/20E	12/21E
No. of shares net of treas. stock (year...	Mio	159	159	159
Number of diluted shares (average)	Mio	159	159	159
Benchmark EPS	**€**	**0.54**	**0.45**	**0.55**
Restated NAV per share	€			
Net dividend per share	**€**	**0.14**	**0.14**	**0.14**

Balance Sheet

		12/19A	12/20E	12/21E
Goodwill	€M	349	349	349
Total intangible	€M	563	566	568
Tangible fixed assets	€M	758	766	773
Financial fixed assets	€M	94.5	95.4	96.4
WCR	€M	54.3	53.8	59.4
Other assets	€M	90.9	91.8	92.7
Total assets (net of short term liab.)	€M	1,665	1,677	1,696
Ordinary shareholders' equity	**€M**	**1,045**	**1,142**	**1,196**
Quasi Equity & Preferred	€M			
Minority interests	€M	137	138	140
Provisions for pensions	€M	35.7	25.3	24.6
Other provisions for risks and liabilities	€M	43.3	43.7	44.1
Total provisions for risks and liabilities	€M	79.0	69.0	68.7
Tax liabilities	€M	161	163	165
Other liabilities	€M	3.83	3.87	3.91
Net debt (cash)	**€M**	**240**	**162**	**123**
Total liab. and shareholders' equity	€M	1,665	1,677	1,696

Capital Employed

		12/19A	12/20E	12/21E
Capital employed after depreciation	€M	1,573	1,584	1,601

Profits & Risks Ratios

		12/19A	12/20E	12/21E
ROE (after tax)	**%**	**8.06**	**6.58**	**7.47**
ROCE	%	7.50	5.53	6.31
Gearing (at book value)	**%**	**23.7**	**17.6**	**11.9**
Adj. Net debt/EBITDA(R)	x	1.24	1.14	0.89
Interest cover (x)	x	5.49	8.14	7.87

Valuation Ratios

		12/19A	12/20E	12/21E
Reference P/E (benchmark)	**x**	**11.3**	**13.2**	**13.7**
Free cash flow yield	%	13.8	10.00	5.91
P/Book	x	0.94	0.83	1.00
Dividend yield	**%**	**2.27**	**2.34**	**1.86**

EV Calculation

		12/19A	12/20E	12/21E
Market cap	€M	981	953	1,195
+ Provisions	€M	79.0	69.0	68.7
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	137	58.4	19.0
+ Leases debt equivalent	€M	102	103	104
- Financial fixed assets (fair value)	€M	94.5	95.4	96.4
+ Minority interests (fair value)	€M	137	138	140
= EV	€M	1,342	1,227	1,430
EV/EBITDA(R)	**x**	**4.86**	**5.29**	**5.59**
EV/Sales	x	1.11	1.04	1.17

Analyst : Sejal Varshney, Changes to Forecasts : 25/11/2020.