# Cementir Holding

Cement & Aggregates / Italy

## Priority to organic growth

Earnings/sales releases - 15/11/2019

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| Buy | Upside: 42.4% |
|---|---|
| Target Price (6 months) | € 9.03 |
| Share Price | € 6.34 |
| Market Cap. €M | 1,009 |
| Price Momentum | GOOD |
| Extremes 12Months | 4.56 ▶ 6.66 |
| Bloomberg | CEM IM Equity |
| Reuters | CEMI.MI |

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| PERF | 1w | 1m | 3m | 12m |
|---|---|---|---|---|
| Cementir Holding | 3.14% | 5.63% | 7.06% | 24.2% |
| Building Prod. & Materials | -0.64% | 4.45% | 16.0% | 20.8% |
| STOXX 600 | -0.53% | 2.64% | 10.4% | 11.6% |

| Last updated: 02/08/2019 | 12/18A | 12/19E | 12/20E | 12/21E |
|---|---|---|---|---|
| Adjusted P/E (x) | 7.79 | 13.1 | 11.0 | 9.94 |
| Dividend yield (%) | 2.56 | 2.21 | 2.21 | 2.21 |
| EV/EBITDA(R) (x) | 5.19 | 5.44 | 4.87 | 4.36 |
| 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 |

Company Valuation - Company Financials

**Overall, the results were in line with our expectations.**

**Cementir has decided to invest in itself rather than going for a transformative acquisition.**

**Following this earnings release, we expect to make little change to our EBITDA and capex forecast for FY19. We keep our Buy recommendation unchanged. We will review our long-term assumptions a second time but we believe that the industrial plan offers some upside to our valuation, in our opinion.**

## Fact

### Key information

- Cement volumes down by 7.9% and by 10.0% on a lfl basis.
- Revenue up by 1.5% but down by 2.2% on a lfl basis.
- EBITDA increased by 11.6% (roughly stable when taking out the IFRS 16 impact).
- EBITDA margin up by almost 2pp to 20.1%.
- EBIT down by 2.8%.
- PBT decreased by 39.7%.

## Analysis

### Reported figures

Cement volumes were down by 10.0% on a lfl basis due to the negative economic development in Turkey, which was only partially offset by the favourable business climate in the Nordic & Baltic region as well as in Belgium.

Group revenues were down by 2.2% on a lfl basis, despite the positive performance in the Nordic & Baltic region (+3.9%), in Belgium (+7.2%) and in Egypt (+44%), as these were more than offset by the negative performance in Turkey. The increase on a reported basis is due to the consolidation of Lehigh White Cement Company (starting from 1 April 2018).

Raw material purchases declined by 9.5% on a lfl basis but labour cost inflation reached 3% on a lfl basis: the skilled labour shortage and the increase in labour cost are key topics first disclosed to the market by some main industrial companies such as Kone or Schindler for several quarters.

With the exception of Turkey, where EBITDA declined, all other regions performed well in comparison to 9m 18, in particular the Nordic & Baltic region and Belgium/France.

Net financial expense was €20.1m compared with the positive result of €31.8m in 9m 18. Indeed, there was a 24.5% upwards revaluation of the fair value of the investment already held by the group in LWCC (€39.4m) and the positive impact of financial instruments mark-to-market (€19.4m) in 9m 18. On the other hand, the results of 9m 19 were negatively impacted by hedging. This is the main reason for the relatively significant contraction in net profit. However, the adjusted net profit contracted by a much smaller extent.

Overall, the results were in line with our expectations. We expect minor changes to our FY19 forecasts.

**Performance by division**

- Nordic and Baltic: EBITDA rose by 16.2%. Danish cement volumes were up thanks to the upbeat activity in the prefab market.
- Belgium and France: EBITDA increased by 26.3%. The environment was dynamic thanks to an increase in road network infrastructure projects.
- North America: EBITDA increased significantly. Due to the first-time consolidation of LWCC from Q2 18, the comparison with the previous 9m is meaningless. Cement prices were broadly flat, something we warned about several times as we believe that they have reached a toppish valuation in inflation-adjusted terms. There was weaknesses in prices due to intense competition. The question to ask is “is this increase in competition internal or external to the US?”.
- Turkey: EBITDA was €-8m vs €11.3m in 9m 18, which was a decent performance knowing that cement volumes dropped by 35%. In October, Turkey had for the first time in 11 months a positive EBITDA, which is quite encouraging and leads management to believe that the worst is probably behind. We share this opinion, but we also believe that management may be being very careful with the number given to the market and that, in case of a sharper recovery, a phenomenon seen more often in emerging markets than in developed markets, next year’s figure could be better than expected by management.
- Egypt: EBITDA more than doubled to €4.9m: the welcome market stabilisation allowed for a good recovery in both volumes and prices in both the domestic and export markets, which is a very positive point for Cementir.
- Asia Pacific: EBITDA rose by 11.6%. In China, the performance was driven by growth in both volumes and pricing, in addition to operating issues met by some competitors, while in Malaysia, the performance was driven by Domestic cement and clinker shipments.
- Italy: EBITDA almost trebled to €6.5m.

**Guidance**

Overall, the results at the group level are mainly in line with our expectations, although impacted by the Turkish developments.

All in all, the guidance provided at the FY18 results is confirmed by management, i.e. the achievement of a consolidated level of revenue of c.€1.2bn and EBITDA between €250m and €260m. In the event of an even more negative development in the economic performance of Turkey, guidance may be reduced further. Overall, Turkey is expected to post a €-8m to €-6m EBITDA, whereas, next year, thanks to cost-cutting and operational improvements, it should reach some €5m.

Net financial debt at the end of FY19 is expected to amount to €245m and capex should reach €70m.

**Industrial plan 2020-22 and sustainability targets**

The Industrial Plan (2020-22) disclosed to the market includes amongst others the following targets:

- Improved business profitability to a 23% EBITDA margin (vs 20% expected in FY19e) by 2022 on conservatively higher estimated revenue (between €1.3bn and €1.35bn, i.e. a CAGR of about 2-3%).
- Cash flow generation (a cumulative €370m of FCF is expected before

green capex), through optimisation of working capital and investments, with a capex/revenue ratio tending to 5% and a three years cumulative green capex of €100m (meaning that cumulative FCF after green capex should reach €270m).

- Consolidation of white cement leadership, through a series of specific actions to strengthen Cementir's position in main strategic markets. Here, we believe that the actions imply industrial investments rather than new and transformative acquisitions: however, bolt-on acquisitions could be on the table should there be bargains!
- Technological innovation and development of special products that complement the existing portfolio, as well as of new business models with downstream integration projects or strategic partnerships and promotion of innovative applications and products including for instance 3D printing. Here, we hold the opinion that 3D printing is clearly the future of concrete and we welcome this move by Cementir.
- 30% $CO_2$ emission reduction target by 2030: management estimates that it is long $CO_2$ for the Danish and Belgian operations until probably Q3 20. For the length of the plan, management estimates that it will bear an extra cost of some €15m should the $CO_2$ prices remain at an average of €30/t.
- The goal is to be net cash by 2022.

At AlphaValue, we welcome this plan as it will probably set Cementir, in our opinion, ahead of competitors. Especially thanks to the green investments, the targeted reduction in $CO_2$ emissions and the clever capital allocation strategy (see below). The industrial plan offers some upside to our valuation, in our opinion.

**Capital allocation remains excellent**

In our initiation Latest, we hesitated between the titles "Value in White" and "Cement king of capital allocation king". Once again, the company proves to be above peers: management made it clear that no big M&A was planned as the multiples in the various markets are too high. Hence, Cementir will favour investment in itself rather than in another company, as the payback period for the former is about four years, whereas for the latter it is difficult to find a target at 4x EBITDA.

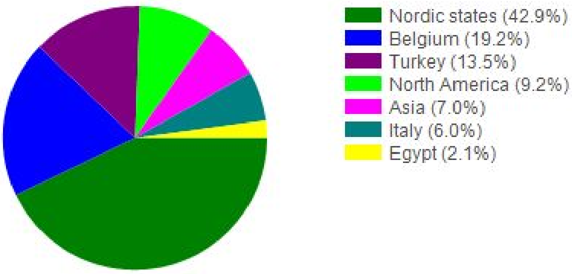
**Dividend policy**

Due to the fact that last year some one-off items were in the net results, and that this year there is a clear decrease in net profit expected, management would recommend to the board to keep an unchanged dividend compared to last year, no matter what the payout ratio is. Going forward, net profit should grow, meaning that keeping a 20% to 25% payout ratio should not be an issue.

## Impact

Following this earnings release, we expect to make little change to our EBITDA and capex forecast for FY19. We keep our Buy recommendation. We will review our long-term assumptions a second time but we believe that the industrial plan offers some upside to our valuation, in our opinion.

## Sales by Geography




## Valuation Summary

| Benchmarks | Value | Weight |
|---|---|---|
| DCF | € 10.2 | 35% |
| NAV/SOTP per share | € 8.94 | 20% |
| EV/Ebitda | € 10.1 | 20% |
| P/E | € 7.21 | 10% |
| Dividend Yield | € 5.70 | 10% |
| P/Book | € 7.14 | 5% |
| TARGET PRICE | € 9.03 | 100% |

NAV/SOTP Calculation

**Largest comparables**

- Vicat
- LafargeHolcim
- Heidelbergcement
- CRH
- Buzzi

## 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** |

## 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** | **7.79** | **13.1** | **11.0** |
| Free cash flow yield | % | 15.0 | 11.0 | 10.4 |
| P/Book | x | 0.87 | 0.98 | 0.90 |
| **Dividend yield** | **%** | **2.56** | **2.21** | **2.21** |

## EV Calculation

| | | 12/18A | 12/19E | 12/20E |
|---|---|---|---|---|
| Market cap | €M | 869 | 1,009 | 1,009 |
| + Provisions | €M | 75.1 | 67.0 | 67.5 |
| + Unrecognised acturial 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 | 1,237 | 1,359 | 1,277 |
| **EV/EBITDA(R)** | **x** | **5.19** | **5.44** | **4.87** |
| EV/Sales | x | 1.03 | 1.09 | 1.00 |

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