Cementir Holding

Cement & Aggregates / Italy

When cement goes green too

Latest - 20/12/2019

Cementir has announced a €100m additional green investment, and cost-cutting strategies in the 'Industrial Plan 2022' during the 9M 2019 results. To promote profitable sustainability, the investment is aimed at increasing Belgian plant efficiency, expanding the district heating in Denmark, developing waste heat recovery systems in Turkey and Denmark, and improving R&D. It has also introduced a digitalisation plan to streamline the group's operations. Our visit to the Gaurain plant confirms that the group is progressing well towards its sustainability targets for 2030.

Fact

To step beyond numbers, AlphaValue's Construction & Building Materials research team grabbed their muddy boots and donned their hard hats to reconnoitre at the Gaurain plant in Belgium.

Analysis

Plateaued growth in global demand for construction material, piggy-backed with tightened regulations by policymakers meant to reduce carbon emissions, poses a big challenge over the next few years for cement companies. The cement industry is expected to be heavily impacted by the increasing carbon certificate prices and reducing carbon allowance in Phase IV (2021-2030) of the EU Emission Trading System (ETS) which allows companies to trade freely excess emission rights. These will drastically increase the production cost. The cement industry is a capital-intensive industry with low price elasticity. Hence, cost-cutting and efficiency will be key drivers for profitability, while revolving around sustainability.

Along with its 9M 2019 results, Cementir provided Sustainability Targets 2030, in which it aims to reduce carbon emissions by 30% by 2030, thanks to alternative fuels, clinker content reduction, product innovation, heat consumption reduction and heat recovery. To achieve this target, the group has announced 'industrial plan 2022' and a €100m additional green investment over 2020-22. This shows that the company is ready with a "green" armour to face both environmental and market-related challenges. Indeed, feeding two birds with the same seed!

Green investment

The €100m capex will be spent mainly on the following initiatives:

Augmenting alternate energy and upgrading district heating in Aalborg

The group intends to invest in a windmill capacity that will enable it to cover up to 80% of the electricity needs with renewable resources. This would save ~25,000 CO_2 t/year. The group also plans to increase the outreach of district heating from 36,000 to 50,000 households in Aalborg. This will be enough to fulfill 40% of the municipality needs.

Increasing capacity and reducing traditional fuels in CCB

Confirmed during our recent visit to the CCB plant in Belgium, the plant is one of the largest plant in EU and operates two kilns at ~100% utilisation rate. The plant's contribution to EBITDA (23%) is higher than its contribution to sales (19%), thanks to operational efficiency achieved through state-of-the-art logistics and prominent projects such as Grand Paris, Summer Olympics 2024, etc. THe

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Buy	**Upside: 41.0%**
Target Price (6 months)	€ 9.54
Share Price	€ 6.77
Market Cap. €M	1,077
Price Momentum	**STRONG**
Extremes 12Months	4.79 ▶ 6.99
Bloomberg	CEM IM Equity
Reuters	CEMI.MI

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PERF	1w	1m	3m	12m
Cementir Holding	-1.30%	8.00%	6.07%	40.9%
Building Prod. & Materials	-0.08%	2.45%	8.50%	38.2%
STOXX 600	1.84%	2.36%	5.94%	21.5%

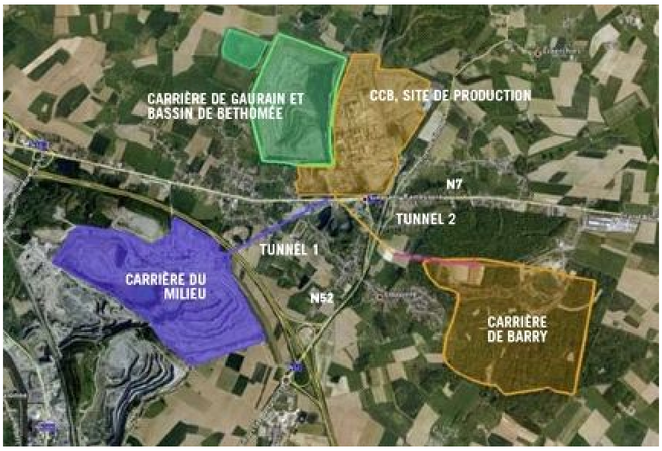
Last updated: 11/12/2019	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	7.79	13.4	10.8	9.41
Dividend yield (%)	2.56	2.07	2.07	2.07
EV/EBITDA(R) (x)	5.19	5.55	4.87	4.26
Adjusted EPS (€)	0.70	0.50	0.63	0.72
Growth in EPS (%)	8.63	-28.1	24.8	14.4
Dividend (€)	0.14	0.14	0.14	0.14
Sales (€M)	1,196	1,241	1,276	1,311
EBITDA/R margin (%)	19.9	20.7	21.5	22.2
Attributable net profit (€M)	127	80.1	100	114
ROE (after tax) (%)	14.4	7.90	9.24	9.60
Gearing (%)	40.0	24.3	17.7	8.39

Company Valuation - Company Financials

following are the highlights of the plant's logistics:

- CCB has an agreement with Calcia to use a railway terminal strategically built near the plant for exports. Due to high volume-to-price ratio of grey cement, it is less profitable to transport cement via roadways beyond a 100km radius. However, the railways allow this radius to expand almost double while keeping the per ton transportation cost the same. CCB also makes use of sea-borne transportation.

- The plant has all three quarries in close proximity. Currently, the plant is supplied by the Gaurain quarry which is operated by SCT – a 65% subsidiary of LafargeHolcim and CCB. This enables CCB to enjoy economies of scale and simultaneously postpone the exploitation of the Barry quarry which can fulfill the plant's requirements for 80-90 years more.



- The plant shuts for about 5 weeks every year during the winter (when the construction activities are at their lowest due to the weather) for preventive repair and maintenance. This reduces the requirement of shutting the plant at other times of the year and thus reduces the need to cool and reheat the kilns frequently.

In our opinion, the group has strategically allocated about 30-40% of the green capex to CCB plant in order to make the plant more profitable. It will increase the production capacity of the plant by upgrading the newer kiln and shutting down the older one, thus improving the overall efficiency of the plant simultaneously. This upgradation will also be accompanied by an increase in alternate fuel consumption (from 40% at present to 80%) which will promote further CO2 reduction. The interest of the company will be in line with its environmental goals because the proposed alternative fuels (especially waste fuels) are generally cheaper than traditional fuels.

Pioneer in R&D

About ⅔rds of the total CO2 emissions while producing cement is generated due to the chemical reaction which is carried out to produce clinker. Hence, reducing the clinker ratio in cement will drastically reduce CO2 emissions. Cementir has proved to be a pioneer in research and development as it has successfully tested its patent cement FUTURECEM and the recent investment in rolling out this technology along with others such as Aalborg Extreme, Aalborg Excel, etc. would enable the group to reduce clinker usage by 30% and, ergo, contribute significantly in the 2030 sustainability target.

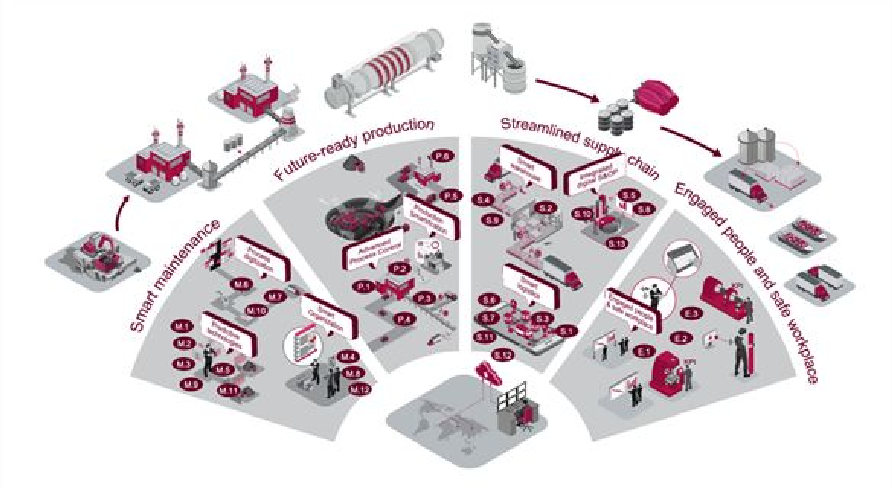
Waste heat recovery in Turkey and Denmark

The group will build a waste heat recovery plant in Izmir that would bring down the internal electricity consumption in the plant to just 40%. A similar implementation will be seen in Denmark.

These investments may contribute around €25m from H2 22 onwards.

Cementir 4.0 digitalisation programme

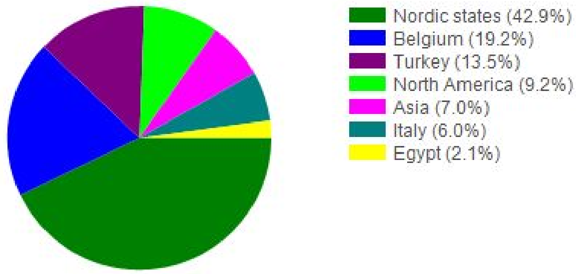
Cementir 4.0 programme aims to digitalise the processes from procurement to storage. This digitalisation programme will focus on four areas of manufacturing: production, maintenance, supply chain and workplace safety. It will streamline operations and will translate into an annual cost saving of €15m from 2022 onwards when it will be rolled out completely (cost savings of €2m – €3m can be expected in 2020 due to partial implementation).



Impact

In our opinion, Cementir's focus on sustainable organic growth over inorganic growth may enable it to shield its EBITDA margins from the effect of the reducing allowance (the overall number of emission allowances will decrease at an annual rate of 2.2% from 2021 onwards, compared to 1.74% in the period 2013-20) and increasing carbon certificate prices. Even after the additional €100m investment, the group continues to have a positive FCF, making it lucrative in the present as well.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 10.8	35%
NAV/SOTP per share	€ 8.95	20%
EV/Ebitda	€ 10.9	20%
P/E	€ 8.17	10%
Dividend Yield	€ 5.81	10%
P/Book	€ 8.05	5%
TARGET PRICE	€ 9.54	100%

NAV/SOTP Calculation

Largest comparables

- Buzzi
- CRH
- Heidelbergcement
- LafargeHolcim
- Vicat

Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	€M	1,196	1,241	1,276
Change in sales	%	4.93	3.72	2.82
Change in staff costs	%	0.90	4.77	2.79
EBITDA	€M	239	257	275
EBITDA(R) margin	**%**	**19.9**	**20.7**	**21.5**
Depreciation	€M	-61.5	-79.5	-81.3
Underlying operating profit	€M	156	152	167
Operating profit (EBIT)	**€M**	**153**	**153**	**169**
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	-32.9	-38.3
Equity associates	€M	1.05	0.00	0.00
Minority interests	€M	-8.47	-11.1	-12.9
Adjusted attributable net profit	**€M**	**112**	**80.1**	**100**
NOPAT	€M	110	107	118

Cashflow Statement

EBITDA	€M	239	257	275
Change in WCR	€M	-3.68	-6.14	-5.75
Actual div. received from equity holdi...	€M	1.23	0.00	0.00
Paid taxes	€M	-42.3	-32.9	-38.3
Exceptional items	€M			
Other operating cash flows	€M	-27.2	-6.00	-30.0
Total operating cash flows	€M	167	212	201
Capital expenditure	€M	-66.6	-71.6	-73.2
Total investment flows	€M	155	-71.6	-73.2
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	10.6	87.9
Free cash flow (pre div.)	**€M**	**130**	**112**	**110**

Per Share Data

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**	**0.50**	**0.63**
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	78.4	84.1
Other assets	€M	88.0	88.9	89.8
Total assets (net of short term liab.)	€M	1,623	1,641	1,659
Ordinary shareholders' equity	**€M**	**997**	**1,031**	**1,133**
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**	**245**	**157**
Total liab. and shareholders' equity	€M	1,623	1,641	1,659

Capital Employed

Capital employed after depreciation	€M	1,533	1,550	1,567

Profits & Risks Ratios

ROE (after tax)	**%**	**14.4**	**7.90**	**9.24**
ROCE	%	7.21	6.89	7.54
Gearing (at book value)	**%**	**40.0**	**24.3**	**17.7**
Adj. Net debt/EBITDA(R)	x	1.07	0.95	0.57
Interest cover (x)	x	-5.19	5.33	9.61

Valuation Ratios

Reference P/E (benchmark)	**x**	**7.79**	**13.4**	**10.8**
Free cash flow yield	%	15.0	10.4	10.2
P/Book	x	0.87	1.04	0.95
Dividend yield	**%**	**2.56**	**2.07**	**2.07**

EV Calculation

Market cap	€M	869	1,077	1,077
+ 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	245	157
+ 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	1,426	1,339
EV/EBITDA(R)	**x**	**5.19**	**5.55**	**4.87**
EV/Sales	x	1.03	1.15	1.05

Analyst : Sejal Varshney, Changes to Forecasts : 11/12/2019.