Cementir Holding

Cement & Aggregates / Italy

Q3 23: Conservative guidance

Earnings/sales releases - 08/11/2023

Cementir Holding has reported a strong set of results that exceeded our initial expectations. Despite a decrease in volume, the company maintained stable revenue due to increased average selling prices, and improved its margins through an operational cost reduction and its presence in niche markets. The company has raised its guidance, but we believe it to be on the conservative side.

Fact

- Revenue: €1,295m (vs €1,288m in 9M 22)
- EBITDA: €326.2m (vs €238.3m in 9M 22)
- Outlook upgraded: EBITDA now around €380m (previously €365m)

Analysis

Cementir Holding has released a favorable set of 9-month results, with stable revenue and a rise in EBITDA. Despite a challenging macroeconomic landscape marked by high interest rates and elevated energy costs, which led to a decline in sales volumes, the company still achieved a robust performance. Cement volumes decreased by 3.1%, ready-mix concrete (RMC) by 10% and aggregates by 11%. However, through the effective execution of price increases, the company managed to report an impressive 37% increase in EBITDA to €326.2m, including non-recurring income of €13.5m mainly related to a gain on asset sales.

Developed countries, which account for 72% of the group's EBITDA, were more significantly affected by the decline in volume. However, in all geographical markets, except the US, EBITDA showed an upward trend. In the Nordics, EBITDA increased by 22.6% and, in Belgium, there was a 22.4% increase, while in the US, price increases were insufficient to fully offset the volume decrease and increased variable costs. Thus, EBITDA decreased by 12.5%.

Nonetheless, sales volume in Turkey and China remained robust while Malaysia and Egypt experienced a market slowdown. Turkey's contribution to EBITDA has steadily risen from 14% in 2022 to 18% today, driven by strong demand following the earthquakes in the country. The company has shifted its focus from cement exports, which have declined by 34%, to the more profitable domestic market. Investments in earthquake-resistant projects have boosted demand, resulting in a 32% increase in revenue. Note that the 43% devaluation of the Turkish Lira (TRY) against the Euro had an impact on the Q3 results and is expected to continue affecting the company's results in Q4. In China, despite a 15% increase in volumes, pricing pressure due to competition offset the volume growth. As a result, the company maintained stable revenue but achieved higher EBITDA, which increased by 11.6%. In Malaysia and Egypt, although volumes declined, both regions managed to achieve EBITDA growth, with a substantial increase of 64.2% in Malaysia and 8.2% in Egypt. It is worth noting that, like Turkey, there was a significant devaluation of the Egyptian pound, amounting to a 74% decrease in value relative to the Euro.

Overall, the company's strategy, based on geographical balance, underscored its importance as, when the construction market is declining in one region, it can remain resilient or even grow in another. The company's impressive performance

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Buy	**Upside: 40.4%**
Target Price (6 months)	€ 12.1
Share Price	€ 8.60
Market Cap. €M	1,368
Price Momentum	**STRONG**
Extremes 12Months	5.82 ▶ 8.60
Sustainability score	2.2 /10
Credit Risk	BBB
Bloomberg	CEM IM Equity
Reuters	CEMI.MI

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PERF	1w	1m	3m	12m
Cementir Holding	9.28%	16.5%	2.02%	44.5%
Building Prod. & Materials	4.37%	-0.89%	-8.48%	23.9%
STOXX 600	2.11%	-0.48%	-3.67%	5.85%

Last updated: 08/11/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	6.11	8.24	9.07	8.59
Dividend yield (%)	3.37	2.79	3.02	3.26
EV/EBITDA(R) (x)	3.11	3.25	3.40	3.13
Adjusted EPS (€)	1.07	1.04	0.95	1.00
Growth in EPS (%)	47.3	-2.16	-9.16	5.53
Dividend (€)	0.22	0.24	0.26	0.28
Sales (€M)	1,723	1,728	1,822	1,934
EBITDA/R margin (%)	19.5	23.1	20.3	19.5
Attributable net profit (€M)	162	162	147	156
ROE (after tax) (%)	13.2	11.6	9.98	9.95
Gearing (%)	-2.01	-10.6	-15.4	-18.2

Company Valuation - Company Financials

is also due to its prudent management of operational costs. Like many of its peers, Cementir Holding has demonstrated its ability to pass on the carbon price to customers, which has contributed to the management's confidence in cost control.

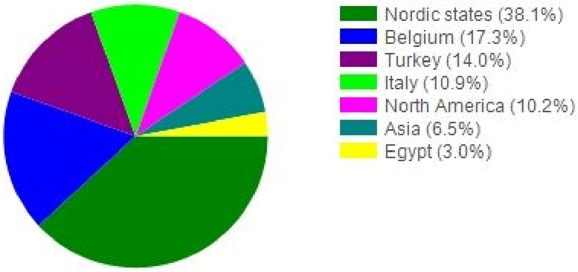
Conservative forecast in 2023

Despite this robust performance, the company is adopting a cautious stance. Although Cementir has already achieved an EBITDA of €320 million in the first nine months, the management has revised its EBITDA guidance to €380 million, which is lower than our estimate of €399 million. The prevailing macroeconomic uncertainty has led the company to exercise prudence regarding the outlook for 2023. The conflict in Gaza could potentially impact the operational performance in Egypt, and this is compounded by the monetary policy being pursued in Turkey, which might affect both demand and exchange rates. The management appears to have a relatively accurate handle on forecasting in developed markets, but predicting outcomes in emerging and volatile markets remains challenging. Nonetheless, the company has effectively managed costs and improved margins throughout the year, thanks to its robust cost management. We anticipate that Cementir will maintain this efficient cost management throughout the remainder of the year.

Impact

The company has raised its FY23 guidance and now expects EBITDA to be around €380m. Despite a robust quarter in a challenging environment, the management has adopted a cautious approach due to the uncertainties related to the devaluation of the Turkish lira and the ongoing demand slowdown in the Nordics. We have integrated the Q3 results into our model and project further growth in Turkey for Q4, factoring in the devaluation. We do not expect costs to exert extreme pressure on EBITDA in Q4. Consequently, our estimates are higher than the company's guidance. Therefore, we reaffirm our buy recommendation on the stock.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 13.8	35%
NAV/SOTP per share	€ 11.2	20%
EV/Ebitda	€ 15.0	20%
P/E	€ 9.46	10%
Dividend Yield	€ 5.84	10%
P/Book	€ 9.29	5%
TARGET PRICE	€ 12.1	100%

NAV/SOTP Calculation

Largest comparables

- Buzzi
- Heidelberg Materials
- Holcim
- Vicat

Consolidated P&L Accounts

		12/22A	12/23E	12/24E
Sales	€M	1,723	1,728	1,822
Change in sales	%	26.7	0.26	5.44
Change in staff costs	%	9.25	4.64	5.57
EBITDA	€M	335	399	370
EBITDA(R) margin	**%**	**19.5**	**23.1**	**20.3**
Depreciation	€M	-108	-107	-109
Underlying operating profit	€M	208	268	238
Operating profit (EBIT)	**€M**	**204**	**268**	**238**
Net financial expense	€M	31.0	-24.9	-24.4
of which related to pensions	€M		-1.54	-1.57
Exceptional items & other	€M			
Corporate tax	€M	-54.9	-69.2	-54.7
Equity associates	€M	0.97	1.00	1.00
Minority interests	€M	-19.3	-13.0	-12.0
Adjusted attributable net profit	**€M**	**166**	**162**	**147**
NOPAT	€M	157	203	180

Cashflow Statement

		12/22A	12/23E	12/24E
EBITDA	€M	335	399	370
Change in WCR	€M	18.2	-4.78	-25.1
Actual div. received from equity holdi...	€M	0.19	0.00	0.00
Paid taxes	€M	-47.7	-69.2	-54.7
Exceptional items	€M			
Other operating cash flows	€M	-17.1	-10.0	-30.0
Total operating cash flows	€M	289	315	260
Capital expenditure	€M	-105	-113	-124
Total investment flows	€M	-139	-143	-154
Net interest expense	€M	31.0	-24.9	-24.4
Dividends (parent company)	€M	-30.8	-34.2	-37.3
Dividends to minorities interests	€M	0.08	0.00	0.00
New shareholders' equity	€M			
Total financial flows	€M	-77.8	-62.7	-66.1
Change in cash position	€M	73.3	110	39.6
Free cash flow (pre div.)	**€M**	**215**	**178**	**111**

Per Share Data

		12/22A	12/23E	12/24E
No. of shares net of treas. stock (year...	Mio	156	156	156
Number of diluted shares (average)	Mio	156	156	156
Benchmark EPS	**€**	**1.07**	**1.04**	**0.95**
Restated NAV per share	€			
Net dividend per share	**€**	**0.22**	**0.24**	**0.26**

Balance Sheet

		12/22A	12/23E	12/24E
Goodwill	€M	407	411	415
Total intangible	€M	611	617	624
Tangible fixed assets	€M	745	745	745
Financial fixed assets	€M	91.8	69.3	69.3
WCR	€M	-8.51	-3.73	21.4
Other assets	€M	72.0	78.7	78.7
Total assets (net of short term liab.)	€M	1,666	1,647	1,678
Ordinary shareholders' equity	**€M**	**1,368**	**1,440**	**1,516**
Quasi Equity & Preferred	€M			
Minority interests	€M	155	158	161
Provisions for pensions	€M	26.3	47.2	45.2
Other provisions for risks and liabilities	€M	36.8	36.8	36.8
Total provisions for risks and liabilities	€M	63.1	84.0	82.0
Tax liabilities	€M	174	174	174
Other liabilities	€M	1.11	1.11	1.11
Net debt (cash)	**€M**	**-95.5**	**-210**	**-256**
Total liab. and shareholders' equity	€M	1,666	1,647	1,678

Capital Employed

		12/22A	12/23E	12/24E
Capital employed after depreciation	€M	1,593	1,568	1,599

Profits & Risks Ratios

		12/22A	12/23E	12/24E
ROE (after tax)	**%**	**13.2**	**11.6**	**9.98**
ROCE	%	9.86	13.0	11.3
Gearing (at book value)	**%**	**-2.01**	**-10.6**	**-15.4**
Adj. Net debt/EBITDA(R)	x	0.17	-0.18	-0.32
Interest cover (x)	x	-6.71	11.5	10.4

Valuation Ratios

		12/22A	12/23E	12/24E
Reference P/E (benchmark)	**x**	**6.11**	**8.24**	**9.07**
Free cash flow yield	%	21.2	13.3	8.33
P/Book	x	0.74	0.93	0.88
Dividend yield	**%**	**3.37**	**2.79**	**3.02**

EV Calculation

		12/22A	12/23E	12/24E
Market cap	€M	1,014	1,337	1,337
+ Provisions	€M	63.1	84.0	82.0
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-248	-350	-395
+ Leases debt equivalent	€M	153	139	139
- Financial fixed assets (fair value)	€M	91.8	69.3	69.3
+ Minority interests (fair value)	€M	155	158	161
= EV	€M	1,044	1,300	1,255
EV/EBITDA(R)	**x**	**3.11**	**3.25**	**3.40**
EV/Sales	x	0.61	0.75	0.69

Analyst : Loco Douza, Changes to Forecasts : 08/11/2023.