Cementir Holding

Cement & Aggregates / Italy

H1 24: the recovery is yet to come

Earnings/sales releases - 31/07/2024

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Cementir Holding's H1 results showed a positive performance in group volumes, largely driven by strong demand in Turkey. However, due to continued low volumes in many other markets, the company has revised down its sales expectations for FY24. Despite this, a recovery in volumes is anticipated for the second half of the year.

Fact

- Revenue: €811.8m (vs €840.7m in H1 '23)
- EBITDA: €192.7m (vs €200.5m in H1 '23)
- Outlook: Sales at €1.7bn / EBITDA at €385m / Net Cash at €300m / Capex at €135m

Analysis

Cementir Holding's H1 results revealed growth in group volumes. Cement and clinker volumes were flat after a slowdown in the Q2. RMC volumes increased by 4%, and Aggregates by 6%. This growth was primarily driven by strong demand in Turkey, which offset the decline in volumes in other regions. However, despite this positive trend, sales declined by 3.2% and EBITDA by 3.9%, leading to a 20 bps decrease in the company's margin. The decline in sales and EBITDA appeared to slow in the Q2 compared to Q1, indicating an operational improvement due to a weaker comparison base in the Q2.

The decrease in sales was primarily attributed to lower volumes in Europe, resulting from adverse weather conditions, a sluggish residential market, and delays in significant infrastructure projects. Additionally, sales were negatively impacted by a €98 million currency effect, mainly due to the devaluation of the Turkish lira, which partially offset the positive operational results from Turkey.

The cost of raw materials decreased by 15%, driven by both lower prices and reduced volumes. This decline in costs is expected to persist throughout the year. However, the company may still face wage inflation, as personnel costs rose by 2.3% this semester despite a reduction in the number of employees.

Overall, the company's performance appears to be improving, with stable pricing across all markets. The pricing mechanism in Turkey, which allows for weekly adjustments in response to inflation, has been effective. Year-over-year volume growth is now positive, with regions like Turkey, the USA, and Malaysia showing signs of a recovery. However, the European market continues to face challenges, prompting a cautious outlook. Consequently, the company has lowered its sales expectations, primarily due to delays in the commencement of infrastructure projects and a ban on exports from Turkey to Israel. Sales are now projected to reach €1.7 billion, down from the previous estimate of €1.8 billion. Despite this, the company maintains a positive outlook on margins, keeping its EBITDA guidance steady at €385 million. The net cash and Capex targets also remain unchanged at €300 million and €135 million, respectively.

Performance by division

The Nordic and Baltic region, accounting for 43% of the group's EBITDA, saw a

Buy	**Upside: 28.5%**
Target Price (6 months)	€ 13.5
Share Price	€ 10.5
Market Cap. €M	1,674
Price Momentum	**STRONG**
Extremes 12Months	7.08 ▶ 10.5
Sustainability score	3.5 /10
Credit Risk	BBB ➔
Bloomberg	CEM IM Equity
Reuters	CEMI.MI

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PERF	1w	1m	3m	12m
Cementir Holding	4.37%	12.9%	8.78%	29.2%
Building Prod. & Materials	-0.47%	5.99%	7.21%	25.8%
STOXX 600	-0.27%	0.52%	1.82%	9.20%

Last updated: 31/07/2024	12/23A	12/24E	12/25E	12/26E
Adjusted P/E (x)	6.04	9.71	10.00	9.46
Dividend yield (%)	3.57	2.66	2.66	2.66
EV/EBITDA(R) (x)	2.69	3.84	3.59	3.25
Adjusted EPS (€)	1.30	1.08	1.05	1.11
Growth in EPS (%)	21.6	-16.5	-2.87	5.65
Dividend (€)	0.28	0.28	0.28	0.28
Sales (€M)	1,694	1,695	1,792	1,885
EBITDA/R margin (%)	24.3	22.6	21.6	21.4
Attributable net profit (€M)	202	169	164	173
ROE (after tax) (%)	14.0	10.9	9.91	9.76
Gearing (%)	-10.4	-15.6	-18.8	-22.0

Company Valuation - Company Financials

decline in sales (down by 9%) and EBITDA (down by 12%) due to low volumes across all countries. In Denmark, volumes were impacted in the Q1 by severe weather conditions and a persistently weak residential market, along with delays in the start of the Fehmarn Belt project. Norway faced similar challenges, with adverse weather and delays in infrastructure projects affecting volume sales. In Sweden, there was a mixed performance, with RMC sales increasing by 25%, but aggregates volumes decreasing by 12%.

The Belgium and France segment showed resilience, achieving a 13% increase in EBITDA despite a 10% decrease in sales due to lower volumes. This strong performance was attributed to reduced production costs compared to the first half of the year.

Turkey experienced the strongest demand among all the regions, with domestic cement volumes increasing by 10%, cement exports up by 10%, and ready-mix concrete (RMC) volumes rising by 24%, along with positive trends in aggregates demand. Despite this strong performance, sales declined by 1.1%, largely due to the 58.7% devaluation of the Turkish lira. Additionally, recurring EBITDA decreased by 7.7% as a result of higher operating costs and the negative impact of foreign exchange, despite the higher volumes and prices.

In Egypt, domestic white cement volumes dropped by 12%, while export volumes increased. Despite a 23% increase in revenues in local currency, driven by higher selling prices, this growth was completely offset by the devaluation of the Egyptian pound. As a result, sales declined by 10%. Nevertheless, EBITDA increased by 2.8%, thanks to higher prices.

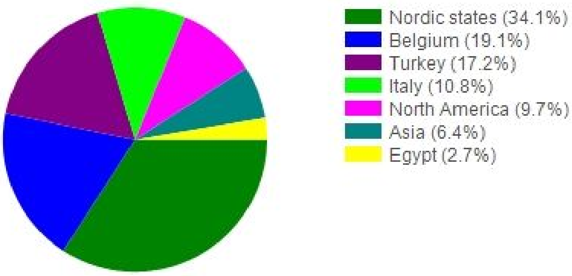
In North America, deliveries were affected by harsh weather conditions and fewer working days, coupled with a still-weak residential market. This led to a 2.7% decline in sales and a 12% decrease in EBITDA, due to lower prices amid tough competition. However, there was a slight improvement in volumes.

In China, revenues fell by 16% due to lower volumes and prices. This, combined with higher transport costs, led to a 36% decline in EBITDA. In Malaysia, despite stable cement volumes and a moderate increase in exports, sales dropped by 12%. However, EBITDA remained stable, thanks to effective management of variable costs.

Impact

Despite the decline in sales and EBITDA, the results were consistent with the company’s expectations. There is optimism for a volume recovery in the second half of the year, fueled by the start of significant infrastructure projects that were previously delayed. Although the market remains challenging due to the impact of these delays and the export ban to Israel, the management has lowered its sales guidance while reaffirming all the other expectations for FY24. Consequently, we have adjusted our sales forecast to reflect a stable year-over-year performance for FY24, with improved margins. Overall, we maintain our Buy recommendation on the stock.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 14.3	35%
NAV/SOTP per share	€ 11.8	20%
EV/Ebitda	€ 17.8	20%
P/E	€ 11.2	10%
Dividend Yield	€ 7.82	10%
P/Book	€ 13.9	5%
TARGET PRICE	€ 13.5	100%

NAV/SOTP Calculation

Largest comparables

- Holcim
- Heidelberg Materials
- Buzzi
- Vicat

Consolidated P&L Accounts

		12/23A	12/24E	12/25E
Sales	€M	1,694	1,695	1,792
Change in sales	%	-1.67	0.03	5.74
Change in staff costs	%	2.49	6.06	2.32
EBITDA	€M	411	384	388
EBITDA(R) margin	**%**	**24.3**	**22.6**	**21.6**
Depreciation	€M	-115	-120	-118
Underlying operating profit	€M	279	242	241
Operating profit (EBIT)	**€M**	**279**	**242**	**241**
Net financial expense	€M	11.6	5.15	2.09
of which related to pensions	€M		-0.42	-0.84
Exceptional items & other	€M			
Corporate tax	€M	-75.2	-65.4	-65.7
Equity associates	€M	0.77	1.00	1.00
Minority interests	€M	-14.1	-14.1	-14.9
Adjusted attributable net profit	**€M**	**202**	**169**	**164**
NOPAT	€M	210	183	183

Cashflow Statement

		12/23A	12/24E	12/25E
EBITDA	€M	411	384	388
Change in WCR	€M	-13.4	-23.5	-21.3
Actual div. received from equity holdi...	€M	0.11	0.00	0.00
Paid taxes	€M	-61.3	-65.4	-65.7
Exceptional items	€M			
Other operating cash flows	€M	-34.5	-30.0	-40.0
Total operating cash flows	€M	302	265	261
Capital expenditure	€M	-107	-135	-96.0
Total investment flows	€M	-91.8	-165	-136
Net interest expense	€M	11.6	5.15	2.09
Dividends (parent company)	€M	-37.5	-43.5	-43.5
Dividends to minorities interests	€M	-201	0.00	0.00
New shareholders' equity	€M			
Total financial flows	€M	-342	-68.1	-0.61
Change in cash position	€M	-145	31.6	124
Free cash flow (pre div.)	**€M**	**207**	**135**	**167**

Per Share Data

		12/23A	12/24E	12/25E
No. of shares net of treas. stock (year...	Mio	156	156	156
Number of diluted shares (average)	Mio	156	156	156
Benchmark EPS	**€**	**1.30**	**1.08**	**1.05**
Restated NAV per share	€			
Net dividend per share	**€**	**0.28**	**0.28**	**0.28**

Balance Sheet

		12/23A	12/24E	12/25E
Goodwill	€M	405	409	413
Total intangible	€M	593	599	605
Tangible fixed assets	€M	732	739	747
Financial fixed assets	€M	94.1	95.1	96.0
WCR	€M	0.81	24.4	45.7
Other assets	€M	72.3	72.3	72.3
Total assets (net of short term liab.)	€M	1,670	1,709	1,747
Ordinary shareholders' equity	**€M**	**1,503**	**1,593**	**1,710**
Quasi Equity & Preferred	€M			
Minority interests	€M	148	151	154
Provisions for pensions	€M	22.8	30.8	32.2
Other provisions for risks and liabilities	€M	29.3	29.3	29.3
Total provisions for risks and liabilities	€M	52.1	60.1	61.5
Tax liabilities	€M	184	184	184
Other liabilities	€M	0.25	0.25	0.25
Net debt (cash)	**€M**	**-218**	**-279**	**-363**
Total liab. and shareholders' equity	€M	1,670	1,709	1,747

Capital Employed

		12/23A	12/24E	12/25E
Capital employed after depreciation	€M	1,597	1,636	1,674

Profits & Risks Ratios

		12/23A	12/24E	12/25E
ROE (after tax)	**%**	**14.0**	**10.9**	**9.91**
ROCE	%	13.1	11.2	10.9
Gearing (at book value)	**%**	**-10.4**	**-15.6**	**-18.8**
Adj. Net debt/EBITDA(R)	x	-0.53	-0.73	-0.94
Interest cover (x)	x	-24.0	-43.4	-82.3

Valuation Ratios

		12/23A	12/24E	12/25E
Reference P/E (benchmark)	**x**	**6.04**	**9.71**	**10.00**
Free cash flow yield	%	17.0	8.24	10.2
P/Book	x	0.81	1.03	0.96
Dividend yield	**%**	**3.57**	**2.66**	**2.66**

EV Calculation

		12/23A	12/24E	12/25E
Market cap	€M	1,219	1,636	1,636
+ Provisions	€M	52.1	60.1	61.5
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-395	-458	-544
+ Leases debt equivalent	€M	177	179	180
- Financial fixed assets (fair value)	€M	94.1	95.1	96.0
+ Minority interests (fair value)	€M	148	151	154
= EV	€M	1,107	1,473	1,392
EV/EBITDA(R)	**x**	**2.69**	**3.84**	**3.59**
EV/Sales	x	0.65	0.87	0.78

Analyst : Loco Douza, Changes to Forecasts : 31/07/2024.