



Cementir Holding

Cement & Aggregates / Italy

FY19: profits higher than our conservative projections

Earnings/sales releases - 06/03/2020

Cementir has published its detailed financial results which confirms our view regarding the company's laudable cash flow management. Overall, the result is in line with our expectations, with Turkey performing significantly better than what we expected. In addition to the macro-economic scenario in Turkey, the 2019 profits were impacted by a scope impact, higher financial charges, and one-off additional taxes.

Fact

Financial highlights

- Revenue: €1,211m, up by 1.3% (lfl -1.4%) compared to 2018
- EBITDA: €263.8m, up by 10.6%. Pre-IFRS 16 EBITDA remained flat.
- EBIT: €151.7m compared to €153.2m in 2018.
- Profit attributable to the owners of the parent at €83.6m (€127.2m in 2018)
- Proposed dividend: €0.14/share (in line with the previous year)
- Net financial debt down to €239.6m (€255.4m in 2018)

Forecast for 2020

- Revenue at €1.27bn
- EBITDA at €270m
- Net financial debt at €180m

Analysis

Cementir Holding's FY19 earning release was largely in line with our projections, with net income slightly above our expectations (+5%) because the margins in Turkey were hit far less than we expected. Net income was subjected to higher financial costs due to the strengthening of the USD (since the loan associated with LWCC is in US dollars) and the exercise of its credit line. Furthermore, the company was also subjected to higher one-off taxes, which should return to a ~25% rate in 2020.

China amid Coronavirus

Cementir has a low exposure to China (6% EBITDA contribution in 2019) and, hence, the Coronavirus will not have any significant impact on its profitability (based on the current situation and if it does not become a pandemic issue). The operations in China were halted for only three weeks, that too during the maintenance period. Operations have recommenced and the group believes that it will be able to catch up the lag and continue operating on its normal trajectory by the end of April. Based on the current scenario of the Coronavirus, the company's outlook resonates with our own outlook.

Low visibility for M&A going forward

While the group has low leverage and strong cash generation, management has commented that the group is currently focusing on strengthening its green footprint rather than inorganic growth. The green investment, detailed in our report “_When cement goes green too_”, remains at the heart of the group in 2020. Furthermore, the group is interested in expanding white cement production by



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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy	Upside: 55.7%
Target Price (6 months)	€ 9.28
Share Price	€ 5.96
Market Cap. €M	948
Price Momentum	UNFAVORABLE
Extremes 12Months	5.76 ▶ 6.99
Bloomberg	CEM IM Equity
Reuters	CEMI.MI


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PERF	1w	1m	3m	12m
Cementir Holding	-0.72%	-8.63%	-10.4%	-1.48%
Building Prod. & Materials	-1.23%	-7.39%	-9.12%	5.62%
STOXX 600	-2.23%	-9.01%	-5.44%	1.36%

Last updated: 06/03/2020	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	7.79	11.4	9.13	7.76
Dividend yield (%)	2.56	2.29	2.35	2.35
EV/EBITDA(R) (x)	5.19	5.01	4.37	3.74
Adjusted EPS (€)	0.70	0.54	0.65	0.77
Growth in EPS (%)	8.63	-23.2	21.2	17.7
Dividend (€)	0.14	0.14	0.14	0.14
Sales (€M)	1,196	1,212	1,243	1,278
EBITDA/R margin (%)	19.9	22.0	22.6	23.3
Attributable net profit (€M)	127	81.6	109	122
ROE (after tax) (%)	14.4	7.94	9.79	9.93
Gearing (%)	40.0	23.4	17.3	8.46

[Company Valuation](#) - [Company Financials](#)

developing a greenfield facility in Asia, but the glitch in the Asian market due to Coronavirus has slowed down the group's efforts and a new greenfield facility cannot be expected until 2023 at least.

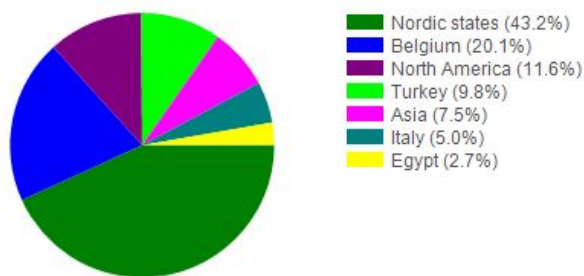
Geographical outlook

For 2020, Denmark can be expected to grow in a low single-digit, Sweden in mid single-digit and Norway will continue to deteriorate as it has already enjoyed a favourable and strong market for many years. The Belgian and French markets will continue to remain strong due to efficiency optimisation and multiple infrastructure projects, with Grand Paris being the crown jewel. The US market saw unfavourable weather and strong competition in 2019, which might be the case in 2020 as well, but a new management is expected to take over in early 2020. We view the performance of the new management as being highly important in determining the amount of further growth and, for the time being, we expect single-digit growth in sales, with lower than sales growth for EBITDA. We expect low single-digit growth in sales from APAC. In the Mediterranean region, the market in Egypt should continue to improve and, despite some improvement in the Turkish market in the last three months, the devaluation of the lira will offset this improvement; ergo, we will not see any improvement there.

■ Impact

We have updated our model with the 2019 figures provided by the group, following which our target price has slightly increased. However, we will modify our estimates for the following years after the group publishes its annual report.

Sales by Geography



Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	€M	1,196	1,212	1,243
Change in sales	%	4.93	1.31	2.59
Change in staff costs	%	0.90	5.91	2.56
EBITDA	€M	239	264	280
EBITDA(R) margin	%	19.9	21.8	22.5
Depreciation	€M	-61.5	-83.9	-79.7
Underlying operating profit	€M	156	156	176
Operating profit (EBIT)	€M	153	153	177
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	-36.2	-37.6
Equity associates	€M	1.05	0.31	0.00
Minority interests	€M	-8.47	-6.86	-13.3
Adjusted attributable net profit	€M	112	85.7	104
NOPAT	€M	110	110	124

Cashflow Statement

		12/18A	12/19E	12/20E
EBITDA	€M	239	264	280
Change in WCR	€M	-3.68	17.9	-27.7
Actual div. received from equity holdi...	€M	1.23	0.00	0.00
Paid taxes	€M	-42.3	-36.2	-37.6
Exceptional items	€M			
Other operating cash flows	€M	-27.2	-6.00	-30.0
Total operating cash flows	€M	167	239	185
Capital expenditure	€M	-66.6	-75.5	-71.7
Total investment flows	€M	155	-75.5	-71.7
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	-68.7	-39.7
Change in cash position	€M	-7.86	16.4	73.4
Free cash flow (pre div.)	€M	130	136	95.6

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	0.54	0.65
Restated NAV per share	€			
Net dividend per share	€	0.14	0.14	0.14

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 11.9	35%	■ Buzzi
NAV/SOTP per share	€ 8.96	20%	■ Heidelbergcement
EV/Ebitda	€ 9.54	20%	■ LafargeHolcim
P/E	€ 6.80	10%	■ Vicat
Dividend Yield	€ 4.09	10%	
P/Book	€ 6.29	5%	
TARGET PRICE	€ 9.28	100%	

NAV/SOTP Calculation

Balance Sheet

		12/18A	12/19E	12/20E
Goodwill	€M	354	349	349
Total intangible	€M	577	563	566
Tangible fixed assets	€M	790	860	869
Financial fixed assets	€M	93.8	94.5	95.4
WCR	€M	72.3	54.3	82.0
Other assets	€M	88.0	90.9	91.8
Total assets (net of short term liab.)	€M	1,623	1,665	1,706
Ordinary shareholders' equity	€M	997	1,058	1,168
Quasi Equity & Preferred	€M			
Minority interests	€M	131	137	138
Provisions for pensions	€M	31.8	23.2	23.3
Other provisions for risks and liabilities	€M	43.3	43.3	43.7
Total provisions for risks and liabilities	€M	75.1	66.5	67.0
Tax liabilities	€M	159	161	163
Other liabilities	€M	4.77	3.83	3.87
Net debt (cash)	€M	255	239	166
Total liab. and shareholders' equity	€M	1,623	1,665	1,706

Capital Employed

		12/18A	12/19E	12/20E
Capital employed after depreciation	€M	1,533	1,573	1,612

Profits & Risks Ratios

		12/18A	12/19E	12/20E
ROE (after tax)	%	14.4	7.94	9.79
ROCE	%	7.21	7.01	7.70
Gearing (at book value)	%	40.0	23.4	17.3
Adj. Net debt/EBITDA(R)	x	1.07	0.91	0.59
Interest cover (x)	x	-5.19	5.49	10.1

Valuation Ratios

		12/18A	12/19E	12/20E
Reference P/E (benchmark)	x	7.79	11.4	9.13
Free cash flow yield	%	15.0	13.9	10.1
P/Book	x	0.87	0.92	0.81
Dividend yield	%	2.56	2.29	2.35

EV Calculation

		12/18A	12/19E	12/20E
Market cap	€M	869	974	948
+ Provisions	€M	75.1	66.5	67.0
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	255	239	166
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M	93.8	94.5	95.4
+ Minority interests (fair value)	€M	131	137	138
= EV	€M	1,237	1,322	1,224
EV/EBITDA(R)	x	5.19	5.01	4.37
EV/Sales	x	1.03	1.09	0.98

Analyst : Sejal Varshney, Changes to Forecasts : 06/03/2020.