ALPHAVALUE CORPORATE SERVICES

Cementir Holding

Cement & Aggregates / Italy

H1 23: positive price-cost spread

Earnings/sales releases - 31/07/2023

Cementir Holding announced a good set of results, which were in line with our expectations. Despite a decline in volume, the company managed to keep revenue stable thanks to higher average selling prices, while improving its margins thanks to its hedging policy and a presence in niche markets. EBITDA, excluding one-off effects, increased by 34% and the margin increased by 5.6pp.

Fact

- Revenue: €840.7m (vs €831.6m in H1 22)
- EBITDA: €200.5m (vs €143.8m in H1 22)
- Net profit: €90.3m (vs €66.6m in H1 22)
- Outlook upgraded: EBITDA now around €365m (previously €335-345m)

Analysis

Cementir Holding has reported a good set of H1 results, with a significant increase in revenue and EBITDA. Despite a decrease in the volumes of cement (-5.5%), RMC (-11.3%) and aggregates (-15.3%), the company managed to achieve a 1.1% increase in revenue and a 39.5% increase in EBITDA due to its successful management of price over costs.

The higher EBITDA was seen in all markets, allowing the company to reach a margin of 23.9%, 6.6pp higher than in the previous year thanks to strong pricing as well as the company's careful management of energy costs, supported by a strong hedging policy. It is worth noting that EBITDA includes €7.5m of capital gains; excluding this one-off, the margin stands at 22.9%, 5.6pp higher than in the previous year.

While energy costs have reached their peak in the last year, they have now stabilised at a level that is still higher than the average of previous years. Consequently, we anticipate that prices will follow the same trend in the coming quarter and stabilise. However, it is important to note that inflation might cause labour and financial costs to continue to rise this year.

Performance by division

In the Nordic and Baltic regions, which contributed 40% of the group's EBITDA, sales experienced a 5.7% decrease due to declining volumes in both domestic and export markets. However, there are signs of stabilisation in the volume decline. The negative trend in these regions can be attributed to high inflation and increased interest rates, which have impacted the residential sector and investments in public works. Despite these challenges, there is a notable development with the construction of an underwater tunnel connecting Denmark to Germany, which managed to offset partially the volume decline in Denmark. As a result, Denmark saw a 4.7% increase in revenue and a significant 53.7% rise in EBITDA. On the other hand, Norway and Sweden were more severely affected, experiencing a 22% drop in revenue and a substantial 64% decline in EBITDA year on year. Nevertheless, the margin still increased by 8.3pp.

The Belgium and France segment showed a strong performance, with a 12%

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Buy	**Upside: 46.9%**
Target Price (6 months)	€ 12.3
Share Price	€ 8.37
Market Cap. €M	1,332
Price Momentum	**STRONG**
Extremes 12Months	5.10 ▸ 8.37
Sustainability score	2.3 /10
Credit Risk	BBB ➡
Bloomberg	CEM IM Equity
Reuters	CEMI.MI

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PERF	1w	1m	3m	12m
Cementir Holding	5.42%	15.0%	13.3%	41.1%
Building Prod. & Materials	4.10%	7.17%	13.2%	36.3%
STOXX 600	1.16%	3.23%	0.89%	8.78%

Last updated: 28/07/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	6.11	8.36	8.53	8.29
Dividend yield (%)	3.37	2.87	3.11	3.35
EV/EBITDA(R) (x)	3.11	3.49	3.30	3.01
Adjusted EPS (€)	1.07	1.00	0.98	1.01
Growth in EPS (%)	47.3	-6.12	-2.01	2.87
Dividend (€)	0.22	0.24	0.26	0.28
Sales (€M)	1,723	1,820	1,929	2,031
EBITDA/R margin (%)	19.5	20.1	19.3	18.9
Attributable net profit (€M)	162	156	153	157
ROE (after tax) (%)	13.2	11.1	10.4	10.1
Gearing (%)	-2.01	-10.3	-14.8	-17.7

Company Valuation - Company Financials

increase in revenue and an 18% increase in EBITDA, despite a double-digit volume decline. This was mainly due to successful price increases that offset the volume decline, and the EBITDA margin also saw a significant increase of 120bp, thanks to the efficient management of energy costs.

In North America, the US market encountered a 14% decrease in volume in Texas and California, mainly caused by competitive pressure from imports. As a result, despite implementing price increases and benefiting from a positive FX impact of 1.1%, revenue experienced a decline of 1.1%. Additionally, EBITDA also suffered, dropping by 18% due to higher operating costs, leading to a significant decrease of 320bp in the EBITDA margin.

In the Asia Pacific region, China experienced a 1.5% rise in revenue, attributed to the easing of COVID-19 restrictions in Q2. The substantial increase in volumes more than compensated for the decline observed in Q1. However, EBITDA, excluding one-time effects, decreased by 18% due to lower prices. On the other hand, in Malaysia, revenue remained stable despite a significant decrease in white cement exports, as it was offset by strong demand in the local market. Notably, EBITDA in Malaysia saw a remarkable increase of 43%, primarily driven by higher selling prices and reduced freight costs, partially balanced by increased production costs. Additionally, it is worth mentioning that both the Chinese Yuan (CNY) and Malaysian Ringgit (MYR) depreciated over the same period.

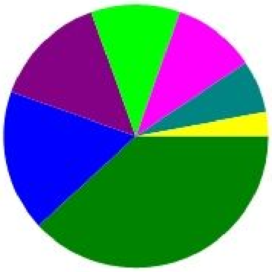
The company shifted focus from cement exports (down by 50%) to the more profitable domestic market. Antiseismic investment-driven projects increased demand, leading to a 38% revenue increase. EBITDA more than doubled to €34m as higher cement prices offset production costs. Excluding one-off effects, EBITDA reached €29m, with an 18% margin. Notably, the TRY devaluated by 32.7% compared to the Euro during the period.

In Egypt, revenue decreased by 5.1% primarily due to the negative impact of FX (74%). However, EBITDA increased by 44% due to the efficient management of production costs and an increase in selling prices, resulting in a 970bp increase in the margin.

Impact

The company has raised its FY23 guidance and now anticipates EBITDA to be around €365m. Despite a robust quarter in a challenging environment, the management has adopted a cautious approach due to uncertainties related to the devaluation of the Turkish lira and the ongoing demand slowdown in the Nordics. Accounting for these factors, the estimates have been adjusted upwards, and the recommendation to buy the stock is reiterated.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 13.7	35%
NAV/SOTP per share	€ 11.1	20%
EV/Ebitda	€ 15.4	20%
P/E	€ 10.7	10%
Dividend Yield	€ 6.16	10%
P/Book	€ 10.1	5%
TARGET PRICE	€ 12.3	100%

NAV/SOTP Calculation

Largest comparables

- Holcim
- Heidelberg Materials
- Buzzi
- Vicat

Consolidated P&L Accounts

		12/22A	12/23E	12/24E
Sales	€M	1,723	1,820	1,929
Change in sales	%	26.7	5.61	6.02
Change in staff costs	%	9.25	4.64	5.57
EBITDA	€M	335	365	372
EBITDA(R) margin	**%**	**19.5**	**20.1**	**19.3**
Depreciation	€M	-108	-105	-109
Underlying operating profit	€M	208	238	240
Operating profit (EBIT)	**€M**	**204**	**238**	**240**
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	-47.8	-52.1
Equity associates	€M	0.97	1.00	1.00
Minority interests	€M	-19.3	-11.0	-12.0
Adjusted attributable net profit	**€M**	**166**	**156**	**153**
NOPAT	€M	157	181	182

Cashflow Statement

		12/22A	12/23E	12/24E
EBITDA	€M	335	365	372
Change in WCR	€M	18.2	-4.58	-26.6
Actual div. received from equity holdi...	€M	0.19	0.00	0.00
Paid taxes	€M	-47.7	-47.8	-52.1
Exceptional items	€M			
Other operating cash flows	€M	-17.1	-10.0	-30.0
Total operating cash flows	€M	289	303	263
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	97.4	43.3
Free cash flow (pre div.)	**€M**	**215**	**165**	**115**

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**	**1.00**	**0.98**
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	-3.93	22.6
Other assets	€M	72.0	78.7	78.7
Total assets (net of short term liab.)	€M	1,666	1,647	1,679
Ordinary shareholders' equity	**€M**	**1,368**	**1,428**	**1,509**
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**	**-198**	**-247**
Total liab. and shareholders' equity	€M	1,666	1,647	1,679

Capital Employed

		12/22A	12/23E	12/24E
Capital employed after depreciation	€M	1,593	1,567	1,600

Profits & Risks Ratios

		12/22A	12/23E	12/24E
ROE (after tax)	**%**	**13.2**	**11.1**	**10.4**
ROCE	%	9.86	11.5	11.4
Gearing (at book value)	**%**	**-2.01**	**-10.3**	**-14.8**
Adj. Net debt/EBITDA(R)	x	0.17	-0.16	-0.29
Interest cover (x)	x	-6.71	10.2	10.5

Valuation Ratios

		12/22A	12/23E	12/24E
Reference P/E (benchmark)	**x**	**6.11**	**8.36**	**8.53**
Free cash flow yield	%	21.2	12.7	8.84
P/Book	x	0.74	0.91	0.86
Dividend yield	**%**	**3.37**	**2.87**	**3.11**

EV Calculation

		12/22A	12/23E	12/24E
Market cap	€M	1,014	1,302	1,302
+ 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	-337	-387
+ 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	1,276	1,228
EV/EBITDA(R)	**x**	**3.11**	**3.49**	**3.30**
EV/Sales	x	0.61	0.70	0.64

Analyst : Loco Douza, Changes to Forecasts : 28/07/2023.