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Sponsored research
Cement & Aggregates
Italy

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Cementir Holding

Positioned in a niche market

Opinion	**Buy**
Upside (%)	31.6
Price (€)	9.89
Target Price (€)	13.0
Bloomberg Code	CEM IM
Market Cap (€M)	1,574
Enterprise Value (€M)	1,445

Momentum	STRONG
Sustainability	2/10
Credit Risk	BBB→

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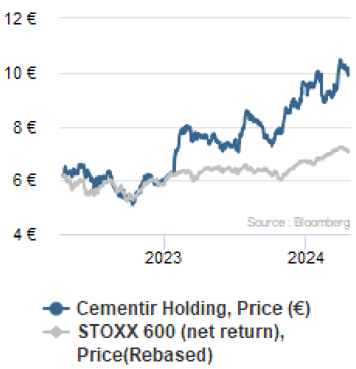


PROS

- Cementir is about white cement, a niche that offers growth and better margins as a higher value-added product. It controls 20% of the addressable market
- It has an excellent record at pivoting assets and making those sweat with Denmark, the US and Belgium as the current hubs
- The family-controlled business appears to be run as a tight ship with a long-term view

CONS

- Absolute market size is capped in white cement so that Cementir relies on Belgian and Danish assets to grow local grey cement franchises
- As a family business, it leaves no room for third-party openings and suffers from a limited float
- Cementir will see a trough in its net profit in 2019

KEY DATA	12/21A	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	**12.0**	**6.11**	**7.31**	**10.0**	**11.4**
Dividend yield (%)	*2.07*	*3.37*	*3.06*	*2.63*	*2.83*
EV/EBITDA(R) (x)	4.93	3.11	2.86	3.79	3.54
Adjusted EPS (€)	**0.72**	**1.07**	**1.07**	**0.99**	**0.87**
Growth in EPS (%)	*11.2*	*47.3*	*0.53*	*-7.96*	*-12.2*
Dividend (€)	0.18	0.22	0.24	0.26	0.28
Sales (€M)	1,360	1,723	1,694	1,793	1,905
EBITDA/R margin (%)	*22.9*	*19.5*	*24.3*	*21.3*	*20.4*
Attributable net profit (€M)	113	162	167	154	135
ROE (after tax) (%)	**10.6**	**13.2**	**11.9**	**10.3**	**8.58**
Gearing (%)	*7.47*	*-2.01*	*-10.7*	*-15.8*	*-18.6*

Conflicts of interest

Corporate broking	No
Trading in corporate shares	No
Analyst ownership	No
Advice to corporate	No
Research paid for by corporate	Yes
Corporate access	No
Brokerage activity at AlphaValue	No
Client of AlphaValue Research	No

Detailed financials at the end of this report

Key Ratios

		12/22A	12/23E	12/24E	12/25E
Adjusted P/E	x	6.11	7.31	10.0	11.4
EV/EBITDA	x	3.11	2.86	3.79	3.54
P/Book	x	0.74	0.84	1.01	0.95
Dividend yield	%	3.37	3.06	2.63	2.83
Free Cash Flow Yield	%	21.2	14.9	7.66	9.60
ROE (after tax)	%	13.2	11.9	10.3	8.58
ROCE	%	9.86	13.5	11.8	11.1
Net debt/EBITDA	x	0.17	-0.18	-0.33	-0.50

Consolidated P&L

		12/22A	12/23E	12/24E	12/25E
Sales	€M	1,723	1,694	1,793	1,905
EBITDA	€M	335	411	381	389
Underlying operating profit	€M	208	280	249	237
Operating profit (EBIT)	€M	204	280	249	237
Net financial expenses	€M	31.0	-32.9	-29.4	-32.0
Pre-tax profit before exceptional items	€M	236	247	220	205
Corporate tax	€M	-54.9	-68.4	-55.5	-59.5
Attributable net profit	€M	162	167	154	135
Adjusted attributable net profit	€M	166	167	154	135

Cashflow Statement

		12/22A	12/23E	12/24E	12/25E
Total operating cash flows	€M	289	328	271	273
Capital expenditure	€M	-105	-113	-124	-93.0
Total investment flows	€M	-139	-143	-154	-133
Dividends (parent company)	€M	-30.8	-34.2	-37.3	-40.4
New shareholders' equity	€M				
Total financial flows	€M	-77.8	-70.7	-71.1	-101
Change in net debt position	€M	113	119	52.1	68.7
Free cash flow (pre div.)	€M	215	182	118	148

Balance Sheet

		12/22A	12/23E	12/24E	12/25E
Goodwill	€M	407	411	415	419
Total intangible	€M	611	617	624	630
Tangible fixed assets	€M	745	745	745	745
Right-of-use	€M	153	139	139	139
WCR	€M	-8.51	-3.66	21.0	38.2
Total assets (net of short term liabilities)	€M	1,666	1,647	1,678	1,701
Ordinary shareholders' equity (group share)	€M	1,368	1,445	1,527	1,617
Provisions for pensions	€M	26.3	47.2	45.2	43.3
Net debt / (cash)	€M	-95.5	-215	-267	-336
Total liabilities and shareholders' equity	€M	1,666	1,647	1,678	1,701
Gross Cash	€M	407	521	567	606

Per Share Data

		12/22A	12/23E	12/24E	12/25E
Adjusted EPS (bfr gwill amort. & dil.)	**€**	**1.07**	**1.07**	**0.99**	**0.87**
Net dividend per share	**€**	**0.22**	**0.24**	**0.26**	**0.28**
Free cash flow per share	€	1.38	1.17	0.76	0.95
Book value per share	€	8.80	9.29	9.82	10.4
Number of diluted shares (average)	**Mio**	**156**	**156**	**156**	**156**

Contents

Businesses & Trends

Introduction

Cementir, a global cement player with Italian roots, is the kingpin in white cement (with a 20% market share excluding "off"-white cement). Denmark is by far its biggest market (30% of revenues in 2018). The company strives to develop strong local market share in grey cement and a noteworthy global market share in white cement.

Like its French peer Vicat, Cementir is a family-driven business that has maintained a solid balance sheet throughout its volatile industrial cycle, with its net debt/EBITDA consistently below 3x. It stands unique as it dodged costly acquisitions during the top of the cycle (2007-08) and, ergo, avoided the need for fresh-but-dilutive capital at the bottom of the cycle (2008-09).

Cementir believes in fair-priced acquisitions which have strategical location and well maintained assets. Its past deals helped it to develop a white cement franchise with strong and recurrent cash flows (mainly linked to the renovation market) which could be the cash cow to a careful expansion in the bigger but more cyclical grey cement market. Yet, with the current focus on sustainability and digitalisation, we evaluate the likelihood of its inorganic growth as low.

Operations

Cementir has operations in 18 countries across five continents. In addition to white cement, it is involved in grey cement, ready mix, aggregates and the processing of urban and industrial waste.

What makes Cementir unusual is its exposure to the underpenetrated and more lucrative white cement business (20% global market share, excluding "off-white" and lower quality Asian products). White cement provides a great white space opportunity as it trades at twice the price of grey cement (local comparison) and accounts for about 1% of grey cement volumes. Given its higher unit value in comparison to white cement, it can be more easily transported, opening the company's gates to global markets. This has in turn made Cementir the leader of traded flow, with export sales representing about 25% of total exported volumes globally. Furthermore, its local presence with a sales force and/or controlled logistic networks in about 20 key target markets enhances its exports. The group aims to export 50% of the white cement produced by 2020, which is an ambitious but achievable target in our opinion.

White cement relies on scarce yet extra-pure limestone, accompanied with sand, gypsum and alu silicates. These hardly exist in certain countries such as Brazil, Australia and parts of Africa. The chemical composition of the limestone used in white cement is such that the burning process requires a higher temperature and eats up roughly 50% more energy as compared to grey cement.

Waste management as part of the cement value chain

For a decade, Cementir has been strategically including waste management in its value chain. In 2009, Cementir entered the Turkish waste management business through the acquisition of Sureko AS and reinforced its presence through the acquisition of Recydia in 2011 (waste management and renewables business). It was then complemented by the acquisition of NWM Holdings (UK) which collects, treats, recycles and disposes of waste. Since Cementir has no cement plants in the UK, we believe that the goal is to use this waste as fuel in the Denmark kilns to reduce energy consumption (as waste has higher calorific value than traditional fuels) and leave a greener footprint because the wastes would have been incinerated otherwise as well. Cementir's waste business's standalone profitability might seem low but it enables the group to address environmental issues significantly.

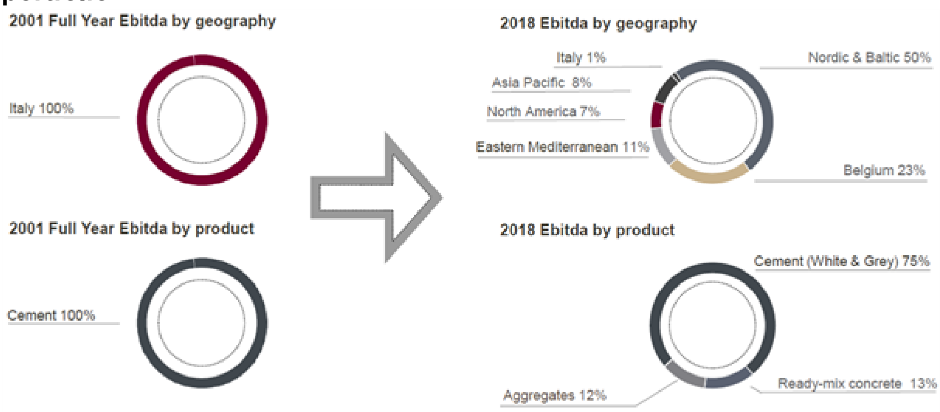
Contrarian strategy?

Cementir has grown from a medium-sized Italian "single-country" and "single-product" operator into a fully-fledged multinational company, without any increase in share capital, thanks to surplus operating cash flow generation.

In 2001, the Cementir Group embarked on its geographic diversification process, by acquiring Cimentas in Turkey. This was followed by a product diversification through the acquisition of Aalborg Portland in 2004, a white cement manufacturer.

However, the most radical transformation of the Cementir Group portfolio came between 2016 and 2018. It acquired the cement and concrete business of Sacci SpA (2016), expanded its international presence by acquiring CCB (2016), sold off all Italian assets in 2018 (with only the central headquarter and some trading businesses remaining in Italy) and, lastly, acquired a majority shareholding in Lehigh White Cement Company (LWCC) in the US (2018) – making Cementir a leader in this promising niche market with a market share of ~20%.

Two decades of work results in the exit of Italy and a well-diversified portfolio



Products' analysis

<u>The Cement division (€700m of sales)</u>

Cementir produces about 10mt of grey and white cement via Aalborg Portland, the leader in Denmark, and Lehigh White Cement Company in the US, while its Chinese, Egyptian and Malaysian subsidiaries are the leading producers of white cement in their respective domestic markets.

In 2018, Cementir produced 7.3mt of grey cement mainly from the six plants in Denmark, Belgium and Turkey and 2.5mt of white cement. Cementir is the world's leading producer and exporter of white cement, which is a well-profitable business as sales are generally B2B where switching costs are high.

Ready-mixed concrete (4.9mm3 sold, €429m of sales)

Ready-mixed concrete is widely used in construction activities. The group owns 105 concrete mixing plants (37 in Denmark, 28 in Norway, 9 in Sweden, 16 in Turkey, 10 in Belgium, 5 in France) with a strong hold in Denmark and Norway.

Aggregates (10mt sold, €87m in sales)

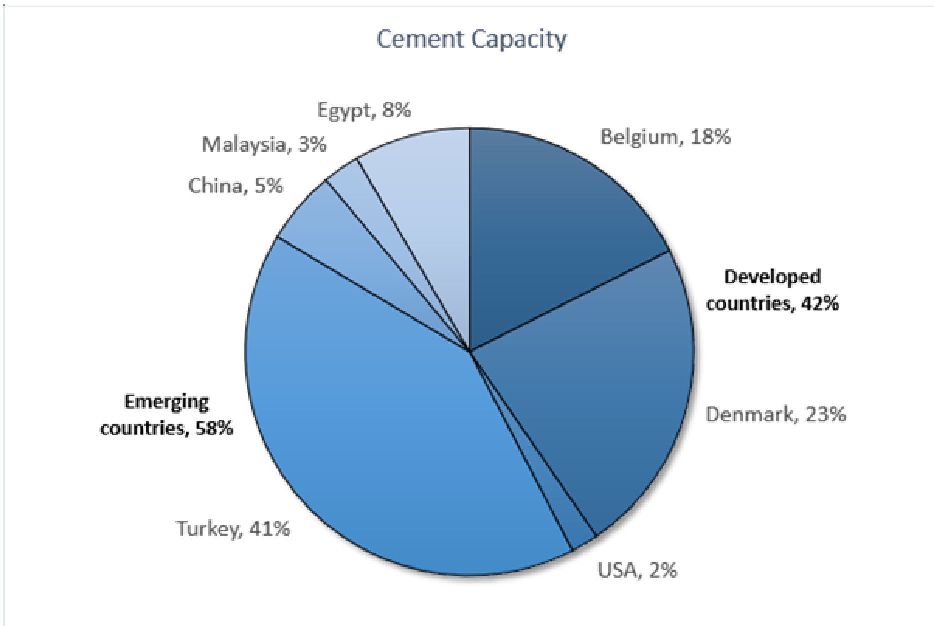
Aggregates is a small yet profitable (EBITDA margin at 32%) business. The group owns 11 quarries (3 in Belgium, 5 in Sweden, and 3 in Denmark).

Waste (€108m in sales)

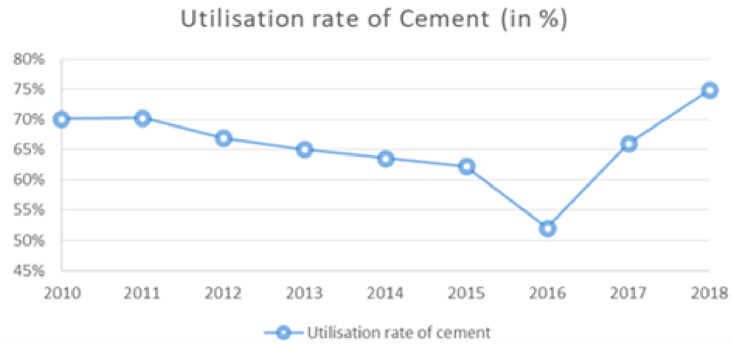
Waste is being successfully used as an alternative fuel. Cementir was one of the first industrial players to capitalise on this since 2009. Cementir Group's treatment plants produced a total of 100,000 tons of fuel from waste in 2018, or c. 20% of its fossil fuel needs in 2018.

Cement capacity split and utilisation rate

41% of the group cement capacity is located in Turkey, which has been a drag over the past few quarters.



At 75% in 2018, the utilisation rate was at its highest for a decade. Compared to other cement companies in the AlphaValue universe, it outperforms LafargeHolcim, HeidelbergCement and Buzzi (~70%) and is at par with Vicat (~75%).



Geographical diversification

Cementir enters the Belgian market…

In 2016, Cementir acquired Compagnie des Ciments Belges (CCB) in a competitive bidding process for €312m on a cash and debt-free basis. This included an integrated plant with a capacity of 2.3 million tons, 3 aggregates quarries (one of which is the biggest quarry in Europe) and 10 ready-mix plants. The cement plant located in Gaurain is the largest in France-Benelux, with a state-of-the-art technology, well-developed logistics and mineral reserves with long life (over 80 years).

This deal helped address the core of Western Europe, with a low risk profile but at the detriment of lower growth prospects than in emerging markets.

...exits Italy…

In Q1 18, Cementir sold all its operations in Italy to HeidelbergCement for €315m on a cash and debt free basis. This included 5 fully integrated plants, 2 grinding centres, 6 terminals and several ready-mix plants. The disposal of the loss-making Italian activities brought the group debt/EBITDA to about 1x and opened fresh consolidation options.

...and reinforces its presence in the US

In Q1 18, Cementir reinforced its position as a global leader in white cement by acquiring an additional 38.75% stake in Lehigh White Cement Company (LWCC) (to reach 63.25%), which is the leading supplier and distributor of white cement in the US. The local white cement capacity is low at only 0.26m tons, but this is backboned by high imports from the plants operated by Cementir in other countries (Egypt, Denmark notably) and from the plants operated by Cemex, which owns the remaining 36.75% stake in LWCC. Extensive inbound and inland logistics are the key competitive advantages for Cementir in the US. As the company targets to export 50% of its white cement production, the LWCC deal was key in order to get an exposure to this import-led market.

The group aims to gain market share in the US and hence it may not hike prices for a year or two. We concur with this strategy because Cementir’s main goal is to achieve a 50% exports target, and importing from Denmark and Egypt to meet the market demands will not only increase the market share in the US but will help with meeting the export targets as well. Hence, the LWCC deal was essential for this strategy.

China: the most profitable market going forward?

China, along with Malaysia have so far been the most profitable and highest growth markets for Cementir (sales CAGR = 4.7% and average EBITDA margin = 23% over 2013-18). Sales in China are mostly local and focused on premium white cement, unlike the other Chinese players which provide lower grade “off”-white cement.

In 2016, the Chinese Ministry of Industry and Information Technology published guidelines on eliminating outdated production capacity in cement, which may phase out at least 500mt of ‘low-grade’ grey cement production capacity. On top of this, an unprecedented consolidation may take place in China’s cement industry by 2020. These may impact the white cement market as high-quality assets are mostly owned by big players. The aforementioned reasons support our investment thesis that China could be the most profitable market for cement in future.

Egypt: a sharp rebound potential

In Egypt, Cementir operates mainly in the Sinai Peninsula, where the operations were dragged down by security concerns in 2018. Devaluation in FX, temporary shutdown of the plants and barriers in transportation caused a decline in sales volume and prices. However, the Q1 19 results showed a recovery with a doubling in sales. Also, the competitive picture has been embellished as there are now only two players left in white cement. However, we believe that this is insignificant as a major part of the production is exported to other countries such as the US.

Outlook for grey cement

Cementir is the only Danish producer of grey cement with a significant market share, despite imports from the Baltic States and Northern Germany. It is a steady market in which the demand for cement is expected to grow by about 2% over the long term. Exports are focused on mainly Norway and Iceland. Denmark represents 21% of the group’s grey cement capacity as well as 40% of EBITDA, with a cash conversion ratio as high as 75%.

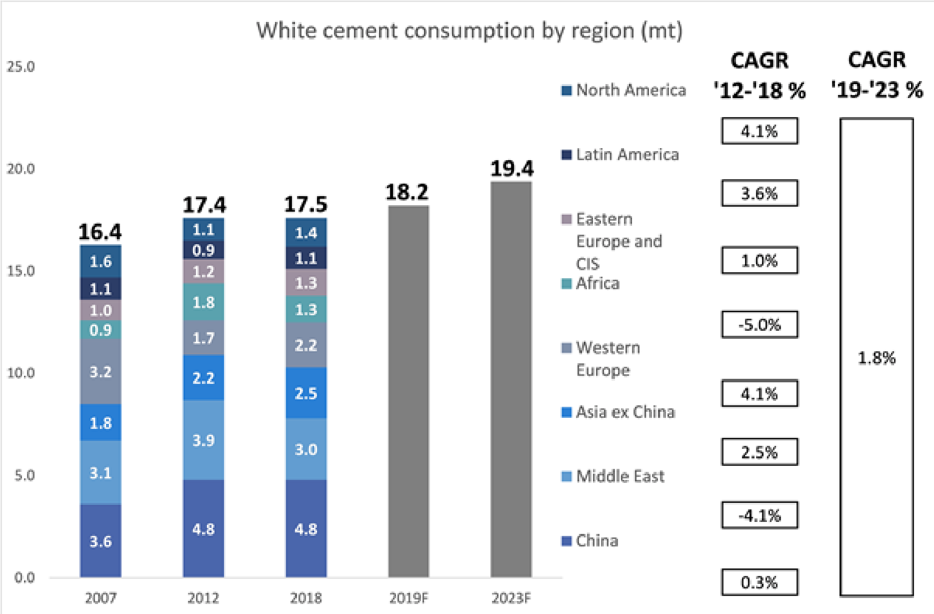
After the acquisition of CCB in 2016. Belgium accounts for a sizeable portion of both capacity (19%) and EBITDA (23%). Sales in Belgium are driven by: i) a residential market supported by renovation and infrastructure, and ii) large exposure to France, the Netherlands and Germany. France pulls with its infrastructure and concessions spending, with the Summer Olympics 2024, as well as with the Grand Paris underground.

In the past, Turkey has posted one of the highest levels of per capita grey cement consumption. However, the devaluation of the lira and rapid inflation, accompanied by political tension from 2018 onwards, has caused the GDP growth in 2019 to plummet (from 7.4% in 2017 to 1% in 2019). Volume improvements are bound to be slow. The best of the Erdogan years is probably behind but the group holds a long-term positive view which can be clearly seen by the green investment in the Izmir plant.

Market size and industry analysis

Expected growth higher for white cement

There is an ongoing commercial push to “create and grow the market” for white cement while the market for grey cement is pulled by demand. White cement demand is set to increase by an average of 1.8% p.a. between 2018 and 2023, expanding from 17.5mt to 19.4mt. From a regional perspective, China and Asia ex-China, are expected to lead growth in white cement consumption.



White cement is a more rewarding premium business. While grey cement is a standardised €200bn market with around 2bnt of production per year excluding China, white cement is a €4bn niche market with only about 20mt of production per year.

Growth of the white cement market is expected over the medium term to be higher than grey cement because:

- there is a cannibalisation effect of grey cement by white cement due to the added functionalities/applications it offers;
- cement usually represents less than 5% of total construction costs and white cement is only twice the price of grey cement, thus demand is inelastic to prices;
- white cement can replace grey cement in practically every application;
- there are virtually unlimited applications for white cement: pre-stressed concrete façade, paving blocks, artificial stone, Glass-Fibre Reinforced Concrete (GRC) façade, Ultra-High Performance Concrete (UHPC), dry mix mortars and Ready Mix Concrete (RMC);

- a defining feature of white cement is the possibility of producing coloured ready-mix or dry admixtures by mixing it with pigments.

INDUSTRY TRENDS

Alternative fuels

In order to decrease the environmental impact of the industry, improve the competitiveness of cement companies, and provide a viable and convenient end-of-life option for waste and industrial by-products, the use of alternative fuels is evolving.

CO2 taxation

After a decade of single-digit prices, European carbon now trades close to €30/t. The Emissions Trading System is at the root of the EU climate strategy. As part of its transition to a low-carbon economy, the EU targets to become carbon neutral by 2050 (compared to 1990 levels), in order to keep climate change below 2°C. Phase 4 of ETS (2021-30) will further reduce the allowances available (annual rate of decline from 1.74% currently to 2.2% (2021)).

Contrary to the power sector, the cement industry, which contributes 8% to the world's CO2 emissions, receives net excessive free allocations from the EU ETS due to low production levels after 2008. This hardly led to any net reduction in GHG but a decline in the threshold accompanied with increasing carbon prices will incentivise manufacturers to put efforts in long-term solutions rather than relying just on the trading system.

Hence, keeping the lid on CO2 is essential to survive. Note that Cementir has free CO2 allowances up until the end of 2021, which is already a competitive advantage compared to some of the other cement companies.

Cementir's actions

Some actions implemented by Cementir are as follows:

- A heat-recovery system has been built in Aalborg (Denmark). Most of excess heat is recovered and supplied to the Aalborg City district heating (36,000 households which may increase to 50,000 households by 2023). We believe that this heat recovery system is a way of maintaining a good relationship with the politicians and locals (i.e. external shareholders) of a green country like Denmark.
- About 400mt of industrial and urban waste are collected and processed annually in the group's plants, as a way to reduce annual energy consumption. 40% of the total energy requirement in the Gaurain plant in Belgium is fulfilled by waste fuel and the group aims to increase this to 80% by 2023.

Megatrends

Urbanisation

The number of people living in cities increases by 50 million every year, and this figure continues to grow. By 2050, an estimated six billion people — or two-thirds of the world's population — will live in cities. This growth in urbanisation will drive the demand for durable yet affordable workplaces and homes, which will in turn increase the demand for cement.

Global warming

With the increase in global temperature, the demand for sustainable yet affordable materials is increasing. Since roughly 8% of world's CO2 emissions stems from the cement industry, cutting down this emission is a prerequisite. However, in booming economies from Asia to Eastern Europe, cement is literally the glue of the process, which makes it difficult to replace. Any resolute reduction in carbon emissions will have significant consequences for the construction materials industry.

Divisional Breakdown Of Revenues

	Sector	12/22A	12/23E	12/24E	12/25E	Change 23E/22 €M	Change 23E/22 of % total	Change 24E/23E €M	Change 24E/23E of % total
Total sales		**1,723**	**1,694**	**1,793**	**1,905**	**-29**	**100%**	**99**	**100%**
Nordic & Baltic	Cement & Aggregates	736	647	640	639	-89	307%	-7	-7%
North America (US)	Cement & Aggregates	196	178	180	184	-18	62%	2	2%
Belgium/France	Cement & Aggregates	334	363	392	415	29	-100%	29	29%
Turkey	Cement & Aggregates	271	345	400	460	74	-255%	55	56%
Egypt	Cement & Aggregates	57.1	46.8	48.2	49.2	-10	36%	1	1%
Asia Pacific (China & Malaysia)	Cement & Aggregates	125	116	119	121	-9	31%	3	3%
Holding & Services	Holding Companies	210	204	214	227	-6	21%	10	10%
Other		-207	-204	-198	-190	3	-10%	6	6%

Key Exposures

	Revenues	Costs	Equity
Australian $	3.0%	3.0%	3.0%
Dollar	10.0%	10.0%	10.0%
Emerging currencies	23.0%	23.0%	23.0%
Long-term global warming	0.0%	15.0%	15.0%
Oil price (Brent $/bl)	0.0%	12.0%	12.0%
Power price (MWh in €)	0.0%	8.0%	8.0%

Sales By Geography

Nordic states	42.7%
Of which Denmark	29.6%
Belgium	19.4%
Turkey	15.7%
Italy	12.2%
North America	11.4%
Asia	7.2%
Egypt	3.3%

We address exposures (eg. how much of the turnover is exposed to the $) rather than sensitivities (say, how much a 5% move in the $ affects the bottom line). This is to make comparisons easier and provides useful tools when extracting relevant data.
Actually, the subject is rather complex on the ground. The default position is one of an investor managing in €. An investor in £ will obviously not react to a £ based stock trading partly in € as would a € based investor. In addition, certain circumstances can prove difficult to unravel such as for eg. a € based investor confronted to a Swiss company reporting in $ but with a quote in CHF... Sales exposure is probably straightforward but one has to be careful with deep cyclicals. Costs exposure is a bit less easy to determine (we do not allow for hedges as they can only be postponing the day of reckoning). How much of the equity is exposed to a given subject is rarely straightforward but can be quite telling
In addition, subjects are frequently intertwined. A $ exposure may encompass all revenues in $ pegged currencies and an emerging currency exposure is likely to include $ pegged currencies as well.
Exposure to global warming issues is frequently indirect and may require to stretch a bit imagination.

Money Making

Cementir is remunerative because it is a specialist in a niche business too small for mega players to invest in. Scarce raw materials command higher prices and, as a result, white cement can be exported, which is unusual for construction material commodities. While part of the higher realisation prices is absorbed in higher energy costs, the business is intrinsically a better FCF generator than the grey variety. The company appears to have been nimble in expanding by acquisition, expanding its network (and thus its logistics efficiency), to have been careful about capital spending and good at running a mid-sized operation. The obvious limit is that with already 20% of the market, growing more rapidly than the market is likely to entail declining ROCEs.

<u>A business model somewhat similar to Sika's and Imerys'</u>
Sika's ad-mixtures added to concrete represent less than 1% of the value of the final product, but give added functionalities such as accelerated curing of concrete which can lead to cost savings. Similarly, Imerys's speciality minerals represent a small cost in its customers' final products (between 0.5% and 7%) but are strongly value-added with low substitution risk.
Knowing that cement typically represents less than 5% of the construction costs and that white cement has much more functionalities/applications than grey cement, one can focus on the intrinsic positives of white cement, keeping aside its cost.
Concerning raw materials (26% of total operating costs), Cementir is vertically well integrated in the grey cement sector. For white cement, it is clear that suppliers have a stronger bargaining power, which explains why the focus of Cementir has been on integrating vertically in this sector.
Even if white cement is principally a B2B business, the bargaining power of customers is low. Price sensitivity of white cement is low and switching cost is high. The number of customers is high, while the size of each customers' order is rather low.
Cement does not see new entrants due to capital intensity and regulations (tougher on emissions). For white cement, this is compounded by a B2B-only profile. White cement tends to be sold to dry mix manufacturers which have very high specification standards and significant quality and consistency requirements. Once a supplier qualifies, it is then expensive for the customer to switch to another supplier, making it a rare option.

Grey cement business model
Grey cement is capital intensive, local and relies a lot on the good control of local markets, most notably through the good positioning of ready-mix units. Vertical integration is thus essential but limited to countries where Cementir has a grey cement exposure.

As the markets for cement are local, location and diversification are key to value creation. A presence near a developing city is a necessity. Indeed, urban markets are a strength, especially in view of the growing urbanisation trend in developing countries. Cementir has a significant local market share in each country that it is active in. For instance, Cementir owns the sole operating cement plant of Denmark. So the market share is pretty high, as the only competition is from the imports.

Denmark

Grey cement production capacity:	2,100,000 t
White cement production capacity:	850,000 t
Cement plants:	1 (7 kilns)
RMC plants:	37
RMC sales:	1.14 million m3
Aggregates sales:	0.86 million t
Terminals:	9
Quarries:	3

cement plants ready-mix plants

In other countries, such as Turkey, the market share is low (<5%), but the plants are located where competitive pressure is lesser than usual (see figure below). So the local market share with a 100km radius is expected by AlphaValue to be several dozen percentage points higher when it cannot be considered as a local quasi-monopoly.

Turkey

Grey cement production capacity:	5,400,000 t
Cement plants:	4
RMC sales:	1.70 million m3
RMC plants:	16
Waste management plants:	2

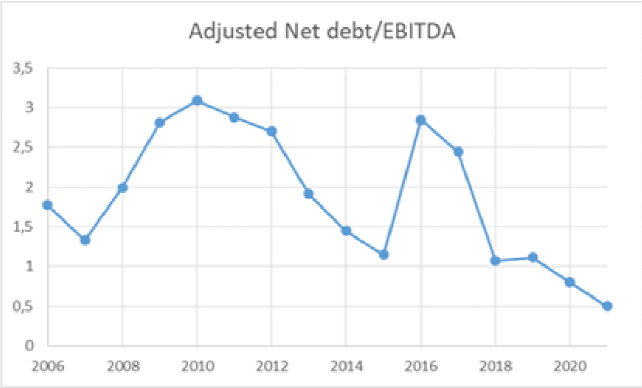
cement plants ready-mix plants

Expedient businesses

The other construction materials and services business, which consists mainly of ready-mix concrete, has a very low margin. However, it is of strategic importance because the ready-mix concrete business acts as a distribution channel for cement and aggregates products, with the end goal of increasing the sales volume of the other two divisions which have significant margins.

Controlled leverage through the cycle to catch opportunities

Cementir's leverage has remained between 1x and 3x through the cycle. This is quite commendable and raises hopes for future capital allocation. We see a parallel with Vicat's indebtedness, which makes us believe that family-driven businesses are unwilling to take risks and this is positive in such a capital intensive and cyclical industry.



As for capital allocation, in slowly growing industries, M&A is key. Even though Cementir has set its eyes on digitalisation and sustainability, the possibility of M&A activities cannot be discarded. We presume that Cementir's next phase could be to expand further in the grey cement market in order to dilute its exposure to Turkey in terms of cement capacity and to increase the global reach of the company.

Operational excellence

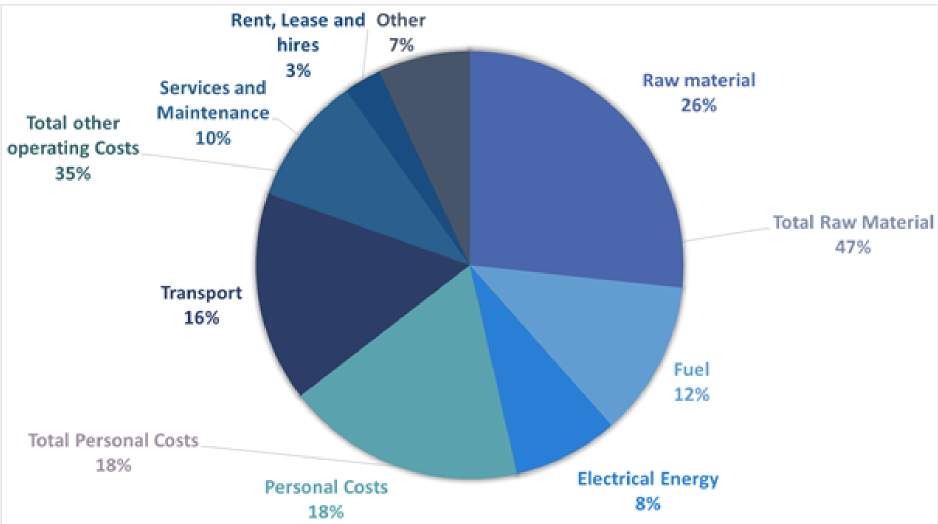
Lower energy prices a key driver of EBITDA margin growth in recent years

The decrease in energy costs has acted as a tailwind for the cement industry since the sharp fall in oil prices which began in 2014. We expect energy prices to remain at the current low level.

Should energy prices rise again, Cementir is safer due to its exposure to white cement, where price hikes are easier to pass on to customers.

Below is a pie chart with the cost structure of the company in 2018. As usual in the cement sector, raw materials and energy (transport included) take up most of the cost structure (two thirds), while employee and opex make up virtually all the rest.

Cost structure of the company in 2018



Capital allocation
Through 2006-18, Cementir invested about 10% of its sales in capex, with ups (22%) and downs (6%) linked to the stage of the economic cycle but to a lesser extent than peers, which means that this company navigates successfully in a capital-intensive industry.

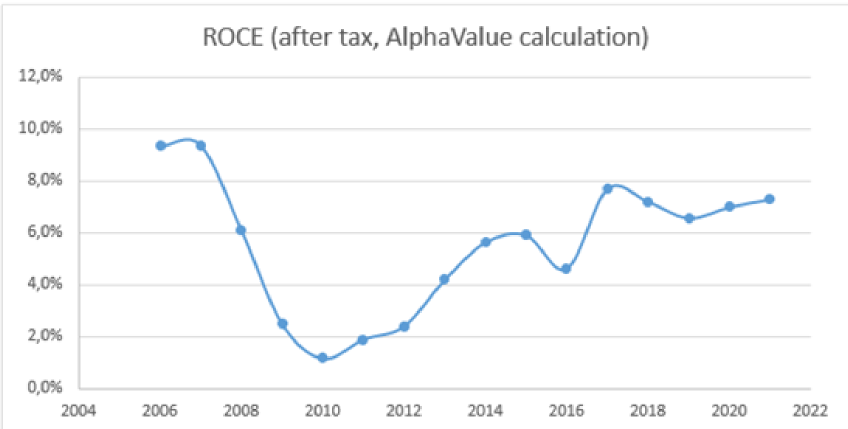
Since 2006, the group has been making remarkable cuts in capex. Capex as a percentage of depreciation went from more than 350% in 2006 to about 50% in 2010, underlining that a period of under-investment was thought as a better way to protect the company over the long term by management, before rising back to some 90% in 2019. The likelihood of expanding the group's activities will be more in grey cement than in white cement. Indeed, with the current 20% market share, it will be hard for the company to increase it further without raising anti-trust concerns or declining ROCE.

Contrary to peers, Cementir did not over-invest in acquisitions during the economic boom of 2007 to 2008. This demonstrates management's temperament and substantiates the fact that Cementir's management is exemplary.

Value creation
One of the most resilient cement companies in the financial crisis

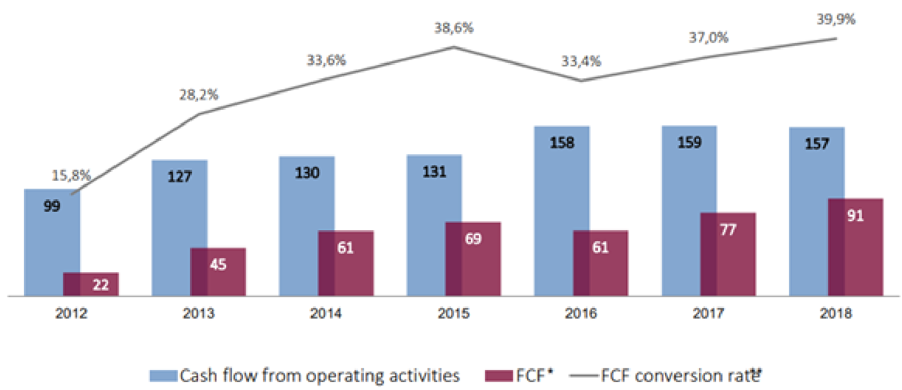
Cementir is one of the few cement companies to have seen its net profit remain positive all through the cycle. On top of this, impairments, when needed, were controlled and reasonable (maybe with the exception of Italy as it was sold at a loss).

Cementir's ROCE at 7.7% (2017) and 7.2% (2018) have been higher than the average of peers (6%). This is not enough to meet the cost of capital in AlphaValue's computations, however. This is partly derived from AlphaValue's defined risk free rates and equity risk premium which when combined at 8.5% stand somewhat above what corporates may use. While Cementir does not provide a breakdown of its WACC, we understand that it is value creative on this front.



Cash generation is satisfactory as one can see that the FCF conversion rate increased from 16% in 2012 to 40% in 2018, a performance that we expect the company to increase further over the long term.

Cash flow from operating activities, Free Cash Flow (M€) and FCF conversion rate (%)



Divisional EBITDA/R

	12/22A	12/23E	12/24E	12/25E	Change 23E/22		Change 24E/23E	
					€M	of % total	€M	of % total
Total	**335**	**411**	**381**	**389**	**76↑**	**100%**	**-30↓**	**100%**
Nordic & Baltic	166	182	167	168	16↑	21%	-15↓	50%
North America (US)	28.9	24.9	25.2	25.8	-4↓	-5%	0↑	-1%
Belgium/France	76.5	88.8	95.9	99.6	12↑	16%	7↑	-24%
Turkey	26.6	72.3	57.2	58.4	46↑	60%	-15↓	50%
Egypt	11.8	10.1	9.40	9.34	-2↓	-2%	-1↓	2%
Asia Pacific (China & Malaysia)	22.7	24.5	24.7	25.1	2↑	2%	0↑	-1%
Holding & Services	2.99	8.57	2.50	3.00	6↑	7%	-6↓	20%
Other/cancellations								

Divisional EBITDA/R margin

	12/22A	12/23E	12/24E	12/25E
Total	**19.5%**	**24.3%**	**21.3%**	**20.4%**
Nordic & Baltic	22.5%	28.1%	26.0%	26.3%
North America (US)	14.7%	14.0%	14.0%	14.0%
Belgium/France	22.9%	24.5%	24.5%	24.0%
Turkey	9.82%	21.0%	14.3%	12.7%
Egypt	20.6%	21.5%	19.5%	19.0%
Asia Pacific (China & Malaysia)	18.2%	21.2%	20.9%	20.7%
Holding & Services	1.42%	4.20%	1.17%	1.32%

Valuation

Cementir's DCF is built on a rather conservative margin expansion, from about 20% in 2018-19 to 21% by 2029, which is our lowest margin expansion forecast amongst our cement companies, despite the fact that Cementir seems to have a stronger business model than the average cement company. Indeed, an EBITDA growth rate of 2% is used to generate the projection beyond 2021.

Our DCF model is based on a conservative FCF growth between 2018 and 2029 with FCF seen at €140m in 2029, a slow rise from the €123m computed for 2021.

The change in WCR deserves a comment. We decided to apply a simple rule: each euro of incremental revenue to be generated needs investment of about €0.10 in working capital. This seems to be conservative enough, in our opinion.

On the capex side, we assume that €70m in FY 19 is conservative enough with capex growing in line with depreciation expenses in 2020 and 2021, as well as by a 2% CAGR from 2021 onwards.

All in all, the perpetual FCF margin lies at about 9%. We consider this number to be conservative for a company with a strong business model and high FCF generation (EBITDA-to-FCF conversion rate of ~45%°.

SOTP valuation

Our SOTP/NAV is replacement-cost-based on a geographical basis and product basis. We have used multiples of €170 per ton of cement capacity for grey cement in developed markets (Denmark and Belgium), a low multiple of €100 per ton of cement capacity for Turkey's grey cement plants due to the difficult business environment in which the division is evolving.

Concerning white cement, we have used multiples of €100 for Malaysia, €120 for China, €150 for Egypt, as well as €250 for Denmark and the US.

Peers valuation

We decided to neither apply a premium nor a discount for most multiples, despite the stronger business model than the average cement company (premium), because of the low free float (discount), with the exception of the yield to which we applied a premium of 30% because of the lower payout ratio of Cementir (20%) than peers.

Note that Lafarge bought Orascom in 2007 at 11.6x EBITDA, HeidelbergCement bought Hanson in 2007 at 12.8x EBITDA, Holcim acquired Cemex's Australian assets in 2009 for 6.6× 2009 EBITDA, Camargo swallowed Cimpor for 8.7x EV/EBITDA in 2012 and CRH bought LafargeHolcim's assets for 8.7x EBITDA pre-synergies and 7.7x EBITDA post-synergies.

Valuation Summary

Benchmarks		Values (€)	Upside	Weight
DCF		13.9	40%	35%
NAV/SOTP per share		11.2	14%	20%
EV/Ebitda	*Peers*	17.4	76%	20%
P/E	*Peers*	10.4	6%	10%
Dividend Yield	*Peers*	7.54	-24%	10%
P/Book	*Peers*	12.5	26%	5%
Target Price		**13.0**	**32%**	

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	Ev/Ebitda (x)	P/Book (x)	Yield(%)
Peers ratios	11.1	6.72	1.24	3.55
Cementir Holding's ratios	10.5	3.69	0.98	2.71
Premium	0.00%	0.00%	0.00%	0.00%
Default comparison based valuation (€)	**10.4**	**17.4**	**12.5**	**7.54**
Holcim	13.1	7.80	1.61	3.94
Heidelberg Materials	8.61	5.77	0.88	3.06
Buzzi	10.3	5.29	1.14	1.91
Vicat	6.13	4.17	0.51	4.56

DCF Valuation Per Share

WACC	%	8.62
PV of cashflow FY1-FY11	€M	1,105
FY11CF	€M	160
Normalised long-term growth"g"	%	2.00
Sustainability "g"	%	1.55
Terminal value	€M	2,260
PV terminal value	€M	988
PV terminal value in % of total value	*%*	*47.2*
Total PV	€M	2,093

Avg net debt (cash) at book value	€M	-241
Provisions	€M	84.0
Unrecognised actuarial losses (gains)	€M	0.00
Financial assets at market price	€M	69.3
Minorities interests (fair value)	€M	158
Equity value	€M	2,161
Number of shares	Mio	156
Implied equity value per share	**€**	**13.9**
Sustainability impact on DCF	%	-3.01

Assessing The Cost Of Capital

Synthetic default risk free rate	%	3.50
Target equity risk premium	%	5.00
Tax advantage of debt finance (normalised)	%	25.0
Average debt maturity	Year	5
Sector asset beta	x	1.02
Debt beta	x	0.55
Market capitalisation	€M	1,538
Net debt (cash) at book value	€M	-215
Net debt (cash) at market value	€M	-215

Company debt spread	bp	275
Marginal Company cost of debt	%	6.25
Company beta (leveraged)	**x**	**0.92**
Company gearing at market value	%	-14.0
Company market gearing	%	-16.2
Required return on geared equity	**%**	**8.09**
Cost of debt	%	4.69
Cost of ungeared equity	**%**	**8.62**
WACC	%	8.62

DCF Calculation

		12/22A	12/23E	12/24E	12/25E	Growth	12/26E	12/33E
Sales	€M	1,723	1,694	1,793	1,905	**1.00%**	1,924	2,063
EBITDA	€M	335	411	381	389	**0.80%**	392	415
EBITDA Margin	*%*	*19.5*	*24.3*	*21.3*	*20.4*		*20.4*	*20.1*
Change in WCR	€M	18.2	-4.85	-24.7	-17.2	**2.00%**	-17.5	-20.1
Total operating cash flows (pre tax)	€M	344	396	327	332		375	395
Corporate tax	€M	-54.9	-68.4	-55.5	-59.5	**2.00%**	-60.7	-69.7
Net tax shield	**€M**	**7.76**	**-8.22**	**-7.35**	**-7.99**	**2.00%**	**-8.15**	**-9.36**
Capital expenditure	€M	-105	-113	-124	-93.0	**2.00%**	-94.9	-109
Capex/Sales	*%*	*-6.10*	*-6.67*	*-6.91*	*-4.88*		*-4.93*	*-5.28*
Pre financing costs FCF (for DCF purposes)	€M	192	207	140	172		211	207
Various add backs (incl. R&D, etc.) for DCF purposes	€M	-22.0 (1)	-28.0 (1)	-44.0	-20.0		-20.0	-50.0
Free cash flow adjusted	**€M**	**170**	**179**	**95.9**	**152**		**191**	**157**
Discounted free cash flows	**€M**	**170**	**179**	**88.3**	**128**		**149**	**68.5**
Invested capital	€	1,593	1,568	1,599	1,622		1,634	1,699

1. Additional Green capex

NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (€M)	Stake valuation (€M)	In currency per share (€)	% of gross assets
Turkey grey cement	100%	Volume based valuation	100	540	540	3.47	30.5%
Belgium grey cement	100%	Volume based valuation	170	391	391	2.51	22.0%
Denmark grey cement	100%	Volume based valuation	170	357	357	2.30	20.1%
Denmark white cement	100%	Volume based valuation	250	213	213	1.37	12.0%
Egypt white cement	71.1%	Volume based valuation	150	165	117	0.75	6.62%
China white cement	100%	Volume based valuation	120	90.0	90.0	0.58	5.08%
US white cement	63.0%	Volume based valuation	250	65.0	41.0	0.26	2.31%
Malaysia white cement	70.0%	Volume based valuation	100	35.0	24.5	0.16	1.38%
Other							
Total gross assets					**1,773**	**11.4**	**100%**
Net cash/(debt) by year end					215	1.38	12.1%
Commitments to pay					-242	-1.55	-13.6%
Commitments received							
NAV/SOTP					1,746	11.2	98.5%
Number of shares net of treasury shares - year end (Mio)					**156**		
NAV/SOTP per share (€)					**11.2**		
Current discount to NAV/SOTP (%)					**11.9**		

Debt

No capital increase since at least 1999

Since 1999, Cementir has not increased its capital/number of shares. Indeed, it uses its operating/free cash flow or raises debt for its industrial investments and M&A activities. However, if need arises (such as a big acquisition as we deem the risk of a cash shortfall as virtually non-existent), the company may be able to raise equity quickly because, in February 2015, the shareholders of Cementir passed a resolution that allowed Cementir to increase its share capital by up to €300m (including any share premium) by 2020 for any big M&A opportunity knocking at its door.

In the foreseeable future, the risk of a dilutive capital increase for per share metrics is low. Furthermore, no convertible bonds have been issued by the company, which excludes the risk of any dilution.

Maturity and nature of the debt

The debt is almost entirely composed by bank borrowings. The company does not disclose a precise maturity table, but the average maturity is clearly below five years.

Covenants

The financial covenants to be complied with are the net debt/EBITDA ratio and the EBITDA/net financial expenses ratio, the trigger points of which are undisclosed by the company. However, management confirmed in the annual report that the covenants were met by Cementir on 31 December 2018.

Detailed financials at the end of this report

Funding - Liquidity

		12/22A	12/23E	12/24E	12/25E
EBITDA	€M	335	411	381	389
Funds from operations (FFO)	€M	263	301	268	259
Ordinary shareholders' equity	**€M**	**1,368**	**1,445**	**1,527**	**1,617**
Gross debt	€M	311	306	300	270
+ Gross Cash	€M	407	521	567	606
= Net debt / (cash)	**€M**	**-95.5**	**-215**	**-267**	**-336**
Gearing (at book value)	%	-2.01	-10.7	-15.8	-18.6
Equity/Total asset (%)	%	82.1	87.7	91.0	95.1
Adj. Net debt/EBITDA(R)	*x*	*0.17*	*-0.18*	*-0.33*	*-0.50*
Adjusted Gross Debt/EBITDA(R)	*x*	*1.12*	*0.95*	*1.00*	*0.90*
Adj. gross debt/(Adj. gross debt+Equity)	*%*	*21.5*	*21.3*	*20.0*	*17.8*
Ebit cover	*x*	*-6.71*	*8.94*	*8.97*	*7.78*
FFO/Gross Debt	*%*	*70.3*	*77.3*	*70.2*	*74.1*
FFO/Net debt	*%*	*-276*	*-140*	*-100*	*-77.3*
FCF/Adj. gross debt (%)	*%*	*57.4*	*46.7*	*30.8*	*42.2*
(Gross cash+ "cash" FCF+undrawn)/ST debt	*x*	*5.89*	*6.63*	*6.85*	*9.41*
"Cash" FCF/ST debt	*x*	*1.67*	*1.73*	*1.19*	*1.86*

Worth Knowing

Main shareholder

The main shareholder of Cementir Holding is Francesco Gaetano Caltagirone. He was born in Rome on 2 March 1943. After studying engineering, he relaunched the family construction business, then extended its activities to the fields of cement and media, giving rise to one of the largest Italian business groups, which now has five listed companies, major strategic holdings and a growing international presence. He is Chairman of Caltagirone SpA, Caltagirone Editore SpA, Il Messaggero SpA, Il Gazzettino SpA and Eurostazioni SpA.

A family-driven business

In 1992, Francesco Gaetano Caltagirone took over Cementir Holding through a public auction and, since 1996, his son Francesco Caltagirone Jr has overseen the group as its CEO and Chairman of the board, and made it truly international. While Francesco Gaetano Caltagirone is considered to be a successful Italian (net worth $2.1bn), Francesco Caltagirone Jr has gained a reputation as a dynamic CEO.

With Francesco Gaetano Caltagirone as the majority shareholder, his son as the CEO and Chairman, and the presence of five family members on the board of directors, Cementir is certainly a family-driven business. Dynamic external growth along with strong cash flow generation point to a family-type long-term philosophy and commitment to the business.

Dividend policy

From a medium-sized Italian 'one trick pony' profile, Cementir has evolved into a multinational, thanks to well-timed focused investments. This growth has been made possible because of a systematic and well-planned capital allocation. It maintains a payout ratio of 20% while allocating most of its profits towards strategic investments, which is unusual for a cement company expected to pay out mature cash flows. As Cementir is almost value creative (at least in 2017 and 2018), investing in growth makes sense.

Float

Cementir has a free float of 28.75%, with 71.25% shares held by the Caltagirone family (65.9% by Francesco Gaetano Caltagirone and 5.35% by his son Francesco Caltagirone Jr). This low free float has enabled the company to stick to its expansion strategy. Obviously, it leaves considerable headroom for a dilutive equity raising should Cementir go for a big fish. The question may be raised anytime if Cementir chooses to grow beyond white cement.

Shareholders

Name	% owned	Of which % voting rights	Of which % free to float
Caltagirone Francesco Gaetano	65.9%	65.9%	0.00%
Francesco Caltagirone Jr.	5.35%	5.35%	0.00%
Caltagirone Alessandro	1.98%	1.98%	0.00%
Caltagirone Azzurra	1.44%	1.44%	0.00%
Dimensional Fund Advisors LP	1.36%	1.36%	0.00%
Norges Bank Investment Management	1.21%	1.21%	0.00%
Apparent free float			**22.8%**

Sustainability

The Building materials and products sector scores low on the sustainability front (average score of 5.2/10), primarily because of: 1/ a low environment score as this industry is one of the largest polluters, contributing 5% to global emissions, and 2/ a significant number of companies in this sector are family owned, a factor which has a significant influence on the composition of the board, voting rights and the executive role of the chairman of the board. Cementir Holding's low independent directors rate (score: 0/10), lack of geographic diversity at the board level (score: 0/10) along with high emissions (score: 2/10) are the key reasons for its low sustainability score of 2.3.

Sustainability score

Sustainability is made of analytical items contributing to the E, the S and the G, that can be highlighted as sustainability precursors and can be combined in an intellectually acceptable way. This is the only scale made available

	Score	Weight
Governance		
Independent directors rate	**0/10**	25%
Board geographic diversity	**0/10**	20%
Chairman vs. Executive split	✘	5%
Environment		
CO² Emission	**2/10**	25%
Water withdrawal	**3/10**	10%
Social		
Wage dispersion trend	**7/10**	5%
Job satisfaction	**10/10**	5%
Internal communication	**10/10**	5%
Sustainability score	**2.2/10**	100%

Governance & Management

The AlphaValue governance rating result is not satisfactory with a score of 5.2 (below industry average of 6.5), which is driven mainly by the directors' low independence rate of 0%. This is significantly below the 33% rate claimed by the company, mainly due to the fact that we consider a director not to be independent if he has stayed in the BoD for more than seven years. Additionally, the CEO is a board member (independent management and control are usually positive for shareholders). However, on the positive side, Cementir Holding has a good board feminisation rate of 41% and straightforward clean by-laws.

Governance score

Company (Sector)	Independent board
5.2 (7.5)	No

Parameters	Company	Sector	Score	Weight
Number of board members	10	9	7/10	5.0%
Board feminization (%)	40	38	7/10	5.0%
Board domestic density (%)	100	72	0/10	10.0%
Average age of board's members	58	59	6/10	5.0%
Type of company : Mid cap, controlled			7/10	10.0%
Independent directors rate	0	56	0/10	20.0%
One share, one vote			✓	10.0%
Chairman vs. Executive split			✗	0.0%
Chairman not ex executive			✗	5.0%
Full disclosure on mgt pay			✗	5.0%
Disclosure of performance anchor for bonus trigger			✓	5.0%
Compensation committee reporting to board of directors			✓	5.0%
Straightforward, clean by-laws			✓	15.0%
Governance score			**5.2/10**	**100.0%**

Management

Name		Function	Birth date	Date in	Date out	Compensation, in k€ (year) Cash	Equity linked
Francesco CALTAGIRONE	M	CEO	1968	1996		5,576 (2022)	(2022)
Giovanni LUISE	M	CFO		2018		(2022)	(2022)
Paolo ZUGARO	M	COO		2017		(2022)	(2022)

Board of Directors

Name		Indep.	Function	Completion of current mandate	Birth date	Date in	Date out	Fees / indemnity, in k€ (year)	Value of holding, in k€ (year)
Francesco CALTAGIRONE	M		President/Chairman of th...	2023	1968	1995		5,576 (2022)	59,298 (2022)
Alessandro CALTAGIRONE	M		Member	2023	1969	2006		10.0 (2022)	(2022)
Azzurra CALTAGIRONE	F		Member	2023	1973	2006		10.0 (2022)	(2022)
Edoardo CALTAGIRONE	M		Member	2023	1944	1992		5.00 (2022)	(2022)
Saverio CALTAGIRONE	M		Member	2023	1971	2003		10.0 (2022)	(2022)
Fabio CORSICO	M		Member	2023	1973	2008		270 (2022)	(2022)
Veronica DE ROMANIS	F		Member	2023	1969	2015		62.0 (2022)	(2022)
Paolo DI BENEDETTO	M		Member	2023	1947	2012		50.0 (2022)	(2022)
Adriana LAMBERTO FLORISTAN	F		Member		1973	2023		9.00 (2022)	(2022)
Chiara MANCINI	F		Member	2023	1972	2015		62.0 (2022)	(2022)

Environment

Sustainability at its core in this decade

Tightened regulations by policymakers meant to reduce carbon emissions pose a big challenge over the next few years for cement companies as it puts a lid on the growth opportunities that have come along with various stimuli announced by governments worldwide. The cement industry is expected to be heavily impacted by the increasing carbon certificate prices and reducing carbon allowance in Phase IV (2021-30) of the EU Emission Trading System (ETS) which allows companies to trade excess emission rights freely. 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.

Greater the emission = greater the scope of improvement

A few players have already reduced their carbon footprint significantly, leading them to a carbon level of <600kg CO_2/t of cementitious material. Holcim currently leads the race with 2020 emissions standing at 555kg/t, while Cementir Holding is the laggard with emissions in 2020 standing at 718kg/t. However, Cementir Holding holds this title not for long because its aims to cut its emission level by 20% and 31% by 2025 and 2030, respectively (from the 2020 emission level). At first glance, one may believe that the emission reduction targets are too aggressive. We thought so too. But in reality, the targets are quite achievable as about 2/3rds of the set targets for 2025 and 2030 will be met in the EU via the existing technologies and the investments that the company has planned for 2021-23. We would like to highlight two key contributors: FUTURECEM™ and kiln upgradation in Belgium.

We appreciate this effort and, hence, in our environment scoring system, we score the companies based on their efforts and progress, rather than just considering sector thematics. Cementir Holding currently has a low score but, given its strong balance sheet (net cash position from 2023 onwards), it is possible for Cementir Holding to boost its capex, accelerate emission reduction and offset its additional carbon-related costs by lower financial expenses, thus improving its score and, consequently, our DCF value which has a sustainability component.

Arbitrage opportunity from Turkey

Beyond the assumptions that we have already made, there is a possibility of imports from Turkey too. In 2021, the European Commission announced the much-anticipated Carbon Border Adjustment Mechanism (CBAM), which is aimed at curtailing carbon leakage. However, CBAM will be in a transitional phase from 2023 to 2025 and will become fully operational only by 2026. So, until then, Cementir Holding will be able to capitalise on its Izmir plant in Turkey, which has a capacity of 2.6mt, with only about 0.7mt exported up to now. So, if we consider that just 1mt of cement per annum will be exported from Turkey to the EU until 2025, and the additional cost of transportation is estimated at €20/t, it will lower our estimated carbon cost by €100m to €360m over 2022-30. This estimated carbon cost is far below the one that we calculated using the group's guidance of 600,000t worth of carbon rights needed to be bought from 2022 onwards. While the group has a more sophisticated model in place with the active management of the rights integrated in the model, the difference of €100m is too big for us to ignore.

Environmental score

Data sets evaluated as trends on rolling calendar, made sector relative

Parameters	Score	Sector	Weight
CO^2 Emission	2/10	4/10	30%
Water withdrawal	3/10	5/10	30%
Energy	3/10	4/10	25%
Waste	3/10	5/10	15%
Environmental score	**2.7**		**100%**

Company (Sector)

2.7 (4.4)

Environmental metrics

			Company				Sector
	2019	2020	2021	2022	2023	2024	2022
Energy (GJ) per €m in capital employed	24,240	28,896	29,963	24,260			5,217
			2.8	2.3	2.7	2.7	4.5
CO^2 tons per €m in capital employed	4,900	5,872	6,141	4,841			372
Tons waste generated per €m in capital employed	454	344	154	100			35
Cubic meter water withdrawal per €m in capital employed	5,769	5,963	6,935	5,726			1,405

Sector figures

Company	Country	Environment score	Energy (total, in GJ)	CO2 Emissions (in tons)	Water Withdrawal (in m3)	Waste (total, (in tons)
dormakaba		8/10	860,652	64,621	700,787	36,685
Saint-Gobain		5/10	150,674,400	9,800,000	45,000,000	1,300,000
Holcim		4/10	407,000,000	77,000,000	118,000,000	1,990,000
CRH		3/10	196,200,000	35,900,000	114,700,000	2,500,000
Geberit		9/10	788,400	150,591	908,407	67,554
Sika		9/10	4,430,000	316,000	3,522,335	152,237
Imerys		3/10	28,080,526	2,130,000	68,130,000	122,182
Heidelberg Materials		3/10	347,068,000	66,490,000	281,651,000	953,100
Buzzi		5/10	104,757,000	20,218,000	7,964,000	170,800
Forbo		7/10	2,079,768	74,804	975	33,401
Cementir Holding		3/10	38,639,060	7,711,190	9,120,706	160,054
Vicat		3/10	83,773,600	18,100,000	18,900,000	
Belimo		10/10	35,067	813	12,712	1

Social

Overall, Cementir Holding has an average social score but it is worth mentioning that it has a favourable wage dispersion trend, which means that the company is putting in sufficient efforts to keep the wage disparity of the top management with the rest of the workforce low.

Social score

Company (Sector)

6.8 (7.0)

Quantitative metrics (67%)

Set of staff related numerical metrics available in AlphaValue proprietary modelling aimed at ranking on social/HR matters

Parameters	Score	Weight
Staffing Trend	6/10	15%
Average wage trend	7/10	30%
Share of added value taken up by staff cost	4/10	20%
Share of added value taken up by taxes	6/10	15%
Wage dispersion trend	7/10	20%
Pension bonus (0 or 1)	0	
Quantitative score	**6.1/10**	**100%**

Qualitative metrics (33%)

Set of listed qualitative criterias and for the analyst to tick

Parameters	Score	Weight
Accidents at work	4/10	25%
Human resources development	9/10	35%
Pay	10/10	20%
Job satisfaction	10/10	10%
Internal communication	10/10	10%
Qualitative score	**8.2/10**	**100%**

AlphaValue analysts tick boxes on essential components of the social/HR corporate life.
Decision about ticking Yes or No is very much an assessment that combines the corporate's communication on relevant issue and the analyst's better judgment from experience.

Qualitative score

Parameters	Yes ✔ / No ✘	Weight
Accidents at work		**25%**
Set targets for work safety on all group sites?	✔	10.0%
Are accidents at work declining?	✘	15.0%
Human resources development		**35%**
Are competences required to meet medium term targets identified?	✔	3.5%
Is there a medium term (2 to 5 years) recruitment plan?	✔	3.5%
Is there a training strategy tuned to the company objectives?	✔	3.5%
Are employees trained for tomorrow's objectives?	✔	3.5%
Can all employees have access to training?	✔	3.5%
Has the corporate avoided large restructuring lay-offs over the last year to date?	✘	3.5%
Have key competences stayed?	✔	3.5%
Are managers given managerial objectives?	✔	3.5%
If yes, are managerial results a deciding factor when assessing compensation level?	✔	3.5%
Is mobility encouraged between operating units of the group?	✔	3.5%
Pay		**20%**
Is there a compensation committee?	✔	6.0%
Is employees' performance combining group AND individual performance?	✔	14.0%
Job satisfaction		**10%**
Is there a measure of job satisfaction?	✔	3.3%
Can anyone participate ?	✔	3.4%
Are there action plans to prop up employees' morale?	✔	3.3%
Internal communication		**10%**
Are strategy and objectives made available to every employee?	✔	10.0%
Qualitative score	**8.2/10**	**100.0%**

Staff & Pension matters

Workforce

As of December 2018, the group employed 3,083 people. It follows a performance-based policy in which it encourages a high-performance culture and rewards people based on their performance. In 2018, the company also developed the concept of the Cementir Academy to develop and update skills, integrate know-hows and preserve as well as spread knowledge in the organisation.

Pension ratio

The company's pension ratio lies at about 3%, whereas the industry average lies at about 7%, underlining that the risk is more controlled at Cementir.

PBO/EV

The PBO/EV ratio of the company lies at about 3%, whereas the industry average lies at about 19%. This underlines the fact that the company's valuation is less sensitive to actuarial assumptions than its cement peers.

Detailed financials at the end of this report

Summary Of Pension Risks		12/22A	12/23E	12/24E	12/25E
Pension ratio	**%**	**4.30**	**3.16**	**2.88**	**2.61**
Ordinary shareholders' equity	€M	1,368	1,445	1,527	1,617
Total benefits provisions	**€M**	**61.4**	**47.2**	**45.2**	**43.3**
of which funded pensions	*€M*	*61.4*	*47.2*	*45.2*	*43.3*
of which unfunded pensions	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
of which benefits / health care	*€M*		*0.00*	*0.00*	*0.00*
Unrecognised actuarial (gains)/losses	€M	0.00	0.00	0.00	0.00

Geographic Breakdown Of Pension Liabilities		12/22A	12/23E	12/24E	12/25E
US exposure	%				
UK exposure	%				
Euro exposure	%	100	100	100	100
Nordic countries	%				
Switzerland	%				
Other	%				
Total	%	100	100	100	100

Recent updates

13/02/2024

FY 23: A conservative look to the future

Earnings/sales releases

Cementir Holding reported mixed results for 2023, with sales 2% below but EBITDA 3% above our expectations. For 2024, the group has guided for a conservative outlook due to an uncertain macroeconomic scenario and has revised its Industrial Plan, placing greater emphasis on decarbonization. Ongoing projects targeting carbon emission reduction include clinker content reduction and the adoption of Carbon Capture and Storage (CCS) technologies.

Fact

- Revenue: €1,694m, down 1.7%
- EBITDA: €411.1m, up 22.6%
- EBIT: €278.3m, up 36.2%
- Guidance for 2024: Revenue of around €1.8bn, EBITDA around €385m, net cash position at €300m, capex ~€135m.
- Industrial Plan 2024-2026 announced.

Analysis

Cementir Holding has released mixed financial results for FY23, with sales 2% below and EBITDA 3% above our projections. These outcomes were primarily influenced by price hikes across all regions, despite a decline in sales volumes across all segments. Cement sales decreased by 1.6%, Ready-Mix Concrete (RMC) by 11.1%, and Aggregates by 10.1%. While there was a slight slowdown in the decline of cement volumes, while RMC and aggregates saw further drops in 2023, mainly due to challenges in the Nordics & Baltics regions. Turkey stood out as the only country where the Italian company recorded positive volume growth in cement, aggregates and RMC. This was driven by higher demand in the domestic market following recent earthquakes.

The decrease in sales volumes exerted downward pressure, resulting in a 1.5% yoy decrease in sales to €1,694 million. Despite the overall market slowdown, the company managed to boost non-GAAP EBITDA to €421.9 million, a notable increase of 25.4%. This included a one-time positive impact of €11.8 million from the sale of assets. Even excluding this one-time event, the actual non-GAAP EBITDA of €410.3 million exceeded our expectations by 3%. Consequently, the EBITDA margin expanded by 470 basis points, reaching 24.2%.

Conservative forecast in 2024

Cementir Holding is entering the current year with a cautious outlook, which could potentially prompt a downward adjustment by the market consensus.

This cautious approach stems from uncertainties in the macroeconomic landscape, particularly in the construction markets. While the company is not concerned about an increase in energy costs due to its hedging strategy, inflationary pressures on wages are expected to continue to exert downward pressure on margins.

However, in terms of volume, Turkey is anticipated to contribute to further growth. Municipal elections and reconstruction efforts following earthquakes are projected to bolster demand in the domestic market. Additionally, the company is well positioned to capitalize on demand from neighboring countries through exports. Consequently, Cementir Holding expects consolidated revenues of approximately €1.8 billion, representing a 6% increase, while expecting a 6% decline in EBITDA. In relation to our estimates for FY24, the revenue is in line with the company's guidance, but our EBITDA falls falls 4% short.

Industrial Plan 2024-2026

The group has revised its Industrial Plan, maintaining its core pillars while placing greater emphasis on decarbonization. The financial targets for revenue have been slightly raised (CAGR of 5.7% compared to 5.1% previously), but the outlook for EBITDA has been narrowed (CAGR of 1.2% versus 5.9% previously). With an additional cumulative green capital expenditure of €100 million, the company is concentrating on initiatives aimed at reducing carbon emissions. From our perspective, the two primary strategies to meet the EU's Fit to 55 targets are (i) reducing clinker content and (ii) implementing Carbon Capture and Storage (CCS) technologies. Cementir currently has two pilot projects underway for CCS and aims to achieve a clinker ratio of 64% for grey cement and 78% for white cement by 2030.

Impact

Following these results, we have updated upwards our model and maintain our positive recommendation. Our target price has been increased by 2% supported by an increase in our EPS forecasts for 2023 (+0.03€) and 2024 (+0.04€), and a higher DCF-derived valuation (+0.3€).

08/11/2023

Q3 23: Conservative guidance

Earnings/sales releases

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 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.

Stock Price and Target Price

Earnings Per Share & Opinion

Momentum

Momentum analysis consists in evaluating the stock market trend of a given financial instrument, based on the analysis of its trading flows.
The main indicators used in our momentum tool are simple moving averages over three time frames: short term (20 trading days), medium term (50 days) and long term (150 days). The positioning of these moving averages relative to each other gives us the direction of the flows over these time frames.
For example, if the short and medium-term moving averages are above the long-term moving average, this suggests an uptrend which will need to be confirmed. Attention is also paid to the latest stock price relative to the three moving averages (advance indicator) as well as to the trend in these three moving averages - downtrend, neutral, uptrend - which is more of a lagging indicator.
The trend indications derived from the flows through moving averages and stock prices must be confirmed against trading volumes in order to confirm the signal. This is provided by a calculation based on the average increase in volumes over ten weeks together with a buy/sell volume ratio.

: Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

: Relatively good momentum corresponding to a positively-oriented moving average, but offset by an overbought pattern or lack of confirmation from volumes

: Relatively unfavorable momentum with a neutral or negative moving average trend, but offset by an oversold pattern or lack of confirmation from volumes

: Strongly negative momentum corresponding to a continuous and overall negative moving average trend confirmed by volumes

Moving Average MACD & Volume

€/$ sensitivity

Brent $/bl sensitivity

German Baseload sensitivity

Sector Building Prod. & Materials

Detailed Financials

Valuation Key Data

		12/22A	12/23E	12/24E	12/25E
Adjusted P/E	**x**	**6.11**	**7.31**	**10.0**	**11.4**
Reported P/E	x	6.24	7.31	10.0	11.4
EV/EBITDA(R)	**x**	**3.11**	**2.86**	**3.79**	**3.54**
EV/EBIT	x	5.02	4.20	5.79	5.81
EV/Sales	x	0.61	0.69	0.81	0.72
P/Book	**x**	**0.74**	**0.84**	**1.01**	**0.95**
Dividend yield	**%**	**3.37**	**3.06**	**2.63**	**2.83**
Free cash flow yield	*%*	*21.2*	*14.9*	*7.66*	*9.60*
Average stock price	€	6.52	7.84	9.89	9.89

Consolidated P&L

		12/22A	12/23E	12/24E	12/25E
Sales	€M	1,723	1,694	1,793	1,905
Sales growth	%	*26.7*	*-1.68*	*5.84*	*6.22*
Sales per employee	€th	*559*	*544*	*570*	*599*
Net CO2 emissions / cementitious	kg/ton	679	640	626	626
Millions tons of cement & clinker capacity	MTon	13.1	13.1	13.1	13.1
Purchases and external costs (incl. IT)	€M	-1,190	-1,076	-1,193	-1,286
Staff costs	€M	-198	-207	-219	-230
Operating lease payments	€M				
Cost of sales/COGS (indicative)	€M	-1,244	-1,125	-1,241	-1,322
EBITDA	€M	335	411	381	389
EBITDA(R)	€M	335	411	381	389
EBITDA(R) margin	%	*19.5*	*24.3*	*21.3*	*20.4*
EBITDA(R) per employee	€th	*109*	*132*	*121*	*122*
Depreciation	€M	-108	-107	-109	-128
Depreciations/Sales	%	*6.26*	*6.32*	*6.10*	*6.71*
Amortisation	€M	-16.3	-18.9	-19.7	-21.2
of which amortisation of concession intangibles	€M	*-14.6*	*-17.1*	*-17.8*	*-19.3*
Additions to provisions	€M	-3.08	-5.00	-3.00	-3.00
Underlying operating profit	€M	208	280	249	237
Underlying operating margin	%	*12.1*	*16.5*	*13.9*	*12.5*
Other income/expense (cash)	€M				
Impairment charges/goodwill amortisation	€M	-3.57	0.00	0.00	0.00
Operating profit (EBIT)	€M	204	280	249	237
Interest expenses	€M	-23.3	-29.0	-28.5	-25.6
of which effectively paid cash interest expenses	€M	*-7.62*	*-29.0*	*-28.5*	*-25.6*
Financial income	€M	5.82	6.00	6.00	6.00
Other financial income (expense)	€M	48.5	-9.85	-6.93	-12.3
Net financial expenses	€M	31.0	-32.9	-29.4	-32.0
of which related to pensions	€M		*-1.54*	*-1.57*	*-1.47*
Pre-tax profit before exceptional items	€M	236	247	220	205
Exceptional items and other (before taxes)	€M				
Current tax	€M	-47.9	-59.1	-48.4	-51.9
Deferred tax	€M	-7.00	-9.34	-7.07	-7.58
Corporate tax	€M	-54.9	-68.4	-55.5	-59.5
Tax rate	%	*23.0*	*27.7*	*25.2*	*29.0*
Net margin	%	*10.5*	*10.6*	*9.18*	*7.65*
Equity associates	€M	0.97	1.00	1.00	1.00
Actual dividends received from equity holdings	€M	*0.19*	*0.00*	*0.00*	*0.00*
Minority interests	€M	-19.3	-13.0	-12.0	-12.0
Actual dividends paid out to minorities	€M	*0.08*			
Income from discontinued operations	€M	0.00	0.00	0.00	0.00
Attributable net profit	€M	162	167	154	135
Impairment charges/goodwill amortisation	€M	3.57	0.00	0.00	0.00
Other adjustments	€M				
Adjusted attributable net profit	€M	166	167	154	135
Fully diluted adjusted attr. net profit	€M	166	167	154	135
NOPAT	€M	157	212	189	180

Cashflow Statement		12/22A	12/23E	12/24E	12/25E
EBITDA	€M	335	411	381	389
Change in WCR	€M	18.2	-4.85	-24.7	-17.2
of which (increases)/decr. in receivables	*€M*	*-17.2*	*-1.44*	*-21.4*	*-24.1*
of which (increases)/decr. in inventories	*€M*	*-23.5*	*3.67*	*-17.5*	*-19.8*
of which increases/(decr.) in payables	*€M*	*58.7*	*-6.02*	*10.6*	*22.6*
of which increases/(decr.) in other curr. liab.	*€M*	*0.24*	*-1.06*	*3.63*	*4.09*
Actual dividends received from equity holdings	€M	0.19	0.00	0.00	0.00
Paid taxes	€M	-47.7	-68.4	-55.5	-59.5
Exceptional items	€M				
Other operating cash flows	€M	-17.1 (2)	-10.0 (2)	-30.0	-40.0
Total operating cash flows	€M	289	328	271	273
Capital expenditure	€M	-105	-113	-124	-93.0
Capex as a % of depreciation & amort.	*%*	*84.6*	*89.7*	*96.1*	*62.4*
Net investments in shares	€M	0.00			
Other investment flows	€M	-33.9 (3)	-30.0 (3)	-30.0	-40.0
Total investment flows	€M	-139	-143	-154	-133
Net interest expense	€M	31.0	-32.9	-29.4	-32.0
of which cash interest expense	*€M*	*-7.62*	*-31.3*	*-27.8*	*-30.5*
Dividends (parent company)	€M	-30.8	-34.2	-37.3	-40.4
Dividends to minorities interests	€M	0.08	0.00	0.00	0.00
New shareholders' equity	€M				
of which (acquisition) release of treasury shares	*€M*				
Change in gross debt	€M	-39.5	-5.13	-6.00	-30.0
Other financial flows	€M	0.00			
Total financial flows	€M	-77.8	-70.7	-71.1	-101
Change in scope of consolidation, exchange rates & other	€M	1.07			
Change in cash position	€M	73.3	114	46.1	38.7
Change in net debt position	€M	113	119	52.1	68.7
Free cash flow (pre div.)	€M	215	182	118	148
Operating cash flow (clean)	€M	289	328	271	273
Reinvestment rate (capex/tangible fixed assets)	*%*	*14.1*	*15.2*	*16.6*	*12.5*

2. Associated with IFRS 16

3. Green capex

Balance Sheet

Balance Sheet		12/22A	12/23E	12/24E	12/25E
Goodwill	€M	407	411	415	419
Other intangible assets	€M	205	207	209	211
Total intangible	€M	611	617	624	630
Tangible fixed assets	€M	745	745	745	745
Right-of-use	€M	153	139	139	139
Financial fixed assets (part of group strategy)	€M	91.8	69.3	69.3	69.3
Other financial assets (investment purpose mainly)	€M	0.94	0.54	0.54	0.54
of which available for sale	€M	0.00	0.00	0.00	0.00
WCR	€M	-8.51	-3.66	21.0	38.2
of which trade & receivables (+)	€M	195	196	217	242
of which inventories (+)	€M	219	215	232	252
of which payables (+)	€M	359	353	363	386
of which other current liabilities (+)	€M	63.1	62.1	65.7	69.8
Other current assets	€M	72.0	78.7	78.7	78.7
of which tax assets (+)	€M	51.1	59.1	59.1	59.1
Total assets (net of short term liabilities)	€M	1,666	1,647	1,678	1,701
Ordinary shareholders' equity (group share)	€M	1,368	1,445	1,527	1,617
Minority interests	€M	155	158	161	164
Provisions for pensions	€M	26.3	47.2	45.2	43.3
Other provisions for risks and liabilities	€M	36.8	36.8	36.8	36.8
Deferred tax liabilities	€M	174	174	174	174
Other liabilities	€M	1.11	1.11	1.11	1.11
Net debt / (cash)	€M	-95.5	-215	-267	-336
Total liabilities and shareholders' equity	€M	1,666	1,647	1,678	1,701
Gross Cash	€M	407	521	567	606
Average net debt / (cash)	€M	-27.6	-155	-241	-301

EV Calculations

EV Calculations		12/22A	12/23E	12/24E	12/25E
EV/EBITDA(R)	**x**	**3.11**	**2.86**	**3.79**	**3.54**
EV/EBIT	**x**	**5.02**	**4.20**	**5.79**	**5.81**
EV/Sales	**x**	**0.61**	**0.69**	**0.81**	**0.72**
EV/Invested capital	x	0.66	0.75	0.90	0.85
Market cap	€M	1,014	1,219	1,538	1,538
+ Provisions (including pensions)	€M	63.1	84.0	82.0	80.1
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00	0.00
+ Net debt at year end (ex Right-of-use from 2019)	€M	-248	-354	-406	-475
+ Right-of-use (from 2019)/Leases debt equivalent	€M	153	139	139	139
- Financial fixed assets (fair value) & Others	€M	91.8	69.3	69.3	69.3
+ Minority interests (fair value)	€M	155	158	161	164
= Enterprise Value	**€M**	**1,044**	**1,176**	**1,445**	**1,377**

Per Share Data

Per Share Data		12/22A	12/23E	12/24E	12/25E
Adjusted EPS (bfr gwill amort. & dil.)	**€**	**1.07**	**1.07**	**0.99**	**0.87**
Growth in EPS	*%*	*47.3*	*0.53*	*-7.96*	*-12.2*
Reported EPS	€	1.04	1.07	0.99	0.87
Net dividend per share	**€**	**0.22**	**0.24**	**0.26**	**0.28**
Free cash flow per share	€	1.38	1.17	0.76	0.95
Operating cash flow per share	€	1.86	2.11	1.74	1.75
Book value per share	€	8.80	9.29	9.82	10.4
Number of ordinary shares	**Mio**	**159**	**159**	**159**	**159**
Number of equivalent ordinary shares (year end)	Mio	159	159	159	159
Number of shares market cap.	Mio	159	159	159	159
Treasury stock (year end)	Mio	3.60	3.60	3.60	3.60
Number of shares net of treasury stock (year end)	Mio	156	156	156	156
Number of common shares (average)	**Mio**	**156**	**156**	**156**	**156**
Conversion of debt instruments into equity	Mio				
Settlement of cashable stock options	Mio				
Probable settlement of non mature stock options	Mio				
Other commitments to issue new shares	Mio				
Increase in shares outstanding (average)	Mio	0.00	0.00	0.00	0.00
Number of diluted shares (average)	**Mio**	**156**	**156**	**156**	**156**
Goodwill per share (diluted)	€	0.02	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	€	1.04	1.07	0.99	0.87
EPS before goodwill amortisation (non-diluted)	€	1.04	1.07	0.99	0.87
Payout ratio	**%**	**21.1**	**22.4**	**26.3**	**32.3**
Capital payout ratio (div +share buy back/net income)	**%**	**20.6**	**22.4**	**26.3**	

Funding - Liquidity

		12/22A	12/23E	12/24E	12/25E
EBITDA	€M	335	411	381	389
Funds from operations (FFO)	€M	263	301	268	259
Ordinary shareholders' equity	**€M**	**1,368**	**1,445**	**1,527**	**1,617**
Gross debt	€M	311	306	300	270
o/w Less than 1 year - Gross debt	€M	106	106	100	80.0
o/w 1 to 5 year - Gross debt	€M	141	140	140	130
of which Y+2	€M	73.9			
o/w Beyond 5 years - Gross debt	€M	64.2	60.0	60.0	60.0
+ Gross Cash	€M	407	521	567	606
= Net debt / (cash)	**€M**	**-95.5**	**-215**	**-267**	**-336**
Bank borrowings	€M	223	200	200	200
Other financing	€M	88.1	106	100	70.0
Gearing (at book value)	%	-2.01	-10.7	-15.8	-18.6
Equity/Total asset (%)	%	82.1	87.7	91.0	95.1
Adj. Net debt/EBITDA(R)	*x*	*0.17*	*-0.18*	*-0.33*	*-0.50*
Adjusted Gross Debt/EBITDA(R)	*x*	*1.12*	*0.95*	*1.00*	*0.90*
Adj. gross debt/(Adj. gross debt+Equity)	*%*	*21.5*	*21.3*	*20.0*	*17.8*
Ebit cover	*x*	*-6.71*	*8.94*	*8.97*	*7.78*
FFO/Gross Debt	*%*	*70.3*	*77.3*	*70.2*	*74.1*
FFO/Net debt	*%*	*-276*	*-140*	*-100*	*-77.3*
FCF/Adj. gross debt (%)	*%*	*57.4*	*46.7*	*30.8*	*42.2*
(Gross cash+ "cash" FCF+undrawn)/ST debt	*x*	*5.89*	*6.63*	*6.85*	*9.41*
"Cash" FCF/ST debt	*x*	*1.67*	*1.73*	*1.19*	*1.86*

ROE Analysis (Dupont's Breakdown)

		12/22A	12/23E	12/24E	12/25E
Tax burden (Net income/pretax pre excp income)	x	0.69	0.67	0.70	0.66
EBIT margin (EBIT/sales)	%	11.9	16.5	13.9	12.5
Assets rotation (Sales/Avg assets)	%	109	102	108	113
Financial leverage (Avg assets /Avg equity)	x	1.29	1.18	1.12	1.07
ROE	**%**	**13.2**	**11.9**	**10.3**	**8.58**
ROA	%	15.2	20.6	17.9	16.8

Shareholder's Equity Review (Group Share)

		12/22A	12/23E	12/24E	12/25E
Y-1 shareholders' equity	€M	1,088	1,368	1,445	1,527
+ Net profit of year	€M	162	167	154	135
- Dividends (parent cy)	€M	-30.8	-34.2	-37.3	-40.4
+ Additions to equity	€M	0.00	0.00	0.00	0.00
o/w reduction (addition) to treasury shares	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
- Unrecognised actuarial gains/(losses)	€M	0.00	0.00	0.00	0.00
+ Comprehensive income recognition	€M	148	-56.0	-34.4	-3.60
= Year end shareholders' equity	**€M**	**1,368**	**1,445**	**1,527**	**1,617**

Staffing Analytics

		12/22A	12/23E	12/24E	12/25E
Sales per staff	€th	559	544	570	599
Staff costs per employee	€th	-64.2	-66.6	-69.6	-72.2
Change in staff costs	*%*	*9.25*	*4.64*	*5.57*	*4.84*
Change in unit cost of staff	*%*	*9.18*	*3.60*	*4.53*	*3.80*
Staff costs/(EBITDA+Staff costs)	*%*	*37.1*	*33.5*	*36.5*	*37.1*
Average workforce	**unit**	**3,085**	**3,116**	**3,147**	**3,178**
Europe	unit	0.00	0.00	0.00	0.00
North America	unit	0.00	0.00	0.00	0.00
South Americas	unit	0.00	0.00	0.00	0.00
Asia	unit	0.00	0.00	0.00	0.00
Other key countries	unit	3,085	3,116	3,147	3,178
Total staff costs	**€M**	**-198**	**-207**	**-219**	**-230**
Wages and salaries	€M	-198	-207	-219	-230
of which social security contributions	*€M*	*-29.4*	*-30.8*	*-32.5*	*-34.1*
Pension related costs	€M		0.00	0.00	0.00

Divisional Breakdown Of Revenues

		12/22A	12/23E	12/24E	12/25E
Total sales	**€M**	**1,723**	**1,694**	**1,793**	**1,905**
Nordic & Baltic	€M	736	647	640	639
North America (US)	€M	196	178	180	184
Belgium/France	€M	334	363	392	415
Turkey	€M	271	345	400	460
Egypt	€M	57.1	46.8	48.2	49.2
Asia Pacific (China & Malaysia)	€M	125	116	119	121
Holding & Services	€M	210	204	214	227
Other	€M	-207	-204	-198	-190

Divisional Breakdown Of Earnings

		12/22A	12/23E	12/24E	12/25E
EBITDA/R Analysis					
Nordic & Baltic	€M	166	182	167	168
North America (US)	€M	28.9	24.9	25.2	25.8
Belgium/France	€M	76.5	88.8	95.9	99.6
Turkey	€M	26.6	72.3	57.2	58.4
Egypt	€M	11.8	10.1	9.40	9.34
Asia Pacific (China & Malaysia)	€M	22.7	24.5	24.7	25.1
Holding & Services	€M	2.99	8.57	2.50	3.00
Other/cancellations	€M				
Total	**€M**	**335**	**411**	**381**	**389**
EBITDA/R margin	%	19.5	24.3	21.3	20.4

Revenue Breakdown By Country

		12/22A	12/23E	12/24E	12/25E
Nordic states	%	42.7	42.7		
Of Which Denmark	%	29.6	29.6		
North America	%	11.4	11.4		
Belgium	%	19.4	19.4		
Turkey	%	15.7	15.7		
Egypt	%	3.31	3.31		
Asia	%	7.23	7.23		
Italy	%	12.2	12.2		
Other	%	-12.0	-12.0		

ROCE

ROCE		12/22A	12/23E	12/24E	12/25E
ROCE (NOPAT+lease exp.(1-tax))/(net) cap employed adjusted*	*%*	*9.86*	*13.5*	*11.8*	*11.1*
CFROIC	*%*	*13.5*	*11.6*	*7.37*	*9.10*
Goodwill	€M	407	411	415	419
Accumulated goodwill amortisation	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
All intangible assets	€M	205	207	209	211
Accumulated intangible amortisation	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
Financial hedges (LT derivatives)	€M	0.00	0.00	0.00	0.00
Capitalised R&D	€M	0.00	0.00	0.00	0.00
Rights of use/ Capitalised leases	€M	153	139	139	139
Other fixed assets	€M	745	745	745	745
Accumulated depreciation	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
WCR	€M	-8.51	-3.66	21.0	38.2
Other assets	€M	91.8	69.3	69.3	69.3
Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00	0.00
Capital employed after deprec. (Invested capital)	**€M**	**1,593**	**1,568**	**1,599**	**1,622**
Capital employed before depreciation	€M	1,593	1,568	1,599	1,622

Divisional Breakdown Of Capital Employed

Divisional Breakdown Of Capital Employed		12/22A	12/23E	12/24E	12/25E
Nordic & Baltic	€M				
North America (US)	€M				
Belgium/France	€M				
Turkey	€M				
Egypt	€M				
Asia Pacific (China & Malaysia)	€M				
Holding & Services	€M				
Other	€M	1,593	1,568	1,599	1,622
Total capital employed	**€M**	**1,593**	**1,568**	**1,599**	**1,622**

Pension Risks

Summary Of Pension Risks

Summary Of Pension Risks		12/22A	12/23E	12/24E	12/25E
Pension ratio	**%**	**4.30**	**3.16**	**2.88**	**2.61**
Ordinary shareholders' equity	€M	1,368	1,445	1,527	1,617
Total benefits provisions	**€M**	**61.4**	**47.2**	**45.2**	**43.3**
of which funded pensions	*€M*	*61.4*	*47.2*	*45.2*	*43.3*
of which unfunded pensions	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
of which benefits / health care	*€M*		*0.00*	*0.00*	*0.00*
Unrecognised actuarial (gains)/losses	€M	0.00	0.00	0.00	0.00
Company discount rate	*%*	*2.50*	*2.50*	*2.50*	
Normalised recomputed discount rate	%		2.50		
Company future salary increase	*%*	*4.00*	*4.00*	*4.00*	
Normalised recomputed future salary increase	%		4.00		
Company expected rate of return on plan assets	*%*	*3.50*	*3.50*	*3.50*	
Normalised recomputed expd rate of return on plan assets	%		3.50		
Funded : Impact of actuarial assumptions	**€M**		**0.00**		
Unfunded : Impact of actuarial assumptions	**€M**		**0.00**		

Geographic Breakdown Of Pension Liabilities

Geographic Breakdown Of Pension Liabilities		12/22A	12/23E	12/24E	12/25E
US exposure	%				
UK exposure	%				
Euro exposure	%	100	100	100	100
Nordic countries	%				
Switzerland	%				
Other	%				
Total	%	100	100	100	100

Balance Sheet Implications

Balance Sheet Implications		12/22A	12/23E	12/24E	12/25E
Funded status surplus / (deficit)	€M	-61.4	-62.9	-60.3	-57.8
Unfunded status surplus / (deficit)	€M	0.00	0.00	0.00	0.00
Total surplus / (deficit)	€M	-61.4	-62.9	-60.3	-57.8
Total unrecognised actuarial (gains)/losses	**€M**	**0.00**	**0.00**	**0.00**	**0.00**
Provision (B/S) on funded pension	€M	61.4	47.2	45.2	43.3
Provision (B/S) on unfunded pension	€M	0.00	0.00	0.00	0.00
Other benefits (health care) provision	€M		0.00	0.00	0.00
Total benefit provisions	**€M**	**61.4**	**47.2**	**45.2**	**43.3**

P&L Implications

P&L Implications		12/22A	12/23E	12/24E	12/25E
Funded obligations periodic costs	€M	0.00	-1.54	-1.57	-1.47
Unfunded obligations periodic costs	€M	0.00	0.00	0.00	0.00
Total periodic costs	**€M**	**0.00**	**-1.54**	**-1.57**	**-1.47**
of which incl. in labour costs	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
of which incl. in interest expenses	*€M*	*0.00*	*-1.54*	*-1.57*	*-1.47*

Funded Obligations

		12/22A	12/23E	12/24E	12/25E
Balance beginning of period	**€M**	**61.4**	**61.4**	**62.9**	**64.5**
Current service cost	€M		0.00	0.00	0.00
Interest expense	€M		1.54	1.57	1.61
Employees' contributions	€M				
Impact of change in actuarial assumptions	€M		0.00	0.00	0.00
of which impact of change in discount rate	*€M*		*0.00*		
of which impact of change in salary increase	*€M*		*0.00*		
Changes to scope of consolidation	**€M**				
Currency translation effects	€M				
Pension payments	€M				
Other	€M				
Year end obligation	**€M**	**61.4**	**62.9**	**64.5**	**66.1**

Plan Assets

		12/22A	12/23E	12/24E	12/25E
Value at beginning	**€M**		**0.00**	**0.00**	**4.20**
Company expected return on plan assets	€M		0.00	0.00	0.15
Actuarial gain /(loss)	€M		0.00	0.00	0.00
Employer's contribution	€M	0.00	0.00	4.20	4.02
Employees' contributions	€M	0.00	0.00	0.00	0.00
Changes to scope of consolidation	€M				
Currency translation effects	€M				
Pension payments	€M	0.00	0.00	0.00	0.00
Other	€M				
Value end of period	**€M**	**0.00**	**0.00**	**4.20**	**8.36**
Actual and normalised future return on plan assets	€M	0.00	0.00	0.00	0.15

Unfunded Obligations

		12/22A	12/23E	12/24E	12/25E
Balance beginning of period	**€M**	**0.00**	**0.00**	**0.00**	**0.00**
Current service cost	€M		0.00	0.00	0.00
Interest expense	€M		0.00	0.00	0.00
Employees' contributions	€M				
Impact of change in actuarial assumptions	€M		0.00	0.00	0.00
of which Impact of change in discount rate	*€M*		*0.00*		
of which Impact of change in salary increase	*€M*		*0.00*		
Changes to scope of consolidation	€M				
Currency translation effects	€M				
Pension payments	€M				
Other	€M				
Year end obligation	**€M**	**0.00**	**0.00**	**0.00**	**0.00**

Fundamental Opinion

It is implicit that recommendations are made in good faith but should not be regarded as the sole source of advice.

Recommendations are geared to a **"value"** approach.

Valuations are computed from the point of view of a **secondary market minority holder** looking at a medium term (say 6 months) performance.

Valuation tools are built around the concepts of **transparency,** all underlying figures are accessible, and **consistency,** same methodology whichever the stock, allowing for differences in nature between financial and non financial stocks. A stock with a target price below its current price should not and will not be regarded as an Add or a Buy.

Recommendations are based on target prices with no allowance for dividend returns. The thresholds for the four recommendation levels may change from time to time depending on market conditions. Thresholds are defined as follows, ASSUMING long risk free rates remain in the 2-5% region.

Recommendation	Low Volatility 10 < VIX index < 30	Normal Volatility 15 < VIX index < 35	High Volatility 35 < VIX index
Buy	More than 15% upside	More than 20% upside	More than 30% upside
Add	From 5% to 15%	From 5% to 20%	From 10% to 30%
Reduce	From -10% to 5%	From -10% to 5%	From -10% to 10%
Sell	Below -10%	Below -10%	Below -10%

There is deliberately no "neutral" recommendation. The principle is that there is no point investing in equities if the return is not at least the risk free rate (and the dividend yield which again is not allowed for).

Although recommendations are automated (a function of the target price whenever a new equity research report is released), the management of AlphaValue intends to maintain global consistency within its universe coverage and may, from time to time, decide to change global parameters which may affect the level of recommendation definitions and /or the distribution of recommendations within the four levels above. For instance, lowering the risk premium in a gloomy context may increase the proportion of positive recommendations.

Valuation

Valuation processes have been organized around transparency and consistency as primary objectives.

Stocks belong to different categories that recognise their main operating features : Banks, Insurers and Non Financials.

Within those three universes, the valuation techniques are the same and in relation to the financial data available.

The weighting given to individual valuation techniques is managed centrally and may be changed from time to time. As a rule, all stocks of a similar profile are valued using equivalent weighting of the various valuation techniques. This is for obvious consistency reasons.

Within the very large universe of Non Financials, there are in effect 4 sub-categories of weightings to cater for subsets: 1) 'Mainstream' stocks; 2) 'Holding companies' where the stress is on NAV measures; 3) 'Growth' companies where the stress is on peer based valuations; 4) 'Loss making sectors' where peers review is essentially pointing nowhere (ex: Bio techs). The bulk of the valuation is then built on DCF and NAV, in effect pushing back the time horizon.

Valuation Issue	Normal industrials	Growth industrials	Holding company	Loss runners	Bank	Insurers
DCF	35%	35%	10%	40%	0%	0%
NAV	20%	20%	55%	40%	50%	15%
PE	10%	10%	10%	5%	10%	20%
EV/EBITDA	20%	20%	0%	5%	0%	0%
Yield	10%	10%	20%	5%	10%	15%
Book	5%	5%	5%	5%	10%	10%
Banks' instrinsic method	0%	0%	0%	0%	10%	0%
Embedded Value	0%	0%	0%	0%	0%	40%
Mkt Cap/Gross Operating Profit	0%	0%	0%	0%	10%	0%

