

Tear Sheet:

Cementir Holding N.V.

June 26, 2024

S&P Global Ratings anticipates that Cementir will sustain a strong performance in 2024, despite the difficult environment. We anticipate that the operating environment will remain challenging in 2024, with stagnated or slightly recovered sales volumes and limited room for sales price increases. Nevertheless, Cementir should benefit from high cement demand in Turkiye, in line with the domestic market appetite in recent years, and we expect a resilient operating margin, given decreased spot energy prices and consistent sales pricing. In our base-case scenario, we expect revenue growth of 3.4%-4.1%, to €1.7 billion-€1.8 billion in 2024-2025, corresponding to a S&P Global Ratings-adjusted EBITDA margin of 20.7%-22.2%. In 2023, Cementir showed strong operating performance. Revenue fell 2% year on year to €1.7 billion, because lower sales volumes more than offset slightly higher prices. Nevertheless, S&P Global Ratings-adjusted EBITDA margins expanded to 22.9% from 18.2% in 2022, with EBITDA of €388 million, owing to positive performance in a post-earthquake environment in Turkiye as well as in Denmark and Belgium where there were price increases. Most other regions witnessed better price-cost spread management and lower CO₂ consumption, as production declined. Overall, falling debt and improved EBITDA led to a more comfortable net cash position of €132.4 million, from a net cash position of €14.2 million at end-2022.

We expect that Cementir will keep comfortable rating headroom in 2024-2025. The group remains committed to maintaining low debt in the capital structure, which in our view, along with the moderate shareholder remuneration and considerate investment plan, will support credit metrics in line with our 'BBB-' rating. We anticipate that Cementir will retain a net cash position in the next two years, as the group remains cautious about potential acquisitions, prioritizing the quality of its balance sheet. Moreover, its dividend payout ratio remains consistent with previous years, at about 20%-25%. Despite continuous capital expenditure (capex) related to CO₂ emission reduction, we think it unlikely that Cementir's credit metrics would fall below rating triggers, given the current rating headroom.

Cementir has a clear strategy to reduce CO₂ emissions. The group's business plan targets €100 million of cumulative investments in sustainability in 2024-2026, with diverse projects concerning sustainability, among which plant upgrades in Belgium and Turkiye to increase alternative fuel usage, switch to natural gas in some plants, focus on value chain circularity, and water recycling. Furthermore, Cementir is assessing carbon capture in its Denmark plant, aiming at becoming operational by 2030. In our view, Cementir's strong commitment to progressive reduction of CO₂ emissions should translate into improved competitiveness versus

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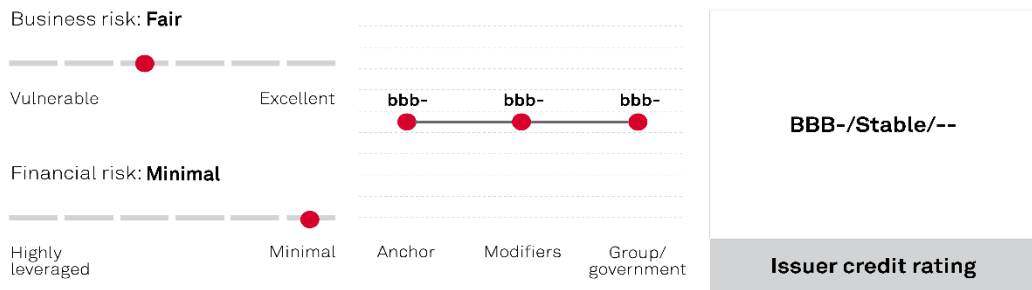
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small players. We believe that Cementir’s current balance sheet has sufficient strength to sustain costs associated with decarbonization.

Ratings Score Snapshot



Recent Research

- Credit Conditions Europe Q2 2024: Credit Heals, Defense Shields, March 27, 2024
- European Building Materials Firms Display Good Rating Headroom In A Sluggish Environment, March 19, 2024
- Global Building Materials Companies: Strongest To Weakest, Feb 06, 2024
- Industry Credit Outlook 2024: Building Materials, Jan. 9, 2024

Company Description

Cementir is a Netherlands-based producer and distributor of grey and white cement, ready-mix concrete, and aggregates. It is the world leader in white cement with 25% share of global trade; the leading producer of cement in Denmark, and of concrete in the Scandinavian area; the third-largest player in Belgium; and among the main international grey cement operators in Turkiye. In Belgium, the group operates one of the largest aggregate quarries in Europe. In Turkiye, the group is also active in industrial waste processing. Cementir's international growth over the years has mainly been driven by investments and acquisitions totaling a combined €1.7 billion. These have transformed the company from a domestic to a multinational player with production

Cementir Holding N.V.

sites and products marketed in more than 80 countries. At year-end 2023, the group reported total revenue of about €1.7 billion and adjusted EBITDA of about €389 million.

Cementir's three product lines are as follows:

- Cement (60% of 2023 sales, 80% of reported EBITDA), which includes white and grey cement, is manufactured in 11 plants worldwide, and is used for construction, as well as being an integral part of concrete and premixed materials.
- Ready-mix concrete (25% of 2023 sales, 9.6% of reported EBITDA), which includes an innovative range of products, covering all classes of concrete for construction projects.
- Aggregates (5% of 2023 sales, 7.4% of reported EBITDA), which supply raw material for concrete, masonry, and asphalt, while sand, gravel, granite, and perlite are base materials for the construction of buildings, roads, and infrastructure.

Cementir's operations are geographically well diversified with operations in the following geographic business segments:

- Nordic and Baltic (35% of sales in 2023),
- Belgium / France (19% of sales),
- North America (9% of sales),
- Turkiye (17% of sales),
- Egypt (3% of sales),
- Asia Pacific (6% of sales),
- Holding and Services (11% of sales), which includes the parent company, Spartan Hive, and Aalborg Portland Digital as well as other smaller companies.

In November 2023, Cementir disposed of the British companies of the Neales Waste Management Group, active in the production of alternative fuels.

Cementir is owned and controlled by the Caltagirone family (directly and indirectly), with about 27% of shares being free float.

Outlook

The stable outlook reflects our view that Cementir will sustain adjusted funds from operations (FFO) to debt well above 45% and adjusted debt to EBITDA below 1.5x. Since 2022, Cementir has benefited from a net cash position. We view the group's financial policy and capital allocation strategy as consistent with a 'BBB-' rating.

Downside scenario

We could consider lowering the rating if:

- Large debt-funded acquisitions, capital investments, or shareholder distributions led to credit metrics dropping significantly below our base case, such that FFO to debt fell below 45%, with limited possibility of a swift recovery.
- The group seemed likely to follow a financial policy that did not support FFO to debt above 45% and debt to EBITDA below 1.5x on a sustained basis.

Upside scenario

We consider an upgrade unlikely in the next couple of years, as it would require Cementir to achieve significantly larger business diversification, while keeping the same profitability and credit metrics.

Key Metrics

Cementir Holding N.V.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	1,225	1,360	1,723	1,694	1,740-1,790	1,810-1,850	1,910-1,950	1,980-2,020
EBITDA	254	287	313	389	360-390	380-410	400-430	410-440
Adjusted ratios								
Debt/EBITDA (x)	0.6	0.3	--	--	--	--	--	--
FFO/debt (%)	123.7	292.5	NM	NM	NM	NM	NM	NM
FOCF/debt (%)	114.4	173.7	NM	NM	NM	NM	NM	NM
DCF/debt (%)	95.6	103.1	NM	NM	NM	NM	NM	NM
EBITDA margin (%)	20.7	21.1	18.2	22.9	20.7 - 21.8	21.0-22.2	20.9 -22.1	20.7-21.8

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro. NM--Not meaningful.

Financial Summary

Cementir Holding N.V.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
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Cementir Holding N.V.--Financial Summary

Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,196	1,212	1,225	1,360	1,723	1,694
EBITDA	240	254	254	287	313	389
Funds from operations (FFO)	178	209	203	231	255	315
Interest expense	20	13	13	9	11	14
Cash interest paid	19	13	13	9	11	13
Operating cash flow (OCF)	184	216	247	219	281	300
Capital expenditure	67	63	58	82	105	107
Free operating cash flow (FOCF)	117	152	188	137	176	194
Discretionary cash flow (DCF)	96	125	157	81	146	156
Cash and short-term investments	233	331	414	283	356	412
Gross available cash	233	331	414	283	356	412
Debt	393	287	165	79	0	0
Common equity	1,128	1,182	1,183	1,228	1,523	1,651
Adjusted ratios						
EBITDA margin (%)	20.0	20.9	20.7	21.1	18.2	22.9
Return on capital (%)	9.3	9.9	10.9	13.6	13.6	17.1
EBITDA interest coverage (x)	11.9	18.9	19.3	32.1	27.5	28.1
FFO cash interest coverage (x)	10.5	17.6	17.1	27.9	25.2	25.5
Debt/EBITDA (x)	1.6	1.1	0.6	0.3	0.0	0.0
FFO/debt (%)	45.4	72.6	123.7	292.5	NM	NM
OCF/debt (%)	46.9	75.1	149.9	277.0	NM	NM
FOCF/debt (%)	29.9	53.0	114.4	173.7	NM	NM
DCF/debt (%)	24.6	43.5	95.6	103.1	NM	NM

Peer Comparison**Cementir Holding N.V.--Peer Comparisons**

	Cementir Holding N.V.	Buzzi SpA	Holcim Ltd	Heidelberg Materials AG	Titan Cement International
Foreign currency issuer credit rating	BBB-/Stable/--	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BB/Positive/B
Local currency issuer credit rating	BBB-/Stable/--	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BB/Positive/B
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	1,694	4,317	29,018	21,178	2,547
EBITDA	389	1,255	7,050	4,039	550
Funds from operations (FFO)	315	1,024	5,628	3,194	435
Interest	14	43	624	215	49

Cementir Holding N.V.--Peer Comparisons

Cash interest paid	13	36	668	322	47
Operating cash flow (OCF)	300	956	5,877	3,284	405
Capital expenditure	107	303	1,617	1,296	221
Free operating cash flow (FOCF)	194	652	4,260	1,988	184
Discretionary cash flow (DCF)	156	569	670	1,111	123
Cash and short-term investments	412	1,121	6,535	3,203	275
Gross available cash	412	1,010	6,535	3,203	275
Debt	0	443	9,480	7,343	763
Equity	1,651	5,632	28,480	18,375	1,583
EBITDA margin (%)	22.9	29.1	24.3	19.1	21.6
Return on capital (%)	17.1	19.9	13.6	11.5	17.4
EBITDA interest coverage (x)	28.1	29.3	11.3	18.8	11.1
FFO cash interest coverage (x)	25.5	29.5	9.4	10.9	10.2
Debt/EBITDA (x)	0.0	0.4	1.3	1.8	1.4
FFO/debt (%)	NM	231.2	59.4	43.5	57.0
OCF/debt (%)	NM	215.8	62.0	44.7	53.1
FOCF/debt (%)	NM	147.3	44.9	27.1	24.1
DCF/debt (%)	NM	128.4	7.1	15.1	16.2

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Cementir. Cementir has higher CO₂ emissions per ton of grey cement (655 kg/ton in 2023) and white cement (846 kg/ton) than most players based in Europe, the Middle East, and Africa. Furthermore, Cementir has a high share of cement and ready-mixed concrete in total revenue (respectively, 60% and 25% in 2023), while white cement, typically with higher emissions than grey cement, accounted for 25% of total cement production in 2023.

The group's strong commitment to progressive reduction of its CO₂ emissions is supported by Cementir's detailed capex plan, particularly in the EU, to comply with more stringent upcoming regulation. This plan would also enable Cementir to close the gap with peers on grey cement (e.g. Heidelberg Materials AG reported 534 kg/ton in 2023). The group's revised business plan accounts for €100 million of cumulative investments (about 5% of the group annual revenue) in sustainability by 2026. The sustainability investments would be distributed as follows: €48 million in 2024, €24 million in 2025, and €27 million in 2026, which would account for about 36% of the group's total capex in 2024 and about 25% in 2025-2026. As a result, Cementir targets cutting emissions to 458 kg/ton of grey cement by 2030, which is broadly in line with the largest EU-based peers. So far, Cementir is on track to fulfill its 2030 CO₂ emission reduction targets, considering the continuous and consistent reduction over the past few years, reaching 655 kg/ton in 2023 (compared with 696 kg/ton in 2019). The group has several ongoing sustainability-related projects in order to achieve this target, including plant upgrades in Belgium and Turkiye to increase alternative fuel usage, a carbon capture initiative in Denmark to achieve carbon capture and storage by 2030, switch to natural gas in some plants, focus on value chain circularity, and water recycling. While Cementir's emissions in grey cement could eventually approach the European average, we see a significant reduction in emissions for white cement as unlikely. We also believe that substitution risk related to white cement is higher than for grey cement. Furthermore, the implementation of the EU's Carbon Border Adjustment

Cementir Holding N.V.

Mechanism (CBAM), which will apply in its definitive regime from 2026, while the current transitional phase lasts between 2023 and 2025, introduces a carbon border tax on the production of specific carbon-intensive goods entering the EU, that could make cement importing from neighbors such as Turkiye or Egypt more difficult. Governance factors are an overall neutral consideration. The company is owned and controlled by the Caltagirone family, which has a track record of investing in business development while preserving balance-sheet strength.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Fair
Country risk	Low
Industry risk	Intermediate
Competitive position	Fair
Financial risk	Minimal
Cash flow/leverage	Minimal
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

Cementir Holding N.V.

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

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