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Ratings

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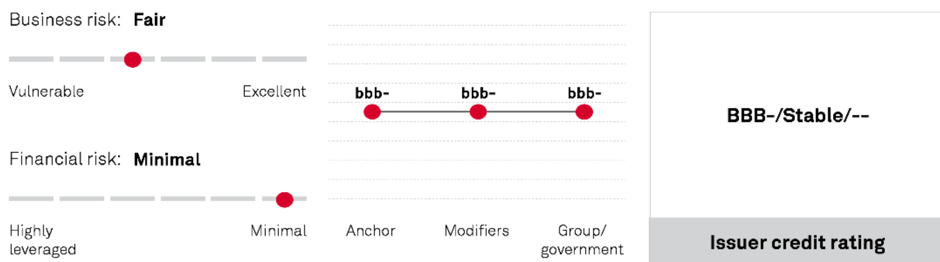
Cementir Holding NV

June 20, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
--World-leading position in producing white cement, with a global market share of about 12%.	--Smaller revenue and EBITDA base than peers'.
--Efficient cost management and improved profitability in recent years.	--About 45% of revenue is concentrated in the Nordic and Baltic regions, while over 10% comes from high-risk countries.
--Improved credit metrics in recent years, mainly reflecting good free cash flow generation over the business cycle.	--Cyclicality, seasonality, and high capital and energy intensity of the building materials' industry.
	--Exposure to high raw material input costs and energy costs.

Resilient top-line growth and an improved EBITDA margin, combined with strong deleveraging, helped Cementir Holding NV (Cementir) achieve robust operating performance in 2021. This resulted in funds from operations (FFO) to debt increasing to over 250% in 2021, compared with about 125% in 2020. The group reported overall revenue growth of 11% in 2021 and its S&P Global Ratings-adjusted absolute EBITDA was broadly in line with that of the previous period. S&P Global Ratings expects Cementir will continue to perform well in 2022, with good cash flow generation from top-line growth, solid working capital management, and efficiency improvement initiatives offset by a slight margin decrease of about 1%-2% due to increasing energy and raw material prices, along with resumption of capital expenditure (capex).

Although Cementir showed a very resilient business model and good ability to pass on higher input costs, we expect some margin pressure in 2022. Following strong results in 2021, Cementir continued to report solid operating performance also during the first quarter of 2022. Revenue increased by 20.6% in first-quarter 2022 compared with the same period in 2021. At the same time, EBITDA improved by 26.2%, highlighting the good ability of the company to pass on higher energy costs to its customers despite market turmoil related to the Russia-Ukraine conflict and the prolonged lockdowns in China. Moreover, Cementir did not report any operational challenges following the start of the war. Nevertheless, we expect that margins will somewhat decline in 2022 due to continued price pressure and forecast lower growth, especially in Europe and China. This leads to our expectation that EBITDA margin will decline to about 19.5%-20.5% in 2022 from about 21.1% in 2021.

Outlook

The stable outlook reflects our view that Cementir will sustain FFO to debt well above 45% and adjusted debt to EBITDA below 1.5x. 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 seems likely to follow a financial policy that does 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.

Our Base-Case Scenario

Assumptions

- Real GDP growth of 2.4% in North America in 2022 followed by 2.0% in 2023; 2.7% real GDP growth in the eurozone in 2022 and 2.2% in 2023; and 4.6% in Asia Pacific in 2022 and 5.0% in 2023.
- Revenue growth of 17%-18% in 2022, mostly supported by continued strong demand and significant price increases across key regions, normalizing to 2%-3% from 2023. This is based on our view that demand for both white and grey cement will remain resilient over the next two years, and that cement manufacturers will continue to successfully implement price increases.
- Adjusted EBITDA margins of about 19.5%-20.5% in 2022, slightly improving to 20.5%-21.5% in 2023, from about 21.1% in 2021. The expected pressure on margins reflects the continued energy-cost inflation, which was further exacerbated by the Russia-Ukraine conflict.
- Working capital outflow of about €15 million in 2022 and about €5 million in 2023.
- Capex of about 6%-8% of revenue.
- About €30 million-€40 million of dividend payments, in line with management guidance.
- Moderate acquisitions over the next few years.

Key metrics

Cementir Holding N.V.--Key Metrics*

Mil. $	2020a	2021a	2022e	2023f	2024f
Revenue	1,224.8	1,360.0	1,590-1,600	1,630-1,650	1,670-1,690
Revenue growth (%)	1.1	11.0	17-18	2-3	2-3
EBITDA	254	287	310-320	330-340	340-350
EBITDA margin (%)	20.7	21.1	19.5-20.5	20.5-21.5	20.5-21.5
Funds from operations (FFO)	203.5	231.3	260-270	280-290	285-295
Capital expenditure	58.5	81.7	95-100	110-115	105-110
Free operating cash flow (FOCF)	188.2	137.3	155-165	170-180	190-200
Dividends	30.9	24.7	35-40	35-40	35-40
Debt to EBITDA (x)	0.6	0.3	0.2-0.5	0.2-0.5	0.2-0.5
FFO to debt (%)	123.7	292.5	260-270	225-250	225-250
FOCF to debt (%)	114.4	173.7	160-170	135-150	135-150

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

We forecast the group will post FFO to debt of about 225%-275% and adjusted debt to EBITDA of below 1x in 2022-2023. In its 2019 business plan, Cementir's management committed to reaching a net cash position by 2022. The group is making good progress toward this target. In 2021, Cementir's leverage position improved substantially and adjusted debt to EBITDA fell to 0.3x from 0.6x in 2021. We project a slightly reduced EBITDA margin of about 19%-21% in 2022 and 2023. However, the company is expected to maintain low leverage in the future capital structure. Overall, these factors should support FFO to debt of about 225%-275% and adjusted debt to EBITDA of below 1.0x in 2022 and 2023.

Company Description

Founded in 1947, 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; 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 Turkey. In Belgium, the group operates one of the largest aggregate quarries in Europe, with 10 million tons extracted each year. The group is also active in urban and 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 sites and products marketed in more than 70 countries. At year-end 2021, the group reported total revenue of about €1.4 billion and adjusted EBITDA of about €287 million.

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

Peer Comparison

We compare Cementir with other cement producer companies we rate with similar geographical exposure. The company's business risk profile remains constrained by its much smaller size compared with larger cement players such as Buzzi, HeidelbergCement, and LafargeHolcim. However, Cementir has shown significantly better credit metrics than those of peers in recent years.

Cementir Holding N.V.--Peer Comparisons

	Cementir Holding N.V.	Buzzi Unicem SpA	Holcim Ltd	HeidelbergCement AG	Titan Cement International
Foreign currency issuer credit rating	BBB-/Stable/--	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BB/Stable/B
Local currency issuer credit rating	BBB-/Stable/--	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BB/Stable/B
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2020-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	1,360	3,644	25,882	18,720	1,715
EBITDA	287	973	6,399	3,485	273
Funds from operations (FFO)	231	817	5,115	2,450	225
Interest	9	78	437	232	38
Cash interest paid	9	30	485	288	36
Operating cash flow (OCF)	219	654	4,866	1,762	170
Capital expenditure	82	228	1,732	1,419	126
Free operating cash flow (FOCF)	137	426	3,134	343	44
Discretionary cash flow (DCF)	81	358	1,617	(625)	8
Cash and short-term investments	283	1,335	6,445	3,099	80
Gross available cash	283	1,278	5,712	3,099	80
Debt	79	875	11,550	6,934	821
Equity	1,228	3,687	29,031	16,659	1,337
EBITDA margin (%)	21.1	26.7	24.7	18.6	15.9
Return on capital (%)	13.6	14.1	11.1	10.1	6.5
EBITDA interest coverage (x)	32.1	12.4	14.6	15.0	7.1
FFO cash interest coverage (x)	27.9	28.7	11.5	9.5	7.2
Debt/EBITDA (x)	0.3	0.9	1.8	2.0	3.0
FFO/debt (%)	292.5	93.4	44.3	35.3	27.4
OCF/debt (%)	277.0	74.7	42.1	25.4	20.7
FOCF/debt (%)	173.7	48.7	27.1	4.9	5.3
DCF/debt (%)	103.1	40.9	14.0	(9.0)	1.0

Business Risk

Our assessment of Cementir's business risk is supported by its leading position as a white cement producer. Cementir’s business strength benefits from a world-leading position in producing white cement, with 3.3 million tons of installed capacity and a global market share of about 12%. White cement is a more sophisticated niche product than traditional grey cement, with a higher margin and more flexibility for international distribution. Cementir is also the leading producer of cement in Denmark and of ready-mixed concrete in the Scandinavian region. It is the third-largest player in Belgium and among the main international producers of grey cement in Turkey.

The company also benefits from its broad geographical footprint, which counterbalances its exposure to some high-risk countries. The group has operations in Europe, North America, and Asia-Pacific, with its main contributions from Europe, especially the Nordic and Baltic regions (41% of total revenue). We note that its high exposure to Scandinavian countries and strong presence in Belgium (serving Belgium, France, and Holland), were differentiating factors that, historically, contributed to top-line results being better than the industry average, especially compared with other European cement players. The group also has sizable exposure to high-risk countries, such as Turkey and Egypt, and its performance in these regions has been improving.

Although we believe that Cementir's competitive advantage and profitability may benefit from planned green investments, its carbon dioxide (CO2) emissions are among the highest in the sector. The group's business plan accounts for €97 million of cumulative investments in sustainability in 2022-2024 for specific projects concerning digitalization and sustainability, including the reduction of CO2 emissions at its plants. Along with this, Cementir's launch of new types of sustainable cement based on patented technologies allows it to reduce CO2 emissions in its products. Lower emissions will also support the company's operating costs and help it deal with emissions-trading frameworks in geographies such as the EU. We believe that the planned improvement in sustainability may also boost Cementir's competitive advantage versus small players. Nevertheless, the cement sector worldwide is far from achieving carbon neutrality by 2050, and we believe that cement companies will likely face high capex related to CO2 emissions reduction over the current decade to comply with more stringent regulations. Moreover, Cementir has higher CO2 emissions per ton of grey cement and white cement than most players based in Europe, which also translates into a higher intensity ratio (defined as net scope 1 CO2 tons per €1 million of revenue).

The group's smaller size and exposure to the cyclical building material industry constrain the assessment. Our assessment is constrained by the group having smaller revenue and EBITDA base than peers across the industry. Although we note that Cementir's geographical diversification is lower than that of other building materials companies, we believe its exposure to white cement provides wider product diversification than cement manufacturers focused on grey cement. Our assessment also reflects some key risks, such as the high capital and energy intensity of the heavy building materials industry, and Cementir's operations in a competitive and fragmented industry with limited pricing flexibility. The commoditized nature of the group's products represents a competitive risk. However, we believe this is partially mitigated by its solid local positions in relatively consolidated markets.

Financial Risk

Our view of Cementir's financial risk profile reflects the company's very strong credit metrics and good free cash flow. Cementir has significantly improved its credit metrics in recent years, mostly thanks to continued EBITDA and cash flow generation combined with moderate debt in the capital structure. This led S&P Global Ratings-adjusted debt to EBITDA to materially decrease over the past six years, to 0.3x in 2021 from about 3.4x in 2016. We observed a similar improving trend for FFO to debt, which increased to as much as 293% in 2021 from 22.4% in 2016. We expect that Cementir will continue to report S&P Global Ratings-adjusted debt to EBITDA below 1.0x and FFO to debt above 150% in our forecast period.

We consider Cementir's commitment to preserve credit metrics in line with our 'BBB-' rating and its prudent financial policy. In our view, the group will achieve this by keeping the amount of debt in the capital structure low, and through moderate shareholder remuneration and prudent investments. Cementir's commitment to reducing leverage is embedded in its capital allocation strategy, which states that it will only consider new expansion projects and acquisitions if they do not impair its balance sheet. The dividend payout ratio for the company stands at about 20%-25%. We consider this in line with the market average, rather than aggressive. Given the current rating headroom, we believe that Cementir's credit metrics are unlikely to fall below the rating triggers, despite some bolt-on acquisitions and future capex investments related to reducing CO2 emissions.

Our ratings incorporate potential moderate acquisitions, which could increase the volatility of credit metrics. In recent years, Cementir has shown a consistent record of large debt-funded acquisitions, which increased volatility in credit metrics. For instance, financial leverage increased in 2016 as result of two debt-financed purchases, causing FFO to debt to fall below 30% from 50% in 2015. We note that the group has undertaken fewer acquisitions over the past two years. It could pursue larger strategic acquisitions in the next few years to maintain its competitive position in the market but we view this as unlikely at this stage and do not factor it into our base-case scenario. Although a large debt-funded acquisition could significantly increase volatility in credit metrics, we believe that FFO to debt would remain comfortably above 45%.

Our calculation of Cementir's adjusted debt is higher than the company's reported debt. Our main debt adjustments are for pension liabilities and reported lease liabilities. Furthermore, we apply a haircut of about 5% to the group's cash and cash-equivalent assets, mainly related to part of the cash in Egypt that the company considers as restricted and not immediately accessible for debt repayment.

Cementir Holding N.V.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,028	1,140	1,196	1,212	1,225	1,360
EBITDA	197	227	240	254	254	287
Funds from operations (FFO)	150	165	178	209	203	231
Interest expense	14	23	20	13	13	9
Cash interest paid	11	23	19	13	13	9
Operating cash flow (OCF)	161	159	184	216	247	219
Capital expenditure	67	91	67	63	58	82
Free operating cash flow (FOCF)	94	68	117	152	188	137
Discretionary cash flow (DCF)	76	51	96	125	157	81
Cash and short-term investments	244	215	233	331	414	283
Gross available cash	244	215	233	331	414	283
Debt	670	679	393	287	165	79
Common equity	1,060	1,016	1,128	1,182	1,183	1,228
Adjusted ratios						
EBITDA margin (%)	19.2	19.9	20.0	20.9	20.7	21.1
Return on capital (%)	6.2	8.2	9.3	9.9	10.9	13.6
EBITDA interest coverage (x)	14.4	9.7	11.9	18.9	19.3	32.1
FFO cash interest coverage (x)	14.3	8.3	10.5	17.6	17.1	27.9
Debt/EBITDA (x)	3.4	3.0	1.6	1.1	0.6	0.3
FFO/debt (%)	22.4	24.4	45.4	72.6	123.7	292.5
OCF/debt (%)	24.0	23.4	46.9	75.1	149.9	277.0
FOCF/debt (%)	14.0	10.0	29.9	53.0	114.4	173.7
DCF/debt (%)	11.4	7.4	24.6	43.5	95.6	103.1

Reconciliation Of Cementir Holding N.V. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	239	1,088	1,360	307	198	9	287	219	25	82
Cash taxes paid	-	-	-	-	-	-	(47)	-	-	-

Reconciliation Of Cementir Holding N.V. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Cash interest paid	-	-	-	-	-	-	(9)	-	-	-
Lease liabilities	76	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	25	-	-	-	-	0	-	-	-	-
Accessible cash and liquid investments	(266)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	3	-	-	-	-	-
Noncontrolling/ minority interest	-	139	-	-	-	-	-	-	-	-
Debt: Litigation	5	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(2)	(2)	-	-	-	-	-
EBITDA: Valuation gains/(losses)	-	-	-	(18)	(18)	-	-	-	-	-
Total adjustments	(160)	139	-	(20)	(17)	0	(56)	-	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	79	1,228	1,360	287	180	9	231	219	25	82

Liquidity

We continue to view Cementir's liquidity as adequate, because we forecast that the group's sources of liquidity will cover its uses by more than 1.2x in the next 12 months. We believe that Cementir will have adequate headroom under its leverage and coverage covenants. In our view, the group lacks experience in capital markets, despite sound banking relationships, and might not be able to absorb high-impact, low-probability events without refinancing.

Principal liquidity sources

Liquidity sources for the 12 months started April 1, 2022, include:

- About €231.8 million of total available cash.
- Full availability under the €40 million revolving credit facility maturing in 2024.
- Cash FFO of €240 million-€260 million.

Principal liquidity uses

Liquidity uses over the same period include:

- €95 million-€100 million of capex.
- Working capital outflows of about €15 million.
- Seasonal working capital outflows of about €35 million.
- Debt maturities of about €64 million.
- About €30 million-€40 million of dividends
- No share buybacks or acquisitions.

Covenant Analysis

Requirements

About 73% of Cementir's financial liabilities require compliance with financial covenants. At Dec. 31, 2021, Cementir was in compliance with these covenants. The key covenant is the ratio between consolidated net financial debt and consolidated EBITDA not exceeding 3.5x. As of Dec. 31, 2021, the ratio stood at 0.16x.

Compliance expectations

We expect Cementir to maintain adequate (that is, greater than 15%), headroom against its covenants over the next two years, therefore meeting our criteria for adequate liquidity.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

Environmental	Social	Governance
- Climate transition risks.	- N/A	- Risk management, culture, and oversight.

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Cementir. Cementir has higher CO_2 emissions per ton of grey cement (684 kilograms per ton [kg/ton] in 2021) and white cement (919 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 (about 86%), and white cement, typically with higher emissions than grey cement, accounts for 26% of total cement production. This translates into an intensity ratio of 5,887, compared with an average of 4,300 for the largest European players. To fill the gap with peers on grey cement, Cementir has a detailed capex plan to cut emissions, particularly in the EU, to comply with more stringent upcoming regulation. The group's business plan accounts for €97 million of cumulative investments (about 7% of the group annual revenue) in sustainability by 2024. As a result, Cementir targets cutting emissions to below 500 kg/ton of grey cement by 2030, which is broadly in line with largest EU-based peers. 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 grey cement. Furthermore, current proposals to tighten carbon regulations in the EU, including introducing a carbon border tax, could make cement importing from neighbors such as Turkey 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 the 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	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb-**

Related Criteria

- 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, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of June 20, 2022)*

Cementir Holding N.V.	
Issuer Credit Rating	BBB-/Stable/--
Issuer Credit Ratings History	

Ratings Detail (as of June 20, 2022)*

25-May-2021	BBB-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.