S&P Global Ratings

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Tear Sheet:

Cementir Holding N.V.

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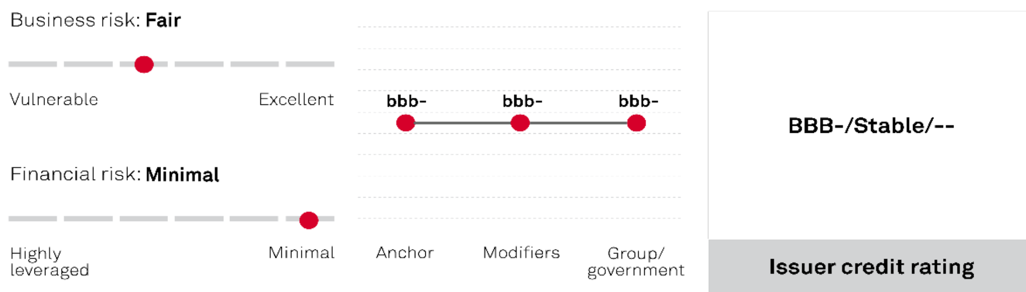
S&P Global Ratings expects Cementir will maintain its net-zero debt position over the next two years. Cementir showed strong operating performance in 2022, with top-line results increasing 27% year over year, leading to sales over €1.7 billion, driven by higher prices more than offsetting lower volumes. Record-high sales supported higher S&P Global Ratings-adjusted EBITDA of €313 million (€287 million in 2021), despite the EBITDA margin dropping to 18.2% from 21.1% in 2021, owing to the sharp increases in energy and raw material costs. In 2022, moderate debt in the capital structure and strong cash flow generation (S&P Global Ratings-adjusted free operating cash flow of €176.0 million versus €137.3 million in 2021) allowed Cementir to deleverage faster than expected and report a net-zero debt position. Specifically, Cementir reported S&P Global Ratings-adjusted net cash of €14.6 million, from an S&P Global Ratings-adjusted debt of €79.1 million at end-2021. We expect a moderate drop in volume in 2023, mostly due to weak economic conditions, but sustained demand for cement and aggregates in the context of the business cycle. Decreased spot energy prices and continued pricing discipline should support margin resilience in 2023, resulting in an S&P Global Ratings-adjusted EBITDA margin at about 18.5%-19.5%. We expect Cementir will sustain its net cash position over the next two years, a robust balance sheet, and strong core credit metrics.

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 capital expenditure (capex) investments related to reducing CO2 emissions.

Climate transition risk will continue to be a priority in Cementir's capital allocation strategy. The group's business plan accounts for €86 million of cumulative investments in sustainability in 2023-2025 for specific projects concerning sustainability, including the reduction of CO2 emissions at its plants, innovative green products, focus on value chain circularity, and projects to achieve carbon capture and storage in Denmark by 2030. Sustainability investments will account for about 25% of total capex spending in 2023, increasing to about 35% in 2024. 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. Cementir has higher CO2 emissions per ton of grey cement than most players based in Europe, with emissions at 672 kilograms per ton (kg/ton) in 2022 (HeidelbergCement reported 551 kg/ton), also due to the lower use of alternative fuels in Europe, although the company plans to invest in this area. The company targets cutting CO2 emissions to below 460 kg/ton of grey cement by 2030.

Ratings Score Snapshot



Recent Research

- Credit Conditions Europe Q2 2023: Costs Rising To Cure Inflation, March 28, 2023
- Global Building Materials Companies: Strongest To Weakest, Feb. 13, 2023
- Industry Top Trends 2023: Building Materials, Jan. 23, 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. In Turkey and the United Kingdom, 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 2022, the group reported total revenue of about €1.7 billion and adjusted EBITDA of about €313 million.

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 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 funds from operations (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.

Key Metrics

Cementir Holding N.V. --Key Metrics*

Mil. €	2021a	2022a	2023e	2024f	2025f
Revenue	1,360	1,723	1,780-1,850	1,840-1,900	1,880-1,920
Revenue growth (%)	11.0	26.7	3.0-6.0	2.0-3.0	2.0-3.0
EBITDA margin (%)	21.1	18.2	18.5-19.5	18.5-19.5	18.5-19.5
Capital expenditure	81.7	105.1	110-115	120-125	90-95
Free operating cash flow	137.3	176.3	175-180	170-175	215-225
Dividends	24.7	30.8	35-40	38-42	38-42
Debt to EBITDA (x)	0.3	N.M.	N.M.	N.M.	N.M.
FFO to debt (%)	292.5	N.M.	N.M.	N.M.	N.M.

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. N.M.—Not meaningful. FFO—Funds from operations.

Financial Summary

Cementir Holding N.V.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,140	1,196	1,212	1,225	1,360	1,723
EBITDA	227	240	254	254	287	313
Funds from operations (FFO)	165	178	209	203	231	255
Interest expense	23	20	13	13	9	11
Cash interest paid	23	19	13	13	9	11
Operating cash flow (OCF)	159	184	216	247	219	281
Capital expenditure	91	67	63	58	82	105
Free operating cash flow (FOCF)	68	117	152	188	137	176
Discretionary cash flow (DCF)	51	96	125	157	81	146
Cash and short-term investments	215	233	331	414	283	356
Gross available cash	215	233	331	414	283	356
Debt	679	393	287	165	79	0
Common equity	1,016	1,128	1,182	1,183	1,228	1,523
Adjusted ratios						
EBITDA margin (%)	19.9	20.0	20.9	20.7	21.1	18.2
Return on capital (%)	8.2	9.3	9.9	10.9	13.6	13.6
EBITDA interest coverage (x)	9.7	11.9	18.9	19.3	32.1	27.5
FFO cash interest coverage (x)	8.3	10.5	17.6	17.1	27.9	25.2
Debt/EBITDA (x)	3.0	1.6	1.1	0.6	0.3	0.0
FFO/debt (%)	24.4	45.4	72.6	123.7	292.5	NM
OCF/debt (%)	23.4	46.9	75.1	149.9	277.0	NM
FOCF/debt (%)	10.0	29.9	53.0	114.4	173.7	NM
DCF/debt (%)	7.4	24.6	43.5	95.6	103.1	NM

Peer Comparison

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	2022-12-31	2021-12-31	2022-12-31	2022-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	1,723	4,030	29,537	21,095	1,715
EBITDA	313	1,018	6,185	3,545	273
Funds from operations (FFO)	255	857	4,887	2,974	225
Interest	11	77	478	161	38
Cash interest paid	11	27	487	212	36
Operating cash flow (OCF)	281	662	4,616	2,281	170
Capital expenditure	105	214	1,567	1,334	126
Free operating cash flow (FOCF)	176	448	3,049	947	44
Discretionary cash flow (DCF)	146	256	538	(31)	8
Cash and short-term investments	356	1,392	9,941	1,399	80
Gross available cash	356	1,379	9,941	1,399	80
Debt	0	609	7,521	7,140	821
Equity	1,523	4,556	29,588	17,624	1,337
EBITDA margin (%)	18.2	25.3	20.9	16.8	15.9
Return on capital (%)	13.6	16.2	10.3	9.8	6.5
EBITDA interest coverage (x)	27.5	13.2	12.9	22.0	7.1
FFO cash interest coverage (x)	25.2	33.2	11.0	15.1	7.2
Debt/EBITDA (x)	0.0	0.6	1.2	2.0	3.0
FFO/debt (%)	NM	140.9	65.0	41.6	27.4
OCF/debt (%)	NM	108.8	61.4	31.9	20.7
FOCF/debt (%)	NM	73.6	40.5	13.3	5.3
DCF/debt (%)	NM	42.0	7.2	(0.4)	1.0

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 CO2 emissions per ton of grey cement (672 kg/ton in 2022) and white cement (886 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 84%), and white cement, typically with higher emissions than grey cement, accounts for 26% of total cement production. 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 €86 million of cumulative investments (about 5% of the group annual revenue) in sustainability by 2025. As a result, Cementir targets cutting emissions to below 460 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