

Buzzi Unicem

Weak 1H18 Recurring EBITDA but Valuation Attractive

Buzzi Unicem - Key estimates and data					
Y/E December		2017A	2018E	2019E	2020E
Revenues	EUR M	2,806.2	2,935.1	3,086.5	3,226.0
EBITDA	EUR M	508.2	586.6	623.2	662.3
EBIT	EUR M	286.0	375.7	407.3	440.9
Net Income	EUR M	391.6	309.1	330.6	358.9
Dividend ord.	EUR	0.12	0.15	0.16	0.18
Adj. EPS	EUR	2.19	1.50	1.60	1.74
EV/EBITDA	x	10.1	6.7	5.9	5.2
Adj. P/E	x	10.4	11.5	10.8	9.9

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- 1H18A results.** Buzzi Unicem's 1H18A results showed revenues in line with our estimates, but a recurring EBITDA below expectations. The bottom line benefited from a particularly positive contribution from non-monetary items related to derivatives valuation and FX gains and a quite low tax rate (22.5% vs. 29.9% in 1H17). Net debt at 30 June increased to EUR 894M vs. EUR 862.5M at 31 December 2017, in line with estimates. 1H18 revenues declined by 1.2% yoy to EUR 1,337.4M, entirely due to the negative FX impact, mainly attributable to the USD and RUB depreciation (+1.1% yoy at CER). Consolidated sales volumes rose by 3.8% yoy for cement, while remained broadly stable at EUR 5.9M mc for concrete. Sales volumes were positive or neutral in all the group's countries, except for a slight decline in Luxemburg and a significant decrease in Ukraine. Prices increased in almost all the group's regional markets, except for a stable environment in Czech Republic. Note that in 1H18 the group revenues benefited from positive perimeter impact (mainly related to the contribution of Cementi Zillo since July 2017) for approx. EUR 60M. The consolidated recurring EBITDA declined by 11.9% yoy to EUR 216.4M, mainly penalised by a significant decline in the US, due to higher production and distribution costs, and by the weak Ukrainian market. The negative FX effect also impacted negatively for EUR 18.8M.
- Outlook.** Following 1H18 results, the company revised slightly downwards its 2018 recurring EBITDA guidance, saying that it is expected to be stable compared to EUR 576M posted in 2017 rather than the previously expected slight increase. The revision was mainly due to the worse than expected volumes and production costs outlook in Ukraine and to the weaker than planned 1H18 results in the US, unlikely to be fully recovered in 2H18.
- Estimates and valuation.** Based on the announced results and 2018 guidance, we cut our 2018E-19E recurring EBITDA forecasts by 12.2% and 13.3%, respectively. In particular, we factored in our model a more cautious stance on the volumes growth in the US and in Italy, a double-digit sales volumes decline in Ukraine and a more marked negative FX impact from the Russian and Ukrainian currencies' depreciation. We valued Buzzi Unicem using the 2019E EV/EBITDA multiple, applying a discount in line with the last five-year average discount (7.8% in the 2013-17 period). In the last few days, the stock suffered from the disappointing 1H18 results and the slight downwards revision of the company's 2018 recurring EBITDA guidance. However, note that at the current price Buzzi Unicem trades at a discount of 14.2% and 17.8% on 2018E and 2019E EV/EBITDA peers sample, respectively, which compares to a historical average discount in the 2013-17 period of 7.8%. Based on our updated forecasts and assuming a Buzzi Unicem discount vs. its peers in line with the historical average, **we set our target price at EUR 19.8/ordinary share** (from EUR 26.5/ordinary share) and we confirm our **ADD rating on the stock**.
- Key risks.** We highlight that according to our forecasts in 2019E, a high percentage of the group's EBITDA (56%) should be realised in a single country, the US; in addition, the group's sales and EBITDA result are sensitive to exchange rate fluctuations (particularly the EUR/USD, EUR/RUB and EUR/MXN). Lastly, we note that in the last few years the relative size of the group has become smaller following the cement industry consolidation process.

17 August 2018: 7:55 CET
Date and time of production

ADD

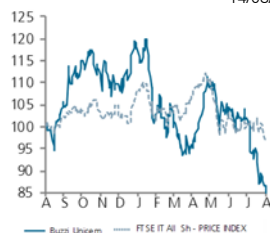
Target Price: EUR 19.8
(from EUR 26.5)

Italy/Construction
Company Update

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Price performance, -1Y



Source: FactSet

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Priced at market close on 14/08/2018*	
Target price (€)	19.8
Target upside (%)	14.38
Market price (€)	17.31
52Wk range (€)	24.4/17.3
Market cap (€ M)	3,266.9
No. of shares	206.1
Free float (%)	38.4
Major shr	Buzzi Family
(%)	58.6
Reuters	BZU.MI
Bloomberg	BZU IM
FTSE IT All Sh	23137

Performance %			
Absolute	Rel. to FTSE IT All		
-1M	-16.5	-1M	-13.0
-3M	-22.1	-3M	-10.7
-12M	-15.0	-12M	-12.0

*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

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Sample

1H18A Results

1H18A results showed revenues in line with our estimates and Bloomberg consensus, but a recurring EBITDA below expectations. The bottom line benefited from a particularly positive contribution from non-monetary items (EUR 21.3M vs. EUR 15.1M in 1H17 related to derivatives valuation and FX gains) and a quite low tax rate (22.5% vs. 29.9% in 1H17), thanks to the US tax reform. Net debt at 30 June increased to EUR 894M vs. EUR 862.5M at 31 December 2017, in line with estimates.

Buzzi Unicem - 1H18A results										
EUR M	1H17A	FY17A	1H18A	1H18E	1H18C	1H A/E %	1H A/C %	1H yoy %	FY18E	
Revenue	1,353.8	2,806.2	1,337.4	1,340.0	1,346.0	-0.2	-0.6	-1.2	2,935.1	
EBITDA	241.1	508.2	227.4	230.7	230.5	-1.4	-1.3	-5.7	586.6	
% on sales	17.8	18.1	17.0	17.2	17.1				20.0	
Rec. EBITDA	245.6	576.4	216.4	230.7	230.5	-6.2	-6.1	-11.9	575.6	
% on sales	18.1	20.5	16.2	17.2	17.1				19.6	
EBIT	132.5	286.0	123.5	125.5	123.6	-1.6	-0.1	-6.8	375.7	
% on sales	9.8	10.2	9.2	9.4	9.2				12.8	
PBT	170.1	348.7	159.3	143.9	NA	10.7	NA	-6.4	440.6	
Net Attrib. Inc.	117.6	391.6	123.0	101.4	110.0	21.3	11.9	4.6	309.1	

NA: not available; A: actual; E: estimates; C: Bloomberg consensus; Source: Company data and Intesa Sanpaolo Research

Top line

1H18A revenues declined by 1.2% yoy to EUR 1,337.4M, entirely due to the negative FX impact, mainly attributable to the US Dollar and the Russian Rouble depreciation (+1.1% yoy at CER). Consolidated sales volumes rose by 3.8% yoy for cement (12.9M tonnes), while remained broadly stable at EUR 5.9M mc for concrete. Sales volumes were positive or neutral in all the group's countries, except for a slight decline in Luxemburg and a significant decrease in Ukraine. Prices increased in almost all the group's regional markets, except for a stable environment in Czech Republic. Note that in 1H18 the group revenues benefited from positive perimeter impact (mainly related to the contribution of Cementi Zillo since July 2017) for approx. EUR 60M.

Looking at the main groups market, we highlight that: 1) in the US, cement sales volumes were stable yoy, with slightly increasing prices (+2-3USD per tonne since April 2018); at CER, 1H18A would have declined by 0.7% yoy; 2) in Italy, the revenues growth was attributable to the contribution of Clementi Zillo and to the price increase of approx. EUR 2/tonne, while volumes ex-Zillo showed a low single-digit yoy decline; 3) in Germany, the group's performance was slightly better than 1H17, marked by both rising prices (EUR 2/tonne) and an increased volume contribution, also favoured by a recovery in oil well cement. In addition, since May 2018, the group benefited from the consolidation of Siebel and Söhne operating a cement plant with a capacity of around 0.5-0.6M tonne per year; and 4) in Eastern Europe, the group registered higher prices and higher sales volumes in Czech Republic, Poland and to a lesser extent Russia. Ukraine showed instead double-digit volumes decline (-18.7%), with increasing prices, which did not anyway entirely recover the inflation rate (11%).

Trends by region

Buzzi Unicem – 1H18A sales by country			
EUR M	1H17A	1H18A	yoy %
Italy	200.2	227.9	13.8
US	560.4	504.7	-9.9
Germany	282.5	287.2	1.7
Luxembourg and Netherlands	90.7	96.5	6.4
Czech Republic	65.6	75.7	15.4
Poland	45.6	45.6	0.0
Ukraine	42.6	35.5	-16.7
Russia	87.0	82.6	-5.1
Total Eastern Europe	240.8	239.4	-0.6
Total aggregated	1374.6	1355.7	-1.4
Eliminations	-20.8	-18.3	NM
Total consolidated	1353.8	1337.4	-1.2
Mexico	179.3	157.7	-12.1

NM: not meaningful; Source: Company data

EBITDA

In 1H18A, the consolidated recurring EBITDA declined by 11.9% yoy to EUR 216.4M. The figure was mainly penalised by a significant decline in the US, due to higher production and distribution costs and by the weak Ukrainian market. The negative forex effect also impacted negatively for EUR 18.8M. At CER, the recurring EBITDA would have declined by 4.6% yoy.

Looking at the main markets we highlight that: 1) Italy benefited from the consolidation of Cementi Zillo and the higher price level with broadly stable average production costs. Note that the stated EBITDA (reported in the table below) was negatively impacted by non-recurring costs for EUR 6.1M; 2) in the US, the group suffered from a significant cost inflation not entirely offset by the price increases. 1H18A non-recurring gains related to asset disposals amounted to EUR 16.7M; therefore, the recurring EBITDA margin declined by 420bps in the period; 3) in Germany, in spite of the higher top line, the recurring EBITDA remained flat yoy (the group posted non-recurring costs for EUR 5M), mainly due to higher fuel and energy costs; and 4) Eastern Europe, Poland and Czech Republic benefited from the better fixed costs absorption allowed by the top line improvement, Ukraine suffered from both lower revenues and a significant increase in fuel costs, while Russia was penalised by increasing costs for both fuel and power.

EBITDA by market

Buzzi Unicem – 1H18A EBITDA by country					
EUR M	1H17A	% on sales	1H18A	% on sales	yoy %
Italy	-13.4	-6.7	-8.9	-3.9	NM
US	161.4	28.8	143.0	28.3	-11.4
Germany	32.7	11.6	27.8	9.7	-15.0
Luxembourg and Netherlands	6.2	6.8	8.3	8.6	33.9
Czech Republic	13.4	20.4	19.7	26.0	47.5
Poland	9.2	20.2	16.4	36.0	78.3
Ukraine	8.8	20.7	1.6	4.4	-82.4
Russia	22.9	26.3	19.6	23.7	-14.5
Cons. EBITDA	241.1	17.8	227.4	16.8	-5.7
Cons. Rec. EBITDA	245.6	18.1	216.4	16.2	-11.9
Mexico	86.5	48.3	76.6	48.6	-11.4

NM: not meaningful; Source: Company data

Net financial position

Net debt at end-June 2018 amounted to EUR 894M vs. EUR 862.5M at 31 December 2017, in line with estimates. Note that the 1H18 gross cash flow that we calculate in approx. EUR 230M was more than offset by the dividend distribution (EUR 28.3M), the capital expenditure of EUR 162.3M (out of which EUR 18.5M for expansion investments in the US and EUR 43.7M for the acquisition of Seibel & Söhne in Germany) and the higher NWC mainly related to a seasonal increase in the group's receivables.

Earnings Outlook

Following 1H18A results, the company revised slightly downwards its 2018 recurring EBITDA guidance, saying that it is expected to be stable compared to EUR 576M posted in 2017 rather than the previously expected slight increase. The revision was mainly due to the worse than expected volumes and production costs outlook in Ukraine and to the weaker than planned 1H18 results in the US, unlikely to be recovered in 2H18.

Based on the announced results and 2018 guidance, we changed our 2018E-19E forecasts, as detailed in the table below.

Buzzi Unicem - 2018E-19E estimates revision							
EUR M	2018E			2019E			2020E
	New	Old	chg %	New	Old	chg %	New
Sales	2935.1	3023.5	-2.9	3086.5	3159.4	-2.3	3226.0
EBITDA	586.6	655.5	-10.5	623.2	718.8	-13.3	662.3
% margin	20.0	21.7		20.2	22.8		20.5
Rec. EBITDA	575.6	655.5	-12.2	623.2	718.8	-13.3	662.3
% margin	19.6	21.7		20.2	22.8		20.5
EBIT	375.7	440.7	-14.7	407.3	499.4	-18.4	440.9
% margin	12.8	14.6		13.2	15.8		13.7
Net Profit	309.1	279.7	10.5	330.6	329.6	0.3	358.9
Adj. Net profit	309.1	279.7	10.5	330.6	329.6	0.3	358.9
EPS	1.50	1.36	10.5	1.60	1.60	0.3	1.74
Adj. EPS	1.50	1.36		1.60	1.60	0.3	1.74
Net debt	680.9	616.0	10.5	415.4	346.3	19.9	135.7

E: estimates; Source: Intesa Sanpaolo Research

In particular, we factored in our model a more cautious stance on the volumes growth in the US and in Italy, while confirming the positive price environment for both. We confirmed our previous forecast for a moderately positive trend for both prices and volumes in Germany and Central Europe, but for the first time, we assumed a revenues contribution of approx. EUR 20M from the consolidation of Siebel and Sohne since May 2018. As for Eastern Europe, while confirming our positive expectations both for Poland and Czech Republic and a slight improvement for both volumes and prices in Russia, we also factored in our forecasts double-digit sales volumes decline in Ukraine and a more marked negative FX impact from the Russian and Ukrainian currencies' depreciation.

We also highlight that the change in our 2018E-19E bottom line estimates mainly reflects the group's lower cost of debt, which we expect to be favoured also by the reimbursement of the EUR 350M, 6.25% coupon, bond by next September and the lower tax rate mainly related to the US tax reform.

2018-19E estimates revision

Valuation

We valued Buzzi Unicem with a peers' multiples comparison, which in our opinion better incorporates the cyclical nature of the cement industry and the market's expectations on future sector trends. We valued Buzzi Unicem using the 2019E EV/EBITDA multiple, applying a discount in line with the last five-year average discount (7.8% in the 2013-17 period).

Buzzi Unicem vs. peers' multiples (2018-20E)						
x	EV/EBITDA			P/E		
	2018E	2019E	2020E	2018E	2019E	2020E
Cementir Holding S.p.A.	5.7	4.9	4.3	10.0	9.1	8.6
HeidelbergCement AG	7.2	6.5	5.9	11.2	9.6	8.5
Titan Cement Co. SA	8.4	7.4	6.7	20.9	15.1	11.7
LafargeHolcim Ltd.	7.6	7.1	6.5	15.1	13.0	11.4
Vicat-Ciments Vicat SA	7.1	6.4	5.7	14.5	12.4	10.7
CRH Plc	8.9	7.6	6.7	15.3	13.1	11.4
Buzzi Unicem*	6.2	5.4	4.5	11.7	10.6	9.5
Sample median**	7.2	6.5	5.9	14.5	12.4	10.7
Buzzi Unicem -discount/premium (%)	-14.2	-17.8	-23.7	-19.0	-14.4	-11.5

Priced at market close of 14/08/2018; Note: Buzzi Unicem adjusted to account for Mexico results; **ex-Buzzi Unicem; Source: FactSet and *Intesa Sanpaolo Research estimates

Buzzi Unicem vs. peers - 2013-17 EV/EBITDA multiples					
x	2013	2014	2015	2016	2017
Cementir Holding S.p.A.	6.4	6.0	6.4	6.6	8.1
HeidelbergCement AG	7.8	8.3	7.9	9.6	8.7
Titan Cement Co. SA	11.6	12.3	10.1	9.1	9.6
LafargeHolcim Ltd.	8.6	9.5	9.1	8.7	8.3
Vicat-Ciments Vicat SA	8.9	9.0	8.5	8.2	8.9
CRH Plc	11.1	10.5	13.1	10.8	9.9
Buzzi Unicem S.p.A.*	8.5	8.0	7.8	8.6	8.0
Sample median**	8.7	9.2	8.8	8.9	8.7
Buzzi Unicem -discount/premium (%)	-3	-13	-11	-4	-9

Priced at market close of 14/08/2018; Note: Buzzi Unicem adjusted to account for Mexico results; **ex-Buzzi Unicem; Source: FactSet and *Intesa Sanpaolo Research estimates

We believe that Buzzi Unicem has a solid balance sheet, a good free cash flow generation, and in the medium term could benefit from the possible rationalisation of the production capacity in some markets (Italy and Germany) and from the positive stance on infrastructure investments in the US. On the other hand, we would welcome a more balanced geographic exposure, considering that, according to our forecasts, the US should account for 59% and 56% of the group's EBITDA in 2018E and 2019E, respectively. Some cost inflation also started to be felt in 1H18 in the US, thus probably making 2017 a peak year for the operating profitability in such market.

In the last few days, the stock suffered from the disappointing 1H18 results and from the slight downwards revision of the company's 2018 recurring EBITDA guidance. However, note that at the current price Buzzi Unicem trades at a discount of 14.2% and 17.8% on 2018E and 2019E EV/EBITDA peers sample, respectively, which compares to a historical average discount in the 2013-17 period of 7.8%. Based on our updated forecasts and assuming a Buzzi Unicem discount vs. its peers in line with the historical average, **we set our target price at EUR 19.8/ordinary share** (from EUR 26.5/ordinary share) and we confirm our **ADD rating on the stock**.

EUR 19.8/share target price and ADD rating

Buzzi Unicem - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code		
ADD	Ord 19.8	Ord 17.31	Construction	38.4	BZU.MI		
Values per share (EUR)			2016A	2017A	2018E	2019E	2020E
No. ordinary shares (M)			165.3	165.3	165.3	165.3	165.3
No. NC saving/preferred shares (M)			40.71	40.71	40.71	40.71	40.71
Total no. of shares (M)			206.1	206.1	206.1	206.1	206.1
Market cap (EUR M)			3,224.5	4,276.9	3,266.9	3,266.9	3,266.9
Adj. EPS			0.71	2.19	1.50	1.60	1.74
CFPS			1.7	2.1	2.4	2.7	2.8
BVPS			13.5	13.8	15.1	16.4	17.8
Dividend ord			0.10	0.12	0.15	0.16	0.18
Dividend SAV Nc			0.10	0.20	0.26	0.28	0.30
Income statement (EUR M)			2016A	2017A	2018E	2019E	2020E
Revenues			2,669.3	2,806.2	2,935.1	3,086.5	3,226.0
EBITDA			550.6	508.2	586.6	623.2	662.3
EBIT			348.0	286.0	375.7	407.3	440.9
Pre-tax income			280.9	348.7	440.6	471.3	511.6
Net income			145.9	391.6	309.1	330.6	358.9
Adj. net income			145.8	451.3	309.1	330.6	358.9
Cash flow (EUR M)			2016A	2017A	2018E	2019E	2020E
Net income before minorities			148.7	394.6	312.8	334.6	363.2
Depreciation and provisions			202.6	222.1	210.8	216.0	221.3
Others/Uses of funds			16.7	2.7	0	0	0
Change in working capital			-32.7	-105.1	-36.5	-34.0	-34.1
Operating cash flow			335.3	329.4	465.8	516.6	550.5
Capital expenditure			-231.8	-183.7	-204.9	-215.5	-225.2
Financial investments			0	0	0	0	0
Acquisitions and disposals			0	-46.0	-51.2	0	-7.5
Free cash flow			103.6	99.7	209.7	301.1	317.7
Dividends			-15.5	-20.6	-28.1	-35.6	-38.0
Equity changes & Other non-operating items			0	0	0	0	0
Net cash flow			88.1	79.1	181.6	265.5	279.7
Balance sheet (EUR M)			2016A	2017A	2018E	2019E	2020E
Net capital employed			4,181.6	3,951.3	3,989.4	4,022.9	4,068.3
of which associates			0	0	0	0	0
Net debt/-cash			941.6	862.5	680.9	415.4	135.7
Minorities			32.5	6.5	10.2	14.2	18.5
Net equity			2,774.4	2,845.6	3,102.6	3,373.6	3,670.5
Minorities value			32.5	6.5	10.2	14.2	18.5
Enterprise value			4,198.6	5,145.9	3,958.0	3,696.5	3,421.1
Stock market ratios (x)			2016A	2017A	2018E	2019E	2020E
Adj. P/E			24.2	10.4	11.5	10.8	9.9
P/CFPS			10.0	10.8	7.1	6.5	6.1
P/BVPS			1.3	1.6	1.1	1.1	0.97
Payout (%)			-11	-5	-9	-11	-11
Dividend yield (% ord)			0.6	0.5	0.9	0.9	1.0
Dividend yield (% sav)			1.0	2.1	2.6	2.8	3.0
FCF yield (%)			2.9	2.1	5.9	8.4	8.9
EV/sales			1.6	1.8	1.3	1.2	1.1
EV/EBITDA			7.6	10.1	6.7	5.9	5.2
EV/EBIT			12.1	18.0	10.5	9.1	7.8
EV/CE			1.0	1.3	0.99	0.92	0.84
D/EBITDA			1.7	1.7	1.2	0.67	0.20
D/EBIT			2.7	3.0	1.8	1.0	0.31
Profitability & financial ratios (%)			2016A	2017A	2018E	2019E	2020E
EBITDA margin			20.6	18.1	20.0	20.2	20.5
EBIT margin			13.0	10.2	12.8	13.2	13.7
Tax rate			47.1	NM	29.0	29.0	29.0
Net income margin			5.5	14.0	10.5	10.7	11.1
ROCE			8.3	7.2	9.4	10.1	10.8
ROE			5.5	13.9	10.4	10.2	10.2
Interest cover			2.4	8.2	21.0	19.2	25.9
Debt/equity ratio			33.5	30.2	21.9	12.3	3.7
Growth (%)			2017A	2018E	2019E	2020E	
Sales			5.1	4.6	5.2	4.5	
EBITDA			-7.7	15.4	6.3	6.3	
EBIT			-17.8	31.4	8.4	8.3	
Pre-tax income			24.1	26.3	7.0	8.6	
Net income			NM	-21.1	7.0	8.6	
Adj. net income			NM	-31.5	7.0	8.6	

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

Sample

Disclaimer

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Valuation methodology (long-term horizon: 12M)

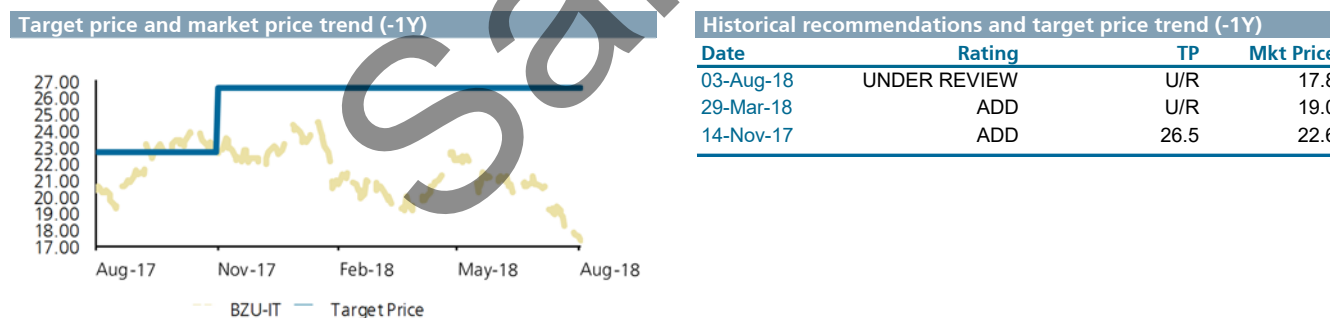
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Equity rating key: (long-term horizon: 12M)

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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
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Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

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(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
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