

HOLD

Initial Opinion	BUY
Release Date	12/25/2019
Initial Target Price	MAD 1,778

CIMAR

Sector	CEMENT
Reuters	SCM.CS
Bloomberg	CMA MC

MAD 1,490

Current Price	MAD 1,474
Potential	+1%
Investment Horizon	12 Months

AN APPRECIABLE DIVIDEND RESILIENCE

A net improvement in market share following the acquisition of Cimsud

Despite an unfavorable sectoral context, CIMAR outperformed its market at the end of H1-20. The operator posted cement sales volumes down -7.1% against -17.8% for the sector. According to the parent company Heidelberg Cement, the acquisition in May 2020 of Cimsud by CIMAR would have allowed a net improvement in its market share. Acquired at a price of nearly MAD 280 Mn, Cimsud operates a grinding unit in Laâyoune with an annual production capacity of 500 KT.

Consolidated revenue amounted to MAD 1,696 Mn in H1-20, down -16.9% given a double negative price/volume effect. As we underlined in our report (Cf. [Covid-19: Glimmers of hope at the end of the tunnel](#)), the operator shows a good momentum in its Clinker exports, which offsets the drop in domestic sales. In terms of profitability, we note a decline in the operating margin of -4.6 pts to 31.0% at the end of June 2020. This under-performance would be attributed to the drop in selling prices on the local market. In the end, the recurring net income readjusted by the contribution of MAD 100 Mn to the special Covid-19 fund, shows a limited decline of -11.4% to around MAD 500 Mn.

A stable dividend policy, supported by a deleveraged Balance Sheet

Since 2010, CIMAR has adopted a regular payout policy through an increase in the DPS by at least MAD 5 per year. For the FY 2019, the Group surprised the market by offering a DPS worth MAD 100 including MAD 15 as an extraordinary DPS. This is an increase of 17.6% compared to 2018 in a context where several listed companies have waived any dividends distribution.

The deleveraged Balance Sheet, the solidity of margins and the communication of the Management reassure us about the sustainability of this dividend policy on the MT.

A stock to HOLD, thanks to the resilience of its D/Y level

In our opinion, CIMAR is among the resilient stocks in terms of dividend yield. This is an average target D/Y of nearly 5.8% over the period 2020-2022 partially financed by a recurring cash of more than MAD 2.0 Bn. Based on the DDM method and a cost of equity of 9.2%, the target price of stock settles at MAD 1,490. Therefore, we recommend HOLDING the stock in portfolios.

CIMAR : ACHIEVEMENTS H1-20 Vs. AGR 2020E FORECASTS

IN MAD MN	H1-19	H1-20	VAR	2020E	VAR 19-20E
Revenue	2,041	1,696	-16.9%	3,517	-12.0%
EBIT	727	526	-27.6%	1,169	-21.0%
EBIT margin	35.6%	31.0%	-4.6 pts	33.2%	-3.8 pts
Consolidated net income	510	194	-62.0%	742	-30.4%
Net margin	25.0%	11.4%	-13.6 pts	21.1%	-5.5 pts
Adjusted net income ⁽¹⁾	563	499	-11.4%	811	-23.9%
Net margin	27.6%	29.4%	+1.8 pts	23.1%	-3.5 pts
Ordinary DPS (MAD)				85	0.0%
D/Y				5.8%	

(1) Except from exceptional elements such as the contribution of MAD 100 Mn to the Covid-19 fund

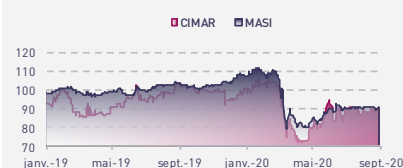
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STOCK EVOLUTION (BASIS 100)



MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
CIMAR	-0.3	0.3	-12.5
MASI	-1.6	-2.3	-12.0

ADV (MAD MN)	1 M	3 M	12 M
CIMAR	1.2	1.1	7.8
MASI	52	58	142

Capitalization	As of 09/23/2020
In MAD Mn	21,279
In \$ Mn	2,313

Prices at 09/23/2020

Revision of our cement sales growth scenario in Morocco

In our report released on April 22nd 2020 (Cf. [Covid-19: Glimmers of hope at the end of the tunnel](#)), we forecast a decrease in national cement consumption of around -20.0% in 2020. This conservative scenario took into account the almost general shutdown of several real estate projects combined with the constraints of supplying building materials. At the end of August 2020, cement sales on the national market were down -15.9%. To this end, we have revised our forecasts for 2020. These are now based on an average monthly consumption of around 1.1 MT. This is a y-o-y decline of -7.9% in Q3-20 and -3.1% in Q4-20. For the year 2020, we forecast a decrease of -11.7% in cement sales compared to 2019 against -20.0% initially.

In 2021, we forecasts a recovery in cement sales of around 7.9% to 12.9 MT. This scenario still remains cautious as the average observed during the period 2016-2019 amounts to 13.7 MT.

A target D/Y of nearly 6.0%, one of the highest on the Equity market

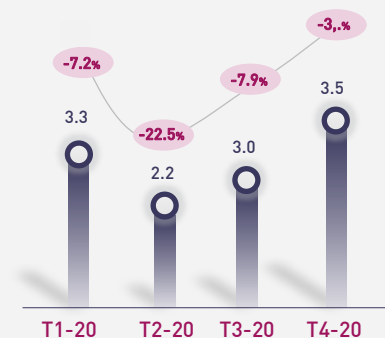
Thanks to a solid Balance Sheet, CIMAR would be able to get through this downward phase in national cement consumption without however revising its dividend policy. Taking into account a cash of MAD 2.6 Bn in 2019, equivalent to 2.6 years of profit, CIMAR has an undeniable capacity to maintain its DPS above MAD 80 during the next three years.

Under these conditions, the stock CIMAR offers an attractive dividend yield over the period 2020-2022, i.e. an average of 5.8%. This is one of the best yield spreads on the Moroccan financial market, namely: +220 BPS compared to MASI and +371 BPS compared to 5-year T-Bonds.

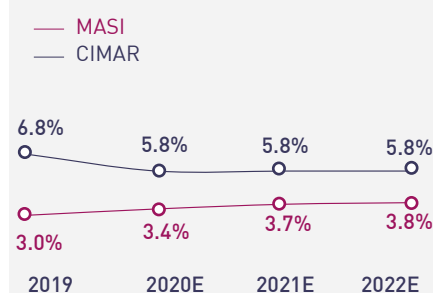
Summary of our fundamental valuation

For the valuation of the stock CIMAR, we opted for the DDM method. This seems the most relevant because of the resilience of the operator's dividend policy. In order to carry out this exercise, we used an ordinary DPS stable at MAD 85 over the period 2020-2022 and an average of MAD 80 beyond. The cost of equity settles at 9.2% and takes into account a risk-free rate of 2.45%, a beta of 1.1 and finally a risk premium by survey of 6.1%. In this context, the value of CIMAR's equity stands at MAD 21,526 Mn, i.e. a target price per Share of MAD 1,490. In the end, we recommend HOLDING the stock CIMAR thanks to its solid capacity to remunerate its Shareholders through dividends.

CEMENT CONSUMPTION SCENARIO (MT)



D/Y COMPARISON



CIMAR : COST OF EQUITY CALCULATION

	2018	2020	Var PBS
10y T-Bond	3.1%	2.4%	-70
Beta	1.14	1.10	-4
Risk premium	6.0%	6.1%	+10
Cost of Equity	9.9%	9.2%	-70

Sources : APC, AGR Computations & Estimates



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