RESEARCH REPORT

EQUITY

NOVEMBER 2024

CIMENTS DU MAROC :

EXTERNAL GROWTH CREATING VALUE FOR INVESTORS

Attijari Global Research

Report for institutional use

RESEARCH PAPER
EQUITY

BUY	
Initial opinion	HOLD
Release date	09/24/2021
Initial target price	MAD 1.800

CIMENTS DU MAROC	
Sector	CEMENT
Reuters	CMA.CS
Bloomberg	CMA MC

MAD 2,220	
Actual	MAD 1,830
Potential	+21%
Horizon	12 Months

EXECUTIVE SUMMARY

Our interest in CIMAR Group comes in an opportune sectoral context, marked by the favorable expected recovery of cement consumption in Morocco and the recent announcement related to the acquisition of the cement manufacturer Asment de Témara by the listed operator.

Taking into account the expected synergy effects of this transaction and based on our growth assumptions during the 2024E-2026E period , we have revised up CIMAR valuation. At the end of this exercise, we come out with a target price of MAD 2,220 offering an upside potential of +21% compared to the price as of November 12th 2024. Thus, we recommend **BUYING** CIMAR stock.

<u>Our recommendation is based on 4 main points:</u>

- During the period 2024E-2026E, we forecast a significant recovery in cement consumption in Morocco, through an AAGR of +7.0% against -1.7% observed over the last decade[1]. Beyond the start of major infrastructure projects, our scenario is supported by the recovery in the self-construction segment after several years of sluggishness due to the succession of drought years;
- On the commercial level, the acquisition of Asment de Témara would allow CIMAR to gain market share points, despite the entry of the new operator Novacim. In addition to this, the Group should extend its presence to a region offering good prospects in terms of cement consumption, namely the *Rabat-Salé-Kénitra* axis;
- On the operational level, this acquisition offers CIMAR interesting opportunities in terms of cost optimization, particularly at the organizational, logistical and decarbonization strategy levels. Thus, we forecast a gain of at least +2 pts in the Group's EBITDA margin by 2026E;
- Historically, investors criticized CIMAR for its poorly optimized financial structure through a debt-free balance sheet and a relatively "expensive" financing cost which relies exclusively on Equity. According to our estimates, this transaction would allow CIMAR to increase the debt burden to 40% in its financial structure, leading to a decrease in its average WACC from 9.53% during the period 2021-2024 to 6.84% from 2025;
- CIMAR's profile corresponds to our investment logic which prioritizes the quality of the balance sheet, margin levels, cash generation and low volatility of LT growth. During the period 2024E-2026E, the operator displays a controllable WCR of 9% of revenue, an attractive EBITDA margin of 43.5%, a comfortable OCF[2]/revenue ratio of 28% and a LT growth profile which outperformed GDP.

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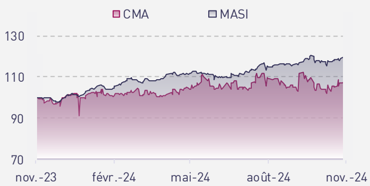
STOCK EVOLUTION (BASIS 100)



MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
Cimar	4.6	-0.3	9.1
MASI	4.2	6.5	23.0

ADV (MDH)	1 M	3 M	12 M
Cimar	7	6	6
MASI	260	247	229

Capitalization	As at 11/12/2024
In MAD Mn	26,418
In $ Mn	2,675

Prices as at 11/12/2024

(1) AAGR calculated over the 2013-2023 period / (2) OCF: Operating Cash Flow

Sources: PR & CIMAR H1 24 Financial Statements, AGR Calculations & Estimates

MID-TERM ACHIEVEMENTS NOT REFLECTING THE ANNUAL TREND

In H1-24, CIMAR's achievements are below expectations with annual achievement rates below 45% for revenue, EBITDA and NIGS. However, we believe that these mid-term achievements do not reflect the underlying trend for the coming years. In fact, we expect a solid increase in domestic cement consumption starting H2-2024. This is evidenced by the recovery in cement sales of +8.2% at the end of October compared to +1.1% at the end of June 2024. A growth dynamic confirmed by Top Management during our latest discussions.

Decline in activity in a context marked by increasing competition

At the end of June 2024, CIMAR's consolidated sales underperformed domestic cement consumption, down -7.4% versus +1.1% respectively. Two main factors are behind this decline:

- The effective entry into the market of the new operator NOVACIM. This latter has an installed production capacity of 1.6 MT in the Center region. According to our own estimates, this new entrant would have generated a -2 pts drop in CIMAR's market share;
- A significant decline in Clinker exports. According to the indicators of Office des Changes, Clinker exports from Morocco would have fallen by -63% in H1-24 due to abundant supply from Turkey and Egypt.

Relative improvement in margins thanks to lower energy costs

In H1-24, the Group's EBITDA stood at MAD 816 Mn, showing a less pronounced decline than that of revenue, i.e. -2.2%. To this end, the EBITDA margin improved by +2.2 pts to 40.8% compared to 38.6% a year earlier. This improvement is mainly due to the drop in international Petcoke prices by nearly -31%, from $ 162/T in H1-23 to $ 111/T in H1-24. It should be noted that Petcoke remains the main input used in the cement production process.

Almost stable profits, which should improve over the whole year

In H1-24, CIMAR posted an NIGS of MAD 433 Mn compared to MAD 438 Mn during the same period of the previous year. This slight decrease of -1.2% would be attributed to the increase in the tax burden from MAD 180 Mn in S1-23 to MAD 204 Mn in S1-24, i.e. an increase of +13.0%.

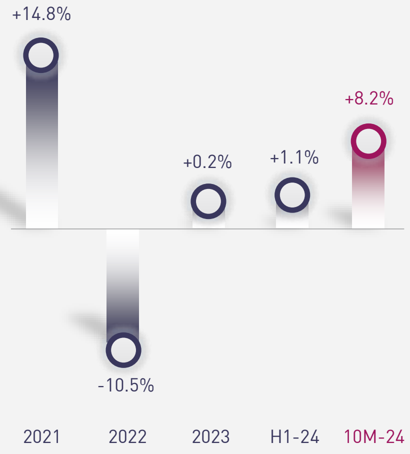
Furthermore, the Management outlook for the FY 2024 remains positive. This should be reflected in an increase in the operator's results. A scenario supported by two main reasons:

- The launch of several infrastructure projects in preparation for the organization of the 2025 AFCON and the 2030 World Cup;
- The revival of the real estate sector supported by the new housing assistance program and the prospects of a positive crop year thanks to the latest rainfall. These should boost the self-construction segment after several years of sluggishness due to the succession of years of drought.

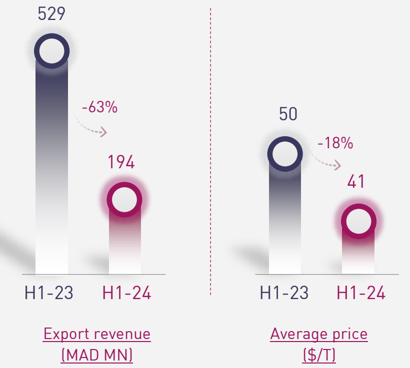
CIMENTS DU MAROC: H1-24 CONSOLIDATED RESULTS VS. AGR 2024E FORECASTS

IN MAD MN	H1-23	H1-24	VAR	AGR 24E	VAR 24E	AR 2024E[1]
Consolidated revenue	2,159	1,999	-7.4%	4.552	+5.1%	44%
Adjusted EBITDA EBITDA Margin	834 38.6%	816 40.8%	-2.2% +2.2 pts	1.906 41.9%	+11.7% +2.5 pts	43%
EBIT Operating margin	666 30,8%	661 33,1%	-0.7% +2.3 pts	1.613 35.4%	+13.0% +2.5 pts	41%
NIGS Net margin	438 20.3%	433 21.7%	-1.2% +1.4 pts	1,045 23.0%	+7.7% +0.6 pt	41%

MOROCCO: CEMENT CONSUMPTION

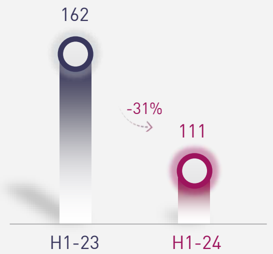


MOROCCO: CLINKER EXPORTS



Estimated average clinker price

PETCOKE: PRICE EVOLUTION ($/T)



(1) AR: Achievement rate: Result H1-24R / AGR Annual forecast 2024E

Sources: RP & CIMAR h1 24 financial Statements, APC, Office des Changes, AGR Calculations & Estimates

EXTERNAL GROWTH GENERATING THREE POSITIVE SPIN-OFFS FOR CIMAR

On September 13th 2024, CIMAR announced the signing of a strategic agreement to acquire a 62.62% stake in the capital of Asment de Témara. In our opinion, this transaction should have a positive impact on the creation of financial and economic value for stock market investors. Our opinion is justified by three positive impacts generated by this transaction:

(1) Extension of national coverage..., allowing better defense of the MS

Asment de Témara is a cement manufacturer previously held by the Brazilian Group Votorantim Cementos. The operator has a cement production capacity of 1.4 MT and operates mainly in Rabat-Salé-Kénitra region. Before the arrival of the new entrant Novacim, Asment de Témara held a MS of nearly 6.0%.

This strategic acquisition would allow CIMAR (present in the South and Oriental regions) to extend its presence to a very promising region on the MT. This is the Rabat-Casablanca axis. The latter concentrates a significant share both in terms of the real estate Offer and future infrastructure projects of the Kingdom.

It is clear that the entry of the new operator Novacim into the Moroccan market would be at the expense of the large cement groups with a target market share estimated at between 6 and 7%. Through this operation, CIMAR would largely offset the impact of the new entrant with a net positive variation in its market share, i.e. +2 pts, going from 24% to a target of 26% from 2025E.

(2) Better cost optimization and acceleration of the decarbonization strategy

In addition to gaining new market shares, the acquisition of Asment de Témara would allow CIMAR to explore new avenues in terms of cost control. In details:

- Better rationalization of the organizational structure, particularly in terms of payroll and head office costs. Indeed, operating expenses represent on average 7.4% of CIMAR's consolidated revenue over the period 2021-2023;
- A gain in terms of logistics costs through optimization of cement transport circuits. Thanks to this new plant based in Témara, CIMAR could deliver with more effciency to Greater Casablanca, a region historically served from its Marrakech plant;
- An acceleration of CIMAR's decarbonization strategy thanks to the synergy effects generated by this acquisition. This is the selection of best practices between CIMAR production process and that of Asment de Témara, which has a high-performance industrial tool. It should be noted that Asment de Témara is in the process of finalizing a Joint Venture with the Véolia Group for waste treatment. The latter should serve as alternative fuels to Petcoke./

Thanks to the expected synergy effects of this transaction, the new entity should gain at least 2 points of EBITDA margin according to our estimates. At constant scope, the consolidated EBITDA margin would evolve from 42.5% in 2024E to 44.5% by 2026E.

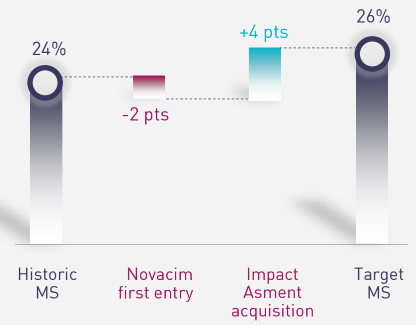
(3) Activation of financial leverage..., leading to an improvement in the cost of capital

For several years now, investors have criticized CIMAR for using a poorly optimized financial structure. This is a deleveraged balance sheet and a capital financing cost which relies exclusively on Equity.

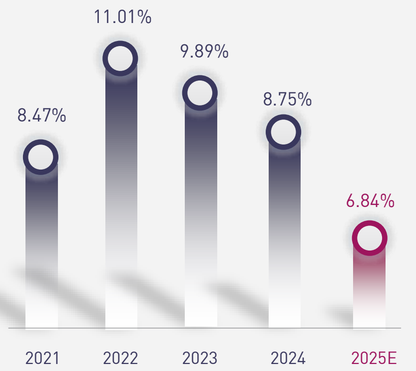
With available cash of MAD 1.0 Bn in H1-24 and taking into account the deal size, we believe that the activation of the Bank Debt is essential to finance such an acquisition. According to Management, the target debt level recommended by the majority shareholder (Heidelberg Cement) is equivalent to an ND/EBITDA ratio of 1.2x. Under these conditions, we assume a target weight of debt in the Group's financial structure of 40%. This is a LT financial debt of around MAD 3.0 Bn by 2025.

Thanks to the activation of the financial leverage, CIMAR stock would benefit from a significant drop in its cost of capital. This should go down from an average of 9.53% during the 2021-2024E period to 6.84% in 2025E, i.e. a significant improvement of nearly 3.0 pts. In this context, the creation of economic value (ROCE-WACC) and the creation of financial value (ROE-Kcp) of the stock stand at very attractive levels for the case of the Moroccan Equity market, i.e. 14% and 18% respectively.

CIMAR: MARKET SHARE ESTIMATION

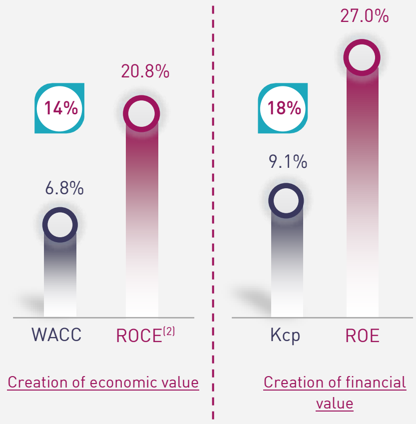


CIMAR: STOCK'S WACC[1] EVOLUTION



(1) Cost of capital displayed: transition from a debt-free structure to a leverage of 40% in 2025E

CIMAR: VALUE CREATION IN THE MARKET



(2) Economic profitability (EBITx (1-IS/NCA+WCR)

Sources: PR & CIMAR H1 24 Financial Statements, AGR Calculations & Estimates

REVISION OF THE STOCK'S NEW EARNINGS CAPACITY AND TARGET PRICE

Increase in recurring profit capacity by +12% from 2025E

In addition to the acquisition of Asment de Témara, we have updated our growth forecasts for CIMAR for 2024E-2026E[1]. These are as follows:

- Cement consumption is expected to recover by +8.0% in 2024 compared to +1.1% in H1-24. Initially, a low base effect in Q4-23 following the postponement of several construction sites due to the Al-Haouz earthquake. Over the period 2025E-2026E, cement sales are expected to grow at an average rate of +7.0% per year, supported by the new investment dynamic;
- CIMAR's market share is expected to increase by +2.0 pts, from a historical level of around 24% to a target of 26% by 2026E. This takes into account both the arrival of Novacim and the acquisition of Asment de Témara;
- The Group's consolidated revenue should get close to the MAD 6.0 Bn threshold in 2026E against a historical average level of around MAD 4.3 Bn. This is an average annual increase of +11.3% over the period 2024E-2026E;
- Taking into account the identified synergy effects, the EBITDA margin should come out at 44.5% in 2026E, i.e. an additional gain of +2.0 pts compared to the expected level in 2024E;
- NIGS would stand at MAD 1,262 Mn at the end of the forecast period 2025E-2026E showing an average annual growth of +11.4%. This forecast takes into account the expected increase in the interest cost expense as well as the tax rate.

CIMAR: UPDATE OF AGR FORECASTS FOR THE PERIOD 2024E-2026E

IN MAD MN	2023	2024E	2025E	2026E
Consolidated revenue	4,333	4,383	5,474	5,912
Variation	*+6.5%*	*+1.1%*	*+24.9%*	*+8.0%*
Adjusted EBITDA	1,707	1,864	2,381	2,633
EBITDA Margin	39.4%	42.5%	43.5%	44.5%
EBIT	1,428	1,582	2,053	2,278
Operating margin	33.0%	36.1%	37.5%	38.5%
Financial income	-3	32	-157	-149
NIGS	970	1.017	1.139	1.262
Variation	*+7,2%*	*+4,9%*	*+12,0%*	+10,8%

A target price of MAD 2,220, i.e. an upside potential of +21% on the market

For the valuation of CIMAR stock, we have used the DCF method. Based on a WACC of 6.84%, we come out with an EV of MAD 31,077 Mn. The weight of the VT comes to 68% under the effect of a negative FCF estimated at MAD -1.6 Bn in 2025E (acquisition of Asment de Témara).

After deducting the ND of MAD -965 Mn in H1-24, the Equity value comes to MAD 32,042 Mn. This corresponds to a target price of MAD 2,220, offering an upside of +21% compared to the price of MAD 1,830 observed as at November 12th 2024. Therefore, we recommend **BUYING** CIMAR stock.

Thanks to its strong capacity to generate cash through an OCF/Rev ratio of 31.5%, CIMAR is able to adopt a more attractive dividend policy in the future. As a precautionary measure, we retain a normative DPS of MAD 70 over the forecast period, i.e. an average D/Y of nearly 4.0%.

CIMAR: MAIN ASSUMPTIONS OF THE AGR BUSINESS PLAN 2024E-2029E

INDICATORS (MAD MN)	2023	2024E	2025E	2026E	MOY 27E-29E
REVENUE	4.333	4.383	5.474	5.912	6.690
Variation	*+6,5%*	*+1,1%*	*+24,9%*	*+8,0%*	*+6,0%*
EBITDA	1.707	1.864	2.381	2.633	2.911
EBITDA Margin	*39,4%*	*42,5%*	*43,5%*	*44,5%*	*43,5%*
CAPEX	161	150	3.337	207	201
%Rev	*3,7%*	*3,4%*	*61,0%*	*3,5%*	*3,0%*
WCR	436	438	424	458	518
% Rev	*10,1%*	*10,0%*	*7,7%*	*7,7%*	*7,7%*
CALCULATED ECONOMIC FCF	1.205	1.244	-1.569	1.672	1.888
FCF Margin	*27,8%*	*28,4%*	*-28,7%*	*28,3%*	*28,2%*

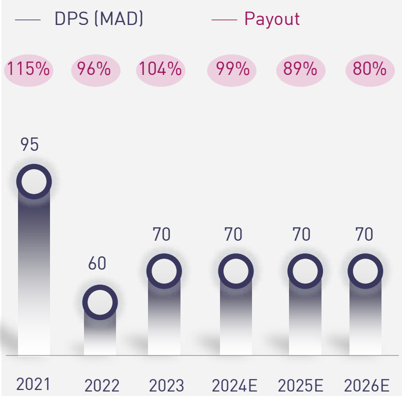
CIMAR : WACC BREAKDOWN

10y TB	3.24%
Beta	1.05
Equity RP	5.6%
Cost of Equity	9.12%
Weight debt	40%
Cost of Debt post tax	3.4%
WACC	6.84%

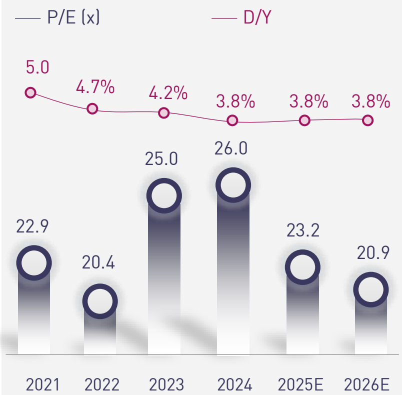
CIMAR: BREAKDOWN OF THE TARGET PRICE

	MAD Mn
Discounted 10-Y FCF	10,074
Terminal value	21,003
Enterprise Value	31,077
ND H1-24	-965
Equity value	32,042
Target Price (MAD)	2,220

CIMAR: PAYOUT VS. DPS (MAD)



CIMAR: EVOLUTION OF P/E(x) Vs. D/Y



We have integrated the impact of the acquisition of Asment de Témara over a full year starting in 2025E

Sources: PR & CIMAR H1 24 Financial Statements, AGR Calculations & Estimates

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