

CIMSA

OVERWEIGHT

Heading to become a global leader in building materials

Jul 25, 2023

🔗 We are initiating our coverage for Cimsa with an Overweight rating and 12M target price of TL210/sh (+TL10/sh expected DPS). With its solid efforts in the recent years, Cimsa is transforming into a global leader in building materials sector through acquisitions in white clinker/cement, disposals in grey clinker/cement assets and capacity increase in high value-added Calcium Aluminate Cement in Turkey. We think that Cimsa will continue to grow in global building materials market, organically & inorganically. We believe that Cimsa will post solid results in the remainder of 2023, considering the sticky cement prices in Turkey and in its export markets. On top of that, after the recent merger of Sabanci Holding and Exsa, Cimsa's participation portfolio will be more visible, as Cimsa will be acquiring Sabanci shares in return of its Exsa shares. Thus, Cimsa's participation portfolio will mainly consist of Sabanci shares, which is the one of the largest conglomerates in Turkey.

🔗 A dominant white cement player worldwide... Cimsa has a large footprint in global white cement industry through its 1.7mn tons of white clinker capacity in Turkey with three plants and 0.6mn tons of capacity in Bunol plant in Spain. Recall that Cimsa's 40% participation Sabanci Building Solutions acquired Bunol Cement worth US\$155mn back in 2021 from Cemex and Cimsa cemented its solid market position in European and the US white clinker markets. Cimsa is the 2nd largest white cement producer globally with 10% market share. Cimsa benefits from strong local and global sales network with strategically located terminals and long-term distributors in the cement sector. In 2022, Cimsa disposed two grey cement plants in Nigde and Kayseri and one cement grinding mill and seven RMC facilities in Turkey in return for €110mn. We believe that it was a strategic move to focus more on value-added operations.

🔗 Increasing capacity in CAC... Cimsa is investing more in Calcium Aluminate Cement (CAC) which will raise the capacity to 116k tons from 50k tons. This is more value added product as it provides higher stability & performance in comparison with cement in terms of resistance to heat, abrasion, chemicals and higher early strength. Average selling price is highly profitable compared to grey cement.

🔗 Sabanci & Exsa merger will bring more transparency to participation portfolio of Cimsa... In the aftermath of Sabanci Holding and Exsa merger, Cimsa, as an Exsa shareholder, will acquire ~34mn Sabanci shares worth about TL1.8bn or US\$65mn, which we have already incorporated in our valuation.

🔗 Risks... i) Sharp decline in cement prices, ii) rise in cost base

Price Data

| | |
|--------------------------------|--------|
| Current Price (TL, 25-Jul-23) | 171.10 |
| Current Mcap (TLmn) | 23,113 |
| 12-mth Target Price (TL/share) | 210.00 |
| 12-mth Target Mcap (TLmn) | 28,368 |
| 12-mth Return Potential | 23% |
| Dividend yield | 6% |

| Financials (TL mn) | 2021 | 2022 | 2023E | 2024E |
|--------------------|-------|-------|--------|--------|
| Revenues | 3,745 | 8,582 | 14,333 | 20,048 |
| % ch y/y | 80 | 129 | 67 | 40 |
| EBITDA | 646 | 1,236 | 2,684 | 4,188 |
| % ch y/y | 46 | 91 | 117 | 56 |
| Net Income | 1,017 | 3,432 | 2,630 | 3,318 |
| % ch y/y | 478 | 238 | -23 | 26 |

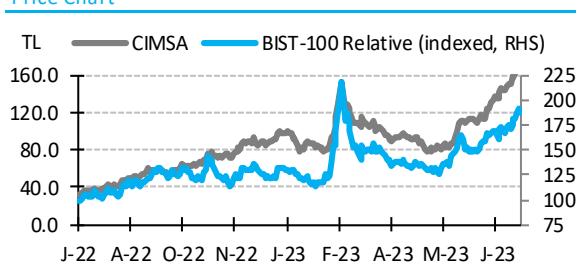
| Margins (%) | 2021 | 2022 | 2023E | 2024E |
|----------------------|------|------|-------|-------|
| EBITDA Margin | 17.2 | 14.4 | 18.7 | 20.9 |
| Net Margin | 27.1 | 40.0 | 18.3 | 16.6 |
| Gross Dividend Yield | 5.8 | 1.7 | 5.6 | 7.1 |

| Ratios | 2021 | 2022 | 2023E | 2024E |
|-------------------------|------|------|-------|-------|
| P/E (TL, x) | 3.4 | 1.9 | 8.8 | 7.0 |
| EV/EBITDA (TL, x) | 7.4 | 5.8 | 9.0 | 5.8 |
| Net Debt/EBITDA (TL, x) | 1.7 | 0.2 | 0.2 | 0.1 |
| ROE (TL,%) | 40.7 | 60.0 | 33.1 | 33.3 |

Stock Data

| | | |
|-----------------------|----------|----------|
| Ticker | CIMSA.IS | CIMSA TI |
| Sector | | Cement |
| # of Shares (mn) | | 135 |
| 3M Av. Trd. Vol. (mn) | | US\$14.8 |

Price Chart



| Price Performance | 1M | 3M | YTD | YoY |
|-------------------|-----|-----|-----|-----|
| TL Absolute | 37% | 82% | 76% | 63% |
| BIST-100 Relative | 14% | 36% | 45% | 23% |

Major Shareholders

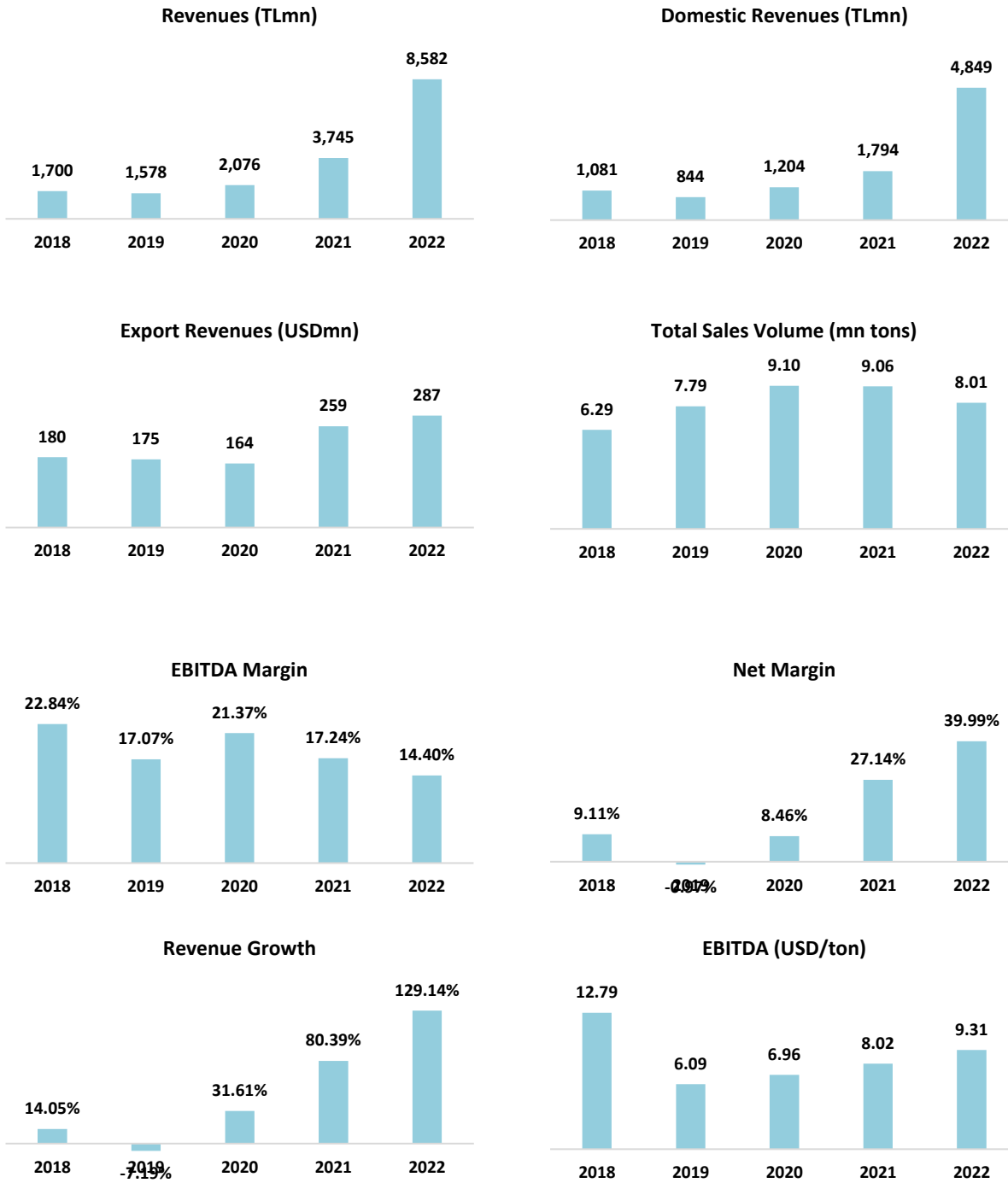
| | |
|----------------------------|-------|
| Sabanci Holding <SAHOL TI> | 54.5% |
| Akcansa <AKCNS TI> | 9.0% |
| Others | 36.5% |

Burak Salman

bsalman@terayatirim.com

Tel: +90 212 365 1000

Exhibit: CIMSA in a nutshell



Source: Company Data, Tera Yatirim

Valuation

We reached TL210/sh target price for Cimsa. We incorporated risk-free rate of 20%, equity risk premium of 5.5% and a beta of 0.77x. We calculated a WACC of ~23.5% in our valuation period.

Exhibit: Cimsa - DCF Model

| TL mn | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 14,333 | 20,048 | 26,131 | 31,822 | 36,814 | 41,719 | 46,852 | 52,614 |
| EBITDA | 2,684 | 4,188 | 5,644 | 7,081 | 8,422 | 9,802 | 11,295 | 13,005 |
| Tax | -319 | -709 | -963 | -1,214 | -1,447 | -1,688 | -1,951 | -2,254 |
| CAPEX | -708 | -891 | -1,056 | -1,286 | -1,488 | -1,686 | -1,894 | -2,127 |
| Chg in NWC | -413 | -519 | -468 | -441 | -337 | -295 | -282 | -300 |
| FCF | 1,244 | 2,069 | 3,157 | 4,140 | 5,150 | 6,132 | 7,169 | 8,324 |

| | | | | | | | | |
|----------------------------|--------|-------|-------|-------|-------|-------|-------|-------|
| <i>Revenue Growth, y/y</i> | 67.0% | 39.9% | 30.3% | 21.8% | 15.7% | 13.3% | 12.3% | 12.3% |
| <i>EBITDA Growth, y/y</i> | 117.2% | 56.0% | 34.8% | 25.5% | 18.9% | 16.4% | 15.2% | 15.1% |
| <i>EBITDA Margin</i> | 18.7% | 20.9% | 21.6% | 22.3% | 22.9% | 23.5% | 24.1% | 24.7% |
| <i>FCF Margin</i> | 8.7% | 10.3% | 12.1% | 13.0% | 14.0% | 14.7% | 15.3% | 15.8% |

| | | | | | | | | |
|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| WACC | 23.6% | 23.1% | 23.1% | 23.1% | 23.1% | 23.1% | 23.1% | 23.1% |
|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|

| | |
|-------------------------|---------------|
| Terminal growth rate | 6.0% |
| Enterprise Value | 22,438 |
| Net Debt | 1,097 |
| Minorities | 411 |
| Participations | 3,181 |
| Exp. Div. Payment | 1,306 |
| Target Mcap | 22,805 |
| 12M TP | 210.00 |
| Upside | 23% |

Source: Company Data, Tera Yatirim

Tera Yatirim Stock Ratings

| Rating | Definition |
|--------------|--|
| OVERWEIGHT | The analyst expects that the stock will generate a return above that of the BIST-100 index over the next twelve months. |
| MARKETWEIGHT | The analyst expects that the stock will generate a return in line with that of the BIST-100 index over the next twelve months. |
| UNDERWEIGHT | The analyst expects that the stock will generate a return below that of the BIST-100 index over the next twelve months. |

DISCLAIMER:

This document is produced by Tera Yatirim Menkul Degerler A.S.(Tera Yatirim). Although information contained herein has been obtained from sources believed to be reliable, Tera Yatirim does not guarantee its accuracy, completeness or reliability. Opinions and estimates may be withdrawn without prior notice. Calculations and valuations contained herein are intended as a basis for discussion. You hereby agree to carry out your own independent appraisal of the relevance and suitability of recommended transactions to your own specific needs, especially with regard to legal, financial, and tax matters. Our analysis shall not be construed as an offer or solicitation to subscribe, sell or lend securities or any other financial instrument and it is not intended to be the basis of any investment decision. Tera Yatirim or its affiliates may hold buy and sell positions on any of the securities or financial instruments referred to herein. Tera Yatirim may perform other services (including acting as inter-dealer broker or adviser) in relation to any of the companies referred to herein. Tera Yatirim makes no representation and gives no warranty as to the accuracy or completeness of the contents of this report. Tera Yatirim, its officers, employees, and affiliates shall not be liable to any person in any way whatsoever for any losses, costs, or claims howsoever arising from any inaccuracies or omissions in the information contained in this report or any reliance upon this report. This report may not be distributed to or passed on to anyone who is not a client of Tera Yatirim.