

Cimsa

Raising TP, with the inclusion of Afyon Cement in our valuation

- **We raise our 12-month TP for Cimsa from TRY17.00 to TRY18.60 per share, as we incorporate the Afyon plant's capacity expansion in our valuation, while we reiterate our "Outperform" rating.** Although the stock has outperformed the BIST-100 total return index by 28% YtD, we still favour Cimsa on the back of its high-margin, diversified product portfolio (i.e. white cement), organic growth potential and its high dividend yield. We project a CAGR of 9% in revenues and 13% in EBITDA over the 2013-16F period for Cimsa, counting on favourable outlook for the cement sector. Despite these bright prospects, the stock is trading at a core 2015F EV/EBITDA of 6.0x, pointing to a 20% discount to its international peers. We also forecast a generous 9.2% dividend yield from 2014 earnings (payout ratio of 90%).
- **Cimsa plans to triple capacity at Afyon Cement.** Cimsa acquired a 51% stake in Afyon Cement for TRY57.5mn in June2012. Afyon Cement has a current annual clinker capacity of 450,000 tonnes, and since the acquisition Cimsa has been working on feasibility studies to renovate and relocate Afyon Cement's plant, with its current obsolete technology and location (the existing plant is still close to the Afyon city centre). In this vein, Cimsa bought a plot outside of the city for TRY1.9mn, on which it will build the new plant to replace the old plant and triple its annual production capacity to 1.5mn tonnes in an estimated total investment of ~US\$160mn. With this capacity upgrade, Cimsa will boost its grey clinker capacity by ~20%. Based on our projections, if the Company starts work on the capacity upgrade investment in early 2015, the new plant will be in operation by early 2017 with a CUR of 50%, which will rise to 70% in 2018 (with the CUR assumed to remain constant thereafter during our forecast horizon). Based on our assumptions stated above, an additional 1mn tonnes of clinker investment would create a further 9% upside potential for the stock. We believe Afyon's capacity expansion would strengthen Cimsa's market share and pricing power in the Central Anatolia region in the long run.
- **Consensus forecasts still conservative for 2014 and 2015.** Our forecasts are generally higher than the consensus numbers (by 10% for EBITDA and 20% for net income for 2014). However, after the strong 3Q operating results, consensus estimates may be pushed up, which may also serve as a positive catalyst for the share price performance going forward.
- **White cement playing a vital role in sustaining profitability.** Cimsa's current strategy is to further promote its white cement business, as it plans to raise the number of export destinations and expand its foreign terminal network in a bid to secure higher profitability and top-line growth going forward. White cement is a niche product sold globally, and almost twice as expensive as grey cement.
- **Sancim acquisition awaiting approval from the Competition Board.** Cimsa signed the share purchase agreement with the stakeholders of Sancim for US\$220.7mn in July. Sancim has a clinker capacity of 1.1mn tonnes per year (which would result in a 20% capacity increase for Cimsa) with its production plant located in Bilecik in the Marmara region, where demand is brisk amid big-ticket infrastructure and urban transformation projects. Any developments regarding the Sancim deal would also support the share price and act as a catalyst for the stock in the short and mid-term.

OUTPERFORM

Current price: 15,65 TL
12-mo T. Price: 18,60 TL

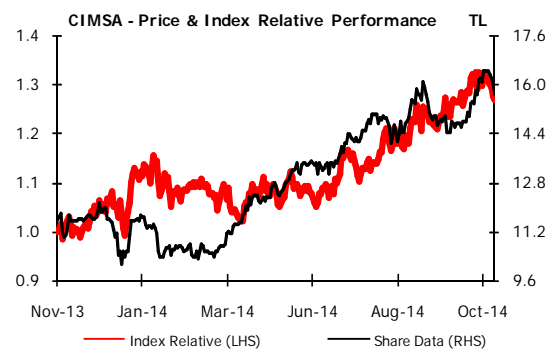
Analyst BertugTuzun
+90 (212) 334 95 31

bertug.tuzun@akyatirim.com.tr

Stock Data*

Ticker (Reuters, Bloomberg)	CIMSA IS, CIMSA TI
Market Cap. (TLmn)	2,114
Number of Shares (000)	135,084
Free Float	24%
Daily Vol. (3 Month, TLmn)	2.3
Net Debt (2014/06, TLmn)	224
BIST-100 Index (TL)	78,956 / 35,329

(*) Stock data as of November 5, 2014



Stock Performance

	1 W.	1M.	3M.	1Y.
TL	-4.6%	6.5%	4.7%	36.5%
Index Rel.	-3.8%	0.2%	6.8%	26.8%

Forecasts (TLmn)

	2012A	2013A	2014F	2015F
Net Sales	857	954	1,092	1,173
EBITDA	211	236	326	337
EBITDA marg.	25%	25%	30%	29%
Net Profit	115	302	216	225
EV/Sales	1.5	1.6	1.8	1.7
EV/EBITDA	6.2	6.3	6.1	6.0
P/E	9.8	5.2	9.8	9.4

Shareholding Structure

Sabancı Holding	49.4%
Aberdeen Asset	12.2%
Akcansa	9.0%
Others	5.2%
Free Float	24.2%

Cimsa Summary Financials (IFRS, TLmn)

Income Statement					Balance Sheet				
	2012	2013	2014F	2015F		2012	2013	2014F	2015F
Net Sales	857	954	1,092	1,173	Current Assets	330	370	456	450
Cost of Goods Sold	645	722	764	833	<i>Cash & Equivalents</i>	18	40	72	65
Gross Profit	212	232	327	340	<i>Inventory</i>	195	213	254	248
Operating Expenses	47	50	55	59	<i>Trade Receivables</i>	106	105	118	125
EBIT	165	182	273	281	L/T Assets	1,240	1,070	1,068	1,089
EBITDA	211	236	326	337	<i>Tangible Assets</i>	685	716	706	731
Net Financ. Inc/Exp	-30	-23	-7	-4	<i>Intangible Assets</i>	22	21	21	21
Net Other Inc/Exp	4	181	5	4	TOTAL ASSETS	1,570	1,440	1,524	1,539
Profit before Tax	143	339	270	281	S/T Liabilities	370	223	248	231
Taxes	-27	-38	-54	-56	<i>Financial Debt</i>	258	82	82	82
Minority Interest	4	0	0	0	<i>Trade Payables</i>	89	114	139	122
Net Profit	115	302	216	225	L/T Liabilities	166	90	90	90
Nominal Gr. (YoY)	2012	2013	2014F	2015F	<i>Financial Debt</i>	109	41	41	41
Net Sales	7%	11%	14%	7%	Shareholders' Equity	989	1,081	1,141	1,172
EBITDA	5%	12%	38%	3%	Minority Interest	45	46	46	46
Net Profit	-7%	162%	-29%	4%	TOT.LIA.&SH.EQU.	1,570	1,440	1,524	1,539
Margins	2012	2013	2014F	2015F					
Gross Profit	25%	24%	30%	29%	Key Metrics	2012	2013	2014F	2015F
EBIT	19%	19%	25%	24%	W.Capital days	84	79	70	73
EBITDA	25%	25%	30%	29%	Capex/sales	19.4%	9.0%	4.0%	6.7%
Net margin	13%	32%	20%	19%	Net debt (TLmn)	349	83	51	58
					Net debt / equity	0.35	0.08	0.04	0.05
					Net Debt / EBITDA	1.66	0.35	0.15	0.17
Cash Flow Statement	2012	2013	2014F	2015F	ROA (%)	8%	20%	15%	15%
Profit before tax	143	339	270	281	ROIC (%)	10%	12%	18%	18%
Depreciation	46	55	54	56	ROE (%)	12%	29%	19%	19%
Changes in WC	-39	8	-36	-17	Dividend payout (%)	-85%	-52%	-90%	-90%
Operating Cash Flow	149	402	288	320	Dividend yield (%)	6.5%	9.3%	9.2%	9.6%
Capex	-166	-85	-43	-78	Effect.tax rate (%)	19%	11%	20%	20%
Change in debts	130	-244	0	0	Valuation	2012	2013	2014F	2015F
Dividends paid	-98	-156	-194	-202	EV/Sales	1.5	1.6	1.8	1.7
Other	-11	106	-18	-46	EV/EBITDA	6.2	6.3	6.1	6.0
Financing Cash Flow	-145	-380	-255	-327	PE	9.8	5.2	9.8	9.4
Cash-beginning of per.	13	18	40	72	FCF yield (%)	4%	7%	13%	10%
Cash-end of period	18	40	72	65					

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