

Cimsa

Attractive dividend and the value of Afyon...

- **We raise our 12-month TP for Cimsa from TRY19.00 to TRY20.50 per share after revisiting our valuation and fine-tuning our forecasts, while we reiterate our "Outperform" rating.** The revision to our TP primarily reflects easing cost pressure on lower energy prices, as we had been expecting a 5% increase in electricity tariffs in the summer, but now we assume tariffs will remain unchanged in 2015. Although the stock has outperformed the BIST-100 Total Return Index by 7% YtD and 15% over the last one year, the stock trades at a core (Exsa-stake-adjusted) 2015F EV/EBITDA of 6.7x, pointing to a 30% discount to its international peers. We also forecast a generous 8.1% dividend yield (to be paid at the end of March) from 2014 earnings (payout ratio of 90%) that should act as a short-term catalyst for the stock.
- **Fundamentals remain strong.** We project 7% revenue growth and 6% EBITDA growth in 2015 after a robust operating performance in 2014 (our 2014 forecasts suggest 13% YoY revenue and 34% YoY EBITDA growth for Cimsa). Moreover, prices of pet-coke (an oil derivative) have not yet declined, despite the plunge in oil prices since June 2014; this suggests the potential of further upside in margins, especially in 2H15. We expect Turkey's domestic cement consumption to grow by a further 4% YoY in 2015 after an estimated 2% YoY growth in 2014. We are confident domestic operations to remain buoyant (with a heavy infrastructure pipeline) in 1H15 on the back of gathering momentum in infrastructure spending ahead of June's general election. Moreover, the environment of lower interest rates should support housing demand, in turn spurring residential construction activity, especially in 2H15.
- **We believe Cimsa is capable of dealing with the challenges posed by overcapacity in the Mediterranean region.** The total clinker capacity in the Mediterranean region is expected to rise by ~20% in 2H15 once Eren's massive investment (3.4mn tonnes of clinker and 4mn tonnes of cement) is completed. We think the oversupply in the region could become more apparent, putting pressure on cement prices in the coming years. However, we would argue that Cimsa will be relatively unscathed by the potential price war in the Mediterranean region compared to its peers (such as Adana Cement) thanks to its geographically well-positioned plants and diversified product portfolio with high margin white cement. Firstly, Cimsa's domestic grey cement segment operations are focused on the Central Anatolian region (three quarters of domestic revenues), followed by the Mediterranean region (around one quarter). Secondly, the Management is gradually raising white cement production at its Mersin plant (located in the Mediterranean region). Thus, total white cement production is forecasted to rise to around 50% in 2015 (from 45% in 2014 and 35% in 2013).
- **Most of Afyon's new capacity to be at its hinterland.** Afyon Cement (AFYON TI), controlled by Cimsa with a direct 51% stake, is currently in the process of tripling its annual capacity to 1.5mn tonnes (from 0.5mn tonnes) in a US\$165mn investment. Afyon Cement will hold a rights issue and raise its capital by TRY97mn (to TRY100mn) to finance the investment, leading to a cash outflow of TRY50mn for Cimsa. This capacity upgrade will boost Cimsa's grey clinker capacity by ~20%. Accordingly, Cimsa plans to start work on the capacity upgrade investment in 1Q15 and the new plant will be in operation by mid-2016 with a CUR of 50%, rising to 70% in 2017 (with the CUR conservatively assumed to remain constant thereafter during our forecast horizon). We believe Afyon's capacity expansion will boost Cimsa's market share and pricing power in the Central Anatolia in the long run. Moreover, Afyon has a dilutive effect on Cimsa's profitability (Afyon wrote an EBITDA margin of 26% vs. 31% for Cimsa in 9M14), and the high-tech plant will support Cimsa's profitability thanks to lower energy costs, a higher CUR with increased capacity and lower transportation costs for raw materials. We had already incorporated the Afyon plant's capacity expansion in our Cimsa valuation.

OUTPERFORM

Current price: 17,15 TL
12-mo T. Price: 20,50 TL

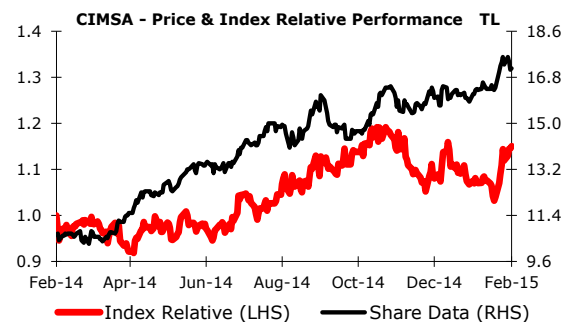
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Stock Data*

Ticker (Reuters, Bloomberg)	CIMSA IS, CIMSA TI
Market Cap. (TRYmn)	2,337
Number of Shares (000)	135,084
Free Float	23%
Daily Vol. (3 Month Avg., TRYmn)	2.8
Net Debt (2014/09, TRYmn)	146
BIST-100 Index (TRY)	86,255

(*) Stock data as of February 5, 2015



Stock Performance

	1 W.	1M.	3M.	1Y.
TL	-1.7%	7.1%	10.5%	62.4%
Index Rel.	1.3%	7.8%	1.6%	15.9%

Forecasts (TRYmn)

	2013A	2014E	2015F	2016F
Net Sales	954	1,079	1,152	1,248
EBITDA	236	318	335	361
EBITDA marg.	25%	29%	29%	29%
Net Profit	302	209	219	236
EV/Sales	1.6	1.6	1.9	1.8
EV/EBITDA*	6.3	5.5	6.7	6.2
P/E	5.2	8.9	10.6	9.8

* Participation adjusted (TRY182mn)

Shareholding Structure

Sabancı Holding	49.4%
Aberdeen Asset	13.8%
Akcansa	9.0%
Others	5.2%
Free Float	22.6%

VALUATION

We have employed a DCF valuation to set our target price for Cimsa, yielding a 12-month target price of TRY20.50 per share, marking 20% potential upside.

DCF

With a TL cost of equity of 13.5% (12.5% at terminal) throughout the forecast horizon, a cost of debt of 11%, a beta of 1.00 and average 7%/93% debt-equity ratio, we reach an average 13.1% WACC for our DCF analysis (12.2% at terminal). Our terminal growth rate is 6.0%.

Discounted Cash Flow (TRYmn)									
	'15F	'16F	'17F	'18F	'19F	'20F	'21F	'22F	'23F
Operating Profit (EBIT)	276	300	352	373	397	423	448	476	507
(+) Depr. & Amort.	59	61	63	65	68	71	74	77	81
(-) Taxes on EBIT	55	60	70	75	79	85	90	95	101
(-) Increase in NWC	16	20	42	19	21	22	22	24	27
(-) Capital Expenditures	131	86	89	94	101	108	114	120	129
FCF	133	195	214	252	264	279	296	314	331
WACC (%)	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	12.2%
Discount Factor	1.04	1.18	1.34	1.51	1.71	1.94	2.19	2.48	2.78
Discounted FCFs	127	165	160	166	154	144	135	126	119
PV of FCFs	1,298								
PV of Terminal Val.@ 6.0% Gr.	1,267								
Net Cash/(Debt) at end-2014E	-111								
Minority Interests	-196								
Participations	182								
Equity Value (12M)	2,770								

Source: Ak Investment Forecasts

Estimates – Ak Investment vs. Consensus

TRYmn	<u>AK</u>		<u>Consensus</u>	
	<u>2014E</u>	<u>2015F</u>	<u>2014E</u>	<u>2015F</u>
Revenues	1,079	1,152	1,079	1,164
EBITDA	318	335	318	331
EBITDA margin	29.4%	29.1%	29.5%	28.5%
Net income	209	219	194	199

Source: Bloomberg, Ak Investment Estimates

International Peer Comparison

Cimsa trades at an EV/EBITDA multiple (participation adjusted – TRY182mn) of 6.7x (2015F), implying a discount of 30% to the median of its global peers. On an earnings basis, the Company trades at 10.6x P/E multiple (2015F), implying a discount of 31% to its peers on 2015F forecasts.

Company	Country	Market Cap (US\$m)	EV/EBITDA		P/E	
			2014E	2015F	2014E	2015F
Heidelbergcement	Germany	14,273	9.0	8.3	17.7	14.4
Holcim	Switzerland	24,203	9.2	8.9	17.7	16.1
Italcementi	Italy	2,598	9.0	8.1	n.a.	n.a.
Lafarge	France	20,844	11.5	10.4	31.8	21.3
Vicat	France	3,258	9.9	9.1	18.9	16.7
Developed Peers Median			9.2	8.9	18.3	16.4
Ambuja Cements	India	6,234	14.3	9.4	25.7	19.2
Anhui Conch Cement	China	16,671	5.6	5.3	8.7	8.0
Indocement	Indonesia	6,945	10.3	9.5	15.5	14.5
Semen Gresik	Indonesia	6,945	10.3	9.5	15.5	14.5
Siam City Cement	Thailand	2,968	12.6	12.1	17.8	17.4
Titan Cement	Greece	1,971	12.6	9.9	65.7	26.9
Yanbu Cement	Saudi Arabia	2,898	12.0	10.3	14.6	12.8
Emerging Peers Median			12.0	9.5	15.5	14.5
Peers' Median			10.3	9.5	17.7	15.3
Cimsa*	Turkey	950		6.7		10.6
Pre. / (Disc.) to Peers				-30%		-31%
Source: Bloomberg, (*) Ak Investment Estimates for Cimsa Price data as of February 5, 2015						

RISKS

The main risks to our valuation and rating include i) a sharp economic slowdown or hikes in interest rates, leading to lower-than-expected sales volumes, ii) a surge in energy costs leading to a contraction in margins, iii) any delays or cancelation of big-ticket infrastructure and/or public projects, and iv) intensifying competition, due to excess capacity created by new entrants or capacity expansion from existing players, which would put margins under pressure.

Cimsa Summary Financials (IFRS, TRYmn)

Income Statement	2013	2014E	2015F	2016F
Net Sales	954	1,079	1,152	1,248
Cost of Goods Sold	722	761	818	886
Gross Profit	232	318	334	362
Operating Expenses	50	55	58	62
EBIT	182	264	276	300
EBITDA	236	318	335	361
Net Financ. Inc/Exp	-23	-7	-7	-10
Net Other Inc/Exp	181	5	4	4
Profit before Tax	339	261	274	294
Taxes	-38	-52	-55	-59
Minority Interest	0	0	0	0
Net Profit	302	209	219	236
Nominal Gr. (YoY)	2013	2014E	2015F	2016F
Net Sales	11%	13%	7%	8%
EBITDA	12%	34%	6%	8%
Net Profit	162%	-31%	5%	8%
Margins	2013	2014E	2015F	2016F
Gross Profit	24%	30%	29%	29%
EBIT	19%	24%	24%	24%
EBITDA	25%	29%	29%	29%
Net margin	32%	19%	19%	19%
Cash Flow Statement	2013	2014E	2015F	2016F
Profit before tax	339	261	274	294
Depreciation	55	54	59	61
Changes in WC	8	-36	-17	-16
Operating Cash Flow	402	279	316	339
Capex	-85	-43	-78	-78
Change in debts	-244	-20	0	30
Dividends paid	-98	-156	-188	-197
Other	48	-47	-106	-71
Financing Cash Flow	-380	-266	-373	-316
Cash-beginning of per.	18	40	53	-4
Cash-end of period	40	53	-4	19

Balance Sheet	2013	2014E	2015F	2016F
Current Assets	370	430	373	457
Cash & Equivalents	40	53	-4	19
Inventory	213	249	244	290
Trade Receivables	105	117	122	137
L/T Assets	1,070	1,068	1,141	1,165
Tangible Assets	716	706	778	803
Intangible Assets	21	21	21	21
TOTAL ASSETS	1,440	1,499	1,514	1,622
S/T Liabilities	223	244	229	299
Financial Debt	82	82	82	112
Trade Payables	114	135	120	160
L/T Liabilities	90	70	70	70
Financial Debt	41	21	21	21
Shareholders' Equity	1,081	1,134	1,165	1,203
Minority Interest	46	50	50	50
TOT.LIA.&SH.EQU.	1,440	1,499	1,514	1,622
Key Metrics	2013	2014E	2015F	2016F
W.Capital days	79	71	73	73
Capex/sales	9.0%	4.0%	6.8%	6.3%
Net debt (TLmn)	83	50	107	114
Net debt / equity	0.08	0.04	0.09	0.09
Net Debt / EBITDA	0.35	0.16	0.32	0.31
ROA (%)	20%	14%	15%	15%
ROIC (%)	12%	18%	17%	18%
ROE (%)	29%	19%	19%	20%
Dividend payout (%)	-85%	-52%	-90%	-90%
Dividend yield (%)	6.5%	9.3%	8.1%	8.5%
Effect.tax rate (%)	11%	20%	20%	20%
Valuation	2013	2014E	2015F	2016F
EV/Sales	1.6	1.6	1.9	1.8
EV/EBITDA	6.3	5.5	6.7	6.2
PE	5.2	8.9	10.6	9.8
FCF yield (%)	7%	14%	9%	10%

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