

Buzzi Unicem S.P.A. (BZU IM Equity)



- Samhita Investments is an Italian Family Office, founded by Paolo Basilico, previously the founder of Kairos, an Italian asset management and private banking company that he sold to Swiss banking group Julius Baer in 2019
- We are Ludovico Latmiral (Responsible of Investments) & Michele Campagner (Analyst)

The business case - Cement

\$327 billion market - forecasted to grow above 5% CAGR from 2022 to 2026

Construction-related barriers to entry: high capital expenditures (\$500M to \$1B per plant) + lengthy legislative processes to obtain permits

Raw materials:
from limestone
and clay to fine
powder



Heated in a sintering
temperature as high as 1450 °C
in a cement kiln. Chemical
bonds of raw material are
broken down and recombined:
the results is called clinker

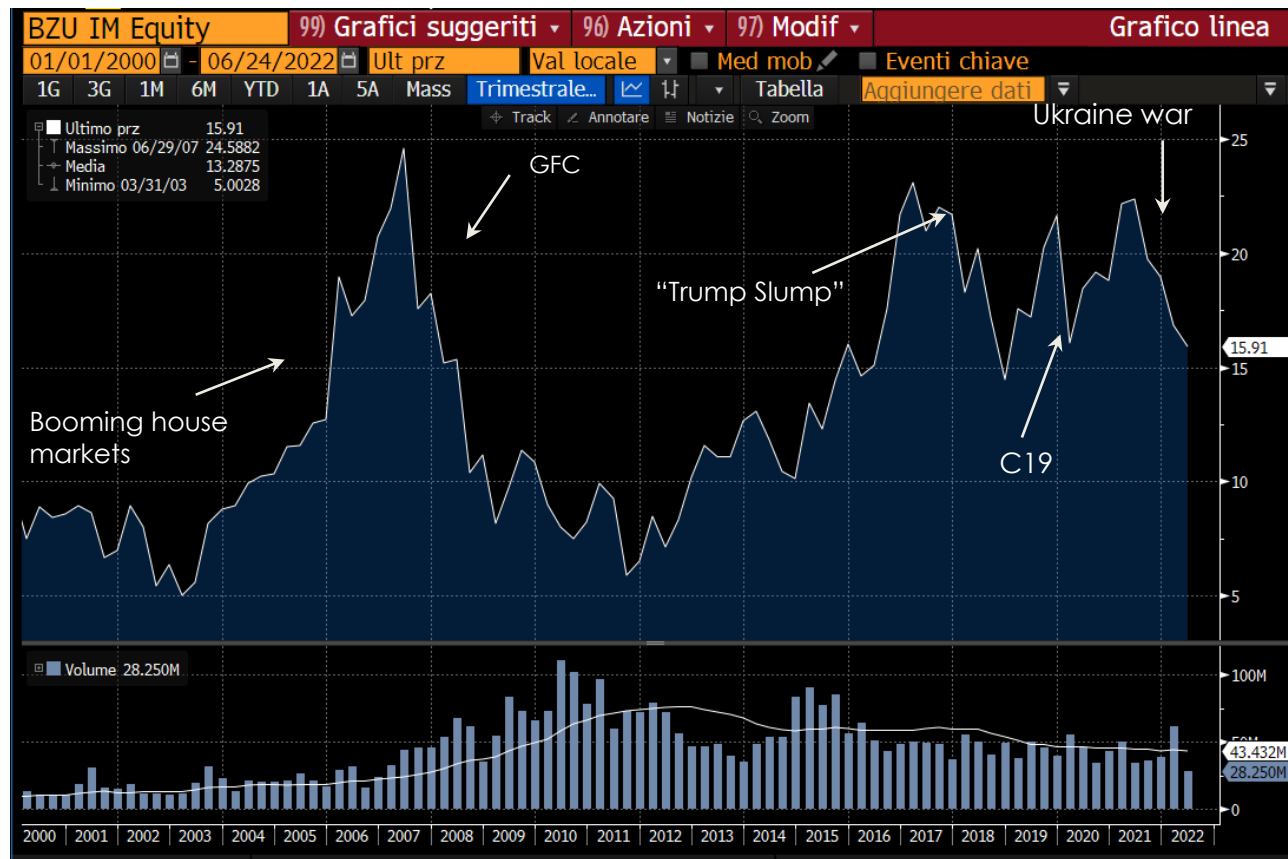


The clinker is ground to a fine
powder in a cement mill and
mixed with gypsum to create
cement. The powdered
cement is mixed with water and
aggregates to form concrete.



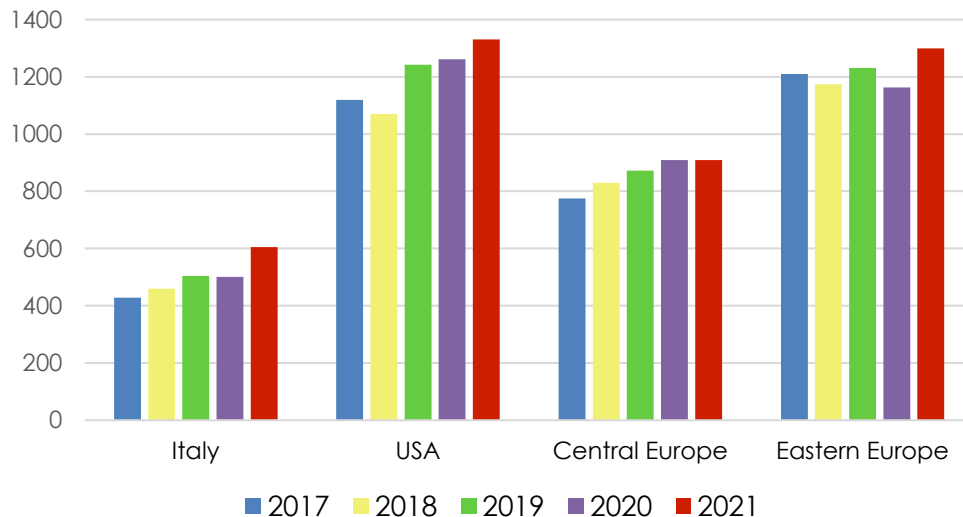
Company Overview - Buzzi

- Ticker: BZU IM Equity
- Stock exchange: Borsa Italiana
- Sector: Buildings Materials
- Listed since: 1985
- Market cap: 3.1B€
- Treasury shares: 3.89%
- Float Shares: 39.27%
- Average volume: 7-8M EUR

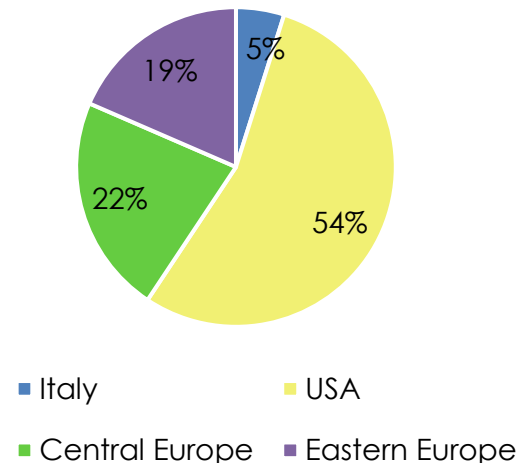


Company overview – Almost an American company

Revenue Evolution



2021 EBITDA Composition



- Ukraine accounts for 3.7% of 2021 Revenue (or 127M EUR) – 1.7% of EBITDA (or 13M)
- Russia accounts for 6% of 2021 Revenue (or 207M EUR) – 7.1% of EBITDA (or 58M EUR)

EBITDA Margin	2017	2018	2019	2020	2021
Italy	-19%	0%	9%	7%	7%
USA	33%	32%	32%	35%	34%
Central Europe	12%	13%	15%	19%	20%
East Europe	10%	11%	13%	13%	12%

Company Overview - Financials

P&L (M Euro)	2017	2018	2019	2020	2021
Cement & Clinker Manufacturing	1,785	1,890	2,144	2,162	2,335
Concrete Block & Brick Manufactur	991	984	1,078	1,060	1,113
Total Revenue	2,806	2,873	3,221	3,222	3,446
<i>Growth in total revenue</i>	<i>5.10%</i>	<i>2.40%</i>	<i>12.11%</i>	<i>0.03%</i>	<i>6.94%</i>
EBITDA	508.2	577.6	728.2	780.4	794.4
<i>Ebitda Margin</i>	<i>18.1%</i>	<i>20.1%</i>	<i>22.6%</i>	<i>24.2%</i>	<i>23.1%</i>
EBIT	286.1	351.7	468.3	523.5	545.36
<i>Ebit Margin</i>	<i>10.2%</i>	<i>12.2%</i>	<i>14.5%</i>	<i>16.2%</i>	<i>15.8%</i>
Associates	96.2	87.8	73.9	173.1	106.05
Net Finan Item	33.5	-25.6	60.1	-3.3	-16.16
Net Income	391.70	382.00	385.90	560.70	542.30
<i>Net Income margin</i>	<i>14.0%</i>	<i>13.3%</i>	<i>12.0%</i>	<i>17.4%</i>	<i>15.7%</i>
Net Income Ex Extraordinary Income				446.70	
<i>Net Income margin</i>				<i>13.9%</i>	

Balance Sheet (M Euro)	2017	2018	2019	2020	2021
Total Assets	5,783	5,674	6,403	6,387	6,922
Total Liab	2,931	2,531	2,712	2,784	2,547
Equity Value	2,852	3,144	3,691	3,603	4,375

Value creation: investments and debt reduction increased equity value 53% over 5 years

→ Smoothly growing business with high EBITDA margin and highly profitable JVs in developing countries

Cash Flow (M Euro)	2017	2018	2019	2020	2021
Working capital	566	622	668	639	661
Capex	218	215	257	228	295
FCF	344	337	342	505	474
<i>FCF Conversion</i>	<i>68%</i>	<i>58%</i>	<i>47%</i>	<i>65%</i>	<i>60%</i>
<i>FCF Yield</i>	<i>7%</i>	<i>11%</i>	<i>7%</i>	<i>13%</i>	<i>13%</i>
Net Debt (-) / Cash (+)	-862.5	-890.5	-567.8	-241.6	232.54

→ High & Steady FCF Generation

Peer Comparison

Name	5 yrs avrg	EV / EBITDA		5 yr avrg	P / E		EBITDA Margin		Net Income Margin		FCF Yield		NET DEBT / EBITDA	
	EV / EBITDA	2022	2023	PE	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
CRH PLC	8.3	6.1	5.8	14.5	10.7	9.7	17%	17%	8%	8%	9%	10%	0.65	0.39
HOLCIM LTD	7.1	5.7	5.5	13.1	9.9	9.3	23%	23%	9%	9%	12%	13%	1.29	0.90
HEIDELBERGCEMENT AG	6.5	4.2	4.0	9.6	6.1	5.7	19%	18%	7%	8%	12%	13%	1.27	1.05
COMPAGNIE DE SAINT GOBAIN	6.3	4.5	4.4	11.3	7.4	7.0	14%	14%	6%	6%	8%	11%	0.94	0.70
CEMENTIR HOLDING NV	5.8	3.7	3.5	10.5	7.6	6.9	20%	20%	8%	9%	12%	13%	-0.18	-0.48
CEMEX SAB	6.7	4.9	4.6	11.2	7.1	6.0	19%	19%	6%	6%	11%	12%	2.73	2.30
VICAT	7.7	4.5	4.3	12.2	5.9	5.5	18%	18%	6%	6%	4%	10%	2.26	2.07
TITAN CEMENT INTERNATIONAL T	6.2	5.9	5.5	11.1	11.0	8.9	18%	18%	5%	6%	8%	10%	2.79	2.28
Peers Average	6.8	4.9	4.7	11.7	8.2	7.4	18%	18%	7%	7%	10%	11%	1.5	1.2
Peers Median	6.6	4.7	4.5	11.3	7.5	7.0	18%	18%	7%	7%	10%	11%	1.3	1.0
BUZZI UNICEM - PROPETARY FORECAST	5.8	3.8	3.8	11.0	6.6	6.4	20%	20%	13%	13%	13%	14%	-0.5	-1.1
<i>Discount / premium to Median</i>	<i>-12%</i>	<i>-19%</i>	<i>-15%</i>	<i>-2%</i>	<i>-13%</i>	<i>-8%</i>	<i>10%</i>	<i>9%</i>	<i>87%</i>	<i>85%</i>	<i>23%</i>	<i>18%</i>	<i>-142%</i>	<i>-209%</i>

- Buzzi has clearly higher margins than its competitors (even allowing negative/zero contribution from Ukraine and Russia) also thanks to the Brazilian & Mexican JV
- It has a positive net debt position (cash): it could start to have a significant dividend yield / buyback / potential M&A
- It's trading at a discount on both P/E, EV/EBITDA and free cash flow yield

Why the stock is here? ... and why we think it shouldn't

- Cement is a dying industry. The housing market is a in bubble → ▫ \$1T U.S. bipartisan infrastructure bill + \$600B from G7 for global infrastructure to counter China
- Exposure to Ukraine and Russia → ▫ They account for less than 9% of EBITDA combined, and if the war ends...
- ESG: cement is one of the worst CO2 emission sectors (they disclosed a de-carbonization road map only recently) → ▫ CO2 is inherently produced by the chemical reaction. Feasible targets - peers' goals, but managers probably won't be there? ;)
- CO2 credits: the market expects the company to be largely unprofitable in Italy-Europe → ▫ There will either be high inflation, or they will shut down plants
- The company is family run and it's perceived as Italian → ▫ Total alignment, low profile. 54% of EBITDA in US, 40% in Europe and 20% of FCF in Mexico and Brazil
- Free float 1.2B EUR (39%) → ▫ Value opportunities for those who accept 7-8M EUR daily volumes

As always, the sell side is very consistent

JPM Analyst report on Buzzi

Valuation

We derive our price target from an EV/EBITDA-based valuation methodology with an enterprise value (EV) calculation. Our price target is derived using 2.8x



Risks to Rating and Price Target

Better-than-expected trend in volumes/pricing in Italy, the US and Germany would likely result in risk to our earnings estimates. Energy costs form a major part of the group's cost base and therefore can have a major impact on the group's profitability. Given the high exposure to US (60% of EBITDA) positive euro-dollar exchange rates can also have a major impact on the group's profitability.

JPM Analyst report on CRH

Valuation

We derive our price target from an EV/EBITDA-based valuation methodology with enterprise value (EV) calculation. Our price target is derived by applying our target multiple of 8.9x to our 2023 EBITDA estimate to get to our price targets. Definition



Investment Thesis

CRH remains our only OW in the Heavyside sub-sector. As a reminder, CRH is relatively less exposed to the carbon headwind, has an extremely strong B/S, which allows for generous shareholder returns and accretive M&A. Furthermore, the company is a key beneficiary of the US Infrastructure bill, which should start to flow through from 2023E/2024E. Furthermore in our energy-cost sensitivity, we estimate that CRH is least impacted in comparison to its Heavyside peers, and would argue CRH's US divisions have better pricing power than other cement companies in our coverage.

- High and profitable exposure to U.S. (CRH Cement Division USA has 21% EBITDA Margin vs historical 30%+ of Buzzi)
- Extra growth from Mexico and Brazil, instead of diversification into complementary businesses at lower margins and low cash generation

Skin in the game – Fully aligned

- Co-CEO Pietro Buzzi in September 2021 bought more than 50M EUR of stock when it was above 22. Since then, it's down more than 30%.
- Pietro Buzzi's salary in 2021 was 416k EUR (co-CEO Michele Buzzi earned 443k EUR). Their salaries are less than 20 bps of net income.
- Thanks to the strong FCF of 2021 and the net cash position, Buzzi in Q1 bought back 123M EUR of stock and paid out a dividend of 76M EUR. The company is now planning another buyback.



Assumption		Scenarios	EBITDA MARGIN				
			2022	2023	2024	2025	2026
Revenue growth 2023 - 2026	1%	Best Case	21%	22%	22%	22%	22%
Capex 2022 - 2026	300M		21%	21%	20%	19%	18%
WC	Absorbs		20%	20%	18%	15%	14%
Co2 price 2023 - 2026	90Mt/EUR						
		Base Case					
		Worste Case					

VALUATION - FCF									
	Market Cap	2022	2023	2024	2025	2026	IRR	FCF Yield in	FCF yield out
Best Case	-2787.19	400	448	478	485	5404	25%	14%	10%
Base Case	-2787.19	385	418	418	388	4090	19%	14%	10%
Worste Case	-2787.19	369	388	358	291	2775	11%	13%	10%

VALUATION - Net Income									
	Market Cap	2022	2023	2024	2025	2026	IRR	PE in	PE out
Best Case	-2787.19	484	513	534	539	4903	25%	5.8	8
Base Case	-2787.19	469	483	474	442	3827	20%	5.9	8
Worste Case	-2787.19	453	453	414	346	2752	13%	6.2	8

- Error: Metrovacesa (Spanish homebuilder) – huge discount on NAV is not a reliable indicator of value if business plan execution is disappointing: after so many stomachaches, a tender offer at 2019 prices was not a nice relief
- Book – "Not Me: Memoirs of a German Childhood" written by Joachim Fest

Appendix

- The first quarter was strong for all cement groups due to strong volume and price contributions that were able to offset energy price increases. Prices on average increased by around 15% depending on geography.
- Buzzi: revenues in Q1 increased by 17%, better than expected. In Europe (especially in Italy) price increases covered energy price increases. Russia in Q1 recorded -3% YoY, and Ukraine -30%. In Ukraine they have two production plants: the one in the north continues to operate at 70%, and the one in the south-east remains closed.
- There is no guidance on revenue: average consensus is 8% growth this year. The company has given guidance (worst case scenario) of -10% EBITDA in the worst-case scenario. Guidance for 2022 was “EBITDA probably not above 2021 level”. Actual 2021 EBITDA grew 2% vs 2020.
- Q2: the situation is expected to remain strong in USA and Central Europe thanks to strong demand. Volumes in Italy should decrease compared to Q1 level. Profits in Europe will suffer but revenue should remain strong.

The elephant in the room - CO2

- EU ETS: the company has an annual deficit of 2Mt, with a surplus in Italy of 5.5Mt.
- The company has been penalized by the market for not having a well-defined CO2 road map. On June 16, the company finally presented its road map to Net Zero Emission by 2050. This is based principally on 3 pillars: efficiency in concrete usage (clinker ratio at 75% today – 67% in 2030); a greater use of alternative fuels (biomass); energy efficiency (progressive switch from electric consumption to thermal consumption).
- For 2022, the company has already secured all the credits it needs to operate by taking advantage of market weakness during March.
- The table shows the costs the company will incur given the current Fit for 55 plan and the gradual reduction in credit allowance. Price are set at 80 EUR per Mt

		2019	2020	2021	2022	2023	2024	2025	2026
Europe - ex Italy	M EUR	8	26	41	40	68	82	96	139
Italy	M EUR	0	0	0	0	0	55	125	133
Price Paid	EUR / Mt	17	17	69	60	80	80	80	80

Peer Valuation – Performance

Name	M CAP (EUR)	YTD	6M	1YR Price Return	1YR Total Return	Price return since 2020	Total Return since 2020	Price Return from Covid Bottom	Total Return from Covid Bottom
CRH PLC	25,007	-27%	-27%	-25%	-22%	-8%	-1%	60%	69%
HOLCIM LTD	26,040	-4%	-3%	-21%	-21%	-20%	-8%	54%	54%
HEIDELBERGCEMENT AG	9,419	-18%	-18%	-35%	-32%	-25%	-19%	46%	59%
COMPAGNIE DE SAINT GOBAIN	22,630	-31%	-30%	-24%	-21%	16%	22%	129%	141%
CEMENTIR HOLDING NV	977	-27%	-27%	-32%	-30%	-10%	-4%	27%	36%
CEMEX SAB	5,390	-43%	-43%	-55%	-55%	1%	1%	125%	125%
VICAT	1,237	-23%	-23%	-35%	-31%	-33%	-22%	21%	40%
TITAN CEMENT INTERNATIONAL T	877	-13%	-13%	-30%	-30%	-37%	-37%	6%	6%
Peers Average		-23%	-23%	-32%	-30%	-15%	-9%	58%	66%
Peers Mediam		-25%	-25%	-31%	-30%	-15%	-6%	50%	57%
BUZZI UNICEM SPA	3,101	-15%	-15%	-31%	-29%	-26%	-23%	16%	20%



Buzzi Unicem

Buzzi Unicem S.P.A – Value Investing Seminar 2022



Thank you!

