



Company Update: TITAN Cement Group Reason: Upgrade

Investment Thesis

Digesting the financial results of 1H23, the prospects of the construction industry, and the geographic positioning of Titan, we are upgrading our target price to €22.00 (from €18.00 presented on 17/2/23).

Back in February, we expressed our confidence in our model even though the markets' prevailing scenario was accepting the Hellenic recovery story (15% of Titan business) but was pricing a recession in the USA (60% of Titan's inflows) and were reluctant to pay attention to the full order book that the management was communicating.

Moving 6 months forward, demand is strong. The fears of a US recession are fading, US housing market experienced the shortest price correction in history, and the group's recent investments to increase the distribution capacity in the USA (larger dome in Florida already operating, and a 2nd warehouse in Norflok scheduled to operate in December) are paying off.

Greece is performing even better than expected fuelled by strong demand for infrastructure and tourism projects. South East Europe performance is the pleasant surprise that significantly impacts our model upwards, partly due to operational efficiency (use of alternative fuels) and stronger demand.

Albeit the positive trend described above, there are still threats in Turkey and Egypt. On the one hand, the February earthquake in Turkey has made imperative demand for construction and maintenance projects, with high margins recorded in the local currency. Conversely, Egypt is entering a recessionary low-demand environment. The FX translation for both continues to be unfavorable.

Cement, together with steel, plastics and ammonia, comprise the 4-material list that define our civilization ([Vaclav Smil](#)). This is putting longevity risk to the minimum, but at the same time would make an investor think that the business is mundane, with no more innovation to demonstrate. Titan is offering the good part of the boring side (i.e. steady dividends with limited downward surprises) and simultaneously is proving for over a century the art of managing hard assets, investing is different/selected geographies, investing in innovation with real/substantial results (extensive use of sensors to map production that is rolling over more plants, real time data driven micro management of the plants, measurable decrease of clinker to cement ratio).

Valuation

Titan is valued at 22,00€ per share through a FCF exercise with an applied WACC rate of 9.44% (+25 bps higher than Feb 23) and zero perpetual growth rate. A case could well be made that some additional basis points could have been added for the raised key ECB rate, that is set to move even higher. However, an opposite case should also be made, for the accelerated decrease of the Hellenic country risk, the new BB+ rating for Titan's debt by Fitch, and the meaningful decrease of both the Net Debt and the Net Debt/Ebitda ratio. All in all, we have maintained the return on equity (Re) unchanged and raised the return on debt (Rd) by 75bps to account for the imminent refinancing of €350M debt that is currently served with a 2.375% rate and could potentially be served at a 4.25% rate.

| | |
|----------------------|---------------|
| Date | 31/7/23 |
| Fair Estimated Price | 22,00 € |
| Investment Thesis | UV |
| Bloomberg Ticker | TITK:GA |
| Reuters Ticker | TTNr.AT |
| Price (28/7/23) | 19 |
| Low / High Price 52w | 10.64 / 19.44 |
| Market Cap (€mn) | 1488 |
| P/E (2023) | 9,1 |
| EPS (2023) | 2,40 |
| EV/EBITDA (2023) | 5,7 |



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For important disclosure information, please refer to the disclaimer page of this report.

All N. Chrysochoidis Stock Brokerage I.S.S.A. research is available on the company website and FactSet.



| Summary Financials | | | | |
|--------------------------------|-------------|--------------|--------------|--------------|
| (€mn) | 2022 | 2023F | 2024F | 2025F |
| Profit & Loss Items | | | | |
| Total Net Revenues | 2.282 | 2.490 | 2.628 | 2.766 |
| EBITDA | 125 | 420 | 444 | 467 |
| Net Income | 110 | 188 | 249 | 262 |
| Cash Flow Items | | | | |
| Free Cash Flow | -93 | 21 | 81 | 186 |
| CAPEX | 242 | 200 | 200 | 110 |
| Key Metrics | | | | |
| Revenue Growth | 33,2% | 9,1% | 5,5% | 5,3% |
| EBITDA Margin % | 5,5% | 16,9% | 16,9% | 16,9% |
| Debt/(Debt/Equity) | 38,8% | 37,9% | | |
| WACC | 9,20% | 9,44% | 9,44% | 9,44% |
| EPS | 1,41 | 2,40 | 3,18 | 3,35 |
| DPS | 0,50 | 0,60 | 0,50 | 0,50 |
| Net Debt/EBITDA(x) | 2,41 | 1,97 | | |
| EV/EBITDA(x) | 5,82 | 5,72 | 5,63 | 5,35 |
| P/E (x) at year end | 10,21 | 9,06 | 6,84 | 6,49 |

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