

# Buzzi Unicem

## Accumulate

Price: €6.3

13 November 2002

Sector Cement	Market Cap €875m	Free Float 32%	Reuters Code UCMI.MI	12-Mth Range €5.5-9.7
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### Quarterly and 9-Month Results

(€m)	3Q02 reported	9M02 reported	2002E	Compared to forecast
Sales	379.9	1,119.9	1,467.9	↑
yoy % change	4.9%	4.9%	1.4%	
EBITDA	132.3	353.0	439.8	↑
yoy % change	14.6%	7.5%	-1.7%	
% margin	34.8%	31.5%	29.9%	
Pre-Tax Profit	-	223.9	274.1	-
Net Profit	-	103.1	138.3	-

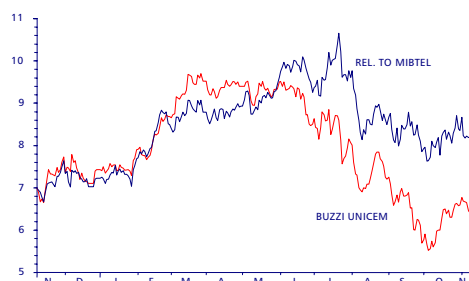
Source: UBM estimates

### Key Data

	2001	2002E	2003E
Market Price (€)	11.9	6.3	6.3
Stated EPS (€)	1.154	0.962	1.026
Adj. EPS (€)	1.292	1.032	1.156
Adj. CFPS (€)	2.224	2.031	2.111
Div/share (€)	0.230	0.23	0.25
Adj. P/E	8.8	6.1	5.4
Adj. P/CF	5.3	3.1	3.0
EV/EBITDA	4.7	3.1	2.7
EV/EBIT	6.7	4.6	3.9
No. of Shares (m)	127.2	143.8	143.8

Source: Company data, UBM estimates

### Stock Performance



Source: Datastream

	1 mth	3 mth	12 mth
Absolute %	5.2	-10.3	-5.8
Relative %	-0.8	-4.3	16.3
Average Trading Volumes:	134.3(000s)		

## Domestic Market Buoyancy

Rising volumes and prices in Italy together with a resilient trend in North America and Mexico resulted in a strong increase in the Group's 3Q02 EBITDA margin. As expected, improvements in operating profitability were, nevertheless, offset by the negative contribution of the equity consolidation of the Dyckerhoff interest.

### 3Q02 Results

Buzzi Unicem's 3Q02 results were characterised by: (i) a particularly strong domestic market where sales increased by 8.8% yoy, split between cement volumes and price increases of some 4% each, (ii) a favourable contribution from North America, where sales remained flat (although increasing by 3.4%, before currency exchanges) but EBITDA margin rose from 31.3% to 33.3%, (iii) a favourable trend in Mexico, which achieved a 1.9% yoy increase in sales and an EBITDA margin rising from 47.1% to 49.7%. Slightly better than expected, the Group's overall revenues amounted to €379.9 million (+4.9%) while total EBITDA (also benefiting from more favourable energy cost conditions) rose to €132.3 million (34.8% of sales) from €115.5 million (31.9%) in 3Q01. In contrast to the improvement achieved at operating level, 9M02 bottom line results were affected by (i) higher financial charges (€15.2 million vs. €9.6 million in 3Q01), due to increase of NFP, (ii) higher write-downs (€20.9 million vs. €1.4 million in 3Q01), (iii) higher tax rate (45.5% vs. 39.6% in 3Q01) given the non-deductibility of Dyckerhoff negative items. Indeed, 9M02 net profits declined from €120.4 million to €103.1 million

### Outlook

The Company's statement on 4Q02 is positive (particularly for Italy) while year 2003 could encounter some slowdown or consolidation ahead of a new expected upward trend in 2004. Obviously, the key issue remains on the timing over the pick-up in the German market and Dyckerhoff's recovery. The Company has also approved the merger with its subsidiary, Unimed, with operational effect from 1 January 2002.

### Investment Recommendation

Despite the still gloomy German sky and Dyckerhoff's slow recovery, we confirm our positive assessment on the Company's industrial strategy. Our Accumulate rating is confirmed, as well as our estimated fair price at approximately €9.7 per share (based on sector P/E ratios).

**Figure 1. Buzzi Unicem 3Q02 and 9M02 Results**

	3Q01	3Q02	ch.	9M01	9M02	ch.
Turnover	362	379.9	4.9%	1067.5	1119.9	4.9%
EBITDA	115.5	132.3	14.6%	328.5	353.0	7.5%
% margin	31.9%	34.8%		30.8%	31.5%	
Italy	206	223.6	8.8%	611.0	653.2	6.9%
EBITDA	61	75.7	24.2%	163.9	191.2	16.7%
% margin	29.6%	33.9%		26.8%	29.3%	
Usa	121	120.6	-0.6%	363.0	362.3	-0.2%
EBITDA	38	40.1	5.5%	110.4	110.2	-0.2%
% margin	31.3%	33.3%		30.4%	30.4%	
Mexico	35	35.8	1.9%	101.0	104.7	3.7%
EBITDA	17	17.8	7.7%	54.3	51.7	-4.8%
% margin	47.1%	49.7%		53.8%	49.4%	

Source: Company report

**Figure 2. Buzzi Unicem Est. Fair Value on P/E Ratios**

	P/E 2002E
Buzzi Unicem 2002E Adj Net Profit (€m)	130
Sector Avg (x)	10.2
Buzzi Unicem Est. Fair Value at avg sector P/E (€m)	1,329
Buzzi Unicem Current Market Cap (€m)	875
Discount to Peers	34%
BU ord. share Estimate Fair Value (€)	9.7
BU nc sav. Share Estimate Fair Value (€)	4.8

Source: UBM and JCF

**Figure 3. Buzzi Unicem Estimated Fair Value on EV/EBITDA Ratios**

	EV/EBITDA 2002E
Buzzi Unicem 2002E EBITDA (€m)	440
Sector Avg (x)	5.1
BU est. EV at sector avg EV/EBITDA ratio (€m)	2,243
Buzzi Unicem current Enterprise Value (€m)	1,386
Buzzi Unicem NFP + minorities (€m)	583
Implied Market Cap (€m)	1,660
Current Market Cap (€m)	875
Discount to Peers on Equity Value	47%
BU ord. share. Estimate Fair Value (€)	12.1
BU nc sav. share Estimate Fair Value (€)	6.0

Source: UBM and JCF

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**Key to Investment Rankings:**

This is a guide to expected total return (price performance plus dividend) relative to the total return of the stock's local market over the next 12 months:

**Buy**- expected to outperform the market by 10 or more percentage points;**Accumulate (formerly Outperformer)** - expected to outperform the market by 5-10 percentage points;**Hold (formerly Market Performer)** - expected to perform in line with the market, plus or minus 5 percentage points;**Reduce (formerly Underperformer)** - expected to underperform the market by 5-10 percentage points;**Sell**- expected to underperform the market by 10 or more percentage points.**On 3 June 2002, our investment ratings changed from Buy, Outperformer, Market Performer, Underperformer and Sell to Buy, Accumulate, Hold, Reduce and Sell, respectively.****Most Recent Recommendations:**

14 May 2002: Outperformer

08 August 2002: Accumulate

11 November 2002: Accumulate