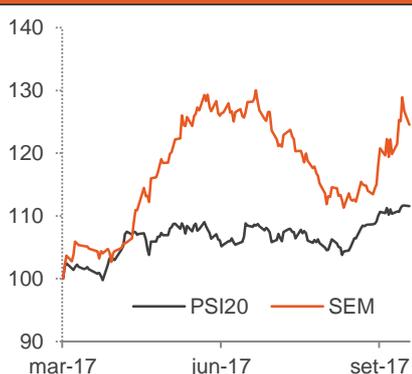


Ticker: **SEM PL**
**Recommendation: Buy**
**Share details**

Current price	16.72
Target price	21.1
52w max	17,61
52w low	10,61
1y total return (%)	47,7
3m total return (%)	-2,8
Market cap (€ million)	1.358
Free float (%)	27,9

**Financial highlights (€ million)**
**2016**

Revenue	2.075
EBITDA	440
Net profit	115
Net debt	604

**Price graph (Oct 2016=100)**


Recommendation	Date	PT
Buy	17th Oct	21.1

**Main shareholders**

Family Queiroz Pereira	68%
Bestinver	8.8%
Cimigest SGPS	3.9%

Note: data as of 16/10/2017 close

Source: Bloomberg; Research BiG; Company

**SEMAPA – SOCIEDADE DE INVESTIMENTO E GESTÃO**
**A Holding that shouldn't be so discounted...**

We initiate Semapa's coverage with a recommendation to buy and a price target of €21.1.

**Semapa's discount to its major holding (almost 70% of The Navigator Company) is a good gauge.**

Even though its valuation is not so simple, looking at the discount Semapa trades to its major holding provides us a good gauge of the stock's future. This discount has understandably been decreasing over the years, but has recently spiked to over 40%, in what we see as a good opportunity to enter the stock.

**The Cement segment is finally showing some signs of revival.** After many years of being a dead weight for Semapa, the Cement segment is finally showing some signs of revival, which is another factor that should propel the stock's price higher. Economic recovery in Portugal and Brazil are the two main factors for this revival, which should be persistent over the next years. We attribute the Cement segment an equity value of €136 million.

**Dividends are always an issue.** We expect that Semapa will keep on repaying its debt on average pace of €55 million a year, which according to our estimates gives it room to distribute dividends to its shareholders of around €55 million a year as well. At its current stock price, this would mean a dividend yield of around 3.5%.

**Analysts:**

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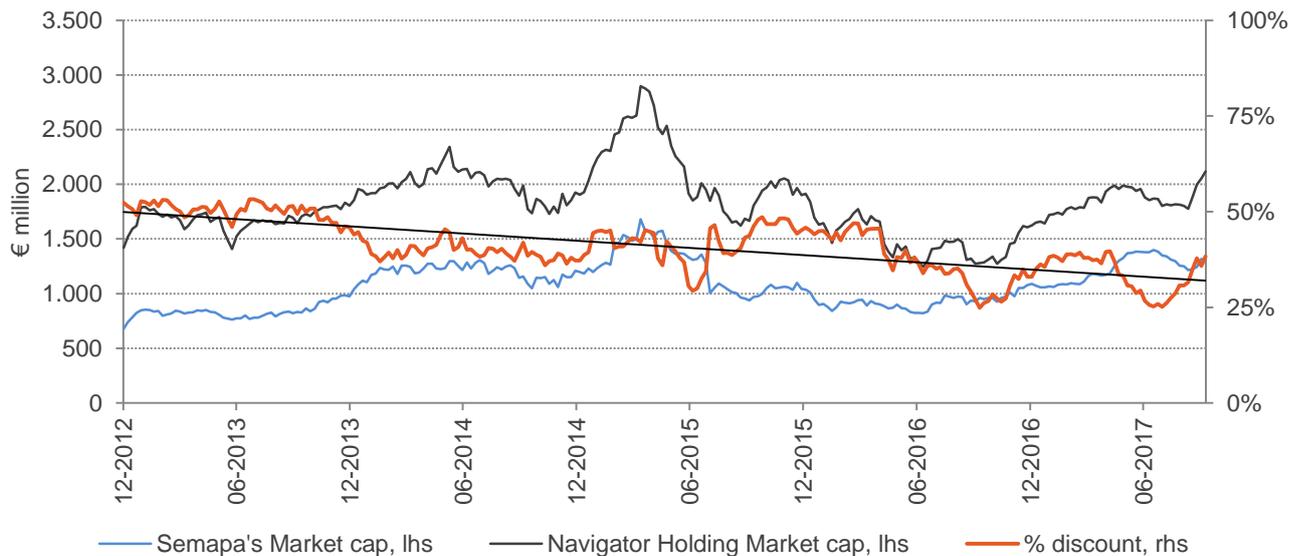
## INVESTMENT CASE

- ▲ Discount to major holding
- ▲ Revival of the Cement sector
- ▲ Valuation

### Discount to major holding

Even though Semapa's value is not only dependent on the market capitalization of its major holding (currently close to 70% of The Navigator Company), the discount that the stock trades to its participation in Navigator probably offers the best gauge about its future value. The discount with which Semapa trades to its participation in Navigator has been steadily decreasing on average over the past 5 years, which makes sense to the Holding's debt amount and cost reduction. Semapa's net debt fell from over €850 million at the end of 2012 to close to €600 million at 1H2017.

Semapa's market cap compared to main holding



The discount Semapa trades to its Navigator holdings has widened significantly over the past weeks to close than 40%. We see this discount widening as unjustified, especially at a time when the Cement segment is finally showing some signs of revival. We see Semapa's discount to its Navigator's holdings falling to close to 30% over the next year, which gives it more upside than Navigator has.

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## Revival of the Cement sector

The Cement segment has had a residual and even negative impact in Semapa's value for the past years, but this is something that is slowly changing. We don't expect Cement to be a major bullet point for Semapa's story but we attribute some value to it, in spite of its financially fragile situation.

The segment reported a small loss in 2016, with EBITDA of €85 million. The cement business is an highly cyclical one, and so will benefit from the currently undergoing economic recovery in Europe and more specifically in Portugal. In Portugal the company sold around 2 million tons of product, around half of its total annual capacity of 4 million tons. We see some upside in the Portuguese segment EBITDA, but are rather conservative about the international segments of Tunisia, Lebanon and Brazil. We attribute a fair value of close to €140 million to the segment.

## Valuation

We value Semapa through a Sum-of-the-Parts method, where we add what we consider to be the fair value of Navigator and Secil's participation, ETSA's book value, and subtract the Holding's net debt. It is important to refer that the Holding's operating expenses are almost entirely inputted to its subsidiaries, which results in a Holding's residual EBITDA.

Navigator's fair value is extracted from our price target of €5.10 for the stock. The details of which can be consulted in the The Navigator Company's initiation of coverage ("PSI20 Note – The Navigator Company Initiation of Coverage") published 14<sup>th</sup> of October. We present the key valuation and financial items for Navigator below.

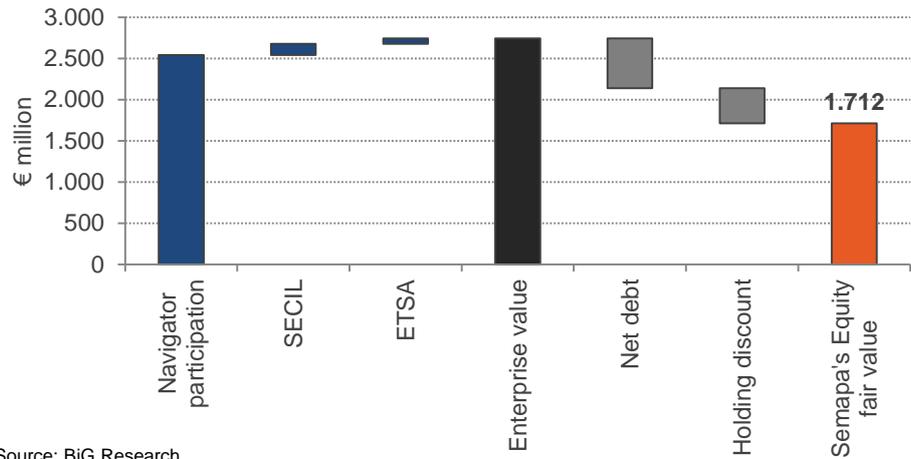
The Cement segment's operations are valued at an Enterprise Multiple to EBITDA that is reduced by a Margin of Safety of 20% to its peers. European Cement peers currently trade with an implied EV/EBITDA multiple of 8-9x, to which we apply a discount of 20% (6.4x). We annualize the segments 1H2017 EBITDA of €44 million to arrive at what we see as a conservative 2017 EBITDA of €88 million, and attribute a fair value to the segment of €136 million.

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**Semapa's Sum-of-the-Parts valuation**



Source: BiG Research

After cutting for a Holding discount of 20%, our valuation outputs a fair value per share of €21.1 and therefore we consider Semapa's stock to currently be undervalued. We recommend buying it.

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### Navigator's key valuation items

€ million	2012	2013	2014	2015	2016	2017E	2018F	2019F	2020F	Terminal
Revenues	1.531	1.549	1.573	1.653	1.618	1.672	1.710	1.786	1.804	1.814
EBITDA	386	347	325	386	388	399	410	434	437	421
D&A	114	103	112	122	167	120	121	122	115	108
EBIT	272	245	214	264	222	279	289	312	322	312
Taxes	80	72	63	78	65	82	85	92	95	92
NOPLAT	191	172	151	186	156	197	204	220	227	220
Change in Working capital	-24	23	19	-30	31	-18	-3	1	-4	0
Recurring Capex	-37	-37	-37	-37	-37	-45	-45	-45	-45	-45
OFCF	244	261	244	241	317	254	277	298	293	284
rf	3,0%									
Beta	1,0									
Market risk premium	6,0%									
Ke	9,0%									
Kd	2,0%									
Debt to EV	30%									
WACC	6,7%									
ROCE (long term median)	11,5%									
Payout ratio	80%									
Margin of safety	60%									
g	0,92%									
Discounted OFCF						250	255	257	237	215
Terminal value						3.703				
Enterprise value						4.918				
Net debt (2018)						674				
Minority interests						0				
Equity fair value						4.244				
Shares outstanding (# million)						717,5				
Liquidity discount						10%				
Price target						5,32				
P/E 2018E						19,6				
EV/EBITDA 2018E						12,0				
P/OFCF 2018E						15,3				
DY 2018E						5,0%				

Source: Company; BiG Research

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## CURRENT AFFAIRS

- ▲ Exchange offer (not so current but relevant)
  - ▲ Dividends & Debt repayments
- 

### Exchange offer (not so current but relevant)

In 2015 Semapa made its shareholders an offer to exchange their Semapa shares for 3.4 shares of The Navigator Company (Portucel back then). A outdated fact that we see as relevant because it reveals Semapa's understandable intentions. By doing this, Semapa was able to give Navigator's stock a higher free float and consequently higher attractiveness as a listed stock. We believe this is an operation that will always be on the table for as long as the price is right for Semapa (3.4x was the right price in 2015 but that will change as time goes by).

Since our price target for Semapa is currently €22.2 and our price target for Navigator is currently €5.32, we recommend Semapa's shareholders to accept such an offer only if the offered ratio is higher than 4.2x.

### Dividends & Debt repayments

Dividends are naturally an important part of Semapa's story. The Holding's main cash flow is the dividends from Navigator, which it uses to both reduce debt and distribute dividends to its own shareholders.

Semapa has been reducing its net debt at an average pace of €55 million per year, which we believe will continue to be the average pace in the future. After yearly repaying part of its debt, Semapa should continue to distribute the majority of the remaining cash flow to its shareholders through dividends. We estimate that in the long term Semapa will be able to receive on average €110 million in dividends from Navigator, which gives room for the group to distribute dividends to its shareholders of around €45-50 million after debt repayments and service, which represents average dividends per share of €0.58 (a dividend yield of 3.5% at current price of €16.8 per share). In spite of this being what we consider to be a sustainable dividend per share amount, it is highly dependent on the main shareholder's willingness in what comes to the balance between debt reduction and distribution of dividends.

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## COMPANY HISTORY & DESCRIPTION

- ▲ History
  - ▲ Company description
- 

### History

Semapa was founded in 1991 to bid for a majority stake in the privatization of Secil, a cement company. Throughout the 1990's, financed by capital increases and debt leverage, the group acquired a participation in Cimpor, expanding its position in the cement sector. After solidifying its position in Portugal, internationalization was the next expansion vector, executed with acquisitions in Tunisia and Lebanon and expansion to Angola. In 2003, Semapa bid and acquired the remaining share of Secil of about 41% for a total of around €300 million. This acquisition was the final move in the Cement sector after which the group turned to the Pulp & Paper sector.

In 2004 Semapa bid in the second privatization phase of Portucel (currently The Navigator Company), for a 30% stake in the pulp & paper company. In the same year, the group sold part of its investments in the Cement sector, effectively shifting its strategic focus from Cement to Pulp & Paper. A decision that turned out to be very much spot on since the Cement sector went to have its worst years in the following decade, whereas the Portuguese Pulp & Paper sector affirmed itself as a European leader in the sector. By the end of 2004, Semapa issued a takeover bid for Portucel, which gave it a controlling stake of 67.1% in the company. In 2006 Semapa acquired another 4.7% stake in Portucel, in its third privatization phase.

After 2006, Semapa and Portucel were engaged in a series of transactions at all levels of the holding (Parent, Cement sector and Pulp & Paper sector), from which we highlight the exchange offer, made in 2015 to Semapa shareholders in which the group offered 3.40 shares of Portucel for each share of Semapa. With the offer, the group reduced its voting rights and capital share in Portucel to 69.4% and 64.84% respectively and reduced Semapa's number of shares outstanding to 81,645,523 shares.

### Company description

Nowadays, Semapa holds 69.4% of the voting rights of The Navigator Company, 99.9% of the voting rights of SECIL Group and 99.9% of the voting rights of ETSA Group. The Holding had net debt of €603.8 in 1H2017.

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- There isn't a predefined coverage policy in regards to the selection of stocks that are subject to investment recommendations.
- Clarification of the qualitative terms implied in the recommendations:
  - Buy, expected absolute return above 15%;
  - Accumulate, expected absolute return between +5% and +15%;
  - Keep/Neutral, expected absolute return between -5% and +5%;
  - Reduce, expected absolute return between -5% and -15%;
  - Sell, expected absolute return below -15%;

The investment framework aforementioned is merely indicative and not globally strict.

- Unless otherwise specified, the price-targets of the investment recommendations issued by BiG's Research Team are valid for 12 months.
- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
- BiG may have, in the present and/or future, some commercial relationship with the companies mentioned in this report, namely providing investment advisory services.
- The records of the investment recommendations of the Research Team are provided below. The detailed external consultation of the respective performances may be provided if so requested.

PSI20 Notes in the last 12 months as of 30<sup>th</sup> of September of 2017:

	Number of Recommendations	%
Accumulate/Buy	2	66,7%
Keep/Neutral	0	0,0%
Reduce/Sell	1	33,3%
<b>Total</b>	<b>3</b>	<b>100,0%</b>

Trading Ideas in the last 12 months as of 30<sup>th</sup> of September of 2017

	Number of Recommendations	%
Profit Taking	7	63,6%
Stop Loss	3	27,3%
In Place	1	9,1%
<b>Total</b>	<b>11</b>	<b>100,0%</b>

Pair Trades in the last 12 months as of 30<sup>th</sup> of September of 2017:

	Number of Recommendations	%
Profit Taking	3	75,0%
Stop Loss	1	25,0%
In Place	0	0,0%
<b>Total</b>	<b>4</b>	<b>100,0%</b>

Source: BiG Research

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