SCREENING MEMO

TUNIS BUSINESS SCHOOL
UNIVERSITY OF TUNIS

CARTHAGE CEMENT

REALISED BY

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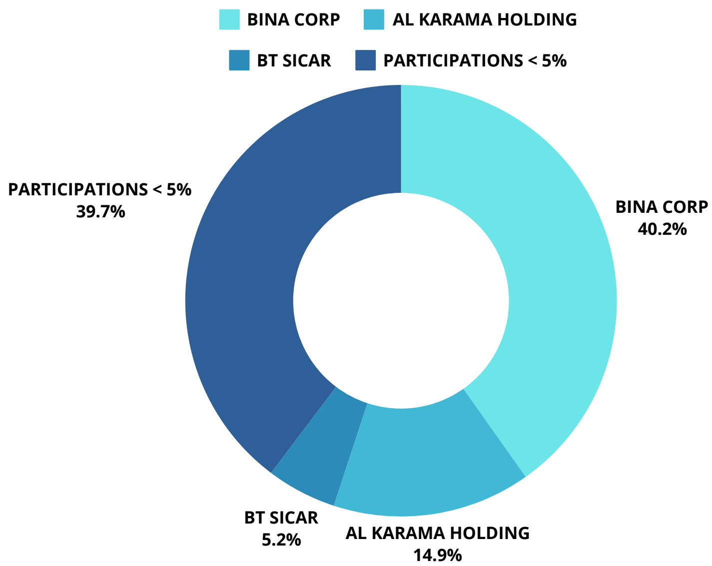
1) COMPANY PROFILE

Carthage Cement SA manufactures and markets hydraulic binders in Tunisia. The company offers Portland cement, Portland high sulfate resistance cement, clinker, and artificial hydraulic lime. It is also involved in the exploitation, production, and marketing of aggregates, including gravel, run material, ballast and cement blocks, source rock, and sharp sand; and production and marketing of ready-mixed concrete. The company was incorporated in 2008 and is headquartered in Tunis, Tunisia.

Sector Breakdown: Basic Materials -> Mineral Resources -> Construction materials -> Other construction material

Shareholders:



Company History:

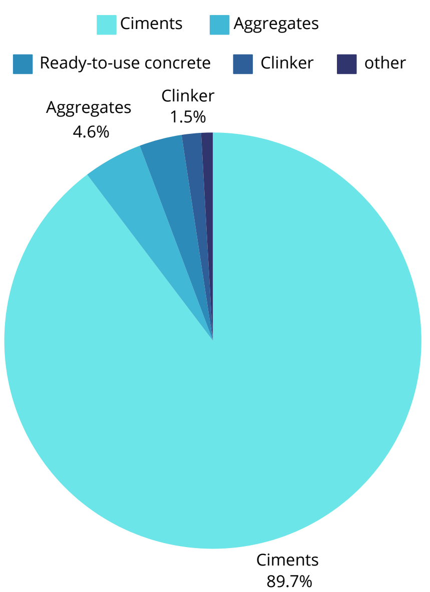
2008 — "Grandes Carrières du Nord" (GCN) company underwent a demerger. This demerger led to the creation of Carthage Cement, which took over the ownership and operation of the Jbel Ressas quarry.

1996 — The Jbel Ressas site has essential raw materials for clinker production all in one location. This strategic advantage led to the idea of creating a cement plant in 1996.

1985 — Founded by former ENIT engineer Lazhar Sta, GCN leverages his APII experience and the Sta family's industrial background since the 1970s. GCN is a leading industrial complex in aggregate mining, processing, and gravel production, thanks to its advanced technical assets.

1983 — The 218-hectare Jbel Ressas quarry was acquired from private individuals by shareholders and later became "Les Grandes Carrières du Nord" (GCN).

2) ACTIVITIES



Product description

Carthage Cement operates on 3 main activities:

1. Exploitation, production and marketing of aggregates from the Jebel Ressas site with a capacity about **12,800 tons per day.**
2. Production and marketing of ready-to-use concrete with the capacity of **about 2,600 cubic meters per day.**
3. Manufacturing and marketing of hydraulic binders with a capacity of **approximately 6,800 tons/day.**

3) COMPETITORS

Société des Ciments d'Oum El Kélil (CIOK)

Société des Ciments de Gabès (SCG)

Les Ciments d'Enfidha

Ciments de Bizerte

Comparative Analysis:

Market Share: Carthage Cement holds the largest market share at 30%, followed by CPV (25%) and Les Ciments d'Enfidha (20%).

Production Capacity: Carthage Cement leads with 2.2 million tons per year, slightly ahead of CPV's Tunisian operations (2.0 million tons).

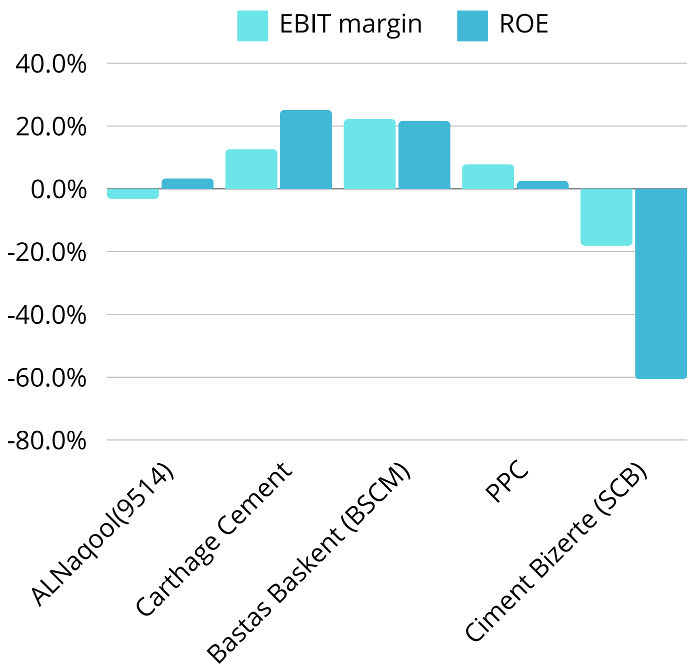
Revenue: Carthage Cement's revenue of TND 350 million is the highest among its competitors.

Net Income: Carthage Cement also reports the highest net income (TND 40 million), indicating better profitability and operational efficiency.

Geographic Reach: While Carthage Cement has a stronghold in northern Tunisia, SCG dominates the south. CPV, with its international operations, has a significant advantage in terms of expertise and market reach.

	CC	Peers
Gross Profit	201.9 M	125.4 M
Net Income to Common Margin	10.5%	15.3%
Return on Invested Capital	13.2%	4.5%
Return on Assets	5.2%	4.9%
Return on Common Equity	21.6%	6.2%
Avg Return on Common Equit...	-44.5%	5.9%

Performance Benchmark



Efficiency Benchmark

Historical Performance

	Year	2018	2019	2020	2021	2022
Key Financials	Revenue	249.588	257.87	267.482	341.059	382.172
	Revenue growth	36.8%	3.3%	3.7%	27.5%	12.1%
	EBITDA	28.411	65.639	99.385	114.762	128.583
	Net income	-75.986	-51.311	19.365	31.509	35.65
Profitability ratios	Gross Profit Margin	30,90%	43.6%	55.3%	51.1%	48.2%
	Net Profit Margin	-30,44%	-19,90%	7,24%	9,24%	9,33%
	Return on Assets (ROA)	-0,09	-0,06	0,02	0,04	0,04
	Return on Equity (ROE)	2,01	0,58	0,14	0,19	0,18
Solvency Ratio	Debt to Equity Ratio	-22,57	-10,26	5,21	3,82	3,24
	Current Ratio	0,29	0,31	0,78	0,84	0,91
	Quick Ratio	0,16	0,13	0,43	0,45	0,48
	Debt coverage	14%	10%	5%	15%	24%

Revenue increased from TND 249.588M to TND 382.172M, and EBITDA grew from TND 28.411M to TND 128.583M. Net income shifted from a loss of TND -75.986M to a profit of TND 35.65M. Profitability ratios improved with the gross profit margin rising from 30.9% to 48.2% and the net profit margin from -30.44% to 9.33%. Solvency ratios also improved, with the debt to equity ratio enhancing from -22.57 to 3.24 and the current ratio from 0.29 to 0.91.These metrics suggest Carthage Cement is well-positioned for sustainable growth and operational efficiency, making it an attractive candidate for private equity investment.

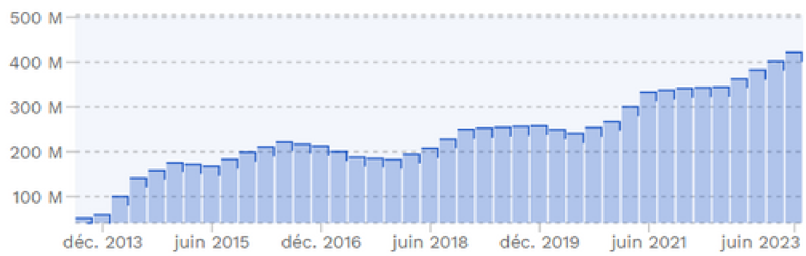
Transaction: Leveraged Buyout

What makes it a good candidate

Predictable Revenue with strong Profit Margins : (Source)

- Carthage Cement's revenue increased in each of the last 5 fiscal years from TND 249.6 million in 2018 to TND 382.2 million in 2022.
- Carthage Cement's latest twelve months revenue is TND 421.5 million

The Following graph depicts the company’s stable growth over the last 10 years even in periods of macroeconomic financial distress, Pandemic or geopolitical factors



- Carthage Cement's latest twelve months gross profit margin is 47.9%
- Carthage Cement's gross profit margin for fiscal years ending December 2018 to 2022 averaged 45.8%.

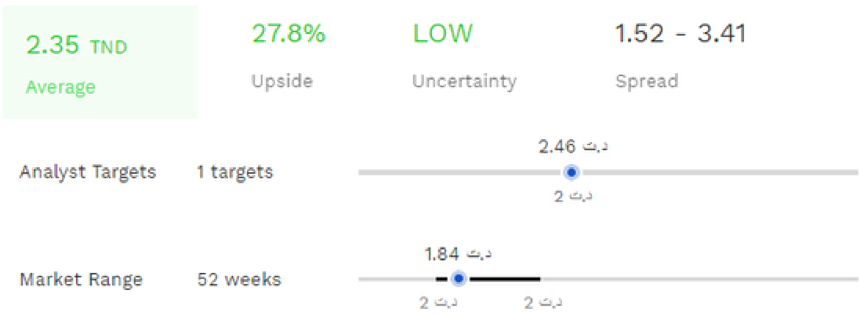
Considering the industry average which is between 20-25%, the company gross profit margins are considered impressive, especially when you compare it to other local and international player players . We have considered size, growth, and various financial metrics to narrow down the list to the ones listed below.

Gross Profit Margin Benchmarks

Name	Ticker	Gross Profit Margin
Les Ciments De Bizerte	BVMT:SCB	-1.5%
Abu Dhabi National for Building ...	ADX:BILDCO	2.7%
Mohammed Hasan AlNaqool Son...	SASE:9514	6.4%
PPC Ltd	JSE:PPC	17.7%
Bastas Baskent Cimento Sanayi ...	IBSE:BASCM	18.8%
Apex Investment Company PJSC	ADX:APEX	19.1%
Materials	SECTOR:MTRL.TN	22.1%
Sephaku Holdings Ltd	JSE:SEP	37.3%
GCC SAB de CV	BMV:GCC*	37.7%
Holcim Ecuador S.A.	GYSE:HLE	46.1%
Carthage Cement	BVMT:CC	47.9%
Qatari Investors Group QPSC	DSM:QIGD	49.9%

Attractive price:

Carthage Cement's current stock price is 1.84 TND, while analysts estimate its intrinsic value at 2.46 TND. This significant discrepancy indicates that the stock is undervalued. Conducting a leveraged buyout at this attractive price allows us to capitalize on the stock's potential for appreciation, securing a profitable investment opportunity.



Management Team Expertise

CEO

name : Brahim Sanaa
function : CEO
Background: previous CEO of ciments de Bizerte.
impact : dealing with issues like market oversupply and export challenges

CFO:

name :Slah Bouazizi
function: CFO
Background : finance degree from FSEGTs
impact: optimizing cost management and increasing revenue

CMO:

name :Maissa Romdhani
function : CMO
Background : studied Marketing and Communications at the UTM
impact : imrpove market presence and brand image .

DIS:

name : Anis Bouakez,
Function : DIS,
Background :studied (ENSI) in Tunisia.
Impact : significantly improved the company's operational efficiency and data security.

-> In the context of a LBO, such managerial efficiency becomes even more critical. Therefore, investing in companies with a proven track record of effective leadership and strategic execution is essential for success in LBO transactions.

Valuation

We employed various valuation methods and have included the calculation sheets for each method. (Please click on the link)

	Stock Price	Fair Value	Upside
5Y DCF Growth Exit	1.84 TND	2.36 TND	24.9%
5Y DCF EBITDA Exit	1.84 TND	3.41 TND	80.4%
P/E Multiples	1.84 TND	1.76 TND	-6.9%
Price / Sales Multiples	1.84 TND	2.09 TND	10.4%
EV / Revenue Multiples	1.84 TND	2.24 TND	18.5%
EV / EBIT Multiples	1.84 TND	1.62 TND	-14.4%

INVESTMENT RATIONALE

Substantial Physical Assets

Carthage Cement has significant physical assets (TND 566.6 million), which can be used as collateral to secure debt financing.

Manageable Debt Levels

The current debt level is TND 430.1 million, which, while substantial, is offset by strong asset backing and a robust equity base of TND 227.2 million

Capacity Expansion

Modern cement plants and prospective expansion plans make Carthage cement to an attractive investment with rising market demands.

ESG integration

Air Quality: Monitoring systems for bag filters and discharges.
Water Treatment: Regular analysis and monitoring of water discharges.
Noise Management: Adherence to noise reduction standards.
Waste Management: Best practices and continuous improvement.

Social responsibility

Training: Agreement with CNFCPP for staff skill enhancement.
Education Quality: Collaboration with INNORPI for certifications and standards.

VI.RISKS

Market Risks:

Market Competition: Intense competition in both local and export markets, especially from Turkish and Egyptian cement producers in Libya

Dependence on Export Markets: The company relies heavily on exports to markets such as Libya, Africa, and Europe, with significant contracts like the $70 million deal to the American market.

Price Sensitivity: The cement market is sensitive to fluctuations in raw material prices and exchange rates, which affected profit margins and overall financial health.

Financial Risks

Delayed Sale and Uncertainty: The prolonged delay in the sale of the government's shares (58.2%) to a strategic partner generates uncertainty and affects investor confidence. Despite a promising offer from the consortium Boureima Ouedraogo and CIM METAL GROUP, the sale process has been slow.

Litigation Costs: The company faces ongoing legal disputes, such as claims against FLSmidth and NLS, which could result in significant financial settlements. These disputes add uncertainty to the company's financial outlook.

Debt Management: While Carthage Cement has reduced its net debt from 412.2 million dinars in 2021 to 381.4 million dinars in 2022, it remains heavily leveraged. High debt levels continue to pose a risk, particularly in a volatile economic environment. However, the company has shown an improved cash flow generation, aiding in debt reduction.

Operational Risks

Overcapacity and Stock Management: The Tunisian cement market is characterized by overcapacity, with a production capacity of 11.5 million tonnes against a local consumption of 7.5 million tonnes. This excess capacity can lead to unsold stock and financial strain. Carthage Cement is particularly vulnerable due to contractual obligations with NLS, which requires it to maintain production levels even if sales are low.

Operational Efficiency: Ensuring continuous production efficiency and dealing with potential disruptions (e.g., equipment failure, supply chain issues) remain critical. The company's ability to pivot between local and export markets demonstrates operational flexibility.

ESG Related Risk

Environmental risk: Despite Carthage Cement's implementation of environmental sustainability policies, the persistent overuse and pollution of water in the face of current water scarcity pose significant environmental risks.

Social risk: Carthage Cement's ongoing legal disputes harm its reputation and raise doubts about its compliance and ethics, impacting trust among investors and stakeholders.

Governance risk : Carthage Cement's historical association with the former president's dictatorship perpetuates concerns regarding its susceptibility to corruption, including issues like insider trading and ethics violations.

VII.IDENTIFIED GROWTH AND VALUE ADDED

Growth Opportunities

Geographical Expansion: The $70 million export contract to the American market, with an option for an additional 500,000 tonnes, offers significant growth and market diversification for Carthage Cement. Expanding in Sub-Saharan Africa and Europe, backed by CE certification, further drives growth and strengthens market presence.
Product diversification: Introduce new product/Lines with Higher Margin.
Strategic partnership : To optimize supply chain management/ access Market.

Value add

Enhancing Operational Efficiency:
Implementing lean manufacturing principles and automations can streamline operations, reduce waste, and lower production costs.
Brand Strengthening and Marketing:
Solidifying the Carthage Cement brand through targeted marketing campaigns that highlight product quality and targeted marketing campaign.
Financial Management:
While executing the leveraged buyout, we will restructure debt to enhance financial stability and investor confidence. Additionally, we will implement stringent cost management policies to control expenses and improve profit margins.

In case of approval by screening commitee

The next steps in the deal process taken would be :

1/Preparation of due dilligence :
to gain deeper knowledge of commercial,
operational, impact and financial aspects and the the Team subsequently prepares IC memo

2/Transaction Approval at Fund IC:
meeting with the fund investment comittee : in case they approve the transaction , we move onto the next steps

3/Deal closing :
Transaction documents signed-off by portfolio
company management as part of onboarding
process. Deal signed and disbursed after all CP's are met

4/Deal Monitoring:
Collaborative approach throughout ownership phase
to accelerate, measure, and communicate impact
and value creation. Transparent and consistent
reporting is central to the Fund approach and commitment to its investors

5/Deal exit :
Achieve exit with meaningful value
creation intersecting profit with purpose.

TimeFrames and reasons :

1. Preparation of Due Diligence : Timeframe: between 4 and 20 weeks
Reasons:
Comprehensive analysis of commercial, operational, impact, and financial aspects.
Coordination among legal, financial, and operational teams.
Risk assessment and IC memo preparation.

2. Transaction Approval at Fund IC : Timeframe: no less than 14 days
Reasons:
The investment commitee reviews due diligence findings and makes a decision which typically can take more than one or two meeting.

3. Deal Closing : Timeframe: 3-6 months
Reasons:
Drafting and finalizing transaction documents.
Obtaining necessary approvals from portfolio company's management.
Ensuring all conditions precedent are met before signing and disbursement.

4. Deal Monitoring Timeframe: Ongoing (3-7 years)
Reason:
Continuous monitoring and management of operational and financial goals whilst implementing and following the value creation plan .
Regular measurement , reporting of impact and conducting of meeting with portfolio company management

5. Deal Exit : Timeframe: 6-12 months (minimum 3 months)
Reasons:
Developing and executing the optimal exit strategy.(M&A , IPO ..) and timing the exit to maximize returns
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