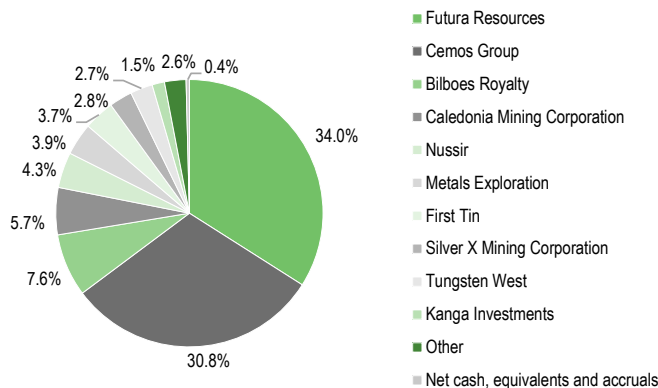


Baker Steel Resources Trust

Key takeaways from the Cemos site visit

We recently visited the Tarfaya cement grinding line of Cemos Group, one of the two largest holdings of Baker Steel Resources Trust (BSRT), which made up 30.8% of the trust's NAV as of end-September 2024. The facility's location in Southern Morocco allows it to benefit from the extensive public infrastructure investments in the region. Cemos's two major investment projects (a compact calcination unit (CCU) and second grinding line) offer the prospect of a significant increase in earnings from 2025. The business is considering, on successful completion of these investments, an IPO on the Casablanca Stock Exchange, where we believe it could command an attractive valuation.

Cemos Group was BSRT's second-largest holding at end-September 2024



Source: Baker Steel Resources Trust

Strategic focus on producing 'green' cement

Cemos's management believes that the CCU will significantly reduce the company's production costs from 2025 onwards and facilitate its growth strategy, focused on the development and marketing of low CO₂ 'green cement' products. The carbon footprint reduction will be achieved by lowering the clinker content in the cement product to as low as 45%, compared to the current 70%, through the use of alternative binders supplied by the CCU. Cemos's strategic focus on low-carbon cement is aligned with the national agenda of addressing the carbon footprint of the local cement industry.

High income potential from BSRT's two key assets

Cemos Group is one of BSRT's more mature assets, with an expected EBITDA of the Tarfaya grinding line of c €8m in 2024, according to BSRT. On completion of its two major investment projects, Cemos Group plans to adopt a progressive dividend policy, and BSRT's management earlier estimated the annual dividend potential at €3–5m. Together with the c A\$14–21m royalty and dividend income of Futura Resources (the owner of two coking coal mines in Australia) expected by BSRT's management, this represents an annual income potential for BSRT of c 20–30% of the trust's current market capitalisation (on full production ramp-up of both projects).

Investment trusts Metals and mining

30 October 2024

Price 47.00p
Market cap £50.0m
NAV £84.7m

NAV* 79.6p

*At end September 2024.

Discount to NAV 41.0%

Yield 0.0%

Shares in issue* 107.2m

*Including 700k treasury shares.

Code/ISIN BSRT/GG00B6686L20

Primary exchange LSE

AIC sector Commodities & Natural Resources

52-week high/low 56.0p 34.0p

NAV high/low 81.0p 65.9p

Gearing

Net cash and accruals at 30 Sep 2024 0.4%

Fund objective

Baker Steel Resources Trust is a closed-end investment company aiming to achieve long-term capital growth through investing in equity, loans and related instruments issued by private natural resources companies. It targets a global, concentrated portfolio of 10–20 investments. Its objective is to create value through driving the development of investee companies, as well as exploiting market inefficiencies and pricing anomalies.

Bull points

- Exposed to project development gains – not a simple beta play on commodity prices.
- Maturing portfolio, with several projects approaching mine construction or production, offering the potential to generate income or exit proceeds.
- Some downside protection is provided by BSRT's focus on realising value from project development, valuations based on consensus forecasts for commodity prices and the use of convertible debt.

Bear points

- The tough funding environment may delay project progress and/or result in fund-raising at depressed valuations.
- Risk of cost overruns due to the inflationary environment.
- High portfolio concentration makes BSRT's performance dependent on a narrow set of assets.

Analyst

Milosz Papst +44 (0) 20 3077 5700

investmenttrusts@edisongroup.com

[Edison profile page](#)

Baker Steel Resources Trust is a research client of Edison Investment Research Limited

High infrastructure spending and housing aid ahead

After peaking in 2011 at 16.1m tonnes, cement consumption in Morocco has been gradually declining and in 2022–23 stabilised at around 12.5m tonnes per year. With total production capacity of the members of the Moroccan Cement Association of over 24m tonnes per year, the Moroccan cement market is therefore characterised by significant excess capacity and some cement plants of Cemos's competitors are operating at a moderate utilisation level.

That said, this still allowed the large players to generate a solid return on equity, which for LaFargeHolcim Maroc and Ciments Du Maroc stood at 13.6% and 28.8% in 2023, respectively (with EBIT margins of over 30%). Interestingly, rather than shutting down some of the plants, major Moroccan cement companies are looking to expand capacity in certain regions. We believe that the local players currently favour a less volatile price environment (characterised by gradual cement price increases over the long run) over aggressive buying of market share through price reductions.

Prospective demand for cement in Morocco should be driven by solid economic growth of c 3%+ in the coming years (according to the latest forecasts of the International Monetary Fund), supported by the recent onset of monetary easing by the local central bank. We also note the extensive infrastructure investments in the country. For instance, Morocco will host two important sports events in the coming years: the Africa Cup of Nations in 2025 and the World Cup in 2030 (together with Spain and Portugal). The estimated cost of co-hosting the World Cup is US\$5bn and is mostly attributable to the construction and renovation of stadiums, training centres, as well as transport and infrastructure, according to a recent study by Sogécapital Gestion. We also note the latest edition of the direct housing aid (Daam Sakane) programme launched by the Moroccan government in January 2024 (covering the period 2024–28) to drive property ownership, especially for low-income and middle-class citizens (it aims to benefit 114,000 citizens per year).

Cemos Group's Tarfaya plant is benefiting from its location in Southern Morocco

The local cement market in Morocco is dominated by five major players. These include two listed companies that are part of international groups (LaFargeHolcim Maroc and Heidelberg-owned Ciments Du Maroc) and two local companies: CIMAT and Novacim. Cemos is a relatively small player in the sector, as its Tarfaya cement grinding line has a capacity of 280k tonnes per year (ie c 1.5% of total installed capacity across the Moroccan cement market) but with an ambitious growth objective.

We note that due to high transportation costs, the cement market is segmented into distinct regional markets. Cemos's Tarfaya operations (see Exhibit 1) benefit from being situated in the southern part of Morocco, given the government's emphasis on significant public infrastructure investments in Western Sahara in this large and underdeveloped region. This includes especially investments in and around Laayoune (the region's main city) and along the coast down south, where Morocco is building the Dakhla Atlantic Port, a US\$1.2bn megaproject scheduled for completion in 2028. There is also a high development potential for wind farm projects across Western Sahara, which may drive demand for concrete as a material for wind tower foundations, but also a potential alternative to steel for the construction of wind towers. Finally, OCP Group (Morocco's state-owned phosphate and fertiliser company) is developing a large power-to-X green ammonia project in Tarfaya, featuring hydrogen and ammonia plants, a 2.8GW wind farm, a 1GW solar power plant and 2.7GWh of battery storage. All the above bode well for the demand for cement in the region in the coming years. At the budgeted sales volume for 2024 of around 200k tonnes, Cemos estimates its share in the Southern Moroccan/Western Saharan market at 25%, second to Ciments Du Maroc (63%), which has 1m tonnes of annual production capacity in the region, but ahead of LaFargeHolcim Maroc (12%), which has only 200kt of local production capacity.

Exhibit 1: Cemos's Tarfaya operations



Source: Edison Investment Research

Vertical integration and capacity expansion

Compact calcination unit due to come on stream in 2025

An important project for Cemos at present is the construction of a compact calcination unit (CCU) next to the Tarfaya grinding line (scheduled for completion by end-2024 or early 2025), which will enable the company to produce its own low-CO₂ and other hydraulic binders (which represent up to 70% of production costs), as well as supplementary cementitious materials that can be used in concrete as low-CO₂ binders. This will significantly reduce Cemos's production costs from 2025 and facilitate its growth strategy focused on the development and marketing of low CO₂ 'green cement' products. The carbon footprint reduction will be achieved by lowering the clinker content in the cement product to as low as 45% compared to the current 70% through the use of alternative binders supplied by the CCU such as calcinated clay, oil shale ash and pozzolans. Cemos also sees potential to reduce the carbon footprint of the calcination process via the use of oil shale; oil shale deposits are located next to the Tarfaya site (Cemos was originally meant to be an oil shale project). Finally, we note that the electricity supplied to the site is mostly based on renewable energy, wind and solar in particular. Cemos is also preparing various quarry and mining permits for the materials used by the CCU.

Cemos's strategic focus on low-carbon cement is aligned with the national agenda of addressing the carbon footprint of the local cement industry (which contributes more than 20% of the greenhouse gas emissions in Morocco). The Moroccan standards agency is currently following the EU initiative to establish a low CO₂ cement category (expected to be approved in the coming months).

Second grinding line to become operational in 2026

Cemos plans to set up a second grinding line (which it had acquired in 2022) in the Atlas mountain region and city of Errachidia, with the plant installation to commence in 2025 and first production planned in early 2026. The company estimates the investment value for the new grinding unit with current cost at around €15m (Phase 1 Cemos Errachidia), which it can fund internally (it bought the main cement plant in 2022 for this purpose). As a result of this investment, Cemos aims to double

current production capacity to 560k tonnes pa. Cemos pursues a nimble approach to capacity expansion, favouring compact facilities over large-scale cement plants, as the former are characterised by lower capital expenditure and shorter construction time (around one to two years, vs five to 10 years for the large-scale facilities), allowing it to quickly capture regional demand as it arises. Cemos is considering further capacity expansion in the future based on the compact cement plants concept, also outside Morocco.

Considerable valuation upside potential

The expected EBITDA for the Tarfaya grinding line in 2024 stands at c €8m, according to BSRT. The company sees potential to reduce clinker costs in the best case by €5–6m per grinding line by utilising its CCU for various hydraulic binders. This would bring the annual EBITDA run rate for the first grinding line to up to €15m (in the best case and subject to full capacity use of the plants in plan), with further growth potential from the second grinding line and a new cement plant in the Atlas region. On completion of the current investments, BSRT expects Cemos to adopt a progressive dividend policy, and BSRT’s management earlier estimated the dividend potential at €3–5m per year on full ramp-up of the CCU and the second cement grinding line. This would imply a c 10–16% yield with reference to the end-June 2024 valuation of BSRT’s investment in Cemos at £26.4m, which consists of straight equity (c 24.0m shares valued at £12.6m) and convertible loan units (£13.8m), translating into a 31.1% stake on a fully diluted basis.

We believe there is a significant potential for a valuation uplift on successful execution and ramp-up of Cemos’s major investments over the next 12–18 months. One of the future development options the company is contemplating is an IPO in late 2026 or early 2027, which we believe would help further crystallise its value. The Moroccan equity market is characterised by a limited opportunity set (c 70–80 listed companies with an aggregate market cap of c £73bn). At the same time, there is a wide pool of local institutional capital (asset management, pension funds, insurance sector) with around US\$100bn of assets under management, according to the Casablanca Stock Exchange citing the Supervisory Authority of Insurance and Social Welfare (ACAPS). Based on a discussion we had with a local broker, we understand that foreign investors play a limited role in the market with a c 15% share in trading volumes and 27% in total holdings. This translates into attractive valuations of listed businesses compared to foreign peers, as illustrated by LaFargeHolcim Maroc and Ciments du Maroc, which trade at multiples that are considerably higher than those of their parent businesses (see Exhibit 2). Based on a conversation we had with a local broker, we understand that any good quality deals of US\$30–40m or more should attract local institutional capital. We believe that the value of shares offered in a potential IPO of Cemos Group could meet this threshold.

Exhibit 2: Valuations of listed Moroccan companies versus parent businesses

	P/E (x)			EV/EBITDA (x)		
	2024e	2025e	2026e	2024e	2025e	2026e
LaFargeHolcim Maroc	24.9	23.9	22.5	12.9	12.2	N/A
Ciments du Maroc	26.7	24.2	22.2	14.8	13.5	N/A
Holcim	14.8	13.5	12.4	9.1	8.7	8.2
Heidelberg Materials	9.1	8.3	7.7	6.0	5.7	5.5

Source: LSEG Data & Analytics as of 30 October 2024

The main risks to Cemos’s investment case we identified include:

- The competitive response of major players to the company’s capacity expansion and vertical integration,
- Potential technological challenges during the CCU ramp-up process, and
- Suboptimal capacity utilisation if major local demand drivers prove more limited than expected.

General disclaimer and copyright

This report has been commissioned by Baker Steel Resources Trust and prepared and issued by Edison, in consideration of a fee payable by Baker Steel Resources Trust. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2024 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.
