

Monday, November 27, 2017 | special comment

Elemental – Highlights Of 2017 Q3 Earnings Conference

Rating: neutral | current price: PLN 2.35

EMT PW; EMTP.WA | Metal Recycling, Poland

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Key Takeaways:

- Elemental Holding observes **significant improvement in market conditions in the fourth quarter of 2017**, in particular in spent auto catalyst (SAC) recycling, where price pressures have eased, and in non-ferrous metals, where the supply of metal scrap has increased after a rebound in market prices.
- Thanks to a high inventory built through 30 September 2017, quarterly **EBITDA figures after Q3** are expected to **return to the levels seen in 2016**.
- Elemental is in **acquisition talks** with two potential targets, one a Western European SAC recycler with annual sales of ca. EUR 20m and EBITDA exceeding EUR 1m, and the other a Dutch SAC and PCB (printed circuit boards) recycler with annual sales of EUR 17m and EBITDA reaching EUR 1.1m. Elemental's recent M&A deals were priced at **>7x EV/EBITDA**.
- Elemental has entered into an **investment agreement** with the state investment fund **BGK TFI**, which agreed to acquire a 49% stake in its Lithuanian subsidiary **EMP Recycling** for a price which Elemental hopes will be greater than the **6.6x EBITDA** it had paid for the 49% stake in EMP back in May. The Company hopes that, with BGK TFI's involvement in similar investment projects in the future, it will be able to secure additional funds for growth.
- After the two planned acquisitions, expected to be finalized next year, Elemental intends to focus on **optimizing its organization and financing structure**, among others by using reverse factoring. The goal is to maintain the **net debt/EBITDA ratio at 2.0x max**.
- The two planned acquisitions in the current market conditions could boost annual revenues to an estimated **PLN 1.5bn**, and widen the EBITDA margin to **7.1%**, implying a **2018 EBITDA result in excess of PLN 100m**.
- Elemental is finalizing tests on a PCB recycling line, with annual capacity of 24,000t, expected to reach a sizable utilization rate by the end of June 2018, and to improve the operating cash flow for Q2 and Q3 2018.
- Elemental estimates its market shares at **20% SAC recycling in Europe (40% in Poland)**, **5% PCB recycling in Europe (40% in Poland)**, and **20% WEEE recycling in Poland**, set to increase significantly after the two planned acquisitions.
- Elemental wants to **invest ca. EUR 10m** over 1.5 years in SAC and PCB new recycling and sampling capacity, and next, in 2019 it will consider a **EUR 20m** investment in two catalyst and PCB furnaces. The projects have potential to boost operating margins in the two segments by 1.5%-2%.

List of abbreviations and ratios contained in the report:

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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