

Thursday, August 23, 2018 | special comment

Alumetal – Forecast update

Rating: neutral | current price: PLN 51.00

AML PW; AMT.WA | Automotive Suppliers, Poland

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Better-than-expected results for Q2'18 generated by Alumetal Group and the bright outlook for Q3'18 allows us to increase this year's forecasts for the group's EBITDA to PLN 125 million (+9.7 % vs our previous forecast). In our opinion, low base in Q3'17 will help to improve EBITDA by 37% and net profit by 13% YoY. Not until Q4'18 will the company reach a higher comparative base (base-case scenario is a repetition of last year's results net of one-off events). Since the group does not have any major investments in sight, we may as well expect that the dividend in 2019 will be higher than the forecast figure (+48% vs current forecasts), which implies Dyield'19 at 7.7%. We reiterate our "neutral" rating for Alumetal Group (the current median for industrial companies observed by us, valuation P/E'18 12.6x EV/EBITDA'18 7.2x).

Summary of the press conference presenting the group's results:

- This year Alumetal plans to sell approx. 200 thousand tons, and the management board focuses on maximizing the sales volumes. The demand from the automotive industry remains strong. Logistics pose a challenge, in particular,

the freight capacity of transportation companies on the market.

- The management board pointed out that H1'18 was very successful due to high margins achieved in the period from February till May (at that time margin exceeded EUR 400 per ton compared with the long-term margin of EUR 338 per ton). Contracts concerning Q3'18 were signed mainly in April and May, which is likely to translate into a successful Q3'18 as regards margins. The drop in margin to EUR 349 per ton was due to the falling prices of the 226 aluminum alloy, as the management board explains.
- At present, Alumetal incurs annual costs of gas and electricity at approx. PLN 60 million (4% of total costs). In May the company bought electricity needed for 2019. So far, approx. 60% of gas for 2019 has been purchased as well. According to our estimates, the costs of energy-producing raw materials in 2019 may go up by PLN 3.7-4.5 million.
- The management board assumes that in the coming years the company will be able to pay dividend totalling 70% of net profit. Apart from the investments taking place in the plant of master alloys in Gorzyce and the modernization of the plant in Kęty, at present the group does not plan any major investments.

Revised forecasts for Alumetal Group for 2018-2019

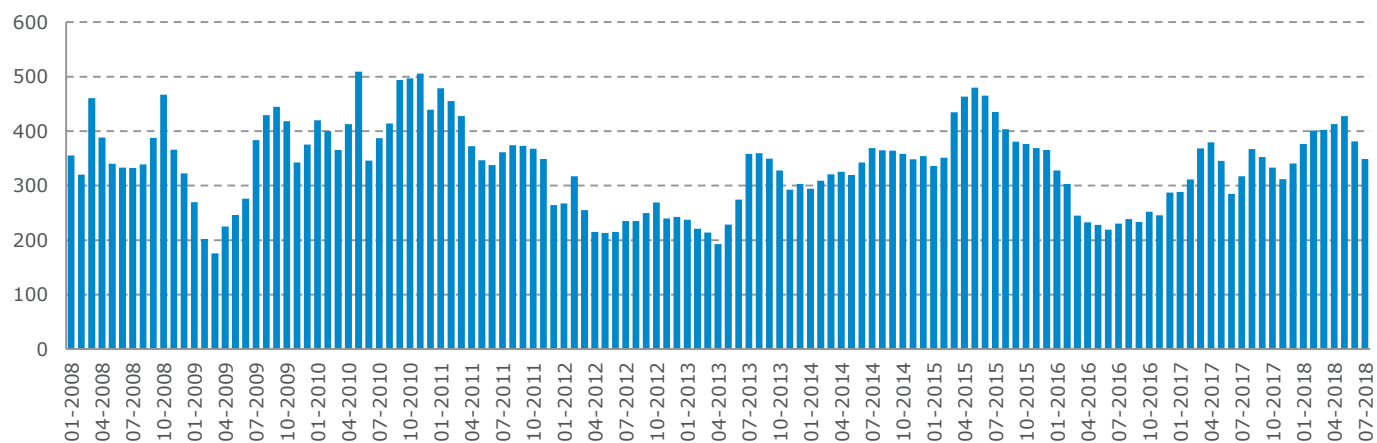
(PLN m)	new forecast		old forecast		change	
	2018E	2019E	2018E	2019E	2018E	2019E
Revenue	1,733.1	1,764.7	1,718.5	1,720.6	+0.8%	+2.6%
EBITDA	125.1	120.1	114.1	113.3	+9.7%	+6.0%
Net profit	85.5	78.2	81.0	74.5	+5.5%	+5.0%
DPS (PLN)	2.92	3.93	2.92	2.66	0.0%	+47.7%
Net debt	128.6	134.3	136.2	122.5	-5.6%	+9.6%

Results and financial ratios of Alumetal Group in 2011-2019F

(PLN m)	2011	2012	2013	2014	2015	2016	2017	2018E	2019E
Price (PLN)	51.00	51.00	51.00	51.00	51.00	51.00	51.00	51.00	51.00
P/E	17.7	22.6	21.7	13.2	10.0	8.6	11.0	9.1	13.0
EV/EBITDA	14.1	16.1	15.7	10.5	7.7	7.5	9.4	7.2	7.6
DYield	0.0%	0.0%	0.0%	2.7%	3.8%	5.0%	5.7%	5.7%	7.7%
Net debt / EBITDA	1.8	1.4	1.3	0.6	0.4	0.8	1.4	1.0	1.1
P/BV	5.9	5.1	4.4	2.4	2.0	1.8	1.5	1.4	0.0
P/(BV-goodwill)	5.9	5.1	4.4	2.4	2.0	1.8	1.5	1.4	0.0
Revenue	811.7	844.6	1,015.3	1,235.3	1,441.9	1,271.8	1,456.2	1,733.1	1,764.7
change (%)	-	4.0%	20.2%	21.7%	16.7%	-11.8%	14.5%	19.0%	1.8%
EBITDA	63.0	52.9	54.0	78.3	106.6	115.9	97.0	125.1	120.1
margin (%)	7.8%	6.3%	5.3%	6.3%	7.4%	9.1%	6.7%	7.2%	6.8%
EBIT	55.8	39.3	37.1	59.0	86.4	92.7	68.9	94.1	87.2
margin (%)	6.9%	4.7%	3.6%	4.8%	6.0%	7.3%	4.7%	5.4%	4.9%
Financing activity	-5.7	-2.0	-0.6	3.6	-6.2	1.1	-1.4	-2.0	-6.5
Net profit	43.9	34.4	35.8	58.9	77.7	89.9	70.7	85.5	78.2
Net debt	112.1	72.1	70.2	45.4	46.7	94.1	131.7	128.6	134.3
Sales volume (thn tonne)	88.1	99.4	126.9	156.1	164.8	159.3	176.0	200.3	200.0
Average aluminum price (PLN/t)	7,689.9	8,145.2	6,691.6	7,278.4	7,216.6	6,738.1	7,882.5	8,158.6	8,172.0
Average sales per tonne (PLN/t)	9,213.8	8,497.0	8,000.7	7,913.6	8,749.3	7,981.8	8,272.6	8,651.5	8,825.8
EBITDA/t	0.715	0.532	0.426	0.502	0.647	0.727	0.551	0.625	0.601
(Gross profit + D&A)/t	1.036	0.746	0.626	0.790	0.941	1.000	0.876	0.732	0.739

Source: Alumetal, E – estimates by Dom Maklerski mBanku,

Processing margin on the basic alloys offered by Alumetal (EUR per ton)



Source: Alumetal, Dom Maklerski mBanku

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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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.

mBank S.A. did not issue any recommendations for Alumetal in the 12 months prior to this publication.

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