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Elemental – 2018 Q3 Results

Rating: neutral | current price: PLN 1.19

EMT PW; EMTP.WA | Metal Recycling, Poland

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Elemental's reported 2018 Q3 EBITDA value came in line with our estimate, however note that it was achieved thanks to a one-time boost of PLN 2.6m resulting from charge reversals; the adjusted EBITDA shows a substantial miss, and it is flat over the year-ago period, when profits were relatively weak. Based on ytd performance, we expect the FY EBITDA analysts' consensus to be set in the range of PLN 60-65m, with expected net profit at PLN 30-35m – targets below our own current estimates.

At PLN 427.9m, revenue for the third quarter fulfilled our expectations and market estimates.

EBITDA showed a 4.2% beat relative to our estimate at PLN 17.5m, but after adjustment for a PLN 2.6m one-time gain the beat turns to a miss and recurring EBITDA shows flat growth from Q3 2017.

Financing activity generated a ca. PLN 0.8m higher-than-expected loss for Elemental in Q3, due among others to negative FX differences.

Net profit was weighed down vs. our forecast by minority interests in the amount of PLN 2.6m. The consensus forecast range for the 2018 Q3 bottom line was PLN 7-9.8 million.

Elemental generated operating cash flow of PLN 2.4m in Q3 2018 (vs. PLN -2.2m in the same period in 2017), a substantial drop compared to the previous quarters when cash flow was reinforced by a new PCB recycling installation at the facility in Bydgoszcz. Net debt increased by PLN 15.2m during the third quarter, ending at PLN 142.9m (2.4x 12M EBITDA).

Elemental achieved 86% of our FY2018 revenue forecast in the year to September 30th, 2018, but with the actual EBITDA and net profit figures fulfilling our FY estimates at the disappointing rates of just 69% and 54%, respectively, this implies a need to lower our expectations to ca. PLN 60-65m EBITDA and PLN 30-35m net profit.

2018 Q3 actuals vs. expectations

(PLN m)	Q3'18	Q3'17	change	Q3'18E	differ.	2018E	2017	change	YTD
Revenue	427.9	343.3	24.6%	425.9	0.5%	1,450.3	1,394.9	4.0%	85.8%
EBITDA	17.5	14.8	18.0%	16.8	4.2%	70.0	62.2	12.5%	69.0%
EBITDA margin	4.1%	4.3%		3.9%	-	7.5%	4.5%	-	
EBIT	14.8	12.5	19.0%	13.7	8.3%	60.7	52.7	15.1%	66.5%
Net income	7.9	7.8	0.6%	9.8	-19.6%	42.4	24.8	71.2%	54.3%

Source: Elemental, E - estimates by Dom Maklerski mBanku;

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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