

Friday, August 7, 2020 | research report

Stalprodukt: buy (new)

STP PW; STP.WA | Metals, Poland

Miner-Turned-Recycler Worth Your Money

By the end of 2020, Stalprodukt is set to close its biggest zinc mine, the Olkusz-Pomorzany facility which to date has supplied more than 70% of concentrate feedstocks, as it switches over to producing recycled zinc in a new plant, opened at the end of 2019, with a target capacity equivalent to 30% of annual production, opting to buy the remaining concentrates from external buyers. According to our calculations, if the new recycling plant can reach a capacity comparable with that of the leading European recycler, Befesa, it can generate additional annual EBITDA for Stalprodukt in the range of PLN 120-175 million. The profitability of zinc recycling is not subject to the same price risks as production from mined ores, where margins fluctuate depending on current trends in global metal markets. As a result, we believe Stalprodukt's valuation will eventually line up with those of its peers (13.5x 2020-22E P/E, 7.4x EV/EBITDA). The Polish company maintains a healthy balance sheet (with an expected net cash position of PLN 50 per share at the end of FY2020), and it has robust cash generation ability, reflected in over-15% FCF/EV ratios forecast in 2020 and 2021. This year, Stalprodukt is benefitting from upward-trending prices in world zinc markets and improved smelter profits. Using DCF analysis and relative valuation, we set our 9-month target price for STP at PLN 336.15 per share, and we initiate coverage of the Company with a buy recommendation.

The Future is Recycling

Stalprodukt's new recycling facility uses the Waelz process to recover zinc from electric arc furnace (EAF) steel dust (the plant can process up to 200,000 tonnes of steel dust a year). The dust is sourced from domestic suppliers, who can deliver approximately 55,000t of EAF dust annually, and from Western Europe (mainly Germany). In 2020, Stalprodukt expects to recycle about 150kt of EAF dust to make an estimated 32-48kt of zinc (the target output is 42-64kt per year). If we consider that Befesa, whose European facilities process 495kt of steel dust a year, in the last two years earned EUR 140-200 on average per quarter on each tonne of recycled dust, this would indicate that, at comparable performance levels, Stalprodukt could generate between PLN 120m and 175m in additional annual EBITDA from its zinc recycling plant, which is the only one of its kind in Poland.

Wrapping Up Capital-Intensive Investments

Stalprodukt increased capital expenditures in the 2018-2019 period as it set about to perform smelter upgrades, install the new zinc recycling capacity, and renovate a building in Krakow where it plans to open a five-star hotel. As these investments slowly wrap up, in 2020 and 2021 the Company expects CAPEX to decrease to PLN 120-150m a year.

Strong Balance Sheet = Dividends?

According to our calculations, Stalprodukt's current cash position allows it to repurchase all free-floating shares without causing the net debt/EBITDA ratio to rise more than to 0.2x at the end of 2020. Alternatively, if the Company were to offer cash dividends from yearly profits, the dividend yield at the current level would reach a 11-12%.

(PLN m)	2018	2019	2020E	2021E	2022E
Revenue	3,956.7	3,816.3	3,159.4	3,174.5	3,269.4
EBITDA*	436.0	396.6	324.3	354.4	329.5
EBITDA margin*	11.0%	10.4%	10.3%	11.2%	10.1%
EBIT*	287.0	228.9	165.6	186.1	167.9
Net profit*	259.9	162.9	117.6	131.3	117.6
P/E*	4.0	6.4	8.8	7.9	8.8
P/CE	2.5	3.3	3.8	3.5	3.7
P/B	0.4	0.4	0.4	0.4	0.4
EV/EBITDA*	2.3	2.6	2.7	2.3	2.4
DPS	4.38	6.37	0.00	8.43	11.76
Dividend Yield	2.4%	3.4%	0.0%	4.5%	6.3%

*Adjusted figures

Current Price	PLN 186.00
Target Price	PLN 336.15
Market Cap	PLN 1.0bn
Free Float	PLN 0.4bn
ADTV (3M)	PLN 1.1m

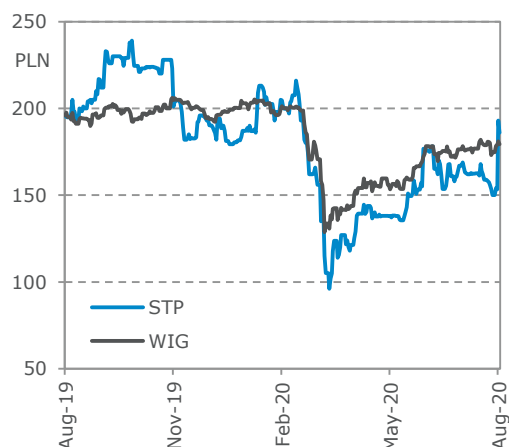
Ownership

STP Investment	32.78%
Arcelor Mittal Poland	19.10%
Stalprodukt Profil	10.39%
Others	37.73%

Business Profile

Stalprodukt is a Polish manufacturer of electrical steel, with 150,000 tonnes annual capacity, as well as making zinc in two smelting facilities with a combined capacity for 180,000 tonnes per year. The Company's steel mix also includes cold-formed sections, road barriers, and steels service. From 2021, after the planned closure of its Olkusz-Pomorzany zinc mine on 31 December 2020, Stalprodukt plans to source zinc concentrates from external buyers and in part also from a new steel dust recycling facility opened in 2019.

STP vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
Stalprodukt	336.15	-	buy	-

Company	Current Price	Target Price	Upside
	186.00	336.15	+80.7%

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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%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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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 did not issue any recommendations for Stalprodukt in the 12 months prior to this publication.

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