

Friday, March 5, 2021 | update

## Stalprodukt: buy (reiterated)

STP PW; STP.WA | Metals, Poland

### Reaping Rewards of Metals Rally

Stalprodukt is set to deliver strong 2021 first-half earnings, driven by rising prices of electrical steels, underpinned by growing investment in renewable energy and electric vehicle production and charging infrastructure. On top of that, world zinc markets lately have shifted sharply upwards amid expectations of a recovery in the automotive sector (transport accounts for 25% of overall zinc use) and rising investment in infrastructure (over 50% of total use). Stalprodukt closed its last zinc mine in December 2020 after it reached the end of its useful life, but the ores extracted up until the closure will continue to provide vertical integration benefits until mid-2021 (ore processing facilities are to stay operational until the summer). Last year, Stalprodukt also completed an electrolysis tank house that boosted its zinc smelting capacity by 13% while reducing smelter costs (through the elimination of 75 FTEs and a 2% reduction in electricity use). Having completed a five-year capacity-building process, and ended FY2020 with cash per share of PLN 50, at the beginning of May 2021 Stalprodukt is likely to declare its first dividend in a while (we expect DPS of PLN 11.66). STP stock has soared 70% since we issued our buy call in early December 2020, but we still see upside potential of at least 20%. After revising our models upwards to assume higher 2021 sales volumes for zinc and higher average prices for metals and electrical steels, we keep our buy call for STP with the target price raised from PLN 370.99 to PLN 397.79.

### Overlooked Value of Waste-as-a-Resource

Stalprodukt operates a Waelz recycling plant which recovers zinc from electric arc furnace (EAF) steel dust, considered hazardous waste. With annual capacity for up to 200,000 tonnes of dust, the plant is the only one of its kind in Poland. Whereas other companies that have invested in technology to turn hazardous wastes into commercial products (Befesa, Mo-BRUK) tend to be valued at upwards of 10x 2021E EBITDA, Stalprodukt today gets less than 4x expected earnings.

### Moving Up to mWIG40

Stalprodukt is about to be promoted to the mWIG40 index with a weight of 1.07% at the 19 March benchmark revision by the Warsaw Stock Exchange.

### 2020 Q4 Results

Stalprodukt generated stronger-than-expected recurring figures in Q4 2020, with EBITDA registering a 4% beat and net profit coming 39% ahead of our estimate. An earlier preview of fourth-quarter earnings sent STP stock lower because of weak-looking results, but the final release shed light on one-time charges that weighed profits down to the tune of PLN 15m.

(PLN m)	2019	2020	2021E	2022E	2023E
Revenue	3,816.3	3,320.4	3,852.5	3,471.5	3,382.9
EBITDA (adj.)	396.6	378.2	440.9	446.5	389.7
EBITDA margin (adj.)	10.4%	11.4%	11.4%	12.9%	11.5%
EBIT (adj.)	228.9	211.4	271.6	277.2	227.1
Net profit (adj.)	162.9	162.7	198.8	203.1	165.2
P/E (adj.)	11.0	11.0	9.0	8.8	10.9
P/CE	5.8	5.4	4.9	4.8	5.5
P/B	0.7	0.6	0.6	0.6	0.6
EV/EBITDA (adj.)	4.5	4.2	3.6	3.1	3.4
DPS	6.37	0.00	11.66	17.81	21.84
Dividend Yield	2.0%	0.0%	3.6%	5.5%	6.8%

Current Price	PLN 321.50
Target Price	PLN 397.79
Market Cap	PLN 1.8bn
Free Float	PLN 0.7bn
ADTV (3M)	PLN 2.2m

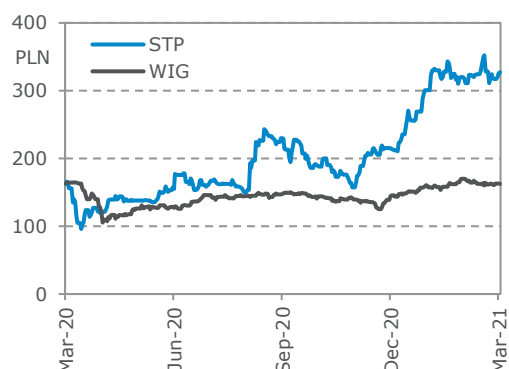
### Ownership

STP Investment	28.19%
Arcelor Mittal Poland	19.10%
Stalprodukt Profil	10.39%
FCase Sp. z o.o	5.38%
Others	36.94%

### About

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. After the closure of the last zinc mine in December 2020, from 2021 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	397.79	370.99	buy	buy

Company	Current Price	Target Price	Upside
Stalprodukt	321.50	397.79	+23.7%

Forecast Update	2021E	2022E	2023E
EBITDA (adj.)	+9.5%	+3.5%	+5.0%
Net profit (adj.)	+23.6%	+7.6%	+12.1%
CRGO (PLN/t)	+6.7%	+2.3%	0.0%
Zinc (PLN/t)	+4.0%	0.0%	0.0%
Lead (PLN/t)	+5.3%	0.0%	0.0%
CRGO Vol. (kt)	0.0%	0.0%	0.0%
Zinc Vol. (kt)	+9.6%	-2.2%	0.0%
CFS Shapes (kt)	-1.0%	-1.1%	-1.2%

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#### Wyjaśnienia użytych terminów i skrótów:

#### 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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 This recommendation was first disseminated on March 05, 2021, 8:25 AM.

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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 issued the following recommendations for Stalprodukt in the 12 months prior to this publication:

recommendation	buy	buy
date issued	2020-12-08	2020-08-07
target price (PLN)	370.99	336.15
price on rating day	210.50	186.00

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