Mytilineos

Financial and operating update

Resilient margins protect profitability

Industrials

Mytilineos's H120 results proved that despite the challenging environment the metallurgy, power and gas industries are facing, the company's strategy is resilient and capable of withstanding current headwinds. While H120 EBITDA fell by 17% versus H119 to €145m, the power and gas business EBITDA increased by 41% to €71m. This business segment was a key driver in offsetting the impacts of COVID-19 on results. Net debt was also reduced to €477m, despite Mytilineos's ongoing investment programme, which is in full deployment, and the company keeping its dividend distribution. Beyond 2020, growth of the renewable and supply businesses as well as the commissioning of a new CCGT plant should provide a boost to profits. Our updated blended valuation is €13.0/share.

Year end	EBITDA* (€m)	Net income** (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	284	141	0.99	0.36	9.6	3.7
12/19	313	145	1.01	0.36	9.4	3.7
12/20e	310	139	0.97	0.34	10.0	3.5
12/21e	332	164	1.15	0.40	8.5	4.1

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Net income is shown after minorities.

Power and gas contributed 49% of group EBITDA

In H120 the power and gas business unit proved the importance of an integrated business strategy. As electricity demand decreased due to lockdown measures implemented as a response to COVID-19, the business unit increased its profitability by 41% compared to H119, generating EBITDA of €71m. This was possible due to Mytilineos's ability to acquire low spot price natural gas volumes and supply it at highly competitive prices.

Synergies from integrated business proving valuable

COVID-19 had a serious impact on economic activity and brought instability and uncertainty to global markets. However, the pandemic brought to light Mytilineos's structural advantages and natural hedges. Mytilineos managed to mitigate the unprecedented turbulence brought by this pandemic with turnover hit, but margins remaining resilient. The metallurgy business unit saw weaker prices; however, it benefited from lower operating costs. Metallurgy's new cost optimisation and refinery improvement programme Hephaestus is also in progress and scheduled to be completed by the end of 2021. At the same time, the new 826MW H-Class CCGT, high efficiency plant is expected to be commissioned in Q421.

Valuation: Blended valuation of €13.0/share

Following the H120 trading update, we have revised our forecasts with FY20 EBITDA increasing by 10% to €310m. Based on our updated FY20 estimates, the median result of our analysis indicates a value of €13.0/share. Our DCF-based valuation currently stands at €14.0/share and the EV/EBITDA multiple valuation has increased to €12.0/share due to higher profitability estimates and market valuations of Mytilineos's wind power and RSD + SES peers. Our valuation implies c 30% upside from current levels.

23 October 2020

Price	**€9.7**
Market cap	**€1,390m**

Net debt (€m) at 30 June 2020	477
Shares in issue	142.9m
Free float	73.4%
Code	MYTI
Primary exchange	ASE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	9.6	23.5	(4.4)
Rel (local)	12.4	31.4	37.2
52-week high/low		€10.33	€5.01

Business description

Mytilineos is a leading industrial company with international presence in all five continents. The company is active in metallurgy, power and gas, sustainable engineering solutions and in renewables & storage development, operating via a unique synergistic business model.

Next events

9 months trading update	4 November 2020

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Edison profile page

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Overcoming macroeconomic headwinds

Despite the challenging environment the metallurgy and power and gas industries are facing globally, Mytilineos's H120 EBITDA only fell by 17.2% compared to H119, to €145.1m. The power and gas business unit was a key driver in offsetting the impact of COVID-19 on overall financial performance, with the business unit's EBITDA increasing from €50.3m in H119 to €71.0m in H120, mainly due to a higher spark spread (+36.5%). Consolidated net profit stood at €69m versus €81.6m during the same period of 2019. Net debt was reduced from €530m in Q120 to €477m in Q220, while net debt to EBITDA ratio was kept at 1.69x despite the company's ongoing investment programme, which is in full deployment. Cash stood at €606m by the end of the period despite the €300m early bond repayment in June 2020 (originally set to expire in June 2022). The company has no major debt maturities until the end of 2024. Beyond FY20, further growth is expected from the renewable and supply businesses, additional cost reductions and the anticipated commissioning of a new CCGT plant (Q421) should provide a boost to profits.

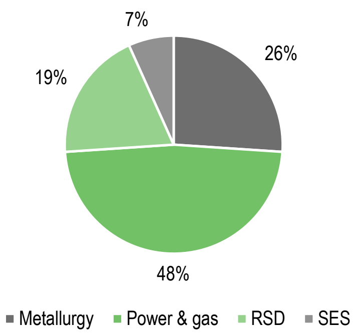
Exhibit 1: Key financial figures H120 versus H119

	H120	H119	H120 vs H119
Turnover (€m)	927	991	-6%
EBITDA (€m)	145	175	-17%
Earning after tax and minorities (€m)	69	82	-15%
EPS (€)	0.485	0.571	-15%
Net debt (€m)	477	422	13%
EBITDA margin (%)	16%	18%	-11%
EATam margin (%)	7%	8%	-9%

Source: Mytilineos, Edison Investment Research

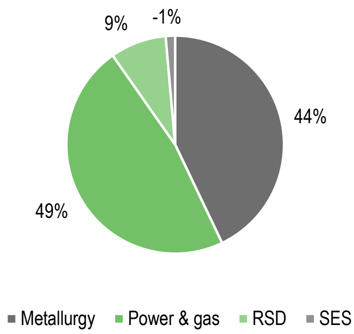
COVID-19 has had a serious impact on economic activity and brought instability and uncertainty to global markets. Despite this, Mytilineos managed to mitigate the unprecedented turbulence brought by the pandemic. The pandemic brought to light Mytilineos's structural advantages and natural hedges, reinforcing its position as a resilient and flexible operator within its different business units, setting the foundations for further growth in the future. The company is targeting to double EBITDA by 2025 with more than 40% EBITDA contribution to come from energy transition initiatives.

Exhibit 2: H120 turnover breakdown by business unit



Source: Mytilineos, Edison Investment Research

Exhibit 3: H120 EBITDA breakdown by business unit



Source: Mytilineos, Edison Investment Research

On the ESG front, the company continues to score highly with industry-leading ESG rating agencies as it maintains its commitment to significant global sustainable development initiatives such as UN Sustainable Development Goals and the CDP (formerly known as the Carbon Disclosure Project).

The MSCI index quarterly review is due in November 2020 and given the current weight of the company in the Athens Stock Exchange, a potential inclusion in the index would allow Mytilineos to access a broader number of investors.

Metallurgy operations remain at full capacity

Despite the weaker pricing environment, the metallurgy business unit has demonstrated strong resilience as operations continued, supported by the cost-optimisation initiatives. These resulted in a production cost decrease of c 25% in alumina and c 20% in aluminium compared to H119. At the same time, the decrease in metals' prices affected the business unit turnover, which stood at €242m, down 18% versus the same period of 2019, while EBITDA in H120 decreased to €64m compared to €92m in H119.

The new cost and productivity competitiveness programme, Hephaestus, is in progress with some delays due to the effects of the pandemic on logistics and transport of equipment and is scheduled to be completed by the end of 2021. Cost optimisations from Hephaestus target €35m in recurring EBITDA benefits.

Power and gas becoming the highest contributor to profitability

During the first half of 2020 the power and gas business unit proved the importance of an integrated business strategy. As electricity demand decreased versus the same period of 2019 due to COVID-19 and lockdown measures, the business unit gained market share while posting a profitability increase. While the turnover was €444m in H120 versus €461m in H119, EBITDA increased by c 41% from €50m to €71m. The increase was possible due to the ability of Mytilineos's trading business to acquire natural gas at low spot prices and supply it at highly competitive prices on the domestic market. Mytilineos has a long experience in the supply of natural gas from a wide network of large international suppliers and benefited from current low market prices, accounting for more than 40% of natural gas imports in Greece. As a result, the cost of gas supply for Mytilineos was significantly lower than the average market price in Greece in H120.

Despite reduced electricity consumption in Greece, the total power generation of Mytilineos' thermal and renewable energy plants remained stable overall at 2.2TWh in the first half of 2020. With regard to the electric power and natural gas supply, Protergia, Mytilineos's electricity and natural gas unit, increased its market share to 7.7% in June 2020, steadily strengthening its market position. The construction of the new 826MW H-Class CCGT, high efficiency plant is advancing according to schedule and is expected to be commissioned during Q421. It will contribute to Greece's transition to an energy mix that has a smaller carbon footprint.

RSD benefiting from the sale of solar park portfolio in Greece

The new renewables and energy storage development (RSD) business unit registered a turnover and EBITDA of €179m and €13m respectively in H120 compared to €72m and €3m in H119. The business unit conducted its first build-operate-transfer (BOT) project sale of a 47MW solar park portfolio in Northern and Central Greece, for a total consideration of €45.8m in Q120. This transaction is the first in a total pipeline of c 600MW in solar projects to be developed, constructed and disposed of within the next 18–24 months. The RSD business unit is well placed to capitalise on the international trend of increasing installed capacity of solar projects.

SES: The new business unit focused on energy transition

The year 2020 is one of transition, as the EPC business unit is being transformed into Sustainable Engineering Solutions (SES) and is expanding into sustainable development infrastructures, while continuing to pursue opportunities in the construction of thermal plants and selected construction projects. The new business unit is now also focusing on projects such as solid and liquid waste management, hybrid and off-grid energy projects, energy upgrade projects and innovative first-of-a-kind energy projects (such as hydrogen projects).

In H120, performance was weaker with turnover of €62m. This is mainly due to the effects of COVID-19 pandemic that caused delays in the execution of existing projects while also postponing the signing of new ones.

Valuation and estimates

In this note we update our valuation and estimates taking H120 results into consideration. Exhibit 4 shows our changes to forecasts versus our previous note.

Exhibit 4: Edison changes to forecasts

Key financial figures	Actual	New		Old		Difference	
	2019	2020e	2021e	2020e	2021e	2020e	2021e
Turnover (€m)	2,256	1,901	2,143	2,124	2,644	-10%	-19%
EBITDA (€m)	313	310	332	282	339	10%	-2%
Earnings after tax and minorities (€m)	145	139	164	133	170	5%	-3%
EPS (€)	1.014	0.972	1.149	0.928	1.189	5%	-3%
Net debt (€m)	421	524	612	528	612	-1%	0%
EBITDA margin (%)	14%	16%	15%	13%	13%	23%	21%
EATam margin (%)	6%	7%	8%	6%	6%	17%	19%

Source: Mytilineos, Edison Investment Research

We value Mytilineos using a blend of DCF and peer group EV/EBITDA multiples by division, arriving at a combined valuation of €13.0/share. Our valuation implies c 30% upside to current share price levels. This is supported by management's view on share price weakness as Mytilineos has implemented its share buyback programme with more than 3.6m shares acquired (c 2.5% of share capital) and c €30.1m spent on the programme since its announcement on 1 June 2020 until the time of writing.

Peer-based valuation

Despite an increase in profitability and the positive impact on the valuation from the upgrade in our FY20 EBITDA forecast, it has been largely offset by the lower valuation multiples of the metallurgy and gas-fired power plant peers. We have also observed an increase in valuations for wind power peers and RSD + EPC businesses, but given their lower contributions to overall EBITDA, the impact did not result in a higher total enterprise value. Overall, based on the EV/EBITDA approach, we arrived at a valuation of €12.0/share, a 10% increase over our previous estimate of €10.9/share.

Exhibit 5: Valuation benchmarking

FY20e (€m)	Implied EV (€m)	Forecast EBITDA (€m)	Applied multiple EV/EBITDA (x)
Metallurgy	760	129	5.9
Power & gas	1,082	146	7.4
Gas-fired plants	433	71	6.1
Wind	404	40	10.2
Supply	245	35	7.0
RSD + SES	347	35	10.0
Total EV	**2,189**	**310**	**7.1**
- FY19 net debt	(421)		
- provisions	(29)		
- minorities	(50)		
+ associates	24		
Equity value	1,713		
Number of share (m)	142.9		
Value per share (€)	**12.0**		

Source: Edison Investment Research, Refinitv multiple estimates at 20 October 2020

DCF based SOTP valuation

Our updated DCF-based SOTP analysis also suggests a valuation of €14.0/share, 4% above our previous estimate of €13.4/share thanks to higher forecast profitability and FY20e earnings.

Exhibit 6: DCF-based SOTP approach

FY20e	EV (€m)	EBITDA (€m)	Implied EV/EBITDA (x)	Comment
Metallurgy	1,326	129	10.3	DCF, 7.5% WACC, 0.5% terminal growth rate
Power & gas	959	146	6.6	
Gas-fired plants	443	71	6.2	DCF, 7.5% WACC. Includes value creation from new CCGT project
Wind	340	40	8.6	DCF, €1.85m/MW
Supply	175	35	5.0	5x EV/EBITDA multiple
RSD + SES	185	35	5.3	DCF, 7.5% WACC, 0.5% terminal growth rate
Total EV	**2,469**	**310**	**8.0**	
- FY19e net debt	(421)			
- provisions	(29)			
- minorities	(50)			
+ associates	24			
Equity value	1,994			
Number of shares (m)	142.9			
Value per share (€)	**14.0**			

Source: Edison Investment Research

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Exhibit 7: Financial summary

Accounts: IFRS, year-end: 31 December, €m	2018	2019	2020e	2021e	2022e	2023e
INCOME STATEMENT						
Total revenues	1,527	2,256	1,901	2,143	2,429	2,505
Cost of sales	(1,229)	(1,922)	(1,574)	(1,791)	(2,028)	(2,096)
Gross profit	297	334	327	352	401	409
SG&A (expenses)	(88)	(127)	(119)	(124)	(135)	(136)
R&D costs	(0)	(0)	(0)	(0)	(0)	(0)
Other income/(expense)	(5)	12	11	12	13	13
Exceptionals and adjustments	0	0	0	0	0	0
Reported EBIT	204	219	219	239	278	286
Finance income/(expense)	(38)	(27)	(16)	(28)	(32)	(31)
Other income/(expense)	1	(12)	(34)	(14)	(34)	(34)
Reported PBT	167	180	169	197	212	221
Income tax expense (includes exceptionals)	(27)	(32)	(27)	(30)	(32)	(33)
Reported net income	140	148	142	168	180	188
Minorities	1	(3)	(3)	(4)	(4)	(4)
Net Income After Minorities	141	145	139	164	176	184
Basic average number of shares, m	142.9	142.9	142.9	142.9	142.9	142.9
Basic EPS (€)	0.99	1.01	0.97	1.15	1.23	1.28
DPS (€)	0.36	0.36	0.34	0.40	0.43	0.45
EBITDA	284	313	310	332	378	386
BALANCE SHEET						
Property, plant and equipment	1,142	1,121	1,267	1,412	1,444	1,445
Goodwill	209	215	215	215	215	215
Intangible assets	235	232	232	232	232	232
Other non-current assets	272	257	257	257	256	256
Total non-current assets	1,858	1,824	1,970	2,115	2,146	2,148
Cash and equivalents	208	713	305	217	235	306
Inventories	184	214	221	227	234	241
Trade and other receivables	1,059	1,405	1,514	1,634	1,780	1,941
Other current assets	32	1	1	1	1	1
Total current assets	1,483	2,334	2,041	2,080	2,250	2,489
Non-current loans and borrowings	534	1,051	746	746	746	746
Other non-current liabilities	375	325	309	293	277	286
Total non-current liabilities	909	1,376	1,055	1,039	1,023	1,033
Trade and other payables	608	815	897	986	1,085	1,194
Current loans and borrowings	64	78	78	78	78	78
Other current liabilities	198	255	255	254	254	253
Total current liabilities	871	1,148	1,229	1,318	1,417	1,525
Equity attributable to company	1,508	1,584	1,675	1,781	1,896	2,015
Non-controlling interest	53	50	53	56	60	64
CASH FLOW STATEMENT						
Profit for the year	144	150	142	168	180	188
Taxation expenses	23	29	27	30	32	33
Net finance expenses	38	25	51	43	67	66
Depreciation and amortisation	81	97	90	92	100	100
Other adjustments	(7)	(14)	(26)	(26)	(26)	(1)
Movements in working capital	(68)	(20)	(34)	(37)	(53)	(60)
Interest paid / received	(31)	(21)	(51)	(43)	(67)	(66)
Income taxes paid	(18)	(2)	(27)	(30)	(32)	(33)
Cash from operations (CFO)	162	244	172	197	201	227
Capex	(85)	(134)	(236)	(237)	(131)	(101)
Acquisitions & disposals net	20	2	0	0	0	0
Other investing activities	18	10	10	10	10	10
Cash used in investing activities (CFIA)	(47)	(122)	(227)	(227)	(121)	(91)
Net proceeds from issue of shares	0	0	0	0	0	0
Movements in debt	(128)	476	(305)	0	0	0
Dividends paid	(46)	(52)	(49)	(57)	(62)	(64)
Other financing activities	105	(40)	0	0	0	0
Cash from financing activities (CFF)	(69)	383	(354)	(57)	(62)	(64)
Increase/(decrease) in cash and equivalents	47	506	(408)	(88)	18	71
Cash and equivalents at end of period	208	713	305	217	235	306
Net (debt)/cash	(390)	(421)	(524)	(612)	(594)	(523)
Movement in net (debt)/cash over period	178	(30)	(103)	(88)	18	71

Source: Mytilineos, Edison Investment Research

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