

Mytilineos

Power growth

Mytilineos reported solid Q1 results with EBITDA growing 20% y-o-y sustained by strong performances in the Power & Gas business and EPC & Infrastructure activities. We see Mytilineos as well positioned to reach our full year forecasts, on which basis the stock is trading on less than 7x FY19 P/E, less than 5x EV/EBITDA and offers an annual free cash flow yield of over 14% in the period FY19–22e.

Year end	EBITDA (€m)	Net income* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	299	143	1.02	0.32	9.5	3.3
12/18	290	144	1.01	0.36	9.6	3.7
12/19e	359	206	1.43	0.50	6.7	5.2
12/20e	344	197	1.37	0.48	7.0	5.0

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

Q1 results on track to reach our full year forecasts

Mytilineos reported Q1 results with EBITDA up 20% y-o-y to €92m, a strong growth rate that is consistent with the trend we expect for the full year (+24% y-o-y). EBITDA growth drove 21% y-o-y EPS growth to €0.348. The company does not provide divisional data, but we believe that the key contributors to growth were the Power & Gas business (higher margins thanks to higher power prices and gas imports at a discount to market prices; higher volumes, up 23% y-o-y for gas plants and 84% y-o-y for renewables; and higher supply market share) and the EPC & Infrastructure activity (new contracts in Ghana and Kazakhstan). The Metallurgy business achieved similar profitability to Q118 despite a decline in market prices for aluminium, thanks to cost control and hedging in place.

Growth projects could add to organic growth

Following Q1 results, we view Mytilineos as on track to reach our forecasts for FY19. The growth we forecast for this year is mostly organic, but as explained in our recent initiation [Cash flow miner, growth generator](#), we estimate c €800m balance sheet headroom by 2022 to deploy for new investments. Mytilineos is evaluating the construction of a new alumina refinery plant and of a new gas-fired power plant. We estimate the projects would have a combined 20% project IRR, well above the cost of capital, and would boost current EBITDA by c 50%. The final investment decision on the power plant project has been taken and construction could start before the end of 2019, provided a construction licence is granted.

Valuation: 14%+ FCF yield, large discount to peers

Based on our unchanged estimates we forecast 14–16% free cash flow (FCF) yield (pre-growth capex) over 2019–22e. By applying the median valuation metrics of European diversified industrials, we calculate an average value of c €16.5/share for Mytilineos, a 70%+ premium to the current share price. Similarly, a SOTP valuation using the EV/EBITDA of comparable peers implies more than a 40% discount to fair value. Finally, our DCF-based SOTP is €12.3/share, implying c 30% upside, even assuming a 15% discount to reflect the diversified business model.

Q1 results update

General industrials

3 May 2019

Price €9.66
Market cap €1,381m

Net debt (€m) at 31 December 2018	390
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	3.5	15.6	(5.0)
Rel (local)	(0.7)	(4.3)	5.2
52-week high/low	€10.08	€6.70	

Business description

Mytilineos operates three main businesses: metallurgy (aluminium/alumina production), power & gas (power production/supply and gas trading) and large-scale infrastructure EPC. The company operates in 29 countries across Europe, the Middle-East and Africa and has a workforce of 2,700 employees.

Next events

AGM	6 June
Ex-dividend	25 June
H1 results	12 September

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Exhibit 1: Financial summary

Accounts: IFRS; year end: 31 December; €m	2016	2017	2018	2019e	2020e	2021e	2022e
Income statement							
Total revenues	1,246	1,527	1,527	2,234	2,356	2,656	3,026
Cost of sales	(972)	(1,143)	(1,150)	(1,771)	(1,903)	(2,176)	(2,524)
Gross profit	274	384	376	463	453	481	502
SG&A (expenses)	(76)	(86)	(88)	(98)	(103)	(107)	(110)
R&D costs	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Other income/(expense)	24	1	2	(6)	(6)	(6)	(6)
Exceptionals and adjustments	0	6	(6)	0	0	0	0
Depreciation and amortisation	(73)	(73)	(79)	(83)	(87)	(89)	(89)
Reported EBIT	148	232	205	276	257	278	296
Finance income/(expense)	(57)	(43)	(38)	(14)	(9)	(4)	3
Other income/(expense)	(6)	(7)	1	1	1	1	1
Exceptionals and adjustments	0	0	0	0	0	0	0
Reported PBT	85	182	168	263	248	275	299
Income tax expense (includes exceptionals)	(21)	(24)	(24)	(58)	(52)	(55)	(60)
Reported net income	61	158	140	205	196	220	240
Basic average number of shares, m	117	142.9	142.9	142.9	142.9	142.9	142.9
Basic EPS	0.3	1.08	0.99	1.43	1.37	1.53	1.67
Adjusted EBITDA	222	299	290	359	344	367	385
Adjusted EBIT	148	226	211	276	257	278	296
Adjusted PBT	85	175	174	263	248	275	299
Adjusted net income	64	143	144	206	197	221	241
Adjusted EPS (€)	0.29	1.02	1.01	1.43	1.37	1.53	1.67
Adjusted diluted EPS (€)	0.29	1.02	1.01	1.43	1.37	1.53	1.67
DPS (€)	0.00	0.32	0.36	0.50	0.48	0.54	0.58
Adjusted EBIT margin	12%	15%	13%	12%	11%	10%	10%
Balance sheet							
Property, plant and equipment	1,073	1,137	1,142	1,165	1,159	1,151	1,143
Goodwill	209	209	209	209	209	209	209
Intangible assets	243	236	235	235	235	235	235
Other non-current assets	326	282	272	272	272	271	271
Total non-current assets	1,851	1,864	1,858	1,882	1,875	1,867	1,859
Cash and equivalents	198	161	208	192	198	219	240
Inventories	257	159	184	184	184	184	184
Trade and other receivables	800	1,018	1,059	1,138	1,226	1,323	1,440
Other current assets	1	16	32	32	32	32	32
Total current assets	1,257	1,354	1,483	1,547	1,641	1,758	1,896
Non-current loans and borrowings	429	599	534	434	334	234	134
Other non-current liabilities	360	298	375	368	360	353	346
Total non-current liabilities	789	897	909	802	694	587	480
Trade and other payables	571	575	608	669	736	810	891
Current loans and borrowings	388	130	64	64	64	64	64
Other current liabilities	76	184	198	198	198	198	198
Total current liabilities	1,035	890	871	932	999	1,072	1,153
Equity attributable to company	989	1,377	1,508	1,641	1,768	1,910	2,065
Non-controlling interest	295	54	53	54	55	56	57
Cash flow statement							
Profit for the year	64	158	144	205	196	220	240
Taxation expenses	21	24	23	58	52	55	60
Net finance expenses	48	42	38	13	9	3	(3)
Depreciation and amortisation	76	76	81	83	87	89	89
Other adjustments	(9)	(9)	(7)	(25)	(25)	(25)	(25)
Movements in working capital	(90)	(38)	(68)	(19)	(21)	(23)	(36)
Interest paid / received	(48)	(32)	(31)	(13)	(9)	(3)	3
Income taxes paid	(14)	(6)	(18)	(58)	(52)	(55)	(60)
Cash from operations (CFO)	48	214	162	244	237	261	267
Capex	(103)	(127)	(85)	(106)	(81)	(81)	(81)
Acquisitions & disposals net	1	1	20	0	0	0	0
Other investing activities	5	9	18	18	18	18	18
Cash used in investing activities (CFIA)	(97)	(117)	(47)	(88)	(63)	(63)	(63)
Net proceeds from issue of shares	0	0	0	0	0	0	0
Movements in debt	87	(81)	(128)	(100)	(100)	(100)	(100)
Dividends paid	(3)	(5)	(46)	(71)	(68)	(77)	(83)
Other financing activities	(41)	(48)	106	0	0	0	0
Cash from financing activities (CFF)	43	(134)	(68)	(171)	(168)	(177)	(183)
Increase/(decrease) in cash and equivalents	(6)	(37)	47	(16)	6	21	21
Cash and equivalents at end of period	198	161	208	192	198	219	240
Net (debt) cash	(618)	(568)	(390)	(306)	(200)	(79)	42
Movement in net (debt) cash over period	(618)	50	178	84	106	121	121
Source: Mytilineos data, Edison Investment Research.							

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