EDISON

Mytilineos

H1 results

Short-term value, long-term growth

General industrials

Mytilineos reported solid revenue and EBITDA growth in H1, boosted by the power & gas business. Mytilineos is trading on low short-term multiples (c 8x FY19 P/E and 5x EV/EBITDA), but we believe the stock is even more attractive for investors focused on the strong growth potential driven by long-term projects, which, in our view, the company can finance mostly with its robust cash flow generation. We forecast a 15% net income CAGR in FY19e–22e with the new gas-fired power plant as key driver.

Year end	EBITDA* (€m)	Net income* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	299	139	1.02	0.32	10.3	3.2
12/18	290	139	1.01	0.36	10.4	3.6
12/19e	339	170	1.19	0.42	8.5	4.1
12/20e	330	175	1.23	0.43	8.2	4.2

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

Power & gas boosts H1 EBITDA by 21% y-o-y

Mytilineos reported H119 results with strong revenue growth (+38% y-o-y to €991m) and EBITDA progression (+21% y-o-y to €175m). In line with our expectations, the growth was boosted by the power & gas business (EBITDA up c 3x y-o-y) thanks to higher volumes and margins. The EBITDA for the metallurgy business declined only 6% y-o-y (despite a significant decline in alumina/aluminium prices and despite an exceptionally strong H118), while the EBITDA for the EPC & infrastructure business was broadly unchanged year-on-year.

We forecast +15% FY19–22e net income CAGR

We expect EBITDA to grow strongly in FY19 (+17% y-o-y) driven by a large increase in the power & gas activities and EPC & infrastructure business and a more moderate increase in the metallurgy business. Beyond FY19, we expect a reduction in EBITDA in FY20, driven by lower alumina and aluminium prices followed by a recovery in FY21 and, especially, in FY22 reflecting the contribution of the new 826MW gas-fired power plant. Although we have reduced FY19–21 EBITDA estimates by c 5% (to reflect a more conservative growth estimate for EPC & infrastructure in FY19 and lower alumina and aluminium prices in FY20–21), we increase FY22 EBITDA significantly (+17%), reflecting the commissioning of the new power plant. Overall, we forecast a 10% CAGR for EBITDA and a 15% CAGR for net income from FY19–22e.

Valuation: Short-term value, long-term growth

The stock is trading on undemanding short-term multiples (c 8x P/E and c 5x EV/EBITDA for FY19e), at a large discount to European diversified industrial stocks, and offers strong free cash flow yields (c 13% on average in the period FY19–22). But we believe the stock is even more attractive for investors focused on the strong growth potential deriving from long-term projects, which, in our view, the company can finance mostly with its strong cash flow generation. We have increased our valuation to €14.4/share (from €12.3/share), as the impact of the recent decline in country risk premium and the inclusion of the value creation from the CCGT project more than offset the impact of the lower short-term forecasts.

19 September 2019

Price	**€10.1**
Market cap	**€1,443m**
Net debt (€m) at 30 June 2019	422
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	4.8	1.0	20.2
Rel (local)	(4.9)	(1.2)	(5.4)
52-week high/low		€11.27	€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.

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Analyst

Dario Carradori +44 (0)20 3077 5700

industrials@edisongroup.com

Edison profile page

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H1 EBITDA up 21% y-o-y boosted by power & gas

On 12 September, Mytilineos reported H119 results with strong revenue growth (+38% y-o-y to €991m) and EBITDA progression with H1 EBITDA of €175m, +21% y-o-y, broadly in line with our forecast of €178m. In line with our expectations, the growth was boosted by the power & gas business (EBITDA up c 3x y-o-y) thanks to higher volumes and margins. The EBITDA for the metallurgy business declined only 6% y-o-y (despite a significant decline in alumina/aluminium prices and despite an exceptionally strong H118), while the EBITDA for the EPC & infrastructure business was broadly unchanged year-on-year.

Although EBITDA increased significantly, net income declined 3% to €81.6m, reflecting the impact of higher minorities (due to a pick-up in profits for power generation and Metka EGN), a higher tax rate and the impact of IFRS 16.

Mytilineos benefited from strong cash flow generation with H1 operating cash flow increasing twofold to €139m (thanks to higher EBITDA and the non-repeat of a negative working capital variation in 1H18). Free cash flow increased to €41m in H119 (vs €16m in H118) despite an increase in capex. Net debt of €422m at 30 June (vs €390m at the end of FY18) reflects the adoption of IFRS 16 (including lease liabilities of €53m in net debt).

For FY19, Mytilineos expects ‘overall significant growth and strong cash flow generation’ and confirmed that the construction of a new gas-fired power plant, a key growth project for the group, will start in October 2019.

Forecasts overview: New CCGT boosts growth outlook

We expect EBITDA to grow strongly in FY19 (+17% y-o-y) driven by a large increase in the power & gas activities and EPC & infrastructure business and a more moderate increase in the metallurgy business. Beyond FY19, we expect a small reduction in EBITDA in FY20, driven by lower alumina and aluminium prices (we revised down FY20–21 EBITDA by 4% to reflect lower prices) followed by a significant recovery in FY21 and, especially, in FY22, which now includes the full benefit of the new 826MW gas-fired power plant. Overall, we forecast a 10% FY19–22e EBITDA CAGR, which translates into a 15% net income CAGR.

Exhibit 1: Adjusted EBITDA breakdown by division

Adjusted EBITDA (€m)	2017	2018	2019e	2020e	2021e	2022e
Metallurgy	124	166	169	134	148	170
Power & gas	75	64	101	107	113	181
EPC & Infrastructure	89	55	69	90	94	99
Others	11	5	0	0	0	0
Total	299	290	339	330	356	450
% y-o-y growth		-3%	17%	-3%	8%	27%

Source: Mytilineos data, Edison Investment Research

We provide more details below for the three divisions of the group.

- **Metallurgy:** in H119 EBITDA declined 6% y-o-y mainly due to the exceptionally strong result in H118, driven by very high alumina prices due to US sanctions against Russia’s Rusal, one of the largest aluminium producers globally, and the partial shutdown of the largest alumina refinery globally, Norsk Hydro’s Alunorte in Brazil. The US sanctions against Rusal were lifted in January 2019 and Alunorte restarted towards the end of H119, sending alumina (and aluminium) prices sharply lower (alumina prices roughly halved since the peak at c $600/tonne around the 1H of 2018). The current low-price environment for alumina and aluminium creates risks mostly for FY20 as Mytilineos has stated at H1 results that it has no hedges in place for next year. The full integration of recently acquired EPALME, the likely reduction in production costs (driven by lower commodity prices and efficiencies/cost cutting efforts currently undertaken by Mytilineos) should partly offset the revenue decline. Based on new lower alumina/aluminium price assumptions, now broadly consistent with current forward prices for FY20 (we assume alumina and aluminium prices c 3% higher than current forwards), we currently expect a c 20% y-o-y EBITDA reduction in FY20 followed by a gradual recovery thereafter. As a guidance the FY20 alumina price is c 15% lower than the average price for 1H19, while the aluminium price is broadly in line. The key growth project is the construction of a new alumina refinery plant; a final investment decision is expected by Q120.

- **Power generation:** we expect FY19 to be a very strong year for the division and see this business as the key growth engine of the group's growth over the period FY19–22 (see our recent report focusing on the prospects for this business). EBITDA grew more than three times in H119, thanks to higher volumes (driven by higher Greek power demand and lower hydro production, and increased renewable capacity) and margins (high clean spark spreads thanks to higher carbon prices, lower hydro output, stronger demand and very favourable gas import prices for Mytilineos). We expect the strong performance to continue for the rest of FY19, although H218 is a tougher comparison, and we forecast +58% y-o-y EBITDA. Beyond FY19, the key growth driver for this business is the construction of a new combined-cycle gas turbine (CCGT) power plant with installed capacity of 826MW (roughly doubling current gas-fired capacity for Mytilineos), to be commissioned by Q421. With construction planned to start at the beginning of October 2019, we now include this project in our forecasts and assume c €60m EBITDA for the plant in FY22 (for more details on the project and sensitivity to various assumptions, please see our recent report).
- **EPC & infrastructure:** We expect strong growth for this business in FY19 (+26% y-o-y EBITDA), mostly reflecting normalisation for H219 following a weak H218, although we have reduced our expectations for the year following H1 results. Our forecasts imply a significant pick-up in the growth rate in the second half of the year, after the first half was broadly flat year-on-year. We continue to believe that this is realistic although we recognise that there is little visibility on the timing of the projects. The backlog at the end of H119 increased significantly compared to the end of FY18 (€1.2bn over the next five years vs €1.0bn previously) also thanks to additional projects in Chile, Greece, Slovenia and Australia. In our view, the largest risk to the pipeline remains the project in Libya (€343m contract value or c 30% of the backlog), due to the political situation. We continue to see opportunities from renewables projects (especially solar) and expect increasing profit opportunities from the development of the build, operate and transfer (BOT) business.

Forecasts changes: Lower alumina/aluminium prices and CCGT project included

Our FY19 EBITDA forecast reduces by 6% (reflecting a more cautious estimate for the growth of the EPC & infrastructure business) and we have reduced our FY20 and FY21 EBITDA estimates by c 4% to reflect lower alumina and aluminium prices. On the other hand, FY22 increases significantly (+17%) reflecting the commissioning of the new CCGT power plant. Our net income forecasts for FY19–21 reduce to reflect lower EBITDA, higher minorities, D&A and financial expenses, partly offset by a lower tax rate. Net income increases in FY22, thanks to the contribution of the new CCGT.

Net debt increases significantly reflecting the impact of IFRS 16 (a €53m increase) and the inclusion of the €300m capex for the new CCGT project (we assume capitalisation of interest costs for this project until the plant is commissioned at the end of 2021).

Exhibit 2: Forecast changes						
€m		FY18	FY19e	FY20e	FY21e	FY22e
Revenues	New	1,527	1,943	2,118	2,311	3,091
	Old		2,237	2,373	2,668	3,017
	% change		-13%	-11%	-13%	2%
Adjusted EBITDA	New	290	339	330	356	450
	Old		360	346	369	385
	% change		-6%	-5%	-4%	17%
Net income	New	139	170	175	199	255
	Old		207	198	222	240
	% change		-17%	-12%	-10%	6%
Net debt/(cash)	New	390	418	476	520	401
	Old		306	199	78	(43)
	% change		36%	139%	570%	-1,031%

Source: Mytilineos data, Edison Investment Research

Valuation: Lower WACC, growth project value creation

The stock is trading on undemanding short-term multiples (c 8x P/E and c 5x EV/EBITDA for FY19e) and offers strong free cash flow yields (c 13% on average, pre-growth capex, in the period FY19–22).

We have increased our valuation to €14.4/share (from €12.3/share), as the impact of a lower WACC and the inclusion of the value creation from the CCGT project more than offset the impact of lower short-term forecasts. We see significant upside potential to the current share price, in particular for investors focused on the cash flow generation potential deriving from long-term growth projects.

Following the decline in the Greek country risk premium (Greek 10-year bond spreads vs Germany have roughly halved since the beginning of the year), we have reduced our WACC to 7.5% (from 8.5%). The reduction in Greek bond yields has been a key driver of the strong performance of Greek equities in the year-to-date, including Mytilineos, in our view.

In addition, as we now incorporate the new CCGT in our forecasts, we have included our assumptions for the value creation. This is a key driver of the increase in the valuation for the power & gas business.

Exhibit 3: Free cash flow yield, dividend yield and leverage metrics					
€m	2018	2019e	2020e	2021e	2022e
Cash flow from operations	267.6	208.0	215.2	239.0	290.7
Maintenance capex	(45)	(45)	(45)	(45)	(55)
Free cash flow	222.6	163.0	170.2	194.0	235.7
FCF yield	15.4%	11.3%	11.8%	13.4%	16.3%
Dividend yield	3.7%	4.2%	4.3%	4.8%	6.2%
Net debt/EBITDA	1.4	1.2	1.4	1.5	0.9

Source: Edison Investment Research

Exhibit 4: Sum-of-the-parts valuation

FY19e, €m	EV	EBITDA	EV/EBITDA	Comment
Metallurgy	1,027	169	6.1	DCF, 7.5% WACC, 0.5% terminal growth rate
Power & gas	1,037	101	10.3	
Gas-fired plants	716	58	12.3	DCF, 7.5% WACC. Includes value creation from new CCGT project
Wind	266	32	8.4	DCF, €1.26m/MW
Supply	55	11	5.0	5x EV/EBITDA multiple
EPC & Infrastructure	838	69	12.1	DCF, 7.5% WACC, 0.5% terminal growth rate
Total EV	**2,903**	**339**	**8.6**	
– net debt	-418			
– provisions	-30			
– minorities	-60			
+ associates	24			
Discount	15%			
Equity	**2,056**			
Number of shares (m)	142.9			
Value per share (€)	**14.4**			

Source: Edison Investment Research

While we acknowledge that the market may focus on the downside risks for FY20 due to the current unhedged positions for alumina and aluminium, we believe these concerns are likely overdone. As a sensitivity, a 10% reduction in alumina and aluminium reduces group EBITDA by 14%. Even assuming a rather negative further 10% decline in both alumina and aluminium prices, the stock would trade on only c 11x P/E and offer c 9% FCF yield for FY20, offering good value especially considering the strong growth potential.

Exhibit 5: Financial summary

Accounts: IFRS; year end 31 December; €m	2017	2018	2019e	2020e	2021e	2022e
INCOME STATEMENT						
Total revenues	1,527	1,527	1,943	2,118	2,311	3,091
Cost of sales	(1,143)	(1,150)	(1,500)	(1,679)	(1,843)	(2,513)
Gross profit	384	376	443	439	468	578
SG&A (expenses)	(86)	(88)	(99)	(104)	(108)	(122)
R&D costs	(0)	(0)	(0)	(0)	(0)	(0)
Other income/(expense)	1	(4)	(4)	(5)	(5)	(6)
Exceptionals and adjustments	6	(6)	0	0	0	0
Depreciation and amortisation	(73)	(79)	(87)	(91)	(93)	(101)
Reported EBIT	232	198	252	239	262	350
Finance income/(expense)	(43)	(38)	(23)	(12)	(9)	(26)
Other income/(expense)	(7)	1	(7)	(7)	(7)	(7)
Reported PBT	182	161	222	220	247	317
Income tax expense (includes exceptionals)	(24)	(24)	(44)	(42)	(44)	(57)
Reported net income	158	133	176	178	202	260
Basic average number of shares, m	142.9	142.9	142.9	142.9	142.9	142.9
Basic EPS, €/share	1.08	0.99	1.19	1.23	1.39	1.79
Adjusted EBITDA	299	290	339	330	356	450
Adjusted EBIT	226	290	252	239	262	350
Adjusted PBT	175	167	222	220	247	317
Adjusted net income	139	139	170	175	199	255
Adjusted EPS, €/share	1.02	1.01	1.19	1.23	1.39	1.79
Adjusted diluted EPS, €/share	1.02	1.01	1.19	1.23	1.39	1.79
DPS, €/share	0.32	0.36	0.42	0.43	0.49	0.63
Adjusted EBIT margin	15%	13%	13%	11%	11%	11%
BALANCE SHEET						
Property, plant and equipment	1,137	1,142	1,197	1,338	1,477	1,478
Goodwill	209	209	209	209	209	209
Intangible assets	236	235	235	235	235	235
Other non-current assets	282	272	273	273	274	274
Total non-current assets	1,864	1,858	1,914	2,056	2,195	2,197
Cash and equivalents	161	208	81	(28)	(71)	47
Inventories	159	184	194	199	205	212
Trade and other receivables	1,018	1,059	1,138	1,226	1,323	1,440
Other current assets	16	32	32	32	32	32
Total current assets	1,354	1,483	1,445	1,429	1,489	1,731
Non-current loans and borrowings	599	534	434	384	384	384
Other non-current liabilities	298	375	315	308	300	293
Total non-current liabilities	897	909	749	692	684	677
Trade and other payables	575	608	669	736	810	891
Current loans and borrowings	130	64	64	64	64	64
Other current liabilities	184	198	198	198	198	198
Total current liabilities	890	871	932	999	1,072	1,153
Equity attributable to company	1,377	1,508	1,619	1,732	1,862	2,027
Non-controlling interest	54	53	60	63	66	70
CASH FLOW STATEMENT						
Profit for the year	158	144	177	178	202	260
Taxation expenses	24	23	44	42	44	57
Net finance expenses	42	38	31	20	17	34
Depreciation and amortisation	76	81	86	90	92	100
Other adjustments	(9)	(7)	(27)	(26)	(26)	(26)
Movements in working capital	(38)	(68)	(28)	(27)	(29)	(42)
Interest paid / received	(32)	(31)	(31)	(20)	(17)	(34)
Income taxes paid	(6)	(18)	(44)	(42)	(44)	(57)
Cash from operations (CFO)	214	162	208	215	239	291
Capex	(127)	(85)	(141)	(231)	(231)	(101)
Acquisitions & disposals net	1	20	0	0	0	0
Other investing activities	9	18	18	18	18	18
Cash used in investing activities (CFIA)	(117)	(47)	(123)	(213)	(213)	(83)
Net proceeds from issue of shares	0	0	0	0	0	0
Movements in debt	(81)	(128)	(100)	(50)	0	0
Dividends paid	(5)	(46)	(59)	(61)	(70)	(89)
Other financing activities	(48)	106	(53)	0	0	0
Cash from financing activities (CFF)	(134)	(68)	(212)	(111)	(70)	(89)
Increase/(decrease) in cash and equivalents	(37)	47	(127)	(109)	(43)	119
Cash and equivalents at end of period	161	208	81	(28)	(71)	47
Net (debt) cash	(568)	(390)	(418)	(476)	(520)	(401)
Movement in net (debt) cash over period	50	178	(27)	(59)	(43)	119

Source: Company data, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia