EDISON Scale research report - Update

Nabaltec

Materials

7 May 2021

Recovery underway

Nabaltec's results for the first three quarters of 2020 were blighted by the coronavirus pandemic, which depressed demand for most product categories, particularly materials used by European steelmakers. This resulted in a 10.8% decrease in FY revenues and a halving in pre-exceptional EBIT. Revenues began to recover in Q420. This positive trend has continued into FY21, with management anticipating record highs again by FY22. We expect strong demand for materials such as boehmite, which is used in electric vehicle (EV) batteries, to contribute to this recovery.

Pandemic adversely affected demand during FY20

Although there were no disruptions to procurement, production or sales operations as a result of the pandemic, sales volumes in most product categories dropped significantly during Q2 and Q3, resulting in a €19.5m year-on-year decrease in total FY20 revenues to €159.6m. In contrast, sales of boehmite products jumped by 48.1%, accounting for around 10% of the total. Management implemented extensive cost-cutting exercises to reduce the impact of substantially lower revenues on profitability. Before deducting €25.3m of non-cash write-offs, EBIT halved from €18.6m in FY19 to €9.4m in FY20. Net debt decreased by €8.8m during FY20 to €33.1m.

Recovery from Q420 onwards

Based on the assumption of strong economic and industry performance, management has reiterated the guidance it gave in February of 6% to 9% revenue growth during FY21, with an EBIT margin of 8–10%. It expects to be posting record highs once again by FY22.

Valuation: Trading at a discount to peers

At current levels, the shares are trading on prospective consensus multiples that are lower than the respective means of our sample of European chemicals companies on all metrics (eg year one EV/EBITDA is 9.1x versus 12.6x for the mean of our sample). This indicates potential for share price appreciation once there is greater visibility on the longer-term impact of the COVID-19 pandemic on the European steel industry, as well as the group's ability to continue to grow boehmite revenues. This valuation methodology excludes the long-term potential from boehmite sales.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	179.0	15.9	1.22	0.15	26.0	0.5
12/20	159.6	(17.8)*	(2.23)	0.00	N/A	N/A
12/21e	181.0	18.4	1.52	0.28	20.9	0.9
12/22e	198.9	24.4	2.01	0.33	15.8	1.0

Source: Refinitiv. Note: *Including €25.3m non-recurring items.

Price	€31.70
Market cap	€279m

Share price graph

Share details

Code	NTG
Listing	Deutsche Börse Scale
Shares in issue	8.8m
Net debt at end December 2020	€33.1m

Business description

Nabaltec develops, manufactures and distributes environmentally friendly, specialised products based on aluminium hydroxide and aluminium oxide. It is one of the world's leading suppliers of mineral flame retardants.

Bull

- Demand for halogen-free flame retardants driven by safety of people, property and environment.
- Demand for boehmite boosted by growth in electric vehicles.
- Launch of thermally conductive fillers for batteries in FY20 has long-term potential.

Bear

- Demand for speciality alumina dependent on health of global steel industry.
- Naprotec product approvals further delayed in FY21 by coronavirus-related restrictions.
- Low free float.

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Financial performance

First three quarters of FY20 adversely affected by pandemic

Results in the first three quarters of 2020 were blighted by the coronavirus pandemic, so although Nabaltec returned to growth in Q4, when revenues were 7.7% higher than a year previously, revenues for the year as a whole declined by 10.8% year-on-year to €159.6m. Revenues in the Functional Fillers product segment decreased by 6.5% to €114.2m, reflecting weak market conditions during the first nine months of the year and mounting price pressure, but returned to growth in Q4. Sales of boehmite products jumped by 48.1% during the year as a whole and accounted for around 10% of total FY20 revenues (6% FY19). Revenues from the Specialty Alumina segment declined more quickly, by 20.1% to €45.4m, because of a slump in European steel production, which started before the onset of the pandemic and resulted in lower demand for refractory materials and price pressure. Exports reduced from 76.4% of total sales to 75.1%.

The cost of materials as a percentage of total performance (revenues adjusted for change in inventories and own work capitalised) increased from 46.5% to 48.2%, partly reflecting price discounts and partly the write-down of inventories in the United States. Management implemented extensive cost-cutting exercises to reduce the impact of substantially lower revenues on profitability. Personnel expenses decreased by €3.6m (10.1%) because of cost-cutting measures introduced in April 2020. Other operating expenses fell by €3.2m (10.2%) because of a decrease in freight costs and commissions related to lower sales, together with reduced costs associated with business travel and trade shows. Depreciation (excluding €24.1m write-downs) increased by €1.6m to €15.3m because of the Naprotec operation coming online (see below). In addition to the drop in group profit associated with lower volumes there were €25.3m exceptional costs. These related to write-downs in the value of property, plant and equipment at the Nashtec subsidiary (see below) and the write-off of surplus equipment following the termination of mullite production at the Schwandorf facility. EBIT declined from an €18.6m profit in FY19 to a €15.9m loss in FY20. After adjusting for write-downs, Nabaltec generated €9.4m operating profit, giving an adjusted EBIT margin (as a percentage of total performance) of 6.0% compared with 10.3% in FY19. Noting the uncertainty associated with the pandemic, management decided to suspend dividend payments to avoid compromising liquidity.

Write-downs reflect short-term challenges in the United States

Utilisation of the Nashtec site, which manufactures non-halogenated, flame-retardant fillers, had reached nearly 80% of installed capacity by March 2020 but utilisation subsequently fell below 50% because of the adverse impact the pandemic had on sales. Management expects that it will take longer for revenues attributable to the Nashtec site to recover fully compared with the German operations because a higher proportion of sales in the United States are attributable to the automotive industry. While management believes that a recovery will happen in the medium term, it recorded a substantial write-down in the value of property, plant and equipment at the site. Production at the new Naprotec production facility for refined hydroxides at Chattanooga was starting to ramp up in March 2020 so that work could commence on gaining customer approvals. However, customer qualifications are taking longer than usual because of restrictions imposed in response to the pandemic, so management does not expect the site to generate meaningful revenues until later in FY21.

Strong cash flow

Despite the difficult economic backdrop, net debt decreased by €8.8m during FY20 to €33.1m. Gearing (net debt/equity) increased slightly, by 0.8pp during the year to 43.1%. Capital expenditure was half the previous year at €10.2m, with investment primarily focused on completion of the

Naprotec facility in the United States and expansion of boehmite production in Germany. Cash generated from operations (€24.3m in FY20 versus €22.4m in FY19 after deducting tax) benefited from an €6.5m reduction in working capital, primarily the result of lower inventories.

Outlook – light at the end of the tunnel

Management confident about FY21

Group revenues started to pick up in Q420, increasing by 7.7% year-on-year to €40.7m. This improvement continued into Q121, when total sales grew by 1.3% year-on-year to €46.0m, with revenues from the Functional Fillers segment growing from €31.7m to €32.3m and revenues from the Speciality Alumina segment flat at €13.7m. After stripping out €1.3m exceptional costs relating to a hike in energy prices following the February snowfall in Texas, EBIT (according to preliminary data) increased by €2.7m year-on-year to €5.2m in Q121, giving an EBIT margin (as a percentage of total performance) of 8.9% including exceptional costs.

While incoming orders still tend to be short-term in nature, reflecting continued uncertainty in the market, management is confident for the future. Based on the assumption of strong economic and industry performance, management has reiterated guidance given in February of 6–9% revenue growth during FY21, with an EBIT margin in a range from 8% to 10%. It expects to be posting record highs once again by FY22.

Medium-term industry trends favourable

Looking beyond the immediate effects of the COVID-19 pandemic and the staged return to normality, we expect that demand in the medium term will be driven by continued use of functional fillers as flame retardants. Prior to the pandemic, demand for non-halogenated flame retardants had been rising because of tightening fire safety requirements and increasing attention on the reduction of smoke. For example, during 2019 the use of brominated flame retardants in the housings of electrical equipment was banned at EU level from 1 March 2021 onwards. Smoke reduction is of particular concern in areas where it is difficult for people to escape quickly, such as tunnels, airports and high-rise buildings. This shift to non-halogenated flame retardants will continue even though overall demand for retardants is likely to be affected by recessionary pressures on consumer expenditure and the construction industry.

Demand for boehmite, which is used as a separator coating in lithium-ion batteries, grew strongly during FY20 despite the global pandemic. Nabaltec benefitted from a resurgence in demand for EVs in Europe and China during H220. Although 2020 saw a 14% year-on-year drop in car sales overall, EVs grew by 43% year-on-year, representing 3.2m EVs and global EV penetration of the car market increased from 2.5% to 4.2%. The transition to EVs is expected to continue. The International Energy Agency calculates that new EV sales must rise to over 50m by 2030 or 50% of new car sales globally to meet net carbon zero targets by 2050, encouraging governments to implement policies to secure this shift. The transition to EVs is driving demand for boehmite. Boehmite sales accounted for €16.0m of Nabaltec's revenues in FY20. Sales were to customers in South Korea, Japan and China. In early FY21 Nabaltec made its first sales to a European customer of boehmite for separator coatings. This activity is small scale at present, but management hopes it will increase significantly as proposed European gigafactories come on-line.

During FY20 Nabaltec launched a range of thermally conductive fillers, which it manufactures in both Germany and the United States. Amongst other applications, these are suitable for use in rapid charging stations, where the current densities required to charge EVs quickly generate substantial amounts of heat, which need to be removed from batteries to prevent combustion. Revenues from this product line could be significant longer-term.

Valuation

At current levels, the shares are trading on prospective consensus multiples that are lower than the respective means of our sample of European chemical companies on all metrics. This indicates potential for share price appreciation once there is greater visibility on the impact of the longer-term COVID-19 pandemic on the European steel industry and on the group's ability to continue to grow boehmite revenues. Since none of its peers manufactures significant volumes of boehmite, this valuation methodology involving the broad peer group excludes the potential from continued strong growth in boehmite sales beyond the end of the forecast period.

Exhibit 1: Multiples for European chemicals companies

Name	Market cap (€m	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
Akzo Nobel NV	19,090	2.2	2.2	12.8	12.0	22.0	19.7
Bodycote PLC	1,736	2.6	2.4	9.2	8.0	22.3	17.2
Croda International PLC	10,889	6.1	5.8	21.3	19.9	33.6	30.7
Elementis PLC	1,003	2.1	2.0	10.9	9.8	21.3	17.5
Evonik Industries AG	14,002	1.3	1.2	7.6	7.0	16.7	14.8
Fuchs Petrolub SE	5,658	2.1	2.0	13.2	12.2	26.1	23.8
Johnson Matthey PLC	7,332	1.9	1.8	11.1	9.5	19.5	15.3
Kemira Oyj	2,128	1.2	1.1	6.9	6.9	15.2	14.9
Koninklijke DSM NV	27,318	3.4	3.2	17.4	16.1	30.8	27.4
Orapi SA	55	0.5	0.5	6.3	5.9	55.5	46.3
Symrise AG	14,675	4.3	4.1	20.1	18.8	40.6	36.8
Umicore SA	12,566	3.6	3.3	12.9	12.9	23.8	25.0
Victrex PLC	2,349	7.2	6.8	19.7	17.4	28.6	24.8
Wacker Chemie AG	6,777	1.3	1.3	7.3	7.1	12.7	18.7
Mean		**2.8**	**2.7**	**12.6**	**11.7**	**24.1**	**23.8**
Nabaltec AG	279	1.7	1.6	9.1	7.6	20.9	15.8

Source: Refinitiv. Note: Prices at 29 April 2021. Grey shading indicates exclusion from mean.

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