

Nabaltec

Materials
01 September 2017

Record H117 performance; guidance raised

Nabaltec achieved strong earnings growth in H117, despite the drag on revenue growth and margins caused by the temporary shutdown of the US production facility, Nashtec, in August 2016 when its main supplier (and JV partner) went into administration. Management secured the outstanding stake in Nashtec in March 2017, enabling it to move forward with plans to re-open an enlarged facility in Q118. This will enable Nabaltec to benefit from growth in demand in Europe driven by tightening safety regulations.

Innovative products drive growth in H117

Revenues rose by €4.7m (5.6%) y-o-y during H117 to €88.7m. Functional Fillers revenues grew by €1.4m (2.2%) to €59.7m as, although capacity was constrained while Nashtec was out of action, Nabaltec was able to push through price increases for fine hydroxides. Technical Ceramics revenues increased by €3.3m (12.9%) to €28.9m, benefiting from a recovery in the steel industry and strong sales of ceramic bodies. The EBIT margin was up 0.71bp to 10.9% as the cost of shipping product from Germany to the US was offset by the efficiency gains arising from operating the main German plant at capacity and by the fine hydroxide price increases. Net debt increased by €5.8m to €42.2m, and gearing by 5.6pp to 68.5%, reflecting €11.9m capex, primarily for capacity expansion at Nashtec, and €6.0m repaying a loan from Nashtec's minority shareholder to secure 100% ownership.

Brakes off when US facility re-opens in Q118

Citing continued demand for functional fillers driven by tighter regulations on fire retardant cabling, improvement in demand for technical ceramics from the steel industry, and high utilisation rates, management has raised FY17 revenue guidance from low single- to mid-single-digit growth and EBIT guidance from high single-digit to around 10%. The German operation is currently operating at capacity, but volume constraints will disappear when Nashtec reopens in Q118, enabling Nabaltec to take advantage of rising EU demand driven by tighter safety standards.

Valuation: FY17 guidance upgrades priced in

The share price has risen by over 50% since the Q117 results confirmed that Nabaltec can deliver revenue growth and EBIT margin improvement while Nashtec is closed. The shares are trading on a year 2 P/E multiple that is in line with the mean for our sample of European speciality chemicals companies but ahead of the year 1 P/E mean, suggesting that FY17 guidance upgrades are already priced in.

Consensus estimates

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 12/15 | 151.3 | 10.9 | 0.84 | 0.15 | 27.0 | 0.7 |
| 12/16 | 159.2 | 9.2 | 0.67 | 0.15 | 33.9 | 0.7 |
| 12/17e | 166.0 | 12.4 | 1.02 | 0.20 | 22.2 | 0.9 |
| 12/18e | 177.0 | 15.5 | 1.29 | 0.30 | 17.6 | 1.3 |

Source: Bloomberg, 29 August 2017

Price €22.68
Market cap €181m

Share price graph



Share details

| | |
|---|----------------------|
| Code | NTG |
| Listing | Deutsche Börse Scale |
| Shares in issue | 8m |
| Last reported net debt at end June 2017 | €42m |

Business description

Nabaltec develops, manufactures and distributes environmentally friendly, specialised products based primarily on aluminium hydroxide and aluminium oxide. It is one of the world's leading suppliers of functional fillers for flame retardants, ceramic raw material and ceramic bodies.

Bull

- Demand for halogen-free flame retardants driven by demand for safety of people and property, and environmental concerns.
- World leader in supply of halogen-free flame retardants based on fine precipitated hydroxides.
- Ability to finance capacity expansion and technology development.

Bear

- Capacity constraints until US facility comes back online in Q118.
- Cash drain of US investment.
- Low free float: 39.0%.

Analysts

| | |
|--------------------|---------------------|
| Anne Margaret Crow | +44 (0)20 3077 5700 |
| Roger Johnston | +44 (0)20 3077 5722 |

industrials@edisongroup.com

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H117 performance

Revenues rose by €4.7m (5.6%) y-o-y during H117 to €88.7m. Revenues from the Functional Filler division increased slightly (2.2%) by €1.4m to €59.7m. Following the temporary closure of Nashtec in August 2016, customers in the US have been supplied from Nabaltec's plant in Schwandorf, Germany, which operated at peak capacity throughout H117. This meant that Nabaltec was not able to increase capacity further in response to rising demand for fine hydroxides in Europe. However, Nabaltec succeeded in raising prices for fine hydroxides, resulting in the modest divisional revenue increase. In contrast, Technical Ceramics' performance was not constrained by restrictions on capacity. Divisional revenues increased by €3.3m (12.9%) to €28.9m. Around half of Nabaltec's technical ceramic output is used in longer-lasting refractories, supporting efficient steel production. Requirements for this application benefited from a recovery in the steel industry, which reported year-on-year increases in global crude steel production for each of the months in H117. The division also experienced strong sales of ceramic bodies. Nabaltec is the world leader in ready-to-press aluminium oxide based ceramic bodies. These high-performance ceramics exhibit extremely high mechanical strength. Their low weight and exceptional hardness makes them suitable, among other applications, for use as ballistic protection for personnel and vehicles.

The H1 EBIT margin was up 0.71bp to 10.9%. The cost of shipping product from Germany to the US, and the unfavourable US dollar/euro exchange rate, both of which dragged on margins, were offset by the efficiency gains arising from operating the main German plant at capacity, the fine hydroxide price increases mentioned earlier and a higher proportion of value-added products. These include ceramic bodies, synthetic sintered mullite for refractories used in glass manufacturing and reactive oxides used in refractories, technical/engineering ceramics and the polishing industry. EBIT grew by 14.1% to €9.7m. EPS rose more strongly, by 43.4% to €0.76.

Net debt increased by €5.8m to €42.2m and gearing by 5.6pp to 68.5%. Cash generated from operations was €14.4m, a 14.3% y-o-y reduction because of less favourable movements in working capital. €11.9m cash was consumed in capital expenditure, primarily in expanding capacity at Nashtec from 22,000 tonnes pa to 30,000 tonnes pa, as well as capacity and infrastructure at the Schwandorf site. Management also invested €6.0m in repaying a loan to Nashtec's minority shareholder to secure 100% ownership of the operation.

Nashtec future secured

Until August 2016, Nabaltec's US customers were supplied from Texas based Nashtec, a JV with Sherwin Alumina in which Nabaltec held a 51% stake. Sherwin Alumina provided Nashtec with raw materials, but this source stopped in August 2016 when Sherwin entered Chapter 11 bankruptcy. The plant was temporarily closed and Nabaltec's US customers supplied from its Schwandorf site. In March 2017, Nabaltec concluded discussions with Sherwin's new owners, Corpus Christi Alumina, which is part of Glencore, to acquire the outstanding 49% stake in Nashtec and some production buildings and technical equipment on an adjacent piece of land that are required to operate the plant independently of the former Sherwin facility. It also concluded discussions regarding reinstatement of raw material supply. Now that it has secured control of the business, Nabaltec is able to proceed with its investment programme for the site. Management intends to resume supply from the site in Q118. We note that the re-opening schedule has not been affected by Hurricane Harvey. The plant is likely to be without electricity for one or more days, but otherwise there has been no major damage or flooding.

Management confident of future and raised guidance

Management has raised FY17 revenue guidance from low single- to mid-single-digit growth. This is based on continued demand for functional fillers for flame retardants as well as the improvement in demand for technical ceramics from the steel industry noted earlier. Demand for non-halogenated flame retardants is growing because of tightening fire safety requirements and increasing attention on the reduction of fumes. This is of particular concern in areas where it is difficult for people to escape quickly, such as tunnels, airports and high-rise buildings, and for electronic products that may be taken onto aircraft. In July 2017, the Construction Products Regulation came into force throughout the EU. This makes it mandatory for new cabling supplying electricity or being used for control or communication purposes to meet the EN 50575 standard regarding performance when subjected to fire. Nabaltec is well placed to benefit from this trend because it is the world-leader with regard to the volume of fine precipitated aluminium hydroxide sold as a functional filler. It has achieved this position through the quality and reliability of its products, its long-term relationship with customers and sustained investment in R&D and capacity.

The high utilisation rates associated with the anticipated level of volumes has led management to raise EBIT guidance from high single-digit to around 10%. The German operation is currently operating at capacity, but volume constraints will disappear when Nashtec reopens in Q118, enabling Nabaltec to take advantage of rising EU demand driven by these newer safety standards. Longer-term we note the potential from products targeted at emerging applications. For example, sales of boehmite, which is used as a separator coating in lithium-ion batteries, grew by c 35% during H117.

Valuation

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 | 23,509 | 1.5 | 1.5 | 9.9 | 9.5 | 17.8 | 17.2 |
| Bodycote | 2,317 | 2.6 | 2.6 | 9.9 | 9.4 | 20.7 | 19.5 |
| Clariant AG-REG | 7,948 | 1.5 | 1.4 | 9.8 | 9.2 | 18.3 | 16.4 |
| Croda International | 6,610 | 4.0 | 3.9 | 14.2 | 13.4 | 22.4 | 21.0 |
| Elementis | 1,650 | 2.4 | 2.3 | 12.5 | 11.2 | 18.3 | 16.5 |
| Evonik Industries | 15,387 | 1.1 | 1.1 | 7.0 | 6.5 | 13.6 | 12.7 |
| Fuchs Petrolub | 7,316 | 2.5 | 2.4 | 13.9 | 13.1 | 20.9 | 19.8 |
| Givaudan-REG | 19,004 | 3.9 | 3.7 | 17.5 | 16.5 | 25.3 | 23.7 |
| Holland Colours | 88 | 0.8 | 0.8 | 6.6 | 6.0 | 12.2 | 11.0 |
| Johnson Matthey | 6,974 | 0.5 | 0.4 | 8.8 | 8.1 | 13.0 | 12.1 |
| Kemira OYJ | 2,003 | 0.9 | 0.9 | 7.4 | 6.6 | 15.1 | 12.6 |
| Koninklijke DSM | 13,787 | 1.6 | 1.6 | 9.9 | 9.4 | 16.8 | 15.4 |
| Nanogate | 277 | 1.6 | 1.5 | 13.8 | 11.3 | 88.9 | 57.3 |
| Orapi | 62 | 0.4 | 0.4 | 7.7 | 6.2 | 46.5 | 11.2 |
| Symrise | 9,515 | 3.1 | 3.0 | 14.7 | 13.7 | 26.5 | 24.3 |
| Umicore | 8,280 | 0.6 | 0.6 | 12.9 | 11.4 | 24.7 | 21.8 |
| Victrex | 2,249 | 5.9 | 5.5 | 13.0 | 11.8 | 19.5 | 17.6 |
| Wacker Chemie | 6,580 | 1.3 | 1.2 | 6.6 | 6.2 | 28.7 | 21.3 |
| Mean | | 1.8 | 1.7 | 10.9 | 10.0 | 19.6 | 17.3 |
| Nabaltec | 220 | 1.3 | 1.3 | 8.4 | 7.4 | 22.2 | 17.6 |

Source: Bloomberg. Note: Grey shading indicates exclusion from mean. Prices as at 29 August 2017.

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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

295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342

Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia