Ringmetall

Industrials

18 October 2017

Positive development despite headwinds

Ringmetall made good progress during H117, driven by strong growth in the key Industrial Packaging division. Margins are being dampened by higher input costs, while FX is reducing contributions on translation as well as pressurising export margins. The share price progression so far in 2017 suggests the market is finding the transition story increasingly credible, and is starting to rate Ringmetall more appropriately as the manufacturing entity it has become. Management is seeking to grow this further and the balance sheet remains supportive.

Robust performance in H117

The near 10% increase in group revenues was driven by strong operational performances in its core Germany and US markets, as well as better than expected results in both Spain and China. The weaker performance in Turkey, together with the adverse effects of a stronger euro and adverse Q2 steel price input costs served to reduce gross margins, which remain healthy at 45%, leading to a broadly flat EBITDA contribution. Net income was up by almost 28% as a result of lower depreciation, finance costs and taxation. Net debt at €13.4m was much reduced compared to the year end level of €19.0m.

Executing the growth strategy

The company continues to pursue its grow and build strategy with two further acquisitions announced for completion in H217 that further enhance the core Industrial Packaging activity's world-leading position in drum closure technologies. The acquisition of Latza in Germany introduces new technologies and application expertise, while the smaller HongRen acquisition in China strengthens Ringmetall's market position and enhances its export capability to support key drum manufacturers in Asia. We expect this to continue in FY18.

Valuation: Discount to peers has narrowed

Guidance for the full year remains unchanged despite the first half performance, with revenue expectations of €98-103m. Consensus estimates have increased since our initiation note and now sit at the top of that range. With the share price up 20% over the same period, the discount apparent to peer P/E multiples has narrowed materially. It suggests that Ringmetall's transformation story is gaining credence.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	66.7	0.7	(0.03)	0.05	N/A	1.3
12/16	94.3	5.0	0.09	0.05	43.3	1.3
12/17e	103.0	7.0	0.19	0.06	20.5	1.5
12/18e	111..0	9.1	0.25	0.07	15.6	1.8

Source: Bloomberg consensus at 3 October 2017 (one estimate only)

Price	€3.9
Market cap	€98m

Share price graph

Share details

Code	HP3 GR
Listing	Deutsche Börse Scale
Shares in issue	25.2
Last reported net debt as at 30 June 2017	(€13.4m)

Business description

Ringmetall manufactures specialist industrial packaging solutions. Its core products are drum closing systems for the chemicals, pharmaceuticals and food sectors. It is also active in industrial handling where it manufactures speciality forklift components and specialist components for trucks, as well as industrial and agricultural vehicles.

Bull

- Solid market leadership with barriers to entry
- Structural growth market
- Growth from new acquisitions

Bear

- Challenging macro environment
- Volatility of steel prices and FX
- High leverage and client concentration

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H117 highlights

The first half of the year saw a combination of strong top line growth and margin pressure. Overseas sales accounted for €34.8m or 66% of the group total (H116 €30.5m, 63%).

Exhibit 1: Ringmetall H117 results summary

6m to June (€m)	H116	H117	% change
Sales			
Industrial Packaging	40.2	45.3	12.8%
Industrial Handling	8.0	7.6	-5.0%
Total group	**48.2**	**52.9**	**9.7%**
	45.7	44.0	
Gross profit	22.0	23.7	7.5%
Gross margin (%)	*45.7*	*44.7*	
EBITDA	**7.0**	**7.1**	**1.0%**
EBITDA margin (%)	*14.6*	*13.4*	
EBIT	4.5	4.7	6.2%
PBT	**3.9**	**4.3**	**10.6%**
Net income	2.3	3.0	27.9%
Net debt	**21.1**	**13.4**	**-36.4%**

Source: Ringmetall

Strong revenue growth of 12.8% in the Industrial Packaging division was undermined by the combined effect of a stronger euro and rising steel input prices. Ringmetall uses MEPS future steel price indices in its contracts to help pass through steel price changes, but in Q2 prices continued to rise despite a fall in the future indices which led to some margin dilution. These factors eroded margins through increased input costs and reduced translation of profits from the US and Turkey. EBITDA contribution fell to €6.6m from €7.0m in H116. However, the core markets of Germany and the US experienced a strong operational development, with China and Spain improving more than expected. China is expected to move into profit for the first time in the current year. Demand in Turkey was depressed by political factors as well as currency effects.

The EBITDA contribution of the smaller Industrial Handling business doubled to €0.8m, despite a 5% drop in sales to €7.6m, as it continued to benefit from investment in proprietary products.

The overall EBITDA development was flat for the period compared to the prior year, but lower depreciation and interest charges facilitated a double-digit increase in PBT with the margin maintained at 8.1%.

Outlook

Management indicated that for the second half of the year it anticipated a more muted operational performance implying slower sales growth in Industrial Packaging, as well as the continuing pressure on margins from input costs and FX. The smaller Industrial Handling activity is expected to see a continued improvement in margins in H217. Guidance from management was therefore unchanged.

Subsequent events

The company also announced on June 2017 the acquisition in an asset-based deal of Hong Renim Hong Ren), a Changzhou, China-based producer of tension rings and barrel closure systems. The vendor family will retain a 20% stake and the production facilities are to be integrated into Ringmetall's existing operation in Changzhou. The purchase of a small profitable competitor with sales of around €1.2m will extend customer relationships and further raise awareness of quality and safety standards in dangerous goods packaging. It also increases export capabilities into the Asian market. Completion is expected in Q417.

The acquisition of Latza Gmbh for an undisclosed price was announced on 31 July 2017. Based in Attendorn, Germany, Latza is a manufacturer of specialist clamping rings of different dimensions, material widths and surface coatings including the corresponding sealing plugs, with a specialisation in tinplate applications. It also brings with it innovative spring clamping ring technologies that Ringmetall will be able to offer across its Industrials Handling division. Without a purchase price it is difficult to assess the financial terms, but management indicates it follows the usual prudent approach. Latza will add €4-5m to group sales in a full year, with similar EBITDA margins to Ringmetall at the group level. As such, it should be immediately earnings enhancing. It is in line with the group strategy to build the Industrial Handling business through acquisition as well as organically.

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