

H&A FIRST TAKE

H&A FIRST TAKE

H&A FIRST TAKE

22-August-19

Blow out Q2 despite challenging markets

Nabaltec just released its strongest quarter ever. Along a strong top-line development, the EBIT margin clearly exceeded management's FY guidance, underlying the healthy prospects of the company.

	Q2 2019	Q2 2019 est	Q2 2018	yoy	Q1 2019	qoq	H1 2019	H1 2018	yoy
Sales	49.0	49.5	46.5	5.4%	48.5	2.1%	97.4	91.4	6.6%
Functional Fillers	33.8	33.9	30.7	10.3%	32.5	4.3%	66.3	59.8	10.9%
Special Alumina	15.2	15.6	15.9	-4.1%	15.9	-1.9%	31.1	31.6	-1.6%
EBIT	6.6	6.7	5.4	22.2%	5.8	16.2%	12.4	9.7	27.8%
EBIT margin	13.5%	13.6%	11.6%	+ 1.9 pp	12.0%	+ 1.6 pp	12.7%	10.6%	+ 2.1 pp
Net Profit	4.1	3.0	2.2	86.4%	3.5	17.1%	7.6	5.1	49.0%

Source: Company data, Hauck & Aufhäuser

Q2 sales rose organically by 5.4% yoy to € 49m. The key driver for this is the continuously sturdy performance of Nabaltec's core segment **Functional Fillers (+10.5% yoy to € 33.8m)**, benefitting from the ramp-up of Nashtec, higher sales prices but also growing demand for boehmite. Specialty Alumina witness a slight sales decrease as the company cannot fully de-couple from the macro driven weakness within the refractory industry (-4% yoy to € 15.2m).

Further growth acceleration in H2. We remain confident that H2 should show even higher growth due to (1) a weak comps in H2 '18, (2) management stating that Nashtec is gradually improving its utilization rates and (3) the improved order book (+7% yoy to € 62m). While we regard the lower end of the sales guidance (€ 190-195m) as conservative, it implies 8.5% yoy growth in H2.

All eyes on profitability. Despite the weakness within Specialty Alumina, the group's **EBIT margin improved by 1.9pp yoy to 13.5%**, exceeding the upper end of the FY margin guidance (12%). This is driven by an improving product mix (boehmite with > 30% EBIT margins and 66% yoy growth in H1), the group-wide implemented price increases and fading one-off costs related to Nashtec; H1 gross profit margin +3.2pp yoy.

→ **Functional Fillers' margin stood at a whopping 14.3% (4pp yoy)** despite the yet missing operating leverage from Nashtec.

Boehmite in the fast lane. In H1, boehmite grew by 66% yoy (eH&A € 6m sales and € 2m EBIT) driven by the ramp-up of battery production for EVs and the increasing adoption rate of Nabaltec's boehmite by leading battery cell producers. Interestingly, management stated in its Q2 report "This product segment has a bright future and we expect it to play a much more significant role within Nabaltec's product portfolio", providing us with confidence into the ample earnings growth potential of this product.

FY19 EBIT margin guidance with upgrade potential. Considering the sturdy Q2 and an accelerating H2 with a strong momentum of boehmite sales (eH&A +75% yoy to 3.5kt for FY19) and fading headwinds related to the ramp-up of Nashtec (eH&A: at least break-even this year compared to a € 4m EBIT loss in FY'18), we regard the margin guidance (10-12%) as conservative and expect the company to exceed it (eH&A 13%).

Nabaltec remains a strong BUY

Christian Sandherr

Analyst

Christian.Sandherr@ha-ib.de

+49 (40) 4143885 79

Buy

Price target: EUR 44.00

Price: EUR 32.40

Close price as of: 21.08.2019

Disclosures regarding research publications of Hauck & Aufhäuser Privatbankiers AG pursuant to section 85 of the German Securities Trading Act (WpHG) and distributed in the UK under an EEA branch passport, subject to the FCA requirements on research recommendation disclosures

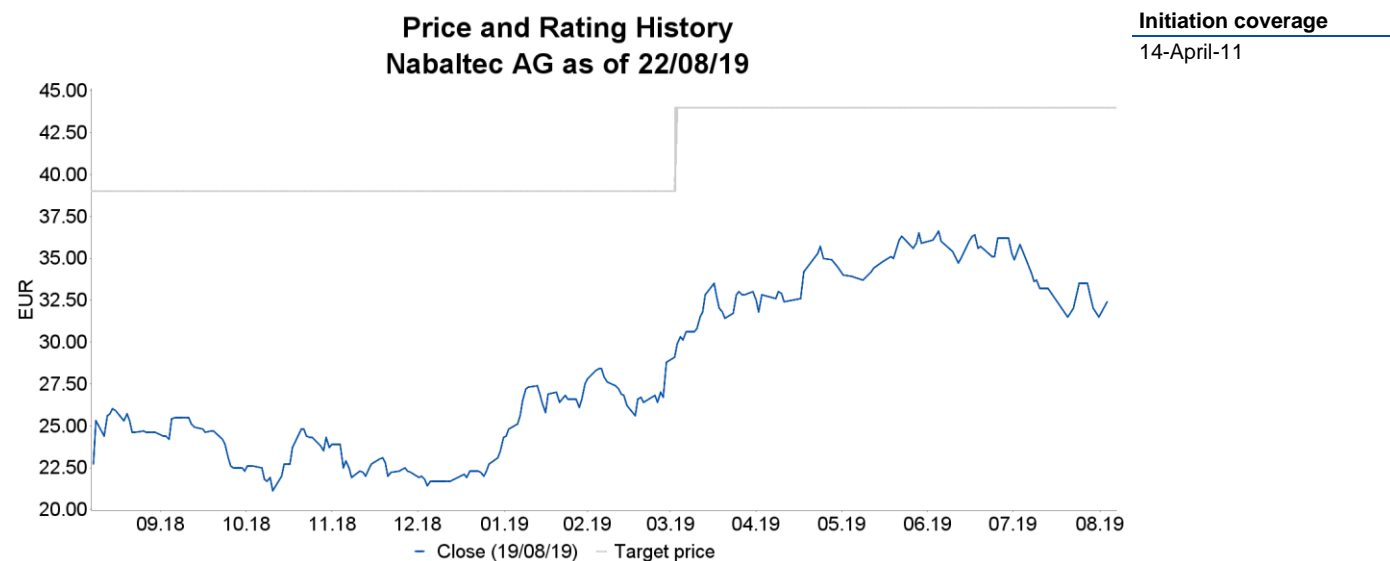
It is essential that any research recommendation is fairly presented and discloses interests of indicates relevant conflicts of interest. Pursuant to section 85 of the German Securities Trading Act (WpHG) a research report has to point out possible conflicts of interest in connection with the analysed company. Further to this, under the FCA’s rules on research recommendations, any conflicts of interest in connection with the recommendation must be disclosed. A conflict of interest is presumed to exist in particular if Hauck & Aufhäuser Privatbankiers AG

- (1) or its affiliate(s) (either in its own right or as part of a consortium) within the past twelve months, acquired the financial instruments of the analysed company,
- (2) has entered into an agreement on the production of the research report with the analysed company,
- (3) or its affiliate(s) has, within the past twelve months, been party to an agreement on the provision of investment banking services with the analysed company or have received services or a promise of services under the term of such an agreement,
- (4) or its affiliate(s) holds a) 5% or more of the share capital of the analysed company, or b) the analysed company holds 5% or more of the share capital of Hauck & Aufhäuser Privatbankiers AG or its affiliate(s),
- (5) or its affiliate(s) holds a net long (a) or a net short (b) position of 0.5% of the outstanding share capital of the analysed company or derivatives thereof,
- (6) or its affiliate(s) is a market maker or liquidity provider in the financial instruments of the issuer,
- (7) or the analyst has any other significant financial interests relating to the analysed company such as, for example, exercising mandates in the interest of the analysed company or a significant conflict of interest with respect to the issuer,
- (8) The research report has been made available to the company prior to its publication. Thereafter, only factual changes have been made to the report.

Conflicts of interest that existed at the time when this research report was published:

Company	Disclosure
Nabaltec AG	2, 3

Historical target price and rating changes for Nabaltec AG in the last 12 months



Company	Date	Analyst	Rating	Target price	Close
Nabaltec AG	07.08.2019	Sandherr, Christian	Buy	EUR 44,00	EUR 32,00
	07.06.2019	Sandherr, Christian	Buy	EUR 44,00	EUR 36,30
	06.05.2019	Sandherr, Christian	Buy	EUR 44,00	EUR 34,20
	21.03.2019	Sandherr, Christian	Buy	EUR 44,00	EUR 30,10
	28.02.2019	Sandherr, Christian	Buy	EUR 39,00	EUR 26,80
	10.01.2019	Sandherr, Christian	Buy	EUR 39,00	EUR 22,30

29.11.2018	Sandherr, Christian	Buy	EUR 39,00	EUR 22,40
05.11.2018	Sandherr, Christian	Buy	EUR 39,00	EUR 24,80
27.08.2018	Sandherr, Christian	Buy	EUR 39,00	EUR 24,40

Hauck & Aufhäuser distribution of ratings and in proportion to investment banking services

Buy	66.04 %	75.00 %
Sell	11.95 %	5.00 %
Hold	22.01 %	20.00 %

Date of publication creation: 22/08/2019 11:41 AM

Date of publication dissemination: 22/08/2019 11:42 AM

1. General Information/Liabilities

This research report has been produced for the information purposes of institutional investors only, and is not in any way a personal recommendation, offer or solicitation to buy or sell the financial instruments mentioned herein. The document is confidential and is made available by Hauck & Aufhäuser Privatbankiers AG, exclusively to selected recipients [in DE, GB, FR, CH, US, UK, Scandinavia, and Benelux or, in individual cases, also in other countries]. A distribution to private investors in the sense of the German Securities Trading Act (WpHG) is excluded. It is not allowed to pass the research report on to persons other than the intended recipient without the permission of Hauck & Aufhäuser Privatbankiers AG. Reproduction of this document, in whole or in part, is not permitted without prior permission Hauck & Aufhäuser Privatbankiers AG. All rights reserved.

Under no circumstances shall Hauck & Aufhäuser Privatbankiers AG, any of its employees involved in the preparation, have any liability for possible errors or incompleteness of the information included in this research report – neither in relation to indirect or direct nor consequential damages. Liability for damages arising either directly or as a consequence of the use of information, opinions and estimates is also excluded. Past performance of a financial instrument is not necessarily indicative of future performance.

2. Responsibilities

This research report was prepared by the research analyst named on the front page (the "Producer"). The Producer is solely responsible for the views and estimates expressed in this report. The report has been prepared independently. The content of the research report was not influenced by the issuer of the analysed financial instrument at any time. It may be possible that parts of the research report were handed out to the issuer for information purposes prior to the publication without any major amendments being made thereafter.

3. Organisational Requirements

Hauck & Aufhäuser Privatbankiers AG took internal organisational and regulative precautions to avoid or accordingly disclose possible conflicts of interest in connection with the preparation and distribution of the research report. All members of Hauck & Aufhäuser Privatbankiers AG involved in the preparation of the research report are subject to internal compliance regulations. No part of the Producer's compensation is directly or indirectly related to the preparation of this financial analysis. In case a research analyst or a closely related person is confronted with a conflict of interest, the research analyst is restricted from covering this company.

4. Information Concerning the Methods of Valuation/Update

The determination of the fair value per share, i.e. the price target, and the resultant rating is done on the basis of the adjusted free cash flow (adj. FCF) method and on the basis of the discounted cash flow – DCF model. Furthermore, a peer group comparison is made.

The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate of 7.5%. The operating cash flow is calculated as EBITDA less maintenance capex and taxes.

Within the framework of the DCF approach, the future free cash flows are calculated initially on the basis of a fictitious capital structure of 100% equity, i.e. interest and repayments on debt capital are not factored in initially. The adjustment towards the actual capital structure is done by discounting the calculated free cash flows with the weighted average cost of capital (WACC), which takes into account both the cost of equity capital and the cost of debt. After discounting, the calculated total enterprise value is reduced by the interest-bearing debt capital in order to arrive at the equity value.

Hauck & Aufhäuser Privatbankiers AG uses the following three-step rating system for the analysed companies:

Buy: Sustainable upside potential of more than 10% within 12 months
Sell: Sustainable downside potential of more than 10% within 12 months.
Hold: Upside/downside potential is limited. No immediate catalyst visible.

NB: The ratings of Hauck & Aufhäuser Privatbankiers AG are not based on a performance that is expected to be "relative" to the market.

The decision on the choice of the financial instruments analysed in this document was solely made by Hauck & Aufhäuser Privatbankiers AG. The opinions and estimates in this research report are subject to change without notice. It is within the discretion of Hauck & Aufhäuser Privatbankiers AG whether and when it publishes an update to this research report, but in general updates are created on a regular basis, after 6 months at the latest. A sensitivity analysis is included and published in company's initial studies.

5. Major Sources of Information

Part of the information required for this research report was made available by the issuer of the financial instrument. Furthermore, this report is based on publicly available sources (such as, for example, Bloomberg, Reuters, VWD-Trader and the relevant daily press) believed to be reliable. Hauck & Aufhäuser Privatbankiers AG has checked the information for plausibility but not for accuracy or completeness.

6. Competent Supervisory Authority

Hauck & Aufhäuser Privatbankiers AG are under supervision of the BaFin – German Federal Financial Supervisory Authority Bundesanstalt für Finanzdienstleistungsaufsicht), Graurheindorfer Straße 108, 53117 Bonn and Marie-Curie-Straße 24 – 28, 60439 Frankfurt a.M.

This document is distributed in the UK under a MiFID EEA branch passport and in compliance with the applicable FCA requirements.

7. Specific Comments for Recipients Outside of Germany

This research report is subject to the law of the Federal Republic of Germany. The distribution of this information to other states in particular to the USA, Canada, Australia and Japan may be restricted or prohibited by the laws applicable within this state.

8. Miscellaneous

According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under:
<https://www.hauck-aufhaeuser.com/en/investment-banking/equities#institutionalresearch>

Contacts: Hauck&Aufhäuser Privatbankiers AG

Hauck & Aufhäuser Research

Hauck & Aufhäuser
Privatbankiers AG
Mittelweg 16/17
20148 Hamburg
Germany

Tel.: +49 (0) 40 414 3885 91
Fax: +49 (0) 40 414 3885 71
Email: research@ha-ib.de
www.ha-research.de

Tim Wunderlich, CFA
Head of Transactional Research
Tel.: +49 40 414 3885 81
E-Mail: tim.wunderlich@ha-ib.de

Henning Breiter
Head of Research
Tel.: +49 40 414 3885 73
E-Mail: henning.breiter@ha-ib.de

Marie-Thérèse Grübner
Head of Corporate Brokerage
Tel.: +49 40 450 6342 3097
E-Mail: marie-therese.gruebner@ha-ib.de

Aliaksandr Halitsa
Analyst
Tel.: +49 40 414 3885 83
E-Mail: aliaksandr.halitsa@ha-ib.de

Alina Köhler
Analyst
Tel.: +49 40 450 6342 3095
E-Mail: alina.koehler@ha-ib.de

Catharina Claes
Analyst
Tel.: +49 40 450 6342 3092
E-Mail: catharina.claes@ha-ib.de

Christian Glowa
Analyst
Tel.: +49 40 414 3885 95
E-Mail: christian.glowa@ha-ib.de

Christian Salis
Analyst
Tel.: +49 40 414 3885 96
E-Mail: christian.salis@ha-ib.de

Christian Sandherr
Analyst
Tel.: +49 40 414 3885 79
E-Mail: christian.sandherr@ha-ib.de

Frederik Bitter
Analyst
Tel.: +49 40 450 6342 3091
E-Mail: frederik.bitter@ha-ib.de

Julius Stinauer
Analyst
Tel.: +49 40 414 3885 84
E-Mail: julius.stinauer@ha-ib.de

Robin Brass, CFA
Analyst
Tel.: +49 40 414 3885 76
E-Mail: robin.brass@ha-ib.de

Simon Bentlage
Analyst
Tel.: +49 40 450 6342 3096
E-Mail: simon.bentlage@ha-ib.de

Hauck & Aufhäuser Sales

Toby Woods
Head of Sales
Tel.: +44 203 9473 245
E-Mail: toby.woods@ha-ib.de

Christian Alisch
Sales
Tel.: +49 40 414 3885 99
E-Mail: christian.alisch@ha-ib.de

Vincent Bischoff
Sales
Tel.: +49 40 414 3885 88
E-Mail: vincent.bischoff@ha-ib.de

Carlos Becke
Sales
Tel.: +49 40 414 3885 74
E-Mail: carlos.becke@ha-ib.de

Alexander Lachmann
Sales
Tel.: +41 43 497 30 23
E-Mail: alexander.lachmann@ha-ib.de

Hugues Madelin
Sales
Tel.: +33 1 78 41 40 62
E-Mail: hugues.madelin@ha-ib.de

Christian Schwenkenbecher
Sales
Tel.: +44 203 9473 246
E-Mail: christian.schwenkenbecher@ha-ib.de

Imogen Voorspuy
Junior Sales
Tel.: +44 203 9473 244
E-Mail: imogen.voorspuy@ha-ib.de

Hauck & Aufhäuser Sales Trading

Hauck & Aufhäuser
Privatbankiers AG
Mittelweg 16/17
20148 Hamburg
Germany

Tel.: +49 40 414 3885 78
Fax: +49 40 414 3885 71
Email: info@hauck-aufhaeuser.com
www.hauck-aufhaeuser.com

Mirko Brueggemann
Trading
Tel.: +49 40 414 3885 78
E-Mail: mirko.brueggemann@hauck-aufhaeuser.com

Christian von Schuler
Trading
Tel.: +49 40 414 3885 77
E-Mail: christian.schuler@hauck-aufhaeuser.com

Fin Schaffer
Trading
Tel.: +49 40 414 3885 98
E-Mail: fin.schaffer@hauck-aufhaeuser.com

Kathleen Jonas
Middle-Office
Tel.: +49 40 414 3885 97
E-Mail: kathleen.jonas@hauck-aufhaeuser.com

Alexander Hanisch
Middle-Office
Tel.: +49 40 414 3885 87
E-Mail: alexander.hanisch@hauck-aufhaeuser.com