

H&A FIRST TAKE

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18-October-19

PW: Only temporary headwinds // investment case remains fully intact

Yesterday, Nabaltec published preliminary Q3 results. As a result of the weaker than expected top-line performance (sales +0.9% yoy; FF +6.8% yoy, SA -10.3% yoy), **management downward revised its FY sales guidance**. Importantly, the company's **FY EBIT margin expectations (10-12%) remain unchanged**.

Specialty Alumina sales strongly declined by 10.3% yoy amid the lower volumes sold, reflecting the subdued macroeconomic environment. In addition, management does not seem to expect this to notably change in Q4.

Functional Fillers sales are up 6.8% yoy, lower than H1 (10.9% yoy). The key reason behind this were lower output rates in the US subsidiary Nashtec as **a result of temporary technical issues**. For FY19, this should result in a € 5m sales shortfall within FF. Importantly, demand for NTG's fine ATH remains strong. For this year, Nashtec's output should be 7/8kt this year. With the issues being resolved by the end of Q4 (eH&A), Nabaltec should be able to sell 20kt in 2020E and 30kt in 2021E (eH&A).

Profitability remains strong: Despite notable top-line headwinds, Nabaltec's preliminary Q3 EBIT margin came in at 10.9%, +0.8pp yoy. For the first nine months, NTG's EBIT margin stands at 12.1% (+1.7pp yoy), still poses a new record high.

Guidance cut only on the top-line, margin reiterated: Management cut its FY19 sales expectations to € 181 to 184m (old: € 190 to 195m, eH&A € 200m). In our view, the **upper end of the new revenue guidance should be reached**. Mind you, the lower end excludes NTG's Turkey business (c. € 0.8m per month) as management wants to be precautionary in regards to potential sanctions from the US. Most importantly, NTG's EBIT margin guidance remained unchanged (10-12%). From speaking to management, we regard the **upper end (11.5-12%) as still in reach**.

Boehmite growth remains at full throttle: Despite the overall weakening automotive industry, boehmite (safety and performance enhancing component of lithium-ion EV batteries) continues to show ample growth. In Q3, **Nabaltec's boehmite sales grew by 63% yoy**; +65% yoy during the first nine months of 2019. Importantly, growth rates for 2020 should remain at 50-60% yoy (eH&A), supported by an overall growth of the EV market and increasing adoption rates.

While still constituting a small proportion of the NTG's overall result, boehmite has the **potential to change Nabaltec's market perception**; from being a niche player for environmental friendly flame retardants towards a mission-critical EV supplier. Mind you, our **DCF for boehmite alone yields a value per share of € 16-30**.

While the weaker than initially expected performance in FY19 is somewhat disappointing, we regard the reasons behind it as only temporary. Most importantly however, the **investment case remains intact**. NTG's "gem" (boehmite with >30% EBIT margins and +50% growth p.a.) remains on its ample growth path (9m +65% yoy)

Investment case is intact // NTG remains a strong BUY

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Buy

Price target: EUR 44.00

Price: EUR 29.50

Close price as of: 17.10.2019

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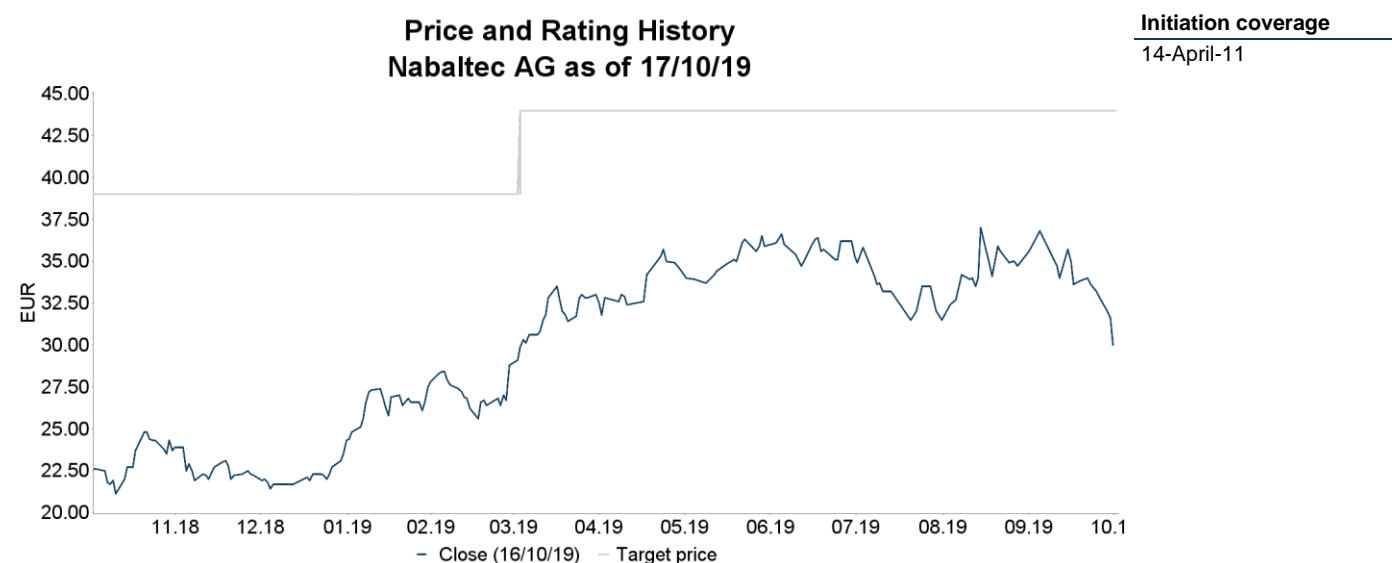
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Company	Disclosure
Nabaltec AG	2, 3

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



Company	Date	Analyst	Rating	Target price	Close
Nabaltec AG	30.08.2019	Sandherr, Christian	Buy	EUR 44,00	EUR 37,00
	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

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