

## Nabaltec

**Materials**
**7 May 2019**

### Shift to higher-margin products

Nabaltec posted record revenues and EBIT in FY18, despite the US facility being out of operation for most of the year. This reflects a shift to high-margin products, including reactive alumina and boehmite used in lithium-ion batteries for electric vehicles and energy storage. Management expects stronger revenue growth in FY19 as US capacity comes on line, with a sustained shift to higher-margin product supporting margin expansion.

### Record revenues and double-digit margins in FY18

FY18 revenues rose by 4.8% year-on-year to a record €176.7m. Revenues from the Functional Fillers product segment increased by only 2.1% to €114.6m because of capacity constraints while the US operation was out of action. The modest growth reflected a shift in product mix to include greater volumes of high-margin boehmite used in lithium-ion batteries and better pricing. Revenues from the Specialty Alumina segment grew by 10.1% to €62.1m, because of a shift to higher-margin products and higher volumes. EBIT margin reduced by 0.4pp to 10.4% as higher boehmite volumes tempered the negative impact of the US operation being closed for longer than expected and higher freight costs. Group EBIT grew by 1.1% to €18.5m. Net debt rose by €14.8m to €40.7m and gearing by 11.8pp to 42.4%, reflecting high levels of investment in capacity in the US.

### FY19 margins to expand as Nashtec ramps up

Management has confirmed FY19 guidance of €190–195m revenues and an EBIT margin of 10.0%-12.0%. Revenue growth is based on the ability to secure new customers in Europe to fill capacity in Germany now that the Nashtec site in the US is operational, initial production from a new US site for manufacturing refined hydroxides towards the year end, continuing growth in boehmite, especially in China, and completion of the programme to raise prices. Management expects the shift in product mix to be maintained, supporting margin expansion.

### Valuation: Trading at a discount to peers

The shares are currently trading on prospective EV/EBITDA and P/E multiples that are at a discount to the mean of the peer group. This indicates potential for share price appreciation once the ramp-up in production at Nashtec is complete and there is greater visibility on the group's ability to secure business to fill surplus capacity in Germany and to generate profits from the new US facility for refined hydroxides.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	168.6	15.7	1.39	0.18	24.3	0.5
12/18	176.7	15.8	1.17	0.20	28.9	0.6
12/19e	200.3	22.6	1.85	0.23	18.3	0.7
12/20e	216.4	25.1	2.07	0.27	16.3	0.8

Source: Refinitiv

**Price** €33.8  
**Market cap** €297m

#### Share price graph



#### Share details

Code: NTG  
 Listing: Deutsche Börse Scale  
 Shares in issue: 8.8m  
 Net debt at end Dec 2018: €40.7m

#### 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.

#### Bull

- Demand for halogen-free flame retardants driven by safety of people & property and environment.
- World leader in supply of halogen-free flame retardants based on fine precipitated hydroxides.
- Demand for boehmite boosted by growth in electric vehicles.

#### Bear

- Demand for speciality alumina dependent on health of global steel industry.
- Cash drain of US investment.
- Low free float.

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## **FY18 revenues at record levels**

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FY18 revenues rose by 4.8% year-on-year to a record €176.7m. This was in line with management guidance of mid-single digit growth. 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 the period. This meant Nabaltec was not able to increase capacity further in response to rising demand for fine hydroxides in Europe. Revenues from the Functional Fillers product segment therefore increased by only 2.1% to €114.6m. The modest growth is attributable to a shift in product mix to include greater volumes of boehmite (sales up 52.2% year-on-year), which commands a higher than average gross margin. Revenues from the Specialty Alumina segment grew by 10.1% to €62.1m because of higher volumes as well as a shift to higher-margin products. Exports accounted for 73.8% of total sales, which was a similar level to FY17 (73.2%).

The cost of materials as a percentage of revenues decreased by 0.9pp to 48.8%, reflecting price increases and the shift to higher-margin products. Personnel expenses increased by 5.4% as the number of employees increased from 476 at end FY17 to 496 at end FY18, partly as a result of moving contractors in the US onto the payroll. Other operating expenses increased by €1.1m to €30.7m because of higher freight and repair costs. Group EBIT grew by 1.1% to €18.5m. the operating margin, which declined by 0.4pp to 10.4%, was slightly ahead of the 'high single digit' forecast. This was adversely affected by the provision to cover the cost of the Nashtec closure being fully utilised by the end of March, while commissioning did not start until August rather than April as originally planned. (We note that the operation was closed throughout FY17 as well.) EPS fell by 15.8% to €1.17, reflecting the dilutive impact of the placing in September 2017 and higher income tax.

Net debt rose by €14.8m to €40.7m and gearing by 11.8pp to 42.4%. Cash generated from operations (€16.1m) was €9.9m lower than the prior year period because of an increase in receivables and decrease in payables compared with a substantial increase in payables during FY17 and higher income tax payments. Overall, €26.9m cash was consumed in capital expenditure, primarily in retrofitting and expanding capacity at Nashtec from 22,000 tonnes per year to 30,000 tonnes per year, optimising production processes at the German site, and purchasing a site and building up production capability for manufacturing refined hydroxides in the US.

## **Additional capacity underpins future growth**

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### **Expansion of capacity in the US**

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 retained its US customer base by supplying them from its Schwandorf site. In March 2017, Nabaltec concluded discussions to acquire the outstanding 49% stake in Nashtec, and some production buildings and technical equipment on an adjacent piece of land required to operate the plant independently. It also concluded discussions regarding reinstatement of raw material supply. Commissioning of the new production line with 30,000 tonnes capacity started in August 2018 and the plant recommenced operation towards the end of the year. The plant will assume full responsibility for supplying US customers from Q219 onwards, freeing up capacity for non-halogenated, flame-retardant fillers at the Schwandorf site.

The group has begun to construct a new production facility for refined hydroxides and boehmite in the US, thus opening up additional applications for flame retardants, as well as entering the e-

mobility sector. The first phase is the development of a production facility for refined hydroxides with an annual capacity of around 30,000 tonnes. This phase is expected to cost around US\$12m (including land), to commence production in H219 and to have a positive impact on consolidated earnings one year after that. In July 2018, Nabaltec acquired land and buildings in Chattanooga, Tennessee for this proposed production facility (estimated cost \$3m). The second phase, construction of a facility for boehmite production, will follow, assuming that demand from e-vehicles has developed sufficiently to warrant this. Management has not provided any guidance on the level of investment this would require. The group is also expanding capacity for reactive alumina and boehmite in Germany.

## **FY19 guidance confirmed**

In February management issued guidance for FY19 of €190–195m revenues and an EBIT margin of 10.0%-12.0%. Management believes the EBIT margin will be maintained at FY18 levels or raised because the beneficial changes in product mix are not likely to reverse. This guidance was reiterated at the end of April. Investment expenditure is expected to be at similar levels to FY18, focusing on completion of the US refined hydroxide facility, process enhancements in Germany and measures to increase capacity in specific areas.

## **Market drivers**

Future revenue growth is predicated on continued demand for functional fillers for flame retardants and products targeted at emerging applications such as boehmite. 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 made 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 positioned to take advantage of this demand when full capacity at Nashtec is available in 2019.

Demand for boehmite, which is used as a separator coating in lithium-ion batteries, is growing very rapidly. We expect demand for this material to continue to rise, driven by the global roll-out of electric vehicles and stationary energy storage systems. Over time, boehmite could represent an activity equal in scale to the Specialty Alumina segment. In October 2018 Nabaltec formed a subsidiary in China to strengthen its presence in the country, which is the world's largest producer of lithium-ion batteries. Management has opened warehousing in China to improve delivery times for Chinese customers.

We note the diversity of applications that use Nabaltec's materials. Flame retardants are used in buildings, cars, aeroplanes and consumer goods. While around half of Specialty Alumina revenues relate to the steel industry; the remainder are deployed in applications as wide-ranging as engine catalysts, polishing powders, a substitute for asbestos in brake linings, high-voltage insulators, ballistic protection and ceramics.

## **Valuation**

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The share price has risen from the low of €20.80 reached at the end of October, possibly reflecting further increases in demand for boehmite noted in the Q318 and FY18 results, and confirmation that Nashtec has finally reopened. The shares are currently trading on prospective EV/Sales multiples that are in line with the mean for the peer group and on prospective mean EV/EBITDA and P/E multiples that are at a discount to the mean. This indicates potential for share price appreciation once the ramp-up in production at Nashtec is complete and there is greater visibility on

the group's ability to secure business to fill surplus capacity in Germany and to generate profits from the new facility for refined hydroxides in the US.

**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)	CAGR*
Akzo Nobel	17,355	1.7	1.7	12.6	11.1	24.7	18.5	2.8%
Bodycote	1,913	2.1	2.1	7.7	7.4	15.5	14.7	2.8%
Croda International	7,750	4.9	4.7	16.4	15.4	25.0	23.3	4.1%
Elementis	1,110	1.8	1.8	8.3	7.8	11.8	10.9	7.9%
Evonik Industries	12,493	1.1	1.1	6.8	6.5	13.7	12.7	-0.7%
Fuchs Petrolub	5,197	1.9	1.8	11.7	10.8	20.4	19.0	3.5%
Holland Colours	74	0.7	0.7	6.2	5.7	10.4	9.4	-
Johnson Matthey	7,551	1.8	1.7	10.2	9.7	14.8	13.9	-31.4%
Kemira OYJ	1,972	1.0	1.0	7.3	7.0	14.7	13.7	3.1%
Koninklijke DSM	18,601	2.0	1.9	11.2	10.5	19.8	17.5	3.6%
Nanogate	152	1.0	0.9	9.4	9.4	106.5	(49.8)	14.8%
ORAPI	25	0.4	0.4	9.7	7.3	(22.1)	16.6	1.7%
Symrise	11,683	3.7	3.5	18.0	16.3	33.9	29.7	8.5%
Umicore	8,557	2.7	2.4	12.5	10.6	24.5	20.4	-31.5%
Victrex	2,462	6.2	5.8	14.1	13.3	19.7	18.7	2.8%
Wacker Chemie	4,097	1.0	1.0	5.5	5.5	17.3	15.7	2.9%
Mean		<b>1.6</b>	<b>1.6</b>	<b>10.5</b>	<b>9.6</b>	<b>19.0</b>	<b>17.0</b>	
Nabaltec	290	1.6	1.5	8.0	7.4	17.7	15.7	7.7%

Source: Refinitiv. Note: Prices at 2 May 2019. Grey shading indicates exclusion from mean. \*Revenue year 0 to year 3.

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