

## Nabaltec

**Materials**
**7 September 2020**

### Still profitable despite difficult environment

The COVID-19 pandemic had an adverse impact on demand for most of Nabaltec's products during Q220, with the European steel and automotive industries particularly badly affected. Management has taken steps to reduce costs, so, if write-downs totalling €2.1m are excluded, the group generated €1.7m EBIT during Q220.

### H120 adversely affected by coronavirus pandemic

H120 revenues decreased by 16% to €81.8m. Sales had started to pick up at the beginning of FY20 in response to price reductions. However, even though there were no disruptions to procurement, production or sales operations as a result of the pandemic, sales volumes in most product categories dropped significantly during Q2. Management implemented extensive cost-cutting exercises to reduce the impact of substantially lower revenues on profitability. After deducting €2.1m of write-offs, EBIT fell from €12.4m to €2.1m. While the group moved to a small (€0.4m) reported operating loss in Q220, it would have been profitable had it not been for the write-downs. Net debt decreased by €4.1m during H120 to €37.8m.

### Management cautious about H220

Management has not reinstated guidance, which it withdrew at the end of April, and remains cautious about immediate prospects in August, noting that it did not expect to see any immediate improvement in global markets but rather a continuation of the highly volatile order situation experienced in Q220. While the timing of a recovery is uncertain, any upturn in revenue will be supported by growth in boehmite sales, which expanded by 49.0% during H120 because boehmite is a critical material in lithium-ion batteries for electric vehicles and because of the commissioning in March of a facility in the US for manufacturing refined hydroxides.

### Valuation: Trading at a discount to peers

At current levels, the shares are trading on prospective multiples that are lower than the sample mean on most metrics (eg year one EV/EBITDA 8.2x vs 12.4x). This indicates potential for share price appreciation once there is greater visibility on the longer-term impact of the COVID-19 pandemic on the European steel industry, as well as the group's ability to continue to grow boehmite revenues. This valuation methodology excludes the long-term potential from boehmite sales, which could represent an opportunity to increase sales by another €40–50m over time.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	176.7	15.8	1.17	0.20	14.7	1.2
12/19	179.0	15.9	1.22	0.20	14.1	1.2
12/20e	155.3	5.8	0.49	0.22	35.4	1.3
12/21e	172.0	15.0	1.26	0.29	13.7	1.7

Source: Refinitiv

**Price** €17.15  
**Market cap** €151m

#### Share price graph



#### Share details

Code: NTG  
 Listing: Deutsche Börse Scale  
 Shares in issue: 8.8m  
 Net debt at 30 June 2020: €37.8m

#### 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.
- Demand for boehmite boosted by growth in electric vehicles.
- One of the world's leading suppliers of halogen-free flame retardants based on fine precipitated hydroxides.

#### Bear

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

#### Analyst

Anne Margaret Crow +44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)  
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## Financial performance

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### H120 adversely affected by coronavirus pandemic

H120 revenues decreased by 16% to €81.8m. Sales had started to pick up at the beginning of FY20 in response to price reductions, but by the end of Q1 the coronavirus pandemic and economic shutdown in many countries had caused conditions to worsen considerably. Although there were no disruptions to procurement, production or sales operations, revenues fell by 25.7% year-on-year during Q2. During H120, revenues in the Functional Fillers product segment decreased by 12.8% to €57.8m despite a 49.0% jump in sales of boehmite products. Revenues from the Specialty Alumina segment declined more quickly, by 22.9% to €24.0m, as although demand across all product ranges was adversely impacted by the pandemic, demand from the European steel industry for refractory materials was hit particularly badly. Exports reduced from 76.4% of total sales to 74.0%, although the percentage exported to Asia increased because of rising boehmite shipments.

The cost of materials as a percentage of total performance (revenues adjusted for change in inventories and own work capitalised) increased from 45.6% to 47.4%, reflecting price discounts and the write-down of inventories in the US. Management implemented extensive cost-cutting exercises to reduce the impact of substantially lower revenues on profitability. Personnel expenses decreased by €0.9m (5.1%) during H120 because of cost-cutting measures which started in April 2020. Other operating expenses fell by €2.1m (12.3%) because of a decrease in freight costs and commissions related to lower sales together with a deliberate reduction in the use of outside services. Depreciation increased by €1.1m to €7.7m because of Naprotec coming online (see below). In addition to the drop in group profit associated with lower volumes there were €2.1m exceptional costs related to the inventory write-off referred to above and the write-off of surplus equipment following the termination of mullite production at the Schwandorf facility. H120 EBIT fell from €12.4m to €2.1m. While the group moved to a small (€0.4m) reported operating loss in Q220, it would have been profitable had it not been for the €2.1m write-downs of inventory and equipment.

### Balance sheet strengthened

Despite the difficult economic backdrop, net debt decreased by €4.1m during H120 to €37.8m. Gearing (net debt/equity) declined by 3.8pp during the six-month period to 38.5%. Capital expenditure remained high at €7.2m as the group completed the Naprotec facility in Chattanooga (see below) but cash generated from operations benefited from an €8.1m reduction in working capital, primarily the result of lower inventories.

## Outlook

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### Management cautious about H220

Management withdrew guidance at the end of April, citing considerable uncertainty regarding the impact of the COVID-19 pandemic and noting that if the consequences of the pandemic continued over several months, a significant decrease in revenues and earnings would be expected. In August management stated that it remained cautious about prospects for H220 and did not expect to see any immediate improvement in global markets but rather a continuation of the highly volatile order situation experienced in Q220.

## Expansion of capacity in the US

Nabaltec began to commission a new 30,000 tonne production line at Nashtec, US, in August 2018. This plant was scheduled to assume full responsibility for supplying US customers during Q219, thus freeing up capacity for non-halogenated, flame-retardant fillers at the Schwandorf site in Germany, which has been supplying US customers since August 2016. However, the Nashtec facility experienced production teething problems during Q419. During March, the facility reached nearly 80% of installed capacity but utilisation subsequently fell below 50% because of the adverse impact the pandemic had on sales. We note that recovery in demand is likely to be slower in the US than in Europe because a higher proportion of US business is derived from the automotive industry.

Production at the new Naprotec production facility for refined hydroxides at Chattanooga in the US was ramped up during March as per the original schedule so that work could commence on gaining customer approvals. Customer qualifications are taking longer than usual because of restrictions imposed in response to the pandemic, so management does not expect the site to generate meaningful revenues until FY21. The site has an annual capacity of up to 30,000 tonnes. A potential second phase, construction of a facility for boehmite production, may 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.

## Medium-term industry trends favourable

Looking beyond the immediate effects of the COVID-19 pandemic, we expect that demand in the medium term will be driven by continued use of functional fillers as flame retardants. Prior to the pandemic, demand for non-halogenated flame retardants had been rising because of tightening fire safety requirements and increasing attention on the reduction of fumes. For example, during 2019 the use of brominated flame retardants in the housings of electrical equipment was banned at EU level from 1 March 2021 onwards. Smoke reduction is of particular concern in areas where it is difficult for people to escape quickly, such as tunnels, airports and high-rise buildings. This shift to non-halogenated flame retardants will continue even though overall demand for retardants is likely to be affected by recessionary pressures on consumer expenditure and the construction industry.

Prior to the pandemic, demand for boehmite, which is used as a separator coating in lithium-ion batteries, was growing very rapidly. Since Nabaltec's manufacturing sites and those of its Asian customers remain operational, Nabaltec continues to supply the Asian lithium-ion battery market with boehmite. We expect demand for this material to continue to rise over the long term, driven by the global roll-out of electric vehicles and stationary energy storage systems. Looking at the global electric vehicle market, the International Energy Agency's Global EV Outlook 2020, which was published in [June 2020](#), notes that the COVID-19 pandemic will affect global electric vehicle markets in the short term, although to a lesser extent than it will the overall passenger car market. Based on car sales data during January to April 2020, the report estimated that the passenger car market will contract by 15% during 2020 relative to 2019, while global sales of electric passenger and commercial light-duty vehicles will remain broadly at 2019 levels of 2.1m, with electric car sales accounting for about 3% of global car sales in 2020. This outlook is underpinned by supporting policies, particularly in China and Europe. The report also observes that recovery measures to tackle the COVID-19 crisis are likely to focus on promoting clean transport. The report predicts that under its Sustainable Development Scenario, global electric vehicle stock (excluding two/three-wheelers) will grow by 36% annually to reach 245m vehicles in 2030, compared with 7.2m cars in 2019.

This transition is driving demand for boehmite. A report from 360 Market Updates published in July 2020 estimated that the global boehmite market will be worth US\$185.6m in 2020 and predicted that it will reach US\$449m by the end of 2026, growing at a CAGR of 13.3% during 2021–26. Boehmite sales accounted for around 6% of Nabaltec's total FY19 sales.

## Valuation

In common with most of its peers, Nabaltec's share price has fallen substantially since the panic selling at the start of the coronavirus pandemic in Europe and North America. However, it has not recovered to the same extent as its peers, with the exception of Nanogate, which is heavily exposed to the automotive industry and has filed for bankruptcy protection, and Elementis, which is exposed to the oil and gas industry as well as automotive. At current levels, the shares are trading on prospective multiples that are lower than the sample mean of the broad peer group on most metrics. This indicates potential for share price appreciation once there is greater visibility on the impact of the longer-term COVID-19 pandemic on the European steel industry and on the group's ability to continue to grow boehmite revenues. We note that none of its peers manufactures significant volumes of boehmite, while for Nabaltec this could represent an opportunity to increase sales by another €40–50m over time. This valuation methodology involving the broad peer group excludes potential from continued strong growth in boehmite sales beyond the end of the forecast period.

**Exhibit 1: Multiples for European chemicals companies**

Name	ytd performance (%)	Market cap (€m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	PE 1FY (x)	PE 2FY (x)
Akzo Nobel	(8.5)	16,193	2.1	2.0	13.5	11.8	24.7	20.0
Bodycote	(41.1)	1,219	1.9	1.7	7.8	6.3	19.3	13.1
Croda International	15.2	8,628	6.1	5.7	20.9	18.9	33.6	30.0
Elementis	(59.7)	475	1.4	1.3	7.5	6.6	12.5	9.5
Evonik Industries	(10.7)	11,489	1.2	1.1	7.5	6.7	17.0	13.8
Fuchs Petrolub	(10.3)	4,913	2.2	2.0	14.8	12.9	30.6	25.4
Johnson Matthey	(20.7)	5,215	1.5	1.4	9.5	8.2	16.3	12.5
Kemira	(12.7)	1,820	1.1	1.1	6.7	6.8	14.3	14.3
Koninklijke DSM	15.8	24,679	3.0	2.7	16.2	14.3	30.2	25.1
Nanogate	(89.0)	6	0.5	0.4	24.8	5.7	N/A	N/A
Orapi	135.8	34	0.5	0.5	7.2	6.5	N/A	32.1
Symrise	23.2	15,833	4.8	4.5	22.2	20.8	43.1	39.3
Umicore	(11.2)	9,595	3.4	3.0	14.7	12.6	32.4	25.5
Victrex	(22.5)	1,898	6.2	6.0	17.0	15.6	24.9	22.3
Wacker Chemie	21.1	4,320	1.1	1.0	8.6	6.6	51.6	23.4
Mean			<b>2.5</b>	<b>2.3</b>	<b>12.4</b>	<b>10.7</b>	<b>24.9</b>	<b>21.9</b>
Nabaltec	(45.5)	151	1.2	1.1	8.2	5.9	35.4	13.7

Source: Refinitiv. Note: Prices at 1 September 2020. Grey shading indicates exclusion from mean.

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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  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia