



- The producer of aluminum materials Alcomet (6AM) announced lower profits for the second half of 2011. Moreover, revenues declined since the peak during the first quarter of 2011, which was due to the lower prices of aluminum. Yearly data showed strong gains but the trend is still on the downside. Volumes of rolled and extruded aluminum products improved 7.4% in 2011. This increase was due to the better management organization as the company did not add new production capacity in 2011. Since 2001 the company expanded its production volumes five times and is in process of additional investments that will add 30% to capacity of rolled production in 2012.
- Domestic market represented 8.5% of total sales last year and posted larger increase in percentage but remained well below the growth of volumes and significance of the exports. Alcomet's main markets were Germany (27.5%), Poland (14.8%) and Italy (12.1%).
- Costs of materials averaged 83% of total revenues in 2011 or slightly below the previous year. Total expenses increased due to the huge jump of costs for external services in 4Q. Labor costs also moved higher last year and reached 5.85% of revenues, whereas depreciation stabilized at BGN 2.3 million per quarter.
- The company improved its energy efficiency. The consumption of natural gas per ton production fell to record low of 166 cubic meters, whereas electricity consumption decreased 5%.
- Alcomet managed to maintain its EBITDA margin at 7.7% during the last quarter, which was the second lowest result since mid-2009. This was also significantly below 4Q of the previous year and decreased the trailing profitability ratio, although stabilization on quarterly basis had been noticed.

Stock Price of Alcomet



- The company's debt represented 40% of total assets. Short-term debt was 80% of total debt and remained stable since mid-2009. Inventories increased to 18% of assets but the positive news was the decline of receivables. The working capital moved on the positive territory last year, although the cash remained at low levels. Liquidity and current ratios topped in 3Q but remained above 1.
- The stock weakened since May 2011 in-line with the decrease of revenues and profits. Large spread between bid and ask prices contributed to the price volatility thus pushing down the volumes as large investors stayed aside of the position. The 3-month average volume is at its lows.

Multiples Valuation

*Table 1
Multiples
comparison*

	2009	2010	2011
Last Price	2.85	5.81	5.12
Number of Shares	17 952 959	17 952 959	17 952 959
Market Capitalization	51 165 933	104 234 880	91 919 150
Net Profit	856 000	7 612 000	7 816 000
P/E	59.77	13.69	11.76
Equity	80 762 000	88 118 000	93 133 000
P/B	0.63	1.18	0.99
Sales	163 094 000	229 767 000	273 786 000
P/S	0.31	0.45	0.34
EV	109 115 933	178 708 880	166 253 150
EBITDA	12 205 000	20 764 000	21 855 000
EV/EBITDA	8.94	8.61	7.61
RoE	1.06%	8.64%	8.39%
RoA	0.48%	3.82%	3.87%

Source: Alcomet
Calculations: ELANA Trading

Shares of Alcomet fell in 2011 but multiples did not improved as financial data stayed almost unchanged with the exception of revenues. Costs of materials would likely remain hardly changed as percentage of revenues despite the solid increase of aluminum prices. Alcomet's profit should benefit from the decline of exceptionally high expenses for external services in 4Q 2011. We expect also additional economies of scale as the company will increase its production capacity in 2012.

Peers' comparison

We compared Alcomet to similar companies in the aluminum sector. The list of peers includes also many companies from emerging markets that don't have positive financial results. P/S and EV/EBITDA have the biggest weight in the calculations as they are better representation for the market positions and the company's results. We used the median of multiples.

*Table 2
Peers'
Comparison*

Multiples	P/E	P/B	P/S	EV/EBITDA
Median	12.36	0.95	0.44	6.38
Market Capitalization	96 585 630	88 314 997	121 801 094	65 089 885
Price	5.38	4.92	6.78	3.63
Weight	20%	20%	30%	30%
Current Price		5.12		
Fair Price		5.18		
Premium (Discount) to Current Price		1.23%		

Source: Bloomberg
Calculations: ELANA Trading

Alcomet is undervalued in terms of its market share due to the low P/S ratio as compared to the median value. The company is fair valued by P/E and P/B, whereas the median EV/EBITDA is lower and resulted to fair price of BGN 5.18. The change to our previous valuation by multiples is substantial as all ratios declined since mid-2011 when the fair price was BGN 6.74.

Discounted Cash Flows

The DCF is better valuation method as it includes the future growth opportunities. Our DCF is based on moderate growth and margins that are higher than last year. The economic slowdown in Europe had small effect on revenues during the second half of 2011.

Table 3, DCF

Alcomet											Terminal
BGN'000	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Year
EBIT	13 381	14 987	16 486	17 969	19 407	20 766	22 011	23 112	24 152	25 118	25 997
EBIT(1-T)	12 043	13 488	14 837	16 173	17 466	18 689	19 810	20 801	21 737	22 606	23 398
Add: D&A	11 807	13 224	14 546	15 855	17 124	18 323	19 422	20 393	21 311	22 163	22 939
Less: Investments	12 594	11 461	12 607	14 798	15 982	18 323	19 422	20 393	21 311	22 163	22 939
Less: Change NWC	3 379	3 023	2 821	2 793	2 706	2 557	2 345	2 072	1 958	1 819	1 713
FCF	7 877	12 229	13 956	14 437	15 902	16 132	17 465	18 729	19 779	20 788	21 685
PV FCF	7 161	10 107	10 485	9 860	9 874	9 106	8 962	8 737	8 388	8 015	
Sum of PV FCF	90 695										
PV of Continuing Value	128 622										
Total PV Free Cash Flows	219 317										
Less: Outstanding Debt	77 057										
Plus: Financial Assets	2 723										
PV of Equity	144 983										
Number of Shares	17 953										
Price Per share	8.08										

Calculations: ELANA Trading

The expected capacity increase in 2012 will had positive effect on revenues along with the rising prices of aluminum products due to the economic recovery and additional monetary stimulus worldwide. Our forecasts are based on 15% increase of revenues for 2012 and a gradual decline afterwards to the long-term growth rate of 3.5%. In terms of EBITDA margin we assume a constant level of 8%, which is the same as last year. The company does not disclose target margins but we see some room for improvement.

The calculated intrinsic value per share is BGN 8.08 or 58% above the current market price. The difference between both methods for valuation is significant and could be explained with the low multiples of peers. The main risk is further decrease of EBITDA margin due to rising material costs or decline of revenues.

Recommendation And Price Target

Recommendation: Our price target is the average of both valuation methods or it is BGN 6.63. This is 29% above the current market price. Alcomet shares traded at BGN 6.60 in July 2011, which makes the target price achievable in near term. Despite the large upside potential we give **HOLD** recommendation due to the low liquidity that will limit the interest of large investors and the insignificant discount to fair value when compared to sector peers. However, low volumes could contribute to fast increase of the price.

Target price: BGN 6.63

Upside: 29%

Financial data

Statement of Income (in '000 BGN)	2007	2008	2009	2010	2011
Sales	251 889	225 155	163 095	229 767	273 786
Production expenses	224 467	197 668	140 452	197 617	237 985
Personnel expenses	9 938	12 155	10 502	11 319	13 613
Net income from financial activities	(254)	(184)	53	(67)	(333)
Other revenues and expenses	(16)	(31)	0	0	0
EBITDA	17 214	15 117	12 194	20 764	21 855
Depreciation	8 247	8 544	8 338	8 720	9 317
EBIT	8 967	6 573	3 856	12 044	12 538
Interest expense	4 773	5 322	2 916	3 564	3 854
Pretax income	4 194	1 251	940	8 480	8 684
Taxes	432	135	94	868	868
After-tax income	3 762	1 116	846	7 612	7 816
Minority interest	0	0	0	0	0
Net income	3 762	1 116	846	7 612	7 816
Earnings per share in BGN	0.21	0.06	0.05	0.42	0.44

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	2011
Total Assets	172 681	175 167	176 565	199 151	202 066
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	113 679	116 140	122 918	117 605	118 060
Tangible fixed assets	105 734	106 748	113 193	109 315	107 778
Financial investments	20	84	43	6	6
Current assets	59 002	59 027	53 647	81 546	84 006
Inventory	27 297	26 669	20 494	27 528	36 768
Receivables	30 528	31 768	29 022	47 980	44 515
Financial assets	7	15	1 590	1 782	0
Cash and cash equivalents	1 170	575	2 541	4 256	2 723
Total liabilities + equity	172 681	175 167	176 565	199 151	202 066
Equity	66 814	63 661	80 762	88 118	93 133
Registered capital	17 953	17 953	17 953	17 953	17 953
Capital funds	53 612	52 857	59 601	59 624	59 788
Earnings	-4 751	-7 149	3 208	10 541	15 392
Liabilities	105 867	111 506	95 803	111 033	108 933
Long-term payables	23 330	22 012	6 015	8 675	15 412
Long-term bank loans	7 934	8 377	21 686	17 530	15 444
Short-term bank debt	42 889	48 982	50 158	66 571	61 613
Short-term payables	31 741	32 135	17 944	18 257	16 464
Other liabilities	0	0	0	0	0
Working capital	(15 628)	(22 090)	(14 455)	(3 282)	5 929

Cash Flow Statement (in '000 BGN)	2007	2008	2009	2010	2011
Net income	3 762	1 116	846	7 612	7 816
Depreciation	8 247	8 544	8 338	8 720	9 317
Changes in Working capital	(398)	(6 462)	7 635	11 173	9 211
Other operating cash flow items	(9 101)	406	(6 003)	(35 442)	(13 532)
Net cash from operating activities	2 510	3 604	10 816	(7 937)	12 812
Capital expenditures	(9 340)	(9 270)	(4 953)	(3 299)	(7 394)
Other investing cash flow items	0	0	0	0	0
Net cash from investing activities	(9 340)	(9 270)	(4 953)	(3 299)	(7 394)
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	9 840	6 552	(3 070)	13 649	(5 468)
Dividends paid	0	0	0	(429)	(1 100)
Other financing cash flow items	(2 336)	(1 202)	(819)	(269)	(383)
Net cash from financing activities	7 504	5 350	(3 889)	12 951	(6 951)
Net change in cash	674	(316)	1 974	1 715	(1 533)
Beginning-of-period cash	209	883	567	2 541	4 256
End-of-period cash	883	567	2 541	4 256	2 723
Cash per share	0.05	0.03	0.14	0.24	0.15

Financial and Performance Indicators	2007	2008	2009	2010	2011
Valuation Ratios					
Price/Earnings (P/E)	81.13	32.58	60.48	13.69	11.76
Book Value (BV)	3.72	3.55	4.50	4.91	5.19
Price/Book (P/B)	4.57	0.57	0.63	1.18	0.99
Sales Per Share	14.03	12.54	9.08	12.80	15.25
Price/Sales (P/S)	1.21	0.16	0.31	0.45	0.34
Price/Cash per share	25.41	3.76	5.57	6.38	5.37
EV (in BGN)	354 853	93 139	120 469	184 080	166 253
EV/Sales	1.41	0.41	0.74	0.80	0.61
EV/EBITDA	20.61	6.16	9.88	8.87	7.61
EV/EBIT	39.57	14.17	31.24	15.28	13.26
Liquidity					
Current ratio	0.79	0.73	0.79	0.96	1.08
Quick ratio	0.42	0.40	0.49	0.64	0.61
Debt Management					
Debt to total assets	0.61	0.64	0.54	0.56	0.54
Interest coverage	1.88	1.24	1.32	3.38	3.25
LT Debt/Equity	0.47	0.48	0.34	0.30	0.33
Total Debt/Equity	1.58	1.75	1.19	1.26	1.17
Asset Management					
Inventory turnover	9.23	8.44	7.96	8.35	7.45
Days sales outstanding	44	51	64	75	59
Fixed asset turnover	2.22	1.94	1.33	1.95	2.32
Total asset turnover	1.46	1.29	0.92	1.15	1.35
Profitability					
Profit margin on sales	1.5%	0.5%	0.5%	3.3%	2.9%
EBITDA margin	6.8%	6.7%	7.5%	9.0%	8.0%
Basic earning power	5.2%	3.8%	2.2%	6.0%	6.2%
Return on assets	2.2%	0.6%	0.5%	3.8%	3.9%
Return on equity	5.6%	1.8%	1.0%	8.6%	8.4%
Return on investments	3.8%	1.2%	0.8%	6.7%	6.3%
Dividend Information					
Dividend Yield	0.00%	0.00%	0.00%	0.39%	1.15%
Dividend per share	0.00	0.00	0.00	0.02	0.06
Number of shares:					
	17 952 959	17 952 959	17 952 959	17 952 959	17 952 959
Price in BGN - period end:					
	17.00	2.03	2.85	5.81	5.12
Market cap in BGN - period end:					
	305 200 303	36 354 742	51 165 933	104 234 880	91 919 150

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For more information, please contact:

Research analyst
Tsvetoslav Tsachev
Tamara Becheva

Phone:
+359 2 810 00 23
+359 2 810 00 27

E-mail:
tsachev@elana.net
becheva@elana.net

Internet:
www.elana.net
www.elana.net