



Stock Price of Alcomet



- The good start of the year for aluminum producer Alcomet was a positive surprise for investors as revenues exceeded BGN 75 million, whereas quarterly profit jumped above BGN 3 million. The company benefited from the positive market conjuncture and its strategy to expand on many markets.

- Sales of production in tonnage jumped 46% during the first quarter of 2011 as compared to year ago, whereas revenues in nominal value soared 68%. The effect of higher prices was significant.

- Although the domestic market generated higher growth of 84%, revenues from exports continued to determine the overall development of Alcomet as they represented 94% of total sales. The company is exporting to 27 countries. Germany (24.13%), Italy (13.26%) and Poland (12.76%) were the primary markets for Alcomet. Countries in the Eurozone generated 65% of Alcomet's revenues. The company is strengthening its positions in new markets like Spain, Switzerland and Tunisia. Alcomet is developing new products for installation of solar panels.

- Profit margins improved for sixth consecutive quarter, although the EBITDA margin remained hardly changed. Costs for materials are rising steadily. The company increased its labor costs during the last reported period. RoE exceeded 10% for the first time as the company's larger production in scale is improving the profitability.

- Inventories were almost unchanged as percentage of assets during the past three quarters. Moreover, the level is below the peak of 2008 when revenues also topped. They are rising less than the increase of sales. Receivables increased during the second half of 2010 but also lagged behind the revenues.

- Debt-to-equity ratio was 0.84. The company's long-term debt is usually much lower than the short-term bank loans. However, this was not problem for Alcomet's operations.

- The stock price retreated from its recent top in volatile but low trading. It is also breaking down the upward trend. The ongoing correction could find support at BGN 6.00, although the thin trading volumes could result to deeper decline during the next several weeks. Export-oriented industrial companies outperformed the broad market.

Multiples Valuation

*Table 1
Multiples
comparison*

	2009	2010	1Q 2011
Last Price	2.85	5.81	6.29
Number of Shares	17 952 959	17 952 959	17 952 959
Market Capitalization	51 165 933	104 234 880	112 924 112
Net Profit	856 000	7 612 000	9 638 000
P/E	59.77	13.69	11.72
Equity	80 762 000	88 118 000	91 403 000
P/B	0.63	1.18	1.24
Sales	163 094 000	229 767 000	260 244 000
P/S	0.31	0.45	0.43
EV	109 115 933	178 708 880	188 925 112
EBITDA	12 205 000	20 764 000	23 218 000
EV/EBITDA	8.94	8.61	8.14
RoE	1.06%	8.64%	10.54%
RoA	0.48%	3.82%	4.84%

Source: Alcomet
Calculations: ELANA Trading

Alcomet's financial results improved significantly but the price jumped also. Price-to-earnings ratio is 12 and EV/EBITDA is 8. This is close to the average for Bulgarian companies. Alcomet's large debt is compensating the good profitability and the depreciation. The company has large turnover that is maintaining low price-to-sales ratio. It is trading above book value.

Peers' comparison

We compared Alcomet to the ratios of the largest companies in the aluminum sector. However, the difference between the average and median multiples is significant. Therefore, we prefer to use more conservative approach in the comparison by the median.

*Table 2
Peers'
Comparison*

Multiples	P/E	P/B	P/S	EV/EBITDA
Median	14.63	1.18	0.55	7.39
Market Capitalization	141 018 638	107 447 974	142 021 397	95 604 027
Price	7.85	5.98	7.91	5.33
Weight	20%	20%	30%	30%
Current Price		6.29		
Fair Price		6.74		
Premium (Discount) to Current Price		7.13%		

Source: Bloomberg
Calculations: ELANA Trading

Two ratios are showing that Alcomet is undervalued. The company's P/E and P/S are lower than the median of peers. They are compensating the lower value of the share when comparing to the other two multiples – P/B and EV/EBITDA. The profitability could improve further, which will decrease the bank loans of Alcomet, thus lowering the EV/EBITDA. The fair value according to multiples is 7% above the current price.

Discounted Cash Flows

The DCF is better valuation method as it includes the future growth opportunities. Our DCF is based on moderation of growth from the solid increase of revenues last year and margins that are close to the level of the previous year. The company could boost further its margins due to the expected larger monthly production. We don't consider the last year an exception but it is unlikely that EBITDA margin will jump again solely due to the economy of scale.

Table 3, DCF

Алкомет											Terminal
BGN'000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Year
ЕБИТ	14 475	16 647	18 644	20 509	22 149	23 700	25 122	26 378	27 565	28 667	29 671
ЕБИТ(1-Т)	13 028	14 982	16 780	18 458	19 934	21 330	22 610	23 740	24 808	25 801	26 704
Плюс: Амортизации	10 340	11 890	13 317	14 649	15 821	16 928	17 944	18 841	19 689	20 477	21 193
Минус: Инвестиции	5 514	7 927	10 654	12 696	14 766	16 928	17 944	18 841	19 689	20 477	21 193
Минус: Промяна об. капитал	10 175	8 961	1 902	11 542	2 344	13 501	2 709	2 393	2 261	2 100	1 978
FCF	7 678	9 985	17 541	8 869	18 645	7 829	19 901	21 348	22 547	23 701	24 726
PV FCF	7 321	8 654	13 822	6 354	12 142	4 635	10 711	10 445	10 029	9 584	
Sum of PV FCF	93 696										
PV of Continuing Value	153 817										
Total PV Free Cash Flows	247 513										
					Growth Rate						
					SA	2.0%	3.0%	3.5%	4.0%	5.0%	
Минус: Лихвоносен дълг	76 459				8.0%	12.55	14.76	16.24	18.08	23.60	
Плюс: Финансови активи	458				9.0%	9.91	11.36	12.28	13.38	16.42	
НС на капитала	171 512				10.0%	7.95	8.94	9.55	10.27	12.12	
Брой акции (хил.)	17 953				11.0%	6.43	7.14	7.57	8.05	9.27	
Цена на акция	9.55				12.0%	5.23	5.75	6.05	6.40	7.24	

Calculations: ELANA Trading

EBITDA margin of 9% could be hard to achieve during period of stagnating growth in Europe. The company is not exposed to the current economic turmoil in Greece. The positive surprise could come from cooling down of aluminum prices that will decrease the level of material costs as percentage of revenues. Moreover, the decrease of prices of materials should be more welcomed even if sales' growth decelerates as profitability will improve substantially. The company's working capital is turning positive which will require additional financing. The calculated intrinsic value per share is BGN 9.55 or 52% above the market price.

Recommendation and Price Target

Both comparison to peers and the discounting cash flows are showing the potential of stock gains in mid-term. Alcomet is a company with solid revenues and could surprise on the upside if costs for aluminum decrease or when it manages to transfer the inflation to end-users. We might see this to happen in the next year. In this case financials will improve and will create a base for another strong increase of the stock price.

We give BUY recommendation with one-year price target of BGN 8.14, which is the average price of both methods for valuation. However, if the company manages to show better results this year as compared to 2010, the stock could easily jump above the target when forecasts in our DCF-model prove to be too conservative.

Financial data

Statement of Income (in '000 BGN)	2007	2008	2009	2010	1Q 2011
Sales	251 889	225 155	163 095	229 767	75 928
Production expenses	224 467	197 668	140 452	197 617	65 774
Personnel expenses	9 938	12 155	10 502	11 319	3 424
Net income from financial activities	(254)	(184)	53	(67)	(71)
Other revenues and expenses	(16)	(31)	0	0	0
EBITDA	17 214	15 117	12 194	20 764	6 659
Depreciation	8 247	8 544	8 338	8 720	2 342
EBIT	8 967	6 573	3 856	12 044	4 317
Interest expense	4 773	5 322	2 916	3 564	987
Pretax income	4 194	1 251	940	8 480	3 330
Taxes	432	135	94	868	0
After-tax income	3 762	1 116	846	7 612	3 330
Minority interest	0	0	0	0	0
Net income	3 762	1 116	846	7 612	3 330
Earnings per share in BGN	0.21	0.06	0.05	0.42	0.19

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	1Q 2011
Total Assets	172 681	175 167	176 565	199 151	198 954
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	113 679	116 140	122 918	117 605	115 582
Tangible fixed assets	105 734	106 748	113 193	109 315	107 228
Financial investments	20	84	43	6	6
Current assets	59 002	59 027	53 647	81 546	83 372
Inventory	27 297	26 669	20 494	27 528	26 541
Receivables	30 528	31 768	29 022	47 980	54 591
Financial assets	7	15	1 590	1 782	1 782
Cash and cash equivalents	1 170	575	2 541	4 256	458
Total liabilities + equity	172 681	175 167	176 565	199 151	198 954
Equity	66 814	63 661	80 762	88 118	91 403
Registered capital	17 953	17 953	17 953	17 953	17 953
Capital funds	53 612	52 857	59 601	59 624	59 624
Earnings	-4 751	-7 149	3 208	10 541	13 826
Liabilities	105 867	111 506	95 803	111 033	107 551
Long-term payables	23 330	22 012	6 015	8 675	17 880
Long-term bank loans	7 934	8 377	21 686	17 530	7 530
Short-term bank debt	42 889	48 982	50 158	66 571	65 340
Short-term payables	31 741	32 135	17 944	18 257	16 801
Other liabilities	0	0	0	0	0
Working capital	(15 628)	(22 090)	(14 455)	(3 282)	1 231

Cash Flow Statement (in '000 BGN)	2007	2008	2009	2010	1Q 2011
Net income	3 762	1 116	846	7 612	3 330
Depreciation	8 247	8 544	8 338	8 720	2 342
Changes in Working capital	(398)	(6 462)	7 635	11 173	4 513
Other operating cash flow items	(9 101)	406	(6 003)	(35 442)	(10 556)
Net cash from operating activities	2 510	3 604	10 816	(7 937)	(371)
Capital expenditures	(9 340)	(9 270)	(4 953)	(3 299)	(296)
Other investing cash flow items	0	0	0	0	0
Net cash from investing activities	(9 340)	(9 270)	(4 953)	(3 299)	(296)
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	9 840	6 552	(3 070)	13 649	(3 056)
Dividends paid	0	0	0	(429)	0
Other financing cash flow items	(2 336)	(1 202)	(819)	(269)	(75)
Net cash from financing activities	7 504	5 350	(3 889)	12 951	(3 131)
Net change in cash	674	(316)	1 974	1 715	(3 798)
Beginning-of-period cash	209	883	567	2 541	4 256
End-of-period cash	883	567	2 541	4 256	458
Cash per share	0.05	0.03	0.14	0.24	0.03

Financial and Performance Indicators	2007	2008	2009	2010	1Q 2011
Valuation Ratios					
Price/Earnings (P/E)	81.13	32.58	60.48	13.69	33.91
Book Value (BV)	3.72	3.55	4.50	4.91	5.09
Price/Book (P/B)	4.57	0.57	0.63	1.18	1.24
Sales Per Share	14.03	12.54	9.08	12.80	4.23
Price/Sales (P/S)	1.21	0.16	0.31	0.45	1.49
Price/Cash per share	25.41	3.76	5.57	6.38	19.91
EV (in BGN)	354 853	93 139	120 469	184 080	185 336
EV/Sales	1.41	0.41	0.74	0.80	2.44
EV/EBITDA	20.61	6.16	9.88	8.87	27.83
EV/EBIT	39.57	14.17	31.24	15.28	42.93
Liquidity					
Current ratio	0.79	0.73	0.79	0.96	1.01
Quick ratio	0.42	0.40	0.49	0.64	0.69
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	4.37
LT Debt/Equity	0.47	0.48	0.34	0.30	0.28
Total Debt/Equity	1.58	1.75	1.19	1.26	1.18
Asset Management					
Inventory turnover	9.23	8.44	7.96	8.35	2.86
Days sales outstanding	44	51	64	75	259
Fixed asset turnover	2.22	1.94	1.33	1.95	0.66
Total asset turnover	1.46	1.29	0.92	1.15	0.38
Profitability					
Profit margin on sales	1.5%	0.5%	0.5%	3.3%	4.4%
EBITDA margin	6.8%	6.7%	7.5%	9.0%	8.8%
Basic earning power	5.2%	3.8%	2.2%	6.0%	2.2%
Return on assets	2.2%	0.6%	0.5%	3.8%	1.7%
Return on equity	5.6%	1.8%	1.0%	8.6%	3.6%
Return on investments	3.8%	1.2%	0.8%	6.7%	2.9%
Dividend Information					
Dividend Yield	0.00%	0.00%	0.00%	0.39%	0.93%
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	6.29
Market cap in BGN - period end:					
	305 200 303	36 354 742	51 165 933	104 234 880	112 924 112

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