

19 Jan 2022 13:26:45 ET | 12 pages

Mytilineos SA (MYTr.AT)

Q4'21 preview – earnings momentum and growth should lay the foundation for stronger 2022; BUY

CITI'S TAKE

We expect MYTIL to report full year EBITDA at €355 million, up 11% y/y from €319 million last year. Stronger profitability in aluminium business is the key driver for the increased EBITDA. Power business is likely to report strong sequential momentum in Q4'21 earnings, as the higher spot prices are turning out to be a net gain for the company, contrary to market concerns on power division being a drag. Our estimates at €109 million for Q4'21 EBITDA are 24% higher q/q with the bulk of the increase coming from power (+55% q/q). We expect net debt at €841 million (vs €536 million last year) primarily from the company guidance for €500 million growth capex in the year. Ramp up of new power capacities, stronger all-in aluminium prices (ie. LME +premiums) and elevated power prices are key catalyst for over €500 million EBITDA in 2022. Reiterate BUY.

MYTIL should emerge as a net beneficiary from high power/gas prices – Natural gas, being a key input for MYTIL's power generation, is seen as one of the key drags on its earnings by the market. However, we reiterate our view that positive moves in Greek spark spreads and recovery in power generation should be reflected in Q4'21 EBITDA for power business (Citi at +55% q/q). Distribution business likely remained loss making in Q4'21. While we do acknowledge cost challenges in alumina from higher gas prices, stronger physical premiums and locked-in prices for power in aluminium should more than offset.

Cash flow position should be comfortable despite higher net debt – We expect the 2021 year end net debt at €841 million, up from €536 million last year. FCF at negative €247 million in the year should be seen as a good outcome, given the front loaded capex on its renewable power growth program. We expect the company to guide for similar intensity of capex for 2022, but flag that MYTIL has enough potential in its third party renewable portfolio for in-organic debt reduction. 2021E Net debt to EBITDA at 2.4x should be comfortable and should come down next year below 2x.

2022 is a milestone year for key pillars of investment case to deliver – 'Green Growth' is key part of our Buy thesis on MYTIL, which should crystallise strongly in 2022 ([Mytilineos SA \(MYTr.AT\): Low cost aluminium within EU; 'green growth' & ESG credentials](#)). Aluminium recycling production volumes should continue to grow, while commissioning of renewable power capacities should pick up in 2H'22. Our base case EBITDA at €487 million for 2022 is based on normalisation of power spreads and physical premiums, with upside from mark to market with current spot.

Buy

Price (18 Jan 22 17:20)	€15.66
Target price	€21.50
Expected share price return	37.3%
Expected dividend yield	2.9%
Expected total return	40.1%
Market Cap	€2,238M
	US\$2,535M

Krishan M Agarwal^{AC}

+44-020-7986-4092

krishan.agarwal@citi.com

Ephrem Ravi

+44-20-7986-2462

ephrem.ravi@citi.com

Amit Lahoti, CFA

amit.lahoti@citi.com

Shashi Shekhar, CFA

shashi.shekhar@citi.com

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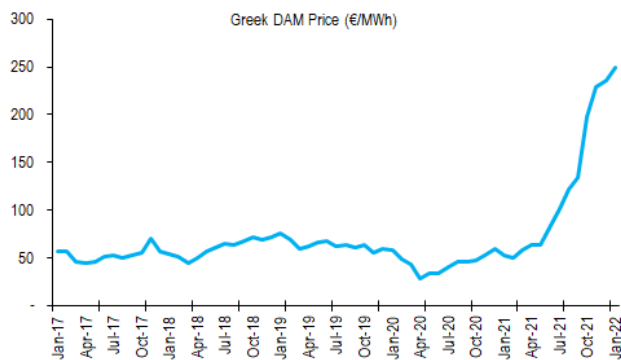
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Figure 1. Mytilineos – summary preview for Q4'21 results

Financials (€ mn)	4Q-20 A	1Q-21 A	2Q-21 A	3Q-21 A	4Q-21 E	% Y/Y	% Q/Q	2021E	2020A	% Y/Y
Metallurgy	144	148	157	177	174	21%	-2%	656	500	31%
Power & Gas	264	191	196	301	363	38%	21%	1,051	927	13%
Renewable & Storage	54	94	23	127	86	58%	-33%	330	264	25%
Sustainable Engineering	97	91	94	99	101	4%	3%	385	209	84%
Group Revenue	558	524	470	704	723	30%	3%	2,422	1,900	27%
Metallurgy	36	35	42	42	46	30%	9%	166	136	22%
Power & Gas	34	29	19	34	52	52%	55%	134	157	-15%
Renewable & Storage	3	5	3	7	3	-7%	-55%	18	15	21%
Sustainable Engineering	8	11	14	5	7	-6%	60%	37	11	236%
Group EBITDA	81	81	77	88	109	35%	24%	355	319	11%
Operational	4Q-20 A	1Q-21 A	2Q-21 A	3Q-21 A	4Q-21 E	% Y/Y	% Q/Q	2021	2020	% Y/Y
Alumina (kt)	220	211	216	221	212	-4%	-4%	860	827	4%
Aluminium (kt)	59	57	58	58	62	4%	7%	235	224	5%
Power (GWh)	1,572	1,246	1,145	1,594	1,614	3%	1%	5,599	6,072	-8%

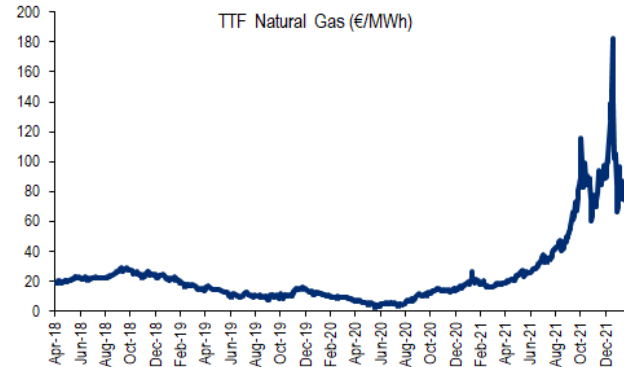
Source: Citi Research

Figure 2. Power prices in Greece are continuing to be higher



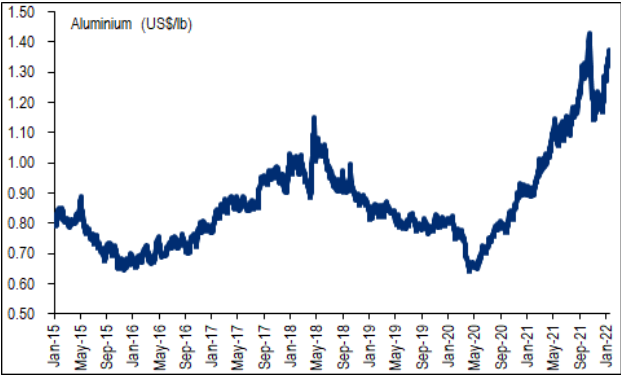
Source: Citi Research

Figure 3. Natural gas prices in Europe has come down after 2021 rally



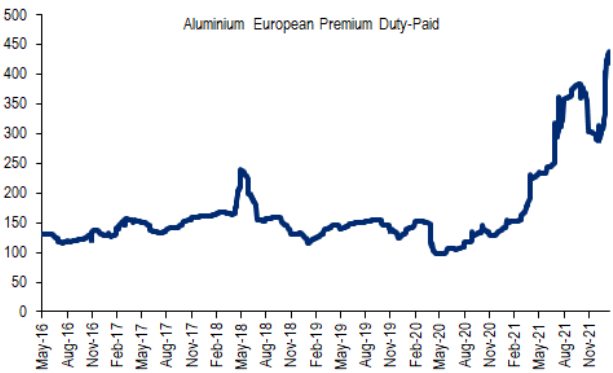
Source: Citi Research

Figure 4. Aluminium spot prices are continuing to be strong



Source: Citi Research

Figure 5. Aluminium physical premiums are continuing to be strong in Europe



Source: Citi Research

Bull/Bear:Mytilineos SA

Bull/Bear: Mytilineos SA (MYTr.AT)

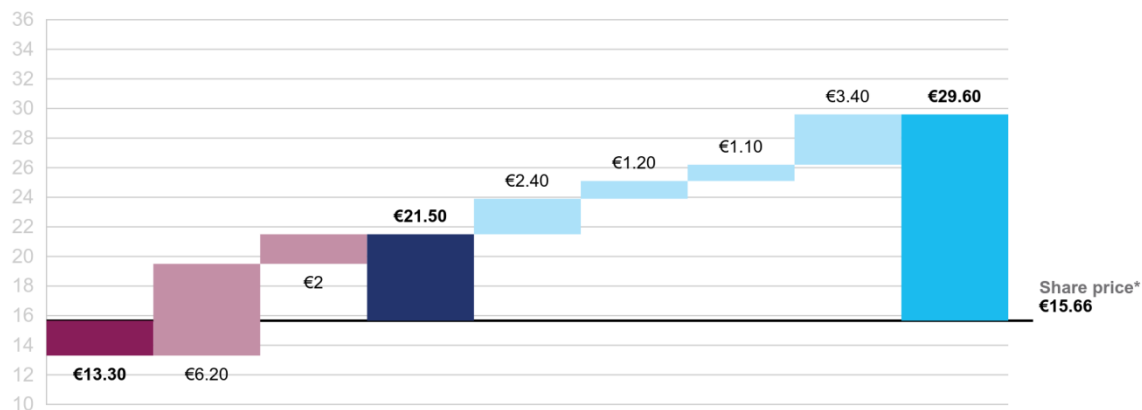


€21.5 target price

Buy rating

37% expected share price return

104pp Bull/Bear Spread



-20% metal prices

Lower power volumes

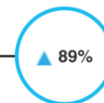
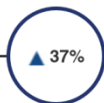


1.5GW renewable capacity

Alumina de-bottleneck

EPC margin upside

+15% metal prices



Share price*
€15.66

Source: Citi Research

*Share price as of 18 Jan 2022 17:20



€29.6

- Alumina capacity increase to 1.1mt through de-bottlenecking
- 1.5GW growth in solar power in Greece
- Higher margins in EPC business and higher commodity prices



€21.5

- Estimates are based on Citi house forecasts for aluminium and alumina.
- Aluminium production at 180kt, recycling aluminium at 60kt, alumina at 850kt
- Commissioning of 0.8GW power plant in 2021 and ramp up in 2022



€13.3

- Delay in ramp up of the plant and decline in power production in Greece
- Lower commodity prices

Mytilineos SA

Valuation

We arrive at a DCF-based valuation for Aluminium, Energy and EPC business using a WACC of 10%, terminal growth of 1%. To this, we add the value of its stake in associates and JVs at a discount to book value. From the resulting valuation, we deduct pension liabilities, net debt and minorities to arrive at our target price of EUR21.5/share.

Risks

The key risks that could prevent the shares from reaching our target price are: 1) Lower LME aluminium prices, a stronger euro (versus USD) and a higher oil price are all negative for AoG profits; 2) Greek politics are uncertain, with the risk of higher taxes and increased regulation, especially in energy. 3) Higher geopolitical risks and softer economies in METKA's end-markets could impact METKA sales and new orders; 4) METKA revenues are also lumpy, with profits exposed to project delays. 5) With improving balance sheet and the company moving to investment mode there is also the risk that comes with deploying capital in new projects.

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Appendix A-1

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Mytilineos SA (MYTr.AT)

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Fundamental Research

Analyst: Krishan M Agarwal



Date	Rating	Target Price	Closing Price
1 19-Aug-20 00:30:00	1	*10.00	7.74
2 09-Dec-20 00:00:00	1	*13.50	11.40
3 26-May-21 00:00:00	1	*20.00	14.90
4 09-Aug-21 13:00:00	1	*21.00	15.58
5 13-Sep-21 00:00:09	1	*21.50	15.66

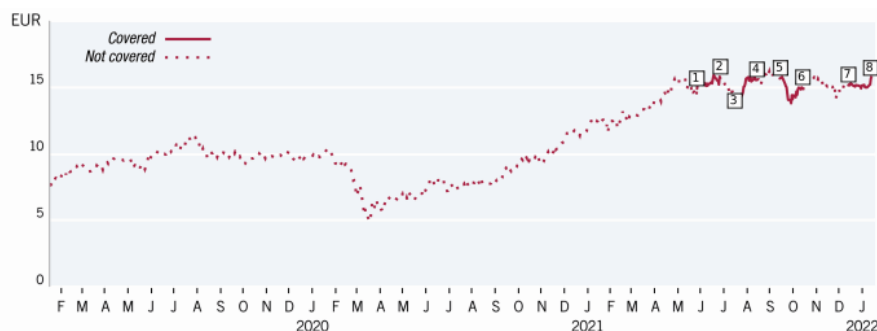
*Indicates Change

Rating/target price changes above reflect Eastern Time

Mytilineos SA (MYTr.AT)

Catalyst Watch Research

Analyst: Krishan M Agarwal



Date	Expected Direction	Duration	Action	Closing Price
1 26-May-21 00:00:00	Upside	30 Days	Open	14.90
2 25-Jun-21 10:24:00	Upside	30 Days	Close	15.80
3 15-Jul-21 00:00:00	Upside	30 Days	Open	14.40
4 14-Aug-21 10:25:14	Upside	30 Days	Close	15.55
5 13-Sep-21 00:00:09	Upside	30 Days	Open	15.66
6 13-Oct-21 10:23:29	Upside	30 Days	Close	14.94
7 13-Dec-21 00:00:30	Upside	30 Days	Open	15.15
8 12-Jan-22 10:30:53	Upside	30 Days	Close	15.65

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