

02 Dec 2022 08:40:30 ET | 14 pages

Mytilneos SA (MYTr.AT)

Growth catalysts are coming through; we raise our forecasts

CITI'S TAKE

MYTIL's investment case remains solid with earnings momentum maintained in its base load aluminium and power business in Q3'22, while a strong pick up in RSD business. Execution of third-party renewable capacity growth and subsequent monetization has started to reflect in the earnings, which we have flagged as a key catalyst earlier. We raise our EBITDA forecasts by 22%/6%/15% for 2022/2023/2024 as we incorporate higher earnings from RSD business on a sustainable basis. Our DCF based target price for the stock now stands at 26 €/share (up from 22 €/share before) on updated estimates; we flag that value for RSD business could be upto a billion € in our bull case valuation. We open a positive catalyst watch on the stock, as we expect earnings momentum to sustain going into Q4'22, while stronger cash flow should help to normalize the net debt from elevated levels reported in Q3'22.

RSD business continues to emerge as a third pillar of growth — The company has up to 6GW pipeline of capacity growth, while we estimate that of 1GW annual execution could be a catalyst for over €100mn annualized EBITDA. Moreover, the company is aiming for a capital light model for its RSD growth, where monetization of mature capacities should help in recycling the capital for future growth, thus limiting the capex call on group balance sheet ([Renewable business \(RSD\) appears ready to take off in 2022](#)).

Green growth to take center stage from 2023 onwards — The company is into the last phase of commissioning its 826MW CCGT plant, doubling its thermal power capacity with full ramp up in 2023. However, the incremental capital allocation is skewed towards green growth with 1.4GW solar power expansion being the major focus area for the company. MYTIL is continuing to look for opportunities to grow its aluminium recycling portfolio vs current capacity of 60-65kt, while power sourcing transition to green power for aluminium smelting will likely happen by early 2024.

Base load business remains steady at elevated levels — Margins in the aluminium business are continuing to be solid with hedging in place for revenue and power costs. Spot physical premiums have come off, but still imply upside vs our assumptions for 2023. Spark spreads in the gas fired power business have recovered in the spot market, which we believe should keep the earnings momentum supported in power business. We flag that competitive sourcing of natural gas feeding into its power plants and higher plant efficiencies should continue to drive spreads in power business ahead of spot market, in our view.

Buy

Price (01 Dec 22 17:20)	€18.04
Target price	€26.00↑ from €22.00
Expected share price return	44.1%
Expected dividend yield	6.1%
Expected total return	50.2%
Market Cap	€2,578M US\$2,713M

Price Performance

(RIC: MYTr.AT, BB: MYTIL GA)



Mytilneos SA (EUR)

Year to 31 Dec	2020A	2021A	2022E	2023E	2024E
Sales (€M)	1,898.7	2,664.1	6,445.8	5,394.9	5,081.4
Net Income (€M)	129.0	162.0	459.0	484.7	576.9
Diluted EPS (€)	0.91	1.19	3.38	3.56	4.24
Diluted EPS (Old) (€)	0.91	1.19	2.57	3.32	3.62
PE (x)	19.8	15.1	5.3	5.1	4.3
EV/EBITDA (x)	9.5	8.8	4.6	4.6	3.8
DPS (€)	0.36	0.42	1.19	1.25	1.49
Net Div Yield (%)	2.0	2.3	6.6	6.9	8.3

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

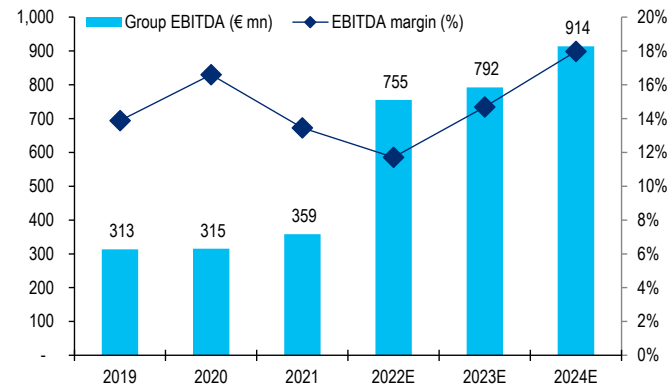
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MYTr.AT: Fiscal year end 31-Dec						Price: €18.04; TP: €26.00; Market Cap: €2,578m; Recomm: Buy					
Profit & Loss (€m)	2020	2021	2022E	2023E	2024E	Valuation ratios	2020	2021	2022E	2023E	2024E
Sales revenue	1,899	2,664	6,446	5,395	5,081	PE (x)	19.8	15.1	5.3	5.1	4.3
Cost of sales	-1,674	-2,386	-5,786	-4,709	-4,284	PB (x)	1.7	1.6	1.2	1.0	0.9
Gross profit	225	278	660	686	798	EV/EBITDA (x)	9.5	8.8	4.6	4.6	3.8
Gross Margin (%)	11.8	10.5	10.2	12.7	15.7	FCF yield (%)	4.2	-6.1	-13.4	9.7	24.0
EBITDA (Adj)	315	359	755	792	914	Dividend yield (%)	2.0	2.3	6.6	6.9	8.3
EBITDA Margin (Adj) (%)	16.6	13.5	11.7	14.7	18.0	Payout ratio (%)	39	35	35	35	35
Depreciation	-90	-80	-95	-106	-116	ROE (%)	8.3	10.6	25.7	22.0	22.5
Amortisation	0	0	0	0	0	Cashflow (€m)	2020	2021	2022E	2023E	2024E
EBIT (Adj)	225	278	660	686	798	EBITDA	315	359	755	792	914
EBIT Margin (Adj) (%)	11.8	10.5	10.2	12.7	15.7	Working capital	-21	-82	-479	-74	129
Net interest	-54	-59	-50	-57	-54	Other	-52	-61	-79	-131	-152
Associates	1	1	0	0	0	Operating cashflow	243	215	197	587	890
Non-Op/Except/Other Adj	0	0	0	0	0	Capex	-136	-365	-527	-350	-300
Pre-tax profit	172	221	610	629	743	Net acq/disposals	-25	8	0	0	0
Tax	-28	-41	-120	-126	-149	Other	-46	-28	2	0	0
Extraord./Min.Int./Pref.div.	-15	-18	-30	-18	-18	Investing cashflow	-208	-386	-525	-350	-300
Reported net profit	129	162	459	485	577	Dividends paid	-50	-52	-57	-162	-170
Net Margin (%)	6.8	6.1	7.1	9.0	11.4	Financing cashflow	-263	272	223	-237	-590
Core NPAT	129	162	459	485	577	Net change in cash	-226	105	-105	0	0
Per share data	2020	2021	2022E	2023E	2024E	FCF ex acquisitions & explorn	81	-143	-330	237	590
Reported EPS (€)	0.91	1.19	3.38	3.56	4.24						
Core EPS (€)	0.91	1.19	3.38	3.56	4.24						
DPS (€)	0.36	0.42	1.19	1.25	1.49						
CFPS (€)	1.72	1.58	1.45	4.32	6.54						
FCFPS (€)	0.75	-1.11	-2.43	1.75	4.34						
BVPS (€)	10.70	11.32	14.99	17.37	20.36						
Wtd avg ord shares (m)	141	136	136	136	136						
Wtd avg diluted shares (m)	141	136	136	136	136						
Growth rates	2020	2021	2022E	2023E	2024E						
Sales revenue (%)	-15.8	40.3	141.9	-16.3	-5.8						
EBIT (Adj) (%)	2.4	23.8	137.1	3.9	16.2						
Core NPAT (%)	-11.2	25.6	183.4	5.6	19.0						
Core EPS (%)	-10.1	30.4	183.4	5.6	19.0						
Balance Sheet (€m)	2020	2021	2022E	2023E	2024E						
Cash & cash equiv.	493	603	500	500	500						
Accounts receivables	1,056	1,353	3,219	2,398	2,117						
Inventory	290	469	1,192	899	706						
Net fixed & other tangibles	1,278	1,549	1,859	2,103	2,287						
Goodwill & intangibles	446	446	440	440	440						
Financial & other assets	429	669	844	844	844						
Total assets	3,992	5,089	8,054	7,184	6,894						
Accounts payable	688	1,086	3,079	1,892	1,546						
Short-term debt	75	82	62	76	90						
Long-term debt	954	1,324	1,568	1,492	1,073						
Provisions & other liab	702	976	1,195	1,233	1,270						
Total liabilities	2,418	3,468	5,904	4,693	3,979						
Shareholders' equity	1,511	1,540	2,039	2,362	2,769						
Minority interests	63	81	111	129	147						
Total equity	1,574	1,621	2,150	2,491	2,916						
Net debt (Adj)	536	803	1,130	1,069	662						
Net debt to equity (Adj) (%)	34.0	49.6	52.6	42.9	22.7						

For definitions of the items in this table, please click [here](#).

Stronger earnings growth ahead

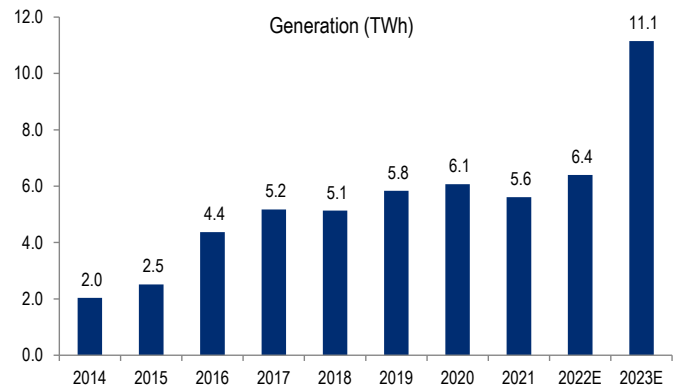
Figure 1. Our estimates are for earnings growth to stay strong in next two years



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Source: Company Reports, Citi Research Estimates

Figure 2. Power generation should increase significantly with the ramp up of new CCGT

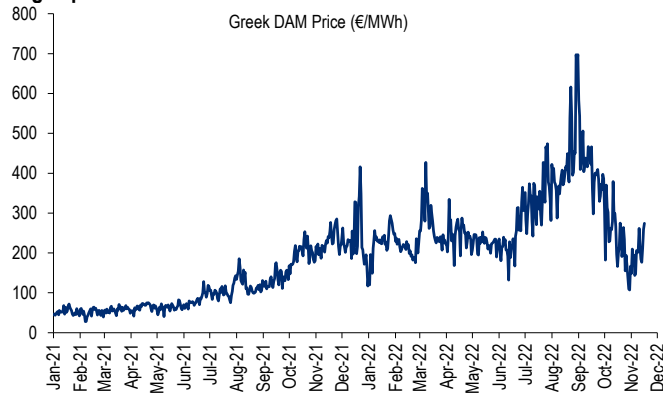


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Source: Company Reports, Citi Research Estimates

Spark spreads in Greece have recovered

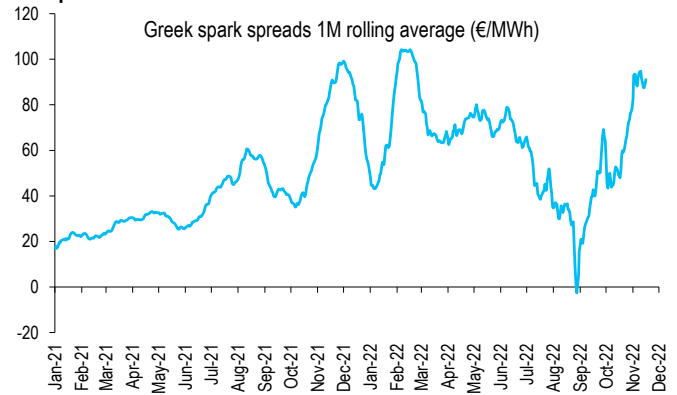
Figure 3. Power prices in Greece have come off following the decline in gas prices



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Source: Citi Research, Bloomberg

Figure 4. However, spark spreads in Greece have recovered after a brief period of weakness



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Source: Citi Research, Bloomberg

Summary of changes to our estimates

Figure 5. MYTIL - summary of changes to our estimates

Mytilineos	Unit	2022 E			2023 E			2024 E		
		New	Old	% change	New	Old	% change	New	Old	% change
Alumina	kt	515	514	0.4%	524	524	0.0%	524	524	0.0%
Aluminium	kt	242	245	-1.4%	255	255	0.0%	255	255	0.0%
Revenue	€ mn	6,446	4,704	37.0%	5,395	5,090	6.0%	5,081	3,945	28.8%
EBITDA	€ mn	755	618	22.2%	792	745	6.3%	914	797	14.7%
PBT	€ mn	610	473	29.0%	629	590	6.6%	743	637	16.7%
EPS	€/share	3.38	2.57	31.5%	3.56	3.32	7.3%	4.24	3.62	17.2%
Net debt / (cash)	€ mn	1,130	964	17.3%	1,069	840	27.2%	662	636	4.1%

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Source: Citi Research

Figure 6. MYTIL - snapshot of our estimates

Mytilineos Group – Snapshot (Year-end 31 Dec)					
Share price (€/share)	18.00		Target price	26.00	
Market cap (US\$m)	2,570		% to TP	44%	
					EUR : USD 1.05
					02-Dec-22
Income statement (€ mn)					
	Dec-20	Dec-21	Dec-22E	Dec-23E	Dec-24E
Revenue	1,899	2,664	6,446	5,395	5,081
Costs	(1,584)	(2,306)	(5,691)	(4,603)	(4,168)
Group EBITDA	315	359	755	792	914
D & A	(90)	(80)	(95)	(106)	(116)
Group EBIT	225	278	660	686	798
Others	(34)	(5)	--	--	--
Operating profit	190	273	660	686	798
Net finance cost	(18)	(52)	(50)	(57)	(54)
Profit before tax	172	221	610	629	743
Taxation	(28)	(41)	(120)	(126)	(149)
Minority interest	(15)	(18)	(30)	(18)	(18)
Net income	129	162	459	485	577
Basic EPS (€)	0.91	1.19	3.38	3.56	4.24
Diluted EPS (€)	0.91	1.19	3.38	3.56	4.24
Balance sheet (€ mn)					
	Dec-20	Dec-21	Dec-22E	Dec-23E	Dec-24E
Cash	493	603	500	500	500
Inventory & receivable	1,347	1,822	4,411	3,297	2,823
Other current assets	272	476	678	678	678
Property, plant & equipment	1,161	1,429	1,692	1,936	2,120
Affiliates and joint ventures	25	21	21	21	21
Other non-current assets	694	739	751	751	751
Total assets	3,992	5,089	8,054	7,184	6,894
Trade payables	688	1,086	3,079	1,892	1,546
Borrowings	980	1,355	1,574	1,513	1,107
Other liabilities	750	1,027	1,251	1,288	1,325
Shareholders' equity	1,574	1,621	2,150	2,491	2,916
Total liabilities & equity	3,992	5,089	8,054	7,184	6,894
Net debt / (cash)	536	803	1,130	1,069	662
Cash flow statement (€ mn)					
	Dec-20	Dec-21	Dec-22E	Dec-23E	Dec-24E
Profit after tax	144	181	494	503	595
Depreciation	95	85	92	106	116
Income tax paid	(31)	(23)	(69)	(88)	(111)
Working capital change	(21)	(82)	(479)	(74)	129
Other operating cash flow	61	61	161	140	162
Operating cash flows	249	220	199	587	890
Capital expenditure	(150)	(380)	(534)	(350)	(300)
Others investing cash flow	(71)	(21)	2	--	--
Investing cash flows	(221)	(401)	(532)	(350)	(300)
Equity dividend	(50)	(52)	(57)	(162)	(170)
Minority dividend	--	--	--	--	--
Net borrowing proceeds	(103)	356	229	(76)	(420)
Others financing cash flow	(111)	(32)	51	--	--
Financing cash flows	(263)	272	223	(237)	(590)
Increase in cash flow	(236)	92	(111)	(0)	--
Free cash flow	112	(145)	(328)	237	590
Commodity prices					
	Dec-20	Dec-21	Dec-22E	Dec-23E	Dec-24E
Alumina (US\$/t)	271	330	367	338	350
Aluminium (US\$/t)	1,704	2,474	2,648	2,450	3,300
European TTF gas (€/MWh)	8	40	116	107	85
Production					
	Dec-20	Dec-21	Dec-22E	Dec-23E	Dec-24E
Alumina (kt)	827	871	865	875	875
Aluminium (kt)	224	235	242	255	255
Thermal power (TWh)	4.34	3.82	4.52	8.41	8.78
Renewable power (TWh)	0.52	0.54	0.59	0.80	0.84
Divisional EBITDA (€ mn)					
	Dec-20	Dec-21	Dec-22E	Dec-23E	Dec-24E
Metallurgy	149	159	274	343	439
Power & Gas	157	147	321	295	330
Renewable & Storage	15	22	101	113	104
Sustainable Engineering	(2)	33	72	41	40
Group EBITDA	315	359	755	792	914
Aluminium (% of group)	47%	44%	36%	43%	48%
Valuation metrics					
	Dec-20	Dec-21	Dec-22E	Dec-23E	Dec-24E
Shares (avg. basic mn)	141	136	136	136	136
Shares (avg. diluted mn)	141	136	136	136	136
P / E (x)	10.6	14.4	5.6	5.3	4.5
P / B (x)	0.9	1.5	1.3	1.1	0.9
EV / EBITDA (x)	5.7	8.0	4.9	4.6	3.6
Net debt to EBITDA (x)	1.7	2.2	1.5	1.3	0.7
Gearing (ND/ND+E) (%)	26%	34%	36%	31%	19%
FCF yield (%)	9.4%	-7.3%	-13.4%	9.7%	24.1%
Dividend (€/share)	36.0	42.0	119.0	125.0	149.0
Payout on EPS (%)	39%	35%	35%	35%	35%
Dividend yield (%)	3.7%	2.4%	6.3%	6.6%	7.9%
EBITDA margin (%)	17%	13%	12%	15%	18%
OP margin (%)	12%	10%	10%	13%	16%
ROE (%)	9%	11%	23%	21%	21%
ROIC (%)	10%	10%	17%	16%	19%
Valuations					
	€ mn		€/share		
Metallurgy	2,034		15.0		
Power & Gas	2,091		15.4		
Renewable & Storage	400		2.9		
Sustainable Engineering	202		1.5		
Group Enterprise Value	4,727		34.8		
Pension & minority	(58)		(0.5)		
Net debt	(1,130)		(8.3)		
Equity value, net	3,539		26.0		

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Source: Citi Research

Opening Catalyst Watch on Mytilineos SA (MYTr.AT)

Direction: **Upside**
Duration: Within 30 Days
Catalyst: Solid earnings momentum and FCF

The dynamics of the power market in Greece continue to be favourable for MYTIL with the recovery in spark spreads. Moreover, the company has guided to continued benefit from competitive sourcing of natural gas. This is likely to coincide with ramp-up of new CCGT which will likely double power generation for the company. We also flag that, the company is likely to optimise its working capital into the year end, which we believe should reflect in a sequential decline in net debt in Q4'22. Growth dynamics are likely to remain strong on our estimates with a potential pick up in execution of renewable capacity set up in Greece.

Bull/Bear: Mytilineos SA (MYTr.AT)

Bull/Bear: Mytilineos SA (MYTr.AT)

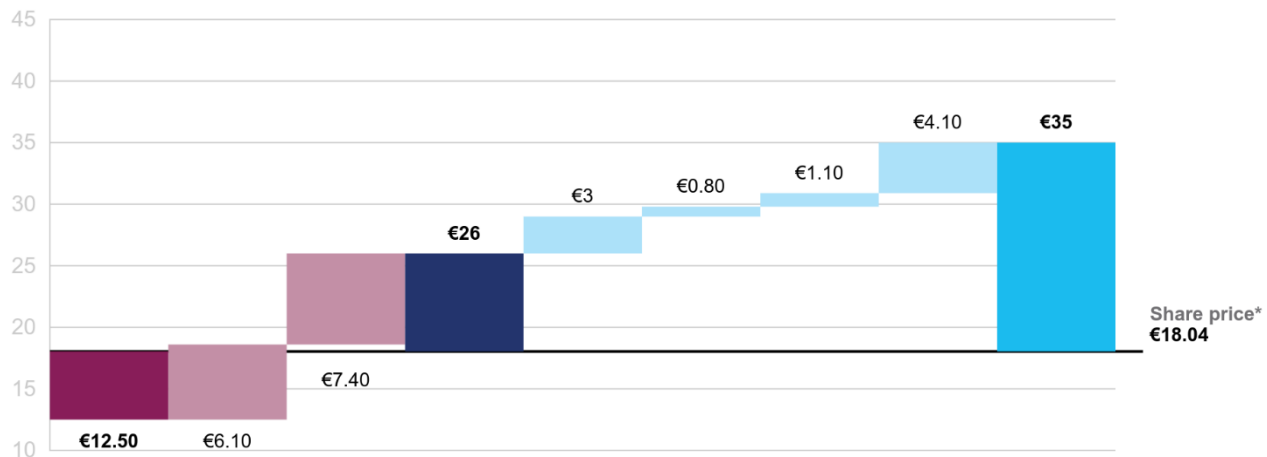


€26 target price

Buy rating

44% expected share price return

125pp Bull/Bear Spread



-20% metal prices

Lower power volumes

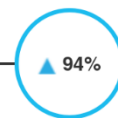
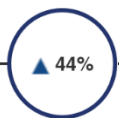


Renewable portfolio in RSD

Alumina de - bottleneck

EPC margin upside

+15% metal prices



Share price*
€18.04

Source: Citi Research

*Share price as of 1 Dec 2022 17:20



€35

- Renewable capacity execution in ther RSD business
- Alumina capacity increase to 1.1mt through de-bottlenecking
- Higher margins in EPC business and higher commodity prices



€26

- 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 2022 and ramp up in 2023



€12.5

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

Mytilineos SA

Company description

Mytilineos is a diversified Industrial Group listed in Athens: 1) Largest fully integrated producer of aluminium in Europe through 100%-owned Aluminium of Greece SA; 2) Power in Greece, with 2.4GW installed capacity, mostly thermal capacity, but also renewables; and 3) Engineering, procurement and construction (EPC), mainly of power plants in MENA, through 100%-held METKA.

Investment strategy

We rate Mytilineos Buy. 1) The company is well positioned on the aluminium cost curve, and will benefit from higher aluminium and alumina prices; 2) 100% subsidiary Protergia appears well positioned for an improving Greek energy market, where demand looks set to increase, and lower natural gas prices make thermal a more attractive option for electricity generation. The company is also benefiting from liberalisation of the retail energy market where its strong position as the largest independent and strong balance sheet make it well positioned for new opportunities. 3) Attractive growth proposition with 1.5GW solar power capacity target.

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 26 €/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

ANALYST CERTIFICATION

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by “AC” in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Mytilineos SA (MYTr.AT)

Ratings and Target Price History
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

	Date	Rating	Target Price	Closing Price
3	26-May-21 00:00:00	1	*20.00	14.90
4	09-Aug-21 13:00:00	1	*21.00	15.58

	Date	Rating	Target Price	Closing Price
5	13-Sep-21 00:00:09	1	*21.50	15.66
6	23-Mar-22 01:00:00	1	*22.00	14.24

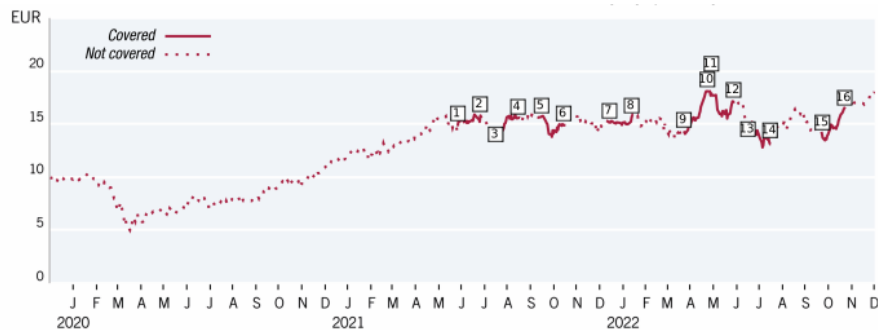
*Indicates Change

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

	Date	Expected Direction	Duration	Action	Closing Price
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
9	23-Mar-22 01:00:00	Upside	30 Days	Open	14.24
10	22-Apr-22 10:24:22	Upside	30 Days	Close	18.08
11	26-Apr-22 14:13:54	Upside	30 Days	Open	18.09
12	26-May-22 10:28:10	Upside	30 Days	Close	17.14

	Date	Expected Direction	Duration	Action	Closing Price
13	14-Jun-22 00:00:00	Upside	30 Days	Open	14.89
14	14-Jul-22 10:33:36	Upside	30 Days	Close	13.30
15	22-Sep-22 00:00:00	Upside	30 Days	Open	14.08
16	22-Oct-22 10:33:02	Upside	30 Days	Close	16.40

Rating/target price changes above reflect Eastern Time

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