

H&A FIRST TAKE

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18-October-19

## **PW: Only temporary headwinds // investment case remains fully intact**

Yesterday, Nabaltec published preliminary Q3 results. As a result of the weaker than expected top-line performance (sales +0.9% yoy; FF +6.8% yoy, SA -10.3% yoy), **management downward revised its FY sales guidance**. Importantly, the company's **FY EBIT margin expectations (10-12%) remain unchanged**.

**Specialty Alumina sales strongly declined by 10.3% yoy** amid the lower volumes sold, reflecting the subdued macroeconomic environment. In addition, management does not seem to expect this to notably change in Q4.

**Functional Fillers sales are up 6.8% yoy**, lower than H1 (10.9% yoy). The key reason behind this were lower output rates in the US subsidiary Nashtec as **a result of temporary technical issues**. For FY19, this should result in a € 5m sales shortfall within FF. Importantly, demand for NTG's fine ATH remains strong. For this year, Nashtec's output should be 7/8kt this year. With the issues being resolved by the end of Q4 (eH&A), Nabaltec should be able to sell 20kt in 2020E and 30kt in 2021E (eH&A).

**Profitability remains strong:** Despite notable top-line headwinds, Nabaltec's preliminary Q3 EBIT margin came in at 10.9%, +0.8pp yoy. For the first nine months, NTG's EBIT margin stands at 12.1% (+1.7pp yoy), still poses a new record high.

**Guidance cut only on the top-line, margin reiterated:** Management cut its FY19 sales expectations to € 181 to 184m (old: € 190 to 195m, eH&A € 200m). In our view, the **upper end of the new revenue guidance should be reached**. Mind you, the lower end excludes NTG's Turkey business (c. € 0.8m per month) as management wants to be precautionous in regards to potential sanctions from the US. Most importantly, NTG's EBIT margin guidance remained unchanged (10-12%). From speaking to management, we regard the **upper end (11.5-12%) as still in reach**.

**Boehmite growth remains at full throttle:** Despite the overall weakening automotive industry, boehmite (safety and performance enhancing component of lithium-ion EV batteries) continues to show ample growth. In Q3, **Nabaltec's boehmite sales grew by 63% yoy**; +65% yoy during the first nine months of 2019. Importantly, growth rates for 2020 should remain at 50-60% yoy (eH&A), supported by an overall growth of the EV market and increasing adoption rates.

While still constituting a small proportion of the NTG's overall result, boehmite has the **potential to change Nabaltec's market perception**; from being a niche player for environmental friendly flame retardants towards a mission-critical EV supplier. Mind you, our **DCF for boehmite alone yields a value per share of € 16-30**.

While the weaker than initially expected performance in FY19 is somewhat disappointing, we regard the reasons behind it as only temporary. Most importantly however, the **investment case remains intact**. NTG's "gem" (boehmite with >30% EBIT margins and +50% growth p.a.) remains on its ample growth path (9m +65% yoy)

**Investment case is intact // NTG remains a strong BUY**

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**Buy**

**Price target:** EUR 44.00

**Price:** EUR 29.50

Close price as of: 17.10.2019

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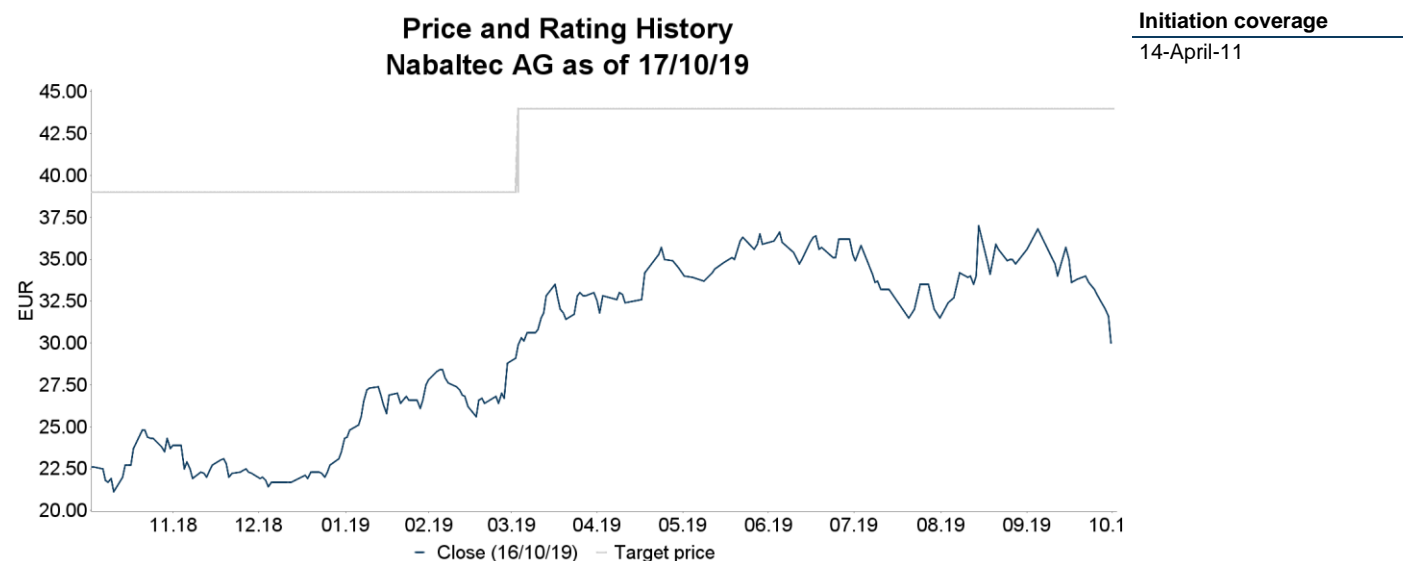
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|-------------|------------|
| Nabaltec AG | 2, 3       |

**Historical target price and rating changes for Nabaltec AG in the last 12 months**



| Company     | Date       | Analyst             | Rating | Target price | Close     |
|-------------|------------|---------------------|--------|--------------|-----------|
| Nabaltec AG | 30.08.2019 | Sandherr, Christian | Buy    | EUR 44,00    | EUR 37,00 |
|             | 07.08.2019 | Sandherr, Christian | Buy    | EUR 44,00    | EUR 32,00 |
|             | 07.06.2019 | Sandherr, Christian | Buy    | EUR 44,00    | EUR 36,30 |
|             | 06.05.2019 | Sandherr, Christian | Buy    | EUR 44,00    | EUR 34,20 |
|             | 21.03.2019 | Sandherr, Christian | Buy    | EUR 44,00    | EUR 30,10 |
|             | 28.02.2019 | Sandherr, Christian | Buy    | EUR 39,00    | EUR 26,80 |

|            |                     |     |           |           |
|------------|---------------------|-----|-----------|-----------|
| 10.01.2019 | Sandherr, Christian | Buy | EUR 39,00 | EUR 22,30 |
| 29.11.2018 | Sandherr, Christian | Buy | EUR 39,00 | EUR 22,40 |
| 05.11.2018 | Sandherr, Christian | Buy | EUR 39,00 | EUR 24,80 |

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|             |         |         |
|-------------|---------|---------|
| <b>Buy</b>  | 61.25 % | 73.68 % |
| <b>Sell</b> | 11.88 % | 5.26 %  |
| <b>Hold</b> | 26.88 % | 21.05 % |

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