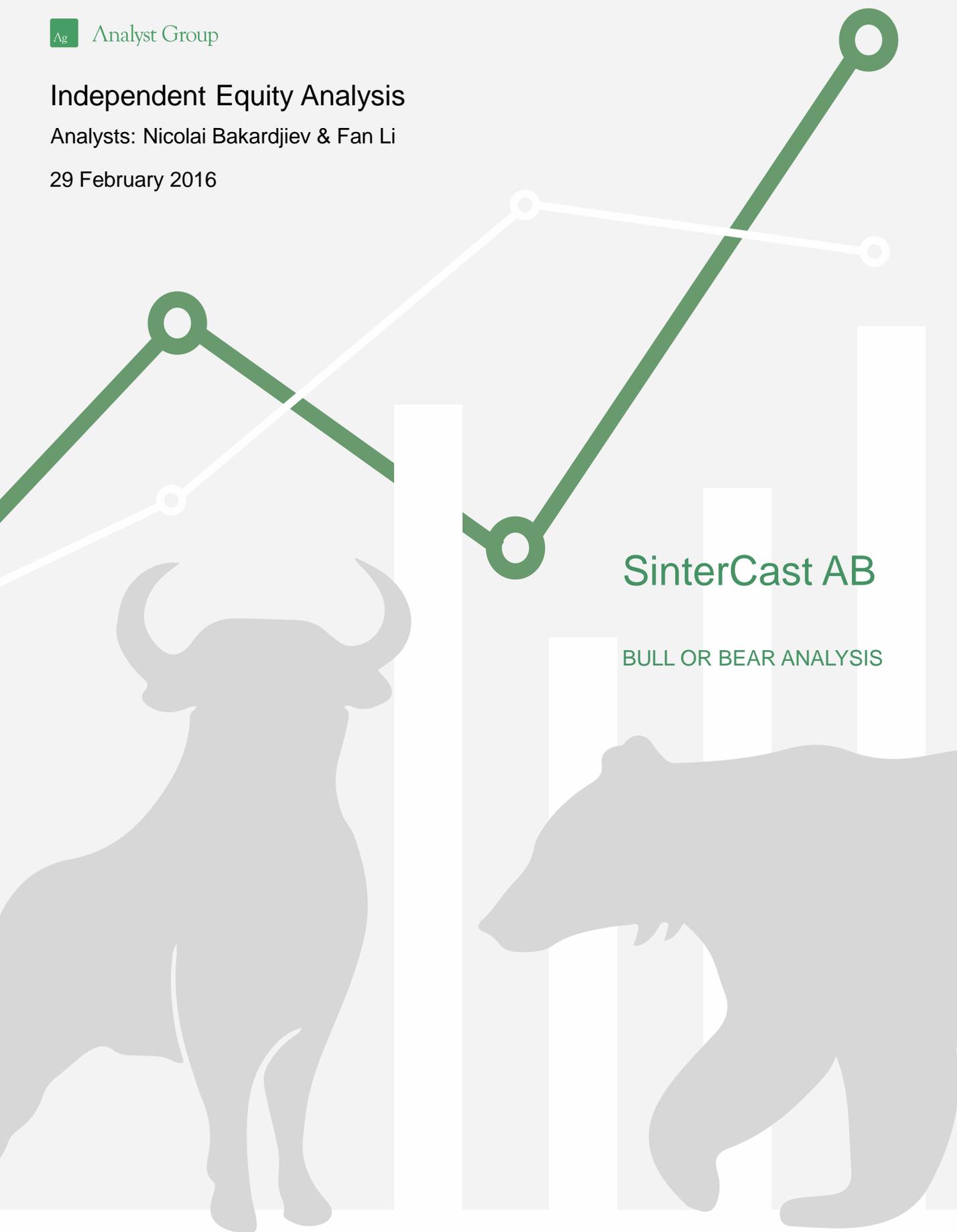


Independent Equity Analysis

Analysts: Nicolai Bakardjiev & Fan Li

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Introduction



Quality of Management



Risk Profile



Quality of Earnings



Value Drivers

- » **World's leading supplier** of process control technology for high volume production of CGI components. Several current customers include Audi, Volkswagen, Ford, and Hyundai. With patent protection on all key production matters, SinterCast's competitive advantage is protected.
- » **Globally Active** in 12 countries through 42 different locations. The company's majority business is conducted overseas. With continues increasing demand for vehicles globally the demand for SinterCast's services is expected to increase.
- » **Consistent increasing dividends** have been paid out to investors over the past 5 years with a dividend yield of 2.56%. This shows management's confidence in the future performance of the company.
- » **The low debt structure** of the company results in minimal default risks and exhibits their flexible capital structure.

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SINTERCAST

Share price 85.25 SEK
 52wk high / low 102.50/77.00 SEK
 Shares outstanding 7.09m
 Market cap (MSEK) 611.52 SEK
 Net debt (MSEK) 5.76 SEK
 EV (MMSEK) 586 SEK
 Sector Industrials
 List / Ticker SINT.ST
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PERFORMANCE

1 Month (2.27%)
 3 Months (6.25%)
 1 Year 11.65%
 YTD (2.27%)

MAJOR OWNERS

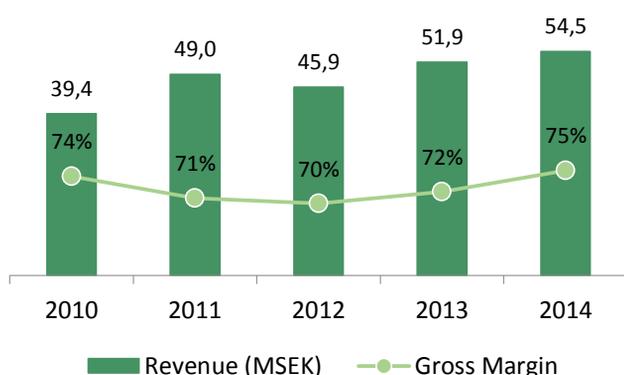
Avanza Bank Holding AB 10.66%
 Nordnet AB 8.56%
 Ahlström (Lars) 6.14%
 Coeli AB 3.13%
 Brandels (Jan Olof) 2.18%

MANAGEMENT

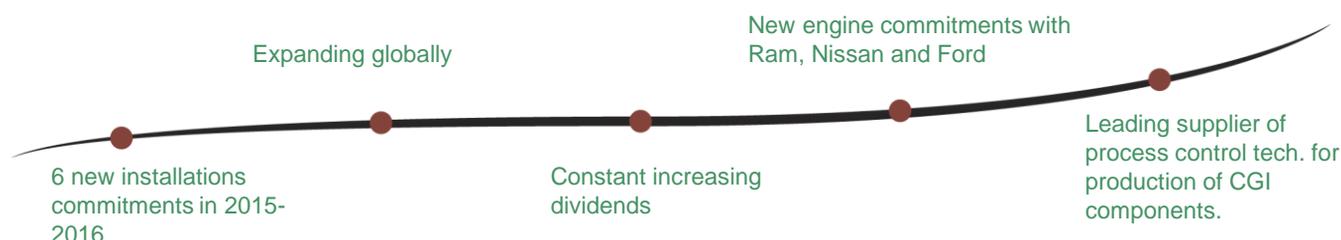
CEO Steve Dawson
 Chairman Hans-Erik Andersson
 CFO Daphner Uhmeier

DATE	NAME	CHANGE	TOTAL
06/30/15	S&B Christensen AB	+0.08m	0.83m
06/30/15	Stenbeck (Ulf)	+0.06m	0.70m
06/30/15	Avanza Bank Holding AB	+0.04m	8.22m
06/30/15	Nordnet AB	+0.04m	6.59m
07/30/15	Handlesbanken Asset Mgmt	+0.03m	0.36m

Revenue & Gross Margin Chart



Value Drivers



Investment Thesis

SinterCast is currently the world's leading supplier of process control systems for the production of Compacted Graphite Iron (CGI). 6 new installations of their patented System 3000 control system in the first three quarters of 2015 has set a new company record for installations. This has boosted engine equivalents production by 11% compared to 2014 Q3. Four new installation commitments have been secured in China, one in Portugal and another in Brazil brings the total number of installations throughout Europe, Asia and the Americas to 44. This gives SinterCast a strong position in the growing automotive industry as demands for vehicles is increasing.

Year-on-year revenues in the first three quarters of 2015 have exceeded 2014's total revenues. Driven by increased series production, record installations of products, shipments of consumables and with friendly exchange rates, SinterCast has experienced a 54% increase in year-on-year revenue while continuing the 7 year trend of increasing gross margins.

Dividends have been paid out to investors for the 5th consecutive year with an average dividend of SEK 1.46 and a total dividend yield of 2.4%. In an interview with CEO Steve Dawson in 2014, he states that the 25% increase in ordinary dividend from 2013 to 2014 is in compliance with the company's goal of issuing increasing dividends each year since the first payment in 2011. The extraordinary dividend payments made in 2012 and 2015 are meant to showcase the confidence SinterCast's Board has with the financial situation of the company.

Currently SinterCast holds no long term debt and has strong liquidity which decreases their default risks. A 23.3% decrease in short term current liabilities in the 3rd quarter of 2015 is an example of the flexibility the SinterCast's capital structure. In the last 10 years, Sintercast has only raised capital by issuing shares.

Competition in the automotive industry is typically very high. SinterCast has achieved a strong foothold as they are the first company to introduce CGI into the production of engines. With their first patent related to CGI technologies being filed in 1983, SinterCast has a strong head start in research and development by over 30 years. As new technologies arise, competition will increase. SinterCast's competitive advantage lies in their strong list of patents, global presence and their dedication to research.

The risks associated with SinterCast are influenced by the demand for CGI engines and other components. This demand is driven by the global economy as it impacts vehicle sales and the performance of engines that use CGI technology. The last several years show good signs for the future growth of SinterCast with economic recovery worldwide, increased demand for pick-up vehicles North America (SinterCast's primary growth target) and the increased demand for more efficient engines and production methods which SinterCast's CGI technology accomplishes.

Company Description

SinterCast, founded in 1983, provides process control solutions for the iron foundry industry. Their products allow for reliable high volume production of Compacted Graphite Iron (CGI) primarily used in diesel and petrol engines. Their technology measures and controls iron before it is cast into molds. This reduces scrap, conserves energy and promotes cost-effective series production



Valuation

Investment Characteristics

SinterCast issued its first dividend payment at the end of 2010 and has made consistent dividend payments through 2015. The first dividend in 2010 was SEK 0.50 with the last dividend in 2014 being an ordinary dividend of SEK 1.50 along with an extraordinary dividend of SEK 0.70. This is a dividend increase of 340% in 4 years. SinterCast has a total dividend yield of 2.4% with an average dividend of SEK 1.46.

Dividends from SinterCast are based off their cash flow from operations after investments. In 2014 SEK 15.6m was issued out as dividend payments which was an 84% increase from 2013. From 2010 to 2014 a total of SEK 30.9m (including extraordinary dividends) has been paid out to shareholders and this represents 93.6% of SinterCast's cash flow. These dividend payments are a sign of SinterCast's confidence for future growth.

Low trading volume of SinterCast stocks results in low liquidity. With a 3 month average of 0.08% of total shares being traded, SinterCast stock may not be suitable for short term investment purposes.

Table 1

	EV/Sales	EV/EBITA	P/E	P/B	Div-Yield
SinterCast	8,4	29,7	31,9	7,2	2,5
10 Year Median	10,1	48,7	37,5	6,8	0

Table 2

Company Name	P/E	EPS	EV/Sales	EV/EBITA	P/B	Div-Yield
SinterCast	32,1	2,8	8,4	29,7	7,2	2,5
CTT Systems AB	26,0	1,8	3,1	14,5	5,5	0,0
Semcon AB	23,4	1,9	0,4	12,1	1,3	4,6
XANO Industri AB	18,4	8,7	0,7	6,7	2,0	2,1
Mean	21,3	2,6	1,4	11,1	2,9	2,2

Using a dividend discount model to price the value of SinterCast stock, it can be argued that this firm is undervalued. Using the H-Model, which is a two stage model, we estimate the value of SinterCast stock to be SEK 98.76. Based on this calculation, SinterCast stock is currently undervalued with a trading price of SEK 84.50. This is calculated using a short term growth rate of 9% and a long term growth rate of 2%, with the assumption that the company will reach steady levels of growth in 5 years.

In the tables below, we have included SinterCast's comparison with their own 10 year median values (Table 1) and a comparison between industry peers (Table 2). When comparing SinterCast to peers within the Stockholm Industrials PI index, it shows that SinterCast is overvalued due to its high P/E and EV/EBITA values. However, when compared to its own 10 year median, SinterCast appears to be undervalued. With conflicting conclusions from several sources, it can be argued that an investor in SinterCast should take a hold strategy and inspect future developments.

Summary

SinterCast's current structure seems to focus more on the current side of the spectrum than on growth. With large dividend payout they reduce their opportunities to invest in future growth potentials. Future increases in revenues and earnings will primarily rely on increased installations which they have shown great potential as they have had 6 new installations this year. Along with SinterCast's low liquidity in the market, the company is more appealing for long term investments.

SWOT

Strengths

- Globally diversified strategy
- Patent protected products
- Increasing annual dividends
- Strong capital structure

Weaknesses

- Low trading volume
- Exposure to FX risks
- Success is dependent on vehicle demand
- Operating in a competitive market

Opportunities

- Growing demand for pick-up truck in North America
- Global economic recovery
- Flexible capital structure
- Global demand for efficient engines
- Multiple applications for CGI technology in other industries

Threats

- Attractive industry for competitors
- Substitute technologies for CGI

Bull and Bear

 3	Value Drivers	World's leading supplier of process control systems for CGI production. Good potential for growth as demand for more efficient engines increases.
 4	Quality of Earnings	Strong growth in revenues in the past 5 years along with increasing dividend payouts. With new installation in 2015 these numbers could continue to increase.
 1	Risk Profile	Success of the company relies on global economy as it effects vehicle sales. Low liquidity due to low trading volumes. Revenues can be strongly effects by FX changes as most sales are overseas.
 4	Quality of Management	Several newly elected members of the board. Strong Board credentials. Straight forward reports which reflect past and future developments within the company.
 3	Overall view	With good potential for future growth, increasing revenues and dividends SinterCast is an attractive company. 6 new installations in 2015 are expected to push these numbers higher. With uncertainty in future economic developments which SinterCast's profitability depends on, and low liquidity investment in SinterCast is more for long term investors.

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Definition Bull

Bull is a metaphor for an optimistic view of the future. It indicates a belief in improvement.

Definition Bear

Bear is a metaphor for a pessimistic view set on the future. It indicates a belief deterioration.

The analyst does not hold any shares in Sintercast.

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