

# SINTERCAST

SHARE PRICE (SEK): 66,00

NASDAQ OMX Small Cap

Industrials

- Recovery of two of three engine programmes
- Earnings burdened by higher OPEX
- Potential for record volumes in Q4

**Recovery of two of three engine programmes.** Sintercast reported net sales for the third quarter of SEK 16.7 million (23.8), corresponding to Y/Y growth of -30%. These sales were 5% below our forecast of SEK 17.6 million. The decrease in sales Y/Y is mainly a function of lower series production revenues, but also lower revenues from equipment. Series production revenue decreased by 16% Y/Y, amounting to SEK 14.7 million (17.4), even though the number of annualised engine equivalents during the quarter was unchanged, at 2.0 million units (2.0). The decrease is therefore still attributable to lower shipments of sampling cups, amounting to 40,600 units (50,900), but it should be added that Q3 2016 levels were an all-time high, making the comparables challenging. We anticipated continued high inventory levels as in Q2, but these seem to have normalised somewhat during the quarter, which meant that shipments of sampling cups exceeded our forecast of 38,000 units by around 7%.

**Earnings burdened by higher OPEX.** Operating profit amounted to SEK 4.7 million (11.2), corresponding to a margin of 28.1% (47.1). EBIT came in 27% and 8.7 percentage points below our estimates of SEK 6.5 million and expected margin of 36.8%. The contraction in the operating margin Y/Y was a function of a 126 bps lower gross margin as well as higher operating costs, with the SEK 0.6 million Y/Y rise in R&D standing out most. Operating costs thus amounted to SEK 8 million (7.2), which corresponds to a ratio to sales of 47.9% (30.3). We estimated operating costs to SEK 6.7 million, corresponding to a ratio to sales of 37.4%. The variance from our estimates is mainly due to higher R&D. We believe that this shows both the pros and cons of high operating leverage, and in this quarter cons since volumes were significantly lower.

**Potential for record volumes in Q4.** The guidance from the company is that two of three engine programmes have recovered during the quarter and that inventory levels for sampling cups have started to normalise. In addition, the company says that production in August and September was strong, which bodes well for Q4. For the longer term, we regard the upgrade of System 3000 with Tupy positively since the upgrades were made ahead of production start for a new CGI volume block. Total Solutions & Power Company in Korea also began series production of Sintercast CGI piston rings during the quarter.

## COMPANY DESCRIPTION

SinterCast is the world leading supplier of on-line process control technology and know-how for the reliable high-volume production of Compacted Graphite Iron (CGI). The company provides CGI solutions to the world foundry and automotive industries. SinterCast is a publicly listed company on the NASDAQ OMX Stockholm Stock Exchange.

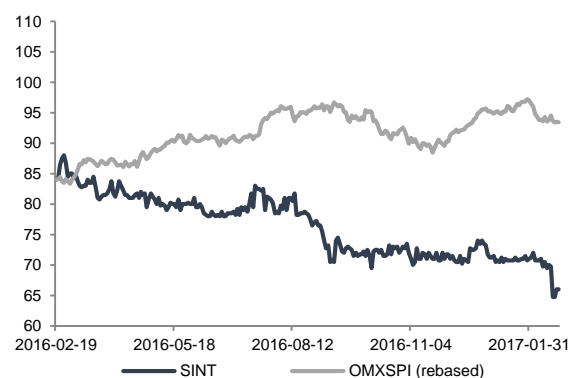
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KEY DATA		SHARE PERFORMANCE	
Market Capitalization (SEKm)	469	1 month (%)	-7,4
Net Debt (SEKm)	-22,3	3 month (%)	-8,3
Enterprise Value (SEKm)	446	12 months (%)	-23,7
Equity ratio(%)	90,4	YTD (%)	-19,3
No of shares.(mn)	7,1	52-V High	89,5
No of shares (dil.mn)	7,1	52-V Low	63,5
Free Float (%)	88,0	Ticker	SINT

	2015A	2016A	2017E	2018E
Sales (SEKm)	72,4	75,4	65,9	77,9
EBITDA (SEKm)	21,1	27,4	20,8	30,5
EBIT (SEKm)	20,3	26,4	19,4	28,7
EBT (SEKm)	24,9	25,8	19,5	29,0
EPS (just. SEK)	3,6	3,8	2,3	4,1
DPS (SEK)	3,5	4,0	3,9	4,0
Sales growth (%)	32,8	4,1	-12,6	18,2
EPS growth (%)	107,3	4,1	-38,4	75,6
EBIT-margin (%)	28,0	35,0	29,5	36,8

	2015A	2016A	2017E	2018E
P/E (x)	24,3	21,7	24,0	16,2
P/BV (x)	6,7	6,1	5,5	5,4
EV/S (x)	8,0	7,1	6,6	5,6
EV/EBITDA (x)	27,3	19,5	21,0	14,3
EV/EBIT (x)	28,4	20,3	22,5	15,2
Div. Yield (%)	4,0	4,9	5,8	6,1

## STOCK PERFORMANCE



Source: Infront, company reports, Remium Nordic, Holdings

MAJOR SHARHOLDERS	CAPITAL	VOTES
Avanza Pension	12,0%	12,0%
UBS AG Client	11,2%	11,2%
Nordnet Pension	8,7%	8,7%
Lars Ahlström	6,1%	6,1%

MANAGEMENT		FINANCIAL CALENDER	
Chairman	Hans-Eric Andersson	4Q-rapport	2018-02-21
CEO	Steve Dawson		
CFO	Daphner Uhmeier		

**INCOME STATEMENT**

MSEK	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	3Q17A	4Q17E	2014A	2015A	2016A	2017E	2018E	2019E
Sales	16,1	18,3	23,8	17,2	13,9	17,2	16,7	18,1	54,5	72,4	75,4	65,9	77,9	80,4
COGS	-3,2	-4,5	-5,4	-3,5	-3,1	-3,8	-4,0	-3,6	-18,2	-17,0	-16,6	-14,5	-16,7	-16,9
Gross revenue	12,9	13,8	18,4	13,7	10,8	13,4	12,7	14,5	40,8	55,4	58,8	51,4	61,1	63,5
Operating costs	-8,0	-8,1	-7,0	-8,7	-7,7	-8,3	-7,5	-8,9	-29,8	-34,3	-31,4	-33,5	-30,6	-31,6
EO-costs	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,0	0,0	0,0
EBITDA	4,9	5,7	11,4	5,0	3,1	5,1	5,2	5,5	11,0	21,1	27,4	20,8	30,5	31,9
Depreciation	-0,3	-0,3	-0,2	-0,2	-0,3	-0,3	-0,5	-0,4	-0,8	-0,8	-1,0	-1,4	-1,9	-1,9
EBIT	4,6	5,8	11,2	4,8	2,8	4,8	4,7	5,2	10,2	20,3	26,4	19,4	28,7	30,0
Net financials	0,1	-0,8	-0,2	0,3	0,2	-0,2	0,0	0,1	1,3	4,6	-0,6	0,1	0,3	0,3
EBT	4,7	5,0	11,0	5,1	3,0	4,6	4,7	5,3	11,5	24,9	25,8	19,5	29,0	30,3
Tax & minorities	0,0	1,0	0,0	0,0	0,0	0,9	0,0	0,0	0,9	0,8	1,0	0,0	0,0	0,0
Net result	4,7	6,0	11,0	5,1	3,0	5,5	4,7	5,3	12,4	25,7	26,8	19,5	29,0	30,3
EPS bef. dil. (SEK)	0,66	0,85	1,55	0,72	0,42	0,77	0,66	0,74	1,75	3,62	3,77	2,75	4,08	4,27
EPS aft. dil. (SEK)	0,66	0,85	1,55	0,72	0,42	0,77	0,66	0,74	1,75	3,62	3,77	2,75	4,08	4,27
Sales Growth Q/Q	-6%	14%	30%	-28%	-19%	24%	-3%	8%	N/A	N/A	N/A	N/A	N/A	N/A
Sales Growth Y/Y	-14%	16%	16%	0%	-14%	-6%	-30%	5%	5%	33%	4%	-13%	18%	3%
Adj. EBITDA margin	30%	31%	48%	29%	22%	30%	31%	31%	20%	29%	36%	27%	39%	40%
Adj. EBIT margin	29%	32%	47%	28%	20%	28%	28%	29%	19%	28%	35%	25%	37%	37%
Adj. EBT margin	29%	27%	46%	30%	22%	27%	28%	29%	21%	34%	34%	25%	37%	38%

**CASH FLOW**

MSEK	2014A	2015A	2016A	2017E	2018E	2019E
Cash flow b.f. ch. in work.cap.	11	21	27	18	31	32
Change in working capital	-4	-1	-2	-1	0	0
Cash flow from operating activities	7	20	25	17	31	32
Cash flow from investments	-1	-2	-3	-4	-2	-2
Free Cash Flow	5	19	22	14	29	30
Cash flow from financing	-9	-16	-25	-28	-27	-28
Net Cash Flow	-3	3	-3	-15	2	2

**PER SHARE DATA & RETURN ON CAPITAL**

SEK	2014A	2015A	2016A	2017E	2018E	2019E
EPS	1,75	3,62	3,77	2,75	4,08	4,27
Adj. EPS	1,75	3,62	3,77	2,32	4,08	4,27
BVPS	12,47	13,15	13,49	12,06	12,29	12,57
CEPS	0,94	2,88	3,58	2,46	4,37	4,48
DPS	2,20	3,50	4,00	3,85	4,00	4,80
ROE	14%	28%	28%	23%	33%	34%
Adj. ROE	14%	28%	28%	19%	33%	34%
Solidity	91%	88%	89%	87%	87%	87%

**BALANCE SHEET**

MSEK	2014A	2015A	2016A	2017E	2018E	2019E
Intangible Assets	2	4	5	7	7	7
Cash and cash equivalent	45	48	45	31	33	35
Total Assets	97	106	108	98	101	103
Equity	88	93	96	86	87	89
Net Debt	-45	-48	-45	-31	-33	-35
Net Working Capital	60	72	74	80	81	82

**SHARE STRUCTURE**

No. of A-shares (m)	-	Box 10203
No. of B-shares (m)	7,1	100 55 Stockholm
Total no. of shares (m)	7,1	+46 (0)8 660 77 50 www.sintercast.com

**COMPANY CONTACT**

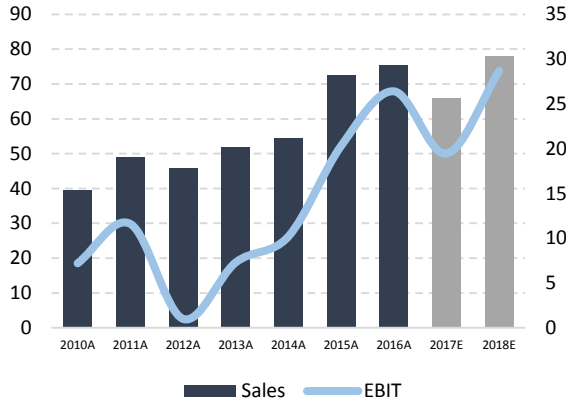
Sources: Infront, Company reports, Remium Nordic

**ESTIMATE CHANGES**

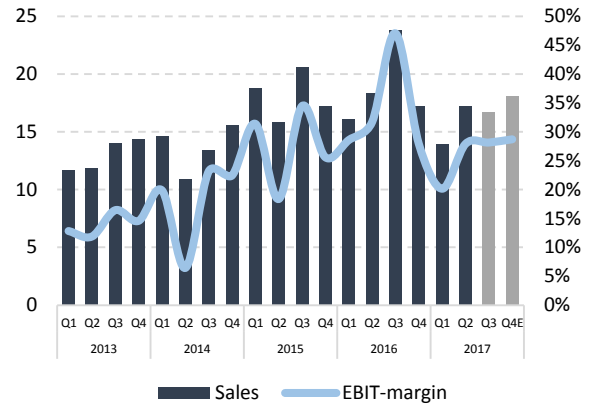
MSEK	3Q 2017A			2017E			2018E			
	Estimate	Actual	Diff (%)	Bef	Now	Diff (%)	Bef	Now	Diff (%)	
Sales		17,6	16,7	-5%	66,0	65,9	0%	78,5	77,9	-1%
EBIT		6,5	4,7	-28%	19,5	19,4	0%	28,9	28,7	-1%
Adj. EPS (SEK)		0,9	0,7	-22%	2,3	2,3	0%	4,1	4,1	-1%

**INCOME STATEMENT**

**SALES & EBIT, Y/Y (MSEK)**

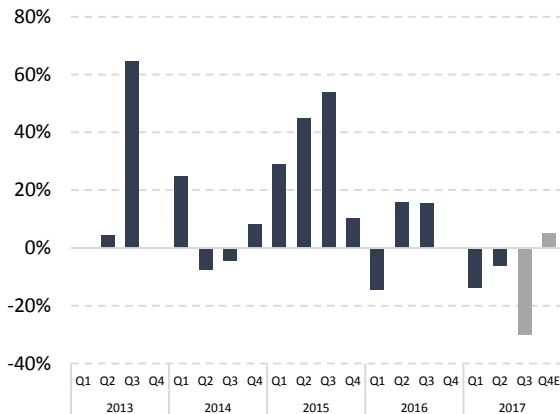


**SALES & EBIT-MARGIN, Q/Q (MSEK)**

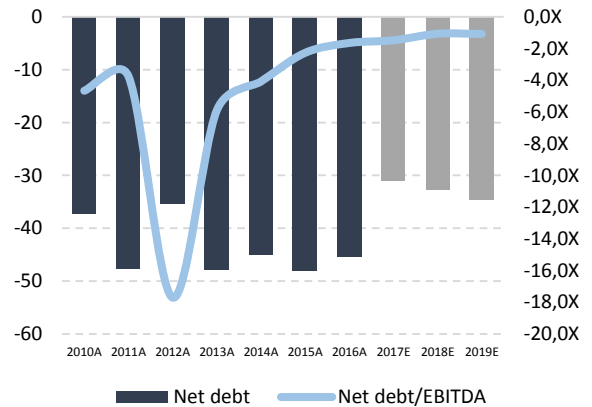


**GROWTH & BALANCE SHEET**

**SALES GROWTH Y/Y**

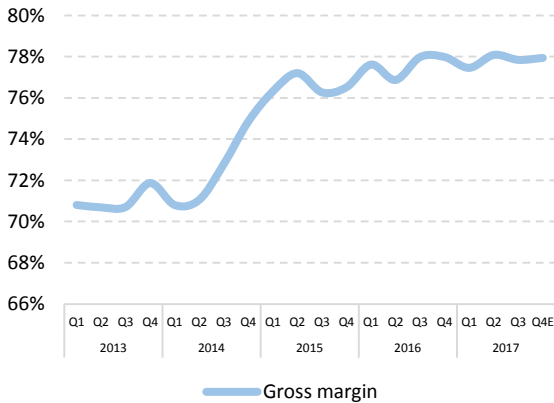


**NET DEBT & NET DEBT/EBITDA**

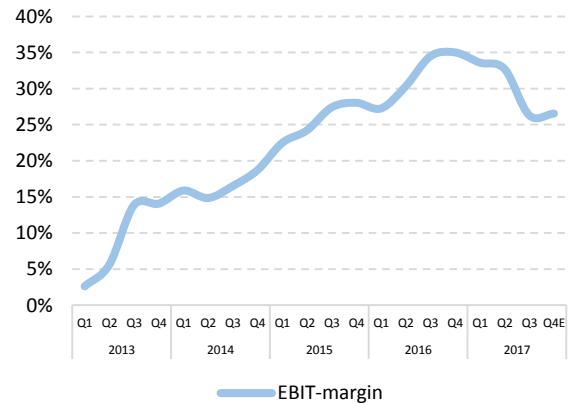


**MARGINS, ROLLING 12m**

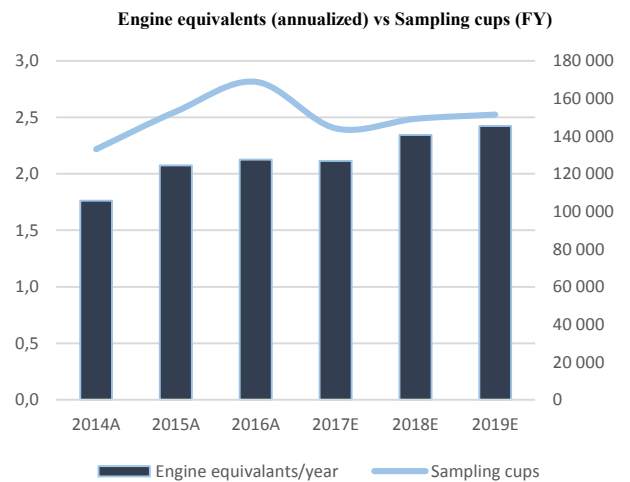
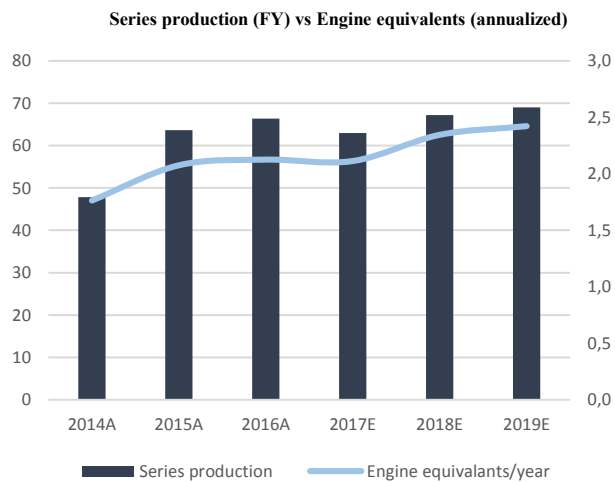
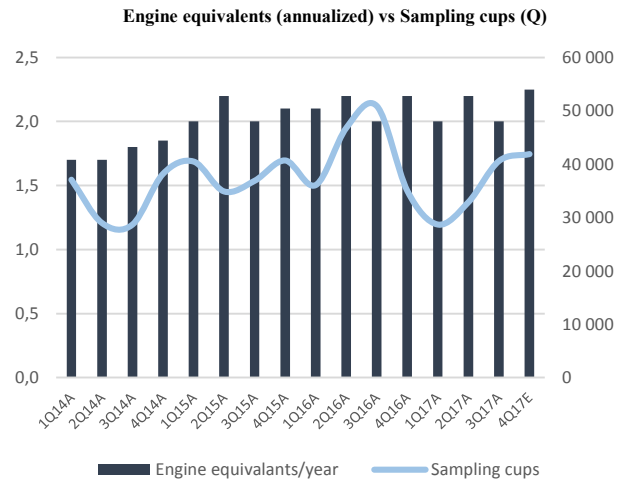
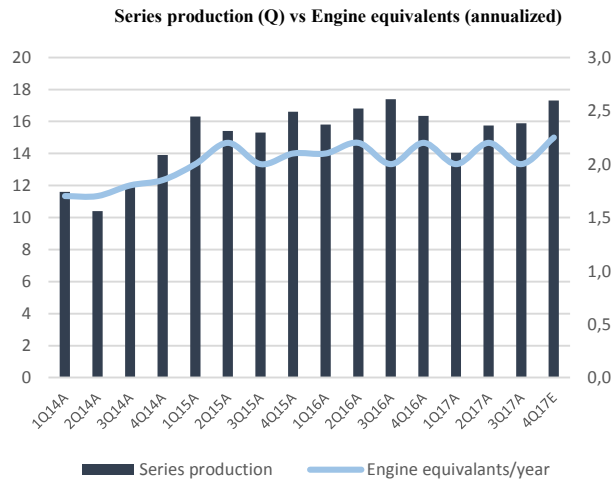
**GROSS MARGIN (R12m)**



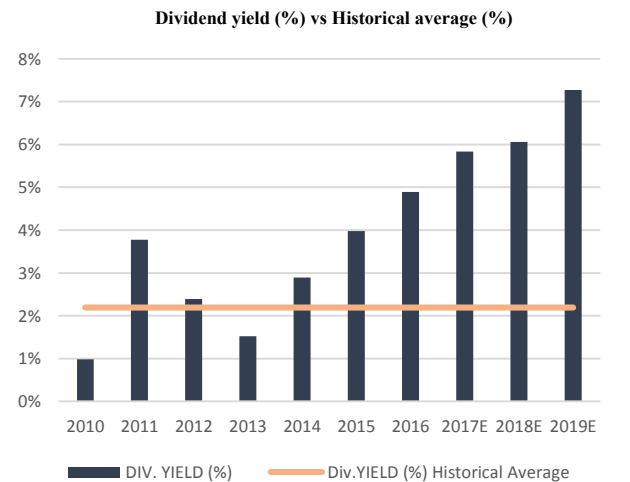
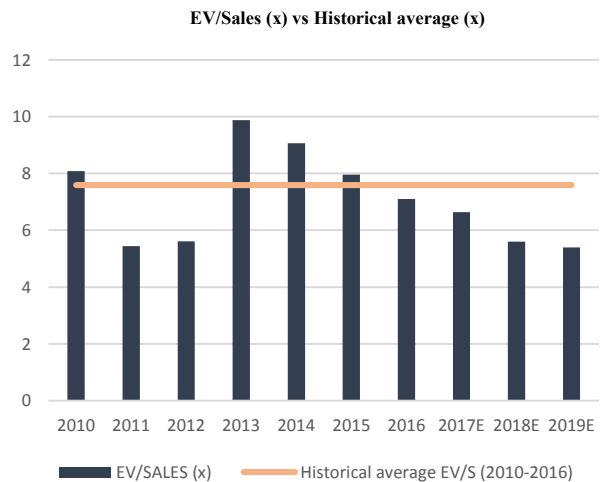
**EBIT-MARGIN (R12m)**



OPERATIONAL



VALUATION



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 COMPANY DESCRIPTION
 

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### Process control solutions for compacted graphite iron

*SinterCast provides process control solutions and know-how for the reliable high-volume production of compacted graphite iron (CGI), which is a high-strength cast iron that improves the efficiency of components used in cars, heavy vehicles and industrial power components.*



### Process control solutions for automotive suppliers

SinterCast's technology measures and controls the molten iron before it is cast in moulds to ensure cost-effective series production of CGI. The technology reduces foundry discards and therefore lessens the environmental impact of the foundry process. SinterCast has been a global leader in product development and serial production of CGI since 1992. These efforts have established SinterCast as a credible supplier to the global foundry and automotive industries. SinterCast's goal is to continue promoting new CGI applications based on current series production to increase market opportunities. In parallel, SinterCast will develop new products and services to broaden and deepen existing customer relationships. SinterCast will also explore new product development opportunities in addition to its core CGI business to increase shareholder value in the long term.

### Compacted graphite iron

Compacted graphite iron (CGI) is a type of iron that gives at least 75 % higher tensile strength, 45 % higher stiffness and an approximate doubling of fatigue resistance compared to conventional cast iron and aluminium. The properties of CGI allow engineers to improve performance, fuel economy and durability while reducing engine weight, noise and exhaust emissions. SinterCast's process is also used in the manufacture of castings for a variety of CGI components, including engine blocks and cylinder heads, bedplates, turbo housings, exhaust manifolds, coupling components, piston rings, cylinder linings and large engine components for industrial power applications.

### Market

SinterCast's technology is used in 12 countries in 21 foundries for the production of more than 50 CGI components in sizes ranging from 2 kg to 17 tonnes, all produced using the same process control technology. A further 15 foundries have installed process control systems for product development and R&D activities. End users of SinterCast CGI components include Aston Martin, Audi, Cameron Compression, Caterpillar, Chrysler, DAF Trucks, Ford, Ford-Otosan, General Electric Transportation Systems, General Motors, Hyundai, Jaguar, Jeep, Kia, Lancia, Land Rover, MAN, Navistar, Porsche, PSA Peugeot-Citroën, Renault, Rolls-Royce Power Engineering, Scania, Toyota, VM Motori, Volkswagen, Volvo and Waukesha Engine.

### Business model

SinterCast sells or leases the hardware for its System 3000, leases the system software, sells sampling consumables and charges a production fee for every tonne of castings produced using the SinterCast technology. There are also revenues from spare parts, customer service, customer demonstrations and sales of test pieces. The total actual production costs (sampling consumables plus production charges) depend on ladle size and replacement for casting for each foundry and each product. A typical engine block production line provides revenue of around EUR 40-50 per tonne of castings, representing EUR 2.00-2.50 for each engine equivalent of 50 kg. SinterCast's business model is highly scalable, providing higher profitability as the installed base increases and more programmes come into series production.

Issued by: Arash Hakimi Fard, Remium Nordic AB (Remium) Analyst: Carl Ragnerstam, Remium.

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