

SINTERCAST

SHARE PRICE (SEK): 71,50

NASDAQ OMX Small Cap

Industrials

- Recovery of engine programmes
- Margin contraction driven by higher SG&A
- Minor estimate adjustments

Recovery of engine programmes. Sintercast reported net sales for the second quarter of SEK 17.2 million (18.3), corresponding to Y/Y growth of -6.0%. These sales were in line with our estimate of SEK 17.4 million. Sintercast's annualised series production of engine equivalents recovered from a weak first quarter, as expected, and production touched an all-time high. The volume was 2.2 million units (2.2) against our estimated 2.1 million units. The volume gain compared with the first quarter stems from a combination of a recovery for Ford's V6 diesel and good utilisation at the Caterpillar foundry. We had not calculated on the recovery for Ford's V6 diesel in the second quarter, but rather in H2. The number of sampling cups shipped fell by 29.7% Y/Y to 32,900 (46,800). Management believes this contraction is due to timing effects and inventory adjustment. Given these series production volumes, we were surprised by the low shipment numbers for sampling cups and had estimated 42,000.

Margin contraction driven by slightly higher SG&A. EBIT amounted to SEK 4.8 million (5.8), corresponding to a Y/Y decrease of -17.2% and a margin of 27.9% (31.7). The EBIT margin was 240 bps above our projection of 25.5% and EBIT of SEK 4.4 million. The 380 bps margin contraction from the same quarter last year stems from SG&A. SG&A amounted to SEK -6.7 million (-6.4), representing a ratio to sales of 39.0% (-35.0). At the same time, an increased gross margin offset the slightly higher SG&A, coming in at 77.9% (75.4). We believe the gross margin expansion comes from equipment for System 3000 Plus with Tupy Saltillo in Mexico.

Minor estimate adjustments. We are downwardly adjusting our estimate for the number of engine equivalents shipped in Q3, from 2.1 million units to 2.05 million, and are trimming back the number of sampling cups shipped to 43,800, from 46,800. The downward adjustment in the number of cups is because there is likely to be a continued impact from high inventory levels into Q3. However, we are upping our full-year 2018 forecast by around 3%.

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.

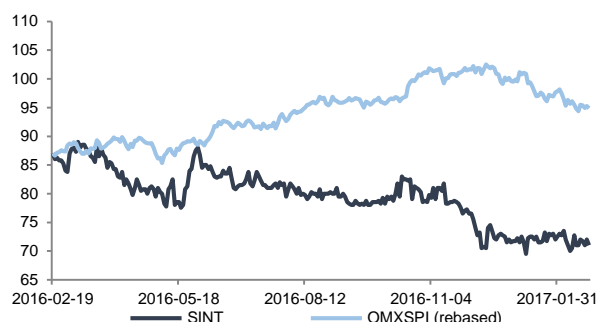
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KEY DATA		SHARE PERFORMANCE	
Market Capitalization (SEKm)	507,7	1 month (%)	0,0
Net Debt (SEKm)	-22,2	3 month (%)	-9,2
Enterprise Value (SEKm)	485,5	12 months (%)	-17,1
Equity ratio(%)	88,1	YTD (%)	-12,5
No of shares.(mn)	7,1	52-V High	89,8
No of shares (dil.mn)	7,1	52-V Low	69,0
Free Float (%)	88,4	Ticker	SINT

	2015A	2016A	2017E	2018E
Sales (SEKm)	72,4	75,4	69,5	79,1
EBITDA (SEKm)	21,1	27,4	23,4	31,1
EBIT (SEKm)	20,3	26,4	22,0	29,2
EBT (SEKm)	24,9	25,8	22,1	29,6
EPS (just. SEK)	3,6	3,8	3,0	4,2
DPS (SEK)	3,5	4,0	3,9	4,0
Sales growth (%)	32,8	4,1	-7,8	13,8
EPS growth (%)	107,3	4,1	-21,1	39,9
EBIT-margin (%)	28,0	35,0	31,6	36,9

	2015A	2016A	2017E	2018E
P/E (x)	24,3	21,7	23,1	17,3
P/BV (x)	6,7	6,1	5,7	5,5
EV/S (x)	8,0	7,1	7,0	6,2
EV/EBITDA (x)	27,3	19,5	20,9	15,7
EV/EBIT (x)	28,4	20,3	22,2	16,7
Div. Yield (%)	4,0	4,9	5,3	5,6

STOCK PERFORMANCE



Source: Infront, company reports, Remium Nordic, Holdings

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

MANAGEMENT		FINANCIAL CALENDER	
Chairman	Hans-Eric Andersson	3Q-rapport	2017-11-22
CEO	Steve Dawson		
CFO	Daphner Uhmeier		

INCOME STATEMENT

MSEK	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	3Q17E	4Q17E	2014A	2015A	2016A	2017E	2018E	2019E
Sales	16,1	18,3	23,8	17,2	13,9	17,2	20,2	18,3	54,5	72,4	75,4	69,5	79,1	81,5
COGS	-3,2	-4,5	-5,4	-3,5	-3,1	-3,8	-4,7	-3,7	-18,2	-17,0	-16,6	-15,2	-17,0	-17,1
Gross revenue	12,9	13,8	18,4	13,7	10,8	13,4	15,5	14,6	40,8	55,4	58,8	54,3	62,1	64,4
Operating costs	-8,0	-8,1	-7,0	-8,7	-7,7	-8,3	-6,3	-9,0	-29,8	-34,3	-31,4	-31,9	-31,0	-32,0
EO-costs	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,0	0,0	0,0
EBITDA	4,9	5,7	11,4	5,0	3,1	5,1	9,2	5,6	11,0	21,1	27,4	23,4	31,1	32,4
Depreciation	-0,3	-0,3	-0,2	-0,2	-0,3	-0,3	-0,4	-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	8,8	5,3	10,2	20,3	26,4	22,0	29,2	30,5
Net financials	0,1	-0,8	-0,2	0,3	0,2	-0,2	0,1	0,1	1,3	4,6	-0,6	0,1	0,4	0,4
EBT	4,7	5,0	11,0	5,1	3,0	4,6	8,9	5,3	11,5	24,9	25,8	22,1	29,6	30,9
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	8,9	5,3	12,4	25,7	26,8	22,1	29,6	30,9
EPS bef. dil. (SEK)	0,66	0,85	1,55	0,72	0,42	0,77	1,25	0,75	1,75	3,62	3,77	3,12	4,17	4,35
EPS aft. dil. (SEK)	0,66	0,85	1,55	0,72	0,42	0,77	1,25	0,75	1,75	3,62	3,77	3,12	4,17	4,35
Sales Growth Q/Q	-6%	14%	30%	-28%	-19%	24%	17%	-9%	N/A	N/A	N/A	N/A	N/A	N/A
Sales Growth Y/Y	-14%	16%	16%	0%	-14%	-6%	-15%	6%	5%	33%	4%	-8%	14%	3%
Adj. EBITDA margin	30%	31%	48%	29%	22%	30%	46%	31%	20%	29%	36%	32%	39%	40%
Adj. EBIT margin	29%	32%	47%	28%	20%	28%	44%	29%	19%	28%	35%	30%	37%	37%
Adj. EBT margin	29%	27%	46%	30%	22%	27%	44%	29%	21%	34%	34%	30%	37%	38%

CASH FLOW

MSEK	2014A	2015A	2016A	2017E	2018E	2019E
Cash flow b.f. ch. in work.cap.	11	21	27	23	31	33
Change in working capital	-4	-1	-2	-1	0	0
Cash flow from operating activities	7	20	25	21	32	32
Cash flow from investments	-1	-2	-3	-4	-2	-2
Free Cash Flow	5	19	22	18	30	31
Cash flow from financing	-9	-16	-25	-28	-27	-28
Net Cash Flow	-3	3	-3	-11	2	2

PER SHARE DATA & RETURN ON CAPITAL

SEK	2014A	2015A	2016A	2017E	2018E	2019E
EPS	1,75	3,62	3,77	3,12	4,17	4,35
Adj. EPS	1,75	3,62	3,77	2,98	4,17	4,35
BVPS	12,47	13,15	13,49	12,67	12,98	13,33
CEPS	0,94	2,88	3,58	3,01	4,45	4,56
DPS	2,20	3,50	4,00	3,85	4,00	4,80
ROE	14%	28%	28%	25%	32%	33%
Adj. ROE	14%	28%	28%	24%	32%	33%
Solidity	91%	88%	89%	88%	87%	87%

BALANCE SHEET

MSEK	2014A	2015A	2016A	2017E	2018E	2019E
Intangible Assets	2	4	5	8	8	8
Cash and cash equivalent	45	48	45	35	37	40
Total Assets	97	106	108	103	106	108
Equity	88	93	96	90	92	95
Net Debt	-45	-48	-45	-35	-37	-40
Net Working Capital	60	72	74	80	82	83

SHARE STRUCTURE

	2014A	2015A	2016A	2017E	2018E	2019E
No. of A-shares (m)	-	-	-	-	-	-
No. of B-shares (m)	7,1	7,1	7,1	7,1	7,1	7,1
Total no. of shares (m)	7,1	7,1	7,1	7,1	7,1	7,1

COMPANY CONTACT

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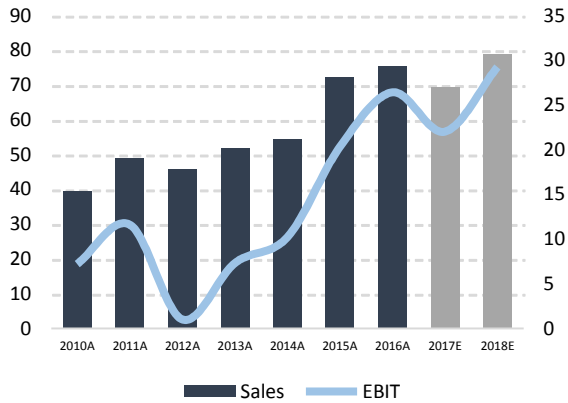
Sources: Infront, Company reports, Remium Nordic

ESTIMATE CHANGES

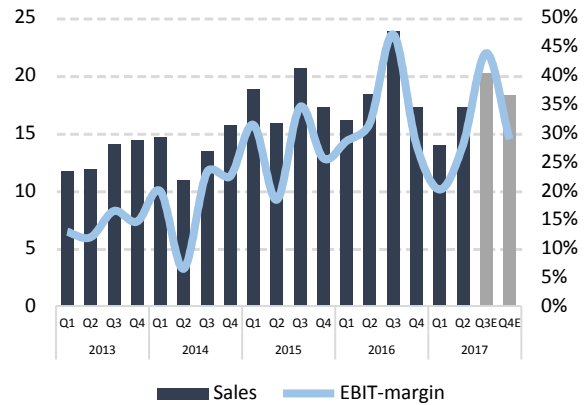
MSEK	2Q 2017A			2017E			2018E		
	Estimate	Actual	Diff (%)	Bef	Now	Diff (%)	Bef	Now	Diff (%)
Sales		17,4	17,2	71,7	69,5	-3%	77,4	79,1	2%
EBIT		4,4	4,8	23,2	22,0	-5%	28,4	29,2	3%
Adj. EPS (SEK)		0,6	0,8	3,2	3,0	-5%	4,1	4,2	3%

INCOME STATEMENT

SALES & EBIT, Y/Y (MSEK)

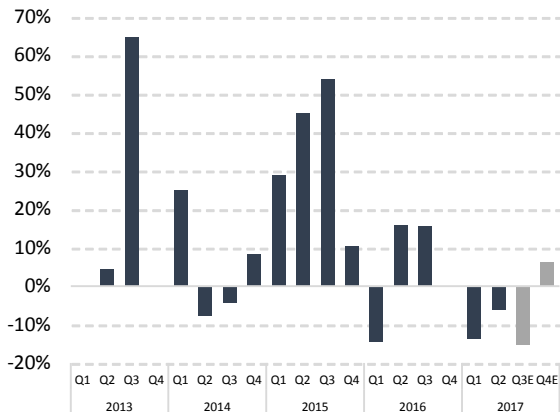


SALES & EBIT-MARGIN, Q/Q (MSEK)

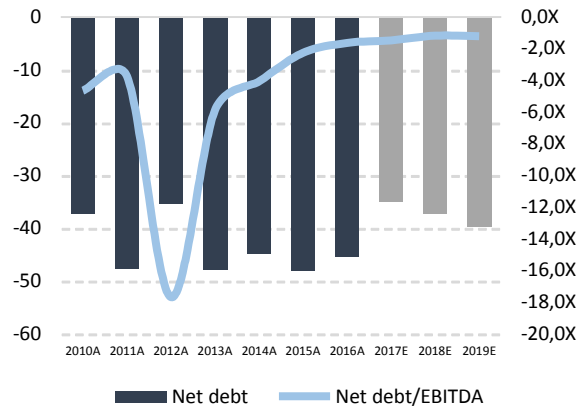


GROWTH & BALANCE SHEET

SALES GROWTH Y/Y

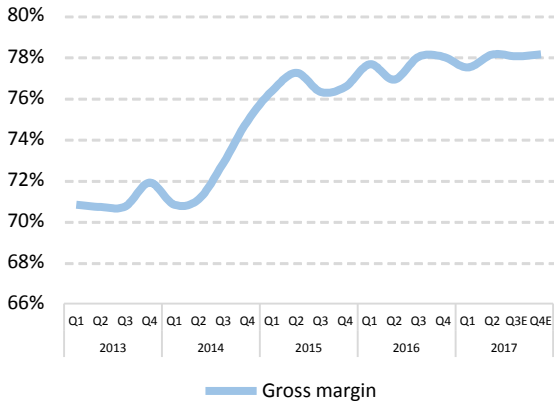


NET DEBT & NET DEBT/EBITDA

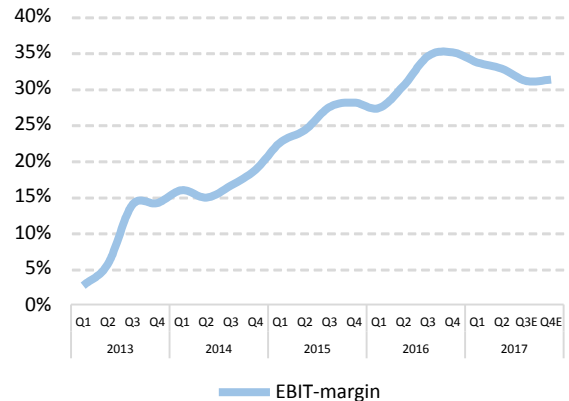


MARGINS, ROLLING 12m

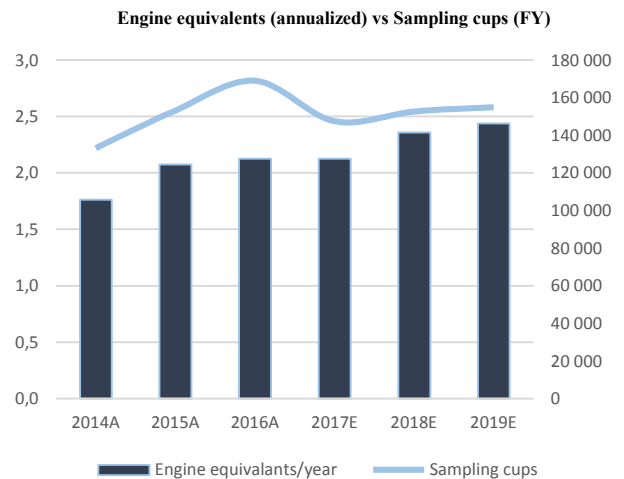
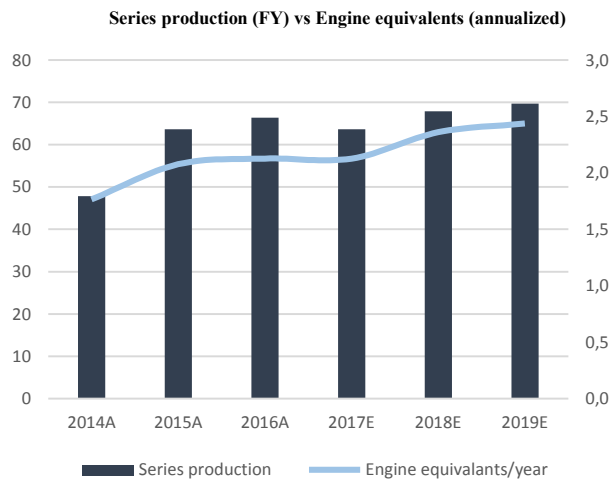
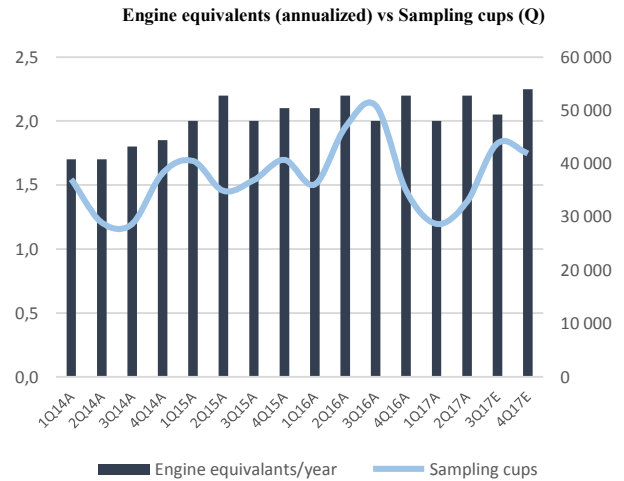
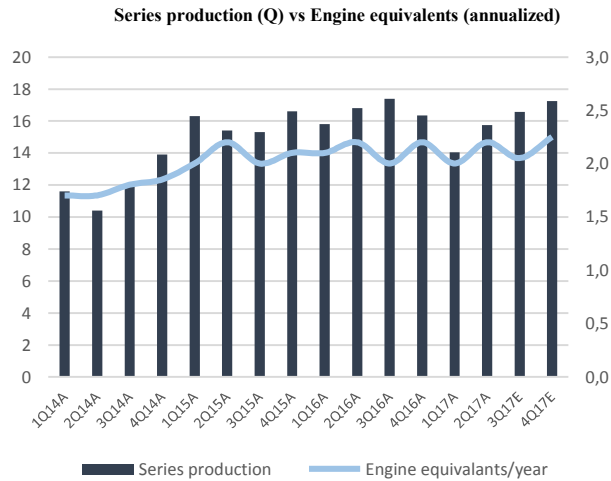
GROSS MARGIN (R12m)



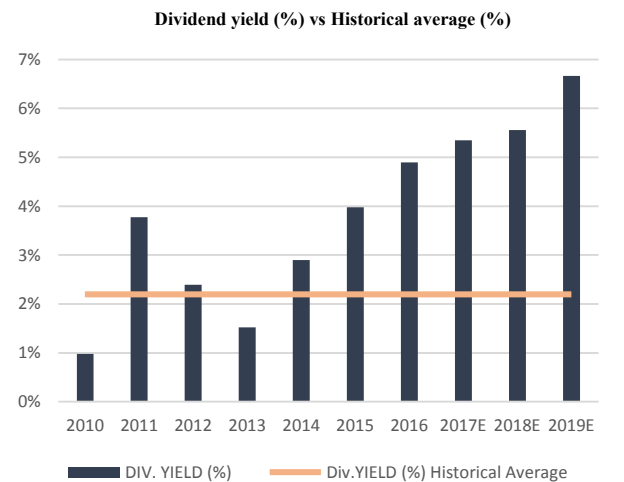
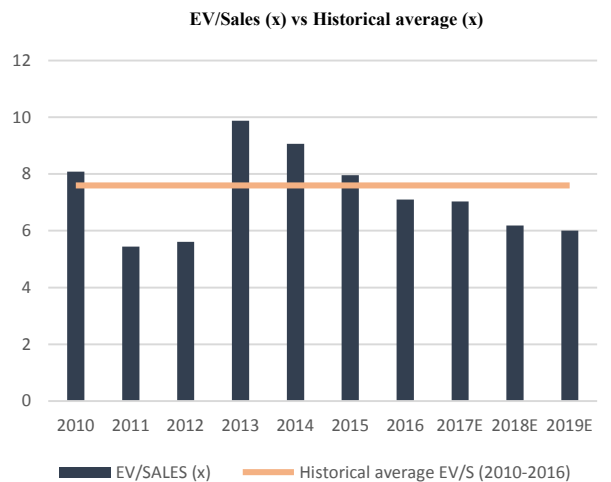
EBIT-MARGIN (R12m)



OPERATIONAL



VALUATION



 COMPANY DESCRIPTION

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.

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