

# SinterCast

## ABGSC/Introduce Investor Days feedback

- CEO Steve Dawson presented in Stockholm today
- Confidence in the company's long-term growth outlook
- Margins (75-80% gross, >40% EBIT) should remain

### Continued double-digit production growth in focus

We hosted Sintercast and CEO Steve Dawson during our ABGSC/Introduce Investor Days today. Starting off, the CEO reiterated the arguments for why engines and components in compact graphite iron (CGI) are superior to cast iron/aluminium (weight savings as well as higher stiffness and tensile strength). Further, the company is now active within all regions, selling technology to both passenger and commercial vehicles as well as industrial power solutions. In fact, the CEO expected Sintercast to reach 4-5 million engine equivalents within the next few years (14-40% higher levels than Q3 production of 3.5m). We currently expect Sintercast to reach 4m engine equivalents by 2021.

### Multiple drivers in 2020 should offset weaker truck market

General expectations are for truck deliveries to decline in both the European and US market in 2020. However, the CEO highlighted the Scania foundry contract (potential for SEK 20m in annual revenues within 3-5 years), the recent contract win from FAW in China (200,000 engine equivalents) and that continued new product launches should mitigate weaker truck markets and further drive sales growth. We believe this raises confidence and could indicate further upside to our estimates. We currently have 10% sales growth and 11% EBIT growth in 2020e.

### 23x EV/EBIT '20e for a company running at 40% margins

Finally, we believe one of the key highlights was the fact that revenues should continue to increase on a fairly flat cost base. Sintercast's highly profitable production fee model should continue to generate 75-80% gross margins and EBIT margins above 40%, thus ranking Sintercast among the most profitable companies (both in terms of margins and ROCE) in our Nordic coverage. The stock has been strong YTD (+115% vs. Carnegie Smallcap index at 32%) and is now at 20-year-high levels. On the other hand, the current 23x EV/EBIT '20e is 16% below its historical valuation. Trough has historically been 16x EV/EBIT f12m.

## Fast comment

### Company-sponsored research: Not rated

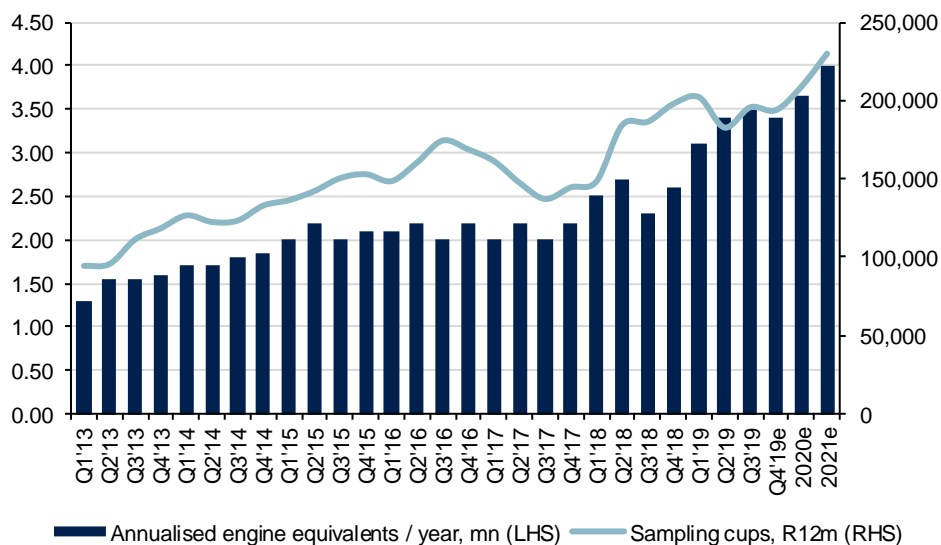
<b>Share price (SEK)</b>	03/12/2019	177.5
Capital Goods, Sweden		
SINT.ST/SINT SS		
MCap (SEKm)		1,258
MCap (EURm)		119.0
Net debt (EURm)		-4
No. of shares (m)		7.1
Free float (%)		77.0
Av. daily volume (k)		14.5

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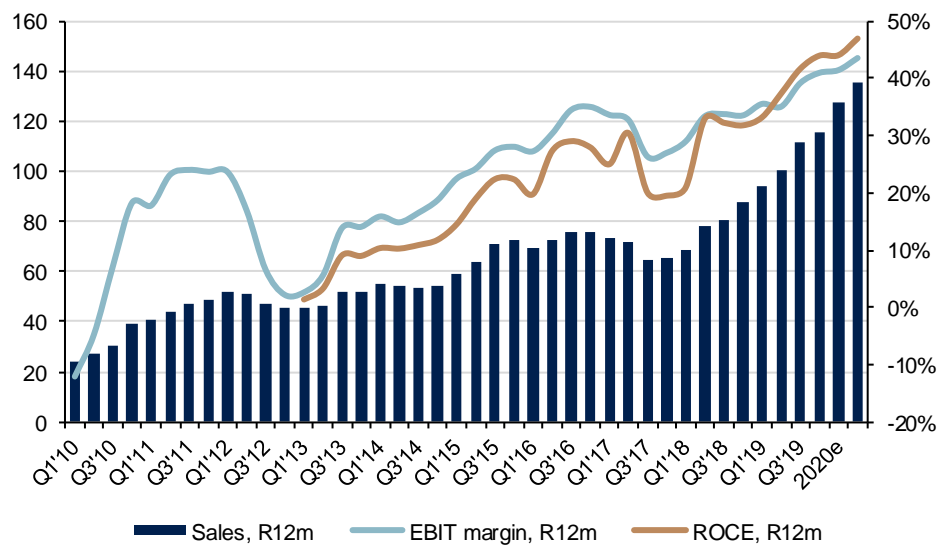
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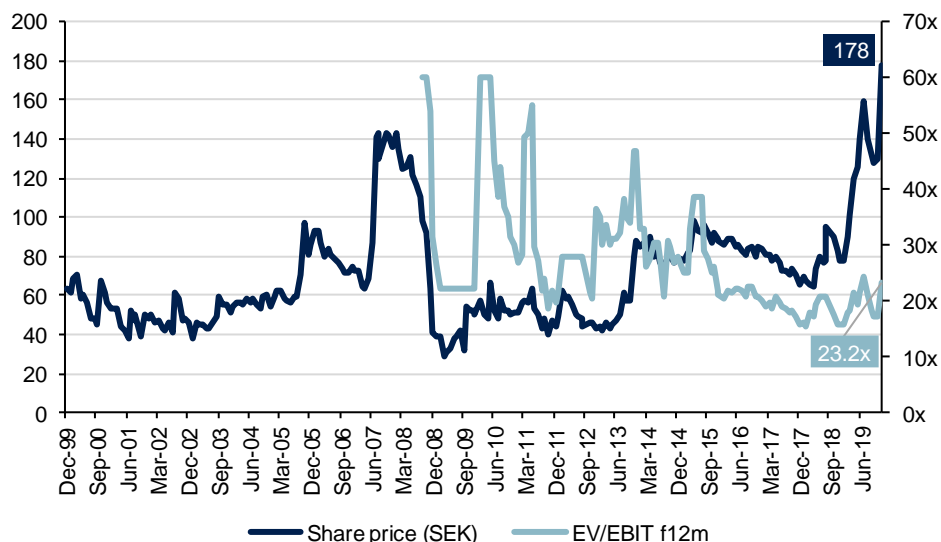
**Continuous increase in engine equivalents and sampling cups, driving high-margin production (royalty) fees**



**Growing sales on a low fixed cost base with high gross margins behind >40% EBIT margins and ROCE**



**Share price now on all-time-high levels, but valuation 16% below its history (has previously troughed at 16x EV/EBIT f12m)**



Lead analyst: Mattias Ehrenborg  
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<b>SEKm</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
Sales	66	88	116	128	136
Sales growth (%)	-13.0	33.7	32.1	10.0	6.5
EBITDA	19	32	51	57	63
EBITDA margin (%)	29.3	36.0	44.2	44.4	46.5
EBIT adj	18	29	47	53	59
EBIT adj margin (%)	27.0	33.5	41.0	41.4	43.5
Pretax profit	18	29	47	53	59
EPS rep	2.62	4.61	7.05	7.90	8.79
EPS growth (%)	-30.6	75.8	52.8	12.2	11.2
EPS adj	2.62	4.61	7.05	7.90	8.79
DPS	2.75	5.00	7.00	8.00	9.00
EV/EBITDA (x)	22.4	17.1	23.8	21.4	19.1
EV/EBIT adj (x)	24.3	18.4	25.7	22.9	20.4
P/E (x)	24.8	17.5	25.2	22.5	20.2
P/E adj (x)	24.8	17.5	25.2	22.5	20.2
EV/sales (x)	6.6	6.2	10.5	9.5	8.9
FCF yield (%)	2.9	3.9	3.8	4.5	5.0
Dividend yield (%)	4.2	6.2	3.9	4.5	5.1
Net IB debt/EBITDA	-1.6	-1.0	-0.8	-0.8	-0.8
Lease adj. FCF yld (%)	2.9	3.9	3.7	4.4	4.9
Lease adj. ND/EBITDA	-1.6	-1.0	-0.8	-0.9	-0.9

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