

## SinterCast – Goal Delayed

BUY

SINT | Small Cap | SEK 106.00

With a long history as a listed company, going back to the mid-90s, SinterCast is the world's leading supplier of process control for the reliable high volume production of Compacted Graphite Iron, CGI. CGI enables improved transport solutions, increasing efficiency and reducing carbon emissions in passenger vehicles, commercial vehicles and industrial power applications. But it doesn't stop there. As a specialist supplier of precision measurement and process control technology for the metals industry, SinterCast also provides the Tracking Technologies SinterCast Ladle Tracker and SinterCast Cast Tracker to improve production efficiency and Industry 4.0 traceability in many different applications. Today SinterCast has no less than 57 installations in 13 countries.

After four consecutive record quarters during 2022, 2023 had a somewhat softer start, even though Q1 actually became the fifth consecutive record quarter. Q1 provided revenue of SEK 26.4 million (28.1) with a gross result of SEK 18.4 million (20.2). The revenue from series production amounted to SEK 25.6 million (26.9) following a 3% increase in the annualised production to 3.3 million (3.2) Engine Equivalents (the highest first quarter on record), a 33% decrease in Sampling Cup shipments to 32,900 (48,800), and a 12% USD/SEK exchange rate tailwind. Equipment revenue decreased to SEK 0.7 million (SEK 0.8 million), while revenue from service decreased to SEK 0.2 million (0.4).

The operating result dropped to SEK 6.5 million (8.0) and the result for the period before income tax decreased to SEK 6.4 million (7.9). The result after tax amounted to SEK 6.3 million (7.9) corresponding to a result of SEK 0.89 per share (1.12) before and after dilution. Cashflow from operations amounted to SEK 8.8 million (-1.4), where changes in working capital contributed with SEK 1.9 million (-10.5).

Despite record production during Q1, SinterCast says it was a disappointing start to the year. Following annualised production of 3.1 million Engine Equivalents in January due to new year shutdowns and 3.0 million in February due to holiday periods for some key customers, the quarter was 'rescued', as series production increased to 3.8 million Engine Equivalents in March, marking the third highest month on record. However, as already mentioned, the year-on-year first quarter Sampling Cup shipments decreased by 33%. The figure is volatile and according to SinterCast, the reduction is not related to future production demand, but rather to order timing and customer efforts to re-establish minimum stock levels following the normalisation of global supply chains.

With lower than expected series production in the first quarter, the target to reach the monthly four million Engine Equivalent milestone has been further delayed and SinterCast says it is likely that the goal to reach the monthly five million Engine Equivalent milestone before the end of 2024 will also be delayed. Despite these delays, SinterCast remains confident in continuing to deliver double-digit growth rates and in reaching the five million milestone, with growth beyond. New product development opportunities have intensified over the past year. With new development activities in each of the company's sectors (passenger vehicle, commercial vehicle and off-road industrial power sectors), SinterCast also targets the seven million Engine Equivalent milestone, with continued growth through 2030.

The near-term outlook for series production is also positive. Simultaneously, the near-term outlook for installation revenue continues to improve, as several discussions for new CGI process control systems and capacity and functionality upgrades are ongoing. The current opportunities include the previously announced System 4000 installation at the Dongfeng Auto foundry in China which is now expected to be commissioned during the third quarter. The timing of the potential installations is not yet defined, but it is expected that these opportunities will enable the average installation revenue during the 2023 to 2025 period to return to approximately SEK 8 million per year.

Stockpicker sees SinterCast as the typical share to buy and put in a drawer. The yield and dividend history are impressive, and the company still shows a solid growth outlook. A strong business model and strong customer relations provide good profitability over time, and long term opportunities for expanding the business to more applications are tickling.

The buy recommendation is thus intact, while the targeted price is somewhat adjusted to 135 SEK (140). ■

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*Per Bernhult*