

SinterCast – Speed bump ahead

BUY

SINT | Small Cap | SEK 97.40

The market reacted with real disappointment to SinterCast's half-year report and lowered the share on the day by around 12%, to just under 100 SEK. The stock remains at that level today.

Q2 produced revenue of SEK 31.7 million (SEK 27.9 million) with a gross result of SEK 23.8 million (SEK 20.8 million). Series production revenue was SEK 30.9 million (SEK 27.1 million) following an increase in series production to 3.7 million annualised Engine Equivalents (3.6 million), an increase in the number of Sampling Cups delivered to 49,500 pieces (48,500), and favourable exchange rates. At the same time, revenue from equipment increased marginally to SEK 0.3 million (SEK 0.2 million), while revenue from service fell to SEK 0.5 million (SEK 0.6 million). Exchange differences had a positive effect of SEK 1.9 million.

The operating result increased to SEK 6.3 million (SEK 3.5 million), while the result before tax increased to SEK 6.2 million (SEK 3.4 million). The net result landed on SEK 6.2 million (SEK 6.4 million), corresponding to earnings per share of SEK 0.87 (SEK 0.90) both before and after dilution.

The cashflow from operations was SEK 13.8 million (SEK 4.0 million), where changes in working capital contributed with SEK 6.3 million (SEK -0.6 million), following improved payment terms from a major customer. During Q2, operating costs increased by SEK 2.7 million, mainly as a result of an increased number of employees to ensure the transition ahead of two retirements as well as costs for the GIFA world foundry trade fair, which is held only every four years. These costs are therefore not expected to recur in the coming quarters.

For the first half of the year, SinterCast achieved revenue of SEK 58.1 million (SEK 56.0 million) with a gross result of SEK 42.2 million (SEK 41.0 million). Series production revenue increased to SEK 56.4 million (SEK 54.0 million) after series production of 3.5 million Engine Equivalents (3.4 million) and 82,600 (97,300) Sampling Cups delivered. The increase in production volume and favourable exchange rates were partially offset by the 15% decrease in Sampling Cup shipments. Equipment revenue was unchanged at SEK 1.0 million (SEK 1.0 million), while service revenue fell slightly to SEK 0.7 million (SEK 1.0 million). Exchange differences had a positive effect of SEK 4.2 million.

Operating result was SEK 12.7 million (SEK 11.5 million). The result before tax reached SEK 12.6 million (SEK 11.3 million), while the net result came in at SEK 12.5 million (SEK 14.3 million), corresponding to earnings per share of SEK 1.76 (SEK 2.02) both before and after dilution. The cashflow from current operations was SEK 22.6 million (SEK 2.6 million), where change in working capital contributed SEK 8.2 million (SEK -11.2 million).

Series production of 3.7 million annualised Engine Equivalents during Q2 was another new record for quarterly volume. The quarter was the ninth in a row with increased production relative to the same quarter in previous periods. The month of June also set a new record with 4.1 million annualised Engine Equivalents. Despite that July is seasonally a slower month for series production due to summer shutdowns at some of SinterCast's key customers during

July and early August, series production was reinforced in July with annualised production of 3.8 million Engine Equivalents and the shipment of 23,800 Sampling Cups.

Since the half-yearly financial report, we have learned that August also yielded record production, more specifically a whopping 4.3 million annualised Engine Equivalents. All in all, compared to the same period last year, series production increased by 11% during July-August and supplies of consumables increased 73%. The second half of the year has thus had a tasty start. The company is therefore at full speed towards its new volume targets.

However, a speed bump can be seen in the second half of next year, when one of SinterCast's high volume programs is expected to reach the end of its life cycle. The expected end of the program will lead to a temporary reduction in the total volume and thereby delay the company's previously set goal of reaching the five million Engine Equivalent milestone in 2024. Instead, SinterCast now expects to reach the five million milestone towards the end of 2025. The ambition to reach goal of seven million Engine Equivalents is maintained, with continued growth up to and beyond 2030.

The Q2 report and July-August production figures support our assessment in the previous analysis. That a high-volume program reaches terminal status in the second half of next year does not affect our long-term view and the target price is left unchanged of SEK 140 while the buy recommendation is maintained. The direct return and dividend history are impressive and the business shows solid growth prospects at the same time. A strong business model and similarly strong customer relationships provide good profitability and strong cashflows over time. ■

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Per Bernhult