

Third Quarter 2024

Lower Sales Met with Lower Operating Costs

For the third quarter, SinterCast reported revenue of SEK 32.6 million (compared to 40.3 million in the same period last year), which is lower than both our and consensus expectations. The main reason for this deviation is that several customers extended their summer production breaks. Additionally, SinterCast observes a slowdown in demand for heavy vehicles in Europe and North America. Series production decreased in the quarter to an annual rate of 3.5 million engine equivalents (ME) from 4.0 million in the previous quarter. This decline is largely explained by a customer ending its series production of engines based on compacted graphite iron (CGI), equating to a reduction of 0.5 ME. Equipment revenue also declined during the quarter, though currency translation to SEK contributed positively by one percent.

The gross margin was slightly lower than expected. However, the positive surprise was that operating costs were significantly lower. This resulted in an operating profit in line with expectations despite the lower sales. The operating margin for the quarter, at 40.4 percent, thus exceeds the long-term target of 38 percent. Profit before tax, at SEK 13.1 million (14.3), is impacted by tax of SEK 2.8 million. Cash flow for the period, SEK 14.1 million, was higher than the previous year, resulting in ending cash of SEK 33.4 million.

Increased Orders for Installation Equipment Provide an Offset

SinterCast announced a year ago that one of their high-volume programmes would reach its final stage by mid-2024. Production was expected to end in August, but it continued into September, resulting in a higher production rate than anticipated.

Ongoing discussions about new installations are yielding a very strong order book. Installation revenue is therefore expected to exceed the historical average this year and next. SinterCast's largest customer, the Brazilian company Tupy, recently announced that it has ordered a capacity increase for CGI production in Mexico to meet rising demand in Europe and North America.

Unchanged Target Value

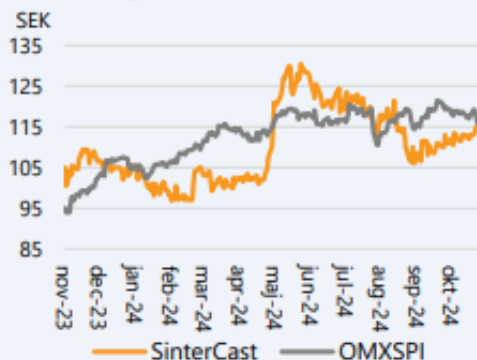
The company's series production is expected to decline further from 3.5 ME in the third quarter to 3.3 ME in the fourth quarter. Increased installation revenue is expected to offset the decrease in revenue from series production in the fourth quarter.

SinterCast

Rapportkommentar – tredje kvartalet 2024

Datum	8 november 2024
Analytiker	Philip Wendt
Basfakta	
Bransch	Industri
Styrelseordförande	Robert Dover
VD	Steve Dawson
Noteringsår	1993
Listning	Nasdaq OMX Small Cap
Ticker	SINT
Aktiekurs	103,5
Antal aktier, milj.	7,1
Börsvärde, mkr	732
Finansiell nettotillg, mkr	14
Företagsvärde (EV), mkr	718
Motiverat värde	140 kronor
Nästa rapport	8 november 2024

Kursutveckling senaste året



Källa: Refinitiv

Prognoser & Nyckeltal, MSEK

	2022	2023	2024p	2025p
Omsättning	118,7	134,5	137,9	147,7
Bruttoresultat	85,8	98,6	100,0	109,7
Rörelseres. (ebit)	25,7	42,8	45,2	53,8
Resultat f. skatt	30,3	42,6	45,2	54,0
Årets resultat	33,1	42,2	36,0	43,0
Vinst per aktie	4,68 kr	5,97 kr	5,09 kr	6,08 kr
Utd. per aktie	5,50 kr	6,10 kr	6,51 kr	7,64 kr
Omsättningsstillväxt	13,1%	13,3%	2,5%	7,1%
Bruttomarginal	72,3%	73,3%	72,5%	74,3%
Rörelsemarginal	21,7%	31,8%	32,8%	36,4%
Kassaflöde, verksamh.	25,4	45,5	56,2	55,7
Kassaflöde per aktie	3,6	6,4	8,0	7,9
P/e-tal	24,6	20,1	20,3	17,0
EV/ebitda	26,4	16,8	15,3	12,9
EV/omsättning	6,7	6,1	5,2	4,9
Direktavkastning	4,7%	6,0%	6,3%	7,4%

Källa: Bolaget, Analysguiden

Motiverat värde är en uppfattning om vad bolaget borde vara värt givet Analysguidens huvudscenario. Det är inte samma sak som att aktiekursen ska spegla detta värde.

Overall, we and consensus expect that despite lower series production, the company can match last year’s revenue in the fourth quarter. A higher operating margin, lower working capital, and a favourable USD exchange rate contribute to a cash flow per share this year of SEK 8.0 (compared to 6.4 last year), while earnings per share are slightly lower at SEK 5.09 (5.94). The difference is largely due to tax impacting the reported earnings but not cash flow. Our assessment is that the company has the capacity to continue increasing its regular dividend. Our target price per share remains unchanged at SEK 140.

Investment Thesis

SinterCast is a stock with a high dividend yield and dividend growth. They have a predictable business model with long visibility. High equity ratio, lower working capital, and investment needs provide continued good opportunities to return capital to shareholders. Total return, with dividends and buybacks, at six percent, is uniquely good in a company with high growth potential and high visibility.

The Business is Valued at a Significant Discount

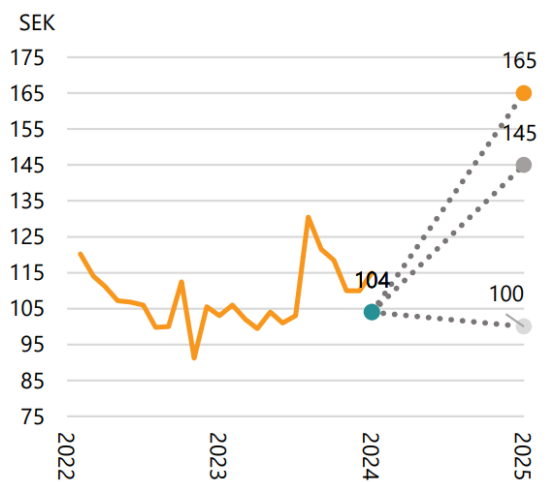
Based on a market capitalisation of 732 million SEK and cash of 14 million SEK, the business is valued at 718 million SEK (Enterprise Value, EV). With an operating profit (EBITDA) of 47 million SEK, the business is valued at 15 times EBITDA. With next year's forecast, the valuation drops to 13 times earnings, which is low both in absolute terms and relative to the stock market. A reduced risk factor for the stock is the shift in sustainability focus toward life cycle analysis in investment choices. For commercial vehicles, the key factor is fuel type rather than the specific propulsion system used. With an addressable market of 15 million ME, the potential remains substantial. The adoption curve is expected to be steep in the coming years, with compacted graphite iron’s share of the market projected to increase from 40–50 percent today to 80 percent within the company’s five-year planning horizon. SinterCast’s market share currently stands at 60–70 percent. The company holds a unique position to defend this high level and capture a substantial portion of future volumes.

Scenario Analysis Gives a Justified Value of SEK 140

In our base scenario, the company’s value reaches SEK 145 per share. This scenario is somewhat more conservative than management’s outlook on market growth, market share, and profitability. Management anticipates that the company’s production will increase from this year’s 3.7 million engine equivalents to five million by 2026, continuing to rise to seven million by 2028/29.

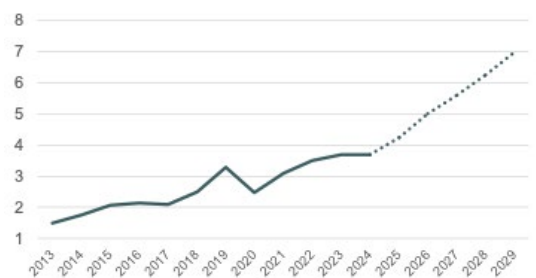
The Stock is Worth Buying...

The stock’s upside/downside in three different scenarios



Source: Analysis Guide’s bullish, base, and bearish scenarios

Engine Equivalents, Annual Rate (millions)



Revenue and Operating Margin



In a bull scenario, where management's guidance is fully realized, the valuation reaches SEK 165 per share. A bear scenario, based on the average valuation over the past three years, gives a value of SEK 100 per share. A weighted scenario provides a valuation of SEK 140 per share, with the base scenario considered highly probable and the two alternative scenarios given equal weight. With the current share price, the stock presents an attractive risk-reward ratio, with a downside to SEK 100 and an upside to the target value of SEK 140. This provides a sufficiently large margin of safety at today's share price to justify a buy rating. In a bull scenario, where management's guidance is fully realized, the valuation reaches SEK 165 per share. A bear scenario, based on the average valuation over the past three years, gives a value of SEK 100 per share. A weighted scenario provides a valuation of SEK 140 per share, with the base scenario considered highly probable and the two alternative scenarios given equal weight. With the current share price, the stock presents an attractive risk-reward ratio, with a downside to SEK 100 and an upside to the target value of SEK 140. This provides a sufficiently large margin of safety at today's share price to justify a buy rating.

Had the SinterCast share continued to follow Traton's stock this fall, it would be at our target value today. After the loss of the high-volume programme accounting for 0.5 ME, series production could very well reach its lowest level in the fourth quarter. However, Tupy's capacity increase in Mexico, Traton Group's ramp-up of their 13-liter engine, and the production start of a new 13-liter engine block by China's First Automotive Works provide hope for increased series production next year.

Bullish scenario: SEK 165 per share.

Base scenario: SEK 145 per share.

Bearish scenario: SEK 100 per share.

Weighted scenario: SEK 140 per share.

SinterCast – Financial History and Forecasts

Income Statement (SEK million)

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
Revenue	65.6	87.7	116.5	95.4	107.4	118.7	134.5	137.9	147.7	165.5
<i>adjustment</i>	-13%	34%	33%	-18%	13%	11%	13%	3%	7%	12%
Gross Result	50.4	68.7	88.8	68.2	75.9	85.8	98.6	100.0	109.7	121.9
<i>gross margin</i>	77%	78%	76%	71%	71%	72%	73%	73%	74%	74%
Operating Result (ebit)	18.8	30.3	51.1	23.5	30.1	25.7	42.8	45.2	53.8	61.4
<i>operating margin</i>	29%	35%	44%	25%	28%	22%	32%	33%	36%	37%
<i>Financial Net</i>	-1.1	0.0	-0.2	0.6	-0.4	-0.3	-2.0	0.0	1.0	1.0
Result Before Income Tax	17.7	29.4	39.9	22.3	29.0	30.3	42.6	45.2	54.0	61.5
Income tax	0.9	3.3	8.3	-0.1	3.9	2.9	-0.4	-9.2	-11.0	-12.5
Result for the Year	18.6	32.7	48.2	22.2	32.9	33.1	42.2	36.0	43.0	48.9

Balance Sheet (SEK million)

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
ASSETS										
Cash and Cash Equivalents	30.1	32.8	32.9	26.3	27.5	14.2	12.3	13.5	12.6	9.1
Current Assets	22.5	31.7	38.9	38.6	39.1	54.1	57.7	51.1	52.8	57.6
Non-Current Assets	42.1	45.7	55.8	62.8	64.9	62.2	61.6	52.1	41.3	28.4
TOTAL ASSETS	94.7	110.2	127.6	127.7	131.5	130.5	131.6	116.7	106.7	95.1

Equity & Liabilities

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
Equity	85.8	99.2	111.7	108.8	113.8	111.9	113.2	109.4	109.4	109.4
Short Term Liabilities	8.9	11.0	14.0	15.7	15.3	17.1	18.0	6.9	-3.1	-14.6
Long Term Liabilities	0.0	0.0	1.9	3.2	2.4	1.5	0.4	0.4	0.4	0.3
Total Liabilities	8.9	11.0	15.9	18.9	17.7	18.6	18.4	7.3	-2.7	-14.3
TOTAL EQUITY & LIABILITIES	94.7	110.2	127.6	127.7	131.5	130.5	131.6	116.7	109.6	95.1

Cash Flows (SEK million)

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
Operating Cash Flow	0.0	31.6	43.0	25.4	32.1	35.6	48.7	47.0	55.6	62.8
Change in Working Capital	0.0	-6.8	-5.2	-3.3	0.9	-10.2	-3.2	9.2	0.1	-2.8
Cash Flow from Operations	0.0	24.8	37.8	22.1	33.0	25.4	45.5	56.2	55.7	60.0
Financing	0.0	-19.5	-36.5	-25.9	-29.1	-37.1	-41.8	-54.5	-54.0	-58.6
Investments	0.0	-2.6	-1.2	-2.8	-2.7	-1.7	-5.6	-1.7	-1.7	-1.3
TOTAL CASH FLOW	0.0	2.7	0.1	-6.6	1.2	-13.3	-1.9	4.7	-0.2	-4.0
Number of Employees at the End of the Year	20	21	23	28	30	32	28	27	26	25

Source: The company and Analysguiden

Disclaimer

Aktiespararna, www.aktiespararna.se, publishes analyses about companies compiled using sources deemed reliable. However, Aktiespararna cannot guarantee the accuracy of the information. Nothing in the analysis should be considered as a recommendation or encouragement to invest in any financial instrument. Opinions and conclusions expressed in the analysis are intended solely for the recipient. The analysis is what is known as a commissioned analysis, where the analysed company has entered into an agreement with Aktiespararna. The analyses are published continuously during the contract period and against the usual fixed compensation. Aktiespararna otherwise has no financial interest in the subject matter of this analysis. Aktiespararna has procedures for handling conflicts of interest, ensuring objectivity and independence.

The content may be copied, reproduced, and distributed. However, Aktiespararna cannot be held responsible for either direct or indirect damages caused by decisions made based on information in this analysis.

Investing in financial instruments provides opportunities for capital appreciation and profits. However, all such investments also carry risks. The risks vary among different types of financial instruments and combinations thereof. Historical performance should not be regarded as an indication of future returns.

The analyst Philip Wendt does not own and is not allowed to own shares in the analysed company.

Responsible Analyst:

Philip Wendt