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SinterCast – New goals

BUY

SINT | Small Cap | SEK 100.5

Since the previous analysis in mid-September, SinterCast has announced short-term financial targets and long-term growth prospects. The company now expects continued double-digit annual growth (CAGR) until and beyond the year 2030. At the same time, goals are set to improve the gross margin beyond the current level of 70% and also to improve the operating margin from 30% to over 40%. Furthermore, the aim is to extend the streak of increasing ordinary dividends from the current 13 years to 25 years and to increase cumulative CO_2 savings from 50 to 100 million tonnes within five years. At the current production level, SinterCast contributes to a reduction of more than ten million tons of CO_2 annually.

The historical annual growth rate has been 11% over the past ten years. More than 95% of the current production at SinterCast comes from commercial vehicles, pickup trucks and off road equipment. The company believes that these applications will continue to rely predominantly on the internal combustion engine and the opportunities for SinterCast-CGI will increase as global requirements for performance, fuel efficiency and reduced CO_2 emissions tighten. SinterCast thus predicts continued growth with high volume series production well beyond 2035 in the current markets in the West and further growth opportunities in the developing countries.

As Stockpicker has often reiterated, the SinterCast business model entails strong margins and cash flows. The company also views the prospects positively in this regard. The gross margins are steadily above 70% and SinterCast has the ambition to continuously improve them. Historical operating margins have been around 30%, somewhat depending on the size of OPEX investments in future growth and R&D. By taking advantage of the mature technology, SinterCast now expects reductions in operating costs in parallel with the continued double-digit growth of series production and revenues, and the company's goal is, as already mentioned, to increase the operating margin from the current level of approximately 30% to more than 40% within the five-year planning horizon.

So, moving on to the Q3 report from last Wednesday. The quarter yielded net sales of SEK 40.3 million (29.8) with a gross profit of SEK 30.8 million (23.2). Series production revenue was SEK 37.3m (29.2) following an increase in series production to 4.2 million engine equivalents (3.6) at an annual rate, an increase in the number of delivered sampling cups to 63,000 (45,100) and favourable exchange rates. Revenue from equipment increased at the same time to SEK 2.9 million (0.3), while revenue from service decreased to SEK 0.2 million (0.3). Exchange rate changes had a positive impact of SEK 1.4 million. Operating profit rose to SEK 14.3 M (11.1), while profit before tax increased to SEK 14.2 M (11.0). The net result also landed at SEK 14.2 M (11.0), corresponding to earnings per share of SEK 2.00 (1.55) both before and after dilution. Cash flow from current operations was SEK 12.2 million (10.7), where changes in working capital contributed SEK -5.8 million (-2.0).

For the first nine months in total, SinterCast brought home a net turnover of SEK 98.5 M (85.8) with a gross profit of SEK 73.0 M (64.2). Series production revenues rose to SEK 93.7m (83.3) after a series production of 3.7 million engine equivalents (3.5) at an annual rate and 145,600 (142,400) sampling cups delivered, again benefitting from favorable exchange rates.

Revenues from equipment increased to SEK 3.9 M (1.3), while revenues from service decreased slightly by SEK 0.9 M (1.2). Exchange rate changes made a positive contribution of SEK 5.6 million. Operating profit was SEK 27.1 million (22.6). Profit before tax reached SEK 26.8 M (22.3), while net profit came in at SEK 26.6 M (25.3), corresponding to earnings per share of SEK 3.76 (3.57) both before and after dilution. Cash flow from current operations was SEK 34.7 million (13.3), where changes in working capital contributed SEK 2.4 million (-13.3).

Series production of 4.2 million engine equivalents at an annual rate during Q3 was again a new quarterly record. The quarter became the tenth consecutive quarter of year-on-year production increase. The month of September also set a new record with 4.5 million annualized engine equivalents. With expectations of continued strong long-term growth, SinterCast intensified internal development projects during Q3 to strengthen delivery capabilities and ensure long-term supply security, all with the aim of supporting future market growth. The activities include ordering production tools for the manufacture of the company's patented Sampling Cup, new production tools at the current sole supplier in Sweden after 24 years of continuous production, and the ongoing development of a second source for Sampling Cup production in Slovakia. Through Q3, the investments for these proactive activities amount to approximately SEK 3.7 million, of which SEK 1.7 million was allocated to the third quarter. The development projects in question are expected to be completed before the end of the year.

All in all, the future outlook is very positive for SinterCast. As we talked about earlier, however, a speed bump is expected in the second half of next year, when one of the company's largest volume programs is expected to reach end of life. The expected end of the program will lead to a temporary decrease in the total volume. At the same time, the company's current long-term forecast points to continued growth until and beyond 2030, with high-volume production well beyond 2035. A strong business model and similarly strong customer relationships provide good profitability and strong cash flows over time. The direct return and dividend history are impressive. At the same time, the business still shows solid growth prospects in combination with a good financial position, which speaks for long-term continued increasing dividends.

The target price is left unchanged at SEK 140, while the buy recommendation is maintained.
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Per Bernhult