

Ticker: **ALTR PL**

 Recommendation: **SELL**
Share details (EUR)

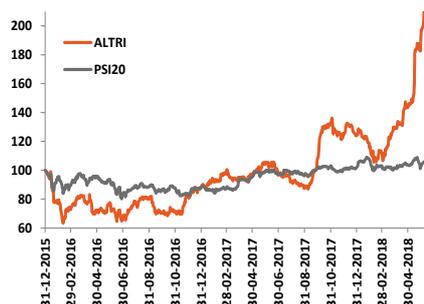
Current price	8.52
Target price	6.36
Downside	-25%

Beta	1.2
52w max	8.57
52w low	3.62
1y return (%)	102.6%
3m return (%)	92.7%

Market cap (mn)	1,748
Free float	34%
Avg daily volume (30d)	396,728

Financial highlights (EUR million)

	2017	2018E
Revenue	666	765
EBITDA	191	297
EBIT	137	243
Net profit	96	182
Net debt	389	285
EPS	0.47	0.89
DPS	0.25	0.30

Price graph (31/12/2015=100)


Recommendation	Date	PT
Sell	07/06/18	6.36
Reduce	07/11/17	4.78
Reduce	17/10/17	4.58

Main shareholders

Promendo SA	20.9%
Caderno Azul SGPS	14.6%
Actium Capital SGPS	11.9%

Note: data as of 07/6/2018

Source: Bloomberg; BiG Research; Company Data

ALTRI SGPS
Valuation is stretched at pulp prices peak
Pulp prices peak

Pulp prices had a good run in 2017, which continued through the beginning of 2018. However the multiple stoppages of production in the sector seen in 2017 should not be replicated in 2018, meaning that there will be a more balanced demand and supply. We predict a 2% decline in pulp prices from 2019 until 2022. Pulp prices have a major impact in our valuation and are the main reason for our Sell recommendation and our price target of EUR 6.36 per share. Below is a table with Altri's key ratios taking into account our price target:

Altri's key ratios

	2017	2018E	2019E	2020E	2021E	2022E
P/E	13.6	7.2	7.6	8.3	9.1	10.2
EV/EBITDA	9.1	5.8	6.2	6.7	7.4	8.2
Dividend Yield	3.9%	4.7%	5.1%	5.5%	5.5%	5.5%
FCF Yield	5.0%	11.5%	13.4%	12.2%	10.7%	9.6%

Source: Company's data, BiG Research

Earnings

While there was a revenue decrease due to lower production in the 1st quarter, the rise in prices was able to offset this effect leading to only a marginal decrease in revenues from the last quarter of 2017 and an increase of 8.5% yoy. A decrease in costs thanks to efficiency gains led to an adj. EBITDA increase of 7.6% qoq (excluding the variation in fair value of biological assets in the 4th quarter of 2017).

For the 2nd quarter we expect production on Celtejo to return to normal levels as the environmental restrictions were lifted after the company successfully renewed the license required. With the pulp price index already at USD 1050 per ton, we preview an increase of 11% in the 2nd quarter revenues to EUR 192.9 mn. EBITDA should reach EUR 71.6 mn and Net income EUR 43.8 mn. Capex should stay around the EUR 20 mn as the last quarter.

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CURRENT AFFAIRS

- ▲ **First Quarter Earnings**
- ▲ **Second Quarter Preview**

▲ **First Quarter Earnings**

Altri registered in the first quarter EUR 173.4 mn in revenues, which correspond to an increase of 8.5% vs the first quarter of 2017 but a decrease of -0.9% qoq. This qoq decrease was due to lower production levels at Celtejo, caused by environmental restrictions, which led to lower volumes (-3.9%). However, this was partially offset by the increase in average selling price (+3.5%).

The conclusion of the investment project in Celbi helped Altri to reduce costs by 5% qoq. EBITDA grew 7.6% qoq after adjusting for variation in fair value of assets and provisions of the 4th quarter. Net income reached EUR 32.6 mn vs 28.1 mn in the 4th quarter of 2017.

In the quarter, Altri registered a total Capex of EUR 23.4 mn and reduced net debt by EUR 23 mn.

Altri's Earnings

€ million	1Q17	4Q17	1Q18	%QoQ	2Q18E	%QoQ
Revenues	159.8	175.0	173.4	-1%	192.9	11%
EBITDA	40.1	49.9	63.3	27%	71.6	13%
Net Income	17.1	28.1	32.6	16%	43.8	34%

Source: Company's data, BiG Research

▲ **Second Quarter earnings preview**

For the second quarter of this year, we expect production on Celtejo to return to normal levels as the environmental restrictions were lifted after the company successfully renewed the license required. With the pulp price index already at USD 1050 per ton, we preview an increase of 11% in revenues to EUR 192.9 mn. EBITDA should reach EUR 71.6 mn and Net income EUR 43.8 mn. Capex should stay around the EUR 20 mn as in the last quarter.

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INVESTMENT CASE

- ▲ Pulp market
- ▲ Steady Cash Flows
- ▲ Steady Dividend
- ▲ Risks
- ▲ Valuation

▲ Pulp market

Pulp demand has been rising on average by 1,200 ktons since 2013, which has been compensated by an increase in supply. However, currently there is no major supply coming online until 2020 and consequently the prices have adjusted for that fact. Since mid-2017, the BHKP pulp price index rose by more than 50%, from 650 USD per ton to 1050 USD per ton. This surge was also due to several stoppages in pulp production in 2017 which we do not expect will happen this year. We conservatively anticipate a decrease of 2% per year in the index until 2022, depicted in grey in the graph below:

Europe Pulp BHKP PIX Index USD



Source: Bloomberg

▲ Steady Cash Flows

Thanks mainly to the recent rise in prices, we expect the company to be able to generate on average EUR 228 mn in operational cash flow until 2022. In relation to Capex, we anticipate additional capex of EUR 52mn this year. Until 2022 the company should spend per year close to EUR 32.5 mn in maintenance capex as there is no visibility on possible acquisitions or major projects. We estimate a debt reduction of EUR 50 mn in 2018 and EUR 100 mn per year until 2022. Besides the direct debt reduction, there will be a significant decrease in net debt due to an increase in cash, enabling Altri to reach a net cash level of EUR 134 mn in 2022.

Analyst:

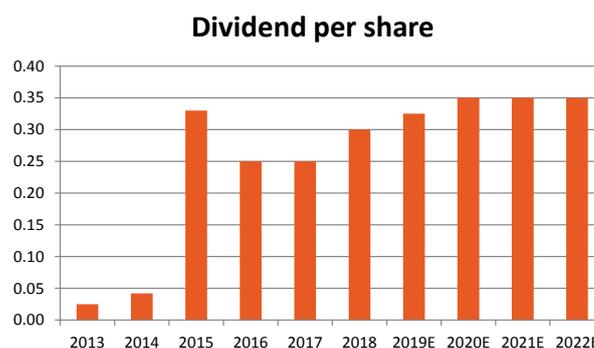
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▲ **Steady Dividend**

We consider a slight increase in dividends per share from EUR 0.30 this year to EUR 0.325 in 2019 and EUR 0.35 from 2020 until 2022. This would represent circa of EUR 69 mn distributed on average per year to shareholders and a dividend yield above 5% taking into account our price target.



Source: Company's data, BiG Research

▲ **Risks**

The main risk of Altri is a change in the pulp price, which includes also the risk of changes in EURUSD as the index is priced in USD and Altri reports in EUR. Below we present a sensitivity analysis of the price target to annual changes in the index price until 2022 and movements in EURUSD rates:

		Annual Pulp Price Evolution until 2022						
		6.36	-5%	-3%	-1%	0%	1%	3%
EUR/USD	1.10	6.29	7.99	9.80	10.74	11.71	13.73	15.86
	1.15	5.08	6.72	8.44	9.34	10.27	12.20	14.24
	1.20	3.98	5.55	7.20	8.07	8.95	10.80	12.76
	1.25	2.97	4.47	6.06	6.89	7.74	9.52	11.39
	1.30	2.03	3.48	5.01	5.80	6.62	8.33	10.13

Source: BiG Research

Regulatory risk in Portugal is present and was felt last year by pulp and paper companies, with the prohibition to increase new eucalyptus plantations. Further regulatory changes may happen that may have a direct or indirect impact in Altri.

Portugal has been in the last years suffering from wild fires in the summer which have impacted in the past and may in the future cause disruptions in the production process or operations of Altri.

Valuation
Altri's key financial data

€ million	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	Terminal
Income statement										
Revenues	573	553	665	612	666	765	758	745	732	719
Pulp	473	449	565	516	566	670	663	650	637	624
Energy	77	85	82	78	81	81	81	81	81	81
Other	22	19	18	19	19	14	14	14	14	14
EBITDA	138	114	221	167	191	297	281	258	235	213
D&A	49	49	53	51	54	54	54	54	54	54
Financial Expenses	-26	-27	-24	-19	-21	-19	-15	-10	-6	-1
Taxes	10	3	30	24	23	45	43	39	36	32
Net income	55	37	118	77	96	182	172	157	143	128
Cash flows										
Net income	55	37	118	77	96	182	172	157	143	128
Change in Working capital	48	37	12	26	7	7	9	8	11	10
Operating Cash Flow	112	113	206	101	208	262	248	229	210	192
Capex	-18	-38	-37	-35	-84	-75	-33	-33	-33	-33
Free Cash Flow	122	28	-18	57	-106	55	32	11	-4	-20
Net borrowing	65	-23	-100	58	-161	-50	-100	-100	-100	-100
Dividends distributed	-5	-9	-68	-51	-51	-62	-67	-72	-72	-72
Change in cash	122	28	-18	57	-106	55	32	11	-4	-20
Balance sheet										
Fixed assets	391	384	364	360	397	418	397	375	354	333
Current assets	135	144	148	151	164	174	177	176	175	174
Current liabilities	60	62	61	69	95	95	97	99	101	103
Total Debt	806	781	684	740	583	533	433	333	233	133
Net debt	574	520	440	440	389	285	153	42	-54	-134
Shareholders' equity	242	272	322	344	395	525	637	724	794	851
Operating and financial indicators										
Revenue growth		-3%	20%	-8%	9%	15%	-1%	-2%	-2%	-2%
EBITDA margin	24%	21%	33%	27%	29%	39%	37%	35%	32%	30%
Profit margin	10%	7%	18%	13%	14%	24%	23%	21%	20%	18%
EPS	0.27	0.18	0.57	0.38	0.47	0.89	0.84	0.77	0.70	0.63
ROCE	12%	8%	26%	17%	21%	37%	36%	35%	33%	32%
Operating cash flow /EBITDA	81%	99%	93%	61%	109%	88%	88%	89%	89%	90%
Net debt/EBITDA	4.2	4.6	2.0	2.6	2.0	1.0	0.5	0.2	-0.2	-0.6
Interest coverage	3.4	2.4	7.1	6.2	6.4	12.8	15.7	20.4	33.0	158.4
DPS	0.03	0.04	0.33	0.25	0.25	0.30	0.33	0.35	0.35	0.35

Source: Company; BiG Research

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Altri's key valuation items

€ million	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	Terminal
Revenues	573	553	665	612	666	765	758	745	732	719
EBITDA	138	114	221	167	191	297	281	258	235	213
EBIT	89	65	168	116	137	243	227	204	182	159
Taxes	18	13	34	23	27	49	45	41	36	32
NOPLAT	71	52	135	93	110	195	182	163	145	127
D&A	49	49	53	51	54	54	54	54	54	54
Change in Working capital	48	37	12	26	7	7	9	8	11	10
Capex	-18	-38	-37	-35	-84	-75	-33	-33	-33	-33
Unlevered FCF	54	26	138	84	72	167	194	177	155	139
rf	2.0%									
Beta	1.2									
Market risk premium	8.0%									
Ke	11.6%									
Kd	2.5%									
Debt to EV	26%									
Tax rate	20%									
WACC	9.1%									
g	0.00%									
Time to discount						0.6	1.6	2.6	3.6	4.6
Discounted OFCF						159	169	141	114	93
Terminal value						1,023				
EDP Bioelétrica (valued at 12x Earnings)						36				
Enterprise value						1,735				
Net debt (2018)						285				
Minority interests						0				
Equity fair value						1,450				
Shares outstanding (# million)						205.1				
Liquidity discount						10%				
Price target						6.36				
P/E 2018E						7.2				
EV/EBITDA 2018E						5.8				
P/OFCF 2018E						7.8				
DY 2018E						4.7%				

Source: Company; BiG Research

Altri's valuation relies greatly in pulp prices and production volumes. Production capacity in Celbi will ramp up in 2018, however according to company's guidance, from 2019 onwards focus will be on reducing debt and consequently no additions in capacity are expected through major investments, so we use a 0% growth rate in the long term. Regarding price as explained above, we expect a conservative reduction of 2% per year in the price until 2022 and EURUSD at 1.20, which still enables the company to generate higher cash flows than in the past. Altri's recent price rise is exaggerate as our valuation points towards a price target of EUR 6.36 per share, representing a -25% downside.

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COMPANY

History & Description

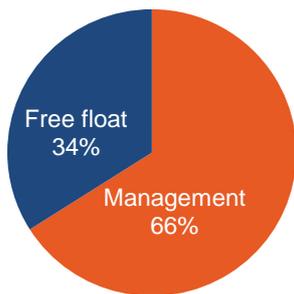
Altri was incorporated in 2005 after a demerger from Cofina, with the goal for the company to focus on its industrial operations. At this point, the company had both its pulp operations with Caima's factory and a steel operation under F. Ramada. At the end of 2005, Altri expanded its pulp business by acquiring 95% of Celtejo for €38 million.

In 2006 Altri further pushed its expansion by acquisition strategy. It acquired 100% of Stora Enso's Celbi for €430 million, 50% of EDP Bioelétrica for €7.5 million and a further 4.45% of Celtejo. These acquisitions finished an inorganic expansion phase and marked the start of a deleveraging and less aggressive organic expansion phase that lasts until today. In 2008 the group demerged F. Ramada, isolating its pulp and energy operations from the other industrial segments.

Since 2006, the company has invested in expanding its factories and in integrating their pulp production with a cogenerating process to produce electricity. Electricity generated is enough to cover the company's energy needs and to generate energy sales of around €80 million.

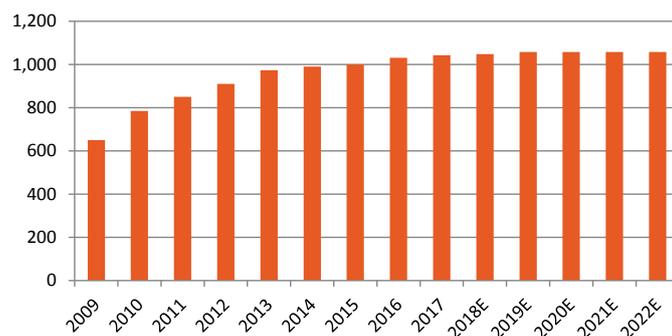
In 2018, thanks to efficiency investments, Altri will achieve a 750k tons of pulp production capacity in Celbi. In Caima, the company has a capacity of 105k tons of dissolving pulp.

Shareholders' structure



Source: Company

Pulp Production Capacity



Source: Company's data, BiG Research

Deleveraging has also been a constant since 2006. The company has reduced its net debt from a peak of more than €750 million in 2008 to less than €400 million nowadays.

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 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;
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- Unless otherwise specified, the price-targets of the investment recommendations issued by BiG's Research Team are valid for 12 months.
- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
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- The records of the investment recommendations of the Research Team are provided below. The detailed external consultation of the respective performances may be provided if so requested.

PSI20 Notes in the last 12 months as of 31st of March of 2018:

	Number of Recommendations	%
Accumulate/Buy	2	66,7%
Keep/Neutral	0	0,0%
Reduce/Sell	1	33,3%
Total	3	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 31st of March of 2018:

	Number of Recommendations	%
Profit Taking	7	63,6%
Stop Loss	0	0,0%
In Place	4	36,4%
Total	11	100,0%

Pair Trades in the last 12 months as of 31st of March of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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