

Ticker: **ALTR PL**

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

Current price	8.94
Target price	6.38
Downside	-29%

Beta	1.2
52w max	9.31
52w low	3.62
1y return (%)	133.8%
3m return (%)	53.8%

Market cap (mn)	1,835
Free float	29%
Avg daily volume (30d)	396,728

Financial highlights (EUR million)

	2017	2018E
Revenue	666	781
EBITDA	191	295
EBIT	137	242
Net profit	96	180
Net debt	389	286
EPS	0.47	0.88
DPS	0.25	0.30

Price graph (31/12/2015=100)


Recommendation	Date	PT
Sell	27/07/18	6.38
Sell	07/06/18	6.36
Reduce	07/11/17	4.78

Main shareholders

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

Note: data as of 27/7/2018

Source: Bloomberg; BiG Research; Company Data

ALTRI SGPS
Pulp price stabilization expected in the medium term
2nd Quarter Earnings

The company reported an increase of 18.5% qoq in sales in the 2nd quarter of 2018, which reached EUR 205 mn (vs BiG est. EUR 193 mn). This increase in revenues was due to the positive evolution of pulp prices, an increase in pulp production (270.8 ktons vs BiG est. 264 ktons) and an increase in pulp sales (280.5 ktons vs BiG est 267 ktons). EBITDA was EUR 72.7 mn (vs BiG est. EUR 71.6 mn) and net income was EUR 41 mn (vs BiG est. EUR 43.8mn) due to non-recurring higher unit costs due to a development project in Celtejo's mill. Capex was higher than expected at EUR 40mn vs BiG estimate of EUR 20 mn. Regarding debt, despite the dividend payment, the net debt only increased by EUR 10.5 mn due to strong cash inflows.

Altri's Earnings

€ million	4Q17	1Q18	2Q18	%QoQ	3Q18E	%QoQ
Revenues	175.0	173.4	205.0	18%	198.8	-3%
EBITDA	49.9	63.3	72.7	15%	69.6	-4%
Net Income	28.1	32.6	41.2	26%	42.2	2%

Source: Company's data, BiG Research

3rd Quarter Earnings

For the 3rd quarter we expect a slight decrease in revenues of 3% as pulp price stabilizes around 1050 USD/ton (as forecasted by the company), but pulp sales decline slightly. EBITDA should reach EUR 69.6 mn as non-recurring higher costs (Celtejo mill) continue throughout this quarter as the company guided. Net income will reach EUR 42.2 mn as we expect a lower tax cost next quarter. Capex should be around EUR 8 mn.

Altri's key ratios

	2017	2018E	2019E	2020E	2021E	2022E
P/E	13.6	7.3	7.6	8.3	9.2	10.2
EV/EBITDA	9.1	5.9	6.2	6.7	7.4	8.2
Dividend Yield	3.9%	4.7%	5.1%	5.5%	5.5%	5.5%
FCF Yield	4.9%	10.0%	14.0%	12.1%	10.7%	9.5%

Source: Company's data, BiG Research

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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	781	768	754	741	728
Pulp	473	449	565	516	566	681	668	655	642	629
Energy	77	85	82	78	81	86	86	86	86	86
Other	22	19	18	19	19	14	14	14	14	14
EBITDA	138	114	221	167	191	295	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	180	173	158	143	128
Cash flows										
Net income	55	37	118	77	96	180	173	158	143	128
Change in Working capital	48	37	12	26	7	27	-1	8	12	10
Operating Cash Flow	112	113	206	101	208	260	248	229	210	191
Capex	-18	-38	-37	-35	-84	-75	-33	-33	-33	-33
Free Cash Flow	122	28	-18	57	-106	53	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	53	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	179	180	179	177	177
Current liabilities	60	62	61	69	95	99	99	101	103	105
Total Debt	806	781	684	740	583	533	433	333	233	133
Net debt	574	520	440	440	389	286	154	43	-53	-133
Shareholders' equity	242	272	322	344	395	525	637	724	794	851
Operating and financial indicators										
Revenue growth		-3%	20%	-8%	9%	17%	-2%	-2%	-2%	-2%
EBITDA margin	24%	21%	33%	27%	29%	38%	37%	34%	32%	29%
Profit margin	10%	7%	18%	13%	14%	23%	22%	21%	19%	18%
EPS	0.27	0.18	0.57	0.38	0.47	0.88	0.84	0.77	0.70	0.63
ROCE	12%	8%	26%	17%	21%	36%	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	12.7	15.7	20.5	33.0	158.1
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	781	768	754	741	728
EBITDA	138	114	221	167	191	295	281	258	235	213
EBIT	89	65	168	116	137	242	228	205	182	159
Taxes	18	13	34	23	27	48	46	41	36	32
NOPLAT	71	52	135	93	110	193	182	164	145	127
D&A	49	49	53	51	54	54	54	54	54	54
Change in Working capital	48	37	12	26	7	27	-1	8	12	10
Capex	-18	-38	-37	-35	-84	-75	-33	-33	-33	-33
Unlevered FCF	54	26	138	84	72	145	204	177	155	138
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						0.4	1.4	2.4	3.4	4.4
Discounted OFCF						140	180	143	115	94
Terminal value						1,032				
EDP Bioelétrica (valued at 12x Earnings)						36				
Enterprise value						1,740				
Net debt (2018)						286				
Minority interests						0				
Equity fair value						1,454				
Shares outstanding (# million)						205.1				
Liquidity discount						10%				
Price target						6.38				
P/E 2018E						7.3				
EV/EBITDA 2018E						5.9				
P/OFCF 2018E						9.0				
DY 2018E						4.7%				

Source: Company; BiG Research

Altri's valuation was adjusted to incorporate higher non-recurring costs in this quarter and in the next one. Pulp production was slightly increased and a stronger USD incorporated in next quarter estimates. Incorporating these changes, the target price increased slightly from 6.36 to 6.38 but still represents a 29% downside from current prices so we maintain the Sell recommendation.

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 - Buy, expected absolute return above 15%;
 - 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%;
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PSI20 Notes in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75,0%
Keep/Neutral	0	0,0%
Reduce/Sell	1	25,0%
Total	4	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	11	78,6%
Stop Loss	1	7,1%
In Place	2	14,3%
Total	14	100,0%

Pair Trades in the last 12 months as of 30th of June of 2018:

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

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