

Ticker: **ALTR PL**

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

Current price	7.66
Target price	6.23
Downside	-18.7%

Beta	1.2
52w max	9.13
52w low	4.24
1y return (%)	41.48%
3m return (%)	-11.52%

Market cap (mn)	1,571
Free float	29%
Avg daily volume (30d)	324,887

**Financial highlights (EUR million)**

	2017	2018E
Revenue	666	796
EBITDA	191	304
EBIT	137	249
Net profit	96	176
Net debt	389	286
EPS	0.47	0.86
DPS	0.25	0.30

**Price graph (31/12/2015=100)**


Recommendation	Date	PT
Sell	02/11/18	6.23
Sell	27/07/18	6.38
Sell	07/06/18	6.36
Reduce	07/11/17	4.78

**Main shareholders**

Promendo SA	20.7%
Caderno Azul SGPS	14.6%
Livrefluxo SGPS	11.8%

Note: data as of 02/11/2018

Source: Bloomberg; BiG Research; Company Data

**ALTRI SGPS**
**Pulp prices unchanged but appreciation of USD was positive**
**3<sup>rd</sup> Quarter Earnings**

The company reported an increase of 0.1% qoq in sales in the 3<sup>rd</sup> quarter of 2018, which reached EUR 205.19 mn (vs BiG est. EUR 198.8 mn). This increase in revenues was due to the positive evolution of pulp prices in EUR thanks to the USD appreciation (EUR 903/ton vs EUR 871/ton in the 2Q18). In the quarter there was an increase in pulp production (286.8 ktons vs BiG est. 268 ktons) and a decrease in pulp sales in line with estimates (269.2 ktons vs BiG est 268 ktons). EBITDA was EUR 82 mn (vs BiG est. EUR 69.6 mn) and net income was EUR 46.6 mn (vs BiG est. EUR 42.2mn) as cost of sales dropped 18% qoq after higher costs at Celtejo in 2Q. Capex was EUR 15 mn vs BiG estimate of EUR 8 mn. Regarding the net debt, it decreased by EUR 20.5 mn due to strong cash inflows.

**Altri's Earnings**

€ million	1Q18	2Q18	3Q18	%QoQ	4Q18E	%QoQ
Revenues	173.4	205.0	205.2	0%	212.4	4%
EBITDA	63.3	72.7	82.0	13%	86.2	5%
Net Income	32.6	41.2	46.6	13%	55.7	20%

Source: Company's data, BiG Research

**Outlook for 4<sup>th</sup> Quarter Earnings**

For the 4<sup>th</sup> quarter we expect an increase in revenues of 4% as pulp price stabilizes around 1050 USD/ton (as forecasted by the company), but pulp sales volumes rise because 4Q is a seasonally stronger quarter. EBITDA should reach EUR 86.2 mn. Net income is expected to reach EUR 55.7 mn as we account for a lower tax cost next quarter. Capex should be around EUR 8 mn.

**Altri's key ratios at current price**

	2017	2018E	2019E	2020E	2021E	2022E
P/E	16.4	8.9	9.6	10.5	11.7	13.1
EV/EBITDA	9.7	6.1	6.7	7.3	8.1	9.0
Dividend Yield	3.3%	3.9%	4.2%	4.6%	4.6%	4.6%
FCF Yield	4.4%	9.4%	12.5%	10.7%	9.4%	8.3%

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
<b>Income statement</b>										
Revenues	573	553	665	612	666	796	770	756	743	730
Pulp	473	449	565	516	566	694	668	655	642	629
Energy	77	85	82	78	81	88	88	88	88	88
Other	22	19	18	19	19	14	14	14	14	14
EBITDA	138	114	221	167	191	304	276	253	230	207
D&A	49	49	53	51	54	56	56	56	56	56
Financial Expenses	-26	-27	-24	-19	-21	-15	-15	-10	-6	-1
Taxes	10	3	30	24	23	61	46	42	38	34
Net income	55	37	118	77	96	176	164	149	135	120
<b>Cash flows</b>										
Net income	55	37	118	77	96	176	164	149	135	120
Change in Working capital	48	37	12	26	7	27	-1	8	12	10
Operating Cash Flow	112	113	206	101	208	260	247	228	210	191
Capex	-18	-38	-37	-35	-84	-75	-33	-33	-33	-33
Free Cash Flow	122	28	-18	57	-106	53	31	10	-5	-20
Net borrow ing	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	31	10	-5	-20
<b>Balance sheet</b>										
Fixed assets	391	384	364	360	397	416	393	370	347	324
Current assets	135	144	148	151	164	181	180	180	178	177
Current liabilities	60	62	61	69	95	99	99	101	103	106
Total Debt	806	781	684	740	583	533	433	333	233	133
Net debt	574	520	440	440	389	286	155	45	-50	-130
Shareholders' equity	242	272	322	344	395	525	632	716	785	839
<b>Operating and financial indicators</b>										
Revenue grow th		-3%	20%	-8%	9%	20%	-3%	-2%	-2%	-2%
EBITDA margin	24%	21%	33%	27%	29%	38%	36%	33%	31%	28%
Profit margin	10%	7%	18%	13%	14%	22%	21%	20%	18%	16%
EPS	0.27	0.18	0.57	0.38	0.47	0.86	0.80	0.73	0.66	0.59
ROCE	12%	8%	26%	17%	21%	35%	35%	33%	32%	30%
Operating cash flow /EBITDA	81%	99%	93%	61%	109%	85%	90%	90%	91%	92%
Net debt/EBITDA	4.2	4.6	2.0	2.6	2.0	0.9	0.6	0.2	-0.2	-0.6
Interest coverage	3.4	2.4	7.1	6.2	6.4	16.7	15.2	19.7	31.7	150.7
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	796	770	756	743	730
EBITDA	138	114	221	167	191	304	276	253	230	207
EBIT	89	65	168	116	137	249	221	197	174	151
Taxes	20	14	37	26	30	55	49	43	38	33
NOPLAT	69	51	131	91	107	194	172	154	136	118
D&A	49	49	53	51	54	56	56	56	56	56
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	53	24	135	81	69	147	196	169	147	131
rf	2.0%									
Beta	1.2									
Market risk premium	8.0%									
Ke	11.6%									
Kd	2.5%									
Debt to EV	26%									
Tax rate	22%									
WACC	9.1%									
g	0.00%									
Time to discount						0.2	1.2	2.2	3.2	4.2
Discounted OFCF						145	177	140	112	91
Terminal value						1,004				
EDP Bioelétrica (valued at 12x Earnings)						36				
Enterprise value						1,706				
Net debt (2018)						286				
Minority interests						0				
Equity fair value						1,419				
Shares outstanding (# million)						205.1				
Liquidity discount						10%				
Price target						6.23				
P/E 2018E						7.3				
EV/EBITDA 2018E						5.6				
P/OFCF 2018E						8.7				
DY 2018E						4.8%				

Source: Company; BiG Research

Altri's valuation had a small adjustment as we accounted for higher energy sales and less costs in the 3Q than previously estimated but a decrease in margins next year. We accounted for a stronger USD in next quarter estimates, but kept the exchange rate unchanged for next year at EURUSD 1.20. Incorporating these changes, the target price decreased slightly from EUR 6.38 to EUR 6.23 which represents a 19% downside from current prices so we maintain the Sell recommendation.

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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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PSI20 Notes in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75.0%
Keep/Neutral	0	0.0%
Reduce/Sell	1	25.0%
<b>Total</b>	<b>4</b>	<b>100.0%</b>

Source: BiG Research

Trading Ideas in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61.1%
Stop Loss	6	33.3%
In Place	1	5.6%
<b>Total</b>	<b>18</b>	<b>100.0%</b>

Pair Trades in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
<b>Total</b>	<b>0</b>	<b>0%</b>

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