

Blowout 4Q speaks to quality

Magontec's strong final quarter is a reflection of the strong competitive position it enjoys in the industry and its inventory management capability. As a processor of magnesium (as compared with a producer) it had to manage extreme price volatility, supply chain challenges and product shortages. The full year gross profit of \$19.2m is even stronger than what was flagged in late December 2021 (which was >\$17.2m) and is 57% higher than CY20. It compares with our forecast CY21 gross profit of \$14.7m.

More than just an inventory effect

Commodity processing companies such as Magontec typically benefit from rising commodity prices as they capture the benefit of the period in which the product is held in inventory. However, in Magontec's case, it delivered strong results as the magnesium price more than tripled through September, then halved through to mid-November before increasing ~40% through to the end of the year. It had already flagged a strong quarter based on numbers to the end of November – the additional \$2m gross profit in December added icing to the cake.

Stronger volumes and even stronger margins

Anode volumes continue to grow strongly in the quarter, up 15% on pcp. Volumes in the metals business were up only 1% on Q3 with European recycling volumes down 23% on pcp, albeit spot price sales generated higher margins in part due to Magontec's ability to source raw material to meet customer demand.

Qinghai supply timetable unchanged

The timetable for the restart of supply of liquid magnesium to Magontec's Qinghai magnesium alloy cast house has continued to slip in recent years. While risks remain, the timetable for restart remains unchanged at the end of the current half. We have previously estimated that a full restart of supply of liquid magnesium could add 90 cps share to our 53 cps valuation.

Valuation (subject to review of CY21 result)

Working capital increase of \$5.8m due to the higher Mg price consumed most of the cash flow for the quarter but full year cash flow is up 166% on pcp. Cash position remains close to \$5m. While CY22 has started with similar trends to the previous quarter, management remains cautious about the full year, and has not provided guidance. Our forecasts and \$0.53 valuation remain unchanged subject to analysis of the full year result later this month.



Founded in 1953, MGL's operations involve the manufacture of magnesium anodes for corrosion protection in water heaters, and manufacture and recycling of magnesium alloys that are sold into the global auto industry. The Company has manufacturing facilities in Europe and China and sales those regions, as well as the US. Its primary alloy production facility in Qinghai, China is operating at a loss, awaiting the restart of its magnesium supplier. Once restarted, MGL will be one of the few suppliers of low-CO2 magnesium alloys.

<http://magontec.com/>

Stock	MGL.ASX
Price	\$0.38
Market cap	29m
Valuation	\$0.53

Valuation estimates (per share)

Anodes	\$0.28
Recycling	\$0.13
MGL Qinghai	\$0.12

Next steps

2021 Result – Feb 2022

Restart of magnesium supply to its alloy production facility in China

MGL Share Price (A\$)



Source: FactSet.

Andrew Johnston
andrew.johnston@mstaccess.com.au

Figure 1 – Financial Summary

Magontec Limited (MGL-AU)						
Year End 31 Dec	2019A	2020A	2021E	2022E	2023E	
Core PE	x	nm	nm	17.7x	8.8x	4.4x
EV/EBIT	x	nm	121.2x	11.1x	5.9x	2.6x
EV/EBITDA	x	16.3x	11.8x	5.9x	3.9x	2.1x
Div yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield	%	nm	1.0%	8.2%	14.3%	26.5%

Profit & Loss Statement		\$m	2019A	2020A	2021E	2022E	2023E
Revenue			130.6	95.1	106.4	119.7	134.5
Change pcp	%			-27.2%	11.9%	12.5%	12.4%
EBITDA			2.7	3.5	5.8	8.3	13.2
margin	%		2.1%	3.6%	5.5%	6.9%	9.8%
EBIT			-0.5	0.3	3.1	5.6	10.5
margin	%		-0.4%	0.4%	2.9%	4.6%	7.8%
Net interest expense			-0.6	-0.6	-0.6	-0.6	-0.6
Profit Before Tax			-1.1	-0.2	2.4	4.9	9.9
Tax and adjustments			-0.3	-0.1	-0.7	-1.4	-2.8
NPAT (underlying)			-1.3	-0.3	1.8	3.5	7.1
Significant, discontinued et.al			0.0	-0.4	0.0	0.0	0.0
NPAT (reported)			-1.4	-0.7	1.8	3.5	7.1

Per Share Data		2019A	2020A	2021E	2022E	2023E
Ave. diluted shares outstandin	m	82	82	82	82	82
Underlying EPS	cps	-1.6	-0.4	2.1	4.3	8.6
growth pcp	%		nm	nm	nm	100%
Reported EPS	cps	-1.7	-0.9	2.1	4.3	8.6
growth pcp	%		nm	nm	nm	100%
DPS	cps	0.0	0.0	0.0	0.0	0.0
Payout (on underlying)	%	0%	0%	0%	0%	0%

Balance sheet		\$m	2019A	2020A	2021E	2022E	2023E
Cash & Deposits			4	5	12	13	18
Receivables			26	22	18	20	23
Inventory			25	22	24	27	31
PP&E (incl right of use assets)			22	19	18	16	14
Intangibles			4	3	3	3	3
Other Assets			3	3	3	3	3
Total Assets			84	75	78	83	92
Payables			17	13	14	16	18
Borrowings			20	17	17	17	17
Provisions / other (incl. Lease Liab.			16	17	17	17	17
Total Liabilities			53	46	48	49	51
Shareholders' Funds			31	29	30	34	41
Net Debt			15	12	5	3	-1

Cashflow statement		\$m	2019A	2020A	2021E	2022E	2023E
EBITDA			2.7	3.5	5.8	8.3	13.2
Net interest			-0.6	-0.6	-0.6	-0.6	-0.6
Tax paid			-0.3	-0.5	-0.7	-1.4	-2.8
Working capital movements			-9.9	1.4	3.1	-3.5	-4.0
Other			-0.1	0.7	0.0	0.0	0.0
Operating CF			-8.1	4.5	7.6	2.7	5.8
Capital expenditure			-1.9	-0.7	-1.0	-1.0	-1.0
Asset sales			0.0	0.0	0.0	0.0	0.0
Acquisitions			0.0	0.0	0.0	0.0	0.0
Other			-0.4	-0.4	0.0	0.0	0.0
Investing CF			-2.4	-1.1	-1.0	-1.0	-1.0
Net borrowings			1.9	-2.8	0.0	0.0	0.0
Dividends paid			0.0	0.0	0.0	0.0	0.0
New share issues			0.0	0.0	0.0	0.0	0.0
Financing CF			1.9	-2.8	0.0	0.0	0.0
Net change in cash			-8.6	0.7	6.6	1.7	4.9

Stock information			
Share Price	\$		0.38
Market capitalisation	\$m		29.2
Valuation	\$		0.53
Shares on issue (Basic)	m		76.7
Shares on issue (diluted) (m)	m		82.1

Performance ratios		2020A	2021E	2022E	2023E
ROE (%)		nm	5.8%	10.4%	17.3%
ROIC (%)		-0.4%	6.7%	11.2%	19.5%
Net debt/(Net debt + I		29%	14%	9%	-4%
Interest cover (EBITD,		6.0x	9.1x	13.0x	20.8x
Capex/Depreciation		24%	40%	40%	40%
Days Working Capital		121	97	97	97

Segments		2020A	2021E	2022E	2023E
Revenue					
Anodes		31.4	43.2	43.5	46.0
Metals		63.7	63.2	76.2	88.6
Total Revenue		95.1	106.4	119.7	134.5
Gross Profit					
Anodes		8.2	10.6	11.8	13.2
Metals		4.0	4.1	5.4	8.9
Total Gross Profit		12.2	14.7	17.2	22.1
Gross Profit margin					
Anodes		26.1%	24.6%	27.2%	28.7%
Metals		6.3%	6.4%	7.0%	10.1%
Avg Segment margin		12.8%	13.8%	14.4%	16.4%
Overheads		-8.7	-8.9	-8.9	-8.9
EBITDA		3.5	5.8	8.3	13.2

Share price and volume	
Source: FactSet Prices	

Company description	
<p>Founded in 1953, MGL's operations involve the manufacture of magnesium anodes for corrosion protection in water heaters, and manufacture and recycling of magnesium alloys that are sold predominantly into the auto industry. The Company has manufacturing facilities in Europe and China. It has sales in those regions, as well as the US. Its primary alloy production facility in Qinghai, China is operating at a loss, awaiting the restart of its magnesium supplier. Once this supply has restarted, MGL will be one of the few suppliers of</p>	

Note: accounts are post-AASB 16; Right of use assets = ~3% of PP&E

Magnesium Price

Figure 2: Mg price (USD / tonne)

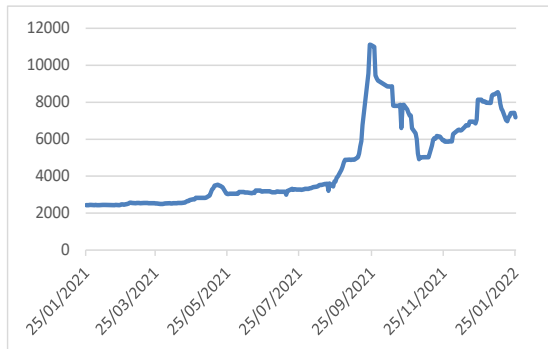
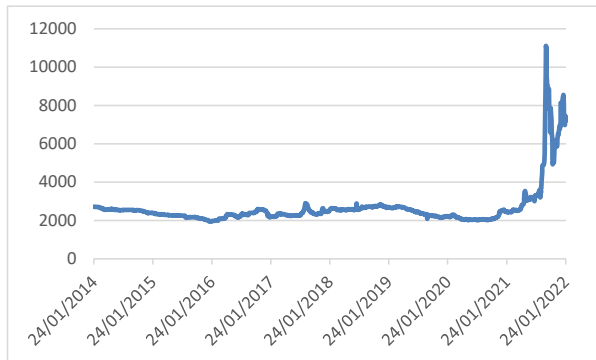


Figure 3: Long term Mg price (USD / tonne)



Source: Bloomberg

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