

Slow 2H takes shine off FY22 result

EBITDA of \$27.3m for FY22 was 2.7x what was achieved in FY21. However, this was mostly realised in 1H with 2H EBITDA less than 1/3 of 1H (in a business with little obvious seasonality). This sets the pace for FY23 forecasts, where EBITDA has reduced by \$3.8m from our previous forecast and now is close to FY21. Working capital consumed \$14.4m in FY22, which we expect to mostly reverse in FY23. We have reduced our valuation to \$0.56 per share (previously \$0.64) with a combination of factors including applying a 50% discount to our previous valuation for Qinghai.

Result reflects magnesium price

Magontec reported a full year FY22 EBITDA of \$27.3m in line with our forecasts set in August last year. Surprising, given the currently volatility of earnings and difficulty in predicting future earnings. Other metrics of Revenue and NPAT were within 5% of what we expected. While full year earnings are multiples of FY21, earnings had started to slow sharply in 2H FY22 with gross profit less than half of 1H FY22.

Decline in working capital to release cash

Working capital consumed \$14.4m over the year in spite of magnesium prices falling through the year – a reminder that working capital is arcanelly difficult to forecast in periods of raw material price volatility. The decision to hold higher inventories to support a strategic sales focus contributed to higher inventories. We expect a reversion of working capital to more normal levels to result in significant cash release over the next 12 months.

Forecasts

Management has provided only qualitative guidance for earnings in FY23 – which we interpret to imply that it expects a significant decline. We think referencing FY21 is most useful; we forecast FY23 EBITDA to be 12% above FY21 but less than half of FY22.

Valuation

We value Magontec on a sum-of-the-parts basis. The relatively stable and growing Anodes business is valued on an earnings multiple, Metals (recycling) on a capacity multiple based on historic transaction multiples, and the Qinghai alloy plant contribution is a heavily discounted valuation of prospective earnings – which we have discounted by a further 50% given the on-going uncertainties around magnesium supply. This has been the main reason for our valuation declining to \$0.56 (previously \$0.64); the decline in forecast earnings from Anodes has been broadly offset by an increase in comparable company multiples. Refer to page 6 for an assessment of the risks to our valuation.



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 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 restarted, MGL will be one of the few suppliers of low-CO2 magnesium alloys.

<http://magontec.com/>

Stock	MGL.ASX
Price	\$0.42
Market cap	\$33m
Valuation	\$0.56 (previously \$0.64)

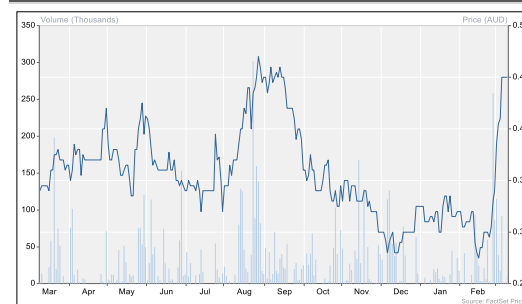
Valuation estimates (per share)

Anodes	\$0.37
Recycling	\$0.13
MGL Qinghai	\$0.06

Next steps

Q1 Trading Update Next 3 months

MGL Share Price (\$)



Source: FactSet

Andrew Johnston
andrew.johnston@mstaccess.com.au

Figure 1 – Financial Summary

Magontec Limited (MGL-AU)							
Year End 31 Dec	2020A	2021A	2022A	2023E	2024E	2025E	
Core PE	x	nm	7.5x	2.2x	6.1x	6.5x	4.6x
EV/EBIT	x	122.6x	5.4x	1.2x	2.4x	2.7x	1.9x
EV/EBITDA	x	12.6x	3.9x	1.1x	1.8x	1.9x	1.4x
Div yield	%	0.0%	0.6%	1.7%	1.7%	1.7%	1.7%
FCF Yield	%	nm	15.3%	27.2%	65.3%	nm	11.1%

Profit & Loss Statement	\$m	2020A	2021A	2022A	2023E	2024E	2025E
Revenue		95.1	115.2	158.6	116.6	158.8	178.8
Change pcp	%		21.1%	37.7%	-26.5%	36.2%	12.5%
Gross Profit		12.2	19.2	38.6	21.5	21.4	23.4
margin	%	12.8%	16.7%	24.3%	18.4%	13.5%	13.1%
EBITDA		3.5	10.1	27.3	11.3	10.9	12.7
margin	%	3.7%	8.8%	17.2%	9.6%	6.9%	7.1%
Depreciation and Amort		-3.1	-2.8	-2.8	-3.1	-3.3	-3.5
EBIT		0.4	7.3	24.5	8.2	7.6	9.2
Finance expense		-0.6	-0.5	-0.7	-0.4	-0.4	-0.4
Tax and adjustments		-0.5	-1.7	-7.3	-2.0	-1.8	-2.2
NPAT (reported)		-0.7	5.0	16.5	5.9	5.5	6.7
Significant, discontinued et.al		-0.4	0.6	0.0	0.0	0.0	1.0
NPAT (Underlying)		-0.3	4.4	16.5	5.9	5.5	7.7

Per Share Data	2020A	2021A	2022A	2023E	2024E	2025E	
Ave. diluted shares outstanding	m	76	79	85	85	85	
Underlying EPS	cps	-0.4	5.6	19.5	6.9	6.5	9.1
growth pcp	%		nm	250%	-65%	-7%	40%
Reported EPS	cps	-0.9	6.3	19.5	6.9	6.5	7.9
growth pcp	%		nm	209%	-65%	-7%	22%
DPS	cps	0.0	0.0	0.2	0.7	0.7	0.7
Payout (on underlying)	%	0%	0%	1%	10%	11%	8%

Balance sheet	\$m	2020A	2021A	2022A	2023E	2024E	2025E
Cash & Deposits		5	5	11	22	21	24
Receivables		22	21	25	22	30	34
Inventory		22	24	36	26	34	38
PP&E (incl right of use assets)		19	18	17	15	13	10
Intangibles		3	3	3	3	3	3
Other Assets		3	12	4	2	2	2
Total Assets		75	83	96	90	103	112
Payables		13	18	12	13	21	23
Borrowings		17	12	9	9	9	9
Provisions / other (incl. Lease Liab.)		17	17	19	19	19	19
Total Liabilities		46	46	40	41	49	52
Shareholders' Funds		29	36	56	49	54	60
Net Debt		12	7	-2	-13	-12	-15

Cashflow statement	\$m	2020A	2021A	2022A	2023E	2024E	2025E
EBITDA		0.0	10.1	27.3	11.3	10.9	12.7
Net interest		0.0	-0.5	-0.6	-0.4	-0.4	-0.4
Tax paid		0.0	-0.5	-2.3	-2.0	-1.8	-2.2
Working capital movements		0.0	-3.6	-14.4	13.3	-8.3	-5.5
Other		0.0	0.0	0.0	0.0	0.0	0.0
Operating CF		0.0	5.4	10.0	22.3	0.5	4.6
Capital expenditure		-0.7	-0.9	-1.9	-1.0	-1.0	-1.0
Asset sales		0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions		0.0	0.0	0.0	0.0	0.0	0.0
Other		-0.4	0.0	0.1	0.0	0.0	0.0
Investing CF		-1.1	-0.8	-1.8	-1.0	-1.0	-1.0
Net borrowings		-2.8	-5.3	-1.9	-10.0	0.0	0.0
Dividends paid		0.0	0.0	-0.2	-0.6	-0.6	-0.6
New share issues		0.0	0.0	0.0	0.0	0.0	0.0
Financing CF		-2.8	-5.7	-2.4	-10.6	-0.6	-0.6
Net change in cash		-3.9	-0.7	6.6	10.7	-1.1	3.0

Note: Right of use assets = ~3% of PP&E

Stock information	
Share Price	\$ 0.42
Market capitalisation	\$m 32.6
Valuation	\$ 0.56
Shares on issue (Basic)	m 77.5
Shares on issue (diluted) (m)	m 84.6

	1H FY20	2H FY20	1H FY21	2H FY21	1H FY22	2H FY22
	46.0	49.1	50.9	64.3	93.8	64.8
			10.6%	31.0%	84.4%	0.8%
	5.9	6.3	7.7	11.5	26.8	11.8
	12.9%	12.8%	15.1%	17.9%	28.5%	18.3%
	1.9	1.6	3.4	6.7	21.3	6.0
	4.2%	3.2%	6.6%	10.4%	22.7%	9.3%

Performance ratios	2022A	2023E	2024E	2025E
ROE (%)	29.4%	11.9%	10.1%	12.8%
ROIC (%)	31.7%	17.0%	13.7%	15.5%
Net debt/(Net debt + Ec)	-4%	-35%	-27%	-32%
Interest cover (EBITDA)	41.9x	nm	nm	35.9x
Capex/Depreciation	68%	32%	30%	29%
Days Working Capital	112	111	100	100

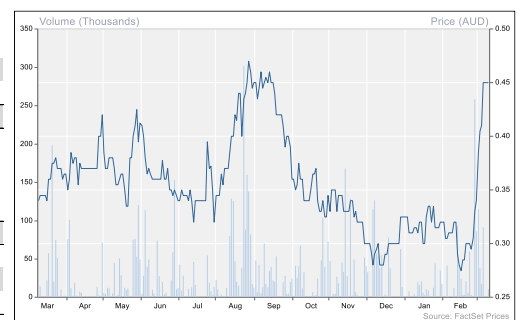
Segments	2022A	2023E	2024E	2025E
Revenue				
Anodes	55.8	44.6	44.6	46.9
Metals	102.8	72.0	72.0	75.6
Qinghai*			42.2	56.3
Total Revenue	158.6	116.6	158.8	178.8

Gross Profit	2022A	2023E	2024E	2025E
Anodes	18.1	14.3	12.5	13.1
Metals	20.5	7.2	5.8	5.3
Qinghai*			3.1	5.0
Total Gross Profit	38.6	21.5	21.4	23.4
Gross Profit margin				
Anodes	32.4%	32.0%	28.0%	28.0%
Metals	19.9%	10.0%	8.0%	7.0%
Qinghai*			7.4%	8.9%
Group margin	24.3%	18.4%	13.5%	13.1%
Other income	1.5	1.5	1.5	1.5
Overheads	-12.8	-11.7	-12.0	-12.2
EBITDA	27.3	11.3	10.9	12.7

* once liquid Mg supply restarts

Mg Price (US\$ / tonne)	5,713	3,500	3,000	2,500
AUD/USD	0.71	0.71	0.71	0.71

Share price and volume



Source: Company, MST Access

FY22 Result

Magontec reported its full year FY22 result with EBITDA of \$27.3 in line with our forecasts and nearly triple FY21. Earnings exploded with the magnesium price, notwithstanding that Magontec is a processor of magnesium, not a producer.

Other key P&L items were close to what we expected: revenue was 5% above; and NPAT was 4% below.

Figure 2: Result summary

	Units	FY21A	FY22A	vs. pcp	FY22 MSTe	vs. MST
Revenue	A\$m	115.2	158.6	37.7%	150.4	5.5%
Gross Profit	A\$m	19.2	38.6	100.7%	37.3	3.6%
...margin	%	16.7%	24.3%	763 bps	24.8%	-44 bps
EBITDA	A\$m	10.1	27.3	170.5%	27.3	0.0%
...margin	%	8.8%	17.2%	844 bps	18.1%	-94 bps
NPAT	A\$m	4.4	16.5	273.1%	17.2	-4.0%
Adj. EPS	¢ps	5.6	21.5	285.4%	20.6	4.2%
DPS	¢ps	0.0	1.2	nm	1.2	0.0%
SEGMENTS						
Revenue						
Anodes	A\$m	43.1	55.8	29%	54.4	2.6%
Metals	A\$m	72.1	102.8	43%	96.0	7.1%
Total Revenue	A\$m	115.2	158.6	38%	150.4	5.5%
Gross Profit						
Anodes	A\$m	13.6	18.1	33%	17.7	2.3%
Metals	A\$m	5.6	20.5	266%	19.5	5.1%
Total Gross Profit	A\$m	19.2	38.6	101%	37.2	3.8%
Gross profit margin						
Anodes	%	31.6%	32.4%	88 bps	32.5%	-10 bps
Metals	%	7.8%	19.9%	1217 bps	20.3%	-37 bps
Total GPM	%	16.7%	24.3%	767 bps	24.7%	-40 bps

Source: Company, MST Access

Cash flow

Working capital was the most notable item on the balance sheet – consuming \$14.4m of cash during the year. Typically, we would expect that the changes in working capital would be able to be forecast by analysis of the underlying magnesium price.

However, this has proven not to be the case. The average magnesium price in the 3 months to 31 Dec 2022 was around half what it was a year earlier (Inventory holdings are ~90 days, so taking the average magnesium price in this three month period is expected to be a useful estimate of the price embedded in working capital). However, this implies that cash should have been released, rather than consumed.

Further analysis indicates a number of issues affecting working capital.

- We calculate days working capital (specifically inventory, receivables and payables) historically and then use estimates of days working capital to forecast cash. In a period when magnesium prices are moving rapidly, the inconsistency between the numerator and denominator becomes problematic (COGS is an average over the whole year, while the working capital item, such as inventory, is a point in time at the end of the period).
- The rapidly moving price meant that Magontec's purchases of magnesium metal was a lot "lumpier" than normal.
- MGL carried higher inventories at 31 Dec 2022 in support of expanded business initiatives, enabling it to benefit from the supply chain shortages in a number of key products in international markets.
- Prepayment of certain raw materials, and a change in the usual early payment from particular customers also contributed to unusual movements in working capital

Figure 3: Magnesium price – China (US\$)



Source: Bloomberg

We remain confident that the cash that was consumed by working capital in FY22 does not represent a permanent change to the structure of the business and that over the next 2 years, working capital will revert to normal, releasing a significant amount of cash. However, forecasting that timing of such release is obviously difficult given the challenges in understanding the working capital movements in FY22.

Figure 4 – Working capital

	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23e	FY 24e
Days Receivable Outstanding	75	66	73	86	67	57	70	70
Days Inventory Outstanding	76	77	77	95	90	109	100	90
Days Payable Outstanding	49	68	53	55	67	37	50	55

Source: MST Access

US market for magnesium

Demand for recycled magnesium increased sharply during the year as the only producer of magnesium in the US – US Magnesium LLC (USMAG) closed due to low water levels the Great Salt Lake in Utah. A significant environmental problem has emerged at the Great Salt Lake (which sits adjacent to Salt Lake City) such that it is possible that US Magnesium plant does not restart. In short, Utah's proud history as having the weakest environmental laws in the US has enabled the Great Salt Lake to become highly contaminated with heavy metals. As the Lake dries out, there is significant risk that heavily contaminated dust is blown across Salt Lake City causing significant health issues. Actions to decrease water being taken from the Lake and increase the flow of water into the Lake are underway.

With the USMAG shutdown, the current US import tariffs on magnesium from China (140%) has forced users of magnesium (ie aluminium alloy producers) to find alternative sources. Magontec's magnesium recyclers in Europe are such sources.

There is a risk that if USMAG closure is permanent, there will be a structural shift in the industry given it represents around 6% of global magnesium supply. However, there appear a number of solutions that would mean that the positive benefit to Magontec of such a structural change may be transient – the most obvious of which would be a relaxation of US tariffs.

Guidance

No explicit guidance was provided but the commentary in the Executive Chairman's report in the Annual Report provided some cautious commentary which is not inconsistent with our FY23 EBITDA falling to \$11.3m (vs \$27.3m in this year)

- "Trading conditions {in 2023} are likely to be more muted than the previous 18 months."
- "While 2022 has been an outstanding year for the company, the short-term outlook is less clear."
- "Our recycling businesses anticipate a less exciting year as motor vehicle sales flag..."
- "... our anode businesses are expected to be more predictable and may even grow in 2023"

However, the CEO did flag the possibility of potential "market opportunities" which we interpret to be organic or potentially M&A related.

- "With a very strong balance sheet and continuing positive cash flows Magontec is well positioned to take advantage of market opportunities in the coming 12 months."

Forecasts

FY22 earnings were supercharged by the strong magnesium price and Magontec managed its strong position in both the Anodes and the Recycling industries to maximum benefit.

We have undertaken more detailed analysis of the 2H result and as a result, have reduced our FY23 forecast earnings. In reviewing the rate at which margins and earnings decline, we have cut our FY23 forecasts. Note that the 2H FY21 EBITDA of \$6.7m (vs 1H FY21 of \$3.4m) benefitted from the start of the magnesium price upswing.

Figure 5 – Historical half year P&L items

	2020A	2021A	2022A	2023E	1H FY20	2H FY20	1H FY21	2H FY21	1H FY22	2H FY22
Revenue	95.1	115.2	158.6	116.6	46.0	49.1	50.9	64.3	93.8	64.8
Change pcp	0.0%	21.1%	37.7%	-26.5%	0.0%	0.0%	10.6%	31.0%	84.4%	0.8%
Gross Profit	12.2	19.2	38.6	21.5	5.9	6.3	7.7	11.5	26.8	11.8
margin	12.8%	16.7%	24.3%	18.4%	12.9%	12.8%	15.1%	17.9%	28.5%	18.3%
EBITDA	3.5	10.1	27.3	11.3	1.9	1.6	3.4	6.7	21.3	6.0
margin	3.7%	8.8%	17.2%	9.6%	4.2%	3.2%	6.6%	10.4%	22.7%	9.3%

Source: Company, MST Access

FY24 forecasts are also reduced as we cannot predict with any confidence that margins will recover substantially in FY24.

Figure 6 – Changes to forecasts

(A\$m, Dec y/e)	FY23e			FY24e		
	Previous	Current	% Chg	Previous	Current	% Chg
Revenue						
Anodes (CCP)	48.9	44.6	-9%	48.9	44.6	-9%
Metals (incl. Qinghai)	119.1	72.0	-40%	127.5	114.2	-10%
TOTAL	168.0	116.6	-31%	176.4	158.8	-10%
Gross Profit						
Anodes (CCP)	13.7	14.3	4%	13.7	12.5	-9%
Metals	11.6	7.2	-38%	11.1	8.9	-20%
TOTAL	25.3	21.5	-15%	24.8	21.4	-14%
Gross Profit Margin						
Anodes (CCP)	28.0%	32.0%	398 bps	28.0%	28.0%	bps
Metals	9.7%	10.0%	26 bps	8.7%	7.8%	-96 bps
TOTAL	15.1%	18.4%	336 bps	14.1%	13.5%	-62 bps
Other Income	1.5	1.5		1.5	1.5	
Overheads	-11.7	-11.7	0%	-12.0	-12.0	0%
EBITDA	15.1	11.3	-25%	14.4	10.9	-24%
Margin	9.0%	9.6%	66 bps	8.2%	6.9%	-128 bps
NPAT underlying	10.3	5.9	-43%	8.3	5.5	-34%
Earnings per Share (A\$ cents)	10.7	6.9	-35%	9.9	6.5	-35%
Dividends per Share (A\$ cents)	1.3	0.7	nm	1.4	0.7	nm

Source: Company, MST Access

Note that we continue to assume that Qinghai will restart at the end of 2023 and contribute from FY24. Refer Figure 1.

Valuation

We use a sum of the parts valuation methodology for Magontec. This consists of a 12-month forward valuation based on capitalising earnings from the Anodes business using an EV/EBITDA multiple derived from a list of comparable companies which is then discounted by 30%. We use the same valuation of the recycling business (part of Metals division) used in our initiating coverage report which was based on the sale of a magnesium recycling company that was similar to Magontec's European recycling business. We previously included a \$10m valuation for Qinghai based on a heavily discounted valuation of the business assuming 28% capacity utilisation. Given the on-going delays in the restart of its magnesium supplier, we have halved the valuation contribution from Qinghai from \$10m to \$5m.

Figure 7 – Sum of the parts valuation

Business	Valuation methodology	EV (\$m)	Net Debt (\$m)	Equity val. (\$m)	per share (\$)
Anodes	EV / EBITDA multiple (disc comps)	29.7	-2.0	31.7	\$0.37
Recycling	Capacity multiple (recent txn)	11.0		11.0	\$0.13
Total	(fully operating businesses)	40.7	-2.0	42.7	\$0.50
Qinghai	EV / EBITDA at 28% capacity util.	5.0		5.0	\$0.06
TOTAL		45.7	-2.0	47.7	\$0.56

Source: Company, MST Access

Our valuation of the Anodes business is based on the capitalisation of the of Magontec's FY24 earnings using the median multiple of a range of metal processing companies which we discount by a further 30%.

Figure 8 – Comparable companies

Valuation		Price (AUD)	MCAP (AUD)	EV (AUD)	EBITDA Margin		EV / EBITDA		Price / Earnings		Net Debt / EBITDA	
					2023	2024	2023	2024	2023	2024	2023	2024
SGM-AU	Sims	16.08	3,106	3,487	5.7%	6.3%	7.8x	6.7x	21.2x	15.2x	0.0x	-0.1x
UMI-BE	Umicore	31.61	12,439	13,654	25.0%	24.2%	8.1x	8.0x	15.3x	15.9x	1.4x	1.9x
600459-CN	Sino-Platinum Metals	16.17	2,672	3,348	-	-	-	-	12.9x	10.0x	-	-
DBG-FR	Derichebourg	6.07	1,544	2,543	8.7%	8.4%	3.9x	3.9x	6.1x	5.6x	1.3x	1.1x
SCHN-US	Schnitzer Steel Inds	34.21	1,417	2,129	5.3%	7.4%	9.5x	6.5x	29.1x	11.6x	1.6x	0.9x
7456-JP	Matsuda Sangyo Co., Ltd.	2447.00	728	935	4.8%	5.0%	4.9x	4.4x	6.0x	5.5x	-	-
ERA-FR	Eramet	104.20	4,785	6,026	20.2%	26.7%	4.2x	2.9x	8.0x	4.7x	0.3x	-0.1x
RS-US	Reliance Steel & Aluminum	259.58	23,170	24,203	13.0%	13.4%	8.4x	8.6x	13.0x	13.1x	0.0x	-0.4x
AGS-DE	Allgemeine Gold- und Silbers	-	-	-	-	-	-	-	-	-	-	-
Median					9%	8%	7.8	6.5	12.9	10.8	0.8	0.4

Source: MST Access, FactSet

This gives a capitalisation multiple of 2.9 times to apply to MGL's FY24 earnings.

Figure 9 – Valuation of the Anodes business based on discounted comparable company EV / EBITDA multiple

EV / EBITDA valuation - Anodes		
Comparable companies - median (FY24)	x	6.5
Discount for company size	%	30%
EV / EBITDA multiple for Anodes	A\$m	4.6
FY24e EBITDA	A\$m	6.5
Enterprise Value	A\$m	29.7

Source: MST Access

We have retained the original valuation methodology of the recycling business which was based on a transaction multiple of a European magnesium recycling company in 2019 (refer to [initiation coverage report](#) for further details).

Similarly, we have retained the valuation methodology for MGL's Qinghai business but applied a further 50% discount given the on-going delays and uncertainty around the restart of its supplier, QSLM. Our analysis assumes that QSLM now re-starts production of magnesium in 2023, and the liquid metal starts being delivered to MGL Qinghai's cast-house in 2024 with 10,000 tonnes of production of magnesium. (Total capacity is 100,000 tpa).

Note that should QSLM fail to deliver molten magnesium to MGL Qinghai, then at some point in the future, we would expect QSLM may be in breach of its agreement. It is not clear what recourse MGL might have to QSLM, however, we note that QSLM owns 29% of the equity of MGL.

Risks

Key risks to our forecasts and valuation include:

- Failure of the Qinghai cast house to receive the planned magnesium metal
 - QSLM magnesium production does not restart or does not produce the contracted level of magnesium metal
 - The problems with trucks used to deliver the metal from QSLM to MGL's cast house remain unresolved (notwithstanding that there has been more than sufficient time to fix the problem).
 - QSLM divert the magnesium to other customers to an extent that is in breach of the agreement
- MGL loses its licence to operate in the Qinghai province
- Unforeseen operational (including safety) problems at Qinghai, or indeed any of its other processing plants in China, Germany and Romania
- A dramatic deterioration of the competitive environment in one or more of its markets
- A loss of access to capital which is particularly important to fund working capital which increases in line with sharply rising magnesium prices

- We may have underestimated the extent to which demand for structural magnesium in vehicles will offset the decline in demand for magnesium used in engines and drive chains as electric vehicles replace internal combustion engines
- We may have over-estimated the long-term demand for “green” magnesium from the transport industry

Investment thesis

MGL operates three magnesium processing businesses with processing plants based in China and Europe. The Cathodic Corrosion Protection (Anodes) segment produces anodes for residential and commercial water heaters in China and Europe which are sold to original equipment manufacturers (OEMs) in China, Europe and the US. The Metals segment has two elements: a magnesium alloy Recycling business in Europe whose customers are motor vehicle manufacturers and Tier 1 suppliers; and a magnesium alloy production business in Qinghai, China sited next to a magnesium plant (QSLM) from which it will receive molten magnesium once this plant restarts. This plant halted production in late 2019, and it is expected to restart supplying molten magnesium to MGL’s Qinghai facility in 2022.

From a valuation perspective, we consider MGL in three parts: Anodes, Recycling and Qinghai.

Anodes and Recycling – aggregate value underpins the current share price

The Anodes business produces traditional magnesium anodes and electronic anodes that are used in water heaters to prevent corrosion. Volumes show solid stable growth over the past 5 years with MGL having high market share in what is a niche sector. This is a stand-alone business and we have therefore valued it separately on an EV/ EBITDA basis using the average multiple of comparable companies discounted by 30%.

The Recycling business does not report separately, but its high market share as an important supplier to the European and North American markets gives it strategic value. We estimate its value based on the price achieved in 2019 on a capacity based multiple for a smaller but similar business.

Qinghai – serious upside but out of MGL’s control

MGL’s Qinghai magnesium alloy cast house was designed to be supplied molten magnesium by Qinghai Salt Lake Magnesium Co. Ltd (QSLM). The business is currently loss-making as MGL is sourcing a nominal amount of high cost magnesium to ensure at least some of its customers continued to get supplied. QSLM has announced that it will be restarting operations in 2022 with ramp up expected over subsequent months.

Qinghai is the source of substantial upside but is wholly dependent on the supply of molten magnesium from QSLM. Should MGL’s Qinghai plant achieve 75% capacity utilisation (based on product from QSLM), this would add a further \$0.90 per share to our valuation.

We are not aware of the details of the supply and access contract between QSLM and MGL and the potential scenarios should QSLM not meet its contractual obligations to supply magnesium metal to MGL Qinghai’s alloy production facility. We note that QSLM has a 29% stake in MGL, but we are not aware of a link between that and QSLM’s agreements with MGL.

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Level 13, 14 Martin Place, Sydney, NSW 2000
Main +61 2 8999 9988
www.mstfinancial.com.au