

4 March 2024

Soft markets; strong cash position

Waiting for Qinghai

- Weak macro demand (autos, housing, power tools) and soft Mg prices continue the tough conditions seen in 3Q23
- Cost inflation, particularly in overheads, adds additional pressure to earnings
- Consistency of messaging from Qinghai partner supports slightly more optimism re 2H24 restart

MGL reported its CY23 result with Gross profit of \$19.2m which was 6.2% below MSTe and 50% below pcp. Both segments were weaker with the usual trend of much more volatility in the Metals business compared with Anodes. Overhead inflation further contributed to earnings decline.

Net operating cash flow was strong at \$12m, helped by inventory unwind due to lower sale volumes and Mg price; more capital release from working capital expected in CY24.

MGL's Qinghai Mg alloy plant is awaiting the restart of its Mg supplier. Consistent confirmation around a 2H restart is encouraging. We think the upside optionality from Qinghai makes it worth the wait – with a well-funded dividend in the meantime.

Investment Thesis

MGL's supercharged earnings of CY22 have now unwound with the industry struggling to find equilibrium. Magontec retains strong positions in both the Anodes and the Recycling industries that we expect will ensure quality returns in the medium-term.

The Anodes business has shown relatively stable earnings and high market share in the niche sector supporting a healthy valuation. The recycling business in Europe holds a strategically valuable market position – albeit its earnings are volatile. It will be particularly important in extracting value from the supply chain when Qinghai starts.

The timing of the Qinghai plant's restart is uncertain with hope around 2H24; if the plant achieves just 50% of capacity utilisation, we estimate it would add \$0.45 per share to our valuation.

Valuation

1H24 is starting as 2H23 finished – soft. We expect some recovery in 2H from easing macro, recovery in demand for electronic anodes, and a restart of Qinghai later in 2H24. We value Magontec on a sum-of-the-parts basis. The relatively stable and growing Anodes business is valued on an earnings multiple and Metals business (recycling) on a capacity multiple based on historic transaction multiples. We do not include any contribution from Qinghai at this stage, given the ongoing uncertainty surrounding the restart of its supplier – QSLM; albeit there has been more positive signs in recent months.

Risks

Risks include the failure of the Qinghai cast house to receive the planned magnesium metal, and the breach of agreements by QSLM. A deteriorating competitive environment and a potential loss of access to capital add to the risks.

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Industrials

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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 in the world.

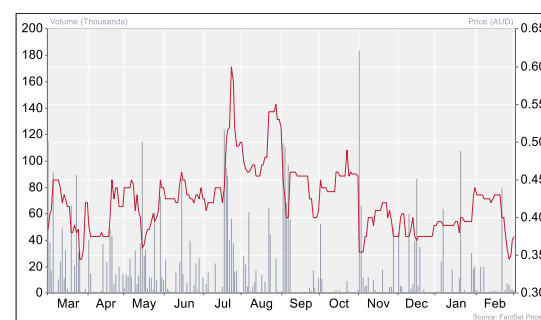
<http://magontec.com/>

Valuation	A\$0.54 (previously A\$0.57)
Current price	A\$0.38
Market cap	A\$30m
Net Cash	A\$8.7m

Upcoming Catalysts and News flow

AGM	May 2024
Updates on Qinghai	1H 2024

Share Price (A\$)



Source: FactSet, MST Access

Financial Summary

Magontec Limited (MGL-AU)

Year End 31 Dec		2022A	2023A	2024E	2025E	2026E	Stock information	
Core PE	x	1.9x	20.2x	21.0x	7.2x	4.6x	Share Price	\$ 0.38
EV/EBIT	x	nm	8.5x	6.6x	2.6x	1.8x	Market capitalisation	\$m 29.5
EV/EBITDA	x	1.0x	3.0x	2.7x	1.7x	1.3x	Valuation	\$ 0.54
Div yield	%	3.2%	3.2%	3.2%	3.2%	3.2%	Shares on issue (Basic)	m 77.5
FCF Yield	%	30.1%	25.4%	24.8%	0.3%	0.0%	Shares on issue (diluted) (m)	m 84.6

Profit & Loss Statement		\$m	2022A	2023A	2024E	2025E	2026E	1H CY22	2H CY22	1H CY23	2H CY23	1H24E	2H24E
Revenue			158.6	102.4	111.6	158.9	193.4	93.8	64.8	60.6	41.8	43.0	58.0
Change pcp	%		37.7%	-35.5%	9.0%	42.4%	21.8%			-35.4%	-35.6%	-29.0%	38.9%
Gross Profit			38.6	19.2	18.5	22.4	26.6	26.8	11.8	14.1	5.1	7.0	10.7
margin	%		24.3%	18.8%	16.6%	14.1%	13.8%	28.5%	18.3%	23.3%	12.3%	16.3%	18.5%
EBITDA (underlying)			27.3	6.9	5.5	9.7	13.3	21.3	6.0	5.9	1.0	0.4	5.1
margin	%		17.2%	6.8%	5.0%	6.1%	6.9%	22.7%	9.2%	9.8%	2.4%	0.9%	8.9%

Performance ratios		2023A	2024E	2025E	2026E
ROE (%)		2.5%	2.5%	6.9%	9.9%
ROIC (%)		2.0%	4.2%	10.2%	13.7%
Net debt/(Net debt + E)		-18%	-37%	-32%	-26%
Interest cover (EBITDA)	nm	nm	nm	nm	nm
Capex/Depreciation		128%	76%	57%	41%
Days Working Capital		150	121	99	99

Per Share Data		2022A	2023A	2024E	2025E	2026E	Segments		2023A	2024E	2025E	2026E
Ave. diluted shares outstanding	m	85	86	87	88	89	Revenue					
Underlying EPS	cps	19.5	1.9	1.8	5.3	8.2	Anodes	48.8	46.0	48.3	50.7	
growth pcp	%	250%	-90%	-4%	190%	56%	Metals	53.6	55.0	57.8	63.5	
Reported EPS	cps	19.5	0.5	1.8	5.3	8.2	Qinghai*	0.0	10.6	52.8	79.2	
growth pcp	%	209%	-97%	233%	190%	56%	Total Revenue	102.4	111.6	158.9	193.4	
DPS	cps	1.2	1.2	1.2	1.2	1.2	Gross Profit					
Payout (on underlying)	%	6%	64%	66%	23%	15%	Anodes	14.9	13.3	13.5	14.2	
							Metals	4.3	4.4	4.0	4.4	
							Qinghai*	0.0	0.8	4.8	8.0	

Balance sheet		\$m	2022A	2023A	2024E	2025E	2026E	Total Revenue		2023A	2024E	2025E	2026E
Cash & Deposits		11.3	13.1	16.5	14.5	13.7	Gross Profit margin						
Receivables		24.8	16.0	22.9	26.1	31.8	Anodes	30.6%	29.0%	28.0%	28.0%		
Inventory		35.9	32.8	25.5	33.7	41.1	Metals	8.1%	8.0%	7.0%	7.0%		
PP&E (incl right of use assets)		17.1	17.8	17.0	15.5	13.3	Qinghai*		7.6%	9.1%	10.1%		
Intangibles		3.1	3.0	2.8	2.7	2.6	Group margin	18.8%	16.6%	14.1%	13.8%		
Other Assets		4.2	2.4	1.9	1.9	1.9	Other income	2.7	1.5	1.5	1.5		
Total Assets		96.3	85.2	86.6	94.4	104.4	Overheads	-15.0	-14.5	-14.2	-14.8		
Payables		12.0	6.8	11.5	16.8	20.6	EBITDA	6.9	5.5	9.7	13.3		
Borrowings		9.3	4.4	1.2	0.0	0.0	* once liquid Mg supply restarts						
Provisions / other (incl. Lease Liab.)		18.9	10.7	10.7	10.7	10.7	Mg Price (US\$ / tonne)	3,250	3,000	2,500	2,250		
Total Liabilities		40.2	21.8	23.3	27.5	31.2	AUD/USD	0.71	0.71	0.71	0.71		
Shareholders' Funds		56.2	63.3	63.3	66.9	73.1							
Net Debt		-2.0	-8.7	-15.3	-14.5	-13.7							

Cashflow statement		\$m	2022A	2023A	2024E	2025E	2026E	Share price and volume	
EBITDA		27.3	6.9	5.5	9.7	13.3			
Net interest		-0.6	-0.3	-0.2	0.0	0.0			
Tax paid		-2.3	-3.7	-0.5	-1.5	-2.4			
Working capital movements		-14.4	9.2	5.2	-6.0	-9.4			
Other		0.0	0.0	0.0	0.0	0.0			
Operating CF		10.0	12.2	10.0	2.1	1.5			
Capital expenditure		-1.9	-3.8	-2.5	-2.0	-1.5			
Asset sales		0.0	0.0	0.0	0.0	0.0			
Acquisitions		0.0	0.0	0.0	0.0	0.0			
Other		0.1	-0.2	0.0	0.0	0.0			
Investing CF		-1.8	-4.0	-2.5	-2.0	-1.5			
Net borrowings		-1.9	-4.7	-3.2	-1.2	0.0			
Dividends paid	div	-0.6	-0.6	-0.6	-0.6	-0.6			
New share issues		0.0	0.0	0.0	0.0	0.0			
Financing CF		-2.4	-5.5	-4.1	-2.1	-0.9			
Net change in cash		6.6	1.9	3.4	-2.0	-0.9			

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

Source: Company, MST Access

CY23 Result

Magontec's CY23 result was a little tougher than we were expecting when we last published (early November 2023). The trends that we were observing and went into our forecasts at that point have continued. Gross Profit of \$19.2m was down 6.2% on what we were expecting and underlying EBITDA \$6.9m down 12.3%. Underlying NPAT was \$1.6m compared with \$16.5m last year (MSTe \$3.4m).

Strong cashflow with Net Op Cashflow of \$11.4m due to working capital release as the magnesium (Mg) price fell. Major profit drivers were low Mg prices and soft end markets of autos, and hot water appliance manufacturing. Net cash at bank was a healthy \$8.7m.

Figure 1: CY23 key metrics

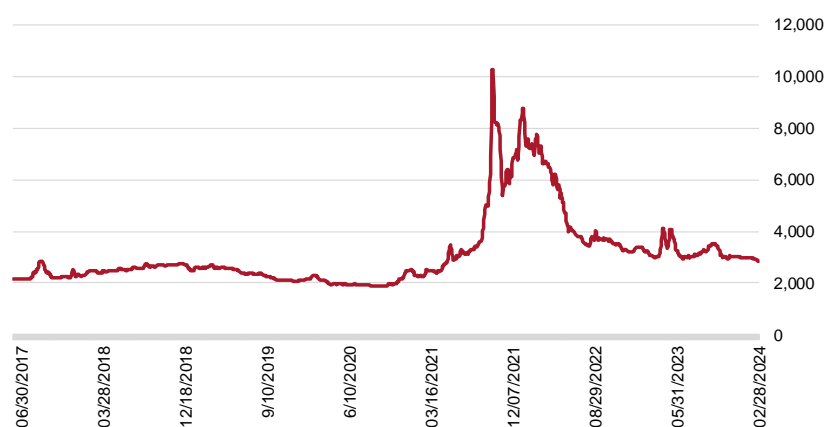
Dec y/e, A\$m	Units	CY22A	CY23A	vs. pcp	CY23 MSTe	vs. MST
Revenue		158.6	102.4	-35.5%	106.3	-3.7%
Gross Profit		38.6	19.2	-50.2%	20.5	-6.2%
...margin	%	24.3%	18.8%	-555 bps	24.8%	-600 bps
EBITDA		27.3	6.9	-74.5%		
EBITDA (Underlying)		27.3	8.4	-69.2%	7.9	6.3%
...margin	%	17.2%	8.2%	-899 bps	18.1%	-992 bps
NPAT		16.5	1.6	-90.2%	3.4	-52.5%
Adj. EPS	¢ps	21.5	1.9	-91.2%	3.9	-51.7%
DPS	¢ps	1.2	1.2	nm	1.2	0.0%
SEGMENTS						
Revenue						
Anodes		55.8	48.8	-13%	44.6	9.3%
Metals		102.8	53.6	-48%	61.7	-13.1%
Total Revenue		158.6	102.4	-35%	106.3	-3.7%
Gross Profit						
Anodes		18.1	14.9	-18%	14.3	4.2%
Metals		20.5	4.3	-79%	6.2	-30.3%
Total Gross Profit		38.6	19.2	-50%	20.5	-6.2%
Gross profit margin						
Anodes	%	32.4%	30.6%	-187 bps	32.1%	-149 bps
Metals	%	19.9%	8.1%	-1188 bps	10.0%	-199 bps
Total GPM	%	24.3%	18.8%	-556 bps	19.3%	-50 bps

Source: Company, MST Access

Magnesium price

The soft magnesium price was a significant contributor to the weak result compared with CY22. The weaker price, however, did contribute to cash flow with lower working capital releasing \$9.2m of cash. (Magontec purchases raw magnesium or recycled magnesium alloys and converts it into end products such as anodes, or magnesium alloys which it resells. Consequently, working capital is highly sensitive to the magnesium price.)

Figure 2: Magnesium price (China - US\$ / tonne)



Source: Bloomberg

Refer below to the Segment section for a discussion around the macro drivers for each division.

Half yearly performance

The deterioration in 2H is obvious in the following table. The impairments were spread across 1H and 2H and related mostly to inventory write-downs.

Figure 3: Half yearly – key P&L items

	1H CY20	2H CY20	1H CY21	2H CY21	1H CY22	2H CY22	1H CY23	2H CY23
Revenue	45.2	49.9	50.9	64.3	93.8	64.8	60.6	41.8
... growth	-29.6%	-24.8%	12.5%	28.9%	84.4%	0.7%	-35.4%	-35.6%
Gross Profit	5.3	6.9	7.7	11.5	26.8	11.8	14.1	6.9
... margin	12%	14%	15%	18%	29%	18%	23%	16%
Other Income	0.3	0.9	0.4	1.3	0.2	1.2	0.3	2.4
Overheads	-3.7	-6.3	-4.8	-6.1	-5.7	-7.1	-8.4	-6.5
EBITDA (underlying)	1.9	1.6	3.4	6.7	21.3	6.0	5.9	1.0
... margin	4%	3%	7%	10%	23%	9%	10%	2%
Impairments							-0.9	-0.5
EBITDA (reported)	1.9	1.6	3.4	6.7	21.3	6.0	5.0	0.5
Depreciation and Amortisation	-1.6	-1.5	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5
EBIT (reported)	0.3	0.1	2.0	5.3	19.9	4.6	3.5	-1.0

Source: Company, MST Access

Overheads

Overheads have increased significantly over past few years. In relation to CY23, we note that R&D costs and corporate costs are both up by ~30% on the previous year. R&D costs increased by \$0.270m in CY23 vs pcp and reflect salary increases in China as well as additional expenditure on the development of specialist alloys. In the Corporate line where costs increased by \$1.0m in CY23, there were a number of one-off items (including a customer dispute resolution, costs in relation to potential acquisitions), which have not specifically been quantified and in addition, management called out significant wage inflation in Europe. For the purposes of forecasting, we estimate the one-off items across all of CY23 to be \$0.5m.

Segment analysis

The Anode business is significantly less volatile than the Metals business even though in 2H23 revenue is down 7%. Gross margins are below 30% - the first time since 1H20.

Figure 4: Segments by half-year

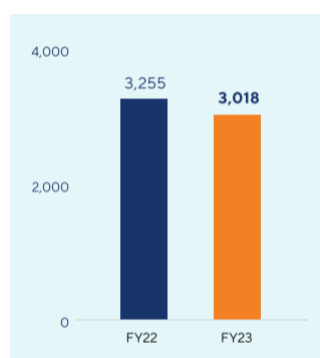
Segements by half year	1H CY20	2H CY20	1H CY21	2H CY21	1H CY22	2H CY22	1H CY23	2H CY23
Revenue								
Anodes Revenue (AUDm)	15.0	16.4	18.7	24.4	33.7	22.1	28.2	20.6
... growth	13%	-6%	25%	49%	80%	-9%	-16%	-7%
Metals Revenue (AUDm)	30.2	33.5	32.2	39.9	60.1	42.7	32.4	21.2
... growth	-41%	-32%	7%	19%	87%	7%	-46%	-50%
Qinghai								
TOTAL Revenue	45.2	49.9	50.9	64.3	93.8	64.8	60.6	41.8
Gross Profit								
Anodes Gross Profit (AUDm)	3.0	5.2	5.7	7.9	11.5	6.6	9.7	5.9
... margin	20%	32%	31%	32%	34%	30%	34%	29%
Metals Gross Profit (AUDm)	2.3	1.7	2.0	3.6	15.2	5.3	4.4	0.9
... margin	8%	5%	6%	9%	25%	12%	14%	4%
Qinghai								
TOTAL Gross profit	5.3	6.9	7.7	11.5	26.8	11.8	14.1	6.9
... margin	11.7%	13.8%	15.1%	17.9%	28.5%	18.3%	23.3%	16.4%

Source: Company, MST Access

The Metals segment weakness was affected by the weak auto and hand tools markets, with lower prices reducing the availability of scrap metal. This business is historically volatile with both the full year and 2H reflecting lower revenue and tighter product pricing.

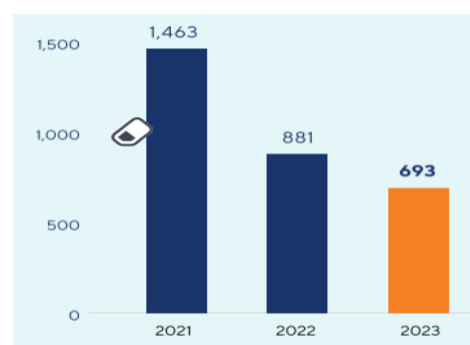
In the Anodes business, magnesium volumes were down 7% compared with revenue down 12% (reflecting the drop in the Mg price). 80% of revenue in this division comes from product sales for replacement of anodes or replacement of water heaters. This helps limit the impact of the weaker housing market – particularly in China.

Figure 5: Mg anodes sales (k tonnes)



Source: Company

Figure 6: China housing starts (m sqm)



Source: Company

What is missing in this analysis, however, is the impact on revenue and earnings from the sale of electronic anodes. MGL does not break out the contribution from this product group, other than to say it is an increasing important part of this segment. The most important growth driver for electronic anodes is the growth of the heat pump market – all of which use electronic anodes. After more than doubling in the three years to 2022, the European heat pump market fell sharply in 2H23 due mostly to regulatory missteps in Germany. This has meant that manufacturers had been left with too much inventory after building inventory rapidly to meet rising demand. We expect that this has contributed to the weakness in 2H revenue and gross margins.

Operational shutdowns

Magontec undertake necessary maintenance on its Romanian plant, and the anodes plant in Xian plant was upgraded (taking longer than expected) over CY23 with both contributing to the weak result. These items to capex of \$3.8m for CY23 – up from \$1.9m in CY22.

Balance Sheet

The positive side of lower magnesium prices is that cash was released from working capital. We estimate total capital release of \$9.2m in CY23 compared with \$14.4m being absorbed in CY22. Net cash was \$8.7m compared with \$2m a year ago.

Qinghai

MGL has reported improving consistency of communication from QSLM - the supplier of Mg that is adjacent to its alloy cast house in Qinghai. Steady, consistent progress would appear to be occurring with repeated statements regarding a restart of liquid Mg production in 2H24.

Forecasts, valuation and risks

Guidance

Management is expecting a recovery in the Anodes market in CY24 and continued long-term growth. The core of the Metals segment is its European recycling business which has been softer over CY23. While not providing any guidance as to the state of this market in CY24, MGL does expect improved contribution from recently developed specialist and ancillary products in Europe.

Forecasts

We expect volumes and earnings in 1H24 to be similar to 2H23 in both the Metals and Anodes businesses.

In 2H, we expect some improvement in underlying macro factors in housing, autos and power tools that will drive demand in both Metals and Anodes business. While MGL does not quantify the contribution from electronic anodes, we expect that it is meaningful. Recovery in demand is expected as heat pump demand recovers in Europe, and Germany in particular, as inventory is unwound and regulatory certainty improves as discussed above.

We had previously expected 10k tonnes of alloys from Qinghai in 2H24 following a restart of its adjacent supplier. While we still expect this to occur, we have halved our expectation of product from Qinghai to 5k tonnes. We note that total capacity of MGL's Qinghai plant is 60k tonnes per annum.

Figure 7: Changes to forecasts

(A\$m, Dec y/e)	CY24e			CY25e		
	Previous	Current	% Chg	Previous	Current	% Chg
Revenue	127.4	111.6	-12%	164.4	158.9	-3%
Gross Profit	19.0	18.5	-3%	22.5	22.4	0%
Gross Profit Margin	14.9%	16.6%	168 bps	13.7%	14.1%	42 bps
EBITDA (underlying)	7.7	5.5	-28%	10.9	9.7	-11%
Margin	6.1%	5.0%	-109 bps	6.6%	6.1%	-53 bps
NPAT underlying	3.3	1.6	-52%	6.5	4.6	-29%
Earnings per Share (A\$ cents)	3.7	1.8	-52%	7.4	5.3	-29%
Dividends per Share (A\$ cents)	1.2	1.2	0%	1.2	1.2	0%

Source: MST Access

Note that we now assume Qinghai will restart in the second half of CY24 (previously first-half), factoring in a degree of uncertainty to this forecast.

Valuation

We use a sum of the parts valuation methodology for Magontec. This consists of a 12-month forward valuation based on capitalising EBITDA (including a share of overheads) 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 [here](#) which was based on the sale of a magnesium recycling company that was similar to Magontec's European recycling business report.

While we have estimated that Qinghai could be worth \$0.45 per share at 50% capacity utilisation, we do not include anything in our current valuation given the ongoing delays and uncertainty associated with the restart of its supplier.

Figure 8: Sum of the parts valuation

Business	Valuation methodology	EV (\$m)	Net Debt (\$m)	Equity val. (\$m)	per share (\$)
Anodes	EV / EBITDA multiple (disc comps)	25.8	-8.7	34.5	\$0.41
Recycling	Capacity multiple (recent txn)	11.4		11.4	\$0.13
Total	(fully operating businesses)	37.2	-8.7	45.9	\$0.54
Qinghai		0.0		0.0	\$0.00
TOTAL		37.2	-8.7	45.9	\$0.54

Source: MST Access

Figure 9: Anodes valuation – earnings multiple

EV / EBITDA valuation - Anodes		
Comparable companies - median (FY25)	x	5.8
Discount for company size	%	30%
EV / EBITDA multiple for Anodes	x	4.1
FY25 EBITDA (incl. 50% of overheads)	A\$m	6.4
Enterprise Value	A\$m	25.8

Source: MST Access, FactSet

Figure 10: Metals valuation – transaction multiple

Metals Valuation		
Crown Metals transaction		
Annual production capacity	k tpa	12
Purchase price	USD	4.4
Purchase price	A\$,000	6.8
Capacity multiple	A\$ / tpa	568
Implied valuation for MGL's recycling business		
MGL combined recycling capacity	k tpa	20
Value of MGL's recycling business	A\$m	11.4

Source: MST Access

To estimate a comparable company multiple, we have applied a 30% discount to companies which we regard as broadly similar. Size difference makes comparisons difficult, but we think that the Anodes business is a quality business with high market shares and relatively stable, growing revenues and earnings.

Figure 11: Comparable companies

Valuation		Price (AUD)	MCAP (AUD)	EV (AUD)	EBITDA Margin		EV / EBITDA		Price / Earnings		Net Debt / EBITDA	
					2024	2025	2024	2025	2024	2025	2024	2025
SGM-AU	Sims	12.38	2,392	3,075	5.2%	6.6%	7.1x	5.6x	22.7x	12.2x	0.8x	0.5x
UMI-BE	Umicore	19.83	8,102	9,959	23.2%	24.1%	6.5x	6.0x	12.6x	12.1x	1.8x	2.2x
600459-CN	Sino-Platinum Metals	14.28	2,311	2,383	2.1%	2.2%	9.6x	7.8x	16.8x	13.8x	-	-
DBG-FR	Derichebourg	4.17	1,103	2,373	9.9%	10.2%	4.0x	3.8x	4.4x	3.5x	1.9x	1.6x
SCHN-US	Radius Recycling	-	-	-	4.8%	6.5%	9.9x	7.7x	29.2x	20.1x	-	-
ERA-FR	Eramet	63.95	3,050	4,897	21.3%	22.3%	4.1x	3.3x	11.3x	4.8x	1.5x	1.3x
RS-US	Reliance Inc	320.18	28,144	28,595	12.5%	12.6%	10.5x	10.5x	15.8x	15.6x	-0.4x	-0.7x
Median					8%	8%	6.8	5.8	14.2	12.1	1.5	1.3

Source: MST Access, FactSet

Risks

- QSLM magnesium production does not restart or does not produce the contracted level of magnesium metal
- MGL loses its licence to operate in the Qinghai province
- Unforeseen operational (including safety) problems at Qinghai, or 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 the second half of CY24.

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. The timing of the restart of QSLM operations is proving difficult to predict with its restart subject to on-going delays.

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 50% capacity utilisation by the end of CY25 (based on product from QSLM), this would add a further \$0.45 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 and the general manager of QSLM has recently been appointed as a non-executive director at Magontec.

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