Magontec Limited
MGL.AX

MST Access
A research platform of MST Financial

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China SOE JV partner risk realised

Equity Research Australia
Materials

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NEED TO KNOW

- Magontec exits Qinghai as its Chinese partner attempts to "re-write" the JV agreements
- 1H CY24 result reflects weak housing markets in China and Europe, and weak auto markets in Europe
- Magontec undertaking strategic review

Magontec's state-owned enterprise (SOE) partner (QSLM) has effectively forced Magontec to exit its operations in Qinghai. Magontec has legal and negotiating strategies underway to pursue compensation. QSLM own 28.5% of Magontec equity.

The difficult trading conditions continued with Chinese housing starts declining - even more severe than in Europe. Auto industry in Europe remains depressed, exacerbating the problems of cheap magnesium alloys and US tariffs.

Magontec is undertaking a strategic review of its Metals business (for which it had hoped that Qinghai would offer leverage) as well as looking at how it might use its OEM knowledge and relationships developed from its Anodes business.

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.

Valuation

Our sum-of-the-parts valuation is based on the aggregate of our valuation of each of the Anodes and Metals segments: it did not include any value for Qinghai. Our forecasts, however, did include Qinghai, the removal of which has resulted in Group forecasts for revenue and EBITDA falling by 51% and 82% respectively in CY26. Our valuation has fallen by 36% as a result of lower earnings from the Anodes business (unrelated to Qinghai), and an increased overhead allocation to this segment. Our valuation of the Metals segment remains unchanged and is based on a historical capacity multiple of a European transaction involving a similar business.

Risks

Risks include a decline in demand from lower housing starts, substitution of magnesium in auto components, a deteriorating competitive environment and a potential loss of access to capital.

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.

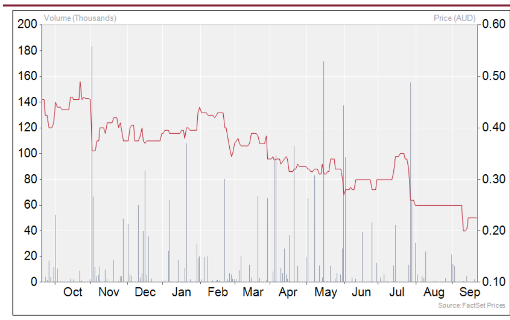
www.magontec.com

Valuation	**A$0.36** *(from A$0.56)*
Current price	**A$0.23**
Market cap	**A$19m**
Cash on hand	**$9.5m** *(as at 30 June 24)*

Upcoming Catalysts / Next News

Period	
Next 6 months	Conclusion of Qinghai actions
Oct 24	3Q result

Share Price (A$)



Source: FactSet, MST Access

Magontec Limited (MGL-AU)

Year End 31 Dec		CY22A	CY23A	CY24E	CY25E	CY26E
Core PE	x	1.2x	12.0x	17.3x	11.8x	7.1x
EV/EBIT	x	nm	3.7x	nm	2.6x	1.1x
EV/EBITDA	**x**	**0.6x**	**1.3x**	**5.5x**	**1.5x**	**0.8x**
Div yield	%	5.3%	5.3%	0.0%	0.0%	0.0%
FCF Yield	%	50.8%	42.5%	nm	32.5%	11.1%

Stock information		
Share Price	$	0.23
Market capitalisation	$m	18.3
Valuation	**$**	**0.36**
Shares on issue (Basic)	m	81.3
Shares on issue (diluted) (m)	m	88.4

Profit & Loss Statement	$m	CY22A	CY23A	CY24E	CY25E	CY26E	1H22	2H22	1H23	2H23	1H24	2H24E
Revenue		**158.6**	**102.4**	**87.2**	**92.8**	**102.9**	**93.8**	**64.8**	**60.6**	**41.8**	**41.4**	**45.8**
Change pcp	%	*37.7%*	*-35.5%*	*-14.8%*	*6.3%*	*10.9%*			*-35.4%*	*-35.5%*	*-31.6%*	*9.6%*
Gross Profit		**38.6**	**19.2**	**13.1**	**14.5**	**16.6**	**26.8**	**11.8**	**14.1**	**5.1**	**6.1**	**7.1**
margin	%	24.3%	18.8%	15.0%	15.6%	16.2%	*28.5%*	*18.3%*	*23.3%*	*12.2%*	*14.7%*	*15.4%*
EBITDA (underlying)		**27.3**	**6.9**	**2.1**	**4.0**	**5.6**	**21.3**	**6.0**	**5.9**	**1.0**	**0.5**	**1.7**
margin	%	17.2%	6.8%	2.4%	4.3%	5.5%	22.7%	9.2%	9.8%	2.4%	1.1%	3.6%
Impairments		0.0	-1.5	-4.6	0.0	0.0						
Depreciation and Amort		-2.8	-3.0	-2.1	-1.7	-1.9						
EBIT		24.5	2.5	-4.6	2.3	3.7						
Finance expense		-0.7	-0.5	-0.2	0.0	0.0						
Pre-tax profit		-3.4	2.0	-4.7	2.3	3.7						
Tax and adjustments		-7.3	-1.5	0.0	-0.6	-0.9						
NPAT		**16.5**	**0.5**	**-4.7**	**1.7**	**2.8**						
Significant, discontinued et.al		0.0	1.1	5.9	0.0	0.0						
NPAT (Underlying)		**16.5**	**1.6**	**1.2**	**1.7**	**2.8**						

Performance ratios	CY23A	CY24E	CY25E	CY26E
ROE (%)	2.5%	2.0%	2.9%	4.7%
ROIC (%)	2.0%	-10.7%	4.5%	7.2%
Net debt/(Net debt + Eq)	-18%	-16%	-32%	-36%
Interest cover (EBITDA)	nm	nm	nm	nm
Capex/Depreciation	128%	95%	118%	79%
Days Working Capital	150	158	131	122

Per Share Data		CY22A	CY23A	CY24E	CY25E	CY26E
Ave. diluted shares outstanding	m	85	86	88	88	88
Underlying EPS	**cps**	**19.5**	**1.9**	**1.3**	**1.9**	**3.2**
growth pcp	%	250%	-90%	-30%	47%	66%
Reported EPS	cps	19.5	0.5	-5.4	1.9	3.2
growth pcp	%	209%	-97%	-1095%	-136%	66%
DPS	cps	1.2	1.2	0.0	0.0	0.0
Payout (on underlying)	%	6%	64%	0%	0%	0%

Segments	CY23A	CY24E	CY25E	CY26E
Revenue				
Anodes	48.8	39.0	42.1	47.2
Metals	53.6	48.2	50.7	55.7
Qinghai*	0.0	0.0	0.0	0.0
Total Revenue	**102.4**	**87.2**	**92.8**	**102.9**
Gross Profit				
Anodes	14.9	9.8	11.0	12.7
Metals	4.3	3.4	3.5	3.9
Qinghai*	0.0	0.0	0.0	0.0
Total Gross Profit	**19.2**	**13.1**	**14.5**	**16.6**
Gross Profit margin				
Anodes	30.6%	25.0%	26.0%	27.0%
Metals	8.1%	7.0%	7.0%	7.0%
Qinghai*				
Group margin	**18.8%**	**15.0%**	**15.6%**	**16.2%**
Other income	2.7	1.5	1.5	1.5
Overheads	-15.0	-12.5	-12.0	-12.5
EBITDA	**6.9**	**2.1**	**4.0**	**5.6**

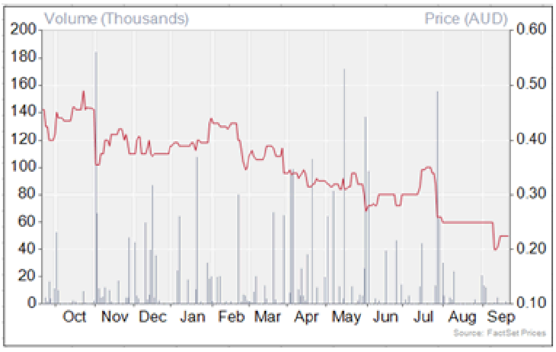
* once liquid Mg supply restarts

	CY23A	CY24E	CY25E	CY26E
Mg Price (US$ / tonne)	3,250	2,700	2,500	2,250
AUD/USD	0.71	0.66	0.66	0.66

Balance sheet	$m	CY22A	CY23A	CY24E	CY25E	CY26E
Cash & Deposits		11.3	13.1	7.9	12.3	14.0
Receivables		24.8	16.0	21.5	20.3	22.6
Inventory		35.9	32.8	24.4	21.4	21.3
PP&E (incl right of use assets)		17.1	17.8	17.7	18.0	17.6
Intangibles		3.1	3.0	2.8	2.7	2.6
Other Assets		4.2	2.4	1.9	1.9	1.9
Total Assets		**96.3**	**85.2**	**76.1**	**76.7**	**79.9**
Payables		12.0	6.8	8.1	8.6	9.5
Borrowings		9.3	4.4	1.2	0.0	0.0
Provisions / other (incl. Lease Liab.)		18.9	10.7	10.7	10.7	10.7
Total Liabilities		**40.2**	**21.8**	**20.0**	**19.2**	**20.1**
Shareholders' Funds		**56.2**	**63.3**	**56.2**	**57.4**	**59.8**
Net Debt		**-2.0**	**-8.7**	**-6.7**	**-12.3**	**-14.0**

Cashflow statement	$m	CY22A	CY23A	CY24E	CY25E	CY26E
EBITDA		27.3	6.9	2.1	4.0	5.6
Net interest		-0.6	-0.3	-0.2	0.0	0.0
Tax paid		-2.3	-3.7	-6.0	-0.6	-0.9
Working capital movements		-14.4	9.2	4.3	4.6	-1.2
Other		0.0	0.0	0.0	0.0	0.0
Operating CF		**10.0**	**12.2**	**0.3**	**7.9**	**3.5**
Capital expenditure		-1.9	-3.8	-2.0	-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**	**-2.0**	**-2.0**	**-1.5**
Net borrowings		-1.9	-4.7	-3.2	-1.2	0.0
Dividends paid		div	-0.6	0.0	0.0	0.0
New share issues		0.0	0.0	0.0	0.0	0.0
Financing CF		**-2.4**	**-5.5**	**-3.5**	**-1.5**	**-0.3**
Net change in cash		**6.6**	**1.9**	**-5.2**	**4.4**	**1.7**

Share price and volume



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Closure of Qinghai

The most significant event for the Group in 1H CY24 was the closure of Magontec's Qinghai cast house and Magontec's departure from this site. While we did not include any value for Magontec's Qinghai business in our valuation, we had flagged it as the most important catalyst for the stock with the potential to add $0.45 per share to our valuation if it proved successful.

Magontec's business in Qinghai was governed by an agreement with the proposed supplier of magnesium, Qinghai Salt Lake Magnesium Co. Ltd (QSLM) - a company ultimately owned by the Chinese government. Magontec operated a cast house that alloyed pure magnesium with a variety of metals to create magnesium alloys used mostly in auto industry. Magontec had been using magnesium ingots sourced elsewhere in China to ensure at least some throughput and customer engagement. The plan was to continue doing this until QSLM was able to deliver the liquid magnesium from its adjacent magnesium plant which extracts magnesium from briny lake water using renewable energy.

Magontec has reported that QSLM sought to "fundamentally diminish" the relationship and Magontec made an offer to QSLM which is under consideration. Magontec has commenced legal proceedings in Australia, so we assume that Magontec believes that QSLM's actions have breached the agreements (governed by the laws of NSW) between Magontec and QSLM.

Note that QSLM owns 28.5% of Magontec's shares on issue.

We do not include anything in our valuation for a meaningful settlement between QSLM and Magontec, regardless of the legal rights that Magontec might hold.

Strategic implications

A number of Magontec decisions over the past 5 years have been directly the result of or have been influenced by the relationship with QSLM. This includes the decision to close its Shanxi primary alloy plant in 2018 as required by the QSLM agreements. Magontec had made decisions around its European recycling business based around future supply of primary alloy from Qinghai.

Management is now developing alternative strategies around primary magnesium supply and leveraging its position in recycling in Europe.

Financial implications

After a short period of successful production of magnesium in 2019, QSLM has not been able to overcome technical issues associated with a number of key steps in the process and has not produced meaningful quantities of magnesium in the past 5 years. During this time, Magontec continued operating the cast house at around cash break even. However, there was ~$0.9m of depreciation associated with this site.

The financial impact of the closure of Qinghai is a $3.7m asset write down in this 1H result, and a ~$0.9m pa reduction in depreciation in the future.

1H24 result

The result (at all levels) was well below 1H23 but that was broadly expected with the difficult conditions well flagged by management. Compared with our forecast, the actual 1H24 result was also lower at most levels: revenue was down 3.7%, Gross profit was down 13.3% but due to tight cost control, EBITDA of $0.5m was slightly ahead of our $0.4m forecast. Prior to the asset write down, NPAT was a loss of $1.1m.

At the revenue line, the Metals divisions was ahead of our estimates by 3.8% with Anodes below our forecasts by 11.7%. Group gross profit was 13% behind our forecasts with both Metals and Anodes down "double-digit" (11.3% and 13.9% respectively).

Significant savings in overheads saw those costs 20% lower resulting in EBITDA being close to our forecasts.

Figure 1: Result summary (underlying)

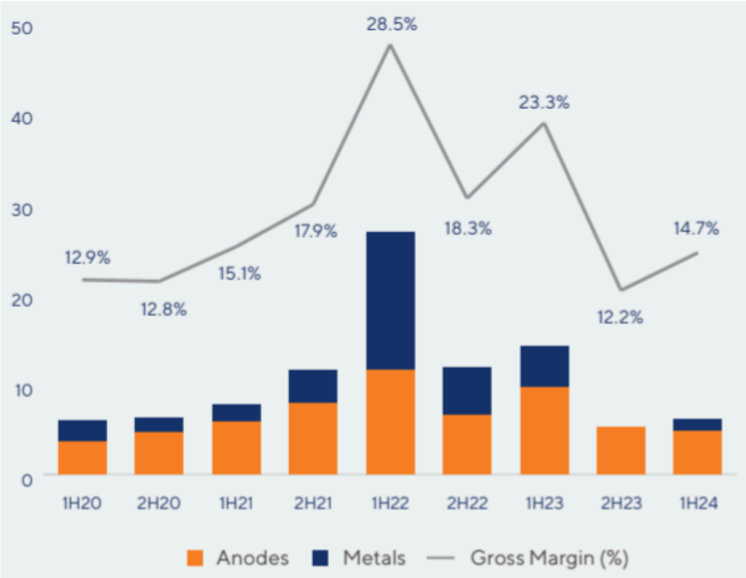
Dec y/e, A$m	1H23	1H24	% pcp	MSTe	vs. MST
Revenue	60.6	41.4	-32%	43.0	-3.7%
Metal	32.4	22.8	-29%	22.0	3.8%
Anodes (CCP)	28.2	18.6	-34%	21.0	-11.6%
Gross profit	**14.1**	**6.1**	**-57%**	**7.0**	**-13.3%**
Metal	4.4	1.3	-70%	1.5	-11.3%
Anodes (CCP)	9.7	4.7	-51%	5.5	-13.9%
Gross margin (%)	*23.3%*	*14.7%*	(864)bps	*16.3%*	(163)bps
Metal	*13.7%*	*5.8%*	(785)bps	*6.8%*	(100)bps
Anodes (CCP)	*34.3%*	*25.5%*	(884)bps	*26.2%*	(68)bps
Overheads	(8.2)	(5.6)	-31%	(7.0)	-20.1%
EBITDA	**5.9**	**0.5**	**-92%**	**0.4**	**18.2%**

Source: Company, MST

In addition to the results shown in the above table, there was also a $3.7m asset impairment arising from the 100% writedown of asset values in Magontec's Qinghai business.

A longer history of half year earnings by division highlights the difference in gross margin variability over the past 4 years.

Figure 2: Gross profit by segment and GP margin (A$)



Source: Company

Metals

The European recycling business (within Metals) has been affected by changes to movement of primary magnesium alloy, influenced significantly by the US tariffs on primary magnesium from China. High inventories of primary magnesium and magnesium alloys in China have resulted in lower priced product in Europe with recycled magnesium alloys going to the US and bypassing the European alloy recycling industry - in which Magontec is the largest participant.

Anodes (CCP)

The decline in Chinese residential construction continues (down 59% in the last 5 years) and combined with slow housing construction in Europe (Germany is down 44% on 2021) has been the major contributor to weaker volumes and revenue for this segment.

A reversal of German government subsidies for heat pumps (which use electronic anodes) left high levels of inventories and reduced demand for Magontec's higher margin products. Demand is yet to re-emerge but management is expecting some improvement in 4Q CY24.

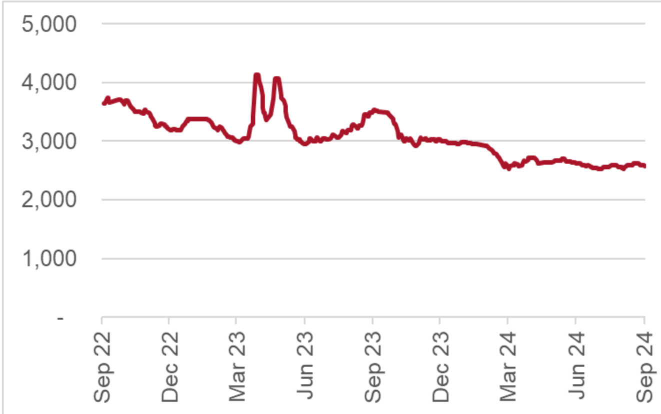
Balance sheet and cash flow

Operating cash flow was positive ($2.5m) due to the release of cash from working capital as the impact of declining magnesium prices flowed through the business.

Figure 3: Magnesium price (China - US$ / tonne)

Source: Bloomberg

Figure 4: Magnesium price (China - US$ / tonne)



Source: Bloomberg

Unsurprisingly, the dividend was suspended. We would expect it to remain suspended until earnings have recovered and the strategic outlook is clearer.

Net cash at 30 June was $9.5m. The closing cash of $10.8m is partially offset by a $1.3m working capital bank facility associated with Magontec's Romanian business.

Forecasts, valuation, catalysts and risks

Outlook

The closure of its Qinghai alloy plant has had a significant impact on the Group's strategies for the future. Near term, developing and executing a legal approach to dealing with this issue, while continuing to try to negotiate an acceptable financial settlement will remain a focus.

In addition to alternative strategies around supply and the recycling business, Magontec expects to continue with modest investment in development and production of specialist magnesium alloys for the aerospace industry. Supply of these products has been growing, and while still small, has been showing increasing margins and profit.

Magontec is also reviewing its Anodes business (CCP) which has coming under a surprising amount of pressure with volumes declining 35% over the past two years. Magontec estimate that 80% of anodes are sold to end customers replacing existing water heaters, with the remainder subject to the vagaries of new housing construction. Magontec holds a strong global position in this market in both traditional magnesium anodes, as well has electronic anodes. Ways to better leverage this strong market position are being investigated, including continuing to look at inorganic growth options of businesses that supply products to OEM of water heaters.

Management commentary around recovery in the drivers of demand for both Segments remains muted and as usual, no quantitative guidance is provided.

Forecasts

Qinghai impact

The most significant change to Group forecasts is the result of the removal of Qinghai from our forecasts. Note that while Qinghai did not contribute to our valuation which is based on a sum-of-the-parts methodology, our forecasts did include estimates of the contribution Qinghai would make to our forecasts; in CY26, we estimated that Qinghai would contribute 50% of Group revenue and 3% of gross profit.

Continuing business

We have adjusted our CY24 gross profit forecasts on the back of a weaker than expected 1H with 15% and 12% downgrades to revenue from Anodes and Metals respectively. While gross profit declines by $5.4m, EBITDA declines only by $3.4m as a result of a $2.0m decline in overheads based on 1H results.

We have downgraded the forecasts for Metals and Anodes segments in subsequent years, although by a lower amount than for CY24.

Figure 5: Changes to forecasts

	CY24e			CY25e			CY26e		
(A$m, Dec y/e)	**Previous**	**Current**	**% Chg**	**Previous**	**Current**	**% Chg**	**Previous**	**Current**	**% Chg**
Revenue									
Anodes (CCP)	46.0	39.0	-15%	48.3	42.1	-13%	50.7	47.2	-7%
Metals	55.0	48.2	-12%	57.8	50.7	-12%	63.5	55.7	-12%
Qinghai	11.3	0.0	-100%	62.5	0.0	-100%	93.8	0.0	-100%
TOTAL	**112.3**	**87.2**	-22%	**168.6**	**92.8**	-45%	**208.0**	**102.9**	-51%
Gross Profit									
Anodes (CCP)	13.3	9.8	-27%	13.5	11.0	-19%	14.2	12.7	-10%
Metals	4.4	3.4	-23%	4.0	3.5	-11%	4.4	3.9	-11%
Qinghai	0.8	0.0	-100%	4.7	0.0	-100%	7.8	0.0	-100%
TOTAL	**18.5**	**13.1**	-29%	**22.2**	**14.5**	-35%	**26.4**	**16.6**	-37%
Gross Profit Margin	*16.5%*	*15.0%*	*-143 bps*	*13.2%*	*15.6%*	*246 bps*	*12.7%*	*16.2%*	*348 bps*
Overheads	-14.5	-12.5	-14%	-14.2	-12.0	-15%	-14.8	-12.5	-16%
EBITDA	**5.5**	**2.1**	**-61%**	**9.6**	**4.0**	**-58%**	**31.2**	**5.6**	**-82%**
Margin	*16.5%*	*15.0%*	*-143 bps*	*13.2%*	*15.6%*	*246 bps*	*12.7%*	*16.2%*	*348 bps*
NPAT underlying	**1.6**	**1.2**	**-26%**	**4.5**	**1.7**	**-63%**	**7.1**	**2.8**	**-61%**
Earnings per Share (A$ cents)	1.8	1.3	-28%	5.1	1.9	-63%	7.9	3.2	-60%
Dividends per Share (A$ cents)	1.2	0.0	-100%	1.2	0.0	-100%	1.2	0.0	-100%
Mg price (USD)	2,700	2700	0%	2500	2500	0%	2250	2250	0%
AUD/USD	0.66	0.66	0%	0.66	0.66	0%	0.66	0.66	0%

Source: MST Access

Balance Sheet and cash flow

We expect the magnesium price to remain around current levels and given we expect revenue to be close to flat, for CY24, we don't expect any significant movement in working capital - other than a ~$6m tax payment in Germany relating to past periods.

We forecast net cash at 31 Dec 2024 to be $6.7m compared with $9.5m at 30 June 2024.

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%. For simplicity, we assume a valuation date of 31 Dec 2025. Note that our previous valuation did not include any value for Qinghai.

We use the same valuation of the Metals business 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.

We had previously estimated that should Qinghai become operational, that it could be worth $0.45 per share at 50% capacity utilisation. However, we had not included anything in our previous valuation given the ongoing delays and uncertainty associated with the restart of its supplier (QSLM).

Our valuation declines by 35% as a result of the decline in forecasts for the Anodes business in FY26 and an increased allocation of overheads to the Anodes business. This is a result of lower earnings growth in the Metals business such that Metals represents 25% of gross profit in CY26. As a result, we now allocate 75% of the overheads to the Anodes business compared with 50% previously.

Figure 6: Sum of the parts valuation

Business	Valuation methodology	EV ($m)	Net Debt ($m)	Equity val. ($m)	per share ($)
Anodes	EV / EBITDA multiple (disc comps)	14.0	-6.7	20.7	$0.23
Recycling	Capacity multiple (recent txn)	11.4		11.4	$0.13
Total	**(fully operating busineses)**	**25.4**	**-6.7**	**32.1**	**$0.36**
Qinghai		0.0		0.0	$0.00
TOTAL		**25.4**	-6.7	32.1	**$0.36**

Source: MST Access, FactSet

Our Anodes valuation is a 12-month forward valuation based on comparable company multiples and divisional EBITDA forecasts appropriately weighted based on the current date.

Figure 7: Anodes valuation – earnings multiple

EV / EBITDA valuation - Anodes		
Comparable companies - median (CY26)	x	6.0
Discount for company size	%	30%
EV / EBITDA multiple for Anodes	x	4.2
FY26 EBITDA (incl. 75% of overheads)	A$m	3.4
Enterprise Value	**A$m**	**14.0**

Source: MST Access, FactSet

Figure 8: 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 9: Comparable companies

Valuation		Price (AUD)	MCAP (AUD)	EV (AUD)	EBITDA Margin 2025	EBITDA Margin 2026	EV / EBITDA 2025	EV / EBITDA 2026	Price / Earnings 2025	Price / Earnings 2026	Net Debt / EBITDA 2025	Net Debt / EBITDA 2026
SGM-AU	Sims	12.36	2,388	3,056	5.8%	6.5%	6.6x	5.8x	19.7x	13.8x	0.2x	0.0x
UMI-BE	Umicore	10.51	4,248	6,352	21.5%	22.0%	4.9x	4.5x	9.6x	8.6x	2.3x	2.4x
600459-CN	Sino-Platinum Metals	12.27	1,947	2,616	1.8%	2.0%	10.2x	8.3x	11.7x	9.3x	-	-
DBG-FR	Derichebourg	5.26	1,375	2,653	10.0%	-	4.6x	-	5.6x	-	2.0x	-
SCHN-US	Radius Recycling	-	-	-	4.8%	6.5%	9.9x	7.7x	29.2x	20.1x	-	-
ERA-FR	Eramet	62.95	2,969	5,471	26.2%	24.2%	3.0x	3.3x	4.6x	3.6x	0.4x	0.3x
RS-US	Reliance Inc	281.08	22,763	24,331	11.8%	12.0%	9.8x	9.5x	15.3x	15.5x	-0.4x	-
Median					**6%**	**7%**	**6.6**	**6.0**	**9.6**	**9.0**	**0.3**	**0.2**

Source: MST Access, FactSet

Catalysts

Previously, the most important catalysts were associated with the restart of Qinghai.

Important catalysts now related to the existing Anodes and Metals businesses.

- completion of strategic review
- recovery in the global auto industry
- recovery in Chinese and European housing industry

Risks

- Unforeseen operational (including safety) problems at any of its 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

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

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 to the auto industry.

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.

Personal disclosures

Andrew Johnston received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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Magontec Limited (MGL.AX) | Price A$0.23 | Valuation A$0.36;

Price and valuation as at 23 September 2024 (not covered)*

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