



RINGMETALL AG

HP3 GY | 13 Pages | 21 May 2019

Industrials

Germany

*** SPONSORED RESEARCH ***

OUTPERFORM

Price Target: EUR 5.00 (from EUR 5.30)

One ring to bind them all: Consolidation will go on

With this note we transfer coverage and slightly reduce our PT to EUR 5.00 (from EUR 5.30), based on estimate changes driven by near term macroeconomic headwinds. We maintain our Outperform rating.

We are still convinced of Ringmetall's strong operational performance, market leading quality, and ability to further consolidate the market. For 2019 we model M&A activity, where we see additional upside potential for the company of 20% from our base case, to EUR 6.00 per share.

We also took a closer look at Greif and Mauser, Ringmetall's major customers in the Industrial Packaging business, and analysed their potential impact on Ringmetall's performance going forward.

SELECTED M&A COULD ADD SOME 20-25% IN REVENUES AND EBITDA

With the acquisition of Nittel that added some 12% to Ringmetall's 2018 revenues, Ringmetall is on its way to become a one-stop shop for drum manufacturers globally. Given Nittel's low market share of 25-30% in the inliner market, we assume further acquisitions in that area to be very likely. Also broadening the clamping ring business in emerging markets is attractive for the company, in our view. Ringmetall has a global clamping ring market share of 70-80%, however is significantly below that in emerging markets, and we see potential, especially in the LatAm and Asia region. For 2019, we model the acquisition of an additional EUR 25m in revenues and assume constant margins. This would result in a further 20% upside from our base case price target, to EUR 6.00, resulting in a total upside of 88% over current share price levels.

SUSTAINABLY GROWING CUSTOMERS SUPPORT RINGMETALL'S LONG-TERM SUCCESS

Greif and Mauser are Ringmetall's biggest customers and therefore of key importance for the company's long-term success. Greif, after some divestments, is back in growth lane and offers opportunities for Ringmetall going forward in businesses the company is not active in yet. Mauser recently entered into a merger with 3 other companies from the industrial packaging market, forming a drum manufacturing and reconditioning group that should offer additional growth potential for Ringmetall as well.

DCF BASED VALUATION LEADS TO EUR 5.00 PRICE TARGET

We updated our blend approach of 2020E EV/EBITDA target multiple and DCF model for Ringmetall's valuation, to reflect for macroeconomic headwinds and slightly lower than expected profitability. Our peer group still consists of Greif, TriMAS, Norma, Siligand, Crown, Jungheinrich, and Kion, resulting in an implied equity value of EUR 3.90, after a 10% discount for size and liquidity. For our DCF approach, we apply a 7.6% WACC, 1.1 beta and 2% terminal growth rate, resulting in an implied equity value of EUR 6.10. Weighing both approaches by 50% results in a slight reduction of our PT to EUR 5.00.

LAST CLOSE (EUR)	3.21
MKTCAP (EUR m)	91
UPSIDE (%)	55.8
DAILY T/O (EUR m)	0.07

CHANGES TO ESTIMATES	2019E	2020E
Revenues (%)	(4.6)	(5.7)
EPS (%)	(9.0)	(13.5)

YEAR TO DEC (EUR M)	2018	2019E	2020E	2021E
Group revenue	111	122	128	134
EBITDA (rep.)	10	13	15	17
EBIT (rep.)	8	11	13	15
EPS (adj.) (EUR)	0.17	0.24	0.28	0.32
EPS (Cons.) (EUR)		0.23	0.29	0.31
DPS (EUR)	0.06	0.06	0.07	0.07
Net debt (cash)	11	10	7	2
RoCE (NOPAT)	8.7	11.5	12.7	13.7
EPS y/y (%)	-35.4	37.0	19.5	14.1
ND/EBITDA (adj.)	1.09	0.74	0.44	0.14
EV/Sales	1.12	0.83	0.77	0.70
EV/EBITDA (adj.)	11.9	7.54	6.37	5.50
EV/EBIT (adj.)	15.0	9.03	7.52	6.40
P/E (adj.)	23.0	13.6	11.4	10.00
Dividend yield (%)	1.5	1.9	2.2	2.2
Free CF yield (%)	2.8	3.5	5.8	7.2
EV/CE	1.93	1.48	1.37	1.25

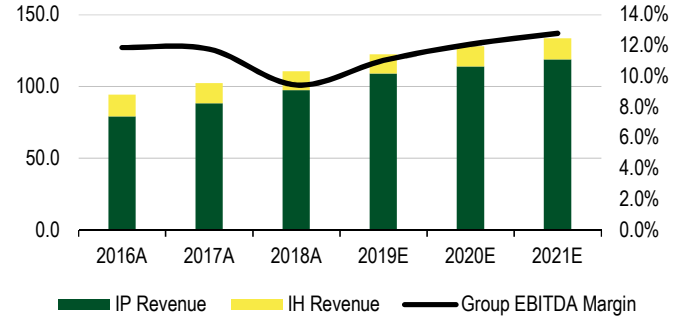
Next event: AGM (14 Jun 2019)

ANALYSTS

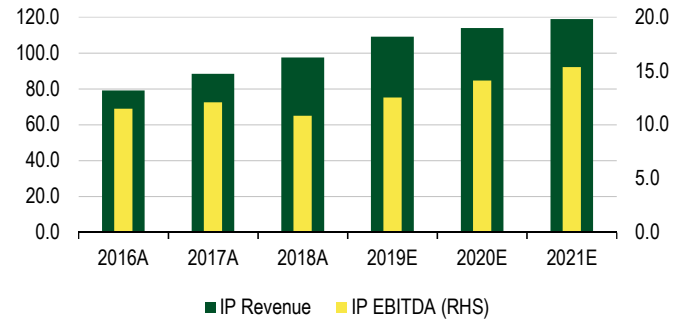
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KEY FINANCIALS

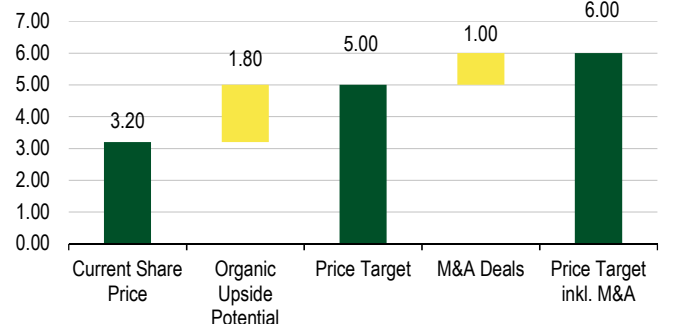
YEAR TO DECEMBER (EUR M)	2018	2019E	2020E	2021E
PROFIT & LOSS ACCOUNT				
Group revenue (as reported)	111	122	128	134
EBITDA	10	13	15	17
EBIT	8	11	13	15
Pre-tax result	8	10	12	14
Income tax, other items	(2)	(3)	(4)	(4)
Net result group	5	7	8	9
Minorities, other	(0)	(0)	(0)	(0)
Net result shareholders	5	7	8	9
EPS, fully diluted (EUR)	0.17	0.24	0.28	0.32
MainFirst adjustments				
Exceptionals in EBIT	0	0	0	0
Profit & Loss Account (adj.)				
EBITDA	10	13	15	17
EBIT	8	11	13	15
Net result, shareholders	5	7	8	9
EPS, fully diluted (EUR)	0.17	0.24	0.28	0.32
CASH FLOW STATEMENT				
EBITDA	10	13	15	17
Cash interest and tax	(3)	(4)	(5)	(5)
Changes in working capital	(1)	(3)	(3)	(3)
Other operating CF items	1	1	0	0
Net operating cash flow	8	7	8	9
Capital expenditure (intangibles, tangibles)	5	3	3	3
Free cash flow	3	3	5	7
Acquisitions, Disposals, Financial assets	(5)	0	0	0
Dividends, minority payouts	(2)	(2)	(2)	(2)
Capital measures, other	(3)	(0)	0	(0)
Change in net cash (debt)	(6)	1	3	4
Net cash (debt)	(11)	(10)	(7)	(2)
BALANCE SHEET				
Fixed assets	49	50	51	51
t/o Goodwill	23	23	23	23
Current assets	33	38	44	52
t/o Inventories	12	13	15	17
t/o Trade receivables	14	16	17	18
t/o Cash and equivalents	6	7	11	15
Group equity	49	54	60	67
t/o Shareholders equity	48	54	62	71
Interest-bearing liabilities	17	17	17	17
Other liabilities and provisions	16	17	18	18
t/o Pension provisions	0.77	1.10	1.15	1.20
t/o Trade liabilities	10	11	11	11
Balance sheet total	82	89	95	103
Net working capital	15	18	21	24
Capital employed (incl. Goodwill)	64	69	72	75
RATIOS				
Revenue y/y	8.0%	10.6%	4.6%	4.5%
EBITDA margin (adj.)	9.4%	11.0%	12.1%	12.8%
EBIT margin (adj.)	7.5%	9.2%	10.2%	11.0%
EPS (adj.), y/y	-35.4%	37.0%	19.5%	14.1%
Net working capital intensity (as a % of sales)	13.6%	15.0%	16.5%	17.7%
DSOs (trade receivables as days of revs)	45.4	47.5	49.0	50.0
Inventory turnover (Days)	38.3	39.5	42.4	45.2
Net debt (cash) / EBITDA (adj.)	1.09	0.74	0.44	0.14
EBITDA (adj.) / Capex	2.31	4.01	5.49	5.82
Free CF yield (FCF / market cap)	2.8%	3.5%	5.8%	7.2%
Oper. FCF yield ([FCF - net int. taxed] / EV)	2.8%	4.0%	6.2%	7.8%

Industrial Packaging (IP) contributes the majority of group revenues (IH = Industrial Handling, in EURm)


Source: MainFirst Research, Company

Nittel acquisition and market leadership in clamping rings provide decent organic development (in EURm)


Source: MainFirst Research, Company

Organic growth and further consolidation provide substantial upside potential (fair value per share in EUR)


Source: MainFirst Research, Company

M&A still a key part of Ringmetall's strategy

Further potential deals to broaden region and product scope

One of Ringmetall's core strategy components is consolidating the industrial packaging market, either organically or through selective acquisitions, with a focus on the latter. After building a strong track record in past acquisitions, we believe that the company will continue to successfully execute on that strategy in 2019 and going forward. We model EUR 25m additional revenue and EUR 2.8m additional EBITDA. Based on historic acquisition multiples of 4.4x EV/EBITDA and current market environment, we take a conservative estimate of 7.5x EV/EBITDA in our case. Including our assumptions, we arrive at a PT of EUR 6.00, some EUR 1.00 or 20% additional upside potential for the 2019 M&A deals announced so far.

Additionally to the company's main product, the clamping ring, Ringmetall is expanding in other areas, to become a one-stop shop for drum manufacturers. However, it is important to note that Ringmetall does not intend to produce the drums themselves in order to sustain a healthy relationship with their core customers.

Figure 1: Ringmetall's Industrial Packaging product range after the Nittel acquisition



Source: MainFirst Research, Ringmetall, Ahellweg

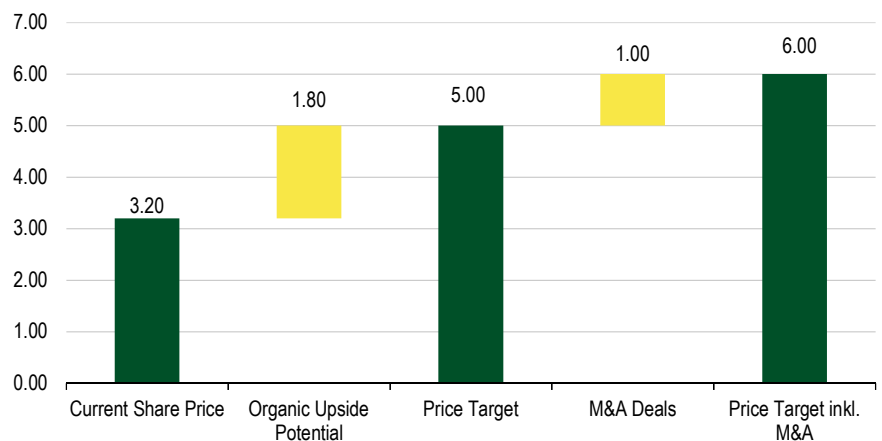
In the process of becoming a one-stop shop for industrial packaging and drum business, we see further potential in other markets and product groups. Especially in the segment of intermediate bulk containers (IBC), Ringmetall is currently underrepresented. Similar to the industrial drums business, we think that the company could be a supplier to the IBC manufacturers, providing them with closure systems and gaskets. Given Ringmetall's experience in producing and certifying high quality closure systems for drums and pails, going into such markets would seize some worthwhile synergies.

Given Nittel's relatively low market share of around 25-30% in the inliner business, compared to Ringmetall's 70-80% in the clamping ring business, we believe that the majority of the upcoming consolidation will happen in the inliner business. However, as the company already announced two deals pending for the current fiscal year, we also wouldn't exclude potential deals in the classic clamping ring business.

Considering the Nittel deal size of EUR 13m in revenues, and the overall deal size of Ringmetall, we estimate some EUR 25m of additional revenue arising from these deals. In our view, the M&A deals would be in line with Ringmetall's profitability and therefore see potential for some additional EUR 2.8m in EBITDA. We do not expect the deals to be closed before Q3, hence the EUR 25m in revenues won't fully materialise this year.

Given the size of the modelled acquisitions, we do not expect the company to raise any additional equity in order to finance the deals. We rather believe that the company uses current cash balances, operational cash flows, and some debt financing to fund the deals. Given our EV/EBITDA deal multiple of 7.5x, we would assume a combined deal size of around EUR 20m.

Figure 2: Organic and M&A upside potential to current market valuation (fair value EUR per share)



Source: MainFirst Research

Nittel integration progresses well

The integration is progressing well and management sees further synergies that should add more value going forward. We believe that the integration of Nittel will be mostly complete by the end of 2019, with some additional EUR 100-150k of integration costs to come. We now estimate that Nittel will need some EUR 0.5m more in modernisation capex, increasing our capex estimate for 2019 to EUR 3.4m. Nevertheless, we are convinced that Ringmetall's step into the inliner business is a fundamental value add to the investment case. This step not only increased the already high degree of stickiness with current customers, but broadens the customer base. With the inliner business, Ringmetall enables the chemical and other industries to reuse drums and other containers without polluting the environment with toxic cleaning agents, and becomes a direct supplier to them.

After talking to the company we learned that Ringmetall intends to carve out the Nittel inliner business into its own segment. Given the different nature of the end market, as some of the inliners are sold directly to the industry and not the drum manufacturers, this makes sense in our view. Additionally, this would increase transparency, since the inliner production by nature has a low utilisation of steel as a raw material, which then would be clearly visible as a cost to the clamping ring business.

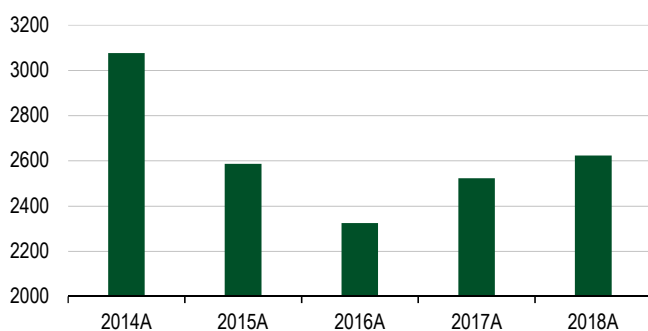
Cluster risk or fruitful symbiosis? Two customers account for 40% of revenues

Greif and Mauser are Ringmetall’s major customers, accounting for around 40% of company revenues. While this appears to be a substantial cluster risk, the company does not get tired of reassuring investors and analysts that this is rather a symbiosis based on mutual dependencies. Since Ringmetall is a global market and quality leader, continuously consolidating the market, we assess this a valid statement. Nevertheless, Greif’s and Mauser’s market power depress margins for Ringmetall, which could be reverted if Ringmetall is able to broaden its customer base and become less dependent on these customers. The ongoing consolidation in the industrial packaging market of Ringmetall could be beneficial here.

Greif: Key customer to serve the American market

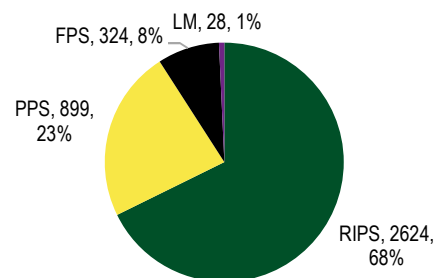
Greif is a leading US based industrial packaging company, listed on the New York Stock Exchange. Greif produces steel, plastic and fibre drums, where it uses Ringmetall products to line and seal them. Additionally, the company manufactures IBC, where Ringmetall is not yet active. Thus, the addressable market for Ringmetall is the Rigid Industrial Packaging & Services (RIPS) segment. Aside the drums and IBC business, Greif produces cardboards and other corrugated products in their Paper Packaging & Services (PPS) business. Here they recently acquired Caraustar, a US paperboard manufacturer. Smaller businesses are Flexible Products & Services (FPS) businesses, where they concentrate on intermediate bulk packaging, and Land Management (LM) for timber and timberland, as well as special use properties. In total, the company reached net sales of USD 3.9bn in 2018 and a sales CAGR of -2.2% since 2014, but 8% since 2016. The initial decline is coming from the divestment of some non-core businesses, mainly in RIPS.

Figure 3: Revenue development in Greif’s RIPS business (in EURm)



Source: MainFirst Research, Greif

Figure 4: Revenue split among Greif’s divisions



Source: MainFirst Research, Greif

Going forward, Bloomberg consensus estimates expect a strong 16.5% CAGR on group top-line for Greif until 2020, supporting Ringmetall’s business as a main customer. According to Greif, the IBC market is the most vivid one in their product portfolio. Hence, a step of Ringmetall into the IBC market would not only lead to further consolidation, but increased organic growth momentum in the long term.

Hello from the other side: Mauser actively consolidates the market for industrial drums

Mauser Packaging Solutions consists of multiple corporations: BWAY, NCG, ICS and Mauser Group. While the whole group is based in the US, Mauser Group, the drum manufacturer, is located in Germany. The other segments are active in repairing packaging solutions (NCG), in the drum reconditioning business (ICS), and other packaging and container solutions (BWAY).

The German subsidiary was bought by Stone Canyon Industries Holding in 2017 for more than EUR 2bn. The holding then combined Mauser Werke with the other companies to form Mauser Packaging Solutions, which reportedly has USD 4bn of sales. As the holding is considered a private equity firm, going public might be an option in the medium-term future.

Ringmetall sells to drum manufacturers and reconditioners. Combining the four companies should enable Ringmetall to target one of their key customers more efficiently and broaden the company's business going forward. We believe that Mauser Group's investor, Stone Canyon Industries, will further consolidate the industrial packaging market as they did before through BWAY. This should be beneficial for Ringmetall's organic expansion as well, despite some increasing pricing pressure potential.

Financial estimates

Profit & loss account

We model slightly reduced revenue and EBITDA growth forecasts based on increased economic headwinds in the Industrial Packaging business, and reduced growth momentum for own products in the Industrial Handling business. This materialises through lower revenue and EBITDA growth on group level.

Figure 5: Ringmetall's profit & loss account (in EURm)

	2016A	2017A	2018A	2019E	2020E	2021E
Consolidated Statement of Income						
Revenue	94.3	102.3	110.6	122.3	127.8	133.6
Other Income	0.6	1.2	1.5	1.8	1.9	2.0
Change in Inventories of finished Goods and Work in Progress	0.4	0.0	0.5	1.4	1.6	1.8
Total Output	95.3	103.6	112.6	125.5	131.4	137.4
Raw Materials, Consumables and Goods ordered	-53.0	-57.0	-64.9	-69.1	-72.2	-75.5
Personnel Expenses	-18.6	-20.1	-21.7	-23.8	-24.9	-26.1
Other Operating Expenses	-12.5	-14.1	-15.1	-18.7	-18.4	-18.4
Other Taxes		-0.4	-0.4	-0.4	-0.4	-0.4
EBITDA	11.2	12.0	10.4	13.5	15.5	17.1
Depreciations	-1.9	-2.0	-2.2	-2.2	-2.4	-2.4
EBIT	9.3	10.0	8	11.3	13.1	14.7
Finance Income	0.0	0.0	0.0	0.0	0.0	0.0
Finance Costs	-1.6	-1.1	-0.6	-1.2	-1.2	-1.2
EBT	7.6	8.9	7.7	10.1	11.9	13.5
Income Tax Expenses	-1.9	-1.8	-2.5	-3.0	-3.6	-4.1
Consolidated Net Income for the Year	5.7	7.1	5.2	7.0	8.3	9.5
Non-Controlling Interests	0.4	0.4	0.3	0.4	0.4	0.4
Attributable to Shareholders	5.3	6.8	4.8	6.6	7.9	9.1

Source: MainFirst Research, Company

Balance sheet

Figure 6: Ringmetall's balance sheet

	2016A	2017A	2018A	2019E	2020E	2021E
Consolidated Balance Sheet						
Intangibles	22.6	22.5	23.2	23.3	23.3	23.3
t/o Goodwill	22.4	22.2	22.6	22.6	22.6	22.6
Tangibles	12.3	12.2	12.5	13.5	14.0	14.5
Financial Non-Current Assets				0.0	0.0	0.0
Other Non-Current Assets	1.0	1.1	13.6	13.6	13.6	13.6
t/o Deferred Tax Assets	0.9	0.9	0.8	0.8	0.8	0.8
t/o Other Assets	0.1	0.1	12.8	12.8	12.8	12.8
Non-Current Assets	35.9	35.8	49.3	50.4	50.9	51.4
Inventories	10.2	11.0	11.6	13.2	14.8	16.5
Trade Receivables	13.1	12.5	13.8	15.9	17.2	18.3
Cash and Cash Equivalents	5.3	14.9	5.9	7.3	10.6	15.0
Other Current Assets	1.8	1.6	1.7	1.7	1.7	1.7
Current Assets	30.4	40.0	33.0	38.2	44.2	51.5
Non-Controlling Interests	1.2	1.1	1.0	-0.3	-1.9	-3.4
Shareholder's Equity	25.1	38.0	47.5	54.1	61.9	70.9
Total Equity	26.3	39.1	48.5	53.8	60.0	67.4
Pension Provisions	0.8	0.8	0.8	1.1	1.2	1.2
Other Provisions	1.8	2.1	2.2	2.6	2.7	2.8
Total Provisions	2.5	2.9	3.0	3.7	3.8	4.0
Interest Bearing Liabilities	25.4	20.1	17.4	17.4	17.4	17.4
Interest Free Liabilities	12.0	13.6	13.4	13.8	13.9	14.2
t/o Trade Payables	9.4	9.7	10.4	10.8	10.9	11.2
t/o Other Interest Free Liabilities	2.6	4.0	3.0	3.0	3.0	3.0
Liabilities	37.4	33.8	30.7	31.1	31.2	31.5
Total Balance Sheet	66.2	75.8	82.3	88.6	95.1	103.0

Source: MainFirst Research, Company

Cash flow statement

Figure 7: Ringmetall's cash flow statement

	2016A	2017A	2018A	2019E	2020E	2021E
Consolidated Cash Flow Statement						
EBITDA (reported)	11.2	12.0	10.4	13.5	15.5	17.1
Cash Interest and Tax Payments	-3.0	-2.2	-2.8	-4.2	-4.8	-5.3
Change in Working Capital	-0.8	1.6	-1.3	-3.4	-2.7	-2.6
t/o Inventories	-0.6	-0.1	-2.0	-1.6	-1.6	-1.7
t/o Trade Receivables				-2.2	-1.2	-1.1
t/o Trade Payables	-0.2	1.7	0.7	0.4	0.1	0.3
Other Operating Cash Flow Items	0.6	-0.5	1.2	0.7	0.2	0.2
Cash Flow from Operating Activities	7.9	11.0	7.6	6.6	8.1	9.5
Capex	-2.1	-1.3	-4.5	-3.4	-2.8	-2.9
Intangible Assets	0.0	-0.2	-2.1	-0.3	-0.3	-0.3
Tangible Assets	-2.1	-1.1	-2.5	-3.1	-2.6	-2.7
Free Cash Flow	5.9	9.7	3.1	3.2	5.3	6.5
Acquisitions/Disposals	0.3	1.7	0.7	0.0	0.0	0.0
Other Investing Cash Flow Items	-1.5	-5.5	-11.4	0.0	0.0	0.0
Cash Flow from Investing Activities	-3.2	-5.1	-15.2	-3.4	-2.8	-2.9
Dividends and Minority Payouts	-1.6	-1.8	-2.0	-1.8	-2.1	-2.1
t/o Dividends	-1.6	-1.8	-2.0	-0.1	-0.1	-0.1
t/o Minorities				-1.7	-2.0	-2.0
Change in Finance Liabilities	-4.9	-2.8	-5.2	0.0	0.0	0.0
Other Financing Cash Flow Items				0.0	0.0	0.0
Equity Measures	4.9	9.4	5.8	0.0	0.0	0.0
Cash Flow from Financing Activities	-1.6	4.9	-1.4	-1.8	-2.1	-2.1
Other Effects	-0.1	-0.2	0.1	0.0	0.0	0.0
Change in Net Cash	2.9	10.5	-8.9	1.4	3.2	4.5
Net Debt (Cash)	20.1	5.2	11.4	10.0	6.8	2.3
Increase (Decrease) in Loans	-4.9	-2.8	-5.2	0.0	0.0	0.0

Source: MainFirst Research, Company

Estimate changes

Figure 8: Changes to core estimates of Ringmetall

	2019E			2020E			2021E			2022E		
	New	Old	Difference	New	Old	Difference	New	Old	Difference	New	Old	Difference
Revenues	122.3	128.5	-4.8%	127.8	135.9	-5.9%	133.6	142.4	-6.2%	139.0	148	-6.1%
Growth in %	10.6%			4.6%	5.8%		4.5%	4.8%		4.0%	3.9%	
EBITDA	13.5	15.4	-12.4%	15.5	17.7	-12.7%	17.1	20.5	-16.6%	18.0	22.0	-18.1%
Growth in %	29.3%	380.2%		14.6%	14.9%		10.6%	15.8%		5.4%	7.3%	
Margin	11.0%	12.0%	-96 bps	12.1%	13.0%	-94 bps	12.8%	14.4%	-160 bps	13.0%	14.9%	-190 bps
EBIT	11.3	12.8	-11.9%	13.1	15.1	-13.0%	14.7	17.9	-17.6%	15.6	19.4	-19.6%
Growth in %	35.9%	-286.8%		16.4%	17.9%		12.2%	18.5%		5.7%	8.4%	
Margin	9.2%	9.9%	-73 bps	10.2%	11.1%	-83 bps	11.0%	12.5%	-153 bps	11.2%	13.1%	-189 bps
EPS	0.24	0.26	-9.5%	0.28	0.33	-14.8%	0.32	0.39	-17.7%	0.34	0.43	-21.3%
Growth in %	37.0%			19.5%	26.9%		14.1%	18.2%		5.4%	10.3%	

Source: MainFirst Research

Appendix: Regulatory Disclosures and Disclaimer

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**COMPANY**

Ringmetall AG

KEY

5,15,19

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Ringmetall AG	13 May 2018	Not Rated	Outperform	EUR 4.1
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Source: MainFirst, Bloomberg (*) O – Outperform, U – Underperform, N – Neutral, NR – Not rated

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Ringmetall	HP3 GY	CHF	3.23	OPF

Source: MainFirst, Bloomberg

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