Afarak

Coverage initiation

7/2017

inderes.

Focus on growth

We initiate coverage on Afarak with a 0.75 EUR target price and sell recommendation. We argue that the current valuation reflects too high short-term expectations and on the contrary the negative development of market prices point to weakening earnings. In our view, the current premium valuation to book value would require a double digit return on equity, which we do not expect the company to reach in the short-term. We urge investors to focus on the company's long-term growth initiatives.

Alloys provider on global markets

Afarak is a globally operating speciality alloys provider that currently operates several mines and processing plants. The company operates a vertically integrated business model and thus its core business operations cover the whole value chain from extracting raw materials to global distribution of its products. Afarak Group, previously Ruukki Group, has gone through a significant transformation from a conglomerate to a mining and smelting company. Currently Afarak's operations consist of two segments, Speciality Alloys and Ferroalloys.

Growth is key

Afarak has had difficulties to turn both of its segments towards sustainable profit and therefore operative profitability on the group level has varied for the past five years. We profile Afarak primarily as a turnaround company and underline the importance of reaching sustainable profitability in order for the company to create shareholder value in the long-term. In order to reach this, we argue that Afarak needs to grow it's operations from current levels. We expect the company to eye possible targets for M&A and success in these transactions are key in order to create value in the future.

Markets turned weaker after strong Q1

Afarak had a strong start for the year due to elevated prices of chrome ore. During Q2 the prices have contracted strongly and we estimate that Afarak's earnings will be significantly affected by this negative development of market prices. We estimate that Afarak will reach 47 MEUR revenue and 3,8 MEUR EBIT on Q2. Due to slightly better market outlook for the rest of the year our full year estimate for net sales is at 184 MEUR and for EBIT 21,8 MEUR. We underline the weak visibility into market prices for the long-run and we also highlight that the estimates are highly sensitive for changes in market prices.

Current valuation is stretched

We emphasize short term multiples in Afarak's valuation due to weak visibility and high uncertainty in the long-term. Afarak is currently valued with a 2017e 21x P/E multiple and a 8x EV/EBITDA-multiple. In relative terms Afarak trades with a significant premium in relation to its global peer group. The current 1,2x P/B valuation indicates approximately a 25 % premium compared to the peer group, which in our view is unjustified. Historical return on equity has been low and despite an expected pickup in ROE-%, we do not see the current valuation compelling.

Analyst

Petri Gostowski
+358 40 821 5982
petri.gostowski@inderes.fi

Recommendation and target price

Sell

Previous: no recommendation

0.75 EUR

Previous: no target price

Last price: 0.86 EUR
Upside: - 12,3%

Key numbers

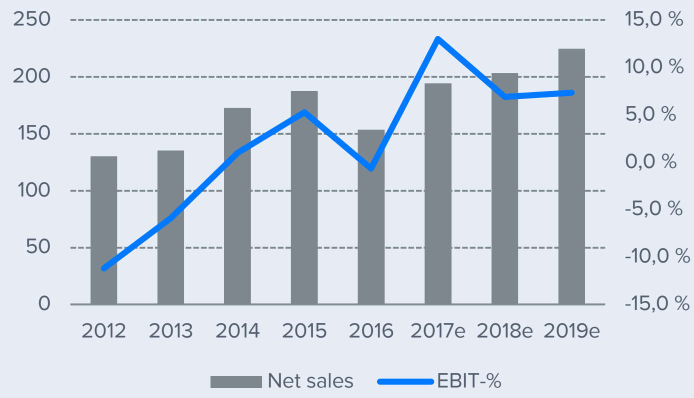
	2016	2017e	2018e
Revenue	*154*	*184*	*204*
growth-%	*-18,2 %*	*19,8 %*	*10,4 %*
EBIT (adj.)	*-1,0*	*21,8*	*14,0*
EBIT-%	*-0,7 %*	*11,8 %*	*6,9 %*
PTP	*-3,1*	*15,6*	*10,5*
EPS (adj.)	*-0,01*	*0,04*	*0,03*
Dividend*	*0,02*	*0,02*	*0,02*
EV/Sales	*1,3*	*1,2*	*1,1*
EV/EBITDA	*37*	*8*	*11*
EV/EBIT	*Neg.*	*10*	*16*
P/E (adj.)	*Neg.*	*21*	*28*
P/B	*1,2*	*1,2*	*1,2*
Dividend-%	*2,6 %*	*2,3 %*	*2,3 %*

* Dividend/Return of capital

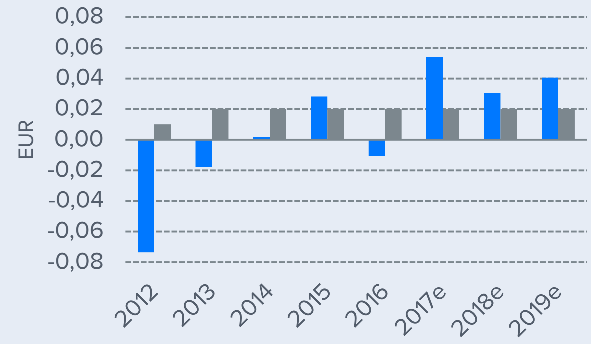
Stock price

Source: Reuters

Net sales (MEUR) and EBIT-%



EPS and DPS



Note: DPS = Dividend/return of capital

P/E (adj.)
21x
2017e

EV/EBITDA
8x
2017e

P/B
1,2x
2017e

Dividend %
2,3 %
2017e

Value drivers

- Sustainable profitability
- Organic growth from investments
- M&A
- Raising operative efficiency

Risks

- Prices of raw materials and power
- FX-risks
- Operative and technological risks
- Goodwill

Valuation

- We emphasize short term multiples
- Current multiples are challenging, especially the premium to book value
- Dividend yield of 2,3 % does not support current valuation

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Company description (1/2)

Global specialty alloys company

Afarak is a globally operating speciality alloys provider that currently operates several mines and two processing plants. The company operates a vertically integrated business model and thus its core business operations cover the whole value chain from extracting raw materials to global distribution of its products.

Currently Afarak is listed on the Helsinki stock exchange as well as the London stock exchange. The company is focused on producing ferrochrome and supplying speciality products to mostly the steel and stainless steel industries. Afarak's revenue in 2016 was 154 MEUR and it posted an EBIT of -1 MEUR.

Transformation from a conglomerate to a speciality alloys company

Afarak was previously known as Ruukki Group, but changed its name to Afarak Group in 2013. Ruukki had a long history as a conglomerate that had operations in house building, the sawmill business as well as in the furniture business and care services.

In 2007 Ruukki raised a net total of EUR 339 million in equity in order to focus its business intensively on wood-based industrial operations and to invest into sawmill and pulp mill projects in Russia. The investments in Russia ran into difficulties of which the major ones occurred with the administration of Kostroma (city in Russia) and therefore the company decided to cancel its plans in Russia during 2008.

2008 was a year of restructuring for Ruukki, as it divested its metal industry assets and the care services segment and reduced its stake in Incap Furniture (Furniture segment) to less than 50 %. Along with the divestments, the company acquired a sawmill in Junnikkala (Finland) as it had the intension to continue the wood industry business despite the Russian investments being already halted.

The largest acquisition of the busy year was the acquisition of the minerals businesses from Kermas Ltd, which then was a major shareholder in Ruukki. From Kermas, Ruukki acquired ferrochrome businesses in Malta and Germany, as well as chrome ore businesses in Turkey and the foundation for the current business were set. After the restructuring took place, Ruukki continued operating two segments starting from 2009. The wood processing business consisted of its sawmill business, house building and pallet manufacturing. The mineral businesses consisted of the businesses acquired in 2008 and later also of Mogale Alloys, an alloys production company that was acquired during 2009 for approximately 103 MEUR.

In 2010, after reviewing its strategy, Ruukki decided to focus its resources on the Minerals businesses and therefore it divested the majority of its wood businesses. During the year, the company was also listed on to the London stock exchange. From 2011 onwards, the company operated two segments, the FerroAlloys located in South Africa and the Speciality Alloys in Turkey and Germany. The company still holds an ownership of about 25 % in two non-core associates from its previous operations. However, both Incap Furniture and Valtimo Components are in a corporate restructuring processes. We estimate these to have basically no value, but neither liabilities should stem from the ownership.

Current operational structure

As discussed, Afarak operates two business segments currently:

- **Speciality Alloys** operations consist of mining in Turkey and the processing plant in Germany where they produce low and ultralow carbon Ferrochrome for the end use in aerospace, automotive, nuclear and oil & gas industries. The segment also sells lumpy chrome ore from the mine directly to the market. In 2016, the segments sale of processed materials (20 000 t) accounted for ~ 20 % of the company's total sales of processed materials. This accounted for ~45 % of revenue as the products are high grade speciality products for niche markets.

- **FerroAlloys** operations are located in South Africa, where the company has its Stellite chrome mine, the Mecklenburg mine, the Vlakpoort mine and the Mogale Alloys processing plant. The FerroAlloys segments sells ferrochrome and silicomanganese that is processed at Mogale Alloys. In addition, the segment also sells excess lumpy chrome ore in the domestic and Asian markets from its Stellite mine. In 2016, the segments sale of processed materials (77 000 t) accounted for ~80 % of the company's total sales of processed materials. This accounted for 55 % of the groups total revenue, and mirrors the commodity characteristic of the products.

Company description (2/2)

Challenges with profitability of current business model

Afarak has had difficulties to turn both of its segments towards sustainable profit and therefore operative profitability on the group level has varied greatly for the past five years. Both segments operate their own mining, as well as process raw materials to be sold as refined products. Therefore their profitability is highly linked to the mining and processing volumes, as well as the prices of raw materials and production costs. In our view, the changes in volumes as well as changes in prices of raw materials and fx-rates have highly reflected into the company's profitability, which is the common characteristic of the volatile mining and metals industry.

The low demand for chrome ore and charge chrome reflected highly in prices in 2012 and the company reported its worst operating loss (for 2012-2016) of -16,8 MEUR. In turn, the pick up in tons of processed materials in 2014 and 2015 in both segments helped the company to report an EBIT level profit, although the overall amount of produced tons decreased. This underlines the company's sensitivity to volumes (tons) of the higher margin products.

Afarak's best operational year in terms of profitability was achieved in 2015, when production of mining picked up from the previous years level and production of processed materials did not decrease at the group level and Afarak reached an EBIT of 9,9 MEUR (EBIT-% 5,3 %). Price of charge chrome fell heavily in 2016 as demand was weak and therefore the company decided to halt it's production at the German smelter to optimize NWC. This, however, also reduced the annual sales volumes of processed Speciality Alloys production. Although both segments reported a positive EBIT for FY'16, at the group level the company posted a -1 MEUR EBIT, with 154 MEUR revenues.

Actions for future profitability play a big role in the medium-term

In the short-term elevated raw material prices and especially high charge chrome prices will boost the company's profitability. Thus, the current year should turn out to be strong, assuming production stays on expected levels throughout the whole year. The price of charge chrome appreciated significantly at the end of 2016 due to reduction in market capacity mainly in South Africa during 2016, but also due to increased demand that stems from China's economic stimulus.

We believe the big contribution from elevated charge chrome prices will gradually fade away as the price will mean revert and therefore we see success in raising production (especially in refining) output and efficiency as key drivers for the company's success in its turnaround. The Speciality Alloys division plays a key role here, since the margins are higher in this segments products. A main driver of higher sales is the company's ability to raise deliveries to existing clients, but also to grow their client base through client acquisition. Indeed, the growing Chinese market is also a vital enabler of growth.

In the medium term the main contributors are the company's growth initiatives and possible mergers and acquisitions. We estimate the company will put efforts into growing their mining capacity especially in South Africa rather than primarily growing refining capacity. Thus, growing the mining capacity would lead to excess extracted raw materials and we believe the company will be aiming to grow exports of extraction output especially to the world's largest chrome ore market in China. Strategic and financial logic is, however, the main driver of growth projects and therefore we believe the company is open to alternatives as long as they are a good strategic fit and yield a competitive return on investment.

Ownership structure and management

Afarak has several major shareholders that represent over half of the company's outstanding shares. The majority of shares are owned by Kermas Ltd, which holds a 27 % stake in the company, followed by Atkey Ltd. with an equivalent 27 % stake and thirdly Hino resources that has approximately a 14 % stake. We see Hino Resource's ownership solely as a financial investment into Afarak. However, Kermas is a private company owned by the prior CEO and current COO Danko Koncar and thus a major owner of the company is directly linked to the company's executive management. Atkey is a company owned by family members of the previous board member Djakov.

Afarak has historically done related party transactions, of which the acquisition of EWW and TMS from Kermas was most significant in size. We argue that related party transactions are in general questionable and should be evaluated with consideration. In the past few years no related party transactions have been done, but Afarak has a small (3,5 MEUR) receivable from Kermas. Despite the company's largest shareholders owning major stakes in the company, we believe the liquidity is sufficient for efficient pricing on the markets.

Afarak in short

Afarak is a globally operating specialty alloys provider. The company operates a vertically integrated business model and thus its core business operations cover the whole value chain from extracting raw materials to global distribution of its products.

- **Speciality Alloys - major player in a small niche market** (45 % of revenue in 2016)
- **FerroAlloys - a small player on a large global market** (55 % of revenue in 2016)

The company has gone through a change from a conglomerate to a globally operating alloys provider

154 MEUR
REVENUE 2016
(-18 % y-on-y)

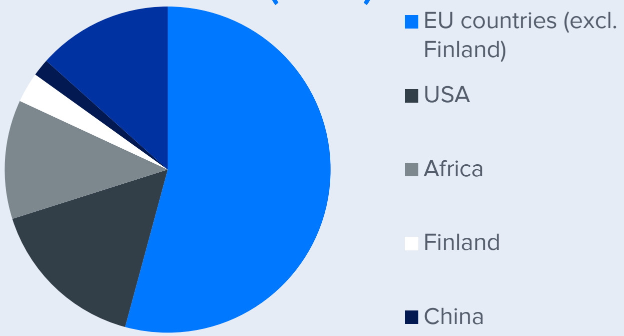
Operating mines and refineries in South Africa, Turkey and Germany

Currently Afarak is focused on long term growth initiatives that enable sustainable profitability

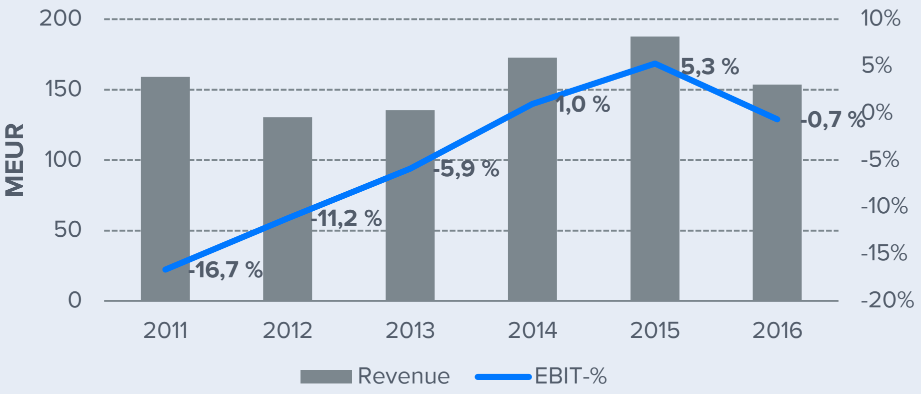
5.5 MEUR
EBITDA 2016
(17.2 MEUR 2015)

906
Employees in Q1'17

Geographical revenue split (2016)



Afarak's net sales and EBIT-% 2011-2016



Investment profile (1/2)

A turnaround company with potential for growth

We profile Afarak primarily as a turnaround company and underline the importance of reaching sustainable profitability in order for the company to create shareholder value in the long-term. The company, with its current business structure, has a two-fold history as it has been able to reach operational profitability, but has not proven it to be sustainable. Profitability is highly linked to the market prices and production volumes and, thus they are key factors to follow. Due to the high volatility, we argue that the company's risk is greater than market average and should therefore be reflected in the required rate of return and acceptable valuation. Due to focus on growth, which ties capital, the stock should not be profiled as a dividend stock going.

Potential

We see the following factors as Afarak's crucial elements for value creation:

- **Sustainable profitability** is crucial for the company to create value in the future and is the main driver of value creation in the near term. Sustainable profitability would eventually also reflect into the acceptable valuation multiples and would then reflect in to the total value of the company. Also, profitability of current operations would enable the company to focus on longer term growth initiatives that would also further strengthen profitable growth. Indeed, we expect the earnings to be volatile also in the future due to market related reasons, but the company should be able to lift the overall level clearly above historical levels. Technology has also a clear role in raising profitability through operational efficiency and therefore investments into efficient assets, such as the shaking tables in Stellite mine, which have have potential to lift overall profitability.
- **Organic growth** has a key role in medium- and long-term profitability. If the company succeeds in growing its volumes from current levels it will help reach profitability despite volatile market prices of raw materials. On absolute terms the company's profitability is currently on such a low level that fixed costs have a clear impact on profits, especially when margins are low due to decreased market prices. This affect would be partly offset by growing volumes as growing absolute profitability would scale the cost structure from current levels. We expect the company to focus on these growth initiatives in the medium-term and believe they are key indicators of future potential for investors to follow. The overall market growth will help the company, but Afarak needs to reach growth rates above the market.
- **M&A** will be in the spotlight determining the future growth outlook. Afarak has a strong balance sheet and they have indicated they are aiming to boost growth with M&A. As the low market prices drove some South African operators to bankruptcy and/or corporate restructuring it may open Afarak chances to acquire existing operations to speed up their growth. However, the importance of integrating the business to the existing operations plays a key role in efficiency and therefore the potential target's cost position plays a key role in the potential of the acquisition. Also, we underline that the current management team has no track-record from M&A with Afarak and thus the success of possible transactions are difficult to evaluate beforehand and need to be evaluated case by case.

Risks

The main risks related to the company for an investor are:

- **Market risks** pose a significant risk for Afarak due to their strong connection with the companies profitability. The prices of alloys are mainly set out at global markets and therefore Afarak's pricing power is very limited. Deteriorating prices would put significant pressure on profitability as the costs of production are more stable over time. Also, weak demand directly affects profitability and is often emphasized by weak pricing and therefore the market risk should not be understated. Afarak has an advantage from its flexible business model that helps it tackle this risk. Also, the equation works the other direction and significant demand growth and rising market prices would clearly have a positive affect on profitability. Power amounts for a significant portion of the operative costs in Afarak's operations and therefore rising power prices hurt the company's profitability. Power prices make up a significant risk especially in South Africa, where high inflation has raised power prices significantly during the past ten years.
- **FX-risks** stem from the companies sales and costs being in different currencies. Afarak sells its products mainly in USD, but it's cost base is mainly in ZAR's (South Africa) and Euros (Germany) and to a limited extent in TRY (Turkey). A significant depreciation of the dollar against these currencies would have an impact on the company's profitability. However, the company aims to reduce this risk by hedging as well as keeping their incoming and outgoing cash flows per currency the same size.

Investment profile (2/2)

- **Operative risks** are closely related to Afarak as the company mainly operates its own mining to feed it's furnaces. If the company would run into downtimes at the mines, it would be directly linked to their sales. In case of downtimes their lost sales would reflect negatively into their profitability and the company would have to feed the furnaces through raw materials from third parties. This would put pressure on Afarak's margins.

- **Technological risks** also play a minor role in Afarak's business and is highly linked to the company's know-how, which is a clear advantage for Afarak in the big picture. This risk is emphasized in the Speciality Alloys segment, but since the technologies are rather established and they have been used for long, we see this only as a minor risk.

- **Goodwill** from reserves form a significant portion of Afarak's balance sheet (FY'16: 25 %) and given the historical track record in profitability of the group it forms a risk in our opinion. Although we do not expect any write downs in the short-term future, we emphasize the importance of the turnaround in order for the goodwill to be sustainable in the long-term. However, it should also be noted that due to negative gearing (FY'16: -3 %) a write down would not result into a balance sheet crisis.

Investment profile

1. Market volatility
2. Sustainable profitability
3. M&A (+/-)
4. FX-fluctuation
5. Organic growth

Potential

- Sustainable profitability is the key driver for value creation
- Rising prices would boost the company's profitability
- Acquisition of additional installed capacity would accelerate growth

Risks

- Raw material and power prices highly impact the company's profitability
- Afarak carries FX-risk from having sales and costs in different currencies
- Operative and technological risks
- No proven track record from M&A
- Goodwill

Source: Inderes

Business model (1/2)

A vertically integrated business model

Afarak operates a vertically integrated business model, which means that it is involved in all phases from mining of raw materials to smelting them and finally delivering them through their distribution network to their client base. The advantage of being a part of all areas in the value chain is the flexibility that stems from being able to impact each phase rapidly if necessary. This is a valuable option in a very volatile market. Thus, Afarak can optimize mining depending on customers' demand as they are directly in connection with their customers. Also, direct contact with their customer base enables them to develop custom special alloys for customer specific needs, which deepens their customer relationships and correspondingly increases margin potential. Also, the flexibility enables Afarak to optimize sales of ore vs. Alloys depending on their market prices.

On the contrary, the current business model is more capital intensive compared to being only partially involved in the value chain as the company has a wide asset base tied to both mining and smelting (For FY'16 property, plant and equipment stood at close to 30 % of sales). Also, the company's business model reflects into the amount of working capital and thus Afarak's inventories have averaged a high level of around one third of net sales for the last five years (2012-2016).

Mining

Afarak currently runs four mines that feeds its smelters with raw materials. As the mines produce excess output for the company's own smelting, they also sell consequential amounts directly to the market. The Speciality Alloys segment also buys minor amounts of extracted raw materials from third parties to produce high chrome ferrochrome.

Afarak has outsourced the mining operations in Stellite (South Africa), that provides raw materials to the FerroAlloys smelter. Respectively, the Speciality alloys mines in Turkey are operated by Afarak from where it feeds its smelter in Germany.

Owning the mines may lead to higher margins in overall operations as the company does not need to buy chrome ore from third parties that would add margins into the prices. However, this saved margin is partly offset by the outsourcing of operation in South Africa's mine since the company needs to pay for the outsourced mining costs. However, the price for the operator is fixed and therefore Afarak does not lose the gains in possible positive price movements in the market. Also, the miners are employed by the operating company and thus Afarak does not carry the risk of employing the miners to a full extent. This is clearly a positive impact, since the mining is often volatile and mines may even occasionally be shut down if demand is sluggish. Outsourcing mining operations is a common arrangement in South Africa.

We believe that controlling mining volumes by owning the assets brings operative flexibility to the process as the company control the mining volumes in order to optimize it for smelting. Through this the company can control its working capital to a bigger extent than by just buying raw materials from third parties. However, on the contrary it grows the companies investments and also asset base, since the mines draw usually big amounts of capital. Also, as the company sells output from the mines to third parties, it needs to optimize the production depending on its own needs as well as third party demand, which slightly draws down the reduction in working capital. Selling to third parties, however, keeps volumes higher in the mines and thus brings slight efficiency advantages.

Overall we see Afarak's arrangement of owning their own mines and outsourcing their operating as an optimal and efficient way and strategically logical. The biggest gain is in not needing to pay for third parties for the main raw materials. Despite the trade offs, we believe the pros offset the cons in the big picture.

Smelting and R&D

The smelting of output from Afarak's mines is done at its smelters in South Africa and Germany. Through its smelting and R&D excellence the company produces Speciality Alloys which serve the needs of aviation, nuclear, oil & gas and the automotive sectors.

The Elektrowerk Weisweiler (EWW) plant in Germany has over 100 years of expertise in the alloys business and the plant has a laboratory that is specialized in producing high grade products. The R&D at the EWW laboratory enables Afarak to be apart of the niche Speciality Alloys market. We estimate that the EWW-plant is in a good competitive position and we argue that it has a clear role in value creation going forward.

Business model (2/2)

Sales and trading

Afarak operates a big portion of sales through their trading company at Malta. Afarak Trading's role is also to optimize cash flows and net working capital. For example the company may be the buyer of the extracted material from the company's Turkish mine and own the raw materials throughout the chain from extraction to smelting at EWW and eventually sell the products to customers. Due to this chain, the company can control the payments through the whole process, which simplifies the process financials at the group level and makes it possible for the mines and smelters to fully focus on its main operative business.

Afarak Trading may also take part in pure trading on the markets. Due to broad connections and engagement with market participants the trading company may buy materials and sell them directly to their customers. In such an event, the company is not part in any extracting or smelting of these materials, but acts only as a middle man and a dealer. The company reaps gains from such possibilities simply when there is a possibility to profit from trading.

Logistics and distribution

The industry is a global business and therefore logistics and distribution also play a key role in the business processes. Afarak sells its products to a wide variety of countries worldwide but the main markets are in Europe ,USA and Asia. The logistics is controlled by their in-house logistics team. Afarak operates logistics through outside partners, but the overall control is done by the in-house team. We believe this is a efficient operating model, and we argue that operating logistics fully in-house would not be cost efficient.

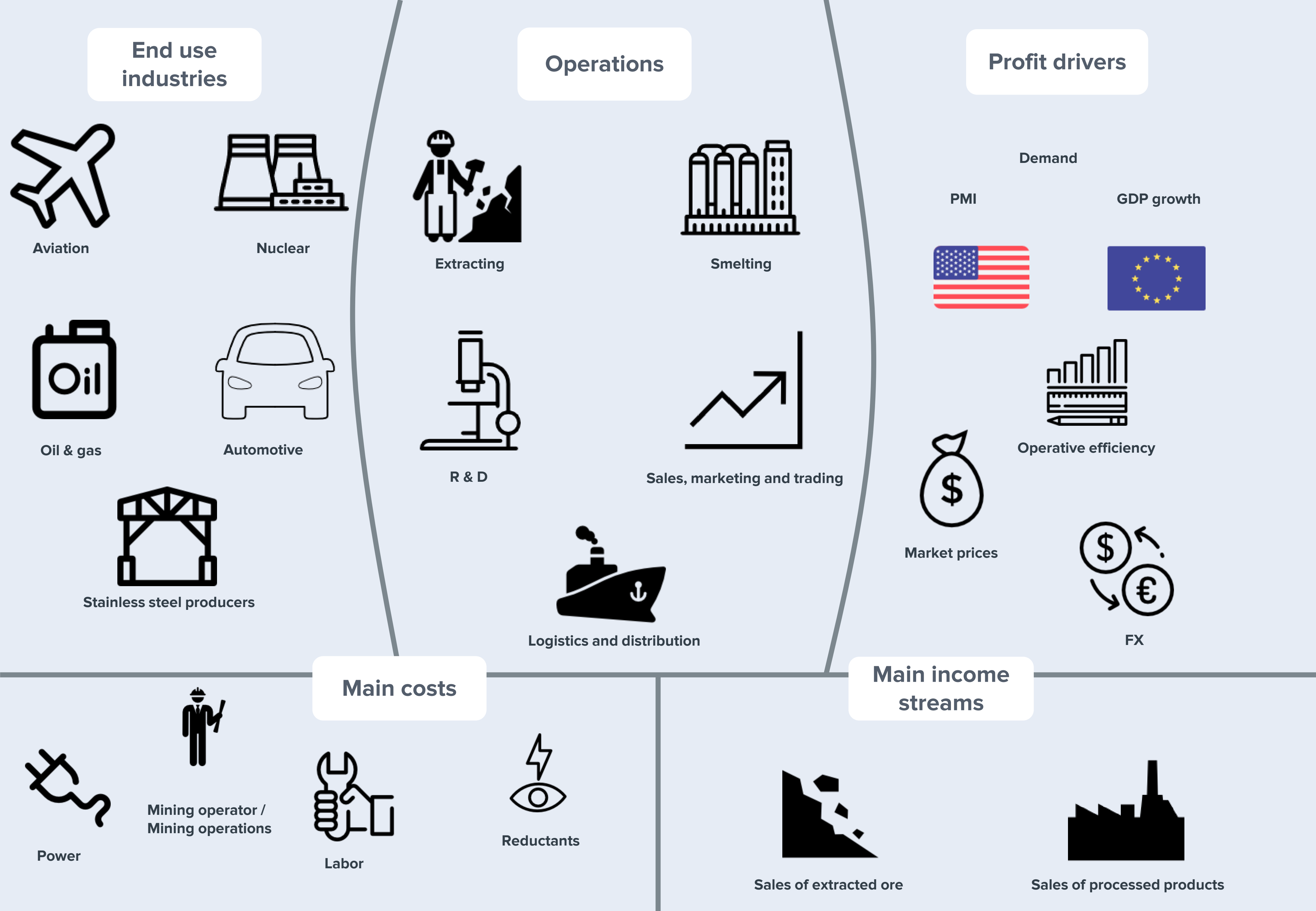
Customer base

The company's customer base is global and Afarak sells its products globally to five different continents. In 2016, over half (57 %) of the company's sales came from EU-countries, where the prices have been at highest levels. The second biggest portion came from US, which accounted roughly for 16 %, just above Africa's 12 %. The rest was divided to small portions in various countries globally. Overall we estimate Afarak has approximately 150 customers of which none form a major part of sales.

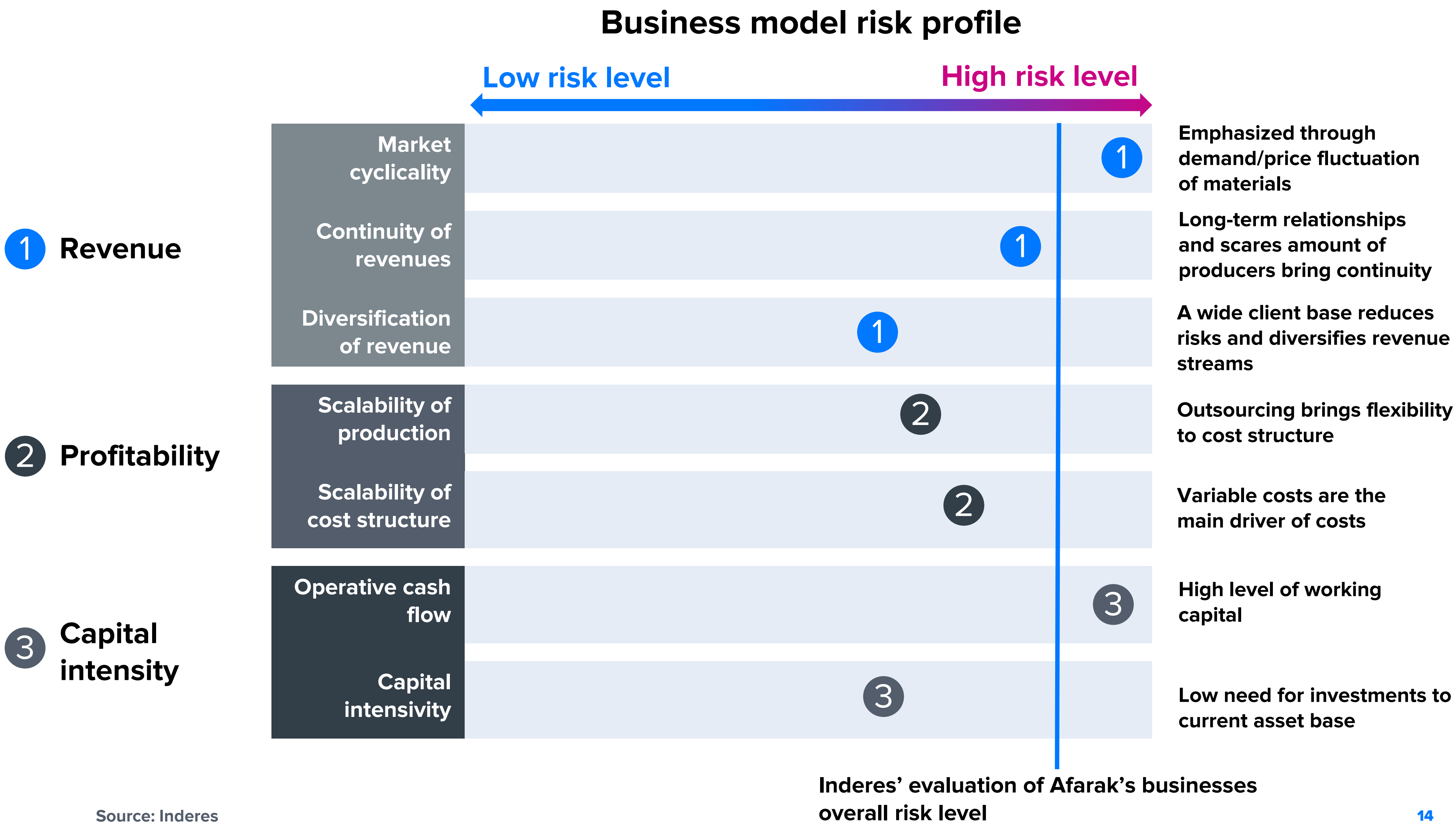
The excess from their mines, which is not for internal use, is sold to China and the local South African market. However, the division of smelted products sales is of more importance, since they are a larger portion of the groups sales and typically have higher margins. The prices vary globally depending on the relative amount of chrome and carbon of the end product. The company does not specify the division in sales (€) of extracted ore and Alloys products, but we estimate the latter to account for the majority of sales due to clearly higher price levels. Indeed, the sold product mix varies a lot due to demand and price fluctuations and the division should be expected to vary.

The customer base is divided between distributors and direct customers. We estimate that the majority of direct customers are in the Speciality Alloys segment which sells smaller lots and customer specific products through Afarak Trading, whereas the chrome ore and ferrochrome from South Africa is sold through distributors to some extent. Typically selling through distributors has a negative impact on margins and therefore we believe selling directly to customers is a preferable and cost efficient way to operate. Although it may be possible to lower the use of distributors, due to the market dynamics it is hard to avoid them totally.

Selling through distributors releases working capital, whereas selling to direct customers grows working capital through inventories. Also, the demand for Ferroalloys products is volatile and this may reflect into Afarak's inventories also, when price changes result in rapid changes in demand.


End use industries
Aviation
Nuclear
Oil & gas
Automotive
Stainless steel producers
Operations
Extracting
Smelting
R & D
Sales, marketing and trading
Logistics and distribution
Profit drivers
Demand
PMI
GDP growth
Operative efficiency
Market prices
FX
Main costs
Power
Mining operator /
Mining operations
Labor
Reductants
Main income streams
Sales of extracted ore
Sales of processed products

Business model



Source: Inderes

Speciality Alloys (1/2)

Niche alloys producer

The Speciality Alloys segment, which generated almost 45 % of the companies FY'16 revenues, is specialized in producing low and ultralow carbon ferrochrome products for several industrial segments. The segments operations consists of their mining operations in Turkey and their processing plant in Germany. The operations in Turkey (TMS) consist of open pit and underground mining, as well as ore enrichment facilities.

The mining operations output consists of two types of chrome ores: the special grade chromite concentrates are transferred to Afarak's smelting operations where they are used to produce specialized products, which are mainly sold to the European, American and Asian suppliers of automotive, aerospace and power generation industries. The mining operations also extract lumpy chrome ore that is directly sold to the market.

The deposits at the Turkish operations are significantly lower than those of the sites in South Africa, but they are rich in chrome (higher chrome-to-iron ratio), which reduces production costs, and on the contrary low in impurities such as phosphor and sulphur. Therefore, they are good raw materials for the specialized products, where purity is a vital element and which they are refined into.

Demand for specialized products

We estimate demand for Afarak's specialized products to be the least volatile part of their sales, since the company sells customer specific products for major industrial sectors with long-term contracts. The demand is widespread to industries that utilize steel related products in their own products. These customers vary from stainless steel producers to nuclear powerplant producers that use very specific products with very specific content needs. The specification level stems from the end use of these products. The automotive industry, for example, has high requirements for critical parts of cars to withstand crashes and hence it's highly important to have the best possible metals in these critical parts of the vehicle.

The specialized products are mostly used in small amounts and thus the customer needs are commonly rather small amounts, which underlines the small niche market they represent. Therefore we estimate that the customer base of the Speciality Alloys segment represents the majority of Afarak's total and direct customer base that we estimate to be around 150.

Production of stainless steel is key for demand of ferrochrome

The main drivers for demand of lumpy chrome ore production is the production of stainless steel. Therefore, the production growth of stainless steel should indicate the demand growth for ferrochrome in the medium and long-term.

Historically the demand of stainless steel has grown with a lever in relation to GDP growth, but has been more volatile. This has been mainly driven by industry specific characteristics that are linked to the cyclical nature of the end user industries of stainless steel. We argue that the underlying demand for stainless steel is somewhat less volatile and this should also apply to the demand for ferrochrome.

According to research by SMR, global demand for stainless steel products stood at approximately 39 million tons in the end of 2016 and is expected to grow to approximately 45 million tons by 2020. This represents a 3,5 % annual growth rate, which should also be an indication of the expected growth in the longer run. According to SMR, the demand growth is most rapid in APAC, where it slightly exceeds 4 % annually and is clearly above the rate of EMEA (~2 %) and America (~2,5 %). This is logical, when compared to the overall growth rates of GDP's and in our view the growth in APAC should indicate demand growth also for Afarak's lumpy chrome ore. Indeed, the growth outlook of China is slightly slowing, but is still greater than growth in Europe and the US.

In-house sales of specialized products

Afarak sells the low and ultralow carbon ferrochrome through its trading company based in Malta. The products are commonly highly specialized by the special needs of customers in the different industries and therefore close co-operation and communication on customer specific requirements is important. Thus, the advantage of an internal team is in keeping close relations with customers that enables stronger customer relationships that also help them to match production with demand.

Speciality Alloys (2/2)

Ore grade affects profitability

The chrome and carbon content of alloys affect strongly the profitability of Afarak, which is also a common characteristic for the metal industry. The possible profitability level is highly dependent on the cost of extracting raw materials from the sites. This cost is in turn linked to the purity of the resources as well as the depth from which they need to be extracted from. The profitability of the Speciality Alloys segment is tied to the sold amount of lumpy chrome ore and specialized chrome products and their prices.

The prices are mainly determined by global markets. However, since Afarak sells specialized chrome products, the profitability is also somewhat tied to their pricing power. Since the market for specialized products is a niche market, the prices are commonly tied to a more general ferrochrome or chrome price plus/minus a percentage amount. The pricing is, however, customer specific and the visibility into them is very weak due to customer specific pricing and discounts.

Historically the profitability of the Speciality Alloys segment has been volatile due to changes in prices and production volumes. In 2012 the segments EBIT-% fell to -9.1 % and reflected strongly the lower sales prices and slight decrease in sales volumes. On the contrary and mainly attributable to a stronger dollar rate, the segments best operating profit was reached in 2015 when the segments EBIT-% reached 10.5 %.

With the divisions' pricing power, cost outlook and capacity for production volumes, we see a EBIT-margin level of 10 to 13 % a reachable long-term average for Speciality Alloys. Indeed, it is important to note that the profitability is highly likely to stay volatile and directly linked to the aforementioned profitability drivers also in the future.

Cost position and competitive positioning of Speciality Alloys

We estimate that the cost position of Speciality Alloys is approximately in the middle of the global production cost curve. Although the purity of extracted ore in Turkey is high and should keep costs lower, the reserves and resources are more widespread which makes finding them more costly. Due to the widespread reserves the mining operations require more drilling in order to find them. Also, the reserves are spread in smaller amounts, which increases the need for drilling to find sufficient amounts for refining. Due to the pricing power of the Speciality Alloys, we estimate that it should reach higher profitability than the Ferroalloys in the long run.

Currently the producers of specialized products are limited to only two companies globally. JFE Material Ltd. is Afarak's Speciality Alloys segments' Japanese competitor. JFE is not listed and therefore there is very limited amount of financial data available for the company. In our view, the lack of producers in the segment reflects the market's small size and therefore we argue that the bigger challenge is the market growth rather than competition. We also estimate that due to the chrome richness of the Turkish chrome ore, Afarak is well positioned on the cost side against competition in Speciality Alloys. We believe that the end customers of the Speciality Alloys segment are typically large industrial companies such as Aperam, Outokumpu, Sandvik and airplane manufacturers like Boeing and Airbus. We argue that the pricing power of Afarak towards these companies is limited. Therefore we believe Afarak is a price taker in the segment and large price additions in relation to market prices are tough to negotiate.

The sales of refined products of Speciality Alloys has averaged approximately from 20 thousand tons to 30 thousand tons in the past six years, which mirrors the overall small niche market. Due to the small market size and also due to the competitive advantage from chrome rich Turkish chrome ore, we don't believe that the market of special products is attractive for new competitors. Therefore we don't expect that Afarak will face harsh growth in competition in its Speciality Alloys segment from competitors entering the market, which would change the competitive environment in Speciality Alloys.

Speciality Alloys

Low ferrochrome production process

- Extraction of raw materials
- Two mines in Turkey, TMS

- Chromite ore is processed to highly concentrated chromite concentrate and delivered to processing

- EWW processing plant in Germany

- Output: low carbon ferrochrome (LLL FeCr)

- Customers: suppliers to aerospace and turbine industries

Extra low ferrochrome production process

- Extraction of raw materials by third parties

- Bought SiCr delivered to processing

- EWW processing plant in Germany

- Output: extra low carbon ferrochrome (ELC FeCr)

- Customers: suppliers automotive industry

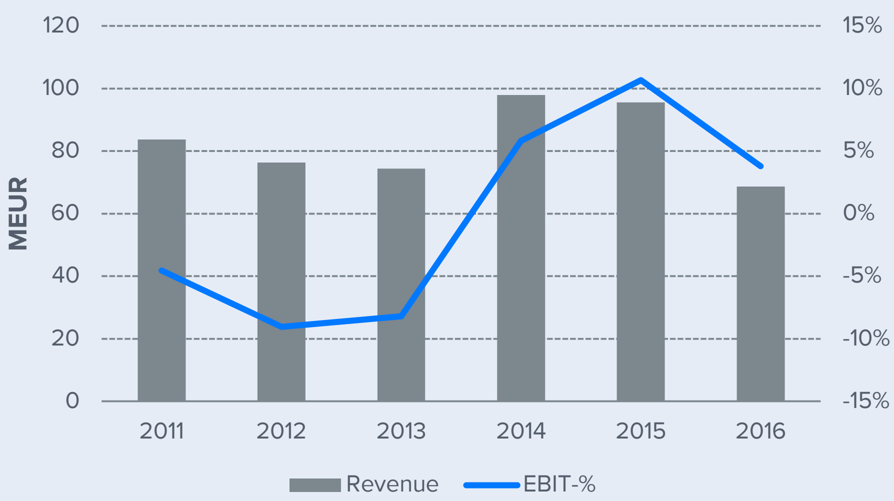
Source: Afarak, Inderes

Speciality Alloys

High chrome ferrochrome production process

- Extraction of raw materials by third parties
- Lime delivered to processing
- EWW processing plant in Germany
- Output: high chrome ferrochrome (HCr FeCr)
- Customers: suppliers to oil & gas and nuclear industries

Revenue and EBIT-%



Source: Afarak, Inderes

FerroAlloys (1/2)

FerroAlloys

Afarak's FerroAlloys segment's operations are located in South Africa, where the company has its mining operations and the Mogale Alloys processing plant. Currently, Afarak is operating the Stellite and Mecklenburg mines, which are the primary concentrate and lumpy ore suppliers for the Mogale plant. Excess lumpy chrome ore, that is not used at Mogale, is exported directly to China for the use of stainless steel producers. Due to the good market conditions on the chrome market, Afarak has switched all their furnaces to produce charge chrome instead of silicomanganese.

The concentrate ore is processed at the Mogale processing plant that has an annual production capacity of 110 000 tons. Mogale has four furnaces it operates of which two are submerged arc furnaces and two are direct current furnaces. The advantage of direct current furnaces is their power efficiency due to which they are approximately 20-30 % more cost efficient. The efficiency in power is a great advantage for Afarak's operations in South Africa as the country has one power provider, Eskom. The energy regulators grant Eskom approval for price increases, but due to high inflation in the past 10 years the average annual increase has been slightly above 16 %.

South Africa is a big player on the global chrome ore market

It is estimated that approximately 70-80 % of world chrome ore reserves are found in South Africa and more specifically at the Bushveld Igneous Complex where also Afarak's operations are located. Therefore, it is natural that South Africa is a major player in the world's ferrochrome production and it is estimated that South Africa's production accounts for one third of global production. Another key player is China, which accounts for approximately 35 % of global production. Kazakhstan and India come next with their approximately 10 % production shares. The last 10 % is wide spread to smaller producers, of which Finnish Outokumpu's portion is annually about 5 %.

Stainless steel dominates demand of chrome

Chrome is used in stainless steel production to bring a high resistance for corrosion and temperature. The amount of chrome used in manufacturing stainless steel varies between products, depending on its end use. However, on a broader level stainless steel products contain approximately 18 % of chromium. Globally, approximately 90 % of chrome demand stems from production of stainless steel. Therefore it is natural to estimate that the demand for chromium products will grow fairly in line with the growth of stainless steel production, which is estimated to average around 3,5 % annually until the 2020's as was discussed earlier.

According to Pariser Alloy Metals & Steel Market Research the annual chrome production is estimated to be around 11,5 million tons in 2017 which is fairly in line with the demand estimate of 12 million tons. We estimate that the demand and supply levels are fairly in line in the broader picture and investors should follow stainless steel production levels for indication of changes in demand of chrome. In the short term, the changes in demand of chrome from the stainless steel industry will follow the same pattern as previously estimated for the production of stainless steel (i.e. growth with leverage in relation to GDP). We note that global chrome resources are plenty and enough for years to come. However, the resources are deeper underground and weaker grade in general. Therefore the costs for production should be expected to rise in the long-term. Naturally, this will put upwards pressure on the prices of chrome products.

Small size and tough markets have reflected on profitability

In terms of profitability, the FerroAlloys segment has clearly been the weaker part of Afarak's operations historically. During the past six years the FerroAlloys segments worst year was 2011 when it's EBIT margin fell as low as -18,6 % due to a weak price environment and elevated depreciation levels. For the last five years, the segments EBIT margin has been more stable varying between the low level of 2012 at -4,5 % to 3,3 % in 2013, which has been the best year so far. On absolute terms, the segments profitability at the EBITDA level has been mostly on a single digit level and therefore the depreciation, although fairly small, has been enough to push operating profitability to weak levels. Therefore we see it to be highly important for Afarak to grow the segments operations from the current levels and improve its operational efficiency in order to reach sustainable profitability.

In the big picture Afarak's sales of processed products at Mogale alloys is small compared to the overall market. The potential amount of sold tons has been around 75-80 thousand tons in the past years, although it dropped as low as ~40 thousand tons in 2012 and 2013. It is clear that such small production volumes reflect into high cost per produced tons and the cost structure shows no scalability with such low production volumes.

FerroAlloys (2/2)

Cost structure and competitive positioning

The global cash cost for ferrochrome production is highly divided and widespread, which is a natural consequence that stems especially from the chrome richness of resources, but also from the main variable costs of production (labor, power, reductants etc.). The low end of the cost curve is dominated by producers from Kazakhstan, which reap gains from their chrome rich reserves and highly competitive overall cost level.

We estimate that the South African producers are fairly widespread on the curve, which stems from the varying total production capacity. The biggest players in South Africa can push costs lower with the help from higher volumes. The reserves in South Africa should clearly give the producers a competitive cost structure, but the negative effect from especially higher power costs drag down their competitive positioning.

On the higher end of the cost curve we estimate that the Turkish cost competitiveness is weakened by the highly divided reserves, which makes finding them more costly and also the low amounts of production. This reflects into higher production costs, despite fairly high chrome ratio. Also, we estimate that the Turkish producers do not benefit from a competitive overall cost structure.

Indian and Chinese producers clearly have the highest costs. In India the weak cost positioning is reflecting the large amount of small producers as well as high power costs. We estimate the Chinese to be in the top of the global cost curve, driven mostly by being dependent on imported ore. Although overall cost competitiveness should be high, the lack of domestic ore production (below 5 %) increases the costs of Chinese producers substantially.

In the long run costs should inch higher

As mining companies will have to go deeper underground to find chrome ore, we argue that in the long run the cash cost curve will have pressure upwards. This is natural, since OpEx costs will rise as it will require more facilitation and deeper drilling in order to access the ore. However, it is too early to predict the quality of the reserves and thus it remains to be seen how and when this will affect overall cost levels.

The price of chrome ore and processed products is, however, much more volatile and the changes in the production costs do not reflect into market prices immediately. Also, as seen last year, ferrochrome price may be pushed very low due to weak demand which only reverts when production is cut, often when inevitable. A big market driver is China, where demand has been historically volatile and has clearly impacted the whole market. Last year the historically low ferrochrome price resulted in several bankruptcies and financial distress in South Africa, which was needed for the prices to rise to sufficient levels for the majority of producers to be profitable. We believe Afarak's flexible and vertically integrated business model helped it avoid these issues.

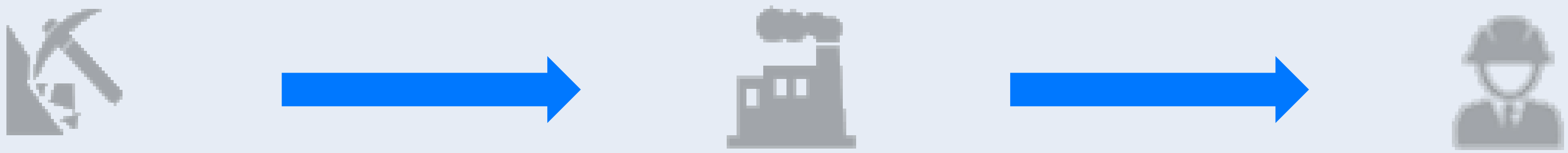
Eyes on capacity growth

In order for the ferroalloys to step up their profitability it needs to ramp up production from current levels. As the Mogale plant is running close to full capacity with current year's production volumes, we argue that Afarak has to either become a major exporter of chrome ore or invest into more processing capacity in South Africa, where they have large amounts of chrome reserves. Due to highly volatile ore and ferrochrome prices we find it tough to evaluate the possible margin differences in selling mainly ore or processing it to ferrochrome before selling. Due to the characteristics of the markets, the prices of ore and processed products do not always follow each others price movements in the short-term. However, we argue that in the long-term processing ore with a competitive cost structure should lead to higher margins than solely selling extracted ore.

Indeed, the fairly harsh overall situation of the South African supply side may introduce possibilities to acquire existing refining plants. We see Afarak's plans for M&A transactions being focused on possibilities in this sector. However, these possible M&A transactions need to be evaluated on a case by case basis due to the differences in cost competitiveness and the possibility to integrate the plant to the feeding mines. Therefore, before growing the processing capacity, we believe Afarak will need to secure a great deal of larger extraction output in order to feed the refining from their own mines, as we don't see buying ore from third parties as an attractive option.

FerroAlloys

Ferrochrome production process



- Extraction of raw materials
- Three mines in South Africa: Mecklenburg, Stellite and Vlakpoort

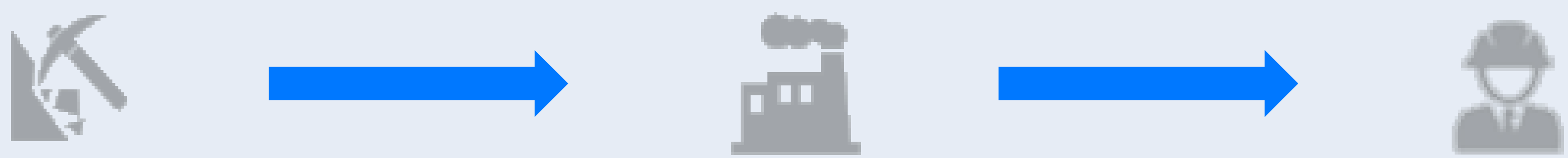
- Chromite ore delivered to processing

- Mogale processing plant

- Output: ferrochrome and medium carbon ferrochrome (FeCr, MCFeCr)

- Customers: suppliers to stainless steel industry

Silicomanganese production process



- Extraction of raw materials by third parties

- Bought manganese ore delivered to processing

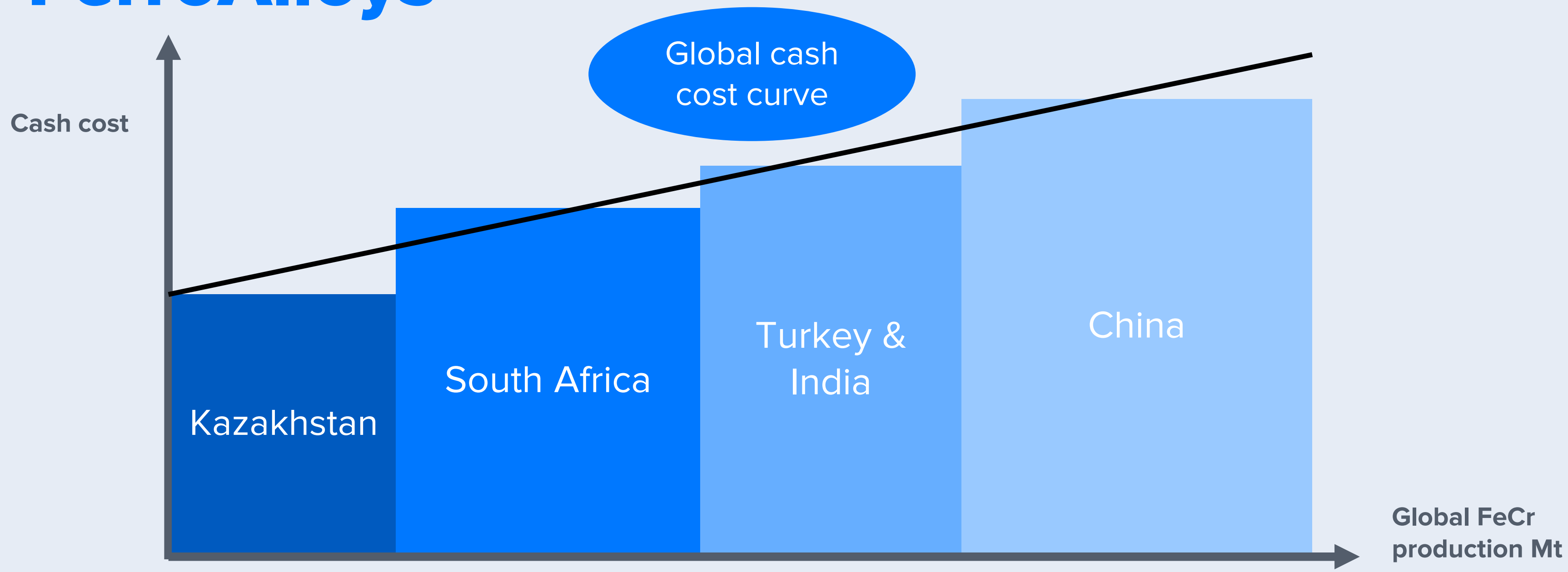
- Mogale processing plant

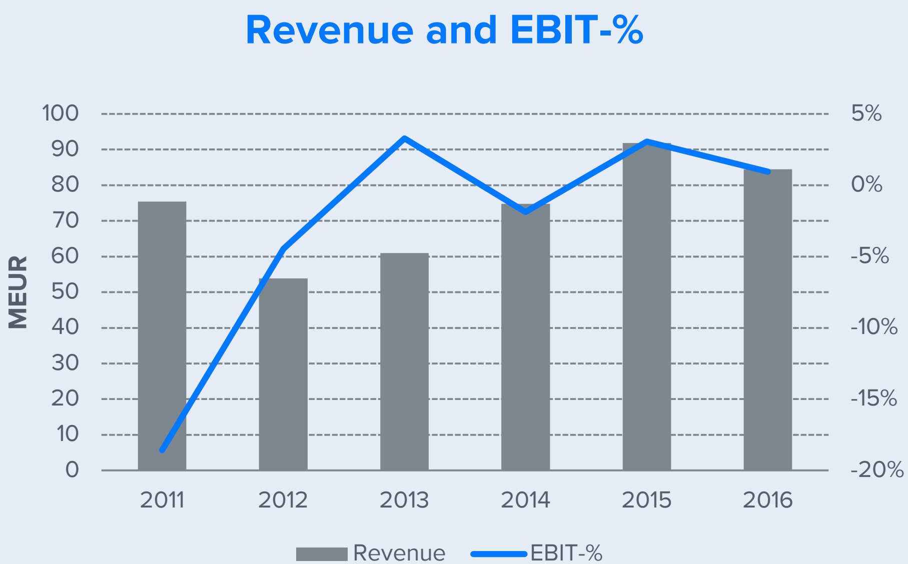
- Output: silico manganese (SiMn)

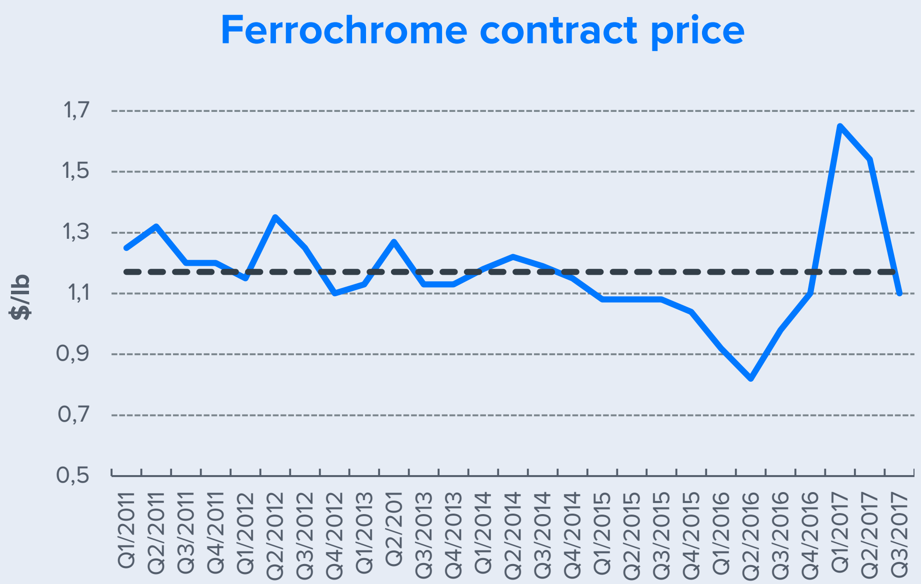
- Customers: suppliers to stainless steel industry

Source: Afarak, Inderes

FerroAlloys







Source: Inderes, cost curve only indicative

Strategy and financial potential (1/2)

Reaping gains from vertical integration is the core

Afarak's strategy is directly linked to their business model and the vertical integration. Their strategy is highly focused on niche products on markets that have only little competition. Also, through their vertical integration Afarak has flexibility in its operations, which enables it to quickly react to changes in the markets and optimize supply based on demand and market prices. Historically the company has used this flexibility regularly to adapt to the market conditions at the time.

Resulting from a long history of product development and research at EWW Afarak can produce products that other alloy providers are not capable of manufacturing. Due this strong market position Afarak can confirm rather constant and higher margins than from the more general alloys products. Due to the high degree of specialization Afarak may also sell smaller amounts from the Speciality Alloys segment. On the other hand, the Ferroalloys segment may be characterized as a more volume oriented business, which brings diversification whereas Speciality alloys provides the possibility to protect margins depending on the market conditions. This flexibility is in the core of Afarak's strategy and clearly the major benefit of vertical integration.

Growth and efficiency gains through investments

As a small producer Afarak is also highly growth oriented and the company is focused on investing not only in growing their business, but also investing in efficiency through process optimization and streamlining. Operating the whole value chain from extraction to distribution is key here, as Afarak has control of every part of the process. Afarak also has an investment program which is focused on investing into new technologies that enable efficiency advantages and also economies of scale, which would be needed to gain sustainable profitability.

Short- and mid-term growth prospects

The currently operated mines can only be used for production as long as their resources are sufficient and therefore Afarak's future growth prospects are also strongly linked to the existing resources that are not yet in production. The company has three mid-term growth initiatives where we see potential for growth:

Mecklenburg mine: At the end of 2016 the company had restarted its opencast mining operations at the Mecklenburg mine. However, the company expects to be able to access 4.5 million tons of chrome ore from underground mining at the site. This will bring growth and continuity in the short- and mid-term when compared to the total extraction volumes in South Africa, which were a modest ~200 000 tons in 2016. Operating underground may weaken the cost position of the mine, but this is highly linked to the state of reserves.

Stellite mine: currently the Stellite mine is extracting raw materials from the open cast. However, the area has significant underground reserves and we believe in the mid-term Afarak will commence these operations in order to grow extraction volumes. Thus, the mine has potential for further investments.

Eagle mine: the Eagle mine is located in Turkey, where Afarak was granted an exploitation mining license in January 2016. The reserves in the Eagle concession are small (proven 30 kt) in comparison to South Africa, but due to their chrome richness they are important for the production of specialized products.

Serbia plant: Afarak is operating a sintered magnesite plant as a test project. Currently they employ 71 people on a temporary basis and decisions regarding production will be done later in H2'17. The possible financial potential of the plant is too early to evaluate, but if it will be started we estimate it to contribute to growth in the short- and mid-term.

M&A has a role in the growth strategy

Mergers and acquisitions also have a clear role in Afarak's strategy and we expect the company to use it's strong balance sheet in order to grow refining capacity. With enough extraction capacity to feed another smelter, we believe Afarak is eyeing acquisitions of refining operations in South Africa. The unstable market conditions experienced last year had significant effects on South African producers and we evaluate that their profitability issues may open lucrative possibilities for consolidation of refineries as well as mines.

Financial potential

We evaluate Afarak's long-term growth potential through overall market growth in both divisions. As an aggregate we estimate Afarak's key markets to grow with lever compared to long-term growth of GDP, which is around 3 %. We believe Afarak, as a small provider and a growth company, should have the room to grow slightly above market growth rates organically. In addition, we expect Afarak, with its strong balance sheet, to speed up the growth with M&A whenever there are potential arrangements to create value.

Strategy and financial potential (2/2)

As stated, it is important to note that, due to changing demand, growth will also be volatile in the future as is the nature of the industry. This volatility is emphasized by the price fluctuations of market prices and therefore we highlight following growth through volumes rather than revenues. This is in line with the nature of profitability of the industry and it should be noted that the business is a margin business where also prices of raw materials are volatile. Thus, managing margins from the perspective of production costs in relation to sales prices is key to profitability.

According to PWC, in the 21st century a great deal of global mining companies have averaged return on capital employed (ROCE-%) between around 5-25 %. In our view this also gives insight into the scope which Afarak should be able to reach in the long-term. It is, however, important to note that, in line with the markets, the mining companies ROCE-% is very volatile ranging from the lows of an average 5 % in 2002 to the highs of 2006 at 23 %. Due to sluggish demand and correspondingly downward trending prices, after 2010 the industries ROCE-% has been falling towards the lower end and has been clearly below 5 % for the past four years.

Afarak is still a small player with a hefty balance sheet

As a small player with a hefty balance sheet, we do not believe Afarak can reclaim its full potential in terms of return on capital just yet. Also, it should be noted that the current heavy goodwill amount grows the balance sheet dramatically and lowers return on capital employed (ROCE-%). In the short-term we believe Afarak's ability to deliver return on capital stands at single digit levels. However, we expect the company to invest in growing its operations in the mid-term future, which should clearly raise its production of return on capital. In the long-term we estimate that Afarak should be able to reach an average of 10-13 % ROCE-% levels over the cycle. Indeed, considering the current amount of goodwill, this level is not easy to reach.

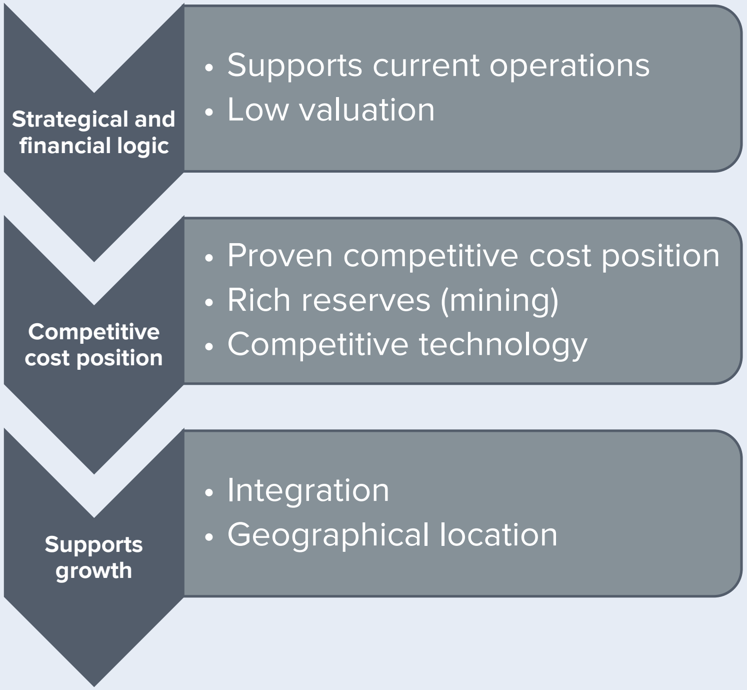
Currently Afarak's equity ratio is slightly below 70 %, which is clearly above their stated target equity ratio of 50 %. We believe the company will bring in more debt at the time of future investments and thus their equity ratio will come down closer to the target level. It should be noted that due to lack of leverage, we estimate that Afarak's ROE-% will not exceed their ROCE-%. However, due to extremely volatile nature of the business, we expect the company to be very risk-averse with its balance sheet and on the other hand we expect them to keep leeway for possible investments and/or acquisitions.

Return of capital is dependent on profitability and cash flows

In the past years, Afarak has returned capital to investors when their operative results have been on the positive side. This has mirrored the company's strong financial position where they have no need for excess capital. We expect the company to continue on this track in the near future. On the contrary, we don't expect the company to use its balance sheet to fund any return of capital to shareholders, but rather save it for investments and M&A. Therefore we expect the return of capital to closely follow the company's profitability in the short- and medium term. Also, it should be noted that the dividends (capital returns) may possibly be volatile and therefore will not provide support for the stock.

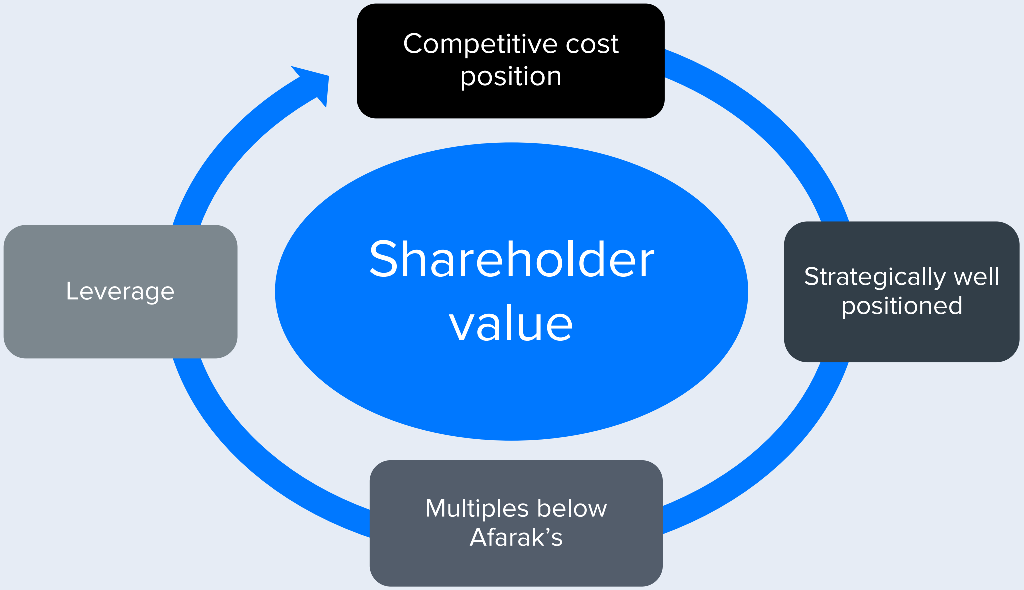
M&A strategy

Criteria for M&A



4-6x EV/EBITDA valuation

Creating value with M&A



Source: Inderes

Afarak’s strategy and financial potential

Strategic drivers	Strategic actions	Financial targets and estimated potential
Growth of stainless steel production	• Delivering raw materials to the growing stainless steel markets	• Growth above market growth (estimate)
Speciality alloys	• Focusing on specialized products with higher margins	• Long-term return on capital (ROCE-%) of 10-13 % (estimate)
Operational efficiency	• Operating a vertically integrated business model	• Equity ratio of 50 % (target)
Strategic investments	• M&A and Investments into technology, processes and systems	• Return of excess cash as capital returns (estimate)

- Growth of stainless steel production is expected to continue
- Demand for specialized products stems from industry specific requirements
- Afarak operates a business model that enables higher margins

- The company is well positioned to gain from growing stainless steel production
- Customer specific products increase Afarak’s margins and support their profitability
- A vertically integrated business gives the company cost and efficiency advantages and flexibility

- Investments play a major role in order to grow above the market, but growth and profitability improvement is also key in order to reach ROCE-% potential
- Afarak’s equity ratio is above their current target
- Excess cash will be returned to shareholders

Source: Inderes

Financial position (1/2)

Cost base is mainly variable costs

Afarak's cost base is dominated by variable costs that are directly linked to their mining and processing operations. Production of alloys is dominated by power costs, labor costs and ore costs. A great deal of production costs stem from power and therefore power price in Germany (EWW plant, ~7 % of costs) and South Africa (Mogale, ~10 % of costs) are key contributors to Afarak's cost base. Reductants used in production average about 5-10 % of the cash costs of production and add to the significant amount of variable costs.

Historically between 2011 and 2016 Afarak's materials and supplies costs have averaged 75 % of revenue, which underlines the high amount of variable costs. These costs are linked to production efficiency, which in our view should show some scalability when production levels are higher. But it should be noted that also the prices of reductants (i.e. chemicals used in processing) such as manganese, coke coal and ferrosilicon prices are volatile. In a short term, the company's main fixed costs are employee benefits that have averaged a rather high level (13 %) in the past six years and reflect the employee intensity of the industry. However, the lower labor costs in South Africa bring down the overall costs for Afarak.

Currencies impact profitability

In addition to the cyclical nature of the company's sales and variable costs, currencies have a big role in the company's profitability. Afarak does not report its earnings sensitivity to fluctuations in currencies, but the main currency pairs are EUR/USD, EUR/ZAR and EUR/TRY to some extent.

Majority of the company's sales are in US dollars, which is natural for the global markets of alloys. Respectively the cost base is directly linked to their mines and smelters in South Africa, Germany and Turkey. Therefore, the company gains a positive currency effect from the dollars appreciation against the euro, but the effect is negative if the cost related currencies appreciate against the euro. The bigger impact from currency fluctuations is reflected into Afarak's balance sheet through translation effects and the fluctuations are more minor on the income statement as the company occasionally manages its exposures with derivatives.

Currencies also reflect into net financials, tax rate will stay low

Currency fluctuations also reflect into the company's net financials due to gains and losses. However, these do not reflect into the company's cash flow and thus only affect the P&L. Afarak had -5,9 MEUR net debt in the end of FY'16 (gearing -3,3 %) and thus their low interest expenses are partly offset by interest income stemming from loans and receivables.

Afarak does not have a solid track-record of PT-profitability and thus the previous year's tax rate does not represent a normalized level. In the end of 2016 they had 30 MEUR of unrealized tax assets from previous years losses. These losses are in a wide range of companies, but are not currently booked as tax receivables. We believe their normalized tax rate is above the Finnish tax-rate of 20 %, but this will only materialize when the company posts a solid track record of profitability.

Currently South Africa's corporate tax-rate is at 28 % whereas Malta has a 35 % tax rate. This should give insight into the possible level of Afarak's tax rate once it normalizes and we estimate it to be closer to 30 % than the Finnish 20 %.

Strong balance sheet forms a good basis to build on

At the end of 2016, of Afarak's 165 MEUR non-current assets the majority consisted of their machinery and equipment and goodwill from acquisitions. The company's cash reserves were at 10 MEUR. The amount of goodwill is high in relation to the amount of equity (36 %), but we still see it as a limited risk since the company annually runs impairment tests that validate the value of goodwill. Indeed, it should be noted that the profitability track record is still weak. The company's current assets mainly consisted of inventories and receivables, that are on a naturally high level for an alloy miner and refiner.

The company's equity is dominated by their paid-up unrestricted equity reserve of 235 MEUR, but their 176 MEUR total equity consists also of retained earnings that stood at -96 MEUR at the end of 2016.

Afarak is almost free of interest bearing debt and had a negative gearing of 3,3 % in the end of 2016. The 27 MEUR current liabilities consisted mostly of their 18 MEUR trade and other payables. Afarak's equity ratio was 68 % in the end of 2016 and is a good basis to build on and the company is in a position to use leverage for investments.

Financial position (2/2)

Free cash flow has been weak, despite low investments

Although Afarak's CAPEX needs are fairly low compared to the asset base, their free cash flow has been weak in the past years. In absolute terms, Afarak's EBIT has been low and therefore even relatively small CAPEX levels (average 7-8 MEUR, and slightly above depreciations of 5-7 MEUR) have been enough to push free cash flow to weak levels. The weak cash flow is also highly affected by the company's business model that ties capital to inventories and its natures results in higher trade receivables than payables. Also, it should be noted that due to the high volatility in earnings, also cash flows will be volatile on a quarterly level and should rather be followed on an annual basis.

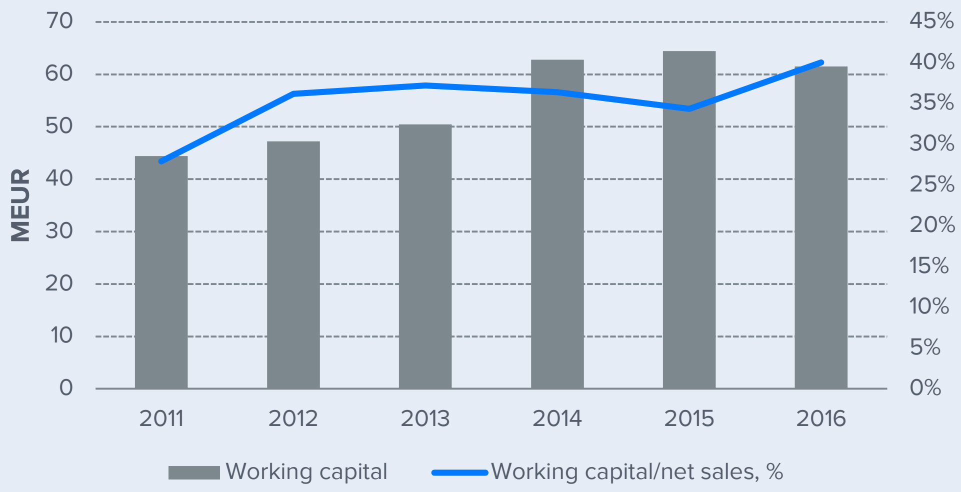
Capital intensive business model and industry

The mining industry is a capital intensive business, which stems not only from owning the production facilities, the resources and reserves, but also from its characteristics of tying a lot of working capital. Although historically Afarak's CAPEX have been fairly low, due to the nature of the business a lot of capital is tied to inventories as well as receivables.

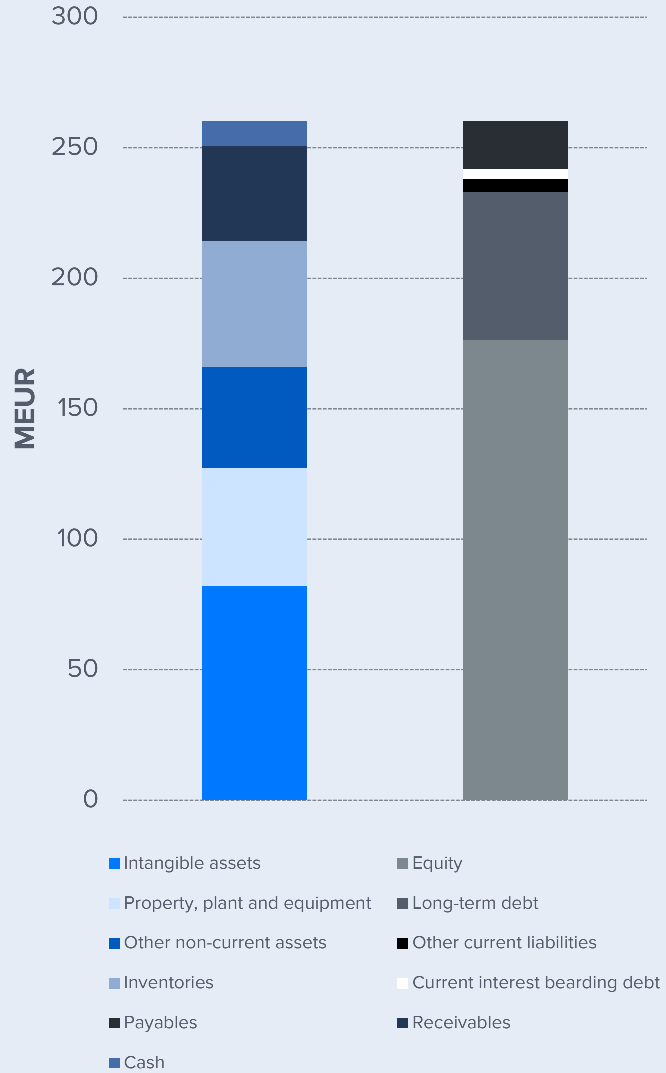
Although the vertically integrated business model enables the company to moderate the extraction volumes, and thus Afarak can react to growing inventories by slowing down mining operations, the short visibility into demand reflects into rapidly growing working capital at times. Also, the trade off for operating your own mines is a reduction of trade payables which in turn grow the amount of net working capital tied. Historically Afarak's payables have been below receivables which reflect into high amount of working capital. Therefore, the importance of managing working capital should be highlighted in Afarak's business model.

Financial position

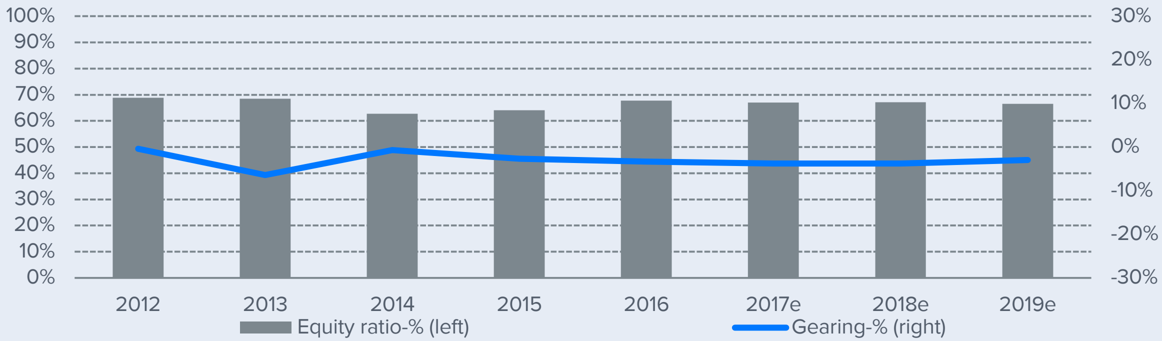
Working capital



Balance sheet



Balance sheet key figures



Source: Afarak, Inderes

Estimates (1/2)

Estimate model

We base our short-term estimate model on division level estimates of Afarak's volume and average price development as well as profitability margin estimates. We also model revenue growth, cost structure and profitability margins at a group level. In the long-term we base our estimates on market growth and profitability margins. Our estimates do not take into account possible M&A and their effect will be evaluated case by case, when necessary.

Macro environment

The global macro environment has improved during 2017 especially in developed countries. We expect that 2017 will be relatively strong in the global economy (growth around 3 % vs. 3,1 % in 2016). The forecast is based on strengthening expectations of global demand, decreased deflationary pressures and optimism in financial markets. Political uncertainty remains at relatively high levels in the US (fiscal policy uncertainty, Russia-probe) and EZ (forthcoming parliamentary elections in Italy) and can cause downside risks to the economy in the short term. Also China's escalating debt problem is a big risk to the financial markets.

Consumer demand has been the main driver of economic growth during the past years mainly supported by ultra-easy monetary policy in Japan, United States and the Eurozone. Lately there has been strong evidence of growing confidence also among industrial companies (boost in manufacturing PMI's), which reflects a better business environment and growth in investments. That means growth has become more balanced among countries and sectors.

China's economy has had a good start to the year, but growth is set to slow for the rest of 2017 on the back of weaker residential investment and a tighter monetary policy. In Q1, infrastructure stimulus and residential CapEx kept the economy growing, while manufacturing investment remained steady. Manufacturing activity slowed in May (Caixin PMI 49,6) to the lowest level in 11 months.

We believe Afarak's key markets will post strong growth this year, which will also reflect into demand growth from the stainless steel industry that is growing. However, the possible slowdown of the Chinese economy is a major driver of alloy's prices and has reflected negatively into prices globally. Despite strong demand, we argue that prices will not reach the levels seen in the first quarter of 2017, which were a result of market disturbance, and this clearly affect's our estimates.

Estimates for 2017

We estimate Afarak's revenue to grow significantly this year compared to 2016. The approximately 26 % growth is mainly driven by the significant pick up in the prices of Ferroalloys products. Indeed, we do not expect the exceptionally high prices seen in Q1 to hold throughout the year and we estimate the price levels to drop during the year. We also estimate the volumes of Speciality Alloys products to recover from the low levels of 2016. In terms of profitability, we expect the company to improve significantly from last year, especially due to the exceptionally strong Q1. Our 13 % EBIT margin reflects a 25 MEUR EBIT level (2016: -1 MEUR). Operative profitability will be supported by significantly higher revenues, especially in the Ferroalloys segment, as well as slightly increasing operative efficiency. However, we do not expect the company to reach Q1-levels in terms of profitability due to decreasing prices which will clearly reflect into the full year numbers.

Below operating profit, we estimate the company's net financials to be increasingly negative from last year, which are however mainly driven by the accumulated exchange-loss from Q1 (-3,2 MEUR). Due to low debt, Afarak's financial costs are mainly driven by FX-movements and thus should continue to be highly volatile in the future. We estimate a 0.05 EUR EPS for FY'17. We estimate Afarak will return 0.02 EUR as capital to shareholders.

2018 and 2019 estimates

We estimate Afarak will benefit from production volume growth especially in the Ferroalloys segment in the coming years. However, the pricing environment will normalize gradually during year 2017 and therefore we estimate that the average prices will contract to longer term averages. Due to the significant impact of pricing, we estimate that Ferroalloys' revenue will drop slightly in 2018 before volume growth fully kicks in and turns revenue to growth again in 2019. In the Speciality Alloys segment we expect the pricing environment to improve and mean revert to its previous years level.

Estimates (2/2)

This will clearly have a positive impact on revenues through sales mix improvement towards more high grade products. On the group level we estimate Afarak will reach revenues of 204 MEUR in 2018 and 225 MEUR in 2019.

In terms of operating profit we estimate Afarak will not be able to reach current years' levels in the coming years, where the biggest impact comes from lower market prices, which lead to weakening margins in the Ferroalloys segment. On the other hand, we estimate Speciality Alloys to maintain it's operative margins on double digit levels, but at the group level profitability will have a bigger impact from the weakening profitability of Ferroalloys. We estimate Afarak will reach a 14.0 MEUR EBIT (EBIT-% 6.9 %) in 2018 and 16.5 MEUR (7.3 %) in 2019 respectively.

Due to low debt, net financials will continue to be affected mainly by FX and hedging costs that will be volatile. We do not incorporate any possible tax assets from earlier year's losses due to their high uncertainty. Our EPS estimates for 2018 and 2019 are 0.03 EUR and 0.04 EUR. We expect working capital to remain high and on a slight growth track along revenue growth. CAPEX should stay fairly low and in line with previous years, but in absolute terms it impacts cash flows strongly. Therefore we estimate Afarak will keep return of capital at 0.02 EUR per share also in 2018 and 2019.

Long-term estimates

In the long-term we estimate that Afarak's growth will be fairly in line with market growth of 2-4 %. This growth is highly driven by growth of the stainless steel industry. Indeed, we expect that Afarak will take significant steps (M&A) in order to grow to the next level to become a significantly bigger player in the global alloys market. However, due to the weak possibility of estimating the timing of these actions, we do not take them into account in our estimates at this point in time.

Profitability, measured by EBIT-%, we estimate to be in the range off 6-8 % in the long-term, but emphasize that it will be highly volatile and driven by changes in demand and market prices. Raising profitability clearly above this level over the cycle would require the company to grow significantly from its current size, which would bring cost structure scalability and efficiency gains in the longer run.

Estimates

Quarterly earnings	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17e	Q3'17e	Q4'17e	2017e	2018e	2019e
Net sales	**187,7**	**40,8**	**39,4**	**28,9**	**44,4**	**153,6**	**56,6**	**46,8**	**37,7**	**42,9**	**184,0**	**203,6**	**224,8**
Speciality Alloys	*96,5*	*18,4*	*18,4*	*11,4*	*20,5*	*68,7*	*21,7*	*19,2*	*17,6*	*16,5*	*75,0*	*94,8*	*99,7*
Ferroalloys	*91,8*	*22,3*	*21,1*	*17,5*	*23,6*	*84,5*	*34,1*	*27,6*	*21,0*	*26,6*	*109,3*	*108,7*	*125,0*
Eliminations and unallocated	*-0,5*	*0,0*	*0,0*	*0,0*	*0,4*	*0,4*	*0,8*	*0,0*	*-0,9*	*-0,2*	*-0,3*	*0,1*	*0,1*
EBITDA	**17,2**	**3,3**	**0,8**	**-2,8**	**4,2**	**5,5**	**12,7**	**5,5**	**5,1**	**5,3**	**28,5**	**20,4**	**23,5**
Depreciation	-7,3	-1,6	-1,7	-1,7	-1,6	-6,5	-1,6	-1,7	-1,7	-1,7	-6,7	-6,4	-7,0
EBIT (excl. NRI)	**9,9**	**1,7**	**-0,9**	**-4,5**	**2,7**	**-1,0**	**11,1**	**3,8**	**3,4**	**3,6**	**21,8**	**14,0**	**16,5**
EBIT	**9,9**	**1,7**	**-0,9**	**-4,5**	**2,7**	**-1,0**	**11,1**	**3,8**	**3,4**	**3,6**	**21,8**	**14,0**	**16,5**
Speciality Alloys	*10,1*	*1,7*	*0,9*	*-1,4*	*1,9*	*3,1*	*4,2*	*2,6*	*1,7*	*1,1*	*9,6*	*10,8*	*11,7*
Ferroalloys	*2,8*	*0,9*	*-0,5*	*-2,6*	*3,1*	*0,9*	*8,0*	*2,4*	*2,1*	*3,5*	*15,9*	*7,1*	*8,8*
Eliminations and unallocated	*-3,0*	*-0,9*	*-1,3*	*-0,5*	*-2,2*	*-4,9*	*-1,1*	*-1,2*	*-0,4*	*-1,0*	*-3,7*	*-3,9*	*-4,0*
Net financial items	-3,4	-0,9	-0,4	0,3	-1,2	-2,1	-4,2	-0,5	-0,5	-1,0	-6,2	-3,5	-2,5
PTP	**6,5**	**0,8**	**-1,2**	**-4,2**	**1,5**	**-3,1**	**6,9**	**3,3**	**2,9**	**2,6**	**15,6**	**10,5**	**14,0**
Taxes	1,2	-1,1	0,2	0,7	0,5	0,3	-2,7	-0,6	-0,5	-0,4	-4,2	-2,6	-3,5
Minority interest	-0,3	-0,1	0,1	0,0	0,0	0,0	-0,6	0,0	0,0	0,0	-0,6	0,0	0,0
Net earnings	**7,4**	**-0,3**	**-1,0**	**-3,5**	**2,0**	**-2,8**	**3,6**	**2,6**	**2,4**	**2,1**	**10,7**	**7,9**	**10,5**
EPS (adj.)	**0,03**	**0,00**	**0,00**	**-0,01**	**0,01**	**-0,01**	**0,01**	**0,01**	**0,01**	**0,01**	**0,04**	**0,03**	**0,04**
EPS (rep.)	**0,03**	**0,00**	**0,00**	**-0,01**	**0,01**	**-0,01**	**0,01**	**0,01**	**0,01**	**0,01**	**0,04**	**0,03**	**0,04**

Key figures	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17e	Q3'17e	Q4'17e	2017e	2018e	2019e
Revenue growth-%	8,7 %	0,0 %	0,0 %	0,0 %	-76,3 %	-18,2 %	38,8 %	18,7 %	30,3 %	-3,4 %	19,8 %	10,6 %	10,4 %
Adjusted EBIT growth-%	472,9 %				neg.	neg.	553,2 %	neg.	neg.	33,5 %	neg.	neg.	17,6 %
EBITDA-%	9,2 %	8,0 %	2,0 %	-9,7 %	9,5 %	3,6 %	22,4 %	11,6 %	13,4 %	12,3 %	15,5 %	10,0 %	10,5 %
Adjusted operating profit-%	5,3 %	4,2 %	-2,2 %	-15,6 %	6,0 %	-0,7 %	19,6 %	8,0 %	8,9 %	8,3 %	11,8 %	6,9 %	7,3 %
Net profit-%	3,9 %	-0,8 %	-2,4 %	-12,1 %	4,5 %	-1,8 %	6,3 %	5,6 %	6,3 %	5,0 %	5,8 %	3,9 %	4,7 %

Source: Inderes

Valuation and recommendation

Principles of valuation

Due to high volatility in earnings and weak visibility we emphasize short term multiples in valuing Afarak's stock. We also base our valuation on our estimates of return on capital in the long-term, which we argue that indicates a potential range of return the current operations can produce in the long-term.

We value Afarak mainly through earnings based multiples such as EV/EBITDA, EV/EBIT as well as balance sheet ratio P/B. Also, we compare Afarak's multiples to the equivalent of a peer group. We emphasize the current year's multiples due to the high volatility of earnings and weak visibility into market movements.

Multiples

Based on our 2017 estimates Afarak is valued at 8x and 10x with EV/EBITDA and EV/EBIT multiples. We believe these multiples are clearly elevated and above an acceptable valuation. Due to low absolute level of operating profit, net financials and taxes drag net earnings and the current P/E of 21x is clearly less attractive. On a price to book (P/B) basis the valuation looks also stretched with Afarak's current 1.2 P/B. We argue that this is too high when compared to the expected return on capital. Also, the expected dividend (capital return) yield of just slightly above 2 % is not enough to compensate for the elevated multiples.

We argue that in order to have a positive expected return the valuation range should be closer to a 5-6x EV/EBITDA and a discount to book value.

Peer group valuation

We use a peer group consisting of multiple South African miners and smelters as well as include a few large global operators in order to get a broader view on the overall sector valuation. The peer group valuation supports our view regarding Afarak's stretched valuation. With current years EV/EBITDA and EV/EBIT multiples, Afarak is trading with approximately a 25 % premium.

Based on the current P/B multiples, Afarak is trading with approximately a 25 % premium compared to the peer group. During the ongoing decade (2010-2016) the somewhat bigger South African peer group has averaged approximately a 8 % percent return on capital. Compared to Afarak's significantly weaker track-record, we argue that it should be reflected also in to the company's valuation, which is not the case currently.

DCF-valuation

Our DCF-model indicates a value of 0.60 EUR for Afarak's stock. In our model we estimate a long-term growth average of 2 % and 6-8 % EBIT-margin. The model is extremely sensitive for terminal value assumptions, which are especially uncertain in the mining industry. The continuity of the business is highly linked to the reserves and resources sufficiency, which are challenging to evaluate and require many assumptions. Therefore we do not put a lot weight on the model in our estimate of Afarak's fair value.

In our model the weighted average cost of capital is 8.5 % and cost of equity is 9.7 %. The weight of terminal value is rather high at 61 %, especially when considering weak visibility regarding the long-term development.

Estimate scenarios

Due to the high uncertainty related to future estimates, we have conducted three scenarios in order to evaluate the fair price for Afarak's share. We value Afarak's stock with the peer groups median EV/EBIT multiple for the current year, which is at 8x. Our neutral case reflects our base case view.

Our pessimistic case is reflecting a strongly weaker market environment throughout the year in which volumes and pricing environment weaken towards the end of the year. In this case Afarak is only able to reach a 15 MEUR EBIT. With the peer group multiple Afarak's shares fair value would be at 0.50 euros.

In our optimistic scenario we expect the pricing environment to reach Q1-levels for H2'17 and volumes to reflect almost full capacity. In this scenario, demand would have to pick up and reach higher than average levels for the second half of the year. If the optimistic earnings estimates were reached Afarak's FY'17 EBIT would be at 35 MEUR and the shares fair value would be at 1.12euros.

Valuation and recommendation

Investment case

We initiate our coverage with a target price of 0,75 EUR and with a sell recommendation. We do not see the current valuation as compelling when considering the short-term market and earnings trend as well as the high cyclicality of the business. We base our valuation on short-term valuation multiples and emphasize the P/B multiple. We argue that the fair P/B multiple valuation is in the range of 0.8-1.2x, but emphasize that a premium valuation in relation to book value would require a return on equity clearly at double digit levels. Considering the current market outlook we do not estimate Afarak to reach this level in the short-term, but we underline that the market outlook may change on short notice due to the characteristics of the markets.

We argue that in order to create value and deserve a higher valuation, Afarak needs to elevate the execution of its growth strategy. This is especially emphasized in the South-African operations. We estimate the Speciality Alloys to have a more stable outlook. However, it is not sufficient to justify the current valuation and thus we want to see a clear pickup in Ferroalloys operations before accepting a higher valuation.

With the current size of operations it is difficult for the company to reach sustainable profitability and sufficient levels of return on equity, which is clearly reflected in the acceptable valuation. We believe Afarak is rather active in attempts to grow their operations through M&A and we see this as a possible way to take their business to the required next level. However, we emphasize that this is highly linked to the success of these potential and probable transactions, which need to be evaluated case by case.

If Afarak would reach our assessment of their future financial potential, especially in terms of return on capital, we would be ready to accept a higher valuation for the share. This also highlights the importance of successful M&A that creates value. Also, we underline that Afarak's industry is highly volatile and visibility regarding the market outlook is extremely constrained. Therefore we see higher than market average risk associated with the stock, which is important for investors to be aware of.

Valuation multiples

Valuation	2016	2017e	2018e	2019e
Share price	0,78	0,86	0,86	0,86
MCAP	205	222	222	222
EV	204	217	221	225
P/E (adj.)	neg.	20,7	28,1	21,1
P/E	neg.	20,7	28,1	21,1
P/FCF	-77,0	15,2	56,8	75,3
P/B	1,2	1,2	1,2	1,2
P/S	1,3	1,2	1,1	1,0
EV/S	1,3	1,2	1,1	1,0
EV/EBITDA	37,3	7,6	10,8	9,5
EV/EBIT	neg.	10,0	15,7	13,6
Payout (%)	neg.	48,4 %	65,6 %	49,4 %
Dividend yield-%	2,6 %	2,3 %	2,3 %	2,3 %

Source: Inderes

Peer group valuation

	MCAP	EV	EV/EBIT		EV/EBITDA		EV/Sales		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e
Rio Tinto	71553	85226	7,9	10,2	5,6	6,7	2,5	2,7	10,1	12,9	2,6	2,0	1,8
Glencore	49707	76101	11,7	13,4	6,3	6,5	0,5	0,5	12,1	12,6	0,1	0,2	1,2
BHP Billiton	83210	105238	9,0	10,5	5,8	6,2	3,1	3,1	12,0	13,3	0,9	0,8	1,5
Assore	1780	1516	7,6	18,3	9,3	18,5	3,6	4,5	4,1	7,9	17,4	9,7	1,0
African Rainbow Minerals	1160	1421	51,9	35,0	14,0	19,1	2,5	2,4	4,4	9,8	4,3	2,8	0,6
South32	9589	8775	6,3	7,0	4,3	4,6	1,4	1,4	9,6	10,6	0,1	0,1	1,1
Exxaro Resources	1961	2257	6,2	7,5	5,2	5,9	1,5	1,5	5,7	7,2	5,1	4,1	0,8
Impala Platinum	1683	2054	54,1	15,6	8,8	6,2	0,9	0,8		22,7	0,0	0,2	0,5
Afarak Group (Inderes)	**222**	**217**	**10,0**	**15,9**	**7,6**	**10,9**	**1,2**	**1,1**	**20,7**	**28,1**	**2,3**	**2,3**	**1,2**
Average			**17,4**	**13,4**	**6,8**	**8,5**	**1,8**	**1,9**	**7,6**	**11,2**	**3,4**	**2,2**	**1,0**
Median			**7,9**	**10,5**	**5,8**	**6,2**	**1,5**	**1,5**	**7,6**	**10,6**	**0,9**	**0,8**	**1,0**
Premium/discount -% vs. mediaan			**26 %**	**51 %**	**32 %**	**75 %**	**-23 %**	**-28 %**	**171 %**	**165 %**	**171 %**	**205 %**	**27 %**

Source: Reuters / Inderes. Notification: Inderes' MCAP does not include treasury shares

Source: Reuters, Inderes

Estimate scenarios

Pessimistic

- Outlook weakens throughout the year
  - Pricing environment weakens clearly
  - Volumes weaken towards the end of the year
- Operating profit is hit by the weak prices and low demand which reflects into the operative margins

2017 EBIT: 15 MEUR

Neutral

- Base case according to our estimates
- Normalizing pricing environment
- Positive volume development

2017 EBIT: 22 MEUR

Optimistic

- Outlook turns clearly into the positive side for H2'17
- Prices rise strongly and reach Q1-levels for H2'17
- Due to strong demand and operative success volumes grow significantly in mining and smelting is at full capacity

2017 EBIT: 35 MEUR

Valuation on peer group level: 2017e EV/EBIT 8x

Per share: 0.50 EUR

Per share: 0.72 EUR

Per share: 1.12 EUR

Source: Inderes

Afarak's earnings drivers and their outlook

Source: Inderes

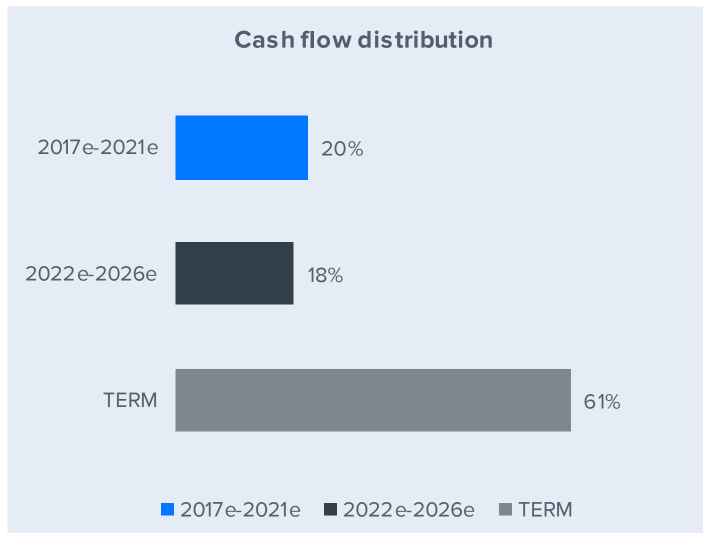
Drivers for stock’s return 2017e-2019e

Source: Inderes

Cash flow analysis

DCF model (MEUR)	2016	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	TERM
EBIT (operating profit)	**-1,0**	**21,8**	**14,0**	**16,5**	**17,0**	**18,1**	**18,6**	**18,9**	**19,2**	**19,6**	**20,0**	
+ Depreciation	6,5	6,7	6,4	7,0	7,2	7,4	7,5	7,7	7,9	8,1	8,2	
- Paid taxes	-0,9	-4,2	-2,6	-3,5	-3,6	-3,9	-4,0	-4,1	-4,2	-4,3	-5,0	
- Tax, financial expenses	-0,2	-1,7	-0,9	-0,6	-0,6	-0,6	-0,6	-0,6	-0,6	-0,6	0,0	
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Change in working capital	2,9	-0,9	-6,1	-5,4	-0,8	-2,4	-2,5	-2,5	-2,6	-1,8	-1,8	
Operating cash flow	**7,2**	**21,6**	**10,8**	**14,0**	**19,2**	**18,5**	**19,0**	**19,4**	**19,7**	**21,0**	**21,4**	
+ Change in other long-term liabilities	-2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
,- Gross CAPEX	-9,7	-7,1	-10,0	-9,2	-9,2	-9,2	-9,3	-9,5	-9,7	-9,7	-7,9	
Free operating cash flow	**-4,5**	**14,5**	**0,8**	**4,9**	**10,0**	**9,4**	**9,7**	**9,8**	**9,9**	**11,3**	**13,5**	
+/- Other	1,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-2,7	14,5	0,8	4,9	10,0	9,4	9,7	9,8	9,9	11,3	13,5	213,3
Discounted FCFF		14,0	0,8	4,0	7,5	6,5	6,2	5,8	5,4	5,7	6,3	98,8
Sum of FCFF present value		**160,9**	**146,9**	**146,2**	**142,2**	**134,6**	**128,1**	**121,9**	**116,1**	**110,7**	**105,0**	**98,8**
Debt free DCF		**160,9**										
- Interesting bearing debt		-3,8										
+ Cash and equivivalents		9,7										
-Minorities		-5,0										
-Dividend/capital return		-5,3										
Equity value DCF		**156,5**										
Equity value DCF per share		**0,60**										

WACC	
Tax-% (WACC)	25,0 %
Target debt ratio (D/(D+E)	20,0 %
Cost of debt	5,0 %
Equity Beta	1,40
Market risk premium	4,75 %
Liquidity premium	0,00 %
Risk free interest rate	3,0 %
Cost of equity	9,7 %
Average cost of capital (WACC)	8,5 %



Source: Inderes

Income statement

(MEUR)	2014	2015	2016	2017e	2018e	2019e
Net sales	**173**	**188**	**154**	**184**	**204**	**225**
Costs	-164	-171	-148	-156	-183	-201
EBITDA	**8,4**	**17,2**	**5,5**	**28,5**	**20,4**	**23,5**
Depreciation	-6,7	-7,3	-6,5	-6,7	-6,4	-7,0
EBIT	**1,7**	**9,9**	**-1,0**	**21,8**	**14,0**	**16,5**
NRIs in EBIT	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*
EBIT (excl. NRIs)	*1,7*	*9,9*	*-1,0*	*21,8*	*14,0*	*16,5*
Net financial items	-1,3	-3,4	-2,1	-6,2	-3,5	-2,5
Associated companies	0,0	0,0	0,0	0,0	0,0	0,0
Pre-tax profit	**0,5**	**6,5**	**-3,1**	**15,6**	**10,5**	**14,0**
Other items	0,0	0,0	0,0	0,0	0,0	0,0
Taxes	0,0	1,2	0,3	-4,2	-2,6	-3,5
Minorities	0,0	-0,3	0,0	-0,6	0,0	0,0
Net earnings	**0,4**	**7,4**	**-2,8**	**10,7**	**7,9**	**10,5**
Net earnings (excl. NRI)	*0,4*	*7,4*	*-2,8*	*10,7*	*7,9*	*10,5*
Extraordinaries	1,8	0,8	1,9	0,0	0,0	0,0
Profit for period	**2,2**	**8,2**	**-0,9**	**10,7**	**7,9**	**10,5**
EPS	*0,00*	*0,03*	*-0,01*	*0,04*	*0,03*	*0,04*
EPS (excl. NRIs)	***0,00***	***0,03***	***-0,01***	***0,04***	***0,03***	***0,04***

Source: Inderes

Balance sheet

Assets (MEUR)	2014	2015	2016	2017e	2018e
Non-current assets	**176**	**161**	**166**	**166**	**170**
Goodwill	63,1	58,3	63,8	63,8	63,8
Intangible assets	20,4	17,0	18,3	18,4	20,4
Tangible assets	48,0	43,6	45,1	45,4	47,0
Associated companies	0,1	0,0	0,0	0,0	0,0
Other investments	0,6	0,6	0,2	0,2	0,2
Other non-current assets	39,9	38,6	34,0	34,0	34,0
Deferred tax assets	4,2	3,3	4,4	4,4	4,4
Current assets	**114**	**106**	**94**	**102**	**112**
Inventories	60,1	45,2	48,4	48,8	52,9
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	40,8	40,8	36,3	40,5	44,8
Cash and equivalents	13,3	19,6	9,7	12,9	14,3
Balance sheet total	**290**	**267**	**260**	**268**	**282**

Liabilities (MEUR)	2014	2015	2016	2017e	2018e
Equity	**182**	**171**	**176**	**182**	**184**
Share capital	23,6	23,6	23,6	23,6	23,6
Retained earnings	-103,7	-93,8	-96,0	-90,5	-87,8
Shares repurchased	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	-12,1	-28,7	-16,8	-16,8	-16,8
Other equity	269,4	266,2	261,1	261,1	261,1
Minorities	4,9	3,8	4,2	4,2	4,2
Non-current debt	**64**	**62**	**57**	**57**	**57**
Deferred tax liabilities	8,2	5,9	5,9	5,9	5,9
Provisions	10,1	9,3	10,7	10,7	10,7
Long term debt	6,3	3,0	0,0	0,0	0,0
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	39,6	43,9	40,5	40,5	40,5
Current debt	**44**	**34**	**27**	**30**	**40**
Short term debt	5,9	12,1	3,8	2,8	11,2
Payables	32,0	15,4	18,5	22,1	24,4
Other current liabilities	6,0	6,1	4,8	4,8	4,8
Balance sheet total	**290**	**267**	**260**	**268**	**282**

Source: Inderes

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Recommendations of Inderes are divided in the following categories and given based on the estimated upside potential of the share in the next 6 months. Note that possible dividends are also included in the potential.

Recommendation	Upside potential*
Buy	> 15 %
Accumulate	5 - 15 %
Reduce	-5 - 5 %
Sell	< -5 %

* Potential regarding to 12 month target price.

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Recommendation history, LTM

Date	Recommendation	Target price	Share price
13.7.2017	Sell	0,75 €	0,86 €

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STARMINE
A THOMSON REUTERS COMPANY

2015
#1 Estimate

2014, 2016, 2017
#1 Recommendations

2014, 2015, 2016
1 Estimates & recommendations

2012, 2016
#1-2 Recommendations

2012, 2016, 2017
#1-2 Recommendations

2017
#3 Recommendations

2017
1 Recommendations

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Inderes Oy

Itämerenkatu 5

00180 Helsinki

+358 10 219 4690

twitter.com/inderes

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