

Bulmetal

Industry: Metal packaging & machinery

Rise of the machines

Corporate Profile

BUY

Intrinsic value: BGN 12.9
Current price: BGN 8.6
52 weeks range BGN 8.25 – 9.5

Exchange rates

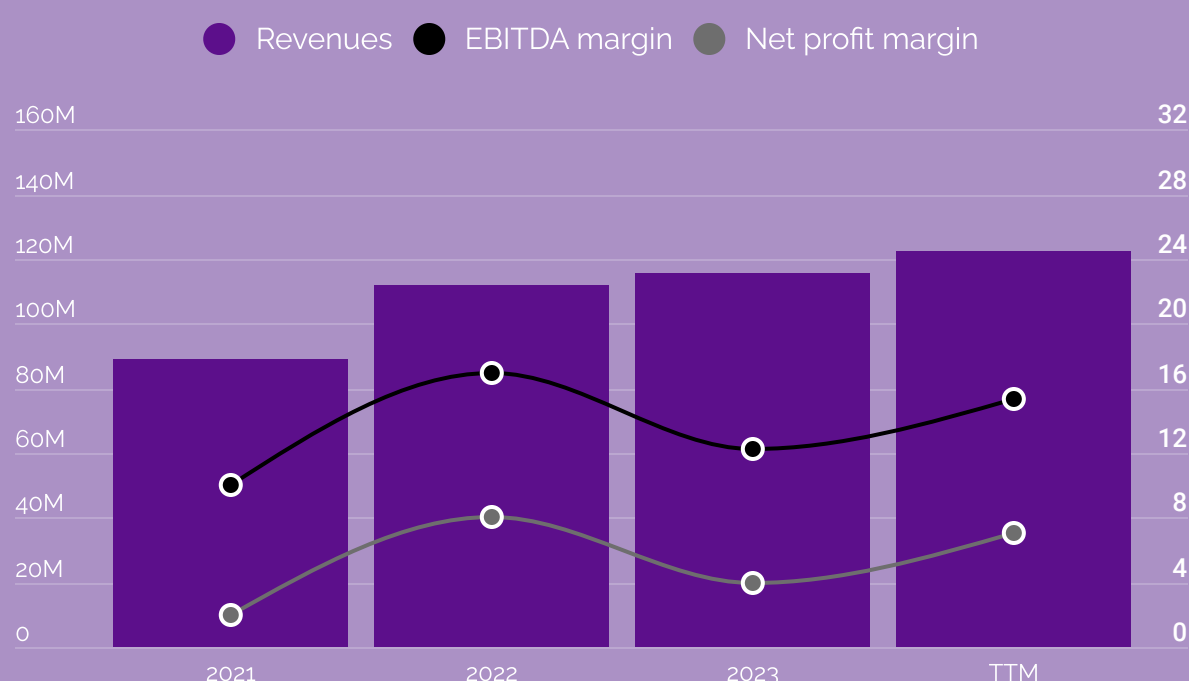
EUR/BGN (fixed): 1.95583
USD/BGN: 1.76375

Market Data

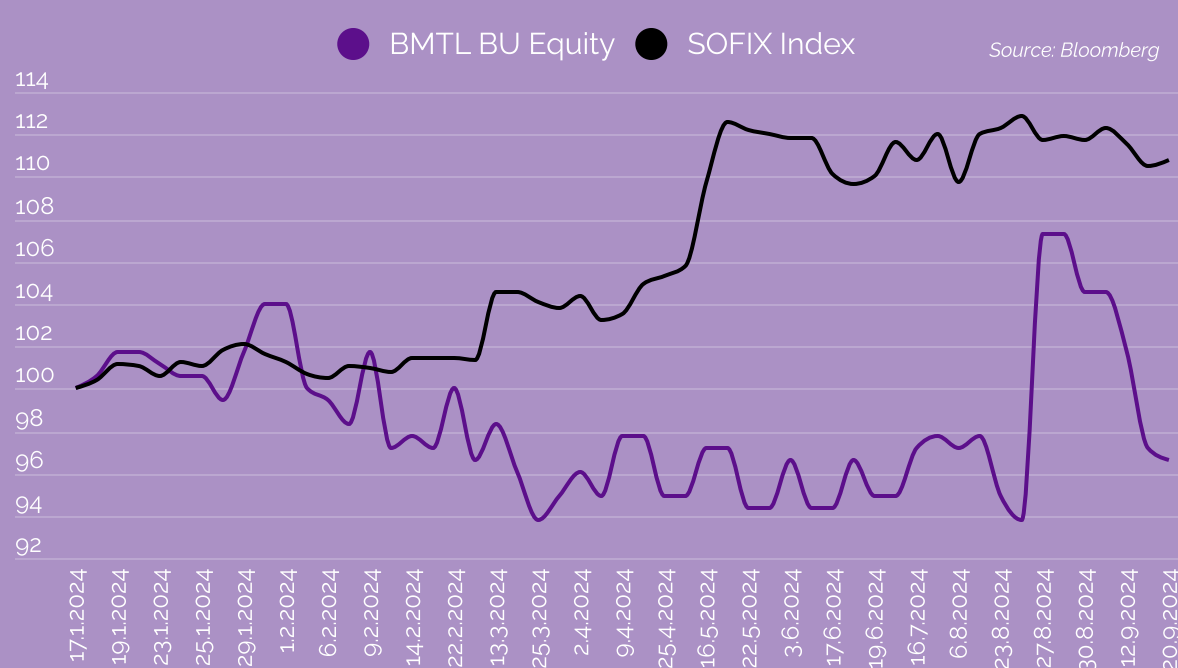
Share capital **BGN 7.155m**
Shares Outstanding **7.155 million shares**
Current free-float **23.4%**
Treasury Shares **0%**
Market Cap. **BGN 64.4m**

TTM P/E **7.1x**
TTM EV/EBITDA **5.3x**
BSE Ticker **BMTL**
Bloomberg ticker **BMTL BU**

Solid fundamentals



Price Performance

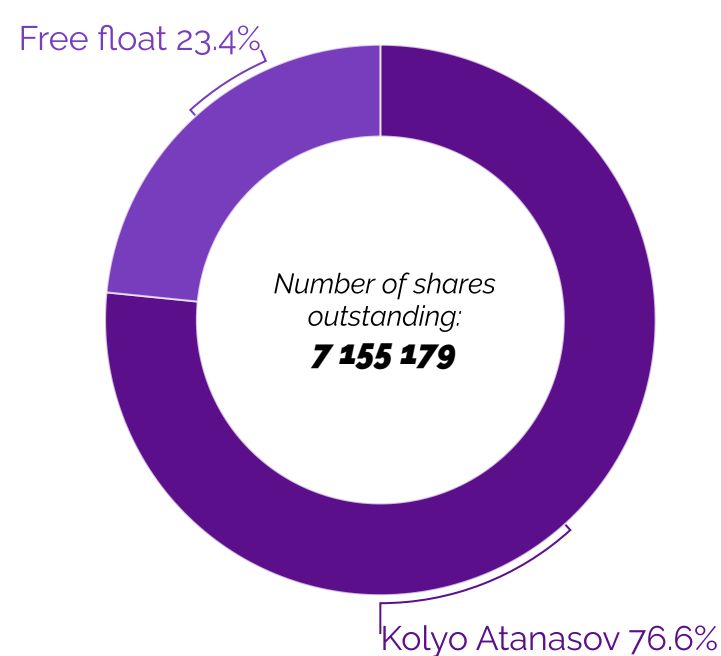


BULMETAL'S CONSOLIDATED SALES INCREASED BY 14% Y/Y TO BGN 53.8M DRIVEN BY THE MACHINERY SEGMENT'S CONSIDERABLE GROWTH IN THE FIRST HALF OF 2024. PROFITABILITY IS IMPROVING STRONGLY AT ALL OPERATIONAL LEVELS, AS EBITDA MARGIN ROSE TO 15%. WITH H1 24 NET PROFIT HIGHER THAN FULL 2023, BULMETAL IS ON THE TRACK OF ACHIEVING AN EXCELLENT YEAR.

Rise of the machines to lead top line to a 3rd record in a row : Bulmetal is on the path of achieving a third top line record year in a row despite falling steel prices. Machines have grown steadily in the past two years contributing to more than 1/3 of overall sales. Packaging continues to grow in volumes amid falling steel prices. We expect this coupled with capacity expansion in the packaging segment to drive consolidated sales close to BGN 125m.

The bottom line also excels: Profit-wise, Bulmetal is also on track to achieve an excellent year. FY2022 was the best for the Group due to the high steel prices passed on to clients in packaging. In H1'24, EBITDA margin in packaging stands at 15% vs 14.4% year earlier, despite falling steel prices. Machines hit record EBITDA margin of 17.9% at the end of June which is way above normal levels. Management expects the latter to normalize by year end. Accordingly, we decrease our profitability estimates but still expect an exceptional year with net profit to reach BGN 7m by year end or 2x the FY2023 result.

Shareholder structure



Group KPIs

BGN '000, excl. ratios	2020	2021	2022	2023	Q2 23	Q2 24	TTM	2024f	2025f
Revenue	78 052	88 947	109 016	115 562	47 209	53 826	122 306	125 277	137 129
EBITDA	7 296	8 459	18 762	13 825	3 333	8 196	18 688	16 741	20 014
EBITDA margin	9.3%	9.5%	17.2%	12%	7.1%	15.2%	15.3%	13.4%	14.6%
Net profit	417	1 415	8 650	3 403	-1 480	3 741	8 624	7 089	10 930
Net profit margin	0.5%	1.6%	7.9%	2.9%	-3.1%	7.0%	7.1%	5.7%	8.0%
ROE	1.0%	3.3%	16%	6%	n/a	n/a	13%	10.6%	14%
D/E	0.84	1.03	0.84	0.8	n/a	0.61	0.61	0.62	0.51
Net debt/ EBITDA	4.5	4.7	2.2	3.2	n/a	n/a	2.04	2.0	1.6
Debt/Assets	0.31	0.36	0.35	0.31	n/a	0.29	0.29	0.28	0.24
Current ratio	0.98	1.02	0.98	1.12	n/a	1.26	1.26	1.42	1.53
EV/EBITDA	n/a	n/a	n/a	7.4	n/a	n/a	5.3	6.0	5.6
EPS	0.07	0.23	1.39	0.63	-	0.51	1.21	0.99	1.18
P/E	n/a	n/a	n/a	13.3	n/a	n/a	7.1	8.7	7.3

Building on the momentum from Q1

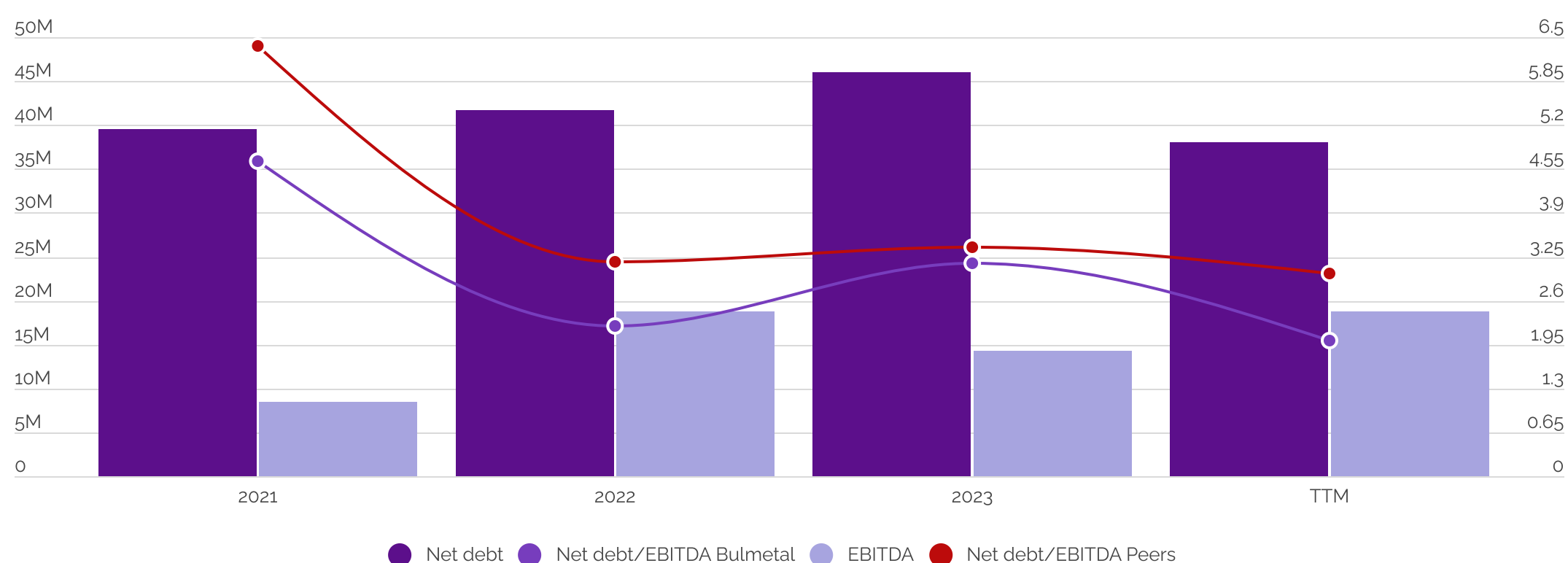
With machines growing rapidly and significant improvement of profitability, BULMETAL Group confirmed the strong trend from Q1 and achieved an exceptionally strong first half year to 2024. Consolidated net income for the period increased 14% year-on-year to 53.8m and net profit for the half year reached BGN 3.7m compared to a loss of BGN 1.5m for the same time in 2023.

Driving growth in the first half was the Machinery segment, whose revenues increased by 75% year-on-year to BGN 19.3m at the end of June. Record revenues were the result of a 133% increase in sales of finished machinery and technological lines with a diversified portfolio with important clients in the Philippines, Morocco, Shri Lanka and France.

Net debt/EBITDA decreased significantly during the first six months of 2024 from 3.2 at the end of 2023 to 2.04 on a TTM basis, against peer average multiple of 3.5. Net debt decreased as well in absolute terms from BGN 45m in 2023 to BGN 38m in H1 2024 (16% y/y decrease) post the successful completion of the BGN 8m capital raise via an initial public offering on the Bulgarian stock exchange at the end of 2023 and beginning of 2024.

Net debt EBITDA Bulmetal vs Industry peers

(in BGN)



Packaging volumes grow despite downtrend in steel price

In the first half of 2024, Bulmetal saw exports drop by 9.7% BGN to 23m, mainly due to steel price volatility and reduced demand from key clients in Romania, Slovenia and Greece, following overstocking at the end of 2023. Romania's revenue fell by 15% due to production shift from a key client to Germany, resulting in increased sales in Europe's biggest economy by 39%. Greece's sales dropped 22% y/y, though overall demand from the chemical sector remained stable. Smaller markets like Italy saw a 6% growth, while Slovenia experienced a slight decline.

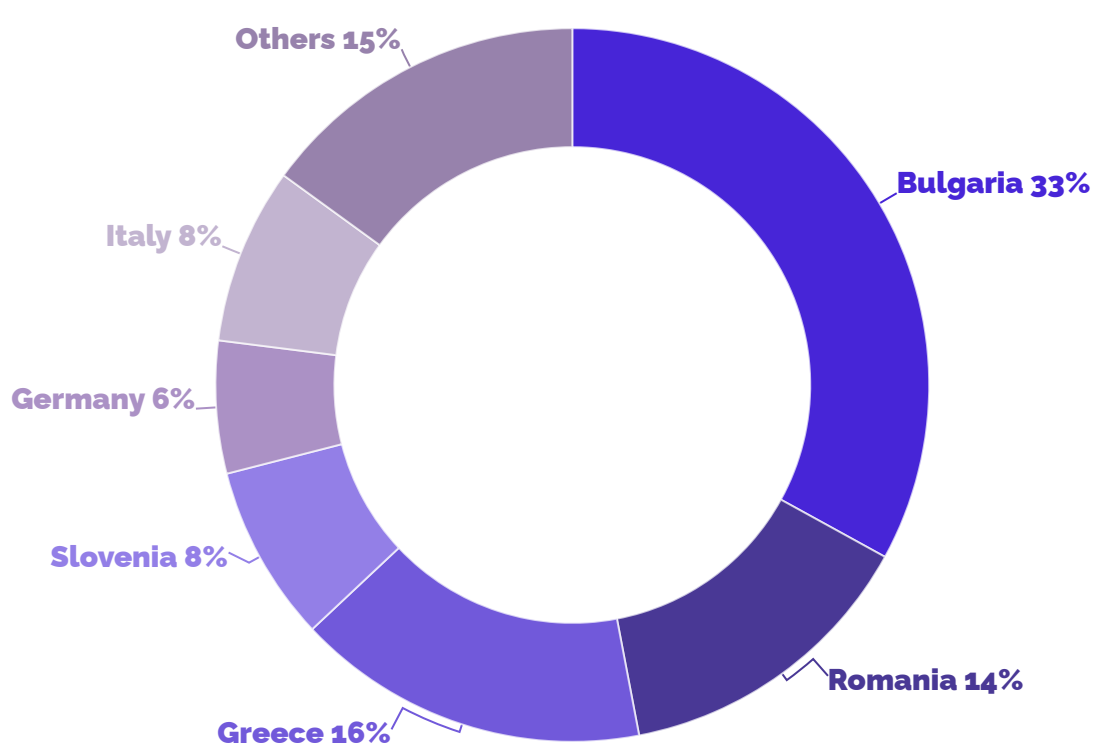
Packaging Segment KPIs

BGN '000, excl. ratios	Q1 2023	Q1 2024	y/y
Sales	36 172	34 515	-4.6%
EBITDA	5 192	5 164	-0.5%
EBITDA margin	14.4%	15.0%	

Packaging product mix

BGN '000, excl. ratios	H1 2023	H1 2024
Aerosols	12 372	11 541
Cans (Food)	10 977	10 207
Cans (Chemistry)	5 126	4 842
Easy Open Lids	501	383
Other	7 196	7 542
Total	36 172	34 515

Packaging Segment Main Markets H1 24



In the first half of 2024, BULMETAL's revenue structure by product type remained stable, with aerosols and food packaging accounting for 63% of total sales. All major product groups in the packaging segment saw a decline in sales value due to price adjustments reflecting lower material costs. Another key factor impacting sales in the second quarter was the extended timelines for tender processes in the chemical industry, leading some clients to delay orders early in the year, resulting in reduced demand and sales. However, demand volumes picked up significantly in the food sector, helping to limit price volatility for finished products. We expect positive sales results in H2, as the new line for deep-drawn metal cans will be fully operational and will solve the current bottleneck. In addition, a new line for aerosols will be completed by the end of the year, and we forecast first results in Q1 2025.

Machines: the Group's Driver for Growth

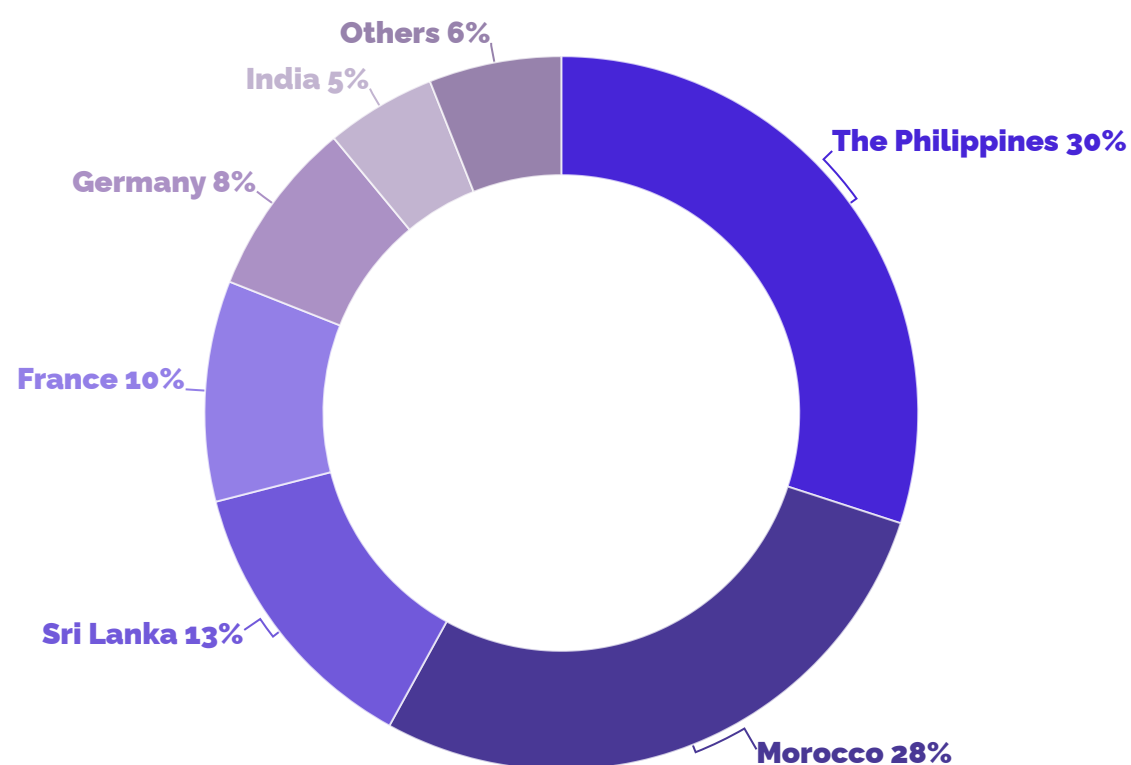
During the period under review, sales in the Machinery segment increased by 75% y/y, reaching 19.3m BGN, driven by completed projects ranging from the Philippines and Sri Lanka to critical Western European markets, Morocco, and Saudi Arabia. Over the period, the Company landed another project with a key client in the Philippines - the biggest canned fish products producer in the country, as well as signed with a new client in the new market for the Group - India.

Regarding product mix, machines grew more than 2x, attributing to over 75% of total revenues. As for spare parts, service and others, the revenue remained almost unchanged compared to H1 23. Both Cevolani and Bibra, the two companies in the machinery segment, have full capacity for 2024 and are taking orders for 2025. Management has confirmed guidance for sales of total BGN 49m for 2024, which should result in a 11% y/y rise.

Product mix

BGN '000, excl. ratios	H1 2023	H1 2024
Machines	6 227	14 494
Spare parts	3 755	3 801
Services	803	889
Others	252	127
Total	11 037	19 311

Main Markets in H1 24



Forecast and valuation update

TTM vs Forecast

BGN '000	TTM	2024f
Revenue	122 306	125 277
Gross profit	45 945	39 327
Gross margin	37.6%	31.4%
Operating income	12 297	10 537
Operating margin	10.1%	8.4%
EBITDA	18 688	16 741
EBITDA margin	15.3%	13.4%
Financial expenses	-2 886	-2 660
Net profit	8 624	7 089
Net profit margin	7.1%	5.7%

Packaging Updated Forecast

BGN '000, excl. ratios	2022	2023	Q2 23	Q2 24	TTM	2024f
Sales	72 217	71 910	36 172	34 515	70 253	76 152
Operating profit	9 762	5 332	2 172	2 570	5 730	7 344
Operating margin	13.5%	7.4%	6.0%	7.4%	8.2%	9.6%
EBITDA	16 214	11 186	5 192	5 164	11 158	12 565
EBITDA margin	22.5%	15.6%	14.4%	15.0%	15.9%	16.5%

Machines Updated Forecast

BGN '000, excl. ratios	2022	2023	Q2 23	Q2 24	TTM	2024f
Sales	36 799	43 599	11 037	19 311	51 873	49 125
Operating profit	1 435	1 962	-2 322	2 607	6 891	3 193
Operating margin	3.9%	4.5%	-21.0%	13.5%	13.3%	6.5%
EBITDA	2 443	2 720	-1 859	3 032	7 611	4 176
EBITDA margin	6.6%	6.2%	-16.8%	15.7%	14.7%	8.5%

There are three notable differences compared to our previous financial forecast on the Group's 2024 performance. One major difference is that Bulmetal has achieved lower than expected cost of materials, resulting in a higher gross margin - 37.6% TTM against our 31.4% FY2024 estimate. Divided between segments, machines achieve higher than expected gross margin compared to lower in packaging. During the last earnings call (Sept. 11th), management stated that margins have so far been higher than forecasted from their side and expect to normalize over the next two quarters as the machinery segment margins are normally below packaging ones. Nevertheless, margins are expected to be positively affected by ongoing cost optimizations (e.g. energy). Regarding financial costs, on a TTM basis Bulmetal pays more than our estimates due to factoring financing expenses as clarified by management. Factoring has been essential in the last few years for managing the Group's working capital. Given the higher than anticipated financial expenses, we have updated our model and net profit estimates downwards.

Peer comparison

Ticker	Name	Country	fEV/EBITDA	fP/E
SLGN US	Silgan Holdings Inc	USA	8.9	12.2
CCK US	Crown Holdings Inc	USA	8.9	10.7
SON US	Sonoco Products Co	USA	6.7	8.9
AMBP US	Ardagh Metal Packaging SA	Luxembourg	8.3	22.6
AFP SW	Aluflexpack AG	Switzerland	9	24
BAKAB TR	Bak Ambalaj Sanayi ve Ticaret A.S.	Turkiye	n/a	n/a
BNTAS TR	Bantas Bandirma Ambalaj Sanayi ve Ticaret A.S.	Turkiye	n/a	n/a
AMCR US	Amtor Plc	USA	10.6	14.5
		Average	8.7	15.5
		Median	8.9	13.4
BMTL BU	Bulmetal AD	Bulgaria	5.6	7.1
		Discount	-59%	-88%

Bulmetal continues to trade significantly below peers at 50%+ discount based on different market metrics which we would attribute to the still lower liquidity on the stock and the predominant institutional holding.

Recommendation and price target

Based on recent market and business development we confirm our BUY recommendation on Bulmetal and reiterate our price target of BGN 12.9 per share. With gross margins higher than previously forecasted, management expects margin normalization by the end of the year amid an overall downtrend in steel price. Despite the significant undervaluation based on peers and the sizable decline in the weighted average cost of capital during the last few months, we prefer to wait another 1-2 quarters before we make major changes in our valuation of the Company. Accordingly, we keep our intrinsic value estimate of BGN 12.9 per share which still offers a hefty 50% upside potential compared to current market quotes.

In terms of significant investors involved in our stock market, we share the following observations:

- The majority of the free-floating shares are held by domestic pension funds, which limits opportunities for speculative investors;
- The company will regularly distribute dividends and is determined to have a dividend payout ratio of at least 12% of net profit; In June, shareholders approved a 16.5% payout from 2023 profits;
- Currently trading at an EV/EBITDA of 5.3 and P/E of 7.1, the Company offers a significant discount compared to peers.

Recommendation: **BUY**
Target Price: **BGN 12.9**
Upside potential: **50%**

Full year financial data

Balance Sheet (in BGN '000)	2021	2022	2023	H1 2024	2024f	2025f
Assets						
Property, plant & equipment	61 054	63 633	67 644	66 432	62 918	61 703
Intangibles	1 526	1 521	1 286	1 207	1 253	1 371
Non-current financial assets	122	722	660	1 259	626	686
Deferred taxes	160	120	120	157	120	120
Non-current assets	62 862	65 996	69 710	69 055	64 917	63 880
Inventories	34 831	39 157	45 667	46 747	49 067	53 709
Account receivables and others	19 474	18 410	29 822	21 658	25 751	28 188
Cash and cash equivalents	4 930	2 543	869	2 581	8 245	8 494
Expense for future period			263	2 257	-	-
Current assets	59 235	60 110	76 621	73 243	83 063	90 390
Total Assets	122 097	126 106	146 331	142 298	147 980	154 270
Equity and liabilities						
Share Capital	6 226	6 226	6 226	7 155	7 155	7 155
Reserves	2 126	3 133	2 953	12 045	7 294	7 294
Retained Earnings	33 282	34 558	43 488	43 309	45 112	50 506
Current year net income	1 440	8 650	4 673	3 681	7 089	8 457
Minority Interest	58	116	204	176	380	569
Equity	43 132	52 683	57 544	66 366	67 030	73 981
Liabilities						
Interest-bearing loans	11 654	6 704	13 867	12 566	15 620	14 058
Financing and other non current liabilities	3 925	3 171	3 184	1 860	3 758	4 114
Deferred taxes and provisions	1 098	1 382	-	-	1 035	1 055
Other	4 246	911	1 061	3 568	1 996	2 035
Non-current liabilities	20 923	12 168	18 112	17 994	22 409	21 263
Current portion of Interest-bearing loans	32 765	37 616	32 065	26 136	25 970	23 373
Account payables	22 994	21 425	25 758	14 633	28 814	31 540
Advances	-	-	8 709	6 848	-	-
Wages and Social Securities	1 077	995	1 580	2 632	1 879	2 057
Taxes	294	588	612	1 103	626	686
Others	912	631	1 951	4 083	1 253	1 371
Current liabilities	58 042	61 255	70 675	57 938	58 542	59 027
Total shareholders' equity and liabilities	122 097	126 106	146 331	142 298	147 980	154 270

Full year financial data

P&L Statement (in BGN '000)	2021	2022	2023	H1 2023	H1 2024	TTM	2024f	2025f
Revenue	88 999	111 680	115 562	47 209	53 826	122 306	125 277	137 129
Raw material expenses	-47 968	-61 456	-76 249	-37 021	-30 424	-64 081	-74 821	-79 535
Hired services expenses	-7 842	-10 541	-9 784	-3 649	-3 206	-12 280	-11 128	-10 696
Administrative expenses	-18 251	-17 204	-18 424	-9 026	-9918	-19 566	-19 759	-21 941
Depreciation & amortization expenses	-5 734	-7 460	-6 869	-3 483	-3 019	-6 391	-6 204	-6 031
Other operating expenses	-4 137	-3 579	-6 553	-2 746	-4284	-5 582	-2 827	-7 033
Change in inventories	-2 342	-243	9 611	8 566	2 202	-2 109	-	-
Operating income	2 725	11 197	7 294	-150	5 177	12 297	10 537	11 893
Financial income	31	72	-	59	97	-	-	-
Financial expenses	-1 115	-1 333	-2 286	-1 389	-1533	-2 886	-2 660	-2 497
Income before tax	1 641	9 936	5 008	-1 480	3 741	9 411	7 877	9 396
Tax expenses	-195	-1 259	-490	0	0	-1 004	-788	-940
Deferred tax	6	-13	-	0	0	0	-	-
Net profit	1 452	8 664	4 518	-1 480	3 741	8 624	7 089	8 457

Cash flow statement (in BGN '000)	2021	2022	2023	H1 2023	H1 2024
Cash flow from operating activities					
Proceeds from customers	64 904	82 283	77 934	69 651	69 653
Payments to suppliers	-62 583	-93 157	-86 175	-58 760	-51 870
Staff and social security payments	-18 446	-17 689	-18 226	-11 089	-12 753
Income profit tax paid, net	-94	-716	-215	-	-
Other cash flows from operating activities, net	18 899	29 181	25 983	62	-405
Net cash flow from operating activities	2 680	-98	-699	-136	4 625
Cash flow from investing activities					
Purchases of PPE	-5 963	-1 153	-4 755	-2 834	-3 529
Proceeds from the sales of PPE	16	11	3 693	417	4
Other cash flows from investing activities, net	0	-6	0	0	0
Net cash flow from investing activities	-5 947	-1 148	-1 062	-2 417	-3 525
Cash flow from financing activities					
Proceeds from issued shares	0	0	0	0	8 227
Proceeds from bank loans	22 592	22 961	31 363	18 061	10 661
Payments on bank loans	-16 107	-23 455	-28 894	-15 076	-16 246
Payments of financial lease obligations, net	0	0	-652	-327	-316
Payments of interest, commissions, fees and dividends, net	-742	-446	-1 182	-1 359	-1 470
Net effect of changes in foreign exchange rates	-20	-26	0	-41	-125
Other cash flows from financing activities, net	-163	-171	-548	-113	-119
Net cash flow from financing activities	5 560	-1 137	87	1 145	612
Net cash change	2 293	-2 383	-1 674	-1 408	1 712
Cash at the beginning of the period	2 633	4 926	2 543	2 543	869
Cash at the end of the period	4 926	2 543	869	1 135	2 581

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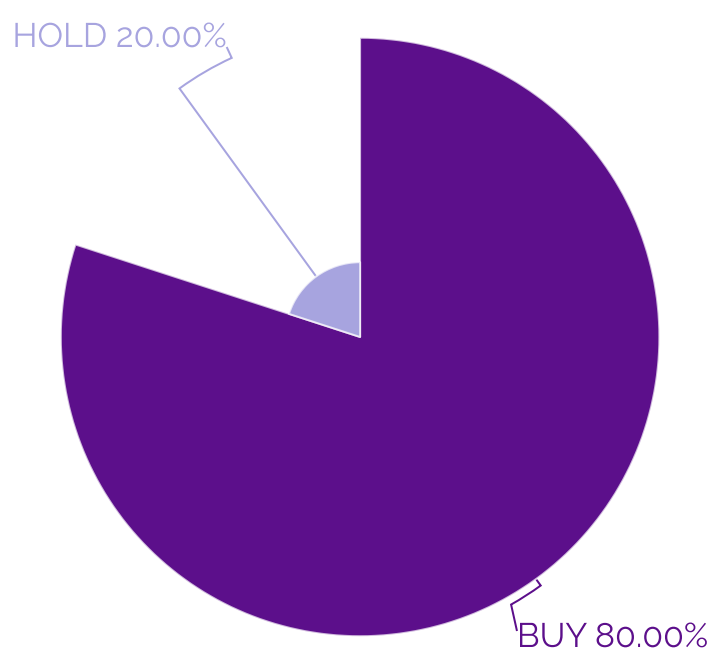
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BUY	Target price is more than 10% above current quotes
HOLD	Target price in +/-10% range of the current quotes
SELL	Target price is more than 10% below the current quotes

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Q2 2024 Recommendation

/ Review



Market Maker Services

/ Buy

- Korado;
- Elana Agrocredit;
- Albena;
- Expat Bulgaria SOFIX UCITS ETF;
- Telelink Business Services Group;
- Sirma Group Holding;
- Bulmetal

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