

2013 probably the bottom

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Waiting for Mr. Goodyear

■ IFS has reviewed and updated its valuation of Marel following the publication of Q3 2013 and an earnings meeting with management.

■ It is clear by now that 2013 is going to be quite a disappointing year operationally for investors interested in Marel as well as the company's management and owners. Sales will be down 6-8% from last year, EBIT% will drop from 8.6% of sales to about 7.5%. Both numbers are much lower than owners' target of 10-12%. The order book has repeatedly been getting smaller and is now close to being of a critical size. So, is it a definite sell?

■ No, it's a buy. Not an obvious and surefire one, but still a buy at current market prices. We actually believe that 2013 is likely to become the bottom year for Marel operationally when we'll have the benefit of hindsight. Roughly half of Marel's income stems from the poultry processing industry and the biggest market is in Europe. That area has been having big problems, as everyone knows, and not least firms in the poultry business. However, there are now some important signs of better years ahead in Europe, the US and important markets in the developing world.

■ The improvement will almost certainly be slow, but still. And there is the possibility that recovery for a firm like Marel will be stronger in light of postponed investments during the downturn.

■ Our DCF valuation can be seen on page 2. Also a comparison of our valuation to a comparable group of companies in various countries.

■ Our point estimate for a fair value of one share of Marel stock is EUR 0.76. That is 10 cents lower than in our last valuation three months ago. By now it is clear that relevant improvement in operations will not happen in the latter part of this year, as previously forecasted by management, but possibly in 2014. That has an effect on valuation. The ISK has, on the other hand, weakened against the EUR in the period, which raises the value measured in ISK.

■ For details of our valuation and its main assumptions please refer to page 2.

Stock Valuation

BUY

Fair price - 0.76 EUR

Target price - 0.82 EUR

Bloomberg: MARL IR

GICS Industry: Manufacturing

Fair price EUR	0.76
Target price EUR	0.82
Last price EUR	0.75
Shares (million)	735.4
EUR/ISK	166.1
Fair price ISK	125.7
Target price ISK	135.5
Last market price ISK	124.0
M.Cap (million ISK)	91,190

Target price / Fair price	7.8%
Target price / Market price	9.3%

Market price ratios	2012	2013E
P/E	15.4	23.0
EV/EBITDA	9.0	10.4
EV/EBIT	12.9	15.9

Earnings	2012	2013E
Sales	714.0	661.0
- % growth	6.8%	-7.4%
COGS	-464.7	-424.8
EBITDA	86.0	76.0
- %	12.0%	11.5%
EBIT	61.1	49.5
- %	8.6%	7.5%
Net profit	35.6	23.8
- %	5.0%	3.6%

FCFF Valuation – Main assumptions

Forecast period	2012	Q4 2013	2013	2014	2015	2016	2017	2018	2019	2020	Term. Value	
Sales (m.EUR)	714.0	167.7	661.0	687.5	721.8	765.1	811.1	854.0	892.5	928.2	956.0	
- growth	6.8%	-6.0%	-7.4%	4.0%	5.0%	5.0%	5.0%	5.0%	4.5%	4.0%	3.0%	
EBIT	61.1	13.9	49.5	60.5	68.3	74.5	77.5	82.2	85.0	88.5	90.3	
- EBIT margin	8.6%	8.3%	7.5%	8.8%	9.5%	9.7%	9.6%	9.6%	9.5%	9.5%	9.5%	
- growth		13.6%	-19.0%	22.3%	12.9%	9.1%	4.0%	6.1%	3.4%	4.1%	2.1%	
Income tax	-12.8	-1.8	-10.4	-12.7	-14.3	-15.6	-16.3	-17.3	-17.9	-18.6	-19.0	
- Tax ratio	21%		21%	21%	21%	21%	21%	21%	21%	21%	21%	
NOPLAT	48.3	12.1	39.1	47.8	54.0	58.9	61.2	64.9	67.2	69.9	71.4	
Depreciation and amortization	24.9	6.7	26.5	27.5	30.3	37.5	44.6	51.2	49.1	45.5	44.8	
Working capital	-6.3	-1.2	-4.7	-3.8	-3.0	-3.5	-3.7	-3.9	-3.7	-3.4	-3.5	
Capex	-37.3	-8.8	-35.1	-37.8	-47.1	-53.8	-52.6	-51.3	-49.7	-46.0	-44.8	
- Capex ratio	5.2%	5.2%	5.3%	5.5%	6.5%	7.0%	6.5%	6.0%	5.6%	5.0%	4.7%	
Free cash flow	29.5	8.8	25.8	33.7	34.1	39.0	49.5	61.0	62.9	66.0	67.8	
PV cash flow		8.7		30.4	28.2	29.5	34.2	38.6	36.4	35.0		
WACC	9.3%							PV FCFF in forecast period			241	
Risk free rate	3.5%							Terminal v alue			1,047	
Beta	1.25							PV final v alue			555	
Equity risk premium	5.8%							Free cash flow v aluation			796	
Specific premium	0.0%							Net interest bearing debt			-239	
Cost of equity	10.8%							Equity v alue			557	
Interest premium	3.9%							Number of shares			735	
Cost of debt, after tax	5.8%							Fair v alue pr. Share (EUR)			0.76	
											EUR/ISK	166.1
											Fair v alue in ISK	125.7

IFS fair value price ratios vs. comparables

Company	Country	Price in LC	Equity value (EURm)	% chg. YTD	P/E 12	P/E 13	EV/EBITDA 12	EV/EBITDA 13	EV/EBIT 12	EV/EBIT 13	V/I
JOHN BEAN TECHNOLOGIES	USA	27.9	586	57.2	20.5	17.2	9.8	8.6	-	-	7.4
CROWN HOLDINGS INC	USA	40.8	4,161	10.7	13.2	11.7	9.2	8.8	10.5	10.0	-
FMC TECHNOLOGIES INC	USA	51.9	8,914	21.2	24.7	18.1	14.1	10.9	18.4	13.7	5.9
MIDDLEBY CORP	USA	229.4	3,178	78.9	29.2	24.7	17.3	14.9	20.7	17.2	6.0
METTLER-TOLEDO INTERNATIONAL	USA	250.0	5,428	29.3	23.7	21.1	15.1	14.1	17.2	16.2	9.2
ATLAS COPCO AB-B SHS	Sweden	165.1	25,046	4.4	15.8	14.7	11.4	10.7	13.1	12.3	5.9
SANDVIK AB	Sweden	88.6	12,706	-14.4	15.2	13.3	9.2	8.5	12.8	11.5	3.4
KONE OYJ-B	Finland	63.6	16,611	14.0	22.2	20.2	16.1	14.7	17.4	15.8	8.8
ASSA ABLOY AB-B	Sweden	301.3	12,778	24.0	20.5	18.2	14.2	12.9	16.2	14.5	4.2
HEXAGON AB-B SHS	Sweden	198.5	8,061	21.7	21.2	18.0	15.0	13.1	19.0	16.4	2.8
HUSQVARNA AB-B SHS	Sweden	38.8	2,560	-0.9	18.2	12.8	10.1	8.1	15.4	11.4	1.9
MAREL HF	Iceland	125.7	559		15.4	23.0	9.0	10.4	12.9	15.9	1.3
Average of peers				22.4	20.4	17.3	12.9	11.4	16.1	13.9	5.6
Median of peers				21.2	20.5	18.0	14.1	10.9	16.7	14.1	5.9
Marel fair value vs. average				-153%	-36%	-7%	-9%	-27%	-47%	-23%	-76%
Marel fair value vs. median				-156%	-37%	-11%	-17%	-24%	-49%	-24%	-77%



RESEARCH

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