



Católica Porto Investment Club

EQUITY RESEARCH

ALTRI, S.G.P.S., S.A

29 setembro de 2023



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INTRODUCTION

This report aims to perform a valuation of Altri, S.G.P.S, S.A. using two valuation models, Relative Valuation and Discounted Cash Flow model.

Firstly, we do a brief presentation of the company, presenting its shareholders, management team and some key ratios of Altri, S.G.P.S, S.A. comparing to its industry.

Secondly, we present our valuation using Relative Valuation and then Discounted Cash Flow Model.

Finally, it is important to mention that all data used is from the September 2023 and this report should not be used as an investment recommendation.

COMPANY DESCRIPTION

Altri, S.G.P.S., S.A is a Portuguese holding company present in the pulp and paper industry. It specializes in the production of bleached eucalyptus kraft pulp and operates several mills in Portugal. Altri's main business segments can be described as following:

1. Cellulosic Fibres

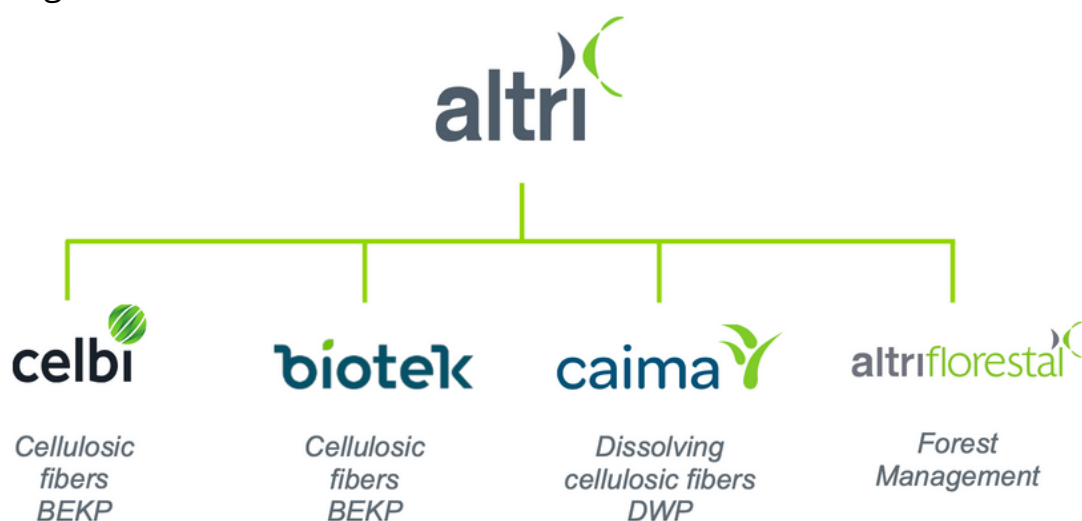
- a. The primary focus is on the production of pulp, which is the raw material used in the production of various paper and packaging products, and also in the production of textiles.
- b. Currently, Altri has three paper pulp factories – Celbi, Caima and Biotek – with a nominal annual capacity of more than 1 million tons.
- c. This segment represents more than 80% of Altri's annual turnover.

2. Forest

- a. The forest is the main asset for Altri's activity. For this reason the company has the goal to maximize the efficiency of managing this asset, with a clear importance on sustainability.
- b. Altri has under management 88,3 hectares of forest. Auto sufficiency is around 20%.

3. Renewable Energy

- a. Altri produces renewable energy through biomass or renewable cogeneration.



Source: Altri's Holdings - 1T 2023; Altri's investor fillings.

COMPANY STRATEGIC PLAN

Focus on the niche: Altri's main business is the production of cellulose fibers for various applications, ranging from printing and writing paper to household paper and the textile sector. By specializing in this niche, Altri leverages its knowledge, experience, and scale to maximize efficiency and profitability, positioning itself as a leader in cellulose fiber production.

Cost and efficiency optimization: Altri aims to be one of the most efficient producers of pulp made from eucalyptus. The main strategic axes for achieving this goal are reducing unit production costs and identifying projects that enhance the value incorporation in raw materials. The company's technical focus is currently centered on maximizing reusability, reducing waste, and minimizing specific consumption.

Sustainability and environmental responsibility: The cellulose fiber industry has a significant impact on the environment, especially in terms of deforestation and water usage. Altri prioritizes sustainability by adopting practices such as responsible forest management, recycling initiatives, efficient use of raw materials, and investment in renewable energy. By reducing its ecological footprint, Altri enhances its reputation and long-term viability in an increasingly environmentally-conscious world.



COMPANY STRATEGIC PLAN



Expansion and diversification: Altri operates in industries related to cellulose fiber, such as renewable energy from forest sources and forestry. The company seeks opportunities to expand into other areas with potential applications for wood and biomass. This helps mitigate risks and unlock new revenue streams.

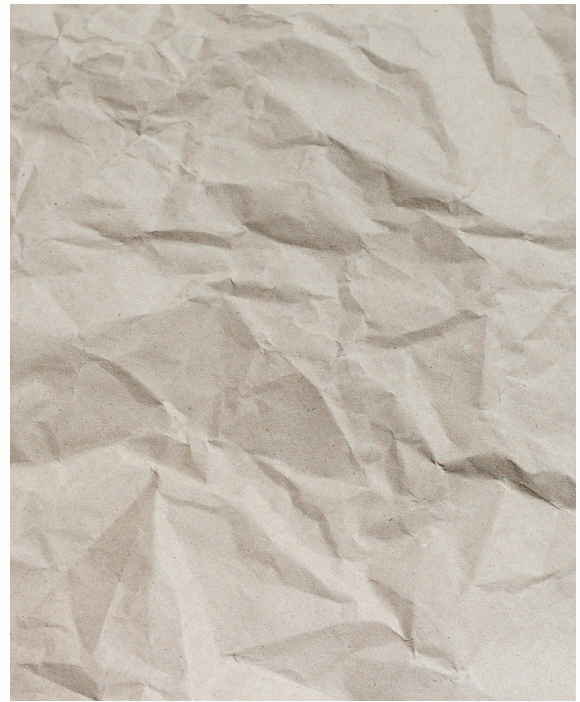
Technological innovation: Altri has a history of investing in research and development to improve its production processes and efficiency. Additionally, the company has been developing innovative projects focused on creating economic value and intellectual capital in strategic areas related to its core business, aiming to create new products and sustainability improvements. By promoting research and adopting new technologies, the company reinforces other aspects of its strategy and solidifies its competitive advantage.



MARKET OVERVIEW

Industry summary.

Altri's operates in the pulp and paper industry. This industry is based on companies using wood as a raw material to produce pulp, paper and other components, and has become relevant for the Portuguese economy, particularly on the export market.



The pulp and paper industries make up the two primary sectors of the economy. Pulp is created during the process of pulp manufacturing and is used as a raw material in the manufacture of paper. The process for producing paper comprises converting pulp into paper goods like tissue paper, packaging, writing and printing paper, and specialized paper goods.

The industry has been under increasing pressure in recent years to embrace more sustainable practices, such as the utilization of recycled materials and the use of more effective production methods. Numerous businesses in the sector have also started to make investments in renewable energy sources and have put in place initiatives to cut waste and increase resource efficiency.

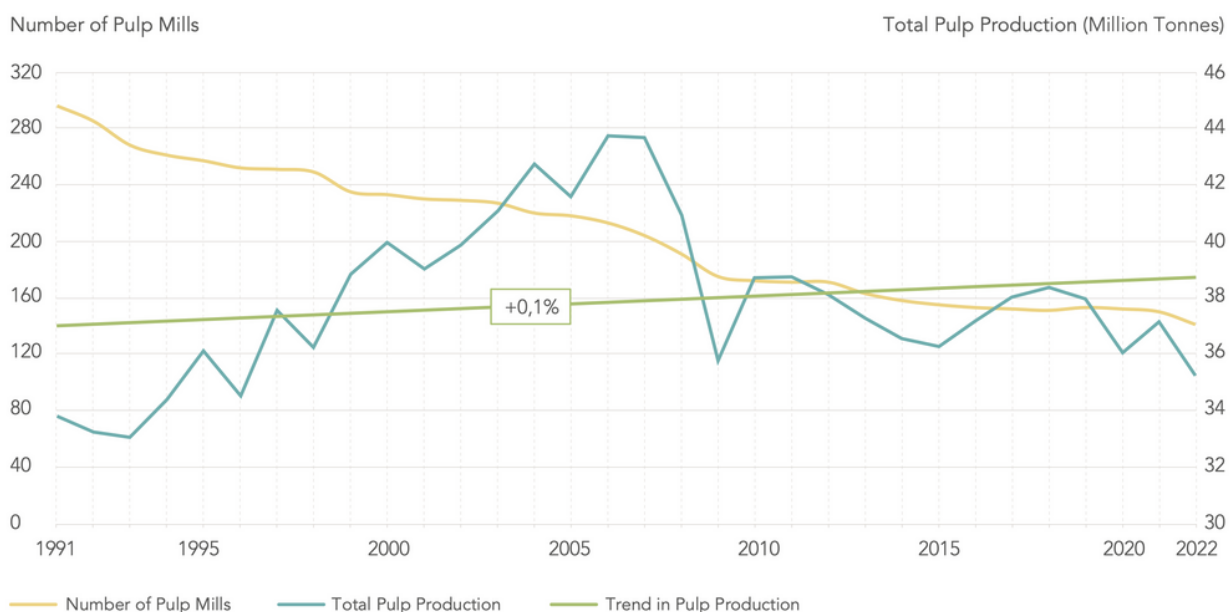


MARKET OVERVIEW

Key Market Takeaways:

- 1.The number of pulp mills decreased by more than half since 1991. This decrease was due to the shutdown of small scale mills, with total pulp annual productions lower than 300 thousand tonnes;
- 2.Total pulp production has been stagnated since 2008 in Ceperi countries;
- 3.Of the 35.2 million tonnes of pulp produced in 2022 by CEPI countries, Portugal produced around 2.8 (and Altri 1.1);
- 4.In 2021 were produced 182.7 million tonnes of pulp in the world, and the regions that most contributed to this number were North America (31,3%), Asia (24,5%) and the Ceperi countries (20,3%). Despite the disruptions brought by the pandemic to this industry, the distribution remains similar to pre-pandemic levels.

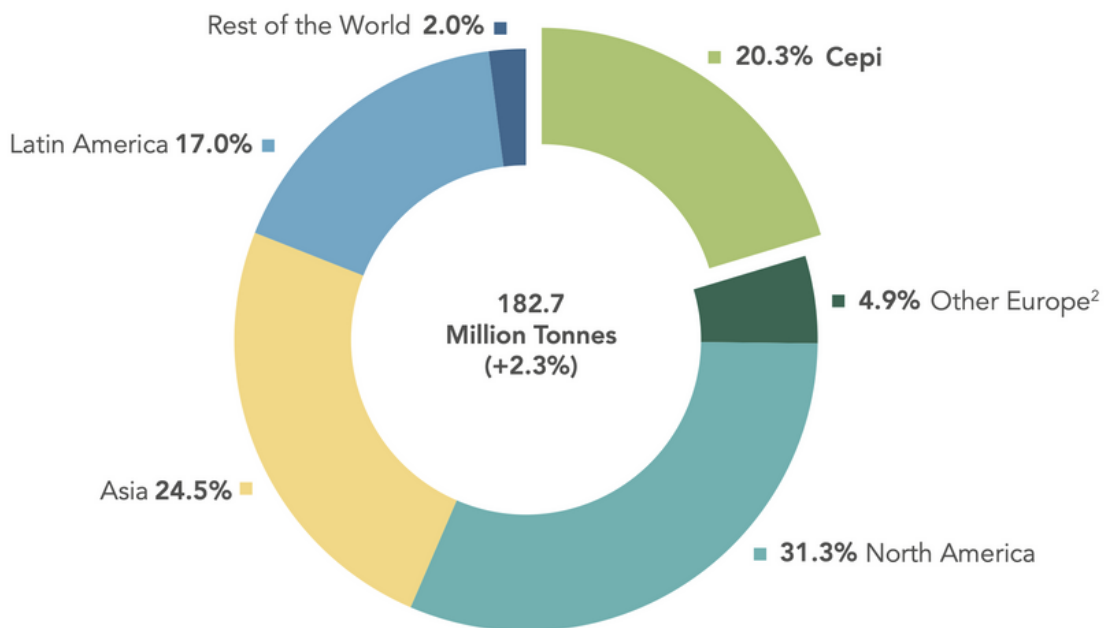
Number of Pulp Mills and Total Pulp Production



Source: CEPI Key Statistics for the European pulp & paper industry for 2022.

MARKET OVERVIEW

World Total Pulp¹ Production by Region in 2021³



Source: CEPI Key Statistics for the European pulp & paper industry for 2022.

Future outlook

1.Regularization of the pulp market: the industry is still recovering from the impacts of the pandemic. More recently, the lockdowns in China in 2022 disrupted the global demand for pulp.

2.The price of pulp is decreasing a large amount during 2023, after reaching historic highs last year. We believe that this correction will be around 20% to 30% by the end of the year.

3.According to some reports (see References), it is expected that the Pulp market size will grow at 2.7% to 3.7% CAGR in the next 5 years.

MARKET OVERVIEW

Competitors



It's a portuguese pulp and paper manufacturer and retailer with a global presence, producing a broad range of paper products using sustainable practices.

The company is one of the largest producers of pulp and paper in Europe, representing around 1% of Portuguese GDP and 3% of national exports of goods. Navigator has a modern and integrated production system and uses eucalyptus as its primary raw material.



This company is a worldwide corporation based in Spain that creates and offers technologies, automation systems, and services to the pulp, paper and energy industries. Accordingly, Ence is the second-largest company in terms of market share and the top producer of eucalyptus pulp in Europe, and export about 92% of the pup to Europe. In order to make paper, the company used mostly pulp as a raw material and in 2020, 59% of Ence's pulp was used to make tissue, 8% to make writing and printing paper, 26% to make specialty products, and the remaining 7% to make packaging.



Mercer International Inc. is a global forest products company. The Company's segments include Pulp (which accounts for around 80% of the company's revenue) and Wood Products. Despite being located in Canada, Mercer has a strong presence around the world, especially in Europe.

VALUATION & FINANCIALS

Stock Price Analysis

Altri had a negative performance in the last 12 months, and is down almost 10%. The main factors that contributed to the decrease in the share price were the earnings results below the estimated levels by analysts, and an uncertain future outlook for the industry and company.

Altri 1 year Adjusted Closing Prices and Volume Traded



Source: Yahoo Finance on September 7th.



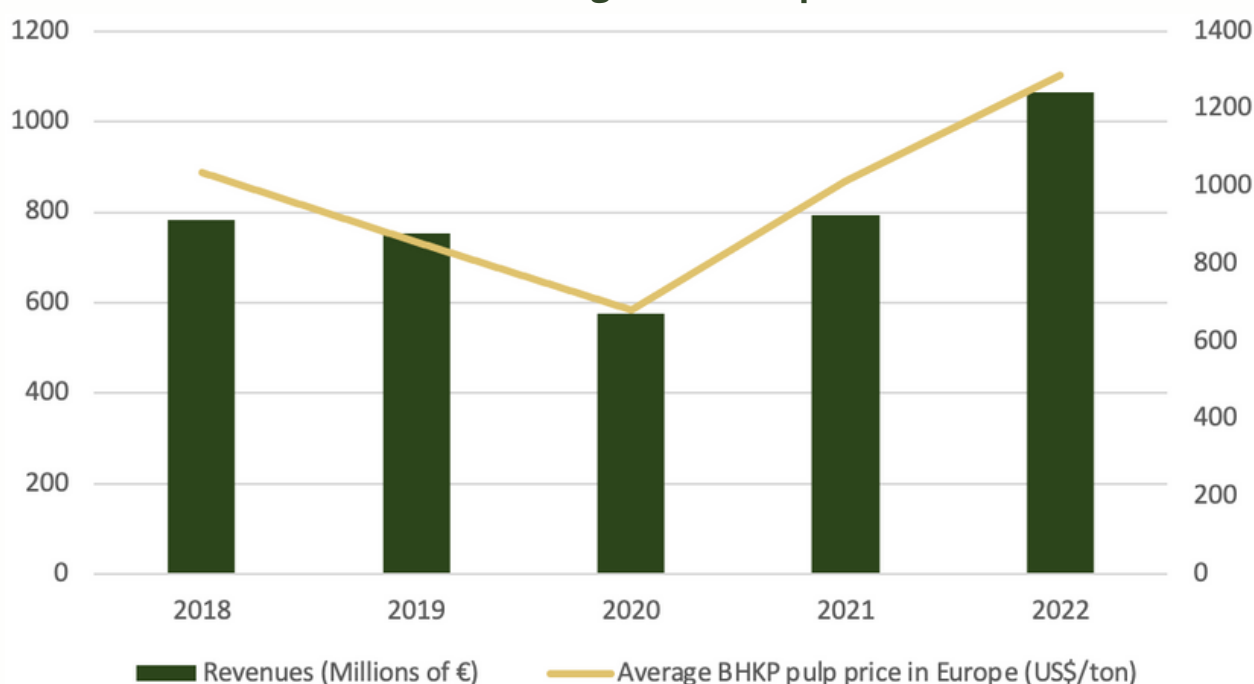
Altri's share price volatility; Source: TradingView

VALUATION & FINANCIALS

Financial Statement Analysis

Regarding the past financial statements of the company, we decided to analyze two of the items we consider to be the most important to how a business is performing: the revenues and the Return on Equity (deconstructed with a DuPont analysis). In the first place we can see from the next graph that the revenues seem to be very much correlated with changes in the pulp price in Europe (represented by the yellow line). We dug more deeply into the numbers and confirm that the amount of pulp produced by the company has been relatively stable, validating the point in the last sentence. Furthermore, looking at the revenues levels we can see the impact that the pandemic had on the company (and also on the entire industry) was massive, and to this day we're still witnessing adjustments to the overall market.

Altri's Revenue and average BHKP Pulp Prices 2018-2022



Source: Refinitiv Eikon and FOEX.

Despite the record revenue level in 2022, the return on assets, the operating return on sales and the return on equity are below 2018 levels, meaning that Altri's profitability is still lower than it was in pre-pandemic levels, and that the costs that the company has to incur also increased a lot during this period of high inflation.

VALUATION & FINANCIALS

On the other hand, we can see that most ratios in the DuPont analysis present the same trend and changes in the studied years: a decrease in the 2018-2020 period (which reached historic lows with the pandemic), and a post recovery of the indicators in 2021 and 2022 (but still below 2018, as mentioned in the previous paragraph).

Item	2018	2019	2020	2021	2022
Gross Margin (% of revenue)	43,6%	37,8%	23,8%	34,1%	34,9%
Cost control effect (operating income / gross margin)	68,0%	55,4%	26,1%	60,6%	63,9%
Operating Return on Sales	29,6%	20,9%	6,2%	20,7%	22,3%
Asset turnover	65,5%	60,7%	45,9%	65,8%	85,2%
Return on Assets (ROA)	19,4%	12,7%	2,9%	13,6%	19,0%
Financial expenses effect (pre-tax income/EBIT)	108,6%	88,1%	39,0%	93,4%	87,8%
Multiplier Effect of Debt (invested capital / total equity)	229,4%	266,3%	281,0%	222,4%	205,8%
Leverage effect	249,1%	234,6%	109,7%	207,8%	180,6%
Operating and Financial Return	48,4%	29,8%	3,1%	28,2%	34,3%
Non-operating effect (EBIT / operating income)	99,3%	98,0%	98,3%	98,2%	99,3%
Tax effect (net income / pre-tax income)	77,6%	74,0%	181,0%	82,4%	73,7%
Non-operating and tax effect	77,0%	72,5%	178,0%	80,9%	73,2%
Return on Equity (ROE)	37,3%	21,6%	5,6%	22,8%	25,1%
Control	37,3%	21,6%	5,6%	22,8%	25,1%

Dupont Analysis; Source: Refinitiv Eikon.

Cost of Capital

Target Capital Structure

In order to find the target capital structure we first consulted Damodaran data for companies in the Paper/ Forest Products industry, and found that the average levels of debt for these companies is on average 21%. However, we decided not to choose this exact capital structure for two different reasons: in the first place, Altri historically had very different levels of debt than the ones mentioned, and since we're talking about a mature company, we assume that Altri's goal is not to achieve that capital structure. On the other hand, since the Paper/ Forest Products industry includes different types of companies with very distinct businesses, we believe that the capital structure might hide some valuable information.

VALUATION & FINANCIALS

Considering these arguments, we gathered the data related to the capital structure in the last 5 years (see Table) and we chose a debt level of 35% (65% equity). Here we also took into consideration Damodaran data mentioned in the previous paragraph.

	2018	2019	2020	2021	2022
Altri Market Cap	1190	1165	1058	1151	1027
Total Debt	674,9	774,8	806	663,6	642,7
Total	1864,9	1939,8	1864	1814,6	1669,7
% Debt	36%	40%	43%	37%	38%
Historical EV/ EBITDA	5,53	7,2	11,8	6,57	3,41

Altri's Capital Structure; Source: Refinitiv Eikon.

Cost of Debt

To calculate the cost of debt we added the risk-free rate (2,5% corresponding to the 10 year Germany Government Bonds) to the spread that reflects what we believe will be the future creditworthiness of Altri (2% corresponding to a rating of BBB, according to Damodaran data for non-financial firms).

Cost of Equity

To obtain the cost of equity we used the CAPM formula. Here we used the same risk-free rate used to compute the cost of debt (2,5%), a 5 year monthly Beta of 1,21 (Yahoo Finance) and a market risk premium for Portugal of 9,3% (Damodaran). Overall, the total cost of equity is equal to 13,7%, which gives a WACC of 10,11%.



VALUATION & FINANCIALS

DFC Model

The next step in the valuation process is to compute the enterprise value using the Free Cash Flow model, which consists of estimating the future cash flows and discounting them to an appropriate rate of return (in this case we use the WACC).

In the next table are explicit the assumptions we used constructing this forecast with regard to revenues, EBIT margins, taxes, and so forth.

Altri DCF model

Ticker	ALTR	Implied Share Price	3,76 €							
Date	07/09/2023	Share Price	4,52 €	Upside (Downside)	(16,9%)					
Assumptions										
Valuation Assumptions										
WACC	10,1%									
TGR	2,0%									
(Based in Millions of Euros)										
	2018	2019	2020	2021	2022	1	2	3	4	5
DCF	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	784,3	753,3	574,8	792,8	1 065,7	810	778	785	801	817
% growth		-4,0%	-23,7%	37,9%	34,4%	-24,0%	-4,0%	1,0%	2,0%	2,0%
Price effect				49,0%	27,0%	-14,0%	-5,0%	0,0%	1,0%	1,0%
Volume effect				5,0%	-4,0%	-10,0%	1,0%	1,0%	1,0%	1,0%
EBIT	232,5	157,8	35,7	163,8	237,4	142	148	149	160	163
% margin	29,6%	20,9%	6,2%	20,7%	22,3%	17,5%	19,0%	19,0%	20,0%	20,0%
Taxes	56	35	-11	27	55	30	32	32	34	35
% of EBIT	24,1%	22,4%	-31,4%	16,2%	23,1%	21,5%	21,5%	21,5%	21,5%	21,5%
EBIAT	176	122	47	137	183	111	116	117	126	128
D&A	60	75	62	64	64	57	54	55	56	57
% of sales	7,7%	10,0%	10,8%	8,1%	6,0%	7,0%	7,0%	7,0%	7,0%	7,0%
CapEx	65	71	37	65	45	57	54	55	56	57
% of sales	8,3%	9,4%	6,5%	8,2%	4,3%	7,0%	7,0%	7,0%	7,0%	7,0%
Change in NWC	-41	-92	-21	-27	-341	-24	8	-4	16	33
% of sales	(5,2%)	(12,3%)	(3,6%)	(3,4%)	(32,0%)	(3,0%)	1,0%	(0,5%)	2,0%	4,0%
Unlevered FCF						136	108	121	110	96
Present Value of FCF						123	89	91	75	59
Terminal Value										1 202
Present Value of Terminal Value										743
Enterprise Value										1 180
+ Cash										233
- Debt										643
Equity Value										770
Shares										205
Share Price										3,76 €

Altri´s Discounted Cash Flow Model.

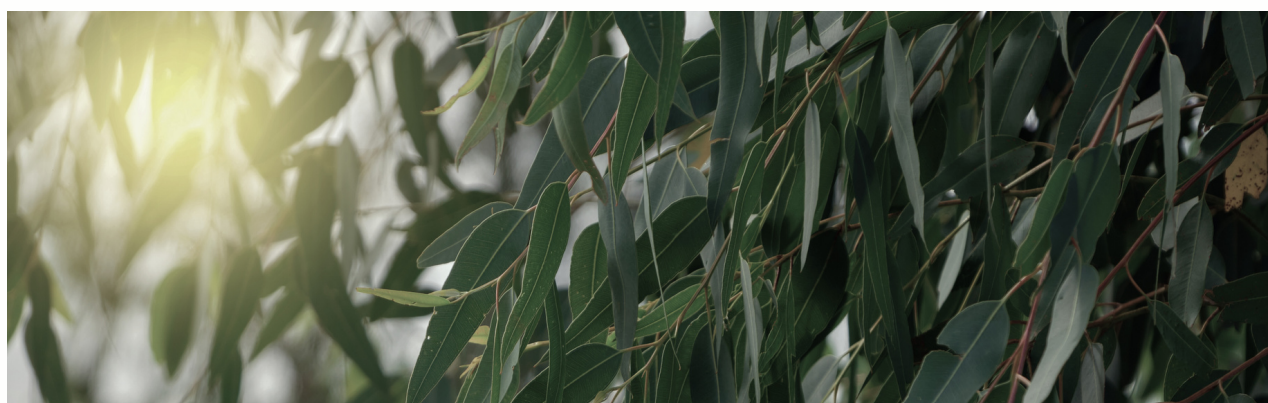
RELATIVE VALUATION

According to the relative valuation presented in the next table, the stock seems to have a big upside compared to the current price. Nonetheless, this relative valuation might change a fair amount during the next two quarters, in view of the fact that the numbers from the second half of 2022 still exert a strong effect on the overall results of Altri's last 12 months. To give a quick example, the net income in Q3 2022 was 47,7 million €, compared to 19,6 million € in the first quarter of 2023 and 8,4 million € in the second. This also takes place when talking about sales or EBITDA, which consequently will affect the three multiples we used in the relative valuation (Price-to-Earnings ratio, EV/EBITDA and EV/ Sales).

For this reason, we use relative valuation mainly to validate our results and to some extent to anchor our assumptions. We believe the results yielded from this analysis shouldn't bind us or fundamentally change the opinions expressed in the DCF model. To support this claim we also post in the annex the relative valuation using the Forward 12 months ratios, using analysts estimates for Altri for the current year. By doing this alternative analysis, taking into account the future outlook, we can see that the stock seems to be fairly priced.

Multiple	NVG.LS	MERC	ENC.MC	ALTR.LS	Average
P/E	8,66	-8,55	12,13	12,43	6,17
EV/EBITDA	5,08	11,7	7,5	7,09	7,84
EV/Sales	1,29	0,84	1,17	1,57	1,22
Market Cap (Billions €)	2,36	0,493	0,717	0,922	1,12

Peers TTM Multiples. Data: Refinitiv Eikon on 07/09/2023.



RELATIVE VALUATION

Item			
	PER	EV/EBITDA	EV/SALES
Average of benchmark assets	6,2	7,8	1,2
Values for Altri - TTM (1S 2023)			
Net income	110,6		
EBITDA		252	
Revenues			971
Value of operations	810	1 976	1 182
Value of non-operating assets and liabilities	515	515	515
Enterprise value	1 325	2 491	1 697
Debt value	643	643	643
Equity value	682	1 848	1 055
Number of shares (millions)	205	205	205
Share Price	4,52	4,52	4,52
Market capitalization (€ in millions)	928	928	928
Deviation vis-a-vis multiple model (€ in millions)	246	-920	-127
Average deviation (€ in millions)		-267	
Equity value per share	5,83		
Current value per share (September 07, 2023)	4,52		
Upside/downside	28,8%		

Altri's Relative Valuation. Data: MarketScreener.

KEY TAKEAWAYS

Important marks in 2022

- Pulp prices reached historic highs. It's expected that this value will come down during 2023 and 2024;
- Altri distributed all its 23.154.783 Greenvolt shares as a special dividend, and are no longer shareholders of the mentioned company;
- Altri failed to reach analyst estimates of EPS in 3 quarters of 2022, resulting in a bad price performance during the year.

Risks / opportunities

- Change in pulp prices and other important raw materials such as chemicals, wood, energy and natural gas will have strong impacts in the company's financials, making it harder to predict Altri's share price accurately;
- Project "Gama": Altri is analyzing the option of building a new plant that will increase pulp production by 200 thousand tons (corresponding to an increase of approximately 20% of the current Altri's production capacity). The estimated investment for this project amounts to 800 million euros.
- The industry might be entering a down cycle in terms of demand, especially considering the segments of printing and writing, and decor.
- The average Return on Capital Employed (ROCE) was 18% in the last 6 years, which is significantly higher than our calculation of the WACC (11,55%), meaning that the company is creating value.



CONCLUSION

Altri is a portuguese company that is focused on producing cellulose fibers and has a strong drive for efficiency, technological innovation and sustainability. More than 70% of the company's revenues comes from outside Portugal, which exposes the company to powerful international competition with producers from all around the globe. Additionally, according to market reports, we notice that small mills are disappearing, centralizing the production in bigger companies.

Our main takeaway from this report is that there is still a lot of uncertainty regarding Altri's stock and how the business will perform in the next few months. For this reason, we believe that the risk linked with holding the stock is also very high.

Moreover, our projections stated in the DCF model also suggest that Altri is not a good buy at the moment, and that the market is actually overvaluing it. However, we do not exclude the hypothesis that these projections can change, taking into account all the uncertainty regarding the industry, and even the strategic plans Altri has for the future.

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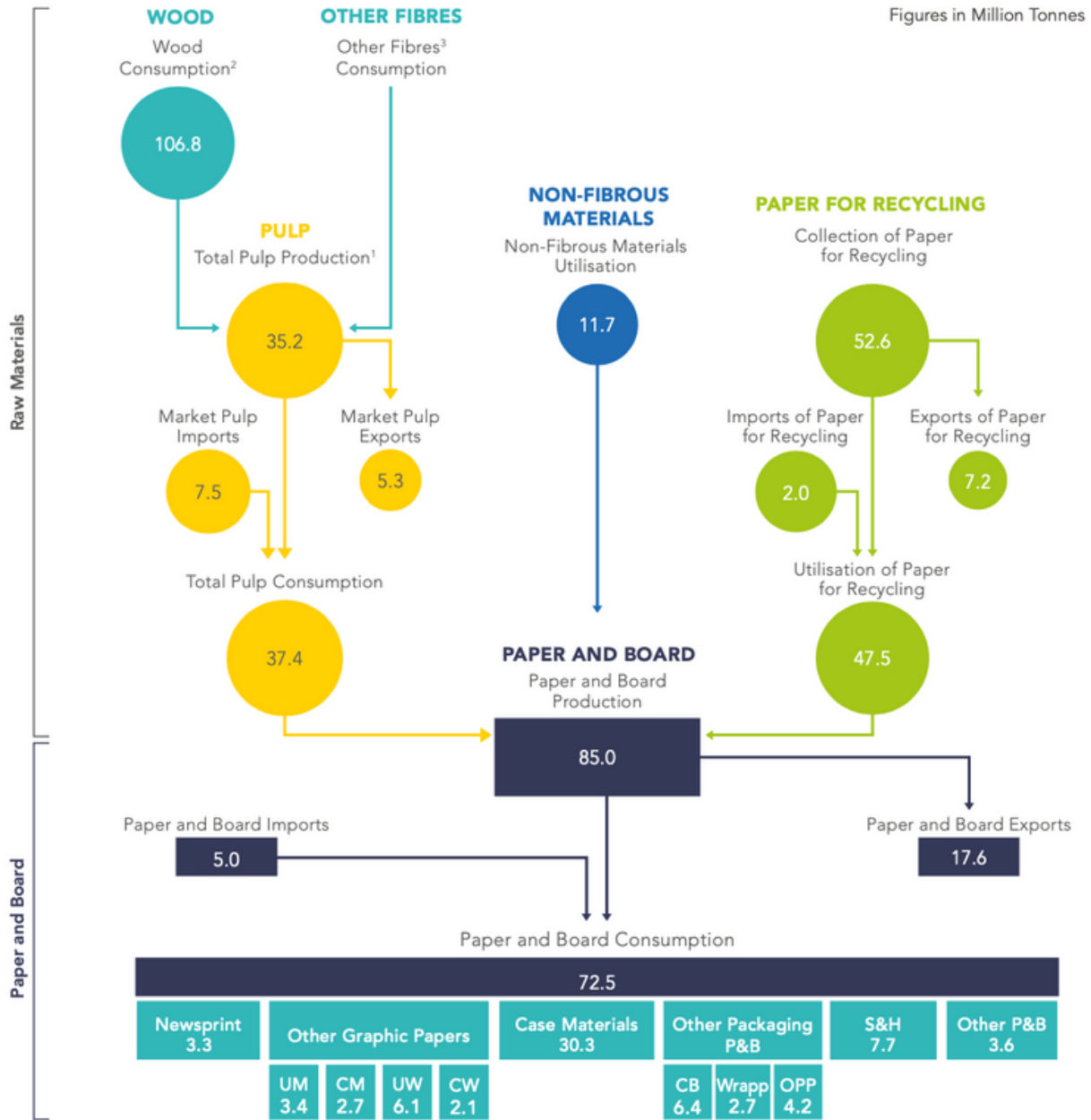
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ATTACHEMENTS

Attachement 1



Source: CEPI Key Statistics for the European pulp & paper industry for 2022.

ATTACHEMENTS

Attachement 2

Multiple	NVG.LS	MERC	ENC.MC	ALTR.LS	Average
P/E	11,35	-8,95	194,52	18,02	6,81
EV/EBITDA	7,24	13,1	7,7	8,31	9,09
EV/Sales	1,12	0,89	1,12	1,67	1,20
Market Cap (Billions \$)	2,2	0,562	0,682	0,851	1,07

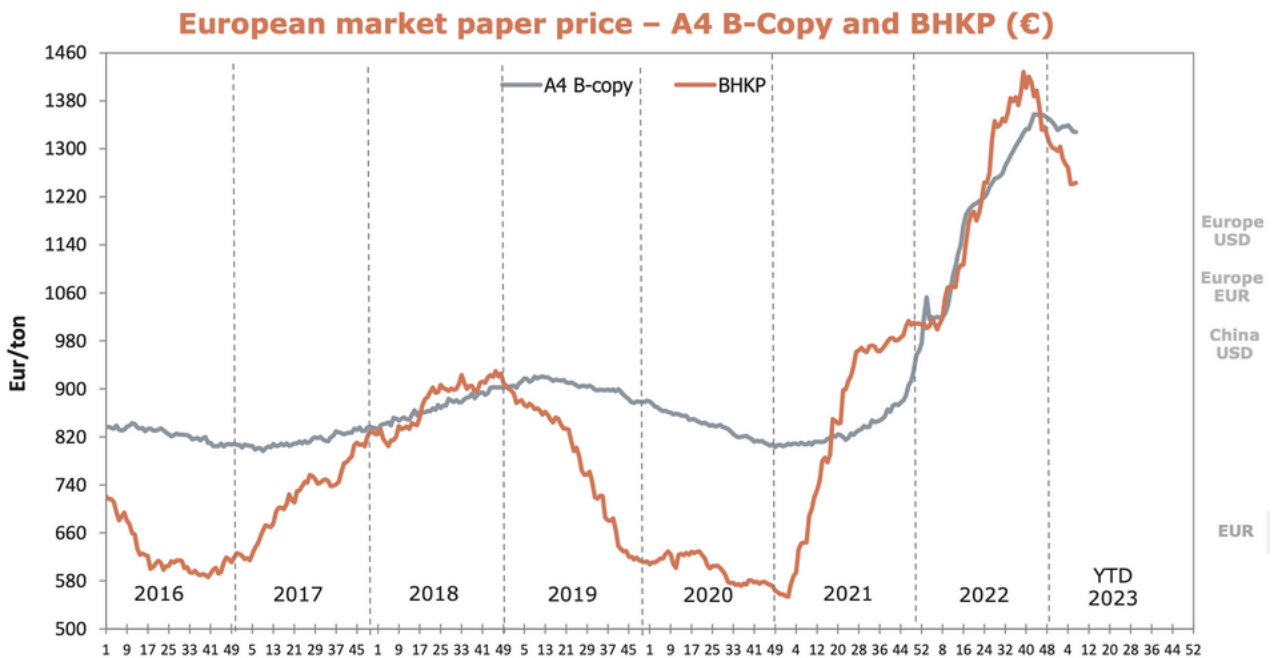
Peers F12M Multiples. Data: Refinitiv Eikon on 07/09/2023.

Item			
	PER	EV/EBITDA	EV/SALES
Average of benchmark assets	6,8	9,1	1,2
Values for Altri - Analyst Estimates (2023)			
Net income	61,2		
EBITDA		168	
Revenues			830
Value of operations	544	1 527	996
Value of non-operating assets and liabilities	515	515	515
Enterprise value	1 059	2 043	1 511
Debt value	643	643	643
Equity value	417	1 400	868
Number of shares (millions)	205	205	205
Share Price	4,52	4,52	4,52
Market capitalization (€ in millions)	928	928	928
Deviation vis-a-vis multiple model (€ in millions)	511	-472	60
Average deviation (€ in millions)	33		
Equity value per share	4,36		
Current value per share (September 07, 2023)	4,52		
Upside/downside	-3,6%		

Altri's Relative Valuation. Data: MarketScreener.

ATTACHEMENTS

Attachement 3



European market paper price. Source: Navigator investor's presentation (second quarter). Data Source: FOEX (25th July, 2023)

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