EDISON

Mytilineos

Renewables to drive EBITDA above €1bn/year

Valuation update

Industrials

We are raising our earnings estimates for Mytilineos and increasing our valuation 29% from €28/share to €36/share. Cyclical factors helped earnings acceleration in 2022, but we see underlying organic growth (particularly in Energy) resetting earnings to €1bn/year from FY24. Mytilineos is simplifying its story around two key activities in a roughly 70/30 earnings mix: Energy (renewables, generation and natural gas supply) and Metallurgy (aluminium smelting). Its renewables business is particularly well positioned to benefit from European policy initiatives.

Year end	EBITDA (€m)	Net income* (€m)	EPS** (€)	DPS*** (€)	P/E**** (x)	Yield**** (%)
12/21	359	180	1.33	0.42	12.2	2.9
12/22	823	466	3.41	1.20	4.6	7.6
12/23e	931	520	3.77	1.32	6.4	5.4
12/24e	1,048	595	4.31	1.51	5.5	6.3

Note: *Reported. **Number of shares is adjusted for the company's ongoing buyback scheme. ***Final distributed dividend per share. ****At average share prices in 2021 & 2022.

Earnings growth structural rather than cyclical

Mytilineos's annualised EBITDA rate in Q4 exceeded €1bn (€290m), bringing total 2022 EBITDA to €823m, up 130% year-on-year. In a volatile energy price environment, it can be tempting to treat energy earnings gains as purely cyclical, but we see the strong organic growth in power generation (both conventional and renewable generation and energy supply) as not yet being recognised by the market. We are raising our 2023 EBITDA estimate from €784m to €931m and our 2024 estimate from €796m to €1,048m, based on a reassessment of medium-term energy earnings, and see €1bn/year as sustainable underlying EBITDA from 2024.

Renewables a key driver of growth

Mytilineos has two sources of competitive advantage in energy. First, it is a highly efficient electricity generator with the capacity to source natural gas at a discount (or at competitive prices), giving it a structural advantage when prices are set by less efficient power generators at high gas prices. If gas prices fall significantly, power pricing can revert to being set by alternate fuels (principally lignite), leading to margin expansion at the other end of the pricing spectrum as well. Second, Mytilineos's earnings growth will be driven increasingly by its renewables capacity, which already exceeds 9GW globally. It is reinvesting current cash flows in a favourable policy environment (the EU has dedicated significant funding and is accelerating permitting processes to electrify Europe and diversify energy sources). Mytilineos has significant experience building solar capacity for itself and others and is able to grow this business significantly over the next few years.

Valuation: A step change

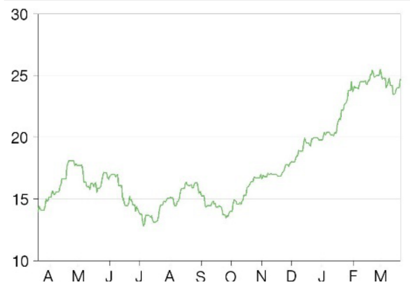
We are raising our valuation 29% from €28/share to €36/share. Mytilineos's stock has rallied strongly recently, up from €13.56 (€1.85bn market cap) in late Q222 to €25.20 currently (€3.6bn market cap), but in our view still does not reflect the medium-term earnings outlook. If, as we forecast, EBITDA can be maintained at over €1bn/year from FY24, we determine a valuation of €36/share (€5.0bn) (based on a 10-year discounted cash flow analysis).

21 March 2023

Price	**€25.2**
Market cap	**€3,601m**

Net debt (€m) at 31 December 2022	716
Shares in issue	138.7m
Free float	70.5%
Code	MYTIL
Primary exchange	ASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(3.0)	28.1	75.9
Rel (local)	6.1	14.2	47.7
52-week high/low		€25.52	€12.80

Business description

Mytilineos is a leading industrial company with an international presence in all five continents. The company is active in Energy and Metals (integrated aluminium smelting). Its renewable energy business is growing strongly organically, helped by European policy initiatives.

Next events

Q1 trading update	4 May 2023

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Edison profile page

Mytilineos is a research client of Edison Investment Research Limited

Divisional earnings forecast updates

Key changes

We are raising our 2023 EBITDA estimate by 19% and our 2024 EBITDA estimate by 32%. The largest driver of this change at a group level is higher earnings estimates from the new Energy segment. Our 2024 EBITDA estimate for this division is €648m. We have made some revisions to our Metallurgy and Sustainable Engineering Solutions (SES) estimates to reflect a strong result in 2022 (Metallurgy was 8% ahead of our estimates, and SES was 30% ahead of our estimates) and a revision to some of our modelling approaches. This note focuses primarily on our revision to Energy earnings, where we see a sustainable level above €700m beyond 2025.

Much of the earnings growth in the Energy division reflects a rise in power generating capacity in both renewables and thermal technology. Mytilineos is in the process of doubling its thermal power capacity in Greece, with a new and highly efficient plant in hot commissioning. In addition, Mytilineos will deliver significant additional organic growth in solar capacity over the next three to five years, growing its existing renewable capacity of 550MW globally by switching to a strong build out of owned solar generating capacity. In Greece alone we see a renewables capacity of 400MW by the end of 2024, then the addition of 400MW each year for at least the subsequent two years.

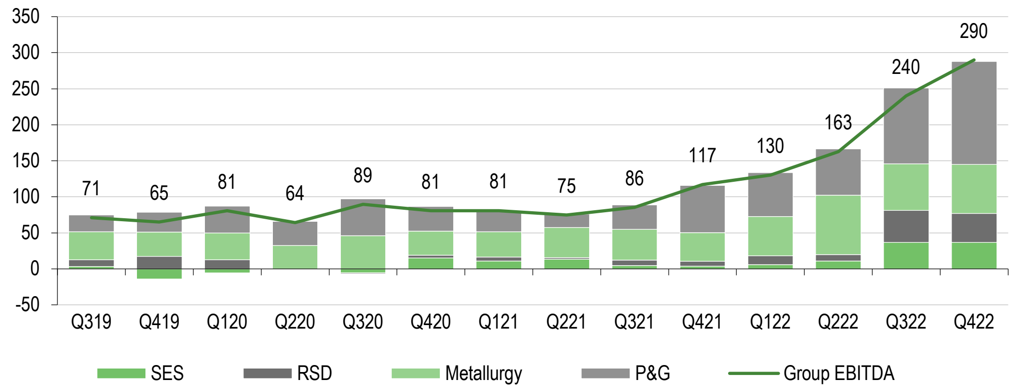
Mytilineos's annualised EBITDA rate in Q4 exceeded €1bn (€290m), bringing total 2022 EBITDA to €823m, up 130% year-on-year. Mytilineos announced its transformation into a new structure in December 2022 (focusing on energy and metals) and will report on this basis from 2023 onwards. We show below our published estimates according to its existing grouping of businesses and a potential simplification into the groupings described, but note that the company has not reported in these groupings, so we show this only as an illustration.

Exhibit 1: Changes to Edison forecasts (€m, unless shown)

	Edison new			Edison old			Difference		
	2022	**2023e**	**2024e**	**2022e**	**2023e**	**2024e**	**2022**	**2023e**	**2024e**
Divisional EBITDA:									
Metallurgy	270	262	274	251	222	249	8%	18%	10%
SES	91	100	105	70	65	68	30%	54%	54%
RSD	105	143	178	96	122	137	9%	18%	30%
P&G	373	430	495	320	379	346	17%	13%	43%
Other	(16)	(4)	(4)	(19)	(4)	(4)	(16%)	n/m	n/m
Group EBITDA	**823**	**931**	**1,048**	**718**	**784**	**796**	**15%**	**19%**	**32%**
New structure EBITDA:									
Metallurgy	270	262	274	251	222	249	8%	18%	10%
Energy	554	648	728	n/m	n/m	n/m	n/m	n/m	n/m
Of which M Renewables	165	203	253	n/m	n/m	n/m	n/m	n/m	n/m
Construction/concession subs.	15	25	50	n/m	n/m	n/m	n/m	n/m	n/m
Other	(16)	(4)	(4)	n/m	n/m	n/m	n/m	n/m	n/m
Group EBITDA	**823**	**931**	**1,048**	**718**	**783**	**796**	**15%**	**16%**	**32%**
Net income*	466	520	595	392	441	450	19%	14%	32%
Reported EPS (€)	3.41	3.77	4.31	2.87	3.23	3.30	19%	13%	31%

Source: Edison Investment Research. Note: *Adjusted for minorities; change in EPS forecasts are different to net income due to own shares held.

Exhibit 2: Progression of quarterly EBITDA from Q319 to Q422 (€m)



Source: Edison Investment Research, Mytilineos

Energy

Mytilineos's energy business involves four key activities: power generation, power supply (ie retailing/wholesale delivery), natural gas supply and Mytilineos's renewables/storage development. Energy pricing has helped earnings over the past year. The drivers of earnings growth will become more diverse in the next few years in our view. Organic growth in the Energy business, both from thermal and increasingly from renewables, will drive volumes of energy generated higher. Spark spreads could also expand if natural gas prices fall considerably and the contribution from more expensive lignite power generation begins to play a role in price setting at the EU target model returns. EBITDA surpassed the €1bn run rate in Q422 (€1.16bn annualised) and we see this level as sustainable from 2024.

Renewable power generation (M Renewables)

2022 EBITDA attributable to renewables generation was €60m, principally from 210MW, which was mainly wind. In 2023 we assume that an additional 150MW of solar capacity will be commissioned, although this will come on at the end of the year, so will likely only accrue to 2024 earnings. This will take total renewables capacity to a 400MW run rate. In 2024, we are assuming that an additional 400MW of solar capacity is added, taking total capacity to 800MW. Mytilineos has significant capabilities in solar construction, and we see this as the key enabler of it boosting its generating capacity in the currently favourable policy and investment environment.

This is clearly a growth business for Mytilineos, with the potential for 400MW of capacity to be added to capacity in 2025 and 2026. This would require funding at €0.7m/MW, requiring an annual growth capex of €280m/year and a total capex bill for the build out in solar in the region of €1.0–1.2bn over four years. The funding available under the EU's Recovery and Resilience Fund (RRF) means that the cost of debt for these projects is very low. We believe up to 50% of Mytilineos's solar capex can be funded at a coupon of 1.0–1.5% and with a 15-year at term capital payment. We see Mytilineos able to fund its organic growth; under our revised forecasts net debt reaches 1.3x EBITDA in 2023 and 1.2x EBITDA in 2024.

Mytilineos power generation

Mytilineos is the largest independent power generator in Greece, accounting for 10.7% of domestic power generation in 2022, with this expected to rise to around 20% in 2023 following the commissioning of its new combined cycle (CCGT) plant, which is in the hot commissioning phase and will soon move to commercial production. This new plant will double Mytilineos's thermal power generating capacity to approximately 2.3GW. Mytilineos has four gas-fired thermal power plants:

- A new 826MW natural gas CCGT plant, which has recently been completed and is in hot commissioning. This will double Mytilineos's power generation capacity with additional highly efficient, low carbon gas capacity. This plant is a highly efficient 'H-Type' GE gas turbine with an expected thermal efficiency of 63%.
- A 437MW CCGT located in Agioi Theodoroi (Korinthia), commissioned in 2011.
- A 444MW gas-fired CCGT located at the Energy Complex of Agios Nikolaos (Viotia), commissioned in 2011.
- A 334MW highly efficient electricity and heat co-generation station (SITHYA) at the Energy Centre of Agios Nikolaos, Boeotia (commissioned in 2008). This power station is adjacent to Mytilineos's aluminium smelter.

Historically, energy supply in Greece was particularly dependent on lignite (low-quality coal) power generation owned by the Public Power Corporation. Government policy has been aimed at gradually phasing it out (in favour of natural gas and then renewables), but this has been paused due to the conflict in Ukraine and subsequent volatility in gas prices.

Natural gas supply in Greece is through pipeline imports (principally from Turkey) and the regassification of LNG on Revithoussa Island (Mytilineos is active in LNG imports into Revithoussa and gas supply). The Revithoussa LNG terminal has a nominal re-gasification capacity of up to 7bcm pa, which is enough to cover Greece's entire natural gas supply. In addition, Greece is building another LNG terminal (FSRU) in Alexandroupolis, with a nominal regassification capacity of 5.5bcm pa. Mytilineos has dramatically increased the number of slots it has booked in the Revithoussa terminal. Mytilineos has secured 40–50% (or over 60TWh) of Revithoussa's auctioned capacity over the next four years.

The high and volatile gas prices over the past 12 months have triggered policy changes aimed at limiting profits by fuel source (ie setting a price cap on lignite, hydro and renewable energy sources) and accelerating the licensing process for renewable energy projects.

The electricity price before then had been set by a marginal pricing cost-plus model, whereby the highest cost source of power (typically low-quality/high-cost coal (lignite)) set the price, and lower cost sources of supply benefited from their relative efficiency.

Since July 2022 Greece has adopted an interim pricing model to limit the profitability of power generated by hydro, RES and lignite plants that was caused by the high natural gas price. This involved a change to set prices by each technology, which means for power producers using natural gas, the price is set by a target pricing mechanism whereby the most expensive/least efficient gas plant was setting the price for other gas-based power producers.

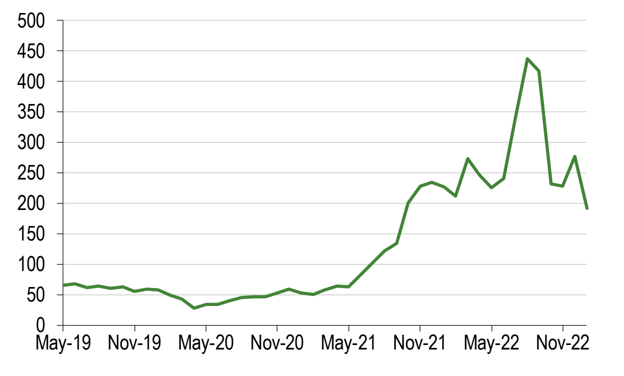
Mytilineos's margin under this new regime comes from two sources. Firstly, Mytilineos's plants are typically more efficient than the average of the peer group (c 60% energy conversion efficiency from gas to power, rather than 50%). At a gas price of €60/MWh, this means an advantage in electricity pricing of €20/MWh (€100/MWh gas cost vs €120/MWh).

Secondly, Mytilineos has a significant share of the LNG and regassification market, which means it can buy gas at discount to the average of the peer group (15–20%). Mytilineos is a major consumer (both for power generation and aluminium smelting) and takes advantage of this scale in occasionally buying distressed cargos (sellers looking for storage space). As an example, a 15% difference adds an additional €15/MWh margin to the efficiency margin above. In addition, the relative efficiency of Mytilineos's plants means lower CO_2 costs in the region of €5/MWh. Overall, in a price environment in the region of €60/MWh for gas, this indicates a structural relative advantage in the region of up to €37–40/MWh (€20/MWh from relative efficiency, €15 from gas supply and €2–5/MWh from relative CO_2 output).

Mytilineos's domestic power generation will grow from 3.5TWh in 2022 to slightly below 6.0TWh in 2023 and 8TWh in 2024. We believe this, combined with the structural margin described above, should see EBITDA in the region of €200–210m in 2023 and c €280m in 2024. We expect the completion of the new CCGT plant as the last major non-renewable investment, and have allowed for further power generation to come principally from renewable sources. This expansion in capacity should peak at 8TWh/year in 2023 then plateau, with further growth beyond that level coming from renewables.

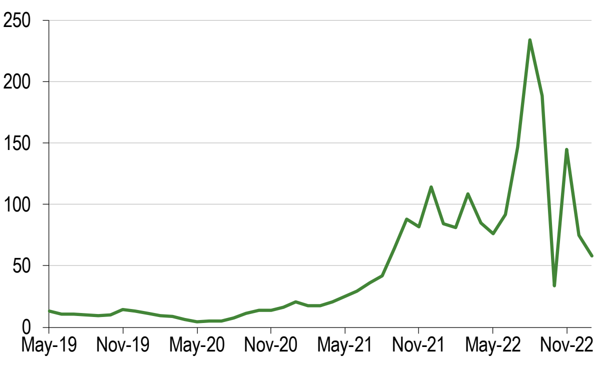
Wholesale gas and power prices have been volatile, and both have declined recently. As soon as the Greek government reintroduces the previous target model (which is possible in Q322 or later if the decision is taken to extend this interim measure) the former merit-order pricing is likely to be reintroduced with lignite as a price setter for some hours in the day (lignite power generation licences were extended to 2028 as part of the energy policy changes in 2022). If this were the case, as a gas-powered electricity generator, Mytilineos could see its margins protected or expand. Mytilineos therefore is levered to two ends of the potential energy price spectrum: a relative competitive advantage under high gas prices and a relative fuel/efficiency advantage under low gas prices.

Exhibit 3: Greece wholesale electricity price (€/MWh)



Source: Ember. Note: Monthly average.

Exhibit 4: EU wholesale gas price (€/MWh)



Source: Bloomberg. Note: Dutch Title Transfer Facility (TTF) virtual trading point.

Electricity supply

In addition to power generation, Mytilineos provides retail/industrial power into the Greek market to a wide variety of retail and industrial users. The margins in this business trend towards 5%, although this can vary cyclically due to working capital effects (caused by a lag in buying and selling pricing periods). We are assuming 3–4% margins over the next three years and annual EBITDA of €50m/year in supply.

Gas supply

Profits from natural gas supply have recently been €121m/year, with margins of 5–6%. We have assumed a continuation of this rate for the next two to three years. We understand that the regassification capacity has been secured until 2025 to support this.

Overall, we see a sustainable post 2024 run rate EBITDA from core gas-fired energy generation, supply and natural gas supply in the region of €400–410m/year.

Valuation: Should re-rate to €1bn EBITDA run rate

Our primary valuation metric is a 10-year discounted cash flow (DCF) analysis. Key assumptions include a WACC of 7.5% and a 1% terminal growth rate for Metallurgy, Power & Gas (P&G) and

SES, and 2% for Renewables & Storage Development (RSD). We assume terminal capex (included in the terminal cash flow) for the P&G and Metallurgy divisions of 1.5x depreciation. Our DCF valuation on our revised earnings estimates yields a valuation of €36/share. This is a 29% increase on our previous valuation of €28.0/share and implies a 52% upside to the current stock price of €25.2.

We do not blend valuation approaches; however, we cross check with divisional based DCFs (sum-of-the-parts (SOTP) based; see Exhibit 6) and a peer-group multiple-based valuation on EV/EBITDA. These yield similar results (€36 and €37/share respectively).

Exhibit 6: DCF-based SOTP valuation

Components	Edison new EV (€m)	Per share (€)	EBITDA 2023e (€m)	Implied EV/EBITDA (x)	Edison old EV (€m)	Per share (old) (€)	Difference old versus new (%)	Per share difference (€)
2022 Structure								
P&G	2,732	19.6	430	6.4x	1,629	11.9	68%	7.8
Metallurgy	1,763	12.7	262	6.7x	1,801	13.2	(2%)	(0.5)
RSD	1,016	7.3	143	7.1x	1,123	8.2	(10%)	(0.9)
SES	481	3.5	100	4.8x	528	3.9	(9%)	(0.4)
Other*			(4)					
Enterprise value	**5,992**	**43.2**	**931**	**6.4x**	**5,081**	**37.2**	**18%**	**6.0**
New Structure								
Energy	4,079	29.4	648	6.3x	n/m	n/m	n/m	n/m
Of which M Renewables	1,804	13.0	203	8.9x	n/m	n/m	n/m	n/m
Metals	1,763	12.7	262	6.7x	1,801	13.2	(2%)	(0.5)
Construction/Concession	150	1.1	25	6.0x	n/m	n/m	n/m	n/m
Other			(4)					
Enterprise value	**5,992**	**43.2**	**931**	**6.4x**	**5,081**	**37.2**	**18%**	**6.0**
Net cash/(debt)	(716)	(5.2)			(926)	(6.8)	(23%)	1.6
Other adjustments*	(223)	(1.6)			(339)	(2.5)	(34%)	0.9
Total equity value	5,053	36.4			3,816	28.0	32%	8.3
Number of shares (m)	138.7				136.5		2%	
Value per share (€) (rounded)	**36**				28.0		29%	
Current share price (€)	23.7							
% upside/(downside)	52%							

Source: Edison Investment Research. Note: *Includes associates, minority interests, employment benefits.

Exhibit 7: Sensitivities of DCF valuation (€/share) to WACC and terminal growth rate assumptions

		WACC						
		6.00%	**6.50%**	**7.00%**	**7.50%**	**8.00%**	**8.50%**	**9.00%**
	0.0%	44.0	39.2	35.1	31.5	28.5	25.8	23.4
	0.5%	48.0	42.4	37.7	33.8	30.3	27.4	24.8
	1.0%	52.9	46.3	40.9	36.4	32.5	29.2	26.3
Terminal growth rate*	**1.5%**	58.9	51.0	44.6	39.4	35.0	31.3	28.1
	2.0%	66.6	56.8	49.1	43.0	37.9	33.7	30.1
	2.5%	76.9	64.3	54.8	47.4	41.4	36.5	32.4
	3.0%	91.2	74.2	62.0	52.8	45.7	39.9	35.2

Source: Edison Investment Research. Note: *Stated terminal growth rate (TGR) applies to all divisions, expect RSD; TGR for RSD is stated TGR + 1%.

Peer valuation: Divisional SOTP

We cross-check our valuation with the peer group's EV/EBITDA multiples (based on 2023 estimates).

Exhibit 8: Peer group multiple analysis

	Implied EV (€m)	EV/EBITDA (x)	EBITDA (€m)	EBITDA (% CAGR)	EBITDA (% margin)
		2023	2023e	2020–23e	2022
Mytilineos:					
CCGT plants & Natural Gas Supply	1,524	4.8	320	41%	20%
RES	523	8.8	60	20%	65%
Electricity Supply	225	4.5	50	71%	3%
Power & Gas	2,272	5.3	430	0%	12%
Metallurgy	1,195	4.6	262	1%	27%
RSD	1,618	11.3	143	30%	13%
SES	751	7.5	100	7%	20%
Total	5,836				
Net debt and other adjustments	(966)				
Equity value	4,870				
Number of shares (m)	138.7				
Value per share (€)	35.1				
Fair value adjustment* (€)	2.5				
Adjusted value per share (€)	37.6				

Source: Edison Investment Research, Refinitiv. Note: Priced at 15 March 2023. *20% premium applied to some business areas to reflect relative competitiveness.

Exhibit 9: Financial summary

	€m	2019	2020	2021	2022	2023e	2024e
Year end 31 December							
PROFIT & LOSS							
Revenue		2,256	1,899	2,664	6,306	5,953	5,575
Cost of Sales		(1,922)	(1,559)	(2,299)	(5,341)	(4,860)	(4,343)
Gross Profit		334	339	365	965	1,093	1,232
EBITDA		313	315	359	823	931	1,048
Operating Profit (before except.)		219	225	279	734	780	866
Exceptionals							
Operating Profit		219	225	279	734	780	866
Other		(12)	(34)	1	(9)	1	1
Net Interest		(27)	(18)	(41)	(90)	(90)	(80)
Profit Before Tax (norm)		180	172	239	635	691	787
Profit Before Tax (reported)		180	172	239	635	691	787
Tax		(29)	(28)	(41)	(133)	(143)	(160)
Profit After Tax (norm)		150	144	198	507	549	627
Profit After Tax (FRS 3)		150	144	198	502	549	627
Minority interests		(3)	(14)	(18)	(34)	(26)	(29)
Discontinued activities		(3)	(1)	(1)	(3)	(2)	(2)
Average Number of Shares Outstanding (m)		142.9	141.2	136.0	138.7	138.7	138.7
Net income (normalised)		130	130	180	473	5522	598
Net income (FRS 3)		180	129	180	466	520	595
EPS - normalised (€)		1.03	0.92	1.33	3.41	3.77	4.31
EPS - normalised and fully diluted (€)		1.03	0.92	1.33	3.41	3.77	4.31
EPS - reported (€)		1.32	0.91	1.19	3.36	3.75	4.29
Final distributed dividend per share (€)*		0.36	0.38	0.42	1.20	1.32	1.51
Gross Margin (%)		14.8	17.9	13.7	15.3	18.4	22.1
EBITDA Margin (%)		13.9	16.6	13.5	13.1	15.6	18.8
Operating Margin (before GW and except.) (%)		9.7	11.8	10.5	11.6	13.1	15.5
BALANCE SHEET							
Fixed Assets		1,824	1,881	2,188	2,480	3,401	3,934
Intangible Assets		446	446	446	461	478	491
Tangible Assets		1,121	1,161	1,429	1,686	2,590	3,110
Right of use assets		48	45	48	59	59	59
Investments/Other		209	227	266	274	274	274
Current Assets		2,334	2,111	2,901	4,422	4,845	4,901
Stocks		214	290	469	840	952	892
Debtors		1,405	1,319	1,818	2,427	2,738	2,853
Cash		713	493	603	1,060	1,060	1,062
Other		1	9	12	95	95	95
Current Liabilities		(1,148)	(1,117)	(1,786)	(2,726)	(3,370)	(3,519)
Creditors		(1,066)	(1,042)	(1,704)	(2,552)	(2,681)	(2,830)
Short term borrowings		(83)	(76)	(82)	(174)	(689)	(689)
Long Term Liabilities		(1,376)	(1,302)	(1,682)	(1,955)	(1,688)	(1,688)
Long term borrowings		(1,051)	(955)	(1,324)	(1,602)	(1,335)	(1,335)
Other long term liabilities		(325)	(348)	(358)	(353)	(353)	(353)
Net Assets (ex minority)		1,634	1,572	1,621	2,222	3,188	3,628
CASH FLOW							
Operating Cash Flow		270	316	277	966	598	1,102
Net Interest		(27)	(27)	(23)	(31)	(80)	(70)
Tax		(36)	(36)	(33)	(43)	(133)	(138)
Capex		(155)	(155)	(380)	(716)	(734)	(706)
Acquisitions/disposals		(4)	(20)	8	(9)	(0)	0
Financing		(56)	(56)	(32)	2	0	0
Dividends		(50)	(50)	(52)	(70)	(166)	(183)
Other		(41)	(41)	20	50	0	0
Net Cash Flow		(69)	(69)	(214)	150	(514)	1
Opening net debt/(cash)		390	421	538	803	716	1,231
HP finance leases initiated		6	(48)	(51)	(63)	(0)	0
Other		0	0	0	(0)	0	0
Closing net debt/(cash)		421	538	803	716	1,231	1,230

Source: Edison Investment Research, Mytilineos accounts. Note: *Edison estimates for dividend distribution 2023–24.

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