

Alumetal

Cycle and capacity come together

Alumetal Group, a Polish casting alloy producer, has more than tripled its sales volumes over the past 10 years and reported higher EBITDA margins than its European peers in 2012 and 2013 when the global aluminium market was facing serious headwinds. We think supply normalization in the aluminium market in the past 2 years, combined with expected LT demand growth dynamics (mega-trend substitution of other metals with aluminium) and signs that demand in the main target market (European automotive) is bottoming out, should enable Alumetal Group to monetize its >50% capacity expansion over 2011-2014E. In this environment, we expect Alumetal Group to start regaining pricing power due to a mix of external and internal factors including location benefits and organic initiatives (portfolio shift toward higher-margin alloys, metal management upgrading). Meanwhile we expect tailwinds from the expanding benchmark scrap spread (226 alloy secondary aluminium price less feedstock, scrap cost) in 2014. We forecast Alumetal Group to deliver 13-16E EBITDA and NI CAGRs of 20% and 22% (24% and 9%, respectively, for the peer group). We initiate coverage of Alumetal with a BUY and FV of PLN 47.6.

Prime location in a car manufacturing region with recovering production. Between 2005 and 2013, motor vehicle production in the CEE5 (Poland, Hungary, the Czech Rep., Romania, Slovakia) and Germany - Alumetal Group's target markets - increased at a CAGR of 2%. In 2013, c.56% of motor vehicles produced in the EU 27 came from this region, vs 41% in 2005. Looking at car registration dynamics, the industry seems to be recovering from its lows at end-2012 (Figure 5) supported by a strengthening GDP environment.

Plans to expand capacities...

In the last 10 years, Alumetal Group has launched 2 plants, making it the fourth-largest casting alloy producer in Europe. Alumetal Group's goal is to leverage on the growing market and its prior experience by starting up new plants to reach 210kt (+41% vs 2013) of capacity by 2018E (casting alloys and master alloys). The new 66kt plant located in Hungary will be launched in 2 parts (33kt each). Capex for the project is estimated at PLN 135m (management guidance). Alumetal Group signed a conditional agreement for a land plot purchase (June 2014) and has completed an initial environmental report although no agreement has been signed and only a term sheet has been agreed upon.

...might not necessarily be unsupportive for remuneration.

Alumetal's consolidated balance sheet looks solid in our view with ND/EBITDA at end-2013 of 1.3x. This, combined with strong cash flow generation potential, should allow Alumetal to remunerate shareholders despite the ambitious capex program. Assuming a 50% payout ratio for 2015E-2018E, we estimate Alumetal to deliver a dividend yield of 4.4% in 2015E, 5.1% in 2016E and 5.3% in 2017E.

Risks. Alumetal Group sells its products to the automotive industry, which is cyclical, and macro deterioration could bring downside risk; Higher than expected cost of aluminium scrap in Europe might result in sales margin contraction. A decision to not go to Hungary for the expansion project would likely have a negative impact on earnings dynamics. In our valuation we assume the European Commission will not lower allowable lead content in metals; if that happened it would materially impact Alumetal's earnings (see p. 12).

BUY

19% upside

Fair Value

PLN 47.56

Bloomberg ticker

AML PW

Share Price

PLN 40.09

Market Capitalisation

PLN 604.45m

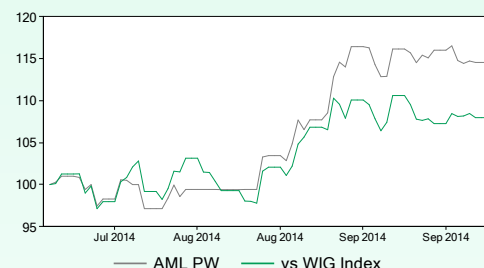
Free Float

60%

PLN m Y/E 31-Dec	2012A	2013A	2014E	2015E
Revenue	844.6	1015.3	1199.4	1275.6
EBITDA	52.9	54.0	74.4	88.1
EBIT	39.3	37.1	54.9	66.6
Net Income	34.5	35.8	53.8	63.3
Operating Cash Flow	60.9	36.5	50.3	68.9
Free Cash Flow	23.9	3.3	27.2	23.9
Net Cash Flow	24.8	(5.0)	4.3	2.6
Net Debt	72.1	70.2	62.0	62.9

Y/E 31-Dec	2012A	2013A	2014E	2015E
P/E	17.5	16.9	11.3	9.7
EV / EBITDA	12.8	12.5	9.0	7.7
FCF Yield (%)	4.0%	0.5%	4.5%	3.9%
Dividend yield (%)	0.0%	0.0%	3.5%	4.4%
EBITDA margin	6.3%	5.3%	6.2%	6.9%
Capex / EBITDA	0.7	0.6	0.3	0.5
Net Debt / EBITDA	1.4	1.3	0.8	0.7
ROE	16%	13%	17%	18%

Share Price Performance



All share price data as at close on 26-Sep-2014

Source: BESI Research, Company Data, Bloomberg

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Summary financial information

Figure 1 Financial summary

Alumetal

Rating Buy
Fair Value (PLN): 47.6

Share Price (26/09/2014, PLN): 40.1
Upside / Downside potential 19%

Bloomberg AML PW
Reuters AMT.WA

Shares in Issue (Less Treasury)(m) 15.1
Market Cap (PLN m) 604
2013 Net Debt (PLN m) 70
Adjustments for Associates & Minorities (PLN m) 0
Enterprise Value (PLN m) 675

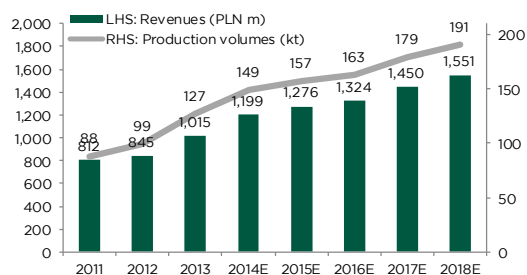
Forthcoming Catalysts

3Q14 results presentation 14-Nov

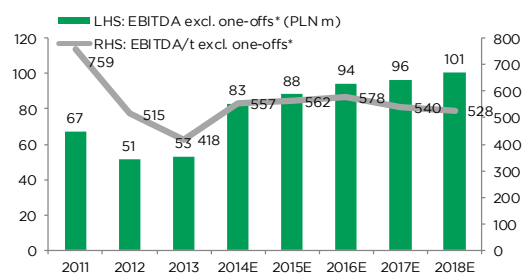
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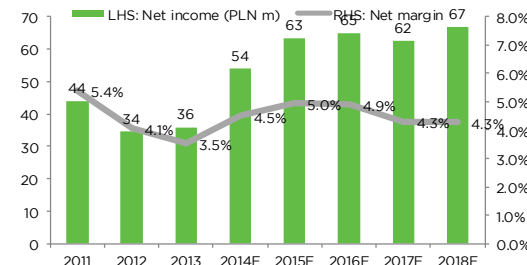
Revenues



EBITDA



Net Income



Valuation Metrics* (Year end Dec)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
P/E	13.8x	17.5x	16.9x	11.3x	9.7x	9.5x	9.9x	9.3x
EV / EBITDA	11.4x	12.8x	12.5x	9.0x	7.7x	7.2x	7.2x	6.6x
FCF Yield (%)	-7.9%	4.0%	0.5%	4.5%	3.9%	6.2%	2.4%	10.0%
Dividend yield (%)	0.0%	0.0%	0.0%	3.5%	4.4%	5.1%	5.3%	5.0%

Key Ratios	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
EBITDA margin	7.8%	6.3%	5.3%	6.2%	6.9%	7.1%	6.7%	6.5%
Capex / EBITDA	1.0x	0.7x	0.6x	0.3x	0.5x	0.6x	0.7x	0.1x
Net Debt / EBITDA	1.8x	1.4x	1.3x	0.8x	0.7x	0.6x	0.8x	0.5x
ROE	26%	16%	13%	17%	18%	18%	16%	16%
Effective tax rate	12%	8%	2%	1%	2%	5%	7%	8%

P&L Summary (PLN m, unless stated)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Revenue	812	845	1,015	1,199	1,276	1,324	1,450	1,551
COGS	(728)	(784)	(953)	(1,100)	(1,171)	(1,219)	(1,346)	(1,437)
Gross profit on sales	84	61	62	100	104	104	104	114
Selling expenses	(11)	(13)	(15)	(20)	(22)	(23)	(25)	(26)
Administrative expenses	(14)	(12)	(13)	(15)	(16)	(18)	(18)	(19)
Other operating income	1	4	4	4	3	7	8	6
Other operating costs	(4)	(0)	(1)	(13)	(3)	(1)	(0)	(0)
EBIT	56	39	37	55	67	70	69	74
Depreciation	7	14	17	19	22	24	28	26
EBITDA	63	53	54	74	88	94	96	101
EBITDA excl. one-offs*	67	51	53	83	88	94	96	101
Financial income	0	3	2	2	1	1	1	1
Financial cost	(6)	(5)	(2)	(2)	(2)	(2)	(2)	(2)
Pre-tax profit	50	37	36	55	65	68	67	73
Tax	(6)	(3)	(1)	(0.8)	(1.60)	(3.13)	(4.57)	(6.13)
Gains from discontinued operations	0	0	0	0	0	0	0	0
Minorities	0	0	0	0	0	0	0	0
Net Income	44	34	36	54	63	65	62	67
Net income excl. one-offs*	48	33	35	60	63	65	62	67
EPS	2.91	2.28	2.38	3.53	4.12	4.21	4.05	4.32
DPS	0.00	0.00	0.00	1.39	1.75	2.05	2.11	2.02
NOSH	15.1	15.1	15.1	15.2	15.4	15.4	15.4	15.4

Cash Flow Summary (PLN m)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
EBITDA	63	53	54	74	88	94	96	101
Taxes Paid	(6)	(3)	(2)	(1)	(2)	(3)	(5)	(6)
Change in Working Capital	(39)	15	(15)	(29)	(15)	(8)	(21)	(17)
Other Operating Cash Flow	(1)	(4)	(1)	6	(3)	11	9	(6)
Operating Cash Flow	17	61	36	50	69	93	80	72
Capital Expenditure	(64)	(39)	(34)	(23)	(45)	(55)	(65)	(10)
Other Investing Cash Flow	(1)	2	0	0	0	0	0	0
Free Cash Flow	(48)	24	3	27	24	38	15	62
Acquisitions & Disposals	0	0	0	0	0	0	0	0
Dividend Paid to Shareholders	0	0	0	(21)	(27)	(32)	(32)	(31)
Equity Raised / Bought Back	0	0	0	3	3	1	0	0
Other Financing Cash Flow	22	1	(9)	(5)	2	(5)	18	(31)
Net Cash Flow	(24)	25	(5)	4	3	3	1	(1)

Balance Sheet Summary (PLN m)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Intangible assets	2	2	2	2	2	2	2	2
PP&E	178	194	208	212	235	266	303	287
Others	0	0	0	0	0	0	0	0
Non-current assets	180	196	210	214	238	268	305	289
Inventories	83	81	122	144	153	159	174	186
Trade and other receivables	176	154	150	176	189	196	214	229
Cash and cash equivalents	0.7	1	0	5	7	10	10	9
Others	1	0	0	0	0	0	0	0
Current assets	261	237	272	324	349	365	399	425
Assets	441	433	483	539	587	633	704	714
Issued capital	2	2	2	2	2	2	2	2
Reserve capital	141	191	220	225	228	229	229	229
Retained earnings / (unabsorbed losses)	71	56	62	95	132	165	195	230
Others	1	1	1	(0)	(0)	(0)	(0)	(0)
Shareholders' equity	215	249	285	322	361	396	426	461
LT Interest bearing loans and equivalents	26.1	18	11	5	14	15	28	22
Others	9	25	22	22	19	30	40	34
Non-current liabilities	35	43	33	27	33	45	68	56
ST Interest bearing loans and equivalents	86.7	56	60	62	56	51	58	34
Trade and other payables	100	80	100	118	126	131	143	153
Others	5	4	5	10	10	10	10	10
Current liabilities	192	140	165	190	192	192	211	197
Equity and Liabilities	441	433	483	539	587	633	704	714
Net Debt	112	72	70	62	63	56	76	47

* one-offs include provisions

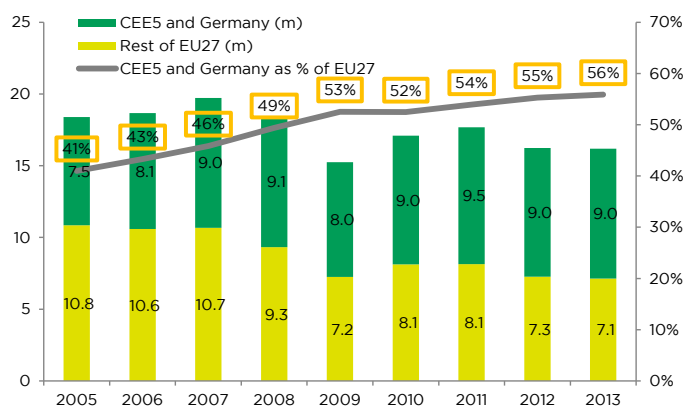
** Oetinger Group was declared bankrupt in June 2013 and closed two of four of its facilities.
Source: BES1 Research, Company Data

Executive Summary

Alumetal Group is the 4th largest secondary aluminium casting alloys producer in Europe. Its 3 plants, with 2013 sales of 127kt (5% of the European total), are located in Poland and two operate in Special Economic Zones, which brings material tax benefits. The company's primary clients are in the automotive sector. Sales to Volkswagen Group, Federal Mogul and Nemak accounted for 65% of the total in 2013. In our view, Alumetal Group's competitive advantages include: (1) its strategic location in a growing regional market with motor vehicle production growing at a 2005-2013 CAGR of 2% (Figure 2); (2) low processing costs (employment cost advantage over Western European competitors), with metal management bringing savings on aluminium scrap purchases and improving metal yields; and (3) a portfolio focused on margin maximisation. These advantages have enabled Alumetal to deliver higher EBITDA margins than its European competitors in the past few years - Figure 3. We also note that all Management Board team members have been with Alumetal for more than ten years.

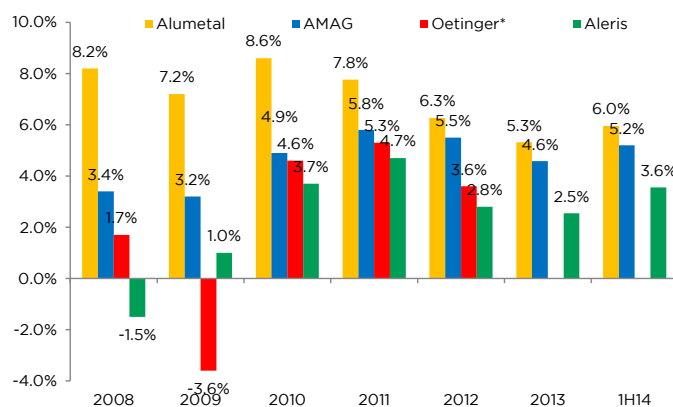
Our analysis of the aluminium industry in this note concerns both primary aluminium (c. 72% of total; from bauxite) and secondary aluminium (c. 28% of total; from scrap - Alumetal Group activity) as they follow similar demand & supply and pricing developments despite some basic differences. The secondary aluminium market is more locally driven and has higher exposure to the transport industry (Figure 4), which is an advantage in the current market conditions.

Figure 2 Motor vehicles production in EU27 and target region



Source: OIOA

Figure 3 EBITDA margin profitability comparison for European casting alloy producers



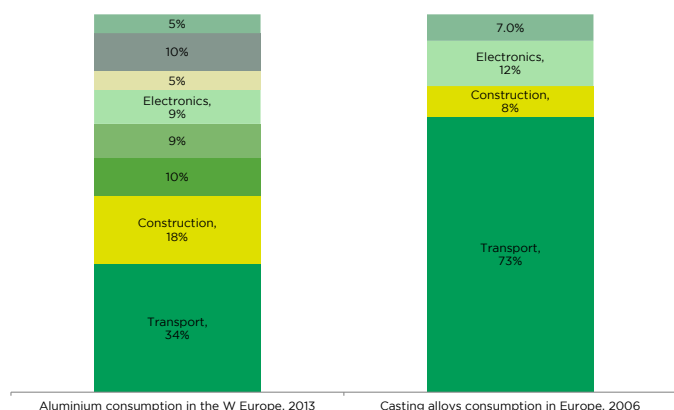
Source: BESI Research, Company Data

We expect Alumetal Group to benefit from the recovery in demand in Europe.

The transport industry accounted for c.73% of the secondary aluminium consumed in Europe in 2006 (European Aluminium Association) – Figure 4. Auto industry consumption is expected to grow by 2% in 2014 after decreasing in the past two years, according to forecasts announced by Rusal (RUALR RX Equity, Not Rated) in its 4Q13 results presentation in Mar 2014. The positive stance on the market was also reiterated in Rusal's 2Q14 results presentation published on 27 August 2014. In its 1Q14 results presentation (Apr 2014), Alcoa (AA US Equity, Not rated) - another global primary aluminium producer - raised its expectations for European automotive production to accelerate by 0-4% in 2014. This was also reiterated in Alcoa's 2Q14 results presentation on 8 July 2014. We believe that the most bullish view on the automotive market developments in Europe comes from Novelis (Not listed), which sees “double-digit” demand growth for its products delivered to the automotive industry (Bloomberg, 22 May). As a reminder Novelis, controlled by Hindalco Industries (HNDL IN, RS 156.1, SELL, FV Rs 136) is the world leader in rolled aluminium products. The positive developments in the automotive industry are already visible in the number of new auto registrations in the EU since mid-2013 – Figure 5. The construction industry, another important secondary aluminium consumer, is expected to increase

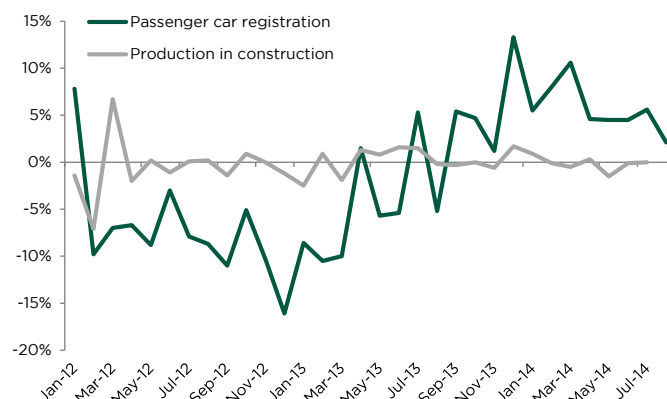
production by 0.9% in 2014 and 1.8% in 2015 (Rusal estimates), reversing the negative trend seen until mid-2013 – see Figure 5.

Figure 4 End-user demand for aluminium casting alloys (2006) and primary aluminium (2013)



Source: European Aluminium Association for Casting alloys and Rusal for primary aluminium

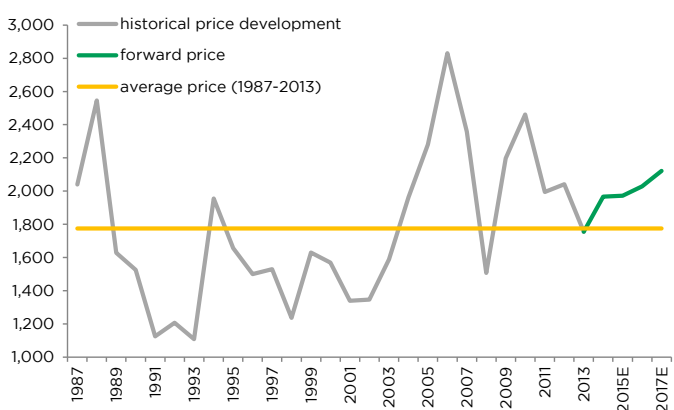
Figure 5 Monthly YoY dynamics of car registrations and MoM (seasonally adjusted) production in construction industry in Europe



Source: BEIS Research, Company Data

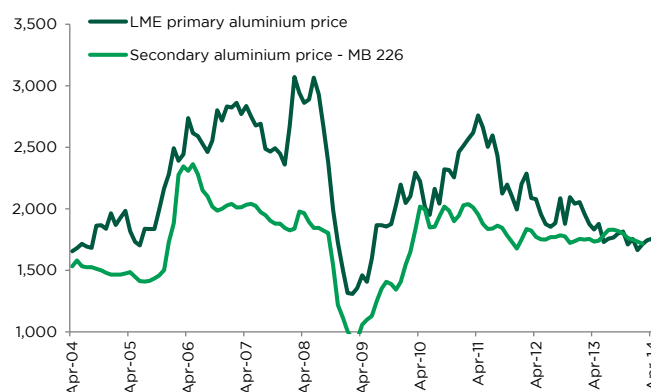
Global aluminium prices are expected to stabilise, with Alcoa forecasting the first aluminium deficit in ten years in 2014. According to Alcoa (AA US Equity, Not Rated), incremental demand for aluminium should exceed supply by 930kt or 1% in 2014 as reported in its 2Q14 results presentation on 8 July 2014, which means an increase vs 730kt guided for post the 1Q14 results presentation. This comes as a result of the company's expectation for 7% and 6% demand and supply growth, respectively. The industry has addressed the overcapacity problem, with most of the top primary aluminium players having carried out capacity reductions in the past two years (Alcoa – 15%; Rusal – 15%; Rio Tinto – 10%, Norsk Hydro – 8%). Meanwhile the bankruptcy of Oetinger (the 3rd-largest secondary aluminium manufacturer in Europe) in mid-2013 and subsequent closure of two of its four facilities also contributed. However, we point out that ex-China, capacity utilization in the primary aluminium business is still at 5Y lows, below 75% vs c. 85% in 2011 (according to Rusal). Currently, BBG consensus on the primary aluminium price (LME) indicates positive price developments with a 2013-2017E CAGR of 5% - Figure 6. Primary and secondary aluminium prices follow similar trends with the latter being less volatile. We estimate the correlation between the two at 76% (on monthly Apr 04 - Apr14 data) - Figure 7.

Figure 6 LME primary aluminium price (USD/t)



Source: BBG

Figure 7 Primary and secondary aluminium price (USD/t)



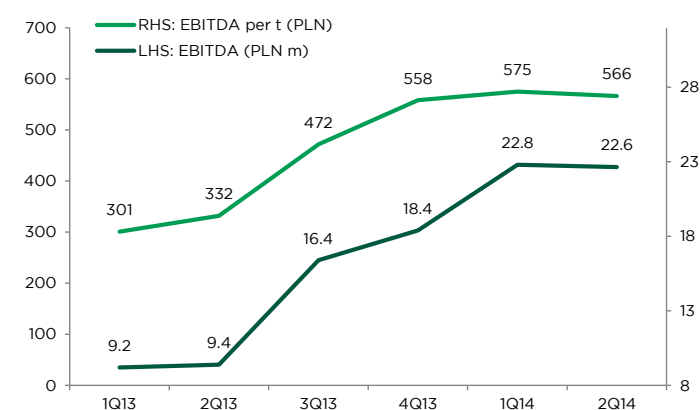
Source: BBG for LME price, Alumetal for secondary aluminium price – MB 226

Alumetal Group has started regaining pricing power. With higher capacity utilization and macro tailwinds, EBITDA per t of products sold has improved since 1Q13 – Figure 8. For the full year of 2014E, we forecast EBITDA/t for Alumetal Group of PLN 557 (PLN 570/t already delivered in 1H14), PLN 563 for 2015E and PLN 578 in 2016E, also driven by the Alumetal Group's organic initiatives (product portfolio optimization) and the benefits from high operating leverage on rising sales – we forecast a 2013-2016E revenue CAGR of 9%. Beyond 2016E, the opening of the Hungarian plant will require placing

decent volumes on the market that should come at the cost of margin, in our view. Meanwhile, after we forecast the benchmark scrap spread to expand in 2014E (due to good alloy demand and better scrap availability post the Oetinger bankruptcy and scrap imports regulation changes in China leaving more feedstock in Europe), we expect this to be flat or slightly weaker going forward. Summing up, we forecast Alumetal Group to deliver average EBITDA/t within 2014E-2018E of PLN 553 vs PLN 548 reported in 2005-2013, on average.

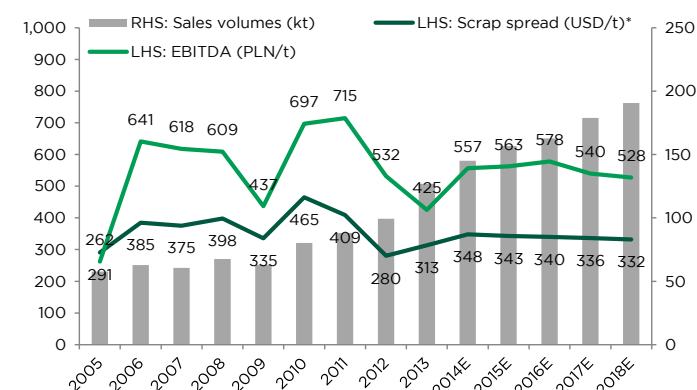
Europe, as a net scrap exporter, is a good place for aluminium players to expand their recycling business as a mega trend of boosting recycled metal content in products is under way. Such strategies have been followed by major global players including Norsk Hydro and Hindalco. In mid-2014, Novelis (Hindalco's subsidiary) opened the global largest scrap recycling facility in Europe (capacity of 400kt). In our view, the opening of the plant by Novelis will limit scrap availability in Europe, inflating its price, and be reflected in a slight deterioration of the scrap spread from 2015E onwards – Figure 9. The negative impact of this on Alumetal Group should, we believe, be mitigated as the company buys more contaminated, dirty scrap and the feedstock that is common between the two companies does not account for a large share of the total – see more on this in *Novelis' new mega recycling facility in Europe to be opened in 2014* sub-section.

Figure 8 Alumetal Group: EBITDA quarter evolution



Source: Alumetal

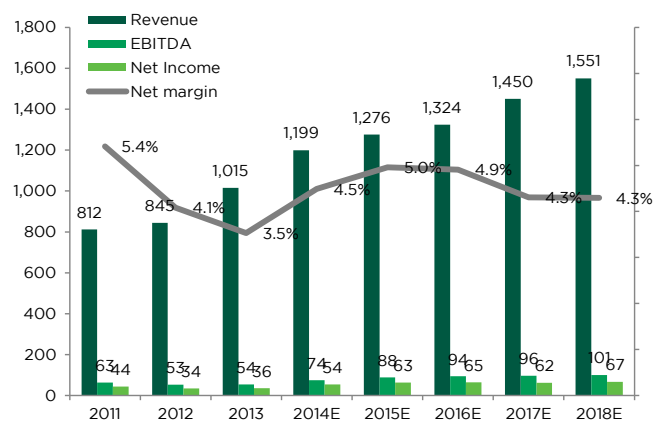
Figure 9 Alumetal Group: Volumes and margins evolution



Source: BESI for calculations of scrap spread basing on figures delivered by Alumetal coming from Metal Bulletin, BESI for estimates of volumes and EBITDA, Alumetal for historical figures

We forecast Alumetal Group to deliver 13-16E Revenues, EBITDA and EPS CAGR of 9%, 20% and 21%, respectively. We note that the peer average 13-16E EBITDA and EPS CAGR stands at 24% and 9%, respectively (Bloomberg consensus). Of PLN 54m NI and PLN 74m EBITDA forecast by us for the whole year in 2014E, 52% and 61% of this have been already reported by Alumetal Group in 1H14. We also note that the 2Q14 was affected by the one-off provisioning of receivables with an estimated impact on 2014E EBITDA of PLN 9.8m and 2014E NI of PLN 8.0m. The provision concerns receivables from CIMOS, a Slovenian auto parts producer that is experiencing severe financial difficulties according to Alumetal. On top of that other one-offs reported in the 2Q14 include a provision reversal of PLN 1.1m and IPO cost of PLN 0.6m. The total impact of one-offs in 2Q14 on EBITDA was PLN -9.2m and on NI was PLN -6.4m. We forecast 2014E adjusted NI and EBITDA of PLN 60m and PLN 83m, respectively.

Figure 10 Alumetal Group: Earnings evolution (PLN m)



Source: Alumetal for historical figures, BESI for estimates.

Figure 11 Volumes and margins evolution (priced as of 26 Sep 2014)

				EBITDA		Net Income	
	Ticker	Rating	Last Price (LCU)	Fair Value (LCU)	2013-2016E CAGR	2013-2016E CAGR	
USD	Alcoa	AA US	Not Covered	16	-	16.4%	45.2%
EUR	AMAG	AMAG AV	Not Covered	25	-	7.2%	8.9%
HKD	Chalco	2600 HK	Not Covered	3	-	27.7%	n/a
USD	CAM	CENX US	Not Covered	24	-	143.1%	n/a
PLN	Kety	KTY PW	Not Covered	271	-	28.4%	5.8%
INR	Hindalco	HNDL IN	Sell	157	136	21.8%	8.8%
PLN	Impexmetal	IPX PW	Not Covered	3	-	5.3%	-9.0%
USD	Noranda	NOR US	Not Covered	4	-	40.5%	n/a
NOK	Norsk Hydro	NOR US	Not Covered	35	-	24.7%	n/a
Median - Global alu and alu products producers						24.7%	8.8%
PLN	Alumetal implied	Buy	40	47.57		20.3%	22.0%

Source: BBG for data and consensus, BESI estimates for Alumetal and Hindalco

Valuation overview

We use two valuation methods, with 50% each:

- (1) Discounted cash flows model (DCF) based on free cash flows for 2014E-2023E and a terminal growth rate of 1.4%,
- (2) 2014E-2016E P/E & EV/EBITDA multiples based on peers' median.

We employ a weighted average cost of capital of 8.3% (WACC).

We include both secondary and primary aluminium producers in the peer group.

Figure 12 Cost of equity calculation

Cost of Capital Calculations	Comment
Tax Rate	19%
Debt Ratio	25% Calculated as of the 2013 end
Equity Ratio	75% Calculated as of the 2013 end
Unlevered Beta	1.0
Levered (equity) Beta	1.3
Equity risk premium	5.0%
Risk-free rate	3.4% 3M average of the Polish 10Y bond yield
Cost of Equity	9.7%
Debt risk premium	1.5%
Cost of Debt	4.9%
After-tax cost of debt	4.0%
WACC	8.3%

Source: BESI for estimates

Figure 13 DCF valuation

Alumetal - DCF Model (PLN m)											
Revenues	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	Terminal
Revenue Growth Rate	18.1%	6.4%	3.8%	9.6%	6.9%	10.7%	1.5%	1.4%	1.4%	1.4%	1.4%
EBITDA excl one-offs*	83	88	94	96	101	108	112	116	117	122	113
EBITDA/t excl. one-offs	557	563	578	540	528	515	524	537	540	554	
EBIT	55	67	70	69	74	84	88	93	96	101	93
Operating Margin	4.6%	5.2%	5.3%	4.7%	4.8%	4.9%	5.0%	5.3%	5.3%	5.6%	5.1%
- Tax to be paid	11	13	12	11	14	16	17	18	19	20	18
+ Tax benefits in Poland	10	11	9	6	5	4	4	4	1	0	0
+ Tax benefits in Hungary	0	0	1	1	3	4	3	4	0	0	0
Cash effective tax rate	1%	2%	5%	7%	8%	9%	11%	11%	18%	19%	19%
NOPAT	54	65	66	64	68	76	79	83	79	81	76
+ Depreciation	19	22	24	28	26	25	24	23	21	21	20
- Capital Expenditures	23	45	55	65	10	10	10	10	10	10	23
- Chg WC	29	15	8	21	17	28	4	4	4	4	4
+ Adjustments**	8	0	12	9	-6	-6	-6	-6	-6	-3	-1
FCFF	29	27	39	15	62	57	82	86	80	85	67
Terminal Value											979
Discount factor	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.9	2.0	2.2	
Discounted FCFF	27	23	31	11	41	35	47	45	39	38	
FCFF ('14E-'23E)	338										
Terminal Value	442										
Total EV	780										

Alumetal - DCF Valuation Summary (PLN m)		PLN m	PLN ps
PV of FCFF during high growth phase		338	22.4
PV of Terminal Value		442	29.3
Enterprise Value		780	51.7
Contributions			
	Associates	0	0.0
Deductions			
	Net Debt	70	4.7
	Minorities	0	0.0
	Dividend (div record-day prior to IPO)	21	1.4
DCF-implied equity valuation		688	45.7

* one-offs include provisions

** it includes provisions, adjustments for book and cash effect of subsidies and other minor items impact

Source: BESl Research for estimates

Figure 14 Peers multiples valuation (priced as of 26 Sep 2014)

						P/E (x)			EV/EBITDA (x)			EBITDA		Net Income	
	Ticker	Rating	Last Price (LCU)	Fair Value (LCU)	M. Cap. (EUR m)	2014E	2015E	2016E	2014E	2015E	2016E	2014E DY%	2013-2016E CAGR	2013-2016E CAGR	
USD	Alcoa	AA US	Not Covered	16	-	15,037	27.1x	19.4x	16.0x	9.4x	8.0x	6.9x	0.7%	16.4%	45.2%
EUR	AMAG	AMAG AV	Not Covered	25	-	895	18.9x	14.9x	12.3x	8.8x	7.2x	6.3x	2.2%	7.2%	8.9%
HKD	Chalco	2600 HK	Not Covered	3	-	6,017	n/a	n/a	30.7x	37.8x	19.2x	12.8x	0.0%	27.7%	n/a
USD	CAM	CENX US	Not Covered	24	-	1,721	20.4x	9.3x	7.4x	11.5x	6.3x	3.9x	0.0%	143.1%	n/a
PLN	Kety	KTY PW	Not Covered	271	-	618	16.0x	15.3x	14.0x	9.7x	9.1x	8.5x	3.6%	28.4%	5.8%
INR	Hindalco	HNDL IN	Sell	157	136	4,162	11.6x	9.5x	7.7x	8.2x	6.6x	5.6x	0.8%	21.8%	8.8%
PLN	Impexmetal	IPX PW	Not Covered	3	-	136	10.6x	9.3x	8.8x	6.7x	5.9x	5.6x	0.0%	5.3%	-9.0%
USD	Noranda	NOR US	Not Covered	4	-	252	n/a	73.1x	8.4x	9.9x	5.6x	4.7x	0.9%	40.5%	n/a
NOK	Norsk Hydro	NOR US	Not Covered	35	-	8,986	31.8x	16.7x	13.4x	9.6x	6.7x	6.1x	2.2%	24.7%	n/a
Median - Global alu and alu products producers							18.9x	15.1x	12.3x	9.6x	6.7x	6.1x	0.8%	24.7%	8.8%
PLN	Alumetal implied	Buy		40	47.6		13.3x	11.3x	11.0x	10.5x	8.8x	8.2x	3.5%	20.3%	22.0%

Implied equity valuation (PLN m)	1,017	954	802	654	531	518
Average for P/E and EV/EBITDA		924			568	
Weight		50%			50%	

Average implied equity valuation of Alumetal (PLN m) 746

Source: BESl for estimates for Alumetal and Hindalco, Bloomberg consensus for not rated stocks.

Figure 15 Valuation summary

Alumetal - Fair Value calculation (PLN m)		PLN m	PLN ps
DCF valuation (50%)		688	45.6
Peer multiples valuation (50%)		746	49.5
Fair value		717	47.6

Source: BESl Research

Figure 16 DCF: Sensitivity analysis - 1 (PLN)

		EBIT margin in perpetuity				
		4.7%	4.9%	5.1%	5.3%	5.5%
WACC	1.0%	627	646	661	682	701
	1.2%	639	639	674	696	715
	1.4%	652	672	688	688	731
	1.6%	664	684	701	725	745
	1.8%	745	699	716	740	761

Source: BESl Research, Company Data

Figure 17 DCF: Sensitivity analysis - 2 (PLN)

		Equity Risk Premium				
		4.0%	4.5%	5.0%	5.5%	6.0%
Risk-free Rate	3.0%	891	807	736	674	621
	3.2%	856	777	710	652	601
	3.4%	826	752	688	633	584
	3.6%	792	723	663	611	565
	3.8%	763	698	641	592	548

Source: BESl Research, Company Data

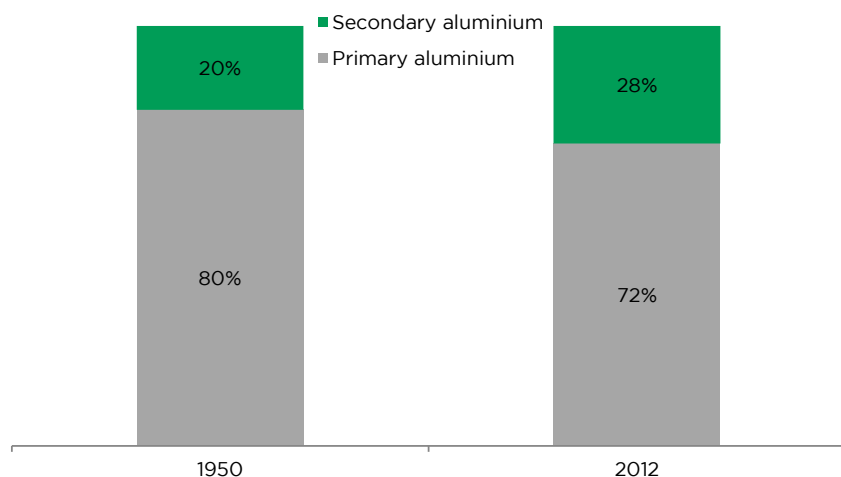
Primary & Secondary Aluminum Market Overview

Aluminium is relatively soft, durable, lightweight, corrosion resistant, fully recyclable, impermeable & odourless and a near-perfect conductor. Based on the production method, aluminium can be categorised as: (1) primary aluminium (produced from bauxite); or (2) secondary aluminium (produced from aluminium scrap).

Secondary aluminium is more about the local market and automotive exposure but the two markets must be considered together, in our view. While the secondary aluminium market is of a more local nature (determined by scrap availability and production costs) versus the primary one, we see the following arguments behind analysing both markets together with regards to supply & demand and pricing developments: (1) high correlations - we estimate it at 76% (on monthly 2004-2013 data). Primary and secondary aluminium prices follow similar trends with the latter being less volatile – Figure 7; (2) aluminium price determines aluminium scrap availability, in our view; (3) the two aluminium types are substitutes for each other in many uses; (4) most global aluminium players apart from main primary aluminium production also have secondary aluminium in their portfolios.

Secondary aluminium gains in importance. Producing secondary aluminium currently requires just 5% of the energy used in the primary process and we expect this percentage to grow going forward – Figure 18. About 75% of the aluminium that has ever been produced is still in use, according to Rusal.

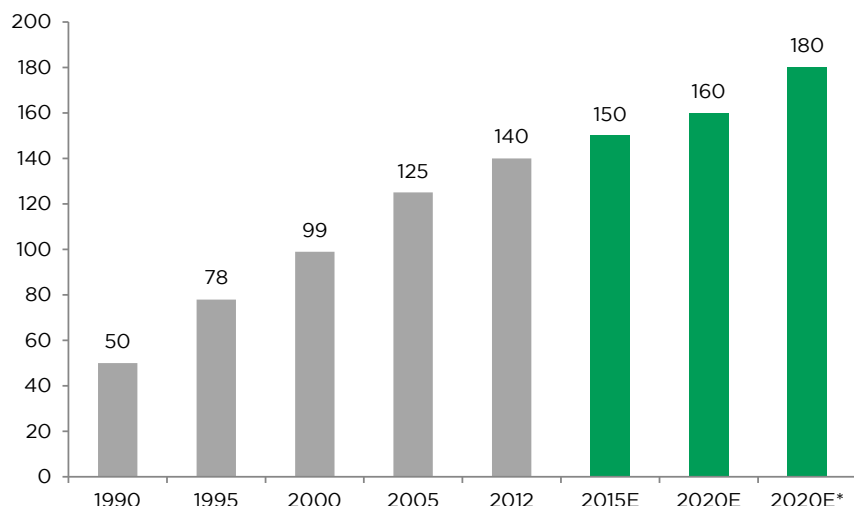
Figure 18 Aluminium production split evolution



Source: Rusal

Car weight reduction: One of the mega-trends supporting aluminium consumption is the increasing usage of the metal as a weight reducer in cars, replacing steel – Figure 19.

Figure 19 Aluminium car penetration evolution (kg per car)



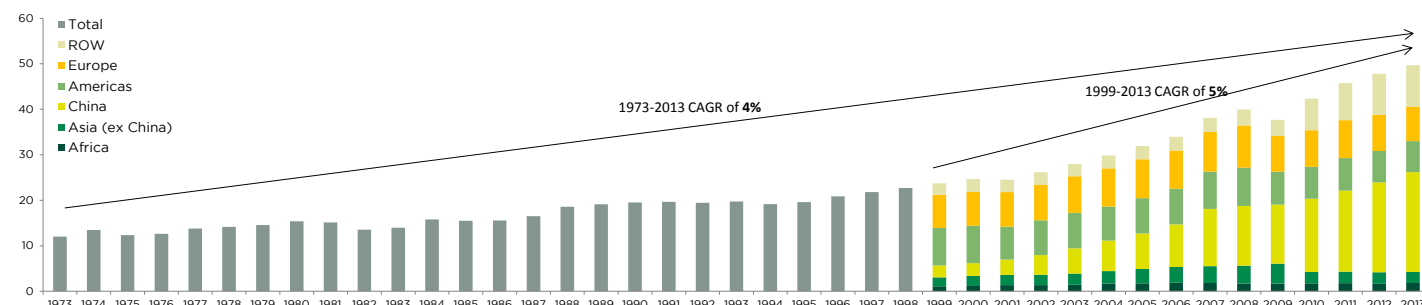
* This estimate assumes that the aluminium content in premium and lower end cars will match. Please note that the aluminium content has been historically higher in premium cars vs lower end ones
Source: EAA

Primary aluminium

Primary aluminium production has grown at a CAGR of 4% in the last 40 years.

In China, primary aluminium production has grown at a 1999-2013 CAGR of 17%, while it remained roughly flat in Europe over the same period – Figure 20. Currently China accounts for c.44% of global primary aluminium production and Europe for 15% (includes EU, Norway, Russia). China's dominant role in primary aluminium production reflects four factors: (1) huge domestic demand for aluminium; (2) proximity to bauxite deposits in Indonesia, Vietnam, Australia and India; (3) inexpensive energy; and (4) supportive environmental regulations in comparison with other regions.

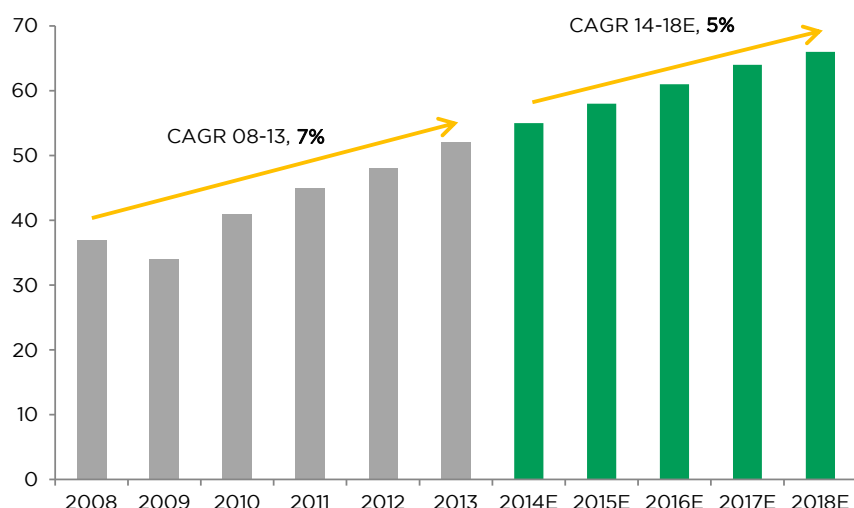
Figure 20 Primary aluminium production (mt)



Source: International Aluminium Institute

...and 5% pa consumption growth in 2014-2018E (6% in 2014E – Rusal forecasts) should support the trend - Figure 20. According to Rusal, the largest contributors to aluminium consumption growth in 2014 should be China (+10%), Asia ex-China (+3%) and the United States (+3%). Rusal mentioned two primary drivers for consumption in China: (1) increased car production; and (2) investment and home appliance purchases in rural areas. For the European market, Rusal increased its growth forecast from 2% to 3%, pointing to robust growth in Turkey and recovering demand in Germany and GB.

Figure 21 Primary aluminium consumption evolution



Source: Rusal – presentation post 4Q13 Results release, Mar 2014

Secondary aluminium

Global aluminium players intend to increase recycled content, as seen in Hindalco, Alcoa and AMAG's forecasts and strategies. Basing aluminium production on scrap saves energy by reducing fuel consumption while trimming CO2 emissions, as required by law. Looking at the need to lower CO2 production globally, we might expect the substitution effect to lead to more and more aluminium consumption which requires less energy for melting, which should support secondary aluminium production.

There are three secondary aluminium products: casting alloys, wrought alloys and steel deoxidants. Alumetal Group produces only casting alloys – Figure 22.

Figure 22 Secondary aluminium products

Casting alloys	Used primarily in automotive sector for pistons, engine cylinder heads etc.
Wrought alloys	Alloys for plastic formations, used for external car hang-on parts, such as hoods, doors, roofs, wings, trunk lids etc.
Steel deoxidants	Used primarily in the steel industry

Source: Alumetal

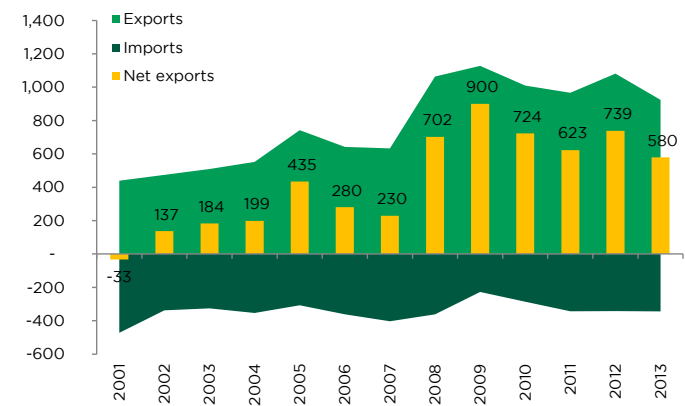
Secondary aluminium market in Europe

Secondary aluminium dominates the European market. Regulations and wide scrap availability mean that secondary aluminium production in Europe exceeds 50% of the total, on our estimates.

Europe is a net scrap exporter. In 2013, net exports of scrap from Europe stood at 580kt (Figure 23) with most of this going to China and India (Figure 24). We expect the availability of scrap to create opportunities for scrap recyclers and secondary aluminium producers to build facilities in Europe. The global leader in rolled aluminium products, Novelis (Not Listed), says it aims to increase its reliance on secondary feedstock to over 80% vs 43% in 2013 (39% in 2012, 30% average in 2007-2009). One of the steps Novelis is taking to achieve this target is opening the world's largest scrap recycling facility in Germany, with capacity of 400kt (35% of scrap exported from Europe in 2013). Novelis' new plant is scheduled to start producing in mid-2014. We expect this expansion in the market to increase competition for scrap in Europe and we incorporate it into our scrap spread forecasts (Figure 9). On the positive side for scrap availability in Europe, we note recent changes in Chinese regulations to curb scrap imports. With its 'Green Fence' operation (launched in Feb 2013), China aims to improve environmental standards. New regulation prohibits imports of unwashed post-consumer plastics and other contaminated waste shipments. There is only 1.5% intake of contamination

allowed in the scrap imported. According to a report in The Guardian newspaper (27 Sep 2013), China used to import c.800kt of waste per year with 49% coming from Europe in 2013 (our estimate, based on Eurostat data).

Figure 23 Imports and exports of scrap from Europe (kt)

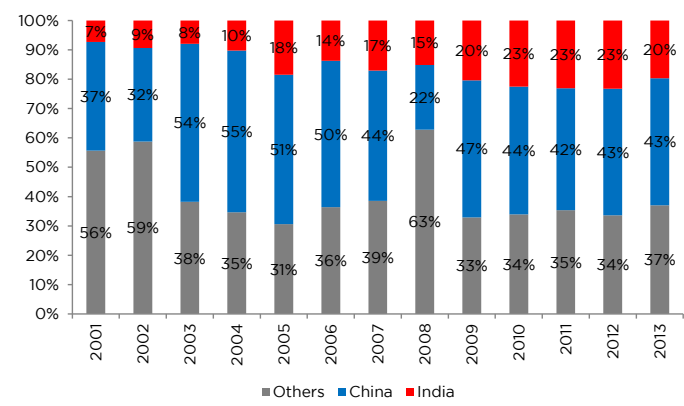


Source: Eurostat

European regulations support secondary aluminium but there are some regulatory risks. There are two primary directives supporting aluminium recycling in Europe, i.e.: (1) the EU Waste Framework Directive aimed at turning Europe into a recycling society; and (2) the End of Life Vehicles Directive, aimed at shifting the automobile industry towards sustainable waste management. The European Union is currently discussing the classification of certain substances under the CLP Regulation. For secondary aluminium producers, the primary issue with respect to CLP is lead, which is currently expected to be classified as category 1A – Reproductive Toxicity, with a Specific Concentration Limit (SCL) of 0.03%. As secondary aluminium from post consumption scrap usually has lead content in excess of the SCL, secondary aluminium might be classified as ‘toxic for reproduction’. This could increase operating costs for the transportation, handling and storage of both final products and raw materials.

Alumetal Group is the largest CEE aluminium casting alloys player and number-four in Europe by sales volumes (Figure 25, 26). On our estimates, Alumetal Group would approach 2013-level volumes of the number 2 casting alloy producer in 2018 if it completed its Hungarian plant. Alumetal Group is not the only company planning a plant expansion in the region, as Befesa already announced plans to open a new 50kt facility in Germany in 2014. While the European casting alloys market seems moderately fragmented (the top 9 players had a 46% market share in 2013), we cannot rule out the possibility of consolidation or a reshuffling on the market in the near term. On 15 April 2014, Aleris (no 2 in Europe in 2013 by sales volumes) announced that it is in the process of evaluating the potential sale of its recycling and specification alloys businesses.

Figure 24 EU 27 scrap exports split, by geography



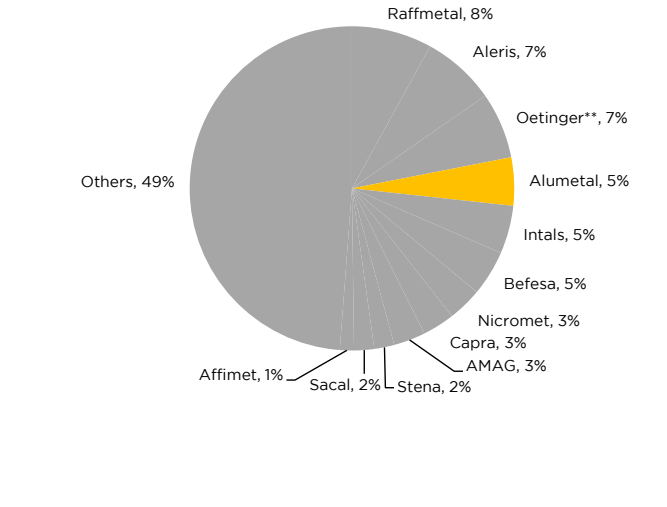
Source: Eurostat

Figure 25 European aluminium casting alloys players

	Country	Type	Product focus	Sales volume (2013)	
1	Raffmetal	Italy	Secondary aluminium	Aluminium alloys in ingots and in a molten state	200kt
2	Aleris	Germany	Integrated aluminium producer	Cast and foundry alloys, wrought alloys Magnesium alloys Special alloys	175kt
3	Oetinger	Germany	Secondary aluminium	Aluminium alloys in ingots and in a molten state	165kt
4	Alumetal	Poland	Secondary aluminium	Casting alloys Cylinder head alloys Piston alloys	127kt
5	Intals	Italy	Secondary aluminium	Aluminium alloys in ingots Aluminium plates Aluminium billets	120kt
6	Befesa	Spain	Secondary aluminium	Aluminium alloys	113kt
7	Nicromet	Poland	Secondary aluminium	Aluminium alloys in ingots	85kt
8	Capra	Italy	Secondary aluminium	Aluminium alloys in ingots	80kt
9	AMAG	Austria	Integrated aluminium producer	Rolled products Foundry alloys Primary aluminium	79kt
10	Stena	Sweden			50kt
11	Sacal	Italy			50kt
12	Affimet	France			35kt

Source: BESI Research

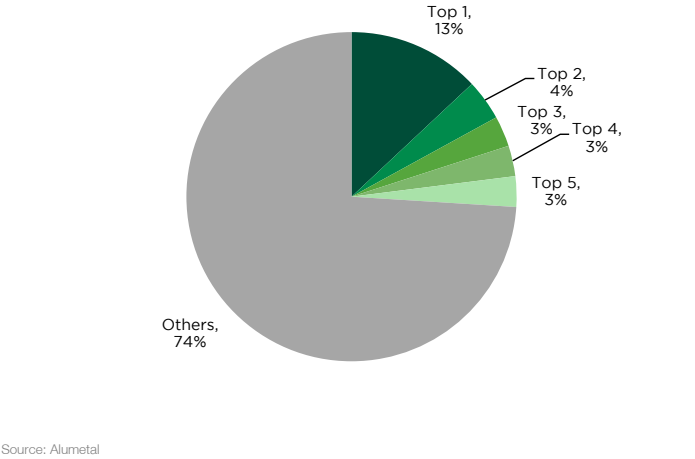
Figure 26 European aluminium casting alloy players, by market share (on 2013 sales)



Source: BESI Research, Company Data

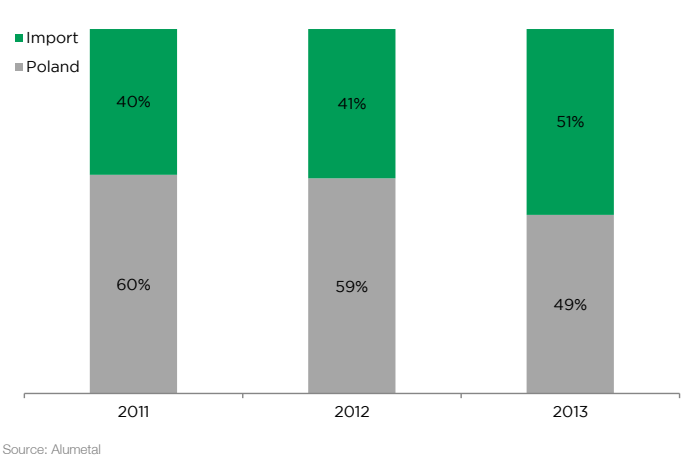
Alumetal Group has a portfolio of c.300 diversified scrap suppliers with the 3 largest delivering c. 20% of the total – Figure 27. In 2013, Alumetal Group imported 51% of its scrap - Figure 28.

Figure 27 Alumetal: Scrap suppliers diversification (2013)



Source: Alumetal

Figure 28 Alumetal: Scrap source diversification (2013)



Source: Alumetal

Business Overview

History

- **1953** – Establishment of foundry in Kety
- **2000/2001** – Alumetal spin-off from Kety Group
- **2001** – Alumetal sold to Austrian investor
- **2002-2003** – Acquisition of Alumetal by Polish investors (as of today Grzegorz Stulgis remains a shareholder through Ipopema 30 FIZAN)
- **2004-2005** – Establishment of Alumetal Gorzyce in 2004 with first production from the foundry in 2005
- **2007** – Launching of second phase of Gorzyce plant
- **2008** – Establishment of Alumetal Nowa Sól with first production from the foundry in 2011
- **2010** – Establishment of T+S
- **2010** – Abris CEE Mid-Market Fund takes a controlling stake in the Company
- **2011** – Launching I phase of Nowa Sol, 2013 – II phase
- **2013** – First production of master alloys in Gorzyce
- **2013** – Group structure reorganization (merger of Polish assets)

Management Team

Szymon Adamczyk, CEO

Mr. Adamczyk has been a member of the management board since 2003. In 2013 he and Mr Błasiak changed their positions on the management board (Mr Adamczyk was appointed the president of the management board and Mr Błasiak was appointed the vice-president). His responsibilities include: (1) strategic development; (2) sales and purchases; (3) marketing activities; and (4) HR management.

Krzysztof Błasiak, deputy CEO

Mr. Błasiak has been employed by Alumetal since 1996 and has served on the management board since 2002. He has been the deputy CEO and Operations and Development Director since 2013. His responsibilities include: (1) production management and planning; (2) investment policy; and (3) metal management.

Przemysław Grzybek, CFO

Mr. Grzybek has been employed by Alumetal since 1998 and has served as Financial Director since 2002. His responsibilities include: (1) liaison with financial institutions; and (2) budgeting, controlling and risk management.

Business model

The Alumetal Group divides its key products into: (1) cast alloys; (2) master alloys; (3) fluxes and salts; and (4) other products (including steel deoxidizers and by-products). With regard to fluxes and salts, auxiliary materials are manufactured through T+S at the plant in Kety.

- **cast alloys** – flagship division. In this division Alumetal Group produces one-notch ingots of 6-8 kilos and two-notch ingots of 13 kilos. This segment's capacity was 141.5kt in 2013.
- **master alloys**. In this division the Alumetal Group produces two-notch waffles of about 12 kilos. This division's products are used mainly by the metallurgical industry, rolled aluminium producers and secondary alloy manufacturers. This segment's capacity was 7kt in 2013.

- **fluxes and salts.** In this division the Alumetal Group produces i.a. modifiers and refiners used in the casting and metallurgical industries. This segment's capacity was 7kt in 2013.

Facilities description. Alumetal Group has three refineries with a total capacity of 148.5kt (2013), all of which are located in Poland (Nowa Sol – 49.5kt, Gorzyce – 34.5kt, Kety – 64.5kt) – Figure 29. Alumetal Group sells its alloys to the automotive industry (90%) and others including construction, engineering and metallurgy. The plant in Nowa Sol stands out with state-of-the-art metal management equipment including X-ray sorting. Two of the three plants (Nowa Sol, Gorzyce) are located in the Special Economic Zone, which brings tax benefits for the Group – described in the *Tax exemptions* section.

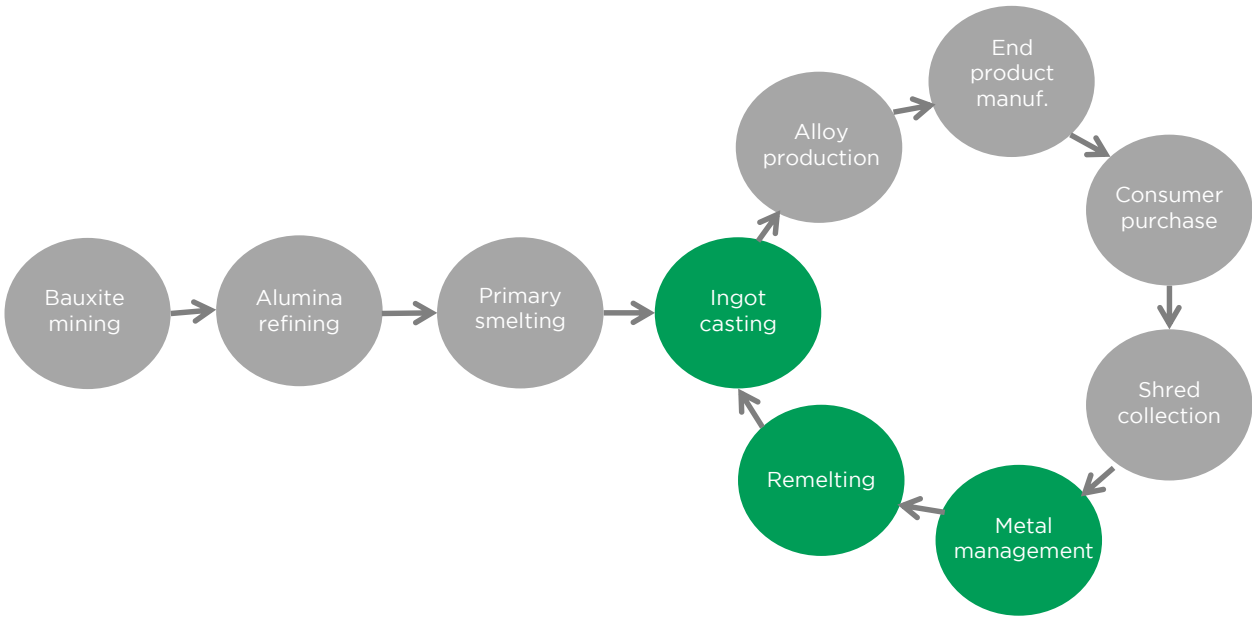
Figure 29 Facilities description

	Nowa Sol	Kety	Gorzyce
Production & Sales			
Capacity (kt), 2013	49.5	64.5	34.5
Sales volumes (kt), 2013	44.2	53.4	30.7
2013 utilization	89%	83%	89%
Capacity (kt), 1Q14	66.0	64.5	34.5
Site Overview			
Total area (ha)	9.6 (2.0 available spare)	8.1 (2.0 available spare)	7.1
Built date	2011 (greenfield)	1953	2005 (brownfield)
Special Economic Zone	YES	NO	YES
Production Range			
	Cylinder heads alloys Possibility to deliver liquid metal	Aluminium casting alloys Liquid metal delivery	Piston and low ZN alloys Master alloys (hardeners and modifiers)
Production Equipment			
	2 production lines Metal management consists of: sorting line, shredder, eddy currents, X-rays	5 production lines	6 production lines
Key Client			
	Volkswagen Group	Nemak Group	Federal Mogul

Source: Alumetal

Production process: The margin earned by Alumetal Group is the difference between the scrap and aluminium products price. We divide Alumetal Group's production process into 3 parts: (1) metal management i.e. processing of scrap; (2) remelting; and (3) ingot casting. In the primary aluminium production process, ingot casting is preceded by primary smelting, instead of remelting as in secondary aluminium – Figure 30.

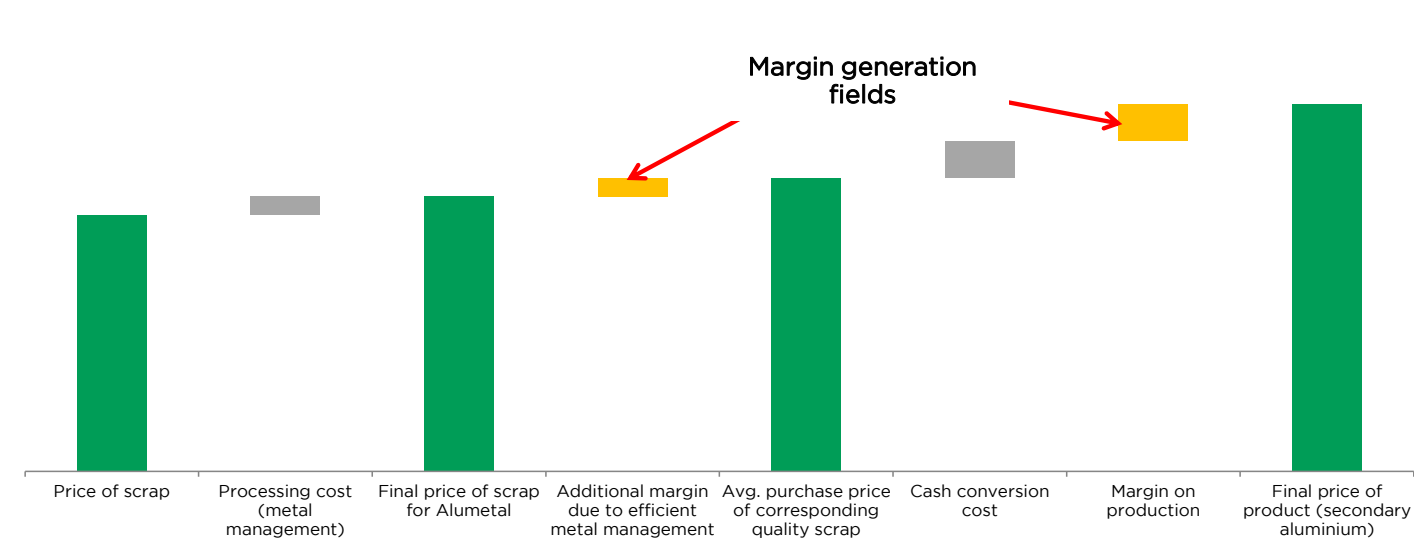
Figure 30 Aluminium production and recycling process (Alumetal Group’s activities are metal management, remelting, ingot casting)



Source: BESI Research

Alumetal Group earns margins on metal management and production sales, rather than on sales alone (as is the case for most industrial processing companies). – Figure 31.

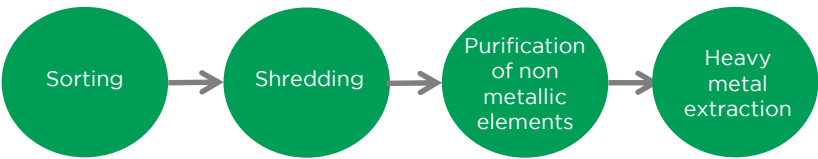
Figure 31 Theoretical scheme of added value generation in Alumetal Group



Source: Alumetal

Metal management: A metal management approach gives Alumetal Group access to lower-quality, less expensive scrap. Moreover, metal management enables it to differentiate aluminium scrap by quality and better match clients’ requirements to the product. The metal management process can be split into 4 parts – Figure 32.

Figure 32 Metal management process scheme



Source: BESI Research, Alumetal

Location: Alumetal Group’s facilities are located in: (1) Nowa Sol, which is close to a Volkswagen Group plant (127km) in Western Poland; (2) Gorzyce, which is close to Federal Mogul Group (immediate neighbourhood) in Eastern Poland; and (3)

Kety is close to Nemak Group (17km distance) in Southern Poland. In 2013, 65% of Alumetal Group's revenues were generated by sales to 15 production plants of Volkswagen Group, Federal Mogul Group and Nemak Group – see Figure 33 for a description of Alumetal Group's three primary clients.

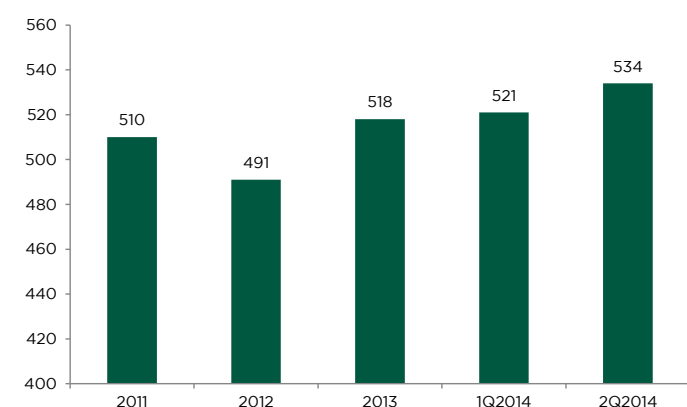
Figure 33 Primary clients description

Client	Relationship duration	Characteristics
NEMAK	> 30 years	Present in 14 countries, owns 34 manufacturing plants Focus on production of high complex aluminium components for the automotive industry Listed on the Mexican stock exchange Alumetal supplies its plants in Poland, Austria, Czech Rep., Slovakia, Hungary and Germany
FEDERAL MOGUL	> 10 years	Present in 29 countries, owns 94 manufacturing plants and 17 distribution sites globally Operates two divisions: (1) powertrain for automotive, heavy-duty and industrial; (2) vehicle products - aftermarket Listed on NASDAQ Alumetal supplies its plants in Poland, Russia, Germany and France
Volkswagen	> 16 years	Second largest global automobile manufacturer. Operates 114 production plants (incl. 106 in Europe) Listed in Frankfurt Alumetal supplies its plants in Poland, Czech Rep. and Germany

Source: BESI Research, Alumetal

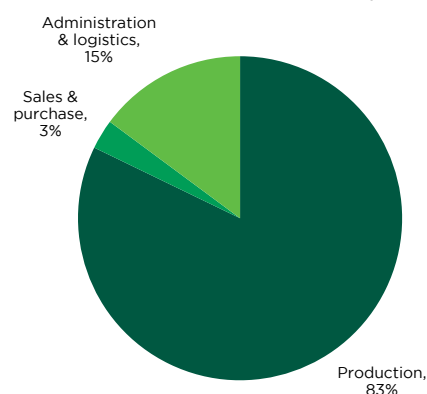
Headcount: At the end of 1Q14, Alumetal Group's workforce had 521 full-time employees with 83% in production – Figure 34, 35.

Figure 34 Alumetal Group: Headcount development



Source: Alumetal

Figure 35 Alumetal Group: Headcount structure by division (1Q14)



Source: Alumetal

New Hungarian plant

A Hungarian plant adding up 66kt or 40% to capacity vs 2014E is to be built in 2 phases. Alumetal has identified the following key milestones: (1) 2Q14 - signing of a conditional agreement to acquire a land plot; (2) 1Q15 - expected decision on the EU subsidies; (3) 2Q16 - 1st phase of production; (4) 1Q18 - 2nd phase of production - total production capacity of 66kt.

Tax allowance & subsidies for the project. The Group's aim is to obtain PLN 45m of financial support (35% of capex), which will be provided under the Development Tax Allowance. The Group wants to obtain other financial support, in particular EU subsidies. In our model we assume Alumetal Group will receive PLN 15m from the Development Tax Allowance and a Job Creation Subsidy of PLN 5m (PLN 3m in 2016E and PLN 2m in 2017E). We also forecast Alumetal Group to receive two tranches of PLN 15m each (2016 and 2017E) in EU subsidies for the project. In the figure below (Figure 36) we present detailed information on tax support initiatives available in Hungary based on information from the Hungarian Investment and Trade Agency.

Figure 36 Investment incentives in Hungary and our assumption for Alumetal Group

	Development Tax Allowance	EU co-financed tenders	Based on individual Gov. decision	Training Subsidy	Job creation subsidies
Type	Tax allowance for post-investment period	Cash, non-refundable, post-financed	Cash, non-refundable	Cash subsidy, non-refundable	Cash subsidy, non-refundable
Amount of subsidy	Exemption for 80% of the corporate tax payable for 10 years following installation. Up to HUF 500m turnover the corporate tax rate is 10%, above HUF 500m the tax rate is 19%	Max. 35%, app. EUR 0.37 – 3.7m	Decided individually by the Hungarian Government	25-90% of eligible training costs, max. EUR 1m (HUF 270m) if job creation is between 50-500, max. EUR 2m (HUF 530m) if job creation 500	HUF 340m (EUR 1.26m) per project
Conditions	Investment volume min. HUF 3bn (EUR 11.3m), min. 150 new jobs or HUF 1bn (EUR 3.7m) investment volume and 75 new jobs in preferred regions	Investment volume min. EUR 1m (HUF 270m), new jobs or increasing personnel related costs, outside Central Hungarian Region	Min. 50 new jobs (25 in preferred regions)	Cash subsidy is granted based on individual decision; min. 50 new jobs	Cash subsidy is granted based on individual decision; in preferred or most preferred locations; min. 500 new jobs
Application	Depending on investment volume request or application needs to be submitted	Tender package shall be submitted to Hungarian Center for Economic Development	„Request list” containing core investment data shall be submitted to HITA	Letter of intent needs to be submitted to HITA	Letter of intent needs to be submitted to HITA
Provider of Incentive	Ministry for National Economy	National Development Agency	Hungarian Government	Ministry for National Economy	Ministry for National Economy
Alumetal benefit description	We put into our model PLN 15m from the subsidy to be recovered within 2016-2021E	We forecast Alumetal to receive two tranches of PLN 15m each (2016E and 2017E) of subsidy for the project	We see the likelihood of granting this support <50% and do not put this into our model	We see the likelihood of granting this support as very high but do not put this into our model as the potential gain is of negligible importance (net with training costs not included by us)	We see the likelihood of granting this support as very high and put PLN 5m into our model (PLN 3m to be booked in 2016E and PLN 2m in 2017)

Source: BESI Research

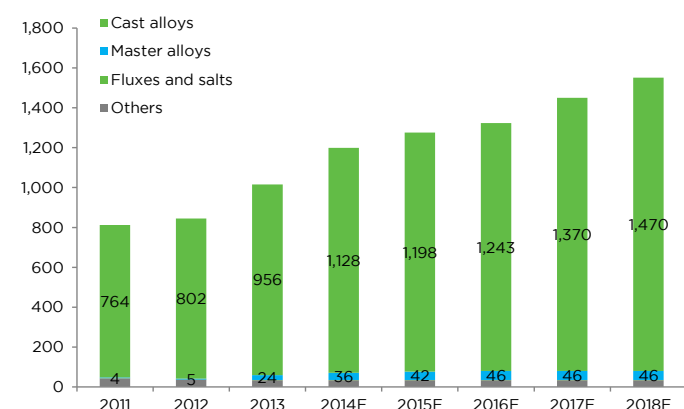
Alumetal Group has already lined up clients for its new Hungarian plant. Alumetal Group estimates that it already delivers: (1) c. 15kt to Hungary and former Yugoslavian countries, with plans to expand this figure to 30kt; (2) c. 9kt to Romania (newly acquired). With the Hungarian plant, Alumetal Group says it would also like to enter the Austrian and Swiss markets and gain better access to scrap markets in Southeastern Europe.

Other financial considerations and forecasts

Sales and profitability

Alumetal Group operates in five segments, although casting alloys dominate with 94% of 2013 revenues. Other divisions include master alloys (3% share in 2013 revenues), auxiliaries, scrap trading and ‘others’, with a total share in revenues of 3% (2013).

Figure 37 Alumetal Group revenues by divisions (PLN m)

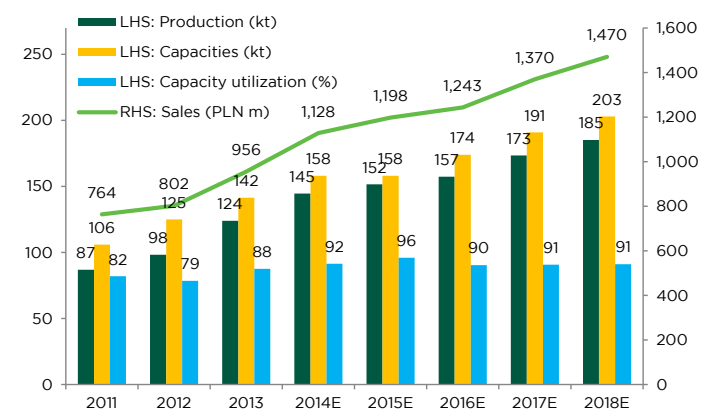


Source: BESI Research, Alumetal

Casting alloys

We forecast casting alloy revenues to grow at a 2013-2018E CAGR of 8%. Until we see new capacity additions in Hungary, we expect Alumetal Group to increase current plant capacity utilization to 91% in 2014E and 96% in 2015E vs 88% in 2013. We forecast Alumetal Group's Hungarian plant to reach capacity

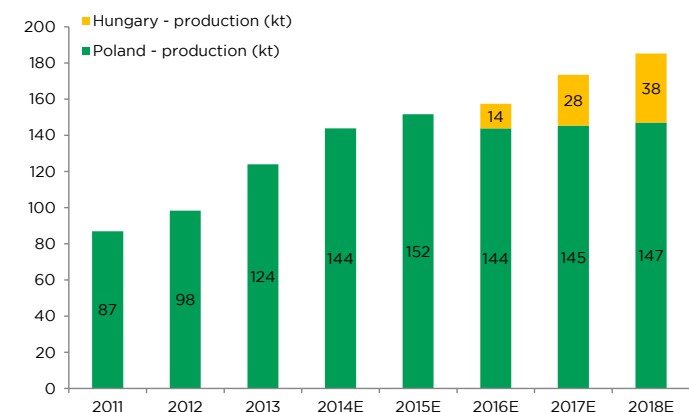
Figure 38 Casting alloy division detailed forecasts (PLN m)



Source: BESI Research, Alumetal

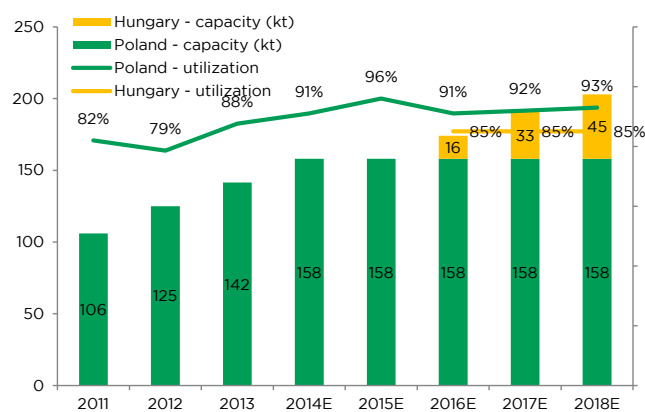
of 16kt, 33kt and 45kt in 2016E, 2017E and 2018E, respectively – Figure 40. We forecast production from the Hungarian plant to reach 14kt, 28kt and 38kt in these periods – Figure 39. We expect to see some cannibalization of volumes and lowered production from Alumetal Group's Polish operation when the new facility is launched. However, total production volumes of casting alloys in 2018E should exceed pre-investment volumes (2015) by 22% (34kt), on our estimates.

Figure 39 Casting alloys production split by geography



Source: BESI Research, Alumetal

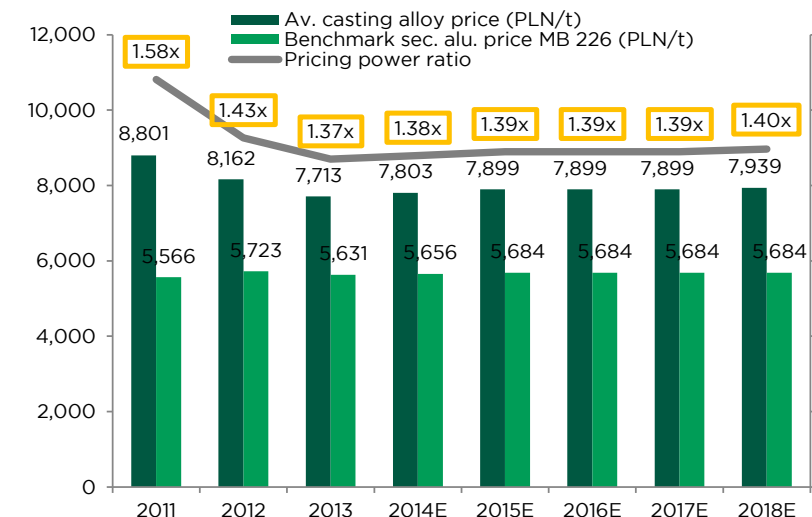
Figure 40 Casting alloys capacities and utilization by geography



Source: BESI Research, Alumetal

We expect Alumetal Group's pricing power on casting alloys to bottom out in 2014E with better product demand and organic initiatives (increase of liquid aluminium deliveries). We estimate Alumetal Group's pricing power - the ratio of the average casting alloy price over secondary aluminium quotation (MB 226 standard alloy) – to increase from 1.37x to 1.38x in 2014E and 1.39x in 2015E – Figure 41. One of the primary reasons for the pricing power ratio going down in 2012 and 2013 was the aggressive pricing policy Alumetal Group followed to place volumes from the newly opened Nowa Sol plant onto the shrinking market.

Figure 41 Alumetal Group pricing power

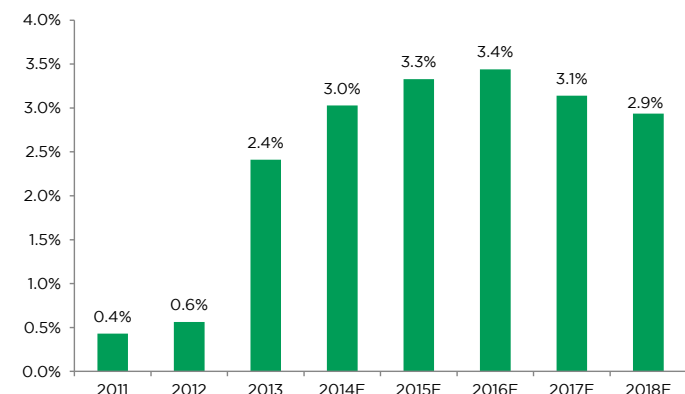


Source: BESI Research, Alumetal

Master alloys

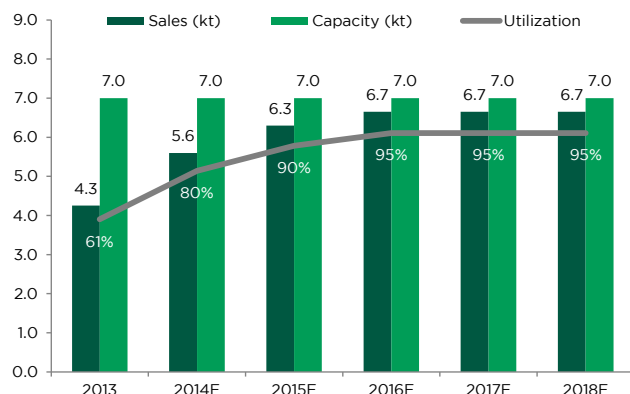
We expect Alumetal Group to boost utilization of its master alloy unit from c. 61% in 2013 to 80% in 2014E, 90% in 2015E, and target 95% in 2016E (Figure 43), delivering a 2013-2018E revenue CAGR of 13%. We expect master alloys to account for 3.2% of total product sales on average in 2014-2018E vs 2.4% in 2013 – Figure 42.

Figure 42 Master alloys share in total product sales



Source: BESI Research, Alumetal

Figure 43 Master alloys



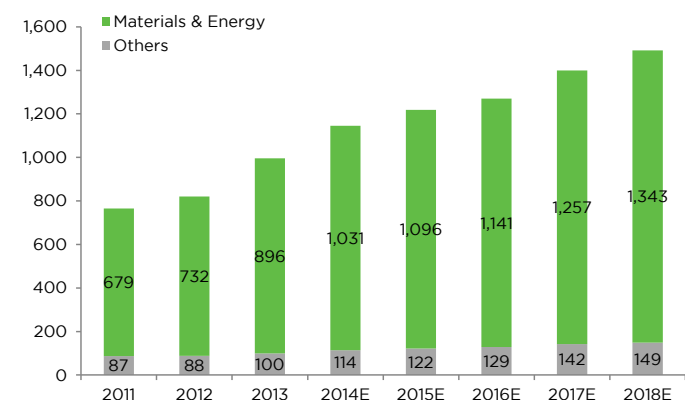
Source: BESI Research, Alumetal

Operating costs

Material & Energy were 90% of operating costs in 2013 and we expect this ratio to be sustained going forward. Other operating costs were split between employee benefits, third-party costs, value of goods, materials and waste sold, amortization & depreciation, with others being of minor importance.

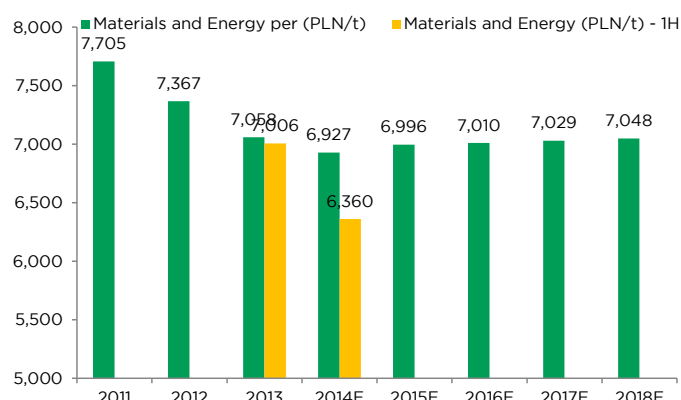
Materials & Energy: We expect Materials & Energy costs to grow at a 2013-2018E CAGR of 8%. However for 2014E, we expect Materials & Energy per t to come down by 2% (PLN 131/t) as a result of: (1) better availability of scrap in Europe after the bankruptcy of Oetinger in mid-2013 - Oetinger was the largest secondary aluminium producer in Europe with 2012 sales of 272kt; (3) supportive changes to imports regulation of scrap in China, leaving more secondary aluminium feedstock on the continent; and (3) decreasing electricity costs (20% of total Materials & Energy on our estimates). Going forward, we forecast M&E costs to go up by cPLN 70/t in 2015E as a result of Novelis opening a mega recycling plant (capacity 400kt) in Germany. Moreover, we forecast inflationary (1.5%) electricity price annual hikes. We note that the average Materials & Energy cost per t was PLN 6,360 (-9% YoY) in 1H14 while for the full year of 2014E we estimate -2% YoY.

Figure 44 Operating costs (PLN m)



Source: BESI Research, Alumetal

Figure 45 Materials & energy costs per t of products sold



Source: BESI Research, Alumetal

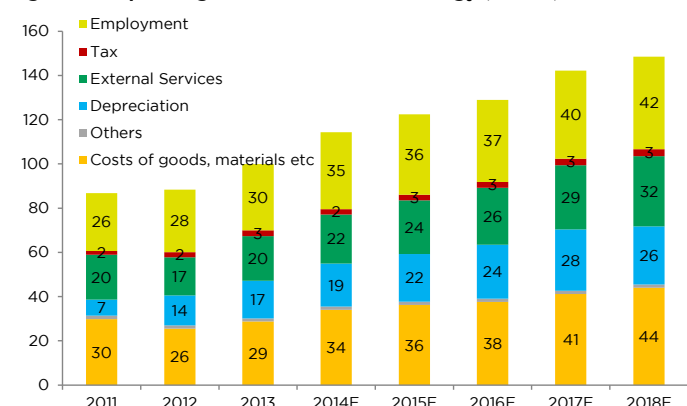
Novelis' new mega recycling facility in Europe is to be opened in 2014. While we do not see a major risk that Novelis will compete with Alumetal Group in the casting alloy market (as it produces wrought alloy), we assume the two companies will compete for some scrap materials. According to the Alumetal CEO, as Alumetal Group buys more contaminated dirty scrap, the feedstock that is common between the two companies does not account for a large share of the total. Moreover, the CEO notes that Novelis focuses on getting aluminium scrap from final producers of wrought alloys (post-production scrap) and Alumetal's management expects this source to meet the vast majority of Novelis' needs for scrap in Europe, which we are unable to confirm.

At this stage it is difficult for Alumental to quantify the impact of Novelis' mega plant opening in Europe on its operations.

Novelis is a global leader in rolled aluminium products. In its strategy, the company plans to have recycled metal content of 80% by 2020 vs 43% in 2014. In order to achieve this, the company plans to open a 400kt recycling facility in Nachterstedt, Germany. With this, the company intends to reach recycling capacity of 2.1mt globally in 2015E. According to Mr D. Prichett (Vice President of Global Recycling for Novelis, Nov 2012), Novelis plans to recycle more than just cans: *We are expanding far beyond just beverage cans with this facility. We will consume a much broader mix of used aluminium in Nachterstedt including automotive, building and construction, plus other types of industrial scrap like wire and cable.*

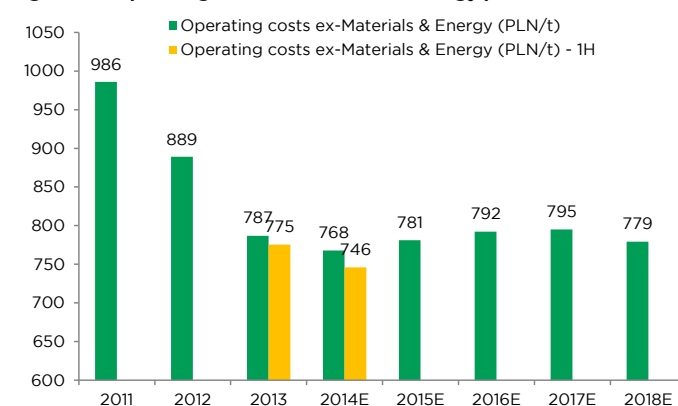
Operating costs – ex-Materials & Energy. We expect costs ex-Materials & Energy costs to grow at a 2013-2018E CAGR of 8% - Figure 46. We forecast costs per t of products sold to remain relatively stable in 2014E and 2015E until the Hungarian facility kicks off in 2016E, driving depreciation per t of products sold (until the new facility reaches full load - Figure 47). Inflation of external services costs is driven by logistics combined with the expansion of the business (including costs of liquid aluminium transportation to the Volkswagen plant). As a reminder, unit operating costs ex-Materials & Energy were PLN 746 per t in 1H14 (-4% YoY).

Figure 46 Operating costs ex-Materials & Energy (PLN m)



Source: BESI Research, Alumental

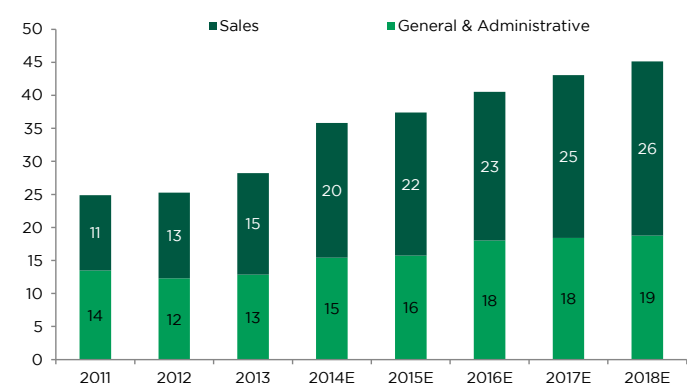
Figure 47 Operating costs ex-Materials & Energy per t



Source: BESI Research, Alumental

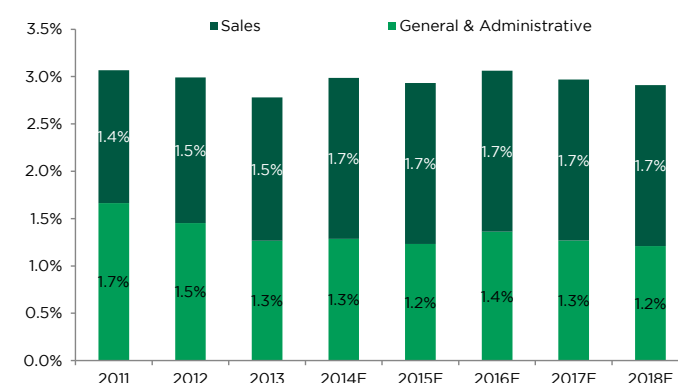
SG&A. We forecast SG&A costs' share in revenues to go up to 3.0% in 2014E and 2015E vs 2.8% in 2013. We expect SG&A costs to reach its peak of 3.1% in 2016E as a result of the Hungarian plant opening - Figure 49.

Figure 48 SG&A costs (PLN m)



Source: BESI Research, Alumental

Figure 49 SG&A costs share in sales (PLN m)



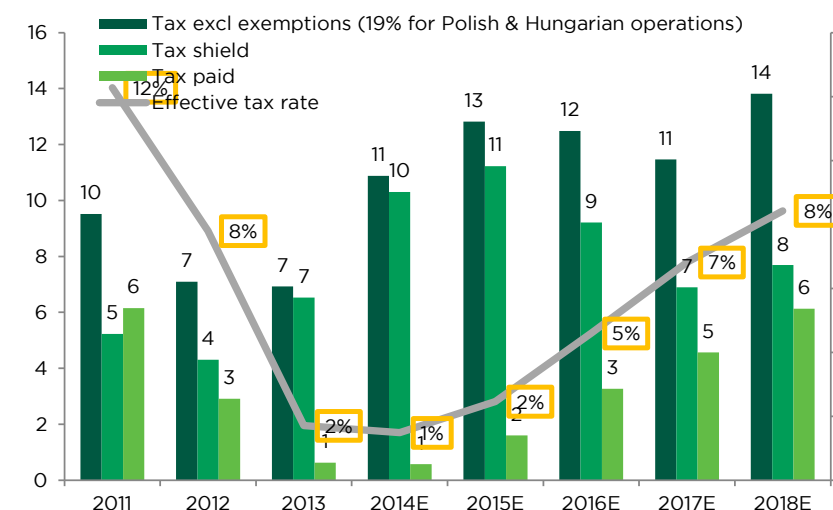
Source: BESI Research, Alumental

Tax exemptions

Alumental Group, mostly due to its tax exemptions from operations in the Special Economic Zone, paid effective tax rates of 2% in 2013, 8% in 2012 and 12% in 2011. Alumental Group still has some PLN 39m in expenses eligible for

unutilized tax credits (valid until 2026). Moreover, according to the permission concerning the Kostrzyńska-Słubicka SSE (issued on 29 April 2014), Alumetal is required to invest a minimum of PLN 12m by 31 Dec 2017, while according to the permission concerning the Tarnobrzaska SSE (issued on 28 May 2014), it must invest a minimum of PLN 12m by 31 December 2021. Based on these two permissions and other ones we estimate Alumetal to have another PLN 18m in tax credits to utilize. We forecast the tax benefits to be recovered within 2014-2021E. We estimate Alumetal Group to be granted a PLN 15m Development Tax Allowance from its planned PLN 135m investment in Hungary – for more on tax considerations for the Hungarian project see the *New Hungarian plant* section. We forecast Alumetal Group to pay an effective tax rate of 2-8% in 2014E-2018E – Figure 50.

Figure 50 Effective tax rate



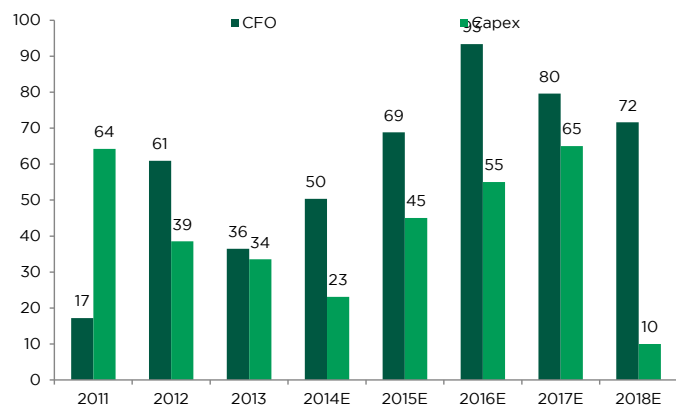
Source: BESI Research, Alumetal

Capex / financial leverage / dividend

In 2013, Alumetal Group concluded the expansion of its plant in Nowa Sol and we estimate capex in 2014E will fall to PLN 23m, half of the 2011-2013 average of PLN 45m pa. From 2015E, we expect the company to start capexing its Hungarian plant – we forecast PLN 35m for the project in 2015E, PLN 45m in 2016E and PLN 55m in 2017E, amounting to PLN 135m in total (as guided by the company). Alumetal Group does not see a major risk of exceeding the budget and timeframes for the Hungarian plant as the facility is similar to the one in Nowa Sol and the company expects to leverage on its previous experience.

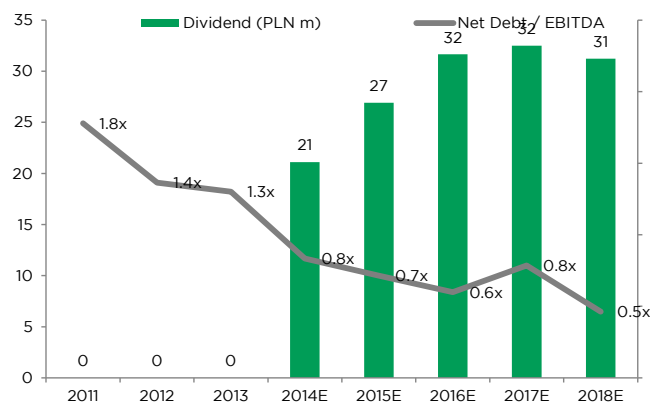
We expect Alumetal Group to finance its extensive 2015E-2018E capex from operating cash flows – Figure 51. On our numbers, Alumetal will be able to deliver on its planned dividend policy of a 50% payout ratio while reaching a maximum Net Debt / EBITDA ratio of 0.8x which we still consider reasonable – Figure 52. As a reminder, Alumetal's AGM decided to pay out 59% of 2013 net income as dividends and set the dividend record date as 26 Mar 2014.

Figure 51 CFO & Capex (PLN m)



Source: BESl Research, Alumetal

Figure 52 Dividend and financial leverage



Source: BESl Research, Alumetal

Share option program

The program is for key management personnel. For the purpose of the Share Option Program (SOP), the Company's authorized capital will be increased by up to 45,231 via the issuance of *Motivation Shares*. The key highlights:

- Each warrant will give its holder a right to convert it into one *Motivation Share* at the execution price equal to 85% of the issue price set for retail investors in Alumetal's IPO. We note that the price in question was set at PLN 35 and the resulting option execution price will be PLN 29.75 ps.
- Subscription warrants will be issued in 3 series: A, B and C of 150,770 warrants each – each share with a nominal value of PLN 0.1. They will be issued free of charge.
- Each warrant will give its registered holders the right to buy one *Motivation Share*. Execution of warrants by entitled persons will be subject to the Company meeting the defined financial targets – see Figure 53.
- *Motivation Shares*, once purchased and registered, holders will be entitled to the respective dividends. The Company's current shareholders will be excluded from pre-emptive rights linked to the *Motivation Shares*.

We estimate the cost of the motivation program to impact P&L through other operating costs to the tune of PLN 2.6m, PLN 2.6m and PLN 0.9m in 2014E, 2015E and 2016E, respectively.

The maximum shareholder dilution resulting from the Motivation Program is 1% in 2015E, 1% in 2016E and 1% in 2017E if the company meets all the criteria. Based on the assumptions in our model, we expect Alumetal to meet the EBITDA and NI criteria in 2014 and 2015. Thus, on our estimates shareholder dilution resulting from the Motivation Program will be 1% in 2015E, 1% in 2016E and 0.3% in 2016E.

Figure 53 Motivation Program assumptions

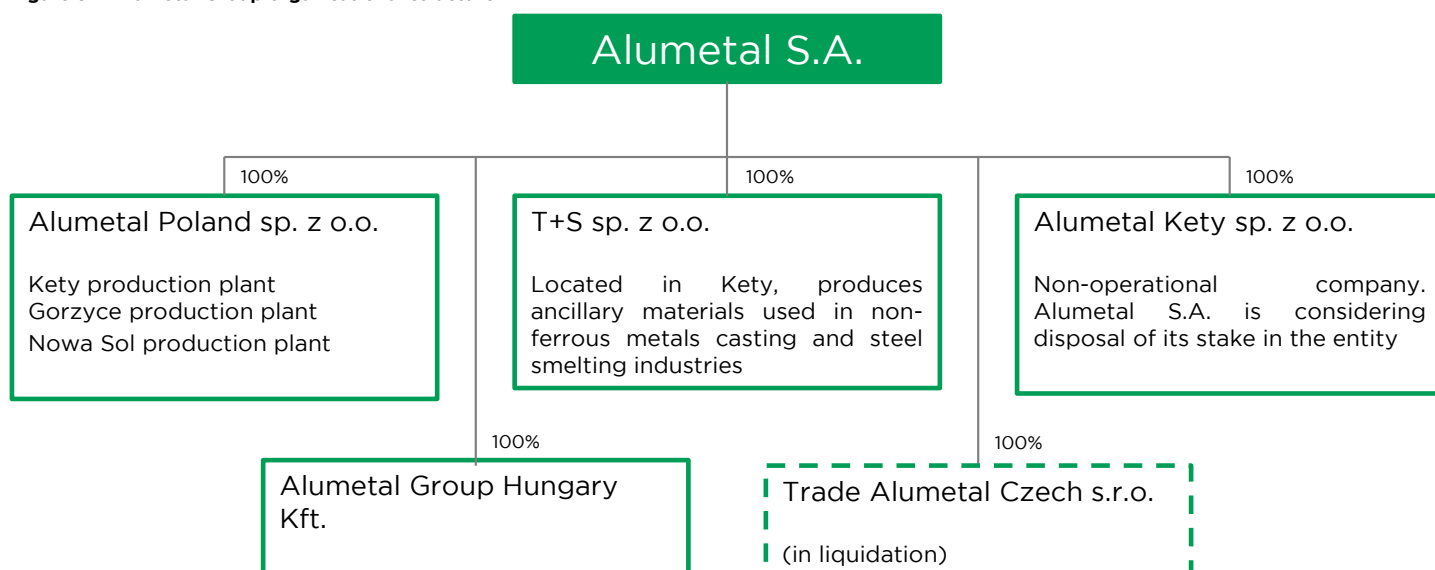
Series A subscription warrants	Enable the registered holder to buy one Series D share in the period from approving Alumetal's FY 2014 consolidated financial statement until 31 Dec 2018, under the following conditions specified for respective parts of the Series A: > 1/3 of the warrants if Company's consolidated EBITDA/share for FY 2014 increases by min. 15.0% vs FY 2013 > 1/3 of the warrants if Company's consolidated net income/share for FY 2014 increases by min. 15.0% vs FY 2013 > 1/3 of the warrants if Company's share price performance in the period from Alumetal's IPO to YR 2014 is at least by 5% higher than WIG index performance in the respective period
Series B subscription warrants	Enable the registered holder to buy one Series E share in the period from approving Alumetal's FY 2015 consolidated financial statement until 31 Dec 2018, under the following conditions specified for respective parts of the Series B: > 1/3 of the warrants if Company's consolidated EBITDA/share for FY 2015 increases by min. 12.5% vs FY 2014 > 1/3 of the warrants if Company's consolidated net income/share for FY 2015 increases by min. 12.5% vs FY 2014 > 1/3 of the warrants if Company's share price performance in 2015 is at least by 5% higher than WIG index performance in the respective period
Series C subscription warrants	Enable the registered holder to buy one Series E share in the period from approving Alumetal's FY 2016 consolidated financial statement until 31 Dec 2018, under the following conditions specified for respective parts of the Series C: > 1/3 of the warrants if Company's consolidated EBITDA/share for FY 2016 increases by min. 10.0% vs FY 2015 > 1/3 of the warrants if Company's consolidated net income/share for FY 2016 increases by min. 10.0% vs FY 2015 > 1/3 of the warrants if Company's share price performance in 2016 is at least by 5% higher than WIG index performance in the respective period

Source: Alumetal

Organizational structure

Alumetal S.A. is a holding company with four subsidiaries (100% owned), including Trade Alumetal Czech s.r.o., which is currently in liquidation.

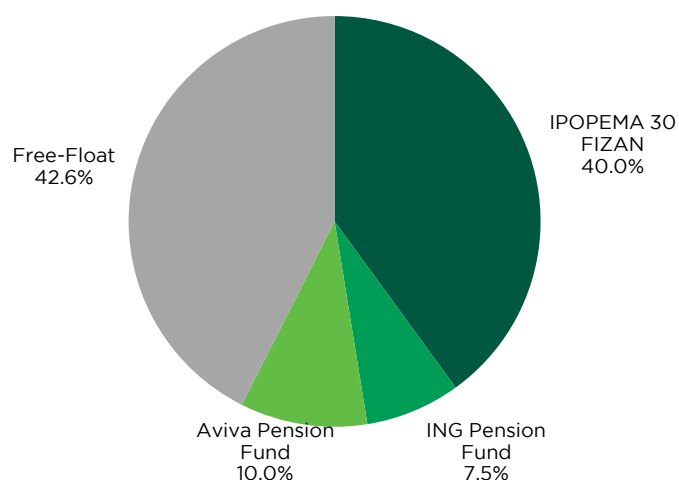
Figure 54 Alumetal Group organisational structure



Source: Alumetal

Shareholder Information

Figure 55 Alumetal current shareholding structure



Source: BESI Research, Alumetal

Financial Statements

Figure 56 P&L (PLN m)

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Product sales	775.7	811.1	981.2	1,159.2	1,232.9	1,279.4	1,401.8	1,498.7
Other sales	36.0	33.5	34.0	40.2	42.8	44.4	48.6	52.0
Revenue	811.7	844.6	1,015.3	1,199.4	1,275.6	1,323.8	1,450.4	1,550.7
COGS	-727.7	-784.0	-952.8	-1,099.9	-1,171.4	-1,219.4	-1,345.9	-1,436.6
Gross profit on sales	84.0	60.6	62.5	99.5	104.3	104.3	104.5	114.1
Selling expenses	-11.4	-13.0	-15.4	-20.4	-21.7	-22.5	-24.7	-26.4
Administrative expenses	-13.5	-12.3	-12.8	-15.4	-15.7	-18.0	-18.4	-18.8
Other operating income	0.9	4.4	3.5	4.5	2.7	7.2	7.7	5.7
Other operating costs	-4.3	-0.4	-0.7	-13.3	-3.0	-1.2	-0.4	-0.4
EBIT	55.8	39.3	37.1	54.9	66.6	69.7	68.7	74.3
Depreciation	7.2	13.5	16.9	19.5	21.6	24.4	27.8	26.3
EBITDA	63.0	52.9	54.0	74.4	88.2	94.1	96.5	100.6
Financial income	0.3	2.6	1.8	1.9	0.5	0.7	0.7	0.8
Financial cost	-6.0	-4.5	-2.4	-2.2	-2.2	-2.3	-2.4	-2.3
Pre-tax profit	50.1	37.4	36.5	54.6	64.9	68.1	67.0	72.7
Tax	-6.2	-2.9	-0.6	-0.8	-1.6	-3.1	-4.6	-6.1
Gains from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive income	43.9	34.5	35.8	53.8	63.3	65.0	62.4	66.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	43.9	34.5	35.8	53.8	63.3	65.0	62.4	66.6

Source: BESI Research, Alumetal

Figure 57 Balance Sheet (PLN m)

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Intangible assets	2.3	2.2	2.0	2.0	2.0	2.0	2.0	2.0
PP&E	178.0	193.7	208.2	211.8	235.2	265.9	303.1	286.8
Other long-term financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.1	0.0	0.3	0.3	0.3	0.3	0.3	0.0
Non-current assets	180.4	195.9	210.5	214.1	237.5	268.2	305.4	288.8
Inventories	83.4	80.8	122.0	144.1	153.2	159.0	174.2	186.3
Trade and other receivables	175.9	154.3	150.1	175.6	188.6	195.7	214.5	229.3
Other short-term financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term non-financial assets	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current tax assets	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cash and cash equivalents	0.7	1.1	0.2	4.5	7.1	9.6	10.2	9.5
Current assets	260.6	236.6	272.5	324.4	349.1	364.6	399.1	425.2
Assets	441.3	432.5	482.9	538.5	586.7	632.7	704.5	714.1
Issued capital	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Reserve capital	141.2	190.6	220.2	224.9	228.3	229.5	229.5	229.5
Capital from revaluation of incentive scheme	0.7	0.9	1.3	0.0	0.0	0.0	0.0	0.0
Cumulative translation differences	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained earnings / (unabsorbed losses)	71.2	56.3	62.5	95.2	131.6	164.9	194.9	230.2
Shareholders' equity	214.6	249.2	285.5	321.6	361.4	395.9	425.8	461.2
Interest bearing loans and borrowings, and liabilities under lease	26.1	17.7	10.7	5.0	14.0	15.0	28.0	22.0
Provisions and liabilities	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Deferred tax liability	3.7	3.8	3.1	3.1	3.1	3.1	3.1	3.1
Accruals and deferred income	4.5	20.7	18.5	18.5	15.8	26.7	36.0	30.3
Non-current liabilities	34.9	42.9	32.8	27.1	33.5	45.3	67.6	55.9
Current portion of interests bearing loans and borrowings, and lia	86.7	55.6	59.7	61.5	56.0	51.0	58.0	34.0
Provisions and liabilities	4.0	1.5	2.1	10.0	10.0	10.0	10.0	10.0
Trade and other payables	99.8	80.4	100.1	118.3	125.8	130.5	143.0	152.9
Current income tax liabilities	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Accruals and deferred income	1.2	2.8	2.7	0.0	0.0	0.0	0.0	0.0
Current liabilities	191.8	140.4	164.7	189.8	191.8	191.6	211.0	196.9
Equity and liabilities	441.3	432.5	482.9	538.5	586.7	632.7	704.5	714.1

Source: BESI Research, Alumetal

Figure 58 Cash Flow Statement (PLN m)

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Gross profit	50.1	37.4	36.5	54.6	64.9	68.1	67.0	72.7
Adjustments								
Depreciation / amortization	7.2	13.5	16.9	19.5	21.6	24.4	27.8	26.3
(Profit) / loss from investing activities	0.7	-1.6	-0.2	0.0	0.0	0.0	0.0	0.0
FX (gains) / loss	-1.7	0.2	-0.4	0.0	0.0	0.0	0.0	0.0
(Increase) / decrease in receivables and other financial / non-fin	-32.6	22.2	4.4	-25.5	-13.0	-7.1	-18.7	-14.8
(Increase) / decrease in inventories	-20.3	2.7	-41.2	-22.1	-9.2	-5.8	-15.2	-12.1
Increase / (decrease) in liabilities except for loans and borrowing	13.8	-10.0	21.9	18.2	7.5	4.7	12.5	9.9
Interest and dividends, net	1.9	3.8	1.7	1.3	1.3	1.4	1.5	1.4
Change in prepayments, accruals and deferred income	-0.7	-2.2	-2.3	-2.7	-2.7	10.8	9.3	-5.7
Change in provisions	4.0	-2.4	0.4	7.9	0.0	0.0	0.0	0.0
Income tax paid	-5.7	-3.0	-1.7	-0.8	-1.6	-3.1	-4.6	-6.1
Other (including cost of incentive scheme)	0.4	0.2	0.4	0.0	0.0	0.0	0.0	0.0
Net cash flow from operating activities	17.2	60.9	36.5	50.3	68.9	93.4	79.6	71.6
Disposal of intangible assets and tangible fixed assets	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Purchase of property, plant and equipment and intangible assets	-64.2	-38.6	-33.5	-23.1	-45.0	-55.0	-65.0	-10.0
Acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Realised gains on derivative financial instruments	0.0	1.5	0.1	0.0	0.0	0.0	0.0	0.0
Realised losses on derivative financial instruments	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash from investing activities	-64.8	-37.0	-33.2	-23.1	-45.0	-55.0	-65.0	-10.0
Capital	0.0	0.0	0.0	3.4	3.4	1.1	0.0	0.0
Proceeds from loans and borrowings and issuance of debt securit	23.7	0.0	0.0	0.0	3.5	0.0	20.0	0.0
Repayment of loans and borrowings and redemption of debt dser	0.0	-15.3	-6.8	-3.9	0.0	-4.0	0.0	-30.0
Interest paid	-1.8	-3.8	-1.8	-1.3	-1.3	-1.4	-1.5	-1.4
Subsidies received	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	-21.1	-26.9	-31.6	-32.5	-31.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Net cash flow from financing activities	21.9	0.9	-8.6	-22.9	-21.3	-35.9	-14.0	-62.3
Net increase / (decrease) in the balance of cash and ca	-25.6	24.8	-5.3	4.3	2.6	2.5	0.6	-0.7

Source: BESI Research, Alumetal

Valuation Methodology

We use two valuation methods, with 50% each:

- (1) Discounted cash flows model (DCF) based on free cash flows for 2014E-2023E and a terminal growth rate of 1.4%,
- (2) 2014E-2016E P/E & EV/EBITDA multiples based on peers' median.

We employ a weighted average cost of capital of 8.3% (WACC).

We include both secondary and primary aluminium producers in the peer group.

Risks to Fair Value

Automotive industry situation: As 90% of Alumetal Group's sales are to the automotive industry, lower than expected demand for motor vehicles might have a negative impact on sales and resulting margins.

Price divergence between aluminium and aluminium scrap: Basically secondary aluminium prices are correlated to the aluminium scrap price. However, if Alumetal Group is not able to transfer the higher scrap cost into the secondary aluminium price, Alumetal Group might face margin contraction. Opening of the mega recycling plant by Novelis (not listed) in Germany (planned mid 2014 as per Novelis' announcements) might have a higher negative impact on scrap price inflation than we have put into our model, driving margins and results down.

Operating costs inflation: Other operating costs comprised 10%-15% of the total operational costs of the Group in 2011-2013 with costs related to employment, external services and amortization being the primary contributors. An inability to pass through cost inflation to product prices might cause margin erosion.

Rising competition: Other players in the secondary aluminium market could open new capacity or increase their capacities in Europe as a response to the expected increase in motor vehicles production. This could have a negative impact on volumes and Alumetal Group's margins. The Spanish company Befesa (Not listed) has already announced that it plans to open a 50kt plant in Germany (30% of Alumetal Group capacities as of 2014).

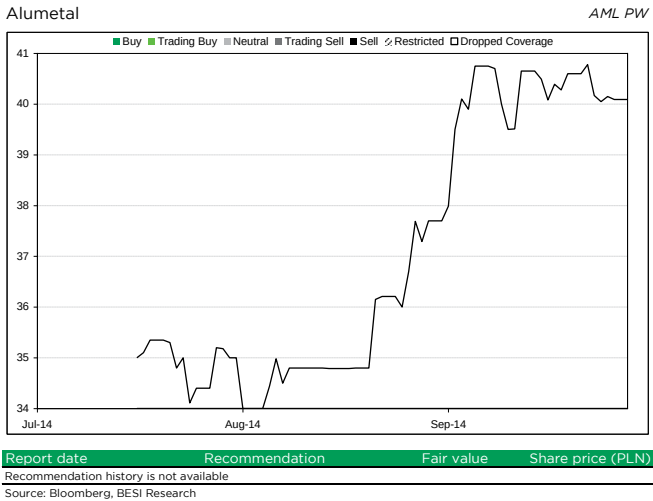
High dependence on key clients: As 65% of Alumetal Group's revenues in 2013 came from three primary clients (Volkswagen Group, Nemak Group and Federal Mogul Group) there is a risk of lower sales if any of these customers stop buying from Alumetal Group. Due to logistics issues, we think Alumetal Group could potentially face problems winning new potential clients to fill the gap.

Short-term nature of contracts signed with clients: Most of the Alumetal Group contracts are short term (monthly or quarterly). Alumetal Group's reasoning is that for LT contracts Alumetal Group might not be able to hedge its feedstock and product prices are exposed to fluctuations. However, this policy also means that Alumetal Group's visibility beyond 3 months is somewhat limited.

Inability to complete the new plant in Hungary: Alumetal Group's growth project in Hungary (increasing Alumetal Group's capacities by 66kt or 41% vs 2013) is at an early stage of development so we see the risk that it may be not completed due to: (1) lack of environmental or other administrative approvals; (2) lack of support from EU funds and the Hungarian State; or (3) inability to finance the venture from own funds and external bank financing.

Activity in the Special Economic Zones and support from the State and government institutions: Two of Alumetal Group's three plants are located in Special Economic Zones. This means Alumetal Group is entitled to tax allowances as long as it meets the government's conditions. However, if

Alumetal Group were to breach any conditions of the agreement, the allowances would be cancelled and Alumetal Group would be forced to give back the State support. Alumetal Group's effective tax rate in 2011, 2012 and 2013 was 12.3%, 7.8% and 1.7%, respectively, in comparison with the 19% official corporate rate in Poland. Moreover, Alumetal Poland received PLN 20m in subsidies (one of the few subsidies received by the Group) from the government for a project that it carried out up to 2012. However, Alumetal Poland will be forced to return the funds if it does not meet certain requirements. With respect to the other subsidies, the terms of the projects have already finished



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