Capital Markets Argentina

Metals

TERNIUM 2Q19

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TERNIUM ARG 2Q 19

Research-Acero@capitalmarkets.com.ar

August 2019

Price (05/08/2019)

$ 14,50

12 M Price target

$ 18,39

Local index (Merval)

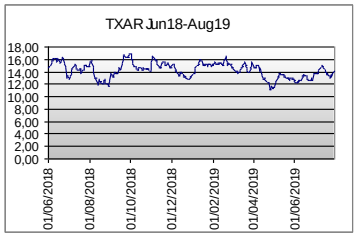
40.873,35

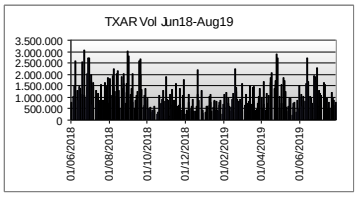
Rating

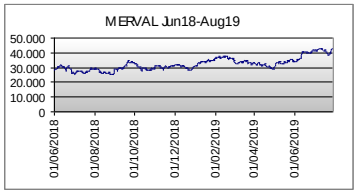
Market performer

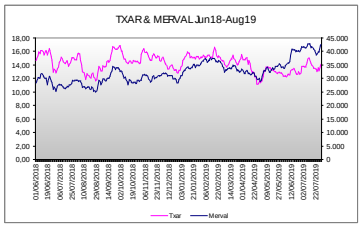
Price range (in AR$)

52 Weeks Low	52 Weeks High
10,80	17,35
Min	**Min**
34,3%	-16,4%









	Net Sales (mill)	EBITDA (mill)	Net profit (mill)	EV/ EBITDA (x)	EV/CF (X)	P/BV (X)	P/E (x)	EPS
2018	73.858	14.076	13.273	5,07	4,1	0,70	5,10	2,94
2019e	85.307	14.771	11.405	5,89	6,1	0,72	7,28	2,52
2020e	99.041	22.143	15.248	3,81	4,6	0,79	5,45	3,38

Shares Outstanding (mill)	4.517	Earnings per Share	3,21
Float (%)	34%	Price / Earnings	4,52
Market Cap (mill $)	65.498	Cash Flow / Share	4,65
Net Debt: (mill $)	4.573	Price / Cashflow	3,1
Enterprise Value (mill $)	70.071	Dividend Yield	5%

Executive Summary

Ternium Argentina's net result was higher than in 1H 2018, although slightly below expectations due to decreases in its volume sold and operating margin, along with lower results of affiliated companies.

Ternium Argentina's consolidated net sales fell 5,9% y-o-y in 1H 2019, driven by lower deliveries in tons (-16,1%), due to domestic market contraction. Cost of sales grew 2,2% in light of higher raw materials and supplies, labor costs, and depreciations. The operating result showed a serious deterioration due to all of the aforementioned, thus the operating margin fell (from 10,7% to 2,8%).

The lower operating result was also fostered by lower result of its associated company Ternium Mexico; offset by an improvement in financial result which became positive. Thus, consolidated net income reached $4.202,0 million, increasing 50,1% y-o-y.

It should be mentioned that the company has stated that 2018 and 2019 values are expressed in constant Argentine pesos as of June 30, 2019, in accordance with International Financial Reporting Standards (IFRS), including the international accounting standard 29 (financial reporting in hyperinflationary economies).

Positive: the company achieved a higher net result than in the previous quarter, thanks to improvements in shipments and in operating and financial results. In 3Q 2019, domestic dispatches may increase taking into account a slow recovery of the local market, but this could be partially offset by lower exports. The company enjoys a solid financial position. As of June 30, 2019 the Total financial debt/Ebitda ratio is 0,56.

Negative: Although in the last year the company has achieved a larger level of exports, it still concentrates its sales to the local market (82% in 1H 2019 vs 91% in 1H 2018). Regarding the global context, there has been an increase in the international price of iron ore, the main input.

Conclusion and rating: The company improved its performance in the second quarter of the year and expects to benefit from a domestic recovery in the medium term. The target price obtained from DCF valuation is $18,39, which shows an increase in relation to the previous quarter influenced by a drop in the discount rate due to reductions in Argentina's country risk and the risk free rate.

We rate Ternium Argentina as a buy.

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INCOME STATEMENT. First semester					
	30/06/2019	%	30/06/2018	%	Variat %
Net revenues	41.016,1	100%	43.591,4	100%	-5,9%
Costs of sales	-35.122,3	-86%	-34.359,5	-79%	2,2%
Gross profit	5.893,8	14%	9.231,9	21%	-36,2%
Commercialization expenses	-2.444,3	-6%	-2.203,2	-5%	10,9%
Administrative expenses	-2.267,1	-6%	-2.344,6	-5%	-3,3%
Other expenses	-27,8	0%	-2,3	0%	1111,0%
Operating income	1.154,7	3%	4.681,8	11%	-75,3%
Financial income	143,3	0%	129,5	0%	10,6%
Financial expenses	-364,5	-1%	-923,9	-2%	-60,6%
Other financial income (expenses), net	1.580,7	4%	-4.602,2	-11%	-134,3%
Income before results from related companies and income taxes	2.514,2	6%	-714,7	-2%	-451,8%
Income (loss) from related companies	2.857,0	7%	4.974,6	11%	-42,6%
Income before taxes	5.371,2	13%	4.259,9	10%	26,1%
Income tax expense	-1.169,3	-3%	-1.459,8	-3%	-19,9%
Net income	4.202,0	10%	2.800,2	6%	50,1%

Millon pesos

PRODUCTION AND COMMERCIALIZATION (Thousand tons). First semester					
	2015	2016	2017	2018	2019
• **Production**					
Hot rolled steel	1.280	1.191	1.203	1.191	988
Cold rolled steel	690	704	615	652	519
Coated steel	392	395	341	376	330
• **Local market sales**					
Hot rolled steel	433	357	415	452	334
Cold rolled steel	274	261	239	246	178
Coated steel	424	417	392	437	331
Semifinished products	38	14	18	5	15
• **Exports**					
Hot rolled steel	74	36	50	57	78
Cold rolled steel	14	20	24	33	24
Coated steel	5	14	8	17	29
Semifinished products	5	0	0	0	58

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FINANCIAL RATIOS

	31/12/2018	31/03/2019	30/06/2019	05/08/19*
Share price $	13,2	15,6	13,8	14,5
Shares outstanding	4.517.094.023	4.517.094.023	4.517.094.023	4.517.094.023
Market cap. $	59.625.641.104	70.466.666.759	62.335.897.517	65.497.863.334
EBITDA $	14.075.786.000	1.456.572.000	3.904.662.000	3.904.662.000
EBITDA $ ttm			11.970.320.000	11.970.320.000
Enterprise value $	63.296.782.104	72.959.674.759	66.909.258.517	70.071.224.334
Enterprise value/EBITDA	4,50	5,69	5,59	5,85
Price to earnings	4,49	5,98	4,30	4,52
Price to Book	0,61	0,63	0,54	0,57
ROCE	5,85%	3,96%	2,78%	2,78%
ROE	13,66%	10,59%	12,58%	12,58%
Net indebtedness index	0,06	0,05	0,05	0,05
Total indebtedness index	0,24	0,23	0,21	0,21
Equity/Liabilities	4,25	4,42	4,78	4,78
EBITDA/Interests	7,53	10,14	10,74	10,74
Operating margin	13,22%	1,37%	2,88%	2,88%
Rotation assets vs sales				
sales/assets	0,62	0,58	0,64	0,64
sales/fixed assests	1,88	1,80	1,87	1,87
Liquidity index	2,05	2,07	2,15	2,15
Price to sales	0,81	0,89	0,70	0,74

Source: CMA *Data from 30/06/2019 balance sheets. Share price as of 05/08/2019.

INCOME STATEMENT ESTIMATES

(Million $)	2019	2020	2021	2022	2023
Net revenues	85.306,6	99.040,9	110.161,0	123.308,8	139.006,9
Costs of sales	-64.176,6	-68.927,0	-76.665,9	-85.816,1	-96.741,0
Gross profit	21.129,9	30.113,9	33.495,1	37.492,7	42.265,8
Commercialization expenses	-4.615,4	-5.178,9	-5.760,3	-6.447,8	-7.268,7
Administrative expenses	-4.547,5	-6.047,0	-6.725,9	-7.528,6	-8.487,1
Other expenses	0,0	0,0	0,0	0,0	0,0
Operating income	11.967,0	18.888,1	21.008,8	23.516,3	26.510,0
EBITDA	15.564,4	22.143,1	24.629,2	27.568,7	31.078,4
Income (loss) from related companies	8.867,2	2.107,5	2.344,1	2.623,9	2.957,9
Other income, expeses, net	-54,3	1.343,8	1.494,6	1.673,0	1.886,0
Financial income, expenses, net	-6.910,8	-2.085,4	-2.319,5	-2.596,4	-2.926,9
Income before taxes	13.869,1	20.254,0	22.528,1	25.216,8	28.427,1
Income tax expense	-2.464,1	-5.006,2	-5.568,3	-6.232,8	-7.026,3
Net income	11.405,1	15.247,8	16.959,8	18.984,0	21.400,8

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COMPANY INFORMATION			
Debt	24.102.381.000	**Kd**	7,00%
Firm value	139.276.987.000	**Ke**	15,58%
Equity	115.174.606.000	**Rf**	10,13%
D/V	0,17	**ERP**	5,00%
(1-D/V)	0,83	**Beta**	1,09
(1-T)	0,65	**WACC**	**13,67%**

CASH FLOWS

(Million $)	2019	2020	2021	2022	2023
Net revenues	85.306,6	99.040,9	110.161,0	123.308,8	139.006,9
Costs of sales	-64.176,6	-68.927,0	-76.665,9	-85.816,1	-96.741,0
Gross profit	21.129,9	30.113,9	33.495,1	37.492,7	42.265,8
Commercialization expenses	-4.615,4	-5.178,9	-5.760,3	-6.447,8	-7.268,7
Administrative expenses	-4.547,5	-6.047,0	-6.725,9	-7.528,6	-8.487,1
Other expenses	0,0	0,0	0,0	0,0	0,0
EBIT	11.967,0	18.888,1	21.008,8	23.516,3	26.510,0
= EBIT (1-taxes)@35%	7.778,6	12.277,3	13.655,7	15.285,6	17.231,5
+ Deprec. and Amortization	2.803,6	3.254,9	3.620,4	4.052,5	4.568,4
= EBIT (1-taxes) + Deprec.	10.582,1	15.532,2	17.276,1	19.338,0	21.799,9
- Change in WC	-1.309,0	3.195,6	-2.407,0	-2.845,9	-3.397,9
- Capital Expenditures	-1.562,3	-4.116,5	-5.059,6	-5.982,2	-7.142,6
= Free Cash Flow	7.710,8	14.611,4	9.809,5	10.509,9	11.259,4
Terminal value					108.676,8
Exchange rate	47,36	57,44	61,60	64,18	66,75
Free Cash Flow U$S	162,8	254,4	159,2	163,8	1.796,9
Discount factor	1	0,88	0,77	0,68	0,60
DCF U$S	162,8	223,8	123,2	111,5	1.076,3
DCF $	7.710,8	12.854,0	7.591,8	7.155,6	71.837,0
Firm value $	107.149,3				
Debt value $	24.102,4				
Equity value $	83.046,9				
Shares outstanding	4.517.094.023				
Share price $	18,39				

COMPARABLE COMPANIES						
Company	**Market cap. Million US$**	**P/E**	**P/Book**	**P/Sales**	**EV/S**	**EV/Ebitda**
Aluar	1089,1	7,08	1,92	1,72	2,40	7,03
Ternium Argentina	1407,59	4,46	0,56	0,73	0,78	5,78
Ternium	4113,0	3,23	0,62	0,37	0,65	3,30
Usiminas	2935,7	13,12	0,72	0,79	1,18	6,91
Companhia Siderurgica Nacional	5627,0	5,24	1,98	0,87	2,00	8,24
Average		6,63	1,16	0,90	1,40	6,25
Average (weighted)*		6,28	1,23	0,77	1,39	6,33

*Weighted by market cap.
Bloomberg, Reuters.

TERNIUM ARG DATA	
EPS	3,21
BV per Share	25,50
Sales per Share	19,64
Ebitda per share	2,65
EV per share	15,31
Shares outstanding	4.517.094.023

MÚLTIPLES TRADING VALUATION						
	According to P/E	According to P/S	According to P/B	According to EV/S	According to EV/Ebitda	**Average**
Equity valuation$ (mill)	95.975,62	79.486,61	133.602,54	121.787,66	72.252,34	**101.782,29**
Share valuation $	21,25	17,60	29,58	26,96	16,00	**22,28**
Equity valuation $ weighted aver. (mill)	90.957,39	68.043,24	141.835,57	120.806,39	73.169,39	**100.963,64**
Share valuation $ weighted aver.	20,14	15,06	31,40	26,74	16,20	**21,91**

Source: CMA

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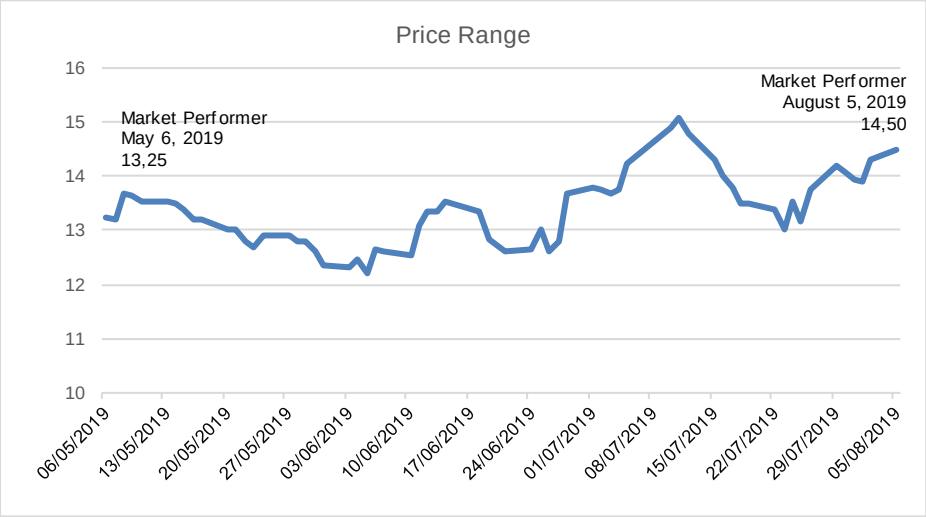
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As from August 5, 2019, the formula is:	
Outperform: expected to perform above the underlying country index	
Perform: expected to perform in-line with the underlying country index	X
Underperform: expected to perform below the underlying country index	

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Ratings	Covered companies with Specific Rating
Outperform	29%
Perform	62%
Underperform	9%

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