

# GRÄNGES

Sweden

Materials - Metals—Auto Components

BUY

February 2, 2015

## Company description

Gränges is a market leader in the development and production of rolled aluminium-based strip, with the main application being the market for global brazed aluminium heat exchangers. The largest end market is automotive (examples of heat exchangers being engine radiators and air conditioning systems' condensers and evaporators).

Demand for aluminium products for brazed heat exchangers, which is Gränges' main market and accounts for 90% of the company's sales volume, is strongly correlated with the market for light vehicles (light vehicles typically contain 6 to 9 such heat exchangers).

Gränges has its headquarters in Stockholm and operates in three geographical regions: Europe, Asia and America. It has R&D and production facilities in Sweden and China.

The Company was originally founded in 1896, and the current operation was started in 1972 when the Company started to develop brazed heat exchanger material.

Gränges has approximately 1,000 employees.

## Recent developments

November 13, 2014: Gränges published its interim report for January-September 2014. There were stable volume and earnings trend in Q3. Nevertheless, there was some slowdown in global vehicle production, particularly in Europe.

October 10, 2014: Gränges was listed on Nasdaq Stockholm. The offering comprised existing shares (69%) sold by the principal owner Orkla at a rate of SEK 42.50 per share. After the IPO, Orkla's ownership in Gränges decreased to 31.0% of the capital and voting rights.

## Upcoming events:

February 4, 2015: Year-end report 2014

March 17, 2015: Annual report 2014

May 4, 2015: Interim report Q1 2015 + Annual General Meeting

## Investment conclusion

We see interesting opportunities in Gränges due to its attractive exposure to the burgeoning Chinese auto market. There is also interesting potential from an industry-wide conversion from copper to aluminium in heat exchangers for the heating, ventilation, air conditioning and refrigeration (HVAC&R) segment.

We expect good volumes growth for next years driven by continued expansion in the US, increased penetration of aluminium in HVAC&R applications, continued Light Vehicle Production growth in Asia (where Gränges today has 50% of sales), and a stable European recovery in automotive demand.

The major depreciation of the SEK vs most other currencies is also beneficial for Gränges, which only has around 5% of sales in SEK but plenty of costs. If this continues, it will provide major support for company's earnings.

As well as healthy earnings growth, we can expect continued strong cash conversion, opening the way for high dividend potential.

Overall we feel quite comfortable ahead of 2015. The company has a leading global position and a clear growth strategy where both Asia and North America are prioritised geographical areas.

## Performance



	1m	3m	12m
Absolute perf.	25.2%	50.3%	n.a.
DMX Stockholm 30 Index perf	7.7%	12.6%	

## Market data

Share price (SEK), as of Feb 2, 2015:	64.5
52-wk range:	42.5–65
Mkt cap (SEK m):	4'814
Nb of shares issued:	74.6 m
Bloomberg ticker:	GRNG SS
Isin:	SE0006288015

## Financial summary (In mio SEK) & Valuation

	2012	2013	2014e	2015e
Revenues	4'906	4'628	4'730	5'530
Op. income	392	456	424	590
Inc. bef XD items	316	309	330	388
Adj. EPS	-	-	4.28	5.18
DPS (per SEK)	n.a.	n.a.	1.61	1.95
Div. yield (%)	n.a.	n.a.	3.1%	3.0%
P/E	-	-	14.8	12.3

Source: Bloomberg

## Equity rating—Bloomberg consensus

		Nb of analysts
Buys	100%	4
Holds	0%	0
Sells	0%	0

AV MANAGEMENT SA

Equity notes — February 2015