Creditreform Corporate Rating
Metalcorp Group B.V. (Group)
Summary

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Rating Object	Rating Information	
Metalcorp Group B.V. (Group)	Rating: **BB**	Outlook: **stable**

Creditreform ID:	904314367
Incorporation:	24 April 2003
(Main) industry:	Metal trading and manufacturing
Management:	Thomas Picek (CEO), Ricardo Phielix (CFO)

Prepared on:	5 March 2018
Monitoring period until:	4 March 2019
Date of release:	6 March 2018
Rating methodology:	Corporate rating
Rating history:	www.creditreform-rating.de

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Analysts
Christian Konieczny
Lead Analyst

Rudger van Mook
Co-Analyst

Neuss, Germany

Abstract

Company

Metalcorp Group B.V. is engaged in the trade of metals – whether from their own or from third party production – on the global markets. The Group has a diversified business model that includes the trade of ores, metals and metal products, the production of aluminium ingots and steel pipes, copper recycling and the development of mineral resources. According to the management's preliminary and non-audited financial statement for the business year 2017, the Group generated sales revenues of EUR 623 million (2016: EUR 423 million), EBITDA of EUR 30 million (2016: EUR 21.6 million) and an annual surplus before tax of EUR 17 million (2016: EUR 10.5 million). This means that the Group once again managed to significantly increase both its revenue and its result.

Rating Result

The rating of BB attests the Metalcorp Group a satisfactory level of financial strength and creditworthiness. Judging from the preliminary figures for 2017, the group appears to have preserved its conservative business model over the past business year and maintained the positive earnings trend. The Group's continued growth was partly an effect of mergers and acquisitions. The rating has taken into account the deterioration of rating-relevant financial ratios (based on the audited financial statement for 2016) and the impending redemption of a bond with an original nominal volume of EUR 75 million (ISIN: DE000A1HLTD2, date of maturity: 27 June 2018).

The amount due, however, has already been reduced to EUR 43.2 million following the 2017 issue of two new corporate bonds (ISIN: DE 000A19MDV0 and NONO0010795701) with a total volume of EUR 120 million due to the, bond buy-back (EUR 6.2 million) and exchange transactions (EUR 25.6 million).

A part of the proceeds from the Norwegian bond (EUR 23.8 million) can only be used to redeem the outstanding notes and have been deposited on an escrow account. All in all, a significant proportion of the total amount that becomes due in June 2018 has already been procured. We see this as positive. Follow-up financing risks with a total volume of approx. EUR 19.4 million remain. It is intended to raise this outstanding amount until the bond's date of maturity by using funds that are currently tied up in the Group's operating business. In our view, the possibility that the Group will fail to provide these funds on time by releasing them from the operating business represents the key short-term risk at the moment. We believe that the income situation of the company under review would significantly deteriorate only in the event of major disruptions to the global economy / the global market for raw metal or an outbreak of protectionism.

Outlook

The one-year outlook for the rating is stable. This outlook reflects our assessment of the relatively low risk nature of the business model, the financial ratios and the positive development of the corporate results.. We expect Metalcorp to accurately plan it's liquidity with regard to the

forthcoming redemption of the bond so that it will be redeemed as planned. Certain liquidity control risks nevertheless persist in respect of this transaction.

Rating-Relevant Factors

Excerpts from the financial ratio analysis Based on the Group's consolidated annual statement as per 31 December (IFRS)	Standardized annual financial statement	
	2016	2017 (e)
Sales revenue	EUR 422.6 million	EUR 622.8 million
EBITDA	EUR 21.6 million	EUR 30.1 million
EBIT	EUR 20.8 million	EUR 29.1 million
EAT	EUR 8.7 million	EUR 13.9 million
Balance sheet total	EUR 326.0 million	EUR 412.9 million
Equity ratio	31.87%	30.03%
Return on investment	5.84%	6.29%
Return on sales	2.07%	2.23%
Net debt / EBITDA adj.	9.49	7.91
Ratio of interest expenses to debt	4.46%	4.18%

General Rating Factors

+ Stable level of profitability and stable cash flows
+ Risk-averse, well-diversified business model and international footprint
+ Well-diversified base of customers and suppliers
+ A history of positive results reaching back a number of years

- Interest coverage and debt ratios
- Corporate Governance risks, reporting and financial planning
- Parts of the business are potentially vulnerable to changes of the general economic climate
- Country risks, industry-specific risks and valuation risks in the mining business

Factors for the 2018 Rating

+ Positive development of revenue and result in 2017 (based on preliminary statement)
+ Significant reduction of receivables from affiliated companies
+ Early moves to secure financing for the bond redemption in 2018

- Financial ratios have deteriorated despite the positive development of revenues and results in 2016
- The volume of debt from bond issues increased significantly (temporarily) in 2017
- Some of the funds that were procured in 2017 by a bond issue intended to secure the financing of the bond redemption in 2018 are currently tied up in the operating business

Prospective Rating Factors

+ Significant improvement of key financial ratios (net debt/EBITDA, interest coverage, equity ratio)
+ Successful sale of the mining operation in Guinea

- Difficulties in redeeming the bond
- Lower volume of incoming orders in the trading business
- Investment risks, cost risks and valuation risks in the mining business or following acquisitions
- Insufficient expansion of organizational and business management structures with respect to growth of the group.

Business Development and Outlook

For the business year 2017, the Metalcorp Group disclosed EBITDA of EUR 30.05 million and EBIT of EUR 29.05 million (2016: EUR 21.6 million and EUR 20.8 million respectively), following a significant increase in sales revenue to EUR 622.79 million (from EUR 422.56 million in 2016). The improved result reflects partly increased trading activities and partly an increased output, following the acquisition of an interest in Alu Stockach GmbH. The Group expects another significant rise in its sales revenues for the current business year. We believe that the result for 2018 will be roughly equivalent to the previous year's surplus.

In Q1 of 2017, Metalcorp acquired a 50 % interest in Alu Stockach GmbH, a competitor who operated an aluminium factory in Southern Germany. The Group completed the acquisition in order to extend its capacities as well as its geographical reach (Alu Stockach complementing the Berlin-based BAGR) with the strategic aim of improving its competitive position on the market for recycled aluminium ingots (secondary production). Metalcorp intends to increase its share in Alu Stockach.

Changes have occurred in the Group's mining division. Metalcorp sold its mine in Sierra Leone in early 2017 at no more than book value. The Metalcorp Group still holds a 78.5 % share in SBG - Société des Bauxites de Guinée S.A in Guinea, but does not rule out selling a specific business interest – an operation which has been developed to the point where actual mining can begin –, either in whole or in part, provided such a sale is profitable and cash-effective. Bearing in mind the complexity and the investment requirements of a mining operation in Africa, we believe that the Group's business strategy in this segment appears to be sensible. Investments have so far been only made in the development of the mining operation, which is why we can currently only take into consideration the cost risks, capital risks and valuation risks.

For the purposes of the rating analysis, the redemption of the corporate bond 2013/2018 (ISIN DE000A1HLTD2) – date of maturity: 27 June 2018 – with an outstanding volume of EUR 43.4 million is the most relevant issue in the short term. In 2017, the Group issued two new bonds to procure the funds for this redemption. The first of these bonds, a Norwegian bond (ISIN: NO 0010795701) with a term of five years, a volume of EUR 70 million and a 7 % interest rate, was issued on 6 June 2017. According to the terms of the issue, proceeds with a volume of EUR 30 million had to be deposited on an escrow account and cannot be used for any other purpose but to redeem the 2013/2018 bond. Approx. EUR 6 million from this amount have already been used to redeem the bond, which means that a balance of approx. EUR 24 million currently remains on the escrow account. According to a bank statement from 31 January 2018, this balance has recently fallen to EUR 23.8 million following another partial redemption. The remaining proceeds from the issue – approx. EUR 40 million – were used for general business development purposes (cash collateral, deal financing).

The second 2017 bond (ISIN: DE000A19MDV0) with a total volume of EUR 50 million was issued on 2 October 2017. It also has a term of five years and a 7 % interest rate. This bond was accompanied by an offer to exchange notes from the 2013/2018 bond that will reach maturity on 27 June 2018. Out of the proceeds of EUR 50 million, approx. EUR 25.6 million were exchanged by investors in this way, reducing the outstanding nominal capital of the 2013/2018 bond to EUR 43.4 million. The remaining proceeds – approx. EUR 24.6 million – were used for general business development purposes and as a liquidity buffer.

The company under review does not rule out further acquisitions for the business year 2018, while not disclosing any more specific plans. It is possible that such transactions may require an adjustment of the rating.

Financial Ratio Analysis

Asset structure	2014	2015	2016	2017
Investment intensity (%)	47.33	52.13	42.62	35.96
Asset turnover	1.37	1.81	1.45	1.69
Fixed assets ratio (%)	86.02	80.02	74.77	83.52
Liquidity ratio (%)	13.52	6.13	5.16	12.40
Capital structure				
Equity ratio (%)	40.71	39.17	31.87	30.03
Short-term-debt-to-equity-ratio (%)	41.10	34.45	45.07	41.96
Long-term-debt-to-equity-ratio (%)		2.55		
Capital lock-up (duration of period in days)	19.34	9.78	34.22	28.50
Ratio of accounts payable (%)	7.12	4.69	12.15	11.78
Short-term capital lock-up (%)	23.28	15.26	22.23	20.01
Gearing	1.12	1.40	1.98	1.92
Debt ratio	2.42	2.51	2.85	3.24
Financial strength				
Ratio between cash flow and aggregate operating performance (%)	1.34	1.36	2.26	2.39
Cash flow ROI (%)	1.80	2.39	2.93	3.61
Debt / EBITDA adj.	16.02	9.53	10.27	9.62
Net debt / EBITDA adj.	12.36	8.57	9.49	7.91
ROCE (%)	4.76	7.46	8.46	9.92
Dynamic debt amortization period (in years)	-495.29	-37.03	-12.93	-13.16
Profitability				
Gross profit margin (%)	5.61	6.10	7.65	7.31
EBIT interest coverage	0.87	2.19	2.10	2.41
EBITDA interest coverage	0.94	2.28	2.19	2.49
Ratio of personnel costs to total costs (%)	1.38	1.16	1.46	1.12
Ratio of material costs to total costs (%)	94.39	93.90	92.35	92.69
Ratio of interest expenses and total capital mod. (%)	6.64	4.60	4.46	4.18
Return on investment (%)	3.01	5.30	5.84	6.29
Return on equity (%)	3.89	5.55	8.57	12.19
Return on sales (%)	1.18	1.22	2.07	2.23
Interest expenses (%)	57.97	46.72	50.48	58.43
Operating profit (%)	2.54	3.51	4.92	4.66
Liquidity				
Cash ratio (%)	18.11	10.82	7.34	26.08
Quick ratio (%)	111.61	118.62	104.24	127.95
Current ratio (%)	128.13	138.96	127.29	152.62

Regulatory Disclosure

The management of Metalcorp Group B.V. instructed us to perform this follow-up rating of Metalcorp Group B.V. (Group).

The rating reflects our analysis of quantitative and qualitative factors as well as an assessment of industry-specific parameters. The quantitative analysis has been based on the consolidated annual financial statements for the years from 2013 to 2016.

One important source of information was a management interview on 6 February 2018 in Berlin which was attended by:

- Ricardo Phielix, CFO
- Mark Nunes, Deputy CFO

The rating was performed by Christian Konieczny and Rudger van Mook (Analysts).

In addition to the documents that had been supplied for previous ratings, the Metalcorp Group provided our analysts with the following information:

Documents
Accounting and Controlling
▪ Consolidated annual financial statement 2016 of Metalcorp Group B.V. and individual annual financial statements of principal subsidiaries for 2016 ▪ Preliminary annual financial statement and profit-and-loss account for 2017 ▪ Budget 2018 ▪ Detailed information concerning certain relevant issues ▪ Corporate planning for the years 2018, 2019, and 2020 ▪ Information about debtors and creditors
Financial Information
▪ List of all corporate bank accounts incl. statements ▪ Loan agreements ▪ Terms and conditions of the second bond and the third bond ▪ Information about covenants ▪ Statement of the escrow account
Other Information
▪ Corporate presentation

The documents and information provided by the company under review complied with the requirements of the Creditreform Rating AG methodology that are outlined on the corporate website (www.creditreform-rating.de). The rating was performed in compliance with the system and methodology for corporate ratings. Documents from previous years were used where feasible and reasonable. Due to the large amount of data contained within these documents, certain analyses were conducted in the form of sample-based plausibility checks.

The rating was presented by the analysts to the Rating Committee on 5 March 2018 and determined in a conclusive resolution.

The result of the rating was communicated to Metalcorp Group B.V. on the same day. The company was provided with the Rating Summary, a Rating Certificate and a full Rating Report.

The rating will be monitored for the duration of one year following the date of its initial release and can be updated during this period. After one year, a follow-up rating will be needed to maintain the validity of the rating.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the "Verhaltenskodex der Creditreform Rating AG" ("The Creditreform Rating AG Code of Behaviour") which has been published on the web pages of Creditreform Rating AG. In this Code of Behaviour, Creditreform Rating AG commits itself to – systematically and with due diligence – establishing its independent and objective opinion about the sustainability, the risks and the opportunities of the enterprise / the issue under review.

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We have assumed that the documents and information made available to us by the client were complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

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Contact Details

Creditreform Rating AG Hellersbergstraße 11 D-41460 Neuss Germany	Metalcorp B.V. Crystal Tower 20th floor, Orlyplein 10, 1043 DP Amsterdam, Netherlands
Phone +49 (0) 2131 / 109-626 Fax +49 (0) 2131 / 109-627	Phone +31 (0)20 890 89 00 Fax +31 (0)20 890 89 19
email info@creditreform-rating.de www.creditreform-rating.de	email: info@metalcorpgroup.com www.metalcorpgroup.com
CEO: Dr. Michael Munsch	Management: Thomas Picek (CEO)
Chairman of the Supervisory Board: Prof. Dr. Helmut Rödl HR Neuss B 10522	HR Amsterdam 34189604