

CINKARNA CELJE (CICG SV)

ALTA

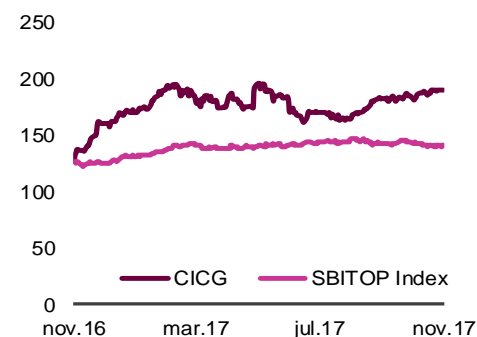
NEW
INVESTMENT
CULTURE
12M Target price: 248 EUR Recommendation: BUY

Previous target price: 230 EUR, BUY/HOLD (13.9.2017)

KEY MARKET DATA:

| Stock data as of 22.11.2017 : | | Price performance: | | 3M | 12M |
|---------------------------------|---------------|-------------------------------|--|-------|---------|
| Market price (EUR) | 190.0 | Price change in % | | 15.9% | 50.9% |
| 52 week range (EUR) | 126.0 - 196.0 | SBI 20 index change in % | | -3.2% | 11.8% |
| Market Cap (EUR) | 154.8 | Relative to SBI 20 index in % | | 19.6% | 35.0% |
| | | Valuation multiples: | | TTM | Forward |
| Avg. daily trade vol., EUR(k) | 118 | EV/Sales | | 0.7 | 0.7 |
| Average daily % of stock traded | 0.084% | EV/EBITDA | | 2.9 | 2.6 |
| No. of Shares in millions | 0.8 | EV/EBIT | | 4.3 | 3.5 |
| | | P/E | | 6.0 | 5.3 |
| Dividend yield | 4.8% | P/B | | 0.9 | 1.0 |

SHARE PRICE DYNAMIC:



KEY COMPANY DATA & ESTIMATES:

| million € | FY2015 | FY2016 | TTM | 2017F | 2018F |
|------------|--------|--------|-------|-------|-------|
| Sales | 169.1 | 169.8 | 181.6 | 181.6 | 187.3 |
| EBITDA | 21.2 | 25.4 | 45.4 | 50.5 | 45.9 |
| Margin | 12.5% | 14.9% | 25.0% | 27.8% | 24.5% |
| EBIT | 8.1 | 10.6 | 30.9 | 37.1 | 32.5 |
| Net income | 6.8 | 9.8 | 25.9 | 29.0 | 26.3 |
| EPS | 8.4 | 12.0 | 31.8 | 35.8 | 32.4 |
| DPS | 4.2 | 9.05 | | 17.9 | 16.2 |
| Provisions | 21.2 | 20.5 | 19.8 | | |
| Cash | 14.0 | 31.0 | 42.9 | | |
| Net debt* | 7.2 | -10.6 | -23.1 | | |
| Equity | 140.2 | 146.0 | 164.1 | | |
| Assets | 181.0 | 186.0 | 204.1 | | |
| ND/EBITDA | 0.3 | -0.4 | -0.5 | | |
| P/E | 9.0 | 13.5 | 6.0 | 5.3 | 5.9 |
| EV/EBITDA | 3.3 | 4.8 | 2.9 | 2.6 | 2.9 |

*Included environmental provisions but not ST and LT investments

KEY CURRENT DEVELOPMENT:

- An interview in the beginning of October with president of the management board revealed:
 - The demand is elevated and consequently Cinkarna Celje has a luxury to pick consumers. Here its emphasizing long term relationships and past consumer loyalty. Supply is tight due to several factors.
 - Their product portfolio is migrating to higher value added products.
 - Cinkarna Celje remains conservative / prudent regarding forecasting, however management stated that industry analyst remain upbeat for 2018 – titanium dioxide prices should remain at elevated levels. On the other hand management believes that input costs will also adjust to the situation. Effectively this means they are, in 2017, in a sweet spot.
 - 2018/2019 CAPEX guidance is at EUR 25m.
 - Profit should be around record levels from 2011 (EUR 24.5m). The main **change toward our net profit expectation (not EBIT) is that it seems new provisions will not have a meaningful effect.**
- 3Q17 results are fantastic** while excellent environment prevails which means more good quarters to come (seasonally note 4Q is weaker than 3Q). We have again **lifted our profit estimates and consequently target price. Also dividend will likely be higher and very attractive.**

9M17 Results

ALTA

NEW
INVESTMENT
CULTURE

| million EUR | 2Q16 | 3Q16 | 9M16 | 2Q17 | 3Q17 | 9M17 | YoY |
|--------------------|-------|-------|-------|-------|-------|-------|--------|
| Sales | 46.3 | 44.7 | 131.8 | 48.6 | 49.9 | 143.6 | 8.9% |
| Operating revenues | 43.8 | 45.0 | 126.9 | 48.4 | 50.1 | 142.3 | 12.2% |
| COGS | 28.9 | 29.1 | 84.7 | 27.4 | 25.6 | 78.4 | -7.5% |
| Labour costs | 7.1 | 6.7 | 20.4 | 9.1 | 6.3 | 22.2 | 8.4% |
| Other opex | 0.3 | 0.4 | 1.0 | 0.3 | 0.4 | 1.0 | -2.7% |
| EBITDA | 7.5 | 8.9 | 20.7 | 11.6 | 17.7 | 40.8 | 97.0% |
| Margin | 16.1% | 19.9% | 15.7% | 23.9% | 35.4% | 28.4% | |
| EBIT | 4.3 | 5.8 | 11.4 | 8.7 | 14.4 | 31.7 | 178.2% |
| Net income | 3.5 | 4.9 | 9.4 | 7.0 | 11.5 | 25.5 | 171.8% |

- Global TiO2 prices increased by 13% from end 2016 and 20% from September 2016 (in Europe the respective growth rates for both periods are 29%).
- Cinkarna Celje average prices increased even more, namely by 36.3% from 2016 yearend and by 38.4% from September 2016.

- Excellent environment continued in 3Q17 (expanding economies and demand, limited supply, rising prices), even more so, it accelerated. In addition management notes that the decision to close down unprofitable / less profitable segments proved correct as it allowed Cinkarna Celje to focus on TiO2 production at time of an upturn.
- TiO2 production volume increased by 1% YoY. Consequently revenue increase mostly derives from price increases with production volume growth limited.
- Their capacities (production) are already sold by mid 2018 with inventory level now at only 11 production days. Cinkarna Celje also explains in the 9M17 report the positive trends will persist – this is in line with comments of their peers (look below).
- CAPEX amounted EUR 7.7m, 53% of 2017 plan. Their investment are behind plan due to delays (testing).
- The only downside is that due to the excellent environment, prices of input materials are also on the rise (for now Cinkarna seems able to partially migrate these pressures to costumers). This will persist in 2018 as well, capping further profitability growth. Also note the increase of labour costs is due to good result allowing Cinkarna Celje to reward its employees. We see this as positive.
- Note revenue level is 27% ahead of plan while net profit is already 239% ahead of plan. While we were more optimistic regarding 2017 profitability and while we have raised our estimates after 1H17, we are again pushed to correct expectations regarding 2017 and 2018.
- Balance sheet remains very healthy with cash now at roughly 27% of Mcap while Cinkarna Celje practically has no debt.
- They received an invoice for cleaning old site for EUR 1.3m.

| million EUR | 9M16 | 2016 | 9M17 | YoY |
|-------------------|-------|-------|-------|--------|
| Financial debt | 0.1 | 0.1 | 0.2 | 196.7% |
| Cash | 25.1 | 31.0 | 42.9 | 71.1% |
| Net debt | -25.0 | -30.9 | -42.7 | 70.8% |
| Inv. & Provisions | -19.7 | -19.1 | -18.4 | -6.6% |
| Net debt 2 | -5.3 | -11.8 | -24.3 | |
| Receivables | 33.6 | 26.7 | 38.2 | 13.8% |
| Inventory | 26.6 | 30.6 | 24.7 | -6.9% |
| Equity | 146.2 | 146.0 | 164.1 | 12.3% |
| Assets | 184.6 | 186.0 | 204.1 | 10.5% |

3Q17 peer results also show strength across the board with encouraging tones coming from earning calls:

- For example Venator Materials reported 13% QoQ price increase of TiO2 in 3Q17 vs 2Q17 with strength across all regions. Also as utilization rates are high they expect good environment to persist (to be exact: „Looking ahead, the outlook remains favorable for continued earnings growth and margin expansion“).
- Tronox reported pigment sales is up 22% YoY in 3Q17 and 4% QoQ with prices up 21% and 9% respectively. Tronox also sees momentum in TiO2 continuing well into 2018 (pigment and feedstock).
- Chemours also reported 3Q17 benefited from price increases (+18%)and volume growth (+8%)

Investment Thesis

ALTA

NEW
INVESTMENT
CULTURE

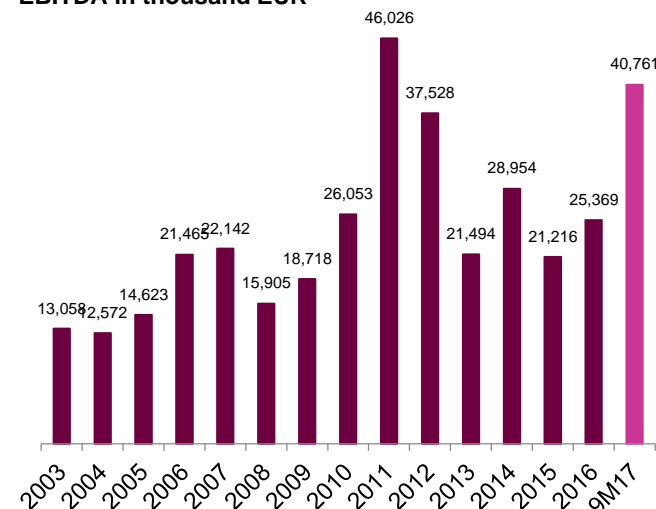
POSITIVE:

- **Consumption depends on global GDP growth, which picked up.**
- TiO₂ industry was plagued by oversupply and hence pricing pressures during 2015. However in 1H16 industry bottomed out and **pricing environment improved considerably during 2016 and 2017. It seems the excellent environment will continue into 2018.**
- The company **has a net cash position** on its balance sheet (EUR 42.7m on 30th September 2017).
- Cinkarna Celje **consistently delivered profit** in the last decade despite being under the influence of high industry cyclicality (on output and input markets).
- **Strong focus on most profitable segments.** In the last two years the company closed two unprofitable production units – Graphic Materials and titanium-zinc sheets production – to focus on more profitable segments. This shows management adaptability and flexibility.
- **Strong free cash flow generation.** Sales of EUR 159m per year on average (2006-2016 period) with EBITDA margin of 16.1% on average per year and CAPEX/sales of 5.5% are resulting in strong cash flow. **In 9M17 EBITDA margin now stands at 28.4% while EBITDA ex CAPEX amounted to EUR 33.1m.**
- **High dividend payer.** Cinkarna Celje delivered 5.4% average gross dividend yield or EUR 48.5m of dividends paid in 2006-2016 period. In 2017 dividends amounted EUR 9.05 per share, and given the 2017 trends and results, 2018 will also be generous to investors. **Investors can hope that next year Cinkarna Celje could pay roughly double this amount and this would imply slightly below 10% yield.**

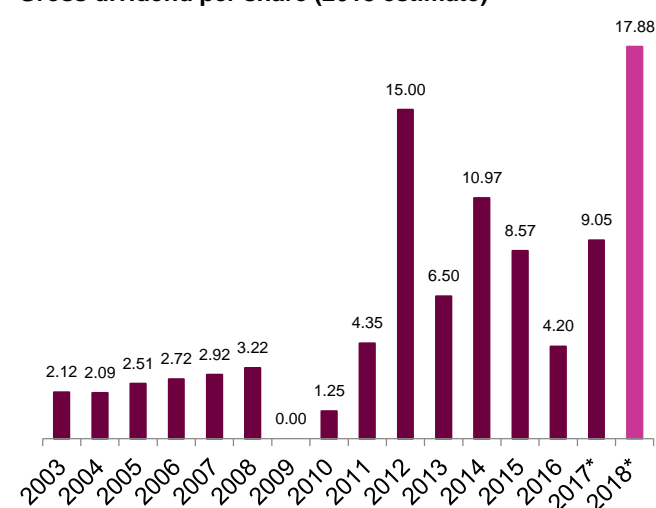
NEGATIVE:

- As demand for TiO₂ varies with industry and economic cycles, **results were and will be volatile** (from top to bottom perspective) and normalized view must be considered when valuating Cinkarna Celje. Consequently dividend amount should also be very volatile.
- **The production has negative effects on the environment.** Consequences are:
 - Limits regarding production with respect of landfill capacity and extension permits.
 - Environmental clean-up expenses for which provision have to be and were formed. This could burden end 2017.
 - Regulatory environment demands could always stiff up, further limiting production or increasing costs.

EBITDA in thousand EUR



Gross dividend per share (2018 estimate)



Relative comparison

ALTA

NEW
INVESTMENT
CULTURE

| Name | EV/S | | | EV/EBITDA | | | EV/EBIT | | | P/E | | | P/B | | |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | TTM | 2017F | 2018F | TTM | 2017F | 2018F | TTM | 2017F | 2018F | TTM | 2017F | 2018F | TTM | 2017F | 2018F |
| TAYCA Corp | 1.5 | 1.3 | 1.3 | 9.4 | n.a. | n.a. | 9.5 | n.a. | n.a. | 23.1 | 12.4 | 11.1 | 1.6 | 1.4 | 1.3 |
| Ishihara Sangyo | 1.0 | 0.9 | 0.9 | 7.7 | n.a. | n.a. | 9.8 | n.a. | n.a. | 10.2 | 10.8 | 10.3 | 1.2 | 1.0 | 0.9 |
| Cosmochemical Co. | 1.3 | n.a. | n.a. | 14.5 | n.a. | n.a. | 39.2 | n.a. | n.a. | neg. | n.a. | n.a. | 1.9 | n.a. | n.a. |
| Grupa Azoty | 0.8 | 0.8 | 0.8 | 7.7 | 7.2 | 6.5 | 12.6 | 11.1 | 9.9 | 12.8 | 10.1 | 8.5 | 1.4 | n.a. | n.a. |
| Kronos Worldwide | 2.1 | 1.9 | n.a. | 11.2 | 7.4 | n.a. | 13.0 | 16.7 | n.a. | 9.6 | 11.6 | n.a. | 4.5 | n.a. | n.a. |
| Tronox Limited | 2.4 | 1.4 | 1.3 | 14.9 | 5.9 | 5.0 | 34.0 | 9.7 | 7.9 | neg. | 19.8 | 13.8 | 4.2 | 1.8 | 1.6 |
| TOR Minerals Int | 0.5 | n.a. | n.a. | 9.0 | n.a. | n.a. | neg. | n.a. | n.a. | neg. | n.a. | n.a. | 0.7 | n.a. | n.a. |
| Huntsman* | 1.0 | 1.2 | 1.1 | 7.5 | 7.7 | 7.5 | 11.1 | 11.0 | 10.7 | 14.0 | 13.6 | 12.3 | 2.8 | 3.2 | 3.2 |
| Chemours | 2.1 | 1.8 | 1.7 | 15.7 | 7.0 | 6.5 | 24.3 | 8.5 | 7.8 | 33.9 | 10.3 | 9.4 | 12.1 | 5.4 | 3.8 |
| Cinkarna Celje | 0.7 | 0.7 | 0.7 | 2.9 | 2.6 | 2.9 | 4.3 | 3.5 | 4.0 | 6.0 | 5.3 | 5.9 | 0.9 | 1.0 | 0.9 |
| Median | 1.3 | 1.3 | 1.2 | 9.4 | 7.2 | 6.5 | 12.8 | 11.0 | 8.9 | 13.4 | 11.6 | 10.7 | 1.9 | 1.8 | 1.6 |

| Company name | EBITDA margin TTM | EBIT margin (%) | Profit margin (%) | ROE TTM | ROA TTM | Assets turnover | Div. yield (%) | Assets/ Equity | Net debt to EBITDA |
|-----------------------|-------------------|-----------------|-------------------|--------------|--------------|-----------------|----------------|----------------|--------------------|
| TAYCA Corp | 15.8% | 15.6% | 11.1% | 6.7% | 7.8% | 0.71 | 0.52 | 1.36 | -1.74 |
| Ishihara Sangyo | 12.7% | 10.1% | 8.1% | 12.0% | 5.1% | 0.63 | 0.00 | 2.36 | 1.19 |
| Cosmochemical Co. | 8.9% | 3.3% | -11.3% | -40.1% | -7.7% | 0.68 | 0.00 | 5.21 | 7.62 |
| Grupa Azoty | 10.3% | 6.3% | 5.0% | 10.6% | 5.8% | 1.16 | 2.00 | 1.83 | 1.50 |
| Kronos Worldwide | 18.5% | 16.0% | 20.5% | 46.6% | 19.3% | 0.94 | 1.63 | 2.41 | 0.49 |
| Tronox Limited | 16.1% | 7.1% | -7.5% | -21.8% | -3.5% | 0.46 | 0.51 | 6.27 | 5.93 |
| TOR Minerals Int | 5.9% | -0.8% | -0.7% | -1.0% | -0.8% | 1.08 | 0.00 | 1.25 | 0.44 |
| Huntsman* | 13.5% | 9.1% | 5.4% | 20.2% | 5.2% | 0.97 | 1.23 | 3.85 | 1.85 |
| Chemours | 13.2% | 8.5% | 4.9% | 35.9% | 4.0% | 0.83 | 0.17 | 8.90 | 3.28 |
| Cinkarna Celje | 25.0% | 17.0% | 14.3% | 15.8% | 12.7% | 0.89 | 4.76 | 1.24 | -0.51 |
| Median | 13.2% | 8.5% | 5.0% | 10.6% | 5.1% | 0.83 | 0.51 | 2.41 | 1.50 |

*When TTM data will be available Venator Materials will replace Huntsman as peer group member.

Peer comparison is limited due to the limited comparability of product segments, size and geographical focus. Namely we also used some major players in chemicals segment with wider range of products and we used several American based competitors. On the other hand it is true that due to spin outs and consolidation comparison is considerably easier than in previous years.

Historic Financial Data

NEW
INVESTMENT
CULTURE

| in EURm | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Assets | 206.3 | 209.8 | 207.4 | 189.9 | 188.3 | 198.0 | 196.0 | 183.4 | 182.9 | 181.0 | 186.0 |
| Non-current assets | 136.5 | 142.8 | 142.4 | 134.5 | 130.2 | 128.5 | 120.1 | 113.5 | 109.4 | 102.8 | 97.2 |
| Current assets | 69.8 | 67.0 | 65.0 | 55.3 | 58.2 | 69.5 | 75.9 | 69.8 | 73.5 | 78.2 | 88.8 |
| Short term investment | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Cash | 9.4 | 5.4 | 4.0 | 4.1 | 6.3 | 9.5 | 8.6 | 8.1 | 14.4 | 14.0 | 31.0 |
| Equity | 94.8 | 100.3 | 97.7 | 98.8 | 106.9 | 127.5 | 133.3 | 135.1 | 140.1 | 140.2 | 146.0 |
| Equity of non-controlling interests | | | | | | | | | | | |
| Provisions | 12.1 | 12.0 | 11.7 | 11.3 | 16.2 | 27.9 | 27.1 | 26.4 | 25.7 | 24.0 | 23.2 |
| Non-current liabilities | 31.4 | 27.7 | 19.3 | 17.7 | 11.2 | 3.8 | 4.7 | 0.2 | 0.0 | 0.0 | 0.0 |
| Non-current financial liabilities | 29.4 | 25.5 | 18.8 | 17.2 | 10.8 | 3.8 | 4.7 | 0.2 | 0.0 | 0.0 | 0.0 |
| Current liabilities | 67.7 | 69.4 | 78.1 | 60.8 | 52.6 | 36.6 | 28.2 | 19.0 | 15.3 | 15.2 | 15.5 |
| Current financial liabilities | 56.3 | 58.8 | 67.7 | 48.1 | 36.5 | 17.4 | 14.9 | 4.6 | 0.0 | 0.0 | 0.1 |

| in EURm | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales revenues | 150.7 | 156.7 | 131.6 | 129.6 | 153.4 | 184.1 | 173.2 | 166.0 | 160.7 | 169.1 | 169.8 |
| Total Revenues | 160.1 | 162.7 | 137.6 | 128.6 | 155.1 | 195.5 | 178.3 | 166.5 | 169.6 | 170.5 | 166.4 |
| Cost of goods, materials and services | 113.0 | 114.3 | 94.7 | 84.7 | 99.1 | 117.6 | 110.2 | 115.5 | 109.7 | 119.5 | 111.6 |
| Labour costs | 24.7 | 25.1 | 25.8 | 24.2 | 28.4 | 30.5 | 29.6 | 28.5 | 29.7 | 28.4 | 28.2 |
| D&A plus impairments | 10.7 | 11.1 | 11.4 | 14.1 | 12.3 | 13.2 | 13.4 | 12.9 | 12.7 | 13.1 | 14.8 |
| Other operating expenses | 1.0 | 1.1 | 1.1 | 1.0 | 1.5 | 1.3 | 0.9 | 1.1 | 1.2 | 1.3 | 1.2 |
| EBITDA | 21.5 | 22.1 | 15.9 | 18.7 | 26.1 | 46.0 | 37.5 | 21.5 | 29.0 | 21.2 | 25.4 |
| Operating income | 10.8 | 11.0 | 4.6 | 4.6 | 13.7 | 32.8 | 24.1 | 8.6 | 16.2 | 8.1 | 10.6 |
| Financial Income | 0.8 | 1.3 | 1.5 | 0.8 | 0.7 | 1.0 | 0.9 | 1.3 | 0.5 | 0.7 | 1.0 |
| Financial expenses | 4.7 | 4.8 | 5.3 | 4.5 | 3.8 | 2.2 | 2.6 | 2.3 | 0.7 | 0.7 | 0.4 |
| Interest cost | 3.7 | 4.1 | 4.8 | 4.2 | 2.3 | 1.5 | 0.9 | 0.5 | 0.1 | 0.1 | 0.1 |
| EBT | 6.9 | 7.5 | 0.9 | 1.0 | 10.9 | 31.6 | 22.5 | 7.6 | 16.1 | 8.1 | 11.0 |
| Total taxes | 1.3 | 1.5 | 0.1 | 0.0 | 2.0 | 6.1 | 4.2 | 0.4 | 2.1 | 1.2 | 1.3 |
| Net profit / loss | 5.6 | 6.1 | 0.8 | 1.0 | 8.9 | 25.5 | 18.3 | 7.2 | 13.9 | 6.8 | 9.8 |
| Attributable to equity holders of the parent | | | | | | | | | | | |

| | | | | | | | | | | | |
|-------|-------|-------|------|------|------|-------|------|------|------|------|------|
| CAPEX | -10.4 | -14.9 | -9.6 | -4.5 | -6.5 | -10.2 | -7.2 | -6.9 | -8.8 | -6.9 | -8.7 |
|-------|-------|-------|------|------|------|-------|------|------|------|------|------|

| in EURm | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Gross margin | 25.0% | 27.1% | 28.0% | 34.7% | 35.4% | 36.1% | 36.4% | 30.4% | 31.7% | 29.3% | 34.3% |
| EBITDA margin | 14.2% | 14.1% | 12.1% | 14.4% | 17.0% | 25.0% | 21.7% | 13.0% | 18.0% | 12.5% | 14.9% |
| EBIT margin | 7.1% | 7.0% | 3.5% | 3.6% | 9.0% | 17.8% | 13.9% | 5.2% | 10.1% | 4.8% | 6.2% |
| Net margin | 3.7% | 3.9% | 0.6% | 0.8% | 5.8% | 13.9% | 10.6% | 4.3% | 8.7% | 4.0% | 5.7% |
| Assets Turnover | 0.73 | 0.75 | 0.63 | 0.68 | 0.81 | 0.93 | 0.88 | 0.91 | 0.88 | 0.93 | 0.91 |
| ROA | 2.7% | 2.9% | 0.4% | 0.5% | 4.7% | 12.9% | 9.3% | 3.9% | 7.6% | 3.8% | 5.2% |
| Assets to Equity | 2.18 | 2.09 | 2.12 | 1.92 | 1.76 | 1.55 | 1.47 | 1.36 | 1.31 | 1.29 | 1.27 |
| ROE | 5.9% | 6.1% | 0.8% | 1.0% | 8.3% | 20.0% | 13.7% | 5.3% | 9.9% | 4.9% | 6.7% |
| Net debt / EBITDA | 3.6 | 3.6 | 5.2 | 3.3 | 1.6 | 0.3 | 0.3 | -0.2 | -0.5 | -0.7 | -1.2 |
| Debt to Assets | 41.5% | 40.1% | 41.7% | 34.4% | 25.1% | 10.7% | 10.0% | 2.6% | 0.0% | 0.0% | 0.1% |
| Debt to Equity | 0.90 | 0.84 | 0.89 | 0.66 | 0.44 | 0.17 | 0.15 | 0.04 | 0.00 | 0.00 | 0.00 |
| TIE ratio | 2.9 | 2.7 | 0.9 | 1.1 | 5.9 | 22.6 | 27.7 | 15.7 | 249.4 | 74.1 | 163.2 |
| NWC / Assets | 23.7% | 24.2% | 24.4% | 19.6% | 18.8% | 20.5% | 27.3% | 25.4% | 23.6% | 26.6% | 22.5% |
| Days inventory outstanding | 103.8 | 109.4 | 127.4 | 90.3 | 77.6 | 96.3 | 118.3 | 97.3 | 109.8 | 112.1 | 100.0 |
| Days receivable outstanding | 68.3 | 63.3 | 77.0 | 81.7 | 72.1 | 57.2 | 65.7 | 66.5 | 57.8 | 57.6 | 57.4 |
| Days payable outstanding | 36.8 | 33.9 | 39.8 | 55.0 | 59.1 | 59.6 | 44.0 | 45.5 | 50.8 | 46.4 | 50.2 |
| EBITDA - CAPEX | 11.0 | 7.3 | 6.3 | 14.3 | 19.6 | 35.8 | 30.3 | 14.6 | 20.2 | 14.3 | 16.7 |

Company & ALTA Description

ALTA

NEW
INVESTMENT
CULTURE

COMPANY DESCRIPTION:

- Established in 1873 as metallurgy, but after 1968 the main business activity of Cinkarna Celje is chemical processes, more exactly production and marketing of titanium dioxide pigment.
- Their main product is titanium dioxide pigment (annual production of roughly 65 thousand tons of TiO₂). Cinkarna is also an important supplier of titanium-zinc sheets and powder coatings.
- It has around 1,000 employees.
- Around 87% of its sales is generated abroad.

OWNERSHIP STRUCTURE:

| | |
|--------------------------|-------|
| Modra zavarovalnica d.d. | 20.0% |
| DUTB (BAMC) | 14.5% |
| SDH d.d. | 11.4% |
| NKBM d.d. | 3.9% |
| SOP Ljubljana | 3.6% |

Source: KDD

RESEARCH REPORT:

Prepared by:

Sašo Stanovnik
Head of Research

Completion date and time:

22.11.2017 14:55

First release:

22.11.2017 15:00

Market data capture date:

22.11.2017 8:30

CONTACTS:

ALTA Invest, investicijske storitve, d.d.
Železna cesta 18, 1000 Ljubljana, Slovenia
phone: + 386 1 32 00 300
e-mail: invest@alta.si
http://www.alta.si

Head of Research:

Sašo Stanovnik
saso.stanovnik@alta.si
+386 (1) 32 00 310

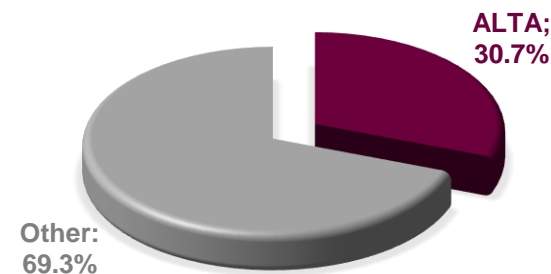
Institutional Trading:

Darko Jurčevič
darko.jurcevic@alta.si
+386 (1) 32 00 395

ABOUT ALTA INVEST:

- ✓ Our trading advantage is our execution of large trading blocks with low impact on the market.
- ✓ 38,300 brokerage clients with EUR 3.3 bn of assets.
- ✓ European Banking award: Best Broker & Best Asset Manager in 2015 and 2016.

TTM market share:



Disclaimer

ALTA

NEW
INVESTMENT
CULTURE

The research department of ALTA Invest, investicijske storitve, d.d. (eng. ALTA Invest, investment services, Inc.), is, in order to avoid and deter conflict of interests, a separate organizational part of the company. It is independent in its decisions regarding selection, monitoring and updating of its investment recommendations of an individual issuer. According to its information policy, ALTA Invest, investicijske storitve, d.d. observes data privacy and strongly defends access to its data bases and other materials connected with the research department against any unauthorized access or personnel.

ALTA Invest, investicijske storitve, d.d. may trade with the financial instruments mentioned in this document for its own account and may also engage in securities transactions in a manner inconsistent with the content of this research report as a result of short-term trading recommendations by analysts.

Remuneration of the analyst who provides monitoring of a certain issuer is based, among other factors, also on the profitability of ALTA Invest, investicijske storitve, d.d.; a part is also profit arising from ALTA Invest, investicijske storitve, d.d. investment services.

ALTA Invest, investicijske storitve, d.d. is supervised by the Slovenian Securities Market Agency (Agencija za trg vrednostnih papirjev), Poljanski Nasip 6, 1000 Ljubljana, Slovenia.

CONFLICT OF INTEREST

ALTA Invest, investicijske storitve, d.d. (ALTA Invest, investment services, Inc.), declares that all of its affiliated legal entities, financial analysts, and with them related clients and any other subjects that have participated in the creation of this document, do not hold any important stakes concerning the financial instruments that are the subject of this document. Nor do they have any important financial interest with the issuer of those instruments that might arise from cross-ownership, financial instrument market making, facilitating public offerings for financial instruments or any other special services connected to such instruments in the past 12 months, as well as interests from the purchases of this document, the remuneration of the employees and/or other participating subjects, especially financial analysts, connected with turnover of tangible financial instruments or with other interest relations, eg. any other agreements, which might refer to providing services with financial instruments. ALTA Invest, investicijske storitve, d.d. also declares, that there are neither no conflicts of interests of the stated individuals/entities connected with financial instruments, which are subject of this document, nor any conflicts of interests concerning the issuer of the instrument.

LIMITED LIABILITY

The document was prepared by ALTA Invest, investicijske storitve, d.d. (ALTA Invest, investment services, Inc.), Železna cesta 18, Ljubljana. ALTA Invest, investicijske storitve, d.d. is a member of the Ljubljana Stock Exchange and is supervised by the Slovenian Securities Market Agency, Poljanski nasip 6, Ljubljana.

The document is, according to the Article 378 of The Securities Market Act, treated as an investment recommendation. The recommendation is prepared solely for the purposes of better understanding financial instruments and performance of capital markets and is not intended for a specific audience. Therefore it is not to be construed as an offer to buy or sell, nor as a solicitation of an offer to buy or sell any financial instrument. Additionally, no opinion in the document is intended to provide any personal investment services or advice, since it does not take into consideration any specific investment objectives, financial context or situation, investor knowledge, investor experience or any particular needs of any specific person that has, for whatever reason, become familiar with the contents of this document or part of such.

The document was prepared for the purposes of ALTA Invest, investicijske storitve, d.d. clients and is not subject to reproduction, distribution or publication without the explicit permission of ALTA Invest, investicijske storitve, d.d. Similarly, any kind of mediation, variation or summarizing of this document is only permitted with the prior explicit written consent of ALTA Invest, investicijske storitve, d.d. Therefore with the acceptance and examination of this document, the reader is obligated not to disclose the contents, opinions, conclusions or any other data from this document, as well as any investment recommendations, evaluations, forecasts or target prices, without the prior explicit permission of ALTA Invest, investicijske storitve, d.d.

Any information in this document is based on data obtained from public sources, printed media, annual and semi-annual reports, company presentations, Bloomberg L.P., electronic media and other sources, which ALTA Invest, investicijske storitve, d.d. considers to have been reliable on the date of publication or, exceptionally, indicates doubts concerning the reliability of such. The financial analysts that have prepared this document have gathered the data, reorganised it and processed it according to the principles of fairness and with professional care; however, no representations or guarantees are made by ALTA Invest, investicijske storitve, d.d. with regard to the accuracy or completeness of the data. The facts, on which the document is grounded, are clearly differentiated from those interpretations, assessments, opinions and other information that are not strictly factual in nature. Projections, forecasts and target prices are marked, and the document clearly indicates the central assumptions on which they are based, and are subject to change without notice. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance, achievements, or prospects to differ materially from any future results, performance, achievements or prospects expressed or implied by such statements. The document may also contain historical data on the profitability of certain financial instruments; however, past performance is not necessarily indicative of future results.

ALTA Invest, investicijske storitve, d.d. points out that any investments in financial instruments, including the financial instruments that are the subject of this document, pose certain risks. When investing in financial instruments, it is important to be aware of both systematic and unsystematic risks. Unsystematic risk applies to certain financial instrument that are not under the influence of the entire financial market and are relatively independent of developments on those markets. The effects of unsystematic risk can be reduced or eliminated with portfolio diversification. On the other hand, systematic risk applies to factors that influence the entire financial market and therefore affect the value of an investor's portfolio. Furthermore, settlement and custodial risk in emerging markets may be higher than in markets where there is a long-established infrastructure. Stock liquidity may be impacted by the number of market participants that may therefore impact the reliability of any investments made as a result of acting upon information contained in this document. Further, risks not discussed in this document may apply to the discussed security. Investors should always investigate the various risk aspects of any security in any market before making an investment decision. We advise investors to contact the appropriate investment consultants or brokers to gather additional information.

The selling price of a financial instrument is usually not known in advance and can differ from the expected target price used to calculate expected gross return. Therefore, realized and expected gross returns may differ. Also, the investor must take into account that provisions, trade costs and taxes will influence the final net return earned on the difference between the purchase and selling price of a financial instrument. The difference may be positive or negative and cannot be forecast with any certainty in advance. In addition, all investors should be aware of the possibility of failure to achieve forecasted events and valuation assumptions on which the document is based, as well as the possibilities of price fluctuation of a particular financial instrument and/or issuer. In the case of unfavourable movements of the price of a particular financial instrument, there is the possibility of lower future value of the investment compared to the initial (purchase) value or vice versa. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes this currency risk. The reader of the document should also be aware of the significant impact of certain assumptions on predicting the target price of the issuer of the financial instrument, which is presented in the document, especially in the sensitivity analysis, as well as the fact that past performance is not necessarily an indicator of future profitability of the issuer of the financial instrument and vice versa.

Disclaimer

ALTA

NEW
INVESTMENT
CULTURE

ALTA Invest, investicijske storitve, d.d. accepts no responsibility for any damage or loss arising from the use of information in this document.

Target price and recommendation is set by determining the fair value of stocks, taking into account fundamental factors and news and should be understood as such. The target price and recommendation does not indicate any relative performance of the stock versus a regional or sector benchmark.

BUY: The investment rating reflects the total expected return (the difference between the current price of the stock and estimated price, expressed in %, and the estimated dividend yield) for a potential investment in the 12-month period from the date of the initial rating, which is more than 10%.

HOLD: The investment rating reflects the total expected return (the difference between the current price of the stock and estimated price, expressed in %, and the estimated dividend yield) for a potential investment in the 12-month period from the date of the initial rating, which is between 0% and 10%.

SELL: The investment rating reflects the total expected return (the difference between the current price of the stock and estimated price, expressed in %, and the estimated dividend yield) for a potential investment in the 12-month period from the date of the initial rating, which is lower than 10%.

NO RECOMMENDATION / EVALUATION: No recommendation can be given on the basis of the data available.

In the period between 30.9.2016 and 30.9.2017 the structure of all investment research was:

| | Number | Share | Share of issuers, for which ALTA Invest, investicijske storitve, d.d., has provided investment services regarding financial instruments in last 12 months |
|-------------|--------|-------|---|
| Buy | 22 | 52% | 14% |
| Hold | 20 | 48% | 14% |
| Sell | 0 | 0% | 0% |

Recommendations issued by ALTA Invest, investicijske storitve, d.d. Železna cesta 18, 1000 Ljubljana, are valid for 12 months, except in case of previous update of the recommendation. However, ALTA Invest, investicijske storitve, d.d. is not engaged in periodical updating of the recommendations of the issuer under consideration as well as is not obliged to notify readers about any kind of valuation, opinion or forecast changes, which have arisen from the occurrences after the recommendation release. When dealing with its customers, ALTA Invest, investicijske storitve, d.d. is not obliged to act in accordance with opinions and assessments expressed in investment recommendations.

Financial analysts responsible for the preparation of the document and other individuals that are familiar with the content of the document have not engaged in any personal transactions or trade with the financial instruments that are the subject of the document nor have they been connected with the financial instruments during the preparation period of the document, up to and including one day after its publication.

SPECIFIC DISCLOSURES

ALTA Invest, investicijske storitve, d.d. Železna cesta 18, 1000 Ljubljana, Slovenia, and the financial analyst responsible for monitoring the issuer under consideration, guarantee that this document has not been disclosed to the issuer of the financial instrument before its public release.

ALTA Invest, investicijske storitve, d.d. and its related legal entities can own shares of the issuer under consideration. A financial analyst responsible for monitoring of the issuer under consideration does not have any significant financial interests concerning the financial instrument. They also do not have any conflict of interest concerning the issuer under consideration.

ALTA Invest, investicijske storitve, d.d. and/or its related legal entities have not performed (any) services concerning financial instruments to the issuer under consideration herein within the past 12 months.

ALTA Invest, investicijske storitve, d.d. and related entities may hold securities of the issuer in question herein.

STATEMENT OF FINANCIAL ANALYST

ALTA Invest, investicijske storitve, d.d. (eng. ALTA Invest, investment services, Inc.), and the undersigned financial analysts, responsible for the monitoring of the issuer under consideration, declare that they have not received any kind of compensation that could affect the formulation of this document or opinions expressed in this document. The recommendation has not been disclosed to anyone before it was publicly released.

Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not hold securities of the relevant issuer.

First release of the recommendation was performed on 13.4.2010.
Quarterly updates are planned for data, valuation, target price and recommendation.

OTHER INFORMATION

Other information about the services of ALTA Invest, investicijske storitve, d.d. and financial instruments, including general conditions for the provision of services, price lists and other disclosures and information can be found at <http://www.alta.si/>, http://www.alta.si/Organizacija_skupine/Ceniki_pogoji_in_akti and http://www.alta.si/Osnove_trgovanja/Razlaga_financnih_instrumentov.

ALTA Invest, investicijske storitve, d.d., Železna cesta 18, SI-1000 Ljubljana. Registered at the District Court of Ljubljana, Registration Number: 3710432000, ID for DDV: SI89931181, Share capital: 2,031,803.00 EUR.

The distribution and/or content of this document in other jurisdictions may be restricted or differently regulated by law, and the reader should inform himself regarding any such restrictions. By accepting this document, the reader consents to be bound by the foregoing instructions.