

We do not take a stance on the dispute

We have continued to clarify the dispute between Afarak's owners. We have concluded that we cannot reliably evaluate the matter's potential juridical consequences or its outcome. In this exceptional situation, the share price may not be tied to the company's fundamental value. We will continue research on Afarak and we will continue to evaluate the company's operations. However, we do not see it justifiable nor do we have the required information to be able to take a stance on the dispute or evaluate the matters consequences. Therefore, we do not give the share a recommendation or a target price (previously reduce / 0.75 EUR).

Announcement from Afarak

Last week Afarak announced that a petition has been presented to the Financial Supervisory Authority to oblige Danco Koncar and/or Kermas Resources Limited to launch a mandatory takeover bid regarding the shares of Afarak Group. The group of minority shareholders, which own 10,79 % of the company, have filed a joint petition to the FSA based on the Finnish Securities Market Act. In the petition, it is presented that the price of the takeover bid should be at least 2,5 euros per share.

The petition is based on the Finnish Securities Market Act

The petition is based on the Finnish Securities Market Act, according to which the obligation to make a takeover bid is when a shareholder's share of the company's voting rights crosses 30 or 50 %. The group of minority shareholders, that were interviewed by Kauppalehti, express that Danco Koncar's actual share of ownership crosses 30 % through various companies and therefore he would be obliged to make the takeover bid. Kermas Resources Limited has denied all accusations and has stated that it has strictly followed the rules of the Finnish Securities Market Act. According to the Finnish Securities Market Act, the offer compensation in a mandatory takeover bid should be a current price for which the basis should be the obliged parties' highest paid price within six months of the starting point of the oblige. According to the Act, deviations to this price may be done for a particular reason.

We cannot exclude any outcome

Last week we wrote that if the matter would end up in a lawsuit, only a possible liability to compensate would be relevant for investors. We found the probability of a takeover bid to be small and we were doubtful regarding the liability to compensate. We also gave a small probability for a significant liability of compensation. After further research, we have come to conclude that the matter is more complicated than we thought at first. Based on this, we conclude that the range of outcomes might not be limited to those we stated earlier, and that our prior conclusions may be incorrect. We also found that we cannot reliably exclude any outcome with the limited information available. Also, we cannot reliably evaluate any probabilities for the outcomes.

The dispute may affect the share price

According to our analysis the value of the company's operations is lower than the price (2,5 euros) demanded in the petition. However, the dispute may affect the share price and therefore the share price may differ from the value of the company's business operations. Due to the juridical matters and the uncertainty regarding the matter we cannot reliably evaluate the consequences and therefore we cannot give a target price or a recommendation for the share. Resolving the issue might take a long time.

Analyst

Petri Gostowski
+358 40 821 5982
petri.gostowski@inderes.fi



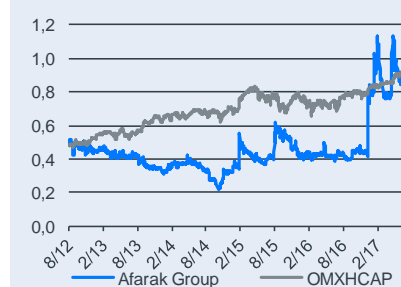
Recommendation

-

Previous: Reduce

Target

Previous: 0.75



Lähde: Reuters

Last close **0,84 EUR**

12 month range **0,39-1,15 EUR**

Potential **-**

Guidance

Due to seasonality, lower ferrochrome prices and FX fluctuations Afarak expects Q3'17 profitability to be lower than on Q2'17 but better than on Q3'16.

Guidance change: **Unchanged**

Key figures

	Net sales	EBIT	EBIT-%	Pre-tax profit	EPS	DPS	EV/S	EV/EBITDA	EV/EBIT	P/E	Div. Yield
	MEUR	MEUR	%	MEUR	EUR	EUR	(x)	(x)	(x)	(x)	%
2015	188	9,9	5,3 %	6,5	0,03	0,02	0,5	6,0	10,4	14,2	5,0 %
2016	154	-1,0	-0,7 %	-3,1	-0,01	0,02	1,3	37,3	-202,2	-73,4	2,6 %
2017e	194	19,2	9,9 %	11,2	0,04	0,02	1,0	7,8	10,4	21,1	2,6 %
2018e	203	14,0	6,9 %	10,5	0,03	0,02	1,0	9,9	14,4	25,3	2,6 %
2019e	225	16,5	7,3 %	14,0	0,04	0,02	0,9	8,7	12,4	19,0	2,6 %
MCAP, MEUR		200		Equity / share 2017e, EUR			0,68	CAGR EPS, 2016-2019, %			-256 %
Net debt 2017e, MEUR		-4		P/B 2017e			1,1	CAGR growth, 2016-2019, %			13,5 %
EV, MEUR		200		Gearing 2017e, %			-2,3 %	ROE 2017e, %			5,4 %
Balance sheet total 2017e, MEUR		275		Equity ratio 2017e, %			65,6 %	ROCE 2017e, %			10,4 %

No estimate revisions

Estimate revisions MEUR / EUR	2017e		Change %	2018e		Change %	2019e		Change %
	Old	New		Old	New		Old	New	
Net sales	194	194	0 %	203	203	0 %	225	225	0 %
EBITDA	25,7	25,7	0 %	20,4	20,4	0 %	23,6	23,6	0 %
EBIT (exc. NRIs)	19,2	19,2	0 %	14,0	14,0	0 %	16,5	16,5	0 %
EBIT	19,2	19,2	0 %	14,0	14,0	0 %	16,5	16,5	0 %
PTP	11,2	11,2	0 %	10,5	10,5	0 %	14,0	14,0	0 %
EPS (excl. NRIs)	0,04	0,04	0 %	0,03	0,03	0 %	0,04	0,04	0 %
DPS	0,02	0,02	0 %	0,02	0,02	0 %	0,02	0,02	0 %

Source: Inderes

Valuation multiples

Company	MCAP	EV	EV/EBIT		EV/EBITDA		EV/Sales		P/E		Dividend yield-%		P/B
	MEUR	MEUR	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e
Rio Tinto	72686	84625	8,0	10,3	5,8	6,7	2,6	2,8	10,6	13,2	2,6	2,1	1,9
Glencore	56406	78834	12,3	13,6	6,8	6,9	0,5	0,5	13,7	14,0	0,1	0,2	1,4
BHP Billiton	87649	105755	9,8	10,4	6,1	6,4	3,3	3,2	13,4	14,3	0,9	0,8	1,7
Assore	2354	2102	16,1	34,5	15,8	27,5	5,2	6,1	5,6	8,3	19,0	11,0	1,3
African Rainbow Minerals	1485	1748	68,4	63,6	20,5	18,2	3,1	3,1	6,0	10,3	3,4	2,8	0,8
South32	11227	9829	7,2	9,0	5,0	5,8	1,7	1,7	11,7	14,2	0,1	0,1	1,3
Exxaro Resources	2367	2631	6,3	7,6	5,5	6,2	1,8	1,8	6,6	8,6	5,4	4,4	1,0
Impala Platinum	1705	1966		42,5	9,3	7,2	0,8	0,8		28,5			0,4
Afarak Group (Inderes)	217	217	11,3	15,7	8,4	10,8	1,1	1,1	22,9	27,4	2,4	2,4	1,2
Average			15,9	21,0	8,6	9,8	2,1	2,2	10,3	14,4	3,5	2,4	1,2
Median			9,8	12,0	6,5	6,8	1,7	1,7	10,6	13,6	0,9	0,8	1,3
Premium/discount -% vs. mediaan			15 %	31 %	31 %	58 %	-35 %	-38 %	115 %	101 %	177 %	206 %	-4 %

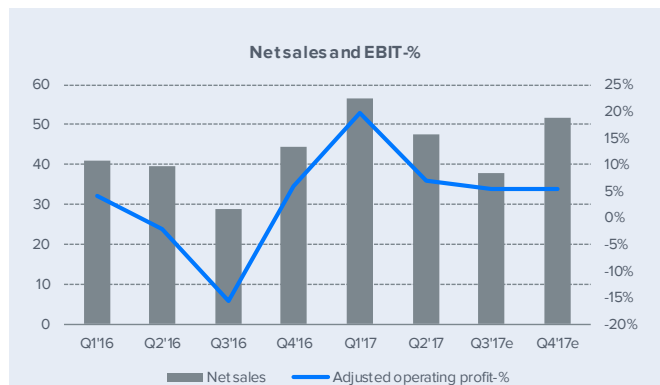
Source: Reuters / Inderes. Notification: Inderes' MCAP does not include treasury shares

Quarterly key figures

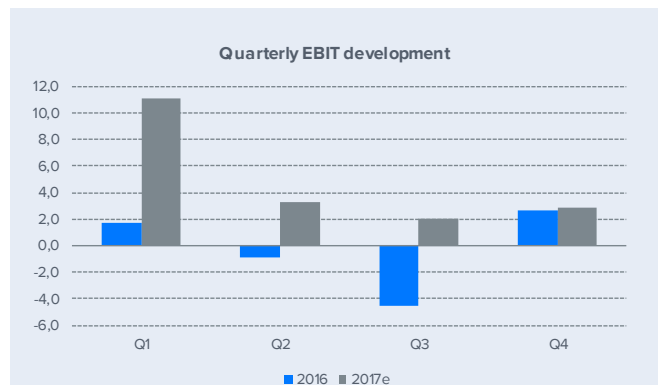
Quarterly earnings	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17	Q3'17e	Q4'17e	2017e	2018e	2019e
Net sales	187,7	40,8	39,5	28,9	44,4	153,6	56,6	47,4	37,9	51,7	193,6	203,5	224,5
Specialty Alloys	96,5	18,4	18,4	11,4	20,5	68,7	21,7	22,3	17,6	18,2	79,7	94,7	99,9
Ferroalloys	91,8	22,3	21,1	17,5	23,6	84,5	34,1	24,2	21,3	33,6	113,2	108,7	124,6
Eliminations and unallocated	-0,5	0,0	0,0	0,0	0,4	0,4	0,8	1,0	-0,9	-0,2	0,7	0,1	0,1
EBITDA	17,2	3,3	0,8	-2,8	4,2	5,5	12,7	4,8	3,7	4,5	25,7	20,4	23,6
Depreciation	-7,3	-1,6	-1,7	-1,7	-1,6	-6,5	-1,6	-1,5	-1,7	-1,7	-6,5	-6,4	-7,1
EBIT (excl. NRI)	9,9	1,7	-0,9	-4,5	2,7	-1,0	11,1	3,3	2,0	2,8	19,2	14,0	16,5
EBIT	9,9	1,7	-0,9	-4,5	2,7	-1,0	11,1	3,3	2,0	2,8	19,2	14,0	16,5
Specialty Alloys	10,1	1,7	0,9	-1,4	1,9	3,1	4,2	3,4	1,7	1,7	10,9	10,8	11,7
Ferroalloys	2,8	0,9	-0,5	-2,6	3,1	0,9	8,0	0,8	0,9	2,1	11,9	7,1	8,8
Eliminations and unallocated	-3,0	-0,9	-1,3	-0,5	-2,2	-4,9	-1,1	-0,9	-0,6	-1,0	-3,6	-3,9	-4,0
Net financial items	-3,4	-0,9	-0,4	0,3	-1,2	-2,1	-4,2	-2,4	-0,5	-1,0	-8,1	-3,5	-2,5
PTP	6,5	0,8	-1,2	-4,2	1,5	-3,1	6,9	1,0	1,5	1,8	11,2	10,5	14,0
Taxes	1,2	-1,1	0,2	0,7	0,5	0,3	-2,7	0,4	-0,1	-0,2	-2,5	-2,6	-3,5
Minority interest	-0,3	-0,1	0,1	0,0	0,0	0,0	-0,6	-0,1	0,0	0,0	-0,7	0,0	0,0
Net earnings	7,4	-0,3	-1,0	-3,5	2,0	-2,8	5,1	1,3	1,4	1,7	9,5	7,9	10,5
EPS (adj.)	0,03	0,00	0,00	-0,01	0,01	-0,01	0,02	0,01	0,01	0,01	0,04	0,03	0,04
EPS (rep.)	0,03	0,00	0,00	-0,01	0,01	-0,01	0,02	0,01	0,01	0,01	0,04	0,03	0,04

Key figures	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17	Q3'17e	Q4'17e	2017e	2018e	2019e
Revenue growth-%	8,7%	0,0%	0,0%	0,0%	-76,3%	-18,2%	38,8%	20,1%	31,4%	16,3%	26,1%	5,1%	10,3%
Adjusted EBIT growth-%	472,9%				neg.	neg.	553,2%	neg.	neg.	5,1%	neg.	neg.	17,5%
EBITDA-%	9,2%	8,0%	2,0%	-9,7%	9,5%	3,6%	22,4%	10,2%	9,8%	8,7%	13,3%	10,0%	10,5%
Adjusted operating profit-%	5,3%	4,2%	-2,2%	-15,6%	6,0%	-0,7%	19,6%	7,0%	5,3%	5,4%	9,9%	6,9%	7,3%
Net profit-%	3,9%	-0,8%	-2,4%	-12,1%	4,5%	-1,8%	9,0%	2,8%	3,7%	3,2%	4,9%	3,9%	4,7%

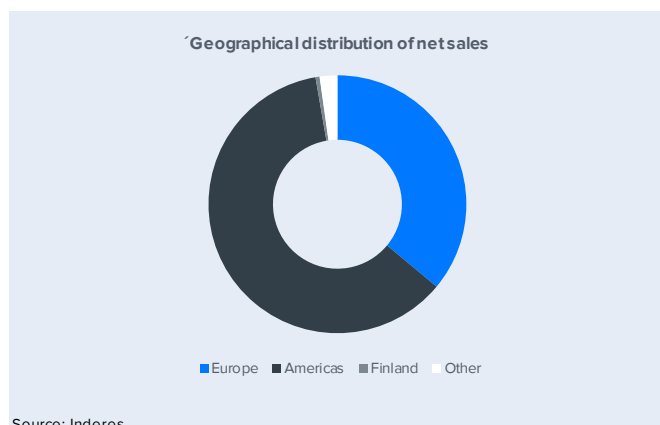
Source: Inderes



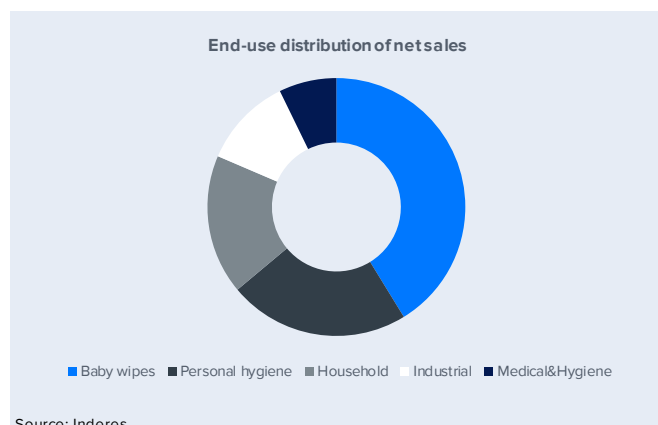
Source: Inderes



Source: Inderes



Source: Inderes

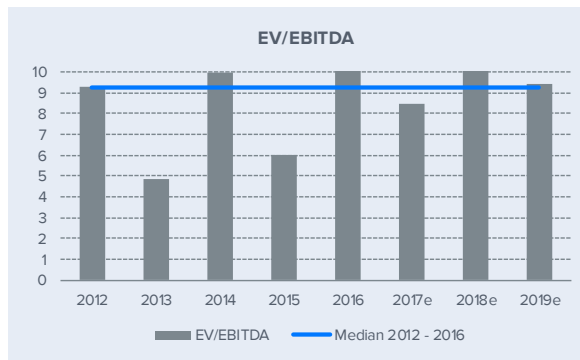
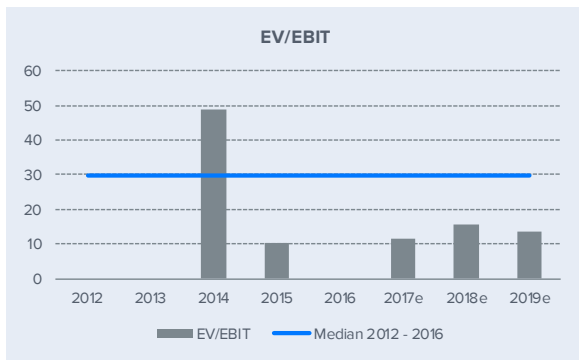
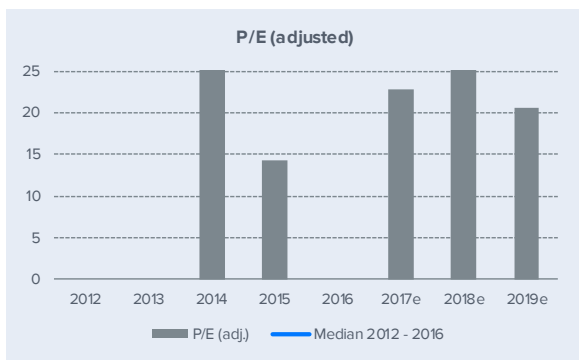


Source: Inderes

Valuation

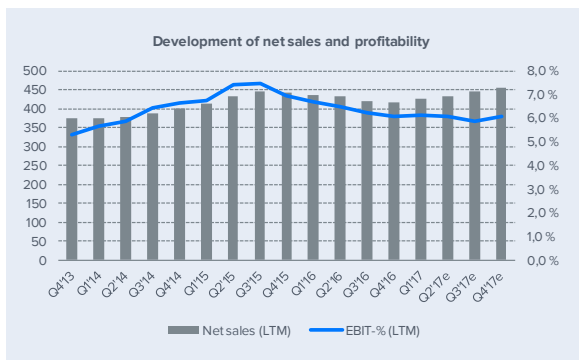
Valuation	2012	2013	2014	2015	2016	2017e	2018e	2019e
Share price	0,45	0,32	0,32	0,40	0,78	0,84	0,84	0,84
MCAP	110	78	83	105	205	217	217	217
EV	113	68	84	103	204	217	220	222
P/E (adj.)	neg.	neg.	185,0	14,2	neg.	22,9	27,4	20,6
P/E	neg.	neg.	185,0	14,2	neg.	22,9	27,4	20,6
P/FCF	3,4	1,8	-5,3	4,7	-77,0	20,8	40,3	43,5
P/B	0,5	0,4	0,5	0,6	1,2	1,2	1,2	1,2
P/S	0,8	0,6	0,5	0,6	1,3	1,1	1,1	1,0
EV/S	0,9	0,5	0,5	0,5	1,3	1,1	1,1	1,0
EV/EBITDA	9,3	4,8	10,0	6,0	37,3	8,4	10,8	9,4
EV/EBIT	neg.	neg.	48,8	10,4	neg.	11,3	15,7	13,4
Payout (%)	-13,6 %	-110,9 %	1156,2 %	71,0 %	-188,1 %	54,8 %	65,6 %	49,4 %
Dividend yield-%	2,2 %	6,3 %	6,3 %	5,0 %	2,6 %	2,4 %	2,4 %	2,4 %

Source: Inderes

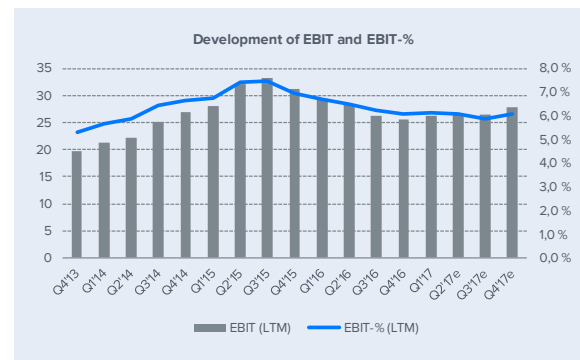


Source: Inderes

Earnings trend (rolling 12 months)



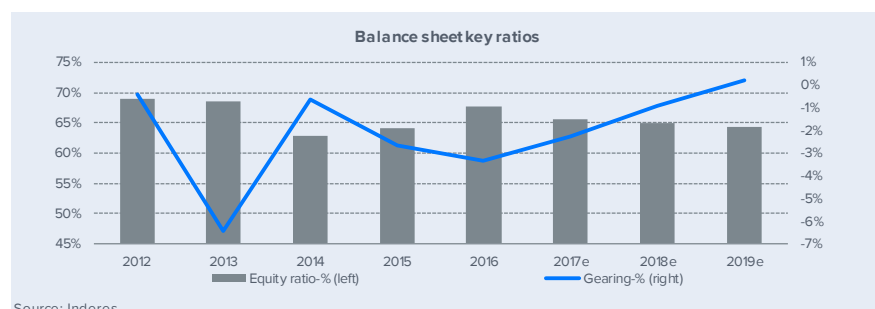
Source: Inderes



Source: Inderes

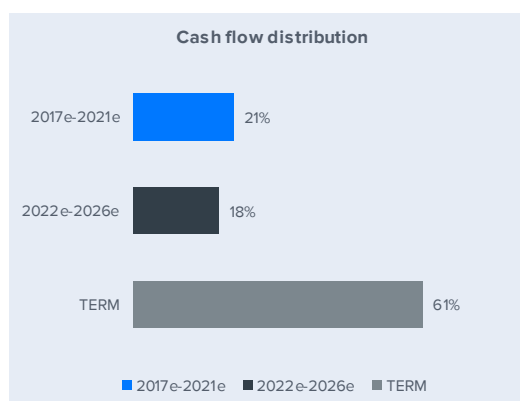
Balance sheet and DCF

Assets (MEUR)	2014	2015	2016	2017e	2018e	Liabilities (MEUR)	2014	2015	2016	2017e	2018e
Non-current assets	176	161	166	167	170	Equity	182	171	176	180	183
Goodwill	63,1	58,3	63,8	63,8	63,8	Share capital	23,6	23,6	23,6	23,6	23,6
Intangible assets	20,4	17,0	18,3	19,4	20,3	Retained earnings	-103,7	-93,8	-96,0	-91,8	-89,0
Tangible assets	48,0	43,6	45,1	45,6	47,2	Shares repurchased	0,0	0,0	0,0	0,0	0,0
Associated companies	0,1	0,0	0,0	0,0	0,0	Revaluation reserve	-12,1	-28,7	-16,8	-16,8	-16,8
Other investments	0,6	0,6	0,2	0,2	0,2	Other equity	269,4	266,2	261,1	261,1	261,1
Other non-current assets	39,9	38,6	34,0	34,0	34,0	Minorities	4,9	3,8	4,2	4,2	4,2
Deferred tax assets	4,2	3,3	4,4	4,4	4,4	Non-current debt	64	62	57	57	57
Current assets	114	106	94	107	112	Deferred tax liabilities	8,2	5,9	5,9	5,9	5,9
Inventories	60,1	45,2	48,4	51,3	52,9	Provisions	10,1	9,3	10,7	10,7	10,7
Other current assets	0,0	0,0	0,0	0,0	0,0	Long term debt	6,3	3,0	0,0	0,0	0,0
Receivables	40,8	40,8	36,3	42,6	44,8	Convertibles	0,0	0,0	0,0	0,0	0,0
Cash and equivalents	13,3	19,6	9,7	13,6	14,2	Other long term liabilities	39,6	43,9	40,5	40,5	40,5
Balance sheet total	290	267	260	275	282	Current debt	44	34	27	37	42
						Short term debt	5,9	12,1	3,8	9,4	12,5
						Payables	32,0	15,4	18,5	23,2	24,4
						Other current liabilities	6,0	6,1	4,8	4,8	4,8
						Balance sheet total	290	267	260	275	282



DCF model (MEUR)	2016	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	TERM
EBIT (operating profit)	-1,0	19,2	14,0	16,5	17,0	18,0	18,6	18,9	19,2	19,6	20,0	
+ Depreciation	6,5	6,5	6,4	7,1	7,2	7,4	7,6	7,7	7,9	8,1	8,2	
- Paid taxes	-0,9	-2,5	-2,6	-3,5	-3,6	-3,9	-4,0	-4,1	-4,2	-4,3	-5,0	
- Tax, financial expenses	-0,2	-1,8	-0,9	-0,6	-0,6	-0,6	-0,6	-0,6	-0,6	-0,6	0,0	
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Change in working capital	2,9	-4,4	-2,6	-5,3	-0,8	-2,4	-2,5	-2,5	-2,6	-1,8	-1,8	
Operating cash flow	7,2	16,9	14,4	14,1	19,2	18,5	19,0	19,4	19,7	21,0	21,4	
+ Change in other long-term liabilities	-2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-9,7	-8,1	-9,0	-9,1	-9,2	-9,2	-9,3	-9,5	-9,7	-9,7	-7,7	
Free operating cash flow	-4,5	8,9	5,4	5,0	10,0	9,4	9,7	9,8	9,9	11,3	13,6	
+/- Other	1,9	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-2,7	10,4	5,4	5,0	10,0	9,4	9,7	9,8	9,9	11,3	13,6	215,1
Discounted FCFF		11,7	4,8	4,1	7,7	6,6	6,3	5,9	5,5	5,8	6,4	101,3
Sum of FCFF present value		164,7	154,5	149,7	145,5	137,8	131,2	124,9	119,0	113,5	107,7	101,3
Debt free DCF		164,7										
- Interesting bearing debt												-3,8
+ Cash and equivalents												9,7
- Minorities												-5,1
- Dividend/capital return												-5,3
Equity value DCF												160,2
Equity value DCF per share												0,62

WACC	
Tax-% (WACC)	25,0 %
Target debt ratio (D/(D+E))	20,0 %
Cost of debt	5,0 %
Equity Beta	1,40
Market risk premium	4,75 %
Liquidity premium	0,00 %
Risk free interest rate	3,0 %
Cost of equity	9,7 %
Average cost of capital (WACC)	8,5 %



Summary

Income statement	2014	2015	2016	2017e	2018e
Sales	172,7	187,7	153,6	193,6	203,5
EBITDA	8,4	17,2	5,5	25,7	20,4
EBITDA-%	4,9	9,2	3,6	13,3	10,0
EBIT	1,7	9,9	-1,0	19,2	14,0
PTP	0,5	6,5	-3,1	11,2	10,5
Net earnings	2,2	8,2	-0,9	9,5	7,9
Non-recurring items	0,0	0,0	0,0	0,0	0,0

Balance sheet	2014	2015	2016	2017e	2018e
Balance sheet total	290,3	267,0	260,2	274,8	281,9
Equity	182,2	171,2	176,2	180,4	183,1
Goodwill	63,1	58,3	63,8	63,8	63,8
Interest-bearing debt	12,1	15,1	3,8	9,4	12,5

Cash flow	2014	2015	2016	2017e	2018e
EBITDA	8,4	17,2	5,5	25,7	20,4
Change in NWC	-12,4	-1,6	2,9	-4,4	-2,6
Operating cash flow	4,1	16,0	7,2	16,9	14,4
Free cash flow	-15,7	22,4	-2,7	10,4	5,4

Company description

Afarak is a globally operating speciality alloys provider. The company operates a vertically integrated business model and thus its core business operations cover the whole value chain from extracting raw materials to global distribution of its products. In 2016 Afarak's revenues were 154 MEUR and their EBITDA was 5,5 MEUR.

Share based key figures	2014	2015	2016	2017e	2018e
EPS	0,00	0,03	-0,01	0,04	0,03
EPS (adj.)	0,00	0,03	-0,01	0,04	0,03
Oper. cash flow per share	0,02	0,06	0,03	0,07	0,06
Book value per share	0,68	0,64	0,65	0,68	0,69
Dividend per share	0,02	0,02	0,02	0,02	0,02
Payout ratio (%)	1156	71	-188	55	66
Dividend yield (%)	6,3	5,0	2,6	2,4	2,4

Key figures	2014	2015	2016	2017e	2018e
P/E	185,0	14,2	neg.	22,9	27,4
P/B	0,5	0,6	1,2	1,2	1,2
P/S	0,5	0,6	1,3	1,1	1,1
P/CF	20,1	6,6	28,3	12,8	15,1
EV/S	0,5	0,5	1,3	1,1	1,1
EV/EBITDA	10,0	6,0	37,3	8,4	10,8
EV/EBIT	48,8	10,4	neg.	11,3	15,7

Largest shareholders

	% of shares
Nominee Registered	59.65%
Hino Resources Co. Ltd	14.06%
Joensuun Kauppa ja Kone Oy	4.76%
Hanwa Company Limited	3.42%
Kankaala Markku	2.69%

Recommendation history, LTM

Date	Recommendation	Target price	Share price
12.7.2017	Sell	0,75 €	0,86 €
14.8.2017	Reduce	0,75 €	0,77 €
25.9.2017	-	-	0,84 €

Disclaimer

Inderes Oy (henceforth Inderes) has produced this report for customer's private use. The information used in report is gathered from publicly available information from various sources deemed reliable. Inderes's goal is to use reliable and comprehensive information, but Inderes cannot guarantee that the information represented is flawless. Possible contentions, estimates or forecasts are based on the presenter's point of view. Inderes does not guarantee the content or the reliability of the data. The primary information source of the report is information published by the target company unless otherwise mentioned. Inderes uses its own database for the financial figures tables presented in the report unless otherwise mentioned. Historical figures are based on numbers published by the company and all future forecasts are Inderes' analysts' assessment.

Inderes or their employees shall not be held responsible for investment decisions made by based on this report or other damages (both direct and indirect damages) what usage of this report might have caused. The information presented in this report might change rapidly. Inderes does not commit to inform for the possible changes in the information / contention of the report.

This report has been produced for information purposes and the report should not be taken as an investment advice, offer or request to buy or sell a particular asset. The client should also understand that the historical development is not a guarantee of the future. When making investment decisions, client must base their decisions on their own research and their own estimates on the factors affecting the value of the investment object and also to consider their own financial goals, financial status and when necessary they shall use advisor. Customer is always responsible for their own investment decisions and the possible causes of them.

The recommendations and target prices of Inderes are examined at least four times a year after company's quarterly reports. However, it is possible to change recommendation and / or target price at any time it is necessary. The amount of changes in recommendations or target prices is not limited. Recommendations of Inderes are divided in the following categories and given based on the estimated upside potential of the share in the next 6 months. Note that possible dividends are also included in the potential.

Recommendation	Upside potential*
Buy	> 15 %
Accumulate	5 - 15 %
Reduce	-5 - 5 %
Sell	< -5 %

Potential regarding to 12 month target price

No one is allowed to modify this report, copy it or to distribute it with third parties without written agreement from Inderes. Any parts of this report shall not be distributed or delivered in USA, Canada or Japan or to residents of any these countries mentioned above.

There also might be restrictions in legislations in other countries about distributing this information and person who might be under these restrictions shall consider the possible restrictions. Inderes has signed an agreement that includes producing equity research reports with the company that is a subject of this report. More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.