Nyrstar NV

HIGH-YIELD EUROPE

22 June 2017

	Moody's	S&P
Issuer rating	B3	B-
Bond rating	B3	B-
Outlook	Stable	Stable
Rating history		
Last change	Mar'17	May'17

Bond – Relative Value				
	Nyrstar	Nyrstar	Trafigura	Befesa Zinc
Rank	Sr. unsec	Sr. unsec	Sr. unsec	Sr. unsec
ISIN	XS1574789746	XS1107268135	XS1222731215	XS0625719777
Amt. O/S (€m)	400	350	550	300
Coupon	6.88%	8.50%	5.00%	8.88%
Maturity	Mar-24	Sep-19	Apr-20	May-18
Call Date/Price	Bullet	Bullet	Bullet	Jul-2017/ 100
Rating (M/S)	B3/B-	B3/B-	NR	B1 / B
Price	102.9	110.3	104.3	101.3
YTW	6.24%	3.68%	3.35%	7.29%
Z-spread	608	378	347	755
Net. Lev (Q1'17)	4.5x	4.5x	4.6x	2.3x
	5.4x*	5.4x*		
Spread per turn	135.1	84.0	75.4	328.2

Source: Bloomberg (as of June 22, 2017)
** Note: Including Zinc prepay*

Financial Summary				
(USD mm)	2016A	2017E*	2018E	2019E
Revenue	2,763	3,866	4,059	4,003
EBITDA	193	228	292	343
EBITDA Margin	7.0%	5.7%	7.2%	8.6%
EBITDA / Int. Exp.	1.7x	2.5x	3.2x	3.8x
N. Debt / EBITDA	4.5x	4.3x	3.5x	2.7x

Source: Bloomberg, Company filings, Estimates
**Adjusted figures*

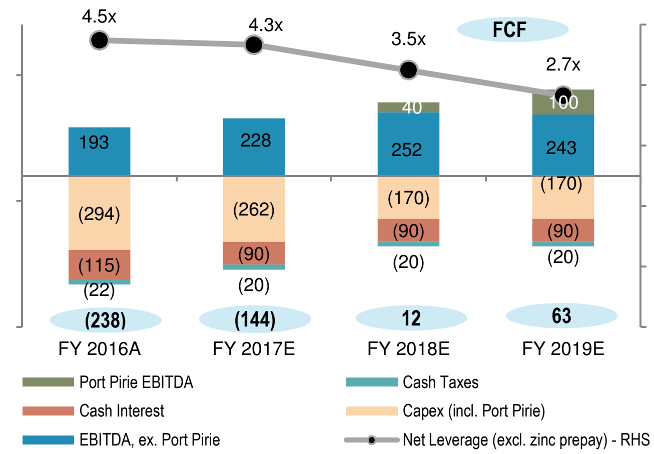
Investment Recommendation

We recommend going short on Nyrstar's 8.5% 2019 bond.

- While Nyrstar has made considerable progress in the Mining division and ramped up its Port Pirie operations with an additional AUD93m of capex (albeit some delay), any further delay in the Port Pirie project and sustained softness in treatment charges (TCs) could pose a material downside risk for the 8.5% 2019 Euro bond with a 3.7% yield. Hence, the Nyrstar story appears promising in the long term, although the bond faces risks in the short-to-medium term after rallying from 92 to 110 in just over one year.
- The impact of declining TCs will begin to reflect on the Metal Processing segment in the coming quarters with Port Pirie full benefits now pushed to 2019 only. This will result in high leverage in the short-to-medium term.
- A discount of $40–50 to the TCs benchmark vis-à-vis $20 earlier is a structural change due to the closure of the Century mines (linked to the benchmark) and the replacement of that supply of concentrates with materials from the general market. Hence, low TCs may continue to exert downward pressure on profitability in the medium term. No significant de-leveraging is expected before 2018 (3.5x ex. Zn prepay), with net leverage (including zinc prepay) even much higher. Nyrstar will become cash flow positive only by end of 2018. Working capital outflows remains significant due to inventories linked to commodity prices.

The Befesa 8.88% bond is now trading close to call price, much wider to Nyrstar's notes.

Exhibit 1: Nyrstar – Cash Flow b/f Working Capital (€m)



Investment Rationale

Declining treatment charges (TCs) could affect Metal Processing division's profitability: Nyrstar's Zinc TC for Q1 2017 stood at $172/t, about 19% lower over 2016 spot prices and 29% lower over 2015 prices. The decline in spot TCs was partially due to an industry-wide shortage of zinc concentrates and company-specific changes related to the purchase of zinc concentrate and zinc pricing. During Q1 2017 conference call, the management highlighted that a discount of $40–50 to the benchmark is a structural change due to the replacement of Century concentrates with general market materials, and that it is unlikely to return to the earlier discount of about $20. As a mitigant, the contribution from payable metals and premium is steadily increasing.

Exhibit 2: Treatment Charge & Zn Price

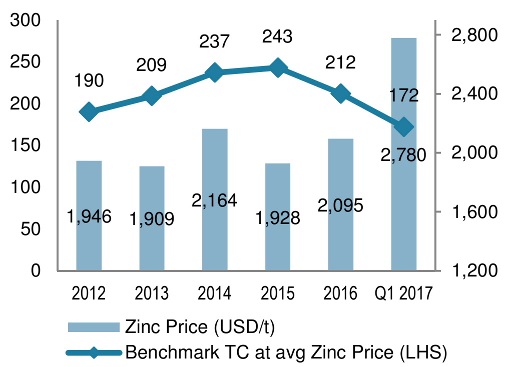
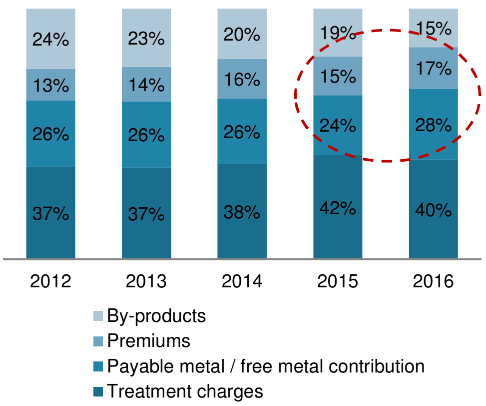
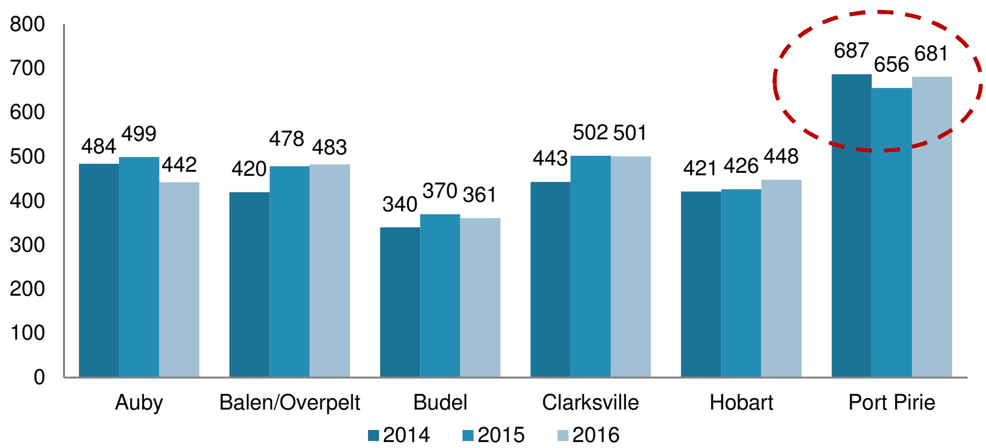


Exhibit 3: Contribution to Gross Profit (MP)



Port Pirie ramp-up to boost EBITDA by €130m by 2020: The Port Pirie smelter is on track for hot commissioning in September 2017 (after a delay of six months), with the cost to complete pegged at AUD660m vis-à-vis the earlier estimate of AUD563m, as per the company's revised guidance, which was provided in February 2017. Port Pirie's throughput is projected to increase from 360 k dmt (internal residue: 60; Pb concentrates: 300) in 2016 to 620 k dmt (internal residue: 260; Pb concentrates: 360) by 2020. The fully operational smelter will boost EBITDA by €130m by 2020. Moreover, owing to the Port Pirie smelter's large fixed cost base, the company has acquired the necessary environmental permits to operate old technology until mid-2018. The company considers this strategy as an inexpensive insurance policy to derisk operations until Port Pirie operations stabilize.

Exhibit 4: Smelting DOC per Tonne



Cash flow-positive mines to unlock higher value for company: With 23kt of zinc in concentrate production, the company generated EBITDA of €3m in Q1 2017, against a loss of €3m for the corresponding period in 2016. The company has sold the Campo Morado mine for a higher price than expected. Furthermore, it plans to restart Middle Tennessee by Q2 2017 and Myra Falls in 2018, which would save €9m in idling cost. Adjustment for strategic hedge opportunity loss of €5m will generate pro forma mining EBITDA of €18m for Q1 2017. The ramp-up of zinc concentrate production to 200kt is likely to boost EBITDA. As a result, unlike the distress scenario of 2015–16, the company is expecting the right price for its mines. Alternately, Nyrstar may operate these mines profitably.

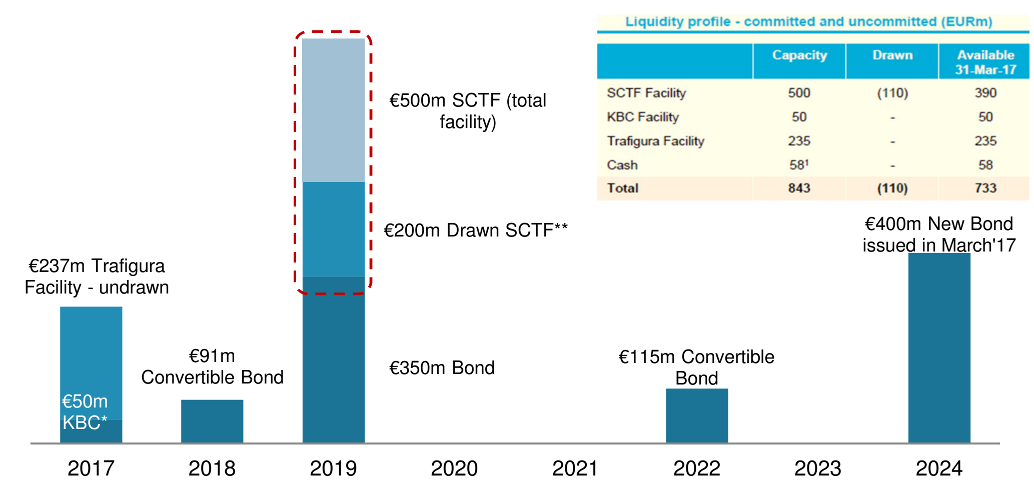
Balance sheet strengthens with well-distributed refinancing needs: The company's balance sheet has further strengthened owing to access to capital markets.

The following are some of the key measures undertaken to date in 2017:

- €400m bond offering in March 2017
- €100m upsize of a structured commodity trade finance facility in April 2017
- $60m short-term silver prepay agreed in March 2017

In 2016, Trafigura's working capital facility was upsized to $250m upgraded from an uncommitted to committed one. As a result, Nyrstar had strong pro forma liquidity of €733m as of 31 March 2017, with the next major debt of around €550m due in 2019. Furthermore, Nyrstar's average debt maturity profile has extended to four years and its funding sources have been diversified.

Exhibit 5: Debt Maturity Profile & Liquidity Position



**Note - KBC facility is undrawn; **Expected to be drawn €200m by 2019*

Capital Structure Pro Forma (€m)	PF 1-Apr-2017	Leverage
€500m SCTF Credit Facility	110	
Trafigura Committed Secured w/c RCF (€235m)	0	
Total secured Debt (incl. fin leases)	**110**	**0.5x**
€50m committed facility with KBC Bank NV	0	
8.5% Senior notes due 2019	341	
Convertible bonds (plus unsec bank loans)	194	
6.875% Senior notes due 2024	400	
Gross Debt (incl. discount)	**1,046**	**5.1x**
Cash & cash equivalents (pro forma)	(58)	
Pro forma Net debt (excl. zinc prepay)*	**987**	**4.8x**
Pro forma Net debt (incl. zinc prepay)	**1,272**	**6.1x**

Industry/Sector Analysis

- **Zinc industry macros are supportive and fundamentals look strong**
- **Expecting a period of sustained demand growth**
- **Supply response likely to be muted**
- **Limited zinc concentrate supply to pressure spot TCs**

Zinc has strong fundamentals among mid-cycle base metals: Optimism over the US's growth, stable demand from China and rebound in Europe's industrial profile are driving the demand for base metals, including zinc, while supply growth is improving. Tighter zinc fundamentals suggest a healthy price environment, although zinc may surrender some speculator-driven gains in the short term. On a macro level, US-China trade relations and labour protests in Chile could drive zinc prices globally. Among mid-cycle base metals, zinc is projected to gain by a wide margin owing to its limited supply and strong demand, especially after 2019.

Exhibit 6: Supply Growth Lowest for Zinc

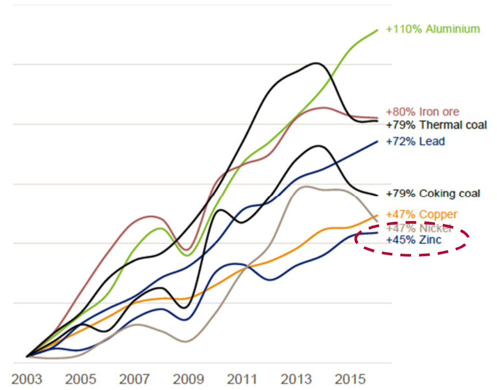


Exhibit 7: Zinc Mine Production Peaked

Source: Glencore; Mining Journal

Limited zinc concentrate supply not favourable for zinc smelters but bodes well for mines: Historically, smelters have received an average share of 42% in the LME price vis-à-vis 58% for miners. The closure of major zinc mines such as Brunswick, Perseverance, Century (fourth-largest in the world), Lisheen and Skorpion due to depletion, coupled with a limited number of zinc mines in the development pipeline, is expected to support zinc prices. However, TCs would decline further if smelters continue to accept miners' unfavourable terms. The closure of unprofitable smelters could restore the demand-supply balance. Recent mine closures and those on the immediate horizon would remove 15% of the current global zinc concentrate supply.

Exhibit 8: Zinc Prices & LME Zinc Inventory (MT)

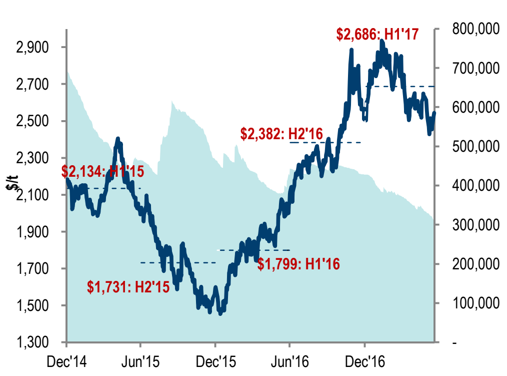
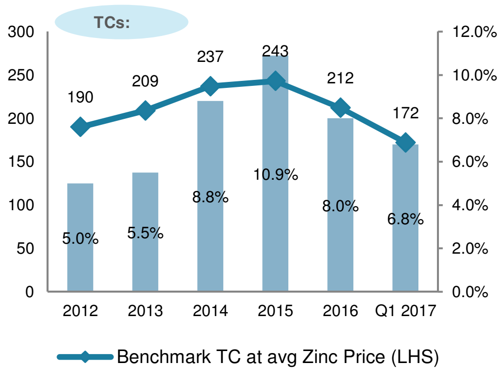


Exhibit 9: Benchmark TCs vs MP EBITDA Margin

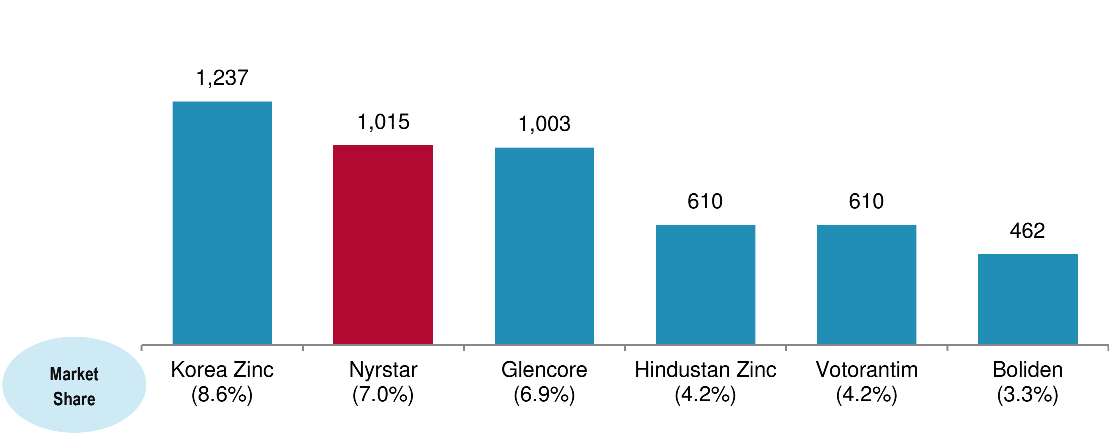


Source: Bloomberg; Company Filings

Company Profile

Nyrstar NV, incorporated in Belgium and listed on Euronext Brussels (ticker NYR, c. EUR 469m market cap as on 19 June 2017), is an integrated metal miner and smelter, with a global leading position in zinc smelting (7% market share). The company was created in 2007 after the merger of the smelting and alloying operations of Zinifex (Australia) and Umicore (Belgiam) and its subsequent spin-off. Trafigura owns c.25% of the company's equity, which it acquired in 2015. It operates in two segments: Mining and Metal Processing.

Exhibit 10: 2016 Forecast Zinc Smelter Production (kt Zn)



In 2009, the company, under its vertical integration strategy, acquired nine mining assets of which only Langlois and East Tennessee are currently in operation while Myra Falls and Middle Tennessee will start operations in coming quarters. In its Metals Processing segment, Nyrstar operates six smelters in France, Belgium, the United States, the Netherlands, Australia and one fumer in Norway. With the production of approximately 1.05 million tonnes of zinc metal in 2016, Nyrstar's share of the global zinc market in 2016 was 7.0%. Nyrstar's Mine segment market share was 2.3% (concentrate production '000t) in 2014. Pursuant to sell and mothballing of few mines it could be much lower than this.

However after significant decline in zinc prices by the end of 2015 towards $1,500/ton (as shown in the chart in industry section), the mining operations became deeply unprofitable and started burning cash. This was further aggravated by increase treatment charges and fall in other metals prices. As result the company decided to sell mining assets. The company is in the process of selling these assets at right value.

Exhibit 11: Elements of Gross Profit

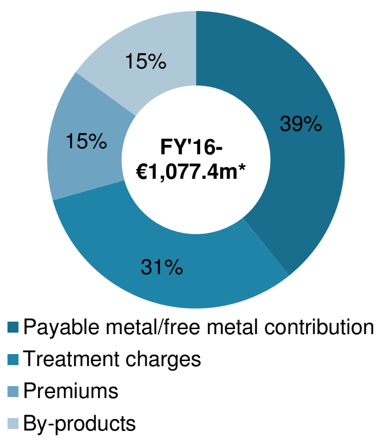
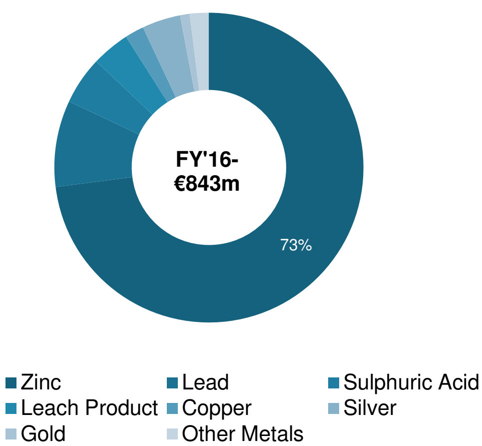


Exhibit 12: MP Gross Profit by Metal



Source: Company Filings

**- Excluding Other Gross Profit which consists of realisation expenses and costs of alloying materials: €(96.1)m*

Nyrstar posted FY 2016 revenues of €147m for the mining division, with gross profit of €136m and EBITDA of €6m, originated mainly in H2 (EBITDA in H1 was zero). The more profitable and less volatile smelting division posted revenues of €2.8bn, with gross profit of €843m and EBITDA of €222m (8.0% margin). At group level, central costs caused a negative €35m EBITDA adjustment, taking total consolidated FY2016 EBITDA to €193m (down €74m vs. the adj. EBITDA in 2015, primarily due to reductions in TC terms and impact of planned and unplanned production outages).

The group's underlying EBITDA stood at €55m in Q1 2017, up 34% from Q1 2016, primarily due to an increase in zinc prices and a stronger dollar. This increase was partially offset by a decline in zinc TCs terms, unplanned outages at Port Pirie, restart of Middle Tennessee and impact of seasonally weak demand on profitability. The Smelting division posted EBITDA of EUR63m, up 24% from Q1 2016, due to reduced lead and by-product production, in addition to the factors mentioned above. The Mining segment generated EBITDA of €3m, up €6m from Q1 2016, due to higher zinc prices, lower TCs and operational improvements that cut direct operating costs.

Business & Management Strategy

1. **Extract optimum value from North American mining assets:** When Nyrstar decided to sell mining assets due to cash burn, the zinc prices were trading at 1500-1700 USD/t. However since start of 2016, prices have improved significantly to around 2700 USD/t presently. In April 2017, Nyrstar sold Campo Morado mine. The company expects to complete Coricancha and Contonga transactions in Q2 and Q3, respectively. The management intend to extract maximum value from the mining portfolio by concluding the sale of the Latin American mines and optimising the North American mines, including the restart of the Middle Tennessee and Myra Falls mines, to sell for value or continue to operate for strong free cashflow if suitable offers are not received.
2. **Structural changes in Treatment Charges (TCs) for Nyrstar, $40-50 discount to benchmark is expected to continue:** Nyrstar used to have large off-take of concentrate from Budel (Netherland) and Century mines at Hobart (Australia). After closure of Century mines where concentrates were linked to benchmark, Nyrstar replaced this concentrate with general market material which is around $40-50 discount to Century mines concentrate. So Nyrstar expects this discount ($40-50vs $20 earlier) to continue in future even with the normalization of concentrate market.
3. **Hedging strategy:** Due to significant volatility in forex and zinc prices, Nyrstar has implemented a strategic foreign exchange hedging programme (weighted average EUR/USD collar of 1.08 to 1.15 and AUD/USD of 0.68 to 0.83) in 2016 to reduce the transactional impact of Fx movements. Bloomberg expects an EUR/USD rate of 1.20 by end-2019. The management will continue to hedge Fx in 2017, as it has significant impact on cash flow volatility. Furthermore, as 2017 is a capex-heavy year, the management has formulated the zinc hedge strategy to maintain steady cash flow, even at the expense of a missed upside in zinc prices. Moreover, zinc offers a natural hedge for smelters. Nyrstar does not hedge price risks at mines but hedges transactional price risks (outflows due to expenses in non-USD currencies) at smelters.

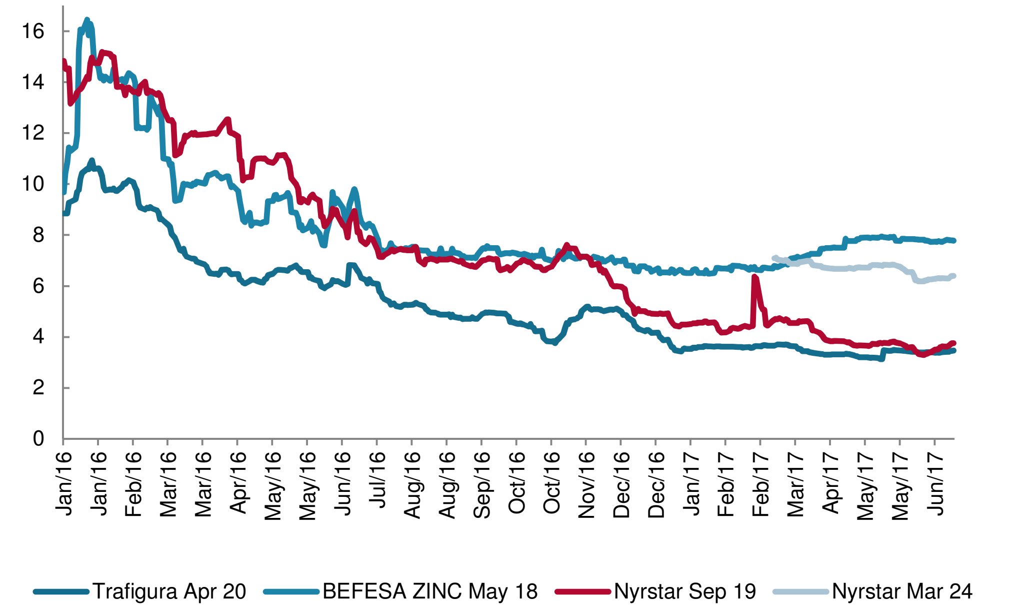
***Note:** Mining companies pay TCs to smelters to have their concentrates turned into refined metal. The charges fall when supplies dwindle as smelters compete to find supply. Zinc TCs have a pricing component that is linked to LME prices. Smelters win a percentage increase in TCs for every dollar the LME price increases above a set basis price; however, if the price falls, TCs drop, increasing the fee that miners must pay in a low-price environment.*

Financial Summary and Projections

1. **FY 2017:** For year 2017, we have considered the company guidance. Wherever, a range is given, we have considered mid-point of the forecast.
2. **Gross profit:** Gross profit calculations are as per the Modeling Nyrstar presentation provided by the company.

3. **Capex and working capital:** We expect a decline in capex from 2018 due to no spending on Port Pirie. In terms of working capital, inventories linked to commodity prices may remain high in 2018–19.
4. **Port Pirie:** The company has provided EBITDA and capex guidance for the years through 2020.
5. We do not expect the company to generate free cash flow before working capital before the end of 2018.
6. We believe Nyrstar will not pay any dividend over 2016–19E to preserve cash.

Exhibit 13: Historical Yield



Source: Bloomberg

Financial Summary & Ratios	Currency:	EUR			
INCOME STATEMENT	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018E**	**FY2019E**
Revenues	**3,139**	**2,763**	**3,866**	**4,059**	**4,003**
% YoY	*12.2%*	*(12.0%)*	*39.9%*	*5.0%*	*(1.4%)*
Cost of Sales	1,803	1,782	2,776	2,878	2,807
Gross Profit	**1,336**	**981**	**1,089**	**1,182**	**1,196**
Gross Profit Margin	*42.6%*	*35.5%*	*27.3%*	*29.1%*	*29.9%*
EBITDA	**256**	**193**	**228**	**292**	**343**
EBITDA %	*8.2%*	*7.0%*	*5.7%*	*7.2%*	*8.6%*
CFO	(7)	(81)	99	310	369
Capex	401	294	262	170	170
EBITDA-Capex	**(145)**	**(101)**	**(34)**	**122**	**173**

Free Cash Flow	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018E**	**FY2019E**
EBITDA	256	193	228	292	343
Working Capital changes	(147)	(127)	(109)	39	46
Capex	(401)	(294)	(262)	(170)	(170)
Finance Costs, paid	(101)	(115)	(90)	(90)	(90)
Tax Expenses	(13)	(22)	(20)	(20)	(20)
Free Cash Flow	**(406)**	**(365)**	**(253)**	**51**	**109**
Net Debt	**896**	**865**	**987**	**1020**	**910**
Leverage	**3.5x**	**4.5x**	**4.3x**	**3.5x**	**2.7x**

Working Capital	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018E**	**FY2019E**
Trade and other receivables	218	219	242	245	241
Inventories	506	720	837	788	769
Trade and other payables	613	607	637	631	654
Net working capital	111	332	441	402	357

Source: Company, Credit Stats, Estimate

				Amount in:	millions
BALANCE SHEET	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018E**	**FY2019E**
Cash and cash equivalents	116	127	58	26	135
Inventories	506	720	837	788	769
Trade receivables	218	219	242	245	241
Other current assets	92	111	111	111	111
Property, plant and equipment	1,608	1,416	1,369	1,214	1,064
Intangible assets	11	6	6	6	6
Other non-current assets	462	536	536	536	536
Total Assets	**3,014**	**3,135**	**3,157**	**2,925**	**2,862**
Trade payables	**613**	**607**	637	631	654
Short term borrowings	417	427	-	-	-
Other current liabilities	294	532	532	532	532
Long term borrowing	460	565	1,129	1,045	1,045
Other non-current liabilities	586	460	460	460	460
Total Liabilities	2,370	2,591	2,758	2,668	2,691
Total Equity	644	544	399	257	171
Total Liability and Equity	**3,014**	**3,135**	**3,157**	**2,925**	**2,862**

Credit Metrics	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018E**	**FY2019E**
EBITDA / Interest Expenses	2.5x	1.7x	2.5x	3.2x	3.8x
(EBITDA - Capex) / Interest Paid	N.M.	N.M.	N.M.	1.3x	1.9x
Total Debt / EBITDA	3.9x	5.1x	4.3x	3.5x	2.7x
CFO / Capex	N.M.	N.M.	0.4	1.82	2.2
Cash / Short Term Debt	0.3x	0.3x	-	-	-
Current Assets / Current Liabilities	0.7x	0.8x	1.1x	1.0x	1.1x
Total Liabilities / Total Assets	78.6%	82.7%	87.4%	91.2%	94.0%
Debt / Capitalisation	57.7%	64.6%	72.4%	80.2%	85.9%

Segment Data	FY2012A	FY2013A	FY2014A	FY2015A	FY2016A
Revenues					
Mining	481	471	546	347	147
Metal Processing	2,684	2,691	2,719	3,091	2,761
Others and Eliminations	(95)	(339)	(465)	(298)	(145)
Total	**3,070**	**2,823**	**2,799**	**3,139**	**2,763**
Gross Profit					
Mining	509	445	429	330	136
Metal Processing	852	813	868	1,003	843
Others and Eliminations	(5)	(7)	(4)	3	2
Total	**1,356**	**1,251**	**1,293**	**1,336**	**981**
Gross Profit contribution					
Mining	37.5%	35.6%	33.2%	24.7%	13.9%
Metal Processing	62.8%	65.0%	67.2%	75.1%	85.9%
Others and Eliminations	(0.4%)	(0.5%)	(0.3%)	0.2%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA					
Mining	129	78	87	(41)	6
Metal Processing	136	149	239	336	222
Others and Eliminations	(44)	(43)	(46)	(38)	(35)
Total	**221**	**185**	**280**	**256**	**193**
EBITDA Margin					
Mining	26.8%	16.6%	15.9%	(11.8%)	4.1%
Metal Processing	5.1%	5.5%	8.8%	10.9%	8.0%
Total	7.2%	6.5%	10.0%	8.2%	7.0%

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