GEVORKYAN

Buy

Initiation of coverage

Price: CZK 254
Price target: CZK 348

The power of powder

We initiate coverage of GEVORKYAN, a European leader in powder metallurgy component production, with a BUY rating and a 12M price target (PT) of CZK 348/share (37% upside). Its high-tech production process allows it to develop intricate components, which its customers cannot easily procure elsewhere. This gives GEVORKYAN significant pricing power, driving an industry-leading EBITDA margin (2018-23 average of 26%, vs. 16% for its peers). Its contracts are long term, giving good visibility on its medium-term revenues. Since 2020, GEVORKYAN has been expanding its production capacity to meet excess demand, consuming c.EUR 8-9m FCFF p.a., on average. Operating at full capacity, these investments are critical for its continued growth. We expect a 2023-26E EBITDA CAGR of 21%, slightly below the 2018-22 CAGR of 26% but well above its peers (13% 2023-26E CAGR). The investment cycle is now coming to an end, and we expect FCFF to turn positive in 2025E. The growth and positive cash flow should help to reduce leverage from an end-2023 net debt to EBITDA at 3.4x, to sub-2x in 2026E, on our estimates. At 9.3x 2024E EV/EBITDA, an 11% discount to its peers, GEVORKYAN seems to be valued attractively for the growth profile and revenue visibility it offers, especially considering that its peers, which operate at similar margins, trade at 2024E EV/EBITDA of c.19x. Transatlantic expansion (new factory in US or Mexico) could be a trigger.

Not an assembly line. GEVORKYAN's operations are highly automated (around one robot per two workers). Its R&D team designs c.150 new components annually. Its sophisticated products and diversified client base give GEVORKYAN significant pricing power (EBITDA margin >50% more than its peers' average) and revenue visibility (ave. contract: five-to-seven years).

We expect a 21% EBITDA CAGR in 2023-26E. Over 75% of our 2026E revenue estimate has already been contracted. Our figures are slightly more conservative than the historical 26% 2018-22 EBITDA CAGR, and we are also slightly (c.2ppt) more cautious than the company's EBITDA margin guidance of 30% for 2024E), leaving room for a positive surprise.

FCFF may turn positive from 2025E-onwards. In 2020-22, GEVORKYAN consumed c.EUR 8-9m in FCFF p.a. expanding its production lines and buying high-end machinery to meet demand. As the capex cycle ends in 2024E, we pencil in c.EUR 11m positive FCFF p.a., on average, in 2025-26E.

End-2023 net debt to EBITDA of c.3.4x is 1-2x higher than its peers. Earnings growth and positive FCFF should bring it down to sub-2x by 2026E, we estimate.

Valuation. We set our 12M PT at CZK 348/share (37% upside), using a DCF and EV/EBITDA (50:50), with a COE of 10-11% and a WACC 8.5-9.0%. GEVORKYAN trades at 9.3x EV/EBITDA on our 2024E, at an 11% discount to its peers (10.4x EV/EBITDA on the 2024E Bloomberg consensus).

Risks include: key person risk (Mr. Gevorkyan); high leverage; US expansion; margins; Slovak Accounting Standards; and the war in Ukraine.

Catalysts. Successful US (or Mexico) expansion; earnings growth.

Expected events

2023 annual report	30 April
1Q24 results	15 May

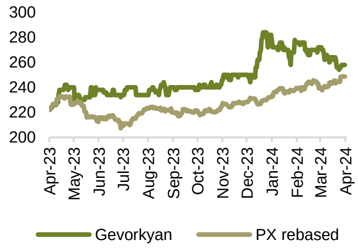
Key data

Market cap	EUR 167m
3M ADTV	EUR 18k
Free float	17.6%
Shares outstanding	16.7m
Major shareholder Artur Gevorkyan:	77.1%
Bloomberg Code	GEV CP
PX Index	1,525

Price performance

52-w range (CZK)	232-284
52-w performance	13%
Relative performance	2%

GEVORKYAN 12M share price performance



	Revenues EURm	EBITDA EURm	EBIT EURm	Net inc. EURm	EPS EUR	P/E x	EV/EBITDA x	ND/EBITDA x
2020	48.2	12.6	7.1	3.8	n.a.	n.a.	n.a.	4.7
2021	54.0	15.4	7.7	2.3	n.a.	n.a.	n.a.	4.6
2022	58.7	18.1	9.1	3.5	0.21	47.2	12.6	3.4
2023E	76.5	20.8	9.0	4.0	0.24	47.1	12.5	3.4
2024E	93.6	26.4	13.4	6.3	0.38	26.9	9.3	2.9
2025E	108.4	31.4	16.9	9.3	0.56	18.6	7.9	2.3

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EQUITY RESEARCH

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Closing Prices as of 02 April 2024

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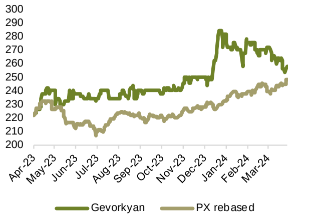
Company snapshot – BUY, 12M PT CZK 348

BUY	
Bloomberg ticker	GEV CP
Closing price (CZK/share)	254
PT (CZK/share)	348
Upside to PT	37%
Shares outstanding (m)	16.7
Market cap (EURm)	167
Free float	17.6%
Average daily turnover (EURk)	18
52 Week performance	16%
52 Week relative performance	4%
52 Week Range (CZK)	232-284

SHARE PRICE PERFORMANCE



COMPANY DESCRIPTION

GEVORKYAN is a powder metallurgy company producing metal components. It is based in Slovakia and specialises in sintering (powder metallurgy), metal powder injection moulding (MIM), hot isostatic pressing (HIP), and additive manufacturing (AM). In 2022, the company produced approximately 72m unique components, distributed to the EU (58%), the US (23%), China and India (10%), and other countries (9%). Unlike most of its peers, it is not heavily reliant on the automotive sector (32%) but has diversified operations in Oil & Gas, Agriculture, Cosmetics and Fashion, Hand Tools, and other sectors. The founder of the company, Artur Gevorkyan, is the majority shareholder with 77.1% of the company's shares, while the free float stands at 17.6%.

RATIOS

EUR/share	2020	2021	2022	2023E	2024E	2025E
EPS	n.a.	n.a.	0.2	0.2	0.4	0.6
CFPS	n.a.	n.a.	0.7	0.9	0.9	1.2
BVPS	n.a.	n.a.	4.1	4.3	4.7	5.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0

VALUATION RATIOS	2020	2021	2022	2023E	2024E	2025E
EV/EBITDA	n.a.	n.a.	12.6x	12.5x	9.3x	7.9x
P/E	n.a.	n.a.	47.2x	47.1x	26.9x	18.6x
FCFF yield	n.a.	n.a.	-6.6%	-2.4%	-1.0%	3.2%
Dividend yield	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

FINANCIAL RATIOS	2020	2021	2022	2023E	2024E	2025E
EBITDA margin	26%	28%	31%	27%	28%	29%
EBIT margin	15%	14%	15%	12%	14%	16%
Net margin	8%	4%	6%	5%	7%	9%
ROE	11%	6%	7%	6%	8%	11%
ROA	3%	2%	3%	3%	4%	5%
ROIC	6%	5%	6%	5%	7%	8%

FCF BREAKDOWN (EUR m)	2020	2021	2022	2023E	2024E	2025E
EBIT	7.1	7.7	9.1	9.0	13.4	16.9
NOPLAT	5.5	5.2	6.9	6.8	10.6	13.4
Depreciation	5.6	7.7	9.0	11.9	12.9	14.4
CAPEX	-11.9	-20.9	-26.7	-19.9	-16.8	-11.9
Change in WC	-1.1	-1.1	-4.2	-5.0	-9.1	-7.9
FCFF	-2.0	-9.1	-15.0	-6.2	-2.4	8.0

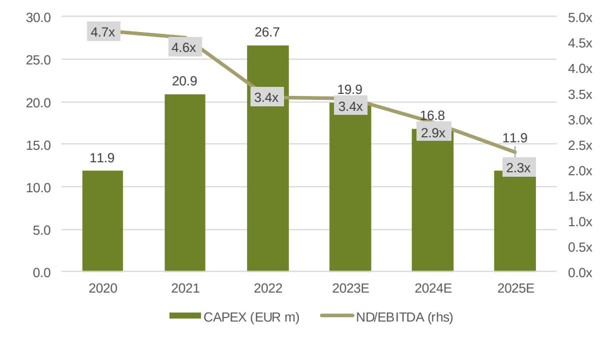
COMPANY FINANCIALS

INCOME STATEMENT, EURm	2020	2021	2022	2023E	2024E	2025E
Revenues	48.2	54.0	58.7	76.5	93.6	108.4
COGS	-27.0	-27.1	-32.9	-42.1	-50.5	-58.0
Services	-5.8	-7.6	-8.6	-12.2	-14.3	-15.7
Changes in inventory of finished goods	0.3	0.3	5.5	4.5	4.5	4.5
Gross profit	15.7	19.6	22.7	26.7	33.3	39.2
Personnel expenses	-3.2	-3.7	-4.8	-6.0	-7.0	-8.0
EBITDA	12.6	15.4	18.1	20.8	26.4	31.4
D&A	-5.6	-7.7	-9.0	-11.9	-12.9	-14.4
EBIT	7.1	7.7	9.1	9.0	13.4	16.9
Interest expense	-2.2	-2.2	-3.1	-3.7	-4.8	-4.5
Other expenses	0.0	-2.1	-1.3	0.0	-0.7	-0.7
PBT	4.8	3.4	4.6	5.3	8.0	11.7
Income tax	-1.1	-1.1	-1.1	-1.3	-1.7	-2.5
Net profit	3.8	2.3	3.5	4.0	6.3	9.3

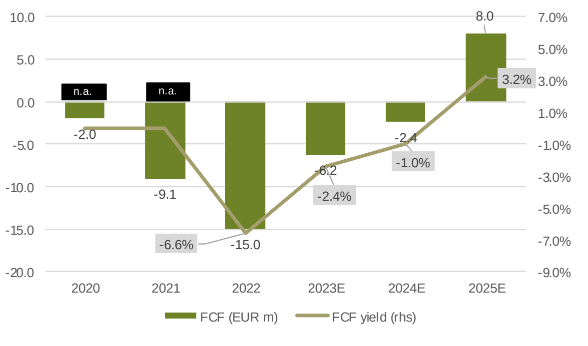
CASH FLOW STATEMENT, EUR m	2020	2021	2022	2023E	2024E	2025E
CF from operations	10.4	12.9	11.3	14.5	14.9	20.3
D&A	5.6	7.7	9.0	11.9	12.9	14.4
Changes in WC	-1.1	-1.1	-4.2	-5.0	-9.1	-7.9
CF from investments	-10.1	-18.2	-23.0	-19.9	-16.8	-11.9
CAPEX	-11.9	-20.9	-26.7	-19.9	-16.8	-11.9
CF from fin. activities	-0.3	6.5	13.2	5.7	1.7	-9.0

BALANCE SHEET, EURm	2020	2021	2022	2023E	2024E	2025E
PPE	59.8	73.1	90.2	98.1	102.1	99.8
Intangibles	12.0	11.7	11.5	11.6	11.6	11.4
Total non-current assets	72.9	84.8	101.7	109.7	113.6	111.1
Inventories	19.3	19.9	23.9	29.4	35.9	41.6
Trade accounts recievable	12.7	21.1	23.6	27.3	33.3	38.6
Cash and cash equivalents	0.0	1.2	2.7	3.1	2.8	2.2
Others	7.1	0.5	0.6	0.6	0.6	0.6
Total current assets	39.1	42.7	50.8	60.3	72.6	82.9
Total assets	112.1	127.5	152.5	170.0	186.3	194.1
Total shareholders equity	34.6	36.9	67.9	71.9	78.2	87.4
Long-term borrowings	40.0	63.2	50.7	68.9	75.4	70.9
Other LT liabilities	2.5	3.3	4.1	4.1	4.1	4.1
Total non-current liabilities	42.5	66.5	54.8	73.0	79.5	75.0
ST Debt	19.5	8.6	13.6	4.7	4.7	4.7
ST trade payables	8.0	12.3	11.6	15.7	19.2	22.3
Other ST liabilities	7.5	3.3	4.6	4.6	4.6	4.6
Total current liabilities	34.9	24.1	29.8	25.1	28.6	31.6
Total equity and liabilities	112.1	127.5	152.5	170.0	186.3	194.1
Net debt	60	71	62	71	77	74
ND/EBITDA	4.7x	4.6x	3.4x	3.4x	2.9x	2.3x

ND/EBITDA and capex



FCFF and FCFF yield



Source: Company data, Bloomberg, WOOD Research

Investment case

We initiate coverage of GEVORKYAN with a BUY rating and a 12M price target (PT) of CZK 348/share (37% upside). GEVORKYAN is a European leader in powder metallurgy component production. Its high-end machinery and know how, developed over the years, allow it to produce intricate components of all shapes and sizes reliably, without further mechanical processing (no waste). The track record of excellence and reliability means that its customers, many of which are globally renowned brands, often rely on GEVORKYAN as the sole supplier of a particular component. This means that the company has an order backlog stretching until the end of the decade, and enjoys one of the strongest EBITDA margins in industry, averaging c.26% between 2018-23.

The price for the record margins and extremely good medium-term earnings visibility is the relatively-high working-capital intensity of the business: as its products are essential and the reliability of delivery is crucial, GEVORKYAN needs to keep significant inventory and spare parts at the ready. The company has also been spending significantly in recent years, expanding its production facilities in Slovakia and investing in state-of-the-art machinery. This capex cycle is coming to an end in 2024E, and we believe that GEVORKYAN should turn FCFF-positive from 2025E-onwards. This should allow it to start to deleverage going forward, from a net debt to EBITDA of 3.4x in 2023. Led by its founder and controlling shareholder, Artur Gevorkyan, this family business belongs among some of the most impressive stories in the Czech Republic and Slovakia in recent decades, in our view.

This is not an assembly line. GEVORKYAN's operations are highly automated, and its c.190 employees are highly skilled. The company is the sole supplier for a large number of its customers. GEVORKYAN designs c.150 new components for its clients annually, helping to find ways to minimise both direct production costs, as well as the cost and efficiency of assembly into the final product. Its sophisticated products and diversified client base give GEVORKYAN significant pricing power. This is visible in its margins, which are well above the level of most of its peers, many of which are producing comparatively simpler components (e.g., for the automotive industry) with many substitutes.

Diversified sales to some of the most renowned brands globally. GEVORKYAN sells its products to a wide range of automakers, including Dacia, Mercedes, Porsche, Ferrari and Bentley. It also supplies Versace, Lacoste, and Hugo Boss in the branded cosmetics sector; Black & Decker, Bosch, Siemens, and DeWalt in the hand tools sector; and John Deere, Deutz, and Komatsu in agricultural equipment, among others.

American dream. Mr. Gevorkyan, whose father was one of the pioneers of powder metallurgy in Armenia, came to Slovakia in the 1990s, after studying aerospace engineering at the military academy in Kharkiv, Ukraine. Initially looking to move out of the countries under the Soviet sphere of influence, he went on to develop one of the most successful businesses in the Slovakia. The company has not been paying dividends, as the founder (who lives and breathes the business, in our view) has been reinvesting the proceeds into the company.

We expect a 21% EBITDA CAGR in 2023-26E. We have very good visibility on medium-term revenues, as GEVORKYAN's customer contracts are usually for five-to-seven years. Following the latest capex cycle, it should have the room to increase the volume of components it produces annually. Management expects revenues of EUR 94m and EBITDA to reach EUR 28m in 2024E. We are in line with management's revenue estimates (85% of which are already contracted) but are slightly more conservative on EBITDA, where we expect a 28% margin, vs. the guidance of 30%. Historically, GEVORKYAN has been growing both revenues and EBITDA at a faster pace than most of its peers (2018-22 average EBITDA CAGR of 13% for its peers vs. 26% for GEVORKYAN). Going forward, we expect it to continue to grow faster than most of its peers, while also maintaining its higher margins.

Signed long-term contracts give very good visibility on medium-term earnings

EURm	2023E	2024E	2025E	2026E
Oil & gas	6	7	8	8
Construction technology	4	4	5	5
Hand tools	7	8	9	10
Automotive	14	14	15	15
Security systems	7	9	10	11
Bearings and transmissions	10	12	14	15
Others	26	24	27	31
Total contracted revenue	**73**	**79**	**87**	**94**
Total revenues (WOOD est.)	**77**	**94**	**108**	**122**
o/w contracted	**95%**	**85%**	**81%**	**77%**

Source: Company data (contracted revenues as of September 2023), WOOD Research

We are at a FCFF inflection point, with the capex cycle coming to an end. During 2020-22, GEVORKYAN was burning EUR 8-9m in FCFF p.a., on average, having started an investment cycle in 2020. It has acquired new high-end machinery and expanded its production capacity in order to meet the high demand for its products. As the capex cycle is now coming to an end, we expect GEVORKYAN to turn FCFF positive from 2025E-onwards. We expect it to generate EUR 11m in FCFF annually, on average, during 2025-26E. This translates into a 4-5% FCFF yield on EV, in line with the levels generated by its peers (median of 4-5%, among the companies we have looked at).

We expect the FCFF to turn positive in 2025E, as the latest capex cycle comes to an end

(EURm)	2020	2021	2022	2023E	2024E	2025E	2026E
EBIT	7	8	9	9	13	17	21
NOPAT	6	6	7	7	11	13	17
D&A	6	8	9	12	13	14	15
Capex	-12	-21	-27	-20	-17	-12	-13
Change in WC	-1	-1	-4	-5	-9	-8	-6
FCFF	**-2**	**-8**	**-15**	**-6**	**-2**	**8**	**14**

Source: Company data, WOOD Research

High leverage a risk factor, but high margins and positive FCFF ahead mitigating factors. GEVORKYAN's 3.4x net debt to EBITDA is around 1-2x higher than the average used by its peers. This is a function of the recent capex cycle, which has enabled GEVORKYAN's higher growth. It is also driven by the relatively-high working capital intensity of the business, as GEVORKYAN needs to hold a significant volume of inventory in order to ensure order reliability. This is paying off in high margins. Going forward, we expect the net debt to EBITDA to decline to 2-3x in 2024-25E, and potentially drop to sub-2x in 2026E, driven by: 1) positive FCFF from 2025E-onwards; and 2) continued growth in earnings, which are retained, with no dividends planned in the medium term.

Green DNA. Powder metal manufacturing produces less waste than other processes, as the products do not require further mechanical processing. It also uses around 15% less energy than conventional metallurgy. GEVORKYAN uses solar energy, as well as the heat generated by the machinery, to heat its the production facilities in the winter. It also produces its own nitrogen and hydrogen, which it uses in manufacturing. It recycles or reuses more than 90% of the waste generated during production.

Valuation. On our 2024E, the stock trades at a 26.9x P/E and EV/EBITDA of 9.3x. This represents a 46% premium on P/E and an 11% discount on EV/EBITDA to its peers, respectively. On our estimates, we expect EBITDA to post a 23% CAGR over 2023-25E. For its peers, the average EBITDA CAGR is 13% over 2023-25E. A key part of our constructive view on the stock is our expectation of the turnaround in FCFF. Over the past three years, it has been burning an average of EUR 8-9m in FCFF p.a., but as it moves out of the capex cycle, we expect it to generate EUR 11m FCFF p.a., on average, during 2025-26E. This translates into a 4-5% FCFF yield on EV.

The liquidity of the shares could improve as the company grows. For a number of years, the company has had significantly more orders than it has the capacity to execute. Mr. Gevorkyan is considering expanding the business beyond the plant in Slovakia, possibly investing in a new plant in Mexico or the US. As this would be likely to require a capital raise, we are not including this expansion in our forecast. If successfully executed, however, it could present upside to our forecasts, and also improve the liquidity of the shares (the current 3M ADTV is EUR 18k).

Risks. Key person risk for Mr. Gevorkyan, the founder, CEO and controlling shareholder; higher leverage than its peers; the risk of an overpriced acquisition in the US, or a general failure to execute the business at the same level of quality/margins as we see at the Slovak plant; pressure on margins; country risk, the loss of key employees; Slovak Accounting Standards reporting; regulatory risk; the war in Ukraine; and FX risk.

Catalysts. We see the stock as a high-quality, long-term investment. Its highly-automated production, strong track record and good revenue visibility mean that we are confident that the company will continue its profitable growth. Relative to its high-margin peers, the stock is trading at a significant (c.50%) discount on EV/EBITDA. We believe the key trigger would be the expansion in the US and/or Mexico, which could improve the liquidity of the shares due to the likely prerequisite of an equity raise. If successful, such an expansion could generate material upside to our earnings forecast. We believe the market would also respond positively to dividends. That said, we note that there are no near-term plans for the company to start distributing earnings to shareholders. As long as management sees opportunities to reinvest the cash back into the business at an attractive rate of return, we would see this as preferable for long-term value.

Company overview

GEVORKYAN is a European leader in powder metallurgy component production. It was founded in Vlkanová, Slovakia in 1996, and is one of the most innovative companies in the powder metallurgy (PM) industry. It has a state-of-the-art R&D department and has become a global supplier to large multinational companies all over the world. It distinguishes itself from the competition through the integration of Sintering ("classic" powder metallurgy), metal powder injection moulding (MIM), hot isostatic pressing (HIP) and additive manufacturing (AM, aka 3D printing) within a single plant. The main advantage of powder metallurgy is that the final product is created without further mechanical processing (i.e., no waste).

The company serves more than 100 customers and distributes its products and solutions to over 30 countries worldwide. Currently, it produces c.7m components per month and offers c.3,000 different types of components in its product line. Nowadays, it actively employs 3D printing technology to produce plastic components used in the maintenance department, thereby eliminating machine downtime and reducing lead times for spare parts.

GEVORKYAN sells its products to a wide range of automakers, including Dacia, Mercedes, Porsche, Ferrari and Bentley. It also supplies Versace, Lacoste, and Hugo Boss in the branded cosmetics sector; Black & Decker, Bosch, Siemens, and DeWalt in the hand tools sector; John Deere, Deutz, and Komatsu in agricultural equipment; as well as the oil and medical industries. Based on management statements, the company does not plan to change its strategy of segment diversification, and its internal target is to not have more than 33% exposure to any one particular segment. In the powder metallurgy industry, its peers operate mainly in the automotive industry, with a revenue share of c.60%.

GEVORKYAN's customer base among others

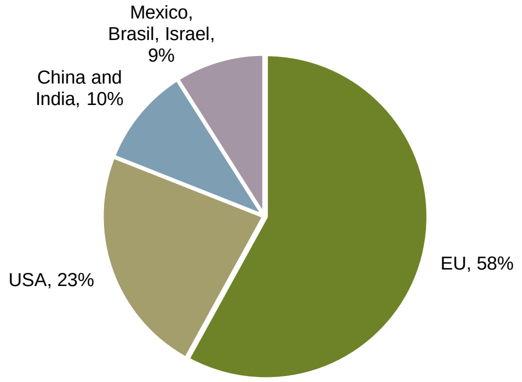
Source: Company data, WOOD Research

On supplier side, Sweden, Germany and the United States are the primary sources of metal powders for the company. It has its own tool and form factory, GPM Tools, which is a subsidiary of GEVORKYAN. It is the only business of its kind in Central Europe. The company does not have any customers in Russia or Ukraine, and it does not procure any of its supplies from either of these countries.

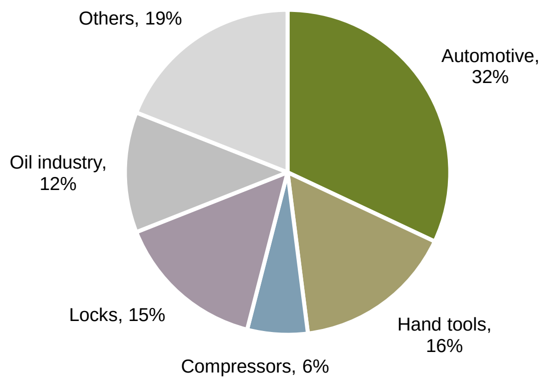
The company's key market has always been the European Union, where GEVORKYAN earned roughly 58% of its sales in 2022. The US represented 23% of 2022 sales, almost double vs. 2021 when the share was 12%. Management is considering expanding the business by developing (or acquiring) a new factory in either Mexico or the US. This could help it move closer to its end-customers and, especially for the defence industry, could also help from a regulatory stand-point.

The company's competitive advantage is its broad diversification of customer portfolios by industry. Sales to the automotive industry represent c.32% of the company's total revenues in 2022, followed by hand tools (16%), and locks and security systems (15%).

Revenues split by country (2022)



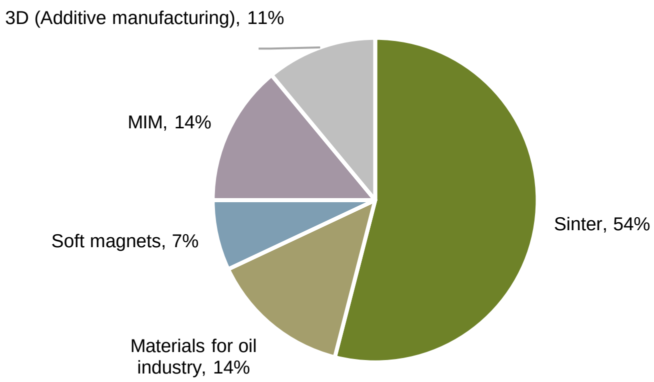
Revenues split by segment (2022)



Source: Company data, WOOD Research

The company uses all four of its production processes (Sintering, MIM, HIP and AM) within one plant. This makes it a unique player in the industry, gathering together all four technologies. Based on its 2022 annual report, Sintering represented 54% of 2022 revenues. We expect MIM to increase its share of revenues given that in 2020, MIM represented 10% of revenues, while in 2022, it had increased to 14%.

Revenue split by technology (2022)



Source: Company data, WOOD Research

The company has its own laboratory and R&D team. It employed c.190 employees as of end-2023 and owns 91 robots. Production is highly automated, even in the context of some of its most-developed global peers. Management believes that, for example, at comparable companies in Japan, there are four people per robot; while it believes that, in Germany, comparable companies employ around seven people per robot. For GEVORKYAN, the ratio is close to two people per robot.

GEVORKYAN develops c.150 new components annually for its customers, in its R&D department, based on the contract. Historically, c.10% of its employees worked in the R&D department. Of the volumes sold, 33% products have never been produced by any other technology.

Key milestones

- ✓ 1996: Establishment of GEVORKYAN as a private company.
- ✓ 2003: Foundation of its own tool factory.
- ✓ 2010: Relocation to a new production hall.
- ✓ 2012: Launch of MIM technology.
- ✓ 2015: Launch of HIP technology and a new department of automation and robotisation.
- ✓ 2015: Expansion of production and storage capacity.
- ✓ 2017: A new department of automation and robotisation established.
- ✓ 2020: Launch of a new AM production line.

- ✓ 2021: New products added to its portfolio, such as protective masks and respirators due to the C19 pandemic.
- ✓ 2022: IPO, the company raised c.EUR 27m on the START market of the Prague Stock Exchange.
- ✓ 2022: Construction of a new production hall and expansion of its production capacity.
- ✓ 2023: Buys land (7k sqm) and three buildings for a possible expansion.
- ✓ 2023: Start of trading on the PRIME market of the Prague Stock Exchange.
- ✓ 2024: Dual listing on the Bratislava Stock Exchange.

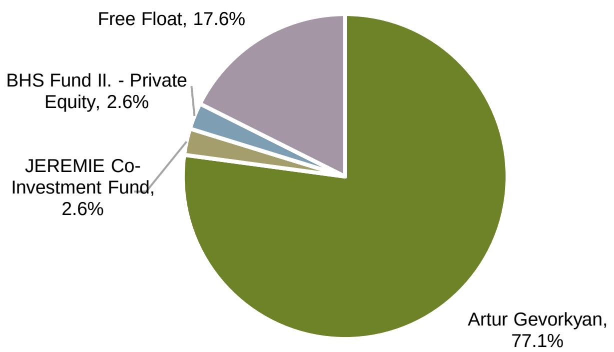
Ownership structure

In June 2022, the company raised c.EUR 27m in an IPO and its shares started trading on the START market of the Prague Stock Exchange. In December 2023, the company moved to the PRIME market, trading alongside CEZ, MONET, KB. In February 2024, GEVORKYAN's shares began to trade on the Bratislava Stock Exchange, in the form of a dual listing. There are c.16.7m shares outstanding.

As of 2 April, the stock was trading at a market cap of EUR 167m (CZK 4.2bn). Using the end-2023 preliminary net debt, this translates into an EV of EUR 238m (there are no minorities). Since the move to the PRIME market, the shares have seen a 3M ADTV of EUR 18k.

Artur Gevorkyan is the controlling shareholder and the founder of the business, with a 77.1% stake. BHS Fund II. and JEREMIE Co-Investment Fund (private equity funds) each hold 2.6% of the shares. The remaining 17.6% is in free float.

Shareholder structure



Source: Company data, WOOD Research

ESG

Historically, the company has strived to reduce the impact of its operations on the environment (new production technology, its own nitrogen and hydrogen generator, photovoltaic panels for the production of its own electricity). Although the company has grown to almost 200 employees (190 as of end-2023), our impression when we visited the factory is that this is still a family business, where top management knows the people personally, and is genuinely committed to looking after their well-being, offering assistance and benefits which go far beyond the mandatory level, when required.

All the decision making is done by Artur Gevorkyan, the CEO, founder and controlling shareholder. Our impression is that he lives and breathes the business, and remains involved in its day-to-day management. As with any family business which has been built from the ground up by a strong and determined leader, succession and handing over control may, eventually, be a challenging process.

The company has won a lot of awards such as the European Business award (the company reached the final round), and was named Slovakia's Best Managed Company in 2023 by Deloitte.

Environmental

Resource use. GEVORKYAN strives to use green energy. It has invested in solar plants that provide enough energy for part of its production. In addition, it already uses green energy to a large extent, with its own production of nitrogen and hydrogen for company purposes. Powder metallurgy is more energy efficient, as it consumes c.15% less input energy than the conventional metallurgy for the product.

Waste management. GEVORKYAN recycles or reuses more than 90% of its waste, thus reducing the negative impact on the environment. This is more simple compared to conventional metallurgy, since the defective product can be pressed back into powder which can be reused. GEVORKYAN is working actively to improve the efficient use of natural resources and, at the same time, reusing the heat from the production process to heat the company's premises during winter. The offices should also be heated in the same way soon.

Nitrogen and hydrogen generator owned by the company

Source: Company data

Social

Workforce. The workforce is represented by highly-educated people from Slovakia, but also the people who originate from Eastern European countries, such as Ukraine, Belarus and even Armenia. They were retrained and re-educated in 2017, as the company needed to become more competitive. In the R&D department there are 19 engineers or 10% of the workforce as of end-2023.

Health & Safety and benefits. GEVORKYAN offers its employees interest-free loans and additional vacation days to keep employee satisfaction high. It also provides a plan for eliminating risks within the company, and by having a scale for risks, management knows what risks to prioritise. In the production department, there are assigned staff safety representatives, who act as a bridge between management and production for social safety. GEVORKYAN provides its employees with the necessary safety equipment within the production areas, while first aid equipment is available in prominent places and at least one person must always be competent in first aid.

Community. The culture of the family-run company allows people to find not only financial, but also moral support, in difficult life situations. Leisure activities, such as sports days, the traditional Hron River descent and visits to shelters or children's homes, help to strengthen the collective society. GEVORKYAN was awarded the "Great Employer" label in the Via Bona Slovakia competition, and "Healthy Company of the Year" by insurance company Union.

Products responsibility. In accordance with ISO 16949, GEVORKYAN assures its customers in the automotive industry about the quality of its products. This also assures the customers that the work is done in an ethical way, and that the company is striving for innovation.

Governance

Board of directors

Artur Gevorkyan, the founder, CEO and controlling shareholder (77.1% of shares), is the Chairman and sole member of the Board of Directors. He has been Chairman since May 2022, when the company changed its legal form from a limited liability company to a joint-stock company. Prior to establishing

GEVORKYAN in 1996, he was the CEO of the first private powder metallurgy company in Ukraine, Bumerang. He studied at National Aerospace University in Kharkiv, where he obtained a red diploma in aircraft construction.

Management team

Andrej Batovsky (CFO) has been the CFO of the company since 2020. Prior that he served in various positions within the company, such as production planner, and in the financial, sales, and accounting departments. He moved to departmental management in 2017. He studied at the Faculty of Economics at the University of Matej Bela in Banska Bystrica.

Robert Gevorkyan (Quality Control Manager) is the son of the founder, Artur Gevorkyan. He has worked in the entire production process, from materials mixing, pressing and sintering, to packaging. Subsequently, he started working in administration in 2014 as a procurement officer, and later as a logistics manager. Currently, he works as a Quality Control Manager and is responsible for the quality of manufactured components.

Denisa Riecanova (Production Control) is the Production Control Manager at the company. She started working at GEVORKYAN as a furnace operator in 2005, before becoming a compacting machine operator and then progressing to Head of Furnace Operations. Currently, she works as Production Control Manager, utilising her 19 years of experience in powder metallurgy production.

We expect the EBITDA to post a 21% 2023-26E CAGR

Thanks to the unique value GEVORKYAN brings to its customers, and the capex it has been reinvesting into the business, it enjoys margins well above those of its peers. It also grew its EBITDA at around double the pace of peers during 2018-22 (26 vs. 13%). Thanks to its long-term contracts, we have very good visibility on its medium-term revenues. While we are slightly more conservative than management's guidance, we still expect an EBITDA CAGR of 21% for 2023-26E.

During 2018-22, GEVORKYAN's EBITDA posted a 26% CAGR, driven by a combination of higher production output and improving margins. It managed to increase its EBITDA margin from 19% in 2018 to 31% in 2022, and 27% in 2023, based on the preliminary unaudited results. It is one of the most profitable companies within the industry: among our peer group, the EBITDA margin averages 16%, and only two companies, AMETEK and Idex Corp, generate a higher margin than GEVORKYAN.

The company is a price maker, as it is the sole supplier to most of its customers. This allows it to pass any increases in input costs directly on to its customers. We believe the good profitability is also driven by the diversification of the company's portfolio, and its sophisticated product offer. Most of its peers have simple assembly lines which produce components for the automotive industry (60% of revenues, on average, for the comparable companies). There are many substitutes for these products and, overall, lower margins within the automotive sector. Through the better diversification of its product portfolio, where automotive industry represents only 32% of its sales, GEVORKYAN is able to earn higher margins compared to its peers.

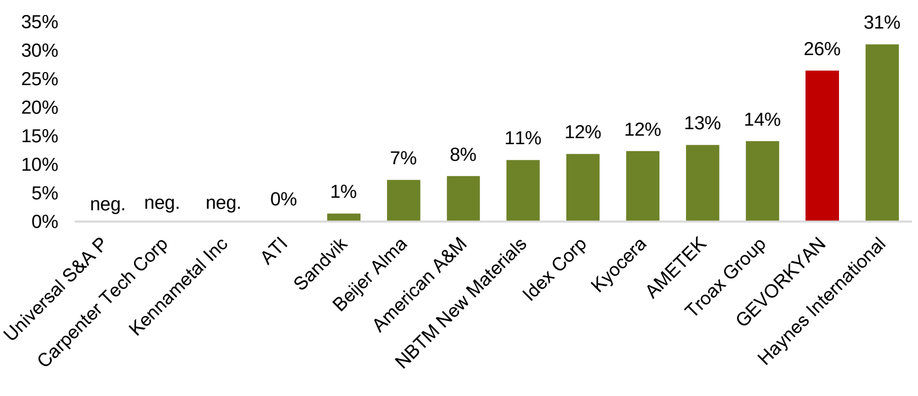
The price that GEVORKYAN needs to pay for its high margins has been the (thus far) relatively-high capital intensity of the business, with significant investments made into robotics and high-tech machinery. The company also needs to keep a high level of spares inventory on hand, as many of its clients do not have any substitute for the components GEVORKYAN supplies, and thus reliability is essential.

GEVORKYAN has one of the highest EBITDA margin among its peers

EBITDA margin	2018	2019	2020	2021	2022	5Y ave.
AMETEK	26%	28%	29%	30%	31%	29%
Idex Corp	26%	27%	27%	28%	28%	27%
GEVORKYAN	**19%**	**24%**	**26%**	**28%**	**31%**	**26%**
Troax Group	22%	23%	23%	25%	22%	23%
Sandvik	23%	18%	19%	25%	22%	21%
Beijer Alma	17%	18%	18%	20%	18%	18%
NBTM New Materials	23%	25%	15%	13%	16%	18%
Kennametal Inc	17%	19%	9%	14%	18%	15%
Kyocera	11%	10%	12%	12%	15%	12%
American Axle & Manufacturing	9%	4%	3%	16%	13%	9%
Haynes International	6%	8%	6%	4%	15%	8%
Carpenter Technology Corp	14%	15%	8%	-8%	6%	7%
Universal Stainless & Alloy Products	14%	11%	-2%	5%	6%	7%
ATI	13%	13%	-38%	11%	12%	2%

Source: Company data, Bloomberg, WOOD Research

GEVORKYAN reported EBITDA growth at a 26% CAGR from 2018-22

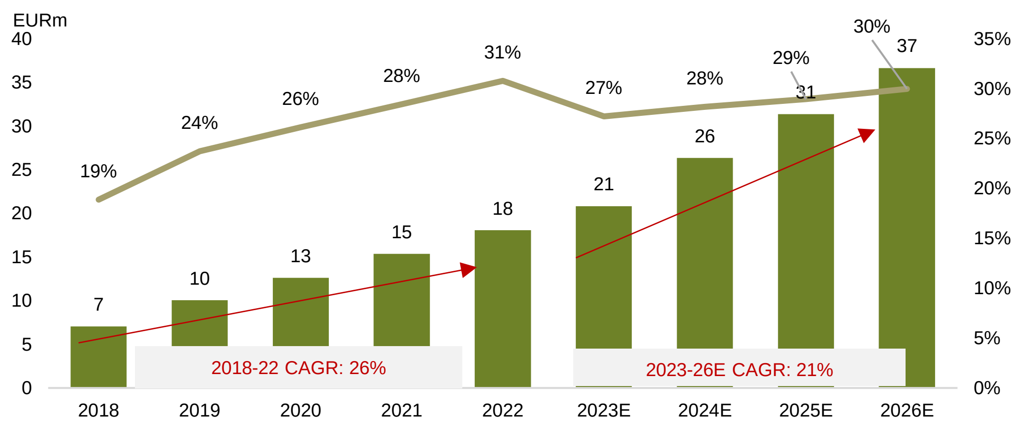


Source: Company data, Bloomberg, WOOD Research; Universal S&A P is Universal Stainless & Alloy Products, American A&M is American Axle & Manufacturing

In 2026E, we expect GEVORKYAN to achieve an EBITDA of EUR 37m (30% EBITDA margin), up from EUR 21m in 2023. In our forecast, we expect EBITDA growth to be a bit lower going forward, with a 21% CAGR between 2023-26E vs. a 26% CAGR between 2018-22. We are more conservative than the company guidance in terms of the EBITDA margin from 2024-26E. GEVORKYAN expects to achieve an EBITDA margin of 30% in 2024E and around 31-32% in 2025-26E. We pencil in 28%, 29% and 30% for 2024E, 2025E and 2026E, respectively.

We note that the company has invested heavily to automation and robotisation in the past three years and could benefit from economies of scale in the coming years. If it delivers the anticipated operating profitability, this would create an upside to our forecast.

EBITDA evolution: we expect the EBITDA to grow by a 21% 2023-26E CAGR



Source: Company data, WOOD Research

Long-term contracts assure visibility on the top line going forward

During 2018-22, GEVORKYAN saw a 12% revenues CAGR. This was driven by volumes as the company invested heavily in technology and process automation to expand its production capacity. Using its technologies, it has increased the efficiency of its production processes. In March 2024, GEVORKYAN reported 2023 preliminary revenues of EUR 77m vs. EUR 59m in 2022 (+30% yoy).

GEVORKYAN has a strong order backlog stretching until the end of the decade. Around 95% of its 2023 preliminary revenues were from signed contracts. Typically, It signs contracts for five-to-seven years and thus can estimate the capacity it needs for the production of contracted volumes, going forward.

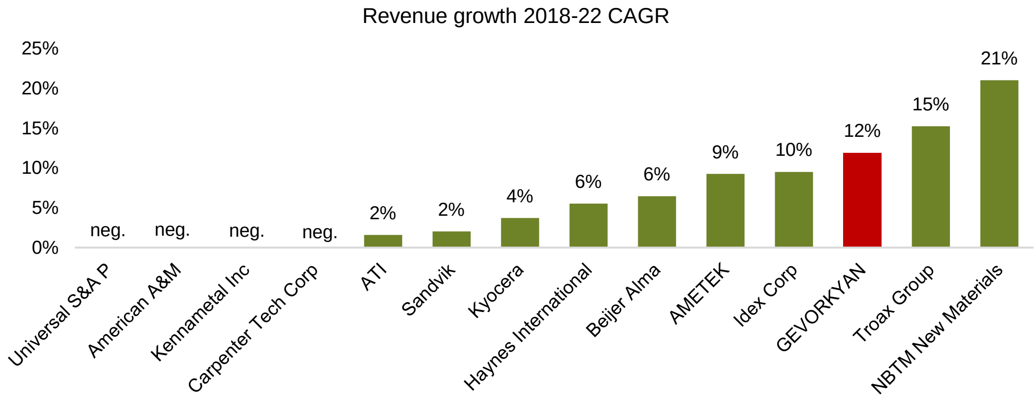
Signed long-term contracts give significant visibility on medium-term revenues

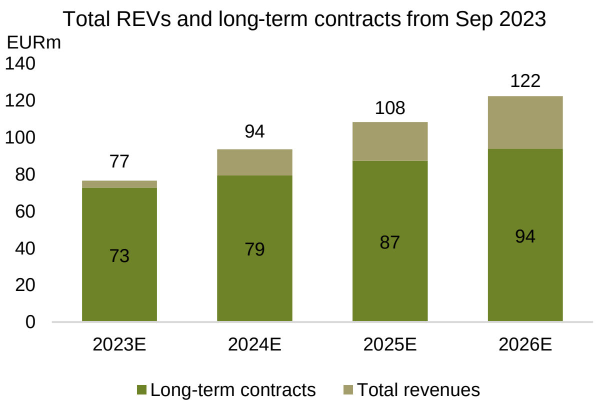
EURm	2023E	2024E	2025E	2026E
Oil & gas	6	7	8	8
Handling automated technology	2	2	2	3
Construction technology	4	4	5	5
Hand tools	7	8	9	10
Cosmetics and fashion	3	3	4	4
Automotive	14	14	15	15
Agriculture	2	2	2	3
Security systems	7	9	10	11
Bearings and transmissions	10	12	14	15
Others	20	17	18	21
Total contracted revenue	**73**	**79**	**87**	**94**
Total revenues (WOOD est.)	**77**	**94**	**108**	**122**
o/w contracted	**95%**	**85%**	**81%**	**77%**

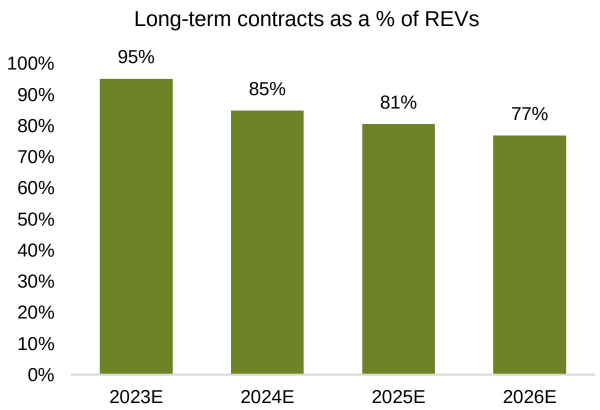
Source: Company data, WOOD Research

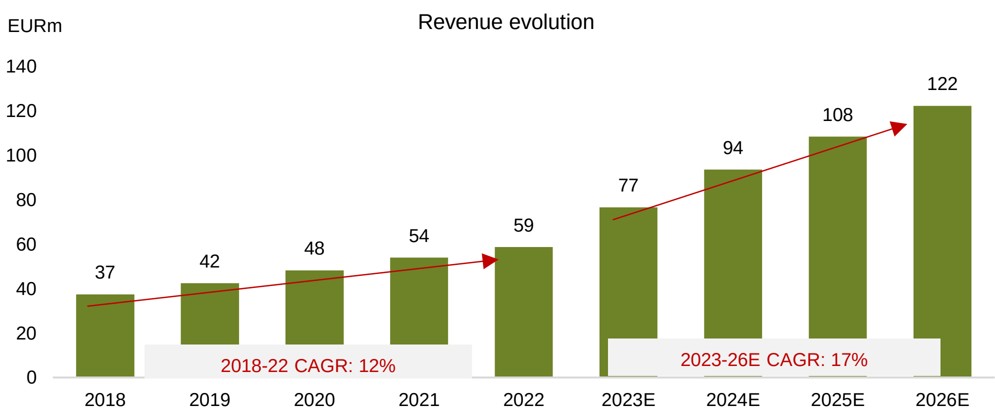
The global powder metallurgy market is expected to see a c.13% CAGR from 2023-30E, according to business consulting firm Grand View Research. We expect Gevorkyan to expand revenues by a 17% CAGR from 2023-26E. A bulk of revenues have been already contracted and we expect that it could have the operational capacity to sign additional contracts, to reach EUR 122m of revenues in 2026E. Of the EUR 122m revenues, more than 75% has been contracted already. We model the top-line growth in line with the company guidance until 2026E. Since the IPO, GEVORKYAN has been providing fair guidance, possibly with a small conservative bias: it has always exceeded the guidance it has given since the IPO, usually by low-single-digit percentage points.

We expect revenues to grow by a 17% CAGR between 2023-26E









Source: Company data, Bloomberg, WOOD Research; Universal S&AP is Universal Stainless & Alloy Products, American A&M is American Axle & Manufacturing

FCFF inflection point, with the capex cycle coming to an end in 2024E

Between 2020 and 2022, GEVORKYAN was burning EUR 8-9m p.a. in FCFF, on average. In 2020, the company started an investment cycle, through which it has acquired new high-end machinery and has expanded its production capacity, in order to meet the high demand for its products. As the capex cycle is now coming to an end, we expect GEVORKYAN to turn FCFF positive from 2025E-onwards.

GEVORKYAN invested c.EUR 20m in capex annually during 2020-22 (averaging 36% of revenues). The change in working capital was negative during 2020-22, at EUR 2m on average. According to the company, the value of inventory should be at least 30% of revenues in the coming year. It is the sole supplier to most of its customers, and needs to keep a high level of spares inventory on hand, to continue to be a reliable supplier for its customers.

We expect FCFF to turn positive in 2025E

(EURm)	2020	2021	2022	2023E	2024E	2025E	2026E
EBIT	7	8	9	9	13	17	21
NOPAT	6	6	7	7	11	13	17
D&A	6	8	9	12	13	14	15
Capex	-12	-21	-27	-20	-17	-12	-13
Change in WC	-1	-1	-4	-5	-9	-8	-6
FCFF	**-2**	**-8**	**-15**	**-6**	**-2**	**8**	**14**

Source: Company data, WOOD Research

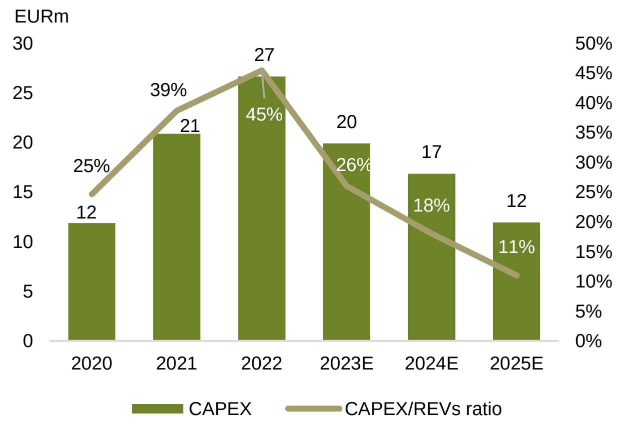
As the company moves out of the capex cycle in 2024E, we expect it to generate EUR 11m of FCFF annually, on average, during 2025-26E. This translates into a 4-5% FCFF yield on EV, in line with the levels generated by its peers: we see a median of 4-5%, among the companies we have looked at.

We pencil in EUR 17m of capex (18% of revenues) which could be spent in 2024E, and EUR 12m (11% of revenues) in 2025E. We anticipate the change in working capital to be negative due to the higher value of inventory, driven by higher growth in revenues in 2023-26E (17% CAGR) vs. 2020-22 (10% CAGR). This growth has been enabled by the recent investments made into the business, which allows GEVORKYAN to turn down fewer orders.

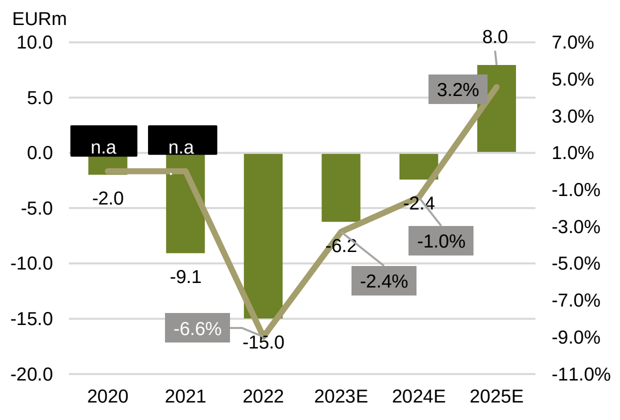
From 2025E-onwards, we estimate that the company should be able to finance its capex and working capital from operating cash flow. It should benefit from the high-margin contracts and growth prospects it has invested in over the past three years. Moving out of the investing cycle, it should be cash-accretive and should become self-sufficient, with no need for external capital to finance its current operations.

We note that it might invest in Transatlantic operations, which could prolong the investment cycle. This, in turn, could mean that it remains FCFF negative for longer than we expect in our forecast. Given the limited visibility on the likelihood and the timing of such a move, we do not include it in our forecast.

The capex cycle should end in 2024E



An FCFF inflection point (FCFF, lhs; FCFF yield, rhs)



Source: Company data, WOOD Research

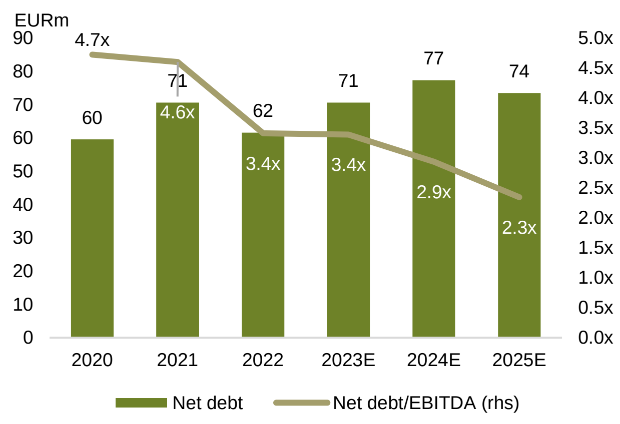
Capital structure: net debt/EBITDA 3.4x in 2023E, higher than its peers

GEVORKYAN has been financing its expansion and the recent capex cycle largely with new debt. At 3.4x net debt to EBITDA currently, its leverage is around 1-2x higher than the average of its peers. In our forecast, we expect the company to turn FCFF positive from 2025E-onwards. Together with the growing earnings, we expect this to bring leverage down to 2-3x by 2024-25E, and possibly to sub-2x by 2026E.

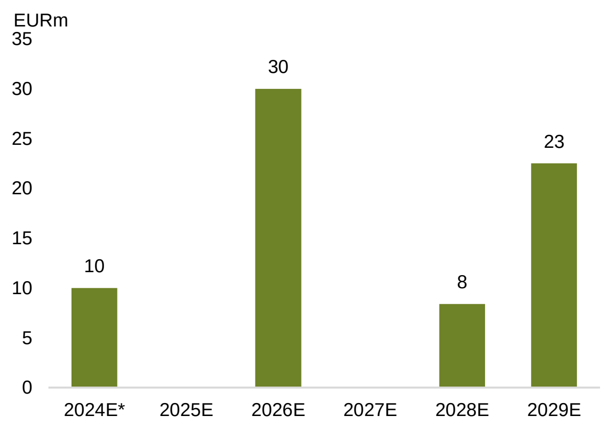
As of end-2023, based on the preliminary results, the net debt of the company stood at EUR 71m, which translated into 3.4x net debt to EBITDA at end-2023. In 2020-21, net debt to EBITDA was c.4-5x. while in 2022-23, it fell thanks to earnings growth (EBITDA) and the proceeds from IPO of EUR 27m. Going forward, we expect the company to turn FCFF positive in 2025E, with an EBITDA CAGR of 21% between 2023-26E. We believe that it should meet its capex requirements from the operating cash flow thereafter, and thus have no need to raise additional debt. Based on our forecast, we estimate that the net debt to EBITDA should drop and could reach 2.3x in 2025E.

GEVORKYAN is financing its operations via bonds, loans and leasing. As of end-2022, 76% of its total outstanding debt was comprised of bonds, followed by loans (12%) and leasing liabilities (12%). At the end of 2022, cash on the company's balance sheet was at EUR 2.7m. Excluding leasing liabilities, 87% of its debt is fixed rate (all of the bonds), while all the bank loans (13% of the debt outside of leasing liabilities) are floating at 3M EURIBOR plus margin.

Indebtedness



Bond maturity



*Source: Company data, WOOD Research;*In March 2024, the company refinanced EUR 10m bond with a new green bond issued in March 2024 with a maturity in 2029E*

In March 2024, the company issued a green bond and raised EUR 22.5m in the first tranche. The green bond is currently trading at a 5.5% YTM. An additional EUR 7.5m could be raised in a second tranche but we do not have details of this, and therefore do not include it in our forecast. From the EUR 22.5m proceeds, GEVORKYAN refinanced its EUR 10m bonds with a maturity in February 2024. The other EUR 12.5m should be used for the construction of a new production hall and for new machinery in PM and MIM. The green bond is a 5Y bond that matures in 2029E and pays coupon of 7.11% annually.

In 2026E, a EUR 30m bond matures with an annual coupon of 4.5% payable in December. In our view, the company should refinance the bond. We do not have any details on the potential amount but, in the current credit environment, there is a possibility that cost of the bond may be higher.

GEVORKYAN bonds overview

Bond	Currency	Nominal value (m)	Coupon	Maturity
GEVORKYAN 4.5/2026	EUR	30	4.50%	2026
GEVORKYAN 8.5/2028	CZK	205	8.50%	2028
GEVORKYAN 7.1/2029	EUR	23	7.11%	2029

Source: Company data, WOOD Research

In 2022, the company paid interest expenses of EUR c.3m. We calculate a simple average interest rate of c.4.9% for 2022. In March 2024, it issued the new green bond with an annual coupon of 7.11%, so we believe the blended average interest rate will be higher, at 6% in the coming years.

GEVORKYAN's leverage is 1-2x more than its peers, due to the recent heavy investment cycle. On the other hand, its peers supply mainly the automotive segment and have simple assembly lines. In 2020-22, the comparable companies spent c.5% of revenues on capex vs. GEVORKYAN's 36%. That said, we believe GEVORKYAN's higher leverage has unlocked new growth potential for the company.

GEVORKYAN has c.1-2x higher leverage compared to its peers

Company	Net debt/EBITDA		
	2023E	2024E	2025E
AMETEK	1.5	0.8	0.4
Sandvik	1.4	1.1	0.7
ATI	2.5	1.9	1.2
Carpenter Technology Corp	1.6	0.8	n.a.
Kennametal Inc	2.1	1.6	1.3
NBTM New Materials	n.a.	n.a.	n.a.
American Axle &Manufacturing	3.6	2.8	2.4
Kyocera	-0.8	-0.8	-0.8
Haynes International	0.0	-0.1	n.a.
Universal Stainless & Alloy Products	2.5	1.3	0.6
Beijer Alma	1.8	1.3	0.9
Troax Group	1.1	0.7	0.3
Idex Corp	1.0	0.6	0.3
Median	**1.6**	**1.0**	**0.6**
Average	**1.5**	**1.0**	**0.7**
Gevorkyan	3.4	2.9	2.3
Premium to median	*116%*	*207%*	*268%*
Premium to average	*124%*	*194%*	*214%*

Source: Bloomberg, WOOD Research

EUR 27m raised during the Prague Stock Exchange listing

In June 2022, the company raised c.EUR 27m in its IPO on the Prague START market. The proceeds from the IPO were invested in the expansion of its production facilities. As of the of 2023, the EV of the company was EUR 261m. The market cap stood at EUR 190m (73% of EV) and net debt was EUR 71m (27% of EV) as of end-2023, based on the 2023 preliminary results.

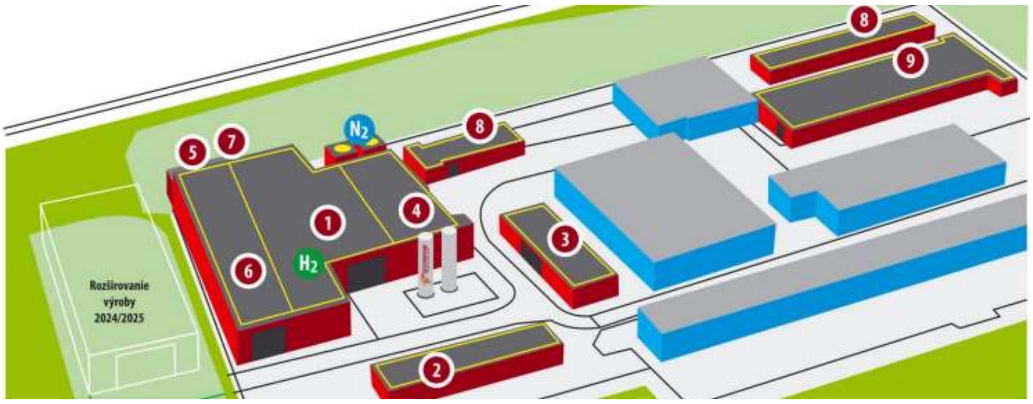
Expanding capacity in Slovakia (and the US?) to meet excess demand

For a number of years, GEVORKYAN has been receiving significantly more orders than it has the capacity to execute. In 2024E, we expect it to expand the production capacity of its plant in Slovakia. Management is also considering launching production lines in the US and/or Mexico. We expect the latter to require an equity raise. Given the limited visibility on the likelihood and the timing of such a move, we do not include it in our forecast. A successful Transatlantic expansion could offer important upside, bringing it closer to its US customers, reducing shipping times and, in the case of defence components, helping from a regulatory perspective.

We expect GEVORKYAN to expand its Slovakian production capacity

GEVORKYAN still has space to expand its production facilities in Slovakia. We expect it to build a new production hall in 2024E, next to the standing facility. The forecast capex for such a hall is EUR 3.8m, with construction to be financed from the green bonds that were issued in March 2024. It would like to start construction in summer 2024E and expects to commence operations in summer 2025E.

The company has enough space to build a new production hall in 2024E

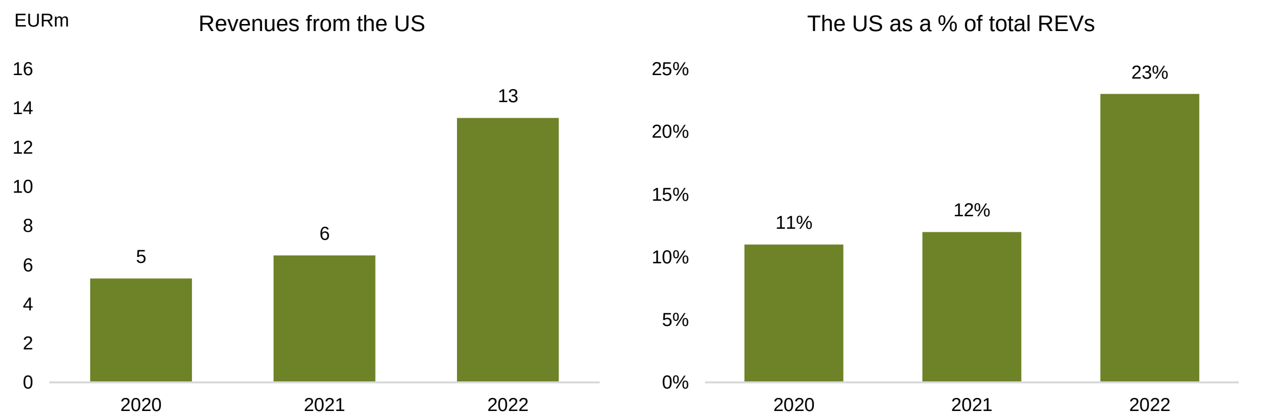


Source: Company data; 1 - production hall, 2 - tool factory, 3 - hardening room, 4 material store, 5 - the first transformer, 6 - calibration section, 7 - the second transformer, 8 - logistics, 9 - store

Transatlantic expansion – possible upside, but with execution risks

GEVORKYAN has set up subsidiaries in both the US and Mexico. The management is analysing market opportunities, and considering whether it would make sense to enter the markets via M&A, or to develop new greenfield production facilities. The decision follows the recent rapid growth in US-led revenues. If successful, an expansion could be an important catalyst for the stock, in our view. Management is not providing any guidance on the prospective volume of investments at present, however.

In 2022, the US accounted for 23% of revenues, up from 12% in 2021



Source: Company data, WOOD Research

Any Transatlantic expansion would not be without numerous operational and execution risks. It could herald another protracted capex cycle, with GEVORKYAN remaining FCFF negative for much longer than we expect, while the cost of setting up a new factory could exceed initial estimates. Margins may also be less attractive than in the Slovak plant, and it may struggle to repeat the same level of quality and reliability of output.

Valuation: 12M PT of CZK 348/share, implying 37% upside

We set our 12-month price target (PT) for GEVORKYAN to CZK 348/share, assigning equal weights to our DCF-driven value and our EV/EBITDA implied value. Offering 37% upside, this yields a BUY rating.

GEVORKYAN: valuation summary

Method	Weight	12M PT (CZK)
DCF	50%	350
Peer valuation (EV/EBITDA)	50%	347
Weighted average 12M PT		**348**
Current price		254
Potential upside		**37%**

Source: WOOD Research

DCF

We use a 10Y DCF model which yields a 12M PT of CZK 350/share, offering 38% upside to the current price. We apply a 15% discount to the 12M PT, to account for the small size (market cap of EUR 167m) and low liquidity (3M ADTV of EUR 18k) of the company.

The key assumptions in our DCF model include:

- ✓ A WACC of 8.5-9.0%, starting with a risk-free rate of 4.0% for the Slovak Republic and an equity risk premium of 4.5%.
- ✓ A levered Beta of 1.48 in 2024E, starting from the unlevered Beta from the Damodaran sector database of 1.07 for Component Manufacturing businesses.
- ✓ A terminal growth rate of 3%.

Our DCF model yields a 12M PT of CZK 350/share

(EURm)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues	**94**	**108**	**122**	**136**	**149**	**164**	**179**	**189**	**201**	**212**
(growth)		*16%*	*13%*	*11%*	*9%*	*10%*	*9%*	*6%*	*6%*	*6%*
EBIT	**13**	**17**	**21**	**26**	**28**	**33**	**36**	**39**	**41**	**44**
Tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
NOPLAT	11	13	17	20	22	26	29	31	33	35
Depreciation	13	14	15	16	17	18	18	19	20	21
Capex	-17	-12	-13	-13	-20	-20	-14	-15	-16	-21
WC change	-9	-8	-6	-4	-6	-7	-7	-5	-6	-6
FCFF	**-2**	**8**	**14**	**20**	**13**	**16**	**25**	**30**	**31**	**29**
Discount factor	0.93	0.85	0.78	0.71	0.65	0.60	0.55	0.50	0.46	0.42
PV of FCFF	-2	7	11	14	8	9	14	15	14	12
Sum of FCFF	102									
Terminal Value growth	3%									
Terminal Value	517									
PV of Terminal Value	216									
Enterprise Value	**318**									
Less Net Debt (2023)	71									
Equity Value	**248**									
Shares outstanding	16.7									
12M PT (EUR)	16.5									
12M PT (CZK)	412									
12M PT (EUR) with a 15% discount	**14.0**									
12M PT (CZK) with a 15% discount	**350**									
Current share price (CZK)	254									
Upside/(downside)	*38%*									
Recommendation	**BUY**									

Source: WOOD Research; For our 12M PT we use a 2024E Bloomberg consensus of CZK EUR exchange rate

WACC calculation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Company capital structure										
Cash	2.8	2.2	3.0	11.2	3.4	5.0	7.0	11.1	15.6	16.1
Total debt	80.2	75.7	66.5	66.5	56.5	56.5	56.5	56.5	56.5	56.5
Total equity	167.1	172.7	172.7	172.7	172.7	172.7	172.7	172.7	172.7	172.7
Total capital outstanding	247.2	248.4	239.2	239.2	229.2	229.2	229.2	229.2	229.2	229.2
Debt/capital ratio (%)	32.4%	30.5%	27.8%	27.8%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%
Equity/capital ratio (%)	67.6%	69.5%	72.2%	72.2%	75.3%	75.3%	75.3%	75.3%	75.3%	75.3%
Cost of debt										
Marginal cost of debt	6%	6%	6%	6%	6%	5%	5%	5%	5%	5%
Marginal tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Cost of debt (post-tax) (%)	**4.7%**	**4.7%**	**4.7%**	**4.7%**	**4.7%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
Cost of equity										
Unlevered Beta coefficient	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07
Re-leveraged Beta coefficient	1.48	1.44	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35
Beta	1.48	1.44	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35
Equity risk premium (%)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk free rate (%)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Cost of equity (%)	**10.6%**	**10.5%**	**10.3%**	**10.3%**	**10.1%**	**10.1%**	**10.1%**	**10.1%**	**10.1%**	**10.1%**
WACC (%)	**8.7%**	**8.7%**	**8.7%**	**8.7%**	**8.7%**	**8.6%**	**8.6%**	**8.6%**	**8.6%**	**8.6%**

Source: WOOD Research

Peer group valuation

For our multiples valuation, we use the 2024-25E Bloomberg consensus EV/EBITDAs of our selected peer group. Its peers' EV/EBITDA median multiples are 10.4x for 2024E and 9.4x for 2025E, respectively. Using our own estimates for 2024-25E EBITDA and GEVORKYAN's net debt, we arrive at fair equity values of EUR 196m and EUR 222m in 2024E and 2025E, respectively. Using the average of our derived equity values of EUR 209m, this translates into EUR 12.5/share, or CZK 314/share. Our 12M PT is CZK 347/share (upside of 37% compared to the current price).

Our EV/EBITDA valuation yields a 12M PT of CZK 347/share

EURm	2024E	2025E
Peer group median multiple	10.4x	9.4x
EBITDA	26	31
EV	273	296
Net debt	77	74
Equity value	196	222
Average	**209**	
EUR/share	12.5	
CZK/share	314	
12M PT EUR/share	**13.9**	
12M PT CZK/share	**347**	
Upside	37%	

Source: Bloomberg, WOOD Research; For our 12M PT we use a 2024E Bloomberg consensus of CZK EUR exchange rate

GEVORKYAN focuses solely on powder metallurgy (PM). Unlike its peers, who have PM as just one part of their operations, GEVORKYAN is dedicated solely to this segment. Most companies in PM are small, privately-owned businesses.

GEVORKYAN trades at 26.9x P/E and 9.3x EV/EBITDA on our 2024E estimates. We note that it is trading at a premium compared to its peers on P/E multiple, due to its higher depreciation and interest expenses, as it bears more debt than its peers. Looking at AMETEK and Idex Corp, which have very similar margins to GEVORKYAN, these companies are trading at c.30x P/Es in 2024E, in line with GEVORKYAN. On 2024E EV/EBITDA, the company is trading at an 11% discount compared to its peers' median EV/EBITDA multiple.

Peers's valuation:

Company	Mcap	ADTV	P/E			EV/EBITDA			EBITDA margin		
	EURm	EURm	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
AMETEK	38,823	154	28.3	28.6	26.0	21.1	19.5	17.8	31%	30%	31%
Sandvik	25,818	33	18.7	18.7	16.8	11.3	11.4	10.1	24%	23%	24%
ATI	5,777	58	16.2	18.4	14.6	12.2	10.7	8.7	15%	16%	18%
Carpenter Technology Corp	3,223	28	24.2	16.2	n.a.	10.9	8.0	n.a.	14%	17%	n.a.
Kennametal Inc	1,769	15	15.0	17.0	15.6	9.8	7.7	7.0	12%	15%	17%
NBTM New Materials	1,162	40	44.1	24.0	17.9	17.4	12.4	10.6	16%	18%	18%
American Axle &Manufacturing	778	13	n.m.	23.4	12.6	4.5	4.0	3.5	11%	12%	12%
Kyocera	18,241	65	29.9	23.5	18.8	9.1	9.3	8.1	15%	15%	16%
Haynes International	715	11	18.4	14.5	11.3	10.6	8.2	n.a.	13%	14%	16%
Universal Stainless & Alloy Products	213	2	46.7	13.3	10.0	9.2	6.1	5.0	12%	15%	16%
Beijer Alma	1,023	1	20.3	16.6	14.3	10.8	10.4	9.4	19%	19%	19%
Troax Group	1,263	1	n.m.	n.m.	n.m.	21.2	18.9	17.0	24%	23%	24%
Idex Corp	16,820	82	29.0	28.6	27.4	20.8	20.1	18.3	27%	28%	29%
Median			**22.2**	**18.4**	**15.1**	**10.9**	**10.4**	**9.4**	**15%**	**17%**	**18%**
Average			**26.2**	**19.5**	**15.8**	**13.0**	**11.3**	**10.5**	**18%**	**19%**	**20%**
GEVORKYAN	**167**	**0.02**	**47.2**	**26.9**	**18.6**	**12.5**	**9.3**	**7.9**	**27%**	**28%**	**29%**
Premium/(discount) to median			*112%*	*46%*	*24%*	*15%*	*-11%*	*-17%*	*79%*	*70%*	*59%*
Premium/(discount) to average			*80%*	*38%*	*18%*	*-4%*	*-18%*	*-25%*	*52%*	*50%*	*45%*

Source: Bloomberg, WOOD Research

For illustration purposes, we highlight four companies with a very similar EBITDA margin to GEVORKYAN from our peer selection. These companies are trading at a 19.2x EV/EBITDA on 2024E Bloomberg consensus estimates, while GEVORKYAN is trading at 9.3x EV/EBITDA on our 2024E estimate which implies a 52% discount vs. its selected peers. That said, we do not believe the market has priced in the GEVORKYAN's profitability growth going forward, and we believe it is undervalued currently.

GEVORKYAN trades at a 52% discount vs. selected its peers on 2024E EV/EBITDA

Peers	EV/EBITDA			EBITDA margin		
Company	2023E	2024E	2025E	2023E	2024E	2025E
AMETEK	21.1	19.5	17.8	31%	30%	31%
Sandvik	11.3	11.4	10.1	24%	23%	24%
Troax Group	21.2	18.9	17.0	24%	23%	24%
Idex Corp	20.8	20.1	18.3	27%	28%	29%
Median	**20.9**	**19.2**	**17.4**	**26%**	**26%**	**26%**
Average	**18.6**	**17.5**	**15.8**	**26%**	**26%**	**27%**
GEVORKYAN	12.5	9.3	7.9	27%	28%	29%
Premium/(discount) to median	*-40%*	*-52%*	*-55%*	*7%*	*10%*	*9%*
Premium/(discount) to average	*-33%*	*-47%*	*-50%*	*3%*	*8%*	*8%*

Source: Bloomberg, WOOD Research

Risks

- ✓ **Key person risk**. The potential incapacity or loss of Mr. Gevorkyan, who determines and implements the company's operating strategy may have a short-term adverse impact on its operational management. In the event of a change of control, there can be no assurance that GEVORKYAN would be taken over by a qualified person, that would not change the business, its operations or fundamental strategy and focus of the company materially.
- ✓ **Dependence on external financing.** GEVORKYAN is dependent on external financing. As a result, due to the situation in the capital and credit markets, financing may be obtained on worse terms than the company anticipates. This may affect its solvency adversely. The level of indebtedness at GEVORKYAN may reach levels that could be perceived as excessive by investors, which would limit their willingness to provide new sources of financing.
- ✓ **Transatlantic expansion execution risks.** The acquisition and/or development of a new factory in the US and/or Mexico could be an important catalyst for the equity story, with the potential to transform the size of the business. That said, there are number of execution risks. GEVORKYAN could pay too high a price for an acquisition, and a protracted capex cycle could depress FCFF for foreseeable future and ramp up more debt on the balance sheet. The key risk, in our view, is one of quality of production, and whether GEVORKYAN would be able to emulate the successful model in its Slovak operations on a different continent. With management attention turned to the US, we also see a risk that the quality of production, pace of innovation and the order book and margins at home, could stall.
- ✓ **Margin deterioration.** Up until now, GEVORKYAN has been at the forefront of industry innovation. This seems embedded in the company's DNA and, as a base case, we expect GEVORKYAN to maintain its edge and to continue to look for and utilise novel approaches for designing and manufacturing products for its customers. That said, we cannot rule out that we could see competitors emerging which may adopt similar technologies, and which could depress prices and margins, even for the relatively more niche parts of the sector.
- ✓ **Country risk.** Higher taxes could affect the company's profitability and competitiveness, in our view. Given the current state of the Slovak public finances, it is necessary to consider the possible risk of a higher tax burden for companies. If the government continues its pro-Russia rhetoric, we also see a risk that it could lose access to EU funds, and the equity risk premium required by investors to hold Slovak assets could also increase as a result. The quality and independence of certain state institutions are also a risk, as highlighted by the EU parliament voicing concerns about the rule of law in Slovakia.
- ✓ **Loss of key employees.** The quality of management is essential for the determination and achievement of GEVORKYAN's strategic objectives. Its ability to identify growth potential and successfully implement its chosen strategy also depends on its ability to retain existing employees and attract new ones. The R&D department has 19 engineers who develop more than 150 new products per year, with the company producing more than 7m components each month. Even though the company's first engineer still works at GEVORKYAN (after more than twenty years), the departure of any of these key engineers from the R&D department could have a significant negative impact on the business.
- ✓ **Exchange rate fluctuations.** The company's reporting currency is the EUR. It has issued bonds in CZK totalling CZK 205m and maturing in 2026E. The maturity of the yield and face value of these bonds may be exposed to increased costs and risks due to exchange rates between the CZK and the EUR.
- ✓ **GEVORKYAN contends with multiple layers of regulation, at both the global and national levels.** Shifts in the regulatory landscape could disrupt the model which GEVORKYAN has created to date.
- ✓ **Slovak Accounting Standards.** The company reports its results under the Slovak Accounting Standards. As far as we know, there are no material changes once switched to the IFRS, but minor changes may occur.
- ✓ **Other risks.** The war in Ukraine

Financials

P&L

(EUR m)	2020	2021	2022	2023E	2024E	2025E
Total revenues	**48.2**	**54.0**	**58.7**	**76.5**	**93.6**	**108.4**
COGS	-27.0	-27.1	-32.9	-42.1	-50.5	-58.0
Services	-5.8	-7.6	-8.6	-12.2	-14.3	-15.7
Changes in inventory of finished goods	0.3	0.3	5.5	4.5	4.5	4.5
Gross profit	**15.7**	**19.6**	**22.7**	**26.7**	**33.3**	**39.2**
Personnel expenses	-3.2	-3.7	-4.8	-6.0	-7.0	-8.0
Other operating revenue	0.2	-0.3	0.3	0.3	0.4	0.4
Other operating cost	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
EBITDA	**12.6**	**15.4**	**18.1**	**20.8**	**26.4**	**31.4**
Depreciation	-5.6	-7.7	-9.0	-11.9	-12.9	-14.4
EBIT	**7.1**	**7.7**	**9.1**	**9.0**	**13.4**	**16.9**
Revenue from financial assets	0.0	0.0	0.0	0.0	0.0	0.0
IPO cost	0.0	-1.1	0.0	0.0	0.0	0.0
Financial income	0.0	0.0	0.1	0.1	0.1	0.1
Financial expense	-2.2	-2.2	-3.1	-3.7	-4.8	-4.5
Other financial revenue	0.0	0.0	0.3	0.2	0.0	0.0
Other financial cost	0.0	-1.0	-1.7	-0.3	-0.8	-0.8
Profit before tax	**4.8**	**3.4**	**4.6**	**5.3**	**8.0**	**11.7**
Tax	-1.1	-1.1	-1.1	-1.3	-1.7	-2.5
Net profit	**3.8**	**2.3**	**3.5**	**4.0**	**6.3**	**9.3**

Source: Company data, WOOD Research

Balance sheet

(EUR m)	2020	2021	2022	2023E	2024E	2025E
Intangible assets	12.0	11.7	11.5	11.6	11.6	11.4
PP&E	59.8	73.1	90.2	98.1	102.1	99.8
Non-current financial assets	1.1	0.0	0.0	0.0	0.0	0.0
Non-current assets	**72.9**	**84.8**	**101.7**	**109.7**	**113.6**	**111.1**
Inventory	19.3	19.9	23.9	29.4	35.9	41.6
Accounts receivable	12.7	21.1	23.6	27.3	33.3	38.6
Receivable from shareholders	6.7	0.0	0.0	0.0	0.0	0.0
Receivable from state	0.3	0.4	0.5	0.5	0.5	0.5
Other receivables	0.0	0.0	0.1	0.1	0.1	0.1
Cash and cash equivalents	0.0	1.2	2.7	3.1	2.8	2.2
Current assets	**39.1**	**42.7**	**50.8**	**60.3**	**72.6**	**82.9**
Prepayments and accrued income	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	**112.1**	**127.5**	**152.5**	**170.0**	**186.3**	**194.1**
Share Capital	13.9	13.9	16.7	16.7	16.7	16.7
Share premium	0.0	0.0	24.7	24.7	24.7	24.7
Capital funds	12.0	12.2	12.4	12.4	12.4	12.4
Accumulated earnings	5.0	8.5	10.6	14.1	18.2	24.5
Net profit from P&L	3.8	2.3	3.5	4.0	6.3	9.3
Equity	**34.6**	**36.9**	**67.9**	**71.9**	**78.2**	**87.4**
Reserves	0.2	0.2	0.2	0.2	0.2	0.2
Bonds	18.4	18.9	10.0	18.8	31.3	31.3
Bank loans	16.8	9.7	5.2	14.6	8.6	4.1
Leasing	4.8	4.7	5.5	5.5	5.5	5.5
Gevorkyan loan	0.0	30.0	30.0	30.0	30.0	30.0
Other long-term liabilities	0.1	0.0	0.0	0.0	0.0	0.0
Deferred tax liability	2.2	3.0	3.8	3.8	3.8	3.8
Non-current liabilities	**42.5**	**66.5**	**54.8**	**73.0**	**79.5**	**75.0**
Revolving facility	7.7	5.8	2.3	2.3	2.3	2.3
Accounts payable	8.0	12.3	11.6	15.7	19.2	22.3
Payable to shareholders	4.5	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.2	0.3	0.4	0.4	0.4	0.4
Leasing	1.6	2.7	2.5	2.5	2.5	2.5
Financial grants	10.2	0.1	8.8	0.0	0.0	0.0
Accrued expenses	0.0	0.5	1.9	1.9	1.9	1.9
Deferred revenues	2.8	2.4	2.3	2.3	2.3	2.3
Current liabilities	**34.9**	**24.1**	**29.8**	**25.1**	**28.6**	**31.6**
Total liabilities	**77.4**	**90.6**	**84.6**	**98.1**	**108.1**	**106.6**
Total liabilities and equity	**112.1**	**127.5**	**152.5**	**170.0**	**186.3**	**194.1**

Source: Company data, WOOD Research

Cash flow statement

(EUR m)	2020	2021	2022	2023E	2024E	2025E
Net profit	**3.8**	**2.3**	**3.5**	**4.0**	**6.3**	**9.3**
Depreciation	5.6	7.7	9.0	11.9	12.9	14.4
Change in corrective items	-0.2	-0.1	0.0	0.0	0.0	0.0
Interest expense	2.2	2.2	3.0	3.7	4.8	4.5
Profit/loss on disposal of PP&E	-0.1	1.6	0.0	0.0	0.0	0.0
Non-recurring income	0.2	0.3	0.0	0.0	0.0	0.0
Change in receivables to state	1.1	1.1	1.0	0.0	0.0	0.0
Change in inventory	-0.2	-0.6	-4.0	-5.4	-6.5	-5.7
Change in accounts receivables	-6.6	-1.8	-1.5	-3.7	-6.1	-5.3
Change in accounts payables	4.5	0.2	0.3	4.1	3.5	3.0
Change in working capital	-1.1	-1.1	-4.2	-5.0	-9.1	-7.9
Cash flow from operations	**10.4**	**12.9**	**11.3**	**14.5**	**14.9**	**20.3**
capex	-11.9	-20.9	-26.7	-19.9	-16.8	-11.9
Proceeds from sale of PP&E, including leasing back	1.7	2.7	3.7	0.0	0.0	0.0
Cash flow from investing activities	**-10.1**	**-18.2**	**-23.0**	**-19.9**	**-16.8**	**-11.9**
Loans from related parties	0.0	30.0	0.0	0.0	0.0	0.0
Bonds issued	0.0	0.0	0.0	0.0	12.5	0.0
Commercial loans	13.3	7.8	0.0	21.0	0.0	0.0
Repayment of loans	-13.0	-30.7	-12.5	-11.6	-6.0	-4.5
Proceeds from IPO	0.0	0.0	27.4	0.0	0.0	0.0
Interest paid	-0.6	-0.6	-1.8	-3.7	-4.8	-4.5
Cash flow from financing activities	**-0.3**	**6.5**	**13.2**	**5.7**	**1.7**	**-9.0**

Source: Company data, WOOD Research

Appendix: the powder metallurgy industry

GEVORKYAN operates in the powder metallurgy (PM) industry, where it applies four different technological methods to produce components for its customers: Sintering ("classic" powder metallurgy), metal injection moulding (MIM), hot isostatic pressing (HIP) and additive manufacturing (AM, also referred to as 3D printing).

Sintering

Sintering is a manufacturing process which uses metal powders to produce metal components. A compacted mass of metal powder is heated to a temperature below its melting point, so the chemical particles bond to each other and form a coherent shape. The process allows the manufacture of components which cannot be made by traditional manufacturing methods due to their features (density, complex shapes). Sintering consists of several stages:

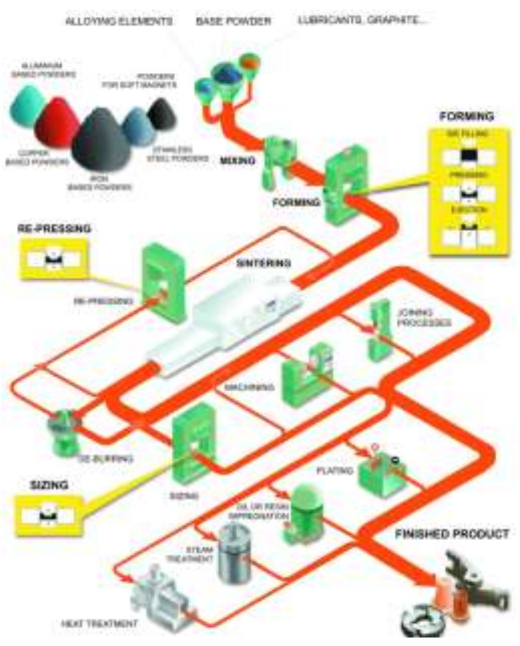
1. **Compaction.** Metal powders are compacted into the desired shape using tools.
2. **Heating.** The compact is then exposed to elevated temperatures during the sintering process. The temperature is controlled very carefully to remain below the melting point of the metal, so that it does not become liquid.
3. **Densification.** When the temperature rises, the metal particles in the compact begin to bond together. This results in more density and strength for the product.
4. **Finalisation.** After the compact is exposed to an elevated temperature for a specific duration, the sintered part is then cooled. The final metal component is densified and structurally fine.

Metal injection moulding (MIM)

MIM is a specialised process combining metal powders with plastic injection moulding to produce complex metal parts with high precision. Compared to sintering, the method allows the production of components with a complex shape in high quantities. The MIM process takes several steps:

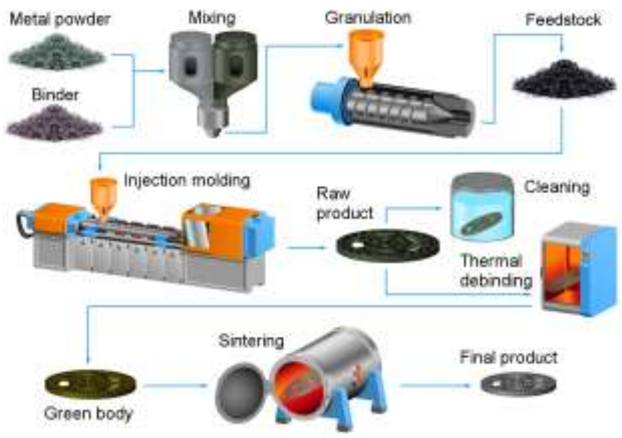
1. **Feedstock preparation.** Metal powders are mixed with a binder to create a feedstock. The binder is used to hold powder particles during the moulding process.
2. **Injection moulding.** The feedstock is put into the mould cavity under high pressure and forms a raw product that has the shape of the final product.
3. **Debinding.** The raw product is subjected to a thermal debinding process to remove the binder.
4. **Sintering.** After debinding, the product undergoes sintering (heating and densification).
5. **Post-processing.** After sintering, the final component is produced and may need some surface cleaning to obtain the desired appearance.

Sintering



Source: EPMA

Metal injection moulding (MIM)



Source: EPMA

Hot isostatic pressing (HIP)

HIP is a process to enhance the density of the product, by being exposed to high temperatures and pressures simultaneously. One of the advantages of HIP is that it reduces the porosity, enhancing the density of the material. The process is described in the following steps:

1. **Compact formation.** Compacting metal powders into a specific shape.

1. **Sintering.** Before HIP, the compact undergoes sintering process.

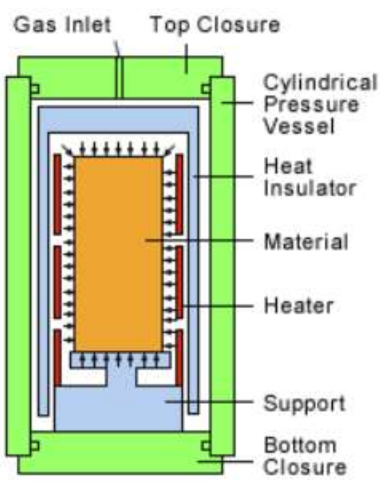
2. **HIP.** The component is then exposed to high temperatures and pressure simultaneously. This helps to close the pores in the component, increasing its density and mechanical characteristics.

Additive manufacturing (AM)

AM is an advanced method used in powder metallurgy that offers new possibilities in the fabrication of metal components. The main advantage is that it allows the production of components with complex shapes, and with specific design requirements. It is also materials-efficient compared to other methods.

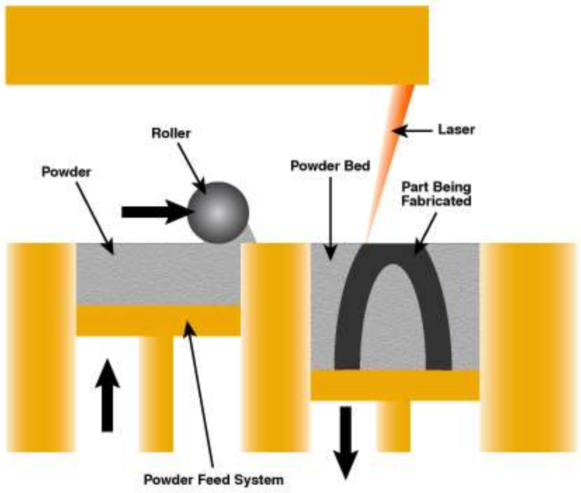
The process starts with a digital model of the component. AM builds this component using a layer-by-layer process from a digital model. A laser scans the powder metal and sinters the powder particles based on the digital model.

Hot isostatic pressing (HIP)



Source: Kobe Steel

Additive manufacturing (AM)



Source: MPIF

Important disclosures