



GrafTech International (EAF)

Updated February 8th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$9.75	5 Year CAGR Estimate:	6.3%	Market Cap:	\$2.6 B
Fair Value Price:	\$10.2	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	02/27/2022
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	03/31/2022
Dividend Yield:	0.4%	5 Year Price Target	\$13	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	-

Overview & Current Events

GrafTech International Ltd. is a leading producer of high-quality specialized graphite electrodes. These electrodes are an essential component in the production of electric arc furnace steel and other ferrous and non-ferrous metals. The corporation owns a portfolio of low cost graphite electrode manufacturing facilities, three of which are the highest capacity facilities in the world. The company is the only large-scale graphite electrode producer which is also largely vertically integrated into petroleum needle coke, the primary raw material for graphite electrode manufacturing, providing the corporation with competitive advantages in product quality and cost.

The company has a lengthy history, with its inception in 1886, when they started supplying the arc carbon to illuminate the newly invented electric streetlamps of Cleveland, Ohio. After that, they began supplying the world, and today operate in more than 50 countries and have approximately 1,300 employees. GrafTech is headquartered in Brooklyn Heights, Ohio and has a market capitalization of \$3.4 billion. The corporation has only recently begun trading on the NYSE in 2018, under the ticker symbol EAF.

GrafTech reported fourth quarter and full year results on February 4th. The company reported net income of \$141 million, or \$0.54 per share. Adjusted earnings per share was \$0.50 compared to \$0.43 in the prior year quarter.

For the full fiscal year, GrafTech generated net income of \$388 million, or \$1.46 per share, down from \$1.62 per share in 2020. They also generated \$1.74 in adjusted EPS.

As of the end of the quarter, EAF had cash equivalents of 58 million and total debt of roughly \$1.0 billion. The corporation reduced debt by \$100 million in the fourth quarter, and debt is down by \$400 million for the full year. Their 2021 capex expectations range between \$70 and \$80 million and the primary use of cash is expected to be on operational improvement activities.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.84	(\$0.20)	(\$2.10)	(\$0.83)	(\$0.78)	\$0.03	\$2.87	\$2.58	\$1.62	\$1.46	\$1.85	\$2.36
DPS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	\$0.34	\$0.12	\$0.04	\$0.04	\$0.05
Shares²	139.7	135.1	136.2	302.2	302.2	302.2	297.7	289.1	267.9	263.3	263.0	280.0

Although GrafTech only became public in 2018, we can see results dating back at least a decade. Since 2012, the corporation has managed to grow earnings per share by roughly 6.3% per year. The corporation has a bumpy earnings history as they reported quite a few years of losses. Looking back to the time of the IPO, the corporation has only had their EPS drop lower. We estimate that from this point on, GrafTech will be able to grow their EPS by roughly 5%, in-line with their long-term pre-IPO growth. The increased demand for EAF's products is causing spot prices to rise and pricing should improve significantly in 2022. Additionally, EAF is positioned for earnings growth given the long-term growth

¹ Estimate

² In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



GrafTech International (EAF)

Updated February 8th, 2022 by Quinn Mohammed

opportunities associated with the benefits of electric arc furnace steel production. Petroleum needle coke is also increasingly in demand for electric vehicle batteries. Currently there is no viable alternative to graphite electrodes.

Just as with earnings per share, the corporation has consistently reduced their dividend year after year to the lowest possible level of \$0.01 quarterly since the second quarter of 2020. Prior to the IPO, the corporation paid no dividends.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	-	-	-	-	-	-	6.06	4.79	4.96	5.50	5.3	5.5
Avg. Yld.	-	-	-	-	-	-	1.3%	2.8%	1.5%	0.4%	0.4%	0.4%

GrafTech's price-to-earnings multiple appears to be slightly undervalued today at 5.3 based on 2022 forecasted earnings, and we believe the valuation will rise to meet our estimated valuation of 5.5 times earnings. We therefore see a tailwind of 0.9% to total annual returns from an expanding valuation over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

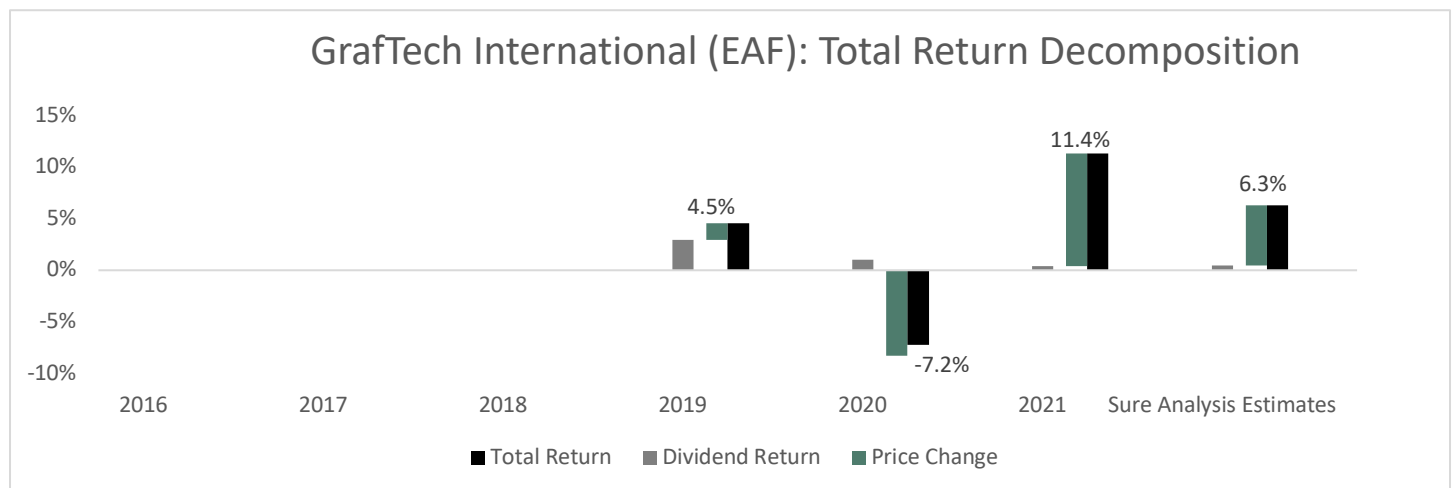
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	0%	0%	0%	0%	0%	0%	9%	21%	8%	2%	2%	2%

The company's payout ratio is low, as the company pays virtually no dividend. Since the corporation remains cautious as they have cut the dividend multiple times, we don't see much growth in the payout ratio as we don't expect much dividend growth. During the Great Financial Crisis, GrafTech's earnings crumbled, but the company remained profitable. In fact, EPS also grew quickly directly after the Financial Crisis, only to then morph into four consecutive years of losses. We don't see the company as being recession resistant, or dividend friendly. Leadership consider their vertical integration into petroleum needle coke, and efficient operation of three of the largest graphite electrode manufacturing facilities in the world create a unique competitive advantage.

Final Thoughts & Recommendation

GrafTech's earnings have fallen consecutively since their IPO in 2018, however demand for their products should increase from here on out and the corporation has a unique competitive advantage among its peers. We believe GrafTech is trading at 96% of fair value and estimate 0.9% in annual gains due to valuation expansion. The dividend yield is very low at 0.4%, and earnings can grow at 5%. Given estimated annualized total returns of 6.3%, we rate EAF a Hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



GrafTech International (EAF)

Updated February 8th, 2022 by Quinn Mohammed

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,248	1,167	825		438	551	1,896	1,791	1,224	1,346
Gross Profit	316	139	68		-30	88	1,190	1,040	660	644
Gross Margin	25.3%	11.9%	8.2%		-6.9%	15.9%	62.8%	58.1%	53.9%	47.9%
SG&A Exp.	146	111	95		59	53	62	64	68	133
D&A Exp.	82	123	120		83	66	66	62	63	66
Operating Profit	156	18	-36		-91	32	1,126	974	589	508
Operating Margin	12.5%	1.5%	-4.4%		-20.8%	5.8%	59.4%	54.4%	48.1%	37.8%
Net Profit	118	-27	-285		-236	8	854	745	434	388
Net Margin	9.4%	-2.3%	-34.6%		-53.8%	1.4%	45.1%	41.6%	35.5%	28.9%
Free Cash Flow	-26	30	36		-5	2	768	741	528	385
Income Tax	17	-13	-6		-8	-11	49	98	76	68

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,298	2,218	1,834	1,422	1,172	1,199	1,505	1,526	1,433	1,412
Cash & Equivalents	17	12	18	7	12	13	50	81	145	58
Accounts Receivable	236	200	163	82	81	117	248	247	183	208
Inventories	513	490	383	218	156	185	305	326	278	289
Goodwill & Int. Ass.	498	497	420	172	294	171	171	255	244	171
Total Liabilities	948	897	829	611	595	586	2,582	2,217	1,762	1,389
Accounts Payable	128	115	86	40	48	69	88	79	71	117
Long-Term Debt	544	543	530		365	339	2,157	1,813	1,420	1,030
Shareholder's Equity	1,350	1,321	1,005	811	577	613	-1,077	-691	-329	23
LTD/E Ratio	0.40	0.41	0.53		0.63	0.55	-2.00	-2.62	-4.31	44

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.3%	-1.2%	-14.1%		-15.7%	0.7%	63.2%	49.1%	29.4%	27.3%
Return on Equity	8.7%	-2.0%	-24.5%		-34.0%	1.3%				
ROIC	6.5%	-1.5%	-16.8%		-19.0%	0.8%	84.1%	67.6%	39.3%	36.2%
Shares Out.	139.7	135.1	136.2	302.2	302.2	302.2	297.7	289.1	267.9	263.3
Revenue/Share	8.94	8.64	6.06		1.45	1.82	6.37	6.19	4.57	5.05
FCF/Share	-0.19	0.23	0.26		-0.02	0.01	2.58	2.56	1.97	1.44

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.