



# GrafTech International (EAF)

Updated May 13<sup>th</sup>, 2022 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$8.32	<b>5 Year CAGR Estimate:</b>	9.5%	<b>Market Cap:</b>	\$2.2 B
<b>Fair Value Price:</b>	\$10.1	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	05/30/2022
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	3.9%	<b>Dividend Payment Date:</b>	07/30/2022
<b>Dividend Yield:</b>	0.5%	<b>5 Year Price Target</b>	\$13	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	Hold

## 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 \$2.2 billion. The corporation has only recently begun trading on the NYSE in 2018, under the ticker symbol EAF.

GrafTech reported first quarter 2022 results on May 6<sup>th</sup>, for the period ending March 31<sup>st</sup>, 2022. The company reported net income of \$124 million, or \$0.47 per share. Adjusted earnings per share was \$0.48 compared to \$0.37 in the prior year quarter.

As of the end of the quarter, EAF had cash equivalents of \$85 million and total debt of roughly \$961 million. The corporation reduced debt by \$70 million in the first quarter, and repurchased 3.0 million shares for \$30 million. 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
<b>EPS</b>	\$0.84	(\$0.20)	(\$2.10)	(\$0.83)	(\$0.78)	\$0.03	\$2.87	\$2.58	\$1.62	\$1.46	<b>\$1.83</b>	<b>\$2.34</b>
<b>DPS</b>	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	\$0.34	\$0.12	\$0.04	<b>\$0.04</b>	<b>\$0.05</b>
<b>Shares<sup>2</sup></b>	139.7	135.1	136.2	302.2	302.2	302.2	297.7	289.1	267.9	263.3	<b>262.0</b>	<b>280.0</b>

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% per annum, 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 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.

<sup>1</sup> Estimate

<sup>2</sup> In millions

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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	4.5	5.5
Avg. Yld.	-	-	-	-	-	-	1.3%	2.8%	1.5%	0.4%	0.5%	0.4%

GrafTech's price-to-earnings multiple appears to be undervalued today at 4.5x based on 2022 forecasted earnings, which implies the potential for a valuation tailwind. We see the possibility for 3.9% in annual returns from an expanding valuation over time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

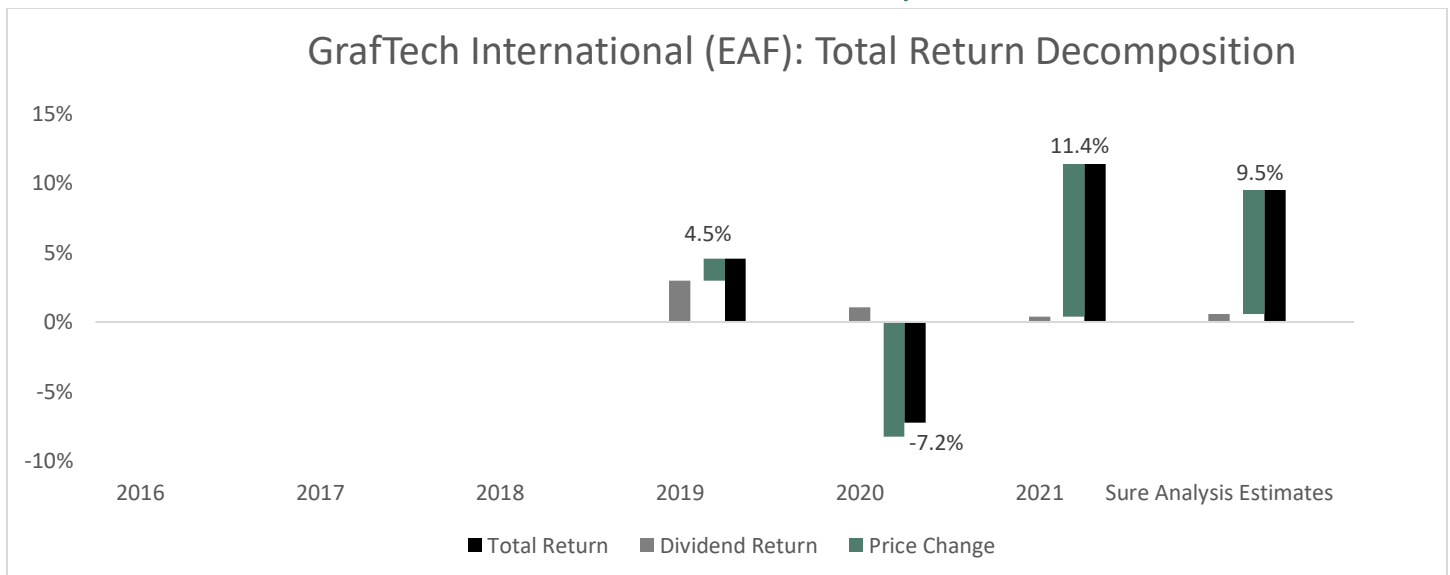
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	0%	0%	0%	0%	0%	0%	9%	21%	8%	2%	2%	2%

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 83% of fair value and estimate 3.9% in annual gains due to valuation expansion. The dividend yield is very low at 0.5%, and earnings can grow at 5%. Given forecasted annualized total returns of 9.5%, we rate EAF a hold.

## Total Return Breakdown by Year



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## 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.

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