Andritz

"Annus horribilis" - over 20% potential upside for 2014

Overweight

ANDR.VI, ANDR AV

Price: €41.08

▼ **Price Target: €49.00**
Previous: €51.00

European Capital Goods

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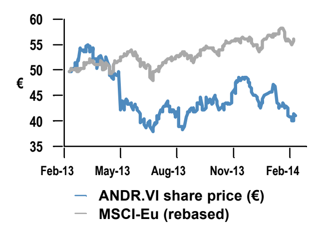
We reiterate our OW on Andritz, which is now one of our top picks among the Mid Caps for 2014. The setback of 2013, against a strong 12-year track record, in our view provides an attractive entry point, with 20% potential upside to our Dec-14 price target of €49 (prev. €51). We are now less concerned on risks to consensus earnings and see pulp order announcements and M&A as potential positive catalysts for 2014 which could result in positive earnings momentum.

- **Montes del Plata project issues:** With the project nearing completion in March and a further provision booked in Q4, as announced on Jan 13, we believe the risks are now under control. After a decade of outperformance and strong execution track record, the setback in 2013 provides an attractive entry point in our view, despite the risks that will always be there in a project engineering business. With management owning 30% of the equity, interests on execution and risk management are closely aligned.
- **Better outlook for pulp:** We could see upside to our estimates if one or more of the potential large orders in pulp materialize in 2014. We see the potential for 2-3 projects over the next 12-18 months, compared to 1 in 2013 and none in 2012. The pulp price is close to a record high. While FX introduces volatility, as an export business from South East Asia or Latin America, new pulp mills can have strong economics.
- **Consensus earnings re-set, bias moving to upgrades:** We had upgraded Andritz after the first warning in early May 2013 but saw continued risks to consensus estimates due to invoicing of the written down contract in pulp. We believe consensus is now reasonable for 2014. Winning of large pulp orders or pick-up in M&A (€0.8bn of net liquidity) could result in earnings upgrades during 2014.
- **Attractive valuation – 20% potential upside:** Our Dec 2014 target price at €49 (down from €51 on Q4 charge, 2014/2015 estimates largely unchanged) is based on 9.75x EV/adj. EBIT with the EV adjusted for project working capital/advances or 8.8x EV/EBIT 2015E on a simple calculation comparable to peers at 8-10x and Sector on 10-11x. Over the past 12 years, with the exception of 2013, Andritz has built a very strong track record for execution, growth and value creation which could warrant a premium.

Price Performance



	YTD	1m	3m	12m
Abs	-10.1%	-12.4%	-14.4%	-17.5%
Rel	-9.0%	-11.0%	-14.8%	-30.4%

Andritz (ANDR.VI;ANDR AV)

FYE Dec	2011A	2012A	2013E *(Prev)*	2013E *(Curr)*	2014E *(Prev)*	2014E *(Curr)*	2015E *(Prev)*	2015E *(Curr)*
Adj.EPS FY (€)	2.44	2.56	1.84	1.24	2.91	2.94	3.34	3.31
Adj.P/E FY	16.9	16.0	22.3	33.0	14.1	14.0	12.3	12.4
Headline EPS FY (€)	2.26	2.34	1.16	0.56	2.14	2.17	2.76	2.74
Headline P/E FY	18.2	17.6	35.5	73.2	19.2	18.9	14.9	15.0
Revenue FY (€ mn)	4,596	5,177	5,830	5,743	5,917	5,818	6,273	6,211
EBIT FY (€ mn)	313	334	174	89	317	323	403	400
EBIT Margin FY	6.8%	6.5%	3.0%	1.6%	5.4%	5.5%	6.4%	6.4%
Earning Before tax FY (€ mn)	322	331	167	83	313	319	403	400
Net Att. Income FY (€ mn)	231	243	120	58	223	226	287	285

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (€)	41.08
Date Of Price	10 Feb 14
Price Target (€)	49.00
Price Target End Date	31-Dec-14
52-week Range (€)	55.23-37.70
Market Cap (€ bn)	4.28
Shares O/S (mn)	104

See page 16 for analyst certification and important disclosures, including non-US analyst disclosures.

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Investment case

Earnings outlook – consensus now looks reasonable

Andritz expects a slight increase in sales and a considerable improvement in net income in 2014. Consensus, according to Bloomberg, for EBITA for 2014 stands around €400mn for analysts that have updated estimates after the Q4 preannouncement. This compares to our estimate of €403mn and 1.3% sales growth. Over the past quarters, our short-term concern has been that market expectations appeared high on a recovery of pulp margins on an underlying basis. Due to project accounting, the Montes del Plata project is coming through at zero gross margins until completion, on our estimate, and hence overall Pulp division margins see an impact from the project being invoiced on top of the specific execution charges. Pulp margins should start to improve in Q2 2014 once the project in Uruguay is completed.

We expect margins to recover in 2014

Our estimates for 2014 do not assume any underlying increase in earnings, as shown in the table below. Upside from our estimates could come from M&A, underlying growth at Hydro (JPM 0% for 2014E in sales), delivery of growth or synergies / cost savings in Schuler or pulp projects that are obtained in H1 2014 and could still impact 2014 revenues. Downside could come particularly from additional project charges. Project charges in Separation will probably still impact Q1 2014 while in Pulp, revenues with no/low gross margins related to Montes del Plata will likely affect Q1.

Table 1: Our 2014 estimates assume no underlying improvement

€ million, year-end December 31

2013 EBITA	160
Montes del Plata charge	150
Montes del Plata underabsorption	32
Charges in Separation	20
Charge for Schuler integration	40
2 months of Schuler (was consolidated for 10 months)	16
2013 rebased	**402**
2014E EBITA	**403**

Source: Company reports and J.P. Morgan estimates.

Pulp market could recover

The market is generally driven in terms of demand by emerging markets and here by the use of tissue paper (personal hygiene) and board (packaging). There is also a continued shift of production capacities from the Northern Hemisphere to eucalyptus-based pulp in tropical/subtropical regions due to material cost advantages (much faster growth of resources, maturing plantations, larger, modern pulp mills). After no large projects in the market in 2012, and one project in 2013 (to Valmet), we see 2-3 projects over the next 12-18 months with a full pipeline of projects longer term. The market has been very price competitive over the past two years due to the lack of sufficient projects for Valmet and Andritz (global duopoly) and Valmet's desire to build a backlog ahead of company spin-off from Metso (and to offset a weak Paper business). With the pipeline improving, Valmet having won one large project last year and part of a large project this year, it has now a better backlog and given its profitability targets, should be focused on quality of orders going forward. The pulp price is elevated, not far from all-time highs, a difference to many other commodities.

M&A – a strong track record for value creation

We estimate that Andritz has acquired €3.2bn of revenues over the past 12 years with a net cash outlay, based on annual cash flow statements, of €1.2bn or an EV/sales of just below 40%. The calculation is flattered by the prepayments acquired as part of the acquisition but is nevertheless impressive given that the company improved its underlying EBITA margin from around 5% 12 years ago to around 7% in recent years. If we assume that on average, the acquired businesses are not dilutive to group margins, they are worth €2.2bn today on Andritz' current EV/sales multiple, prior to taking into account the growth since the time of the acquisitions. We estimate a €856mn net liquidity position by year-end 2013, including financial assets. We estimate that around €0.6bn of it is project working capital, resulting in €250mn acquisition spending potential prior to raising debt /equity. Andritz has always had a conservative balance sheet and we would expect it to hold cash equivalent to its project working capital/customer advances on its balance sheet. The company has historically financed all its acquisitions without issuing equity.

Attractive valuation relative to sector

As a project engineering company, Andritz carries large prepayments. We hence look at the valuation on a simple EV/EBIT, comparable to how we value other companies with prepayments, such as Alstom or Siemens, and a more conservative approach which we use for our target price where we exclude from the net liquidity the net project working capital. In the standard approach, Andritz currently trades on 6.9x 2015E EV/EBIT, a substantial discount to peers at 8-10x. In our preferred more conservative approach, Andritz would trade at 8.0x. Our target price of €49 is based on 9.75x EV/EBIT excl. pre-payment cash, which is based on our view of cost of capital, return, asset intensity and risk. The simple multiple would be 8.8x at €49/share.

Risks – Dividend, further project charges, competition in Pulp, longer term Hydro – FX a risk to demand in EM as for rest of sector

We expect Andritz to cut the dividend this year to €0.56 from €1.2 last year. The equity market may be disappointed by this given the very strong balance sheet. However, Andritz follows a pay-out ratio approach (target to increase from 50% to 60% over the coming years). Due to the charges in 2013 (project charges, Schuler integration, Schuler PPA), we expect reported EPS of only €0.56 and assume a 100% payout before returning to ~55% payout with a €1.2 dividend in 2014E. While the Montes del Plata project is close to being finished, we cannot exclude further charges. The company has not had any material charges over the past 15 years and hence has a good track record, but "bad luck" can also strike twice in a row. Price competition for greenfield pulp projects has been fierce due to the lack of projects and Valmet's desire to build a backlog ahead of the spin and this may continue despite the better outlook. In the longer term, Chinese competitors could make more inroads into Hydro. Timing of Hydro project awards could be impacted by FX volatility in Emerging Markets.

Compared to the past 12 years, we believe that Andritz' organic growth potential is much reduced from the 8% track record, similar to many capital goods companies that benefited from a unique Emerging Markets and resources/energy capex and investment cycle since 2003..

Update on Montes del Plata

This troubled project for Andritz seems on track for start-up in Q1'14 after customer Stora Enso communicated on 5th Feb that Montes del Plata Pulp Mill is currently finalizing the construction works, mill commissioning and the final permit process. Stora reiterated that the start-up process is expected to commence during the first months of 2014. This commentary is in-line with the latest Andritz forecast of start-up in Q1'14. Andritz took another estimated €80mn charge, bringing the total to €150mn since the first announcement of problems on April 30, 2013.

Background

In Q2'11 Andritz booked an order for a contract for supply of production technologies and equipment for the new pulp mill of Montes del Plata, a JV of Stora Enso and Arauco, in Punta Pereira, Uruguay (capacity: 1.3 million t/a eucalyptus market pulp) with start-up planned in the first half of 2013. Andritz didn't disclose value of the order but said typical orders are worth ~€750mn-800mn.

In April 2013, Andritz booked a mid-double-digit charge due to "substantial cost overruns" related to the Montes del Plata order. It added that the costs were caused by factors outside the company's responsibility and it will uphold this claim vigorously within all available legal options. The cost overruns were due to labor relations and not related to Andritz's execution or breakdown of its tight project bidding and execution processes. Andritz guided during its Q2'13 call that the project will start in late Q3 or early Q4 (vs. H1'13 initial start-up date).

In Sept'13 customer Stora Enso announced a further delay that led to low double-digit provision (JPMe €20mn for Andritz). Stora Enso said the mill was 92% complete and the commissioning of certain parts had started but the full timetable can no longer be held. Andritz, at its CMD in October, expected the start-up in either late 2013 or early 2014.

Andritz then announced a further charge (in mid double-digit million euros) in early January 2014 due to cost overruns resulting from additional strikes on the site and additional expenses for construction and erection work. It added that from today's perspective, there is no evidence of a need for further charges, but they cannot be excluded. It said start-up of the plant was expected in Q1'14.

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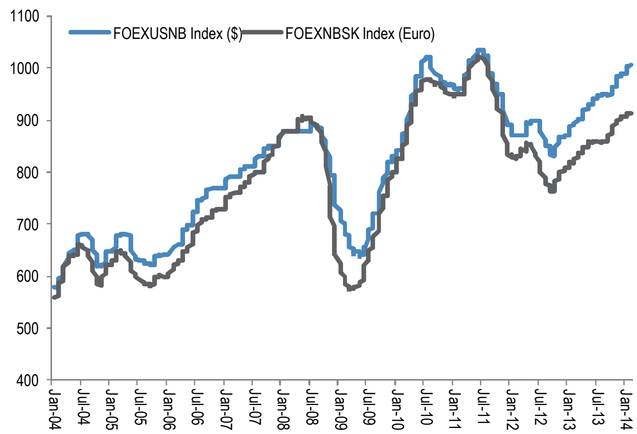
Outlook for new pulp projects

Overall the market is reasonable in terms of activity, with solid demand in tissue paper and container board machines. Nonwoven and plastic films is expected to grow well at around 5% longer term. The service market remains attractive both from an organic and acquisition standpoint. The overall market for pulp is in relative balance as new capacity additions at lower costs are offset by capacity shutdowns elsewhere. The overall demand for fiber is expected to grow at 1.6% over the next 12 years compared to 2.1% over the past 12 years. We see a number of projects, with two or three materializing in the next 12 months potentially. Thereafter Andritz sees 9 large projects with start-up dates in 2017 or beyond (takes at least 2 years to build). The biomass/power market remains difficult in Europe given uncertainty on subsidies.

Figure 1: Pulp price is elevated, providing investment incentive for Southern Hemisphere pulp



Source: Bloomberg.

Figure 2: Large-scale pulp projects

Country	Owner	Project	Capacity/ year*	Planned start-up
Brazil	Klabin	Ortigueira	1.5	2016
Brazil	Eldorado	Três Lagoas	4.0	2017 et seq
Brazil	Fibria	Três Lagoas	1.8	2017 et seq
Brazil	Fibria	Aracruz	1.7	2017 et seq
Brazil	Veracel	Eunápolis	1.5	2017 et seq
Brazil	Brasileira de Celulose	Peixes	1.5	2017 et seq
Brazil	Eco Brasil Florestas	Tocantins	1.5	2017 et seq
Brazil	Suzano	Imperatriz	1.3	2017 et seq
Chile	Arauco	Bio-Bio	1.6	2017 et seq
China	Guangxi Jingui	Qinzhou City	1.2	2017 et seq
Indonesia	Oki Pulp & Paper Mills	Palembang	2.0	2017 et seq
Mozambique	Portucel Mozambique	-	1.5	2017 et seq

Source: Pöyry

Our channel checks suggest there are currently three active Pulp projects in the pipeline that may materialize in 2014 or early 2015. We discuss these projects in detail below.

Table 2: Summary of potential projects that may materialize in H1'14

	Country	Developer	Capacity*	Expected start-up	Financing	Environment
Project Puma	Brazil	Klabin	1.5	Mar'16	Yes	Approved
OKI mill	Indonesia	Asia Pulp & Paper	2.0	2016	Yes	Approved
Três Lagoas 2nd unit	Brazil	Eldorado	2.0	2017	NA	NA

Source: Company reports. Bloomberg. *In Million tons per year

Project Puma in Brazil

Klabin, a São Paulo-based paper producer, approved a plan of building a new pulp mill in Jun 2013 where it planned to invest BRL6.8bn (~$2.8bn). The project is expected to begin commercial operation in Q1'16 and will use loans obtained from Brazil's National Development Bank, the BNDES, and export credit agencies, for additional financing. The mill will have a capacity of 1.5 million metric tons of pulp per year. As most of the pulp produced is exported and hence exposed to USD, we don't expect any material delays on the back of currency weakening.

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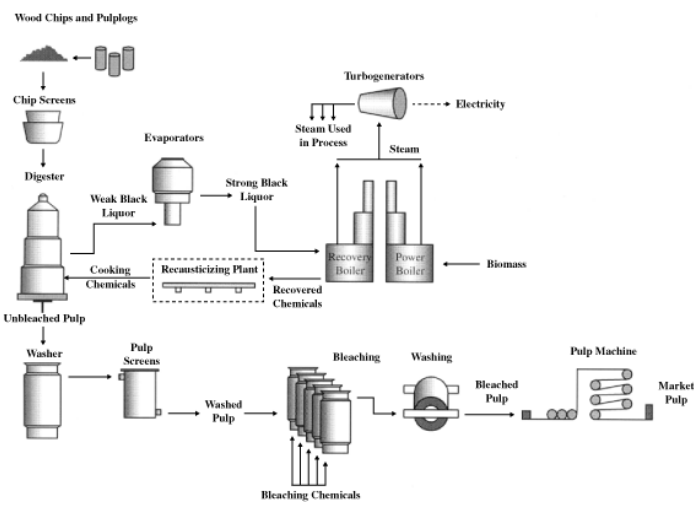
The project received environment clearance in late 2012 and the company seems to be on track to close the financing after raising BRL1.7bn in convertible debentures late last this year. Given the start-up aimed for Mar’16, we expect the order to be awarded in the first half of 2014.

OKI mill in Indonesia – first part of order awarded to Valmet

Subsidiaries of Asia Pulp & Paper (APP) are developing a greenfield pulp mill (OKI) in South Sumatra province that will have a projected annual capacity of 2 million tonnes of pulp and 500,000 tonnes of tissue. The project will cost $2.6bn and APP has partly completed financing in October 2013 by taking a $1.8bn loan from China Development Bank. Civil works have started last year, with the first phase of the commercial production is expected to begin in 2016. We expect the order for pulp machines to be awarded in H1'14.

Valmet announced on February 7, 2014 that it has received an order for approximately €340mn from OKI for two biomas gasifiers, two bomass boilers, an evaporation system, two lime kilns and two pulp dryers. This could indicate that Andritz may win the other parts of the pulp plant.

Figure 3: Diagram of a typical pulp mill



Source: J.P. Morgan.

Expansion at Três Lagoas in Brazil

Brazilian pulp manufacturer Eldorado plans to expand the capacity of its pulp production at Três Lagoas, by adding a second pulp line at the existing site. It is aiming to start the new line in 2017, which will have capacity of 2 million tons a year, taking total production to 3.5 million tons a year. In Sept’13 Eldorado applied for credit line expansion to fund the project, which will reportedly cost BRL7bn (~$2.9bn).

Media reports said Eldorado submitted the second line environmental impact study to the Brazilian authorities in Jun’13 and was expected to receive the environmental license by the end of 2013. It planned to start planting new forests in late 2013 and then begin earthworks early in 2014. Andritz supplied the first unit at Tres Lagoas.

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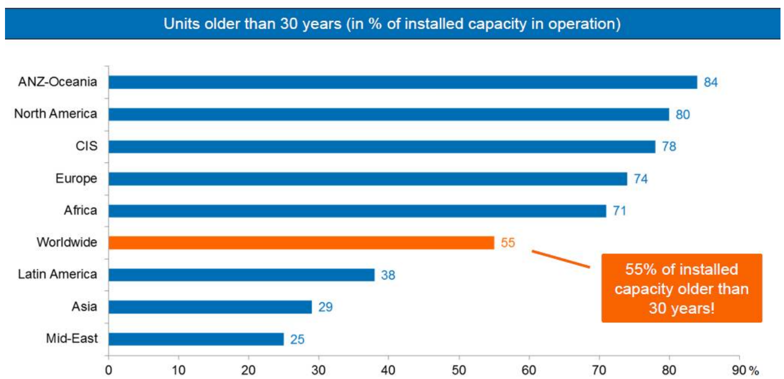
General end-market outlook

Hydro

The overall market is flat for large projects but Andritz sees more upside than downside given a number of larger projects on the horizon for 2014. Andritz sees good market activity in small-scale projects, particularly in Emerging Markets and in pumps. The % of capacity installed that is older than 30 years is 80% in North America and 74% in Europe and hence Andritz sees a continued good refurbishment and renewal market. 40% of global installed Hydro Capacity outside China is based on Andritz technology (various predecessor firms).

Figure 4: Large majority of installed base is ageing, indicating a healthy replacement cycle



Source: Platts – UDI.

Pump storage: Andritz expects a change in the compensation for utilities providing back-up power to fluctuating Renewables in Europe. The timing is uncertain and needs to be led by Germany. Andritz sees a number of projects that are ready to go ahead once the rules change and allow for adequate compensation.

Metals

Metalforming (mostly Schuler) is expected to come down slightly from very high levels but remain a good market. This is because of the very high level of automotive capex. Stainless and carbon steel are at a very low level but are unlikely to improve yet after 5 years of downturn. The furnaces business is doing well and accounts for about 1/3 of the Metals business ex Schuler. The risk in general is from increased competition from Japan.

Separation

The municipal market is flat at a reasonable level. This should improve as austerity-related investment cuts abate. Demand in Industry is weak in areas such as Mining and Chemical and flat in Food. Animal food and Biomass continues to see good demand.

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Valuation – 20% potential upside to €49

We cut our Dec-14 target price to €49 from €51 before to account for the higher losses on the Montes del Plata project. We value Andritz at 9.75x EV/adj. EBIT which compares to the sector average around 10-10.5x. The discount is due to the higher earnings risk/execution risks associated with larger projects. Given the 12-year track record with average organic sales growth of 8%, total sales CAGR of 18% steadily rising operating margins plus the proven value creation through M&A, one could argue for a premium valuation for Andritz.

As a project engineering company, Andritz carries large prepayments. We hence look at the valuation on a simple EV/EBIT, comparable to how we value other companies with prepayments, such as Alstom or Siemens, and a more conservative approach which we use for our target price where we exclude from the net liquidity the net project working capital but add interest income on that cash as operating earnings. We define net project working capital as the net between advance payments made by Andritz and pre-payments received plus the net between cost of earnings of projects under construction and billings in excess of costs and earnings of projects under construction.

In the standard approach, Andritz currently trades on 6.9x 2015E EV/EBIT, a substantial discount to peers as shown in Table 5. In our preferred more conservative approach, Andritz would trade at 8.0x. Our target price of €49 is based on 9.75x EV/EBIT, which is based on our view of cost of capital, return, asset intensity and risk. The simple multiple would be 8.8x at €49 per share.

Table 3: Implied EV/adj. EBIT at current price

€ per share / € million

	Simple EV/EBITA	JPM
Share price	41	41
Market cap	4,268	4,268
Net liquidity 2015E	(1,251)	(1,251)
Net customer advances	0	568
Pension and minority	176	176
Enterprise value	3,193	3,761
EBITA	460	470
EV/EBITA 2015E	6.9	8.0

Source: J.P. Morgan estimates.

Table 4: Implied EV/adj. EBIT at €49 target price

€ per share / € million

	Simple EV/EBITA	JPM
Share price	49	49
Market cap	5,101	5,101
Net liquidity 2015E	(1,251)	(1,251)
Net customer advances	0	568
Pension and minority	176	176
Enterprise value	4,026	4,594
EBITA	460	470
EV/EBITA 2015E	8.8	9.75

Source: J.P. Morgan estimates.

Table 5: Summary valuation of peer group

	EV/Sales			EV/EBIT			Adj PE		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Project Engineering companies									
Andritz	**0.71**	**0.67**	**0.60**	**16.0**	**9.8**	**8.0**	**22.5**	**14.3**	**12.5**
Alstom	0.48	0.48	0.50	8.3	9.0	8.1	9.1	9.6	8.2
Outotec	0.65	0.88	0.86	5.9	11.5	11.5	12.8	19.8	20.5
FLSmidth	0.73	0.88	0.90	13.3	8.9	9.4	7.7	11.8	11.6
Metso	1.05	1.16	1.15	9.4	10.0	9.6	14.9	14.4	13.7
Valmet	0.44	0.50	0.46	36.8	14.6	9.9	22.9	17.7	12.6
Average	**0.68**	**0.76**	**0.75**	**15.0**	**10.6**	**9.4**	**15.0**	**14.6**	**13.2**
Separation Technology									
GEA	1.20	1.12	1.04	11.9	10.0	9.2	16.6	13.3	12.7
Alfa Laval	2.50	2.46	2.30	15.3	13.2	12.0	19.5	17.5	16.2
Average	**1.85**	**1.79**	**1.67**	**13.6**	**11.6**	**10.6**	**18.1**	**15.4**	**14.5**

Source: Company reports and J.P. Morgan estimates. Bloomberg consensus for Valmet. As of 10/02/2014, close of business.

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Financials

Summary change of estimates

We update our model for the additional charges announced in early January. The table below summarizes change in our estimates. There are no material changes to our 2014 and 2015 forecasts. Our adj. EPS adds back acquisition PPA and integration costs but includes other charges/restructuring.

Table 6: Summary change of estimates

(€ million)	Old			New			% Diff		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Sales	**5,830**	**5,917**	**6,273**	**5,743**	**5,818**	**6,211**	**-1%**	**-2%**	**-1%**
Organic	-6%	-1%	6%	-7%	-2%	7%			
EBITDA	352	483	554	247	487	550	-30%	1%	-1%
Depreciation and amortisation	(89)	(86)	(91)	(87)	(84)	(90)			
EBITA	**263**	**397**	**463**	**160**	**403**	**460**	**-39%**	**1%**	**-1%**
Goodwill amortisation	(71)	(80)	(60)	(71)	(80)	(60)			
EBIT	192	317	403	89	323	400	**-54%**	**2%**	**-1%**
Margin	3.3%	5.4%	6.4%	1.6%	5.5%	6.4%			
Interest result	(8)	(5)	(1)	(8)	(5)	(1)	0%	0%	0%
Profit before taxes	185	313	403	83	319	400	-55%	2%	-1%
Income taxes	(52)	(87)	(111)	(24)	(88)	(110)	-53%	2%	-1%
Net income after minorities	**134**	**223**	**287**	**58**	**226**	**285**	**-56%**	**2%**	**-1%**
Reported EPS (€)	1.28	2.14	2.76	0.56	2.17	2.74	-56%	2%	-1%
Adjusted EPS (€)	1.96	2.91	3.34	1.24	2.94	3.31	-37%	1%	-1%
Net debt/(cash)	(782)	(986)	(1,252)	(702)	(924)	(1,097)	-10%	-6%	-12%
Orders	**5,545**	**6,271**	**6,561**	**5,535**	**6,258**	**6,492**	**0%**	**0%**	**-1%**
Pulp and Paper	1,864	2,330	2,424	1,845	2,306	2,398	-1%	-1%	-1%
Metals	1,288	1,403	1,474	1,298	1,469	1,486	1%	5%	1%
Separation	585	603	633	585	585	615	0%	-3%	-3%
Hydro	1,808	1,934	2,031	1,808	1,898	1,993	0%	-2%	-2%
Consolidated sales	**5,830**	**5,917**	**6,273**	**5,743**	**5,818**	**6,211**	**-1%**	**-2%**	**-1%**
Pulp and Paper	1,997	1,944	2,236	1,918	1,867	2,147	-4%	-4%	-4%
Metals	1,318	1,501	1,466	1,318	1,479	1,493	0%	-1%	2%
Separation	625	594	618	618	594	618	-1%	0%	0%
Hydro	1,890	1,877	1,953	1,890	1,878	1,953	0%	0%	0%
EBITA	**263**	**397**	**463**	**160**	**403**	**460**	**-39%**	**1%**	**-1%**
Pulp and Paper	10	105	134	-71	103	129	-810%	-2%	-4%
Metals	84	101	121	62	109	123	-26%	8%	2%
Separation	12	36	46	12	36	46	-1%	0%	0%
Hydro	157	156	162	157	156	162	0%	0%	0%
EBITA margin	**4.5%**	**6.7%**	**7.4%**	**2.8%**	**6.9%**	**7.4%**			
Pulp and Paper	0.5%	5.4%	6.0%	-3.7%	5.5%	6.0%			
Metals	6.3%	6.7%	8.2%	4.7%	7.3%	8.2%			
Separation	2.0%	6.0%	7.5%	2.0%	6.0%	7.5%			
Hydro	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%			

Source: J.P. Morgan estimates.

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Consolidated Financials

Table 7: Summary income statement

(€ mm; financial year end December 31)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales	**3,283**	**3,610**	**3,198**	**3,554**	**4,596**	**5,177**	**5,743**	**5,818**	**6,211**
Growth %	21%	10%	-11%	11%	29%	13%	11%	1%	7%
FX	-4%	-3%	1%	2%	-2%	4%	-1%	-1%	0%
Structure	12%	6%	4%	4%	8%	2%	21%	4%	0%
Organic	9%	2%	-15%	7%	23%	6%	-7%	-2%	7%
Change in inventories	(0)	55	(28)	(56)	56	(5)	0	0	0
Capitalised cost of self-constructed assets	2	1	1	1	1	2	0	0	0
Total Output	3,284	3,666	3,170	3,499	4,653	5,174	5,743	5,818	6,211
Other operating income	67	76	53	72	85	80	90	90	90
Cost of materials	(1,986)	(2,203)	(1,821)	(1,981)	(2,807)	(3,044)	(3,352)	(3,158)	(3,335)
Personnel expenses	(677)	(757)	(760)	(827)	(995)	(1,114)	(1,459)	(1,478)	(1,578)
Other operating expenses	(446)	(503)	(423)	(455)	(549)	(677)	(775)	(785)	(838)
EBITDA	248	286	227	319	404	441	247	487	550
Depreciation and amortisation	(47)	(53)	(63)	(62)	(72)	(84)	(87)	(84)	(90)
EBITA	**201**	**233**	**164**	**258**	**332**	**358**	**160**	**403**	**460**
Goodwill amortisation	(9)	(15)	(17)	(12)	(19)	(24)	(71)	(80)	(60)
EBIT	**193**	**219**	**147**	**245**	**313**	**334**	**89**	**323**	**400**
Margin	5.9%	6.1%	4.6%	6.9%	6.8%	6.5%	1.6%	5.5%	6.4%
Interest result	4	(1)	0	2	11	4	(8)	(5)	(1)
Other income/(expense) from financing	0	(7)	3	0	(0)	(5)	1	1	1
Profit before taxes	**198**	**210**	**150**	**248**	**322**	**331**	**83**	**319**	**400**
Income taxes	(62)	(63)	(47)	(71)	(90)	(89)	(24)	(88)	(110)
Effective tax rate	30%	28%	30%	29%	28%	27%	27%	27%	27%
Net profit	136	147	103	177	231	242	58	231	290
Minority interests	(3)	(7)	(6)	3	(1)	1	0	(4)	(5)
Net income after minorities	**133**	**140**	**97**	**180**	**231**	**243**	**58**	**226**	**285**

Source: Company reports and J.P. Morgan estimates.

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Table 8: Summary balance sheet

(€ mm; financial year end December 31)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Goodwill & Intangibles	273	283	264	317	362	419	876	799	743
Property, plant & equipment	260	328	346	408	433	494	656	682	710
Shares in associates	7	9	9	22	13	1	1	1	1
Investments	33	35	23	59	291	452	117	117	117
Fixed and financial assets	573	656	642	807	1,100	1,365	1,650	1,599	1,570
Deferred tax assets	57	76	89	92	107	122	173	173	173
Inventories	251	360	320	335	412	405	517	524	559
Advance payments made	86	98	98	106	141	181	201	204	217
Trade accounts receivable	400	425	455	510	581	607	689	698	745
Cost of earnings of projects under construction in excess of billings	391	446	384	340	290	321	345	349	373
Other receivables	139	193	239	252	319	342	402	407	435
Prepayments and deferred charges	12	11	0	0	0	0	0	0	0
Marketable securities	102	263	373	407	445	325	195	195	195
Cash and cash equivalents	497	558	710	1,188	1,170	1,493	1,147	1,370	1,542
Current assets	1,877	2,354	2,578	3,138	3,359	3,674	3,496	3,747	4,066
Total assets	**2,508**	**3,086**	**3,309**	**4,036**	**4,567**	**5,161**	**5,318**	**5,518**	**5,809**
Shareholder's equity	**467**	**543**	**629**	**757**	**897**	**1,007**	**911**	**1,079**	**1,239**
Minority interest	14	35	34	38	42	26	46	46	46
Provisions for severance payments	80	82	74	74	78	85	85	85	85
Provisions for pensions	57	68	61	72	85	100	100	100	100
Other provisions	258	328	395	437	504	540	689	669	683
Liability for deferred taxes	100	90	90	80	85	94	180	180	180
Debt	358	431	426	441	436	791	640	640	640
Trade accounts payable	314	306	260	305	439	420	459	465	497
Billings in excess of costs and earnings of projects under construction	388	621	723	994	1,068	1,091	976	989	994
Advanced payments received	82	58	49	91	85	64	140	158	164
Liabilities for current taxes	20	35	35	46	46	51	56	58	62
Other liabilities	370	491	533	702	801	891	1,034	1,047	1,118
Total liabilities and equity	**2,508**	**3,086**	**3,309**	**4,036**	**4,567**	**5,161**	**5,318**	**5,518**	**5,809**

Source: Company reports and J.P. Morgan estimates.

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Table 9: Summary cash flow statement

(€ mm; financial year end December 31)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before taxes	**198**	**210**	**150**	**248**	**322**	**332**	**83**	**319**	**400**
Interest result	(4)	1	(0)	(2)	(11)	(4)	8	5	1
Depreciation & amortisation of fixed assets	56	60	71	62	73	84	158	164	150
(Income)/expense from investments in associates	(1)	(0)	1	(0)	2	1	0	0	0
Change in accrued expenses	0	0	(5)	(10)	12	(29)	0	0	0
Results from sale of fixed & financial assets	(2)	(1)	(4)	(2)	(1)	1	1	1	1
Taxes paid	(56)	(72)	(58)	(74)	(102)	(98)	(59)	(88)	(110)
Interest received	32	36	23	21	29	38	27	25	28
Interest paid	(24)	(33)	(18)	(14)	(17)	(18)	(35)	(31)	(31)
Change in other provisions and pension	1	10	2	0	3	(2)	0	(20)	14
Cash flow from operations	199	212	162	229	310	307	182	374	453
Changes in inventories	(33)	(79)	46	37	(54)	20	0	(7)	(35)
Changes in advance payments made	(50)	6	2	1	(36)	(38)	0	(3)	(14)
Changes in receivables, prepayments and deferred charges	(129)	(45)	8	30	(99)	(35)	0	(14)	(75)
Changes in short-term provisions and accruals	9	7	63	24	1	47	0	6	31
Changes in advance payments received	8	(45)	(10)	17	(16)	(32)	0	18	6
Changes in liabilities and deferred income	30	198	75	367	327	77	0	24	56
Change in net working capital	(166)	43	184	476	124	40	(149)	24	(31)
Net cash flow from operations	**33**	**255**	**346**	**704**	**434**	**346**	**33**	**399**	**422**
Investment in fixed tangible and intangible assets	(57)	(70)	(71)	(69)	(77)	(109)	(112)	(114)	(121)
Free cash flow from operations	**(24)**	**185**	**275**	**636**	**357**	**237**	**(80)**	**285**	**301**
Free cash flow margin %	(0)	0	0	0	0	0	(0)	0	0
Payments received for asset disposals	14	5	22	13	4	4	0	0	0
Investments in financial assets	(8)	(4)	(3)	(10)	(198)	(199)	0	0	0
Business acquisitions & purchase of minority interests	(37)	49	0	(58)	(65)	(53)	(420)	0	0
Dividend paid by Andritz AG	(39)	(51)	(56)	(52)	(87)	(114)	(125)	(58)	(125)
Dividend paid to minority shareholders	(1)	(1)	0	0	0	0	0	0	0
Capital increase/(buy-back)	(20)	5	10	(38)	14	2	0	0	0
Payments made by associates	0	0	0	0	0	0	0	0	0
(Inc)/dec debt	**(118)**	**150**	**265**	**498**	**25**	**(151)**	**(326)**	**223**	**172**

Source: Company reports and J.P. Morgan estimates.

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Divisional Financials

Table 10: Summary divisional estimates

(€ mm; financial year end December 31)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Orders	**3,750**	**3,705**	**3,349**	**4,132**	**5,707**	**4,924**	**5,535**	**6,258**	**6,492**
Pulp and Paper	1,406	1,034	923	1,388	2,664	1,962	1,845	2,306	2,398
Metals	636	612	296	303	319	324	1,298	1,469	1,486
Separation	347	361	305	424	469	629	585	585	615
Feed & Biofuel	144	155	131	146	159				
Hydro	1,216	1,543	1,694	1,870	2,096	2,008	1,808	1,898	1,993
Consolidated sales	**3,283**	**3,610**	**3,198**	**3,554**	**4,596**	**5,177**	**5,743**	**5,818**	**6,211**
Pulp and Paper	1,462	1,327	903	1,105	1,856	2,282	1,918	1,867	2,147
Metals	408	566	473	340	373	405	1,318	1,479	1,493
Separation	365	367	323	375	449	653	618	594	618
Feed & Biofuel	138	145	120	154	146	0	0	0	0
Hydro	910	1,206	1,378	1,579	1,773	1,837	1,890	1,878	1,953
EBITA	**201**	**233**	**164**	**258**	**332**	**358**	**160**	**403**	**460**
Pulp and Paper	84	66	18	81	119	135	-71	103	129
Metals	30	40	21	18	19	25	62	109	123
Separation	25	27	25	30	38	45	12	36	46
Feed & Biofuel	13	12	1	11	7				
Hydro	50	88	101	118	148	153	157	156	162
EBITA margin	**6.1%**	**6.5%**	**5.1%**	**7.2%**	**7.2%**	**6.9%**	**2.8%**	**6.9%**	**7.4%**
Pulp and Paper	5.7%	5.0%	1.9%	7.3%	6.4%	5.9%	-3.7%	5.5%	6.0%
Metals	7.0%	7.1%	4.3%	5.4%	5.2%	6.2%	4.7%	7.3%	8.2%
Separation	6.4%	7.4%	7.6%	7.9%	8.5%	6.9%	2.0%	6.0%	7.5%
Feed & Biofuel	9.7%	8.0%	0.8%	7.2%	5.0%	0.0%			
Hydro	5.4%	7.3%	7.3%	7.5%	8.3%	8.3%	8.3%	8.3%	8.3%

Source: Company reports and J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

Andritz *(Overweight; Price Target: €49.00)*

Investment Thesis

Andritz has an excellent track record for execution on the operations and at re-investing excess cash through value-creative acquisitions (probably the best in the sector). The longer term trends in its two most important businesses – Pulp and Hydro – look favorable, with a shift to Southern Hemisphere pulp resulting in a steady shift of capacity away from Northern Europe, and Hydro remains the cheapest and most reliable renewable power source.

Valuation

Our €49 target price is based on 9.75x 2015E EV/EBIT. The EV/EBIT chosen is a 5%-10% discount to the sector long term average of 10x-10.5x with the higher growth of Andritz offset by the higher risk project nature of the business, lower than the average EBIT margin and currently inefficient balance sheet, but also the higher uncertainty on the economic outlook. In our EV adjustment we take out from the net cash balance the net customer advances (project working capital) of about €0.6bn but credit the valuation with investments shown in the long-term assets (government bonds).

Risks to Rating and Price Target

In addition to the competition risk in Hydro, Andritz is engaged in large projects that can represent more than 10% of group sales, representing a risk. Andritz has a strong track record for project execution; however, cost overruns and liabilities cannot be excluded in this industry. Over the coming 4-5 years we would expect competition in Hydro Power to increase as the Chinese suppliers establish themselves abroad (click here).

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Andritz: Summary of Financials

Profit and Loss Statement (IFRS)

€ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Revenues	4,596	5,177	5,743	5,818	6,211
% Change Y/Y	29.3%	12.6%	10.9%	1.3%	6.7%
% Change like for like	23.1%	6.1%	(7.1%)	(1.5%)	6.7%
Gross profit	1,789	2,133	2,392	2,661	2,876
EBITDA (Ind Ops)	404	441	247	487	550
EBIT (Ind Ops)	313	334	89	323	400
Net Interest	11	(1)	(7)	(4)	0
Earning before tax	322	331	83	319	400
Tax	(90)	(89)	(24)	(88)	(110)
as % EBT	28.1%	27.0%	29.6%	27.7%	27.5%
Minorities	(1)	1	0	(4)	(5)
Net Income (Reported)	231	243	58	226	285
% change Y/Y	28.5%	5.5%	(76.0%)	287.4%	25.9%
Shares outstanding	102	104	104	104	104
DPS	1.10	1.20	0.56	1.20	1.50
EPS (Reported)	2.26	2.34	0.56	2.17	2.74
% Change Y/Y	28.5%	3.3%	(76.0%)	287.4%	25.9%
EPS (adjusted)	2.44	2.56	1.24	2.94	3.31
% Change Y/Y	29.6%	5.1%	(51.4%)	136.7%	12.6%

Cash flow statement (IFRS)

€ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Net Income	231	243	58	226	285
Depreciation & amortization	73	84	158	164	150
Other non-cash items	(196)	(168)	(66)	(107)	(186)
Change in working capital	124	40	(149)	24	(31)
Cash flow from operations	332	313	33	404	333
Capex	(77)	(109)	(112)	(114)	(121)
Free cash flow from operations	255	205	(75)	293	212
Free cash flow per share	2.50	1.97	(0.72)	2.82	2.04
Disposal/(purchase)	(259)	(248)	(420)	-	-
Equity raised/(repaid)	14	2	0	0	0
Dividend paid	(87)	(114)	(125)	(58)	(125)
Beginning cash	1,188	1,170	1,493	1,147	1,370
Ending cash	1,170	1,493	1,147	1,370	1,542

Balance sheet (IFRS)

€ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Cash and cash equivalents	1,170	1,493	1,147	1,370	1,542
Accounts Receivable	581	607	689	698	745
Inventories	412	405	517	524	559
Others	1,196	1,170	1,143	1,155	1,220
Current assets	3,359	3,674	3,496	3,747	4,066
Net intangibles	774	993	1,166	1,090	1,033
Net fixed assets	433	494	656	682	710
Total assets	4,567	5,161	5,318	5,518	5,809
ST loans	-	-	-	-	-
Payables	439	420	459	465	497
Others	2,000	2,097	2,206	2,253	2,338
Total current liabilities	2,439	2,517	2,666	2,718	2,835
Long term debt	436	791	640	640	640
Total liabilities	3,670	4,153	4,407	4,439	4,570
Shareholders' equity	897	1,007	911	1,079	1,239
BVPS	8.79	9.68	8.75	10.36	11.90
Total liabilities and Shareholders' equity	4,567	5,161	5,318	5,518	5,809

Ratio Analysis (IFRS)

€ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Gross margin	38.9%	41.2%	41.6%	45.7%	46.3%
EBITDA margin	8.8%	8.5%	4.3%	8.4%	8.9%
Adj EBIT margin	6.8%	6.5%	1.6%	5.5%	6.4%
ROE	30.1%	28.0%	13.5%	30.8%	29.8%
ROCE	17.8%	15.6%	3.7%	14.3%	16.1%
Interest coverage	-	307.4	37.9	125.6	6,636.2
Net debt to equity	(131.5%)	(102.0%)	(77.0%)	(85.7%)	(88.5%)
Net debt/ EBITDA	(291.8%)	(232.8%)	(283.5%)	(189.8%)	(199.3%)

Source: Company reports and J.P. Morgan estimates.

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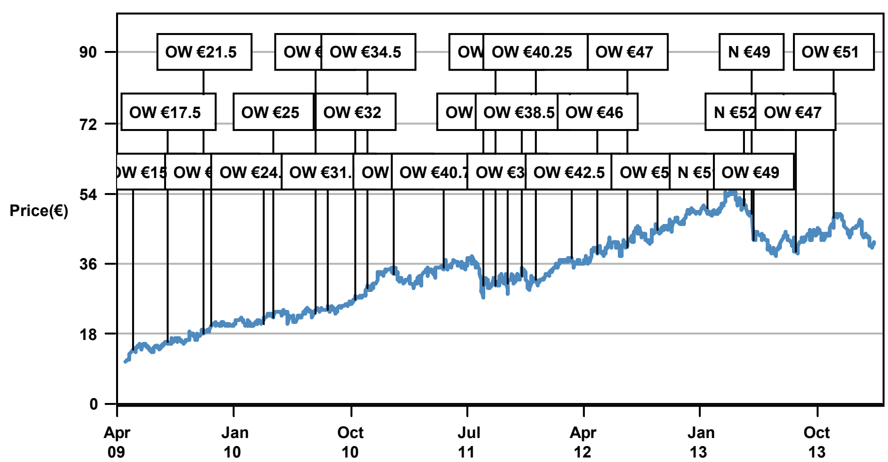
Andritz (ANDR.VI, ANDR AV) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 08, 2009.

Date	Rating	Share Price (€)	Price Target (€)
08-May-09	OW	13.69	15.50
28-Jul-09	OW	15.88	17.50
22-Oct-09	OW	18.18	21.50
06-Nov-09	OW	19.79	23.50
08-Mar-10	OW	20.46	24.25
31-Mar-10	OW	21.92	25.00
08-Jul-10	OW	23.14	27.00
06-Aug-10	OW	24.33	31.50
12-Oct-10	OW	26.64	32.00
08-Nov-10	OW	29.94	34.50
07-Jan-11	OW	33.56	40.00
06-May-11	OW	34.71	40.75
09-Aug-11	OW	30.45	37.50
07-Sep-11	OW	30.10	36.50
04-Oct-11	OW	30.80	36.00
08-Nov-11	OW	32.70	38.50
09-Dec-11	OW	31.76	40.25
01-Mar-12	OW	37.21	42.50
04-May-12	OW	38.65	46.00
11-Jul-12	OW	40.06	47.00
21-Sep-12	OW	44.72	51.50
14-Jan-13	N	50.00	51.50
09-Apr-13	N	50.53	52.50
30-Apr-13	N	48.90	49.00
02-May-13	OW	42.12	49.00
08-Aug-13	OW	39.00	47.00
06-Nov-13	OW	47.49	51.00

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

Explanation of Equity Research Ratings, Designations and Analyst(s) Coverage Universe:
J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve

months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, www.jpmorganmarkets.com.

Coverage Universe: Willi, Andreas: ABB (ABBN.VX), Alstom (ALSO.PA), Andritz (ANDR.VI), Assa Abloy (ASSAb.ST), Electrolux (ELUXb.ST), Legrand (LEGD.PA), Nexans (NEXS.PA), OSRAM (OSRn.DE), Philips (PHG.AS), Prysmian (PRY.MI), Rexel (RXL.PA), Schneider Electric (SCHN.PA), Siemens (SIEGn.F), Zumtobel (ZUMV.VI)

J.P. Morgan Equity Research Ratings Distribution, as of January 1, 2014

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	43%	45%	12%
IB clients*	57%	49%	36%
JPMS Equity Research Coverage	43%	50%	7%
IB clients*	75%	66%	59%

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