

9m Results 2024

 Opinion ⁽¹⁾: Below expectations

 Impact ⁽¹⁾: We will have to lower our estimates

Alfredo Echevarría Otegui – alfredo.echevarria@institutodeanalistas.com

+34 915 631 972

Business description

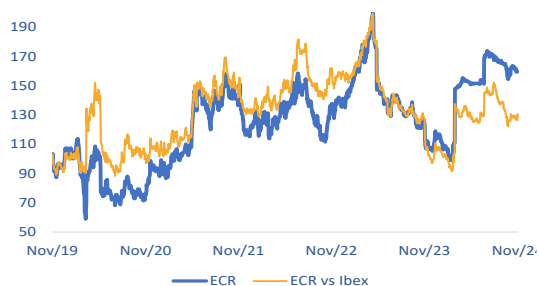
Ercros (ECR) is an industrial group manufacturing chemical products that operates through 3 divisions: (i) basic chemicals, (ii) intermediate chemicals and (iii) pharmaceuticals. The core activity is the production of chlorine-caustic soda, ECR being the main producer in Spain (60% of total installed capacity) and among the top 10 at the European level.

Market Data

Market Cap (Mn EUR and USD)	331.0	355.4
EV (Mn EUR and USD) ⁽²⁾	424.5	455.9
Shares Outstanding (Mn)	91.4	
-12m (Max/Med/Mín EUR)	3.94 / 3.23 / 2.24	
Daily Avg volume (-12m Mn EUR)	0.35	
Rotation ⁽³⁾	26.9	
Factset / Bloomberg	ECR-ES / ECR SM	
Close fiscal year	31-Dec	

Shareholders Structure (%) ⁽⁵⁾

Víctor Manuel Rodríguez Martín	6.1
Joan Casas Galofre	6.0
Dimensional Fund Advisors, L.P.	5.0
Montserrat García Pruns	3.6
Free Float	76.5

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	1.7	-4.4	28.0	59.9
vs Ibex 35	3.1	-13.6	2.9	30.7
vs Ibex Small Cap Index	5.9	-0.3	21.7	34.4
vs Eurostoxx 50	5.0	-8.9	10.9	22.9
vs Sector benchmark ⁽⁴⁾	9.0	-5.9	19.8	30.3

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Stoxx Europe 600 Chemicals.

(5) Others: Samson Rock Event Driven Fund 1.4%, Raphael Kain 1.4%

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

9M24: the cycle hits the "floor", the recovery will be visible in 2025. But only IPOs "matter".

9M REVENUE DECLINE (BUT 3Q MARKS THE "VALLEY" OF THE CYCLE)... ECR generated total 9m24 revenues of EUR 370.8Mn (-16% vs 9m23). A decline explained by weak demand (end of price adjustment and volume drop of -3.4%). By division: (i) chlorine derivatives sales reached EUR 298.4Mn (-18.3% vs 9m23), (ii) intermediate chemicals decreased by -2.5% to EUR 150.9Mn and (iii) pharmaceuticals fell to EUR 48.0Mn (-6.8%). In the flat 3Q, a decline of -0.6% in revenue (-15.6% in 1S24); indicative of having reached the inflection point of the "valley" of the cycle.

...TOGETHER WITH A STRONG CONTRACTION OF RECURRING EBITDA which stood at EUR 22.5Mn (vs EUR 41.7Mn 9m23; -46%), with a margin of 4.2% (cycle minimum; -2.7pp vs 9m23). A direct consequence of the impact of weak demand on revenues. But it signals the cyclical minimum, with 3Q EBITDA flat close to break-even (EUR 1.1Mn).

4Q EBITDA MARKS THE BEGINNING OF THE RECOVERY. The 3Q24 results are the "floor" of the cycle. And we expect 4Q24 to show the beginning of the recovery. Although we will have to adjust 2024e numbers downwards to bring them to revenues of c.EUR 700Mn (vs EUR 730.7Mn estimated; -4.2%), which implies a revenue growth of c.+10% in the flat 4Q. And EBITDA 2024e of c.EUR 33Mn (vs EUR 39.4Mn estimated; -16.2%) with a margin of 4.7% (minimum level of the last cycle; margin of 6.2% in the flat 4Q).

SITUATION OF BONDALTI AND ESSECO INDUSTRIAL'S TAKEOVER BID. After the payment of ECR's dividend (Jul 24) both offers adjusted their price: Bondalti to EUR 3.505/share and Esseco to EUR 3.745. Both offers are still pending approval by the competition authority (CNMC) and the regulator (CNMV). After which the Board can rule on both offers and the subscription period and potential competing offers will open.

We do not expect the process to be resolved before February 2025. The price is currently trading c-5% vs the highest offer (Esseco). Approximately 27% of the shareholders have communicated their irrevocable intention not to accept either of the two offers at the current prices, which is, in itself, a strong incentive to improve the offers presented.

IN SHORT, RESULTS THAT ARE NOT PRICED IN. EVERYTHING DEPENDS ON THE TAKEOVER BID AND POSSIBLE IMPROVEMENTS IN THE OFFER PRICE. The 9m24 results do not reflect the market, although they already show the path of the cyclical recovery of the business that we expect to become evident in 2025, "repeating" the 2023 numbers (revenues c.EUR 750Mn and EBITDA c.EUR 50Mn).

Which confirms that the takeover bids are launched at the "valley" of the cycle and at a significant discount to the fundamental value of ECR (we estimate EUR 4.7/share based on an EBITDA of EUR 65Mn at the midpoint of the cycle: 2x the 2024e EBITDA; discount vs fundamental value of c.-20% in the Esseco offer). Therefore, the most likely scenario remains that of a "Takeover bid war" with improvements in the offer prices.

Appendix 1. Results table

EUR Mn	9m24	9m23	9m24 vs
			9m23
Total Revenues	530.2	600.7	-11.7%
Chlorine derivatives	298.4	365.4	-18.3%
Intermediate chemicals	150.9	154.8	-2.5%
Pharmaceuticals	48.0	51.5	-6.8%
Other revenues	32.9	29.0	13.3%
Recurrent EBITDA	22.5	41.7	-46.0%
<i>Rec. EBITDA/Revenues</i>	<i>4.2%</i>	<i>6.9%</i>	<i>-2.7 p.p.</i>
EBITDA	22.9	38.5	-40.5%
<i>EBITDA/Revenues</i>	<i>4.3%</i>	<i>6.4%</i>	<i>-2.1 p.p.</i>
EBIT	-0.6	14.1	-103.9%
PBT	-9.3	8.3	-211.2%
NP	-7.8	5.7	-237.3%
Tons sold (thousand)	748	774	-3.4%
		2023	
Net Debt	125.8	80.8	55.6%

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	331.0	
+ Minority Interests	-	9m Results 2024
+ Provisions & Other L/T Liabilities	22.4	6m Results 2024
+ Net financial debt	125.8	9m Results 2024
- Financial Investments	54.6	6m Results 2024
+/- Others		
Enterprise Value (EV)	424.5	

LIGHTHOUSE

Calle Núñez de Balboa, 108 1ª Planta
28006 Madrid
T: +34 915 904 226
institutodeanalistas.com/lighthouse

Alfredo Echevarría Otegui

Head of research

alfredo.echevarria@institutodeanalistas.com

Luis Esteban Arribas, CESGA

Equity research

luis.esteban@institutodeanalistas.com

José Miguel Cabrera van Grieken

Equity research

Jose.cabrera@institutodeanalistas.com

Jesús López Gómez, CESGA

ESG Analyst & Data analytics

jesus.lopez@institutodeanalistas.com

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
07-Nov-2024	n.a.	3.62	n.a.	n.a.	9m Results 2024	Alfredo Echevarría Otegui
30-Jul-2024	n.a.	3.88	n.a.	n.a.	6m Results 2024 - Estimates downgrade	Enrique Andrés Abad, CFA
28-Jun-2024	n.a.	3.42	n.a.	n.a.	Important news	Enrique Andrés Abad, CFA
27-May-2024	n.a.	3.43	n.a.	n.a.	Small & Micro Caps (Spain)	Alfredo Echevarría Otegui
30-Apr-2024	n.a.	3.46	n.a.	n.a.	3m Results 2024	Enrique Andrés Abad, CFA
08-Mar-2024	n.a.	3.35	n.a.	n.a.	Important news	Enrique Andrés Abad, CFA
29-Feb-2024	n.a.	2.36	n.a.	n.a.	12m Results 2023	Enrique Andrés Abad, CFA
08-Nov-2023	n.a.	2.79	n.a.	n.a.	9m Results 2023 - Estimates downgrade	Enrique Andrés Abad, CFA
27-Jul-2023	n.a.	3.15	n.a.	n.a.	6m Results 2023	Enrique Andrés Abad, CFA
14-Jun-2023	n.a.	3.16	n.a.	n.a.	Important news - Estimates downgrade	David López Sánchez
12-Jun-2023	n.a.	3.13	n.a.	n.a.	Small & Micro Caps (Spain)	David López Sánchez
03-May-2023	n.a.	3.96	n.a.	n.a.	3m Results 2023	David López Sánchez
11-Apr-2023	n.a.	4.22	n.a.	n.a.	Review of estimates	David López Sánchez
22-Feb-2023	n.a.	3.73	n.a.	n.a.	12m Results 2022	David López Sánchez
09-Nov-2022	n.a.	3.12	n.a.	n.a.	9m Results 2022	David López Sánchez
03-Aug-2022	n.a.	3.26	n.a.	n.a.	6m Results 2022	David López Sánchez
15-Jun-2022	n.a.	3.11	n.a.	n.a.	Estimates upgrade	David López Sánchez
04-May-2022	n.a.	3.12	n.a.	n.a.	3m Results 2022	David López Sánchez
25-Feb-2022	n.a.	2.79	n.a.	n.a.	12m Results 2021	David López Sánchez
10-Nov-2021	n.a.	3.25	n.a.	n.a.	9m Results 2021	David López Sánchez
29-Jul-2021	n.a.	3.10	n.a.	n.a.	6m Results 2021 - Estimates upgrade	David López Sánchez
12-May-2021	n.a.	2.92	n.a.	n.a.	3m Results 2021 - Estimates upgrade	David López Sánchez
26-Feb-2021	n.a.	2.23	n.a.	n.a.	12m Results 2020	David López Sánchez
16-Nov-2020	n.a.	1.86	n.a.	n.a.	9m Results 2020	David López Sánchez
03-Aug-2020	n.a.	1.60	n.a.	n.a.	6m Results 2020 - Estimates upgrade	David López Sánchez
15-May-2020	n.a.	1.76	n.a.	n.a.	3m Results 2020	David López Sánchez
30-Apr-2020	n.a.	2.40	n.a.	n.a.	Estimates downgrade	David López Sánchez
02-Mar-2020	n.a.	2.06	n.a.	n.a.	12m Results 2019	David López Sánchez
06-Nov-2019	n.a.	2.19	n.a.	n.a.	9m Results 2019 - Estimates upgrade	David López Sánchez
29-Jul-2019	n.a.	1.73	n.a.	n.a.	6m Results 2019	David López Sánchez
03-Jun-2019	n.a.	1.96	n.a.	n.a.	Initiation of Coverage	David López Sánchez

