

12m Results 2019

Opinion ⁽¹⁾: Below expectations

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

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Business description

Borges Agricultural & Industrial Nuts, S.A. (BAIN) is a small international group based in Spain (Tarragona), specialising in the agricultural production, processing and B2B marketing of nuts. It has an international presence (58% of 2018 revenue) and is a European benchmark in the almond segment (share of c.7%). Its core shareholder is Borges International Group (89.1% of capital).

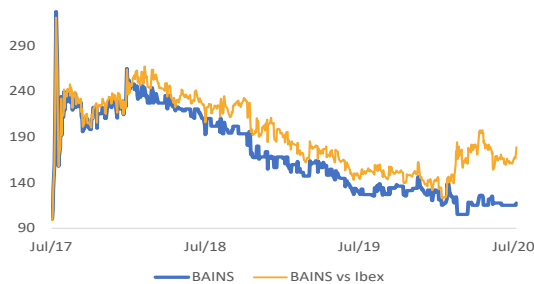
Market Data

Market Cap (Mn EUR and USD)	64.8	76.3
EV (Mn EUR and USD) ⁽²⁾	107.7	126.8
Shares Outstanding (Mn)	23.1	
-12m (Max/Med/Min EUR)	3.48 / 2.96 / 2.50	
Daily Avg volume (-12m Mn)	n.m.	
Rotation ⁽³⁾	1.0	
Thomson Reuters / Bloomberg	BAINS.MC / BAIN SM	
Close fiscal year	31-May	

Shareholders Structure (%)

Borges International Group	89.1
Board Members	0.3
Free Float	10.6

Relative performance -5y (Base 100)



Stock performance

(%)	-1m	-3m	-12m	-5Y
Absolute	2.2	2.2	-11.4	n.a.
vs Ibex 35	7.4	2.9	15.6	n.a.
vs Ibex Small Cap Index	2.3	-2.6	-5.3	n.a.
vs Eurostoxx 50	4.1	-5.7	-3.2	n.a.
vs Sector benchmark ⁽⁴⁾	2.1	0.5	-9.2	n.a.

(1) The opinion about results is in respect of reported EBITDA and its relation to our estimate for the year (12m). The impact reflects whether, as a consequence of these results, we envisage a significant (>5%) upgrade or downgrade to our EBITDA estimates (for any of the estimated years).

(2) Please refer to Appendix 2.

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

(4) vs TR Europe Food Processing.

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

2019 shaped by weak prices

REVENUES IMPACTED (4Q) BY THE COVID-19 CRISIS (EUR 180.6MN, +1.6% Y/Y 2019, VS. +7% 9M19), with -5.7% in volume (-5.2% excluding subproducts) and +7.3% in prices (underpinned by the recovery of walnut and almond prices in the second half of the 2019 calendar year). The closure of traditional sales channels in 4Q19 due to lockdown (a key quarter for the company due to the accumulation of holidays), contributed to the -15.5% y/y in the volume of nuts sold in the quarter in isolation.

WITH THE WORSENING OF PRICES ACCELERATING: with almond prices at 10-year lows (< EUR 3.8/Kg in May vs. EUR 6.0/Kg in January) due to: 1) the record almond harvest in 2019; 2) the impact of the Covid-19 crisis (leading to the generation of surpluses); and 3) the good prospects for the (national/international) production of almonds in 2020 (NASS pointing to +18% y/y in US production) and of walnuts (Chile).

AND REC. EBITDA STAGNATING "ARTIFICIALLY" (DUE TO THE FIFO EFFECT): -2.8% y/y in rec. EBITDA (EUR 2.0Mn) and -22.7% y/y proforma without the impact of IFRS-16 (EUR 0.4Mn), impacted by the change in inventories (EUR -3.5Mn y/y). Operating costs remain stable.

WHILE THE DICHOTOMY OF THE BUSINESSES IS ACCENTUATED: The industrial/commercial business entering in losses (EUR -1.2Mn 2019 vs. EUR 3.2Mn -1y) and offsetting the good performance of the agricultural business (EUR 1.7Mn vs. EUR -0.8Mn -1y), taking Group results close to break-even (EUR 0.3Mn BN, -86.8% y/y). Record agricultural production (2,639 MT, +15.1%; underpinned by a good year for pistachios).

RINGING ALARM BELLS DUE TO DEBT (ND/REC. EBITDA 21.7X, +3.5X Y/Y), with ND at highs (EUR 44.5Mn, +15.7% y/y), due to the increased investment in working capital (c. EUR +3.6Mn, with +4% y/y in inventories) and despite lower Capex (EUR 5.0Mn, -18% y/y), and after a cash inflow of EUR 0.9Mn from the sale of the popcorn machinery (vs. EUR 1.5Mn estimated). The advance collection of the remaining payment associated with the sale of assets in 2018 (EUR 3.5Mn) and the sale of property assets (EUR 2.7Mn) de-stressed the balance sheet.

WITH THE AGRICULTURAL BUSINESS ADVANCING IN LINE WITH THE COMPANY'S STRATEGY: BAINS has executed c. 80% of the land managed (+5p.p. y/y). The entry into production of c. 700 Has. in the mid term (c. 35% of the total executed) will boost profitability. In addition, the pistachio project (which will rein in investment requirements) has seen a 35% increase in the hectares under cultivation.

ALTHOUGH THE OUTLOOK IS RATHER DISHEARTENING. Although the FIFO impact could potentially reverse in 2020 (if prices were to stabilise) driving EBITDA, there are headwinds: 1) still high uncertainty due to Covid-19 (reducing sales), 2) the accumulation of "perishable" remainders from the last harvest (pressuring prices), 3) the entry in production (m/t) of the most recent plantations, and 4) the potential rekindling of a cold war between the US and China (this time due to Covid-19) tensioning prices.

WEAK AGRICULTURAL PRICES WILL LEAD US TO REVISE OUR ESTIMATES. Although 2020e PBT (EUR 4.3Mn) is feasible if the FIFO impact is reversed, 2020 results will be shaped by the performance of prices in the 2H of the 2020 calendar year (final harvest), impacting margins. Although at current prices the food industry would be able to absorb all the expected agricultural production, the high global uncertainty generated by the Covid-19 crisis and the increase in production will continue to determine prices (s/t).

Appendix 1. Results table

	2019 (Real)	2018	2019 (Real) vs 2018	2019 (Est.)	4Q19	4Q19 vs 4Q18
Total Revenues	180.6	177.8	1.6%	182.3	40.0	-13.8%
Walnuts	21.7	17.8	21.9%	18.4	6.2	94.3%
Almonds	117.4	117.4	0.0%	119.1	23.2	-24.3%
Other nuts	30.7	28.4	7.9%	30.3	8.2	10.5%
Other products	10.8	14.2	-23.8%	14.6	2.4	-53.5%
Rec. EBITDA⁽¹⁾	2.0	2.1	-2.8%	6.4	-0.8	n.m.
Rec. EBITDA / Rev.	1.1%	1.2%	-0.1 p.p.	3.5%	-2.0%	-2.9 p.p.
EBITDA⁽¹⁾	1.7	1.9	-12.0%	5.7	-0.5	n.m.
EBITDA / Rev.	0.9%	1.1%	-0.1 p.p.	3.1%	-1.4%	-2.0 p.p.
PBT	0.4	3.0	-87.1%	3.0	-1.6	n.m.
NP	0.3	2.4	-86.8%	2.3	-1.2	n.m.
Ordinary NP	0.6	0.9	-36.8%	3.2	-0.5	n.m.
Ha. managed	2,571.2	2,531.0	1.6%	2,531.0	2,571.2	1.6%
Volume ⁽²⁾	33,364	35,191	-5.2%	34,115	7,453	-15.5%
Tns. produced	2,639	2,292	15.1%	2,635		
Rec. FCF	-8.2	-4.5	83.5%	-0.9		
Rec. FCF Yield	n.a.	n.a.	n.a.	n.a.		
Net Debt	44.5	38.4	15.7%	38.6		
ND / Rec. EBITDA	21.7 x	18.3 x	3.5 x	6.1 x		

⁽¹⁾ EBITDA and Rec. EBITDA adjusted. It excludes capitalized expense.

⁽²⁾ Excluding subproducts.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	64.8	
+ Minority Interests	2.3	12m Results 2019
+ Provisions & Other L/T Liabilities	2.8	12m Results 2019
+ Net financial debt	44.5	12m Results 2019
- Financial Investments	4.0	12m Results 2019
+/- Others	(2.7)	Lighthouse 2019
Enterprise Value (EV)	107.7	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
03-Aug-2020	n.a.	2.80	n.a.	n.a.	12m Results 2019	Ana Isabel González García, CIIA
04-Jun-2020	n.a.	2.98	n.a.	n.a.	Review of estimates	Ana Isabel González García, CIIA
31-Mar-2020	n.a.	2.50	n.a.	n.a.	9m Results 2020	Ana Isabel González García, CIIA
02-Mar-2020	n.a.	2.96	n.a.	n.a.	6m Results 2020	Ana Isabel González García, CIIA
16-Oct-2019	n.a.	3.18	n.a.	n.a.	3m Results 2020	Ana Isabel González García, CIIA
01-Aug-2019	n.a.	3.16	n.a.	n.a.	12m Results 2019	Ana Isabel González García, CIIA
25-Apr-2019	n.a.	3.72	n.a.	n.a.	9m Results 2019	Ana Isabel González García, CIIA
11-Apr-2019	n.a.	3.84	n.a.	n.a.	Initial Coverage	Ana Isabel González García, CIIA

Note (1): As from the estimates revision issued on 4 June 2020, we have changed the system for naming years vs previous reports, i.e., the year ending 31 May 2020 is now called 2019 (vs. 2020 previously).