

9m Results 2020

Opinion ⁽¹⁾: Above expectations**Impact** ⁽¹⁾: We will have to raise our estimates

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Business description

Desarrollos Especiales de Sistemas de Anclajes (DESA) is a small industrial group with its corporate headquarters in Barcelona (Spain), specialising (>60 years) in the manufacture and sale of fasteners, staples and tools used in the construction, industry and agriculture sectors. It has an international presence (35% of revenue) and is controlled by its core shareholders (c.75% of capital).

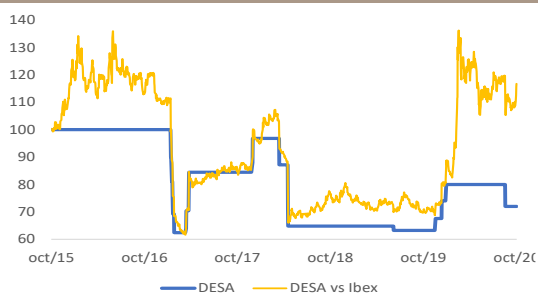
Market Data

Market Cap (Mn EUR and USD)	16.1	18.8
EV (Mn EUR and USD) ⁽²⁾	29.7	34.6
Shares Outstanding (Mn)	1.8	
-12m (Max/Med/Min EUR)	10.00 / 9.47 / 7.90	
Daily Avg volume (-12m Mn)	n.m.	
Rotation ⁽³⁾	0.0	
Thomson Reuters / Bloomberg	DESA.MC / DESA.SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Maden S.A.	29.9
SARM S.A.	20.0
Gestión Ixua S.L.	16.3
Board Members	8.9
Free Float	24.9

Relative performance -5y (Base 100)



Stock performance

(%)	-1m	-3m	-12m	-5Y
Absolute	0.0	-10.0	13.9	-28.0
vs Ibex 35	4.7	1.2	67.0	16.8
vs Ibex Small Cap Index	2.5	-11.7	18.8	-45.8
vs Eurostoxx 50	8.6	0.3	39.4	-17.0
vs Sector benchmark ⁽⁴⁾	5.5	-7.9	8.7	-49.2

(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 Industrial Machinery and Equipment.

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

A year that is (almost) a wrap (9M), and with room for improvement

SLOWDOWN IN THE FALL IN REVENUE (EUR 29.4Mn 9M20, -9.2% y/y VS. -13.6% Y/Y 6M20), thanks to the pick-up in business in 3Q. After the significant impact of the Covid-19 crisis in 2Q, especially on the industrial and construction divisions (c. -20% and -10% y/y 6M20 respectively) the recovery in economic activity in 3Q has boosted the business (repeating revenues; EUR 9.8Mn 3Q20, +0.9% y/y).

WITH THE RETAIL CHANNEL AND AGRICULTURAL DIVISION BEING THE MAIN GROWTH DRIVERS: the good performance of the former (c. +20% y/y 9M20e) stood out, while growth in the agricultural business was maintained (c. 5% y/y, in line vs. 6M), continuing to endorse the business diversification strategy. The recovery was also reflected in the industrial division (c. +5% y/y 3Q20e)

WITH THE REVERSAL OF MARGIN WORSENING SEEN IN 1H20 ACCELERATING (REC. EBITDA/REVENUE 7.8%, +1.4p.p. y/y, and vs. 7.3% 6M20), underpinned by: 1) the depreciation of the USD, 2) lower procurement costs and 3) the favourable revenue mix which has enabled the gross margin to recover (40.1% 9M20, +0.1p.p. y/y). In addition, the cost containment policy (-12.9% y/y in total operating costs) has continued to benefit from the government's furlough scheme during the pandemic and the impact of the restructuring carried out in 2019 (-17.4% y/y 9M20 in personnel expenses). Besides this, DESA incurred EUR 0.3Mn of restructuring costs in 3Q. The depreciation of the USD since June, together with the continuation of the government's furlough scheme (due to the prolongation of the pandemic) and of restructuring measures in 4Q, should accelerate the recovery of margins in the year.

AND A REDUCTION OF DEBT (ND EUR 12.9Mn, -9.9% y/y) to which the divestment of working capital made a special contribution (EUR +2.3Mn y/y; with -35% y/y in inventories, an increase in these being likely in 4T), and with CAPEX in line with our annual forecast (EUR 1.4Mn 9M20, +56% y/y; enlargement of the logistics platform at Valls). DESA has continued to extend the maturity of its debt (83% at l/t vs. 23.5% -1y).

WE WILL UPGRADE OUR ESTIMATES: in light of the better than expected Rec. EBITDA figure in the period (EUR 2.3Mn Rec. EBITDA 9M20 vs. EUR 1.8Mn 2020e), that reflects; 1) the favourable impact of forex on margins, 2) discipline in cost control and operating efficiencies (9M), 3) the continuation of the favourable impact of the government's furlough scheme (due to the prolongation of the pandemic) and 4) the capacity for margin improvement as a result of the implementation of additional cost control measures (4Q).

The current situation (worsening of the Covid-19 pandemic) continues to advise caution, due to the potential use of additional, more restrictive measures (s/t) to control the second wave of the Covid-19 pandemic at a national/international (France) level, making it difficult to estimate the final impact that the prolongation of the health crisis will have on the Group's P/L in 2020. However, the better results reported at 9M support a better than expected scenario for DESA, that could achieve (without a new total lockdown) c. EUR 2.3Mn in Rec. EBITDA 2020e (c. +25% vs. our current estimate), exceeding break-even in EBIT this year.

Appendix 1. Results table

	9M20	9M19 ⁽²⁾	9M20 vs 9M19	2020 (Est.)	2020 (Est.) vs 2019	3Q20	3Q20 vs 3Q19
Total Revenues	29.4	32.4	-9.2%	37.7	-11.3%	9.8	0.9%
Rec. EBITDA⁽¹⁾	2.3	2.1	10.5%	1.8	-26.2%	0.9	206.4%
<i>Rec. EBITDA / Rev.</i>	<i>7.8%</i>	<i>6.4%</i>	<i>1.4 p.p.</i>	<i>4.9%</i>	<i>-1.0 p.p.</i>	<i>8.8%</i>	<i>5.9 p.p.</i>
EBITDA	2.0	2.1	-1.5%	1.2	-48.3%	0.6	118.1%
<i>EBITDA / Rev.</i>	<i>6.9%</i>	<i>6.4%</i>	<i>0.5 p.p.</i>	<i>3.3%</i>	<i>-2.3 p.p.</i>	<i>6.3%</i>	<i>3.4 p.p.</i>
EBIT	1.1	1.2	-6.8%	0.0	-99.1%	0.3	n.a.
EBT	1.0	1.1	-5.8%	-0.1	-112.8%	0.3	n.a.
NP	1.0	1.1	-5.8%	-0.1	-117.7%	0.3	n.a.
Ordinary NP	1.2	1.1	17.8%	0.7	-37.7%	0.6	n.a.
Rec. FCF	2.9	0.2	n.m.	1.1	201.7%		
Net Debt	12.9	14.3	-9.9%	15.1	-3.0%		
ND/Rec. EBITDA	5.6 x	6.9 x	-1.3 x	8.2 x	2.0 x		

(1) Excludes capitalizations and non recurrent expenses.

(2) Data restated for the impact of IFRS 16

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	16.1	
+ Minority Interests	-	9m Results 2020
+ Provisions & Other L/T Liabilities	0.7	9m Results 2020
+ Net financial debt	12.9	9m Results 2020
- Financial Investments	0.1	9m Results 2020
+/- Others	-	9m Results 2020
Enterprise Value (EV)	29.7	

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
30-Oct-2020	n.a.	9.00	n.a.	n.a.	9m Results 2020	Ana Isabel González García, CIIA
29-Sep-2020	n.a.	9.00	n.a.	n.a.	6m Results 2020	Ana Isabel González García, CIIA
02-Jul-2020	n.a.	10.00	n.a.	n.a.	Review of estimates	Ana Isabel González García, CIIA
02-Mar-2020	n.a.	10.00	n.a.	n.a.	12m Results 2019	Ana Isabel González García, CIIA
23-Dec-2019	n.a.	8.45	n.a.	n.a.	Initial Coverage	Ana Isabel González García, CIIA

