

**12m Results 2019**
**Opinion** <sup>(1)</sup>: In line.

**Impact** <sup>(1)</sup>: We will have to trim our estimates.

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**Business description**

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. Sales outside Spain represent 48% of total revenue.

**Market Data**

Market Cap (Mn EUR and USD)	239.2	263.8
EV (Mn EUR and USD) <sup>(2)</sup>	374.7	413.2
Shares Outstanding (Mn)	104.9	
-12m (Max/Med/Min EUR)	3.51 / 2.38 / 1.60	
Daily Avg volume (-12m Mn)	0.88	
Rotation <sup>(3)</sup>	94.1	
Thomson Reuters / Bloomberg	ECR.MC / ECR SM	
Close fiscal year	31-Dec	

**Shareholders Structure (%)**

Dimensional Fund Advisors, L.P.	5.3
Joan Casas Galofre	5.1
Víctor Manuel Rodríguez Martín	3.5
Montserrat Garcia Pruns	3.2
Free Float	82.9

**Relative performance -5y (Base 100)**

**Stock performance**

(%)	-1m	-3m	-12m	-5Y
Absolute	-10.2	-5.7	-33.4	373.0
vs Ibex 35	-2.4	1.2	-29.1	506.2
vs Ibex Small Cap Index	-4.0	-3.7	-30.8	286.1
vs Eurostoxx 50	0.3	4.9	-34.0	411.3
vs Sector benchmark <sup>(4)</sup>	-0.9	4.4	-34.7	377.5

(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 represents the % of the capitalisation traded - 12m.

(4) vs Eurostoxx 600 Chemicals.

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

## 2019: Results that reflect weak Chlor-Alkali prices. In line

The opinion on 2019 results hinges basically on the business's operating performance in terms of revenues (EUR 683.2Mn; +0.3%) and Recurrent EBITDA 59.0Mn (-18.4%; in line with our estimates). As regards the balance sheet, the good news is the reduction in ND to EUR 108Mn (-15% vs 2018; 2019 ND/EBITDA: 1.7x) as a result of solid cash generation. We highlight:

**NO GROWTH IN REVENUES (EUR 678.8Mn; +0.3% VS 2018)**, despite a strong increase in the volume of products sold (+14.4%), thanks to the increase in the production capacity of the Chlor-Alkali, PVC, polyols and pharmaceutical products plants, due to the generalised fall in the sale price of core products (as we had expected). And essentially due to the unfavourable momentum of the Chlor-Alkali sector (62% of 2019 revenues), where a cyclical downturn began in 2H18, as a result of the fall in demand caused by the slowdown in industrial activity (compared to abundant supply).

**WITH REC. EBITDA FEELING THE PINCH OF THE WEAK SECTOR BACKDROP (EUR 59Mn VS EUR 72.2Mn 2018)**, showing a decline of 18.4%, reflecting weak Chlor-Alkali prices that drove the Rec. EBITDA margin down c. 2p.p. (8.7% vs 10.7% 2018) and fully offset the increase in volumes (negative impact of the price effect on 2019 EBITDA of EUR 45.6Mn).

**BUT THE SURPRISE LIES IN CASH GENERATION (DESPITE THE WEAK SECTOR CONTEXT)...** with FCF 2019 of c. EUR 28Mn (FCF Yield >12%) explained mainly by: (i) significantly high EBITDA in the 2019 sector context and (ii) working capital management (a EUR 15.4Mn reduction in inventories) that offset cash outflows in a year in which investment and payments for the disassembling and rehabilitation of land were still high (EUR 37.1Mn and EUR 23.4Mn, respectively).

**... THAT LED TO A SIGNIFICANT REDUCTION IN DEBT**, to EUR 108Mn (-14.6% vs 2018; ND/EBITDA 1.7x) enabling the shareholder remuneration policy to be maintained by complying with the maximum (self-imposed) limit of 2x ND/EBITDA for payment of a dividend. In addition to the share buyback plan approved in February 2020 (EUR 18Mn or 7% of capital), ECR proposes a dividend of 0.05 euros/share against earnings for 2019 (dividend yield: 2.2%).

**CONCLUSION:** 2019 results in line in revenues and Rec. EBITDA (-0.8% vs Est.). However, we expect to downgrade our estimates for 2020 as a result of a slower than expected recovery in Chlor-Alkali prices that will maintain revenues at a similar level to 2019 (as a result of higher capacity), which together with the stability of the price of the main supplies and procurements (EDC, electricity and methanol) will maintain margins at around 9% (vs 10% initially estimated) and should allow ECR to consolidate levels of EBITDA > EUR 60Mn. Despite this sector context, at these levels of Chlor-Alkali prices (c -30% vs 2018) the company is still profitable from an operating point of view and its financial structure sound (ND/EBITDA 2019 <2x).

## Appendix 1. Results table

EUR Mn	12m19	12m19 Real		12m19 Real	
	Real	12m18	vs 12m18	2019e	vs 2019e
<b>Total Revenues</b>	<b>678.8</b>	<b>677.1</b>	<b>0.3%</b>	<b>704.8</b>	<b>-3.7%</b>
Chlorine derivatives	422.6	426.7	-0.9%	435.3	-2.9%
Intermediate chemica	189.6	194.0	-2.3%	209.7	-9.6%
Pharmaceuticals	57.5	51.3	12.2%	54.6	5.4%
Other revenues	9.1	5.2	74.0%	5.2	74.0%
<b>Recurrent EBITDA<sup>1</sup></b>	<b>59.0</b>	<b>72.2</b>	<b>-18.4%</b>	<b>59.4</b>	<b>-0.8%</b>
<i>Rec. EBITDA/Revenues</i>	<i>8.7%</i>	<i>10.7%</i>	<i>-2.0 p.p.</i>	<i>8.4%</i>	<i>0.3 p.p.</i>
<b>EBITDA<sup>2</sup></b>	<b>63.4</b>	<b>75.2</b>	<b>-15.8%</b>	<b>59.4</b>	<b>6.6%</b>
<i>EBITDA/Revenues</i>	<i>9.3%</i>	<i>11.1%</i>	<i>-1.8 p.p.</i>	<i>8.4%</i>	<i>0.9 p.p.</i>
<b>EBIT<sup>3</sup></b>	<b>31.2</b>	<b>43.9</b>	<b>-28.9%</b>	<b>32.2</b>	<b>-3.1%</b>
<b>NP</b>	<b>31.0</b>	<b>44.9</b>	<b>-30.8%</b>	<b>21.1</b>	<b>47.3%</b>
<b>Ordinary NP</b>	<b>27.5</b>	<b>35.0</b>	<b>-21.3%</b>	<b>21.1</b>	<b>30.7%</b>
<i>Rec. FCF<sup>4</sup></i>	<i>47.1</i>	<i>5.6</i>	<i>n.a.</i>	<i>5.9</i>	<i>n.a.</i>
<i>Rec. FCF Yield</i>	<i>19.7%</i>	<i>2.3%</i>	<i>17.4 p.p.</i>	<i>2.5%</i>	<i>17.3 p.p.</i>
<b>Net Debt<sup>5</sup></b>	<b>108.0</b>	<b>126.5</b>	<b>-14.6%</b>	<b>151.7</b>	<b>-28.8%</b>
<b>ND / EBITDA</b>	<b>1.7 x</b>	<b>1.7 x</b>	<b>0.0 x</b>	<b>2.6 x</b>	<b>-0.8 x</b>

- (1) Rec. EBITDA adjusted to strip put the effect of compensation for CO2 emissions (EUR 4.4Mn in 2019 and EUR 3.0Mn in 2018); this is included at the EBITDA level. EBITDA adjusted to strip out the impact of reversals of and allocations to provisions and other extraordinary items (EUR -5.5Mn in 2019) and profit from the sale of investment properties (EUR 3.1Mn in 2019).
- (2) EBITDA 2018 and 2019e adjusted to include the impact of IFRS 16 with the aim of making it comparable with that for 2019 (positive impact of EUR 7.3Mn and EUR 7.7Mn, respectively).
- (3) EBIT adjusted to strip out the impact of profits and impairments on the sale of investment properties (EUR 3.4Mn and EUR -5.6Mn, respectively), considered by LH as extraordinary items. Without these adjustments, EBIT 2019 would be EUR 28.7Mn.
- (4) Recurrent FCF adjusted to strip out payments made on account of provisions for environmental remediation (the disassembling and rehabilitation of land) and other provisions in an amount of EUR 23.4Mn and extraordinary amounts from the disposal of investment properties (EUR 5.7Mn), resulting in FCF of c. EUR 29Mn (FCF Yield 12%).
- (5) 2019 Net Debt adjusted to strip out financial lease liabilities (IFRS 16; impact of EUR 13.4Mn).

## Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	239.2	
+ Minority Interests	-	12m Results 2019
+ Provisions & Other L/T Liabilities	75.6	12m Results 2019
+ Net financial debt	108.0	12m Results 2019
- Financial Investments	48.1	12m Results 2019
+/- Others		
<b>Enterprise Value (EV)</b>	<b>374.7</b>	

- (1) At year end (2019) the company maintains deferred tax assets (off balance-sheet) amounting to EUR 65.1Mn (calculated using a 25% tax rate).

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
02-Mar-2020	n.a.	2.28	n.a.	n.a.	12m Results 2019	David López Sánchez
06-Nov-2019	n.a.	2.42	n.a.	n.a.	9m Results 2019	David López Sánchez
29-Jul-2019	n.a.	1.92	n.a.	n.a.	6m Results 2019	David López Sánchez
03-Jun-2019	n.a.	2.22	n.a.	n.a.	Initial Coverage	David López Sánchez