

## EQUITY - SPAIN

Sector: Automotive – Auto - Parts

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Review of estimates

Closing price: EUR 11.90 (27 Jul 2020)

Lingotes Especiales (LGT) is a small Spanish industrial company specialising in the design, development, casting and machining of steel components, mainly for use in the automotive industry, where it is a market leader in braking systems (85% sales) with a 12% market share in Europe.

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### Market Data

Market Cap (Mn EUR and USD)	119.0	139.8
EV (Mn EUR and USD) <sup>(1)</sup>	135.5	159.2
Shares Outstanding (Mn)	10.0	
-12m (Max/Med/Min EUR)	14.30 / 12.40 / 8.90	
Daily Avg volume (-12m Mn EUR)	0.09	
Rotation <sup>(2)</sup>	18.4	
Thomson Reuters / Bloomberg	LGT.MC / LGT SM	
Close fiscal year	31-Dec	

## Well positioned to deal with a very difficult scenario

**1H20 RESULTS IMPACTED BY COVID-19.** LGT has presented a preview of 1H20 results that reflects the effect of the paralysis of the economy: i) revenues of EUR 39.6Mn (-34.6% vs 1H19) and (ii) EBITDA of EUR 4.8Mn (-48.4%; EBITDA margin 12.1% vs 15.4% in 1H19). Results that compare positively with the dramatic slump in car sales in 1H20 in the EU (-38%) and Spain (-50%).

**LEADING TO A SHARP REDUCTION IN 2020 ESTIMATES (THAT WILL COME AS NO SURPRISE TO ANYONE)...** We estimate a sharp fall in revenues in 2020e (EUR 87.5Mn; -25% vs 2019; -23% vs previous estimate) and in Rec. EBITDA (-36% vs 2019; -39% vs previous estimate). Despite the current situation, LGT remains profitable from an operating point of view (2020e EBITDA margin: 12.3%) and its financial structure is still sound (2020e ND/EBITDA c. 1.4x). This is especially interesting in the current context and will allow it to withstand a slower than estimated recovery without compromising the company's viability (or its dividend; 2022e yield c. 6%).

### Shareholders Structure (%)

Board of Directors	55.0
Mallorquina de Seguros	6.0
Onchena	3.5
Free Float	35.5

**A RETURN TO LEVELS CLOSE TO THOSE OF 2019 DOES NOT SEEM VIABLE UNTIL AT LEAST 2022:** Although there is no visibility looking 2 years forward, the most reasonable assumption is the recovery in 24m (post 2020) of similar levels of EBITDA to those of 2019 (c. EUR 17Mn; EBITDA margin 15%). The conclusion of the heavy investment plan (2016-2019) will enable the company to maintain low levels of CAPEX (c. 4% of sales; a driver unaffected by the cycle), which, together with the recovery of volumes, will boost 2022e Rec. FCF to c. EUR 9Mn (FCF yield c. 7.5%).

**IN CONCLUSION: WELL PLACED TO DEAL WITH AN UNFAVOURABLE CYCLE.** LGT, like other companies associated with the automotive industry, is facing a difficult situation (with the global economic recession caused by Covid-19). However, we think LGT has clear strengths that make a return to 2019 levels in 2022e possible: (i) the heavy investment plan already implemented in 2016-2019, which has improved LGT's competitive position, (ii) cost flexibility and a focus on profitability (1H20 results are an example) and (iii) a healthy balance sheet structure. This is something that has perhaps not gone totally unnoticed by the market: perf. vs IBEX 35 +17% YTD (+8.7% vs sector benchmark).

Financials (Mn EUR)	2019	2020e	2021e	2022e
Adj. nº shares (Mn)	10.0	10.0	10.0	10.0
Total Revenues	114.9	87.5	101.4	114.5
Rec. EBITDA <sup>(3)</sup>	16.8	10.7	13.1	17.1
% growth	-7.5	-36.2	22.4	30.4
% Rec. EBITDA/Rev.	14.6	12.3	13.0	15.0
% Inc. EBITDA sector <sup>(4)</sup>	10.7	-40.9	45.9	7.4
Net Profit	8.7	3.8	5.8	8.9
EPS (EUR)	0.87	0.38	0.58	0.89
% growth	-5.3	-56.6	52.0	54.8
Ord. EPS (EUR)	0.87	0.38	0.58	0.89
% growth	-5.3	-56.6	52.0	54.8
Rec. Free Cash Flow <sup>(5)</sup>	8.4	6.9	6.4	9.0
Pay-out (%)	80.3	80.0	80.0	80.0
DPS (EUR)	0.70	0.30	0.46	0.71
Net financial debt	15.2	15.4	12.0	7.6
ND/Rec. EBITDA (x)	0.9	1.4	0.9	0.4
ROE (%)	19.2	8.5	13.0	18.6
ROCE (%) <sup>(5)</sup>	14.3	6.6	10.1	15.5

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



### Ratios & Multiples (x)<sup>(6)</sup>

P/E	13.6	31.4	20.7	13.4
Ord. P/E	13.6	31.4	20.7	13.4
P/BV	2.6	2.8	2.6	2.4
Dividend Yield (%)	5.9	2.5	3.9	6.0
EV/Sales	1.18	1.55	1.34	1.18
EV/Rec. EBITDA	8.0	12.6	10.3	7.9
EV/EBIT	11.6	25.9	17.4	11.4
FCF Yield (%) <sup>(5)</sup>	7.1	5.8	5.4	7.5

### Stock performance (%)

	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	10.2	6.7	-15.0	-12.2	-32.0	62.4
vs Ibex 35	10.3	0.2	9.4	17.0	0.6	152.4
vs Ibex Small Cap Index	7.5	-2.1	-9.8	-3.0	-34.1	39.0
vs Eurostoxx 50	6.9	-6.9	-9.3	-0.4	-28.1	72.7
vs Sector benchmark <sup>(4)</sup>	2.9	-10.2	2.8	8.7	-10.7	128.3

(1) Please refer to Appendix 3.

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

(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.1Mn higher due to IFRS 16..

(4) Sector: Eurostoxx 600 Automobiles & Parts.

(5) Please see Annex 2 for the theoretical tax rate (ROCE) and recurrent FCF calculation.

(6) Multiples and ratios calculated over prices at the date of this report.

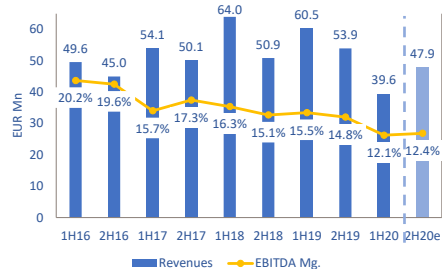
(\*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

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## 1H20 results preview We downgrade our estimates

### Covid-19 makes a significant downgrade of estimates inevitable: 2020e Revenue and EBITDA -23% and -39%, respectively

**Chart 1. Half-year revenues (1H16-1H20e)**



Covid-19 has had a very significant impact on the automotive industry during the first half of 2020. Passenger vehicle sales had accumulated a fall of 38.1% to June 2020 (ACEA). Among the four main European markets, Spain suffered the biggest falls (-50%; c. 20% of LGT's sales), followed by Italy (-46.1%), France (-38.6%) and Germany (-34.5%). However, the latest data begin to show a certain improvement compared to the months most affected by the paralysis of the economy (June -22.3%, May -52.3%, April -76.3% and March -55.1%). The gradual re-opening of economies will continue to favour this improvement throughout the second half of 2020.

#### The impact of Covid-19 on LGT's 1H20 results is evident (and won't surprise anyone): revenues -35% vs 1H19

1H20 results reflect the effects of a global economy in the "off" position: (i) a fall in revenues of 34.6% vs 1H19 and (ii) EBITDA of EUR 4.8Mn (-48.4%; EBITDA margin 12.1% vs 15.4%). Results that compare positively with the dramatic slump in volumes in 1H20 in the EU (-38%) and Spain (-50%). We would point up that the company remains profitable from an operating point of view (EBITDA margin 12.1%) and its financial structure is sound, demonstrating its flexibility and ability to adapt to a very difficult situation that has no precedent (not even the 2008-2009 crisis).

**Table 1. 1H20 results preview**

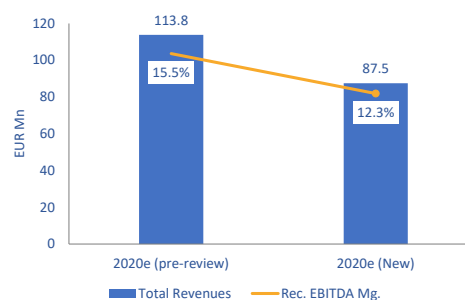
EUR Mn	1H20	1H19	1H20 vs 1H19	2020e	2020e vs 2019
<b>Total Revenues</b>	<b>39.6</b>	<b>60.5</b>	<b>-34.6%</b>	<b>87.5</b>	<b>-23.9%</b>
<b>Recurrent EBITDA</b>	<b>4.8</b>	<b>9.3</b>	<b>-48.4%</b>	<b>10.7</b>	<b>-36.2%</b>
<i>Rec. EBITDA/Revenues</i>	<i>12.1%</i>	<i>15.4%</i>	<i>-3.2 p.p.</i>	<i>12.3%</i>	<i>-2.4 p.p.</i>
<b>EBITDA</b>	<b>4.8</b>	<b>9.3</b>	<b>-48.4%</b>	<b>10.7</b>	<b>-36.2%</b>
<i>EBITDA/Revenues</i>	<i>12.1%</i>	<i>15.4%</i>	<i>-3.2 p.p.</i>	<i>12.3%</i>	<i>-2.4 p.p.</i>
<b>PBT</b>	<b>1.6</b>	<b>6.4</b>	<b>-74.4%</b>	<b>5.0</b>	<b>-56.5%</b>

Note: The results preview does not include information regarding net debt at June 2020.

#### The current macro context causes us to downgrade our estimates

The dramatic supply and demand shock caused by the Covid-19 crisis leads us to a revision of our estimates which can be summarised in three main lines:

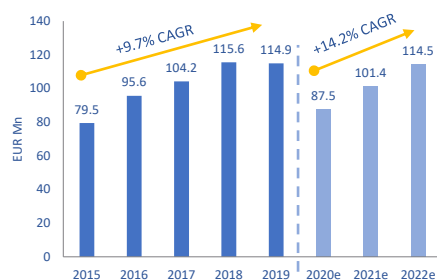
**Chart 2. Change to estimates impact on Revenues and EBITDA Mg. (2020e)**



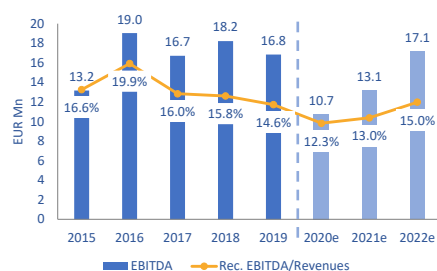
Note: Revenues and EBITDA Mg. "pre-review" refers to our estimates published on October 28, 2019.

- **Revenue (EUR 87.5Mn; -23.2% vs previous estimate)**, negatively impacted by the dramatic fall in volumes expected both in the EU and in Spain, which we expect to revert slightly in 2H20 and moderate the decline seen in 1H20 (2H20e revenue: EUR 47.9Mn; -11% vs 2H19) resulting in revenue of c. EUR 87.5Mn (-23.2% vs 2019). Our estimate for revenue in 2020 compares positively with the fall in car sales in 2020e estimated by ACEA (-25%) and by ANFAC for the Spanish market (-35%).
- **EBITDA (EUR 10.7Mn; -39.3% vs previous estimate)**, due to the dramatic reduction in revenue that will not be fully offset. However, we would stress that the company remains profitable from an operating point of view and this will enable it to maintain a 2020e EBIT margin of c. 6% (vs c.4% for the sector).
- **Net profit (EUR 4Mn; -57% vs previous estimate)**. The above points fully translate to 2020e net profit, which we expect to be around EUR 4Mn (-57% vs 2019). Given the company's operating leverage, any normalisation of the business situation translates fully to NP.

**Chart 3. Total Revenues (2015-2022e)**



**Chart 4. EBITDA and EBITDA Mg. (2015-2022e)**



**What can be expected in the mid term? A return to 2019 levels in 2022e is possible:**

Making forecasts at present is not easy (the continuous changes to Spanish GDP estimates in recent months are a case in point). But with the re-opening of economies vehicle sales are already beginning to show signs of recovery: -22% in June (vs -50% in April). This makes us think that if the rate of recovery continues, a return to 2019 levels in 2022e is possible:

- **Revenues 2022e: EUR 114.5Mn (+14.4% CAGR 2020-2022)**, the recovery of the automotive industry to pre-Covid-19 levels should allow LGT to obtain revenues of, at least, EUR 114Mn in 2022e (vs EUR 115Mn in 2019).
- **Which would take EBITDA back to levels of EUR 17Mn (+26.3% CAGR 2020-2022e).** We believe that the heavy investments made in recent years (in 2016-2019 LGT invested c. EUR 50Mn in casting and machining) have strengthened both its competitive position and its ability to maintain margins close to 15% (above the sector average). A normalisation of the sector scenario would boost 2022e EBITDA to EUR 17Mn (EBITDA margin 15%).
- **And maintain strong cash generation (Rec. FCF 2022e: c. EUR 9Mn).** The conclusion of the demanding investment plan with which LGT has improved its casting and machining lines in the last 4 years will enable the company to maintain low levels of CAPEX (c. 4% of sales; a driver unaffected by the cycle), which, together with the recovery of 2022e EBITDA to EUR 17Mn, will boost Rec. FCF to c. EUR 9Mn (2022e FCF yield > 7.5%).
- **All of this underpinned by a strong balance sheet.** We estimate ND/EBITDA 2020e of c. 1.4x. This is especially interesting in the current context and will allow the company to withstand a slower than estimated recovery without compromising its viability.

**Table 2. Changes to estimates (2020e-2022e)**

EUR Mn	2020e (New)	Review (%)	2021e (New)	Review (%)	2022e (New)
<b>Total Revenues</b>	<b>87.5</b>	<b>-23.2%</b>	<b>101.4</b>	<b>-12.7%</b>	<b>114.5</b>
<b>Recurrent EBITDA</b>	<b>10.7</b>	<b>-39.3%</b>	<b>13.1</b>	<b>-28.5%</b>	<b>17.1</b>
<i>Recurrent EBITDA growth</i>	<i>-36.2%</i>	<i>-38 p.p.</i>	<i>22.4%</i>	<i>18 p.p.</i>	<i>30.4%</i>
<i>Rec. EBITDA/Revenues</i>	<i>12.3%</i>	<i>-3 p.p.</i>	<i>13.0%</i>	<i>-3 p.p.</i>	<i>15.0%</i>
<b>Net Profit</b>	<b>3.8</b>	<b>-57.3%</b>	<b>5.8</b>	<b>-39.3%</b>	<b>8.9</b>
<b>Recurrent Free Cash Flow</b>	<b>6.9</b>	<b>-29.3%</b>	<b>6.4</b>	<b>-36.0%</b>	<b>9.0</b>
<i>ND / EBITDA</i>	<i>1.4 x</i>	<i>0.8 x</i>	<i>0.9 x</i>	<i>0.5 x</i>	<i>0.4 x</i>

**In conclusion: LGT is well placed to recover 2019 levels, (although it will have to wait until, at least, 2022).**

LGT, like other auto parts manufacturers, is facing an especially difficult situation due to the closing of economies and the global economic slowdown caused by Covid-19.

Although a (significant) decline is inevitable in 2020e, we think LGT is well prepared to face an adverse cycle with clear strengths that suggest a return to 2019 levels is possible. We highlight: (i) a strong customer base (leading European auto manufacturers), (ii) a flexible cost structure (the profitability achieved in 1H20 is an example), (iii) a focus on profitability over volume (EBITDA margin >15% in the last 5 years) and (v) a strong balance sheet structure (ND/EBITDA 2020e < 1.5x) which will not compromise the company's viability.

All this will allow LGT to benefit from a theoretical recovery of the cycle in the next two years, until it reaches similar levels of revenues and EBITDA to those recorded in 2019. The reduction of CAPEX vs 2019 (a driver unaffected by the cycle) will boost 2022e Rec. FCF to c. EUR 9Mn (FCF yield c. 7.5%).

## Appendix 1. Financial Projections<sup>(1)</sup>

<b>Balance Sheet (EUR Mn)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>		
Intangible assets	0.3	0.2	0.4	0.5	0.9	1.0	1.1	1.2		
Fixed assets	31.6	45.6	49.5	55.1	56.8	54.8	53.4	52.7		
Other Non Current Assets	0.9	0.7	0.6	0.6	0.5	0.5	0.5	0.5		
Financial Investments	1.2	0.9	0.7	0.6	0.6	0.6	0.6	0.6		
Goodwill & Other Intangibles	-	-	-	-	-	-	-	-		
Current assets	18.4	20.6	28.8	29.5	28.9	22.0	25.5	28.8		
<b>Total assets</b>	<b>52.4</b>	<b>68.0</b>	<b>80.1</b>	<b>86.3</b>	<b>87.7</b>	<b>78.9</b>	<b>81.2</b>	<b>83.8</b>		
Equity	35.8	41.4	42.3	44.5	46.2	43.0	45.7	50.0		
Minority Interests	-	-	-	-	-	-	-	-		
Provisions & Other L/T Liabilities	2.3	2.0	1.9	1.7	1.5	1.5	1.5	1.5		
Other Non Current Liabilities	-	-	-	-	0.2	0.2	0.2	0.2		
Net financial debt	(2.2)	3.1	10.7	17.0	15.2	15.4	12.0	7.6		
Current Liabilities	16.5	21.5	25.2	23.1	24.6	18.9	21.8	24.5		
<b>Equity &amp; Total Liabilities</b>	<b>52.4</b>	<b>68.0</b>	<b>80.1</b>	<b>86.3</b>	<b>87.7</b>	<b>78.9</b>	<b>81.2</b>	<b>83.8</b>		
										<b>CAGR</b>
<b>P&amp;L (EUR Mn)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>15-19</b>	<b>19-22e</b>
<b>Total Revenues</b>	<b>79.5</b>	<b>95.6</b>	<b>104.2</b>	<b>115.6</b>	<b>114.9</b>	<b>87.5</b>	<b>101.4</b>	<b>114.5</b>	<b>9.7%</b>	<b>-0.1%</b>
<i>Total Revenues growth</i>	25.5%	20.3%	9.0%	10.9%	-0.6%	-23.9%	15.9%	12.9%		
COGS	(29.2)	(33.7)	(41.6)	(48.7)	(49.6)	(37.3)	(43.1)	(48.7)		
<b>Gross Margin</b>	<b>50.3</b>	<b>62.0</b>	<b>62.6</b>	<b>66.9</b>	<b>65.3</b>	<b>50.2</b>	<b>58.3</b>	<b>65.7</b>	<b>6.8%</b>	<b>0.2%</b>
<i>Gross Margin/Revenues</i>	63.3%	64.8%	60.1%	57.9%	56.8%	57.3%	57.5%	57.4%		
Personnel Expenses	(19.9)	(24.1)	(26.7)	(28.1)	(27.8)	(21.3)	(26.0)	(28.1)		
Other Operating Expenses	(17.2)	(18.9)	(19.2)	(20.5)	(20.6)	(18.2)	(19.1)	(20.5)		
<b>Recurrent EBITDA</b>	<b>13.2</b>	<b>19.0</b>	<b>16.7</b>	<b>18.2</b>	<b>16.8</b>	<b>10.7</b>	<b>13.1</b>	<b>17.1</b>	<b>6.3%</b>	<b>0.6%</b>
<i>Recurrent EBITDA growth</i>	50.8%	44.6%	-12.1%	8.9%	-7.5%	-36.2%	22.4%	30.4%		
<i>Rec. EBITDA/Revenues</i>	16.6%	19.9%	16.0%	15.8%	14.6%	12.3%	13.0%	15.0%		
Restructuring Expense & Other non-rec.	-	-	-	-	-	-	-	-		
<b>EBITDA</b>	<b>13.2</b>	<b>19.0</b>	<b>16.7</b>	<b>18.2</b>	<b>16.8</b>	<b>10.7</b>	<b>13.1</b>	<b>17.1</b>	<b>6.3%</b>	<b>0.6%</b>
Depreciation & Provisions	(4.0)	(3.8)	(5.0)	(5.5)	(5.5)	(5.5)	(5.4)	(5.3)		
Capitalized Expense	-	-	0.6	0.1	0.4	0.1	0.1	0.1		
Rentals (IFRS 16 impact)	-	-	-	-	(0.1)	(0.1)	(0.1)	(0.1)		
<b>EBIT</b>	<b>9.2</b>	<b>15.2</b>	<b>12.4</b>	<b>12.8</b>	<b>11.7</b>	<b>5.2</b>	<b>7.8</b>	<b>11.9</b>	<b>6.3%</b>	<b>0.5%</b>
<i>EBIT growth</i>	72.2%	65.8%	-18.8%	3.7%	-8.7%	-55.4%	49.0%	52.6%		
<i>EBIT/Revenues</i>	11.5%	15.9%	11.9%	11.1%	10.2%	6.0%	7.7%	10.4%		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.2)	(0.2)		
Income by the Equity Method	-	(0.8)	(0.2)	(0.4)	-	-	-	-		
<b>Ordinary Profit</b>	<b>8.9</b>	<b>14.2</b>	<b>11.9</b>	<b>12.2</b>	<b>11.4</b>	<b>5.0</b>	<b>7.5</b>	<b>11.7</b>	<b>6.4%</b>	<b>0.7%</b>
<i>Ordinary Profit Growth</i>	77.7%	59.3%	-16.1%	2.6%	-6.6%	-56.5%	52.0%	54.8%		
Extraordinary Results	-	-	-	-	-	-	-	-		
<b>Profit Before Tax</b>	<b>8.9</b>	<b>14.2</b>	<b>11.9</b>	<b>12.2</b>	<b>11.4</b>	<b>5.0</b>	<b>7.5</b>	<b>11.7</b>	<b>6.4%</b>	<b>0.7%</b>
Tax Expense	(2.2)	(3.7)	(3.0)	(3.0)	(2.7)	(1.2)	(1.8)	(2.8)		
<i>Effective Tax Rate</i>	24.5%	26.1%	25.1%	24.7%	23.7%	23.7%	23.7%	23.7%		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
<b>Net Profit</b>	<b>6.7</b>	<b>10.5</b>	<b>8.9</b>	<b>9.2</b>	<b>8.7</b>	<b>3.8</b>	<b>5.8</b>	<b>8.9</b>	<b>6.7%</b>	<b>0.7%</b>
<i>Net Profit growth</i>	69.1%	56.0%	-14.9%	3.1%	-5.3%	-56.6%	52.0%	54.8%		
<b>Ordinary Net Profit</b>	<b>6.7</b>	<b>10.5</b>	<b>8.9</b>	<b>9.2</b>	<b>8.7</b>	<b>3.8</b>	<b>5.8</b>	<b>8.9</b>	<b>6.7%</b>	<b>0.7%</b>
<i>Ordinary Net Profit growth</i>	69.1%	56.0%	-14.9%	3.1%	-5.3%	-56.6%	52.0%	54.8%		
										<b>CAGR</b>
<b>Cash Flow (EUR Mn)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>15-19</b>	<b>19-22e</b>
<b>Recurrent EBITDA</b>						<b>10.7</b>	<b>13.1</b>	<b>17.1</b>	<b>6.3%</b>	<b>0.6%</b>
Rentals (IFRS 16 impact)						(0.1)	(0.1)	(0.1)		
Working Capital Increase						1.1	(0.6)	(0.6)		
<b>Recurrent Operating Cash Flow</b>						<b>11.8</b>	<b>12.5</b>	<b>16.5</b>	<b>1.2%</b>	<b>-4.3%</b>
CAPEX						(3.5)	(4.1)	(4.6)		
Net Financial Result affecting the Cash Flow						(0.3)	(0.2)	(0.2)		
Tax Expense						(1.2)	(1.8)	(2.8)		
<b>Recurrent Free Cash Flow</b>						<b>6.9</b>	<b>6.4</b>	<b>9.0</b>	<b>-2.9%</b>	<b>2.3%</b>
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
<b>Free Cash Flow</b>						<b>6.9</b>	<b>6.4</b>	<b>9.0</b>	<b>-4.0%</b>	<b>0.8%</b>
Capital Increase						-	-	-		
Dividends						(7.0)	(3.0)	(4.6)		
<b>Net Debt Variation</b>						<b>0.1</b>	<b>(3.4)</b>	<b>(4.4)</b>		

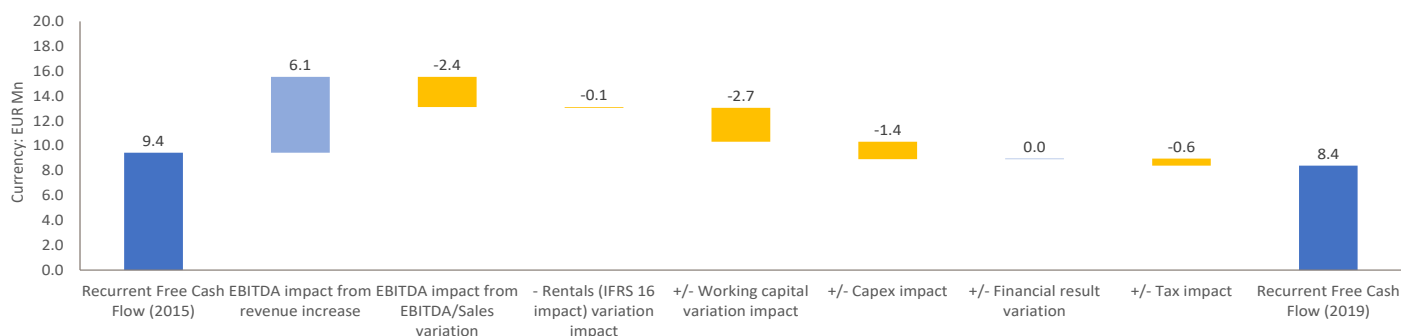
Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.1Mn higher due to IFRS 16.

## Appendix 2. Free Cash Flow<sup>(1)</sup>

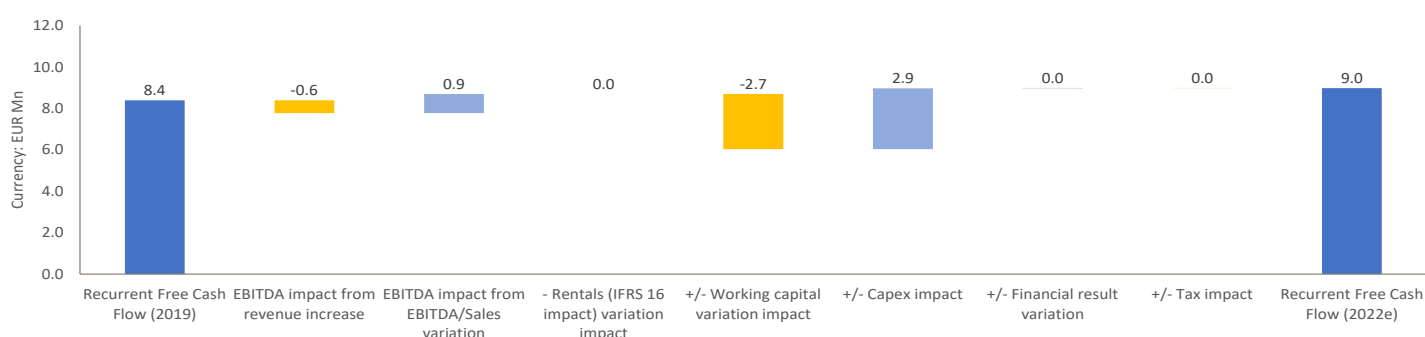
A) Cash Flow Analysis (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR	
								16-19	19-22e
<b>Recurrent EBITDA</b>	<b>19.0</b>	<b>16.7</b>	<b>18.2</b>	<b>16.8</b>	<b>10.7</b>	<b>13.1</b>	<b>17.1</b>	<b>-4.0%</b>	<b>0.6%</b>
<i>Recurrent EBITDA growth</i>	44.6%	-12.1%	8.9%	-7.5%	-36.2%	22.4%	30.4%		
<i>Rec. EBITDA/Revenues</i>	19.9%	16.0%	15.8%	14.6%	12.3%	13.0%	15.0%		
- Rentals (IFRS 16 impact)	-	-	-	(0.1)	(0.1)	(0.1)	(0.1)		
+/- Working Capital increase	2.9	(4.5)	(2.8)	2.1	1.1	(0.6)	(0.6)		
<b>= Recurrent Operating Cash Flow</b>	<b>21.9</b>	<b>12.2</b>	<b>15.4</b>	<b>18.9</b>	<b>11.8</b>	<b>12.5</b>	<b>16.5</b>	<b>-4.8%</b>	<b>-4.3%</b>
<i>Rec. Operating Cash Flow growth</i>	21.6%	-44.4%	26.8%	22.2%	-37.6%	6.0%	32.3%		
<i>Rec. Operating Cash Flow / Sales</i>	22.9%	11.7%	13.4%	16.4%	13.5%	12.3%	14.4%		
- CAPEX	(18.1)	(10.0)	(11.5)	(7.5)	(3.5)	(4.1)	(4.6)		
- Net Financial Result affecting Cash Flow	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)		
- Taxes	(3.7)	(3.0)	(3.2)	(2.8)	(1.2)	(1.8)	(2.8)		
<b>= Recurrent Free Cash Flow</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>0.6</b>	<b>8.4</b>	<b>6.9</b>	<b>6.4</b>	<b>9.0</b>	<b>n.a.</b>	<b>2.3%</b>
<i>Rec. Free Cash Flow growth</i>	-101.3%	-790.6%	155.1%	n.a.	-18.4%	-6.5%	40.2%		
<i>Rec. Free Cash Flow / Revenues</i>	n.a.	n.a.	0.5%	7.3%	7.8%	6.3%	7.8%		
- Restructuring expenses & others	-	-	-	-	-	-	-		
- Acquisitions / + Divestments	(0.2)	0.4	0.2	0.4	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
<b>= Free Cash Flow</b>	<b>(0.3)</b>	<b>(0.7)</b>	<b>0.8</b>	<b>8.8</b>	<b>6.9</b>	<b>6.4</b>	<b>9.0</b>	<b>n.a.</b>	<b>0.8%</b>
<i>Free Cash Flow growth</i>	-103.0%	-121.5%	216.3%	994.4%	-22.0%	-6.5%	40.2%		
<i>Recurrent Free Cash Flow - Yield (s/Mkt Cap)</i>	n.a.	n.a.	0.5%	7.1%	5.8%	5.4%	7.5%		
<i>Free Cash Flow Yield (s/Mkt Cap)</i>	n.a.	n.a.	0.7%	7.4%	5.8%	5.4%	7.5%		
<b>B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)</b>									
<b>Recurrent FCF(FY - 1)</b>	<b>9.4</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>0.6</b>	<b>8.4</b>	<b>6.9</b>	<b>6.4</b>		
EBITDA impact from revenue increase	2.7	1.7	1.8	(0.1)	(4.0)	1.7	1.7		
EBITDA impact from EBITDA/Sales variation	3.2	(4.0)	(0.3)	(1.3)	(2.1)	0.7	2.3		
<b>= Recurrent EBITDA variation</b>	<b>5.9</b>	<b>(2.3)</b>	<b>1.5</b>	<b>(1.4)</b>	<b>(6.1)</b>	<b>2.4</b>	<b>4.0</b>		
- Rentals (IFRS 16 impact) variation impact	-	-	-	(0.1)	-	-	-		
+/- Working capital variation impact	(2.0)	(7.4)	1.8	4.9	(1.0)	(1.7)	0.0		
<b>= Recurrent Operating Cash Flow variation</b>	<b>3.9</b>	<b>(9.7)</b>	<b>3.3</b>	<b>3.4</b>	<b>(7.1)</b>	<b>0.7</b>	<b>4.0</b>		
+/- CAPEX impact	(12.0)	8.1	(1.5)	4.0	4.0	(0.6)	(0.5)		
+/- Financial result variation	0.0	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0		
+/- Tax impact	(1.5)	0.7	(0.2)	0.5	1.6	(0.6)	(1.0)		
<b>= Recurrent Free Cash Flow variation</b>	<b>(9.6)</b>	<b>(0.9)</b>	<b>1.6</b>	<b>7.8</b>	<b>(1.5)</b>	<b>(0.4)</b>	<b>2.6</b>		
<b>Recurrent Free Cash Flow</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>0.6</b>	<b>8.4</b>	<b>6.9</b>	<b>6.4</b>	<b>9.0</b>		
<b>C) "FCF to the Firm" (pre debt service) (EUR Mn)</b>									
<b>EBIT</b>	<b>15.2</b>	<b>12.4</b>	<b>12.8</b>	<b>11.7</b>	<b>5.2</b>	<b>7.8</b>	<b>11.9</b>	<b>-8.4%</b>	<b>0.5%</b>
* <i>Theoretical Tax rate</i>	26.1%	25.1%	24.7%	23.7%	23.7%	23.7%	23.7%		
= Taxes (pre- Net Financial Result)	(4.0)	(3.1)	(3.2)	(2.8)	(1.2)	(1.8)	(2.8)		
<b>Recurrent EBITDA</b>	<b>19.0</b>	<b>16.7</b>	<b>18.2</b>	<b>16.8</b>	<b>10.7</b>	<b>13.1</b>	<b>17.1</b>	<b>-4.0%</b>	<b>0.6%</b>
- Rentals (IFRS 16 impact)	-	-	-	(0.1)	(0.1)	(0.1)	(0.1)		
+/- Working Capital increase	2.9	(4.5)	(2.8)	2.1	1.1	(0.6)	(0.6)		
<b>= Recurrent Operating Cash Flow</b>	<b>21.9</b>	<b>12.2</b>	<b>15.4</b>	<b>18.9</b>	<b>11.8</b>	<b>12.5</b>	<b>16.5</b>	<b>-4.8%</b>	<b>-4.3%</b>
- CAPEX	(18.1)	(10.0)	(11.5)	(7.5)	(3.5)	(4.1)	(4.6)		
- Taxes (pre- Financial Result)	(4.0)	(3.1)	(3.2)	(2.8)	(1.2)	(1.8)	(2.8)		
<b>= Recurrent Free Cash Flow (To the Firm)</b>	<b>(0.2)</b>	<b>(0.9)</b>	<b>0.8</b>	<b>8.6</b>	<b>7.0</b>	<b>6.6</b>	<b>9.1</b>	<b>n.a.</b>	<b>2.0%</b>
<i>Rec. Free Cash Flow (To the Firm) growth</i>	-101.7%	-448.2%	187.8%	960.0%	-18.0%	-6.5%	38.5%		
<i>Rec. Free Cash Flow (To the Firm) / Revenues</i>	n.a.	n.a.	0.7%	7.5%	8.1%	6.5%	8.0%		
- Acquisitions / + Divestments	(0.2)	0.4	0.2	0.4	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
<b>= Free Cash Flow "To the Firm"</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>1.0</b>	<b>9.0</b>	<b>7.0</b>	<b>6.6</b>	<b>9.1</b>	<b>n.a.</b>	<b>0.5%</b>
<i>Free Cash Flow (To the Firm) growth</i>	-103.4%	-55.3%	284.1%	768.6%	-21.6%	-6.5%	38.5%		
<i>Rec. Free Cash Flow To the Firm Yield (o/EV)</i>	n.a.	n.a.	0.6%	6.3%	5.2%	4.9%	6.7%		
<i>Free Cash Flow "To the Firm" - Yield (o/EV)</i>	n.a.	n.a.	0.8%	6.6%	5.2%	4.9%	6.7%		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.1Mn higher due to IFRS 16.

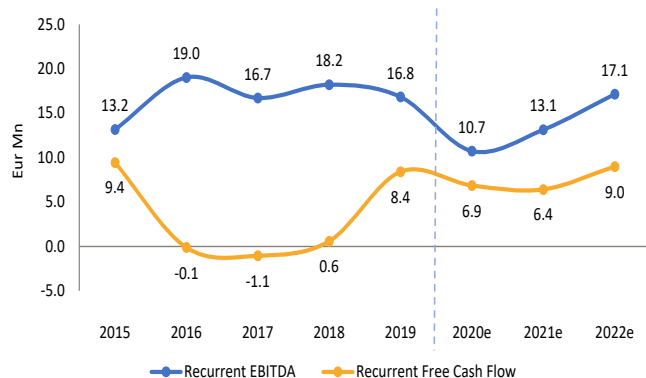
**Recurrent Free Cash Flow accumulated variation analysis (2015 - 2019)**



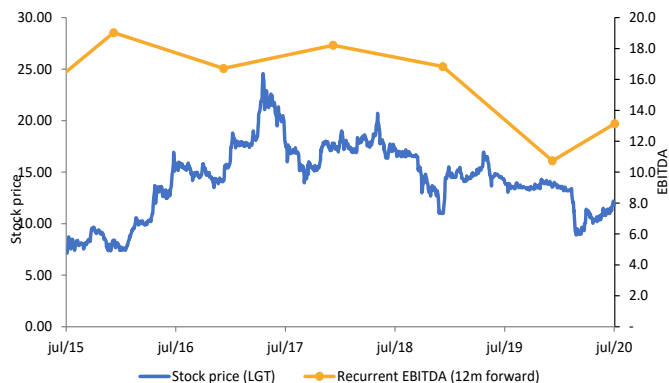
**Recurrent Free Cash Flow accumulated variation analysis (2019 - 2022e)**



**Recurrent EBITDA vs Recurrent Free Cash Flow**



**Stock performance vs EBITDA 12m forward**



**Appendix 3. EV breakdown at the date of this report**

	EUR Mn	Source
Market Cap	119.0	
+ Minority Interests	-	12m Results 2019
+ Provisions & Other L/T Liabilities	1.6	12m Results 2019
+ Net financial debt	15.2	12m Results 2019
- Financial Investments	0.4	12m Results 2019
+/- Others	-	12m Results 2019
<b>Enterprise Value (EV)</b>	<b>135.5</b>	

## Appendix 4. Historical performance (1)(2)

Historical performance (EUR Mn)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	09-19	19-22e	CAGR
Total Revenues	45.6	66.7	72.4	57.6	58.1	63.0	79.5	95.6	104.2	115.6	114.9	87.5	101.4	114.5	9.7%	-0.1%	
Total Revenues growth	-40.1%	46.3%	8.6%	-20.4%	0.8%	8.5%	26.1%	20.3%	9.0%	10.9%	-0.6%	-23.9%	15.9%	12.9%			
EBITDA	5.1	11.7	10.4	5.0	6.4	8.7	13.2	19.0	16.7	18.2	16.8	10.7	13.1	17.1	12.7%	0.6%	
EBITDA growth	-49.6%	129.5%	-11.6%	-51.3%	26.1%	36.7%	51.5%	44.6%	-12.1%	8.9%	-7.5%	-36.2%	22.4%	30.4%			
EBITDA/Sales	11.2%	17.6%	14.3%	8.7%	10.9%	13.8%	16.6%	18.9%	16.0%	15.8%	14.6%	12.3%	13.0%	15.0%			
Net Profit	0.7	4.4	3.6	0.3	2.5	4.0	6.7	10.5	8.9	9.2	8.7	3.8	5.8	8.9	29.3%	0.7%	
Net Profit growth	-78.3%	561.3%	-17.9%	-92.9%	876.0%	58.1%	69.1%	56.0%	-14.9%	3.1%	-5.3%	-56.6%	52.0%	54.8%			
Adjusted number shares (Mn)	10.7	11.0	11.0	11.0	10.9	9.9	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0			
EPS (EUR)	0.06	0.40	0.33	0.02	0.23	0.40	0.67	1.05	0.89	0.92	0.87	0.38	0.58	0.89	30.2%	0.7%	
EPS growth	-78.3%	n.a.	-17.9%	-92.9%	n.a.	74.2%	67.3%	56.0%	-14.9%	3.1%	-5.3%	-56.6%	52.0%	54.8%			
Ord. EPS (EUR)	0.06	0.40	0.33	0.02	0.23	0.40	0.67	1.05	0.89	0.92	0.87	0.38	0.58	0.89	30.2%	0.7%	
Ord. EPS growth	-78.3%	n.a.	-17.9%	-92.9%	n.a.	74.2%	67.3%	56.0%	-14.9%	3.1%	-5.3%	-56.6%	52.0%	54.8%			
CAPEX	(4.0)	(5.9)	(2.8)	(2.7)	(1.7)	(3.2)	(6.1)	(18.1)	(10.0)	(11.5)	(7.5)	(3.5)	(4.1)	(4.6)			
CAPEX/Sales %	8.8%	8.9%	3.9%	4.6%	3.0%	5.0%	7.7%	18.9%	9.6%	9.9%	6.5%	4.0%	4.0%	4.0%			
Free Cash Flow	2.7	7.1	1.8	2.0	8.3	0.5	10.3	(0.3)	(0.7)	0.8	8.8	6.9	6.4	9.0	12.7%	0.8%	
ND/EBITDA (x) <sup>(2)</sup>	2.7x	0.6x	0.7x	1.4x	0.0x	0.7x	-0.2x	0.2x	0.6x	0.9x	0.9x	1.4x	0.9x	0.4x			
P/E (x)	48.1x	7.3x	7.7x	93.8x	13.1x	9.4x	12.5x	13.5x	19.9x	12.0x	15.5x	31.4x	20.7x	13.4x			
EV/Sales (x)	1.02x	0.58x	0.47x	0.54x	0.57x	0.68x	1.03x	1.52x	1.79x	1.09x	1.30x	1.55x	1.34x	1.18x			
EV/EBITDA (x) <sup>(2)</sup>	9.1x	3.3x	3.3x	6.2x	5.2x	4.9x	6.2x	7.6x	11.2x	6.9x	8.9x	12.6x	10.3x	7.9x			
Absolute performance	-3.7%	-2.6%	-13.2%	-13.1%	36.7%	24.8%	123.3%	69.0%	25.4%	-38.2%	23.2%	-12.2%					
Relative performance vs Ibx 35	-25.8%	18.0%	-0.1%	-8.9%	12.6%	20.4%	140.5%	72.5%	16.7%	-27.3%	10.2%	17.0%					

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices.

The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters.

Note 2: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.1Mn higher due to IFRS 16.

Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

## Appendix 5. Main Competitors 2020e

		Auto-Parts				Brake Systems			
		CIE				Average	Brembo SPA	Haldex AB	LGT
		Automotive	Gestamp	Faurecia	Voestalpine				
Market data	EUR Mn	CIEA.MC	GEST.MC	EPED.PA	VOES.VI		BRBI.MI	HLDX.ST	LGT.MC
Ticker (Reuters)		CIEA.MC	GEST.MC	EPED.PA	VOES.VI		BRBI.MI	HLDX.ST	LGT.MC
Country		Spain	Spain	France	Austria		Italy	Sweden	Spain
Market cap		1,843.6	1,162.1	5,059.7	3,423.8		2,685.8	154.9	119.0
Enterprise value (EV)		4,095.8	4,695.7	7,903.2	7,851.4		3,189.3	256.0	135.5
Basic financial information	Total Revenues	2,993.2	7,595.7	14,535.7	11,306.8		2,216.5	405.5	87.5
	Total Revenues growth	-13.5%	-16.2%	-18.2%	-11.1%	-14.8%	-14.5%	-17.4%	-23.9%
	2y CAGR (2020e - 2022e)	10.0%	11.8%	12.9%	7.0%	10.4%	9.3%	12.1%	14.4%
	EBITDA	436.6	743.3	1,413.3	817.0		381.6	27.4	10.7
	EBITDA growth	-26.5%	-30.5%	-41.7%	-26.4%	-31.3%	-23.5%	-51.1%	-36.2%
	2y CAGR (2020e - 2022e)	18.3%	22.5%	31.0%	37.8%	27.4%	15.8%	55.3%	26.3%
	EBITDA/Revenues	14.6%	9.8%	9.7%	7.2%	10.3%	17.2%	6.8%	12.3%
	EBIT	289.4	165.3	346.0	1.5		182.5	7.6	5.2
	EBIT growth	-32.3%	-67.2%	-72.2%	-99.4%	-67.8%	-40.0%	-76.4%	-55.4%
	2y CAGR (2020e - 2022e)	22.1%	70.5%	93.1%	n.a.	61.9%	19.0%	n.a.	50.8%
	EBIT/Revenues	9.7%	2.2%	2.4%	0.0%	3.6%	8.2%	1.9%	6.0%
	Net Profit	174.3	(27.5)	75.8	(150.7)		116.7	4.2	3.8
	Net Profit growth	-44.3%	n.a.	-87.9%	-30.4%	-54.2%	-51.3%	784.6%	-56.6%
	2y CAGR (2020e - 2022e)	29.0%	n.a.	n.a.	n.a.	29.0%	36.2%	n.a.	53.4%
CAPEX/Sales %	-7.6%	-8.0%	-6.4%	-5.4%	-6.9%	-7.2%	-6.8%	-4.0%	
Free Cash Flow	52.5	58.3	(223.3)	25.6		90.8	(19.7)	6.9	
Net financial debt	1,667.9	2,858.2	3,315.2	3,981.5		317.2	86.9	15.4	
ND/EBITDA (x)	3.8	3.8	2.3	4.9	3.7	0.8	3.2	1.4	
Pay-out	37.9%	-91.5%	124.2%	-52.9%	4.4%	43.9%	0.0%	80.0%	
Multiples and Ratios	P/E (x)	10.8	n.a.	n.a.	n.a.	10.8	23.4	35.9	31.4
	P/BV (x)	2.0	0.6	1.3	0.6	1.1	1.8	1.0	2.8
	EV/Revenues (x)	1.4	0.6	0.5	0.7	0.8	1.4	0.6	1.5
	EV/EBITDA (x)	9.4	6.3	5.6	9.6	7.7	8.4	9.4	12.6
	EV/EBIT (x)	14.2	28.4	22.8	n.a.	21.8	17.5	33.7	25.9
	ROE	19.2	n.a.	n.a.	n.a.	19.2	9.1	n.a.	8.5
	FCF Yield (%)	2.8	5.0	n.a.	0.7	2.9	3.4	n.a.	5.8
	DPS	0.51	0.04	0.69	0.45	0.42	0.16	0.00	0.30
Dvd Yield	3.6%	2.1%	1.9%	2.3%	2.5%	1.9%	0.0%	2.5%	

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters). In the case of the company analyzed, own estimates (Lighthouse).

Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

## Appendix 6. Valuation inputs

### Inputs for the DCF Valuation Approach

	2020e	2021e	2022e	Terminal Value <sup>(1)</sup>		
Free Cash Flow "To the Firm"	7.0	6.6	9.1	139.5		
Market Cap	119.0	At the date of this report				
Net financial debt	15.2	Debt net of Cash (12m Results 2019)				
					Best Case	Worst Case
Cost of Debt	2.0%	Net debt cost			1.8%	2.3%
Tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	1.6%	$Kd = \text{Cost of Net Debt} * (1-T)$			1.4%	1.8%
Risk free rate (rf)	0.3%	Rf (10y Spanish bond yield)			=	=
Equity risk premium	9.0%	R (own estimate)			8.5%	9.5%
Beta (B)	1.0	B (Thomson Reuters and Lighthouse)			0.9	1.1
Cost of Equity	9.3%	$Ke = Rf + (R * B)$			8.0%	10.8%
Equity / (Equity + Net Debt)	88.6%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	11.4%	D			=	=
WACC	8.5%	$WACC = Kd * D + Ke * E$			7.2%	9.8%
G "Fair"	1.5%				2.0%	1.0%

(1) Terminal value calculated on the recurrent Free Cash Flow "to the Firm" of the last estimated year using the normalised tax rate (T) indicated in the upper table.

### Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 20e	EPS 20e-22e	EV/EBITDA 20e	EBITDA 20e-22e	EV/Sales 20e	Revenues 20e-22e	EBITDA/Sales 20e	FCF Yield 20e	FCF 20e-22e
CIE Automotive	CIEA.MC	1,843.6	10.8	30.0%	9.4	18.3%	1.4	10.0%	14.6%	2.8%	n.a.
Gestamp	GEST.MC	1,162.1	n.a.	n.a.	6.3	22.5%	0.6	11.8%	9.8%	5.0%	74.8%
Faurecia	EPED.PA	5,059.7	n.a.	n.a.	5.6	31.0%	0.5	12.9%	9.7%	n.a.	n.a.
Voestalpine	VOES.VI	3,423.8	n.a.	n.a.	9.6	37.8%	0.7	7.0%	7.2%	0.7%	n.a.
<b>Auto-Parts</b>			10.8	30.0%	7.7	27.4%	0.8	10.4%	10.3%	2.9%	74.8%
Brembo SPA	BRBI.MI	2,685.8	23.4	38.1%	8.4	15.8%	1.4	9.3%	17.2%	3.4%	40.2%
Hallex AB	HLDX.ST	154.9	35.9	n.a.	9.4	55.3%	0.6	12.1%	6.8%	n.a.	64.2%
<b>Brake Systems</b>			29.6	38.1%	8.9	35.5%	1.0	10.7%	12.0%	3.4%	52.2%
LGT	LGT.MC	119.0	31.4	53.4%	12.6	26.3%	1.5	14.4%	12.3%	5.8%	14.5%

### Free Cash Flow sensitivity analysis (2021e)

#### A) Rec. EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 21e	EBITDA 21e	EV/EBITDA 21e
Max	14.3%	14.5	9.4x
Central	13.0%	13.1	10.3x
Min	11.7%	11.8	11.5x

#### B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

FCF Rec. EUR Mn	CAPEX/Sales 21e			Scenario	Rec. FCF/Yield 21e		
	EBITDA 21e	3.6%	4.0%		4.4%	Max	Central
14.5	8.1	7.7	7.3	Max	6.8%	6.5%	6.2%
13.1	6.8	6.4	6.0	Central	5.7%	5.4%	5.0%
11.8	5.5	5.1	4.7	Min	4.6%	4.3%	3.9%



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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
28-Jul-2020	n.a.	11.90	n.a.	n.a.	Review of estimates	David López Sánchez
28-Feb-2020	n.a.	13.30	n.a.	n.a.	12m Results 2019	David López Sánchez
28-Oct-2019	n.a.	13.45	n.a.	n.a.	9m Results 2019	David López Sánchez
22-Jul-2019	n.a.	14.35	n.a.	n.a.	6m Results 2019	David López Sánchez
13-May-2019	n.a.	15.45	n.a.	n.a.	3m Results 2019	David López Sánchez
01-Mar-2019	n.a.	15.00	n.a.	n.a.	12m Results 2018	David López Sánchez
22-Nov-2018	n.a.	12.68	n.a.	n.a.	Initial Coverage	David López Sánchez

