

## 12m Results 2020

Opinion <sup>(1)</sup>: In line.Impact <sup>(1)</sup>: We will have to raise our estimates.

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## 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.

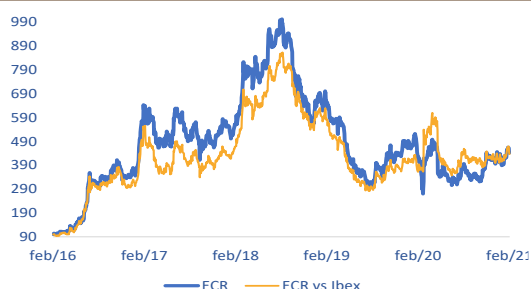
## Market Data

Market Cap (Mn EUR and USD)	243.3	296.3
EV (Mn EUR and USD) <sup>(2)</sup>	337.6	411.2
Shares Outstanding (Mn)	101.0	
-12m (Max/Med/Min EUR)	2.72 / 2.08 / 1.47	
Daily Avg volume (-12m Mn EUR)	0.50	
Rotation <sup>(3)</sup>	52.8	
Refinitiv / Bloomberg	ECR.MC / ECR SM	
Close fiscal year	31-Dec	

## Shareholders Structure (%)

Joan Casas Galofre	5.4
Víctor Manuel Rodríguez Martín	5.0
Dimensional Fund Advisors, L.P.	5.0
Montserrat Garcia Pruns	3.1
Free Float	81.5

## Relative performance (Base 100)



## Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	13.7	-0.4	8.5	342.2
vs Ibex 35	7.9	-2.2	20.6	336.8
vs Ibex Small Cap Index	4.6	-9.5	-15.6	112.3
vs Eurostoxx 50	9.6	-5.1	5.1	245.3
vs Sector benchmark <sup>(4)</sup>	13.8	-1.7	-2.5	193.1

(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 Eurostoxx 600 Chemicals.

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

## Chlor-alkali cycle recovery? We will upgrade 2021e estimates

**AN EXPECTED FALL IN REVENUE (EUR 580MN; -15% VS 2019)...** due to the sharp slowdown in business in 2Q20 that resulted in a significant reduction of both volumes and prices of those products with greater cyclical exposure. The good news is that 4Q20 already shows a recovery to pre-Covid levels (both in volumes of tonnes sold and in turnover).

**...ALTHOUGH DESPITE THE BACKDROP, MARGINS HELD UP (-0.9P. VS 2019).** The fall in volumes and prices was largely offset by the reduction in the cost of the main supplies and procurements. This allowed ECR to obtain a Rec. EBITDA margin of 8.3% (vs 9.2% in 2019) and generate 2020 Rec. EBITDA of EUR 48.2Mn (-22.8% vs 2019; in line with estimates).

**CASH GENERATION CAPABILITY IS EVIDENT...** despite the decline in business (Rec. EBITDA -22.8%), and CAPEX (EUR 34Mn), ECR generated FCF of c. EUR 40Mn (boosted by a further c. EUR 25Mn drawdown of the non-recourse factoring agreement).

**...AND ALLOWS A SIGNIFICANT REDUCTION OF NET DEBT,** that closed 2020 at EUR 84.8Mn (-23% vs 2019!). Its cash generation capability will allow ERC to face 2021e with a solid balance sheet position (ND/Rec. EBITDA c. 1.7x).

**THE COVID SITUATION HAS TEMPORARILY INTERRUPTED SHAREHOLDER REMUNERATION.** ECR obtained net profit of EUR 6.3Mn (impacted by c. EUR 4.3Mn of impairments), below the minimum required by the dividend policy (EPS > 0.1; interrupting, exceptionally, the remuneration charged to 2020 earnings). However, ECR has agreed to resume buying back shares for their cancellation (from March 1st) as part of the shareholder remuneration charged to 2021e earnings.

**WHAT ABOUT 2021E? WE WILL UPGRADE OUR ESTIMATES.** Despite 2020 results in line, the good performance in 4Q20 (fully recovering pre Covid-19 levels) and the likely continuation of this in 2021e, will lead us to upgrade our estimates (2021e Rec. EBITDA of c. EUR 60Mn; c. +15% vs current estimate). Our estimates upgrade hinges basically on: (i) the good progress of PVC (due to the increase in public works and construction sector aid) and (ii) the credible argument for a recovery of Chlor-Alkali prices that could happen sooner than expected (accelerated by capacity closures in the US chemicals industry due to the cold weather).

**WHAT IS THE SHARE PRICE TELLING US?** Despite the share price performance -12m (in line with the sector benchmark index, but -15.6% vs Ibex Small Cap), 2020 results would be trading at an EV/EBITDA of c. 7x (vs c. 8x-10x for its main peers). Looking at 2021e, when the company could already recover 2019 levels, the EV/EBITDA ratio would decrease to c. 5.5x. Given its character of a leading cyclical stock and the likely recovery of demand for Chlor-Alkali (and its price), are we looking at a cheap option to play the cycle recovery already?

## Appendix 1. Results table

EUR Mn	12m20		12m20 Real		2020 Real	
	Real	12m19	vs 12m19	2020e	vs 2020e	
<b>Total Revenues</b>	579.3	682.3	-15.1%	568.1	2.0%	
<b>Recurrent EBITDA<sup>1</sup></b>	48.2	62.4	-22.8%	47.1	2.3%	
<i>Rec. EBITDA/Revenues</i>	8.3%	9.2%	-0.8 p.p.	8.3%	0.0 p.p.	
<b>EBITDA</b>	47.3	60.0	-21.1%	45.2	4.7%	
<i>EBITDA/Revenues</i>	8.2%	8.8%	-0.6 p.p.	8.0%	0.2 p.p.	
<b>EBIT</b>	14.9	28.7	-48.0%	18.0	-16.9%	
<b>PBT</b>	7.0	22.6	-69.1%	12.6	-44.5%	
<b>NP</b>	6.3	31.0	-79.8%	10.3	-39.4%	
<b>Rec. FCF<sup>2</sup></b>	40.6	28.1	44.5%	14.9	173.3%	
<i>Rec. FCF Yield</i>	16.7%	11.5%	5.1 p.p.			
<b>Net Debt</b>	84.8	110.2	-23.0%	104.0	-18.5%	
<b>ND / EBITDA</b>	1.76 x	1.76 x	0.0 x	2.30 x	-0.5 x	

(1) Rec. EBITDA adjusted for: (i) the reversal of provisions and other extraordinary revenue (EUR -3.7Mn in 2020; EUR -2.2Mn in 2019), (ii) provisions and other extraordinary expenses (EUR +4.7Mn in 2020e; EUR +7.8Mn in 2019), (iii) capitalised expenses (EUR -2.3Mn in 2020; EUR -0.9Mn in 2019) and (iv) losses on sales of investment properties (EUR -3.1Mn in 2019).

(2) Rec. FCF boosted by an increase of c. EUR 25Mn in the amount drawn down of the non-recourse factoring agreement.

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

	EUR Mn	Source
Market Cap	243.3	
+ Minority Interests	-	12m Results 2020
+ Provisions & Other L/T Liabilities	44.9	12m Results 2020
+ Net financial debt	82.3	12m Results 2020
- Financial Investments	32.9	12m Results 2020
+/- Others		
<b>Enterprise Value (EV)</b>	<b>337.6</b>	

Nota: At December 31, (2020) the company maintains deferred tax assets (off balance-sheet) amounting to EUR 65.1Mn..

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
26-Feb-2021	n.a.	2.41	n.a.	n.a.	12m Results 2020	David López Sánchez
16-Nov-2020	n.a.	2.01	n.a.	n.a.	9m Results 2020	David López Sánchez
03-Aug-2020	n.a.	1.73	n.a.	n.a.	6m Results 2020 - Estimates upgrade	David López Sánchez
15-May-2020	n.a.	1.95	n.a.	n.a.	3m Results 2020	David López Sánchez
30-Apr-2020	n.a.	2.66	n.a.	n.a.	Estimates downgrade	David López Sánchez
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 - Estimates upgrade	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.	Initiation of Coverage	David López Sánchez

