

3m Results 2019

Opinion ⁽¹⁾: In line.

Impact ⁽¹⁾: We will maintain our estimates.

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Business description

Nicolás Correa (NEA) is a Spanish industrial (Burgos), whose core business is the design and manufacture of chip removal machine tools, specialising in milling machines for the general mechanical engineering industry (aerospace, automotive sectors, etc). Currently, sales in Spain account for 10% of the total (2018e). Among the 90% of exports Europe (55%) and China (18%) stand out del total (2018).

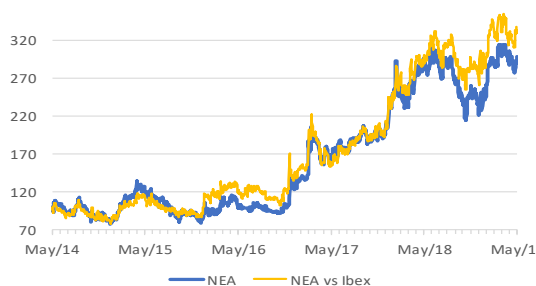
Market Data

| | | |
|-----------------------------|--------------------|------|
| Market Cap (Mn EUR and USD) | 51.4 | 57.5 |
| EV (Mn EUR and USD) | 49.5 | 55.5 |
| Shares Outstanding (Mn) | 12.3 | |
| -12m (Max/Med/Mín EUR) | 4.40 / 3.87 / 3.00 | |
| Daily Avg volume (-12m Mn) | 0.11 | |
| Rotation ⁽²⁾ | 53.07 | |
| Thomson Reuters / Bloomberg | NEA.MC / NEA SM | |
| Close fiscal year | 31-Dec | |

Shareholders Structure (%)

| | |
|------------------------------|------|
| Nicolás-Correa Family | 31.8 |
| Desmasa | 3.0 |
| Board (Excl. Nicolas-Correa) | 2.0 |
| Free Float | 63.2 |

Relative performance -5y (Base 100)



Stock performance

| (%) | -1m | -3m | -12m | -5Y |
|------------------------------------|------|------|------|-------|
| Absolute | 3.7 | 3.7 | 0.7 | 198.9 |
| vs Ibex 35 | 7.3 | 3.1 | 12.0 | 237.6 |
| vs Ibex Small Cap Index | 4.3 | 4.6 | 16.3 | 155.3 |
| vs Eurostoxx 50 | 5.7 | -0.7 | 6.0 | 179.3 |
| vs Sector benchmark ⁽³⁾ | 11.5 | 0.8 | 12.8 | 140.6 |

(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) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.

(3) vs Thomson Reuters Europe Industrial Machinery and Equipment.

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

Good fundamentals continue to be confirmed

RESULTS THAT CONTINUE THE POSITIVE TREND BEGUN IN 2018, and that show double-digit growth throughout the P&L statement: Revenue EUR 18.1Mn (+25%); EBITDA EUR 2.4Mn (+154%) and EBT EUR 2.0Mn (a fourfold increase).

WITH THE EBITDA MARGIN IMPROVING... from 6.6% in 1Q18 to 13.3% confirming that the decisions taken in 2017 have enhanced the company's competitiveness, enabling it to maintain a margin that is higher than the sector average (< 10%).

...AND A EUR 31MN ORDER BOOK, which while smaller than in 1Q18 (-18%), continues to provide visibility regarding the state of the business (c. 42% of 2019e revenue). The reduction of the order book is due to certain customers delaying their decision-taking, although the company expects this situation to improve in coming months, up to average order book levels of last year (approx. EUR 40Mn; + 30% above current levels).

THE STRENGTH OF THE BALANCE SHEET IS BEYOND ALL DOUBT, with a net cash pile of EUR 1.0Mn (vs ND of EUR 1.5Mn in 4Q18), and the potential to comfortably achieve a net cash position of approx. EUR 6Mn in 2019e. As a result, NEA is reasonably protected from an adverse macro scenario, allowing us to maintain an estimated pay-out of 30% for 2019e-2021e (yield of 4%).

WITHOUT LOSING SIGHT OF SECTOR CYCLICALITY and the uncertainty associated with regulatory policies in respect of possible tariffs (a trade war), and a slowdown in growth in those markets to which NEA is most exposed (Europe and China: 75% of revenues).

THE CONCLUSION IS SIMPLE: Results that consolidate the improvement in NEA's activity and further strengthen the balance sheet. And enable recurrent FCF in 2019 and 2020 of approx. EUR 6Mn to be sustained, maintaining a FCF yield of >11% on 2020e results (vs 6.0% for the sector). The equity story, which rests almost exclusively on the company's ability to maintain its competitive position, remains intact.

| EUR Mn | 1Q19 | 1Q18 | 1Q19 vs 1Q18 | 2019e | 2019e vs 2018 |
|---------------------------|--------------|-------------|-----------------|--------------|-----------------|
| Total Revenues | 18.1 | 14.4 | 25.6% | 75.0 | 4.0% |
| Rec. EBITDA | 2.4 | 0.9 | 153.2% | 9.0 | 5.9% |
| <i>Rec. EBITDA / Rev.</i> | <i>13.3%</i> | <i>6.6%</i> | <i>6.7 p.p.</i> | <i>12.0%</i> | <i>0.2 p.p.</i> |
| EBITDA | 2.4 | 0.9 | 153.2% | 9.0 | 5.9% |
| <i>EBITDA / Rev.</i> | <i>13.3%</i> | <i>6.6%</i> | <i>6.7 p.p.</i> | <i>12.0%</i> | <i>0.2 p.p.</i> |
| EBT | 2.0 | 0.5 | 279.2% | 7.6 | 6.7% |
| Net Debt | -1.0 | 1.6 | -160% | -6.0 | n.a. |
| ND / EBITDA | n.a. | n.a. | n.a. | -0.7 x | -0.9 x |

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Recommendation History

| Date of report | Recommendation | Price (EUR) | Target price (EUR) | Period of validity | Reason for report | Analyst |
|----------------|----------------|-------------|--------------------|--------------------|---------------------|---------------------|
| 16-May-2019 | n.a. | 4.17 | n.a. | n.a. | 3m Results 2019 | David López Sánchez |
| 11-Apr-2019 | n.a. | 4.18 | n.a. | n.a. | Review of estimates | David López Sánchez |
| 01-Mar-2019 | n.a. | 3.99 | n.a. | n.a. | 12m Results 2018 | David López Sánchez |
| 17-Jan-2019 | n.a. | 3.59 | n.a. | n.a. | Initial Coverage | David López Sánchez |