

EQUITY - SPAIN

Sector: Basic Chemicals

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Review of estimates

Closing price: EUR 2.66 (29 Apr 2020)

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. Sales outside Spain represent 48% of total revenue.

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Market Data

Market Cap (Mn EUR and USD)	278.6	302.9
EV (Mn EUR and USD) ⁽¹⁾	394.9	429.4
Shares Outstanding (Mn)	104.9	
-12m (Max/Med/Mín EUR)	3.07 / 2.24 / 1.47	
Daily Avg volume (-12m Mn EUR)	1,847.5	
Rotation ⁽²⁾	169,136	
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

Financials (Mn EUR)

	2019	2020e	2021e	2022e
Adj. nº shares (Mn)	106.2	104.9	104.9	104.9
Total Revenues	677.9	585.9	619.2	672.1
Rec. EBITDA ⁽³⁾	58.0	41.8	46.2	61.7
% growth	-9.7	-28.0	10.7	33.4
% Rec. EBITDA/Rev.	8.6	7.1	7.5	9.2
% Inc. EBITDA sector ⁽⁴⁾	1.7	-7.2	15.0	9.1
Net Profit	31.0	7.6	11.1	24.3
EPS (EUR)	0.29	0.07	0.11	0.23
% growth	-28.9	-75.3	47.0	118.2
Ord. EPS (EUR)	0.19	0.07	0.11	0.23
% growth	-39.2	-63.0	47.0	118.2
Rec. Free Cash Flow ⁽⁵⁾	38.1	12.8	7.4	25.0
Pay-out (%)	16.9	0.0	0.0	0.0
DPS (EUR)	0.05	0.00	0.00	0.00
Net financial debt	96.8	104.1	98.8	75.9
ND/Rec. EBITDA (x)	1.7	2.5	2.1	1.2
ROE (%)	11.0	2.6	3.8	7.9
ROCE (%) ⁽⁵⁾	7.6	3.0	3.9	7.0

Ratios & Multiples (x)⁽⁶⁾

	2019	2020e	2021e	2022e
P/E	9.1	36.8	25.0	11.5
Ord. P/E	13.6	36.8	25.0	11.5
P/BV	1.0	1.0	0.9	0.9
Dividend Yield (%)	1.9	0.0	0.0	0.0
EV/Sales	0.58	0.67	0.64	0.59
EV/Rec. EBITDA	6.8	9.5	8.5	6.4
EV/EBIT	12.7	27.0	20.8	11.4
FCF Yield (%) ⁽⁵⁾	13.7	4.6	2.7	9.0

(1) Please refer to Appendix 3.

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

(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 7.7Mn higher due to IFRS 16..

(4) Sector: Eurostoxx 600 Chemicals.

(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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This report has been prepared on the basis of information available to the public. The report includes a financial analysis of the company covered. The report does not propose any personalised investment recommendation. Investors should consider the contents of this report as just another element in their investment decision-making process. The final two pages of this report contain very important legal information regarding its contents.

A cheap and unique option to play now the recovery from the crisis?

SHARP DOWNGRADE TO 2020 ESTIMATES (THAT WON'T SURPRISE ANYBODY): We estimate a sharp fall in revenue (EUR 586Mn; -13.6% vs 2019; -20% vs previous estimate) and Rec. EBITDA (-28% vs 2019; -34% vs previous estimate) explained by the brusque reduction of industrial activity in 2Q20 that will inevitably reduce the demand for and the prices of the products sold by ECR with greatest exposure to the cycle (especially PVC). Although, despite the current situation, ECR remains profitable from an operating point of view (2020e EBITDA margin: 7.1%) and its financial structure is still sound (ND/EBITDA 2020e c. 2.5x).

BUT A "RETURN" TO 2019 IN 2022 IS POSSIBLE: Although there is no visibility 2 years ahead, the most reasonable assumption is the recovery in 24m (post 2020) of similar levels of EBITDA to those of 2019 (c. EUR 62Mn; EBITDA margin 9.2%) due to a combination of: (i) the already completed capacity increases (+14% in chlorine production in 2Q19; a driver unconnected to the cycle) and (ii) the credible argument in favour of the recovery of the price of caustic soda (whose availability has declined in the last month, while demand is somewhat inelastic).

HIGH CASH GENERATION CAPACITY IS A "FACT": The aggressive investment plan implemented in 2016-2019, (CAPEX > EUR 120Mn) is over. Without CAPEX "tolls", we estimate that in 2020e ECR will generate Recurrent FCF of c. EUR 13Mn (FCF yield 4.7%), EUR 8.7Mn of which has already been earmarked for the repurchase of shares for their subsequent redemption (c. 3.6% of capital). Moreover, cash generation capacity will enable the company to face 2020 in good shape in terms of its balance sheet (ND/EBITDA c. 2.5x) and competitive position (a result of the capacity increases already executed).

IN CONCLUSION: ECR is today a distinctive story in the industrial sector, thanks to its potential for volume growth crystallising the value of its step-up in capacity in 2018-2019. A story that has perhaps not gone totally unnoticed by the market: perf. -3m vs IBEX 35, +41% (!). Despite this the post "recovery" EV/EBITDA (2022e) remains at c.6x (vs c. 8x for its main peers).

Relative performance -5y (Base 100)



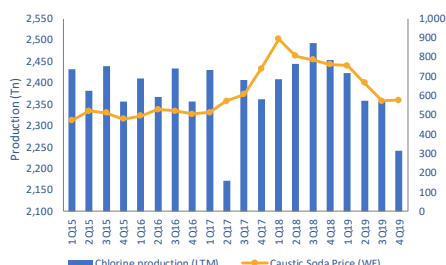
Stock performance (%)

	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	17.5	4.1	-13.6	3.7	-3.1	461.3
vs Ibex 35	12.9	40.9	16.6	40.4	47.2	805.2
vs Ibex Small Cap Index	1.1	27.1	2.8	22.7	-0.4	448.0
vs Eurostoxx 50	7.0	29.8	1.0	29.6	15.1	577.7
vs Sector benchmark ⁽⁴⁾	0.3	15.7	-11.3	17.1	-1.1	464.2

We downgrade our estimates

2020e: A “bad” year (and known). But with the option of “multiplying” the impact of the recovery (when it comes)

Chart 1. Chlorine production (LTM) vs caustic soda prices (2015-2019)



Source: Eurochlor

In 2019 ECR’s business continued to be affected by the unfavourable cyclical situation of the Chlor-Alkali sector, a result of the industrial deceleration seen in Europe since 2H18, which, against a backdrop of abundant supply, pushed down the prices of the main products sold by the company (especially caustic soda and PVC); preventing the growth in volume obtained as a result of the capacity increases carried out in recent years feeding through to revenue (2019 output: +10%; revenues: EUR 678.8Mn, +0.3% vs 2018).

In terms of profitability, EBIT suffered from the weak sector backdrop with a fall of c. 30% vs 2018 (EBIT margin 4.6%; -1.8p.p. vs 2018), reflecting weak caustic soda prices, whose average price in 2019 was c. 21% lower than in 2018 (causing a decline in EBIT generated by the Chlor-Alkali business: c. 60% of total EBIT in 2019 vs c. 80% in 2018).

Chart 2. Revenues by business line (2019)

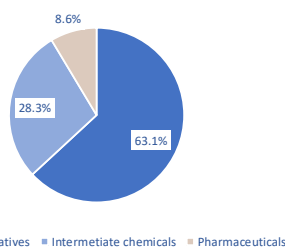
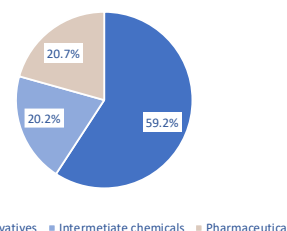


Chart 3. EBIT by business line (2019)

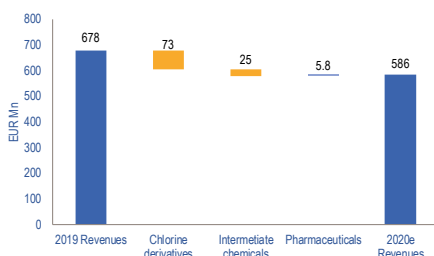


But now the industrial deceleration seen in 2019 has been aggravated exponentially as a result of the demand shock unleashed brusquely by the Covid-19 crisis, producing an unprecedented impact on the industrial activity of the world’s main economies (with the extent of this and the speed of recovery from it as yet unknown).

Accordingly, we downgrade our estimates for 2020e...

The sharp fall in industrial activity occurring in 2Q20, together with the slower than expected recovery of caustic soda prices (1Q20 prices c. 20% below the 2019 average), leads us to adjust our 2020e estimates:

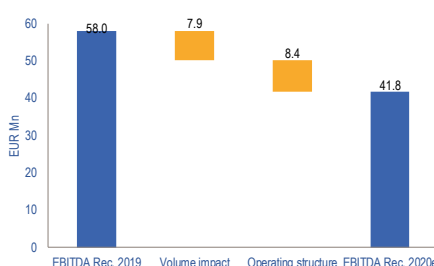
Chart 4. Revenues 2020 vs 2019



- **Revenues (EUR 585.9Mn; -20% vs previous estimate).** The severe demand shock caused by the Covid-19 crisis is now evident in all markets (with unprecedented falls in March PMIs in the EU) and sectors (for example, in Europe, vehicle sales fell 55% in March, with a decline of -25.6% in the cumulative figure for the year).

In our opinion, this situation of maximum uncertainty will inevitably reduce demand for and the price of products with high exposure to the industrial cycle, resulting in a fall in total revenues of c. 14% (vs 2019). By business line, we estimate a sharp fall in the revenue generated by: (i) the chlorine derivatives division (-17% vs 2019; 80% of the total fall in revenue), as a result of lower demand for PVC and ATCC and caustic soda prices that, despite showing signs of recovery, remain depressed (-20% vs average price in 2019), and (ii) the intermediate chemicals division (-13% vs 2019). We expect a more optimistic scenario for the pharmaceuticals division (revenues +10%).

Chart 5. 2020e EBITDA vs 2019



- **Recurrent EBITDA (EUR 41.8Mn; -34.1% vs previous estimate).** The decline in revenue will drag EBITDA down to EUR 41.8Mn (-28% vs 2019). However, 1Q20 saw a generalised (and significant) decline in the company’s main raw materials and procurements (methanol, ethylene, EDC and electricity), which will enable the company to improve its gross margin (+1.4p.p. vs 2019), reducing the fall in EBITDA as a result of its operating leverage.

- **Net profit (EUR 7.6Mn; -76.4% vs previous estimate).** The points above translate almost entirely (net of taxes) to 2020e NP, which we expect to be EUR 7.6Mn (-75% vs 2019). Given the company's operating leverage (and low financial expenses; < 20% of EBIT in a normalised context), any change in the business environment (mainly through an improvement in caustic soda prices or a turnaround in volumes sold by the chlorine derivatives division) translates almost entirely to NP.

Table 1. Lighthouse Estimates review

EUR Mn	2020e (New)	Review (%)	2021e (New)	Review (%)	2022e (New)
Total Revenues	585.9	-19.9%	619.2	-16.3%	672.1
Recurrent EBITDA	41.8	-34.1%	46.2	-31.1%	61.7
<i>Recurrent EBITDA growth</i>	<i>-28.0%</i>	<i>-50.7 p.p.</i>	<i>10.7%</i>	<i>4.9 p.p.</i>	<i>33.4%</i>
<i>Rec. EBITDA/Revenues</i>	<i>7.1%</i>	<i>-1.5 p.p.</i>	<i>7.5%</i>	<i>-1.6 p.p.</i>	<i>9.2%</i>
Net Profit	7.6	-74.6%	11.1	-66.4%	24.3
Recurrent Free Cash Flow	12.8	-45.1%	7.4	-77.6%	25.0
<i>ND / EBITDA</i>	<i>2.5x</i>	<i>0.4x</i>	<i>2.1x</i>	<i>0.4x</i>	<i>1.2x</i>

What would happen in an even worse scenario in 2020?

Currently the level of uncertainty associated with the extent of the impact of Covid-19 on the economy and the pace of the recovery from the sharp halting of activity seen in 2Q20 is maximum. What would happen in an even worse than estimated scenario in 2020?

Table 3. 2020e Sensitivity analysis

	2020e		
	Worst Case	Current Scenario	Best Case
Volumes var. Hypothesis	-11.5%	-6.5%	-5.0%
Prices var. Hypothesis	-7.6%	-7.6%	-5.4%
Total Revenues	554.6	585.9	609.3
<i>Revenues growth vs 2019</i>	<i>-18.2%</i>	<i>-13.6%</i>	<i>-10.1%</i>
<i>Growth. vs Current Scenario</i>	<i>-5.3%</i>		<i>4.0%</i>
EBITDA	35.8	41.8	47.9
<i>Growth vs 2019</i>	<i>-38.3%</i>	<i>-28.0%</i>	<i>-17.5%</i>
<i>Growth vs Current Scenario</i>	<i>-14.3%</i>		
<i>EBITDA/Revenues</i>	<i>6.5%</i>	<i>7.1%</i>	<i>7.9%</i>
<i>EBITDA Mg. increase vs 2019 (p.p.)</i>	<i>(2.1)</i>	<i>(1.4)</i>	<i>(0.7)</i>
EBIT	8.7	14.6	20.7
<i>Growth vs 2019</i>	<i>-72.1%</i>	<i>-53.1%</i>	<i>-33.5%</i>
<i>Growth vs Current Scenario</i>	<i>-40.6%</i>		<i>41.7%</i>
<i>EBIT/Revenues</i>	<i>1.6%</i>	<i>2.5%</i>	<i>3.4%</i>
<i>EBIT Mg. Increase vs 2019 (p.p.)</i>	<i>(3.0)</i>	<i>(2.1)</i>	<i>(1.2)</i>
Rentals (IFRS 16 impact)	(7.1)	(7.1)	(7.1)
=Recurrent Operating Cash Flow*	31.2	42.8	47.2
<i>Effective Tax Rate</i>	<i>18.0%</i>	<i>18.0%</i>	<i>18.0%</i>
<i>Taxes***</i>	<i>(1.6)</i>	<i>(2.6)</i>	<i>(3.7)</i>
<i>Capex/Sales</i>	<i>3.8%</i>	<i>3.8%</i>	<i>3.8%</i>
<i>-CAPEX</i>	<i>(21.3)</i>	<i>(22.5)</i>	<i>(23.4)</i>
=FCF to the firm	8.3	17.7	20.1
<i>Growth vs FCF 2019</i>	<i>-82.8%</i>	<i>-63.5%</i>	<i>-58.6%</i>
ND	113.6	104.1	101.7
ND/EBITDA 2019	3.2x	2.5x	2.1x

* Revenues growth is explained by the changes in volume and prices with a marginal impact in "other income".

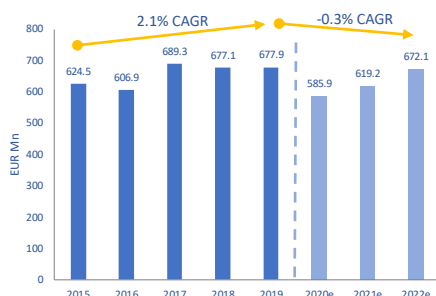
** Recurrent Operating CF calculated as: Rec. EBITDA - Rentals (IFRS 16) +/- Changes in WC.

*** Taxes calculated over EBIT with an effective tax rate (if EBIT > 0).

In the event of a significant contraction of industrial activity in Europe, we estimate that the decline in revenue could reach c. -20% (vs -14% in our central scenario for 2020e), as a result of an additional reduction in demand for the products sold by the chlorine derivatives division (especially PVC, because of its greater exposure to the cycle).

However, even in this scenario, the company would still be profitable from an operating point of view (EBITDA margin 6.5%), and its financial structure sound (ND under control at levels of 3x).

Chart 6. Revenues (2015-2022e)



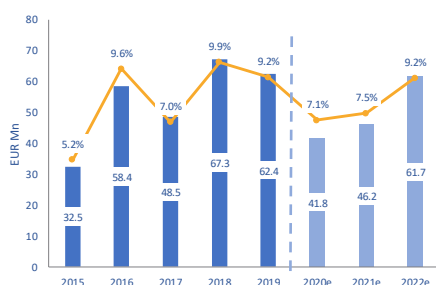
How will the business develop going forward? 2021e: Recovery and 2022e: a “return” to 2019

Making estimates about the future performance of ECR’s business is especially difficult given that it depends on a very large number of variables (caustic soda, chlorine and PVC prices on the revenue side and the dollar, EDC, and methanol on the costs side). The hyper-cyclical nature of the business and the high levels of operating leverage reduce visibility two years ahead even more (in a generalised context of very low visibility). However, “venturing” the levels of EBITDA generation based on reasonable assumptions regarding the macro recovery after 2021 is a useful exercise in order to see the way in which the market (the share price, its ratios) is pricing in a return to normality (two years ahead...).

Our estimates envisage as central scenario a stabilisation of industrial activity in 4Q20, with a (still partial) recovery from 2021e, which should enable ECR to recover similar sales volumes to those seen in 2019 (especially in PVC and ATCC) in 2022e (2022e revenues: EUR 672.1Mn; -0,3% CAGR 2019-2022e), and which together with a moderate recovery of caustic soda prices (to average price levels similar to those seen in 2019) should drive the EBITDA margin to 9.2% (in line with what was seen in 2019). In our view, the main drivers of the business (once the Covid-19 crisis has been overcome) in 2021e and 2022e will be:

- **The increase in Chlor-Alkali capacity (a driver unconnected to the cycle).** The aggressive investment plan to transition from mercury to membrane technology can be considered concluded with the investments made in 2Q19 (an increase in chlorine production capacity of 26,000Tn; +14%) which added to the increase carried out in 1H18 (+26,000Tn). Taking total chlorine production capacity to 217,000 Tn (in line with capacity in 2017).
- **Moderate recovery of caustic soda prices.** The Covid-19 pandemic has all but brought industrial activity to a standstill, resulting in a significant reduction in chlorine consumption (especially due to the fall in demand for PVC), causing a significant reduction in its production. And reducing the availability of caustic soda (whose demand is less elastic and has not decreased). As a result, caustic soda spot prices are showing a certain recovery in the first half of 2Q20. Our central scenario envisages a recovery of c. 10% in caustic soda prices in 2021e and c. 20% in 2022e (to average levels seen in 2019).

Chart 7. EBITDA and EBITDA Mg. (2015-2022e)



In conclusion: a sharp fall in 2020 (which won’t surprise anybody); but an opportunity to “multiply” the “post Covid-19” cyclical recovery

Despite the current situation, ECR remains profitable from an operating point of view (2020e EBITDA margin: 7.1%) and its financial structure is still sound (ND/EBITDA 2020e < 2.5x).

Accordingly, and despite the strong downgrade to estimates: (revenue and EBITDA 2020e: -20% and -34.1% vs previous estimates), we keep ECR’s equity story intact, which hinges mainly on: (i) the high exposure of its Chlor-Alkali business to the recovery of industrial activity, which should boost (once the Covid-19 crisis has been overcome) the volume of its products sold; and (ii) a moderate recovery of caustic soda prices from 2021e (to average levels of 2019 in 2022e).

Other than this, the key point is the significant investment effort made in 2017-2019, when CAPEX/Sales levels doubled to an annual average of c.6%. This implies that now ECR is in optimum conditions to lever a possible cyclical recovery with a larger installed capacity. While seeing its levels of estimated annual investment fall to CAPEX/Sales of c.3% (2020-2022e). And recovering levels of Recurrent FCF of c. EUR 25Mn in 2022e (FCF yield c. 9% vs 5.8% for the sector). In other words, a distinctive story in the industrial sector that has perhaps not gone totally unnoticed by the market: perf. -3m vs IBEX 35, +41% (!). Despite this the post “recovery” EV/EBITDA (2022) remains at c.6x (vs 8x for its main peers).

Appendix 1. Financial Projections⁽¹⁾

Balance Sheet (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR	
Intangible assets	6.5	5.9	4.1	4.2	19.7	20.6	21.5	22.4		
Fixed assets	235.3	249.2	269.4	281.7	297.0	298.5	297.8	292.4		
Other Non Current Assets	2.5	7.0	25.9	31.7	40.3	40.3	40.3	40.3		
Financial Investments	40.4	38.7	44.9	45.2	42.7	43.1	43.5	43.9		
Goodwill & Other Intangibles	-	-	-	-	-	-	-	-		
Current assets	205.3	184.6	218.3	218.9	184.5	160.1	169.0	181.8		
Total assets	490.1	485.4	562.6	581.6	584.1	562.5	572.2	580.8		
Equity	175.9	219.8	247.5	272.7	292.1	285.7	296.8	321.1		
Minority Interests	-	-	-	-	-	-	-	-		
Provisions & Other L/T Liabilities	66.2	71.0	84.1	76.5	62.2	56.0	53.9	51.9		
Other Non Current Liabilities	-	-	-	-	13.4	13.4	13.4	13.4		
Net financial debt	119.5	73.4	89.3	107.3	96.8	104.1	98.8	75.9		
Current Liabilities	128.5	121.2	141.7	125.2	119.6	103.4	109.2	118.6		
Equity & Total Liabilities	490.1	485.4	562.6	581.6	584.1	562.5	572.2	580.8		
P&L (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	15-19	19-22e
Total Revenues	624.5	606.9	689.3	677.1	677.9	585.9	619.2	672.1	2.1%	-0.3%
<i>Total Revenues growth</i>	<i>2.8%</i>	<i>-2.8%</i>	<i>13.6%</i>	<i>-1.8%</i>	<i>0.1%</i>	<i>-13.6%</i>	<i>5.7%</i>	<i>8.5%</i>		
COGS	(438.5)	(393.8)	(467.9)	(466.9)	(474.4)	(401.7)	(428.6)	(463.5)		
Gross Margin	186.0	213.1	221.3	210.3	203.5	184.1	190.6	208.6	2.3%	0.8%
<i>Gross Margin/Revenues</i>	<i>29.8%</i>	<i>35.1%</i>	<i>32.1%</i>	<i>31.1%</i>	<i>30.0%</i>	<i>31.4%</i>	<i>30.8%</i>	<i>31.0%</i>		
Personnel Expenses	(79.9)	(81.8)	(83.4)	(79.9)	(83.1)	(82.6)	(83.2)	(83.9)		
Other Operating Expenses	(73.7)	(72.8)	(67.7)	(66.1)	(62.4)	(59.8)	(61.2)	(63.1)		
Recurrent EBITDA	32.5	58.4	70.3	64.3	58.0	41.8	46.2	61.7	15.6%	2.0%
<i>Recurrent EBITDA growth</i>	<i>125.5%</i>	<i>79.6%</i>	<i>20.3%</i>	<i>-8.5%</i>	<i>-9.7%</i>	<i>-28.0%</i>	<i>10.7%</i>	<i>33.4%</i>		
<i>Rec. EBITDA/Revenues</i>	<i>5.2%</i>	<i>9.6%</i>	<i>10.2%</i>	<i>9.5%</i>	<i>8.6%</i>	<i>7.1%</i>	<i>7.5%</i>	<i>9.2%</i>		
Restructuring Expense & Other non-rec.	-	-	(21.7)	3.0	4.4	-	-	-		
EBITDA	32.5	58.4	48.5	67.3	62.4	41.8	46.2	61.7	17.7%	-0.4%
Depreciation & Provisions	(19.9)	(7.4)	(14.2)	(24.2)	(25.1)	(21.0)	(21.1)	(20.9)		
Capitalized Expense	0.1	0.0	-	0.2	0.9	0.9	0.9	0.9		
Rentals (IFRS 16 impact)	-	-	-	-	(7.1)	(7.1)	(7.1)	(7.1)		
EBIT	12.7	51.0	34.3	43.2	31.2	14.6	19.0	34.6	25.1%	3.5%
<i>EBIT growth</i>	<i>354.5%</i>	<i>300.4%</i>	<i>-32.8%</i>	<i>25.9%</i>	<i>-27.8%</i>	<i>-53.1%</i>	<i>29.9%</i>	<i>81.9%</i>		
<i>EBIT/Revenues</i>	<i>2.0%</i>	<i>8.4%</i>	<i>5.0%</i>	<i>6.4%</i>	<i>4.6%</i>	<i>2.5%</i>	<i>3.1%</i>	<i>5.1%</i>		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(6.2)	(6.3)	(6.4)	(6.3)	(6.5)	(5.8)	(5.8)	(5.4)		
Income by the Equity Method	0.2	0.6	0.7	1.1	0.4	0.4	0.4	0.4		
Ordinary Profit	6.7	45.3	28.7	38.0	25.1	9.2	13.6	29.6	38.9%	5.7%
<i>Ordinary Profit Growth</i>	<i>154.0%</i>	<i>571.4%</i>	<i>-36.7%</i>	<i>32.5%</i>	<i>-34.0%</i>	<i>-63.2%</i>	<i>47.0%</i>	<i>118.2%</i>		
Extraordinary Results	-	-	(0.1)	-	(2.5)	-	-	-		
Profit Before Tax	6.7	45.3	28.6	38.0	22.6	9.2	13.6	29.6	35.3%	9.4%
Tax Expense	0.5	(0.2)	15.9	6.9	8.4	(1.7)	(2.4)	(5.3)		
<i>Effective Tax Rate</i>	<i>n.a.</i>	<i>0.3%</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>18.0%</i>	<i>18.0%</i>	<i>18.0%</i>		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	7.2	45.2	44.5	44.9	31.0	7.6	11.1	24.3	43.9%	-7.9%
<i>Net Profit growth</i>	<i>215.1%</i>	<i>523.8%</i>	<i>-1.5%</i>	<i>0.9%</i>	<i>-30.8%</i>	<i>-75.6%</i>	<i>47.0%</i>	<i>118.2%</i>		
Ordinary Net Profit	6.7	45.2	50.4	35.0	20.7	7.6	11.1	24.3	32.3%	5.5%
<i>Ordinary Net Profit growth</i>	<i>154.0%</i>	<i>569.1%</i>	<i>11.6%</i>	<i>-30.6%</i>	<i>-40.9%</i>	<i>-63.4%</i>	<i>47.0%</i>	<i>118.2%</i>		
Cash Flow (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	15-19	19-22e
Recurrent EBITDA						41.8	46.2	61.7	15.6%	2.0%
Rentals (IFRS 16 impact)						(7.1)	(7.1)	(7.1)		
Working Capital Increase						8.1	(3.0)	(3.5)		
Recurrent Operating Cash Flow						42.8	36.1	51.1	36.7%	-13.8%
CAPEX						(22.5)	(20.4)	(15.5)		
Net Financial Result affecting the Cash Flow						(5.8)	(5.8)	(5.4)		
Tax Expense						(1.7)	(2.4)	(5.3)		
Recurrent Free Cash Flow						12.8	7.4	25.0	47.9%	-13.1%
Restructuring Expense & Other non-rec.						(6.2)	(2.1)	(2.1)		
- Acquisitions / + Divestitures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						6.6	5.3	22.9	14.5%	3.8%
Capital Increase / Repurchase of shares						(8.7)	-	-		
Dividends						(5.2)	-	-		
Net Debt Variation						7.3	(5.3)	(22.9)		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 7.7Mn higher due to IFRS 16.

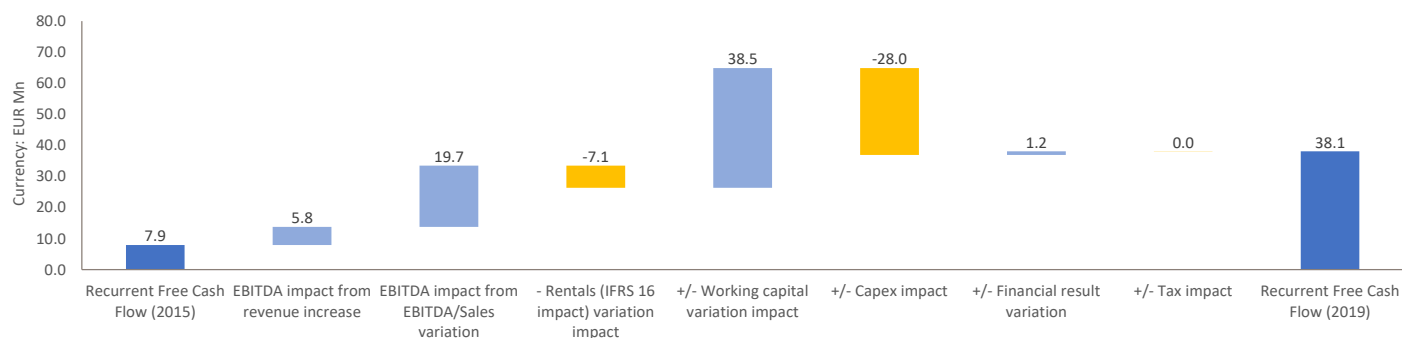
Appendix 2. Free Cash Flow⁽¹⁾

A) Cash Flow Analysis (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR	
								16-19	19-22e
Recurrent EBITDA	58.4	70.3	64.3	58.0	41.8	46.2	61.7	-0.2%	2.0%
<i>Recurrent EBITDA growth</i>	79.6%	20.3%	-8.5%	-9.7%	-28.0%	10.7%	33.4%		
<i>Rec. EBITDA/Revenues</i>	9.6%	10.2%	9.5%	8.6%	7.1%	7.5%	9.2%		
- Rentals (IFRS 16 impact)	-	-	-	(7.1)	(7.1)	(7.1)	(7.1)		
+/- Working Capital increase*	13.5	(13.2)	(17.1)	28.8	8.1	(3.0)	(3.5)		
= Recurrent Operating Cash Flow	71.8	57.1	47.2	79.8	42.8	36.1	51.1	3.6%	-13.8%
<i>Rec. Operating Cash Flow growth</i>	214.5%	-20.5%	-17.4%	69.1%	-46.4%	-15.7%	41.6%		
<i>Rec. Operating Cash Flow / Sales</i>	11.8%	8.3%	7.0%	11.8%	7.3%	5.8%	7.6%		
- CAPEX	(18.7)	(42.8)	(42.1)	(37.1)	(22.5)	(20.4)	(15.5)		
- Net Financial Result affecting Cash Flow	(6.3)	(6.4)	(6.3)	(5.1)	(5.8)	(5.8)	(5.4)		
- Taxes	(0.2)	15.9	6.9	0.4	(1.7)	(2.4)	(5.3)		
= Recurrent Free Cash Flow	46.7	23.8	5.6	38.1	12.8	7.4	25.0	-6.6%	-13.1%
<i>Rec. Free Cash Flow growth</i>	487.4%	-49.1%	-76.4%	579.7%	-66.3%	-42.5%	237.7%		
<i>Rec. Free Cash Flow / Revenues</i>	7.7%	3.4%	0.8%	5.6%	2.2%	1.2%	3.7%		
- Restructuring expenses & others	-	(21.7)	-	(23.4)	(6.2)	(2.1)	(2.1)		
- Acquisitions / + Divestments	0.6	-	-	5.7	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	(0.1)	-	-	-	-	-		
= Free Cash Flow	47.3	1.9	5.6	20.4	6.6	5.3	22.9	-24.4%	3.8%
<i>Free Cash Flow growth</i>	297.4%	-95.9%	187.4%	264.9%	-67.6%	-19.7%	329.8%		
<i>Recurrent Free Cash Flow - Yield (s/Mkt Cap)</i>	16.8%	8.5%	2.0%	13.7%	4.6%	2.7%	9.0%		
<i>Free Cash Flow Yield (s/Mkt Cap)</i>	17.0%	0.7%	2.0%	7.3%	2.4%	1.9%	8.2%		
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)									
Recurrent FCF(FY - 1)	7.9	46.7	23.8	5.6	38.1	12.8	7.4		
EBITDA impact from revenue increase	(0.9)	7.9	(1.2)	0.1	(7.9)	2.4	3.9		
EBITDA impact from EBITDA/Sales variation	26.8	3.9	(4.7)	(6.3)	(8.4)	2.1	11.5		
= Recurrent EBITDA variation	25.9	11.9	(6.0)	(6.2)	(16.3)	4.5	15.4		
- Rentals (IFRS 16 impact) variation impact	-	-	-	(7.1)	-	-	-		
+/- Working capital variation impact	23.1	(26.6)	(3.9)	45.9	(20.7)	(11.2)	(0.4)		
= Recurrent Operating Cash Flow variation	49.0	(14.7)	(9.9)	32.6	(37.0)	(6.7)	15.0		
+/- CAPEX impact	(9.6)	(24.1)	0.7	5.0	14.6	2.1	5.0		
+/- Financial result variation	(0.0)	(0.1)	0.0	1.3	(0.7)	(0.0)	0.5		
+/- Tax impact	(0.6)	16.1	(9.0)	(6.4)	(2.1)	(0.8)	(2.9)		
= Recurrent Free Cash Flow variation	38.7	(22.9)	(18.2)	32.5	(25.2)	(5.5)	17.6		
Recurrent Free Cash Flow	46.7	23.8	5.6	38.1	12.8	7.4	25.0		
C) "FCF to the Firm" (pre debt service) (EUR Mn)									
EBIT	51.0	34.3	43.2	31.2	14.6	19.0	34.6	-15.2%	3.5%
* <i>Theoretical Tax rate</i>	0.3%	0.0%	0.0%	0.0%	18.0%	18.0%	18.0%		
= Taxes (pre- Net Financial Result)	(0.2)	-	-	-	(2.6)	(3.4)	(6.2)		
Recurrent EBITDA	58.4	70.3	64.3	58.0	41.8	46.2	61.7	-0.2%	2.0%
- Rentals (IFRS 16 impact)	-	-	-	(7.1)	(7.1)	(7.1)	(7.1)		
+/- Working Capital increase*	13.5	(13.2)	(17.1)	28.8	8.1	(3.0)	(3.5)		
= Recurrent Operating Cash Flow	71.8	57.1	47.2	79.8	42.8	36.1	51.1	3.6%	-13.8%
- CAPEX	(18.7)	(42.8)	(42.1)	(37.1)	(22.5)	(20.4)	(15.5)		
- Taxes (pre- Financial Result)	(0.2)	-	-	-	(2.6)	(3.4)	(6.2)		
= Recurrent Free Cash Flow (To the Firm)	53.0	14.3	5.1	42.7	17.7	12.3	29.4	-6.9%	-11.7%
<i>Rec. Free Cash Flow (To the Firm) growth</i>	286.8%	-73.1%	-64.4%	742.2%	-58.6%	-30.7%	140.2%		
<i>Rec. Free Cash Flow (To the Firm) / Revenues</i>	8.7%	2.1%	0.7%	6.3%	3.0%	2.0%	4.4%		
- Acquisitions / + Divestments	0.6	-	-	5.7	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	(0.1)	-	-	-	-	-		
= Free Cash Flow "To the Firm"	53.6	14.2	5.1	48.4	17.7	12.3	29.4	-3.3%	-15.3%
<i>Free Cash Flow (To the Firm) growth</i>	203.6%	-73.5%	-64.2%	855.5%	-63.5%	-30.7%	140.2%		
<i>Rec. Free Cash Flow To the Firm Yield (o/EV)</i>	13.4%	3.6%	1.3%	10.8%	4.5%	3.1%	7.5%		
<i>Free Cash Flow "To the Firm" - Yield (o/EV)</i>	13.6%	3.6%	1.3%	12.3%	4.5%	3.1%	7.5%		

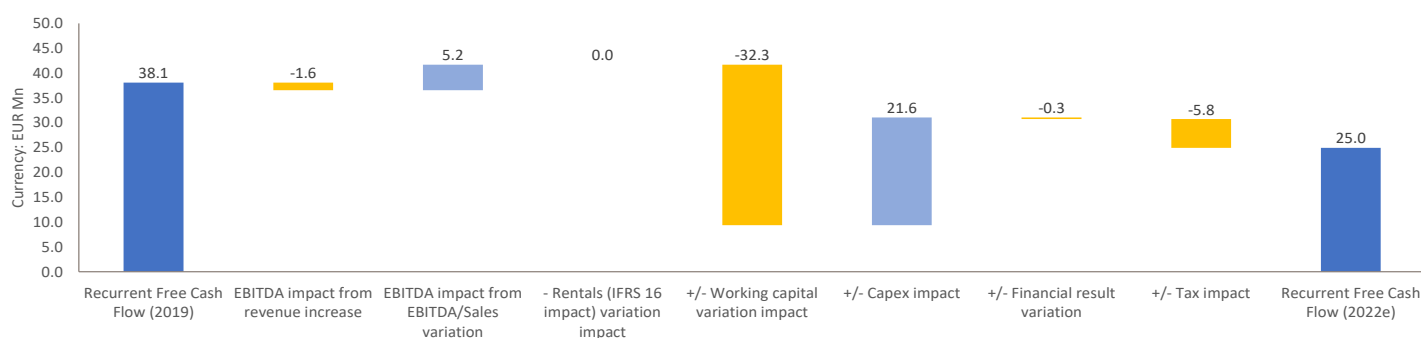
Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 7.7Mn higher due to IFRS 16.

* 2019 working capital increase (EUR 28.8Mn) is due to a decrease in: (i) inventories (EUR 15.4Mn; mainly explained by inventory management and the fall in prices of the main raw materials used by the company) and (ii) receivables (EUR 12.1Mn).

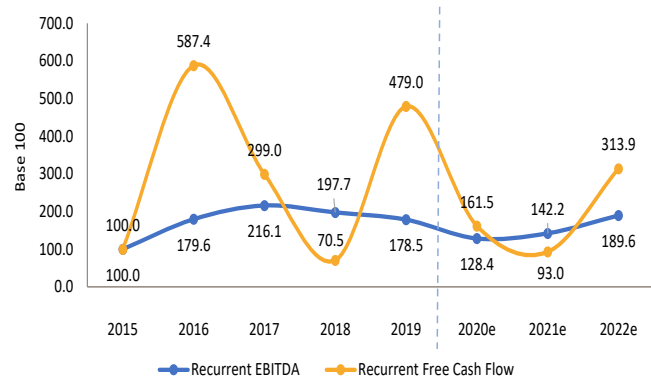
Recurrent Free Cash Flow accumulated variation analysis (2015 - 2019)



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	278.6	
+ Minority Interests	-	12m Results 2019
+ Provisions & Other L/T Liabilities	62.2	12m Results 2019
+ Net financial debt	96.8	12m Results 2019
- Financial Investments	42.7	12m Results 2019
+/- Others	-	
Enterprise Value (EV)	394.9	

Appendix 4. Historical performance (1)(2)

Historical performance (EUR Mn)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR	
															09-19	19-22e
Total Revenues	606.3	609.3	686.0	639.5	625.0	603.7	624.5	606.9	689.3	677.1	677.9	585.9	619.2	672.1	1.1%	-0.3%
Total Revenues growth	-29.1%	0.5%	12.6%	-6.8%	-2.3%	-3.4%	3.5%	-2.8%	13.6%	-1.8%	0.1%	-13.6%	5.7%	8.5%		
EBITDA	(13.7)	10.9	26.9	21.1	29.0	19.1	32.5	58.4	48.5	67.3	62.4	41.8	46.2	61.7	n.a.	-0.4%
EBITDA growth	-132.5%	179.3%	148.0%	-21.5%	37.0%	-34.1%	70.5%	79.6%	-16.9%	38.6%	-7.2%	-33.1%	10.7%	33.4%		
EBITDA/Sales	n.a.	1.8%	3.9%	3.3%	4.6%	3.2%	5.2%	9.6%	7.0%	9.9%	9.2%	7.1%	7.5%	9.2%		
Net Profit	(51.0)	(14.0)	(0.9)	(11.7)	(0.3)	(7.1)	7.2	45.2	44.5	44.9	31.0	7.6	11.1	24.3	n.a.	-7.9%
Net Profit growth	74.9%	72.6%	93.6%	n.a.	97.3%	n.a.	202.0%	523.8%	-1.5%	0.9%	-30.8%	-75.6%	47.0%	118.2%		
Adjusted number shares (Mn)	100.6	100.6	100.6	100.8	103.5	111.5	114.0	114.1	112.3	109.2	106.2	104.9	104.9	104.9		
EPS (EUR)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.06	0.40	0.40	0.41	0.29	0.07	0.11	0.23	n.a.	-7.5%
EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.1%	3.7%	-28.9%	-75.3%	47.0%	n.a.		
Ord. EPS (EUR)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.06	0.40	0.45	0.32	0.19	0.07	0.11	0.23	n.a.	5.9%
Ord. EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.4%	-28.6%	-39.2%	-63.0%	47.0%	n.a.		
CAPEX	(36.6)	(8.1)	(8.1)	(15.8)	(4.2)	(4.6)	(9.2)	(18.7)	(42.8)	(42.1)	(37.1)	(22.5)	(20.4)	(15.5)		
CAPEX/Sales %	6.0%	1.3%	1.2%	2.5%	0.7%	0.8%	1.5%	3.1%	6.2%	6.2%	5.5%	3.8%	3.3%	2.3%		
Free Cash Flow	2.6	(18.7)	3.6	3.1	19.5	21.9	11.9	47.3	1.9	5.6	20.4	6.6	5.3	22.9	22.8%	3.8%
ND/EBITDA (x) ⁽²⁾	n.a.	8.7x	3.0x	6.9x	5.3x	6.8x	3.7x	1.3x	1.8x	1.6x	1.6x	2.5x	2.1x	1.2x		
P/E (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9.7x	4.6x	7.2x	7.6x	8.8x	36.8x	25.0x	11.5x		
EV/Sales (x)	0.4x	0.3x	0.2x	0.3x	0.3x	0.3x	0.3x	0.5x	0.6x	0.7x	0.6x	0.7x	0.6x	0.6x		
EV/EBITDA (x) ⁽²⁾	n.a.	15.4x	5.6x	8.8x	7.1x	9.1x	5.8x	5.3x	8.7x	7.0x	6.2x	9.5x	8.5x	6.4x		
Absolute performance	-13.1%	-48.6%	-4.8%	-41.2%	18.8%	-17.3%	56.7%	198.7%	55.4%	8.9%	-17.8%	3.7%				
Relative performance vs Ibex	-33.1%	-37.8%	9.6%	-38.3%	-2.2%	-20.2%	68.8%	204.8%	44.7%	28.1%	-26.5%	n.a.				

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 behaviour 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 7.7Mn 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

Market data	EUR Mn	Europe				Average	USA			Average	ECR
		BASF SE	Solvay	Covestro AG	Akzo Nobel AS		DowDuPont	Olin Corp	Westlake		
Ticker (Reuters)		BASF.DE	SOLB.BR	1COV.DE	AKZO.AS		DWDP.K	OLN	WLK		ECR.MC
Country		Germany	Belgium	Germany	Netherlands		USA	USA	USA		Spain
Market cap		45,001.5	7,831.0	5,821.2	13,889.4		32,508.9	2,355.8	5,475.3		278.6
Enterprise value (EV)		63,009.5	11,685.9	6,862.2	15,671.0		47,662.0	5,225.2	8,473.5		394.9
Total Revenues		56,087.9	9,811.9	10,507.7	8,508.6		18,416.8	5,333.2	6,873.1		585.9
Total Revenues growth		-5.4%	-12.6%	-15.3%	-8.3%	-10.4%	-4.0%	-2.2%	-5.1%	-3.8%	-13.6%
2y CAGR (2020e - 2022e)		4.5%	4.0%	8.2%	4.5%	5.3%	1.7%	5.7%	3.8%	3.7%	7.1%
EBITDA		7,281.1	1,963.3	824.7	1,281.6		4,389.8	654.5	1,130.6		41.8
EBITDA growth		-19.6%	-12.1%	-48.7%	-9.9%	-22.6%	1.9%	-13.8%	-9.9%	-7.3%	-33.1%
2y CAGR (2020e - 2022e)		13.2%	2.4%	36.9%	10.8%	15.8%	5.0%	20.9%	7.4%	11.1%	21.5%
EBITDA/Revenues		13.0%	20.0%	7.8%	15.1%	14.0%	23.8%	12.3%	16.4%	17.5%	7.1%
EBIT		3,712.0	1,224.1	60.6	931.2		3,195.1	128.9	443.7		14.6
EBIT growth		-23.3%	2.0%	-93.1%	-12.3%	-31.7%	29.5%	-43.0%	-28.2%	-13.9%	-53.1%
2y CAGR (2020e - 2022e)		21.4%	2.3%	249.1%	14.5%	71.8%	8.8%	76.9%	15.5%	33.7%	53.7%
EBIT/Revenues		6.6%	12.5%	0.6%	10.9%	7.7%	17.3%	2.4%	6.5%	8.7%	2.5%
Net Profit		2,589.9	674.1	(2.9)	623.3		2,024.0	(55.4)	222.3		7.6
Net Profit growth		1.7%	n.a.	n.a.	12.3%	7.0%	n.a.	449.4%	-46.1%	201.7%	-75.6%
2y CAGR (2020e - 2022e)		23.0%	7.9%	n.a.	15.9%	15.6%	9.2%	n.a.	24.4%	16.8%	79.1%
CAPEX/Sales %		-6.0%	-7.8%	-7.4%	-2.4%	-5.9%	-5.2%	-5.0%	-9.0%	-6.4%	-3.8%
Free Cash Flow		3,159.5	592.1	142.3	677.6		2,259.1	130.3	595.7		6.6
Net financial debt		14,402.5	3,408.4	1,428.8	1,003.6		13,683.2	2,635.8	2,115.3		104.1
ND/EBITDA (x)		2.0	1.7	1.7	0.8	1.6	3.1	4.0	1.9	3.0	2.5
Pay-out		114.6%	55.9%	-10718.1%	62.5%	-2621.3%	41.6%	-214.4%	56.2%	-38.8%	0.0%
P/E (x)		16.9	11.8	n.a.	22.1	16.9	15.7	n.a.	24.3	20.0	36.8
P/BV (x)		1.1	0.8	1.2	2.2	1.3	0.9	1.2	1.0	1.0	1.0
EV/Revenues (x)		1.1	1.2	0.7	1.8	1.2	2.6	1.0	1.2	1.6	0.7
EV/EBITDA (x)		8.7	6.0	8.3	12.2	8.8	10.9	8.0	7.5	8.8	9.5
EV/EBIT (x)		17.0	9.5	n.a.	16.8	14.4	14.9	40.5	19.1	24.9	27.0
ROE		6.2	6.7	0.5	9.8	5.8	4.4	n.a.	4.3	4.3	2.6
FCF Yield (%)		7.0	7.6	2.4	4.9	5.5	6.9	5.5	10.8	7.8	4.6
DPS		3.23	3.66	1.69	1.83	2.60	1.13	0.73	0.97	0.94	0.00
Dvd Yield		6.6%	4.9%	5.3%	2.6%	4.8%	2.5%	4.9%	2.3%	3.2%	0.0%

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 ⁽¹⁾		
Free Cash Flow "To the Firm"	17.7	12.3	29.4	320.4		
Market Cap	278.6	At the date of this report				
Net financial debt	96.8	Debt net of Cash (12m Results 2019)				
					Best Case	Worst Case
Cost of Debt	3.5%	Net debt cost			3.0%	4.0%
Tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	2.8%	$Kd = \text{Cost of Net Debt} * (1-T)$			2.4%	3.2%
Risk free rate (rf)	0.9%	Rf (10y Spanish bond yield)			=	=
Equity risk premium	9.0%	R (own estimate)			8.5%	9.5%
Beta (B)	1.3	B (Thomson Reuters)			1.3	1.4
Cost of Equity	12.6%	$Ke = Rf + (R * B)$			11.9%	13.7%
Equity / (Equity + Net Debt)	74.2%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	25.8%	D			=	=
WACC	10.1%	$WACC = Kd * D + Ke * E$			9.5%	11.0%
G "Fair"	1.0%				1.5%	0.5%

(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.

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

Inputs for the Multiples Valuation Approach

Company	Ticker	Reuters	Mkt. Cap	P/E 20e	EPS	EV/EBITDA	EBITDA	EV/Sales	Revenues	EBITDA/Sales	FCF Yield	FCF
					20e-22e	20e	20e-22e	20e	20e-22e	20e	20e	20e-22e
BASF SE	BASFn.DE		45,001.5	16.9	22.3%	8.7	13.2%	1.1	4.5%	13.0%	7.0%	-11.6%
Solvay	SOLB.BR		7,831.0	11.8	11.7%	6.0	2.4%	1.2	4.0%	20.0%	7.6%	2.2%
Covestro AG	1COV.DE		5,821.2	n.a.	n.a.	8.3	36.9%	0.7	8.2%	7.8%	2.4%	19.5%
Akzo Nobel AS	AKZO.AS		13,889.4	22.1	16.9%	12.2	10.8%	1.8	4.5%	15.1%	4.9%	11.7%
Europe				16.9	17.0%	8.8	15.8%	1.2	5.3%	14.0%	5.5%	5.5%
DowDuPont	DWDP.K		32,508.9	15.7	11.8%	10.9	5.0%	2.6	1.7%	23.8%	6.9%	7.8%
Olin Corp	OLN		2,355.8	n.a.	n.a.	8.0	20.9%	1.0	5.7%	12.3%	5.5%	74.4%
Westlake	WLK		5,475.3	24.3	32.1%	7.5	7.4%	1.2	3.8%	16.4%	10.8%	-2.8%
USA				20.0	22.0%	8.8	11.1%	1.6	3.7%	17.5%	7.8%	26.5%
ECR	ECR.MC		278.6	36.8	79.1%	9.5	21.5%	0.7	7.1%	7.1%	4.6%	85.8%

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	8.5%	52.4	7.5x
Central	7.5%	46.2	8.5x
Min	6.5%	40.0	9.9x

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		
	2.3%	3.3%	4.3%		Max	Central	Min
EBITDA 21e							
52.4	19.8	13.6	7.4	Max	7.1%	4.9%	2.7%
46.2	13.6	7.4	1.2	Central	4.9%	2.7%	0.4%
40.0	7.4	1.2	(5.0)	Min	2.7%	0.4%	n.a.

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
30-Apr-2020	n.a.	2.66	n.a.	n.a.	Review of estimates	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	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

