

3m Results 2020

Opinion ⁽¹⁾: Above expectations.

Impact ⁽¹⁾: We will have to raise 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, renewables, automotive sectors, etc). Currently, sales in Spain account for 15% (2019) of the total, with a 53% of sales made in the rest of Europe. China accounted for 10,5% in 2019.

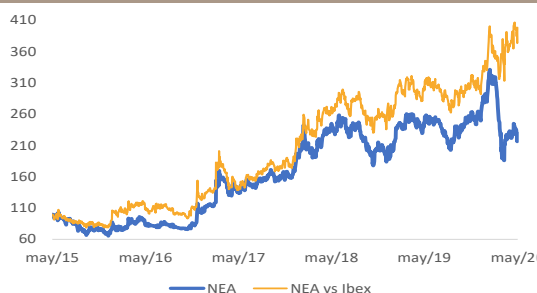
Market Data

Market Cap (Mn EUR and USD)	47.4	51.3
EV (Mn EUR and USD) ⁽²⁾	45.1	48.7
Shares Outstanding (Mn)	12.3	
-12m (Max/Med/Mín EUR)	5.60 / 4.20 / 3.14	
Daily Avg volume (-12m Mn)	0.10	
Rotation ⁽³⁾	52.1	
Thomson Reuters / Bloomberg	NEA.MC / NEA SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Nicolás-Correa Family	31.9
Onchena	5.4
Board (Excl. Nicolas-Correa)	2.0
Free Float	60.8

Relative performance -5y (Base 100)



Stock performance (%)

(%)	-1m	-3m	-12m	-5Y
Absolute	2.4	-26.8	-7.7	127.8
vs Ibex 35	8.2	12.6	30.9	298.2
vs Ibex Small Cap Index	1.3	-0.4	14.6	136.9
vs Eurostoxx 50	3.8	1.5	12.8	193.8
vs Sector benchmark ⁽⁴⁾	-4.3	-7.8	-2.0	120.6

(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) Please refer to Appendix 2.

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

(4) vs TR Europe Industrial Machinery and Equipment.

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

Two very positive aspects: a large order book and available cash

FALL IN REVENUES (EUR 13.6MN; -24.5% VS 1Q19)... due to the big demand shock arising from the impact of Covid-19 on the global economy, which paralysed the Chinese economy during the first few months of the year (c. 23% of the 2019 order book) delaying the delivery of orders until 2Q20. In our view, the company's high exposure to China will be a supporting factor in coming months (China has been the first country to gradually re-open its economy and the first figures already point to signs of recovery; industrial output in April +3.9% y/y vs -13.5% y/y in February).

...WITH AN EBITDA MARGIN OF 8.7%, a decline of 4.6p.p. vs 1Q19 resulting in EBITDA of EUR 1.2Mn (-50.5% vs 1Q19). If we look at NEA's margin in a period with a similar volume of revenue (1TQ8 revenues EUR 14.4Mn; EBITDA margin 6.6%) we can say that the decisions take in recent years have strengthened both the company's productivity and its competitive position. This is a differentiating factor which allows the company to sustain higher margins than those of its sector even in a context such as the current one.

AND A SOUND BALANCE SHEET: sustaining net cash of EUR 3.7Mn (8% of the Market Cap; in line with the position at the 2019 close). Under these circumstances, we believe NEA's very healthy balance sheet structure will not only help the company to weather an unfavourable cycle such as the current one, but also strengthen its potential to generate value and grow over the long term.

BUT THE "SURPRISE" LIES IN THE ORDER BOOK. NEA ended 1Q20 with a surprisingly high amount of orders won of EUR 20.5Mn (+40.4% vs 1Q19), taking the order book to EUR 37.1Mn (+19.3% vs 1Q19) and demonstrating (vs 1Q20 turnover) the true nature of the business. This makes an increase in market share vs its main peers (who saw significant declines in orders won in 1Q20) more likely.

IN CONCLUSION: Positive results despite an especially difficult backdrop. The order book figure provides visibility to an uncertain year and means we can upgrade our 2020 estimates. Today, the most reasonable assumption is for revenue of c. EUR 63Mn in 2020e (-15% vs 2019; vs -30% in our initial central scenario), without endangering 2020e EBITDA > EUR 6.5Mn. Looking ahead to 2022e, and without losing sight of the business' cyclical nature, we maintain our assumption for the recovery of levels of EBITDA in 2022e > EUR 8.5Mn, which, at today's price, would imply a 2022e EV/EBITDA of c. 5x (FCF yield c. 9.5%).

EUR Mn	3m20	3m19	3m20 vs 3m19
Total Revenues	13.6	18.1	-24.5%
Recurrent EBITDA	1.2	2.4	-50.5%
<i>Rec. EBITDA/Revenues</i>	<i>8.7%</i>	<i>13.3%</i>	<i>-4.6 p.p.</i>
EBITDA	1.2	2.4	-50.5%
<i>EBITDA/Revenues</i>	<i>8.7%</i>	<i>13.3%</i>	<i>-4.6 p.p.</i>
PBT	0.4	1.4	-70.8%
Orders won	20.5	14.60	40.4%
Order book	37.1	31.1	19.3%
Net Debt	-3.7	-1.0	268.8%

(1) Net Debt includes IFRS 16 impact (c. EUR 0.8Mn).

Appendix 1. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	47.4	
+ Minority Interests	0.8	12m Results 2019
+ Provisions & Other L/T Liabilities	2.6	3m Results 2020
+ Net financial debt	(3.7)	3m Results 2020
- Financial Investments	2.0	12m Results 2019
+/- Others		
Enterprise Value (EV)	45.1	

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
18-May-2020	n.a.	3.85	n.a.	n.a.	3m Results 2020	David López Sánchez
23-Apr-2020	n.a.	3.76	n.a.	n.a.	Review of estimates	David López Sánchez
02-Mar-2020	n.a.	4.57	n.a.	n.a.	12m Results 2019	David López Sánchez
18-Nov-2019	n.a.	4.45	n.a.	n.a.	9m Results 2019	David López Sánchez
02-Sep-2019	n.a.	3.72	n.a.	n.a.	6m Results 2019	David López Sánchez
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

