

3m Results 2022

Opinion ⁽¹⁾: Above expectationsImpact ⁽¹⁾: We will have to raise our estimates

David López Sánchez – david.lopez@lighthouse-ieaf.com

+34 915 904 226

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)	341.3	359.7
EV (Mn EUR and USD) ⁽²⁾	398.6	420.0
Shares Outstanding (Mn)	101.0	
-12m (Max/Med/Min EUR)	3.88 / 3.26 / 2.64	
Daily Avg volume (-12m Mn EUR)	0.77	
Rotation ⁽³⁾	57.7	
Factset / Bloomberg	ECR-ES / 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	11.2	9.9	25.7	27.1
vs Ibex 35	10.1	11.2	30.1	60.3
vs Ibex Small Cap Index	11.3	4.6	25.5	-11.9
vs Eurostoxx 50	15.8	21.0	33.6	21.2
vs Sector benchmark ⁽⁴⁾	11.2	12.5	22.2	-4.7

(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 Stoxx Europe 600 Chemicals.

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

Very good quarter that greatly exceeds expectations. And suggests a record 2022e

VERY STRONG REVENUE GROWTH (+54.2% VS 1Q21) ... ECR closed 1Q21 with revenue of EUR 273.3Mn (+54.2% vs 1Q21). Spectacular growth (objectively so in this case) and explained solely by the significant increase in the average price of its products (especially PVC and caustic soda, with increases vs 1Q21 of +58% and +106%, respectively). The higher sales prices offset the small decline in volumes (-3.3% vs 1Q21) resulting from the reduction in the production of certain products that consume a lot of electricity (the price of which continued at highs in March).

... DRIVEN BY ALL THE BUSINESSES. On the one hand, the continued good performance of the businesses associated with chlorine (65% of sales in 1Q22; +63.8% vs 1Q21) and intermediate chemicals (29% of sales in 1Q22; +36% vs 1Q21) stands out. And on the other, the pharmaceuticals business (that was impacted by lower demand for products such as fusidic acid and erythromycins as a result of the restrictions on mobility imposed to deal with Covid-19) maintained the recovery begun in 2H21 with volume growth of 15.5%, leading to quarterly sales of EUR 17.2Mn (+31.6% vs 1Q21, +7% vs 1Q20).

LEADING TO RECORD EBITDA (1Q22 REC. EBITDA: EUR 32MN). Despite the very significant increase in variable costs (+76.4% vs 1Q21) due to the dramatic increase in electricity prices in Spain and in the prices of other raw materials such as ethylene, EDC, VCM and methanol, ECR managed to maintain a similar EBITDA margin to 1Q21 (as it was able to pass on the increase in costs to sale prices and also thanks to the business' operating leverage, with a high fixed cost element). This enabled ECR to obtain significant growth in EBITDA in 1Q22 to EUR 32Mn (+49% vs 1Q21; an historic result).

AND A CIRCUMSTANTIAL INCREASE IN NET DEBT (EUR 87.1MN; +46.2% VS 1Q21). ECR closed 1Q22 with net debt (ex - creditors for financial leasing) of EUR 87.1Mn (+46.2% vs 1Q21). An increase explained mainly by the circumstantial impact on FCF of working capital (EUR 38.5Mn; due to the increase in inventories and accounts receivable), that should revert over 2022 (leaving, according to our estimates, 2022e ND below the 2021 close despite maintaining both CAPEX of c. EUR 35Mn and shareholder remuneration: 2021 payout 50% of NP between the dividend and share buybacks).

IN BRIEF, RESULTS THAT GREATLY EXCEED OUR EXPECTATIONS, WE WILL UPGRADE OUR ESTIMATES SHARPLY. In the last 12m, ECR generated EBITDA of EUR 95Mn. The continuation of the current environment should allow ECR to close 1H22 with EBITDA of c. EUR 60Mn (+35% vs 1H21). That will lead us to raise our 2022e estimates, putting Rec. EBITDA at c. EUR 100Mn (+16% vs 2021; +28% vs previous estimate).

HISTORIC RESULTS... PRICED IN? The step-up in 1Q22 results is of a purely operative nature. And, in our view, is underpinned by a unique moment in the Chlor-Alkali sector (with high PVC and caustic soda prices at the same time; the result of a combination of high demand and scant supply). Our estimate for 2022e EBITDA (c. EUR 100Mn) would be trading today at c. 4x EV/EBITDA (vs c. 5x for its most direct peers). ECR is today an objectively evident investment idea that, at least, demands attention.

Appendix 1. Results table

EUR Mn	3m22	3m21	3m22 Real
	Real		vs 3m21
Total Revenues	273.3	177.3	54.2%
Chlorine derivatives	165.7	101.2	63.8%
Intermediate chemicals	73.7	54.2	36.0%
Pharmaceuticals	17.2	13.1	31.6%
Other revenues	16.7	8.8	88.7%
Recurrent EBITDA	31.8	21.3	49.0%
<i>Rec. EBITDA/Revenues</i>	<i>11.6%</i>	<i>12.0%</i>	<i>-0.4 p.p.</i>
EBITDA	30.0	19.8	51.3%
<i>EBITDA/Revenues</i>	<i>11.0%</i>	<i>11.2%</i>	<i>-0.2 p.p.</i>
EBIT	22.6	12.8	76.7%
PBT	21.0	11.6	80.7%
NP	17.2	8.7	97.0%
Tons sold (thousand)	295	305	-3.3%
Net Debt¹	87.1	59.6	46.2%

(1) Net Debt adjusted to strip out the impact of IFRS 16 (EUR 15.4Mn in 1Q22 and EUR 6.2Mn in 2021).

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	341.3	
+ Minority Interests	-	12m Results 2021
+ Provisions & Other L/T Liabilities	15.1	12m Results 2021
+ Net financial debt	87.1	3m Results 2022
- Financial Investments	30.3	12m Results 2021
+/- Others ⁽¹⁾	(14.6)	Lighthouse 2022
Enterprise Value (EV)	398.6	

(1) Related to the market value of Treasury Stock.

IMPORTANT LEGAL INFORMATION REGARDING THIS REPORT

LIGHTHOUSE

Lighthouse is a project of IEAF Servicios de Análisis S.L.U. Lighthouse is a research project funded by Bolsas y Mercados Españoles S.A. Lighthouse aims to improve the research coverage of the "orphan stocks" of the Spanish market: those which lack real and continuous research coverage. Lighthouse reports will not include valuation and target price. Lighthouse does not seek to provide investment advice to any natural or legal person. For this reason, Lighthouse will not provide a valuation, target price or investment recommendation for any of the securities analysed.

IEAF Servicios de Análisis S.L.U. is a Spanish company whose corporate purpose is:

1º) To provide information and financial analysis regarding securities issued by any class of legal person traded or not on official secondary markets, and especially (but not exclusively) those securities which are not the object of the recurrent provision of information and analysis by financial analysts who participate in the markets.

2º) To publicise and update the aforementioned financial reports and analysis, in addition to the monitoring and following of the securities on which the information and analysis is provided.

3º) To prepare studies and projects aimed at proposing and implementing measures to improve the information and financial analysis of securities traded on official secondary markets.

IEAF Servicios de Análisis S.L.U. is a company whose sole shareholder is the Instituto Español de Analistas Financieros (IEAF), a professional, not for profit association.

DISCLAIMER

The Instituto Español de Analistas Financieros (IEAF) hereby certifies that the analyst of IEAF Servicios de Análisis S.L.U. whose name figures as the author of this report, expresses views that reflect their personal and independent opinion of the company analysed without these implying, either directly or indirectly, a personalised recommendation of the company analysed for purposes of providing investment advice. This report is based on the preparation of detailed financial projections from information available to the public and following traditional fundamental research methodology (i.e. it is not a technical or quantitative analysis report). For the analysis methodology used in the preparation of this report, please contact the analyst directly; contact details are included on the front page of this report.

The report includes basic information regarding the main parameters to be used by an investor when making their own valuation (whether by discounted cash flows or multiples). These parameters are the personal opinion or estimate of the analyst. The person receiving this report should use their own judgement when using these parameters and should consider them as another element in their decision-making process in respect of investment. These parameters do not represent a personalised investment recommendation.

Rules governing confidentiality and conflicts of interest

None of the following rules governing confidentiality and conflicts of interest (12) is applicable to this report:

1. This report is non-independent research as it has been commissioned by the company analysed (issuer).
2. In the last 12 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., has had Investment Banking mandates or has managed or co-managed a public offering of the securities of the issuer, or has received compensation from said issuer for Investment Banking services, that exclude brokerage services for prepaid fees.
3. In the next 6 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., expects to receive or intends to obtain compensation for Investment Banking services provided to this company that exclude brokerage services for prepaid fees.
4. The Investment Analyst or a member of the Research Department or a member of their household has a long position in the shares or derivatives of the corresponding issuer.
5. The Investment Analyst or a member of the Research Department or a member of their household has a short position in the shares or derivatives of the corresponding issuer.
6. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a long position of over 0.5% of the issuer's capital.
7. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a short position of over 0.5% of the issuer's capital.
8. At the end of the month immediately prior to the publication of this report, or of the previous month if the report is published in the ten days following the end of the month, the company analysed (the issuer) or any of its subsidiaries held 5% or more of any class of equity security of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U.
9. A senior director or officer of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., or a member of their department is a director, officer, advisor or member of the Board of Directors of the issuer and/or one of its subsidiaries.
10. The Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., acts as broker for the Issuer for the corresponding prepaid fees.
11. The contents of this report related to the financial analysis, financial projections, valuation, investment summary and opinion of the analyst have been reviewed by the issuer prior to its publication.
12. The issuer has made changes to the contents of this report prior to its distribution.

The Investment Analysts who have prepared this Investment Analysis are employees of IEAF Servicios de Análisis S.L.U. These analysts have received (or will receive) compensation according to the general earnings of IEAF Servicios de Análisis S.L.U. To obtain a copy of the Code of Conduct of IEAF Servicios de Análisis S.L.U. (in respect of the Management of Conflicts of Interest in the research department), please use the e-mail address secretaria@ieaf.es or consult the contents of this Code at www.ieaf.es.

IEAF Servicios de Análisis S.L.U. is compensated by Bolsas y Mercados Españoles, S.A. for the preparation of this report. This report should be considered as just another element in the taking of investment decisions.

A report issued by IEAF servicios de análisis S.L.U.

All rights reserved. The unauthorised use or distribution of this report is prohibited. This document has been prepared and distributed, according to the provisions of the MiFID II by IEAF Servicios de Análisis S.L.U. Its corporate activity is regulated by the CNMV (the Spanish Securities Exchange Commission). The information and opinions expressed in this document do not represent nor are they intended to represent an offer or a solicitation to buy or sell the securities (in other words, the securities mentioned in this report and related warrants, options, rights or interests). The information and opinions contained in this document are based upon information available to the public and have been obtained from sources believed to be reliable by IEAF Servicios de Análisis S.L.U., but no guarantee is given regarding their accuracy or completeness. All comments and estimates reflect solely the opinion of IEAF Servicios de Análisis S.L.U. and do not offer any implicit or explicit guarantee. All the opinions expressed are subject to change without prior warning. This document does not take into account the specific investment objectives, financial position, risk profile or other specific aspects of the person who receives this document, and accordingly they should exercise their own judgement in this respect. Neither the Instituto Español de Analistas Financieros nor its subsidiary, IEAF Servicios de Análisis S.L.U., assumes any responsibility for direct or indirect losses arising from the use of the published research, except in the event of negligent conduct by IEAF Servicios de Análisis S.L.U. The information contained in this report is approved for distribution to professional clients, eligible counterparties and professional advisers, but not for distribution to private individuals or retail clients. Its reproduction, distribution or

publication for any purpose without the written authorisation of IEAF Servicios de Análisis S.L.U. is prohibited. The Instituto Español de Analistas Financieros (IEAF) and/or its subsidiary IEAF Servicios de Análisis S.L.U., their employees and directors, may hold a position (long or short) in an investment knowing that this issuer will be the object of analysis and that this analysis will be distributed to institutional investors. Any further information regarding the contents of this report will be provided upon request. IEAF Servicios de Análisis S.L.U. intends to publish (at least) one quarterly report or note updating the information on the company analysed.

United States. IEAF Servicios de Análisis S.L.U. is not registered in the United States and, consequently, is not subject to the regulations of that country governing the preparation of research and the independence of analysts. This report is distributed solely to major US institutional investors, in reliance on the exemption from registration provided by Rule 15a-6 of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"), and interpretations of this made by the US Securities Exchange Commission.

Major US Institutional Investors. This report will be distributed to "major US institutional investors", as defined by Rule 15a-6 of the US Securities Exchange Commission and of the US Securities Exchange Act of 1934.

Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
04-May-2022	n.a.	3.38	n.a.	n.a.	3m Results 2022	David López Sánchez
25-Feb-2022	n.a.	3.02	n.a.	n.a.	12m Results 2021	David López Sánchez
10-Nov-2021	n.a.	3.52	n.a.	n.a.	9m Results 2021	David López Sánchez
29-Jul-2021	n.a.	3.36	n.a.	n.a.	6m Results 2021 - Estimates upgrade	David López Sánchez
12-May-2021	n.a.	3.16	n.a.	n.a.	3m Results 2021 - Estimates upgrade	David López Sánchez
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

