

EQUITY - SPAIN

Sector: Chemicals

 Closing price: EUR 3.96 (21 Feb 2023)
 Report date: 22 Feb 2023 (16:00h)

12m Results 2022
 Independent Equity Research

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Opinion ⁽¹⁾: Above expectations

Impact ⁽¹⁾: We maintain our estimates

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Business description

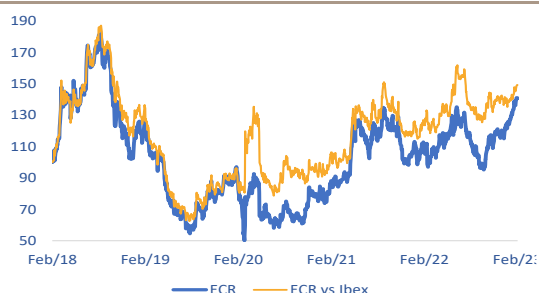
Ercros (ECR) is an industrial group manufacturing chemical products that operates through 3 divisions: (i) basic chemicals, (ii) intermediate chemicals and (iii) pharmaceuticals. The core activity is the production of chlorine-caustic soda, ECR being the main producer in Spain (60% of total installed capacity) and among the top 10 at the European level.

Market Data

Market Cap (Mn EUR and USD)	382.5	408.7
EV (Mn EUR and USD) ⁽²⁾	443.8	474.2
Shares Outstanding (Mn)	96.6	
-12m (Max/Med/Mín EUR)	3.98 / 3.26 / 2.68	
Daily Avg volume (-12m Mn EUR)	0.57	
Rotation ⁽³⁾	37.8	
Factset / Bloomberg	ECR-ES / ECR SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Joan Casas Galofre	5.7
Dimensional Fund Advisors, L.P.	5.2
Víctor Manuel Rodríguez Martín	5.0
Montserrat Garcia Pruns	3.4
Free Float	80.7

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	13.3	23.8	29.3	40.7
vs Ibex 35	7.7	9.5	18.6	49.4
vs Ibex Small Cap Index	6.2	5.1	23.1	14.6
vs Eurostoxx 50	9.1	13.8	21.3	13.5
vs Sector benchmark ⁽⁴⁾	11.3	22.3	29.2	8.5

(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.

2022: ECR obtains record results (and exceeds expectations). Ratios remain attractive

2022: SHARP INCREASE IN PRICES DRIVING SALES (+29.7% VS 2021)... ECR closed 2022 with revenue of EUR 1,053.6Mn (+29.7% vs 2021), fully in line with estimates. Revenue growth that continued to be underpinned by the sharp increase in prices and that offset the loss of volume (tonnes sold: -10% vs 2021; due to the impact of the increase in energy costs on capacity utilisation).

... THE GOOD PERFORMANCE OF THE CHLORINE DERIVATIVES DIVISION BEING A STAND-OUT (67% OF SALES). By divisions, growth in chlorine derivatives sales is notable (+39.3% vs 2021; thanks to the increase in the prices of higher volume products such as caustic soda, whose lack of supply in 4Q caused the price to rocket to highs, see page 3 of this report), followed by pharmacy (+28%; continuing the recovery already seen in previous quarters) and intermediate chemicals (+9.2%; more affected by the fall in demand for consumer goods).

TRANSLATING TO RECORD EBITDA (REC. EBITDA: EUR 142.9MN; +52.3% VS 2021).

The business evolution has been excellent, thanks to the good performance of the chlorine derivatives division (showing a significant recovery in 4Q vs 3Q22). The sharp increase in caustic soda prices (a product with an inverse performance with respect to the cycle during the initial stages of deceleration), plus the normalisation of energy costs caused an increase in the 2022e Rec. EBITDA margin to 13.6% vs 11.5% in 2021 (2022 EBITDA: EUR 142.9Mn; +52.3% vs 2021 and +13% vs our estimates).

ALLOWING A HIGH LEVEL OF INVESTMENT TO BE MAINTAINED WITHOUT INCREASING LEVERAGE.

Net debt/Rec. EBITDA of 0.4x vs 0.6x in 2021 (stripping out the impact of IFRS 16). A very healthy balance sheet structure that is especially interesting at the current time. ECR generated Rec. FCF of EUR 28Mn in 2022 (that represents conversion in cash of 20% of the Rec. EBITDA generated). We would underscore the improvement in net debt ratios after the EUR 52.8Mn of investment (as part of the "Plan 3D" that, among other objectives, seeks to strengthen the intermediate chemicals and pharmacy divisions and the water purification segment, that will reduce cyclical dependence on the chlor-alkali business).

SHAREHOLDER REMUNERATION AT HIGHS. At the AGM the board of directors will propose remunerating shareholders with EUR 32.5Mn charged to 2022 earnings (payout 50%). Shareholder remuneration that will consist of: i) a dividend per share of EUR 0.15 (EUR 13.7Mn; dividend yield 3.7%) and ii) the repurchase of treasury shares for their cancellation in an amount of EUR 18.7Mn.

AND, ALTHOUGH WE EXPECT THE NORMALISATION OF ACTIVITY IN 2023E, RATIOS REMAIN ATTRACTIVE.

According to our estimates, that basically envisage a similar 2023e to 2021 (Rec. EBITDA c. EUR 85Mn), the company would be trading at 5.5x EV/EBITDA and a FCF yield of c. 10%. Bear in mind that our estimates envisage a "bad" year with a decline in activity (that should normalise the prices of the most cyclical products). More optimistic estimates (reflecting the fruits of the investment made by the company in increases in capacity and efficiency), that could be those for 2025e, would imply a 2025e EV/EBITDA of < 4.5x.

Appendix 1. Results table

EUR Mn	12m22		12m22 Real		12m22 Real	
	Real	12m21	vs 12m21	2022e	vs 2022e	
Total Revenues	1,053.6	812.3	29.7%	1035.4	1.8%	
Chlorine derivatives	699.4	499.7	40.0%			
Intermediate chemicals	260.9	238.6	9.3%			
Pharmaceuticals	64.9	50.7	28.0%			
Other revenues	28.4	23.3	22.0%			
Recurrent EBITDA	142.9	93.8	52.3%	114.0	25.3%	
<i>Rec. EBITDA/Revenues</i>	<i>13.6%</i>	<i>11.5%</i>	<i>2.0 p.p.</i>	<i>11.0%</i>	<i>2.5 p.p.</i>	
EBITDA	122.7	93.4	31.3%	114.0	7.6%	
<i>EBITDA/Revenues</i>	<i>11.6%</i>	<i>11.5%</i>	<i>0.1 p.p.</i>	<i>11.0%</i>	<i>0.6 p.p.</i>	
EBIT	92.2	61.8	49.0%	85.5	7.8%	
PBT	88.0	59.3	48.3%	82.1	7.1%	
NP	63.0	43.3	45.5%	66.5	-5.3%	
Discontinued activities	-7.7	-6.1	25.2%	0.0	<i>n.a.</i>	
Ordinary NP	70.6	49.4	43.0%	66.5	6.2%	
Rec. FCF	28.0	26.1	7.1%	28.9	-3.2%	
<i>Rec. FCF Yield</i>	<i>7.3%</i>	<i>6.8%</i>	<i>0.5 p.p.</i>			
Tons sold (thousand)	1,105	1,227	-9.9%			
Net Debt ¹	62.8	59.6	5.3%	58.9	6.6%	
ND / EBITDA	0.44 x	0.64 x	-0.2 x	0.52 x	-0.1 x	

(1) Net Debt adjusted to exclude IFRS 16 impact.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	382.5	
+ Minority Interests	-	12m Results 2022
+ Provisions & Other L/T Liabilities	11.7	12m Results 2022
+ Net financial debt	62.8	12m Results 2022
- Financial Investments	13.2	12m Results 2022
+/- Others		
Enterprise Value (EV)	443.8	

Chart 1. PVC WE vs ECR price

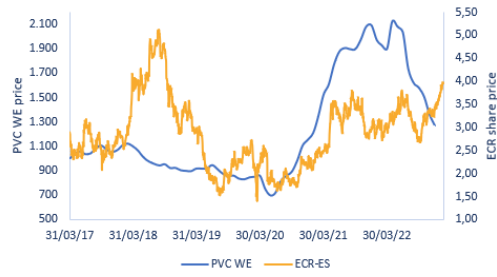
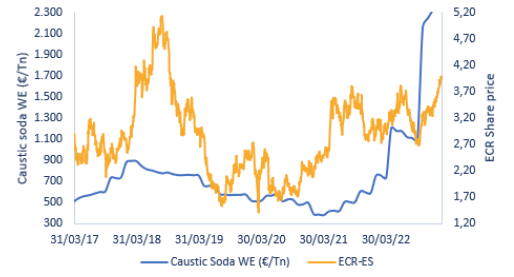


Chart 2. Caustic Soda WE (€/Tn) vs ECR price



Source: Bloomberg

LIGHTHOUSE

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
22-Feb-2023	n.a.	3.96	n.a.	n.a.	12m Results 2022	David López Sánchez
09-Nov-2022	n.a.	3.31	n.a.	n.a.	9m Results 2022	David López Sánchez
03-Aug-2022	n.a.	3.46	n.a.	n.a.	6m Results 2022	David López Sánchez
15-Jun-2022	n.a.	3.30	n.a.	n.a.	Estimates upgrade	David López Sánchez
04-May-2022	n.a.	3.31	n.a.	n.a.	3m Results 2022	David López Sánchez
25-Feb-2022	n.a.	2.96	n.a.	n.a.	12m Results 2021	David López Sánchez
10-Nov-2021	n.a.	3.45	n.a.	n.a.	9m Results 2021	David López Sánchez
29-Jul-2021	n.a.	3.29	n.a.	n.a.	6m Results 2021 - Estimates upgrade	David López Sánchez
12-May-2021	n.a.	3.10	n.a.	n.a.	3m Results 2021 - Estimates upgrade	David López Sánchez
26-Feb-2021	n.a.	2.36	n.a.	n.a.	12m Results 2020	David López Sánchez
16-Nov-2020	n.a.	1.97	n.a.	n.a.	9m Results 2020	David López Sánchez
03-Aug-2020	n.a.	1.70	n.a.	n.a.	6m Results 2020 - Estimates upgrade	David López Sánchez
15-May-2020	n.a.	1.87	n.a.	n.a.	3m Results 2020	David López Sánchez
30-Apr-2020	n.a.	2.55	n.a.	n.a.	Estimates downgrade	David López Sánchez
02-Mar-2020	n.a.	2.19	n.a.	n.a.	12m Results 2019	David López Sánchez
06-Nov-2019	n.a.	2.32	n.a.	n.a.	9m Results 2019 - Estimates upgrade	David López Sánchez
29-Jul-2019	n.a.	1.84	n.a.	n.a.	6m Results 2019	David López Sánchez
03-Jun-2019	n.a.	2.08	n.a.	n.a.	Initiation of Coverage	David López Sánchez

