

EQUITY - SPAIN

Sector: Auto Components

 Closing price: EUR 8.32 (28 Feb 2023)
 Report date: 1 Mar 2023 (9:00h)

12m Results 2022
 Independent Equity Research

12m Results 2022
Opinion ⁽¹⁾: Above expectations

Impact ⁽¹⁾: We will have to raise our estimates

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Business description

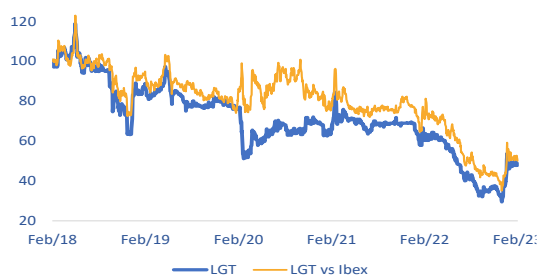
Lingotes Especiales (LGT) is a small Spanish industrial company specialising in the design, development, casting and machining of steel components, mainly for use in the automotive industry, where it is a market leader in braking systems (85% sales) with a 12% market share in Europe.

Market Data

Market Cap (Mn EUR and USD)	83.2	88.2
EV (Mn EUR and USD) ⁽²⁾	102.4	108.6
Shares Outstanding (Mn)	10.0	
-12m (Max/Med/Mín EUR)	11.20 / 8.14 / 5.12	
Daily Avg volume (-12m Mn EUR)	0.03	
Rotation ⁽³⁾	8.4	
Factset / Bloomberg	LGT-ES / LGT SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Board of Directors	55.0
Mallorquina de Seguros	6.0
Onchena	5.0
Free Float	34.0

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	2.0	30.8	-21.9	-52.2
vs Ibex 35	-1.7	15.9	-29.5	-49.9
vs Ibex Small Cap Index	1.1	14.8	-24.1	-60.3
vs Eurostoxx 50	0.5	21.5	-27.7	-61.2
vs Sector benchmark ⁽⁴⁾	-4.0	14.5	-21.7	-51.7

(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 Automobiles & Parts.

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

12m22 results: LGT has come out on the other side. We upgrade our estimates (a lot)

STRONG TOP-LINE SALES GROWTH (EUR 113.4MN, +31.3% VS 2021)... Auto sector sales volume in Europe was still extremely soft in 2022 (c.30% below 2019 levels), yet LGT was still able to deliver sharp growth in revenue to EUR 113.4Mn (+31.3% vs 2021). The strong rebound was driven exclusively by clauses that allow the jump in raw material costs and high energy cost inflation to be passed on to sale prices.

... COUPLED WITH WIDER MARGINS (HIGHER THAN EXPECTED)... The EBITDA margin performed extremely well, ending 2022 at 7.6% (vs 2.3% in 2021 and our estimate of 5%) mainly due to: 1) the rebound in gross margin to 58% (+4.3 p.p. vs 2021) and 2) the company's strict cost control policy. This result was a "take-off" by Rec. EBITDA, to EUR 8.6Mn (vs EUR 2Mn in 2021).

ENABLED THE COMPANY TO REVERSE LOSSES AND REPORT A NET PROFIT. The two points above translated fully to the bottom line, with the company reporting a net profit again in 2022 (EUR 3.1Mn vs losses of EUR 1.5Mn in 2021).

LGT KEPT DEBT IN CHECK (NET DEBT: EUR 18.7MN; -5.9% VS 2021). The recovery in earnings allowed the company to start paying down net debt, which ended 2022 at EUR 18.7Mn (-5.9%). This left 2020 ND/EBITDA of 2.2x, a totally reasonable gearing ratio considering that 2022 marked a turnaround in the company's earnings (after it continued to struggle heavily in the first half).

IN CONCLUSION, VERY GOOD RESULTS THAT SHOW THAT LGT HAS "COME OUT ON THE OTHER SIDE"... LGT spent the last two years in the midst of a perfect storm (lack of semiconductors, supply chain disruptions, exponential growth of energy costs...). This challenging backdrop weighed heavy on results in 2021 and the first half of 2022. And, while current margins are still below the company's average levels (average EBITDA margin 2016-2019: c. 19% vs 7.6% in 2022), earnings for the second half last year showed a strong "rebound" in margins (EBITDA margin for 2H22 in isolation of c. 12%). This adds momentum (and further credence) to the incipient rebound in earnings already announced in October.

...THE RECOVERY (NOW VISIBLE) POINTS TO A SIGNIFICANT IMPROVEMENT FROM CURRENT LEVELS. WE UPGRADE OUR ESTIMATES (A LOT). LGT's 2022 results comfortably beat our estimates, leading us to revise up our estimates for 2023e and beyond. For 2023e, a "repeat" of 2022 revenue and an improvement in the EBITDA margin to 12% (fully in line with the 2H22), would give a 2023e EBITDA of c. EUR 13Mn (vs EUR 8.6Mn in 2022). In the wake of the poor 12m share price performance (-30% vs Ibex 35), these numbers today would be trading at 7.8x 2023e EV/EBITDA.

In conclusion, this was an excellent set of earnings that will (presumably) act as a catalyst for LGT by making its equity story, predicated (simply and exclusively) on the rebound/normalisation of margins, credible. This is even more compelling for (as is the case) a leveraged company with strong FCF generation (2023e FCF yield of c. 10%).

Appendix 1. Results table

EUR Mn	12m22 Real	12m21	12m22 Real	2022e	12m22 Real
			vs 12m21		vs 2022e
Total Revenues	113.4	86.3	31.3%	101.8	11.4%
Gross margin	65.7	45.9	43.3%	59.4	10.6%
<i>Gross Margin/Revenues</i>	<i>58.0%</i>	<i>53.1%</i>	<i>4.9 p.p.</i>	<i>58.4%</i>	<i>-0.4 p.p.</i>
Recurrent EBITDA¹	8.6	2.0	338.6%	5.0	71.4%
<i>Rec. EBITDA/Revenues</i>	<i>7.6%</i>	<i>2.3%</i>	<i>5.3 p.p.</i>	<i>4.9%</i>	<i>2.7 p.p.</i>
EBITDA	8.6	2.0	338.6%	5.0	71.4%
<i>EBITDA/Revenues</i>	<i>7.6%</i>	<i>2.3%</i>	<i>5.3 p.p.</i>	<i>4.9%</i>	<i>2.7 p.p.</i>
PBT	4.1	-2.0	302.3%	0.7	n.a.
NP	3.1	-1.5	309.9%	0.5	n.a.
Net Debt	18.7	19.9	-5.9%	19.6	

(1) Recurrent and adjusted EBITDA adjusted to strip out the impact of capitalised expenses (EUR 1.2Mn and EUR 1.0Mn in 2022 and 2021, respectively).

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	83.2	
+ Minority Interests	-	12m Results 2022
+ Provisions & Other L/T Liabilities	0.7	12m Results 2022
+ Net financial debt	18.7	12m Results 2022
- Financial Investments	0.2	12m Results 2022
+/- Others		
Enterprise Value (EV)	102.4	

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
01-Mar-2023	n.a.	8.32	n.a.	n.a.	12m Results 2022	David López Sánchez
31-Oct-2022	n.a.	6.08	n.a.	n.a.	9m Results 2022	David López Sánchez
03-Aug-2022	n.a.	7.14	n.a.	n.a.	6m Results 2022 - Estimates upgrade	David López Sánchez
01-Apr-2022	n.a.	11.20	n.a.	n.a.	Estimates downgrade	David López Sánchez
02-Mar-2022	n.a.	10.65	n.a.	n.a.	12m Results 2021	David López Sánchez
03-Aug-2021	n.a.	11.45	n.a.	n.a.	6m Results 2021 - Estimates downgrade	David López Sánchez
01-Mar-2021	n.a.	11.30	n.a.	n.a.	12m Results 2020	David López Sánchez
30-Oct-2020	n.a.	11.35	n.a.	n.a.	9m Results 2020	David López Sánchez
28-Jul-2020	n.a.	11.90	n.a.	n.a.	Estimates downgrade	David López Sánchez
28-Feb-2020	n.a.	13.30	n.a.	n.a.	12m Results 2019	David López Sánchez
28-Oct-2019	n.a.	13.45	n.a.	n.a.	9m Results 2019	David López Sánchez
22-Jul-2019	n.a.	14.35	n.a.	n.a.	6m Results 2019 - Estimates downgrade	David López Sánchez
13-May-2019	n.a.	15.45	n.a.	n.a.	3m Results 2019	David López Sánchez
01-Mar-2019	n.a.	15.00	n.a.	n.a.	12m Results 2018	David López Sánchez
22-Nov-2018	n.a.	12.68	n.a.	n.a.	Initiation of Coverage	David López Sánchez

