

ADL Bionatur

BUY

A strong operational start of the year

Target Price: €3.20

Analyst: Guillermo Serrano - gfs@checkpoint-partners.com

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- ADL Bionatur has released a strong set of 1Q19 sales and a positive Ebitda number, as well as a sales guidance for 2019.
- Reported revenues of €10 million in 1Q19 was more than double compared to the €4.2 million of 1Q18. The reported €114k of Ebitda represented a marked improvement from the €2.8 million Ebitda loss in 1Q18.
- The main growth driver remains the CMO division with €8 million in turnover, almost triple the number compared to last year. ADL Bionatur continues to deliver on the contracts signed with its multinational clients to produce fermentation based ingredients.
- The main competitive advantages continue to be based on its European location, an opportunistically low cost of capacity installed coupled with a proven scientific skillset in scaling up biological processes.
- The lower margin and smaller APIs division did not fare as well during the quarter with a reported 14% decline in sales to €900k. Alternatively, the remaining divisions (grouped under Other) rose 205% suggesting that activity is very strong there.
- The company has reported sales guidance of between €50-€55 million, but we maintain our estimates unchanged for now.
- The CMO division has plenty of room to continue to grow over the next several years and, on an asset value basis, is currently trading at an estimated 50% discount over its replacement value. We maintain. Our 12-month target price of €3.20.

Equities

Spain Biotechnology

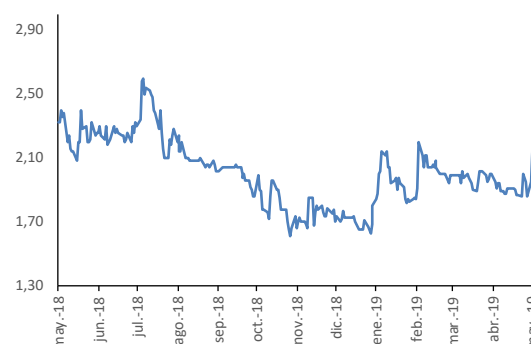
Price (4pm 07/05/19): €2.35

RIC: ADL.MC

Target Price (12 months): €3.20

52 week range (€): 1.61 - 2.60
 Mkt Cap (€ millions): 92,6
 No. Shares (millions): 39.4
 Avg Daily vol (€ LTM): 19,501

Share Price Chart (LTM)



(€ millions)	2017	2018e	2019f	2020f
Sales	14,6	25,3	63,4	83,7
Ebitda	-8,1	-8,7	8,5	19,5
Net Income	-12,8	-16,7	2,2	12,8
EPS (cents)	-0,33	-0,42	0,06	0,33
Net Debt	28,9	41,7	51,3	52,3
P/E (x)	n.m.	n.m.	42,3	7,2
EV/EBITDA (x)	n.m.	n.m.	16,9	7,4
EV/Sales (x)	8,3	5,3	2,3	1,7

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The CMO division continues to drive the growth at ADL Bionatur in 1Q19

The CMO division remains strong and generated sales of slightly over 50% compared to the whole of 2018 put together. Although largely expected, it provides evidence that ADL is able to deliver on its contractual agreements with customers.

ADL Bionatur is a beneficiary of a relative shortage of high quality fermentation capacity in Europe in an environment where genetic engineering continues to stimulate innovation in the industrial biotechnology sector. We continue to expect the CMO division to grow over the following quarters.

Business Areas	Q1 2019	Q1 2018	(%)
€'000			
Total Income	9.968	4.259	134%
CMO	8.015	2.859	180%
APIs	903	1.055	-14%
Others	1.050	344	205%
<i>CMO (%total)</i>	<i>80%</i>	<i>67%</i>	
<i>APIs (%total)</i>	<i>9%</i>	<i>25%</i>	
<i>Others (%total)</i>	<i>11%</i>	<i>8%</i>	
EBITDA	114	(2.850)	

The API division is mostly devoted to the antibiotics value chain and specifically in the chemical semi-synthesis part of the process. The growth in this division is mainly dependent on the filing and approval of API dossiers that were originally acquired from the former Antibiotics. Its a lower margin business compared to the CMO division, so the relative impact on this results is fairly subdued.

Under others, the robust 205% increase in numbers include the remaining 4 business areas of Bionaturis, ZIP, Biobide and the hosting services to Wacker Chemie.

The positive Ebitda number is encouraging and a demonstration that there is operational leverage as sales grow and capacity utilization at the Leon plant increases. We expect the trend to continue with rising sales.

Profit and loss account	2017	2018e	2019f	2020f
CMO	n.a.	15,7	49,8	58,0
Proprietary Products	n.a.	5,6	9,5	21,3
R&D Services	n.a.	1,7	2,1	2,3
Other	n.a.	2,3	2,0	2,1
Revenues	15,2	25,3	63,4	83,7
Cost of good sold	5,2	10,6	24,8	29,9
Gross Profit	10,0	14,6	38,6	53,8
<i>Gross Margin</i>	66 %	58 %	61 %	64 %
Capitalized R+D	2,3	1,9	3,0	3,1
Personnel costs	11,3	13,4	16,0	16,3
Other SG&A	10,9	11,9	17,1	21,1
Depreciation	2,2	2,7	3,6	4,3
Operating profit	-12,1	-11,4	4,9	15,2
<i>Operating Margin</i>	-79 %	-45 %	8 %	18 %
Ebitda	-9,9	-8,7	8,5	19,5
<i>Margin</i>	-65 %	-34 %	13 %	23 %
Ebitda (ex-cap) *	-12,1	-10,6	5,5	16,4
<i>Margin</i>	-80 %	-42 %	9 %	20 %
Extraordinaries	0,0	-3,5	-0,3	0,0
Financial income	0,1	0,0	0,1	0,0
Financial Expenses	1,2	1,9	2,5	2,4
Income before tax	-13,1	-16,8	2,2	12,8
Income tax	-0,4	-0,1	0,0	0,0
Net profit	-12,8	-16,7	2,2	12,8

* excludes capitalized R&D

Source: Checkpoint, ADL Bionatur

Beyond the short term, we believe the lower cost associated to future capacity expansions places ADL Bionatur in an optimal position to continue to create value for shareholders.

The equity story continues to be based on the operational leverage created by rising levels of capacity utilization in its Leon based plant. As sales grow, the fixed costs associated with running the operation drop and with it, we expect future quarters of rising Ebitda margins.

The main risks associated with future profitability are related to “bad execution” of fermentation batches, a risk we believed to be contained by the long working tradition at the company in dealing with scale-up issues at the plant. In addition, each new contract is de-risked as ADL Bionatur works closely with the client to resolve any scale up issues associated with the fermentation process of the new organism.

Beneath the industrial story, we remain positive on the more R&D based divisions that over time have the capacity to generate large returns relative to the capital invested. From the Biotaturis recombinant vaccines, to the zebra based animal models to the reagent business, they provide a platform for R&D driven value generation.

	2017	2018e	2019f	2020f
Net Debt	n.m.	41,7	51,3	52,3
Net debt/ Equity	n.m.	197 %	229 %	153 %
Cash Ebitda/Interest costs	n.m.	n.m.	2,3	6,9
Net debt / Cash Ebitda	n.m.	n.m.	9,3	3,2
Working Capital (€ millions)	n.m.	5,0	5,7	8,5
Debtors (days)	n.m.	123	60	60
Creditors (days)	n.m.	154	80	70
Stock Turnover (days)	n.m.	225	65	56

Source: Checkpoint Partners

€ millions	2017	2018e	2019f	2020f
Fixed Assets	14,5	58,6	68,8	78,7
Intangible assets	7,8	14,1	16,4	18,7
Tangible assets	3,1	37,4	46,7	55,3
Real Estate investments	0,0	1,1	1,1	1,1
Long term financial investments	0,1	1,3	1,3	1,3
Deferred taxation	3,5	4,8	3,4	2,4
Current Assets	3,1	20,6	18,0	22,5
Inventory	0,0	6,6	4,4	4,6
Commercial and other debtors	1,6	8,9	10,4	13,8
Short term financial investments	0,9	1,2	1,2	1,2
Cash	0,5	4,0	2,0	3,0
Assets	17,6	79,2	86,8	101,1
Shareholders funds	8,0	21,2	22,4	34,2
Long term liabilities	7,6	38,2	44,1	35,4
Long term financial debt	7,2	30,7	38,1	34,8
Long term debt (w/ related parties)	0,0	7,0	5,5	0,0
Deferred taxation	0,4	0,5	0,5	0,5
Current liabilities	2,0	19,9	20,3	31,5
Short term financial debt	0,8	8,8	10,6	21,2
Commercial and creditors	1,2	10,5	9,2	9,8
Liabilities	17,6	79,2	86,8	101,1

Source: Checkpoint Partners

Sum of the parts valuation

Division	Unit	DCF (€)	Year	Target EV / Sales	Target EV / Ebitda	Target P/E	5 yr Sales Growth	Long term Sales Growth
CMO	N4	110,9	2019	2,3	17,0	23,0	36 %	3 %
			2020	2,0	11,1	12,9		
	N3	7,6	2019	6,1	57,0	98,2	n.m.	2 %
			2020	3,0	8,0	7,3		
Proprietary Products		26,1	2019	2,7	n.m	n.m	36 %	4 %
			2020	1,2	7,4	8,0		
R&D Services		9,4	2019	4,5	11,2	11,2	20 %	4 %
			2020	4,1	9,8	7,4		
Other		13,6	2019	6,8	17,4	15,4	16 %	4 %
			2020	6,6	18,0	16,3		
Sum of Parts		167,6	2019	2,6	31,9	n.m.	36 %	3 %
			2020	2,0	10,4	9,8		

Source: Checkpoint Partners

Checkpoint Recommendation System

The Checkpoint Recommendation System is based on absolute returns, measured by the upside potential (including dividends and capital reimbursement) over a 12-month time horizon. Checkpoint recommendations (or ratings) for each stock comprises 3 categories: Buy (B), Neutral (N) and Sell (S).

- **Buy:** the stock is expected to generate total return of over 20% during the next 12 months time horizon
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- **Neutral:** the stock is expected to generate total return of -20% to +20% during the next 12 months time
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- **Sell:** the stock is expected to generate total return under -20% during the next 12 months time horizon.

Our rating system applies to companies with market capitalizations of near or below €50 million that in most cases refer to stocks that are illiquid and more volatile than its larger sized peers.

History of recommendations

Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
11.2.2019	BUY	2.12	3.20	12 months	Guillermo Serrano
08.4.2019	BUY	2.16	3.20	12 months	Guillermo Serrano

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Frequency of analyst reports

At present Checkpoint has committed to a quarterly update of ADL Bionatur financial and operational performance.

Investment horizon

Our reports focus mainly on small capitalization and illiquid stocks where standard Venture Capital investment criteria should apply. An investment into a sub or near €50 million market capitalization stock, specially if it is illiquid, should be done on a 3-5 year time horizon in order to realize the full potential of the investment opportunity.

Date of publication

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