

9m Results 2019

 Opinion ⁽¹⁾: Resultados en línea.

 Impact ⁽¹⁾: Mantenemos estimaciones.

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We maintain our estimates despite the moderate slowdown in the decline in revenue

Results are in line with our estimates at the EBITDA level, but the moderate slowdown in the decline in revenue in 3Q has led us to downgrade our revenue estimates, with no impact on 2019-2021e EBITDA.

REVENUE -12.5% (vs -14.8% 1H19, with a mix: -4.3% y/y volume and -8.2% prices). The y/y decline in sales of walnuts and almonds (77% of total revenue): -30.6% and -8.3% respectively vs. 9M18 stands out. The reasons for this, among others, have been problems with the quality of early varieties (Californian walnuts), delays to harvests and pressure on prices from the import tariff wars. On the other hand, the recovery of almond prices (-1% y/y in the same period, and c. +8% y/y in 3Q19), contrasts with the decline in walnut prices (c. -20% y/y at 9M19), with a recovery of prices in 4Q being ruled out.

EBITDA/REVENUE MARGIN (1.2% 9M19, -1.5p.p. y/y), with -60.8% y/y for EBITDA, negatively impacted by lower volumes (-5.9% y/y excluding subproducts). The expected deceleration of the decline in revenues in 4Q together with operating efficiencies should result in an improvement in this ratio in 2019e (1.7%).

INCREASE IN DEBT IN LINE (ND +7.3% y/y), which has taken ND to highs (EUR 58.6Mn), due to the investments made (EUR 10.7Mn in 12M). Historically, 3Q is the quarter of the year with highest debt for BAIN, with this ratio likely to improve in 4Q.

ORD. PROFIT (-86.3% y/y) and -25% for NP (EUR 1.9Mn), to which extraordinary items contributed 82% (EUR 2Mn from the sale of the popcorn packaging plant in 2Q). The tax rate (22%), is slightly below our forecast for the year (-1p.p.).

Business description

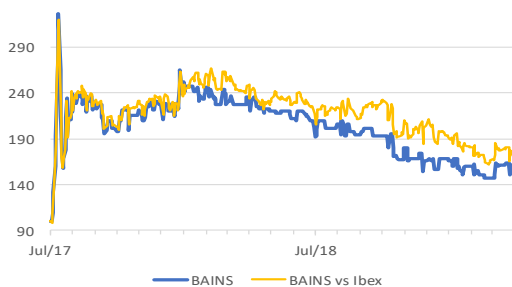
Borges Agricultural & Industrial Nuts, S.A. is a small international group based in Spain (Tarragona), specialising in the agricultural production, processing and B2B marketing of nuts. It has an international presence (58% of 2018 revenue) and is a European benchmark in the almond segment (share of c.7%). Its core shareholder is Borges International Group (89.1% of capital).

Market Data

Market Cap (Mn EUR and USD)	86.1	96.0
EV (Mn EUR and USD)	123.0	137.2
Shares Outstanding (Mn)	23.1	
-12m (Max/Med/Mín EUR)	5.60 / 4.45 / 3.50	
Daily Avg volume (-12m Mn)	n.m.	
Rotation ⁽²⁾	0.73	
Thomson Reuters / Bloomberg	BAINS.MC / BAIN SM	
Close fiscal year	31-May	

Shareholders Structure (%)

Borges International Group	89.1
Board Members	0.3
Free Float	10.6

Relative performance -5y (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	6.3	-6.1	-33.6	n.a.
vs Ibex 35	3.4	-9.1	-30.6	n.a.
vs Ibex Small Cap Index	5.7	-6.5	-26.0	n.a.
vs Eurostoxx 50	0.3	-16.2	-33.4	n.a.
vs Sector benchmark ⁽³⁾	3.7	-15.9	-46.7	n.a.

(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) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.

(3) vs Thomson Reuters Europe Food Processing.

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

	3T19	3T19 vs 3T18	9M19	9M18	9M19 vs 9M18	2019e	2019 vs 2018
Total Ingresos	40.5	-7%	131.4	150.2	-12.5%	179.5	-8.3%
Nueces	0.0	-99%	14.6	21.0	-30.6%	17.0	-28.5%
Almendras	27.6	5%	86.7	94.6	-8.3%	120.9	-3.7%
Otros Frutos Secos	11.0	47%	21.0	22.2	-5.4%	31.8	7.7%
Otros productos	1.8	-61%	9.1	12.3	-26.4%	9.8	-42.0%
EBITDA Rec. ⁽¹⁾	0.8	n.s.	1.7	4.3	-60.4%	3.0	-46.8%
Rec. EBITDA / Ing.	2.0%	1.8 p.p.	1.3%	2.9%	-1.6 p.p.	1.7%	-1.2 p.p.
EBITDA ⁽¹⁾	0.7	n.a.	1.6	4.0	-60.8%	3.1	-42.1%
EBITDA / Ing.	n.d.	n.d.	1.2%	2.7%	-1.5 p.p.	1.7%	-1.0 p.p.
BAI	0.4	n.a.	2.5	3.0	-17.4%	3.0	-23.7%
BN	0.4	n.a.	1.9	2.5	-25.0%	2.3	-30.0%
BN ordinario	0.4	n.a.	0.3	2.5	-86.3%	0.7	-79.2%
Has. gestionadas ⁽³⁾	2,518.0	4.9%	2,518.0	2,401.5	4.9%	2,518.0	4.9%
Volumen ⁽²⁾	7,960	1.8%	26,373	28,012	-5.9%	32,145	-12%
Tns. producidas ⁽³⁾	-	n.a.	2,290	2,185	4.8%	2,290	4.8%
Deuda Neta	n.a.	n.a.	58.6	54.7	7.3%	37.2	6.3%
Deuda Neta / EBITDA	n.a.	n.a.	37.1 x	13.6 x	23.6 x	12.0 x	5.5 x

⁽¹⁾ EBITDA y EBITDA recurrente ajustado. Excluye activaciones.

⁽²⁾ Excluye subproductos.

⁽³⁾ Producción ajustada por las hectáreas vendidas.

Changes to estimates

Any reference to the results of the period to 9M refers to the period between 1 June of the previous year and 28 February of the corresponding year.

In the light of these results we have changed our estimates moderately

Results have been impacted by weak revenues from the main products sold (walnuts and almonds, whose volumes fell y/y -11% and -8% respectively), accounting for 76% of the decline in Group revenue at 9M19.

Weak 3Q revenues have led us to downgrade our revenue projections c. -6% y/y until 2021 (EUR 179.5Mn 2019e, -8.3% y/y), without these changes impacting our EBITDA estimates. However, smaller working capital investment (after the decline in revenues) will have a slightly positive effect on NP (due to lower financial costs), which even so, as we had anticipated, will touch lows in 2019 (-30% y/y). BAIN's equity story remains intact.

EUR Mn	2019e (New)	Review (%)	2020e (New)	Review (%)	2021e (New)	Review (%)
Total Revenues	179.5	-6.2%	189.0	-6.2%	198.8	-6.2%
Recurrent EBITDA	3.0	0.0%	6.4	0.0%	10.1	0.0%
<i>Recurrent EBITDA growth</i>	<i>-46.8%</i>	<i>0.0 p.p.</i>	<i>112.0%</i>	<i>0.1 p.p.</i>	<i>56.7%</i>	<i>-0.1 p.p.</i>
<i>Rec. EBITDA/Revenues</i>	<i>1.7%</i>	<i>0.1 p.p.</i>	<i>3.4%</i>	<i>0.2 p.p.</i>	<i>5.1%</i>	<i>0.3 p.p.</i>
Net Profit	2.3	0.7%	3.0	0.7%	4.8	0.7%
Recurrent Free Cash Flow	-3.7	-30.9%	-3.1	-3.8%	1.0	12.8%
<i>ND / EBITDA</i>	<i>12.0 x</i>	<i>-0.5 x</i>	<i>6.2 x</i>	<i>-0.3 x</i>	<i>3.7 x</i>	<i>-0.2 x</i>

Actively seeking new strategies to accelerate the improvement in margins

BAIN has taken advantage of the results release to announce a new project in the pistachio segment (one of the most profitable crops), for which it has added 116.5 Has. in 3Q19 (1.1x those reported in 1H19). Total hectares under management amount to 2,518 (+4.8% vs. the area initially projected for 2019). However, the development of this new project will not require additional CAPEX as it involves agreements with co-operatives of producers. When these new plantations are in full production (7-8 years), the self-supply of nuts will increase (>10%), helping to accelerate margin improvement in the longer term, and FCF generation.

In conclusion, we maintain our projections for the Group, expecting a gradual improvement in margins from 2019, underpinned by the increased self-supply of nuts when the most recent plantations enter full production. Moreover, sales of processed products with higher added value (almond butter) will also contribute to this improvement that will be supported by the implementation of new strategies (such as the new pistachio project).

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
25-Apr-2019	n.a.	3.72	n.a.	n.a.	9m Results 2019	Ana Isabel González García
11-Apr-2019	n.a.	3.84	n.a.	n.a.	Initial Coverage	Ana Isabel González García