

9m Results 2020

Opinion ⁽¹⁾: Above expectations.

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

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

+34 915 904 226

Business description

GAM (GALQ) is a company that specialises in services associated with machinery (it has a fleet of 16,000 pieces of equipment) with a revenue mix diversified by sector and a certain balance between generalist and specialist operator. With 75 branches in 10 countries, it is leader in the Iberian Peninsula (56 branches), where it obtains the bulk of its revenues (>75%), and Latam is the main destination for the company's exports (c.16%).

Market Data

Market Cap (Mn EUR and USD)	96.0	113.5
EV (Mn EUR and USD) ⁽²⁾	252.7	298.5
Shares Outstanding (Mn)	94.6	
-12m (Max/Med/Min EUR)	2.09 / 1.24 / 0.83	
Daily Avg volume (-12m Mn)	0.09	
Rotation ⁽³⁾	24.8	
Thomson Reuters / Bloomberg	GALQ.MC / GALQ.SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Francisco Riberas	59.3
Pedro Luis Fernández	5.8
Indumenta Pueri	5.3
Banco Santander	4.5
Free Float	25.1

Relative performance -5y (Base 100)



Stock performance

(%)	-1m	-3m	-12m	-5Y
Absolute	-0.2	6.4	-33.2	-54.2
vs Ibex 35	-7.0	-0.8	-15.9	-36.7
vs Ibex Small Cap Index	-1.6	-2.4	-35.0	-67.6
vs Eurostoxx 50	-4.1	1.6	-27.5	-54.1
vs Sector benchmark ⁽⁴⁾	-4.9	-3.7	-35.8	-69.6

(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) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Eurostoxx 600 Industrial Goods & Services.

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

A better than expected 3Q20. We will upgrade our estimates (a lot)

THE PRINCIPAL 9M20 RESULTS FIGURES ... revenues EUR 94.4Mn (-11.9%), EBITDA EUR 31.5Mn (-16.5%; without stripping out capitalised expenses), and net operating profit EUR -1.9Mn (vs 2.5Mn in 9m19). As regards the balance sheet, net debt was EUR 143.9Mn (vs EUR 122Mn in 2019).

...PROVIDE POSITIVE READING: Despite the decrease in revenue (which won't surprise anybody), GALQ has reported better than expected results, confirming (as we anticipated in 1H20 results), that the company's fundamentals are proving to be very sound. We highlight: (i) a quicker than estimated recovery of the business (97% at the date of this report vs 92% in September and 55% in April) and (ii) the resilience of margins (9m20 EBITDA margin: 27.9%; vs 29.4% in 9m19). Results that underline the argument that the GALQ of 2020 has little (or nothing) in common with that of 2008.

THE MAIN REASONS FOR GROWTH REMAIN INTACT: (i) entry in the long-term rental business; (ii) entry in businesses other than rental and without CAPEX (distribution, maintenance); and (iii) a positioning on the Iberian peninsular (where the company is leader) and Latam, two regions where convergence with rental utilisation ratios (vs purchasing) similar to those of the US and Europe can be expected. Which means growth in the mid term.

WHICH SHOULD ENABLE 2019 LEVELS TO BE RECOVERED SOONER THAN EXPECTED. 9m20 results strengthen the credible arguments for genuine resilience (3Q20 revenue +0.5% vs 3Q19), which, in our opinion, should allow GALQ to recover 2019 levels in 2021e (vs 2022e in our previous estimates made in April).

AND WILL LEAD TO AN UPGRADE TO OUR 2020e-2022e ESTIMATES. As we anticipated in 1H20, the "risk" to a revision of GALQ's estimates is on the upside. Today the most reasonable assumption is for revenue of c. EUR 130Mn in 2020e (-8.5% vs 2019; vs our previous estimate of -14.5%), which would imply 2020e EBITDA adjusted for capitalisations of c. EUR 29Mn (+30% vs our previous estimates).

LOW MULTIPLES IN 2021e. Looking ahead to 2021e, and if activity levels seen in 3Q20 are maintained, we estimate GALQ should obtain, at least, similar levels of Revenue and Rec. EBITDA to those of 2019 (EUR 143Mn and EUR 34Mn, respectively). After the sharp fall in the share price (-33% -12m), GALQ would currently be trading its 2021e results at c. 7x EV/EBITDA.

IN CONCLUSION: GALQ'S RESILIENCE IS EVIDENT. Explained by a combination of restructuring (concluded in 2019) and arguments in favour of long-term growth due to the strategic repositioning of the business. In addition, GALQ has announced a EUR 31.5Mn capital increase (31.5Mn shares with a par value of 1€; identical to the current market price, which means the increase is not dilutive). An increase that can be taken as a certainty (it has the backing of the majority shareholder) and that not only strengthens the company's financial position but should also allow it to take advantage of new opportunities for growth (both organic and M&A; in 2020 GALQ has already acquired CLEM and GALMAN). The new shares will begin trading on 27 November 2020.

Appendix 1. Results table

EUR Mn			9m20 vs	3Q20 vs	
	9m20	9m19	9m19	3Q20	3Q19
Total Revenues	94.4	107.2	-11.9%	35.2	0.5%
Recurrent EBITDA	26.3	31.5	-16.5%	10.8	-2.1%
<i>Rec. EBITDA/Revenues</i>	<i>27.9%</i>	<i>29.4%</i>	<i>-1.5 p.p.</i>	<i>30.7%</i>	<i>-0.8 p.p.</i>
EBITDA¹	26.3	31.5	-16.5%	11.6	-2.7%
<i>EBITDA/Revenues</i>	<i>27.9%</i>	<i>29.4%</i>	<i>-1.5 p.p.</i>	<i>33.0%</i>	<i>-1.1 p.p.</i>
EBIT	4.5	9.5	-52.6%	3.8	-15.6%
Net operating result	-1.9	2.5	-176.0%	1.5	-31.4%
Net Debt²	143.9	206.3	-30.2%		

(1) EBITDA y EBITDA Rec. without stripping out capitalised expenses (EUR 3Mn and EUR 3.9Mn in June 2020 and 2019, respectively).

(2) Net debt ex IFRS 16.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	96.0	
+ Minority Interests	0.3	6m Results 2020
+ Provisions & Other L/T Liabilities	14.8	6m Results 2020
+ Net financial debt	143.9	9m Results 2020
- Financial Investments	2.4	6m Results 2020
+/- Others	-	6m Results 2020
Enterprise Value (EV)	252.7	

(*) GALQ has unused prior years' deferred tax assets in an amount of EUR 90Mn. Their use would result in a significant reduction in the tax expense going forward

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10-Nov-2020	n.a.	1.01	n.a.	n.a.	9m Results 2020	David López Sánchez
21-Oct-2020	n.a.	0.96	n.a.	n.a.	6m Results 2020	David López Sánchez
13-May-2020	n.a.	1.07	n.a.	n.a.	3m Results 2020	David López Sánchez
08-Apr-2020	n.a.	1.21	n.a.	n.a.	Initial Coverage	David López Sánchez

