

Ercros' 2018 profit rises to EUR 45 million and increases cash dividend by 20%

Ercros closed 2018 with a profit of EUR 44.9 million, 0.9% higher than the one obtained in the previous year, and a turnover of EUR 639.5 million, 0.4% lower than that of 2017.

Technology change: from mercury to membranes

Maintaining both figures occurs in the year in which the company, like many other manufacturers of chlorine and caustic soda in Europe, has completed the transition from mercury technology to membrane technology. Ercros has fully met this challenge minimizing its impact on the company operations.

Following company's schedule, in 2018 the membrane chlorine production capacity has been increase up to 191,000 t/year, and by the third quarter of 2019 it will reach its new maximum capacity of 217,000 t/year. Due to higher operating rates of membrane technology, once the whole capacity is running, the annual chlorine production will be quite similar to the one before the technology change.

Income and expenses

In the meantime, in order to serve the market, the company has supersede its own production with the purchase of external products. This fact, as well as the high average prices of final products, has enabled the company to reach a sales figure of EUR 639.5 million in 2018, very similar to the figure in 2017.

While same sales of end products have been reached, services rendered have decreased by EUR 7.3 million (a reduction of 18.3%) due to the lower remuneration of the electric power interruptibility service. The item reversal of provisions has only reached EUR 1.8 million compared to EUR 6.9 million in 2017. On the positive side, the increase in stocks of finished products stands out, amounting to an increase of EUR 4.8 million compared to 2018, due to the higher operating rates of the new production capacity started-up.

Expenses amounted to EUR 621.9 million, a very similar figure to the EUR 619.7 million in 2017. This stability is the result of a quite uneven evolution of the different items, which have ended up offsetting each other. The higher bill for supplies and the booking of provisions (amounting to EUR 28.7 million more than in 2017) have been almost totally offset by savings in supplies, personnel expenses and other operating expenses (amounting to EUR 26.5 million less than in 2017).

In 2018, supplies reached EUR 341.8 million, 8% higher than in 2017. This increase is explained by the high prices of raw materials (in the case of methanol, an increase by 12.8%) and by the greater volume of purchases. Supplies, meanwhile, reached EUR 96.0 million, a reduction by 16.1% compared to 2017. This reduction occurs despite the sharp rise in the price of electricity (14.2% higher than in 2017) and is explained by the lower electricity consumption derived from the greater energy efficiency of the new installations with membrane technology and the lower temporary production of chlorine and caustic soda.

Personnel expenses amounted to EUR 79.9 million, 4.2% lower than in 2017, mainly due to the reduction in the number of staff derived from the collective dismissal file associated with the closure of the mercury technology plants. In 2018, the average Ercros workforce was 1,290 people, 82 less than in 2017.

Other operating expenses amounted to EUR 97.9 million, EUR 4.6 million less than in 2017. This heading includes, as main items, maintenance expenses, which decreased by EUR 1.2 million; transportation expenses, which decreased by EUR 3.0 million; and the leasing expenses of logistics facilities, which increased by EUR 1.5 million, due to the new storage facilities required by the larger volume of external products marketed. The last item of expenses is the one related to new provisions which was EUR 6.4 million compared to EUR 2.9 million in 2017.

Ebitda and ebit

The evolution of revenues and expenses has led to an ordinary gross operating profit (ebitda), which has reached EUR 62.9 million, 11.4 million below the 2017 figure. An important part of this reduction is explained due to the even allocation of the reversals and recognition of provisions: while in 2017 the reversals exceeded the provisions booked, in 2018 the opposite occurred, with a negative net effect on the ebitda of EUR 8.6 million. Another, smaller but also significant part has been the depreciation of the dollar against the euro, with a negative effect of another 1.5 million. Altogether these two factors explain 10.1 out of the 11.4 million of the ebitda reduction regarding 2017.

Remarkably, on the other hand, earnings before interest and taxes (ebit) of 2018 has been higher than that of 2017: EUR 43.2 million in 2018 compared to EUR 34.3 million in 2017. The reason for this improvement is that while in 2017 the expenses and provisions derived from the cessation of mercury technology, amounting to EUR 21.7 million were charged, in 2018 there has been no expense for this item. On the other hand, amortizations amounted to EUR 19.7 million, 7.9% higher than in 2017 due to the new investments on service.

Financial year results

Financial expenses -amounting to EUR 5.8 million- were reduced by 2.2%, despite the increase in debt, due to its lower average interest rate. Likewise, in 2018, Ercros recorded an income of EUR 6.9 million for income tax, lower than the EUR 15.9 million in 2017. As of December 31, 2018, the company still has unregistered deferred tax assets amounting to EUR 76.4 million.

All this leads to a profit of EUR 44.9 million, slightly higher than the EUR 44.5 million reached in 2017. This increase, along with the reduction in the number of outstanding shares, has led to an improvement by 4% of the earnings per share (EPS), which raised from EUR 0.3963 in 2017 to EUR 0.4111 in 2018.

Balance

Non-current assets increased by EUR 18.6 million (5.8% more), mainly due to the investments made under the Act Plan. This investment plan also explains the increase in net financial debt (NFD), which has increased by EUR 18.1 million and stood at EUR 107.3 million at the end of 2018.

Throughout 2018, Ercros accounted for investments amounting to EUR 31.7 million, of which EUR 23.7 come from the investment Act Plan. This plan -foreseen for the 2016-2020 period- has already implemented the most relevant actions, which are those related to the change of technology in the production of chlorine and caustic soda. On the other hand, the company has approved new investments aimed at expanding capacity of products with higher margins and investments to reduce energy consumption, which are currently being carried out and which, together with the investments initially planned, will entail a total investment around EUR 100 million within 2016 and 2020.

Working capital has increased by EUR 17.1 million, mainly due to the increase in inventories.

The equity attributable to shareholders -amounting to EUR 272.7 million- has increased by EUR 25.2 million. This increase is lower than the profits of the year due to the shareholder remuneration paid in the year amounting to EUR 19.7 million (EUR 13.9 million as shares repurchase; EUR 5.4 million as dividend; and EUR 0.4 million as general meeting attendance premium).

Provisions and other debts have been reduced by EUR 7.5 million. This item included -among other provisions- the costs derived from the cessation of mercury technology.

Shareholder remuneration

In 2018, the three conditions set in the Ercros shareholder remuneration policy are fulfilled, given that the earnings per share stood at EUR 0.4111 and therefore higher than the minimum earnings requirement of 0.10 euros/share; the solvency ratio (net financial debt/ordinary ebitda) stood at 1.71 and therefore lower than the maximum allowed of 2; and the leverage ratio (net financial debt/total equity) stood at 0.39 and therefore lower than the maximum allowed of 0.50.

The shareholder remuneration is carried out through share repurchases for cancellation and the payment of a dividend. Consequently, the board of directors, at its meeting held on February 22, 2019, has agreed to propose to the shareholders' meeting the approval of a gross dividend of EUR 0.06 per share, 20% higher than 2017 dividend of EUR 0.05 per share, which implies a disbursement of EUR 6.5 million and represents a payout of 14.4% of the consolidated profit of Ercros in 2018. Company will also go on repurchasing shares to be cancelled until reaching an amount of EUR 11.5 million, which completes the maximum joint payout provided for in the 2018 shareholder remuneration policy, which is 40%.

Foreseeable evolution

Although Ercros considers that it is still too early to make reliable forecasts about the performance of the company throughout 2019, Ercros is moderately optimistic due to the greater production capacity available (chlorine, caustic soda and polyols), despite the uncertainties that point to a certain deceleration of GDP growth.

The greater volume of production will foreseeably be accompanied by a decrease in the prices of final products in their respective markets, although it is expected that these prices will still remain above their historical average. On the other hand, the substitution of external production for own production -which has higher margins- should push the expected profits.

Regarding the prices of the main supplies, it is expected that margins pressure will ease, in accordance with the trend started on the fourth quarter of 2018. Nevertheless, electricity prices have remain above its 2018 highs.

Regarding the EUR/USD exchange rate, Ercros expects no relevant impact in 2019 compared to 2018.

Barcelona, February 28, 2019

Statement of profit or loss

EUR million	FY 2018	FY 2017	Variation (%)
Revenue	684.80	694.04	-1.3
Sale of goods	639.54	641.79	-0.4
Rendering of services	32.40	39.68	-18.3
Other operating income	8.36	7.79	7.3
Reversal of provisions	1.82	6.94	-73.8
Changes in inventories of finished goods	2.68	-2.16	-
Expenses	-621.90	-619.73	0.4
Procurements	-341.78	-316.58	8.0
Supplies	-96.03	-114.39	-16.1
Employee benefit expenses	-79.87	-83.39	-4.2
Other operating expenses	-97.87	-102.47	-4.5
Provisions	-6.35	-2.90	×2.2 ¹
Ordinary ebitda	62.90	74.31	-15.4
Cost of mercury technology phase-out:			
Workforce reduction	-	-11.00	-
Dismantling and remediation	-	-10.73	-
Amortisation	-19.69	-18.25	7.9
Ebit	43.21	34.33	25.9
Financial expenses, losses and impairment	-5.82	-5.95	-2.2
Exchange rate differences	-0.52	-0.44	18.2
Share in associates profit	1.13	0.74	52.7
Earnings before tax	38.00	28.68	32.5
Income tax expense	6.88	15.90	-56.7
Other comprehensive result	-	-0.09	-
Profit for the year	44.88	44.49	0.9
Profit per share (euros)	0.4111	0.3963	3.7

¹. Multiplicative factor.

Economic analysis of the balance sheet¹

EUR million	31-12-18	31-12-17	Variation (%)
Non-current assets	337.09	318.51	5.8
Working capital	93.70	76.59	22.3
Current assets	218.88	218.28	0.3
Current liabilities	-125.18	-141.69	-11.7
Capital employed	430.79	395.10	9.0
Equity	272.67	247.49	10.2
Net financial debt²	107.31	89.26	20.2
Provisions and other debts	50.81	58.35	-12.9
Source of funds	430.79	395.10	9.0

- ^{1.} These balance sheets have been prepared by the management to allow a better understanding of the use of resources made by the company.
- ^{2.} All interest bearing debts are included in the net financial debt. Likewise, in addition to cash and other equivalent liquid means, those deposits that guarantee debt commitments have been considered as lower financial debt (2018: EUR 9.08 million, and 2017: EUR 13.88 million).