

Reig Jofre

 Pedro Echeguren pecheguren@bankinter.com

1Q19 results: A promising start of the year

Sales in 1Q19 increased +6.0% yoy

Sales in 1Q19 increased to €49.3mn (+6.0% yoy and +4.7% qoq). The sales and yoy growth rates per product lines were as follows: antibiotics and injectable €24.3mn (-4%), consumer healthcare €15.4mn (+28%) and specialty pharma €9.7mn (+6%).

Sales of **antibiotics and injectable** were affected by a scheduled stoppage in the plant in Barcelona. The company expects to recover this decline in production and sales during the next quarters. Sales of **consumer healthcare** rose following product launches in France, Belgium and the Netherlands from its nutrition and weight loss brand Forté Pharma. **Specialty pharma** sales were driven primarily by increasing sales of derma products in Spain.

Net profit increased +8.5%

The **gross margin** widened in **1Q19** to 64.5% (61.6% in 1Q18 and 62.7% in 4Q18). The **EBITDA margin** rose to 11.4% from 10.1% in 1Q18 but was unchanged qoq. **EBITDA** reached €5.6mn (+19.0% yoy and +4.7% qoq). Depreciation charges increased to €2.5mn (+33.3% yoy and +24.1% qoq) mainly as a result of IFRS-16 accounting from 2019. **EBIT** increased to €3.1mn (+9.6% yoy and -31.9% qoq), the qoq

comparison is distorted by a positive impairment in 4Q18. The net financial expenses were largely unchanged at -€0.2mn. **PBT** was €2.9mn (+8.5% yoy and -37.1% qoq). The **net profit** was €2.4mn (+8.5% yoy and -51.9% qoq).

Leverage is moderate at 1.8x EBITDA

The reported **net financial debt** increased since December 2018 by €5.7mn to €30.2mn (+23.3%), or 1.8x LTM EBITDA. **Capex** was €7.0mn, up from €5.4mn in 1Q18 but in-line with 4Q18. The bulk of the capex is related to building additional capacity in the injectables plant in Barcelona to add 25mn vials per year of capacity and reach 40mn vials per year in 2020e.

Valuation

The company has announced a flexible scrip dividend that represents a 1.8% yield for the shareholders that choose to receive €0.0446 in cash instead receiving new shares. These are expected to start trading on 7th June.

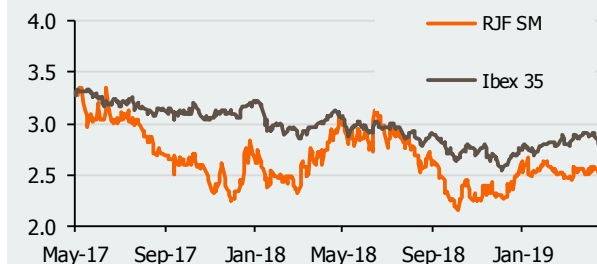
Our valuation revolves around a **DCF model** and a 7.2% WACC. Our **target price of €3.60 per share** is unchanged.

Key data at 21st May 2019, 17:35h

Price (€)	2.44	Nº shares (m)	65.1
Ticker Bloomberg	RJF SM	M. Cap. (€m)	158.7
Free-float (%)	27.5	Daily vol. (€m)	0.1

(€mn)	2018	2019e	2020e	2021e
Net group profit	9.2	6.9	9.2	14.5
% inc.	5.3	-24.7	32.3	57.6
EBITDA	16.4	17.2	20.6	27.0
% inc.	3.8	5.1	19.8	30.6
EPS (€)	0.14	0.11	0.14	0.22
% inc.	5.3	-24.7	32.3	57.6
DPS (€)	0.05	0.00	0.00	0.00
% inc.	-2.1	n.a.	n.a.	n.a.
P/E (x)	16.1	22.8	17.3	11.0
EV/EBITDA	10.5	11.6	10.0	7.3
Div. Yield (%)	2.0	0.0	0.0	0.0
P/BV (x)	1.0	1.0	1.0	0.9

Price performance (€)



Performance (%)	1 m.	3 m.	12 m.
Absolute	-2.8	-6.2	-20.3
Relative	0.8	-6.8	-12.0

Source: Bloomberg and Bankinter Securities Research

Growth in sales and higher margins drive the results

Figure 1. Summary results

€mn	1Q18	2Q18	3Q18	4Q18	1Q19	yoy %	qoq %
Antibiotics & Injectables	25.3				24.3	-4.0	
Specialty pharma	9.2				9.7	6.0	
Consumer healthcare	12.1				15.4	27.6	
Sales	46.6	43.6	43.2	47.1	49.3	6.0	4.7
Gross margin	28.7	28.5	26.1	29.6	31.8	10.9	7.6
<i>% of sales</i>	<i>61.6</i>	<i>65.4</i>	<i>60.4</i>	<i>62.7</i>	<i>64.5</i>		
Other income	1.2	1.7	1.3	1.4	1.3		
Total income	47.8	45.3	44.5	48.6	50.6	5.9	4.2
Operating expenses	-25.2	-27.3	-24.0	-25.6	-27.5		
EBITDA	4.7	2.9	3.4	5.4	5.6	19.0	4.7
<i>% of sales</i>	<i>10.1</i>	<i>6.7</i>	<i>7.9</i>	<i>11.4</i>	<i>11.4</i>		
Depreciation	-1.9	-1.9	-1.8	-2.0	-2.5	33.3	24.1
Impairment & Others	0.0	0.0	0.0	1.2	0.0		
EBIT	2.8	1.1	1.6	4.5	3.1	9.6	-31.9
<i>% of sales</i>	<i>6.0</i>	<i>2.4</i>	<i>3.7</i>	<i>9.6</i>	<i>6.3</i>		
Net financial expenses	-0.2	-0.2	-0.1	-0.1	-0.2		
Equity income	0.0	0.0	0.0	0.2	0.0		
Profit before taxes	2.6	0.8	1.5	4.5	2.9	8.5	-37.1
Taxes	-0.4	-0.1	-0.2	0.5	-0.4		
Tax rate %	-15.0	-15.0	-15.0	11.2	-15.0		
Net group profit	2.2	0.7	1.2	5.1	2.4	8.5	-51.9
OWC	42.9	41.6	40.3	40.5	42.3	-1.5	4.3
OWC/LTM sales (%)	25.1	23.9	22.2	22.5	23.1		
Net financial debt	21.0	20.2	23.3	24.5	30.2	43.8	23.3
NFD/LTM EBITDA (x)	1.3	1.2	1.3	1.5	1.8		
NFD/Equity (x)	0.1	0.1	0.2	0.2	0.2		

Source: Company and Bankinter Securities Research

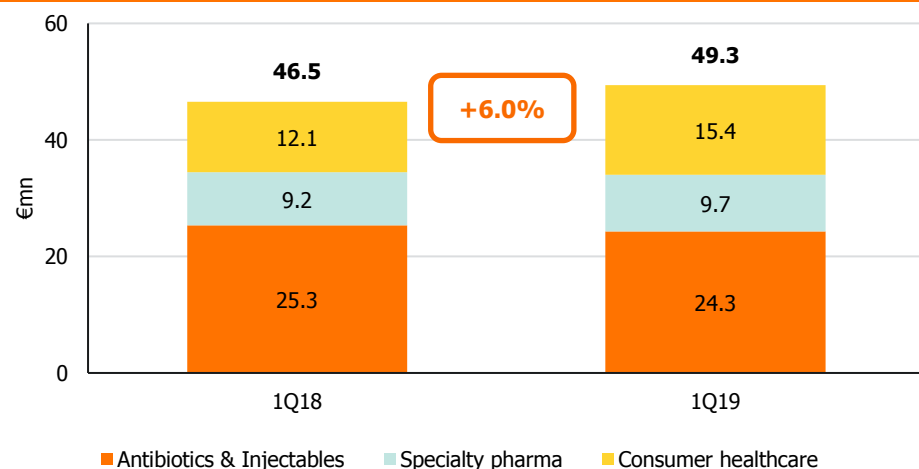
Sales growth is driven by consumer healthcare and specialty pharma

Sales increased to €49.3mn in 1Q19 (+6.0% yoy and +4.7% qoq). This increase results from a combination of +28% growth in consumer healthcare, +6% in specialty pharma and a -4% decline in antibiotics and injectable that underwent a scheduled stoppage in one of its plants. The reporting per product line was simplified in 4Q18 to three categories (from five).

- **Antibiotics and injectable** sales of €24.3mn (-4%) were affected by a scheduled stoppage in the plant in Barcelona, the company expects to recover this decline in production and sales during the next quarters. Our estimates include this guidance.
- **Specialty pharma** sales of €9.7mn (+6%) were driven primarily by increasing sales of derma products in Spain.
- **Consumer healthcare** sales of €15.4mn (+28%) rose following product launches from its nutrition and weight loss brand Forté Pharma in France, Belgium and the Netherlands.

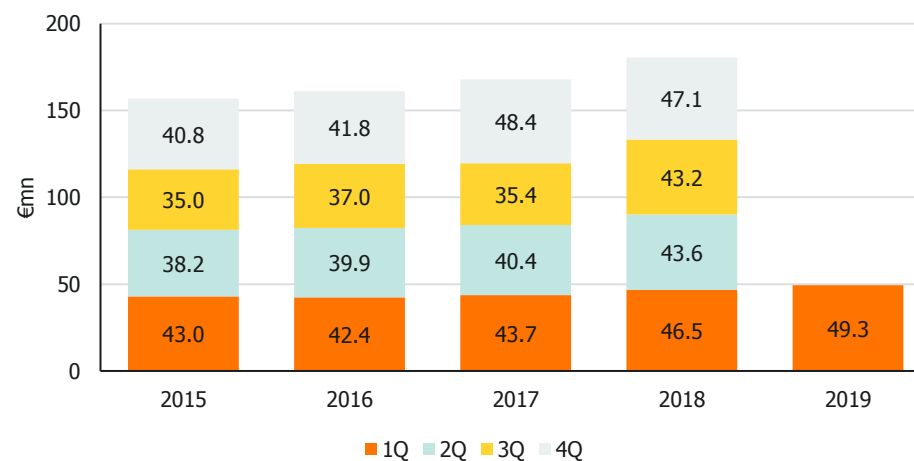
Contract manufacturing accounted for 19% of sales, down from 22% in January-December 2018.

Figure 2. Sales per product line



Source: Company and Bankinter Securities Research

Figure 3. Sales per quarter

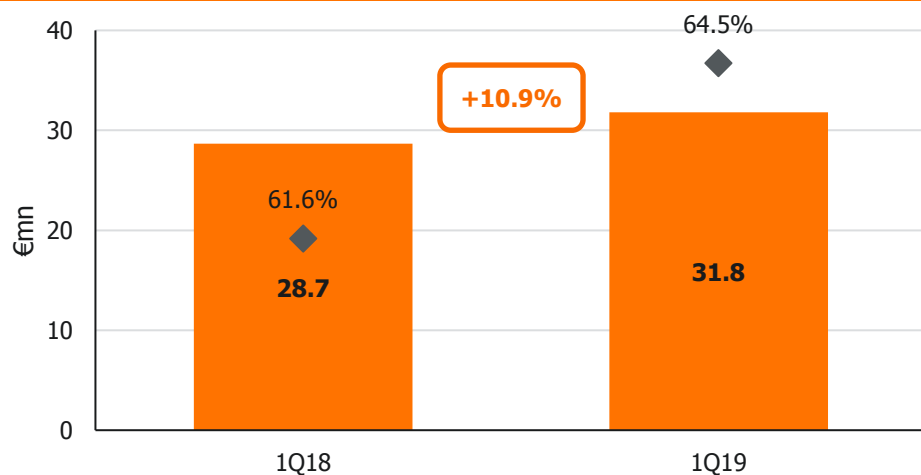


Source: Company and Bankinter Securities Research

Gross margin widened to 64.5%

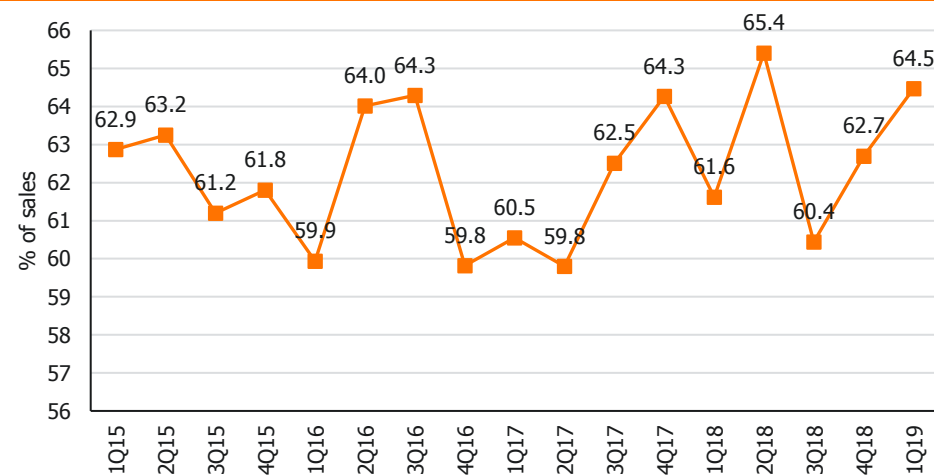
- The **gross profit** rose by +10.9% in 1Q19 to €31.8mn, surpassing the growth rate of sales.
- The **gross margin** widened to 64.5% from 61.6% in 1Q18 and 62.7% in 4Q18.
- The increase in the margin was driven by a combination of a +28% growth in consumer healthcare sales, this includes Forté Pharma whose products have higher margins than the average, and a -4% decline in sales of antibiotics & injectable.

Figure 4. Gross profit and margin



Source: Company and Bankinter Securities Research

Figure 5. Gross margin per quarter

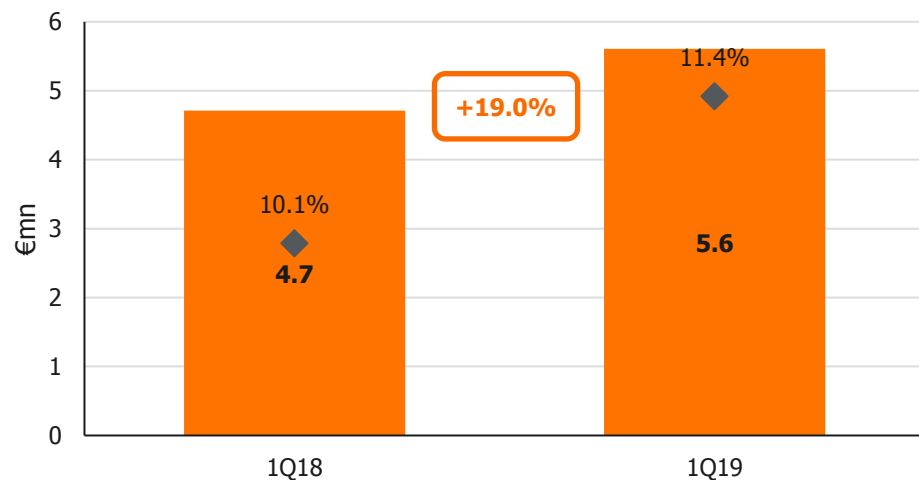


Source: Company and Bankinter Securities Research

EBITDA increased by +19.0%

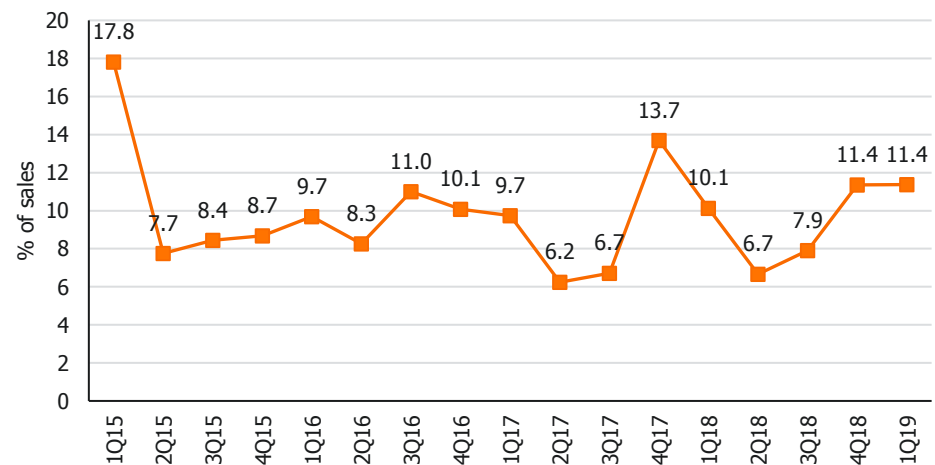
- **EBITDA** increased in 1Q19 to €5.6mn (+19.0%). Rental costs derived from IFRS-16 now accounted as depreciation were €0.6mn, or 10.7% of the EBITDA.
- The **EBITDA margin** expanded to 11.4% in 1Q19 from 10.1% in 1Q18 and was unchanged from 4Q18, on a more favourable product mix. Nonetheless, we understand that marketing costs associated with the new launches in Consumer healthcare undermined the evolution of this margin.

Figure 6. EBITDA and margin



Source: Company and Bankinter Securities Research

Figure 7. EBITDA margin per quarter

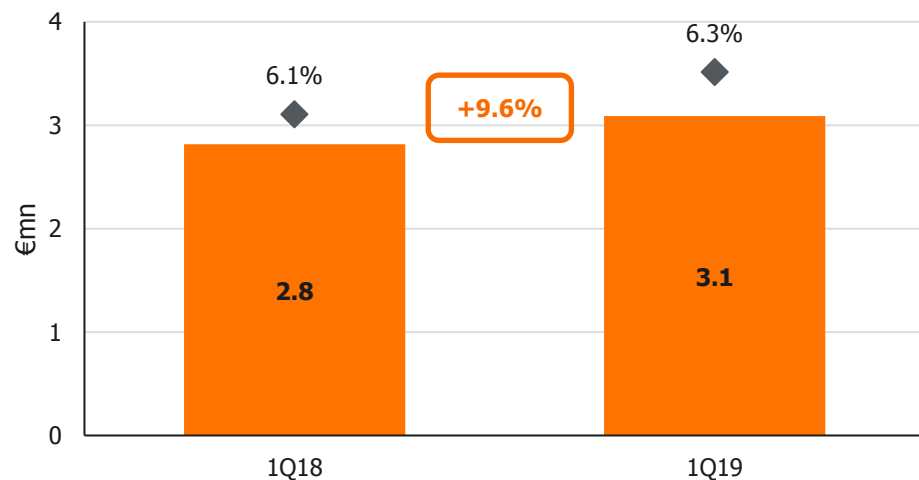


Source: Company and Bankinter Securities Research

EBIT grew +9.6%

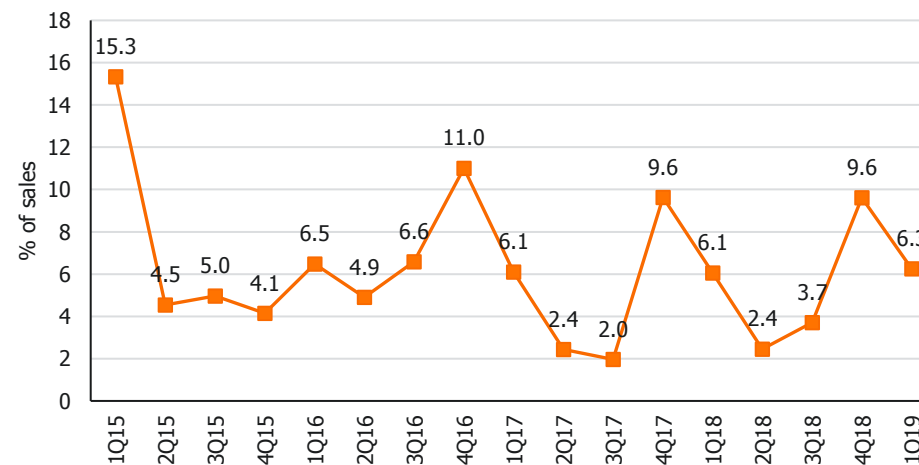
- **EBIT** grew in 1Q19 to €3.1mn (+9.6%). The rate of growth is below that of EBITDA. Depreciation increased +33.3% yoy and +24.1% qoq.
- The EBIT margin rose to 6.3% of sales from 6.1% in 1Q18 and 5.6% in 4Q18.

Figure 8. EBIT and margin



Source: Company and Bankinter Securities Research

Figure 9. EBIT margin per quarter

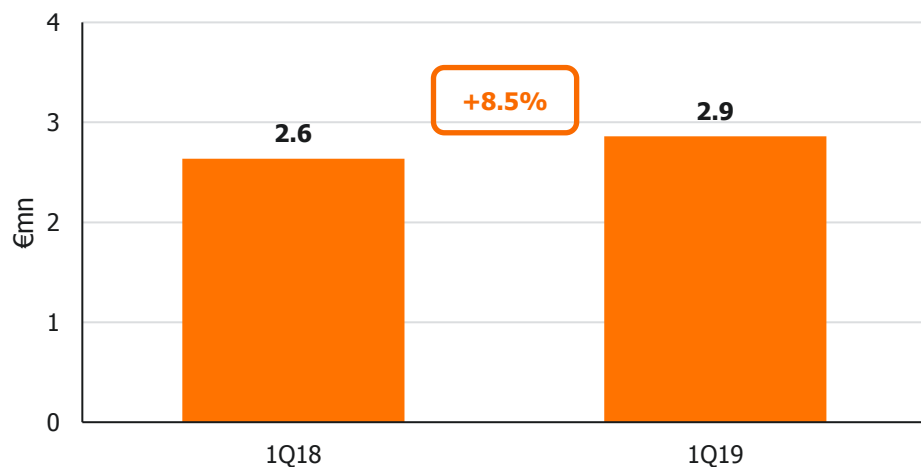


Source: Company and Bankinter Securities Research

Profit before taxes and net profit also increased

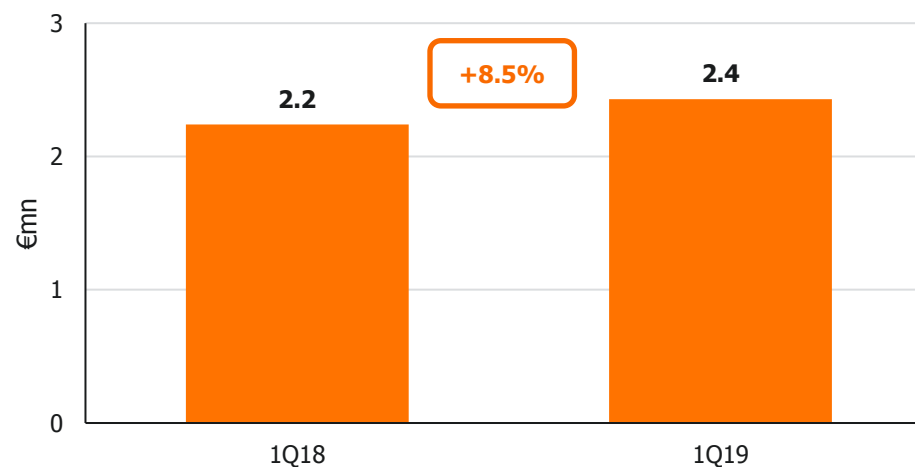
- In 1Q19, **profit before taxes** increased to €2.9mn, +8.5%.
- The **net profit** increased at the same rate as the PBT to €2.4mn (+8.5%).

Figure 10. Profit before taxes



Source: Company and Bankinter Securities Research

Figure 11. Net profit

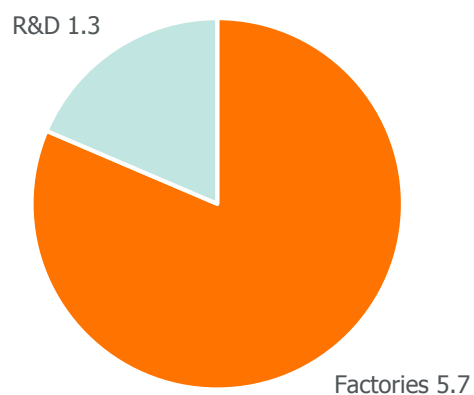


Source: Company and Bankinter Securities Research

Capex and net financial debt

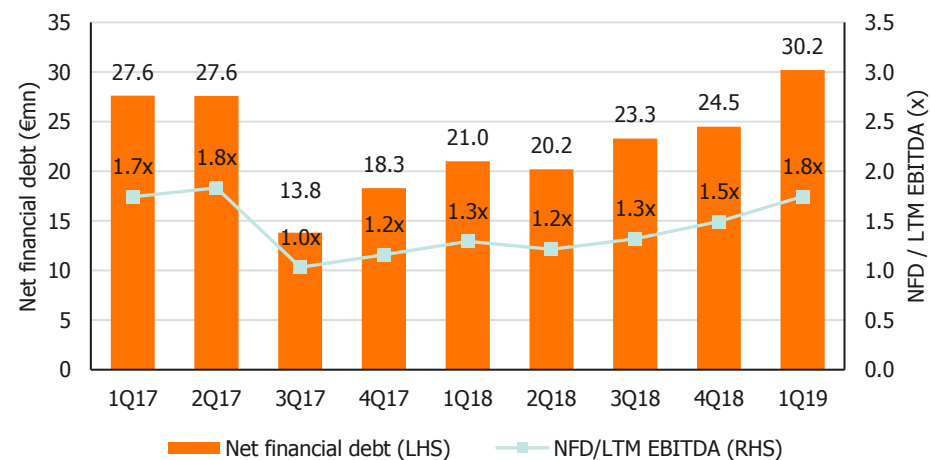
- **Capex** in 1Q19 increased to €7.0mn, up from €5.4mn in 1Q18 but in-line with 4Q18 (+23%).
- Capex splits in €5.7mn in its factories. the company is adding capacity in its plant in Barcelona, and €1.3mn to R&D.
- The **net financial debt** increased to €30.2mn from €24.5 in December 2018 (+23.3%).
- **NFD/ LTM EBITDA** is 1.8x, not a concern.
- **OWC/ LTM sales** declined to 23.1%, from 24.5% in 4Q18 and 25.1% in 1Q18.

Figure 12. Capex breakdown in 1Q19 (€mn)



Source: Company and Bankinter Securities Research

Figure 13. Net financial debt



Source: Company and Bankinter Securities Research

Our valuation is €3.60 per share (unchanged)

We value Reig Jofre using a **DCF-model** that considers flows for 2020e–2024e and a terminal value. Our assumed cost of equity is 8.5%, cost of debt (pre-tax) 2.5% and debt financing is 25%. The resulting **WACC is 7.2%**. We use a **terminal growth “g”** rate of 0%.

Our **EV estimate** is €260mn and our **equity value estimate** €234mn.

Our **target price of €3.60 per share is unchanged.**

Figure 14. DCF model

€mn	2020e	2021e	2022e	2023e	2024e
EBIT	10.9	16.8	23.6	27.9	27.9
Tax rate on EBIT	-15.0%	-15.0%	-20.0%	-20.0%	-20.0%
NOPLAT	9.3	14.2	18.9	22.3	22.3
Depreciation	9.8	10.2	10.6	10.9	11.4
OWC	-0.8	-0.3	-2.1	-1.2	-0.5
Capex	-19.6	-9.9	-10.1	-10.4	-11.4
Free cash flow	-1.5	14.2	17.3	21.7	21.8
Terminal value					302.0
EV/EBITDA terminal value (x)					7.7
Flow to discount	-1.5	14.2	17.3	21.7	323.9
Discount factor (x)	0.93	0.87	0.81	0.76	0.71
NPV of flow	-1.4	12.4	14.0	16.4	228.5
EV	269.9				

Source: Bankinter Securities Research

Figure 15. Sum of the parts valuation

	€mn	€/share
EV	269.9	4.15
Financial assets (book value)	6.7	0.10
Equity accounted affiliates	0.5	0.01
Less: NFD 2019e	-41.9	-0.64
Less: provisions 2019e	-0.8	-0.01
Equity value	234.4	3.60

Source: Bankinter Securities Research

Figure 16. Sensitivity analysis

		WACC (%)				
		5.2	6.2	7.2	8.2	9.2
Terminal growth	€/share					
	1.5%	7.43	5.64	4.49	3.67	3.08
	1.0%	6.59	5.13	4.15	3.44	2.91
	0.5%	5.93	4.72	3.86	3.24	2.75
	0.0%	5.40	4.36	3.60	3.06	2.62
	-0.5%	4.96	4.0	3.41	2.90	2.50
	-1.0%	4.59	3.81	3.22	2.76	2.39
-1.5%	4.28	3.58	3.05	2.63	2.29	

Source: Bankinter Securities Research

Valuation methodology

Valuation method

We value Reig Jofre using a DCF-model that considers flows for 2020e–2024e and a terminal value. Our valuation is for December 2019.

Key assumptions

Our cost of equity is 8.5%, the cost of debt (pre-tax) is 2.5% and we assume that debt finances 25% of the capital employed. The resulting WACC is 7.2%. We use a terminal growth “g” rate of 0%.

Price target scenarios

Base €3.60

- Stable sales of the current portfolio after 2018e
- New capacity at 95% of utilization in the 4th year of operation
- EBITDA margin increases to 16% in 2023e

Bull €4.35

- Sales of the current portfolio as in base
- New capacity at 95% of utilization in 2nd year of operation
- EBITDA margin reaches 18% in 2023e

Bear €2.35

- Sales of the current portfolio as in base
- New capacity at 50% of utilization in the 4th year of operation
- EBITDA margin peaks at 14% in 2023e

Key drivers

- Sales growth driven by new capacity and product launches
- Increasing margins as more efficient capacity is added

Catalysts

- New license agreements
- Corporate acquisitions
- Roll out of the capex programme

Risk factors

- Disposal of Natra’s 13% stake
- Pipeline risks

Figure 17. Profit and loss account and cash flow statement

(€mn)	2016	2017	2018	2019e	2020e	2021e
Profit and loss account						
Sales	161.1	168.0	180.5	183.0	195.7	208.0
% inc.	2.7	4.3	7.4	1.4	7.0	6.3
Cost of goods sold	-61.4	-64.1	-67.6	-67.7	-68.5	-72.8
Gross margin	99.8	103.9	112.8	115.3	127.2	135.2
Operating costs	-84.1	-88.1	-96.5	-98.1	-106.6	-108.2
EBITDA	15.7	15.8	16.4	17.2	20.6	27.0
% inc.	-8.3	0.6	3.8	5.1	19.8	30.6
Depreciation	-4.0	-6.8	-6.4	-8.9	-9.8	-10.2
EBIT	11.7	8.9	10.0	8.4	10.9	16.8
% inc.	0.0	-23.6	11.5	-16.2	30.1	54.0
Net financial result	0.2	-1.0	-0.7	-0.8	-0.8	-0.8
Equity accounted earnings	0.0	0.0	0.2	0.2	0.2	0.2
Other results	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes	11.9	7.9	9.4	7.7	10.2	16.1
Corporate tax	-4.3	0.8	-0.2	-0.8	-1.0	-1.6
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net group profit	7.6	8.8	9.2	6.9	9.2	14.5
% inc.	-12.3	14.8	5.3	-24.7	32.3	57.6
EPS (€)	0.12	0.13	0.14	0.11	0.14	0.22
% inc.	-12.3	14.8	5.3	-24.7	32.3	57.6
DPS (€)	0.05	0.05	0.05	0.00	0.00	0.00
% inc.	n.a.	0.0	-2.1	n.a.	n.a.	n.a.
Cash flow statement						
Net cash flow	11.6	15.6	15.6	15.8	19.0	24.7
% inc.	-17.7	34.3	0.2	1.1	19.8	30.3
OWC change	-23.3	14.6	1.3	-0.2	-0.8	-0.3
Capex	-13.6	-9.2	-21.0	-27.9	-19.6	-9.9
Free cash flow	-25.3	21.0	-4.0	-12.3	-1.5	14.5
Dividends paid	0.0	-0.1	-0.4	0.0	0.0	0.0
Other variations	10.1	-9.9	-1.8	-5.1	-5.3	-5.4
Change in net cash/(net financial debt)	-15.2	11.0	-6.2	-17.5	-6.8	9.0

Source: Company and Bankinter Securities Research

Figure 18. Balance sheet and margins

(€mn)	2016	2017	2018	2019e	2020e	2021e
Balance sheet						
Net fixed assets	96.7	107.0	121.4	145.5	160.5	165.4
Net financial assets	1.8	1.3	0.3	0.5	0.6	0.8
Operating working capital (OWC)	56.5	41.9	40.5	40.8	41.6	41.9
Other assets/(liabilities) net	7.7	9.6	11.9	11.9	11.9	11.9
Capital employed (CE)	162.6	159.9	174.2	198.6	214.6	220.0
Shareholders' equity	133.3	141.6	149.8	156.7	165.9	180.4
Minority interests	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Net financial debt	29.3	18.3	24.5	41.9	48.7	39.7
Margins (%)						
Gross margin/Sales	61.9	61.9	62.5	63.0	65.0	65.0
EBITDA/Sales	9.7	9.4	9.1	9.4	10.5	13.0
EBIT/Sales	7.3	5.3	5.5	4.6	5.6	8.1
Sales/Capital employed	99.1	105.1	103.6	92.1	91.2	94.5
EBITDA/Capital employed	9.6	9.9	9.4	8.7	9.6	12.3
ROCE	7.2	5.6	5.7	4.2	5.1	7.6
ROE	5.7	6.2	6.2	4.4	5.5	8.0
Gearing (x)						
Net financial debt/Capital employed	0.2	0.1	0.1	0.2	0.2	0.2
Net financial debt/EBITDA	1.9	1.2	1.5	2.4	2.4	1.5
EBIT/Net financial result	-54.9	8.9	14.4	10.3	13.0	20.1

Source: Company and Bankinter Securities Research

Figure 19. Main shareholders

Family Reig Jofre:	72.1%
Natra:	12.8%
Treasury stock:	0.5%

Source: Company and Bankinter Securities Research

Figure 20. Company information

Address:	Av. de les Flors 08970 Sant Joan Despí Spain
Website:	www.reigjofre.com
CEO:	Ignasi Biosca
COO:	Gabriel Roig
CFO:	Roser Gomila (+34 93 480 6710)

Source: Company and Bankinter Securities Research

Figure 21. Market ratios

(€)	2016	2017	2018	2019e	2020e	2021e
EPS (€)	0.12	0.13	0.14	0.11	0.14	0.22
% inc.	-12.3	14.8	5.3	-24.7	32.3	57.6
CFPS (€)	0.18	0.24	0.24	0.24	0.29	0.38
% inc.	-17.7	34.3	0.2	1.1	19.8	30.3
DPS (€)	0.05	0.05	0.05	0.00	0.00	0.00
% inc.	n.a.	0.0	-2.1	n.a.	n.a.	n.a.
BVPS (€)	2.05	2.18	2.30	2.41	2.55	2.77
% inc.	4.6	6.3	5.8	4.6	5.9	8.7
ROE (%)	5.7	6.2	6.2	4.4	5.5	8.0
Price (€)						
Max.	3.73	3.90	3.19	n.a.	-	-
Min.	2.52	2.24	2.12	n.a.	-	-
Last	3.12	2.34	2.28	2.44	2.44	2.44
P/E (x)						
Max.	31.7	28.9	22.5	-	-	-
Min.	21.5	16.6	14.9	-	-	-
Last	26.6	17.4	16.1	22.8	17.3	11.0
Relative	0.8	0.5	0.5	0.7	0.5	0.3
P/CF (x)						
Max.	20.9	16.3	13.3	-	-	-
Min.	14.1	9.3	8.8	-	-	-
Last	17.5	9.7	9.5	10.0	8.4	6.4
Relative	0.9	0.5	0.5	0.5	0.4	0.3
Yield (%)						
Max.	1.9	2.1	2.2	-	-	-
Min.	1.3	1.2	1.4	-	-	-
Last	1.5	2.0	2.0	0.0	0.0	0.0
Relative	2.0	2.6	2.6	0.0	0.0	0.0
P/BV (x)						
Max.	1.8	1.8	1.4	-	-	-
Min.	1.2	1.0	0.9	-	-	-
Last	1.5	1.1	1.0	1.0	1.0	0.9
Relative	0.8	0.5	0.5	0.5	0.5	0.4

Source: Company and Bankinter Securities Research

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