GLOBAL NETWORK FOR ADVANCED MANAGEMENT

INVESTMENT REPORT 2017

almirall

IE BUSINESS SCHOOL

IE Rocket Yield

Francesco Pomati
Lino Ahlering
Victor Ernesto Girones Della Sala
Vianney Delvoye
Basile Cuigniez
Shivani Choudhary
Faculty advisor: Prof Ronny Hofmann

Investment Highlights

Source: Financial Times (2017)

Almirall S.A (ALM:SM) €7.97
Bolsa De Madrid

Sector: Healthcare

Industry: Biotech & pharma

52 weeks range: €15.8 – €7.97

New management: The company changed the CEO for someone experienced in the sector in order to change the company direction.

Undervalued: The market price of the company is lower than fair value.

Global operation: Because of their global operations, the company will not suffer too much of the Catalonian crisis.

Pharmaceutical sector: Strong expectation for the pharmaceutical sector in Europe.

Refocus their portfolio: The company used to operate as a traditional pharmaceutical company in many areas, but they started to refocus their business to become a more specialised company.

Analysts expect the stock price to increase by more than 10% in the next 6months. Moreover, they business refocus and new management gives to the company a real growth opportunity.

Equity Research

Healthcare / Spanish large-cap biotech & pharma
10th November 2017

Industry view: positive
Analyst price target: 11.10
Benchmark: IBEX 35

Price (10th November 2017): 7.97
Potential Upside/Downside(%): +84.7 / +10.8

Market capitalisation: 1.38B€
Shares outstanding (million): 172.95

Dividend yield (%): 2.38
ROE (%): 5.06
ROA (%): 2.82
Debt/Equity: 0.21

Analysts forecast

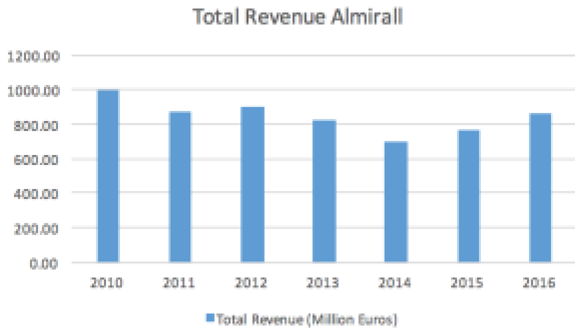
The graph below shows the Financial times analysts forecast for Almirall SA price. The median target of the 9 analysts, target €11.10 price in the next 12 months.

1. Firm Overview

Almirall is a global leading pharmaceutical company focused on skin health conditions. They research closely with help of health professionals to find different solutions to skin diseases and general skin problems. It started operations in 1943 in Barcelona, Spain and still operates in this city, further it is listed on the Spanish stock exchange with the ticker ALM. The total revenue of this company in 2016 constituted 859.3 million euros and currently has more than 2000 employees worldwide and uses a significant part of its yearly sales to research and development. As of now, Almirall has 13 subsidiaries, marketing their portfolio of products in 70 countries. The firm has two main R+D centers and two production centers.

Source: Almirall (2017)

Almirall has been suffering setbacks in the United States market in recent times, which are affecting the earnings in the present year influecing the perception of the public to the company. Also as the firm is located in Barcelona (Catalonia Region) the current political tension and instability could negatively impacting the optimal performance of the company. The current uncertain situation su may be in the process of improving, due to the appointment of a new CEO on October 1st of 2017. The former CEO Eduardo Sanchis decided to step down from the position for personal reasons and Peter Guenter has occupied the role ever since. He is a professional with big trajectory in the field that worked for the last 22 years with the pharmaceutical multinational Sanofi, occupying the role of executive vice-president. The appointment coincides with the difficulties presented during this year by Almirall and is expected to change the execution of the company's strategy.



Source: Almirall (2017)

1.1 Corporate Vision and Strategy

1.1.1 Vision

The corporate vision of Almirall is, "To be a leading specialty company with a strong focus on skin health by addressing the needs of healthcare professionals and those they help" (Almirall´, 2017). Which means that Almirall is currently striving for a differentiated role in the pharmaceutical industry, by focusing mainly on the skin segments, and tackle directly the needs of the doctors to give solutions on health risks and needs they see in this particular area.

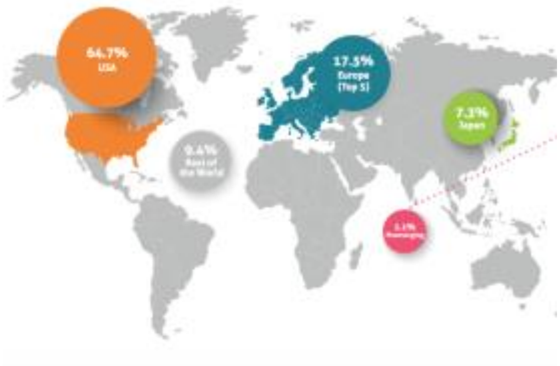
1.1.2 Strategy

Almirall's strategy, as stated in their corporate website is to accelerate growth in the dermatology and medical aesthetics while optimizing value in their portfolio of products, expanding their portfolio with R&D, growing their presence in key countries, building competitive advantage through customer affinity and lastly fostering an organization with a strong set of values: caring, dedicated, dynamic, expert.

2. Environment Analysis

2.1 Industry

The Spanish pharmaceutical sector is one of the most powerful within the domestic economy, contributing 8% to the nation's GDP in 2016. In this regard, Spain economy constitutes the 14th largest worldwide based on GDP (Global Data, 2017). As a consequence of the continuous strong performance of the Spanish pharmaceutical sector in recent years, analysts expect the sector to attain a considerable increase in valuation from 23.7 billion USD in 2016, surpassing 25 billion USD by the year 2021 (Global Data, 2017). The strong growth rates significantly contributed to lifting the Spanish pharmaceutical market to the top five European pharmaceutical economies, measured on production and distribution. Considering such valuation relative to the global pharmaceutical market, with an estimated total value of 300 billion, underlines the considerable market impact of Spanish pharmaceutical firms.



Source: Efpia, 2017

Firms such as Almirall, as well as numerous multinationals are considerably benefitting of the particular strong economic circumstances, which are characterised by a highly qualified workforce, as well as a sophisticated infrastructure for innovation, represented by state-of-the-art research facilities in Spain. The Spanish government has been additionally focusing on further nurturing economics growth in the industry by providing substantial tax incentives for research & development (R&D) expenditures. As a consequence, the Spanish pharmaceutical sector achieved a total investment volume of more than 1.2 billion € in R&D for the calendar year 2016 (Global Data, 2017).

2.2 Competition

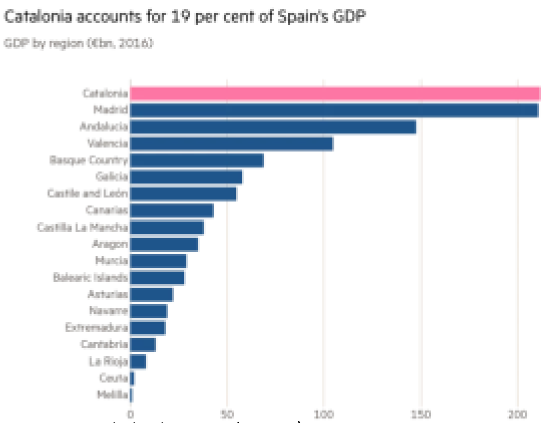
The Spanish pharmaceutical industry is concentrated to a great extent in the province of Catalonia, being home to the five largest domestic firms in the sector, namely Almirall, Esteve, Grifols, Uriach and Ferrer. Moreover, leading multinationals, amongst others, Novartis, Sanofi or Bayer have established comprehensive distribution, research and product facilities in the region (Madrid, 2016).

Due to the high fragmentation in the sector, Almirall is competing with a vast variety of pharmaceutical firms on a domestic and an international level, encompassing markets such as the United States and numerous economies on the Latin American continent. In their home market, Almirall has lost particular market share in recent years to several multinational, such as market leader GlaxoSmithKline (market share: 3.8%), Sanofi (3.6%) or Merck (3.2%) respectively (Madrid, 2016). Regardless of such adverse effects, Almirall has been able to sustain their considerable revenue growth through continuous global expansion efforts, particularly in the area of dermatologic research and development (QuintilesIMS, 2017).

In this matter, it is crucial to highlight that the majority of the domestic peer group is privately owned, while international peers operate in substantially deviating market environments (such as China), and thus not constituting an adequate benchmark. More detailed specifications on the promising investment decision can found in the *Technical Analysis* (section 3.).

2.3 Geopolitical Risks

Despite common sector risks such as adjustments to regulations, Almirall is significantly confronted with geopolitical risks in recent times. The province of Catalonia, home to Almirall's headquarters since its foundation, and in fact the wealthiest region in Spain, has been recognised for its economic strength and the substantial amount of prestigious firms that are based in this particular part of the country. However, as a consequence of the ongoing uncertainty related to the recent independence referendum, initiated by the separatist Catalonian government, several firms have foc-



Source: Global Data (2016)

used on contingency planning regarding a potential shift of their headquarters out of the region. With respect to such political risks, it becomes crucial for firms to have legal certainty, which is clearly not guaranteed by the escalating conflict between Catalonia and the Spanish government that may lead to a substantial economic, political and constitutional crisis. Nevertheless, Almirall has not made an announcement yet, regarding the strategic actions in this matter. Therefore, Almirall's management has to follow closely the political developments in order to avoid dramatic impacts on the strategic position and performance of the firm.

3. Technical Analysis

Disclaimer: All graphs below were retrieved from the Financial Times database (2017). This information can be consulted by whoever holds an account on the portal.

3.1 Bottom-Call

The most important technical judgment we made, was calling out the bottom at a market price of €7.84. We are convinced that the major correction of around 40% in July 2017, is an overreaction of the market.

We do believe that the bad news begs for a lower price goal, but not to such a grave extent. After these first days of heavy losses, **the price stabilized around the €7.84 mark, which is where we call the bottom or new support** (lower blue line). Furthermore, at this price the stock is trading around 52-week lows.

The fundamentals of Almirall are too strong to call this price justifiable. We believe the share price will move more towards a fairer, higher value. Whether or not it will be able to break the initial resistance at €10.00 (upper blue line), is anyone's guess, but our strong belief in Almirall's fundamentals definitely deem this plausible.

Source: Financial Times (2017)

Both the **Parabolic Stop-and-Reverse** at standard values as well as the 25-day **Price Channel** confirm both aforementioned support and resistance levels.

3.2 Simple & Exponential Moving Averages

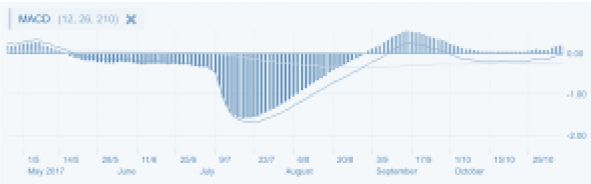
Source: Financial Times (2017)

Looking at the **15-day SMA** on a 3-month time-frame, we can clearly see that on October 27th,

two days before the initial deadline, the graph crossed the SMA, a very bullish signal.
The **25-day EMA**, confirms this break, although not to the same degree.

3.3 MACD (moving average)

Taking a look at the MACD on a 6-months horizon, it clearly shows that the stock is ready for a leg up. The initial recovery of early October was not strong enough to break key resistance levels. However, judging by the development of a new positive trend towards the end of October, we believe a considerable leg up is justified.



Source: Financial Times (2017)

3.4 Oscillators (6m Timeframe)

Analyzing two key oscillators, the **Relative Strength Index** (15-d period) and **Williams Percentage Range** (14-d period), confirm our earlier beliefs that the stock was oversold in July/August. They also confirm the support call around €7.84, by re-affirming the stock being oversold at these levels.

The oscillators also call for prudence, hinting that the stock was overbought in the first half of September when it was flirting with the €10.00 mark. They also showed that around the initial deadline, the stock was yet again in (W%R) or very close to (RSI) being oversold, another bullish sign.

Source: Financial Times (2017)

4. Ethics

Almirall is a company that works in the pharmaceutical sector and we therefore believe that ethics is a concern for the long-term profitability. The company articulates its corporate social responsibility and ethics around 4 pillars: The society, the company, the environment and the stakeholders.

Society: They believe that science alongside with patient make real solutions. They want to give to the society what the society brings to them.

Company: Almirall possesses a code of integrity where they put the customers and employees first. In that same code, the company mentioned presence of training programme to invest in they employees. Taking into account the respect of international standards, Almirall ensure the quality of their products.

Environment: Considered as an obligation to the society, Almirall ensure that they internally do more than the market norms. They claim to use efficient production process to be as ecologically friendly as possible. In order to minimize waste, the company practise the unused medicine collect for non-profit organisations.

Stakeholders: Almirall is a company where clients are first and subsequently their employees. They base they operation on long term trust and transparency between the management and the employees, the company and the client, the company and the furnishers. They think long term partnerships are the key to success.

Looking at the available information, no scandals have been found. Therefore, Almirall shows that they principle are mainly respected. This is a positive feature knowing how harmful a scandal in the pharmaceutical sector can be for that type of company.

5. Summary of Investment Thesis

Almirall SA is a **reputable pharmaceuticals** firm with **strong fundamentals**. They boast a diversified portfolio of industries and products, and have established themselves as a major global player.

We believe Almirall is an extraordinary investment opportunity on the short term for the following reasons. Firstly the **share price dropped around 40% in July 2017** due to a disappointing earnings estimates. Since then the stock has bottomed out. **Almost all the technical analysis indicators look bullish** on several timeframes. **This is in line with the price targets of several analysts** (cfr. supra).

Furthermore, the current geopolitical crisis in Catalonia, Spain, aided to the price decline. **A favourable resolution to the crisis in the coming weeks/months could relieve the stock from a lot of negative sentiment**.

As mentioned before Almirall recently appointed Peter Guenter **as new CEO**. Guenter has a proven track record in the pharmaceuticals industry and can blow a fresh wind through the organisation. We assume future action and accompanied announcements by the company, could restore faith of investors in Almirall and ultimately have a positive effect on the share price.

6. Summary of Remaining Stock Portfolio

Acerinox SA is a Spain-based company active in the steel sector. It is engaged in the manufacturing, alloy and distribution of flat and long stainless steel products. The Company's activities are divided into three business segments: Flat stainless steel products, long stainless steel products, and other stainless steel products. In production capacity, Acerinox is one of the largest manufacturers worldwide. Acerinox was presented with the award for the Best Eco 10 Index Value in model portfolios of 48 investment firms, banks and brokers which operate in the Spanish market, recognizing it as the most repeated value in investment firm portfolios in 2016.

The company grew its net income 87.27% from 42.89m to 80.32m in one year. The performance of the company has remained positive in all the markets, the major ones being Italy, Germany, Spain, China and the United States. However, in South Africa sales activities were low due to the country's situation and the falling of the rand. The stainless steel market in the third quarter was marked by falls in the prices of raw materials but an overall rise in demand of the steel which increased the production of the world stainless steel by 5%. With a P/E ratio of 14.19, it has pretty stable growth and usually a negative or no correlation with IBEX-35 on every time frame. With the reversal of the mentioned trend, we predict that the 2017 financial year will end with results which reflect the recovery of the market and improved margins.

BUY

ACX: SM

Price: 12.13 EUR

Price Performance

Market Overview

Exchange	IBEX 35
Sector	Steel
52 week price range	10.6-13.65
Market Cap	3.17 bn EUR
Share Outstanding	276.07m
P/E(TTM)	14.19
EPS (TTM)	0.3 EUR

BUY

CIE: SM

Price: 24.95 EUR

CIE Automotive is an international industrial group that manages high added value processes in two projects: Automotive and Dominion. In the automotive field, CIE Automotive designs and manufactures components and sub-assemblies involving skills in forging, aluminum injection moulding, casting, machining, plastic injection moulding and stamping technologies in close to 100 plants all over the world. Through Dominion, CIE Automotive offers multi-services and solutions that seek to maximize the efficiency of production processes through innovation. In this sphere, it works with more than 1,000 customers in over 35 countries and in different business fields including T&T, industry and renewables.

CIE Automotive, S.A. had 2nd quarter 2017 revenues of 930.63m. This was 35.46% above the prior year's 2nd quarter results. The 12 month price targets for CIE Automotive SA have a median target of 22.80, with a high estimate of 26.23 and a low estimate of 19.40. The company has a very strong negative correlation with IBEX 35 and has been trading at all-time highs. It had a steady growth in the past and the future average growth is expected to be at 15.4%. The earnings per share is in line with the industry average and has a good P/E ratio of 15.53 among its peers. It has maintained a cash flow margin of 11.96% and thus, we recommend buying this stock.

Price Performance

Market Overview

Exchange	IBEX 35
Sector	Manufacturing
52 week price range	16.26-26.2
Market Cap	3.21 bn EUR
Share Outstanding	129.00m
P/E(TTM)	15.53
EPS (TTM)	1.60 EUR

Siemens Gamesa Renewable Energy SA, formerly Gamesa Corporacion Tecnologica SA, is a Spain-based company engaged in the renewable energy equipment manufacture. The Company specializes in the promotion and development of wind farms, as well as the engineering, design, production and sale of wind turbines. Its activities are divided into two business segments: Wind Turbines and Operation and maintenance (O&M). The Wind Turbines division offers wind turbines for various pitch and speed technology, as well as provides development, construction and sale of energy plants. The O&M division is responsible for the management, monitoring and maintenance of wind farms.

Between April and September, revenues fell 12.3% while underlying EBIT came to €192 million2 with an EBIT margin of 3.8%. These results were impacted by specific onshore market conditions, including the temporary suspension of the Indian market, and impairments relating to accounting adjustments to inventories. In order to enhance competitiveness, the company has agreed a restructuring plan for a maximum of 6,000 employees (700 already announced) located in 24 countries to be implemented in the coming months. The forecast for fiscal year 2018 shows revenues of €9,000-9,600 million and an EBIT margin of 7-8%. The 12 month price targets for Siemens Gamesa Renewable Energy SA have a median target of 14.50, with a high estimate of 27.30 and a low estimate of 10.14. We believe that the restructuring should start to pay off and increase the stock price in the coming year.

BUY

SGRE:SM

Price: 11.41 EUR

Price Performance

Market Overview

Exchange	IBEX 35
Sector	Renewable Energy
52 week price range	10.15-21.02
Market Cap	7.19 bn EUR
Share Outstanding	681.14m
P/E(TTM)	12.26
EPS (TTM)	0.8606 EUR

International Consolidated Airlines Group, S.A. is an airline company that holds the interests in airline and ancillary operations. Its segments include British Airways, Iberia, Vueling, Aer Lingus and Other Group companies. The Company, through its subsidiaries, is engaged in providing airline marketing, airline operations, insurance, aircraft maintenance, storage and custody services, air freight operations and cargo transport services. The Company's brands include British Airways, Iberia, Vueling, Aer Lingus, IAG Cargo and Avios. International Consolidated Airlines Group SA had 3rd quarter 2017 revenues of 6.62bn. This was 2.02% above the prior year's 3rd quarter results. The company has reported a solid growth in the past with its target of an average EPS growth of over 12% and an annual operating profit margin between 12-15% each year. The 12 month price targets for International Consolidated Airlines Grp SA have a median target of 7.63, with a high estimate of 10.00 and a low estimate of 3.57. In-spite of the British Airways IT failure issues which knocked off its market cap in May, the group expects a full year profit to be 3b euros and hence, we believe that the growth in the coming year would be solid and hence recommend buying it.

BUY

IAG: SM

Price: 7.11 EUR

Price Performance

Market Overview

Exchange	IBEX 35
Sector	Air Transport
52 week price range	4.83-7.61
Market Cap	13.609 bn EUR
Share Outstanding	2.06B
P/E(TTM)	7.62
EPS (TTM)	0.89 EUR

References

Efpia (2017), *The Pharmaceutical Industry in Figures.*
Retrieved on 2th November 2017 from https://www.efpia.eu/media/219735/efpia-pharmafigures2017_statisticbroch_v04-final.pdf

Financial Times (2017), financial data retrieved on November 1st from https://markets.ft.com/data/equities/tearsheet/charts?s=ALM:MCE

Global Data (2017), *Spain's pharmaceutical market set to show signs of stability*. Retrieved on 2nd November 2017 from https://www.globaldata.com/spains-pharmaceutical-market-set-to-show-signs-of-stability-surpassing-25-billion-by-2021/

Global Data (2017), *CountryFocus: Healthcare, Regulatory and Reimbursement Landscape – Spain*. Retrieved on 2nd November 2017 from https://www.globaldata.com/store/report/gdhc0076chr--countryfocus-healthcare-regulatory-and-reimbursement-landscape-s

Madrid M. (2016*), Expansion - Which brands lead the sales of medicines in Spain*. Retrieved on 2nd November 2017 from
http://www.expansion.com/empresas/2016/02/09/56ba5b8546163ff65c8b457e.html

Quintiles (2017). *Global Medicines Use in 2020: Outlook and Implications.* Retrieved on 3rd November 2017 from http://www.imshealth.com/en/thought-leadership/quintilesims-institute/reports/global-medicines-use-in-2020#ims-form

Shannon, B. (2008). *Technical Analysis Using Multiple Timeframes*