

Alquiber

Buy

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Initiation of coverage: Start small, think big

The success of a family-owned company

Alquiber is a family-owned company that went public on July 11th, 2018. Its business is focused on the hiring of commercial vehicles to corporates and self-employed under the flexible rental form. After its acquisition in 2009 and subsequent restructuring, the management pursued an expansion strategy that has delivered impressive results: Sales increased +31.0% 2013–2017 CAGR, to €37.8mn, EBIT +46.1%, to €4.8mn, and net profit +45.5%, to €2.4mn. The total fleet was composed of 6,770 vehicles in 1S18.

Benefiting from the economic scenario

Both the traditional and the flexible rental (whose main difference is the possibility to return the car without penalisation) are closely related to the evolution of the economy. We estimate that each 1pp the economy grows, the renting market increases its total fleet by 3–5pp. We still expect Spain's GDP to increase +2.3% in 2019e and +2.1% in 2020e implying +13.5% and +12.8.9% rise for the total fleet.

The management, the best asset

The Chairman was the co-founder of the company bought by Northgate, the largest competitor, in 2002 and has more than 40 years of experience. The CEO and the managing director surpass 15

and 30 years of experience. Their knowledge of both the business and the clients has allowed them to design a differentiated strategy: client-centric, implying higher range vehicles and more services included for similar prices than peers, and the coordinated management of the vehicle during its life cycle: purchase, hiring and disposal.

The 2020 goal: 10,000 vehicles

The company's objective is to reach 10,000 vehicles in 2020e (+20.5% CAGR) and widen its hire-locations network to 20 from the current 12, which will probably be surpassed. We estimate that sales, EBIT and net profit may reach €67.9mn (+29% CAGR), €10.5mn (+29%) and €5.0mn (+28%), respectively.

The risks to profitability

An economic downturn and a rise in interest rates are the main threats. The first risk could even lead to an excess liquidity situation, due to the P&L-free cash flow dynamics. We consider that hikes in interest rates could be translated into prices as its highly-leveraged peers should also raise theirs.

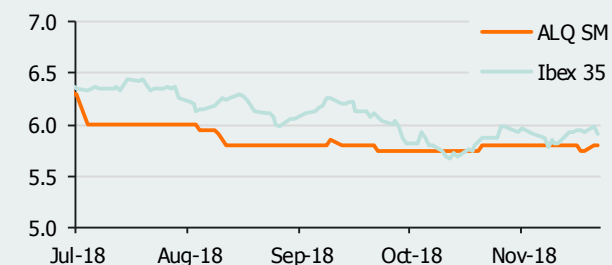
Target value Dec. 2019: €7.44

Our target value Dec. 2019 is €7.44 based on a DCF model. This target implies a +29.4% upside potential from current levels. We initiate the coverage with a Buy recommendation.

Key data (Dec., 18 17:45 CET)

Price (€)	5.75	Nº shares (m)	5.6	
Target price (€)	7.44	M. Cap. (€m)	32.3	
Upside (%)	29.4	Daily vol. (€m)	n.a.	
Ticker Bloomberg	ALQ SM	Free-float (%)	29.9	
(€mn)	2017	2018e	2019e	2020e
Net group profit	2.4	2.8	4.1	5.0
% inc.	3.0	19.5	43.6	22.6
EBITDA	17.1	22.3	29.0	36.1
% inc.	25.5	30.0	30.0	24.7
EPS (€)	0.60	0.59	0.73	0.89
% inc.	3.0	-0.6	23.0	22.6
DPS (€)	0.00	0.09	0.10	0.15
% inc.	n.a.	n.a.	8.1	43.6
P/E (x)	n.a.	9.7	7.9	6.4
EV/EBITDA	n.a.	4.3	4.0	3.8
Div. Yield (%)	n.a.	1.6	1.8	2.5
P/BV (x)	n.a.	1.5	1.3	1.1

Price performance (€)



Performance (%)

	1 m.	3 m.	12 m.
Absolute	-0.9	-0.9	n.a.
Relative	1.5	6.4	n.a.

Source: Bloomberg and Bankinter Securities Research

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Investment case: Start small, think big

Alquiber is a family-owned company whose main business is focused on the vehicle flexible rental for companies and self-employed. The flex option offers the clients the opportunity to adapt the size and composition of their fleets according to their changing needs. In addition, the company sells the used-vehicles using independent dealers. In 1S18, the company's fleet totalled 6,770 vehicles (6,724 excluding already acquired but not registered vehicles), hiring vehicles' revenues represented 85% of total and disposals 15%. After a private placement of 1,6mn shares (28.8% of total shares), the company went public in July 11th, 2018.

The renting market in Spain: A leveraged play on the economy

The Spanish vehicle renting market totalled c. 621,262 vehicles in September, 2018. Its evolution is linked to the GDP trend. Therefore, from the 2008 peak to the 2013 trough, the fleet declined -29.8%, to 401,000 vehicles. Since then, it has expanded at an annual rate of + 8.3%, or +37.5%. As we expect Spain's GDP to increase +2.6% in 2018e, +2.3% in 2019e and +2.1% in 2020e, we estimate that the vehicle renting market may expand at +13.7% 2017-2020e CAGR. The flexible rental size is estimated at 65,000-75,000 vehicles (Northgate's Capital Markets Day) and Northgate is the undisputed leader, holding c. 50% market share. Alquiber's market share stands at 8%-9%. We estimate that this sub-market will follow the same pattern of the overall renting market.

The used-vehicle market: A somewhat countercyclical market

The used-vehicle market behaves countercyclically in volume terms. When the economy deteriorates, new vehicles' sales sink, and used-vehicles market flourish. The relationship used to new vehicles jumped from 1.1x in 2006 to 2.3x in 2013. The total number of transactions only fell marginally in 2008 and 2012. Since the economic recovery began, the ratio has bounced back to 1.7x. Average prices declined -4.4% from 2008 to 2013. However, the pricing figures are difficult to compare because depend on the exact characteristics of each vehicle. The trend according to Ganvam has been positive since 2012, and the sale price compared to the manufacturer list price has increased since then in the different ages brackets analysed. The only recent "black spot" in this market is the evolution of the diesel cars' prices: The new regulations that prohibit its use in certain cities have just started pressing down prices.

Alquiber: "Much more for less"

Alquiber's success relies on the deep knowledge of the market of its management team. The Chairman, Mr. Miguel Angel Acebes, was the co-founder of the first company Northgate bought in Spain in 2002 for €52mn, Fualsa, and has more than 40 years of experience. The CEO, Ms. Marianela Acebes, joined Northgate UK after obtaining her Business Administration Degree and join the company in 2009, totalling more than 15 years of experience and the Managing Director, Mr. José Ramón Calvo worked in Fualsa and Northgate for 30 years, before joining Alquiber in 2016. Due to this experience, they designed a strategy in which clients obtain a superior vehicle with additional accessory elements and services at similar prices. This strategy has delivered impressive results: sales, EBIT and net profit have expanded at annual growth rates from 2013-2017 of +31.0%, +46.1% and +45.5%, to €37.8mn, €4.8mn, and €2.4mn, respectively. The total fleet was composed of 6,770 vehicles in 2Q18 (1,683 in 2013), they have 12 hire-locations and c. 120 employees. Shareholders' funds amount to €19.6mn and net financial debt to €55.8mn. Rental margin was 12.0% in 2017 and the profit per unit sold (PPU) was c. €2,200.

A promising future

The management will deepen on its growth strategy and aims to reach 10,000 vehicles in 2020e and open 8 new hire locations (to total 20). We believe that this objective could be surpassed. Actually, our forecasts point to 10,765 vehicles provided that the growth rate was c. 30% in 1S18. To accomplish these goals, the management team has been reinforced with 3 new people in 2016 and 2017, a new profitable niche has been discovered (the refrigerated business launched in March 2017) and a capital increase prior to be floated in the MAB has injected c. €9mn.

According to our estimates, sales may amount to €67.9mn in 2020e (+28.7% 2017–2020e CAGR), EBIT €10.5mn (+29.4%) and net profit €5.0mn (+28.1%) without considering the proceeds from the capital increase. In our estimates, we have considered an increase on the average rental of +1.9% annually derived from the change on the mix of products, a maintenance of the operating costs at 32.5% of rentals, a depreciation rate of 18% for the vehicles and an average disposal age of the vehicles of 45 months. Recall that 1S18 results include €0.4mn related to the listing that are non–recurrent.

We initiate our coverage with a Buy recommendation and a €7.44 target price (Dec., 2019)

We have obtained a target value December 2019e of €7.44n using a DCF model, with fair conservative assumptions (15% cost of equity, 5% cost of debt and 0% growth rate). The company is trading at an average discount of 21.1% compared to the peer group (composed by six companies) and to Northgate, which is its closes peer. Our valuation implies a +29.4% upside potential from current levels.

The weaknesses and the threats: The financial leverage, an economic downturn and the diesel

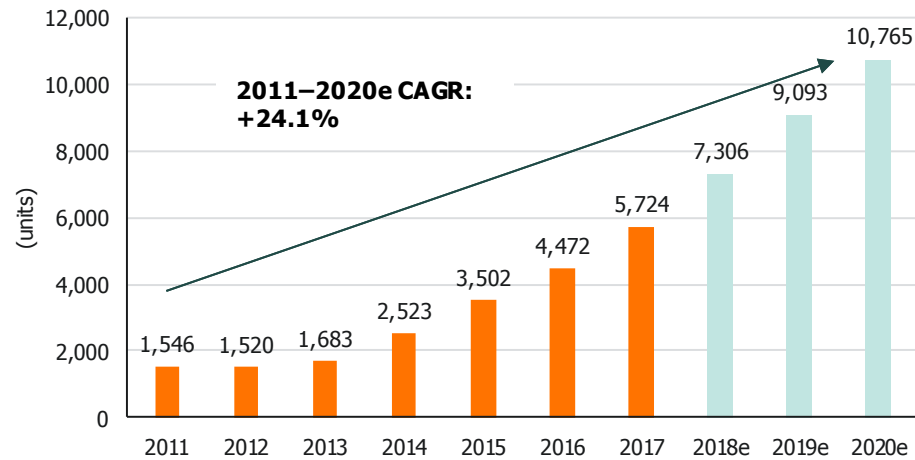
The main weakness of the company is the financial leverage, in our opinion. Net financial debt has soared to €50.8mn in 2017 and will jump to €104.5mn in 2020e due to the expansion plan. These figures imply a NFD/EBITDA ratio of 3.0x and 2.9x for 2017 and 2020e and a NFD/Shareholders' funds ratio of 4.9x and 3.6x, respectively. The capital increase helped to lower the ratios.

An economic turndown is the most important macroeconomic threat for the company. However, downturns have a counterintuitive impact on the financial accounts of Alquiber. The P&L account may suffer due to a declining number vehicles on hire. However, as utilisation rate falls, the company sells a higher number of vehicles, reduces the number of vehicles acquired, and can even experience an excess liquidity contrary to the liquidity constraints it may suffer in the expansion phase. The key is to hold vehicles totally paid (older than 36 moths) and having a conservative depreciation policy. The 18% rate compares positively with the 15% rate of Northgate Spain and implies a cushion of c. €4mn or 40% of 2017 shareholders' funds. Despite the high financial leverage, we do not consider that the expected increase in rates in Europe in 2H19 represents a major risk. First, due to its financing strategy, the impact will not be fully seen until 2021; and second its competitors are also highly leveraged and consequently the most reasonable strategy for all of them will be raising prices.

The new diesel regulations are probable the most important threat for Alquiber. The problem is that, with the exception of cars, there is not alternative technology for vans or commercial vehicles. The management is actively seeking and cooperating with vehicles manufacturers to adapt its fleet to new technologies whenever they are available.

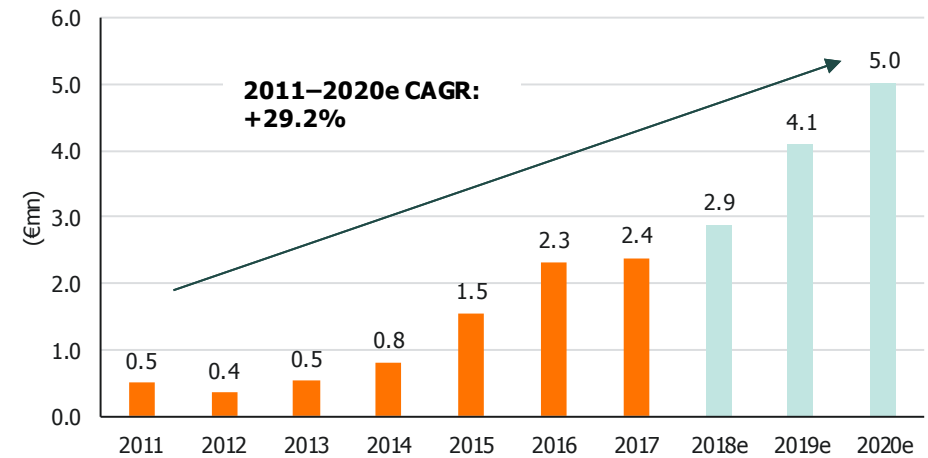
Alquiber, at a glance

Figure 1. Total fleet



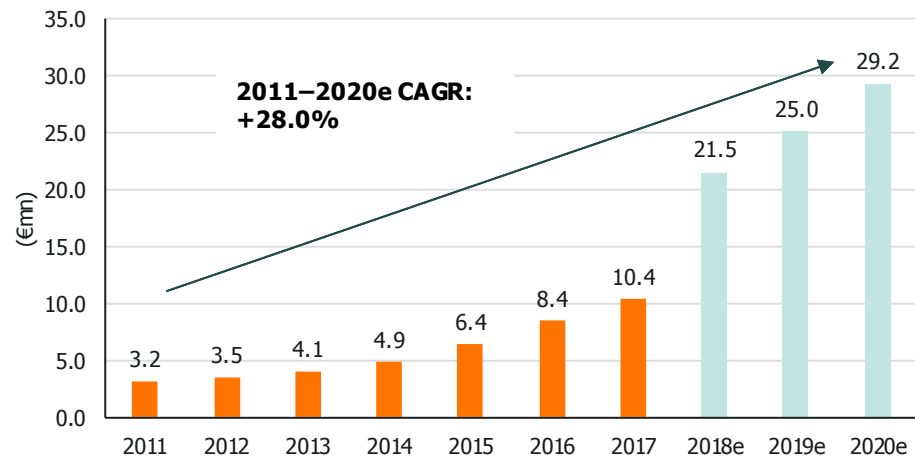
Source: Company and Bankinter Securities Research

Figure 2. Net profit



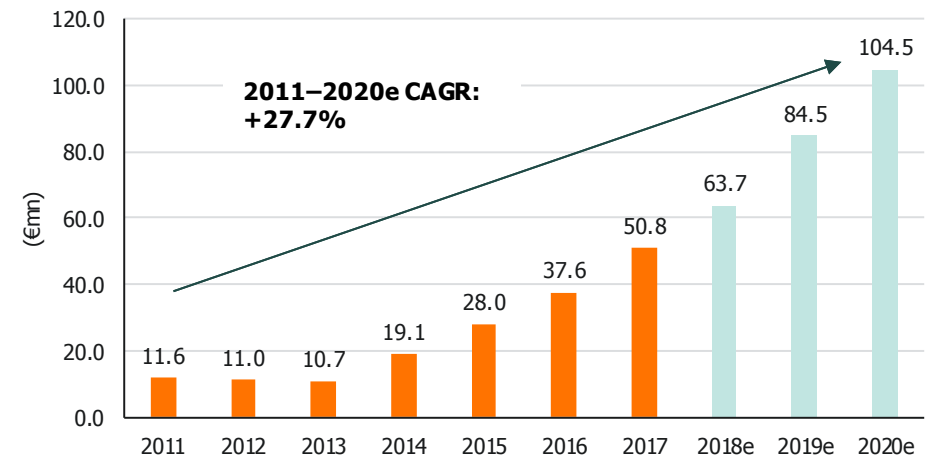
Source: Company and Bankinter Securities Research

Figure 3. Shareholders' funds



Source: Company and Bankinter Securities Research

Figure 4. Net financial debt



Source: Company and Bankinter Securities Research

Alquiler: The success of a family owned company in the flexible rental market

Alquiler's core business is the hiring of cars, light commercial vehicles (LCV) and trucks, under the flexible rental framework, whose revenues represented 84% of total in 1H18. In addition, the sale of used cars accounted for 16% of revenues.

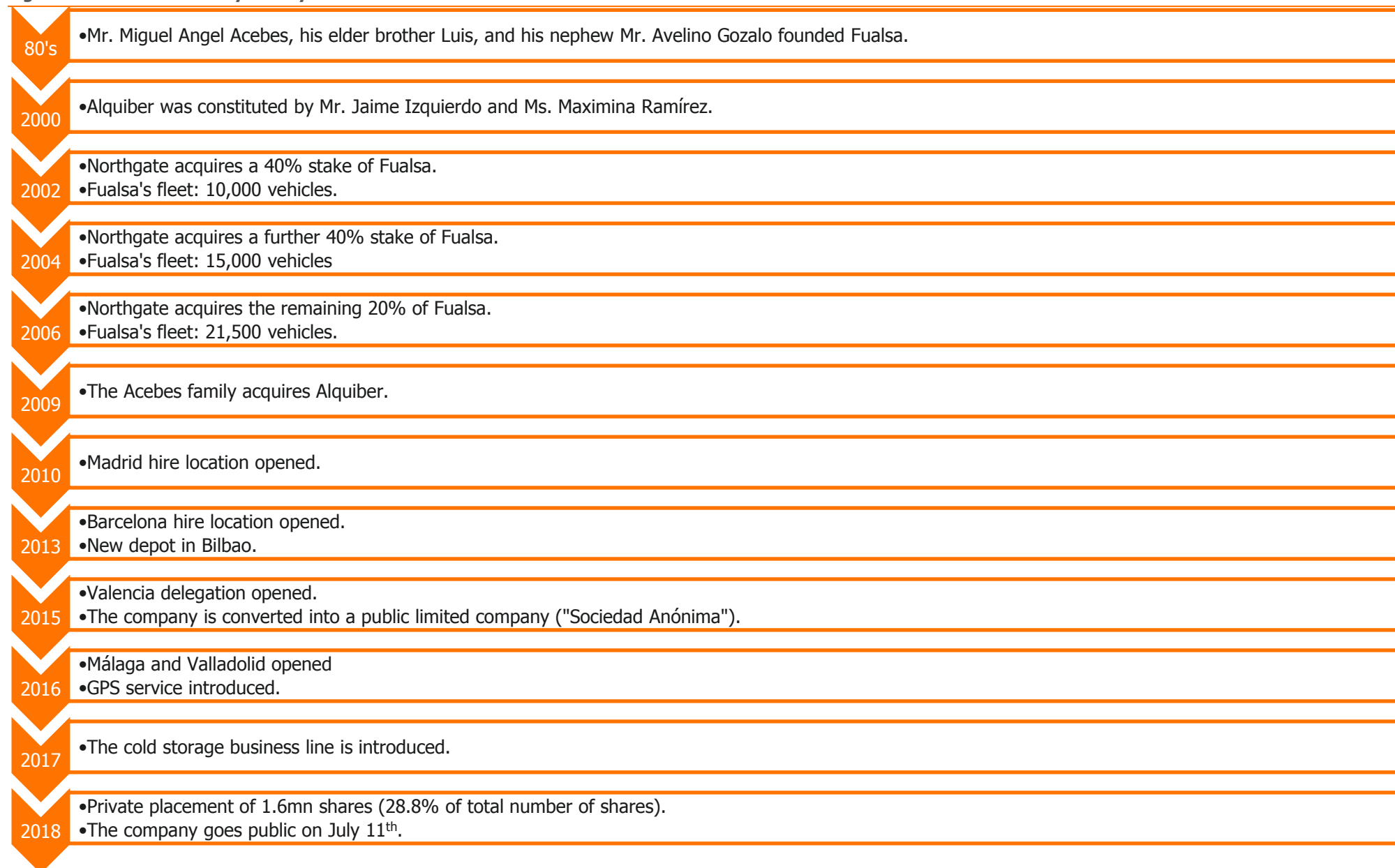
Alquiler is controlled by the Acebes family that owns a 70.1% stake. They bought a 92% stake of the company in 2009 and subscribed a put option for the remainder 8% that was executed in 2014. Prior to the private placement that took place in June, 2018, Mr. Miguel Angel Acebes, chairman of the company, owned a 60% stake, Ms. Marianela Acebes, his daughter and CEO of Alquiler, held a 20% stake and Mr. Miguel Acebes, his son and still a student, owned the remaining 20%.

The Acebes family has a long-standing relationship with the vehicle rental business. Back in the seventies, Mr. Acebes senior joined Alsinco (currently Leaseplan) and Dial that were companies involved in this business. In the eighties, Mr. Acebes, his elder brother, Luis, and his nephew, Mr. Avelino Gozalo, founded Fualsa, a company fully focused on the flexible rental business to corporate customers. From scratch, the company became one of the leaders in the sector and by 2002, when a 40% stake was sold to Northgate, it had already reached a fleet of 10,000 vehicles. In 2004, a further 40% stake was sold to the British company and it reached 15,000 vehicles. In 2006, and with a total fleet size of 21,500 vehicles, the remaining 20% stake was sold and Mr. Miguel Angel Acebes, who had stayed as CEO, left the company.

After the non-concurrence agreement expired, Mr. Acebes bought the aforementioned stake in Alquiler. Alquiler was a small car renting company founded in 2000 and based in Burgos that was suffering from operating and financial problems. His daughter, Marianela, joined the company after gaining professional experience in Northgate. From 2009 to 2011, they concentrated on the operating restructuring of the company and the headquarters where moved to Madrid. Since 2012, the management focused on growth. The fleet grew at a +35.8% CAGR in the 2013–2017 period, to reach 6,770 vehicles in 2Q18, from just 1,520 in 2012. In order to improve the service provided to its customers and enhance client relationships, the company opened 12 hire locations in Spain, specifically in Madrid (2010), Sevilla (2011), Bilbao and Barcelona (2013), Valencia (2015), Málaga and Valladolid (2016), Santander (2017) and Vigo, Murcia and Valdemoro (2018). We estimate that its current market share stands at 9%, having increased from 2% five years ago, according to our calculations.

Since 2015, the owner and the management implemented the necessary changes to become public. Firstly, the growth strategy allowed the company to become large enough to be an investable small cap. Secondly, the company was transformed from a limited liability company (Sociedad Limitada) to a public limited company (PLC or Sociedad Anónima). Thirdly, a Board of Directors compliant with the good corporate governance principles was appointed. Fourthly, BDO, one of the largest auditing firms after the big four was appointed in 2014. And finally, the management was reinforced after hiring three senior executives from the sector.

The figures of the 2013–2017 period were impressive: Revenues, EBITDA, EBIT and net profit rose by +31.0%, +31.0%, +46.1 and +45.5% respectively. 2017 ROE reached 26.4%, rental margin stood at 12.0% and PPU (profit per unit sold) amounted to €2,011 confirming the conservative accounting approach of the company. These figures have been confirmed in the 1H18 results: Sales +24.3% of which rental sales +31.1%, adjusted EBITDA (excluding the listing costs of 0.4mn) +28.3%, adjusted EBIT + 10.9% and adjusted net profit +13.0%.

Figure 5. The Acebes' family history in the flexible rental market

Source: Company and Bankinter Securities Research

The private offering prior to the MAB listing

Figure 6. Key terms of the offering

Issuer	<ul style="list-style-type: none"> Alquiber Quality, S. A.
Offer structure	<ul style="list-style-type: none"> Capital increase in a private placement. There are no selling shareholders at the offering.
Offer size	<ul style="list-style-type: none"> Primary offering of 1,614,783 shares at €5.75 per share. Total number of shares after the capital increase: 5,614,783 shares.
Listing	<ul style="list-style-type: none"> Spanish alternative market–MAB ("Mercado alternativo bursátil).
Distribution	<ul style="list-style-type: none"> Institutional and qualified investors. 2.7x oversubscribed
Lock–up period	<ul style="list-style-type: none"> Acebes family (the controlling shareholder): 3 years both in the management and as shareholders.
Syndicate	<ul style="list-style-type: none"> Global co–ordinator and bookrunner: Bankinter, S.A. Agent: Bankinter, S.A. Nominated advisor: Deloitte Legal advisors: Baker Mackenzie and Garrigues Due diligence: KPMG Auditor: BDO

Source: Company and Bankinter Securities Research

The flexible rental market in Spain

The flexible rental business consists on the hiring of vehicles to other businesses on an open basis, enabling fleet managers to vary the size and composition of the vehicle fleet as their needs evolve. We believe that, prior to analyse the flexible rental market in Spain, it is relevant to review and distinguish between the different possibilities of hiring/purchasing a vehicle that are available in the market. Each type has different characteristics and serve different needs.

The vehicle usage alternatives

Nowadays, companies have myriad alternatives to solve their transportation needs, from an outright purchase to short-term rental. Each alternative cope with different goals and provides fleet managers with the necessary tools to manage the cost-flexibility binomial. Of course, the higher the flexibility, the higher the cost.

The main alternatives are the following:

- **Short-term rental:** It usually lasts from a few hours or days to up to a year. Companies use this alternative to address immediate capacity constraints or need for replacement of vehicles during maintenance/service. The user hires a vehicle from within the range of vehicles offered by the rental company, which is also responsible for the servicing and maintenance of the vehicle.
- **Medium-term/long-term rental:** It usually lasts from 1 month to 60 months and serves to similar purposes than the short-term rental, ie. meeting seasonal demand or meeting demand or production fluctuations. Vehicles can be fully tailored to customer requirements. Two different possibilities are available: (a) **contract hire**, and (b) **flexible rental**. The main differences between these two alternatives are: (a) mileage penalties, (b) the ability to flex the vehicle fleet size, and (c) early termination costs. The rental company is responsible for service and maintenance in both alternatives.
- **Long-term rental:** There are also two options: (a) **leasing** and (b) **renting** (or full service operating leasing). In Spain, the law regulates specifically leasing contracts, which only apply to financial leases. Both focus mainly on the provision of finance for obtaining a specific vehicle and providing an alternative to own purchase. The main characteristics of a leasing are: (a) a call option is included, (b) only companies or self-employed can use this alternative, (c) its minimum duration is two years, (d) servicing, maintenance and insurance are not included, (e) the contract cannot be cancelled until the third year and the lessor incurs in costs due to early termination, (f) the lessee maintains the property of the car until the call option is executed, and (g) a financial company has to be included to draw up the contract. A renting contract is an operating lease whose main characteristics are: (a) a call option is not included, (b) both individuals and companies can enter the contract, (c) its duration is more flexible, usually from 12 months to 60 months, (d) service, maintenance are usually included, (e) a cancellation policy may be agreed although the lessor may incur in costs, and (f) the renting company owns the car and bears the residual market risk.

Figure 7. Vehicle hiring: types

	Short term Rent-a-car	Contract hire	Medium term Flexible rental	Leasing	Long term Renting
Duration	From 1 day		From 1 month to 60 months	From 24 months	From 12 months to 60 months
Lessor	Individuals and companies	Individuals and companies	Individuals and companies	Self-employed and companies	Individuals and companies
Lessee	Not regulated	Not regulated	Not regulated	A financial institution	No regulated
Vehicle	Used Non-customised	New or used Customised	New or used Customised	New Customised	New Customised
Property	Rental company	Rental company	Rental company	Financial institution until the execution of the call option	Rental company
Residual market risk for the lessor	No	No	No	Yes	No
Cancellation policy	No penalty	Penalty	No penalty	Penalty	Penalty
Maintenance and insurance	Included	Included	Included	Excluded	Included
Mileage	Unlimited/Limited	Limited	Unlimited	Limited	Limited
Major players in Spain	Enterprise Europcar Furgocar Furgoline Hertz Telefurgo		Alpharent Alquiber Carflex Northgate Reflex	Financial institutions	ALD Automotive Alphabet Arval Leaseplan Financial institutions Car makers

Source: *Bankinter Securities Research*

The main difference for the client between flexible rental and fixed or financial renting is the lack of early termination costs that the former offers. This feature provides the company with the ability to adapt the size and the composition of the fleet to its varying needs. They also differ in the type of vehicle hired: while the financial renting offers a specific new vehicle chosen by the lessor, the flexible rental offers vehicles from its own fleet that can be either new or used. All other features are similar, including the customization of the vehicle, or the maintenance and insurance.

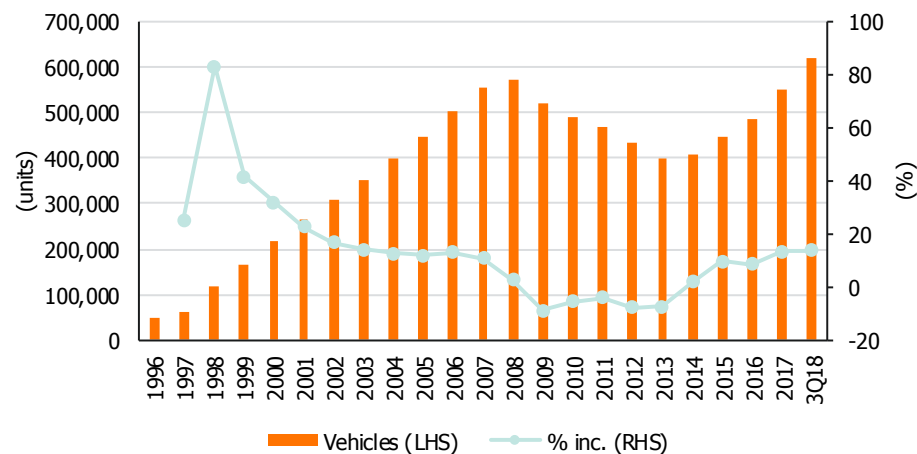
The differences between flexible rental and leasing are wider: from the vehicle itself, to the cancellation policy or the contracting parties. In addition, lessors have to account the leasing contract in their accounts (both in assets and liabilities) while the renting contract does not affect the balance sheet although the implementation of IFRS 16 for quoted companies may modify this feature for renting contracts whose duration is longer than 12 months.

The renting market in Spain

The vehicles rental market in Spain accounted for 621,262 vehicles in 3Q18 that represented just 2.0% of total Spain’s vehicles. In 2007–2013, the crisis period, the renting fleet declined –27.9%, to 401,190 vehicles in 2013. Since then, it has increased at a +11.8% CAGR, to c. 630,000 vehicles estimated in Dec., 2018. New vehicles acquired using the renting model amounted to 209,955 in 9M18, or 17.2% of total registrations. The renting vehicles have continuously augmented its weight over total registrations, from a negligible 2% in 1996 to current figures. The crisis provoked a downturn in the new acquisitions that dropped below the 100,000 threshold and only represented 9.0% of total registrations in 2009.

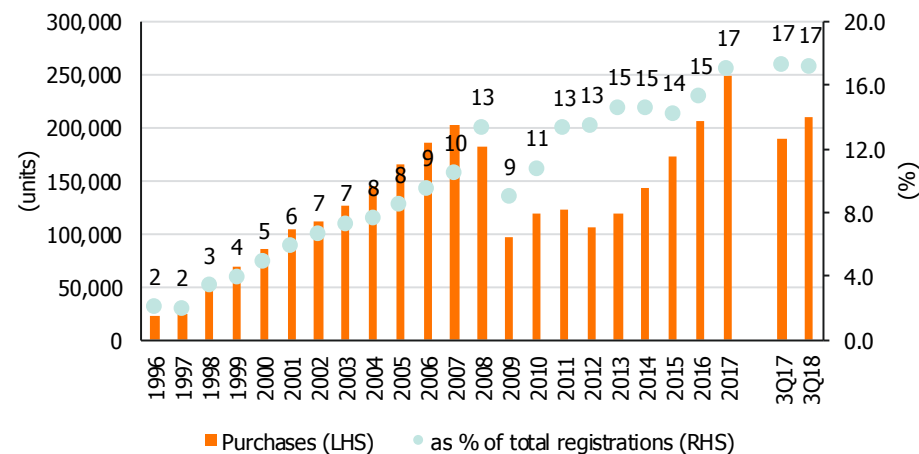
The vehicles renting has become increasingly popular in the small cap and individuals’ segments in the recent past. Total number of clients rose at a +36.3% 2015–3Q18 CAGR, to 130,305 clients. The individuals segment led the ranking (+73.8% CAGR) while large companies were the laggards (+12.0%). Total number of vehicles increased at a +12.7% CAGR in the same period implying that the average fleet size declined to 4.8 vehicles per client in 3Q18 from 8.1 in 2015. The average fleet size dropped across the board, being the reduction in the large companies’ average fleet the most remarkable fall: to 131.1 vehicles in 3Q18 from 153.2 in 2015. We believe that the underlying reason of this trend is the smaller size of the new entrants in the market rather than the fleet reduction on existing clients. The weight of the different segments in the total fleet is also changing. Small sized companies and individuals have increased their weight by 4.4pp and 5.4pp, to 19.3% and 7.7% respectively. On the other hand, large companies reduced their weight by –9.7pp, to 52.0% in 3Q18.

Figure 8. Spain: Vehicle renting total fleet (1996–3Q18)



Source: AER (Spanish Association of Vehicles Renting) and Bankinter Securities Research

Figure 9. Spain: New renting vehicles (1996–3Q18)



Source: AER and Bankinter Securities Research

Figure 10. The renting market in Spain

	Number of clients			Total fleet			Average fleet per client		
	2016	2017	3Q18	2016	2017	3Q18	2016	2017	3Q18
Units									
Small sized companies (1 to 4 vehicles)	48,711	60,530	71,753	81,728	99,005	119,733	1.7	1.6	1.7
Medium sized companies (5 to 24 vehicles)	8,290	9,365	9,987	86,645	96,890	105,726	10.5	10.3	10.6
Large companies (more than 24 vehicles)	2,170	2,330	2,467	280,401	302,312	323,358	129.2	129.7	131.1
Public administrations				20,680	22,465	24,343			
Individuals	16,694	29,530	46,098	17,032	31,058	48,102	1.0	1.1	1.0
Total	75,865	101,755	130,305	486,486	551,730	621,262	6.4	5.4	4.8
% increase									
Small sized companies (1 to 4 vehicles)	31.5	24.3	25.5	23.0	21.1	29.1	-6.5	-2.5	2.0
Medium sized companies (5 to 24 vehicles)	24.5	13.0	9.8	17.7	11.8	13.8	-5.5	-1.0	2.3
Large companies (more than 24 vehicles)	20.2	7.4	6.5	1.4	7.8	4.3	-15.6	0.4	1.0
Public administrations				1.2	8.6	8.9			
Individuals	65.5	76.9	84.3	61.6	82.4	82.7	-2.3	3.1	-0.8
Total	36.5	34.1	39.2	8.7	13.4	14.1	-20.4	-15.4	-12.1
% of total									
Small sized companies (1 to 4 vehicles)	64.2	59.5	55.1	16.8	17.9	19.3			
Medium sized companies (5 to 24 vehicles)	10.9	9.2	7.7	17.8	17.6	17.0			
Large companies (more than 24 vehicles)	2.9	2.3	1.9	57.6	54.8	52.0			
Public administrations				4.3	4.1	3.9			
Individuals	22.0	29.0	35.4	3.5	5.6	7.7			
Total	100.0	100.0	100.0	100.0	100.0	100.0			

Source: AER and Bankinter Securities Research

We should highlight the different breakdown according to the propulsion technologies between the renting new fleet and total registrations. In the renting market, diesel vehicles represented 64.2% of total compared to 44.8% for the whole market. This feature is important due to the concerns regarding the future of diesel vehicles and the implementations of new regulations to ban this technology in the future.

Figure 11. The renting market in Spain (9M18)

Number of vehicles	Renting	as % of total	Registrations	as % of total
Gasoline	60,889	29.0	590,754	48.4
Diesel	134,842	64.2	547,264	44.8
BEV – Battery electric vehicle	1,099	0.5	4,526	0.4
EREV – Extended–range electric vehicles	20	0.0	125	0.0
PHEV – Plug–in hybrid electric vehicle	1,470	0.7	3,938	0.3
HEV – Hybrid electric vehicle	9,546	4.5	56,785	4.6
Other	2,089	1.0	17,792	1.5
Total	209,955	100.0	1,221,184	100.0

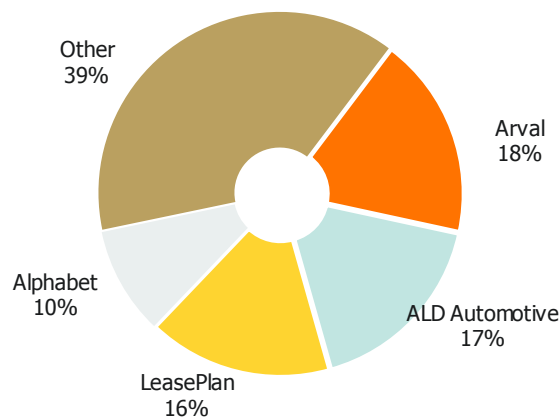
Source: AER and Bankinter Securities Research

The main players

The main players in the renting market belong to either (a) financial institutions or (b) car makers. **Arval**, a fully-owned subsidiary of BNP Paribas, is the market leader and holds c. 100,000 vehicles representing an 18% market share. **ALD Automotive**, a quoted company 80% owned by Societe Generale, has 95,000 vehicles and is the second largest group. **LeasePlan**, the third with 91,000 vehicles, was acquired in 2015 by a financial consortium (PGGM, GIC, Abu Dhabi Investment Authority amongst others) from Volkswagen and Fleet Investments. And, finally, **Alphabet**, a fully owned subsidiary of BMW Group, ranks number 4, owning 53,000 vehicles. Other players include (a) subsidiaries of financial institutions such as Bansabadell Renting, Ibercaja Renting or Santander Consumer Renting; (b) subsidiaries of other car makers such as Overlease that belongs to Renault, Toyota Renting, or Athlon owned by Daimler since 2016; and (c) joint ventures formed by a financial institution and a car maker such as FreaLeasys owned by FIAT–Chrysler and CA Consumer Finance or Free2Move Lease, whose shareholders are PSA Group and Santander.

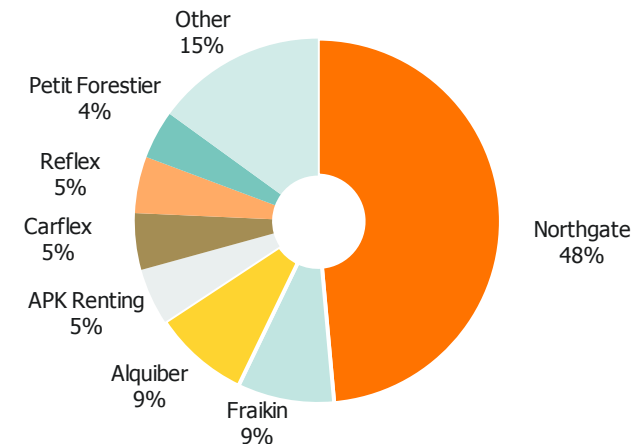
The **flexible rental market** is a niche within the renting market of an estimated size of c. **65,000–75,000 vehicles** or 11%–13% of the total renting market according to the information provided by Northgate in its Capital Markets' Day in October 2017. However, we fear that (a) there could be players whose fleets have not been included in these data, either because they are not members of AER or because they just name their business as vehicle hire, and (b) also that some of the flexible rental fleets are hire contracts or traditional renting vehicles. Anyway, after analysing the products offered by different companies, we can sustain that the origin of the players is threefold: (a) pure flexible rental companies such as Northgate or Alquiber; (b) traditional renting market companies that have diversified into the flexible market such as ALD Automotive who bought the flexible rental division of Goldcar (2015–included in Carflex) and Reflex (2018), or Alphabet who launched Alpharent in 2017; and (c) divisions or dedicated products of rent–a–car companies such as Enterprise flex–e–rent, or Avisflex.

Figure 12. The vehicle renting market: Market shares in Spain (2017)



Source: Companies and Bankinter Securities Research

Figure 13. The flexible rental market: Market shares in Spain (2017)



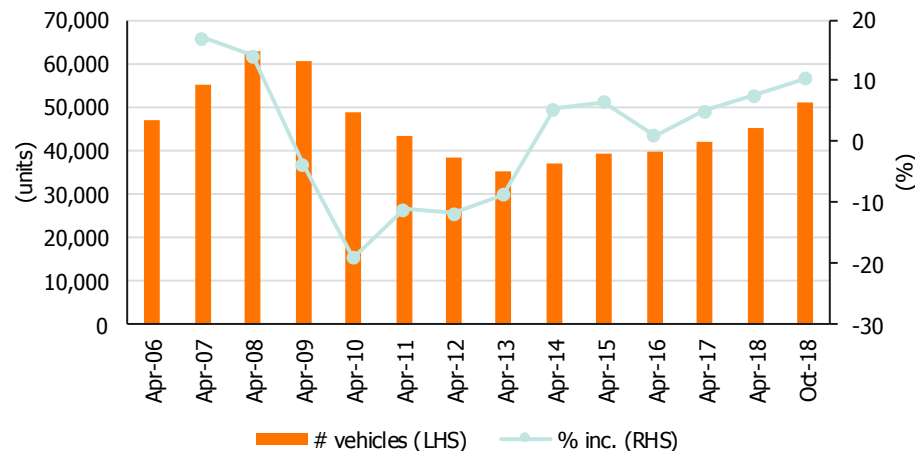
Source: Companies and Bankinter Securities Research

Northgate, the leader

Northgate is the leading commercial vehicle hire company by fleet in the UK, Ireland and Spain. They operate a fleet of over 100,000 vehicles from more than 100 sites that hire to more than 14,000 clients operating across different sectors. Their products and services include (a) flexible rental, (b) contract hire and (c) sale of used cars. Customers can choose from a wide range of vehicle makes and models, with the flexibility to switch vehicle types as their needs evolve. Furthermore, customers can tailor vehicles to their exact requirements and manage the size and composition of their fleet without penalty. They provide 24/7 support. Van Monster is the dedicated unit to the sale of used cars and operates from 30 locations in the UK and Ireland and 7 in Spain.

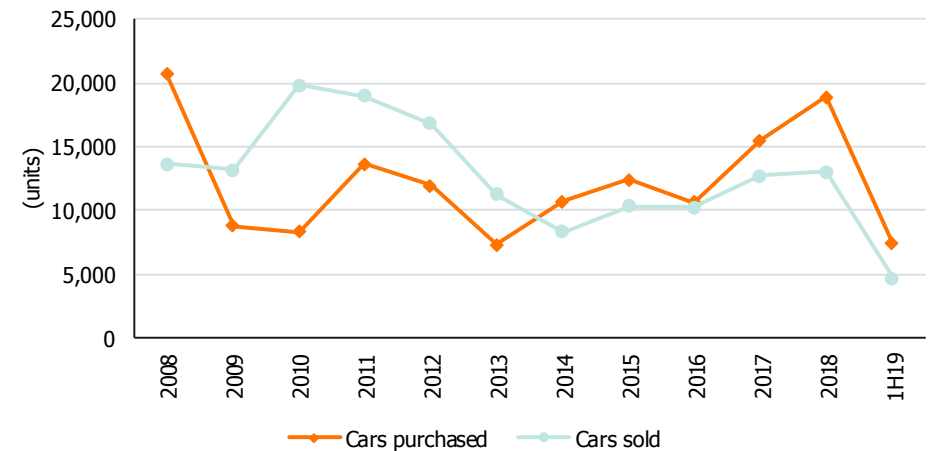
The company entered the Spanish market in 2002, when they acquired a 40% stake in Fualsa, which had 10,000 vehicles and was the second largest player in the market. The deal was fully completed in 2006, for a total consideration of c. €52mn. In 2005–2006, the group acquired Record Rent a Car for €116mn and 20,000 vehicles. The total combined fleet rose to 47,000 vehicles. The company paid an important toll during the economic crisis because 65% of its business was focused on the construction sector. After reaching a maximum of 62,750 vehicles in 2008, the management decide to reduce the size of the fleet due to the sharp fall in the utilisation level to 78% (from a medium-term average of 89%). In 2011, the two companies merged and the business was rebranded. From peak to through, the fleet dropped –44%, to 35,100 vehicles in 2013. Since then, the Spanish economic growth favoured the business and the fleet has grown to current 51,100 vehicles. In 1H19 (May to October 2018), the business obtained a total operating profit of €26.1mn (+8.4%) of which €23.8mn (+38.5%) is derived from the rental business and €2.3mn (–66.6%) comes from the vehicle disposals. The rental margin improved to 20.6% from 16.4% in 1H18 while PPU declined to €484 per car (–56.3%) due to the reduction in the annual depreciation charge.

Figure 14. Northgate Spain: Fleet evolution (2008–1H19)

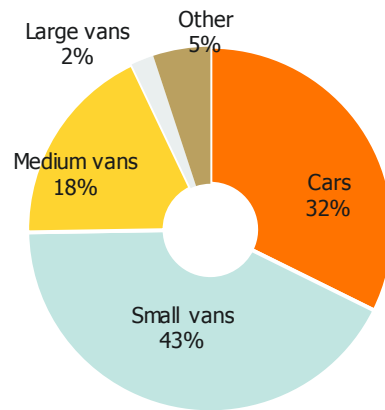


Source: Company and Bankinter Securities Research

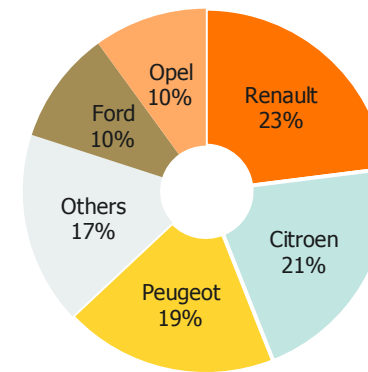
Figure 15. Northgate Spain: Vehicles purchased and sold (2008–1H19)



Source: Company and Bankinter Securities Research

Figure 16. Northgate Spain: Breakdown of the fleet by type (Oct., 2018)

Source: Company and Bankinter Securities Research

Figure 17. Northgate Spain: Breakdown of the fleet by manufacturer (2017)

Source: Company and Bankinter Securities Research

Figure 18. Northgate Spain: Selected information

(€mn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1H19
Fleet size (units)	62,700	60,400	48,900	43,500	38,400	35,100	37,800	39,400	39,800	41,800	48,000	51,100
Vehicles on hire–VOH	56,400	54,400	44,000	39,400	34,000	32,100	34,700	35,600	35,700	37,700	42,700	45,400
Utilisation rate (%)	89	83	88	91	90	90	92	91	91	91	91	91
Cars purchased (units)	20,650	8,800	9,100	13,400	11,900	7,300	10,700	12,400	10,600	15,500	18,900	7,400
Cars sold (units)	13,600	13,200	19,800	19,000	16,800	11,200	8,300	10,300	10,200	12,700	13,000	4,700
Average age (months)		25.5	27.2	25.0	21.8	22.9	24.3	23.7	23.3		19.0	20.0
P&L												
Revenue		369.6	351.9	327.7	291.0	237.8	223.9	243.1	250.1	267.7	295.5	144.8
Hire of vehicles		306.5	266.5	239.1	213.2	184.7	178.2	188.4	190.3	192.9	212.4	115.3
Disposals		63.1	85.4	88.6	77.8	53.1	45.8	54.7	59.8	74.8	83.2	29.5
Operating profit		38.9	33.9	43.1	40.8	30.8	30.4	43.0	55.8	50.3	44.1	26.1
Hire of vehicles					35.9	24.7	23.6	27.0	34.0	30.0	33	24
Disposals					4.9	6.1	6.8	16.0	21.0	20.0	11	2
Revenue per vehicle (€)					5,658	5,562	5,399	5,301	5,350	5,356	5,269	5,170
Operating margin (%)	21.8	12.7	12.7	18.0	19.1	16.7	17.1	22.9	29.3	26.1	20.8	22.6
PPU (€)					293	544	821	1,554	2,102	1,589	871	484
ROCE (%)		4.9	5.5	7.9	9.9	8.4	9.2	12.8	16.0	14.2	10.0	9.3
Investments	281.7	114.5	112.0	157.6	137.8	88.5	118.6	139.9	128.1	191.8	242.6	102.6
Disposals		63.1	85.4	88.6	77.8	53.1	45.8	54.7	59.8	74.8	83.2	29.5

Source: Company and Bankinter Securities Research

The main drivers of the sector: Economic growth and consolidation

The two main drivers of the renting market are economic growth and consolidation. Economic growth means larger fleets and larger revenues. Consolidation means theoretical premiums that could be paid for prey by the predators.

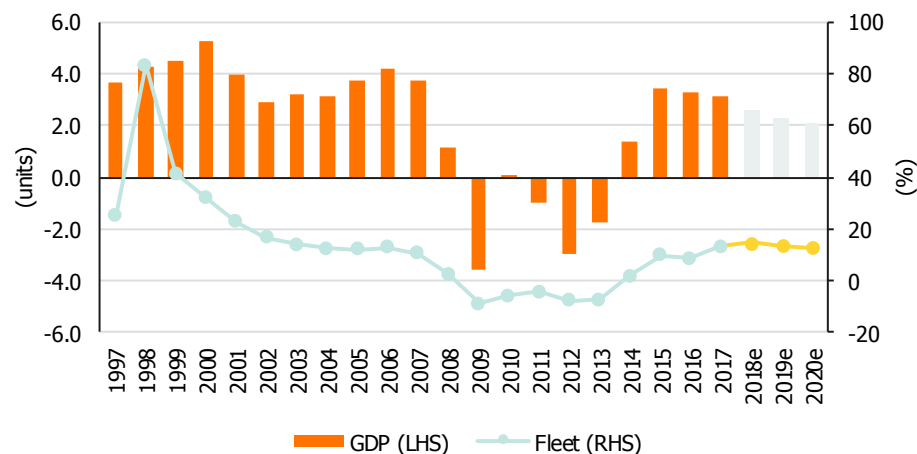
Economic growth: The Spanish GDP growth to experience a moderate slow down.

As we have mentioned, we expect GDP to grow by +2.6% in 2018e, +2.3% in 2019e and +2.1% in 2020e. After three consecutive years of economic growth higher than 3.0%, the Spanish economy is entering a new phase and would experience a moderate slow down to c. 2.0%. In our view, there are marked differences with the prior cycle as the most important imbalances have been corrected, namely, current account deficit, financial leverage of the private sector and dependence of the residential construction sector. The weaker leg is, in our opinion, the public sector whose debt has nearly reached the 100% of GDP threshold and the annual deficit is proving difficult to decline from the 2%–3% bracket.

We have analysed the relationship between GDP growth and renting total fleet variations. In economic growth periods, the fleet increases 3 to 5 times the GDP growth. In recession periods, the fall is 2 to 4 times larger than that of GDP.

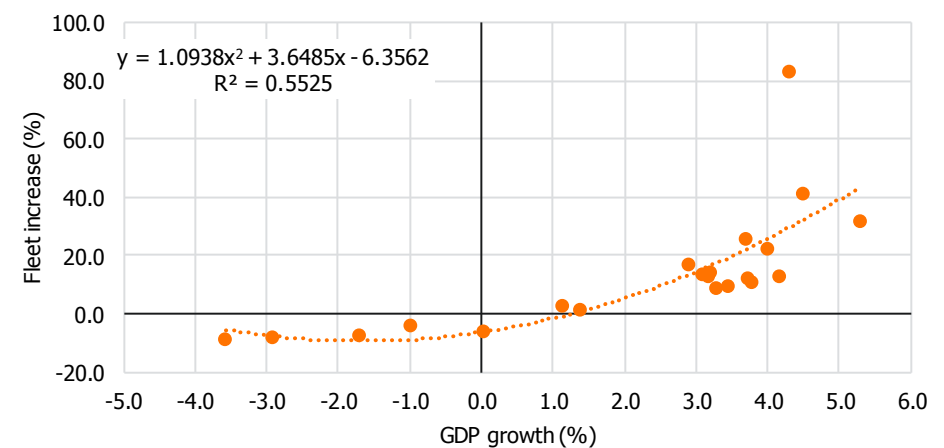
Using our forecasts for GDP growth and the relationship of the two variables, we expect the renting market to grow +14.6% in 2018e (+14.1% in 9M18), +13.5% in 2019e and +12.8% in 2020e.

Figure 19. Spain: GDP growth v. renting fleet growth (1997–2020e)



Source: AER, INE and Bankinter Securities Research

Figure 20. Spain: GDP growth v. renting fleet growth relationship



Source: AER, INE and Bankinter Securities Research

Consolidation: And the next movement could be....

The vehicle hiring market as a whole, including from the rent-a-car business to the traditional renting business, has witnessed many corporate actions in the last decade, the two last ones being the purchase of the Spanish Reflex by ALD Automotive and the acquisition of the French company Fraikin by financial investors after a conversion of their debt. Many factors can be argued as the main reasons for this movement: from the obvious argument of synergies generation when acquiring a competitor to entrance in new markets, products or niches. We argue that also the trend from being the owner of the vehicle to pay for the use of the vehicle or the "car as a service" idea is behind this movement: many players want to enter markets where there is more value added than just in the acquisition and financing of a specific vehicle or the rental of a standard car. The flexible rental market to companies and self-employed is, on our view, one of the business in all the chain that adds more value, and therefore, if a company knows the business well, it can generate excess returns compared to other segments. Recall that the management has to have knowledge of the different sector specific needs in accessory elements, has to control and predict precisely the movements in and out of its fleet, and has to price adequately all the service provided. Consequently, the flexible rental companies, usually of a small size with the exception of Norhtgate, are considered a prey for the large competitors they have upstream and downstream: from the American Enterprise to LeasePlan, one of the world's leading Car-as-a-Service companies with 1.8mn vehicles. We include in the following table some of the most remarkable transactions.

Figure 21. Transactions in the vehicle hiring & financing market

Year	Company	Country	Buyer	Seller	Price	Comments
2018	Reflex	Spain	ALD Automotive			Undisclosed amount
2018	Fraikin	France	Financial consortium		€500mn	Debt conversion by a consortium led by Alcentra and Värde Paners
2017	Goldcar	Spain	Europcar	Investindustrial	€562mn	Low-cost with 30,000 vehicles in Spain
2017	Buchbinder	Germany	Europcar		€110mn	20,000 vehicles in the low-cost car segment and a leader in vans & trucks in Germany.
2017	Centaurio	Spain	Portobello	Devesa family	Undisclosed amount	18,000 vehicles
2017	BBVA AutoRenting	Spain	ALD Automotive	BBVA		25,000 vehicles
2017	Merrion Fleet	Ireland	ALD Automotive			5,500 vehicles and number two full service leasing player.
2016	Athlon	Europe	Daimler	Rabobank	€1.1bn	250,000 vehicles in 11 European countries
2016	Parcours group	France	ALD Automotive		€298mn	63,700 vehicles of which 57,600 where operated in France
2016	MKB	Hungary	ALD Automotive			7,700 vehicles
2015	Goldcar	Spain	ALD Automotive	Investindustrial		1,600 vehicles of the renting division
2015	GE Capital Fleet Services	Europe	Arval	GE	USD2.6bn (e)	160,000 vehicles in 12 European countries.
2015	GE Capital Fleet Services	North America	Element Financial	GE	USD6.9bn	580,000 vehicles US, New Zealan, Australia & México.
2015	LeasePlan	Europe	Financial consortium	Volkswagen and Metzler	€3.7bn	1.5mn vehicles in 32 countries
2014	Goldcar	Spain	Investindustrial	Founders		32,000 vehicles in Spain
2013	BBVA Renting and Autorenting	Italy	LeasePlan	BBVA		20,000 vehicles
2013	GE Capital Fleet Services	Canada	Element Financial	GE	USD570mn	
2012	ING Car Lease	Europe	Alphabet	ING	€637mn	240,000 vehicle in 8 European countries.
2011	Commerzbank Real Autoleasing	Germany	Arval	Commerzbank		18,000 vehicles
2010	Caixarenting	Spain	Arval	Caixa	€62mn	35,000 vehicles in Spain

Source: Companies and Bankinter Securities Research

The risks: What about the diesel?

Environmental worries have led the European authorities to approve measures i.e. European Directive 2016/2284 that obliges the countries to reduce their atmospheric emissions by 2030. This reduction is related to the consumption of fossil fuels and the largest European countries have started to forbid the sale of diesel and gasoline cars from a certain date while the largest cities are banning the use of certain cars earlier. For instance, France and UK announced the ban from 2040 and Germany could implement that prohibition from 2030. European largest cities are forbidding the use of diesel and/or gasoline cars from 2018 onwards, with different timetables and depth. For instance, Oslo will ban all cars (including electric cars) from 2019, Paris and Madrid will prohibit diesel cars from 2024 and 2025 onwards, Barcelona from 2020. The prohibition varies from city to city: in some of them applies to all diesel car irrespective of its age; in other cities depend on the year of fabrication (before year 2000 for gasoline cars and 2006 for diesel cars).

As we have already mentioned, diesel vehicles represented 64.2% of total new vehicles in the renting market while they represented 44.8% of total new registrations in 9M18 while in 2017 they represented 76.3% and 53.7% respectively. Gasoline vehicles accounted for 29.0% and 48.4% (20.4% and 38.7% in 2017), respectively, while the rest of technologies were just 6.8% of total new registrations both for the renting vehicles and the total (3.2% and 7.6% in 2017). However, these figures mask the problem of the transportation business: 94.2 of the new registrations of vans, 95.9% of light commercial vehicles (LCV) and 96.0% of heavy goods vehicles (HGV) use diesel, implying that there is not an alternative.

How can flexible rental companies adapt to this risk?

For the already acquired vehicles, the main risk is a sharp drop in disposal price. In fact, according to Ganvam, the residual values for diesel cars are falling and will deepen in this trend in the forthcoming quarters. For the new vehicles, the company can opt to acquire gasoline vehicles with lower banning programmes because electric cars are not yet a solution. For instance, Alquiber has stopped buying diesel cars (unless the client requires it) and substituted them with gasoline or hybrid cars. However, for LCV or HGV there is not an available option in the market. Consequently, they will have to continue buying diesel vehicles. Who will be the vehicle manufacturer that finds a solution?

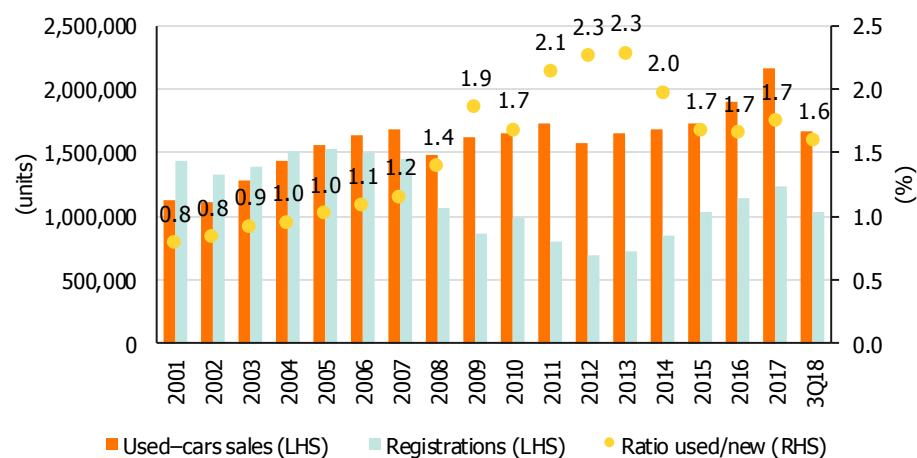
The used car market in Spain

The used car market has experienced a significant growth in the last fifteen years. According to the National Association of Vehicles Sellers (Ganvam), total number of used cars transactions was 2.2mn and represented 1.7x the total of new cars registrations (1.2mn) in 2017. In 2002, the number of used cars sold was 1.1mn or 0.8x the new car registrations, implying a +4.5% 2002–2017 CAGR compared to a –0.5% CAGR for new car registrations.

The behaviour of the used car market is countercyclical. From peak (2005) to trough (2012), the volume of new car registrations dropped –54.2%, to 0.7mn, while the used car sales rose +1.4%, to 1.6mn, boosting the ratio used car sales/new car registrations to 2.3x from the aforementioned 0.8x. In spite of this sharp increase in the ratio used/new, Spain is still the country with the lowest one: 1.7x in 2017. Historically, both UK and Germany have maintained pretty stable their ratios, between 3.1x–3.6x the former and 1.9x–2.4x the latter. Portugal and Italy experienced an important increase in this ratio since the beginning of the economic crisis in 2008: 2.1pp and 1.8pp from the lowest to the highest and, despite the economic recovery, the ratios have stabilised near their highs, 3.6x and 2.8x, respectively. Spain shows the most pronounced behaviour, both in the economic crisis period and in the recovery one. In 2007–2012, the ratio soared 1.5pp, to 2.3x while since then the ratio has bounced back again 0.5pp.

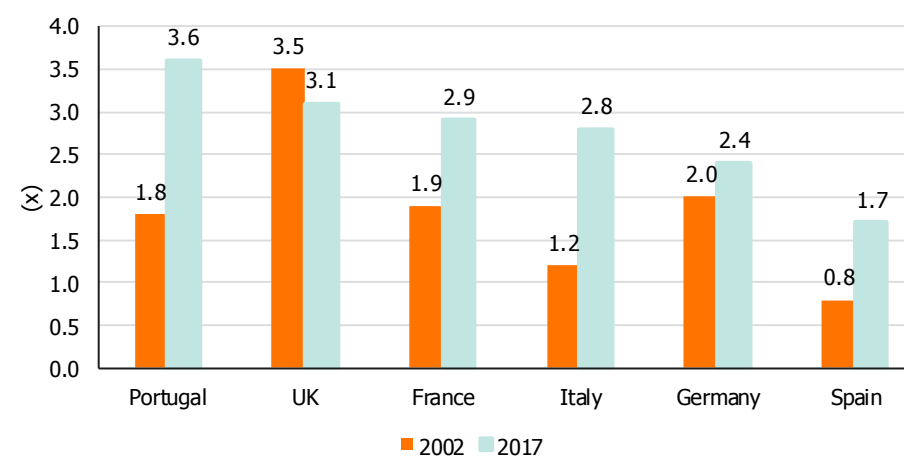
Considering our GDP estimates (+2.6% in 2018e, +2.3% in 2019e and +2.1% in 2020e) and the trends observed, we estimate that the used car sales market may grow at a +2–3% CAGR in 2018e–2020e, similar to new registrations' growth.

Figure 22. Spain: Used-car sales (2001–3Q18)



Source: Ganvam and Bankinter Securities Research

Figure 23. Ratio used-car sales over new cars registrations



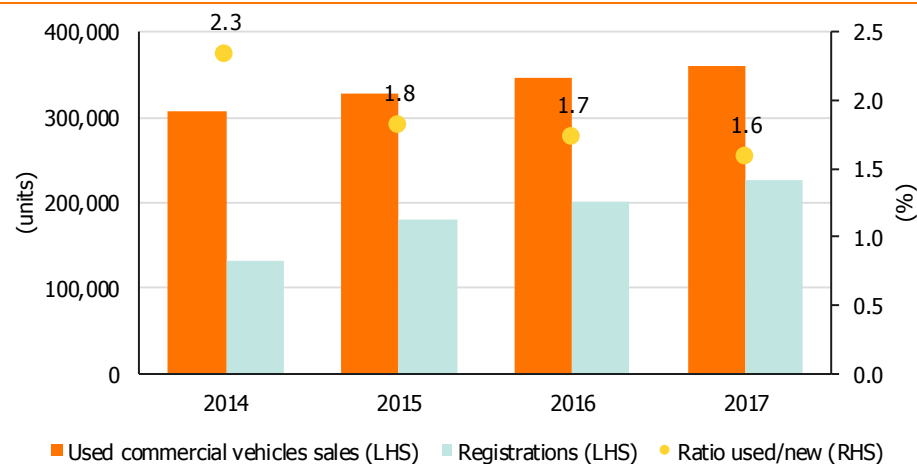
Source: Ganvam and Bankinter Securities Research

According to Ganvam, individuals sold 58% of the total used-car sales while the remaining 42% transactions was intermediated either by the vehicle manufactures or their franchised dealer networks (26%), the independent dealers (11%) and the rent-a-car companies (5%). The trend witnessed in the last fifteen years reveals an important increase in the C2C channel, from just 47% in 2002 to current 58%, and a loss in the relevance of both the franchised dealers (-11pp in the same period) and the independent dealers (-6pp). 85% of the used-cars are acquired by individuals.

The used commercial vehicles (CV) sales represent a small fraction of the used-vehicles market: some 16.7% of 2017 transactions or 360,562 sales in 2017. The overall commercial vehicles market has been very dynamic in 2014–2017, experiencing a c. +20% CAGR compared to the +13.0% of the car market in the same period. The used commercial vehicles market has lagged behind, posting just a +5.4% CAGR. Consequently, the ratio used to new shrank to 1.6x in 2017 from 2.3x in 2014. Vans and light commercial vehicles below 3.5 tonnes represented the lion's share of this market: 45% and 40% of total and their used to new ratios were 1.4x and 1.9x, respectively.

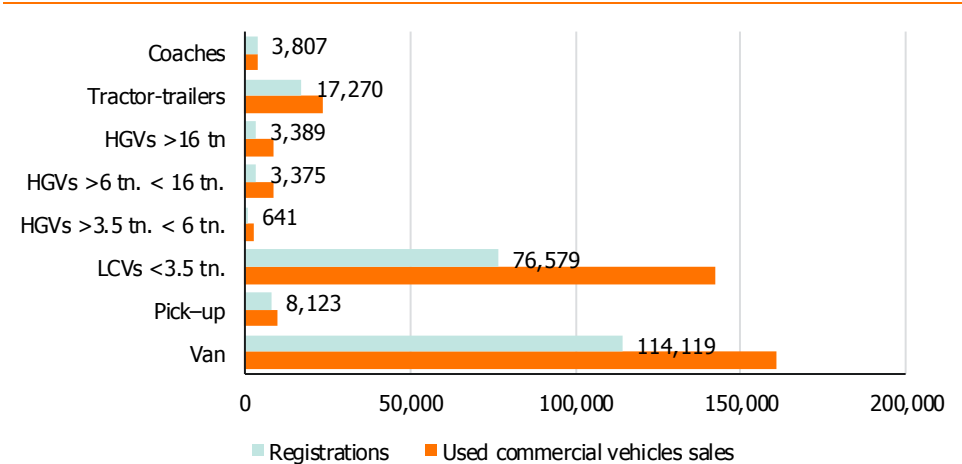
The overall vehicle park in Spain amounted to 29.8mn units in 2018, including commercial vehicles and cars. Cars represented 81% of the total park and have increased +8.7% in the last ten years while commercial vehicles fleet have remained stable at c. 5.0mn units. As we have already mentioned, it is remarkable that more than 90% of the commercial vehicles and 56% of the cars use diesel and that their weight in the overall fleet has increased until 2018 when we have witnessed a 1% drop. Although regulators would like to eliminate the diesel-propelled vehicles in a very short period of time, we believe that the transition period for commercial vehicles has to be long enough to allow the manufacturers to find an adequate solution.

Figure 24. Commercial vehicles sales



Source: Ganvam and Bankinter Securities Research

Figure 25. Commercial vehicle sales breakdown (2017)



Source: Ganvam and Bankinter Securities Research

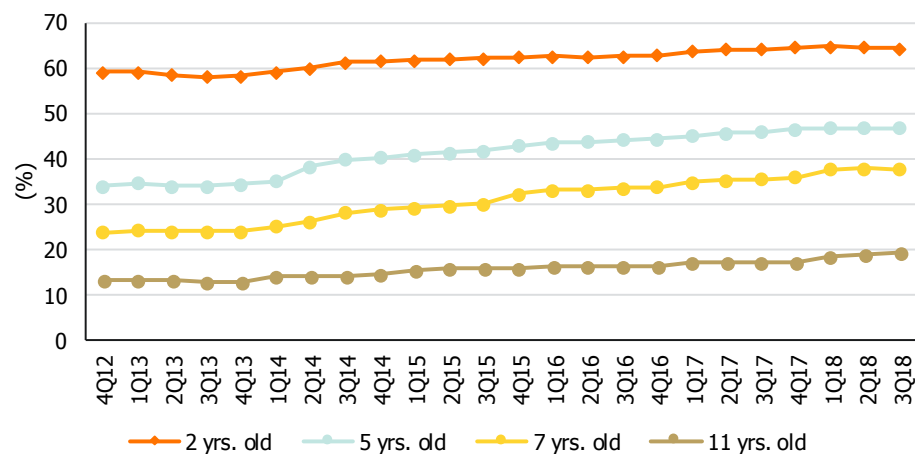
The residual value of a used-car depends on its age. In 3Q18, the average residual value (calculated as price of the transaction over price of the catalogue) was 62.2% for the vehicles of an average age of 2 years, 46.6% for the 5 years old vehicles, 37.7% for 7 years old and 19.1% for 11 years old. Although the historical information starts in 2012, we observe that the minimum residual values were reached in mid-2013, having recovered since 6.2pp, 12.6pp, 13.7pp and 6.3pp for each category, respectively. In relative terms, vehicles 7 and 11 years old have experience the sharpest increase in their residual values: 57% and 49%, respectively, while 2 and 5 years old vehicles have recovered 11% and 37%. The 2 years old bracket has had the more stable performance in the period analysed.

The bracket of vehicles older than 10 years represent 57.0% of the used-car sales and 56.6% of the used commercial vehicles sales whilst the 3 to 5 years bracket only represents 7.0% and 9.2% for each type of vehicle, respectively. It is remarkable that in the last ten years, the structure of used-car sales by age has changed, increasing the weight of both ends by +3pp and +16pp for the youngest and the eldest, respectively, at the expense of the "middle aged" car: -7pp for the 3 to 5 years old cars and -9pp for the 5 to 10 years old car. We believe that this trend was prompted by the economic crisis that Spain suffered and to the immigrants' flow that wanted cheap cars.

In the commercial vehicles market, the eldest vehicles represent a similar percentage. However, there are important differenced amongst the vehicles included under this heading: Heavy goods vehicles (HGV) older than 10 years represent more than 80% of their sales, while vans older than 10 years are only 51%.

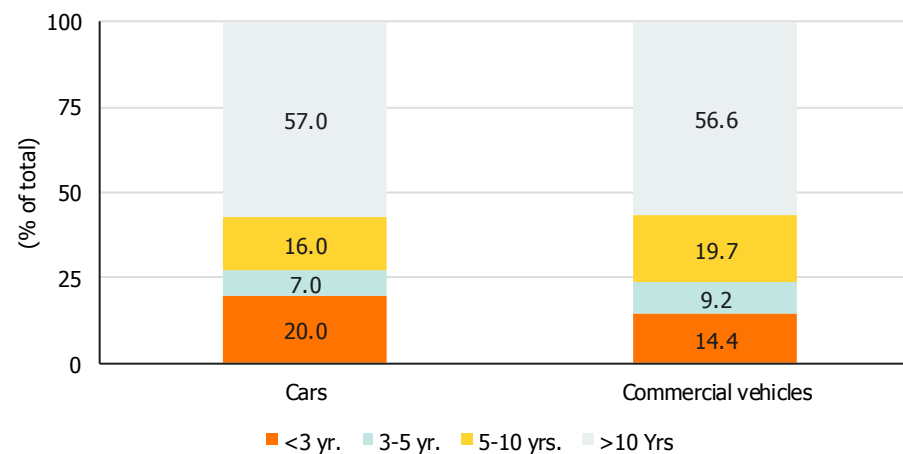
In Spain, the average age of the car fleet was 13.7 years and that of the commercial vehicles was 15.7 years. 18.6% of cars and 12.5% of CV were younger than 5 years, while 59.7% and 69.3% were older than 10 years.

Figure 26. Spain: Residual value of the used-car sales



Source: Bankinter Securities Research

Figure 27. Spain: Age of the used-car sold





Source: Bankinter Securities Research

The flexible rental companies through the economic cycle

The financial situation of a rental company, if well-managed, is counter-intuitive. When the economy grows, fleet increases and the company does not generate free cash flow and, consequently, net financial debt rises depending on the pace of growth. When an economic downturn occurs, vehicles are returned and the company sells vehicles to maintain the occupancy ratio. The key is having an adequate proportion of fully-paid cars (older than 36 months) than can be sold. If the management has been prudent, the company may enjoy excess liquidity and post decent results due to the profit on disposals despite lower hiring revenues and lower used-vehicles sale price.

Figure 28. The flexible rental companies through the cycle

Economic growth	Characteristics	High utilisation ratio. Fleet increases: car purchases are higher than car disposals. Residual value of used-vehicles increases.		The company may suffer from liquidity constraints despite strong results.
	Impact on P&L	Hiring revenue grows. Rental margin widens. PPU (profit per vehicle sold): Depends on prior accounting policy Highest ROCE and ROE		
	Impact on financial debt	Negative free-cash flow due to large investments in vehicles Increase in net financial debt		
Economic downturn	Characteristics	Utilisation rate diminishes. Fleet reductions to maintain the utilisation rate. Residual value of used-vehicles declines.		The company may enjoy excess liquidity constraints despite weak results.
	Impact on P&L	Hiring revenue declines. Rental margin narrows. PPU (profit per vehicle sold): Depends on prior accounting policy. Lowest ROCE and ROE		
	Impact on financial debt	Positive free-cash flow due to higher divestments in vehicles than purchases. Decrease in net financial debt.		

Source: Bankinter Securities Research

Alquiler: The strategy and the business – Much more for less

Alquiler is one of the Spanish leading companies in fleet management and corporate mobility in the flexible rental market. The Company operates nationwide and offers tailor-made solutions for all kinds of commercial vehicles and cars. Its main business is focused on the vehicle flexible rental for large companies, SMEs and self-employed. The flex option offers the clients the opportunity to adapt the size and composition of their fleets according to their changing needs. In addition, the company sells the used-vehicles through independent dealers. As we have already mentioned, the key difference with either the traditional renting or the contract hire is the possibility that the client has to return the vehicle without penalisation.

Alquiler hires the vehicles for a minimum period of three months and a maximum of 42 months (average 37.1 months) and the overall product comprises other services that are included in the price of the rental, namely:

- **Personal attention and assistance:** The Company provides a comprehensive advice to its clients depending on their specific needs when selecting the vehicles, managing the overall fleet or the exact terms of the contract. The sales force is highly specialised and with a deep knowledge of the products and services that they sell. Due to their expertise, the clients rely on Alquiler's sales staff.
- **Complete administrative management:** It includes services such as the management of fines or the arrangement of the fully comprehensive insurance that is dealt with a single insurance company (Generali).
- **Immediate availability of the vehicle:** The Company holds c. 400 vehicles (5.9% of 2Q18 total fleet) that are available to be delivered immediately when its clients need them. On top of that, the company supplies a replacement vehicle in the event of an accident.
- **Geolocation services (Alquiler Track):** This system allows the knowledge of the vehicles location real time nationwide. It also enables to know the daily distance travelled, the real and average speed, the routes covered or the real usage of the vehicles. The client has a better control of both the fleet and the fuel consumption, allowing for an improvement in the management of the fleet and lowering costs.
- **Product customization:** The Company customizes the vehicle attending the clients' needs. They include additional elements depending on the type of customer. Recall that the company decides about the specific vehicle that they acquire although sometimes clients choose a particular vehicle (c. 20%). The vehicles offered are usually of a superior range compared to its competitors'. The main differences are related to the horsepower (they always buy vehicles with at least a 100hp vs. 75hp offered by its peers) and the customisation (ie. demountable seats, traction control-TCS, stability control-ESP, hitch ball, winch...).
- **Own workshops:** Currently, the Company has 12 own workshops that are complemented with 3,500 arranged workshops. The aim of the Company is providing the best service to its clients and reduce the time periods of either the maintenance or the repair of the vehicles. The repair and maintenance service is considered "best-in-class" in the sector.
- **24/7 support:** The Company has an internal call centre to provide assistance service 24 hours a day and 7 days a week to solve clients' problems more quickly.

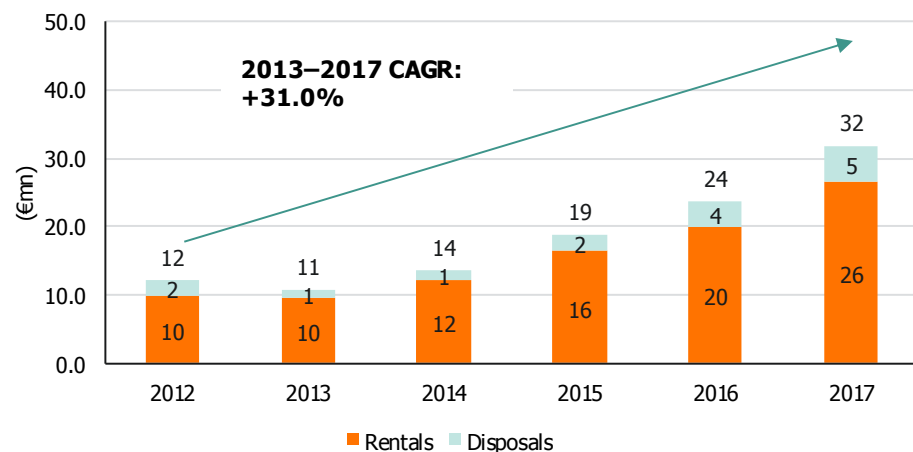
Alquiler's mission is to manage client's mobility efficiently and being socially sustainable, emphasising vehicle customisation and customer care. Its **vision** is to consolidate **its leadership in the flexible rental market of commercial vehicles in Spain**. The three key corporate values are: (a) the client as the centre of the business (client-centric), (b) the team as the key to success, and (c) the commitment as the way to progress.

The Company considers that its key competitive advantages are:

- **Focused in the flexible rental niche:** The management of this specific business differs markedly from the traditional renting because (a) the reduction of the time-periods for repair and maintenance is crucial for the utilisation rate, and (b) the need of a deep knowledge of the clients to anticipate their needs and their seasonality. These two variables have no relevance for the traditional renting.
- **Management expertise:** The Chairman has more than 40 years of experience in the sector, the CEO more than 15 and the Managing Director more than 30.
- **"Much more for less" service and product:** The rental price includes (a) fleet customisation, (b) fleet management advice, (c) a high-quality repair and maintenance service, and (d) the geolocation service (Alquiler Track). This additional services coupled with a higher horsepower vehicle are allowing Alquiler to increase its market share to current 9% from 2% 5 years ago.

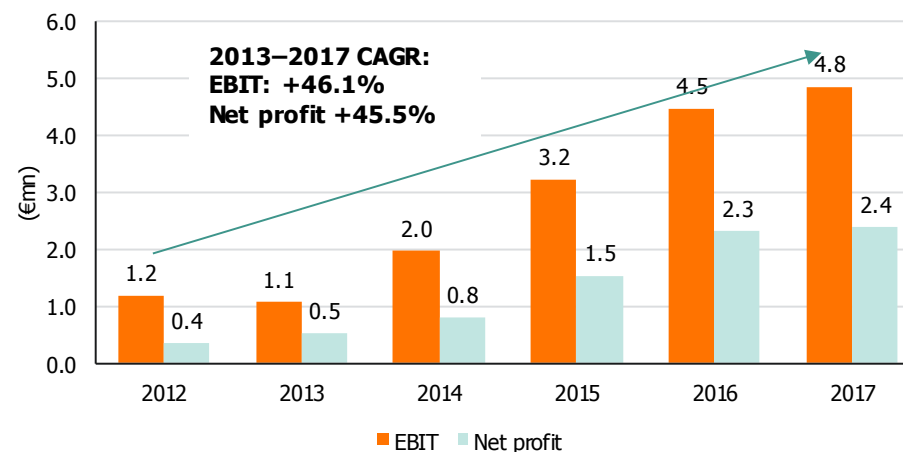
The company's goal expects to increase its fleet to 10,000 vehicles in 2020e and to open 8 additional hire locations, totalling 20. On our view, those targets will be surpassed. In 1H18, the fleet has already reached 6,770 (including 46 vehicles acquired but not yet registered) implying a +30.6% yoy growth rate. The 10,000 threshold would imply halving the cruising speed, to +16.9%. Furthermore, the additional hire locations provide additional growth: the company has already agreed three new locations that will be opened in 1Q19, totalling 15.

Figure 29. Alquiler: Total revenue



Source: Company and Bankinter Securities Research

Figure 30. Alquiler: EBIT and net profit



Source: Company and Bankinter Securities Research

Alquiber: An experienced management team–The six musketeers

The key persons of Alquiber are the 3 Executive Members of the Board of Directors (the Chairman, the CEO and the Managing Director) and three Directors (the CFO, the Overheads Director and the Used–vehicle sales Director). All of them have a long experience in the flexible rental market.

Miguel Angel Acebes, Chairman.

More than 40 years of experience in the flexible rental business. He worked for Alsinco (currently Leaseplan) prior to the foundation of Fualsa in 1980. After the sale of the company to Northgate in 2002, he worked as the CEO until 2006. In 2009, he acquired Alquiber.

Marianela Acebes, CEO.

She holds a degree in Business Administration. She worked for Northgate in UK before returning to Spain and joining the management control department of Grupo Empresarial San José, S.A. After the acquisition of Alquiber, she joined the company and worked as the CFO before becoming the CEO. 15 years of experience in the sector.

José Ramón Calvo Criado, Managing Director.

A specialist technician in Automotive, has more than 30 years of experience in the sector. He joined Fualsa in 1987 and was the hire locations responsible. After the sale to Northgate, he worked for the British company Fleet and used vehicle sales director (2002–2004) and Operations Director (2004–2015). In January 2016, he became the Managing Director of Alquiber and a Member of the Board.

Juan José Rodríguez Juste, CFO.

He holds a degree in Business Administration. From 1991 to 2015, he worked as Administration & Accounting Responsible for franchised dealers of Fiat and the Volkswagen group. In 2015, he moved to a financial consulting company as CFO. He joined Alquiber in June 2017.

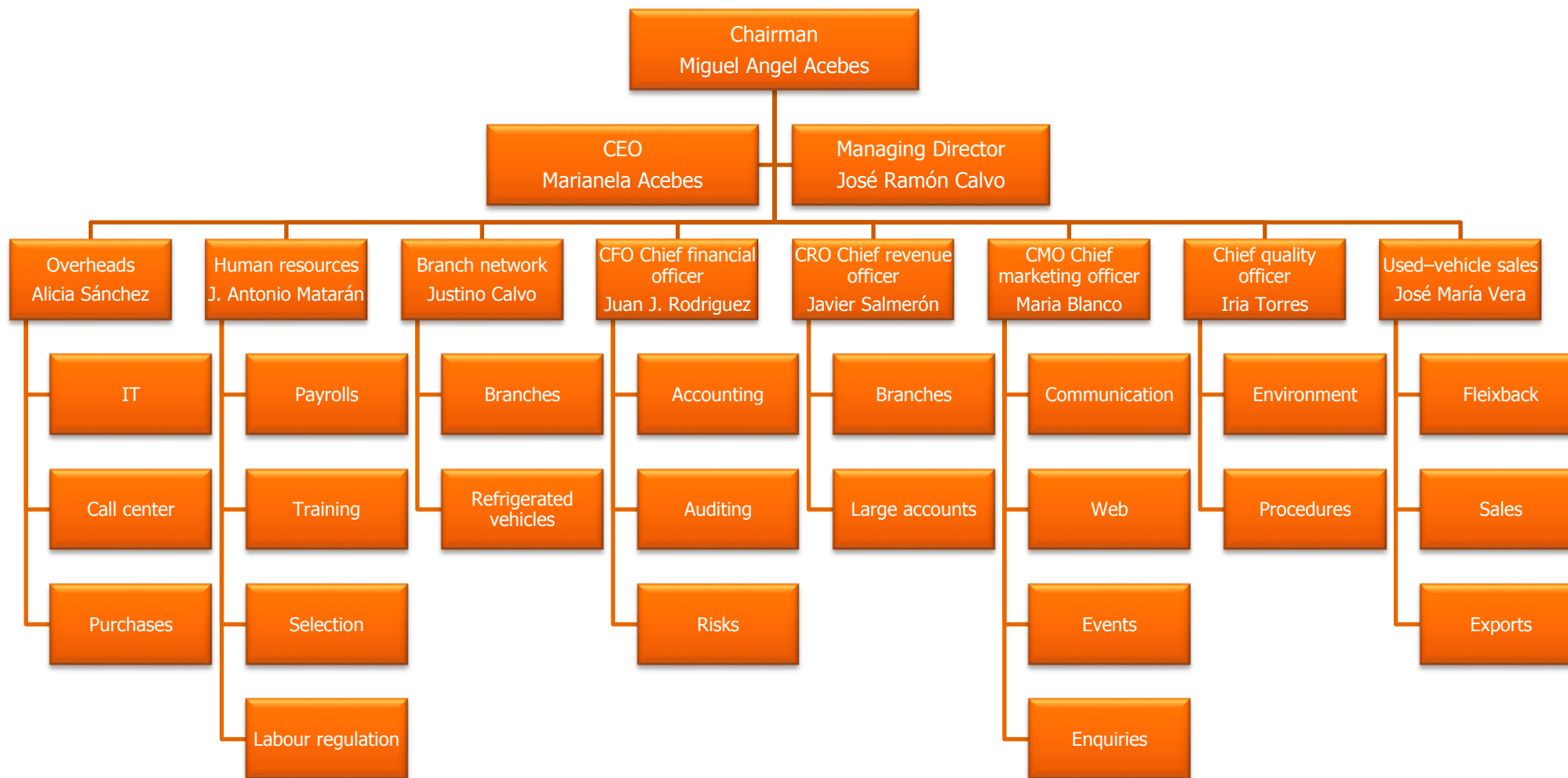
Alicia Sánchez Estevez, Overheads Director

Degree in Economics and MBA. She joined Alquiber in 2011 as Overheads Director and is the responsible of Vehicles Purchases, the fleet management and the call center.

José María Vera Guerrero, Used–vehicle sales Director.

He worked for Commercial Citroën for 25 years first as new–vehicles salesman and afterwards as Head of sales. In 2001, he became the Commercial Director of BCA, the leader company in used car remarketing with total sales higher than 20,000 vehicles. In 2011, he joined Alquiber as Used–vehicles Sales Director.

Figure 31. Alquiler: The organization chart



Source: Company and Bankinter Securities Research

Alquiber: The integrated management of the vehicle's life

Alquiber maximises its profitability due to a comprehensive management of the entire life cycle of the vehicle. The goal is to maximise the overall profitability in the three phases of the vehicle's life: purchase, hiring and selling rather than fixing individual objectives for each phase. Consequently, although its vehicles may have a higher purchase price because of the better characteristics, this feature attracts more clients for the hiring phase that become loyal and allows for higher selling prices. We summarize in the following chart the key actions to operating success:

Figure 32. Alquiber: The vehicle's life management

Purchase	Hiring	Disposal
<ul style="list-style-type: none"> ➤ Selection of specific vehicles and brand names ➤ Top tier brands: Citroën, Volkswagen, Opel, Toyota, or Renault. ➤ Fix the volume of annual purchases. ➤ Price negotiation with vehicle manufacturers. ➤ Finance the vehicles with banking institutions and brand lenders. 	<ul style="list-style-type: none"> ➤ Minimum rental period of 3 months and maximum of 60 months. ➤ New vehicles for rental periods over 18 months and used vehicles for shorter rentals. ➤ +400 vehicles permanently on stock to cover immediate delivery. ➤ Annual contract revision if there are significant modifications. ➤ "Alquiber Track": allows vehicles precise location. 	<ul style="list-style-type: none"> ➤ Optimal disposal of the vehicle between 42 and 48 months, depending on the type of vehicle ➤ Outsourced sell: The disposal of the vehicles uses independent dealers. ➤ The used-vehicles market has had stable demand and prices in the recent past. ➤ Invoice and collection before delivery to avoid avoiding default.
The keys to success		
<ul style="list-style-type: none"> ➤ Understand clients' needs: An outstanding experience is a must. ➤ Logistics and accurate forecasts for the volumes and timing of the vehicles' purchases. ➤ Always buy premium brands. ➤ Customization according to clients' needs, both present and future. 	<ul style="list-style-type: none"> ➤ Immediate availability of vehicles. ➤ Credit quality analysis of clients. ➤ Usage and fleet needs management. ➤ Vehicles fleet assessment. ➤ Proximity – own workshops. ➤ Monitoring and own maintenance of the vehicles. ➤ High occupation ratio (>90%) 	<ul style="list-style-type: none"> ➤ Management of the fleet age, looking for the optimal selling point. ➤ Own maintenance. ➤ Direct sell to dealers. No selling to the retail market. Lower prices but lower costs and uncertainty and reduction of the selling periods to just 20 days.

Source: Company and Bankinter Securities Research

Alquiler: A superior fleet

Alquiler had 6,770 vehicles in 2Q18 (6,724 excluding the 46 vehicles already acquired but not registered), or +35.8% CAGR in 2013–2017. After restructuring both the company and the fleet since the 2009 acquisition, the management pursued an expansion strategy to benefit from the Spanish economic recovery and the existence of market holes due to the weakness or the exit of former players in this market.

Broadly speaking, Alquiler's total fleet can be split in two:

- **80% of the vehicles are directly selected by the company.** They are bought from the top tier vehicle manufacturers (Citroën, Volkswagen, Opel, Toyota, or Renault) and customised afterwards in its own workshops. The deep knowledge of its clientele and their experience has helped to design ad-hoc accessory elements that are adapted for the different sectors to whom the companies belong. The company includes these enhancements in the rental price, contrary to its main competitors' strategy.
- **20% of the vehicles are special vehicles** purchased according to the specific technical characteristics that the clients request. The contracts behind these vehicles are signed with clients who have a long-term relationship and the contract duration is at least 36 months.

As we have already mentioned, Alquiler offers better cars for the same price than its competitors. The first difference is the horsepower of the vehicles offered: Alquiler's vehicles have at least 100hp compared to the 75hp that competitors offers. The second difference is customisation that includes both internal and external accessory elements.

Figure 33. Alquiler: The fleet



Source: Company and Bankinter Securities Research

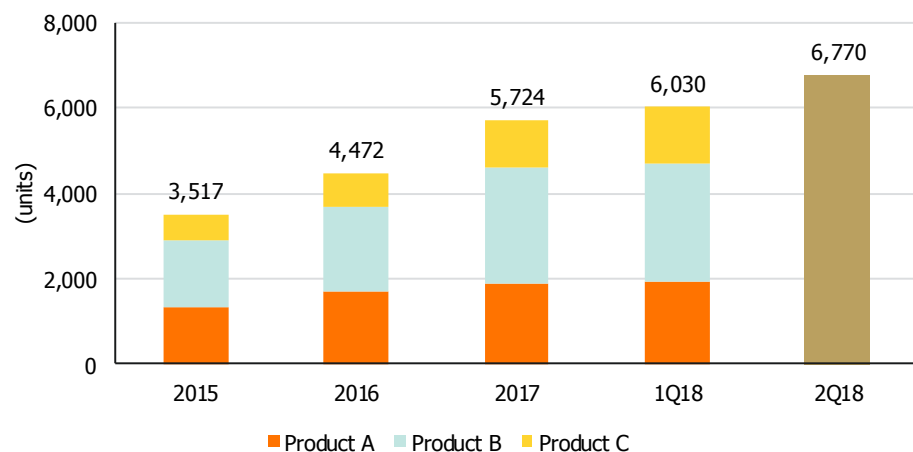
The Company groups its vehicles in three categories:

- **Product A:** Includes cars, 4x4s, SUVs (Sport utility vehicle), and pick-ups.
- **Product B:** Small vans.
- **Product C:** Medium and large vans, trucks and refrigerated vehicles.

In December 2017, Product A represented 33% of total fleet, Product B 48% and Product C 19%. However, the sales breakdown by products differed as Product A and C are more profitable than B: 35% of total hiring revenues came from Product A, 37% from Product B and 28% from Product C. The average acquisition cost of each product also varies: Product A average was €13,756 in December 2017, Product B €11,442 and Product C €18,568. According to our calculations, the average hiring revenue per vehicle and year was €5,193, €4,186 and €7,652 in 2017, respectively.

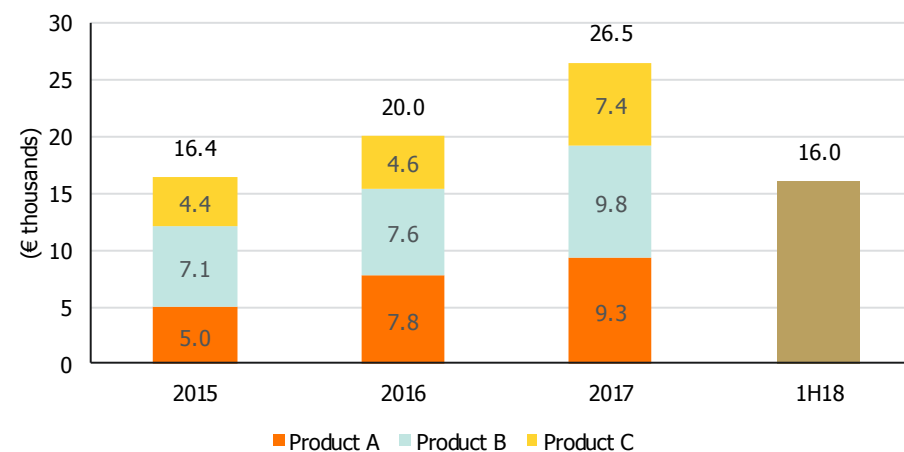
The management always looks for profitable niches, either due to the higher value added of the vehicle, the lack of offer or new clients' needs. One of these examples is the refrigerated vehicles. This business line was launched in March 2017. The main suppliers of this segment are two French companies (Petit Forestier and Fraikin) whose fleets in Spain are composed by c. 6,000 vehicles. Since inception, the company has acquired more 200 vehicles and the business line is proving to be one of the fastest growing of the company.

Figure 34. Fleet: Evolution (2015–2Q18)



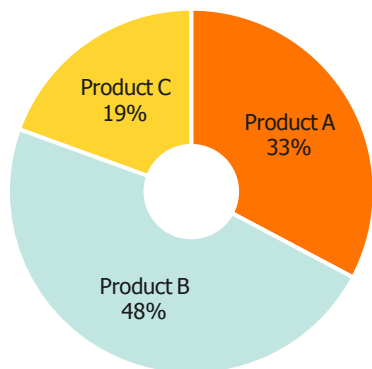
Source: Company and Bankinter Securities Research

Figure 35. Hiring revenues (2015–1H18)



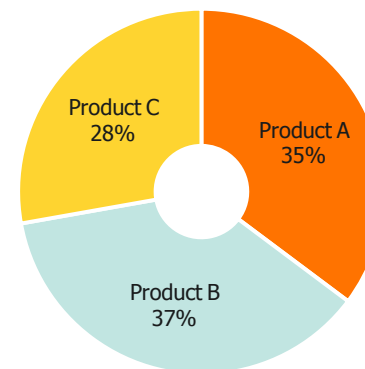
Source: Company and Bankinter Securities Research

Figure 36. Fleet: Breakdown by products (2017)



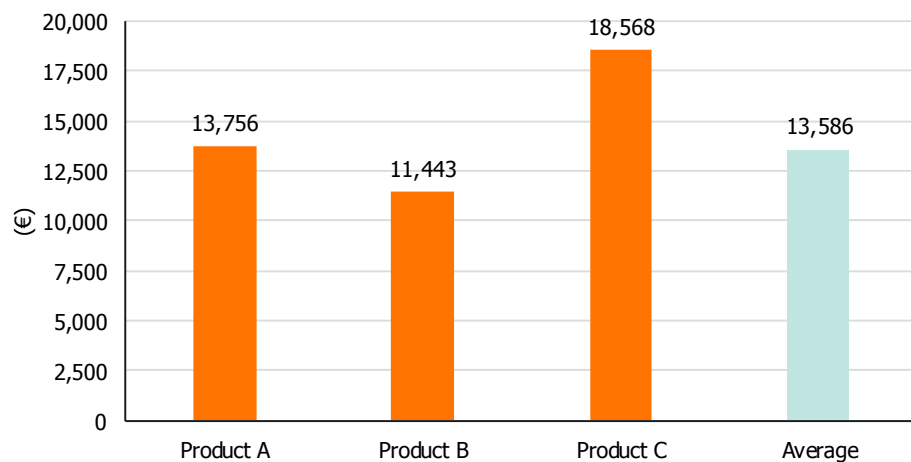
Source: Company and Bankinter Securities Research

Figure 37. Sales: Breakdown by products (2017)



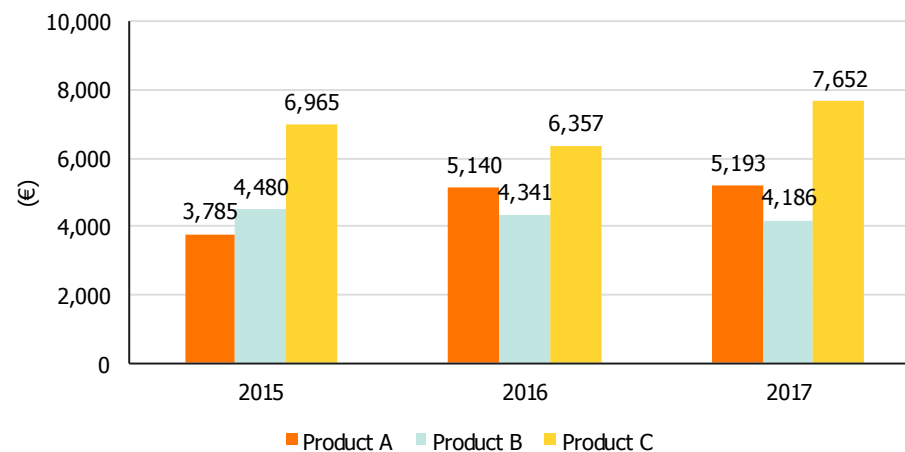
Source: Company and Bankinter Securities Research

Figure 38. Average cost per vehicle (2017)



Source: Company and Bankinter Securities Research

Figure 39. Average rental per vehicle and year



Source: Company and Bankinter Securities Research

Purchasing and selling the vehicles

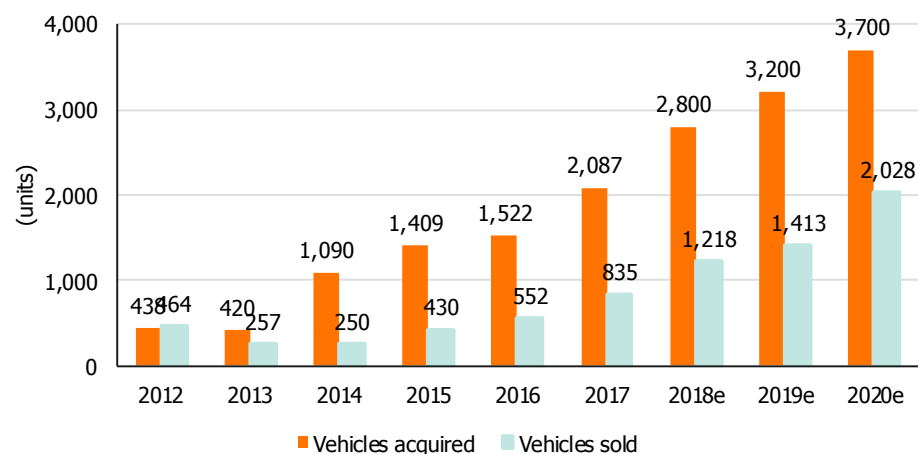
Although hiring the vehicles is the core business of the company, the acquisition and the disposal are decisive as the disposal price is c. 50% of the acquisition price. Alquiler manages jointly the entire life cycle of the vehicle, as we have already explained.

Alquiler acquires superior range vehicles than its competitors from top tier brands because the disposal of these vehicles is easier and they enjoy lower competition. The company negotiates with the vehicle manufacturers the annual volumes, provides them with a schedule for deliveries and obtains important discounts.

The disposal of the vehicles occurs after 42–48 months from acquisition. The vehicles are fully paid (the company always use 36 months' finance to acquire them) and the accumulated depreciation varies between 63% and 72% of acquisition price. We consider the depreciation policy of the company to be conservative: Analysing Ganvam's results, the 2 years old vehicles' sale price did not fall below 58% the official price for new cars and the 5 years old below 34% in 2012, one of the worst years of the Spanish economic crisis. Consequently, Alquiler would have never released negative PPU in the crisis.

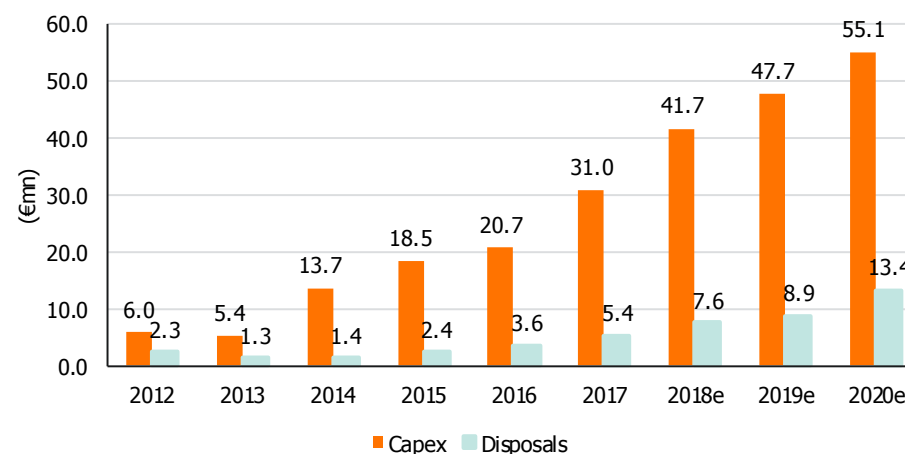
Recently, the company has decided to start the acquisition of Mercedes Benz vehicles because their demand in the used-vehicles market. They have also decided to stop the acquisition of diesel cars to eliminate the risks of a future ban in the usage of this combustible. They cannot avoid this risk in commercial vehicles because an alternative does not exist.

Figure 40. Vehicles acquired and disposals



Source: Company and Bankinter Securities Research

Figure 41. Investments in vehicles and disposals



Source: Company and Bankinter Securities Research

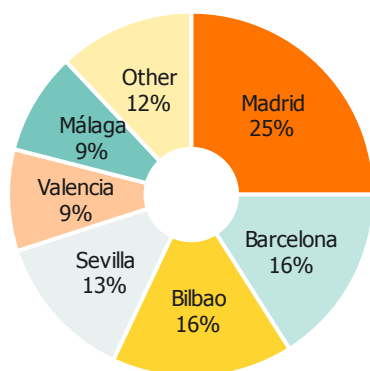
Alquiler: The workshops improve the service

Services personalisation is one of the key competitive advantages of Alquiler. It consists not only on the vehicle customisation according to the clients' needs but also personal attention, knowledge of the vehicles' real users and reducing the waiting time when collecting a vehicle or the maintenance and repair completion time. To provide this service, Alquiler has opened 12 hire locations (or workshops) nationwide and expects to open 8 additional sites to 2020e. They consider that the maximum number of vehicles that can be managed adequately is 1,500 per hire location and, when this figure is surpassed, the quality of service deteriorates. This is the underlying reason for the opening of the second workshop in Madrid (Madrid-Valdemoro), that was inaugurated in June 2018.

Alquiler adopts a prudent approach when they decide to open a new workshop: first, the minimum number of vehicles in the area where the hire location is being opened has to be 250; second, they always hire the buildings; and third, the number of employees at inception is just 3. Their estimates point to a €500,000 investment until the workshop reaches the break-even point. The management also considers that the opening of a new hire location tends to boost sales in the region. Recall, that its largest clients are also clients of Northgate or other competitors and convenience is one of the key catalysts to pick one precise vehicle from one supplier or other. This strategy differs from Northgate's that currently has 25 hire locations, implying an average of 1,800 vehicles per site.

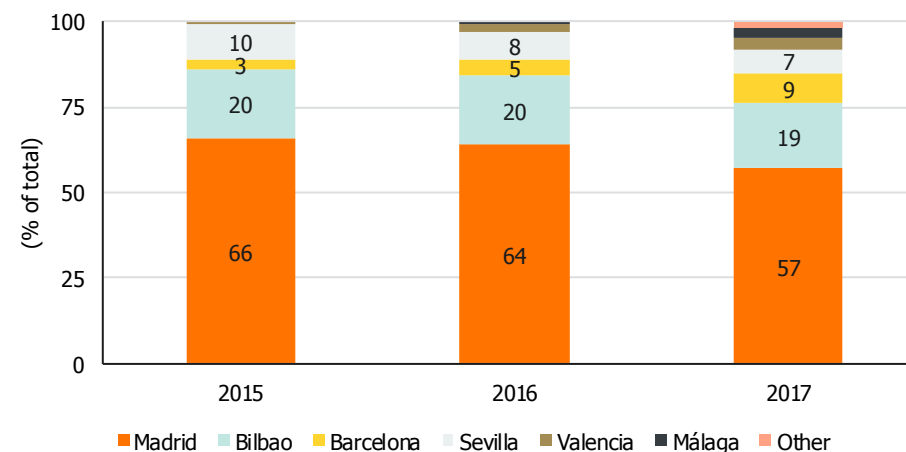
Madrid (opened in 2010) is the largest branch, although its weight in total sales is steadily declining in favour of newest locations such as Barcelona (opened in 2013) or Málaga and Valladolid (2016). The company expects to open 8 sites in 2019e–2020e of which 3 have already been agreed: La Coruña, Zaragoza and Lerida that will be opened in 1H19.

Figure 42. Fleet: Breakdown by hire location



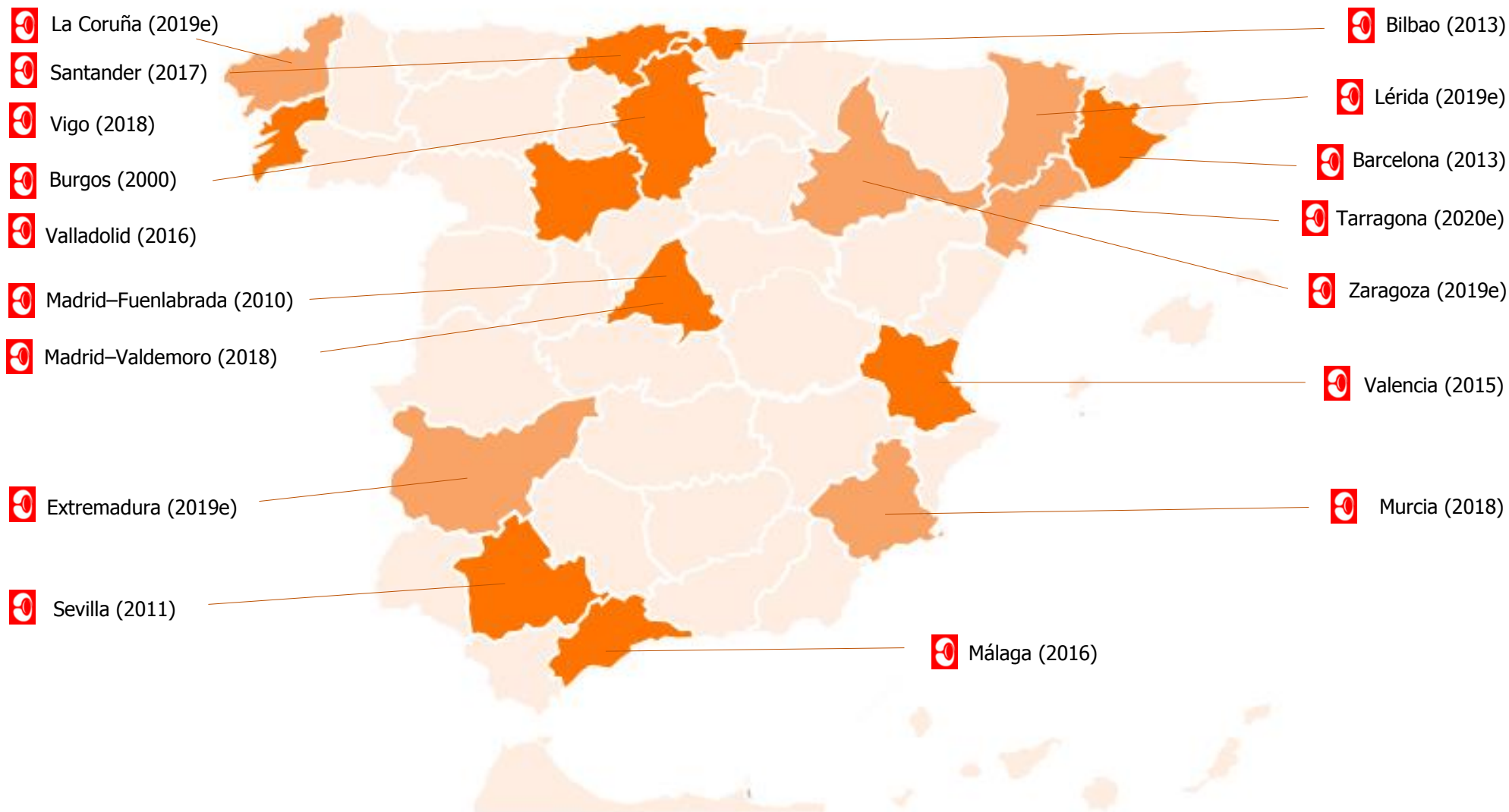
Source: Company and Bankinter Securities Research

Figure 43. Hiring revenues: Breakdown by location



Source: Company Bankinter Securities Research

Figure 44. Alquiber: The network



Source: Company and Bankinter Securities Research

Alquiber: Diversifying the client base

Alquiber has an active client base of c. 700 clients. We consider that Alquiber is well diversified and its dependence from individual clients is limited. The largest client represented 7.7% of total sales in 2017 and the 10 largest accounted for 32.0% of sales. The remainder 68.0% of sales is diversified in the other c. 690 clients. 75% of the clients have renewed their contracts in the last 3 years.

The company tries to minimise both the impairment risk and the economic downturn risk. In order to meet this goal, the company has designed a thorough process to accept the client and tries to diversify its clientele by entering different sectors of the economy and, as we have mentioned previously, introducing new business lines.

The acceptance process: Average default rate of 0.6%

Prior to accept a new client, the company asks for a financial report to INFORMA, a Spanish company that provides commercial and financial information that is constantly updated by 200 employees. Using this report and additional information when needed, Alquiber decides about the client's solvency. The result of the analysis determines the pricing: the better the solvency, the lower the price.

The default rate posted by Alquiber is remarkable: just 0.6%. The Alquiber Track device also helps to this low ratio: whenever a client does not pay, the company knows precisely the location of the vehicle and is able to block it.

The sectorial diversification: The 10% largest clients represented 33% of sales.

Two different criteria are used to evaluate the diversification: (a) the segmentation of the clientele according to size, and (b) the segmentation according to the sector to which they belong.

Analysing the clientele by their own size, public companies represented 5% of the client base and 41% of total sales in 2017. Corporates with sales over and below €30mn represented 10% and 13% respectively and 12% and 14% of sales. Finally, SMEs and self-employed are the large part of the number of clients but, due its limited size, they represented 33% of sales in 2017. This breakdown is similar to that observed for the renting market in Spain.

The main industries or sectors in which Alquiber's clients are involved are:

- **Maintenance:** Transport, water distribution, electricity and gas, power stations, pumping stations, wind and photovoltaic plants.
- **Installation:** Electricity networks and telephony.
- **Construction** and infrastructures and civil works.
- **Services:** Forestry, retail and security.

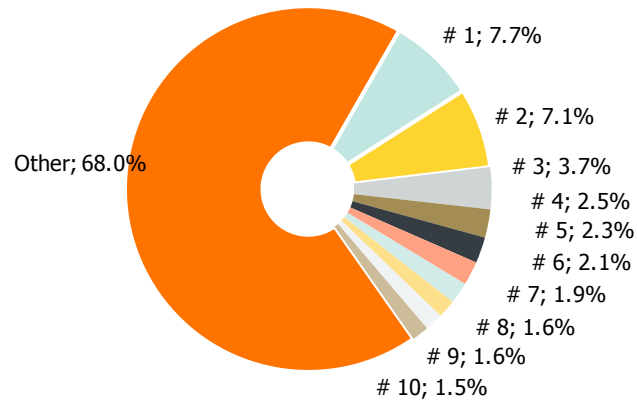
The management reckons the cyclicity of its business, and tries to smooth the trend favouring activities such as maintenance at the expense of pure construction or introducing new business lines, such as the cold one, that is set to benefit from the regulations that require that all food products had to be transported in a refrigerated vehicle or within an isothermal cabinet.

The contract and the collection

Alquiler usually signs an individual contract per each hired vehicle. However, they use framework contracts with large clients. Average duration is 13 to 14 months, with a minimum term of 3 months and a maximum of 36 months although the latter can be extended to 60 months mainly for trucks. Exceptionally, they hire vehicles for shorter durations when the client is relevant.

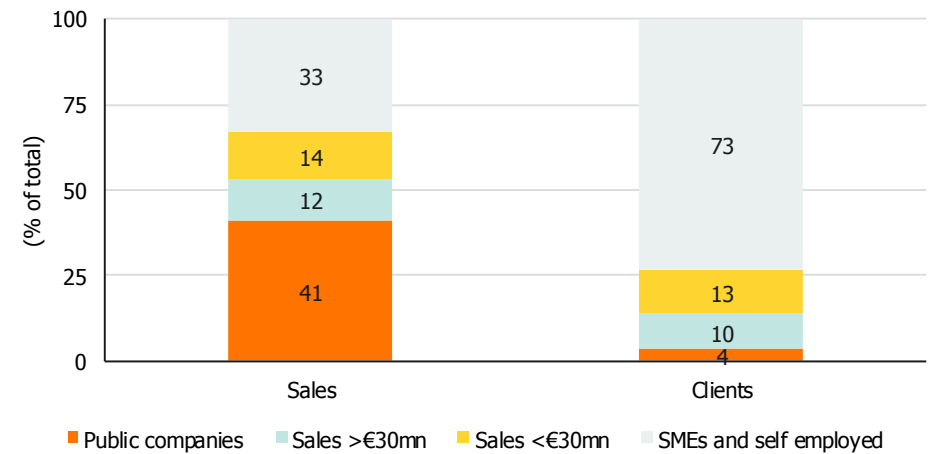
Alquiler issues the corresponding invoice by the end of each month with an average maturity of 60 days. The average default rate is 0.6%

Figure 45. Sales breakdown by clients (2017)



Source: Company and Bankinter Securities Research

Figure 46. Breakdown by clients (2017)



Source: Company and Bankinter Securities Research

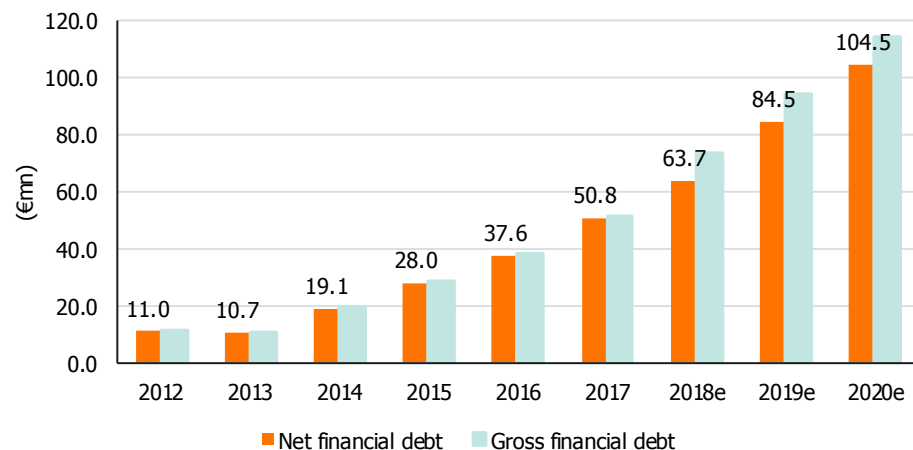
Alquiber: A high financial leverage linked to the growth strategy.

Alquiber is a highly-leveraged company. Its net financial debt amounted to €55.8mn in June (€50.8mn in December 2017) after the €8.9mn net inflow from the capital increase and its gross financial debt was €65.7mn (€51.3mn in Dec., 2017). Loans related to vehicle acquisition were €56.2mn (87% of total outstanding debt), commercial loans amounted to €4.0mn (undrawn lines of €2.0mn), corporate loans were €4.0mn and credit lines €0.6mn (undrawn credit facilities of €0.2mn). Cash amounted to €9.5mn. Net financial debt has multiplied by c. 5 times since 2013 due to the expansion programme followed by the company that invested in the period 2013–1H18 c. €113.2mn in vehicles and c. €2.0mn in the new hire locations. Due to this increase the NFD/EBITDA ratio worsened to 3.0x in 2017 compared to 1.8x in 2013 and the NFD/Shareholders' funds ratio to 4.9x from 2.6x in 2013. The capital increase has alleviated these ratios: 2018e NFD/adjusted EBITDA and NFD/Shareholders' funds are 2.8x and 3.0x, respectively.

Are they experiencing difficulties to get additional financing?

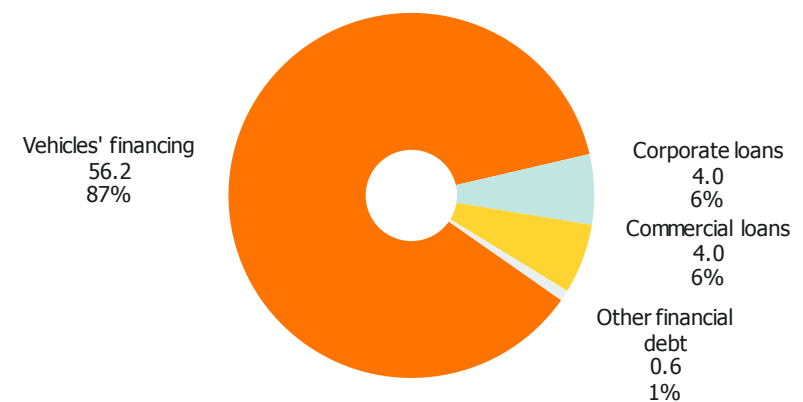
Banks and financial companies are currently keen to finance vehicle's acquisition and there have not been problems so far to acquire new vehicles. The company works with 11 banks and 5 brand lenders to finance all its vehicles' purchases. The largest lender represents c. 20% of total lending. All vehicles are bought using a 36 months' credit, either a loan or a leasing, with monthly payments. However, we believe that they may have suffer some liquidity constraints in 2017 due to its rapid growth and the need to finance both the increase in operating working capital and the new workshops, and this is the underlying of the lowest age at disposal of the vehicles: 42 months vs. 52 months in 2016. In our view, and due to the loose monetary policy scenario, new finance will continue to be easy to obtain but this is a risk for the company.

Figure 47. Net financial debt and gross financial debt



Source: Company and Bankinter Securities Research

Figure 48. Gross financial debt breakdown (June, 2018)



Source: Company and Bankinter Securities Research

How much would net financial debt increase to 2020e?

As we have already mentioned, the management's goal is to reach a fleet of c. 10,000 vehicles in 2020e, but we expect this target to be surpassed and reach 10,765 vehicles. To accomplish with our estimate this target, we expect that the company will acquire 9,700 vehicles in 2018e–2020e for a total consideration of €144.5mn (of which €23.8mn were invested in 1H18) and the disposals will be 4,659 units for €29.8mn.

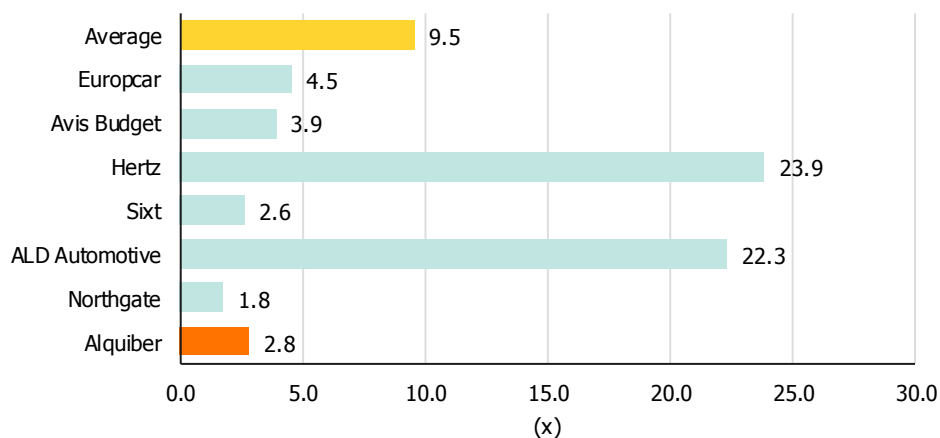
According with our estimates, the net financial debt will reach €104.5mn in 2020e (+105% from 2017), the NFD/EBITDA ratio will slightly deteriorate to 2.9x and the NFD/Shareholders' funds ratio would peak at 3.6x. Although these ratios are high, its peers have an average 2018 NFD/EBITDA ratio of 9.5x (3.2x excluding ALD Automotive and Hertz) and a 2018 NFD/Shareholders' funds ratio of 3.0x (2.2x excluding these two companies).

How rapidly could the company deleverage?

Financial leverage depends on the rate of growth of the fleet. If we assume that from 2020e onwards the fleet does not grow and stabilises at c. 10,765 vehicles, the company should acquire some 2,871 vehicles per year, the same amount as the vehicles sold, which we suppose would be 45 months old. Consequently, investment on vehicles falls to €42.8mn per year from €55.1mn in 2020e and the difference between investment and disposal proceeds to €22.2mn from €41.7mn in 2020e. The former figure can be considered the "maintenance capex". Immediately, the company generates a positive free cash flow (after financing costs) stream and begins the de-leverage process.

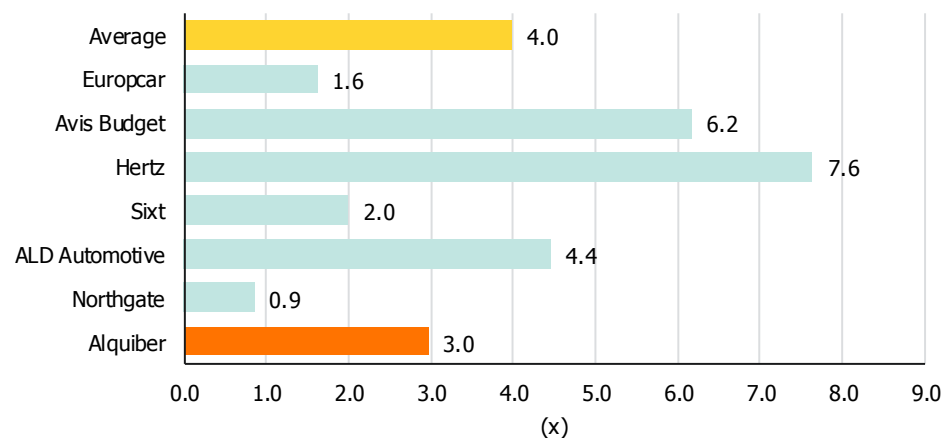
We have analysed the speed of the deleverage process, assuming that there is no growth in EBITDA from 2022e onwards. EBITDA may increase in 2021e because the average of vehicles on hire (VOH) still increases +8.4%.

Figure 49. NFD/EBITDA ratio (2018e)



Source: Factset, Company and Bankinter Securities Research

Figure 50. NFD/Shareholders' funds ratio (2018e)



Source: Factset, Company and Bankinter Securities Research

On the scenario that we have designed, the company should generate free cash flow from 2021e onwards. Our estimates point to €5.0mn in 2021e and €5.1mn in 2022e. Going forward, and maintaining our hypothesis of zero growth for EBITDA, the free cash flow would increase due to the lower financing costs derived from the lower net financial debt. We maintain unchanged the 20% pay-ratio policy implemented by the company.

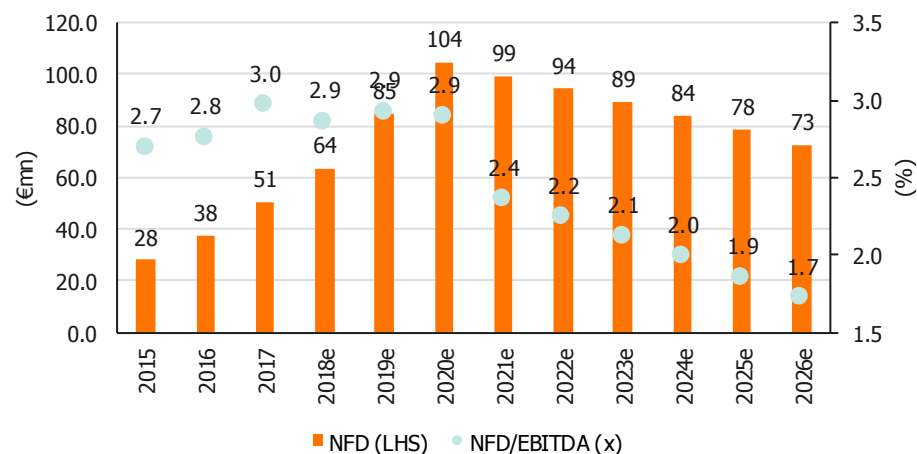
The financing deleverage process is rapid. As we have mentioned, we expect the NFD/EBITDA ratio to reach 2.9x in 2020e. This ratio declines c. 0.2pp per year, reaching 1.8x (2018e Northgate's ratio) in 5 or 6 years. The NFD/Shareholders' funds ratio may reach at 3.6x in 2020e. We estimate that it will take c. 7 years to achieve the 0.9x ratio of Northgate.

Figure 51. Alquiber: Net financial debt evolution

(€mn)	2021e	2022e	2023e	2024e	2025e	2026e
Net profit	6.6	6.4	6.6	6.8	7.0	7.2
+ Depreciation	28.7	28.7	28.7	28.7	28.7	28.7
+ Residual value	13.9	13.9	13.9	13.9	13.9	13.9
Net cash flow	49.2	49.0	49.2	49.5	49.7	49.9
- Capex	-42.8	-42.8	-42.8	-42.8	-42.8	-42.8
- Increase in OWC	-0.3	0.0	0.0	0.0	0.0	0.0
Free cash flow	6.2	6.3	6.5	6.7	6.9	7.1
Dividends	-1.0	-1.3	-1.3	-1.3	-1.4	-1.4
Net financial debt variation	5.1	5.0	5.2	5.4	5.5	5.7

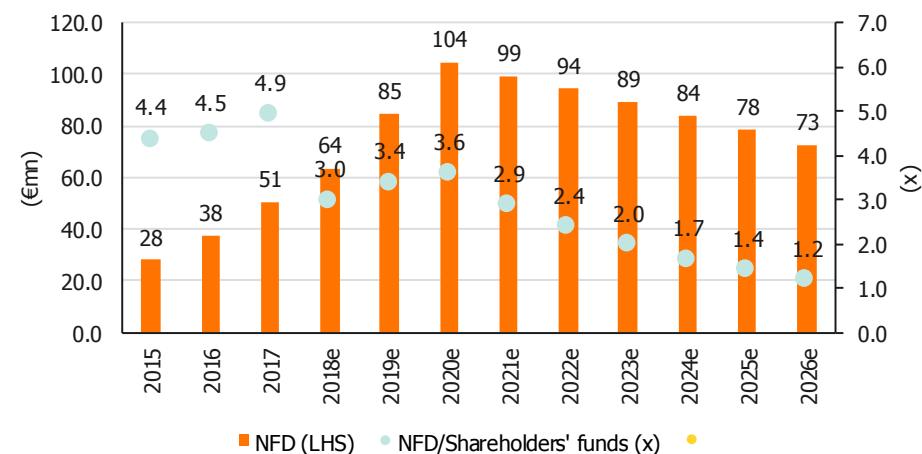
Source: Bankinter Securities Research

Figure 52. The deleverage process: NFD/EBITDA ratio



Source: Bankinter Securities Research

Figure 53. The deleverage process: NFD/Shareholders' funds ratio



Source: Bankinter Securities Research

Alquiber: A promising future

Alquiber's management has set **two main quantitative objectives for 2020e–2021e:**

- **Reaching 10,000 vehicles.**
- **Expand its hire–locations network to 20 centres.**

We believe that the management has the knowledge, commitment and courage to increase the fleet from 6,770 vehicles in 2Q18 to at least the 10,000 announced. Moreover, the +16.9% 1S18–2020e CAGR implied in the objective announced suggest a relevant slowdown in the growth of the fleet, which experienced a +35.8% CAGR in the period 2013–2017. In fact, we have included in our forecasts a higher number, specifically 10,735 vehicles in 2020e that implies a +20.4% CAGR.

The drivers of an organic expansion are threefold:

- **Economic growth:** As we have already mentioned, we expect Spain's GDP to increase +2.6% in 2018e, +2.3% in 2019e and +2.1% in 2020e. We estimate that each 1pp the economy grows, the renting market increases its total fleet by 3–5pp. This relationship derives in a rise of the total fleet of +14.6% in 2018e, +13.5% in 2019e and +12.8% in 2020e. Should Alquiber just maintain its 2017e market share, its total fleet would expand to c. 9,300 vehicles from current levels.
- **Geographic expansion:** The group will open 8 new workshops in the forthcoming years. When opening workshops, historically they experience a rapid growth in the location where it is based as clients' service improves.
- **New products:** Alquiber has just introduced the refrigerated vehicles to take advantage of new regulations that require all food transport to be done in a vehicle with a refrigerated or isotherm cabinet. In this specific niche, the main players are Petit Forestier and Fraikin.

Inorganic growth could be another driver to accelerate the growth of the company. The target company should meet one of the following criteria: (a) consolidate a region where Alquiber is already present; (b) introduce Alquiber in new region; (c) have a different product range; or (d) have a different clients' portfolio. And, of course, price is a key element.

We would like also to highlight that the rental market is experiencing a consolidation phase, with both rent–a–car and traditional renting companies trying to get a piece from the flexible rental market. Many of these companies have deep pockets and Alquiber could be a desired target for them.

Alquiler's estimates: Net profit may reach €5.0mn in 2020e

Alquiler should take advantage of the moderately benign economic scenario that we expect for the next 2 years (Spain's GDP growth of +2.3% in 2019e and +2.1% in 2020e) to increase its fleet at a +20.4% 1S18–2020e CAGR, to c. 10,765 vehicles from 6,770 in 2Q18, and to boost its net profit to €5.0mn from €2.4mn (+28.1% CAGR 2017–2020e) according to our estimates. EBITDA and EBIT would rise to €33.8mn and €10.5mn in 2020e from €17.1mn and €4.8mn in 2017 respectively.

In 2018, the company's results will be penalised by the floating costs that amounted to €0.4mn pre-tax. Our 2018e adjusted EBIT and net profit does not take into account these expenses.

Figure 54. Alquiler: Selected information

(€mn)	2014	2015	2016	2017	2014–2017				2017–2020e			
					CAGR (%)	2018e	% inc.	2019e	% inc.	2020e	% inc.	CAGR (%)
Fleet size (x)	2,521	3,517	4,472	5,724	31.4	7,306	27.6	9,093	24.5	10,765	18.4	23.4
Average VOH (x)	2,103	3,066	3,870	5,111	34.4	6,515	27.5	8,200	25.9	9,929	21.1	24.8
Utilisation rate (%)		86.7	88.3	91.0		91.0		91.0		91.0		91.0
Cars purchased (x)	1,683	1,409	1,522	2,087	7.4	2,800	34.2	3,200	14.3	3,700	15.6	21.0
Cars sold (x)	1,090	413	567	835	-8.5	1,218	45.9	1,413	16.0	2,028	43.5	34.4
P&L												
Revenue	13.6	18.8	23.6	31.8	32.7	42.1	32.2	53.2	26.5	67.9	27.5	28.7
Hire of vehicles	12.2	16.4	20.0	26.5	29.5	34.5	30.4	44.3	28.4	54.5	22.9	27.2
Disposals	1.4	2.4	3.6	5.4	56.1	7.6	41.1	8.9	17.9	13.4	50.4	35.7
Operating profit–EBIT	2.0	3.2	4.5	4.8	35.2	5.8	19.9	8.0	36.9	10.5	31.9	29.4
Adj. operating profit–EBIT	2.0	3.2	4.5	4.8	35.2	6.2	27.5	8.0	28.8	10.5	31.9	29.4
Hire of vehicles	1.3	2.0	2.7	3.2	33.2	3.4	8.4	4.9	42.1	5.9	21.1	23.1
Disposals	0.6	1.2	1.8	1.7	39.3	2.7	63.4	3.1	12.2	4.6	49.1	39.8
Net profit	0.8	1.5	2.3	2.4	43.4	2.8	19.5	4.1	43.6	5.0	22.6	28.1
Adj. net profit	0.8	1.5	2.3	2.4	43.4	3.1	30.3	4.1	31.7	5.0	22.6	28.1
Revenue per vehicle (€)	5,803.9	5,349.6	5,168.3	5,181.9	-3.7	5,299.0	2.3	5,405.0	2.0	5,486.0	1.5	1.9
Rental margin (%)	11.0	12.3	13.3	12.0		9.9		11.0		10.8		
Operating margin (%)	14.4	17.1	18.9	15.2		14.7		14.9		15.5		
PPU (€)	570.3	2,909.9	3,187.6	2,011.3	52.2	2,253.5	12.0	2,178.7	-3.3	2,263.9	3.9	4.0
ROCE (%)	8.6	8.9	8.3	6.8		6.0		6.1		6.5		
Investment	13.7	18.5	20.7	31.0	31.2	41.7	34.7	47.7	14.3	55.1	15.6	21.2
Disposals	1.4	2.4	3.6	5.4	56.1	7.6	41.1	8.9	17.9	13.4	50.4	35.7

Source: Company and Bankinter Securities Research

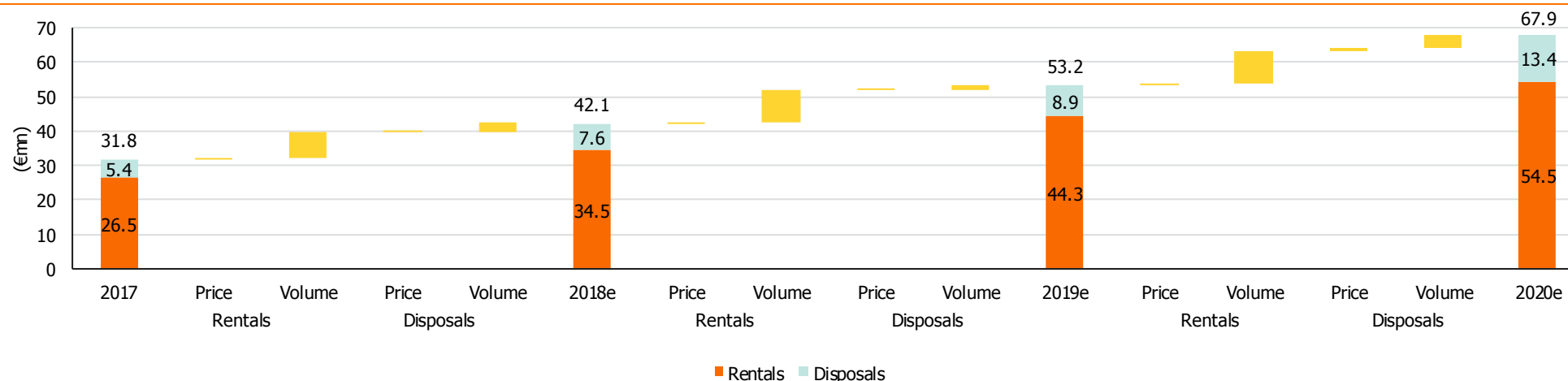
Total revenue: €67.9mn in 2020e (+28.7% CAGR)

We estimate that total revenue will rise at a +28.7% 2017–2020e CAGR, to €67.9mn. Revenues from the hire of vehicles are expected to increase at a +27.2% 2017e–2020e CAGR, to €54.5mn, and will represent 80.3% of total revenue in 2020e (83.2% in 2017). 93% of the rentals' growth is derived from the increase in the fleet and only 7% from prices. Revenues from disposals may rise at a +35.7% 2017e–2020e CAGR, to €13.4mn, and will represent 19.7% of total revenue in 2020e (15.8% in 2017). 86% of disposals' revenue growth is due to higher volumes and 14% to prices.

The main drivers of the evolution of total revenue are:

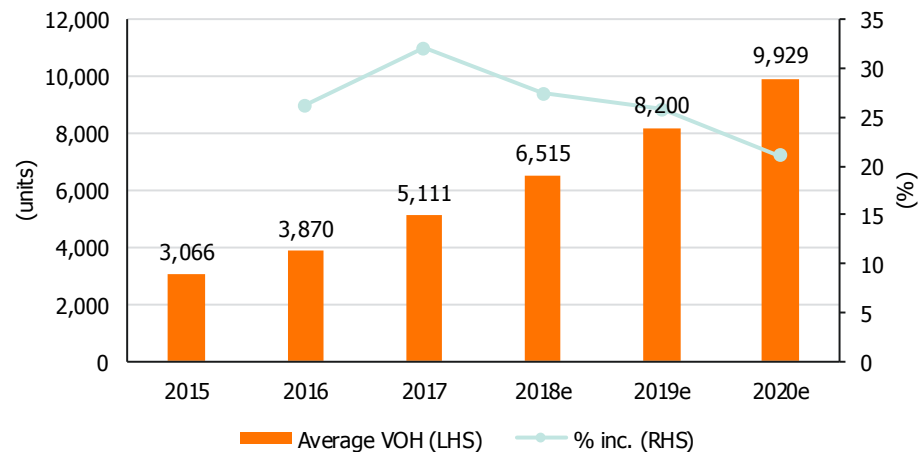
- **Average vehicles on hire (VOH):** We estimate that the total fleet may increase to c. 10,765 vehicles in 2020e or +59.0% from 2Q18. The aggregated number of cars purchased in the 3Q18–2020 period should be 8,160 with total investments of €120.7mn.
- **Average rental per car:** We forecast that the average rental may rise +2.3% in 2018e, +2.0% in 2019e and +1.5% in 2020e, reaching €5,483 per car in 2020e from €5,182 in 2017. The rationale behind this increase is the change in the fleet mix after the company launched the refrigerated cars division in mid–2017. These vehicles are more expensive but their rents are also higher. We have also assumed that the utilisation rate will remain stable at 91%.
- **Number of cars sold:** The disposal age of the vehicles is expected to be 45 months.
- **Price of disposals:** We estimate that the vehicles will be sold at 49.5% its acquisition price. According to Ganvam, the residual value for 2 years old car is currently 64.6% and for cars 5 years old 46.6%. We have factored in our assumption: (a) the lower acquisition price of Alquiber due to the discounts applied, and (b) the use of independent dealers to sell the car that reduces the selling period to c. 23 days but lowers the price c. 20%.

Figure 55. Total revenue bridge: 2017–2020e



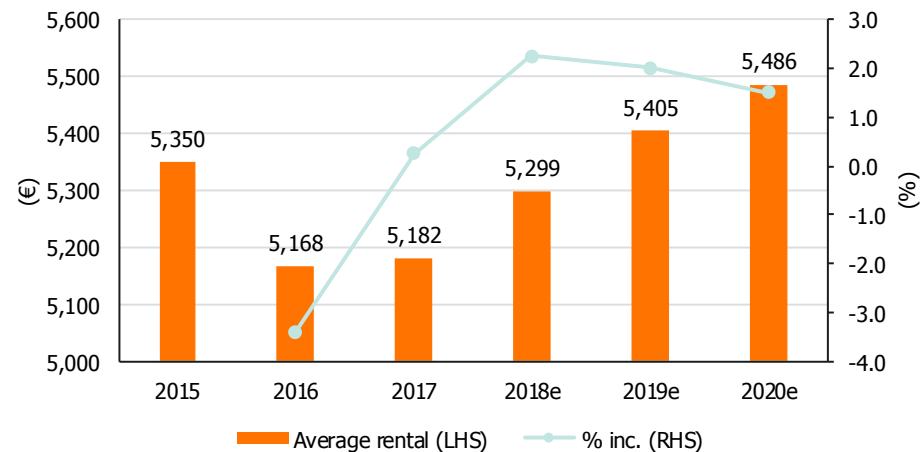
Source: Company and Bankinter Securities Research

Figure 56. Average VOH



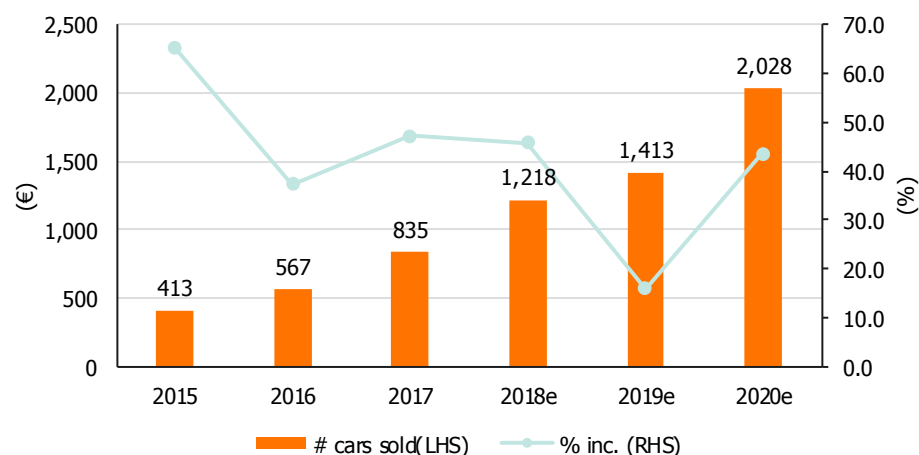
Source: Company and Bankinter Securities Research

Figure 57. Average rental per car



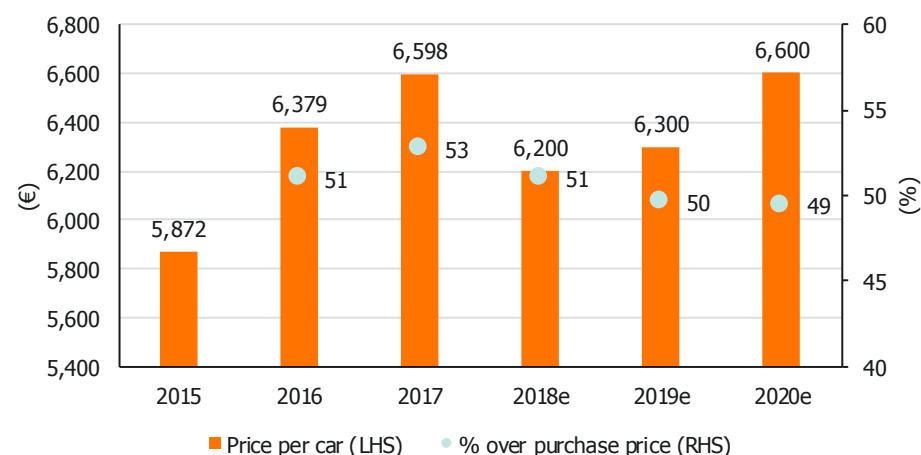
Source: Company and Bankinter Securities Research

Figure 58. Number of cars sold



Source: Company and Bankinter Securities Research

Figure 59. Disposal price per car



Source: Company and Bankinter Securities Research

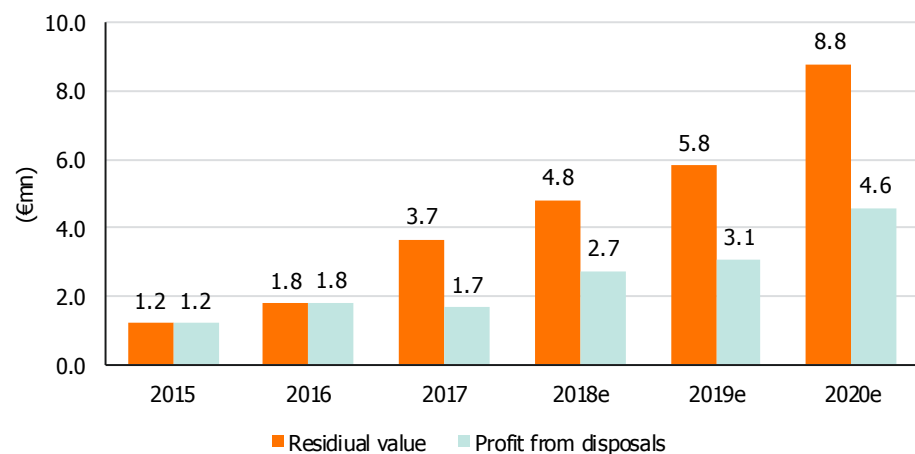
Profit from disposals: PPU to reach €2,263.9 in 2020e

The two key variables that determine the profit per unit (PPU) on top of the selling price are: (a) the annual depreciation charge, and (b) the average disposals age.

The annual depreciation charge is maintained at 18%. This rate was lowered from 19% in 2015. Although its main competitor, Northgate, announced in March, 2018 the reduction of its depreciation rate by 3.0% in Spain and Ireland and by 0.5% in the UK, to an expected average of 16% and 17%, respectively, Alquiber's management prefer to maintain a prudent approach to depreciation. The higher the depreciation charge, the lower current EBIT, but the higher PPU in the future.

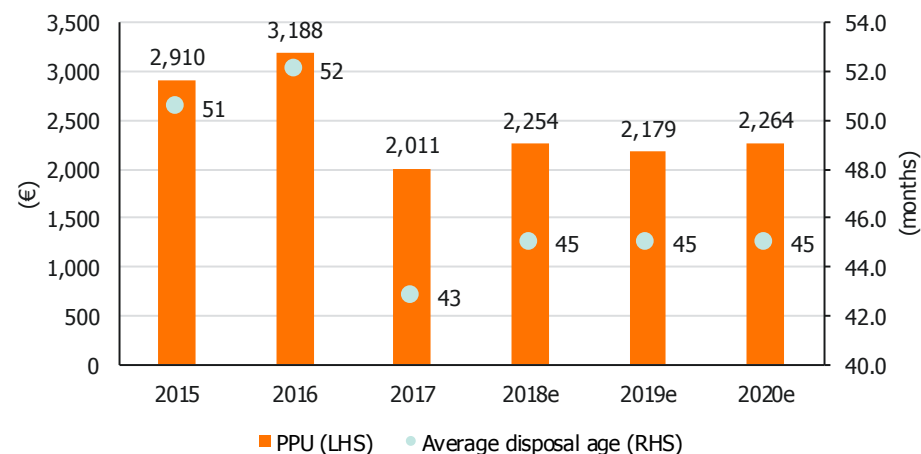
The average disposal age is expected to average 45 months. The group reduced the disposal age to 43 months in 2017, implying a lower discount to acquisition price but a higher residual value. The overall impact was a reduction to €2,011 in the PPU. The management considers that 45 months is the age at which the vehicle's profitability is maximised.

Figure 60. Residual value and profit from disposals



Source: Company and Bankinter Securities Research

Figure 61. PPU and average age at disposal date



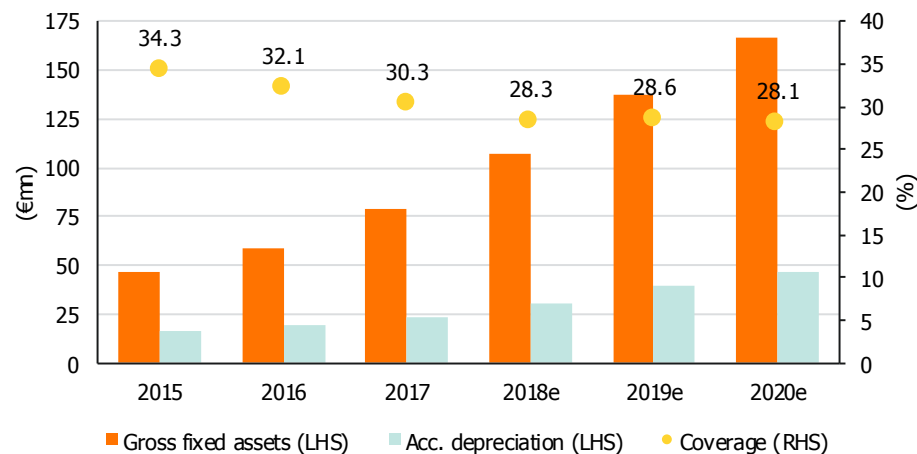
Source: Company and Bankinter Securities Research

Depreciation rate for vehicles to be maintained at 18%

We estimate that depreciation will increase to €25.6mn in 2020e from €12.3mn in 2017. The main reason is the increase in the size of the total fleet to c. 10,765 vehicles from 5,724 in 2017 and the investments related to this increase.

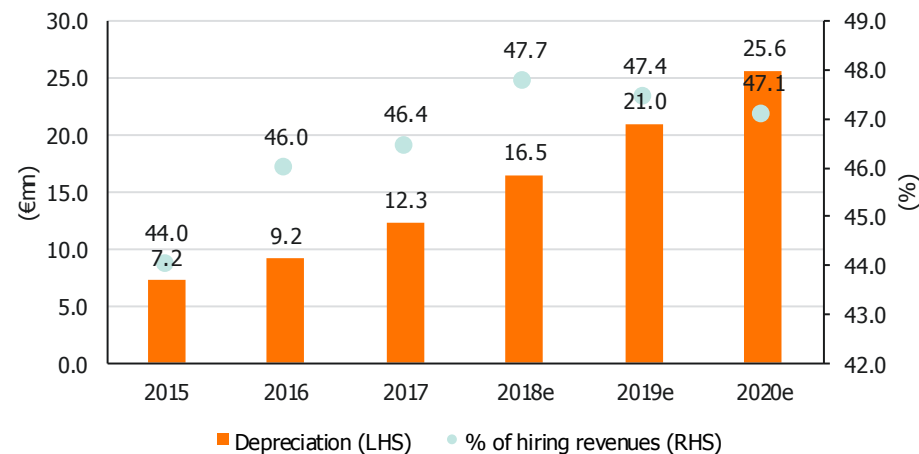
The company estimates that the average useful life for vehicles is 5.5 years and uses a residual value of 0% of the acquisition cost. These assumptions imply an annual depreciation charge of 18%. We consider this hypothesis to be conservative because (a) the profit generated in the disposals and (b) the rate used by Northgate Spain that has been lowered 3pp, to c. 15%. Although using a different depreciation charge does not have an impact either on taxes paid or on cash flow, the higher the rate the lower the current EBIT, but the higher the future EBIT. We estimate that accumulated depreciation exceeds €4.3mn that of the peers.

Figure 62. Gross fixed assets and accumulated depreciation



Source: Company and Bankinter Securities Research

Figure 63. Depreciation



Source: Company and Bankinter Securities Research

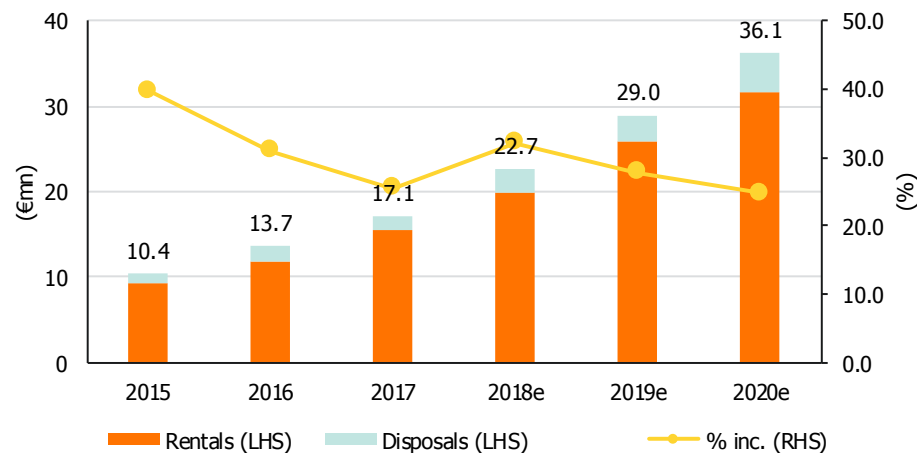
Adjusted EBITDA and EBIT to increase at +28.2% and +29.4% CAGR, respectively

We expect total costs to rise to €23.0mn in 2020e (+27.4%). In 2018e, we forecast that they will increase to 42.5% of total rental sales (excluding the listing costs) compared to 42.0% in 2017 due to the reinforcement of the management team and the openings programme. In the following years, and due to the operating leverage, this percentage should decline to 41.5%–42.0% once the expansion has come to an end.

Total adjusted EBITDA would amount to €22.7mn (+32.2%), €29.0mn (+27.9%) and €36.1mn (+24.7%) in 2018e, 2019e and 2020e. Out of these figures, 88%, 89% and 86% for each year respectively are related to the hiring business and the remainder to the disposals. As the company does not provide with a full P&L by segments, we have attributed all operating costs to the hiring activity. The 2020e EBITDA margin is estimated to be 53.3%.

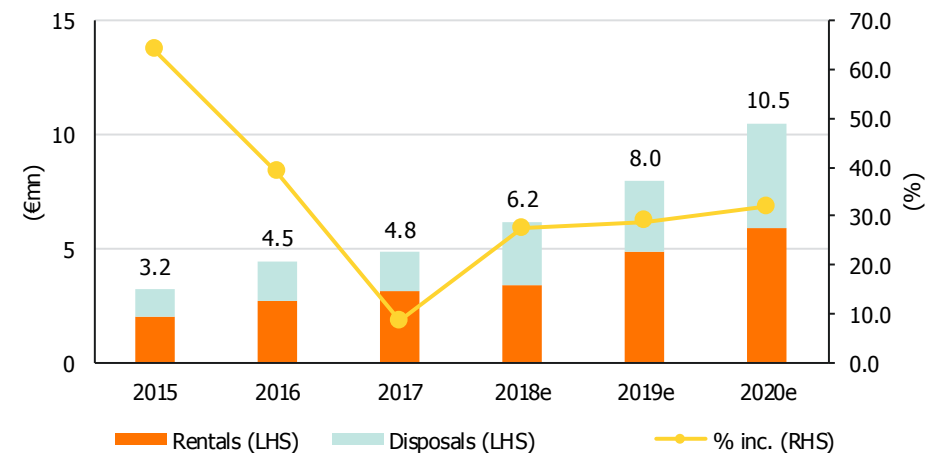
Total adjusted EBIT would rise to €6.2mn in 2018e (+27.5%), €8.0mn in 2019e (+28.8%) and €10.5mn in 2020e (+31.9%). The EBIT margin expected for 2020e is 15.5% compared to 15.2% in 2017. The rental margin is expected to narrow to 11.0% in 2018e from 12.0% in 2017e due to the aforementioned costs. Recall that the fall in the EBIT margin compared to 2015 and 2016 is due to a change in the accounting criteria of rappels: Previously they were accrued in three years as lower cost of goods sold and from 2017 they are treated as a lower cost of vehicles' acquisition.

Figure 64. Adjusted EBITDA



Source: Company and Bankinter Securities Research

Figure 65. Adjusted EBIT



Source: Company and Bankinter Securities Research

Financial cost of €3.8mn in 2020e

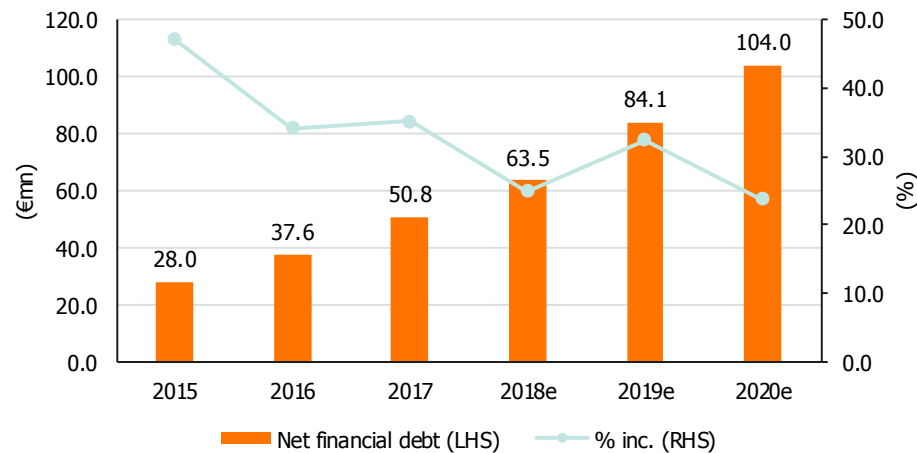
We expect financial costs to increase to €3.8mn in 2020 from €1.7mn in 2017 due to two factors: (a) the higher net financial debt derived from the expansion programme; and (b) the increase of the cost of debt to 4.0% from 3.5% due to the expected hike in the ECB intervention rate in 2H19. Recall that finance from vehicle financial companies is fixed (36 months) while banking financing is at floating rates.

Figure 66. Alquiber: Net financial debt evolution

(€mn)	2015	2016	2017	2018e	2019e	2020e
Net profit	1.5	2.3	2.4	3.1	4.4	5.0
+ Depreciation	7.2	9.2	12.3	16.5	21.0	25.6
+ Residual value	1.2	1.8	3.7	4.8	5.8	8.8
Net cash flow	10.0	13.3	18.4	24.4	31.2	39.5
- Capex	-18.5	-20.9	-31.5	-43.2	-48.2	-55.6
- Increase in OWC	-0.9	-2.3	-1.7	-2.2	-3.0	-2.9
+/- Adjustments			0.6	2.1	0.0	0.0
Free cash flow	-9.4	-9.3	-12.7	-21.0	-20.0	-19.1
Dividends	0.0	-0.3	-0.5	-0.5	-0.6	-0.9
Capital increase				8.8		
Net financial debt variation	-9.4	-9.6	-13.2	-12.7	-20.6	-19.9
Net financial debt	28.0	37.6	50.8	63.5	84.1	104.0

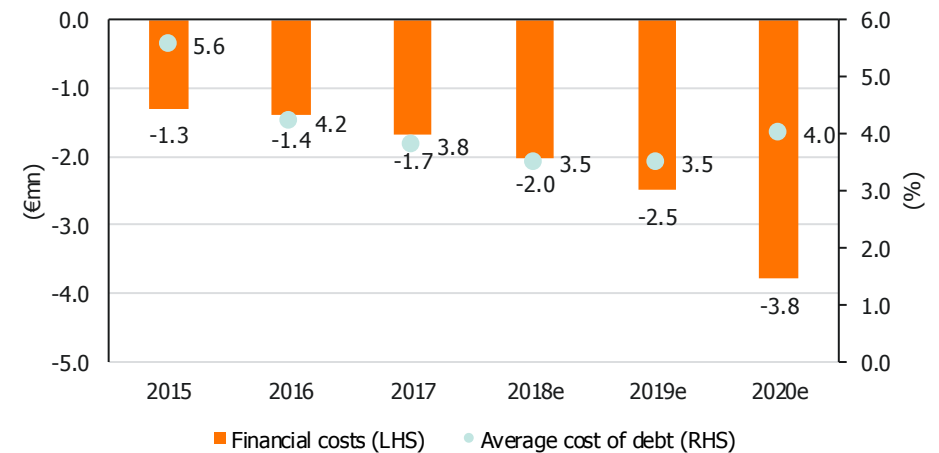
Source: Company and Bankinter Securities Research

Figure 67. Net financial debt



Source: Company and Bankinter Securities Research

Figure 68. Financial costs



Source: Company Bankinter Securities Research

Alquiber's target value (Dec., 2019): €7.44

We estimate a December 2019e target value for Alquiber of €7.44 per share using a DCF model. Our valuation based on peer comparison results in €7.1 per share.

DCF target value (Dec., 2019): €7.44 per share or €41.8mn

The key operating variables for Alquiber are (a) the fleet size, (b) the increase in average rentals and (c) the vehicles' disposal price. As we have explained in this report, the company generates a relevant stream of free cash flow when the size of its fleet stabilises. In our model, we have included the hypothesis that the fleet remains stable at 10,765 vehicles, which is the 2020e figure.

Our assumptions are as follows:

- **Required return on equity (Ke): 15%.** This is a conservative figure compared to those used for larger companies that currently vary from 7% to 10%. We believe that its size, cyclicity of the business and high financial leverage of the company.
- **Cost of debt: 5.0%.** Currently, the average cost of debt is 3.5% although medium-term we expect the ECB to raise rates. In our investment period horizon (3–5 years), we estimate the increase will be between +0.75pp to 2.0pp. We expect the first move to occur in 2H19.
- **Target financial structure:** 75% financial debt/25% equity.
- **WACC:** 6.6%. A lower financial leverage would imply a lower required return on equity with a minimal impact on WACC, according to our sensitivity scenario.
- **Perpetual growth rate: 0%.**
- **Total fleet:** 10,765 vehicles. Stable.
- **Number of vehicles acquired and sold per year:** 2,871
- **Average age at disposal:** 45 months.
- **Utilisation rate of the vehicles:** 91%. Stable
- **Increase in average rental per car:** 0%
- **Disposal price:** 48% of acquisition price.

- **Rental margin:** 11.4%.
- **Tax rate:** 25%.

The results of our model are included in the following table:

Figure 69. Alquiber: DCF valuation

(€mn)	2019e	2020e	2021e	2022e
EBIT	8.0	10.5	13.4	13.4
- Taxes on EBIT	-2.0	-2.6	-3.4	-3.4
= NOPAT	6.0	7.9	10.1	10.1
+ Depreciation	21.0	25.6	28.7	28.7
+ Residual value of the vehicles	5.8	8.8	13.9	13.9
- Capex	-48.2	-55.6	-42.8	-42.8
- Increase in OWC	-3.0	-2.9	-0.3	0.0
Operating free cash flow	-18.4	-16.2	9.6	9.9
Ke (%)	15.0			
Kd (%)	5.0			
WACC (%)	6.6			
Growth rate (%)	0.0			
Terminal value				151.2
Enterprise value (Dec. 2018e)	126.3			
Net financial debt (2018e)	84.6			
Equity value (Dec. 2018e)	41.8			
# of shares (mn)	5.6			
Target value per share (€)	7.44			
Market price (€)	5.75			
<i>Upside/(Downside) potential (%)</i>	<i>29.4</i>			

Source: Bankinter Securities Research

We have performed a sensitivity analysis regarding the key operating variables:

- Average rentals 1% higher: +4.3% in equity value.
- Disposal price +1pp/-1pp of acquisition price (49%/47%): +14.2% / -14.2%.
- Age of the vehicles 1 month older/younger (46 months/44 months): +21.0/-21.0%
- Utilisation rate +1pp/-1pp: +4.7%/-4.7%.

Relative valuation: A significant discount to peers

Our peer group is formed by 6 companies. Northgate is the closest comparable because its main business is also flexible rental although they differ in size and in geographical diversification. We have also included ALD Automotive focused on full service leasing or traditional renting. The business is more a financial-like business and its fleet has 1.5mn vehicles, 1.4mn in Europe. Finally, we have incorporated the most relevant rent-a-car companies.

Some comments on the results:

- **Alquiber trades at a significant discount in terms of P/E both to the entire group and Northgate.** Specifically, the shares trade at an average discount of 19.2% in comparison to the group and a 14.5% discount vs. Northgate.
- Although we believe that the EV/EBITDA ratio is not very relevant because of the large capex needed to maintain the business, the company is trading at an average discount of 154%!!! to the group and at a 18.1% average premium vs Northgate.
- **2019e EV/EBIT** varies from 7.4x to 29.9x, resulting in an average of 15.2x. Alquiber trades at an average discount of 32% compared to peers and of 11% compared to Northgate. Recall that the discount would be even higher should Alquiber implement the depreciation policy of Northgate.
- Dividend yield and PBVR are the ratios where the Northgate-Alquiber comparison penalises Alquiber's valuation more. We consider them to be meaningless because the companies are different: (a) Alquiber is a growth company with an expected increase in net profit and dividends of c.+25% while Northgate is a mature group whose net profit may increase +10% CAGR and (b) Alquiber has a higher financial leverage than Northgate that results in superior ROEs (>15% vs. <10%).

Figure 70. Peer group: Market multiples

	Price (€)			P/E (x)			EV/EBITDA (x)			EV/EBIT (x)			Dividend yield (%)			PBVR (x)		
	(Dec. 18, 2018)	2018e	2019e	2020e	2018	2019e	2020e	2018	2019e	2020e	2018	2019e	2020e	2018	2019e	2020e		
Northgate	3.75	10.1	8.8	8.2	3.6	3.3	3.1	13.0	11.5	10.6	4.8	5.0	5.3	0.90	0.85	0.80		
ALD Automotive	10.87	7.9	7.6	7.0	28.3	28.8	26.9	29.3	29.9	27.9	5.6	5.9	6.7	1.19	1.09	1.00		
Sixt	74.35	12.5	13.7	12.4	5.9	5.7	5.3	14.3	13.6	12.7	4.1	3.8	4.0	2.85	2.65	2.11		
Hertz	14.39	nm	33.3	8.7	26.9	19.8	20.6	26.1	21.9	21.8	0.0	0.0	0.0	1.08	1.10	1.03		
Avis Budget	25.00	7.1	6.6	5.7	6.4	5.8	4.9	7.4	6.5	5.9	0.0	0.0	0.0	4.06	2.73	1.91		
Europcar	7.64	7.4	6.2	5.6	8.1	7.2	6.5	8.9	7.8	7.0	4.4	5.3	6.0	1.29	1.15	1.02		
Average		9.0	12.7	7.9	13.2	11.8	11.2	16.5	15.2	14.3	3.2	3.3	3.7	1.9	1.6	1.3		
Alquiber	5.75	8.9	7.9	6.4	4.0	4.0	3.8	10.3	10.6	10.0	1.8	2.5	3.1	1.5	1.3	1.1		
Premium/(Discount) (%)		-0.7	-37.9	-18.9	-69.4	-65.7	-66.3	-37.4	-30.1	-30.5	79.9	31.4	17.6	-20.7	-19.2	-15.9		
Premium/(Discount) vs. Northgate (%)		-11.4	-10.7	-21.3	11.6	21.2	21.5	-20.6	-7.8	-6.1	174.5	98.0	69.2	67.3	51.5	37.4		

Source: Factset, Alquiber and Bankinter Securities Research

In the following table, we include some relevant financial information of the peers:

Figure 71. Peer group: Selected financial information

(mn)	Sales				EBITDA				EBIT				Net profit			
	2018e	2019e	2020e	CAGR (%)	2018e	2019e	2020e	CAGR (%)	2018e	2019e	2020e	CAGR (%)	2018e	2019e	2020e	CAGR (%)
Northgate	779.3	870.4	938.1	9.7	301.7	330.2	353.5	8.2	83.9	95.3	103.9	11.3	62.0	70.8	75.4	7.4
ALD Automotive	9,250.9	10,159.8	10,935.4	8.7	737.7	777.1	858.6	7.9	712.8	749.4	830.0	7.9	564.4	583.0	623.3	0.8
Sixt	2,850.2	3,118.3	3,372.5	8.8	943.8	1,023.9	1,116.1	8.7	389.1	425.2	468.2	9.7	230.5	254.7	279.4	10.9
Hertz	8,284.7	8,512.9	8,682.4	2.4	353.0	488.0	574.6	27.6	364.0	441.6	544.7	22.3	-208.0	-65.0	183.5	nm
Avis Budget	8,068.8	8,263.5	8,531.1	2.8	688.2	720.5	789.6	7.1	597.3	640.7	654.6	4.7	171.0	258.0	302.0	53.7
Europcar	2,928.5	3,023.9	3,124.3	3.3	343.7	378.3	405.7	8.7	312.2	346.6	373.0	9.3	164.9	171.0	192.9	82.1
Average				5.2				10.3				10.0				7.8
Alquiber	42.1	53.2	67.9	27.0	22.7	29.0	36.1	26.3	6.2	8.0	10.5	30.4	3.1	4.1	5.0	25.4
(%)	EBITDA margin				EBIT margin				Net profit margin							
	2018e	2019e	2020e		2018e	2019e	2020e		2018e	2019e	2020e					
Northgate	38.7	37.9	37.7		10.8	11.0	11.1		8.0	8.1	8.0					
ALD Automotive	9.0	8.0	7.6	7.9		7.7	7.4	7.6		6.1	5.7	5.7				
Sixt	33.1	32.8	33.1		13.7	13.6	13.9		8.1	8.2	8.3					
Hertz	4.3	5.7	6.6		4.4	5.2	6.3		-2.5	-0.8	2.1					
Avis Budget	8.5	8.7	9.3		7.4	7.8	7.7		2.1	3.1	3.5					
Europcar	11.7	12.5	13.0		10.7	11.5	11.9		5.6	5.7	6.2					
Average	10.5	11.0	11.5		7.6	7.9	8.4		3.1	3.7	4.7					
Alquiber	53.9	54.4	53.3		14.7	14.9	15.5		7.4	7.7	7.4					
(mn)	Net financial debt			Shareholders' funds			NFD/EBITDA (x)			NFD/Shareholders' funds (x)						
	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e				
Northgate	534.7	543.7	545.8	628.9	666.0	705.4	1.8	1.6	1.5	0.9	0.8	0.8				
ALD Automotive	16,460.6	18,011.5	18,723.4	3,700.0	4,042.9	4,393.5		23.2	21.8	4.4	4.5	4.3				
Sixt	2,478.2	2,711.5	2,863.3	1,241.4	1,323.6	1,442.3	2.6	2.6	2.6	2.0	2.0	2.0				
Hertz	8,418.9	8,585.1	10,789.9	1,102.8	1,090.5	1,233.1	23.9	17.6	18.8	7.6	7.9	8.7				
Avis Budget	2,683.9	2,441.2	2,176.3	435.7	660.7	930.7	3.9	3.4	2.8	6.2	3.7	2.3				
Europcar	1,559.5	1,484.8	1,397.5	965.4	1,086.1	1,219.4	4.5	3.9	3.4	1.6	1.4	1.1				
Average							9.5	9.1	8.9	4.0	3.8	3.7				
Alquiber				21.5	25.0	29.2	2.8	2.9	2.9	3.0	3.4	3.6				

Source: Factset, Alquiber and Bankinter Securities Research

Valuation methodology

Valuation method

We value Alquiber using a DCF model

Key assumptions

We use a 15% cost of equity, a 75%/25% capital structure, a 6.6% WACC and 0.0% terminal growth rate.

Price target scenarios

Base €7.44

- Fleet to increase to 10,765 vehicles in 2020e and stabilize from that year onwards.
- Number of vehicles sold and acquired per year after the growth period: 2,871.

Bull €8.23

- Fleet to increase to 15,000 vehicles in 2020e and stabilizes from that year onwards.
- Number of vehicles sold and acquired per year after the growth period: 4,000.

Bear €6.58

- Fleet to stabilise at 6,770 vehicles.
- Number of vehicles sold and acquired per year after the growth period: 1,770.

Key drivers

- Renta margin: 11.4% (recurrent)
- Disposal price: 48% of acquisition price.

Catalysts

- Renta margin: 11.5% (recurrent)
- Disposal price: 48% of acquisition price.

Risk factors

- Renta margin: 9.4% (recurrent)
- Disposal price: 48% of acquisition price.

Figure 72. Profit and loss account and cash flow statement

(€mn)	2015	2016	2017	2018e	2019e	2020e
Profit and loss account						
Sales	18.8	23.6	31.8	42.1	53.2	67.9
<i>% inc.</i>	<i>38.3</i>	<i>25.3</i>	<i>34.9</i>	<i>32.2</i>	<i>26.5</i>	<i>27.5</i>
Cost of goods sold	-0.8	-1.2	-3.6	-4.7	-5.7	-8.7
Gross margin	18.0	22.4	28.3	37.3	47.5	59.2
Operating costs	-7.6	-8.7	-11.1	-15.1	-18.5	-23.0
EBITDA	10.4	13.7	17.1	22.3	29.0	36.1
<i>% inc.</i>	<i>39.8</i>	<i>30.9</i>	<i>25.5</i>	<i>30.0</i>	<i>30.0</i>	<i>24.7</i>
Depreciation	-7.2	-9.2	-12.3	-16.5	-21.0	-25.6
EBIT	3.2	4.5	4.8	5.8	8.0	10.5
<i>% inc.</i>	<i>63.9</i>	<i>38.8</i>	<i>8.5</i>	<i>19.9</i>	<i>36.9</i>	<i>31.9</i>
Net financial result	-1.3	-1.4	-1.7	-2.0	-2.5	-3.8
Equity accounted earnings	0.0	0.0	0.0	0.0	0.0	0.0
Other results	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes	1.9	3.1	3.2	3.8	5.4	6.7
Corporate tax	-0.4	-0.8	-0.8	-0.9	-1.4	-1.7
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	1.5	2.3	2.4	2.8	4.1	5.0
<i>% inc.</i>	<i>91.6</i>	<i>49.6</i>	<i>3.0</i>	<i>19.5</i>	<i>43.6</i>	<i>22.6</i>
EPS (€)	0.39	0.58	0.60	0.59	0.73	0.89
<i>% inc.</i>	<i>91.6</i>	<i>49.6</i>	<i>3.0</i>	<i>-0.6</i>	<i>23.0</i>	<i>22.6</i>
DPS (€)	0.00	0.00	0.00	0.09	0.10	0.15
<i>% inc.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>8.1</i>	<i>43.6</i>
Cash flow statement						
Net cash flow	8.8	11.5	14.7	19.3	25.1	30.7
<i>% inc.</i>	<i>38.9</i>	<i>31.3</i>	<i>27.6</i>	<i>31.7</i>	<i>29.9</i>	<i>22.1</i>
OWC change	-0.9	-2.3	-1.7	-2.2	-3.0	-2.9
Capex	-17.3	-19.1	-27.8	-38.4	-42.4	-46.8
Free cash flow	-9.4	-9.9	-14.8	-21.3	-20.3	-19.1
Dividends paid	0.0	-0.3	-0.5	-0.5	-0.6	-0.8
Other variations	0.4	0.6	2.1	8.9	0.0	0.0
Change in net cash/(net financial debt)	-9.0	-9.6	-13.2	-12.9	-20.8	-19.9

Source: Company and Bankinter Securities Research

Figure 73. Balance sheet and margins

(€mn)	2015	2016	2017	2018e	2019e	2020e
Balance sheet						
Net fixed assets	31.0	41.0	55.2	77.1	98.4	119.6
Net financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Operating working capital (OWC)	4.0	6.3	8.0	10.2	13.2	16.1
Other assets/(liabilities) net	-0.5	-1.2	-2.0	-2.0	-2.0	-2.0
Capital employed (CE)	34.5	46.0	61.2	85.2	109.6	133.7
Shareholders' equity	6.4	8.4	10.4	21.5	25.0	29.2
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net financial debt	28.0	37.6	50.8	63.7	84.6	104.5
Margins (%)						
Gross margin/Sales	95.7	94.9	88.8	88.8	89.2	87.2
EBITDA/Sales	55.4	57.9	53.9	53.0	54.4	53.3
EBIT/Sales	17.1	18.9	15.2	13.8	14.9	15.5
Sales/Capital employed	54.6	51.2	52.0	49.4	48.6	50.8
EBITDA/Capital employed	30.3	29.7	28.0	26.2	26.4	27.0
ROCE	9.3	9.7	7.9	6.8	7.3	7.8
ROE	24.0	27.4	23.0	13.2	16.3	17.2
Gearing (x)						
Net financial debt/Capital employed	0.8	0.8	0.8	0.7	0.8	0.8
Net financial debt/EBITDA	2.7	2.8	3.0	2.9	2.9	2.9
EBIT/Net financial result	2.5	3.2	2.9	2.9	3.2	2.8

Source: Company and Bankinter Securities Research

Figure 74. Main shareholders

Acebes family	70.1%
Datsira Finanzas	5.1%
Marlborough Fund Managers	4.0%

Source: Company and Bankinter Securities Research

Figure 75. Company information

Address:	Almendro, 6 28940 Fuenlabrada (Madrid) Spain
Website:	www.alquiber.com.es
Chairman:	Mr. Miguel Angel Acebes
CEO	Ms. Marianela Acebes
Managing Director	Mr. José Ramón Criado
IR:	Ms. Cori Pellicer

Source: Company and Bankinter Securities Research

Figure 76. Market ratios

(€)	2015	2016	2017	2018e	2019e	2020e
EPS (€)	0.39	0.58	0.60	0.59	0.73	0.89
% inc.	91.6	49.6	3.0	-0.6	23.0	22.6
CFPS (€)	2.19	2.88	3.67	4.02	4.47	5.46
% inc.	38.9	31.3	27.6	9.5	11.2	22.1
DPS (€)	0.00	0.00	0.00	0.09	0.10	0.15
% inc.	n.a.	n.a.	n.a.	n.a.	8.1	43.6
BVPS (€)	1.61	2.11	2.59	3.83	4.45	5.20
% inc.	32.2	31.1	22.8	47.9	16.4	16.8
ROE (%)	24.0	27.4	23.0	13.2	16.3	17.2
Price (€)						
Max.	n.a.	n.a.	n.a.	n.a.	-	-
Min.	n.a.	n.a.	n.a.	n.a.	-	-
Last	n.a.	n.a.	n.a.	5.75	5.75	5.75
P/E (x)						
Max.	-	-	-	-	-	-
Min.	-	-	-	-	-	-
Last	-	-	-	9.7	7.9	6.4
Relative	n.a.	n.a.	n.a.	1.0	0.8	0.7
P/CF (x)						
Max.	-	-	-	-	-	-
Min.	-	-	-	-	-	-
Last	-	-	-	1.4	1.3	1.1
Relative	n.a.	n.a.	n.a.	1.0	0.9	0.7
Yield (%)						
Max.	-	-	-	-	-	-
Min.	-	-	-	-	-	-
Last	-	-	-	1.6	1.8	2.5
Relative	n.a.	n.a.	n.a.	1.0	1.1	1.6
P/BV (x)						
Max.	-	-	-	-	-	-
Min.	-	-	-	-	-	-
Last	-	-	-	1.5	1.3	1.1
Relative	n.a.	n.a.	n.a.	1.0	0.9	0.7

Source: Company and Bankinter Securities Research

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Date	Analyst	Company	Recommendation	Target price (€)
27-Jul-17	Marisa Mazo, Ph. D., CFA	BBVA	Hold	8.18
14-Sep-17	Marisa Mazo, Ph. D., CFA	Bankia	Buy	4.85
28-Jul-17	Marisa Mazo, Ph. D., CFA	Caixabank	Buy	4.38
09-Oct-17	Marisa Mazo, Ph. D., CFA	Liberbank	Hold	0.84
25-Jul-17	Marisa Mazo, Ph. D., CFA	Renta 4	Hold	5.97
25-Jul-17	Marisa Mazo, Ph. D., CFA	Sabadell	Buy	1.86
25-Jul-17	Marisa Mazo, Ph. D., CFA	Santander	Buy	6.30

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