ICADE Business School

VALUATION OF A COMPANY, LEVANTINA INGENIERÍA Y CONSTRUCCIÓN S.L.

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Executive Review

This final thesis is a valuation of a company project. The initial part of the project will contain a synthesis of all the valuation methods that are more commonly used, using with references from the authors, their opinions, advantages and disadvantages for each valuation method. Then, the valuation process for the company starts in the thesis, for this, the sector of the company (the construction sector) is introduced, the growth of the sector and the lately evolution. Also, the evolution of the company that is going to be valuated, this is brief but important 9to place the reader in the phase of the business cycle that the company is facing. Several methods of valuation will be applied, described and explained with a conclusion about the differences between them. Finally, a peer analysis to locate the company in terms of competitors in her sector and compare.

With the structure above explained, the project valuates a non listed company in the construction sector.

In spite of having obtained a value through the discounted cash flow method, it is also obtained through the comparable multiples method, to obtain a comparison between methodologies and also with other companies from the same sector.

Finally, the conclusions are presented, arguing the results obtained.

The objective, therefore, is to obtain the value of Levantina Ingeniería y Construcción, S.L, using the discounted cash flow method, taking into account the evolution of the sector, the company's business model and its economic-financial analysis.

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Acknowledgments

Como todo lo que he conseguido, se lo debo a mi familia. Por ello siempre estaré agradecida y les dedicaré mis logros.

1. Objective

The main objective of the thesis is to valuate for a medium company in the construction sector. As I have learned during this Master's Degree, there are several valid methods to valuate a company and there is a lot of research that can be done into this topic just to choose the most appropriate one taking into account the different circumstances of the company, the time and the objective of your valuation.

For this, the first part of my thesis was about reading different authors that both for their working experience and reputation dominate this matter and with whom I learned different advantages and disadvantages about each method. In order to develop this part of the work I wrote a brief summary of each method that I have considered relevant to my assessment understood in depth the different valuation methods and took decisions about the more relevant methods for my valuation.

To continue I studied more in depth the sector of the company that I valuated, taking into account the moment in the business cycle they are in the present and also their recent history which is not only interesting but important to take into account in this specific valuation. The construction sector in Spain was definitely one of the most harmed after the last economic crisis; the company that is going to be valuated was one of the survivors to this depression. It is interesting to completely understand the different types of valuation methods we can find and learn to apply them in this project.

I also did an economic and financial analysis to the last two audited years of the company to know in depth more about this financial structure and how they are actually generating money.

Therefore, in summary, the objective of my final thesis is to obtain the value of Levantina Ingeniería y Construcción, S.L by at least two methods of valuation and to conclude with solid arguments how much it should be paid to invest in this medium company.

Finally, taking into account the sector of the company, the financial structures of the company and other important characteristics about Levantina Ingeniería y Construcción I conclude this project writing about the valuation method that I consider it is more successful for this company in this moment.

2. Introduction

In the following thesis, I will perform a valuation of the company Levantina Ingeniería y Construcción, S.L., a construction medium company from Valencia, Spain. Therefore, the first part of the thesis will review the main valuation methods and their methodology, followed by an analysis to see how well they will measure the value of the company, taking into account it's size, sector…

After the analysis I will use eight different methods of valuation from three different approaches, the balance sheet approach, market based approach and the discounted cash flow method, to valuate the company and release a comparison and interpretation of each method, concluding which one is, in my opinion, close to the real value.

The valuation of a medium company has some singularities respect to listed companies, this is due to the lack of the public information about the company. Listed companies are valued by the market every day, when investors sell and buy their stocks, on the other hand, this does not occur in non-listed companies. Therefore, the valuation has to focus on the accounting in the company but also on a deep analysis of the company's strategy. This strategy should be reflected in the accounting and explain the different investments and funds for example of the company.

The company that is being valuated is chosen specifically by different attributes that have been studied and assessed, it is one of the few Spanish medium construction companies that survived the 2008 financial crisis, instead of having to close it managed to internationalize.

3. The Construction Sector and the Company Levantina Ingeniería y Construción, S.L.

3.1 The Construction Sector and its Recent Evolution

The construction sector has grown extensively in recent years, once again becoming one of the most important sectors of the Spanish economy, as it was until 2007 and before the terrible financial crisis suffered by Spain in which this sector was greatly affected. Construction output in Spain decreased 5.8 percent in March of 2019 over the same month in the previous year. Construction output in Spain averaged -1.03 percent from 2001 until 2019, reaching the highest point of 55.5 percent in April of 2014 and a record low of -45.5 percent in June of 2011. Currently, construction companies, to obtain the same services have to offer much more credit security to financial institutions compared to the years before the crisis.

"From the mortgage crisis to the brick crisis" [10] sums up in a headline how the crisis caused by "the real estate bubble" forced more than 90% of Spanish companies in the construction sector to internationalize or cease their activity. Its origin stems from the lack of analysis of the debt capacity of families and their ability to assume the cost of debt in the long term. Mortgages were granted at the level of the salaries at that time, very high, without considering the lack of resources to repay the debt when the bubble busted. When the banks reacted, they closed the financing tap and left many works started or planned without the possibility of sale. This generated a brutal increase in unemployment and, as a consequence, a reduction in consumption, which led to a savage contraction of the economy in all sectors. The financial sector was particularly affected by the impossibility of collecting the mortgages it had contracted in previous years, which led to a considerable increase in foreclosures that led banks to have large bags of foreclosed properties that they had no one to sell, since the real estate supply far exceeded demand. The next step led the banks to accept only mortgages, with very restrictive conditions, to those who were going to acquire real estate owned by the bank, which prevented selling all the houses planned or under construction that were in the market, with the consequent closure of many construction companies.

The construction of housing (construction sector) precedes its sale (real estate sector), therefore when demand plummeted, after real estate, construction companies fell. There were also many construction companies that were also engaged in selling their projects; therefore, they were part of the real estate sector as well as the construction sector. The companies that were dedicated to civil works (not to the construction of houses) were affected in the same way since the Public Administration reduced its offer of projects causing important liquidity problems to the companies of the sector. The chain brutally affected all construction companies in the country, regardless of their

specialization. The competition increased because of the few construction opportunities that arose, signing contracts for works with low prices that further increased the crisis in the sector.

In the construction sector, two sub-sectors are distinguished: Public Works and Private Works. The definition of both terms is explained for the importance they have in this project, public works are intended for the use of all citizens, examples of these are roads, highways and airports among others, works contracted by the State, either the Central Administration or as a result of territorial decentralization, political and in some economic aspects of Spain, Autonomous or Municipal Administrations. Its objective is to provide useful services for society as a whole.

Unlike public works, private works are contracted by a third party, which is a private individual, in theory must meet deadlines as in public works. But, in practice, these deadlines are less exhaustive because they do not have the same level of surveillance and inspection as public administrations.

Another relevant concept is civil construction projects, which is dedicated to the development of the nation's infrastructure (roads, viaducts, bridges, etc.), and is governed by the Public Works Law. The commercialization of this type of projects of construction is carried out through restricted invitations or through public bidding. They have very tight delivery dates, which means that the company must be able to calculate its execution capacity at the most detailed level possible. Companies need significant economic capacity, as they are large works. Therefore, the working capital, for the initial investment of each project, must be significant.

The difference between a civil construction project and a public project is minimal, in fact, a public project will almost always be civil, but a civil project can be private. There are private companies that carry out works for the use of all citizens. A clear example in Valencia is Juan Roig's investment in the park of the old riverbed with the corridor lane. There are many more cases of parks, or roads for example.

Many of the companies in the construction sector took the decision to go abroad and try to offer their services as a result of the problems founded by the financial crisis of 2007. Even so, the percentage of companies in Spain that have managed to internationalize continues to be lower than that of most European countries, it continues to be a country that, although the European average is decreasing, is progressing in terms of internationalized entities. Most of the companies that took this decision did so without choice, as a necessity to stay afloat.

Now a days, the public construction subsector is perceptible to the growth of the national economy, the evolution of interest rates and the stock market cycle, since the country's economy is related to the amount of construction projects offered by the Public

Administration and also because investment in real estate assets is an alternative to investment in the stock market. This is proved by the construction report of 2018 from "el observatorio de la construcción" together with the Spanish Construction Association. "It should be celebrated the good development of employment and the creation of companies in the sector during 2018, highlighting that, with regard to construction companies, it has been experienced the greatest growth in the last year decade. Construction has been one of the three economic activities with the largest contribution from newly created companies, as well as being the activity with the greatest increase with respect to the figures of 2017. Which denotes the importance of construction as one of the driving elements of the country's economic recovery".

This sub-sector of public works, which is the one analysed in this work, depends to a great extent on the political decisions of investment in infrastructure, which will depend mainly on the Central Administration.

3.2 The Evolution of Levantina Ingeniería y Construcción, S.L. until Today

The chosen entity is a young company, Levantina Ingeniería y Construcción. It is a private limited partnership in the construction sector with its registered office in Alberic, a small town about 40 km from Valencia. Since 2014 it has the two administration support offices in Alberic and also in the city centre of Valencia another support offices, less administrative and where most of the engineers work, this is due to the growth of the entity, this new investment helped to have a better known and easier location for potential partners and customers. In these offices, production areas work, this are, the different projects in which the company is working. The offices of the municipality of Alberic, are the main headquarters, the general services that work to offer all the needs for projects being executed by the entity. These general services are the departments of logistics, human resources, purchasing, IT, accounting and finance among others.

Levantina Ingeniería y Construcción, from now on called LIC, is formed by three shareholders. It was born in the year 2000 after the union created by the knowledge and specialization in the execution of large structures of one of the shareholders, in Soluciones Estructurales, S.L., company of the same shareholder and the experience of another shareholder in the construction sector, in particular, civil engineering projects, working in one of the most well-known and big construction companies in Spain. It is a medium company but with great experience on its sector given the union of the partners and the team of specialized engineers in the different areas and phases of civil construction projects.

LIC has been and continues to be present in the main national infrastructure projects (railways, highways or roads), as well as in the development of projects for major events or emblematic buildings.

Examples of this in Spain are the structure in the main building in "La Ciudad de las Artes y las Ciencias", the Parking in the General Hospital of Alicante, the prepared are for the celebration of the 32nd edition of the Copa de América in the port of Valencia and complementary facilities, the VIP Building to house this Cup of America too (Foredeck

building) and several high-speed railway accesses, such as the Madrid-Levante, AVE section in Embalse Siete Aguas in Buñol, among others.

Another service offered by society consists of the conservation and maintenance of structures. This process begins with the inspection and evaluation services, which, with specialized external laboratories and with the most sophisticated tools, diagnose the state of the structure and predict its future behaviour. After the diagnosis, LIC'S engineers execute the strategies of action destined to repair, protect or reinforce the structures.

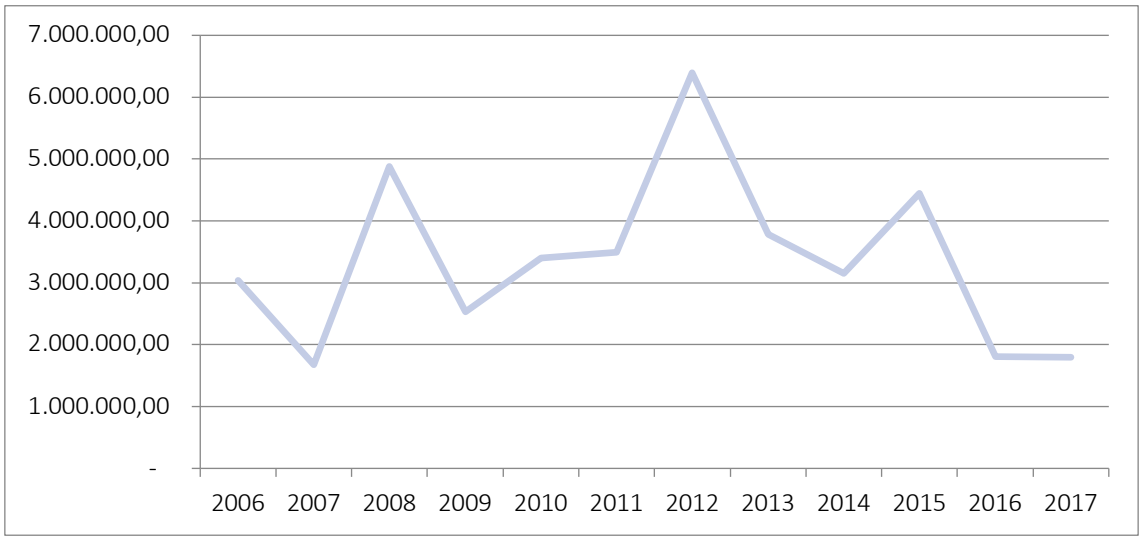
Finally, LIC has also carried out many real estate development projects. The property development activity had a lot of weight until 2007, approximately, when the market started to deteriorate, and the supply of flats and houses was much greater than the demand for the real estate bubble in which we had lived. This residential promotion service has the technical and management team that is required to develop the entire process. From the transformation of the ground to the final delivery of keys. LIC is responsible for market studies that identify the housing needs of architectural projects and construction and construction, as well as real estate management.

It was in 2008 when the internationalization process for LIC begins, it is difficult to define the beginning of this process. The company invoiced outside of Spain for the first time in 2010, but the year 2008 is considered the start since management considers this process in 2007 and in 2008 the company's resources are already invested in foreign market studies, including traveling to know well the opportunities of the international market.

After several interviews with the company's financial director and economic analysis, it can be said that LIC was one of the companies that not only survived the crisis in the construction sector but also grew during the years of the crisis and managed to internationalize.

Graph 1 shows the evolution of the entity's operating income from 2006 to 2017, it can be seen the growth of the entity abroad since 2010, finding most of its outsourced activity and the problems it faces since 2016:

Graph 1 Operating Income (2016-2017)



Source LIC Annual Accounts (2006-2017)

Considering that the environment has not come along with this growth, we can see that the assessment is positive despite the decline in activity in recent years.

Throughout 2017, LIC workforce has more than five hundred employees, present on three continents. The strategy of the human resources department focuses on "innovation as a line of thought, communication as an effective channel and motivation as a lever for development" [18]. They have a highly qualified team with experience in the infrastructure sector. The workforce is very diverse, 50% of which does not come from Spain but from other nationalities. This aspect has taught them to manage work teams from the illusion, commitment and tolerance. The way of working they have adopted and the diversity in the working groups has given them greater flexibility, capacity to adapt, speed of resolution, new ideas and competitiveness to face any project in international environments in the field of civil engineering.

The entity has presence in America, Africa and Europe. In 2017, only 13% of its activity is carried out in Spain, while in Algeria, the country where it currently carries out the largest number of projects, takes place 48.95% of its activity. It should be noted that in the previous year (2016), 75% of its production was carried out in Algeria, a decrease of 25% in 2017 indicating that they are diversifying their activity and with the aim of reducing risk.

On the other hand, activity in Spain during 2017 increases considerably, since the expansion phase in which the country's economy currently finds itself is already palpable. The entity is once again bidding on some work, it had stopped doing so after the crisis due to delays in payments by public administrations and because it was really difficult to maintain the stability of society. At the moment, the Spanish government is increasing the supply of public works. It should be noted that the Spanish city where he works most is Valencia, because it involves less expenditure for the entity to be where it resides its official headquarters.

The other two countries where the company is executing projects are Panama and Belgium, although with less weight in this order. These projects increase Levantina's capacity to adapt and continue internationalising, despite the fact that they are not the most relevant projects when looking at its sales.

The economic activity by province in Spain, Algeria, Panama and Belgium is detailed below.

Table 1 Greographical Distribution of LIC's Construction Projects

Geographical Distribution	TOTAL
Alicante	2.124.238,09
Murcia	256.076,10
Valencia	4.857.367,82
Sevilla	2.025.704,12
Guadalajara	55.010,61
La Rioja	225.532,38
Girona	79.294,13
Teruel	30.619,88
Madrid	21.441,29
Cádiz	754.209,35
Castellón	37.960,99
Asturias	279.917,31
ESPAÑA	**10.747.372,07**
Annaba	3.288.880,45
Djelfa	465.200,20
Mascara	4.708.496,73
Skikda	5.255.312,46
Tenes	27.495,89
Argel	3.331.848,77
Bilda	267.922,38
M' Sila	1.317.834,41
ARGELIA	**40.157.735,43**
Panama	**1.471.334,63**
Belgium	**255.395,91**
	-
TOTAL	**82.042.201,40**

Source LIC Annual Accounts (2017)

Now a days, LIC has an international vocation that continues to be reinforced every year, not only consolidating its presence in the foreign markets in which it is already working, but also expanding its scope to new countries in search of new goals.

LIC offers different advantages in each country, for example, cost leadership or differentiation. When it comes to a country with a higher level of technology or research than Spain in its sector, it can normally provide better prices and be more competitive than its competitors, thus following a strategy of cost leadership. On the other hand, when it comes to a country with a lower technological level than themselves, it is closer to a differentiation strategy, where it presents the highest quality that can be offered in the shortest possible time with the infrastructure it has. Both advantages are also motivations for the entity to internationalize.

Not only do these advantages become motivations for LIC, but there are more factors that pushed the LIC to make the decision to internationalize.

4. Conceptual Framework on Enterprise Valuation

Before carrying out a company valuation, the background of the different methodologies will be reviewed. The value of a company is key to make wise business decisions, it is the most precise way to know if a company is creating value from both points of views, as a shareholder and as a stakeholder too, therefore, when this information is taken into account by a CEOs for example, those companies result healthier. Talking about healthy companies, we are referring to companies whose phases will become longer and stronger, improving living standards of their employees and creating new opportunities for new workers.

There are different methods to valuate companies, they can be separated by the information in the accounts or cash flow that they require each. For the following thesis, only some of them will be applied to the construction company that will be valuate.

According to the International Glossary of Business Valuation Terms, "*the income approach is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated benefits into a present single amount. The market approach is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar ('guideline') businesses, business ownership interests, securities, or intangible assets that have been sold. Finally, the asset (or cost) approach is a general way of determining a value indication of a business, business ownership interest, or security by using one or more methods based on the value of the assets of that business net of liabilities".*

Valuation methodology will vary depending on many circumstances of the business that is being valued. For example, the moment of the business in its life cycle, it may be on the maturity phase, growth, decline among others. It will also have to be taken into account if the company is listed or not, the size of the entity, or even the sector it is working on. There are differences between seller and buyer when valuing a company, also in terms of shareholder's valuation versus stakeholder's for example, but moreover, there is a big debate in valuation according to the research for this project between different well-known professionals in this specific area of the financial sector, on this chapter the ones considered more relevant for this particular valuation are used.

Hereafter, we will develop the different approaches of valuating as studied in the Corporate Finance Unit of the CFA I subject in the financial master at ICADE, lesson taught by Javier Borrachero Kieselack.

Table 2 Main Valuation Methods

BALANCE SHEET	RATIOS / MARKET BASED APPROACH	DISCOUNTED CASH FLOWS
Book Value	PE	Free Cash Flow to the Firm
Adjusted Book Value	Price/Sales	Equity Free Cash Flow
Liquidation Value	EV/EBITDA	Debt Free Cash Flow
Substantial Value	Price/Book Value	Capital Cash Flow
		Dividend Discount Model

Source: Prepared by the author

4.1 Balance Sheet Approach

They are based on data that is provided in the company's balance sheet, obtained in accordance with the accounting rules, with the required adjustments, where, for example, fixed assets are recorded with their acquisition price that will rarely equal the market value of the asset.

Pablo Fernandez, IESE Business School teacher and holder of the PricewaterhouseCoopers Corporate Finance Chair wrote about this approach as a traditional method that gives a value from a static perspective, not taking into account the future evolution of the company and the future generation of value nor the temporal value of money or other important factors. Other important parts aren't taken into account, as the financial situation of the country of the company, it's sector or possible problems that can arise in different departments, such as human resources.

The main methods inside this approach are, the liquidation value, book value, adjusted book value and substantial value.

4.1.1 Book Value

It is a way to value the stocks of the company with the accounting value of the assets in a company. Basically, it is the difference between the total assets of the company and the current liabilities, taking into account the book value of this assets and liabilities.

Pablo Fernandez explains that this method of valuation has the problem that its own name indicated. "Accounting tells us a version of the company's history (accounting criteria is subjective), while the value of the shares depends on expectations". Therefore, the accounting value will rarely be equal to the market value of the entity.

4.1.2 Adjusted Book Value

This method is based on the book value method, but it tries not to base the whole valuation only on the book value of the assets but also on other criteria such as obsolesce, market prices… Then a more realistic valuation is achieved by adjusting the book value of the assets and liabilities to the market value, after this, adjustments are made, the adjusted value of the equity has been calculated.

4.1.3 Liquidation Value

As its name indicates, it is the value that the company has when absolutely all of its assets are going to be sold and all the debt is going to be cancelled.

Utility of this method is restricted to a very specific situation according to Pablo Fernandez, which is the liquidation of a company. It will always represent the minimum value for the company, as the activity of the company will cease, therefore, the future value will be lower than if it continued to create value.

4.1.4 Substantial Value

The substantial value method can be defined as the replacement value of the assets, under the assumption of continuity of the company, as opposed to the liquidation value.

The substantial value represents the investment that should be made to establish a company under the same conditions to which it is being valued. Pablo Fernandez does not recommend including goods that are not useful for the activity of the company (lands unexploited, shares from other companies…).

There are three sub-categories in this method of valuation, Pablo Fernandez classifies them as:

- Gross Substantial Value
- Net Substantial Value /Net Asset Corrected
- Gross Substantial Value Reduced

4.2 Ratios Approach

These methods of valuation are based on the Profit and Loss account; the multipliers that are calculated take information from this part of the accounts, except the price/book value ratio. From the profit and loss account, there are different interesting values from the companies that are commonly used to value the company. The main values that I will develop, following Pablo Fernandez's structure are the PE ratio, sales multiple, EBITDA multiple…
This method is quick and very useful when for certain type of valuations for example, a parking (using the number of parking lots by the number of expected sales per lot).

Some economists, for example Marco Fazzini, call these multipliers the market approach, as once they have calculated the result is compared with multipliers of their peers or even

the multiple of that sector's industry. There are two main reasons for these multiples to be so widely used in the financial market according to this author, he defends they are objective and that they have an ease of use.

In my personal experience, I know many cases where this multiples are used as there are many databases online that provide directly the multiples and the peer analysis for the user, therefore, there is no need to know how to calculate yourself from your research and the accounts of the company this multiples, this broadens the public that can valuate companies.

4.2.1 Price per Earnings Ratio

The price per earnings is definitely the multiplier more used in valuation, especially for listed companies. "It shows how much the market is willing to pay for one dollar of expected earnings" said the author Fazzini. It is important to be careful when it is applied, they can be simplistic as it is a distillation of a huge amount of information from the accounting and finance of the company, this can lead to simple or even erroneous interpretation, but when all the information is understood and well used, the simplicity and ease calculation becomes just an advantage to make a robust interpretations of its undervaluation or overvaluation. Another important point is to know that it is a static multiple, which means that the value given represents a snapshot of the company in a specific point in time. Therefore, in my opinion, valuations will be less precise compared to the accuracy that can be reached with the balance sheet approach, as one year's EBITDA; P/E or EBI cannot take into account the variations that may affect future exercises as a recession year, for example.

The valuation using this multiplier is calculated by multiplying the annual net profit by a coefficient called price per earnings. This multiplier has a commonly known abbreviation, which is the PE.

$$Multiple = \frac{Price}{Earnings\ per\ Share}$$

Pablo Fernandez => Pablo Fernandez spoke also about another price per earning multiplier that is just a derivative from the original price per earning multiplier; this is the relative price per earnings. This relative multiplier is simply calculated by dividing the company's PE multiplier over the country's PE.

4.2.2 Multiple of Sales

$$\frac{Price}{Sales}$$

Consists of valuing a share though the price that the company is charging to their customers over their sales. But it can also be decomposed forming two different ratios: the PE ratio that has already been explained above and the profitability over sales ratio.

$$\frac{Price}{Sales} = \frac{Price}{Profit} \times \frac{Profit}{Sales}$$

To test the consistency of this method, Smith barney carried out an experiment to analyse the relationship between the price/sales ratio and the profitability of the stock. The study was carried out with large companies (capitalization over 150 million dollars) from 22 different countries. Then, the companies where divided in five groups according to their price/sales ratio. Companies with lower ratios formed group 1 and companies with higher price/sales ratio formed group 5. He concluded that there is no relationship in any of the three different periods that were analysed.

4.2.3 Enterprise Value / EBITDA

This multiple is a simple division. As multiples are based on the values for comparable companies, they are affected by market transactions explains Marco Fazzini. For example, in a positive economic cycle, multiples will tend to have higher values and the other way around will occur in a recession phase of the economic cycle. He also speaks about how, even though that the multiple uses the EBITDA (from the profit and loss account) and the Enterprise Value (that will be calculated from the balance sheet), there will be no significant influence from the accounting policies. This may seem an advantage, but it can be a disadvantage too, as it doesn't take into account the investments, for this reason, it may lead to an undervaluation/overvaluation, depending on the amount of depreciation.

To avoid this bias the company can be valued with the multiple $\frac{Enterprise\ Value}{EBIT}$, then, the depreciation is taken into account, but the multiple is very influenced by the accounting policies.

4.2.4 Price/Book Value

$$Multiple = \frac{Price\ per\ Share}{Book\ value\ of\ Equity\ per\ Share}$$

This multiple compares the book value of the company with the market value of the company based on the Business Valuation book written by the professor Marco Fazzini. It will be a positive indicator when it is higher than one, this means that market value is higher than its book value, hence, the company is creating value.
There is another division, without taking into account the individual shares, and this would mean to divide the enterprise value over the book value of the equity.

4.3 Discounted Cash Flow Approaches

These methods try to determine the total value of the company through the cash that the company will generate in the future, as this cash will be generated in the future; the different year cash flows are discounted to bring the value of the money to the present.

In general, this method is addressed by financial analysts such as Pablo Fernandez or the Italian professor Marco Fazzini, as it is probably the only conceptually fully correct method that takes into account the value that the company generates, the expected growth of the entity, how time affects to the value of money, the cost of equity and debt of the company among many other factors.

Pablo Fernandez defends that the conceptually "correct" methods are those based on the discounting on cash flows as they consider the company a value generator. He also gives relevance to the liquidation value, but only when liquidation is going to take place.

As claimed by the Theory of Finance (Fama, 1972), the value of each financial asset individually, depends on the cash flows that will be able to generate during its remaining useful life and the uncertainty as to their actual realization. In other words, an investor will be looking forward to investing in a financial asset as long as the associated risk is adequate to the risk profile he decided to take and the remuneration is the one expected.

These cash flows are carefully generated via forecast, for each period, of each of the financial items related to the generation of cash flows corresponding to the operations of the company, such as, sales, costs of labour… Conceptually, it is a treasury budget approach.

To my mind, one of the most complicate variables that will really make a difference on the accuracy of the valuation will be the discounted rate applied. It is one of the most important points. It is done taking into account the risk, historical volatilities… To see this with perspective, I use different scenarios with different discount rates.

The discounted cash flow valuation method arises from the following expression:

$$V = \frac{CF_1}{1+K} + \frac{CF_2}{(1+K)^2} + \frac{CF_3}{(1+K)^3} + \cdots + \frac{CF_n+RV_n}{(1+K)^n}$$

- CFx = Cash flow generated by the company in the period x.
- K = Discounted rate applied.
- RVn = Residual value of the company, the formula applied to calculate this is the following:

$$RV_n = {CF_n(1+g)}\Big/{(k-g)}$$

The residual value recounts the future value of the company in absolute terms up to the end of its useful life. "It may be permissible to depreciate their value from a certain period, given that their current value is lower the longer the time horizon is. On the other hand, the competitive advantage of many businesses tends to disappear after a few years", describes Pablo Fernandez, defends in his paper on valuation methods. [Métodos de Valoración, Pablo Fernandez, 2005]

To proceed with this method, it is important to know that there are mainly, five different types of cash flows: The free cash flow, equity free cash flow, the debt free cash flow, the capital cash flow and the dividend discount model.

The logic behind the income approach according to the professor Marco Fazzini is that "a rational operator is willing to assign a value to a business at least equal to the amount he or she can recover within an acceptable time horizon".

In the following table (3) we can see the different cash flows and the most appropriate discount rates applied to each cash flow according to the valuation specialists Pablo Fernandez and Marco Fazzini.

Table 3 Cash flow methodologies and most appropriate discounting rates

CASH FLOW	DISCOUNT RATE
Free Cash Flow	WACC
Equity Cash Flow	Cost of equity
Debt Cash Flow	Cost of Debt (Kd)
Capital Cash Flow	WACC before Tax
Dividend Discount Model	Cost of Equity – Dividend Growth Rate

Source: Prepared by the author

Separating the different cash flow types by the discount rate is one of the most visual ways, but there are more differences in terms of the values that are taken into account for each cash flow. It will be explained hereunder.

4.3.1 Free Cash Flow

The free cash flow is in its simplest explanation, the expected cash that the company will generate from their operations, the operation cash flow. To calculate it, we don't take into account the financial debt after taxes, this is because both are cash outflows. Therefore, the result will be the resulting cash of the company after selling its product or

service and once their “needs of reinvestment in fixed assets and operational needs of funds, assuming that there is no debt and that, there are no financial debt” are covered [Pablo Fernandez, Métodos de Valoración, 2005].

To calculate the future cash flows, an estimate must be made of the money that the entity will receive and that it will have to pay in each of the periods, it is basically the approach used to make a treasury budget as said before, however, for corporate valuation this task requires forecasting cash flows at a greater distance in time than is usually done in any treasury budget.

From the valuation method paper from Pablo Fernández (2008), it is explained how the accounting cannot directly provide such data because, on the one hand, it uses the accrual approach and, on the other, allocates its revenues, costs and expenses based on criteria that are non-arbitrary. These two characteristics of accounting distort the perception of the relevant approach when calculating cash flows, which must be the "cash" approach, that is, money actually received or delivered (collections and payments).

However, when the accounting is adjusted following this input and output cash criteria, the cash flows that we are interested in can be calculated.

Table 4 Free Cash Flow Structure

	Period 0	Period 1	Period 2…
Earnings Before Interests and Tax (EBIT)			
Tax (Over EBIT)			
NOPAT			
Depreciation			
Capex			
Increase in Working Capital			
Free Cash Flow			

Source: Prepared by the author

When a company has no financial debt, the free cash flow will equal the equity cash flow, another cash flow that is developed in the following subsection.

4.3.2 Equity Cash Flow

This cash flow can use as an initial point the free cash flow, but it has subtracted the payment of principal and interests (after taxes) and added the contributions of new debt. Therefore, what it will result is in “the flow of funds that remains available in the company after having met the reinvestment needs in fixed assets and needs of finance (NOF), and having paid the financial charges and returned the principal of the corresponding debt (in the case that there is debt).

$$EFC = FCF - \big(Interests\ Payed\ \times\ (1 - T)\big) -\ Principal\ Payed + New\ Debt$$

- EFC = Equity Free Cash Flow
- FCF = Free Cash Flow
- T = Tax

When making forecasts, dividends and payments shall be equal to the cash flow available.

4.3.3 Capital Cash Flow

It is called the capital cash flow to the sum of cash flow for lenders of the company; this is mainly the interests plus the return of the principal. Therefore,

$$CCF = EFC + DBF = EFC + I - \Delta D$$

- I = D*Kd (Cost of Debt)
- ΔD = Change in Debt

4.3.4 Calculating the WACC:

Variables that have to be considered before calculating WACC:

- Risk cannot be ignored because the cash flows are forecasted and are just expectations so it is not a certainty that the company will generate this cash. Also, every investor and company have its own risk profile, therefore, depending on the risk that the investor is willing to take, it will expect a different return (positive correlation relationship between risk and return).

- Marco Fazzini defends the CAPM model is the best model to calculate the cost of equity (Ke) due to how simple it is to calculate and identify its variables.

$$CAPM = K_e = r + (\beta \times ERP)$$

where:
r = risk-free rate
β = measure of a stock's risk of volatility compared to the overall market
$ERP = equity\ risk\ premium$

However, must be mentioned that the Beta has two weaknesses according to the same economist, Marco Fazzini. The first one in that the market is considered as the only benchmark for calculating risk and the second one, that will affect to the valuation that will be done further on in this project, is that for small businesses, a sector beta or a comparable firm beta may not be representative, as it assumes a risk-return ratio similar to that of a large company.

If the entity has too many nonoperating or operating assets, then they should be valued separately and then added to the valuation, to value the whole enterprise, this can be applied to the Income Approach too.

Inside this approach, there is a distinction between 4 main methodologies with discounted cash flows. As seen in the above table (3), they are free cash flow, Equity free cash flow, capital cash flow and APV.

4.3.5 Value of Dividends Approach

Lastly, a dividend is "the distribution of reward from a portion of company's earnings and is paid to a class of its shareholders" according to the economics website investopedia. There is a valuation method that is based in the dividends pay out and the cost of equity.

$$Value\ per\ share = \frac{Dividend\ Pay\ Out}{Cost\ of\ Equity}$$

There are articles that don't defend this method, according to Pablo Fernandez for example, it is not a realistic method as we would value more a company with a higher dividend pay-out but there is empirical evidence that companies that pay higher dividends won't necessarily increase their capacity or grow as they are distributing their profit instead of reinvesting in growth of the entity.

5. Economic Analysis of the Company

Levantina, Ingeniería y Construcción concentrates its activities in the civil construction sector. The competition in this sector is very high which causes a price war in the public bids that causes construction companies to have to adjust their prices a lot and incur, in addition, into very high risks. In the following analysis I present the economic-financial situation of the company and its position in the construction sector in such a way that it will be possible to visualize the structure of an internationalized company in this sector.

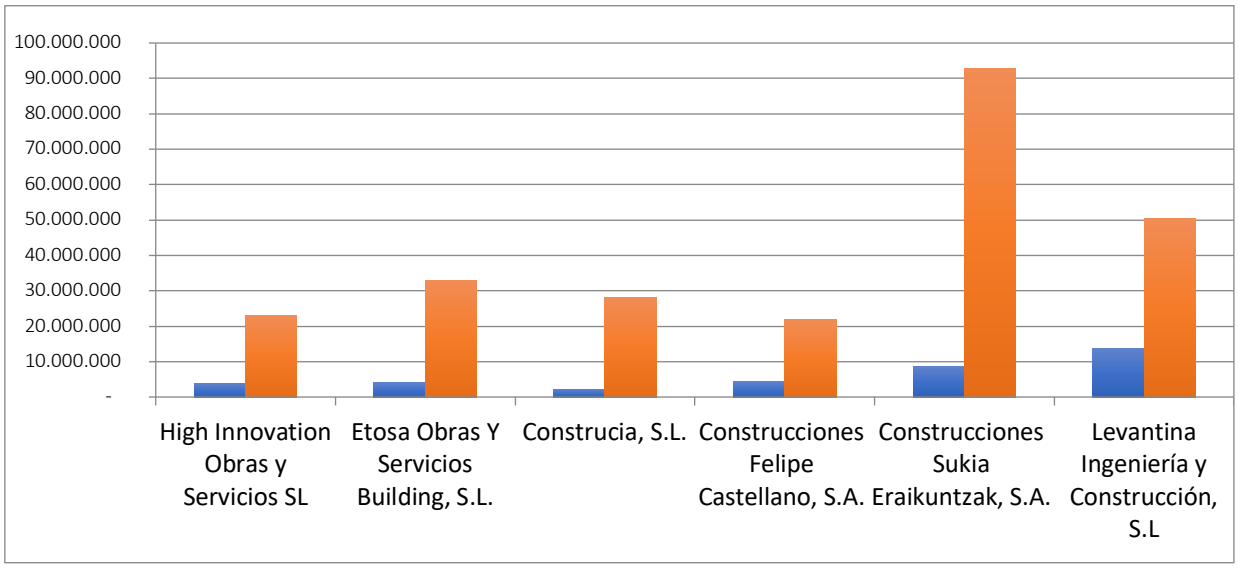
5.1 Sector Ratios, Economic Situation of the Sector

First of all, LIC was 31st in "El Economista" sector ranking in 2018, rising four places from the previous year.

In order to analyse this position with respect to its sector at national level, the main competing companies have first been defined, based on the exploitation figure provided by SABI database. These are: High Innovation Obras Y Servicios, S.L, Etosa Obras Y Servicios Building, S.L, Construcia, S.L, Construcciones Felipe Castellano, S.A and Construcciones Sukia Eraikuntzak, S.A. These companies have also been selected using this ranking and taking into account the opinion of the financial director of LIC.

The data used for the next sub-section of the economic analysis are from fiscal year 2016, unlike the rest, which are from 2017, this is because they were the last audited figures that could be obtained from competing companies.

Graph 2 Assets (2016)



**Non-Current Assets* **Current Assets*
Source: Data from SABI and own elaboration

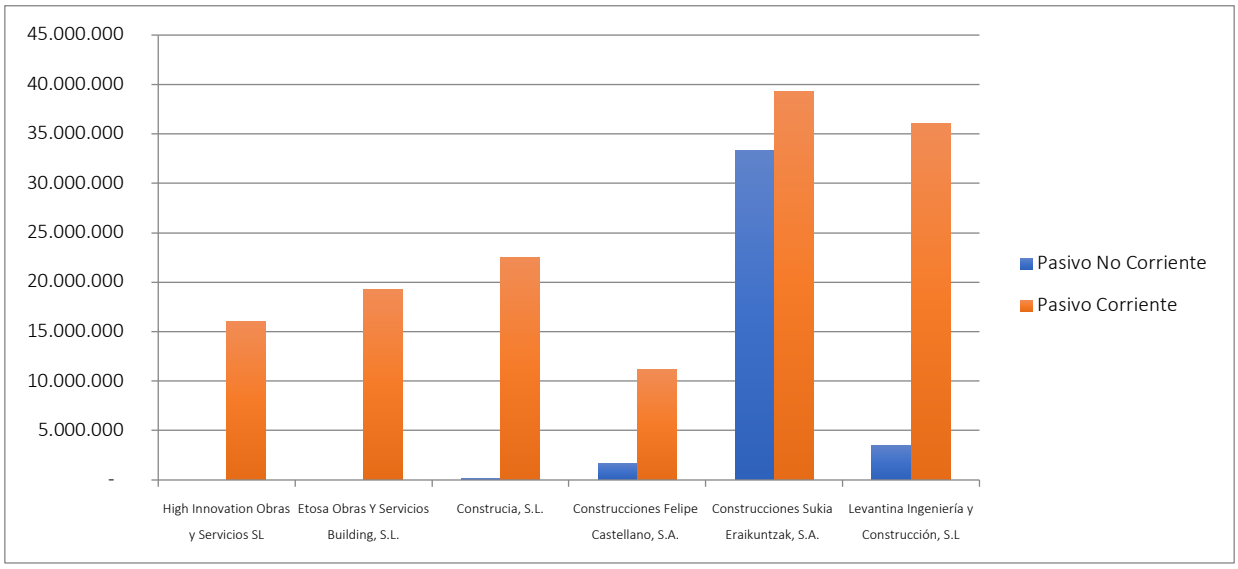
At first sight it can be seen that all the companies that have been used for this economic comparison concentrate their assets in the short term. In general, this is due to the fact that raw materials are purchased with economies of scale due to the size of projects. This is found under the heading stocks until customers are progressively invoiced according to the proportion of project being executed. They also tend to have very high "Client" accounts given the importance of the monthly production of these.

In LIC, we can see the smallest contrast between its current asset and its non-current asset, unlike Construcciones Sukia Eraikuntzak. This one is in the number 36th of the ranking of the sector, being the last of all the named ones in this ranking that is measured in terms of their production level. On the other hand, with respect to its debt and liquidity, optimum values are observed and, in addition, similar to those of its competitors. It could be said that its production capacity is not being exploited.

If you focus on LIC, you can observe the asset structure not balanced, even though it is the second company with more assets. It is the second company with the higher amount of non-current assets, in relative and absolute terms.

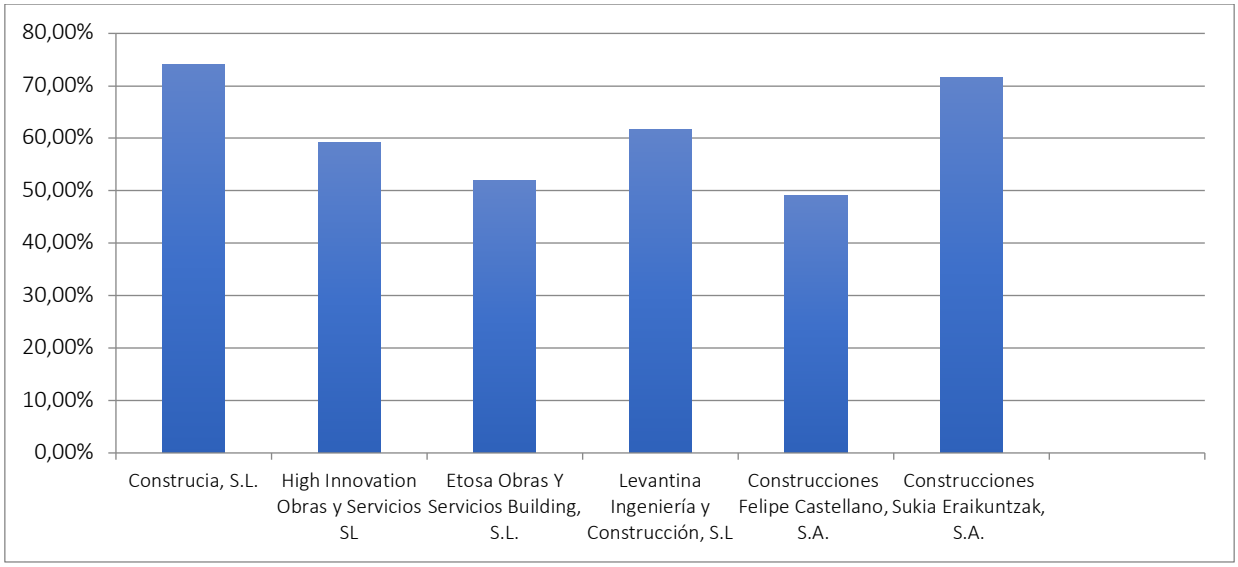
As for its liabilities, once again it can be noted that the activity is concentrated in the short term. This means that the debt of companies in this sector is not of good quality, they are short-term debts that generate more expenses than long-term (higher interest from financial institutions). In three cases (High Innovation Obras y Servicios, Etosa Obras y Servicios Building and Construcia), non-current liabilities are practically insignificant for the company and all its debt weighs on the short term.

Graph 3 Liabilities (2016)



**Non-current Liabilities* **Current Liabilities*
Source: Data from SABI and own elaboration

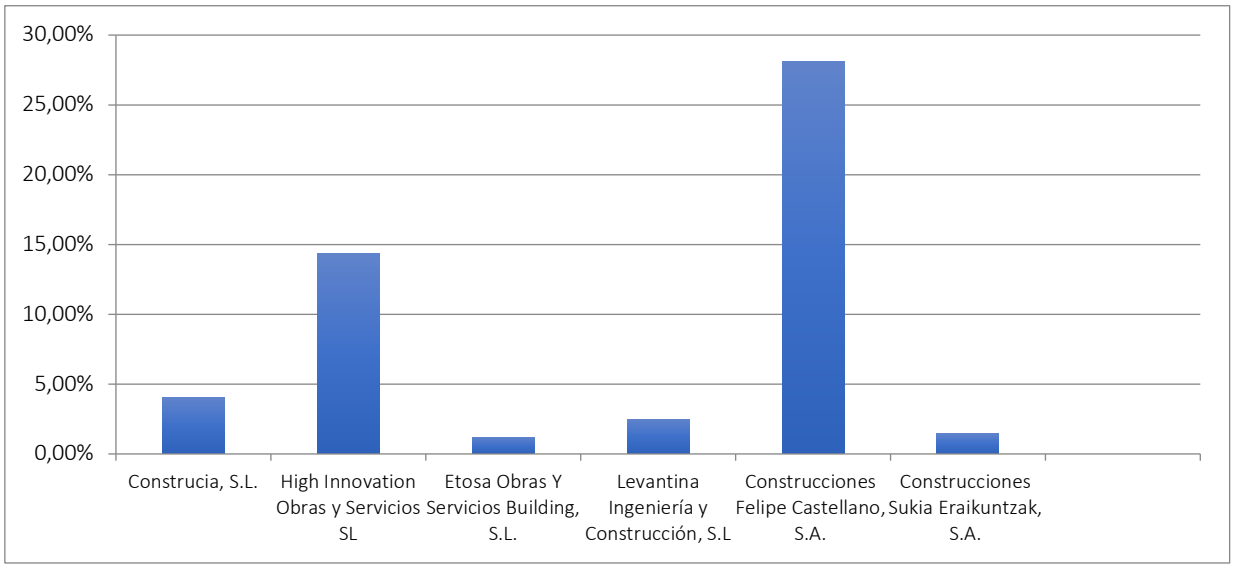
Graph 4 Debt Ratio



Source: Data from SABI and own elaboration

As for the debt comparison, this is the percentage of the entity's balance sheet that is debt (Liabilities, it is calculated by dividing the financial debt over the total of the entity's balance sheet. Half of the companies used can be considered undercapitalised as they have more that 60% of debt ratio, this means that their equity is less than a 40% of the balance sheet. Construcia, the company that produces the most, is the one with the highest percentage of debt. LIC is the third most undercapitalised company, in spite of this it is not considered to be an overly debted company as the liabilities are not too high. It is possible to distinguish a pattern of companies with a rather conservative profile as far as possible in the sector. No company has more than 75% debt.

Graph 5 Economic Return (2016)

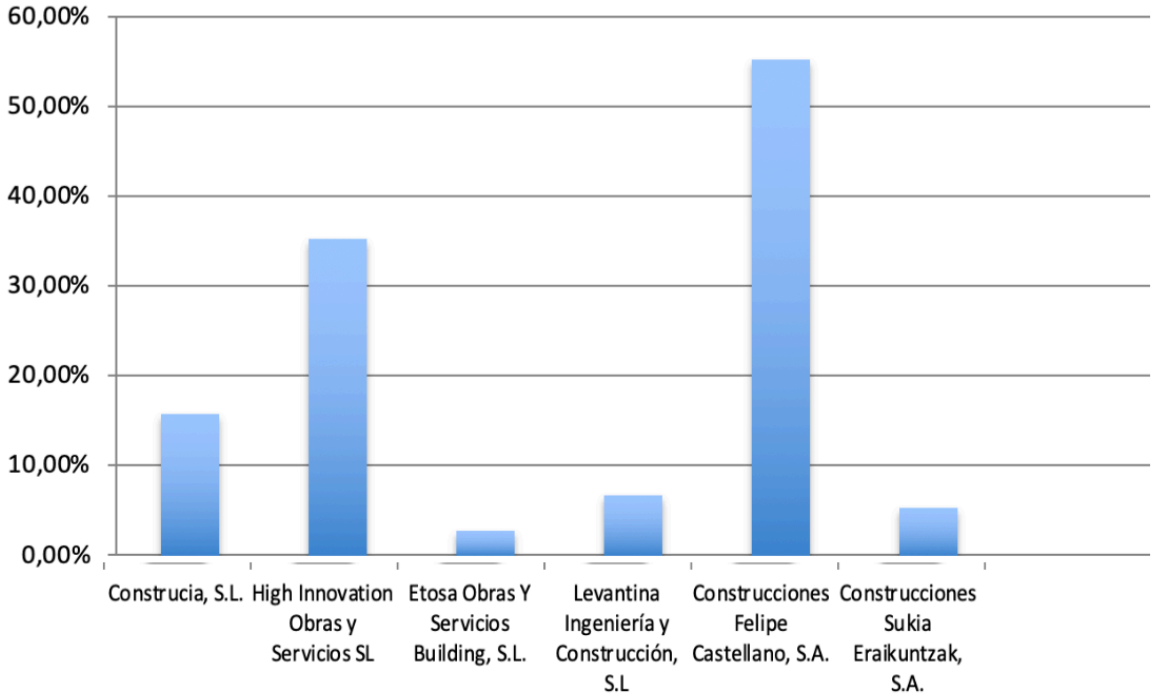


Source: Data from SABI and own elaboration

The average economic profitability of the sector is low since the economic crisis of 2007, this means that the profit in proportion to the assets of the company in general are lower than they used to be. There are several ways to calculate the economic profitability of a company, here it has been calculated by multiplying the asset rotation times the sales margin.

It is no longer declining, but it has not recovered either. The profitability of both, High Innovation Works and Services and Construcciones Felipe Castellano, should be highlighted, as they are well above the average for the sector, which is 3.1%. On the other hand, LIC, Construcciones Sukia Eraikuntzak and Etosa Obras y Servicios Building are below the average. LIC being the least worrying.

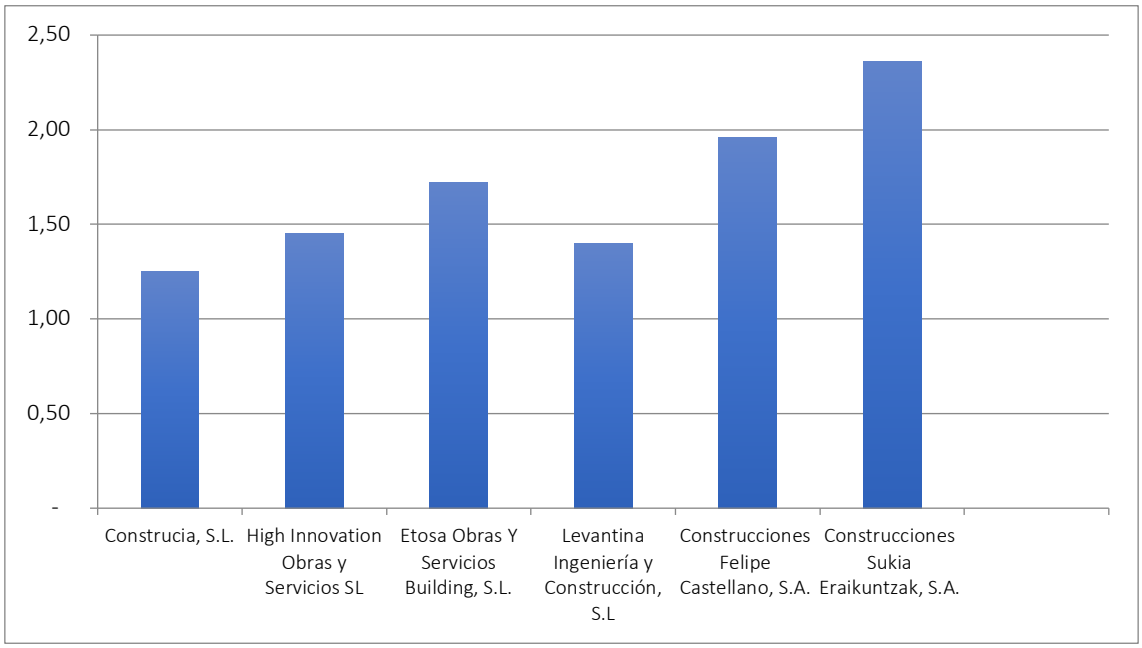
Graph 6 Financial Profitability



Source: Data from SABI and own elaboration

It would make sense for the two limited companies (Construcciones Sukia Eraikuntzak and Construcciones Felipe Castellano) to seek higher financial returns as a priority. This gives value to the company's shares and makes them more attractive to potential investors. In the case of Construcciones Felipe Castellano, it is a company with a conservative financial structure which has a very high profitability and also yield. On the other hand, Construcciones Sukia Eraikuntzak does not have a good financial profitability.

Graph 7 Liquidity Ratio (2016)



Source: Data from SABI and own elaboration

No pattern can be determined for the sector through the selected companies in terms of liquidity since we can see cases of possible lack of liquidity and others that seem to indicate loss of profitability due to the excess of liquidity. Although it has not been possible to delve deeper into the figures of the accounts of these companies, it is simply concluded that there is no remarkable pattern with respect to liquidity.

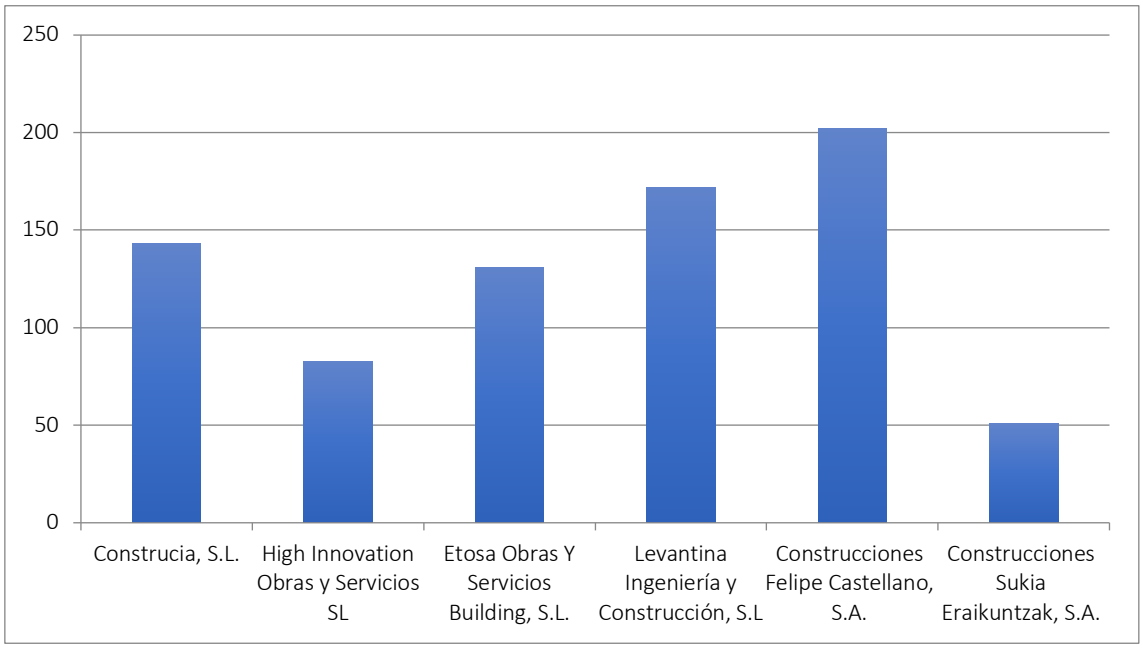
Bearing in mind that the five companies analysed and LIC have a similar turnover, it is surprising the variation in the number of employees that each company has. Thus, Construcciones Sukia Eraikuntzak has very few employees compared to other companies. It could be that the productivity per employee is different in each company, it could be studied with more information about these companies. LIC is the second company that has more employees, which means more expenses and less result.

Table 5 Number of Employees (2016)

Position in the Ranking	**Name of the Society**	**Nº Employees**
28	Construcia, S.L.	143
29	High Innovation Obras y Servicios SL	83
30	Etosa Obras Y Servicios Building, S.L.	131
31	Levantina Ingeniería y Construcción, S.L	172
32	Construcciones Felipe Castellano, S.A.	**202**
33	Construcciones Sukia Eraikuntzak, S.A.	**51**

Source: Data from SABI and own elaboration

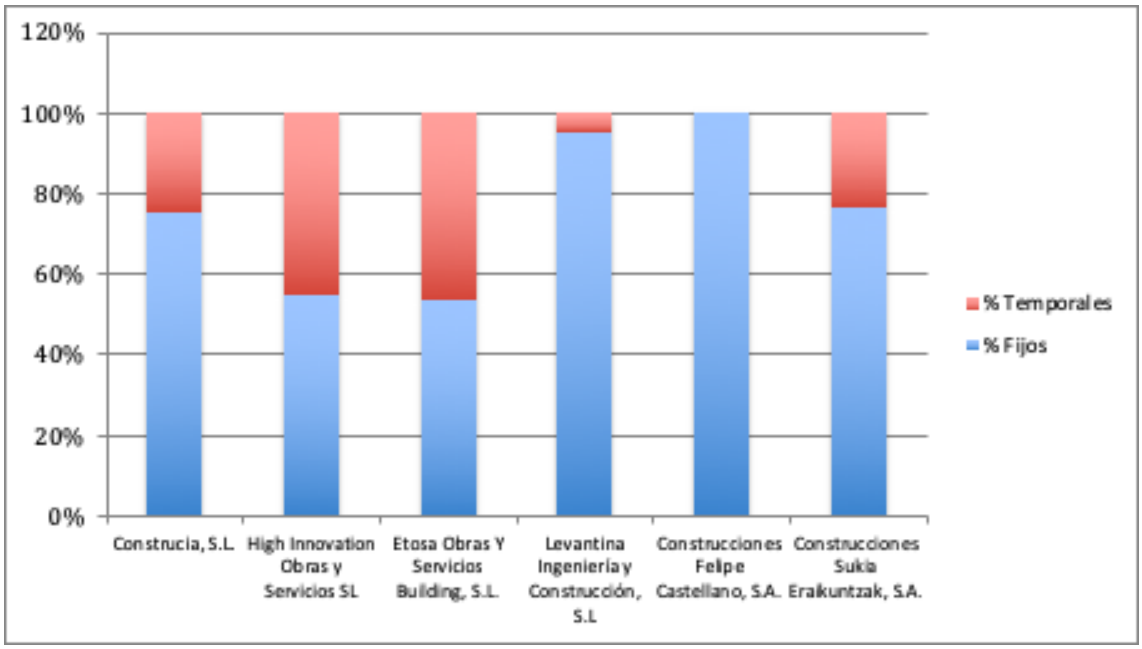
Table 6 Number of Employees (2016)



Source: Data from SABI and own elaboration

In the presentation of table 6 and graph 8, the position in the ranking of the company is taken into account. Therefore, the first company in both is the company with the highest turnover in fiscal year 2016. There is a positive correlation between the turnover of a company and the number of employees. We see that LIC is within this positive trend, an indicator that shows that its productivity in terms of employees is optimal.

Graph 8 Percentage of Temporary Contracts

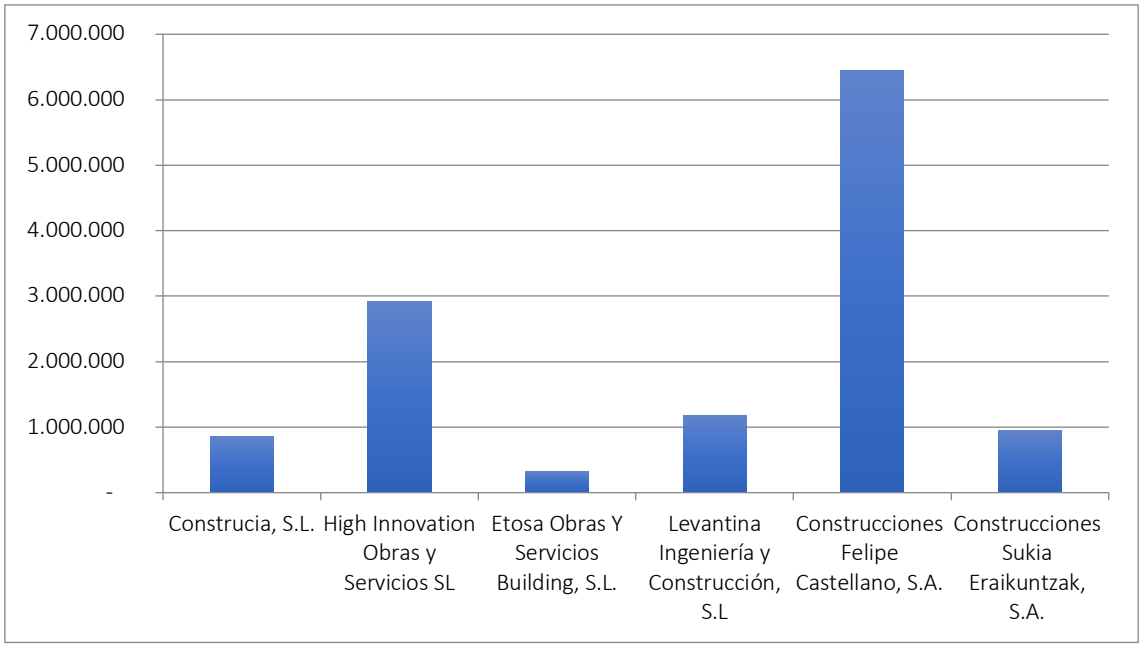


Source: Data from SABI and own elaboration

It is worth mentioning that the percentage of temporary contracts in the sector is significant. With regard to patterns relating to the production of the companies, it may be mentioned that in the four companies considered relevant in comparison with the number of employees (High Innovation, Etosa Obras y Servicios, LIC and Construcciones Felipe Castellano), the higher the percentage of hiring permanent employees, the higher the turnover. The productivity of permanent employees, in general, is higher than that of temporary employees, since the temporal workers do not usually know the society, the environment and their task as much as permanent workers. It can be seen, in the example of Construcciones Felipe Castellano, that it has the highest result and 100% of its permanent workers, it is concluded that this structure has a positive influence in spite of being more expensive workers for the entities.

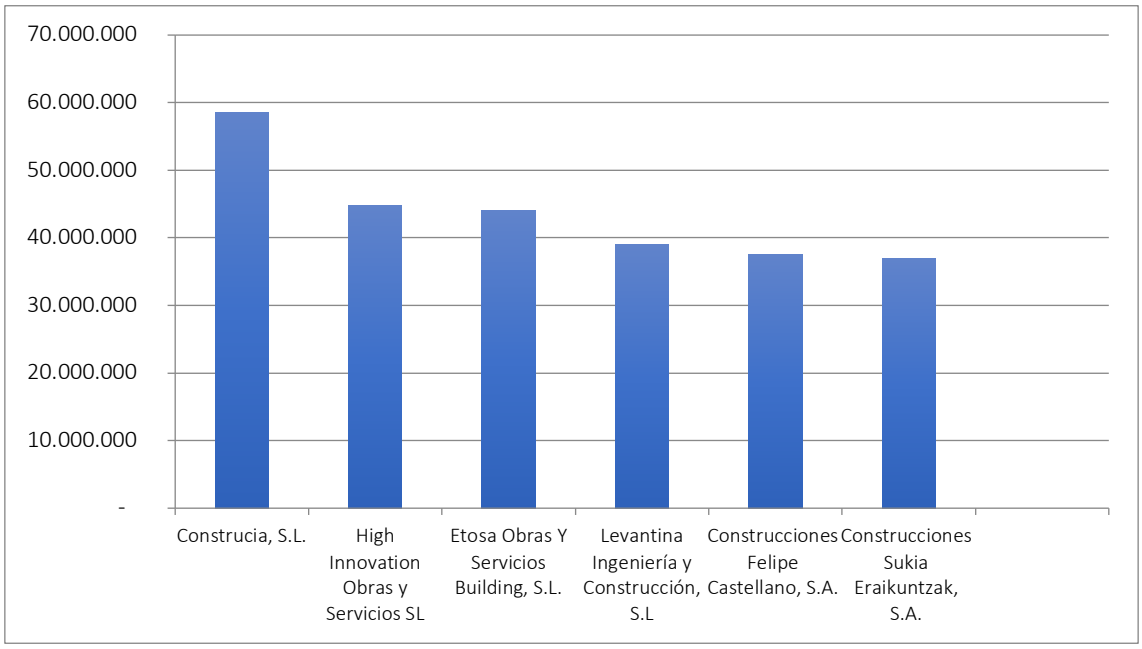
If we compare the data of these companies with those of LIC, it is recognised that both the structure of human resources and the productivity per employee of each company varies greatly in the sector.

Graph 9 Net Income (2016)



Source: Data from SABI and own elaboration

Graph 10 Sales (2016)



Source: Data from SABI and own elaboration

The negative trend regarding their sales continued between 2007 and 2014, growing again in 2015. "The production of the construction sector in Spain chained in 2016 its second consecutive year of growth after seven years of generalised falls" [3].

LIC's turnover is great considering its environment, the that prove it will be developed later. But if we take into account the value of the turnover of its competitors, we can also conclude that despite the fact that its environment did not move along with them, it remains in a good position in the ranking, and continues to climb positions annually. In 2015, it ranked 35th, only one year later it was in the 31st position.

Comparing these data, it can also be said that LIC has adequate liquidity ratios within the construction sector and the same about debt. If we bear in mind that society is facing both economic and political problems from external countries where it operates due to its internationalisation, its figure can be considered very adequate.

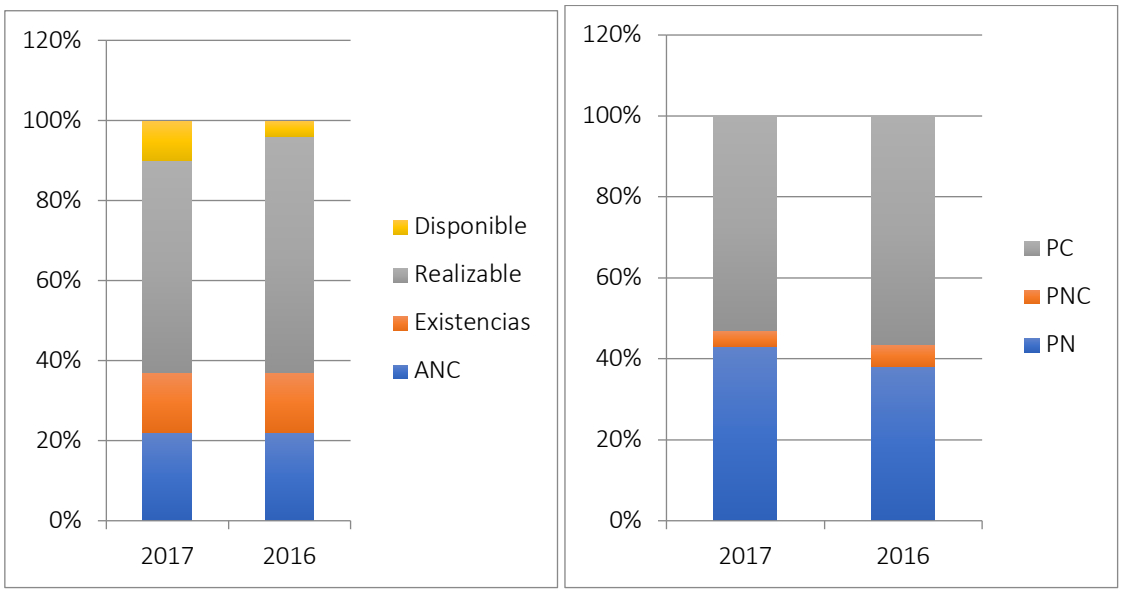
It is concluded that the variety of both financial and productive structures in this sector is infinite, as finding patterns among these companies has been complicated. Conservative type companies are more common, most of their activity in the short term, especially in the passive, also common are the employees with temporary contracts, have more weight than in other sectors, since there are phases of certain projects that require more manpower but refers to a specific time for society.

5.2 Analysis of the Asset Situation

5.2.1 Organisation of the Balance Sheet and Calculation of Percentages

With regard to the equity situation, the balance sheet corresponding to 2017 exercise, attached in the annex to the Annual Accounts of LIC, has been used. The company at first sight has a balanced structure.

Graph 11 Balance Sheet Structure of Levantina Ingeniería y Construcción, S.L.



Source: Data from AACC and own elaboration

5.2.2 Interpretation

It is clear that the company focuses all its activity in the short term, as both assets and current liabilities are a lot larger than non-current assets and liabilities. It is an unusual structure in its sector as we have seen. It is due to the type of activity of the company. Although the realisable assets stand out, it is generated a lot of production in the short term, with large quantities of raw materials (Current assets) thanks to large investments that are financed in the short term (Current liabilities).

The most important mass in terms of assets are realisable assets. In this case, the item "customer receivables for sales and services" stands out. The difference with the rest of the masses can be perceived with the naked eye. It may be an indicator that the collection from its clients is being badly managed, since it is a very high figure (24,331,786.91 EUR).

With regard to the evolution since the previous year, it should be noted that the realisable amount was even higher and was mainly due to the item " customer receivables for sales and services ", which has decreased by more than seven million euros. It should be noted that, although they are still too slow to recover, the management of these collections has improved.

Cash also doubled. Given that the significant financing needs of these type of entities, this increase is always good as it is the most liquid asset to assume all the current liabilities they have.

The working capital is positive. It is more than 15 million euros, at first glance seems more than optimal since it is below the amount of current liabilities (34,129,420 euros) in itself. This means that it is positive but not idle, although companies in this sector make large investments at the start of their projects and face large risks if they work abroad, so we know that a large cushion is required, depending on financing needs.
Its variation has been positive, so the LIC policy has been balanced. In addition, it remains within the balance as we have already seen. Before analysing the state of origins and applications of funds, LIC's policy is said to be not only balanced, but also appropriate.

5.3 Liquidity Analysis

Table 7 Liquidity Ratios

	2017	2016
Liquidity	1,473	1,39
Treasury	1,194	1,128
Cash Availibility	0,188	0,076

Source: Data from AACC and own elaboration

The company's liquidity ratio is good, approaching 1.5. LIC's short-term liabilities are lower than its short-term assets. But it is important to explore them and see if they are liabilities that are generating expenses for the company or not and if their assets are very liquid (cash) or not (inventories).

The cash ratio is close to the optimal value as well (it is 1). Stocks do not account for a very high proportion according to ratios. Comparing ratios with those of the sector in the previous section, it has already been commented that stock management worsens, but it is not bad, as it is a small proportion. Most of the assets are concentrated in the "Commercial" account and "Raw Materials and other Supplies" also play an important role. The "Commercial" item includes LIC lands that are available for sale, since the company was also involved in real estate development until 2008.

For its activity, when industrial quantities of the raw material required for a project are purchased, the total amount is not invoiced directly to the customer. Most of this material at the start of the project is in the asset pool as inventories. In the customer invoice, the costs of the material are added progressively according to its use. These items also include stock that have not been used on site.

The products in progress consist of works that have already generated expenses, although nothing has been invoiced for them. This is the case of construction contracts awarded to them, for which investments have been made but which have not yet

generated income since the execution of the project has not yet begun. This is a very common situation in Algeria. The projects have a higher cost. Moreover, when this expense has just occured, LIC has generated an expense with respect to a project for which it has not invoiced anything. This expense cannot be included in the result as it has not been able to generate income yet.

The last explanatory item of the mass of stocks are finished products. These are terraced houses that have not been sold and that were built by the company.

When we calculate the third liquidity ratio, the cash availability ratio, we can highlight two details. The realisable assets LIC has weigh too much, but the cash is adequate. If we analyse this mass carefully, we can see that more than 20% of it involves short-term financial investments. This is a very important piece of information since, despite the fact that the debtor item is a negative weight for the company, there is also an important part of this mass that is generating profitability.

In terms of cash, it is adequate, as it has already been said, it is even a little below the optimum range. But if we analyze the availability in depth, the company has excellent values of this. It is recognised by calculating the premium availability, for which we take short-term investments into account. Thus, LIC can meet 40% of its current liabilities immediately. This is because short-term financial investments can be liquidated at any time, so you can get their cash value in a matter of days. The company is making its current assets profitable, which is much better than having 40% cash in which Levantina would be losing profitability. It is the best way to combat the loss of cash profitability but at the same time to have enough for any unforeseen event such as those we see the company is facing in recent years.

If we take into account the ratios of the previous year to compare the evolution of the company in the short term, we can see that liquidity has improved. The general liquidity is better, since the ratio is closer to the optimum value. Inventory management continues to be good. And on the cash side, it has improved both independently and when you look at the investments.

Table 8 Average Period Ratios

LIQUIDITY RATIOS		
YEARS	2017	2018
Average collection period	288,43	285,23
Average payment period	38,44	45,83

Source: Data from AACC and own elaboration

Eventhough liquidity has improved, this is not due to their collection management, as it is not improving enough. On the other hand the payment period has been improved by the company more than 5 days which is definitely positive for the company.

5.4 Debt Analysis

The financial structure of LICs is one of low indebtedness, more common of conservative companies. The total amount of its debts accounts for 57% of the financing, which means that it has a good balance in terms of its financial structure. We can also interpret the ratio in such a way that we see that of every 100 euros that LIC has to finance itself, 57 are external and 43 are its own.

Table 9 Debt Ratios

	2017	**2016**
Debtness	0,57	0,619
Financial Autonomy	0,755	0,616
Solvency	1,755	1,616
Debt Quality	93%	91%
Financial Expenses/Sales	2%	1%
Cost of Debt	3%	2%
Coverage of Financial Expenses	3,185	5,232

*Source: AACC (**2017**)*

The solvency ratio measures the company's capacity to meet its debts and obligations, which, being 1.76, means that the entity has 1.76 Euros for every Euro it has in debt. Therefore, the amount of assets and rights of the entity is sufficient to cancel all its debts and obligations with an adequate level of risk. As the value obtained is greater than 1, which is the optimum value, we can conclude that the position of the creditors will be strengthened.

Although there is little debt, we have seen that the majority is of poor quality (93% of debt is short-term). Therefore, financial expenses gain prominence in this analysis, it is important to see how much they weigh on the operating income. In view of the ratio of these financial expenses they are not excessive, being an excellent percentage considering the type of debt that the company has. The company has a good relationship and negotiates very well with financial institutions.

The cost of the debt is appropriate taking into account the reference value of the Santander financial institution that was investigated for this analysis. This was 3.15% interest for short-term loans of 100,000 Euros (6 months) and 4.5% for long-term loans (10 years). Bearing in mind that the cost of debt is 3%, it does not exceed the reference value in terms of short-term loans, which reflects the low risk that financial institutions see in the loans they offer to LIC. LIC is financed cheaper than the reference value investigated.

Finally, the coverage ratio has a value of 3.19, which indicates that LIC generates sufficient results to meet its financial obligations.

5.5 Investment and Financing Policy Review

Table 10 Statement of Changes in Finantial Positions

Uses		Funds		
Non-Current Liabilities	1.203.934,10	Net Income	1.241.627,17	L/T
Depreciation	275.563,94			
Equity	19.891,71	Non-Current Assets	1.120.725,69	
	1.499.389,75	**WC Variation**	**862.963,11**	
Cash	3.215.033,02	Stock	656.035,40	S/T
Current Liabilities	4.538.877,62	Realisable	6.234.912,13	
	7.753.910,64	**WC Variation**	**862.963,11**	

Source: AACC (2017)

The table above (10) shows the company's investment and financing policy for the 2017 financial year.

Funds are considered “resources of the entity” in a given period and "what destination is given to such resources" are the uses that can be seen in table 10.

In the long term the entity is financed in two ways, the most important, although not by much difference, is self-financing through the enrichment it generates as it has a positive result. The second is disinvestment on tangible fixed assets (such as technical installations). This means that LIC reinvests its profit in its activity and that, in this particular year, it has sold part of its technical installations to finance itself in the long term.

In the long term, it has invested in reducing non-current liabilities, particularly long-term debts with financial institutions. It is valued positively because it reduces the liability with cost.

Most of LIC’s activity is concentrated in the short term. The most important mass used to finance it has been within the realisable, the “Clients” account. This means that it has reduced the time it takes to collect from them. Therefore, we can say that the management of collections has improved, due to the fact that the Algerian administration is regularising payments. This improvement has meant that the customer account has decreased by more than six million euros, which is a significant improvement, and in addition, in 2017 it has required a lower proportion of external financing than in the previous year. Inventory management has also improved as inventories have decreased. When the figure for this item decreases, it means that there is less stock standing in the warehouse, which does not generate profit but does generate additional costs, and it may be considered, as a consequence, that this decrease is positive for the entity.

The company's financing has been based on improving its management. This is due to the fact that the public bodies for which they work in Algeria have begun to pay with less delay and, as this has been regularised, the works in which their activity had decreased have begun to use raw materials. Therefore, this reactivation of the activity in the country where they invoice the most reduces their financing needs.

Bank financing decreases by 9.15% from one year to the next, while supplier financing decreases by 10%. Depreciation and amortisation charges for tangible fixed assets amounted to 1,427,842.31 euros in 2017. On the other hand, no amount was invested in intangible assets in 2017.

The application with the greatest weight is current liabilities, which has decreased by more than 4.5 million euros, although the increase in cash of more than 3 million euros is also important.

The variation in the working capital is positive, therefore the long-term funds are greater than its uses, which is positive, long-term financing will always have a lower cost. It is due to the decrease in current liabilities, which has been greater than the increase in current liabilities, which has given society a slightly more comfortable margin when it comes to having available resources.

For all these reasons, we are faced with a balanced policy, which moves from a positive point of equilibrium to an even better one. It is better because we have already seen that LIC needs abundant liquidity. If these needs are not known, it could be misinterpreted as idleness.

With the strategy used debt decreases and liquidity improves, with all this we can conclude that this is a correct and appropriate policy that has been applied in the company during 2017.

5.6 Profit and Loss Analysis (2017)

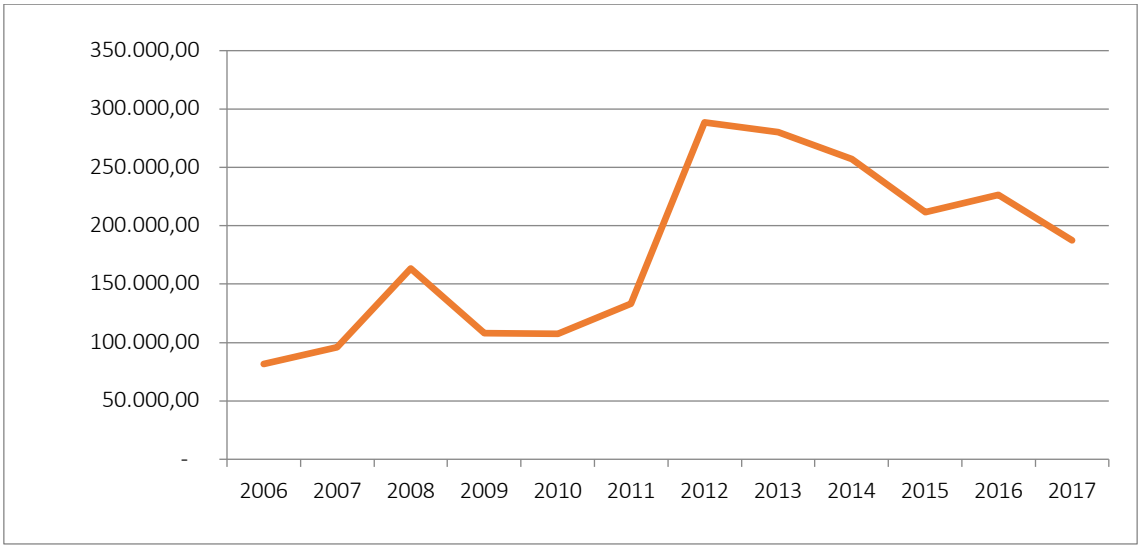
Net Income of LIC in 2017 are 1,241,627.17 Euros, which translates into 4.58% of turnover. These figures reflect a fairly adjusted level for the company, both in absolute and relative terms, placing it in the average of the sector for companies of a similar size, where we find a percentage between 4 and 5 percent.

The costs of sales are too high taking into account the sector average, at 61.33%. This is due to the fact that the company has to pay transport costs from these materials to Algeria, Panama and Belgium as their main suppliers are still Spanish companies. The main reason is the lack of supply of specific materials and quality in these countries.

The production volume reached in 2017 was 31,137,093.90 euros, all from construction activity and within this, 15,240,516.65 euros correspond to works carried out under the formula of Joint Venture.

The average number of employees employed in 2017, excluding temporary joint ventures, was 166. This level is very similar to the 171 of 2016, which continues to be a very satisfactory figure in the current socio-economic environment where the rate of job creation is so low, it is a good indicator although the number of employees has decreased by 3%.

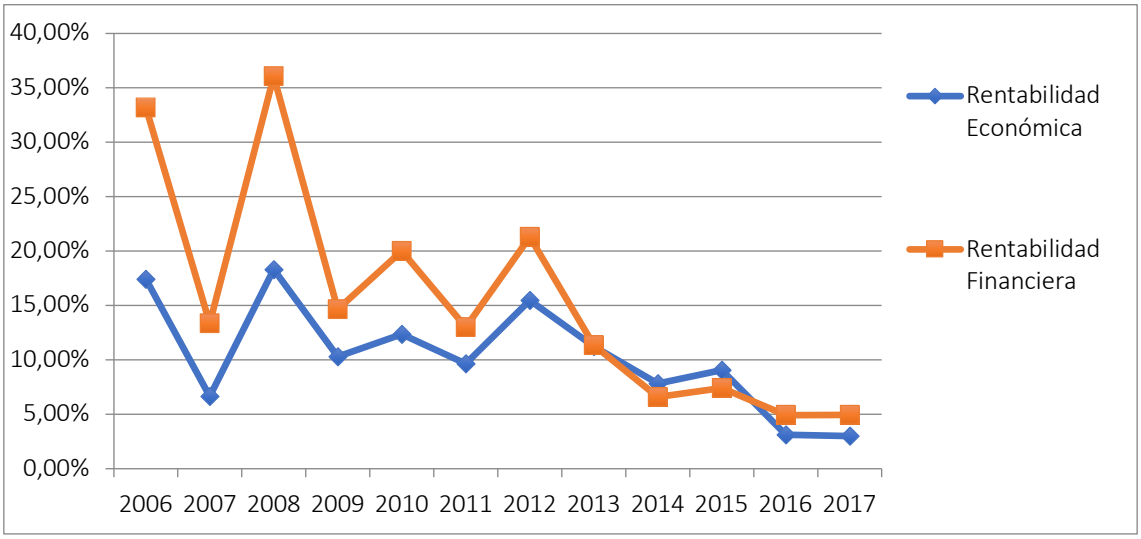
Graph 12 Evolution of Productivity per Employee (2006-2017)



Source: AACC (2017)

The weight of corporate income tax on earnings before tax is not very high (13%). The tax effect is not worrying since LIC benefits from reductions for its investments in Research and Development to maintain its competitiveness.

Graph 13 Evolution of Economic and Financial Profitability



Source: AACC (2017)

The explanation for the reduction on both economic profitability and financial profitability is related to the low production during the year on large-scale projects in Algeria. LIC has decreased its execution to minimum levels. The facilities and

infrastructures already under construction have been on the project site for up to two years, an oversized infrastructure for the year's production. This has also triggered additional costs, which have been maintained throughout 2017. For this reason, all the ratios individually fall except for the tax effect, which in 2017 the taxes have less weight than in previous years.

If we analyse the evolution of the economic profitability of the company since before it went international, we can see that it has fallen considerably. This is due to the fact that LIC has grown a lot in recent years. While growing quickly the different strategical decisions have been decentralised by more people, therefore it is more difficult to keep the level of profitability they had when they were 4 times smaller and only a national Company.

In this case the financial leverage is favourable, since the cost of the debt is lower than the economic profitability. This means that the company obtains more profitability from its activity than it pays for its financial debt. Although it is worth mentioning that it is not a very comfortable difference, it should therefore be improved.

Both LIC's performance and profitability have been affected by the economic environment over the last two years, but both ratios are expected to progressively rise again from the 2018 financial year.

5.7 Cash Flow Statement Analysis

In the Cash Flow Statement analysis, it is possible to analyse the phase in which LIC is and the cash actually generated by its activity, investments and financing.

In 2017, the final cash of the company increases, therefore it has generated cash. This increase is due to several factors. Firstly, because both amortisations and many financial expenses charged to the year are not an actual payment, at least during this year, ultimately resulting in a cash flow greater than its resources from operations, which is defined as the company's potential to generate cash.

As for cash flow from extra-operational investment, the company invests in financial instruments during the year, but does not generate cash since it does not sell. On the other hand, the cash flow of operating investment does generate cash. This is due to the fact that Levantina sells much more fixed assets than it acquires during the financial year, it disinvests as already analysed in point 3.5. The cash flow of operating investment generates more cash than decreases in the extra-operational flow, therefore, the total investment flow is positive.

In 2017, more loan instalments were paid than the financing it receives from banks, so that the cash flow of finance is the only one that is in deficit for the entity. More debt was paid than was generated, the company's debt is reduced, and this is positive due to the improvement of the debt situation in the long term.

Taking cash flows into account, the company is theoretically in decline. If one takes into account the environment in which it has worked over the last two financial years, this phase can be understood as a maturity phase where they are not increasing their debt to reduce the risk to which they are exposed in the new markets they enter.

6. Methodology for the Valuation of the Company

The valuation of the company has been done in the first place through a discounted cash flow. For this, several assumptions have been made when the forecast from 2018 to 2020 was calculated.

In order to make this prediction, several variables have been estimated, they are developed and discussed below:

6.1 Balance Sheet Assumptions

- For the exercise 2018 the provisional accounts have been used, they where in the middle of the process of being audited and could have suffered small changes but they are as close as possible to reality.
- When talking about the. IT investments, it has been maintained a mean of their two years before, as it is a construction company, several years ago they invested in a strong ERP and know they just maintain this software but they are not looking forward to any more investments that could be related to this account.
- On the other hand, land and buildings keep increasing every year, they are expected to increase a 6% every year as they have been doing the last decade due to their increase in productive capacity. This capacity is materialized in the form of industrial warehouses where you can store stock, new machines, vehicles ...
- The investments in group companies have been increasing lately. This is explained by several temporary unions they have formed with other construction companies for different projects. This formula helps them to gain more experience in other project modalities in which they were not specialized, therefore, there will be more projects of this type in the future.
- LIC has an important stock, it is around a 15% of the of the balance sheet. They consider one of their weaknesses their management of this stock and they work to improve this every year but as they have not managed to reduce it from 15%, this is the percentage that has been maintained for the valuation.
- The colletion management is assumed to improve at least a 5% as they will reduce the amount of activity in Argelia, this are the clients that are taking more time to get payed. It is large but it will keep stable, they offer a service that takes time and important payments. Another reason is, as said before, that most of their clients are public administations. This makes difficult for the company to manage well their colletions.
- The cash of the company is always in the optimal range, the rest of the cash is invested as short term financial investments. This is the structure that has been maintained for the valuation.

- About the equity, the only assumptions that where made is that the common stock remains in place, the equity increases every year by the net income.
- Financial debt, most of it is short term as it has been seen in the financial analysis. The same financial structure is maintained for the valuation as they pretend to maintain it.
- The suppliers account is also done to maintain the mean of payment period in the last periods, this are 60 days. It is a good value and they have already achieved it in the last periods.

6.2 Profit and Loss Assumptions

- The sales value are increased a small percentage every year, this is due to the main assumption, the company is already in.a maturity phase, they have new projects but they are also obtaining new projects that will increase their capacity and their experience but the valuation has to avoid being too optimistic.
- The mean of the percentages of fixed costs of the last three years is kept as there is no heavy reason for this to change.
- The cost of debt is maintained, therefore, when multiplied by the debt with financial institutions the result are the financial expenses in the profit and loss account.
- Lastly, the tax is the legal percentage, 25%.

6.3 Calculating the Discount Factor

Table 11 WACC Variables

WACC	
Cost fo Equity	8,0%
% of Equity	43%
Cost of Debt	2,6%
% of Debt	57%
Tax Rate	25%
WACC *before country Premium Risk*	6,96%
Country Premium Risk Algeria	5,83%
Country Premium Risk Panama	0,07%
WACC	12,87%
Cost of Equity	
Risk Free Rate	0,87%
Beta	0,95
Market Premium	7,47%
Cost of Equity	7,97%

Source: Prepared by the author

The weighted average cost of capital is calculated as explained in the synthesis above, but the country risk premium has been taken into account too as it is important to valuate the company in view of the risk that the company takes when working in Argelia and Panamá.

Country risk premium in Argelia is 7.64% and in Panama the risk premium is 2.64%. This percentages are multiplied by the percentage of the activity of LIC in that country.

6.4 Forecast, Estimations and 2017-2018 Accounts

Table 12 Profit and Loss Forecast

Profit and Loss Account	HISTORICAL 2017	2018	FORECAST 2019	2020	2021
A) CONTINUING OPERATIONS					
1. Total Sales	**31.137.093,90**	**40.431.127,31**	**35.784.110,61**	**38.107.618,96**	**36.945.864,78**
a) Sales	31.137.093,90	40.431.127,31	35.784.110,61	38.107.618,96	36.945.864,78
b) Services delivered					
Growth	*-20%*	*30%*	*-11%*	*6%*	*-3%*
2. Stock variance of partly-finished and finished goods	**853.308,51**	**- 1.845.150,69**	**670.812,78**	**807.035,21**	**- 127.785,70**
	-63%	*-316%*	*-136%*	*20%*	*-116%*
4. Cost of goods sold	**- 19.096.327,45**	**- 21.711.688,63**	**- 20.150.846,60**	**- 21.081.267,56**	**- 20.616.057,08**
	-26%	*14%*	*-7%*	*5%*	*-2%*
a) Goods consumption	- 1.106.322,77	- 0,11	- 300.000,00	- 300.000,00	- 300.000,00
b) Consumption of raw materials and other consumables	- 11.895.937,94	- 15.092.718,03	- 13.494.327,99	- 14.293.523,01	- 13.893.925,50
c) Other companies services	- 6.094.066,74	- 6.618.970,49	- 6.356.518,62	- 6.487.744,55	- 6.422.131,58
d) Impairment of raw materials and other consumables					
GROSS PROFIT	**12.040.766,45**	**18.719.438,68**	**15.633.264,01**	**17.026.351,40**	**16.329.807,70**
5. Other operational income	**1.533.907,31**	**453.947,32**	**476.644,69**	**500.476,92**	**1.533.907,31**
a) Other operating income	1.533.907,31	453.947,32	1.533.907,31	1.533.907,31	1.533.907,31
b) Operating subsidies	-	-	-		
6. Personal Expenses	**- 9.972.065,04**	**- 12.046.959,76**	**- 10.735.233,18**	**- 11.432.285,69**	**- 11.083.759,43**
	32%	*30%*	*30%*	*30%*	*30%*
a) Salaries, wages and Social Security	- 7.793.759,70	- 9.511.180,91	- 8.946.027,65	- 9.526.904,74	- 9.236.466,20
b) Social charges	- 2.178.305,34	- 2.535.778,85	- 1.789.205,53	- 1.905.380,95	- 1.847.293,24
c) Provisions					
7. Other operation expenses	**- 1.999.296,34**	**- 2.040.654,93**	**- 1.451.217,76**	**- 1.612.027,02**	**- 1.636.364,73**
	6%	*5%*	*4%*	*4%*	*4%*
a) External services	- 1.916.033,30	- 1.487.910,80	- 1.252.443,87	- 1.333.766,66	- 1.293.105,27
b) Taxes	- 110.628,07	- 16.362,48	- 66.980,76	- 64.657,10	- 49.333,45
c) Loss, impairment and variation in provisions for trade operations	116.397,30	- 128.445,31	51.981,81	13.311,27	- 21.050,74
d) Other current expenses	- 89.032,27	- 407.936,34	- 183.774,94	- 226.914,52	- 272.875,27
e) Expenses due to the emission of greenhouse gases			-		
EBITDA	**1.603.312,38**	**5.085.771,31**	**3.923.457,75**	**4.482.515,61**	**5.143.590,85**
8.Depreciation	**- 1.427.842,31**	**- 1.237.869,84**	**- 1.927.303,57**	**- 1.927.303,57**	**- 1.927.303,57**
	30%	*29%*	*40%*	*40%*	*40%*
9. Imputation of non-financial fixed assets and other					
10. Excess provisions					
11. Impairment and result from disposals of property, plant and equipment	**773.868,02**	**104.931,55**	**328.895,24**	**411.599,61**	**404.823,60**
a) Impariment and Losses					
b) Results from disposals and other	773.868,02	104.931,55	328.895,24	411.599,61	404.823,60
c) Impairment and other results of other fixed assets of holing societies					
12. Negative diferences due to business formulas					
13. Other results	**- 2.616,64**	**-**	**- 2.616,64**	**- 2.616,64**	**- 2.616,64**
A.1) Earnings before interests, taxes and depreciations	**1.800.029,96**	**2.107.682,33**	**2.993.245,56**	**3.771.230,23**	**3.490.708,55**
14. Financial Income	**310.733,50**	**231.905,66**	**231.905,66**	**231.905,66**	**231.905,66**
	61%	*62%*		*49%*	*51%*
b) Other financial instruments	310.733,50	231.905,66	231.905,66	231.905,66	231.905,66
15. Financial Expenses	**- 565.093,85**	**- 588.872,63**	**- 710.709,89**	**- 653.399,05**	**- 639.445,31**
	461217807%	*461217807%*	*307478539%*	*409971384%*	*392889243%*
b) Debt woth third parties	- 565.093,85	- 588.872,63	- 685.731,04	- 628.420,20	- 614.466,46
16. Variation of fair value of financial instruments	**- 24.978,85**	**-**	**- 24.978,85**	**- 24.978,85**	**- 24.978,85**
a) Trading portfolio and other	- 24.978,85	-	- 24.978,85	- 24.978,85	- 24.978,85
17. Exchange variations	**61.157,35**	**- 125.849,19**			
18. Impairment and disposal results of financial instruments	**- 155.662,23**	**- 18.677,22**	**- 37.798,95**	**- 62.131,58**	**- 68.567,49**
a) Imairment and Losses	- 155.662,23	- 18.677,22	- 37.798,95	- 62.131,58	- 68.567,49
A.2) Financial Result	**- 373.844,08**	**- 501.493,38**	**- 541.582,03**	**- 508.603,82**	**- 501.086,00**
A.3) Earnings before taxes	**1.426.185,88**	**1.606.188,95**	**2.451.663,53**	**3.262.626,41**	**2.989.622,55**
20. Tax	**- 184.558,71**	**- 103.513,34**	**- 103.512,34**	**- 815.656,60**	**- 747.405,64**
A.5) Net Income	**1.241.627,17**	**1.502.675,61**	**2.348.151,19**	**2.446.969,80**	**2.242.216,91**

CAPEX		**(1.837.265)**	**(1.274.689)**	**(1.851.270)**	**(1.837.055)**

Variation Operating Working Capital					
	2017	**2018**	**2019**	**2020**	**2021**
Inventories	8.884.770	8.125.307	7.822.437	8.163.249	8.028.194
Change in Inventories		**759.464**	**302.869**	**(340.812)**	**135.055**
Account Receivables	24.331.787	34.780.291	27.978.776	29.433.820	29.131.169
Change in Account Receivables		**(10.448.504)**	**6.801.515**	**(1.455.045)**	**302.652**
Accounts payable	3.105.813	3.809.971	3.897.856	2.853.914	2.375.885
Change in Account Payables		**704.158**	**87.885**	**(1.043.943)**	**(478.029)**
Change in Operating Working Capital		**(8.984.882)**	**7.192.269**	**(2.839.799)**	**(40.322)**

DCF Valuation					
		2018	**2019**	**2020**	**2021**
Operating Free Cash Flows		(7.580.108)	10.734.617	191.808	2.793.230
Terminal Value (g)	3,0%				38.658.573
Periods		0	1	2	3
Dicounted Factor	10%	1,00	1,10	1,22	1,35
Discounted Free Cash Flows		**(7.580.108)**	**9.719.674,93**	**157.252,44**	**30.770.810,66**

Enterprise Value	**33.067.630,4**

Terminal Value	**38.658.573,10**
FCFt	2.793.230
Growth rate (g)	3,00%
WACC	10%

Table 13 Dicounted Cash Flow

7. Peer Analysis

To complete the valuation a peer analysis has been elaborated, this way other valuation methods have been applied, these are multiples. Through this methodology it can be analysed the value of the company as a comparison of their value with some of their competitors' value, competitors that are in the listed market. The comparison is made with real enterprise values as they are in the stock market, which means that the market reflects their actual value.

"The multiples valuation method consists of valuing a company in order to find its market value by analogy with the market value of other comparable companies." (Badenes y Santos, 1999). With all, it is still not a reliable valuation method as a discounted cash flow method, so it is commonly used as a support approach after other valuation methods are used or as a quick methodology to apply as it takes less time and it is simple to apply.

7.1 Identifying Comparable Companies

To look for the comparable companies, we searched for the companies carrying out activities in the same sector and with similar experiences in civil engineering. The chosen companies are:

- Acciona, "a global company with a business model based on sustainability. Its aim is to respond to society's main needs through the provision of renewable energy, infrastructure, water and services" [15].
- Ferrovial "has become one of the leading infrastructures and services operators, committed to develop innovative and sustainable solutions" [16].
- ACS (Actividades de Construcción y Servicios). "The ACS Group is a worldwide reference in the construction and infrastructure development industries, both civil and industrial. Since 2013 the ACS Group leads the ENR ranking of International Contractors" [17].

It is important to mention that the fact that they are listed companies makes them very different entities in terms of financial structure and productive capacity to the valuated company. They also have other lines of business in addition to civil engineering, but without a doubt for the three entities their most important activity is that which they share with LIC.

7.2 Comparable Multiples

The multiples that are calculated and explained in the initial synthesis are used to show more than one comparison between the companies, also in two different years, 2017 and 2018.

Table 14 Key Multiples Comparison

Key Multiples						
Companies	EV/EBITDA 2017	EV/EBITDA 2018	EV/EBIT 2017	EV/EBIT 2018	P/E 2017	P/E 2018
Acciona	7,9x	8,1x	14,1x	15,4x	26,6x	17,3x
Ferrovial	21,6x	32,8x	31,6x	57,8x	36,1x	50,4x
ACS	4,9x	4,6x	6,8x	6,2x	15,1x	12,7x
LIC	20,6x	6,5x	18,4x	15,7x		

Source: Market screener website data for competitors and valuation.

The multiple of enterprise value over earnings before interests, tax, depreciation and amortisation show how the company improved their value generation from 2017 to 2018. Comparing their values to the competitors of the analysis, it is easy to notice that the are closer to the worst values of the sector but still they are not as bad as one of their competitors, Ferrovial, which is showing way to high values for their sector.

It should be borne in mind that LIC is the smallest company, this means that there should be higher efficiency since it is easier to build on an efficient management. This is not the case of LIC, as can be seen in the results (table 14), two of the three chosen companies have better ratios since they are in a moment of growth in which many phases of management are still being improved.

If the multiple is calculated the same way, after depreciation, the multiple is still high also in 2018, this means that even though they created more value in 2018 a high level of depreciation maintains a higher ratio.

Comparing the values, we can observe that ACS has the best multiples in every type of ratio and Ferrovial the worst. LIC is showing volatility in these multiples, for example, the variation between 2018 and 2017 ratios is 317%. This is a common characteristic of small and medium companies; they are not worried about their ratio's stability as much as listed companies as they only respond to their lender banks and not to all the investors.

Lastly, LIC is inside the sector when talking about financial multiples of comparison but not close to the best results. This is mainly due to the high percentage of fixed costs that they have in comparison to other sector companies that have better ratios such as ACS.

8. Conclusion

After the exhaustive analysis and valuation of LIC we have been able to issue a judgment of value.

The conclusions we have drawn are:

- LIC, with 100% of Spanish equity is one of the medium construction companies that survived to the last financial crisis by diversifying their activity in other geographies outside Europe.
- The first step has been to analyse the existing value types and valuation methods, concluding that discounted cash flows give the value that can be closer to reality.
- In order to know the company, its behaviour and project its evolution in the coming years, it has been carried out a macroeconomic analysis and an analysis of the construction sector in particular. The most relevant data has been the drop in sales in recent years due to the collection difficulties of the customer with whom the company has the largest market share. Its recent growth could continue at a rate of 3% taking into account its last two financial years and its historical growth.
- It is important to note that the company generates approximately 200 jobs in the sector directly, data that has been reached through its report.
- From the economic-financial analysis of the company, some data can be deduced that present a "healthy" company with great liquidity guarantees, thanks to the conservative policy of recent years where it has allocated fewer resources to fixed assets and more to treasury, thus improving the working capital, reaching positive data, a sign of financial equilibrium, in recent years.
- The analysis of the profit and loss account shows a company that although it cannot control excessively the level of sales, it does control its variable expenses. These are personnel expenses, other operating expenses, amortizations, etc., which it maintains year after year at the same percentage over sales, thus achieving annually that its net profits mean between 3% and 6% of its sales figure. It should be noted that fixed expenses, supplies in the profit and loss account weigh heavily on its result compared with other companies in the sector.
- The company is finally valuated in EUR 33,067,630.4.

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10.Annex

BALANCE ACTIVO	2017	2018	2019	2020	2021
A) ACCIONISTAS POR DESEMBOLSOS NO EXIGIDOS					
B) ACTIVO NO CORRIENTE	**13.031.426,11**	**12.442.374,72**	**12.767.129,31**	**13.049.424,29**	**13.136.782,65**
INMOVILIZADO INTANGIBLE	**57.646,34**	**32.895,47**	**45.270,91**	**39.083,19**	**42.177,05**
	-32%	*-43%*	*0,38*	*0,14*	*0,08*
Desarrollo					
Concesiones					
Patentes,licencias, marcas y similares					
Fondo de comercio					
Aplicaciones Informáticas	57.646,34	32.895,47	45.270,91	39.083,19	42.177,05
Otro					
Provisiones					
Amortizaciones					
INMOVILIZADO MATERIAL	**6.123.020,49**	**5.548.376,49**	**6.188.615,86**	**6.270.837,28**	**6.357.991,98**
	-16%	*-9%*	*0,12*	*0,01*	*0,01*
Terrenos y Construcciones	1.304.761,57	1.292.789,57	1.370.356,94	1.452.578,36	1.539.733,06
Instalaciones técnicas y otros	4.818.258,92	4.250.491,29	4.818.258,92	4.818.258,92	4.818.258,92
Inmovilizado en curso y anticipos	-	5.095,63			
Otros					
Investing or Desinvesting?	*- 1.173.593,18*	*- 579.739,63*	*645.335,00*	*82.221,42*	*87.154,70*
Growth %	*19%*	*11%*	*0,20*	*0,09*	*0,00*
Provisiones					
Amortizaciones					
INVERSIONES INMOBILIARIAS	**224.020,53**	**224.020,53**	**224.021,53**	**224.022,53**	**224.023,53**
Terrenos	224.020,53	224.020,53	224.021,53	224.022,53	224.023,53
Construcciones					
INVERSIONES EN EMPRESAS DEL GRUPO Y ASOCIADAS A L/P	**3.268.257,26**	**3.110.356,58**	**3.089.806,91**	**3.190.276,69**	**3.164.674,36**
	-1%	*-5%*	*0,01*	*0,03*	*0,01*
Instrumentos de patrimonio	247.523,92	232.218,98	255.395,63	257.718,97	248.214,37
Créditos a empresas	3.020.733,34	2.878.137,60	2.834.411,29	2.932.557,72	2.916.459,99
Valores representativos de deuda					
Derivados					
Otros activos financieros					
INVERSIONES FINANCIERAS A L/P	**198.679,61**	**236.842,55**	**198.679,61**	**198.679,61**	**198.679,61**
	19%	*19%*	*0,16*	-	-
Instrumentos de patrimonio	6.039,00	6.039,00	6.039,00	6.039,00	6.039,00
Créditos a empresas	128.955,37	144.880,32	128.955,37	128.955,37	128.955,37
Valores representativos de deuda (depositos y fianzas entregados a l/p)	15.000,00	15.000,00	15.000,00	15.000,00	15.000,00
Derivados (cartera de valores a l/p)					
Otros activos financieros	48.685,24	70.923,23	48.685,24	48.685,24	48.685,24
Provisiones					
ACTIVOS POR IMPUESTO DIFERIDO	**3.159.801,88**	**3.289.883,10**	**3.020.734,49**	**3.126.524,99**	**3.149.236,12**
C) GASTOS A DISTRIBUIR EN VARIOS EJERCICIOS					
D) ACTIVO CORRIENTE	**46.877.373,90**	**56.821.946,46**	**52.135.216,08**	**52.627.233,80**	**52.119.101,10**
ACTIVOS NO CORRIENTES MANTENIDOS PARA LA VENTA					
EXISTENCIAS	**8.884.770,47**	**8.125.306,55**	**7.822.437,21**	**8.163.249,20**	**8.028.194,16**
Comerciales	4.612.178,07	4.612.178,07	4.739.963,77	4.654.773,30	4.668.971,71
Materias Primas y otros aprovisionamientos	2.710.901,33	1.903.866,12	1.903.866,12	2.379.247,65	2.224.470,30
Productor en curso	470.640,88	468.790,38	496.000,87	474.173,50	477.401,41
Productos terminados	645.870,86	645.870,86	682.606,46	655.054,76	657.350,73
Subproductor, residuos y materiales recuperados					
Anticipos a proveedores	445.179,33	494.601,12	445.179,33	445.179,33	445.179,33
Provisiones					
DEUDORES COMERCIALES Y OTRAS CUENTAS A COBRAR	**24.749.982,19**	**35.832.070,06**	**30.209.870,82**	**30.436.789,00**	**30.134.114,21**
Clientes por ventas y prestaciones de servicios	24.331.786,91	34.780.290,80	27.978.775,81	29.433.820,49	29.131.168,50
Clientes, empresas del grupo y asociadas	-	62.307,55	1.228.126,51	-	-
Empresas del grupo y asociadas deudores					
Deudores varios	48.337,49	34.899,50	48.337,49	48.337,49	48.337,49
Personal					
Activos por impuesto corriente	784,53	758,11	816,92	816,92	794,12
Otros créditos con las Administraciones Públicas					
Accionistas (socios) por desembolsos exigidos	369.073,26	953.814,10	953.814,10	953.814,10	953.814,10
Provisiones					
INVERSIONES EN EMPRESAS DEL GRUPO Y ASOCIADAS A C/P	**50.973,37**	**262.725,90**	**253.269,82**	**291.940,92**	**214.543,20**
Instrumentos de Patrimonio					
Créditos a empresas	100,00	837,21	100,00	100,00	100,00
Valores representativos de deuda					
Derivados					
Otros activos financieros	50.873,37	261.888,69	253.169,82	291.840,92	214.443,20
INVERSIONES FINANCIERAS A C/P	**6.891.754,62**	**8.078.490,37**	**8.041.467,88**	**8.081.364,69**	**8.063.843,29**
Instrumentos de Patrimonio	-	-			
Créditos a empresas	458.334,89	347.547,97	400.676,86	395.497,98	400.514,42
Valores representativos de deuda	4.232,87	4.232,87	4.232,87	4.232,87	4.232,87
Derivados	-	-			
Otros activos financieros	4.336.010,89	4.516.313,66	4.426.162,28	4.471.237,97	4.448.700,12
Otras Inversiones	2.093.175,97	3.210.395,87	3.210.395,87	3.210.395,87	3.210.395,87
PERIODIFICACIONES A C/P	**312.585,18**	**339.450,93**	**1.445.399,87**	**546.201,47**	**660.909,36**
EFECTIVO Y OTROS ACTIVOS FINANCIEROS	**5.987.308,07**	**4.183.902,65**	**4.362.770,48**	**5.107.688,53**	**5.017.496,89**
Tesorería	5.987.308,07	4.183.902,65	4.362.770,48	5.107.688,53	5.017.496,89
Otros activos líquidos equivalentes					
AJUSTES POR PERIODIFICACIÓN					

BALANCE	2017	2018	2019	2020	2021
PATRIMONIO NETO Y PASIVO					
A) PATRIMONIO NETO	**25.779.381,03**	**26.378.128,61**	**31.091.501,55**	**32.083.324,11**	**34.322.268,02**
	5%	*2%*	*0,18*	*0,03*	*0,07*
A-1) FONDOS PROPIOS	**25.150.325,24**	**26.508.572,12**	**31.156.723,31**	**33.603.693,11**	**35.845.910,02**
CAPITAL	**1.000.066,00**	**1.000.066,00**	**1.000.066,00**	**1.000.066,00**	**1.000.066,00**
Capital Escriturado	1.000.066,00	1.000.066,00	1.000.066,00	1.000.066,00	1.000.066,00
(Capital no exigido)					
PRIMA DE EMISIÓN					
RESERVAS	**22.908.632,07**	**24.005.830,51**	**27.808.506,12**	**30.156.657,31**	**32.603.627,11**
	4%	*5%*	*0,16*	*0,08*	*0,08*
Legal y estatutarias	200.012,80	200.012,80	200.012,80	200.012,80	200.012,80
Otras	22.708.619,27	23.805.817,71	27.608.493,32	29.956.644,51	32.403.614,31
RESULTADOS DE EJERCICIOS ANTERIORES	-				
Remanente					
Resultados negativos de ejercicios anteriores					
OTRAS APORTACIONES					
RESULTADO DEL EJERCICIO	**1.241.627,17**	**1.502.675,61**	**2.348.151,19**	**2.446.969,80**	**2.242.216,91**
	5%	*21%*	*0,56*	*0,04*	*-0,08*
DIVIDENDO A CUENTA					
OTROS INSTRUMENTOS DE PATRIMONIO NETO					
A-2) AJUSTES POR CAMBIOS DE VALOR	629.055,79	- 130.443,51	- 65.221,76	- 1.520.369,00	- 1.523.642,00
ACTIVOS FINANCIEROS DISPONIBLES PARA LA VENTA					
OPERACIONES DE COBERTURA					
OTROS	**629.055,79**	- **130.443,51**	**-65.221,76**	**-1.520.369,00**	**-1.523.642,00**
A-3) SUBVENCIONES, DONACIONES Y LEGADOS RECIBIDOS					
B)					
C)					
PASIVO TOTAL	**34.129.420,98**	**42.886.194,57**	**33.862.555,42**	**33.397.999,46**	**30.730.796,15**
	-14%	*26%*	*-0,21*	*-0,01*	*-0,08*
D) PASIVO NO CORRIENTE	**2.306.714,33**	**2.098.645,00**	**-1.445.477,68**	**2.801.712,46**	**2.631.978,47**
	-34%	*-9%*	*-1,69*	*-2,94*	*-0,06*
PROVISIONES A LARGO PLAZO	-	- **34.361,57**	**0,00**	**0,00**	**0,00**
Obligaciones por prestaciones a l/p a		- 34.361,57			
Obligaciones por prestaciones a l/p al personal					
Actuaciones medioambientales					
Provisiones por reestructuración					
Otras provisiones					
DEUDAS A L/P	**2.185.937,63**	**1.538.611,55**	**2.722.085,50**	**2.471.109,76**	**2.221.936,11**
	-37%	*-30%*	*0,77*	*-0,09*	*-0,10*
Obligaciones y otros valores negociables					
Deudas con entidades de crédito	2.155.937,63	1.538.611,55	2.722.085,50	2.471.109,76	2.221.936,11
Deudas con empresas del grupo					
Acreedores por arrendamiento financiero					
Derivados					
Otros Pasivos Financieros	30.000,00				
DEUDAS CON EMPRESAS DEL GRUPO Y ASOCIADAS A L/P	**99.480,31**	**99.480,31**	**99.480,31**	**99.480,31**	**99.480,31**
	461217807%	*0%*	*1.537.392,69*	*2.049.856,92*	*1.195.749,87*
PASIVOS POR IMPUESTO DIFERIDO	**21.296,39**	**494.914,71**	**494.914,71**	**231.122,39**	**310.562,05**
PERIODIFICACIONES A L/P					
E) PASIVO CORRIENTE	**31.822.706,65**	**40.787.549,57**	**35.308.033,10**	**30.596.286,99**	**28.098.817,68**
	-12%	*28%*	*-0,13*	*-0,13*	*-0,08*
PASIVOS VINCULADOS CON ACTIVOS NO CORRIENTES MANTENIDOS PARA LA VENTA					
PROVISIONES A C/P	**43.447,76**	**222.090,21**	**73.146,27**	**88.203,88**	**106.722,03**
	207%	*411%*	*-0,67*	*0,21*	*0,21*
DEUDAS A C/P	**19.657.562,16**	**23.251.467,38**	**18.698.411,33**	**18.717.384,90**	**18.081.735,63**
	-8%	*18%*	*-0,20*	*0,00*	*-0,03*
Obligaciones y otros valores negociables					
Deudas con Entidades de Crédito	19.603.438,18	23.158.277,12	18.296.428,70	18.405.055,86	17.866.329,15
Acreedores por arrendamiento financiero	-	-			
Derivados					
Otros pasivos financieros	54.123,98	93.190,26	401.982,64	312.329,04	215.406,48
DEUDAS CON EMPRESAS DEL GRUPO Y ASOCIADAS A C/P	**141.546,10**	-			
ACREEDORES COMERCIALES Y OTRAS CUENTAS A PAGAR	**11.980.150,63**	**17.300.349,11**	**16.536.475,50**	**11.790.698,22**	**9.910.360,02**
	-21%	*44%*	*-4%*	*-29%*	*-16%*
Proveedores	3.105.813,13	3.809.971,31	3.897.856,33	2.853.913,82	2.375.885,08
Proveedores, empresas del grupo y asociadas	-	-			
Acreedores varios	5.136.749,86	6.311.713,80	5.635.809,41	4.022.209,33	3.776.620,60
Personal (remuneraciones pendientes de pago)	501.098,32	581.691,82	412.460,89	-138.693,62	339.139,35
Pasivos por impuesto corriente	455.329,75	2.872,39	229.101,07	115.986,73	172.543,90
Deudas representadas por efecto a pagar					
Otras deudas con las Administraciones Públicas	1.923.799,20	2.457.942,53	3.850.874,68	2.794.694,05	2.734.333,56
Anticipos del clientes	857.360,37	4.136.157,26	2.510.373,13	2.142.587,92	511.837,53
Fianzas y depósitos recibidos a c/p					
Otras deudas					
PEIODIFICACIONES A C/P		**13.642,87**			
PROVISIONES PARA OPERACIONES DE TRÁFICO					

Peers Analysis

(Millions)

Key Financial Items	Millions										
Companies	EV	EBITDA 2017	EBITDA 2018	EBIT 2017	EBIT 2018	Net Income 2017	Net Income 2018	EPS 2017	EPS 2018	Price per Share	
Acciona	10.116	1.275	1.245	720	659	220	328	3,84 €	5,90 €	102,10 €	*(07/06/2019)*
Ferrovial	20.156	932	614	638	349	454	326	0,60 €	0,43 €	21,67 €	*(07/06/2019)*
ACS	11.129	2.279	2.437	1.626	1.791	802	915	2,47 €	2,94 €	37,30 €	*(07/06/2019)*
LIC	33,07	1,60	5,09	1,80	2,11	1,24	1,50				

Source:

https://www.marketscreener.com/

Key Multiples						
Companies	EV/EBITDA 2017	EV/EBITDA 2018	EV/EBIT 2017	EV/EBIT 2018	P/E 2017	P/E 2018
Acciona	7,9x	8,1x	14,1x	15,4x	26,6x	17,3x
Ferrovial	21,6x	32,8x	31,6x	57,8x	36,1x	50,4x
ACS	4,9x	4,6x	6,8x	6,2x	15,1x	12,7x