



FACULTAD DE TURISMO Y FINANZAS

GRADO EN FINANZAS Y CONTABILIDAD

Financial Statement Analysis of the Spanish utilities industry

Trabajo Fin de Grado presentado por Álvaro Fernández Martínez, siendo la tutora del mismo la profesora María Cristina Abad Navarro.

Vº. Bº. de la Tutora

Alumno:

Dª. María Cristina Abad Navarro

D. Álvaro Fernández Martínez

Sevilla. Mayo de 2017



**GRADO EN FINANZAS Y CONTABILIDAD
FACULTAD DE TURISMO Y FINANZAS**

**TRABAJO FIN DE GRADO
CURSO ACADÉMICO [2016-2017]**

TÍTULO:

FINANCIAL STATEMENT ANALYSIS OF THE SPANISH UTILITIES INDUSTRY

AUTOR:

ÁLVARO FERNÁNDEZ MARTÍNEZ

TUTOR:

DR. D^a. MARÍA CRISTINA ABAD NAVARRO

DEPARTAMENTO:

CONTABILIDAD Y ECONOMÍA FINANCIERA

ÁREA DE CONOCIMIENTO:

ECONOMÍA FINANCIERA Y CONTABILIDAD

RESUMEN:

En este trabajo se ha realizado un análisis financiero de tres importantes empresas del sector de los servicios públicos en España: Iberdrola, Acciona y Abengoa. Se ha considerado la diferente situación de las mismas y se ha realizado una comparación de las distintas métricas de las empresas con las medias del sector, para ver mejor cuál es la situación de dichos negocios en el panorama general. El periodo analizado va desde 2011 hasta 2015, ya que son las cuentas más recientes disponibles en el momento de realizar el trabajo.

ABSTRACT:

This paper is the product of a financial statement analysis, focusing on the analysis of the profitability, liquidity and solvency, of three major companies within the Spanish utilities industry: Iberdrola, Acciona and Abengoa. The different situation of these 3 corporations have been considered and a comparison between these enterprises key performance indicators and the industry averages has been made in order to better identify the general scene within the sector. The analyzed period comprehends between the years 2011 and 2015, since this was the most recent data in the moment this work was written.

PALABRAS CLAVE:

Financial statement analysis; utilities; profitability; liquidity; solvency

INDEX

1. INTRODUCTION AND OBJECTIVES	1
2. PRESENTATION OF THE INDUSTRY AND COMPANIES	3
2.1 THE INDUSTRY	3
2.1.1 Utilities industry.....	3
2.1.2 Structure of the industry.....	4
2.2 THE COMPANIES: ACTIVITIES AND BUSINESS MODELS	5
2.2.1 Iberdrola	5
2.2.2 Acciona.....	7
2.2.3 Abengoa	8
3. FINANCIAL ANALYSIS OF THE COMPANIES	11
3.1 ABENGOA, S.A.	11
3.1.1 Analysis of profitability	16
3.1.2 Analysis of liquidity.....	16
3.1.3 Analysis of solvency.....	17
3.1.4 The root of Abengoa fall.....	18
3.1.5 Abengoa, overall opinion.....	19
3.2 ACCIONA, S.A.	20
3.2.1 Analysis of profitability	24
3.2.2 Analysis of liquidity.....	25
3.2.3 Analysis of solvency.....	26
3.2.4 Acciona, overall opinion	26
3.3 IBERDROLA, S.A.	27
3.3.1 Analysis of profitability	31
3.3.2 Analysis of liquidity.....	32
3.3.3 Analysis of solvency.....	34
3.3.4 Abengoa, overall opinion.....	35
4. COMPARISON BETWEEN COMPANIES AND INDUSTRY	37
4.1 INTRODUCTION.....	37
4.2 COMPANY SIZE	38
4.3 FINANCIAL STRUCTURE OF THE COMPANIES	39
4.4 PROFITABILITY	39
4.5 LIQUIDITY	42
4.6 SOLVENCY	44
5. CONCLUSIONS	47
BIBLIOGRAPHY	49

CHAPTER 1

INTRODUCTION AND OBJECTIVES

The aim of this project is to make a financial statement analysis of three major Spanish enterprises within the energetic and infrastructures industry, namely Abengoa SA, Acciona SA and Iberdrola SA. We will use different analytical techniques in order to determine which has been, which is and which will (presumably) be their situation in the next few years. We will try to draw some useful conclusions and explain why their development through the years has been in that particular way.

We chose these three enterprises as they are good examples of different scenarios: first of all, we have a giant such as Iberdrola, which is one of the big utilities companies in the international scene, the second group of electric energy production in Spain and one of the worldwide leaders in the wind energy industry. In second place we will talk about Acciona, which is a medium-sized company in the industry. Finally, we will consider the remarkable case of Abengoa, which went from one of the biggest Spanish companies to having serious problems to survive and being currently in pre-state of insolvency. It is important to note that in this project we will deal with the parent companies as representatives of their groups, and we will take some considerations in the analytical process because of this.

To accomplish this analysis, we will study the business model of each of the companies and assess their profitability, liquidity and solvency separately. After that, we will perform a comparative analysis between these corporations themselves and compared to the industry averages, to better grasp the real situation. Once we have carefully analyzed the information about the past, we will be in a good situation to make some predictions about the future opportunities and threats of these businesses.

The project will be structured in six different sections, each one with a different purpose: first of all we find this introduction, in which we want to lay out briefly the content of the whole document and the main objectives of it. Secondly, we will present the industry and the chosen companies, so that we have some background for the analysis. We will cover the financial situation of the industry in Spain, and we will describe the companies and their business models. The third part will be the analytical process carried out to establish the situation of the firms and explain the reasons why they are where they are today. In the fourth section we will compare these three companies among themselves and the industry averages. Finally, in the fifth part we will draw some conclusions from the analysis we have previously performed. The sixth and final section will be the bibliography used for the project.

It is important to note that the paper will be delivered together with a CD-ROM in which extra information, necessary for the analysis, will be presented. This includes annual accounts, ratios and other quantitative measures necessary for the purpose of the analysis.

CHAPTER 2

PRESENTATION OF THE INDUSTRY AND COMPANIES

2.1 THE INDUSTRY

2.1.1 Utilities industry

According to Market Line (2016), this industry comprehends companies whose business is providing water, gas and power. These kind of companies have experimented a moderate increase during the last few years, and their growth is predicted to continue in the 3% level. Within the sector, the most profitable segment was electricity, with total revenues equivalent to 75.6% of the industry value. Water represents 12.2% and gas the remaining 12.1% of the industry. In Europe Spain represents 6.5% of the total value of the industry, with the leaders being Germany, UK and France, in that order.

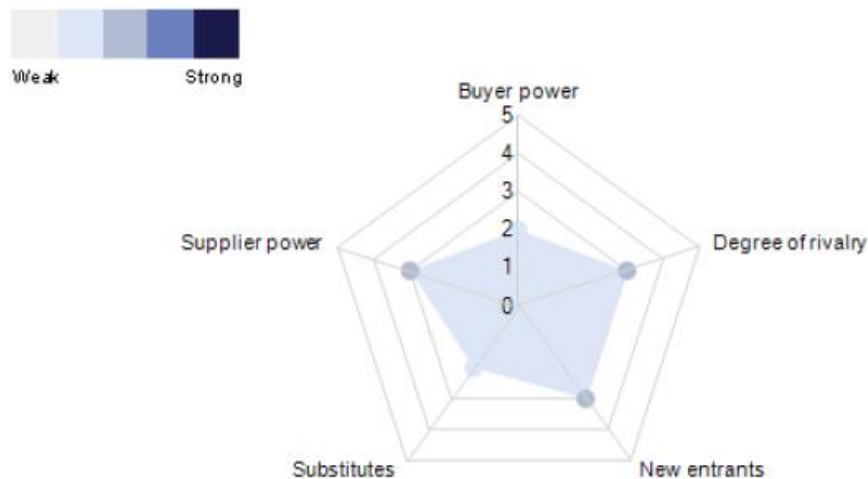


Figure 2.1. Porter's five forces

Source: Market Line (2016)

If we analyze Porter's five forces in the industry following Market Line report, we realize buyer power is low because utilities are essential for the vast majority of people, and the big amount of potential customers make this parameter less important.

Although many of these companies are an example of vertical integration, some of them (ie water companies) outsource some engineering services. This services are rendered through very strict lump-sum contracts that give these companies big power because third parties may incur in fines if they break the agreement. All this constitutes a moderate supplier power.

Legislation in the industry is very strict and the necessary infrastructure to operate in it is expensive and requires a capital-intensive approach. However, loyalty in the industry is low due to the low change costs for final customers and the undifferentiated nature of the product that is offered. These facts make the probability of new entrants moderated.

Substitutes of the industry as a whole are difficult to find, but in here self-sufficiency and water gathering techniques may be included. However, the importance of these is

very low since the amount of people who have access to these methods is small and the inconvenience of them is high in the majority of cases.

As the product offered is a commodity and then the main option to compete is bettering the price offered by your rival, additionally to the fact that the number of enterprises is low and they are big and powerful, we can deduce that the degree of rivalry is high within the industry.

2.1.2 Structure of the industry

In this section we will explain the functioning of the electric power industry, given this is the most important business line of the analyzed companies. Their business, as we will see later, is not exclusively related to this scope, but we would not be able to explain properly all the activities in which they are involved, so we will focus on the most important portion.

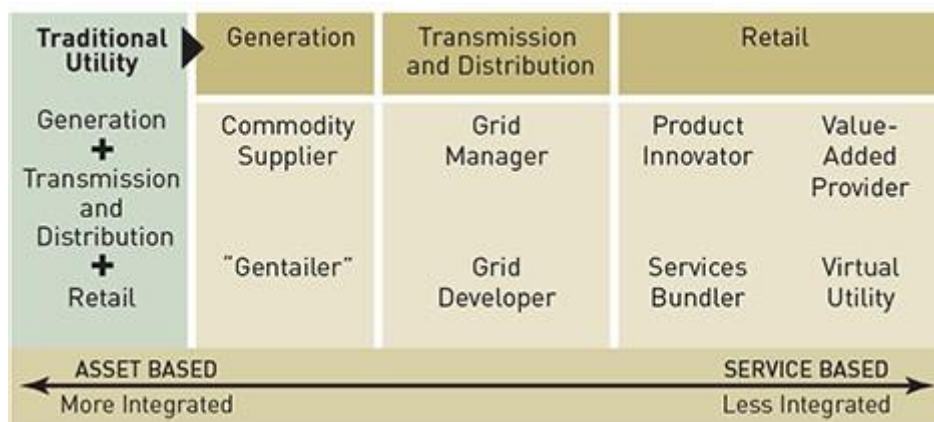


Figure 2.2: Utilities business model

Source: Strategy + Business (July 2015)

Generally speaking, to provide households with electric power we will need to take four basic steps:

- Generation of the electric power in different kinds of plants.
- Transport or transmission of the electric power through the transport network.
- Distribution from the network to the consumption points.
- Commercialization of the power depending on the needs of the final customer.

Years ago, the industry in Spain used to be an oligopoly, with 5 big corporations controlling all the value chain of the business, leaving customers without any choice. From 1997, a timid liberalization process of the sector is initiated, affecting production and commercialization. Transport and distribution on the other hand, keep being a natural monopoly, and require a special supervision from public authorities. Nowadays, more than 40 companies are dedicated to the commercialization of electric power in Spain. We can choose which company in charge of distributing the energy we consume, but we cannot choose who produced it (Aura Energía, 2015).

We find out that electricity is just like any other merchandise: there are people who produce it, then sell it to wholesalers, who at the same time resale it to retailers, who

are in charge of delivering it to the final customer. Nowadays, the traditional business model in the industry, in which the company owned and conducted every vital business function is being threatened by specialists who control just small segments of the value chain.

As we will see with more detail later, both Acciona and Iberdrola are present in several steps of the process, being in a situation of vertical integration. Abengoa however, is dedicated to the production phase of the process, or more concretely, to building the necessary infrastructure for companies which are in charge of producing electric power.

2.2 THE COMPANIES: ACTIVITIES AND BUSINESS MODELS



2.2.1. Iberdrola, S.A.

The corporation was born in 1992 with the merger of Hidroeléctrica Española and Iberduero. In 1955 appears in Scotland South of Scotland Electricity Board, which will become Scottish Power in 1990. Two years later, this company merges with Hidroeléctrica Española and Iberduera to become what we know today as Iberdrola. In the last few years of the 20th century, the company initiates the expansion in Latin America. In the US, Iberdrola operates as Avangrid, the result of the merger between Iberdrola USA y UIL Holdings. From 2001, the group starts working with renewable energy and from 2006 continues its international expansion, becoming stronger in several locations in America and Europe (García Adán y Diego Martín, 2005).

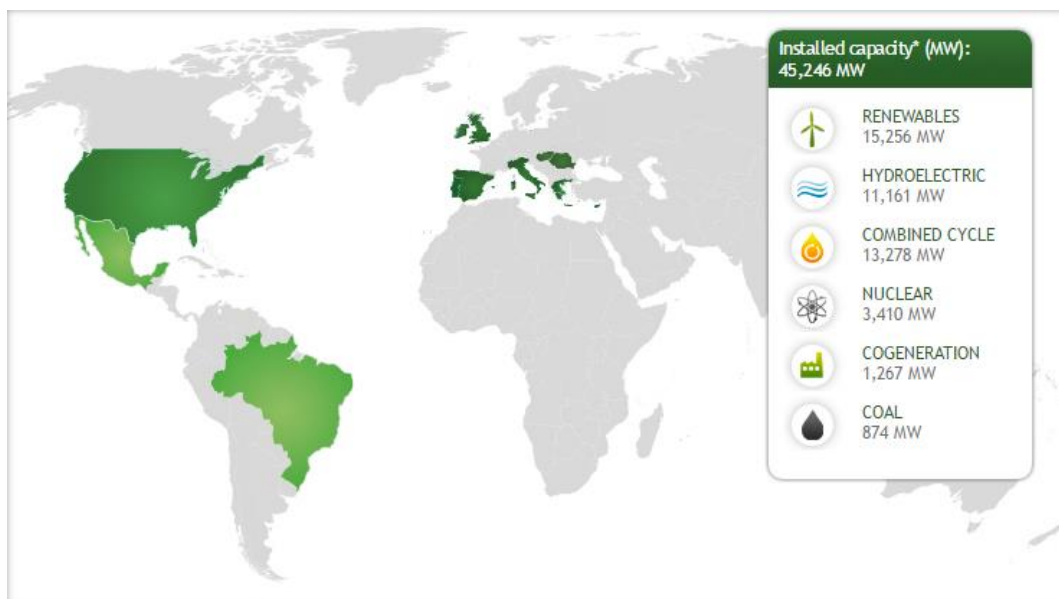


Figure 2.3: Map of Iberdrola operations and sources of energy.

Source: Iberdrola.com (2016)

In 2015, according to its Annual Accounts, the company had a net turnover of €1581m, with a net benefit of €117m, contrasting with the benefit of €358m in the previous year. The worsening of the results, according to the company, is due to the new administration model together with the fact that subsidiaries had paid €449m in dividends this year in contrast to the €814m paid last year. This is due to some organizational changes carried out during these last periods.

Iberdrola S.A., according to the fourth article of its Articles of Association, has as its corporate purpose:

- The realization of all kind of activities, works and services related to the production, transport, distribution and commercialization of electric power and its derivatives. It includes the supply of raw materials and infrastructures, engineering, telecommunications and Internet services related with this scope. It also covers all kind of services related to water treatment and distribution, as well as the provision of urban services. Likewise, the corporation is involved in the extraction, warehousing and distribution of gas and other related activities.
- The distribution and commercialization of all kinds of goods and services, products, merchandise, computer software, industrial equipment and machinery, tools and other accessories.
- Research, study and planning of investment and business administration projects, as well as the promotion, creation and development of industrial, commercial and services enterprises
- The provision of assistance and support services to other enterprises within its scope of action (ie. the provision of consulting services to other companies of the same industry or other related)

These activities and business lines will be developed either within the national (Spanish) territory or abroad, through the company itself or using its ownership of shares in other companies.

Additionally, Iberdrola provides services to subsidiaries in the group, which basically consist on the supply of gas and other IT and support and additional services, not directly related to the main operations. Furthermore, the company is in charge of the group financing, which is managed in a centralized way.

Apart from what is stated in the Articles of Association, if we look at the detailed revenues and expenses, we realize the society's main source of revenue is gas sales to subsidiaries, followed by income from holdings in equity and finally some services rendered. This clarification is key to understand the posterior analysis of the company.

In its webpage, the company classifies all these activities in three major business lines, namely:

- Network business: which involves the construction, operation and maintenance of electric lines, substations, transformation centers and other infrastructures necessary to transport the energy from its place of production to the final customer. All this is made following a strict policy of safety, accidents control and environmental requirements.
- Generation and commercial business: it consists on the production of electric power through the construction, operation and maintenance of production centers and the purchase of this power in wholesale markets. Likewise, it is in charge of the retailing of the energy and other complementary products. Its core points are the efficiency and risk minimization, operative excellence, competitive supply and excellent customer satisfaction.

- Renewable energy business: it covers the generation and commercialization of energy from renewable sources such as wind, solar, biomass, etc. The company is leading the production of this kind of energy in Europe and USA and it focuses of the safety of the operations, the operative efficiency of the processes and a profitable growth of this market.



2.2.2. Acciona, S.A.

Acciona is created in 1997, product of the merger between Cubiertas y Mzov and Entrecanales y Távora, two Spanish construction enterprises. Nowadays is a conglomeration of companies with distinct business lines, most of them related to energy and infrastructures (Acciona, 2017).

In accordance with its Annual Accounts, Acciona had in 2015 a net turnover of €246.287m, with a net benefit of €180.55m. These figures represent a decrease in revenues (€325.101m in 2014) but a remarkable increase in net benefit (€137.464m), mainly due to the good results of the energetic part of the group.

Acciona S.A. is the parent company of a group of companies which develop their activities in different industries of the economic activity, among which we should remark:

- Acciona Energía: which covers the electrical power business in different commercial and industrial enterprises along all its stages, from production to retailing, going through transport and distribution.
- Acciona Construcción de Infraestructuras: it includes activities related to construction, engineering and transport and hospital licenses.
- Acciona Agua: related to the construction of desalination plants, water treatment plants, as well as the management of the integral water cycle. This includes water gathering, treatment and desalination, and its posterior filtering and return to the natural environment. It also operates with integral water cycle licenses.
- Acciona Servicios: which is linked to airport handling, facility services, gathering and treatment of waste, logistics and more.
- Other activities: This part covers funds management and stock exchange intermediation, wine production, the activity of the subsidiary Acciona Transmediterránea (shipping company), real estate and other participations.

The society will be able to participate in all the execution and complementary activities of the aforementioned branches, as well as being able to hold shares in other companies with an investment purpose.

In its webpage, the enterprise divides its business into 3 big categories: infrastructures (constructions, licenses, water, industrial and services), energy (with a special remark on renewable energies) and other businesses as the described above.

Again, if we look in the notes of the Annual Accounts, we observe Acciona does not have significant commercial activity on his own, and its income comes

fundamentally from holdings in equity of subsidiaries and financial investments from short-term loans to associated companies. This is important, because we now realize its business is to hold equity and make financial investments in the subsidiaries of the group. If these subsidiaries do well, Acciona will obtain good results.

ABENGOA

2.2.2. Abengoa, S.A.

Abengoa was founded on the 4th of January, 1941 by Javier Benjumea Puigcerver y José Manuel Abaurre Fernández-Pasalagua, and has its headquarters in Campus Palmas Altas, Sevilla (Abengoa, 2011).

The company is an example of a big collapse due to improper growth during the last few years, as we will analyze in detail in the next sections. To give some perspective, we can compare the year 2012, in which the parent company of the group had a revenues figure of almost €1,176m, and a net benefit of €199.6m; with the results of the company in 2015, with losses of almost 1,063m. Regarding its share price, the company lost 95% of its value in the market from September 2014 to the end of November 2015, accumulating losses of 70% in just two sessions at the end of that period.

Currently the company is in a “pre-state of insolvency”, after months of negotiations with creditors, having fired thousands of employees and being in the most critical situation of its entire history. Through our analysis, we will try to discern which were the key factors that led the giant towards the contemporary scenario.



Figure 2.4: Abengoa share price in the last 5 years.

Source: Google.com (2017)

According to the third article of its Articles of Association, the corporate purpose of Abengoa is a wide range of activities including applied engineering services and equipment, providing integral solutions in different industries such as Energy, Telecommunications, Water, Transport, Environment and Services.

Abengoa applies innovative solutions to produce energy from renewable resources such as biomass, and solves complex problems such as obtaining potable water from sea water.

The three basic pillars of the company activities are:

- Engineering and construction. They classify within this field all the traditional engineering activities necessary for water and electricity production. The corporation is a specialist in complex turnkey contract projects (this is the final client receives the infrastructure already functioning, even with some additional services associated such as maintenance), solar or hybrid solar-gas plants, conventional generations and biofuels. Also works on big hydraulic plants and desalination plants and transmission lines among others.
- License-type infrastructures. They have a big portfolio of concessional assets, where income is regulated through a long-term sale contract, such as “take or pay” or “power purchase agreement”. They include in here the operations in solar, cogenerated or wind electrical plants, as well as in the desalination plants and transmission lines; these are low-demanded assets, so they focus their efforts on its optimized operation.
- Industrial production. They group here businesses with a very high technological component, such as biofuels of the development of solar technologies. In this category, the company is leading the geographical markets in which it operates.

According to the Articles of Association, the aforementioned activities and other complementary ones might be executed within the national territory (Spain) or abroad, either through the parent company itself or through participations in subsidiaries. Many of the contracts related to these activities have a duration longer than a year.

As in the two previous cases, we see that in most years analyzed up to 90% or more of the company assets correspond to long-term investments in associated companies, more concretely loans. This means the business of Abengoa SA itself are not engineering or construction activities themselves, but financing the companies of the group dedicated to those activities. Once again, we can take the company as representative of the activity of the group, because of subsidiaries do well, the parent company will have good results. Strictly talking, Abengoa SA is not the parent company of the group (it is Inversión Corporativa IC, SA), but it is the one that reached the pre-state of insolvency and the most representative of the Abengoa Group.

Once more the author wants to emphasize that the analysis of the holding companies as representative of their groups entails a series of considerations because these companies do not carry out significant commercial activity on their own, but rather they act as equity holders and financing entities. Thus, if subsidiaries do well in their businesses, dividends and interests will be paid and the parent companies will show proper results.

CHAPTER 3

FINANCIAL ANALYSIS OF THE COMPANIES

3.1 ABENGOA, S.A.

Assessment of the reliability of the information

According to the Audit Reports for the period 2011-2015 issued by PricewaterhouseCoopers Auditores, SL. and Deloitte SL. the annual accounts present fairly, in all material respects, the equity and financial position of Abengoa, S.A. at 31 December of each of those years, its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein. Nonetheless, the author must mention that these Audit Reports included in 2011 and 2015 a “matters of emphasis” paragraph, mentioning in 2011 that the company issued separately the Consolidated Annual Accounts and that they were audited by the same firm with the same opinion. In 2015, this paragraph called to attention to the points 2 and 5 of the Notes to the Annual Accounts, in which the events occurred in the second semester of 2015 that led the society to the pre-state of insolvency were expressed. Additionally, they stress the uncertainty regarding the company continuing with its operations as usual.

Therefore, the information should be considered as reliable. However, the analyst could consider the possibility of making some adjustments. In this case, due to the nature of the society at hand we opted for making adjustments in operating assets, and including in this category all the financial investments in subsidiaries and associated companies, both in the long and the short term. Additionally, we will include financial revenues coming from holdings in subsidiaries in the net turnover figure. This is a notable change since usually only holdings in equity of subsidiaries are included in operating assets, plus some financial results usually belong to the financial result and not to the net turnover.

Main risks and uncertainties

According to the Notes to the Annual Accounts of the society along the period considered, the main sources of risk Abengoa faces are:

- **Market risk:** which involves the variation in the exchange rates of foreign currencies as well as in interest rates. The society uses several derivative instruments in order to hedge from these.
- **Credit risk:** refers to the possibility of non-repayment of the financial investments the company has, above all in its subsidiaries. In this regard, the company has a firm commitment from a top-tier financial institution for the factoring without recourse of these investments in case it is needed.
- **Liquidity risk:** is related to the need of the company to have the necessary monetary resources to face its financial obligations on time. The company keeps in mind the maintenance of a proper level of financial leverage and analyzes carefully the cash flow provisions (there is a special mention to this risk in the Notes of 2015, this will be explained in detail in section 3.1.4)

- **Equity risk:** linked to the necessity of guaranteeing the continuity of the subsidiaries as well as offering the maximum profitability for all the stakeholders. This task is carried out by a specialized committee.

Balance Sheet

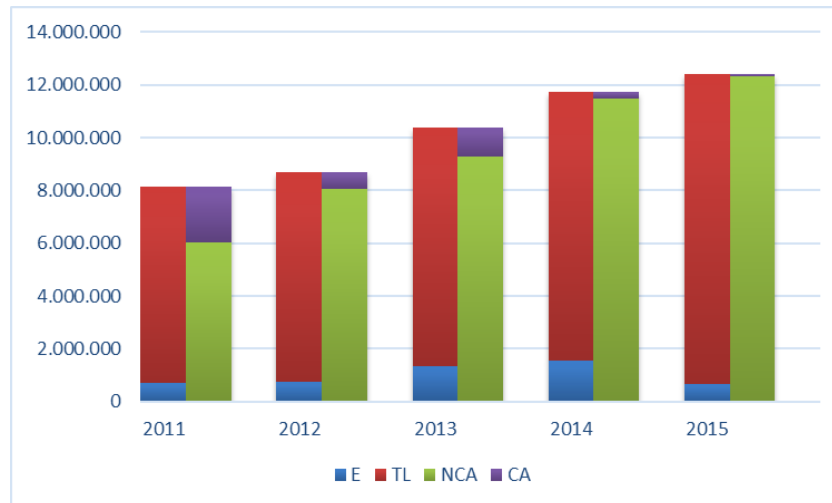


Figure 3.1: Balance Sheet structure of Abengoa.

Source: Compiled by the author.

Assets

We can observe a very aggressive upward trend in total assets, growing in the double digit figures from 2011 to 2014. In 2015 it slows down a bit, but the increase is still a remarkable 7% from the last year. In an aggregated fashion, in the period analyzed total assets went from €8.142b to €12.432b, a stellar increase of 52.7% in a five-year period. Non-current assets can be highlighted as the main heading, with a vertical percentage of 74% in 2011, increasing up to 90% in 2012 and being virtually the entirety of the assets base in 2014 and 2015. Long-term investments in associated companies, in the form of loans, are the main long-term asset the parent company holds. With regard to current assets, they go from a vertical percentage of 24% in 2011 to virtually disappearing in the last 2 years considered, and have an importance around the 10% in 2012 and 2013. Assets within this category are mainly cash and cash equivalents.

Financial Structure

Equity fluctuates around 10%, being a little bit lower (8-9%) in the first two years of the period and a little bit higher (13%) in the second half (2013-2014). It drops to 5% in the last year considered. Most of this equity is in the form of share premium and reserves and it is remarkable the big chunk of losses affecting total equity in 2015 (-9%). In absolute terms, it stays within the high €0.6-0.75b, only surpassing that level in 2013 and 2014, when it scales up to €1.4-1.5b.

Non-current liabilities start really high (more than 80%) and tend to moderate as time goes by (down to 74% in 2015). These liabilities materialize in the form of long-term debt payable both to third parties and to subsidiaries and associated companies.

In absolute terms, they amount for €6.6b up to €9.2b of debt (in the last year it corresponds almost completely with debt payable to associated companies). This long-term syndicated debt is used to general financing needs of Abengoa and enterprises of the group, according to its Annual Accounts.

With respect to current liabilities, they start at the 10% level, dropping to 5% next year to initiate an increasing trend during the last three years of the period, to account for 9, 15 and 20% of the total financial structure in 2013, 2014 and 2015 respectively. In the Annual Accounts of the society there is no explanation for this proportional increase in short-term debt. These liabilities correspond to short-term debt payable both to third parties and subsidiaries (mainly to the former) used to deal with any short-term shortage of the parent company or any other company of the group. In absolute figures they add up to 0.8b in the beginning, down to 0.46b and from there increasing to €0.97b, €1.8b and €2.5b in the last three years.

Income statement

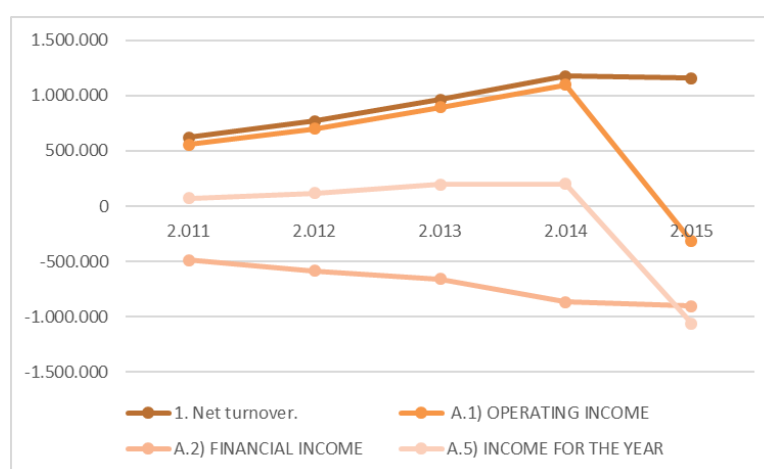


Figure 3.2: Income Statement structure of Abengoa (10³€)

Source: compiled by the author.

Net turnover increases more or less linearly until 2014, when it reaches a value of €1.175b, and then drops in 2015 down to €1.16b. This figure results mainly from long-term financial investments in the group financing and dividends from equity holdings, as this sources should be included in the net turnover figure because of the company being a holding society. Operating income accounts for 90% or more of the net turnover in the first 4 years of the period (this is operating margin is 90% or more in the indicated period), with personnel expenses and other operating expenses (outside services) being the only remarks here, except in the last one when big losses of €0.32b become prominent due to severe losses from disposal of non-current assets from holding subsidiaries. These losses are the result of the application of the going-concern principle, due to the fact that at the end of November 2015 the society presented its pre-state of insolvency (we will treat this more in depth in a subsequent section).

In the financial income part is where most of the company expenses are located. Interest expense coming from the huge debt we have already considered in the previous section represent costs of almost 80% and reaching 89% of the net turnover in the last year considered. This makes the financial result just as negative, with the exception of some positive changes in the fair value of financial instruments in 2013. To have an idea, financial expenses in absolute terms by years are: €0.48, 0.6, 0.74, 0.87, 0.87b respectively. This is a lot of money in interest expenses due to the high level of debt the company incurred.

Finally, income for the year follows a similar trend to operating income but lower, due to financial expenses. Profit margin grows from 11% to 20% in 2013 and 17% in 2014, to drop aggressively down to -108% (losses of €1.062b) of net turnover in the last year, due to the aforementioned impairments.

Cash flow statement



Figure 3.3: Cash flow statement of Abengoa.

Source: compiled by the author.

As we can appreciate from the graph, Abengoa is able to generate a positive CFO in all years considered. More specifically, the amount increases from 2011 (€140m) until 2014 (€320m), to finally drop in 2015 to the level of €200m. It follows a very similar trend to net income, but without the huge drop in the end (we must remember it was caused by impairment losses and thus it is not reflected or better said it is adjusted in the CFO). FFO are much greater than net income, especially due to adjustments regarding interest expense, being other income somehow relevant in 2012, 2013 and 2014. CFO in the strict sense differs a bit from FFO due to some adjustments in payables and receivables, but these are not very significant. Finally, in the section of other CF from operating activities, there is a big negative cash flow due to the payment of interests, which is partially compensated by the receipt of dividends, leaving the general picture of the CFO as we mentioned in the beginning.

The reader should note that what is called here FFO (funds from operations) is simply the result of 1. Income before taxes + 2. Adjustments to income. In the same way, CFO in the strict sense is FFO + 3. Changes in operating current assets and liabilities. Finally, CFO is CFO in the strict sense + 4. Other cash flows from operating activities (all these formulae is present in the enclosed CD).

CFI is the main negative flow, since the main function of the company is financing its subsidiaries and this require a lot of money invested in financial assets. In 2011 these expenditures raised up to €1.77b, next year they increase by 18% up to €2.1b to drop to €1.1b in 2013, with no special mention for it in the company Annual Accounts. It comes back to normal levels in 2014 and 2015 with €2.27b, €2.075b respectively. Cash receipts from disinvestments are virtually null, expect in 2013, when the company receives almost €150m from other financial assets (again no particular reference to it in the notes to the financial statements)

To sustain this level of outflow from huge financial investments, the company needs to be “feed” by a good financing inflow. In this case, the tendency shows ups and downs and CFF sums up €1.64b in 2011, €0.46b next year, increases again to €1.35b, then decreases back to €1.1b to finally reach the biggest value in 2015, with €1.75b.

The financing sources are in one hand the issue of new equity instruments (just in 2011, 2013 and 2015), with an approximated value of €300m, €516m and €175m respectively (in 2013 it stated that it is used to help to repay some loans with third parties and in 2015 they state that it was partly made to meet their obligations regarding some instruments such as warrants and convertible bonds) and the disposal of own equity instruments, which is around the €90-100m level every year except in 2014, when it reaches €576m. Also in the equity instruments side, the society acquires its own equity instruments, which supposes an outflow, from 2011-2014 (€144m, €102m, €180m, and spikes to €576m respectively).

On the other hand, the second source of financing is the issue of debt instruments. More specifically, long-term debt payable to subsidiaries and associated companies, which is issued on every year of the analysis, at different levels: in 2011 adds up to €1.68b, then the level goes down to €0.45b, and from there it increases to €1.17b in 2013, to reach finally the €2.33b and €2.025b level in 2014 and 2015 respectively. The issue of debentures in 2013 (€0.416b), 2014 (€0.27b) and 2015 (€0.717b) is remarkable too and in the last year of the period we find a big chunk (€1.8b) coming from long-term debt payable to credit institutions. This issuing is counteracted by the refund and amortization of long term debt (every year except in 2012) and debentures and negotiable securities (just in 2013 and 2015, reaching a level of €0.1b €1.8b; this might explain the issue of corporate debt in the last year analyzed). The amount paid to credit institutions is €0.3b in 2011, none in 2012 and €0.5b in 2013; from there it jumps to €1.45b and €1.13b in the last 2 years. We must also note that according to the notes, the society refinances its debt in 2012 and 2013 with a forward start facility (which is a credit facility which commits a syndicate of lenders to refinance an existing credit facility upon maturity) and in 2014 with a revolving loan (which is a facility that allows the holder the flexibility to repay or ask for more money without a fixed number of installments). This suggests the company is facing difficulties when repaying its financial obligations during the period.

Cash payments of dividends are not very significant at first sight, and they follow an upward trend from 2011 (€18m) up to €90m in 2015. They increase slowly in 2012, 2013 and 2014 (€36, 37, 39m). However, if we compare them with CFO, we realize they represent around 13% of CFO and are especially significant in 2012 and 2015, with a 26% and 44% respectively. So we realize the company pays a lot on 2012 and 2015 in contrast to what it is able to generate from its operations.

Taking into account all this, cash and cash equivalents stay virtually the same in 2011, decrease in €1.5b in 2012 (buffered by more than more than €2b) increase in €0.5b in 2013 and decrease in €0.855b and €0.15b in 2014 and 2015.

As a summary, we could state that the company is having some difficulties with cash. The mechanics the company follows is obtaining money from the group subsidiaries and huge syndicated loans to distribute that money among the subsidiaries which need it. However, we observe Abengoa has to renegotiate debt several times because it is unable to face its financial obligations on time. Regarding CFO, it is positive and follows an increasing trend, dropping a bit in the last year, but again we observe too much dividends are paid in proportion. Additionally, cash and cash equivalents decrease aggressively over the years, letting us discern that things are not going well for the company.

3.1.1 Analysis of profitability

PROFITABILITY ANALYSIS	2011	2012	2013	2014	2015
ROA	6,67%	12,65%	9,41%	6,01%	-1,27%
Profit margin	87,41%	143,28%	101,40%	59,94%	-16,01%
Assets turnover	0,076	0,088	0,093	0,100	0,079
Operating ROA	9,30%	13,56%	9,59%	6,07%	-2,57%
Operating Profit Margin	89,43%	143,07%	92,70%	59,61%	-32,28%
Operating Assets Turnover	0,104	0,095	0,103	0,102	0,080
Non-operating ROA	-0,58%	0,27%	7,90%	2,14%	394,93%
ROE	8,44%	31,15%	17,65%	6,94%	-155,08%
ROA	6,67%	12,65%	9,41%	6,01%	-1,27%
FLEV	10,840	10,666	6,727	6,580	17,689
AIR	6,51%	10,91%	8,19%	5,86%	7,43%
SPREAD (ROA-AIR)	0,16%	1,73%	1,22%	0,14%	-8,70%
ROA + (FLEV*SPREAD)	8,44%	31,15%	17,65%	6,94%	-155,08%
EBIT	543.119	1.101.021	977.629	704.716	-157.695

Figure 3.4: Profitability analysis of Abengoa

Source: compiled by the author

ROA doubles from 2011 to 2012, and from there decreases, reaching negative values in 2015. These negative values are due to the fact that in 2015 the company register very large impairments for disposal of non-current assets from subsidiaries and associated companies (this will be treated in section 3.1.4). The KPI is driven by a very strong profit margin, even greater than net turnover due to positive recurring financial income in 2013. Assets turnover remain low, due to the massive asset base of the company. Operating ROA follows the same trend, and so does ROE, but at a larger scale since we are talking about a positive spread except in the last year if the period, in which both financial leverage and spread become very large (spread becomes very negative due to the drop of ROA) and it sinks down to -155%. This level of FLEV manifests a very high risk for the company, since it relies a lot on external debt to keep functioning.

3.1.2 Analysis of liquidity

We must note that because the company we are analyzing is a holding company, and thus it does not have noticeable commercial activity on its own, the author opted for skipping the analysis of working capital and the activity ratios, since they do not provide useful information in this case.

LIQUIDITY STOCK RATIOS	2011	2012	2013	2014	2015
Current ratio	2.65	1.39	1.14	0.13	0.04
Quick ratio	2.65	1.39	1.14	0.13	0.04
Cash ratio	2.63	1.30	1.09	0.11	0.02

Figure 3.5: Liquidity stock ratios of Abengoa

Source: compiled by the author

Current and quick ratio are the same (no inventories or accruals) and cash ratio is minimally lower than the previous two (accounts receivable are not very important). The tendency is good in the first three years, being all of them greater than 1 and showing the ability of the company to repay its immediate obligations without any problems. However, they become really tiny in the last two years considered, as short-term debt scales up to massive figures, suggesting that the corporation may have serious problems when facing its short-term repayments. This reveals a negative WC in the last two years, and introduces the risk of non-current assets being financed with short-term debt.

LIQUIDITY FLOW MEASURES	2011	2012	2013	2014	2015
CFO	140.824	137.111	254.912	320.915	201.335
FFO (income before taxes + adjustments to income)	523.445	601.638	790.084	965.880	868.987
Cash flow ratio (CFO/current liabilities)	0,18	0,30	0,26	0,18	0,08
Current financial liabilities /CFO	5,37	3,13	3,48	5,38	12,12
Current financial liabilities /FFO	1,44	0,71	1,12	1,79	2,81
(Current financial liabilities - NOA) /CFO	-10,03	-1,24	-0,68	4,82	11,92
(Current financial liabilities - NOA) /FFO	-2,70	-0,28	-0,22	1,60	2,76

Figure 3.6: Liquidity flow measures of Abengoa

Source: compiled by the author

Although CFO is positive in every period and it grows until 2014 to drop in 2015, Abengoa is not able to cover its current financial liabilities with its CFO, meaning it might have liquidity problems and the necessity of looking for other financing sources in order to collect enough cash to face its financial obligations. What is more, not even taking FFO into consideration would the company be able to satisfy these needs (except in 2012). If we take NOA into the equation however, the situation looks better, but still in the last two years the society will not be able to cover all its financial liabilities with the CFO or even FFO it generates.

To sum up, we can say that everything indicates the company's ability to pay back its debts in the short-term is noticeably decreased in the last two years of the period. The corporation relies very much on external debt to carry out its business and this debt deteriorates its liquidity stock ratios and makes it very difficult for the company to pay back its debt with the cash flow it generates (as the liquidity flow measures suggest).

3.1.3 Analysis of solvency

Solvency stock measures:	2011	2012	2013	2014	2015
Equity	687.660	746.281	1.343.959	1.547.758	665.210
Total liabilities	7.454.467	7.959.510	9.040.610	10.184.225	11.766.877
Total assets / Total liabilities (non-current + current)	1,09	1,09	1,15	1,15	1,06
Equity / Total liabilities	0,09	0,09	0,15	0,15	0,06
Solvency flow measures:					
EBIT/Interest expense	1,12	1,27	1,32	1,18	-0,18
CFO	140.824	137.111	254.912	320.915	201.335

FFO	523.445	601.638	790.084	965.880	868.987
CFO / Total liabilities	0,02	0,02	0,03	0,03	0,02
Total financial liabilities (non-current + current) /CFO	52,50	57,60	35,02	31,43	57,89
Total financial liabilities (non-current + current) /FFO	14,12	13,13	11,30	10,44	13,41
(Total financial liabilities - NOA) /CFO	37,10	53,23	30,86	30,86	57,69
(Total financial liabilities - NOA) /FFO	9,98	12,13	9,96	10,25	13,37

Figure 3.7: Solvency analysis of Abengoa

Source: compiled by the author

Regarding solvency stock measures, we realize Abengoa relies a lot on external debt to finance its business, as remarked by the ratios TA/TL (which is barely higher than 1) and E/TL (which stays around 10-15%, being 6% in 2015). This implies the company is at risk of having solvency problems. This situation is confirmed by the ratio EBIT/IE, which is low and close to 1, which means almost all the recurring earnings are used to pay interest expense from the huge debt the company is incurring. Total financial liabilities represent up to 57 times CFO and 14 times FFO in some years, this fact gives us some perspective of the size of the debt. Of course we must consider these data with caution since in this case the company has other means to raise cash in order to meet its financial obligations.

All in all, we can say that Abengoa is a profitable company, at least in the first four years of analysis, however, some problems that we will consider next provoked by its excessive reliance in debt, has caused the results to drop in 2015. If we consider liquidity and solvency, we realize the company is going to have problems to pay back the huge debt it has incurred in, both in the short and the long term, because it has not the ability to generate enough cash flows to cover all these obligations properly.

3.1.4 The root of Abengoa fall

We have realized in the section dedicated to profitability that the business of Abengoa is profitable and it yields generous returns to investors (in this case we are talking about the head of the group, which has no real commercial activity itself but its business is financing the rest of the companies of the group, but results of this are quite good, at least in the first four years considered). Why is that in 2015 the company registers more than €1b in losses? We will try to go through the fall of the giant and understand why the multinational went from being one of the biggest Spanish companies to being in a critical situation.

To explain these apparently sudden but huge losses, we must pay attention to the section 2.1.1 of the Notes of the company in its 2015 annual accounts. There they explain that the reason for these impairments was initiated in the second semester of 2015, when the company decreased its provisions of cash flow from operations, due to extra capex investments in its subsidiaries that had to be financed with money from the parent, given the big amount of capital necessary to run their businesses. This fact increased the uncertainty of the markets and led Abengoa to a difficult situation renewing its long-term debt and equity instruments, as well as short-term debt, putting at risk the liquidity of the group. During September 2015, the company announced a renegotiation of the agreement with several financial institutions as well as a new strategic plan whose core points were the reduction of debt reliance of the companies of the group, setting limits to capex investments and the disinvestment in non-current assets. In November, the company presented a pre-agreement with Gonvarri Corporación Financiera, a company willing to invest in Abengoa, which was going

through an uncertain situation. However, at the end of the month the preliminary agreement broke and the society considered a re-financing process with its current creditors. In this situation, the Board of Directors thought that the most suitable action was to present in the Commercial Court number 2 of Sevilla the pre-state of insolvency.

Regarding the refinancing process that we mentioned previously, on the 25th of January 2016, the society informed that it had been presented to the Board of Directors a Viability Plan (updated in August of the same year) that expresses the bases of negotiation with its creditors and the activities the society will be carrying out in the future, related to engineering and construction and making big disinvestments in non-core assets in order to improve the situation. The main points of the abovementioned document are the refinancing of some debt and the injection of a lot of new capital to the society, in exchange for the 95% of the equity for creditors, meaning current owners would be left with just 5% of the actual value.

This adverse situation motivated the registration of impairment for disposal of non-current assets that we have already analyzed, following the ongoing principle. On the 17th of January 2017, the company announced that the final support for the new agreement represented 94% of the creditors, and is working on the implementation of the new measures. (Abengoa, 2017)

3.1.5 Abengoa, overall opinion

The company has tried to grow too much in a too short period of time, incurring in an unaffordable debt to sustain its capital-intensive business model. From the analysis of the balance sheet, we can deduce the spectacular growth of almost 53% in the asset base in the period was supported in a huge debt reliance, being equity a really small part of the financial structure and shifting towards short-term debt as the time went by.

Company “operations” (at least the operations of its subsidiaries) are very profitable, but big financial expenses and too much risk in its approach has led the company to the pre-state of insolvency, as we have already mentioned. The company has issued too much debt to sustain the level of payments its high-tech solutions require, and this worsened its liquidity indicators, such as those related with CFO, in which we could observe that short-term (financial) liabilities were several times higher than the ability of the company to generate cash flows. In the long term the tendency was similar, being EBIT just above interest expense throughout the period, and having an insufficient TA/TL ratio. The main fault of Abengoa has been maybe rushing too much and not growing properly, it introduced a very big risk with its strategy and now is paying the price of it.

What future holds for Abengoa seems to be a very deep restructuring process, a terrible hangover after the party of uncontrolled and certainly irresponsible growth. In the conclusions we will give an opinion on what the future of the company may look like after analyzing the latest relevant facts.

3.2 ACCIONA, S.A.

Assessment of the reliability of the information

According to the Audit Reports for the period 2011-2015 issued by Deloitte SL. the annual accounts present fairly, in all material respects, the equity and financial position of Acciona, S.A. at 31 December of each of those years, its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein. Nonetheless, the author must mention that these Audit Reports included in 2011, 2012 and 2013 a “matters of emphasis” paragraph, mentioning in every year that the company issued separately the Consolidated Annual Accounts and that they were audited by the same firm with the same opinion. Additionally, this paragraph in 2013 calls the attention to the section 8.2 of the Notes to the Annual Accounts, in which the impairments of certain investments in subsidiaries due to the new legal scene in the industry are explained.

Therefore, the information should be considered as reliable. However, the analyst could consider the possibility of making some adjustments. In this case, due to the nature of the society at hand, we opted for making adjustments in operating assets, and including in this category the investments in subsidiaries and associated companies, both in the long and the short term. Additionally, we will include financial revenues coming from holdings in subsidiaries in the net turnover figure in the first three years, as in the Annual Accounts these are included in the financial part of the income statement. This is a notable change since usually only holdings in equity of subsidiaries are included in operating assets, plus some financial results usually belong to the financial result and not to the net turnover.

Main risks and uncertainties

According to the management report of the society along the period considered, the main risks the group face can be divided in several typologies:

- **Economic-financial risks:** exchange rates, interest rates, price of raw materials, liquidity and related are reduced by hedging operations using derivatives. Credit risk is reduced using criteria generally accepted by the markets (ratings, historic relationship, etc.)
- **Strategic risks:** which are reduced by the careful study of every step of the strategy Acciona carries out, with thorough studies of different aspects of the business and the diversification of this.
- **Operations risk:** mainly related with the suppliers of the group, which are reduced by the analysis and determination of critical suppliers and business points.
- **Fortuitous risks:** regarding environment and labor risks. Again the company has systems to minimize these, setting in preventive measures.

Balance Sheet

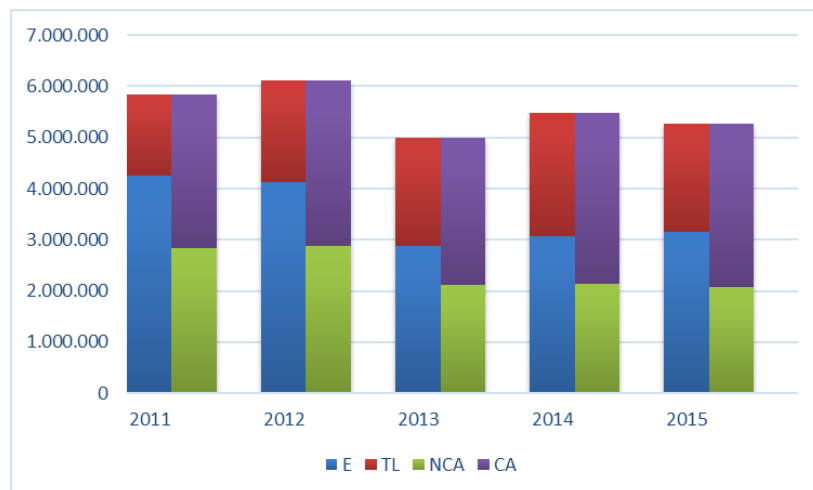


Figure 3.8: Financial structure of Acciona

Source: compiled by the author

Assets

Total assets fluctuate over the period considered, reaching a maximum of €6.1b in 2012, then dropping to €4.99b in 2013 to recover a bit in the last two years. In spite of these ups and downs, the asset base is always between €5b and €6b. The composition of them begin being almost 50-50, but non-current assets (composed basically by long-term investments in subsidiaries in the form of holdings in equity, because this is the parent company) drop from 49% in 2011 to the 40% level in 2015. There are some deferred tax assets but they have minor importance. Current assets follow the opposite trend and the start at the 50% level to reach a weight of 60% in the last year of the period. Again, these assets are composed by loans to subsidiaries almost on their entirety.

Financial structure

If we analyze the financial structure, we realize equity follows a decreasing trend, from 73% down to 56% in 2013 and 60% in 2015, and its composed mainly by reserves. On the other hand, total liabilities act the opposite way, more specifically, non-current go from 14% to 19% (provisions and long-term debt payable to third parties) and current start at 14% and go up to 21% of the total financial structure (being in this case short-term debt payable to associated companies the majority of it but also to third parties).

Income statement

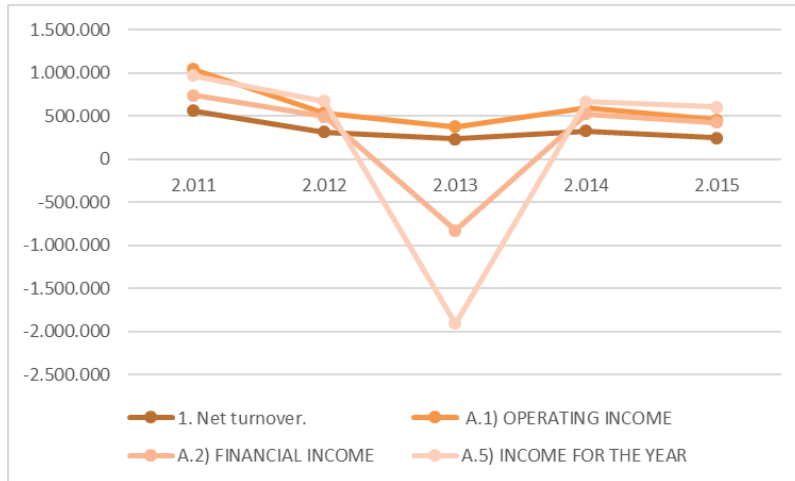


Figure 3.9: Income Statement structure of Acciona

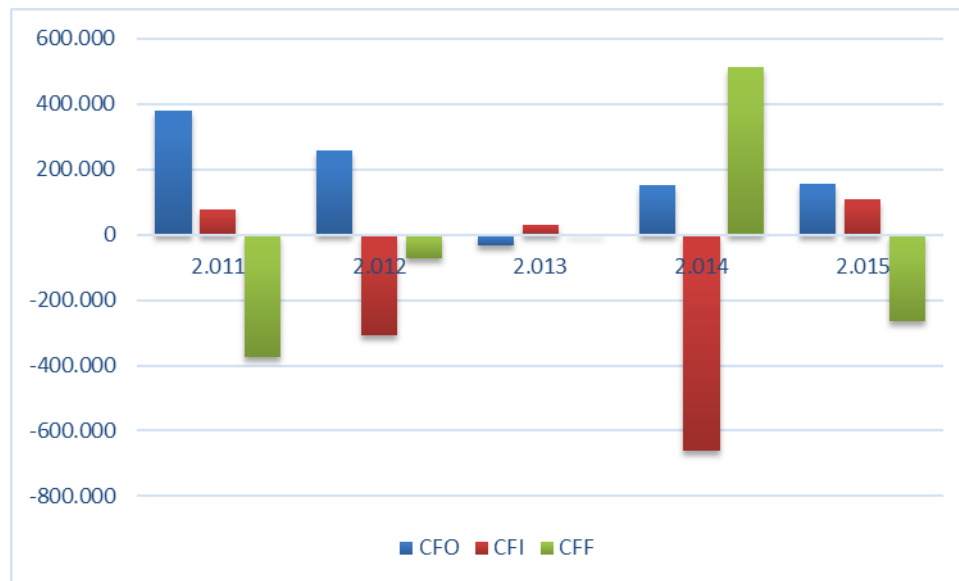
Source: compiled by the author

When looking at the income statement of the society, we must bear in mind that the company does not have a significant commercial activity on its own, and its main purpose is acting as a holding society and participating in different subsidiaries of the group. This contrasts with Abengoa, which main assets were loans to companies, and its revenues were interest. In this case, the companies holds equity as a long-term investment and will receive dividends, as well as interests for its short-term loans.

Because of the condition already mentioned, net turnover in the first three years of analysis has been modified to show the real picture, and the real situation is a net turnover goes from €0.56b in the first year to €233m in 2013 to go up again in the last two years of analysis to €325m and €246m respectively in 2014 and 2015. Personnel expenses and outside services are the main expenses, ranging in the mid €30m level in the first case and the €50-60m in the case of the latter.

In the financial part of income, revenues from financial instruments are the most important line, but these have been modified and included in the net turnover figure because of the adjustments in operating assets. Financial expenses are controlled and do not exceed €68m, which is the maximum figure reached in 2014. Impairment for disposal of financial instruments is a big source of losses, especially in 2011 (€277m because of the impairment of some of its shares in other companies of the group) and above all in 2013 (€1.16b due to some legal changes in the scope of activity of the corporation that motivated the impairment in some of its shares in other enterprises of the group, however, this is non-recurring). Financial income is then negative throughout the period considered and special attention must be payed to years 2011 and 2013 because of these impairments (close to -€0.3b and -€1.2b)

Income for the year follows a similar patter to operating income, having a deep valley in 2013 and being moderately positive in the surrounding years, more in the beginning than in the end.

Cash flow statement**Figure 3.10: Cash flow statement of Acciona**

Source: compiled by the author

Acciona is able to generate positive CFO over the years, although the tendency is to decrease and there is an exception in 2013 with a negative result. Income is positive throughout the period considered and the effect of the big impairment in 2013 is corrected by the adjustments to income, so we cannot say negative CFO in that year is because of that. FFO start being negative in the level of negative €40-45m and then becomes positive up to €90m in 2014 and €57m in the last year of the period (remind that FFO is 1. Income before taxes + 2. Adjustments to income). These changes are mostly because of financial revenues and expenses and adjustments for impairments. Changes in operating current assets and liabilities are not very significant, and they reach a peak in 2012 with a positive value of €104m. Considering all this, CF in the strict sense (FFO + 3. Changes in operating assets and liabilities) is positive and ascending except in 2013m, with -€23m. Other cash flows from operating activities, coming from interests and dividends, leave the scene with a fairly positive CFO in the first two years, followed by a small drop in 2013 (provoked by a decrease in income as can be appreciated in FFO being lower than the previous year) to regain in 2014 and 2015 (approximately €380, 260, -32, 152 and 156m respectively).

Cash payments for investments are important in 2012 (€400m in Acciona Energía for licenses), 2014 (€0.76b, above all in the energetic part of the group) and 2015 (€0.37b in energy and infrastructures). Disinvestments are not very important (~€90m except in 2013, with €38m), but in 2015 we find a big amount of €0.48b. All this cash comes from and is paid to the subsidiaries the company has participation in. These movements provoke ups and downs in the CFI, being €77m, -€307m, €31m, -€0.66b and €107m from 2011 to 2015, respectively.

Regarding CFF, the only important movement associated with equity is the acquisition of own equity instruments in 2012 for €122m. In the case of debt instruments, in 2012 we find the issue of €0.25b of other debt and in 2013, 2014 and 2015, between debentures and negotiable securities and long-term debt to credit institutions we have €0.36, 1.1 (mainly debentures and negotiable securities) and 0.34b respectively, being the refunds €0.2, 0.57, 0.507b during the last three years. Payment of other equity instruments (dividends and others) are moderately important (€0.2b in 2011, €0.19b in 2012, €0.15b in 2013 and €0.11b in 2015). This makes CFF negative (especially in 2011 and 2015, with -€0.375b and -€0.263b) except in 2014 with a positive result of €0.531b. As we can observe from this statement, the company does

not finance its activities with debt payable to credit institutions as much as it does with equity instruments, and this policy maintains a healthy financial structure as we will analyze next. This is because in general, financing operations in this way is cheaper and requires less supervision of the enterprise from third parties, which is an advantage if the business is big enough to do it. Nonetheless, there are no external ratings of Acciona corporate debt, as the company did not ask for it to any rating agency.

Taking everything into account, net increase / decrease of cash and equivalents is insignificant except in 2011 (€80m) and 2012 (-€120m). This decrease is buffered with the cash collected in the previous year and some more the company had from prior operations. The cash base the company maintains is very close to zero the rest of the years of the analysis.

3.2.1 Analysis of profitability

PROFITABILITY ANALYSIS	2011	2012	2013	2014	2015
ROA	8,25%	3,66%	2,85%	4,24%	2,61%
Profit margin	101,31%	105,18%	129,40%	71,51%	55,78%
Assets turnover	0,081	0,035	0,022	0,059	0,047
Operating ROA	6,68%	2,02%	0,40%	4,23%	2,61%
Operating Profit Margin	81,95%	58,02%	18,32%	71,36%	55,82%
Operating Assets Turnover	0,086	0,036	0,023	0,061	0,049
Non-operating ROA	1,58%	1,64%	2,45%	0,01%	0,00%
ROE	10,74%	4,61%	3,62%	5,37%	2,67%
ROA	8,25%	3,66%	2,85%	4,24%	2,61%
FLEV	0,376	0,485	0,728	0,789	0,674
AIR	1,65%	1,68%	1,80%	2,81%	2,52%
SPREAD (ROA-AIR)	6,60%	1,97%	1,05%	1,43%	0,09%
ROA + (FLEV*SPREAD)	13,22%	5,57%	4,39%	6,50%	2,73%
EBIT	482.371	223.579	142.421	232.479	137.372

Figure 3.11: Profitability analysis of Acciona

Source: compiled by the author

ROA begins high in 2011 but halves in 2012 and during the rest of the years it stays within the 2-4% range. We must bear in mind that ROA is not affected by the big impairments in 2011 and 2013 because these are considered non-recurring income. Also, profit margin in the first three years is greater than 100% because of positive recurring financial income. Assets turnover is very low, due to the huge asset base of the company, typical within this kind of businesses.

If we put our attention in operating ROA we realize how profitable the core activity of the company is, taking out the influence of financial income, and we see lower results in the first three years as expected. Operating margin is more realistic and we appreciate the remarkable difference in the first three years.

As we saw when analyzing the balance sheet, equity is always larger than total liabilities, meaning FLEV will always be less than one, so we do not really expect ROE to be very maximized in this case. AIR is low, just increasing a bit in the last two years, and spread remains low too, except in 2011 when the highest ROA and lowest AIR come together. This makes ROE to act very similarly to ROA and not very far away

from it. Overall, Acciona seems to have a nice profitability with a very controlled dependence on external debt.

3.2.2 Analysis of liquidity

Because the society does not have significant commercial activity itself, the author has skipped the analysis of WC and the activity ratios because they would not lead to useful conclusions. We must note that although the company has a medium level of trade account receivables and other receivables, most of them consist on assets for current tax, not being the other part representative.

LIQUIDITY STOCK RATIOS	2011	2012	2013	2014	2015
Current ratio	3,74	2,98	2,65	2,69	2,91
Quick ratio	3,74	2,98	2,65	2,69	2,82
Cash ratio	3,62	2,86	2,52	2,59	2,74

Figure 3.12: Liquidity stock ratios of Acciona

Source: compiled by the author

All the ratios remain very healthy, being especially high in the beginning and then dropping a bit but always staying within the 2.7-3 range. We know we have to take these figures carefully, but they look pretty well and suggest the company should not have many liquidity problems. As a note, we can deduce WC is positive and large during the period considered, since current ratio is always above 1.

LIQUIDITY FLOW MEASURES	2011	2012	2013	2014	2015
CFO	378.572	258.477	-32.279	152.071	156.166
FFO (income before taxes + adjustments to income)	-46.831	-38.143	-44.006	89.501	57.131
Cash flow ratio (CFO/current liabilities)	0,47	0,24	-0,03	0,12	0,14
Current financial liabilities /CFO	2,12	4,20	-33,67	8,14	7,01
Current financial liabilities /FFO	-17,18	-28,48	-24,69	13,84	19,15
(Current financial liabilities - NOA) /CFO	1,21	3,26	-27,51	6,73	5,46
(Current financial liabilities - NOA) /FFO	-9,80	-22,09	-20,18	11,43	14,94

Figure 3.13: Liquidity flow measures of Acciona

Source: compiled by the author

Although the company is able to generate positive CFO every year except in 2013, when we compare it with current liabilities we realize they are not enough to repay them and Acciona must look for another kind of cash inflow in order to pay back the debt it has incurred in. Since FFO is smaller than CFO, when we take it into consideration the result is even worse. If consider NOA, the situation does not look much better. To defray this, as we saw in the analysis of CFS, the company uses equity instruments and does not rely as much on external debt.

As a conclusion, we can say that although the CFL/CFO ratio tends to worsen over time and the company does not generate enough cash flows to repay debt, we must bear in mind that the company does not really have commercial activity, and the fact that it is able to generate positive CFO and has good levels of indebtedness as shown by stock ratios suggests Acciona should not have problems in the short-term.

3.2.3. Analysis of solvency

SOLVENCY ANALYSIS	2011	2012	2013	2014	2015
Solvency stock measures:					
Equity	4.247.364	4.119.131	2.889.406	3.064.090	3.144.403
Total liabilities	1.596.041	1.996.696	2.102.268	2.417.441	2.118.116
Total assets / Total liabilities (non-current + current)	3,66	3,06	2,37	2,27	2,48
Equity / Total liabilities	2,66	2,06	1,37	1,27	1,48
Solvency flow measures:	2011	2012	2013	2014	2015
EBIT/Interest expense	18,27	6,65	3,77	3,42	2,57
CFO	378.572	258.477	-32.279	152.071	156.166
FFO	-46.831	-38.143	-44.006	89.501	57.131
CFO / Total liabilities	0,24	0,13	-0,02	0,06	0,07
Total financial liabilities (non-current + current) /CFO	2,90	5,80	-49,86	13,23	11,68
Total financial liabilities (non-current + current) /FFO	-23,40	-39,30	-36,58	22,48	31,91
(Total financial liabilities - NOA) /CFO	2,03	4,94	-44,38	12,10	10,35
(Total financial liabilities - NOA) /FFO	-16,39	-33,49	-32,56	20,56	28,30

Figure 3.14: Solvency analysis of Acciona

Source: compiled by the author

Both E/TL and TA/TL look really good, being equity and total assets several times larger than TL. However, a bad sign is that they deteriorate over time, suggesting that if the tendency continues the company may incur in some kind of problematic situation. They must identify the exact reasons behind and prevent that situation from getting worse.

EBIT/IE looks good but again it is deteriorating rapidly over the period, bringing up that the company is going towards problems if they do not take actions to correct that. Total financial liabilities ratios act in the same way as ratios considering current financial liabilities, but worse. Again, the society cannot generate enough cash organically to repay their debt, and must obtain it in other ways. Similarly, if we take into consideration NOA they would still have problems to pay it back in an extreme case. Nonetheless, as mentioned in the liquidity section, the ratios look healthy and the company is not really a commercial company, so the CFO should be looked carefully.

3.2.4 Acciona, overall opinion

We are again in front of a company which main activity is holding equity and making financial investments in its subsidiaries, with all the special considerations this implies. The size is practically half of Abengoa's, but the financial structure is much healthier, having a reasonable E/TL ratio. Although income comes from subsidiaries dividends and interests, this gives us an idea of the progress of the group as a whole, which is pretty good except for the impairments in 2013 due to the new legal scenario of the industry. The society is able to generate positive CFO most years, CFI fluctuates with two years of big investments and CFF looks good in the sense that the company does not finance itself to a large extent with debt payable to credit institutions.

The society is profitable (although not as much as Abengoa) and the impairments in 2011 and 2013 do not affect this because they are a punctual situation. In terms of liquidity, the maintenance healthy ratios suggest the company should not have problems to repay its short-term obligations. Here CFO is not as important as the way the company finances itself and its subsidiaries in other ways, for example issuing equity instruments. However, for a more accurate conclusion, we should look at the industry averages, since a relatively high level of debt is usual. In the solvency side, TA/TL and EBIT/IE look very good, leading us to think the company will be able to face its long-term obligations.

With this scene, and if the company follows the same trend, we should expect steady and controlled growth, relying more on equity than debt (given the industry standards). It seems that Acciona is a profitable and unrisky option for investors, a perfect example of a company that shows good results at a steady and secure pace.

3.3 IBERDROLA, S.A.

Assessment of the reliability of the information

According to the Audit Reports for the period 2011-2015 issued by Ernst & Young SL, the annual accounts present fairly, in all material respects, the equity and financial position of Iberdrola, S.A. at 31 December of each of those years, its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein.

Therefore, the information should be considered as reliable. However, the analyst could consider the possibility of making some adjustments. In this case, due to the nature of the society at hand, we opted for making adjustments in operating assets, and including in this category the investments in subsidiaries and associated companies, both in the long and the short term as well as receivables from subsidiaries. Additionally, we will include financial revenues coming from holdings in subsidiaries in the net turnover figure in the first year, as in the Annual Accounts these are included in the financial part of the income statement. This is a notable change since usually only holdings in equity of subsidiaries are included in operating assets, plus some financial results usually belong to the financial result and not to the net turnover.

Main risks and uncertainties

According to the management report of the society along the period considered, the main risks the group face can be divided in several typologies:

- Corporate governance risk, related to the compliance of the systems of the corporate governance, documented in the corporate statutes and the internal politics of the society.
- Market risks, linked to the variation of market variables such as interest rates, price of raw materials and exchange rate.
- Credit risks, meaning the counterparty does not comply the points of the contract

- Business and operational risks, such as technological and IT risks, related with environment and several external events and their economic, reputational and legal impact.
- Political risk, coming from changes in the regulatory or legal scene affecting the businesses of the group.
- Reputational risk, associated with negative variances in the value of the society in the case of performing under the expectations of its stakeholders.

More concretely, the measures the company takes regarding financial risks include balancing the level of debt with fixed, variable or mixed interest rate, the hedge using derivatives in the case of the exchange rates, the diversification of financial sources to diminish liquidity risks and the application of certain criteria when choosing the counterparty to give a loan.

Balance Sheet

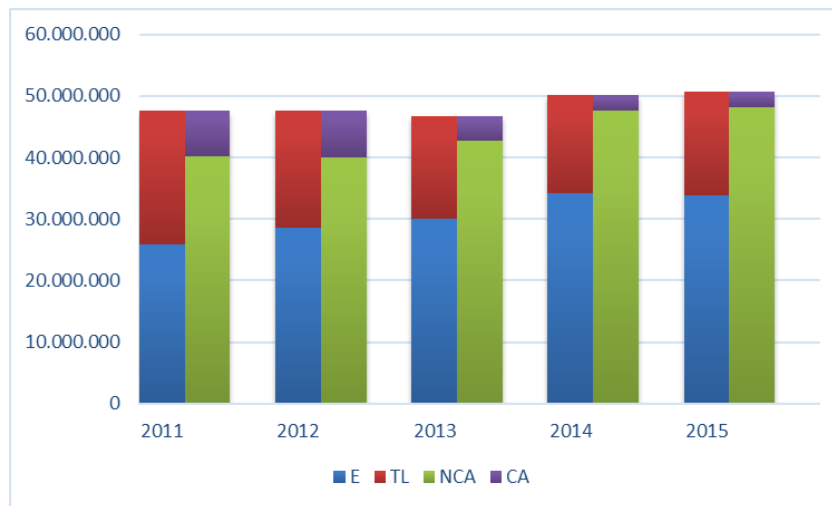


Figure 3.15: Financial structure of Iberdrola

Source: compiled by the author

Total assets stay pretty much the same, growing just in 2014 by 7%. In the first two years non-current assets represent the 84% of the total asset base, and this proportion grows up to 92% in 2013 and to 95% in the last two years of the period. Because this is the parent company, almost the entirety of these assets are long-term investments in subsidiaries and associated companies, in the form of holdings in equity and a residual part of loans to companies. This contrasts with Abengoa, where the situation is just the opposite. Current assets, complementary, remain as a 16% in the first two years and drop down to 8%, 5% and 5% in the last three years of the period. However, in this case there is a remarkable difference with the other two companies, and it is that in this case Iberdrola has significant commercial activity itself, as we deduce from the revenues and expenses section in the notes the Annual Account along the period. These are composed mainly by short-term financial investments (in the form of loan to companies), short-term investments in subsidiaries (these are significant and according to the Notes to the Annual Accounts are derived from the centralized management of liquid assets of the group by the society) and, because of the aforementioned condition, trade account receivables from subsidiaries and associated companies.

Equity starts being 54% of total assets all the way up to 67% in 2015, and its composed by capital, share premium and reserves. Income for the year only is only significant in 2012 and 2013 and in the case of prior year's income we observe that has certain importance in the last three years considered.

Non-current liabilities start at the 35% level and in the last three years stays around the 20-22%. These are mostly long-term debt payable to subsidiaries and to a smaller extent payable to credit institutions. Current liabilities remain around 10, reaching a peak at 14% in 2013. This debt is mainly payable to associated companies but some part of it is also payable to credit institutions. As the company is the head of the group, a movement of credits and loans from a to subsidiaries is expected.

Income statement

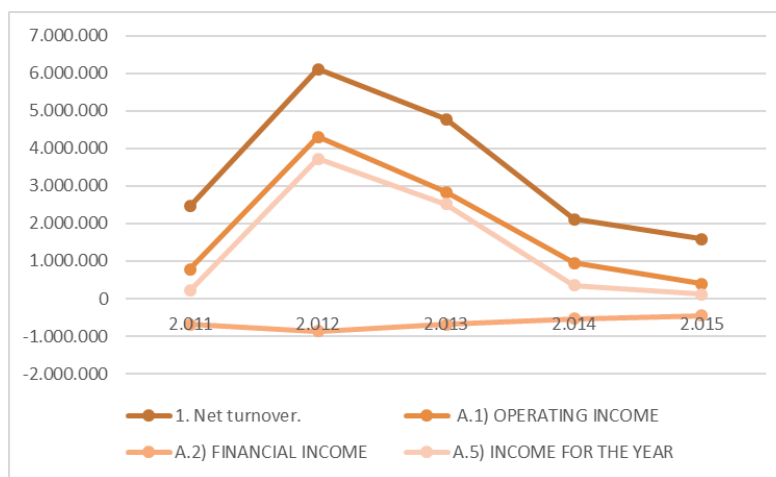


Figure 3.16: Income Statement structure of Iberdrola

Source: compiled by the author

Net turnover goes from €1.7b in 2011 to €6.1b in 2012 and from there decreases down to €1.58b in the last year analyzed. If we look into the annual accounts of the society, we realize we must make an adjustment in the first year to include revenues from holding in subsidiaries into the net turnover figure. Namely, revenues from holdings in equity represent 30.86%, 73.73%, 73.16%, 41.22% and 31.04% of net turnover in every year of the period respectively. Nonetheless, since in this case the society has a significant commercial activity itself, we must mention the weight of the gas sales to subsidiaries and services rendered along the period considered, being in 2011, 2014 and 2015 much more important than the revenues from subsidiaries (to put it in relative terms we must simply observe the difference between 100% and the aforementioned figures). Procurements represent a very big chunk of expenses, concretely the 80% of net turnover in the first year and then goes down to around 20% in 2012 and 2013 to increase the proportion again in 2014 and 2015 up to 50% and 70% respectively. Other operating revenues are quite important in the first year (25% of net turnover) but become less significant then (6% in 2012 and 2013 and then 15% and 13% in the last two years of the period). Personnel expenses are quite relevant in 2011 and 2014, accounting for more than 10% of net turnover and other operating expenses reach close to 20% of it in 2011 and 15% and 11% the last two years. Impairment for disposals of NCA are 11% in 2014 and other results have a negative value of 14% net turnover in 2013 but a positive 11% in 2014. Summarizing this figures, we find that operating income spikes in the second year of analysis up to €4.3b, and then decreases to €2.84b, €0.95b and €0.4b in the rest of the years.

Financial revenues are not very important throughout the period, while financial expenses reach almost €0.9b in the first two years, and from there they decrease their

volume to €0.76b, €0.55b and €0.48b. The main part of these come from subsidiaries, and in the first two years they sum up around €160m coming from third parties. The rest of the lines are not very representative, and global financial income follows a stable negative tendency throughout the period, decreasing a bit more in the second year of analysis because of the high interest expenses and the less income coming from other financial instruments compared to the previous year (-€0.56b, -€0.87b, -€0.68b, -€0.54b, -€0.45b)

Finally, income for the year follows a parallel trend to operating income, but a little bit below, because of the effect of financial income. In general, the period seems to be good since the company manages to give positive results in all the years considered, although we should keep an eye in the deteriorating trend of net turnover (produced by the decreasing revenues coming from subsidiaries), and ultimately income for the year.

Cash flow statement

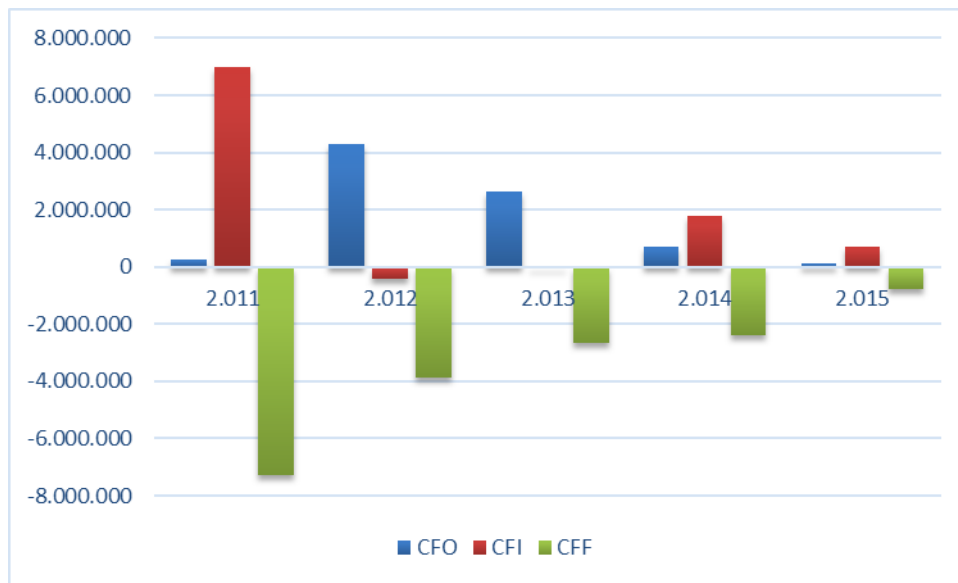


Figure 3.17: Cash flow statement of Iberdrola

Source: compiled by the author

CFO follows the same pattern as income for the year, but magnified. This is a good sign, since the company is able to collect more money than it is accrued, due to some adjustments. Major adjustments occur in financial revenues and expenses (dividends from subsidiaries) that are firstly subtracted and then added again in line 4 of the format. Depreciation expense is also significant in the first three years. In the 1st year both inventory and other current assets adjustment are important with more than €0.5b in the case of the former and almost -€0.4b in the case of the latter. In that year, €0.23b in accounts receivables were not collected, but in the rest of the year this was a positive adjustment, although it decreased over time. We should remark that in 2013 almost €0.67b of payables were paid, meaning a significant adjustment to income. The same happened in 2015, with €0.13b in payables.

CFI is surprisingly positive or around 0 in the period considered, because although there are big payments for investments above all in subsidiaries and other financial assets (just in 2011 we find a big payment in the form of shares in the business unit line, because of the merger with Iberdrola Renovables), there are also big disinvestments in the same areas and thus big collections of money during the period. All in all, CFI is almost €7b in 2011, then drops to -€0.5b, and -€34m and then is positive again in 2014 and 2015 with €1.78b and €0.69b.

Again, it is a bit counterintuitive that CFF is large and negative in all the years considered. Regarding equity instruments, only in the first year in this value positive, due to a big issue of €1.9b. The rest if the years are increasingly negative, going from -€0.13b to -€0.85b in 2015. This is due to big payments in acquisitions of own equity instruments every year, that are partially counteracted by the disposal of own equity instruments, but this last figure is much lower.

With respect to cash involved in debt instruments, we can say there is a big issuing of long-term debt payable both to subsidiaries and credit institutions, being the latter much bigger than the former except in the first year (€2.9, 2.5, 3.7, 7.7, 5.6b). On the other hand, the refunds and amortization of this kind of debt is even higher, accounting for €10.2, 5.2, 5.14, 8.3, 5.2b; always with a bigger proportion from associated companies. Dividends and remuneration of other equity demands big payments too, being negative and large every year (-€1.74b in 2011, around -€1b in 2012 and 2014, -€0.86b and finally -€0.3b in 2015).

All these big payments configure a CFF which is negative every year (although it improves), which begins in -€7.27b in 2011 and ends in -€0.76b in the last year of the period. Net cash increases and decreases during the period are minimal, and the company stays around the 0 level in all the years considered (just ending with €67m and €10m in 2012 and 2013). It seems that Iberdrola repays a lot of debt during the period, and is able to do that because of the issue of more debt (especially payable to subsidiaries), disinvestments in subsidiaries and other financial assets and the positive CFO that manages to generate.

3.3.1 Analysis of profitability

PROFITABILITY ANALYSIS	2011	2012	2013	2014	2015
ROA	3,23%	9,13%	7,64%	1,91%	0,85%
Profit margin	65,77%	71,20%	74,68%	45,12%	27,34%
Assets turnover	0,049	0,128	0,102	0,042	0,031
Operating ROA	2,70%	9,05%	7,47%	1,90%	0,79%
Operating Profit Margin	55,11%	70,59%	73,05%	44,80%	25,35%
Operating Assets Turnover	0,055	0,141	0,107	0,043	0,032
Non-operating ROA	0,52%	0,08%	0,17%	0,01%	0,06%
ROE	2,48%	12,04%	9,36%	1,20%	-0,13%
ROA	3,23%	9,13%	7,64%	1,91%	0,85%
FLEV	0,842	0,662	0,558	0,467	0,499
AIR	4,11%	4,74%	4,55%	3,43%	2,83%
SPREAD (ROA-AIR)	-0,89%	4,40%	3,08%	-1,52%	-1,98%
ROA + (FLEV*SPREAD)	2,48%	12,04%	9,36%	1,20%	-0,13%
EBIT	1.536.744	4.344.966	3.563.912	956.286	432.289

Figure 3.18: Analysis of profitability of Iberdrola

Source: compiled by the author

Considering the asset base remains more or less constant (just increases by €3b in the last two years of the period, but this amount is not very significant), ROA follows the same pattern as EBIT: spikes up to 9% in 2012 and from there decreases during the whole period down to 0.85% in 2015. Both profit margin and assets turnover do the same thing, being the latter very small due to the huge asset base the company owns. Profit margin also fluctuates, reaching a maximum level of close to 75% in 2013 and deteriorating down to 27% in 2015. Operating ROA represents the most part of ROA,

which is a good sign, and we find that its non-operating part is also positive, being this a sign of good profitability.

Financial leverage is not very high, decreasing from 0.842 in 2011 to the 0.5 level in the last three years. AIR is kept controlled and decreases in the last two years, but ROA is not high enough so that the spread is positive every year. In fact, spread fluctuates and is negative in 2011 (-2.22%), 2014 and 2015 (-1.52% and -1.98%). This fact deteriorates ROE in the years mentioned (reaching even a negative result in 2015), and improves it in 2012 and 2013.

3.3.2 Analysis of liquidity

ANALISYS OF WC	2011	2012	2013	2014	2015
Operating WC requirements (OWCR)	2.802.817	3.505.238	3.192.884	1.958.912	2.250.137
Working capital	2.447.115	2.724.613	-2.664.517	-4.226.798	-2.623.306
WC surplus / deficit (WC - OWCR)	-355.702	-780.625	-5.857.401	-6.185.710	-4.873.443
Financial current liabilities = short-term debt	4.165.844	3.887.320	6.252.597	6.313.095	5.009.680
WC surplus + short-term debt	3.810.142	3.106.695	395.196	127.385	136.237
Other debt with no explicit cost	0	0	25.979	0	0
WC surplus/deficit + short-term debt + ODNEC = non operating current assets	3.810.142	3.106.695	421.175	127.385	136.237

Figure 3.19: Analysis of liquidity of Iberdrola

Source: compiled by the author

First of all is important to note that in this case the analysis of WC and activity ratios makes sense, since the corporation has a significant own commercial activity. The society keeps a WC deficit throughout the period that is aggravated in the last three years, provoked by the diminishing operating current liabilities (affecting operating WC requirements because the company is less able to finance its operations with payables) as well as a big decrease in short-term loans to companies (current assets), which reduces significantly WC. The company then finances these necessities with short-term debt, as we observe in the table, increasing the risk of non-payment in the short-term.

LIQUIDITY STOCK RATIOS	2011	2012	2013	2014	2015
Current ratio	1,48	1,56	0,59	0,36	0,49
Quick ratio	1,47	1,56	0,59	0,35	0,49
Cash ratio	1,21	1,38	0,50	0,28	0,41

Figure 3.20: Liquidity stock ratios of Iberdrola

Source: compiled by the author

Analogously, liquidity stock ratios degenerate in the last three years of the period, because of the worsening of the relationship NCA/NCL. They are very similar, since the company does not have a lot of inventory or receivables.

ACTIVITY RATIOS	2011	2012	2013	2014	2015
Inventory turnover (goods for sale)	50,19	24,32	22,98	10,36	18,53

Accounts receivable turnover	1,95	2,01	2,96	4,29	6,71
Net purchase	1.432.505,00	1.390.311,00	999.917,00	1.076.120,00	1.145.132,00
Accounts payable turnover	2,19	1,97	2,25	10,29	14,74
Days inventory held (goods for sale)	7	15	16	35	19
Days receivables outstanding	185	179	122	84	54
Days accounts payables outstanding	164	183	160	35	24
Average length of the operating cycle	28,03	11,23	-22,34	83,61	48,66

Figure 3.21: Activity ratios of Iberdrola*Source: compiled by the author*

Days inventory held in the case of goods for sale lengthen over time, reaching a peak in 2014 and shortening again in 2015. This is not a good sign, since implies the company takes more time to sell its merchandise. Days receivables outstanding decrease throughout the period, meaning the society is able to collect money from its customers faster as time goes by. Accounts payable turnover increases dramatically in the last two years considered, meaning Iberdrola pays its suppliers very soon compared to the three previous years (this makes sense with the analysis of the WC above, since this reduces the amount of operating liabilities and thus reduces OWCR). All of this makes the average length of the operating cycle to improve in the first three years to worsen again in the last two years, reaching the worst results of the whole period. This means the company was much more operationally efficient in 2011, 2012 and 2013, basically because the financing period provided by suppliers was much longer (although they were paying suppliers up to 6 months later). This situation implies the enterprise pays their suppliers much sooner, which puts more risk in failing its financial obligations in the short term. As a note, is interesting to see how the company offers much better payment ratios in its Annual Accounts (days accounts payables outstanding) since the way of calculating it is different and it uses information unavailable for the purpose of this analysis, that is the exact number of days the company took to pay its suppliers.

LIQUIDITY FLOW MEASURES	2011	2012	2013	2014	2015
CFO	244.912	4.301.998	2.623.060	702.564	117.720
FFO (net income + depreciation expense)	222.338	197.171	126.883	6.248	55.012
Cash flow ratio (CFO/current liabilities)	0,05	0,89	0,40	0,11	0,02
Current financial liabilities /CFO	20,75	1,12	2,50	9,41	44,08
Current financial liabilities /FFO	22,86	24,54	51,72	1058,08	94,33
(Current financial liabilities - NOA) /CFO	-3,67	-0,08	1,59	8,10	35,76
(Current financial liabilities - NOA) /FFO	-4,04	-1,84	32,80	911,00	76,52

Figure 3.22: Liquidity flow measures of Iberdrola*Source: compiled by the author*

CFO as we mentioned in a preceding section, goes up until 2012 and from there deflates until the last year analyzed. FFO acts differently, going down from the first year considered to the fourth and from there climbing a bit again in the last year. The more important thing in this table is that current financial liabilities are much larger than CFO (maybe they are a bit more balanced in 2012, 2013), but in general the company does not generate enough CFO to repay its short-term financial obligations and must obtain cash in another way. However, for being this the parent company, we should be aware of the limitations of this method to estimate the ability of the company to repay its debt,

because as we considered in the CFS, it has other ways to raise cash to pay debt back. If we take into account NOA, the situation would improve but again, not even using these assets to repay the debt would we be able to cancel it in the last two years, being the obligations several times higher than the capacity of the company to generate cash.

Considering all this information, although the company is the head of the group, we should make a remark in the ability of the company to repay the financial obligations it has incurred in, because there is a pronounced WC deficit in the last three years of the period, plus liquidity stock and activity ratios deteriorate in the last three and above all last two years considered. Moreover, the company is not able to generate cash organically to repay its short-term debt, so that is another point to bear in mind.

3.3.3 Analysis of solvency

SOLVENCY ANALYSIS	2011	2012	2013	2014	2015
Solvency stock measures:					
Equity	25.856.591	28.630.007	29.966.805	34.134.732	33.787.273
Total liabilities	5.082.192	4.839.067	6.562.988	6.610.854	5.189.369
Total assets / Total liabilities (non-current + current)	2,19	2,51	2,79	3,14	3,00
Equity / Total liabilities	1,19	1,51	1,79	2,14	2,00
Solvency flow measures:	2011	2012	2013	2014	2015
EBIT/Interest expense	1,72	4,84	4,69	1,75	0,91
CFO	244.912	4.301.998	2.623.060	702.564	117.720
FFO	222.338	197.171	126.883	6.248	55.012
CFO / Total liabilities	0,05	0,89	0,40	0,11	0,02
Total financial liabilities (non-current + current) /CFO	78,78	3,82	5,61	19,92	128,62
Total financial liabilities (non-current + current) /FFO	86,78	83,31	116,05	2240,29	275,24
(Total financial liabilities - NOA) /CFO	58,10	2,83	4,82	19,04	121,83
(Total financial liabilities - NOA) /FFO	64,00	61,75	99,58	2140,87	260,70

Figure 3.23: Solvency analysis of Iberdrola

Source: compiled by the author

TA/TL ratio is healthy and increases over time from 2.2 to 3 and more importantly, E/TL ratio also goes from 1.2 to 2, which is good because the company relies a lot more of equity than liabilities to finance its operations.

EBIT/IE is 1.7 in the first year, then increases close to 5 in following two to decrease again and finish in 0.9 in 2015. This is not a very good sign, except in 2012 and 2013, because the business is generating just enough income to pay interests, not even that in the last year. CFO/TL seems to be reasonably high just in 2012 and 2013, being very small in the rest of the years, evincing the inability of the company to generate a good level of cash flows from operations. If we used NOA to repay debt, it would still be very superior to the ability of the company to generate cash from its operations. Nonetheless, we should bear in mind that this is the parent company and although it has a noticeable operating level, it is not its main activity, so these figures could be

misleading. In this case, we must wonder how does the company maintain this situation over time, and if we look at the cash flow statement we see that the company has a negative CFF every year, this means it repays much more debt than it issues, and it is able to do that because apart from the CFO it is able to generate over the years, we find a surprisingly positive CFI, which is possible thanks to big disinvestments that take place during the period considered. All in all, we can think CFO ratios both in the short and in the long term may be unsustainable, and this probably would be the case of a regular company. However, in this case we know the company has other ways to collect cash to meet its obligations, as we have already discussed.

3.3.4 Iberdrola, overall opinion

Iberdrola is the largest of the three companies, being almost 5 times bigger than Abengoa and close to 10 times bigger than Acciona. Debt reliance is controlled though and equity increases its importance over the years. As expected, NCA account for the most part of the total asset base and most financial obligations are due in the long term. Income is much bigger, according to the size of the business, and this time the company carries out operations apart from acting as the holding society. Cash flows are a bit atypical though, since CFI are positive due to a big amount of disinvestments in the period and CFF are negative, due to the repayment of the debt. CFO are positive but very decreasing throughout the period, which is not alarming but is a factor to bear in mind.

With respect to the business profitability, ROA is positive but it reaches high levels in 2012 and 2013 while worsening in the last years of the period, following ROE and EBIT the same trend (the former not very far from ROA since FLEV is controlled). In regard to liquidity we find a remarked drop from the third year on, when there is a bad WC deficit, stock and activity ratios worsen (lengthening of the operating cycle) and the ratio CFL/CFO indicates that financial liabilities in the short term are greater and greater compared to CFO. If look at the solvency analysis, we realize that TA/TL is healthy and improving, while EBIT/IE reaches very good levels in 2012 and 2013 but worsens fastly as time goes by. It seems that the company in general has two very good years, 2012 and 2013, but has some trouble maintaining the effectiveness from there, and that is reflected in every aspect of its annual accounts.

Chapter 4

COMPARISON BETWEEN COMPANIES AND INDUSTRY

4.1 INTRODUCTION

In this chapter we are going to analyze the companies at hand in the context of the industry. We will pay attention to the size of the companies, their financial structure and also their main indicators of profitability, liquidity and solvency. Since we are talking about a big industry, namely utilities, we are going to consider companies that carry out a variety of activities (production, distribution, commercialization of energy, infrastructures, engineering services, etc.) and we have chosen the parent companies as representatives of their groups (since usually in these cases we deal with very large groups of companies). We must note that in the case of Abengoa SA the company is not strictly talking the parent of its group, because in that case we find a company (Inversión Corporativa, I C, SA) that is the real parent; however, we chose Abengoa because in this case is the most representative and the one which is in pre-state of insolvency. In the case of Endesa SA the situation is similar, being Enel SPA the real parent, however we do not have information available since the society is registered in Italy, and for our purposes Endesa is representative and similar enough to the other companies.

Another interesting point to have in mind is that all these companies are holding companies, and act in a similar way to the three we have already analyzed. Some of them are registered like that and some other are not, but if we look at their balance sheets, we soon realize their main activity is holding equity and / or financing the subsidiaries of their respective groups. Nevertheless, it is true that some of them do have a significant commercial activity on themselves, like is the case of Iberdrola.

Finally, as it will be remarked in the next sections, in some of the metrics, we have found some outliers in the group that are very far away from the average figures and might offer a distorted view of the global scene. For these reasons, these have been deleted in certain analysis, so the reader can grasp the real picture in a better way.

The companies, listed by total assets in descending order are:

- Iberdrola, Sociedad Anónima
- Gas Natural SDG SA
- Endesa SA
- Acciona SA
- Sacyr SA
- Red Eléctrica Corporación SA
- Abengoa SA
- Unión Fenosa Gas SA
- Duro Felguera SA
- Nexus Energía SA
- Cide HC Energía SA

4.2 COMPANY SIZE

Net turnover

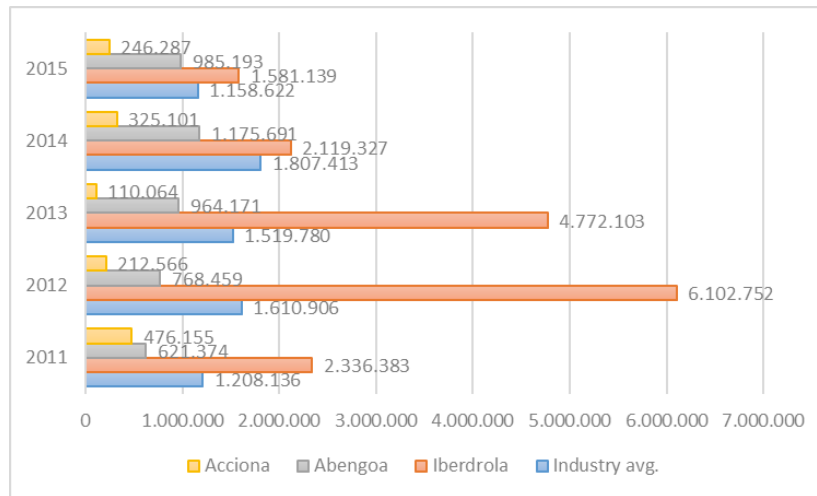


Figure 4.1: Net turnover (thousands of €)

Source: Compiled by the author based on SABI and own calculations

As we can deduce from the plot, Iberdrola is clearly above the average NT (in 2012 and 2013 it is several times higher), then Abengoa is obtaining results ranging from the half to close to the average and Acciona is really tiny compared to the industry average, obtaining results that are several times below other companies.

Total assets

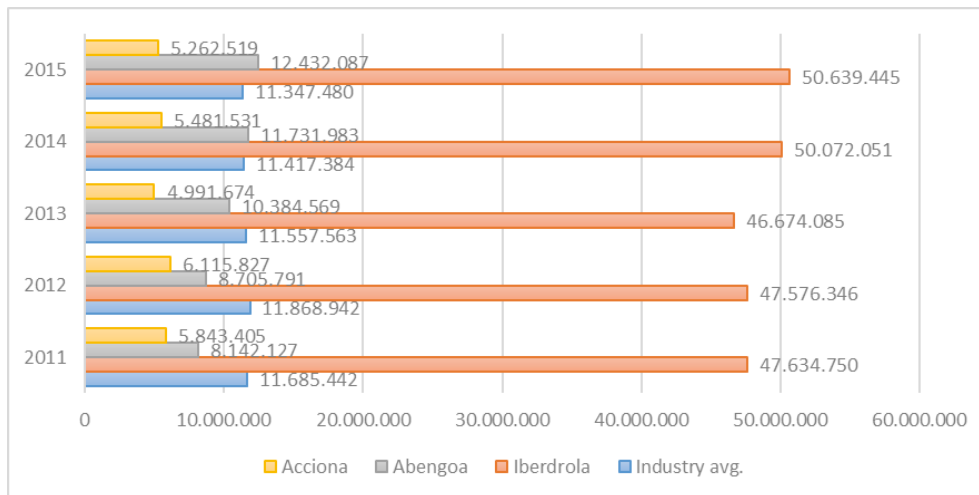


Figure 4.2: Total Assets (thousands of €)

Source: compiled by the author based on SABI

Again the asset base of Iberdrola is between 4.5 and 5 times higher than the average, distancing itself from the rest. Abengoa begins at 70% of the average approximately to slowly improve and end up slightly above in 2015. Acciona places itself at half of the average more or less for all the years considered.

4.3 FINANCIAL STRUCTURE OF THE COMPANIES

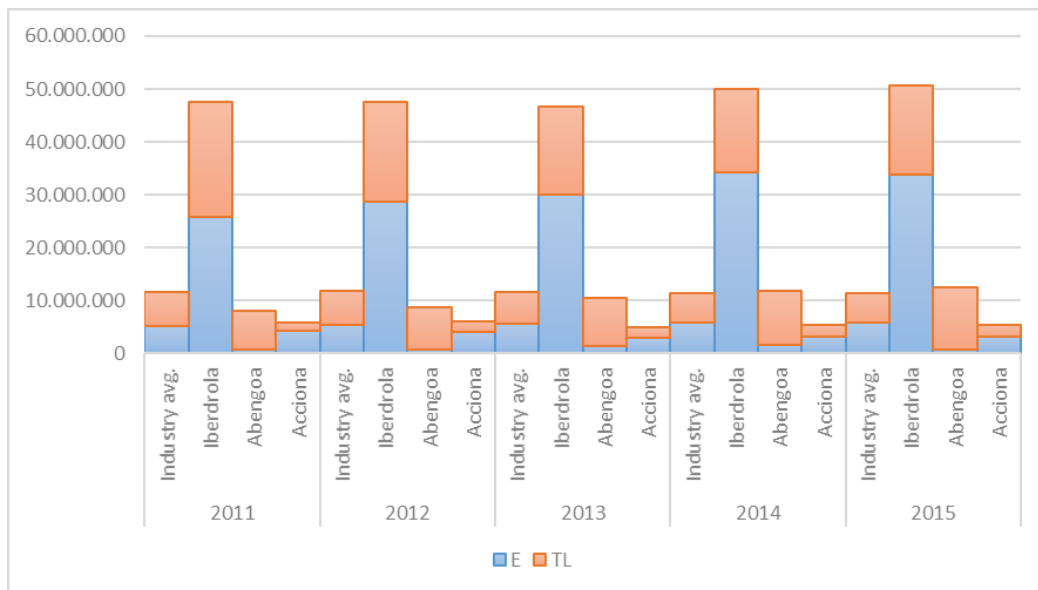


Figure 4.3: Financial structure (thousands of €)

Source: compiled by the author based on SABI

As with total assets we distinguish Iberdrola as clearly bigger than the other two companies and the average of the industry, we now pay attention to the financial structure. We see the industry follows approximately a 50-50 split between equity and total liabilities. Iberdrola starts more or less like that and as time goes by reduces debt reliance to grow equity. Acciona is more conservative and maintains a greater amount of equity compared to total liabilities. Finally we can observe that Abengoa practically relies totally on external debt to finance its operations, and this is the main reason of its fall.

4.4 PROFITABILITY

EBIT

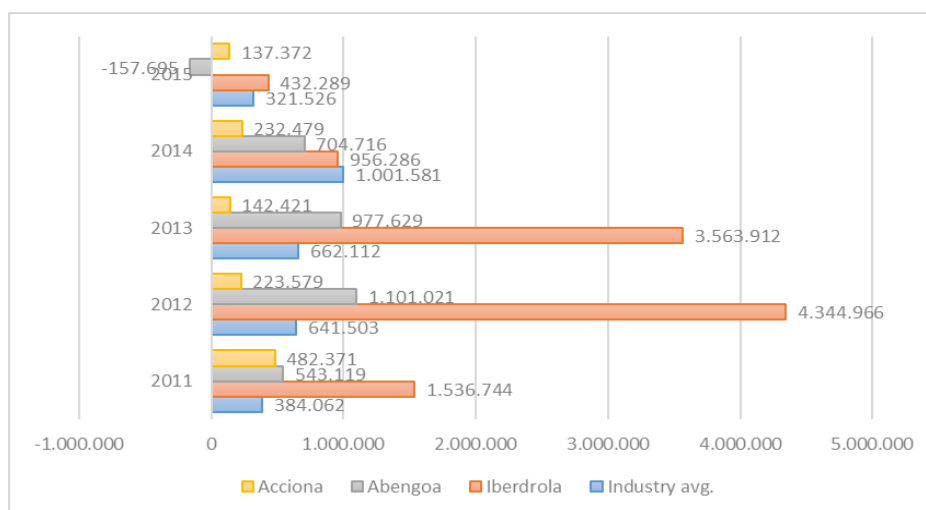


Figure 4.4: EBIT (thousands of €)

Source: compiled by the author based on SABI and own calculations

Industry average grows the first years until 2014 and then drops remarkably on 2015. Iberdrola manages to reach figures that are between 6 and 8 times higher than the

average in 2012 and 2013, but is at the same level the rest of the years and very below it on 2011. Abengoa is able to reach levels that are well above the average (between 1.5 and 2 times higher) except in 2014 when is at the same level and 2015 when the company incurs in losses. Acciona's EBIT a bit above the average in 2011 but then we realize it is only a fraction of the industry standards, due to the smaller size of the company.

ROA

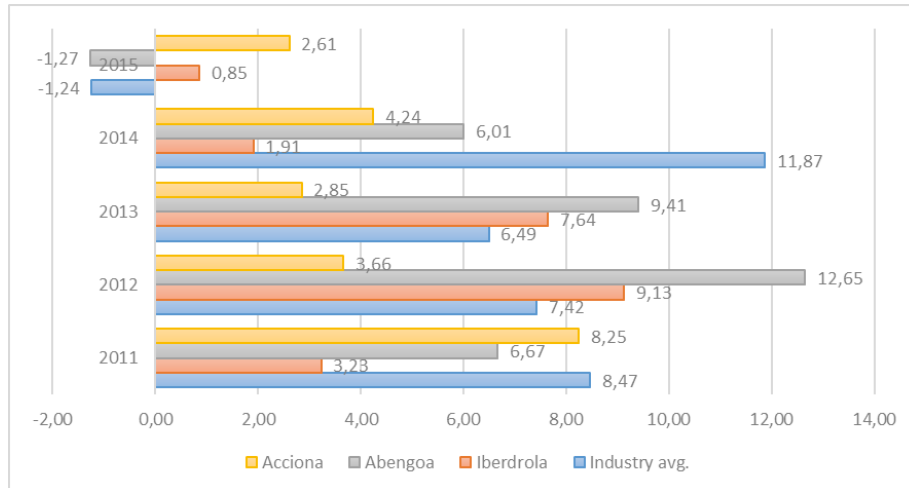
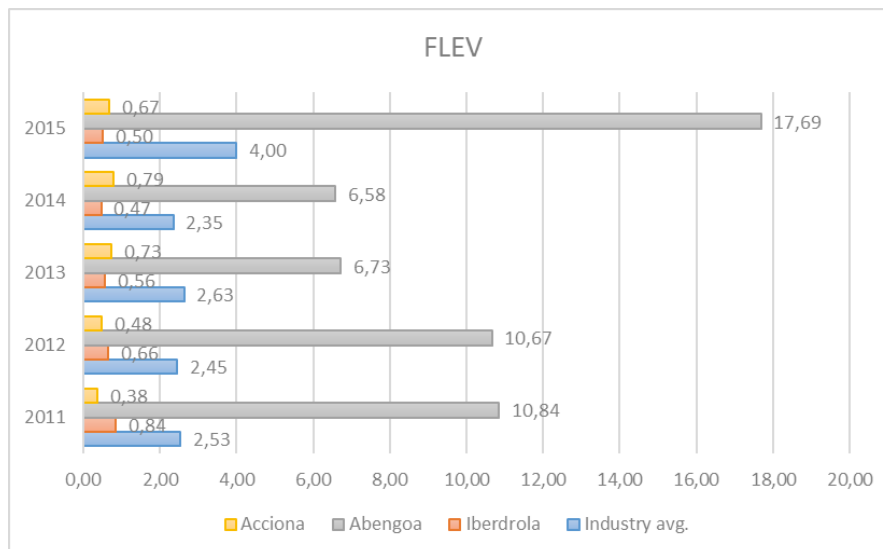


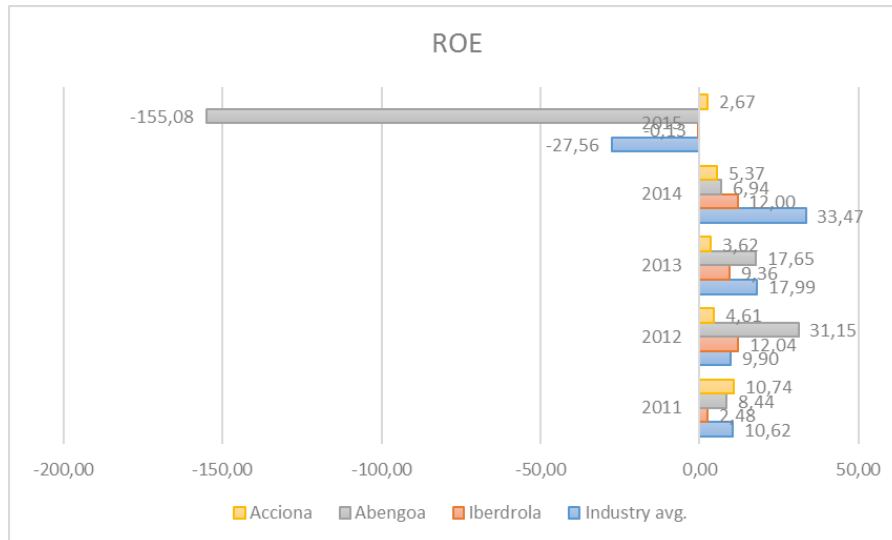
Figure 4.5: ROA (%)

Source: compiled by the author based on SABI and own calculations

It seems that ROA in the industry stays within the 6.5%-8.5% range the first three years and then increases close to 12% in 2014 to finally drop down to 1.24% in the last year. In this case, Iberdrola is above industry average just in 2012-2013 and staying positive in 2015, remaining very below in 2011 and 2014 when the rest of companies manage to achieve very good results overall. Acciona maintains a ROA equal to a half of the industry level in the period 2012-2014, to be at the same level in 2011 and a remaining positive in 2015. Finally, Abengoa is able to surpass largely industry standards in 2012 and 2013, being close to the average in 2011 and being roughly half of it in 2014 to become negative in 2015 because of the crisis it suffered.

FLEV and ROE





Figures 4.6 and 4.7: FLEV and ROE (%)

Source: compiled by the author based on SABI and own calculations

Surprisingly enough, we realize that the healthy situation of Acciona and Iberdrola regarding debt reliance is not usual in the industry by any means. We find values that range from 2.5 to 4, which is several times higher than what is presented in these companies. We should note, however, that we have taken out of the analysis Cide HC Energía for being an outlier and presenting values artificially high. As we could forecast when we analyzed the financial structure, the values of Abengoa are several times higher than the high themselves values of the industry.

Now if we consider ROE, we anticipate it must follow more or less the same trend as ROA but magnified (depends on the spread). In the first two years it seems the spread of the industry was positive but low to medium, since the difference between ROE and ROA is positive but not very large. In the last three years however, the difference is very remarkable and it suggests the spread was large (positive in 2013-2014 and negative in 2015). Iberdrola is below the average ROE except in 2012, Abengoa is at the same level or above (except in 2014, and in 2015 it is below in the sense it is much more negative than the already negative results of the industry). Acciona is at the same level in 2011 and below the rest of the years, although we should notice it maintains a positive result in the last year, when the industry crashes in terms of ROE. This is provoked by very bad results of several companies, namely Duro Felguera, Sacyr, Nexus, Unión Fenosa and of course Abengoa. We must note that although in terms of ROA results were negative but not that bad, the high level of financial leverage of the industry makes negative results to become exacerbated and there is a very big difference between the two figures.

4.5 LIQUIDITY

Current Ratio

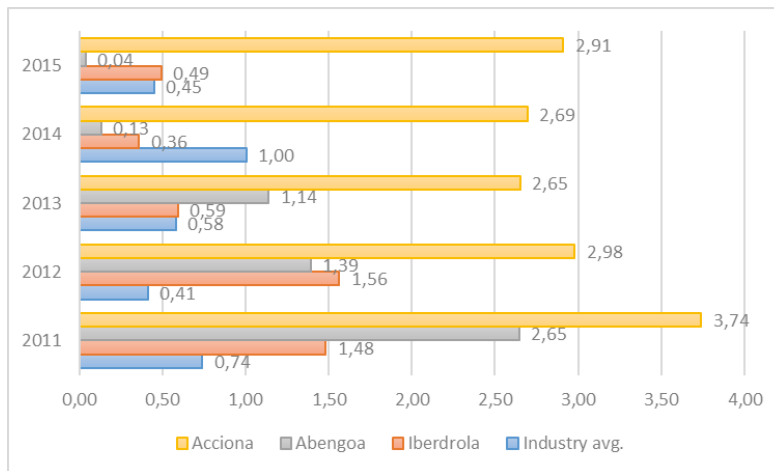
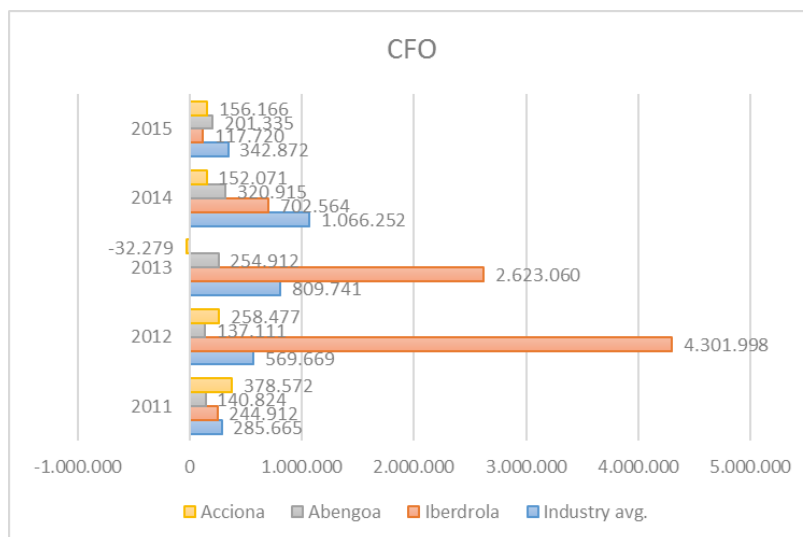


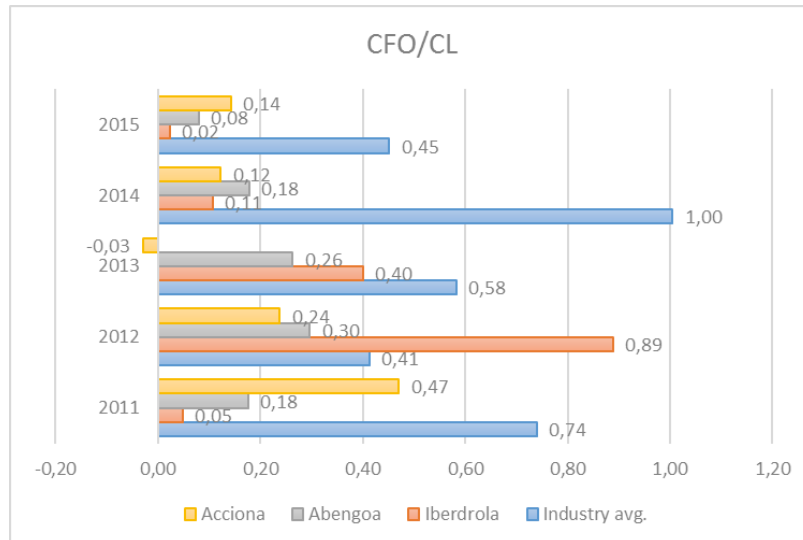
Figure 4.5: Current Ratio

Source: compiled by the author based on SABI

Iberdrola manages to be above the average (2011, 2012) or at the same level (2013, 2015), only being below on 2014. Abengoa is far above the industry but crashes completely in the last two years of the period. Finally Acciona is able to maintain a very good ratio throughout the years considered. It is very remarkable the low current ratio the companies in this industry work with, being current liabilities close to twice the amount of current assets almost all the years analyzed. We should note, however, that because of the fact that we are comparing with the parent companies and these might not have commercial activity on their own, this ratio might not be as important or as low as we may think at first glance, as these companies will have other ways to finance their short-term assets.

CFO and CF Ratio





Figures 4.6 and 4.7: CFO and CFO/CL Ratio

Source: compiled by the author based on SABI

Analyzing CFO, Iberdrola manages to be at the same level as the industry in the first year, while generating several times the average in 2012 and 2013 and decreasing below it on the last two years of the period (we must remind the company receive a lot of cash from disinvestments in the period too). Acciona begins higher than the average but during the rest of the years is several times lower than the standard of the industry, being even negative in 2013 (in this case, apart from operations, Acciona raises cash with the issue of debentures and negotiable securities). Abengoa is below the average in every year considered, becoming the gap especially significant in 2012, 2013 and 2014. This is attention-calling, since in spite of being in-debt companies of the industry, its cash-generating ability from its operations (in here we include cash coming from its investments in subsidiaries) is below the average every year, and that is a problem. Considering it spends huge amounts of money every year in investments, the way the society has to sustain its investments is to issue more debt.

If we pay attention to the cash flow ratio, we realize the industry average is in general higher than the in the case of the companies considered, meaning they should have less problems to repay short-term debt. In all cases the ratios are several times lower in the analyzed companies, with some exceptions. In 2011 Acciona is closer to average, in 2012 Iberdrola is above and the other two get closer and in 2013 Abengoa and Iberdrola report slightly better results than in the rest of the period.

The author remarks again that because of these companies being the parents of their groups, they might have other ways to raise cash and CFO might not be as important, but without knowing if they carry out commercial activity on their own (in the case of the companies we have not analyzed in depth) we cannot state this accurately. Nonetheless, being the parents of their groups they are able to generate in general more cash from its operations (whatever they are) than the companies we are treating, and that is something to have in mind.

4.6 SOLVENCY

Solvency Ratio (TA/TL)

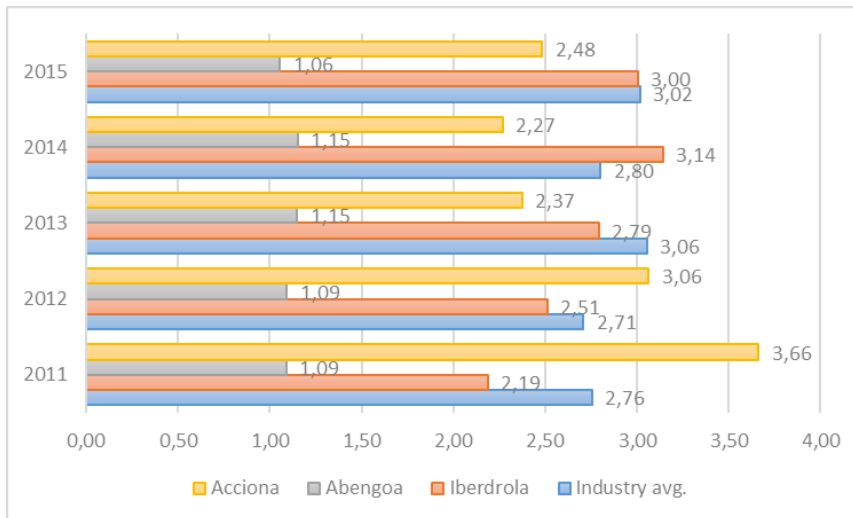


Figure 4.8: Solvency Ratio

Source: compiled by the author based on SABI

We appreciate Iberdrola is chasing the industry average and manages to be at the same level more or less (slightly below in 2011 a bit above in 2014), Acciona remains a bit under the standards except in 2012 when is at the same level and 2011 when reaches a remarkably higher level and Abengoa lags behind the whole period, staying around the 1 level. This is, in general, the enterprises analyzed might have a greater chance of unpaying in the long term.

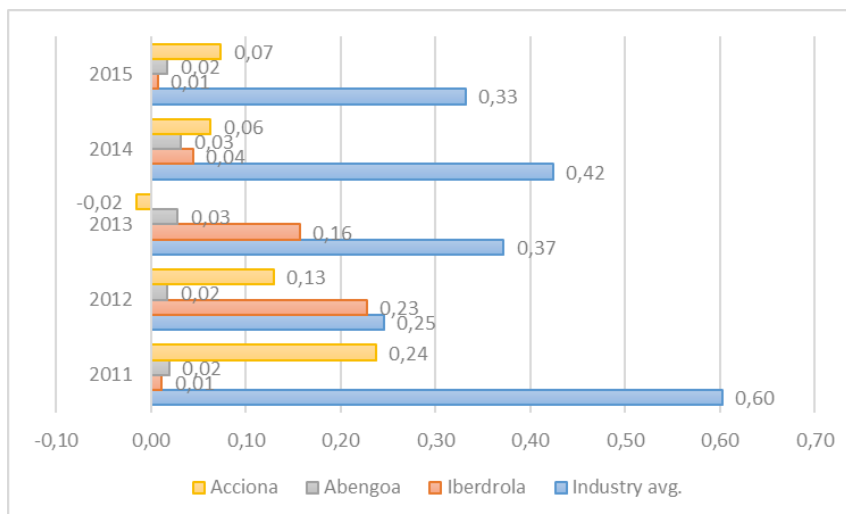


Figure 4.9: CFO/TL Ratio

Source: compiled by the author based on SABI

In general terms, the industry is able to cover a larger % of its total liabilities with the CFO they generate. Only Iberdrola in 2012 is able to be at the same level than the average, during the rest of the years, they all are well below, meaning their CFO compared with their total amount of liabilities is smaller than other companies in the same industry (we should take this with the cautions mentioned in the previous section regarding CFO and CFO/CL).

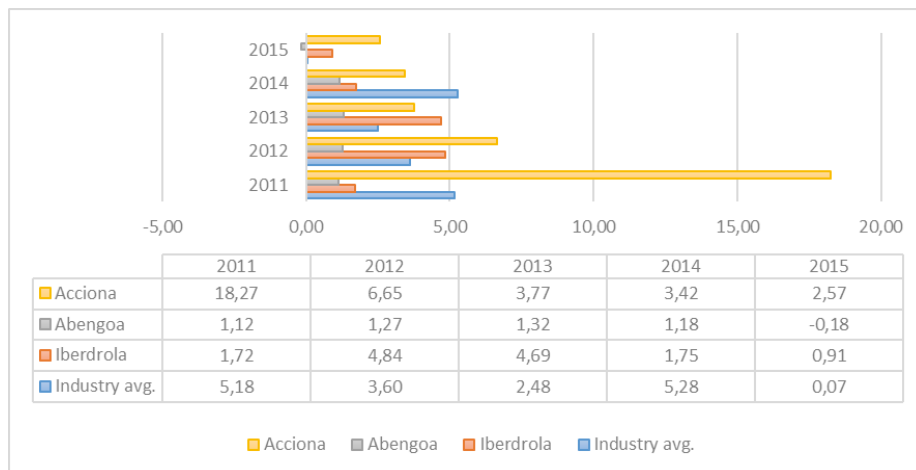


Figure 4.10: Interest Coverage Ratio

Source: compiled by the author based on SABI and own calculations

Interest coverage ratio within the industry and in the three analyzed companies are not comparable. This is due to the huge values that Red Eléctrica Corporación has, reaching more than 12.000 and 17.000 in the last two years of the period respectively. As these values are not representative of the whole picture, we have taken out that company and used the average of the rest. Now we can make more accurate comparisons: Iberdrola manages to be above the average in 2012, 2013 and 2015, Abengoa stays well below during the whole period, and finally Acciona stays above or close to the industry levels except in 2014, when it lags a bit behind. In general, the interest coverage ratio of the companies compared to the industry is not bad (especially Acciona's), although it fluctuates a during the years. Nonetheless In the case of Abengoa is clearly below the average due to the high debt reliance of the company.

Chapter 5

CONCLUSIONS

In this chapter we will try to summarize all the previous analytical work and try to draw useful conclusions regarding the companies at hand. We will use information from the profitability, liquidity and solvency analysis, as well as the comparison of the companies with the industry standards to give a final judgement that may be useful for investors interested in these kind of businesses.

First of all, we must mention we have analyzed a quite special kind of companies: the parents of a group. This means we have encountered several difficulties in applying the usual financial statement analysis methods since this is thought for companies which have own commercial activity. We have made some unusual adjustments in order to try to clarify the situation and we have ignored some methods (such as WC analysis) because they were not suitable for our purposes. So what is the main activity of the companies at hand? Well it is *investing in other companies of their group and finance their operations*, participating of the dividends and interests these investments yield. In some cases, as we have seen in Iberdrola, they have some kind of significant activity on their own, in this case it was buying gas to third parties and reselling it to the subsidiaries.

In first place we have Abengoa S.A., a company whose main activity is financing the activities of its group. These activities require a lot of cash every year as it is seen in the CF statement, and since CFO is not enough to satisfy these needs, the company has incurred in a huge amount of debt to continue with its growth. This fact introduced risk within the society, and the inability to continue with this situation was the root of Abengoa collapse. As the corporation relied heavily on external debt, it must present regularly its CF previsions to show financial institutions it will be able to pay back its obligations. As we have seen during the period analyzed, the company was continually refinancing its debt with all kind of facilities because it was unable to meet the installments at the date due. In September 2015, this situation was no longer possible and the company lost the confidence of investors in financial markets and institutions, leading this scene to a crisis that made Abengoa unable to continue with its operations and present the pre-state of insolvency in January 2016 along with a Viability Plan to save the company from bankruptcy. This document was presented to investors in February 2016 and focuses on a new Abengoa less cash-dependent and more focused on engineering and construction services, disinvesting in non-core assets. In January 2017, after a long period of negotiations with all the involved creditors, the society announced that 94% of them supported the new plan (Abengoa.es, 2017).

With the creditors owning 95% of the company and the restructuring process underway, it seems that the scenario is prone to change in the next few years. We have seen Abengoa S.A. is profitable, the problem was the cash-dependence of the company, that caused the excessive debt reliance. With the price of Abengoa shares at a minimum, it might be a good time for the risky investor to put some money into the company. Nobody knows for sure what will happen, but it seems they have learnt from their mistakes and the Viability Plan has almost 100% of acceptance among creditors, which is a good sign. Additionally, decision-making process will be in new hands, because old owners have been left with just 5% of the company. The author expresses his optimism about the new situation because of all the aforementioned reasons.

Secondly we talk about Acciona, which was the smallest of the three companies. In this case the society not only finances its subsidiaries with short-term loans but also

invest in them, holding equity as a long-term asset. The company has a decent profitability (although in absolute terms EBIT is much smaller than the industry average because of the size restriction) and does not show signs of having problems to repay debt neither in the short-term not in the long-term. We must bear in mind in this case CFO might be low compared to financial liabilities in some cases but that is not a problem really because the company uses debentures and other negotiable securities to finance its operations, not incurring in excessive debt with financial institutions such as in the case of syndicated loans in Abengoa, and making CFF negative or close to 0 most years in spite of having two years of big investments in Acciona Energía. If we look at recent news from the company, we can see very often the allocation of new projects for the company worldwide (El Economista.es, 2017). Moreover, in the last year, its shares increased their value from 67.37€ to 73.01, this is 8.37% (Google.com, 2017) so it means the future of the company if we take into account past and present facts looks encouraging.

Finally we presented Iberdrola, the biggest of the three companies. This time the company in spite of being the parent of the group also carried out a significant commercial activity itself, it bought gas to external providers and then sold it to its subsidiaries. We observe in this case the most important activity of the company is investing and financing the group in a centralized way, as well as managing liquid assets. This is a very important part of income but gas sales are very relevant to the result as well. As in the case of Acciona, Iberdrola has a decent profitability, being positive throughout the period at hand and excelling in 2012-2013. In absolute terms, its EBIT among the highest of the industry, due to its size. Its operating indicators decline in the last three years (WC, length of the operating cycle) but we see solvency indicators do quite well and although CFO is much smaller than financial liabilities in the short and the long term, if we have a look at the CF statement we see that in fact it is repaying a lot of debt because CFF is negative every year, apart from being investing in its subsidiaries. To do that it raises money from big disinvestments and the actual CFO that is able to generate; this is, the company is able to generate cash in other ways rather than its operations to meet its commitments. Taking into consideration external sources such as specialized press and news, we realize Iberdrola is a very active corporation which invests worldwide and might be interested in the purchase of the rest of the equity of Neoenergia, a Brazilian electric company, of which already possess some shares. This movement could create an electric giant in Brazil and put the society in a very good situation in the Brazilian market, one of the biggest and fastest-developing in south America. These comments suggest the future of the multinational company, one of the biggest in its industry, may bring good profits for investors (El Economista.es, 2017).

BIBLIOGRAPHY

- Market Line, “Empresas de Servicios en España”, May 2016, John Carpenter House, John Carpenter Street, London, United Kingdom, 7-17
- Schwieters, N.; Flaherty, T, “A Strategist’s Guide to Power Industry Transformation”, July 29, 2015, <http://www.strategy-business.com/article/00355?gko=9fa18> (Consulted: 27/02/2017)
- Aura Energía, “Las funciones del sector eléctrico en España”, 2015, <http://www.aura-energia.com/como-funciona-el-sector-electrico-en-espana/> (Consulted: 27/02/2017)
- García Adán, J.C.; Diego Martín, Y.: “El archivo histórico de Iberdrola y la industria eléctrica en España: fondos para la investigación histórica”, September 2005, http://www.usc.es/estaticos/congresos/histec05/b21_garcia_diego.pdf, (Consulted: 08/03/2017)
- Abengoa, 2017 http://www.abengoa.es/web/es/compania/nuestra_historia/ (Consulted 08/03/2017)
- SABI. Sistema de Análisis de Balances Ibéricos, 2017 <https://0-sabi.bvdinfo.com.fama.us.es>
- Iberdrola, 2017, <https://www.iberdrola.com/> (Consulted: 27/02/2017)
- Acciona, 2017, <https://www.acciona.com/es/sobre-acciona/historia/> (Consulted: 08/03/2017)
- Google Finance, 2017, [https://www.google.es/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#q=abengoa+share+price&*](https://www.google.es/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#q=abengoa+share+price&*&as_sqs=1) (Consulted: 27/02/2017)
- Abengoa, 2017 http://www.abengoa.es/web/es/accionistas_y_gobierno_corporativo/proceso-reestructuracion-financiera-plan-viabilidad-abengoa/ (Consulted: 16/03/2017)
- Treasury Today, “Forward start facilities”, 2009, <http://treasurytoday.com/2009/06/forward-start-facilities> (Consulted 10/04/2017)
- Barral Varela, G., “Crédito revolving”, Expansión, 2017 <http://www.expansion.com/diccionario-economico/credito-revolving.html> (Consulted 10/04/2017)
- El Economista.es – Acciona, 2017, <http://www.eleconomista.es/empresa/ACCIONA/noticias> (Consulted 19/04/2017)
- Google.com, 2017, <https://www.google.es/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#q=cotizaci%C3%B3n+Acciona> (Consulted 19/04/2017)
- El Economista.es – Iberdrola, 2017, <http://www.eleconomista.es/empresa/IBERDROLA/noticias/noticias/-8293996> (Consulted 19/04/2017)