FACULTAD DE TURISMO Y FINANZAS

GRADO EN FINANZAS Y CONTABILIDAD

FINANCIAL STATEMENT ANALYSIS OF THE STEEL INDUSTRY (PERIOD 2013-2017)

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TÍTULO:

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RESUMEN:

El proyecto de fin de grado que se presenta a continuación tiene como principal objetivo el análisis económico-financiero de tres empresas: Acerinox Europa, S.A.U., Siderúrgica Sevillana, S.A., y ArcelorMittal Sestao S.L. Las tres compañías pertenecen al sector siderúrgico, siendo la primera de ellas una de las más importantes y representativas en España (por no decir la primera). Todas ellas al mismo tiempo pertenecen a la “Unión de Empresas Siderúrgicas (UNESID) que es la asociación de Empresas Productoras de Acero y de productos de primera transformación del acero en España. Se podrá comprobar que, aunque pertenecen a una misma asociación y mismo sector, a priori, tienen diferente estructura de propiedad. Una vez recopilados todos los datos y calculado todos los indicadores económicos-financieros, explicaremos cual ha sido la evolución de estos entre los periodos 2013 – 2017. Además, de ser capaces de pronosticar el futuro que le depara a cada una de ellas. Finalmente, veremos cómo Acerinox Europa, S.A.U., y Siderúrgica Sevillana, S.A. ArcelorMittal Sestao, S.L. han podido sobrevivir, o de qué manera han podido ser afectadas por la crisis más reciente.

SUMMARY:

The main objective of this project is the economic-financial analysis of three companies: Acerinox Europa S.A.U., Siderúrgica Sevillana, S.A., and ArcelorMittal Sestao, S.L. These three companies belong to the steel sector, being the first one well-known not to say the most important and representative in Spain. At the same time, they all form part of the Steel Producer Association (UNESID for its initials in Spanish), this association is the most important of its kind in Spain. Moreover, we are going to prove that although they belong to the same sector and association, a priori, they have different economic-financial structure. After that, once we have all the information, and the financial indicators have been calculated, we are going to explain what the evolution was between 2013 and 2017. Furthermore, we are going to be able to predict what is going to happen with the companies in the future. Finally, we will see how Acerinox Europa, S.A.U., Siderúrgica Sevillana, S.A. and ArcelorMittal Sestao, S.L. have been able to survive the most financial crisis.

PALABRAS CLAVE:

Analysis; Ratios; Profitability; Liquidity; Solvency;

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CHAPTER 1
INTRODUCTION

1.1 INTRODUCTION

The objective of this project is to perform the financial statement analysis of three of the most important and representative companies in the steel sector in Spain according to the Steel Producer Association (UNESID for its initials in Spanish). The industry selected has become again one of the most dynamic elements in the Spanish economy, because it seems to be prepared to help us getting out of the economic crisis that Spain has been living in. The current crisis has highlighted once again the steel sector in the middle of the national and international political agenda since countries with a better industrial base have been able to cope with the economic crisis in a better way than those without it.

The companies are Acerinox Europa S.A.U, Siderúrgica Sevillana, S.A and ArcelorMittal Sestao, S.L. I chose these three enterprises because they are good examples of different settings: The first one of them (Acerinox) is one of the most competitive, earning the highest profit in the last decade. In the same way, Siderúrgica Sevillana, S.A. is a big company and representative in Spain in spite of the owner being Spanish and Italian. This company was having a bad financial situation during the period of 2015 to 2017, however it started making profit in the last year of this analysis. Finally, the last company in this analysis has been having a bad financial situation during the whole period analyzed despite of being considered a company with a high volume of sales.

We are in a world where companies and industries need to be competitive if they want to continue their activities in the market. Companies should create strong management strategies for cost, marketing, finance, etc. in order to properly establish themselves. Also, companies need to strengthen their controls in all levels of the organization in order to obtain accurate results and good reports. Consequently, will be done to try to predict the future and avoid any uncertainty regarding what is going on with the profits and cash flows in the companies.

The methodology to be implemented in this study will be the financial statement analysis, subject learned in Financial Analysis I and II as well as the information will be obtained from SABI is a tool to get information about more than 2.5 million and 700,000 Spanish Iberian Balance and Portuguese companies as well as. Likewise, the Annual Accounts are also another tool to get information, formulate conclusions and final opinions, being obtained from SABI.

This project will be structured in six different sections, each one of these sections will have a specific purpose: Presentation of the industry and selected the companies, financial statement analysis, comparing companies, conclusions and bibliography.

In particular:

- Presentation of of the industry and the companies selected. A brief presentation of the three companies to be analyzed will be provided, including a description of their business model and the situation of the industry in our country.
- Financial Statement Analysis. This section will consist of the evaluation of the information collected and the reasoning for the current situation of the companies. The study will consist of analysis the profitability, liquidity, solvency and providing an overall opinion of the companies.
- Compare these three companies between themselves and the industry average.
- Conclusions. Finally, a conclusion will be reached based on the analysis performed.

It is important to note that as additional information the excel files corresponding to each company and the sector are attached. 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 (2018), this industry consists of the production of the first solid steel products upon solidification of liquid steel. Crude steel production refers to the production of the first solid steel products after solidification of liquid steel. Including ingots (in conventional mills) and semis (in modern mills) with continuous casting facilities. It also includes liquid steel, which goes into the production of steel casting. The difference between all these different types of steel available resides in the hardness and durability of the material and in the purpose of the final product.

The performance of the market is forecast to accelerate, with an anticipated of 2.1% for the five-year period 2017-2022, which is expected to drive the market to a value of $10,475 by the end of 2022. Comparatively, over the same period to reach respective values of $11,148.6m and $29,468.2m in 2022.

Table 1: Spain steel market value: $ million, 2013–17

Year	$ million	€ million	% Growth
2013	10,058.8	8,907.4	
2014	10,108.2	8,951.1	0.5%
2015	7,636.5	6,762.4	(24.5%)
2016	7,184.5	6,362.1	(5.9%)
2017	9,424.8	8,345.9	31.2%
CAGR: 2013–17			(1.6%)

SOURCE: MARKETLINE MARKETLINE

Figure 2.1. Spain Steel Market Value, Expressed in Millions of USD$, 2013-17

Fuente: Market Line (2018).

Market consumption volume increased with a compound annual growth rate of 0.4% between 2013 and 2017, to reach a total of 14,461.0 in tons in 2017. Companies in this sector grew by 31.2% in 2017, and they are expected to continue growing by about 11.1% in 2022. The Spanish steel market has experienced strong double-digit growth recently, grow will continue over the foreseeable future. This industry had total revenues of €8,345.9m in 2017, representing a compound annual rate of change of -1.6% between 2013 and 2017. In contrast, the French and German markets declined with compound amount annual rate of change of -2.3% and -1.5%, during the same period, being €11,411.3m and €31,941.94 m in 2013 and 2017 respectively.

Figure 2.2. Porter's five forces

Fuente: Market Line (2018).

Following the analyze Porter's five forces in the industry according to the Market Line report, steel market keeps on highly cyclical which intensifies competition in the market. The main challenges that steelmakers face include: volatility, shifting demand centers, complex supply chains, productivity and cost efficiency. Also, this is affected by general economic and end-use markets, considering automotive, appliance, constructions and energy industries. It is also the main material used in delivering renewable energy such as: solar and tidal power. If all these industries suffer a downturn, the steel market usually follows their trend.

Steel prices experience ups and downs. Getting considerable overcapacity in production, no shortage of metal is likely, but the combination of a pick-up in demand for restocking could keep prices underpinned.

According to EL PAIS news 2018, we need a regulatory and economic framework that brings out the potential of this industry in our country. In addition, we are going to see a kind of trade war that this sector is having,–for example: The Chinese steel industry emergence, which has gone from producing 3% of the world's stainless steel in the year 2000 to having a market share of 54% in 2017 impacting negatively the global steel industry.

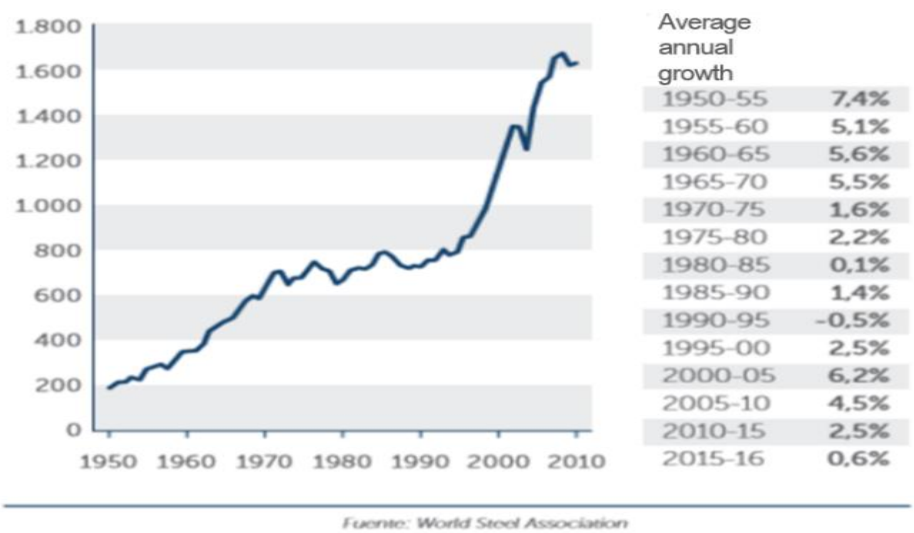


Figure 2.3. Evolution of the Worldwide Steel Production

Fuente:

According to the sectorial report by Spanish Company of the Export Credit (CESCE for its initials in Spanish), in 2016 the Spanish steel industry suffered a significant impact on the price change of raw materials, due to Chinese product dumping and overcapacity of the installations affecting the steel market worldwide. Also, and because of high electricity costs and the adjustment of the system emission market, steel produce decreased by 8.5%. During 2016, the worldwide steel production had incremented by 0,6% to reach 1,630 million of tone, compared with the previous year, though in Spain it was decreased by 8.5% to reach 13,6 m of tone.

The steel market had decreased 24.5% in 2015, due to, the cheap steel imported from China, the price lowered the domestic product. This had forced us manufacturer, Arcelor Mittal, to shut down its plan in Sestao, trying to reduce the costs.

2.2 THE COMPANIES: ACTIVITIES BUSINESS MODELS

2.2.1 Acerinox Europa, S.A.U.

The steel market had decreased 24.5% in 2015, due to, the cheap steel imported from China, the price lowered the domestic product. This had forced us manufacturer, Arcelor Mittal, to shut down its plan in Sestao, trying to reduce the costs.

Acerinox Europa, S.A.U. was created for an indefinite period on December 1, 2011, reflecting the division of a new branch of industrial activities of Acerinox, S.A., with only one shareholder. The aim of the company was to manufacture and sale stainless steel and other derivate and similar products.

The origin of the company dates back to the agreement of Nissho Iwai and Nisshin Steel Japanese (steel company group) and Banesto bank to create a joint venture, with the aim of manufacture stainless steel. It was created in 1970 in the region of Gibraltar and begun producing it in 1972. The new company was called Acerinox and had a share capital of 600 m, which 65% of them contribute by Banesto.

According with its website, ACERINOX is known worldwide as the one of the most competitive group in the world in stainless steel manufacturing. From its constitution, it has carried out a continuous program of investments, with development of own technological innovation that, in some cases, has constituted a trues landmark in the technology of stainless steel.

In production capacity, Acerinox is the first world producer, with a melting output of 3.5 million Mt. It is formed by three flat products fully integrated production sites: Acerinox Europa, the Factory of El Campo de Gibraltar (Spain, establish in 1970), the first one in producing more than one million ton per year (2001), North American Stainless, N.A.S. (Kentucky, USA, establish in 1990), also fully integrated since February 2002, and finally columbus Stainless (Middelburg, South Africa) that became part of the ACERINOX in the year 2002.

Thanks to the extensive commercial network, with companies in 36 countries, ACERINOX achieves a worldwide active presence, selling in more than 80 countries.

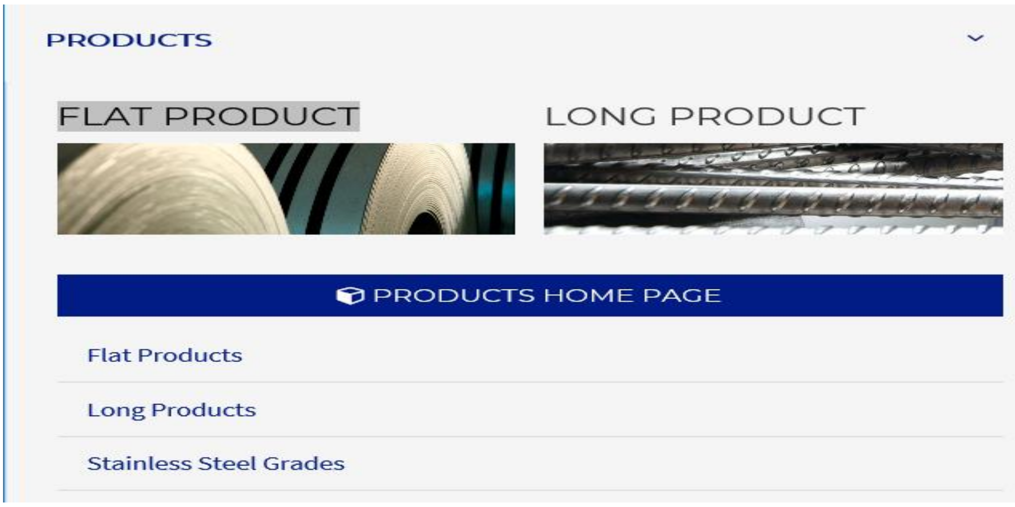


Figure 2.4. Flat product and long product

Fuente: Acerinox Europa web page.

2.2.2 Siderúrgica Sevillana, S.A.

Siderúrgica Sevillana, S.A (SISE for its initials in Spanish) is founded in 1965 by Emilio Riva which belongs to the Spanish group, together with Italian and German business groups, taking advantage of the industrial park development. This group built a small steelwork to be capable of supplying local needs of round for concrete reinforcement and light shapes, using a ferric raw material.

Presided since June 2014 by Claudio Riva, the Group's capital is fully private; it employs over 4,700 people, with an increasing number of recent graduates, and it operates in 21 production centres across the following countries: seven in France, five in Germany, five in Italy, two in Belgium, one in Spain and one in Canada. In addition, several other companies and two scrap recovery centres are part of the group.

When it started operating in 1968, the steel plant was "cathedral in the desert". Since then other companies have set up there, bringing greater professional qualification in the workforce of Andalucía, leading to the very active and multi-faceted Hacienda de Dolores Industrial Estate of today.

The establishment, which has very modern facilities, produces rebars for reinforcement. These are subject to rigorous quality controls. In 1971, the compony obtained approval to sell its bars in Germany. Due to a series of circumstances, in the early 1970s, the owners decide to entrust the management of the company to the Rivera Group, which went from a modest participation to assuming full control of the company. Under new management, sales abroad were developed further, thanks to State incentives for Spanish steel export. It was then that the product was approved in many European and non-European countries.

Siderúrgica Sevillana, S.A., according to the information in its website: This is a company based in Alcalá de Guadaíra (Seville), part of the non-integral steel sector, which uses ferrous scrap and converts it into usable products in other basic sectors of the country's economic activity. Its activity is centred on casting and hot-rolling steel, which it has been doing since the mid-60s. It is an integral part of the RIVA Group, a multinational leader in the steel sector, which a presence in Europe and Canada.

The production process stars with the classification of ferrous scrap, followed by melting and processing of the melted metal by adding other raw materials until a semi-product (billet) is obtained, which is then transformed into steel bars of different profiles, diameters and qualities.

2.2.3 ArcelorMittal Sestao, S.L.

ArcelorMittal Sestao, S.L.U. was created for indefinite period as an anonymous company on July 28, 1994. On October 10, 2007, the Extraordinary General Meeting of Shareholders of the company approved the change of the denomination of Compact Steelworks of Bizkaia, S.A. for the current.

On July 29, 2011, the company changed its corporate name ArcelorMittal Sestao, S.A by ArcelorMittal Sestao, S.L. (unipersonal society).

Its social objective consists of the construction ad exploitation of a high-tech plant for the production and sale of iron and steel plans, including how many services and activities are required for this, including research and development.

Its Social denomination and production facilities are located in Sestao (Vizcaya).

ArcelorMittal develops its activity in the steel and mining sector, with a high degree of vertical integration of its activities. The group is the world’s largest iron and steel producer with a workforce of approximately 197,000 employees and with a presence in 18 countries of four continents, which makes it possible to be present in all key steel markets, both in developed and emerging markets.

CHAPTER 3

FINANCIAL STATEMENT ANALYSIS

3.1 ACERINOX EUROPA S.A.U.

3.1.1 Analysis of Balance Sheet

The total assets of Acerinox Europa have been gradually increasing throughout the last five years of the period. They were 737 million in 2013 and rose to 955 million in 2017. The greatest increase was 13% (834,925 million) in 2014.

Regarding the distribution between non-current and current assets, it can be seen that the highest investment is in current assets, which represent around 65% (476,804 million) in 2013. These proportion increase in the following three years up to 75% (653,411 million) in 2016, being 69% (657,224 million) in the last period. The most notable current assets are trade accounts receivable; specifically, accounts receivable from subsidiaries and associated companies, that have remained fairly stable throughout the period and are 32% in 2013 and 2017 (238,604 and 310,237 million respectively). Accounts receivable rose by 23% (292,615 million) in 2014 as well as net turnover, that also increased 23% (1,431,613 million) in the same year. The increase in accounts receivable is also the main reason which explains the increase in total assets.

The second most significant are inventories, finished goods in the first period and raw materials in the last two years, being 25% in 2013, and they start to increase over the period becoming 28% in 2017 of the total assets.

With respect to non-current assets, they decreased throughout the period; however, the proportion increase in the last years up to 31% (298,435 million) of the total Assets, being they, the reason why total assets increase in the last period. Within this group, tangible fixed assets were the most significant (plant machinery, tools, furniture and other tangible assets) that represent almost the same magnitude (from 26 to 27%) in the first and last period of the analysis. In absolute amount, they were 193,073 million and 256,488 million in the earlier and later period respectively.

For the purposes of the analysis, cash and cash equivalents have been considered as non-operating assets as their significance among total assets is material.

The financial structure has changed throughout the period analyzed. The current liabilities are the main source of financing for the company. They follow a trend increasing in the first three years of the period analyzed, being 62% (458,658 million) in 2013 and 66% (570,627 million) in 2015. Although, they have been decreasing during 2016 and 2017 by 2% (560,523 million) and 4% (582,076 million) respectively. The significance of account payable for purchases and services (25% in 2017) is in line with that of accounts receivables from subsidiaries and associated companies (32% in 2017). The increase in accounts payable (8% in 2017) and accounts receivable (4% in 2017), coincides with a 17 % increase in Net turnover. It is clear that payable and receivables are playing a key role in the firm’s financing policy in the first, second and last two years. The second most important investment is short-term debt (to subsidiaries and associated companies), being 17% (127,270 million) in 2013 and 28% (272,086 million) in 2017 and with an important increase by 88% (347,114 million) in 2015.

Equity was 35% (258,668 million) of total assets in 2013 and increased to being 38% (362,696 million) in 2017. In absolute amounts, it increases significantly in 2016 due to a 1204% increase in Net income that are accumulated in reserves and clean up accumulated loss of prior years. Non-current liabilities are 1%, (around 10,000-11,000 million) during the last three years, except in 2013 and 2014 when they are 3% (19,791 million) and 2% (16,202 million) respectively.

According to the notes to the 2014, 2015, 2016 and 2017 financial statements, "The proposed application of the prior year's negative income, income for the year and reserves of 2014, 2015, 2016 and 2017 to be presented for approval by the sole shareholder is as follows:

CONCEPT	2013	2014	2015	2016	2017
Basis of Distribution					
Income for de year	-25,949	16,949	1,886	24,588	58,908
Application					
Legal reserve		1,694	189	2,459	5,891
Prio years' negative income	-25,949	15,242	1,697	22,130	47,010
Other reserves					6,008

Figure 3.1. The application of the income for the year of Acerinox Europa, S.A.U.

Source: the notes to the 2013, 2014, 2015, 2016 and 2017 financial statement

3.1.2 Analysis of the Income Statement

Net turnover has been decreasing from 2013 to 2016 (being 1,167,512 million and 1,267,339 million respectively) but, it had a significant increase by 17% (1,482,865 million) in the last period. Income for the year was negative in the first year, becoming positive and increasing the rest of the period. From 25,949 million of losses in 2013, there are profits over 16,935 million in 2014, which increase significantly by 1204% (24,588 million) and 140% (58,908 million) in 2016 and 2017 respectively. The trend is explained by the significant increase in operating income (from 45,230 million to 86,004 million) in 2014 and 2017, due to an increase in Net turnover by 23% and 17% (1,431,613 million to 1,482,865 million) in 2014 and 2017 respectively and the good ability to control operating costs of these years. In spite of its positive income for the year from 2014 to 2017, its suffer a dramatic decrease in 2015 and is quite small (1,886 million), due to the decrease in Net turnover by 2% 2015 (1,396,665 million) while the operating expenses increase (1,398,141 million) slightly more than the previous year (-1,395,921 million in 2014).

With respect operating expenses, procurements represent the principal cost, it was around 72-78% of sales over the period analyzed. They were fluctuating, which a significant increase by 17% and 20% in 2014 and 2017 respectively. However, during these years they increased less proportional than sales. This explain the trend that operating income following. In addition, personal expenses and other expenses remain stable throughout the period, being around 9-10% of Net turnover.

The financial income has been decreasing negatively throughout the years. It is only made up of financial expenses. In absolute amounts, it decreases from -13,783 million to -8343 million due to the decrease in Long-term debt payable to credit institution in the last five years although short-term debt was increasing during the first four years.

To sum up, company shows a good ability to generate profits from its core operations.

3.1.3 Analysis of Statement in Change in Equity

Equity has been increasing throughout the period analyzed. The statement of change in Equity shows, how equity is increasing each year, mainly because of the income generated. Also, the “total recognized revenues and expenses” starts to become positive the last four years analyzed, having a noticeably increases from 24,767 million in 2016 to 58,273 million in 2017.

3.1.4 Analysis of Cash Flow Statement

For all years presented, Acerinox Europa, S.A.U. has been presented positive cash flows from operations in the first and last two period analyzed. Cash flows from investment activities were negative in the whole year analyzed. Finally, cash flows from financing activities are positive in most of the years, except for 2016 and 2017.

Cash flows from operations:

For all years presented, Acerinox Europa generates positive cash flows from operations, mainly due to the positive income that the company presented over the period analyzed, except in the earlier period. The income for the year follows this trend because in almost all the years Net turnover increase, being helping also in almost all the years operating income increase positively as said above. Net turnover increase by 23% in 2014. After that moment, they were decreasing by -2% and -9% in 2015 and 2016 respectively. However, in the later period the increasing again by 17%, coinciding only this year with the increases in accounts receivables from subsidiaries and associated company (4%) that is in line with that of accounts payables for purchases and services (8%). Regarding the cash flows from investing, they have been negative for all the period, and cash flow from financing activities were also negative only during 2016 and 2017, being positive in the first three periods of analysis.

Three basic periods are considered: (2013; 2014-15 and 2016-17) for the analysis of the cash flows statement.

In 2013 Acerinox generates negative income before interest and taxes of -37,849 million Euros because operating expenses surpass operating expenses (Net turnover). Similarly, adjustment to income was positive, which is mainly explained by the positive adjustment of depreciation of fixed assets and the financial expenses (27,050 million and 14,595 million, respectively). Therefore, funds from operations (obtained as income before taxes corrected by the adjustments to income) are higher than income before taxes and growing. Equally, CFO in the strict sense (obtained as income before interest and taxes corrected by the adjustment to income and the changes in operating current assets and liabilities) was positive due to the decrease of account receivables and other receivables in the balance sheet, making it a positive adjustment (55,233 million) in changes in operating current assets and liabilities. Being cash flows from operating activities positive this year of 27,853 million.

Throughout the next years (2014-15) the trend changes: cash flows from operations were increasing negatively by -106% and 9269% (-1,571 million and -147,182 million) respectively despite having a positive income (Net turnover increase in 2014 and decrease in 2015). The trend of CFOs is explained by the significant negative Changes in operating current assets liabilities, representing 3575% and 126% (-56,171 million and -185,469 million) these years. Within this group, the most significant are accounts receivable and other receivables, being -63,211 million and -31,110 million these years. Likewise, account payables and other payables are negative (-140,738) in 2015, which is mainly explained by the decrease of accounts payable in the Balance sheet (From 304,733 million to 169,717 million) in 2014 and 2015. In spite of its positive Funds from Operations (income before taxes +/- adjustments to income), it is not enough to pass over the negative change in operating current and liabilities since CFO in the strict sense (obtained as income before taxes corrected by the adjustments to income and the changes in operating current assets and liabilities) was also negative because Changes in operating current assets and liabilities were increasing negatively in 2015. Cash payment of interest has been fluctuating throughout the years; however, it decreases in 2016 and remain fairly stable in the last period. They were 52% (-14,595 million) and -7% (-9,964 million) in 2013 and 2017 respectively, representing 956% (-15,017. million) of the cash flows from operating in 2015. CFO in the strict sense are also positive in most of the years, except for 2015 (-132,782) as explained above.

Finally, in 2016-17 CFO follow a slightly similar trend to 2013, becoming positive 82,464 million and 139,740 million respectively. Income before taxes was increasing positively by 1137% and 154%, being 77,661 million in 2017, due to positive and positive increase that net turnover show in these years respectively. Also, change in operating current assets and liabilities became again positive, making the CFO in the strict sense (obtained as income before taxes corrected by the adjustments to income and the changes in operating current assets and liabilities) positive, due to the positive changes in operating currents assets and liabilities. In absolute amount, they were 31,410 million in 2016 and 33,000 million in 2017. This mainly because the trend in changes in inventory, accounts receivables and account payables in the Balance Sheet in the last two years of the analysis.

Cash flows from investment activities have been negative the whole period analyzed. This is mainly explained by the Cash payments for investments (Tangible fixed assets) that was negative over the period, being -50,049 million in 2013. They fluctuate over the years and in the final year are -120,224 million.

Cash flows from financing have fluctuated during the period analyzed, being positive and significant in 2014 and 2015 when the company ask for a strong financing of credit institutions. In 2016 however, cash flows financing activities start to become negative due to the heaviest amortization of long-term debt (payable to credit institutions) of -114,891 million.

3.1.5 Analysis of profitability

CONCEPT	2013	2014	2015	2016	2017
ROA	-3%	4%	3%	5%	9%
Profit margin	-2%	2%	2%	3%	6%
Assets turnover	1.58	1.71	1.62	1.45	1.55
Operating ROA	-3%	6%	2%	5%	9%
Operating profit margin	-2%	3%	1%	3%	6%
Operating assets turnover	1.64	1.86	1.72	1.48	1.60
Non-operating ROA	-2%	-13%	14%	6%	3%

Figure 3.2. Profitability analysis of Acerinox Europa, S.A.U.

Source: Compiled by the author Laura R. Morales A. (2019, Excel profitability analysis of Acerinox Europa, S.A.U.)

Return on assets (ROA) is negative in the first year of the period, being -3% in 2013, mainly due to the increase in operating expenses more proportional than increase in operating revenues, making a negative profit margin (-2%). Return on total assets is 4% in 2014, 3% in 2015 and rose up to 9% in 2017. This can be explained by the combination of an increasing profit margin and fluctuated assets turnover throughout the period. The profit margin increases because the increase in sales are more proportional than the increase in operating expenses. The increase in total assets driven by the ups-and-downs in Net turnover and increase in accounts receivable explain why assets turnover fluctuate.

The return on operating assets had the same trend as ROA. This is the main driver of total return on assets, showing that the company is strong in generating profits from its core operating activities in the last four years analyzed, except in 2013 (the same ROA). Moreover, it was increasing and decreasing more proportional than ROA by 2% and 1% in 2014 and 2015 respectively. They were equal to Return on total assets in the first and last two period. The reason can again be found in the increase of the operating profit margin in the last four years (except in 2015 it was 1%), as well as the operating assets turnover has been going down from 1.86% (2014) to 1.60% (2017).

The return on non-operating assets (financial assets) has been lower than the operating ROA during the first three years and the last years, the main reason for the decrease in non-operating assets is the decrease in financial revenue.

CONCEPT	2013	2014	2015	2016	2017
ROE	-15%	7%	3%	10%	21%
ROA	-3%	4%	3%	5%	9%
FLEV	1.85	2.01	2.08	1.88	1.63
AIR	3%	3%	3%	2%	2%
SPREAD	-6%	1%	0%	3%	7%
ROA + (FLEV*SPREAD)	-15%	7%	3%	10%	21%

Figure 3.3. Profitability analysis of Acerinox Europa, S.A.U.

Source: Compiled by the author Laura R. Morales A. (2019, Excel profitability analysis of Acerinox Europa, S.A.U.)

Return on equity (ROE) follows the same trend as ROA. From representing negative proportion of 15% in 2013, it increases, until becomes positive in the last four years of the period, it was 21% in 2017. ROA is the main driver of ROE. Although, ROE was significantly higher than ROA and the increasing trend is much more pronounced than the trend in ROA. The average interest rate is smaller than the ROA, being 3% during the first three years, and 2% in the last two years, making the spread (ROA – AIR) positive and increasing. The positive SPREAD affects the financial leverage that makes ROE higher, it increases to 7% in 2017 and this together with the positive FLEV drives the ROE up to 21% in 2017. In spite of the positive magnitude that FLEV (the ratio of total liabilities over equity) shows over the period, it decreases from 1.85 in 2013 to 1.63

in 2017. Although, the spread was -6% and zero in 2013 and 2015 respectively, in 2017 increased to7% explained by the positive and increasing income for the year.

All in all, the company is profitable. It has a good ability to generate earnings, that was explained by the operating activities. Both return on assets and return on equity have been positive and increasing throughout the period analyzed. Also, as it was explained in the Manager's report dated June 1, 2018, it can be expected that Acerinox Europa will continue to be a leader in its industry, but the situation in the upcoming years will have a slightly change, mostly due to the significant increase in the raw materials prices compared with 2017 that presented a exceptional income for the year. However, the recovering prices in the fourth trimester, together with the actual situation and the control of raw materials in the major consumer markets allows us to be optimist about the 2018 financial year and so on. Also, the flexibility, the efficiency and the control of the cost are going to be the key factors that are going to determinate the final results of Acerinox Europa. As a result, it can be expected that the company will maintain it current profitability and even increase it.

3.1.6 Analysis of Liquidity

CONCEPT	2013	2014	2015	2016	2017
OWCR	142,489	193,875	387,033	367,835	334,958
Working capital	18,146	52,321	61,096	92,888	75,148
WC surp/def (WC - OWCR)	**- 124,343**	**- 141,554**	**- 325,937**	**- 274,947**	**- 259,810**
Financial current liabilities	137,682	195,476	365,113	285,671	278,990
Other debt with no explicit cost	8	-	-	-	-
WC surp/def + s/t debt + ODNEC= NCA	**13,347**	**53,922**	**39,176**	**10,724**	**19,180**

Figure 3.4. Liquidity análisis of Acerinox Europa, S.A.U.

Source: Compiled by the author Laura R. Morales A. (2019, Excel liquidity analysis of Acerinox Europa, S.A.U.)

Operating working capital requirements (OWCR) have been positive and growing over the first three years of the period, but it decreases in 2016 and 2017, being 333,958 million in the later period. The principal reason is the increase in accounts payables, while accounts receivables decrease, and accrual accounts fluctuate over the period. At the same time Net turnover decreased and increased by -9% and 17% in 2016 and 2017 respectively, being 1,167,512 million in the earlier period, which increase by 23% and decrease by -2% in 2014 and 2015 respectively. The company is in financial equilibrium because the working capital (WC) is positive although working capital (WC) is low and smaller than the operating working capital requirements (OWCR). The working capital was increasing in the first four years, then it was down in the 2017. As a result, there exits a WC deficit. The company has covered this deficit with short-term financial liabilities (debt with credit institution and to subsidiaries and associated companies), which have been growing throughout the period, meaning that the company is depending on short-term debt from banks to finance the operating cycle. This introduce risk of company's liquidity if the bank stops providing credit

Liquidity stock ratios	2013	2014	2015	2016	2017
Current ratio	1.04	1.10	1.11	1.17	1.13
Quick ratio	0.64	0.73	0.72	0.73	0.66
Cash ratio	0.03	0.10	0.07	0.02	0.03

Figure 3.5. Liquidity stock ratios of Acerinox Europa, S.A.U.

Source: Compiled by the author Laura R. Morales A. (2019, Excel Liquidity analysis of Acerinox Europa, S.A.U.)

The current ratio is around 1 through the period of analysis. This implies that there is 1 Euro of current assets for each Euro for current liabilities. The quick ratio and the cash ratio are around 60% (not include inventory that represent a high amount over the period) and 2-3% (not include the amount of receivable and inventory) respectively.

CONCEPT	2013	2014	2015	2016	2017
Inventory turnover (R.M.)	12.39	16.37	13.98	9.79	9.98
Inventory turnover (W. in P.)	30.84	25.66	22.33	22.93	27.43
Inventory turnover (F.G.S.)	17.57	21.91	22.83	17.35	18.20
Accounts receivable turnover	3.92	4.71	3.96	3.31	3.92
Accounts payable turnover	3.16	3.64	4.39	4.55	4.52
Days inventory held (R.M)	29	22	26	37	36
Days inventory held (W. in P.)	12	14	16	16	13
Days inventory held (F.G.S.)	20	16	16	21	20
Days acc. Rec. Outstanding	92	76	91	109	92
Days acc. Pay. Outstanding	114	99	82	79	80
Ave. length of the O. cycle	39	30	67	103	81

Figure 3.6. Activity ratios of Acerinox, S.A.U.

Figure: Compiled by the author Laura R. Morales A. (2019, Excel Liquidity analysis of Acerinox Europa, S.A.U.)

The trend in the activity ratios explain the ups-and-down that OWCR shows throughout the period. The turnover ratios and the average age of inventory (days inventory held) have fluctuated over the period. In addition, the average collection period (days receivable outstanding) and the average payment (days payable outstanding) were decreasing in the last period in spite of being fluctuated during the first four years analyzed. Nevertheless, throughout the period analysed, the company collects the cash from the costumers later than the moment of payment to suppliers, meaning that supplier's financing is not enough to sustain the permanent investment in current assets. Therefore, the length of operating cycle is around 100 days over the period analyzed.

CONCEPT	2013	2014	2015	2016	2017
CFO	27,853	- 1,571	- 147,182	82,464	139,740
FFO (IBT +/- adj. I.)	7,656	76,899	52,687	65,103	115,755
CF ratio (CFO/CL)	0.06	- 0.00	- 0.26	0.15	0.24
CFL /CFO	4.94	- 124.43	- 2.48	3.46	2.00
CFL /FFO	17.98	2.54	6.93	4.39	2.41
(CFL - NOA) /CFO	4.09	- 82.56	- 2.15	3.22	1.79
(CFL - NOA) /FFO	14.89	1.69	6.00	4.08	2.17

Figure 3.7. Liquidity flow measures of Acerinox Europa, S.A.U.

Source: Compiled by the author Laura R. Morales A. (2019, Excel Liquidity analysis of Acerinox Europa, S.A.U.)

Cash flow from operation (CFO) is positive and greater than income in the first year and in the last two years analysed, on the opposite, FFO was positive the whole period of the analysis. The negative increase in changes in operating current and liabilities (accounts receivable and accounts payable increment in the balance sheet from 2014 to 2015) is the main reason which explain the negative CFOs in 2014 and 2015. Other reason is the dramatic decrease that income before taxes suffers in 2015 because of the more than proportional increase in operating expenses over revenues. After that, Income increase positively, generating positive cash flows, with higher cash inflows than outflows in the last two years, also in 2017 all Net turnover was collected in cash. Regarding the FFO, on the other hand, were positive and increasing throughout the period, having a significant increase in 2014 and 2017, which decreases in 2015 because income for the year decrease. As a result, the values of the coverage ratios show that, considering the current cash-flow generating ability of operations, the company would not be able to pay its current financial liabilities with a CFO in a year. The firms is not generating enough cash to meet its financial obligations; on the contrary, when analyzing this same ratio with FFO, the situation changes and it seems better in the first two years but in the end the company will not be able to pay back its financial obligations in less than 3 year (being worsen than CFO).

The solution to cover the deficit and possible risk could be to decrease the average collection period or use the discounting of commercial paper. Another possibility could be the option of increase long-term financing in order to decrease of short-term debt, to figure out the feasibility of this solution it is necessary to analyse the solvency of Acerinox Europa, S.A.U.

3.1.7 Analysis of Solvency

CONCEPT	2013	2014	2015	2016	2017
Equity	258,668	276,994	279,656	304,423	362,696
Total liabilities	478,449	557,931	580,652	570,887	592,963
TA / TL (NC+C)	1.54	1.50	1.48	1.53	1.61
E / TL	0.54	0.50	0.48	0.53	0.61

Figure 3.8. Solvency análisis of Acerinox Europa, S.A.U

Source: Compiled by the author Laura R. Morales A. (Excel Solvency analysis of Acerinox Europa, S.A.U.)

The equity (solvency guarantee) have been increasing positively throughout the period, going from 258,668 million to 362,696 million Euros. The positive increase in Income for the year in the last four years, using to increase the reserves and clean up accumulated losses in last three years is why Equity increases. In addition, Total assets was growing more proportional than Total Liabilities, that's why the ratios of total assets to total liabilities and equity to total liabilities increase.

CONCEPT	2013	2014	2015	2016	2017
EBIT/Interest expense	-1.66	2.23	1.60	3.96	8.64
CFO	27,853	- 1,571	- 147,182	82,464	139,740
FO (IBT+/- adj. I.)	7,656	76,899	52,687	65,103	115,755
CFO / Total liabilities	0.06	0.00	-0.25	0.14	0.24
TFL (NC+C) /CFO	5.45	-130.31	-2.50	3.51	2.02
TFL (NC+C) /FFO	19.82	2.66	6.99	4.44	2.44

Figure 3.9. Solvency Flow measures of Acerinox Europa, S.A.U.

Source: Compiled by the author Laura R. Morales A. (2019, Solvency analysis of Acerinox Europa, S.A.U.)

Regarding the Solvency flow ratios, the coverage ratio is positive in the last two period, being very similar to the liquidity flow ratios, as the proportion of long-term debt is very low (0% compared to 28% of short-term debt). This mean that the company is solvent and would be able to ask for a transformation of short-term debt into long-term debt. Moreover, the interest coverage ratio (EBIT/interest expense) became positive in 2015 and go up throughout the period, making it look better to apply for additional long-term financing, thus reducing the deficit in WC.

3.1.8 Final opinion and Possible solution

To conclude, the company was passing a bad ability to generate earnings in the first years and cash flows in 2014 and 2015. However, this trend changes over the period and, also the profitability has been improving in the last two periods, being ROE (21%) quite higher than ROA (9%). The increase in the operating revenues (mostly Net turnover) while operating expenses decrease explain why the company has been profitable during the last four years.

Regarding liquidity and solvency, the main financial risk that the company is facing is the use of short-term debt to finance the WC deficit. As son as the company convert it short-term financing into long-term financing a reduction in the WC deficit is expected to happen. Since the transformation of short-term debt into long-term debt could be feasible solution as CFO are positive and the interest coverage and total debt coverage ratios show good values. This is would situate Acerinox in a good position to renegotiate this debt. Moreover, the other possible solution could be to renegotiate credit police of payment with the suppliers (increasing the days accounts payables outstanding) or if it is possible also, decrease the average collection period to the costumers.

As it is explained in the managers' report, Acerinox Europa plant is one of the best stainless-steel factories, being the most efficient and advanced in the world. So, as explained above, the company will continue to be a leader in its industry, but the situation int the upcoming years will have a slightly change, mostly due to the significant increase in the raw materials prices compared with 2017 (period that presented a high proportion of income for the year). However, the recovering prices in the four quarter of 2018, together with the situation explained above and the control of the raw materials in the major consumer markets allows the company to be optimistic about the 2018 financial year and so on. Moreover, the flexibility, efficiency and the control of the cost are going to be the key factors to determine the results of Acerinox Europa. In addition, the perspective of the company's behavior is going to be focus in the reaction and possible measures taken in Europe and other countries about the possible protectionist measures that the United States could take. The flat product consumption had a significant increases trend by 0.7% meaning that the Europe financial crisis was overcome because this the same magnitude that the industry got in 2006 historic high.

As a result, the company is in a good situation to renegotiate the short-term debt into long term debt because it is going to keep the same level of Net turnover over the upcoming years, meaning that it is going continue to be profitable, with a positive and even increasing EBIT. Therefore, the company will has also a positive interest coverage ratio (EBIT/ interest expenses), which allows it to become short-term debt into long term debt in an easier way and eliminate the risk that the company is facing. Likewise, the company present a positive CFOs in the last two years and positive FFO during the whole period, meaning that the cash inflows are higher than the cash outflows. However, costumers' credit policy should change, by means of setting up new conditions or by traying to reduce the collection period. Also, could be positive effect on CFO if the company renegotiate the previously signed conditions of supplier's credit policy.

3.2 SIDERURGICA SEVILLANA, S.A.

3.2.1 Analysis of Balance Sheet

The total assets have been gradually decreasing in the whole period analyzed, except in the last two years. They were 160,266,749 million in 2013 but, then they go down to 157,228,547 million in 2014, 142,398,709 in 2015, being again more than 160 million in the last period. Regarding the distribution between current and non-current assets, the highest investment is current assets, which represent around 54-65% of total assets. The most significant is Inventory (33% in 2013 and 2014), it starts to decrease in 2015 and 2016, representing 25% of total assets, reason why total assets decrease in 2015. After that, it rose up 32% in 2017.

Trade accounts receivable represent 22% in 2013 and 20% in 2017. This was gradually decreasing in 2014, 2015 and 2016 (are 20%, 16% and 14% respectively), which increase by 58% in the last period. At the same time, short-term investment in subsidiaries and associated company has been increasing in almost the whole period, representing 0% in the earlier period, they had a significant increase by 327% in 2015, going down to 48,081 million in 2016 and going up to 19,712,158 million in 2017. Both trade accounts receivables and Short-term investments are thee reason why total assets increase in 2017. The significant increase in 2016 (32,931,283 million) in cash and cash equivalents is also to be highlighted.

With respect to non-current assets, they represent 45% in 2013 and 35% in 2017. Tangible fixed assets were the most important investment, being 33% of total assets in 2013. They decrease over the period and, in the final year they were 25% of the total assets. This is why the total assets have been steadily decreasing during the first four year. In absolute amount, they are 52,602,981 million and 40,696,869 million in 2013 and 2017 respectively.

For the purpose of the analysis, cash and cash equivalents have been considered as non-operating assets as their significant among total assets.

Regarding the financial structure (equity and liabilities), Equity was a significant source of financing during the period analyzed, representing 53% of total assets in 2013, but it has been steadily decreasing over the first three years. After that moment, it starts to increase up to 90,288,640 million (56% of the total equity and liabilities) in 2017. The decreases in the first three years is explained by the generation of losses in 2014 and 2015. However, from 2016 to 2017 income for the year becomes positive, due to the decrease in operating expenses and the increase in Net turnover that are accumulated in reserves and clean up accumulated losses of prior years.

The other relevant source of financing is non-current financial liabilities. From representing 20% of total equity and liabilities in 2013, it rose to 32% in 2014, having decreased (being 37,039,355 million) in last two period. They are 23% in 2017. The main reason why has decreased was that long-term debts have declined coming to increase trade account payable and other payables and a small portion of short-term debt (64% increasing).It seems that the most important investment was long-term debt payable to subsidiaries and associated companies that represent 19% in 2013; though, this trend change and it become 0%. Becoming long-term debt payable to subsidiaries and associated company into long-term debt to credit institution. They are 30% in 2014, and they were gradually decreasing to 22% of total equity and liabilities in 2017.

The current liabilities have been decreasing throughout the period; however, they go up 22% in the last period of the analysis. From representing 28% of the total equity and liabilities in 2013, they drop back to 19% in 2014, and two years later they are 16% of them. Trade accounts payables and other payables were the most important investment, representing 15% in the first two period but then, in 2015 they decreased by 38%. In spite of its decrease, it rose up 17% ºin 2017. This means that the increase in accounts payable (45% in 2017) and accounts receivable (58% in 2017), almost coincides with a 21 % increase in Net turnover. So, its could be possible that payable and receivables are playing a key role in the firm's financing policy in the last period of analysis.

3.2.2 Analysis of the Income Statement

As it can be seen from the income for the year, it was decreasing negatively, becoming negative in 2014 and 2015, being -6,793,347 million and -4,159,388 million respectively. The explanation why it become negative was the decrease in Net turnover while operating expenses increase more proportional than the operating revenues. As a result, operating income also become negative in these years; however, in 2013 and the last two periods income for the year was positive, representing around 224,882 thousand in 2013, 6,260,661 million in 2016 and 9,193,849 million in 2017 Euros of profits, mainly due to the opposite trend that show operating revenues and operating expenses compared with 2014 and 2015. As said above, Net turnover have been decreasing during the first four period, but in the later period it goes up to 290,685,317 million. They decrease from 327,052,338 million in 2013 to 240,390,047 million in 2016.

With respect operating expenses, procurements represent the principal cost, it was around 68-76% of sales during the whole period, that decreased in significant from 2015 to 2016. Moreover, other operating expenses were fluctuated over the period analyzed, being 17% and 18% of sales in the earlier and later period.

Another important thing to consider is the negative financial income that income statement shows throughout the period analyzed, helping the income for the year increase more negatively in 2014 and 2015. The principal reason was that the Financial expenses is all the years higher than Financial revenues. In 2014 it presented the highest negative increase by 13% worsen the income for the year. Financial income represents -1,8 million in 2013 and more than 1 million in the last period of the analysis.

3.2.3 Analysis of Statement in Change in Equity

Equity have fluctuated every year throughout the period analyzed. The statement of change in equity shows, how income for the year have been done to the total recognized revenues and expenses have this trend.

3.2.4 Analysis of Cash Flow Statement

For all years presented, except in 2017, Siderúrgica Sevillana generate positive Cash flows from operations, negative cash flows from investment activities, and negative cash flow from financing activities, except in 2016. Furthermore, income before tax is positive in the earlier period and the last two periods because Net turnover surpass operating expenses. Although, it was negative in 2014 (-5,994,659 million) and 2015 (-5,962,035 million). In absolute amount, it increases from 1,499,136 million in 2013 to 12,070,114 million in 2017. In spite of the income trend throughout the period analyzed, CFOs have been increasing positively from 2013 to 2016, going down to -1,008,267 million in 2017.

During the first four years, Siderúrgica Sevillana, S.A. shows positive CFOs and uses it to invest in assets (it was 23% of CFO in 2016 and 826% in 2017) and to pay back debt to credit institutions and subsidiaries and associated company (65% and 2339% of CFO in 2016 and 2017 respectively). However, in 2016 cash flow from financing activities are positive because the payment of debt had a significant decreased. On the other hand, in 2017 CFOs were negative despite of showing a positive income before taxes that together with the positive adjustment to income make the funds from operation (obtained as income before taxes corrected by the adjustment to income) to be positive. The negative other cash flows from operating activities; specifically, cash payments for income taxes are the reason why cash flows from operation become negative in the later year. As a result, CFOs in the strict sense (obtained as income before taxes corrected by the adjustments to income and the change in operating current assets and liabilities) are also positive because change in operating current assets and liabilities were positive; however, it decreased in 2017 due to the investment in assets (inventory and accounts receivables) to growth as the company is taking. Thus, in 2017 the cash outflows surpass the cash inflows. Likewise, cash flows from investment activities and cash flows from financing activities were negative, meaning that the company is also using cash from its core operations of the previous years to growth in 2017 that is taking the company.

Regarding the CFO section shows that the increasing trend in operating cash flows from 2013 to 2016 is explained by the increasing income before taxes during 2013, 2016 and 2017. Likewise, adjustment to income have been decreasing positively throughout the period analyzed, which is mainly explained by the positive adjustment of depreciation of fixed assets and the positive adjustment of financial expenses. As a result, funds from operations (obtained as income before taxes corrected by the adjustment to income) are higher than income before taxes but decreasing, though it increases in 2016 due to the positive increase in income before taxes this year. So, the increasing trend in operating cash flows from 2013 to 2016 is explained by the changes in operating current assets and liabilities. These make the cash flows from operations in the strict sense (obtained as income before taxes corrected by the adjustments to income and the change in operating current assets and liabilities) increase positively. Consequently, the cash inflows are higher than the cash outflows in 2013, 2014, 2015 and 2016.

3.2.5 Analysisis of Profitability

CONCEP	2013	2014	2015	2016	2017
ROA	**2%**	**-3%**	**-3%**	**7%**	**8%**
Profit margin	**1%**	**-1%**	**-2%**	**4%**	**4%**
Assets turnover	**2.04**	**2.04**	**1.96**	**1.62**	**1.79**
Operating ROA	**2%**	**-3%**	**-4%**	**9%**	**9%**
Operating profit margin	**1%**	**-1%**	**-2%**	**4%**	**4%**
Operating assets turnover	**2.09**	**2.14**	**2.32**	**2.14**	**2.09**
Non-operating ROA	**1%**	**0%**	**0%**	**0%**	**1%**

Figure 3.20. Profitabily análisis of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel profitability analysis of Siderúrgica Sevillana, S.A.)

ROA have been negative in 2014 and 2015 although it was positive and increasing in the first and last two years, being 2% and 8% in 2013 and 2017 respectively. It can be explained by the fluctuation in the profit margin (1% in 2013, from -1 to -2% in 2014 and 2015 respectively and 4% in the last two period) and decreasing assets turnover (2.04 in 2013 and 1.79 2017 respectively). As we said above from the analysis of Income Statement, the main reason for the increase in the profit margin is the increase operating revenues. The assets turnover is decreasing, due to the decreased in sales over the first four years. In 2017, sales increase so assets turnover increase. The return on operating assets had the same trend as ROA, being slightly higher than Return on total assets in the last two period. This is the main driver of total return on assets, showing that the company is strong in generating profits from its core operating activities in the first and last two years of the analysis.

CONCEPT:	**2013**	**2014**	**2015**	**2016**	**2017**
ROE	2%	-8%	-9%	10%	13%
ROA	2%	-3%	-3%	7%	8%
FLEV	0.90	1.01	0.90	0.84	0.80

AIR	2%	2%	2%	2%	2%
SPREAD	0%	-5%	-6%	4%	6%
ROA + (FLEV*SPREAD)	2%	-8%	-9%	10%	13%

Figure 3.13. Profitability analysis of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel profitability analysis of Siderúrgica Sevillana, S.A.)

ROE have increased very much in the last two years, which was around 2% in 2013 and around 13% in 2017. They become negative in 2014 and 2015. The reason for this is the negative income for the years. Regarding the drivers of ROE:

- ROA: As we stated above, ROA decreased during the first three period but, in 2016 and 2017 increase positively.
- FLEV: In the last three years Financial leverage have decreased due to the increase in Equity (because income for the year become positive in 2016 and 2017) while total liabilities have been decreasing except in 2017, mainly due to the decrease in long-term debt.
- SPREAD: Siderúrgica Sevillana had positive spread in 2013, 2016 and 2017, which implies that return from operations (ROA) was higher than the borrowing costs (AIR). The positive SPREAD (ROA – AIR) affects the financial leverage that makes ROE higher than ROA. However, from 2014 to 2015 the SPREAD follows a opposite trend, affected the financial leverage negatively that made ROE less than ROA.

In brief, as a preliminary conclusion, it seems to us that from 2014 to 2015 the company shows a bad ability to generate earnings. Siderúrgica Sevillana presented a negative ROE. Being ROE less than ROA. Although, this trend changes in 2016. ROE become positive and increasing. Likewise, Financial leverage has been having a positive effect on return on equity. ROE values are also much higher than the median in the industry. According to the managers' report (2017), throughout the period analyzed there are doubts regarding electricity cost evolution, markets evolution, prices, raw materials prices and international environment, etc. that force the company to be very cautious about 2018. However, the macroeconomics report allows it to face the future with optimism because the Net turnover of the national market has recovered, and also mainly due to the progressive opening up of the Algerian market. The export market represents more than 50% of Net turnover. As a result, it can be expected that the company is going to continue with the same level of sales and keeping the same level of expenses.

3.2.6 Analysis of Liquidity

CONCEPT	2013	2014	2015	2016	2017
OWCR	64,107,393	60,468,054	43,561,338	38,417,355	57,551,355
Working capital	43,916,807	59,588,404	57,565,429	66,827,591	69,812,412
WC sur/ def	**- 20,190,586**	**- 879,650**	**14,004,091**	**28,410,236**	**12,261,057**

F. CL	20,201,713	5,340,058	4,653,508	4,574,129	7,493,419
O. debt no exp. Cost.	-	-	-	-	-
WC sur/def + s/t debt + ODNEC = NCA	**11,127**	**4,460,407**	**18,657,598**	**32,984,365**	**19,754,475**

Figure 3.42. Liquidity análisis of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of Siderúrgica Sevillana, S.A.)

OWCR is positive and decreasing from 2013 to 2016. This is explained by the decrease in inventory and accounts receivables more proportional than the decrease in accounts payables these years, but in 2017 it has a opposite trend (it increases positively).

WC was increasing positively over the period, being higher than the OWCR during the last three year analyzed. Therefore, from 2015 to 2017 the company is in financial equilibrium period and exits a WC surplus, meaning that the company is financing its non-current asset and parts of its current assets with long-term financing.

CONCEPT	2013	2014	2015	2016	2017
Current ratio	1.98	3.03	3.96	3.83	2.99
Quick ratio	0.78	1.24	2.15	2.26	1.48
Cash ratio	0.00	0.15	0.96	1.40	0.56

Figure 3.53. Liquidity stock ratios of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of Siderúrgica Sevillana, S.A.)

The current ratio is quite high and has been increasing significantly in 2015 and 2016. There are around 2,99 Euros of current assets for each Euro of current liabilities in 2017. However, the reason is once again the significant amount of accounts receivable and inventory. The value of the ratio will only be an indication of a good liquidity if the current assets can be easily converted into cash. The quick ratio is around 1% due to the significance of account receivable though current ratio is doubled because of the significance of inventory. So, cash ratio follows the same pattern, although the cash ratio is much lower as it does not include the amount of receivables.

CONCEPT	2013	2014	2015	2016	2017
Inventory turnover (R.M.)	12.41	11.68	10.60	10.14	12.88
Accounts receivable turnover	9.50	10.41	11.48	11.54	11.25
Accounts payable turnover	11.33	11.67	14.00	13.58	8.27
Days inventory held (R.M)	29.01	30.82	33.95	35.49	27.95
Days receivables Out.	38	35	31	31	32

Days accounts payables Out.	32	31	26	27	44
Av. length operating cycle	35	35	40	40	16

Figure 3.64. Activity ratios of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of Siderúrgica Sevillana, S.A.)

The average age of inventory (Days inventory held) decreased in the last year (having a opposite trend during the first four years) and turnover ratios increased.

The average collection period on the other hand increase (also have a opposite trend in the first four years), as the accounts receivables had a slightly decrease in the later period. Days receivables outstanding was 38 days in 2013 and has decreased to 32 days in 2017. However, days accounts payable turnover decreased in the last two period of the analyzed while days accounts payables outstanding were increasing these years. Thus, in 2017 the company collected the cash from the costumers earlier than the moment of payment to the suppliers. Average length of the operating is 16 days in 2017.

CONCEPT	2013	2014	2015	2016	2017
CFO	9,028,455	9,645,572	19,441,246	23,216,263	- 1,008,267
FFO	15,732,034	7,674,001	5,375,629	18,269,956	21,431,502
C. flow ratios (CFO/CL)	0.20	0.33	1.00	0.98	-0.03
CFL /CFO	2.24	0.55	0.24	0.20	-7.43
CFL /FFO	1.28	0.70	0.87	0.25	0.35
(CFL- NOA)/CFO	1.86	-0.26	-0.89	-1.37	15.45
(CFL- NOA)/FFO	-10.19	-20.49	-26.49	-8.14	-7.58

Figure 3.75. Liquidity Flow measures of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of Siderúrgica Sevillana, S.A.)

In 2017 cash flow operation (CFOs) becoming negative and funds from operation (FFO) increasing positively despite being increasing positively during the first four years of the period analyzed (in both cases). Regarding the FFO the main reason why increase positively is because of the more than proportional increase in operating revenues over expenses. The situation improvement because Net turnover increases 21% this year. On the other hand, CFOs follow a opposite trend than the income for the year, which increases positively in 2017. During 2013, 2014, 2015 and 2016 the company generates positive cash in flows than outflows. However, in the later year, as the cash outflows surpass the cash inflows, meanly due to the negative other cash from operating activities (cash payments of income taxes was the significant payment) and, also because the company is investment in assets (inventory and accounts receivables) to growth in 2017 that is taking it. As a result, CFOs was negative in the later period analyzed but, this is not very worrying because the company is facing a transitory financial situation since Net turnover have been increasing more proportional than operating expenses, being income for the year positive. Thus, FFO (obtained as income before taxes corrected by the adjustment to income) and cash flows operations in the strict sense (obtained as income before taxes corrected by the adjustment to income and the change in operating currents assets and liabilities) were positive during the whole period.

The evolution of FFO and CFO determines the values of short-term debt coverage ratios. During the first four years those ratios are less than 1, which implies that Siderúrgica Sevillana was able to cover the payment of debt due in the short-term debt with CFO/FFO. However, in 2017 the values of the coverage ratios that as the CFO are negative, the company is not generating any cash to meet the long-term financial commitments but, as explained above, the company should not be worrying because this is a transitory situation. On the opposite, when the coverage ratios are calculated using the FFO, the values indicate that the company would need less than 1 year to pay back the short-term debt.

To sum up, the company is having severe trouble generating cash from its operations in the last year of the period analyzed. Although sales increased in 2017 and income have been increasing in 2016 and 2017, the company shows a negative CFOs in 2017 due to the negative other cash from operating activities. Therefore, FFOs (obtained as income before taxes corrected by the adjustment to income) and CFOs in the strict sense (obtained as income before taxes corrected by the adjustment to income and the change in operating currents assets and liabilities) were positive in all the period though the last one decreased in 2017 due to the investment in assets (inventory and accounts receivables) to growth as the company is taking. So, the company should not be worrying because this a transitory financial situation that the company is facing as the it is expecting to continue to be profitable in the following years.

3.2.7 Analysis of Solvency

CONCEPT	2013	2014	2015	2016	2017
Equity	84,253,077	78,055,294	74,785,562	80,744,330	90,288,640
Total liabilities	76,013,672	79,173,253	67,613,147	68,014,522	72,202,751
TA / TL (NC + C)	2.11	1.99	2.11	2.19	2.25
E / TL	1.11	0.99	1.11	1.19	1.25

Figure 3.86. Solvency stock measures of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel solvency analysis of Siderúrgica Sevillana, S.A.)

Equity represents around 50-56% of total assets and has been gradually increasing. This increment, as we know, is due to the growth of the income for the year. On the other hand, total liabilities have fluctuated over the period, suffering a drop in 2015 and 2016, explained by the decrement of short-term debt and trade accounts payables. We can conclude that the financial structure has been changing throughout the period analyzed and it wasn’t stable.

The total assets to liabilities ratio are greater than one in all the years. This means that the company has enough assets to cover its liabilities. The values of this ratio show an increasing trend over the years, except 2014.

CONCEPT	2013	2014	2015	2016	2017
EBIT/IE	1.84	-2.86	-2.85	6.99	10.78
CFO	9,028,455	9,645,572	19,441,246	23,216,263	-1,008,267
FFO (IBT +/- A. I.)	15,732,034	7,674,001	5,375,629	18,269,956	21,431,502
CFO / TL	0.12	0.12	0.29	0.34	-0.01
TFL (NC+C) /CFO	5.56	5.54	2.65	2.04	-42.60
TFL (NC+C) /FFO	0.09	0.22	0.19	0.08	0.07
(TFL - NOA) /CFO	5.18	4.73	1.52	0.47	-19.71
(TFL - NOA) /FFO	-10.10	-20.26	-26.30	-8.06	-7.52

Figure 3.97. Solvency flow measures of Siderúrgica Sevillana, S.A.

Source: Compiled by the author Laura R. Morales A. (2019, excel solvency analysis of Siderúrgica Sevillana, S.A.)

At the same time, equity to liabilities ratio and interest coverage ratio are positive and show an increasing trend too. Accordingly, the company generates enough EBIT to cover the interest expense in the first and last two period, because in 2014 to 2015 they were negative.

With regarding to coverage ratio calculated using the CFO, unless the company was able to collect the cash from its receivables, it wouldn't be enough to meet the liabilities because the company is not solvent (cash coverage ratio is negative in 2017) in the last period analyzed. Although, as explained in the liquidity analysis section, In spite of having a positive earning before taxes (income for the year was positive), the company is showing a negative cash flows from operations, due to the high investment of account receivable and inventory that the company is doing. On the opposite, the coverage ratio calculated using the FFO, show that the company can pay the total debt with FFO even in less than one year. This indicates that the company has financial flexibility and good solvency situation to renegotiate the transformation of short-term debt into long-term debt though the company is not facing this problem due to the positive WC and higher than the OWCR that it is having in the last three period of the analysis.

3.2.8 Final opinion and possible solutions

In general, it could be concluded that Siderúrgica Sevillana has a good ability to generate earnings, showing an increasing profitability in the last two periods; however, it has negative CFOs in 2017, mainly due to the negative other cash flows from operating activities that become negative this year.

As the managers state in the managers' report (page 1 and 3), as it is happening during the last periods regards the doubt about the electricity cost evolution, the poor visibility of the market evolutions, prices, raw material prices, and international environment, etc. that force the company to be very caution regard the following year. However, the company has an optimistic perspective of the future years because the national market recovered. As a result, the domestic market has recovered comparing with the foreign market.

On the other side, at the beginning of 2017 the export market was decreasing but, it was improving mainly due to the progressive opening up of the Algerian market. The export market represents more than 50% of Net turnover. Nevertheless, there is growing recourse to the implementation of measures contrary to international free competition that must be monitored, possible threats of Chinese overcapacity and the protectionist measures of Morocco, Algeria and more recently the United Stated. Consequently, there is not significant risk that can damage the positive trend regarding the operating activities, showing in 2016 and 2017. Moreover, as said above in the steel sector report companies in this sector grew by 31.2% in 2017, and they are expected to continue growing by about 11.1% in 2022. The Spanish steel market has experienced strong double-digit growth recently, grow will continue over the foreseeable future.

Regarding liquidity and solvency, the company has a healthy financial structure, because in the last three years it is financing non-current assets and part of its current assets with long-term financial liabilities, meaning that there is WC surplus. However, the last year Siderúrgica Sevillana had a bad ability to generate cash from its operations as CFOs were negative in 2017 although the company have been showing a positive cash flows from operating activities from 2013 to 2016. The negative other cash flows from operating activities, reason why cash flows from operations become negative in 2017. Thus, the FFO (obtained as income before taxes corrected by the adjustment to income) and CFOs in the strict sense (obtained as income before taxes corrected by the adjustment to income and the change in operating current assets and liabilities) are positive though the CFOs in the strict sense decreasing in the later period because the company is investment the CFOs generating from its main core in investment in assets (inventory and accounts receivables) to growth as the company is taking. As a result, Siderúrgica Sevillana should not be worrying about its negative cash flows from operating activities in the last year because this is a transitory situation that the company is facing as it have been showing a positive and increasing profitability (operating revenues surpass the operating expenses) in 2016 and 2017 as said above and, also it is expecting to continue in the upcoming years as explained in the managers' report.

3.3 ARCELORMITTAL SESTAO

3.3.1 Analysis of the Balance Sheet

The total assets of ArcelorMittal, S.L. have been fluctuating heavily throughout the period 2013/2017. They were around 263 million in 2013, the most significant decrease was in 2015 by -52% (86,854 million) but, later in 2016 they increase to 178,504 million, which drop back to 85,543 million in 2017.

Regarding the distribution between non-current and current assets, it can be seen that the highest investment is in both current assets and non-current assets. During the first two years of the analysis non-current assets represent the highest investment, being 51% (133,750 million) and 60% (109,298 million) in 2013 and 2014 respectively. Within this groups the principal item is tangible fixed assets (land and structure 30% and plant machinery, tools, furniture and other tangible assets 8 % in 2013). This was 39% (101,495 million) in 2013, 49% (90,011 million) in 2014 and 35% (29,887 million) in the last period of the analysis. However, from 2015 to 2017 the trend changes and, non-current assets have been decreasing over the last three years, down to 41% in 2017. This is the reason why Total assets decrease by 52% (86,854 million) in 2015.

While non-current assets were deteriorating, current assets become the most important investment of the total assets. They are 59% (50,830 million) in 2015 and 2017. Inventory is the most notable current assets; it has been steadily going down throughout the first three period and is 22% (58,591 million) in 2013. Inventory decrease by 58% (15,768 million) in 2016, after that it increase by 87% (29,545 million) in the last period. The second most significant is Short-term investment in subsidiaries and associated companies of 36,971 million 2013; however, they decrease by 92% (3,095 million) in 2015. With an important decrease by 100% (9 thousand) in 2015 and increase by 1344533% (121,017 million) in 2016. Finally, in 2017 they drop down to 440 thousand (100% decrease again), making the total assets decrease by 52% 2017.

For the purposes of the analysis, cash and cash equivalents have been considered as non-operating assets as their significance among total assets is material.

Regarding the financial structure (equity and liabilities), Equity has been deteriorating throughout the period of the analysis, due to the continued generation of losses of income for the years. It felt into negative amount of -111,070 million in 2015. A capital reduction was necessary in 2016 to clean up accumulated losses; however, the generation of losses persist until the last years of the analysis.

The current liabilities are the main source of financing for the company. They have been fluctuated from 69% (180,387 million) in 2013 to 80% (68,063 million) in 2017, with a significant decrease by 56% (79,414 million) in 2014 of total equity and liabilities.

The account that stand out in currents liabilities are:

Short-term debt payable to subsidiaries and associated companies, they have been 44% in 2017. Having decreased throughout the last four year, except in 2016 that increasing 48% (85.755 million). They fell down to 32% (27,269 million) in the last period of analysis.

Trade accounts payables and other payables are the second most important item of total equity and liabilities. They were fluctuating over the period. From representing 23% (59,453 million) in the first period, they decrease to 10% (17,663 million) in 2016, being 42% (45,915 million) in the last period.

With respect the non-current liabilities, they have fluctuated extremely over the period. They represent around 4-5% in the first and last period of the analysis respectively. Despite, of its insignificant magnitude these years, they rose up 159% in 2015. Being long-term payables to subsidiaries and associated company the most important investment within this group. In absolute amount, they were 85 million in 2014, 130 million in 2015 and 45 million in 2016. However, they are 0% in 2013 and 2017.

3.3.2 Analysis of Income Statement

From 2013 to 2016 Net turnover has been decreasing steadily by -13% in 2014 and 2015, except in 2016 that had a dramatic decrease by 78% (59,750 million). Net turnover is 348,935 million in 2013 with an important increase by 153% (150,921 million) in the last year of the period. In spite of increasing in the last period, it is not enough to pass over the operating expenses that are much more proportional than the operating revenues in the whole period of analysis. This is mainly the reason why income for the years were negative throughout the period analyzed. Net income includes only continued operations.

Regarding the operating expenses, the most significant are procurements. They have been steadily fluctuating throughout the period of analysis, which represent around 64-83% of net turnover. Likewise, other operating expenses are also to be highlighted, as they represent 21% in 2013, going up to 33% in 2017.

The financial income was positive only in the later year, due to the increase positively by 313% in financial revenues in 2017, being 0% (420 thousand) in 2013. However, this is not enough to pass over the negative operating income in 2017 that's making income for the year to be negative in the last period of analysis. Income for the year is -54,141 million in 2013, it was increasing negatively during the three first years, representing -117,961 million in 2015 and -32,646 million in 2016 (being decreasing negatively in 2016).

3.3.3 Analysis of Cash Flow Statement

CFO were negative and fluctuated in the whole period, mostly in 2015 that CFO rose up -38,465 million. From around -8,097 million of negative CFO in 2013, there are over 31,612 million of negative CFO in 2016, and -11,893 million negative CFO in 2017, due to the negative increase of income for the year. As explained above in the Income Statement, the income for the year was negative all the period and increasing negatively during the first three years, mainly because Net turnover have been decreasing while operating expenses were increasing over the period analysed, except in the last period (increase 153%); however, it was not enough to pass over the operating expenses this years. At the same time, in the last year trade accounts receivables (increase by 177%) and trade accounts payables (increase by 103%) follow the same trend as Net turnover. Therefore, funds from operations (obtained as income before taxes corrected by the adjustment to income) are negative during the whole period of analysis.

Moreover, the negative increase in changes in operating current assets and liabilities make the CFOs in the strict sense to be negative an increasing in same of the years like 2017; however, they were positive in 2014 and 2016, making the cash flows from operations in the strict sense to be less negative.

In brief, if income for the year had not been negative during the whole period, the CFOs would have been positive because the adjustments to income were positive almost every year, except in 2017.

The values of CFO and FFO signal possible problems in short-term debt coverage given that, as was highlighted above, the company has almost no long-term debt.

3.3.4 Analysis of Statement in Changes in Equity

Equity have decreased every year. The income for the year has helped to the total recognized revenues and expenses have this trend. As a result of this the company has increased the Capital stock in 2013 and 2016.

3.3.5 Analysis of Profitability

CONCEPT	2013	2014	2015	2016	2017
ROA	-19%	-25%	-59%	-18%	-5%
Profit margin	-15%	-15%	-19%	-55%	-3%
Assets turnover	1.33	1.67	3.07	0.33	1.76

Operating ROA	-24%	-27%	-68%	-63%	-8%
Operating profit margin	-15%	-15%	-19%	-55%	-4%
Operating assets turnover	1.63	1.81	3.49	1.14	1.91
Non-operating ROA	1%	1%	0%	0%	29%

Figure 3.108. Profitability analysis of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel profitability analysis of ArcelorMittal Sestao, S.L.)

ROA is negative every year and worsen during 2014 and 2015. It has been -19% in 2013, decreasing to -59% in 2015 and increasing to -5% in 2017. Return on total assets can be explained by a negative increase in the profit margin, which was around -15% in 2013 and -19% in 2015. As we said above from the analysis of Income Statement, the main reason for the negative increase in the profit margin is the increase in the operating expenses and because the financial income was negative over the first four years of the analysis. The assets turnover has been fluctuating because the sales and Total assets have been also fluctuating every year. The return on operating assets was increasing negatively more than the ROA. This is the main driver of total return on assets. So, the company is not strong in generating profits from its core operating activities during all period.

CONCEPT	2013	2014	2015	2016	2017
ROE	-83%	-621%	49%	-258%	-42%
ROA	-19%	-25%	-59%	-18%	-5%
FLEV	2.70	22.19	-1.78	11.18	5.53
AIR	4%	2%	1%	3%	1%
SPREAD	-24%	-27%	-61%	-21%	-7%
ROA + (FLEV*SPREAD)	-83%	-621%	49%	-258%	-42%

Figure 3.119. Profitability analysis of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel profitability analysis of ArcelorMittal Sestao, S.L.)

ROE had a negative increased very much every year, which was around -83% in 2013, and around -42% in 2017, being -258% in 2016. In 2015 ROE was positive (49%) due to the deterioration of Equity (the negative sign) in this year. As we said above, Equity felt into negative amount of -111,070 million in 2015.

- ROA: As we stated above, ROA have been increasing negatively every year because the Operating revenues have not increased, and the Operating Expenses have increased too much.

- FLEV: Financial leverage increased in the first two and 2016 years by the decrease in Equity. This increase is explained for the losses that the firm gets with the Income for the year these years. Moreover, from 2014 to 2016 the company raised long-term debt that increasing during 2014 and 2015, which have helped the financial leverage has this trend. On the other hand, Financial leverage (FLEV) was negative in 2015 because Equity had a negative increase for the same reason that we explained above, but in the later period FLEV was positive. This is explained for the decrease in both Total liabilities and Equity.

- SPREAD: ArcelorMittal Sestao has a negative spread, which means that the borrowing costs (AIR) is higher than the return from operations (ROA). The negative Spread affects the financial leverage that makes ROE less than ROA.

As regards its profitability, it could conclude that the main problem facing ARCELORMITTAL SESTAO is its income statement. Sales revenue decreases (except in 2017) while operating expenses increase more proportional than operating revenues and, the financial income is also negative. Therefore, ROE and ROA are increasing negatively (-42% and -5% in 2017 respectively). In addition, at the same time the spread is negative the company must be decreasing the financial leverage by increasing the proportion of equity.

3.3.6 Analysis of Liquidity

CONCEPT	2013	2014	2015	2016	2017
OWCR	32,620	20,483	13,634	4,457	12,386
WC	- 51,231	- 5,948	- 9,244	33,640	- 17,429
WC sur/def (WC - OWCR)	**- 83,851**	**- 26,431**	**- 22,878**	**29,183**	**- 29,815**

Figure 3.20. Liquidity analysis of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of ArcelorMittal Sestao, S.L.)

OWCR are positive over the period. The later year increase because trade accounts receivables and inventory were much greater than trade accounts payables. Before there, OWCR begins decreasing. This is due to the decrease in accounts receivables and inventories more proportional than the decrease in trade accounts payables.

WC on the contrary, is negative every year, except in 2016. This mean that the company is in financial equilibrium only in 2016, which implies that the company is financing its non-current asset and parts of its current assets with long-term financing in 2016 that disappear in the later year. However, from 2013 to 2015 and in 2017 the company has a WC deficit because WC is smaller than OWCR, which implies that the company has covered this deficit with short-term financial liabilities. The company is in financial disequilibrium. Throughout those years a portion of non-current assets is being financed with current financial liabilities. This means that the company is depending on short-term debt from banks to finance the operating cycle and some of the non-current assets. The liquidity of the company will be in risk if the bank stops providing credit.

CONCEPT	2013	2014	2015	2016	2017
Current ratio	0.72	0.93	0.85	1.31	0.74
Quick ratio	0.38	0.33	0.19	1.16	0.31
Cash ratio	0.21	0.04	0.00	1.10	0.03

Figure 3.21. Liquidity stock ratios of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of ArcelorMittal Sestao, S.L.)

The current ratio is under 1 during the first three years and the later year. This means that there is less than 1 € of current assets for each Euro of current liabilities, thus the cash realized from the current assets could hardly cover the current liabilities of ArcelorMittal Sestao. During 2016 the current ratio was greater than 1, meaning just the opposite. The quick ratio is around 20-30%, except in 2016 that is also greater than 1 and, the cash ratio around 0-20%, and also follow the same trend than the quick ratio.

CONCEPT	2013	2014	2015	2016	2017
Inventory turnover (raw material)	6.44	6.55	8.65	2.92	12.78
Accounts receivable turnover	9.75	11.96	18.23	7.30	12.26
Accounts payable turnover	4.74	4.08	5.51	1.05	4.28
Days inventory held (raw material)	56	55	42	123	28
Days receivables outstanding	37	30	20	49	29
Days accounts payables outstanding	76	88	65	344	84
Average length of the operating cycle	17	-3	-4	-171	-27

Figure 3.22. Liquidity activity ratios of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of ArcelorMittal Sestao, S.L.)

With respect the activity ratios, during the first three and 2017 years all turnover ratios follow an increasing trend, which results in a decreasing average age of inventory and a decreasing average collection period, but at the same time a decrease in the average time that it takes to pay the suppliers. However, over the whole period analyzed the company collects the cash from the costumers earlier than the moment of payment the suppliers. Days receivables outstanding and days payables outstanding were 29 days and 84 days in 2017 respectively but, in the previous year (2016) days receivables outstanding is quite longer than the days inventory held and the days receivables outstanding, mainly due to the significant decrease that purchases having this year. So, this is not very alarming because the company is paying the suppliers when is due.

CONCEPT	2013	2014	2015	2016	2017
CFO	- 8,097	- 6,936	- 38,465	- 31,612	- 11,893
FFO (IBT+/- adj. I.)	- 13,206	- 28,350	- 32,593	- 20,724	- 3,280
CFO (CFO/CL)	-0.04	-0.09	-0.64	-0.29	-0.17
CFL /CFO	-14.50	-3.79	-0.65	-2.77	-2.37
CFL /FFO	-8.89	-0.93	-0.76	-4.22	-8.58
(CFL - NOA) /CFO	-8.47	-1.68	-0.37	1.22	-1.81
(CFL - NOA) /FFO	-5.19	-0.41	-0.44	1.86	-6.57

Figure 3.23. Liquidity flow measures of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel liquidity analysis of ArcelorMittal Sestao, S.L.)

CFO and FFO are negative and smaller than income over the whole period analysed. Regarding de FFO the main reason why they were negative over the period analyzed is because of the more than proportional increase in operating expenses over revenues. As it was explained above, CFOs were negative and fluctuate in the whole period, mostly in 2015 that rose up -38,465. The negative increase in income was the main reason why CFOs increase negatively in 2015; however, CFOs increase 2016, mainly because the negative other cash flows from operating activities. However, CFOs were decreasing negatively in 2017 due to increases in Net turnover making the income for the year less negative in this year. Short-term debt coverage ratios indicate that, considering the current cash-flow generating ability of operations, the company would not be able to pay its current financial liabilities with CFO in a year. Also, this situation worsens when they are calculated with FFO. Moreover, the company has not enough non-operating current assets to cover the current financial liabilities.

To sum up, we can say that the company is not liquid during the whole period analysed. The principal problem is that the income for the years have been negative from 2013 to 2017, being also the main problem why CFOs become negative.

The solution could be to carry out the solvency analysis to analyse the possibility of increasing long-term debt financing in order to decrease the significant of short-term debt that was happening in 2016 as we said above.

3.3.7 Analysis of Solvency

CONCEPT	2013	2014	2015	2016	2017
Equity	70,996	7,880	- 111,070	14,661	13,098

Total liabilities	191,910	174,884	197,924	163,843	72,445
Total assets / Total liabilities (non-current + current)	1.37	1.05	0.44	1.09	1.18
Equity / Total liabilities	0.37	0.05	-0.56	0.09	0.18

Figure 3.24. Solvency stock measures of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel solvency analysis of ArcelorMittal Sestao, S.L.)

Equity represents around 27% of total assets in the earlier year. Though, it has been fluctuating over the period, being -111,070 million in 2015 and 13,098 million in 2017. This decrement, as we know, is due to the generation of losses around the periods, and the capital reduction that was necessary in 2016 to clean up the accumulated losses, Moreover, total liabilities have been decreasing during the period of the analysis explained by the decrement of short-term and long-term debt. We can conclude that the financial structure has been changing throughout the period analyzed and it wasn't stable.

The total assets to liabilities ratio are greater than one in almost all the years, except in 2015. This means that the company has enough assets to cover its liabilities. The values of this ratio show an increasing trend around the whole period analysed.

CONCEPT	**2013**	**2014**	**2015**	**2016**	**2017**
EBIT/IE	-6.50	-12.82	-21.20	-6.48	-5.27
CFO	- 8,097	- 6,936	- 38,465	- 31,612	- 11,893
FFO (IBT +/- adj. I.)	- 13,206	- 28,350	- 32,593	- 20,724	- 3,280
CFO / TL	-0.04	-0.04	-0.19	-0.19	-0.16
TFL (NC+ C) /CFO	-14.93	-16.34	-4.05	-4.19	-2.37
TFL (NC + C) /FFO	-9.15	-4.00	-4.78	-6.39	-8.58
(TFL - NOA) /CFO	-8.90	-14.23	-3.78	-0.20	-1.81
(TFL - NOA) /FFO	-5.45	-3.48	-4.46	-0.31	-6.57

Figure 3.25. Solvency flow measures of ArcelorMittal Sestao, S.L.

Source: Compiled by the author Laura R. Morales A. (2019, excel solvency analysis of ArcelorMittal Sestao, S.L.)

The interest coverage ratio is negative and show a negative increase trend too. Accordingly, the company generates no EBIT to cover the interest expense.

With regarding to coverage ratio calculated using the CFO, shows that the company was not able to collect the cash from its receivables, from representing -14,93 in 2013 and -2,37 in 2017, and pay back its long-term financial obligation.

In return, the coverage ratio calculated using the FFO, show that the company can not renegotiate short-term debt into long-term debt because the company it is not able to meet its long-term financial obligation.

3.3.8 Final opinion and possible solutions

- First, Income Statement: The main problem facing ArcelorMittal Sestao is its income statement, due to the increase in operating expenses more proportional than the operating revenues, except in 2017 though it is not enough to pass over its operating expenses. As a result, the profitability deteriorates as income decrease, being ROE (-42%) more negative than ROA (-5%).
- Secondly, as we said before, the company collects the cash earlier than the time its take to pay the suppliers. The days receivable outstanding are 29 days in 2017, and the days inventory held are 28 days. At the same time, the days accounts payables outstanding are quite longer, being 84 days in 2017. This means that ArcelorMittal Sestao sells and collects the cash from its costumers (57 days in total) quite earlier than it has to pay to the suppliers. As a result, the operating cycle is financing itself and the average length of the operating cycle is negative. This is why the operating working capital requirements are positive and increasing in 2017 because activity ratios increased, making days inventory held, days receivable outstanding and days accounts payables outstanding decrease compare with the previous years analyzed. On the other hand, the working capital have been negative and fluctuated throughout the period analyzed, except in 2016 (WC was 33,640 million). Being -51,231 million in 2013 and -17,429 million in the later period, mainly due to the capital reduction that was necessary to clean up losses and also because the long-term debt (both credit institution and subsidiaries and associated companies) represent 0% from 2016 to 2017. This implies that the company is in financial disequilibrium. There exists a working capital deficit. Therefore, the company is covering this deficit with short-term debts from financing partner group: “ArcelorMittal Treasury, SNC”. The financial operations are financing from the Quantitative Facilities in Luxemburg.
- From 2013 to 2017 the company show a negative cash flow operations (CFO) and negative funds from operations (FFO). The increase in operating expenses more proportional than the revenues, at the same time sales decrease, reason why FFO were negative in the whole period, but in the last period sales had a significant increased. In spite of, its increase, it was not enough to pass over the increase in operating expenses, making the funds from operations being less negative in this year (2017). CFO were also negative, but more negative than the FFO, mostly in 2015, 2016 and 2017 because the cash outflows surpass the cash inflow. The most significant payments are those to suppliers and other operating expenses (in both 2015 and 2016), but in the later period the increase in inventory and accounts receivables make the cash inflows less than the cash outflows. However, during 2013 and 2014 the train was just the opposite.
- With respect the short-term debt coverage ratios, throughout the period they were negative, due to the negative FFO and CFO. So, ArcelorMittal Sestao would not be able to cover the payment of the debt due each year with non-operating assets and FFO/CFO.

- Solvency flow ratios are very similar to the liquidity flow ratios as the proportion of long-term debt is very low (0% compared to 44% and 0% compared to 32%) in 2013 and 2017 respectively. Since the coverage ratios are also negative, the company is not solvent and would not able to ask for a transformation of short-term debt into long term debt. Likewise, the interest coverage ratio (EBIT/interest expenses) is very low which makes it even difficult to apply for additional long-term financing due to the impossibility to the company to cover the interest rate with EBIT.
- As it is explained in the managers' report (2017, page 1. 2 and 8), as the Spanish economy have been recovering and increasing of 3,1% in 2017. This is also moving for the strong evolution of the global economy and particularly for the recover UE. So, this could be a good alternative to increase sales through diversifying, or, if possible, raise prices as the EU has liberalized the industries' price fixing policies and also the dedication to the development of products with high level of added value and those difficult to produce in the steel route, focused on specialization with the aim of accessing niche markets of greater profitability and strengthen the loyalty of our customers. Moreover, if Arcelormittal Sestao continue to increase sales (153%) like it does in the later year, due to the continued manufacture of the company during the whole year. In 2016 the company was not able to manufacture from February to September in 2016. The main reason is the high electricity cost of the manufacture and a decrease sales price.
- However, Arcelormittal Sestao is trying to control costs by a new model of business based on not feasible specialities in others business group's plants in order to maintain a competitive advantage that give us amazing evolutions, which have a new limit of manufacture of 300,000 ton. Moreover, this new business model implies night and weekend manufactures period, with a low electricity cost, reduces the volume of raw material needed (uses of local scrap metal cheap) and reduce the fixed cost like a reduction of employment. If the company decrease the operating cost less proportional than sales include the interest expenses (as we explained before), it would be able to obtain a positive ROA and ROE because EBIT will be positive, making the interest coverage ratio positive. So, the company will be able to reclassify short-term debt into long-term debt because FFO and CFO become positive due the increase positively in the income statement. Consequently, coverage ratio calculated with CFO become positive, meaning that the company is profitable and solvent.

CHAPTER 4
COMPARISON BETWEEN COMPANIES AND INDUSTRY

4.1 INTRODUCTION

The aim of this chapter is to compare the companies at hand in the context of the industry. Thus, it focuses on the size of the companies, their financial structure and their main indicators of profitability, liquidity and solvency. As it can seen above, this three companies belong to the steel sector, being well-known. So, we have taken into account companies that their production consists of crude steel in the stated country or region. However, the steel industry is comprised of many different sizes of companies.

The closest 20 international companies according to the operating revenues/turnover for the last available year amongst the standard peer group (NACE Rev.2: 241 VL-Manufacture of basic iron, steel and of ferro-alloys), selected listed by total assets in increasing order are:

- Sociedad Anonima de Vera
- Thyssenkrupp Materials Processing Europe S.L.
- Betsaide, Sociedad Anonima Laboral
- Gonvauto Galicia S.A.
- Arcelormittal Amds Processing S.L.
- Gorrugados Getafe Sociedad Limitada.
- ArcelorMittal Sestao Sociedad Limitada.
- Gonvauto S.A.
- Aranda Coated Solutions S.L.
- Euskal Forging S.A.
- Siderúrgica Sevillana S.A.
- Aceria de Avala S.A.
- Megasider Zaragoza S.A.
- Ampo S.Coop.
- ArcelorMittal olaberria-Bergara SL.
- Celsa Atlantic S.L.
- Sidenor Aceros Especiales Sociedad Limitada.
- Acerinox Europa S.A.U.
- Acerinox, S.A.

4.2 COMPANIES SIZE

4.2.1 Net Turnover

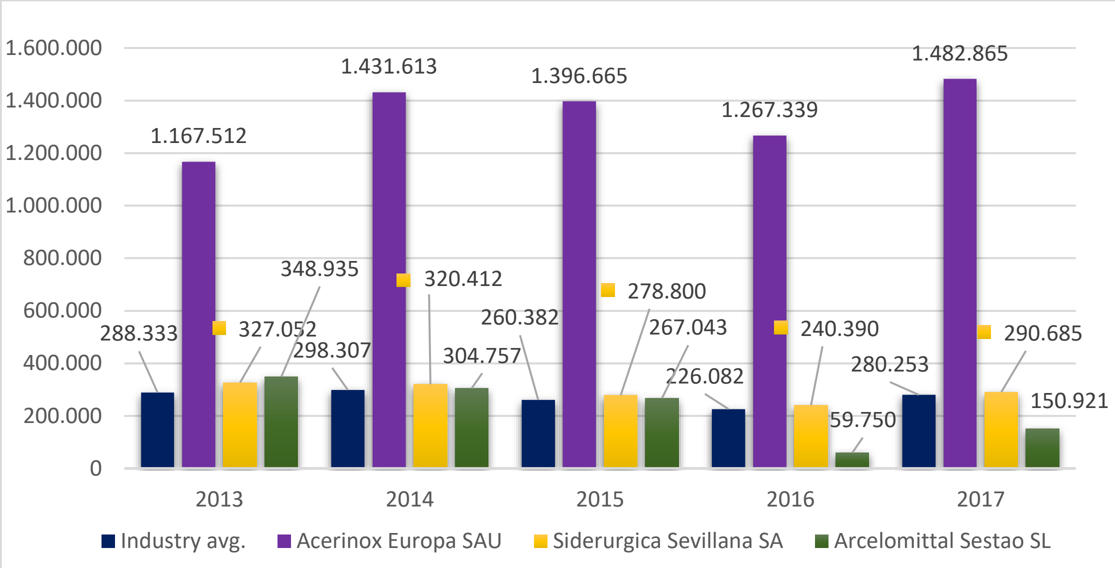


Figure 4.1. Net turnover (Thousands of Euros)

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

It can be seen that Acerinox Europa SAU was the highest average Net turnover throughout the period analyzed, mostly in the last year. However, Siderúrgica Sevillana and ArcelorMittal Sestao were lower than it but, in almost the whole period they are higher than the average, except in the last two period. Having ArcelorMittal a significant decrease in 2016 though Siderúrgica Sevillana surpass the Net turnover average. The average fluctuated throughout the period analyzed, being the smallest almost in the whole period analyzed, except in 2017 (it surpasses AcerlorMittal Sestao).

4.2.2 Total assets

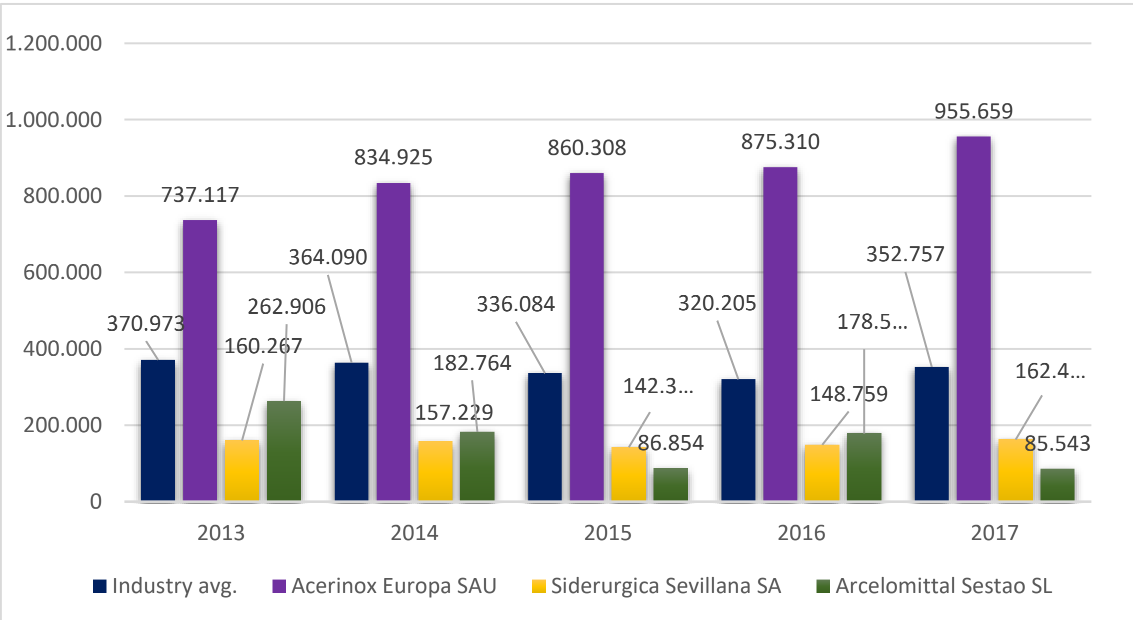


Figure 4.2. Total Assets (Thousands of Euros)

Source: Compiled by the author base on SABI

The assets base of Acerinox Europa is again higher than any other. Being close to 1 million in the last period. The industry average has been 370,973 million in 2013 and 352,757 million in 2017. Although, Siderúrgica Sevillana represent almost 50% of the industry average and it remain fairly stable. On the other side, ArcelorMittal has been fluctuating and it has been decreasing in 2015 and 2017. Being around 85-86 thousand respectively.

4.3 FINANCIAL STRUCTURE OF THE COMPANIES

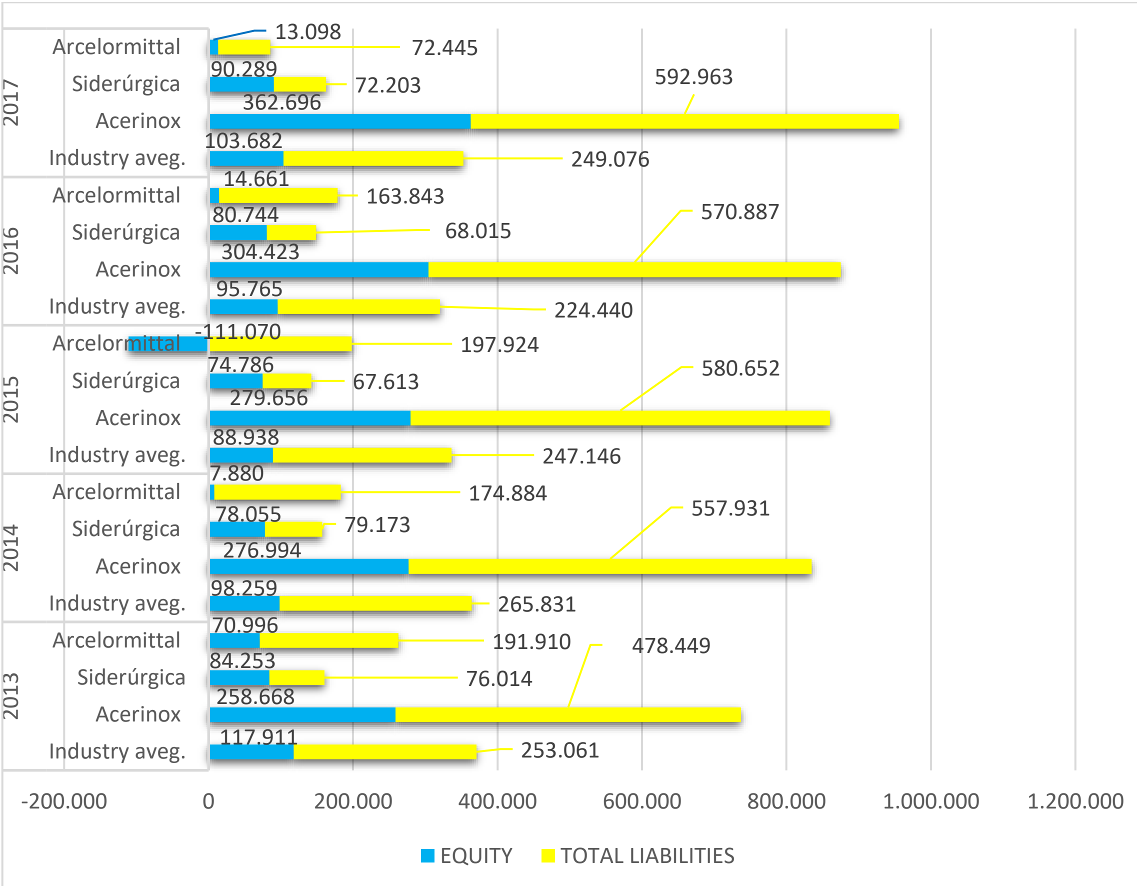


Figure 4.3. Liabilities and Equity (Thousands of Euros)

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

Acerinox Europa is once again showing how important is if we compared with the other two companies and the industry. The industry follows the same trend of Acerinox Europa during the last three years, being mostly 2 and 3 times lower than the company. Siderúrgica Sevillana follow approximately 50-50 split between equity and total liabilities (being lower than the industry) is also to be highlighted. Finally, ArcelorMittal Sestao increased negatively in 2015 but, then it become positive in the last two period, being the lowest.

4.4 PROFITABILITY

4.4.1 ROA

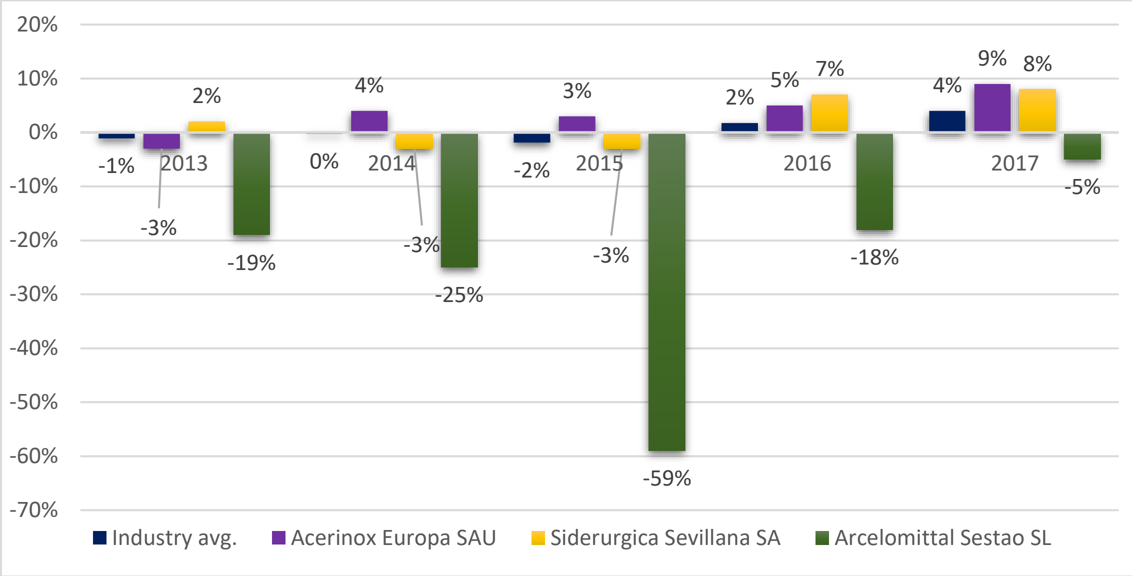


Figure 4.4. ROA (%)

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

Regarding the ROA, ArcelorMittal is showing a negative value in the whole period analyzed, being in 2015 the worse scenario. If we compare it with the industry, we will see how the company is passing a really bad financial situation, even more than the industry due to the negative % that the industry average shows in 2013 and 2015, being only positive in (0%) 2014, (2%) 2016 and (4%) 2017. Moreover, Siderúrgica had almost the same trend than the industry (increasing more negative than it), except in 2013, 2016 and 2017 that presenting a positive ROA. Finally, Acerinox Europa have been showing a positive and increasing ROA over the last three years, except in 2013.

4.4.2 Profit Margin

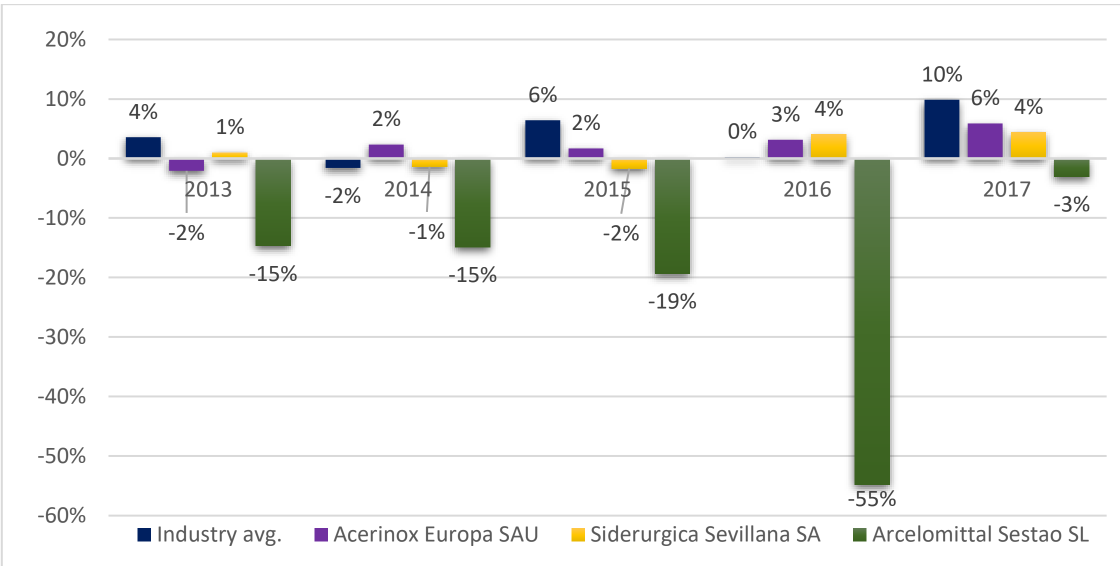


Figure 4.5. ROA (%)

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

With respect the profit margin, in this case the industry average was the most representative, even more than Acerinox Europa, which values of 4% in the earlier period and 10% in the later period. However, in 2015 the industry dropped to -2%. Acerinox Europa, except in 2013 have been positive over the period analyzed, being the second most representative but, in 2016 Siderúrgica Sevillana surpass it. Likewise, Siderurgica Sevillana was positive in 2016 and 2017 although in 2014 and 2015 it become negative and increasing. Once again ArcelorMittal Sestao was negative in the whole period analyzed, being -55% in 2016 and -3% in 2017.

4.4.3 Assets turnover

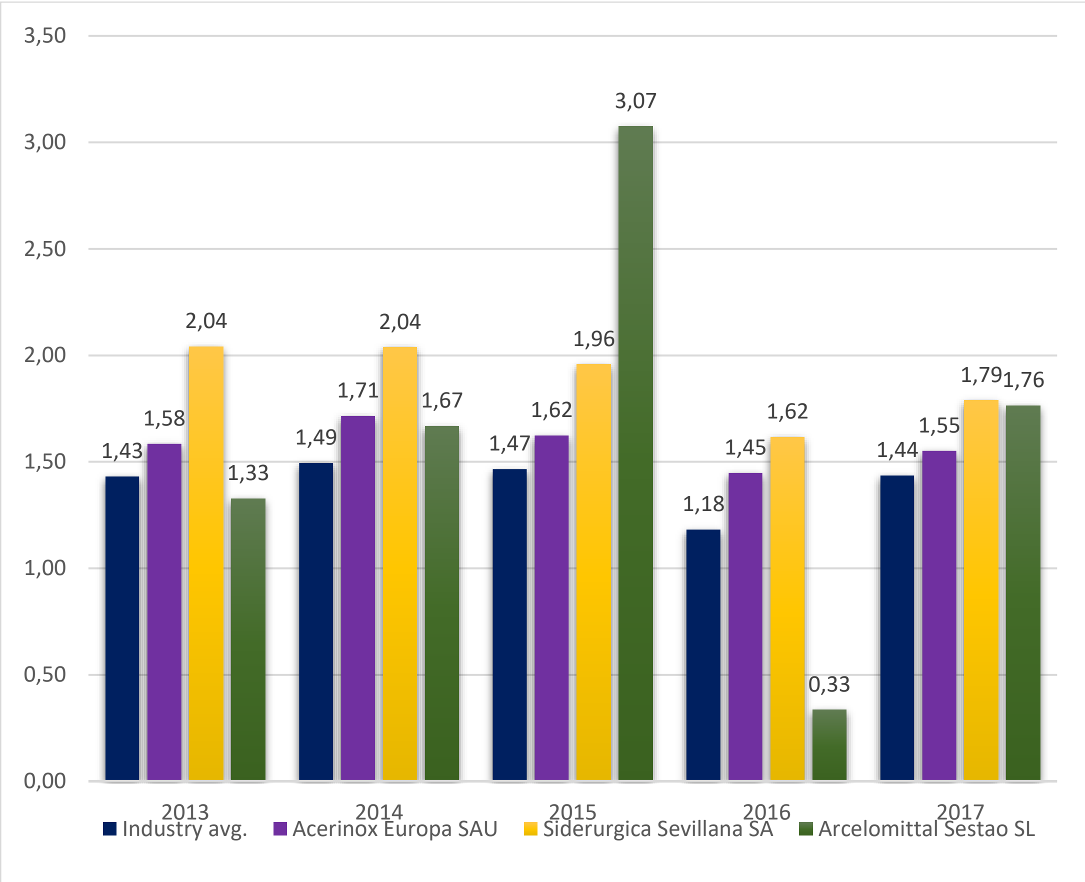
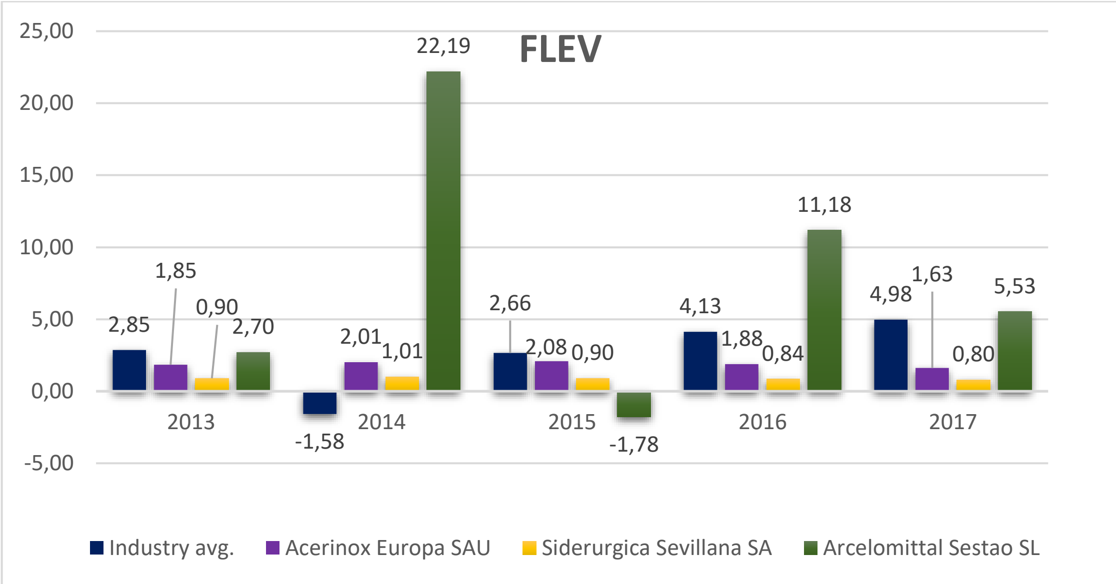


Figure 4.6. Assets turnover (Thousands of Euros)

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

In this case Siderúrgica Sevillana have increased significant if we compare with the other companies and the industry, mostly in 2013 and 2014 but, in 2015 ArcelorMittal Sestao was the highest, being 3.07. Likewise, ArcelorMittal Sestao is the second most important in 2014 and 2017, which decrease in 2013 and 2016, being the highest decreasing in 2016. On the other hand, Acerinox Europa and the industry average follow the same trend than Siderúrgica Sevillana, being positive the whole period; however, Acerinox surpass the industry average in all the years

4.4.4 FLEV and ROE



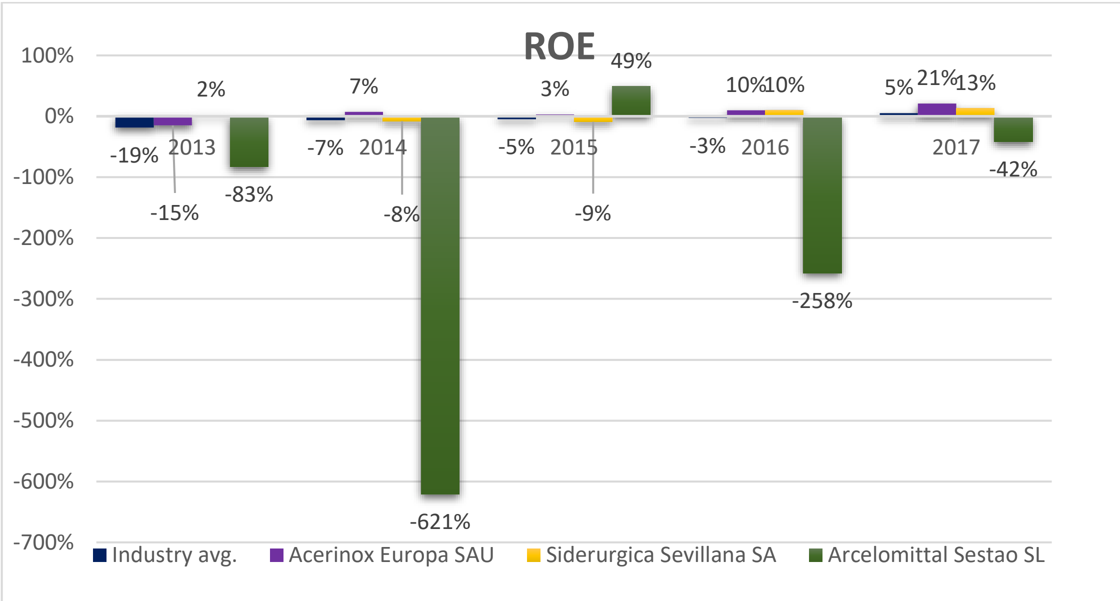


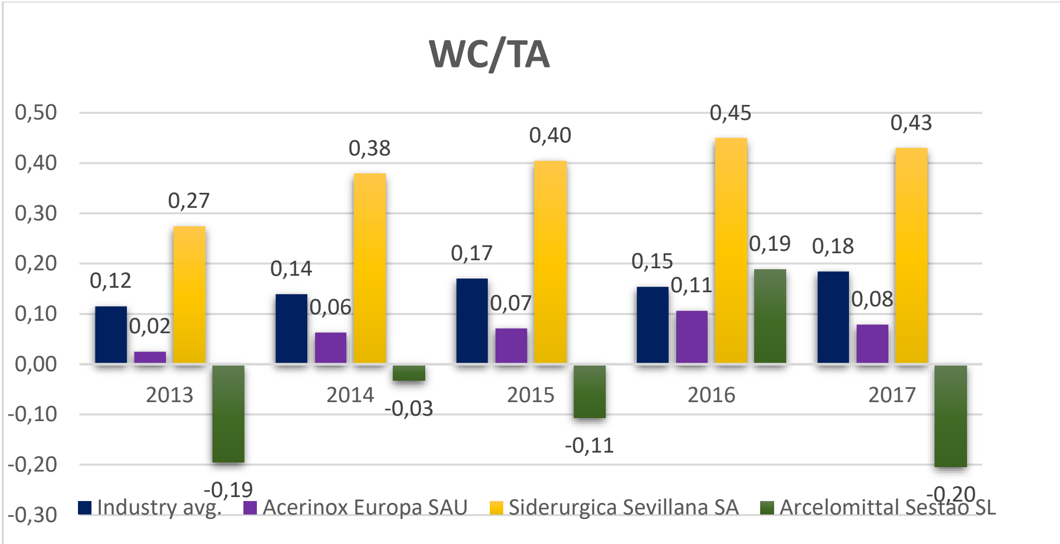
Figure 4.7. and 4.8. Financial Leverage and ROE (Thousands of Euros and %)

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

As we can deduce from the graph, the industry is on a healthy situation only in the last years of the period analyzed. ROA is the main driver of ROE and as we already said above, the industry has a positive ROA only in the last two years. That’s why ROE is significantly more negative than ROA and the increasing trend is much more pronounced than ROA, this is explained by the negative effect of financial leverage. It seems the spread (ROA – AIR) of the industry average was negative during those years. FLEV have this trend because during the whole period the total liabilities were higher than the equity. Regarding the companies, Acerinox Europa had positive ROE from 2014 to 2017, because ROA was also positive and higher than AIR, that’s why the positive SPREAD (ROA – AIR) affect the financial leverage that makes ROE hither than ROA. Siderúrgica Sevillana follows also almost the same trend than Acerinox Europa, except in 2014 and 2015 that presenting a negative ROE. Finally, ArcelorMittal Sestao only present a positive ROE in 2015.

4.5 LIQUIDITY

4.5.1 OWCR/TA and WC/TA



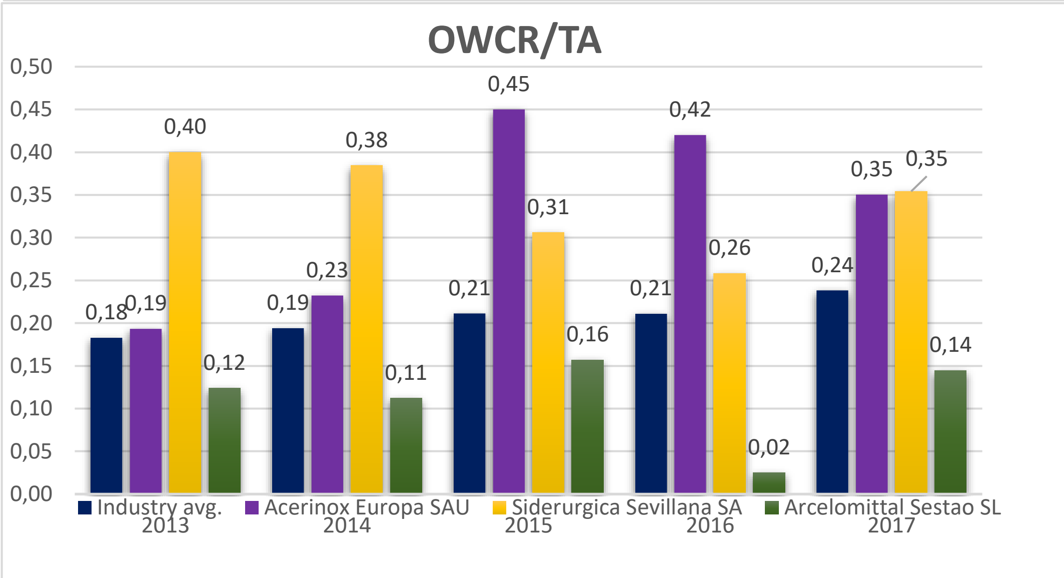
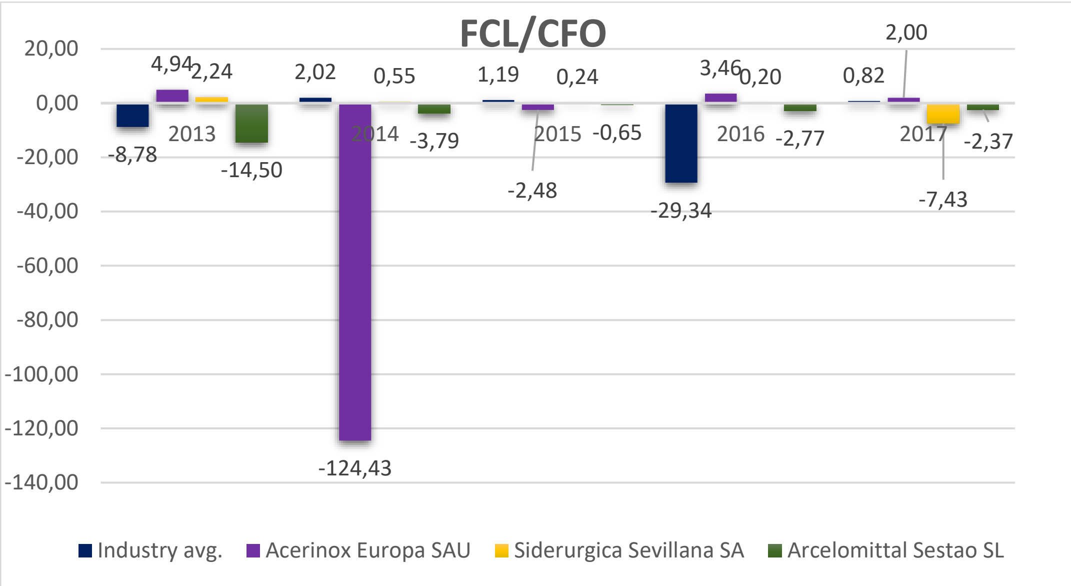


Figure 4.9. and 4.10. OWCR and OW

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

Regarding OWCR/TA, during the last three period the most representative company was Acerinox Europa; however, this is not totally real because in the last period Siderúrgica Sevillana is 0.35 the same Acerinox, and also in the first two period it was the highest. Following the average industry that had a steadily trend like Acerinox Europa. However, ArcelorMittal Sestao have been positive and fluctuating during the whole period, being decreasing a lot in 2016. With respect WC, Acerinox Europa is in financial equilibrium, but there is WC deficit throughout the period analyzed (WC < OWCR). Likewise, the industry is facing the same financial situation of Acerinox Europa. Although, Siderúrgica Sevillana had positive WC and higher than OWCR during almost the whole period, except in 2013. ArcelorMittal Sestao on the other hand only had a financial equilibrium in 2016, likewise the average industry that had a financial equilibrium and there is WC deficit also. However, it is in better financial situation ArcelorMittal Sestao.

4.5.2 FCL/CFO and FCL/FFO



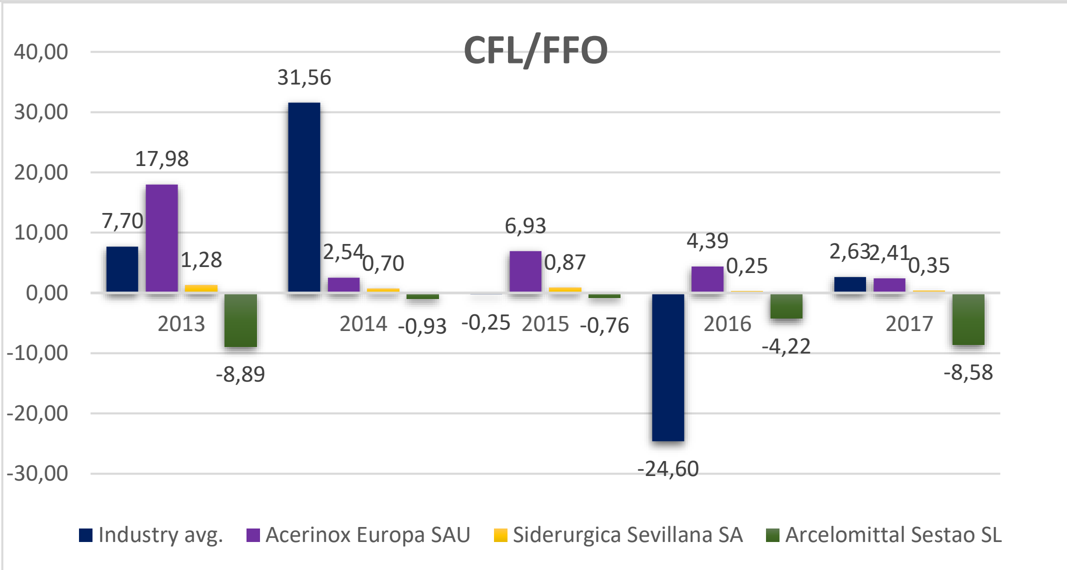


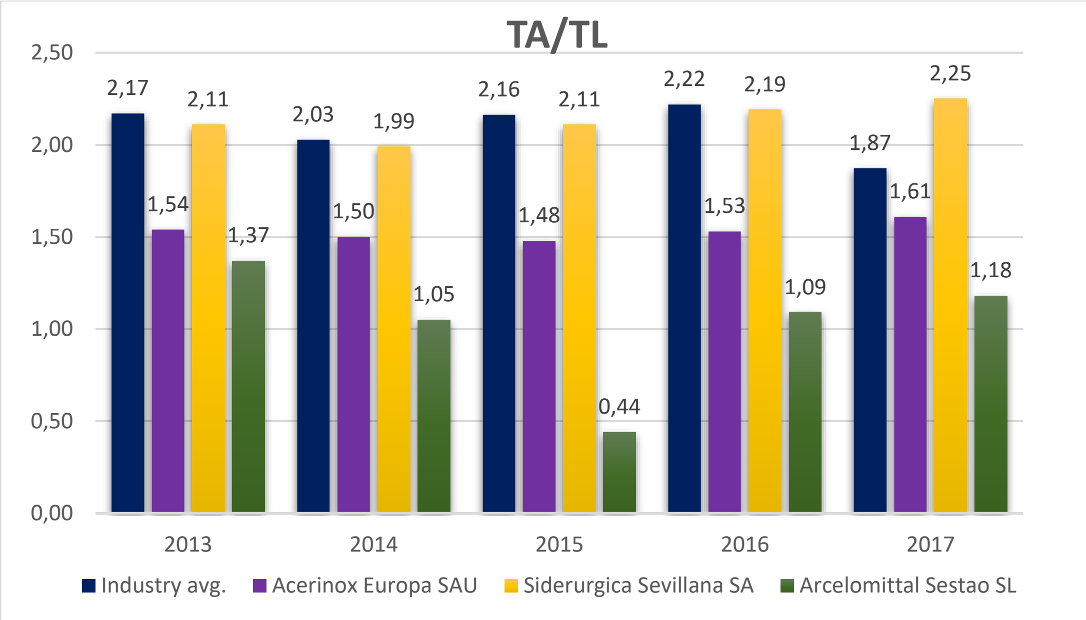
Figure 4.11. and 4.12. FCL/CFO and FCL/FFO

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

CFO of the industry average have been positive and fluctuated, having a significant increase in the later period; however, it was so low amount during 2013, 2014 and 2016. As a result, the short-term debt coverage ratio using CFO shows that the industry average can meet it short-term financial liabilities in a year only in 2017, being negative in 2013 and 2016. Compared with the other companies, Siderúrgica Sevillana is the only one that can meet its short-term financial obligations using FFO because it is more stable and reliable. Them, ArcelorMittal Sestao is financing a liquidity problem because it can not meet its short-term debt when is due either with CFO or FFO. Likewise, Acerinox only can pay back its short-term financial liabilities in 2 years using CFO and in more than two years using FFO.

4.6 SOLVENCY

4.6.1 Solvency Ratio (TA/TL) and (E/TL)



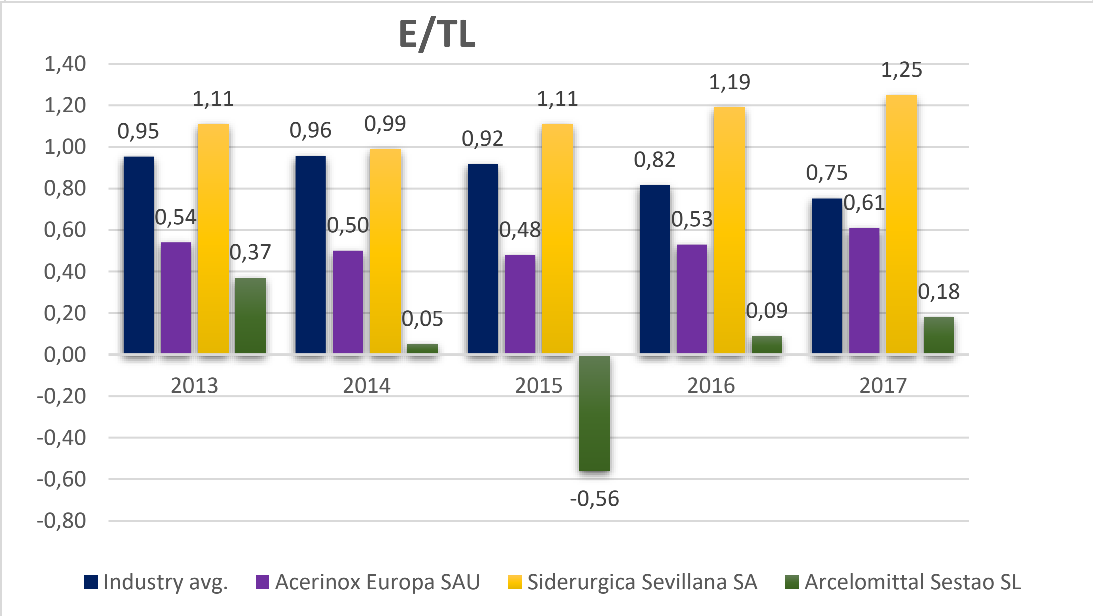


Figure 4.13. and 4.14. TA/TL and E/TL

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

The industry average and Siderúrgica Sevillana show in both cases (TA/TL and E/TL) a steadly and representative amount of assets and Equity throughout the period analyzed. However, in the last year the Equity of the industry goes down. Acerinox Europa had been having a low amount of Equity due to the the high lever of financial liabilities that was explained above. ArecelorMittal Sestao on the other hand is the company with smallest amount of Equity, being even negative 2015 and with a significant decreases in 2014, 2015 and 2017

4.6.2 Interest coverage ratio

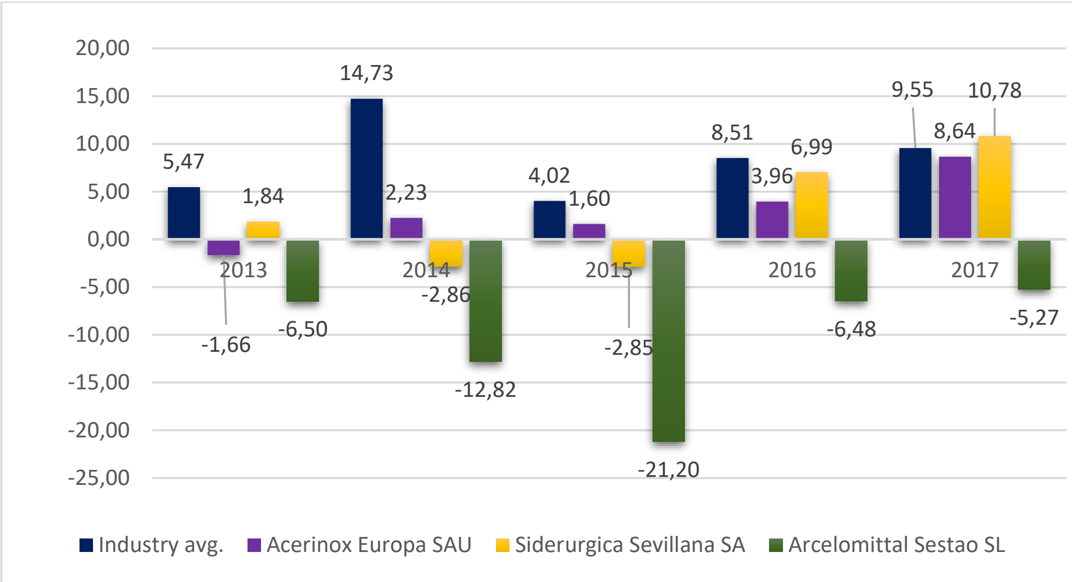
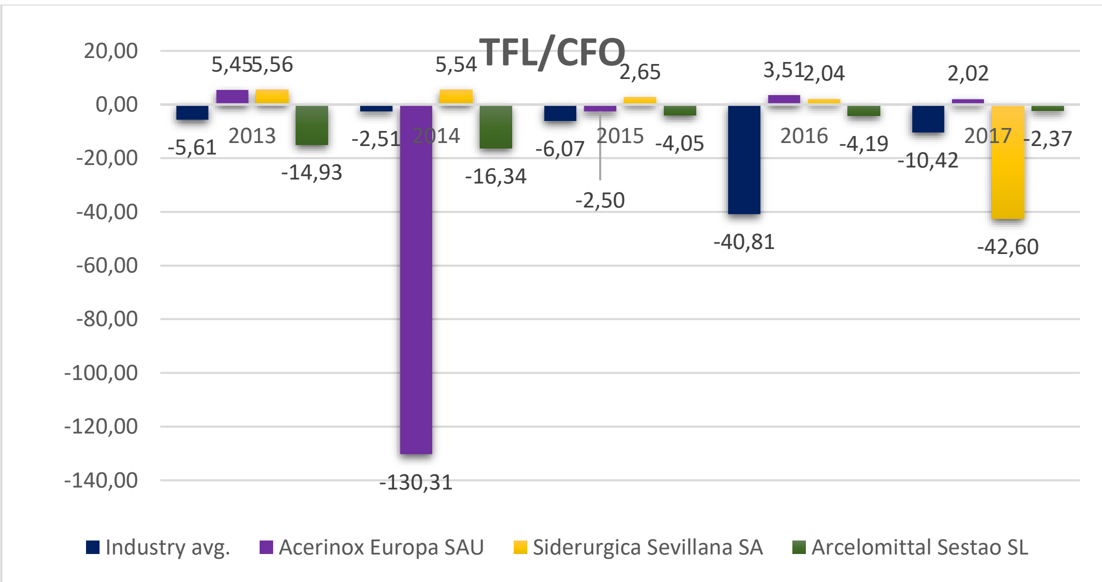


Figure 4.15. Interest coverage ratio

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

As we can seem ArcelorMittal Sestao was not able to cover its interest expenses with EBIT during the whole period analyzed. The industry average is showing the best scenario, with an important increase in 2014. Regarding Siderúrgica Sevillana and Acerinox Europa, the first one could not cover its interest expenses with EBIT during 2014 and 2015; however, this trend change in the last two periods, and for the last one the only moment that Acerinox Europa was not able to covered it was in the earlier period.

4.6.3 TFL/CFO and TFL/FFO



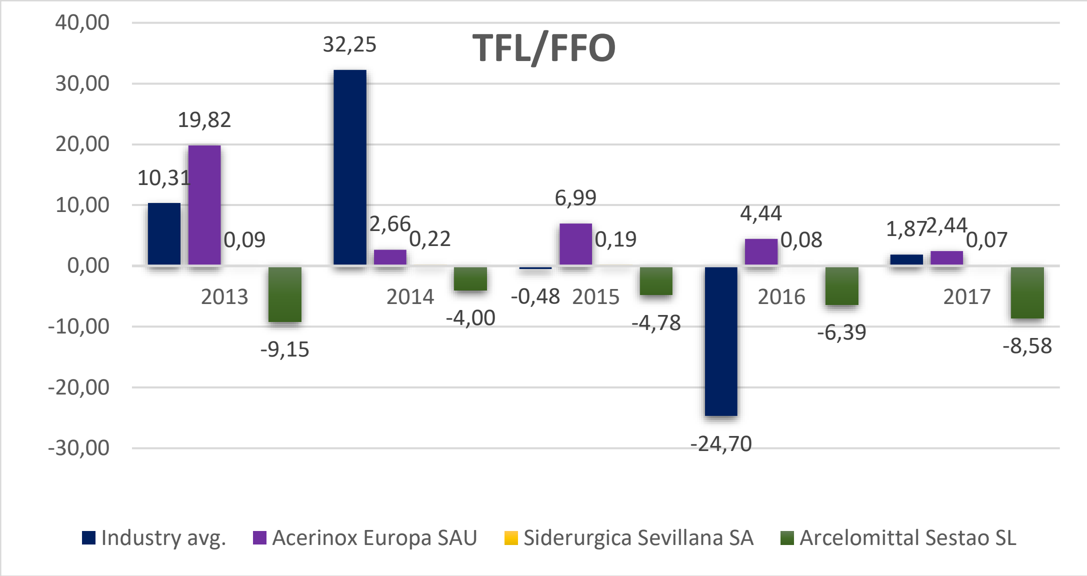


Figure 4.16. and 4.17. TFL/CFO and TFL/FFO

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

Siderúrgica Sevillana and Acerinox Europa were able to cover the long-term financial liabilities with its CFO regard Acerinox and using FFO regards its FFO. The industry average could meet them only during the first two years and in the last year using FFO. With respect to ArcelorMittal Sestao, it is the only company that was not able to cover its financial obligations when are due.

4.7 Final opinion

- As it can be seen from the comparison between companies and industry, Acerinox Europa show the highest investment in assets throughout the period analyzed. Both ArcelorMittal Sestao and Siderúrgica Sevillana show the second most important investment during the first three periods; however, from 2016 to 2017 ArcelorMittal fells down coming up the average industry together with Siderúrgica. The average industry remains fairly stable from 2013 to 2015, being less than the other companies.
- With respect the financial structure (Equity and Liabilities), Acerinox Europa is once again the most representative than the other companies and even the industry, being increasing over the period of analysis, which has more level of total liabilities than equity. Moreover, the industry follows the same trend of Acerinox during the last three years, being 2 and 3 times lower than the company. Siderúrgica follow approximately 50-50 split between equity and total liabilities (being lower than the industry). However, ArcelorMittal increase negatively in 2015 but then it become positive in the last two period, being the lowest.
- Acerinox Europa have the most significant amount of sales if we compared with the other companies and the average industry. The industry average was the lowest during the first three period where Siderúrgica y ArcelorMittal show the second most important average of Net turnover, having the last one an important decrease in 2016 and the first one on the other hand surpass the Net turnover industry average. The industry average has been fluctuating all the period analyzed, being the smallest in almost the whole period analyzed, except in 2017 (higher than ArcelorMittal).
- Regarding the profitability, the industry average shows negative ROA during 2013 and 2015 because operating expenses surpass operating revenues. However, during 2014 and from 2016 to 2017 return on total assets are positive and increasing, meanly due

to the income positive ROA in 2014 (0%) and from 2016 (2%) to 2017 (4%), being negative in 2013 and 2015. This can be explained by the combination of an increasing profit margin and fluctuated Assets turnover. The profit margin increases because the increase in sales are more proportional than the increases in operating expenses. Total Assets turnover fluctuated because Net turnover fluctuate while total Asset increase (from 2013 to 2017). Thus, the industry presented a positive ROE in 2017. ROA is the main driver of ROE and as we already said above, the industry has a positive ROA only in 2014 (0%) and in the last two period, being ROE increasing negatively more than ROA, mainly due to the negative effect of financial leverage. As a result, it seems that the SPREAD (ROA-SPREAD) of the industry was negative during those years.

On the other hand, regarding Acerinox Europa, it had a positive ROA from 2014 to 2017 mainly due to the trend increasing that profit margin is following as the operating revenues surpass the operating expenses. Therefore, ROE was increasing positively more than ROA. The positive SPREAD (ROA-AIR) affect the financial leverage that makes ROE higher than ROA as the main driver of ROE is ROA. Siderúrgica Sevillana is following the same trend than Acerinox Europa only in 2013 and in the last two period analysed. Finally, in the cases of ArcelorMittal Sestao, it has been just following the opposite trend than Acerinox, being ROE and ROA negative in the whole period of analysis.

- With respect the Liquidity, in this case is Siderúrgica Sevillana representing financial equilibrium because WC is positive. Also, there is WC surplus (WC > OWCR) during the last three period. ArcelorMittal follows this trend only in 2016; however, both Acerinox Europa and the industry average have been following the opposite trend than Siderúgica Sevillana.

  Short-term debt coverage ratio in the industry using Cash flows operation shows that the industry can meet it financial liabilities in a year only in 2017, mainly due to the lowest CFO than it was presenting during 2013, 2014 and 2016. Compared with the other companies, Siderúgica Sevillana is the only one that can meet its short-term financial obligation in a year using FFO is more stable and reliable. Acerinox Europa can pay back its sort-term debt in 2 years using CFO and ArcelorMittal Sestao is facing liquidity problem because the ratio is negative in the whole period.

- Regarding the solvency, the average industry is presenting the best scenario, meaning that it can cover the interest with EBIT. Acerinox Europa could cover its interest expense from 2014 to 2017, being increasing these years. In addition, Siderúrgica Sevillana was able to do it during 2013 and in the last two periods. However, ArcelorMittal Sesta have been showing a negative ratio throughout the period because of the negative sign in EBIT.

  Siderúrgica Sevillana and Acerinox are able to cover the long-term financial liabilities using FFOs and CFOs respectively. This implies that Acerinox is in good situation to renegotiate the transformation of short-term debt into long-term debt, reducing the WC deficit. The average industry was able to pay back its debt only from 2013 to 2014 and in 2017; however, ArcelorMittal Sestao shows the worsen scenario during the whole period.

CHAPTER 5

CONCLUSIONS

The aim of this project is to perform the financial statement analysis of the three major enterprises within the steel sector in Spain. The financial statement analysis consists of the evolution of the information collected and the reasoning for the current situation of the company. Using information from the profitability, liquidity and solvency analysis, as well as the comparison of the companies with the industry standards to give a financial judgement that may be useful for investors interest in this kind of business.

Firstly, Acerinox Europa is well-known not to say the most important and representative in Spain, earning the highest profit in the last decade. The company is profitable. It has a good ability to generate earnings, that was explained by the operating activities. Both return on Assets and return on Equity have been improving in the last two periods, being ROE (21%) quite higher than ROA (9%). However, the company was passing a bad ability to generate earnings in the first years and cash flows in 2014 and 2015. The increase in sales while operating expenses decrease is the reason why the company has been profitable during the last four years. Likewise, the positive CFOs and FFO are the reason why the trend of cash flows change in the last two years, being the cash inflows higher than the cash outflows. However, costumers' credit policy should change, by means of setting up new conditions or by traying to reduce the collection period. Also, could be positive effect on CFO if the company renegotiate the previously signed conditions of supplier's credit policy.

The company is in a good situation to renegotiate the short-term deb into long-term debt because it is going to keep the same level of Net turnover over upcoming years because Acerinox will continue to be a leader in its industry as it was explained above in the final opinion and in the manager report date june1, 2018. This means that the company is going to maintain it current profitable with a positive and even increasing EBIT. Thus, Acerinox will has also a positive interest coverage ratio (EBIT/IE), which allows it to become short-term debt into long-term debt in an easier way and eliminate the risk that the company is facing.

Secondly, Siderúrgica Sevillana is also a big company and representative in Spain. The company shows a bad ability to generate earnings from 2014 to 2015. Siderúrgica Sevillana presented a negative ROE. Being ROE less than ROA. Although, this trend changes in 2016. ROE become positive and increasing, being even higher than the median in the industry; however, it has negative CFOs in 2017, mainly due to the negative other cash flows from operating activities that become negative this year. At the same time, FFO (obtained as income before taxes corrected by the adjustment to income) and CFOs in the strict sense (obtained as income before taxes corrected by the adjustment to income and the change in operating current assets and liabilities) are positive even though the latter one are decreasing in the later period because the company is investment the CFOs generating from its main core in investment in assets (inventory and accounts receivables) to growth as the company is taking. As a result, Siderúrgica Sevillana should not be worrying about its negative cash flows from operating activities in the last year because this is a transitory situation that the company is facing as the it have been showing a positive and increasing profitability (operating revenues surpass the operating expenses) in 2016 and 2017 as said above and, also it is expecting to continue in the upcoming years as explained in the managers' report.

Finally, ArcelorMittal Sestao is not strong in generating profits from its core operating activities during all periods. This mean that the main problem facing the company is its income statement. Sales revenue decreases (except in 2017) while operating expenses increase more proportional than operating revenues and, the financial income is also negative. Therefore, ROE and ROA are increasing negatively (-42% and -5% in 2017 respectively). Moreover, the company is in financial disequilibrium from 2013 to 2015 and in 2017. The company has a WC deficit because WC is smaller than OWCR, which implies that the company has covered this deficit with short-term financial liabilities. The liquidity of the company will be in risk if the bank stops providing credit. On the other hand, ArcelorMittal Sestao collect the cash earlier than the time its take to pay the suppliers throughout the period analyzed. As a result, the operating cycle is financing itself and the average length of the operating cycle is negative

From 2013 to 2017 the ArcelorMittal Sestao shows a negative cash flow operations (CFO) and negative funds from operations (FFO). The increase in operating expenses more proportional than the revenues, while sales decrease, reason why FFO were negative in the whole period, but in the last period sales had a significant increased, making the funds from operations being less negative in this year (2017). CFO were also negative, but more negative than the FFO, mostly in 2015, 2016 and 2017 because the cash outflows surpass the cash inflow. Solvency flow ratios are very similar to the liquidity flow ratios as the proportion of long-term debt is very low (0% compared to 44% and 0% compared to 32%) in 2013 and 2017 respectively. Since the coverage ratios are also negative, the company is not solvent and would not able to ask for a transformation of short-term debt into long term debt. Likewise, the interest coverage ratio (EBIT/interest expenses) is very low which makes it even difficult to apply for additional long-term financing due to the impossibility to the company to cover the interest rate with EBIT.

During 2014 and from 2016 to 2017 the industry average has the ability to generates earnings from its core operations; however, in 2013 and 2015 they face a lack of profitability, being operating expenses more proportional than operating revenues (sales fluctuated).

After working out the financial statement analysis of Acerinox Europa, S.A.U., Siderúrgica Sevillana, S.A., and ArcelorMittal Sestao, S.L., we can conclude that this three companies are going to continue running their activities, meanly due to the report of the steel sector section, market consumption volume increased with a compound annual rate of 0.4% between 2013 and 2017. This sector grew by 31.2% in 2017 and they are expected to continue growing by about 11.1% in 2022. However, some of them like for example ArcelorMittal Sestao should achieve some goals, such us: increase sales through diversifying, or if possible, raise prices as the EU has liberalized the industries' pricing policies, so it must continue to increase sales like it did in the later year. Also, the huge effort from the employments to accepted night and weekend manufactures period, personal reduction and so on.

On the other side, Acerinox Europa plant is one of he best stainless-steel position, being in strong position. It had known how to take advantage of its leader positions to continue to survive and growing also in the most financial crisis. Being the key factors the flexibility, efficiency and the control the cost. The dividend that the company paid the last June is also to be highlighted because the company have enough free cash flow available to debt and equity. Regarding Siderúrgica Sevillana, as it was explained in the managers' report (2015), the company earns a negative income for the year during 2015 due to the mass disruption of the Chinese manufacturing in the market and law prices over the cost manufacturing in the European manufacturing, felling the international market prices.

In addition, significant decrease of the crude oil market and fuel gas have been leaving without investment capacity to the raw material manufacturing countries that are our principal costumers.

To conclude, the upcoming years are going to be quite optimistic, mainly due to the growth recourse to the implementation of measure contrary to international free competition that must be monitored, possible threats of Chinese overcapacity and the protectionist measures of Morocco, Algeria and more recently the United Stated.

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