HEC PARIS

Rubis case study

If you have any questions for the author of this case study, you can contact him via the letter box on the website www.vernimmen.com.

Pascal Quiry May 2015

PROFILE OF RUBIS (excerpt from 2014 annual report)

Rubis is an independent international player specialised in the downstream oil and chemicals sector, active in the storage of industrial liquid products (oil, chemical and food industry products) through its subsidiary **Rubis Terminal** and in the distribution of LPG (butane and propane) and oil products through its subsidiary **Rubis Energy.**

Rubis Terminal stores, on behalf of its customers, for periods of differing lengths, liquid products such as oil products, chemical products, fertilizers, oilseeds and molasses, as part of the process for importing, producing and distributing them and in addition to factory storage.

A leading player in France, Rubis Terminal is stepping up its international development with the extension of its terminals in the Netherlands (Rotterdam), Belgium (Antwerp) and Turkey (Ceyhan).

An independent operator, **Rubis Energy** specialises in the distribution of LPG and oil products. Its strategy encompasses control over the whole of the distribution chain, from sourcing to end user. Selective in its investment policy, Rubis Energy concentrates its development on niche markets - geographical niches (areas that are structural importers of oil products, LPG, etc.) or product niches (aviation, bitumen, fuel oil, etc.)...

Main data	2011	2012	2013	2014
Sales in €m	2 008	2 669	2 756	2 790
EBIT in €m	120	147	162	167
Net income, group share in €m	69	98	104	118
Dividend per share in €	1,67	1,84	1,95	2,05
Capex in €m	93	112	119	111
Market capitalisation of equity in €m	1 228	1 680	1 716	1 837
Number of employees	1 512	1 450	1 595	1 747

Questions

1/ Carry out a financial analysis of Rubis.

2/ Taking into account the characteristics of Rubis bank loans (see appendix 5) and its financial situation, do you think that the value of Rubis' debt is significantly different from that of the book amount on the balance sheet? Why?

3/ Calculate the cost of equity and the cost of capital of Rubis at the close of 2014, bearing in mind that the risk-free rate is 0.3%, the market risk premium is 7.7% and the beta of Rubis shares is 0.70. You will assume a corporate income tax rate of 25%. You can use the figures in appendix 1 and 5 for estimating the cost of bank and net financial debt.

4/ Carry out a stock market analysis of Rubis.

5/ State your view of the profiles of the two Rubis divisions in terms of growth, earnings and risk.

6/ Without doing any calculations, state your views on the consequences in terms of risk and growth of Rubis' geographic expansion over recent years?

7/ What do you think of the Rubis' managers' compensation policy set out in appendix 6? What financial theory does it relate to?

8/Given what you now know about Rubis' strategy, what in your view is the main goal of its finance director in terms of financing policy? How does Rubis' practice of allowing shareholders, who so wish to opt for a dividend paid in shares, illustrate this goal.

9/ On 23 March 2015, Rubis announced the acquisition of ERES, a group active in Nigeria, Senegal and Togo in the storage, transportation and distribution of bitumen, at a price of around €530m. ERES had no bank or net financial debts and in 2014 recorded sales of €500m and an EBITDA of €64m. Calculate the implied 2014 EBITDA multiple for this acquisition of ERES and compare it with that of Rubis on the basis of a share price of €60. What explains the difference between these two figures?

10/ Explain why this acquisition could probably have been totally financed using new debt. You can calculate the pro forma ratio of bank and net financial debts / 2014 EBITDA, as if the acquisition was made on 1 January 2014 and financed entirely using a new debt.

11/ Now explain why Rubis, notwithstanding a bank loan interest rate at an historic low, decided to finance this acquisition in part through a €150m capital increase implemented through a rights issue and the balance using debt?

12/ When its share price stood at €60, Rubis announced an issue price of €46 with 1 new share for 12 existing shares. Show that on the first day of the capital increase, the value of the share will fall by €1.08. Why is the existing shareholder not losing out €1.08? Why is the new shareholder, who can subscribe shares at €46, not getting an excellent deal?

13/What is the percentage after this capital increase of a shareholder who held 1% of the capital and for whom this operation will not result in any entry or exit of cash? By how much has he/she been diluted?

14/ What should the impact of this acquisition be on the Rubis group's cost of capital? Why? You're not being asked for a calculation, just a simple trend.

15/ What should be the impact of the financing of this acquisition on the Rubis group's cost of capital? Why? You're not being asked for a calculation, just a simple trend.

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Appendix 1: Rubis' financial statements

Consolidated Income Statement

Closing at December 31st

In € thousands	2011	2012	2013	2014
Sales	**2 007 896**	**2 669 412**	**2 756 109**	**2 790 232**
- Cost of sales	1 515 606	2 099 751	2 168 021	2 174 153
+/- Sundry items	1 574	1 048	2 564	908
= Gross margin	**493 864**	**570 709**	**590 652**	**616 987**
- Other external expenses	177 041	194 611	200 959	208 888
= Value added	**316 823**	**376 098**	**389 693**	**408 099**
- Staff costs	95 912	109 248	110 422	114 385
- Taxes	53 638	56 998	58 285	59 782
+/- Other products/costs	(1 574)	(1 048)	(2 564)	(908)
= EBITDA	**165 699**	**208 804**	**218 422**	**233 024**
- Depreciation and amortization & provisions, net	45 395	61 931	56 297	66 301
= EBIT	**120 304**	**146 873**	**162 125**	**166 723**
- Cost of debt	11 942	13 154	11 204	11 076
+ Financial Income	(2 051)	712	(2 107)	7 192
+ Non recurring items	1 714	6 663	2 977	2 065
+ Share of net income from joint ventures	-	-	3 307	1 758
= Pre Tax Income	**108 025**	**141 094**	**155 098**	**166 662**
- Corporate income tax	34 749	38 882	45 098	44 223
+ Income from affiliates	(1)	5	-	-
= Net Income	**73 275**	**102 217**	**110 000**	**122 439**
- Minority interests	4 143	4 677	5 340	4 424
= Net income (Group share)	**69 132**	**97 540**	**104 660**	**118 015**

Consolidated Income Statement in %

Closing at December 31st

As % of sales	2011	2012	2013	2014
Sales	**100%**	**100%**	**100%**	**101%**
- Cost of sales	75,5%	78,7%	78,4%	77,9%
+/- Sundry items	0,1%	0,0%	0,1%	0,0%
= Gross margin	**24,6%**	**21,4%**	**21,4%**	**22,1%**
- Other external expenses	8,8%	7,3%	7,3%	7,5%
= Value added	**15,8%**	**14,1%**	**14,1%**	**14,6%**
- Staff costs	4,8%	4,1%	4,0%	4,1%
- Taxes	2,7%	2,1%	2,1%	2,1%
+/- Other products/costs	-0,1%	0,0%	-0,1%	0,0%
= EBITDA	**8,3%**	**7,8%**	**7,9%**	**8,4%**
- Depreciation and amortization & provisions, net	2,3%	2,3%	2,0%	2,4%
= EBIT	**6,0%**	**5,5%**	**5,9%**	**6,0%**
- Cost of debt	0,6%	0,5%	0,4%	0,4%
+ Financial Income	-0,1%	0,0%	-0,1%	0,3%
+ Non recurring items	0,1%	0,2%	0,1%	0,1%
+ Share of net income from joint ventures	0,0%	0,0%	0,1%	0,1%
= Pre Tax Income	**5,4%**	**5,3%**	**5,6%**	**6,0%**
- Corporate income tax	1,7%	1,5%	1,6%	1,6%
+ Income from affiliates	0,0%	0,0%	0,0%	0,0%
= Net Income	**3,6%**	**3,8%**	**4,0%**	**4,4%**
- Minority interests	0,2%	0,2%	0,2%	0,2%
= Net income (Group share)	3,4%	3,7%	3,8%	4,2%

Cash Flow Statement

In € thousands	2011	2012	2013	2014
Net income	73 275	102 217	110 000	122 439
+ Amortisation and depreciation, and provisions	45 395	61 931	56 297	66 301
+ Non cash items	231	(32 228)	18 217	(36 823)
= Cash flow	**118 901**	**131 920**	**184 514**	**151 917**
- Change in working capital	32 308	(5 170)	56 684	(67 928)
= Cash Flow from Operating Activities (1)	**86 593**	**137 090**	**127 830**	**219 845**
- Net capital expenditure	93 315	111 737	118 995	111 221
+ Proceeds from disposal of fixed assets	3 436	5 926	5 552	4 255
- Acquisition of new subsidiaries, net	130 673	189 061	3 977	135 160
= Cash Flow from Investing Activities (2)	**(220 552)**	**(294 872)**	**(117 420)**	**(242 126)**
Free Cash Flow after financial expense (1)+(2)	**(133 959)**	**(157 782)**	**10 410**	**(22 281)**
+ Proceeds from share issues	80 682	79 139	186 339	60 694
- Dividends paid	53 131	58 702	74 697	78 385
= Decrease (increase) in net debt	**(106 408)**	**(137 345)**	**122 052**	**(39 972)**

Balance sheet

In € thousands	2011	2012	2013	2014
+Intangible assets	20 871	25 153	18 888	13 115
+Intangible assets (goodwil)	360 452	423 451	445 235	563 346
+ Tangible fixed assets	694 665	822 249	726 529	841 713
+ Financial fixed assets	9 874	74 897	46 547	77 611
+ Equity in affiliated companies	18 323	18 317	94 195	105 843
+ Other non-current assets	456	493	215	203
= Fixed Assets (1)	**1 104 641**	**1 364 560**	**1 331 609**	**1 601 831**
Inventories	130 738	149 460	156 825	139 827
+ Accounts receivable	253 419	282 150	313 544	312 143
+ Other current assets	23 526	17 858	22 062	9 691
- Accounts payable	235 748	271 406	224 112	215 641
- Other current liabilities	108 292	117 115	101 829	129 933
= Working capital (2)	**63 643**	**60 947**	**166 490**	**116 087**
Non operating assets	-	-	-	-
- Non operating liabilities	38 622	41 096	43 634	61 159
= Non operating working capital	**(38 622)**	**(41 096)**	**(43 634)**	**(61 159)**
Operating assets = (1)+(2)	**1 129 662**	**1 384 411**	**1 454 465**	**1 656 759**
Shareholders' equity	838 905	947 637	1 138 957	1 296 968
+ Minority interests	18 409	22 244	24 721	23 850
- Deferred tax (assets)	6 992	4 241	4 463	5 436
+ Deferred tax (liabilities)	27 386	29 472	28 003	34 158
= Equity (3)	**877 708**	**995 112**	**1 187 218**	**1 349 540**
Long term debt	309 906	486 261	250 402	511 746
+ Short term debt	173 820	175 241	360 514	205 648
- Cash & equivalents	231 772	272 203	343 669	410 175
= Net Debt (4)	**251 954**	**389 299**	**267 247**	**307 219**
Capital employed = (3)+(4)	**1 129 662**	**1 384 411**	**1 454 465**	**1 656 759**

Productivity	2011	2012	2013	2014
Consolidated headcount	1 512	1 450	1 595	1 747
Sales/ headcount	1 328	1 841	1 728	1 597
Value added/ headcount	210	259	244	234
EBIT/ headcount	80	101	102	95
Average wage	63	75	69	65

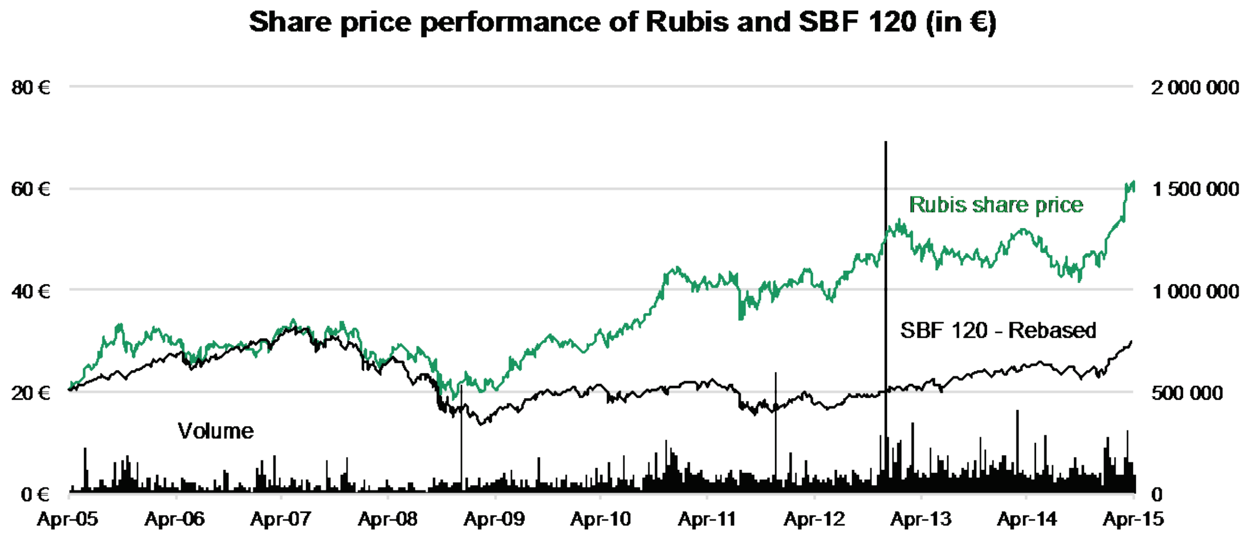
Working capital turnover	2011	2012	2013	2014
Operating Working Capital / Sales (days)	10d	7d	18d	13d
Days in sales outstanding	39d	32d	35d	34d
Days sales in inventories	24d	20d	21d	18d
Days payables outstanding	51d	43d	35d	33d
VAT rate	19,6%	19,6%	19,6%	20,0%

Debt capacity	2011	2012	2013	2014
Net Debt/ EBITDA	1,5	1,9	1,2	1,3
EBIT / Cost of debt	13,9	15,9	19,5	21,0
Net Debt/ stock market capitalisation	0,21	0,23	0,16	0,17
Net Debt/ book equity	0,29	0,39	0,23	0,23

Profitability	2011	2012	2013	2014
Operating profit after tax (33%) / Sales	3,9%	3,6%	3,8%	3,9%
x				
Sales / Capital Employed (excluding financial assets)	1,8	2,0	2,0	1,8
= After tax ROCE	**7,0%**	**7,4%**	**7,5%**	**6,9%**
After tax cost of debt	3,1%	2,2%	2,7%	2,4%
Gearing ratio (Net Debt / Equity)	0,3	0,4	0,2	0,2
ROE, excluding non recurring items	**8,2%**	**9,6%**	**9,0%**	**8,9%**
Fraction of ROE due to the leverage effect	14%	23%	17%	22%
Corporate income tax rate	34,4%	34,4%	34,4%	34,4%

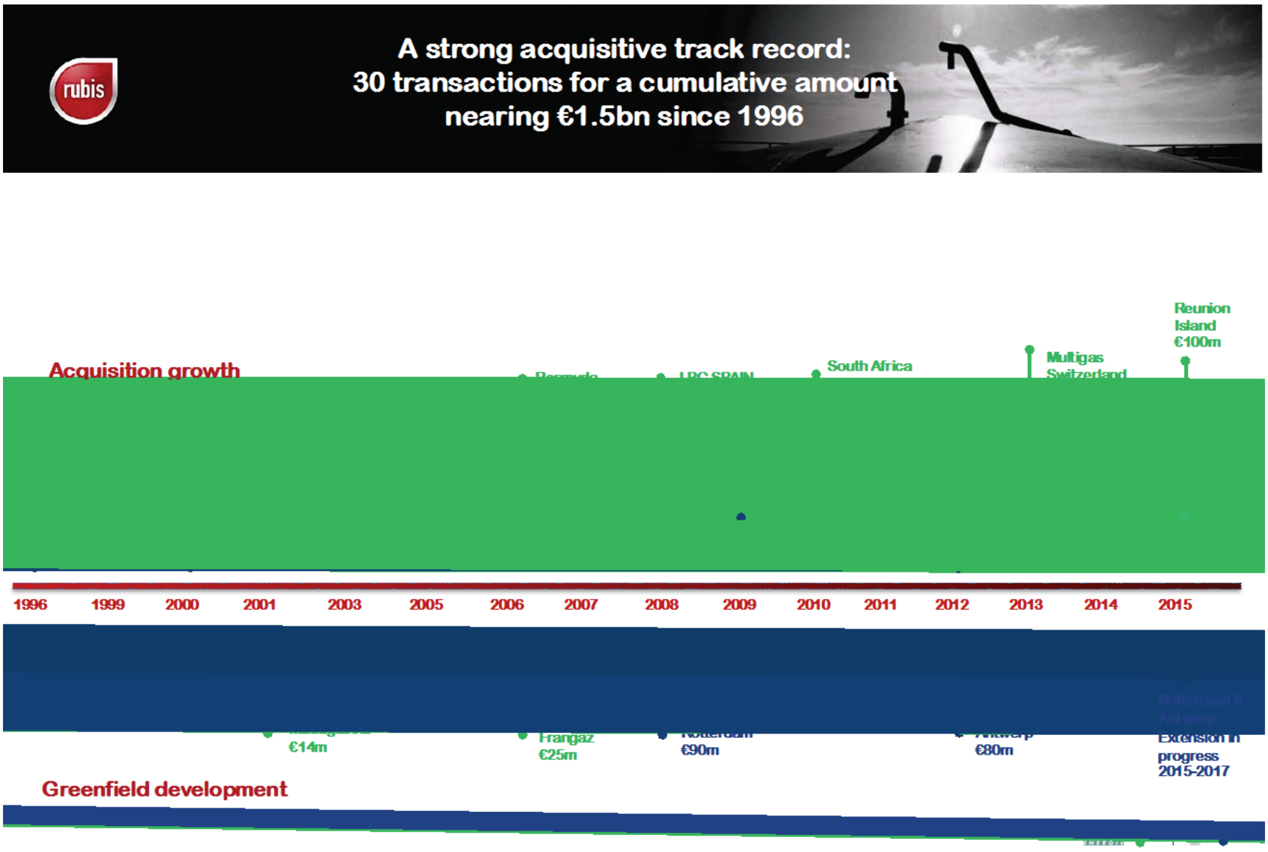
Appendix 2: Rubis' stock market performance

Stock market data	2011	2012	2013	2014
Highest stock price in €	44,8	51,8	54,2	52,3
Lowest stock price in €	34,4	37,8	44,2	41,5
Last price in €	40,4	51,8	46,0	47,3
Number of shares in thousands	30 405	32 428	37 291	38 860
EPS in €	2,3	3,0	2,8	3,0
PE ratio	17,8	17,2	16,4	15,6
EBITDA multiple	8,9	9,9	9,1	9,2
EBIT Multiple	12,3	14,1	12,2	12,9
DPS in €	1,7	1,8	2,0	2,1
Dividend yield in %	4,1%	3,6%	4,2%	4,3%
Payout ratio in %	73%	61%	69%	68%
Stock market capitalisation in € thousands	1 228 355	1 679 769	1 716 696	1 837 107
Shareholders' equity (group share) in € thousands	877 708	995 112	1 187 218	1 349 540
Market capitalisation / book value of equity	1,40	1,69	1,45	1,36



The SBF 120 is a stock market index that regroups the 120 largest companies listed in the Paris stock Exchange.

Appendix 3: History of Rubis



Appendix 4: Rubis shareholding structure

Public	86 %
Dassault group	5 %
Picciotto family	5%
Rubis' two managers	2,2 %
Employees	1,0 %
Directors	0,8 %
Total	**100 %**

Appendix 5: Main characteristics of Rubis' bank loans

Rubis' bank loans include its undertaking and that of each of its divisions, to comply with the following financial covenants for the duration of the loan:

- Net debt over equity less than 1;
- Net debt over EBITDA less than 3.5.

Failure to comply with these ratios will trigger early repayment of the loans.

96% of Rubis' bank debt is with a floating interest rate.

Appendix 6: Rubis' management compensation

Excerpt from Rubis' 2014 annual report

The two managers of Rubis together receive fixed compensation of €2.5m, and for each financial year, variable compensation equal to 3% of the increase in value of the Rubis market capitalisation, limited to an amount equal at the most to 10% of Rubis consolidated net earnings, before depreciation and amortisation and goodwill impairment, and limited to distributable profits.

Half of this amount is reinvested in Rubis shares, blocked for three years.

Accordingly, in 2012, the two main managers received €9.5m. In 2013, given the lack of performance of the Rubis share, which ended 2012 at a very high level, variable compensation was zero. In 2014, variable compensation was €4.2m.

Appendix 7: Financial profile of Rubis' two divisions

in €m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Rubis Terminal										
Sales	172	182	166	298	189	286	286	384	351	316
Current operating income	21	17	27	35	38	48	52	59	61	60
Capital employed	116	120	152	215	237	251	271	285	505	524
ROCE before tax	18,1%	14,2%	17,8%	16,3%	16,0%	19,1%	19,2%	20,7%	12,1%	11,5%
Asset turnover	1,5	1,5	1,1	1,4	0,8	1,1	1,1	1,3	0,7	0,6
Rubis Energy										
Sales	177	546	686	894	763	1 164	1 721	2 285	2 414	2 474
Current operating income	18	24	32	43	45	47	77	98	116	119
Capital employed	332	353	372	450	429	471	720	798	776	780
ROCE before tax	5,4%	6,8%	8,6%	9,6%	10,5%	10,0%	10,7%	12,3%	14,9%	15,3%
Asset turnover	0,5	1,5	1,8	2,0	1,8	2,5	2,4	2,9	3,1	3,2