

# Neodecortech Spa

Sector: Décor surfaces



## Possible U-shaped recovery

Neodecortech (NDT) designs, produces and commercialises décor paper, finish foils, melamine films, and luxury vinyl tiles with the mission of enriching any surface with a distinctive Italian flair

### 1H20 figures weak as expected

Covid-19 outbreak has obviously negatively impacted Neodecortech 1H20 results. However, despite revenues contraction, Neodecortech boasted good resiliency and maintained stable its margins. In details:

- ◆ Total revenues stood at €59.1mn in 1H20 vs €68.7mn in 1H19 (-13.9% YoY). Décor Paper (-21.2% YoY) and Paper (-23.2% YoY) obviously suffered from lack of demand and forced closure while Energy business proved in relatively good health (+4.0% YoY);
- ◆ Reported EBITDA fell down to €5.6mn (-20.3% YoY), supported from lower-than-average raw materials prices and opex optimizations, with EBITDA Margin remaining substantially flat at 10.3% (vs 10.6% in 1H19);
- ◆ Net Debt stood at €48.2mn vs €40.5mn as of end of 2019, driven by seasonally higher working capital.

### 2020E-22E estimates review

Neodecortech is expecting a positive outlook for the second half of the year, supported by a turnover rebound going on in 3Q and this led us to mitigate our obvious downward revision in estimates. The launch of new products (e.g. EOS<sub>TP</sub> and PPLF) with higher profitability and low raw materials prices are expected to support company margins. Thus, we foresee:

- ◆ Revenues to grow at 3.0% CAGR 2019A-22E;
- ◆ Adjusted Ebitda at €17.4mn and €18.9mn in 2021E and 2022E;
- ◆ Net Profit Adj to grow at 3.4% CAGR 2019-22E.
- ◆ Net Financial position to stand at ca. €42.8mn as of 2020E year end, while decreasing to €37mn in 2021E.

### Fair Value at €4.36 per share

NDT shares performed poorly over the latest twelve months (-36% YoY price-based return). As a result, Neodecortech trades at higher than average discount vs. its main comparables. Based on our new 2020E-22E estimates and current sector trading multiples, we set our fair value at **€4.36 per share**, (from previous €5.0). At such fair value, the stock would trade at 0.9x P/BV 2021E and 5.5x EV/Adj. EBITDA 2021E, which still embed a ca. 10% discount with respect to peers.

#### Analyst

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<b>Fair Value (€)</b>	<b>4.36</b>
<b>Market Price (€)</b>	<b>2.66</b>
<b>Market Cap. (€m)</b>	<b>36.0</b>

KEY FINANCIALS (€m)	2019A	2020E	2021E
TOTAL REVENUES	135.9	120.5	142.8
EBITDA	15.9	14.0	17.4
EBIT	7.1	4.8	8.0
NET PROFIT	4.0	2.4	5.0
EQUITY	61.3	61.8	65.8
NET FIN. POS.	-40.5	-42.8	-37.3
EPS ADJ. (€)	0.43	0.18	0.37
DPS (€)	0.15	0.15	0.15

Source: NDT (historical figures), Value Track (estimates)

RATIOS & MULTIPLES	2019A	2020E	2021E
EBITDA MARGIN (%)	11.7	11.6	12.2
EBIT MARGIN (%)	5.2	4.2	5.7
NET DEBT / EBITDA (x)	2.5	3.1	2.1
NET DEBT / EQUITY (x)	0.7	0.7	0.6
EV/EBITDA (x)	4.7	5.6	4.2
EV/EBIT (x)	10.6	16.4	9.2
P/E ADJ. (x)	6.2	14.7	7.2
P/BV (x)	0.57	0.58	0.55

Source: NDT (historical figures), Value Track (estimates)

#### STOCK DATA

FAIR VALUE (€)	4.36
MARKET PRICE (€)	2.66
SHS. OUT. (m)	13.5
MARKET CAP. (€m)	36.0
FREE FLOAT (%)	38.4
AVG. -20D VOL. (#)	5,527
RIC / BBG	NDT.MI / NDT.IM
52 WK RANGE	2.36 – 4.36

Source: Stock Market Data



## Business Description

Neodecortech is a leading manufacturer of decorative surfaces (mostly paper but more recently also plastic) to be employed in the interior design industry and in the flooring one.

More in details Neodecortech is involved in the design, development, production, and commercialisation of décor paper printing, finish foils, melamine films, and Plastic Films. The vision of the Group is that of enriching any surface with a distinctive Italian Flair.

## Key Financials

€mn	2018A	2019A	2020E	2021E
<b>Total Revenues</b>	<b>133.4</b>	<b>135.9</b>	<b>120.5</b>	<b>142.8</b>
Chg. % YoY	4.4%	1.9%	-11.3%	18.5%
<b>Reported EBITDA</b>	<b>17.7</b>	<b>15.9</b>	<b>14.0</b>	<b>17.4</b>
Reported EBITDA Margin	13.3%	11.7%	11.6%	12.2%
<b>Reported EBIT</b>	<b>10.6</b>	<b>7.1</b>	<b>4.8</b>	<b>8.0</b>
Reported EBIT Margin	7.9%	5.2%	4.0%	5.6%
<b>Reported Net Profit</b>	<b>6.0</b>	<b>4.0</b>	<b>2.4</b>	<b>5.0</b>
Chg. % YoY	48.4%	-34.3%	-38.3%	nm
<b>Net Fin. Position</b>	<b>-44.0</b>	<b>-40.5</b>	<b>-42.8</b>	<b>-37.3</b>
Net Fin. Pos. / EBITDA (x)	2.5	2.5	3.1	2.1
Capex	-6.5	-8.0	-7.0	-6.0
<b>OpFCF b.t.</b>	<b>12.7</b>	<b>8.5</b>	<b>4.3</b>	<b>9.5</b>
OpFCF b.t. as % of EBITDA	71.0%	53.2%	30.7%	54.9%

Source: Company SpA (historical figures), Value Track (estimates)

## Investment case

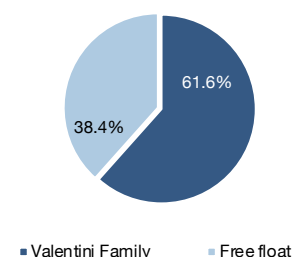
### Strengths / Opportunities

- ◆ High flexibility granted by vertical integration;
- ◆ Strong attention to quality and design innovation;
- ◆ Full ownership of production plants;
- ◆ Approach to clients based on co-design / strong partnerships.

### Weaknesses / Risks

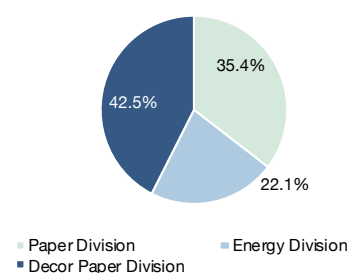
- ◆ Much lower size if compared to German competitors;
- ◆ Limited financial flexibility due to higher-than-targeted leverage;
- ◆ Exposure to a very restricted number of customers as well as suppliers.

## Shareholders Structure



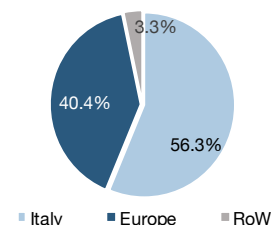
Source: Neodecortech SpA

## Sales breakdown by Business Unit



Source: Neodecortech SpA (\*)Sales 2019

## Sales breakdown by geography



Source: Neodecortech SpA (\*)Sales 2019

## Stock multiples @ €4.36 Fair Value

	2020E	2021E
EV / SALES (x)	0.8	0.7
EV / EBITDA ADJ.(x)	7.3	5.5
EV / EBIT ADJ. (x)	21.2	12.1
EV / CAP.EMP. (x)	1.0	0.9
OpFCF Yield (%)	4.2	9.9
P / E ADJ. (x)	24.1	11.9
P / BV (x)	1.0	0.9
Div. Yield. (%)	3.4	3.4

Source: Value Track

## 1H20 results down as expected

Covid-19 outbreak has dramatically slashed economic activity in all countries during the first half of 2020, with negative consequences spreading already as of today. Neodecortech business activities, as well, suffered from a forced three weeks closure period in March-April 2020.

### 1H20 figures at a glance

As a consequence of what stated above, it is not a surprise to see a contraction on Neodecortech 1H20 financial performances even if we note that the company boasted good resiliency and maintained a relatively sound margins profitability. Key 1H20 figures are as follows:

- ◆ Total Revenues, i.e. Value of Production stood at €59.1mn, -13.9% YoY;
- ◆ EBITDA stood at €5.6mn, with lower raw materials price and cost savings for personnel supporting the EBITDA margin (i.e. 9.5% 1H20 vs 10.3% 1H19);
- ◆ Net Debt end of June stood at €48.2mn i.e. almost equal to the Net Debt as of 1H19 and increased from €40.5mn as of December 31, 2019.

### Neodecortech Group: Main Financials 1H19 and 1H20

€ mn	1H19	1H20	Change YoY (%)
Total Revenues i.e. V.o.P.	68.7	59.1	-13.9%
EBITDA	7.1	5.6	-20.3%
<b>EBITDA Adj.</b>	<b>8.5</b>	<b>5.6</b>	<b>-34.1%</b>
Net Profit	1.1	0.2	-82.3%
<b>Net Profit Adj.</b>	<b>2.3</b>	<b>0.3</b>	<b>-87.0%</b>
Net Financial Position	-48.3	-48.2	-0.1%

Source: Neodecortech, Value Track Analysis

### Key messages

In our view, the key messages of 1H20 figures are the following:

- ◆ Revenues were hardly hit but it could have been worse;
- ◆ Raw material prices reduction contributed to partially mitigate operating profitability decrease;
- ◆ Net Profit evolution closely mirrored operating one;
- ◆ Weak P&L figures and seasonality drove Net Financial Debt higher.

### Revenues: hardly hit but it could have been worse

Overall, Total Revenues decreased to €59.1mn in 1H20 vs €68.7mn in 1H19, due to the direct (forced plants closure) and indirect (demand collapse) effects of coronavirus outbreak.

Revenues were down in all geographic reference markets: -27% in Europe, -11% in US and -48% in Asia and Middle East countries with respect to the previous year.

As in 1Q20 the group reported revenues up +3.4% YoY to €33.3mn, we calculate that the implied decrease YoY in 2Q was close to 30%.

As far as the various businesses are concerned, Décor Paper and Paper production were both hardly hit while Energy business slightly rebounded. In details:

- ◆ **Décor Paper** experienced a -21.3% YoY decrease of Sales to €21.5mn although first quarter reported an increase of sales with respect to the previous year.
- ◆ **Paper production** reported the weakest performance. Indeed, the reduction of new orders in 2Q20 affected division's results with a -23.2% YoY decrease of sales (€24.2mn vs €32.1mn 1H19);
- ◆ **Energy generation** was the only business segment which never stopped activities over the first half. The division continued to be in good health, reporting revenues at €16.2mn, up +4% YoY, although it suffered from exceptionally low energy prices in April.

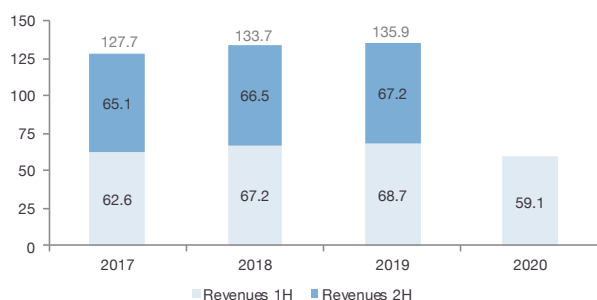
#### Neodecortech Group: 1H19-1H20 Top Line breakdown by divisions

€mn, IAS	1H19	1H20	Chg. % YoY
Energy Division	15.6	16.2	4.0%
Paper Division	31.5	24.2	-23.2%
Decorative Paper Division	27.3	21.5	-21.3%
<b>Gross Revenues</b>	<b>74.4</b>	<b>61.9</b>	<b>-16.8%</b>
Intragroup Elisions	-5.7	-2.7	nm
<b>Total Revenues</b>	<b>68.7</b>	<b>59.1</b>	<b>-13.9%</b>

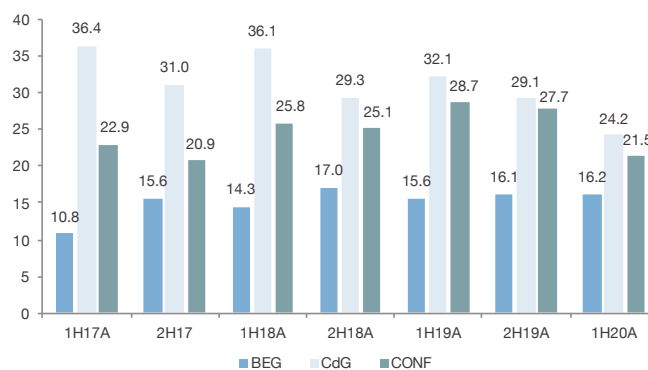
Source: Neodecortech, Value Track Analysis

#### Neodecortech historic top line evolution 2017-1H20

##### Consolidated Group Revenues Evolution by semester



##### Gross Revenues breakdown by legal entity



Source: Neodecortech, Value Track Analysis

#### Operating profitability: Decrease mitigated by raw material prices reduction

Reported EBITDA fell down to €5.6mn (-20.3% YoY), partially supported from lower-than-average raw materials prices and from cost savings derived from opex optimizations as well as the use of temporary redundancy fiscal aids.

As an effect, Reported EBITDA Margin remained substantially flat at a slightly higher than 10% level: 10.3% in 1H20 vs 10.6% in 1H19.

EBIT decrease was more than proportional, i.e. -48% YoY to €1.2mn as D&A remained in line with previous year.

#### Neodecortech Group: EBITDA, EBIT evolution 1H19-1H20

€ mn	1H19	1H20	Change YoY (%)
<b>EBITDA</b>	<b>7.1</b>	<b>5.6</b>	<b>-20.3%</b>
<i>EBITDA margin as % of Sales.</i>	<i>10.6%</i>	<i>10.3%</i>	<i>-30bp</i>
<b>EBITDA Adj.</b>	<b>8.5</b>	<b>5.6</b>	<b>-33.3%</b>
<i>EBITDA Adj. margin as % of Sales</i>	<i>12.7%</i>	<i>10.3%</i>	<i>-270bp</i>
<b>EBIT</b>	<b>2.9</b>	<b>1.2</b>	<b>-48%</b>
<i>EBIT margin as % of Sales.</i>	<i>4.3%</i>	<i>2.3%</i>	<i>-200bp</i>

Source: Neodecortech, Value Track Analysis

It is to be noted that Group's EBITDA is mainly attributable to the Energy and Paper manufacturing divisions: the former generated around 78k MWh (+5% YoY) and €2.3mn Adj. EBITDA, with a +60 bp margins improvement (14.2% vs 13.6% 1H2019); similarly, Paper division reported €2.6mn EBITDA and a sizeable increase on margins from 7.3% in 1H19 to 10% (+270 bp) in 1H20.

#### Neodecortech Group: 1H19-1H20 Revenues and EBITDA breakdown by divisions

€mn, IASB	1H19	1H20	Chg. % YoY
<b>Energy Division</b>			
Revenues (€mn)	15.6	16.2	4%
<b>EBITDA (€mn)</b>	<b>2.1</b>	<b>2.3</b>	<b>9.5%</b>
<i>EBITDA Margin (%)</i>	<i>13.6%</i>	<i>14.2%</i>	<i>+60bp</i>
<b>Paper Division</b>			
Revenues (€mn)	31.5	24.2	-23.2%
<b>EBITDA (€mn)</b>	<b>2.3</b>	<b>2.6</b>	<b>13.0%</b>
<i>EBITDA Margin (%)</i>	<i>7.3%</i>	<i>10%</i>	<i>+270bp</i>
<b>Decorative Paper Division</b>			
Revenues (€mn)	27.3	21.5	-21.2%
<b>EBITDA (€mn)</b>	<b>2.6</b>	<b>0.7</b>	<b>-73.0%</b>
<i>EBITDA Margin (%)</i>	<i>9.5%</i>	<i>3.4%</i>	<i>nm</i>

Source: Neodecortech, Value Track Analysis

### Focus on raw materials prices evolution

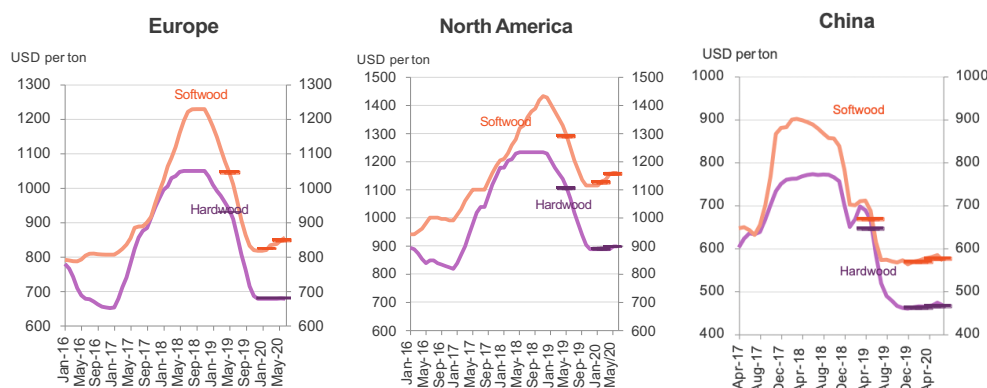
Raw Materials such as Titanium Dioxide (TiO<sub>2</sub>), Resins, Wood Pulp, Raw Paper and Tallow Oil keep representing the main cost items for the company.

In the challenging market environment, exposure to raw materials' price volatility partially benefitted Neodecortech business, helping margins to remain almost stable: the gradual increase of softwood over 1Q was counterbalanced by the decreasing price over 2Q. Moreover, the rise of Tallow Oil over the first quarter increased the incidence of raw materials on BEG revenues (+4%). Overall, at group level, raw materials weighted 58.4% of 1H20 Total Revenues vs 56.5% in 1H19.

### Wood Pulp

After the drop at the end of 2019, both Hardwood and Softwood Pulp prices remained almost flat over the 1H2020, with -27% and -19% 2Q20 vs 2Q19 respectively in Europe.

#### Pulp: Softwood and Hardwood price evolution 2016-20 (USD/Ton, EUR /Ton)



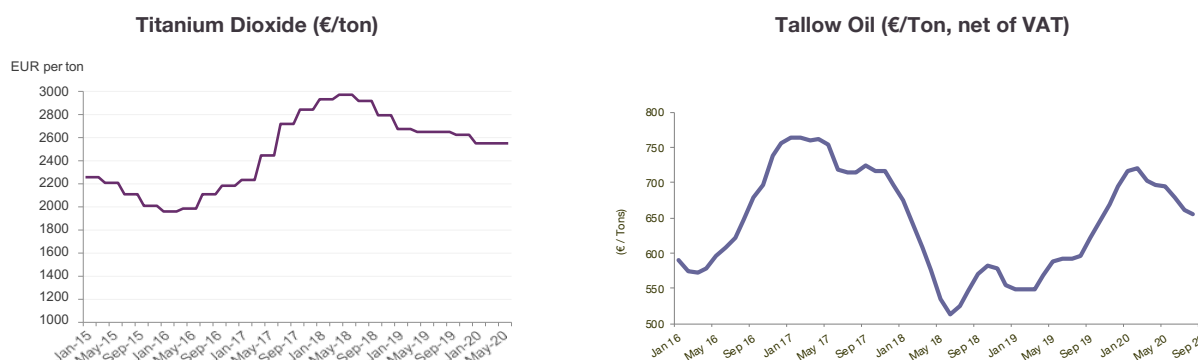
Source: Ahlstrom-Munksjö

### Titanium Dioxide and Tallow Oil

TiO<sub>2</sub> price remained stable over the first half 2020, with a -6% 2Q20 vs 2Q19 due to reduced demand from automotive and aerospace sectors and remaining flat up to May 2020.

As for the Tallow Oil, after reaching a peak at ca. €720mn/Ton in February 2020, the price started decreasing over the 2Q20, reaching a €655mn/Ton in August.

#### Titanium Dioxide and Tallow oil evolution]



Source: Various

### Net Profit evolution closely mirrors operating one

Albeit the challenging market conditions, Reported Net Profit remained positive at €194k, -82.3% YoY burdened by €4.2mn D&A and by Financial Charges still having a relevant impact on operating profit.

Net Profit Adj. stood at €250k net of non-recurring items due to stock grant release and translisting process to MTA, accounting for €1.2mn and €669k respectively.

#### Neodecortech Group: 1H19-1H20 results from EBITDA down to Net Profit

€mn, IAS	1H19	1H20	Chg. % YoY
<b>Reported EBITDA</b>	<b>7.1</b>	<b>5.6</b>	<b>-21.1%</b>
Depreciation Charges	-3.7	-3.9	5.4%
Amortization Charges	-0.4	-0.4	nm
<b>EBIT</b>	<b>2.9</b>	<b>1.2</b>	<b>-57.3%</b>
Net Financial charges	-1.0	-0.8	-20.0%
Taxes	-0.8	-0.3	-62.5%
<b>Reported Net Profit</b>	<b>1.1</b>	<b>0.2</b>	<b>-81.8%</b>
<b>Adjusted Net Profit</b>	<b>2.3</b>	<b>0.3</b>	<b>-86.9%</b>

Source: Neodecortech, Value Track Analysis

### Net Financial Debt driven higher by weak P&L figures and by seasonality

Company performances 1H20 continued to show seasonality, with a first half characterized by a higher level of cash absorption. Indeed, Group's Net Debt stood at €48.3mn at the end of June 2020, up from €40.5mn as of 31 December 2019.

#### Neodecortech Group: 1H19-1H20 Cash Flow Statement

€mn	1H19	1H20
<b>EBITDA</b>	<b>7.1</b>	<b>5.6</b>
Op. WC requirements	-5.3	-6.2
Capex	-3.8	-3.4
Change in Provisions	0.0	0.6
<b>OpFCF b.t.</b>	<b>-2.0</b>	<b>-3.4</b>
Cash Taxes	-0.8	-0.3
<b>OpFCF a.t.</b>	<b>-2.8</b>	<b>-3.7</b>
Other Op. Items (incl. Fin. Inv.)	1.8	-1.3
Net Financial Charges	-1.0	-0.8
Dividends paid	-2.1	-2.0
<b>Net Cash generated</b>	<b>-4.0</b>	<b>-7.7</b>

Source: Neodecortech, Value Track Analysis

In details:

- ◆ Working Capital increased by €6.2mn, driven by an increase of inventory to €38.4mn vs €35.7mn 1H20 and by a material decrease of payables (-19% YoY);
- ◆ Neodecortech invested €3.6mn Capex in the first half;
- ◆ Dividend cash out stood at €2mn.

#### Neodecortech: 1H19-1H20 Balance Sheet structure

€mn	1H19	1H20
Working Capital	28.5	32.2
Net Fixed Assets	86.3	85.2
Provisions	7.9	10.9
<b>Total Capital Employed</b>	<b>106.9</b>	<b>106.5</b>
Group Net Equity	58.6	58.3
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>-48.3</b>	<b>-48.2</b>

Source: Neodecortech, Value Track Analysis



## Neodecortech vs. Peers in 1H20

Surteco and Ahlstrom-Munksjö were hit as well by the effects of coronavirus outbreak on revenues and costs. Revenues were deeply down due to demand decline in reference markets such as home building and furniture, while the lower raw material prices and reduction of variable costs mitigated the negative impact on companies' profitability.

In details:

- ◆ **Ahlstrom-Munksjö** reported a 1H20 top line decline of -21.2% YoY in the décor division (ca. 12.8% of total sales) with a significant drop in net sales due to lower selling prices and exceptionally low delivery volumes. **EBITDA** decreased almost proportionally, i.e. **-19.1% YoY** to €12.7mn, due to lower sales volumes, however, it benefitted from a variable costs' improvements thanks to the lower prices of raw materials.
- ◆ **Surteco** as well suffered from a sharp decrease of orders booked in the Decorative segment, recording a -15.4% YoY on revenues. Although Surteco benefitted from decreasing raw material prices and savings for personal expenses, the Decorative Segmented resulted to be significantly impacted by the pandemic, with **EBIT** down by **-39.9% YoY**, from €17.3mn in 1H19 to €10.4mn in 1H2020.

### Neodecortech Peers: 1H19-1H20 Décor Paper performance

€mn	1H19	1H20	YoY
<b>Ahlstrom Munksjö</b>			
Net Revenues	218.1	171.3	-21.2%
<b>EBITDA</b>	<b>15.7</b>	<b>12.7</b>	<b>-19.1%</b>
<i>EBITDA Margin</i>	7.2%	7.4%	<i>n.m.</i>
<b>Surteco</b>			
Net Revenues	253.7	214.6	-15.4%
<b>EBIT</b>	<b>17.3</b>	<b>10.4</b>	<b>-39.9%</b>
<i>EBIT Margin</i>	6.8%	4.8%	<i>n.m.</i>

Source: Ahlstrom-Munksjö, Surteco, Value Track Analysis

## 2020E-22E estimates revision

According to Ahlstrom-Munksjo the reference market should sharply rebound once coronavirus outbreak effects are over. At the same time, in the medium-long term it is expected that worldwide market will grow in the mid-single digit range. More in details:

- ◆ Estimated Demand growth in Europe is seen at 2-3% per year;
- ◆ Estimated Demand growth in China is seen at 4-5% per year.

### 2H20 to recover from 1H20 low levels

Neodecortech has hinted that 3Q is boasting a sharp turnover rebound. Q4 at the same time remains quite difficult to be forecasted.

As an effect, we are revising downward our 2020E Top line estimates by -18%. Looking at Reported EBITDA, we cut our 2020 estimate by €4mn driven by the lower volume of sales and a slight increase on personnel costs.

### Neodecortech: New vs. Old 2020E-21E forecasts

€mn	2020E			2021E		
	Old	New	Change	Old	New	Change
Group Revenues from Sales	139.9	115.0	-17.8%	145.4	139.9	-3.8%
Total Group Revenues	142.9	120.5	-15.7%	149.3	142.8	-4.4%
<b>EBITDA Adj.</b>	<b>18.9</b>	<b>14.0</b>	<b>-26%</b>	<b>19.7</b>	<b>17.4</b>	<b>-12%</b>
<b>EBITDA Rep.</b>	<b>18.3</b>	<b>14.0</b>	<b>-23%</b>	<b>19.7</b>	<b>17.4</b>	<b>-12%</b>
EBIT	9.6	4.8	-50.0%	11.0	8.0	-27.8%
<b>Net Profit</b>	<b>6.1</b>	<b>2.4</b>	<b>-60%</b>	<b>7.4</b>	<b>5.0</b>	<b>-33%</b>
<b>Adj. Net Profit</b>	<b>6.5</b>	<b>2.4</b>	<b>-62%</b>	<b>7.4</b>	<b>5.0</b>	<b>-33%</b>
<b>OpFCF after tax</b>	<b>8.8</b>	<b>3.5</b>	<b>-60%</b>	<b>7.6</b>	<b>8.1</b>	<b>7%</b>
<b>Net Financial Position (*)</b>	<b>-35.4</b>	<b>-42.8</b>	<b>-7.5</b>	<b>-31.4</b>	<b>-37.3</b>	<b>-5.9</b>

Source: Value Track analysis

### Neodecortech: 2019A-21E Key Financials forecasts

(€mn)	2019A	2020E	2021E	2022E
Total Revenues	135.9	120.5	142.8	153.9
Reported EBITDA (*)	15.9	14.0	17.4	23.4
Reported EBIT (*)	7.1	4.8	8.0	13.8
<b>Reported Net Profit (*)</b>	<b>4.0</b>	<b>2.4</b>	<b>5.0</b>	<b>9.3</b>
<b>OpFCF after tax</b>	<b>7.2</b>	<b>3.5</b>	<b>8.1</b>	<b>3.8</b>
<b>Net Financial Position (**)</b>	<b>-40.5</b>	<b>-42.8</b>	<b>-37.3</b>	<b>-32.0</b>

Source: Neodecortech, Value Track Analysis

## Revenues 2019A-2022E growing at 3% CAGR

Starting as of 3Q20, all factories are working at full capacity and we expect the company to work hard to improve its market positioning, starting the commercialization of two new products with high profitably margins, i.e. EOS<sub>TP</sub> and PPLF. The two new products are expected to contribute to the company's diversification strategy and to strengthen Neodecortech market positioning in Europe and North America. As an effect, we foresee Revenues growing up to ca. €140mn in 2021E.

As far as the various legal entities are concerned, we underline the following:

### Decorative paper division

We believe Décor Paper division to remain the main driver of growth for the group in terms of turnover and profitability. Indeed, the traditional business restart to grow after the break on 2Q20. Moreover, the marketing of new products with high-margins should improve group profitability.

### Paper division

We expect an increase of production activity in 2H20, recovering from the poor results of the first half. We do not foresee relevant changes on the paper business activity, thus, believe in a steady growth at low single digit rate year on year for the entire forecasted period.

### Energy division

Energy division showed its resiliency despite adverse market condition in the first half, thus, we believe that the division may continue to grow at a constant pace over the next two years, supported by energy prices recovering from their lowest levels in 2Q2020. Moreover, the division continues to benefit from public incentives.

### Neodecortech Group: 2019A-2022E Top Line evolution

€mn, IAS	2019A	2020E	2021E	2022E
<b>Gross Revenues</b>	<b>149.4</b>	<b>130.0</b>	<b>152.1</b>	<b>164.2</b>
Intragroup Elisions	-16.5	-15.0	-12.2	-18.8
<b>Net Revenues</b>	<b>133.0</b>	<b>115.0</b>	<b>139.9</b>	<b>145.4</b>
Other Revenues	2.9	5.5	2.9	8.5
<b>Total Revenues</b>	<b>135.9</b>	<b>120.5</b>	<b>142.8</b>	<b>153.9</b>

Source: Neodecortech, Value Track Analysis

## Costs and profitability

We expect a rebound of EBITDA margin at 13% and EBITDA at €18.3mn in 2021E, mainly driven by:

- ◆ **New Plastic Film products with higher profitability.** The new mix of sales with plastic products highly profitable (i.e. EOS and PPLF) should support the company profitability in the following years;
- ◆ **Raw materials still under control.** Despite the slight increase of raw material incidence on total revenues (58% vs 56% in 2019) almost attributable to the economic shock of 1H20, the company continues to keep raw materials costs under control. With regard to cellulose, 1H20 was characterized by almost flat price, with a demand that weakened in second quarter due to the pandemic and has not recovered yet. Tallow Oil price increased at a fast pace over first half, also due to the shortage of the resource during the lockdown.

On EBIT estimates, we underline that the company continues with its investment plan, thus D&A costs 2020E are driven by extension of various production sites and the aim of increasing volume production. Adjusted Net Profit is expected to grow up to €6.3mn 2021E.

We remind that 2022E reported figures should include a €5mn positive one-off item to be accounted within Other Revenues, related to a likely financial debt write down.

### Neodecortech Group: P&L evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
<b>Group Net Revenues</b>	<b>133.0</b>	<b>115.0</b>	<b>139.9</b>	<b>145.4</b>
Chg. % YoY	1.6%	-13.5%	21.7%	3.9%
<b>Total Revenues</b>	<b>135.9</b>	<b>120.5</b>	<b>142.8</b>	<b>153.9</b>
<b>EBITDA</b>	<b>15.9</b>	<b>14.0</b>	<b>17.4</b>	<b>23.4</b>
<b>EBITDA Adj.</b>	<b>17.9</b>	<b>14.0</b>	<b>17.4</b>	<b>18.9</b>
Depreciation & Amortization	-8.8	-9.2	-9.4	-9.6
<b>EBIT</b>	<b>7.1</b>	<b>4.8</b>	<b>8.0</b>	<b>13.8</b>
Net Fin. Income (charges)	-1.9	-1.6	-1.6	-1.1
<b>Pre-tax Profit</b>	<b>5.2</b>	<b>3.2</b>	<b>6.4</b>	<b>12.8</b>
Tax	-1.2	-0.8	-1.4	-3.4
<b>Net Profit</b>	<b>4.0</b>	<b>2.4</b>	<b>5.0</b>	<b>9.3</b>
<b>Net Profit Adj.</b>	<b>5.7</b>	<b>2.4</b>	<b>5.0</b>	<b>6.3</b>

Source: Value Track Analysis

### Cash generation and Net Financial Position

We believe that Neodecortech should report a **negative free cash generation** in 2020 while returning in positive territory in 2021E and 2022E.

### Neodecortech Group: Cash Flow Statement evolution 2019A-22E

(€mn)	2019A	2020E	2021E	2022E
EBITDA	15.9	14.0	17.4	23.4
Working Capital Needs	0.2	-3.6	-2.0	-4.9
Capex	-8.0	-7.0	-6.0	-7.0
Change in Provisions	0.4	0.9	0.2	-4.3
<b>OpFCF b.t.</b>	<b>8.5</b>	<b>4.3</b>	<b>9.5</b>	<b>7.2</b>
Cash Taxes	-1.2	-0.8	-1.4	-3.4
Capital Injections	0.0	0.0	0.0	0.0
Other Op. Items (incl. Fin. Inv.)	0.2	-2.2	0.0	4.5
Net Financial Charges	-1.9	-1.6	-1.6	-1.1
Dividends paid	-2.0	-2.0	-1.0	-2.0
<b>Net Cash generated</b>	<b>3.5</b>	<b>-2.3</b>	<b>5.6</b>	<b>5.2</b>

Source: Value Track Analysis

As an effect, **Net Financial Position** is expected to slightly increase at ca. €42.8 mn at the end of 2020E. However, we believe that company should reduce its Net Debt in the following year achieving Net Debt / EBITDA ratio below 2.0x.

#### Neodecortech Group: Balance Sheet evolution 2019A-22E

(€mn)	2019A	2020A	2021E	2022E
Working Capital	26.3	29.9	31.9	36.8
Net Fixed Assets	83.7	83.9	80.5	77.9
Provisions	8.2	9.1	9.3	9.5
<b>Total Capital Employed</b>	<b>101.8</b>	<b>104.7</b>	<b>103.1</b>	<b>105.2</b>
<b>Group Net Equity</b>	<b>61.3</b>	<b>61.8</b>	<b>65.8</b>	<b>73.2</b>
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)] (*)</b>	<b>-40.5</b>	<b>-42.8</b>	<b>-37.3</b>	<b>-32.0</b>

Source: Value Track Analysis

## Valuation

Back on May 25, 2020 Neodecortech shares started trading on MTA market, thus finalizing the translisting process from AIM market. At the same time, and as an effect of MTA translisting, the number of shares increased by 440k due to the stock grant plan approved at the time of the IPO.

Based on the new number of shares, and in the light of our new 2020E-22E estimates and of current sector trading multiples, we set our fair value at **€4.36 per share**, revised downwards from previous €5.0. At such fair value, the stock would trade at 0.9xP/BV 2021E and 5.5x EV/Adj. EBITDA 2021E, which still embed a ca. 10% discount with respect to peers.

We underline that, given the low visibility driven by covid-19 outbreak, we're not currently taking into account in our fair value assessment the outcome of DCF which highlights a €5.05 base case value.

### Neodecortech: Sensitivity of implicit stock trading multiples based on €2.60-€5.0 share price range

Market Price (€ per share)	Enterprise Value		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)		P / BV (x)(*)	
	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
€ 2.60	€ 78 mn	€ 72 mn	5.6	4.2	16.2	9.1	14.4	7.1	0.6	0.5
€ 3.20	€ 86 mn	€ 81 mn	6.1	4.6	17.9	10.1	17.7	8.7	0.7	0.7
€ 3.80	€ 94 mn	€ 89 mn	6.7	5.1	19.6	11.1	21.0	10.3	0.8	0.8
€ 4.40	€ 102 mn	€ 97 mn	7.3	5.6	21.3	12.1	24.3	12.0	1.0	0.9
€ 5.00	€ 110 mn	€ 105 mn	7.9	6.0	23.0	13.2	27.7	13.6	1.1	1.0

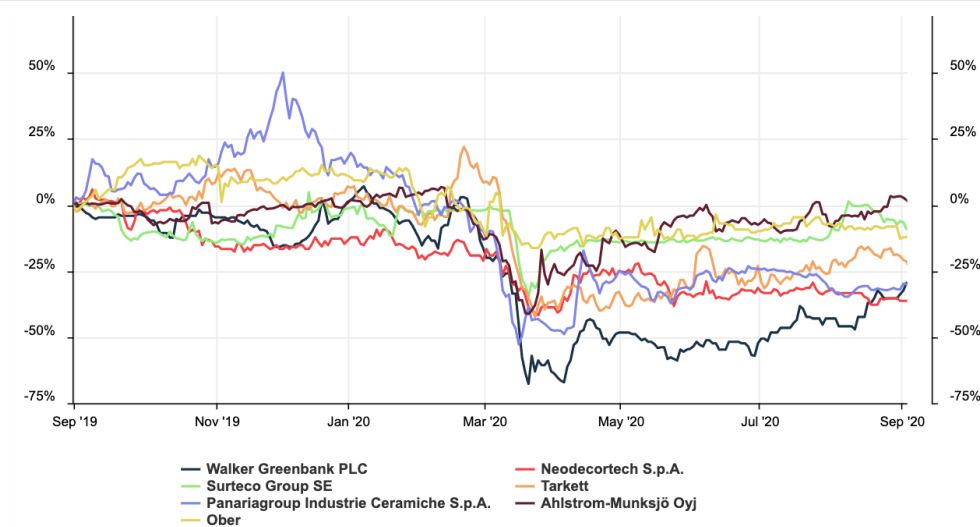
Source: Value Track Analysis

(\*) ROE 2020E-21E at 4% and 8% respectively

### Multiple-based Valuation

NDT shares performed poorly over the latest twelve months, reporting a -36% YoY price-based return. Moreover, in 2Q20 the uncertainty generated by the coronavirus outbreak drove an unprecedented high level of volatility with NDT shares falling down at an all-time low €2.42 in March 23 and rebounding later on but at lower rate than the selected peers (+9% vs +36% on average). As a result, NDT is currently trading at higher than average discount vs. main peers (e.g. Surteco and Ahlstrom-Munksjo).

### Neodecortech vs. peers: Share price evolution Sep. 2019 – Sep. 2020



Source: S&P Capital IQ

NDT shares undervaluation can be clearly seen in the table and chart below. Indeed:

- ◆ NDT is trading at 4.2x EV/EBITDA'21E while peers have returned in line with historical average at ca. 6.0x multiple;
- ◆ Despite a higher than peers 9% ROE 2021E, NDT shares trade at 0.52 P/BV21E, while Surteco and Ober trade at 0.82x and 0.77x, with 5.7% and 6.4% ROE 2021E respectively.

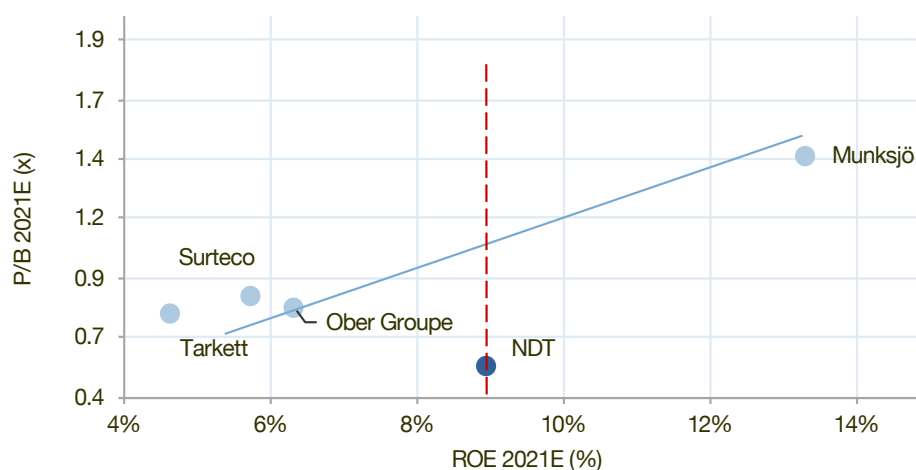
### Neodecortech vs. Peers: Stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		Adj. P / E (x)		EV / OpFCF (x)(**)	
	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
Ahlstrom Munksjö	7.5	6.3	17.0	11.9	14.2	10.6	12.0	10.9
Ober Groupe	9.3	7.7	nm	13.3	13.6	12.1	11.3	11.0
Panaria Group	8.1	6.0	nm	nm	nm	nm	11.7	11.0
Surteco	7.0	6.0	19.1	12.8	23.2	14.4	18.7	12.8
Tarkett	6.1	4.8	22.6	11.9	nm	16.0	13.9	8.6
Walker Greenbank	3.1	3.0	10.0	5.2	nm	10.7	3.2	4.4
<b>Average</b>	<b>6.9</b>	<b>5.6</b>	<b>17.2</b>	<b>11.0</b>	<b>17.0</b>	<b>12.8</b>	<b>11.8</b>	<b>9.8</b>
<b>Median</b>	<b>7.3</b>	<b>6.0</b>	<b>18.1</b>	<b>11.9</b>	<b>14.2</b>	<b>12.1</b>	<b>11.9</b>	<b>11.0</b>
<b>Neodecortech</b>	<b>5.6</b>	<b>4.2</b>	<b>16.4</b>	<b>9.2</b>	<b>14.7</b>	<b>7.2</b>	<b>11.3</b>	<b>6.3</b>

Source: Market Consensus, Value Track Analysis

(\*\*) OpFCF defined as (EBITDA-CAPEX)

### Neodecortech vs. peers: 2021E P/BV vs. ROE



Source: Market Consensus, Value Track Analysis

## Discounted Cash Flow model

As a cross check we update our DCF analysis that returns **€5.05 per share** fair value of Neodecortech shares.

This is the outcome of 8.15% WACC 2020E progressively converging in the long term at ca. 9.2% i.e. the unlevered Cost of Equity thus taking into consideration the dynamics of company's capital structure over the forecasted period.

WACC derives from an expanded CAPM approach based on 7.4% Italian Equity risk Premium and a 2.0% additional "liquidity" premium, in line with the extra-return required by investors to trade companies of smaller size.

Perpetuity Growth Rate (PGR) has been set at 2.0% and applied to 2028E figures, as we used explicit financial statements projection starting from 2020E fiscal year and arriving at 2027E.

### Neodecortech: Discounted Cash Flow Model Summary Table

€mn	
PV of future cash flows FY20E-FY27E	47.3
PV of Terminal value with PGR at 2%	61.5
<b>Fair Enterprise value</b>	<b>108.8</b>
Implied EV/EBITDA '21E (x)	6.1x
Net Cash Position 2019E	-40.5
<b>Fair Equity value (€mn)</b>	<b>68.2</b>
<b>Fair Equity Value per share (€)</b>	<b>5.05</b>

Source: Value Track Analysis



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