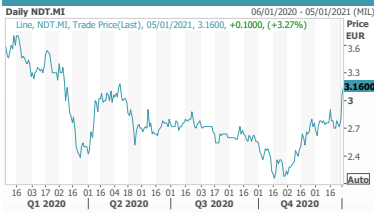




5 January 2021

Paper & Packaging



Source: Refinitiv

Market data

EPIC/TKR	NDT.MI
Price (€)	3.06
12m High (€)	3.76
12m Low (€)	2.12
Shares (m)	13.5
Mkt Cap (€m)	41
EV (€m)	85
Free Float*	38%
Market	Italian Main

*As defined by AIM Rule 26

Description

Neodecortech is an Italian vertically integrated paper manufacturer and printer of specialist décor papers for the furniture and flooring industry. More than 50% of its revenues are generated outside Italy.

Company information

Chairman	Riccardo Bruno
CEO	Luigi Cologni
CFO	Fabio Zanobini

+39 035 996 111

www.neodecortech.it

Key shareholders

Valentini family	62%
Azimet Capital	5%
ARCA Fondi	3%
Mediolanum	3%

Diary

2 Mar'21	FY'20 results
20 Apr'21	1Q'21 results
21 Sep'21	1H'21 results
19 Oct'21	3Q'21 results

Analyst

Jason Streets 020 3692 7075

js@hardmanandco.com

NEODECORTECH

Upgrade following strong trading

Neodecortech (NDT) announced that the strong trading in 3Q had continued into 4Q and it expected to significantly outperform its baseline projection from the summer. We have upgraded our forecasts and central valuation estimate to reflect this news. The trading has been driven by a focus on home furnishings and new products. Net debt will have risen slightly for FY'20 but the company remains in a strong financial position, in our view.

- **Strategy:** NDT uses its vertical integration model to ensure continuity of affordable supply and flexibility in responding to an ever-changing market place. Margin efficiencies are coming through as plant capacity grows, and as new designs and products leverage the company's Italian design heritage.
- **Trading:** Trading has bounced back sharply from the 1H closures. Input prices remain subdued, and NDT's wide range of products and new plastic-based films should help sales to regain, and exceed, their former levels, assuming there is no further major disruption from COVID-19.
- **Valuation:** NDT is trading cheaply on our forecast multiples. At a ca.32% FY'21E EV/EBITDA discount to its nearest quoted peers, the market is more than adequately discounting for its smaller scale and lack of secondary market liquidity. Our central DCF valuation comes out at €5.27 per share.
- **Risks:** The key risk in the immediate term is the economic outlook for the construction business generally, but in western Europe in particular. Raw material price fluctuations and the possibility of more direct competition from Chinese manufacturers are also general concerns in the medium term.
- **Investment summary:** NDT specialises in high-quality décor paper and plastic film, and has strong relationships with its customers. It is looking to invest in further improvements in its machinery and new technologies. It listed on the Italian AIM market in September 2017, and it moved to the Main Market in May 2020. As familiarity grows and the new products comprise a larger proportion of the business, we would expect the valuation discount to continue to narrow. The performance in 2020, despite COVID-19, shows what a resilient business it is.

Financial summary and valuation

Year-end Dec (€m)	2017	2018	2019	2020E	2021E
Sales	128	134	136	128	140
EBITDA (reported)	15.2	17.7	15.9	14.0	18.0
EBIT	7.9	10.6	7.1	6.0	9.4
Net financial costs	-2.7	-3.0	-1.9	-3.0	-2.2
Pre-tax profit	5.2	7.6	5.2	3.0	7.2
Net income (reported)	4.1	6.0	4.0	2.6	5.7
Adjusted net income	4.8	7.3	5.7	2.6	5.7
Statutory EPS (€)	0.31	0.46	0.30	0.19	0.42
Adjusted EPS (€)	0.36	0.54	0.41	0.19	0.41
Shares issued (m)	13	13	13	13	14
P/E (x)	8.1	5.7	7.4	16.5	7.4
EV/EBITDA (x)	5.8	4.8	5.4	6.1	4.7

Source: Hardman & Co Research

Trading update

Strong bounce-back in second half

Hampered by negative external economic environment in 1H'20...

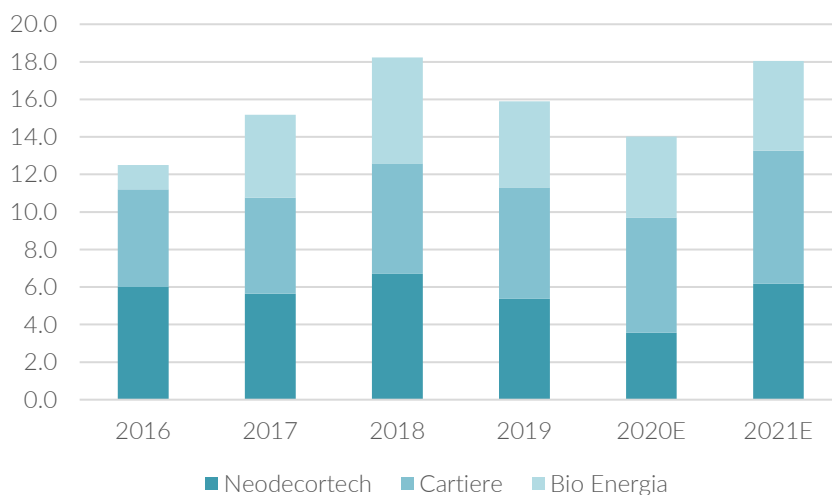
...but bounced back in 2H'20

Trading in the first half of 2020 was substantially disrupted by COVID-19 and the closure of the company's main plants following a government decree. The third quarter saw revenue up 4.6% vs. the same quarter in 2019, with the EBITDA margin up to 12.6%. These figures compared with revenue in the first half down 14% and the EBITDA margin down to 10.3%.

The company commented, in its update on 10 December, that the fourth quarter had seen the recovery in the third quarter continue, and that demand had been boosted by an emphasis on home furnishings, which NDT is well placed to supply. Two new lines – EOS and PPLF¹ – were in full operation, along with the new, wider 142cm laminate line. They should help boost both sales and margins in the years to come.

The company has said that revenue, net profit and EBITDA will have “outperformed by far” the 2020 budget. This has prompted our upgrade pushing FY'20 EBITDA from €13m to €14m and FY'21 EBITDA from €17m to €18m. We feel that the FY'21 numbers could be on the conservative side, as long as there are no more external shocks.

Neodecortech: EBITDA by division, 2016-21E (€m)



Source: Neodecortech, Hardman & Co estimates

Our new EBITDA forecast for FY'20 is 12% below 2019

We are forecasting FY'20 revenue to fall 6% and bounce back by 9% for FY'21. Our FY'20 reported EBITDA expectation of €14m is 12% below the unadjusted FY'19 level. Our FY'21 reported EBITDA estimate of €18m implies a 29% recovery.

Debt was relatively high, at 75% of equity, at the end of FY'18. It fell to 66% at the end of FY'19, and we had forecast that it would have continued to fall to ca.48% by the end of FY'20. We now expect net debt to be 72% of equity at the FY'20 year-

¹ EOS is a super-matt, anti-fingerprint product, and PPLF is plastic-printed laminated film, used largely in luxury vinyl flooring

end, before reducing again in FY'21. The interest cost is well covered by operating cashflow.

Risks

We identify four risks, in addition to normal business risks:

- ▶ The business is inevitably sensitive to the economic cycle and the construction sector, in particular. Any significant recurrence of COVID-19 and accompanying drastic government action will only exacerbate this further.
- ▶ Any sharp slowdown will make our forecasts difficult to achieve. Rises in raw material prices cannot be passed on straightaway, and so can cause a delay in profitability.
- ▶ The Chinese are large players in this sector, although currently are largely confined to their domestic market and to lower-quality products – any change in these two factors could provide additional competition for NDT.
- ▶ Shareholders should remember that they are a minority, with the Valentini family now controlling 62% of the company. The Valentini family sold 1.2m shares in October 2019, at €3.40 per share, and the percentage holding should come down further over time, as NDT looks to issue equity to invest in growth in the business.

Valuation

NDT trades at a significant discount to its two most closely related listed peers – Ahlstrom-Munksjö (Finland) and Surteco (Germany). Both suffered difficult trading in 2020, but their share prices have proved very resilient. At the current price, NDT is trading at a ca.32% EV/EBITDA discount to the average of its two peers for FY'21E.

Our central DCF valuation of €5.27 per share would put NDT on a 10% discount to the average EV/EBITDA multiples for 2021, and a 16% PER discount – justified, we believe, by NDT's smaller scale and lower liquidity.

Forecasts

For FY'20 as a whole, we now expect i) revenue in the paper business to fall by ca.11%, ii) revenue at Bio Energia Guarcino to be approximately flat, and iii) revenue in Neodecortech to shrink by 10%.

We hold the EBITDA margin assumption roughly constant in paper for the second half over the first half (ca. 11%), and we see a small decline in energy, even though the incentives are higher but energy prices are notably lower. We see a substantial improvement in the second-half margin in printed décor paper, as capacity benefits and the new products come through. As it moves further into higher-margin products, we see the EBITDA margin returning towards 11% in FY'21.

The depreciation and amortisation charge falls to €8.0m for FY'20E, which is still above the ca.€5m of normal capex the company plans to spend on maintaining the plant.

We assume the tax rate to fall to 15% in FY'20, before returning to a more normal ca.21% in FY'21.

There are no stock grant adjustments to be made in FY'20 and FY'21.

Our central DCF valuation comes out at
€5.27 per share

Increased our forecasts following strong
trading

All NDT's investment plans could not be funded out of internally generated cash alone. Acquisitions may be paid for with new shares, and the company has the authorisation for a capital increase of up to €10m. It has also issued a free warrant with each share. Four warrants can be converted into one share at a price of €4 per share. Since these are out of the money, they are not included in our EPS calculations.

Divisional forecasts					
Year-end Dec (€m)	2017	2018	2019	2020E	2021E
<i>Revenue</i>					
Neodecortech	43.8	50.9	56.5	51.0	57.1
Cartiere di Guarcino	56.4	50.8	47.0	42.0	45.4
Bio Energia Guarcino	23.2	29.2	29.5	30.0	33.0
Other	4.0	2.6	2.9	5.0	4.5
Total	127.5	133.5	135.9	128.0	140.0
<i>Growth</i>					
Neodecortech		16.1%	10.9%	-9.7%	12.0%
Cartiere di Guarcino		-10.0%	-7.5%	-10.7%	8.0%
Bio Energia Guarcino		25.8%	0.9%	1.7%	10.0%
Total		4.6%	1.7%	-5.8%	9.4%
<i>EBITDA (adjusted)</i>					
Neodecortech	5.6	6.7	5.4	3.6	6.2
Cartiere di Guarcino	5.1	5.9	5.9	6.1	7.1
Bio Energia Guarcino	4.4	5.6	4.6	4.3	4.8
Other	0.0	-0.5			
Total	15.2	17.7	15.9	14.0	18.0
adjustment	0.1	1.3	2.0	0.0	0.0
Adjusted EBITDA	15.2	19.0	17.9	14.0	18.0
<i>EBITDA margin</i>					
Neodecortech	12.9%	13.1%	9.5%	7.0%	10.8%
Cartiere di Guarcino	7.6%	9.3%	9.7%	11.2%	12.0%
Bio Energia Guarcino	16.7%	18.3%	14.5%	13.4%	13.5%
Other					
Total	11.9%	13.4%	11.6%	11.0%	12.9%

Source: Hardman & Co Research

Financial statements

Income statement					
Year-end Dec (€m)	2017	2018	2019	2020E	2021E
Revenue	127.5	133.5	135.9	128.0	140.0
Operating costs	-112.3	-115.8	-120.0	-114.0	-122.0
Gross profit	15.2	17.7	15.9	14.0	18.0
Depreciation and amortisation	-6.3	-7.2	-8.8	-8.0	-8.6
Impairment	-0.9	0.0	0.0	0.0	0.0
EBIT	7.9	10.6	7.1	6.0	9.4
Net financial costs	-2.7	-3.0	-1.9	-3.0	-2.2
Pre-tax profit	5.2	7.6	5.2	3.0	7.2
Tax	-1.1	-1.6	-1.2	-0.5	-1.5
Net income	4.1	6.0	4.0	2.6	5.7
Adjusted net income	4.8	7.3	5.7	2.6	5.7
No. of shares (m)	13.1	13.1	13.1	13.4	13.5
No. of shares (fully diluted, m)	13.3	13.5	13.6	13.8	13.8
Statutory EPS (€)	0.31	0.46	0.30	0.19	0.42
Adjusted EPS (fully diluted, €)	0.36	0.54	0.41	0.19	0.41
DPS (€)	0.110	0.153	0.145	0.100	0.120
Gross profit margin	11.7%	13.4%	11.6%	11.0%	12.9%
EBIT margin	6.1%	7.9%	5.2%	4.7%	6.7%
Tax rate	22%	21%	24%	15%	21%
Revenue growth	12%	3%	3%	-6%	9%
EBITDA growth	-3%	18%	-11%	-12%	29%
Pre-tax profit growth	-13%	47%	-32%	-42%	140%

Source: Hardman & Co Research

Cashflow statement					
Year-end Dec (€m)	2017	2018	2019	2020E	2021E
EBITDA	15.2	17.7	15.9	14.0	18.0
Working capital	-2.6	0.0	-1.9	0.3	-2.8
Capex	-7.6	-7.7	-7.7	-5.0	-6.8
Other	-3.1	0.5	0.3	0.0	0.0
Operating free cashflow	1.9	10.5	6.6	9.3	8.4
Disposal			2.4		
Tax	-0.8	-0.3	-0.7	-0.5	-1.5
Interest	-1.8	-1.7	-1.5	-3.0	-2.2
Dividends	-1.0	-2.0	-2.0	-1.9	-1.7
Equity	11.4	-0.1	-0.2	-0.2	
Debt	-3.1	-6.2	-7.6	10.0	
Net cashflow	6.6	0.2	-3.0	13.8	3.0

Source: Hardman & Co Research

Balance sheet statement					
@ 31 Dec (€m)	2017	2018	2019	2020E	2021E
Property, plant & equipment	72.6	76.7	78.9	80.0	82.0
Goodwill	1.3				
Intangible assets	3.3	3.5	2.9	2.9	2.9
Other non-current assets	3.7	3.9	2.0	4.1	4.1
Fixed assets	80.9	84.0	83.7	87.0	89.0
Trade receivables	26.3	24.1	19.2	19.1	20.9
Inventories	32.1	35.9	39.1	37.3	40.7
Other current receivables	7.8	5.8	4.9	5.0	5.0
Cash and equivalents	6.1	6.5	3.5	2.1	5.1
Current assets	72.3	72.3	66.8	63.5	71.8
Total assets	153.2	156.3	150.5	150.5	160.8
Trade payables	-33.6	-33.2	-31.3	-29.5	-32.3
Other payables	-3.6	-4.3	-4.7	-5.0	-4.7
Tax payable	-1.2	-1.9	-0.5	-0.5	-0.5
Debt	-22.0	-22.7	-20.5	-15.5	-15.5
Current liabilities	-60.5	-62.0	-57.0	-50.5	-52.9
Pension provisions	-2.9	-2.9	-2.9	-2.9	-2.9
Other provisions	-0.5	-0.7	-0.9	-0.9	-0.9
Deferred tax liabilities	-3.5	-4.3	-4.4	-4.4	-4.4
Long-term debt	-31.8	-27.9	-23.6	-30.6	-30.6
Non-current liabilities	-38.7	-35.7	-31.8	-38.8	-38.8
Total liabilities	-99.2	-97.7	-88.8	-89.3	-91.8
Net assets	54.0	58.6	61.7	61.2	69.0
Share capital	16.2	16.2	16.2	17.4	17.4
Reserves	37.8	42.4	45.5	43.8	51.6
Total equity	54.0	58.6	61.7	61.2	69.0
Net book value per share (€)	4.1	4.5	4.7	4.67	5.3
Net debt	-46.9	-44.0	-40.5	-44.0	-41.0
Debt/equity	87%	75%	66%	72%	59%

Source: Hardman & Co Research

Valuation

Simplest valuation methodology is peer comparison...

The simplest valuation methodology is to compare the valuation of the company with similar listed businesses. In NDT's case, there are similar businesses, but they tend to be substantially larger and, inevitably, while the operations are alike, they are not identical. The two most comparable companies, in our view, are Ahlstrom-Munksjö, listed in Finland, and Surteco, listed in Germany. The former is a producer of speciality paper, but is not a printer, and only ca.16% of its revenue is derived from décor papers. The latter produces decorative foils on paper and plastic. We show their valuation multiples in the table below.

The "Neodecortech @ value" is the valuation at our central DCF value of €5.27 per share, up from €5.13 previously, reflecting our reduced EBITDA forecasts for FY'20, but with a swift bounce-back expected in FY'21.

Peer group valuation comparison									
Company	Price (€)	Mkt cap (€m)	EV (€m)	EV/EBITDA 2020E (x)	EV/EBITDA 2021E (x)	P/E 2020E (x)	P/E 2021E (x)	EPS Growth 2020/19E	EPS Growth 2021/20E
Neodecortech	3.06	41	85	6.1	4.7	16.5	7.4	-55%	123%
Neodecortech @ value	5.31	70	114	8.1	6.3	27.1	12.1	-55%	123%
Ahlstrom-Munksjö	18.0	2,093	2,909	8.6	7.5	21.1	14.5	nm	45%
Surteco	23.8	372	524	7.0	6.4	18.0	14.3	-11%	26%

Source: Hardman & Co Research; based on prices as at 04/01/21

NDT trades at a discount of ca.32% to the average of peers' 2021 EV/EBITDA multiples and, even more, to P/E multiples. Some of this may be reasonably attributed to the lower liquidity in the shares and the scale of the business generally, and the valuation at our central DCF value looks closer to what may be thought reasonable. Of course, the smaller scale also gives NDT the chance to grow faster, from its ability to move more nimbly.

DCF

...while objective form is DCF

The objective form of valuation is a discounted cashflow (DCF) calculation. The problems with the DCF method are well-documented – most notably the huge sensitivity to both assumed growth rates and the discount rate used. We tend to use a central assumption of 10% cost of equity, and value the equity in the business. We also typically use a nominal 3% growth rate for the perpetuity calculation – equivalent to a conservative long-run estimate of nominal GDP growth. For NDT, we have assumed growth in cashflows between FY'21 (our last forecast year) and FY'25 of 5% for our central case, with the exception of FY'22, where we have assumed 10% growth, reflecting a bounce-back to more normal trading.

DCF valuation								
€m	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	133.7	135.9	128.0	140.0	154.0	161.7	169.8	178.3
EBITDA (reported)	17.7	15.9	14.0	18.0	19.9	20.8	21.9	23.0
Working capital	0.0	-1.9	0.3	-2.8	-3.1	-3.3	-3.4	-3.6
Capex	-7.7	-7.7	-5.0	-6.8	-7.5	-7.9	-8.2	-8.7
Tax	-0.3	-0.7	-0.5	-1.5	-1.7	-1.8	-1.8	-1.9
Net cashflow	9.7	5.6	8.9	6.9	7.6	8.0	8.4	8.8
Discount factor	10%	0.9	1.0	1.1	1.2	1.3	1.4	1.5
Discounted cashflow				6.6	6.6	6.3	6.0	5.7

Source: Hardman & Co Research

DCF summation	
Value components	€m
2020-25E	31.1
2026E onwards	84.0
Total	115.1
less net debt end-2020E	-44.0
Equity value	71.1
Equity value per share (€)	5.27

Source: Hardman & Co Research

Our central DCF valuation is €5.27

Our forecast range of values, based on the DCF methodology, gives a value of €3.11 to €8.92 per share, with a central value, at a 5% mid-term growth rate and using our 10% discount rate, of €5.27.

DCF sensitivity table (€)				
Discount rate/mid-term growth	3%	4%	5%	6%
8%	8.04	8.32	8.62	8.92
10%	4.87	5.07	5.27	5.47
12%	3.11	3.26	3.40	3.56

Source: Hardman & Co Research

Lastly, it is worth noting that our estimated FY'20 book value of the company equates to €4.67 per share and that the replacement cost of the assets is substantially higher.

Risks

As noted, the four key risks, other than usual business risks, that we see for NDT are the economic cycle, raw material prices, the competition from China and the minority shareholding position. A serious recurrence of COVID-19 could also have a negative impact on the company's operations and especially those of its customers, although the winter "second wave" has not had such an impact so far.

- ▶ The company is clearly exposed to the economic cycle and, if there is a marked downturn, especially affecting the construction sector, then our forecasts are unlikely to be met. NDT's debt is well-structured, and there should be no problem servicing it in any short-lived recession, in our view.
- ▶ Raw material prices, as previously noted, should only have a timing issue on profitability, as the price moves get passed on – in both directions. However, if there were a sustained increase in prices, then the products NDT produces might be subject to substitution.
- ▶ China is a big producer of décor paper – about half the global total. Currently, its production tends to be at the lower-quality end, and is mostly absorbed domestically. In the future, a shortfall in demand and/or a move up the quality spectrum could make China a more intense competitor of western European producers.
- ▶ Shareholders in NDT have to remember that they are minority holders; the Valentini family now controls 62% of the equity, having sold down 1.2m shares at €3.40 in October 2019.

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In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

