



4 March 2021

Paper & Packaging



Source: Refinitiv

Market data

EPIC/TKR	NDT.MI
Price (€)	3.44
12m High (€)	3.64
12m Low (€)	2.12
Shares (m)	13.5
Mkt Cap (€m)	46
EV (€m)	86
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 90% of its revenues are generated in Italy and Europe.

Company information

Chairman	Riccardo Bruno
CEO	Luigi Cologni
CFO	Fabio Zanobini

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www.neodecortech.it

Key shareholders

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

Diary

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

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NEODECORTECH

Strong FY'20 results

Neodecortech (NDT) announced that it had significantly outperformed its baseline projection from last summer. Trading was driven by a focus on home furnishings and new products, with turnover down only 4%, despite the closures last spring. EBITDA was a very creditable €14.6m (ahead of our €14m forecast), and net debt actually fell marginally to €40m. These figures, plus the €0.09 dividend, show the strength of NDT's business and the value of its investment in new products.

- **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 been helped by the new emphasis on working from home, and this has pushed demand for furniture – the main outlet for its decorative papers. Sales to Italy were up for the year, as they were to America; the rest of Europe saw an 8% decline. The Energy division also saw rising sales (+8%).
- **Valuation:** NDT is trading cheaply on our forecast multiples. At a ca.35% 2022E 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 €5.45 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 increase investment in further improvements in its machinery and new technologies. 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 business is operating at full capacity currently, with good forecast orders for the first quarter. The very strong performance in 2H'20, despite COVID-19, shows what a resilient and high-quality business it is.

Financial summary and valuation

Year-end Dec (€m)	2018	2019	2020	2021E	2022E
Sales	134	136	128	140	150
EBITDA (reported)	17.7	15.9	14.6	18.6	20.4
EBIT	10.6	7.1	5.5	9.1	10.4
Net financial costs	-3.0	-1.9	-1.4	-2.0	-2.0
Pre-tax profit	7.6	5.2	4.1	7.1	8.4
Net income (reported)	6.0	4.0	3.5	5.6	6.6
Adjusted net income	7.3	5.7	3.5	5.6	6.6
Statutory EPS (€)	0.46	0.30	0.26	0.41	0.49
Adjusted EPS (€)	0.54	0.41	0.26	0.40	0.47
Shares issued (m)	13	13	13	14	14
P/E (x)	6.4	8.3	13.5	8.5	7.3
EV/EBITDA (x)	4.7	5.2	5.7	4.5	4.1

Source: Hardman & Co Research

Trading update

Strong bounce-back in second half

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

...but bounced back strongly 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. Revenue in the first half was down 14% and the EBITDA margin fell to 10.3%. In the second half, revenue was actually up (2%) on the previous year on very similar EBITDA margins (13.1%)

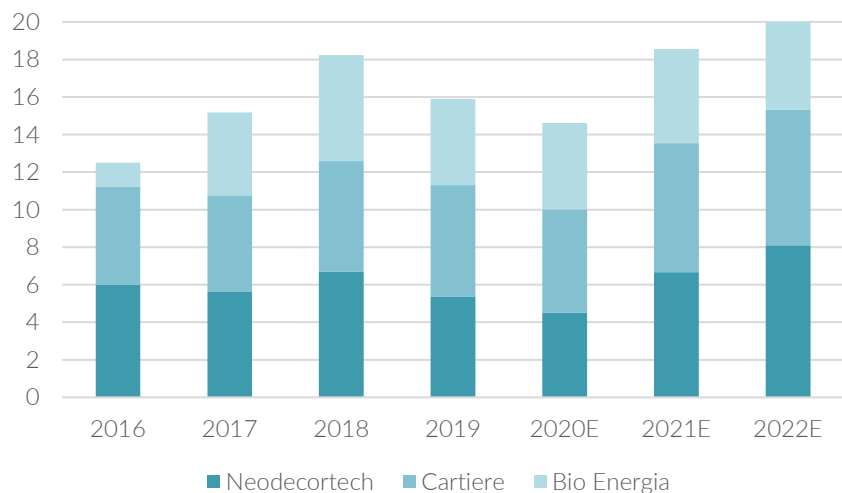
The company commented that demand had been boosted by an emphasis on home furnishings, which NDT is well placed to supply. Two new lines – EOS and PPLF¹ – were in full operation, along with the new, wider 142cm laminate line. They should help boost both sales and margins in the years to come. At Cartiere (the decorative paper division), new developments include Velvet Paper and paper for use in food packaging; these should help boost revenue in 2021 and beyond.

In the Energy Division, Bio Energia Guarcino, incentives will be ca.10% higher this year, and energy prices, which hit an all-time low in 2020, are expected to trend upwards on the back of higher gas prices. Bio uses animal by-products as its only fuel and supplies all of Cartiere's electricity. Neodecortech (the printed paper division) uses only renewable source energy.

We feel that next year's numbers could be on the conservative side, as long as there are no more external shocks.

We have added some 2022 forecasts too. We assume growth continues at a modest pace: revenue +7%, EBITDA +10%.

Neodecortech: EBITDA by division, 2016-22E (€m)



Source: Neodecortech, Hardman & Co estimates

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

Our new EBITDA forecast for FY'21 is 27% above the FY'20 figure

We are forecasting revenue to grow 10% in FY'21 and 7% in FY'22. Our FY'21 reported EBITDA expectation is €18.6m – above the €17.7m peak in FY'18 and 27% ahead of FY'20. For FY'22, we estimate reported EBITDA of €20.4m – a 10% further improvement.

Debt was relatively high, at 75% of equity, at the end of 2018. This fell to 66% at the end of FY'19, and further, to ca.65%, by the end of FY'20. We now expect net debt to be 55% of equity at the FY'21 year-end, before reducing again the following year. The interest cost is well covered by operating cashflow.

NDT announced a €0.09 dividend for 2020, down from €0.145 in 2019 – but still a real show of strength in a year so disrupted by COVID-19 and with big new investments planned.

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

Our central DCF valuation comes out at €5.45 per share

NDT trades at a significant discount to its two most closely related listed peers – Ahlstrom-Munksjö (Finland) and Surteco (Germany). Both have suffered difficult trading this year, but their share prices have proved very resilient. At the current price, NDT is trading at a ca.35% EV/EBITDA discount to the average of its two peers for FY'22E.

Our central DCF valuation of €5.45 per share would put NDT on a 10% discount to the average EV/EBITDA multiples for 2022, and a 14% PER discount – justified, we believe, by NDT's smaller scale and lower liquidity.

Forecasts

Increased our forecasts following strong trading

For 2021 as a whole, we now expect i) revenue in the paper business to grow by ca.8%, ii) revenue at Bio Energia Guarcino to also grow by 8%, and iii) revenue in Neodecortech to grow by 12%.

We are assuming that the EBITDA margins in the paper businesses will see significant improvements over the COVID-19-impacted 2020 figures. With Cartiere's margins up to 12% in 2021E and Neodecortech's, driven by its new

products, up to 10.8%, we see energy margins roughly stable, at 13.5%, with both higher incentives and energy prices offset by higher input costs.

The depreciation and amortisation charge rises to €9.5m for 2021E, which is above the ca.€5m of normal capex the company plans to spend on maintaining the plant, but reflects the higher investment being made in new products and productivity improvement.

We assume the tax rate returns to a more normal ca.21% in 2021 and 2022.

There are no stock grant adjustments to be made in 2020 and 2021.

NDT plans to ramp up investment in 2021 and, to a lesser extent, in 2022. We are forecasting a spend of €10m in 2022 and €8m in 2023. This will fund new machinery at the Bergamo plant and the innovative products at Cartiere (Velvet Paper and food paper).

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)	2018	2019	2020	2021E	2022E
Revenue					
Neodecortech	50.9	56.5	55.2	61.8	64.9
Cartiere di Guarcino	50.8	47.0	40.0	43.2	46.2
Bio Energia Guarcino	29.2	29.5	28.0	30.2	36.0
Other	2.6	2.9	4.7	4.8	3.0
Total	133.5	135.9	127.8	140.0	150.0
Growth					
Neodecortech	16.1%	10.9%	-2.3%	12.0%	5.0%
Cartiere di Guarcino	-10.0%	-7.5%	-13.5%	8.0%	5.0%
Bio Energia Guarcino	25.8%	0.9%	8.4%	8.0%	5.0%
Total	4.7%	1.7%	-5.9%	9.5%	7.1%
EBITDA					
Neodecortech	6.7	5.4	4.5	6.7	8.1
Cartiere di Guarcino	5.9	5.9	5.5	6.9	7.2
Bio Energia Guarcino	5.6	4.6	4.6	5.0	5.1
Other	-0.5				
Total	17.7	15.9	14.6	18.6	20.4
adjustment	1.3	2.0	0.0		
Adjusted EBITDA	19.0	17.9	14.6	18.6	20.4
EBITDA margin					
Neodecortech	13.2%	9.5%	8.2%	10.8%	12.5%
Cartiere di Guarcino	9.0%	9.7%	10.4%	12.0%	12.0%
Bio Energia Guarcino	18.0%	14.5%	13.4%	13.5%	13.0%
Total	13.3%	11.7%	11.4%	13.3%	13.6%

Source: Hardman & Co Research

Financial statements

Income statement					
Year-end Dec (€m)	2018	2019	2020	2021E	2022E
Revenue	133.5	135.9	127.8	140.0	150.0
Operating costs	-115.8	-120.0	-113.2	-121.4	-129.6
Gross profit	17.7	15.9	14.6	18.6	20.4
Depreciation and amortisation	-7.2	-8.8	-9.1	-9.5	-10.0
Impairment	0.0	0.0	0.0	0.0	0.0
EBIT	10.6	7.1	5.5	9.1	10.4
Net financial costs	-3.0	-1.9	-1.4	-2.0	-2.0
Pre-tax profit	7.6	5.2	4.1	7.1	8.4
Tax	-1.6	-1.2	-0.5	-1.5	-1.8
Reported net income	6.0	4.0	3.5	5.6	6.6
Adjusted net income	7.3	5.7	3.5	5.6	6.6
No. of shares (m)	13.1	13.1	13.4	13.5	13.6
No. of shares (fully diluted, m)	13.5	13.6	13.8	13.8	14.0
Statutory EPS (€)	0.46	0.30	0.26	0.41	0.49
Adjusted EPS (fully diluted, €)	0.54	0.41	0.26	0.40	0.47
DPS (€)	0.153	0.145	0.09	0.12	0.14
EBITDA margin	13.3%	11.7%	11.4%	13.3%	13.6%
EBIT margin	7.9%	5.2%	4.3%	6.5%	6.9%
Tax rate	21%	24%	13%	21%	21%
Revenue growth	5%	2%	-6%	10%	7%
EBITDA growth	17%	-10%	-8%	27%	10%
Pre-tax profit growth	47%	-32%	-22%	74%	19%

Source: Hardman & Co Research

Cashflow statement					
Year-end Dec (€m)	2018	2019	2020	2021E	2022E
Reported EBITDA	17.7	15.9	14.6	18.6	20.4
Working capital	0.0	-1.9	-1.6	-2.9	-3.3
Capex	-7.7	-7.7	-6.2	-10.0	-8.0
Other	0.5	0.3	0.0	0.0	0.0
Operating free cashflow	10.5	6.6	6.8	5.6	9.1
Disposal		2.4			
Tax	-0.3	-0.7	-0.5	-1.5	-1.8
Interest	-1.7	-1.5	-1.4	-2.0	-2.0
Dividends	-2.0	-2.0	-1.9	-1.7	-1.9
Equity	-0.1	-0.2	-0.2		
Debt	-6.2	-7.6	10.9		
Net cashflow	0.2	-3.0	13.6	0.5	3.4

Source: Hardman & Co Research

Balance sheet statement					
@ 31 Dec (€m)	2018	2019	2020	2021E	2022E
Property, plant & equipment	76.7	78.9	77.2	82.0	84.0
Goodwill					
Intangible assets	3.5	2.9	2.2	2.2	2.2
Other non-current assets	3.9	2.0	1.9	4.1	4.1
Fixed assets	84.0	83.7	81.3	88.3	90.3
Trade receivables	24.1	19.2	19.3	21.1	22.6
Inventories	35.9	39.1	36.7	40.2	42.6
Other current receivables	5.8	4.9	3.9	3.9	5.0
Cash and equivalents	6.5	3.5	7.6	8.1	11.5
Current assets	72.3	66.8	67.4	73.2	81.7
Total assets	156.3	150.5	148.8	161.5	172.0
Trade payables	-33.2	-31.3	-25.6	-28.0	-30.0
Other payables	-4.3	-4.7	-4.7	-4.7	-4.4
Tax payable	-1.9	-0.5	-1.2	-1.2	-1.2
Debt	-22.7	-20.5	-18.7	-18.7	-18.7
Current liabilities	-62.0	-57.0	-50.1	-52.6	-54.3
Pension provisions	-2.9	-2.9	-2.7	-2.9	-2.9
Other provisions	-0.7	-0.9	-1.3	-1.3	-1.3
Deferred tax liabilities	-4.3	-4.4	-4.1	-4.1	-4.1
Long-term debt	-27.9	-23.6	-28.8	-28.8	-28.8
Non-current liabilities	-35.7	-31.8	-37.0	-37.1	-37.1
Total liabilities	-97.7	-88.8	-87.1	-89.7	-91.4
Net assets	58.6	61.7	61.7	71.9	80.6
Share capital	16.2	16.2	17.4	17.4	18.4
Reserves	42.4	45.5	44.3	54.5	62.2
Total equity	58.6	61.7	61.7	71.9	80.6
Net book value per share (€)	4.47	4.71	4.71	5.48	6.15
Net debt	-44.0	-40.5	-39.9	-39.4	-36.0
Debt/equity	75%	66%	65%	55%	45%

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 €5.45 per share, up from €5.27 previously, reflecting our slightly higher EBITDA forecasts for 2021 and continued growth in 2022.

Peer group valuation comparison									
Company	Price (€)	Mkt cap (€m)	EV (€m)	EV/EBITDA 2021E (x)	EV/EBITDA 2022E (x)	P/E 2021E (x)	P/E 2022E (x)	EPS Growth 2021/20E	EPS Growth 2022/21E
Neodecortech	3.44	46	86	4.7	4.2	8.5	7.3	58%	19%
Neodecortech @ value	5.45	71	111	7.6	6.0	12.8	10.8	58%	19%
Ahlstrom-Munksjö	17.8	2,061	2,804	7.3	6.9	13.9	12.7	15%	9%
Surteco	26.5	412	561	6.6	6.0	15.1	12.2	6%	24%

Source: Hardman & Co Research; based on prices as at 03/03/21

NDT trades at a discount of ca.35% to the average of peers' 2022E EV/EBITDA multiples, and at an even greater discount 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 2021 (our last forecast year) and 2025 of 5% for our central case, with the exception of 2022, where we have assumed 10% growth, reflecting a bounce-back to more normal trading.

DCF valuation								
€m	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenue	133.7	135.9	127.8	140.0	150.0	157.5	165.4	173.6
EBITDA (reported)	17.7	15.9	14.6	18.6	20.4	21.4	22.5	23.6
Working capital	0.0	-1.9	-1.6	-2.9	-3.3	-3.5	-3.6	-3.8
Capex	-7.7	-7.7	-6.2	-10.0	-8.0	-8.2	-8.6	-9.0
Tax	-0.3	-0.7	-0.5	-1.5	-1.8	-1.8	-1.9	-2.0
Net cashflow	9.7	5.6	6.3	4.2	7.3	7.9	8.3	8.7
Discount factor	10%	0.9	0.9	1.0	1.1	1.2	1.4	1.5
Discounted cashflow				4.0	6.5	6.3	6.0	5.8

Source: Hardman & Co Research

DCF summation	
Value components	€m
2021-25E	28.6
2026E onwards	84.8
Total	113.5
less net debt end-2020	-39.9
Equity value	73.6
Equity value per share (€)	5.45

Source: Hardman & Co Research

Our central DCF valuation is €5.45

Our forecast range of values, based on the DCF methodology, gives a value of €3.19 to €9.20 per share, with a central value, at a 5% mid-term growth rate and using our 10% discount rate, of €5.45.

DCF sensitivity table (€)				
Discount rate/mid-term growth	3%	4%	5%	6%
8%	7.99	8.39	8.79	9.20
10%	4.90	5.17	5.45	5.73
12%	3.19	3.39	3.60	3.81

Source: Hardman & Co Research

Lastly, it is worth noting that the 2020 book value of the company equates to €4.71 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: <https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.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.

