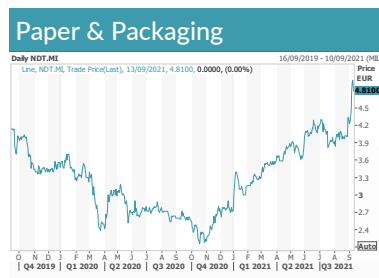




13 September 2021



Source: Refinitiv

Market data

EPIC/TKR	NDT.MI
Price (€)	4.94
12m High (€)	4.99
12m Low (€)	2.12
Shares (m)	13.5
Mkt Cap (€m)	67
EV (€m)	109
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%
Azimet Capital	5%
ARCA Fondi	3%
Mediolanum	3%

Diary

21 Sep	1H21 results
19 Oct	3Q21 results

Analyst

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NEODECORTECH

Business booming

1H21 results from Neodecortech (NDT) confirmed the trend of the first quarter. Revenue was up 41% vs. 1H20, but, more tellingly, it was up 21% vs. 1H19, demonstrating the strength of NDT's new products and its European markets. That strength has continued into 3Q. We have raised our revenue forecasts significantly, as well as our earnings forecasts, although there is some offsetting of additional costs, as the price of energy and raw materials has risen sharply.

- ▶ **Trading:** Decorative paper, bolstered by its new higher-margin products – EOS and PPLF – saw revenue up 75% and margins up to 14.3%, their highest for three years. This was achieved partly by passing on higher input costs and despite shortages of resin affecting production.
- ▶ **Trading 2:** Cartiere, the paper business, also saw strong revenue gains compared with both 2020 and 2019. Pulp prices were driven higher by strong demand in both China and Europe, but the company comments that this trend seems to have come to an end, and prices are expected to stay steady or decline in coming months.
- ▶ **Valuation:** NDT has performed strongly but remains relatively cheap on our forecast multiples. At a ca.20% EV/EBITDA discount to its nearest quoted peer for both 2021E and 2022E, the market is still over-discounting for its smaller scale, in our view. Our central DCF valuation comes out at €6.74 per share, up from €5.58.
- ▶ **Risks:** The key risk in the immediate term is the economy slowing down after a very strong bounce. Raw material price rises have been passed on so far but must have an impact on overall demand. There is the possibility of more direct competition from Chinese manufacturers 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 increasing investment in further improvements in its machinery and new technologies. As familiarity with the company grows (its STAR listing is helping here), and as 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. The very strong performance since the worst of 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	134	160	164
EBITDA (reported)	17.7	15.9	14.6	19.1	20.0
EBIT	10.6	7.1	5.5	9.6	10.0
Net financial costs	-3.0	-1.9	-1.4	-2.0	-2.0
Pre-tax profit	7.6	5.2	4.1	7.6	8.0
Net income (reported)	6.0	4.0	3.5	6.0	6.3
Net income (adjusted)	7.3	5.7	3.5	6.0	6.3
Statutory EPS (€)	0.46	0.30	0.26	0.45	0.47
Adjusted EPS (€)	0.54	0.41	0.26	0.43	0.45
Shares issued (m)	13	13	13	13	14
P/E (x)	9.2	11.9	19.3	11.4	10.9
EV/EBITDA (x)	6.1	6.9	7.4	5.7	5.4

Source: Hardman & Co Research

First-half results

Strong bounce-back continues

Hampered by negative external economic environment in 1H20...

...but bounced back strongly in 2H20, and continued to do so into 1Q21

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%. By contrast, the first half of 2021 has seen plant operating at full capacity and large raw material prices passed on to end customers with no obvious impact on demand.

Revenue grew by 41% compared with 1H'20 but also by 21% compared with 1H19 (€68.7m). EBITDA rose by 74%, to €9.8m, compared with 1H20 and by 39% versus 1H19 (€7.1m). Net profit came to €3.1m in 1H21, compared with roughly breakeven in 1H20 and €1.1m in 1H19.

Summary of 1H21 results

Year-end Dec (€m)	1H19	1H20	1H21	1H21 vs. 1H20
Revenue	68.7	59.1	83.3	41%
EBITDA	7.1	5.6	9.8	74%
EBIT	2.9	1.2	5.3	330%
Net income	1.1	0.2	3.1	nm
EBITDA margin	10.3%	9.5%	11.8%	

Note: 1H20 EBITDA includes a large insurance payment and other one-off items totalling ca.€2.8m
Source: Hardman & Co Research

In 1H21, printed decorative paper sales were up 75%, and sales in decorative paper grew 61%, with an EBITDA margin of 14.3% and 8%, respectively. The printed decorative paper business continues to benefit from the new higher-margin products, but the paper business margins were squeezed by higher raw material costs; this should ease somewhat in the second half. Greater efficiency saw staff costs fall as a percentage of sales, partially offsetting the rise in input costs.

It was noticeable that the performance was strong in every geographical region, with sales in Italy rising 82% and the rest of Europe growing at 52%, while Asian (including the Middle East) sales quadrupled (to €4.8m) and America was up 85%.

The company continued to generate operational cash, despite a €4.5m capex investment in 1H and working capital swelling by €3m. Net financial debt rose marginally to €41m in the half year.

Growth drivers

Home furnishings should boost sales and margins going forward...

...and decorative paper should boost revenues...

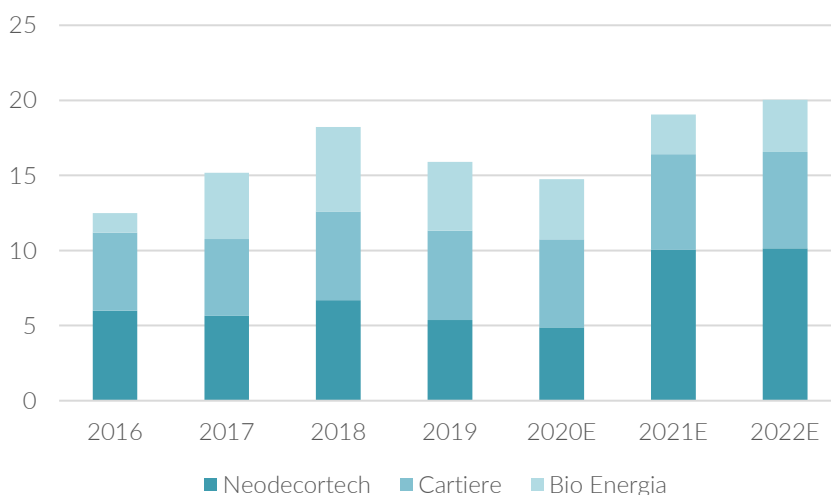
The company has previously commented that demand has been boosted by an emphasis on home furnishings and flooring, which NDT is well-placed to supply. Two new lines – EOS and PPLF¹ – were in full operation during 1Q, along with the new, wider 142cm laminate line. They should help boost both sales and margins in the years to come. At Cartiere di Guarcino (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.

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

...but lower contribution expected from energy division

In the energy division, Bio Energia Guarcino (Bio), revenues were flat in 1H21 on 1H20, with lower output offset by higher selling prices. Production was affected by the closure of two engines for scheduled maintenance and then a decision by management to run only two engines, as the price of animal fats rose. 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. Electricity prices hit a nine-year high of €84.20 €/MWh in June, and are expected to rise further in the second half, while some of the raw material input prices are expected to fall. Incentives will be ca.€20/MWh higher next year.

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



Source: Neodecortech, Hardman & Co estimates

Our new 2021 EBITDA forecast is 27% above 2020 figure

We are forecasting underlying revenue (i.e. excluding “other revenue”) to grow by 20% in 2021 and by a further 2.5% in 2022. Our 2021 reported EBITDA expectation is now €19.1m (up from €18.6m) – above the €17.7m peak in 2018 and 30% ahead of 2020. For 2022, we estimate reported EBITDA of €20.0m – a 5% further improvement.

We expect net debt of €42m to be 59% of equity at the 2021E year-end, before reducing again the following year. 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 always be passed on straightaway, and so can cause a delay in profitability.
- ▶ The Chinese are big 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 €6.74 per share

NDT trades at a significant discount to its most closely related listed peer – Surteco (Germany). Ahlstrom-Munksjö (Finland) was delisted in June. At Surteco's current price (€37) and Ahlstrom's latest recorded price (€17.8), both were trading at around 7x 2022E EBITDA. At the current price, NDT is trading at a ca.20% EV/EBITDA discount to Surteco for both 2021E and 2022E.

Our central DCF valuation of €6.74 per share would put NDT on roughly the same EV/EBITDA and P/E multiples as Surteco for 2022E.

Forecasts

Increasing our forecasts following strong trading

For 2021, as a whole, we now expect i) revenue at Cartiere to grow by 30%, ii) revenue at Bio to shrink by 2%, and iii) revenue at NDT to grow by 30%.

We had assumed that the EBITDA margins in the paper businesses would see significant improvements over the COVID-19-impacted 2020 figures, but the raw material increases have dented Cartiere's margins: we now have them up to 9% for 2021, after 8% in the first half, rising to 10% in 2022. NDT's margins, driven by its new products, maintain the first-half run rate of 14% through the rest of this year and next. We expect margins at Bio to narrow to 8% in 2021, but to bounce back to 10% in 2022 with slightly higher incentives that year.

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 improvements.

It seems as though 2021 will have been a very strong year, and so we are conservative with our revenue estimates for 2022. We assume only nominal growth in the two paper divisions and a small bounce in the energy division.

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

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

NDT has ramped up investment in 2021 and will, to a lesser extent, sustain that in 2022. We are forecasting a spend of €12m in 2021 and €9m in 2022. This will fund new machinery at the Bergamo plant and the innovative products at Cartiere (Velvet Paper and food packaging 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.

Divisional forecasts					
Year-end Dec (€m)	2018	2019	2020	2021E	2022E
Revenue					
Neodecortech	50.9	56.5	55.2	71.7	72.4
Cartiere di Guarcino	50.8	47.0	40.7	52.9	57.5
Bio Energia Guarcino	29.2	29.5	32.0	31.3	31.6
Other	2.6	2.9	5.9	4.0	2.4
Total	133.5	135.9	133.7	160.0	164.0
Growth					
Neodecortech	16.1%	10.9%	-2.3%	30.0%	1.0%
Cartiere di Guarcino	-10.0%	-7.5%	-13.5%	30.0%	1.0%
Bio Energia Guarcino	25.8%	0.9%	8.4%	-2.0%	4.0%
Total	4.7%	1.7%	-1.6%	19.7%	2.5%
Reported EBITDA					
Neodecortech	6.7	5.4	4.9	10.0	10.1
Cartiere di Guarcino	5.9	5.9	5.9	6.4	6.4
Bio Energia Guarcino	5.6	4.6	4.0	2.7	3.5
Other	-0.5		-0.1		
Total	17.7	15.9	14.6	19.1	20.0
- adjustment	1.3	2.0	0.0		
Adjusted EBITDA	19.0	17.9	14.6	19.1	20.0
EBITDA margin					
Neodecortech	13.2%	9.5%	8.9%	14.0%	14.0%
Cartiere di Guarcino	9.0%	9.7%	10.8%	9.0%	9.0%
Bio Energia Guarcino	18.0%	14.5%	11.8%	8.0%	10.0%
Total	13.3%	11.7%	10.9%	11.9%	12.2%

Source: Hardman & Co Research

Financial statements

Income statement					
Year-end Dec (€m)	2018	2019	2020	2021E	2022E
Revenue	133.5	135.9	133.7	160.0	164.0
Operating costs	-115.8	-120.0	-119.1	-140.9	-144.0
Gross profit	17.7	15.9	14.6	19.1	20.0
Depreciation and amortisation	-7.2	-8.8	-9.1	-9.5	-10.0
Impairments	0.0	0.0	0.0	0.0	0.0
EBIT	10.6	7.1	5.5	9.6	10.0
Net financial costs	-3.0	-1.9	-1.4	-2.0	-2.0
Pre-tax profit	7.6	5.2	4.1	7.6	8.0
Tax	-1.6	-1.2	-0.5	-1.6	-1.7
Reported net income	6.0	4.0	3.5	6.0	6.3
Adjusted net income	7.3	5.7	3.5	6.0	6.3
No. of shares (m)	13.1	13.1	13.4	13.4	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	0.45	0.47
Adjusted EPS (fully diluted, €)	0.54	0.41	0.26	0.43	0.45
DPS (€)	0.153	0.145	0.09	0.13	0.14
EBITDA margin	13.3%	11.7%	10.9%	11.9%	12.2%
EBIT margin	7.9%	5.2%	4.1%	6.0%	6.1%
Tax rate	21%	24%	13%	21%	21%
Revenue growth	5%	2%	-2%	20%	3%
EBITDA growth	17%	-10%	-8%	30%	5%
Pre-tax profit growth	47%	-32%	-22%	86%	6%

Source: Hardman & Co Research

Cashflow statement					
Year-end Dec (€m)	2018	2019	2020	2021E	2022E
Reported EBITDA	17.7	15.9	14.6	19.1	20.0
Working capital	0.0	-1.9	-1.6	-6.0	-1.8
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	3.1	10.2
Disposal		2.4			
Tax	-0.3	-0.7	-0.5	-1.6	-1.7
Interest	-1.7	-1.5	-1.4	-2.0	-2.0
Dividends	-2.0	-2.0	-1.9	-1.8	-1.9
Equity	-0.1	-0.2	-0.2		
Debt	-6.2	-7.6	10.9		
Net cashflow	0.2	-3.0	13.6	-2.3	4.6

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
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	23.0	23.6
Inventories	35.9	39.1	36.7	43.9	44.5
Other current receivables	5.8	4.9	3.9	3.9	5.0
Cash and equivalents	6.5	3.5	7.6	5.3	9.9
Current assets	72.3	66.8	67.4	76.1	83.0
Total assets	156.3	150.5	148.8	164.4	173.3
Trade payables	-33.2	-31.3	-25.6	-30.6	-31.4
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	-55.1	-55.6
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	-92.3	-92.8
Net assets	58.6	61.7	61.7	72.1	80.6
Share capital	16.2	16.2	17.4	17.4	18.4
Reserves	42.4	45.5	44.3	54.7	62.2
Total equity	58.6	61.7	61.7	72.1	80.6
Net book value per share (€)	4.47	4.71	4.71	5.51	6.15
Net debt	-44.0	-40.5	-39.9	-42.2	-37.6
Debt/equity	75%	66%	65%	59%	47%

Source: Hardman & Co Research

Valuation

Peer 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, very recently delisted from 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 €6.74 per share, up from €5.58 previously, reflecting our higher EBITDA forecasts for 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	4.94	67	109	5.7	5.4	11.4	10.9	69%	6%
Neodecortech @ value	6.74	88	131	8.9	6.8	14.8	13.9	69%	6%
Ahlstrom-Munksjö	17.8	2,061	2,804	7.3	6.9	13.9	12.7	15%	9%
Surteco	37.1	575	720	7.0	6.9	14.4	13.6	11%	6%

Note: based on Surteco price as at 7/09/21 and Ahlstrom as at 1/6/21. Source: Hardman & Co Research

NDT trades at a ca.20% EV/EBITDA discount to the average of its peers for both 2021E and 2022E, 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 2022E (our last forecast year) and 2025E of 5% for our central case.

DCF valuation

€m	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenue	133.7	135.9	133.7	160.0	164.0	172.2	180.8	189.9
EBITDA (reported)	17.7	15.9	14.6	19.1	20.0	21.0	22.1	23.2
Working capital	0.0	-1.9	-1.6	-6.0	-1.8	-1.9	-2.0	-2.1
Capex	-7.7	-7.7	-6.2	-10.0	-8.0	-8.2	-8.6	-9.0
Tax	-0.3	-0.7	-0.5	-1.6	-1.7	-1.8	-1.9	-2.0
Net cashflow	9.7	5.6	6.3	1.5	8.5	9.1	9.6	10.1
Discount factor	10%	0.9	0.9	1.0	1.1	1.2	1.3	1.4
Discounted cashflow					7.9	7.7	7.4	7.0

Source: Hardman & Co Research

DCF summation

Value components	€m
2022-25E	30.0
2026E onwards	103.3
Total	133.3
less net debt end-2021	-42.2
Equity value	91.0
Equity value per share (€)	6.74

Source: Hardman & Co Research

Our central DCF valuation is €6.74

Our forecast range of values, based on the DCF methodology, gives a value of between €4.08 and €11.15 per share, with a central value, at a 5% mid-term growth rate and using our 10% discount rate, of €6.74.

DCF sensitivity table (€)

Discount rate/mid-term growth	3%	4%	5%	6%
8%	9.74	10.20	10.67	11.15
10%	6.10	6.42	6.74	7.07
12%	4.08	4.32	4.56	4.81

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. NDT has only recently started trading at above historical book value.

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 Delta 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 to be 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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