16 March 2022

HARDMAN&CO.

NEODECORTECH

Very strong 2021

FY'21 results from Neodecortech (NDT) confirmed the trend of the first half. Total revenue was up 37% vs. FY'20, but, more tellingly, it was up 33% vs. pre-COVID FY'19, demonstrating the strength of NDT's new products and its European markets. Growth has continued in the first two months of 2022 but at a lower rate. Our revised forecasts reflect the difficulties of raw material price increases and the unknown impacts of the Ukraine conflict.

- **Trading:** Decorative paper, bolstered by its new higher-margin products – EOS and PPLF – saw revenue up 50%. Cartiere, the paper business, also saw strong revenue gains (nearly 40%) compared with both 2020 and 2019. The energy division booked revenues up 20%.

- **Margins:** The overall gross margin fell from 23.6% to 21% and the EBITDA margin from 11.1% to 10.0%. Not all higher input costs were passed on to end-customers, notably in the second half. There is strong upward pressure on most raw material prices and energy costs. We are expecting broadly flat margins for the next two years.

- **Valuation:** Having performed strongly, NDT has, along with the market, had a poor 2022 YTD. It appears cheap on our forecast multiples, at a ca.25% EV/EBITDA discount to its nearest quoted peer (Surteco) for FY'22E, and the market is still over-discounting for its smaller scale, in our view. Our central DCF valuation comes out at €6.78 per share, almost unchanged from September's €6.74.

- **Risks:** The key risk in the immediate term is the economy slowing down after a very strong bounce and with geopolitical risks looming larger than normal. Raw material price rises look here to stay for a while and are sure to have an impact on overall demand, or see margins squeezed.

- **Investment summary:** NDT specialises in high-quality décor paper and plastic film, and has strong relationships with its customers. It has been 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	2021	2022E
Sales	134	136	131	179	188
EBITDA (reported)	17.7	15.9	14.6	18.1	19.0
EBIT	10.6	7.1	5.5	9.2	10.0
Net financial costs	-3.0	-1.9	-1.4	-1.2	3.0
Pre-tax profit	7.6	5.2	4.1	8.0	13.0
Net income (reported)	6.0	4.0	3.5	6.7	11.1
Net income (adjusted)	7.3	5.7	3.5	6.7	7.3
Statutory EPS (€)	0.46	0.30	0.26	0.50	0.82
Adjusted EPS (€)	0.54	0.41	0.26	0.48	0.52
Shares issued (m)	13	13	13	13	14
P/E (x)	6.7	8.7	14.2	7.5	6.9
EV/EBITDA (x)	4.4	4.9	5.4	4.3	4.1

Source: Hardman & Co Research

Paper & Packaging

Source: Refinitiv

Market data

EPIC/TKR	**NDT.MI**
Price (€)	**3.63**
12m high (€)	5.20
12m low (€)	3.17
Shares (m)	13.5
Mkt cap (€m)	49
EV (€m)	78
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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Key shareholders

Valentini family	59%
Azimut Capital	5%
ARCA Fondi	3%
Mediolanum	3%

Diary

27 Apr	FY'21 results
11 May	1Q'22 results
06 Sep	1H'22 results
03 Nov	3Q'22 results

Analyst

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First-half results

Strong bounce-back continues

Revenue continued to grow strongly half on half…

Trading in FY'21 substantially outpaced FY'20, which was disrupted heavily by COVID-19 and the closure of the company's main plants following a government decree. Revenue in the first half was 29% of 2H'20 and 15% of 1H'21, with plant operating at full capacity. In the first half of FY'21, large raw material prices were passed on to end-customers with no obvious impact on demand but, in the second half, they were partly absorbed by the company

…but margins squeezed in 2H'20, due to continued high raw material prices

Revenue grew by 37% compared with FY'20 but also by 21% compared with 1H'19 (€68.7m). EBITDA rose by 74% to €9.8m compared with 1H'20 and by 39% versus 1H'19 (€7.1m). Net profit came to €3.1m in 1H'21 compared with roughly breakeven in 1H'20 and €1.1m in 1H'19.

Summary of 2H'20, 1H'21 and 2H'21 results

Year-end Dec (€m)	2H'20	1H'21	2H'21	2H'21 vs. 2H'20
Revenue	74.6	83.3	95.9	29%
EBITDA	9.0	9.8	8.3	-7%
EBIT	4.3	5.3	3.9	-8%
Net income	3.3	3.1	3.6	7%
EBITDA margin	12.9%	11.8%	8.7%	

Source: Hardman & Co Research

In FY'21, sales in printed decorative paper were up 50% (after an increase of 75% in 1H'21), and sales in decorative paper grew 39% (up 61% in 1H'21). The printed decorative paper business continues to benefit from the new higher-margin products, but the paper business's margins were squeezed by higher raw material costs. Greater efficiency saw staff costs fall as a percentage of sales, partially offsetting the rise in input costs.

Strong performance in every geographical region

It was noticeable that the performance was strong in every geographical region, with sales in Italy rising 40% and by 23% in the rest of Europe, while Asian (including the Middle East) sales trebled, and America saw sales up 72%.

The company continued to generate substantial operational cash, with a €9.6m capex investment in FY'21 – growing capacity and improving efficiency. There was a working capital inflow of €2m. Altogether, net financial debt fell sharply, to €29m, at the end of the year. NDT will also benefit in FY'22 from the writeoff of a €5.1m historical loan, which will generate a one-off profit of €3.8m going through the net finance line.

Growth drivers

Home furnishings should boost sales and margins going forward…

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 PPLF[1] – were in full operation by 1Q'21, along with the new, wider 142cm laminate line. They should help boost both sales and margins in the years to come.

…and decorative paper should boost revenues…

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

At Cartiere di Guarcino (Cartiere), the decorative paper division, the new developments, including Velvet Paper and paper for use in food packaging, were not introduced, as had been expected, and have been put on hold.

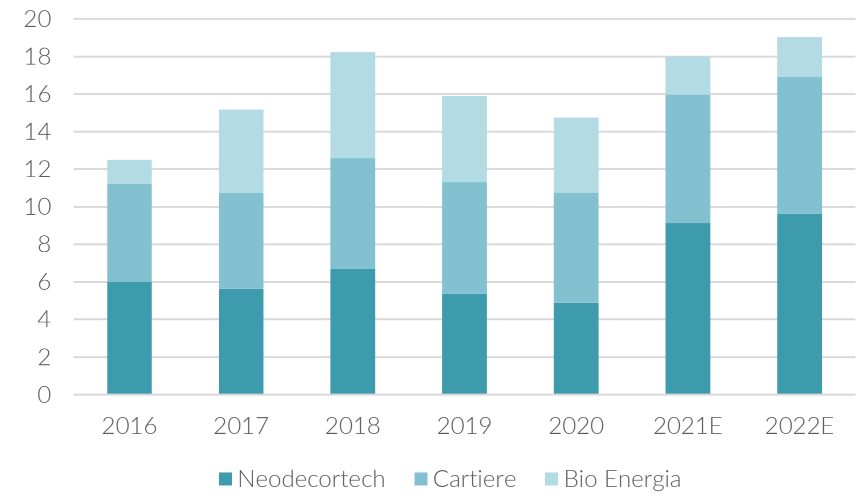
…but lower contribution expected from energy division

In the energy division, Bio Energia Guarcino (Bio), revenues were flat in 1H'21 (€15m) on 1H'20, 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. Revenue in the division rose sharply in 2H'21, to €23m.

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 are high and very volatile currently, and the price of bio fuels is also high, making it very tricky to run the division profitably. The company is prepared to shut the plant completely if "spark spreads" (effectively the gross margin) turn negative.

More importantly for Bio is the potential extension of Government Incentives. New legislation, introduced in November 2021, require the State to continue to promote renewable energy resources once the they have reached the end of their incentive periods – in the case of Bio, this is June 2025. Specifically, this might involve providing special tariffs or revenue supplements for otherwise uneconomical plants. The Ministry of Environmental Transition has until May 2022 to issue a decree that will provide for the extension of aid to bioliquid plants until at least 2030, in addition to the introduction of a revenue reintegration scheme.

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



Source: Neodecortech, Hardman & Co estimates

Our new FY'22 EBITDA forecast is €19m, down from our precious estimate of €20m

We are forecasting underlying revenue (i.e. excluding "other revenue") to grow by a further 5% in FY'22, to €188m. Reported EBITDA in FY'21 was €18.1m (slightly below our €19.1m estimate, due to the second-half margin squeeze.) For FY'22, we now estimate reported EBITDA of €19.0m – down from our prior estimate of €20m.

We expect net debt to fall further in FY'22. At the end of FY'21, it stood at €29m. In February 2022, NDT announced the final writeoff of an historic debt (5.7bn lire), which will reduce reported debt by €5m (there will also be a one-off €3.8m income credit). With additional surplus cashflow, our forecast for FY'22 year-end debt is €20m. 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. NDT is not a big supplier to Ukraine or Russia, but the secondary effects of the conflict are impossible to predict.
- 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 59% of the company. The percentage holding should continue to 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 €6.78 per share

NDT trades at a significant discount to its most closely related listed peer – Germany's Surteco (Finnish Ahlstrom-Munksjö was delisted in June 2021). At Surteco's current price (€29), it is trading at an EV/EBITDA for both FY'21E and FY'22E of ca.5.5x. At the current price, NDT is trading at a ca.20% EV/EBITDA discount to Surteco for FY'21E and 25% for FY'22E.

Our central DCF valuation of €6.78 per share would put NDT on roughly the same EV/EBITDA and P/E multiples as Surteco for FY'22E.

Divisional forecasts

Year-end Dec (€m)	2018	2019	2020	2021E	2022E
Revenue					
Neodecortech	50.9	56.5	55.2	83.0	83.8
Cartiere di Guarcino	50.8	47.0	40.7	56.7	62.7
Bio Energia Guarcino	29.2	29.5	32.0	38.3	39.3
Other	2.6	2.9	3.3	1.3	2.4
Total	133.5	135.9	131.2	179.3	188.2
Growth					
Neodecortech	*16.1%*	*10.9%*	-2.3%	50.4%	1.0%
Cartiere di Guarcino	*-10.0%*	*-7.5%*	-13.5%	39.4%	1.0%
Bio Energia Guarcino	*25.8%*	*0.9%*	8.4%	19.8%	4.0%
Total	*4.7%*	*1.7%*	*-3.5%*	*36.7%*	*5.0%*
Reported EBITDA					
Neodecortech	6.7	5.4	4.9	9.1	9.6
Cartiere di Guarcino	5.9	5.9	5.9	6.8	7.3
Bio Energia Guarcino	5.6	4.6	4.0	2.0	2.1
Other	-0.5		-0.1		
Total	17.7	15.9	14.6	18.0	19.0
- adjustment	1.3	2.0	0.0		
Adjusted EBITDA	19.0	17.9	14.6	18.1	19.0
EBITDA margin					
Neodecortech	13.2%	9.5%	8.9%	11.0%	11.5%
Cartiere di Guarcino	9.0%	9.7%	10.8%	9.0%	9.5%
Bio Energia Guarcino	18.0%	14.5%	11.8%	5.0%	5.0%
Total	13.3%	11.7%	11.1%	10.0%	10.1%

Source: Hardman & Co Research
Note" NDT has not yet reported the divisional split for FY'21

Financial statements

Income statement

Year-end Dec (€m)	2018	2019	2020	2021	2022E
Revenue	133.5	135.9	131.2	179.3	188.2
Operating costs	-115.8	-120.0	-116.5	-161.1	-169.2
Gross profit	**17.7**	**15.9**	**14.6**	**18.1**	**19.0**
Depreciation and amortisation	-7.2	-8.8	-9.1	-8.8	-9.0
Impairments	0.0	0.0	0.0	-0.1	0.0
EBIT	10.6	7.1	5.5	9.2	10.0
Net financial costs	-3.0	-1.9	-1.4	-1.2	3.0
Pre-tax profit	**7.6**	**5.2**	**4.1**	**8.0**	**13.0**
Tax	-1.6	-1.2	-0.5	-1.3	-1.9
Reported net income	6.0	4.0	3.5	6.7	11.1
Adjusted net income	7.3	5.7	3.5	6.7	7.3
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	0.50	0.82
Adjusted EPS (fully diluted, €)	0.54	0.41	0.26	0.48	0.52
DPS (€)	0.153	0.145	0.09	0.15	0.14
EBITDA margin	*13.3%*	*11.7%*	*11.1%*	*10.0%*	*10.1%*
EBIT margin	*7.9%*	*5.2%*	*4.2%*	*5.1%*	*5.3%*
Tax rate	*21%*	*24%*	*13%*	*17%*	*21%*
Revenue growth	*5%*	*2%*	*-3%*	*37%*	*5%*
EBITDA growth	*17%*	*-10%*	*-8%*	*24%*	*5%*
Pre-tax profit growth	*47%*	*-32%*	*-22%*	*97%*	*63%*

Source: Hardman & Co Research

Cashflow statement

Year-end Dec (€m)	2018	2019	2020	2021	2022E
Reported EBITDA	17.7	15.9	14.6	18.1	19.0
Working capital	0.0	-1.9	-1.6	2.1	-1.6
Capex	-7.7	-7.7	-6.2	-9.4	-8.3
Other	0.5	0.3	0.0	-1.5	0.0
Operating free cashflow	**10.5**	**6.6**	**6.8**	**9.4**	**9.1**
Disposal		2.4			
Tax	-0.3	-0.7	-0.5	-0.2	-1.9
Interest	-1.7	-1.5	-1.4	-0.7	-0.8
Dividends	-2.0	-2.0	-1.9	-2.0	-1.9
Equity	-0.1	-0.2	-0.2		
Debt	-6.2	-7.6	10.9		5.0
Net cashflow	**0.2**	**-3.0**	**13.6**	**6.6**	**9.5**

Source: Hardman & Co Research

Balance sheet statement

@31 Dec (€m)	2018	2019	2020	2021	2022E
Property, plant & equipment	76.7	78.9	77.2	78.6	84.0
Intangible assets	3.5	2.9	2.2	1.6	1.6
Other non-current assets	3.9	2.0	1.9	3.8	4.1
Fixed assets	**84.0**	**83.7**	**81.3**	**83.9**	**89.7**
Trade receivables	24.1	19.2	19.3	26.6	28.0
Inventories	35.9	39.1	36.7	40.6	42.1
Other current receivables	5.8	4.9	3.9	4.5	5.0
Cash and equivalents	6.5	3.5	7.6	13.5	17.9
Current assets	**72.3**	**66.8**	**67.4**	**85.2**	**93.0**
Total assets	**156.3**	**150.5**	**148.8**	**169.1**	**182.6**
Trade payables	-33.2	-31.3	-25.6	-39.8	-41.8
Other payables	-4.3	-4.7	-4.7	-4.7	-4.4
Tax payable	-1.9	-0.5	-1.2	-1.6	-1.6
Debt	-22.7	-20.5	-18.7	-19.6	-19.6
Current liabilities	**-62.0**	**-57.0**	**-50.1**	**-65.7**	**-67.4**
Pension provisions	-2.9	-2.9	-2.7	-2.6	-2.9
Other provisions	-0.7	-0.9	-1.3	-1.0	-1.0
Deferred tax liabilities	-4.3	-4.4	-4.1	-6.2	-6.2
Long-term debt	-27.9	-23.6	-28.8	-23.2	-18.1
Non-current liabilities	**-35.7**	**-31.8**	**-37.0**	**-32.9**	**-28.2**
Total liabilities	**-97.7**	**-88.8**	**-87.1**	**-98.6**	**-95.6**
Net assets	**58.6**	**61.7**	**61.7**	**70.5**	**87.1**
Share capital	16.2	16.2	17.4	18.8	18.4
Reserves	42.4	45.5	44.3	51.7	68.7
Total equity	**58.6**	**61.7**	**61.7**	**70.5**	**87.1**
Net book value per share (€)	4.47	4.71	4.71	5.38	6.65
Net debt	-44.0	-40.5	-39.9	-29.3	-19.9
Debt/equity	75%	66%	65%	42%	23%

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 most comparable company, in our view, is Surteco, listed in Germany. It produces decorative foils on paper and plastic. We show the valuation multiples of NDT and Surteco in the table below.

The "Neodecortech @ value" is the valuation at our central DCF value of €6.78 per share.

Peer group valuation comparison

Company	Price (€)	Mkt cap (€m)	EV (€m)	EV/EBITDA 2021 (x)	EV/EBITDA 2022E (x)	P/E 2021 (x)	P/E 2022E (x)	EPS growth 2021/2020	EPS growth 2022E/2021
Neodecortech	3.63	49	78	4.3	4.1	7.5	7.0	89%	9%
Neodecortech @ value	6.78	89	118	6.5	6.2	13.3	12.2	89%	9%
Surteco	28.9	448	600	5.5	5.5	9.9	9.8	62%	1%

Note: based on Surteco price as at 14/03/22. Source: Hardman & Co Research

NDT trades at a ca.21% EV/EBITDA discount to Surteco for FY'21E and 25% for FY'22E, 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 FY'22E (our last forecast year) and FY'25E of 5% for our central case.

DCF valuation

€m		2018	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue		133.7	135.9	133.7	179.3	188.2	191.5	201.1	211.2
EBITDA (reported)		17.7	15.9	14.6	18.1	19.0	20.1	21.2	22.2
Working capital		0.0	-1.9	-1.6	2.1	-1.6	-1.7	-1.8	-1.9
Capex		-7.7	-7.7	-6.2	-9.4	-8.3	-8.5	-8.9	-9.4
Tax		-0.3	-0.7	-0.5	-1.3	-1.9	-2.2	-2.3	-2.4
Net cashflow							7.8	8.1	8.5
Discount factor	10%					1	1.1	1.2	1.4
Discounted cashflow							6.9	6.5	6.2

Source: Hardman & Co Research

DCF summation	
Value components	**€m**
2023-25E	19.6
2026E onwards	91.8
Total	111.5
less net debt end-2022	-19.9
Equity value	91.6
Equity value per share (€)	6.78

Source: Hardman & Co Research

Our central DCF valuation is €6.78

Our forecast range of values, based on the DCF methodology, gives a value of between €4.72 and €10.34 per share, with a central value, at a 5% mid-term growth rate and using our 10% discount rate, of €6.78.

DCF sensitivity table (€)				
Discount rate/mid-term growth	**3%**	**4%**	**5%**	**6%**
8%	9.80	9.98	10.16	10.34
10%	6.53	6.66	6.78	6.91
12%	4.72	4.82	4.91	5.00

Source: Hardman & Co Research

Lastly, it is worth noting that the 2021 book value of the company equates to €5.38 per share and that the replacement cost of the assets is substantially higher. NDT had only recently started trading at above historical book value.

Investment conclusion

NDT traded strongly in FY'21. It bounced back well from the COVID-19 closures, and the paper plants are running at full capacity. The second half of FY'21 saw sustained increases in raw material prices, which have not been fully passed on, and, if the European and global economies stumble, it will be hard to pass them on in FY'22. We have only modest progress assumed for FY'22 in our forecasts but, with NDT trading at 4.1x EV/EBITDA FY'22E and 7.0x P/E FY'22E, and, once again, at a 33% discount to FY'22E book, it would not appear to be anticipating any good news at all.

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 risks in well-vaccinated countries now seem well-contained.

- 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 have only 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 59% of the equity, having sold down 1.2m shares at €3.40 in October 2019 and been diluted by the warrants issue in 2021.

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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

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