

Neodecortech

Business update

June 29th, 2020

BUY

Target Price: **€4.4** (vs. €4.6)

Upside: **+60%**

Newsflow:

- **Launch of a new product line (beginning of July):** Launch of both printed plastic film (PPLF) for luxury vinyl tiles (LVT) and EOS (anti fingerprint) lines, to represent c.5% of 2021E sales with an higher profitability;
- **May 25th:** Successful switch to the regulated segment (MTA) of the Milan Stock Exchange (vs. AIM segment), in line with the strategic plan communicated at the time of its IPO in 2017;
- **Q1 2020 Sales :** Despite the general market slowdown following the health crisis and the ministerial decree of 22 March 2020 imposing the national lockdown, NDT nevertheless reported an increase in business by reporting unaudited revenue of €33.3m (+3.4% YoY), a sharp decline in April;

Impact of COVID-19 on NDT's business: NDT's HQ is located in the most affected region of Italy (Lombardy to Bergamo). As a result of the restrictive measures taken by the Italian Government, NDT had to suspend production activities at the Filago plant from between 23 March and 17 April and at the Casoli d'Atri plant from 25 March until 24 April; as a consequence of the above-mentioned closures, it also decided to stop production at the CdG plant from 14 April to 3 May. On the basis of available data - not subject to an audit - the YTD consolidated net sales as of April 30th amounted to €38.5m (-9.8% YoY). COVID-19 unknowns are (i) the return of demand, and (ii) the risk of Covid's 2nd wave. This extraordinary event has of course had a negative impact on (i) underlying cyclical market trends performing @GDP=, as well as (ii) the smooth operation of the group's activities (production, profitability, financial soundness, etc.). Discussions with the group have led us to understand that business has returned to normal with a current utilization rate back to pre-crisis levels and a vigorous demand.

Decorative paper market: Niche market (c.0.2% of total paper & cartonboard market) performing @GDP=, driven by (i) economic growth, (ii) housing starts for residential and commercial construction and renovation projects, (iii) rapid growth of the middle class in developing countries, stimulating the demand for construction and furnishings, (iv) trends in interior design, and (v) material substitution (e.g. wood, veneer and plastic sheets) by decorative paper. NDT is the leading producer of decorative paper in Italy and holds a 5% market share of the world market excluding China (market mainly dominated by German, Chinese and Polish players), thanks to its high-end positioning with a wide range of quality and design products.

Lifting our estimates: We have factored in our FM (i) the Covid impact, and (ii) the free share granting plan (0.41 NoSHm @€2.89 for a total consideration of €1.2m – dilutive effect of c.3.2%) – leading us to revise our 2020E & 2021E EPS downwards by -58% and -45% respectively.

Valuation: @TP (50% DCF (WACC @9%, TGR @1%) and 50% trading multiples with a -20% discount), in 2021E NDT would trade @0.7xEV/Sales, 5.6x EV/EBITDA, 13.3x EV/EBIT, 15.8x P/E, offering a FCF Yield of 12.3% vs industry currently trading @0.7x Sales, 6.1x EBITDA, 13.4x EBIT, 11.6x P/E, and 9.7% FCF Yield.

Market Data

Sector	Basic Resources
Share price (€)	2.76
Market Cap. (€m)	37.3
Market Segment	MTA Italia
Bloomberg	NDT IM

Ownership structure

Finanziaria Valentini	61.6%
Free Float	38.4%

€m	2018A*	2019A*	2020E	2021E
Sales	133.5	135.9	124.0	135.0
Change		1.7%	(8.7%)	8.9%
EBIT	10.6	7.1	5.3	7.0
Margin	7.9%	5.2%	4.3%	5.2%
Net Income	6.0	4.0	2.5	3.9
EPS (€)	0.46	0.30	0.18	0.29
Change	49%	(34%)	(40%)	59%
Dividend (€)	0.15	0.15	0.15	0.11
Dividend Yield		3.9%	5.3%	4.0%
FCF	11.5	7.6	12.5	8.0
ROCE	10.2%	5.9%	4.2%	5.7%
EV/Sales (x)			0.5x	0.5x
EV/EBIT (x)			12.8x	9.1x
P/E (x)			15.2x	9.6x
Net Debt	44.3	40.5	32.6	28.1
Net Gearing	76%	66%	52%	43%

Midcap Partners estimates

(*) Restated

Next events

07/09/2020 H1 2020 earnings

Recommendations historic

09/01/2020 Buy

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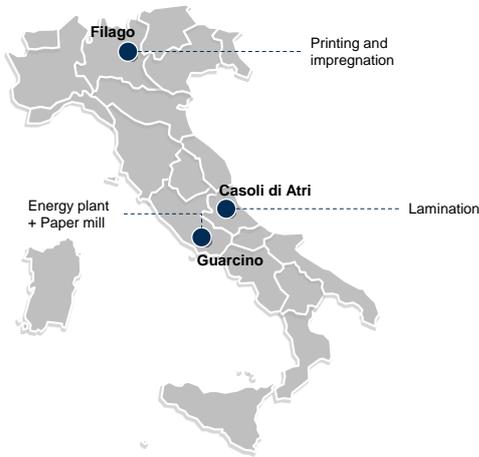


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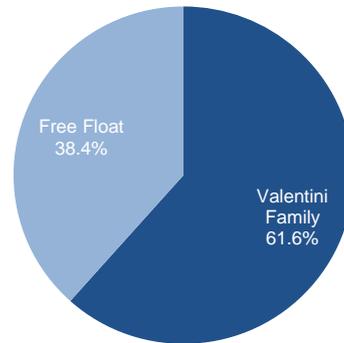
In a Nutshell

Group asset base



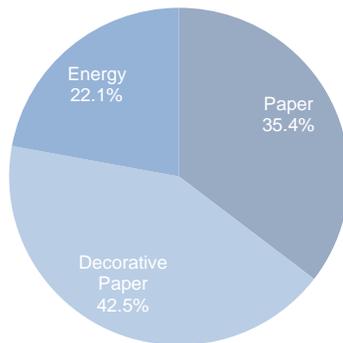
Source: Company

Ownership structure



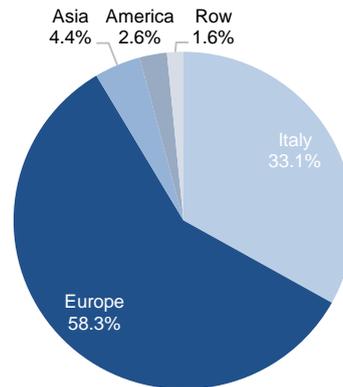
Source: Company

FY2019 sales breakdown by division



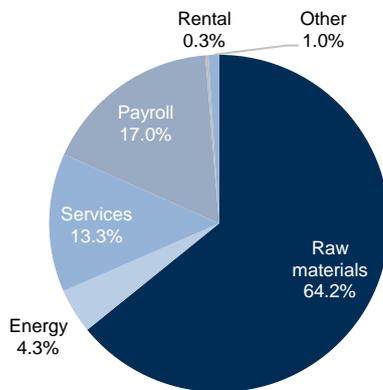
Source: Company

FY2019 sales breakdown by geography



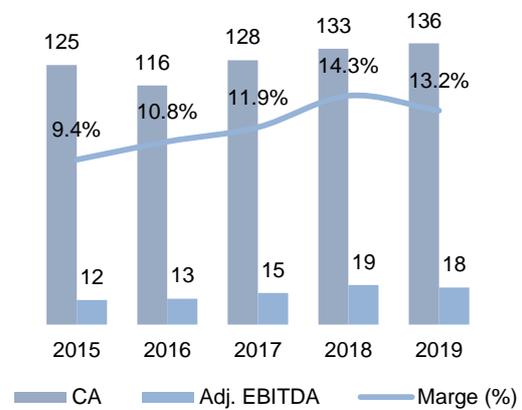
Source: Company

Cost allocation (FY2019 - c.23% fixed costs)



Source: Company

Adj. EBITDA (€m) evolution



Source: Company

SWOT Analysis	
<p>Strengths</p> <ul style="list-style-type: none"> ▪ Production 100% Made in Italy, a distinctive factor in terms of design and marketing ▪ Vertical integration for operational and cost efficiencies ▪ Possibility to create custom-made products for ever more personalization and customer satisfaction ▪ Wide range of products for furniture and floors ▪ Proprietary know-how across the entire value chain ▪ Strong investment in R&D to maintain innovation ▪ High barriers to entry (investments, industrial facilities, reputation and clientele) ▪ Production chain flexibility ▪ Strong internationalization of the group made possible by the strength of its distribution network ▪ Selection of customers according to their credit quality ▪ ESG compliant (reports available on the cy's website) 	<p>Weaknesses</p> <ul style="list-style-type: none"> ▪ Tight financial structure (gearing of 66% and leverage ratio @2.5x in 2019), which should however improve under the effect of cash generation ▪ Strong concentration of the customer & supplier base, which is normal for this niche sector ▪ Flow back risk ▪ Extremely low stock liquidity also because of the limited free float
<p>Opportunities</p> <ul style="list-style-type: none"> ▪ M&A to consolidate the market and diversify the product range ▪ Divestment of Cartiere di Guarcino to improve EBITDA margin; paper is readily available on the open market ▪ Modernize production sites with further upgrades leading to Industry 4.0 compliant on CDG ▪ Create strategic partnerships with foreign plays ▪ Digital printing investments as technology matures 	<p>Threats</p> <ul style="list-style-type: none"> ▪ Business cycles ▪ Dependence on raw material prices ▪ Price competition ▪ Competitors moving upscale ▪ Limited size vs. Chinese and German competitors

Lifting Our Estimates

Below are disclosed our latest estimates vs. old ones.

We have factored (i) the slowdown in activity due to the COVID effect, and (ii) the allocation of free shares (0.41 NoSHm @2.89€ for a total consideration of €1.2m - dilutive effect of c.3.2%) following the switch to the MTA listing segment of the Milan Stock Exchange in May 2020.

Chart 1: New vs Old Estimates

Estimates (Rep.)	FY 2020E			FY 2021E		
	NEW	OLD	Δ N/O	NEW	OLD	Δ N/O
Sales	124.0	142.7	(13.1%)	135.0	147.7	(8.6%)
EBITDA	14.4	18.4	(21.9%)	16.4	20.0	(17.9%)
<i>margin%</i>	11.6%	12.9%	-131 bps	12.2%	13.6%	-138 bps
EBIT	5.3	9.7	(45.2%)	7.0	11.0	(36.7%)
<i>margin%</i>	4.3%	6.8%	-251 bps	5.2%	7.4%	-229 bps
NI	2.5	5.9	(58.5%)	3.9	7.1	(45.1%)
<i>margin%</i>	2.0%	4.1%	-216 bps	2.9%	4.8%	-192 bps
Basic EPS	0.18	0.44	(58.4%)	0.29	0.53	(45.1%)
ND	32.6	38.1	(14.3%)	28.1	33.5	(16.0%)
<i>Leverage ratio</i>	2.27x	2.07x		1.71x	1.67x	

Source: Midcap Partners

Valuation

Trading multiples

NDT suffers from chronic undervaluation vs. peers despite outperforming the sector in 2021E in terms of EBITDA margin, FCF Yield, RoE, dividend yield and leverage ratio.

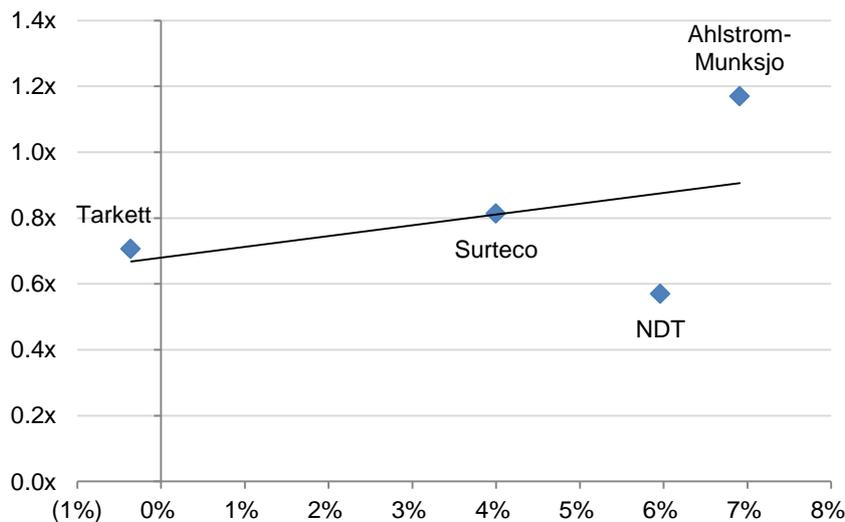
This undervaluation is only partially explained by the listing place, size and liquidity, as well as the limited size of the free float.

Trading Multiples Valuation																	
Company Name	Country	Market Value (€m)		EV/Sales		EV/EBITDA		EV/EBIT		P/E		P/BV		FCF Yield		EV/FCFF	
		Equity	EV	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21
Basic Materials																	
Surteco	Germany	312	512	0.86x	0.80x	7.4x	6.5x	19.9x	14.1x	18.4x	12.6x	0.85x	0.81x	9.8%	10.5%	14.2x	20.4x
Ahlstrom-Munksjo	Finland	1 541	1 955	0.90x	0.87x	7.8x	6.6x	17.4x	12.2x	19.7x	11.6x	1.24x	1.17x	9.8%	10.5%	15.3x	14.3x
Tarkett	France	632	1 269	0.47x	0.44x	6.9x	5.3x	33.8x	14.2x	394.0x	12.4x	0.75x	0.71x	9.4%	8.9%	24.5x	23.0x
Ober	France	11	29	0.84x	0.77x			22.1x	13.3x	25.7x	9.9x					14.7x	11.5x
Average				0.77x	0.72x	7.4x	6.1x	23.3x	13.4x	114.4x	11.6x	0.95x	0.90x	9.6%	9.7%	17.2x	17.3x
Neodecortech SpA vs. Average		37	70	0.55x (29%)	0.47x (35%)	4.7x (36%)	3.9x (37%)	12.8x (45%)	9.1x (32%)	15.2x (87%)	9.6x (18%)	0.59x (37%)	0.57x (36%)	33.6% (2400bps)	21.5% (1175bps)	5.4x (68%)	7.9x (54%)

Peers main financials																	
Company Name	Country	Market Value (€m)		EBITDA margin		EBIT margin		2019E-21E CAGR		RoE		Dividend Yield		Net Debt / EBITDA		Capex as % of sales	
		Equity	EV	Dec-20	Dec-21	Dec-20	Dec-21	Sales	EBIT	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21
Basic Materials																	
Surteco	Germany	312	512	11.6%	12.4%	4.3%	5.7%	(4.0%)	29.6%	2.7%	4.0%	0.8%	2.2%	2.7x	2.2x	4.6%	6.7%
Ahlstrom-Munksjo	Finland	1 541	1 955	11.6%	13.1%	5.2%	7.1%	(0.7%)	21.8%	3.1%	6.9%	3.9%	3.8%	3.0x	2.5x	5.5%	4.2%
Tarkett	France	632	1 269	6.8%	8.3%	1.4%	3.1%	(2.4%)	(3.8%)	4.7%	(0.4%)	0.4%	0.6%	2.6x	3.5x	4.2%	3.1%
Ober	France	11	29			3.8%	5.8%	(4.1%)	(10.6%)	n/a	n/a	0.0%	1.9%	n/a	n/a	n/a	n/a
Average				10.0%	11.3%	3.7%	5.4%	(2.8%)	9.3%	3.5%	3.5%	1.3%	2.1%	2.8x	2.7x	4.8%	4.6%
Neodecortech SpA vs. Average		37	70	11.6% (162bps)	12.2% (91bps)	4.3% (60bps)	5.2% (-28bps)	(0.3%) (249bps)	(1.2%) (-1049bps)	3.9% (38bps)	6.0% (245bps)	5.3% (396bps)	4.0% (186bps)	2.2x (20%)	1.7x (37%)	4.0% (-74bps)	3.9% (-80bps)

Also when considering a value approach, the stock seems attractive.

Chart 2: 2021E P/BV to RoE



Source: Midcap Partners

Financials

Income statement (€m)	2018a	2019a	2020e	2021e	Balance Sheet (€m)	2018a	2019a	2020e	2021e
Total revenues	133.5	135.9	124.0	135.0	Cash & cash equivalents	6.5	3.5	6.7	8.8
COGS	(76.9)	(76.1)	(71.3)	(77.6)	Accounts receivable	24.8	19.2	17.6	19.1
Gross margin	56.6	59.7	52.7	57.4	Inventory	35.9	39.1	36.6	39.9
SG&A	(38.9)	(43.8)	(38.3)	(40.9)	Other current assets	5.0	5.4	5.4	5.4
R&D	--	--	--	--	Total current assets	72.3	67.2	66.3	73.2
Other operating profit/(expense)					Net PP&E	76.7	78.9	74.8	70.5
EBITDA	17.7	15.9	14.4	16.4	Net intangibles	3.5	2.9	2.9	2.9
D&A	(7.2)	(8.7)	(9.1)	(9.5)	Investments	0.0	0.0	0.0	0.0
Others	0.0	(0.1)	0.0	0.0	Other long-term assets	6.1	4.1	4.1	4.1
EBIT	10.6	7.1	5.3	7.0	Total assets	158.5	153.1	148.1	150.7
Net interest income/(expense)	(3.0)	(1.9)	(2.2)	(2.0)	Accounts payable	33.2	31.3	29.3	31.9
Income/(loss) from associates	0.0	0.0	0.0	0.0	Short-term debt	22.7	20.5	20.5	20.5
Others	--	--	--	--	Other current liabilities	6.1	6.0	6.0	6.0
Pretax profits	7.6	5.2	3.1	4.9	Total current liabilities	62.0	57.9	55.9	58.5
Provision for taxes	(1.6)	(1.2)	(0.7)	(1.0)	Long-term debt	27.9	23.6	18.9	16.5
Minority interest	0.0	0.0	0.0	0.0	Other long-term liabilities	10.1	10.4	10.4	10.4
Net income pre-preferred dividends	6.0	4.0	2.5	3.9	Total liabilities	99.9	91.8	85.1	85.3
Preferred dividends	--	--	--	--	Preferred shares	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	6.0	4.0	2.5	3.9	Total common equity	58.6	61.3	63.0	65.4
Post tax exceptionals	0.0	0.0	0.0	0.0	Minority interest	0.0	0.0	0.0	0.0
Net income (post-exceptionals)	6.0	4.0	2.5	3.9	Total liabilities & equity	158.5	153.1	148.1	150.7
Basic EPS (€)	0.46	0.30	0.18	0.29					
DPS (€)	0.15	0.15	0.15	0.11					
Growth & margins	2018a	2019a	2020e	2021e	Additional financials	2018a	2019a	2020e	2021e
Sales growth	4.7%	1.7%	(8.7%)	8.9%	Net debt/Equity (%)	76%	66%	52%	43%
EBITDA growth	17.0%	(10.4%)	(9.4%)	14.2%	Net leverage ratio (x)	2.5x	2.5x	2.3x	1.7x
EBIT growth	19.3%	(32.6%)	(25.5%)	30.9%	Interest cover (x)	3.6x	3.8x	2.4x	3.4x
Net income (pre-excep) growth	20.5%	(34.3%)	(38.1%)	59.1%	Inventory days (#)	171	188	188	188
Basic EPS growth	48.6%	(34.2%)	(40.1%)	59.1%	Receivables days (#)	68	52	52	52
Gross margin	42.4%	44.0%	42.5%	42.5%	Payables days (#)	158	150	150	150
EBITDA margin	13.3%	11.7%	11.6%	12.2%	BVPS (€)	4.48	4.68	4.66	4.84
EBIT margin	7.9%	5.2%	4.3%	5.2%	RoE (%)	10.3%	6.5%	3.9%	6.0%
Net margin	4.5%	2.9%	2.0%	2.9%	RoA (%)	3.8%	2.6%	1.7%	2.6%
Cash flow statement	2018a	2019a	2020e	2021e	RoCE	10.2%	5.9%	4.2%	5.7%
Net income	6.0	4.0	2.5	3.9	FCF per share (€)	0.89	0.58	0.93	0.59
Add-backs	13.1	12.5	12.0	12.5	FCF yield			33.6%	21.5%
Interests	(1.7)	(1.5)	(2.2)	(2.0)	WC/Sales	19.8%	19.4%	19.5%	19.5%
Taxes	(0.3)	(0.7)	(0.7)	(1.0)	ND/EBITDA	2.5x	2.5x	2.3x	1.7x
Δ working capital	(0.0)	(1.9)	2.2	(2.2)					
Other operating cash flow	(0.7)	(0.2)	0.0	0.0					
Cash flow from operations	16.5	12.1	13.7	11.2					
Capital expenditures	(7.7)	(8.0)	(5.0)	(5.2)					
Acquisitions	--	--	--	--					
Disposals	--	2.7	--	--					
Others	0.0	0.0	0.0	0.0					
Cash flow from investing	(7.7)	(5.3)	(5.0)	(5.2)					
Dividends paid (common & pref)	(2.0)	(2.0)	(2.0)	(1.5)					
Δ debt	(6.2)	(7.6)	(4.7)	(2.4)					
Δ Shareholders' loan									
Δ equity	(0.1)	(0.2)	1.2	--					
Other financing cash flows	--	--	--	--					
Cash flow from financing	(8.4)	(9.8)	(5.5)	(3.9)					
Currency translation effect on cash	0.0	0.0	0.0	0.0					
Δ cash	0.4	(3.0)	3.3	2.1					

Disclaimer

This document may refer to valuation methods defined as follows:

- 1/ DCF method: discounting future cash flows generated by the business's operations. Cash flows are determined using the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined by the weighted average cost of the company's debt and the theoretical cost of equity as estimated by the analyst.
- 2/ Trading multiples method: application of stock-market valuation multiples, or multiples observed for recent transactions. These multiples may be used as benchmarks and be applied to the company's financial aggregates to determine their valuation. The sample is prepared by the analyst based on the company's characteristics (size, growth, profitability etc.). The analyst may also apply a premium/discount based on his perception of the company's specificities.
- 3/ Net asset-based method (NAV): estimation of the value of the equity on the basis of the revalued assets and corrected for the value of the liability.
- 4/ Discounted dividend method: discounted future value of estimated dividend flows and share buybacks. The discount rate applied is generally the cost of capital.
- 5/Sum of the parts: this method consists of estimating a company's different operations by using the most appropriate valuation method for each one, then calculating the sum.

Recommendation scale:

Buy: expected over-performance above 10% compared to the market within 6 to 12 months

Hold: expected to outperform or under-perform the market within a range of +10% and -10%, within 6 to 12 months

Sell: expected to under-perform the market by more than 10% within 6 to 12 months

Detection of conflicts of interest:

Company Name	Closing price (€)	Recommendation	Warning
Neodecortech SpA	€2.76	BUY	G

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Breakdown of recommendations

As of June 2020, the recommendations issued by the Midcap research team at LOUIS CAPITAL MARKETS – MCP break down as follows:

Recommendation	Covered companies	o/w Sponsored research
Buy	62%	70%
Hold	31%	26%
Sell	4%	2%
Under review	3%	2%

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