

Company Note

NEO DECOR TECH

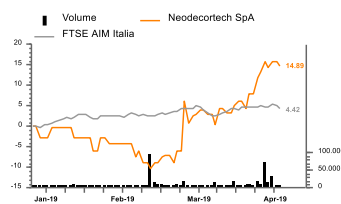
Fair Value: €5.83
(Prev. €5.20)

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Relative Performance Chart (YTD)



Market Data:

Current Price (€)	3.78
Fair Value (€)	5.83
Market Cap (€mn)	49.52
52 Wk High (€)	4.07
52 Wk Low (€)	2.66
Free Float (%)	27.20
Avg. Daily Trading 90d	6,690.48
Price Change 1w (%)	2.72
Price Change 1m (%)	11.50
Price Change YTD (%)	14.89
EV/EBITDA 2019E	4.70
EV/EBITDA 2020E	4.44
P/E 2019E	6.57
P/E 2020E	6.00

Strong Delivery in a Tough Year...

Overview. Neodecortech Group is the largest Italian producer and printer of décor paper, a surface material that has several applications within the interior design industry. The Group is built around **three pillars** - printing and impregnation (Neodecortech), a paper mill (CdG) and an energy plant (BEG) - which work closely together in a highly **synergistic business model**. This structure enables the Group to: i) exploit cross-selling capacity, and ii) remove the energy gap, allowing the Group to be competitive internationally.

Décor paper market. Weakening economic growth and commodity price increases negatively affected the décor paper industry in 2018. The sector suffered from inventory reduction, increasing competition from Asian producers and volume losses due to price increases, caused by the rise in raw material costs. Munksjo's décor paper business had a 15.3% decrease in 2018 EBITDA (-200bps EBITDA margin), while Surteco experienced an 11% contraction in the impregnation business during the first nine months of 2018.

FY2018 Results. On March 26, 2019, the Company released its 2018 results. The 2018 Total Revenues stand at €133.4mn (+4.4% YoY), 8.2% lower than our estimate (our estimates included the full-year contribution of Corbetta Fia Srl). EBITDA reached €17.9mn, +26.2% YoY and 2.2% lower than our estimate. Furthermore, EBITDA Adj. reached €19mn (+25% YoY vs 2017 EBITDA Adj €15.2). Net Debt improved by ca. €2.6mn, reaching €44.3mn (€2.4mn lower than our 2018 forecast), despite €7.7mn of investment, the acquisition of Corbetta Fia for €1.2mn and a dividend payment of €2mn (€0.153 per share).

Revised estimates. We have revised our estimates, factoring in a moderate market slow-down and the margin improvements related to Plastic Printed Laminated Film's (PPLF) increased contribution. We lowered by 6.5% and 6.3% our 2019 and 2020 Revenues forecasts, which should reach €146.6mn and 152.5mn. Our 2019-2020 EBITDA estimates are equal to €19.97mn and €21.14mn respectively, 2.1% and 4.7% lower than our previous forecasts. We expect a €7.54mn 2019 Net Income, 3.7% lower than our previous forecast.

Valuation. We believe that the most appropriate valuation methodology is a sum of the parts: i) Market multiple model to value the printing, impregnation and paper mill businesses, with an estimated value of €5.34ps; ii) DCF model to value the Group's power plant, which leads to a value of €0.49ps. The sum of the parts returns a market value of €76.43mn, resulting in €5.83ps or 12% higher than our previous fair value. At the current market price of €3.81ps, the company trades at a discount with respect to its peers. Specifically:

- **EV/EBITDA 2019E** of 4.70x vs peer group's median of 7.40x (-36.4%)
- **EV/EBITDA 2020E** of 4.44x vs peer group's median of 6.63x (-33.0%)
- **P/E 2019E** of 6.57x vs peer group's median of 13.34x (-50.7%)
- **P/E 2020E** of 6.0x vs peer group's median of 10.24x (-41.4%)

By looking at P/E implicit multiples, we consider that the market does not fully appreciate the earnings growth potential of Neodecortech.

€ Thousands	Total Revenues	EBITDA	EBITDA Margin	EBIT	Net Income	EPS
2015PF	125,496	11,859	9.4%	4,785	1,693	0.00
2016PF	115,706	15,600	13.5%	9,228	4,454	0.34
2017PF	127,737	14,227	11.1%	7,930	4,063	0.31
2018A	133,380	17,951	13.5%	10,794	6,030	0.46
2019E	146,597	19,973	13.6%	12,453	7,537	0.58
2020E	152,490	21,148	13.9%	13,181	8,253	0.63

Source: Company data, KT&Partners' estimates

Table 1: Neodecortech S.p.A. - Key Figures

Current price (€)	Fair Value (€)	Sector					Free Float (%)
3.78	5.83	Industrial Goods and Services					27.20
Per Share Data		2015A	2016A	2017A	2018A	2019E	2020E
Total shares outstanding (mn)		n.a.	n.a.	13.10	13.10	13.10	13.10
EPS		n.a.	n.a.	0.31	0.46	0.58	0.63
Dividend per share (ord)		-	-	0.11	0.15	0.15	0.19
Dividend pay out ratio (%)		0%	0%	35%	33%	27%	30%
Profit and Loss (EUR thousand)							
Revenues		125,496	115,706	127,737	133,380	146,597	152,490
EBITDA		11,859	15,600	14,227	17,951	19,973	21,148
EBIT		4,785	9,228	7,930	10,794	12,453	13,181
EBT		1,344	5,967	5,183	7,623	10,049	11,004
Taxes		185	1,513	1,120	1,593	2,512	2,751
Tax rate		14%	-25%	-19%	-21%	-25%	-25%
Net profit		1,529	4,454	4,063	6,030	7,537	8,253
Net profit after minorities		1,529	4,454	4,063	6,030	7,537	8,253
Balance Sheet (EUR thousand)							
Total fixed assets		82,564	80,271	80,875	84,024	81,503	78,537
Net Working Capital (NWC)		21,854	19,594	23,419	22,252	28,002	30,857
Provisions		- 3,864	- 4,017	- 3,362	- 3,323	- 3,709	- 4,113
Other Assets and Liabilities		- 7,853	- 8,491	- 1,436	- 4,609	- 749	- 549
Total Net capital employed		100,554	95,848	100,932	102,916	105,759	105,244
Net financial position (NFP)		66,706	57,137	46,910	44,312	41,624	34,860
Group Shareholder's Equity		33,849	38,711	54,022	58,603	64,135	70,384
Minorities		-	-	-	-	-	-
Total Shareholder's Equity		33,849	38,711	54,022	58,603	64,135	70,384
Cash Flow (EUR thousand)							
Net operating cash flow		4,970	14,088	13,848	13,940	17,461	18,397
Change in NWC		n.a.	1,621	3,229	1,967	1,891	2,655
Capital expenditure		n.a.	4,634	8,649	7,728	5,000	5,000
Other cash items/Uses of funds		n.a.	44	240	38	386	403
Free cash flow		n.a.	12,522	2,466	1,373	7,418	6,710
Enterprise Value (EUR thousand)							
Market Cap		n.a.	n.a.	49,524	49,524	49,524	49,524
Minorities		-	-	-	-	-	-
Net financial position		66,706	57,137	46,910	44,312	41,624	34,860
Enterprise value		n.m.	n.m.	96,434	93,836	91,147	84,383
Ratios (%)							
EBITDA margin		9.4%	13.5%	11.1%	13.5%	13.6%	13.9%
EBIT margin		3.8%	8.1%	6.2%	8.1%	8.5%	8.6%
Gearing - Debt/equity		197.1%	147.6%	86.8%	75.6%	64.9%	49.5%
Interest cover on EBIT		68.5%	35.3%	34.6%	27.4%	19.3%	16.5%
NFP/EBITDA		5.6x	3.7x	3.3x	2.5x	2.1x	1.6x
ROCE		4.8%	9.6%	7.9%	10.5%	11.8%	12.5%
ROE		4.5%	11.5%	7.5%	10.3%	11.8%	11.7%
EV/Sales		n.m.	n.m.	0.75	0.72	0.66	0.63
EV/EBITDA		n.m.	n.m.	6.78	5.37	4.70	4.44
P/E		n.m.	n.m.	12.19	8.21	6.57	6.00
Free cash flow yield		n.m.	n.m.	5.0%	2.8%	15.0%	13.5%
Growth Rates (%)							
Sales		n.a.	-7.8%	10.4%	4.4%	9.9%	4.0%
EBITDA		n.a.	31.5%	-8.8%	26.2%	11.3%	5.9%
EBIT		n.a.	92.8%	-14.1%	36.1%	15.4%	5.9%
Net profit		n.a.	191.4%	-8.8%	48.4%	25.0%	9.5%

FY18 Results Summary

In 2018, Revenues reached €133.8mn, +4.4% YoY but 8.2% lower than our estimates. BEG contributed substantially to 2018 performance thanks to the full-year's engine operation (in 1H17 one of the engines was shut down) that produced a 27.15% increase in BEG's Total Revenues. Neodecortech experienced a 16.1% increase in revenues, reaching €50.9mn in 2018. On the contrary, Cartiera di Guarcino suffered a three-week halt in production due to adverse meteorological conditions. According to our estimates, this interruption has generated €3mn of revenue loss. Furthermore, if we consider the full-year contribution of Corbetta Fia Srl, the top line would have been around €142.2mn, which is only 2.17% lower than our estimates.

Neodecortech was able to grow in an adverse scenario where competitors and main clients faced a substantial decline in EBITDA margin, mainly due to the declining demand and volume losses arising from price increases and economical slow-down:

- **Munksjo:** In 2018, Munksjo recorded 4.65% growth, reaching €451.9mn of Revenues. Considering only the Décor segment, the EBITDA decreased by 15.3% YoY, with a reduction of 200bps in terms of margins (10.2% to 8.2%). The 2018 increase in average selling price was followed by a decrease in volumes and currently the company is focused on product and customer optimization, cost competitiveness and production efficiency in order to regain marginality;
- **Surteco:** The impregnation business unit went down by 11% in the first nine months of 2018. Considering the aggregate data for the full year, the company showed a slight growth in Revenues (+1.3%) and a big decrease in EBIT (-27.9%), as a result of €6.1mn expenses for the optimization program, and a significant increase in material costs;
- **Mohawk:** In 2018, the leader in the flooring market, and one of the main customers of Neodecortech, registered Revenues of \$9.98bn (+5.16% YoY) and EBITDA of \$1.7bn (-8.3%), with a reduction of 300bp in terms of margins (20% to 17%).

Despite all this, Neodecortech achieved positive results in an adverse market. In fact, Neodecortech's FY18 EBITDA increased by 26.2% YoY reaching €17.95mn, mainly thanks to the new price policy and the BEG contribution, which enjoyed both higher revenues and lower raw material costs. The EBITDA margin was 13.5%, with an increase of 240bp in terms of margin (11.1% to 13.5%). However, FY18 EBITDA is -2.2% lower than our previous estimate due to Corbetta Fia Srl EBITDA (around €400k in 2018), which is considered for only four months in the company results. Adjusting for the extraordinary components (mainly stock grant compensation), **FY18 EBITDA adj. came up 33.6% higher** than FY17 EBITDA, and 25% higher than FY17 EBITDA adj., reaching €19m, thus 3.6% higher than our estimates.

The bottom line reached €6.0mn, registering a notable growth of 48.4% YoY. Again, adjusting for extraordinary costs, FY18 Net Income adjusted increased by 52% YoY (with respect to FY17 Net Income adjusted), reaching €7.3mn. Furthermore, FY18 Net Income is 15.6% lower than our previous estimate, mainly due to the difference in EBITDA, €404k, and the difference in Financial Expenses, €641k, which were higher than expected.

Finally, FY18 NFP reached €44.3mn (€2.6mn lower than FY17 and €2.4mn lower than our FY18 estimate), showing an improvement in respect of the previous year, despite €7.7mn of investment, the acquisition of Corbetta Fia Srl for €1.2mn and a €2mn dividend payment (€0.153 per share).

Table 2: Neodecortech FY18 Results

€ thousand	FY16PF	FY17PF	FY18	YoY Growth	FY18E	A vs E %
Sales	106,809	123,497	130,943	6.0%	140,519	-6.8%
Growth %		15.6%	6.0%		7.3%	
Other revenues	8,897	4,240	2,437		4,836	
Total Revenues	115,706	127,737	133,380	4.4%	145,354	-8.2%
Growth %		10.4%	4.4%		9.0%	
Cost of Goods Sold	- 66,271	- 76,822	- 77,194		- 86,781	
Gross Profit	49,435	50,916	56,186	10.4%	58,574	-4.1%
Gross Margin	42.7%	39.9%	42.1%		40.3%	
Labour Cost	- 16,257	- 17,489	- 17,980		- 18,168	
Services	- 15,282	- 16,782	- 18,095		- 19,565	
Other Operating Costs	- 2,295	- 2,418	- 2,159		- 2,486	
EBITDA	15,600	14,227	17,951	26.2%	18,355	-2.2%
EBITDA margin	13.5%	11.1%	13.5%		12.6%	
Growth %		-8.8%	26.2%		2.2%	
D&A	- 6,373	- 6,296	- 7,157		- 7,104	
EBIT	9,228	7,930	10,795	36.1%	11,250	-4.0%
EBIT margin	8.0%	6.2%	8.1%		7.7%	
Growth %		-14.1%	36.1%		4.2%	
Financial Income and Expenses	- 3,261	- 2,748	- 2,963		- 2,322	
Extraordinary losses	-	-	209			
EBT	5,967	5,183	7,624	47.1%	8,928	-14.6%
Taxes	- 1,513	- 1,120	- 1,593		- 1,786	
Tax Rate	25.4%	21.6%	20.9%		20.0%	
Net income	4,454	4,063	6,030	48.4%	7,143	-15.6%
Net margin	3.8%	3.2%	4.5%		4.9%	
Growth %		-8.8%	48.4%		18.4%	
Net Financial Position	57,137	46,910	44,312	-5.5%	46,710	-5.1%

Source: Company data, KT&Partners' elaborations

Estimates Revision

Following the release of the FY18 results and moderate market slow-down, we have revised our estimates. In particular, the current economic scenario is characterized by inventory reduction in the supply chain, increased competition by Asian players and volume losses due to price increases, due to the rise in raw material costs.

Considering input costs, the paper pulp is showing a slight decrease in price, while titanium dioxide, after a slight reduction in 2H18 and in the 1Q19, is expected to increase in the 2Q19 and being flat in the rest of the year.

In view of the above, we forecast that the **top line** will reach €146.6mn in 2019 (down by 6.5% with respect to our previous estimate), and €152.5mn for 2020, 6.3% lower than our previous forecast.

Despite the lower growth, we expect a higher **EBITDA margin** in the coming years, thanks to the introduction of the new PPLF product (Plastic Printed Laminated Film), characterized by higher profitability, and exploitation of the know-how of the newly acquired branch (August 2018), Corbetta Fia Srl. The company estimates an increase in the PPF (and PPLF) segment revenues from €5.2mn in 2018 to €13mn-€15mn in 2019. We estimate that the **EBITDA will reach** €19.97mn in 2019 (2.1% lower than our previous estimate), with an EBITDA margin of 13.6% (+60bp more than our old forecast), and it will hit €21.15mn in 2020 (down by 4.7% with respect to our previous estimate) and an EBITDA margin of 13.9% (+30bp more than our old forecast for the same year).

Looking at the bottom line, we now expect €7.5mn in 2019 and €8.2mn in 2020, with a reduction of 3.7% and 8.8% with respect to our previous estimates.

The key points of our forecast are as follow:

- FY19E Revenues at €146.6mn, reaching €152.5mn in FY20E (6.9% CAGR FY18E-FY20);
- FY19E EBITDA at €19.97mn, reaching €21.14mn in FY20E (8.5% CAGR FY18E-FY20);
- FY19E Group Net Income at €7.5mn, reaching €8.2mn in FY20E (17% CAGR FY18E-FY20).

Table 3: Change in Estimates 2019-2020

€ thousand	2018 Actual	2019E Old	2019E New	Change	2020E Old	2020E New	Change
Revenues	133,380	156,733	146,597	-6.5%	162,717	152,490	-6.3%
YoY Change (%)	4.4%	17.5%	9.9%		4%	4.0%	
EBITDA	17,951	20,404	19,973	-2.1%	22,190	21,148	-4.7%
YoY Change (%)	26.2%	13.7%	11.3%		9%	5.9%	
EBITDA Margin	13.5%	13.0%	13.6%		13.6%	13.9%	
EBIT	10,794	12,955	12,453	-3.9%	14,271	13,181	-7.6%
YoY Change (%)	36.1%	20.0%	15.4%		10%	5.9%	
Net Income	6,030	7,822	7,537	-3.7%	9,050	8,253	-8.8%
YoY Change (%)	48.4%	29.7%	25.0%		16%	9.5%	

Source: Company data, KT&Partners' elaborations

Valuation

We believe that the most appropriate valuation methodology for Neodecortech Group is a break-up value analysis (sum of parts).

Based on our valuation, we project a fair value of €5.83 per share, which comes from the sum of the following methods:

- We virtually spin **BEG** off and we evaluate it with a **DCF model**, because it is not a fully captive company, as most of the energy produced is delivered to the grid. The DCF analysis based on WACC of 5.7% returns a value of €0.49 per share.
- **Market multiple model** (EV/EBITDA and P/E average) for the **core business** of the Group (Neodecortech + CdG), which returns a value of €5.34 per share. We believe this valuation captures the expected growth of the company.

Peer Comparison - Core Business

We prefer to value the **core business** of Neodecortech Group (Neodecortech + CdG) with a **market multiple model**. From our standpoint, a DCF-based model is not consistent with the future strategy of the Group. According to our forecasted growth path, we expect the Group to increase its production capacity in the coming years. This translates into a relevant amount of nonrecurring CAPEX that would excessively penalize a Group valuation based on the DCF model.

We carried out an in-depth analysis of potential public companies that could be considered as peers and we saw that there are many listed firms operating in the specialty paper industry.

However, we screened not just for the sector but also for the specific niche in which the Group operates. We considered it very important to take into account the **drivers of demand for each company**. For example, Schweitzer-Mauduit International Inc. is a US-based company listed on the NYSE that is active in the specialty papers industry and produces advanced paper products with a specialization in cigarette paper products. It also produces décor paper, but the latter contributes a negligible part of its revenue and product demand is therefore driven by the tobacco industry and not by the furniture and flooring industries.

To establish a reliable panel of peers, we thus examined the proportion of revenue derived from business activities like those of Neodecortech and we took into consideration **companies with at least 15% of revenue contribution coming from products similar to the Group's**.

This narrows the selection to a list of peers that includes the Swedish **Ahlstrom-Munksjo** and the German **Surteco**, as they each seem similar to NG in terms of their business sector, products and geographical exposure.

However, it is worth noting that the selected companies present some dissimilarities from Neodecortech Group in terms of:

- **Size**: all players are much bigger than Neodecortech and this is in line with the market structure;
- **Business mix**: all players are more diversified (e.g. more types of specialty papers);
- **Financial structure**: Neodecortech is characterized by a higher level of debt.

We note that even if Neodecortech has a higher leverage with respect to its peer group, the Company is experiencing an important decrease in its net debt. For this reason, we decided to focus on both EV and P/E multiples. In particular, when looking at EV multiples, we focus on EV/EBITDA, considering the period covering the next two years, as it could better capture mid-term prospects in terms of growth.

Our valuation of the “core business” (i.e. Neodecortech + CdG) is based upon 2019 and 2020 peer group EV/EBITDA and P/E multiples and our estimate of “Core” EBITDA and Net Income for the next two years. This led to an equity value of €70.03mn (calculated as the avg. of the two methods) or €5.34ps.

Table 4: EBITDA and P/E Multiples Valuation

Core Business Valuation (€) - EV/EBITDA	2019E	2020E	Avg.
Peer Group EV/EBITDA	7.40	6.63	7.01
liquidity/size discount	10%	10%	10%
EV/EBITDA post discount	6.66	5.96	6.31
Neodecortech Group EBITDA expected	19.97	21.15	20.56
BEG EBITDA expected	4.49	4.41	4.45
EBITDA expected (excluding BEG)	15.48	16.74	16.11
Enterprise Value	103.06	99.84	101.45
2018 Net debt (excluding BEG debt)*	32.12	32.12	32.12
Equity Value (excluding BEG)	70.94	67.73	69.33
Share Out.	13.10	13.10	13.10
Fair Value ps	5.41	5.17	5.29
Core Business Valuation (€) - P/E	2019E	2020E	Avg.
Peer Group P/E	13.34	10.24	11.79
liquidity/size discount	10%	10%	10%
P/E post discount	12.01	9.21	10.61
Neodecortech Group Net Income expected	7.54	8.25	7.89
BEG Net Income expected	1.19	1.17	1.18
Net Income expected (excluding BEG)	6.35	7.08	6.71
Equity Value (excluding BEG)	76.20	65.25	70.72
Share Out.	13.10	13.10	13.10
Fair Value ps	5.82	4.98	5.40
Fair Value ps (Avg P/E; EV/EBITDA)	5.62	5.07	5.34
Average Equity Value (P/E ; EV/EBITDA)			70.03

*Neodecortech’s equity value (ex. BEG) is calculated by subtracting BEG’s contribution to EBITDA and Net Income and considering an adjusted NFP that excludes BEG’s Net Debt.

Source: KT&Partners’ estimates and FactSet consensus

Table 5: Peer Group Multiples Table - 2019

Company Name	Exchange	Market Cap	EV/SALES 2019	EV/EBITDA 2019	EV/EBIT 2019	P/E 2019
Ahlstrom-Munksjo Oyj	OMX Helsinki	1,536	0.83	7.26	12.84	11.88
SURTECO GROUP SE	XETRA	390	0.87	7.53	15.13	14.81
Average peer group		963	0.85	7.40	13.99	13.34
Median peer group		963	0.85	7.40	13.99	13.34
Neodecortech SpA	Milan	49	0.66	4.84	7.78	6.97

Table 6: Peer Group Multiples Table - 2020

Company Name	Exchange	Market Cap	EV/SALES 2020	EV/EBITDA 2020	EV/EBIT 2020	P/E 2020
Ahlstrom-Munksjo Oyj	OMX Helsinki	1,536	0.81	6.31	10.54	8.46
SURTECO GROUP SE	XETRA	390	0.86	6.95	12.81	12.02
Average peer group		963	0.84	6.63	11.68	10.24
Median peer group		963	0.84	6.63	11.68	10.24
Neodecortech SpA	Milan	49	0.63	4.55	7.29	6.30

DCF Valuation - Power Plant

To value BEG, we have considered the installed capacity as of the end of 2018.

Our DCF-based valuation, used for estimates of BEG’s fair value, considers the remaining feed-in tariff period (2019-2025) and a Terminal Value equal to BEG’s discounted asset value in 2025. We considered a capital structure with 80% of debt and WACC of 5.7%. We also estimated a 1% annual degradation rate.

Moreover, we have considered the installed capacity as at the end of 2018 (nine steam tons and 20 MWh). By considering approximately €12.2mn BEG Net Debt (estimated as of December 31, 2018, based on company data), we derive an equity value for the power plant equal to €6.4mn or €0.49 per share.

Sum of Parts - Neodecortech Group

All in all, considering the multiple-based valuation of the “core business” and DFC-based valuation used for BEG, we derived a valuation that can be set at €76.43mn or €5.83ps.

Table 7: Sum of Parts Valuation

€mn	Valuation Method	Equity Value	Fair Value ps
Neodecortech Equity Value (ex. BEG)	Peer Comparison	70.03	5.34
BEG Equity Value	DCF	6.40	0.49
Neodecortech Group	Sum-of-Parts	76.43	5.83

Source: KT&Partners’ estimates

Appendix

Peer Description

Ahlstrom-Munksjo Oyj, listed on OMX in Helsinki, with a market cap of €1.6bn, develops and manufactures papers and fiber composites. It engages in fiber-based materials, supplying innovative and sustainable solutions to customers. The company offers décor paper, filter media, release liners, abrasive backings, nonwovens, electrotechnical paper, glass fiber materials, food packaging and labeling, tape, medical fiber materials and solutions for diagnostics. During FY2018, Munksjo recorded €2.99bn of Revenues with €0.4bn coming from the décor paper business (15%). Ahlstrom-Munksjo was founded on April 01, 2017, and is headquartered in Stockholm, Sweden.

Surteco SE, listed on XETRA in Germany, with a market cap of €0.4bn, manufactures decorative surface foils and edging strips based on specialist papers for technical applications and plastics. In FY2018, Surteco registered €0.7bn of Revenues, with a decrease of 27.9% in EBIT. The company was founded in 1999 and is headquartered in Buttenwiesen, Germany.

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