



12 September 2022

## Paper &amp; Packaging



Source: Refinitiv

## Market data

EPIC/TKR	NDT.MI
Price (€)	3.36
12m high (€)	5.20
12m low (€)	2.92
Shares (m)	14.2
Mkt cap (€m)	48
EV (€m)	74
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](http://www.neodecortech.it)

## Key shareholders

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

## Diary

03 Nov	3Q'22 results
Apr'23	FY'22 results
Sep'23	1H'23 results

## Analyst

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## NEODECORTECH

## Bright 1H'22, cloudy outlook

1H'22 results from Neodecortech (NDT) continued the trend of FY'21. Total revenue was up 20% compared with 1H'21, to a record €103m, demonstrating the continued strength of NDT's new products and its European markets. The increases in energy prices and the impact of the Ukraine conflict have caused a reduction in the order backlog at the beginning of 2H'22, but the company remains confident of maintaining operating and financial results roughly in line with FY'21.

- ▶ **Trading:** Decorative paper, bolstered by its new, higher-margin products – EOS and PPLF – saw revenue up 14%. Cartiere, the paper business, also saw strong revenue gains (+40%). The energy division booked revenues down 7%. Growth came mostly from Italy (+32%) and Europe (=11%). The US was also strong.
- ▶ **Margins:** Materials as a percentage of revenues rose from 59% to 69%, but the EBITDA margin only slipped from 11.9% to 11.0%, as staff costs were kept stable. Not all higher input costs have yet been passed on to end customers. There remains strong upward pressure on most raw material prices and energy costs. We are expecting broadly flat EBITDA margins for the next two years.
- ▶ **Valuation:** Having performed strongly in 2021, NDT has, along with the market, had a poor 2022 and is down 25% YTD. It appears cheap on our forecast multiples, at a ca.21% 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 is €6.04 per share.
- ▶ **Risks:** The key risk in the immediate term is the impact on the economy of the energy crisis. Increasing energy prices squeeze everybody along the value chain. 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, 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, albeit down on the first half. The very strong business 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)	2019	2020	2021	2022E	2023E
Sales	136	131	179	200	202
EBITDA (reported)	15.9	14.6	18.1	19.0	20.0
EBIT	7.1	5.5	9.2	9.4	10.4
Net financial costs	-1.9	-1.4	-1.2	3.0	-0.6
Pre-tax profit	5.2	4.1	8.0	12.4	9.8
Net income (reported)	4.0	3.5	6.7	10.5	7.8
Net income (adjusted)	5.7	3.5	6.7	6.7	7.8
Statutory EPS (€)	0.30	0.26	0.50	0.74	0.55
Adjusted EPS (€)	0.41	0.26	0.48	0.46	0.54
Shares issued (m)	13	13	13	14	14
P/E (x)	8.1	13.1	6.9	7.2	6.2
EV/EBITDA (x)	5.1	5.6	4.5	4.3	4.1

Source: Hardman &amp; Co Research

# First-half results

## Strong bounce-back continues

Revenue continued to grow strongly half on half...

Revenue in 1H'22 grew 23% on 1H'21 to €103m, building on the strong growth in FY'21. The plant operated at full capacity and is expected to do so for the rest of the year. Raw material costs continued to rise significantly but, with staff costs held steady, EBITDA still managed an 11% increase on the first half of last year to €10.9m.

...but margins squeezed in 1H'22, due to sustained high raw material prices

EBITDA margin was 11%, down from 11.9% in 1H'21. NDT was not able to pass on the full impact of price increases – there always tends to be a lag anyway, but the economic uncertainty caused by the energy crisis, rising interest rates and the Ukraine war means that it will be harder to push through price rises in the second half.

### Summary of 1H'21, 2H'21 and 1H'22 results

Year-end Dec (€m)	1H'21	2H'21	1H'22	1H'22 vs. 1H'21
Revenue	83.3	95.7	102.7	23%
EBITDA	9.8	8.3	10.9	11%
EBIT	5.3	3.9	6.1	15%
Net income	3.1	3.6	8.1	160%
EBITDA margin	11.9%	11.8%	11.0%	

Source: Hardman & Co Research

EBIT was up 15% and net income more than doubled due to the effects of a one-off credit of €5m from the time barred financial payable being written off, partly offset by the write-off of a related receivable of €1.3m. The net impact after tax was to raise the net profit from €5.3m to €8.1m. Excluding these exceptional items, net profit rose 71%.

Sales in printed decorative paper were up 14% (after an increase of 50% in FY'21), and sales in decorative paper grew 42% (up 39% in FY'21). The printed decorative paper business continues to benefit from the new, higher-margin products; however, the business's margins were squeezed by higher raw material cost, falling from 14.3% in 1H'21 to 10% in 1H'22. The volume gains in decorative paper helped margins expand from 8% to 10.1% half on half. Continued efficiency gains also saw staff costs continue to fall as a percentage of sales, partially offsetting the rise in input costs.

Strong performance in Europe, mixed elsewhere, with the US also blooming

Performance was strong in Europe, with sales in Italy rising 32% and by 11% in the rest of Europe. Meanwhile, Asian sales fell 40%, the Middle East fell by 13% and Africa was also down 33%. On the brighter side, outside of Europe, sales in America were up 271%, after a strong year last year.

There was a substantial cash outflow in the first half. Operational cashflow was a negative €7m after a further €4.2m in capex investment. The outflow was due to working capital expanding by €12.4m. This was partly due to increased sales but mainly driven by the higher cost of inventories and the need to build additional stocks.

Altogether, net financial debt rose to €34m, at the end of the half year, a still very comfortable level.

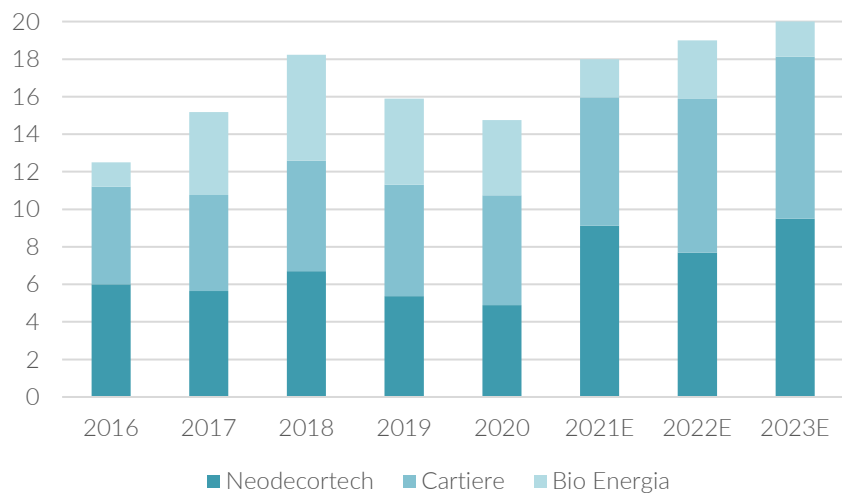
## Growth drivers

Home furnishings should continue to boost sales...

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<sup>1</sup> – were in full operation by 1Q'21, along with the new, wider 142cm laminate line. They have continued to boost sales in FY'22, although there has been some slowdown at beginning of the second half due to the general deterioration of the economic outlook: rising inflation, rising interest rates and even an uptick in unemployment.

At Cartiere di Guarcino (Cartiere), the decorative paper division, strong revenues were driven by Unicolour papers and papers for printing bases. The core raw materials – fibre pulp and titanium dioxide – both saw strong rises throughout the period, but these were largely passed on to customers. The new developments, including Velvet Paper and paper for use in food packaging, were not introduced. Development of these new lines will continue in the rest of 2022.

Neodecortech: EBITDA (adjusted) by division, 2016-23E (€m)



Source: Neodecortech, Hardman & Co estimates

...but lower contribution expected from energy division

In the energy division, Bio Energia Guarcino (Bio), revenues were down 7% in 1H'22 on 1H'21, with lower output partly offset by higher selling prices. Production was affected by management choosing to run the engines in a modular way, as the price of animal fats rose and the price of energy remained highly volatile. The value of incentives fell sharply as the reference price of electricity 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 have been high and very volatile, and the price of bio fuels was also high, making it very tricky to run the division profitably. However, towards the end of the period, both vegetable oils and animal fast fell in price and this fall is expected to continue, so the current plan is to run the turbines at full capacity.

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 they have reached the end of their incentive

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

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 is expected to issue a decree by the end of the year 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.

Our FY'22 EBITDA forecast remains at €19m

We are now forecasting revenue to grow by 12% in FY'22, to €200m (up from our previous forecast of €188m). Reported EBITDA, we have kept flat at €19.0m. This forecast is dependent on no further major deterioration in the Italian or European economies. Where NDT will benefit, especially in comparison with most of its competitors, is with its vertically integrated power supply shielding it from the worst of the increases in gas and electricity prices. Bio provides all the electricity requirements of the paper mill as well as a third of its steam.

We expect net debt to end FY'22 at €33.5m, a small increase on FY'21 (€29m). This may well be lower if the working capital can be reduced in the second half. 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 – notably the surge in gas prices and related energy costs – have far-reaching consequences, which are only likely to be partially offset by concerted government action.
- ▶ 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 controlling 59% of the company.

## Valuation

Our central DCF valuation comes out at €6.04 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 (€24.6), it is trading at an EV/EBITDA for FY'21 of 4.8x and for FY'22E of 5.4x. At the current price, NDT is trading at a ca.7% EV/EBITDA discount to Surteco for FY'21 and 21% for FY'22E.

Our new central DCF valuation of €6.04 per share would put NDT on a slight premium to the EV/EBITDA and P/E multiples of Surteco for FY'22E.

## Divisional forecasts

Year-end Dec (€m)	2019	2020	2021	2022E	2023E
<b>Revenue</b>					
Neodecortech	56.5	55.2	83.0	85.5	86.3
Cartiere di Guarcino	47.0	40.7	56.7	77.1	78.0
Bio Energia Guarcino	29.5	32.0	38.3	33.6	35.0
Other	2.9	3.3	1.3	3.8	2.6
Total	135.9	131.2	179.3	200.0	202.0
<b>Growth</b>					
Neodecortech	10.9%	-2.3%	50.4%	3.0%	1.0%
Cartiere di Guarcino	-7.5%	-13.5%	39.4%	20.0%	1.0%
Bio Energia Guarcino	0.9%	8.4%	19.8%	-10.0%	4.0%
Total	1.7%	-3.5%	36.7%	11.5%	1.0%
<b>Reported EBITDA</b>					
Neodecortech	5.4	4.9	9.1	7.7	9.5
Cartiere di Guarcino	5.9	5.9	6.8	8.2	8.6
Bio Energia Guarcino	4.6	4.0	2.0	3.1	1.9
Other		-0.1			
Total	15.9	14.6	18.0	19.0	20.0
- adjustment	2.0	0.0			
Adjusted EBITDA	17.9	14.6	18.1	19.0	20.0
<b>EBITDA margin</b>					
Neodecortech	9.5%	8.9%	11.0%	9.0%	11.0%
Cartiere di Guarcino	9.7%	10.8%	9.0%	9.0%	9.4%
Bio Energia Guarcino	14.5%	11.8%	5.0%	8.5%	5.0%
Total	11.7%	11.1%	10.0%	9.5%	9.9%

Source: Hardman &amp; Co Research

## Financial statements

Income statement					
Year-end Dec (€m)	2019	2020	2021	2022E	2023E
Revenue	135.9	131.2	179.3	200.0	202.0
Operating costs	-120.0	-116.5	-161.1	-181.0	-182.0
<b>Gross profit</b>	15.9	14.6	18.1	19.0	20.0
Depreciation and amortisation	-8.8	-9.1	-8.8	-9.6	-9.6
Impairments	0.0	0.0	-0.1	0.0	0.0
EBIT	7.1	5.5	9.2	9.4	10.4
Net financial costs	-1.9	-1.4	-1.2	3.0	-0.6
<b>Pre-tax profit</b>	5.2	4.1	8.0	12.4	9.8
Tax	-1.2	-0.5	-1.3	-1.9	-2.1
Reported net income	4.0	3.5	6.7	10.5	7.8
Adjusted net income	5.7	3.5	6.7	6.7	7.8
No. of shares (m)	13.1	13.4	13.4	14.2	14.2
No. of shares (fully diluted, m)	13.6	13.8	13.8	14.4	14.4
Statutory EPS (€)	0.30	0.26	0.50	0.74	0.55
Adjusted EPS (fully diluted, €)	0.41	0.26	0.48	0.46	0.54
DPS (€)	0.145	0.09	0.15	0.14	0.16
EBITDA margin	11.7%	11.1%	10.0%	9.5%	9.9%
EBIT margin	5.2%	4.2%	5.1%	4.7%	5.2%
Tax rate	24%	13%	17%	21%	21%
Revenue growth	2%	-3%	37%	12%	1%
EBITDA growth	-10%	-8%	24%	5%	6%
Pre-tax profit growth	-32%	-22%	97%	55%	-21%

Source: Hardman & Co Research

Cashflow statement					
Year-end Dec (€m)	2019	2020	2021	2022E	2023E
Reported EBITDA	15.9	14.6	18.1	19.0	20.0
Working capital	-1.9	-1.6	2.1	-8.4	0.0
Capex	-7.7	-6.2	-9.4	-8.3	-6.0
Other	0.3	0.0	-1.5	-1.5	0.0
<b>Operating free cashflow</b>	6.6	6.8	9.4	0.8	14.0
Disposal	2.4				
Tax	-0.7	-0.5	-0.2	-1.9	-2.1
Interest	-1.5	-1.4	-0.7	-0.8	-0.6
Dividends	-2.0	-1.9	-2.0	-2.0	-2.2
Equity	-0.2	-0.2		-2.2	
Debt	-7.6	10.9		2.0	
<b>Net cashflow</b>	-3.0	13.6	6.6	-4.1	9.1

Source: Hardman & Co Research

<b>Balance sheet statement</b>					
<b>@31 Dec (€m)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
Property, plant & equipment	78.9	77.2	78.6	80.0	84.0
Intangible assets	2.9	2.2	1.6	1.6	1.6
Other non-current assets	2.0	1.9	3.8	4.1	4.1
<b>Fixed assets</b>	<b>83.7</b>	<b>81.3</b>	<b>83.9</b>	<b>85.7</b>	<b>89.7</b>
Trade receivables	19.2	19.3	26.6	29.7	30.0
Inventories	39.1	36.7	40.6	44.8	44.8
Other current receivables	4.9	3.9	4.5	5.0	5.0
Cash and equivalents	3.5	7.6	13.5	4.2	13.4
<b>Current assets</b>	<b>66.8</b>	<b>67.4</b>	<b>85.2</b>	<b>83.8</b>	<b>93.2</b>
<b>Total assets</b>	<b>150.5</b>	<b>148.8</b>	<b>169.1</b>	<b>169.4</b>	<b>182.8</b>
Trade payables	-31.3	-25.6	-39.8	-39.4	-39.8
Other payables	-4.7	-4.7	-4.7	-4.4	-4.4
Tax payable	-0.5	-1.2	-1.6	-1.6	-1.6
Debt	-20.5	-18.7	-19.6	-22.6	-22.6
<b>Current liabilities</b>	<b>-57.0</b>	<b>-50.1</b>	<b>-65.7</b>	<b>-68.0</b>	<b>-68.4</b>
Pension provisions	-2.9	-2.7	-2.6	-2.9	-2.9
Other provisions	-0.9	-1.3	-1.0	-1.0	-1.0
Deferred tax liabilities	-4.4	-4.1	-6.2	-6.2	-6.2
Long-term debt	-23.6	-28.8	-23.2	-15.1	-15.1
<b>Non-current liabilities</b>	<b>-31.8</b>	<b>-37.0</b>	<b>-32.9</b>	<b>-25.2</b>	<b>-25.2</b>
<b>Total liabilities</b>	<b>-88.8</b>	<b>-87.1</b>	<b>-98.6</b>	<b>-93.2</b>	<b>-93.6</b>
<b>Net assets</b>	<b>61.7</b>	<b>61.7</b>	<b>70.5</b>	<b>76.2</b>	<b>89.2</b>
Share capital	16.2	17.4	18.8	18.8	18.4
Reserves	45.5	44.3	51.7	57.4	70.8
<b>Total equity</b>	<b>61.7</b>	<b>61.7</b>	<b>70.5</b>	<b>76.2</b>	<b>89.2</b>
Net book value per share (€)	4.71	4.71	5.38	5.82	6.81
Net debt	-40.5	-39.9	-29.3	-33.5	-24.4
Debt/equity	66%	65%	42%	44%	27%

Source: Hardman &amp; 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 €6.04 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 2021/20	EPS growth 2022E/21
Neodecortech	3.36	48	81	4.5	4.3	6.9	7.2	89%	0%
Neodecortech @ value	6.04	79	108	6.0	5.7	11.8	11.8	89%	0%
Surteco	24.6	382	556	4.8	5.4	9.1	9.5	76%	-4%

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

NDT trades at a 7% EV/EBITDA discount to Surteco for FY'21 and 21% for FY'22E, and at a 24% discount to P/E multiples for both years. Some of this may be reasonably attributed to the lower liquidity in the shares and the scale of the business generally – but 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'23E (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	131.2	179.3	200.0	202.0	212.1	222.7
EBITDA (reported)	17.7	15.9	14.6	18.1	19.0	20.0	21.0	22.1
Working capital	0.0	-1.9	-1.6	2.1	-8.4	-1.6	-1.6	-1.7
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	-2.1	-2.2	-2.3
Net cashflow		5.6	6.3	9.6	0.4	7.9	8.3	8.7
Discount factor	10%	0.7	0.8	0.9	1.0	1.1	1.2	1.3
Discounted cashflow						7.3	7.0	6.7

Source: Hardman & Co Research



### DCF summation

Value components	€m
2023-25E	21.0
2026E onwards	98.2
Total	119.2
less net debt end-2022	-33.5
Equity value	85.7
Equity value per share (€)	6.04

Source: Hardman & Co Research

Our central DCF valuation is €6.04

Our forecast range of values, based on the DCF methodology, gives a value of between €3.97 and €9.52 per share, with a central value, at a 5% mid-term growth rate and using our 10% discount rate, of €6.04. This is down from our previous calculation of €6.78, reflecting the absorption of working capital and the more uncertain outlook.

### DCF sensitivity table (€)

Discount rate/mid-term growth	0%	3%	5%	7%
8%	8.92	9.19	9.36	9.52
10%	5.74	5.92	6.04	6.14
12%	3.97	4.10	4.19	4.27

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. Starting in the second half of FY'21, we saw sustained increases in raw material prices, which have not been fully passed on, and, as the European and global economies stumble, it is hard to pass them on fully in FY'22. We have only modest progress assumed for FY'22 in our forecasts but, with NDT trading at 4.3x EV/EBITDA FY'22E and 7.2x P/E FY'22E, and, once again, at a 38% discount to FY'21 book, it would appear to be discounting plenty of bad news and ignoring the benefits of owning its own energy supplier.

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