

## Company Note

# NEO DECOR TECH

## Fair Value: €5.43

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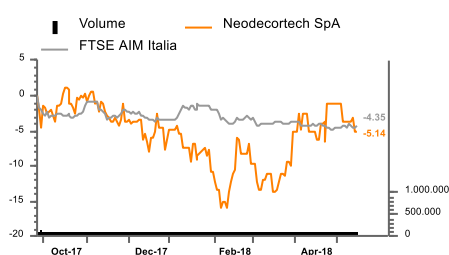
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### Relative Performance Chart (since IPO)



Market Data:	
Current Price (€)	3.80
Fair Value (€)	5.43
Market Cap (€/mn)	50.3
52 Wk High/Low (€)	4.34/3.33
Free Float (%)	27.20
Avg. Daily Trading 90d	5,494
Price Change 1 w (%)	-2.56
Price Change 1 m (%)	0.00
Price Change YTD (%)	-1.30
EV/EBITDA 2018E	5.38
EV/EBITDA 2019E	4.84
P/E 2018E	7.05
P/E 2019E	6.43

## Beating the Rising Commodity Prices

**Overview.** Neodecortech Group is the largest Italian producer and printer of décor paper, a surface material that finds 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 allows the Group to: i) exploit cross-selling capacity and ii) remove the energy gap that characterizes the Italian market, allowing the Group to be competitive internationally.

**Décor paper market.** In 2017, Neodecortech's reference market has been affected by relevant increases in commodity prices. The costs of pulp and titanium dioxide, necessary to produce paper, increased by 33% and 40.2% respectively, from 2016 to 2017. The higher costs of raw material also affected Neodecortech competitors' 2017 results: Munksjo's décor paper business EBITDA went down by 37% YoY, while Surteco experienced a decline in decorative printing and impregnated revenue of 18% YoY and 5% YoY respectively.

**FY2017 Results.** On April 30, 2018, the company released its 2017 annual report. FY17 Total Revenues stand at €127.7mn (+10.4% YoY) and, despite the higher prices of raw material (pulp and titanium dioxide) that hit the market, FY17 Gross Margin beat our previous estimate by 100bp, reaching 39.9%. Furthermore, EBITDA adj. reached €15.2mn (+22.1% YoY). The positive operating result has been achieved thanks to the quick reaction of the pricing policy to face the new commodity prices. Compared with our estimates, 2017 Total Revenues came in 4.1% lower, mainly due to the reduced selling volumes as a result of the new pricing policy. Net Debt improved by ca. €13mn, reaching €46.9mn, mainly affected by IPO proceeds (€11.1mn) and investments of ca. €7mn.

**Fine-tuning of estimates.** On the back of FY2017 results and of changes in pricing and product mix policies, we slightly adjusted our 2018-2019 estimates. We expect Neodecortech to grow at a slower pace in terms of Revenues, reaching €147.5mn in 2019 (-3.0% than our previous estimate). The change in product mix will generate, in our opinion, a higher EBITDA margin, allowing us to maintain stable estimates on EBITDA level (€18.0mn in 2018 and €20.0 in 2019).

**Valuation.** We believe that the most appropriate valuation methodology is a sum-of-the-parts: i) Market multiple model to value printing, impregnation and paper mill businesses, with an estimated value of €4.99ps; ii) DCF model to value the Group's power plant, which leads to a value of €0.44ps. The sum of parts returns a market value of €71.1mn resulting in €5.43ps. At the current market price of €3.80ps (-5.0% since the IPO), the company trades at a discount with respect to its peers. Specifically:

- EV/EBITDA 2018E of 5.38x vs peer group's median of 6.68x (-19.5%)
- EV/EBITDA 2019E of 4.84x vs peer group's median of 6.08x (-20.4%)
- P/E 2018E of 7.05x vs peer group's median of 13.61x (-48.2%)
- P/E 2019E of 6.43x vs peer group's median of 11.23x (-42.7%)

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
2018E	137,154	17,977	13.1%	10,954	7,061	0.54
2019E	147,467	19,984	13.6%	12,698	7,741	0.59

Source: Company data, KT&Partners' estimates

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

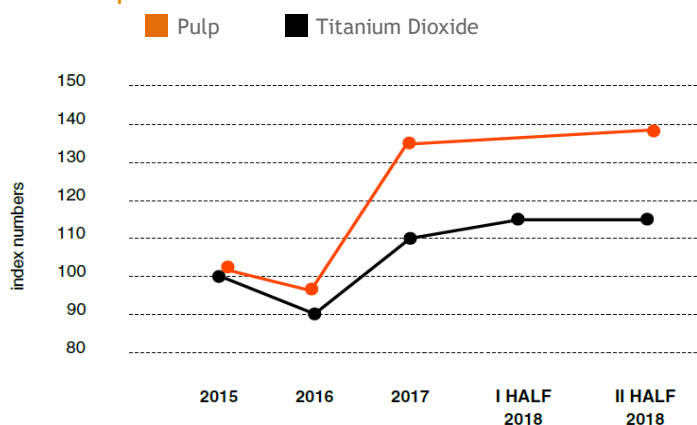
Current price (€)	Fair Value (€)		Sector		Free Float (%)
3.80	5.43	Industrial Goods and Services		27.20	
<b>Per Share Data</b>					
	2015A	2016A	2017E	2018E	2019E
Total shares outstanding (mn)	n.a.	n.a.	13.10	13.10	13.10
EPS	n.a.	n.a.	0.37	0.54	0.59
Dividend per share (ord)	-	-	0.11	0.16	0.18
Dividend pay out ratio (%)	0%	0%	30%	30%	30%
<b>Profit and Loss (EUR thousand)</b>					
Revenues	125,496	115,706	127,737	137,154	147,467
EBITDA	11,859	15,600	14,227	17,977	19,984
EBIT	4,785	9,228	7,930	10,954	12,698
EBT	1,344	5,967	5,183	8,826	10,736
Taxes	185	1,513	1,120	1,765	2,995
Tax rate	14%	-25%	-19%	-20%	-28%
Net profit	1,529	4,454	4,063	7,061	7,741
Net profit after minorities	1,529	4,454	4,063	7,061	7,741
<b>Balance Sheet (EUR thousand)</b>					
Total fixed assets	82,564	80,271	80,875	80,745	79,752
Net Working Capital (NWC)	21,854	19,594	23,421	26,561	28,799
Provisions	- 3,864	- 4,017	- 3,362	- 3,721	- 4,098
Other Assets and Liabilities	- 7,853	- 8,491	- 1,436	- 949	- 749
Total Net capital employed	100,554	95,848	100,933	103,584	104,452
Net financial position (NFP)	66,706	57,137	46,910	43,941	39,186
Group Shareholder's Equity	33,849	38,711	54,022	59,641	65,264
Minorities	-	-	-	-	-
Total Shareholder's Equity	33,849	38,711	54,022	59,641	65,264
<b>Cash Flow (EUR thousand)</b>					
Net operating cash flow	4,970	14,088	13,848	16,212	16,988
Change in NWC	n.a.	1,621	3,229	2,654	2,037
Capital expenditure	n.a.	4,634	8,649	6,893	6,293
Other cash items/Uses of funds	n.a.	44	240	359	377
Free cash flow	n.a.	12,522	2,466	1,373	6,178
<b>Enterprise Value (EUR thousand)</b>					
Market Cap	n.a.	n.a.	49,786	49,786	49,786
Minorities	-	-	-	-	-
Net financial position	66,706	57,137	46,910	43,941	39,186
Enterprise value	n.m.	n.m.	96,696	93,727	88,972
<b>Ratios (%)</b>					
EBITDA margin	9.4%	13.5%	11.1%	13.1%	13.6%
EBIT margin	3.8%	8.1%	6.2%	8.0%	8.6%
Gearing - Debt/equity	197.1%	147.6%	86.8%	73.7%	60.0%
Interest cover on EBIT	68.5%	35.3%	34.6%	19.4%	15.4%
NFP/EBITDA	5.6x	3.7x	3.3x	2.4x	2.0x
ROCE	4.8%	9.6%	7.9%	10.6%	12.2%
ROE	4.5%	11.5%	7.5%	11.8%	11.9%
EV/Sales	n.m.	n.m.	0.76	0.71	0.66
EV/EBITDA	n.m.	n.m.	6.80	5.38	4.84
P/E	n.m.	n.m.	12.25	7.05	6.43
Free cash flow yield	n.m.	n.m.	5.0%	2.8%	12.4%
<b>Growth Rates (%)</b>					
Sales	n.a.	-7.8%	10.4%	7.4%	7.5%
EBITDA	n.a.	31.5%	-8.8%	26.4%	11.2%
EBIT	n.a.	92.8%	-14.1%	38.1%	15.9%
Net profit	n.a.	191.4%	-8.8%	73.8%	9.6%

## FY2017 Results Summary

Neodecortech kept growing in FY2017 with **Total Revenues up by 10.4% YoY**, reaching €127.7mn. The Group achieved double-digit growth despite the increased average selling price of its products in order to align selling prices with the increased raw material costs. The new pricing reduced total volumes of products sold, thus Revenues came in 4.1% lower than our estimates, while Gross Margin benefited from the new policy and came in 100bp higher than our estimate.

The new pricing policy has been necessary because of the **sharp increase in raw material costs (pulp and titanium dioxide)** that affected the whole décor market. Pulp costs increased by 33% from 2016 to 2017, mainly due to the higher use of this material in the Chinese market. Titanium dioxide costs increased by 40.2% YoY affected by both the higher demand from the Chinese market and higher demand related to e-commerce packaging. This increase in prices also affected the results of Neodecortech's competitors: Munksjo and Surteco. The former experienced a 37% YoY decline in EBITDA of décor business (EBITDA margin down by 580bp), although total sales went up by 3.8%. Munksjo also recorded a negative performance in the Q1 2018 with the décor paper EBITDA margin shrinking to 6.2% from the 11.8% of Q1 2017. Surteco, on the other hand, experienced a reduction in both decorative printing revenue (-18% YoY) and impregnated revenue (-5% YoY).

Chart 1: Pulp and Titanium Dioxide Market



Source: Company presentation

Neodecortech's EBITDA 2017PF has been affected by both higher raw material cost and costs associated with the IPO which occurred on September 2017. The latter are: a) increased costs related to the IPO of €296k, among which were bonuses to managers of ca. €130k; and b) stock grant of €721k. Furthermore, 2016 has been affected by an extraordinary profit of €3.2mn, mainly due to insurance reimbursement. Adjusting for these factors, **FY17 EBITDA adj. (€15.2mn) came in 22.1% higher than the FY16 EBITDA adj. (€12.5mn).**

The bottom line 2017 is 8.8% lower than in the previous year, mainly due to the same extraordinary costs which affected EBITDA. Indeed, **2017 Net Income adj. reached €4.8mn, while 2016 Net Income adj. was €1.3mn.**

**Table 2: Neodecortech FY2017 Results**

€ thousand	FY15PF	FY16PF	FY17PF	YoY Growth	FY17E	A vs E %
<b>Sales</b>	<b>123,238</b>	<b>106,809</b>	<b>123,497</b>	<b>15.6%</b>	<b>129,989</b>	<b>-5.0%</b>
<i>Growth %</i>		-13.7%	15.6%		5.3%	
Other revenues	2,258	8,897	4,240		3,166	
<b>Total Revenues</b>	<b>125,496</b>	<b>115,706</b>	<b>127,737</b>	<b>10.4%</b>	<b>133,155</b>	<b>-4.1%</b>
<i>Growth %</i>		-7.8%	10.4%		4.2%	
Cost of Goods Sold	- 78,371	- 66,271	- 76,822		- 81,397	
<b>Gross Profit</b>	<b>47,126</b>	<b>49,435</b>	<b>50,916</b>	<b>3.0%</b>	<b>51,758</b>	<b>-1.6%</b>
<i>Gross Margin</i>	37.6%	43.5%	39.9%		38.9%	
Labour Cost	- 15,886	- 16,257	- 17,489		- 17,297	
Services	- 17,806	- 15,282	- 16,782		- 16,976	
Other Operating Costs	- 1,575	- 2,295	- 2,418		- 1,787	
<b>EBITDA</b>	<b>11,859</b>	<b>15,600</b>	<b>14,227</b>	<b>-8.8%</b>	<b>15,699</b>	<b>-9.4%</b>
<i>EBITDA margin</i>	9.4%	13.5%	11.1%		11.8%	
<i>Growth %</i>		31.5%	-8.8%		10.3%	
D&A	- 7,074	- 6,373	- 6,296		- 6,191	
<b>EBIT</b>	<b>4,785</b>	<b>9,228</b>	<b>7,930</b>	<b>-14.1%</b>	<b>9,508</b>	<b>-16.6%</b>
<i>EBIT margin</i>	3.8%	8.0%	6.2%		7.1%	
<i>Growth %</i>		92.9%	-14.1%		19.9%	
Financial Income and Expenses	- 3,277	- 3,261	- 2,748		- 2,689	
<b>EBT</b>	<b>1,508</b>	<b>5,967</b>	<b>5,183</b>	<b>-13.1%</b>	<b>6,819</b>	<b>-24.0%</b>
Taxes	185	- 1,513	- 1,120		- 1,364	
<i>Tax Rate</i>	n.m.	25.4%	21.6%		20.0%	
<b>Net income</b>	<b>1,693</b>	<b>4,454</b>	<b>4,063</b>	<b>-8.8%</b>	<b>5,455</b>	<b>-25.5%</b>
<i>Net margin</i>	1.3%	3.8%	3.2%		4.1%	
<i>Growth %</i>		163.1%	-8.8%		34.3%	

Source: Company data, KT&Partners elaborations.

## Estimates Revision

Following the release of the FY17 results and considering the **change in pricing policy and product mix strategy**, we slightly adjusted our future estimates. In 2017 Neodecortech started to adjust the pricing of its products in order to face the recent increases in raw material costs. The complete alignment of revenues and costs is expected in 2018, since there is a natural time lag between movements in commodity prices and pricing policy adjustments. Furthermore, the Group decided to focus on high value added products in order to improve its marginality and consequently be shielded from eventual further increases in commodity prices.

We expect Neodecortech to **keep growing the top line** over the coming years, even if at a slower pace due to the change in product mix and pricing policy, which will shrink selling volumes. Indeed, our new 2018 estimates are 5.3% lower than our previous forecast and the 2019 top line will reach €147.5mn (down by 3.0% with respect to our previous estimate).

Despite the lower growth, **we expect a higher EBITDA margin** in the forthcoming years, when compared with our previous estimate: +50bp in 2018 and +50bp in 2019. The increase in marginality, driven by the change in product mix, allows us to keep the future EBITDA level basically stable, which is estimated to be €18.0mn in 2018 (+26.4% YoY) and €20.0mn in 2019 (+11.2% YoY).

*Looking at EBIT figures*, our new 2018 estimate is 2.7% lower, due to the higher incidence of D&A on the new estimated level of Revenues. Furthermore, due to additional expected CAPEX, 2019 D&A will be slightly higher than our previous estimate, therefore our new 2019 EBIT estimate is equal to €12.7mn (down by 2.2%).

Finally, the **2018 bottom line** is expected to be 3.1% lower than our last forecast, affected by lower Revenues, higher margins and a constant level of D&A. The same reasoning applies to 2019 Net Income, which is forecasted to be €7.7mn.

The key points of our forecast are as follow:

- FY18E Revenues at €137.2mn, reaching €147.5mn in FY19 (7.4% CAGR FY17E-FY19);
- FY18E EBITDA at €18.0, reaching €20.0mn in FY19 (18.5% CAGR FY17E-FY19);
- FY18E Group Net Income at €7.1mn, reaching €7.7mn in FY19 (38.0% CAGR FY17E-FY19).

**Table 3: Change in Estimates 2018-2019**

€ thousand	2017PF	2018E	2018E	Change	2019E	2019E	Change
	Actual	Prev.	Curr.		Prev.	Curr.	
Revenues	127,737	144,771	137,154	-5.3%	152,011	147,467	-3.0%
YoY Change (%)	10%	13.3%	7.4%		5%	7.5%	
EBITDA	14,227	18,261	17,977	-1.6%	19,849	19,984	0.7%
YoY Change (%)	-9%	28.4%	26.4%		9%	11.2%	
EBITDA Margin		12.6%	13.1%		13.1%	13.6%	
EBIT	7,930	11,258	10,954	-2.7%	12,983	12,698	-2.2%
YoY Change (%)	-15.0%	42.0%	38.1%		15%	15.9%	
Net Income	4,063	7,289	7,061	-3.1%	7,926	7,741	-2.3%
YoY Change (%)	-8.8%	79.4%	73.8%		9%	9.6%	

Source: Company data, KT&Partners' elaborations.

## Valuation

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

Based on our valuation, we project a fair value of €4.53 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 €0.44 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 €4.99 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 next 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 NG 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 2018 and 2019 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 €65.4mn (calculated as the avg. of the two methods) or €4.99ps.

**Table 4: EBITDA and P/E Multiples Valuation**

Core Business Valuation (€) - EV/EBITDA	2018E	2019E	Avg.
Peer Group EV/EBITDA	6.68	6.08	6.38
liquidity/size discount	10%	10%	10%
EV/EBITDA post discount	6.01	5.47	5.74
Neodecortech Group EBITDA expected	17.98	19.98	18.98
BEG EBITDA expected	3.53	3.47	3.50
EBITDA expected (excluding BEG)	14.45	16.52	15.48
Enterprise Value	86.85	90.42	88.63
2017 Net debt (excluding BEG debt)*	34.58	34.58	34.58
<b>Equity Value (excluding BEG)</b>	<b>52.27</b>	<b>55.83</b>	<b>54.05</b>
Share Out.	13.10	13.10	13.10
<b>Fair Value ps</b>	<b>3.99</b>	<b>4.26</b>	<b>4.13</b>

Core Business Valuation (€) - P/E	2018E	2019E	Avg.
Peer Group P/E	13.61	11.23	12.42
liquidity/size discount	10%	10%	10%
P/E post discount	12.25	10.11	11.18
Neodecortech Group Net Income expected	7.06	7.74	7.40
BEG Net Income expected	0.52	0.48	0.50
Net Income expected (excluding BEG)	6.54	7.26	6.90
<b>Equity Value (excluding BEG)</b>	<b>80.13</b>	<b>73.36</b>	<b>76.74</b>
Share Out.	13.10	13.10	13.10
<b>Fair Value ps</b>	<b>6.12</b>	<b>5.60</b>	<b>5.86</b>
<b>Fair Value ps (Avg P/E; EV/EBITDA)</b>	<b>5.05</b>	<b>4.93</b>	<b>4.99</b>

\*Neodecortech 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 - 2018

Company Name	Exchange	Market Cap	EV/SALES 2018	EV/EBITDA 2018	EV/EBIT 2018	P/E 2018
Ahlstrom-Munksjo Oyj	OMX Helsinki	1,603	0.87	7.07	12.83	15.13
SURTECO SE	XETRA	412	0.83	6.28	12.12	12.09
Average peer group		1,008	0.85	6.68	12.48	13.61
Median peer group		1,008	0.85	6.68	12.48	13.61
Neodecortech SpA	Milan	50	0.71	5.38	8.83	7.05

Table 6: 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	1,603	0.84	6.18	10.36	11.85
SURTECO SE	XETRA	412	0.81	5.98	10.98	10.61
Average peer group		1,008	0.82	6.08	10.67	11.23
Median peer group		1,008	0.82	6.08	10.67	11.23
Neodecortech SpA	Milan	50	0.66	4.84	7.62	6.43

### DCF Valuation - Power Plant

To value BEG, we have considered the installed capacity as of the end of 2017.

Our DCF-based valuation, used for estimates of BEG’s fair value, considers the remaining feed-in tariff period (2018-2025) 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 2016 (20 MWp). By considering app. €12.3mn BEG Net Debt (estimated as of 31/12/2017 based on company data), we derive an equity value for the power plant equal to €5.8mn or €0.44 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 €71.1mn or €5.43ps.

Table 7: Sum of Parts Valuation

€mn	Valuation Method	Equity Value	Fair Value ps
Neodecortech Equity Value (ex. BEG)	Peer Comparison	65.40	4.99
BEG Equity Value	DCF	5.75	0.44
Neodecortech Group	Sum-of-Parts	71.14	5.43

Source: KT&Partners’ estimates



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## 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 FY2017 Munksjo recorded €2.3bn of Revenues with €0.4bn coming from the décor paper business (17%). 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 FY2017 Surteco registered €0.7bn of Revenues, with €0.4bn coming from the paper business (53%). The company was founded in 1999 and is headquartered in Bittenwiesen, Germany.

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