



22 February 2019

**Market data**

EPIC/TKR	NDT.MI
Price (€)	3.00
12m High (€)	3.92
12m Low (€)	2.66
Shares (m)	13.1
Mkt Cap (€m)	39
EV (€m)	80
Free Float*	28%
Market	Italian AIM

*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. 76% of its revenues are generated outside Italy.

Company information

CEO	Luigi Cologni
CFO	Marco Giussani
Chairman	Alberto Francois
	+39 035 996 111
	www.neodecortech.it

Key shareholders

Valentini family	72%
Azimut Capital	3%
ARCA Fondi	3%
Mediolanum	3%

Diary

26 March	Prelims
30 April	AGM
23 September	Interims

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

NEODECORTECH

Innovative décor paper printer

Neodecortech is a vertically integrated business from power generation through to paper manufacturing, through to printing and impregnating paper. It specialises in high-quality printed décor paper and film in natural patterns to sell to the interior decoration industry, including furniture and flooring manufacturers. With all 2017 raw material price increases now pushed through to customers and new investments in film laminates, we see revenues and margins improving. Neodecortech trades at a ca.50% EV/EBITDA discount to its nearest peers.

- **Strategy:** Neodecortech uses its vertical integration model to ensure continuity of affordable supply and flexibility in responding to an ever-changing market place. Margin efficiencies are coming through as plant capacity grows, and new designs and products are leveraging the company's Italian design heritage.
- **Trading:** Sharp price rises in pulp and titanium dioxide in 2017 and the first half of 2018 are now 90% passed on to customers, restoring margins that slipped in the second half of 2017. High hopes are resting on the opportunities for the new plastic printed laminate film products, which went on sale at the beginning of 2019.
- **Valuation:** Neodecortech is trading cheaply on forecast multiples. At a ca.50% EV/EBITDA discount to its nearest quoted peers, the market is more than adequately discounting for its smaller scale and lack of secondary market liquidity. Our central DCF valuation comes out at €5.14 per share (see page 21 for more details).
- **Risks:** The key risk in the immediate term is the economic outlook for the construction business generally, but in western Europe in particular. In addition, raw material price rises and the possibility of more direct competition from Chinese manufacturers are general concerns in the medium term.
- **Investment summary:** Neodecortech specialises in high-quality décor paper and plastic film, and has strong relationships with its customers. It is looking to invest in overseas sales capability, and further improvements in its machines and new technologies. It is a relatively new listed company, coming to the Italian AIM market in September 2017, and investors have yet to see a full year's set of results. As familiarity grows, we would expect the valuation discount to

Financial summary and valuation

Year-end Dec (€m)	2016	2017	2018E	2019E	2020E
Sales	115.6	127.7	141.0	145.2	159.4
EBITDA	15.6	14.2	17.6	18.9	20.0
EBIT	9.2	7.9	11.2	10.9	12.0
Net financial costs	-3.3	-2.7	-2.5	-2.7	-2.5
Pre-tax profit	6.0	5.2	8.7	8.2	9.5
Net income	4.5	4.1	7.0	6.5	7.6
Net income adjusted	1.3	4.8	7.5	7.1	8.3
Statutory EPS (€)		0.31	0.53	0.49	0.58
Adjusted EPS (€)		0.37	0.57	0.54	0.63
Shares issued (m)		13	13	14	15
P/E (x)		8.1	5.3	5.6	4.7
EV/EBITDA (x)		5.8	4.7	4.2	4.0

Source: Hardman & Co Research

Table of contents

Executive summary	3
Specialist printer heading higher	3
Specialty paper business	5
The paper market	6
The businesses	13
Printing and impregnating (Confalonieri)	13
Décor paper (Cartiere di Guarcino)	15
Power generation (Bio Energia Guarcino).....	16
Future developments	16
Financials	17
Forecasts.....	18
Financial statements	20
Valuation	22
Company matters	24
Risks	26
Disclaimer	27
Status of Hardman & Co's research under MiFID II	27

Executive summary

Specialist printer heading higher

Neodecortech is a vertically integrated business from power generation through to paper manufacturing, through to printing and impregnating paper. It specialises in high-quality printed décor paper and film in natural patterns to sell to the interior decoration industry, including furniture and flooring manufacturers.

The largest décor paper printer in Italy...

Formed out of businesses from the Valentini Group, it is now a focused business growing in efficiency, and developing new products and new markets worldwide. The business is inevitably linked to the property and construction cycle but is generally more exposed to refurbishment than new build, which is a more subdued cycle. With three quarters of its revenues generated outside its domestic Italian market, it has a wide spread of clients.

The vertical integration of the business provides security of supply and competitively priced power. It also assists the company in staying fashionable, and flexibly responding to an ever-changing market place. Both the paper manufacturing business and the power generation unit also sell into the wider market, so they need to perform efficiently.

...competing with larger competitors in other countries on quality of product and wide range

The décor paper market is a small part of the speciality paper market, which itself is a small part of the global paper and packaging market. Neodecortech is the largest décor paper printer in Italy but it is a fraction of the size of its largest competitors, which are largely private German companies. It competes on the quality of the product and its wide range. It has over 900 patterns in its catalogue and is constantly adding new ones. It has also developed a laminated film based on PVC (with polypropylene and polyethylene on the way) to sell into the luxury vinyl tile market.

We are forecasting steady revenue growth of ca.9% p.a., with profits growing faster through operational and financial gearing. Debt is relatively high, at an estimated 73% of equity at the end of 2018, but we forecast it falling to below 50% by 2020. 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 sharp slowdown will make our forecasts difficult to achieve. Rises in raw material prices cannot be passed on straight away, and so can cause a delay in profitability.
- ▶ The Chinese are large 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 Neodecortech.
- ▶ Shareholders should remember that they are a minority in the company, with the Valentini family controlling 72% of the company. This should come down over time, as Neodecortech looks to issue equity to invest in growth in the business.

Our central DCF valuation comes out at
€5.14 per share

Valuation

The company trades on a very significant discount to its two most closely related listed peers – Ahlstrom-Munksjö (Finland) and Surteco (Germany) – although both are on a recovery track, after expected lower profits in 2018. Our central DCF valuation of €5.14 per share would put the company on 20% and 25% discounts to EV/EBITDA multiples for 2019 and 2020, respectively, justified by Neodecortech's smaller scale and lower liquidity caused by the limited free float.

Specialty paper business

Operates under three sites:

Neodecortech is a vertically integrated business supplying the interior design, furniture and flooring industries with decorative papers and, more recently, plastic. It operates out of three sites: the printing and impregnating plant, the paper mill and the power plant.

...printing and impregnating plant...

The brand name of the printing and impregnation business is Confalonieri, which was founded in 1947. It is the leading player in Italy in the production of decorative paper for laminated panels and flooring used in the interior design sector. The designs typically replicate the look of natural materials such as wood, stone, metal or even cement. The company also produces designs inspired by textiles or abstract geometrical designs.

...the paper mill...

Cartiere di Guarcino is the paper production business. It has a mill about 100km from Rome, with the capacity to manufacture 50,000 tons of specialist paper. Only 16% of its production goes to Confalonieri, with the remainder sold on the open market. It has, in the past few years, expanded its sales territory all around the world to include Asia, the Americas and both Eastern and Western Europe.

...the power plant

All the electricity and 20% of the steam to run the paper mill come from Neodecortech's third business, Bio Energia Guarcino, a power generator sited next to the paper mill. Cartiere di Guarcino takes only ca.43% of the electricity produced, and the balance is sold back to the grid.

Neodecortech in figures

	Power plant	Paper mill	Printing & impregnation	Lamination	Total
Total area (m ²)	9,000	136,000	100,000	18,000	263,000
Covered area (m ²)	1,000	25,000	39,000	6,000	71,000
Reconstruction value (€m)	30	94	104	21	249
Net book value (€m)	15	33	23	2	73
Number of employees	2	171	156	33	362
Number of shifts	3: 24/7	3: 24/7	3: 24/5	3: 24/5	
SBU production					
Cartiere di Guarcino (tons)		42,000			42,000
Impregnation (tons)			2,550		2,550
Printing (tons)			7,750		7,750
Lamination				1,400	1,400

Note: the two staff at the energy plant are supplemented by staff on secondment from the paper mill.

Source: Neodecortech

The capital intensity of the business is a substantial barrier to entry. In the table above, we show that the reconstruction of the assets of the business would cost three times the net book value. This is a substantial deterrent to any new entrants into the market.

Vertical integration helps company respond quickly to market opportunities

Vertical integration benefits

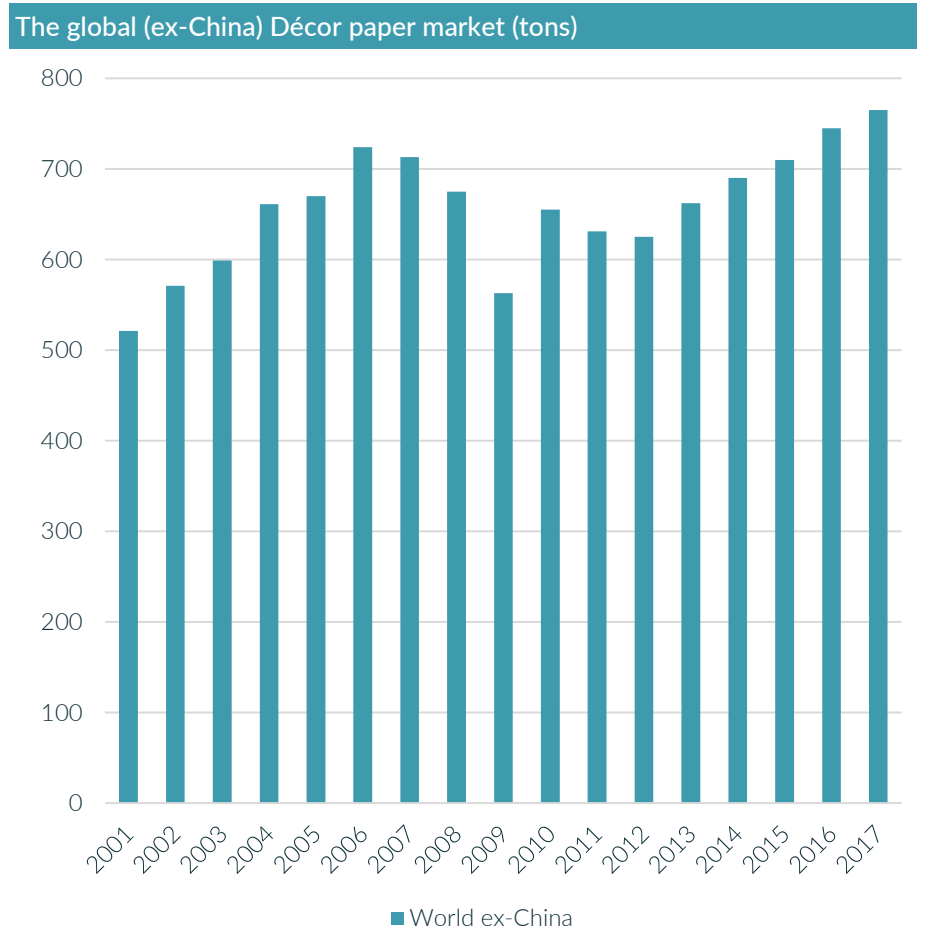
The company believes that, in addition to the critical power supply, the advantage of being vertically integrated is that it helps the company respond swiftly to market opportunities; it provides security of supply (both power and paper) and gives the company greater flexibility to respond to market developments. It also ensures that the company stays on top of R&D in the business.

Both growth and declines in décor paper production over 2001-17

The paper market

Neodecortech is in a very small, specialist part of the paper market. Approximately 7% of the 400 million ton global paper market, excluding China, is in speciality paper, and the 745,000 ton décor paper market is only a small fraction of that, making it ca.0.2% of the total world market.

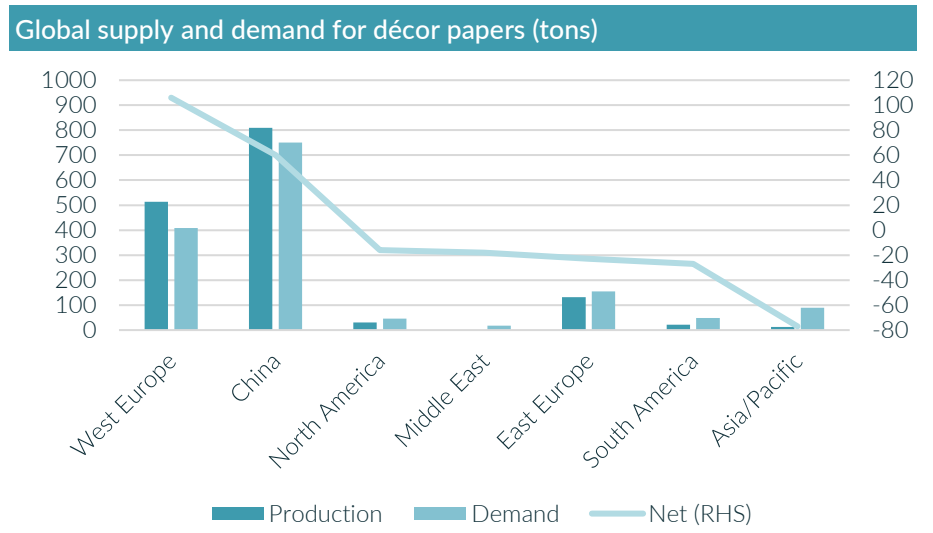
Décor paper has seen a classic production cycle: between 2001 and 2006, there was 6.8% annual growth in tonnage; then, in the global slowdown, it saw a decline to the bottom in 2012 of 2.6% p.a.; between 2012 and 2017 (the latest figures we have), it grew again at 4.5% p.a. It took until 2016 to pass the peak of 2006.



Source: Décor Paper Market Research 2017, Ahlstrom Munksjö

Outside China, market dominated by Western Europe and, in particular, Germany

When discussing the décor paper market, it is normal to exclude China. This is partly because it produces much lower-quality paper, and so it is not competing directly with the likes of Neodecortech, and partly because it is so huge (it produces about half of the global total tonnage) – but nearly all of the production is absorbed internally. The only net exporting regions are China and Western Europe.



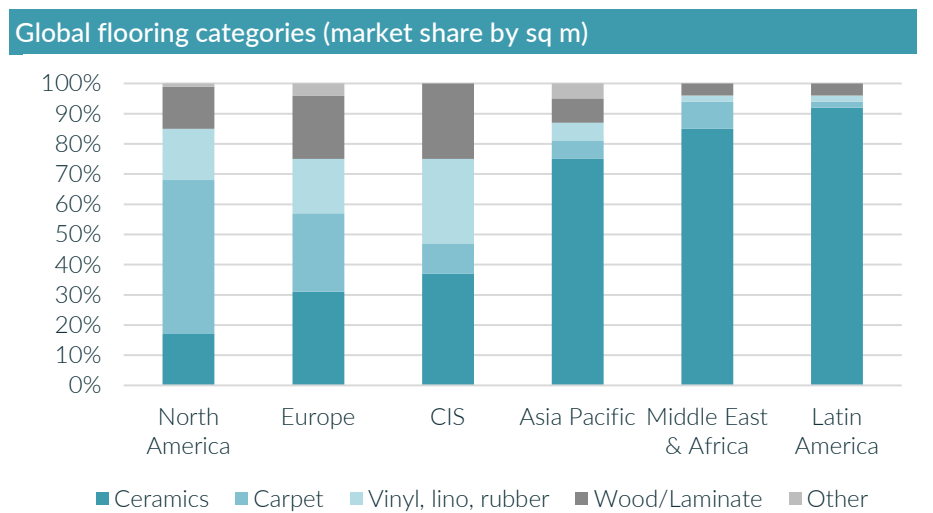
Source: Décor Paper Market Research 2017, Ahlstrom Muncksjö

Outside China, this market is dominated by Western Europe and, in particular, Germany. There is some production in Eastern Europe but very little in the rest of the world.

Different parts of world have different traditions in choice of floor covering

A large percentage of the décor paper market ends up in flooring, and different parts of the world have different traditions when it comes to their choice of floor covering. In most of the Southern Hemisphere and Asia Pacific, ceramic floors completely dominate the market.

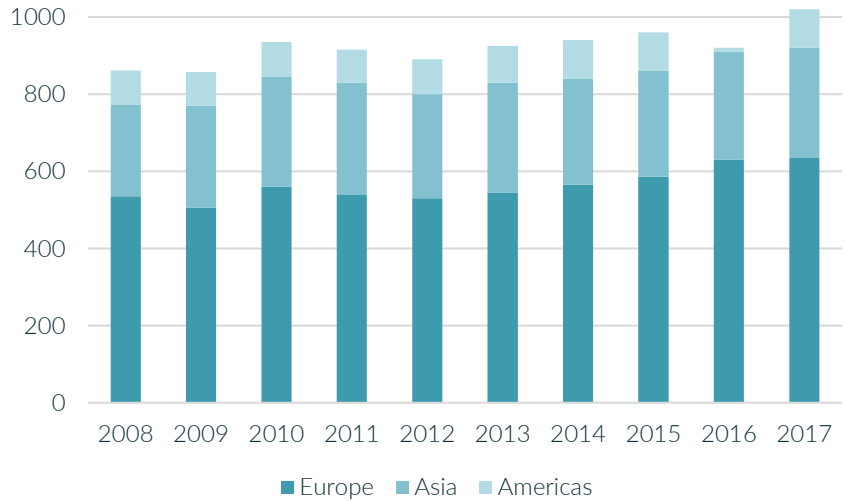
In North America, the dominant covering is carpet (as it is in the UK), with only 14% being wood or laminate. In Europe and the former Soviet Union, the coverings are more varied, and wood/laminate makes up a 20%-25% market share.



Source: World Flooring Report July 2017

The laminate flooring market has shown modest growth since 2008, with Asia growing fastest at 2.0% p.a. and Europe slowest at 1.3%, leading to overall market growth of 1.6% p.a.

Laminate flooring market (million sq m)



Source: Décor Paper Market Research 2017, Ahlstrom Munksjö

Europe represents approximately 60% of the market, Asia 30% and the Americas just 10%.

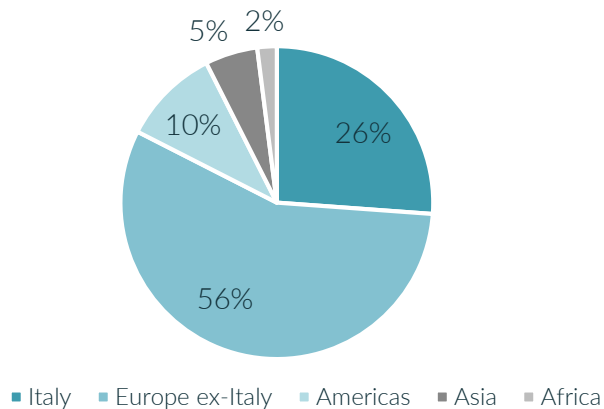
Economic sensitivity

Some insulation from global economic downturns

Inevitably, the décor paper market is linked to global economic activity – and construction in particular. It is refurbishment that is the key, rather than new build, as floors and furnishings are constantly being replaced. This possibly provides a little insulation from the global economy as, in downturns, there tends to be more focus on refurbishing, rather than new building.

Like the market, Neodecortech is a global business: a quarter of its external sales are within Italy, another half are to the rest of Europe, 10% go to the Americas, and the balance is split between Asia and Africa.

Neodecortech: destination of revenues



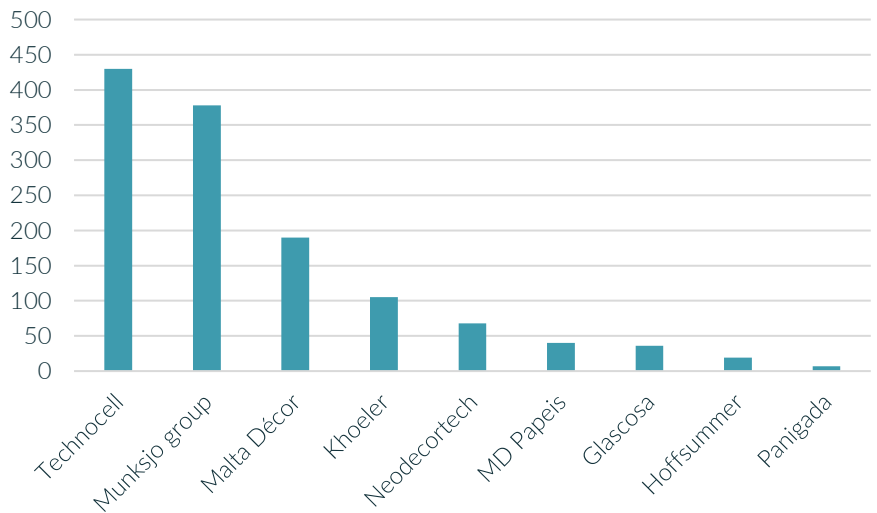
Source: Neodecortech

German companies dominate

Competition

The competition for Neodecortech is dominated by German companies – most of them privately owned. Among the top four players in the global décor paper market, there is a Polish company called (confusingly) Malta Décor, and the other three are German.

Décor paper producers, revenue (€m, 2017)

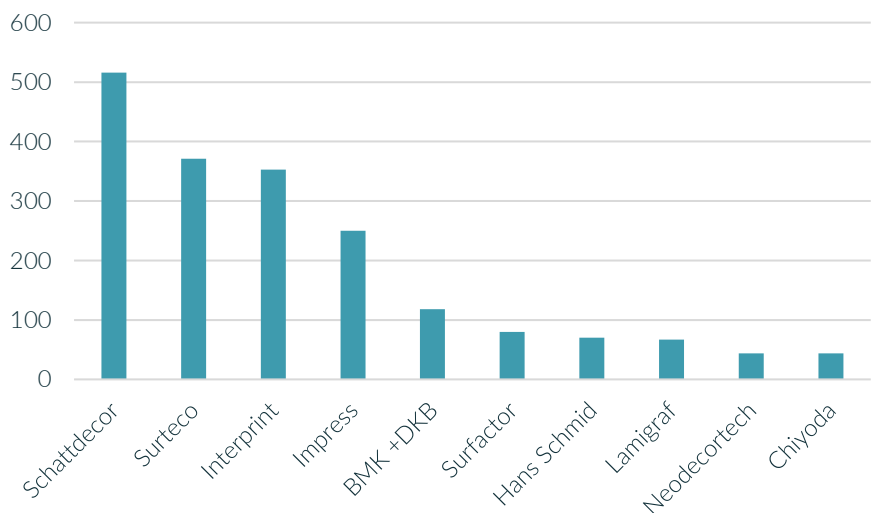


Source: Neodecortech

The top four companies account for 87% of the revenue of the top nine. Neodecortech's share is just 5%. There are two other, smaller Italian companies. The two largest, like Neodecortech, compete with a very wide range of papers. The smaller players tend to be more specialist.

In printing and impregnating, the picture is very similar. Three of the top four measured by revenue are German, and the fourth is Polish.

Printers and impregnators, revenue (€m, 2017)



Source: Neodecortech

Here, the top four account for 78% of the revenue of the top ten players. Neodecortech has just a 2% market share.

We would expect Neodecortech to be able to grow faster than the market

Once a manufacturer has a reliable supplier for such a specialist product, it is not going to change readily

Two key prices for Neodecortech are TiO₂ and pulp

Growth prospects

Such is Neodecortech’s scale that its own individual actions are probably more important than the market as a whole. We would expect the company to be able to grow faster than the market for reasons discussed below: notably investment in new capacity and efficiency, and the development of new products.

Client and supplier concentration

While Neodecortech supplies many different customers, its top 10 account for over half of its sales, and its top five for 38%. We see this as a strength, rather than a weakness. It has genuine partnerships with its customers in developing and supplying new products, tying them in to a symbiotic relationship. Once a manufacturer has a reliable supplier for such a specialist product, it is not going to change readily.

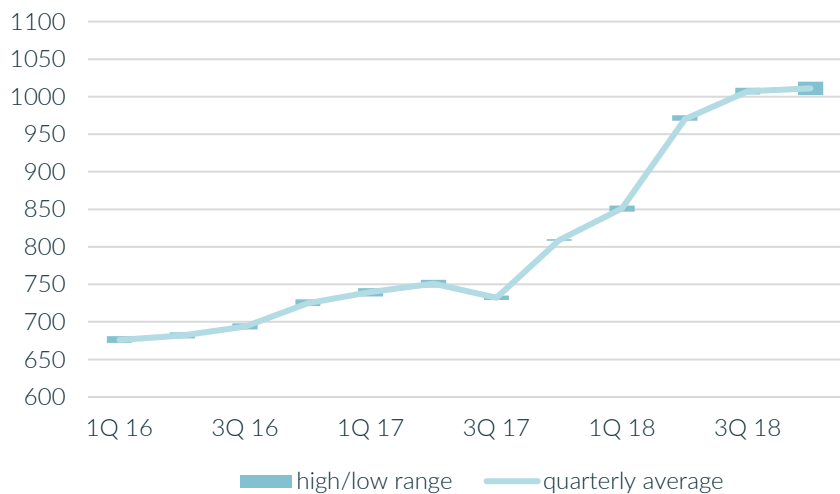
On the supplier side, it makes sense to concentrate its buying power, and the top five suppliers (excluding energy) make up nearly half of all Neodecortech’s inputs; the top ten account for over 70%.

Raw material prices

Prices are an important input for Neodecortech. For paper production, the two key prices are titanium dioxide (TiO₂) and pulp. In 2017, Neodecortech spent €47.5m on raw materials in Cartiere di Guarcino out of total revenue (before inter-group eliminations) of €66.4m. In other words, 72% of revenue is simply material inputs. Pulp accounted for 24% of revenue and TiO₂ 39%.

Pulp prices, having been reasonably stable in 2015 and 2016, rose steadily in 2017 and throughout 2018 (in Euros). Short fibre prices rose from ca.€630 (all prices per metric ton) at the beginning of 2017 to €830 at the end of 2017 and ca.€900 in the third and fourth quarters of 2018. Short fibre generally comes from Brazil and Indonesia. Long fibre, on the other hand, is generally sourced from Scandinavia, and rose from €750 to €850 in 2017, before climbing over €1,000 in 2018, due to poor weather in Northern Europe and strong demand from China.

Long fibre pulp prices (€ per ton)

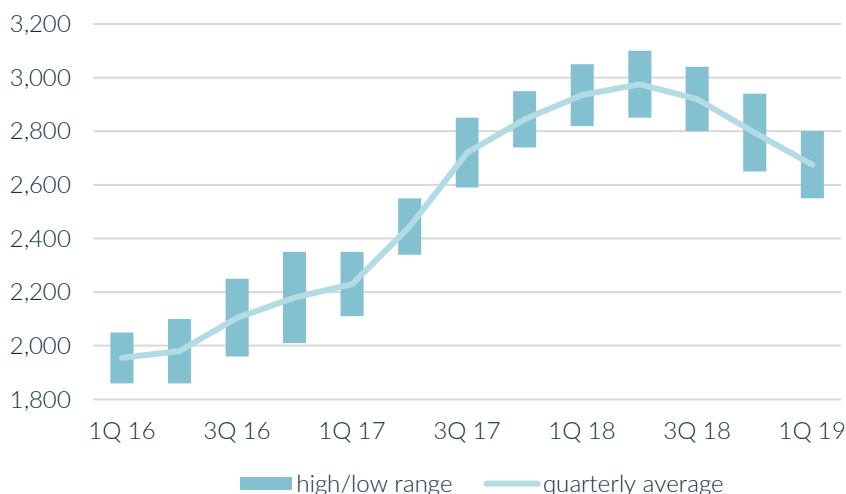


Source: Neodecortech

TiO₂ prices followed a similar pattern with prices, which had been falling, beginning to rise from a low in the middle of 2016 of €2 per kg to €2.25 at the beginning of

2017, and then to €2.80 by the end of 2017. In 2018, the price peaked at just under €3 in 2Q, before coming off a bit and averaging €2.8 in the 4Q.

Titanium dioxide prices (€ per kg)



Source: Neodecortech

Raw material costs for impregnating business are around a third of revenues; two-thirds for décor paper business

To some extent, changing raw material prices only impacts the timing of profitability. Price increases will be passed on with a lag, and falling prices likewise. All Neodecortech's competitors are impacted in the same way, and there is unlikely to be any product substitution in the short term. Clearly, over the longer term, if prices were to rise disproportionately, this could have a structural impact on the demand for décor paper, but we are not expecting such a shift.

In the table below, we show the proportion of revenues for the paper business spent on raw materials.

Cartiere di Guarcino, raw material cost as % of revenues

	1H'17	2H'17	1H'18
Pulp	21%	27%	20%
Titanium dioxide	34%	46%	35%
Other	8%	9%	10%
Cartiere di Guarcino	62%	82%	65%

Source: Neodecortech

As the company commented at its 2018 interim results, by the end of the first half, 90% of the price rises from 2017 had been passed on to its customers. The company chose not to pass on all the price increases, as it had made significant improvements in productivity and it did not want to put unnecessary pressure on its key customers.

The printing and impregnating business is a much higher added-value business, and the raw materials are closer to a third of revenues, rather than the two-thirds in the décor paper business.

Neodecortech: raw material cost as % of revenues

	1H'17	2H'17	1H'18
Resins	12%	9%	13%
Inks	4%	3%	4%
PVC	5%	4%	4%
Untreated paper	10%	11%	9%
Other	1%	2%	2%
Neodecortech	33%	28%	33%

Source: Hardman & Co Research

Here it is clear that Neodecortech benefited from lower inputs in 2H'17, but these returned to the same pattern as 1H'17 in 1H'18.

For the power generation business, the picture is not so clear. Neodecortech switched from using palm oil in 2015 to tallow oil. This is much less volatile due to government incentives, which vary in line with the current energy price. Bio Energia Guarcino receives further subsidies if it uses approved, environmentally friendly animal fats. With Neodecortech taking slightly less than half of Bio Energia Guarcino's electricity, if the price of electricity rises, the group will benefit from the power sales back to the grid, although this upside will be partly offset by falling incentive payments.

The businesses

Neodecortech has three businesses: printing and impregnating, paper-making and power generation.

Printing and impregnating (Confalonieri)

Most important business is printing and impregnating...

The most important of Neodecortech's three businesses is printing and impregnating, based in Filago, Bergamo, about 50km northeast of Milan, trading under the name of Confalonieri. It produces 51 products, divided into four main categories, with over 900 separate designs:

- ▶ decorative printing;
- ▶ finish foil;
- ▶ melamine film; and
- ▶ plastic printed film (PPF) and plastic printed laminate film (PPLF) for luxury vinyl tiles (LVT).

In 2017, this business reported €43.9m of sales, with an overall gross margin of 29%.

Confalonieri: revenues, gross profit and gross margin by product (2017, €m)

	Revenue	Gross margin	Gross profit
Melamine film	12.9	26%	3.4
Finish foil	2.9	24%	0.7
Decorative printing	24.6	32%	7.9
LVT	3.5	25%	0.9
Confalonieri	43.9	29%	12.8

Source: Neodecortech

...with decorative printing the biggest part, followed by melamine film, LVT and finish foil

The biggest part – decorative printing – produces high-quality printed papers for wood-based panel manufacturers. The printed papers accurately replicate natural surfaces, such as wood or stone, and are attached to a wood-based panel, such as chipboard or MDF. It is, in effect, a modern artificial veneer, at much lower cost. These are used in the furniture and flooring industries.

Melamine film is printed décor paper impregnated with melamine resin. This gives the surface resistance to scratching or damage from chemical substances spilt on it. This too is sold to furniture and flooring manufacturers.

Finish foil takes the process a step further, and attempts to replicate not only the look of natural materials but also their feel.

The PPF and PPLF for LVT once again produce the look of natural materials but, instead of being printed on a paper, they are printed on a plastic substrate. Originally produced only on PVC, Neodecortech has developed a product based on polypropylene and polyethylene films that are much more environmentally friendly. The LVTs are used mainly in flooring, but also on some vertical surfaces.

Sales of PPLF would consolidate
Neodecortech's position as one of the
European leaders in the laminate market

Laminates

In September 2018, Neodecortech acquired the business division of Corbetta, a company belonging to Neodecortech's controlling shareholder, the Valentini Group. It specialises in laminate production using continuous pressing lamination (CPL) technology. The purchase will increase Neodecortech's presence in the LVT market. Corbetta had ca.€8m of sales in 2017 and made a small positive EBITDA margin. The price, including debt acquired with the business, was approximately €2.5m.

At the lamination production facility in Casoli di Atri, it is possible to laminate PPF with a transparent plastic film to obtain a composite film that, once embossed and lacquered, produces PPLF. This new product was launched in January 2019 and should allow those producers of flooring, who are not yet fully part of the LVT production chain, to access the designer vinyl flooring market with reinforced HDF (high density fibreboard). Laminate flooring is composed of a wood composite support material laminated with melamine paper and a transparent impregnated paper film overlay, which provides mechanical resistance to the surface of the product.

Neodecortech has high expectations for the sales of PPLF, as it would consolidate its position as one of the European leaders in this new market segment, which is characterised by both double-digit growth and substantial margins.

Investment in R&D important approach to
business

The process

An important part of Neodecortech's approach to business is its investment in R&D. It develops its own products, constantly making new designs, and working closely with its customers. This also helps it to develop new products like PPLF.

As with any design business, fashion is important. Neodecortech attends important international trade fairs, and its Italian heritage is a clear advantage in the design world.

Once the design is finalised, it is translated onto printing cylinders used in the rotogravure process; usually, there are three cylinders per pattern. Each cylinder costs several thousand euros, and Neodecortech has over 3,000 of them. The engraving of the cylinders is one of the few things that Neodecortech does not do in-house. This is a precision process and is necessary to provide the high-image quality needed in decorative printing. The cost of the design and the cylinder means that, to be economical, each run must be either very long or regularly repeated.

Neodecortech uses digital printers for producing new samples or one-off panels.

There are seven printing machines with various capacities and four impregnating lines. It has an annual production capacity of 18,000 metric tons. In 2017, production was 7,750 tons of printed paper and plastic, and 2,550 of impregnated paper – or utilisation of ca.60% capacity. As sales build, improved efficiency should push the operating margins higher.

Décor paper (Cartiere di Guarcino)

Produces a wide range of décor papers

Cartiere di Guarcino is located in Guarcino, about 100km east of Rome. The company has 171 employees and a production capacity of 50,000 tons per year. Last year, it manufactured 42,000 tons of speciality paper. To put that in context, the two largest European producers of décor paper have capacity of ca.190,000 tons each.

The company manufactures decorative papers for high- and low-pressure lamination, as well as for flooring. It makes a wide range of décor papers: print base papers, backer papers, underlay papers, edge banding papers and unicolour papers.

For reporting purposes, the product is split into three categories:

- ▶ base decorative papers;
- ▶ unicolours; and
- ▶ backer papers.

Base papers are what printers like Neodecortech use to produce their natural texture effects. They have a smooth gloss surface, which best suits the rotogravure high-quality printing process.

Unicolours are single colour sheets, which are not glossy, but they are opaque and have low porosity. The papers are used by laminators to produce high- and low-pressure panels.

Backer papers, the smallest part of the business, are more industrial in nature. They are used on the underside of flooring laminates to offset the tendency of the melamine resin layer to shrink as it hardens.

The paper business is, by nature, more of a commodity product, even in the specialist area of décor papers. The gross margins are inevitably thinner, at ca.12%. It is also an energy- and water-intensive business. The company has to be very particular to ensure that the water that flows through its plant comes out no more polluted than when it went in.

Cartiere di Guarcino: revenues, gross profit and gross margin by product (2017, €m)

	Revenue	Gross margin	Gross profit
Backer paper	6.6	16%	1.1
Unicolour paper	34.6	12%	4.2
Base paper	25.2	12%	3.0
Cartiere di Guarcino	66.4	12.4%	8.2

Source: Neodecortech

Captive supply from Bio Energia Guarcino critical to paper mill's commercial viability

Power generation (Bio Energia Guarcino)

Bio Energia Guarcino is a zero CO₂ emission electrical and thermal energy producer that uses three endotherm diesel generators powered by tallow oil. Its production capacity is nine steam tons and 20 MWh. Manufacturing paper is an energy-intense process, and electricity in Italy is very expensive compared with other paper-producing countries, so the captive supply from Bio Energia Guarcino is critical to the paper mill's commercial viability.

The company estimates that owning its own power plant saves it nearly €5m each year, which would be the additional cost of purchasing power from the grid.

In the first half of 2017, the power plant was hit by being out of production for a period. It has operated fully since.

Future developments

Neodecortech has three specific investment plans for the future:

- ▶ The first is a €10m investment in machine improvements. It wants to enhance the output from its paper mill by reducing the variability in weight and size across the paper. It also wants to improve its flatness and printability.
- ▶ Secondly, it wants to invest €15m in geographical expansion – not to move manufacturing overseas but to grow its international sales business. The money would be spent on beefing up the sales force and in buying small local companies that could increase its penetration of international markets. The key target area is Germany. It is also looking to expand into markets such as Turkey, Russia, and North and South America. Acquisitions would be paid for in a mixture of cash and shares.
- ▶ Lastly, it wants to enhance its printing capability. It is looking to invest €10m in digital printing and plastic printed film lamination. On digital printing, it is looking for ways to make small printing batches commercial and expanding its product portfolio.

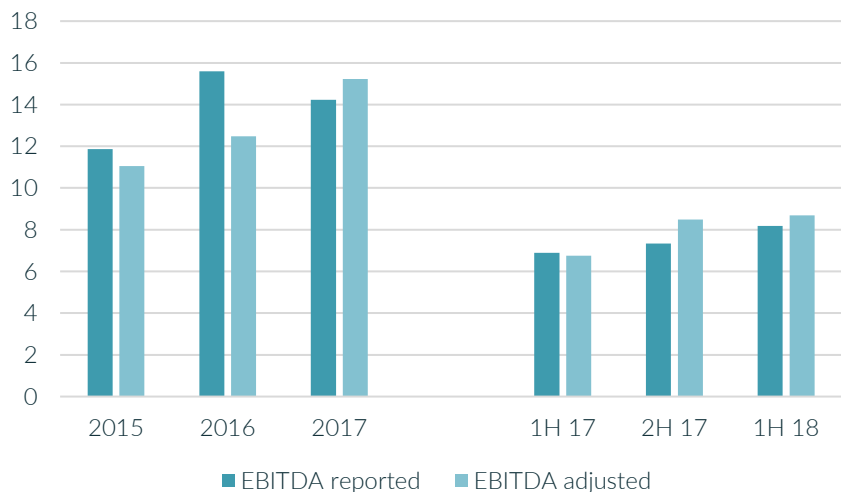
Financials

Neodecortech is a relatively new listed company, coming to the Italian AIM market in September 2017, and investors have yet to see a full year's set of results

Neodecortech has only existed in its current form since June 2017, when the Confalonieri company acquired the paper mill (Cartiere di Guarcino) and power business (Bio Energia Guarcino), and renamed itself Neodecortech ahead of its IPO in September 2017. The formal figures for the group therefore only included the paper mill and power plant for six months of 2017. The company prepared pro forma figures for both 2016 and 2017, assuming the group had been in its current form since the beginning of 2016.

Furthermore, there are some adjustments that were made to the EBITDA and net profit figures to give a better representation of the underlying performance of the group.

Neodecortech: EBITDA, reported and adjusted, 2015-1H'18 (€m)



Source: Hardman & Co Research

The main adjustments in the 2016 financial year included extraordinary income from insurance payments of €2.2m, transactions generating income of €1.9m, exchange rate gains of €0.25m and contingent assets of €0.67m. The extraordinary costs included contingent liabilities of €1.3m, capitalised costs for general services of €0.4m, which were the share of capitalised R&D costs in Cartiere di Guarcino, and higher energy costs of €0.8m.

Adjustments for 2017 included a commercial transaction with a supplier that generated income of €0.65m, contingent assets of €0.3m and capitalised costs for general services of €0.4m, which were the share of capitalised R&D costs in Cartiere di Guarcino. Adjustments for extraordinary costs in 2017 included contingent liabilities of €1.2m, redundancy incentives of €0.1m and damages paid to clients of €0.2m.

The same adjustments have an impact on the net income. With the numbers clarified, the progress being made by the company becomes clear, particularly in the half-year numbers. This is a result of the improvement in plant efficiency and the growing scale of the business.

Neodecortech: net income, reported and adjusted, 2015-1H'18 (€m)


Source: Hardman & Co Research

Forecasts

For 2018, we have assumed that the second half will have largely mirrored the first half, with additional revenue coming from the Corbetta deal and a seasonal uptick in the power supplied by Bio Energia Guarcino.

We have also assumed that EBITDA margins are constant across the two halves, at 13%, with the cost increases of 2017 now fully reflected in current selling prices.

Our 2018 forecasts of €17.6m EBITDA and net profit of €7.0m are consistent with the company avoiding triggering the remedy shares programme. The levels at which new investors in the IPO would have been issued additional shares were EBITDA of €17m and net income of €7m.

For 2019, we expect revenues in the core businesses and Bio Energia Guarcino to be largely flat, as we see challenges from the slowing Italian economy. To this, we add the additional eight months of Corbetta, which were not included in the 2018 comparatives. We hold the EBITA margin assumption constant, at 13%, with some organic improvements offset by the lower margin of the acquisition.

The depreciation and amortisation charge rises to €8m for 2019E, which is also approximately the level of normal capex the company plans to spend on maintaining the plant before the improvements mentioned above.

We assume the tax rate to stay at ca.20%.

The investment plans that Neodecortech has could not be funded out of internally generated cash alone. Acquisitions may be paid for with new shares, and the company has the authorisation for a capital increase of up to €10m. It has also issued a free warrant with each share. Four warrants can be converted into one share at a price of €4 per share. Since these are out of the money, they are not included in our EPS calculations.

Divisional forecasts					
Year-end Dec (€m)	2016	2017	2018E	2019E	2020E
<i>Revenue</i>					
Confalonieri		43.8	52.0	56.2	61.8
Cartiere di Guarcino		56.4	57.0	57.0	62.7
Bio Energia Guarcino		23.2	29.0	29.0	31.9
Other		4.2	3.0	3.0	3.0
Total		127.7	141.0	145.2	159.4
<i>Growth</i>					
Confalonieri			18.7%	8.1%	10.0%
Cartiere di Guarcino			1.0%	0.0%	10.0%
Bio Energia Guarcino			24.8%	0.0%	10.0%
Other			-29.2%	0.0%	0.0%
Total			10.4%	3.0%	9.8%
<i>EBITDA (adjusted)</i>					
Confalonieri	6.0	5.7	7.6	8.4	8.7
Cartiere di Guarcino	5.2	4.5	6.2	6.3	6.9
Bio Energia Guarcino	1.3	4.1	4.0	4.1	4.5
Other			-0.2		
Total	12.5	15.2	17.6	18.9	20.0
<i>EBITDA margin</i>					
Confalonieri		13.0%	14.6%	15.0%	14.0%
Cartiere di Guarcino		8.0%	10.9%	11.1%	11.0%
Bio Energia Guarcino		17.6%	13.8%	14.0%	14.0%
Other					
Total		11.9%	12.5%	13.0%	12.6%

Source: Hardman & Co Research

Financial statements

Income statement					
Year-end Dec (€m)	2016	2017	2018E	2019E	2020E
Revenue	115.6	127.7	141.0	145.2	159.4
Operating costs	-100.0	-113.5	-123.4	-126.3	-139.4
Gross profit	15.6	14.2	17.6	18.9	20.0
Depreciation and amortisation	-6.3	-6.3	-6.4	-8.0	-8.0
Impairment	-0.1	0.0	0.0	0.0	0.0
Operating profit	9.2	7.9	11.2	10.9	12.0
Net finance cost	-3.3	-2.7	-2.5	-2.7	-2.5
Pre-tax profit	6.0	5.2	8.7	8.2	9.5
Tax	-1.5	-1.1	-1.7	-1.7	-1.9
Net income	4.5	4.1	7.0	6.5	7.6
Adjusted net income	1.3	4.8	7.5	7.1	8.3
No. of shares (m)		13.1	13.1	13.1	13.1
EPS (€)		0.31	0.53	0.49	0.58
Adjusted EPS (€)		0.37	0.57	0.54	0.63
DPS (€)		0.11	0.16	0.16	0.19
Gross profit margin	13.5%	11.1%	12.5%	13.0%	12.5%
EBIT margin	8.0%	6.2%	8.0%	7.5%	7.5%
Tax rate	25%	22%	20%	21%	20%
Revenue growth		11%	10%	3%	10%
EBITDA growth		-9%	24%	7%	6%
Pre-tax profit growth		-13%	68%	-6%	16%

Source: Hardman & Co Research

Cashflow statement					
Year-end Dec (€m)	2016	2017	2018E	2019E	2020E
EBITDA	15.6	14.2	17.6	18.9	20.0
Working capital	1.0	-4.2	-1.6	-0.8	-2.8
Capex	-4.6	-7.6	-7.5	-7.5	-7.5
Other	-0.7	-0.3	0.0	0.0	0.0
Operating free cash	11.3	2.1	8.5	10.6	9.7
Tax	-1.5	-1.1	-1.7	-1.7	-1.9
Interest	-3.5	-2.7	-2.5	-2.7	-2.5
Dividends	-1.0	-1.0	-2.1	-2.1	-2.5
Equity	1.8	11.2			
Debt	2.5	1.8			
Net cashflow	9.6	10.3	2.2	4.0	2.9

Source: Hardman & Co Research

Balance sheet statement

@ 31 Dec (€m)	2016	2017	2018E	2019E	2020E
Property, plant & equipment	72.8	72.6	75.0	76.0	77.0
Goodwill		1.3	1.3	1.3	1.3
Intangible assets	2.0	3.3	3.3	3.3	3.3
Other non-current assets	5.5	3.7	3.7	3.7	3.7
Fixed assets	80.3	80.9	83.3	84.3	85.3
Trade receivables	29.8	26.3	29.1	29.9	32.9
Inventories	26.3	32.1	35.5	36.5	40.1
Other current receivables	4.8	7.8	8.0	8.0	8.0
Cash and equivalents	1.3	6.1	8.3	12.3	15.2
Current assets	62.3	72.3	80.8	86.8	96.1
Total assets	142.5	153.2	164.1	171.1	181.4
Trade payables	-28.0	-33.6	-37.1	-38.2	-41.9
Other payables	-7.6	-3.6	-4.0	-4.0	-4.0
Tax payable	-1.7	-1.2	-2.0	-2.0	-2.0
Debt	-26.0	-22.0	-22.0	-22.0	-22.0
Current liabilities	-63.3	-60.5	-65.1	-66.2	-70.0
Pension provisions	-3.1	-2.9	-2.9	-2.9	-2.9
Other provisions	-0.9	-0.5	-0.5	-0.5	-0.5
Deferred tax liabilities	-3.2	-3.5	-3.5	-3.5	-3.5
Long-term debt	-33.3	-31.8	-31.8	-31.8	-31.8
Non-current liabilities	-40.5	-38.7	-38.7	-38.7	-38.7
Total liabilities	-103.8	-99.2	-103.8	-104.9	-108.7
Net assets	38.7	54.0	60.3	66.1	72.7
Share capital	8.5	16.2	16.2	16.2	16.2
Reserves	30.2	37.8	44.1	49.9	56.5
Total equity	38.7	54.0	60.3	66.1	72.7
Net book value		4.12	4.60	5.05	5.55
Net debt	-57.1	-46.9	-44.7	-40.7	-37.8
Debt/equity	148%	87%	74%	62%	52%

Source: Hardman & Co Research

Valuation

Simplest valuation methodology is peer comparison...

The simplest valuation methodology is to compare the valuation of the company with similar listed businesses. In Neodecortech'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 two most comparable companies, in our view, are Ahlstrom-Munksjö, listed in Finland, and Surteco, listed in Germany. The former is a producer of speciality paper, but is not a printer, and only ca.16% of its revenue is derived from décor papers. The latter produces decorative foils on paper and plastic. We show their valuation multiples in the table below.

The Neodecortech @ value is the valuation at our central DCF value of €5.14 per share.

Peer group valuation comparison									
Company	Price (€)	Mkt cap (€m)	EV (€m)	EV/EBITDA A 2019E (x)	EV/EBITDA A 2020E (x)	PER 2019E (x)	PER 2020E (x)	Growth 2019/18E	Growth 2020/19E
Neodecortech	3.0	39	80	4.2	4.0	5.6	4.7	-6%	17%
Neodecortech @ value	5.4	71	108	5.7	5.4	9.5	8.1	-6%	17%
Ahlstrom-Munksjö	13.3	1,770	2,790	7.8	6.9	9.9	8.0	203%	24%
Surteco	25.8	400	619	7.4	6.7	14.7	11.6	104%	27%

Source: Hardman & Co Research; based on prices as at 20/02/19

We can see that Neodecortech trades at a discount of ca.50% to both peers' EV/EBITDA multiples and even more to Surteco's PER 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 Neodecortech the chance to grow faster from its ability to move more nimbly.

DCF

...while objective form is a 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 2% growth rate for the perpetuity calculation – equivalent to a conservative long-run estimate of nominal GDP growth. For Neodecortech, we have assumed growth in cashflows between 2020 (our last forecast year) and 2025 of 5% for our central case.

DCF valuation								
€m	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	141.0	145.2	159.4	167.4	175.8	184.5	193.8	203.5
EBITDA	17.6	18.9	20.0	21.0	22.0	23.1	24.3	25.5
Working capital	-1.6	-0.8	-2.8	-2.9	-3.1	-3.2	-3.4	-3.5
Capex	-7.5	-7.5	-7.7	-8.1	-8.5	-8.9	-9.4	-9.8
Tax	-1.7	-1.7	-1.9	-2.0	-2.1	-2.2	-2.3	-2.4
Net cashflow	6.8	8.8	7.6	8.0	8.4	8.8	9.3	9.7
Discount factor	10%	1.0	1.1	1.3	1.4	1.5	1.7	1.8
Discounted cashflow		8.5	6.7	6.4	6.1	5.8	5.6	5.3

Source: Hardman & Co Research

DCF summation	
Value components	€m
2019-20E	15.2
2021-25E	29.2
2026E onwards	67.7
Total	112.1
less net debt end-2018E	-44.7
Equity value	67.4
Equity value per share (€)	5.14

Source: Hardman & Co Research

Our central DCF valuation is €5.14

Our forecast range of values, based on the DCF methodology, gives a value of €3.03 to €8.36 per share, with a central value, at a 5% mid-term growth rate and using our 10% discount rate, of €5.14.

DCF sensitivity table				
Discount rate/mid-term growth	3%	4%	5%	6%
8%	7.08	7.49	7.92	8.36
10%	4.55	4.84	5.14	5.46
12%	3.03	3.25	3.48	3.72

Source: Hardman & Co Research

Lastly, it is worth noting that our estimated 2018 book value of the company equates to €4.60 per share and that the replacement cost of the assets is substantially higher.

Company matters

Listing

Neodecortech was listed on AIM Italia in September 2017. It is aiming to move to a full listing by spring 2020. The business was constructed from various subsidiaries of the Valentini Group, which retains a 72% shareholding. The balance is held by external investors.

Since the company did not exist in its current form prior to the summer of 2017, the 2017 and 2016 figures are presented on a pro forma basis, as though the company had been in its listed state since the beginning of 2016.

Board of Directors

Alberto Francois – Non-Executive Chairperson

A graduate in Economics and Business from the Università degli Studi di Bologna, he subsequently qualified as a chartered accountant and is a member of the Association of Chartered Accountants and Accounting Professionals. He began his professional career in 1993 as a consultant on corporate and fiscal matters. From 1996 to 2006, he worked in the audit division of Ernst & Young, holding positions of increasing responsibility. Since 2015, he has been CFO of Finanziaria Valentini S.p.A., and he is also responsible for coordinating the information technology and human resources departments of some of the subsidiaries of the Valentini Group. He was previously the finance director of several important groups, both Italian and international.

Luigi Cologni – Chief Executive Officer

He graduated in Economics and Business from the Università degli Studi di Bergamo in 1987 and, in 1990, completed an MBA at the Università Commerciale Bocconi in Milan. After holding various positions in the branches of Banca Agricola Milanese and Credito Bergamasco, he was Chief Executive Officer and General Manager of Nicolini Cucine S.p.A. and Ernestomeda S.p.A. from January 1991 until March 1997. From April 1997 to August 2005, he was General Manager of the kitchen division of Poliform S.p.A.

Massimo Giorgilli – Executive Director

He graduated in Law from the Università la Sapienza in Rome in 1996 and, in 1998, completed a Masters in Business Administration from the Università LUISS in Rome. After a brief experience at a legal firm, he successfully set up a consultancy company. He started working in management control in the paper industry in 2002. He was a Board director of Banca di Credito Cooperativo di Fiuggi from 2006 to 2009, and President of the Consorzio Fil.Cart from 2009 to 2014. He joined the Group in 2003 as the CFO of Cartiere di Guarcino S.p.A. ("CDG"), subsequently becoming its Executive Director. He is Chief Executive Officer of CDG, Sole Administrator of Bio Energia Guarcino S.r.l., and the President of for the graphic and printed paper segment of Unindustria Roma-Frosinone-Latina-Rieti-Viterbo.

Cristina Valentini – Non-Executive Vice-Chairperson

She completed a diploma in Accounting and Business in 1987. Since 1987, she has worked at Industrie Valentini S.p.A., holding positions of increasing responsibility. She was head of product development at Industrie Valentini S.p.A., and instigated the process that subsequently led to significant diversification of both products and markets. She is currently a Vice President of Industrie Valentini S.p.A. and a member of the Strategy and Steering Committee of the same company. She is a member of the Boards of Directors of Valfina S.p.A. and Finanziaria Valentini S.p.A..

Livia Amidani Aliberti – Non-Executive Director

She holds a degree in Economics and Business from the Università LUISS in Rome and a Post Graduate Diploma from FTPearson (UK). She is a member of the Association of Chartered Accountants of Rome and also of the Scientific Committee of NedCommunity. She is the author of numerous publications and studies on gender diversity and corporate directorships. She is an independent director of Venture Group S.p.A., a Standing Statutory Auditor of Recordati S.p.A., a Non-executive Director of Amnesty International Charitable Trust UK (a Company Limited by Guarantee) and a Board Director of Quantyx Ltd.

Andrea Soprani – Non-Executive Director

A graduate in Economics and Business from the Università degli Studi di Bologna, from 1986 to 2002 he worked for PricewaterhouseCoopers SpA, holding various positions that included head of internal training, employee selection, corporate finance and transaction services. Since 2003, he has been a chartered accountant, and he also acts as a corporate consultant specialising in administration, finance and control. He is a member of the Commission of Chartered Accountants for the International Accounting Standards, and is also a freelance writer and lecturer on legal auditing, financial statements, Italian and international accounting standards and management control.

Megali Franco – Councillor

A graduate in Mechanical Engineering from the University of Brescia in 1984, he subsequently obtained a Masters in Business Administration from the Università Commerciale Bocconi in Milan (1990). In 1991, he began his professional activity in EDS Italia SpA, covering various positions, including Account Executive and Sales Director. In 2007, after a series of transfers of ownership, the company was acquired by Siemens, where Megali holds the position of CEO and VP Managing Director Italy and MEA. He is also Executive Director and Managing Director of Siemens Industry Software Srl.

Risks

The four key risks, other than usual business risks, that we see for Neodecortech are the economic cycle, raw material prices, the competition from China and the minority shareholding position.

- ▶ 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. Neodecortech'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 only have a timing issue on profitability, as the price moves get passed on – in both directions. However, if there is a sustained increase in prices, then the products Neodecortech 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 might make China a more intense competitor of western European producers.
- ▶ Shareholders in Neodecortech have to remember that they are minority holders; the Valentini family controls 72% of the equity.

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legals/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

