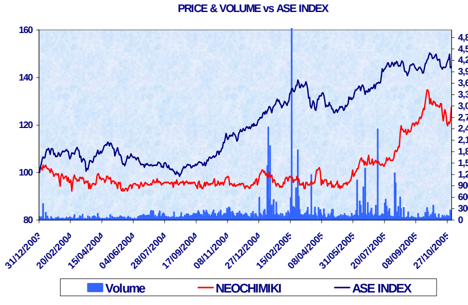
NEOCHIMIKI
NEOCHI GA

Price: €4.92 Cap: €177.1M
Target: €6.53 Cap: €235M
Previous: €5.89

Industry: CHEMICAL
November 3, 2005

Investment Opinion: BUY



COMPANY DESCRIPTION

NEOCHIMIKI is a rapidly growing company, active in the chemical industry sector. Since its incorporation in 1974 it has become a market leader in the production of detergents on behalf of multinationals and private labels, as well as the distribution and trading of chemicals & chemical raw materials

SHARE DATA

Shares: 36,000,000(Common Registered)
Capitalization (€ M): 177.1
200d Mov.Avrg.Price (€): 4.1
200d Mov.Avrg. Volume (#): 197,200
% Price Change since 31/12/2004: 26.1%
52 wk high: € 5.28 (27/9/2005)
52 wk low: € 3.56 (07/12/2004)
Major Shareholders: 50.1%
Foreign Institutional Investors: 45%
Free Float: 4.9%

VALUATION (Working Hypotheses)

1. Risk Free Interest Rate (R_f): 3.47%
2. WACC: 9.57%
3. CAGR of Turnover: 41.4%
4. Δ% of Turnover:
   - 2005 (+68.9%) €140M
   - 2006 (+38.4%) €193.8M
   - 2007 (+21.1%) €234.6M
   - After terminal year 2009: (+2%)
5. Effective Tax Rate$_{04}$: 11.97%

ESTIMATES - FORECASTS

million €	2004A	2005E	2006E	2007F
Sales	83	140	194	235
EBITDA	16.7	27.7	34.1	39.9
EATAM	7.4	12.1	15.0	17.6

RATIOS		2004 [A]	2005 [E]	2006 [E]	2007 [F]	2008 [F]	2009 [F]
P/E	x	24.05	14.68	11.82	10.06	7.81	5.87
PEG	x	0.56	0.23	0.49	0.57	0.27	0.18
P/BV	x	4.0	2.6	2.2	1.8	1.6	1.3
P/Sales	x	2.1	1.3	0.9	0.8	0.6	0.5
EPS	€	0.20	0.34	0.42	0.49	0.63	0.84
FCF/Share	x	-0.82	-0.35	0.17	0.27	0.34	0.40
EV/EBITDA	x	14.9	9.1	7.6	6.5	5.4	4.3
DPS	€	0.06	0.08	0.09	0.11	0.14	0.19
Div Yield	%	1.3%	1.5%	1.9%	2.2%	2.9%	3.8%
Banks/Equity	x	0.77	1.04	1.05	0.91	0.79	0.69
ROE	%	16.8%	17.5%	18.6%	18.3%	20.0%	22.0%

Source: MERIT SECURITIES, Company Financial Data

Financial Ratios at current price and respective Capitalization

AT A GLANCE- Impressive Q3:05 results

⇨ NEOCHIMIKI holds a **dominant position in the detergent production sector for multinational corporations,** enjoying a monopolistic market share in Greece. Its main clients are: Henkel, Ecolab, Lever, Johnson Diversay, Sara Lee.

⇨ NEOCHIMIKI produces detergents on behalf of major domestic supermarket chains, such as: Carrefour, Dia and Vasilopoulos, with a market share of 26%. The company **owns a factory** in Atalanti (Central Greece), in an area of 130,000m^2, which **operates 19 production lines.** NEOCHIMIKI also owns **8,000m^2 of useful storage area** in Avlida and in Thessaloniki.

⇨ NEOCHIMIKI is **active in the emerging Eastern European markets** through its subsidiaries in Bulgaria, Romania and Serbia. We anticipate that NEOCHIMIKI's penetration into the Southeastern European markets will boost consolidated turnover within the following five years in the vicinity of at least 15% p.a.. In our view, operations in SE Europe will have start having a positive effect on the consolidated results from 2004.

⇨ NEOCHIMIKI specializes in the production of detergents and cosmetics with **excellent know how**, while at the same time is expanding its chemical products portfolio. An important part of NEOCHIMIKI's future growth perspective depends on research and development of new packaging and production methods of chemical products, while improving and ensuring its products quality.

⇨**Q3 2005** results **outperformed** expectations marking an impressive third quarter. **Sales** rose by **61.6%** reaching €93.8M, **EBITDA** reached €19.6M posting an increase of **49.4%** and **net profit** rose by **50.8%** on higher margins, reaching €8.8M, over €5.8M in Q3:04.

⇨The **impressive Q3:05** lead us to **change our forecasts** in order to be more accurate. **Sales** for FY05 are expected to increase to **€140M**, increased by 68.9%, while our forecast, prior Q3:05 results' announcement, was €120M. For FY06 sales are estimated to reach **€194M** and for FY07 **€235M**, a 38.4% and 21.1% growth respectively. **Forecasted EBITDA** are calculated at **€27.4M**, increased by 64% with a, prior Q3:05, target to €22M. FY06 and FY07 EBITDA are estimated at **€34.1M** and **€39.9M**. FY05 EATAM forecast changed to €11.7M from €11.0M, which was the previous estimate. For FY06 and FY07 we expect EATAM equal to €14.9M and €17.5M with a CAGR of 33.7%.

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(FY:December)

SUMMARY	2004	2005	2006	2007	2008	2009
Earnings Per Share EPS (€)	0.20	0.34	0.42	0.49	0.63	0.84
P/E ratio (x)	24.05	14.68	11.82	10.06	7.81	5.87
Earnings Per Share EPS growth (%)	42.94	63.83	24.21	17.52	28.77	32.97
PEG ratio (x)	0.56	0.23	0.49	0.57	0.27	0.18
Operating CFPS (€)	0.24	0.03	0.31	0.47	0.54	0.68
Net CFPS (€)	0.15	0.93	0.26	0.02	0.06	0.14
Free Cash Flow FCF (,000 €)	-29,424	-12,523	6,232	9,809	12,268	14,441
Free Cash Flow Per Share FCFPS (€)	-0.82	-0.35	0.17	0.27	0.34	0.40
Dividend Per Share (€)	0.06	0.08	0.09	0.11	0.14	0.19
Dividend Yield (%)	1.3%	1.5%	1.9%	2.2%	2.9%	3.8%
BV/Share (€)	0.25	0.39	0.46	0.54	0.64	0.77
P/BV (x)	4.05	2.56	2.20	1.84	1.56	1.30
ROE (%)	16.8	17.5	18.6	18.3	20.0	22.0
Wtd. Avg. Shares (,000)	36,000	36,000	36,000	36,000	36,000	36,000
EV/Sales (x)	3.00	1.81	1.33	1.10	0.88	0.69
EV/EBITDA (x)	14.91	9.15	7.55	6.49	5.37	4.29
EV/EBIT (x)	20.28	12.45	10.26	8.95	7.31	5.78
EV/Operating Capital (x)	2.78	2.53	2.51	2.46	2.40	2.34
Net Debt / Equity (x)	1.68	1.62	1.55	1.33	1.14	0.99
INCOME STATEMENT (€ mil)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Total Turnover	82,905	140,050	193,850	234,650	295,850	377,450
COGS	56,937	96,635	135,695	165,428	208,574	266,102
Gross Profit	26,086	43,614	58,430	69,554	87,695	111,883
SG&A	13,819	23,248	33,342	40,594	52,218	66,997
EBITDA	16,686	27,734	34,077	39,908	48,321	60,391
Depreciation	4,419	7,368	8,990	10,948	12,844	15,506
EBIT	12,266	20,366	25,088	28,960	35,478	44,885
Interest Expense, net	(3,318)	(5,575)	(6,850)	(7,625)	(8,165)	(8,750)
EBT	8,751	14,791	18,238	21,335	27,313	36,135
Taxes	1,048	2,258	2,784	3,256	4,169	5,515
Minorities	13	200	200	200	200	200
EAT & Minorities	7,363	12,063	14,984	17,608	22,674	30,150
CASH FLOW (€ mil)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Cash flow from Operations	8,617	1,146	11,246	16,980	19,561	24,474
Cash Flow from Investment	-26,960	-3,634	-12,134	-15,065	-15,728	-19,052
Net inc (dec) in borrowings	25,680	38,545	13,000	2,500	2,500	5,000
Dividends	2,215	2,714	3,371	3,962	5,102	6,784
Net Cash Flow from Financing	23,572	36,130	10,086	-1,071	-1,662	-302
Cash at End	6,441	35,475	44,673	45,516	47,687	52,807
BALANCE SHEET (€ mil)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fixed Assets	89,425	100,203	102,575	105,127	107,939	110,950
Financial Assets	116	116	116	116	116	116
Total Fixed Assets	89,541	100,320	102,691	107,143	109,755	112,566
Inventory	19,135	28,520	39,885	45,322	62,108	77,869
Debtors	17,969	32,684	40,612	46,824	52,068	61,689
Total Current Assets	42,334	106,328	133,578	151,111	175,972	213,415
Total Assets	134,878	211,018	241,411	264,962	292,506	333,297
Long Term Liabilities	57,685	85,000	85,000	85,000	85,000	85,000
Suppliers	12,045	21,049	23,191	24,398	26,460	31,135
Short Term Banks	15,820	27,000	40,000	42,500	45,000	50,000
Total Liabilities	90,601	141,459	160,240	168,244	178,416	196,040
Equity	43,780	69,059	80,672	96,218	113,590	136,756
Total Equity & Liabilities	134,878	211,018	241,411	264,962	292,506	333,297
MARGIN ANALYSIS %	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Gross Profit	31.5%	31.1%	30.1%	29.6%	29.6%	29.6%
SG&A	16.7%	16.6%	17.2%	17.3%	17.7%	17.8%
EBITDA	20.1%	19.8%	17.6%	17.0%	16.3%	16.0%
EBT	10.6%	10.6%	9.4%	9.1%	9.2%	9.6%
EAT&Minorites	8.9%	8.6%	7.7%	7.5%	7.7%	8.0%
Tax rate	12.0%	15.3%	15.3%	15.3%	15.3%	15.3%

Source: MERIT SECURITIES, Company Financial Data

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1. REASON FOR REPORTING:

Q3 05 RESULTS BEAT ESTIMATES, FY05 EARNINGS REVISED, BALLIS ACQUISITION

NEOCHIMIKI announced financial results for Q1 2005, first time under IFRS

- ✓ **Consolidated turnover** marked an increase of 61.6% reaching €93.8M compared to €58.1M in Q3 2004.
- ✓ **Sales** for production activities reached €38.1M (32.2M Q3 2004), while sales for distribution of chemical raw materials reached €55.7M (34.9M Q3 2004).
- ✓ **Gross profit** reached €27.4M over €18.4M in Q3 2004 posting an increase of 49.2%.
- ✓ **Operating results (EBITDA)** rose by 49.4%, amounting to €19.6M, compared to €13.2M in Q3 2004.
- ✓ **Earnings before tax** rose by 55.5%, at €10.5M, compared to €6.7M in Q3 2004.
- ✓ **Net profit after tax** & **minorities** reached €8.8 compared to €5.8M in Q3 2004, marking a period-on-period increase of 50.8%.
- ✓ **Gross Profit margin** declined by 1.4% due to a shift in sales mix towards production which operates on lower margins. EATAM Margin declined by a slight 0.6% on improved financial structure.
- ✓ **LAMDA DETERGENT**, a 99.9% subsidiary of the Group **acquired** a 70% stake in the already listed **BALLIS** Chemicals SA and proceed to the merger by absorption of the first by the second. This acquisition is expected to create prospects of further expansion of the production capacity, activity and ability in the field of chemicals and detergents for professional use and create economies of scale.
- ✓ **We revise our estimates** for FY05 due to a better than expected performance in the first 9 months of 2005. Sales are expected at €140M (€120M prev.), EATAM are expected at €12M (€11M prev.)

Table 1: NEOCHIMIKI's Quarterly Results

,000 euros	2004			2005		
INCOME STATEMENT (cons. IAS)	**Q1**	**H1**	**9M**	**Q1**	**H1**	**9M**
Sales	16,541	36,416	58,051	24,489	55,779	93,804
Gross Profit	5,366	11,948	18,351	8,163	16,724	27,371
EBIT	2,939	6,071	9,355	4,030	8,869	14,437
EBITDA	4,090	8,603	13,150	5,894	12,342	19,648
EBT	2,096	4,247	6,733	3,149	6,418	10,472
Taxes	-264	-368	-683	-481	-836	-1,712
EAT	1,832	3,879	6,050	2,668	5,581	8,760
EATAM	1,758	3,739	5,821	2,671	5,612	8,779
YEAR on YEAR	**Q1**	**H1**	**9M**	**Q1**	**H1**	**9M**
Sales				48.1%	53.2%	61.6%
Gross Profit				52.1%	40.0%	49.2%
EBIT				37.1%	46.1%	54.3%
EBITDA				44.1%	43.5%	49.4%
EBT				50.2%	51.1%	55.5%
Taxes				82.2%	127.2%	150.7%
EAT				45.6%	43.9%	44.8%
EATAM				51.9%	50.1%	50.8%
MARGIN ANALYSIS	**Q1**	**H1**	**9M**	**Q1**	**H1**	**9M**
Gross Profit	32.4%	32.8%	31.6%	33.3%	30.0%	29.2%
EBIT	17.8%	16.7%	16.1%	16.5%	15.9%	15.4%
EBITDA	24.7%	23.6%	22.7%	24.1%	22.1%	20.9%
EBT	12.7%	11.7%	11.6%	12.9%	11.5%	11.2%
Tax Rate	1.6%	1.0%	1.2%	2.0%	1.5%	1.8%
EAT	11.1%	10.7%	10.4%	10.9%	10.0%	9.3%
EATAM	10.6%	10.3%	10.0%	10.9%	10.1%	9.4%

We reiterate our previous recommendation for the Group -i.e. market over-perform- and we revise upwards our projections and financial estimates for the coming years due to better than expected performance.

NEOCHIMIKI already holds a dominant position in the production of detergents for multinational companies. The Group is established in the production and wholesale of chemical raw materials and products for the chemical industry.

Management guidance pointed out that NEOCHIMIKI is focusing on rapid expansion on Eastern Europe, where the potential market for the wholesale of chemical products is ten times bigger than the domestic market without fierce competition.

2. THE GROUP

Group Structure

NEOCHIMIKI, Group of Companies, engages in the production and wholesale sector of raw materials for chemical products, emphasizing on the production and trade of detergents in liquid and solid form. The Group's structure includes twelve subsidiaries, in which the mother company holds a stake of at least 60%.

In the following chart we represent the structure of the Group:

Graph 1: NEOCHIMIKI's Structure

Source: NEOCHIMIKI

2. PRODUCTION UNITS & FACILITIES

Atalanti

ATALANTI

In Atalanti, the Group owns private facilities which produce powder and liquid detergents as well as raw materials for detergents (such as sulphonic acid, alcohol sulphate, water glass).The unit is one of the bigger detergent factories in SE Europe with a manufacturing capacity of 100,000 tons/year in powder, 100,000 tons/year in liquid detergents and 25,000 tons/year in raw materials. The 130,000 m^2 total area includes 30,000 m^2 of storage space and 7,000 m^3 tanks.

Avlida

AVLIDA

In Avlida, the privately owned warehouses and tanks cover a total area of 20,000 m^2. They store a variety of chemical products such as Liquid Sodium Hydroxide, Sodium Hypochlorite, Hydrochloric Acid, Sulphuric Acid, Liquid Ammonia, White Spirit, Formic Acid, Nitric Acid, Phosphoric Acid, Water glass and Solvents in special specification tanks with total storage capacity 3,000 m^3. The storage area reaches 3,000 m^2.

Thessaloniki

THESSALONIKI

An essential part of the group's development strategy is the expansion of its activities in Northern Greece, Cyprus, Ukraine and the rest of SE Europe. In the year 2000 it established a branch in the Industrial Area of Thessaloniki, which covers a total area of 40,000 m^2. In the warehouse facilities there are tanks covering a total area of 5,000 m^3 and a storage area of 5,000 m^2.

HQs

PALEO FALIRO – Athens

The group's head offices are located at Paleo Faliro, in Athens, in an area of 1,100 m^2, which includes a state-of- the-art chemical laboratory for the group's research and development activities.

3. S.B.Us ANALYSIS

NEOCHIMIKI's activities can be divided into thirteen (13) distinct Business Units. For better understanding of the turnover structure, we further divide the thirteen SBUs into two categories: **Production** and **Distribution**

Production

The first category (Production) consists of four (4) Business Units:

1. Production of detergents for multinational corporations
2. Production of private label detergents
3. Production of raw materials for the detergent & cosmetics industries and
4. Production of paints & lacquers

BUSINESS UNIT 1: PRODUCTION OF DETERGENTS FOR MULTINATIONAL CORPORATIONS

The production of detergents for multinational corporations contributed up to 20% (€16.9 million) to the consolidated turnover in 2004 and this percentage is expected to remain the same for the year 2005. Gross profit margin of this Business Unit reached 49% (Before Amortization), while net profit margin reached 16.5%. Neochimiki specializes in the production of liquid and powder detergents for domestic and professional use, and supplies a variety of products to multinational corporations such as: Henkel, Ecolab, Lever, Johnson Diversay, Sara Lee. The Group has achieved a monopoly in Greece, so its main competition comes from abroad from companies like Mc Bride, Da Silva, Persan and Chenotechnica.

BUSINESS UNIT 2: PRODUCTION OF PRIVATE LABEL DETERGENTS

This particular Business Unit contributed up to 7% (€ 6 million) to the consolidated turnover in 2004 and the same percentage is expected for 2005. Gross profit margin reached 47% (Before Amortization) in 2004, while net profit margin reached 15,5%. The main competitors of the Group in the production of private label detergents are Rolco Vianill, Minolvara, Hayat, Interstar, Persan, and McBride. Main domestic clients are super market chains such as: Carrefour, Dia, AB Vasilopoulos

BUSINESS UNIT 3: PRODUCTION OF RAW MATERIALS FOR THE DETERGENT & COSMETICS INDUSTRIES

The third Business Unit contributed up to 10% (€8 million) to the consolidated turnover in 2004, while this percentage is expected to be 7% for the year 2005. Gross profit margin reached 46% (Before Amortization), while net profit margin reached 16%. The Group's main competitors in this activity are Kapachem, Cognis, Basf and Sasol.

BUSINESS UNIT 4: PRODUCTION OF PAINT & LACQUER

The fourth and smallest Business Unit contributed up to 7% (€6 million) to the consolidated turnover in 2004, while this percentage is expected to be 5% for the year 2005. Gross profit margin reached 44% (Before Amortization), while net profit margin reached 10%. The Group's main competitors in this activity are Interchem, Chima, Petrobras, BP, Shell, Brenntag and Univar.

Table 2: NEOCHIMIKI PRODUCTION FACILITIES

NEOCHIMIKI – PRODUCTION FACILITIES							
UNITS	**PALAIO FALIRO**	**AVLIDA**	**ATALANTI**	**AG. I. RENTIS**	**THESSALONIKI**	**THESSALONIKI**	**LAVRIO**
OVERVIEW	Central Offices- state-of-art chemical laboratory- information technology (Rented)	Warehouses- tanks (Owned)	Detergent factory (Owned)	Offices- storage rooms-warehouses (Rented)	Property - Warehouses (Rented)	Property (Owned)	Property (Owned)
AREA (m^2)	1,100	20,000	130,000	400	5,000	34,200	47,800
USEFUL AREA (m^2)	1,000	3,000	30,000	400	1,300		
BOOK VALUE (€)		7,500,000	60,000,000			1,750,000	7,500,000
PRODUCTION		Raw materials storage	Powder, liquid, raw materials (acids, alcohols)	Raw materials storage	Raw materials storage		
PRODUCTION CAPACITY			100.000 Tons/year powder detergents, 100.000 Tons/year liquid detergents, 25.000 Tons/year raw materials			Three year investment plan is under construction: € 10.000.000 for the development of 15.000 m^2 in warehouses, 1.000 m^2 offices and tanks of 20.000 tons train interconnected	Investment plan for the development of private port facilities after 2006
NUMBER OF PRODUCTION LINES			19 lines				
CURRENT PRODUCTION vs CAPACITY			40%				
CONSTRUCTION COST (€ thousands)		4,000	30,000				
CONSTRUCTION PERIOD		5 years	3 years				
ESTIMATED MARKET VALUE (€ thousands)		7,500	60,000			2,000	7,500
TURNOVER (€ thousands)							
2003A		18,000	25,000	1,000	12,000		
2004A		29,000	33,000	3,000	18,000		
2005E		39,000	47,000	5,000	27,000		
BUSINESS UNIT PERSONNEL	87	37	165	4	31		
COMPANY	NEOCHIMIKI	NEOCHIMIKI, LAMDA LAMDA CHEMICAL SOLUTIONS	LAMDA DETERGENT, LAMDA PAK, LAMDA POLYMERS, CHEMPOL	NEOCHIMIKI	NEOCHIMIKI, PETRONET	NEOCHIMIKI	NEOCHIMIKI

Source: NEOCHIMIKI

Distribution Business Units

1. Distribution of polymers for plastics industries
2. Distribution of raw materials for paints and lacquer industries
3. Distribution of industrial base oils
4. Distribution of raw materials for cosmetics and detergent industries
5. Distribution of raw materials for biologic water processing
6. Distribution of fertilizers
7. Distribution of raw materials for food industries
8. Distribution of raw materials for textile companies
9. Distribution of raw materials for metal industry

Distribution

BUSINESS UNIT 1: DISTRIBUTION OF POLYMERS FOR PLASTICS INDUSTRIES

This Business Unit contributed up to 13% (€ 10.6 million) to the consolidated turnover in 2004 and this percentage is expected to increase to 14% for the year 2005. Gross profit margin reached 24%, while net profit margin reached 8%. Rigas, Skeberis, Pentaplus, Ultra Polymers and Biesterfeld should be considered among the Group's main competitors regarding this activity.

BUSINESS UNIT 2: DISTRIBUTION OF PAINTS & LACQUER

The trade of raw materials for the food industry industries contributed up to 12% (€ 9.70 million) to the consolidated turnover in 2004, while this percentage is expected to be 9% for the year 2005. Gross profit margin reached 24%, and net profit margin reached 5%. In this specific Business Unit the Group's main competitors are: BP, Shell, Petrobras, Interchem , Chima, Brenntag and Univar.

BUSINESS UNIT 3: DISTRIBUTION OF INDUSTRIAL BASE OILS

In 2004 this Business Unit contributed up to 9% (€ 7.2 million) to the consolidated turnover. This percentage is expected to reach 7% in 2005. Gross profit margin reached 23%, and net profit margin reached 4%. The group's main competitors in this filed are Motor Oil, Brenntag and Univar.

BUSINESS UNIT 4: DISTRIBUTION OF RAW MATERIALS FOR COSMETICS AND DETERGENTS INDUSTRIES

This Business Unit contributed up to 6% (€ 5 million) to the consolidated turnover in 2004, while this percentage is expected to be 4% for the year 2005. Gross profit margin reached 23%, and net profit margin reached 6%. NEOCHIMIKI's competition in this field of activity comes from: Elton, Rouboulakis, Astron, Dichem, and Brenntag.

BUSINESS UNIT 5: DISTRIBUTION OF RAW MATERIALS FOR BIOLOGIC WATER PROCESSING

This Business Unit contributed up to 6% (€ 4,60 million) to the consolidated turnover in 2004. For the next year (2005), this percentage is expected to be 4%. Gross profit margin reached 38%, while net profit margin reached 10%. In this field of activity, NEOCHIMIKI's main competitors are: Elton, Avlis and Brenntag.

BUSINESS UNIT 6: DISTRIBUTION OF FERTILIZERS

The distribution of fertilizers contributed up to 5% (€ 4 million) to the consolidated turnover in 2004, while this percentage is expected to reach 14% for the year 2005. Gross profit margin reached 23%, while net profit margin reached 3%. NEOCHIMIKI's main competitors in the distribution of fertilizers are: Veterin, B.F.L, Haifa and Bayer.

BUSINESS UNIT 7: DISTRIBUTION OF RAW MATERIALS FOR FOOD INDUSTRIES

This Business Unit contributed up to 5% to the consolidated turnover in 2004 (€ 4 million) and this percentage is expected to fall at 4% for the year 2005. Gross profit margin reached 23%, while net profit margin reached 8%. Competition comes from the following companies: Elton, Mosholios, Astron, Brenntag and Univar.

BUSINESS UNIT 8: DISTRIBUTION OF RAW MATERIALS FOR TEXTILE COMPANIES

This Business Unit contributed up to 4% (€ 3 million) to the consolidated turnover in 2004, while for the year 2005 this percentage is expected to be 2%. Gross profit margin reached 23%, while net profit margin reached 6%. The Group's main competitors regarding this activity are Mosholios, Ballis, Brenntag and Univar.

BUSINESS UNIT 9: DISTRIBUTION OF RAW MATERIALS FOR METAL INDUSTRY

In 2004 this Business Unit contributed up to 4% (€ 3.4 million) to the consolidated turnover. This percentage is expected to be 3% for the year 2005. Gross profit margin reached 23%, and net profit margin reached 5%. The main competition comes from the following companies: Kaplanoglou, Tsopanelis, Brenntag and Univar.

Table 3: NEOCHIMIKI SBUs

NEOCHIMIKI S.B.Us														
S.B.U.		Production				Distribution								
		Detergent for multinationals	Private label detergents	Raw materials for detergent industries (Atalanti)	Paints & Lacquer	Polymers for industrial plastics	Food industry raw materials	Textile raw materials	Fertilizers	Cosmetics & Detergent industry raw materials	Paint & lacquer industry raw materials	Water management industry raw materials	Basic Metal industry raw materials	Industrial Base Oil
2004 Market Size € mil.		16.9	24	10	60	53	22	43	400	40	76	100	30	36
Market Share %		100%	26%	80%	2.5%	21%	21%	7%	1%	13%	14.5%	6%	11%	5%
Market Share € mil.		16.9	6	8	1.25	10.6	4.5	3	4	5	13	4.6	3.4	7.2
Competition	Greece	Monopoly	Rolco Vianil Mivolvara	Kapachem	Interchem, BP, SHELL, Petrobras	Rigas Skeberis Pentaplus	ELTON Mosholios Astron	Moxolios Balis	V.F.L. VETERIN	ELTON Rouboulaki s Astron Dichem	Chima Interchem Petrobras BP Shell	Avlis ELTON	Kaplanoglou Tsopanelis	Motor Oil
	Abroad	McBride, Persan Chenoteknika, DaSilva	Persan McBride, HAYAT, INTERSTAR	Cognis, BASF, Sasol	Brenntag, Univar	ULTRA, Biesterfeld	Univar, Brenntag	Univar, Brenntag	HAIFA, BAYER	ELTON, Brenntag	Univar, Brenntag	Brenntag	Univar, Brenntag	Univar, Brenntag
% Turnover														
2004		20%	7.5%	10%	1.5%	12%	5.5%	4%	5%	6%	11%	6%	4%	9%
2005 F		20%	7%	7%	5%	14%	4%	2%	14%	4%	9%	4%	3%	7%
% Profit														
2004	Gross	49%	47%	46%	45%	24%	23%	20%	23%	23%	24%	38%	23%	19%
	Operating	30%	33%	31%	30%	14%	18%	16%	18%	18%	19%	25%	18%	14%
	Net	16.5%	15.5%	16%	12%	8%	5%	6%	8%	6%	8%	10%	5%	4%

Source:NEOCHIMIKI

4. SWOT ANALYSIS

SWOT	
STRENGTHS	**WEAKNESSES**
• Long term strategic alliance with most multinationals • Monopoly in detergents production for multinationals in Greece • Privately owned factory with 19 production lines. • Very experienced management team • Guaranteed turnover increase in the next 5 years (CAGR 35%). • High profit margins in the detergents production. • High R.O.E. (>15%) • Very low effective tax rate (<17%)	• Relatively low free cash flow • Relatively high debt burden • Non environmentaly friendly industry
OPPORTUNITIES	**THREATS**
• Very low market shares both in Greece and in Eastern Europe • Low capacity utilization in the Atalanti factory (40% in 2005) • Import substitution in detergents and cosmetics • Economies of scale in the production of detergents and cosmetics • Internal economies due to vertical integration • External economies due to port facilities of the Thessaloniki & Avlida logistic centers • Gradual retreat of multinationals from regional markets • Rapid expansion in Eastern Europe	• Rapid and/or systematic increase in interest rates • Accidental mismanagement of the strategic relationship with multinationals

5. SECTOR ANALYSIS

Sector Analysis

NEOCHIMIKI participates in two distinct sectors: ***"Wholesale Trade of Chemical Products"* *and* *"Production of Soaps and Detergents, Products of Cleaning and Polishing."***

The Group's products cover a wide range of industries, such as metal industry, textiles, as well as industry of soaps and detergents.

Production and Wholesale of Chemical Products

The main characteristic of ***Wholesale Trade of Chemical Products*** sector is the absence of an adequate number of raw materials production units. As a consequence, the majority of demand has to be covered through imports. Furthermore, only a small percentage of the final products is produced by domestic industries, leaving well-known multinationals with the largest market share.

The demand for chemical products is mainly affected by the development and growth of pharmaceuticals, detergents-soaps and cosmetics industries.

The lack of seasonality and diversification of demand result in minimizing systematic risk for the enterprises involved in this sector.

Chemical products sector is divided into a large number of small wholesale companies, mainly subsidiaries of large multinationals. Additionally, there are some domestic large companies, who represent foreign firms.

NEOCHIMIKI’s production unit (Atalanti), which currently operates at 40% of its production capacity, and new investments in enlarging useful storage area will result in a more efficient coverage of the domestic market. Thus, we estimate that NEOCHIMIKI’s operations in the production and wholesale of chemical raw materials should increase both market share and consolidated turnover.

Production of Detergents and Soaps

Detergents-soaps production sector, a subdivision of chemical industry, is characterized by high competition and significant growth potential. For the period 1990-2002, the domestic production of detergents and soaps has presented an average annual increase of 1.8%. Specifically, in 2002, production is estimated at 234,300 tons, from 190,000 tons in 1990.

Table 4: Production of Detergents & Soaps, Domestic Market (1990-2002)

(amounts in tons)	**Cloth Detergents**	**Dish Detergents**	**Softeners**	**House Cleaning Detergents**	**Soaps**	**Total**
1990	70.000	26.200	16.500	73.000	4.300	**190.000**
1991	62.000	28.000	16.800	74.200	4.000	**185.000**
1992	63.000	27.500	19.500	76.400	4.600	**191.000**
1993	63.500	25.200	19.000	78.000	4.300	**190.000**
1994	62.000	24.000	18.000	82.000	4.200	**190.200**
1995	70.000	27.500	21.000	85.000	4.000	**207.500**
1996	76.500	31.000	24.000	90.000	4.300	**225.800**
1997	74.000	31.500	26.000	95.000	4.600	**231.100**
1998	72.000	31.000	27.500	96.000	5.100	**231.600**
1999	70.000	32.000	29.500	98.000	5.600	**235.100**
2000	57.000	31.500	32.000	106.000	6.200	**232.700**
2001	54.000	32.000	35.000	104.000	6.800	**231.800**
2002	51.000	32.000	39.000	105.000	7.300	**234.300**

Source: ICAP: Report "Detergents & Soaps, May 2003".

In the period 1990-2002, cloth detergents production decreased by 19,000 tons (decrease of 2,6% yoy) reaching 51,000 tons in 2002 from an initial production of 70,000 tons in 1990. This reduction was the outcome of the gradual domestic production decrease of multinationals, starting with Procter & Gamble in 1997, then Henkel and finally Unilever. Due to the termination of Henkel Hellas SA operations in Greece a great percentage decrease of 18,6% of cloth detergents production occurred in 2000.

A further decrease is expected by the end of 2003 caused by the end of domestic cloth detergents production of Unilever Hellas SA. This production will be substituted with imports.

As far as the domestic detergents and soaps market, in 2002 the six (6) largest companies had a market share of 80.5%-85%, showing high level of concentration in the sector. Unilever Hellas SA was in first place with share 29%-30%, then Colgate Palmolive Hellas SA, with share 15,5%-16%, Procter & Gamble Hellas Ltd., with share 11%-12%, Rolco Vianil Ltd. with share 10%-11%, Reckitt Benkizer Hellas SA, with share 9%-9.5% and Henkel Hellas SA with share 6%-6.5%.

The key figures of the domestic market (Production, Exports, Imports, Consumption) (in tons) during the period 1990-2002 are presented in the following table:

Table 5: Consumption of Detergents & Soaps, Domestic Market (1990-2002)

(amounts in tons)	Production	Imports	Exports	Consumption
1990	190.000	25.000	5.000	210.000
1991	185.000	40.000	5.000	220.000
1992	191.000	49.000	9.000	231.000
1993	190.000	50.000	10.000	230.000
1994	188.000	50.000	10.000	228.000
1995	203.000	55.000	10.000	248.000
1996	214.500	55.000	11.000	258.500
1997	210.500	70.000	13.000	267.500
1998	204.000	85.000	14.000	275.000
1999	235.100	80.000	40.600	274.500
2000	232.700	98.000	58.200	272.500
2001	231.800	98.000	54.800	275.000
2002	234.300	100.000	56.500	277.800

Source: ICAP: Report "Detergents & Soaps, May 2003".

From the above table we conclude that:

- Domestic production for the years 1990-2002 grew with a rate of 2% per annum (CAGR: 1.76%)
- Imports in the same period grew with a rate of 12% per annum (CAGR: 12.25%)
- Exports in the period 1990-2002 grew with a rate of 22% per year (CAGR: 22.39%)
- Total apparent consumption grew in the 1990-2002 with a rate of 2.5% per annum (CAGR: 2.36%)

Additionally, the total domestic market value, per product, in million Euro, for the years 1996-2002, appears in the following table:

Table 6: Domestic Market Value of Detergents & Soaps (1996-2002) per product, figures in € million

Product / Year	Soaps	Cloth Detergents	Dish Detergents	House Cleaning	Bleaches	Total
1996	24,9	217,2	46,7	67,5	40,8	**397,1**
1997	32,3	248,9	48,1	79,2	44,9	**453,4**
1998	36,7	255,3	49,9	86,6	46,7	**475,2**
1999	42,6	267,7	48,7	91,3	44,6	**494,9**
2000	38,7	264,7	52,5	97,7	45,8	**499,4**
2001	35	281	53,5	100	46	**515,5**
2002	35	299	55	98,5	46	**533,5**

Source: SEVAS-AISE.

From the above table, we can see that the value of the domestic market increases on average by 4% per annum (CAGR: 3.77%).

Based on the above data we can draw the following conclusions:

Conclusions

1. The cloth detergents production sub-sector, where NEOCHIMIKI is involved, shows signs of reduction and a simultaneous increase of imports. NEOCHIMIKI has the opportunity to substitute a large share of imports from multinationals in the form of toll manufacturing.
2. Despite the fact that total volume of consumption remains stable, its total value steadily increases. This means that in case NEOCHIMIKI gains a great market volume share, the benefits in value will be higher and profit margins will grow significantly.
3. In the detergents production for multinationals in the form of toll manufacturing, NEOCHIMIKI is active in a € 16.9 million market, in which it enjoys the monopoly, while the total value of the detergent production market in 2002 was € 299 million. Therefore, NEOCHIMIKI's share stands at 3% and based on the gradual retreat of multinationals, this market share will probably expand.
4. The ultimate goal of NEOCHIMIKI's acquisitions, besides an increase in the domestic market share of detergents production on behalf of multinationals, should be the penetration into the production of private label products for large supermarket chains. So far, the latter have been of low quality, offering to NEOCHIMIKI the opportunity to quickly increase its share. Furthermore, Private labels products show great growth potential, since it is estimated that they possess a share less than 10% of total consumption, when the respective share in other European countries stand at 20-25% of total consumption.

6. FINANCING – INVESTMENTS (CAPEX)

Up to and including 2004, NEOCHIMIKI has completed a heavy investment schedule aiming at:

1) Increase and improvement of production facilities and
2) Rapid expansion of its distribution network in Eastern European countries.

For that reason the group has already signed three debenture loans for a total amount of € 59 mil., as follows:

1) 5 years unsubordinated debenture loan of € 21.000.000 at euribor +1.80%, December 2003. Underwriting Banks: EMPORIKI BANK, ATTICA BANK, PIRAEUS BANK, EFG EUROBANK, OMEGA BANK, BANK OF CYPRUS.

Payments:

2004	1.365.000
2005	2.730.000
2006	2.730.000
2007	2.730.000
2008 (balloon)	11.445.000

2) 5 years unsubordinated debenture loan of € 20.000.000 at euribor +1.85%, May 2004. Underwriting Banks: EMPORIKI BANK, ALPHA BANK, SOCIETE GENERAL, ATTICA BANK, PIRAEUS BANK, EFG EUROBANK, OMEGA BANK, BANK OF CYPRUS, PRO BANK.

Payments:

2005	2.500.000
2006	2.500.000
2007	2.500.000
2008	2.500.000
2009 (balloon)	10.000.000

3) 7 years unsubordinated debenture loan of € 18.000.000 at euribor +1.85%, November 2004. Underwriting Bank: BLACK SEA INVESTMENT & DEVELOPMENT BANK.

4 Equal Payments after 42 months

2008	4.500.000
2009	4.500.000
2010	4.500.000
2011	4.500.000

For the year 2005 onwards we expect a total investment plan of € 12 mil. p.a. until 2009, which is going to be maintenance capex and is broken down as follows:

- € 5 mil. p.a. for new packaging lines as NEOCHIMIKI expects an increase in production from € 30 mil in 2004 to € 100 mil in 2009. The Atalanti factory production capacity currently stands at 40%, expected to reach 95% by 2009.
- € 7 mil. p.a. for expansion of NEOCHIMIKI's distribution network in Eastern Europe (Ukraine, Romania, Serbia, Bulgaria, Cyprus). Distribution figures for East. European countries currently stands at € 1 mil for 2004, and are expected to reach € 100 mil in 2009.

7. GROUP ESTIMATES

In 2005, we expect consolidated turnover at €140 million from € 83 million, an increase of 69%. Turnover breakdown has shown that Group’s annual turnover increase will be driven by an upturn in multinationals and private labels sales as well as of new distribution sales in Eastern European countries. For 2006 and 2007, we estimate that the Group's turnover will increase on consolidated basis by 38% and by 22%, respectively.

Table 7 : Consolidated P&L figures

(FY:December)

INCOME STATEMENT (€ mil)	2004	2005	2006	2007	2008	2009
Total Turnover	82,905	140,050	193,850	234,650	295,850	377,450
COGS	56,937	96,635	135,695	165,428	208,574	266,102
Gross Profit	26,086	43,614	58,430	69,554	87,695	111,883
SG&A	13,819	23,598	33,342	40,594	52,218	66,997
EBITDA	16,686	27,384	34,077	39,908	48,321	60,391
Depreciation	4,419	7,368	8,990	10,948	12,844	15,506
EBIT	12,266	20,016	25,088	28,960	35,478	44,885
Interest Expense, net	(3,318)	(5,575)	(6,850)	(7,625)	(8,165)	(8,750)
EBT	8,751	14,441	18,238	21,335	27,313	36,135
Taxes	1,048	2,204	2,784	3,256	4,169	5,515
Minorities	13	300	300	300	300	300
EAT & Minorities	7,363	11,666	14,884	17,508	22,574	30,050

Source: MERIT estimates

Table 8 : Consolidated Turnover Breakdown per SBU
Source: NEOCHIMIKI estimates

SBU	2003	2004	2005	2006	2007	2008	2009
Multinationals	9.4	16.9	28.0	41.8	50.6	63.8	81.4
Private Label	4.1	6.0	9.8	13.3	16.0	21.0	30.0
Raw materials for detergents-cosmetics	4.8	8.0	10.0	11.5	13.0	16.5	19.0
Plastics	6.5	10.6	20.0	29.5	34.0	40.0	48.5
Paint & lacquer	5.0	9.7	19.0	30.0	39.0	53.0	70.0
Cosmetics-detergents	5.0	5.0	6.0	6.4	8.0	9.0	11.0
Textiles	4.5	3.0	3.0	3.0	3.2	3.3	3.5
Food Industry	4.5	4.5	6.0	8.0	12.0	18.0	26.0
Water Processing	4.6	4.6	5.5	6.0	7.0	8.5	10.0
Metallurgy	3.4	3.4	3.5	3.5	3.6	3.7	4.0
Fertilizers	4.0	4.0	19.0	28.8	33.0	39.0	48.0
Industrial Base Oil	0.0	7.2	10.2	12.0	15.2	20.0	26.0
Total	**55.8**	**82.9**	**140.0**	**193.8**	**234.6**	**295.8**	**377.4**

8. GROUP VALUATION (WORKING HYPOTHESES)

Working Models Assumptions

According to our estimates, net profit will increase by 63.8% in 2005 reaching € 12.063 million from € 7.654 million, last year. Effective tax rate is set approximately at 17%.

For the valuation of NEOCHIMIKI Group of Companies the discounted free cash flows model (DCF) has been used:

In the valuation model, NEOCHIMIKI weighted average cost of capital (WACC), set at 9.5%, was used as the discount rate.

Based on the above working hypotheses, the model ended up with a target price for 31/12/2005 at € 6.53 and market capitalization of the company at € 235 M.

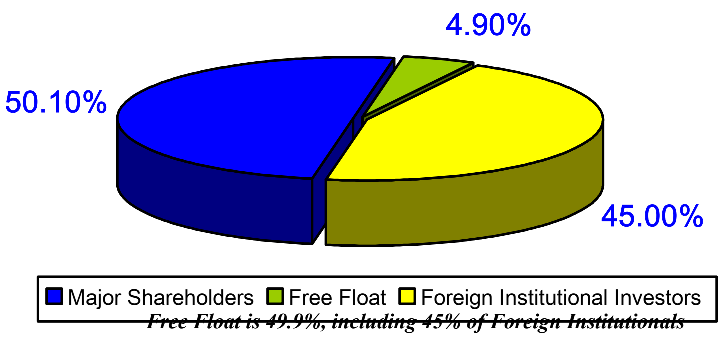
Table 9 : NEOCHIMIKI Valuation

Valuation Model: DCF	
Working Hypotheses	
1. WACC:	9.5%
2. Risk Free Rate:	3.5%
3. Effective Tax Rate:	17%
4. Consolidated Turnover Growth:	
	2004 (+48%)
	2005 (+69%)
	2006 (+21%)
After terminal year (perpetuity)	2009 (+2%)

*Source: **MERIT** Estimates*

9. SHARE CAPITAL STRUCTURE

Table 10 : Share Capital Structure



Source: NEOCHIMIKI

10. INVESTMENT OPINION & RATING

NEOCHIMIKI will sustain its monopolistic market share and its dominant position in the toll manufacturing detergents production sector. In addition, consolidated turnover will increase as NEOCHIMIKI will manage to substitute the decreasing domestic production by multinationals, caused by the end of their operations in the domestic market.

NEOCHIMIKI will continue penetrating into the market of private label products thus enlarging its market share, based on Group's know how, high quality of products and the potential growth development of the sector domestically, in comparison with the European standards.

Enlarging market share in the above mentioned sectors, i.e. production and wholesale of private label products and detergent production on behalf of multinationals, will significantly boost Group's profit margins given that these operations have the highest profit margin among the 12 business units of the group.

CASH FLOW STATEMENT	2002 A	2003 A	2004 A	2005 E	2006 E	2007 E	2008 E	2009 E	
Turnover	**46,819**	**55,838**	**82,905**	**140,050**	**193,850**	**234,650**	**295,850**	**377,450**	**384,999**
EBIT	6,040	8,543	12,266	20,366	25,088	28,960	35,478	44,885	44,275
Less: Adjusted Tax	1,222	1,013	1,048	2,258	2,784	3,256	4,169	5,515	5,440
Adusted Operating Profit	4,818	7,530	11,219	18,108	22,304	25,703	31,309	39,370	38,834
Plus: Depreciation	2,347	2,106	2,326	7,368	8,990	10,948	12,844	15,506	15,400
Operating Cash Flow	**7,165**	**9,636**	**13,545**	**25,477**	**31,294**	**36,652**	**44,153**	**54,876**	**54,234**
Less: Working Capital	-2,082	10,620	1,086	18,486	12,928	11,777	16,156	21,382	9,625
Less: Capex	20,433	22,816	41,882	19,514	12,134	15,065	15,728	19,052	9,625
Cash Flow to the Firm (FCFF)	**-11,186**	**-23,800**	**-29,424**	**-12,523**	**6,232**	**9,809**	**12,268**	**14,441**	**34,984**

Table 11: Cash Flow Statement

Source: Merit

Expanding both facilities in the domestic market and operations in the Eastern European market, through the new factory in N. Greece and the subsidiaries in Bulgaria, Romania, Serbia & Cyprus, will further strengthen Group's financial position and geographical diversification. We expect that the above will start having a positive effect on Group's results, especially consolidated turnover, from 2004 onwards.

RATIOS		2004 [A]	2005 [E]	2006 [E]	2007 [F]	2008 [F]	2009 [F]
EV	**€**	**248,792**	**253,645**	**257,447**	**259,104**	**259,433**	**259,313**
EBITDA	**€**	**16,686**	**27,734**	**34,077**	**39,908**	**48,321**	**60,391**
EV/EBITDA	**x**	**14.9**	**9.1**	**7.6**	**6.5**	**5.4**	**4.3**

Table 12: EV / EBITDA

Source: Neochimiki/Merit

Free cash flow turns positive from 2005 onwards with new investments remaining stable, presenting a peak in strengthening in 2008, according to management's estimates.

Enterprise Value (EV) presents a systematic growth due to an increase in loans but EV/ EBITDA decreases gradually due to continuous growth in operating results.

Based on our estimates: Consolidated turnover for FY 2005 will grow by 69% yoy while in FY 2006 it will be 21% higher over 2005. Net profit margin will gradually stabilize at c7.7% of consolidated turnover.

Assuming that our estimates for the current fiscal year will be confirmed and our projections for the coming years as far as the consolidated turnover and profit margins are concerned will not prove false, we set our investment rating at 5/5 and our investment opinion is:

BUY (5/5)

ACCUMULATE (4/5)

HOLD (3/5)

AVOID (2/5)

REDUCE (1/5