

Neochimiki (NCHr.AT)

Chemicals Production & Distribution

Outperform
(Unchanged)

TP: EUR18.00
from EUR16.00

Share Price: 14.54 (20/12/06)
ASE Index: 4,382.06 (20/12/06)
Report Issue date: 21/12/06

Reason for report: Flash note on new acquisition / Increase TP to EUR18.00

Valuation ratios	2004	2005	2006e	2007f
P/E adj. (x)	71.45	41.48	24.24	13.53
P/E on TP (x)	88.47	51.36	30.01	16.76
P/BVPS (x)	9.68	8.30	3.22	2.68
EV/Sales (x)	7.32	4.55	2.35	1.40
EV/EBITDA (x)	33.56	23.52	13.74	7.87
RoE (%)	13.5%	20.0%	13.3%	19.8%

Fundamentals	2004	2005	2006e	2007f
Turnover	82.91	142.50	299.67	498.26
EBITDA	18.08	27.53	51.20	88.68
Net profit	7.33	12.62	101.50	38.68
Clean Net profit	7.33	12.62	21.60	38.68
Clean EPS (EUR)	0.20	0.35	0.60	1.07
DPS (EUR)	0.06	0.03	0.06	0.16
Shareholders funds	54.08	63.05	162.52	195.39
Net debt	83.47	124.30	180.26	174.23

Note: Amounts in Eur mn unless otherwise stated

Margins (%)	2004	2005	2006e	2007f
Gross margin	35.4%	32.8%	30.0%	30.3%
EBITDA	21.8%	19.3%	17.1%	17.8%
Clean EBT	10.2%	10.5%	10.8%	12.2%
Clean Net profit	8.8%	8.9%	7.2%	7.8%
Dividend Yield	0.4%	0.2%	0.4%	1.1%

Growth rates (%)	2004	2005	2006e	2007f
Sales	48.5%	71.9%	110.3%	66.3%
EBITDA	52.7%	52.3%	86.0%	73.2%
Clean EBT	32.4%	77.4%	115.6%	87.7%
Clean Net profit	39.3%	72.3%	71.1%	79.1%

Share price data	1m	6m	12m	Y-t-D
Rel. perf. vs GI	4.2%	-3.9%	118.8%	117.1%
Abs. perf.	6.9%	17.3%	165.3%	159.6%

L-T growth	1.00%
WACC	10.00%
Target Price (EUR)	18.00 (SOTP)
Target Market Cap. (EUR mn)	648.17
Current Market Cap. (EUR mn)	523.44
Outstanding shares (mn)	36.00
Free float	66.00%
Average daily volume (shares)	160,828

Key Strengths

Successful business model – Low market shares/High Potential
Strong relations with clients – Competent management

Key Risks

Loss of existing contracts – New contracts at less favorable terms
Execution risks in CEE markets
High working capital needs

High reliance on major shareholder, Chairman & CEO, Lavrentiadis

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Stronger outlook following new acquisition ...more news anticipated from the Serbian front

After acquiring all necessary permits, Neochimiki announced earlier this week that it sealed the acquisition of Interkem for EUR14.00mn. Interkem will enable Neochimiki to widen its product portfolio but more importantly, it will provide the group with access to a port terminal in Vathi, Avlida – a step in the right direction given Neochimiki's strategic objective to become the leading distributor of chemicals in the Balkan region.

New guidance: 2007 'clean' EPS at EUR1.11, up 81% y-o-y

Following the acquisition of Interkem, Neochimiki upped 2007 guidance that now calls for group net profit of EUR40mn (after tax & minorities), 11.4% above our (former) estimate of EUR35.92mn. Group sales are expected to reach EUR500mn. Previous guidance called for sales and net profit of EUR460mn and EUR37.2mn respectively. The revised 2007 EPS of EUR1.11 implies a yearly growth rate of 80.8% after omitting this year's capital gains (EUR79.9mn from the sale of a combined 59.5% stake in Lamda Detergent). We up our estimates from 2007 onwards by an average 10% p.a. – we are still below management guidance.

Other important developments

Neochimiki announced on December 8 that it was not selected as the preferred bidder for the privatization of 70% of the Serbian "Fabrika maziva, Krusevac". Neochimiki offered EUR19.1mn, with the best bidder offering EUR35mn. We were not including the latter in our set of estimates, hence no impact on valuation and forecasts. We remind you that Neochimiki has advanced to the second stage of a bidding process for a second company in Serbia (rich in real estate property) that will be used as the group's Balkan logistic center for the distribution of chemicals (not included in our estimates either).

Raise TP to EUR18.00 – Re-iterate Outperform rating

On our new set of estimates, Neochimiki trades on a 2007f P/E of 13.5x compared to a market-cap weighted peer group average of 16.2x (European specialty chemicals). The discount is steeper when accounting for the group's growth profile: 2005-2008f 'clean' EPS CAGR projected at 57.2% compared to 10.1% for its peers: Neochimiki's growth catalyst resides in the 'replication' of the successful Greek business model in the Balkans. We raise our TP for Neochimiki to EUR18.00 from EUR16.00 previously and stick to our Outperform rating, considering risk on our estimates still lying on the upside.

Company Description

Neochimiki was established in 1974 as a chemicals trading company. It currently produces detergents for key clients such as Henkel, Unilever and Sara Lee and for private labels like Carrefour, DIA, Makro and AB Vassilopoulos. Finally it distributes chemicals on behalf of Shell, BP and BASF to a network comprising c2,500 clients. The company has established subsidiaries in Romania, Bulgaria, Serbia, Ukraine, Cyprus and Germany.

Comparable Companies

Clariant, Degussa, Lonza, Mc Bride, Ciba, Univar

REVISION IN FORECASTS

We revise our estimates to account for a) the acquisition of Interkem and b) the second placement in Lamda Detergent. On average, we up our 2007-2008 forecasts by 10% per annum and look for a 2005-2008f EPS CAGR of 57.2% (excluding capital gains). Our forecasts lie below management guidance.

Neochimiki Group - New vs. Old set of estimates

EUR mn	New set of estimates						Previous set of estimates					
	2006e	y-o-y	vs. old	2007f	y-o-y	vs. old	2008f	y-o-y	vs. old	2006e	2007f	2008f
Sales	299.67	110%	0%	498.26	66%	9%	637.99	28%	10%	299.74	459.04	580.44
Gross profit	89.93	93%	0%	150.83	68%	11%	191.03	27%	14%	90.18	135.77	168.02
Gross margin	30.0%			30.3%			29.9%			30.1%	29.6%	28.9%
EBITDA	51.20	86%	0%	88.68	73%	16%	111.45	26%	20%	51.44	76.45	93.01
EBITDA margin	17.1%			17.8%			17.5%			17.2%	16.7%	16.0%
EBT	112.26			60.75			79.91			81.67	53.22	65.98
EBT margin	37.5%			12.2%			12.5%			27.2%	11.6%	11.4%
Clean EBT	32.36	116%	-1%	60.75	88%	14%	79.91	32%	21%	32.77	53.22	65.98
Clean EBT margin	10.8%			12.2%			12.5%			10.9%	11.6%	11.4%
Net profit	101.50			38.68			49.07			70.94	35.92	43.37
Net margin	33.9%			7.8%			7.7%			23.7%	7.8%	7.5%
Clean net profit	21.60	71%	-2%	38.68	79%	8%	49.07	27%	13%	22.04	35.92	43.37
Clean net margin	7.2%			7.8%			7.7%			7.4%	7.8%	7.5%
EPS	2.82			1.07			1.36			1.97	1.00	1.20
Clean EPS	0.60	71%	-2%	1.07	79%	8%	1.36	27%	13%	0.61	1.00	1.20
DPS	0.06	99%	1%	0.16	189%	-6%	0.25	52%	-9%	0.06	0.17	0.27

Source: Piraeus Securities

Neochimiki - Earnings breakdown

EUR mn	FY 04	y-o-y	FY 05	y-o-y	FY 06e	y-o-y	FY 07f	y-o-y	FY 08f	y-o-y
By major product category										
Detergents-Cosmetics										
Sales	35.90	54%	60.50	69%	106.78	77%	154.83	45%	211.35	37%
Gross profit	17.70	50%	29.90	69%	51.26	71%	72.77	42%	97.22	34%
Gross margin	49.3%		49.4%		48.0%		47.0%		46.0%	
Paints/Lacquer										
Sales	9.70	94%	18.80	94%	47.00	150%	129.25	175%	164.79	28%
Gross profit	2.40	85%	4.10	71%	10.29	151%	33.61	226%	42.85	28%
Gross margin	24.7%		21.8%		21.9%		26.0%		26.0%	
Plastics										
Sales	10.60	63%	19.00	79%	54.91	189%	79.62	45%	99.52	25%
Gross profit	2.60	53%	3.70	42%	6.04	63%	9.55	58%	10.95	15%
Gross margin	24.5%		19.5%		11.0%		12.0%		11.0%	
Fertilizers										
Sales	4.00	0%	15.50	288%	46.50	200%	76.73	65%	94.37	23%
Gross profit	0.90	-10%	3.60	300%	12.56	249%	22.17	77%	26.42	19%
Gross margin	22.5%		23.2%		27.0%		28.9%		28.0%	
Distribution of other chemicals										
Sales	22.71	33%	28.70	26%	44.48	55%	57.83	30%	67.95	18%
Gross profit	5.72	51%	5.38	-6%	9.79	82%	12.72	30%	13.59	7%
Gross margin	25.2%		18.7%		22.0%		22.0%		20.0%	
NEOCHIMIKI GROUP										
Sales	82.91	48%	142.50	72%	299.67	110%	498.26	66%	637.99	28%
y-o-y		48.5%		71.9%		110.3%		66.3%		28.0%
Gross profit	29.32	50%	46.68	59%	89.93	93%	150.83	68%	191.03	27%
Gross margin	35.4%		32.8%		30.0%		30.3%		29.9%	

Source: Piraeus Securities

ADDITIONAL DEVELOPMENTS

November 29 - During a presentation to institutional investors, CEO Lavrentiadis reiterated his vision to turn Neochimiki into a global hub for the distribution of chemicals (from Western Europe to Asia) and said that the group may reach sales of EUR1.00bn by 2011 or even by 2008 including acquisitions (guidance is for top line growth of 30%-50% p.a. for the next 10 years). Management talked about new possible ventures in Serbia, Romania, Ukraine and also Turkey.

- Concerning Lamda Detergent (BLLr.AT; Outperform), CFO Papavasiliou stated that the group's prospects are bright given a combination of low market shares in large-sized and growing markets. From the acquisition of Lamda Cosmetics, the company expects incremental sales of EUR20mn in 2007 (+15% on 2006e turnover). The unit in Bulgaria (Macro B) has started the production of detergents for private labels and will expand to multinationals as of July 2007.

November 13 - Greek portal www.capital.gr hosted an interview of Neochimiki's major shareholder and CEO L. Lavrentiadis. We cite the key highlights from the interview:

- Neochimiki is interested in expanding abroad through a series of acquisitions in the Balkans
- Group sales have the potential of reaching EUR5.00bn in the next 10 years (from EUR300mn in 2006) – no additional funds required
- Target: Global awareness

In more detail, CEO Lavrentiadis stressed that:

- the *ongoing restructuring* (the group has announced its intention to merge 14 of its subsidiaries as a means of achieving cost & operational synergies / aiming also at a smaller tax rate attributed to non taxable reserves) will bear fruits as of 2007 with annual savings of EUR1.5-2.0mn p.a.
- the group plans to 'duplicate' the *Greek business model* in Serbia, Romania, Bulgaria, Ukraine, Cyprus and Poland
- it also aims at *expanding* in new geographical markets
- reason behind the *placement of Lamda Detergent*: finance growth in the Balkans (build production units, logistic centers and warehouses in CEE markets / acquire existing plants)
- investments in Greece have already reached EUR200mn – *CAPEX program* almost completed
- investments in the *Balkans*: EUR70-80mn – more to come!
- timing is crucial in order to gain *first-mover advantages* in Balkan countries
- *acquisition targets*: 1 chemical production unit and 1 lubricants production unit in Serbia, 1 paints/lacquer unit and 1 cosmetics production unit in Romania, 1 detergents production unit in Ukraine, 1 paints production plant in Bulgaria. Also: 3 agro-chemicals production units in Bulgaria, Ukraine and Serbia.
- *mission*: to become the local partner of multinational companies in the Balkans
- no plan for *share capital increase*
- no plan for further *stake sales*
- *3-year business plan* calls for group sales of EUR1.00bn (no further funds needed) – 10-year plan: EUR5.00bn
- a potential *parallel listing* in an international market should not be ruled out
- stake of foreign institutional investors: 60%

November 10 - Lamda Detergent announced that major shareholder, Neochimiki Group, privately placed 6,300,000 shares (16.1% stake) to international institutional investors for EUR5.60/share. Neochimiki received EUR35.28mn from this sale and will book additional capital gains of EUR31mn in this year's P&L (a total of EUR79.90mn will be booked from the sale of a total 59.5% stake in 2006). The funds will be used to finance expansion plans in Greece and abroad. Neochimiki now controls 34.0% of Lamda Detergent.

VALUATION

Following our new coverage on Lamda Detergent, we turned to a Sum-of-the-Parts valuation model to value the group: We value Neochimiki's remaining stake in Lamda Detergent at EUR93.14mn or EUR2.59 per Neochimiki share and add an additional EUR555.03mn or EUR15.42 per share to account for Neochimiki's chemicals distribution business (in fact, all other business besides Lamda Detergent). As evident in the following table, the distribution business boasts the most buoyant growth prospects (2005-2008f EPS CAGR at 61% (from 54% before the upward revision) compared to 44% for production activities) and accounts for 84.3% of group net profit in 2007. We value the distribution business using a 2007 Target P/E multiple of 17.0x (involving a 10% premium to the implied target P/E for Lamda Detergents given superior growth profile). **In all, we value Neochimiki at EUR18.00/share, looking for an upside potential of 23.8% and a total expected return of 24.2% (including 2006 dividend).** At our Target Price, Neochimiki will be trading 16.8x 2007 EPS or at a PEG of 0.62 – still deeply undervalued relative to the local market and international peers.

Neochimiki Group - Sum of the Parts Valuation (EUR mn)

Fair equity value of Lamda Detergent	273.69 (or EUR7.00/share)
Stake in Lamda Detergent	34.03%
Fair equity value of stake	93.14
Number of shares	36.00
Fair value per share from stake in Lamda Detergent (EUR)	2.59

	2005	2006e	2007f	2008f	'05/'08 CAGR
Neochimiki Group Clean EPS (EUR)	0.35	0.60	1.07	1.36	57%
Neochimiki Group Underlying P/E	41.5x	24.2x	13.5x	10.7x	
Neochimiki Group Underlying PEG	0.58	0.31	0.50	-----	
Lamda Detergent EPS (EUR)	0.20	0.32	0.46	0.59	44%
Lamda Detergent Underlying P/E	27.0x	16.8x	11.9x	9.1x	
Lamda Detergent Underlying PEG	0.45	0.40	0.39	-----	
Lamda Detergent P/E on Target Price	35.0x	21.8x	15.4x	11.8x	
Lamda Detergent PEG on Target Price	0.58	0.52	0.51	-----	
Neochimiki clean net profit	12.62	21.60	38.68	49.07	
Lamda Detergent clean net profit	7.82	12.53	17.80	23.16	
Neochimiki's stake in Lamda Detergent's net profit	2.66	4.27	6.06	7.88	
Net profit from Neochimiki's distribution business	9.96	17.33	32.62	41.19	61%
Lamda Detergent market cap.	211.05	211.05	211.05	211.05	
Neochimiki's Implied Stake in Lamda Detergent's market cap.	71.82	71.82	71.82	71.82	
Neochimiki market cap.	523.44	523.44	523.44	523.44	
Implied market cap. for distribution activities	451.62	451.62	451.62	451.62	
Implied P/E for distribution activities	45.4x	26.1x	13.8x	11.0x	
Implied PEG of distribution activities	0.61	0.30	0.53	-----	
Fair equity value of distribution business			555.03		
Target P/E for distribution activities			17.0x		
Number of shares			36.00		
Fair value per share from distribution activities (EUR)			15.42		

Fair equity value for Neochimiki Group	648.17
Fair value per share for Neochimiki Group (EUR)	18.00
Current share price	14.54
Upside Potential	23.8%

2006e Dividend Yield	0.4%
Total Expected Return (TER)	24.2%

	2005	2006e	2007f	2008f
Neochimiki Group Net Debt	124.30	180.26	174.23	146.05
Neochimiki Group EBITDA	27.53	51.20	88.68	111.45
EV	647.74	703.70	697.67	669.49
EV/EBITDA	23.5x	13.7x	7.9x	6.0x
Target EV/EBITDA	28.1x	16.2x	9.3x	7.1x
Target P/E	51.4x	30.0x	16.8x	13.2x
Target PEG	0.72	0.38	0.62	-----

Source: Piraeus Securities

As a reference, we continue to employ a traditional DCF model for the group: we discount Neochimiki's group FCFFs in the 6-year term to 2012 with an average WACC of 10.0% on a 6.0% risk premium, a beta of 1.50 and a 3.80% risk free rate. We have chosen to err on the conservative side and have assigned a rather high, 12.80%, cost of equity to mainly account for the risks associated with Eastern European expansion. On the other hand, the group's WACC benefits from the extensive use of 'low-cost' debt financing. Finally, we use a perpetuity growth rate of 1% to derive the group's horizon value (again WACC at 10%). **Our DCF model yields an implied fair value of EUR20.37 per share.**

Finally, note that Neochimiki currently trades on a 2007f PEG of 0.50 compared to a peer group weighted average PEG of 2.17 (or 1.08 excluding Clariant). **Setting a target 2007f PEG of 1.00 yields an implied fair value of EUR28.86/share.**

Comparative analysis

Although we refrain from incorporating a comparative analysis in our valuation, we place Neochimiki next to its international peers to determine its relative attractiveness.

Peer group analysis

Company	Market Cap. (EUR mn)	EPS CAGR '05-'08	P/E			EV/EBITDA			EPS rise 2008	PEG 2007
			2006e	2007f	2008f	2006e	2007f	2008f		
Base Chemicals										
Akzo Nobel	13,068	11.4%	14.3x	13.8x	12.9x	7.3x	6.7x	6.3x	7.6%	1.82
BASF	36,993	4.6%	10.9x	11.0x	11.2x	4.8x	4.6x	4.7x	-1.9%	-5.70
Bayer	31,116	7.6%	17.9x	15.1x	14.3x	8.8x	6.9x	5.9x	5.7%	2.64
Lanxess	3,489		16.5x	13.3x	12.2x	5.9x	5.2x	4.8x	8.8%	1.51
Solva	9,715	8.3%	12.6x	13.1x	13.2x	7.4x	7.1x	6.8x	-1.0%	
Weighted Average		6.7%	14.1x	13.0x	12.7x	6.8x	6.0x	5.5x	2.4%	-1.05
Industrial gases										
Air Liquide	21,987	9.5%	21.6x	19.5x	17.7x	9.8x	9.0x	8.3x	10.5%	1.86
Linde	12,377	8.2%	17.9x	18.2x	14.9x	10.4x	8.0x	7.0x	22.6%	0.81
Weighted Average		9.0%	20.3x	19.1x	16.7x	10.0x	8.6x	7.8x	14.9%	1.48
Agrochemicals/Fertilizers										
K+S	3,337	12.7%	18.3x	16.8x	14.8x	8.5x	7.7x	6.9x	13.2%	1.27
KWS	521		17.4x	15.0x	12.6x	6.7x	5.8x	5.0x		
Syngenta	15,199	10.9%	20.9x	18.6x	16.4x	12.9x	11.7x	10.7x	12.8%	1.45
Weighted Average		11.0%	20.4x	18.1x	16.1x	11.9x	10.9x	9.9x	12.5%	1.38
Other										
Reckitt Benckiser	25,123	14.0%	22.8x	20.0x	18.1x	15.3x	13.6x	12.2x	10.8%	1.85
Henkel	15,276	11.6%	19.0x	17.0x	15.3x	10.8x	9.7x	8.7x	11.0%	1.55
Church & Dwight	2,115	10.9%	21.4x	18.6x	16.3x				14.3%	1.30
Mcbride	499	10.2%	14.8x	13.4x	12.3x	6.9x	6.5x	6.0x	9.3%	1.45
Weighted Average		13.0%	21.3x	18.8x	16.9x	12.8x	11.5x	10.3x	11.0%	1.71
Specialty Chemicals										
Ciba	3,519	7.4%	17.8x	15.3x	12.8x	8.2x	7.3x	6.5x	19.1%	0.80
Clariant	2,568	9.3%	12.4x	10.6x	10.4x	6.7x	6.0x	5.6x	1.7%	6.25
Givaudan	5,161	6.4%	18.2x	17.9x	16.3x	13.3x	12.7x	10.2x	9.9%	1.80
Lonza Group	3,364	17.0%	23.4x	19.0x	16.3x	11.9x	11.0x	9.8x	16.5%	1.15
Lamda Detergent	211	43.6%	16.8x	11.9x	9.1x	11.4x	8.2x	6.4x	30.1%	0.39
Weighted Average		10.1%	18.2x	16.2x	14.3x	10.6x	9.8x	8.4x	12.5%	2.17
Neochimiki Group vs. Specialty Chemicals	523	57.2%	24.2x	13.5x	10.7x	13.7x	7.9x	6.0x	26.9%	0.50
		467.3%	32.9%	-16.3%	-25.6%	29.7%	-19.8%	-28.2%	115.8%	-76.7%

Sources: JCF Quant, Piraeus Securities estimates

Neochimiki appears to be trading at a 32.9% premium to specialty chemicals peers in terms of 2006 P/E but the premium actually evolves into a hefty discount in terms of 2007-2008 multiples. The same is true when comparing peers on an EV/EBITDA basis: a steep premium in 2006 turns into a discount for both 2007 and 2008.

At the same time, Neochimiki is set to achieve a 57.2% EPS CAGR over 2005-2008 (based on our estimates / below management guidance), while new acquisitions and/or distribution agreements may prove our forecasts conservative.

On a 2007f P/E of 13.5x and projected EPS growth of 26.9% in 2008, Neochimiki's 2007f PEG at 0.50 stands 76.7% below the average PEG of specialty chemical peers.

INVESTMENT THESIS

Dominant Position in Greece – Promising Outlook Abroad

Neochimiki is the market leader in the production of detergents and the distribution of chemical raw materials in Greece. The company produces detergents on behalf of multinationals that prefer outsourcing production as a means of freeing up capital. Neochimiki also produces private label detergents for 9 out of the 12 largest super market chains in Greece. The company dominates the local detergents production market (estimated at EUR0.80bn) and is active in the chemicals distribution market in Greece and Central and Eastern Europe (estimated at EUR5.00bn and EUR15.00bn respectively). Its low market shares (2.4% in local distribution and 0.15% in CEE), high capabilities, spare capacity and the markets' overall size imply huge growth potential. The rising need of multinationals to free up capital by substituting imports and local production with outsourcing favors Neochimiki that has set international expansion as its 2005-2009 strategic priority.

Entry Barriers Protect Margins

Neochimiki operates on a 30% gross margin and a 17% EBITDA margin. In spite of the sector's attractive returns and robust outlook, not all existing participants or likely newcomers may benefit, in our view. Neochimiki owns logistics and production facilities in Greece (operates at 55% capacity) and Bulgaria (new acquisition – first abroad) and has established subsidiaries in Serbia, Ukraine, Romania, Germany, and Cyprus. In 2005, the company agreed to merge its Lamda Detergent subsidiary (active in the production of detergents) with Ballis Chemicals (BLLr.AT), the latter owning a production plant in Thessaloniki. This move a) increased the group's production capacity, b) allowed for more streamlined operations (production lines at the Atalanti plant will operate with less interruptions) and c) enabled Neochimiki to address the needs of a growing niche: detergents for professional use. During 2005, Neochimiki decided to bolster its position in the paints and lacquer business and proceeded to the acquisition of Novion. In early 2006, the company acquired a production plant in Bulgaria, adding capacity of 100,000 tons per annum (c285,000 tons p.a. blended capacity in Greece). Finally, Neochimiki acquired Interkem, a local chemicals distributor with access to a port terminal for chemicals. Armed with a committed management team, the necessary know how and strong relations with major multinational clients on both the production and distribution fronts, Neochimiki is poised to grow further. Customer relations are backed with contracts extending up to 10 years, while Neochimiki's ability to meet quality specifications set by global leaders like Unilever, Henkel, Basf, Ecolab, Johnson Diversey and Sara Lee, constitutes its major competitive advantage, in our view.

Keeping it simple: We Buy Growth

Neochimiki trades 13.5x 2007f net profits, which implies a PEG of 0.50x on our estimated 2008f EPS growth of 26.9% - this places the stock at a significant discount to international peers that trade on a PEG of 2.17x (or equivalently a 2007f P/E of 16.2x and projected EPS growth for 2008 at 12.5%). More importantly, Neochimiki portrays a strong medium term outlook, with our estimates calling for a 2005-2008f EPS CAGR of 57.2% and a 2008f P/E of 10.7x. After raising our earnings forecasts, our Sum-of-the-Parts model (SOTP) returns a higher Target Price of EUR18.00 from EUR16.00 per share, implying a total expected return of 24.2% from current levels (including dividend yield). Further earnings upgrades may be the outcome of new acquisitions, higher-than-expected margins and higher free cash flow generation. We believe Neochimiki will continue to outperform the Greek market.

Risks

The primary risks associated with Neochimiki involve the likelihood of losing one or more of the contracts with its major clients, execution risks related to its Balkan expansion, financial risks stemming from its extensive gearing and lower operating margins as the outcome of customers' high bargaining power (ie, renewing contracts on less favorable terms). An additional risk emanating from the nature of Neochimiki's business and its current position in the growth cycle relates to cash flow management and more specifically to CAPEX and working capital needs. Working capital management is essential so that the group creates value (free cash flows) and not just sales/accounting profits for its shareholders. Overshooting in working capital (over and above our estimates) could significantly impact our valuation and rating. A final risk has to do with the high degree of success dependency from a small competent management team led by the company's CEO and major shareholder, L. Lavrentiadis.

In all, we consider that Neochimiki offers an appealing risk/reward profile and re-iterate our Outperform rating with a new Target Price of EUR18.00/share.

FINANCIAL STATEMENTS

Neochimiki - Consolidated Profit & Loss Statements

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Sales	82.91	142.50	299.67	498.26	637.99
COGS	53.59	95.82	209.74	347.43	446.96
Gross profit	29.32	46.68	89.93	150.83	191.03
Gross margin	35.4%	32.8%	30.0%	30.3%	29.9%
Total operating expenses, net	11.23	19.14	38.73	62.15	79.57
EBITDA	18.08	27.53	51.20	88.68	111.45
EBITDA margin	21.8%	19.3%	17.1%	17.8%	17.5%
Depreciation/Amortization	5.64	6.98	11.19	17.90	21.12
EBIT	12.44	20.56	40.01	70.78	90.33
EBIT margin	15.0%	14.4%	13.4%	14.2%	14.2%
Net interest expense	3.98	5.55	7.65	10.03	10.42
Net investment income (inc-one offs)	0.00	0.00	79.90	0.00	0.00
EBT (ex-capital gains)	8.46	15.01	32.36	60.75	79.91
EBT margin	10.2%	10.5%	10.8%	12.2%	12.5%
EBT	8.46	15.01	112.26	60.75	79.91
Total tax	0.99	2.36	5.79	10.02	15.26
EATBM (ex-capital gains)	7.48	12.66	26.57	50.72	64.65
EATBM margin	9.0%	8.9%	8.9%	10.2%	10.1%
Minorities	0.15	0.04	4.98	12.05	15.58
Net profit (ex-capital gains)	7.33	12.62	21.60	38.68	49.07
Net profit margin	8.8%	8.9%	7.2%	7.8%	7.7%
Net profit	7.33	12.62	101.50	38.68	49.07
Net profit margin	8.8%	8.9%	33.9%	7.8%	7.7%
Dividend	2.20	1.01	2.01	5.80	8.83
Adj. number of shares	36.00	36.00	36.00	36.00	36.00
EPS (ex-capital gains)	0.20	0.35	0.60	1.07	1.36
EPS	0.20	0.35	2.82	1.07	1.36
DPS	0.06	0.03	0.06	0.16	0.25
Dividend payout	30.0%	8.0%	9.3%	15.0%	18.0%

Neochimiki - Consolidated Balance Sheets

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Fixed assets	121.57	192.08	339.08	358.08	384.08
Accumulated depreciation	8.21	16.26	27.45	45.36	66.48
Fixed assets, net	113.36	175.82	311.63	312.72	317.60
Other long term receivables	0.76	0.61	0.85	0.85	0.85
Inventories	19.14	36.67	61.49	101.85	131.03
Trade receivables	21.45	24.30	62.40	103.75	132.84
Cash and cash equivalents	1.85	4.89	9.92	8.95	30.13
Total assets	156.56	242.28	446.29	528.13	612.45
Share capital	10.80	10.80	10.80	10.80	10.80
Share premium account	5.68	5.68	5.68	5.68	5.68
Grants and revaluation reserves	20.10	19.70	19.70	19.70	19.70
Reserves and retained earnings	17.51	26.87	126.34	159.21	199.45
Total shareholders funds	54.08	63.05	162.52	195.39	235.63
Minority interests	0.27	4.13	27.63	39.68	55.26
Total equity	54.35	67.18	190.15	235.07	290.89
Long term debt	62.20	120.00	142.00	139.00	126.00
Other long term liabilities	1.67	3.70	0.05	0.05	0.05
Personnel provisions	0.17	0.17	0.18	0.20	0.22
Short term debt	23.11	9.18	48.18	44.18	50.18
Trade payables	12.61	38.26	55.74	92.33	118.78
Income tax and other tax payable	2.43	3.79	9.98	17.29	26.33
Total equity and liabilities	156.56	242.28	446.29	528.13	612.45

Neochimiki - Consolidated Cash Flow Statements

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Cash earnings	16.21	23.16	40.08	75.95	94.83
Change in inventories	7.94	17.54	24.81	40.36	29.18
Change in trade debtors	-1.68	2.85	38.10	41.35	29.09
Change in other current assets	0.00	0.00	0.00	0.00	0.00
Change in trade creditors	-3.43	-25.65	-17.48	-36.59	-26.45
Change in other current liabilities	0.00	0.00	0.00	0.00	0.00
Change in Working Capital	2.84	-5.26	45.44	45.12	31.82
Cash flow before investments	13.38	28.43	-5.35	30.83	63.01
CAPEX	46.18	70.51	147.00	19.00	26.00
Cash from the sale of Lamda			98.40		
Free Cash Flow to Equity	-32.80	-42.08	-53.95	11.83	37.01
Change in capital	0.00	0.00	0.00	0.00	0.00
Change in debt	26.99	43.87	61.00	-7.00	-7.00
Other items	8.65	2.26	0.00	0.00	0.00
BoD fees	0.00	0.00	0.00	0.00	0.00
Dividend paid	2.20	1.01	2.01	5.80	8.83
Change in cash	0.65	3.04	5.04	-0.97	21.18
Cash, beginning	1.21	1.85	4.89	9.92	8.95
Cash, end of year	1.85	4.89	9.92	8.95	30.13

Neochimiki Group - Ratio analysis

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Share price	14.54	14.54	14.54	14.54	14.54
Market Cap.	523.44	523.44	523.44	523.44	523.44
Target Price	18.00	18.00	18.00	18.00	18.00
Target Cap.	648.17	648.17	648.17	648.17	648.17
Cash & equivalents	1.85	4.89	9.92	8.95	30.13
Total bank debt	85.32	129.18	190.18	183.18	176.18
Net Debt	83.47	124.30	180.26	174.23	146.05
Capital Employed	137.82	191.48	370.41	409.30	436.94
Invested Capital	139.67	195.35	370.64	409.55	437.21
Enterprise value (EV)	606.91	647.74	703.70	697.67	669.49
Net debt to equity (x)	1.5x	1.9x	0.9x	0.7x	0.5x
Net debt to market cap. (x)	0.2x	0.2x	0.3x	0.3x	0.3x
Net Debt/ EBITDA (x)	4.6x	4.5x	3.5x	2.0x	1.3x
EV/EBITDA (x)	33.6x	23.5x	13.7x	7.9x	6.0x
EV/Sales (x)	7.3x	4.5x	2.3x	1.4x	1.0x
Interest charge coverage (x)	3.1x	3.7x	5.2x	7.1x	8.7x
RoCE	8.0%	9.1%	8.9%	14.4%	16.7%
RoIC	7.9%	8.9%	8.9%	14.4%	16.7%
RoE	13.5%	20.0%	13.3%	19.8%	20.8%
RoA	4.7%	5.2%	4.8%	7.3%	8.0%
P/BV (x)	9.7x	8.3x	3.2x	2.7x	2.2x
P/CE adj. (x)	40.4x	26.7x	16.0x	9.3x	7.5x
P/FCFE (x)	-16.0x	-12.4x	-9.7x	44.2x	14.1x
P/E adj. (x)	71.4x	41.5x	24.2x	13.5x	10.7x
P/E adj. on PT (x)	88.5x	51.4x	30.0x	16.8x	13.2x
Adj. EPS growth (%)	-1.3%	72.3%	71.1%	79.1%	26.9%
CAGR ¹⁻²⁰¹²	39.3%	35.2%	30.0%	21.9%	20.7%
PEG	1.82	1.18	0.81	0.62	0.52
PEG on Target Price	2.25	1.46	1.00	0.77	0.64
Earnings yield (adj.)	1.4%	2.4%	4.1%	7.4%	9.4%
FCFE Yield	-6.3%	-8.0%	-10.3%	2.3%	7.1%
Dividend Yield	0.4%	0.2%	0.4%	1.1%	1.7%
Spread	-6.7%	-8.2%	-10.7%	1.2%	5.4%
Working capital (WC)	25.54	18.92	58.16	95.98	118.76
WC/Sales	30.8%	13.3%	19.4%	19.3%	18.6%
Effective tax rate	12%	16%	18%	17%	19%

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Neutral:	28.1%	Total return (*) expected to be between -10%/+10% compared to the market's return (**) over a 12-month period	-
Underperform:	0.0%	Total return (*) expected to be below -10% compared to the market's return (**) over a 12-month period	-
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(*) Total return = Price appreciation + Dividend

(**) Market return = Risk free rate + 5% (an approximation of equity risk premium)

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