

Neochimiki (NCHr.AT)

Chemicals Production & Distribution

Outperform
(Unchanged)

TP: EUR16.00
from EUR15.60

Share Price: EUR13.26
ASE Index: 4,177.04
03/11/06

Reason for report: 3Q 2006 Results Review – TP Upgrade to EUR16.00

Valuation ratios	2004	2005	2006e	2007f
P/E adj. (x)	65.16	37.83	21.66	13.29
P/E on TP (x)	78.63	45.65	26.14	16.04
P/BVPS (x)	8.83	7.57	3.62	2.95
EV/Sales (x)	6.76	4.22	2.09	1.37
EV/EBITDA (x)	31.01	21.85	12.20	8.22
RoE (%)	13.5%	20.0%	16.7%	22.2%

Fundamentals	2004	2005	2006e	2007f
Turnover	82.91	142.50	299.74	459.04
EBITDA	18.08	27.53	51.44	76.45
Net profit	7.33	12.62	70.94	35.92
Clean Net profit	7.33	12.62	22.04	35.92
Clean EPS (EUR)	0.20	0.35	0.61	1.00
DPS (EUR)	0.06	0.03	0.06	0.17
Shareholders funds	54.08	63.05	132.04	161.77
Net debt	83.47	124.30	150.24	151.15

Note: Amounts in Eur mn unless otherwise stated

Margins (%)	2004	2005	2006e	2007f
Gross margin	35.4%	32.8%	30.1%	29.6%
EBITDA	21.8%	19.3%	17.2%	16.7%
Clean EBT	10.2%	10.5%	10.9%	11.6%
Clean Net profit	8.8%	8.9%	7.4%	7.8%
Dividend Yield	0.5%	0.2%	0.4%	1.3%

Growth rates (%)	2004	2005	2006e	2007f
Sales	48.5%	71.9%	110.3%	53.1%
EBITDA	52.7%	52.3%	86.8%	48.6%
Clean EBT	32.4%	77.4%	118.3%	62.4%
Clean Net profit	39.3%	72.3%	74.6%	63.0%

Share price data	1m	6m	12m	Y-t-D
Rel. perf. vs GI	-1.9%	14.4%	118.7%	107.7%
Abs. perf.	5.2%	12.9%	169.5%	136.8%

L-T growth	1.00%
WACC	10.00%
Target Price (EUR)	16.00
Target Market Cap. (EUR mn)	576.07
Current Market Cap. (EUR mn)	477.36
Outstanding shares (mn)	36.00
Free float	66.00%
Average daily volume (shares)	159,778

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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Paving the way...for new upgrades

3Q underlying net rises by 92% y-o-y – 16% above estimates

Neochimiki reported a strong set of 3Q '06 results, with group sales rising by 101% y-o-y to EUR76.50mn (in line with our estimates), EBITDA growing 131% to EUR16.68mn (28% ahead of our call) and 'clean' net profit increasing by 92% to EUR6.09mn – 16% above our estimate for EUR5.25mn.

9m performance – supportive for the full year

Group net profit reached EUR14.71mn in the 9m period, up 68% y-o-y and 6% ahead of our estimate for EUR13.87mn. Including capital gains from the sale of the stake in Lamda Detergent, group net profit skyrocketed by 625% y-o-y to EUR63.62mn.

Key developments

- The group's second paints factory (Celanese) launched operations in September,
- The agreement with Lukoil for the distribution of plastics positively weighed on 3Q '06 group performance
- Neochimiki sold Lamda Cosmetics to Lamda Detergents for EUR12mn in an effort to get past lengthy licensing audits and start full-scale production a year earlier
- The group announced the 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)
- Neochimiki announced that it intends to participate in 2 privatizations of chemical/lubricants production units in Serbia (for a 70% stake in Fabrika maziva, Krusevac and a 70% stake in Rafinerija nafte, Beograd) - deadline for the tenders is November 17, 2006.
- The company signed an agreement for the acquisition of Interkem Hellas, a local chemicals producer that also operates its own chemical terminal in Avlida (no price details announced yet).

Marginally increase 2007-2008 EPS & TP – Reiterate Outperform

We have left our 2006 estimates unchanged, looking for a 75% increase in 'clean' net profit to EUR22.04mn (and EUR70.94mn incapital gains). For 2007 and 2008, we have raised our EPS estimates by 2% and 8% respectively on the back of Lamda Cosmetics' increased output. Our estimates now call for a 2005-2008 EPS CAGR of 51%, with risk remaining on the upside given potential for new acquisitions and distribution agreements. We raise our TP to EUR16.00/share and re-iterate our Outperform rating.

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

3Q '06 RESULTS REVIEW

Neochimiki - Quarterly Profit & Loss Statements

EUR mn	1Q '05	2Q '05	3Q '05	9M '05	1Q '06	y-o-y	2Q '06	y-o-y	3Q '06	y-o-y	PS 3Q est.	Actual vs. PS	9M '06	y-o-y	PS 9m est.	Actual vs. PS
Sales	24.49	31.29	38.03	93.80	41.52	70%	65.22	108%	76.50	101%	76.43	0.1%	183.25	95%	183.18	0.0%
COGS	16.33	22.73	27.38	66.43	27.88		49.43		55.01				132.32			
Gross profit	8.16	8.56	10.65	27.37	13.64	67%	15.80	85%	21.49	102%			50.93	86%		
Gross profit margin	33.3%	27.4%	28.0%	29.2%	32.9%		24.2%		28.1%				27.8%			
Other operating income	0.12	0.06	0.15	0.32	0.23		0.35		3.88				4.46			
Administrative & selling expense:	3.98	4.03	5.25	13.26	6.32		7.47		11.66				25.46			
EBIT	4.30	4.59	5.55	14.44	7.55	76%	8.67	89%	13.71	147%	10.49	30.6%	29.93	107%	26.72	12.0%
EBIT margin	17.6%	14.7%	14.6%	15.4%	18.2%		13.3%		17.9%		13.7%		16.3%		14.6%	
Depreciation	1.59	1.93	1.69	5.21	2.68		2.71		2.97		2.50		8.36		7.89	
EBITDA	5.89	6.52	7.24	19.65	10.23	74%	11.38	75%	16.68	131%	12.99	28.4%	38.29	95%	34.60	10.7%
EBITDA margin	24.1%	20.8%	19.0%	20.9%	24.6%		17.4%		21.8%		17.0%		20.9%		18.9%	
Net interest expense	1.15	1.32	1.49	3.97	1.96		2.13		3.04		1.77		7.13		5.86	
Net investment income	0.00	0.00	0.00	0.00	48.96		-0.05		0.00		0.00		48.91		48.90	
EBT	3.15	3.27	4.06	10.47	54.55	1633%	6.49	98%	10.67	163%	8.72	22.3%	71.71	585%	69.76	2.8%
Clean EBT	3.15	3.27	4.06	10.47	5.59	78%	6.54	100%	10.67	163%	8.72	22.3%	22.80	118%	20.86	9.3%
Clean EBT margin	12.9%	10.4%	10.7%	11.2%	13.5%		10.0%		13.9%		11.4%		12.4%		11.4%	
Tax	0.48	0.36	0.88	1.71	1.15		0.85		2.31		1.48		4.30		3.48	
Effective tax rate (on adj. EBT)	15.3%	10.9%	21.6%	16.3%	20.5%		13.0%		21.6%		17.0%		18.9%		16.7%	
EATBM	2.67	2.91	3.18	8.76	53.40	1902%	5.64	93%	8.37	163%	7.24	15.6%	67.40	669%	66.28	1.7%
Clean EATBM	2.67	2.91	3.18	8.76	4.45	67%	5.69	95%	8.36	163%	7.24	15.5%	18.50	111%	17.38	6.5%
Minority interests	0.00	-0.03	0.01	-0.02	0.20		1.32		2.27		1.99		3.79		3.51	
Net profit	2.67	2.95	3.17	8.78	53.20	1896%	4.32	47%	6.10	93%	5.25	16.1%	63.62	625%	62.77	1.4%
Clean net profit	2.67	2.95	3.17	8.78	4.24	59%	4.37	48%	6.09	92%	5.25	16.1%	14.71	68%	13.87	6.1%
Clean net profit margin	10.9%	9.4%	8.3%	9.4%	10.2%		6.7%		8.0%		6.9%		8.0%		7.6%	

Sources: Company, Piraeus Securities

Neochimiki reported a strong set of 3Q 2006 results with group sales and EBITDA rising by 101% and 131% y-o-y respectively to EUR76.50mn and EUR16.68mn. Although sales came in in-line with our forecast for EUR76.43mn, EBITDA exceeded our estimate by 28.4% courtesy of:

- a stronger gross margin (edged higher to last year's levels from 24.2% in the previous quarter) attributed to a higher yielding product mix and
- increased other operating income.

The higher-than-expected operating results did not flow all the way down to the group's bottom line primarily due to a higher effective tax rate of 21.6% from 17.0% we anticipated. This development drove 9m '06 effective tax rate to 18.9% from 16.5% in the semester. Depreciation and interest charges also exceeded our estimates.

9m '06 performance is supportive to our full year 2006 estimates (net profit growth of 75% y-o-y to EUR22.04mn ex-capital gains on top line growth of 110.3% y-o-y to EUR299.74mn).

Note that the production plants in Thessaloniki (ex-Ballis Chemicals) and Bulgaria (Macro B), as well as the new paints production unit (Celanese) have already started fuelling group results and the same holds true for the distribution agreement with Lukoil.

REVISION IN FORECASTS

Neochimiki Group - New vs. Old set of estimates

	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
EUR mn												
Sales	299.74	110%	0%	459.04	53%	2%	580.44	26%	3%	299.83	449.70	565.26
Gross profit	90.18	93%	0%	135.77	51%	3%	168.02	24%	6%	90.28	131.61	158.87
Gross margin	30.1%			29.6%			28.9%			30.1%	29.3%	28.1%
EBITDA	51.44	87%	0%	76.45	49%	4%	93.01	22%	8%	51.53	73.50	85.83
EBITDA margin	17.2%			16.7%			16.0%			17.2%	16.3%	15.2%
EBT	81.67			53.22			65.98			81.76	50.35	58.90
EBT margin	27.2%			11.6%			11.4%			27.3%	11.2%	10.4%
Clean EBT	32.77	118%	0%	53.22	62%	6%	65.98	24%	12%	32.86	50.35	58.90
Clean EBT margin	10.9%			11.6%			11.4%			11.0%	11.2%	10.4%
Net profit	70.94			35.92			43.37			71.00	35.07	40.27
Net margin	23.7%			7.8%			7.5%			23.7%	7.8%	7.1%
Clean net profit	22.04	75%	0%	35.92	63%	2%	43.37	21%	8%	22.10	35.07	40.27
Clean net margin	7.4%			7.8%			7.5%			7.4%	7.8%	7.1%
EPS	1.97			1.00			1.20			1.97	0.97	1.12
Clean EPS	0.61	75%	0%	1.00	63%	2%	1.20	21%	8%	0.61	0.97	1.12
DPS	0.06	98%	0%	0.17	210%	2%	0.27	57%	8%	0.06	0.17	0.25

Source: Piraeus Securities

Despite robust performance during the first 9 months of the year, we have left our 2006 estimates unchanged, looking for organic EPS growth of 75% to EUR0.61. For 2007 and 2008, we have raised our EPS estimates by 2% and 8% respectively to account for the increased contribution of the cosmetics business following the sale (transfer) of Lamda Cosmetics to the 50.15% owned subsidiary Lamda Detergent. Note that the impact on Lamda Detergent (LD) was far greater (*we upped our TP to EUR7.00 from EUR6.20 in our initiation report in late October 2006*) as the cosmetics business was not included at all in our earnings forecasts.

For Neochimiki, the cosmetics business was included in our set of forecasts but with material contribution as of 2008 onwards. The sale of Lamda Cosmetics enhanced 2007 group top line by EUR10mn or 2% and our 2008 sales forecast by EUR15mn or 3%. As a function of a) increased contribution from the cosmetics business and b) lucrative gross margin for cosmetics, our 2007-2008 gross margin estimates for the group have expanded.

Neochimiki has already steered its focus to CEE markets, where it seeks to replicate its successful Greek business model. Favorable market dynamics (high entry barriers, prevailing outsourcing trends) and company-specific advantages (strong relations with multinational clients, low market shares in Greece and abroad relative to total business volumes, spare capacity following 2 plant acquisitions in Thessaloniki and Bulgaria) underpin Neochimiki's growth momentum: In all, we look for a 63% y-o-y increase in 2007 underlying EPS to EUR1.00 and a further 21% increase in 2008 to EUR1.20. Based on our revised forecasts, the group's 2005-2008 EPS CAGR now stands at 51% - way above any other (domestic or international) peer. New distribution agreements, new acquisitions, and/or more aggressive expansion in CEE countries (not accounted for in our valuation model) may imply further upside risk on our earnings estimates.

Neochimiki - Earnings breakdown per division

EUR mn	FY 03	y-o-y	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
Detergents-Cosmetics												
Sales	23.30	-----	35.90	54%	60.50	69%	106.78	77%	154.83	45%	209.03	35%
Gross profit	10.10	-----	17.60	74%	29.28	66%	51.26	75%	72.77	42%	94.06	29%
Gross margin	43.3%		49.0%		48.4%		48.0%		47.0%		45.0%	
Production of Paints/Lacquer												
Sales	5.00	-----	9.70	94%	18.80	94%	47.00	150%	89.77	91%	108.62	21%
Gross profit	1.30	-----	2.40	85%	4.10	71%	10.25	150%	19.58	91%	22.81	17%
Gross margin	26.0%		24.7%		21.8%		21.8%		21.8%		21.0%	
Distribution of Plastics												
Sales	6.50	-----	10.60	63%	19.00	79%	54.91	189%	79.62	45%	99.52	25%
Gross profit	1.70	-----	2.60	53%	3.70	42%	6.31	71%	9.16	45%	10.95	20%
Gross margin	26.2%		24.5%		19.5%		11.5%		11.5%		11.0%	
Distribution of Fertilizers												
Sales	4.00	-----	4.00	0%	15.50	288%	46.50	200%	76.73	65%	94.37	23%
Gross profit	1.00	-----	0.90	-10%	3.60	300%	12.56	249%	21.48	71%	26.42	23%
Gross margin	25.0%		22.5%		23.2%		27.0%		28.0%		28.0%	
Distribution of Other Chemicals												
Sales	17.04	-----	22.71	33%	28.70	26%	44.55	0%	58.09	10%	68.89	10%
Gross profit	5.49	-----	5.30	-3%	6.00	13%	9.80	63%	12.78	30%	13.78	8%
Gross margin	32.2%		23.3%		20.9%		22.0%		22.0%		20.0%	
NEOCHIMIKI GROUP												
Sales	55.84	-----	82.91	48%	142.50	72%	299.74	110%	459.04	53%	580.44	26%
Gross profit	19.59	-----	29.32	50%	46.68	59%	90.18	93%	135.77	51%	168.02	24%
Gross margin	35.1%		35.4%		32.8%		30.1%		29.6%		28.9%	

Source: Piraeus Securities

VALUATION

Following our new coverage on Lamda Detergent (50.15% owned by Neochimiki), we have turned to a Sum-of-the-Parts valuation model to value the group: We value Neochimiki's stake in Lamda Detergent at EUR137.25mn or EUR3.81 per Neochimiki share and add an additional EUR438.73mn or EUR12.19 per share to account for Neochimiki's chemicals distribution business. As evident in the following table, the distribution business boasts the most buoyant growth prospects (2005-2008 EPS CAGR of 54% compared to 44% for production activities) and accounts for 71.5% of group net profit in 2007. We value the distribution business using a 2007 Target P/E multiple of 16.3x (some 5.5% above the implied target P/E for Lamda Detergents). In all, we value Neochimiki at EUR16.00/share, looking for an upside potential of 20.7% and a total expected return of 21.1% (including 2006 dividend). At our Target Price, Neochimiki will be trading 16.0x 2007 EPS or at a PEG of 0.77 – still 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
Stake in Lamda Detergent	50.15%
Fair equity value of stake	137.25
Number of shares	36.00
Fair value per share from stake in Lamda Detergent (EUR)	3.81

	2005	2006e	2007f	2008f	'05/'08 CAGR
Neochimiki Group Clean EPS (EUR)	0.35	0.61	1.00	1.20	51%
Neochimiki Group Underlying P/E	37.8x	21.7x	13.3x	11.0x	
Neochimiki Group Underlying PEG	0.51	0.34	0.64	-----	
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	22.04	35.92	43.37	
Lamda Detergent clean net profit	7.82	12.53	17.80	23.16	
Neochimiki's stake in Lamda Detergent's net profit	3.92	6.29	8.93	11.61	
Net profit from Neochimiki's distribution business	8.70	15.75	26.99	31.76	54%
Lamda Detergent market cap.	211.05	211.05	211.05	211.05	
Neochimiki's Implied Stake in Lamda Detergent's market cap.	105.84	105.84	105.84	105.84	
Neochimiki market cap.	477.36	477.36	477.36	477.36	
Implied market cap. for distribution activities	371.52	371.52	371.52	371.52	
Implied P/E for distribution activities	42.7x	23.6x	13.8x	11.7x	
Implied PEG of distribution activities	0.53	0.33	0.78	-----	
Fair equity value of distribution business			438.73		
Target P/E for distribution activities			16.3x		
Number of shares			36.00		
Fair value per share from distribution activities (EUR)			12.19		

Fair equity value for Neochimiki Group	575.98
Fair value per share for Neochimiki Group (EUR)	16.00
Current share price	13.26
Upside Potential	20.7%

2006e Dividend Yield	0.4%
Total Expected Return (TER)	21.1%

	2005	2006e	2007f	2008f
Neochimiki Group Net Debt	124.30	150.24	151.15	134.26
Neochimiki Group EBITDA	27.53	51.44	76.45	93.01
EV	601.66	627.60	628.51	611.62
EV/EBITDA	21.9x	12.2x	8.2x	6.6x
Target EV/EBITDA	25.4x	14.1x	9.5x	7.6x
Target P/E	45.6x	26.1x	16.0x	13.3x
Target PEG	0.61	0.41	0.77	-----

Source: Piraeus Securities

Note that we still employ a DCF model to value the Neochimiki Group as we consider the use of discounted cash flows as the best means of capturing its growth potential. 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. We have aligned our working capital and CAPEX forecasts (CAPEX of EUR116.30mn over 2006-2008) with management guidance. 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 EUR16.00 per share, confirming the result of our SOTP model.

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	PEG
			2006e	2007f	2008f	2006e	2007f	2008f	2008	2007
Base Chemicals										
Akzo Nobel	12,656	11.0%	14.1x	13.5x	12.5x	6.9x	6.5x	6.0x	7.8%	1.72
BASF	33,891	4.8%	10.2x	10.2x	10.2x	4.6x	4.4x	4.3x	0.5%	21.35
Bayer	30,390	7.9%	16.6x	14.5x	14.5x	9.0x	7.3x	6.5x	0.3%	56.96
Lanxess	3,050		14.7x	11.9x	11.5x	5.5x	4.8x	4.1x	3.1%	3.80
Solva	8,792	6.6%	11.6x	12.5x	12.6x	6.7x	6.4x	6.4x	-0.5%	
Weighted Average		6.8%	13.2x	12.4x	12.3x	6.7x	5.9x	5.5x	1.4%	28.03
Industrial gases										
Air Liquide	20,175	8.8%	20.0x	18.1x	16.6x	9.1x	8.2x	7.6x	9.3%	1.95
Linde	11,958	8.6%	17.2x	17.6x	14.2x	10.9x	8.6x	7.4x	23.7%	0.74
Weighted Average		8.7%	18.9x	17.9x	15.7x	9.8x	8.4x	7.5x	14.6%	1.50
Agrochemicals/Fertilizers										
K+S	3,074	8.0%	18.4x	15.7x	15.5x	8.1x	7.4x	7.4x	1.3%	12.08
KWS	488		16.9x	15.3x		6.7x	6.2x			
Syngenta	13,136	11.1%	17.7x	15.9x	14.2x	11.1x	9.9x	9.0x	12.0%	1.32
Weighted Average		10.2%	17.8x	15.8x	14.0x	10.4x	9.4x	8.4x	9.7%	3.26
Other										
Reckitt Benckiser	24,425	13.8%	22.0x	19.4x	17.6x	15.0x	13.3x	11.9x	10.3%	1.89
Henkel	14,376	11.2%	17.8x	16.0x	14.4x	10.2x	9.2x	8.5x	11.1%	1.45
Church & Dwight	2,077	12.5%	20.3x	17.8x	15.4x				15.4%	1.16
Mcbride	465	6.9%	14.0x	13.3x	12.7x	6.3x	6.1x	6.0x	4.7%	2.79
Weighted Average		12.8%	20.4x	18.1x	16.4x	12.5x	11.1x	10.0x	10.8%	1.71
Specialty Chemicals										
Ciba	3,336	3.4%	18.7x	14.9x	13.6x	7.9x	7.0x	6.1x	9.2%	1.61
Clariant	2,570	13.4%	13.4x	10.7x	9.4x	6.7x	5.9x	5.6x	14.4%	0.74
Givaudan	4,618	8.1%	16.1x	15.2x	13.9x	11.8x	11.4x	10.6x	9.3%	1.64
Lonza Group	3,052	16.3%	21.4x	18.0x	15.0x	10.9x	9.8x	8.8x	19.3%	0.93
Lamda Detergent	211	43.6%	16.8x	11.9x	9.1x	11.4x	8.2x	6.4x	30.1%	0.39
Weighted Average		10.3%	17.4x	14.8x	13.2x	9.7x	8.9x	8.1x	12.8%	1.29
Neochimiki Group vs. Specialty Chemicals	477	50.9%	21.7x	13.3x	11.0x	12.2x	8.2x	6.6x	20.8%	0.64
		393.7%	24.4%	-10.5%	-16.4%	25.7%	-7.7%	-19.2%	62.6%	-50.3%

Sources: JCF Quant, Piraeus Securities estimates

Neochimiki appears to be trading at a 24% 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 50.9% EPS CAGR over 2005-2008 (based on our estimates), while new acquisitions and/or distribution agreements may prove our forecasts conservative. On a 2007 P/E of 13.3x and projected EPS growth of 21% in 2008, Neochimiki's 2007 PEG at 0.64 stands 50% 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 33% gross margin and a 19% 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). 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 21.7x 2006e net profits adjusted for one-off items (6.7x including capital gains), which implies a PEG of 0.34x on our estimated 2007f EPS growth of 63% - this places the stock at a significant discount to international peers that trade on a PEG of 0.99x (or equivalently a 2006e P/E of 17.4x and projected EPS growth for 2007 at 17.5%). More importantly, Neochimiki portrays a strong medium term outlook, with our estimates calling for a 2005-2008 EPS CAGR of 50.9% and a 2008f P/E of 13.2x. After raising our earnings forecasts, both our Sum-of-the-Parts (SOTP) and our DCF model_(WACC: 10.0%, Perpetuity growth rate: 1%) return a slightly higher Target Price of EUR16.00 from EUR15.60 per share, implying a total expected return of 21.1% 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 EUR16.00/share from EUR15.60 previously.

FINANCIAL STATEMENTS

Neochimiki - Consolidated Profit & Loss Statements

EUR mn	FY 03	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Sales	55.84	82.91	142.50	299.74	459.04	580.44
COGS	36.25	53.59	95.82	209.57	323.27	412.41
Gross profit	19.59	29.32	46.68	90.18	135.77	168.02
Gross margin	35.1%	35.4%	32.8%	30.1%	29.6%	28.9%
Total operating expenses, net	7.75	11.23	19.14	38.74	59.32	75.01
EBITDA	11.84	18.08	27.53	51.44	76.45	93.01
EBITDA margin	21.2%	21.8%	19.3%	17.2%	16.7%	16.0%
Depreciation/Amortization	3.05	5.64	6.98	11.04	14.65	17.89
EBIT	8.79	12.44	20.56	40.40	61.80	75.13
EBIT margin	15.7%	15.0%	14.4%	13.5%	13.5%	12.9%
Net interest expense	2.40	3.98	5.55	7.63	8.58	9.15
Net investment income (inc-one offs)	0.00	0.00	0.00	48.90	0.00	0.00
EBT (ex-capital gains)	6.39	8.46	15.01	32.77	53.22	65.98
EBT margin	11.4%	10.2%	10.5%	10.9%	11.6%	11.4%
EBT	6.39	8.46	15.01	81.67	53.22	65.98
Total tax	0.93	0.99	2.36	5.76	8.14	11.08
EATBM (ex-capital gains)	5.46	7.48	12.66	27.02	45.08	54.90
EATBM margin	9.8%	9.0%	8.9%	9.0%	9.8%	9.5%
Minorities	0.20	0.15	0.04	4.98	9.16	11.52
Net profit (ex-capital gains)	5.26	7.33	12.62	22.04	35.92	43.37
Net profit margin	9.4%	8.8%	8.9%	7.4%	7.8%	7.5%
Net profit	5.26	7.33	12.62	70.94	35.92	43.37
Net profit margin	9.4%	8.8%	8.9%	23.7%	7.8%	7.5%
Dividend	2.02	2.20	1.01	1.99	6.19	9.69
Adj. number of shares	25.52	36.00	36.00	36.00	36.00	36.00
EPS (ex-capital gains)	0.21	0.20	0.35	0.61	1.00	1.20
EPS	0.21	0.20	0.35	1.97	1.00	1.20
DPS	0.06	0.06	0.03	0.06	0.17	0.27
Dividend payout	38.3%	30.0%	8.0%	9.1%	17.2%	22.4%

Neochimiki - Consolidated Balance Sheets

EUR mn	FY 03	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Fixed assets	75.08	121.57	192.08	269.18	287.28	308.38
Accumulated depreciation	6.89	8.21	16.26	27.30	41.95	59.84
Fixed assets, net	68.20	113.36	175.82	241.88	245.33	248.54
Other long term receivables	0.49	0.76	0.61	0.85	0.85	0.85
Inventories	11.20	19.14	36.67	70.62	108.16	136.76
Trade receivables	23.12	21.45	24.30	62.41	95.58	120.86
Other receivables	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	1.21	1.85	4.89	9.76	15.25	30.34
Total assets	104.23	156.56	242.28	385.53	465.17	537.35
Share capital	10.80	10.80	10.80	10.80	10.80	10.80
Share premium account	5.68	5.68	5.68	5.68	5.68	5.68
Grants and revaluation reserves	6.47	20.10	19.70	19.70	19.70	19.70
Reserves and retained earnings	11.59	17.51	26.87	95.86	125.59	159.27
Total shareholders funds	34.54	54.08	63.05	132.04	161.77	195.45
Minority interests	1.27	0.27	4.13	27.63	36.79	48.31
Long term debt	42.03	62.20	120.00	142.00	138.40	124.60
Other long term liabilities	0.01	1.67	3.70	0.05	0.05	0.05
Personnel provisions	0.12	0.17	0.17	0.18	0.20	0.22
Short term debt	16.29	23.11	9.18	18.00	28.00	40.00
Trade payables	9.19	12.61	38.26	55.69	85.91	109.60
Income tax and other tax payable	0.78	2.43	3.79	9.93	14.05	19.12
Total equity and liabilities	104.23	156.56	242.28	385.53	465.17	537.35

Neochimiki - Consolidated Cash Flow Statements

EUR mn	FY 03	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Net Income	5.26	7.33	12.62	22.04	35.92	43.37
Plus:						
Minority interests (net)	0.20	0.15	0.04	4.98	9.16	11.52
Depreciation & Amortisation	3.05	5.64	6.98	11.04	14.65	17.89
Provisions	0.12	0.05	-0.01	0.02	0.02	0.02
Adj. for tax paid	-1.54	1.65	1.36	6.15	4.11	5.07
Adj. for other long-term items	-0.45	1.40	2.18	-3.89	0.00	0.00
Cash earnings	6.65	16.21	23.16	40.32	63.86	77.88
Change in inventories	2.59	7.94	17.54	33.95	37.53	28.60
Change in trade debtors	11.19	-1.68	2.85	38.11	33.17	25.28
Change in other current assets	-3.39	0.00	0.00	0.00	0.00	0.00
Change in trade creditors	-1.62	-3.43	-25.65	-17.43	-30.22	-23.69
Change in other current liabilities	0.33	0.00	0.00	0.00	0.00	0.00
Change in Working Capital	9.09	2.84	-5.26	54.64	40.48	30.19
Cash flow before investments	-2.45	13.38	28.43	-14.32	23.38	47.69
CAPEX	23.32	46.18	70.51	77.10	18.10	21.10
Cash from the sale of Lamda				67.46		
Free Cash Flow to Equity	-25.77	-32.80	-42.08	-23.95	5.28	26.59
Change in capital	9.33	0.00	0.00	0.00	0.00	0.00
Change in debt	27.49	26.99	43.87	30.82	6.40	-1.80
Other items	-7.75	8.65	2.26	0.00	0.00	0.00
BoD fees	0.00	0.00	0.00	0.00	0.00	0.00
Dividend paid	2.69	2.20	1.01	1.99	6.19	9.69
Change in cash	0.62	0.65	3.04	4.87	5.49	15.09
Cash, beginning	0.59	1.21	1.85	4.89	9.76	15.25
Cash, end of year	1.21	1.85	4.89	9.76	15.25	30.34

Neochimiki Group - Ratio analysis

EUR mn	FY 03	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Share price	13.26	13.26	13.26	13.26	13.26	13.26
Market Cap.	477.36	477.36	477.36	477.36	477.36	477.36
Target Price	16.00	16.00	16.00	16.00	16.00	16.00
Target Cap.	576.07	576.07	576.07	576.07	576.07	576.07
Cash & equivalents	1.21	1.85	4.89	9.76	15.25	30.34
Total bank debt	58.33	85.32	129.18	160.00	166.40	164.60
Net Debt	57.11	83.47	124.30	150.24	151.15	134.26
Capital Employed	92.92	137.82	191.48	309.91	349.71	378.02
Invested Capital	93.05	139.67	195.35	310.14	349.96	378.29
Enterprise value (EV)	534.47	560.83	601.66	627.60	628.51	611.62
Net debt to equity (x)	1.6x	1.5x	1.9x	0.9x	0.8x	0.6x
Net debt to market cap. (x)	0.1x	0.2x	0.3x	0.3x	0.3x	0.3x
Net Debt/ EBITDA (x)	4.8x	4.6x	4.5x	2.9x	2.0x	1.4x
EV/EBITDA (x)	45.1x	31.0x	21.9x	12.2x	8.2x	6.6x
EV/Sales (x)	9.6x	6.8x	4.2x	2.1x	1.4x	1.1x
Interest charge coverage (x)	3.7x	3.1x	3.7x	5.3x	7.2x	8.2x
RoCE	8.1%	8.0%	9.1%	10.7%	15.0%	16.5%
RoIC	8.1%	7.9%	8.9%	10.7%	15.0%	16.5%
RoE	15.2%	13.5%	20.0%	16.7%	22.2%	22.2%
RoA	5.0%	4.7%	5.2%	5.7%	7.7%	8.1%
P/BV (x)	13.8x	8.8x	7.6x	3.6x	3.0x	2.4x
P/CE adj. (x)	57.4x	36.8x	24.4x	14.4x	9.4x	7.8x
P/FCFE (x)	-18.5x	-14.6x	-11.3x	-19.9x	90.4x	18.0x
P/E adj. (x)	64.3x	65.2x	37.8x	21.7x	13.3x	11.0x
P/E adj. on PT (x)	77.6x	78.6x	45.6x	26.1x	16.0x	13.3x
Adj. EPS growth (%)	51.1%	-1.3%	72.3%	74.6%	63.0%	20.8%
CAGR ^{T-2012}	32.3%	37.3%	32.9%	27.0%	20.8%	20.8%
PEG	1.99	1.75	1.15	0.80	0.64	0.53
PEG on Target Price	2.40	2.11	1.39	0.97	0.77	0.64
Earnings yield (adj.)	1.6%	1.5%	2.6%	4.6%	7.5%	9.1%
FCFE Yield	-5.4%	-6.9%	-8.8%	-5.0%	1.1%	5.6%
Dividend Yield	0.5%	0.5%	0.2%	0.4%	1.3%	2.0%
Spread	-5.9%	-7.3%	-9.0%	-5.4%	-0.2%	3.5%
Working capital (WC)	24.36	25.54	18.92	67.41	103.78	128.90
WC/Sales	43.6%	30.8%	13.3%	22.5%	22.6%	22.2%
Effective tax rate	15%	12%	16%	18%	15%	17%

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Outperform :	60.4%	Total return (*) expected to be greater than 10% compared to the market's return (**) over a 12-month period	-
Neutral:	28.4%	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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Under Review:	3.5%	Rating/TP may be subject to future revision	-

(*) Total return = Price appreciation + Dividend

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

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