

Neochimiki (NCHr.AT)

Chemicals Production & Distribution

Reason for report: 1Q 2007 Review /Increase TP to EUR25.50

Outperform
(Unchanged)

TP: EUR25.50
from EUR24.20

Share Price: 22.80 (09/05/07)
ASE Index: 4,743.92 (09/05/07)
Report issue date: 10/05/07

Valuation ratios	2005	2006	2007e	2008f
P/E (x)	65.04	35.53	20.85	13.67
P/E on TP (x)	72.76	39.75	23.33	15.30
P/BVPS (x)	13.02	5.10	3.00	2.53
EV/Sales (x)	6.63	3.46	1.82	1.26
EV/EBITDA (x)	34.32	16.94	13.36	9.31
RoE (%)	20.0%	14.3%	14.4%	18.5%

Fundamentals	2005	2006	2007e	2008f
Turnover	142.50	301.84	499.58	699.42
EBITDA	27.54	61.56	68.12	94.33
Net profit	12.62	97.06	118.30	60.03
'Clean' net profit	12.62	23.10	39.36	60.03
'Clean' EPS (EUR)	0.35	0.64	1.09	1.67
DPS (EUR)	0.03	0.03	0.17	0.25
Shareholders funds	63.05	160.99	273.29	324.32
Net debt	124.38	222.13	89.51	57.49

Note: Amounts in EUR mn unless otherwise stated. Ratios are calculated on 'clean' EPS

Margins (%)	2005	2006	2007e	2008f
Gross profit	32.8%	30.5%	24.6%	24.3%
EBITDA	19.3%	20.4%	13.6%	13.5%
'Clean' EBT	10.5%	12.4%	8.9%	10.1%
'Clean' net profit	8.9%	7.7%	7.9%	8.6%
Dividend yield	0.1%	0.1%	0.7%	1.1%

Growth rates (%)	2005	2006	2007e	2008f
Sales	71.9%	111.8%	65.5%	40.0%
EBITDA	52.3%	123.5%	10.7%	38.5%
'Clean' EBT	77.4%	148.5%	18.7%	60.1%
'Clean' net profit	72.3%	83.1%	70.4%	52.5%

Share price data	1m	6m	12m	Y-t-D
Rel. perf. vs GI	3.1%	51.6%	64.2%	33.8%
Abs. perf.	4.2%	70.7%	81.0%	44.5%

L-T growth	2.00%
WACC	10.00%

Target Price (EUR)	25.50
Target Market Cap. (EUR mn)	918.17
Current Market Cap. (EUR mn)	820.80
Outstanding shares (mn)	36.00
Free float	83.65%
Average daily volume (shares)	199,466

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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1Q ebitda rises 37% y-o-y and this without Lamda Detergent in group accounts

Neochimiki reported on Tuesday 1Q 2007 results, excluding this time Lamda Detergent from consolidated accounts following the sale of its remaining 34.03% stake.

Recall that Neochimiki sold the aforementioned stake for EUR104.81mn and recorded a net capital gain of EUR78.94mn.

Headline Results

1Q 2007 sales came in at EUR74.72mn, up 80% y-o-y courtesy of strong, double-digit like4like growth accompanied by greater acquisitive growth. EBITDA increased by 37% to EUR14.06mn, revealing a higher-than-expected margin of 18.8%, while EBIT rose by 32% to EUR10.01mn. Finally, net profit jumped to EUR83.88mn (+58% y-o-y) or EUR4.94mn (+16%) excluding the non-recurring capital gains (EUR48.96mn had inflated 1Q 2006 results as well).

Had it been differently?

Assuming Lamda Detergent was fully consolidated this quarter, group sales would have risen by 105% to EUR84.98mn, EBIT by 74% to EUR13.17mn, and net profit by 60% to EUR85.63mn. To understand the difference, investors must take into account 3 key parameters: (i) sales to Lamda Detergent were previously recorded as intra-group activity and were omitted, while they are now recognized as ordinary revenues of Neochimiki, (ii) Neochimiki's business is now dominated by distribution activities (some 75% of total) that portray significantly lower margins (gross margin at 23% vs. 30% for production activities), (iii) Neochimiki now owns 100% of its business and books no minorities.

On top, Neochimiki collected EUR104.81mn from selling Lamda Detergent (or EUR205.08mn the divestment in 2005) and managed to significantly narrow its net debt position to EUR66.7mn from EUR222.1mn at end 2006. Additionally, it proceeded to the restructuring of its debt after issuing a EUR100mn convertible bond with a coupon of 1.25%.

Raise TP to EUR25.50 or 15.3x 2008f EPS – Reiterate Outperform

We only fine-tuned our estimates, raising our TP by 5% to EUR25.50. Neochimiki currently trades 13.7x 2008f EPS or at a 6% discount to international peers. The discount widens to 59% when adjusting for 2008 core EPS growth of 52.5% vs. only 18% for its peers. New acquisitions and/or higher-than-expected margins may place upside risk on our estimates.

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

1Q 2007 REVIEW

Neochimiki - Quarterly Profit & Loss Statements

EUR mn	1Q06	2Q06	3Q06	4Q06	FY06	PS 1Q07e	y-o-y	1Q07	y-o-y	diff.
Sales	41.52	65.22	76.50	118.60	301.84	73.00	76%	74.72	80%	2%
EBITDA	10.23	11.38	16.68	23.26	61.56	12.90	26%	14.06	37%	9%
EBITDA margin	24.6%	17.4%	21.8%	19.6%	20.4%	17.7%		18.8%		
Depreciation	2.68	2.71	2.97	5.80	14.16	4.00		4.06		
EBIT	7.55	8.67	13.71	17.47	47.40	8.90	18%	10.01	32%	12%
EBIT margin	18.2%	13.3%	17.9%	14.7%	15.7%	12.2%		13.4%		
Net interest expense	1.96	2.13	3.04	2.96	10.09	3.00		3.37		
Net investment income	48.96	-0.05	0.00	25.06	73.96	80.15		80.69		
EBT	54.55	6.49	10.67	39.56	111.27	86.05	58%	87.32	60%	1%
Clean EBT	5.59	6.54	10.67	14.51	37.31	5.90	5%	6.63	19%	12%
Clean EBT margin	13.5%	10.0%	13.9%	12.2%	12.4%	8.1%		8.9%		
Tax	1.15	0.85	2.31	3.65	7.95	1.12		1.69		
Effective tax rate	20.5%	13.0%	21.6%	25.2%	21.3%	19.0%		25.5%		
EATBM	53.40	5.64	8.37	35.91	103.32	84.93		85.63		
Clean EATBM	4.45	5.69	8.36	10.86	29.36	4.78		4.94		
Minority interests	0.20	1.32	2.27	2.47	6.26	0.00		0.00		
Minority interests from discontinued operations								1.75		
Net profit	53.20	4.32	6.10	33.44	97.06	84.93	60%	83.88	58%	-1%
Clean net profit	4.24	4.37	6.09	8.39	23.10	4.78	13%	4.94	16%	3%
Clean net profit margin	10.2%	6.7%	8.0%	7.1%	7.7%	6.5%		6.6%		

Sources: Company, Piraeus Securities

Neochimiki - Quarterly Profit & Loss Statements

EUR mn	1Q06	1Q07	y-o-y
Chemicals			
Sales	45.67	74.72	64%
EBIT	3.64	10.01	175%
EBIT margin	8.0%	13.4%	
EBT	2.29	6.63	190%
EBT margin	5.0%	8.9%	
Net profit	1.58	4.94	212%
Net margin	3.5%	6.6%	
Detergents			
Sales	22.36	26.74	20%
EBIT	3.91	3.16	-19%
EBIT margin	17.5%	11.8%	
EBT	52.26	80.91	55%
EBT margin	233.7%	302.6%	
Net profit	51.81	80.69	56%
Net margin	231.7%	301.8%	
Intragroup			
Sales	26.50	16.48	-38%
EBIT	0.00	0.00	
EBT	0.00	0.00	
Net profit	0.00	0.00	
Group - including Lamda			
Sales	41.52	84.98	105%
EBIT	7.55	13.17	74%
EBIT margin	18.2%	15.5%	
EBT	54.55	87.54	60%
EBT margin	131.4%	103.0%	
Net profit	53.40	85.63	60%
Net margin	128.6%	100.8%	

Sources: Company, Piraeus Securities

If it were for the full consolidation of Lamda Detergent

- ⊙ 1Q group sales reached EUR74.72mn (+80%) vs. our call for EUR73.00mn. More importantly, EBIT exceeded our estimate for EUR8.90mn by 12%, increasing by 32% y-o-y to EUR10.01mn.
- ⊙ To put it differently, EBIT margin settled at 13.4%, favorably comparing with our FY07e margin projection of 10.3%.
- ⊙ If Lamda Detergent was fully consolidated, group sales would have risen by 105% to EUR84.98mn and EBIT would have stood at EUR13.17mn, up 74% y-o-y.
- ⊙ Turning back to the reported figures, group net profit settled at EUR83.88mn, up 58% y-o-y, courtesy of a net capital gain of EUR78.94mn (investment income minus minorities).
- ⊙ Excluding capital gains from 1Q06 and 1Q07, 'clean' group net profit increased by 16% y-o-y to EUR4.94mn.
- ⊙ What needs to be stressed at this point is that:
 - (i) 1Q 2007 depreciation and tax charges represent approximately ¼ of our full year estimates
 - (ii) financial expenses represent a heavier 41% (thanks to the convertible bond issue)
 - (iii) Yet, sales and EBIT only represent 15% and 17% of our FY07 estimates, as the following quarters will be bolstered by the numerous acquisitions made by Neochimiki during the last couple of months.
 - (iv) No wonder, 1Q 2007 clean net profit only represents 12% of our full year estimate of EUR39.36mn.
- ⊙ On the very positive side, Neochimiki reported operating cash flows before CAPEX of EUR20.42mn vs. an outflow of EUR7.23mn a year ago. FCFE reached EUR92.92mn vs. EUR47.33mn in 1Q06.

FULL YEAR FORECASTS

Neochimiki Group - Gross profit forecasts

EUR mn	FY06	FY07e	y-o-y	FY08f	y-o-y	FY09f	y-o-y
Bulk Chemicals							
Sales	49.20	179.58	265%	269.37	50%	355.57	32%
% of total	16.3%	35.9%		38.5%		40.6%	
Gross profit	11.80	48.13	308%	71.47	49%	93.40	31%
% of total	12.8%	39.1%		42.0%		44.1%	
Gross margin	24.0%	26.8%		26.5%		26.3%	
Plastics							
Sales	60.00	90.00	50%	125.10	39%	152.62	22%
% of total	19.9%	18.0%		17.9%		17.4%	
Gross profit	7.80	11.25	44%	15.17	35%	18.32	21%
% of total	8.5%	9.1%		8.9%		8.6%	
Gross margin	13.0%	12.5%		12.1%		12.0%	
Paints							
Sales	45.00	140.00	211%	180.00	29%	215.25	20%
% of total	14.9%	28.0%		25.7%		24.6%	
Gross profit	11.40	36.60	221%	46.31	27%	55.14	19%
% of total	12.4%	29.7%		27.2%		26.0%	
Gross margin	25.3%	26.1%		25.7%		25.6%	
Agrochemicals							
Sales	42.50	90.00	112%	124.95	39%	152.69	22%
% of total	14.1%	18.0%		17.9%		17.4%	
Gross profit	10.60	27.10	156%	37.12	37%	45.13	22%
% of total	11.5%	22.0%		21.8%		21.3%	
Gross margin	24.9%	30.1%		29.7%		29.6%	
Detergents							
Sales	105.10	0.00	-100%	0.00	na	0.00	na
% of total	34.8%	0.0%		0.0%		0.0%	
Gross profit	50.40	0.00	-100%	0.00	na	0.00	na
% of total	54.8%	0.0%		0.0%		0.0%	
Gross margin	48.0%	na		na		na	
Sales	301.80	499.58	66%	699.42	40%	876.13	25%
Gross profit	92.00	123.07	34%	170.06	38%	211.98	25%
Gross margin	30.5%	24.6%		24.3%		24.2%	

Sources: Company, Piraeus Sec.

Neochimiki Group - Profit & loss statements

EUR mn	FY06	FY07e	FY08f	FY09f
Sales	301.84	499.58	699.42	876.13
Cash COGS	209.80	376.51	529.36	664.15
Gross profit ex-depr.	92.04	123.07	170.06	211.98
Gross margin	30.5%	24.6%	24.3%	24.2%
Other income, net	0.66	0.50	0.50	0.50
Cash SG&A expenses	31.15	55.45	76.24	95.50
EBITDA	61.56	68.12	94.33	116.98
y-o-y	123.5%	10.7%	38.5%	24.0%
EBITDA margin	20.4%	13.6%	13.5%	13.4%
Depreciation	14.16	16.60	19.42	21.61
EBIT	47.40	51.52	74.91	95.37
EBIT margin	15.7%	10.3%	10.7%	10.9%
Financial income	63.87	71.70	-3.99	-3.99
EBT	111.27	123.22	70.91	91.38
EBT margin	36.9%	24.7%	10.1%	10.4%
Tax	7.95	4.92	10.88	15.47
Effective tax rate	21.3%	11.1%	15.3%	16.9%
Minority rights	6.26	0.00	0.00	0.00
Net profit	97.06	118.30	60.03	75.91
'Clean' net profit	23.10	39.36	60.03	75.91
y-o-y	83.1%	70.4%	52.5%	26.5%
'Clean' net margin	7.7%	7.9%	8.6%	8.7%

Sources: Company, Piraeus Sec.

VALUATION

The exclusion of Lamda Detergent from consolidated accounts makes the use of a Sum-of-the-Parts model not necessary any more. We thus turn back to our traditional DCF model, which we consider appropriate for capturing the growth potential of Neochimiki. We discount the estimated free cash flows of the firm over 2008-2011 using a WACC of 10.00% (on a risk free rate of 4.50%, a risk premium of 5.00% and a beta of 1.35) and add an estimated horizon value using a perpetuity growth rate of 2.0% (favorably comparing with the group's internal growth rate of 14%-17% throughout the period of our explicit assumptions).

To back test our results, we also use a comparative analysis among international specialty chemical companies. The DCF model remains the backbone of our valuation methodologies (75% weight), while we place a 25% weight in our peer group analysis. **Our combined valuation methodology yields a new target price of EUR25.50 for Neochimiki from EUR24.20 previously. Note that Neochimiki boasts superior earnings growth potential than the aggregate of its peers, while the scenario of re-leveraging up could imply further upside risk on our estimates and valuation. The current implied total expected return stands at 12.0% and justifies our sticking to an Outperform rating.**

Neochimiki Group - DCF valuation model

EUR mn	FY06	FY07e	FY08f	FY09f	FY10f	FY11f
Sales	301.84	499.58	699.42	876.13	1,093.79	1,368.93
y-o-y	111.8%	65.5%	40.0%	25.3%	24.8%	25.2%
EBITDA	61.56	68.12	94.33	116.98	144.51	180.57
y-o-y	123.5%	10.7%	38.5%	24.0%	23.5%	25.0%
EBITDA margin	20.4%	13.6%	13.5%	13.4%	13.2%	13.2%
Increase in WC	-107.00	0.03	-27.09	-24.33	-28.24	-39.20
% of sales	35.4%	0.0%	3.9%	2.8%	2.6%	2.9%
Tax paid	-4.17	-4.99	-3.73	-9.97	-14.35	-19.69
CAPEX, net of disposals	-36.09	44.81	-21.50	-22.50	-25.50	-27.50
% of sales	12.0%	-9.0%	3.1%	2.6%	2.3%	2.0%
FCFF	-85.70	107.96	42.01	60.18	76.42	94.17
y-o-y	na	na	-61.1%	43.2%	27.0%	23.2%
Discounted FCFFs			38.19	49.74	57.41	64.32
PV of Free Cash Flows 2008-2011		209.67	20%			
PV of Horizon Value		820.11	80%			
Enterprise Value		1,029.78				
+ Cash & cash equivalents		20.49				
- Debt		110.00				
+ Non-current assets		1.37				
- Other long term liabilities		9.60				
Equity value		932.04				
# of shares		36.00				
Implied DCF Fair Value (€)		25.89	75%			
Implied Target PEG Fair Value (€)		24.35	25%			
Target Price (€)		25.50				
Current Price		22.80				
Upside Potential		11.9%				
Shares Outstanding		36.00				
Market Cap.		820.80				
2006 Dividend Yield		0.13%				
Total Expected Return		12.0%				

Source: Piraeus Sec.

On our new Target Price, Neochimiki will be trading 15.3x 2008f EPS – slightly higher than its peers (14.6x) but on 3x higher expected EPS growth

Comparative analysis

As previously mentioned, we have included a comparative analysis in our valuation methodologies, assigning a weight of 25%. Notice that Neochimiki trades at a 6.4% discount relative to specialty chemicals peers when compared on the basis of 2008f EPS. The discount extends much further on a growth-adjusted basis as Neochimiki offers 3x the growth expected by its peers. This is in part reflected in its 2007 PEG ratio of 0.40, which stands 59.3% lower than that of its peers. We set a Target 2008 P/E ratio of 14.6x and come up with an implied fair value of EUR24.35/share for the group (25% weight).

Peer group analysis

Company	Market Cap. (EUR mn)	EPS CAGR '06-'08	P/E			EV/EBITDA			EPS rise	PEG
			2006	2007e	2008f	2006	2007e	2008f	2008	2007
Base Chemicals										
Akzo Nobel	17,011	-0.9%	17.0x	17.2x	17.2x	7.7x	12.3x	9.9x	-1.0%	-17.91
BASF	44,174	5.1%	13.8x	12.7x	12.4x	4.7x	5.1x	5.1x	1.9%	6.72
Bayer	38,538	16.2%	22.0x	16.1x	16.6x	9.4x	8.3x	7.2x	-1.1%	-14.17
Lanxess	3,508	10.2%	15.8x	14.0x	13.0x	6.1x	5.4x	4.9x	7.9%	1.77
Solva	10,054	-5.6%	12.5x	13.5x	14.0x	7.1x	7.3x	7.5x	-3.4%	
Weighted Average		7.2%	17.0x	14.6x	14.7x	7.0x	7.5x	6.8x	0.1%	-4.83
Industrial gases										
Air Liquide	22,027	12.2%	21.8x	19.4x	17.3x	9.8x	9.4x	8.8x	12.1%	1.61
Linde	13,147	7.4%	17.5x	19.2x	15.2x	10.0x	8.4x	7.6x	26.3%	0.73
Weighted Average		10.4%	20.2x	19.3x	16.5x	9.9x	9.1x	8.3x	17.4%	1.28
Agrochemicals/Fertilizers										
K+S	3,836	5.6%	17.8x	18.7x	15.9x	9.1x	8.7x	7.7x	17.5%	1.07
KWS	726	10.2%	24.4x	21.2x	20.1x	7.0x	8.9x	8.5x		
Syngenta	14,248	15.3%	20.7x	17.4x	15.6x	13.3x	11.5x	10.3x	12.1%	1.44
Weighted Average		13.2%	20.2x	17.8x	15.8x	12.2x	10.8x	9.7x	12.7%	1.31
Other										
Reckitt Benckiser	28,876	13.3%	25.3x	22.3x	19.8x	15.0x	15.5x	13.9x	12.8%	1.74
Henkel	15,933	10.9%	19.4x	17.9x	15.8x	10.6x	10.1x	9.2x	13.5%	1.32
Church & Dwight	2,471	12.9%	24.0x	21.1x	18.4x				12.3%	1.72
Mcbride	630	10.9%	18.3x	15.9x	14.8x	7.9x	7.6x	7.0x	6.9%	2.32
Weighted Average		12.4%	23.2x	20.7x	18.3x	12.7x	12.8x	11.5x	13.0%	1.60
Specialty Chemicals										
Ciba	3,195	8.3%	16.0x	15.4x	13.6x	8.4x	7.3x	6.8x	13.5%	1.14
Clariant	2,681	24.3%	17.1x	12.8x	11.1x	6.8x	6.4x	6.0x	15.4%	0.83
Givaudan	5,020	8.3%	17.8x	18.1x	15.2x	13.8x	13.5x	11.7x	18.8%	0.96
Lonza Group	3,661	20.0%	24.9x	20.8x	17.3x	11.3x	12.2x	10.6x	20.2%	1.03
Lamda Detergent	313	35.9%	25.0x	17.6x	13.5x	15.7x	11.2x	8.8x	30.1%	0.59
Weighted Average		14.7%	19.2x	17.2x	14.6x	10.8x	10.5x	9.3x	17.6%	0.98
Neochimiki Group	821	61.2%	35.5x	20.9x	13.7x	16.9x	13.4x	9.3x	52.5%	0.40
vs. Specialty Chemicals		4.2x	85.0%	21.1%	-6.4%	57.3%	27.1%	0.4%	3.0x	-59.3%

2008f EPS: 1.67
Target P/E: 14.6x
Implied Fair Value (EUR): 24.35

Sources: JCF Quant, Piraeus Securities estimates

INVESTMENT THESIS

Dominant Position in Greece – Promising Outlook Abroad

Neochimiki is the market leader in the production of raw materials for detergents and the distribution of chemical raw materials. The size of the chemicals distribution market is estimated at EUR5.00bn in Greece and EUR15.00bn in Central and Eastern Europe. Neochimiki's low penetration (2.4% in local distribution and 0.15% in CEE), high capabilities, and spare capacity leave ample room for expansion, while the divestment from Lamda Detergent has armed the group with significant liquidity, signaling, in our view, the shift of focus to Emerging European markets.

Entry Barriers Protect Margins

Despite 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 and Henkel constitutes its major competitive advantage.

Keeping it simple: We Buy Growth

Following a surging performance since our initiation in February 2006 (+182.9%), Neochimiki currently trades at a premium relative to its international specialty chemical peers based on spot year P/E multiples. This is however only half of the picture as Neochimiki offers superior underlying EPS growth of 61.2% over 2006-2008 or 4.2x the growth offered by its peers (14.7% according to a market cap weighted average provided by JCF Quant). On a growth adjusted P/E basis, Neochimiki's shares trade at a considerable discount that extends to 59.3% for 2007. Following the company's announcement over its intention to sell the stake in Lamda Detergent, we have left aside our Sum-of-the-Parts valuation model and returned to our standard group DCF as a means of capturing Neochimiki's growth potential. We place a weight of 75% to the DCF derived fair value (EUR25.89) and a 25% weight to the implied fair value stemming from a comparative ratio analysis (EUR24.35). In the latter, we simply set as a Target 2008 P/E ratio for Neochimiki the weighted average of its peers (14.6x). The combination of our valuation methodologies provides a new Target Price of EUR25.50 for Neochimiki's share, which in turn points to an upside potential of 11.9% (and a total expected return of 12.0%). Further earnings and valuation upgrades may be the outcome of new acquisitions, higher-than-expected margins and higher free cash flow generation. Additionally, the way the group chooses to utilize the proceeds from the sale of the stake in Lamda Detergent may also create wealth for its shareholders (Neochimiki could re-leverage up its balance sheet - at even better terms - and finance its expansionary plans). We believe Neochimiki will continue to outperform the domestic 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 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. We need to stress however that Neochimiki has recently brought on board a number of highly reputable executives.

FINANCIAL STATEMENTS

Neochimiki Group - Summary Profit & Loss Statements

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
Sales	142.50	301.84	499.58	699.42	876.13
Cash COGS	95.82	209.80	376.51	529.36	664.15
Gross profit	46.68	92.04	123.07	170.06	211.98
Gross margin	32.8%	30.5%	24.6%	24.3%	24.2%
OpEx	19.14	30.48	54.95	75.74	95.00
EBITDA	27.54	61.56	68.12	94.33	116.98
EBITDA margin	19.3%	20.4%	13.6%	13.5%	13.4%
Depreciation	6.98	14.16	16.60	19.42	21.61
EBIT	20.56	47.40	51.52	74.91	95.37
EBIT margin	14.4%	15.7%	10.3%	10.7%	10.9%
Net interest income	-6.12	-10.71	-7.24	-3.99	-3.99
Investment income	0.58	74.58	78.94	0.00	0.00
EBT	15.01	111.27	123.22	70.91	91.38
EBT margin	10.5%	36.9%	24.7%	10.1%	10.4%
Tax	2.36	7.95	4.92	10.88	15.47
Minority rights	0.04	6.26	0.00	0.00	0.00
Net profit	12.62	97.06	118.30	60.03	75.91
Net margin	8.9%	32.2%	23.7%	8.6%	8.7%
Dividend	1.01	1.08	6.00	9.00	12.00
One-off gains	0.00	73.96	78.94	0.00	0.00
'Clean' EBT	15.01	37.31	44.28	70.91	91.38
'Clean' EBT margin	10.5%	12.4%	8.9%	10.1%	10.4%
'Clean' net profit	12.62	23.10	39.36	60.03	75.91
'Clean' net margin	8.9%	7.7%	7.9%	8.6%	8.7%
Shares outstanding	36.00	36.00	36.00	36.00	36.00
EPS	0.35	2.70	3.29	1.67	2.11
'Clean' EPS	0.35	0.64	1.09	1.67	2.11
DPS	0.03	0.03	0.17	0.25	0.33

Neochimiki Group - Ratio analysis

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
Net debt to equity (x)	1.85x	1.14x	0.32x	0.18x	0.03x
Net debt to market cap. (x)	0.15x	0.27x	0.11x	0.07x	0.01x
Net Debt/ EBITDA (x)	4.5x	3.6x	1.3x	0.6x	0.1x
EV/EBITDA (x)	34.3x	16.9x	13.4x	9.3x	7.1x
EV/Sales (x)	6.6x	3.5x	1.8x	1.3x	0.9x
Interest charge coverage (x)	3.4x	4.4x	7.1x	18.8x	23.9x
RoCE	9.0%	8.9%	12.5%	16.5%	19.7%
RoIC	9.0%	8.9%	12.5%	16.5%	19.7%
RoE	20.0%	14.3%	14.4%	18.5%	19.6%
g	18.4%	14.2%	13.7%	15.7%	16.5%
RoA	5.2%	5.8%	7.8%	10.0%	10.7%
P/BV (x)	13.0x	5.1x	3.0x	2.5x	2.1x
P/CE (x)	41.9x	22.0x	14.7x	10.3x	8.4x
P/FCFE (x)	-22.0x	-8.6x	6.1x	21.6x	14.6x
P/E (x)	65.0x	35.5x	20.9x	13.7x	10.8x
P/E on TP (x)	72.8x	39.7x	23.3x	15.3x	12.1x
'Clean' EPS growth (%)	72.3%	83.1%	70.4%	52.5%	26.5%
PEG	0.78	0.50	0.40	0.52	0.42
PEG on Target Price	0.88	0.56	0.44	0.58	0.47
Earnings yield	1.5%	2.8%	4.8%	7.3%	9.2%
FCFE Yield	-4.6%	-11.7%	16.3%	4.6%	6.8%
Dividend Yield	0.1%	0.1%	0.7%	1.1%	1.5%
Spread	-4.7%	-11.8%	15.6%	3.5%	5.4%
Working capital	22.71	65.69	60.74	84.83	106.16
WC/Sales	15.9%	21.8%	12.2%	12.1%	12.1%
Effective tax rate	16%	21%	11%	15%	17%

Neochimiki Group - Balance sheets

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
Fixed assets	164.58	346.28	299.98	302.37	303.58
Intangible assets	1.41	1.57	1.26	0.94	0.63
Goodwill	9.83	14.96	14.96	14.96	14.96
Participations	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.43	1.15	1.15	1.15	1.15
Long term receivables	0.18	0.22	0.22	0.22	0.22
Total fixed assets	176.43	364.18	317.57	319.65	320.53
Inventory	36.67	50.39	68.08	95.72	120.09
Trade debtors	24.30	73.50	95.81	134.14	168.03
Cash & cash equivalents	4.81	22.04	20.49	52.51	99.70
Other financial assets	0.07	0.00	0.00	0.00	0.00
Total current assets	65.86	145.92	184.38	282.36	387.82
Total assets	242.28	510.10	501.95	602.01	708.35
Share capital	10.80	10.80	10.80	10.80	10.80
Paid-in surplus	5.68	5.68	5.68	5.68	5.68
Reserves & retained earnings	46.58	144.51	256.81	307.84	371.75
Shareholders funds	63.05	160.99	273.29	324.32	388.23
Minority rights	4.13	33.79	2.63	2.63	2.63
Total equity	67.19	194.78	275.92	326.95	390.86
Long term bank debt	120.08	164.50	100.00	100.00	100.00
Deferred tax liabilities	3.62	5.05	5.05	5.05	5.05
Personnel provisions	0.14	1.87	1.87	1.87	1.87
Other long term payables	0.03	0.05	0.05	0.05	0.05
Long term liabilities	123.87	171.47	106.97	106.97	106.97
Trade creditors & other payables	38.26	58.20	103.15	145.03	181.96
<i>Of which: Dividend payable</i>		<i>1.08</i>	<i>6.00</i>	<i>9.00</i>	<i>12.00</i>
Tax payable	3.79	5.98	5.90	13.06	18.56
Short term bank debt	9.18	79.67	10.00	10.00	10.00
Short term liabilities	51.23	143.85	119.06	168.09	210.52
Total equity & liabilities	242.28	510.10	501.95	602.01	708.35

Neochimiki Group - Cash flow statements

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
EBITDA	27.54	61.56	68.12	94.33	116.98
Tax paid	-1.12	-4.17	-4.99	-3.73	-9.97
Cash tied up in inventory	-17.54	-13.28	-17.70	-27.64	-24.37
...in receivables	-2.85	-102.09	-22.31	-38.33	-33.89
...in payables (cash released)	25.68	8.37	40.04	38.88	33.93
CAPEX, net	-63.94	-36.09	44.81	-21.50	-22.50
Other items	0.58	1.66	32.98	0.00	0.00
FCFF	-31.65	-84.04	140.94	42.01	60.18
<i>FCFF ex-sale of stakes</i>	<i>-34.95</i>	<i>-186.78</i>	<i>36.13</i>	<i>42.01</i>	<i>60.18</i>
New loans	41.29	114.03	-134.17	0.00	0.00
Dividend paid	-2.20	-1.11	-1.08	-6.00	-9.00
Interest paid	-5.74	-11.66	-7.24	-3.99	-3.99
Change in cash	1.71	17.23	-1.55	32.02	47.19
Cash, beginning	1.85	4.81	22.04	20.49	52.51
Cash in new subsidiary	1.25	0.00	0.00	0.00	0.00
Cash, end	4.81	22.04	20.49	52.51	99.70

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Neutral:	25.6%	Total return (*) expected to be between -10%/+10% compared to the market's return (**) over a 12-month period	-
Underperform:	1.0%	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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