

Neochimiki (NCHr.AT)

Chemicals

Outperform
(Unchanged)

EUR12.38

ASE Index: 3,747.98
31/07/06

Reason for report: 1H 2006 Results Review – TP Upgrade

Valuation ratios	2004	2005	2006e	2007f
P/E adj. (x)	60.83	35.32	20.17	12.71
P/E on TP (x)	76.66	44.51	25.42	16.02
P/BVPS (x)	8.24	7.07	3.33	2.74
EV/Sales (x)	6.38	4.00	1.99	1.29
EV/EBITDA (x)	29.26	20.70	11.56	7.92
RoE (%)	13.5%	20.0%	16.5%	21.6%

Fundamentals	2004	2005	2006e	2007f
Turnover	82.91	142.50	299.83	449.70
EBITDA	18.08	27.53	51.53	73.50
Net profit	7.33	12.62	71.00	35.07
Net profit (adj.)	7.33	12.62	22.10	35.07
EPS adj. (EUR)	0.20	0.35	0.61	0.97
DPS (EUR)	0.06	0.03	0.06	0.17
Shareholders funds	54.08	63.05	133.69	162.72
Net debt	83.47	124.30	150.19	136.42

Note: Amounts in Eur mn unless otherwise stated

Margins (%)	2004	2005	2006e	2007f
Gross margin	35.4%	32.8%	30.1%	29.3%
EBITDA	21.8%	19.3%	17.2%	16.3%
EBT (adj.)	10.2%	10.5%	11.0%	11.2%
Net profit (adj.)	8.8%	8.9%	7.4%	7.8%
Dividend Yield	0.5%	0.2%	0.4%	1.4%

Growth rates (%)	2004	2005	2006e	2007f
Sales	48.5%	71.9%	110.4%	50.0%
EBITDA	52.7%	52.3%	87.2%	42.6%
EBT (adj.)	32.4%	77.4%	118.9%	53.2%
Net profit (adj.)	39.3%	72.3%	75.1%	58.7%

Share price data	1m	6m	12m	Y-t-D
Rel. perf. vs GI	-4.6%	101.5%	169.4%	116.4%
Abs. perf.	0.8%	89.2%	203.0%	119.6%

Note: Closing prices as of July 28, 2006

L-T growth	1.00%
WACC	10.00%
Target Price (EUR)	15.60
Target Market Cap. (EUR mn)	561.67
Current Market Cap. (EUR mn)	445.68
Outstanding shares (mn)	36.00
Free float	66.00%
Average daily volume (shares)	177,804

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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Growth...accelerating

1H '06 net profit up 53.6% y-o-y and 19.0% ahead of our estimates

Neochimiki reported a strong set of 1H '06 results, with group sales rising by 91.4% y-o-y to EUR106.75mn, EBITDA increasing by 74.1% to EUR21.61mn (5.2% above our estimate) and net profit ex-capital gains growing 53.6% y-o-y to EUR8.62mn compared to EUR7.24mn we were projecting (on the back of higher operating profits and lower-than-expected minorities). Reported net earnings stood at EUR57.52mn, up 924.9% y-o-y, courtesy of the gain booked from the sale of the 43.44% stake in Lamda Detergent in March 2006.

Multiple growth drivers!

The growing contribution of Eastern European operations (34% of group sales compared to 6% a year ago), coupled with the doubling of last year's production to meet rising demand (both from multinationals and private label companies) underpinned the group's growth momentum. New distribution (Lukoil) and production agreements (PLUS cash & carry), along with new acquisitions (Novion and Ballis in 2005; Macro B in Bulgaria in 2006) were also key performance catalysts (Macro B is expected to boost results from 3Q '06 onwards).

Management ups again 2006 guidance

Given 1H '06 performance and a series of new acquisitions, distribution agreements, production contracts and subsidiaries in Greece and abroad, management raised again 2006 guidance that now calls for group sales of EUR300mn, up 110.5% y-o-y (from EUR270mn previously and EUR269.03mn we were projecting) and net profits (ex-capital gains) of EUR22.13mn, up 75.3% y-o-y (from EUR18.7mn previously and EUR19.44mn we were looking for).

We raise our 2006-2007 net profit estimates by c15% p.a.

We revisited our earnings model to account for the recently announced developments, 1H '06 performance and new management guidance. We now look for 2006 sales of EUR299.83mn, up 110.4% y-o-y and net profit (adj.) of EUR22.10mn, up 75.1% y-o-y and 13.7% ahead of our previous call. For 2007, we forecast sales and net profit of EUR449.70mn and EUR35.07mn respectively from EUR397.47mn and EUR30.45mn previously. In all, we expect a 2005-2007 EPS CAGR of 66.7% (excluding capital gains) from 55.3% previously.

New Target Price at EUR15.60 per share – Remains an Outperform

Neochimiki ranks amongst the top performers within our universe list in terms of growth. Our DCF now yields a new TP of EUR15.60 per share from EUR13.40 previously, pointing to a total expected return of 26.5% from current levels. Comparatively, the stock still trades at a sizeable discount relative to international peers when accounting for its superior growth profile: 2006 PEG at 0.34x versus a peer group weighted average of 0.75x. We 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

1H '06 RESULTS REVIEW

Neochimiki - Quarterly Profit & Loss Statements

EUR mn	2Q '05	1H '05	1Q '06	2Q '06	q-o-q	y-o-y	1H '06	y-o-y	Piraeus Actual vs.	
									1H '06	Piraeus
Sales	31.29	55.78	41.52	65.22	57.1%	108.4%	106.75	91.4%	102.23	4.4%
Operating expenses, net	24.77	43.37	31.29	53.84	72.1%	117.4%	85.14	96.3%	81.68	4.2%
EBITDA	6.52	12.41	10.23	11.38	11.2%	74.6%	21.61	74.1%	20.55	5.2%
EBITDA margin	20.8%	22.3%	24.6%	17.4%	-7.2 pp	-3.4 pp	20.2%	-2.0 pp	20.1%	0.1 pp
Depreciation	1.93	3.52	2.68	2.71	1.1%	40.3%	5.39	52.9%	5.57	-3.3%
EBIT	4.59	8.89	7.55	8.67	14.8%	89.0%	16.22	82.5%	14.98	8.3%
EBIT margin	14.7%	15.9%	18.2%	13.3%	-4.9 pp	-1.4 pp	15.2%	-0.7 pp	14.7%	0.5 pp
Net interest expense	1.32	2.47	1.96	2.13	8.8%	61.7%	4.09	65.4%	3.92	4.3%
Net investment income	0.00	0.00	48.96	-0.05	-	-	48.90	-	48.96	-0.1%
EBT	3.27	6.42	54.55	6.49	-88.1%	98.4%	61.04	851.1%	60.02	1.7%
EBT adj.	3.27	6.42	5.59	6.54	16.9%	100.1%	12.13	89.1%	11.07	9.6%
EBT adj. margin	10.4%	11.5%	13.5%	10.0%	-3.4 pp	-0.4 pp	11.4%	-0.1 pp	10.8%	0.5 pp
Tax	0.36	0.84	1.15	0.85	-26.1%	139.2%	2.00	139.0%	2.02	-1.1%
Effective tax rate (on adj. EBT)	10.9%	13.0%	20.5%	13.0%	-7.6 pp	2.1 pp	16.5%	3.4 pp	18.2%	-1.8 pp
EATBM	2.91	5.58	53.40	5.64	-89.4%	93.4%	59.04	957.8%	58.00	1.8%
EATBM adj.	2.91	5.58	4.45	5.69	28.0%	95.3%	10.14	81.6%	9.04	12.1%
Minority interests	-0.03	-0.03	0.20	1.32	-	-	1.52	-	1.80	-15.7%
Net profit	2.95	5.61	53.20	4.32	-91.9%	46.6%	57.52	924.9%	56.20	2.3%
Net profit adj.	2.95	5.61	4.24	4.37	3.1%	48.4%	8.62	53.6%	7.24	19.0%
Net profit adj. margin	9.4%	10.1%	10.2%	6.7%	-3.5 pp	-2.7 pp	8.1%	-2.0 pp	7.1%	1.0 pp

Sources: Company, Piraeus Securities

Neochimiki reported a strong set of 1H 2006 results with group sales and EBITDA rising by 91.4% and 74.1% respectively to EUR106.75mn and EUR21.61mn. Both figures exceeded our estimates by circa 5%.

The group's EBITDA margin came in at 20.2% or 2.0 pts lower than a year ago – in line with our 6-month estimate for 20.1% (and on track to meet our FY '06 forecast of 17.2%) as lower margin activities increase their contribution in group revenues. Start-up costs (ie Bulgaria) also weighed on operating profitability.

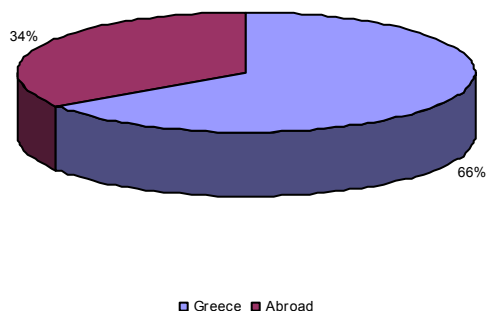
Earnings after tax and before minorities (excluding one-off items) increased by 81.6% y-o-y to EUR10.14mn, exceeding our estimates by a strong 12.1%, while smaller-than-expected minorities drove core net profit 19.0% ahead of our EUR7.24mn call, to EUR8.62mn, up 53.6% y-o-y. The group's adjusted net margin settled at 8.1% compared to 7.1% we were projecting.

Reported net earnings skyrocketed to EUR57.52mn courtesy of the capital gain (EUR48.90mn) from the sale of a 43.44% stake in Lamda Detergent in March 2006 for a total cash consideration of EUR67.46mn.

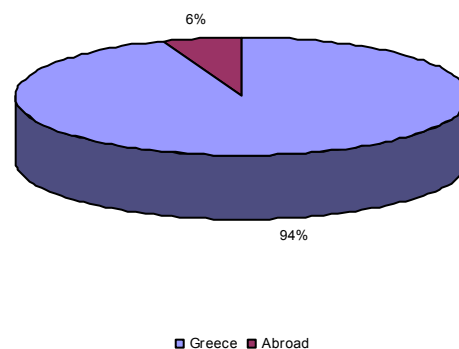
The major growth drivers for the group were:

- higher contribution of Eastern European operations (sales outside Greece surged 340.0% to EUR36.72mn, accounting for 34% of group revenues from 6% a year ago)
- nearly twice as much revenues from production activities than a year ago in order to meet the strong demand from multinational and private label companies for the production of detergents
- new production contract with cash & carry PLUS
- increased production and sales of paints and lacquer following the acquisition of Novion (ex-Celanese) in 2005
- new distribution agreement with Lukoil

1H 2006 Revenue Split



1H 2005 Revenue Split



Note that 2Q '06 group sales rose by 108.4% y-o-y to EUR65.22mn (up 57.1% compared to the first quarter of the year), with EBITDA and net profit (adjusted for one-off items) increasing by 74.6% and 48.4% y-o-y to EUR11.38mn and EUR4.37mn respectively.

The increase in 2Q '06 net profit is even more astonishing (we were expecting 2Q '06 net profit of EUR3.00mn or 31% lower than the reported figure) when accounting for the fact that it is the first actual time that a total of EUR1.32mn was directed to minority shareholders - the buyers of the stake in Lamda Detergent in March 2006. 2Q '06 adj. net profit before minorities surged 95.3% y-o-y (and 28.0% q-o-q) to EUR5.69mn – 22.6% ahead of our EUR4.60mn call.

Neochimiki - Quarterly Cash Flow Statements

EUR mn	1Q '05	2Q '05	1H '05	1Q '06	2Q '06	1H '06
EBT ex-one offs	3.15	3.27	6.42	5.59	6.54	12.13
Depreciation	1.59	1.93	3.52	2.68	2.71	5.39
Net interest expense	1.01	1.40	2.41	1.96	2.13	4.09
Other	0.00	-0.03	-0.03	0.00	-0.01	0.00
CF before WC	5.75	6.57	12.32	10.23	11.37	21.61
Trade debtors	-10.34	-1.82	-12.16	-7.95	-20.37	-28.32
Inventories	-4.04	-5.92	-9.96	-14.56	2.05	-12.51
Other payables	3.27	3.80	7.07	7.84	22.65	30.49
Provisions	0.00	0.00	0.00	0.00	0.00	0.00
Personnel provisions	0.00	0.01	0.01	0.16	0.02	0.18
CF before tax/interest	-5.35	2.63	-2.72	-4.28	15.72	11.45
Income tax paid	-0.15	-0.19	-0.34	-0.98	-0.72	-1.70
Interest paid	-0.34	-2.06	-2.40	-1.97	-2.51	-4.49
CF before CAPEX	-5.84	0.38	-5.46	-7.23	12.49	5.26
CAPEX (total)	-5.64	-7.16	-12.80	54.56	-75.57	-21.01
FCFE	-11.48	-6.78	-18.26	47.33	-63.08	-15.75
CF from financing	11.53	6.24	17.77	21.40	1.53	22.93
Change in cash	0.05	-0.54	-0.49	68.73	-61.55	7.18
Cash, beginning	1.85	0.00	1.85	4.81	0.00	4.81
Cash of new subsidiaries	0.00	0.00	0.00	0.01	-0.01	0.00
Cash, end	1.90	-0.54	1.36	73.55	-61.56	11.99

Sources: Company, Piraeus Securities

Cash flow wise, the group generated cash flows prior to any investments of EUR12.49mn in the second quarter of year compared to EUR0.38mn in the respective quarter of 2005 (and opposed to an outflow of EUR7.23mn in 1Q '06). Higher cash earnings and lower working capital needs (higher payables more than offset the increased payments to trade debtors, while inventory levels narrowed) were the primary catalysts.

At the same time however, the group completed total investments of EUR88.47mn during the first semester of the year, squeezing FCFE generation (actually FCFE was negative). Note that the net CAPEX reported (EUR21.01mn) is actually understated by an amount of EUR67.46mn corresponding to the proceeds from the sale of the stake in Lamda Detergent. We consider aggressive investments as an essential factor behind the group's stellar growth momentum and outlook in Greece and the Balkans. We also believe that 2006 will mark the peak of Neochimiki's investment cycle.

RECENT DEVELOPMENTS

Business developments

Since our latest note, Neochimiki announced a) the establishment of a new trading & distribution subsidiary in Greece, b) an agreement to acquire and create 2 new distribution and packaging networks locally (ready to launch operations as of September 2006) – both developments relate to the strengthening of the Greek agrochemicals division, c) the widening of its Greek production portfolio through a new industrial unit for raw materials for detergents and construction goods (Neochimiki acquired the land for setting up the new plant), d) the acquisition of a raw materials production unit for the paints and lacquer industry for EUR3.75mn, and e) the establishment of a new chemicals distribution subsidiary in the capital of Ukraine, Kiev.

Shareholding developments

- On June 23, 2006, Mr. Lavrentiadis sold 5,796,000 shares (16.1% of total) for EUR72.57mn or EUR12.52/share to more than 30 foreign institutional investors. Mr. Lavrentiadis narrowed his stake to 34.00% from 50.10% previously, raising Neochimiki's free float to 66.0%. Note that Mr. Lavrentiadis (Neochimiki's Chairman and CEO) remains the company's major shareholder with full management control.
- Soon after the placement, Commerzbank AG announced that it raised its stake in Neochimiki to 5.34% from 4.57% previously. More specifically, Commerzbank owns a direct stake of 0.038% and an indirect stake of 5.31% through Cominvest Asset Management GmbH and Vermögensverwaltung. Commerzbank became the third entity with a stake in excess of 5% in Neochimiki (Santander Investment Services already owned a 5.23% stake).

Other developments

- Neochimiki's AGM approved on June 14 the distribution of a 2005 dividend of EUR0.028 per share. Entitled to the dividend were shareholders as of June 30 (the share traded ex-div on July 3), while dividend payment commenced on July 11.
- Neochimiki entered MSCI Greece Small Cap index as of June 1st, 2006.

REVISION IN FORECASTS

New vs. Old Estimates

EUR mn	New - FY '06e	New - FY '07f	New - FY '08f
Sales	299.83	449.70	565.26
EBITDA	51.53	73.50	85.83
Net profit	71.00	35.07	40.27
Net profit (ex-one offs)	22.10	35.07	40.27

EUR mn	Old - FY '06e	Old - FY '07f	Old - FY '08f
Sales	269.03	397.47	499.54
EBITDA	47.17	66.84	81.75
Net profit	68.39	30.45	38.36
Net profit (ex-one offs)	19.44	30.45	38.36

New vs. Old (% difference)	FY '06e	FY '07f	FY '08f
Sales	11%	13%	13%
EBITDA	9%	10%	5%
Net profit	4%	15%	5%
Net profit (ex-one offs)	14%	15%	5%

Source: Piraeus Securities

We expect that Neochimiki will achieve group sales of EUR299.83mn in 2006 (or EUR30.8mn above our previous forecast) on the back of accelerating demand for detergents (from multinational and private label brands), new production capacity (Novion, Macro B., new industrial unit for raw materials) and the recently announced initiatives regarding the agrochemicals SBU. We raise our 2006 net profit estimate (ex-capital gains) by EUR2.66mn to EUR22.10mn, looking for a net profit margin of 7.4% from 8.9% in 2005. On our new set of estimates, Neochimiki is poised to raise 2006 group sales and organic net profit by 110.4% and 75.1% y-o-y respectively. Accounting for the capital gains booked in 1Q '06, 2006 net profits should rise to EUR71.00mn from EUR12.62mn in 2005. As a reminder, the group will start producing in Bulgaria (Macro B.) as of 3Q '06, while the effects from the new distribution (Lukoil) and production agreements (PLUS) will be more pronounced in FY '07.

We therefore up our 2007 top and bottom line estimates by 13% and 15% respectively, looking for sales and net profit of EUR449.70mn (up 50.0% y-o-y) and EUR35.07mn (up 58.7% y-o-y) respectively. Finally, we raise our 2008 sales forecast by 13% to EUR565.26mn and increase our 2008 net profit estimate by 5% to EUR40.27mn, after plugging in lower operating margins.

The company has already steered its focus to CEE markets, where it seeks to replicate its successful Greek business model. In 1H '06, international revenues amounted to 34.0% of group revenues (30.4% in 1Q '06) from only 6% a year ago. 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: **On our new set of estimates, Neochimiki's 3-year growth strategy translates to a top line CAGR of 58.3%, an EBITDA CAGR of 46.1%, and an all-organic EPS CAGR of 47.2% - 2008f P/E of 11.1x.** 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 - Group sales breakdown per division

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Multinationals	16.90	29.00	59.45	80.26	100.32
Private Label	6.00	14.00	22.40	29.79	39.62
Raw materials	8.00	11.50	13.00	14.94	16.74
Paint/Lacquer	9.70	18.80	47.00	89.77	108.62
Production	40.60	73.30	141.85	214.76	265.30
% of total	49%	51%	47%	48%	47%
Cosmetics	0.00	0.00	5.00	10.00	20.00
Plastics	10.60	19.00	54.91	79.62	99.52
Cosmetics/Detergents	5.00	6.00	7.02	10.04	15.06
Textiles	3.00	3.00	3.00	3.30	3.63
Food Industry	4.50	5.80	7.02	10.04	12.54
Water Processing	4.60	5.20	5.98	7.95	9.15
Metallurgy	3.40	3.50	8.51	11.74	13.50
Fertilizers	4.00	15.50	46.50	77.19	96.49
Industrial Base Oil	7.20	11.20	20.05	25.06	30.07
Other	0.01	0.00	0.00	0.00	0.00
Distribution	42.31	69.20	157.98	234.93	299.96
% of total	51%	49%	53%	52%	53%
Group sales	82.91	142.50	299.83	449.70	565.26
y-o-y	48.5%	71.9%	110.4%	50.0%	25.7%

Source: Piraeus Securities

Neochimiki - Group gross profit breakdown

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Multinationals	8.30	14.24	28.83	38.92	47.15
Private Label	2.80	6.53	10.19	13.56	17.43
Raw materials	3.70	5.32	5.91	6.80	7.36
Paint/Lacquer	2.40	3.90	8.93	17.06	19.01
Production	17.20	29.99	53.87	76.34	90.96
Gross margin	42%	41%	38%	36%	34%
Cosmetics	0.00	0.00	2.40	4.80	9.30
Plastics	2.60	4.30	11.97	17.36	20.20
Cosmetics/Detergents	1.20	1.30	1.47	2.11	2.94
Textiles	0.70	0.60	0.57	0.63	0.64
Food Industry	1.10	1.20	1.33	1.91	2.20
Water Processing	1.70	2.00	2.21	2.94	3.25
Metallurgy	0.80	0.70	1.62	2.23	2.36
Fertilizers	0.90	4.10	11.63	19.30	22.67
Industrial Base Oil	1.70	2.00	3.21	4.01	4.36
Other	1.42	0.48	0.00	0.00	0.00
Distribution	12.12	16.68	36.41	55.28	67.91
Gross margin	29%	24%	23%	24%	23%
Group gross profit	29.32	46.68	90.28	131.61	158.87
Group gross margin	35%	33%	30%	29%	28%

Source: Piraeus Securities

Neochimiki - Consolidated Profit & Loss Statements

EUR mn	FY '04	FY '05	FY '06e	FY '07f	FY '08f
Sales	82.91	142.50	299.83	449.70	565.26
COGS ex. depr.	53.59	95.82	209.55	318.08	406.39
Gross profit	29.32	46.68	90.28	131.61	158.87
Other operating income	0.78	0.71	0.00	0.00	0.00
Administrative expenses	3.51	5.98	10.19	15.29	19.22
Distribution expenses	8.50	13.81	28.48	42.72	53.70
R&D expenses	0.00	0.07	0.07	0.10	0.13
EBITDA	18.08	27.53	51.53	73.50	85.83
Depreciation	5.64	6.98	11.04	14.65	17.89
EBIT	12.44	20.56	40.49	58.85	67.94
Net interest expense	3.98	5.55	7.63	8.50	9.04
One-off income	0.00	0.00	48.90	0.00	0.00
EBT	8.46	15.01	81.76	50.35	58.90
EBT adj.	8.46	15.01	32.86	50.35	58.90
Total tax	0.99	2.36	5.77	7.70	9.90
EATBM	7.48	12.66	75.99	42.64	49.01
EATBM adj.	7.48	12.66	27.09	42.64	49.01
Minority interests	0.15	0.04	5.00	7.58	8.73
Net profit	7.33	12.62	71.00	35.07	40.27
Net profit adj.	7.33	12.62	22.10	35.07	40.27
EPS	0.20	0.35	1.97	0.97	1.12
EPS adj.	0.20	0.35	0.61	0.97	1.12
Dividend	2.20	1.01	2.00	6.04	9.00
Adjusted number of shares	36.00	36.00	36.00	36.00	36.00
# of shares (year end)	36.00	36.00	36.00	36.00	36.00
DPS	0.060	0.028	0.056	0.168	0.250
Profit margins	FY '04	FY '05	FY '06e	FY '07f	FY '08f
Gross profit	35.4%	32.8%	30.1%	29.3%	28.1%
EBITDA	21.8%	19.3%	17.2%	16.3%	15.2%
EBIT	15.0%	14.4%	13.5%	13.1%	12.0%
EBT (adj.)	10.2%	10.5%	11.0%	11.2%	10.4%
EATBM (adj.)	9.0%	8.9%	9.0%	9.5%	8.7%
Net profit (adj.)	8.8%	8.9%	7.4%	7.8%	7.1%
Yearly change	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Sales	48.5%	71.9%	110.4%	50.0%	25.7%
EBITDA	52.7%	52.3%	87.2%	42.6%	16.8%
EBT adj.	32.4%	77.4%	118.9%	53.2%	17.0%
EATBM adj.	36.9%	69.3%	114.0%	57.4%	14.9%
Net profit	39.3%	72.3%	462.6%	-50.6%	14.8%
Net profit adj.	39.3%	72.3%	75.1%	58.7%	14.8%
EPS	-1.3%	72.3%	462.6%	-50.6%	14.8%
EPS adj.	-1.3%	72.3%	75.1%	58.7%	14.8%

Sources: Company, Piraeus Securities

VALUATION

We 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%).

Neochimiki Group - DCF Valuation Model

EUR mn	FY '06e	FY '07f	FY '08f	FY '09f
Sales	299.83	449.70	565.26	698.64
y-o-y	110.4%	50.0%	25.7%	23.6%
EBITDA	51.53	73.50	85.83	104.87
y-o-y	87.2%	42.6%	16.8%	22.2%
EBITDA margin	17.2%	16.3%	15.2%	15.0%
Increase in WC	54.68	22.74	16.19	27.12
% of sales	18.2%	5.1%	2.9%	3.9%
Tax paid	-0.40	4.37	6.11	7.02
CAPEX, net of disposals	9.64	18.10	21.10	22.00
% of sales	3.2%	4.0%	3.7%	3.1%
Operating Free Cash Flows	-12.38	28.29	42.42	48.74
y-o-y			50.0%	14.9%
Discounted FCFFs		25.72	35.06	36.62
PV of Free Cash Flows 2007-2009		97.40	13%	
PV of Free Cash Flows 2010-2012		129.44	18%	
PV of Horizon Value		510.45	69%	
Enterprise Value		737.29		
+ Cash & cash equivalents	9.81			
- Debt	160.00	-150.19		
+ Participations (and other non current assets)	0.85			
- Minorities (and other long term liabilities)	26.28	-25.43		
Equity value		561.67		
# of shares		36.00		
Implied Fair Value		15.60		
Current Price	12.38			
Shares Outstanding	36.00			
Market Cap.	445.68			
2006 Dividend Yield	0.4%			
Upside Potential		26.0%		
Total Expected Return		26.5%		

Source: Piraeus Securities

We value the group at EUR15.60 per share (from EUR13.40 previously), and look for a total expected return of 26.5% from current levels. We re-iterate our Outperform rating on the stock, considering Neochimiki a genuine growth story.

Comparative analysis

Although we refrain from incorporating a comparative analysis in our valuation, placing Neochimiki next to its international peers (*refer to the second group in our peer group analysis*) reveals that although the stock trades at a premium on spot market multiples, there is a steep 59% discount when accounting for its growth profile: 2006e PEG at 0.34x compared to a weighted peer group average of 0.75x.

Peer group analysis

Company	Market Cap.	2006e P/E	2007f P/E	2007f Sales growth	2007f EPS growth	2006e PEG	2006e Ev/EBITDA	2007f Ev/EBITDA	2006e Net Debt/Cap.	2006e EBITDA Margin
Dow Chemical	25,637.00	7.8x	7.7x	2%	1%	neg	5.2x	4.9x	23%	16%
Basf AG	32,273.55	9.9x	10.0x	6%	-1%	-15.83x	4.1x	3.9x	15%	19%
Degussa AG	9,362.00	21.5x	18.8x	2%	14%	1.53x	6.6x	6.2x	20%	14%
Givaudan AG	4,729.74	16.0x	14.8x	2%	8%	1.97x	11.9x	11.7x	9%	23%
Ciba Spezialtaetenchemie	2,999.96	15.2x	12.3x	-11%	24%	0.64x	7.3x	6.4x	40%	14%
Clariant AG	2,481.07	9.9x	8.7x	33%	13%	0.73x	5.8x	5.0x	36%	11%
Lonza Group AG	2,691.92	18.2x	14.4x	15%	26%	0.69x	10.0x	8.5x	28%	20%
Univar Nv	1,125.44	9.7x	8.6x	9%	12%	0.80x	6.5x	5.6x	32%	4%
Mobride	425.83	12.9x	12.1x	11%	7%	1.92x	5.8x	5.5x	6%	9%
Weighted Cap Average		13.9x	11.5x	11%	20%	0.75x	7.5x	6.5x	33%	13%
Neochimiki L.V. Lavrentiadis S.A.	445.68	20.2x	12.7x	50%	59%	0.34x	11.6x	7.9x	34%	17%
Premium (+) /Discount (-)		44.7%	10.2%	371.9%	198.0%	-54.5%	54.2%	22.4%	1.3%	28.2%

Sources: JCF Quant, Piraeus Securities

Notes: We calculate Neochimiki's P/E multiples and EPS growth on organic earnings. PEG ratios are computed on T+1 EPS growth. Closing prices as of July 28, 2006.

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 (BLr.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 20.2x 2006e net profits adjusted for one-off items (6.3x including capital gains), which implies a PEG of 0.34x on our estimated 2007f EPS growth of 58.7% - this places the stock at a significant discount to international peers that trade on a PEG of 0.75x. More importantly, Neochimiki portrays a strong medium term outlook, with our estimates calling for a 2005-2008 EPS CAGR of 47.2% and a 2008f P/E of 11.1x. After raising our earnings forecasts, our DCF model_(WACC: 10.0%, Perpetuity growth rate: 1%) returns a new Target Price of EUR15.60 per share (from EUR13.40 previously), implying a total expected return of 26.5% 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.

FINANCIAL STATEMENTS

Neochimiki - Consolidated Profit & Loss Statements

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Sales	82.91	142.50	299.83	449.70	565.26
COGS	53.59	95.82	209.55	318.08	406.39
Gross profit	29.32	46.68	90.28	131.61	158.87
Gross margin	35.4%	32.8%	30.1%	29.3%	28.1%
Total operating expenses, net	11.23	19.14	38.75	58.11	73.05
EBITDA	18.08	27.53	51.53	73.50	85.83
EBITDA margin	21.8%	19.3%	17.2%	16.3%	15.2%
Depreciation/Amortization	5.64	6.98	11.04	14.65	17.89
EBIT	12.44	20.56	40.49	58.85	67.94
EBIT margin	15.0%	14.4%	13.5%	13.1%	12.0%
Net interest expense	3.98	5.55	7.63	8.50	9.04
Net investment income (inc-one offs)	0.00	0.00	48.90	0.00	0.00
EBT (ex-capital gains)	8.46	15.01	32.86	50.35	58.90
EBT margin	10.2%	10.5%	11.0%	11.2%	10.4%
EBT	8.46	15.01	81.76	50.35	58.90
Total tax	0.99	2.36	5.77	7.70	9.90
EATBM (ex-capital gains)	7.48	12.66	27.09	42.64	49.01
EATBM margin	9.0%	8.9%	9.0%	9.5%	8.7%
Minorities	0.15	0.04	5.00	7.58	8.73
Net profit (ex-capital gains)	7.33	12.62	22.10	35.07	40.27
Net profit margin	8.8%	8.9%	7.4%	7.8%	7.1%
Net profit	7.33	12.62	71.00	35.07	40.27
Net profit margin	8.8%	8.9%	23.7%	7.8%	7.1%
Dividend	2.20	1.01	2.00	6.04	9.00
Adj. number of shares	36.00	36.00	36.00	36.00	36.00
EPS (ex-capital gains)	0.20	0.35	0.61	0.97	1.12
EPS	0.20	0.35	1.97	0.97	1.12
DPS	0.06	0.03	0.06	0.17	0.25
Dividend payout	30.0%	8.0%	9.1%	17.2%	22.4%

Neochimiki - Consolidated Cash Flow Statements

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Net Income	7.33	12.62	22.10	35.07	40.27
Plus:					
Minority interests (net)	0.15	0.04	5.00	7.58	8.73
Depreciation & Amortisation	5.64	6.98	11.04	14.65	17.89
Provisions	0.05	-0.01	0.02	0.02	0.02
Adj. for tax paid	1.65	1.36	6.17	3.33	3.78
Adj. for other long-term items	1.40	2.18	-3.89	0.00	0.00
Cash earnings	16.21	23.16	40.42	60.64	70.69
Change in Working Capital	2.84	-5.26	54.68	22.74	16.19
Cash flow before investments	13.38	28.43	-14.26	37.90	54.51
CAPEX	46.18	70.51	77.10	18.10	21.10
Cash from the sale of Lamda			67.46		
Free Cash Flow to Equity	-32.80	-42.08	-23.89	19.80	33.41
Change in capital	0.00	0.00	0.00	0.00	0.00
Change in debt	26.99	43.87	30.82	6.40	-1.80
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	2.00	6.04	9.00
Change in cash	0.65	3.04	4.92	20.16	22.60
Cash, beginning	1.21	1.85	4.89	9.81	29.98
Cash, end of year	1.85	4.89	9.81	29.98	52.58

Neochimiki Group - Ratio analysis

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Share price	12.38	12.38	12.38	12.38	12.38
Market Cap.	445.68	445.68	445.68	445.68	445.68
Target Price	15.60	15.60	15.60	15.60	15.60
Target Cap.	561.67	561.67	561.67	561.67	561.67
Cash & equivalents	1.85	4.89	9.81	29.98	52.58
Total bank debt	85.32	129.18	160.00	166.40	164.60
Net Debt	83.47	124.30	150.19	136.42	112.02
Capital Employed	137.82	191.48	309.93	332.77	348.37
Invested Capital	139.67	195.35	310.16	333.02	348.64
Enterprise value (EV)	529.15	569.98	595.87	582.10	557.70
Net debt to equity (x)	1.5x	1.9x	0.9x	0.7x	0.5x
Net debt to market cap. (x)	0.2x	0.3x	0.3x	0.3x	0.3x
Net Debt/ EBITDA (x)	4.6x	4.5x	2.9x	1.9x	1.3x
EV/EBITDA (x)	29.3x	20.7x	11.6x	7.9x	6.5x
EV/Sales (x)	6.4x	4.0x	2.0x	1.3x	1.0x
Interest charge coverage (x)	3.1x	3.7x	5.3x	6.9x	7.5x
RoCE	8.0%	9.1%	10.8%	15.0%	16.2%
RoIC	7.9%	8.9%	10.8%	15.0%	16.2%
RoE	13.5%	20.0%	16.5%	21.6%	20.8%
RoA	4.7%	5.2%	5.7%	7.6%	7.6%
P/BV (x)	8.2x	7.1x	3.3x	2.7x	2.3x
P/CE adj. (x)	34.4x	22.7x	13.5x	9.0x	7.7x
P/FCFE (x)	-13.6x	-10.6x	-18.7x	22.5x	13.3x
P/E adj. (x)	60.8x	35.3x	20.2x	12.7x	11.1x
P/E adj. on PT (x)	76.7x	44.5x	25.4x	16.0x	13.9x
Adj. EPS growth (%)	-1.3%	72.3%	75.1%	58.7%	14.8%
CAGR ¹⁻²⁰¹²	36.1%	31.6%	25.5%	19.7%	21.0%
PEG	1.68	1.12	0.79	0.64	0.53
PEG on Target Price	2.12	1.41	1.00	0.81	0.66
Earnings yield (adj.)	1.6%	2.8%	5.0%	7.9%	9.0%
FCFE Yield	-7.4%	-9.4%	-5.4%	4.4%	7.5%
Dividend Yield	0.5%	0.2%	0.4%	1.4%	2.0%
Spread	-7.8%	-9.7%	-5.8%	3.1%	5.5%
Working capital (WC)	25.54	18.92	67.43	86.84	99.24
WC/Sales	30.8%	13.3%	22.5%	19.3%	17.6%
Effective tax rate	12%	16%	18%	15%	17%

Neochimiki - Consolidated Balance Sheets

EUR mn	FY 04	FY 05	FY 06e	FY 07f	FY 08f
Fixed assets	121.57	192.08	269.18	287.28	308.38
Accumulated depreciation	8.21	16.26	27.30	41.95	59.84
Fixed assets, net	113.36	175.82	241.88	245.33	248.54
Other long term receivables	0.76	0.61	0.85	0.85	0.85
Inventories	19.14	36.67	70.64	98.56	116.15
Trade receivables	21.45	24.30	62.43	88.71	111.50
Other receivables	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	1.85	4.89	9.81	29.98	52.58
Total assets	156.56	242.28	385.62	463.43	529.63
Total shareholders funds	54.08	63.05	133.69	162.72	193.99
Minority interests	0.27	4.13	26.05	33.63	42.36
Long term debt	62.20	120.00	142.00	138.40	124.60
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	18.00	28.00	40.00
Trade payables	12.61	38.26	55.69	87.15	111.34
Income tax and other tax payable	2.43	3.79	9.96	13.29	17.07
Total equity and liabilities	156.56	242.28	385.62	463.43	529.63

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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	-
Restricted:	5.2%	In certain circumstances that Sigma Piraeus Devletoglou S.A. policy or applicable law / regulations preclude certain types of communication and investment recommendations	-
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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