Independent Research

Investment Research

Neochimiki L.A.

Lavrentiadis S.A.

Sector: Chemicals-Diversified

Index: FTSE-ASE Small-Cap 80

March 2004

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Frankfurt, March 30, 2004

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Neochimiki L.V. Lavrentiadis S.A.

Buy

Event:
1st Greek Investment Conference

Recommendation:
Buy

IR	1	2	2
Rating	Growth	Investor Relations	Dependability

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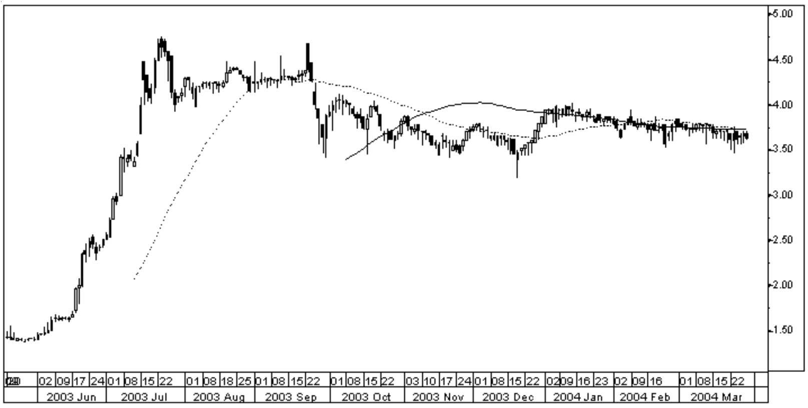


Neochimiki L.V. Lavrentiadis S.A.; March 30, 2004

- ⇨ **Solid growth strategy and increased investments ensure long-lasting improvement of market position. Focus of investments lies on strengthening capacity for sales, production, and inventory**
- ⇨ **Expansion of product assortment with increasing cross-selling potential and expansion of value chain provide scale effects and increasing margins in operating business**
- ⇨ **Market penetration in Greece and expansion into Balkan countries ensure long-term growth opportunities. Sales in 2004 expected to increase to EUR78.8m (55.8), EBITDA to EUR15.5m (11.1)**
- ⇨ **We expect continued positive operational development and vote to buy. On the basis of our DCF model, our upside price objective is EUR4.40**

Neochimiki L.V. LAVRENTIADIS S.A.			Retail	Performance	
Country	GR	Fiscal year	31. Dez	Rel. 1 month	-5,24
Shares (in mio.)	36	http://www.neochimiki-lavrentiadis.gr/		Rel. 3 month	-4,74
∅ Trading Volume	51.396	Last dividend	-	Rel. 6 month	-6,70
ISIN	GRS463003012	Market cap. (mill. euros)	130	Rel. 12 month	n.a.
Current Price	3,62	Currency	EUR	Beta	n.a.
52W High	4,76	Date	23.07.2003	FTSE-ASE SMALL-CAP	1,07%
52W Low	1,38	Date	27.05.2003		
Shareholders:	Lavrentiadis Family 75%; Free Float 25%				

Fj.	Sales	EBITDA	EBT	EAT	EpS	PER	Analysts
2003(e)	55,8	11,2	6,6	5,4	0,15	24,3	Merit
2004e	78,8	15,5	8,2	5,9	0,16	22,2	Independent Research
2005e	108,4	21,2	11,1	8,0	0,22	16,4	
Figures in EUR m exept EpS							Greek GAAP/IFRS

The Company

Neochimiki is market leader in Greece in the production of detergents

Neochimiki, which is based in Athens, produces detergents on behalf of major multinational groups as well as detergents for private labels and raw materials for the detergent industries. The company also is a market leader in trading of chemical raw materials in Greece. In addition to that, Neochimiki produces and trades chemical raw materials for water processing and for the metal industry.
The company's structure is a holding structure, and each individual segment is an independent subsidiary. In most cases, the parent company owns nearly 100% of each subsidiary's stock. Neochimiki's comprehensive warehousing capacity is spread among several locations.

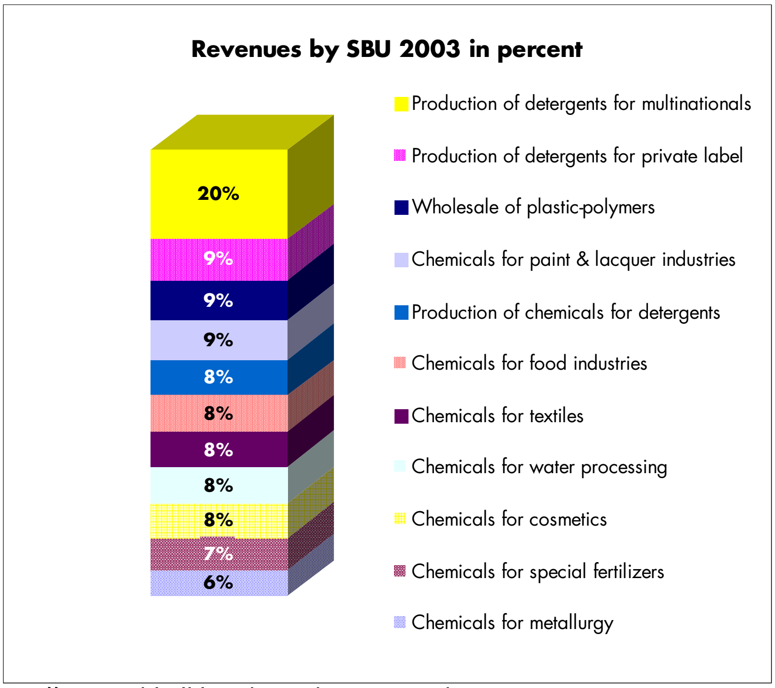
Production

The produces of detergents contributed up to 20% to the consolidated turnover in 2003

The group produces detergents via its subsidiary Lambda detergents S.A. for large corporations. This business activity contributed up to 20% to the consolidated turnover in 2003. With this business unit, the group has achieved almost a monopolists' position, since out of EUR9.4m of total market in Greece the group's share was EUR9m in 2003. The company manufactures a variety of products on behalf of multinational corporations such as Henkel, Ecolab, Lever, Johnson Diversey, Sara Lee, Unilever and also domestic super market chains including Carrefour, Dia, AB Vasilopoulos.

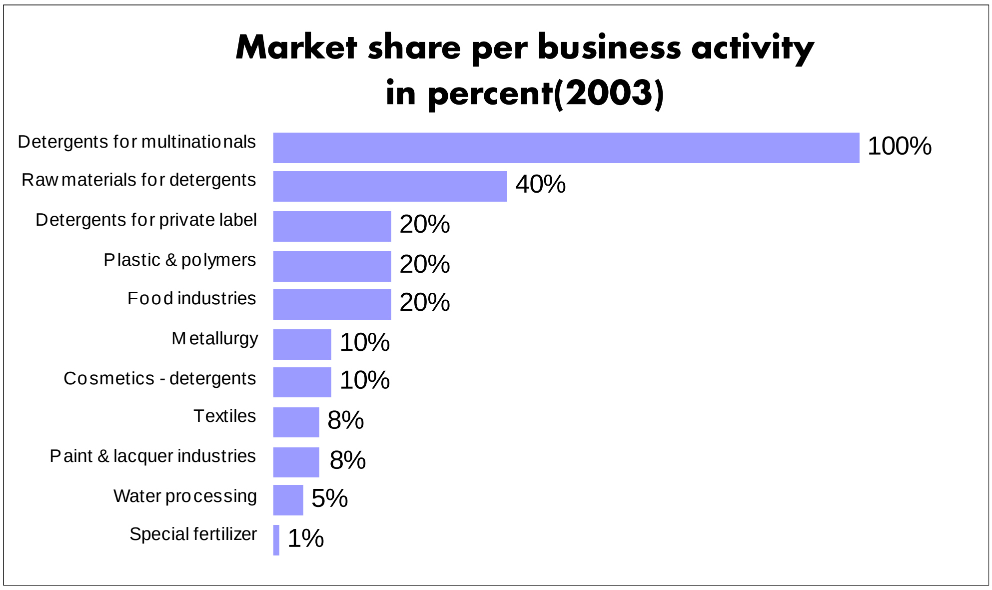
The production of private label detergents (Delhaize Group, Carrefour, Dia, Galaxias, Veropoulos, Makro, Masoutis, Metro among others) contributed up to 9% (EUR4m) to the consolidated turnover in 2003. The estimated market size in Greece for 2003 was EUR21m, thus Neochimiki has a market share of 20%.

Figure I:



Quelle: Neochimiki, Independent Research

Figure II:



Quelle: Neochimiki, Independent Research

The production of raw materials for detergents contributed 8% to the consolidated turnover in 2003. The group has a market share of about 40%, generating sales of roughly EUR3.8m in this line of business. The total Greek market amounted to an estimated EUR9.5m in 2003.

Trade

Neochimiki is very diversified in the trading of chemical raw materials thanks to its broad customer basis

Neochimiki is a leading supplier of high-value-added chemical products which compose an inseparable part of the production process in plastic, paint, varnish, colorant, metal, fertilizers, textile, food, water treatment and detergent industries. Neochimiki trades and distributes raw chemicals on behalf of large multinationals and provides services and technical support to its clients. Neochimiki offers a wide range of products and raw materials. The company supplies the Greek market with a wide range of chemical products and serves over 2,000 clients. Some of the suppliers are Shell, Solvay, FMC Foret, Basell, ADM, BP Chemicals, BASF, Sasol.

Trading activities can be segmented best according to industries supplied.
The business unit for trade of raw materials for cosmetics and detergents industries contributed 8% to the consolidated turnover of 2003. This percentage is expected to remain stable for the next years by Neochimiki. This specific market is estimated at EUR38m in 2003 and the group is estimated to have a share of 10% (EUR4m).
Wholesale of polymers contributed 9% to the consolidated turnover in 2003, while for the next years Neochimiki expects to increase sales in this particular business unit. In an estimated market for 2003 of EUR21m, the group has a market share of 20% (EUR4m).
Trade of raw materials for textile companies contributed 8% to the consolidated turnover of 2003. In a market of approximately EUR47m in 2003, the group has a share at 8% (EUR4m).

Market share of 20% in trade of raw materials for food industries

Trade of raw materials for food industries contributed 8% to group sales and Neochimiki expects to remain on this level for the next two years. In an estimated market of EUR19m for 2003, the group has a share of 20% (EUR4m).
Wholesale of raw materials for paint and lacquers industries contributed 9% to the consolidated turnover of 2003. This specific market is estimated at EUR52m in 2003 with the group having a share of 8% (EUR4m).
The trade of fertilizers contributed 7% to the consolidated turnover of 2003 and this percentage is expected to remain stable for the next two years. The estimated market is EUR330m in 2003 and the group had a share of 1% (EUR3.3m).

Trade and Production

The business unit production and trade of raw materials for water processing & biologic sewage, contributed 8% to the consolidated turnover for 2003. The specific market is estimated at EUR76m in 2003 and the group has a 5% share (EUR3.8m).
The production and trading of raw materials for metal industries contributed 6% to consolidated turnover in 2003. The market is estimated to amount to EUR28m in 2003 and the group thus has share of 10% (EUR2.8m).

Operational Development

Extension of value chain led to increased profitability

Neochimiki's group sales increased 19.2% in the fiscal year 2003 to EUR55.8m (46.8). Its gross profit of EUR17.6m (11.5) resulted in a gross margin of 31.5%, compared to the 24.6% the year before. The reason for this development was the extension of its value chain: Neochimiki increased the share of self-made products of its group sales in 2003. Its significant sales growth was primarily due to strong investments and the active expansion of its sales activities. The strengthening of sales capacity and the widening of its product assortment, especially through founding new companies, generated considerable cross-selling potential. At the same time, the company increased its market share in Greece by expanding its product assortment, and it improved productivity through occurring economies of scale. During the reporting period, the gross income margin improved significantly.

Investments in sales capacity ensure long-lasting growth

The accumulated costs for administration, research and development, and distribution in 2003 reached EUR9.1m (5.6). Distribution costs increased roughly 56% to EUR6.7m (4.3). We believe the company's intensified investments in its market position is a positive aspect. In all, the EBITDA grew 40% to EUR11.2m (8.0), and the EBITDA margin improved 17.1% to 20.1%. The company improved its profitability by expanding its value chain on the manufacturing of starting materials for detergents formerly purchased. Neochimiki can improve its market position due to the expansion of its value chain. The company now generates 40-45% of its sales from production and 55-60% from trade. Its increase in operating profitability despite the strong top-line growth shows that the company is able to harvest considerable synergy potential and economies of scale. In 2003, the pre-tax profit grew overproportionally by roughly 47% to EUR6.6m (4.5), while the post-tax profit almost doubled compared to 2002 to EUR5.4m (2.8). Earnings per share reached EUR0.15 (0.08).

Increasing operating profitability possible through synergy potential and economies of scale

The company's cash flow from current operations was EUR-0.4m (8.4) in 2003. This was mainly due to an increase of EUR3.1m (0) in inventory, a strong increase in receivables, and increased distribution and administration costs. The cash flow from investment activities was EUR-23.3m (-20.6) in 2003. The cash flow from financing activities rose to EUR24.3m (11.8) mainly due to income from selling shares amounting to EUR10.2m (0).

Strategy

Expansion of product portfolio and business abroad

From a strategic point of view, Neochimiki's goal is to continue to grow. It plans to accomplish this by expanding its product assortment, developing new markets abroad, and increasing its market shares. In the last few quarters, the company founded several subsidiaries in order to aid in the expansion of its product assortment.
Chemical Solutions is active in trading artificial resins and chemical raw materials for the paint and lacquer industry. In order to promote its business, Neochimiki acquired a factory for manufacturing artificial resins from Clariant. It also founded Tria Lamda and Petronet in 2003. Tria Lamda is active in the production and trade of special fertilizers, while Petronet is active in the trade of industrial oils, paraffin, and waxes for rubber industries. Furthermore, Neochimiki founded Chempol Hellas in Q1 2004. Chempol Hellas is active in the trade of petrochemical products as well as mechanical and technical plastics.
The company's investments in its new subsidiaries and in the expansion of its own capacities target to maintain gross margins for the next years. Neochimiki entered into new business sectors through its new subsidiaries, meaning it has taken the first step toward advancing its expansion strategy, by broadening of its product assortment.

Increasing market shares in local chemicals market

The next step in the company's growth strategy consists primarily of expanding the customer basis and increasing its share in the local chemicals market. The company plans to push ahead with continued market penetration in Northern Greece by establishing their own warehouses in Thessaloniki. Its investment program of EUR10m should contribute to establishing a more efficient coverage of increasing demand in Greece and the Blakans.

The third important step in the company's growth strategy is expansion abroad. Neochimiki's aspirations of developing new markets inspired it to expand into Rumania already in 2003. An affiliate was established in Serbia in the beginning of 2004. It also plans to expand into Bulgaria and Cyprus in the first half 2004.

Prognoses

We expect sales to grow significantly to EUR78.8m (55.8) for the full year 2004. This would be an increase of 41.1% compared to last year. Gross profit is expected to increase to EUR24.5m (17.6), and the EBITDA should rise to EUR15.5m (11.2). This positive development relies primarily on the continuation of the company's stringent growth strategy. It not only plans to continue to expand its product assortment in 2004, its plans of intensifying market penetration should lead to a long-lasting increase of its market share. For 2005, we expect expansion abroad to contribute more strongly to growth. After the company's expansion into Rumania in 2003, it now plans to expand into Bulgaria and Cyprus in H1 2004 and Serbia later this year.

Strong sales and profit growth in 2004 and 2005

With this in mind, combined with the company's investments already made in its own production locations for manufacturing, packaging, and repackaging chemical products, we believe that a turnover increase in 2005 to EUR108.4m (78.8) is likely. Gross profit should increase to EUR33.6m (24.5) and EBITDA to EUR21.2m (15.5). We are implying a stable margin development for our 2004 and 2005 prognoses. The estimated gross income margin is a good 31%, the EBITDA margin roughly 20%. According to our expectations, the occurring and cross-selling effects and economies of scale should largely balance with the costs for growth. onsidering the company's growth strategy, we believe this planning is valid. The company's plans of broadening its customer basis, increasing its share of the local chemicals market, penetrating the market in Northern Greece, and its ambitious goal of expanding into neighboring countries should all provide long-lasting growth.

Valuation

Price potential of roughly 20% through DCF assessment

We assessed the company using a discounted cash flow model with 3-phases. The first phase, from 2004e to 2006e, is based on a detailed assessment of the free cash flow. The second phase, from 2007e to 2013e, is however based on generalized assessments. In this phase,

in EURm	2004e	2005e	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Sales	78,80	108,40	121,19	133,07	145,18	156,79	166,20	174,51	181,49	188,75
Sales growth		37,6%	11,8%	9,8%	9,1%	8,0%	6,0%	5,0%	4,0%	4,0%
EBIT-margin	11,5%	11,6%	12,5%	13,0%	13,0%	14,0%	14,0%	14,0%	14,0%	14,0%
EBIT	**9,10**	**12,55**	**15,15**	**17,30**	**18,87**	**21,95**	**23,27**	**24,43**	**25,41**	**26,42**
- Income tax	2,55	3,51	4,24	4,84	5,28	6,15	6,51	6,84	7,11	7,40
NOPLAT	**6,55**	**9,04**	**10,91**	**12,46**	**13,59**	**15,80**	**16,75**	**17,59**	**18,29**	**19,03**
+ Depreciation	6,40	8,67	9,70	10,65	11,61	12,54	13,30	13,96	14,52	15,10
Operating Gross Cash Flow	**12,95**	**17,71**	**20,60**	**23,10**	**25,20**	**28,35**	**30,05**	**31,55**	**32,81**	**34,13**
-/+ Capital expenditure in working capital	-6,42	-8,88	-3,84	-3,56	-3,63	-3,48	-2,82	-2,49	-2,09	-2,18
-/+ Capital expenditure in fixed assets	-8,80	-9,70	-10,65	-11,61	-12,54	-13,30	-13,96	-14,52	-15,10	-15,10
Free Cash Flow	**-2,27**	**-0,87**	**6,12**	**7,92**	**9,03**	**11,57**	**13,27**	**14,54**	**15,62**	**16,85**
Cash value	**-2,17**	**-0,78**	**5,17**	**6,30**	**6,76**	**8,14**	**8,79**	**9,06**	**9,16**	**9,29**
Sum of cash value	59,73									
Terminal value	145,11	in % of total value :	71%							
Value of operative business in EURm	204,84									
+ Surplus liquid funds in EURm	1,20									
- Outside capital in EURM	47,80									
Market value of equity in EURm	**158,24**									
Number of shares (m)	36									
Price in EUR	**4,40**									

Model parameters / Entity-DCF-Model:

long-term balance-sheet structure ->		Equity :	30%	Outside capital :	70%
Risk-free premium :	3,94%	Beta :	0,88	Risk premium OC	2,00%
		Risk premium	8,00%	Tax shield :	28,00%
		Eq. interest :	10,98%	OC interest :	4,28%
Growth rate FCF :	**0,0%**	**WACC :**	**6,3%**	**Date :**	**30.03.04**

Quelle: Independent Research

we expect sales growth to be roughly 9.8% in 2007e and to decrease to roughly 4% in 2013e. The increases in efficiency and economies of scale effects should boost the EBIT margin to 14%. In the third phase, which is indefinite, we estimate a steady free cash flow. On these premises, we calculated EUR158.24m in share capital and reserves, which equals a stock price of EUR4.40. Our upside price objective is EUR4.40.

Summary

Upside price objective EUR4.40

Neochimiki was able to solidify its market position in the recent past through stringently pursuing its growth strategy in Greece and through expansive efforts abroad. Its market penetration and investments in sales capacity and production locations are very positive factors in our opinion. On the basis of the company's solid growth strategy, we expect a positive business development for 2004/2005. We expect the economies of scale and cross-selling potential to intensify with the growing expansion of business activities, especially in the Balkan region. Our DCF assessment provides the basis for estimating a fair upside price objective of EUR4.40 for Neochimiki, which results in a real price potential of roughly 19%. In consideration of the factors mentioned here, we vote to buy.

SWOT-ANALYSIS

SWOT	
Strengths	**Weaknesses**
Monopolist position in detergent production for multinational companies Stable sales and profit development High profit margins in detergent production	Low Margins in wholesale segment Extremely diversified company structure with many subsidiaries
Opportunities	**Threats**
Market penetration in growing Balkan markets Further market penetration in trademark sector	Unpredictable price changes for raw materials Consolidation process can lead to oligopolistic structures on the Greek market for chemicals production

Neochimiki

Profit and loss statement (Group)

Unit : EURm **Fiscal year-end :** Dec. 31 **Reporting standard :** Greek GAAP/IFRS	**2001**	**2002**	**2003(e)**	**2004e**	**2005e**
Net turnover	29,6	46,8	55,8	78,8	108,4
annual percentage change		58,2%	19,3%	41,1%	37,6%
Gross Profit	7,7	11,5	17,6	24,5	33,6
as percentage of sales	26,0%	24,6%	31,5%	31,1%	31,0%
EBITDA	5,4	8,0	11,2	15,5	21,2
as percentage of sales	18,2%	17,1%	20,1%	19,7%	19,6%
EBT	3,3	4,5	6,6	8,2	11,1
as percentage of sales	11,1%	9,6%	11,8%	10,4%	10,2%
EAT	2,1	2,8	5,4	5,9	8,0
as percentage of sales	7,1%	6,0%	9,7%	7,5%	7,4%

Source: Independent Research; Neochimiki

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