

## Neochimiki (NCHr.AT)

### Chemicals Production & Distribution

Reason for report: FY06 Review / Increase TP to EUR24.20

## Outperform

(Unchanged)

TP: EUR24.20  
from EUR18.00

Share Price: 20.90 (13/02/07)  
ASE Index: 4,647.49 (13/02/07)  
Report issue date: 14/02/07

Valuation ratios	2005	2006	2007e	2008f
P/E (x)	59.62	32.57	18.19	12.83
P/E on TP (x)	69.03	37.71	21.06	14.86
P/BVPS (x)	11.93	4.67	2.72	2.31
EV/Sales (x)	6.15	3.23	1.68	1.15
EV/EBITDA (x)	31.84	15.83	12.41	8.65
RoE (%)	20.0%	14.3%	15.0%	18.0%

Fundamentals	2005	2006	2007e	2008f
Turnover	142.50	301.84	500.00	700.00
EBITDA	27.54	61.56	67.50	93.23
Net profit	12.62	97.06	121.51	58.63
'Clean' Net profit	12.62	23.10	41.36	58.63
'Clean' EPS (EUR)	0.35	0.64	1.15	1.63
DPS (EUR)	0.03	0.03	0.17	0.25
Shareholders funds	63.05	160.99	276.50	326.12
Net debt	124.38	222.13	85.27	54.42

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%	24.5%	24.2%
EBITDA	19.3%	20.4%	13.5%	13.3%
'Clean' EBT	10.5%	12.4%	9.6%	10.2%
'Clean' net profit	8.9%	7.7%	8.3%	8.4%
Dividend yield	0.1%	0.1%	0.8%	1.2%

Growth rates (%)	2005	2006	2007e	2008f
Sales	71.9%	111.8%	65.7%	40.0%
EBITDA	52.3%	123.5%	9.7%	38.1%
'Clean' EBT	77.4%	148.5%	28.9%	48.7%
'Clean' net profit	72.3%	83.1%	79.0%	41.8%

Share price data	1m	6m	12m	Y-t-D
Rel. perf. vs GI	33.9%	40.7%	162.1%	25.2%
Abs. perf.	34.8%	71.3%	197.7%	32.4%

L-T growth	2.00%
WACC	10.00%
<b>Target Price (EUR)</b>	<b>24.20</b>
Target Market Cap. (EUR mn)	871.03
Current Market Cap. (EUR mn)	752.40
Outstanding shares (mn)	36.00
Free float	83.65%
Average daily volume (shares)	182,448

#### 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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## 2006 'clean' EPS rises by 83.1% ...while the acquisition wallet rises significantly

Neochimiki reported on Monday FY06 net profit of EUR97.06mn, which reflects a 7-fold increase relative to 2005. Strong organic growth (sales increased by 112% y-o-y to EUR301.84mn), improving margins (EBITDA margin rose to 20.4% from 19.3% a year ago) and capital gains of EUR74mn from the sale of a 59.6% stake of Lamda Detergent were the key drivers. 'Clean' net profit jumped 83% y-o-y to EUR23.10mn.

### More growth is in the cards – 2007 core EPS to rise 79.0%

2007 guidance calls for sales, EBITDA and net profit of EUR500mn (+65.7%), EUR67.43mn (+9.5%) and EUR41.36mn (+79.0%) respectively. Note that these numbers do not include Lamda Detergent as the latter's planned merger with Veterin will dilute Neochimiki's stake and will no longer allow for its full consolidation. This explains the differing growth rates across P&L lines as Lamda's contribution in group EBITDA was material but related minorities (to be wiped out as of 2007) affected the bottom line. We expect Neochimiki to sell its stake in Lamda and record significant capital gains for yet another year (along with >EUR100mn proceeds).

### Net debt should drop below EUR100mn!

The sale of the stake in Lamda Detergent (Neochimiki already sold a 17.65% stake for EUR54.37mn) should pour approximately EUR105mn in Neochimiki's wallet, reducing net debt to EUR85.27mn on our estimates from EUR222.13mn at end 2006. We believe Neochimiki will use the funds to finance its expansion in Southeastern Europe (already participates in various tenders in Serbia). Neochimiki will be also in a position to re-leverage its balance sheet and create additional value for its shareholders. For now, we refrain from incorporating this scenario in our forecasts.

### Raise TP to EUR24.20 – Re-iterate Outperform rating

On our new set of estimates, Neochimiki trades on a 2008f P/E of 12.8x compared to a market-cap weighted peer group average of 15.4x (European specialty chemicals). The discount (16.8%) is steeper on a growth-adjusted basis as we expect Neochimiki to deliver a 2006-2008 'clean' EPS CAGR of 59.3% compared to 10.3% for its international peers (JCF Quant estimates). As Lamda Detergent will no longer be fully consolidated, we move back to our traditional DCF model for Neochimiki (WACC: 10.0%, g=2%). We also employ a comparative analysis with a smaller weight. Our new Target Price at EUR24.20 implies a total expected return of 15.9%. We re-iterate an Outperform rating on the stock.

## 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

## FY06 REVIEW

### Neochimiki - Quarterly Profit & Loss Statements

EUR mn	1Q05	2Q05	1H05	3Q05	9M05	4Q05	FY05	1Q06	2Q06	1H06	3Q06	9M06	4Q06	y-o-y	q-o-q	FY06	y-o-y
Sales	24.49	31.29	55.78	38.03	93.80	48.69	142.50	41.52	65.22	106.75	76.50	183.25	118.60	144%	155%	301.84	112%
COGS	16.33	22.73	39.06	27.38	66.43	33.19	99.62	27.88	49.43	77.31	55.01	132.32	83.12			215.44	
Gross profit (rep.)	8.16	8.56	16.72	10.65	27.37	15.50	42.88	13.64	15.80	29.44	21.49	50.93	35.47	129%	165%	86.40	102%
Gross profit margin	33.3%	27.4%	30.0%	28.0%	29.2%	31.8%	30.1%	32.9%	24.2%	27.6%	28.1%	27.8%	29.9%			28.6%	
Other OpEx	2.27	2.04	4.31	3.41	7.72	7.61	15.34	3.41	4.42	7.83	4.81	12.64	12.21			24.85	
EBITDA	5.89	6.52	12.41	7.24	19.65	7.89	27.54	10.23	11.38	21.61	16.68	38.29	23.26	195%	139%	61.56	124%
EBITDA margin	24.1%	20.8%	22.3%	19.0%	20.9%	16.2%	19.3%	24.6%	17.4%	20.2%	21.8%	20.9%	19.6%			20.4%	
Depreciation	1.59	1.93	3.52	1.69	5.21	1.77	6.98	2.68	2.71	5.39	2.97	8.36	5.80			14.16	
EBIT	4.30	4.59	8.89	5.55	14.44	6.12	20.56	7.55	8.67	16.22	13.71	29.93	17.47	185%	127%	47.40	131%
EBIT margin	17.6%	14.7%	15.9%	14.6%	15.4%	12.6%	14.4%	18.2%	13.3%	15.2%	17.9%	16.3%	14.7%			15.7%	
Net interest expense	1.15	1.32	2.47	1.49	3.97	1.58	5.55	1.96	2.13	4.09	3.04	7.13	2.96			10.09	
Net investment income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	48.96	-0.05	48.90	0.00	48.91	25.06			73.96	
EBT	3.15	3.27	6.42	4.06	10.47	4.54	15.01	54.55	6.49	61.04	10.67	71.71	39.56	771%	371%	111.27	641%
Clean EBT	3.15	3.27	6.42	4.06	10.47	4.54	15.01	5.59	6.54	12.13	10.67	22.80	14.51	219%	136%	37.31	149%
Clean EBT margin	12.9%	10.4%	11.5%	10.7%	11.2%	9.3%	10.5%	13.5%	10.0%	11.4%	13.9%	12.4%	12.2%			7.95	
Tax	0.48	0.36	0.84	0.88	1.71	0.64	2.36	1.15	0.85	2.00	2.31	4.30	3.65			7.95	
Effective tax rate	15.3%	10.9%	13.0%	21.6%	16.3%	14.2%	15.7%	20.5%	13.0%	16.5%	21.6%	18.9%	25.2%			21.3%	
EATBM	2.67	2.91	5.58	3.18	8.76	3.90	12.66	53.40	5.64	59.04	8.37	67.40	35.91	821%	429%	103.32	716%
Clean EATBM	2.67	2.91	5.58	3.18	8.76	3.90	12.66	4.45	5.69	10.14	8.36	18.50	10.86	179%	130%	29.36	132%
Minority interests	0.00	-0.03	-0.03	0.01	-0.02	0.06	0.04	0.20	1.32	1.52	2.27	3.79	2.47			6.26	
Net profit	2.67	2.95	5.61	3.17	8.78	3.84	12.62	53.20	4.32	57.52	6.10	63.62	33.44	771%	548%	97.06	669%
Clean net profit	2.67	2.95	5.61	3.17	8.78	3.84	12.62	4.24	4.37	8.62	6.09	14.71	8.39	118%	138%	23.10	83%
Clean net profit margin	10.9%	9.4%	10.1%	8.3%	9.4%	7.9%	8.9%	10.2%	6.7%	8.1%	8.0%	8.0%	7.1%			7.7%	

Sources: Company, Piraeus Securities

4Q06 sales rose by 144% y-o-y (and 155% q-o-q) to EUR118.60mn or 1.3x the revenues Neochimiki recorded in the entire 9M05 period. During 2006, Neochimiki acquired 4 chemical plants and 1 detergent plant, 2 logistics centers and the license to operate a port terminal in Avlida, Greece. Also recall that 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, and it also acquired a paints and lacquer producer (Novion). Lamda Detergent alone delivered FY06 sales of EUR149.1mn, up 56.9% y-o-y, EBITDA of EUR28.7mn (+80.4%) and net profit of EUR14.0mn, up 65.6%. Neochimiki's FY06 group turnover more than doubled to EUR301.84mn.

- ⊙ Production turnover accounted to 44% of total or EUR131.40mn, with the rest contributed from distribution activities.
- ⊙ International operations' contribution skyrocketed to EUR118.29mn (39% of total) from EUR23.45mn a year ago, with Greece accounting for the remainder of revenues.
- ⊙ In terms of product mix, detergents accounted for 34.8% of group sales and 54.8% of gross profit, while plastics contributed 19.9% of revenues and 8.5% of gross profit, bulk chemicals 16.3% of revenues and 12.8% of gross profit, paints 14.9% of revenues and 12.4% of gross profit, and agrochemicals 14.1% of revenues and 11.5% of gross profit.

Group gross profit margin eased to 28.6% in FY06 (in line with our estimates) from 30.1% a year ago due to the different product mix. EBITDA margin improved to 20.4% from 19.3% a year ago due to a 'contained' rise in SG&A expenses. This led FY06 group EBITDA at EUR61.56mn, up 124% y-o-y.

The group's leverage bolstered organic EBT growth to 149% y-o-y, while a total of EUR73.96mn capital gains from the sale of stakes in Lamda Detergent drove reported EBT at EUR111.27mn, up 641% y-o-y.

Despite a higher effective tax rate and increased minorities, core net profit rose by 83% to EUR23.10mn, while including the capital gains, net profit skyrocketed 669% y-o-y to EUR97.06mn.

In all, underlying EPS rose to EUR0.64, exceeding our estimate for EUR0.60 by 7%.

## NEW DEVELOPMENTS

- ⊙ Lamda Detergent (Neochimiki's subsidiary engaged in the production of detergents) announced it will propose to its shareholders to approve a merger with Veterin, EBIK and the non-listed Elpharma (pharma company with equity of EUR140mn). Veterin will absorb the other 3 companies. The new entity will be named Alapis and will take an active role from day 1 in the household and personal care industry. According to Lamda Detergent's management, Alapis will deliver 2007 sales of EUR350-370mn, EBITDA of EUR80-90mn and net profit of EUR40-50mn.
- ⊙ The share swap ratios are:

Lamda Detergent - EBIK - Veterin - Elpharma Merger					
Company	Current Shares	Share Swap		New no. of shares	Stake
		Existing Shares	Shares of the new entity		
Veterin	30,190,350	1	0.7906	23,868,491	14.60%
Lamda Detergent	39,083,875	1	1.5632	61,095,913	37.38%
EBIK	4,030,000	1	1.5082	6,078,046	3.72%
Elpharma	80,730,367	1	0.8967	72,390,920	44.29%
				<b>163,433,370</b>	<b>100.00%</b>

Sources: Company, Piraeus Sec.

- ⊙ Lamda Detergent's shareholders will end owning 37.38% of the new group. The latter will have 163,433,370 shares outstanding.
- ⊙ After the merger, the new group will proceed with a pre-emptive rights issue to raise capital of EUR325mn in order to finance its growth.
- ⊙ Neochimiki announced early this week that Lamda Detergent's merger will dilute its stake to 12.7% and will be therefore unable to fully consolidate it. As a result, Neochimiki decided to sell its 34.03% stake and use the proceeds to finance its expansion in Southeastern Europe.
- ⊙ Indeed, on February 12, Neochimiki sold a 17.65% stake or 6,900,000 shares of Lamda Detergent for EUR54.37mn or EUR7.88/share and is now left with a 16.38% stake.
- ⊙ The same day, Neochimiki's major shareholder, L.Lavrentiadis placed 3,600,000 Neochimiki shares (10% stake) to foreign institutional investors for EUR74.95mn (or EUR20.82/share). CEO Lavrentiadis now owns 24% of Neochimiki and has full management control.
- ⊙ Neochimiki also announced it intends to restructure its debt by issuing a convertible bond of up to EUR100mn.
- ⊙ Finally, the company decided to propose to the forthcoming AGM the distribution of a FY06 dividend of EUR0.03/share.

## NEW SET OF FORECASTS

We have revised our estimates to account for a) FY06 performance, b) new management guidance, c) new acquisitions (*ie* Rafinerija Nafta Beograd that should contribute sales of EUR25-30mn), d) the exclusion of Lamda Detergent from consolidated results as of 2007, e) the proceeds and the capital gains from the placement of the stake in Lamda Detergent (we assume Neochimiki will not own any Lamda Detergent shares as of the end of the year versus 16.38% currently), and e) the group's debt restructuring and the convertible bond issue.

On our new estimates (excluding Lamda Detergent), Neochimiki group will post a 2006-2009 sales CAGR of 42.6% (the impact from Lamda's exclusion is offset by strong organic growth and the intra-group activity that will no longer be eliminated), an EBITDA CAGR of 23.1% (the excusion of Lamda Detergent trims reported growth as the latter was fully consolidated in 2006), and a core EPS CAGR of 46.5% (no minorities any more / at EUR6.26mn in 2006 or 27% of group net profit).

### Neochimiki Group - Gross profit forecasts

EUR mn	FY06	FY07e	FY08f	FY09f
<b>Bulk Chemicals</b>				
Sales	49.20	180.00	270.00	360.00
% of total	16.3%	36.0%	38.6%	41.1%
Gross profit	11.80	48.30	71.73	94.68
% of total	12.8%	39.4%	42.3%	45.0%
Gross margin	24.0%	26.8%	26.6%	26.3%
<b>Plastics</b>				
Sales	60.00	90.00	125.00	150.00
% of total	19.9%	18.0%	17.9%	17.1%
Gross profit	7.80	10.80	14.55	16.94
% of total	8.5%	8.8%	8.6%	8.0%
Gross margin	13.0%	12.0%	11.6%	11.3%
<b>Paints</b>				
Sales	45.00	140.00	180.00	215.00
% of total	14.9%	28.0%	25.7%	24.6%
Gross profit	11.40	36.40	46.33	54.79
% of total	12.4%	29.7%	27.3%	26.0%
Gross margin	25.3%	26.0%	25.7%	25.5%
<b>Agrochemicals</b>				
Sales	42.50	90.00	125.00	150.00
% of total	14.1%	18.0%	17.9%	17.1%
Gross profit	10.60	27.00	37.13	44.10
% of total	11.5%	22.0%	21.9%	21.0%
Gross margin	24.9%	30.0%	29.7%	29.4%
<b>Detergents</b>				
Sales	105.10	0.00	0.00	0.00
% of total	34.8%	0.0%	0.0%	0.0%
Gross profit	50.40	0.00	0.00	0.00
% of total	54.8%	0.0%	0.0%	0.0%
Gross margin	48.0%	na	na	na
<b>Group</b>				
Sales	301.80	500.00	700.00	875.00
Gross profit	92.00	122.50	169.73	210.51
Gross margin	30.5%	24.5%	24.2%	24.1%

Sources: Company, Piraeus Sec.

## Neochimiki Group - Profit &amp; loss statements

EUR mn	FY06	FY07e	FY08f	FY09f
<b>Sales</b>	<b>301.84</b>	<b>500.00</b>	<b>700.00</b>	<b>875.00</b>
y-o-y	111.8%	65.7%	40.0%	25.0%
Cash COGS	209.80	377.50	530.27	664.49
Gross profit ex-depr.	92.04	122.50	169.73	210.51
Gross margin	30.5%	24.5%	24.2%	24.1%
Other income, net	0.66	0.50	0.50	0.50
Cash SG&A expenses	31.15	55.50	77.00	96.25
% of sales	10.3%	11.1%	11.0%	11.0%
<b>EBITDA</b>	<b>61.56</b>	<b>67.50</b>	<b>93.23</b>	<b>114.76</b>
y-o-y	123.5%	9.7%	38.1%	23.1%
EBITDA margin	20.4%	13.5%	13.3%	13.1%
Depreciation	14.16	16.66	19.49	21.68
<b>EBIT</b>	<b>47.40</b>	<b>50.84</b>	<b>73.75</b>	<b>93.08</b>
EBIT margin	15.7%	10.2%	10.5%	10.6%
Financial income	63.87	77.40	-2.25	-2.25
<b>EBT</b>	<b>111.27</b>	<b>128.24</b>	<b>71.50</b>	<b>90.83</b>
EBT margin	36.9%	25.6%	10.2%	10.4%
Tax	7.95	6.73	12.87	18.17
Effective tax rate*	21.3%	14.0%	18.0%	20.0%
Minority rights	6.26	0.00	0.00	0.00
<b>Net profit</b>	<b>97.06</b>	<b>121.51</b>	<b>58.63</b>	<b>72.66</b>
Net margin	32.2%	24.3%	8.4%	8.3%
Dividend	1.08	6.00	9.00	12.00
Dividend payout*	4.7%	14.5%	15.4%	16.5%
Shares outstanding (mn)	36.00	36.00	36.00	36.00
EPS (EUR)	2.70	3.38	1.63	2.02
DPS (EUR)	0.03	0.17	0.25	0.33
One-off items	73.96	80.15	0.00	0.00
<b>'Clean' EBT</b>	<b>37.31</b>	<b>48.09</b>	<b>71.50</b>	<b>90.83</b>
y-o-y	148.5%	28.9%	48.7%	27.0%
'Clean' EBT margin	12.4%	9.6%	10.2%	10.4%
<b>'Clean' net profit</b>	<b>23.10</b>	<b>41.36</b>	<b>58.63</b>	<b>72.66</b>
y-o-y	83.1%	79.0%	41.8%	23.9%
'Clean' net margin	7.7%	8.3%	8.4%	8.3%
'Clean' EPS	0.64	1.15	1.63	2.02

Sources: Company, Piraeus Sec., Note: We calculate the effective tax rate and the payout on 'clean' figures.

## VALUATION

The exclusion of Lamda Detergent from consolidated accounts makes the use of a Sum-of-the-Parts model not necessary any more (recall that we valued Lamda Detergent at EUR7.40/share). 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 EUR24.20 for Neochimiki that would still leave the stock at a discount relative to international peers on 2008 numbers (refer to the comparative analysis). Note however that Neochimiki boasts superior earnings growth potential, while the scenario of re-leveraging up could imply further upside risk on our estimates and valuation. The implied total expected return stands at 15.9% and justifies an Outperform rating.**

### Neochimiki Group - DCF valuation model

EUR mn	FY06	FY07e	FY08f	FY09f	FY10f	FY11f
Sales	301.84	500.00	700.00	875.00	1,094.00	1,365.00
y-o-y	111.8%	65.7%	40.0%	25.0%	25.0%	24.8%
EBITDA	61.56	67.50	93.23	114.76	141.24	175.85
y-o-y	123.5%	9.7%	38.1%	23.1%	23.1%	24.5%
EBITDA margin	20.4%	13.5%	13.3%	13.1%	12.9%	12.9%
Increase in WC	-107.00	0.04	-27.13	-24.06	-28.31	-38.64
% of sales	35.4%	0.0%	3.9%	2.7%	2.6%	2.8%
Tax paid	-4.17	-4.63	-5.51	-11.81	-16.98	-22.59
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%
<b>FCFF</b>	<b>-85.70</b>	<b>107.72</b>	<b>39.10</b>	<b>56.39</b>	<b>70.45</b>	<b>87.12</b>
y-o-y	na	na	-63.7%	44.2%	24.9%	23.7%
Discounted FCFFs			35.55	46.60	52.93	59.51
PV of Free Cash Flows 2007-2011		194.58	20%			
PV of Horizon Value		758.71	80%			
<b>Enterprise Value</b>		<b>953.29</b>				
+ Cash & cash equivalents		24.73				
- Debt		110.00				
+ Non-current assets		1.37				
- Other long term liabilities		9.60				
<b>Equity value</b>		<b>859.79</b>				
# of shares		36.00				
<b>Implied DCF Fair Value (€)</b>		<b>23.88</b>	75%			
<b>Implied Target PEG Fair Value (€)</b>		<b>25.13</b>	25%			
<b>Target Price (€)</b>		<b>24.20</b>				
Current Price		20.90				
Upside Potential		15.8%				
Shares Outstanding		36.00				
Market Cap.		752.40				
2006 Dividend Yield		0.14%				
<b>Total Expected Return</b>		<b>15.9%</b>				

Source: Piraeus Sec.

## 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 16.8% discount relative to specialty chemicals peers when compared on the basis of 2008f numbers. The discount extends much further on a growth-adjusted basis as Neochimiki offers 5.7x the growth expected by its peers. This is in part reflected in its 2007 PEG ratio of 0.44, which stands 74.4% lower than that of Neochimiki's peers. We set a Target 2008 P/E ratio of 15.4x and come up with an implied fair value of EUR25.13/share for the group.

### Peer group analysis

Company	Market Cap. (EUR mn)	EPS CAGR '06-'08	P/E			EV/EBITDA			EPS rise	PEG
			2006e	2007f	2008f	2006e	2007f	2008f	2008	2007
<b>Base Chemicals</b>										
Akzo Nobel	13,463	8.8%	14.9x	13.9x	12.6x	7.4x	6.8x	6.2x	10.6%	1.32
BASF	38,680	4.6%	11.9x	11.4x	10.9x	5.0x	4.5x	4.3x	4.6%	2.49
Bayer	34,778	9.9%	20.2x	17.2x	16.7x	8.8x	7.4x	6.5x	2.7%	6.33
Lanxess	3,427	15.7%	16.0x	13.2x	11.9x	6.3x	5.2x	4.6x	10.4%	1.26
Solva	10,392	0.8%	13.6x	13.9x	13.4x	7.6x	7.3x	7.0x	3.6%	
<b>Weighted Average</b>		<b>7.0%</b>	<b>15.5x</b>	<b>14.0x</b>	<b>13.4x</b>	<b>6.9x</b>	<b>6.2x</b>	<b>5.6x</b>	<b>4.8%</b>	<b>3.36</b>
<b>Industrial gases</b>										
Air Liquide	21,252	10.9%	21.3x	19.0x	17.3x	9.8x	8.8x	8.3x	10.1%	1.89
Linde	12,335	9.3%	17.7x	19.3x	14.8x	10.6x	8.1x	6.9x	30.1%	0.64
<b>Weighted Average</b>		<b>10.3%</b>	<b>20.0x</b>	<b>19.1x</b>	<b>16.4x</b>	<b>10.1x</b>	<b>8.6x</b>	<b>7.8x</b>	<b>17.4%</b>	<b>1.43</b>
<b>Agrochemicals/Fertilizers</b>										
K+S	3,589	10.2%	17.9x	18.0x	14.7x	7.2x	8.0x	7.0x	22.3%	0.81
KWS	574	10.7%	17.0x	15.9x	13.9x	6.8x	6.4x	5.5x		
Syngenta	14,074	15.7%	20.4x	17.2x	15.3x	13.4x	11.2x	10.1x	12.9%	1.34
<b>Weighted Average</b>		<b>14.5%</b>	<b>19.8x</b>	<b>17.3x</b>	<b>15.1x</b>	<b>11.9x</b>	<b>10.4x</b>	<b>9.3x</b>	<b>14.3%</b>	<b>1.19</b>
<b>Other</b>										
Reckitt Benckiser	27,981	11.6%	24.6x	22.0x	19.8x	15.0x	14.9x	13.4x	11.5%	1.91
Henkel	15,423	11.7%	19.0x	17.0x	15.2x	10.7x	9.7x	8.6x	11.7%	1.45
Church & Dwight	2,359	14.3%	23.0x	19.9x	17.6x				12.7%	1.57
Mcbride	507	6.2%	15.1x	13.8x	13.3x	7.2x	6.4x	6.0x	3.4%	4.03
<b>Weighted Average</b>		<b>11.7%</b>	<b>22.6x</b>	<b>20.2x</b>	<b>18.1x</b>	<b>12.7x</b>	<b>12.3x</b>	<b>11.0x</b>	<b>11.6%</b>	<b>1.77</b>
<b>Specialty Chemicals</b>										
Ciba	3,516	9.6%	18.0x	15.2x	15.0x	8.0x	7.3x	6.9x	1.6%	9.74
Clariant	2,965	6.5%	14.6x	13.3x	12.9x	6.9x	6.8x	6.4x	3.2%	4.19
Givaudan	4,985	6.1%	17.9x	17.6x	15.9x	13.0x	12.2x	10.0x	10.8%	1.63
Lonza Group	3,521	18.0%	24.5x	21.4x	17.6x	11.5x	11.8x	10.1x	21.5%	1.00
Lamda Detergent	313	35.9%	25.0x	17.6x	13.5x	15.7x	11.2x	8.8x	30.1%	0.59
<b>Weighted Average</b>		<b>10.3%</b>	<b>18.9x</b>	<b>17.1x</b>	<b>15.4x</b>	<b>10.4x</b>	<b>9.9x</b>	<b>8.6x</b>	<b>10.0%</b>	<b>1.70</b>
<b>Neochimiki Group</b>	<b>752</b>	<b>59.3%</b>	<b>32.6x</b>	<b>18.2x</b>	<b>12.8x</b>	<b>15.8x</b>	<b>12.4x</b>	<b>8.7x</b>	<b>41.8%</b>	<b>0.44</b>
<b>vs. Specialty Chemicals</b>		<b>5.7x</b>	<b>72.1%</b>	<b>6.5%</b>	<b>-16.8%</b>	<b>52.6%</b>	<b>24.9%</b>	<b>1.1%</b>	<b>4.2x</b>	<b>-74.4%</b>

**2008f EPS: 1.63**  
**Target P/E: 15.4x**  
**Implied Fair Value (EUR): 25.13**

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 company's subsidiary Lamda Detergent produces detergents on behalf of multinationals and private labels (serves 9 out of the 12 largest super market chains in Greece) and dominates the local market (estimated size: EUR800mn). On the other hand, 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 recent reduction of the stake in Lamda Detergent (brought down to 16.38% from 34.03%) signals the shift of focus to Emerging European markets and provides the cash for new acquisitions.

### 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, in our view.

### Keeping it simple: We Buy Growth

Following a surging performance since our initiation in February 2006 (+159.3%), Neochimiki currently trades slightly higher than 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 59.3% over 2006-2008 or 5.7x the growth offered by its peers (10.3% 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 74.4% for 2007. Following the company's announcement over its intention to sell the stake in Lamda Detergent, we leave aside our Sum-of-the-Parts valuation model and return 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 (EUR23.88) and a 25% weight to the implied fair value stemming from a comparative ratio analysis (EUR25.13). In the latter, we simply set as a Target 2008 P/E ratio for Neochimiki the weighted average of its peers (15.4x). The combination of our valuation methodologies provides a new Target Price of EUR24.20 for Neochimiki's share, which in turn points to an upside potential of 15.8% (and a total expected return of 15.9%). 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.

## FINANCIAL STATEMENTS

### Neochimiki Group - Summary Profit & Loss Statements

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
Sales	142.50	301.84	500.00	700.00	875.00
Cash COGS	95.82	209.80	377.50	530.27	664.49
Gross profit	46.68	92.04	122.50	169.73	210.51
Gross margin	32.8%	30.5%	24.5%	24.2%	24.1%
OpEx	19.14	30.48	55.00	76.50	95.75
EBITDA	27.54	61.56	67.50	93.23	114.76
EBITDA margin	19.3%	20.4%	13.5%	13.3%	13.1%
Depreciation	6.98	14.16	16.66	19.49	21.68
EBIT	20.56	47.40	50.84	73.75	93.08
EBIT margin	14.4%	15.7%	10.2%	10.5%	10.6%
Net interest income	-6.12	-10.71	-2.75	-2.25	-2.25
Investment income	0.58	74.58	80.15	0.00	0.00
EBT	15.01	111.27	128.24	71.50	90.83
EBT margin	10.5%	36.9%	25.6%	10.2%	10.4%
Tax	2.36	7.95	6.73	12.87	18.17
Minority rights	0.04	6.26	0.00	0.00	0.00
Net profit	12.62	97.06	121.51	58.63	72.66
Net margin	8.9%	32.2%	24.3%	8.4%	8.3%
Dividend	1.01	1.08	6.00	9.00	12.00
One-off gains	0.00	73.96	80.15	0.00	0.00
'Clean' EBT	15.01	37.31	48.09	71.50	90.83
'Clean' EBT margin	10.5%	12.4%	9.6%	10.2%	10.4%
'Clean' net profit	12.62	23.10	41.36	58.63	72.66
'Clean' net margin	8.9%	7.7%	8.3%	8.4%	8.3%
Shares outstanding	36.00	36.00	36.00	36.00	36.00
EPS	0.35	2.70	3.38	1.63	2.02
'Clean' EPS	0.35	0.64	1.15	1.63	2.02
DPS	0.03	0.03	0.17	0.25	0.33

### Neochimiki Group - Cash flow statements

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
EBITDA	27.54	61.56	67.50	93.23	114.76
Tax paid	-1.12	-4.17	-4.63	-5.51	-11.81
Cash tied up in inventory	-17.54	-13.28	-17.88	-27.62	-24.27
...in receivables	-2.85	-102.09	-22.39	-38.36	-33.56
...in payables (cash released)	25.68	8.37	40.31	38.85	33.77
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	140.69	39.10	56.39
<i>FCFF ex-sale of stakes</i>	<i>-34.95</i>	<i>-186.78</i>	<i>35.89</i>	<i>39.10</i>	<i>56.39</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	-2.75	-2.25	-2.25
Change in cash	1.71	17.23	2.69	30.85	45.14
Cash, beginning	1.85	4.81	22.04	24.73	55.58
Cash in new subsidiary	1.25	0.00	0.00	0.00	0.00
Cash, end	4.81	22.04	24.73	55.58	100.72

**Neochimiki Group - Balance sheets**

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
Fixed assets	164.58	346.28	301.13	303.46	304.59
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	318.72	320.73	321.55
Inventory	36.67	50.39	68.26	95.88	120.16
Trade debtors	24.30	73.50	95.89	134.25	167.81
Cash & cash equivalents	4.81	22.04	24.73	55.58	100.72
Other financial assets	0.07	0.00	0.00	0.00	0.00
Total current assets	65.86	145.92	188.88	285.71	388.68
Total assets	242.28	510.10	507.60	606.45	710.24
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	260.02	309.65	370.31
Shareholders funds	63.05	160.99	276.50	326.12	386.78
Minority rights	4.13	33.79	2.63	2.63	2.63
Total equity	67.19	194.78	279.13	328.75	389.41
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	103.42	145.28	182.05
<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	8.08	15.44	21.80
Short term bank debt	9.18	79.67	10.00	10.00	10.00
Short term liabilities	51.23	143.85	121.50	170.72	213.85
Total equity & liabilities	242.28	510.10	507.60	606.45	710.24

**Neochimiki Group - Ratio analysis**

EUR mn	FY05	FY06	FY07e	FY08f	FY09f
Net debt to equity (x)	1.85x	1.14x	0.31x	0.17x	0.02x
Net debt to market cap. (x)	0.17x	0.30x	0.11x	0.07x	0.01x
Net Debt/ EBITDA (x)	4.5x	3.6x	1.3x	0.6x	0.1x
EV/EBITDA (x)	31.8x	15.8x	12.4x	8.7x	6.6x
EV/Sales (x)	6.2x	3.2x	1.7x	1.2x	0.9x
Interest charge coverage (x)	3.4x	4.4x	18.5x	32.8x	41.4x
RoCE	9.0%	8.9%	12.0%	15.8%	18.7%
RoIC	9.0%	8.9%	12.0%	15.8%	18.7%
RoE	20.0%	14.3%	15.0%	18.0%	18.8%
g	18.4%	14.2%	14.2%	15.2%	15.7%
RoA	5.2%	5.8%	8.1%	9.7%	10.2%
P/BV (x)	11.9x	4.7x	2.7x	2.3x	1.9x
P/CE (x)	38.4x	20.2x	13.0x	9.6x	8.0x
P/FCFE (x)	-20.1x	-7.9x	5.5x	20.4x	13.9x
P/E (x)	59.6x	32.6x	18.2x	12.8x	10.4x
P/E on TP (x)	69.0x	37.7x	21.1x	14.9x	12.0x
'Clean' EPS growth (%)	72.3%	83.1%	79.0%	41.8%	23.9%
PEG	0.72	0.41	0.44	0.54	0.42
PEG on Target Price	0.83	0.48	0.50	0.62	0.48
Earnings yield	1.7%	3.1%	5.5%	7.8%	9.7%
FCFE Yield	-5.0%	-12.7%	18.3%	4.9%	7.2%
Dividend Yield	0.1%	0.1%	0.8%	1.2%	1.6%
Spread	-5.1%	-12.9%	17.5%	3.7%	5.6%
Working capital	22.71	65.69	60.73	84.85	105.91
WC/Sales	15.9%	21.8%	12.1%	12.1%	12.1%
Effective tax rate	16%	21%	14%	18%	20%

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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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