

NEOCHIMIKI (NCHr.AT)

Rating: **OUTPERFORM** (Unchanged)

Target Price: **EUR18.00**

Total Expected Return Targeted (yield incl.): **7.9%**

Unchanged (last report out on Dec 21, 2006)

Sector: CHEMICALS	Share price: EUR16.74	General Index: 4.634	Date: 23/01/07
Market Cap. (EUR mn)	602.64	52-week High-Low	17.10-6.36
Shares Outstanding (mn)	36.00	Avg. Daily Volume	158,006
Free Float (%)	66.0%		

BRIEF COMPANY OVERVIEW

Neochimiki was established in 1974 as a chemicals trading company. Since then, the group expanded to the production of detergents on behalf of key players such as Henkel, Unilever and Sara Lee and private labels like Carrefour, DIA, Makro and AB Vassilopoulos. Neochimiki continues the distribution activity (54% of group sales /33% of gross profit) for customers like Shell, BP, BASF and recently Lukoil to a network comprising ~2,500 points-of-sale. The company has established subsidiaries in Romania, Bulgaria, Poland, Serbia, Ukraine, Cyprus and Germany.

KEY STRENGTHS

The group boasts a successful business model that has resulted in sales rising to an estimated EUR300mn in 2006 from EUR12.08mn in 2000 and underlying EPS to EUR0.60 from EUR0.07 during the same period. a) Strong relations with multinational players, b) long lasting commercial contracts, c) low market shares in existing markets, d) accelerating trends in favor of outsourcing, and e) growth opportunities in the neighboring Balkan countries form the basis of our investment proposition. The challenge for the group's management team is to 'duplicate' the successful Greek business model abroad.

KEY RISKS

Any disturbance in the relations with key clients, the loss of existing contracts, and/or less favorable terms in renewed contracts could weigh on group performance. There is also investment and execution risk surrounding the company's expansion into CEE markets – the risk is capped, however, from the fact that the company targets the same (multinational) clients it works with in Greece. Finally, investors should bear in mind the group's over-reliance on its major shareholder, Chairman, and CEO, L. Lavrentiadis.

VALUATION - RATING

Neochimiki's share has rallied by >100% since our initiation report on February 24, 2006, strongly outperforming the Athens General Index. Despite the small upside potential implied by our Target Price, we believe the share will continue to outperform the market on the back of its stellar growth outlook (we expect Neochimiki to post a 79.1% surge in underlying EPS in 2007 on sales growth of 66.3%) and undemanding valuation (2008f P/E at 12.3x compared to 14.9x for the European specialty chemicals sector). Given track record and growth opportunities available (ie privatizations of base oil producers in Serbia), we believe risk on our estimates is skewed on the upside with earnings upgrades remaining into the picture for 2007.

Important note: a total of EUR79.90mn capital gains booked in 2006 will undermine reported EPS growth during 2007.

Valuation ratios	2005A	2006E	2007F	2008F
P/E adj. (x)	47.75	27.90	15.58	12.28
P/E on TP (x)	51.36	30.01	16.76	13.21
P/BV (x)	9.56	3.71	3.08	2.56
EV/Sales (x)	5.10	2.61	1.56	1.17
EV/EBITDA (x)	26.40	15.29	8.76	6.72
RoE (%)	20.0%	13.3%	19.8%	20.8%
Dividend Yield	0.2%	0.3%	1.0%	1.5%

Fundamentals	2005A	2006E	2007F	2008F
Turnover	142.50	299.67	498.26	637.99
EBITDA	27.53	51.20	88.68	111.45
Net profit	12.62	101.50	38.68	49.07
Clean Net profit	12.62	21.60	38.68	49.07
Clean EPS (EUR)	0.35	0.60	1.07	1.36
DPS (EUR)	0.03	0.06	0.16	0.25

Amounts in EUR mn

Share price data	1m	6m	12m	Since 31/12/06
Rel. perf. vs GI	5.1%	6.9%	119.8%	0.6%
Abs. perf.	11.6%	37.9%	157.5%	6.1%

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