Neochimiki

Strong buy

Chemicals

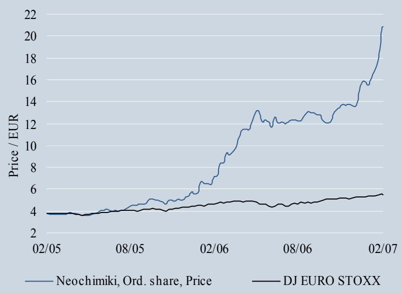
Fair Value EUR27.40

13 February 2007

Price EUR20.90 (Closing price as of 02/12/2007)

Applied disclosures can be found in the appendix

Price and rel. Performance



12 month high/low €			20.90/7.00
Rel.%	1m 32.6	3m 46.5	12m 146.2
Abs.%	1m 34.8	3m 55.0	12m 191.1

Reuters	NCHr.AT
Bloomberg	NEOCHI GA
Market cap EURbn	0.8
Number of shares m	36.0
Free float %	66.0
Daily turnover shares	4,210,520

Next Events

Quarterly results	10 May 2007
Quarterly results	26 July 2007
AGM	29 July 2007

Rel. Sector ++

DIVESTMENT OF LAMDA IMPROVES FINANCIAL FLEXIBILITY FOR VALUE ENHANCING ACQUISITIONS

Q4 results of Neochimiki, showing an increase at the operating level in the range of 144% (sales) to 186% (EBIT), came in as expected. We furthermore believe the growth story will continue, esp. when taking into account Neochimiki selling its 34% stake in Lamda Detergent; after the merger the company will only have a 12.7% stake in the newly merged company Alapis, with no allowance for further full consolidation. Despite the deconsolidation of Lamda, Neochimiki should be able to overcompensate this loss of sales and net profit already in 2007 by strong internal growth and acquisitions. We therefore confirm our **strong buy** rating and increase our fair value to €27.40.

MERGER OF LAMDA WITH VETERIN WILL NOT ALLOW THE FURTHER CONSOLIDATION OF LAMDA

After the merger of Lamda, Ebik, Elpharma with Veterin, Neochimiki will hold only a 12.7% stake in Lamda (down from 34%), i.e. consolidation of Lamda in the future will not be possible. As a result, Neochimiki will most probably sell its Lamda shares in the course of Feb. Despite some negative impact at the EBIT line in the P&L, we see only a minor impact at the bottom line, as minorities will decrease strongly. Furthermore, Neochimiki intends to issue a convertible bond of up to €100m (coupon 2-3%, yield to maturity 5.5-6%; conversion price €25-30) to strengthen balance sheet quality and to ensure further growth.

VALUATION OFFERS FURTHER UPSIDE

The current valuation of PER08e 12.8 and EV/EBITDA08e of 8.6 (incl. EPS-enhancing impact of Lamda disposal) in our view only reflects the strong double-digit growth rates, which will continue in coming years, to a minor extent. We therefore reiterate our **strong buy** recommendation.

Key Changes

EBT %	07e:	-21.9	08e:	-10.8
EPS %	07e:	+4.7	08e:	+18.4
FV %				+52.2

Key Data

EUR (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales m	142.5	301.8	500.0	700.0	875.0
EBIT m	20.6	47.4	51.0	74.2	94.7
Net profit m	12.6	97.1	41.6	58.8	74.1
Adj. EPS	0.35	0.64	1.16	1.63	2.06
Dividend	0.08	0.17	0.25	0.33	0.00
PER	12.2	17.6	18.1	12.8	10.2
Div. yield %	2.0	1.5	1.2	1.6	0.0
EV/EBITDA	10.2	10.7	12.5	8.6	6.6
EV/Sales	2.0	2.2	1.7	1.2	0.9
Price to book	2.4	2.5	2.9	2.4	2.0
EBIT margin %	14.4	15.7	10.2	10.6	10.8
ROCE %	10.4	10.8	14.0	18.8	22.5
ROE %	21.5	20.7	19.9	20.8	21.9

EPS CAGR 05-09e: 56 % Equity ratio 07e: 55 % Gearing 07e: 3 %

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Operating figures more or less in line with expectations

The quarterly figures of Neochimiki showed the expected improvement in top line dynamics. Sales improved in Q4 06 by more than 140% (9m: +95%) to €118.6m slightly surpassing our estimate of €116.8m. EBIT even grew overproportionally by 186% to €17.5m (SOPe: €18m) due to economies of scale and the higher capacity utilization of the detergents factories. Due to an extraordinary book gain from the disposal of Lamda shares, net profit of €33.4m came in significantly above our estimates (€7.11m). However, when excluding this e.o. item, net profit should have been around €7.04m, in line with our estimates of €7.11m. EPS of €0.195 (excl. the effect from the Lamda share placement) was also in line with our previous estimate of €0.197. Including the book gain, EPS are around €0.92. All in all, the figures once again confirm that the growth strategy of Neochimiki is continuing according to plan.

Comparison of published and expected Q4 figures

	Q4 2006	Q4 2005	% change	SOP estimates	Consensus
Sales €m	118.6	48.7	144	116.8	n.a.
EBIT €m	17.5	6.1	186	18.0	n.a.
Net Profit €m	33.5	3.8	772	n.a.	n.a.
EPS €	0.92	0.11	736	n.a.	n.a.
Net profit €m (excl. e.o. gain)	7.04	3.8	85	7.1	n.a.
EPS € (excl. e.o. gain)	0.195	0.11	83	0.197	n.a.

Sources: Neochimiki Oppenheim Research

Nevertheless, due to the other bundle of news announced, the figures are only of minor interest in our view. By far more important are the other two news items announced.

Lamda stake to be divested

Convertible bond

Neochimiki intends to sell its 34% stake in Lamda Detergent as after the merger the company will have only a 12.7% stake in the newly merged Pharma/Detergent company Alapis. The placement of the shares is expected to take place in the course of February. In addition, Neochimiki intends to issue a convertible bond with a size of approx. €100m. The convertible bond will have a coupon of approx. 2-3% and a yield to maturity of 5.5-6%. The conversion price will be in the region of €25-30.

Net debt will be reduced significantly

After these two transactions Neochimiki will have an indebtedness of only approx. €112m, of which €100m will consist of the convertible. Neochimiki will use this financial flexibility for further external growth in the South/East Europe region, as several countries (Serbia, Bulgaria, Romania) are looking to divest their still state owned companies. Currently several countries are trying to divest assets which are only of minor interest for larger companies due to the small size (acquisition prices below €50m). Neochimiki intends to make use of these major opportunities. Besides this, Neochimiki intends to play an active role in the rapidly consolidating chemicals market in South/East Europe. Taking into account new projects, which could be financed by the expected proceeds of around €100-110m from the sale of Lamda, based on a capital intensity of around 1, we expect additional sales in the same region and EBITDA contributions of around €15m p.a. which could fuel growth further in the coming months.

Stable sales despite deconsolidation of Lamda in 2007

Despite the deconsolidation of Lamda Detergent, Neochimiki will still generate sales of €500m in 2007. Lower sales will be compensated by strong internal growth and new acquisitions. According to our calculations, Neochimiki should have achieved sales of €250-260m in FY 06 excl. Lamda. We expect that internal growth will contribute approx. €110m to sales in 2007 and new projects will contribute approx. €140m. Examples for recent acquisitions are Rafinerija Nafte Beograd (RNB), which should contribute sales in the region of €25m-30m and an EBITDA of approx. €3.5 to €4m and a new fertilizer company in Greece. Also EBITDA should improve significantly. In FY 06, Neochimiki achieved an EBITDA of €33-35m; we expect this number to improve to €67m, driven by the strong organic growth which should contribute approx. €15m, further supported by the impact of the acquired higher margin businesses, contributing €17m.

SBU structure will change

After the divestment of the 34% stake in Lamda, Neochimiki will change its segmental structure. The SBU Detergents and Cosmetics will drop out of the reporting. Instead of this, a new SBU named Bulk Chemicals consisting of remaining parts of the delivery of raw materials to detergents and cosmetics companies and the former distribution business will be renamed SBU Bulk Chemicals.

EPS and fair value increase

Due to acquisitions and strong organic growth, sales from 2008 onwards will be even higher compared to the status of the business before the divestment of Lamda. (see table below). Despite a lower EBITDA, Neochimiki should be able to increase net profit and EPS compared to the status before the divestment of Lamda, as the high third parties interest is no longer burdening. Due to these facts our new DCF derived fair value increases from €18 to €27.40.

Overview of changed estimate

	2007e	2008e	2009e	2010e
in €m				
Sales	500 (500)	700 (640)	875 (802)	1094 (980)
EBITDA	67.4 (89.5)	93.7 (112.3)	116.3 (139.3)	144.3 (168.9)
Net profit	41.6 (39.7)	58.8 (49.6)	74.1 (61.4)	93.4 (75.8)
previous figures in ()				

Sources: Neochimiki, Oppenheim Research

Strong acquisition track record in FY 06……

In FY 06, Neochimiki managed the acquisition of 5 new production plants (4 chemical plants and 1 detergent plant), 2 logistics centers and private port facilities near Avlida (Interchem).

…..continued in 07 by the acquisition of RNB

A positive example for this strategy and future planned acquisitions is the successful acquisition of the Rafinerija Nafte Beograd (RNB) for €16.38m. We have now included this project into our model. In the coming years, Neochimiki intends to invest approx. €15m to establish a chemical terminal and a harbor. The company should contribute approx. €25-30m in sales in 2007 with the production of lubricants as well as base oils. EBITDA-margin should be in the region of 15%, i.e. we expect EBITDA contributions in FY 07e of €3.5-4m. In FY 06, RNB achieved sales of €15m and an EBITDA of €1m. New contracts with e.g. customers in Romania and Serbia for the supply of lubricants should bear a significantly higher margin.

New acquisitions ahead

One example for these future acquisition opportunities is the announcement that Neochimiki will take place in the bidding competition of the privatization for the fertilizer company Prahovo in Serbia. If Neochimiki is successful in the bidding process, this company should be able to generate sales of approx. €40m. The company is active in the production, loading/unloading, storage and packing of fertilizers, which should lead to further synergies for the already existing business of Neochimiki.

Valuation: Do not focus too much on FY07e, as this will be a transition year

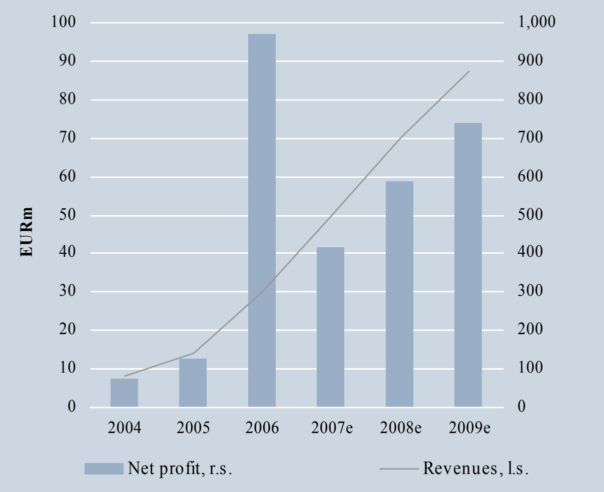
Based on our calculations, EV/EBITDA07e will go up to 11.7 (from 10.7 in FY06) as a result of the strong share price trend at the beginning of the year and due to the disposal of EBITDA contributions from Lamda. As in our model we have currently only factored in projects, which have already been announced, the improvement at the EBITDA line is somewhat conservative. However, as we have already experienced in previous years that the management has been able to upward revise guidance several times in a year due to successful project flow, we are quite confident that in the coming years EBITDA will improve significantly above 30%, e.g. in FY 07e: +46% and in FY 08e by 39%. It is worth noting that this does not include any contributions from the expansion of logistics activities coming from the Interchem acquisition (port facilities in Avlida). At PER level, the share will increase its attractiveness strongly in the coming years, as PER07e of 18.1 will decrease to 10.2 in FY 09e, some 10-15% below sector average.

Conclusion

All in all, the figures once again confirm that the growth strategy of Neochimiki is continuing according to plan. We see no threat to Neochimiki's future growth perspectives due to the deconsolidation and disposal of the 34% stake in Lamda. We expect further acquisitions to be announced shortly, which will overcompensate for the effects from the disposal of Lamda. As the high third-party interest is no longer burdening, EPS should grow substantially. Our new DCF-derived fair value increases from €18 to €27.40.

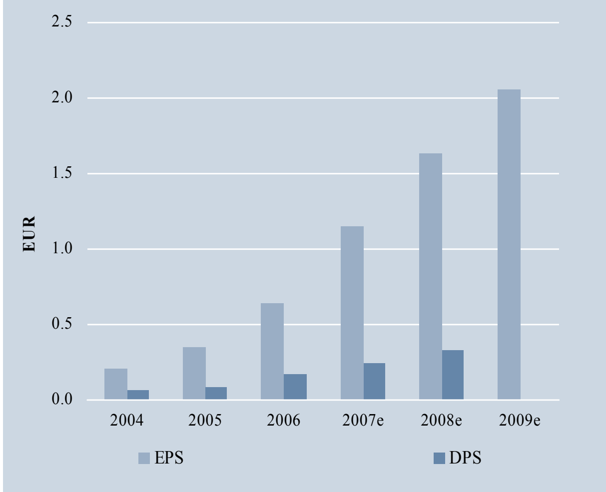
In summary, the main reasons for the strong increase of the DCF derived fair value have to be attributed to (I) the first time consolidation of the acquisitions RNB and a small fertilizer company in Greece, (II) higher assumptions on internal growth, (III) improved financing conditions due to the issuance of the convertible bond, (IV) reduced debt due to the proceeds from the disposal of the equity stake in Lamda, and (V) improvement of balance sheet quality due to the deconsolidation of Lamda's debt.

Revenues and Net Profit



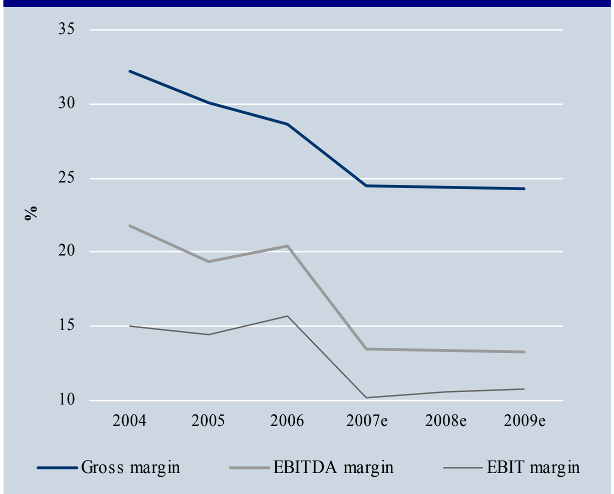
Source: Oppenheim Research

Adj. EPS and Dividend



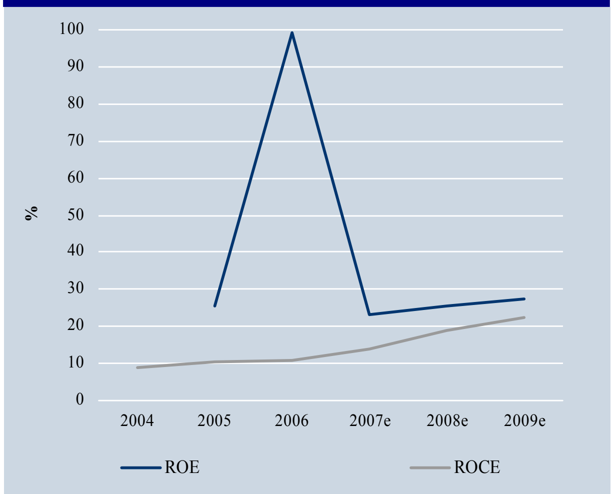
Source: Oppenheim Research

Margins



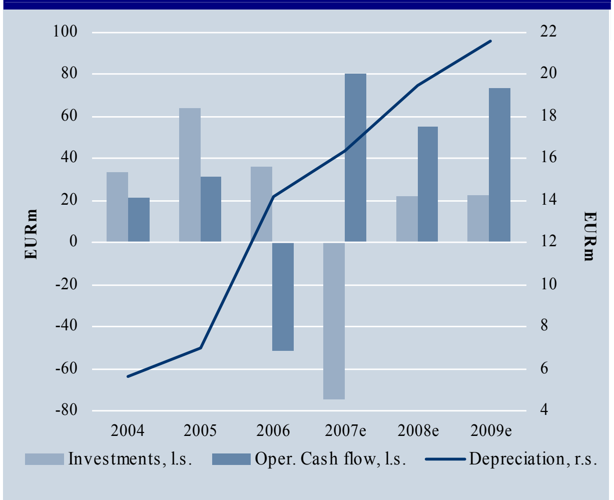
Source: Oppenheim Research

Capital Yields



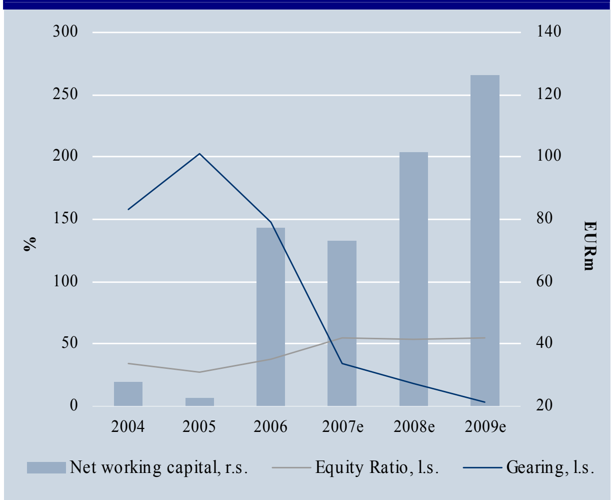
Source: Oppenheim Research

Cash Flow



Source: Oppenheim Research

Balance Sheet ratios



Source: Oppenheim Research

Neochimiki - P&L (Cost of Sales)					
EURm (Yr. end: 12/31)	**2005**	**2006**	**2007e**	**2008e**	**2009e**
Sales	**142.5**	**301.8**	**500.0**	**700.0**	**875.0**
Cost of goods sold	-99.6	-215.4	-377.5	-529.2	-662.4
Gross profit	**42.9**	**86.4**	**122.5**	**170.8**	**212.6**
Selling costs	-16.0	-39.7	-42.5	-59.5	-74.4
Administrative costs	-7.0	0.0	-12.5	-17.5	-21.9
R&D costs	0.0	0.0	-0.1	-0.1	-0.1
Other operating income/expenses (net)	0.7	0.7	0.0	0.0	0.0
EBITDA	**27.5**	**61.6**	**67.4**	**93.7**	**116.3**
EBIT	**20.6**	**47.4**	**51.0**	**74.2**	**94.7**
Interest result	-6.2	-10.0	-2.6	-2.2	-2.2
Other Financial income / expenses	0.6	0.0	0.0	0.0	0.0
Financial result	**-5.5**	**-10.0**	**-2.6**	**-2.2**	**-2.2**
Profit or loss on ordinary activities	**15.0**	**37.4**	**48.4**	**72.0**	**92.5**
Extraordinary profit or loss	0.0	73.9	0.0	0.0	0.0
EBT	**15.0**	**111.3**	**48.4**	**72.0**	**92.5**
Taxes	-2.4	-8.0	-6.9	-13.3	-18.4
Profit / loss for the year (cont. operations)	**12.7**	**103.3**	**41.6**	**58.8**	**74.1**
Minority	0.0	6.3	0.0	0.0	0.0
Net profit	**12.6**	**97.1**	**41.6**	**58.8**	**74.1**
+ /- Adjustments	0.0	-73.9	0.0	0.0	0.0
Adjusted net profit	**12.6**	**23.1**	**41.6**	**58.8**	**74.1**

Key ratios and numbers					
EURm (Yr. end: 12/31)	**2005**	**2006**	**2007e**	**2008e**	**2009e**
Valuation					
PER	12.2	17.6	18.1	12.8	10.2
P/BV	2.4	2.5	2.9	2.4	2.0
Dividend yield %	2.0	1.5	1.2	1.6	0.0
EV/Sales	2.0	2.2	1.7	1.2	0.9
EV/EBITDA	10.2	10.7	12.5	8.6	6.6
Sustainable FCF yield %	4.9	-5.4	13.0	10.7	13.9
Data per share					
EPS (reported)	0.35	2.70	1.16	1.63	2.06
adj. EPS	0.35	0.64	1.16	1.63	2.06
Dividend	0.08	0.17	0.25	0.33	0.00
Book value	1.75	4.47	7.15	8.54	10.26
Growth rates %					
Sales	71.9	111.8	65.7	40.0	25.0
EBITDA	52.3	123.5	9.5	39.0	24.1
EBIT	65.2	130.5	7.7	45.5	27.5
Net profit	72.3	669.2	-57.2	41.4	26.1
adj. EPS	72.3	83.4	79.7	41.4	26.1
Margins %					
Gross	30.1	28.6	24.5	24.4	24.3
EBITDA	19.3	20.4	13.5	13.4	13.3
EBIT	14.4	15.7	10.2	10.6	10.8
Net profit	8.9	32.2	8.3	8.4	8.5
Expense ratios %					
R&D to sales	0.0	0.0	0.0	0.0	0.0
Depreciation to sales (Cost of sales)	-4.9	-4.7	-3.3	-2.8	-2.5
Tax rate	15.7	7.1	14.2	18.4	19.9
Other ratios					
EVA ® SOP	10.4	23.7	6.0	21.3	33.2
Interest cover	-4.4	-6.1	-25.9	-42.6	-52.9

Neochimiki - Cash Flow Statement

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Cash flow from operating activities					
EBIT	20.6	47.4	51.0	74.2	94.7
Depreciation / amortization	7.0	14.2	16.4	19.5	21.6
Change in other provisions	0.6	0.5	0.0	0.0	0.0
Non Cash Items	0.5	9.4	15.3	3.1	0.2
Cash taxes	-2.4	-15.8	-6.9	-13.3	-18.4
Change in Working Capital	5.3	-107.0	4.3	-28.3	-24.7
Total	**31.6**	**-51.3**	**80.1**	**55.2**	**73.4**
Cash flow from investing activities					
Investments in tangible assets	-66.8	-120.3	0.0	-21.5	-22.5
Investments in intangible assets	-0.4	0.0	0.0	0.0	0.0
Disinvestments	3.3	84.2	74.9	0.0	0.0
Changes in other L.T. assets / acquisitions	0.0	0.0	-0.1	-0.1	0.0
Total	**-63.9**	**-36.1**	**74.8**	**-21.6**	**-22.5**
Cash flow from financing activities					
Net financial result / income from associates	-5.5	-10.0	-2.6	-2.2	-2.2
Change in financial liabilities	83.4	114.0	-145.7	0.0	0.0
Change in pensions and similar provisions	-42.1	1.7	0.0	0.0	0.0
Dividend payments	-2.2	-1.1	-6.0	-9.0	-12.0
Other/consolidation/currency	1.7	0.0	-2.3	8.6	9.2
Total	**35.3**	**104.6**	**-156.6**	**-2.6**	**-5.0**
Change in cash and cash equivalents	**3.0**	**17.2**	**-1.7**	**31.1**	**45.9**
Cash and cash equivalents (begin. of period)	1.8	4.8	22.0	20.3	51.4
Cash and cash equivalents (end of period)	4.8	22.0	20.3	51.4	97.3

Ratios and Key Figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Free cash flow EURm					
Free cash flow to entity	-30.6	-87.4	152.6	42.3	60.1
Sustainable free cash flow to entity	36.7	-40.4	98.1	80.4	104.9
Sustainable free cash flow to shareholder	31.2	-50.5	95.5	78.2	102.7
Data per share					
Yields %					
Free cash flow yield	-4.8	-12.9	19.9	5.3	7.7
Sustainable FCF yield %	4.9	-5.4	13.0	10.7	13.9
Ratios					
Operating cash flow / capex	47.3	-42.6	nm	256.8	326.4
Operating cash flow / avg. net financial pos.	1.7	-1.8	1.0	0.7	0.2
Maintenance capex / revenues	-3.6	-3.6	-3.6	-3.6	-3.6
Depreciation / capex %	-9.9	-6.9	-21.9	-90.6	-96.1
Net working capital / sales	15.9	25.6	14.6	14.5	14.4

Neochimiki - Balance sheet

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Assets					
Current assets	**66.0**	**145.9**	**184.7**	**281.5**	**384.9**
Cash and cash equivalents	4.8	22.0	20.3	51.4	97.3
Trade receivable	24.3	73.5	82.2	115.1	143.8
Other receivables	0.2	0.0	0.0	0.0	0.0
Inventories	36.7	50.4	82.2	115.1	143.8
Fixed assets	**175.9**	**363.5**	**291.3**	**293.5**	**294.3**
Tangible assets	164.6	346.3	280.8	282.8	283.7
thereof Property, plant + equipment (PPE)	164.6	346.3	280.7	282.8	283.6
Intangible assets	11.2	16.5	9.8	9.8	9.8
Financial assets	0.1	0.7	0.8	0.9	0.9
Prepaid expenses , deferred taxes	0.4	1.2	0.0	0.0	0.0
Total assets	**242.3**	**510.6**	**476.0**	**575.0**	**679.3**
Liabilities and Shareholders' Equity					
Total liabilities	**175.1**	**315.3**	**215.9**	**265.0**	**307.3**
Trade payables	38.3	46.6	91.4	128.8	161.6
Provisions	0.2	1.9	1.9	1.9	1.9
thereof pension provisions	0.0	0.0	0.0	0.0	0.0
Deferred income & deferred tax liabilities	3.8	6.0	12.6	24.3	33.7
Minority interest	**4.1**	**33.8**	**2.6**	**2.6**	**2.6**
Shareholders' equity	**63.1**	**161.0**	**257.5**	**307.3**	**369.4**
Capital subscribed	10.8	10.8	10.8	10.8	10.8
Reserves	52.3	150.2	246.7	296.5	358.6
thereof capital reserves	5.7	5.7	5.7	5.7	5.7
thereof retained earnings	46.6	144.5	241.0	290.8	352.9
Total equitiy , liabilities	**242.3**	**510.1**	**476.0**	**575.0**	**679.3**

Ratios and Key Figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Balance sheet structure					
Net working capital	22.7	77.3	73.0	101.3	126.0
Net financial debt	128.0	238.1	88.9	57.8	11.9
Capital employed (CE)	198.6	440.8	364.3	394.8	420.4
Enterprise value (EV)	281.0	657.9	841.3	810.2	764.3
Ratios					
Current assets %	27.2	28.6	38.8	49.0	56.7
Long-term assets %	72.6	71.2	61.2	51.0	43.3
Equity ratio %	27.7	38.1	54.6	53.9	54.8
Gearing %	203.0	147.9	34.5	18.8	3.2
Net financial debt / EBITDA	4.6	3.9	1.3	0.6	0.1
EV / CE	1.4	1.5	2.3	2.1	1.8
ROCE %	10.4	10.8	14.0	18.8	22.5
ROE %	21.5	20.7	19.9	20.8	21.9

Neochimiki - Divisional Breakdown					
EURm (Yr. end: 12/31)	**2005**	**2006**	**2007e**	**2008e**	**2009e**
Sales	**142.5**	**301.8**	**500.0**	**700.0**	**875.0**
Detergents/Cosmetics	55.0	107.0	0.0	0.0	0.0
Plastics	21.0	55.0	90.0	125.0	150.0
Bulk Chemicals	0.0	0.0	180.0	270.0	360.0
Other Chemical distribution	28.2	44.5	0.0	0.0	0.0
Paint	19.0	47.0	140.0	180.0	215.0
Agrochemicals	19.3	46.5	90.0	125.0	150.0
Growth %					
Detergents/Cosmetics	53.2	94.5	-100.0		
Plastics	98.1	161.9	63.6	38.9	20.0
Bulk Chemicals			high	50.0	33.3
Other Chemical distribution	24.4	57.6	-100.0		
Paint	95.9	147.4	197.9	28.6	19.4
Agrochemicals	381.5	141.5	93.5	38.9	20.0
Gross oper. result	**42.9**	**86.4**	**122.5**	**170.8**	**212.6**
Detergents/Cosmetics	23.4	51.4	0.0	0.0	0.0
Plastics	4.7	6.2	10.8	14.5	17.0
Bulk Chemicals	0.0	0.0	48.3	72.3	96.3
Other Chemical distribution	6.5	9.8	0.0	0.0	0.0
Paint	4.3	10.3	36.4	47.0	55.9
Agrochemicals	4.0	12.6	27.0	37.0	43.5
Gross oper. result Margin %					
Detergents/Cosmetics	42.5	48.0			
Plastics	22.4	11.3	12.0	11.6	11.3
Bulk Chemicals			26.8	26.8	26.8
Other Chemical distribution	23.0	22.0			
Paint	22.6	21.9	26.0	26.1	26.0
Agrochemicals	20.8	27.1	30.0	29.6	29.0

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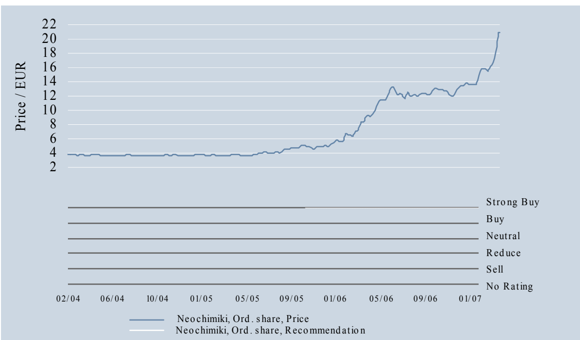

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Buy	125	40.6	28	56.0
Neutral	126	40.9	14	28.0
Reduce	33	10.7	0	0.0
Sell	0	0.0	0	0.0
No rating	12	3.9	0	0.0

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