

## Neochimiki Lavrentiadis

Reuters: NCHr.AT

Sector : Chemicals  
Greek Equities

### Company Description:

Neochimiki Group belongs to the chemical product-trading sector and in 1999 it extended its activities to the chemical product-manufacturing sector. The largest share of Group's turnover relates to the detergent sector (trading of raw materials and production of cleaning and polishing products). Neochimiki has a dominant position in the Greek chemical industry with a 30-year proven expertise, serving over than 2,000 clients with more than 150 different categories of chemicals.

	2003 A	2004 E	2005 E
(in mil. €)			
Turnover	55.84	80.49	94.86
EBITDA	11.21	15.21	17.50
Margin %	20.07%	18.90%	18.45%
Net Income	5.43	5.66	6.80
Margin %	9.73%	7.03%	7.17%

Price (05/18/2004)	€3.60
Shares (outstanding)	36,000,000
MktCap (in mn €)	129.6

Beta	0.94
Dividend '03	€0.06
Div. Yield	1.56%
P/E	23.86x
P/BV	4.77x
Debt/Eq.	1.68x
ROE (avg)	25.14%

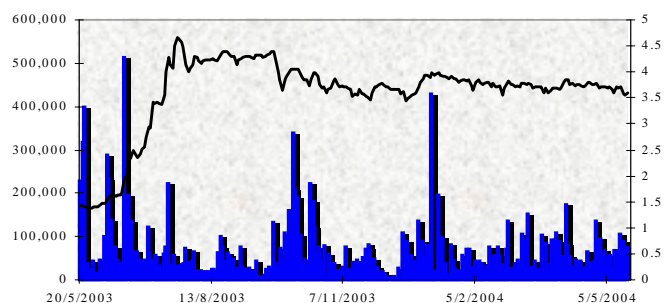
Source: Neochimiki & VRS Projections

### Key Investment Points

- ⊙ Neochimiki is the leading supplier of detergent products on behalf of large multinationals (95% share of domestic production) and private labels (40% share of domestic production) in Greece.
- ⊙ The Group has benefited from the withdrawal of multinational corporations' production in Greece, entering the final detergent product wholesale sector by acquiring and developing manufacturing facilities.
- ⊙ Neochimiki is diversifying its product portfolio (commercial and / or production) by providing industrial chemicals meeting the needs in many industries, some of them with solid growth rates such as plastics, paint, water treatment, fertilizers, food and detergents.
- ⊙ The Group expands its activities in Greece geographically, seeking for higher market shares on all product divisions.
- ⊙ The strength of the Group is its high quality products and the relationship of trust with multinational groups. Neochimiki aims to further utilize this relationship, setting up the fundamentals for an expansion of their collaboration in the Balkans and Eastern Europe.
- ⊙ We expect Group turnover CAGR<sub>2003-2008</sub> of 21.4%. However, our projections imply gross profit margin's gradual decrease, leading to EBITDA CAGR<sub>2003-2008</sub> of 15.7% and Net Income CAGR<sub>2003-2008</sub> of 9%.

Share Price Graph (05/19/2003-05/18/2004)

Max: €4.76 - Min: € 1.38



Please see important disclosure and disclaimer statements at the end of this report

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## Investment Case

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The Neochimiki Group has succeeded in becoming the largest trader and distributor of industrial chemicals on behalf of large corporations in Greece. The Group is also the market leader in the domestic detergent (final-product) manufacturing sector, seeking at the same time to explore opportunities from the broader market of chemicals for other industries, and utilizing the technological expertise that has built over the last 30 year of operations.

Neochimiki is applying a successful business model that has led to solid growth since its establishment. In this investment case, we will describe the main growth drivers that will secure to a large extent the sustainability of this growth, presenting at the same time any negative factors that could affect the Group's operations.

### Opportunities in the Detergent Sector

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Neochimiki, via its subsidiary Lamda Detergent, is active in:

- a) the manufacturing of detergents and housecleaning products on behalf of multinationals and private label, and
- b) the production of chemical raw materials mainly for detergents.

The detergent market that Neochimiki targets, is estimated at €310 mil. (wholesale), with imports representing about 97% of total and domestic production accounting for approximately €10 mil. in 2003.

The gradual termination of multinational corporations' production of detergent products in Greece, gave the opportunity to Neochimiki to enter the domestic manufacturing sector, by acquiring via its subsidiary Lamda Detergent, the detergent and chemical factory of Henkel Hellas. **The Group aims to capture through its production an increasing stake from imported detergents, based on quality, flexibility and low cost structure.** Detergent multinational units in Greece, strive to lower costs in the face of intense competition. Importing is affected by increased transportation costs, while production needs significant volume to keep cost per unit low. Neochimiki offers competitive prices, and gradual increase of production volume will press cost per unit lower, providing Group's final products with an important advantage against competition, which in our case are imports.

The subsidiary's detergent production accounts for €9.4 mil., **(is the market leader in domestic detergent production)**. The Group's strategic decision to produce at a lower cost the basic raw materials for detergent products instead of buying them, is

keeping production cost low. The effect of this decision was seen in 2003 results, with EBIT margin reaching 9.7% of turnover, from 6.1% in 2002.

Lamda Detergent specializes in the production of detergent in liquid and powder form for business and domestic use, a market that has strict requirements on the quality and the specifications of raw materials used for detergents. **A strong competitive advantage for the Group is the achievement of an important know-how, in the combination of various chemical materials for the production of cleaning products.** The company is given exact chemical descriptions of the product required, and uses its internal technical knowledge to produce the final product.

**Neochimiki ensures high quality standards**, providing the necessary verifications that the **whole production cycle meets the specifications** mutually agreed with customers. Today, Neochimiki produces detergent products for multinational corps in Greece such as Henkel, UniLever, Johnson Diversey and Sara Lee. The total Greek detergent wholesale market is expected to grow at an average 3% per year, in the period 2003-2008.

#### **Benefit from the Growing Demand of Private Label Detergents**

The Group has expanded its activities in the production of detergent final products on behalf of Super Market chains such as Carrefour, Dia and Vasilopoulos.

Neochimiki's competitive advantages consist of:

- a) an efficient plant (one of the largest factories of detergents in the Balkan area with high quality standards, combining low operating and manufacturing costs with high product designing and production capacity),
- b) low prices as a result of economies of scale,  
*broader portfolio of products > higher production volume > economies of scale > lower production cost > attractive pricing policy*
- c) a strong know-how in the detergent and house cleaning sector,
- d) final products that meet the relevant standards,
- e) portfolio of clients that ensures quality of products and reliability of services.

**The estimated aggregate market in Greece is €21 million, while our estimation for the next 5-year period assumes a CAGR of 5%, with the Group capturing from about a 20% share today to approximately 25% at end 2008.**

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### Horizontal Diversification of Activities – Development of Subsidiaries

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Neochimiki is also the leader in trading, distributing, packaging and repackaging of chemical raw materials on behalf of world-known chemical suppliers. The Group's suppliers include among others Shell, BP Chemicals, Basf and FMC Foret. The Group has managed to diversify its client base horizontally, offering high performance chemicals used in the production process by most industries such as detergents, plastics, paint & lacquers, fertilizers, cosmetics, food, textile, water treatment industries and metal industries.

#### Raw Materials for Polymers

The parent Neochimiki and the subsidiaries Lamda Pack and Lamda Polymers International trade and distribute raw materials for polymers for plastic industries, one of the fastest growing industries. These materials are involved in every facet of our lives. The particular industry has significant prospects for further development and applications. **We expect earnings from this sector to grow on a CAGR<sub>2003-2008</sub> of at least 25% representing about 10% of total turnover at end 2008.**

#### Raw Materials for Paint and Lacquer

In addition, the parent Neochimiki and the subsidiaries Lamda Lamda and Chemical Solutions trade and distribute a broad range of chemical raw materials, which are used by the paint industries during the production and formation of building paints, marine paints and lacquers for all purposes. In order to penetrate further this industry, with regard to resins (raw material used in paint & lacquer industry), the Group acquired Clariant's resin factory in Vathi Avlida by means of its subsidiary Lamda Lamda during 2003. **The Group already has an 8% market share at this particular sector, aiming to capture at least 12% by the end of fiscal 2008, reaping earnings on a CAGR<sub>2003-2008</sub> of approximately 25%.**

Towards the end of 2003, the Group expanded activities with the incorporation of the production & trading of resins, and the trading of base industrial oils for rubber, lubricant, & wax industries.

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### International Expansion

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Neochimiki is **building a trustful relationship with multinational corporations** in Greece, setting up the fundamentals for an expansion of their collaboration in the Balkans. The Group has already set up a 99.84% subsidiary in Romania, while in January 2004 it established the 100% subsidiary Neochimiki Beograd in Serbia.

The expansion strategy includes trading, packaging and distributing of chemical raw materials for industries (including among other detergent, plastics, paint & lacquer) in the Balkans (Romania, Bulgaria, FYROM, and Serbia), Cyprus, Libya, and countries of the former USSR, with Ukraine being the first in the list.

**Exporting activities currently represent approximately 13.68% of total Group turnover and we expect approximately 20% at the end of fiscal 2008 and 25% at the end of fiscal 2012.**

### **Strong Growth Rates – Solid Operating Profit Margins**

From a financial perspective, past years have been those of achievement in the light of the significant investments in order to capture opportunities in the detergent production field. As the majority of investments have been completed, we expect turnover to grow in line with capacity utilization, international expansion, and higher market shares in all product categories of turnover breakdown.

Our projections refer to turnover CAGR<sub>2003-2008</sub> of 21.4%, with revenues related to detergent production of final products and raw materials representing at least 38% of the total. We also expect solid growth in revenue streams related to Paint & Lacquers, Polymers and Foods where opportunities appear more attractive compared to the other fields.

Gross profit margins will decrease but will remain strong. We note that the sector is at a mature stage, and we also expect pressures on pricing. Gross margin currently stands at 34.16%, with our estimations accounting for 30.4% at end 2008.

EBITDA margin reached approximately 20% at end fiscal 2003, a level that will decrease, but will remain relatively strong, to 16.54% at end fiscal 2008.

## GROUP HISTORIC &amp; PROJECTED TURNOVER BREAKDOWN

	2002 A	2003 A	2004 E	2005 E	2006 E	2007 E	2008 E
<b>Production of</b>							
Detergents for Multinational Corps	9,740	11,149	16,986	20,761	23,152	25,058	26,980
% of Total	20.80%	19.97%	21.10%	21.89%	22.09%	22.12%	22.24%
Detergents for Private Labels	4,410	5,027	7,821	9,280	9,895	10,718	11,609
% of Total	9.42%	9.00%	9.72%	9.78%	9.44%	9.46%	9.57%
Raw Materials for Detergent Industries	3,800	4,484	6,285	7,251	8,138	8,483	8,842
% of Total	8.12%	8.03%	7.81%	7.64%	7.76%	7.49%	7.29%
<b>TOTAL</b>	<b>17,950</b>	<b>20,660</b>	<b>31,092</b>	<b>37,293</b>	<b>41,185</b>	<b>44,258</b>	<b>47,431</b>
% of Total	38.34%	37.00%	38.63%	39.31%	39.30%	39.06%	39.09%
y-o-y growth		15.10%	50.49%	19.94%	10.44%	7.46%	7.17%
<b>Wholesale of Raw Materials for</b>							
Paint & Lacquers	3,900	5,025	7,098	9,173	10,185	11,269	12,430
% of Total	8.33%	9.00%	8.82%	9.67%	9.72%	9.95%	10.24%
Food Industry	4,506	4,467	5,969	6,756	7,730	8,635	9,319
% of Total	9.62%	8.00%	7.42%	7.12%	7.38%	7.62%	7.68%
Textile Industry	3,760	4,470	4,378	5,286	5,993	6,472	6,699
% of Total	8.03%	8.01%	5.44%	5.57%	5.72%	5.71%	5.52%
Cosmetics & Detergents Industry	3,800	4,464	6,214	6,946	7,698	8,463	9,278
% of Total	8.12%	7.99%	7.72%	7.32%	7.34%	7.47%	7.65%
Polymers	4,800	5,025	8,373	9,494	10,624	11,592	12,301
% of Total	10.25%	9.00%	10.40%	10.01%	10.14%	10.23%	10.14%
Fertilizers	3,800	3,909	6,267	6,946	7,293	7,621	7,964
% of Total	8.12%	7.00%	7.79%	7.32%	6.96%	6.73%	6.56%
<b>TOTAL</b>	<b>24,566</b>	<b>27,361</b>	<b>38,299</b>	<b>44,601</b>	<b>49,522</b>	<b>54,053</b>	<b>57,990</b>
% of Total	52.47%	49.00%	47.58%	47.02%	47.25%	47.71%	47.79%
y-o-y growth		11.38%	39.98%	16.45%	11.04%	9.15%	7.28%
<b>Production &amp; Trade for</b>							
Water Processing & Biological Sewage	2,576	4,467	6,414	7,613	8,032	8,474	8,940
% of Total	5.50%	8.00%	7.97%	8.03%	7.66%	7.48%	7.37%
Raw Materials for Metal Industries	1,727	3,350	4,682	5,351	6,071	6,511	6,979
% of Total	3.69%	6.00%	5.82%	5.64%	5.79%	5.75%	5.75%
<b>TOTAL TURNOVER</b>	<b>46,819</b>	<b>55,838</b>	<b>80,487</b>	<b>94,857</b>	<b>104,811</b>	<b>113,296</b>	<b>121,340</b>
y-o-y growth		19.26%	44.14%	17.85%	10.49%	8.10%	7.10%

Source: Company Data &amp; VRS Projections

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## Investment Risks

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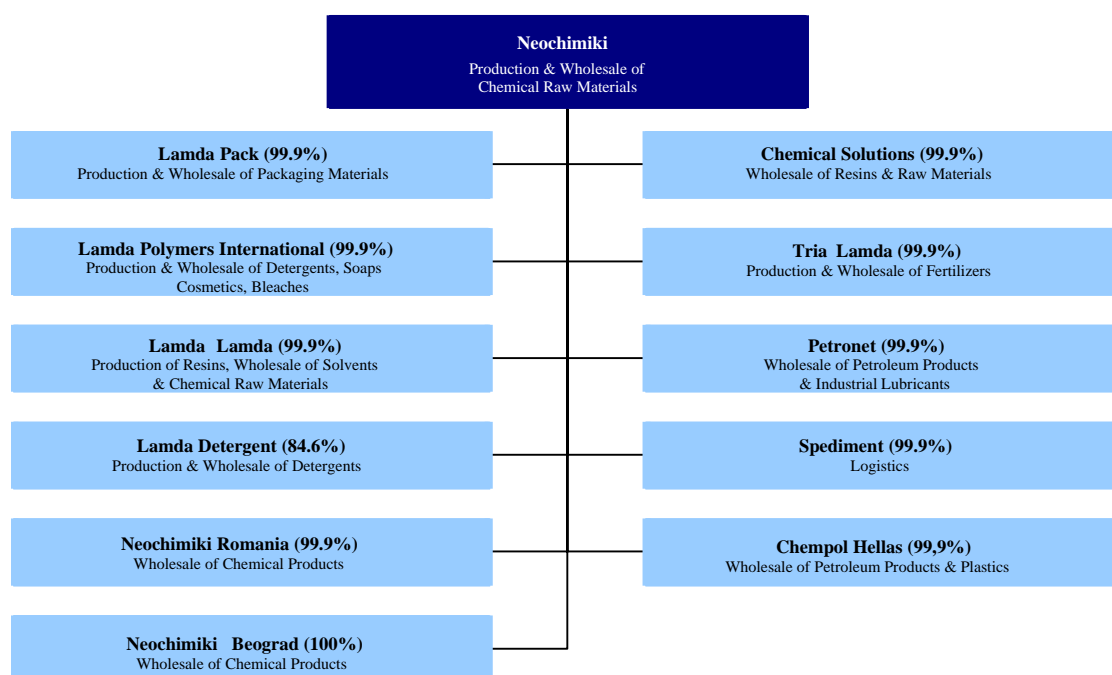
- Although revenues remain strong, the past couple of years have been extremely difficult for the chemical industry and for detergent manufacturers. These challenges are likely to persist in view of continued economic uncertainty.
- Competition exists in the broader trade market of chemical raw materials in the form of large number of small size trading companies, most of which are subsidiaries of large multinational groups.
- Price fluctuation in raw materials is unpredictable, since prices depend directly on the fluctuation of international oil prices.
- Investment expenditure for research and new technology may be high in order to cover the needs. We expect detergent companies to focus more on new products that will evolve to meet developing requirements such as diminishing water usage, improved energy use in machines, and lower wash temperatures to minimize thermal requirements.
- High dependence on the evolution of industrial production and the anticipation of developments in the sector of chemical products.
- Suppliers of detergent ingredients are being pinched as detergent producers strive to lower costs in the face of intense competition.

## Company Overview

Neochimiki was established in 1974 as a family-run business, while in 1996 Mr. Lavrentiadis took over the management of the company. Neochimiki controls 11 companies holding at least 80% in each. The Group traditionally specialized in the chemical product-trading sector. However, since 1998, the Group has also expanded operations vertically, to the chemical product-manufacturing sector, by acquiring part of the Hoechst Hellas facilities at Vathi, Avlida (1998), the detergent and chemical factory of Henkel Hellas in Atalanti (2000), and during 2003, the resin factory of Clariant. The largest share of Group's turnover relates to the detergent sector (trading of raw materials and production of cleaning and polishing products). In addition, the Group supplies and distributes chemical materials, which compose an inseparable part of the production process in plastics, paint, varnishing, metal, fertilizing, textile, food and water treatment products, serving over than 2,000 clients with more than 150 different categories of chemicals.

## Group Structure

Neochimiki Group includes 11 subsidiaries, of which 1 in Romania and 1 in Serbia.



Source: Neochimiki

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## Trading Product Categories

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Neochimiki is a leading supplier and distributor of high-value-added chemical products in Greece. The trading activity of the Company includes the trading, producing, packaging and repackaging of chemical raw materials in bulk. Neochimiki Group also trades already packaged raw materials of leading suppliers. The bulk of its products are imported from large European chemical manufacturing firms in Germany, France, Italy, Belgium, Spain, UK, Austria, Turkey, and Finland. The general categories of trading products include:

- Inorganic Bases
- Inorganic Salts
- Inorganic Acids
- Organic Acids
- Polymers
- Detergents and Cleaning Materials
- Organic Solvents
- Inorganic and Organic Chemical Products

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## Business Segments

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Group activities cover 11 business units that are categorized according to production, trade, and trade & production:

### Production

#### **1/ Detergents Domestic Production for Multinational Corporations**

The Group, via its subsidiary Lamda Detergent, holds the monopoly, with sales of € 9.4 million, while the total market is estimated at €10 mil. The detergent production contributes about 20% of total sales, with a gross margin at 45% at end 2003.

#### **2/ Production of Private Label Detergents**

The Group retains a 20% market share at this fast growing sub-sector, via its subsidiaries Lamda Detergent and Lak. The estimated market size in Greece, accounted for approximately €21 mil in 2003, while we expect a growth rate of 5-6% in the next 5 years, with Neochimiki capturing about a 28-30% share.

#### **3/ Production of Raw Materials for Detergent Industries**

Only the subsidiary Lamda Detergent is active in this sub-sector, holding about 40% share in a market that was estimated at €9.5 mil in 2003. We expect the Group to capture gradually higher market share, while we estimate a growth rate of about 2-

3% for the sub-sector in the next 5 years.

### **Trading**

#### **1/ Trade of Polymers for Plastic Industries**

The Group is expanding operations in this sub-sector, which is currently estimated at €1 million, and we expect a 5-year growth rate of at least 2.5-3%. The Group holds a 20% market share, aiming to capture approximately 35% by the end of fiscal 2005. The customers include among others metal processing industries, pipe production plants, as well as packaging factories.

#### **2/ Trade of Raw Materials for Food Industries**

The Group, via the parent Neochimiki, has a share of about 20% in this sub-sector, while the domestic market reached almost €9 million in 2003. The client base is mostly in food and drink sector and the Group offers additives, chemical agents, and disinfectants.

#### **3/ Trade of Raw Materials for Textile Companies**

Offering products used in the processing of dyeing and finishing fabrics, the Group is capturing about 8% of an estimated €45 million market in 2003. This sector is not expected to increase significantly in the next 5-years, while the Group's strategy is to retain current market share.

#### **4/ Trade of Raw Materials for Cosmetics and Detergents Industries**

The Group applies the same strategy, as above, for this sector, retaining current market share of 10%, while the size of the market was estimated at €38 mil. in 2003.

#### **5/ Trade of Raw Materials for Colors and Lacquers Industries**

The specific market is currently estimated at €52 million with the Group holding about 8% market share. Neochimiki Group is seeking to increase its current share to 16% by the end of fiscal 2008, while the sector is expected to grow by 2.5%-3% annually.

#### **6/ Trade of Fertilizers**

The market of fertilizers reveals solid growth, and is estimated at €330 million, while the Group's market share reached 1% in 2003, and is expected to remain stable in the next 5 years.

### **Production and Trade**

#### **1/ Production and Trade of Raw Materials for Water Processing & Biologic Sewage**

The Group holds a 5% share in a market that is estimated at €76 million, and is

expected to grow by 3% annually during the period 2003-2008.

## 2/ Production and Trade of Raw Materials for Metal Industries

The specific market reached €28 mil in 2003, whereas the market share of the Group is estimated at 10%. Market share is expected to increase to 15% by the end of 2008, while the sector is estimated to grow by 2% annually.

### Facilities

Group's facilities are distributed in Avlida, Atalanti, Thessaloniki, and Athens.

**Atalanti:** The Group has a privately owned factory that produces powder, liquid detergents and raw materials for detergents. The plant has 19 production lines and is one of the biggest in the Balkans with a manufacturing capacity of 100,000 tons/year in powder liquid and 25,000 tons/years in raw materials. We note that the plant is operating at approximately 30%-40% production capacity.

**Avlida:** The Group has privately owned warehouses and tanks covering a total area of 20,000 m<sup>3</sup>, storing different chemical products such as liquid sodium hydroxide, sodium hypochlorite, and other chemicals in special specification tanks. The facilities can store up to 11,000 palettes in covered areas and 3,000 palettes in semi-outdoor areas.

**Thessaloniki:** The Group owns warehouse facilities with tanks covering a total area of 3,000 m<sup>3</sup>, and a storage area of 3,000 m<sup>2</sup>. The Group is in the process of constructing warehouse facilities covering an area of 15,000 m<sup>2</sup> and a tank depot having railway connection with Thessaloniki. This investment is part of the Group's strategy to expand operations in N. Greece, the Balkans, and Ukraine.

**Athens:** The headquarters of the Group are located in Athens in an area of 1,100 m<sup>2</sup>, including a state-of-the art chemical laboratory.

### Quality Assurance

The Group is monitoring and controlling each part of production facilities.

Laboratory facilities are fully equipped and supported by specialized personnel for carrying out the controls. In order to ensure high-quality products, the Group applies the following procedure:

- a. Examination of the quality of raw materials used during production,
- b. Applied control and checking of all production parameters during the process,
- c. Incorporation of continued evaluation in all final product quality levels,

- d. Verification that the whole cycle meets the product specifications, which are mutually agreed with customers.

The Group has received the certification of quality standards ISO 9002:2000 for the production operations and facilities in Atalanti and Vathi.

### Strategies for Future Development

The Group has adopted a long-term strategy to:

- Maintain leadership and expand product portfolio with regard to the trading and distribution of chemical raw materials in all sectors of local chemical markets,
- Increase production of detergent final products and raw materials capturing an increasing share from total wholesale detergent sector (including imports),
- Develop privately-owned production facilities, packages and repackages, of chemical products in Thessaloniki, in order to explore trading opportunities in Northern Greece, the Balkans and Eastern Europe,
- Establish subsidiaries in foreign countries. The Group will explore opportunities through trading chemical products to existing customers with operations in the Balkans and some countries in Eastern Europe.

### Investment Expenditures (CAPEX)

The Company was listed on the Athens Stock Exchange in May 2003. The capital raised is utilized as follows:

1. €3,000,000, for the participation of Neochimiki to the share capital increase of its subsidiary Lamda Detergent, seeking to finance part of the investment program.
2. €1,402,528, for the full repayment of a loan that was granted for the purchase of an area in North Greece.
3. €704,329 for the development of privately owned warehouses in the above area.
4. €1,390,890 for the purchase and implementation of an SAP program that will improve Group's operation efficiency.
5. €2,000,000 for the decrease of short-term loans.
6. €2,000,000 for the support of working capital.

The Group is under a €10 million investment plan regarding the construction of a new warehouse (storage area of 15,000 m<sup>3</sup>) on its property in Thessaloniki. In addition, Neochimiki Group is planning to construct a private port on its 48,000 m<sup>3</sup> private property in Lavrio that will initiate in 2006-2007.

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## **The Chemical Raw Material and Detergent Sector**

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The chemical business is cyclical in nature. The industry is capital intensive, heavily regulated (health safety and environmental protection matters) and its means of distribution are varied. Overall growth is tied to the domestic and global economies, as reflected in the volatility of gross domestic product (GDP), personal consumption expenditures, retail sales, and currency exchange rates. Adding to the industry's cyclicity are imbalances in supply and demand caused by capacity additions. Certain areas of the industry in which large capacity additions are commonly made — such as the production of inorganic chemicals, petrochemicals, and plastics — can experience sharp price swings in response to changing supply and demand conditions.

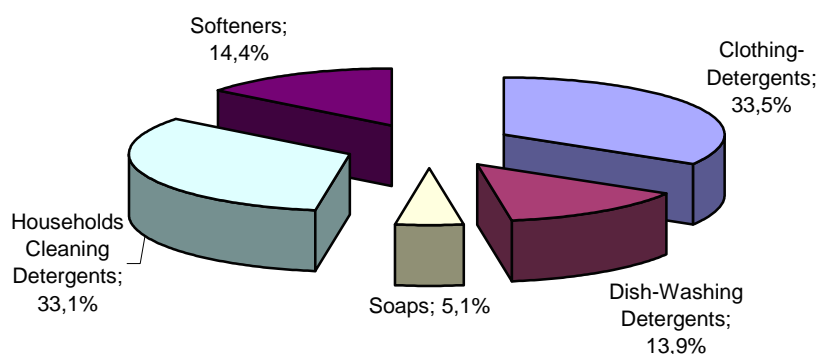
We separate Group's activities from the broader chemical sector to the sub-sectors of **"Wholesale Trade of Chemical Products"** and **"Production of Soaps and Detergents, Products of Cleaning and Polishing."**

**Trade of chemical products** is growing fast on an international scale, due to the technological progress and the development of new products. Its contribution to the total industry is up to 10% of the gross production value and 8% of the total employment of the processing sector. In Greece the market is based exclusively upon the import of raw materials since the country does not have any oil production units. The domestic market is characterized by a large number of small size trading companies most of which are subsidiaries of large multinational groups. In the last few years, the sector's trend is to concentrate and accumulate sales to large companies due to the overall economic crisis that affected the smaller players. The sector's products require specialization and a constant adaptation to new manufacturing methods and requirements. The expensive and difficult transportation in combination with the low production level of raw materials negatively affect companies in this sector.

**The detergent production** sector is steadily expanding and is constantly influenced by novelty and lifestyle trends. The household detergent market has a combined value of \$ 30 billion in North America, Western Europe, and Japan, while the personal care sector has a market worth more than \$ 50 billion.

The consumption of detergents and soaps in Greece has stabilized in recent years. According to 'ICAP', the degree of concentration is high, with the four largest producers accounting for a share of 80%-84% of total production in 2001. The relevant penetration rate settled at 36% in 2002.

The greater part of total domestic consumption was taken up by detergents for clothing cleaning and household detergents, with shares of **33.5%** and **33.1%** respectively. Softeners have a share of **14.4%** with their consumption marking a significant increase, detergents made up **13.95%** and soaps **5.1%** in 2002.



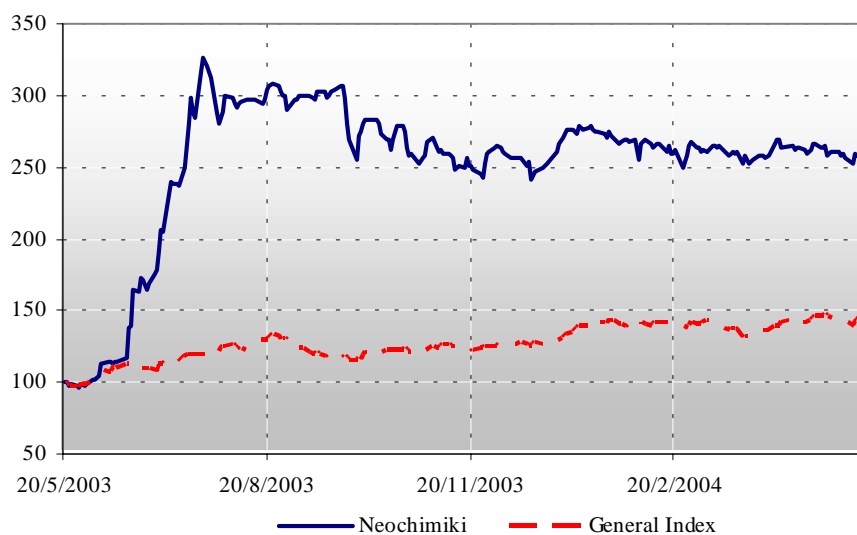
Greek household care was highly concentrated in 2002, with four multinational companies holding a combined current value share of around 61%. Unilever was the leader, with a 22% current value share in 2002, followed by Reckitt Benckiser with around 14%, and Procter & Gamble with 13%. Colgate Palmolive was the fourth leading company with a 12% share.

Private labels continued gaining ground and increased their share from 4% in 2001 to 4.3% in 2002. The increase is attributed to factors such as improved quality and lower prices, as well as to the growing importance of supermarkets / hypermarkets as the main channel for household care products in Greece. The most active retailers in this area were Carrefour, Marinopoulos, Veropoulos and Atlantic.

Sales of household care products are expected to increase by 7.6% by the end of 2007, while laundry care is expected to still be dominant, and air fresheners are anticipated to register the highest constant value growth over the forecast period, estimated at 16.7%.

During the period 1999-2002, the volume of domestic production increased by an average 2.4%; however, the production of clothing detergents is experiencing a decrease in recent years. This decline is mainly due to the withdrawal of multinationals' production facilities. A further decrease in detergent clothing production was also expected in 2003 leading to total domestic production decline of approximately 2%.

### Share Price Performance vs. General Index (base = 100)



Data as of 05/18/2004    2003 A    2004 E    2005 E    2006 E

Price (in €)	3.60				
Shares Outstanding	36,000,000				
Market Capitalization (in €)	129,600,000				
EPS (in €)		0.15	0.16	0.19	0.20
Book Value / Share (x)		0.8	0.8	1.0	1.1
EV (in €thous.)		176,163	176,790	177,736	175,305
P/E (a.t.& m.i.)		23.86x	22.89x	19.05x	17.96x
P/BV		4.77x	4.24x	3.74x	3.33x
P/Cash Flow		13.07x	9.84x	8.60x	8.11x
EV/EBITDA		15.72x	11.62x	10.16x	9.44x
EV/Sales		3.15x	2.20x	1.87x	1.67x
Dividend / Share (in €)		0.06	0.06	0.08	0.08
Dividend Yield		1.56%	1.75%	2.10%	2.23%

Source: VRS Estimates

## Valuation

### DCF Methodology

Our valuation incorporates a discounted free cash flow method, employing a discount rate in the range of 6.05 – 6.6%. The model's assumptions reflect the ongoing profitability of the Company, its ability to self-finance its long-term expansion program, and Neochimiki's growing presence in the Greek and Balkan region chemical market. We approach this valuation, estimating a continuing expansion of each division's revenues. Evaluating our projections on the DCF valuation method we end up on a fair value of €153.59 million or €4.27 per share.

(in €,000)	2004 E	2005 E	2006 E	2007 E	2008 E	L-Term Assumptions
<b>Cash Flow to the Firm (FCFF)</b>						
EBIT	10,982	12,621	13,226	13,523	13,836	14,238
Less: Adjusted Tax	2,044	2,438	2,589	2,695	2,773	2,853
Adjusted Operating Profit	8,938	10,183	10,636	10,828	11,063	11,384
Plus: Depreciation	4,233	4,881	5,345	5,795	6,232	6,493
<b>Operating Cash Flow</b>	<b>13,171</b>	<b>15,063</b>	<b>15,982</b>	<b>16,624</b>	<b>17,296</b>	<b>17,877</b>
Less: Working Capital	1,344	4,598	1,752	3,445	3,910	3,059
Less: Capex	7,173	5,868	5,759	5,355	5,141	5,993
<b>Cash Flow to the Firm (FCFF)</b>	<b>4,654</b>	<b>4,597</b>	<b>8,471</b>	<b>7,824</b>	<b>8,245</b>	<b>8,825</b>
Discount Factor	0.943	0.887	0.832	0.777	0.726	0.726
Present Value of Cash Flows	4,388	4,077	7,044	6,080	5,989	
Accumulated Present Value	4,388	8,465	15,509	21,589	27,578	
Residual Value						238,349
<b>Present Value of Residual Value</b>						<b>173,132</b>
<b>Enterprise Value</b>	<b>200,710</b>					
<b>VALUATION</b>						
Value of Firm	200,710					
Less: Net Debt	47,199					
Plus: Participations	80					
<b>Value of Firm</b>	<b>153,591</b>					
<b>Value of Share</b>	<b>€4.27</b>					
<b>WACC CALCULATION</b>						
Risk Free Rate	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Beta Factor	0.90	0.90	0.90	0.90	0.90	0.90
Market Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Equity	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
Debt / Debt+Equity	60.1%	57.6%	54.8%	51.7%	50.0%	50.0%
Cost of Debt	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
<b>Weighted Average Cost of Capital</b>	<b>6.05%</b>	<b>6.19%</b>	<b>6.34%</b>	<b>6.51%</b>	<b>6.60%</b>	<b>6.60%</b>

Source: VRS Estimates

### DDM Methodology

Under the Dividend Discount Model methodology, and assuming a dividend growth rate of 7% the terminal value per share of Neochimiki accounts for €4.16.

	2002	2003	2004E	2005E	2006E	2007E	2008E	Dividend Growth Rate	Terminal Value End of Period
Dividend per Share (in €)	0.02	0.06	0.06	0.08	0.08	0.11	0.13	7.00%	5.95
Required Return / Cost of Equity			9.30%	9.30%	9.30%	9.30%	9.30%		
Present Values (in €)			0.06	0.06	0.06	0.08	0.08		3.81
Dividend Growth Rate (CAGR <sub>2004-2008</sub> )								19.39%	
<b>Implied Value per Share</b>									<b>€4.16</b>

Source: VRS Estimates

### Peer Group Comparison

Neochimiki stock is fairly valued compared to its peers (listed on the ASE), while its business is more diversified with regard to its geographic expansion and the product and services it offers.

(Fiscal 2003 Data)	Mkt Cap. (in €ml)	Turnover (in €ml)	EBITDA (in €ml)	Net Income (in €ml)	P/E	P/BV	EV/EBITDA
Neochimiki	129.6	55.84	11.21	5.43	23.86x	4.77x	15.72x
Elton Chemicals	78.40	46.93	3.87	1.58	49.49x	9.86x	23.45x
Ballis Chemicals	32.84	4.60	1.99	1.36	24.18x	3.61x	15.55x
Rilken	27.49	32.42	5.08	2.22	12.36x	1.58x	5.46x
Druckfarben	25.46	46.30	6.40	1.66	15.31x	1.30x	3.71x
<b>Adj. Average</b>					<b>32.91</b>	<b>5.90</b>	<b>15.80</b>

Source: VRS Estimates

## GROUP HISTORIC &amp; PROJECTED PROFIT &amp; LOSS ACCOUNT

	2002 A	2003 A	2004 E	2005 E	2006 E	2007 E	2008 E
<b>Turnover</b>	<b>46,819</b>	<b>55,838</b>	<b>80,487</b>	<b>94,857</b>	<b>104,811</b>	<b>113,296</b>	<b>121,340</b>
y-o-y Change %	58.20%	19.26%	44.14%	17.85%	10.49%	8.10%	7.10%
<b>Cost of Sales</b>	<b>34,157</b>	<b>36,822</b>	<b>53,862</b>	<b>63,994</b>	<b>71,469</b>	<b>78,120</b>	<b>84,465</b>
% of Turnover	72.96%	65.94%	66.92%	67.46%	68.19%	68.95%	69.61%
y-o-y Change %	58.91%	7.80%	46.28%	18.81%	11.68%	9.31%	8.12%
<b>Gross Operating Results</b>	<b>12,662</b>	<b>19,016</b>	<b>26,624</b>	<b>30,864</b>	<b>33,342</b>	<b>35,176</b>	<b>36,875</b>
<b>Other Operating Income</b>	<b>65</b>	<b>58</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>60</b>
<b>Total Gross Operating Results</b>	<b>12,727</b>	<b>19,074</b>	<b>26,684</b>	<b>30,924</b>	<b>33,402</b>	<b>35,236</b>	<b>36,935</b>
<b>Gross Operating Margin</b>	<b>27.18%</b>	<b>34.16%</b>	<b>33.15%</b>	<b>32.60%</b>	<b>31.87%</b>	<b>31.10%</b>	<b>30.44%</b>
y-o-y Change %	<b>55.83%</b>	<b>49.87%</b>	<b>39.90%</b>	<b>15.89%</b>	<b>8.01%</b>	<b>5.49%</b>	<b>4.82%</b>
<b>Administrative Expenses</b>	<b>1,127</b>	<b>2,061</b>	<b>2,938</b>	<b>3,415</b>	<b>3,721</b>	<b>3,965</b>	<b>4,126</b>
% of Turnover	2.41%	3.69%	3.65%	3.60%	3.55%	3.50%	3.40%
<b>Research and Development Costs</b>	<b>0</b>	<b>58</b>	<b>322</b>	<b>379</b>	<b>524</b>	<b>566</b>	<b>607</b>
% of Turnover	0.00%	0.10%	0.40%	0.40%	0.50%	0.50%	0.50%
<b>Distribution Cost</b>	<b>3,592</b>	<b>5,749</b>	<b>8,210</b>	<b>9,628</b>	<b>10,586</b>	<b>11,386</b>	<b>12,134</b>
% of Turnover	7.67%	10.30%	10.20%	10.15%	10.10%	10.05%	10.00%
<b>Total Expenses</b>	<b>4,719</b>	<b>7,868</b>	<b>11,469</b>	<b>13,422</b>	<b>14,831</b>	<b>15,918</b>	<b>16,866</b>
% of Turnover	10.08%	14.09%	14.25%	14.15%	14.15%	14.05%	13.90%
y-o-y Change %	68.54%	66.73%	45.77%	17.03%	10.49%	7.33%	5.96%
<b>EBITDA</b>	<b>8,008</b>	<b>11,206</b>	<b>15,215</b>	<b>17,501</b>	<b>18,571</b>	<b>19,318</b>	<b>20,069</b>
<b>EBITDA Margin</b>	<b>17.10%</b>	<b>20.07%</b>	<b>18.90%</b>	<b>18.45%</b>	<b>17.72%</b>	<b>17.05%</b>	<b>16.54%</b>
y-o-y Change %	49.21%	39.94%	35.77%	15.03%	6.11%	4.02%	3.89%
<b>Depreciation</b>	<b>1,968</b>	<b>2,663</b>	<b>4,233</b>	<b>4,881</b>	<b>5,345</b>	<b>5,795</b>	<b>6,232</b>
% of Turnover	4.20%	4.77%	5.26%	5.15%	5.10%	5.12%	5.14%
<b>EBIT</b>	<b>6,040</b>	<b>8,543</b>	<b>10,982</b>	<b>12,621</b>	<b>13,226</b>	<b>13,523</b>	<b>13,836</b>
% of Turnover	12.90%	15.30%	13.64%	13.30%	12.62%	11.94%	11.40%
y-o-y Change %	36.01%	41.44%	28.55%	14.92%	4.80%	2.25%	2.32%
<b>Total Financial Income</b>	<b>27.2</b>	<b>14.4</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
<b>Total Financial Expense</b>	<b>1,509</b>	<b>2,167</b>	<b>2,977</b>	<b>3,039</b>	<b>3,039</b>	<b>2,915</b>	<b>2,915</b>
<b>Net Extraordinary Results</b>	<b>-95</b>	<b>250</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>
<b>Net Results Before Taxes</b>	<b>4,464</b>	<b>6,640</b>	<b>8,175</b>	<b>9,752</b>	<b>10,357</b>	<b>10,778</b>	<b>11,092</b>
<b>EBT Margin</b>	<b>9.53%</b>	<b>11.89%</b>	<b>10.16%</b>	<b>10.28%</b>	<b>9.88%</b>	<b>9.51%</b>	<b>9.14%</b>
y-o-y Change %	34.48%	48.77%	23.12%	19.28%	6.21%	4.07%	2.91%
<b>(-)Prior Tears' Tax Differences</b>	<b>287</b>	<b>282</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>
<b>Tax income</b>	<b>1,222</b>	<b>732</b>	<b>2,044</b>	<b>2,438</b>	<b>2,589</b>	<b>2,695</b>	<b>2,773</b>
Effective Tax Rate	27.38%	11.02%	25.00%	25.00%	25.00%	25.00%	25.00%
<b>Taxes not Charged to the Oper. Cost</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Results After Taxes</b>	<b>2,955</b>	<b>5,626</b>	<b>5,882</b>	<b>7,064</b>	<b>7,518</b>	<b>7,834</b>	<b>8,069</b>
<b>EAT Margin</b>	<b>6.31%</b>	<b>10.08%</b>	<b>7.31%</b>	<b>7.45%</b>	<b>7.17%</b>	<b>6.91%</b>	<b>6.65%</b>
y-o-y Change %	32.31%	90.43%	4.54%	20.10%	6.43%	4.20%	3.00%
<b>Proportion of Minority Rights</b>	<b>103</b>	<b>194</b>	<b>220</b>	<b>260</b>	<b>300</b>	<b>350</b>	<b>400</b>
<b>Consolidated Net Results (a.t.&amp;m.i.)</b>	<b>2,852</b>	<b>5,432</b>	<b>5,662</b>	<b>6,804</b>	<b>7,218</b>	<b>7,484</b>	<b>7,669</b>
<b>Net Margin</b>	<b>6.09%</b>	<b>9.73%</b>	<b>7.03%</b>	<b>7.17%</b>	<b>6.89%</b>	<b>6.61%</b>	<b>6.32%</b>
y-o-y Change %	<b>34.31%</b>	<b>90.50%</b>	<b>4.22%</b>	<b>20.18%</b>	<b>6.08%</b>	<b>3.68%</b>	<b>2.47%</b>

Source: Company Data &amp; VRS Estimates

## GROUP HISTORIC &amp; PROJECTED BALANCE SHEET

	2002 A	2003 A	2004 E	2005 E	2006 E	2007 E	2008 E
<b>Assets</b>							
Formation Expenses	520	2,361	2,817	3,035	3,144	3,399	3,640
Accumulated Depreciation	233	618	1,006	1,445	1,909	2,399	2,927
<b>Total Net Formation Expenses</b>	<b>287</b>	<b>1,743</b>	<b>1,811</b>	<b>1,590</b>	<b>1,236</b>	<b>1,000</b>	<b>713</b>
Tangible Assets	35,342	56,265	62,982	68,632	74,282	79,382	84,282
Accumulated Depreciation	3,692	5,413	9,258	13,699	18,581	23,886	29,590
<b>Total Net Tangible Assets</b>	<b>31,650</b>	<b>50,851</b>	<b>53,724</b>	<b>54,932</b>	<b>55,700</b>	<b>55,496</b>	<b>54,691</b>
Financial Assets	28	81	80	80	80	80	80
<b>TOTAL FIXED ASSETS</b>	<b>31,678</b>	<b>50,932</b>	<b>53,804</b>	<b>55,012</b>	<b>55,780</b>	<b>55,576</b>	<b>54,771</b>
% Total Assets	<b>56.07%</b>	<b>57.74%</b>	<b>55.27%</b>	<b>53.24%</b>	<b>50.16%</b>	<b>48.92%</b>	<b>46.43%</b>
Inventories	8,614	11,199	13,592	15,512	16,992	18,537	19,877
Debtors	5,754	8,808	10,156	10,635	12,337	12,495	14,100
Notes Receivables	87	0	0	0	0	0	0
Checks Receivables	6,095	9,523	11,646	13,303	14,264	15,535	16,379
Other Receivables	3,303	4,426	5,276	6,159	7,050	7,228	8,064
Securities (net)	1	6	6	6	6	6	6
Cash in Bank and at Hand	591	1,206	804	857	3,288	2,980	3,815
<b>TOTAL CURRENT ASSETS</b>	<b>24,445</b>	<b>35,170</b>	<b>41,479</b>	<b>46,472</b>	<b>53,938</b>	<b>56,781</b>	<b>62,242</b>
% Total Assets	<b>43.3%</b>	<b>39.9%</b>	<b>42.6%</b>	<b>45.0%</b>	<b>48.5%</b>	<b>50.0%</b>	<b>52.8%</b>
Prepayments & Accrued Income	89	366	250	250	250	250	250
<b>GRAND TOTAL ASSETS</b>	<b>56,500</b>	<b>88,210</b>	<b>97,344</b>	<b>103,325</b>	<b>111,203</b>	<b>113,606</b>	<b>117,976</b>
<b>Equity &amp; Liabilities</b>							
Share Capital	7,150	10,800	10,800	10,800	10,800	10,800	10,800
Share Premium Account	0	6,525	6,525	6,525	6,525	6,525	6,525
Total Reserves	3,075	7,768	8,617	9,638	10,721	11,843	12,993
Profit Carried Forward	3,180	1,875	4,423	7,484	10,733	12,978	14,895
Minority Rights	1,005	1,272	1,300	1,400	1,500	1,600	1,700
<b>TOTAL CAPITAL &amp; RESERVES</b>	<b>14,786</b>	<b>28,428</b>	<b>31,845</b>	<b>36,027</b>	<b>40,458</b>	<b>43,926</b>	<b>47,093</b>
% Total Equity & Liabilities	<b>26.17%</b>	<b>32.23%</b>	<b>32.71%</b>	<b>34.87%</b>	<b>36.38%</b>	<b>38.66%</b>	<b>39.92%</b>
Provisions	0	18.8	20.0	20.0	20.0	20.0	20.0
Debture Loans	0	21,000	21,000	21,000	21,000	21,000	21,000
Other Long Term Debt	0	9	9	9	9	9	9
Bank Loans	21,000	12,000	12,000	12,000	12,000	12,000	12,000
<b>Total L-Term Liabilities</b>	<b>21,000</b>	<b>33,009</b>	<b>33,009</b>	<b>33,009</b>	<b>33,009</b>	<b>33,009</b>	<b>33,009</b>
Suppliers	7,331	8,246	12,118	11,726	14,903	14,204	14,954
Notes & Checks Payable	235	473	412	640	535	749	639
Banks	9,830	14,775	15,000	16,000	16,000	14,000	14,000
Current Portion of Long Term Debt	0	0	0	0	0	0	0
Taxes-Duties	2,312	776.1	2,044	2,438	2,589	2,695	2,773
Social Charges	160	256.6	367	427	465	496	516
Dividends	672	2,025	2,265	2,722	2,887	4,116	4,601
Sundry Debtors	39	92	115	166	186	242	221
<b>Total Current Liabilities</b>	<b>20,578</b>	<b>26,644</b>	<b>32,320</b>	<b>34,118</b>	<b>37,566</b>	<b>36,501</b>	<b>37,704</b>
<b>TOTAL LIABILITIES</b>	<b>41,578</b>	<b>59,653</b>	<b>65,329</b>	<b>67,127</b>	<b>70,575</b>	<b>69,510</b>	<b>70,713</b>
% Total Equity & Liabilities	<b>73.59%</b>	<b>67.63%</b>	<b>67.11%</b>	<b>64.97%</b>	<b>63.47%</b>	<b>61.19%</b>	<b>59.94%</b>
Accrued Expenses	136	110	150	150	150	150	150
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>56,500</b>	<b>88,210</b>	<b>97,344</b>	<b>103,325</b>	<b>111,203</b>	<b>113,606</b>	<b>117,976</b>

Source: Company Data &amp; VRS Estimates

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## Equity Research

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