

Q4'18 first take: No surprises in preliminary figures, FY'19 to remain challenging

Leading paper and plastics surface décor manufacturer Surteco just published Q4'18 preliminary figures. FY'18 figures were mostly in line with our expectations, but moderately below consensus in terms of EBIT. The outlook is in line with our subdued view on FY'19, but consensus seems a bit too optimistic in our view regarding EBIT. Overall, we would expect a moderately negative share price reaction. However, as there has been increased interest in the shares since H2'18, there could be a floor to the share price despite the, in our view, too optimistic consensus.

SURTECO GROUP		Actual			Pareto		Consensus		Pareto estimates		Consensus estimates	
		2017	2018	yoy	2018	Delta	2018	Delta	2019e	2020e	2019e	2020e
Revenues	EURm	690	699	1%	693	1%	692	1%	703	712	710	721
EBIT	"	45	32	(28)%	31	3%	34	(5)%	41	47	45	49
EBIT Margin	%	6.5%	4.6%	-187 bps	4.5%	11 bps	4.9%	-29 bps	5.8%	6.7%	6.3%	6.8%

Source: Pareto, Company data, Factset

Revenues slightly above guided range, EBIT overall in line

The EUR 699m revenues Surteco stated as preliminary figure for the FY'18 were slightly above expectations and the guided range of EUR 685m-695m as of November. Overall, Surteco faced a year with clear FX headwinds (-2% yoy, or EUR -15m) and declining demand in important customer industries such as laminate flooring and wood panels. This is exemplary reflected by a 7% yoy organic decline in Q4'18 revenues. EBIT is more or less in line with our expectations. As a reminder, the company initiated a restructuring program in Q3'18 of up to EUR 7m to optimise personnel expenses and processes. We had anticipated c. EUR 7m for restructuring in Q4, but only EUR 6m materialised. Therefore, before restructuring, EBIT of EUR 38m was in line with the latest management guidance of EUR 37m-39m. The main burden on EBIT in FY'18 were increased material costs for titanium dioxide (paper), ABS and PP (plastics). In sum, FY'18 numbers should not take anyone by surprise today.

FY'19 Outlook remains subdued, consensus too optimistic at a first glance

As we already indicated in our initiation of coverage in December, the outlook for FY'19 remains subdued for the paper and plastics foils and edgebanding producer. Accordingly, management does not expect impetus for organic growth, which is why we believe that consensus is a notch too high in terms of revenues (1-2% for FY'19). Surteco's management expects EBIT above the EUR 38m achieved in FY'18 (ex-restructuring), where consensus could also be 5-10% too optimistic, in our view. All in, we would expect a negative share price reaction in today's trading session. However, there has been increased interest from a strategic buyer since H2'18. This could offer a floor to the share price, assuming that the buyer is still interested in buying Surteco shares. The annual report will be published on April 30.

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