

Preview Q2 – present business likely better than sentiment - for now

While the sentiment of the German furniture industry as Surteco's most important customer group is depressed since the war in the Ukraine began, the actual business was probably still solid levels. Against that backdrop, we expect Surteco to report solid top line growth for Q2 on July 29th, but also an ongoing high inflationary pressure from raw materials. All in, we believe that Surteco is on course to meet its EBIT guidance of EUR 55-65m for 2022, but the final result might be more at the lower end of that range. Buy, PT EUR 40.

Business expectations in negative territory

While representatives of the German furniture industry perceive the current state of business as still "good" by now, business expectations have fallen off a cliff in March 2022 after the outbreak of hostilities between the Ukraine and Russia and did not recover since then. Obviously, the industry expects a recession in the near future. At the same time, raw material cost pressure for Surteco remains high.

Q2 should see still solid top line growth but ongoing cost pressure

Against that backdrop, we expect Surteco to report still solid top line growth of around 3% for Q2 on July 29th, mainly driven by price increases. We anticipate an ongoing high inflationary pressure from raw materials in Q2, leading to materials costs of still around 51% of revenues. All other cost ratios should be largely in-line with the levels seen in the last couple of quarters, we think.

Guidance for 2022 should be reach

We believe that Surteco is on course to meet its EBIT guidance of EUR 55-65m for 2022, but the actual result might be more at the lower end of that range. On the contrary, the revenue guidance of EUR 730-750m for 2022 could even turn out to be a bit conservative as we expect Surteco to have realized revenues of more than EUR 400m after H1 already.

EURm	2020	2021	2022e	2023e	2024e
Revenues	627	757	746	764	783
EBITDA	88	115	103	109	119
EBIT	46	73	60	65	75
EPS	2.17	3.08	2.58	2.83	3.30
EPS adj	2.17	3.08	2.58	2.83	3.30
DPS	0.80	1.00	1.00	1.00	1.16
EV/EBITDA	6.0	6.6	4.5	4.1	3.5
EV/EBIT	11.5	10.4	7.8	6.8	5.5
P/E adj	11.1	12.3	9.0	8.2	7.0
P/B	1.00	1.42	0.82	0.77	0.72
ROE (%)	9.3	12.1	9.4	9.7	10.5
Div yield (%)	3.3	2.6	4.3	4.3	5.0
Net debt	145	153	97	74	44

Source: Pareto Securities

Target price (EUR)	40	▲	BUY
Share price (EUR)	23	—	HOLD
		▼	SELL

Forecast changes

%	2022e	2023e	2024e
Revenues	-	-	-
EBITDA	-	-	-
EPS reported	-	-	-
EPS adj	-	-	-

Source: Pareto Securities

Ticker	SURG.DE, SUR GR
Sector	Industrials
Shares fully diluted (m)	15.5
Market cap (EURm)	360
Net debt (EURm)	108
Minority interests (EURm)	0
Enterprise value 22e (EURm)	468
Free float (%)	12

Performance



Source: FactSet

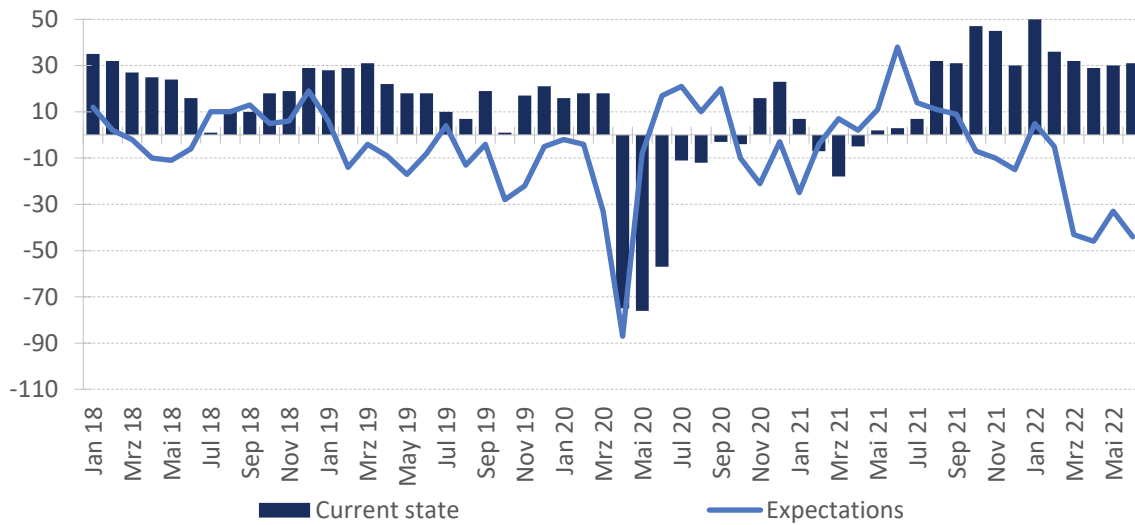
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Our view on Q2

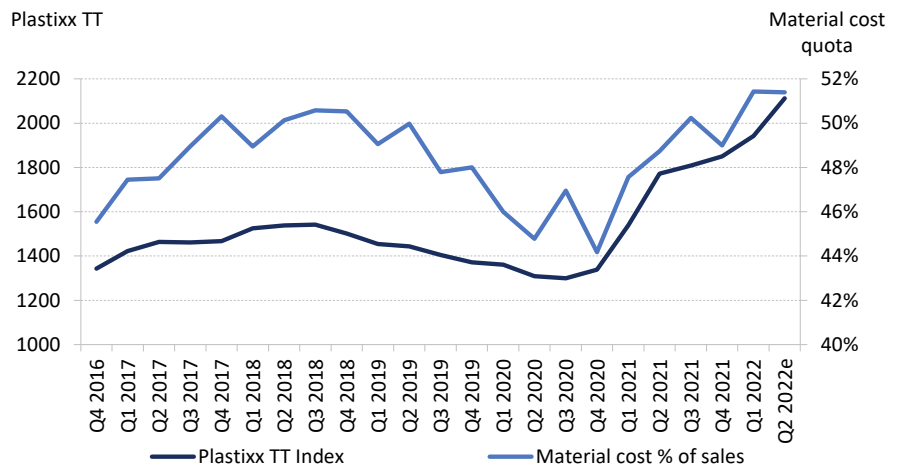
Ifo business climate index for the German furniture industry



Source: VDM, Pareto Securities

While representatives of the German furniture industry perceive the current state of business as still “good” by now, business expectations have fallen off a cliff in March 2022 after the outbreak of hostilities between the Ukraine and Russia and did not recover since then. Obviously, the industry expects a recession in the near future.

Raw material costs at record levels



Source: Kiweb.de, Pareto Securities

At the same time, raw material cost pressure remains high, as exemplified by the Plastixx TT index depicted above, which proved to be a good lead indicator for the development of Surteco’s material cost quota in the past.

Against that backdrop, we expect Surteco to report solid top line growth of around 3% for Q2 on July 29th, mainly driven by price increases, aiming at passing through the cost inflation incurred by Surteco. We anticipate an ongoing high inflationary pressure from raw materials in Q2, leading to materials costs of still around 51% of revenues. All other cost ratios should be largely in-line with the levels seen in the last couple of quarters, we think.

Consequently, we believe that Surteco is on course to meet its EBIT guidance of EUR 55-65m for 2022, albeit the actual result might be more at the lower end of that range. On the contrary, the revenue guidance of EUR 730-750m for 2022 might even turn out to be a bit conservative as we expect Surteco to have realized revenues of more than EUR 400m after H1 already (see below).

Outlook Q2...

... and the resulting H1 estimate

SURTECO GROUP (EURm)	Actual	Pareto	
	Q2 2021	Q2 2022e	yoy (%)
Total output	190	195	3
Cost of materials	-92	-100	9
Personnel expenses	-44	-45	3
Other opex	-25	-26	3
EBITDA	28	24	-16
EBITDA Margin	14.7%	12.1%	-266 BP
D&A	-11	-11	2
EBIT	17	13	-26
EBIT Margin	9.2%	6.6%	-258 BP

Source: Pareto Securities

SURTECO GROUP (EURm)	Actual	Pareto	
	H1 2021	H1 2022e	yoy (%)
Total output	382	413	8
Cost of materials	-184	-213	16
Personnel expenses	-89	-92	4
Other opex	-49	-54	10
EBITDA	60	55	-9
EBITDA Margin	15.7%	13.2%	-247 BP
D&A	-21	-22	3
EBIT	39	33	-15
EBIT Margin	10.2%	8.0%	-220 BP

Source: Pareto Securities

At a glance

Surteco at a glance

Business Units	Decoratives	Technicals	Profiles		
Products/applications	Comprises the activities related to the manufacture and distribution of edge bandings (35% of total sales), finish foils (15%), décor paper (13%) and release papers (4%)	Encompasses impregnates (8% of total sales) and specialised finished foils (4%), and specialized edge bandings (2%).	Includes skirtings (8% of total sales) and technical profiles (5%)		
Customers	Serves primarily the wood-based sector, namely the woodworking, flooring, caravanning and furniture (namely kitchen, living room and office) industries	Provides solutions for individual special such as fire-inhibiting materials for cruise ships or plastic foils for further processing to produce carpets	Industries served include: interior design, craft, caravanning, industrial applications, cruising and ship building		
Market share/positioning	60% European market share for paper-based edge bands and 25% market share for thermoplastic edges				
Drivers	Surteco operates in a material intensive industry whose products have a long-life, thus top-line growth is driven by: (I) demand from furniture manufacturers; (II) macroeconomic headwinds, namely currency fluctuations in USD and trade dispute tensions; (III) global economic growth, private consumption propensity, disposable income and unemployment level. Bottom line is catalysed by: (I) availability and costs of raw materials, particularly raw papers (cellulose), plastics (PVC) and chemical additives (titanium dioxide); (II) successful consolidation of low-cost players to expand horizontally and vertically but also gain market shares in new regions				
Main competitors	Neodecortech, Schattdecor, Interprint (now part of the Toppan group), Rehau, MKT (edgebanding), Impress (paper) plus many smaller names				
Entry barriers/competitive advantage	Medium barriers of entry because of high initial investments and proprietary rights for décors. On the other hand, Surteco presents a unique market positioning as a one-stop shop supplier of decorative surfaces given that several of its products are the most sold in its segment. Surteco also has a product and international scale advantage as well as high operational leverage, allowing it to benefit from economies of scale in development costs				
Strategy & Guidance	Strategy: (I) "Product Leadership" - Capitalizing on the comprehensive know-how of the group. (II) "Focussed Internationalization" - Increasing presence in selective growth markets. (III) "Digital Transformation" - Supporting the commercial and operational excellence via process digitalization.		Guidance (04/2022): Revenue: EUR 730-750m EBIT: EUR 55-65m	Pareto Estimates Revenue: EUR 746m y/y: -1.5% EBIT: EUR 60m Margin: 8.1%	Consensus EUR 746m EUR 61m 8.1%
2021	Sales (EURm) y/y: 757.1	EBITDA Margin: 114.8 15.2%	EBIT (EURm) Margin: 72.5 9.6%	Sales 5Y hist. CAGF: 3.4%	Organic growth y/y: 3.5%
Sales & EBIT Split	Sales split by region 	Sales split by division 	EBIT split by division 	Group financial development 	
Shareholder structure & management	CEO Wolfgang Moyses CEO (since 2019) • Mr Moyses joined Webasto as divisional controller in 1988. From 1992 until 1999, he had roles of head of controlling, project manager, commercial director, and division manager at MANN+Hummel. He served as Chairman for Simona from 1999 until August 2019. As of October 2019, Mr Moyses acts as CEO of Surteco. Mr Moyses earned an MBA from the Gutenberg University of Mainz.	COO Dr. Manfred Bracher COO (since 2020) • As graduated engineer in plastics technology, Mr Bracher was active in various leading management roles from 1996-2019, at the end as board member of RKW SE. Since 2020 COO at Surteco.	CFO Andreas Pötz CFO (since 2022) • After a number of management positions at Siemens, Infineon, Zumtobel and Aixtron in Germany and abroad, Mr Pötz joint Kratzer Automation AG, where he became member of the management board in 2015. In 2017, Mr Pötz joint Surteco as CFO and became member of the management board in 2022.	Shareholder structure 	
# of employees FY 2021	3,165				

Source: Company, Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Revenues	690	699	675	627	757	746	764	783
EBITDA	83	73	66	88	115	103	109	119
Depreciation & amortisation	(38)	(41)	(45)	(42)	(42)	(43)	(43)	(44)
EBIT	45	32	21	46	73	60	65	75
Net interest	(8)	(6)	(7)	(3)	(4)	(4)	(3)	(3)
Other financial items	(4)	0	1	-	-	-	-	-
Profit before taxes	34	27	16	43	70	56	62	72
Taxes	(7)	(8)	(7)	(10)	(22)	(16)	(18)	(21)
Minority interest	(0)	(0)	(0)	(0)	-	-	-	-
Net profit	26	19	9	34	48	40	44	51
EPS reported	1.69	1.20	0.61	2.17	3.08	2.58	2.83	3.30
EPS adjusted	1.78	1.54	0.61	2.17	3.08	2.58	2.83	3.30
DPS	0.80	0.55	-	0.80	1.00	1.00	1.00	1.16
BALANCE SHEET (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Tangible non current assets	258	256	237	234	242	243	245	248
Other non-current assets	258	245	246	230	227	227	227	228
Other current assets	193	223	214	201	254	207	211	215
Cash & equivalents	133	121	84	133	73	129	152	181
Total assets	843	845	780	799	795	806	835	872
Total equity	349	353	355	373	414	438	467	502
Interest-bearing non-current debt	318	253	255	238	133	133	133	133
Interest-bearing current debt	6	66	9	41	93	93	93	93
Other Debt	157	160	148	134	144	130	131	133
Total liabilities & equity	843	845	780	799	795	806	835	872
CASH FLOW (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Cash earnings	75	66	78	70	96	83	87	95
Change in working capital	8	(5)	6	13	(52)	33	(3)	(3)
Cash flow from investments	(115)	(49)	(36)	(31)	(31)	(45)	(46)	(47)
Cash flow from financing	107	(24)	(85)	(4)	(73)	(16)	(16)	(16)
Net cash flow	73	(12)	(37)	50	(60)	56	23	29
VALUATION (EURm)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Share price (EUR end)	26.9	22.3	22.7	24.1	37.9	23.2	23.2	23.2
Number of shares end period	16	16	16	16	16	16	16	16
Net interest bearing debt	190	198	180	145	153	97	74	44
Enterprise value	623	559	548	532	752	468	445	416
EV/Sales	0.9	0.8	0.8	0.8	1.0	0.6	0.6	0.5
EV/EBITDA	7.5	7.7	8.3	6.0	6.6	4.5	4.1	3.5
EV/EBIT	13.9	17.4	26.0	11.5	10.4	7.8	6.8	5.5
P/E reported	15.9	18.6	37.4	11.1	12.3	9.0	8.2	7.0
P/E adjusted	15.1	14.4	37.4	11.1	12.3	9.0	8.2	7.0
P/B	1.2	1.0	1.0	1.0	1.4	0.8	0.8	0.7
FINANCIAL ANALYSIS	2017	2018	2019	2020	2021	2022e	2023e	2024e
ROE adjusted (%)	7.9	6.8	2.7	9.3	12.1	9.4	9.7	10.5
Dividend yield (%)	3.0	2.5	-	3.3	2.6	4.3	4.3	5.0
EBITDA margin (%)	12.0	10.4	9.8	14.1	15.2	13.8	14.2	15.2
EBIT margin (%)	6.5	4.6	3.1	7.4	9.6	8.1	8.5	9.6
NIBD/EBITDA	2.29	2.71	2.71	1.64	1.33	0.94	0.68	0.37
EBITDA/Net interest	11.04	13.27	9.75	27.34	26.25	28.14	31.22	35.01

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Selvaag Bolig	4,314,865	4.60%
Sparebank 1 Nord-Norge	4,421,827	4.40%
Sparebank 1 SMN	2,175,755	1.68%
Sparebank 1 SR-Bank	2,071,099	0.81%
SpareBank 1 Østfold Aker shus	1,232,429	9.95%
SpareBank 1 Østlandet	3,834,663	3.61%
Sparebanken Møre	730,030	1.48%
Sparebanken Sar	433,744	2.77%
Sparebanken Vest	6,862,344	6.39%
NEXT Biometrics	710,901	0.78%
SpareBank 1 Sarast-Norge	1,771,308	2.81%

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,825
Aker ASA	500	2,694
Aker BP	0	28,451
Aker Carbon Capture	0	4,926
Aker Clean Hydrogen	0	140,540
Aker Horizons	0	125,848
Aker Offshore Wind	0	165,118
Aprilia Bank ASA	0	22,675
ArcticZymes Technologies	0	684
Avance Gas	0	4,000
B2Holding AS	0	10,940
Belships	0	2,200
Bonheur	0	32,088
Borregaard ASA	0	650
Bouvet	0	940
BW Energy	0	112,160
BW Offshore	0	17,976
Circa Group	0	6,550
Cloudberry Clean Energy	0	101,750
Crayon	0	1,080
Desert Control	0	32,000
DNB	0	50,245
DNO	0	70,258
Elkem	0	76,717
Elmeria Group ASA	0	30,503
ELOP	0	140,000
Equinor	0	2,623
Europris	0	17,708
Flex LNG	0	717
Frontline	0	11,465

Company	Analyst holdings*	Total holdings
Gaming Innovation Group	0	25,912
Gjensidige Forsikring	0	7,846
GramCar Carriers	0	3,000
Grieg Seafood	0	8,889
Hafnia Ltd.	0	98,030
Huddly	0	1,007,173
HydrogenPro	0	38,966
Kitron	0	24,336
Komplett Bank	0	209,400
Kongsberg Gruppen	0	281
KWS	75	75
Lea bank	0	31,499
Leroy Seafood Group	0	39,363
Maltwater	0	30,700
Merzell	0	24,863
Mowi	0	399
MPC Container Ships	0	31,345
NEXT Biometrics	0	710,901
Nordic Semiconductor	0	9,835
Norco	0	590
Norse Atlantic	0	40,000
Norsk Hydro	0	84,189
Norske Skog	0	107,799
Northern Drilling Ltd.	0	120,919
Norwegian Air Shuttle	0	5,412
Odjell Drilling	0	28,581
Okeanis Eco Tankers	0	1,420
Orkla	0	23,648
Panoro Energy	0	28,373
Pareto Bank	0	1,336,414
Pexip Holding	0	176,383
PGS	0	11,676
Protector Forsikring	0	15,300
Pryme	0	5,000
Pyrum Innovations	0	100
Quantumel	0	8,797
REC Silicon	0	30,641
SilMar	0	2,604
Sandnes Sparebank	0	4,013
SATSASA	0	35,810
Scatec	0	31,074
Seadrill Ltd	0	2,171
Selvaag Bolig	0	3,093
Sparebank 1 Nord-Norge	0	4,350
Sparebank 1 SMN	0	16,984
Sparebank 1 SR-Bank	0	17,509
SpareBank 1 Østfold Aker shus	0	1,252
SpareBank 1 Østlandet	0	11,121
Sparebanken Sar	0	16,435
Sparebanken Vest	0	17,463
Sparebanken Øst	0	1,500
Stolt-Nielsen	0	1,817
Storbrand	0	39,652
Subsea 7	0	27,187
Telenor	0	12,784
TGS	0	600
Vow	0	9,331
Vow Green Metals	0	19,681
Vår Energi	0	87,172
Wallenius Wilhelmsen	0	2,000
XXL	0	20,523
Yara	0	18,647
Zaptec	0	15,610

This overview is updated monthly (last updated 14.06.2022).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements in accordance with Article 6(1)(c)(iii) of Commission Delegated Regulation (EU) 2016/958

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Aker ASA	Salmon Evolution
Aker Clean Hydrogen	Sartorius-Herbst
Aker Offshore Wind	Seagems Norway
Alva Industries AS	Seajacks
Apila Bank ASA	Shamaran Petroleum
Arca Cyber	Stata European Holdings
Bar Ramsund Group Pte. Ltd.	Swedencare
Biomega Group AS	TEMP TON GmbH
Bonheur	Tier klinik Hofheim GbR
Boreal Holding AS	Trender Energi AS
Brooge Petroleum and Gas	Vestby Logistikk Holding
BW LPG	Vår Energi
BW Offshore	Waldorf Production UK Ltd
Cabonline Group Holding AB	Waste Plastic Upcycling
Cavai AS	Wattif EV
Cloudberry Clean Energy	wheel.me
Dampskibsselskabet NORDEN A/S	Xeneta AS
DNO	Ymber AS
Documaster AS	ZTL Payment Solution AS
ELOP	Ørn Software
Enapter AG	
Ensurge Micropower	
Esmailizadeh Holding	
First Camp Group AB	
Flex LNG	
FREYR Battery	
Funkwerk AG	
Global Agrarjes (Fertiberia group)	
Golar LNG	
GramCar Carriers	
Green Transition Holding	
Greentood	
Grøntvedt AS	
Hafslund Eco	
Hagal AS	
HMH Holding	
Ice Group	
Immunopharma	
InoBat Auto	
International Petroleum Corporation	
JP/Politikken's Forlag	
Kalera	
Kebony	
Kentech Global Plc	
Keppel FELS Limited	
KMC Properties	
Komplett ASA	
Kruse Smith	
Kvitbjørn Varme	
Lakers Holding AS	
Lerøy Seafood Group	
Lumarine AS	
Mathesa Bostadsbolaget AB	
Marcell	
Mime Petroleum	
Modex AS	
Multitude SE	
Navios Maritime Acquisitions	
Navios Maritime Holdings	
Nordic Halibut	
Norco	
Norwegian Block Exchange	
Odjell Oceanwind	
Okea AS	
Otello Corporation	
Pandion Energy	
Pareto Bank	
Petronor E&P	
PHM Group	
Ping Petroleum UK Limited	
poLight	
Pronofa AS	
Protector Forsikring	
Pryme	
Pyrum Innovations	
Qred Holding	
Quantafuel	
Saga Robotics	

This overview is updated monthly (this overview is for the period 31.05.2021 – 31.05.2022).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11 (4)

Distribution of recommendations	
Recommendation	% distribution
Buy	78%
Hold	21%
Sell	1%

Distribution of recommendations (transactions*)	
Recommendation	% distribution
Buy	89%
Hold	11%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public services in the previous 12 months

This overview is updated monthly (last updated 14.06.2022).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

ADDVise	Mentice	Studentbostäder i Norden
BioInvent	Media & Games Invest plc.	Swedencare
Cibus Nordic Real Estate AB	Oscar Properties	VEF
Egetis Therapeutics	Sedana Medical	VNV Global
Hexatronic	Shamaran Petroleum Corp	

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Energy Corp.	Media & Games Invest plc.	Shamaran Petroleum
ByggPartner i Dalarna Holding	Mentice AB	Surgical Science
Cibus Nordic Real Estate	Minesto	Tethys Oil
Isolof Medical	Sällängen Property Invest	VEF
Logistri Fastighets AB	SciBase Holding	
Magnolia Bostad	Sedana Medical	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None

Member of the Pareto Group is providing Business Management services to the following companies:

Aarhus Residential's Denmark AB	Fleming Properties AB	Mälarsen AB
Backaheden Fastighets AB	Halmlätten Fastighets AB (publ)	One Publicus Fastighets AB
Bonäsudden Holding AB (publ)	Korsängen Fastighets AB (publ)	Origa Car AB (publ)
Borglanda Fastighets AB	Krona Public Real Estate AB	Preserium Property AB
Bosjö Fastigheter AB	Logistri Fastighets AB	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None

This overview is updated monthly (last updated 15.07.2022).

Appendix E

Disclosure requirements in accordance with Article 6(1)(c)(i) of Commission Delegated Regulation (EU) 2016/958

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the

2G Energy *	Heidelberg Pharma *	Northern Data AG
Biotech *	Intershop Communications AG	OVH Holding AG
CORESTATE Capital Holding S.A.	Leifheit	Procredit Holding *
Daldrup & Söhne	Logwin *	PSI SOFTWARE AG *
Demire	Manz AG *	PWO *
Epigenomics AG *	MAX Automation SE	S&T AG *
Gesco *	Merkur Bank	SMT Scharf AG *
Gerry Weber	MLP *	Surteco Group *
GFT Technologies *	Mühl Produkt & Service AG	Szyggy AG *
Gigaset *	mutares	Viscom *

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements in accordance with Article 6(1)(c)(iv) of Commission Delegated Regulation (EU) 2016/958

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and – in return – receives compensation.

Baywa	Gerry Weber	Mynaric
BB Biotech	Hypoport AG	mutares
CLIQ Digital	Intershop Communications AG	Northern Data AG
Daldrup & Söhne	Leifheit	OHB SE
Dermapharma Holding SE	MAX Automation SE	OVH Holding AG
Enapter	Merkur Bank	Segfried Holding AG
Exprès2ion Biotechnologies		

This overview is updated monthly (last updated 15.07.2022).