



Guidance update and what to expect from Q2

Surteco has upped the 2021 guidance a notch, now expecting full year revenues and EBIT to come in at the upper bound of the formerly guided range. For Q2, we expect a significant improvement over last year for both revenues and EBIT as Q2 2020 was heavily impacted by the pandemic. Under this scenario, the new FY guidance might still turn out to be too conservative. We have a "buy" rating on the stock, price target EUR 34.

A more optimistic company outlook

Surteco has upped the guidance a notch, now expecting full year revenues to come in at the upper bound of the formerly guided range of EUR 650-675m. Also, EBIT is expected to reach the upper bound of the expected range of EUR 47-52m. As consensus was already anticipating revenues of 672m and EBIT of EUR 52m, the market was not taken by surprise.

Our outlook for Q2

Q2 numbers are due on July 30th. We expect a revenue increase of almost 50% over last year as Q2 2020 was heavily impacted by the pandemic. Also, we expect EBIT of around EUR 16m, which compare with EUR 1m last year. Together with the EUR 21.5m realized in the first quarter, Surteco should realize EBIT of 37.5m in H1 under this scenario. To arrive at a full year EBIT of EUR 52m as guided, Surteco does not need to earn more than EUR 14.5m in the second half of the year. Given that Surteco realized an EBIT of EUR 32m in H2 2020, this looks conservative and there might be a further guidance upgrade in H2. But it is still early days and this notion must be reassessed after the release of actual H1 numbers.

EURm	2019	2020	2021e	2022e	2023e
Revenues	675	627	675	702	720
EBITDA	66	88	95	100	102
EBIT	21	46	53	58	60
EPS	0.61	2.17	2.41	2.70	2.82
EPS adj	0.61	2.17	2.41	2.70	2.82
DPS	-	0.80	0.90	1.00	1.04
EV/EBITDA	8.3	6.0	6.0	5.4	5.1
EV/EBIT	26.0	11.5	10.7	9.3	8.6
P/E adj	37.4	11.1	11.4	10.2	9.8
P/B	1.00	1.00	1.07	1.00	0.94
ROE (%)	2.7	9.3	9.7	10.2	9.9
Div yield (%)	-	3.3	3.3	3.6	3.8
Net debt	180	145	126	103	79

Source: Pareto

Target price (EUR)	34
Share price (EUR)	28

Forecast changes	2021e	2022e	2023e
%			
Revenues	-	-	-
EBITDA	-	-	-
EBIT adj	-	-	-
EPS reported	-	-	-
EPS adj	-	-	-

Source: Pareto

Ticker	SURG.DE, SUR GR
Sector	Industrials
Shares fully diluted (m)	15.5
Market cap (EURm)	426
Net debt (EURm)	140
Minority interests (EURm)	0
Enterprise value 21e (EURm)	566
Free float (%)	12

Performance



Source: Factset

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A guidance update and what to expect from Q2

At the shareholder meeting on June 23rd, the CEO Mr Moyses has upped the guidance a notch, now expecting full year revenues to come in at the upper bound of the formerly guided range of EUR 650-675m. Also, EBIT is expected to reach the upper bound of the expected range of EUR 47-52m. As consensus was already anticipating revenues of 672m and EBIT of EUR 52m, the share price reaction was consequently only subdued. We were also already expecting revenues of EUR 675m and EBIT of EUR 53m beforehand.

Regarding Q2, Surteco reported on “drastic” price increases for raw materials (plastics, titanium dioxide) and only limited availability. However, the situation is expected to ease in Q3. In Q4, also demand is anticipated to normalize, which we interpret as a hint that it was still rather robust in Q2.

Outlook for Q2

SURTECO GROUP (EURm)	Actual	Pareto		Pareto estimates	
	Q2 2020	Q2 2021e	yoy (%)	2021e	2022e
Total output	119	177	49	680	707
Cost of materials	-53	-86	61	-324	-337
Personnel expenses	-37	-43	15	-170	-176
Other opex	-17	-22	26	-91	-95
EBITDA	11	27	135	95	100
EBITDA Margin	9.6%	15.1%	555 BP	13.9%	14.1%
D&A	-10	-10	1	-42	-42
EBIT	1	16	nm	53	58
EBIT Margin	0.9%	9.3%	838 BP	7.8%	8.2%

Source: Pareto, Company data

Q2 numbers are due on July 30th. We expect a revenue increase of almost 50% over last year as Q2 2020 was heavily impacted by the pandemic. After the latest comments of the management, material costs are expected to remain at above average levels of 48.5% of sales. Thus, the absolute number is anticipated to rise by more than 60%. On the other hand, we expect some relief from personnel expenses, which are expected to rise only under proportionately by 15% yoy although Surteco profited from short-time allowances in Q2 2020.

In total, we arrive at EBIT of EUR 16m. Together with the EUR 21.5m realized in the first quarter, Surteco should realize EBIT of 37.5m in H1 under this scenario. To arrive at a full year EBIT of EUR 52m as guided, Surteco does not need to earn more than EUR 14.5m in the second half of the year. Given that Surteco realized an EBIT of EUR 32m in H2 2020, this looks conservative and we would not exclude a further guidance upgrade in H2. But it is still early days and this notion must be reassessed after the release of actual H1 numbers.

At a glance

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) Cross-product sector approach to improve positioning against competitors (II) Benefit from favourable megatrends: population growth and urbanisation, individualisation and digitalisation (III) One-stop shop with a comprehensive offering for relevant customer groups (IV) M&A to make the portfolio more resilient, but no consolidation moves.		Guidance (23/06/2021): Revenue: c. EUR 675m EBIT: c. EUR 52m
			Pareto Estimates Revenue: EUR 675m y/y: 7.7% EBIT: EUR 53m EBIT margin: 7.9%
			Consensus EUR 672m 7.2% EUR 52m 7.7%
2020	Sales (EURm) y/y: 627.0	EBITDA Margin: 88.3 / 14.1%	EBIT (EURm) Margin: 46.1 / 7.4%
	Sales 5Y hist. CAGR: -0.4%	Organic growth y/y: 3.5%	
Sales & EBIT Split			
Shareholder structure & management	CEO Wolfgang Moyses CEO (since 2019) • Following his studies in business administration and has an MBA from the Gutenberg University of Mainz. Wolfgang 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, Moyses acts as CEO of Surteco	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.	Shareholder structure
# of employees FY 2020	3,052		

Source: Pareto Securities Research

PROFIT & LOSS (fiscal year) (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Revenues	640	690	699	675	627	675	702	720
EBITDA	74	83	73	66	88	95	100	102
Depreciation & amortisation	(33)	(38)	(41)	(45)	(42)	(42)	(42)	(42)
EBIT	41	45	32	21	46	53	58	60
Net interest	(8)	(8)	(6)	(7)	(3)	(3)	(2)	(2)
Other financial items	2	(4)	0	1	-	-	-	-
Profit before taxes	35	34	27	16	43	50	56	58
Taxes	(11)	(7)	(8)	(7)	(10)	(12)	(14)	(15)
Minority interest	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net profit	24	26	19	9	34	37	42	44
EPS reported	1.54	1.69	1.20	0.61	2.17	2.41	2.70	2.82
EPS adjusted	1.64	1.78	1.54	0.61	2.17	2.41	2.70	2.82
DPS	0.80	0.80	0.55	-	0.80	0.90	1.00	1.04
BALANCE SHEET (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Tangible non current assets	246	258	256	237	234	233	234	235
Other non-current assets	167	258	245	246	230	230	230	230
Other current assets	201	193	223	214	201	214	221	225
Cash & equivalents	60	133	121	84	133	50	73	97
Total assets	674	843	845	780	799	726	757	787
Total equity	347	349	353	355	373	398	426	455
Interest-bearing non-current debt	124	318	253	255	238	176	176	176
Interest-bearing current debt	72	6	66	9	41	-	-	-
Other Debt	118	157	160	148	134	139	142	143
Total liabilities & equity	674	843	845	780	799	726	757	787
CASH FLOW (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Cash earnings	60	75	66	78	70	79	84	86
Change in working capital	(1)	8	(5)	6	13	(8)	(4)	(3)
Cash flow from investments	(54)	(115)	(49)	(36)	(31)	(41)	(42)	(43)
Cash flow from financing	(9)	107	(24)	(85)	(4)	(115)	(14)	(16)
Net cash flow	(5)	73	(12)	(37)	50	(84)	23	24
CAPITALIZATION & VALUATION (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Share price (EUR end)	23.7	26.9	22.3	22.7	24.1	27.5	27.5	27.5
Number of shares end period	16	16	16	16	16	16	16	16
Net interest bearing debt	136	190	198	180	145	126	103	79
Enterprise value	519	623	559	548	532	566	543	519
EV/Sales	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.7
EV/EBITDA	7.0	7.5	7.7	8.3	6.0	6.0	5.4	5.1
EV/EBIT	12.7	13.9	17.4	26.0	11.5	10.7	9.3	8.6
P/E reported	15.4	15.9	18.6	37.4	11.1	11.4	10.2	9.8
P/E adjusted	14.4	15.1	14.4	37.4	11.1	11.4	10.2	9.8
P/B	1.1	1.2	1.0	1.0	1.0	1.1	1.0	0.9
FINANCIAL ANALYSIS & CREDIT METRICS	2016	2017	2018	2019	2020	2021e	2022e	2023e
ROE adjusted (%)	7.5	7.9	6.8	2.7	9.3	9.7	10.2	9.9
Dividend yield (%)	3.4	3.0	2.5	-	3.3	3.3	3.6	3.8
EBITDA margin (%)	11.6	12.0	10.4	9.8	14.1	14.0	14.2	14.2
EBIT margin (%)	6.4	6.5	4.6	3.1	7.4	7.9	8.3	8.4
NIBD/EBITDA	1.82	2.29	2.71	2.71	1.64	1.34	1.03	0.77
EBITDA/Net interest	9.46	11.04	13.27	9.75	27.34	29.08	45.75	48.69

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Selvaag Bolig	3,087,135	3.29%	Sparebanken Sør	433,744	2.77%
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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	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,825	Fjordkraft Holding	0	12,855	Pareto Bank	0	2,412,220
Aker ASA	500	2,405	Flex LNG	0	3,532	Pexip Holding	0	62,433
Aker BP	0	23,471	Frontline	0	78,708	PGS	0	11,676
Aker Carbon Capture	0	122,771	Gjensidige Forsikring	0	7,723	Protector Forsikring	0	12,000
Aker Offshore Wind	0	168,028	Golden Ocean Group	0	1,433	Quantafuel	0	1,119,887
Aker Solutions	0	3,678	Grieg Seafood	0	9,453	REC Silicon	0	36,816
American Shipping Co.	0	13,300	Hafnia Ltd.	0	10,000	Salmar	0	2,129
Aprila Bank ASA	0	22,675	Huddly	0	970,444	Sandnes Sparebank	0	126,013
Archer	0	30,170	Hunter Group ASA	0	308,500	Scatec	0	20,412
ArcticZymes Technologies	0	598,575	HydrogenPro	0	37,552	Selvaag Bolig	0	52,050
Atlantic Sapphire	0	13,610	Ice Group ASA	0	200,000	Skitude	0	12,695
Austevoll Seafood	0	29,235	Kalera	0	53,027	Sparebank 1Nord-Norge	0	3,350
Avance Gas	0	3,362	Kitron	0	13,386	Sparebank 1SMN	0	12,740
B2Holding AS	0	14,075	Komplett Bank	0	99,300	Sparebank 1SR-Bank	0	8,505
BASF	270	270	Kongsberg Gruppen	0	36,023	SpareBank 1Østfold Akershus	0	1,252
Belships	0	9,950	KWS	75	75	SpareBank 1Østlandet	0	8,621
Bonheur	0	32,275	Lerøy Seafood Group	0	40,378	Sparebanken Sør	0	16,435
Borregaard ASA	0	650	Mercell	0	23,038	Sparebanken Vest	0	16,735
Bouvet	0	2,940	Mowi	0	4,661	Sparebanken Øst	0	1,500
BRABank	0	74,607	MPC Container Ships	0	32,487	Stolt-Nielsen	0	1,817
BW Energy	0	55,050	Nordic Semiconductor	0	5,491	Storebrand	0	25,178
BW Offshore	0	16,076	Noreco	0	790	Subsea 7	0	9,226
Cloudberry Clean Energy	0	50,000	Norsk Hydro	0	111,219	Telenor	0	9,782
DNB	0	30,055	Norske Skog	0	98,225	Vow	0	8,681
DNO	0	151,978	NTS	0	2,272	Wallerius Wilhemsen	0	56,050
DOF	0	2,366,346	Ocean Yield	0	104,370	XXL	0	17,823
Elkem	0	35,426	OHT	0	6,650	Yara	0	14,508
Entra	0	9,977	Okeanis Eco Tankers	0	22,000	Zaptec	0	4,000
Equinor	0	2,900	Orkla	0	19,852			
Europris	0	11,414	Panoro Energy	0	34,904			

This overview is updated monthly (last updated 15.06.2021).

*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:

24SevenOffice Scandinavia	DLT	Komplett Bank	RECSilicon
2GEnergy	EcoOnline	Kraft Bank	Saga Robotics
Avanzia Bank S.A.	ELOP	Lakers Holding AS	Salmon Evolution
Africa Energy Corp Corp	Endur ASA	Maha Energy	Scorpio Bulkers
Aker ASA	Energiean Israel Finance Ltd.	Malorama Holding AS	Seafire AB
Aker Clean Hydrogen	Enviv AS (Bookis)	Meltwater	SFL Corporation Ltd
Aker Horizons	Fertiberia S.A.R.L.	Mercell	SGL TransGroup International
Akershus Energi	Fjordkraft Holding	Mint ra Group	Siccar Point Energy
Akva Group	Flexistore AS	Modex AS	Skitude
Alussa Energy Acquisition Corp (Freyr)	Genel Energy	MPC Container Ships	Smart Wires Inc.
American Tanker, Inc.	Gjensidige Forsikring	Mutares SE & Co. KGaA	Strandline Resources Limited
Arctic Fish	Golden Ocean Group	Müller Medien GmbH (United Vertica	Talos Energy Inc
Arendals Fossekompani	Goliath Offshore	Navigator Holdings Ltd.	Tise AS
Attensi	Halodi Robotics AS	Navios	Trønderenergi AS
Belships	Heimdall Power	Next Biometrics Group	Vegfinans AS
BioInvent	HKN Energy Ltd	Nordic Halibut	Viking ACQ 1 AS, SPAC
Biomega Group AS	Hofseth BioCare	Norlandia Health & Care Group AS	Vow
Boreal Holding AS	House of Control	Norse Atlantic	Watercircles Forsikring
Borr Drilling Limited	Huddly	Norske Skog	West Coast Salmon
Brooge Energy Limited	HydrogenPro	Norwegian Block Exchange	Wheel.me
Bulk Infrastructure Holding	Ice Group Scandinavia Holdings AS	OHT	Ørn Software (View Software /
BW Energy	Idavang A/S	Panoro Energy	
BWLPG	Instabank ASA	Pelagia Holding AS	
CentralNic Group PLC	Kalera	PetroNor E&P	
Circa Group	Keppel FELS Limited	PetroTal	
Cloudberry Clean Energy	Kistosplc.	Proximar Seafood	
Crayo Nano AS	Klaveness Combination Carriers ASA	Pryme	
DigiPlex	KLP	Quantafuel	

This overview is updated monthly (this overview is for the period 31.05.2020 – 31.05.2021).

Appendix C

Disclosure requirements in accordance with Article 6(3) of Commission Delegated Regulation (EU) 2016/958

Distribution of recommendations

Recommendation	% distribution
Buy	67%
Hold	30%
Sell	3%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	95%
Hold	5%
Sell	0%

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

This overview is updated monthly (last updated 15.06.2021).

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:

24SevenOffice Scandinavia AB	Climeon AB	Isofol Medical AB	Surgical Science
Azelio	Egetis Therapeutics	LMK Group	Swedencare AB
Bionvent	Implantica	Media & Games Invest plc.	Vicore Pharma
Biovica International	Green Landscaping Group AB	Re:NewCell	VNV Global
Cibus Nordic Real Estate AB			

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.	Logistri Fastighets AB	Minesto	Shamran Petroleum
ByggPartner i Dalarna Holding	Magnolia Bostad	Saltängen Property Invest	Surgical Science
Cibus Nordic Real Estate	Media & Games Invest plc.	SciBase Holding	Tethys Oil
Isofol Medical	Mentice AB	Sedana Medical	Vostok Emerging Finance

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:

Bosjö Fastigheter AB	Bråviken Logistik	Halmslätten	Mälårasen
Bonäsudden	Delarka	Logistri	Sydsvenska Hem

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 15.06.2021).

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 provision of the designated sponsor services.

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

* 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.

Adler Modemaerkte	Dermapharm Holding SE	Intershop Communications AG	mutares
Baywa	Expres2ion Biotechnologies	Leifheit	OHB SE
BB Biotech	Gerry Weber	MAX Automation SE	OVH Holding AG
Daldrup & Söhne	Hypoport AG	Merkur Bank	Siegfried Holding AG

This overview is updated monthly (last updated 15.06.2021).