



Preview Q3: Demand from the furniture industry remains firm

Against the backdrop of enduring strong demand for furniture, we believe the positive momentum Surteco experienced in the first half of the year should have continued in Q3. We believe there is a certain chance that Surteco might raise the guidance in case it delivers a strong set of results in Q3, as expected. Our present price target is EUR 37.

Ifo index indicates favorable business conditions also in Q3

According to the Ifo climate index for the German furniture industry, which is the most important customer group for Surteco, the good momentum we saw at the end of Q2 continued in Q3. Against that backdrop, we believe the good demand Surteco experienced in the first half of the year should have continued in Q3. Consequently, we expect a strong development of output / revenues in the quarter. Due to the current high level of raw material costs (48.8% of sales in Q2), we expect earnings to only grow disproportionately, though.

Upside potential for the guidance

After H1, Surteco guided for revenues of more than EUR 700m in 2021 (was ~EUR 675m before). We are at EUR 722m. Also, the EBIT guidance was raised as Surteco anticipated to surpass the formerly guided EUR 52m, without being more specific. Our present estimate for EBIT is at EUR 60m (so is consensus), but this might be revised in case Surteco delivers a strong set of results in Q3, as expected. Our present price target is EUR 37.

EURm	2019	2020	2021e	2022e	2023e
Revenues	675	627	722	751	770
EBITDA	66	88	102	106	113
EBIT	21	46	60	64	70
EPS	0.61	2.17	2.75	2.97	3.27
EPS adj	0.61	2.17	2.75	2.97	3.27
DPS	-	0.80	1.00	1.10	1.20
EV/EBITDA	8.3	6.0	7.0	6.5	5.9
EV/EBIT	26.0	11.5	11.9	10.9	9.5
P/E adj	37.4	11.1	13.4	12.4	11.3
P/B	1.00	1.00	1.42	1.32	1.22
ROE (%)	2.7	9.3	11.0	11.0	11.2
Div yield (%)	-	3.3	2.7	3.0	3.3
Net debt	180	145	131	108	80

Source: Pareto

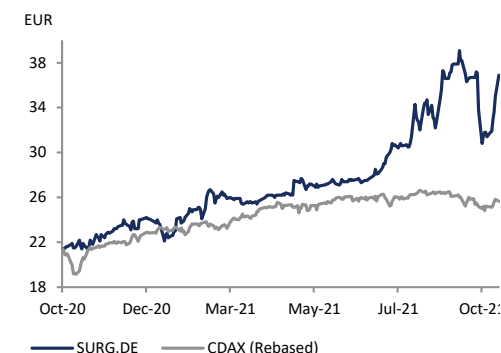
Target price (EUR)	37
Share price (EUR)	37

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

Source: Pareto

Ticker	SURG.DE, SUR GR
Sector	Industrials
Shares fully diluted (m)	15.5
Market cap (EURm)	572
Net debt (EURm)	144
Minority interests (EURm)	0
Enterprise value 21e (EURm)	716
Free float (%)	12

Performance



Source: Factset

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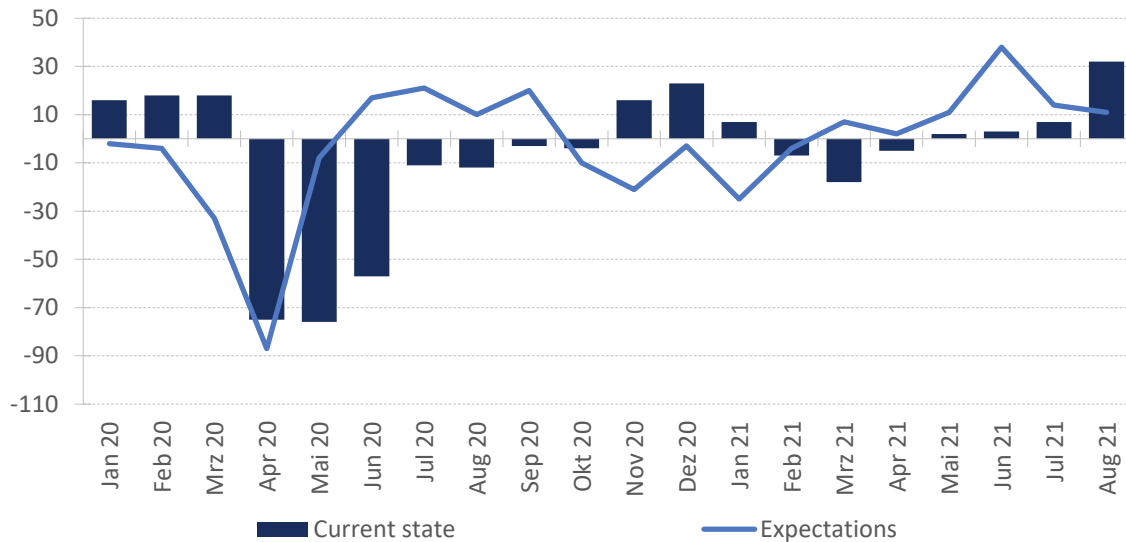
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What to expect from Q3?

According to the Ifo climate index for the German furniture industry, which is the most important customer group for Surteco, the good momentum we saw at the end of Q2 continued in Q3: Regarding the assessment of the “current state of the industry”, we saw a significant improvement from +3 to +32. On the other hand, business expectations came down a bit, but remained in positive territory (see below).

Exhibit 1: Ifo business climate index for the German furniture industry



Source: Ifo, Pareto Securities Research

Against that backdrop, we believe the good momentum Surteco experienced in the first half of the year will have continued in Q3. Consequently, we expect a strong development of output / revenues in the quarter. Due to the current high level of raw material costs (48.8% of sales in Q2), we expect earnings to only grow disproportionately, though.

After H1, Surteco guided for revenues of more than EUR 700m in 2021 (was ~EUR 675m before). We are at EUR 722m. Also, the EBIT guidance was raised as Surteco anticipated to surpass the formerly guided EUR 52m, without being more specific. Our present estimate for EBIT is at EUR 60m (as is consensus), but we see upside potential in case Surteco delivers a strong set of results in Q3, as expected.

Exhibit 2: Expectations for Q3 ...

SURTECO GROUP (EURm)	Actual	Pareto	
	Q3 2020	Q3 2021e	yoy (%)
Total output	161	179	11
Cost of materials	-76	-87	15
Personnel expenses	-39	-43	8
Other opex	-22	-24	11
EBITDA	25	25	2
EBITDA Margin	15.3%	14.1%	-119 BP
D&A	-10	-11	3
EBIT	14	15	2
EBIT Margin	8.9%	8.2%	-75 BP

Source: Pareto Securities Research

Exhibit 3: ... and resulting 9 months numbers

SURTECO GROUP (EURm)	Actual	Pareto	
	9M 2020	9M 2021e	yoy (%)
Total output	454	561	23
Cost of materials	-209	-271	30
Personnel expenses	-122	-131	7
Other opex	-64	-73	15
EBITDA	60	85	42
EBITDA Margin	13.2%	15.2%	197 BP
D&A	-31	-32	1
EBIT	29	53	85
EBIT Margin	17.9%	29.9%	1200 BP

Source: Pareto Securities Research

At a glance

Exhibit 4: 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: > EUR 700m EBIT: > EUR 52m
			Pareto Estimates Revenue: EUR 722m y/y: 15.1% EBIT: EUR 60m EBIT margin: 8.3%
			Consensus EUR 722m 15.2% EUR 60m 8.3%
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	722	751	770
EBITDA	74	83	73	66	88	102	106	113
Depreciation & amortisation	(33)	(38)	(41)	(45)	(42)	(42)	(42)	(43)
EBIT	41	45	32	21	46	60	64	70
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	57	62	68
Taxes	(11)	(7)	(8)	(7)	(10)	(14)	(15)	(17)
Minority interest	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net profit	24	26	19	9	34	43	46	51
EPS reported	1.54	1.69	1.20	0.61	2.17	2.75	2.97	3.27
EPS adjusted	1.64	1.78	1.54	0.61	2.17	2.75	2.97	3.27
DPS	0.80	0.80	0.55	-	0.80	1.00	1.10	1.20
BALANCE SHEET (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Tangible non current assets	246	258	256	237	234	235	238	241
Other non-current assets	167	258	245	246	230	230	230	231
Other current assets	201	193	223	214	201	226	234	238
Cash & equivalents	60	133	121	84	133	45	68	96
Total assets	674	843	845	780	799	737	770	806
Total equity	347	349	353	355	373	404	434	468
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	144	147	148
Total liabilities & equity	674	843	845	780	799	737	770	806
CASH FLOW (EURm)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Cash earnings	60	75	66	78	70	85	88	94
Change in working capital	(1)	8	(5)	6	13	(15)	(5)	(3)
Cash flow from investments	(54)	(115)	(49)	(36)	(31)	(43)	(45)	(46)
Cash flow from financing	(9)	107	(24)	(85)	(4)	(115)	(16)	(17)
Net cash flow	(5)	73	(12)	(37)	50	(88)	23	27
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	36.9	36.9	36.9
Number of shares end period	16	16	16	16	16	16	16	16
Net interest bearing debt	136	190	198	180	145	131	108	80
Enterprise value	519	623	559	548	532	716	693	666
EV/Sales	0.8	0.9	0.8	0.8	0.8	1.0	0.9	0.9
EV/EBITDA	7.0	7.5	7.7	8.3	6.0	7.0	6.5	5.9
EV/EBIT	12.7	13.9	17.4	26.0	11.5	11.9	10.9	9.5
P/E reported	15.4	15.9	18.6	37.4	11.1	13.4	12.4	11.3
P/E adjusted	14.4	15.1	14.4	37.4	11.1	13.4	12.4	11.3
P/B	1.1	1.2	1.0	1.0	1.0	1.4	1.3	1.2
FINANCIAL ANALYSIS & CREDIT METRICS	2016	2017	2018	2019	2020	2021e	2022e	2023e
ROE adjusted (%)	7.5	7.9	6.8	2.7	9.3	11.0	11.0	11.2
Dividend yield (%)	3.4	3.0	2.5	-	3.3	2.7	3.0	3.3
EBITDA margin (%)	11.6	12.0	10.4	9.8	14.1	14.2	14.1	14.6
EBIT margin (%)	6.4	6.5	4.6	3.1	7.4	8.4	8.5	9.1
NIBD/EBITDA	1.82	2.29	2.71	2.71	1.64	1.28	1.01	0.71
EBITDA/Net interest	9.46	11.04	13.27	9.75	27.34	31.41	48.30	53.23

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Sparebank 1SR-Bank	1,850,099	0.72%			

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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	21,317	Orkla	0	20,983
Aker ASA	500	3,125	Flex LNG	0	4,817	Panoro Energy	0	34,844
Aker BP	0	21,492	Frontline	0	78,453	Pareto Bank	0	1,265,934
Aker Carbon Capture	0	12,721	Gjensidige Forsikring	0	7,728	Pexip Holding	0	68,563
Aker Clean Hydrogen	0	132,000	Grieg Seafood	0	9,127	PGS	0	11,676
Aker Horizons	0	125,848	Hafnia Ltd.	0	10,000	Protector Forsikring	0	14,000
Aker Offshore Wind	0	164,028	Huddly	0	980,973	Pryme	0	1,500
Aker Solutions	0	3,678	Hunter Group	0	308,500	Quantafuel	0	5,797
American Shipping Co.	0	13,300	HydrogenPro	0	37,552	REC Silicon	0	39,716
Aprila Bank ASA	0	22,675	Ice Fish Farm	0	2,000	SalMar	0	2,799
Archer	0	30,170	ice Group ASA	0	200,000	Salmon Evolution	0	100,000
ArcticZymes Technologies	0	684	Kalera	0	54,027	Sandnes Sparebank	0	4,013
Atlantic Sapphire	0	1,607	Kitron	0	18,386	Scatec	0	30,412
Austevoll Seafood	0	4,235	Komplett Bank	0	108,400	Selvaag Bolig	0	2,143
Avance Gas	0	3,000	Kongsberg Gruppen	0	36,023	Sparebank 1Nord-Norge	0	3,350
B2Holding AS	0	13,940	KWS	75	75	Sparebank 1SMN	0	12,740
BASF	270	270	Lerøy Seafood Group	0	39,328	Sparebank 1SR-Bank	0	15,090
Belships	0	4,400	Meltwater	0	24,000	SpareBank 1Østfold Akershus	0	1,252
Bonheur	0	32,075	Mercell	0	24,863	SpareBank 1Østlandet	0	9,621
Borregaard ASA	0	650	Mowi	0	661	Sparebanken Sør	0	16,435
Bouvet	0	2,940	MPC Container Ships	0	55,490	Sparebanken Vest	0	16,735
BRABank	0	31,499	NEXT Biometrics	0	410,901	Sparebanken Øst	0	1,500
BW Energy	0	55,050	Nordic Semiconductor	0	4,391	Stolt-Nielsen	0	1,817
BW Offshore	0	16,076	Noreco	0	790	Storebrand	0	25,698
Cloudberry Clean Energy	0	100,000	Norse Atlantic	0	15,000	Subsea 7	0	12,493
DNB	0	48,389	Norsk Hydro	0	91,189	Telenor	0	10,552
DNO	0	151,978	Norske Skog	0	98,499	TGS-NOPEC	0	600
Elkem	0	35,426	Northern Drilling Ltd.	0	27,319	Vow	0	8,681
ELOP	0	77,000	NTS	0	2,172	Wallenius Wilhemsen	0	16,550
Entra	0	9,806	Ocean Yield	0	32,772	XXL	0	20,923
Equinor	0	2,589	OHT	0	4,000	Yara	0	14,907
Euopris	0	11,208	Okeanis Eco Tankers	0	2,000	Zaptec	0	11,000

This overview is updated monthly (last updated 15.10.2021).

*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	EcoOnline	KLP	PHM Group	Wheel.me
2G Energy	ELOP	KMCP Properties	Ping Petroleum UK Limited	Xeneta AS
Avanzia Bank S.A.	Endur ASA	Komplett ASA	poLight	ZTL Payment Solution AS
Aker ASA	Energiean Israel Finance Ltd.	Komplett Bank	Pronofa AS	Ørn Software
Aker Clean Hydrogen	Enviv AS (Bookis)	Kraft Bank	Proximar Seafood	
Aker Horizons	Fertiberia S.A.R.L.	Lakers Holding AS	Pryme	
Akershus Energi	Flexistore AS	Lerøy Seafood Group	Pyrum Innovations	
Akva Group	FREYR Battery	Lumarine AS	REC Silicon	
Arcane Crypto	Funkwerk AG	Maha Energy	Saga Robotics	
Arctic Fish	Gjensidige Forsikring	Malorama Holding AS	Salmon Evolution	
Arendals Fossekompani	Golden Ocean Group	Mathesa Bostadsbolaget AB	Seafire AB	
Attensi	Goliath Offshore	Meltwater	Seajacks	
Barramundi Group Pte. Ltd.	Grøntvedt AS	Mercell	SFL Corporation Ltd	
Belships	Hagal AS	Modex AS	SGL TransGroup International A/S	
BioInvent	Halodi Robotics AS	Mutares SE & Co. KGaA	Shamaran Petroleum	
Biomega Group AS	Heimdall Power	Müller Medien GmbH (United Vertica)	Siccar Point Energy	
Bonheur	HKN Energy Ltd	Navios Maritime Acquisitions	Skitude	
Bulk Infrastructure Holding	Hofseth BioCare	Next Biometrics Group	Smart Wires Inc.	
BW Energy	House of Control	Nordic Halibut	Strandline Resources Limited	
BWLPG	Huddly	Noreco	Talos Energy Inc	
Cavai AS	Ice Group Scandinavia Holdings AS	Norlandia Health & Care Group AS	Tise AS	
CentralNic Group PLC	Idavang A/S	Norse Atlantic	Trønderenergi AS	
Circa Group	Immunopharma	Norske Skog	Vegfinans AS	
CloudBerry Clean Energy	JP/Politiken's Forlag	Norwegian Block Exchange	Viking ACQ1 AS, SPAC	
Dampskibsselskabet NORDEN A/S	Kalera	Panoro Energy	Vow	
DLT	Kentech Global Plc	Pelagia Holding AS	Waldorf Production UK Ltd	
DNO	Keppel FELS Limited	PetroNor E&P	Watercircles Forsikring	
Documaster AS	Kistospic.	PetroTal	West Coast Salmon	

This overview is updated monthly (this overview is for the period 31.09.2020 – 31.09.2021).

Appendix C

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

Distribution of recommendations

Recommendation	% distribution
Buy	70%
Hold	27%
Sell	3%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	93%
Hold	7%
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 15.10.2021).

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	Re.NewCell
Azelio	Egetis Therapeutics	Linkfire A/S	Surgical Science
Bionvent	Green Landscaping Group AB	LMK Group	Swedencare AB
Biovica International	Hexicon	Maha Energy	Vicore Pharma
Cibus Nordic Real Estate AB	Implantica	Media & Games Invest plc.	VNV Global
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 15.10.2021).

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	OVB 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	Enapter	Leifheit	OHB SE
BB Biotech	Expres2ion Biotechnologies	MAX Automation SE	OVB Holding AG
CLIQ Digital	Gerry Weber	Merkur Bank	Siegfried Holding AG
Daldrup & Söhne	Hypoport AG	Mynaric	

This overview is updated monthly (last updated 15.10.2021).