

Q2'19 first take: Results in line with expectations

Surteco released a set of Q2'19 figures fully in line with our expectations. While subdued demand in core industries continues to burden the group's growth, the relatively smaller, but better diversified "Profiles" segment continues to grow by mid-single digit numbers in Q2'19. EBIT is in line, burdened by lower overall revenues and still high energy costs, but the negative impact is mitigated by cost efficiency measures and some relief on the raw materials side. As Q2'19 numbers developed according to expectations, Surteco's management consequently confirmed FY'19 targets (adjusted for a minor divestiture). Following the release, we would expect no major revisions to consensus estimates.

SURTECO GROUP		Actual			Pareto		Pareto estimates		Consensus estimates	
		Q2 2018	Q2 2019	yoy	Q2 2019	Delta	2019e	2020e	2019e	2020e
Revenues	EURm	178	171	(4)%	172	(1)%	700	691	697	699
EBIT	"	10.1	8.7	(14)%	8.9	(3)%	40	46	40	47
EBIT Margin	%	5.7%	5.1%	-59 bps	5.2%	-10 bps	5.7%	6.7%	5.8%	6.8%

Source: Pareto, Company data

Q2'19 results fully in line with our expectations

As expected, the segment "Profiles" could again grow by mid-single digit % (Q2'19 revenues: +5% to EUR 22.9m, Pareto: EUR 24m), while "Technical" (-12% to EUR 24.7m, Pareto: EUR 26m) and "Decoratives" (-4% to EUR 127.7m, Pareto: EUR 128m) continued to suffer from subdued demand in the furniture (largest single market Germany in slight decline according to Federal statistics office) and flooring industries. On aggregate, revenues developed according to our expectations. With regard to raw material costs, whose development is essential for Surteco's profitability, especially plastics ingredients (ABS, PP, PVC) saw some relief in H1'19, while increasing energy costs had a negative impact on the results. As we already indicated in our preview, the observed decline in input prices for décor paper has not (yet) translated into tailwinds for Surteco. All in all, EBIT also developed as we would have expected.

Sale of US impregnates business, FY'19 targets confirmed

By July 19th, 2019, Surteco sold its US impregnates business, which has been expected to contribute c. EUR 33m revenues for the full year (EUR 15m between sale and fiscal year-end). The sale is part of Surteco's 2025+ strategy and aims at reducing complexity in the North American manufacturing network to save costs. Accordingly, the revenues guidance of EUR 655m to EUR 685m represents a confirmation of the latest guidance (EUR 670m-700m) minus the revenues from the divestiture. EBIT guidance of EUR 38m to EUR 40m has been confirmed. After fully in line Q2'19 results, we continue to see the company on track to meet FY'19 targets and envisage no major revisions to our estimates, at a first glance.

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