

H&A FIRST TAKE

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14-November-18

Weak Q3 // Economic slowdown & high material costs

Surteco confirmed its preliminary Q3 results. The company **suffered from an economic slowdown in its key markets as well as sharply increased raw material prices**, which can only partially be passed on to customers. An optimization programme has been launched in order to mitigate some of these negative implications going forward.

Surteco Group SE	Q3 2018	Q3 2017	yoy	9M 2018	9M 2017	yoy
Sales	169.0	182.3	-7.3%	534.2	516.4	3.4%
Plastics	83.4	90.1	-7.4%	264.0	236.0	11.9%
Paper	85.6	92.2	-7.2%	270.2	280.3	-3.6%
EBIT	8.4	14.4	-41.7%	31.9	33.7	-5.3%
EBIT margin	5.0%	7.9%	-2.9 pp	6.0%	6.5%	-0.6 pp
Plastics	7.8	7.5	4.0%	23.9	18.7	27.8%
Paper	2.0	7.3	-72.6%	12.9	20.3	-36.5%
EPS	0.27	0.55	-50.9%	1.25	1.19	5.0%

Source: Company data, Hauck & Aufhäuser

On a yoy basis, **sales decreased by 7.3% to € 169m**, driven by an economic weakening in Surteco's European core markets. More importantly, significantly higher costs for raw materials and an unfavourable product mix weighed on the group's profitability. Consequently, **EBIT came in at only € 8.4m (-42% yoy)**. EBIT contribution from the Paper segment decreased by 73% yoy. Surprisingly, Plastics' EBIT increased by 4% yoy. However, this was primarily possible due to consolidation effects from the Probos acquisition.

Management also confirmed its **recently reduced FY '18 sales guidance**, which now stands at € 685-695m (prev. € 725-750m). Accordingly, FY EBIT is expected to reach € 37-39m (prev. below € 49m).

At the same time, management stated to be **expecting continuously weakening demand alongside high raw materials for next year**. Keep in mind, Surteco's business is highly sensitive to GDP and consumer confidence which looks to deteriorate.

As a result of this, **management has launched an optimization programme**, which includes adjustments for processes and structures. The necessary one-off expenses should amount to **c. € 7m and will be set aside as provisions in Q4**. Additional information will be published after adjustments have been worked out in detail.

In light of all this, **consensus expectations for this and next year (EBIT 2018: € 45.8m; 2019: € 49.7m) seem too ambitious**.

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Buy

Price target: EUR 33.00

Price: EUR 20.80

Close price as of: 13.11.2018

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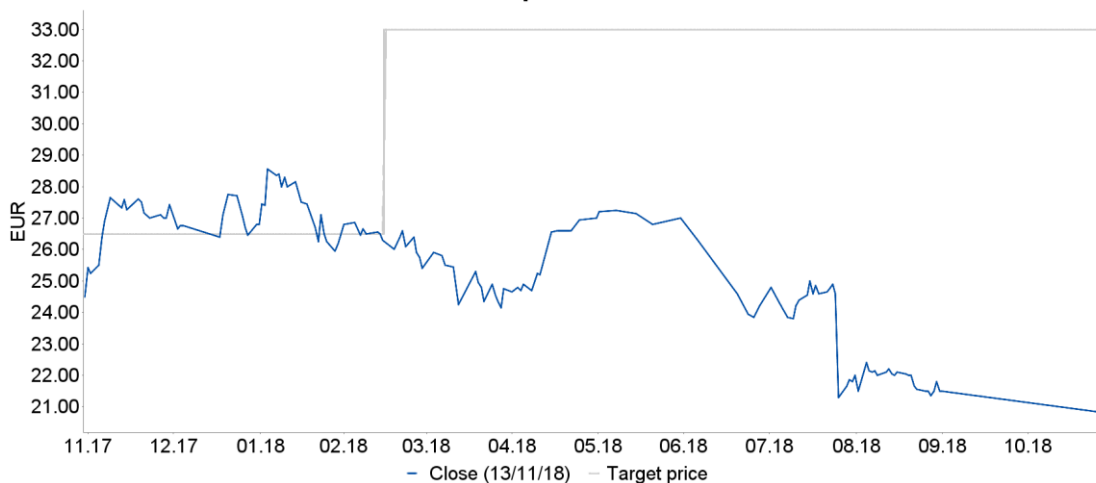
Company	Disclosure
Surteco Group SE	2

Historical target price and rating changes for Surteco Group SE in the last 12 months

Price and Rating History Surteco Group SE as of 14/11/18

Initiation coverage

02-March-15



Company	Date	Analyst	Rating	Target price	Close
Surteco Group SE	19.09.2018	Sandherr, Christian	Buy	EUR 33,00	EUR 21,50
	19.09.2018	Sandherr, Christian	Buy	EUR 33,00	EUR 21,50
	15.08.2018	Cohrs, CFA, Gunnar	Buy	EUR 33,00	EUR 21,80
	16.05.2018	Cohrs, CFA, Gunnar	Buy	EUR 33,00	EUR 27,00
	02.03.2018	Cohrs, CFA, Gunnar	Buy	EUR 33,00	EUR 26,30

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Hold	22.94 %	5.26 %

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