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September 25, 2024 12:59

COMPANY UPDATE

PAPOUTSANIS

Foaming up margins

Branded product focus + positive leverage + abating capex = FCF inflection; Buy – Papoutsanis (PAP) is one of the largest soap manufacturers in Europe (and the sole in Greece), operating across four product segments (Own brands, Hotel amenities, PL/Third party and Soap noodles). The company's strategic focus on its own brands (e.g. newly launched environmentally friendly detergents) helps reduce the impact of sales fluctuations tied to third-party reliance in the other segments and will underpin margins in the coming years. At the same time, PAP is seeking new partnerships in the Third-Party category, which remains the backbone of its business and should help bolster sales momentum in H2. Profit margins have improved following the completion of PAP's investment program, with operating leverage and economies of scale likely to drive further margin accretion by 2028e (EBITDA margin >17% by 2027-28e). Most importantly, with the investment program largely complete, capex looks poised to drop to c€5m annually, thus leading to a FCF inflection from 2024e and improving returns on capital. These will be coupled with a relatively compelling dividend policy (c32-33% payout) also underpinned by the solid financial position (2024e net debt/EBITDA at 1.5x). We thus reiterate our Buy rating.

Tepid H1'24 top line but expected sequential acceleration in H2'24 – H1'24 revenue came in at €32.2m (-1.4% yoy), mainly as a result of a -7.2% decline in Q1 followed by a positive trend in Q2 (+3.9%). Effectively, the strong performance in the own brand (+20%) and soap noodles (+6%) categories were more than offset by declines in hotel amenities (-17%) and PL/third-party sales (-9%), which were lapping tough comps. On the positive side, gross margins rose to 38.1%, up 6ppts yoy, driven by lower raw material costs, optimization of production, and an improved sales mix. As a result, EBITDA increased 17% yoy (c€0.8m higher) with the respective margin increasing 2.5pps to 15.9%. Despite the lukewarm top line performance in H1, we expect stronger trends in H2 as PL/third-party sales accelerate supported by a new multinational partnership, with full benefits to be seen in 2025.

2-digit growth in 2025-26e – Looking further out, the business looks set for a return to a 2-digit growth algorithm in the next couple of years on market share gains and expansion of its product portfolio (e.g. entrance in laundry/dishwashing detergents through the recently acquired ARKADI) along with new PL/Third party agreements. At EBITDA level, we expect low teens growth thanks to the positive pendulum of operating leverage, as a result of which we see EBITDA margins expanding 2.6ppts over the next 4 years (to c17.5%), aligning with EU HPC peers' cross-cycle margins.

Valuation: maintaining our PT of €3.0, keeping Buy – We slightly trim our EBITDA estimates for the following years, by just c€0.4m, recalibrating our model for top line, gross margins and opex. Rolling forward our valuation to Sep 2025, we keep our PT unchanged at €3.0. Our valuation places PAP at c8.8x 2024e EV/EBITDA, still some25% discount vs its peers. With the stock at c7.1x EV/EBITDA, namely c35% discount vs the EU HPC sector, we find the current entry point compelling, retaining our Buy.

Estimates					
EURm unless otherwise stated	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Revenues	70.7	62.3	67.6	75.8	83.4
Adj. EBITDA	6.2	9.2	11.2	12.7	14.3
Net Profit reported	3.0	4.1	5.7	7.3	8.1
EPS adj. (EUR)	0.11	0.15	0.21	0.27	0.30
DPS (EUR)	0.04	0.07	0.07	0.09	0.10
Valuation					
Year to end December	**2022**	**2023**	**2024e**	**2025e**	**2026e**
P/E	22.8x	15.2x	11.0x	8.5x	7.7x
EV/EBITDA	14.0x	8.8x	7.1x	6.1x	5.1x
EBIT/Interest expense	5.3x	3.8x	4.7x	6.1x	8.2x
Dividend Yield	1.6%	3.1%	3.0%	3.8%	4.2%
ROE	11.5%	14.4%	17.9%	20.1%	19.4%

Source: Eurobank Equities Research

Recommendation	**BUY**
Target Price	**€3.00**
Closing Price (24/09)	€2.30
Market Cap (mn)	€62.3
Expected Return	30.4%
Expected Dividend	3.0%
Expected Total Return	33.4%

Papoutsanis Share Price

Stock Data

Reuters RIC	PSALr.AT
Bloomberg Code	PAP GA
52 Week High (adj.)	€2.73
52 Week Low (adj.)	€1.80
Abs. performance (1m)	-5.4%
Abs. performance (YTD)	0.0%
Number of shares	27.1mn
Avg Trading Volume (qrt)	€20k
Est. 3yr EPS CAGR	25.9%
Free Float	25%

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This report was prepared and published in consideration of a fee payable by the European Bank for Reconstruction and Development (EBRD).

See Appendix for Analyst Certification and important disclosures.

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Investment Summary

Leader in manufacturing of soap in Europe, with increasing international footprint

Papoutsanis is one of the largest soap manufacturers in Europe (and the only one in Greece), operating across four segments: Own brands, Hotel amenities, Private label (PL)/Third party and Soap noodles. The main growth pillars for the company are own-branded products and PL/third-party, which are set to account for >65% of total revenues (combined) in 2024e but will contribute c70-75% of the top line growth over 2024-2028e on our estimates and are thus most relevant for the thesis. From a geographical perspective, thanks to its increasing export reach, Papoutsanis has broadened its geographical presence generating c55% of its sales abroad (mostly in Europe), thus being less dependent on the domestic economy.

B2B & B2C distribution; vertical integration at the core of the business model

The business model is based on the offering of high-quality, natural ingredient-based products at accessible prices, with a strong focus on sustainability. The company leverages both B2C and B2B distribution channels. In B2C, it distributes mass-market branded products through an extensive sales network primarily comprising supermarket chains and beauty stores. For B2B, Papoutsanis forms partnerships with multinational companies through production contracts and engages with numerous local retailers for the manufacturing of private label soaps. The company also holds a leading position in the Greek hotel amenities market. At the core of the business model lies vertical integration, with production at the company's state-of-the-art facilities also including product packaging and storage handling. This integrated approach offers the company a competitive edge, especially in the hotel amenities category, by enabling greater control over costs, quality, and supply chain efficiency.

Growth algorithm set to strengthen to 2-digits in the next 2 years

The personal care market is an industry poised to grow at c3-4% CAGR in the coming years (as per Statista) underpinned by structural drivers such as the rising interest in wellness and self-care (mainly propelling beauty) and a growing middle class (especially in emerging markets) as well as macroeconomic factors such as the increase in disposable income. In Papoutsanis's case, the historic track record is quite strong (sales CAGR 21% over 2018-23) as the company took advantage of barriers to entry in soap manufacturing and capitalized on its know-how expanding its portfolio of PL/third-party contracts while ramping up its own-branded portfolio. Looking ahead, following a temporary sales decline of 12% in 2023, the business looks set for a return to a near 2-digit growth algorithm in the next couple of years on market share gains and expansion of its product portfolio (e.g. entering in laundry/dishwashing detergents through the recently acquired ARKADI) along with new PL/Third party agreements.

… translating into low teens EBITDA growth in 2025-26e

Following a temporary setback in 2022, with EBITDA falling c17% yoy due to input cost pressures, Papoutsanis's profitability bounced strongly in 2023 (35%), with EBITDA marking an all-time high (at €9.2m from just €2.7m in 2018) and the respective margin reaching a mid-cycle level (14.8%). Looking ahead, we expect Papoutsanis to deliver 2-digit EBITDA growth thanks to the positive pendulum of operating leverage, as a result of which we see EBITDA margins expanding c2.4ppts over the next 3 years (to 17.1%). This will be in broad sync with the cross-cycle margin of EU HPC peers.

FCF inflection in light of abating capex needs; we expect progressive dividend policy and balanced approach between investment for growth and cash returns

On the FCF front, Papoutsanis has not been very cash-generative in recent years as a result of elevated investments (€25m spent in the last 3 years) aimed at augmenting its capacity (utilization is now near 50%) and expanding the product portfolio, while also adding storage facilities. With the majority of Papoutsanis's investment program completed, particularly since the current capacity is adequate to sustain 2-digit growth for several years, we expect capex to trend down to c€5-5.5m annually. As such, we believe that 2023 marked the inflection point in terms of FCF generation, with FCF set to gradually rise to c€4m in 2025e and >€6m in 2026e. Against this background, we expect management to institute a progressive dividend policy, penciling in dividend payouts near 32-33%, which we believe reflect a well-balanced approach between investing for growth and rewarding shareholders, especially considering the comfortable financial position (net debt/EBITDA at 1.5x in 2024e).

Valuation looks palatable in light of upcoming FCF inflection

The stock has had a weak performance in the last 2 years (-2% total return), weighed down by setbacks during 2022 (input cost pressures, payback in demand for sanitizers post COVID) and cash burn due to its investment program. 2024 year-to-date has also not been too impressive, due to softer top line in Q1 owing to tough comps. That said, the shares are yet to reflect the bounce in profitability in 2023, the upcoming return to the 2-digit growth algorithm and prospects for much lower capex than in the past. As such, the stock is currently trading at c7.1x EV/EBITDA, a whopping c35% discount vs its EU HPC peers. Although we do believe that a discount is warranted by the company's small size and stock's low liquidity, we find this relative valuation gap vs peers excessive given Papoutsanis's superior growth profile. Our DCF-based valuation, predicated on a 9.5% WACC, generates a PT of €3.0 per share, placing the stock at 8.8x 2024e EV/EBITDA, still some 25% discount vs its peers.

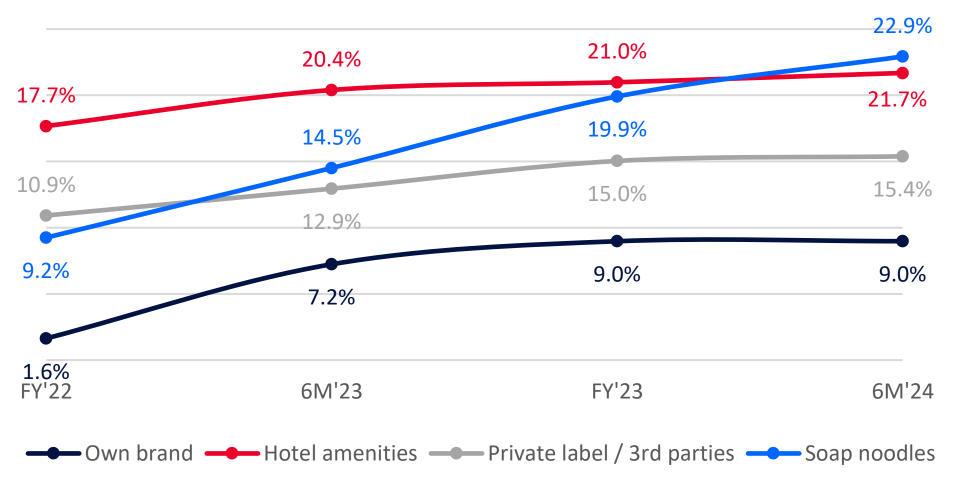
H1'24 overview

H1'24: continued growth in branded products and improved margins

Papoutsanis reported a 1.4% decline in H1'24 revenues (at €32.2m) but with Q2 run rates turning positive (+3.9%) following -7.2% in Q1'24. The own brand and soap noodles categories performed well, with increases of 20% and 6%, respectively, over the six-month period. This was offset by a c17% decline in hotel amenities and a 9% drop in PL/third-party sales. The gross profit rose to €12.1mn, with respective profit margin at 38.1%, namely 6 percentage points higher than in the previous year, thanks to decrease in the cost of raw materials, lower production costs related to recent investments and improved sales mix.

At the EBITDA level, these benefits were partially offset by increased marketing expenditure related to the launch of new own-branded products. We remind that since March 2024, the company has started to provide profitability margins by category, as presented in the diagram below. Of note is that margins seem to be on the rise across all categories, with Soap Noodles and Hotel Amenities naturally being the most profitable segments. As a caveat, we stress that the ultra-high EBITDA margin of soap noodles (22.9%) is not sustainable, while, on the other hand, branded products should see margin expansion as volumes increase.

EBITDA margin per product category



Source: Eurobank Equities Research, Company data.

The c€0.8m increase in EBITDA yoy in H1 translated into a similar increase in net profit, which shaped at €2.3m (vs. €1.7m in the same period last year).

From a cashflow perspective, net debt increased to €20.9m, up from €18.3m as of December 2023 which is normal due to higher working capital needs for the summer period. Effectively, FCF was slightly negative during H1, with the company also paying €2.1m in dividends.

Papoutsanis | H1 Results Overview						
EURm	H1'23	H1'24	yoy	Q2'23	Q2'24	yoy
Revenue	32.2	31.7	-1.4%	16.8	17.5	3.9%
Own brand	7.7	9.3	20.1%	4.5	5.4	20.1%
Hotel amenities	6.8	5.6	-16.9%	4.0	3.8	-4.8%
Private label / 3rd parties	12.5	11.4	-9.2%	5.8	5.4	-7.4%
Soap noodles	5.1	5.5	6.0%	2.5	2.9	13.6%
- COGS	-21.9	-19.6		-10.9	-10.4	
Gross Profit	10.3	12.1	17.6%	6.0	7.0	17.7%
Gross margin	*31.9%*	*38.1%*	6.16 pps	*35.5%*	*40.3%*	4.74 pps
- Operating expenses	-7.1	-8.3		-4.0	-4.5	
EBIT	3.1	3.8	22.1%	2.0	2.5	27.3%
EBIT margin	*9.7%*	*12.1%*	2.32 pps	*11.7%*	*14.4%*	2.65 pps
+ Depreciation	1.2	1.2		0.7	0.7	
EBITDA	4.3	5.1	17.4%	2.6	3.2	23.0%
Own brand	0.6	0.8	48.0%			
Hotel amenities	1.4	1.2	-11.7%			
Private label / 3rd parties	1.6	1.8	7.0%			
Soap noodles	0.7	1.3	72.7%			
EBITDA margin	*13.4%*	*15.9%*	2.55 pps	*15.6%*	*18.5%*	2.87 pps
PBT	2.3	2.8	20.1%	1.6	1.9	22.0%
- Taxes	-0.6	-0.5		-0.3	-0.3	
Net profit	1.7	2.3	32.3%	1.3	1.6	25.7%

Source: Eurobank Equities Research, Company data.

Across the product categories:

- **Branded products** sales surged by c20% in H1’24, driven primarily by the rebranding of ARKADI and expansion into the home and laundry care market with a broader product portfolio. Excluding ARKADI, Papoutsanis-branded personal care product sales in Greece increased by 7% yoy, compared to 3% market growth in this category of products. Additionally, exports saw strong momentum, recording a 34% yoy increase.

- **Hotel amenities** saw a 17% decline in the first half of 2024, primarily due to third-party hotel product sales abroad. While such revenues are deemed by mgt as satisfactory in terms of absolute levels, they are lower compared to the same period last year, which had benefited from one-off deliveries (in early 2023). On the other hand, sales of Papoutsanis-branded hotel amenities increased 4.5%.

- The decrease (-10% yoy) of **private labels and third-party products** is attributed mainly to the removal of specific product codes by some multinational companies due to inflationary pressures. However, this trend looks poised to reverse by year-end, underpinned by PAP’s new partnership with a multinational company since February 2024. Although the full impact of this agreement will be seen in 2025, we do anticipate some boost on this year’s H2 figures as well.

- **Soap noodles** increased by 6% yoy.

As far as the outlook for the rest of the year is concerned, mgt notes the following:

- **Branded products**: projected to maintain robust double-digit growth, with Papoutsanis expanding its market share.
- **Hotel amenities**: anticipated to significantly outperform H2’23.
- **PL/3rd parties**: expected to see improvement in the second half, driven by a growing partnership with a major multinational company and other smaller agreements.
- **Soap noodles**: forecast to continue their upward growth trend.

Estimates and main assumptions

2-digit growth for branded products

On the revenue front, our forecasts are based on the assumption of double-digit growth in branded products and on the premise that management will be successful in forging agreements with multinational corporations with the goal of expanding private label / third parties and soap noodles categories. We display a snapshot of our estimates in the table below:

Key estimates							
EURm	**2022**	**2023**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Turnover	**70.7**	**62.3**	**67.6**	**75.8**	**83.4**	**89.2**	**93.5**
yoy growth	*29.2%*	*-12.0%*	*8.6%*	*12.1%*	*10.1%*	*6.8%*	*4.8%*
Own brand	**12.7**	**16.9**	**20.2**	**23.9**	**28.4**	**33.3**	**36.9**
yoy growth	10.7%	32.8%	19.3%	18.7%	18.8%	17.2%	10.7%
Hotel amenities	**13.4**	**10.9**	**10.9**	**11.1**	**11.4**	**11.5**	**11.6**
yoy growth	88.8%	-19.0%	0.5%	1.0%	3.0%	1.0%	0.8%
Private label / 3rd parties	**30.4**	**24.5**	**25.9**	**29.8**	**32.2**	**32.7**	**33.1**
yoy growth	13.4%	-19.4%	5.8%	15.0%	8.0%	1.5%	1.3%
Soap noodles	**14.1**	**9.9**	**10.5**	**11.0**	**11.4**	**11.6**	**11.9**
yoy growth	52.0%	-29.7%	6.0%	4.0%	4.0%	2.0%	2.0%
Gross profit	**17.3**	**21.2**	**24.9**	**27.4**	**29.8**	**31.7**	**33.1**
Gross margin	*24.4%*	*34.1%*	*36.8%*	*36.2%*	*35.7%*	*35.6%*	*35.5%*
Net opex	-12.4	-14.4	-16.1	-17.4	-18.4	-19.3	-20.2
Net opex/sales	*17.6%*	*23.1%*	*23.8%*	*22.9%*	*22.0%*	*21.6%*	*21.6%*
Adj. EBITDA	**6.2**	**9.2**	**11.2**	**12.7**	**14.3**	**15.6**	**16.3**
yoy growth	-30.5%	48.7%	22.4%	13.1%	12.5%	9.1%	4.5%
Adj. EBITDA margin	8.7%	14.7%	16.6%	16.8%	17.1%	17.5%	17.4%

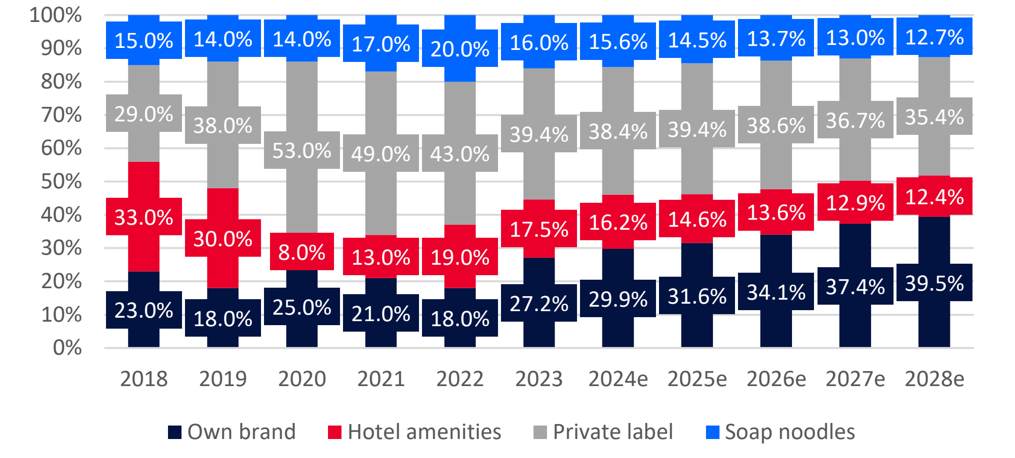
Source: Eurobank Equities Research, Company data.

Looking at each division in more detail:

- **Own brand:** We model a revenue CAGR of c19% across 2023-28e for own brand products, based on the assumption that Papoutsanis will continue to expand its portfolio and gain market share. This growth is likely to come from the enrichment of the product range, the enhancement of advertising efforts, the strengthening of in-store presence, as well as the recently launched home care products, primarily under the ARKADI brand. The company's management is primarily focusing on the Greek market for these initiatives. Maintaining a balance between quality and affordability is crucial for success in bolstering the brand penetration.
- **Hotel amenities:** We posit that the development of this category will closely align with prevailing tourism trends in Greece, where the long-term trend indicates annual inbound tourism growth near 2-3%. At the same time, management is seeking to expand the geographical coverage through the establishment of new collaborations abroad mainly promoting own branded products of the category. It is noteworthy to underscore the company's competitive edge within this segment, derived from its vertically integrated production process, which includes packaging. Overall, we are looking for c1.5% CAGR in this subcategory over 2023-28e as we conservatively pencil in just limited growth in foreign markets.
- **Private label / third parties:** Our assumptions are based on the role of this category as the cornerstone of the company, as it constitutes the largest part of sales. Having in mind management's commentary regarding an imminent new partnership, which will contribute c€6m revenue on an annualized basis, we model c6% growth in 2024 and 15% in 2025 (full year contribution from the new partnership).
- **Soap noodles:** We stress that Papoutsanis's competitive advantage in this category is the production of high-quality tailor-made soap noodles, primarily catering to premium soap producers such as L'Occitane.

Taking all the above into account, we anticipate revenue growth of approximately 9% in 2024 and 12% in 2025, following a temporary 12% decline in sales in 2023. Post 2026, we envisage revenue growth moderating to a mid-single digit figure.

Sales mix per product category (%)



Source: Eurobank Equities Research, Company data.

Expanded gross profit margins in FY'24 thanks to positive mix

Gross margins have bounced strongly in the last few years (except for the high-cost environment of 2022), shaping at 38.1% in H1'24. This improvement is mainly attributed to reduced production costs from recent investments and a favorable shift in the sales mix, driven by increased sales of own-branded products.

With the recent new partnership in the PL category poised to significantly boost PL/third-party sales (from €11.4m in H1'24 to €25.9m for FY24e, +5.8% YoY), we anticipate a slight gross margin contraction in H2'24 (yoy) but still model higher gross margins for the full year (at 36.8%).

We embed some conservatism in our gross margin forecasts, thus seeing scope for positive surprises on better mix…

Looking ahead, we pencil in a gradual gross margin erosion towards a normalized level of 35.5% by 2028, assuming limited price/mix uplift as Papoutsanis seeks to gain market share. That said, we do see scope for margin expansion post 2027, depending on the input cost environment and the extent of growth in branded products (although the latter would be somewhat diluted at operating level by higher advertising expenses).

Opex outlook

Operating expenses have risen, primarily due to marketing campaigns aimed at driving customer acquisition for branded products. We estimate distribution expenses will represent about 17% of 2024 sales, with a gradual decline over the forecast period. This category includes staff costs, advertising, and transportation. R&D costs stand at around 1.5% of sales, below larger beauty peers (3%) but in line with multinational companies like L'Occitane and Unilever (1.5%).

In 2023, the opex-to-sales ratio rose due to negative operating leverage from lower revenues. We expect a further increase in 2024 (with opex/sales at c24.3%_, primarily due to marketing expenses for new products, but expect the pendulum of operating leverage to swing to the positive side from 2025e onwards, with the opex-to-sales ratio normalizing to 21-22% by 2028. Notably, part of the R&D expenses will be financed by the EBRD under Papoutsanis' €15m, 7-year investment program.

We remind that Papoutsanis is well-positioned for positive operating leverage, having recently completed a €25m three-year investment plan and planning further investments to reduce energy costs (e.g., photovoltaic installations). Against this background, we expect EBITDA margins to gradually rise from <15% in 2023 to 16.6% in 2024e and 17.5% by 2027e, driven by the spread of advertising expenses over a larger volume of branded products.

Dividends

On the dividend front, for this year we anticipate the same dividend amount as in FY'23, namely €0.07/ share. Looking ahead we have assumed a similar payout, namely near 32-33%, with shareholder remuneration based on progressive distribution (i.e. dividend payments growing in sync with earnings).

Summary of changes

Taking all these factors into account, we have revised our estimates for Papoutsanis, primarily reflecting the impact of newly launched Arkadi products and incorporating trends in profitability driven by changes in product mix, production optimization, and higher advertising expenses.

For FY'24, we have reduced our top-line growth forecast by c2%, driven by lower sales volumes in the PL/3rd party category, while maintaining the projected growth rate in our model for 2025-26e. These feed through to a c3% decline in our EBITDA estimates. In terms of bottom line, our net profit estimates also fall accordingly (c€0.5m-0.6m) during the forecast horizon.

Papoutsanis estimates

	New estimates			Previous estimates			% change		
EURm	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**
Turnover	67.6	75.8	83.4	69.2	77.6	85.4	-2.3%	-2.3%	-2.3%
Adj. EBITDA	11.2	12.7	14.3	11.5	13.2	14.8	-2.6%	-3.2%	-3.1%
Net income	5.7	7.3	8.1	6.2	7.9	8.7	-8.5%	-7.8%	-6.8%

Source: Eurobank Equities Research

Valuation

PT remains at €3.00, indicating significant upside

We have updated our model incorporating the changes to our estimates while rolling our valuation forward to September 2025. We continue to value Papoutsanis using a DCF-based valuation, which yields a PT of €3.0/share, thus reiterating our Buy rating on the stock. Our PT places Papoutsanis at c8.8x 2024e EV/EBITDA, still at c25% discount vs the current valuation of the peer group.

Our model is based on the following assumptions:
- Sales CAGR of c8.5% over 2023-2028e, driven by increasing sales of branded products mainly domestically and, gradually, aboard. Our numbers are based on volume-led growth, with neutral pricing and slightly positive mix (given higher growth in branded products).
- EBITDA CAGR of c12% over 2023-2028e, underpinned by the positive pendulum of operating leverage. We model low-single digit growth thereafter, assuming sustainable EBITDA margins near 15%, namely c2-3ppts lower than HPC peers' cross cycle margins.
- We use a long-term growth rate of 1% based on a reinvestment rate of 14% and mid-single-digit perpetual incremental ROIC, assuming that the company's competitive advantage will fade in the long run.
- We end up with an implied FCF EBITDA cash conversion (FCF/EBITDA) of c50% over the forecast horizon, a level we consider feasible given the nature of the industry.
- We use a 9.5% WACC, which we believe captures the relative risk profile of the business vis-à-vis the rest of our coverage universe while also considering factors such as stock liquidity.

DCF

EURmn unless otherwise stated	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	TV
NOPAT	7.5	9.0	9.5	10.3	10.6	10.6	10.8	10.5	10.5	10.5	10.3	10.4
Depreciation	2.4	2.7	2.9	3.1	3.4	3.4	3.4	3.5	3.6	3.6	3.7	3.7
Working Capital/other	(0.5)	(0.9)	0.5	(0.0)	(0.1)	(1.5)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.7)
Capex	(5.0)	(5.0)	(5.3)	(5.5)	(5.8)	(3.6)	(3.8)	(4.0)	(4.1)	(4.3)	(4.4)	(3.5)
Unlevered Free Cash Flow	**4.4**	**5.7**	**7.6**	**7.9**	**8.2**	**9.0**	**8.9**	**8.5**	**8.4**	**8.2**	**8.0**	**9.0**
Sum of PV of FCF	53.9											
PV of terminal value	42.2											
Enterprise Value	**96.1**											
Net debt/other claims	(18.3)											
Equity value ex-div	**77.8**											
no. Of shares	27.1											
Per share (year end)	2.9 €											
12-month fair value per share ex div	**3.0 €**											

Source: Eurobank Equities Research

Below we present the sensitivity of our PT to changes in WACC and terminal growth rates. As can be seen, flexing our WACC and perpetuity growth inputs by 0.5% each yields a fair value range between c€2.7 and c€3.5 per share, effectively pointing to a very compelling risk-reward skew.

DCF Sensitivity of our calculated company fair value per share to the WACC and LT growth assumptions

		WACC				
		10.5%	10.0%	9.5%	9.0%	8.5%
Terminal growth	2.0%	2.9	3.1	3.4	3.7	4.0
	1.5%	2.8	3.0	3.2	3.5	3.7
	1.0%	2.7	2.8	**3.0**	3.3	3.5
	0.5%	2.6	2.7	2.9	3.1	3.3
	0.0%	2.5	2.6	2.8	3.0	3.2

Source: Eurobank Equities Research.

Papoutsanis Financial Statements

EURmn					
Group P&L	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Sales	**70.7**	**62.3**	**67.6**	**75.8**	**83.4**
Opex	-64.6	-53.1	-56.4	-63.1	-69.1
Adj. EBITDA	**6.2**	**9.2**	**11.2**	**12.7**	**14.3**
% change	*-30.5%*	*48.7%*	*22.4%*	*13.1%*	*12.5%*
EBITDA margin	*8.7%*	*14.7%*	*16.6%*	*16.8%*	*17.1%*
EBIT	**4.9**	**6.8**	**8.8**	**10.1**	**11.4**
Financial income (expense)	-0.9	-1.8	-1.9	-1.6	-1.4
Exceptionals/other income	0.0	0.0	0.0	0.0	0.0
PBT - reported	**3.9**	**5.0**	**6.9**	**8.4**	**10.0**
Income tax	-0.9	-1.0	-1.3	-1.1	-1.9
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net Profit - reported	**3.0**	**4.1**	**5.7**	**7.3**	**8.1**
EPS - adjusted (EUR)	**0.11**	**0.15**	**0.21**	**0.27**	**0.30**
DPS (EUR)	**0.04**	**0.07**	**0.07**	**0.09**	**0.10**
Group Cash Flow Statement	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Adj. EBITDA	6.2	9.2	11.2	12.7	14.3
Change in Working Capital	1.6	-3.3	-0.5	-0.9	0.5
Net Interest	-0.8	-1.7	-1.9	-1.6	-1.4
Tax	-0.9	-1.0	-1.3	-1.1	-1.9
Other	0.5	1.2	0.0	0.0	0.0
Operating Cash Flow	**6.5**	**4.5**	**7.6**	**9.1**	**11.5**
Capex	-8.9	-4.5	-5.0	-5.0	-5.3
Other investing	-2.5	0.0	0.0	0.0	0.0
Net Investing Cash Flow	**-11.4**	**-4.5**	**-5.0**	**-5.0**	**-5.3**
Dividends	-1.4	-0.5	-1.9	-1.8	-2.4
Other (incl. capital repayment of leases)	-1.4	0.3	0.3	0.0	0.0
Net Debt (cash)	**18.1**	**18.3**	**17.4**	**15.1**	**11.3**
Free Cash Flow (adj.)	**-5.2**	**-0.1**	**2.5**	**4.0**	**6.1**
Group Balance Sheet	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Tangible Assets	47.8	49.2	51.7	53.9	56.2
Intangible Assets	1.5	1.5	1.4	1.4	1.3
Other Long-term assets	2.1	2.0	1.7	1.7	1.7
Non-current Assets	**51.4**	**52.7**	**54.8**	**56.9**	**59.2**
Inventories	9.7	9.5	10.3	11.5	12.7
Trade Receivables	6.5	4.3	5.9	6.6	7.3
Other current assets	3.8	3.2	2.7	3.0	3.3
Cash & Equivalents	11.7	5.7	6.0	6.0	6.6
Current assets	**31.7**	**22.7**	**24.9**	**27.2**	**29.9**
Total Assets	**83.2**	**75.3**	**79.6**	**84.1**	**89.0**
Shareholder funds	26.9	29.8	33.6	39.0	44.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Total Equity	**26.9**	**29.8**	**33.6**	**39.0**	**44.8**
Long-term debt	22.5	20.2	19.2	18.2	17.3
Other long-term liabilities	6.4	6.5	6.3	6.1	6.0
Long Term Liabilities	**28.8**	**26.6**	**25.5**	**24.3**	**23.3**
Short-term debt	7.3	3.9	4.2	2.9	0.6
Trade Payables	16.1	11.2	11.7	13.2	14.7
Other current liabilities	4.0	3.8	4.7	4.6	5.7
Current liabilities	**27.4**	**18.9**	**20.6**	**20.7**	**21.0**
Equity & Liabilities	**83.2**	**75.3**	**79.6**	**84.1**	**89.0**
Key Financial Ratios	**2022**	**2023**	**2024e**	**2025e**	**2026e**
P/E	22.8x	15.2x	11.0x	8.5x	7.7x
P/BV	2.5x	2.1x	1.9x	1.6x	1.4x
EV/EBITDA	14.0x	8.8x	7.1x	6.1x	5.1x
EBIT/Interest expense	5.3x	3.8x	4.7x	6.1x	8.2x
Net Debt (cash)/EBITDA	2.9x	2.0x	1.5x	1.2x	0.8x
Dividend Yield	1.6%	3.1%	3.0%	3.8%	4.2%
ROE	11.5%	14.4%	17.9%	20.1%	19.4%
Free Cash Flow yield	-7.7%	-0.2%	4.0%	6.5%	9.8%
Payout Ratio	36.2%	46.5%	32.5%	32.5%	32.5%

Source: Eurobank Equities Research

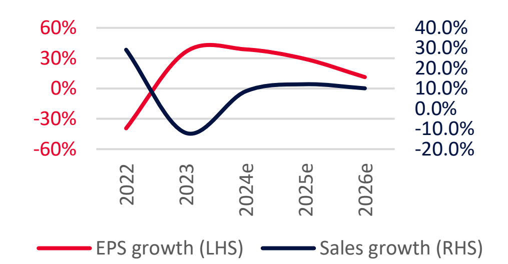
Company description

Papoutsanis is a company operating in the manufacturing of soap and liquid cosmetics. It holds the leading position in Greece while being one of the largest soap producers in Europe. The company's product portfolio comprises 4 categories, namely owned brands, hotel amenities, private label and specialized soap noodles. PAP generates >60% of sales internationally.

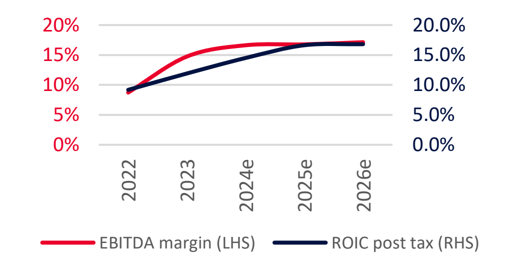
Risks and Sensitivities

- **Macro:** PAP sales depend on the consumer environment, and, on that basis, a potential deterioration in consumer dynamics in key markets could weigh on growth, especially since the portfolio has discretionary characteristics.
- **Input costs:** With >63% of costs stemming from raw materials, a key risk has to do with an abrupt spike in commodity prices, as was evident in 2022. This is especially true as there is usually a lag between cost inflation and pricing actions.
- **Regulations:** Pricing of mass market products is often regulated (e.g. recently in Greece); should these regulations become more stringent, it could weigh on the branded products' revenue.
- **Industry structure:** Three out of four product categories are based on contracts mainly with multinational or large companies. This dependency poses a risk of revenue loss if any of these collaborations were to be terminated.
- **Changing consumer dynamics:** The consumer environment is evolving at a rapid pace and results in shifting preferences and a shorter product lifecycle, although this is more of an issue for beauty. PAP seeks to address these dynamics through innovation, continuous product development, rebranding and marketing support but product portfolio enrichment may prove less successful than our estimates envisage.
- **Sensitivity:** We estimate that a 1% change in sales drives a c2% change in EBITDA.

Sales and EPS growth



Profitability and returns



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Regulated by the Hellenic Capital Markets Commission
Authorisation No: 6/149/12.1.1999
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12-month Rating History of Papoutsanis

Date	Rating	Stock price	Target price
25/09/2024	Buy	€ 2.30	€ 3.00
07/03/2024	Buy	€ 2.38	€ 3.00

Eurobank Equities Investment Firm S.A. Rating System:

Stock Ratings	Coverage Universe		Investment Banking Clients		Other Material Investment Services Clients (MISC) - as of 15th Jul 2024	
	Count	Total	Count	Total	Count	Total
Buy	24	69%	2	8%	10	40%
Hold	3	9%	0	0%	1	33%
Sell	0	0%	0	0%	0	0%
Restricted	1	3%	0	0%	1	100%
Under Review	2	6%	1	50%	2	100%
Not Rated	5	14%	2	40%	2	40%
Total	**35**	**100%**				

Coverage Universe: A summary of historic ratings for our coverage universe in the last 12 months is available here.

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Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
Hold:	We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell.
Sell:	Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
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Not Rated:	Refers to Sponsored Research reports