

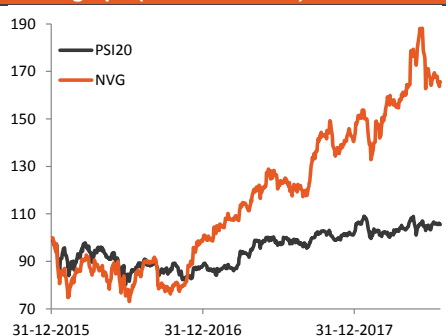
Ticker: **NVG PL**

 Recommendation: **BUY**
Share details (EUR)

Current price	5.01
Target price	6.39
Upside	27.5%
Beta	1.0
52w max	6.055
52w low	3.469
1y return (%)	43.39%
3m return (%)	9.12%
Market cap (mn)	3,595
Free float	30.58%
Avg daily volume (30d)	2,640,748

Financial highlights (EUR million)

	2017	2018E
Total Sales	1,637	1,760
EBITDA	404	455
EBIT	259	317
Net profit	208	242
Net debt	696	686
EPS	0.29	0.34
DPS	0.35	0.28

Price graph (31/12/2015=100)


Recommendation	Date	PT
Buy	26/07/18	6.39
Buy	07/06/18	6.27
Accumulate	14/10/17	5.10

Main shareholders

Semapa	69.35%
BPI	4.24%
Zoom Lux	2.14%

Note: data as of 26/7/2018

Source: Bloomberg; BiG Research; Company Data

THE NAVIGATOR COMPANY
2nd Quarter earnings support production and price rises

In the second quarter of 2018, Navigator registered total sales of EUR 432 mn, slightly below BiG estimate of EUR 441.6 mn, but still representing a 12.2% growth QoQ. EBITDA was EUR 115 mn (vs BiG est. EUR 121.8 mn) and net income EUR 66.2 mn (vs est. 68.4 mn). The reason for the differences lies primarily in a more optimistic view of BiG on pulp sales (we expected 90ktons but were only sold 61 ktons). Paper sales volume was 395.1 ktons (est. BiG 392 ktons) and tissue 15 ktons (est. BiG 13.5 ktons).

Navigator's key ratios

	2017	2018E	2019E	2020E	2021E	2022E
P/E	22.1	18.9	14.2	12.8	12.0	11.3
EV/EBITDA	14.3	12.7	10.4	9.7	9.2	8.8
Dividend Yield	5.5%	4.4%	4.8%	5.3%	5.8%	6.2%
FCF Yield	6.1%	4.2%	8.5%	9.7%	9.7%	10.0%

Source: Company's data, BiG Research

Navigator is still positive on pulp and paper price increases, due to the tightness of the pulp market (no new Greenfield projects until 2021) and the recent paper price increases being implemented in the industry. Navigator increased European paper prices in July and anticipates an increase of equal magnitude in October.

Navigator's Earnings

€ million	4Q17	1Q18	2Q18	%QoQ	3Q18E	%QoQ
Total Sales	427.0	384.9	432.0	12%	446.6	3%
EBITDA	103.8	110.9	115.1	4%	127.1	10%
Net Income	62.0	53.2	66.3	25%	72.9	10%

Source: Company's data, BiG Research

Outlook for Third Quarter

For the third quarter we estimate an increase of 3.4% in total sales QoQ to EUR 446.6 mn, an EBITDA of EUR 127.1 mn and net income of EUR 72.9 mn. This reflects an increase of pulp sales volume to 73.3 ktons, stabilization on paper to 394.3 ktons and 16.4 ktons of total tissue. We expect Navigator to achieve an increase in average price to 835.3 €/ton in paper and 665.7 €/ton in pulp (+2.8% and +1.3% QoQ respectively).

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Other topics

Tissue margins: On the conference call, Navigator highlighted that the increase in pulp prices has squeezed the margins in the tissue business as the pulp index in euros (FOEX BHKP€ at 878) is now above the paper index in euros (FOEX A4Copy€ at 864) for the first time. In tissue it has been extremely difficult for companies to renegotiate prices with clients as these are mainly large retailers with strong pricing power. However Navigator has been able to increase prices and expects in the future to continue to increase them.

Trade Wars: When questioned about the possible impact of trade wars, Navigator highlighted that it is already feeling negative effects, as some Asian clients are delaying orders because of the uncertainty regarding tariffs in the US.

Mozambique: Navigator signed an agreement with Mozambique government to relaunch its investment in the country. In the first phase, 40 thousand hectares of forestry will be planted, a wood chip mill will be built and there will also be an infrastructure plan. The total investment for this phase will be USD 260 mn (of which USD 120 mn were already invested by Navigator). The wood chip mill will have the capacity to export around 1 mn tons of wood per year. The second phase will include the planting of further 120 thousand hectares of forest and the construction of a pulp mill with a capacity to produce 1.5 mn tons a year.

Valuation

Our valuation for Navigator did not change materially as 2nd quarter earnings were only slightly below our expectation, and on the positive side, we included further paper price increases after Navigator's announcement that it will probably increase prices in October. Our new price target per share is thus EUR 6.39, which vs current price implies an upside of 27.5%.

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Key financial data

€ million	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	Terminal
Income statement										
Revenues	1,549	1,573	1,654	1,619	1,667	1,760	1,851	1,907	1,934	1,961
Paper	1,218	1,247	1,216	1,211	1,204	1,273	1,324	1,351	1,378	1,406
Pulp	153	129	140	137	164	170	187	183	179	176
Energy	147	142	198	148	175	169	168	168	168	168
Tissue	0	13	56	68	74	89	144	177	181	184
Pellets	0	0	0	0	15	13	0	0	0	0
Services Rendered	4	5	4	4	5	5	5	5	5	5
Other	18	31	26	42	30	40	23	23	23	23
EBITDA	347	325	390	397	404	455	556	597	627	656
D&A	103	112	122	167	145	139	139	139	139	139
Financial expenses	-14	-34	-50	-21	-8	-17	-16	-16	-15	-15
Taxes	10	3	36	-7	40	57	77	85	90	96
Net income	221	177	196	217	208	242	324	357	382	406

Cash flows

Received from clients	1,616	1,623	1,718	1,665	1,688	1,766	1,836	1,899	1,930	1,958
Change in Working capital	31	74	-118	51	-71	-17	-5	-34	-11	-12
Operating Cash Flow	328	288	305	282	322	344	403	448	472	496
Capex	-22	-22	-154	-81	-115	-199	-46	-48	-48	-49
Free Cash Flow	188	-25	-437	-5	58	-13	107	126	124	163
Net borrowing	121	-60	-80	-20	113	-23	-23	-23	-23	-23
Dividends distributed	-201	-201	-440	-170	-250	-200	-218	-243	-268	-286
Change in cash	188	-25	-437	-5	58	-13	107	126	124	163

Balance sheet

Fixed assets	1,316	1,250	1,321	1,295	1,257	1,240	1,145	1,052	959	834
Current assets	981	940	558	562	630	583	629	741	847	992
Current liabilities	373	611	343	407	453	302	449	470	435	307
Total Debt	831	773	727	708	821	798	775	752	729	706
Net debt	307	274	654	641	696	686	556	407	260	73
Shareholders' equity	1,480	1,454	1,214	1,233	1,185	1,147	1,126	1,168	1,209	1,257

Operating and financial indicators

Revenue growth	1%	2%	5%	-2%	3%	6%	5%	3%	1%	1%
EBITDA margin	22%	21%	24%	25%	24%	26%	30%	31%	32%	33%
Profit margin	14%	11%	12%	13%	12%	14%	18%	19%	20%	21%
EPS	0.31	0.25	0.27	0.30	0.29	0.34	0.45	0.50	0.53	0.57
ROCE	11%	11%	13%	15%	14%	16%	24%	27%	28%	27%
Operating cash flow /EBITDA	95%	89%	78%	71%	80%	76%	72%	75%	75%	76%
Net debt/EBITDA	0.88	0.84	1.68	1.61	1.72	1.51	1.00	0.68	0.41	0.11
Interest coverage	17.3	6.3	5.3	11.1	33.7	19.2	26.0	29.4	32.3	35.4
Dividends per Share	0.28	0.28	0.61	0.24	0.35	0.28	0.30	0.34	0.37	0.40

Source: Company; BiG Research

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Navigator's key valuation items

€ million	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	Terminal
Revenues	1,549	1,573	1,654	1,619	1,667	1,760	1,851	1,907	1,934	1,961
EBITDA	347	325	390	397	404	455	556	597	627	656
EBIT	245	214	268	231	259	317	417	458	488	518
Taxes on EBIT	47	41	51	44	50	61	80	88	93	99
NOPLAT	198	173	217	187	210	256	338	371	395	419
D&A	103	112	122	167	145	139	139	139	139	139
Change in Working capital	31	74	-118	51	-71	-17	-5	-34	-11	0
Capex	-22	-22	-154	-81	-115	-199	-46	-48	-48	-49
Unlevered FCF	247	188	303	221	310	213	435	496	496	508
rf	2.0%									
Beta	1.0									
Market risk premium	8.0%									
Ke	9.7%									
Kd	2.1%									
Debt to EV	13%									
Tax rate	19%									
WACC	8.7%									
g	0.00%									
Years to discount						0.4	1.4	2.4	3.4	4.4
Discounted OFCF						206	386	405	373	352
Terminal value						4,060				
Enterprise value						5,781				
Net debt (2018)						686				
Minority interests						0				
Equity fair value						5,095				
Shares outstanding (# million)						717.5				
Liquidity discount						10%				
Price target						6.39				
P/E 2018E						18.9				
EV/EBITDA 2018E						12.7				
P/OFCF 2018E						21.5				
DY 2018E						4.4%				

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- Clarification of the qualitative terms implied in the recommendations:
 - Buy, expected absolute return above 15%;
 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;
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PSI20 Notes in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75.0%
Keep/Neutral	0	0.0%
Reduce/Sell	1	25.0%
Total	4	100.0%

Trading Ideas in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	11	78.6%
Stop Loss	1	7.1%
In Place	2	14.3%
Total	14	100.0%

Pair Trades in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

Source: BiG Research

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