

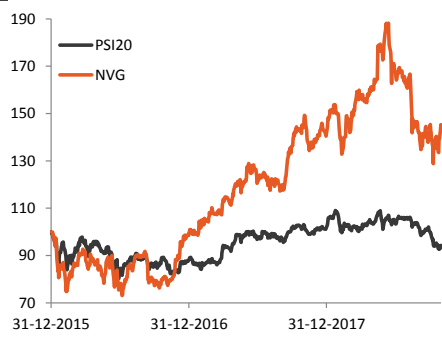
Ticker: **NVG PL**

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

Current price	4.40
Target price	5.92
Upside	34.5%
Beta	1.0
52w max	5.698
52w low	3.827
1y return (%)	6.09%
3m return (%)	-11.36%
Market cap (mn)	3,157
Free float	30.58%
Avg daily volume (30d)	1,566,539

**Financial highlights (EUR million)**

	2017	2018E
Total Sales	1,637	1,739
EBITDA	404	464
EBIT	259	337
Net profit	208	246
Net debt	696	677
EPS	0.29	0.34
DPS	0.35	0.28

**Price graph (31/12/2015=100)**


Recommendation	Date	PT
Buy	31/10/18	5.92
Buy	26/07/18	6.39
Buy	07/06/18	6.27
Accumulate	14/10/17	5.10

**Main shareholders**

Semapa	69.35%
Zoom Lux	2.14%
BPI	1.99%

Note: data at 30/10/2018

Source: Bloomberg; BiG Research; Company Data

**THE NAVIGATOR COMPANY**
**3<sup>rd</sup> Quarter earnings show prices offsetting loss of volumes**

In the third quarter of 2018, Navigator registered total sales of EUR 435.4 mn, below BiG's estimate of EUR 446.6 mn, achieving a 0.8% growth QoQ and 9.6% YoY. EBITDA was EUR 114.6 mn (vs BiG est. EUR 127.1 mn) and net income EUR 52.3 mn (vs est. 72.9 mn) due to a higher tax rate than expected. The reason for the differences in revenues lies primarily in a more optimistic view of BiG on pulp sales (we expected 73.3 ktons but were only sold 63.1 ktons) and paper sales volume, which was 380.7 ktons (est. BiG 394.3 ktons) while sales of tissue were in line, 16.7 ktons (est. BiG 16.5 ktons).

**Navigator's key ratios (at current price of €4.40)**

	2017	2018E	2019E	2020E	2021E	2022E
P/E	15.2	12.8	10.9	9.8	9.1	8.5
EV/EBITDA	9.5	8.3	7.6	7.0	6.7	6.3
Dividend Yield	7.9%	6.3%	7.0%	6.9%	7.7%	8.3%
FCF Yield	9.8%	6.8%	12.4%	13.9%	14.3%	14.7%

Source: Company's data, BiG Research

Navigator is still confident on paper price increases, while expecting the pulp prices to stabilize. This quarter the average pulp price was EUR 665.6/ton (vs. BiG est. EUR 665.7/ton), paper prices were on average EUR 845.8/ton (vs BiG est. EUR 835.3/ton) and tissue prices were EUR 1497/ton (vs BiG est. EUR 1498/ton).

**Navigator's Earnings**

€ million	1Q18	2Q18	3Q18	%QoQ	4Q18E	%QoQ
Total Sales	384.9	432.0	435.4	1%	486.9	12%
EBITDA	110.9	115.1	114.6	0%	123.8	8%
Net Income	53.2	66.3	52.3	-21%	74.2	42%

Source: Company's data, BiG Research

**Outlook for the Fourth Quarter**

For the fourth quarter we estimate an increase of 12% in total sales QoQ to EUR 486.9 mn, an EBITDA of EUR 123.8 mn and net income of EUR 74.2 mn. This reflects a decrease of pulp sales volume to 59 ktons, an increase in paper to 420 ktons and to 20.3 ktons of tissue products. We expect Navigator to achieve an increase in average price to EUR 873.3/ton in paper, EUR 673/ton in pulp and EUR 1616.8/ton in tissue average price (+3.3%, +1.1% and +8% QoQ respectively) as Navigator is expected to increase tissue prices in November.

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#### Other topics

**Price evolution:** The average price of the pulp index (FOEX BHKP in USD) was 1050/ton in the quarter, showing signs of stabilization (in 2Q18 was around USD 1046/ton). The paper index in Europe (FOEX A4 B-Copy) showed a positive trend reaching an average of EUR 882/ton vs an average of EUR 864/ton in the 2Q18. Navigator, in the conference call, showed that there could be flexibility from clients for further paper price increases in 2019.

**Margins in 2019:** The company alerted analysts that in 2019, higher energy prices will have a significant negative impact on company's margins. To adjust for this effect BiG's EBITDA margin estimates were lowered by 2% in each year vs our previous model. This had consequently a negative impact in our final valuation of the company.

**M&A:** In the conference call, Navigator said it will start a strategic review of the business in order to understand how it should deploy its capital next year. There are no major investments planned but the company signaled that it may be interested in increasing its exposure to the tissue segment. This may be accomplished by acquiring for example, a converting facility in Europe, which would allow the company to transport there jumbo reels to be transformed into tissue products. This way it would allow Navigator to increase its exposure in the tissue business in Europe. However, the company wants first to test the return on the latest project of tissue in Cacia, before deciding on new investments.

**Hurricane Impact:** In October, already in 4Q18, the hurricane Leslie impacted Figueira da Foz region in Portugal, leading to energy, telecommunications and water stoppages at Navigator's mill there for one week. The loss of production was of 9ktons of pulp and 10ktons of paper which will limit the amounts available for sale in the 4Q18.

#### Valuation

Our valuation for Navigator was reduced by 8% as lower EBITDA margins were accounted for, due to higher energy prices, as explained above. Our new price target per share is thus EUR 5.92, which vs current stock price implies an upside of around 35%.

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**Key financial data**

€ million	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	Terminal
<b>Income statement</b>										
Revenues	1,549	1,573	1,654	1,619	1,667	1,776	1,838	1,897	1,925	1,954
Paper	1,218	1,247	1,216	1,211	1,204	1,293	1,329	1,355	1,382	1,410
Pulp	153	129	140	137	164	155	149	146	143	141
Energy	147	142	198	148	175	173	173	173	173	173
Tissue	0	13	56	68	74	98	156	192	196	200
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	37	25	25	25	25
EBITDA	347	325	390	397	404	464	503	544	574	604
D&A	103	112	122	167	145	129	129	129	129	129
Financial expenses	-14	-34	-50	-21	-8	-22	-16	-16	-15	-15
Taxes	10	3	36	-7	40	69	69	77	83	89
Net income	221	177	196	217	208	246	290	324	348	373
<b>Cash flows</b>										
Received from clients	1,616	1,623	1,718	1,665	1,688	1,779	1,828	1,889	1,921	1,950
Change in Working capital	31	74	-118	51	-71	-15	-8	-21	-10	-12
Operating Cash Flow	328	288	305	282	322	353	383	415	439	464
Capex	-22	-22	-154	-81	-115	-199	-46	-47	-48	-49
Free Cash Flow	188	-25	-437	-5	58	-4	84	119	117	156
Net borrowing	121	-60	-80	-20	113	-23	-23	-23	-23	-23
Dividends distributed	-201	-201	-440	-170	-250	-200	-221	-217	-243	-261
Change in cash	188	-25	-437	-5	58	-4	84	119	117	156
<b>Balance sheet</b>										
Fixed assets	1,316	1,250	1,321	1,295	1,257	1,249	1,164	1,080	996	881
Current assets	981	940	558	562	630	576	645	750	849	987
Current liabilities	373	611	343	407	453	301	455	477	442	315
Total Debt	831	773	727	708	821	798	775	752	729	706
Net debt	307	274	654	641	696	677	570	428	288	109
Shareholders' equity	1,480	1,454	1,214	1,233	1,185	1,151	1,156	1,200	1,242	1,292
<b>Operating and financial indicators</b>										
Revenue growth	1%	2%	5%	-2%	3%	7%	3%	3%	1%	1%
EBITDA margin	22%	21%	24%	25%	24%	26%	27%	29%	30%	31%
Profit margin	14%	11%	12%	13%	12%	14%	16%	17%	18%	19%
EPS	0.31	0.25	0.27	0.30	0.29	0.34	0.40	0.45	0.49	0.52
ROCE	11%	11%	13%	15%	14%	16%	21%	24%	25%	24%
Operating cash flow / EBITDA	95%	89%	78%	71%	80%	76%	76%	76%	76%	77%
Net debt/EBITDA	0.88	0.84	1.68	1.61	1.72	1.46	1.13	0.79	0.50	0.18
Interest coverage	17.3	6.3	5.3	11.1	33.7	15.4	23.3	26.7	29.5	32.5
Dividends per Share	0.28	0.28	0.61	0.24	0.35	0.28	0.31	0.30	0.34	0.36

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	1,776	1,838	1,897	1,925	1,954
EBITDA	347	325	390	397	404	464	503	544	574	604
EBIT	245	214	268	231	259	335	373	415	445	475
Taxes on EBIT	47	41	52	45	50	65	72	80	86	92
NOPLAT	197	173	217	186	209	271	301	335	359	384
D&A	103	112	122	167	145	129	129	129	129	129
Change in Working capital	31	74	-118	51	-71	-15	-8	-21	-10	0
Capex	-22	-22	-154	-81	-115	-199	-46	-47	-48	-49
Unlevered FCF	247	188	302	220	310	215	393	438	450	464
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						0.2	1.2	2.2	3.2	4.2
Discounted OCF						212	356	366	346	328
Terminal value						3,785				
Enterprise value						5,394				
Net debt (2018)						677				
Minority interests						0				
Equity fair value						4,718				
Shares outstanding (# million)						717.5				
Liquidity discount						10%				
Price target						5.92				
P/E 2018E						17.3				
EV/EBITDA 2018E						11.6				
P/OFCF 2018E						19.7				
DY 2018E						4.7%				

Source: Company; BiG Research

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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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- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
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PSI20 Notes in the last 12 months as of 30<sup>th</sup> of September of 2018:

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

Source: BiG Research

Trading Ideas in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61.1%
Stop Loss	6	33.3%
In Place	1	5.6%
<b>Total</b>	<b>18</b>	<b>100.0%</b>

Pair Trades in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
<b>Total</b>	<b>0</b>	<b>0%</b>

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