Sioen Industries

BELGIUM
Bloomberg: SIOE:EN
Reuters: SIOE.BR

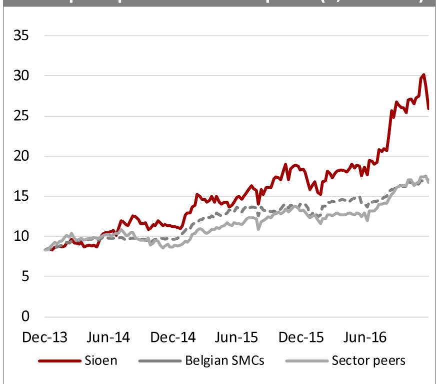
Equity Research Report

21 December 2016

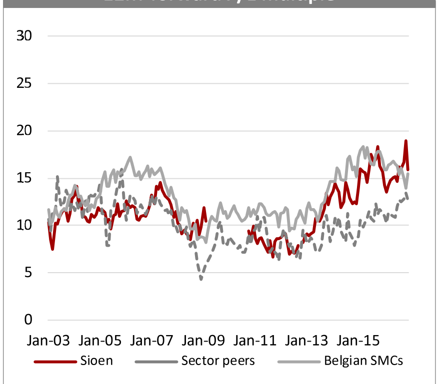
Estimated fair value per share: €30.40
Closing price (19 December 2016): €25.90

A leap into Scandinavia, a step away from cyclicality

Share price performance vs. peers (€, rebased)



12M-forward P/E multiple



Important Note

Merodis has been mandated by Sioen Industries to produce a neutral, fair, and detailed equity research report on the company with the aim to increase the visibility/awareness of its shares in financial markets. The authors hereby declare that any views expressed in this report represent their personal opinion and that Sioen has neither limited nor in any other way influenced the content of this report. Please read the disclaimer at the end of this report.

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Equity Research

Two attractive acquisitions that strengthen Sioen's profile by diluting its cyclical exposure

Sioen announced on 7 December the acquisition Ursuit, a high-end player in the niche market of professional immersion and diving suits. This was followed, on 19 December, by the acquisition of Verseidag Ballistic Protection, focused on the European armour suit market. Both companies are based in Finland and will be included in Sioen's Apparel division (30% of group sales in 2015). The acquisition rationale is to add new high-end Apparel activities in consolidating markets, with a focus on public tendering, while opening a second "home market" in Scandinavia and diluting exposure to more cyclical activities such as truck-trailer tarpaulins (now 14% of group sales).

Quality comes at a price, but valuation multiples remain attractive given the margin profile

We expect that the acquisitions will add €33m of sales in 2017e (9% of 2016e sales) with an EBITDA margin of close to 15%, providing a positive impact on divisional profitability (historically at 10% on average). Group debt should increase as from end-2016e by €44.8m, the EV paid by Sioen, which values the acquisitions (pre-synergies) at 9.3x EV/EBITDA 2017e, above Sioen's, but justified, in our view, by the margin profile, solid fundamentals and strong market positions.

4.5% pre-synergy EPS accretion from year-1, cash-returns exceeding WACC from year-2

We expect first-time consolidation on 1 January 2017, with Ursuit contributing €16m in sales in 2017e and €2.7m in EBITDA and Verseidag adding €17m in sales and €2.2m in EBITDA. We estimate combined EBIT at €4.2m, excluding the positive impact of sales and costs synergies, with a full-year financing cost of €2m (pre-tax cost of debt of 4.5%). We estimate 4.5% EPS accretion for 2017e and 2018e and we raise our estimates accordingly. Our analysis points to value creation from year-2 (after-tax cash returns exceeding WACC of 6.9%). Our forecasts are mitigated by the slowdown in the European truck market as reported by ACEA in November and by guidance from Volvo of a 5% market decline in 2017, which may impact Sioen given its European market leadership position in truck-trailer tarpaulin.

Fair value estimate and company valuation

We use a DCF model to calculate Sioen's €30.4/share fair equity value (was €30.1), which implies a 2017e P/E of 17.6x and EV/EBITDA of 9.4x. The stock's rerating is in motion since 2013, with an average premium to peers of 40% from that point, above the current premium of 25%. Our peer analysis highlights Sioen's robust business model, combining superior margins and returns compared to its sector peers as well as delivering superior profit growth (EBITDA and EPS CAGR 2016-18e expected at 14.5% and 15.9% respectively). We also benchmark Sioen against Belgian family-owned SMC peers, which highlights its superior returns, lower capital intensity, strong growth profile and attractive dividend yield (2.3%). Our ROCE/WACC valuation analysis suggests potential upside to €33.3/share by 2018e.

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Key financials

€m	2011	2012	2013	2014	2015	2016e	2017e	2018e
Sales	334.2	327.4	327.1	333.0	327.3	377.7	437.8	446.8
EBIT	18.6	23.8	23.8	27.8	35.8	45.0	53.4	56.8
Net profit	11.6	13.3	14.3	16.5	23.1	27.3	34.2	36.7
EPS (€)	0.54	0.65	0.72	0.83	1.17	1.38	1.73	1.86
DPS (€)	0.27	0.31	0.33	0.37	0.48	0.60	0.75	0.80
P/E (x)	28.3	23.7	21.3	18.5	13.1	18.8	15.0	14.0
Net yield (%)	1.8	2.0	2.1	2.4	3.1	2.3	2.9	3.1
Adj. EV/EBIT (x)	9.6	6.5	7.4	7.5	8.1	12.8	10.7	9.7

Source: Company data, Merodis, FactSet

Financial summary

Enterprise Value (€m): 578
Market Cap. (€m): 512
Free-float MCap (€m): 163

																CAGR	CAGR
Consolidated P&L (€m)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	04-15	16-18e
Sales	303.4	324.9	347.3	391.3	359.6	240.2	302.6	334.2	327.4	327.1	333.0	327.3	377.7	437.8	446.8	0.7	8.8
EBITDA	49.8	44.2	46.2	62.9	42.1	28.4	38.1	36.2	41.2	40.7	48.6	52.9	60.6	72.9	79.4	0.6	14.5
EBIT	29.8	25.5	25.9	38.8	16.1	5.4	21.7	18.6	23.8	23.8	27.8	35.8	45.0	53.4	56.8	1.7	12.4
Pretax profit	16.8	20.0	19.3	30.4	6.5	-0.5	15.4	13.6	19.0	19.9	23.8	32.8	39.0	48.8	52.4	6.3	15.9
Net profit	11.6	13.6	12.2	19.2	3.4	-11.1	18.1	11.6	13.3	14.3	16.5	23.1	27.3	34.2	36.7	6.5	15.9
Cash Flow (€m)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	04-15	16-18e
Adj. EBITDA	49.8	43.6	44.8	61.4	36.8	26.1	38.9	35.4	41.2	40.5	43.7	51.3	60.5	72.9	79.4	0.3	14.6
WCR	20.2	-17.8	-6.6	-10.2	3.4	49.5	-14.9	-4.4	7.0	-3.0	8.0	2.3	-10.4	-12.3	-2.0		
Gros Op CF	70.0	25.8	38.2	51.2	40.2	75.6	24.0	31.0	48.2	37.5	51.7	53.6	50.1	60.7	77.4	-2.4	24.3
Capex	-9.1	-19.6	-27.4	-24.7	-16.1	-6.0	-7.2	-7.5	-6.9	-4.6	-8.3	-13.3	-16.0	-22.0	-25.0	3.5	25.0
FCF	45.7	-5.6	-3.0	6.9	11.5	67.4	8.8	18.3	31.6	23.8	32.5	27.2	16.4	19.4	32.3	-4.6	40.4
Net disp./(acq.)	-5.4	1.4	-19.4	0.8	1.6	0.3	0.9	0.4	2.9	-1.6	-1.4	-0.6	-85.5	0.0	0.0		
Dividends paid	-5.6	-4.7	-5.1	-5.8	-9.4	-1.7	-2.2	-5.6	-6.0	-6.5	-6.7	-7.3	-9.5	-11.9	-14.8	2.4	25.0
Equity issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6.4	-4.0	0.0	-0.6	0.0	0.0		
Others	4.7	33.8	32.4	23.2	16.4	-16.5	14.8	-1.3	-4.4	7.6	10.8	11.8	0.0	0.0	0.0		
Net Debt (incr.)/decr.	39.4	24.9	4.9	25.1	20.1	49.5	22.3	11.9	24.0	17.0	31.3	31.0	-79.2	7.5	17.5		
Balance Sheet (€m)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	04-15	16-18e
WC	87.6	105.4	112.1	122.2	118.8	69.3	84.2	88.5	81.5	84.5	76.5	74.2	84.6	96.9	98.9	-1.5	8.1
Capital Employed	254.0	266.6	298.1	310.1	305.5	229.2	231.4	225.2	207.8	201.2	180.7	178.6	274.6	289.4	293.8	-3.2	3.4
Discontinued Assets	0.0	0.0	0.0	0.0	0.0	11.2	7.6	5.9	0.7	0.6	0.0	0.0	0.0	0.0	0.0		
Cash & Equivalent	14.8	8.6	13.1	7.8	14.8	29.9	40.4	42.8	71.0	77.7	98.4	108.3	29.1	36.7	54.2	19.8	36.4
Gross Debt	132.6	121.1	148.2	142.5	145.5	117.0	112.5	110.5	121.6	115.8	113.6	105.7	105.7	105.7	105.7	-2.0	0.0
Equity	129.2	129.4	135.8	148.6	142.4	128.9	145.7	149.0	148.8	155.3	157.5	174.0	191.8	214.0	235.9	2.7	10.9
Growth (%)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e		
Sales	5.3	0.5	7.0	15.4	-12.3	-27.8	19.9	0.0	3.7	1.6	3.3	4.4	14.5	13.7	1.1		
EBITDA	-5.6	-11.4	4.5	36.3	-33.1	-32.5	34.2	-5.0	13.8	-1.1	19.3	8.9	14.5	20.3	8.9		
EBIT	9.4	-12.9	4.8	48.1	-47.0	-63.7	169.9	-6.9	22.2	1.1	36.0	14.3	20.4	18.6	6.3		
Net profit	34.6	17.6	-10.5	57.8	-82.2	na	na	-36.0	14.4	7.7	15.5	40.0	18.2	25.1	7.4		
FCF	40.6	na	na	na	66.5	488.0	-86.9	107.1	72.7	-24.6	36.5	-16.5	-39.6	18.3	66.7		
NWC	-18.7	20.3	6.3	9.1	-2.8	-41.7	21.6	5.2	-7.9	3.7	-9.5	-3.0	14.0	14.5	2.1		
Capital Employed	-10.1	5.0	11.8	4.0	-1.5	-25.0	1.0	-2.7	-7.7	-3.2	-10.2	-1.2	53.8	5.4	1.5		
Shareholder Equity	2.7	0.2	4.9	9.4	-4.2	-9.5	13.1	2.2	-0.1	4.4	1.4	10.4	10.2	11.6	10.2		
Financial Ratios	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e		
Gross margin (%)	53.8	50.5	50.5	51.8	49.4	53.4	50.8	46.0	48.7	49.5	50.3	53.4	53.0	52.0	51.5		
EBITDA margin (%)	16.4	13.6	13.3	16.1	11.7	11.8	12.6	10.8	12.6	12.5	14.6	16.2	16.0	16.7	17.8		
EBIT margin (%)	9.8	8.0	7.8	10.3	5.9	3.2	6.9	5.8	7.3	7.4	9.8	11.4	11.9	12.2	12.7		
Net margin (%)	3.8	4.2	3.5	4.9	0.9	-4.6	6.0	3.5	4.1	4.4	5.0	7.1	7.2	7.8	8.2		
Opex/Sales (%)	82.1	84.6	84.9	82.2	86.5	86.2	84.8	88.3	87.0	86.3	84.1	82.9	82.9	82.4	81.3		
Depreciation/Sales (%)	6.6	5.5	5.2	5.2	5.7	8.0	6.3	5.3	5.1	5.0	4.9	4.7	4.4	4.5	5.1		
Depreciation/EBITDA (%)	40.4	40.5	38.8	32.3	49.0	67.8	49.9	48.8	40.7	40.5	33.9	29.1	27.6	26.7	28.5		
Tax rate (%)	26.3	32.0	37.1	36.9	47.8	811.7	10.6	1.4	25.8	26.1	29.0	31.0	30.0	30.0	30.0		
Capex/Sales (%)	3.0	6.0	7.9	6.3	4.5	2.5	2.4	2.2	2.1	1.4	2.5	4.1	4.2	5.0	5.6		
FCF/Sales (%)	15.1	-1.7	-0.9	1.8	3.2	28.1	2.9	5.5	9.7	7.3	9.8	8.3	4.3	4.4	7.2		
WCR/Sales (%)	6.7	-5.5	-1.9	-2.6	1.0	20.6	-4.9	-1.3	2.1	-0.9	2.4	0.7	-2.8	-2.8	-0.4		
WC/Sales (%)	28.9	32.4	32.3	31.2	33.0	28.8	27.8	26.5	24.9	25.8	23.0	22.7	22.9	22.3	22.3		
Capital Employed/Sales (%)	83.7	82.0	85.8	79.2	84.9	95.4	76.5	67.4	63.5	61.5	54.3	54.6	72.7	66.1	65.8		
Gearing (%)	91.2	87.0	99.5	90.7	91.8	67.6	49.5	45.5	34.0	24.6	9.6	-1.5	39.9	32.3	21.9		
Net Debt/EBITDA (x)	2.4	2.5	2.9	2.1	3.1	3.1	1.9	1.9	1.2	0.9	0.3	0.0	1.3	0.9	0.6		
ROCE post-tax (%)	8.2	6.7	5.8	8.0	2.7	-14.5	8.4	8.1	8.1	8.6	10.3	13.7	13.9	13.3	13.6		
ROE (%)	9.1	10.5	9.2	13.5	2.3	-8.2	13.2	7.9	8.9	9.4	10.5	13.9	14.9	16.8	16.3		
Dividend Payout (%)	40.7	37.8	45.8	50.2	50.2	14.7	29.5	49.8	47.8	45.8	44.5	41.1	43.5	43.4	43.1		
Valuation	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	04-15	16-18e
Market Capitalisation (€m)	203.8	194.7	187.3	212.3	161.6	83.3	106.2	132.4	116.1	149.0	204.9	304.4	512.3	512.3	512.3	3.7	0.0
+ Net Financial Debt (€)	117.8	112.5	135.1	134.7	130.7	87.2	72.1	67.7	50.6	38.2	15.2	-2.6	76.6	69.1	51.6	-170.6	na
+ Restated Min. + others (€m)	2.4	1.1	2.5	2.6	1.5	1.2	0.1	0.0	0.4	0.4	1.3	1.7	0.8	0.8	0.8	-3.2	0.0
- Associates & Inv. (€m)	0.7	7.6	6.7	6.1	5.2	11.1	17.3	21.3	12.4	11.6	12.0	11.9	11.9	11.9	11.9	29.3	0.0
= Enterprise Value (€m)	**323.3**	**300.7**	**318.2**	**343.6**	**288.6**	**160.5**	**161.0**	**178.8**	**154.7**	**176.1**	**209.4**	**291.5**	**577.7**	**570.2**	**552.7**	-0.9	-2.2
Assoc. NFD (gr. share) (€m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
EV/Sales (x)	1.1	0.9	0.9	0.9	0.8	0.7	0.5	0.5	0.5	0.5	0.6	0.9	1.5	1.3	1.2		
EV/EBITDA (x)	6.5	6.8	6.9	5.5	6.9	5.7	4.2	4.9	3.8	4.3	4.3	5.5	9.5	7.8	7.0		
EV/EBIT (x)	10.9	11.8	12.3	8.9	18.0	29.5	7.4	9.6	6.5	7.4	7.5	8.1	12.8	10.7	9.7		
EV/FCF (x)	7.1	-53.6	-107.6	49.9	25.2	2.4	18.2	9.8	4.9	7.4	6.4	10.7	35.2	29.4	17.1		
EV/Capital Employed (x)	1.3	1.1	1.1	1.1	0.9	0.7	0.7	0.8	0.7	0.9	1.2	1.6	2.1	2.0	1.9		
P/E (x)	17.6	14.3	15.4	11.1	47.4	na	5.9	11.4	8.4	10.2	12.4	13.1	18.8	15.0	14.0		
P/BVPS (x)	1.6	1.5	1.4	1.4	1.1	0.6	0.7	0.9	0.8	1.0	1.3	1.7	2.7	2.4	2.2		
FCF yield (%)	22.4	-2.9	-1.6	3.2	7.1	81.0	8.3	13.8	27.2	16.0	15.9	8.9	3.2	3.8	6.3		
Per share data	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	04-15	16-18e
# of shares	21.39	21.39	21.39	21.39	21.39	21.39	21.39	21.39	21.39	20.36	19.83	19.83	19.78	19.78	19.78	-0.7	0.0
# of avg sh. (FD, ex-treas.)	21.39	21.39	21.39	21.39	21.39	21.39	21.39	21.39	20.46	19.83	19.83	19.78	19.78	19.78	19.78	-0.7	0.0
Share price	9.53	9.10	8.76	9.93	7.56	3.89	4.96	6.19	5.43	7.32	10.34	15.35	25.90	25.90	25.90	4.4	0.0
EPS	0.54	0.64	0.57	0.90	0.16	-0.52	0.85	0.54	0.65	0.72	0.83	1.17	1.38	1.73	1.86	7.3	15.9
EPS FD	0.54	0.64	0.57	0.90	0.16	-0.52	0.85	0.54	0.65	0.72	0.83	1.17	1.38	1.73	1.86	7.3	15.9
BVPS	6.04	6.05	6.35	6.95	6.66	6.02	6.81	6.96	6.95	7.63	7.94	8.77	9.69	10.82	11.93	3.5	10.9
DPS	0.22	0.24	0.26	0.45	0.08	0.08	0.25	0.27	0.31	0.33	0.37	0.48	0.60	0.75	0.80	7.3	15.5

Source: Company data, Merodis

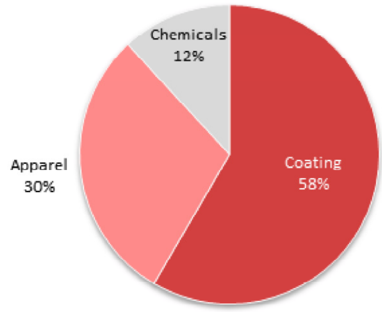
Financial summary

SIOEN INDUSTRIES

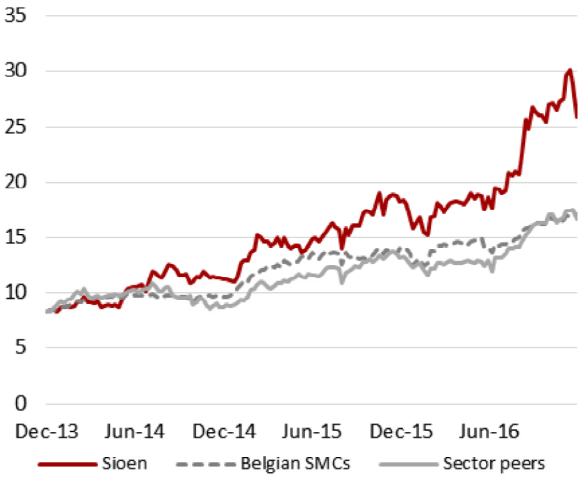
Company profile

Sioen is a Belgian family-owned businesses (65% family-owned), with a number one or two market position in various European technical textile end markets. The company is, quite uniquely, an integrated player, involved in the spinning of technical yarn, the manufacturing of technical fibers and felt, and in the weaving, coating, cutting, welding and assembly of technical textile. Sioen has a global leadership position in the truck-trailer tarpaulin market (16% of sales) and in the sailcloth market which was recently acquired through Dimension Polyant (9% of sales; 40% global market share). Sioen's margins are amongst the highest in the industry, with an EBIT margin which is expected to remain above 12% and ROCE at 14%. The company operates 19 plants (12 in Europe incl. 7 in Belgium, 4 in Asia and 3 in Africa) with a staff of 3,300 (45% in Europe incl. 30% in Belgium, 40% in Asia and 15% in Africa). Its end markets are mainly in Europe: Benelux (20% of sales in 2015), France (18%), Germany (16%) and East Europe (13%). Its under-leveraged balance sheet should allow for an acquisitive strategy going forward, which should help to fuel growth above the European sector average of 3%.

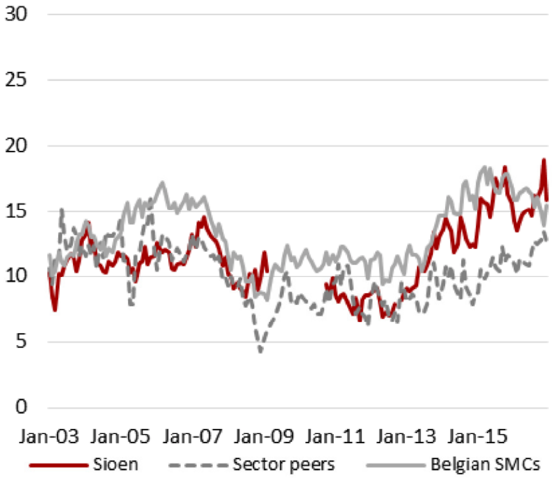
Divisional sales breakdown



Sioen share price (Eur)



Sioen P/E (x)



Discounted cash flow model

Eur m	2015	2016e	2017e	2018e	2019e	2020e	2021e
Sales	327.3	377.7	437.8	446.8	455.7	464.8	474.1
% growth	*-1.7%*	*15.4%*	*15.9%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
EBIT	**35.8**	**45.0**	**53.4**	**56.8**	**54.2**	**51.5**	**48.6**
% sales	10.9%	11.9%	12.2%	12.7%	11.9%	11.1%	10.3%
Tax	-10.2	-11.7	-14.6	-15.7	-16.3	-15.4	-14.6
Tax rate	-28.4%	-26.0%	-27.4%	-27.7%	-30.0%	-30.0%	-30.0%
Operating profit after tax	25.6	33.3	38.8	41.1	37.9	36.0	34.0
+ Tang. depreciation	13.6	14.3	17.0	20.1	12.5	13.4	14.2
% capex	-130.6	-102.3	-85.1	-87.2	-91.5	-95.7	-100.0
- Capex	-10.4	-14.0	-20.0	-23.0	-13.7	-13.9	-14.2
% sales	-3.2	-3.7	-4.6	-5.1	-3.0	-3.0	-3.0
Total net investments in fixed assets	3.2	0.3	-3.0	-2.9	-1.2	-0.6	0.0
- Investments in working capital	2.3	-10.4	-12.3	-2.0	-2.1	-2.2	-2.4
% sales	0.7	-2.8	-2.8	-0.4	-0.5	-0.5	-0.5
Operating cash flow	**31.2**	**23.2**	**23.5**	**36.1**	**34.6**	**33.2**	**31.6**
% growth	-24%	-26%	1%	53%	-4%	-4%	-5%
WACC	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Discount factor		1.00	0.99	0.93	0.87	0.81	0.76
Present value of free cash flow		23.2	23.4	33.6	30.2	27.0	24.1
Cumulative present value of free cash flow		161.6					
+ Present value of terminal value		506.6					
= Enterprise value		**668.2**					
- Net Financial Debt/(cash) (16e)		76.6					
- Other liabilities (book)		0.8					
- Equity stakes & investments (book)		11.9					
= Estimated market value of equity		**602.8**					
Fair value per share (EUR)		**30.4**					

Source: Company data, Merodis, Factset

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SUMMARY AND INVESTMENT CASE

Building a second "home-market" in Scandinavia

Opening a new market in Scandinavia and moving away from more cyclical activities

Following our initiating-coverage report published on 5 October 2016, we provide an update reviewing the acquisitions of Ursuit (announced on 7 December) and Verseidag (announced on 19 December), which have a favorable impact on our earnings estimates (we estimate EPS accretion of 4.5% for 2017e and 2018e, excluding the positive impact of sales and cost synergies). These acquisitions will allow Sioen to (1) build up its Apparel activity (25% of 2017e sales pre-deal; 30% post-deal), (2) strengthen its position in immersion and diving suits, and become a top-3 European player in amour suits, (3) strengthen Sioen's exposure to public tendering markets, as well as (4) opening a second "home market" in Scandinavia (9% of sales in 2017e) next to the Benelux (15% of sales in 2017e), and, importantly, (5) strengthen Sioen's profile by diluting its exposure to more cyclical activities such as truck-trailer tarpaulins (now 14% of group sales from 16% previously).

Positive financial effect to offset some headwinds

Earnings revised up on accretive impact of acquisition despite signs of headwinds which we also reflect

We revised up our EPS estimates by 5.1% for 2017e and by 7.1% for 2018e, including the accretive impact of the acquisitions as well as synergies, the favourable Q3 2016 trading update (reported on 10 November) and the negative impact of early signs of slowing deliveries in the European truck market, a market which weighs an estimated 14% of Sioen's sales in 2017e. We cut our 2016e EPS estimates by 5.0% to reflect the currency headwinds, mainly the GBP weakness. Our DCF-derived fair value estimate remains almost unchanged at €30.4 (was €30.1). The acquisitions of Ursuit and Verseidag, as well as the Q3 2016 trading update, strengthen our investment case, which we reiterate below. The weakening conditions in the European truck market, rising raw material prices (mainly oil) and the GBP weakness offer some cyclical headwinds, already partially included in our previous estimates, which are now fully reflect in our new estimates.

Belgian family business building market leadership positions

A Belgian family-owned jewel with strong market position in niches and…

Sioen is a Belgian family-owned business (65% of shares are family-held), which has a number one or two market position in various technical textile end markets. The company is a well-diversified and vertically integrated technical textile company with in-house activities spanning from manufacturing, yarn spinning, weaving, coating, cutting, welding, laminating, colour and pigment manufacturing, to assembling and sewing. Sioen has significant global market leadership positions in the truck-trailer tarpaulin market (14% of group sales in 2017e) and the sailcloth market (9% of group sales in 2017e; 40% global market share).

… superior margins and returns compared to peers

Margins and returns at Sioen are amongst the highest in the industry, with an EBIT margin, which we expect to close to - or above - 12% on average, while we forecast the company's ROCE to peak in 2016 at 13.9% and to remain above 13% in 2017e and 2018e. This compares to a peer group (of listed European technical textile companies) EBIT margin below 9% and ROCE below 11%.

GDP-plus growth rates, but not immune to cyclical headwinds

Underlying market growth of 3%...

While the technical textile market grows by 3% p.a. across the cycle, Sioen is active in a number of segments, which we expect to enjoy faster growth rates going forward, such as geosynthetic textiles, security-related apparel, and other end markets, which should benefit from innovation (e.g. agriculture-related complex materials, urban farming, alternative farming, etc.).

... which Sioen should exceed

All-in-all, we expect Sioen to deliver 15.9% EPS growth (2016-18e CAGR), from 9% previously estimated, driven by:

- 8.8% sales growth (from 6% previously estimated), including, quite prudently, 2.7% average organic growth (from 3% previously estimated), generated by R&D-driven innovation and capacity expansion. An additional 6.1% growth stems from the already-announced acquisitions of Manifattura Fontana (February 2016), Dimension-Polyant (July 2016), Ursuit (December 2016) and Verseidag (December 2016),
- 14.5% EBITDA growth (from 11% previously estimated), driven by acquisitions, operating leverage effect, cost control, and a positive mix-effect. We do expect raw material price headwinds, with rising oil prices, which we reflect through a declining gross margin (from 53.4% in 2015 to 51.5% in 2018e with 10.5% COGS CAGR 16-18e) and
- 12.4% EBIT growth (from 7% previously estimated), inhibited by higher depreciation, due to a renewed capex cycle, following a period of low investment.

The European truck market is showing sign of weakness

The European truck market is showing signs of weakening deliveries recently following months of consecutive volume growth in Europe. On 21 October, Volvo guided for lower market volumes in 2017 (280k vs. 295k expected for FY16 from 270k in 2015). This was followed by an ACEA press release on 25 November, reporting European commercial vehicles sales down 2.4% y/y in October (heavy vehicles were down 7.7%), after 21 consecutive months of growth in Europe. This is of relevance for Sioen as the company is the truck-trailer tarpaulin market leader in Europe (16% of group sales in 2016e, which we expect to fall to 14% in 2017e due to the recently-announced acquisitions).

Weak sterling impacts competitiveness as well as financials

Sioen is exposed to adverse currency headwinds, mainly through its exposure to the GBP. As a reminder, the UK generated €28m in sales in 2015 (9% of group sales). The sterling pound has weakened in value, driven by the Brexit referendum, by 7% in 1H16 and a further 17% in 2H16. We have added €2.1m FX charge (net financials) in 2H16e and we adjusted our 2016e EPS estimates accordingly (5% EPS cut).

Strategy of acquisitive growth and innovation

Building a unique and strong vertically-integrated business model through acquisitions

After focusing on operational excellence and improving both margins and balance sheet structure, Sioen has recently entered into a phase of acquisitive growth – an era, which we expect could last until at least 2020. The company announced its largest-ever acquisition in July 2016 (Dimension-Polyant, the global leader in sailcloth with €38m of annual sales). The recently-announced Ursuit and Verseidag acquisitions (1) position Sioen in the market of professional immersion/diving suits and strengthens its position in amour suits (two public tendering markets), (2) add €33m of sales (2017e), (3) generate a combined EBITDA margin of 15%, and (4) provide Sioen with a solid footprint in the Scandinavian market. In 2016, we estimate that Sioen has spent €86m to acquire sales of €83m (consolidated over 2016-17).

Strengthening Sioen's profile

Its strategy of making bolt-on acquisitions helps the company to (1) diversify its end market gearing and to broaden its product range, (2) acquire technical expertise, which enables Sioen to develop new complex and innovative materials and to increase its in-house value-add, and (3) enter new market verticals, which are expected to outgrow the industry average and reduce Sioen's cyclical exposure.

Ample financial resources are available

We expect turnover of €465m by 2020e to be generated organically. We estimate, however, that Sioen could leverage its balance sheet up to 3x NFD/EBITDA from currently 0.9x, implying additional M&A firepower of at least €220m based on our 2017 forecasts. Such financial resources could allow the company to add up to €240m in incremental sales from acquisitions, an estimate which we derive from average historical transaction multiples paid by the company. In the past Sioen has paid 0.85-1.0x price/sales for its acquisitions, with EBIT margins typically above 5%, while its cost of debt after tax shield is estimated at 3.2%. Such an acquisition strategy would allow the company to exceed the level of €0.7bn in sales by 2020e and consolidate its European market leadership position and strengthen its margin and ROCE profile further.

Fair value estimate and company valuation

The market has yet to price in Sioen's superior ROCE profile

We used a DCF model to calculate Sioen's €30.4 fair equity value per share, which implies a 2017e P/E of 17.6x and EV/EBITDA of 9.4x, respectively. These multiples may seem rich, but they are backed by our ROCE/WACC valuation analysis, which we carried out as a cross-check. The latter confirms that the market has not yet priced in the company's return profile expected in 2017e (13.3% after-tax ROCE), with further fair value upside potential to €33.3 by 2018e.

The key value driver is the company's assumed profit margin retention as well as its expected mid-term growth, part of which is acquisitive, and which we expect to be earnings accretive (we expect an EPS CAGR of 16.7% for 2015-18e and 15.9% 2016-18e), helped by Sioen's under-leveraged balance sheet.

Sioen's compares well to its sector peers as well as to…

… domestic family-owned SMCs

Our peer analysis highlights Sioen's robust business model, combining superior margins and returns compared to its sector peers as well as a stronger balance sheet, while delivering an expected double-digit EBITDA CAGR (14.5% 2016-18e) and double-digit EPS growth (15.9%). The stock currently trades at a 25% 12-months forward P/E premium to sector peers, below its average premium of 40% since 2013. Our fair value estimate of €30.4 is backed by our ROCE/WACC analysis which itself points to a fair value of €30.1 for 2017e and €33.3 for 2018e. We also benchmark Sioen to Belgian family-owned SMC peers, which highlights its strong growth and superior ROE profile, lower capital intensity and more attractive dividend yield (2.3% vs. 2.0% for Belgian family-owned SMCs).

ACQUSISTIONS OF URSUIT AND VERSEIDAG

Sioen announced the acquisitions of (separately) Ursuit, a high-end player in the niche market of professional immersion and diving suits (also called dry suits), and of Verseidag, a strong player in amour suits. Both companies happened to be based in Finland.

The companies will be included, as from 2017e, in Sioen's Apparel division. The division represented 30% of group sales in 2015 and 26% in 2016e. With the acquisitions, Apparel should weigh 30% of 2017e sales.

The market for dry suits is consolidating, with a few large players such as Viking (owned by Ansell, the Australian stock-listed company), Helly Hansen of Norway and International Safety Products of the UK (owned by 3Si which is backed by August Equity). In the amour/ballistic protection suit market, Sioen will now become a European top-3 player, opening new business opportunities, such as larger public tenders than the company could previously aim for due to its limited size.

Valuation analysis

Above-divisional margins for both activities…

Ursuit is expected to generate EBITDA of €2.6m in 2016 on sales of €15m (16% of divisional sales and 4% of group sales 2016e), representing an EBITDA margin of 17%, which is above group margins of 16% in 2015 and 2016e (5-year average of 13%) and well-above divisional 5-year average margin of 10%. Verseidag, also generates above-divisional average margins, estimated at 13% with sales expected at €17m in 2017e.

… with a premium paid on EV/EBTDA multiple, albeit excluding the positive impact of potential synergies

The price tag of Ursuit reflects the quality of the business, with an equity value of €25.4m (€22.4m excluding the separately-acquired real estate) and an EV of €26.8m, reflecting an EV/EBITDA 2017e of 9.9x excluding potential (undisclosed) synergies, above Sioen's own EV/EBITDA 2017e multiple of 7.8x, driven by the strong fundamentals and, in particular, the higher margins. Sioen announced an equity and EV value of €18m for the Verseidag acquisition, which suggests 8.2x EV/EBITDA 2017e multiple.

The estimated valuation multiples paid for the two acquisitions are provided in the table below. They suggest a higher (pre-synergy) multiple than that reflected by the market for Sioen, justified, in our view, by the higher-than-average margins and the exclusion of any potential synergies.

Figure 1. Transaction valuation multiples (acquisitions of Ursuit and Verseidag combined, pre-synergies)

(x)	2017e	2018e
EV/Sales	1.4	1.3
EV/EBITDA	9.3	8.8
EV/EBIT	10.8	10.1

Source: Merodis

Adding a new product ranges….

Professional immersion and diving suits

Ursuit operates in the market of professional immersion and diving suits, with an estimated European market share of 10-15%. The acquisition provides Sioen with exposure to this niche market aimed at recreational (diving and fishing) as well as professional users in extreme environments (military and marine safety such as coastguards, offshore rigs, etc.). The product range is highly complementary to Sioen's existing range. The higher profitability at Ursuit reflects their high price range, owing to the technical complexity of the company's products (known for their quality and durability) and the raw material used (Kevlar, Gore-Tex, etc.).

Strengthening the ballistic protection market position

The Verseidag acquisition also provides a complementary position for the company in the amour suit market and, importantly, strengthens Sioen's market position to a top-3 European player, opening new market opportunities to the group, in the form of access to larger public tenders markets (military and police).

… in an new geographic market for Sioen

Scandinavia to become a second "home market"

Ursuit markets its products throughout Europe, specifically in regions of extreme conditions such as Scandinavia, Central Europe, UK and Russia. Verseidag is a supplier to the military and polices forces in several large European markets such as Germany, France, Italy, Scandinavia, Switzerland, the Netherlands, etc. The companies provide Sioen with access to the Scandinavian market (currently c. 2% of group sales, to reach 9% post-acquisitions in 2017e), which the group could consider as its second "home market" alongside the Benelux (20% of group sales pre-acquisitions; 15% in 2017e). Scandinavia (including Finland) has a population of 26m, quite comparable to the size of the Benelux (29m inhabitants).

Ursuit employs staff of 70 (2% of group total), based exclusively in Finland. The transaction includes the acquisition of real estate for a total of €3m, which includes a facility covering 2,500m² and 4,000m² of unused land, providing ample room for capacity expansion.

Financial impact

No quantified synergies disclosed

Sioen has not disclosed the level of synergies, although we would expect some, particularly sales synergies as well as some cost synergies with respect to Verseidag. Sales synergies would involve, in our view, the cross-selling opportunities from Sioen to the Scandinavian markets, which currently represents only 2% of group sales. Access to larger public tenders in the ballistic protection market could also generate additional sales for Sioen.

Group-level impact

Figure 2. Financial forecasts of Ursuit and Verseidag acquisitions

€m	Assumptions	2017e	2018e	2019e	2020e	2021e
Revenue		**33.0**	**34.0**	**35.0**	**35.7**	**36.4**
% growth			*3.0*	*3.0*	*2.0*	*2.0*
EBITDA		4.9	5.1	5.3	5.4	5.5
% sales		*14.8*	*15.0*	*15.0*	*15.0*	*15.0*
Depreciation		(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Cost savings		0.0	0.0	0.0	0.0	0.0
Operating profit		**4.2**	**4.4**	**4.6**	**4.6**	**4.7**
% sales		*12.8*	*13.0*	*13.0*	*13.0*	*13.0*
Incremental revenue conversion			*18.1*	*13.0*	*13.0*	*13.0*
Free cash flow		**3.0**	**3.1**	**3.2**	**3.2**	**3.3**
Cash conversion		*70%*	*70%*	*70%*	*70%*	*70%*
Consideration	43.4					
Net debt	1.4					
Enterprise value	**44.8**					
Cash return on investment (pre tax)	*34.0*	*10.0%*	*10.5%*	*10.8%*	*11.0%*	*11.2%*
Cash return on investment (after tax)		***6.6%***	***6.9%***	***7.1%***	***7.3%***	***7.4%***

Source: Merodis

We expect that the acquisitions will add €33m of sales in 2017e with an EBITDA margin of close to 15%, providing a positive impact on divisional margins with some synergies. Group debt should increase as from 2016e by the EV of €44.8m, while we estimate Fixed Assets to grow by €10m and Goodwill by €31.4m. The table above highlights the acquisitions' after-tax cash return exceeding WACC of 6.9% as from year-2.

Figure 3. EPS impact of the Ursuity and Verseidag acquisitions

€m	Assumptions	2017e	2018e
Consolidation (months)		12	12
Revenu		**33.0**	**34.0**
Operating profit		4.2	4.4
% margin		12.8	13.0
Interest charge	4.5%	-2.0	-2.0
Pre tax profit		**2.2**	**2.4**
Tax rate (%) (forecasts)		34.0	34.0
Impact on Sioen's net income		**1.5**	**1.6**
Earnings per share impact (€)		**0.07**	**0.08**
Enhancement /(dilution)		***4.5%***	***4.5%***

Source: Merodis

We expect 4.5% first-year EPS enhancement effect, pre-synergies

We expect first-time consolidation on 1 January 2017, with Ursuit contributing €16m in sales in 2017e (adding 3.9% to group sales pre-acquisitions) and €2.7m in EBITDA (adding 3.9% to group EBITDA) and Verseidag adding €17m in sales (adding 4.2% to pre-acquisitions sales) and €2.2m in EBITDA (adding 3.2% to group EBITDA). We estimate combined EBIT at €4.9m, excluding synergies, with a full-year cost of financing of €2m (based on the total EV of €44.8m and pre-tax cost of debt of 4.5%). At a tax rate of 34%, we estimate a positive EPS impact of €0.07/share, which represents an enhancement impact of 4.5% for 2017e.

Impact within Apparel division

The Apparel division, which currently weighs 26% of group sales (2016e), should grow by more than 34% in 2017e with the acquisitions of Ursuit and Verseidag (we expect 37% growth in 2017e including organic growth of 3%).

Given Ursuit's and Verseidag's superior EBITDA margins compared to the division's normalised level of 10%, we expect margin expansion from the transaction. Indeed, although we did expect margin expansion in Apparel to rise to 13.5% by 2018e, we now expect a level very close to 14%.

As such, based on our revised earnings model, we expect the Apparel division to weigh 30% of group sales in 2017e from 24% estimated previously for the same year.

VALUATION ANALYSIS

Our €30.4/share fair value estimate is in line with the stock's share price

We estimate an unchanged fair equity value of €30.4/share, based on a discounted cash flow model, reflecting target 2017e P/E and EV/EBIT multiples of 17.6x and 12.8x, respectively. Although Sioen has historically traded at a 14% 12-months forward P/E premium to its sector peers, the stock has been rerated since 2013, with an average premium of 40% from that point. It is now trading at a 25% premium to peers, which seems low, in our view, given Sioen's strong ROCE performance since 2015 (in absolute and in sector-relative terms).

A premium valuation is justified by superior returns

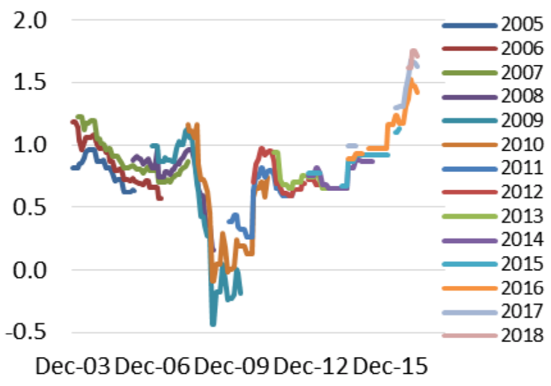
Indeed, while Sioen has generated higher than average ROCE over the cycle, compared to its sector peers, in the past (11% ROCE on average since 2005, compared to a sector average of 7%), the gap has widened in 2015 (21% vs. 10%). For 2016e, we expect Sioen to deliver a 19.9% pre-tax ROCE (with 21.4% already delivered in 1H16), reaching an all-time high for the second consecutive year. Our ROCE/WACC valuation analysis suggests that the market has priced in Sioen's 2015 ROCE performance. Based on this analysis, we calculate the company's fair value at €33.3/share in 2018e with a present fair value of €30.9/share, which provides additional support to our investment case.

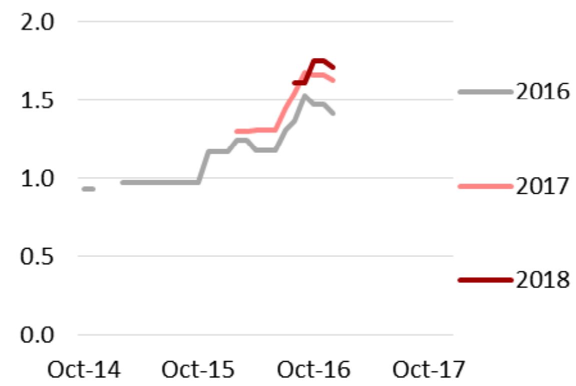
Earnings momentum

Positive earnings momentum driven by top line growth and margin expansion

In addition to Merodis, three brokers now cover Sioen. Before the summer of 2016, only two brokers covered the stock, which puts limitations to a historical consensus analysis. Nevertheless, since more than three years and until recently, the shares of Sioen benefit from a very strong and positive momentum of revisions to consensus earnings expectations. For example, between October 2014 and December 2016, the expected 2016 consensus EPS has moved from €0.89 to €1.42 (+60%), while 2017 consensus EPS expectations have moved up by 28% since February 2016 to €1.63 currently (our forecast is at €1.73, 6% above consensus). The recent downgrades reflect, in our view, the impact of the headwinds (first signs of falling truck deliveries and GBP weakness).

Figure 4. Historical consensus EPS worms (€)





Source: FactSet, Merodis

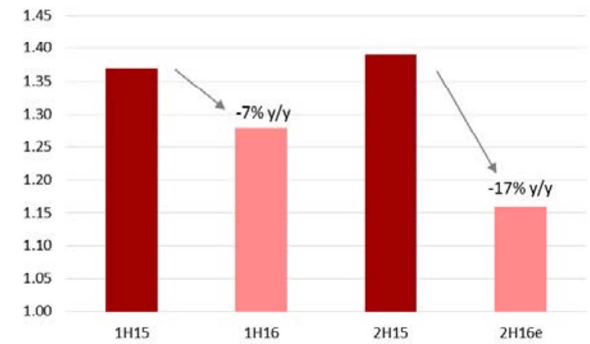
Changes to our earnings estimates

The integration of the Usuit and Verseidag acquisitions in our model, with the accretive nature of the transaction in addition to sales and some cost synergies, as well as the positive Q3 2016 trading update have led to a revision of our earnings estimates.

Signs of a cyclical slowdown in truck sales?

The slowdown expected in the truck market impacts our forecasts for the Coating division. Indeed, Sioen is a European leader in the truck-trailer tarpaulin market, which weighs 14% of group sales and, hence, 24% of the Coating division sales. We reflect a 5% expected drop in that market in 2017e, which impacts divisional organic sales growth from 3% previously expected to 1% in both 2017e and 2018e.

Figure 5. Sterling weakness (average EUR/GBP)



Source: Facstet, Merodis

Weak sterling impacts competitiveness as well as financials

Sioen is exposed to adverse currency headwinds, mainly from the GBP. As a reminder, Sioen generated €28m in sales in the UK in 2015 (8.6% of group sales) with the sterling pound having fallen in value by 7% 1H16 and a further 17% in 2H16. We have added €2.1m FX charge (net financials) in 2016e and we adjusted our 2016e EPS estimates accordingly. We also anticipate an additional hit in 2017e as the spot rate is currently 7% below the 1H16 level, which could lead to a negative FX charge in 1H17e.

Figure 6. Changes to our forecasts

€m	2014	2015	2016e	2017e	2018e
Previous estimates					
Sales	333.0	327.3	374.5	406.3	419.3
EBIT	27.8	35.8	45.0	49.6	51.8
EPS (€)	**0.83**	**1.17**	**1.45**	**1.64**	**1.73**
DPS (€)	0.37	0.48	0.60	0.70	0.75
Net debt	15.2	-2.6	31.5	19.9	5.3
New estimates					
Sales	333.0	327.3	377.7	437.8	446.8
EBIT	27.8	35.8	45.0	53.4	56.8
EPS (€)	**0.83**	**1.17**	**1.38**	**1.73**	**1.86**
DPS (€)	0.37	0.48	0.60	0.75	0.80
Net debt	15.2	-2.6	76.6	69.1	51.6
% change					
Sales	0.0	0.0	0.8	7.8	6.5
EBIT	0.0	0.0	0.1	7.7	9.6
EPS	**0.0**	**0.0**	**-5.0**	**5.1**	**7.1**
DPS	na	na	0.0	7.1	6.7
Net debt	0.0	0.0	142.8	247.3	867.0

Source: FactSet, Merodis

How we compare to consensus

We are well-above consensus for 2017e and 2018e

Our new earnings forecast differ slightly from consensus, mainly due, in our opinion, to a lag effect (consensus may not yet reflect the acquisitions, which were announced only recently). That said, we are currently around 6.1% and 8.2% above consensus in terms of EPS forecast for 2017e and 2018e respectively. We would expect consensus to move towards our forecasts.

Figure 7. Merodis forecasts versus consensus (% difference)

(%)	2016e	2017e	2018e
Sales	1.5	6.8	4.9
EBITDA	-3.8	3.7	8.2
Depreciation	10.6	2.9	13.2
EBIT	-6.1	4.0	8.2
EPS (€)	-2.7	6.1	8.2
DPS (€)	4.7	14.5	5.6
Net debt	64.6	151.9	146.4

Source: FactSet, Merodis

Benchmarking Sioen versus peers

Our benchmarking exercise highlights Sioen's attractive profile versus its sector peers and even compared to Belgian SMCs. In terms of strengths, Sioen generates substantially higher margins and returns than its sector peers, with stronger growth forecasts going forward.

Sioen is expected to generate sales, EBITDA and EPS growth above the sector average (CAGR 2016-18e), mainly driven by Ursuit and Verseidag acquisitions, which we expect to be consolidated as from 2017 (providing a favourable base-effect for 2016), at healthy levels (15.9% EPS and 14.5% EBITDA CAGR). Finally, free-float of 35% at Sioen is below the sector average (at almost 60%), which could negatively impact share liquidity (and hence represent a justification for a discount), but the limited free-float is the result of both family ownership and family commitment – a recognised label of quality in many cases (with the potential to offset that discount). All-in-all, these are features that should enhance Sioen's valuation compared to peers, in our view, hence we see a backing for a premium valuation versus peers.

All the benchmarking tables that we show below are based on FactSet consensus for the peers and on our forecast for Sioen.

Benchmarking versus international sector peers and Belgian SMCs

Low & Bonar is the closest peer to Sioen, but with lower margins

The table below shows how the peer group performs in terms of profitability, capex intensity, and balance sheet structure. Low & Bonar is most comparable to Sioen, as it holds the number two market position in trailer tarpaulins (through its ownership of *Mehler Texnologies*).

Belgian family-owned SMC provide an interesting benchmark

In our view, a number of investors are likely to benchmark Sioen's outlook and valuation to somewhat comparable Belgian SMCs rather than the peer group of listed technical textile companies, hence, we provide an analysis of profitability and balance structure in the table below, where we compare Sioen to other family-owned Belgian SMCs, albeit operating in radically different industries (affecting comparability).

Sioen's capital intensity should grow during the next three years on the back of additional capex spending

Among the peer group of other listed technical textile companies, Sioen's profitability clearly stands out as the highest. At the same time, its capital intensity is slightly above the average of the industry, but below closer peers such as Serge Ferrari. However, we expect this to change soon for Sioen, as we modelled in a step-up in capital spending over the next three years to a total of €63m for the years 2016-18e vs. €26.1m for the years 2013-15.

Figure 8. Peer benchmarking vs. sector peers

	Freefloat (%)	Depr/	Capex/	ND/EBITDA			EBITDA margin (%)			EBIT margin (%)		
	2016	EBITDA	Sales	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
Low & Bonar	88			1.9	1.6	1.4	13.1	13.5	13.7	8.8	9.2	9.1
Serge Ferrari	13	49%	5%	-1.1	-0.9	-0.9	10.9	11.8	12.8	6.1	7.1	8.1
Chargeurs	72	29%	3%	-0.5	-0.8	-1.0	8.7	8.8	8.9	7.2	7.4	7.6
Lakeland	91	8%	1%				9.5	12.1	11.3	8.8	11.5	10.3
Delta Plus	21	9%	1%							11.9	11.3	11.4
PEER AVERAGE	**57**	**24%**	**2%**	**0.1**	**0.0**	**-0.1**	**10.5**	**11.5**	**11.7**	**8.5**	**9.3**	**9.3**
PEER MEDIAN	**72**	**19%**	**2%**	**-0.5**	**-0.8**	**-0.9**	**10.2**	**11.9**	**12.0**	**8.8**	**9.2**	**9.1**
Sioen	**35**	**28%**	**4%**	**1.3**	**0.9**	**0.6**	**16.0**	**16.7**	**17.8**	**11.9**	**12.2**	**12.7**
% prem./(disc.) v:	**-52.3**	**47.7**	**130.8**	**-335.7**	**-217.4**	**-170.4**	**57.6**	**39.6**	**47.8**	**35.8**	**33.1**	**39.2**
Deceuninck	44	48%	6%				9.2	9.5				
Greenyard	29			2.3	1.7		3.5	3.7		1.9	2.3	
Hamon	-4		1%									
Jensen Group	43	13%	3%				10.0	10.6				
Kinepolis	50	26%	18%	1.9	1.2	0.8	29.8	31.3	32.0	21.2	22.4	22.7
Lotus Bakeries	34	20%	3%				19.5	20.5				
Picanol	11	9%	2%				19.8	18.6		18.3		
Resilux	42	36%	5%									
Roularta	18	41%	2%				14.4	15.8				
Sipef	53	56%	22%	0.6	0.3		23.6	26.9		12.8	17.2	
Tessenderlo	65	42%	4%	0.3	0.1	-0.3	12.6	13.4	15.4	8.0	8.9	10.5
Van de Velde	44		5%	-0.3	-0.3		29.8	30.0		25.8	25.8	
BELGIAN SMC AV	**36**	**32%**	**6%**	**1.0**	**0.6**	**0.2**	**17.2**	**18.0**	**23.7**	**14.7**	**15.3**	**16.6**
BELGIAN SMC ME	**42**	**36%**	**4%**	**0.6**	**0.3**	**0.2**	**16.9**	**17.2**	**23.7**	**15.6**	**17.2**	**16.6**
Sioen	**35**	**28%**	**4%**	**1.3**	**0.9**	**0.6**	**16.0**	**16.7**	**17.8**	**11.9**	**12.2**	**12.7**
% prem./(disc.) v:	**-18.5**	**-23.0**	**10.2**	**125.4**	**265.7**	**169.2**	**-5.2**	**-3.2**	**-25.0**	**-23.5**	**-29.2**	**-23.6**

Source: FactSet, Merodis

Sioen has higher earnings growth outlook than the peer group, mainly driven by the Ursuit acquisition

In line with our analysis above, concerning the return profile and profitability of Sioen versus the peer group, the company also generates the highest net margin (7.2% expected in 2016e versus an average expected net margin of 4.8% among peers). The only weakness, which we had identified previously with respect to benchmarking, was the lower expected earnings growth, which is no longer the case thanks to the earnings-enhancing acquisitions.

Even among Belgian SMCs, Sioen performs well, generating strong EBITDA margin, while its EBIT margin is lower, most likely reflecting Sioen's capex ramp-up in the next three years. Sioen's balance sheet is roughly leveraged in-line, while its capital intensity (Depreciation/EBITDA) is lower than that of other Belgian SMC's. Sioen's free float is also comparable to that of the Belgian SMC peer group with 35% of the shares in free float versus 36% on average for the group as a whole.

Sioen somewhat underperforms the Belgian SMC peer group in terms of net margins (7.2% vs. 9.6% on average for the group, 2016e), while ROE figures are more comparable, and even superior at Sioen for 2017e (16.8% vs. 15.8%). Comparing growth is made difficult by the lack of consensus forecasts for 2018 concerning a number of peers, but we highlight Sioen's solid double-digit EPS growth that we expect for EPS and EBITDA (2016-18e CAGR).

Figure 9. Peer benchmarking vs. sector peers

	Net margin (%)			ROE (%)			2016-18e CAGR (%)		
	2016e	2017e	2018e	2016e	2017e	2018e	EPS	EBITDA	Sales
Low & Bonar	3.3	4.6	4.8	11.5	13.1		13.1	9.3	6.8
Serge Ferrari	3.7	4.8	5.7	5.9	8.1	9.7	37.9	20.8	11.6
Chargeurs	4.5	4.7	4.9	11.3	11.6	12.3	14.1	5.0	3.8
Lakeland	5.0	6.7	6.6				na	na	na
Delta Plus	7.8	7.5	7.6				2.9	na	4.4
PEER AVERAGE	**4.8**	**5.7**	**5.9**	**9.6**	**11.0**	**11.0**	**17.0**	**11.7**	**6.6**
PEER MEDIAN	**4.5**	**4.8**	**5.7**	**11.3**	**11.6**	**11.0**	**13.6**	**9.3**	**5.6**
Sioen	**7.2**	**7.8**	**8.2**	**14.9**	**16.8**	**16.3**	**15.9**	**14.5**	**8.8**
% prem./(disc.) vs ı	**59.9**	**62.8**	**44.0**	**32.1**	**44.5**	**48.1**	**17.2**	**55.7**	**56.6**
Deceuninck	2.9	2.8							
Greenyard	0.5	0.9		3.9	4.9				
Hamon									
Jensen Group	5.8	6.0							
Kinepolis	12.5	13.6	14.2	27.9	30.6	29.2	22.1	13.2	9.3
Lotus Bakeries	10.6	11.3							
Picanol	17.1	17.4							
Resilux									
Roularta	11.1	13.1							
Sipef	10.9	13.6		6.7	8.3				
Tessenderlo	5.0	6.2	8.0	14.8	16.2	19.3	34.4	18.3	7.0
Van de Velde	19.7	19.7		20.7	18.9				
AVERAGE	**9.6**	**10.5**	**11.1**	**14.8**	**15.8**	**24.2**	**28.2**	**15.8**	**8.1**
MEDIAN	**10.7**	**12.2**	**11.1**	**14.8**	**16.2**	**24.2**	**28.2**	**15.8**	**8.1**
Sioen	**7.2**	**7.8**	**8.2**	**14.9**	**16.8**	**16.3**	**15.9**	**14.5**	**8.8**
% prem./(disc.) vs ı	**-32.8**	**-36.2**	**-26.2**	**0.8**	**3.7**	**-32.7**	**-43.5**	**-7.9**	**7.7**

Source: Company data, Merodis

Peer group valuation

Trading at a justified premium to peers, but in-line to Belgian SMCs

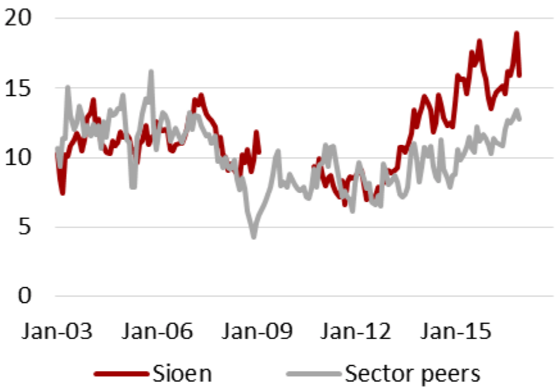
We have benchmarked Sioen's valuation against the valuation of both the peer group of listed technical textile companies as well as the peer group of Belgian family-owned SMC's. While Sioen trades on higher P/E multiples than its technical textile peer group, it trades below other Belgian family-owned SMC's. We believe the latter is not justified given the results of our performance benchmarking analysis.

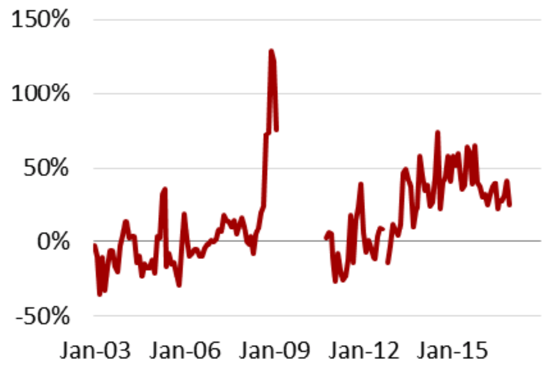
Valuation versus international sector peers

Trading at a historical P/E premium of 37% since 2013

The graph below shows that, besides a period of sharp disruption in 2008-09, Sioen has traded mostly in line with its sector peers until May 2013, when Sioen started to trade consistently above the sector, with a premium that exceeded 20%. Indeed, since then, the P/E premium of the stock averaged 37%, which is justified by the strong ramp-up in margins and returns. Following the recent (strong) share price performance, the premium now stands at 25%, based on a 12-months forward consensus P/E.

Figure 10. Historical 12 months forward P/E multiples (x) + Sioen vs. peers (%)





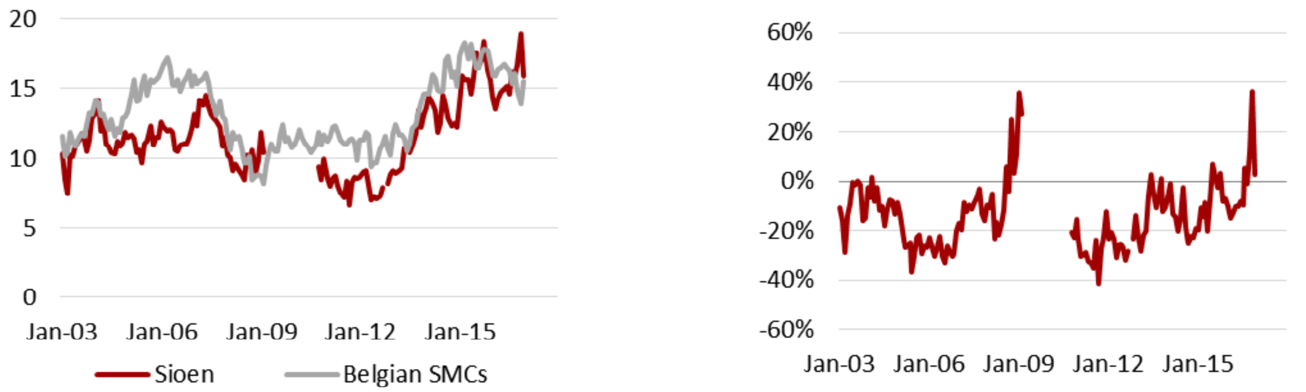
Source: FactSet, Merodis

We believe that Sioen deserves to trade at a 40% premium, which is supported by our ROCE/WACC analysis, as discussed later in the report, which suggests a fair value of €30.1/share in 2017e, taking into account the company's sustainably higher ROCE performance.

Trading at a premium to Belgian SMCs

Sioen trades at a premium with its Belgian family-owned SMC peer group, while during most of the past, the stock has traded at a 20% discount, as the graph below shows (right-hand graph). Note though that peer group multiples are somewhat distorted by clear outliers that trade significantly above the average.

Figure 11. Historical 12 months forward P/E multiples (x) + Sioen vs. Belgian SMCs (%)



Source: FactSet, Merodis

Sioen does not have any homogenous benchmark and...

... they are strongly impacted by outliers

Valuing Sioen versus any benchmark is tricky, as the benchmark is composed of very heterogeneous companies, which also trade on very different valuation levels. The table below shows very clearly that the Belgian SMC group has a number of outliers that trade substantially above the group average, for example Greenyard, Kinepolis, Lotus Bakeries and Van de Velde, all of which trade at a 2016e P/E of 20x or higher. As it is not possible to find a homogeneous benchmark for Sioen, which defines a reliable "peer group valuation level", we prefer to value Sioen independently, hence we analysed the company's fair value on the basis of a DCF model (see below).

Figure 12. Multiple comparison vs. sector peers

		Price	MCap	P/E			EV/EBITDA			EV/Sales		
	Country	(local)	(local m)	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
Low & Bonar	UNITED KINGDOM	0.65	212	11.0	9.4	9	6.1	5.5	5.0	0.8	0.7	0.7
Serge Ferrari	FRANCE	11.50	141	23.8	16.3	13	7.1	5.7	4.7	0.8	0.7	0.6
Chargeurs	FRANCE	15.68	360	14.5	12.7	11	7.6	6.9	6.5	0.7	0.6	0.6
Lakeland	UNITED STATES	10.90	79	18.0	12.0	12						
Delta Plus	FRANCE	56.00	196	13.7	13.6	13				1.3	1.3	1.2
PEER AVERAGE				**16.2**	**12.8**	**11.5**	**7.0**	**6.0**	**5.4**	**0.9**	**0.8**	**0.8**
PEER MEDIAN				**14.5**	**12.7**	**12.1**	**7.1**	**5.7**	**5.0**	**0.8**	**0.7**	**0.6**
Sioen	**BELGIUM**	**25.90**	**513**	**18.8**	**15.0**	**14.0**	**9.5**	**7.8**	**7.0**	**1.5**	**1.3**	**1.2**
% prem./(disc.) vs median				**29.7**	**17.7**	**15.3**	**34.3**	**36.6**	**39.7**	**94.2**	**84.6**	**93.4**
Deceuninck	BELGIUM	2.31	312	15.4	16.5							
Greenyard	BELGIUM	14.31	635	21.7	16.9		6.7	5.7		0.2	0.2	
Hamon	BELGIUM	3.71	30									
Jensen Group	BELGIUM	33.61	257	14.4	13.6							
Kinepolis	BELGIUM	42.50	1,151	31.1	23.5	21	13.8	11.4	10.1	4.1	3.6	3.2
Lotus Bakeries	BELGIUM	2,380.75	1,882	34.0	27.7							
Picanol	BELGIUM	78.20	1,384	13.1	12.7							
Resilux	BELGIUM	152.00	301									
Roularta	BELGIUM	24.50	306	11.0	9.6							
Sipef	BELGIUM	59.24	527	19.7	14.5		9.7	7.6		2.3	2.1	
Tessenderlo	BELGIUM	33.50	1,442	17.6	13.9	10	7.6	6.6	4.8	1.0	0.9	0.7
Van de Velde	BELGIUM	67.87	904	21.3	20.5		13.8	13.1		4.1	3.9	
BELGIAN SMC AVERAGE				**19.9**	**16.9**	**15.3**	**10.3**	**8.9**	**7.5**	**2.3**	**2.1**	**2.0**
BELGIAN SMC MEDIAN				**18.6**	**15.5**	**15.3**	**9.7**	**7.6**	**7.5**	**2.3**	**2.1**	**2.0**
Sioen	**BELGIUM**	**25.90**	**513**	**18.8**	**15.0**	**14.0**	**9.5**	**7.8**	**7.0**	**1.5**	**1.3**	**1.2**
% prem./(disc.) vs median				**0.7**	**-3.3**	**-8.8**	**-1.8**	**2.5**	**-6.8**	**-33.2**	**-36.7**	**-37.7**

Source: FactSet, Merodis

Offering an attractive 2.3% dividend yield

Even though Sioen trades at a premium to the sector, its valuation still allows the stock to reward investors with a dividend yield not far from the sector average, as shown in the table below, and in line with Belgian SMCs.

Figure 13. Multiple comparison vs. sector peers

	EV/EBIT			P/B			DYield		
	2016e	**2017e**	**2018e**	**2016e**	**2017e**	**2018e**	**2016e**	**2017e**	**2018e**
Low & Bonar	9.1	8.0	7.5	1.3	1.2		4.5	4.7	5.0
Serge Ferrari	12.7	9.5	7.3	1.4	1.3	1.2	1.3	1.8	2.4
Chargeurs	9.3	8.3	7.6	1.5	1.4	1.3	2.4	2.7	3.2
Lakeland									
Delta Plus	11.2	11.1	10.3				1.7	1.8	1.8
PEER AVERAGE	**10.6**	**9.2**	**8.2**	**1.4**	**1.3**	**1.2**	**2.5**	**2.8**	**3.1**
PEER MEDIAN	**10.3**	**8.9**	**7.5**	**1.4**	**1.3**	**1.2**	**2.1**	**2.3**	**2.8**
Sioen	**12.8**	**10.7**	**9.7**	**2.7**	**2.4**	**2.2**	**2.3**	**2.9**	**3.1**
% prem./(disc.) vs ı	**25.1**	**20.0**	**29.1**	**95.0**	**88.1**	**75.5**	**12.5**	**26.3**	**10.6**
Deceuninck									
Greenyard	12.0	9.2		0.8	0.8		1.5	1.7	
Hamon									
Jensen Group									
Kinepolis	19.4	15.9	14.2	7.9	6.6	5.6	1.9	2.2	2.4
Lotus Bakeries									
Picanol									
Resilux									
Roularta									
Sipef	17.8	11.9		1.3	1.2		1.4	2.1	
Tessenderlo	12.0	10.0	7.1	2.5	2.1	1.7	0.0	0.0	0.0
Van de Velde	16.0	15.2		4.1	3.6		5.2	5.2	
BELGIAN SMC AVG	**15.4**	**12.5**	**10.6**	**3.3**	**2.9**	**3.7**	**2.0**	**2.2**	**1.2**
BELGIAN SMC MED	**16.0**	**11.9**	**10.6**	**2.5**	**2.1**	**3.7**	**1.5**	**2.1**	**1.2**
Sioen	**12.8**	**10.7**	**9.7**	**2.7**	**2.4**	**2.2**	**2.3**	**2.9**	**3.1**
% prem./(disc.) vs ı	**-19.6**	**-10.5**	**-8.6**	**8.0**	**15.0**	**-40.8**	**50.7**	**41.1**	**157.6**

Source: FactSet, Merodis

Discounted cash flow

Key assumptions: no acquisitions, 2% LT growth, 10% terminal EBIT margins, WACC of 6.9%

Our DCF model points to an unchanged target value of €30.3/share despite using a higher WACC (6.9% from 6.5% previously). The unchanged target value is the result of a mechanical adjustment of the discount rate for the cash flow of 2017e (now at 0.99 vs. 0.94, given the year's proximity) and a slightly higher terminal EBIT margin (10.25% vs. 10% previously), driven by the accretion of Sioen's recent acquisitions.

In fact, our top-line growth rate, which is capped at 2% from 2019e, even allows for some economic softening. Our expectation of EBIT margin contraction, from 12.7% in 2018e, to 10.25% from 2021e, reflects the potential for higher raw material price.

We expect Sioen to step up its capital expenditure for at least three years to come. We also modelled in a 30% tax rate as of 2019e, which may well be reduced in Belgium, at least according to current government plans. As such, all of these factors allow for some upside to our assumptions, and we therefore consider our valuation model to be sufficiently prudent. Our WACC of 6.9% (was 6.5%, with the rise owing to higher LY Belgium risk-free rates since October 2016, at the date of our initiation of coverage report) may seem aggressively low, although it reflects an equity risk premium of 7% as well as the company's strong fundamentals (beta of 1.1) and the extremely loose monetary environment (we include a risk-free rate of 0.7% vs. a market rate of around 0.15% in October 2016).

Figure 14. Discounted cash flow model

€m	2015	2016e	2017e	2018e	2019e	2020e	2021e
Sales	327.3	377.7	437.8	446.8	455.7	464.8	474.1
% growth	-1.7%	15.4%	15.9%	2.0%	2.0%	2.0%	2.0%
EBIT	35.8	45.0	53.4	56.8	54.2	51.5	48.6
% sales	10.9%	11.9%	12.2%	12.7%	11.9%	11.1%	10.3%
Tax	-10.2	-11.7	-14.6	-15.7	-16.3	-15.4	-14.6
Tax rate	-28.4%	-26.0%	-27.4%	-27.7%	-30.0%	-30.0%	-30.0%
Operating profit after tax	**25.6**	**33.3**	**38.8**	**41.1**	**37.9**	**36.0**	**34.0**
+ Tang. depreciation	13.6	14.3	17.0	20.1	12.5	13.4	14.2
% capex	-130.6	-102.3	-85.1	-87.2	-91.5	-95.7	-100.0
- Capex	-10.4	-14.0	-20.0	-23.0	-13.7	-13.9	-14.2
% sales	-3.2	-3.7	-4.6	-5.1	-3.0	-3.0	-3.0
Total net investments in fixed assets	3.2	0.3	-3.0	-2.9	-1.2	-0.6	0.0
- Investments in working capital	2.3	-10.4	-12.3	-2.0	-2.1	-2.2	-2.4
% sales	0.7	-2.8	-2.8	-0.4	-0.5	-0.5	-0.5
Operating cash flow	**31.2**	**23.2**	**23.5**	**36.1**	**34.6**	**33.2**	**31.6**
% growth	-24%	-26%	1%	53%	-4%	-4%	-5%
WACC	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Discount factor		1.00	0.99	0.93	0.87	0.81	0.76
Present value of free cash flow		23.2	23.4	33.6	30.2	27.0	24.1
Cumulative present value of free cash flow		161.6					
+ Present value of terminal value		506.6					
= Enterprise value		**668.2**					
- Net Financial Debt/(cash) (16e)		76.6					
- Other liabilities (book)		0.8					
- Equity stakes & investments (book)		11.9					
= Estimated market value of equity		**602.8**					
Fair value per share (EUR)		**30.4**					

Source: Merodis

As mentioned, we discount Sioen's expected operating cash flow by a WACC of 6.9% (see assumptions in the table below), assuming a target gearing of 30% (from 29% currently, compared to a LT average of 40%), to reflect the likely increase in debt to finance acquisitions, going forward, albeit towards lower levels than the historical average.

Figure 15. WACC assumptions

	Assumption
Gearing (%)	30.0
Tax rate (%)	30.0
Cost of debt before tax (%)	4.5
Cost of Debt after tax (%)	3.2
Long term growth rate (%)	2.0
Risk free - 10Y Belgian OLO (%)	0.75
Equity risk premium (%)	7.00
Beta (x)	1.10
Cost of equity (%)	8.5
WACC (%)	**6.9**

Source: Merodis

We use a beta of 1.1, reflecting the company's mostly diversified business gearing, which is more or less in line with the market as a whole, in our view. Furthermore, to reflect the recent rise in LT bond yields, we use a risk-free rate of 0.70% (was 0.15% in our previous estimates) and an equity risks premium of 7%, which is over 2% above the traditional, long-term equity risk premium.

Economic valued added analysis

ROCE/WACC analysis points to further upside reflecting Sioen's improved return-profile

Next to the DCF analysis, we provide a valuation cross-check below in the form of Economic Value Added (ROCE/WACC) analysis. The table below shows that the fair equity value per share in 2017e should be €30.1, growing to €33.3 by year-end 2018e (representing a net present value of €30.9).

Sioen generates a systematically higher Return on Capital Employed (ROCE) than its Weighted Average Cost of Capital (WACC) of close to 3x. We divide the ROCE minus the LT growth rate of 2% by the WACC minus the same growth rate and get to a fair Enterprise Value of €596m for 2017e, which translates to a fair equity value per share of €30.14, broadly in line with our DCF value.

Figure 16. ROCE/WACC upside potential

	2015	2016e	2017e	2018e
ROCE (%)	13.7	13.9	13.3	13.6
WACC (%)	6.9	6.9	6.9	6.9
ROCE-g (%)	11.7	11.9	11.3	11.6
WACC-g (%)	4.9	4.9	4.9	4.9
EV/CE = (ROCE-g)/(WACC-g) (x)	**2.4**	**2.4**	**2.3**	**2.4**
CE (€m)	179.6	226.6	282.0	291.6
EV (€m)	434.2	554.8	653.4	698.1
Net debt (€m)	2.6	-76.6	-69.1	-51.6
Other net liabilities/assets (€m)	10.3	11.2	11.2	11.2
Equity value (€m)	**447.1**	**489.4**	**595.5**	**657.8**
Equity value per share (€)	22.6	24.7	30.1	33.3
Present value of equity per share (€)		**24.7**	**29.9**	**30.9**

Source: Merodis

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