

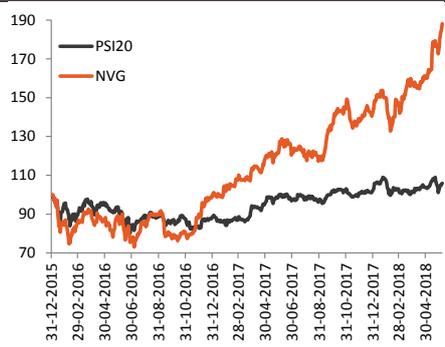
Ticker: **NVG PL**

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

Current price	5.695
Target price	6.27
Upside	10%
Beta	1.0
52w max	5.74
52w low	3.469
1y return (%)	45.94%
3m return (%)	27.69%
Market cap (mn)	4,093
Free float	30,58%
Avg daily volume (30d)	2,640,748

Financial highlights (EUR million)

	2017	2018E
Total Sales	1,637	1,722
EBITDA	404	457
EBIT	259	315
Net profit	208	239
Net debt	696	686
EPS	0.29	0.33
DPS	0.35	0.28

Price graph (31/12/2015=100)


Recommendation	Date	PT
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 07/6/2018

Source: Bloomberg; BiG Research; Company Data

THE NAVIGATOR COMPANY
Production and price rises to sustain higher cash flows
A price story

The rise in pulp prices, led to a rally in Altri, which we deem exaggerated, as a correction in pulp prices is expected. Paper prices, however, still have room to go. Navigator has already announced price hikes of around 7%, both in paper and tissue. Together with the increase in production due to new projects, we forecast Navigator's price to reach EUR 6.27 as the market incorporates the increase in revenues and cash flows the company will achieve. Below is a table with Navigator's key ratios taking into account our price target:

Navigator's key ratios

	2017	2018E	2019E	2020E	2021E	2022E
P/E	21.7	18.8	14.2	12.9	12.0	11.3
EV/EBITDA	14.1	12.4	10.3	9.6	9.1	8.7
Dividend Yield	5.6%	4.4%	4.8%	5.3%	5.8%	6.2%
FCF Yield	6.2%	4.3%	8.6%	9.9%	9.9%	10.1%

Source: Company's data, BiG Research

Earnings

Despite being negatively impacted by a decrease in volumes in the 1st quarter of this year, Navigator was able to register only a marginal decline in total sales vs 1Q 2017 of -2% due to higher average sale prices. There was also a negative impact related with higher costs of raw materials, specifically an increase of 60% in the price of caustic soda. However, Navigator is not expecting in the next quarters, further increases of this magnitude in this cost. On the other side, the sale of the Pellets business had a positive impact of EUR 9.4 mn in EBITDA.

Navigator's Earnings

€ million	1Q17	4Q17	1Q18	%QoQ	2Q18E	%QoQ
Total Sales	392.7	427.0	384.9	-10%	441.6	15%
EBITDA	90.2	103.8	110.9	7%	121.8	10%
Net Income	34.8	62.0	53.2	-14%	68.4	29%

Source: Company's data, BiG Research

For the second quarter we estimate an increase of 15% in total sales qoq to EUR 441.6 mn, EUR 121.8 mn of EBITDA and EUR 68.4 mn of net income. Regarding paper prices, we expect to see already a positive impact of the recent price hikes implemented by Navigator reflected in the average selling price, which we expect to be around EUR 817 per ton. On volumes we expect sales of 90 kt of pulp, 392 kt of paper and 13.5 kt of tissue in total.

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CURRENT AFFAIRS

- ▲ **First Quarter Earnings**
- ▲ **Second Quarter Preview**

▲ **First Quarter Earnings**

In the first quarter of 2018, Navigator reported EUR 384.9 mn of total sales, down from EUR 427 mn in the 4th quarter and EUR 392.7 mn in the 1st quarter of 2017. This was due to lower volumes sold of Paper and Pulp, as production of pulp was affected by a planned maintenance shutdown at the Setúbal mill and the built up of stocks at the Figueira da Foz mill in anticipation to a production stoppage planned for April. The increase (from the 4th quarter of 2017 to the 1st quarter of 2018) in average selling prices of pulp from EUR 577.9 to EUR 621.5 per ton and paper from EUR 772.8 to EUR 783.5 per ton were not enough to offset the decline in volumes. Tissue product mix improved and consequently average selling price rose from EUR 1364.3 per ton in 4th quarter 2017 to EUR 1407.4 per ton. The volumes sold however, declined from 14 ktons (tissue reels and finished product) to 13.5 ktons offsetting the increase in average prices since last quarter.

A steep increase (>60%) in caustic soda prices (component used in pulp manufacturing), led to an increase in production costs. Severance pay and pension fund costs from the rejuvenation program underway as well as growing workforce in new tissue project in Cacia increased personnel costs.

EBITDA registered EUR 101 mn vs EUR 90.2 mn in the 1st quarter of 2017, excluding the pellets business sale, concluded in the quarter and with an impact of EUR 9.4 mn in EBITDA. Net profit reached EUR 53.2 mn vs EUR 34.8 mn in the 1st quarter of 2017. Total debt was reduced by EUR 56 mn, and consequently net debt decreased in the quarter by EUR 137 mn to EUR 559 mn, due also to an increase of cash.

▲ **Second Quarter earnings preview**

For the second quarter we estimate an increase of 15% in total sales qoq to EUR 441.6 mn, EUR 121.8 mn of EBITDA and EUR 68.4 mn of net income. Regarding paper prices, we expect to see already a positive impact of the recent price hikes implemented by Navigator reflected in the average selling price, which we expect to be around EUR 817 per ton. On volumes we expect sales of 90 kt of pulp, 392 kt of paper and 13.5 kt of tissue in total.

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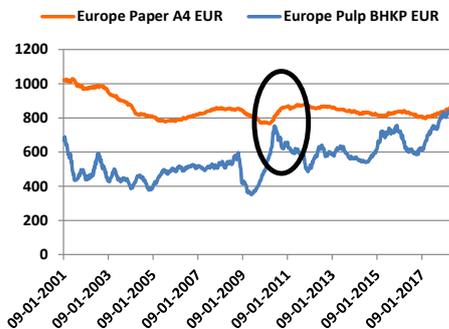
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INVESTMENT CASE

- ▲ A Price Story
- ▲ Steady Cash Flows
- ▲ High and Secure Dividend
- ▲ Risks
- ▲ Valuation

A Price story

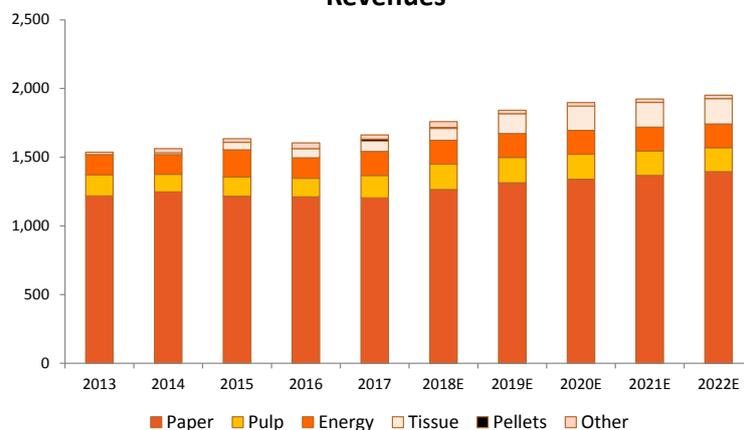


Source: Bloomberg

Navigator is a premium player in the paper segment. For this reason its pricing power is strong, which allows it to charge a premium to clients and negotiate price increases if costs rise. Supporting this fact is the increase of 6% to 8% in tissue prices announced for the beginning of July. Paper prices usually tend to lag the pulp prices hikes, as contracts are not indexed and are renegotiated in specific times of the year. Until and during the summer we expect the company to successfully implement price increases on its paper clients, which will drive prices higher, by close to 7.5%, when compared with the first quarter of this year.

We forecast a scenario like the one in August of 2010 (black circle in the graph), when pulp prices started declining but paper prices increased due to the lag. From 2019 onwards, we expect the pulp prices to downtrend by 2% per year. This will impact paper prices but by a much smaller measure and with a lag. Consequently we see the average selling price of paper of Navigator around EUR 855 per ton in the next 5 years. This average price is supportive for our buy case and we believe is not yet reflected in the price of the stock.

Revenues



Source: Company's data, BiG Research

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▲ **Free Cash Flow increase due to prices and production hikes**

We expect the company to generate on average EUR 432 mn in operating cash flow until 2022. After deducting maintenance capex of circa EUR 48 mn, the company will have EUR 384 mn per year at its disposal to invest, reduce debt or pay to shareholders. We estimate an average dividend payout of 79%. As the net debt /EBITDA ratio is under acceptable levels we estimate only a small reduction in debt of EUR 23mn per year.

Investments

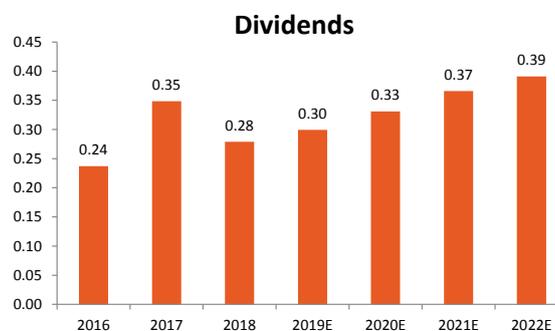
For this year the company expects to invest EUR 200 mn, of which EUR 45 mn are maintenance and EUR 155 mn development of new projects explained below:

Cacia Tissue project: For this project, the company is building a new integrated tissue mill with 70kton capacity in Cacia. The estimated capex for the project was EUR 121 mn and the converting lines began in May of this year. The ramp up will be slow, taking about 2 years to reach 85% of capacity utilization. We estimate that in 2018 the total tissue production in Cacia will be about 6ktons, while in 2019 the company's production will reach 36ktons, and in 2020, 56k tons.

Pulp in Figueira da Foz project: The aim of this project is to increase the pulp production capacity in Figueira da Foz from 580 ktons to 650 ktons. This will be achieved through efficiency gains. The ramp up will be quick and has begun in April, so we forecast for 2018 an added production of 37.5k and from 2019 onwards we assume the mill will be producing at its full capacity.

▲ **High and Secure Dividend**

Considering an average 79% payout hereon (96% in 2018 confirmed), we estimate an increase in dividends as cash flow and net income grows. This will allow Navigator to maintain a dividend yield above 5% even at our Target Price of EUR 6.27.



Source: Company's data, BiG Research

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Risks

The main risk of Navigator is an increase in supply of pulp in the market that may pressure prices of pulp and consequently paper. Furthermore, if the company is not able to agree with suppliers on price increases, it will have a negative impact in our estimation of revenues. The company's exposure to USD, is hedged every year, however a significant yearly change in exchange rate may affect future revenues. Below is a sensitivity analysis to both paper prices and EURUSD rates:

		Annual Paper Price Evolution until 2022						
		6.27	-5%	-3%	-1%	0%	1%	3%
EUR/USD	1.10	1.86	3.09	4.36	5.01	5.67	7.03	8.44
	1.15	1.84	3.06	4.33	4.97	5.63	6.99	8.40
	1.20	1.81	3.03	4.29	4.94	5.60	6.95	8.36
	1.25	1.79	3.01	4.27	4.91	5.57	6.92	8.32
	1.30	1.77	2.99	4.24	4.88	5.54	6.88	8.28

Source: BiG Research

Regulatory risk in Portugal is present and was felt last year by pulp and paper companies, with the prohibition to increase new eucalyptus plantations. Further regulatory changes may happen that may have a direct or indirect impact in Navigator.

Portugal has been in the last years suffering from wild fires in the summer which have impacted in the past and may in the future cause disruptions in the production process or operations of Navigator.

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Valuation

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	1,764	1,846	1,902	1,929	1,956
Paper	1,218	1,247	1,216	1,211	1,204	1,264	1,314	1,340	1,367	1,394
Pulp	153	129	140	137	164	185	185	182	178	174
Energy	147	142	198	148	175	173	173	173	173	173
Tissue	0	13	56	68	74	88	144	177	181	184
Pellets	0	0	0	0	15	7	0	0	0	0
Services Rendered	4	5	4	4	5	5	5	5	5	5
Other	18	31	26	42	30	42	25	25	25	25
EBITDA	347	325	390	397	404	457	553	594	623	653
D&A	103	112	122	167	145	142	142	142	142	142
Financial expenses	-14	-34	-50	-21	-8	-17	-16	-16	-15	-15
Taxes	10	3	36	-7	40	57	76	84	90	95
Net income	221	177	196	217	208	239	317	350	374	398

Cash flows

Received from clients	1,616	1,623	1,718	1,665	1,688	1,769	1,833	1,894	1,925	1,952
Change in Working capital	31	74	-118	51	-71	-20	0	-35	-11	-12
Operating Cash Flow	328	288	305	282	322	344	402	447	471	495
Capex	-22	-22	-154	-81	-115	-199	-46	-48	-48	-49
Free Cash Flow	188	-25	-437	-5	58	-14	109	131	129	169
Net borrowing	121	-60	-80	-20	113	-23	-23	-23	-23	-23
Dividends distributed	-201	-201	-440	-170	-250	-200	-215	-238	-263	-281
Change in cash	188	-25	-437	-5	58	-14	109	131	129	169

Balance sheet

Fixed assets	1,316	1,250	1,321	1,295	1,257	1,237	1,139	1,041	945	816
Current assets	981	940	558	562	630	587	630	747	859	1,009
Current liabilities	373	611	343	407	453	303	448	470	434	307
Total Debt	831	773	727	708	821	798	775	752	729	706
Net debt	307	274	654	641	696	686	554	400	248	56
Shareholders' equity	1,480	1,454	1,214	1,233	1,185	1,150	1,126	1,169	1,211	1,260

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%	17%	18%	19%	20%
EPS	0.31	0.25	0.27	0.30	0.29	0.33	0.44	0.49	0.52	0.56
ROCE	11%	11%	13%	15%	14%	16%	24%	27%	27%	26%
Operating cash flow /EBITDA	95%	89%	78%	71%	80%	75%	73%	75%	76%	76%
Net debt/EBITDA	0.88	0.84	1.68	1.61	1.72	1.50	1.00	0.67	0.40	0.09
Interest coverage	17.3	6.3	5.3	11.1	33.7	19.0	25.6	29.0	31.9	34.9
Dividends per Share	0.28	0.28	0.61	0.24	0.35	0.28	0.30	0.33	0.37	0.39

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	1,764	1,846	1,902	1,929	1,956
EBITDA	347	325	390	397	404	457	553	594	623	653
EBIT	245	214	268	231	259	315	411	452	481	511
Taxes on EBIT	47	41	52	45	50	61	79	87	93	99
NOPLAT	197	173	216	186	209	254	331	364	388	412
D&A	103	112	122	167	145	142	142	142	142	142
Change in Working capital	31	74	-118	51	-71	-20	0	-35	-11	0
Capex	-22	-22	-154	-81	-115	-199	-46	-48	-48	-49
Unlevered FCF	247	187	302	220	310	217	428	494	493	505
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						0.6	1.6	2.6	3.6	4.6
Discounted OFCF						207	376	399	366	346
Terminal value						3,991				
Enterprise value						5,685				
Net debt (2018)						686				
Minority interests						0				
Equity fair value						4,999				
Shares outstanding (# million)						717.5				
Liquidity discount						10%				
Price target						6.27				
P/E 2018E						18.8				
EV/EBITDA 2018E						12.4				
P/OCF 2018E						20.7				
DY 2018E						4.4%				

Source: Company; BiG Research

Navigator's valuation relies greatly in paper prices and production volumes. Production capacity in Figueira da Foz and Cacia will ramp up in 2018. Regarding price as explained above, despite the expected reduction of 2% per year in the pulp price until 2022 we expect Navigator to successfully implement several paper price increases to its clients. This way the company will be able to generate sufficient cash flows to increase shareholder returns through dividends and still reduce net debt. We conservatively assume a 0% growth rate in the long term as there is little visibility on possible investments. These assumptions lead us to a target price of EUR 6.27 which represents a possible upside of 10% vs current price of EUR 5.695.

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COMPANY

- ▲ History
- ▲ Description

History

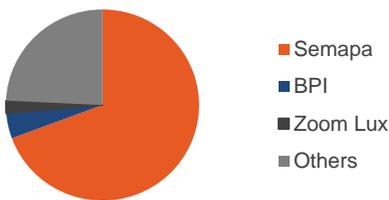
Navigator's history dates back to 1953 when the current chairman's grandfather, Manuel Santos Mendonça, led the start of a raw pine pulp producing project in Cacia, by the name of Companhia Portuguesa de Celulose. By the end of the 1950's, the company became a pioneer in producing bleached eucalyptus pulp using the sulphate method. In 1964 the company expands its pulp capacity by opening a new pulp mill in Setúbal and in 1965 a printing and writing paper mill is built by Inapa nearby.

In 1976, the Portuguese State nationalized the whole cellulose sector, which originated Portucel, a name that lasted until recently. The pulp and paper sector continued to expand in the country throughout the 1980's and in 1995 the State decided to privatize Portucel. After this first phase of privatization, and with the continued organic expansion in the paper segment, Portucel acquired 100% of Inapa in 2000, further expanding its operations.

In 2004, a second phase of privatization made Semapa Group Portucel's main shareholder after acquiring a stake of 67.1%. After Semapa's becoming the majority shareholder, the group consolidated its position as a leading paper player in the European region, claiming the place of the most efficient paper producer in Europe.

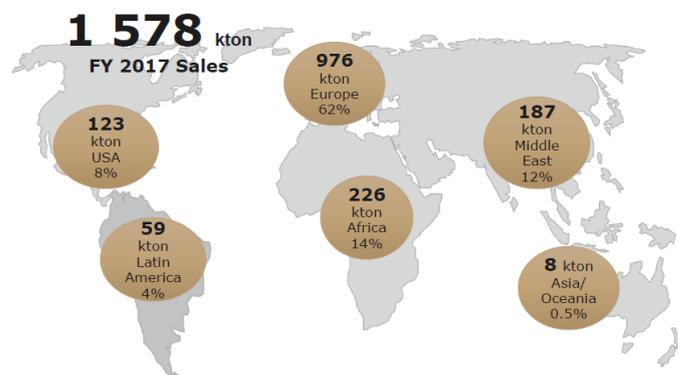
After consolidating its position in the European paper sector the group started a diversification strategy that has taken it into the tissue segment and into Mozambique with a large forest project.

Navigator's shareholding structure



Source: Bloomberg

Sales to over 122 countries with 84 new clients



Source: Company's data

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Description

Nowadays, The Navigator Company is an increasingly diversified player in the Pulp & Paper sector, with operations in the segments of Forest, Pulp, Energy, Paper and Tissue. The Paper segment still represents close to 70% of revenues and a higher portion of profits, but the diversification strategy means that it will have a decreasing importance in the group's activities in the future. Navigator has four main industrial units, in Cacia, Figueira da Foz, Setúbal and Vila Velha de Ródão, forest assets in Portugal and Mozambique, and energy generating units integrated in its main industrial units in Portugal.

Its paper capacity is more or less evenly distributed between Setúbal (775 thousand tons) and Figueira da Foz (800 thousand tons), and its pulp capacity is distributed between Figueira da Foz (650 thousand tons), Setúbal (550 thousand tons) and Cacia (350 thousand tons). A significant portion of pulp's output is integrated in paper and tissue production. Currently, the company produces tissue in Vila Velha de Ródão (60 thousand tons) and will start producing in Cacia throughout 2018. In the energy segment, the group has capacity to generate up to 2500 GWh a year.

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- There isn't a predefined coverage policy in regards to the selection of stocks that are subject to investment recommendations.
- 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%;

The investment framework aforementioned is merely indicative and not globally strict.

- Unless otherwise specified, the price-targets of the investment recommendations issued by BiG's Research Team are valid for 12 months.
- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
- BiG may have, in the present and/or future, some commercial relationship with the companies mentioned in this report, namely providing investment advisory services.
- The records of the investment recommendations of the Research Team are provided below. The detailed external consultation of the respective performances may be provided if so requested.

PSI20 Notes in the last 12 months as of 31st of March of 2018:

	Number of Recommendations	%
Accumulate/Buy	2	66,7%
Keep/Neutral	0	0,0%
Reduce/Sell	1	33,3%
Total	3	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 31st of March of 2018:

	Number of Recommendations	%
Profit Taking	7	63,6%
Stop Loss	0	0,0%
In Place	4	36,4%
Total	11	100,0%

Pair Trades in the last 12 months as of 31st of March of 2018:

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

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