

Ontex IV - Hold

Ontex to release solid results yet again

Ontex recorded a sales rise of 14% for full 2013 and improved its profitability.

Ontex has released its 2013 results which show a 14% sales increase (y/y) to EUR 1,492. Part of this advance was driven by the acquisition of Serenity. Ontex has grown by 8.1% (y/y) excluding exchange-rate effects and Serenity.

The results show progress in all of the company's product segments and Ontex benefits from Kimberly Clark's withdrawal from the Western European market in 2013.

EBITDA was EUR 175m, equalling an increase of 16.6% (y/y). Operational performance improved, which is reflected in the EBITDA margin that was up 26 bps to 11.7% for the full year. The improvement is attributed to obtained synergies from the Serenity implementation.

The free cash flow rose considerably to EUR 103.8m thanks to increased profitability and inventory effects. To this should be added a decline in capital investments to EUR 42.8m for the full year. The company guides a similar level for 2014.

Ontex has still managed to reduce its interest-bearing debt and the leverage is stable around 5x. We anticipate an increase in EBITDA over the coming quarters, which will reduce the leverage. Moreover, contradictory exchange-rate effects are emphasised in the period despite the positive results, especially the development of TRY and RUB had negative implications.

We restate our BUY recommendation for Ontex 9% 2019, which was confirmed by today's solid results and announcements that the integration is proceeding according to plan.

This is a case recommendation. The company will be included in our re-search universe as long as it holds price potential justifying a BUY recommendation. Basically we shall discontinue our coverage of the company if our recommendation changes to SELL.

This is a complex product

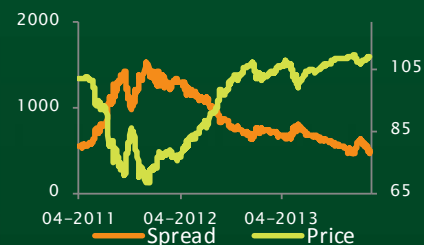


Recommendation:

HOLD: EUR 7.5% 2018- XS0611589101
BUY: EUR 9% 2019- XS0611590885

€'000	2012R	2013R	2014E
Rev.	1,309,000	1,491,900	1,529,196
EBITDA	114,700	101,400	100,000
Adj. Leverage	7.9x	5.4x	5.2x

EUR 9% 2019



Source: Jyske Bank & Bloomberg

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This is an investment research report.

Disclaimer:

Please see the last pages.

Issue	Rec.	Risk	Price	Yield	Bid Spread	Bid Spread Target	Bid Price target	Exp. 12M Return	Rating*
EUR 7.5% 2018	HOLD	Medium	105.00	-7.9%	381	205	103.75	-0.6%	B
EUR 9% 2019	BUY	High	110.00	3.6%	517	363	104.88	3.5%	CCC+

Note: When on strong buy, buy or hold the offer price/yield is shown. When on sell the bid price/yield is shown.

*Composite rating. Source: Bloomberg.

Overview

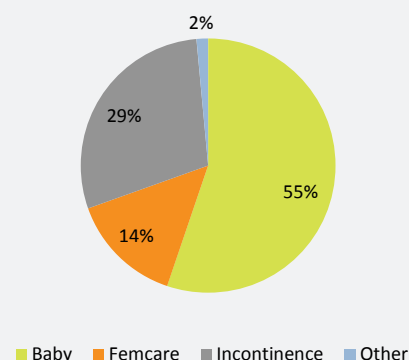
Company profile

Ontex IV is the European market leader in hygienic disposables for the private-label sector.

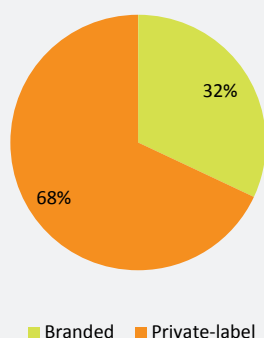
Through twelve strategically located manufacturing facilities, the company offers a wide range of products within baby care and feminine care, such as nappies, wipes, tampons and sanitary towels.

Through its healthcare division, Ontex IV is furthermore a key supplier to the growing market for adult incontinence products.

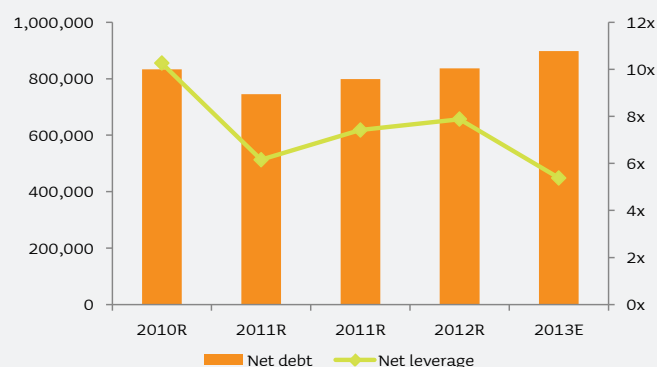
Revenue by segment



Revenue by product type



Net debt and net leverage



Covenants

- Change of control: @101
- 2018 Make whole: prior to 15.04.2014+50 bp.
- 2019 Make whole: prior to 15.04.2015+50 bp.
- 2018 Equity clawback 40% @107.5 prior to 04.15.2014
- 2019 Equity clawback 40% @109 prior to 04.15.2015

Strengths & Opportunities

- Hygienic disposables resistant to the business cycle.
- Stable relations with large European retail customers ensure stable revenue.
- Better placement on supermarket shelves allows private-label manufacturers a competitive edge.
- Ageing population in Europe ensures growth in the market for incontinence products.

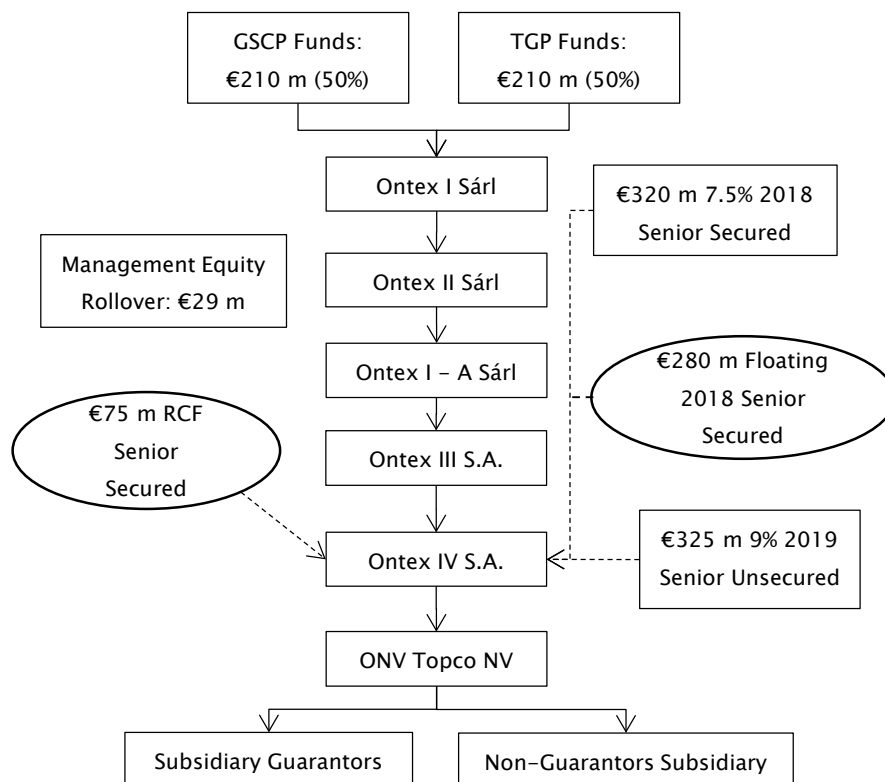
Recommendation

Fundamentally fair valued relative to the company's positive development and resistance to the economic cycle.

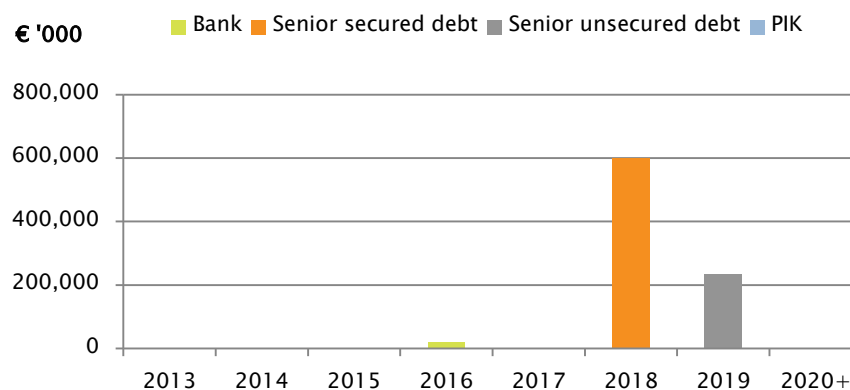
Weaknesses & Threats

- Earnings are highly dependent on fluctuations in oil prices.
- Keen competition from branded manufacturers.
- Low degree of customer preference for white-label products

Company structure



Maturity profile



Capitalisation Q2'13 (CHF mn)						
	Coupon	Maturity	Facility Size	Outstanding Amount	Rep. Net Leverage	Adj. Net. Leverage
Likvider				38,900		
RCF			–	20,000		
Net bank debt				20,000		
€ 7.5% 2018	0.075	2018		320,000		
€ Floating 2018	E+412.5bp	2018	0	280,000		
Total Senior Secured Bonds and Bank debt			–	620,000		
Net Senior Secured Bonds and Bank debt			–	581,100	3.7x	3.1x
€ 9% 2019	9.00%	2019	0	235,000		
Net Bond and Bank debt				816,100	5.2x	
Pension liabilities				14,300		
Operational lease				9,600		
Adj. Net Bond and Bank debt				840,000		4.49x
Adj. Net Bond and Bank debt				840,000	5.3x	4.49x
Net Total Adjusted Debt				840,000	5.3x	4.49x
LTM EBITDA	157,700					
Adjusted EBITDA	186,900					

ISIN	XS0611589101	XS0611590885
Bond	EUR 7.5% 2018	EUR 9% 2019
Issuer	Ontex IV SA	Ontex IV SA
Rating (S&P/Moody's)	B+ / B1	CCC+ / Caa1
Equity Clawback	Yes – 40% @ 107,5 prior to 04/15/2014	Yes – 40% @ 109 prior to 04/15/2015
Call	Callable on and anytime after: 04/15/2014@103,750 04/15/2015@101,875 04/15/2016@100,000	Callable on and anytime after: 04/15/2015@104,500 04/15/2016@102.250 04/15/2017@100,000
Make Whole	Before 15.04.2014 + 50 bp.	Before 15.04.2015 + 50 bp.
Redemption for Changes in Taxes	Yes	Yes
Change of Control	Yes – 101% of the principal amount, plus accrued and unpaid interest.	Yes – 101% of the principal amount, plus accrued and unpaid interest.
Restricted Payments	Yes – But Ontex is allowed to repurchase in total €70 mn. (€10 mn. in each year to maturity) of employee capital stock.	Yes – But Ontex is allowed to repurchase in total €80 mn. (€10 mn. in each year to maturity) of employee capital stock.
Limit of Indebtedness	Yes – Ontex and restricted subs can incur debt if fixed charge coverage ratio is above > 2.0x. Ontex and restricted subs can incur 1st lien debt if fixed charge coverage ratio is above > 2.0x and adjusted leverage < 4.0x.	Yes – Ontex and restricted subs can incur debt if fixed charge coverage ratio is above > 2.0x.
Restrictions on Sales of Assets	Sale of assets is only permitted at the market price of these assets, and if 75% are paid in cash. The proceeds from such a sale shall be used to either redeem bonds at 100, pay back debt or purchase similar assets.	Sale of assets is only permitted at the market price of these assets, and if 75% are paid in cash. The proceeds from such a sale shall be used to either redeem bonds at 100, pay back debt or purchase similar assets.
Security		
Voting rights	Ontex and guarantor restricted subs currently hold 92% of Ontex's total assets. Sit below credit facility lenders.	

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Jyske Bank's corporate bond recommendations - current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank models the expected development of the analysed company's income statement and balance sheet. A number of key figures for the company is calculated on the basis of these models, and the key figures are compared with those of comparable companies and the company's past performance. From this we infer the spread at which the bonds will trade for the period ahead. The recommendation and the price target are moreover adjusted for the expected news flow and the market sentiment based on knowledge of the industry and company-specific circumstances. Jyske Bank's recommendations take into account the expected development in the corporate-bond market, the various sectors and company-specific circumstances.

Risk

Investment in this corporate bond is associated with risk. The risk can be measured directly via the spread at which the bond trades relative to a 'risk free' investment with the same maturity. The spread reflects the probability of default, the recovery rate, and the liquidity of the corporate bond. Movements in the credit market, the sector and/or news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk on the corporate bond is stated as Very Low, Low, Medium, High or Very High and is relative to the high-yield market for corporate bonds. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing.

If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements. In addition, there may be prepared research reports on special themes specifically for the company or research reports where the company is part of the special theme. These research reports are published on an ad-hoc basis.

See the front page for the initial date of publication of the report.

The prices stated are the latest prices quoted by Jyske Bank before the publication of the research report, unless otherwise stated.

Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return within the next twelve months. A BUY recommendation or a Strong BUY recommendation is based on expectations that investment in the bond will generate a return above that of the general corporate-bond market. On the other hand, a SELL recommendation implies that we expect investment in the bond to generate a return below that of the general corporate-bond market.

Since our recommendations are relative and risk-adjusted, it is possible to compare our recommendations across sectors and risk categories. In addition, the potential is stated in absolute terms via our return target.

The future and historical returns estimated in the research report are stated as returns before costs and tax-related circumstances since returns after costs and tax-related circumstances depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors. It is not certain that the bond will yield the stated expected future return/s. The stated expected future returns exclusively express our best assessment.

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