

SAL. OPPENHEIM

A.S. Création

Personal & Household Goods

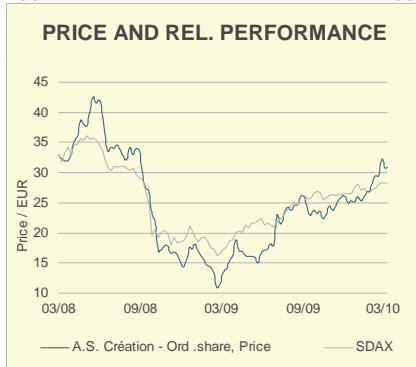
2010-03-25

Applied disclosures can be found in the appendix

Buy

Fair Value EUR35.40

Price EUR30.75 (Closing price as of 2010-03-19)



Source: Thomson Financial Datastream

SOLID FY09 MAKES A.S. FIT FOR THE FUTURE

AS Creation's business has shown defensive qualities in the most difficult financial year 2009. The company could not only surprise with strong margins without having to surrender investments into development and marketing, but also was able to strongly reduce its net financial burden. Based on a promising start into 2010 we have increased our sales forecast while keeping our margins on the conservative side. Based on our new FY10 EPS the share still trades only at a PE of 10x despite the recent surge of the share price. Our new fair value still provides the share with an upside of around 15%. Continued solid reporting as well as positive news from the construction start in Russia should help reducing the discount. Our rating remains buy.

12 month high/low €	32.30/13.20
Rel.%	1m 4.9 3m 10.6 12m 42.9
Abs.%	1m 8.7 3m 17.8 12m 136.4

MARKET DATA

Reuters	ACWG.DE
Bloomberg	ACW GR
Market cap EURm	84.8
EV EURm	105.4
Number of shares m	2.8
Free float %	47.3

NEXT EVENTS

Quarterly results	2010-05-07
AGM	2010-05-07
Quarterly results	2010-08-02
Rel. Sector	+

FY09 – GOOD QUALITY OF EARNINGS IN A DIFFICULT YEAR

FY09 not only showed a better than expected top line (EUR181m/+3%) and EBITDA (EUR23m/+7%) but also a strong operating cash flow (EUR29m/+244%), which allowed the company to reduce net financial debt to EUR21m (from EUR37.8m).

FY 10 - TOP LINE GROWTH IS RETURNING

Based on a sales increase of 7% in the first two months and new product developments mgmt is planning for sales growth in FY10. With regard to the earnings, mgmt stated to be 'cautiously optimistic'. However, due to the uncertainties with regard to the price development of wallpapers and raw material, mgmt refrained from providing a detailed outlook yet.

WE INCREASE OUR EPS 2010 TO EUR3.08

We have increased our sales forecast for FY10 to EUR192m (EUR177m) and slightly increased our forecast for the EBITDA margin to 12.2% (11.8%). Together with a decrease in the anticipated financial expenses our EPS 10 increase to EUR3.08 (EUR2.75). Our fair value increases to EUR35.4.

KEY CHANGES			
EBT %	10e: +5.5	11e: +0.0	
EPS %	10e: +12.0	11e: +5.8	
FV %			

Source: Oppenheim Research

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KEY DATA					
€ (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
Sales m	176.22	181.33	192.20	201.81	209.89
EBIT m	13.50	13.43	13.45	15.04	15.64
Net profit m	8.92	7.50	8.50	9.58	9.96
Oper. CF m	9.38	31.49	17.04	18.68	20.14
Adj. EPS	3.22	2.72	3.08	3.48	3.61
Dividend	1.40	1.20	1.39	1.56	1.63
PER	9.8	7.3	10.0	8.8	8.5
Div. yield %	5.1	7.1	3.9	4.5	5.1
EV/EBITDA	6.0	3.5	4.5	3.9	3.4
Price to book	1.1	0.6	1.0	0.9	0.8
EBIT margin %	7.7	7.4	7.0	7.5	7.5
ROCE %	9.7	10.2	10.2	11.6	12.2
Sust. FCF yield %	2.6	31.2	9.5	11.9	14.6
EPS CAGR 09-12e: 10 %	Net debt/Oper. CF 10e: 1.2		Eq. ratio 10e: 54 %		

Source: Oppenheim Research

Reported vs. estimated figures, change of FY10 forecast							
€m	FY 09				FY 10e		
	estimated	reported	FY08	%	new	old	%
Total sales	174.82	181.33	176.22	2.9%	192.2	177.4	8.3%
Total operating performance (TOP)	172.38	177.22	180.27	-1.7%	192.2	178.2	7.9%
Gross operating income	83.26	87.00	81.01	7.4%	88.6	82.0	8.1%
Gross margin	48.3%	49.1%	44.9%		46.1%	46.0%	
EBITDA	21.68	23.29	21.72	7.3%	23.4	21.0	11.5%
EBITDA margin	12.6%	13.1%	12.0%		12.2%	11.8%	
EBIT	13.44	13.43	13.50	-0.5%	13.45	13.24	1.6%
EBIT margin	7.8%	7.6%	7.5%		7.0%	7.4%	
EBT	11.64	10.8	12.9	-15.7%	12.29	11.64	5.5%
EBT margin	6.8%	6.1%	7.1%		6.4%	6.5%	
Net income	7.54	7.50	8.92	-16.0%	8.50	8.07	5.4%
Net margin	4.4%	4.2%	5.0%		4.4%	4.5%	
EPS	2.75	2.72	3.21	-15.1%	3.08	2.75	12.0%

Source: Company data, Oppenheim Research

FY09 results show an excellence quality of earnings....

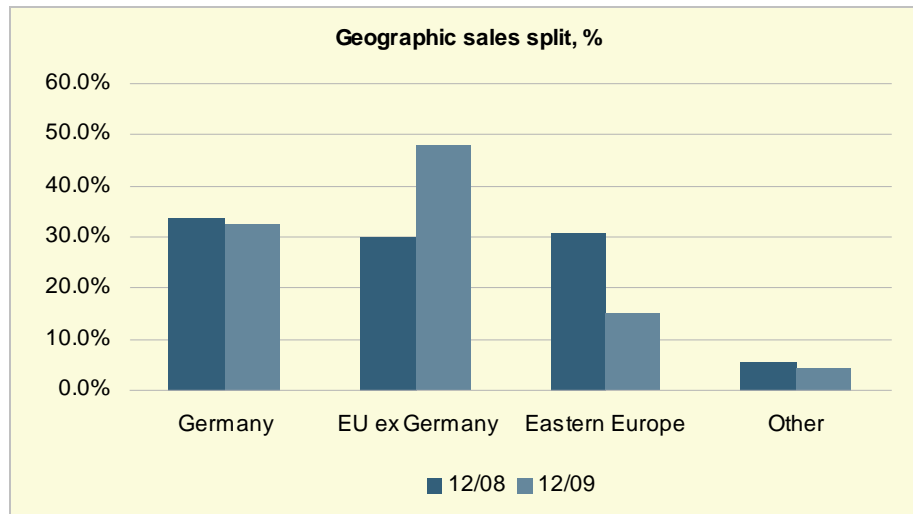
With FY09 top line coming in ahead of expectation and the gross margin being 40 bps stronger than anticipated gross profit clearly exceeded our forecast. Since revaluation effects resulting from the purchase price allocation led to higher material expenses (EUR0.7m) and a higher depreciation (EUR1.4m) and the revaluation of pension provisions led to higher than expected financial expenses (EUR0.7m) this positive surprise was compensated at the net income line, which thus came bang in line with our forecast. Excluding these revaluation effects, FY09 net income would have come to EUR9.4m and EPS at EUR3.41.

...and a strong operating cash flow

The operating cash flow (EUR28.9/+244%) clearly topped our expectation (EUR23m) profiting from a further reduction in working capital. This allowed the company reducing net financial liabilities to EUR20.6m (FY08 EUR37.8m) during the year. Keeping the dividend pay-out ratio stable at 44%, mgmt plans to propose a dividend of EUR1.20 per share to the AGM which is 10 cent higher than we had expected.

The acquisitions of SCE and MCF saved 2009....

A sales growth of 2.9% makes 2009 look like an ordinary, not too spectacular year at a first glance. The change in the geographic sales split from 2008 to 2009 which is depicted in the graph below reveals the dramatic development the company had to experience during the year: while demand in Germany and 'other countries' remained rather stable, sales in 'Eastern European- of which Russia is the most important market - collapsed by more than 50% from EUR59m (2008) to EUR29m (2009). Reasons for this were a combination of three unfavourable developments: (1) the decrease of consumer demand caused by the economic recession, (2) the sharp devaluation of the Eastern European currencies towards the end of 2008 and (3) an adverse development of customs duties. Fortunately, the sales contribution of the two acquired French wallpaper wholesalers SCE and MCF (which were consolidated from 01/01/2009 onwards) of EUR36.5m filled the gap. Additionally, the company benefited from a decrease in raw material prices, the temporary introduction of reduced working hours and the reduction of working capital, which built the basis for a sound result in a difficult market environment.



Source: Company data, Oppenheim Research

...and allowed investing in development and marketing

This enabled the company to keep the level of investments in new product and marketing ideas on a high level. Among other projects, the company has developed a new wall paper collection under the licensed brand of the Women's magazine Brigitte, its third partner. In addition, the company has bought a digital printing machine which allows the making of individual wallpapers on the basis of photos. While these kinds of products are for niche markets (such as individuals or store concepts) and are thus not geared for mass production, they promise high margins and do not need much additional sales effort as they can be sold via the Internet. In addition, AS Creation has further developed its interactive sales terminal for the Points of Sale. This interactive terminal bases on a touch screen computer and allows customers scrolling easily through the company's whole range of wallpapers. According to management, AS Creation is the only wallpaper manufacturer with such a terminal and the company has already placed more than 300 in the outlets of its customers. Since it clearly facilitates the selection of wallpapers it should further help AS Creation strengthening its market position.

FY10 starts with a top line growth of 7%

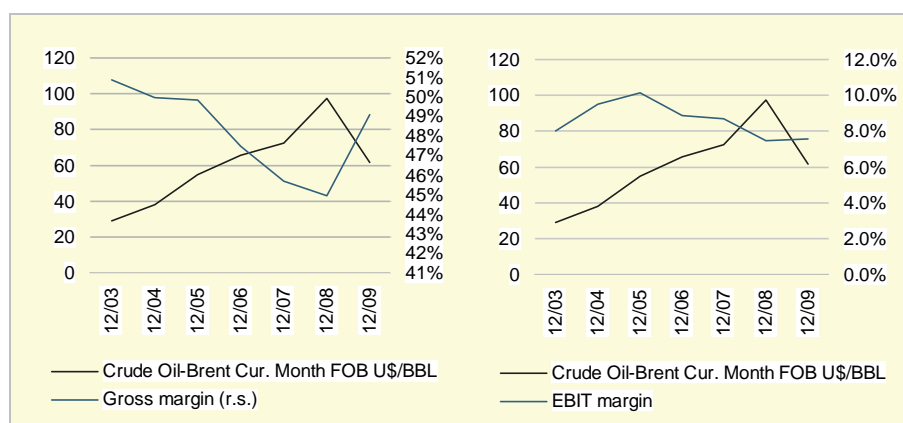
With regard to FY2010 management expects organic top line growth to return as the company has developed a whole bunch of new products and the year has started promising: after five consecutive quarters of organic decline, the first two months of FY2010 are showing a solid organic growth rate of 7%. With regard to earnings management expressed cautious optimism: while a better capacity utilisation and a positive technical effect resulting from lower revaluation effects should have a positive impact on net income, management sees the risk that increasing price competition among wallpaper manufacturers and rising raw material and energy prices may squeeze the gross margin. Mgmt therefore stated it to be too early to provide an exact outlook for the year.

Plans for the Russian joint venture about to be revitalized

In addition, management stated that it is currently reviving the activities with regard to the construction of a production site in Russia in cooperation with its Russian joint venture partner KOF Palitra. With the collapse in Eastern Europe, management had frozen all activities in this regard to a minimum. Now, management will soon decide upon the kick-off of the project. As the situation is improving it seems likely that the joint venture partners will start construction in the course of the year and the site to be able to produce wallpapers in the course of next year. While KOF Palitra will be responsible for the production, AS Creation will sell these wallpapers under the 'AS Creation' brand name in the local market. The main advantage of the postponement of the construction is that investment costs will be lower due to the devaluation of the Rouble. Initially mgmt had estimated the total investment to cost around EUR25-30m. Now it should be more around EUR20-25m.

Gross margin largely dependent on the oil price

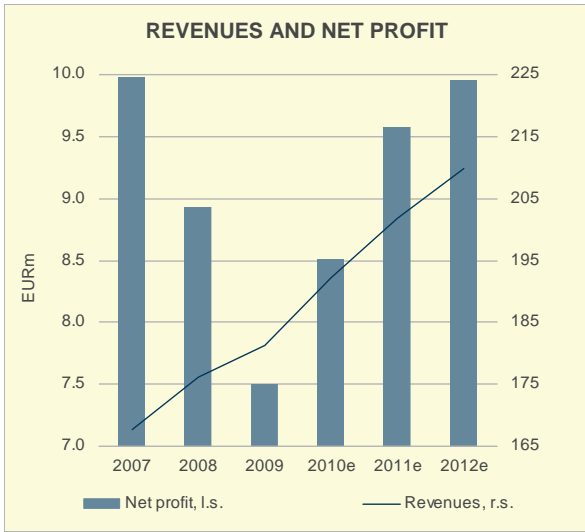
Before reworking our model, we have looked at the influence of the oil price – as most important input factor – on the gross margin in the past seven years. This is sketched in the graph on the left hand side below; it indicates that there is a quite substantial inverse correlation between the oil price (left hand scale) and the gross margin (right hand scale): while the continuous rise in the oil price from 2003 to 2008 burdened the gross margin, the sharp decrease last year helped AS digesting the recession last year. The oil price is already now back at around USD80.00 and forecasts for the average price this year are at around USD90.00. This explains management’s cautious stance with regard to the gross margin further. However, the graph on the right hand side, which depicts the oil price and the EBIT margin, shows that this negative development does not necessary trickle down to the EBIT margin: only in two years (2006 and 2008) the EBIT margin decreased, in one year (2007) it remained unchanged and in the first three years of the considered period it even increased despite the rise in the oil price. In turn, the EBIT margin could not profit from the decline in the oil price in 2009. But this was to some extent related to the effect of the purchase price allocation. In conclusion, it can be said that while the oil price effect is negative, AS Creation seems to be able to compensate this effect in good years with efficiency gains and economies of scale. In recession years, it makes AS Creation defensive.



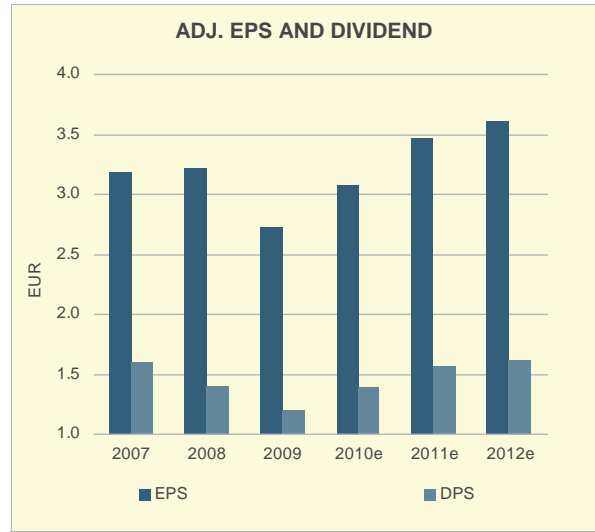
Source: Company data, Oppenheim Research

We increase our EPS 2010 by 12%

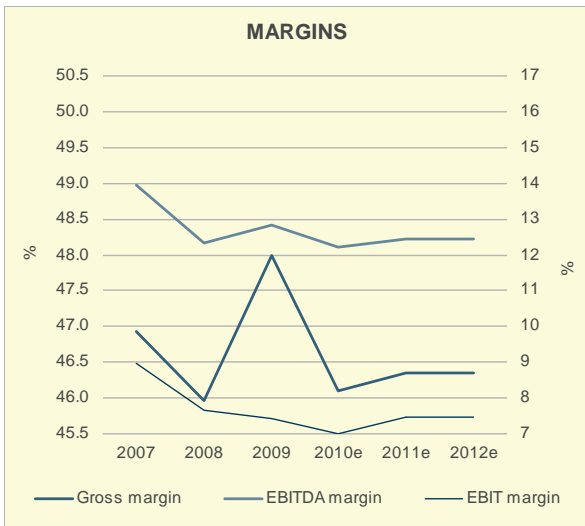
Based on sound FY2009 results, the indications for 2010 and the sensitivity to the oil price, we have reworked our model. We have not yet included the investment in the production site in Russia in our model, which should have a further positive impact on EPS from 2011 onwards. Here, we wait for the final kick-off of the project. Due to the positive development of sales in the first two months of the year, we have increase the FY10 growth rate to 6% (1.5%). Due to the increased price for oil and other raw material this year, we keep our gross margin assumption of 46% unchanged. Given the strong gross margin in 2009 of 49% this implies a y-o-y decrease by 300bps. We nevertheless slightly increase the EBITDA margin (from 11.8% to 12.2%) in order to take into account a better utilization of capacities. In addition, we have lowered the financial expenses in order to take into account the decrease in net financial debt. Compared to 2009, net financial expenses thus decrease by EUR1.4m, half of which (EUR0.7m) coming from no further revaluation of the pension provisions. The key changes are summarized in the table above. All in all, our EPS 2010 forecast increase from EUR2.75 to EUR3.08 (+12%). The positive revision of our forecast specifically bases on the assumptions that the economic recovery in Europe continues and that the Eastern European currencies will remain at the current slightly recovered level. In addition the analysis assumes that the oil price will not increase as sharply as it did in 2008. If the development of these company specific risk factors should deviate from our assumptions, this could have a negative impact on our forecast.



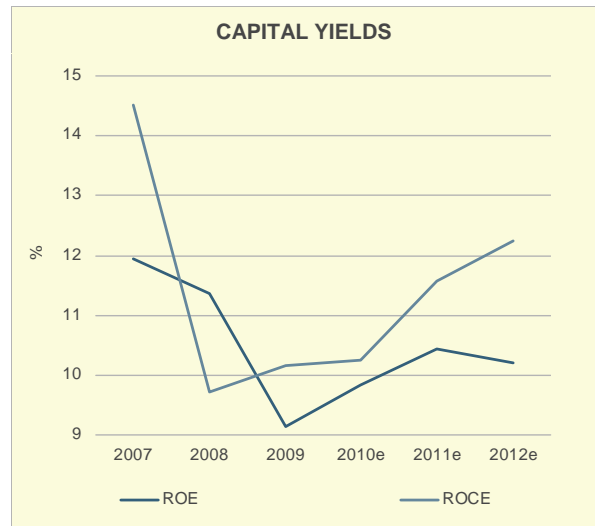
Source: Company data, Oppenheim Research



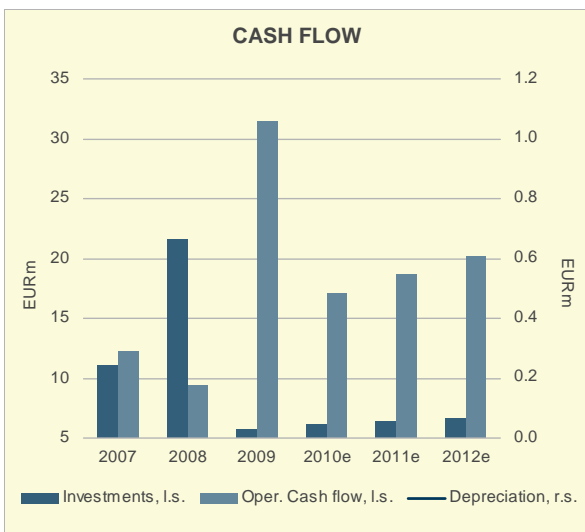
Source: Company data, Oppenheim Research



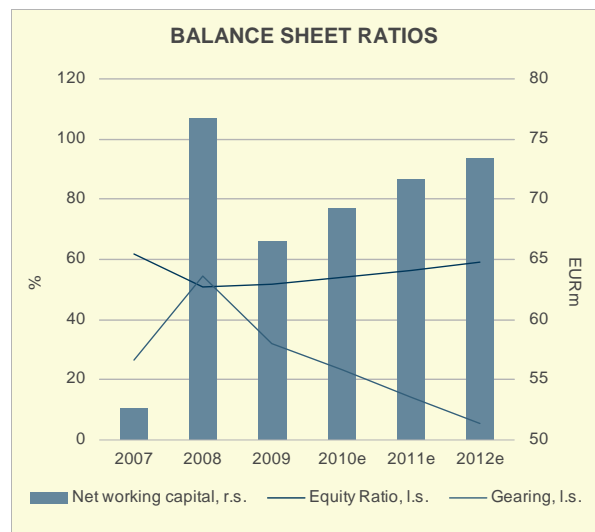
Source: Company data, Oppenheim Research



Source: Company data, Oppenheim Research



Source: Company data, Oppenheim Research



Source: Company data, Oppenheim Research

A.S. Création - P&L (Total Costs)					
EURm (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
Sales	176.2	181.3	192.2	201.8	209.9
Invent. changes & intern. prod. Assets	4.1	-4.1	0.0	0.0	0.0
Cost of material	-99.3	-90.2	-103.6	-108.3	-112.6
Personnel costs	-36.2	-37.7	-39.4	-41.4	-43.0
Other operating income/expenses (net)	-23.1	-26.0	-25.8	-27.0	-28.1
EBITDA	21.7	23.3	23.4	25.1	26.1
thereof: Depreciation	-8.2	-9.9	-10.0	-10.1	-10.5
EBIT	13.5	13.4	13.5	15.0	15.6
Interest result	-0.6	-2.6	-1.2	-1.2	-1.3
Participation result	-0.0	-0.0	0.0	0.0	0.0
Profit or loss on ordinary activities	12.9	10.8	12.3	13.8	14.4
EBT	12.9	10.8	12.3	13.8	14.4
Taxes	-3.9	-3.3	-3.8	-4.2	-4.4
Profit / loss for the year (cont. operations)	8.9	7.5	8.5	9.6	10.0
Net profit	8.9	7.5	8.5	9.6	10.0
Adjusted net profit	8.9	7.5	8.5	9.6	10.0
Key ratios and numbers					
EURm (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
Valuation					
PER	9.8	7.3	10.0	8.8	8.5
P/BV	1.1	0.6	1.0	0.9	0.8
Dividend yield %	5.1	7.1	3.9	4.5	5.1
EV/Sales	0.7	0.4	0.5	0.5	0.4
EV/EBITDA	6.0	3.5	4.5	3.9	3.4
Sustainable FCF yield %	2.6	31.2	9.5	11.9	14.6
Data per share					
Weighted avg. number of shares	2.77	2.76	2.76	2.76	2.76
EPS (reported)	3.22	2.72	3.08	3.48	3.61
Adj. EPS	3.22	2.72	3.08	3.48	3.61
DPS	1.40	1.20	1.39	1.56	1.63
Book value per share	28.94	30.39	32.28	34.37	36.41
Sustainable FCFPS	1.0	8.1	3.2	3.8	4.3
Growth rates %					
Sales	5.1	2.9	6.0	5.0	4.0
EBITDA	-7.2	7.3	0.7	7.2	4.0
EBIT	-10.0	-0.5	0.2	11.8	4.0
Net profit	-10.6	-16.0	13.4	12.7	4.0
adj. EPS	1.1	-15.4	13.4	12.7	4.0
Margins %					
Gross	46.0	48.0	46.1	46.4	46.4
EBITDA	12.3	12.8	12.2	12.5	12.5
EBIT	7.7	7.4	7.0	7.5	7.5
Net profit	5.1	4.1	4.4	4.7	4.7
Expense ratios %					
Personnel cost to sales	20.5	20.8	20.5	20.5	20.5
Cost of material to sales	56.3	49.8	53.9	53.7	53.7
Depreciation to sales (Total Cost)	4.7	5.4	5.2	5.0	5.0
Tax rate	30.6	30.8	30.8	30.7	30.7
Other ratios					
EVA @ SOP	3.1	3.0	2.9	2.9	2.9
Interest cover	-16.7	-8.9	-18.5	-19.2	-19.2

Source: Company data, Oppenheim Research

A.S. Création - Cash Flow Statement					
EURm (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
EBIT	13.5	13.4	13.5	15.0	15.6
Change in other provisions	-0.0	0.9	0.0	0.0	0.0
Non Cash Items	0.9	-0.7	0.2	0.2	0.1
Change in other assets & liabilities	-5.9	4.2	-0.6	-0.8	-0.5
Change in working capital	-3.4	7.1	-2.2	-1.6	-1.2
Cash taxes	-3.9	-3.3	-3.8	-4.2	-4.4
Operating Cash Flow	9.4	31.5	17.0	18.7	20.1
Net financial result	-0.6	-2.6	-1.2	-1.2	-1.3
Cash Flow from operations	8.8	28.9	15.9	17.5	18.9
Investments in tangible assets	-11.8	-5.3	-5.6	-5.8	-6.1
Investments in financial assets	-0.2	-0.5	0.0	0.0	0.0
Investments in intangible assets	-9.7	0.0	-0.6	-0.6	-0.5
Disinvestments	0.1	0.1	0.0	0.0	0.0
Cash Flow from investing activities	-21.5	-5.7	-6.2	-6.4	-6.6
Income from associates	-0.6	-2.6	-1.2	-1.2	-1.3
Change in financial liabilities	20.4	9.8	-4.0	-4.0	-4.0
Change in shareholder's equity	-0.9	0.0	0.0	0.0	0.0
Change in pensions and similar provisions	-0.3	0.0	0.3	0.4	0.3
Dividend payments	-4.5	-3.9	-3.3	-3.8	-4.3
Cash Flow from financing activities	14.1	3.4	-8.2	-8.7	-9.3
Change in cash and cash equivalents	1.3	26.6	1.5	2.4	3.0
Cash and cash equivalents (begin. of period)	4.0	3.6	11.0	13.7	17.3
Cash and cash equivalents (end of period)	3.6	11.0	13.7	17.3	21.5
Ratios and Key Figures					
EURm (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
Cash Flow from operations	8.8	28.9	15.9	17.5	18.9
- Capex (tang. + intang. assets)	-21.5	-5.3	-6.2	-6.4	-6.6
Free Cash Flow (equity)	-12.7	23.6	9.7	11.1	12.3
-/+ Cash effects from net financial result	0.6	2.6	1.2	1.2	1.3
Free Cash Flow (entity)	-12.1	26.2	10.8	12.3	13.5
+ Expansion capex (total. - maintenance capex)	15.5	-0.8	-0.8	-0.6	-0.4
Adjusted Free Cash Flow (entity)	3.4	25.4	10.0	11.7	13.1
Sustainable FCF (equity) per share	1.2	9.2	3.6	4.2	4.8
Ratios					
Operating CF / capex	79.7	594.6	306.5	320.0	328.4
Operating CF / net financial debt	1.7	0.6	0.7	0.5	0.2
Maintenance capex / revenues, %	3.4	3.6	3.6	3.5	3.3
Net working capital / revenues, %	43.5	36.6	36.0	35.5	34.9
Cash conversion rate	0.4	1.4	0.7	0.7	0.8

Source: Company data, Oppenheim Research

A.S. Création - Balance sheet					
EURm (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
Assets					
Current assets	97.8	92.8	99.2	105.9	112.6
Cash and cash equivalents	3.6	11.0	13.7	17.3	21.5
Trade receivable	40.9	35.6	36.9	38.2	39.1
Other receivables	6.7	5.1	5.4	5.7	5.9
Inventories	46.6	41.0	43.2	44.8	46.0
Fixed assets	62.2	65.8	62.0	58.3	54.4
Tangible assets	51.3	54.7	50.2	46.0	41.6
Intangible assets	10.7	10.6	11.2	11.8	12.3
Financial assets	0.1	0.5	0.5	0.5	0.5
Prepaid expenses , deferred taxes	4.0	3.3	3.3	3.3	3.3
Total assets	163.9	161.8	164.4	167.5	170.3
Liabilities and Shareholders' Equity					
Total liabilities	80.8	78.1	75.5	72.8	69.9
Short-term liabilities	27.4	29.8	30.4	30.9	31.4
Trade payables	10.8	10.2	10.8	11.3	11.8
Long-term liabilities	53.4	48.3	45.1	41.9	38.5
Long-term financial debt	41.4	31.6	27.6	23.6	19.6
Provisions	6.1	8.6	8.9	9.3	9.6
thereof pension provisions	6.0	6.9	7.2	7.5	7.8
Deferred income & deferred tax liabilities	5.8	8.1	8.6	9.0	9.4
Minority interest	2.8	0.0	0.0	0.0	0.0
Shareholders' equity	80.3	83.8	89.0	94.7	100.4
Capital subscribed	9.0	9.0	9.0	9.0	9.0
Reserves	55.3	58.3	58.3	58.3	58.3
thereof capital reserves	13.8	13.8	13.8	13.8	13.8
thereof retained earnings	41.5	44.6	44.6	44.6	44.6
Other equity capital	16.0	16.5	21.6	27.4	33.0
Total equity , liabilities	163.9	161.8	164.4	167.5	170.3
Ratios and Key Figures					
EURm (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
Balance sheet structure					
Net working capital	76.7	66.5	69.3	71.6	73.3
Net financial debt	43.7	27.0	20.6	13.3	5.4
Capital employed (CE)	138.9	132.3	131.3	129.9	127.8
Enterprise value (EV)	131.3	81.3	105.4	98.1	90.1
Ratios					
Current assets %	59.7	57.3	60.3	63.2	66.1
Long-term assets %	37.9	40.7	37.7	34.8	32.0
Equity ratio %	50.7	51.8	54.1	56.5	58.9
Gearing %	54.4	32.2	23.1	14.1	5.4
Net financial debt / EBITDA	2.0	1.2	0.9	0.5	0.2
EV / CE	0.9	0.6	0.8	0.8	0.7
ROCE %	9.7	10.2	10.2	11.6	12.2
ROE %	11.4	9.1	9.8	10.4	10.2

Source: Company data, Oppenheim Research

A.S. Création - Divisional Breakdown					
EURm (Yr. end: 12/31)	2008	2009	2010e	2011e	2012e
Sales	176.2	181.3	192.2	201.8	209.9
Germany	64.5	64.0	66.6	68.6	70.7
European Union ex Germany	57.5	94.5	101.1	106.2	111.5
Eastern Europe (ex EU)	58.9	29.4	30.3	32.1	33.7
Corporate/consolidation	-4.7	-6.6	-5.8	-5.0	-5.9
Growth %					
Germany	7.0	-0.7	4.0	3.0	3.0
European Union ex Germany	-1.7	64.4	7.0	5.0	5.0
Eastern Europe (ex EU)	15.9	-50.1	3.0	6.0	5.0
Corporate/consolidation	141.9	42.0	-12.4	-12.8	17.8

Source: Company data, Oppenheim Research

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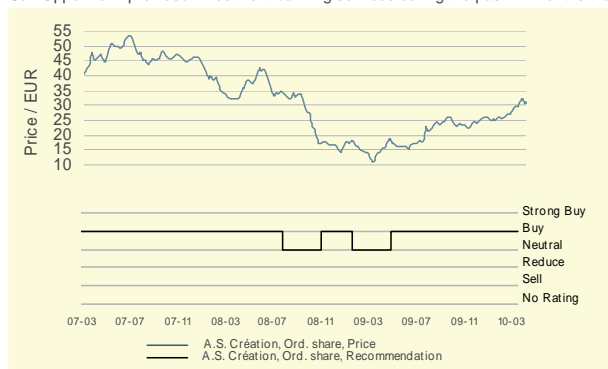
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Reduce	48	14.3	4	13
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