11 November 2004

Petzetakis Group

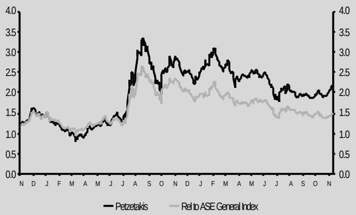
Stock rel to market

Add Initiating coverage

A global player turning the corner

Year to	Revenue (EURm)	EBITDA (EURm)	Reported PBT (EURm)	HSBC PBT (EURm)	HSBC Net profit (EURm)	HSBC EPS (EUR)	HSBC EPS gwth (%)	PE (HSBC) (x)	Yield (%)	EV/ Sales (x)	EV/ EBITDA (x)	EV/IC (x)	ROIC (%)	REP (x)
12/2003a	184.2	20.6	4.4	4.4	2.4	0.11	n/m	20.9	0.0	0.8	7.6	0.9	6.0	1.4
12/2004e	202.1	22.7	5.5	5.5	3.5	0.16	46.6	14.2	0.0	0.8	7.2	1.0	7.0	1.2
12/2005e	220.1	24.8	10.1	10.1	7.0	0.32	102.3	7.0	0.0	0.7	6.0	0.8	7.2	1.0
12/2006e	237.1	26.4	12.2	12.2	8.2	0.37	17.8	6.0	0.0	0.6	5.1	0.8	8.0	0.9

Relative price



Source: Thomson Financial Datastream

- Global maker of plastic pipe systems and hoses with well-diversified geographic coverage and product portfolio
- Ongoing restructuring plan and balance sheet de-leveraging to support profit growth
- Coverage initiated with an Add rating and target price of EUR3.08

Company and industry fundamentals

Petzetakis Group is one of the world's largest manufacturers of plastic pipes and hose systems, for use in energy (oil & gas), mining, telecoms, water supply, sewage, agriculture, construction and industry. The group operates in Europe, North America and South Africa. Global demand for plastic pipes is expected to increase by over 4% pa through 2007, with large infrastructure projects in Greece and the untapped potential of new markets (either new segments or new geographic areas) being the growth catalysts for Petzetakis.

Economic performance and growth

Following two heavily loss-making years, the group returned to profit in 2003, reaping the benefits of its restructuring efforts. We expect group sales to grow by 8.8% pa on average for the next three years (ie 2004-06), driven mainly by infrastructure projects and the penetration of untapped market segments. Profitability at gross level is expected to come under some pressure, but cost containment at the operating level and lower financials should feed through the P&L, sending 2006e EPS up to EUR0.37 from EUR0.11 in 2003.

Valuation, catalyst and recommendation

The stock trades at a significant discount to its peer group on PE and EV/EBITDA multiples, but close to par in terms of EV/EBIT. Petzetakis offers a superior growth outlook and untapped opportunities in new market segments and regions. We assign a fair value of EUR3.08 per share and initiate coverage of the stock with an Add recommendation, highlighting, however, the risks associated with the ongoing restructuring plan.

Company report

Country	Greece
Sector	Plastics
Bloomberg	PETZK GA
Reuters	PETR.AT
Mkt cap (EURm)	53.3
Mkt cap (USDm)	68.8
Free float (%)	51.7
Web site	www.petzetakis.com

Price

	1M	3M	12M
Absolute	1.96	2.00	2.65
Absolute (%)	13.3	11.0	-16.2
Relative (%)	4.2	-3.6	-30.5

Relative to	ASE General Index
Index level	2,619.69

Current (EUR)	Target (EUR)
2.22	3.08

Disclaimer & disclosures

This report must be read with the disclaimer & disclosures on p22 that form part of it.

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Contents

Executive summary

Company profile and industry fundamentals

Leading manufacturer of plastic pipes and hoses

Petzetakis Group is one of the world's largest manufacturers of plastic pipes and hose systems, with production facilities in seven countries (Greece, Italy, Spain, Portugal, Germany, South Africa and Canada) and a comprehensive distribution network extending from Europe and North America to Africa and the Middle East.

The company offers a wide range of products for applications in water supply, sewage/ drainage, telecoms, oil & gas, agriculture, construction, industry and mining. In 2003, infrastructure, agriculture, industry, construction and mining accounted for 34%, 23%, 25%, 11% and 7% of group sales, respectively. By region, Greece, Western Europe and Africa accounted for 31%, 23% and 42% of group turnover, respectively.

Rapid overseas expansion took group close to bankruptcy in 2002, and necessitated a restructuring plan

Following an acquisition spree in 2000-01, Petzetakis faced serious financial problems, triggered primarily by high debt levels. This, coupled with the cost of integrating the newly acquired businesses, the global recession of 2001-02 and the lack of focus on the domestic market, took the group to the brink of bankruptcy and prompted an unsuccessful buyout attempt by a Greek private equity fund at the end of 2002. Following a subsequent management reshuffle, a restructuring plan was introduced. This has proved successful (so far) for the Greek operations, and is still under way in Western Europe and Canada.

World plastic pipe demand to grow by 4% pa through 2007

World demand for plastic pipes and hoses has grown on average by 2.3% pa since 1997, and is forecast to expand by more than 4% pa through 2007, on increased infrastructure development, mainly in developing regions. In Europe, the polymers market has grown by around 3% pa since 1993. Overall, polymers (PVC+HDPE) represented c13% of global pipe demand in 2002, with concrete and steel accounting for 42% and 36%, respectively.

Key player in many European countries and South Africa with high market shares

In Greece, Petzetakis faces little competition in the upper-end of the market (large diameter pipes/hoses represent the non-commodity end of the market while small diameter products are more commodity-like). This strength comes from being the leading supplier of pipes for sewage/drainage and agriculture applications in South Eastern Europe. In Western Europe, the group controls 15% of the total Italian market, holds 40% of the flexible hose market in Spain, leads the hose market in Portugal, and is among the three largest suppliers of PVC hoses in Germany. In South Africa, it is the largest manufacturer of PVC pipes and hoses, with leading market shares in the infrastructure and mining segments. Petzetakis is also present in North America through its 51%-owned Canadian Imperial PlasTech subsidiary (George Petzetakis owns an additional 38% stake) and Petzetakis USA. Imperial PlasTech (a diversified plastics manufacturer for the residential, construction, industrial, oil & gas, telecoms and cable TV markets) was declared bankrupt in mid-2003, hit by the telcos bubble, but emerged from court protection in early 2004 and is currently being restructured.

Infrastructure projects, exports and penetration of new market segments to drive growth

Infrastructure development in Greece and exports (mainly from the Agro division) are expected to drive domestic growth. Petzetakis in Greece will seek to improve asset utilisation rates (currently 60%) and cost efficiency, recover market share (lost in 2001-02) and enhance export activity. In South Africa, where the company aims to maintain its market share in the mining sector, penetration of (virtually untapped) market segments, such as Agro and house building, as well as exports to the Sub-Saharan region and Australia (mining sector) are likely to fuel growth. In Western Europe, where macroeconomic conditions remain challenging, Petzetakis seeks to better exploit its distribution network and further reduce operating costs.

Questions remain concerning North America

Regarding the North American market, the turnaround of Imperial PlasTech, still entailing high execution risk, ranks first in Petzetakis' list of priorities. Imperial PlasTech is now trying to reposition itself in the non-commodity end of the market, while growth in this region, seen as offering the greatest potential, will be both organic and acquisitive. In a bid to expand its global reach, the group is also seeking strategic partnerships worldwide. To this end, Petzetakis has signed a memorandum of understanding with Goodyear for commercial and manufacturing co-operation in Europe, South Africa and the US.

EPS expected to grow to EUR0.37 in 2006 from EUR0.11 in 2003 on improved operating efficiency and lower financials

Turning to financials, we expect group net sales to rise 9.7% this year (on strong exports from Greece), 8.9% next year and 7.7% in 2006. With the effect of the group restructuring fading out over the next few years, we expect a small margin erosion at both the gross profit and EBITDA level (down 200bp and 10bp, respectively, between 2003 and 2006). Limited capex requirements (preventing depreciation charges from rising) and lower financial expenses (following the debt restructuring) are expected to feed through the P&L with group EBT expected to rise by 24.5% this year, 83.6% next year and 21.3% in 2006. In turn, EPS is expected to jump 46.6% this year (EUR0.16), double in 2005 (EUR0.32) and advance 17.8% in 2006 (EUR0.37), also boosted by the parent company's tax holiday until 2007.

Turnaround has still an execution risk

Although the outlook for Petzetakis seems promising, investors should not ignore the execution risks associated with the ongoing restructuring plan, the translation risk from the South African operations, and the stretched financial condition of Imperial PlasTech.

Valuation and recommendation

Our standard three-stage DCF model returns a fair value of EUR3.08 per share. At current prices, the stock trades at a significant discount relative to a basket of global peers on PE and EV/EBITDA multiples (despite the inflated EV measure due to high gearing), but close to par in terms of EV/EBIT. Note, however, that the harsh discount on PE multiple is partly explained by the absence of taxation in the parent company.

It seems that the market has taken a pessimistic stance regarding Petzetakis' superior growth outlook (2003-06e EPS CAGR of 52% vs 41% for its peer group) as implied by the current stock price. Based on HSBC's EPS discounted model (assuming 10 years of fixed EPS growth and a five-year period during which the real EPS growth rate fades to 1% in perpetuity), the stock price seems to discount EPS growth of 2.3% pa over the next 10 years.

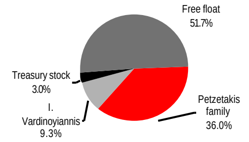
Initiating coverage with Add and target price of EUR3.08

We initiate coverage with an Add rating, focusing on the yet incomplete restructuring process (entailing execution risk) and uncertainty related to the group's Canadian operations.

Company profile

Petzetakis Group is one of the world's largest manufacturers of plastic pipes and hose systems, with production facilities in seven countries (Greece, Italy, Spain, Portugal, Germany, South Africa and Canada) and a comprehensive distribution network extending from Europe and North America to Africa and the Middle East. The group ranks among the top three European producers of plastic pipes and among the top 10 manufacturers of plastic pipes and hoses globally.

Shareholding structure



Source: The company

Company background

A.G. Petzetakis SA, the parent company, was established in 1960 in Athens, with its first plant producing hoses. In 1969, the company entered the Portuguese market. Heliflex Petzetakis Tubos is now the leading manufacturer and distributor of hoses in Portugal. A second production unit, opened on the outskirts of Athens in 1971 to produce plastic pipes, is now the group's main factory. In the same year, Petzetakis entered into a joint venture in Iran for the production of hoses. Its stake in this venture was subsequently reduced to 25% for political reasons. The following year, in 1972, the company set up a subsidiary in Germany to distribute its products. In 1994, Petzetakis acquired rival Macedonian Plastics of Northern Greece.

In a bid to extend its presence abroad, in 2000 Petzetakis acquired a 22% stake in Toronto-listed Imperial Plastech Inc (ticker: IPG), a Canadian manufacturer of plastic pipes.

In 2001, Petzetakis acquired a number of pipe and hose manufacturers: Main Pipe Systems in South Africa (renamed Petzetakis Africa), Induplas in Italy, and Flexiplas in Spain. The company also established a trading company in the UK, EuroHose Ltd.

In early 2004, Petzetakis raised its stake in Imperial Plastech to 51%, after the latter successfully emerged from Canadian and US Federal court protection.

Rapid overseas expansion and associated costs led to heavy losses in 2001-02

Following its aggressive expansion abroad, initiated in 2000 with the purchase of a stake in Canadian Imperial PlasTech, Petzetakis faced serious financial problems that took the company to the brink of bankruptcy. To finance these acquisitions, Petzetakis heavily leveraged its balance sheet, resulting in soaring financial costs. At end-2002, net debt at the group level stood at EUR111m compared with a net cash position of EUR18m at end-1999. In addition, the debt to equity ratio deteriorated sharply, from 120% at end-1998 to 225% at end-2002, while financial expenses doubled from 1999 to 2002. Increased financial costs, coupled with the cost of integrating the newly acquired businesses, adverse global economic conditions in 2001-02 and the lack of focus on the domestic market, resulted in the group reporting net losses for 2001 and 2002 of EUR8.3m and EUR8.9m, respectively.

Attempts to oust George Petzetakis at end-2002 failed

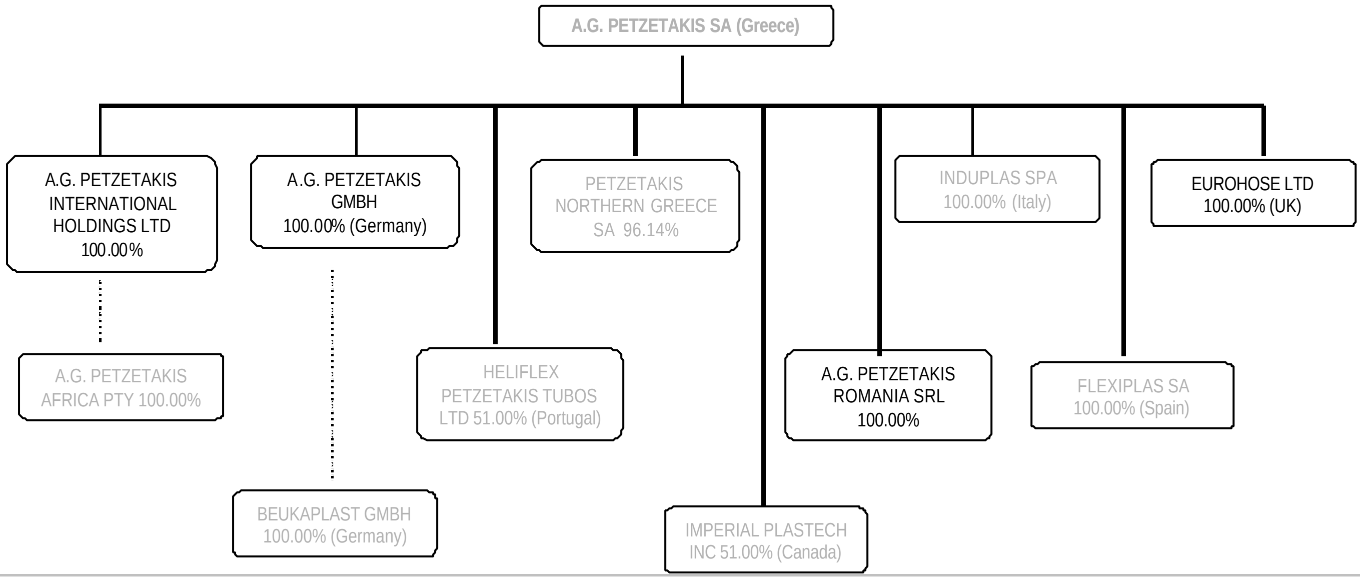
During H2 2002, the company faced serious liquidity problems and lending banks urged for a capital base restructuring. Press reports of that period referred to negotiations with a large Greek private equity fund, which would allegedly acquire a 20-25% stake in the company, with George Petzetakis waiving his rights and ceding management control (at that time he owned c27% of the company). However, this 'covered' MBO attempt did not succeed and Mr Petzetakis returned to the helm of the company following the resignation of the then management. Following a management reshuffle, the company sold a 7.98% stake (held as treasury stock) for cEUR3m to John Vardinoyannis, a Greek businessman in the oil industry. Mr Petzetakis also sold 2.22% to Mr Vardinoyannis. The latter now holds 9.29%.

Company profile

Following his comeback, Mr Petzetakis and the new management team implemented an across-the-board restructuring programme, aiming at lowering debt levels, improving operating efficiency through cost cutting and integrating operations abroad. The restructuring plan has paid off so far as depicted by rising quarterly operating profits and margins. However, the financial position of the Canadian subsidiary remains stretched, while operations in Europe and South Africa could be further streamlined (see strategy section below).

New restructuring plan was implemented

Present group structure



Note : Production units in grey
Source: Petzetakis Group

Company products

Petzetakis Group's product portfolio falls into five categories: Infrastructure, Agro, Casa (building), Industry, and Mining.

- **Infrastructure** (34% of group sales in 2003): the group offers a wide range of specialised products for applications in water supply, sewage/drainage, telecoms (cable and fibre optic protection conduits) and energy (natural gas). Petzetakis is the no.1 supplier of pipe systems for sewage and drainage in South Eastern Europe and South Africa. The Infrastructure division generated 34% of group sales in 2003.

No1 in pipe systems for sewage and drainage in South Eastern Europe and South Africa

- **Agro** (23%): the group manufactures pipe and hose systems for agricultural applications such as drilling, water delivery, irrigation, sprinkling, spay irrigation, etc.
- **Casa** (building, 11%): these are integrated solutions for drainage, water supply and heating networks for domestic use.
- **Industry** (25%): Petzetakis' hoses cover a wide range of industrial sectors and applications, such as the food, milk and wine sectors, the transport and distribution of oil, ventilation systems, high pressure and water distribution networks.

Company profile

- **Mining** (7%): Petzetakis Africa is the no.1 manufacturer of mining pipes in South Africa, holding 21 supply contracts with 14 mining companies of the gold, platinum, coal and base metals sectors.

No.1 producer of mining pipes in South Africa

The main raw materials used for the production of hoses and plastic pipes are polyvinyl chloride (PVC), polyethylene (PE) and high density polyethylene (HDPE). All these are oil by-products, thus oil price fluctuations do have an impact on chemicals prices. Note that raw material prices have risen 28% y-t-d on average. Ninety per cent of hoses are produced by PVC, while pipes for infrastructure, agriculture and house building are produced by rigid PVC or PE, depending on their final use.

Applications and growth drivers

Raw material used	Main applications	Main growth drivers	Production/sale sites
Hoses (90% are produced by PVC)	Industry:Transport/distribution of liquids Ventilation systems Agriculture Consumer usage Mining	Industrial capex in Greece Industrial capex in West Europe Industrial capex in US Industrial capex in South Africa Mining activity in South Africa	Accounts for 100% of production in West Europe Accounts for 1/3 of production in Greece Accounts for 1/3 of production in South Africa Exports to US
Rigid PVC	Infrastructure: Sewage Drainage Telecom conduits House building	Infrastructure government spending in Greece & South Africa Infrastructurecapex in the Balkans & Middle East House building in Greece, Balkans, Middle East	Accounts for 1/3 of production in Greece Accounts for 1/3 of production in South Africa Exports to the Balkans & Middle East
Polyethylene (PE)	Infrastructure: Potable water Pressure pipes Natural gas Telecom conduits Agriculture: Increasing applications House building: Some applications	Infrastructure government spending in Greece, South Africa & Canada Infrastructurecapex in the Balkans & Miiddle East Capex by telecom operators (backbone networks) in Greece	Accounts for 1/3 of production in Greece Accounts for 1/3 of production in South Africa Accounts for 100% of production in Canada Exports to the Balkans & Middle East

Source: Company

Sales breakdown by product (H1 2004)

PVC hoses	**36.40%**	Industrial	29.50%
		Mining	7.00%
Rigid PVC pipes	**27.00%**	Casa	11.30%
		Infrastructure	15.70%
PE pipes	**26.90%**	Infrastructure	16.80%
		Agro	10.00%
Others	**9.70%**	Fittings etc	9.70%
Group total	**100.00%**		**100.00%**

Source: Company

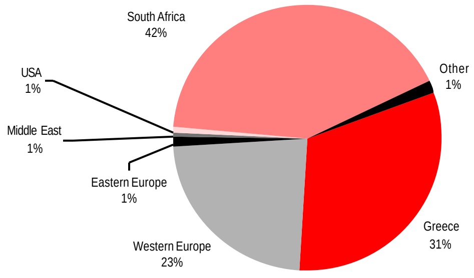
Given that plastic pipes of small diameter are easy to produce (commodity-like products), competition in this segment is intense and profit margins low. In contrast, pipes of large diameter (non-commodity) require special manufacturing equipment, thus narrowing the number of potential producers and offering higher profit margins. Both Casa and mining pipes are also fat-margin products, as the former are used in the production of value-added integrated systems and the latter benefit from barriers to entry (import duties). Overall, half of Petzetakis group revenues are generated by the non-commodity end of the market. The group’s total installed production capacity amounts to 160ktpa. Total current production amounts to 100ktpa, with utilisation rates standing at c85%, 60% and 70% in South Africa, Greece and EuroHose (ie Rest of Europe), respectively.

Large diameter pipes secure higher profit margins than small ones

HSBC

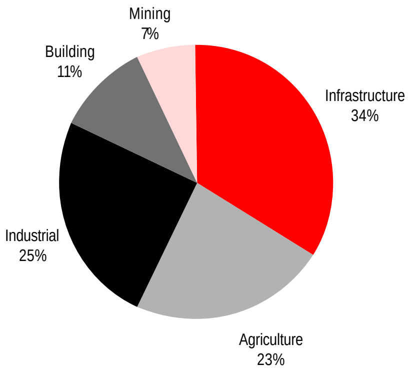
Company profile

Group sales geographic breakdown 2003



Source: Company

Group sales breakdown (by product category) 2003



Source: Company

Market outlook & strategy

The global plastic pipe market was estimated at 5.17bn metres at end-2002, having grown by 2.3% pa between 1997 and 2002. Worldwide demand (in volumes) for plastic pipes is forecast to increase by over 4% pa through 2007, faster than overall pipe demand. Growth in developing regions, such as Latin America, Africa and the Middle East and Asia Pacific (ex-Japan), is expected to outpace the global average, on the back of ongoing infrastructure development (water, sewage, natural gas, telecoms).

Worldwide demand for plastic pipes to increase by 4% pa through 2007

Turning to Europe, it is estimated that 2.5m tonnes of polymers were consumed in 2003, valued at cEUR9bn. Overall, the European market has grown by around 3% pa since 1993.

World plastic pipe demand

(m metres)	1997	2002	2007e	Annual growth (%) 1997-2002	Annual growth (%) 2002-2007e
North America	1,729	1,835	2,145	1.2	3.2
Western Europe	1,077	1,249	1,440	3.0	2.9
Asia Pacific	1,040	1,210	1,595	3.1	5.7
Rest of World	765	879	1,140	2.8	5.3
World plastic pipe demand	**4,611**	**5,173**	**6,320**	**2.3**	**4.1**

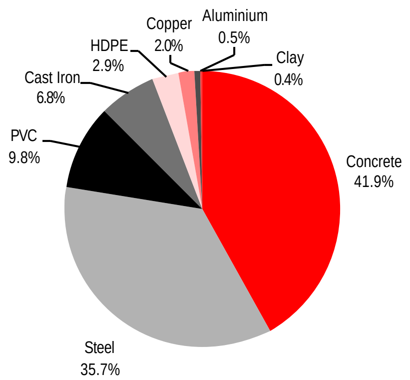
Source: Freedonia Group, Inc, 2003

Polyvinyl chloride (PVC) is the leading plastic pipe resin in global use, accounting for over two-thirds of plastic pipe demand by weight. PVC is popular because of its durability, strength and ease of extrusion. However, demand for high density polyethylene pipes (HDPE) grows faster (5.1% pa) than for PVC pipes, driven by the significant advantages HDPE offers over other materials, including higher corrosion resistance, greater flexibility and better joint integrity, superior hydraulics and cost competitiveness.

Demand for HDPE pipes grows faster than for PVC pipes

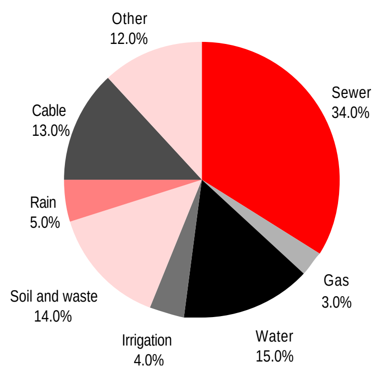
Plastic pipe production is generally located near the source of demand, so producers avoid long-distance transportation cost. While transportation cost for hose shipments is relatively low (hoses can be coiled, thus increasing the value of the shipment), transportation cost for large-diameter plastic pipes is high relative to the value of the shipment.

Global pipe demand by material (2002)



Source: Freedonia Group, Inc, 2003

Applications for plastic pipes in Western Europe (2003)



Source: Freedonia Group, Inc, 2003

Market outlook & strategy

The company operates in four large geographic regions: Greece, Africa and the Middle East, Rest of Europe and North America, and sells its products in over 70 countries worldwide.

Greece

Dominant position in plastic pipes and hoses in Greece

In Greece, Petzetakis operates two manufacturing units (one on the outskirts of Athens and the other in Northern Greece) and five main warehouses/distribution centres. Greek operations contributed 31% of group sales in 2003, of which c23% were exports. Petzetakis is the undisputed leader in hoses and plastic pipes in Greece, facing little competition, particularly in non-commodity segments. In the Infrastructure segment, Petzetakis is the no.1 supplier of pipe systems for sewage and drainage in South Eastern Europe, while in the Agro segment it is the market leader in Greece and the Balkans. Imports of large-diameter pipes are discouraged by relatively high transportation costs, while Petzetakis' ability to produce large volumes for quick delivery further supports its competitive position. In the Agro, Casa and Industry segments, competition comes from much smaller companies.

Large infrastructure projects in Greece and exports to support future growth of domestic operations

Going forward, growth in Greece will be driven by large infrastructure projects in water supply, sewage/drainage, natural gas and telecoms, both in the capital city (Athens) and across the country. To better gauge the size of the infrastructure needed, note that the Athens Water Supply and Sewage Company has earmarked cEUR140m for water and sewage network replacement/expansion in 2003-07. Moreover, Petzetakis sees export opportunities in the Balkans and Middle East.

Rest of Europe (EuroHose division)

Key player in Italy, Spain, Portugal and Germany…

Elsewhere in Europe, operations include manufacturing units and distribution networks, scattered across Italy, Spain, Portugal, Germany, the UK and Romania. In Italy, Petzetakis operates a production unit through its Induplas subsidiary, which contributed 6% of 2003 group turnover. In Spain, Flexiplas generated 4% of group sales in 2003. Flexiplas is the leader in flexible hoses, with a market share exceeding 40%. In Portugal, Heliflex Petzetakis Tubos is the largest hose manufacturer and distributor, with a leading position in the local market. Heliflex accounted for 5.5% of group sales in 2003. In Germany, the group's two subsidiaries, A. Petzetakis GmbH (distribution) and Bheka Plast (manufacturing) merged operationally into one in 2003, resulting in a significant reduction in overhead costs. The company is currently one of the three biggest suppliers of PVC hoses in the German market. Combined sales in 2003 accounted for 5% of group turnover. Petzetakis also operates distribution centres in the UK and Romania.

…but trading conditions are tough

The EuroHose division faces intense competition and pricing pressures due to sluggish growth in Western Europe and the strong euro, while the outlook for top-line growth remains uninspiring.

Eurozone economic indices (annual change)

	2001	2002	2003	2004e	2005e	2006e
GDP	1.6	0.8	0.6	1.9	1.5	1.4
Industrial production	0.1	-0.7	0.1	2.0	1.1	0.4
Total investment	-0.2	-2.5	-0.6	1.4	2.0	1.6

Source: HSBC

Market outlook & strategy

South Africa

The South African subsidiary is the largest in terms of sales, having contributed 42% of group revenues in 2003. Petzetakis Africa operates three factories and 27 distribution centres/agents. The company is the market leader in PVC pipe systems, PE pipes and flexible PVC hoses and also controls a 75% market share of the mining sector (currently holding 21 contracts for the supply of mining pipes with 14 mining companies of the gold, platinum, coal and base metals sectors). However, Petzetakis' presence in house building and the Agro sector is still small.

Petzetakis Africa holds 75% market share in mining sector

Petzetakis Africa is the most labour-intensive subsidiary, but this is offset by the low cost of labour in this country. In addition, raw material prices (and denominated) are higher compared with the European average, but this is also offset by higher selling prices (also rand denominated). Raw materials are purchased locally.

Growth in this market will come mainly from expansion into Agro and house building (two market segments practically untapped by Petzetakis Africa) and exports.

South Africa economic indices (annual change)

	2001	2002	2003	2004e	2005e	2006e
GDP	2.7	3.6	1.9	2.9	3.5	3.7
Industrial production	2.8	5.3	-2.2	3.9	2.6	3.0
Total investment	2.1	6.1	8.4	9.0	6.0	6.5
Inflation	5.7	9.2	5.8	1.5	4.6	5.0
10-year bond yield %	11.4	11.7	9.6	9.7	9.9	9.0
ZAR/USD	8.6	10.2	7.3	6.5	7.6	7.6

Source: HSBC

North America

Pipe demand (volume) in the US is expected to increase by 2.5% pa through 2007, driven by strong residential and non-residential building activity and the rehabilitation of ageing or obsolete sewer, drainage and municipal drinking water systems. The piping market in the US is dominated by few nationwide major players, with the balance covered by numerous smaller, regional companies. The market tends to consolidate.

Pipe demand in US to grow by 2.5% pa through 2007 on infrastructure building activity

Petzetakis Group has penetrated the North American market through Canadian Imperial PlasTech Inc and Petzetakis USA. Imperial PlasTech is a diversified plastic manufacturer supplying a number of markets and customers in the residential, construction, industrial, oil & gas, telecoms and cable TV sectors. The company currently operates three production facilities in Peterborough (Ontario), Edmonton (Alberta) and Atlanta (Georgia).

Imperial PlasTech: a diversified plastic manufacturer

As a result of demand in the telecoms market going into meltdown in 2001 and overall business activity slowing in North America, Imperial PlasTech went bankrupt in mid-2003. A restructuring plan (still under way) was immediately implemented, and the company emerged from court protection in January 2004, after having reorganised its business and affairs, rationalised its cost base and restructured its capital base.

Company emerged from court protection in January following its bankruptcy in aftermath of telecoms bubble

Market outlook & strategy

In its fiscal 9M results (end-August), Imperial PlasTech posted an operating loss of CAD4.4m vs CAD9.2m in 9M 2003 and CAD9.3m for FY 2003 (end-November). Sales were down 15.8% y-o-y to CAD11.5m compared with CAD18.5m for FY 2003. Gross profit margin reached 2.1% vs -24.8% in the year earlier period (gross margin was zero in H1 2004). Debt-to-equity stood at 5.8x. As part of the restructuring plan, AG Petzetakis, in January 2004, raised its stake in Imperial PlasTech from 21.26% to 51%. At the same time, George Petzetakis acquired a 37.95% stake in the company.

Imperial PlasTech consolidated P&L account

CADm	Q1 2003	H1 2003	9M 2003	FY 2003	Q1 2004	Q2 2004	Q3 2004	9M 2004	9M y-o-y
Sales	**5.6**	**10.6**	**13.7**	**18.5**	**3.8**	**3.4**	**4.3**	**11.5**	-15.8%
COGS	-5.7	-13.9	-17.1	-21.6	-3.6	-3.6	-4.0	-11.3	-34.0%
Gross profit	**-0.1**	**-3.4**	**-3.4**	**-3.2**	**0.2**	**-0.2**	**0.2**	**0.2**	n/m
Gross margin %	*-2.0%*	*-31.8%*	*-24.8%*	*-17.2%*	*5.0%*	*-5.5%*	*5.6%*	*2.1%*	
Operating expenses	-1.4	-2.8	-4.7	-4.7	-1.0	-1.4	-0.9	-3.3	-30.7%
% of sales	*24.7%*	*26.2%*	*34.4%*	*25.3%*	*24.9%*	*40.0%*	*21.9%*	*28.3%*	
EBITDA	**-1.5**	**-6.1**	**-8.1**	**-7.8**	**-0.8**	**-1.6**	**-0.7**	**-3.0**	62.7%
Margin %	*-26.8%*	*-58.1%*	*-59.2%*	*-42.5%*	*-19.9%*	*-45.5%*	*-16.3%*	*-26.2%*	
Depreciation	-0.5	-0.8	-1.1	-1.5	-0.5	-0.5	-0.5	-1.4	22.8%
EBIT	**-2.0**	**-7.0**	**-9.2**	**-9.3**	**-1.2**	**-2.0**	**-1.2**	**-4.4**	52.2%
Margin %	*-35.3%*	*-66.0%*	*-67.5%*	*-50.6%*	*-32.0%*	*-59.0%*	*-27.4%*	*-38.3%*	
Financials	-0.1	-0.2	-0.3	-0.5	-0.2	-0.3	-0.3	-0.8	n/m
EBT	**-2.1**	**-7.2**	**-9.6**	**-9.8**	**-1.4**	**-2.3**	**-1.5**	**-5.2**	45.9%
margin %	*-37.0%*	*-68.1%*	*-70.0%*	*-53.2%*	*-36.7%*	*-66.5%*	*-35.3%*	*-45.0%*	
Income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Earnings after tax	**-2.1**	**-7.2**	**-9.6**	**-9.8**	**-1.4**	**-2.3**	**-1.8**	**-5.5**	42.6%
Extraordinary items	0.0	-0.3	-3.0	-5.5	9.3	-0.3	0.0	8.9	n/m
Reported net income	**-2.1**	**-7.6**	**-12.5**	**-15.4**	**7.9**	**-2.6**	**-1.5**	**3.8**	n/m

Source: Imperial PlasTech, HSBC Pantelakis Securities

Market outlook & strategy

Imperial PlasTech consolidated balance sheet

CADm	FY 2003	Q1 2004	H1 2004	9M 2004
Assets				
Cash	0.1	0.0	0.1	0.0
Accounts receivable	2.7	2.2	1.6	2.2
Inventories	1.9	1.7	1.2	1.5
Prepaid expenses & other assets	0.6	0.6	0.7	0.8
Assets held for sale	1.3	1.3	1.0	0.0
Total current assets	**6.7**	**5.8**	**4.6**	**4.4**
Property, plant & equipment	13.5	13.1	12.7	12.4
Total assets	**20.2**	**18.9**	**17.3**	**16.7**
Liabilities + equity				
Current				
Bank indebtedness	0.4	1.4	0.8	1.8
Accounts payable & accrued charges	17.0	3.2	4.4	5.3
Current portion of long-term debt	6.6	0.7	1.1	1.7
Total current liabilities	**24.0**	**5.4**	**6.3**	**8.7**
Long-term debt	**0.2**	**7.7**	**7.7**	**6.3**
Shareholders' equity				
Share capital	35.4	37.4	37.4	37.4
Deficit	-39.4	-31.6	-34.2	-35.7
Total shareholders' equity	**-4.0**	**5.8**	**3.2**	**1.7**
Total equity & liabilities	**20.2**	**18.9**	**17.3**	**16.7**

Source: Imperial PlasTech, HSBC Pantelakis Securities

During 2003, Petzetakis USA established relationships with key distributors, secured the location for a major warehouse and acquired the licence for manufacturing operations in the US.

Growth in North America will be both organic and acquisition-driven, provided that Imperial PlasTech is successfully restructured. The group maintained the listing of Imperial Plastech on the Toronto Stock Exchange (ticker: IPG) in order to utilise its shares as a currency for future acquisitions. Petzetakis seeks to penetrate the high-margin non-commodity end of the market, including water/wastewater, gas distribution, oil & gas production, and mining.

Apart from organic growth, the group does not rule out acquisitions in the US

Canada economic indices (annual change)

	2001	2002	2003	2004e	2005e	2006e
GDP	1.8	3.4	2.0	3.0	3.0	2.6
Industrial production	n/a	n/a	n/a	3.3	3.3	2.9
Total investment	4.1	2.4	4.9	6.2	4.4	3.2

Source: HSBC

Market outlook & strategy

US economic indices (annual change)

	2001	2002	2003	2004e	2005e	2006e
GDP	0.8	1.9	3.0	4.5	3.2	2.1
Industrial production	n/a	n/a	n/a	4.5	3.2	2.1
Investment	-3.0	-4.9	5.1	10.4	5.5	2.3

Source: HSBC

Strategic orientations

Petzetakis group, operating in four distinct geographic areas worldwide, has developed its strategy accordingly.

Market share gains and cost containment targeted in Greece

In Greece, Petzetakis seeks to further improve asset utilisation rates (currently at 60%), rationalise its operating expenses and fully recover its lost market share. With respect to the latter, Petzetakis has adopted a competitive pricing policy, with only part of raw material price hikes being passed on to end-product prices. That said, any gross margin erosion is offset by the continued containment of operating expenses. New export opportunities in the Balkans and Middle East, particularly in the Agro business, are also explored.

Cost basis rationalisation also sought in Europe

Turning to EuroHose, its European arm, Petzetakis seeks to realise the full potential of the main European markets by improving the efficiency of its distribution network and reducing operating expenses. R&D-driven products could improve market penetration.

Maintain leadership in the mining sector and penetrate unexploited markets

Petzetakis Africa looks to further reduce costs and improve working capital management. The goal there is to maintain its dominant market share in mining and gradually build up its presence in Agro and house building. Petzetakis Africa also eyes export opportunities in the Sub-Saharan region and Australia (particularly in the mining business).

Turnaround of Imperial PlasTech ranks first in priorities. North America viewed as the most promising market for Petzetakis

North America is viewed as the fourth pillar for future growth. The group targets total revenues of EUR100m from its North American operations in 2009 vs an estimated EUR14m in 2004, with the turnaround of Imperial PlasTech being the key catalyst. The group is now active in the Industry and Infrastructure segments, while it seeks to establish a position in the non-commodity segments. Growth will be both organic and acquisition-driven. However, any acquisitions will be equity-financed by Imperial PlasTech.

In search of strategic partnerships worldwide

Lastly, Petzetakis looks for strategic partnerships worldwide to expand its geographic reach. In this context, in November 2003, Petzetakis signed a memorandum of understanding with Goodyear. This calls for a commercial co-operation (procurement of Petzetakis PVC hoses in the US, use of Petzetakis platform in Europe and South Africa for Goodyear rubber hoses), joint R&D, and joint production of PVC hoses in US. Should this partnership materialise in full, it is expected to contribute sales of USD20m in 2005.

Valuation

Discounted cash flow

In our three-stage discounted cash flow model, we use explicit forecasts for the 2004-06 period. After 2006, cash flows are modelled on a semi-explicit basis for 10 years (2007-16), followed by a 15-year fade period until 2031. Our risk-free rate is set at 4.80%. To account for the fact that Petzetakis operates in different equity risk premium (ERP) zones, we use an asset-weighted ERP of 4.55% (we assume ERPs of 4.0, 6.5 and 5.0 for European operations, Africa and Imperial PlasTech, respectively). Petzetakis' cost of ungeared capital (Keu) is set at 8.90%.

Our DCF model returns a fair value of EUR3.08 per share

The model suggests a central case target price of EUR3.08 per share, pointing to upside of 39% from current levels. We initiate coverage of the stock with an Add recommendation. A detailed description of our DCF valuation and sensitivity analysis is shown on page 20.

Relative valuation

Stock trades at a discount on PE and EV/EBITDA multiples, but close to par on EV/EBIT

The stock has underperformed the market by 18% over the past six months (losing 12% in absolute terms), with the daily volume averaging around 50,000 shares over the same period. At current prices, the stock trades at a significant discount relative to a basket of global peers on PE and EV/EBITDA multiples (despite the fact that the large amount of debt inflates the EV measure), but close to par in terms of EV/EBIT multiples. Note, however, the harsh discount on the PE multiple is partly explained by the absence of taxation at the parent company.

Current stock price discounts a minor real EPS growth over the next 10 years

It seems the market has taken a pessimistic stance regarding Petzetakis' superior growth outlook (2003-06e EPS CAGR of 52% vs 41% for its peer group) as implied by the current stock price. Based on our EPS discounted model (assuming 10 years of fixed EPS growth and a five-year period during which the real EPS growth rate fades to 1% in perpetuity), the stock price seems to discount a real EPS growth of 2.3% pa over the next 10 years.

Our target price implies significant upside potential for the stock and we initiate coverage with an Add recommendation, focusing on the yet incomplete restructuring process (entailing execution risk) and uncertainty related to the group's Canadian operations.

Relative valuation

	Mkt	PE (x)			EV/EBITDA (x)			EV/EBIT (x)			ROE (%)			EPS CAGR (%) 2003-06e
	cap	2004e	2005e	2006e	2004e	2005e	2006e	2004e	2005e	2006e	2004e	2005e	2006e	
Masterflex AG	130	19.1	16.2	14.7	9.8	8.2	7.3	12.2	10.2	9.0	22.0%	24.1%	24.3%	25.8%
Uponor	1,036	14.8	12.8	12.4	7.2	6.4	6.1	11.3	9.7	9.0	15.8%	17.1%	16.4%	81.5%
Geberit	2,320	15.2	12.8	11.4	8.9	8.0	7.2	13.1	10.4	9.3	26.8%	27.6%	25.9%	23.6%
Weighted average		15.9	12.9	12.0	8.4	7.6	6.9	12.6	10.2	9.2	22.5%	24.4%	22.6%	41.1%
Petzetakis Group	53	14.2	7.0	6.0	7.2	6.0	5.1	12.6	9.8	7.9	5.4%	9.7%	10.3%	51.7%
Premium/(discount)		*-10.3%*	*-45.3%*	*-50.3%*	*-14.7%*	*-20.5%*	*-25.7%*	*-0.2%*	*-4.0%*	*-14.5%*				

Source: JCF, HSBC Pantelakis Securities

Financials

Following two years of losses, Petzetakis reaped the fruits of its cost-cutting programme and restored profitability in 2003. Having concluded the main restructuring phase in the parent company, Petzetakis Group is now in the process of streamlining its overseas operations, with the focus mainly on EuroHose and Imperial PlasTech.

We expect group net sales to rise 9.7% y-o-y this year to EUR202m, benefiting from hefty export volumes (mainly from Greece). In 2005, revenues are forecast at EUR220m (up 8.9%), helped by the continued recovery of parent company sales. Volume sales at the parent company are expected to reach 53,900 tonnes by end-2006 from 36,000 in 2003. In our forecasts, we prefer to consolidate Imperial PlasTech through the equity method rather than fully, to account for its blurred financials (no matter which method is applied, the effect on group earnings remains the same).

Group sales breakdown

EURm	2003	2004e	y-o-y	2005e	y-o-y	2006e	y-o-y	2007e	y-o-y
Parent company	57.3	68.7	19.8%	76.1	10.9%	83.0	9.0%	89.7	8.1%
% of total	28.8%	30.9%		31.5%		31.8%		32.2%	
Petzetakis Northern Greece	20.0	21.6	8.0%	23.4	8.0%	24.5	5.0%	25.5	4.0%
% of total	10.1%	9.7%		9.7%		9.4%		9.1%	
EuroHose	37.8	39.6	4.9%	42.0	6.0%	44.5	5.9%	46.8	5.2%
% of total	19.0%	17.8%		17.4%		17.1%		16.8%	
Africa	83.7	92.2	10.1%	100.4	8.9%	108.6	8.2%	116.9	7.7%
% of total	42.1%	41.5%		41.5%		41.7%		41.9%	
Group (gross)	198.8	222.1	11.7%	241.9	8.9%	260.6	7.7%	279.0	7.0%
(Intragroup)	(14.7)	(20.0)		(21.8)		(23.5)		(25.1)	
Group (net)	184.2	202.1	9.7%	220.1	8.9%	237.1	7.7%	253.9	7.0%
Imperial PlasTech	11.7	13.9	18.8%	14.7	6.0%	15.3	4.0%	15.9	4.0%

Source: Company, HSBC Pantelakis Securities

Small erosion of gross and EBITDA margins...

The rally in raw material prices (up c28% y-t-d), triggered at the beginning of this year, is expected to shave some 150bp off the group's gross margin, as selling prices (agreed earlier in the year) were based on lower raw material prices. It is worth noting, however, that Petzetakis in Greece deliberately chose not to protect its gross margin in early 2004 in a bid to regain market share, but price hikes (c15%) imposed later in the year (May, August, October) are expected to contain the loss. Assuming that polymer selling prices ease from current high levels and the effect from group restructuring fades out, we forecast a small gross margin erosion over the coming years, reaching 27.8% in 2006 from 29.8% last year.

We expect operating expenses (SG&A) to gradually ease to 17.9% of sales in 2006 from 19.5% in 2003, thus containing the EBITDA margin erosion to 10bp from 2003 to 2006 (fading to 11.1% in 2006 from 11.2% last year).

...to be offset by lower financials

Limited capex requirements at a group level are expected to prevent depreciation charges from rising, thus supporting operating profit margins. In addition, the debt restructuring (see below) is expected to lower financial expenses, boosting the bottom line. That said, we expect group EBT to rise 24.5% y-o-y this year to EUR5.5m, surge 83.6% y-o-y in 2005 to EUR10.1m and increase by 21.3% y-o-y to EUR12.2m in 2006.

Financials

Tax holiday at parent company further boosts group earnings

Group EPS is expected to rise 46.6% this year, double next year and climb 17.8% in 2006. Note that group after tax earnings are further flattered by the tax holiday (until 2007) of the parent company, due to losses carried forward. Thus, the effective tax rate for the group is forecast at 22-25%. The parent company will resume paying dividends in 2008.

Capex requirements limited to EUR3.5m pa

Capex requirements for the group are limited, with Greek operations having over-invested in the past (parent depreciation charges represent c60% of group total). On average, cEUR3.5m pa is earmarked for investments, mainly linked to automation and cost saving plans, with 80% of this amount directed to operations in Africa.

We have adjusted our forecast end-2004 book value to account for IAS

We have adjusted our forecast end-2004 book value to align with IAS (Greek companies will restate their 2004 equity figures when they will report their FY 2005 accounts under IAS). Specifically, book value has been adjusted for write-downs in inventory (EUR4m), trade debtors (EUR2m), securities (EUR10.5m), and participations (EUR22.0m). Regarding the latter, Petzetakis decided to take a low-risk approach in its investment in Imperial PlasTech with the opportunity of IAS. As such, the investment in Imperial PlasTech, which has a book value of EUR22m and a market value of cEUR1.6m, will be fully written off. At the same time, the adjusted book value will be positive affected by a EUR45m revaluation of fixed assets in South Africa, Spain and Portugal. Thus, the net effect of the adjustments is positive and estimated at EUR6.5m, despite the Imperial PlasTech write-off. Note also that despite the asset revaluation, depreciation charges will not be materially affected as depreciation rates under IAS will significantly drop from present levels (Greek GAAP).

Group moves on with debt restructuring by issuing a four-year EUR60m bond loan

Strong operating cash flow, small capex requirements and debt restructuring will allow the group to start paying back its debt pile and reduce financing costs. By December 2004, Petzetakis will conclude a four-year EUR60m bond loan facility that refinances existing syndicated loans. The bond issue pays six-month Euribor + an average spread of 185bp (the spread is higher in the early loan period). Semi-annual payment is EUR5.0m, with the first payment due in December 2004. At the end of 2006, net debt/equity, net debt/EBITDA and interest cover ratios are forecast at 95%, 3.1x and 3.5x, respectively, from 167%, 5.0x and 1.5x at end-2003. Note that our net debt figure is adjusted for off-balance sheet leasing agreements of a present value of EUR6.0m. Financial covenants at group level call for net debt of EUR145m this year and EUR119m in 2006 (vs our forecast of EUR110m and EUR82m, respectively) and gross debt/EBITDA ratio of 6.3x this year and 4.1x in 2006 (vs our forecast of 4.9x and 3.2x, respectively).

Competitive position

Industry

Average score 3.0
Scoring range 1-5 (high score is good)

Power of suppliers **3**
Medium and stable
Petzetakis, thanks to its dominant position in many markets, has established long-term relations with its suppliers. In Greece, Petzetakis accounts for 40% of Hellenic Petroleum petrochemical sales. Note, however, that large global groups (Dow, Solvay) are among its suppliers, which undoubtedly retain their bargaining power.

New entrants **3**
Medium and stable
In the commodity end of the market, Petzetakis is vulnerable to new players, since small-diameter pipes are easy to manufacture. In the non-commodity end of the market, Petzetakis is less threatened, as the production of large-diameter pipes requires special equipment and expertise.

Rivalry **3**
High and stable
In the commodity end of the market, rivalry is high. In the non-commodity end of the market, competition is less intense. The complexity of the production process shields Petzetakis against competitors. In large-diameter pipes, competition comes from abroad.

Substitute products **3**
High and stable
PVC and PE pipes compete with concrete (41.9% share*), steel (35.7%), cast iron (6.8%) and copper (2.0%) pipes. However, demand for plastic pipes grows faster, due to their versatility, lightweight, safety, durability and cost efficiency.
*Note: * market shares globally at end-2002*

Power of customers **3**
Medium and stable
In the commodity end of the market, where competition is higher, customers can exert a pressure on prices. In contrast, in the non-commodity end of the market (50% of Petzetakis sales), the company is more immune thanks to its competitiveness.

Company

Average score 3.0
Scoring range 1-5 (high score is good)

Strengths
- Wide product mix
- Low level of customer concentration
- Considerable geographical diversification
- Dominant position in many market segments

Weaknesses
- Exposed to raw material price fluctuations
- Translation risk from operations in the US and South Africa
- Inherent exposure to global general economic conditions

3.0

Future opportunities for investment
- Clinch new strategic partnerships to enhance global reach (eg Goodyear deal)
- Further increase export activity from South Africa
- Become a significant player in North America through both organic growth and acquisitions

Risks to performance
- Turnaround of North American operations fails
- Global demand for plastic pipes falls below expectations
- Sharp devaluation of South African currency
- Cost of raw materials moves to unmapped territory

3.0

The upper score represents an assessment of the balance of strengths and weaknesses. Similarly the bottom number scores the balance of opportunities and risks.

Assumptions & value drivers

Major assumptions

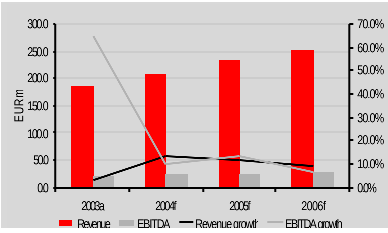
- Raw material prices do not climb to record highs and ease from already high levels
- Canadian Imperial PlasTech is consolidated through the equity method
- The South African rand does not sharply devaluate against the euro

Source: HSBC Pantelakis Securities SA

Growth

- Group net sales are expected to grow by a CAGR of 8.8% in the 2003-06 period
- Infrastructure development and the penetration of market segments where the group has a minor presence are to drive growth both in Greece and South Africa
- The large growth potential in the US market is to be fully exploited by the revival of Imperial PlasTech as well as possible acquisitions

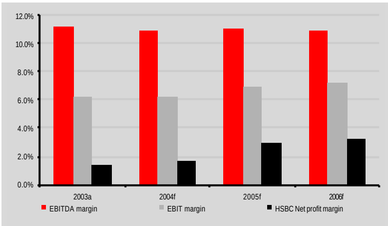
Growth



Margins

- Gross margin is forecast to ease by 200bp from 2003 to 2006 to 27.8%, as the positive effects from restructuring are expected to fade out
- However, cost containment is expected to feed through the EBITDA line and contain EBITDA margin erosion (expected at 11.1% in 2006 from 11.2% in 2003)
- Net profit margin benefits from zero taxation at the parent company

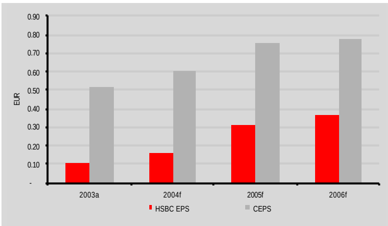
Margins



EPS, CEPS, DPS

- EPS is expected to grow to EUR0.37 by end-2006 from EUR0.11 in 2003
- Gross cash flow steadily improves
- Petzetakis will resume dividend payments in 2008, when the tax holiday (due to accumulated losses) of the parent company ends

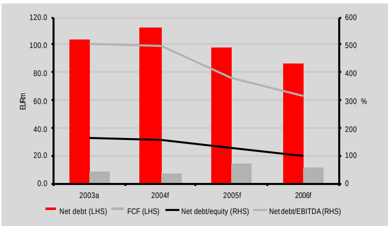
EPS, CEPS, DPS



Debt

- FCF steadily improves on limited capex requirements
- Net debt is expected to have fallen 25% by end-2006 (to EUR82m) from end-2004 levels
- Both net debt/equity and net debt/EBITDA ratios are expected to improve to 95% and 3.1x by end-2006 from 167% and 5.0x in 2003

Debt



Valuation

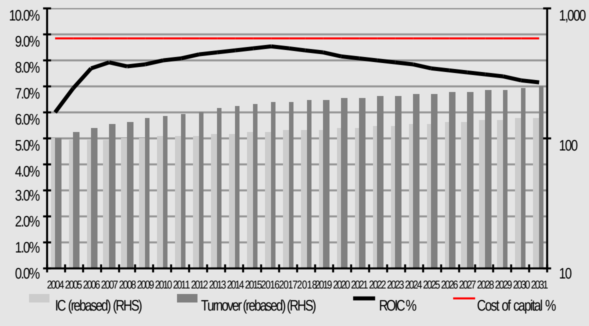
Discounted economic profit

PV of economic profit	(23.9)
PV of tax shield	29.0
Opening invested capital	167.8
Appraised value of the enterprise	172.9
Value of non-core assets	1.5
Value of debt	(103.0)
Value of minorities	(3.3)
Appraised value of the equity	68.0
Number of shares	22.1
Appraised share price	3.08
Current share price	2.22
Upside	38.6%

Discounted cash flow

PV of operating free cash flows	143.8
PV of tax shield	29.0
Appraised value of the enterprise	172.9
Value of non-core assets	1.5
Value of debt	(103.0)
Value of minorities	(3.3)
Appraised value of the equity	68.0
Number of shares	22.1
Appraised share price	3.08
Current share price	2.22
Upside	38.6%

DCF assumptions



Model drivers

	2004	2005	2006	fading to	2031
Asset turn	1.20	1.22	1.35	fading to	2.00
Pre-tax margin	6.4%	6.9%	7.3%	fading to	5.0%
Tax effect	22.0%	22.0%	25.0%	fading to	28.0%
ROIC %	6.0%	6.6%	7.3%	fading to	7.2%
Cost of capital %	8.90%	8.90%	8.90%	fading to	8.90%
Turnover growth	13.4%	8.9%	7.7%	fading to	1.9%
IC growth	7.3%	-2.1%	-2.0%	fading to	2.0%
ROIC – cost of capital	-2.9%	-2.3%	-1.6%	fading to	-1.7%

Sensitivity table – cost of capital vs fade period

	10	15	20
8.00%	3.85	3.95	4.03
8.50%	3.35	3.44	3.51
8.90%	2.99	**3.08**	3.15
9.50%	2.52	2.59	2.65
10.00%	2.17	2.24	2.30

Source: HSBC Pantelakis Securities SA

Peer comparison (as of 10 November 2004)

		Enterprise measures					Equity measures			
		EV/ Sales	EV/ EBITDA	EV/ EBIT	EV/ IC	HSBC REP	PE	ROE	Price to Book	PCE
Masterflex	12/2003a	1.3	8.3	11.1	n/a	n/a	29.2	15.0%	4.4	19.1
MZXG.DE	12/2004e	1.7	9.8	12.2	n/a	n/a	19.1	22.0%	4.2	12.0
	12/2005e	1.5	8.1	10.1	n/a	n/a	16.1	24.1%	3.9	10.2
	12/2006e	1.3	7.3	9.0	n/a	n/a	14.7	24.3%	3.6	9.4
Uponor	12/2003a	1.0	8.5	28.4	n/a	n/a	76.7	2.9%	2.2	9.8
UNR1V.HE	12/2004e	1.1	7.4	11.7	n/a	n/a	15.4	15.8%	2.4	9.8
	12/2005e	1.0	6.7	10.1	n/a	n/a	13.3	17.1%	3.5	9.3
	12/2006e	0.9	6.3	9.3	n/a	n/a	12.8	16.4%	2.9	9.1
Geberit	12/2003a	2.2	8.7	12.6	n/a	n/a	21.4	22.8%	4.9	12.8
GEBN.S	12/2004e	2.2	8.8	13.1	n/a	n/a	15.9	25.6%	4.1	9.3
	12/2005e	2.0	7.9	10.3	n/a	n/a	12.5	27.8%	3.5	8.8
	12/2006e	1.8	7.2	9.2	n/a	n/a	11.5	25.3%	2.9	8.4

Summary financials

Current price (EUR)	**2.22**	**Target price (EUR)**	**3.08**	**Market cap (EURm)**	**53.3**	**Bloomberg code**	**PETZK GA**
Recommendation				**Enterprise value (EURm)**	**163.7**	**Reuter RIC**	**PETr.AT**

Year to Dec 31	**2003a**	**2004f**	**2005f**	**2006f**
Per share data (EUR)				
Reported EPS	0.11	0.16	0.32	0.37
HSBC EPS	0.11	0.16	0.32	0.37
CEPS	0.51	0.60	0.75	0.79
DPS	0.00	0.00	0.00	0.00
NAV	2.59	3.10	3.41	3.78
P&L summary (EURm)				
Revenue	184.2	202.1	220.1	237.1
EBITDA	20.6	22.7	24.8	26.4
EBIT	11.5	13.0	15.2	17.2
Net interest	-8.2	-4.9	-5.1	-5.0
PBT	4.4	5.5	10.1	12.2
HSBC PBT	4.4	5.5	10.1	12.2
Taxation	-1.3	-1.2	-2.2	-3.1
Reported net profit	2.4	3.5	7.0	8.2
HSBC net profit	2.4	3.5	7.0	8.2
NOPLAT	10.1	11.8	13.0	14.2
Cash flow summary (EURm)				
Op free cash flow	8.4	2.7	14.4	12.9
HSBC cash flow	8.4	9.2	14.4	12.9
Capital expenditure	-14.9	-3.2	-3.2	-3.7
Cash earnings	8.4	13.2	16.6	17.4
Change in net debt	-7.6	7.3	-14.8	-13.3
Balance sheet summary (EURm)				
Intangible fixed assets	5.5	5.6	5.8	6.0
Tangible fixed assets	75.6	114.1	107.6	102.1
Cash	3.1	4.3	5.7	6.6
Current assets	106.2	97.5	106.1	113.5
Operating liabilities	39.3	45.0	53.1	58.8
Gross debt	118.0	110.0	97.0	85.0
Net debt	103.0	110.3	95.5	82.2
Shareholders funds	58.5	68.4	75.4	83.6
Invested capital	169.8	167.8	180.0	176.2

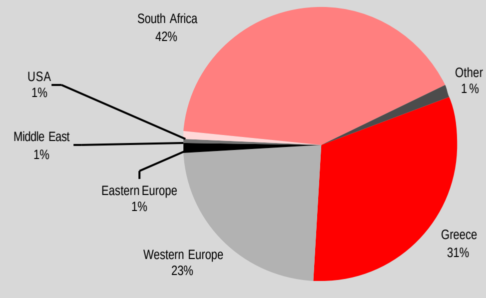
Year to 31 Dec	**2003a**	**2004f**	**2005f**	**2006f**
Ratios (%)				
Revenue/IC (x)	1.1	1.2	1.2	1.3
NOPLAT margin	5.5	5.8	5.9	6.0
ROIC	6.0	7.0	7.2	8.0
ROE	4.6	5.4	9.7	10.3
ROA	1.3	1.8	3.3	3.8
ROCE	1.3	1.9	3.8	4.6
ROIC/Cost of capital	0.7	0.8	0.8	0.9
Cost of capital	8.9	8.9	8.9	8.9
EBITDA margin	11.2	11.3	11.3	11.1
EBIT margin	6.2	6.4	6.9	7.3
PAT margin	1.3	1.7	3.2	3.5
HSBC net profit margin	1.3	1.7	3.2	3.5
Net debt/equity	167	154	121	95
Net debt/EBITDA	500	485	385	312
Growth (%)				
Revenue	3.4	9.7	8.9	7.7
EBITDA	65.1	10.4	9.0	6.4
EBIT	812.6	13.4	16.8	13.3
PBT	n/m	24.5	83.6	21.3
HSBC net profit	n/m	43.7	102.3	17.8
HSBC NOPLAT	706.2	16.4	10.0	9.2
HSBC EPS	n/m	46.6	102.3	17.8
Valuation (x)				
PE	20.9	14.2	7.0	6.0
PCE	4.3	3.7	3.0	2.8
Yield (%)	0.0	0.0	0.0	0.0
EV/Revenue	0.8	0.8	0.7	0.6
EV/EBITDA	7.6	7.2	6.0	5.1
EV/EBIT	13.6	12.6	9.8	7.9
EV/IC	0.9	1.0	0.8	0.8
ROIC/Cost of capital	0.7	0.8	0.8	0.9
HSBC REP	1.4	1.2	1.0	0.9

Business description

Petzetakis Group is one of the world's largest manufacturers of plastic pipes and hoses, with operations in Greece, Western Europe, South Africa and North America. The group operates 11 production facilities and a wide distribution network, securing leading market shares in many of the regions where it is present. Petzetakis offers products for applications in water supply, sewage/drainage, telecoms, oil & gas, agriculture, home building, industry and mining. The group underwent an across-the-board restructuring programme and returned to profitability in 2003, after two years of heavy losses. However, operations in North America still suffer.

Shareholding structure: Petzetakis family (36%), Vardinoyiannis (9.3%), treasury stock (3%), free float (51.7%)

Group sales breakdown 2003



Important disclosures

Valuation methodology

HSBC relies on comparing market prices with fundamental value to drive recommendations and target prices. Relative multiples and discounted cash/economic profit are the main methods employed. Analysts will adapt these techniques to meet the particular circumstances of the stocks and sectors they follow.

Rating definitions

	Sector (vs market)		
Stock (vs sector)	Overweight	Neutral	Underweight
Buy (outperform >15%)	Key Buy	Buy	Add
Add (outperform <15%)	Buy	Add	Hold
Hold (sector neutral)	Add	Hold	Reduce
Reduce (underperform <15%)	Hold	Reduce	Sell
Sell (underperform >15%)	Reduce	Sell	Key Sell

For companies covered on a sector basis, we apply a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call is the responsibility of the strategy team set in co-operation with the analysts. For other companies, we show a recommendation relative to the market. The performance horizon is 6-12 months. The target price is the level the stock should currently trade at if the market accepted the analysts' view of the stock and, therefore, avoids the need to take a view on the market or sector.

Rating distribution

As of 11 November 2004, the distribution of all recommendations published is as follows:

Buy (including Add):	66%	(28% of these provided with Investment Banking Services)
Hold:	0%	(0% of these provided with Investment Banking Services)
Sell (including Reduce):	32%	(26% of these provided with Investment Banking Services)
No rating:	2%	(55% of these provided with Investment Banking Services)

Share price and rating changes

Petzetakis share price performance EUR vs HSBC rating history

Source: HSBC Pantelakis Securities

Recommendation & price target history

From	To	Date
Initiate coverage	Add	11-November-2004

Target price	Value	Date
Price 1	3.08	11-November-2004
Price 2		
Price 3		
Price 4		
Price 5		

Source: HSBC Pantelakis Securities

Issuer & analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Disclosure
Masterflex	MZXG.F	28.55	5

Source: HSBC

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