Italy

Parmalat

2/Outperform

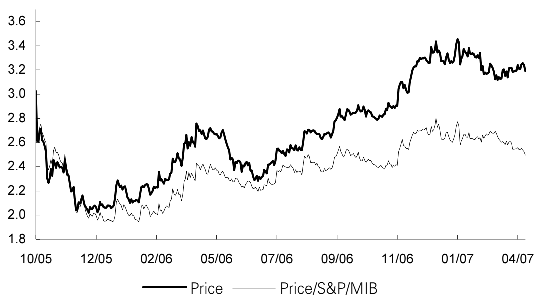
Branded Food

19 April 2007 – Initiating coverage

Closing Price (18/04/07)	**EUR3.19**
Target price	**+16.0% EUR3.7**
Market capitalisation	**EUR5 270m**
S&P/MIB	**43 286**

To 31/12 (EUR) - IFRS	2006	2007E	2008E	2009E
Sales (m)	3 881.0	4 023.0	4 189.0	4 349.0
Net att. profit, rest. (m)	89.8	165.1	201.0	216.6
Free Cash Flow (m)	(24.1)	277.8	199.7	228.6
EBITDA margin (%)	9.0	9.9	10.7	11.0
Clean EPS	0.05	0.10	0.12	0.13
Reported EPS	0.12	0.17	0.12	0.13
P/E (x)	60.7	32.7	27.0	25.1
Attrib. FCF yield (%)	NS	5.2	3.7	4.2
EV/EBITDA (x)	0.4	13.5	11.9	11.1
EV/EBIT (x)	0.5	18.7	16.3	15.2
ROCE (%)	9.6	10.7	12.0	12.6
ROE (%)	10.0	13.0	8.4	9.2
P/BV (x)	2.7	2.4	2.4	2.3
Net debt/EBITDA (x)	0.5	(0.0)	(0.2)	(0.3)
Net dividend	0.03	0.05	0.07	0.08
Yield (%)	0.8	1.4	2.2	2.4

Next event : Q1-07 results due on 11 May.



52-week range	EUR3.04-EUR3.51
Free Float	EUR5 302m
No. of shares, adjusted	1 648m
Daily volume	EUR 24.95m
Reuters/Bloomberg	PLT.MI/PLT IM

	1 month	3 months	12 months
Absolute perf.	2.4%	-3.4%	21.2%
Relative perf.	-5.7%	-6.9%	5.0%

Shareholders: Free Float 100.0%

Please see important disclosures at the end of this document

Delicious and nutritious

- **We resume our coverage of Parmalat with a target price of EUR3.70**, based on our EUR2.34 core business valuation plus the value of expected legal proceeds. In our view, Parmalat combines a positive fundamental outlook with restructuring potential and hidden value tied to the potential resolution of legal conflicts.
- In the core milk business, **Parmalat is successfully improving the product mix**, by launching new "functional milk" products in Italy. Gradually, it could export this strategy to other markets like Canada, boosting both revenues and margins: we estimate that this could generate ~5% yearly EBITDA growth, in addition to organic growth.
- **Our target price embeds EUR1.34 for potential legal proceeds**, in the middle of the estimated EUR0.96-1.72 range. We expect most of the lawsuits to be settled in 2007-08. Given its policy to return nearly half of these proceeds to shareholders, we estimate that Parmalat's dividend yield could exceed 5% (1.5% ordinary plus 4% extraordinary) over the next 2 years.
- **We expect 17% EPS growth in 2007-09**, 4% higher revenues and 2% margin growth to 11%. Given the strong momentum and healthy financial structure, the current discount (on adj. multiples) of 13% on sector P/E and of 30% on EV/EBITDA appears unjustified.

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CHEUVREUX

CONTENTS

Investment recommendation

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Parmalat

Company profile

Parmalat is **one of the leading operators in the global dairy industry**. The current legal entity was set up after it declared bankruptcy in 2003, with an industrial structure very similar to the previous one. In 2006, it reported **EUR3.85bn of net revenues, EUR351m of EBITDA, with a net debt of EUR170m**.

Parmalat holds a **leading position in the milk market** (where it ranks 3rd at the global level, after Nestle and Dean Foods, with 3-3.5% market share) and it is also **active in the fresh product** (9th with 1.4% market share) and **fruit juice** segments. Its **key markets are Canada and Italy**, which account for 36% and 25% of sales respectively.

Parmalat is still involved in numerous lawsuits, tied to the bankruptcy of 2003. Nearly **EUR7bn worth of outstanding claw-back suits are still pending**; it has sued numerous banks and advisors for several billion Euro in damages; and it is currently issuing new shares to creditors.

Parmalat is now a **public company**. The new shareholders were all key creditors of the company before the bankruptcy in 2003 (Capitalia still holds 5.3%). Therefore, we consider the free float to be 100%.

Valuation

We valued Parmalat by running a DCF of the core business, then adding this value to our estimate of the legal proceeds. We then crossed-checked our valuation by comparing Parmalat's core business multiples with those of key peers. Factoring in a **EUR2.34 value for the core business, EUR1.34 for the legal proceeds and EUR0.04 from warrants, we derived a fair value of EUR3.72 ,with a target price of EUR3.7**. In the worst case scenario for legal proceeds, we derive a fair value of EUR3.34 (vs. EUR4.1 in the best case)

DCF. With 6.4% WACC and no leverage, we reached a EUR4.5bn EV for Parmalat's core business activities, which becomes EUR4.2bn (EUR2.34 per share), after the net debt and minority valuations are stripped out. Our terminal value corresponds to 9.5x EV/EBITDA (or an embedded terminal growth rate of 1.4%), which is below the industry average (>10x), but slightly above Parmalat's 8x, based on adjusted 2007 figures.

Multiples. After subtracting the estimated value of legal proceeds of EUR1.34 per share, we adjusted Parmalat's multiples. The stock trades at a P/E 2007 of 19x (vs. 21x average) and P/E 2008 of 16x (average 18.5x), despite Parmalat's extremely healthy financial structure (debt-free by end-2007). In terms of EV/EBITDA, we arrived at a discount of >30% (8x for 2007 vs. 12x average).

Investment case

We resume our coverage of Parmalat with a target price of EUR3.70. In our view:

- Parmalat combines a **healthy fundamental outlook** with **restructuring potential** and **hidden value** tied to the **potential resolution of lawsuits**, which still weigh heavily on the stock.
- In the core milk business, Parmalat is **successfully improving the mix**, by launching new "functional milk" products in Italy. Gradually, it could export this strategy to markets like Canada, lifting revenues and margins: we estimate that this could generate ~5% yearly EBITDA growth, on top of the organic growth.
- **Our target price embeds EUR1.34 for legal proceeds**, in the middle of the estimated EUR0.96-1.72 range. We expect most of the lawsuits to be settled in 2007-08. Given its policy to return nearly half of these proceeds to shareholders, we believe the extraordinary yield could total 5% for 2-3 years, on top of the ordinary yield of 1.5-2%.
- **We expect 17% EPS growth in 2007-09,** 4% higher revenues and 2% margin growth to 11%. Given the strong momentum and healthy financial structure, the current discount (on adj. multiples) of 13% on sector P/E and of 30% on EV/EBITDA appears unjustified.

SWOT analysis

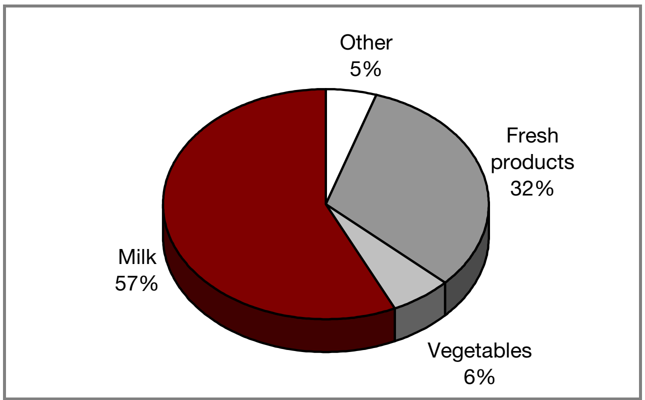
Strengths
1 - Global player in the milk market
2 - Strong competitive position in Canada and Italy
3 - Good cash generation and low debt

Weaknesses
1 - Modest scale vs. peers in the fresh products
2 - Marginal competitive position in minor markets
3 - Loss-making in the Spain
4 - Low organic growth in the milk market

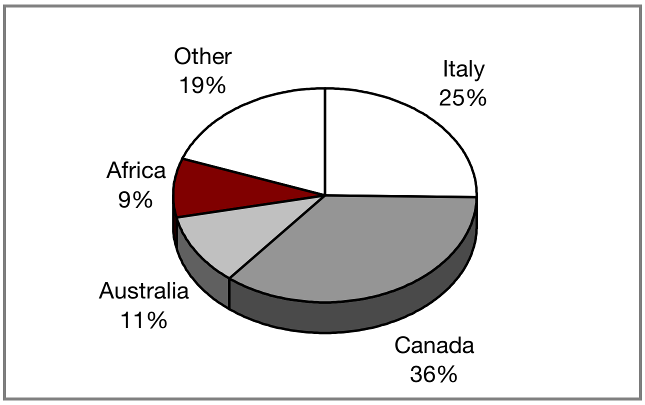
Opportunities
1 - Acquisitions in the fresh products market
2 - Upgrade of product mix in the milk segment
3 - Restructuring in Spain
4 - Cash inflow from lawsuits

Threats
1 - Competitive pressure in the Italian milk market
2 - Lack of critical size in minor markets
3 - Regulation might limit diversification in the milk business

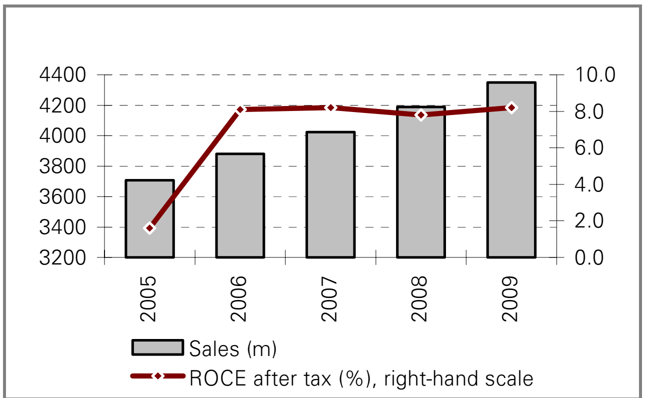
Sales breakdown by product (2006A)



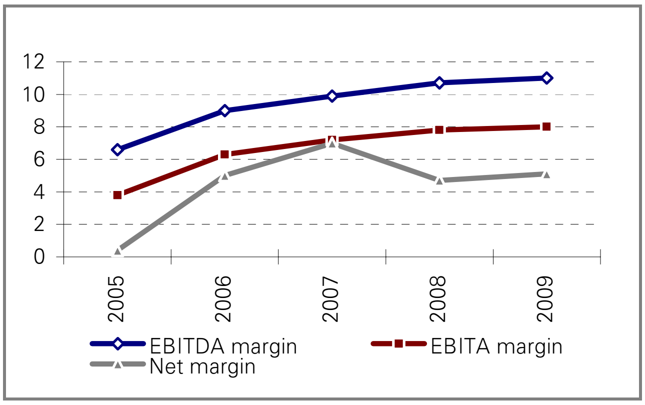
Sales breakdown by market (2006A)



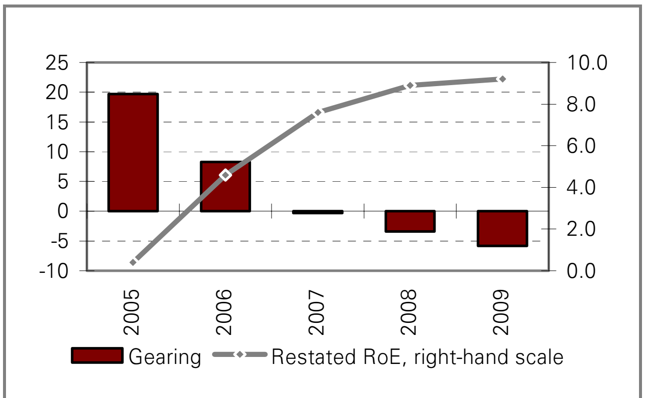
Sales and ROCE



Margin / Trends (%)



Gearing and Rest. ROE



DCF details

(EUR m)	Total	Per share
FCF 2007-2011	795	0.44
Terminal value @9.5x EV/EBITDA	3 668	2.05
Total	**4 463**	**2.49**
Debt 2006	(170)	(0.09)
Minorities	(107)	(0.06)
Core business	**4 186**	**2.34**
Value of legal proceeds	2 262	1.34
Inflow from warrants	82	0.05
Total	**6 670**	**3.72**

Parmalat: Peer comparison

19-Apr-07		Mkt.		Target	Ups.	Performance		P/E		Yield		EV/EBITDA		EV/EBITA	
(EUR m, EUR, %)	Price	Cap	Rat.	Price		1mo	3mos	07E	08E	07E	08E	07E	08E	07E	08E
B. CALLEBAUT	968	3 163	3	530	*-45%*	*5.9*	*48.4*	24.4	19.9	1.2	1.3	12.7	11.0	16.9	14.1
BONDUELLE	87	695	3	92	*6%*	*-3.7*	*-4.5*	16.7	12.8	1.5	2.0	8.5	6.6	15.2	11.2
CSM	28.4	1 874	2	33.5	*18%*	*10.2*	*1.5*	15.8	13.3	2.8	3.2	10.1	8.8	14.0	11.8
DANONE	120	31 377	1	140	*16%*	*2.1*	*5.6*	21.4	18.9	1.9	2.2	13.4	12.3	16.7	15.3
EBRO PULEVA	18.0	2 770	3	16.5	*-8%*	*3.3*	*-3.7*	21.9	21.0	2.0	2.1	11.2	10.9	15.8	15.4
LINDT & S.	3 420	5 003	2	3 300	*-4%*	*14.7*	*12.4*	31.4	27.3	0.9	1.0	17.6	15.4	23.3	20.1
NESTLE	483	122bn	1	530	*10%*	*4.0*	*9.8*	18.2	16.3	2.5	2.8	10.3	9.2	12.9	11.4
W. Average						**4.0**	**9.4**	**19.3**	**17.2**	**2.3**	**2.6**	**11.1**	**10.0**	**14.0**	**12.5**
Median					**6%**	**4.0**	**5.6**	**21.4**	**18.9**	**1.9**	**2.1**	**11.2**	**10.9**	**15.8**	**14.1**
PARMALAT	**3.2**	**5 302**	**2**	**3.7**	***16%***	***2.4***	***-3.4***	**32.0**	**26.3**	**1.5**	**2.2**	**13.5**	**11.9**	**18.6**	**15.8**
PLT (adj)								**19.1**	**15.8**	**2.4**	**3.6**	**7.8**	**6.8**	**8.2**	**9.8**

INVESTMENT RECOMMENDATION

We resume our coverage of Parmalat with a 2/Outperform rating and target price of EUR3.70, based on a fair value of EUR2.34 for the core business and EUR1.34 for the legal damages that Parmalat is expected to receive from lawsuits that are still pending. Parmalat is still restructuring its asset base and it can leverage on its healthy financial structure and leading position in key markets to pursue growth by introducing new high-margin products and boosting its market share. The stock trades at quite cheap multiples (>30% discount on EV/EBITDA vs. peers), after the valuation is adjusted to account for the expected legal proceeds. Our positive stance is backed by Parmalat's:

- **Strong competitive position in the milk business and opportunities to enrich the product mix**. Parmalat enjoys an enviable market position in the milk sector (ranked 3rd globally) and it has successfully raised the weight of high-margin functional[1] milks in its product mix in Italy. Penetration of these new products has reached 40% in the UHT milk category in Italy, boosting the EBITDA margin to 11.4% vs. the consolidated average for the milk business of 8.6%. Further results could be achieved by extending this strategy to the fresh milk segment, with the goal of bringing the weight of these new (higher margin) products to 30% in Italy. We also expect similar product launches in other core markets (particularly in Canada) and estimate that Parmalat could lift the penetration rate from 12% to 20% at the consolidated level in 3 years. If Parmalat meets these targets, **it could lift consolidated EBITDA by ~15% in 2009** (5% on a yearly basis) — equivalent to roughly half of our growth forecast.

- **>EUR2bn of excess cash available to expand in the fresh products business**. Thanks to healthy cash flow generation and the extraordinary cash-in from the lawsuits, Parmalat should be debt-free by end-2007. With a stable business and low capital intensity (maintenance capex equal to ~3% of sales), Parmalat could sustain at least 2.5x debt/EBITDA (or EUR1.2bn of additional debt in 2007). Moreover, it could receive an additional EUR0.8bn in legal reparations over the next 3 years, net of the compulsory dividend distribution (~50%). This means that Parmalat could invest ~EUR2bn to pursue external growth, without jeopardizing its financial strength.

- **Legal proceeds could be worth EUR0.96-1.72 per share** and could be a powerful catalyst for the stock in our view. We expect strong news flow, given the EUR7bn of claw-backs that should be settled in the coming months and the huge claims for damages. We estimate that the total cash inflow could range from EUR1.7bn to EUR3bn, corresponding to EUR0.96-1.72 per (diluted) Parmalat share.

- **High dividend yield, as nearly 50% of the extraordinary gains must be distributed**. We estimate that Parmalat could distribute an ordinary dividend of EUR0.05-0.08 per share (1.5-2% based on 50% consolidated payout). However, Parmalat is also committed to distributing nearly half of the legal proceeds (50% of the parent company's distributable profit): this means the additional dividend flow over the next 2-3 years could range from a cumulated EUR0.8-1.4bn or EUR0.43-0.77 per share (corresponding to an additional 5-7% yearly yield if split over 3 years).

We expect 17% EPS growth in 2006-09 (>20% for 2007), basically driven by ~4% top line growth, combined with a increase in the EBITDA margin from 9% to 11%, thanks to the improvement in the product mix at the expense of volumes. With no further extraordinary gains (beyond what has been secured to date), we believe that Parmalat could cancel its net debt by end-2007 (despite a sharp increase in capex to support top line growth) and it could deliver a 4-5% equity FCF yield based on its current market capitalisation.

We valued Parmalat's core business (EUR2.34 per share) and legal proceeds (EUR1.34) separately. To value the core business, we used a DCF with no leverage (WACC of 6.4%) and a 9.5x terminal EV/EBITDA. The legal portion of the valuation is in the middle of the range, assuming a 22-37% recovery from the claw-backs, 2-4% recovery of the claims for damages (before tax) and after deducting the expected legal costs. Finally, we cross-checked our valuation by comparing Parmalat with its peers, using adjusted multiples (after deducting the value of the legal proceeds from the stock price). We concluded that **Parmalat's core business trades at a ~13% discount on P/E and at a ~30% discount on EV/EBITDA in 2007** and becomes even cheaper in 2008, when benefits from restructuring should become more evident.

[1] Functional milks are fortified with additional ingredients (vitamins, minerals and pro-biotics etc.), which are thought to provide extra health or anti-aging benefits.

I— VALUATION APPROACH

We resume our coverage of Parmalat with a EUR3.7 target price, incorporating our EUR2.34 valuation of the core business and EUR1.34 valuation of the potential legal proceeds (the mid-point between our worst and best case scenarios). Parmalat's multiples appear to be higher than peers: however, after stripping out the value of the potential legal proceeds from the stock price, **we estimate that Parmalat's multiples present a 30% discount to peers (EV/EBITDA)**.

All our valuations are carried out assuming a fully diluted number of shares of 1.8bn, which is the result of 1.65bn outstanding shares, 82m warrants and a further 67m shares which we assume could be issued to new creditors.

Parmalat: Target price calculation

(EUR m, EUR)	Worst case	Best case	Total	Per share
Core business valuation			4 186	2.34
Legal proceeds	1 725	3 078	2 402	1.34
Inflow from warrants			82	0.04
Total			**6 670**	**3.72**

Source: Cheuvreux

EUR2.34 value for core operations

No debt and 9.5x terminal EV/EBITDA

We valued Parmalat's industrial business at EUR2.34, corresponding to an EV of EUR4.5bn and an equity value of EUR4.2bn, based on the following assumptions:

– **A cost of capital of 6.4%, which is equal to the cost of equity**. We kept the cost of equity low (beta 0.55) as Parmalat will likely be fully de-leveraged by end-2007, thanks to the cash inflow from lawsuits that Parmalat has already won (we estimate EUR140m). For this reason, we did not apply any leverage, pending more details about the company's growth strategy.

Parmalat: WACC calculation (2007-11E)

(%)	2007E	2008E	2009E	2010E	2011E
Leverage	*0%*	*0%*	*0%*	*0%*	*0%*
Unlevered beta	0.55	0.55	0.55	0.55	0.55
Levered beta	0.55	0.55	0.55	0.55	0.55
Free risk rate	*4.2%*	*4.2%*	*4.2%*	*4.2%*	*4.2%*
Market risk premium	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Ke (cost of equity)	*6.4%*	*6.4%*	*6.4%*	*6.4%*	*6.4%*
Gross cost of debt	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*
kd (net cost of debt)	*4.4%*	*4.4%*	*4.4%*	*4.4%*	*4.4%*
WACC	***6.4%***	***6.4%***	***6.4%***	***6.4%***	***6.4%***

Source: Cheuvreux

– **A terminal value of 9.5x EV/EBITDA**, which corresponds to a terminal growth rate of 1.4%. This compares with a sector average of 10.6x and a 2007 adjusted multiple of 7-8x for Parmalat.

Parmalat: DCF details (2007-11E)

(EUR m)	2007E	2008E	2009E	2010E	2011E	Term.
EBIT	378	312	348	364	381	
Tax	(94)	(103)	(122)	(127)	(133)	
Depreciation	110	122	130	138	146	
Capex	(100)	(155)	(160)	(170)	(180)	
Other	(66)	(20)	(15)	(15)	(17)	
FCF to the firm	**227**	**156**	**182**	**190**	**197**	**5 003**
Discount factor	1.06	1.13	1.20	1.28	1.36	**1.36**
DCF	**214**	**138**	**151**	**148**	**144**	**3 668**

Source: Cheuvreux

Parmalat: DCF summary

(EUR m)	Total	Per share
FCF 2007-2011	795	0.44
Terminal value @9.5x EV/EBITDA	3 668	2.05
Total	**4 463**	**2.49**
Debt 2006	(170)	(0.09)
Minorities	(107)	(0.06)
Equity value (core business)	**4 186**	**2.34**

Source: Cheuvreux

Sensitivity analysis

Our fair value displays sensitivity to the following factors:

– A 10% deterioration of the exchange rates to which Parmalat is exposed (60% of its profit is generated outside EU) has roughly a 5% impact on the fair value.

– 50% leverage (vs. the current 0% assumption) would lift the fair value from EUR2.34 to EUR2.55 per share.

– A 50bps interest rate variation would depress Parmalat's fair value by ~9%, from EUR2.34 to EUR2.15.

EUR1.34 per share from legal claims

Our valuation of the legal claims filed by Parmalat after the 2003 bankruptcy ranges from EUR0.96 to EUR1.72 per share, net of legal expenses. To calculate our target price for Parmalat, **we averaged our best and worst case scenarios, which added EUR1.34 per share to our fair value.**

Parmalat: Potential outcomes of bankruptcy lawsuits still pending

(EUR m, EUR, %)		Recovery		Total		Per share	
	Total	Worst case	Best case	Worst case	Best case	Worst case	Best case
Claw-back operations	7 000	*22%*	*37%*	1 540	2 590	0.86	1.45
Damages							
Italy	13 200	*3%*	*5%*	246	409	0.14	0.23
US	8 000	*1%*	*3%*	50	149	0.03	0.09
Legal costs				(110)	(70)	(0.06)	(0.04)
Total value				**1 725**	**3 078**	**0.96**	**1.72**

Source: Cheuvreux

Significant discount to peers on multiples

Restatement required

Parmalat's multiples are heavily affected by the potential value of legal proceeds. In order to fix a suitable multiple for the core business, we had to restate this value. We decided to adjust the multiple calculation by using the same value that we factored into our target price (EUR1.34 per share) or, in the worst case scenario, the identified value of EUR0.96 per share.

Multiple comparison

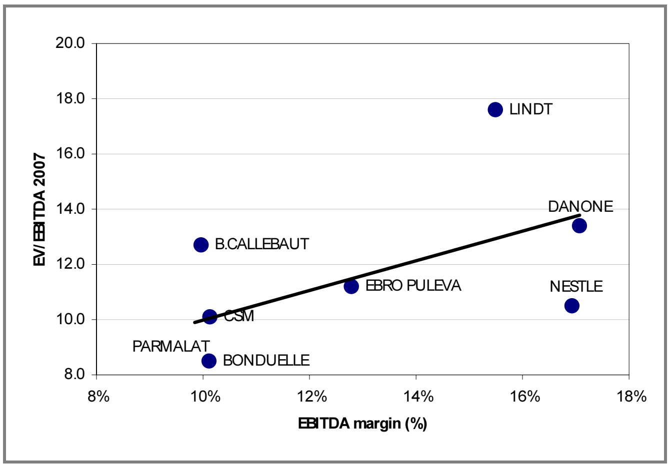
(EUR m, %)	Market value	P/E 2007E	P/E 2008E	EV/EBITDA 2007E	EV/EBITDA 2008E	EBITDA margin 2007E	EBITDA margin 2008E
PARMALAT (adjusted)	5 270	19.1	15.8	7.8	6.8	*10%*	*11%*
NESTLE	119 526	18.1	16.5	10.5	9.4	*17%*	*18%*
DANONE	31 377	21.4	18.9	13.4	12.3	*17%*	*18%*
LINDT	4 888	31.3	27.3	17.6	15.4	*16%*	*16%*
B.CALLEBAUT	3 119	24.4	19.9	12.7	11	*10%*	*11%*
BONDUELLE	695	16.7	12.8	8.5	6.6	*10%*	*11%*
CSM	1 874	15.8	13.3	10.1	8.8	*10%*	*11%*
EBRO PULEVA	2 770	21.8	21	11.2	10.9	*13%*	*13%*
Average		**21.4**	**18.5**	**12.0**	**10.6**	***13%***	***14%***

Source: Cheuvreux

Roughly in line with peers on P/E, cheaper based on EV/EBITDA

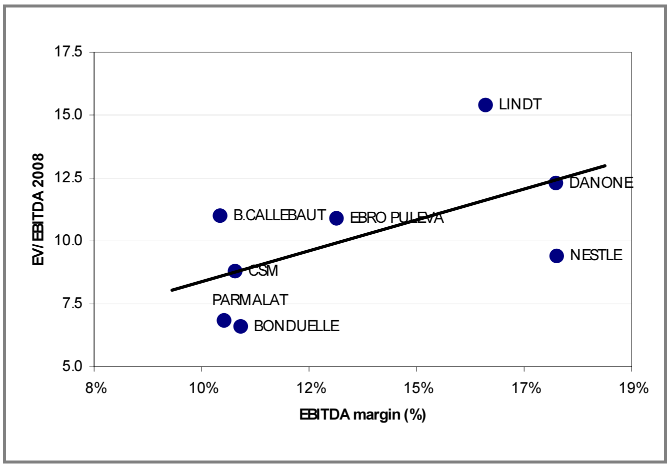
Parmalat multiples present a ~13% discount on P/E and a ~35% discount on EV/EBITDA, after factoring in the EUR1.3 adjustment to the stock price. In the worst case scenario, in which legal proceeds amount to just EUR0.96 per share, we estimate that Parmalat would trade at a 4% premium to peers on P/E and at a 20% discount on EV/EBITDA. **We consider these multiples to be quite appealing**, given the company's strong financial structure (i.e. no re-leveraging has been performed yet) and the restructuring program which is still underway. As we move from 2007 to 2008 multiples, Parmalat's discount widens by 3-4%, thanks to the additional inflow from the restructuring process.

Peers: 2007E EV/EBITDA and EBITDA margin



Source: Cheuvreux

Peers: 2008E EV/EBITDA and EBITDA margin



Source: Cheuvreux

II— BUSINESS PROFILE AND STRATEGY

Leader emerging from bankruptcy

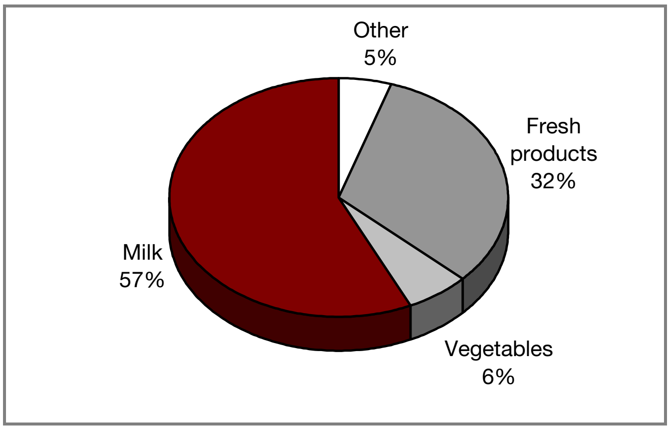
EUR3.8bn with a focus on the milk business

The new legal entity was set up after Parmalat declared bankruptcy in 2003, with a very similar organizational structure to the previous one. In 2006, net revenues reached EUR3.85bn, EBITDA EUR354m and pro-forma net debt EUR170m. Parmalat ranks 3rd in the global milk market (after Nestle and Dean Foods), with 3-3.5% market share and it is also active in the fresh product (9th with 1.4% market share) and fruit juice segments. Its key markets are Canada and Italy, which account for 36% and 25% of sales respectively. Milk is Parmalat's core business, representing 58% of consolidated sales and 54% of consolidated EBITDA.

One of the few public companies in Italy

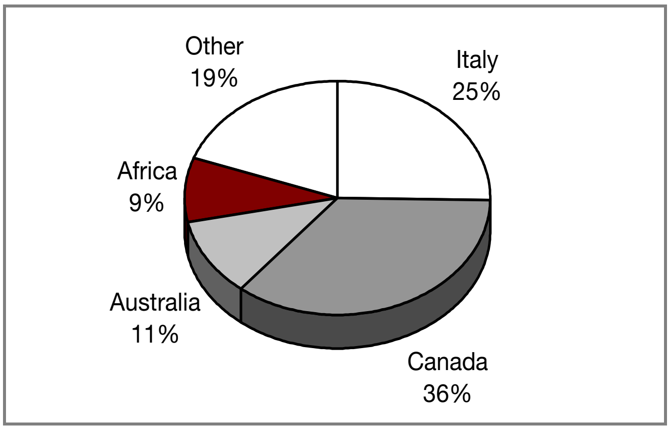
Following the bankruptcy, Parmalat is a public company, with 1.64bn outstanding shares. The company is currently being run by Mr. Bondi, who is the acting CEO. The new Parmalat started trading on 6 October 2005.

Parmalat: Gross sales breakdown by product (2006A)



Source: Cheuvreux

Parmalat: Net sales breakdown by country (2006A)



Source: Cheuvreux

Parmalat's competitive position in its key markets is outstanding. To some extent, this is due to the aggressive external growth strategy deployed in the 1990s, which was carried out at the expense of the company's financial stability.

Leading position in the milk segment…

- Milk accounted for 57% of 2006 sales and 54% of EBITDA. Parmalat is a leader in all its key markets: (1) in Italy, it is the no.1 in both fresh milk (29% market share) and UHT milk (32%); (2) in Canada, it is also the no.1 player with 21% market share; (3) in Australia, which is the third largest market for the company, Parmalat is the leader in pasteurized milk, with 21% market share. At the global level, Parmalat's estimated market share is 3.3%, meaning that it ranks 3rd worldwide.

… and some strongholds in niche products

- In its key markets, Parmalat is also the leader in cream (Italy and Canada), butter (Canada and South Africa) and cheese (South Africa), with >20% market share. In general, Parmalat's competitive position in the fresh products segment (32% of sales) is weaker: it ranks 9th worldwide, with 1.4% market share.
- The rest of the business is based in other countries and is quite fragmented. The Venezuelan business (5% of consolidated revenues) is particularly noteworthy, as it is highly profitable due to Parmalat's focus on special products. Conversely, in Spain (4.8% of consolidated revenues) Parmalat suffers from weak competitive positioning (it ranks 3rd in a highly concentrated market).

Parmalat: Competitive position in key countries

(Products)	Canada	Italy	Australia	South Africa
Milk	1st, 21% market share	UHT, 1st, 33% market share Fresh, 1st, 27%	Pasteurized, 1st, 18% market share Flavoured, 2nd, 20%	UHT, 1st, 41% market share
Related products	Cream, 1st, 26% Butter, 1st, 19% Yoghurt, 2nd, 25%	Cream, 1st, 36% Bechamel sauce, 1st, 46%		Butter, 1st, 32% Cheese, 1st, 32%
Other	Margarine, 2nd, 13%	Fruit based drinks, 2nd, 12%	Dessert, 2nd, 15%	

Source: Cheuvreux

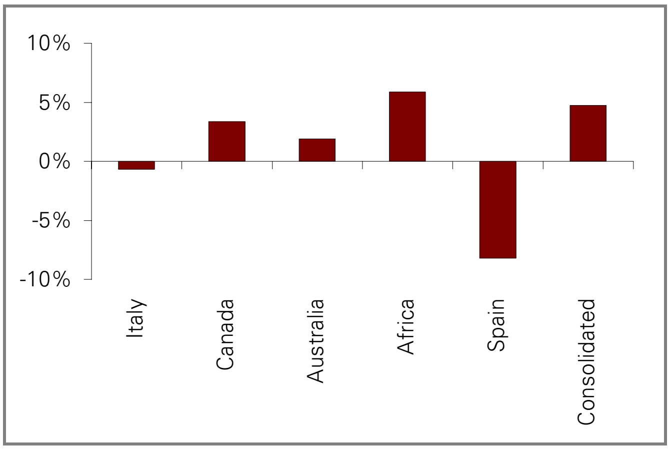
Canada: balanced exposure…

Canada is the biggest contributor to Parmalat's performance both in terms of sales and EBITDA, accounting for roughly 35% of its total business (EUR1,381m and EUR123m respectively). Its performance in the country is satisfactory: the improvement in the business mix allowed Parmalat to raise its EBITDA margin from 7.9% to 8.9% and lift the top line by 3.3% (partially achieved through a more beneficial forex rate). Its exposure in the country is well-balanced between milk (~42% of sales) and fresh products (~55% of sales are concentrated in yoghurt, desserts, butter, margarine and cheese).

…but, in the milk segment, profitability remains low

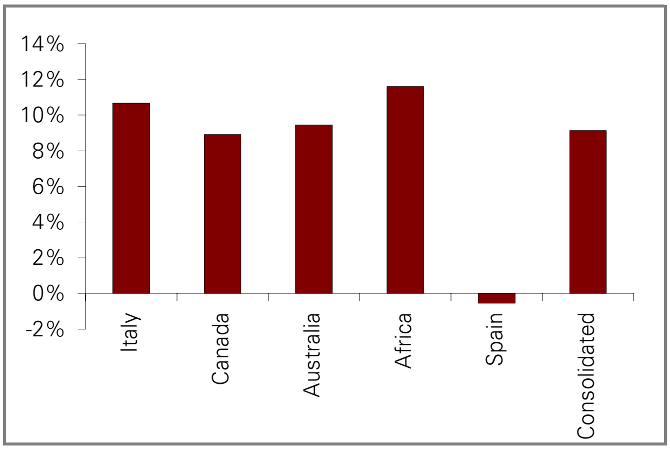
Fresh products are the key margin driver, with an average 11.7% EBITDA margin, while milk is less profitable (4.3% sales margin in 2006), partly due to Parmalat's limited exposure to functional milks (partly due to strict regulations).

Parmalat: Sales growth by country (2006A)



Source: Cheuvreux

Parmalat: EBITDA margin by country (2006A)



Source: Cheuvreux

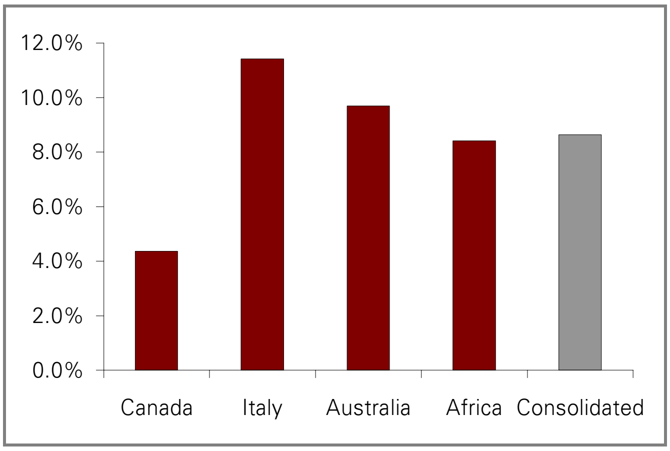
Italy: focused on milk…

Italy is now the second largest market for Parmalat, accounting for ~25% of sales (EUR971m in 2006) **and 30% of EBITDA** (EUR106m). It is the country where Parmalat has the heaviest exposure to milk, accounting for 75% of sales. Parmalat has a marginal presence in the fresh product segment (yoghurt and desserts, 13% of sales) and considerable exposure to fruit juices (9% of sales). The overall business trend was poor in 2006: revenues declined by 1%, however this was more than offset by sharp operating margin improvement (from 7.3% to 10.8% of sales).

High profitability in the Italian milk segment

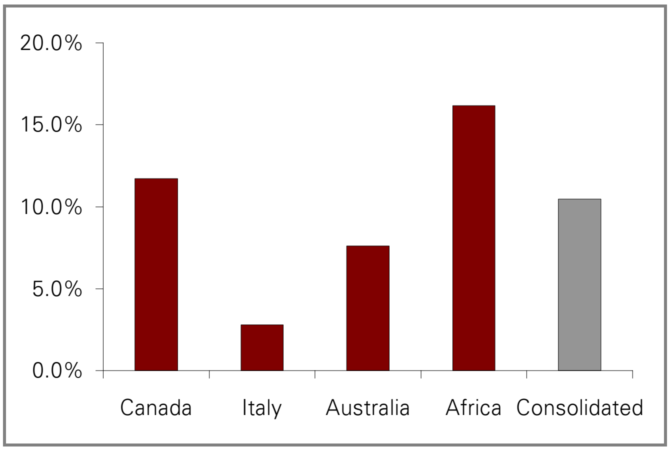
In Italy, the key profitability driver is milk, which accounted for >80% of the country's EBITDA in 2006, with an 11.4% EBITDA margin. Conversely, the EBITDA margin for fresh products was just 2.8%. The high profitability of the milk segment is partly due to Parmalat's aggressive diversification into functional milks. According to the company, in Italy 40% of its UHT milk is now functional and Parmalat is starting to introduce it in the fresh milk segment as well. All in all, it is estimated that the functional milks represented roughly 20% of Parmalat's total milk volumes in Italy in 2006, with the potential to reach 30%.

EBITDA margin for the milk business…



Source: Cheuvreux

…and of fresh products (2006A)



Source: Cheuvreux

Australia

Australia is the third largest market for Parmalat, generating roughly EUR416m sales and EUR39m EBITDA. Parmalat mainly specializes in milk (~73% of sales) and fresh products (yoghurt, desserts and butter account for 17% of sales) as it does in Italy. Its exposure to fruit juices is more limited (6% of sales). Profitability in the country is in line with the group average at 9.4%, but it deteriorated a bit in 2006 (vs. 9.7% in 2005), due to the disposal of a joint venture (Norco, which handled the distribution of Parmalat products). Looking at the margins by business, Australia appears to be the most balanced country, with a nearly a 10% margin for milk, above the consolidated average and a decent margin of 7.6% for fresh products, which however is below the consolidated level of 10.6%.

Africa

In Africa (reported as the total for the entire region), Parmalat generated EUR357m sales and EUR40m EBITDA in 2006. In this region, South Africa accounts for >90% of total sales and the company is mainly involved in milk (~47% of sales) and fresh products (yoghurt, desserts, butter and cheese account for 45% of sales), with a business structure that is very similar to Canada's. In 2006, Africa was the top performer of all of Parmalat's main markets (+10%), although the profitability level fell slightly (from 11.9% to 11.3%), due to promotional efforts. The profitability of the different business areas is also in line or better than the consolidated level: the milk margin is 8.4% and for fresh products, profitability stands at 15% —at the top end of the range for Parmalat's key markets.

Strategy: product differentiation and restructuring

2005: the year of disposals

Parmalat spent 2 years (2004 and 2005) refocusing the business in its key markets and carrying out restructuring. In 2006, it sold its interests in several countries (US, China, Germany, Uruguay) and exited from the bakery business in Italy.

For 2006-07, the top priorities are to re-launch the business by: (1) improving the business mix; (2) streamlining the brand portfolio and the holding structure.

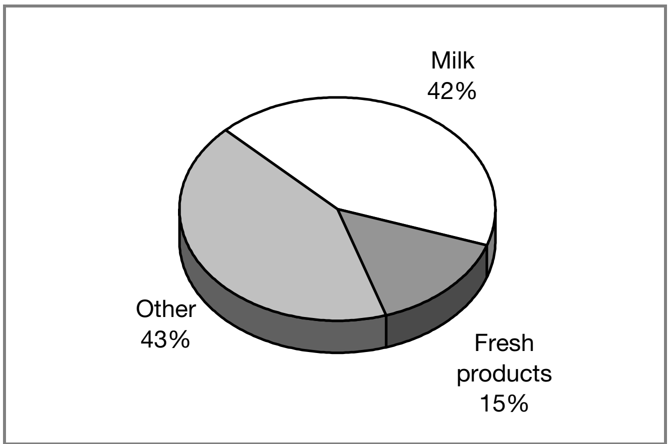
Major opportunity to enrich the business mix in the milk business

Parmalat has several attractive opportunities to improve its business mix. It can exploit rising demand for new products in the milk segment (especially functional milks) and it could also improve its positioning in the fresh products market.

Improving the business mix, by raising exposure to high value products such as functional milks

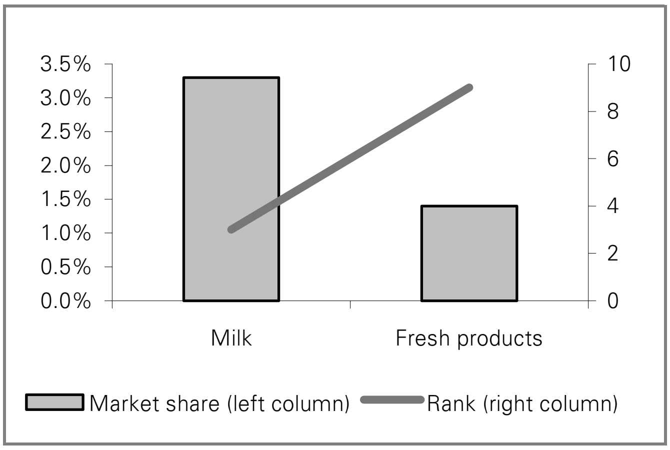
Recently, Parmalat launched some promising new high-margin milk products called "functional" milks, which feature added ingredients and are supported by a more targeted marketing approach. It now offers flavoured milks (Parmalat is no. 2 in Australia in this category), low-cal products and products that contain pro-biotics and anti-oxidant ingredients, designed to combat cellular aging. The market for functional milk and fresh products (yoghurt, cheese, cream) is expected to grow by 3-4% annually for the next few years (vs. 2% for the milk market).

Breakdown of the global dairy market



Source: Cheuvreux

Parmalat: Market share and ranking



Source: Cheuvreux

Functional milk drives margins

The impact of this shift towards functional milks is particularly evident in Italy and Australia: in Italy, with 20% penetration of segment, the EBITDA margin averages 11.4% on a EUR738m yearly business in milk. In Australia, where Parmalat is a leader in the flavoured milks segment, the company is very close to a 10% EBITDA margin for milk (out of EUR338m of sales). In Canada, with a slightly smaller business (EUR577m), but where it has nearly no penetration of the functional milk segment, the EBITDA margin is 4.4%.

Parmalat: Margins and penetration of functional milks

(EUR m, %)	Functional milks penetration	EBITDA margin	Sales
Italy	*20%*	*11.4%*	738
Australia	Leader in flavoured milk	*9.7%*	338
Canada	Not significant	*4.4%*	577
Group	***~12%***	***8.60%***	**2 193**

Source: Cheuvreux

Weight of functional milks could rise from 12% to 25%

All in all, **we estimate that at the group level, penetration of new milk products could reach ~12%,** with the largest contribution coming from Italy. According to company projections, **penetration could rise to 25% of consolidated sales in 2-3 years**, if: (1) functional milks are extended to fresh milk in the Italian market, raising penetration in the country towards the 25-30% mark; and (2) penetration of new products is increased in countries like Canada.

Canada should be one of the most appealing countries for this project

Canada could be a major opportunity for Parmalat, as it still has very limited exposure to functional milk there. We simulated the potential margin impact: if functional milk weighed for 20%, we estimated that it could yield a ~9% EBITDA margin, twice the current margin (but still below the 11.4% achieved in the Italian market, where Parmalat benefits from greater scale). Based on our simulation, we estimated that if Parmalat raised the weight of functional milk to the same level as Italy, it could boost consolidated EBITDA by 7% (calculated on 2006 figures).

Parmalat: Additional EBITDA potential in the milk market in Canada

Penetration of functional milk	EBIT margin	Additional EBIT	Impact on consolidated EBITDA
10%	*6.7%*	13	*3.7%*
15%	*7.8%*	20	*5.6%*
20%	*8.9%*	26	*7.4%*

Source: Cheuvreux

15% upside to current EBITDA from the penetration of functional milks

In general terms, **we estimate that raising the weight of functional milk from 12% to 25% of sales could boost the EBITDA margin for the entire Parmalat Group by roughly 150-200bps, implying ~15% benefit** from the improved mix in terms of the consolidated EBITDA over the next 3 years.

Our 2006-09 estimates are based on a conservative base case scenario for functional milks (20% penetration in 2009 vs. Parmalat's 25% target): we took a very cautious approach to volumes (-0.5% annually in 2007-09), but factored in a ~4% improvement in the price-mix on a yearly basis for 2007 and 4.5% thereafter. Cost-cutting should lift the margin by 50-60bps, while improvement in the revenue mix should deliver a 100-120bps benefit. All in all, we see potential for ~4% sales CAGR and ~10% EBITDA CAGR over the next 3 years.

Parmalat: Revenues and EBITDA for the milk business (2005A-09E)

(EUR m, %)	2005A	2006A	2007E	2008E	2009E	CAGR
Sales	**2 094**	**2 193**	**2 269**	**2 360**	**2 455**	***3.8%***
% Volumes		*1.2%*	*-0.5%*	*-0.5%*	*-0.5%*	
% Price-Mix		*3.5%*	*4.0%*	*4.5%*	*4.5%*	
EBITDA	**176**	**189**	**213**	**241**	**255**	***10.5%***
% Margin	*8.4%*	*8.6%*	*9.4%*	*10.2%*	*10.4%*	

Source: Cheuvreux

Fresh products: limited critical mass, particularly outside Canada

Medium term opportunity of 20% sales and EBITDA growth based solely on market share

Given the huge size of this market (USD41bn or ~19% of the total dairy market) and Parmalat's limited market share (1.4% vs. 3.9% in the milk market), we feel there is ample room to boost revenues and margins. Assuming that only half of this gap is filled in the key countries, we estimate that revenue potential could amount to roughly EUR0.8bn, representing about 18% of Parmalat's 2006 revenues, with a similar benefit on consolidated EBITDA. Moreover, Parmalat's healthy financial structure gives it a strong foundation to aggressively pursue external growth.

Working on the mix

In our estimates, we took a quite cautious approach. Parmalat's organic strategy focuses on improving the mix and reducing costs. For this reason, we maintained a very similar growth profile to that of the company at ~4%, characterised by a 2% volume decline and by a ~6% price mix effect. However, this should lead to 10-11% EBITDA growth in 2006-09, with a margin moving from 10.5% to 12.8%.

Parmalat: Revenues and EBITDA for the fresh products business (2005A-09E)

(EUR m, %)	2005A	2006A	2007E	2008E	2009E	CAGR
Sales	**1 197**	**1 243**	**1 293**	**1 351**	**1 398**	***4.0%***
% Volumes		*-4.1%*	*-3.0%*	*-2.0%*	*-1.0%*	
% Price-Mix		*8.0%*	*7.0%*	*6.5%*	*4.5%*	
EBITDA	**99**	**130**	**149**	**169**	**179**	***11.2%***
% Margin	*8.2%*	*10.5%*	*11.5%*	*12.5%*	*12.8%*	

Source: Cheuvreux

Cost-cutting could deliver additional benefits

Streamlining of the holding chain could yield EUR15-20m of cost savings

One of the most urgent tasks is to achieve synergies among the different units and then streamline the holding structure. Parmalat was structured as a holding company and no streamlining was carried out during the expensive and loss-making expansion process. As a result, the original 171 legal entities were reduced to 124 at end-2006 (plus 7 stemming from the consolidation of new assets). A further reduction is expected in 2007, when management aims to reduce the legal entities to 50. According to our estimates, ~EUR0.2-0.3m cost savings on average could be achieved per legal entity from this process, implying EUR15-20m of total cost savings on a yearly basis.

Paring down the brand portfolio

In terms of the brand strategy, Parmalat intends to keep 2 global names (Parmalat for milk and Santal for juices), along with a few strong regional brand names. After the bankruptcy, the company sold its products under 150 different brand names. Management now aims to reduce this to 30, with strong international exposure.

Spain is still problematic

Critical situation in an important market

Parmalat generates 5% of consolidated sales in Spain. The performance of the local subsidiary rapidly deteriorated over the last 2 years, moving from a 7-8% EBITDA margin to breakeven in 2006. The company operates 8 production sites, which the company considers obsolete and inconveniently located. Parmalat suffers from a weak competitive position (ranked 3rd in the market), combined with rising penetration of the private labels, meaning that its performance was extremely disappointing in both 2005 and 2006, down by 7% and 8.5% respectively.

Although restructuring is underway, Spain is a sizeable business with an above average risk of potential losses. In our estimates, we take a moderately positive stance on the subsidiary, forecasting turnaround in the next 3 years with a significantly lower level of sales.

Parmalat: Estimates for Spanish business (2005A-09E)

(EUR m, %)	2005A	2006A	2007E	2008E	2009E	CAGR
Sales	200	184	184	138	145	-7.6%
% Change		*-8.2%*	*+0.0%*	*-25.0%*	*+5.0%*	
EBITDA	**10**	**-1**	**9**	**11**	**16**	**NM**
Margin	*5.0%*	*-0.5%*	*5.0%*	*8.0%*	*11.0%*	

Source: Cheuvreux

More aggressive stance on external growth?

Asset acquisitions/ disposals ahead?

Parmalat's ongoing legal battles have made it hard for management to aggressively pursue expansion and/or streamline the portfolio.

- In our view, Parmalat could optimise its geographical footprint by making selective disposals. Minor markets, where Parmalat's market share is very limited, account for roughly EUR180m of sales. Each of these areas makes a modest contribution (several million Euros) to the group's EBITDA. Therefore, we feel that these businesses could eventually be sold, generating a potential cash-in of up to EUR100m, based on 0.5-0.6x sales multiple.
- Conversely, Parmalat should also be in the position to pursue a more aggressive growth strategy. With organic growth in the region of 3-4% and virtually no debt at the end of 2006, we believe Parmalat has lots of room to grow via acquisitions.

Parmalat: Potential leverage (2005A-09E)

(EUR m, %)	2005A	2006A	2007E	2008E	2009E
Net debt	369	170	(7)	(83)	(147)
EBITDA	243	351	398	449	478
Debt/EBITDA	**1.5**	**0.5**	**0.0**	**0.0**	**0.0**
Sustainable debt/EBITDA	2.5	2.5	2.5	2.5	2.5
Potential new debt		707	1 002	1 206	1 342

Source: Cheuvreux

EUR1.1bn of investment potential

We estimate that Pamalat could potentially invest up to EUR1bn on external growth by end-2007 and EUR1.2bn by end-2008, based on a very cautious leverage assumption (2.5x debt/EBITDA) and the projected cash flow for 2007-08. We did not factor in any further proceeds from lawsuits. However, based on past evidence and very prudent assumptions about the potential outcome of these disputes (worst case scenario), we estimate that after taxes, the benefit could amount to EUR1.7bn, of which Parmalat would be obliged to distribute nearly 50% to comply with its by-laws. If the cash-in materialises by end-2008, we estimate that Parmalat could leverage on EUR1.2bn of investment potential based on the current business perimeter, plus another EUR0.8bn from legal proceeds thereafter, reaching a total of EUR2bn, corresponding to ~40% of the company's market capitalisation.

Based on the current asset base, we feel that most appealing areas for expansion would be:

Where could Parmalat invest?

- **Increased market share in the fresh products segment**, where it still lacks scale (apart from the Canadian market). In the Italian market, Parmalat could leverage on its strong brand by adding new assets in the fresh products market. In Italy, the fresh products unit accounts for a 17% share of the milk market, while in Canada, Parmalat generates more revenues in the fresh business than in the milk business.
- **Greater scale in the milk business to resolve its problems in Spain.** Such a move would be highly beneficial for the current business and eventual synergies would justify the acquisition price.

Acquisitions might add 35% to 2008 estimated EBITDA

Its growth potential appears significant. By tapping into its EUR2bn war chest, Parmalat could add EUR150-160m of EBITDA at 12x EV/EBITDA over the next 2 years, corresponding to roughly 35% of our forecast for that period.

Could Parmalat be a takeover target?

100% free float

The group's healthy financial structure could also make it an appealing target: Parmalat is now a public company, with no industrial shareholder. According to Consob, only Capitalia holds 5.3%, while several other financial institutions own 2%. Parmalat would be an ideal takeover target in the dairy market, given its outstanding market share in the milk segment and its sound financial structure.

Also a potential target for a leveraged buy-out

If debt/EBITDA were ramped up to 5-6x, the company could also become a target for a private equity interest, as it could bear up to EUR3.5bn of debt, meaning it would be able to sustain >50% of the potential cash outflow from a leveraged buy-out. If the company were to cut maintenance capex, its free cash flow could reach ~EUR250m, so it would be able to sustain this level of debt and could probably still deliver EUR100m of equity free cash flow.

High dividend, due to generous dividend policy

Pay-out of 50% of the parentco's net profit

Finally, it is important to take Parmalat's generous dividend policy into account. According to its by-laws, Parmalat is committed to distributing 50% of the parent company's net distributable profit (i.e. after the provisions for the legal reserve for 5% of the net profit up to 20% of the shareholders' equity). Since all of the cash inflows from claw-backs and legal proceeds should be accounted for by Parmalat's parentco, it is logical to assume that Parmalat would distribute slightly less than half of this extraordinary cash inflow, net of legal expenses.

Extraordinary dividends could range from EUR0.44 to EUR0.70 in the coming years

According to our projections of the legal proceeds, we estimate that Parmalat could pay an extraordinary dividend of between EUR0.41 and EUR0.76 in the coming years. Spreading this amount out over 3 years, we estimate that the additional yearly dividend yield could range from 4.3% to 7.9%.

Parmalat: Potential extraordinary dividend pay-out

(EUR m, %)	Worse case	Best case
After tax cash inflow	1 585	2 938
@45% pay-out	713	1 322
Per share (to be split in ~3 years)	**0.41**	**0.76**
~ yearly yield	*4.3%*	*7.9%*

Source: Cheuvreux

III— LEGAL ISSUES

Legal reparations account for a significant amount of the stock price

Legal proceeds from lawsuits that are still pending could account for a significant portion of Parmalat's valuation. However, is very hard to quantify exactly how much these legal proceeds might be worth, as the final amount will depend on the outcome of a series of complex and unpredictable legal proceedings. However, Parmalat and its counterparts have already reached a number of settlements, which have permitted the company to cash in just over EUR300m in the last few months. Further agreements might be signed in the coming months, which could shed more light on the eventual value of the total cash-in.

Three key factors should have a major impact on Parmalat's valuation:

3 key issues to analyse

– **Claw-backs**. EUR7bn worth of claw-back suits are outstanding (EUR7.5bn at end 2005). They mainly consist of credits that the former Parmalat paid, which the new Parmalat is trying to recover (by issuing new shares in exchange).

– **Lawsuits**. Parmalat is also suing a number of financial institutions for damages. It has filed claims with several parties aiming at the recovery of EUR13.2bn damages.

– **Shares still to be issued.** Factoring in the unresolved disputes with Parmalat's creditors, the potential returns on the claw-backs and the conversion of warrants, we estimate that the current 1.64bn shares could become 1.9bn.

Based on our analysis, **we derive a valuation of the legal damages ranging from EUR0.96 per share in a worst case scenario to EUR1.72 in the best case scenario,** before legal costs, which we estimate could weigh for another ~EUR70-110m (or EUR0.04-0.06 per share).

Parmalat: Potential outcomes of bankruptcy lawsuits still pending

(EUR m, EUR, %)		Recovery		Total		Per share	
	Total	Worst case	Best case	Worst case	Best case	Worst case	Best case
Claw-back operations	7 000	*22%*	*37%*	1 540	2 590	0.86	1.45
Damages							
Italy	13 200	*3%*	*5%*	246	409	0.14	0.23
US	8 000	*1%*	*3%*	50	149	0.03	0.09
Legal costs				(110)	(70)	(0.06)	(0.04)
Total value				**1 725**	**3 078**	**0.96**	**1.72**

Source: Cheuvreux

Claw-backs are the most likely source of gains for Parmalat

The claw-backs are the biggest potential source of cash for Parmalat. Initial rulings were unexpectedly favourable: in some cases, the conversion rate reached exceeded 30% of the total claim. By the end of 2006, Parmalat had signed agreements for ~EUR0.5bn of the original EUR7.5bn of claw-backs (vs. 75 different counterparts). The cash-in from the claw-backs is also tax-free.

To value the claw-backs, we assumed that the conversion rate would range from 22% to 37%. As a result, starting from EUR7bn at end-2006 (against 60 counterparts), we estimate that Parmalat could potentially cash in EUR1.5-2.6bn, implying a range of EUR0.86-1.45 per share in our worst/best case scenario.

Recent settlements between Parmalat and counterparts (2006-07)

(EUR m)	Counterpart	Type	Estimated nominal value	Cash Inflow
02/02/2007	BP Milano	Claw-backs Damage claim	NA	EUR25m
12/01/2007	Deloitte & Touche	Damage claim	8 000/10 000	USD149m
29/12/2006	BNL/Ifitalia	Claw-backs	NA	EUR103m
		Damage claim	NA	EUR9m
04/08/2007	BP Italiana	Claw-backs Damage claim		EUR59.5m
		Recovered receivables		EUR10m
			Total	**~EUR320m**

Source: Cheuvreux

Damages: a more uncertain source of value

The eventual proceeds from claims for damages are much harder to estimate. First, the total value of the claims has not been made public. Second, the claims filed are based on (a broad) estimate calculated by Parmalat's lawyers of the damage suffered by Parmalat. According to Italian law, legal reparations cannot exceed the actual value of the liability suffered, which actually amounts to EUR13.2bn for Parmalat. However, some of these lawsuits have been filed in the US, where damages can exceed the value of the original liability. Unlike the claw-backs, they are considered one-off gains and therefore are subject to regular taxation (38% in Italy). 16 claims for damages are still outstanding, of which 3 are still pending in the USA, along with 13 major suits in Italy. Our assumptions range from EUR300m to EUR550m in the worst/best case scenario, net of the tax impact. In terms of the per share figures, we estimate a benefit of EUR0.17-0.32.

Potential new shares

Shareholder capital could grow further

Parmalat's share capital is subject to amendments on the back of the legal decisions taken following the bankruptcy. For current shareholders, the potential dilution stemming from the issue of new shares could stem from three different sources, of which just two are expected to generate dilution.

- **2005-15 warrants for Parmalat** were assigned to the new shareholders at a ratio of 650 warrants maximum for every shareholder (with at least 1000 shares). These warrants are convertible into Parmalat shares at a 1:1 ratio by December 2015 at EUR1 per share. We estimate that the outstanding number of warrants (and potential shares) is 82m, which would translate into roughly 5% dilution based on the current 1.65bn shares.
- **The potential issue of new shares to compensate creditors of Parmalat**, who were excluded from the bankruptcy procedure after the final lists were published in December 2004. These potential debits could amount to EUR4.4bn, on top of EUR20bn initially included in the lists. For this potential liability, Parmalat has set aside an equity reserve of EUR191m to cover a total EUR3.4bn claim (i.e. slightly more than 75% of the total amount). In addition, there are other credits (not disclosed by Parmalat), which emerged after December 2004, and for which Parmalat has posted a EUR42m provision. All in all, assuming that Parmalat's provisions are consistent, Parmalat could issue 233m shares. In the worst case scenario, if all of these credits were considered admissible (and assuming the same "conversion" rate), up to 287m shares might have to be issued.

Further potential Parmalat shareholders equity

(EUR m)	Nominal value	Parmalat provision
Credits not included and still under litigation	4 384	
Of which provisioned by Parmalat	3 428	191
Credits that emerged after December 2004	NA	42
Total		**233**
Potential shares		233

Source: Cheuvreux

– Third, if the court rules in favour of Parmalat in the claw-back suits (EUR7bn), without any extra-judicial intervention, the cash inflow for the company could be offset by the issue of new shares and warrants. Given the average recovery of roughly 6%, we based our assumptions on an extreme scenario, in which Parmalat would issue 420m shares with a cash inflow of EUR7bn, implying a big counter-dilution for Parmalat shareholders (it would be like issuing new shares to third parties at EUR15 each). However, we feel that this scenario is highly unlikely, as the parties usually negotiate a settlement.

How many shares?

Looking at the share capital evolution over the last 12 months, it is clear that the warrants would probably be the main source of dilution. Since these warrants are deep in the money (they can be subscribed for EUR1), we felt it was necessary to factor the total amount into our valuation.

Parmalat: Evolution of the share capital over the last 12 months ('000)

Date	Initial outstanding shares	From warrants	From new creditors	Outstanding shares
18-Apr-07	1 648.3	0.35	0.49	1 649.2
23-Mar-07	1 642.0	6.21	0.13	1 648.3
23-Feb-07	1 641.7	0.28	0.01	1 642.0
25-Jan-07	1 641.5	0.19	-	1 641.7
21-Dec-06	1 641.2	0.19	0.18	1 641.5
23-Nov-06	1 641.0	0.15	0.02	1 641.2
26-Oct-06	1 640.8	0.15	-	1 641.0
29-Sep-06	1 640.7	0.09	-	1 640.8
31-Aug-06	1 640.7	0.06	-	1 640.7
21-Jul-06	1 640.0	0.11	0.53	1 640.7
15-Jun-06	1 632.0	0.28	7.78	1 640.0
21-Apr-06	1 626.6	0.12	5.31	1 632.0
21-Mar-06	1 625.3	0.20	1.08	1 626.6
24-Feb-06	1 623.3	0.22	1.79	1 625.3
24-Feb-06	1 621.3	0.22	1.79	1 623.3

Source: Cheuvreux

We used the following assumptions about the potential new shares stemming from the claw-backs and the current lawsuits:

– **For the claw-backs**, we assume that a negligible portion (we assume 2%) will require the issue of new shares. This implies a EUR140m cash inflow (2% of EUR7bn) and the issue of 10m new shares (including warrants), based on a recovery ratio of 6%.

– **For the other shares**, we note that in recent months the issues of shares to new creditors following the resolution of court cases has sharply declined and most of the new shares were issued in H1-06. Based on these factors, we expect that only 20% of the remaining potential shares could be issued: we therefore factor in 57m new shares.

All in all, we reach an estimate of 1.8bn Parmalat shares which are factored into our equity valuation, with a cash inflow of EUR222m.

Parmalat: Number of shares

('000)	Number of shares	Potential inflow
Outstanding shares	1 642	-
Warrants	82	82
Claw-backs	10	140
New creditors @ 35%	57	-
Total shares	**1 791**	**222**

Source: Cheuvreux

IV— ESTIMATES

Parmalat: Revenue model (2005A-09E)

(EUR m, EUR, %)	2005A	2006A	2007E	2008E	2009E
Sales	3 681	3 844	3 986	4 152	4 311
Other revenues	25	37	37	37	37
Total revenues	**3 706**	**3 881**	**4 023**	**4 189**	**4 349**
% Change	*-1.4%*	*4.7%*	*3.7%*	*4.1%*	*3.7%*
Milk	2 094	2 193	2 269	2 360	2 455
Fresh products	1 197	1 243	1 293	1 351	1 398
Vegetables	205	223	238	255	273
Other	185	186	186	186	186
Volumes (m kg)	**3 680**	**3 642**	**3 611**	**3 585**	**3 565**
Milk	2 694	2 726	2 712	2 699	2 685
Fresh products	490	470	456	447	442
Vegetables	314	316	319	322	326
Other	182	130	124	117	111
Price-Mix (EUR)	**1.00**	**1.06**	**1.10**	**1.16**	**1.21**
Milk	0.78	0.80	0.84	0.87	0.91
Fresh products	2.44	2.64	2.84	3.02	3.16
Vegetables	0.65	0.71	0.75	0.79	0.84
Other	1.02	1.43	1.50	1.54	1.57
% Volumes		***-1.0%***	***-0.9%***	***-0.7%***	***-0.6%***
% Price-mix		***5.5%***	***4.6%***	***4.8%***	***4.3%***
% Milk		***4.7%***	***3.5%***	***4.0%***	***4.0%***
% Volumes		*1.2%*	*-0.5%*	*-0.5%*	*-0.5%*
% Price-Mix		*3.5%*	*4.0%*	*4.5%*	*4.5%*
% Fresh products		***3.9%***	***4.0%***	***4.5%***	***3.5%***
% Volumes		*-4.1%*	*-3.0%*	*-2.0%*	*-1.0%*
% Price-Mix		*8.0%*	*7.0%*	*6.5%*	*4.5%*
% Vegetables		***8.7%***	***7.0%***	***7.0%***	***7.0%***
% Volumes		*0.6%*	*1.0%*	*1.0%*	*1.0%*
% Price-Mix		*8.0%*	*6.0%*	*6.0%*	*6.0%*
% Other		***0.2%***	***-0.1%***	***-2.7%***	***-2.7%***
% Volumes		*-28.6%*	*-5.0%*	*-5.0%*	*-5.0%*
% Price-Mix		*28.7%*	*4.9%*	*2.3%*	*2.3%*
Italy	991	985	1 014	1 045	1 071
Canada	1 336	1 381	1 430	1 487	1 546
Australia	410	418	435	452	468
Africa	325	344	361	379	398
Spain	200	184	184	138	145
Venezuela	149	195	214	231	245
Colombia	101	108	117	126	135
Portugal	62	64	66	68	70
Other	106	166	166	226	233
% Italy		*-0.7%*	*3.0%*	*3.0%*	*2.5%*
% Canada		*3.4%*	*3.5%*	*4.0%*	*4.0%*
% Australia		*1.9%*	*4.0%*	*4.0%*	*3.5%*
% Africa		*5.9%*	*5.0%*	*5.0%*	*5.0%*
% Spain		*-8.2%*	*0.0%*	*5.0%*	*5.0%*
% Venezuela		*30.6%*	*10.0%*	*8.0%*	*6.0%*
% Colombia		*7.2%*	*8.0%*	*8.0%*	*7.0%*
% Portugal		*2.9%*	*3.0%*	*3.0%*	*3.0%*

Source: Cheuvreux

Parmalat: EBITDA details (2005A-09E)

(EUR m, %)	2005A	2006A	2007E	2008E	2009E
EBITDA	278	356	403	455	484
Write-downs	(35)	(5)	(5)	(6)	(6)
EBITDA reported	**243**	**351**	**398**	**449**	**478**
%Margin	*6.6%*	*9.1%*	*10.0%*	*10.8%*	*11.1%*
% Change	*11.4%*	*44.1%*	*13.5%*	*12.9%*	*6.4%*
Milk	176	189	213	241	255
Fresh products	99	130	149	169	179
Vegetables	23	34	36	40	42
Other	(20)	(2)	0	0	2
Italy	72	105	114	125	131
Canada	105	123	137	161	172
Australia	40	40	43	46	48
Africa	39	40	45	52	53
Spain	10	(1)	9	11	16
Venezuela	10	28	31	33	35
Colombia	11	11	13	16	19
Portugal	8	7	7	6	6
Other	(16)	3	3	4	5
% Margin					
Milk	*8.4%*	*8.6%*	*11.3%*	*12.0%*	*12.3%*
Fresh products	*8.2%*	*10.5%*	*9.6%*	*10.8%*	*11.1%*
Vegetables	*11.2%*	*15.1%*	*9.9%*	*10.3%*	*10.4%*
Other	*-10.5%*	*-1.3%*	*12.6%*	*13.7%*	*13.2%*
Italy	*7.3%*	*10.7%*	*5.0%*	*8.0%*	*11.0%*
Canada	*7.9%*	*8.9%*	*14.3%*	*14.3%*	*14.3%*
Australia	*9.8%*	*9.5%*	*11.4%*	*12.7%*	*13.8%*
Africa	*11.9%*	*11.6%*	*10.2%*	*9.2%*	*8.2%*
Spain	*5.0%*	*-0.5%*	*2.0%*	*2.0%*	*2.0%*
Venezuela	*6.7%*	*14.3%*	*11.3%*	*12.0%*	*12.3%*
Colombia	*10.5%*	*10.1%*	*9.6%*	*10.8%*	*11.1%*
Portugal	*13.1%*	*11.2%*	*9.9%*	*10.3%*	*10.4%*
Other	*-15.3%*	*2.0%*	*12.6%*	*13.7%*	*13.2%*

Source: Cheuvreux

Parmalat

FY to 31/12 (Euro m)	2005	2006	2007E	2008E	2009E
Profit & Loss Account					
Sales	**3 706.0**	**3 881.0**	**4 023.0**	**4 189.0**	**4 349.0**
% Change		*4.7%*	*3.7%*	*4.1%*	*3.8%*
Staff costs	(459.6)	(477.9)	0.0	0.0	0.0
Other costs	(3 003.1)	(3 052.4)	(3 625.1)	(3 739.7)	(3 870.7)
EBITDA	**243.3**	**350.7**	**397.9**	**449.3**	**478.3**
% Change		*44.1%*	*13.5%*	*12.9%*	*6.4%*
Depreciation	(101.7)	(105.5)	(110.0)	(122.0)	(130.0)
EBITA	**141.6**	**245.2**	**287.9**	**327.3**	**348.3**
% Change		*73.2%*	*17.4%*	*13.7%*	*6.4%*
Goodwill amortisation before OP	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	(45.0)	0.0	0.0	0.0
Non recurring operational items	(2.3)	99.3	90.0	(15.0)	0.0
EBIT	**139.3**	**299.5**	**377.9**	**312.3**	**348.3**
Net financial items	(71.8)	(69.8)	(14.5)	(9.5)	(4.5)
Non recurring financial items	0.0	0.0	0.0	0.0	0.0
Other exceptional items	(35.0)	0.0	0.0	0.0	0.0
Tax	(47.3)	(34.2)	(83.6)	(106.0)	(120.3)
Associates [contribution]	0.0	0.0	0.0	0.0	0.0
Discontinuing activities	(4.7)	(0.1)	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	**15.5**	**195.4**	**279.8**	**196.8**	**223.5**
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0
Minorities	(5.0)	(2.9)	(4.9)	(5.9)	(6.9)
Net attributable profit [loss]	**10.5**	**192.5**	**274.9**	**190.9**	**216.6**
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	(2.3)	(102.7)	(109.8)	10.1	0.0
Net attrib. profit [loss], restated	**8.2**	**89.8**	**165.1**	**201.0**	**216.6**
% Change		*NS*	*83.9%*	*21.8%*	*7.7%*
Cash Flow Statement					
Cash flow	**0.0**	**243.7**	**384.9**	**312.9**	**346.6**
% Change			*57.9%*	*-18.7%*	*10.7%*
Change in WCR	0.0	(165.1)	(7.1)	(8.3)	(8.0)
Capex	(23.1)	(102.7)	(100.0)	(105.0)	(110.0)
o/w Growth capex	0.0	0.0	(50.0)	(50.0)	(50.0)
Net cash flow	**(23.1)**	**(24.1)**	**277.8**	**199.7**	**228.6**
Financial investments	(370.0)	185.3	0.0	0.0	0.0
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	44.5	50.0	0.0	0.0
Dividend paid	0.0	0.0	(41.0)	(74.3)	(114.6)
Capital increase	0.0	0.0	0.0	0.0	0.0
Other cash flow	(10.8)	(6.0)	(60.0)	0.0	0.0
Dec. [inc.] in net debt	(403.9)	199.7	226.7	125.3	114.0
Balance Sheet					
Shareholders' equity [group share]	1 848.7	2 014.1	2 247.9	2 364.6	2 466.6
Minority interests	29.0	37.6	40.6	43.6	46.6
Pension provisions	113.0	122.1	122.1	122.1	122.1
Other provisions	425.1	384.3	384.3	384.3	384.3
Net debt [cash]	369.3	169.5	(7.2)	(82.6)	(146.6)
Gearing [%]	19.7	8.3	NS	NS	NS
Capital invested	**2 785.1**	**2 727.6**	**2 787.7**	**2 832.0**	**2 873.0**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	1 567.6	1 290.0	1 290.0	1 290.0	1 290.0
Tangible assets	698.3	728.1	845.9	881.9	914.9
Financial assets	181.6	164.1	99.3	99.3	99.3
Associates	0.0	0.0	0.0	0.0	0.0
Working capital requirement	337.6	545.4	552.5	560.8	568.8
WCR as a % of sales	9.1	14.1	13.7	13.4	13.1
Capital employed	**2 785.1**	**2 727.6**	**2 787.7**	**2 832.0**	**2 873.0**

Parmalat

FY to 31/12 (Euro)	2005	2006	2007E	2008E	2009E
Per Share Data (at 18/4/2007)					
EPS before goodwill	0.01	0.05	0.10	0.12	0.13
% Change		*NS*	*81.5%*	*20.4%*	*7.6%*
EPS, reported	0.01	0.12	0.17	0.12	0.13
% Change		*NS*	*42.7%*	*-31.1%*	*13.0%*
Goodwill per share	0.00	0.00	0.00	0.00	0.00
Dividend per share	0.00	0.03	0.05	0.07	0.08
Cash flow per share	0.00	0.14	0.23	0.18	0.20
% Change		*NS*	*57.3%*	*-18.7%*	*10.9%*
Book value per share	1.1	1.2	1.3	1.4	1.4
No. of shares, adjusted	1640.056	1641.500	1651.500	1661.500	1671.500
Av. number of shares, adjusted	1640.056	1640.778	1646.500	1656.500	1666.500
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]					
Latest price	2.06	3.26	3.19	3.19	3.19
High	-	-	3.46	-	-
Low	-	-	3.12	-	-
Average price	-	-	3.26	-	-
Market capitalisation	89.7	-	5 269.9	5 301.8	5 333.8
Enterprise value	391.8	-	5 380.7	5 339.8	5 310.7
Valuation					
P/E	NS	60.7	32.7	27.0	25.1
P/E before goodwill	NS	60.7	32.7	27.0	25.1
P/CF	NS	22.8	14.2	17.4	15.7
Attrib. FCF yield [%]	NS	-	5.2	3.7	4.2
P/BV	1.8	2.7	2.4	2.4	2.3
Enterprise value / Op CE	0.2	0.1	2.0	2.0	1.9
Yield [%]	0.0	0.8	1.4	2.2	2.4
EV/EBITDA, restated	1.6	0.4	13.5	11.9	11.1
EV/EBITA, restated	2.8	0.5	18.7	16.3	15.2
EV/Sales	0.11	0.0	1.3	1.3	1.2
EV/Debt-adjusted cash flow	18.2	0.4	13.3	16.4	14.9
Financial Ratios					
Interest cover	1.9	4.3	NS	NS	NS
Net debt/Cash flow	NS	0.7	NS	NS	NS
EBITDA margin [%]	6.6	9.0	9.9	10.7	11.0
EBITA margin [%]	3.8	6.3	7.2	7.8	8.0
Net margin [%]	0.4	5.0	7.0	4.7	5.1
Capital turn [Sales/ Op. CE]	1.4	1.5	1.5	1.5	1.6
Gearing [%]	19.7	8.3	NS	NS	NS
Payout ratio [%]	0.0	21.3	27.0	59.8	59.8
Return [%]					
Pre-tax RoCE	5.4	9.6	10.7	12.0	12.6
RoCE after tax	1.6	8.1	8.2	7.8	8.2
ROE [%]	0.6	10.0	13.0	8.4	9.2
Return on equity, restated	0.4	4.6	7.6	8.9	9.2

Important Disclosures

Applicable disclosure clauses

Company	Closing Price	Rating	Disclosures
Parmalat	EUR3.191	2/Outperform	None

A - One or more companies in the Crédit Agricole S.A. group owned more than 1% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.

B - One or more companies in the Crédit Agricole S.A. group owned more than 5% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.

C - The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.

D - One or more companies in the Crédit Agricole S.A. group held, as of the end of the second most recent trading day, a net sales position higher than 1% of the total issued share capital of the Company.

E - The trading portfolio of one or more companies in the Crédit Agricole S.A. group contained shares of the Company as of the end of the second most recent trading day.

F - Crédit Agricole Cheuvreux and/or a company in the Crédit Agricole S.A. group is a market maker or a liquidity provider for the financial instruments of the Company.

G - Calyon and/or a company in the Crédit Agricole S.A. group has been involved within the last three years in a publicly disclosed offer of or on financial instruments of the Company.

H - Calyon and/or a company in the Crédit Agricole S.A. group has concluded or is party to a non confidential agreement relating to the provision of investment banking services (except publicly disclosed offers mentioned under G) to the Company during the past 12 months or that has given rise during the same period to the payment of compensation or to the promise to get a compensation paid.

I - This research has been communicated to the Company and following this communication, its conclusions have been amended before its dissemination.

J - A director or a board member of the Crédit Agricole S.A. group is an officer, director, or board member of the Company.

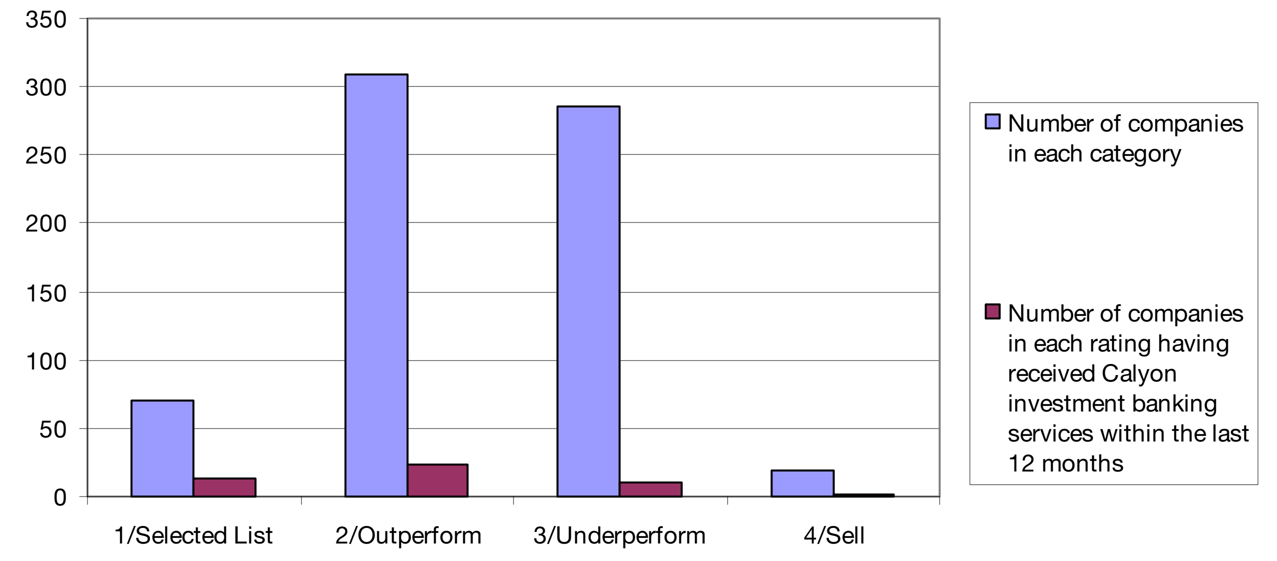
Specific disclosure clauses

None.

Cheuvreux's rating and target price system

Ratings are built for a 6 to 12 month time horizon.	
1/ Selected List	Expected to outperform the market and is in our country selected list
2/ Outperform	Expected to outperform the market
3/ Underperform	Expected to perform at best in line with the market
4/ Sell	Expected to underperform the market substantially
No Rating or Suspended	The investment rating and target price have been suspended . Such suspension is pursuant to Cheuvreux's policy in circumstances when Cheuvreux's parent company, Calyon, is acting in an advisory capacity in a merger or strategic transaction involving this company or when Calyon or Crédit Agricole has a beneficial interest in this company and in certain other circumstances.
Target price methodology	Cheuvreux's target prices are derived from one or more of the following methodologies : DCF, SOP, peer comparison and EVA.
Quote definitions	Unless specified, all quotes that appear on Institutional research reports are closing prices the last business day.

Breakdown by rating category (as at 31/12/2006)



Share price trend and dates of changes in rating and/or target price

Dates of changes in target price and/or rating

N°	Date	Rating	Target price
1	20/04/2007	2	EUR3.7
2			
3			
4			
5			
6			

Local regulatory authorities

Country	Cheuvreux legal entity	Regulatory authority
France	Crédit Agricole Cheuvreux SA	Autorité des Marchés Financiers (AMF)
Germany	Crédit Agricole Cheuvreux Niederlassung – Frankfurt Branch	Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)
Italy	Crédit Agricole Cheuvreux Italia SIM SpA	Commissione Nazionale per le Societa e la Borsa (Consob)
The Netherlands	Crédit Agricole Cheuvreux - Amsterdam Branch	Autoriteit Financiële Markten (AFM)
Spain	Crédit Agricole Cheuvreux Espana SV SA	Comisión Nacional del Mercado de Valores (CNMV)
Sweden	Crédit Agricole Cheuvreux Nordic AB	Finansinspektionen
Switzerland	Crédit Agricole Cheuvreux - Zurich Branch	Swiss Federal Banking Commission (SFBC)
United Kingdom	Crédit Agricole Cheuvreux International Ltd	Financial Services Authority (FSA)

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