

Company In-Depth

21 June 2007 | 44 pages

Seat Pagine Gialle SpA (PG.MI)

Risks vs. Returns

 Rating change
 Target price change
 Estimate change

- Downgrading to Hold** — We see limited upside from tinkering with the capital structure at this stage. Furthermore we argue that the operational story is less exciting than we had hoped for as the impact of accelerating EBITDA growth on FCF forecasts is more than offset by the effects of a rising cash tax rate. We therefore downgrade our rating to Hold/ Medium Risk (2M).
- Capital Structure the Main Focus** — We believe a recapitalization of the company is unlikely at this stage given the low leverage potential (only c. €1.1bn) and potentially expensive prepayment penalties (c. €118m). Recapitalisation or a secondary LBO becomes more attractive from 2009.
- Newsflow Could be Imminent** — On 22 May 2007, the controlling shareholders (VCs) announced that they had appointed an investment bank to explore 'options' for 'maximizing the value of their investment'. We think the most likely options are: (1) a sale to a trade buyer; (2) a secondary offering to the market; (3) doing nothing. None appear positive for minority shareholders.
- Operational Momentum is Improving; FCF Isn't** — The irony is that the operational momentum of the business is improving. We forecast accelerating revenue and EBITDA growth 2007-10E. However the impact on equity FCF is more than offset by the rising cash tax rate, holding back valuation and returns.
- Relative/Absolute Valuation Fair but Not Outstanding** — At 10.3x 2008E EBITDA relative valuation is at a marginal premium to the peer group (9.9x). In absolute terms, based on DCF/SOTP, we see fair value at €0.49 per share.

Hold/Medium Risk	2M
<i>from Buy/Medium Risk</i>	
Price (20 Jun 07)	€0.46
Target price	€0.49
Expected share price return	7.2%
Expected dividend yield	2.2%
Expected total return	9.5%
Market Cap	€3,810M
	US\$5,108M

Price Performance (RIC: PG.MI, BB: PG IM)



See Appendix A-1 for Analyst Certification and important disclosures.

Seat Pagine Gialle SpA (EUR)

Year to 31 Dec	2005A	2006A	2007E	2008E	2009E
Sales (€M)	1,424.6	1,460.2	1,513.7	1,594.0	1,683.3
Net Income (€M)	305.7	256.2	270.2	289.6	280.3
Diluted EPS (€)	0.04	0.03	0.03	0.03	0.03
Diluted EPS (Old) (€)	0.03	0.02	0.03	0.03	na
PE (x)	12.4	15.1	14.3	13.4	13.8
EV/EBITDA (x)	11.3	11.5	10.5	10.3	9.6
DPS (€)	0.00	0.01	0.01	0.01	0.01
Net Div Yield (%)	0.0	1.1	2.2	2.2	2.2

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Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	12.4	15.1	14.3	13.4	13.8
EV/EBITDA adjusted (x)	11.9	11.8	10.4	9.9	9.0
P/BV (x)	3.9	3.7	3.4	3.1	2.8
Dividend yield (%)	0.0	1.1	2.2	2.2	2.2
Per Share Data (€)					
EPS adjusted	0.04	0.03	0.03	0.03	0.03
EPS reported	0.02	0.01	0.01	0.01	0.02
BVPS	0.12	0.12	0.14	0.15	0.16
DPS	0.00	0.01	0.01	0.01	0.01
Profit & Loss (€M)					
Net sales	1,425	1,460	1,514	1,594	1,683
Operating expenses	-1,004	-1,058	-1,061	-1,133	-1,112
EBIT	420	402	453	461	571
Net interest expense	-261	-246	-251	-233	-221
Non-operating/exceptionals	4	0	0	0	0
Pre-tax profit	164	156	202	229	350
Tax	-25	-74	-92	-99	-162
Extraord./Min.Int./Pref.div.	-7	-2	-7	-7	-7
Reported net income	132	80	103	123	181
Adjusted earnings	306	256	270	290	280
Adjusted EBITDA	627	611	671	688	733
Growth Rates (%)					
Sales	1.3	2.5	3.7	5.3	5.6
EBIT adjusted	1.7	-2.7	7.2	1.4	6.7
EBITDA adjusted	2.0	-2.4	9.7	2.6	6.6
EPS adjusted	7.2	-18.2	5.5	7.2	-3.2
Cash Flow (€M)					
Operating cash flow	602	538	617	603	572
Depreciation/amortization	194	195	213	222	157
Net working capital	13	-59	-14	-21	-22
Investing cash flow	-52	-61	-67	-94	-61
Capital expenditure	-46	-48	-57	-84	-51
Acquisitions/disposals	-8	-1	-10	-10	-10
Financing cash flow	-486	-371	-442	-468	-512
Borrowings	-235	-144	-120	-163	-219
Dividends paid	0	-25	-86	-86	-86
Change in cash	64	106	108	40	-2
Balance Sheet (€M)					
Total assets	5,317	5,227	5,197	5,120	5,033
Cash & cash equivalent	202	308	416	456	454
Accounts receivable	670	669	676	686	697
Net fixed assets	50	50	58	74	75
Total liabilities	4,317	4,152	4,026	3,852	3,621
Accounts payable	293	293	286	276	265
Total Debt	3,741	3,613	3,494	3,330	3,111
Shareholders' funds	1,000	1,075	1,171	1,268	1,411
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	44.0	41.9	44.3	43.2	43.6
ROE adjusted	33.4	25.1	24.5	24.3	21.5
ROIC adjusted	12.2	11.2	12.1	12.5	12.3
Net debt to equity	354.0	307.3	262.8	226.7	188.3
Total debt to capital	78.9	77.1	74.9	72.4	68.8

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Figure 1. Seat PG FCF, 2007-2011E (€m)

	2007E	2009E	2011E	07-11 CAGR
EBITDA	670.7	733.4	820.3	5.2%
less capex	-57.5	-51.4	-55.6	
less change in WC	-13.9	-22.1	-21.5	
less cash interest	-235.6	-206.0	-185.6	
less cash tax	-40.0	-140.0	-230.3	
less minorities	-6.7	-7.4	-8.1	
add/less other	0.0	0.0	0.0	
Equity FCF	317.0	306.6	318.3	0.1%
% conversion	47.3%	41.8%	38.8%	

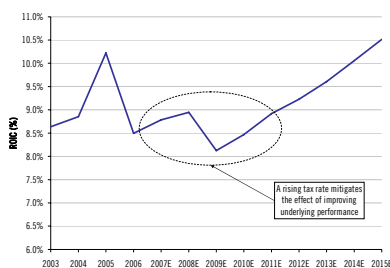
Source: Citigroup Investment Research

Figure 2. Seat PG Revenue, 2007-2011 (€m)

	2007E	2011E	07-11 CAGR
<i>Print</i>	<i>803.1</i>	<i>937.5</i>	<i>3.9%</i>
<i>Online</i>	<i>161.6</i>	<i>269.9</i>	<i>13.7%</i>
<i>Voice</i>	<i>113.8</i>	<i>138.3</i>	<i>5.0%</i>
<i>Other</i>	<i>44.4</i>	<i>50.0</i>	<i>3.0%</i>
Italian Directories	1,122.9	1,395.7	5.6%
UK Directories	174.4	211.5	4.9%
Directory Assistance	196.3	230.2	4.1%
Other Activities	78.9	88.8	3.0%
Eliminations	-58.9	-71.6	5.0%
Group Revenues	1,513.7	1,854.5	5.2%

Source: Citigroup Investment Research

Figure 3. Seat PG ROIC Profile, 2002-2015E



Source: Company Reports and CIR Estimates

Risks vs. Returns

We are downgrading the rating on Seat Pagine Gialle Group (Seat PG) from Buy/Medium Risk to Hold/Medium Risk. We keep our price target of €0.49 per share unchanged.

Our downgrade is a function of the tension between operational focus and shareholder/capital structure.

Our view is that there is limited room for upside *at this stage* from tinkering with the capital structure. The reason for this is twofold. First, growth in cash generation is capped by a rising cash tax rate, potentially limiting the total leverage potential for the whole group. Second, we see clawbacks on existing high yield debt as a barrier to releverage – we estimate the additional costs to be at least €118m and this is before considering higher spreads.

This limits options for existing VC holders. In particular we believe it rules out a recapitalization or secondary LBO. The earliest this would become practicable would be April 2009 when the company has a call option on its High Yield debt. We therefore see only three courses of action: (1) a trade sale or merger; (2) a placing to the secondary market; (3) no action. None of which we see as particularly positive for minority shareholders. Given the VCs' appointment of advisers in May, newsflow may be imminent.

The irony of this is that the operational story at Seat PG is becoming much more exciting. We anticipate the Italian Print business to return to growth and see scope for a material improvement in profitability from both Thomson in the UK and Telegate, as both businesses restructure. Online, especially in Italy, will continue to be the jewel in the crown – we anticipate a revenue CAGR of 13.7% between 2007 and 2011E. For the whole group, we forecast EBITDA CAGR of 5.2% between 2007 and 2011E. Expansion into Turkey via a 50:50 JV with Dogan Yayin Holding (DYHOL.IS - YTL5.25; Not Rated) may be another kicker for future profits.

Unfortunately, however, in terms of returns (NOPAT/Invested Capital), the impact of better underlying performance is mitigated by a rising tax rate (both P&L and cash). As above, we anticipate no improvement in returns between 2007E and 2011E.

Valuation on leverage/tax rate neutral measures is reasonable at 10.3x 2008E EBITDA but not outstanding relative to the peer group on 9.9x. Likewise on P/E or FCF yield, near-term valuation is not challenging, but because of higher P&L and cash tax rates, these multiples do not change significantly between 2007 and 2011. We therefore do not feel that valuation per se makes a *prima facie* case for investment, supporting our more neutral stance.

Upside risk – The upside risk to our view is that somehow there is potential for a recapitalization near-term, that a deal with a trade buyer could yield substantial cost savings or that the VC shareholders in Seat PG decide to increase their stake in the company.

Downside risk – On the negative side, we would see a secondary placing as the least optimal outcome for minority shareholders. This could lead to material share price underperformance. All things being equal, we identify €0.40 as a level where the stock would once again be interesting on valuation grounds (25% ETR).

Capital Structure The Main Near-Term Focus

Frustratingly we have to begin a discussion of Seat PG with a discussion of the capital structure and the options open to the current majority shareholders, Investitori Associati SpA, CVC Capital Partners, Permira and BC Partners (henceforward to be referred to as the VCs).¹ In the near-term we believe the actions of the VCs will be critical for share price performance.

Based on our analysis, we believe a recapitalisation simply will not work *at this stage*. Interest rates are rising, Seat PG's cash generation looks less attractive going forward given rising cash tax rates and the prepayment penalties on existing HY debt are onerous. This also makes a secondary LBO unlikely, unless you assume a new buyer can extend the existing tax break or create a new one.

We therefore only see three options available to the VCs:

- First, they could engineer a sale to (or merge with) a trade buyer – PagesJaunes (PAJ.PA - €15.4; Not Rated) or Yell (YELL.L - £4.85; 1M) may be suitable candidates. While a cross-border deal would be a neat way of tying off their investment, given the likely lack of synergies we would not anticipate strong share price performance on the back of this kind of transaction.
- Second, they could sell their stake to the market via a secondary offering. This is perhaps the simplest solution, but also the one with the most near-term risk.
- Finally they could do nothing and revisit at a later stage. We believe a recapitalization could come back on to the agenda from April 2009 when the group will be approaching c. 3.6x net debt/ EBITDA and also have call options on its HY debt. Against this, interest rates may continue to rise.

Given the VCs appointed advisers to explore strategic options at the end of May, we believe newsflow could be imminent. However we see no scope for supernormal returns on the back of corporate action. Indeed, two out of three potential outcomes (secondary placing/doing nothing) could be seen as negative.

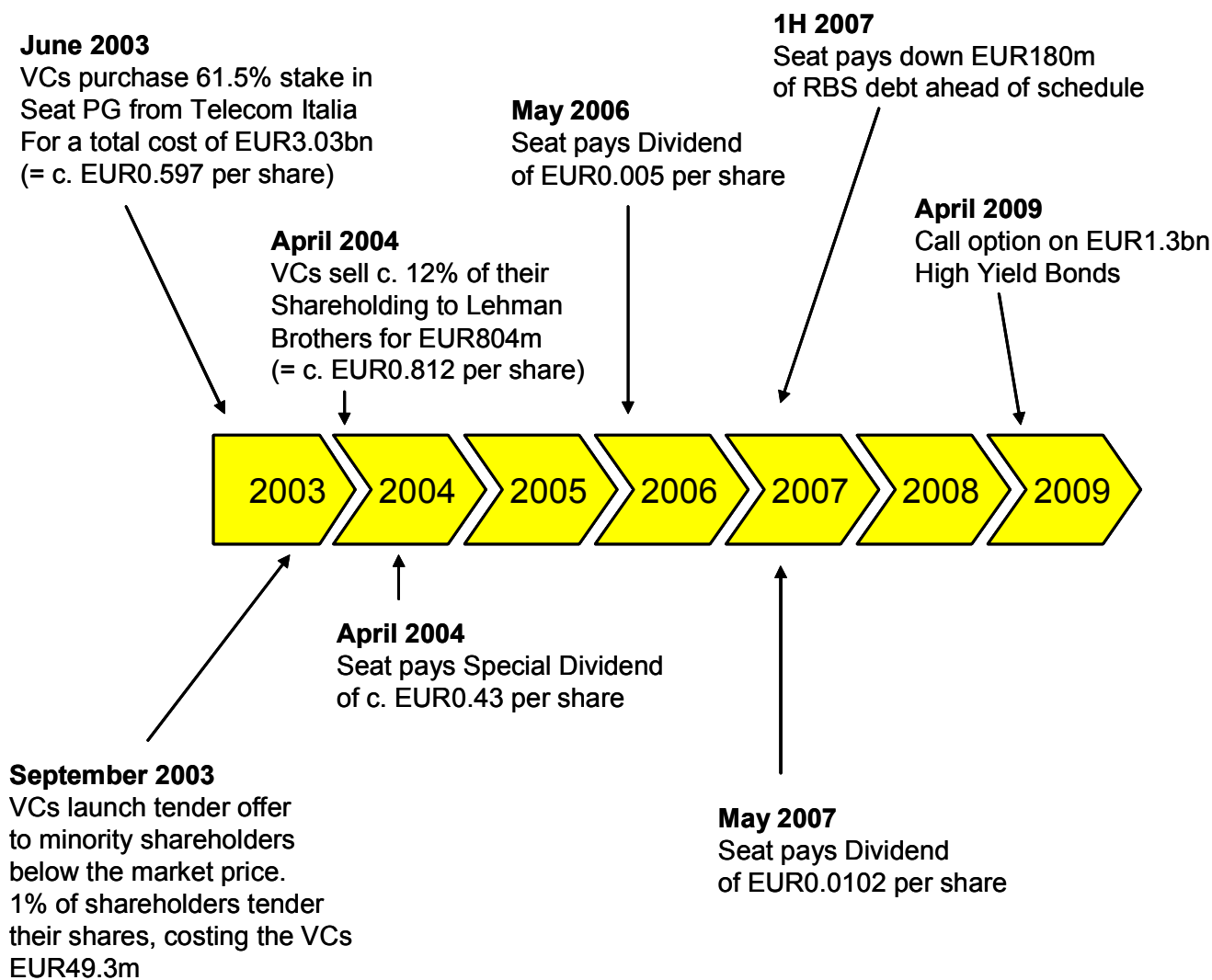
On balance we believe the VCs are likely to opt to do nothing, instead revisiting their options in 2009E when, for several reasons (lower financial gearing, better operating environment, lower makewhole premia), the conditions are likely to be more accommodative.

¹ The VCs control 50.14% of Seat Pagine Gialle via a holding company called Sub-Silver SA.

First, a bit of background

The VCs originally took control of the group in the second half of 2003 with the purchase of 62.5% of the group (61.5% directly from TI and 1.0% in the subsequent tender offer). In April 2004 the VCs subsequently sold c. 12% of their stake to the market (via Lehman Brothers) and paid a special dividend of €0.43 per share.

Figure 4. Seat Pagine Gialle – Selected Timeline 2003-2009E

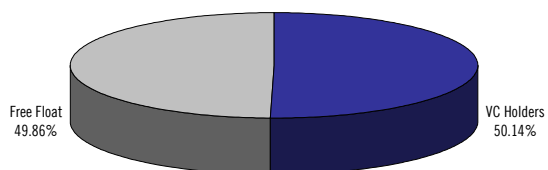


Source: Company Reports and Citigroup Investment Research

It is important to note that, as part of the process to create Seat Pagine Gialle Group as it stands today, the VC owners had to merge different holding companies together. In doing so the group managed to create a €972m acquisition-related intangible (in relation to the value of customer databases), amortization of which was and has been deductible for tax purposes.

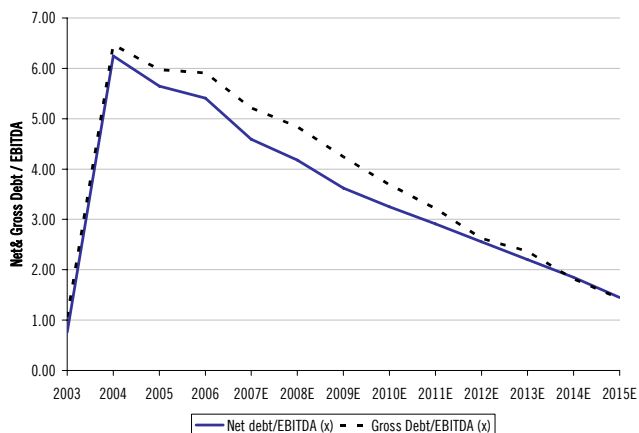
As at December 2004 the group was 50.14% owned by the VCs and had net debt/EBITDA of 6.25x. As of December 2006, the shareholder structure is unchanged but the net debt/EBITDA had fallen to 5.41x.

Figure 5. Shareholder Structure



Source: Company Reports

Figure 6. Seat Pagine Gialle – Net Debt/EBITDA Progression



Source: Company Reports and Citigroup Investment Research estimates

Edging toward the Exit

On 22 May 2007, the VCs announced that they had appointed an investment bank to explore strategic ‘options’ for their stake with a view to ‘maximizing the value of their investment’.

We see six potential options for the VCs at this stage:

- Recapitalisation
- Exit via secondary LBO
- Exit via sale to/merger with trade buyer
- Exit via secondary offering of shares
- Increasing their stake
- Doing nothing

We explore all of these in detail below.

Assessing the Scope for Releverage

We have three concerns when it comes to releverage.

- The first is generic and relates to rising interest rates both in Europe and across the world.
- The second relates to the quality of Seat PG's cash flow.
- The third relates to the penalties payable on releverage both in terms of clawbacks on the HY debt and the prospect of higher spreads.

The quality of Seat PG's cash generation is deteriorating

Over the period 2005-2007E, Seat PG is forecast to generate c. €1.7bn of operating free cash flow (based on Seat PG's definition). Over the period covered by the new industrial plan – 2008-2010E – we forecast the group to generate c. €1.95bn of operating free cash flow. This implies c. 90% conversion from EBITDA.

It is therefore no surprise, in our view, that Seat PG is seen as a suitable candidate for releverage.

Figure 7. Seat Pagine Gialle: Operating Free Cash Flow (Company Definition), 2004-2011E (Year-end December, €m)

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2007-2011 CAGR
EBITDA	614.4	626.6	611.4	670.7	688.1	733.4	781.3	820.3	5.2%
Gains (losses) on operating assets and liabilities	-207.0	-28.9	0.0	0.0	0.0	0.0	0.0	0.0	
Decrease (increase) in operating working capital	73.6	13.0	-58.7	-13.9	-20.7	-22.1	-21.1	-21.5	
(Decrease) increase in operating non-current-liabilities	-1.6	-0.4	-3.0	0.0	0.0	0.0	0.0	0.0	
Capital expenditure	-29.9	-46.0	-48.3	-57.5	-84.5	-51.4	-54.0	-55.6	
(Gains) losses on disposal of non-current assets	-9.9	-4.3	-0.1	0.0	0.0	0.0	-4.0	-4.8	
Operating free cash flow	439.5	559.9	501.4	599.3	582.9	659.9	702.2	738.4	5.4%
% change		27.4%	-10.5%	19.5%	-2.7%	13.2%	6.4%	5.2%	
% conversion	71.5%	89.4%	82.0%	89.4%	84.7%	90.0%	89.9%	90.0%	

Source: Company reports and Citigroup Investment Research estimates

However the company's definition of operating free cash flow does not take into account the major change in the cash tax rate anticipated over the period 2007-2010E. This change is related to the full tax deductibility of the amortization of acquisition-related intangibles.

On an accounting basis, the customer database is to be amortised over six years expiring in 2009. However for tax purposes, the acquisition-related intangible was amortised over just three years. As a consequence, having paid no cash tax at all over 2004-2006, the cash tax rate is set to rise from 11% in 2007E to c. 40% in 2009E.

Therefore, based on *our definition* of equity FCF, cumulative three-year cash generation for the period 2008-2010E is set to go down to €883m from €913m in the period 2005-2007E, despite the strong operational improvement (ie EBITDA) anticipated by ourselves and the market.

Figure 8. Seat Pagine Gialle: Equity Free Cash Flow (Citigroup Definition), 2004-2011E (Year-end December, €m)

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2007-2011 CAGR
EBITDA	614.4	626.6	611.4	670.7	688.1	733.4	781.3	820.3	5.2%
less capex	-29.9	-46.0	-48.3	-57.5	-84.5	-51.4	-54.0	-55.6	
less change in working capital	73.6	13.0	-58.7	-13.9	-20.7	-22.1	-21.1	-21.5	
less cash interest	-224.8	-236.2	-223.3	-235.6	-217.9	-206.0	-195.3	-185.6	
less cash tax	-0.6	0.0	0.0	-40.0	-65.0	-140.0	-211.7	-231.1	
less equivalent payment to minorities	-6.1	-6.8	-1.7	-6.7	-7.1	-7.4	-7.7	-8.1	
add/less other	-208.7	-29.3	-3.0	0.0	0.0	0.0	0.0	0.0	
Equity Free Cash Flow	217.9	321.3	276.5	317.0	292.9	306.6	291.5	318.3	0.1%
% conversion	35.5%	51.3%	45.2%	47.3%	42.6%	41.8%	37.3%	38.8%	
% change		47.5%	-14.0%	14.7%	-7.6%	4.7%	-4.9%	9.2%	

Source: Company Reports and Citigroup Investment Research estimates

This puts a question mark over whether the group could support as much leverage (based on net debt/EBITDA) as it has been able to historically – or at least at the same relative interest rate.

We believe the highest degree of leverage that Seat PG could sustain (at a reasonable spread) would be 6.25x Net debt/EBITDA, in line with its historic peak levels.

Using 2007E EBITDA, we estimate that the company would be able return €1.1bn to shareholders, or €0.131 per share. Each 0.25x EBITDA would alter the re-leverage potential by €168m or €0.02 per share.

Figure 9. Calculating Re-Leverage Potential for Seat PG (€m)

2007E EBITDA	670.7
2007E Net Debt	3,079
2007E Net Debt/EBITDA	4.59
Projected Net debt/EBITDA multiple	6.25
Releverage Potential	1,113
Per share (€)	0.131

Source: Citigroup Investment Research

Figure 10. Impact of Special Dividend on EPS / PE (€m)

2007E Adjusted Income Before Tax	367.7
Additional Finance Cost @ 8%	-89.0
Change to 2007E EPS	-24.8%
Current Price (€)	0.457
Price ex Dividend (€)	0.326
Change in P/E	-5.3%

Source: Citigroup Investment Research

The costs of releverage

The costs of releverage for Seat PG are twofold. First, moving back to historic highs in terms of net debt/EBITDA would increase the spread on already higher risk-free rates in Europe – this would be the case whether the group used existing term loans or refinanced. Second, the cost of refinancing of the group's High Yield bonds, which is likely on a major recapitalization.

Looking at these in turn:

- **Rising spreads on existing debt:** Within the current senior debt agreements between Seat PG and the Milan branch of the Royal Bank of Scotland, Seat has been able to ratchet down the spread over Euribor payable on all three tranches of its outstanding debts. For example in February 2007 the reduction in Total Net Debt/EBITDA triggered by an early repayment reduced the spread payable by 15-22.5bps, partially offsetting the increase in Euribor itself. On a recapitalization this would at best increase back to historic levels.
- **Refinancing Senior Debt Would be Expensive:** At worst, the group would have to refinance its senior debt. Our credit analyst would anticipate a 300-400bps spread over Euribor at 6x net debt/EBITDA. This would increase the overall cost of financing by €10-40m in 2007E and reduce EPS (as in the above calculation) by a further 3%-10%.
- **Significant Make-Whole Premium Payable on HY bonds:** On a similar tack, refinancing the High Yield bonds would also be seriously expensive *at this stage*. Seat PG can redeem these bonds at a spread equivalent to Bund + 50 bps. Based on the coupon of 8%, this would imply a current price of 109.05 vs. the 100 face value and current price of 107.71.

This means that, to refinance €1300m of debt (measured in Seat PG's balance sheet at face value), the group would have to pay €1417.7m, an additional €117.7m (9.05% of face value). Based on the analysis above, this means that of the €1,1bn recapitalization, over 10% would be absorbed by 'make whole' premium.

Figure 11. Calculating the Make-Whole Penalty on Refinancing Seat PG High Yield Bonds Today (€m)

Gross Amount of HY Bonds (A)	1,300
Face Value (B)	100.00
Bund + 50 bps based on 8% coupon (C)	109.05
Current Price	107.71
Makewhole Premium (=A*(C/B)-A)	117.65

Source: Citigroup Investment Research

Our conclusion is that, *at this stage*, a recapitalization of Seat PG is simply not worth it.²

² As we discuss below the emphasis should be on 'at this stage'. As we discuss below, over time the group will be able to pay down more debt, and in April 2009 will have the option to call the HY bonds at a significantly lower rate. Just because a recapitalization doesn't work now, does not exclude the possibility that it will work at some point in the future.

What about a Secondary LBO?

Many of the issues that make a recapitalization less attractive will also make a secondary LBO of Seat PG less interesting. We calculate that a full secondary LBO at the current price would yield an IRR of 12.6% over three years assuming 6.25x Net Debt/EBITDA, an 8.0% cost of financing and an exit multiple of 10.7x EBITDA, in line with the current multiple.

In our view this would be insufficient to warrant investment. Note that at a 15% premium, the IRR would be just 6.3%.

Figure 12. Seat Pagine Gialle – Secondary LBO Analysis (€m)

Share price (EUR)	1.42
Premium paid	0.00%
Acquisition share price (EUR)	0.42
Basic shares outstanding (mn)	8460
Dilution adjustment	0
Diluted shares outstanding (mn)	8460
Equity value	3,869.7
2006 Net debt	3,305.2
Enterprise value	7,173.9
Current year EBITDA	670.7
Current year EBITDA multiple	10.7x
Fees % of Enterprise Value	1.8%
Interest income on cash	3.2%
Exit year	3
Exit EBITDA multiple	10.7x
Acquisition price	3,869.7
Refinanced debt	3,305.2
Fees	117.0
Total uses of funds	7,291.9
Senior debt	2,347.6
Sub. debt	1,844.5
Shareholder loan	1,850.3
Cash equity	1,239.5
Equity	3,098.8
Total sources of funds	7,290.9
NPV and IRR - 1	
IRR	12.6%
Present value of future cash flows	3,443
Assumed discount rate	8.5%
Net present value	345

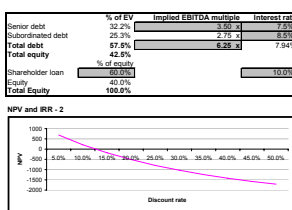


Figure 13. Sensitivity of IRR to Share Price and Exit Multiples (>25% shaded)

Exit multiple at year 3	SEAT Pagine Gialle share price (EUR)					
	0.41	0.43	0.46	0.48	0.50	0.53
9.2x	6.4%	3.9%	1.7%	-0.4%	-2.3%	-4.1%
9.7x	10.4%	7.9%	5.6%	3.4%	1.5%	-0.4%
10.2x	14.2%	11.6%	9.2%	7.0%	5.0%	3.1%
10.7x	17.7%	15.0%	12.6%	10.3%	8.2%	6.3%
11.2x	21.1%	18.3%	15.8%	13.4%	11.3%	9.3%
11.7x	24.2%	21.4%	18.8%	16.4%	14.2%	12.2%
12.2x	27.2%	24.3%	21.7%	19.2%	17.0%	14.9%
	-10.0%	-5.0%	0.0%	5.0%	10.0%	15.0%

Premium to current price

Source: Citigroup Investment Research

Source: Citigroup Investment Research

One way a secondary LBO could work is if there is a structure that could be set up that once again reduced the tax rate. This is possible but difficult to forecast.

An alternative would be to sell off some of Seat PG's assets in order to lower the invested capital, the obvious target being Thomson. Assuming an asset value of £300m (c. 11x 2007E EBITDA) would increase the IRR on a Seat PG secondary LBO by 50bps. This is not enough to sway the whole investment thesis in our view.

We See Three Options for VCs

Rather than a recapitalization or a secondary LBO, we see three options for the VC shareholders in Seat PG.

Option 1: Sale to/Merger with Third Party

First, it is important to note that a complete exit is a route that the VCs are likely to consider. The investment is now in its fifth year and we believe the simple LBO story is now complete. Now would be a natural time to consider a sale of the asset, given the group is approaching 'normal' levels of financial gearing and has an attractive equity story (see chapter below). Moreover based on a market cap valuation of the VCs stake, the return on investment is handsome – we estimate the VCs IRR at c. 28.5%.

Figure 14. Timing of Key Events and Estimated Cash Flows for VCs (€m)

Type of Transaction	Initial Consideration	Tender Offer	Sale of stake to Lehman	Special Dividend	Ordinary Dividend	Ordinary Dividend	Sale Based On Current Market Cap
Date	June 2003	Sept 2003	Apr 2004	Apr 2004	May 2006	May 2007	Now
Cash Flow for VCs	-3,030.0	-49.3	804.0	2,200.6	21.4	43.4	1,953.7
% of share capital	61.5%	1.0%	-12.4%				50.1%

Source: Company Reports and Citigroup Investment Research

Figure 15. VCs' IRR Based on Sale at Today's Share Price

	2003	2004	2005	2006	2007
Cash Outflow/Inflow	-3,079.3	3,004.6	0.0	21.4	1,997.1
IRR	28.5%				

Source: Citigroup Investment Research

Figure 16. Sensitivity of IRR to variations in Share Price

	Seat Pagine Gialle Share Price						
VC IRR at different prices	0.412	0.434	0.457	0.480	0.504	0.529	0.555
	26.8%	27.7%	28.5%	29.4%	30.3%	31.2%	32.1%

Source: Citigroup Investment Research

It is feasible that the VC shareholders in Seat PG sell their stake in Seat PG to a trade buyer. Alternatively, as major shareholders, they could put pressure on management to pursue a merger with a third party.

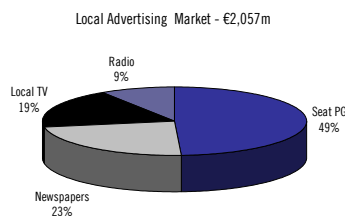
The problem with this option is in finding a suitable third party to whom the VCs can sell their stake/with whom Seat PG can be merged.

It is possible that a domestic media company may be interested in controlling the group, although note that there are potential concentration issues. In principle, the most likely *domestic* concentration would involve another local media player, but here Seat PG's position (49% share) is such that any deal would likely attract regulatory scrutiny.

Even looking at the wider Italian media landscape, it is possible that a deal with Seat PG could fall foul of the Gasparri restrictions on media ownership.

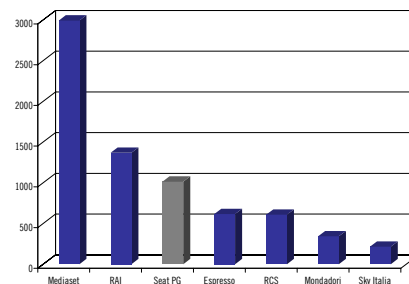
We therefore conclude that if a trade partner is to be found, it is more likely to be a non-domestic yellow pages company than a domestic media company.

Figure 17. Local Advertising in Italy, 2006



Source: Company Reports

Figure 18. Top Media Companies by Ad Revenue



Source: Company Reports

Whilst there are some benefits in cross border ownership of Yellow Pages assets – note that Seat PG itself has operations in the UK (Thomson) and Germany/France (Telegate) – these are largely ‘soft’ in nature, relating to sharing of best practice and R&D and some savings on procurement, in particular on paper.

The main areas of the cost base – namely database, sales force and A&P – would not be affected at all by merging with international partners.

Notwithstanding these issues, potential interested parties could be PagesJaunes in France and Yell in the UK. Given high leverage at both companies however, it is difficult to see how a transaction could be financed by either company.

Option 2: Secondary Placing

A second mode of sale could be a secondary offering of the VCs shares. This could be complete or partial. In practice we think this route is unlikely.

On the one hand it is useful that there is an existing listing and that therefore the market is familiar with the story for Seat PG. A secondary offering could also be carried out at relatively short notice.

On the other hand, however, we would anticipate the sheer size of a placing (their 50.14% stake is worth nearly €2bn at the current price) to cause significant ‘technical’ pressure on the share price.

We would see this as the least preferred of the options available to the VCs.

Option 3: Doing Nothing or Increasing their Stake

If a recapitalization/secondary LBO is impractical, a third party trade buyer cannot be found, or the VCs find the idea of a secondary offering of the shares unpalatable, there are only two remaining options. Either do nothing, or increase their stake.

We would see an increase in their stake as unlikely for the simple reason that buying more shares would not alter the level of return the VCs could make. The VCs have control over the asset, so investment over the current level would not be needed to facilitate any change in strategy/capital structure. This is the reason why the VCs ended up selling down their stake from 62.5% in April 2004 – anything over 50% represented excess capital investment.

On balance we think doing nothing is probably the most likely outcome given the issues that we highlight with the recap, the problems with the various exit options and the lack of rationale for increasing their stake.

As always with the potential for corporate action, travelling tends to be better than arriving. If there is a firm statement that the VCs are not considering changes near-term, we believe the market will take this as confirmation that the journey hasn’t even started and consequently may be taken poorly.

Looking Forward - 2009

Just because changes to the capital structure do not work at present, doesn't mean that they won't work at some point in the future.

We believe a recapitalization or secondary LBO of the group will start to look more attractive again from 2009E. There are three reasons for this:

- **First, the re-leverage opportunity will be all the more significant.** By the end of 2009E we forecast net debt/EBITDA of 3.62x. We see no reason why, ceteris paribus with respect to interest rates, the group shouldn't move up to 6.25x as per our assumption in the sensitivity above.
- **Second, as of 2009E EBITDA will be higher and the group's prospects should look even better.** At this point, the group will be half way through implementing the 2008E-2010E industrial plan. At this stage – as we discuss below in more detail – we would expect the group to have returned to growth within Italian printed directories and we would expect a sharpish rebound in Thomson on the back of restructuring and the first impact of a deregulated market.
- **Third, in April 2009E Seat PG can call its High Yield bonds at 104 vs. their face value of 100.** At this stage therefore the 'makewhole' premium would be only €52m vs. the €118m in 2007E.

Figure 19. The Potential Return From Re-Leverage Will be Larger in 2009E...

2009E EBITDA	733.4
2009E Net Debt	2,657
2009E Net Debt/EBITDA	3.62
Projected Net debt/EBITDA multiple	6.25
Releverage Potential	1,927
Per share (€)	0.228

Source: Citigroup Investment Research

Figure 20. ...and the Cost of Re-Leverage will be Lower

Gross Amount of HY Bonds (A)	1,300
Face Value (B)	100.00
Cost as per Call Option Agreement ('C')	104.00
Current Price	107.71
Additional Cost of Refinancing in 2009E (=A*(C/B)-A)	52

Source: Citigroup Investment Research

Operational Focus: Improving Trends; Deteriorating Tax

From an operational point of view, 2007E-2010E should be an exciting time. In the near-term the anticipated turnaround in the Italian print directories is an extremely strong validation of the management's focus on improving the product and bolstering the sales force. Over the medium-term, we believe the group's online strategy (initially in Italy, but over time in Germany via Telegate) will bear fruit.

While we forecast revenues in line with guidance, we believe the group may end up outperforming its guidance on EBITDA growth. This is reflected in our forecasts.

Down to the EBITDA line, therefore, the operational story is very compelling.

Unfortunately the water is muddied somewhat when we move from EBITDA growth to cash generation, and in particular equity free cash flow. This is not because of higher capex as some commentators have suggested – the factors that drive the capex guidance of €190-200m (vs. c. €160m in 2005-2007E) are one-off in nature – rather it is a function of the anticipated increase in the cash tax rate.

Consequently 5.5% EBITDA growth becomes less than 0% equity free cash flow growth. This ultimately is more important for valuation.

Likewise the increase in the appropriate tax rate has an effect on the return profile for the business. Despite strong EBITDA growth, we actually expect ROIC to fall between 2007E and 2010E, only reaching 2007E levels by 2011-2012.

We believe this leaves the operational improvement inherent within the 2008-2010E industrial plan as no more than an interesting diversion. As we argue above, however frustrating it is for 'fundamental' analysts, the debate over capital structure should take precedence.

We Believe 2008-2010E Guidance Could Prove Conservative

At the 1Q results Seat PG unveiled its industrial plan for the period 2008E-2010E. We show the main tenets of Seat PG's operational guidance, and our forecasts, in the table below.

We believe the group's guidance could prove conservative. We note that our forecasts assume margins in 2010E no higher than in 2006A, with the exception of Telegate, where the 2006 numbers were impacted by extraordinary levels of A&P spend.

We also note that the exciting operational trends are not just restricted to EBITDA growth. The group's recently announced JV with Dogan Yayin Holding (DYHOL.IS - YTL5.25; Not Rated) could yield a relatively meaningful return over time given the absence of any meaningful Yellow Pages offering in Turkey.

Figure 21. Seat Pagine Gialle – Citigroup Forecasts vs. Company Guidance, 2007-2010E

	Guidance 2007E-2010E CAGR	Citigroup Forecast 2007E-2010E CAGR
Seat Pagine Gialle S.p.A.		
<i>Yellow and White Pages</i>	<i>'Inflation-like'</i>	<i>c.4.0% inc. Local Directories</i>
<i>New Local Directories</i>	<i>'Strong double digit growth'</i>	
<i>Total Print</i>	<i>'Inflation-plus'</i>	3.9%
<i>Online</i>	15%-20%	14.9%
<i>Voice</i>	<i>'Mid-single digit'</i>	5.0%
Total Revenues	5.5%-6.5%	5.7%
EBITDA	4.0%-5.0%	5.5%
Seat Pagine Gialle Group		
Total Revenues	4.5%-5.5%	5.3%
EBITDA	4.0%-5.0%	5.2%

Source: Company Reports and Citigroup Investment Research estimates

Anticipated Increases in P&L and Cash Tax Rates Muddy the Water

However as we move down the P&L and on to the cash flow, we argue that the 'operational' story becomes less compelling.

At the time of the presentation of the industrial plan in May, one concern the market had was the guidance on capital expenditure (see figure below for exact figures) and the fact that this could cause depreciation charges to rise, thus pressuring EBIT margins. We do not see this as a significant issue – the anticipated step-up in capital expenditure (by €30m) is down to one-off factors, namely investment in property and the implementation of SAP.

Rather the main changes relate to tax.

We expect both the P&L and cash taxes to increase. Indeed, with regard to the latter, we note that over the past three years, the group has barely paid any tax at all. This is a function of the amortization of acquisition-related intangibles created at the time of the sale of the Seat PG stake to the VCs, amortised over six years for accounting purposes and over three years for tax purposes.³

As a consequence of this, while we expect EBITDA CAGR of 5.2% between 2007 and 2010E, we anticipate EPS CAGR of just 4.7% despite the anticipated deleverage. In terms of equity free cash flow (as opposed to operating free cash flow) we actually expect a 2.8% compound annual decline over 2007E-2010E. Only by 2011E does equity free cash flow start to grow again.

³ We discuss this in more detail in the section above on Capital Structure.

Figure 22. Seat Pagine Gialle – Citigroup Cash Flow Forecasts vs. Company Guidance, 2008-2010E (€)

	Guidance 2008E-2010E Cumulative	Citigroup Forecast 2008E-2010E Cumulative
Capex	190-200m	189.9m
Operating Cash Flow	1.8-1.9bn	1,945m
Net Interest Expense	'Decreasing with deleverage'	232m - 210m
Free Cash Flow	0.8-0.9bn	891m

Source: Company Reports and Citigroup Investment Research estimates

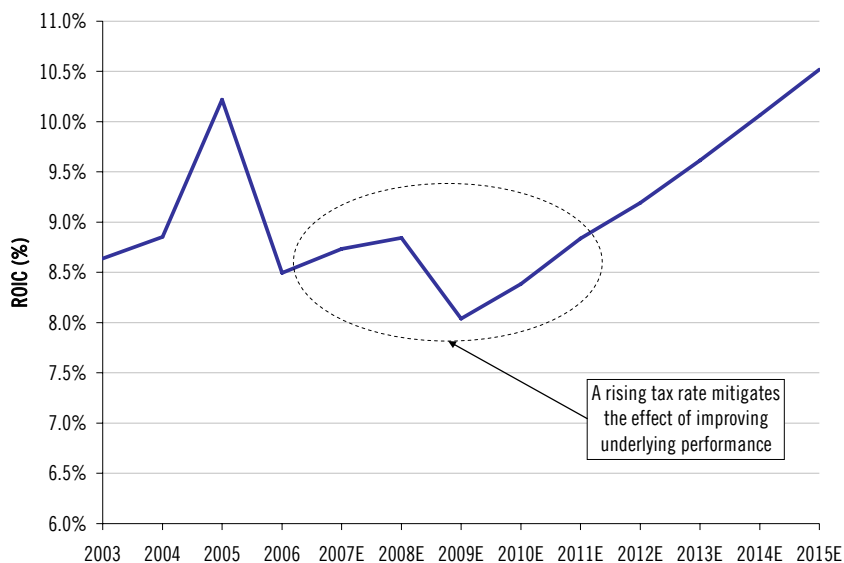
We Anticipate no Change in ROIC 2007E-2011E

We believe that a rising return profile is an important driver of share price performance. However, because of the issues we highlight with tax, we do not anticipate any material improvement in ROIC (as measured by NOPAT/Invested Capital) over the period 2006-2010E.

Frustratingly, this leads us to conclude that the 'operational story' at Seat PG is in reality little more than an interesting diversion.

Clearly if the company can materially outperform its own guidance and our expectations, this could prove an interesting catalyst. However to do this, we believe the company would have to either find another structure to defer cash tax payments, or make improvements in working capital management.

Figure 23. Seat Pagine Gialle – ROIC Profile, 2003-2015E (Year-end December)



Source: Company Reports and Citigroup Investment Research

Key Operational Forecasts by Division

Seat Pagine Gialle S.p.A. (Italian Directories)

Key assumptions:

- We assume very marginal revenue growth within Print Directories for Seat PG S.p.A. (the Italian business) in 2007E. Thereafter, we assume a healthy level of growth in both yellow and white pages on the back of a revamped product, further rollout of colour in white pages and a reinvigorated sales force.
- We expect material growth over the forecast period within the division's online operations. In particular we highlight the group's Yellow Pages website (www.paginegialle.it) as being a key driver of growth. Here the group should benefit from ongoing strength in overall traffic (in our view, Seat's offering is the best online directory service in Europe) and the launch of specific service, e.g. PG Visual (a service that offers SMEs video advertising via the Seat website).
- We anticipate a relatively quick moderation in growth within Voice-based directory assistance. While there is some scope for further market consolidation in the near-term, the basic building blocks of Seat's offering are already there – 89.24.24 offers a 'value added' directory assistance service (i.e. it will offer suggestions), whereas 12.40 is a simple directory inquiry service.
- Looking at profitability, we expect some near-term reduction in margins as the division invests more heavily in advertising and promotion. The group expects that it will invest c. 5% of revenues in A&P going forward. This seems reasonable in a European context (Yell invests a similar relative amount). Over time the impact on this in terms of margin is expected to moderate as the group garners efficiencies in industrial costs (printing, pre-press etc.) and other operating costs.
- We assume 2010E EBITDA margins of 50.1% vs. a similar level in 2004 and 50.3% in 2006. At the EBITA level we expect an incremental hit from higher operating depreciation, although this also moderates once the one-off investment in property and SAP fades away post 2009E.
- It is important to note that we assume the non-operating amortization of acquisition-related intangibles falls away from €162m in 2007E/2008E, to €94.5m in 2009E and to zero in 2010E.
- In terms of cash flow, the important change we forecast is with respect to capital expenditure. Note that the anticipated spike in capex in 2008E (to c. 6.0% of sales) includes €30m of one-off expenditure on property and SAP implementation.

Figure 24. Seat Pagine Gialle S.p.A. – Revenue Forecasts by Activity (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
<i>PagineGialle (Yellow Pages)</i>	443.3	427.8	401.4	371.7	368.0	382.7	398.0	414.0	430.5
% change	-2.6%	-3.5%	-6.2%	-7.4%	-1.0%	4.0%	4.0%	4.0%	4.0%
as % of Italian Directories revenues	42.0%	40.4%	37.8%	34.5%	32.8%	32.1%	31.5%	31.2%	30.8%
<i>PagineBianche (White Pages)</i>	382.3	386.5	384.4	385.7	389.6	405.2	421.4	438.2	455.8
% change	0.2%	1.1%	-0.5%	0.4%	1.0%	4.0%	4.0%	4.0%	4.0%
as % of Italian Directories revenues	36.2%	36.5%	36.2%	35.8%	34.7%	33.9%	33.4%	33.0%	32.7%
<i>PagineGialle Professional</i>	15.0	15.0	15.9	15.1	15.5	16.0	16.5	17.0	17.5
% change	0.0%	0.0%	6.2%	-5.3%	3.0%	3.0%	3.0%	3.0%	3.0%
as % of Italian Directories revenues	1.4%	1.4%	1.5%	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%
<i>Other (PagineBianche Office, TuttoCitta, Eccomi, Infiera)</i>	42.4	30.2	32.9	29.1	30.0	30.9	31.8	32.7	33.7
% change	-0.5%	-28.8%	9.0%	-11.6%	3.0%	3.0%	3.0%	3.0%	3.0%
as % of Italian Directories revenues	4.0%	2.8%	3.1%	2.7%	2.7%	2.6%	2.5%	2.5%	2.4%
Total Print Revenues	883.0	859.5	834.6	801.7	803.1	834.8	867.7	901.9	937.5
% change	-1.3%	-2.7%	-2.9%	-3.9%	0.2%	3.9%	3.9%	3.9%	3.9%
as % of Italian Directories revenues	83.6%	81.1%	78.6%	74.4%	71.5%	69.9%	68.7%	67.9%	67.2%
PagineGialle.it, PagineGialle Visual & Other Online	85.3	98.1	115.7	129.3	161.6	193.9	223.0	245.3	269.9
% change	19.6%	15.0%	18.0%	11.7%	25.0%	20.0%	15.0%	10.0%	10.0%
as % of Italian Directories revenues	8.1%	9.3%	10.9%	12.0%	14.4%	16.2%	17.7%	18.5%	19.3%
89.24.24, 12.40 & Other Voice	44.7	55.0	69.0	103.4	113.8	119.5	125.4	131.7	138.3
% change	35.5%	23.0%	25.5%	49.9%	10.0%	5.0%	5.0%	5.0%	5.0%
as % of Italian Directories revenues	4.2%	5.2%	6.5%	9.6%	10.1%	10.0%	9.9%	9.9%	9.9%
GialloDat@, GialloPromo, PagineGialleNAV	43.6	47.1	42.5	43.1	44.4	45.7	47.1	48.5	50.0
% change	11.8%	8.0%	-9.8%	1.5%	3.0%	3.0%	3.0%	3.0%	3.0%
as % of Italian Directories revenues	4.1%	4.4%	4.0%	4.0%	4.0%	3.8%	3.7%	3.7%	3.6%
Seat Pagine Gialle S.p.A. Revenues	1,056.6	1,059.7	1,061.8	1,077.5	1,122.9	1,193.9	1,263.3	1,327.5	1,395.7
% change	1.8%	0.3%	0.2%	1.5%	4.2%	6.3%	5.8%	5.1%	5.1%

Source: Company Reports and Citigroup Investment Research estimates

Figure 25. Seat Pagine Gialle S.p.A. – Financial Forecasts (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
Seat Pagine Gialle S.p.A. Revenues	1,056.6	1,059.7	1,061.8	1,077.5	1,122.9	1,193.9	1,263.3	1,327.5	1,395.7
% change	1.8%	0.3%	0.2%	1.5%	4.2%	6.3%	5.8%	5.1%	5.1%
Direct cost of sales	-473.8	-474.4	-474.3	-491.7	-512.4	-561.2	-591.2	-610.7	-642.0
% change		0.1%	0.0%	3.7%	4.2%	9.5%	5.4%	3.3%	5.1%
Gross operating profit	582.8	585.3	587.5	585.8	610.5	632.8	672.1	716.9	753.7
% margin	55.2%	55.2%	55.3%	54.4%	54.4%	53.0%	53.2%	54.0%	54.0%
% change		0.4%	0.4%	-0.3%	4.2%	3.7%	6.2%	6.7%	5.1%
Operating costs	-59.9	-54.5	-52.3	-43.4	-43.4	-46.1	-48.8	-51.3	-53.9
% change		-9.0%	-4.0%	-17.0%	0.0%	6.3%	5.8%	5.1%	5.1%
EBITDA	522.9	530.8	535.2	542.4	567.1	586.6	623.2	665.6	699.7
% margin	49.5%	50.1%	50.4%	50.3%	50.5%	49.1%	49.3%	50.1%	50.1%
% change		1.5%	0.8%	1.3%	4.6%	3.4%	6.2%	6.8%	5.1%
Operating D&A as % revenues	-16.8 -1.6%	-17.3 -1.6%	-19.3 -1.8%	-19.7 -1.8%	-33.7 -3.0%	-41.8 -3.5%	-44.2 -3.5%	-46.5 -3.5%	-41.9 -3.0%
Non-operating D&A	-194.9	-162.0	-162.1	-162.0	-162.0	-162.0	-94.5	0.0	0.0
Restructuring charges	0.0	-30.4	-10.0	-12.7	-5.0	-5.0	-5.0	-5.0	-5.0
Operating income (EBIT)	311.3	321.1	343.8	348.0	366.4	377.8	479.5	614.1	652.9
% margin	29.5%	30.3%	32.4%	32.3%	32.6%	31.6%	38.0%	46.3%	46.8%
% change		3.2%	7.1%	1.2%	5.3%	3.1%	26.9%	28.1%	6.3%
Cash Flow Forecasts									
Capital Expenditure	-18.2	-20.6	-27.6	-35.1	-44.9	-71.6	-37.9	-39.8	-41.9
as % of sales	-1.7%	-1.9%	-2.6%	-3.3%	-4.0%	-6.0%	-3.0%	-3.0%	-3.0%
% change		13.4%	34.0%	27.2%	28.0%	59.5%	-47.1%	5.1%	5.1%
Change in working capital		39.1	20.4	-1.7	-11.4	-17.8	-17.3	-16.1	-17.0
as % of change of sales		1272.9%	952.6%	-10.8%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
Net invested capital		4,541.5	4,493.4	4,327.6	4,176.8	4,044.6	3,943.8	3,937.2	3,937.2
Implied asset turnover (Sales/Net invested capital)		0.23	0.24	0.25	0.27	0.30	0.32	0.34	0.35
Pre-Tax ROIC		11.2%	11.3%	11.7%	12.5%	12.7%	14.8%	15.9%	16.7%

Source: Company Reports and Citigroup Investment Research estimates

Thomson (UK Directories)

Key assumptions:

- We expect the near-term forecasts to be impacted by two significant events. First, the proposed deregulation of the Yellow Pages market in the UK from April 2008. Second, the conclusion of the two-year restructuring programme currently being implemented at the group.

- In terms of print revenues, we forecast marginal declines in both 2007E and 2008E on the back of the continued impact of increased competition. From 2009E, when Thomson will see the full benefit of the regulatory change – i.e. its main competitor won't be decreasing prices by 6% in real terms each year – we believe the print business will return to growth.
- We expect strong growth in online on the back of the group's additional search engine marketing offering, which allows SMEs to gain access to major search engines and portals in the UK.
- From a margin point of view (especially EBITA), we see 2007E and 2008E as years of change. We anticipate a decline in margins on the back of continued investment in the book (implementation of the Nectar customer loyalty feature), unification of the sales force and the development and roll out of new IT support for field reps (something Yell did four or five years ago).
- From 2009E, however we expect EBITDA margins to stabilize at 21.8% vs. 22.7% in 2006.
- From a capital expenditure point of view, we do expect an up-tick in spend levels as the group invests in IT, however we assume spend levels out longer-term at c. 3.0% of revenues.

Figure 26. Thomson Directories – Financial Forecasts (Year-end December, £m except where stated)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
P&L Forecasts (£m)									
Print Revenues	93.1	98.7	93.4	99.9	95.9	94.0	98.7	103.6	106.7
% change		6.0%	-5.4%	7.0%	-4.0%	-2.0%	5.0%	5.0%	3.0%
as % of UK Directories revenues	88.3%	85.5%	77.8%	84.5%	80.8%	78.4%	76.9%	75.4%	74.2%
Online Revenues	5.2	9.0	11.6	16.6	20.8	23.9	27.4	31.6	34.7
% change		73.1%	28.9%	43.1%	25.0%	15.0%	15.0%	15.0%	10.0%
as % of UK Directories revenues	4.9%	7.8%	9.7%	14.0%	17.5%	19.9%	21.4%	23.0%	24.1%
Other Revenues	7.1	7.7	15.1	1.8	2.0	2.1	2.2	2.3	2.4
% change		7.7%	95.8%	-88.2%	12.6%	5.0%	5.0%	5.0%	5.0%
as % of UK Directories revenues	6.8%	6.7%	12.6%	1.5%	1.7%	1.8%	1.7%	1.7%	1.7%
Thomson Revenues	105.4	115.4	120.1	118.3	118.7	119.9	128.3	137.5	143.9
% change		9.5%	4.1%	-1.5%	0.3%	1.1%	7.0%	7.1%	4.6%
Direct cost of sales	-72.0	-84.6	-87.3	-87.7	-87.9	-92.4	-96.2	-103.1	-107.9
% change		17.5%	3.1%	0.5%	0.3%	5.0%	4.2%	7.1%	4.6%
Gross operating profit	33.4	30.7	32.8	30.6	30.7	27.6	32.1	34.4	36.0
% margin	31.7%	26.6%	27.3%	25.9%	25.9%	23.0%	25.0%	25.0%	25.0%
% change		-8.0%	6.8%	-6.7%	0.4%	-10.2%	16.3%	7.1%	4.6%
Operating costs (bad debt expense)	-4.1	-3.9	-4.1	-3.8	-3.8	-3.9	-4.1	-4.4	-4.6
% change		-6.3%	6.1%	-7.0%	0.3%	1.1%	7.0%	7.1%	4.6%
EBITDA	29.3	26.9	28.7	26.8	26.9	23.7	27.9	29.9	31.3
% margin	27.8%	23.3%	23.9%	22.7%	22.7%	19.8%	21.8%	21.8%	21.8%
% change		-8.2%	6.9%	-6.7%	0.4%	-11.8%	17.8%	7.1%	4.6%
Operating D&A	-2.4	-2.6	-4.2	-2.9	-3.6	-4.2	-4.5	-4.8	-4.3
as % revenues	-2.2%	-2.2%	-3.5%	-2.4%	-3.0%	-3.5%	-3.5%	-3.5%	-3.0%
Operating income (EBIT)	26.9	24.3	24.5	23.9	23.3	19.5	23.4	25.1	27.0
% margin	25.5%	21.1%	20.4%	20.2%	19.7%	16.3%	18.3%	18.3%	18.8%
% change		-9.7%	1.0%	-2.5%	-2.4%	-16.4%	20.1%	7.1%	7.5%
Cash Flow Forecasts (£m)									
Capital Expenditure	-1.3	-2.1	-1.9	-1.9	-4.2	-4.2	-4.5	-4.8	-4.3
as % of sales	-1.2%	-1.8%	-1.6%	-1.6%	-3.5%	-3.5%	-3.5%	-3.5%	-3.0%
% change		64.8%	-9.0%	-0.3%	117.6%	1.1%	7.0%	7.1%	-10.3%
Change in working capital					-0.1	-0.3	-2.1	-2.3	-1.6
as % of change of sales					-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
Net invested capital		145.6	158.5	151.1	151.7	151.7	151.7	151.7	151.7
Implied asset turnover (Sales/Net invested capital)		0.79	0.76	0.78	0.78	0.79	0.85	0.91	0.95
Pre-Tax ROIC		17.0%	16.9%	16.5%	15.0%	12.9%	15.5%	16.6%	17.8%
Key Financial Forecasts (£m)									
Revenue	151.1	170.0	175.6	173.5	174.4	176.3	188.6	202.1	211.5
Gross operating profit	47.9	45.3	48.0	44.9	45.2	40.6	47.2	50.5	52.9
EBITDA	42.0	39.6	42.0	39.3	39.5	34.9	41.1	44.0	46.0
Operating income (EBIT)	38.6	35.8	35.9	35.1	34.3	28.7	34.5	36.9	39.7

Capital Expenditure	-1.8	-3.1	-2.8	-2.8	-6.1	-6.2	-6.6	-7.1	-6.3
Change in working capital					-0.1	-0.5	-3.1	-3.4	-2.3
Net invested capital	0.0	214.5	231.8	221.6	222.9	222.9	222.9	222.9	222.9

Source: Company Reports and Citigroup Investment Research estimates

Telegate A.G. (Voice-based Directory Assistance in Germany, France and Spain)

Key assumptions:

- Telegate is 78.28% owned by Seat Pagine Group.
- The main strategic development we expect at Telegate is the launch of an internet offering in Germany, based off its voice-based directory assistance brand, 11880.
- While we do not split this out in our forecasts, implicitly we include this in our 4.0% LT revenue growth forecast.
- The main change in the near-term is the pull back in the level of A&P expenditure. This is critical for the group to achieve its 2007E EBITDA guidance of €50m. We forecast €50.5m.
- Longer-term, whether this pull-back is sustainable will be critical to determining whether the group will be able to achieve its aspiration of having 'profitable and sustainable' positions in Spain and France.
- We believe it will be; hence our assumption of flat margins (at 27.1%) from 2007E.
- In terms of capital expenditure, we do expect a slight tick-up as the business invests in building out the new online offering, but expect this to normalise at c. 3.0% of revenues from 2010E/2011E.

Figure 27. Telegate A.G. – Financial Forecasts (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
P&L Forecasts									
Telegate A.G. Revenues	138.7	143.8	150.2	178.9	186.1	193.5	201.2	209.3	217.7
% change		3.7%	4.5%	19.1%	4.0%	4.0%	4.0%	4.0%	4.0%
Direct cost of sales as % revenue	-107.4	-103.2	-80.6	-109.2	-113.6	-118.1	-122.8	-127.7	-132.9
		-71.8%	-53.7%	-61.0%	-61.0%	-61.0%	-61.0%	-61.0%	-61.0%
Advertising Costs as % revenue			-28.2	-53.3	-22.3	-23.2	-24.1	-25.1	-26.1
			-18.8%	-29.8%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%
Gross operating profit	31.2	40.6	41.4	16.4	50.2	52.2	54.3	56.4	58.7
% margin	22.5%	28.2%	27.6%	9.2%	27.0%	27.0%	27.0%	27.0%	27.0%
% change		30.0%	2.0%	-60.4%	205.9%	4.0%	4.0%	4.0%	4.0%
Operating costs (bad debt expense) % change	-4.7	-5.4	-4.4	0.3	0.3	0.3	0.3	0.4	0.4
		15.4%	-18.5%	-106.8%	5.0%	5.0%	5.0%	5.0%	5.0%
EBITDA	26.5	35.2	37.0	16.7	50.5	52.5	54.6	56.8	59.1
% margin	19.1%	24.5%	24.6%	9.3%	27.1%	27.1%	27.1%	27.1%	27.1%
% change		32.6%	5.1%	-54.9%	202.3%	4.0%	4.0%	4.0%	4.0%
Operating D&A as % revenues	-8.2	-8.8	-5.9	-6.4	-7.4	-6.9	-7.2	-7.5	-6.5
	-5.9%	-6.1%	-3.9%	-3.6%	-4.0%	-3.6%	-3.6%	-3.6%	-3.0%
Operating income (EBIT)	18.4	26.4	31.1	10.3	43.0	45.6	47.4	49.3	52.5
% margin	13.3%	18.4%	20.7%	5.8%	23.1%	23.6%	23.6%	23.6%	24.1%
% change		43.6%	17.8%	-66.9%	317.8%	5.9%	4.0%	4.0%	6.6%
Cash Flow Forecasts									
Capital Expenditure	-2.6	-3.8	-11.5	-5.3	-6.7	-7.0	-7.2	-7.5	-6.5
as % of sales	-1.9%	-2.6%	-7.7%	-3.0%	-3.6%	-3.6%	-3.6%	-3.6%	-3.0%
% change		45.6%	202.6%	-53.9%	26.4%	4.0%	4.0%	4.0%	-13.3%
Change in working capital					-1.8	-1.9	-1.9	-2.0	-2.1
as % of change of sales					-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
Net invested capital		8.6	18.0	43.7	43.0	43.0	43.0	43.1	43.1
Implied asset turnover (Sales/Net invested capital)		16.72	8.34	4.09	4.33	4.50	4.68	4.86	5.05
Pre-Tax ROIC		365.1%	141.7%	26.1%	101.9%	105.9%	110.0%	114.3%	121.9%

Source: Company Reports and Citigroup Investment Research estimates

Other Activities (inc JVs)

Key assumptions:

- There are four main areas outside of the Italian directories business, Thomson in the UK and Telegate.
- Prontoseat S.r.l (100% owned) is the company with specific responsibility for running the 89.24.24 service for Seat Pagine Gialle S.p.A. in Italy. It also provides a video call service for H3G. The division contributed c. €1m of EBITDA in 2006.

- Consodata S.p.A. (100% owned) provides One-to-One Marketing and Geomarketing services. It uses Seat network to market to SMEs. In 2006 it generated EBITDA of €4.3m.
- Europages S.A. (93.562% owned) is a Pan-European B2B directory company. It provides its services across a number of different media, including print and CD-ROM. In 2006 the division generated €5.7m of EBITDA.
- Cipi S.p.A. (51% owned) is a product merchandising company. It operates across the value chain, both importing gadgets and personalizing them for SME clients. In 2006 the business generated EBITDA of €2.1m.
- In addition to the fully consolidated activities, over time we expect a more material contribution from the group's recently announced JV with Dogan Yayin Holding in Turkey.
- In the early stages of this JV, we anticipate a net outflow (incorporated in the cash flow statement) of c. €10m per annum. Over time however, we believe this could yield a material return given the low penetration of Yellow Pages in the Turkish market, and the relatively robust macro environment in Turkey (at least relative to Italy).
- Our assumption is the group will start to see a return of c. €4m per annum from 2010E. This would imply a pre-tax return of c. 13.0% p.a. in line with the return profile within Italian and UK directories.

Divisional Summary

Figure 28. Seat Pagine Gialle – Divisional Summary (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
Revenues									
Print	883.0	859.5	834.6	801.7	803.1	834.8	867.7	901.9	937.5
Online	85.3	98.1	115.7	129.3	161.6	193.9	223.0	245.3	269.9
Voice	44.7	55.0	69.0	103.4	113.8	119.5	125.4	131.7	138.3
Other	43.6	47.1	42.5	43.1	44.4	45.7	47.1	48.5	50.0
Italian Directories	1,056.6	1,059.7	1,061.8	1,077.5	1,122.9	1,193.9	1,263.3	1,327.5	1,395.7
UK Directories	151.1	170.0	175.6	173.5	174.4	176.3	188.6	202.1	211.5
Directory Assistance	142.8	150.0	159.5	188.7	196.3	204.3	212.6	221.2	230.2
Other Activities	54.7	79.5	78.8	76.6	78.9	81.3	83.7	86.2	88.8
Eliminations	49.9	-53.4	-51.1	-56.1	-58.9	-61.9	-65.0	-68.2	-71.6
Group	1,455.0	1,405.7	1,424.6	1,460.2	1,513.7	1,594.0	1,683.3	1,768.8	1,854.5
EBITDA									
Italian Directories	522.9	530.8	535.2	542.4	567.1	586.6	623.2	665.6	699.7
UK Directories	42.0	39.6	42.0	39.3	39.5	34.9	41.1	44.0	46.0
Directory Assistance	28.1	36.1	37.7	17.8	51.6	53.7	55.9	58.1	60.5
Other Activities	7.6	11.3	11.3	12.1	12.5	12.8	13.2	13.6	14.0
Eliminations	1.8	-3.4	0.4	-0.2	0.0	0.0	0.0	0.0	0.0
Group	602.3	614.4	626.6	611.4	670.7	688.1	733.4	781.3	820.3
Operating income (EBIT)									
Italian Directories	311.3	321.1	343.8	348.0	366.4	377.8	479.5	614.1	652.9
UK Directories	38.6	35.8	35.9	35.1	34.3	28.7	34.5	36.9	39.7
Directory Assistance	19.6	25.2	31.1	10.6	43.3	45.9	47.7	49.7	53.1
Other Activities	5.1	7.7	8.5	8.5	8.8	9.0	9.3	9.6	9.9
Eliminations	-44.3	-10.4	0.9	-0.1	0.0	0.0	0.0	0.0	0.0
Group	330.2	379.4	420.2	402.1	452.8	461.4	571.0	710.3	755.5
Growth/Margins									
Revenue Growth									
Italian Directories	1.8%	0.3%	0.2%	1.5%	4.2%	6.3%	5.8%	5.1%	5.1%
UK Directories		12.5%	3.3%	-1.2%	0.5%	1.1%	7.0%	7.1%	4.6%
Directory Assistance		5.0%	6.3%	18.3%	4.1%	4.1%	4.1%	4.1%	4.1%
Other Activities		45.4%	-0.9%	-2.8%	3.0%	3.0%	3.0%	3.0%	3.0%
Eliminations		-207.1%	-4.3%	9.8%	5.0%	5.0%	5.0%	5.0%	5.0%
Group		-3.4%	1.3%	2.5%	3.7%	5.3%	5.6%	5.1%	4.8%
EBITDA Margins									
Italian Directories	49.5%	50.1%	50.4%	50.3%	50.5%	49.1%	49.3%	50.1%	50.1%
UK Directories	27.8%	23.3%	23.9%	22.7%	22.7%	19.8%	21.8%	21.8%	21.8%
Directory Assistance	19.7%	24.1%	23.6%	9.4%	26.3%	26.3%	26.3%	26.3%	26.3%
Other Activities	14.0%	14.2%	14.3%	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%
Eliminations	3.6%	6.4%	-0.7%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Group	41.4%	43.7%	44.0%	41.9%	44.3%	43.2%	43.6%	44.2%	44.2%
EBITDA Growth									
Italian Directories		1.5%	0.8%	1.3%	4.6%	3.4%	6.2%	6.8%	5.1%
UK Directories		-5.6%	6.1%	-6.4%	0.6%	-11.8%	17.8%	7.1%	4.6%
Directory Assistance		28.6%	4.4%	-52.8%	190.1%	4.0%	4.0%	4.0%	4.0%
Other Activities		48.1%	0.0%	7.1%	3.0%	3.0%	3.0%	3.0%	3.0%
Eliminations		-291.4%	-110.5%	-148.9%	-100.0%				
Group		2.0%	2.0%	-2.4%	9.7%	2.6%	6.6%	6.5%	5.0%

Source: Company Reports and Citigroup Investment Research

Valuation: No Change to €0.49 Target Price

Our €0.49 price target on Seat Pagine Gialle is unchanged.

Figure 29. Seat Pagine Gialle – ETR Estimate

Current Price (€)	0.457
Target Price (€)	0.490
2007E DPS (€)	0.010
Upside to Target Price	7.2%
Dividend Yield	2.2%
Expected Total Return	9.4%

Source: Citigroup Investment Research

In relative terms, it is hard to argue that there is a standout valuation for Seat PG. Whilst arguably it has best near-term operational momentum, it is valued at a premium on each of the measures we look at, most notably EV/EBITDA which has the benefit of being both a leverage and tax-rate neutral metric for comparison.

In absolute terms, whilst we make some small adjustments to our forecasts (see section below), there is no significant change to our valuation. Our DCF-based analysis supports a valuation of €0.49 per share, whilst our SOTP analysis yields a value of €0.52.

Including the dividend, our €0.49 price target implies an Expected Total Return of 9.4%. Based on our Medium Risk Code, this is no longer enough to warrant a Buy recommendation, thereby supporting our downgrade to Hold.

Relative Valuation not Stand Out

One of the main difficulties in looking at relative valuation within the Yellow Pages directory space is deciding on a suitable metric. The reason for this is that the capital structure and tax situation of different groups can differ significantly, thereby distorting metrics bases on P&L/cash returns on equity.

We argue that this has been particularly true of Seat PG in the past, which has historically had much higher financial gearing than its peer group and lower cash taxes. This has meant that historically the group has looked good value on both P/E and P/FCF valuations.

Going forward, as Seat PG delevers and moves toward a normal tax profile (and the other directories take on more debt!), the distortions become less significant. It is therefore interesting to note that on these metrics, Seat now looks to be the most expensive of the directory publishers within our coverage.

Another way of neutralizing the distortion of financial leverage and tax rates is to look at EV/EBITDA. Once again, on this measure Seat PG also looks fairly valued trading at a slight premium to the peer group.

On relative metrics it is hard to build an investment thesis based on valuation alone, in our view.

Figure 30. Relative Metrics for Peers

Company name	Current Market		Adj. EV	EV/Revenues			EV/EBITDA			P/E			P/FCF			Dividend Yield		
	Price	Value		2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E
Eniro	SK87.5	15,934	25,713	3.8	3.7	3.6	11.5	10.5	9.8	15.1	12.8	11.3	12.6	10.6	9.5	4.3%	5.1%	5.8%
SEAT	€0.5	3,869	7,062	4.8	4.7	4.4	11.5	10.5	10.3	15.1	14.3	13.4	14.0	12.2	13.2	1.1%	2.2%	2.2%
Yell	484p	3,728	7,418	3.8	3.4	3.2	11.9	10.4	9.6	13.9	13.1	11.5	26.9	16.8	10.9	3.5%	3.8%	4.4%
Directories Average				4.2	3.9	3.7	11.6	10.5	9.9	14.7	13.4	12.1	17.9	13.2	11.2	3.0%	3.7%	4.2%

Source: Citigroup Investment Research (ENRO.ST - SKr85.75; 2M); (YELL.L - £4.84; 1M)

Absolute Valuation Supports €0.49 Price Target

We use two absolute valuation methodologies to value Seat PG, a straight DCF-based valuation for the group as a whole and a Sum-of-the-Parts analysis using divisional DCF analyses. Both valuation methodologies support our price target of €0.49 per share.

Group Discounted Cash Flow Analysis

For our DCF-based analysis we make the following assumptions:

- We assume a terminal growth rate of 3.0% and a CAPM-based WACC of 8.7%, even adjusting for the leverage within the group.
- Because we use a leverage-adjusted cost of capital, in our calculation of Enterprise free cash flow, we net off the impact of the tax shield on the interest charges. This is a harsh, but technically consistent way of valuing the group.
- We take out payments to minorities through the Enterprise free cash flow. This payment is based on the minorities charge in the P&L. This is more straight-forward than capitalizing the value of the minorities and netting this off the EV.
- We assume simple net debt.

Figure 31. Seat Pagine Gialle – Enterprise Free Cash Flow for DCF-based Analysis (Year-end December, €m)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Adjusted EBITDA	611.4	670.7	688.1	733.4	781.3	820.3	861.6	905.5	952.0	1001.6
less working capital	-58.7	-13.9	-20.7	-22.1	-21.1	-21.5	-22.8	-24.2	-25.6	-27.2
less cash tax	0.0	-40.0	-65.0	-140.0	-211.7	-231.1	-250.3	-278.4	-305.7	-305.7
less tax shield on interest	-55.0	-62.6	-58.2	-79.6	-78.9	-75.2	-70.6	-67.1	-55.8	-46.4
less capex	-48.3	-57.5	-84.5	-51.4	-54.0	-55.6	-58.3	-61.2	-64.2	-67.5
less minority dividends	-1.7	-6.7	-7.1	-7.4	-7.7	-8.1	-8.5	-8.8	-9.1	-9.5
less other	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise free cash flow	444.8	490.0	452.6	433.0	407.9	428.7	451.1	465.8	491.6	545.3
% conversion	72.7%	73.0%	65.8%	59.0%	52.2%	52.3%	52.4%	51.4%	51.6%	54.4%
% growth	-17.3%	10.2%	-7.6%	-4.3%	-5.8%	5.1%	5.2%	3.3%	5.5%	10.9%

Source: Company Reports and Citigroup Investment Research estimates

Figure 32. Seat Pagine Gialle – DCF Analysis Supports Fair Value of €0.49

Discount rate	8.7%
LT Growth	3.0%
NPV of cashflows	2,788
Terminal Multiple	18.1
Terminal Value	9,853
NPV of Terminal Value	4,651
Enterprise Value	7,439
less Net debt/(cash)	-3,305
Equity Value	4,134
Value per share	0.488

Source: Citigroup Investment Research

Figure 33. Sensitivity of FY to Terminal Growth Rate/WACC

		Discount rate						
		8.2%	8.5%	8.7%	9.0%	9.2%	9.5%	9.7%
LT Growth Rate	0.0%	0.332	0.310	0.288	0.268	0.249	0.231	0.214
	0.8%	0.374	0.349	0.324	0.301	0.280	0.260	0.241
	1.5%	0.426	0.396	0.368	0.341	0.317	0.294	0.272
	2.3%	0.491	0.454	0.421	0.390	0.361	0.335	0.310
	3.0%	0.574	0.529	0.488	0.451	0.417	0.385	0.356
	3.5%	0.644	0.591	0.544	0.501	0.462	0.426	0.393
	4.0%	0.731	0.668	0.612	0.561	0.516	0.474	0.437

Source: Citigroup Investment Research

DCF-Based Sum-of-the-Parts

Our secondary analysis is a SOTP analysis based on divisional DCFs of the respective divisions within Seat Pagine Gialle Group. This supports a valuation for the group of €0.52 per share. Our principal assumptions are as follows:

- Seat Pagine Gialle S.p.A. (Italian Directories): 8.7% discount rate; 3.0% LT growth.
- Thomson (UK Directories): 8.7% discount rate; 2.0% LT growth.
- Telegate A.G. (Pan Euro Voice based directory assistance): 8.7% discount rate; 2.5% LT growth.
- Other Activities: 8.7% discount rate; 3.0% LT growth.

Figure 34. Seat Pagine Gialle – SOTP Analysis based on Divisional DCF (Year-end 2008E)

	2008 Forecasts		2008 Multiples		Value	
	Revenues	EBITDA	Revenues	EBITDA	€m	Per Share
Seat PG S.p.A.	1193.9	586.6	5.6	11.5	6,722	0.7941
Thomson	176.3	34.9	1.9	9.7	339	0.0401
Telegate A.G.	193.5	52.5	2.4	9.0	472	0.0558
Other Activities	92.1	14.0	0.8	5.5	77	0.0091
Eliminations	-61.9	0.0	0.0	0.0	0	0.0000
Seat Pagine Gialle Group	1594.0	688.1	4.8	11.1	7,610	0.8990
Less Telegate A.G. Minority					-103	-0.0121
Less Other Minorities					-12	-0.0014
Less Worst Case Net Debt					-3,078	-0.3636
Equity Value					4,430	0.5233

Source: Citigroup Investment Research

Financial Forecasts

On the back of the 2006 results and the new 2008E-2010E Industrial Plan we have adjusted our forecasts for Seat PG. We summarise the key changes below.

Figure 35. Seat Pagine Gialle – Changes to Forecasts, 2006-2010E (Year-end December, €m)

	2006	2007E	2008E	2009E	2010E
Sales					
Old Forecast	1,479	1,553	1,636	NA	NA
New Forecast	1,460	1,514	1,594	1,683	1,769
% change	-1.3%	-2.5%	-2.5%	NM	NM
EBITDA					
Old Forecast	614.4	683.3	721.0	NA	NA
New Forecast	611.4	670.7	688.1	733.4	781.3
% change	-0.5%	-1.8%	-4.6%	NM	NM
Adjusted EPS (€)					
Old Forecast	0.023	0.031	0.035	NA	NA
New Forecast	0.030	0.032	0.034	0.033	0.037
% change	31.6%	3.0%	-2.3%	NM	NM
Equity FCF per Share (€)					
Old Forecast	0.047	0.058	0.064	NA	NA
New Forecast	0.033	0.037	0.035	0.036	0.034
% change	-30.5%	-35.4%	-45.9%	NM	NM

Source: Company Reports and Citigroup Investment Research estimates

Figure 36. Seat Pagine Gialle – Key Metrics, 2003-2015E (Year-end December)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Seat PG S.p.A. Organic Growth	1.8%	0.3%	0.2%	1.5%	4.2%	6.3%	5.8%	5.1%	5.1%	5.2%	5.2%	5.3%	5.4%
Thomson Organic Growth	0.0%	9.5%	4.1%	-1.5%	0.3%	1.1%	7.0%	7.1%	4.6%	4.7%	4.8%	4.9%	5.0%
Telegate Organic Growth	0.0%	3.7%	4.5%	19.1%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Total Revenue growth	0.0%	-3.4%	1.3%	2.5%	3.7%	5.3%	5.6%	5.1%	4.8%	4.9%	4.9%	5.0%	5.1%
Adjusted EBITDA growth	0.0%	2.0%	2.0%	-2.4%	9.7%	2.6%	6.6%	6.5%	5.0%	5.0%	5.1%	5.1%	5.2%
Adjusted EPS growth	1.2%	-12.1%	7.2%	-18.2%	5.5%	7.2%	-3.2%	10.7%	11.0%	9.3%	8.4%	11.4%	9.9%
Number of FTEs	5,290	4,883	4,760	5,164	5,422	5,693	5,978	6,277	6,590	6,920	7,266	7,629	8,011
Seat PG S.p.A. EBITDA margin	49.5%	50.1%	50.4%	50.3%	50.5%	49.1%	49.3%	50.1%	50.1%	50.1%	50.1%	50.1%	50.1%
Thomson EBITDA margin	27.8%	23.3%	23.9%	22.7%	22.7%	19.8%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%
Telegate EBITDA margin	19.1%	24.5%	24.6%	9.3%	27.1%	27.1%	27.1%	27.1%	27.1%	27.1%	27.1%	27.1%	27.1%
Group EBITDA margin	41.4%	43.7%	44.0%	41.9%	44.3%	43.2%	43.6%	44.2%	44.2%	44.3%	44.4%	44.4%	44.5%
Group EBIT margin	22.7%	27.0%	29.5%	27.5%	29.9%	28.9%	33.9%	40.2%	40.7%	40.8%	40.9%	41.0%	41.0%
Debtor days	189.3	177.7	171.6	167.1	162.9	157.1	151.1	146.0	141.4	136.9	132.6	128.5	124.5
Creditor days	98.4	126.5	133.9	126.0	123.8	111.1	101.7	93.9	85.8	78.1	70.6	63.4	56.4
Working Capital Investment as % sales	13.1%	5.2%	0.9%	-4.0%	-0.9%	-1.3%	-1.3%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
Capex as % sales	-2.2%	-2.1%	-3.2%	-3.3%	-3.8%	-5.3%	-3.1%	-3.1%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
FCF as % sales	35.5%	15.5%	22.6%	18.9%	20.9%	18.4%	18.2%	16.5%	17.2%	17.9%	18.1%	18.6%	20.8%
FCF as % EBITDA	85.7%	35.5%	51.3%	45.2%	47.3%	42.6%	41.8%	37.3%	38.8%	40.4%	40.7%	41.9%	46.7%
ROIC	8.6%	8.9%	10.2%	8.5%	8.7%	8.8%	8.0%	8.4%	8.8%	9.2%	9.6%	10.1%	10.5%
ROE	0.4%	9.4%	13.5%	7.6%	9.2%	10.2%	13.8%	21.4%	21.3%	20.7%	20.0%	19.8%	19.0%
Interest cover (EBITDA/Net interest expense; x)	-4.75	-2.45	-2.40	-2.48	-2.68	-2.95	-3.32	-3.72	-4.09	-4.57	-5.06	-6.40	-8.09
Net debt/EBITDA (x)	0.76	6.25	5.65	5.41	4.59	4.18	3.62	3.25	2.91	2.56	2.20	1.85	1.45
Gross Debt/EBITDA (x)	1.05	6.47	5.97	5.91	5.21	4.84	4.24	3.69	3.21	2.62	2.37	1.82	1.43

Source: Company Reports and Citigroup Investment Research estimates

Figure 37. Seat Pagine Gialle – Profit and Loss Summary (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
Revenues from sales and services	1,455.0	1,405.7	1,424.6	1,460.2	1,513.7	1,594.0	1,683.3	1,768.8	1,854.5
Raw materials and external services as % of revenues	-557.9 -38.3%	-514.7 -36.6%	-515.0 -36.1%	-568.8 -39.0%	-589.7 -39.0%	-621.0 -39.0%	-655.7 -39.0%	-689.1 -39.0%	-722.5 -39.0%
Salaries, wages and employees benefits as % of revenues	-223.5 -15.4%	-209.2 -14.9%	-218.9 -15.4%	-231.8 -15.9%	-205.4 -13.6%	-234.3 -14.7%	-240.5 -14.3%	-242.0 -13.7%	-252.4 -13.6%
Gross operating profit	673.6	681.8	690.7	659.5	718.6	738.7	787.1	837.8	879.6
% margin	46.3%	48.5%	48.5%	45.2%	47.5%	46.3%	46.8%	47.4%	47.4%
Other valuation adjustments	-72.9	-64.7	-60.7	-47.2	-47.9	-50.6	-53.6	-56.5	-59.4
Other income (expenses), net	1.6	-2.8	-3.5	-0.9	0.0	0.0	0.0	0.0	0.0
EBITDA	602.3	614.4	626.6	611.4	670.7	688.1	733.4	781.3	820.3
% margin	41.4%	43.7%	44.0%	41.9%	44.3%	43.2%	43.6%	44.2%	44.2%
Operating D&A/Impairment as % of revenues	-34.7 -2.4%	-30.3 -2.2%	-32.4 -2.3%	-33.3 -2.3%	-50.9 -3.4%	-59.6 -3.7%	-62.9 -3.7%	-66.0 -3.7%	-59.8 -3.2%
EBITA	567.6	584.1	594.2	578.2	619.8	628.5	670.5	715.3	760.5
% margin	39.0%	41.6%	41.7%	39.6%	40.9%	39.4%	39.8%	40.4%	41.0%
Non-operating D&A/Impairment	-237.4	-168.8	-162.1	-162.1	-162.0	-162.0	-94.5	0.0	0.0
Non-recurring and restructuring costs	0.0	-36.0	-11.9	-14.0	-5.0	-5.0	-5.0	-5.0	-5.0
Operating income (EBIT)	330.2	379.4	420.2	402.1	452.8	461.4	571.0	710.3	755.5
% margin	22.7%	27.0%	29.5%	27.5%	29.9%	28.9%	33.9%	40.2%	40.7%
<i>Interest expenses</i>		-259.9	-284.8	-257.6	-265.6	-251.0	-239.8	-226.7	-212.8
<i>Interest income</i>		9.0	24.2	11.4	15.0	18.0	18.8	16.4	12.2
Net interest expenses	-126.7	-251.0	-260.6	-246.2	-250.6	-232.9	-221.0	-210.3	-200.6
Write-up (write-down) of equity investments	1.6	6.6	4.2	0.0	0.0	0.0	0.0	4.0	4.8
Gains (losses) on disposals	-70.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income before taxes	134.9	135.0	163.9	155.9	202.2	228.5	350.0	504.0	559.6
% change	-14.7%	0.1%	21.4%	-4.9%	29.7%	13.0%	53.2%	44.0%	11.0%
Adjusted Income before taxes	442.4	339.7	337.8	331.9	369.2	395.5	449.5	509.0	564.6
% change	5.5%	-23.2%	-0.5%	-1.7%	11.2%	7.1%	13.7%	13.2%	10.9%
Income taxes	-117.3	-48.9	-25.4	-74.1	-92.3	-98.9	-161.8	-190.9	-211.7
% tax rate on reported PBT	-86.9%	-36.2%	-15.5%	-47.5%	-45.7%	-43.3%	-46.2%	-37.9%	-37.8%
% tax rate on adjusted PBT	-26.5%	-14.4%	-7.5%	-22.3%	-25.0%	-25.0%	-36.0%	-37.5%	-37.5%
Income from discontinued operations, net	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Income pre Minorities	17.6	86.1	138.7	81.8	109.9	129.6	188.2	313.1	347.9
Minority interests	-1.2	-6.1	-6.8	-1.7	-6.7	-7.1	-7.4	-7.7	-8.1
Income for the year (Net profit)	16.4	79.9	131.9	80.1	103.2	122.5	180.8	305.4	339.8
Adjusted net profit	324.0	284.7	305.7	256.2	270.2	289.6	280.3	310.4	344.8

Source: Company Reports and Citigroup Investment Research estimates

Figure 38. Seat Pagine Gialle – Per Share Data (Year-end December, €)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
Reported EPS (€)	0.0020	0.0097	0.0160	0.0095	0.0122	0.0145	0.0214	0.0361	0.0401
% change	-72.1%	387.2%	64.7%	-40.7%	28.8%	18.7%	47.6%	68.9%	11.2%
Adjusted EPS (€)	0.0393	0.0345	0.0370	0.0303	0.0319	0.0342	0.0331	0.0367	0.0407
% change	1.2%	-12.1%	7.2%	-18.2%	5.5%	7.2%	-3.2%	10.7%	11.0%
DPS (€)		0.3674	0.0000	0.0050	0.0102	0.0102	0.0102	0.0203	0.0203
% payout ratio		1064.9%	0.0%	16.5%	31.8%	29.7%	30.7%	55.4%	49.9%
% change					103.2%	0.0%	0.0%	100.0%	0.0%
<i>Ordinary Shares</i>	<i>8,115.2</i>	<i>8,115.2</i>	<i>8,131.0</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>
<i>Saving Shares</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>
Total Shares Outstanding	8,251.3	8,251.3	8,267.1	8,465.4	8,465.4	8,465.4	8,465.4	8,465.4	8,465.4

Source: Company Reports and Citigroup Investment Research estimates

Figure 39. Seat Pagine Gialle – Cash Flow Statement (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
Cash inflow from operating activities									
Income for the year	16.4	79.9	131.9	80.1	103.2	122.5	180.8	305.4	339.8
Minority interests	1.2	6.1	6.8	1.7	6.7	7.1	7.4	7.7	8.1
Amortisation, depreciation and write-downs	272.2	199.0	194.5	195.3	212.9	221.6	157.4	66.0	59.8
Interest expenses, net		250.2	259.8	245.3	250.6	232.9	221.0	210.3	200.6
Cost for stock options		3.0	7.9	4.8	5.0	5.3	5.5	5.8	6.1
Income taxes for the year (adjustment to cash tax)		48.3	25.4	74.1	52.3	33.9	21.8	-20.9	-19.4
(Gains) losses on disposal	-0.5	-10.8	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
(Write-up) write-down of assets	12.4	0.9	-0.2	0.0	0.0	0.0	0.0	-4.0	-4.8
Change in operating working capital	191.0	73.6	13.0	-58.7	-13.9	-20.7	-22.1	-21.1	-21.5
Change in non-operating working capital	0.0	-207.0	-28.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in non-current operating liabilities	0.0	0.5	1.7	-3.0	0.0	0.0	0.0	0.0	0.0
Change in non-current non-operating liabilities	0.0	-2.2	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
FX adjustments and other	23.1	41.7	-4.0	-1.3	0.0	0.0	0.0	0.0	0.0
Cash inflow from operating activities	515.8	483.3	601.5	538.3	616.8	602.7	571.8	549.2	568.7
Cash outflow for investments									
Purchase of intangibles with indefinite life	-252.6	-10.0	-7.6	-0.4	0.0	0.0	0.0	0.0	0.0
Purchase of intangibles with finite life	-22.2	-19.0	-25.8	-34.8	-34.5	-50.7	-30.8	-32.4	-33.3
Purchases of P,P&E	-10.1	-10.9	-20.2	-13.5	-23.0	-33.8	-20.6	-21.6	-22.2
Other investments	-1.0	-0.4	0.0	-0.2	-10.0	-10.0	-10.0	-10.0	0.0
Proceeds from disposal of non-current assets	8.0	22.1	9.8	1.0	0.0	0.0	0.0	0.0	0.0
Changes in scope	0.0	0.0	-7.9	-13.3	0.0	0.0	0.0	0.0	0.0
Cash outflow for investments	-277.8	-18.2	-51.7	-61.2	-67.5	-94.5	-61.4	-64.0	-55.6
Cash outflow for financing									
Proceeds of non-current loans		4,159.1	0.0	256.0	0.0	0.0	0.0	0.0	0.0
Repayment of non-current loans		-217.6	-234.1	-431.5	-119.6	-163.5	-219.2	-231.8	-245.2
Proceeds of current loans		0.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of current loans		-528.4	-40.0	0.0	0.0	0.0	0.0	0.0	0.0
Paid interest expenses, net		-224.8	-236.2	-223.3	-235.6	-217.9	-206.0	-195.3	-185.6
Payment of transaction costs on loans		-129.3	-26.1	-1.5	-0.6	-0.8	-1.1	-1.2	-1.2
Change in financial assets and financial debts		12.5	-1.0	31.1	0.0	0.0	0.0	0.0	0.0
Increase in share capital (inc. exercised stock options)	3,113.0	0.1	5.6	20.4	0.0	0.0	0.0	0.0	0.0
Paid dividends	-0.6	-3,578.4	-0.2	-24.5	-86.0	-86.0	-86.0	-172.0	-172.0
FX adjustments and other	-3,093.5	4.8	6.3	2.4	0.0	0.0	0.0	0.0	0.0
Cash outflow for financing	19.0	-502.0	-485.5	-371.0	-441.7	-468.2	-512.3	-600.2	-604.1
Increase (decrease) in cash and cash equivalents	257.0	-36.8	64.3	106.0	107.6	39.9	-1.9	-115.0	-90.9
Cash and cash equivalents at the beginning of the year	-82.3	174.7	137.9	202.2	308.2	415.8	455.7	453.9	338.9
Cash and cash equivalents at the end of the year	174.7	137.9	202.2	308.2	415.8	455.7	453.9	338.9	248.0

Source: Company Reports and Citigroup Investment Research estimates

Figure 40. Seat Pagine Gialle – Net Debt Analysis (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
Cash and cash equivalents	174.7	137.9	202.2	308.2	415.8	455.7	453.9	338.9	248.0
Non-current financial debts									
<i>Gross amount</i>		-2,576.7	-2,349.1	-1,930.4					
<i>Transaction costs</i>		63.7	75.4	59.5					
Debts due to RBS Milan		-2,513.0	-2,273.7	-1,870.9	-1,751.3	-1,587.8	-1,368.6	-1,136.8	-891.6
<i>Gross amount</i>				-256.0					
<i>Transaction costs</i>				1.3					
Debts via Asset-backed securities				-254.7	-254.7	-254.7	-254.7	-254.7	-254.7
<i>Gross amount</i>		-1,300.0	-1,300.0	-1,300.0					
<i>Transaction costs</i>		52.6	47.1	41.5					
Debts due to Lighthouse International		-1,247.4	-1,252.9	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5
Debts due to other lenders		-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Non-current financial debts	-105.2	-3,760.5	-3,526.7	-3,384.2	-3,264.6	-3,101.1	-2,881.9	-2,650.1	-2,404.9
Current financial debts									
Current portion of non-current financial debts		-171.2	-171.1	-229.2	-229.2	-229.2	-229.2	-229.2	-229.2
Other current financial debts		-43.1	-43.2	0.0					
Current financial debts	-529.4	-214.3	-214.3	-229.2	-229.2	-229.2	-229.2	-229.2	-229.2
Total debts	-634.6	-3,974.8	-3,741.0	-3,613.4	-3,493.8	-3,330.3	-3,111.1	-2,879.3	-2,634.1
Net debt/cash	-459.9	-3,836.9	-3,538.8	-3,305.2	-3,078.0	-2,874.6	-2,657.3	-2,540.5	-2,386.2

Source: Company Reports and Citigroup Investment Research estimates

Figure 41. Seat Pagine Gialle – Net Interest Expense Analysis (Year-end December, €m)

	2006	2007E	2008E	2009E	2010E	2011E
Cash	308.2	415.8	455.7	453.9	338.9	248.0
Gross financial debts						
<i>Tranche A</i>	-1,574.1	-1,236.8	-1,073.3	-854.1	-622.3	-377.1
<i>Tranche B (redeemed June 2013)</i>	-514.5	-514.5	-514.5	-514.5	-514.5	-514.5
<i>Tranche C (available til May 2012)</i>	217.7	0.0	0.0	0.0	0.0	0.0
RBS Bank Debt	-1,870.9	-1,751.3	-1,587.8	-1,368.6	-1,136.8	-891.6
Asset backed securities (expire 2014)	-254.7	-254.7	-254.7	-254.7	-254.7	-254.7
Lighthouse International Debt (due 2014)	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5
Debts due to other lenders	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Current portion of financial debts	-229.2	-229.2	-229.2	-229.2	-229.2	-229.2
Total financial debts	-3,613.3	-3,493.7	-3,330.2	-3,111.0	-2,879.2	-2,634.0
Interest Expense						
EURIBOR	4.14%	4.14%	4.14%	4.14%	4.14%	4.14%
Other Loans	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
<i>Tranche A (EURIBOR + 1.685%)</i>	-81.9	-67.3	-56.2	-43.0	-29.1	
<i>Tranche B (EURIBOR + 2.26%)</i>	-32.9	-32.9	-32.9	-32.9	-32.9	
<i>Tranche C (as with Tranche A)</i>	0.0	0.0	0.0	0.0	0.0	
RBS Bank Debt	-114.8	-100.2	-89.1	-76.0	-62.1	
Asset backed securities	-20.4	-20.4	-20.4	-20.4	-20.4	
Lighthouse International Debt (8.0%)	-100.7	-100.7	-100.7	-100.7	-100.7	
Debts due to other lenders	0.0	0.0	0.0	0.0	0.0	
Current portion of debts (EURIBOR + 2.26%)	-14.7	-14.7	-14.7	-14.7	-14.7	
Amortisation of financing costs (non-cash)	-15.0	-15.0	-15.0	-15.0	-15.0	
Interest Expense	-265.6	-251.0	-239.8	-226.7	-212.8	
Interest Income (EURIBOR)	15.0	18.0	18.8	16.4	12.2	
Net Interest Expense	-246.2	-250.6	-232.9	-221.0	-210.3	-200.6
% of net debt	7.2%	7.0%	7.1%	7.3%	7.6%	

Source: Company Reports and Citigroup Investment Research estimates

Figure 42. Seat Pagine Gialle – Balance Sheet Forecasts (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E
Non-current assets									
Intangible assets with indefinite life	4,557.5	3,565.0	3,574.3	3,579.0	3,417.0	3,254.9	3,160.4	3,160.4	3,160.4
Intangible assets with finite life	0.0	777.7	624.7	485.9	484.7	493.7	480.5	466.7	458.1
Property, plant and equipment	42.6	35.7	49.6	50.0	57.7	73.6	75.3	77.1	81.4
Equity investments	8.3	0.2	0.3	0.3	10.3	20.3	30.3	44.3	49.1
Other non-current financial assets	5.4	4.9	1.3	1.6	1.6	1.6	1.6	1.6	1.6
Deferred tax assets	0.0	76.0	101.8	48.3	48.3	48.3	48.3	48.3	48.3
Other non-current assets	0.0	1.4	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Total non-current assets	4,613.8	4,460.9	4,353.1	4,165.9	4,020.4	3,893.3	3,797.3	3,799.2	3,799.8
Current assets									
Inventories	12.9	10.3	12.4	11.9	11.9	11.9	11.9	11.9	11.9
Trade accounts receivable	754.7	684.3	669.7	668.7	675.6	686.0	697.0	707.6	718.4
Current tax assets		16.3	6.3	5.2	5.2	5.2	5.2	5.2	5.2
Other current assets	266.6	81.4	70.9	66.2	66.2	66.2	66.2	66.2	66.2
Current financial assets		1.9	2.4	1.3	1.3	1.3	1.3	1.3	1.3
Cash and cash equivalents		137.9	202.2	308.2	415.8	455.7	453.9	338.9	248.0
Total current assets	1,034.2	932.1	963.9	1,061.6	1,176.1	1,226.4	1,235.6	1,131.2	1,051.0
Total assets	5,648.0	5,393.0	5,317.0	5,227.5	5,196.6	5,119.7	5,032.9	4,930.4	4,850.9
Equity of the Group									
Share capital	247.5	247.5	248.0	249.9	249.9	249.9	249.9	249.9	249.9
Additional paid-in capital	4,154.1	541.8	441.9	460.4	460.4	460.4	460.4	460.4	460.4
Reserve for FX adjustments		-9.1	-8.3	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3
Reserve for transition to IFRS		-16.9	181.6	181.6	181.6	181.6	181.6	181.6	181.6
Reserve for stock options		3.0	9.2	7.9	7.9	7.9	7.9	7.9	7.9
Reserve for hedging instruments/actuarial gains			-14.3	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Other reserves		3.8	-10.0	85.3	151.1	221.6	299.4	307.0	441.0
Income for the year	-32.5	79.9	131.9	80.1	103.2	122.5	180.8	305.4	339.8
Total equity of the Group	4,369.2	850.2	980.1	1,057.2	1,146.1	1,235.9	1,372.0	1,504.2	1,672.5
Minority interests									
Share capital and reserves	4.5	3.7	12.9	16.6	18.2	25.0	32.1	39.4	47.1
Income for the year	0.9	6.1	6.8	1.7	6.7	7.1	7.4	7.7	8.1
Total Minority interests	5.4	9.8	19.6	18.2	25.0	32.1	39.4	47.1	55.2
Total equity	4,374.5	860.0	999.7	1,075.4	1,171.1	1,268.0	1,411.5	1,551.3	1,727.7
Non-current liabilities									
Non-current financial debts	105.2	3,760.5	3,526.7	3,384.2	3,264.6	3,101.1	2,881.9	2,650.1	2,404.9
Non-current reserves to employees		52.9	52.8	56.8	56.8	56.8	56.8	56.8	56.8
Deferred income taxes and non-current tax debts		0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities		22.0	22.8	21.8	21.8	21.8	21.8	21.8	21.8
Total non-current liabilities	105.2	3,835.5	3,604.3	3,462.8	3,343.2	3,179.7	2,960.5	2,728.7	2,483.5
Current liabilities									
Current financial debts	354.7	192.2	214.3	229.2	229.2	229.2	229.2	229.2	229.2
Trade accounts payable	229.8	274.3	292.8	292.9	286.0	275.6	264.6	254.0	243.2
Reserve for current risks and charges	95.6	60.9	50.4	39.3	39.3	39.3	39.3	39.3	39.3
Current tax payables		43.1	41.0	23.5	23.5	23.5	23.5	23.5	23.5
Payables for services to be rendered/other	488.2	127.2	114.6	104.4	104.4	104.4	104.4	104.4	104.4
Total current liabilities	1,168.3	697.6	713.0	689.3	682.3	672.0	660.9	650.4	639.6
Total liabilities	1,273.5	4,533.1	4,317.3	4,152.1	4,025.5	3,851.7	3,621.4	3,379.1	3,123.1
Total liabilities and equity	5,648.0	5,393.0	5,317.0	5,227.5	5,196.6	5,119.7	5,032.9	4,930.4	4,850.9

Source: Company Reports and Citigroup Investment Research estimates

Seat Pagine Gialle SpA

Company description

Seat Pagine Gialle Group is a leading pan-European directory publishing business. Its main activities are in Italy where it is the leading publisher of Yellow & White Pages. It also has an extremely strong position in online and voice-based directory assistance. Outside Italy its principal divisions are Telegate, a pan-Euro voice-based directory assistance business, and Thomson, which is the second player in the UK directory market. In addition the group has some exposure to direct marketing and merchandising services, as well as B2B directories and call centre services.

Investment thesis

While we believe the operational story at Seat Pagine Gialle is improving, we believe this is unlikely to be a driver of the shares in the near term. The first reason for this is that we expect the impact of the improvement in operating profitability to be offset by rising P&L and cash tax rates. Overall we forecast flat equity free cash flow generation between 2007E and 2011E. This has the effect of holding back valuation and returns for the group. The second reason relates to the recent announcement by the controlling shareholders that they are considering different ways of maximizing the value of their investment. Necessarily we believe the focus will therefore be on the capital structure.

We see limited room for a recapitalization or a secondary LBO at this stage, given low headroom for increasing leverage and expensive prepayment penalties on the group's high yield debt. In our view, the earliest a recap becomes practicable is 2009E. In the meanwhile 'doing nothing' is the most likely option for the principal shareholders, in our view.

In the absence of a strong improvement in returns, outstanding valuation or a near-term capital-structure related catalyst, we believe share price performance could be muted. We therefore set our recommendation to Hold/ Medium Risk.

Valuation

Our €0.49 per share price target is based on a DCF and SOTP analysis. Our DCF is based on a LT growth rate of 3.0% and a discount rate of 8.7%. We also note that at the current level, relative valuation (at 10.3x 2008E EV/EBITDA) is fair but not attractive relative to the peer group.

Risks

We rate Seat as Medium Risk. This risk rating is derived after an assessment of industry-specific risks, financial risk and management risk. We also consider historical share price volatility as an indicator of future stock-specific risk.

With regard to Seat, we would highlight in particular the visibility of earnings estimates and the complexity and transparency of financials as the main drivers of our Medium Risk rating. We believe the main risks that could cause the shares to deviate from our price target are related to the limited visibility concerning the following: implementation of the 2008-2010E restructuring plan; increased competition from search engines; debt sustainability; and dividend policy. We also see some risk from the current shareholder structure. It is possible that the current majority shareholders (50.14%) could sell part or all their shares to the market.

Eniro AB (ENRO.ST - SKr85.75; 2M)

Company description

Eniro is one of the leading directory companies in northern Europe Sweden constitutes the core market of the company; in 2004 Sweden accounted for 57% of consolidated revenues and 82% of EBITDA Finland is the second market in importance (14% of sales and of EBITDA in 2004) and in 4Q03 the market structure passed from a cartel to a pure market economy. Recently the company announced the acquisition of Findexa in Norway. After this acquisition Eniro is the leading directory publishers in the Nordic countries

Investment thesis

Eniro is currently restructuring in each of the three geographies it is exposed to: Sweden, Finland and (through the acquisition of Findexa) Norway. Whilst the cash return profile of the group is supportive, we believe that the visibility on the success of the restructuring is low and therefore rate the group Hold/Medium Risk. To become more positive on the group, we would need to see evidence that the group is succeeding in slowing revenue declines within the print business in each of its major geographies or that the group's online activities are of sufficient scale such that growth here is able to mitigate offline pressure.

Valuation

We obtain our valuation by taking a simple average of the values derived from a DCF (1.5% LT growth and a WACC of 7.6%) and a comparison with the multiples of the other directory operators in Europe. We value Eniro at SEK93.6 per share.

Risks

We rate Eniro Medium Risk. The risk rating on the stock is derived after consideration of a number of factors. These include an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based upon the input of the Citigroup Investment Research quantitative research team, as a possible indicator of future stock-specific risk. With regard to Eniro, we would highlight in particular the visibility of earnings estimates in light of the restructuring plan and the volatility index calculated by the Citigroup Investment Research quantitative research team as the main drivers of our Medium Risk rating. However, we believe the main risks to the share price achieving our price target are related to:

- The limited visibility with regard to restructuring, especially in Norway following the acquisition of Findexa;
- Client concentration;
- Decrease in the print product usage driven by concern over the Environmental impact of printed Yellow Pages directories. This could have a material impact on revenues in time;
- In Finland the competitive situation changed from a cartel to a pure market economy;
- Search engine competition.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Yell Group PLC (YELL.L - £4.84; 1M)

Company description

Yell is the leading UK directory publisher, offering directory services through printed, telephone and online products. In the US Yell is the leading independent provider of classified directory advertising. The company controls the market leader in Spain, through which it also has an exposure in Latin America.

Investment thesis

In our view, Yell represents a combination of decent underlying earnings momentum and leverage potential at a reasonable price. As well as decent organic momentum, the group has been successful in expanding internationally at first in the US via Yellow Book, subsequently MacLeod and most recently via TransWestern Publishing, and also in Continental Europe with the acquisition of TPI.

Through a combination of improving organic fundamentals (return to growth of >3% in the US; improved regulatory outcome in the UK) and acquisition (700bps of margin improvement at TPI), we forecast 6.4% revenue CAGR (2007-2010E), 7.5% EBITDA CAGR and 11.7% EPS CAGR. We also highlight the potential for significant leverage from here. The group has a c.3.7% dividend yield in 2007E but will be able to return significant amounts of cash from 2008 (c.£250m p.a. or 5% of the market cap) while still maintaining net debt/EBITDA at 4x. With valuation still at 11.9x (calendarised) 2008E P/E, we believe valuation is still attractive. We rate the company Buy/ Medium Risk (1M) with a target price of 544p per share.

Valuation

To value Yell, we have applied the multiples of comparable European companies and used a DCF analysis. Averaging the valuations from our DCF and multiples analyses, we end up with a value of 544p for Yell. At our price target the group would trade on 12.8x calendar 2008E P/E, still a discount to the European Media sector but arguably fair given the group's financial leverage.

Risks

We rate Yell Medium Risk. A volatility analysis would imply a Low Risk rating. However, considering the industry specific and market risks, we assess the risk rating as Medium. In particular, we believe that the following risks could prevent Yell from reaching our target price:

- Price regulation in the UK
- Decreasing retention rate in the UK domestic market
- Execution in Spain and Latin America
- Management risk

Appendix A-1

Analyst Certification

I, Thomas A Singlehurst, CFA, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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SEAT PAGINE GIALLE SpA (PG.MI)

Ratings and Target Price History - Fundamental Research

Analyst: Thomas Singlehurst, CFA (covered since December 7 2006)

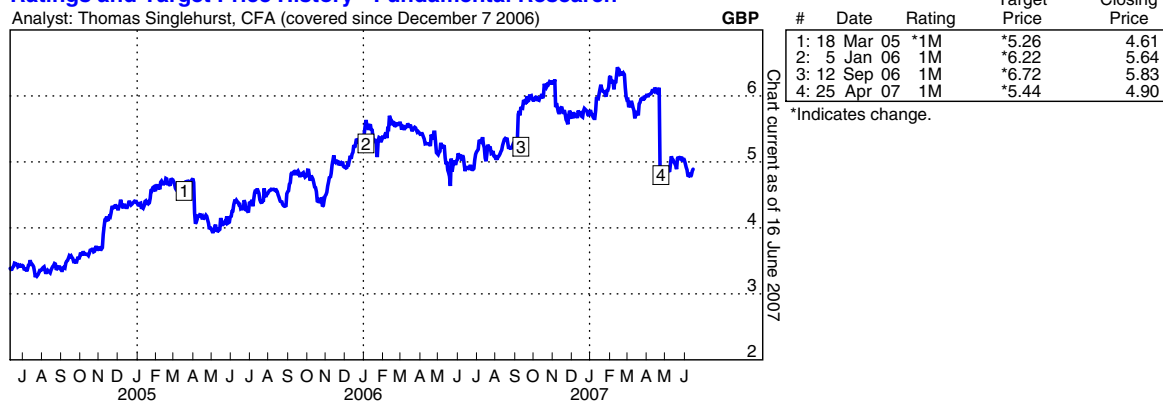


— Covered
 Not covered

Yell (YELL.L)

Ratings and Target Price History - Fundamental Research

Analyst: Thomas Singlehurst, CFA (covered since December 7 2006)



— Covered
 Not covered

ENIRO AB (ENRO.ST)

Ratings and Target Price History - Fundamental Research

Analyst: Thomas Singlehurst, CFA (covered since December 7 2006)



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