WHOLESALE BANKING

EQUITY MARKETS

Italy

June 2005

Italian small & mid caps

Take your pick

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- Small & mid caps continue to outperform large caps
- 14 BUYs – top ideas: Aeroporto di Firenze, Biesse, IGD, Recordati and SIAS
- Profiles: all Italian coverage below €5bn market cap

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Fig 1 Company index

Company	Sector	Mkt cap (€m)	Rec	Page
AEM Milano	Other utilities	2,952	Hold	14
Aeroporto di Firenze	Transport	110	Buy	16
Astaldi	Construction & building materials	512	Not rated	74
Autogrill	Support services	2,869	Hold	18
Autostrada Torino-Milano	Transport	1,619	Hold	20
Banca Italease	Speciality & other finance	945	Not rated	142
Benetton	General retailers	1,353	Sell	22
Beni Stabili	Real estate	1,401	Not rated	78
Biesse	Engineering & machinery	104	Buy	24 & 84
Brembo	Automobiles	410	Buy	26
Buzzi Unicem	Construction & building materials	2,422	Hold	28
CAD IT	Software & computer services	86	Not rated	88
Cembre	Electronic & electrical equipment	61	Not rated	94
Credito Artigiano	Banks	468	Not rated	100
Datamat	Software & computer services	277	Not rated	104
Davide Campari-Milano	Beverages	1,787	Hold	30
De'Longhi	Electronic & electrical equipment	437	Buy	32
EnerTAD SpA	Mining	323	Not rated	106
Engineering Ingegneria Informatica	Software & computer services	333	Buy	34
Esprinet	Distributors	233	Not rated	110
Fineco Group	Banks	2,285	Buy	36
Geox	Household goods & textiles	1,776	Not rated	138
Gewiss	Electronic & electrical equipment	589	Hold	38
Granitifiandre	Construction & building materials	265	Buy	40
Hera	Other utilities	1,839	Hold	42
Immobiliare Grande Distribuzione	Real estate	476	Buy	44 & 140
IMA	Engineering & machinery	393	Hold	46
Interpump Group	Engineering & machinery	377	Buy	48
Italcementi	Construction & building materials	3,682	Buy	50 & 116
Lottomatica SpA	Leisure & hotels	2,425	Not rated	120
MARR	Distributors	429	Not rated	144
Panaria	Construction & building materials	241	Not rated	146
Permasteelisa	Construction & building materials	358	Hold	52
Prima Industrie	Engineering & machinery	40	Not rated	124
Recordati	Pharmaceuticals	1,132	Buy	54
Risanamento	Real estate	798	Not rated	126
SABAF	Engineering & machinery	186	Hold	56
Saipem	Oil & gas	4,857	Hold	58
SAVE	Transport	592	Not rated	148
Seat Pagine Gialle	Media & entertainment	2,805	Hold	60
SIAS	Transport	1,831	Buy	62
Socotherm	Oil & gas	333	Hold	64
Sorin	Health	867	Buy	66
Targetti	Electronic & electrical equipment	94	Not rated	130
TeamSystem	Software & computer services	N/A	Not rated	150
Terna	Other utilities	4,260	Buy	68
Toro Assicurazioni	Insurance	2,402	Not rated	152

Prices as of 21June 2005.
Source: ING

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Italian small & mid caps

Take your pick

Sector review

The Italian small cap index (Mibstar) has strongly outperformed the general indices this year. Stock picking is important and it pays. Our top picks are usually single stock picks, rather than sector or market plays.

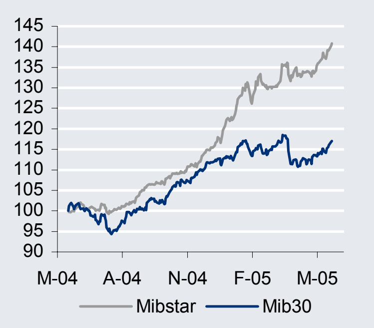
Small cap outperformance. The small cap Star segment index (Mibstar) is up 25.3% YTD and has outperformed the MIB 30 by 20% YTD, and the all share MIBTEL by 19%. The Techstar index is up 15.8%. Small & mid cap companies (market cap less than €5bn) represent 27% of the total market cap and 43% of the performance of the market YTD.

Stock picking. Good performance is not based on sector or market plays, in our view. We believe stock picking continues to be key in small & mid cap stocks. Our focus as analysts is to constantly visit companies in the hope of finding new ideas. We write up company visits, even though we may not provide research coverage on them.

Panning for gold. Stock screens do not come up with too many value plays, based on consensus estimates. The discount to book and single-digit PER category is usually deserved. We try to look where consensus may be wrong, or where consensus does not exist.

Buy. Our **BUY**-rated stocks are: Aeroporto di Firenze, Biesse, Brembo, De'Longhi, Engineering Ingegneria Informatica, Fineco Group, Granitifiandre, Immobiliare Grande Distribuzione, Interpump Group, Italcementi, Recordati, SIAS, Sorin and Terna. We have a **SELL** rating on Benetton. Over the next six months, we see catalysts that could drive share performance for **Aeroporti di Firenze**, **Biesse**, **IGD**, **Recordati** and **SIAS**. If oil prices rise significantly above current levels, our valuation-based **HOLD** ratings on Saipem and Socotherm may prove conservative. If the dollar continues to strengthen, in addition to the two oil-service stocks mentioned above, IMA and Interpump could surprise on the upside.

Mibstar vs Mib30 index



Source: Bloomberg

Midex vs Mib30

Source: Bloomberg

Summary

14 Buys; top ideas – ADF, Biesse, IGD, Recordati and SIAS

Our current small & mid cap coverage (under €5bn) includes 14 Buys, 13 Holds and one Sell. Among the Buys we would highlight the following five stocks that we believe have catalysts that could drive share performance over the next six months: **Aeroporti di Firenze**, **Biesse**, **IGD**, **Recordati** and **SIAS**.

SELL Benetton

We have a **SELL** rating on Benetton. The shares have already underperformed on poor expectations for the rest of 2005, but further underperformance could come from 2006 guidance at the end of the year. The recovery plan does not appear to be having any positive impact.

BUY Saipem and Socotherm if oil rise continues

If oil prices rise significantly above current levels, our valuation-based **HOLD** ratings on Saipem and Socotherm may prove conservative.

BUY IMA and Interpump if dollar continues to strengthen

If the dollar continues to strengthen, in addition to the two oil-service stocks mentioned above, IMA and Interpump could surprise on the upside. Figure 2 highlights the motivation for the recommendations of our small & mid cap coverage.

Fig 2 Recommendations and target prices

Company	Rec	Mkt cap (€m)	Price (€)	TP (€)	Upside (%)	Highlights
Aeroporto di Firenze	Buy	110	12.18	14.80	22	New tariff scheme should allow growth in margins.
Biesse	Buy	104	3.79	6.00	58	Successful turnaround, margins and free cash flow increasing. Growth coming from US and emerging markets.
Brembo	Buy	410	6.14	7.50	22	As growth slows, it is focused on efficiency and returns. It has pricing power in spite of raw material cost increases.
De'Longhi	Buy	437	2.92	3.30	13	Production shift to China going well. Hot summer could give positive surprises.
Engineering Ingegneria Informatica	Buy	333	26.65	31.00	16	Higher margins than larger peers due to focus on local government and health authorities segments.
Fineco Group	Buy	2,285	7.24	7.50	4	Waiting for new business plan 5 July.
Granitifiandre	Buy	265	7.20	8.05	12	New plant start-up problems are in the past.
Immobiliare Grande Distribuzione	Buy	477	1.69	1.91	13	Low risk. Large spread between rental yields and financing cost. Significant four-year investment plan.
Interpump Group	Buy	377	4.97	5.70	15	Sustainability of margins in long term. Disposed segment exposed to US consumer spending. Focused on shareholder returns.
Italcementi	Buy	3,682	13.18	15.34	16	Expansion into developing markets attractive.
Recordati	Buy	1,132	5.61	6.25	11	Increased distribution footprint, licensing deals and Lercanidipine sales driving momentum in results.
SIAS	Buy	1,831	11.49	14.72	28	Attractive small toll-road operator with high dividend yield and significant network growth ahead.
Sorin	Buy	867	2.45	2.70	10	Restructuring plan and new products should deliver value over time.
Terna	Buy	4,260	2.13	2.20	3	High dividend yield, long-term visibility and defensiveness.
Benetton	Sell	1,353	7.45	7.00	-6	Delivery of management's plan not coming through on target.
AEM Milano	Hold	2,952	1.64	1.60	-2	Commodity prices could put pressure on margins.
Autogrill	Hold	2,869	11.17	12.00	7	High price paid for Aldeasa may dilute opportunity to grow earnings in near term.
Autostrada Torino-Milano	Hold	1,619	18.40	21.00	14	Waiting for new business plan. Timing depends on government approvals.
Buzzi Unicem	Hold	2,422	12.38	12.80	3	High exposure to Germany a drag to performance.
Davide Campari-Milano	Hold	1,787	6.15	5.30	-14	Speculation driven by Allied Domecq has taken shares over fair value. They may benefit from disposal of some minor brands by Pernod.
Gewiss	Hold	589	4.91	5.23	7	Valuation full on the back of speculation on possible delisting.
Hera	Hold	1,839	2.19	2.16	-1	Valuation full, risk in near term of Meta integration.
IMA	Hold	393	10.90	10.95	0	Tough business environment and full valuation.
Permasteelisa	Hold	358	12.97	14.00	8	Need more visibility. Timing of order backlog execution no longer a given.
SABAF	Hold	186	16.45	19.10	16	Raw material cost impact and the need to see growth accelerate again.
Saipem	Hold	4,857	11.01	11.20	2	Valuation full in near term. Good news from new orders should now affect P&L in future years.
Seat Pagine Gialle	Hold	2,805	0.34	0.31	-9	We forecast tougher advertising market than management plan.
Socotherm	Hold	333	8.85	8.90	1	Waiting for 3Q results to see if 2005 will deliver on management guidance.

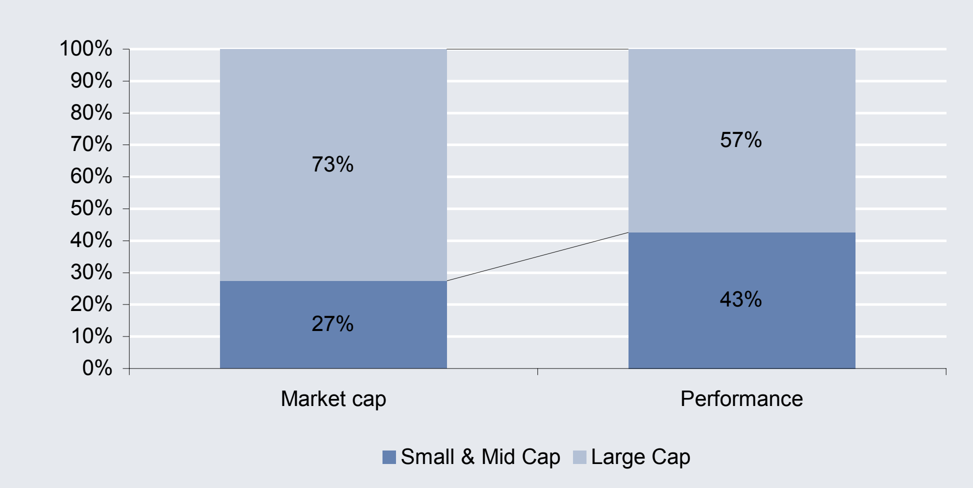
Prices as of 21 June 2005. Source: ING estimates

Panning for gold: stock screens

We have screened the Italian market using the Jacques Chahine Finance database, allowing us to provide comprehensive screens on the entire market. This database contains information on 273 listed Italian companies. What is interesting to note is that small & mid caps have provided a much larger share of total market performance than their weight in terms of capitalisation.

Small caps have outperformed large caps YTD

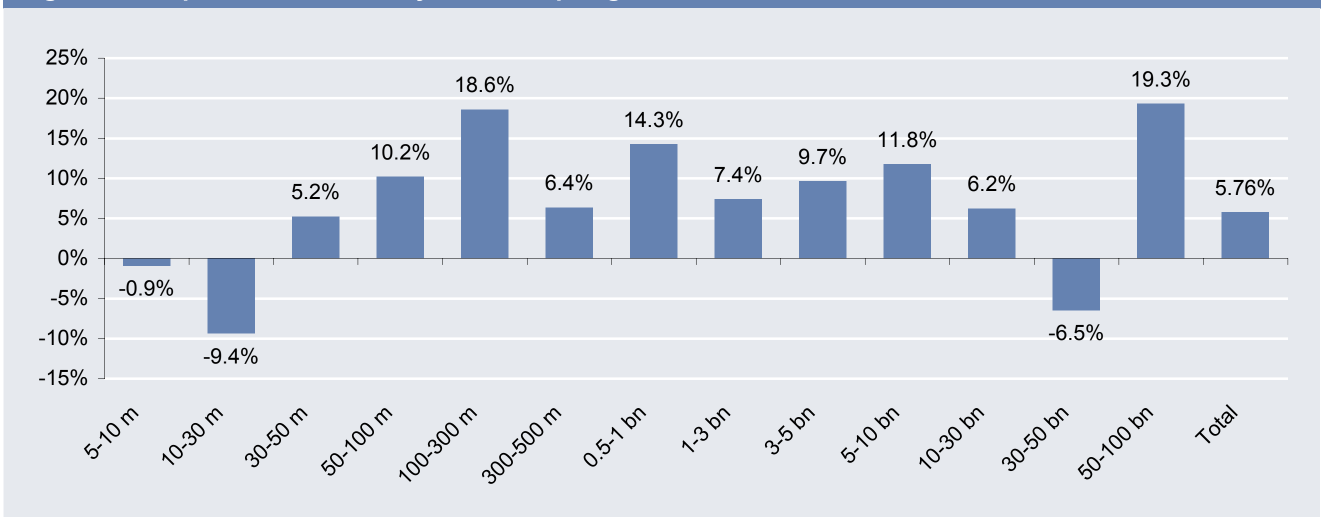
Fig 3 Market performance by market cap YTD



Prices and performance as of 16 June 2005. Large cap is greater than €5bn.
Source: Jacques Chahine Finance

Looking at the performance in a bit more detail by segments of market cap size, we can see performances that are not very homogenous. Except for ENI (€50-100bn segment), the €100-300m and €500-1,000m segments have been the sweet spot in the market. We believe that performance has been for company- or sector-specific reasons, and thus the good performance in the small cap segment reflects the activities of the small cap companies.

Fig 4 Share performance YTD by market cap segment



Prices and performance as of 16 June 2005.
Source: Jacques Chahine Finance

On the following pages you will find the screens listed below:

- **Best performers YTD (more than 20%).**
- **Worst performers YTD (more than -10%).**
- **Best performers YTD with no research coverage.**
- **Stocks with coverage by at least ten analysts.**
- **Low PER stocks (below 10x 2005F).**
- **Low P/BV stocks (below 1.0x 2004F).**
- **Low EV/EBITDA stocks (below 5.0x 2005F).**
- **High dividend yield stocks (ordinary shares, above 4.0%).**

In many cases, the good share performance YTD took place in 1Q, with more modest performance since then.

Lack of coverage is not a barrier to performance

Interestingly, just as in our last edition, a good number of strong performers (more than 20% YTD) are companies with no research coverage. In many cases, this is a reflection of the very small capitalisation, but there are three stocks with a market cap above €1bn. Conversely, there is only one company with a capitalisation below €1bn with coverage by at least ten analysts – De'Longhi (€437m). All other companies in the small & mid cap arena with a lot of coverage have a market cap above €1bn.

Low valuation is often deserved

In the value screens, we see only nine companies with single-digit 2005F PER, and two of these are affected by one-time gains in 2005F (IFI and IFIL). Three others are financials (insurance or banks), including the current protagonist in the battle for Banca AntonVeneta (Banca Popolare di Lodi).

There are 11 companies with P/BV below 1.0x (2004). In many cases, the low multiple would appear justified by the low returns on equity – both historical and prospective.

There are a number of high dividend yield opportunities

There are 28 companies with a dividend yield above 4.0%, which in many cases appear to be quite sustainable.

Best performers YTD

Fig 5 Best performers in Italian market YTD

	Bloomberg code	Price (€)	Mkt cap (€)	%ch YTD	%ch 1m	%ch 3m	%ch 1 yr	PER 2005F (x)	PER 2006F (x)
Sopaf	SPF IM	0.5	54	131.5	7.4	-4.5	87.6		
Stefanel	STEF IM	4.0	214	122.3	9.2	52.7	129.4	14.0	9.6
Dada	DA IM	11.4	178	106.5	21.3	35.7	184.5		
Marcolin	MCL IM	2.9	130	105.5	4.6	92.4	165.3	70.0	51.9
Isagro	ISG IM	13.8	220	101.3	-3.4	9.7	317.3	18.5	17.4
Brioschi Finanziara	BRI IM	0.4	213	93.4	-4.5	29.2	63.7		
Bastogi Irbs	B IM	0.3	189	89.2	4.5	48.1	109.0		
Banca Finnat	BFE IM	1.2	430	84.4	3.2	53.6	152.3	65.9	65.9
Impregilo	IPG IM	2.9	518	84.1	17.7	57.4	81.2	10.9	8.8
Gabetti Holding	GABH IM	3.7	119	70.8	18.5	25.0	98.5	41.5	41.5
Gemina	GEM IM	1.5	557	66.9	17.9	23.5	101.9	63.1	36.9
Erg	ERG IM	14.5	2,339	65.3	21.9	39.0	181.9	14.6	14.8
Snai	SNA IM	10.5	578	64.4	-2.2	14.6	178.3	61.9	55.4
Trevi Finanziaria Industriale	TFI IM	1.8	117	60.7	-2.8	16.8	84.1	15.5	13.1
El.En	ELN IM	28.7	134	59.3	12.6	17.0	84.7	25.8	19.9
Astaldi	AST IM	5.3	520	57.1	3.7	17.3	80.8	14.8	10.8
Jolly Hotels	JH IM	8.9	178	54.5	30.4	33.3	68.2	high	high
Acquedotto Nicolay	ANG IM	3.8	51	50.1	-4.1	27.8	42.0		
Buongiorno Vitaminic	BVIT IM	2.5	191	48.8	-9.2	19.2	45.3	23.7	12.7
Monrif	MON IM	1.4	203	48.1	-2.7	4.8	84.7		
Risanamento Napoli	RN IM	2.9	808	47.3	-1.0	14.6	109.6	16.1	41.9
Filatura Di Pollone	FDP IM	0.8	9	45.8	9.9	36.7	48.2		
Bonifiche Ferraresi	BF IM	28.8	162	45.5	26.4	36.8	102.4		
Biesse	BSS IM	3.8	104	45.0	-4.6	-9.7	68.9	10.4	8.1
Compagnia Immobiliare Azionaria	CIA IM	0.2	18	43.5	10.8	32.9	51.6		
Smi Metalli	SMET IM	0.7	248	43.0	12.4	34.9	79.9	68.2	9.7
Dmail Group Spa	DMA IM	7.7	50	41.8	-1.4	-14.2	166.6	18.0	11.2
Aedes	AE IM	5.5	546	39.3	8.7	20.8	48.3	37.7	30.1
Banca AntonVeneta	NTV IM	26.7	7,700	37.7	3.2	21.4	62.6	18.0	14.3
RCS Media Group	RCS IM	5.8	4,394	36.2	-1.5	37.2	78.6	40.4	29.3
Acqua Pia Antica Marcia	APM IM	0.5	203	35.9	-2.7	8.1	106.5		
It Way	ITW IM	7.7	34	35.6	-2.5	-9.9	102.5	14.0	10.0
Aeroporto Di Firenze	AFI IM	12.7	114	34.1	19.1	15.2	30.5		
Marzotto	MZI IM	19.3	1,386	33.4	14.0	26.1	102.5	21.3	16.9
Mediobanca	MB IM	15.9	12,356	33.2	17.5	21.7	66.7	27.2	26.2
Datamat	DAM IM	9.8	271	33.2	8.5	7.2	75.7	23.8	19.4
La Gaiana	GAI IM	3.3	59	32.4	25.9	23.5	99.4		
Ratti	RAT IM	0.6	19	32.4	-4.7	-10.4	11.8		
Amplifon	AMP IM	53.6	1,060	31.4	9.3	25.2	87.6	24.4	20.6
Reply	REY IM	14.9	124	30.9	4.1	10.1	49.8	17.4	14.0
Banca Popolare Di Spoleto	SPO IM	9.0	162	30.7	-3.2	6.6	34.2		
Capitalia Spa	CAP IM	4.4	9,716	30.6	4.1	13.5	81.9	15.7	11.9
Mariella Burani	MBFG IM	10.7	300	29.9	13.3	15.1	40.4	18.2	15.0
Retelit	LIT IM	0.3	142	29.9	-7.3	33.3	-3.1		
Banca Popolare Milano	BPM IM	8.5	3,509	29.7	5.7	25.2	70.9	16.9	12.3
Euphon	EUP IM	6.8	49	29.5	-7.1	-3.7	-13.6	high	high
Roncadin	RON IM	0.5	71	29.2	8.6	-2.4	10.6		
Davide Campari	CPR IM	6.1	1,777	29.0	11.5	24.9	56.1	16.9	15.5
Prima Industrie	PRI IM	8.7	40	28.6	-0.5	0.3	41.8	12.0	7.3
Banca Naz Lavoro	BNL IM	2.8	8,489	27.7	9.4	28.9	69.6	21.0	16.7
Azimut Holding	AZM IM	5.0	726	27.3	5.5	11.6		33.5	13.6
Cremonini	CRM IM	2.4	339	27.3	-2.1	-10.9	62.4	15.8	12.4
Vittoria Assicurazioni	VAS IM	8.3	248	26.8	3.6	-1.5	55.2	9.3	8.5
Fineco Group Spa	FCO IM	7.2	2,271	26.7	8.2	7.7	46.0	22.7	16.4
Recordati	REC IM	5.6	1,136	26.7	2.1	7.0	44.4	17.6	16.8
Immobiliare Lombarda Spa	IML IM	0.2	135	26.4	3.8	3.9	31.8		
Credito Valtellinese	PIC IM	11.7	770	25.5	4.2	17.3	39.1	17.4	12.3

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance

Worst performers YTD

Fig 6 Worst performers in Italian market YTD

	Bloomberg code	Price (€)	Mkt cap (€m)	%ch YTD	%ch 1m	%ch 3m	%ch 1 yr	PER 2005F (x)	PER 2006F (x)
Data Service	DAS IM	5.1	25	-46.9	1.1	-48.1	-58.8	high	12.4
Pagnossin	PAG IM	0.6	12	-28.9	-1.1	-12.6	-34.9		
Vemer Siber Group	VEM IM	0.4	28	-27.9	-1.9	-33.9	-36.7		
Snia	SN IM	0.1	44	-25.3	-23.1	-31.9	-24.4		
Benetton	BEN IM	7.3	1,329	-24.8	-0.7	-2.6	-20.4	13.3	12.4
Garboli Conicos	GAR IM	2.0	54	-20.4	1.5	9.3	123.8		
IT Holding	ITH IM	1.7	424	-19.8	-4.2	-12.0	-16.5	105.8	29.7
Kaitech Spa	KAI IM	0.6	26	-19.5	-9.4	-13.5	-4.3		
Richard Ginori 1735	RG IM	0.5	51	-19.3	1.3	-15.8	-14.8	high	high
Algol	ALGL IM	1.6	8	-18.2	-2.6	-13.2	-35.7		
Telecom Italia Mobile	TIM IM	4.5	39,223	-17.3	0.4	-9.1	-0.4	16.0	14.8
Borgosesia	BO IM	2.2	31	-16.4	-8.2	-3.6	-16.8		
Cdc Spa	CDC IM	9.2	112	-14.9	-12.7	-21.1	0.9	9.5	7.5
Indesit Company	IND IM	10.8	1,205	-14.8	8.0	-7.9	-21.9	9.6	8.7
Eutelia	EUT IM	8.8	537	-14.8	-2.3	-8.4	-9.8	34.6	21.3
De'Longhi	DLG IM	2.9	437	-13.7	5.8	-8.0	-9.2	15.9	12.7
SABAF	SAB IM	16.5	188	-13.6	3.4	-13.8	8.8	15.3	13.5
Tiscali	TIS IM	2.4	930	-13.4	-3.4	-13.7	-33.6	high	38.1
Telecom Italia Spa	TIT IM	2.6	40,827	-12.8	0.5	-7.4	3.4	14.2	12.2
Centenari and Zinelli	CZ IM	0.6	8	-12.8	0.0	0.0	0.7		
Fastweb	FWB IM	35.1	2,785	-12.2	-5.5	-12.8	-17.8	high	350.8
Poligrafica san Faustino	PSF IM	32.2	33	-12.0	-7.0	-14.4	-18.6		
Csp Intl Industria	CSP IM	1.1	27	-11.9	2.6	-9.4	-15.7	high	high
Coats Cucirini	CC IM	1.0	12	-11.5	3.1	-9.0	2.0		
Alleanza	AL IM	9.1	7,702	-11.4	2.0	-11.6	-0.2	18.5	17.8
Acotel Group	ACO IM	12.8	53	-10.1	-10.5	-19.2	-7.9		

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance

Performers with no coverage

Fig 7 Performers with no research coverage

	Bloomberg code	Price (€)	Mkt cap (€m)	%ch YTD	%ch 1m	%ch 3m	%ch 1 yr
Sopaf	SPF IM	0.5	54	131.5	7.4	-4.5	87.6
Dada	DA IM	11.4	178	106.5	21.3	35.7	184.5
Gabetti Holding	GABH IM	3.7	119	70.8	18.5	25.0	98.5
Acquedotto Nicolay	ANG IM	3.8	51	50.1	-4.1	27.8	42.0
Filatura Di pollone	FDP IM	0.8	9	45.8	9.9	36.7	48.2
Bonifiche Ferraresi	BF IM	28.8	162	45.5	26.4	36.8	102.4
Compagnia Immobiliare Azionaria	CIA IM	0.2	18	43.5	10.8	32.9	51.6
Acqua Pia Antica Marcia	APM IM	0.5	203	35.9	-2.7	8.1	106.5
It Way	ITW IM	7.7	34	35.6	-2.5	-9.9	102.5
Aeroporto Di Firenze	AFI IM	12.7	114	34.1	19.1	15.2	30.5
La Gaiana	GAI IM	3.3	59	32.4	25.9	23.5	99.4
Ratti	RAT IM	0.6	19	32.4	-4.7	-10.4	11.8
Banca Popolare Di Spoleto	SPO IM	9.0	162	30.7	-3.2	6.6	34.2
Retelit	LIT IM	0.3	142	29.9	-7.3	33.3	-3.1
Roncadin	RON IM	0.5	71	29.2	8.6	-2.4	10.6
Immobiliare Lombarda Spa	IML IM	0.2	135	26.4	3.8	3.9	31.8
Credito Bergamasco	BERG IM	24.2	1,491	24.5	4.1	11.4	34.9
Lavorwash	LAV IM	2.5	33	24.4	15.2	10.3	38.4
Perlier	PE IM	0.4	18	23.3	-6.2	5.7	89.7
Ipi (Attivita Immobiliare Spa)	IPI IM	6.8	275	22.3	12.7	20.4	73.1
Banca Popolare Di Sondrio	BPS IM	11.6	2,544	21.0	0.5	9.3	29.2
Intek	ITK IM	0.7	129	20.4	-4.9	-15.4	29.5
Banca Popolare De Emilta	BPEM IM	42.3	3,110	20.0	3.0	11.5	35.6

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance

Companies with lots of coverage

Fig 8 Companies with coverage by at least ten analysts

	Bloomberg code	Price (€)	Mkt cap (€m)	%ch 1m	%ch 3m	%ch YTD	%ch 1 yr	Recs total	Recs positives	Recs negatives
De'Longhi	DLG IM	2.9	437	5.8	-8.0	-13.7	-9.2	10	1	4
Indesit Company	IND IM	10.8	1,205	8.0	-7.9	-14.8	-21.9	11	3	3
Tods	TOD IM	40.3	1,219	1.5	6.5	15.3	41.1	19	12	2
Benetton	BEN IM	7.3	1,329	-0.7	-2.6	-24.8	-20.4	13	0	6
Marzotto	MZI IM	19.3	1,386	14.0	26.1	33.4	102.5	10	8	1
Davide Campari	CPR IM	6.1	1,777	11.5	24.9	29.0	56.1	19	4	2
Gruppo Editoriale L'espresso	ES IM	4.5	1,932	-3.3	-3.9	0.6	-6.8	14	9	2
Mondadori	MN IM	7.8	2,024	-4.6	-5.7	-8.1	1.2	13	7	1
Buzzi Unicem	BZU IM	12.5	2,291	9.2	-0.6	16.5	17.9	10	7	0
Erg	ERG IM	14.5	2,339	21.9	39.0	65.3	181.9	10	4	0
Bulgari	BUL IM	9.4	2,785	7.9	1.3	3.3	18.4	25	13	5
Fastweb	FWB IM	35.1	2,785	-5.5	-12.8	-12.2	-17.8	12	9	3
Autogrill Finanziaria	AGL IM	11.3	2,870	2.1	-1.5	-8.2	-2.7	19	6	5
Italcementi	IT IM	13.4	3,359	9.1	-1.8	12.8	29.1	14	2	3
Fondiaria (Sai Spa)	FSA IM	21.5	3,428	7.8	4.2	8.6	18.6	10	8	0
Mediolanum	MED IM	5.4	3,910	4.5	-0.8	2.3	3.8	14	4	4
RCS Media Group	RCS IM	5.8	4,394	-1.5	37.2	36.2	78.6	10	1	7
Saipem	SPM IM	10.8	4,759	12.0	8.9	22.0	46.7	23	9	3

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance

Companies with low 2005F PER

Fig 9 Companies with low 2005F PER

	Bloomberg code	Price (€)	Mkt cap (€m)	%ch 1m	%ch 3m	%ch YTD	%ch1 yr	PER 2005F (x)	PER 2006F (x)
Ifil Investments	IFL IM	3.4	3,677	4.3	2.4	3.0	15.5	5.3	17.4
Ifi	IFP IM	11.6	1,002	3.8	1.8	10.3	34.8	9.2	32.8
Linificio	LI IM	2.9	79	-0.9	-14.3	-4.0	30.5	9.3	10.2
Vittoria Assicurazioni	VAS IM	8.3	248	3.6	-1.5	26.8	55.2	9.3	8.5
Banca Popolare Di Lodi	PLO IM	8.0	2,357	-2.2	-7.0	-2.1	5.5	9.5	8.4
Cdc Spa	CDC IM	9.2	112	-12.7	-21.1	-14.9	0.9	9.5	7.5
Indesit Company	IND IM	10.8	1,205	8.0	-7.9	-14.8	-21.9	9.6	8.7
Navigazione Montanari	NM IM	2.8	339	3.5	-0.5	17.8	47.5	9.8	9.8
Assicurazioni Milano	MI IM	4.9	2,256	9.2	12.3	18.8	53.1	9.9	9.7

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance

Companies with low P/BV

Fig 10 Companies with low P/BV (2004, x)

	Bloomberg code	Price (€)	Mkt cap (€m)	%ch 1m	%ch 3m	%ch YTD	%ch 1 yr	%ch 3 yrs	P/NAV 04 (x)	ROE 2004	ROE 2005F	ROE 2006F
Camfin	CAMF IM	2.2	549	-1.6	-7.2	14.5	44.0	-5.9	0.8	4.67	6.83	6.95
De'Longhi	DLG IM	2.9	437	5.8	-8.0	-13.7	-9.2	-44.3	0.8	6.11	4.81	5.82
Csp Intl Industria	CSP IM	1.1	27	2.6	-9.4	-11.9	-15.7	-61.1	0.8	-29.64	-16.73	0.04
Ifi	IFP IM	11.6	1,002	3.8	1.8	10.3	34.8	-34.6	0.8	3.53	7.92	2.18
BPL	PLO IM	8.0	2,357	-2.2	-7.0	-2.1	5.5	-21.2	0.9	8.80	11.75	12.02
Pirelli Co	PC IM	0.9	4,557	-5.8	-11.9	-3.3	14.9	-22.7	0.9	5.34	5.56	7.15
Danieli	DAN IM	5.2	354	4.4	-3.8	11.4	51.2	92.3	0.9	5.04	6.07	4.56
Ifil Investments	IFL IM	3.4	3,677	4.3	2.4	3.0	15.5	-26.1	0.9	5.24	15.74	4.59
Art'e Spa	ART IM	14.1	51	-5.6	-3.9	-6.7	-12.6	-45.7	1.0	-10.97	2.01	5.01
Ducati	DMH IM	1.0	156	0.2	-7.2	12.1	-17.8	-43.7	1.0	-1.63	0.21	0.92
Cementir	CEM IM	4.0	642	1.5	-9.7	3.7	52.0	39.9	1.0	8.97	9.20	9.62

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance.

Companies with low 2005F EV/EBITDA

Fig 11 Companies with low 2005F EV/EBITDA multiple

	Bloomberg code	Price (€)	Mkt cap (€m)	%ch 1m	%ch 3m	%ch YTD	%ch 1 yr	EV/EBITDA 2004	EV/EBITDA 2005F
Danieli	DAN IM	5.2	354	4.4%	-3.8	11.4	51.2	2.1	2.3
Fiat Spa	F IM	6.0	5,738	7.1%	5.7	1.9	-2.7	4.8	3.8
Indesit	IND IM	10.8	1,205	8.0%	-7.9	-14.8	-21.9	4.0	3.9
Cdc Spa	CDC IM	9.2	112	-12.7%	-21.1	-14.9	0.9	5.3	4.1
Italcementi	IT IM	13.4	3,359	9.1%	-1.8	12.8	29.1	4.1	4.2
Cembre	CMB IM	3.6	61	5.4%	-2.4	19.7	54.5	4.2	4.4
Cir	CIR IM	2.3	1,754	5.6%	-3.6	3.6	36.8	4.9	4.5
Sogefi	SGFI IM	4.1	458	9.0%	0.5	15.4	30.3	4.2	4.5
Permasteelisa	PMS IM	13.0	357	2.3%	-1.6	2.6	-6.6	5.4	4.5
Biesse	BSS IM	3.8	104	-4.6%	-9.7	45.0	68.9	4.5	4.6
Linificio	LI IM	2.9	79	-0.9%	-14.3	-4.0	30.5	4.4	4.6
Buzzi Unicem	BZU IM	12.5	2,291	9.2%	-0.6	16.5	17.9	4.0	4.6
Risanamento Napoli	RN IM	2.9	808	-1.0%	14.6	47.3	109.6	22.1	4.7
Trevi Finanziaria	TFI IM	1.8	117	-2.8%	16.8	60.7	84.1	4.5	4.9
Stefanel	STEF IM	4.0	214	9.2%	52.7	122.3	129.4	3.9	4.9
Art'e Spa	ART IM	14.1	51	-5.6%	-3.9	-6.7	-12.6	8.5	4.9

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance

Companies with high 2005F dividend yield

Fig 12 Companies with high 2005F dividend yield

	Bloomberg code	Price (€)	Mkt cap (€m)	%ch 1m	%ch 3m	%ch YTD	%ch 1 yr	Div yield 2004	Div yield 2005F	Div yield 2006F	% Payout 2005F
Linificio	LI IM	2.9	79	-0.9	-14.3	-4.0	30.5	8.7	8.5	4.8	79
Enel	ENEL IM	7.5	45,929	4.8	4.1	4.1	15.2	9.2	6.4	4.9	106
Telecom Italia Mobile	TIM IM	4.5	39,223	0.4	-9.1	-17.3	-0.4	6.2	6.2	6.6	100
Cdc Spa	CDC IM	9.2	112	-12.7	-21.1	-14.9	0.9	6.1	6.0	7.8	57
Assicurazioni Milano	MI IM	4.9	2,256	9.2	12.3	18.8	53.1	5.3	5.9	6.3	58
Sirti	SIT IM	1.9	420	2.2	-8.7	-0.3	-0.5	1.6	5.8	6.9	86
Ras	R IM	16.1	10,811	-0.9	-10.4	-3.4	7.6	5.0	5.7	6.3	80
Terna	TRN IM	2.2	4,310	1.5	6.1	2.1		5.3	5.5	5.7	99
Ifi	IFP IM	11.6	1,002	3.8	1.8	10.3	34.8	0.0	5.4	2.2	50
UniCredito Italiano	UC IM	4.2	26,808	-5.1	-4.8	0.0	8.5	4.8	5.1	5.7	60
Unipol	UNI IM	3.1	2,639	-9.8	-13.2	-8.2	-1.8	4.5	5.0	6.0	56
Alleanza	AL IM	9.1	7,702	2.0	-11.6	-11.4	-0.2	4.0	4.8	5.4	90
Snam Rete Gas	SRG IM	4.3	8,441	-3.3	2.4	0.9	22.7	4.6	4.8	4.8	75
San Paolo IMI	SPI IM	11.3	21,057	-4.6	-0.4	6.6	21.2	4.2	4.8	5.4	65
Mondadori	MN IM	7.8	2,024	-4.6	-5.7	-8.1	1.2	4.5	4.7	5.1	83
Fiera Milano	FM IM	9.7	322	-2.0	-9.2	2.9	-0.3	3.1	4.6	4.0	67
Gefran	GE IM	4.7	68	-0.2	-14.5	3.3	23.4	4.6	4.6	4.6	157
Banca Fideuram	BFI IM	4.0	3,916	-5.2	0.5	4.9	5.1	4.0	4.5	4.8	86
Mediaset	MS IM	9.6	11,340	-7.7	-8.8	2.9	4.9	4.0	4.4	5.1	74
Acea	ACE IM	9.7	2,055	4.3	18.0	20.5	69.9	3.9	4.4	4.8	79
Asm Brescia	ASM IM	2.7	1,953	-2.8	7.1	5.4	24.4	3.8	4.3	4.1	63
Lottomatica	LTT IM	27.8	2,477	2.4	-3.7	3.2	46.5	6.1	4.3	4.0	95
BP di Verona	BPVN IM	14.4	5,333	-3.4	-2.6	-3.7	8.3	3.5	4.2	4.9	47
Sogefi	SGFI IM	4.1	458	9.0	0.5	15.4	30.3	3.9	4.2	4.6	43
Pirelli & C Real Estate	PRS IM	47.7	1,963	11.7	14.1	23.4	56.2	3.6	4.2	4.7	54
Telecom Italia Spa	TIT IM	2.6	40,827	0.5	-7.4	-12.8	3.4	4.2	4.2	4.6	59
Eni	ENI IM	22.0	87,960	12.4	10.6	19.3	27.9	4.1	4.1	4.1	44
Banche Popolari Unite	BPU IM	16.7	5,806	-1.1	6.8	11.5	25.3	4.0	4.0	4.5	58

Prices and performance as of 16 June 2005.

Source: Jacques Chahine Finance

Company profiles

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Company profiles

- AEM Milano.
- Aeroporto di Firenze.
- Autogrill.
- Autostrada Torino-Milano.
- Benetton.
- Biesse.
- Brembo.
- Buzzi Unicem.
- Davide Campari-Milano.
- De'Longhi.
- Engineering Ingegneria Informatica.
- Fineco Group.
- Gewiss.
- Granitifiandre.
- Hera.
- IGD.
- IMA.
- Interpump Group.
- Italcementi.
- Permasteelisa.
- Recordati.
- SABAF.
- Saipem.
- Seat Pagine Gialle.
- SIAS – Societa Iniziative Autostradali e Servizi Group.
- Socotherm.
- Sorin.
- Terna.

AEM Milano

Hold

Other utilities

Italy

AEM Milano is the largest Italian municipality by market cap. It is mainly involved in the generation of electricity and the distribution of electricity and gas in the Milan area. AEM is part of the winning consortium for Italy's Edison.

Price (21/06/05)	**€1.64**
Target price (12 mth)	**€1.60**
Market cap	**€2,952.1m**
Reuters	**AEMI.MI**

Equity story

AEM's strengths are: (1) it distributes electricity and gas in the high-consumption and high-net-worth area of Milan; (2) its traditional shortage of generation versus distribution ended in 2004 thanks to the tolling agreement with Edipower; and (3) good generation assets with a high proportion of hydro provides high margins in its generation subsidiary.

France's EdF decided in May to remain in Italy once the government raised the 2% limit on its voting rights at Italenergia Bis, the holding company that controls Edison. Furthermore, EDF announced the following. (1) The acquisition of Edison would be made by 'NewCo', a company 50% owned by WGRM Holding (100% owned by EDF) and 50% owned by Delmi (AEM will have at least a 51% stake in this company). (2) Importantly, Delmi is 95% owned by AEM Milano and 5% by SEL (the municipality that operates in the Alto Adige region). AEM has cited ongoing negotiations to provide entry into Delmi to other Italian utilities and Italian banks; consequently, its stake in Delmi will decrease. (3) NewCo will launch a mandatory offer for Edison's ordinary shares (around September 2005). (4) NewCo will launch a voluntary offer for Edison's warrants into Edison shares (around September 2005).

Interestingly, Italian newspaper *Finanza e Mercati* reported on 16 June problems in closing Delmi's shareholding structure due to ENIA apparently asking AEM for a put option on its future stake. According to the paper, the banks included in the operation (Fondazione CRT and BPM) would be willing to take this stake.

Key newsflow

Negotiations between EDF and AEM over joint control of Edison are advanced, but not finalised. It seems that Edison's shareholding structure (fully diluted) will be: EdF 50%; 20% on the market; and a group of Italian shareholders led by AEM 30%. Other Italian shareholders could include ENIA (municipality that operates in the Emilia Romagna region), SEL (municipality that operates in the Alto Adige region) and Mediobanca. A bid for Edison's minorities should be launched at an average price of €1.85/share. Overall, EDF will pay the difference so that Edison's book value could be €1.60/share.

Valuation

We value AEM using a traditional DCF approach at €1.60, which offers no upside potential. **HOLD** maintained.

Key ratios (%)

	2004	2005F
EBITDA margin	23.8	24.4
Operating margin	14.7	16.0
Net debt/equity	102.7	87.3
ROA	6.0	7.1
ROE	12.2	12.1

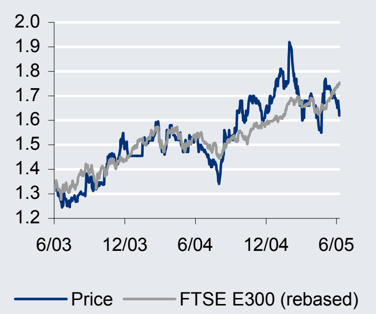
Performance

	12m	3m	Target
Absolute (%)	11.6	1.9	(2.4)
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(1.7)	(3.9)	
MIBTEL	(5.2)	0.3	

Share data

No. of shares (m)	1,800.0
Volume	2,459,350
Free float (%)	38.6
Market cap (€m)	2,952.1
Enterprise value (€m)	4,304.9
Price/NAV (x)	1.9

Share price performance (€)



Source: ING

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Company profile

History

AEM Milano is the largest listed Italian municipality by market cap. The company, listed in 1998, is mainly involved in the generation of electricity and the distribution of electricity and gas in the area of Milan. Its largest shareholder is the City Hall of Milan.

Electricity generation

AEM Milano operates c.1,300MW of installed capacity, its breakdown being 52% thermal and 48% hydro. The company is involved in a heavy investment programme dedicated to re-powering its generation facilities. At the end of this process in 2005, total capacity controlled by AEM should be 1,600MW. Furthermore, AEM Milano has a 16% stake in Edipower, a generation company.

Electricity and gas distribution

AEM has more than 0.8m electricity distribution clients and 0.8m gas distribution clients mainly concentrated in the high consumption area of Milan. To highlight that, the majority of the company's clients are dual-fuel clients.

Telecommunications

AEM has a 100% stake in Metroweb (the owner of a dark fibre-optic network) and an 8.5% stake in e.Biscom (a broadband operator listed on the Italian market).

Shareholders

City Hall of Milan (42%), Atel (5%), Edison (5) and free float (48%).

Risks

The ongoing liberalisation process in the Italian market could imply a reduction in electricity tariffs and higher competition, which could translate into price pressure and lower margins.

AEM's limited experience operating in a liberalised market, together with a high electricity tariff, could open the door to more competition.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	1,391.5	1,816.3	1,973.2	2,060.6	2,139.0
EBITDA	414.4	431.8	480.9	509.1	534.6
Depreciation	(170.1)	(164.1)	(164.7)	(165.0)	(165.4)
EBITA	244.3	267.7	316.2	344.1	369.3
EBIT	244.3	267.7	316.2	344.1	369.3
Net financial charges	(39.0)	(35.4)	(37.6)	(33.5)	(28.9)
Income from associates (net)	(0.5)	(24.1)	(12.1)	(8.4)	(5.9)
Pre-tax profit	392.8	253.7	266.5	302.1	334.4
Taxes	(95.1)	(80.8)	(84.9)	(102.7)	(115.4)
Minorities	(0.7)	(0.8)	(1.6)	(1.8)	(2.0)
Net profit	297.0	172.1	180.0	197.6	217.0
Adj net attributable profit	297.0	172.1	180.0	197.6	217.0
Ratios (%)					
EBITDA margin	29.8	23.8	24.4	24.7	25.0
EBIT margin	17.6	14.7	16.0	16.7	17.3
Net margin	21.4	9.5	9.2	9.7	10.2
Tax rate	24.2	29.1	30.5	33.1	33.9
Payout ratio	30.30	53.61	52.52	49.05	45.77
ROACE	7.5	6.0	7.1	7.7	8.5
ROE (%)	23.4	12.2	12.1	12.5	12.8
Debt/equity	85.9	102.7	87.3	72.0	56.9
Growth (%)					
Turnover	33.8	30.5	8.6	4.4	3.8
EBITDA	37.0	4.2	11.4	5.9	5.0
Adj pre-tax profit	158.6	(35.4)	5.1	13.4	10.7
Adj EPS	163.54	(42.07)	4.63	9.75	9.85
Per share					
Adj EPS	0.17	0.10	0.10	0.11	0.12
Cash EPS from ordinary operations	0.26	0.19	0.19	0.20	0.21
Dividend	0.05	0.05	0.05	0.05	0.06
NAV	0.76	0.81	0.85	0.91	0.97
Cash flow					
Operating cash flow	602.4	477.3	480.9	509.1	534.6
Cash taxes	(95.1)	(80.8)	(84.9)	(102.7)	(115.4)
Operating cash flow (after tax)	507.3	396.5	396.0	406.3	419.2
Net financial charges	(39.0)	(35.4)	(37.6)	(33.5)	(28.9)
Capital expenditures (net disposals)	(380.0)	(220.0)	(100.0)	(100.0)	(100.0)
Free cash flow	(1.7)	48.8	163.8	175.9	191.0
Balance sheet					
Working capital	(341.4)	(21.0)	(18.8)	(16.9)	(14.8)
Tangible fixed assets	2,669.3	2,798.8	2,782.4	2,766.8	2,751.7
L/T investments	467.0	467.0	467.0	467.0	467.0
Net debt	1,183.5	1,501.6	1,352.8	1,188.2	1,006.2
L/T non-interest bearing liabilities	233.2	280.6	328.9	378.3	428.6
Shareholders' equity	1,366.3	1,450.2	1,535.7	1,636.4	1,754.0
Capital employed	2,561.8	2,964.2	2,901.7	2,838.6	2,775.3
Valuation ratios					
Enterprise value	4,135.6	4,453.7	4,304.9	4,140.3	3,958.3
EV/turnover (x)	3.0	2.5	2.2	2.0	1.9
EV/EBITDA (x)	10.0	10.3	9.0	8.1	7.4
EV/EBIT (x)	16.9	16.6	13.6	12.0	10.7
Adj PER (x)	9.9	17.2	16.4	14.9	13.6
Cash PER (x)	6.3	8.8	8.6	8.1	7.7
Dividend yield (gross) (%)	3.0	3.1	3.2	3.3	3.4

All sources: Company data, ING estimates

Aeroporto di Firenze

Transport

Buy

Italy

Aeroporto di Firenze (ADF) manages the Florence airport (1.5m passengers pa) under a 40-year concession. We value ADF at €14.8/share using DCF. At our target, ADF would trade at a 17% discount to Italy's SAVE. BUY.

Price (21/06/05)	€12.18
Target price (12 mth)	€14.80
Market cap	€110.0m
Reuters	AFI.MI

Equity story

ADF became private at the end of 2002 and operates under a concession regime. It manages the Amerigo Vespucci airport in Florence under a 40-year concession, which will expire in 2043. At end-2004, Florence airport managed 1.5m passengers. The average load factor was 67.4% in 2004.

Key ratios (%)

	2004	2005F
EBITDA margin	31.8	34.3
Operating margin	8.7	14.4
Net debt/equity	(11.9)	(9.1)
ROA	4.1	10.2
ROE	3.7	9.3

Key newsflow

According to European airport traffic regulation of 1998, the Italian government issued a new tariff scheme (CIPE No86, 4 August 2000) based on a price-cap mechanism (similar to motorways). The price-cap should allow the company to increase visibility on revenues and related costs and investments, thus reducing business risk. The new tariff scheme for regulated activities should recognise a ROCE equal to ADF's WACC (which is 13% unleveraged pre-tax, according to the company). We forecast that, considering a current -4% ROCE on regulated business, the new tariff should be 17% higher or a €3.9m increase (based on €23m regulated capital employed). The impact on EBITDA could be significant (+44% on 2004's €8.9m EBITDA) in the next five years.

The new tariff mechanism should become effective during 2005, so that in the coming two years tariffs should gradually increase. ADF plans to increase effective passenger capacity to 2.2-2.3m by 2006-07 (from 1.5-1.6m). The plan foresees a restructuring of the terminal, which can now support no more than 1.6m passengers pa. Total investment could be €12-15m over three years.

Performance

	12m	3m	Target
Absolute (%)	27.4	14.4	21.5
MIBTEL	21,024	24,363	

Share data

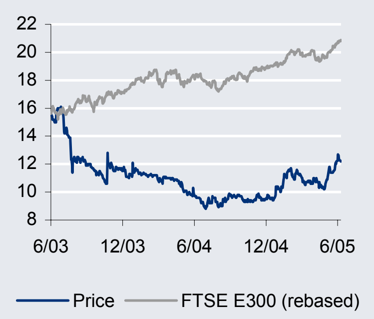
No. of shares (m)	9.0
Volume	8,550.0
Free float (%)	40.0
Market cap (€m)	110.0
Enterprise value (€m)	107.5
Price/NAV (x)	3.9

Valuation

We value ADF at €14.8/share using DCF (WACC 8%, long-term growth 2.5%). Currently, the only Italian comparable is SAVE (the Venice and Treviso airport). The non-domestic players in Europe have a different size and business mix. There are two Italian airports that have announced their intention to list their shares in the centre and north of Italy (Pisa in Tuscany and Milan in Lombardy).

ADF's 2006F EV/EBITDA and PER are higher than the peer group average (but lower than SAVE), while its EBITDA margin is in line. 2005F dividend yield of 0.8% is not particularly appealing. We think ADF's ratios do not capture the mix of growth potential and low business risk, most of which are beyond the consensus forecast period. We initiate coverage with a **BUY** rating and €14.8 target (for full details see *Aeroporto di Firenze – Profit ready for take-off*, 24 June 2005).

Share price performance (€)



Source: ING

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Company profile

History

ADF manages the Amerigo Vespucci airport in Florence. Starting in late 1999, initiatives for restructuring and enlargement began, involving the departures and arrivals terminals, aircraft parking areas, and other areas dedicated to the operational and commercial management of the airport.

Description

The primary objective of ADF remains that of increasing traffic volume, a factor directly linked to the collection of airport taxes and handling fees as well as to proceeds from commercial enterprises. Higher traffic can be generated not only by growth in volume of passengers and cargo linked to economic development and significant events in the city and region, but also to increased capacity at the airport, making it a preferred airport for airline companies and tourist operators, both national and international. Also falling within this context is the continuous development of commercial activities and services, through which ADF intends to fully satisfy the needs of passengers on departure or arrival, and to establish a base of more profitable returns.

Shareholders

Acquisizione Prima (Benetton family) 29%, Florence Chambre of Commerce 13.5%, SOGIM 11.7%, Prato Chambre of Commerce 4%, Monte Paschi 3%, Florence Municipality 2.2% and free float 36.6%.

Risks

Pisa airport's forthcoming IPO: the Tuscany region is aiming to list Pisa airport (2m passengers). Although Tuscany has spare capacity estimated at 6m passengers, there are political issues in deciding to push the Pisa/Florence airports. We remind ADF is controlled by investors (Benetton family).

Small size: ADF is a relatively 'small' airport. It could be highly sensitive to customer loss or other non-recurrent/extraordinary events.

Runway is not extendable: ADF's runway is not extendable due to geographic reasons. Although we have not factored a new runway into our estimates/valuation, we believe long-term growth potential would be capped.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	24.6	28.0	30.2	33.1	36.1
EBITDA	7.0	8.9	10.4	12.5	14.7
Depreciation	(6.0)	(6.4)	(6.0)	(6.1)	(6.2)
EBITA	0.9	2.4	4.4	6.4	8.5
EBIT	0.9	2.4	4.4	6.4	8.5
Net financial charges	0.1	0.0	0.1	0.1	0.1
Pre-tax profit	1.0	2.5	4.4	6.5	8.6
Taxes	(0.8)	(1.5)	(1.9)	(2.7)	(3.6)
Net profit	0.2	1.0	2.6	3.7	5.0
Adj net attributable profit	0.2	1.0	2.6	3.7	5.0
Ratios (%)					
EBITDA margin	28.3	31.8	34.3	37.8	40.8
EBIT margin	3.7	8.7	14.4	19.4	23.7
Net margin	0.8	3.5	8.5	11.3	13.8
Tax rate	79.1	60.8	42.0	42.0	42.0
Payout ratio	392.84	83.40	35.36	26.54	21.78
ROACE	0.9	4.1	10.2	14.2	20.2
ROE (%)	0.8	3.7	9.3	12.9	15.9
Debt/equity	(12.7)	(11.9)	(9.1)	(10.4)	(32.1)
Growth (%)					
Turnover	5.5	13.8	7.8	9.6	9.1
EBITDA	0.2	27.9	16.5	20.8	17.8
Adj pre-tax profit	(38.5)	151.1	77.2	46.6	33.0
Adj EPS	(49.76)	371.02	162.08	46.55	32.95
Per share					
Adj EPS	0.02	0.11	0.28	0.41	0.55
Cash EPS from ordinary operations	0.69	0.82	0.95	1.09	1.24
Dividend	0.09	0.09	0.10	0.11	0.12
NAV	2.88	2.98	3.12	3.33	3.60
Cash flow					
Operating cash flow	4.1	5.9	8.4	10.5	17.7
Cash taxes	0.8	1.5	1.9	2.7	3.6
Operating cash flow (after tax)	4.9	7.4	10.2	13.2	21.3
Net financial charges	0.1	0.0	0.1	0.1	0.1
Capital expenditures (net disposals)	(6.4)	(6.7)	(6.6)	(6.0)	(5.0)
Free cash flow	(1.5)	0.7	3.6	7.2	16.3
Balance sheet					
Tangible fixed assets	30.1	29.6	29.6	29.1	27.4
L/T investments	(4.0)	2.0	6.0	10.0	4.0
Net debt	(3.3)	(3.2)	(2.6)	(3.1)	(10.4)
L/T non-interest bearing liabilities	5.4	6.9	7.0	7.2	7.3
Shareholders' equity	26.0	26.9	28.2	30.0	32.5
Capital employed	22.7	23.7	25.6	26.9	22.1
Valuation ratios					
Enterprise value	106.7	106.8	107.5	106.9	99.6
EV/turnover (x)	4.3	3.8	3.6	3.2	2.8
EV/EBITDA (x)	15.4	12.0	10.4	8.5	6.8
EV/EBIT (x)	116.2	43.7	24.7	16.7	11.7
Adj PER (x)	531.6	112.9	43.1	29.4	22.1
Cash PER (x)	17.6	14.8	12.9	11.2	9.8
Dividend yield (gross) (%)	0.7	0.7	0.8	0.9	1.0

All sources: Company data, ING estimates

Autogrill

Support services

Hold

Italy

The Aldeasa acquisition could be the catalyst to invigorate European growth, but the price paid looks full and it is difficult to see how the deal enhances short-term earnings. Strong US airports businesses underpin our growth estimates.

Price (21/06/05)	€11.17
Target price (12 mth)	€12.00
Market cap	€2,869.0m
Reuters	AGL.MI

Equity story

From its strong base in Italian motorway concessions, acquisitions in North America and elsewhere have made Autogrill the global market leader in transport catering concessions. The recent acquisition of airport retailer Aldeasa, in a JV with Altadis, will allow further expansion of the airports network and the company continues to target growth in railways and European motorways. Strong air passenger growth in the US and a stronger US dollar should benefit the figures this year, but this has so far been offset by sluggish growth in European motorways. The company did surprise the market in March by declaring a €0.2 dividend and announcing its intention to buy back 2m shares for a maximum of around €23m, which is equivalent to the current share price.

Key newsflow

The company disappointed recently by refusing to give a detailed outlook for the full year, but this is perhaps understandable given the recent acquisition of Aldeasa. The next update will be in July, but Autogrill has given an assessment of the strategic benefits of the Aldeasa acquisition, which gives it a footprint in airports in Spain, South America and the Middle East. The company will depend heavily on a good summer driving season in Europe and on stability of the US dollar.

Valuation

Despite having fallen sharply this year, the shares still trade at a significant premium to the peer group. This is surprising given the lack of information on the integration of Aldeasa and relatively dull current trading. 1Q05 group revenues were a touch disappointing at €677m, which was 2.1% up on last year and represented 4.5% underlying growth. Strong underlying growth in the US (+9.6%) was offset by the weaker US dollar resulting in an actual increase of 4.5% to €345m. The underlying increase was significantly ahead of the improvement in air passenger numbers, which in itself was a robust 5.4%. US motorway revenues improved by almost 10%. Strength in the US was offset by weakness in Italy where revenues fell by 1.7% to €224m. EBITDA was also below expectations at €64.0m (+0.4%). However, the first-time adoption of IFRS helped net income to improve from €3m to €6.7m. The final price paid for Aldeasa (€36.57/share) represents an exit PER multiple of 26.9x and a 2005F prospective PER of 22x. The prospective EV/EBITDA is around 10.6x. This appears to be a very full price to pay in order to kick-start the European airports concessions operations business. The share price looks well up with events. **HOLD** rating and €12.0 target maintained.

Key ratios (%)

	2004	2005F
EBITDA margin	13.8	14.3
Operating margin	8.2	8.9
Net debt/equity	183.6	129.6
ROA	13.1	17.1
ROE	18.5	31.0

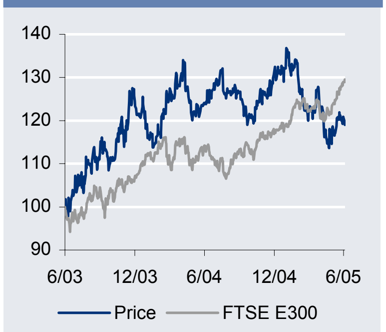
Performance

	12m	3m	Target
Absolute (%)	(4.0)	(3.5)	7.4
FTSE E300	1,008.4	1,080.0	
Relative to (%)			
FTSE E300	(15.4)	(8.9)	

Share data

No. of shares (m)	256.8
Volume	756,306
Free float (%)	42.9
Market cap (€m)	2,869.0
Enterprise value (€m)	3,299.2
Price/NAV (x)	9.3

Share price performance



Source: ING

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Company profile

History

Autogrill is the world leader in concession catering. In 1999, the company took on a major challenge by acquiring the US-based Host Marriott Services. In addition to doubling its size, this transaction gave the Italian group access to the US market and a foothold in the highly promising airport segment.

HMSHost (52% of total turnover)

HMSHost (formerly Host Marriott Services) operates a network of 165 restaurants, mainly in the US, which are positioned in different market segments, ie, motorway concessions (44%), airport concessions (48%) and shopping-centre outlets (8%). The subsidiary is the leading player in the airport concession segment, which accounted for 75% of its FY01 turnover.

Italy (30% of total turnover)

As the leader in its core business, motorway concession catering, Autogrill has 72% of the Italian market with over 453 outlets. The Benetton family, which holds a controlling stake in Autogrill, also has a shareholding in the motorway concession company, Autostrade. The competition authorities has ruled out any further increase in Autogrill's share of the Italian market, which has now reached the legally authorised maximum of 72% (in terms of the number of restaurants it operates). Consequently, Autogrill has made enhanced profitability at existing restaurants its strategic priority.

Rest of Europe (18% of total turnover)

Autogrill also holds a significant share of the motorway concession catering segment in Europe's principal markets (France, Spain, Belgium, Austria and Switzerland). The group also operates a number of concessions in railway stations, mainly in France.

Large shareholders

Edizione Holding (56.7%), Generali (2.53%).

Risks

The company sells to both motorway and air travellers in the US and Europe. As such, it is subject to travel patterns and volumes in both of those regions, which can be affected by general economic conditions, fuel prices and geopolitical risk. The company has a high exposure to the US dollar. Duty-free spending is affected by expansion of the EU and the potential elimination of tobacco sales.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	3,142.7	3,182.1	3,298.2	3,430.2	3,567.4
EBITDA	426.4	438.9	472.6	491.5	511.2
Depreciation	(176.6)	(177.3)	(178.0)	(175.5)	(176.6)
EBITA	249.8	261.6	294.6	316.1	334.6
EBIT	156.7	201.6	237.6	261.9	283.2
Net financial charges	(71.4)	(56.8)	(53.0)	(39.6)	(24.8)
Pre-tax profit	97.8	139.6	185.4	223.0	259.1
Taxes	(40.8)	(79.8)	(82.2)	(94.0)	(103.8)
Minorities	(6.8)	(7.1)	(7.4)	(7.7)	(8.0)
Net profit	62.7	47.5	95.8	121.4	147.4
Adj net attributable profit	130.8	117.9	152.8	175.5	198.8
Ratios (%)					
EBITDA margin	13.6	13.8	14.3	14.3	14.3
EBIT margin	5.0	6.3	7.2	7.6	7.9
Net margin	2.2	1.7	3.1	3.8	4.4
Tax rate	41.7	57.2	44.5	42.3	40.2
Payout ratio	57.21	59.70	43.02	43.81	45.18
ROACE	0.1	0.1	0.2	0.2	0.3
ROE	0.2	0.2	0.3	0.4	0.5
Net debt/equity	2.8	1.8	1.3	0.8	0.3
Growth (%)					
Turnover	(5.2)	1.3	3.7	4.0	4.0
EBITDA	9.4	2.9	7.7	4.0	4.0
Adj pre-tax profit	9.4	14.8	18.3	14.4	12.0
Adj EPS	3.24	(3.06)	30.86	14.87	13.25
Per share					
Adj EPS	0.47	0.45	0.60	0.68	0.77
Cash EPS from ordinary operations	1.15	1.12	1.29	1.37	1.46
Dividend	0.10	0.12	0.16	0.21	0.26
NAV	0.94	1.19	1.21	1.21	1.21
Cash flow					
Operating cash flow	459.7	437.1	481.4	501.1	521.0
Cash taxes	40.8	79.8	82.2	94.0	103.8
Operating cash flow (after tax)	500.5	516.9	563.5	595.1	624.8
Net financial charges	(71.4)	(56.8)	(53.0)	(39.6)	(24.8)
Capital expenditures (net disposals)	(176.1)	(153.6)	(171.5)	(178.4)	(185.5)
Free cash flow	253.0	306.5	339.1	377.2	414.6
Balance sheet					
Working capital	(296.5)	(390.3)	(539.6)	(614.0)	(638.2)
Goodwill	590.2	493.7	397.2	300.8	204.3
Tangible fixed assets	489.5	453.9	447.4	450.3	459.2
Other intangible assets	400.6	418.4	457.9	500.2	545.2
L/T investments	20.3	18.1	28.1	28.1	28.1
Net debt	800.2	609.3	430.2	274.5	103.4
L/T non-interest bearing liabilities	120.7	52.6	28.9	58.9	163.3
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	261.4	309.5	309.5	309.5	309.5
Capital employed	1,083.4	941.2	762.1	606.4	435.3
Valuation ratios					
Enterprise value	3,669.2	3,478.3	3,299.2	3,143.5	2,972.4
EV/turnover (x)	1.2	1.1	1.0	0.9	0.8
EV/EBITDA (x)	9.2	8.0	7.0	6.4	5.8
EV/EBIT (x)	25.0	17.4	13.9	12.0	10.5
Adj PER (x)	23.8	24.6	18.8	16.3	14.4
Cash PER (x)	9.7	10.0	8.7	8.2	7.6
Dividend yield (gross) (%)	0.9	1.1	1.4	1.9	2.3

All sources: Company data, ING estimates

Autostrada Torino-Milano

Hold

Transport

Italy

ASTM is the No2 Italian toll motorway operator, with a 12% market share. Like its sister company SIAS, it is controlled by the Gavio family. EBITDA margin is lower than its European peers due to high maintenance cost per km.

Price (21/06/05)	**€18.0**
Target price (12 mth)	**€21.0**
Market cap	**€1,604.2m**
Reuters	**ATMI.MI**

Equity story

(ASTM is the second-largest highway operator in Italy, with 12% market share and 614km of directly-managed motorway. It is mainly concentrated in north-west Italy (Lombardy and Piedmont). ASTM's EBITDA margin is lower than its peers, as maintenance costs per km are higher than the level of its European peers. The gap with European peers is not expected to diminish in the near future. To maintain the highways efficiently, ASTM owns two construction companies that operate intra-group with breakeven EBITDA margin and for third parties with a 8-10% EBITDA margin. In the past two years, the group has created shareholder value through the spin-off of SIAS and by increasing visibility on the group's activities. In the future, we may see the group bid on new concessions, and increase cost efficiency mainly by increasing the proportion of automated toll payment.

Key newsflow

By 2005-06, the provincial and municipal governments of Milan should define the Milano-Serravalle highway shareholder structure, and ASTM and SIAS could further increase their 27% stake (8.8% directly and 18.2% through SIAS). By the end of June, the company and the Italian tariff regulator could define the next four years' tariffs growth. Partly different to SIAS, ASTM has developed a construction activity. It is involved in the Milano-Torino high-speed train (TAV). Moreover, ASTM differentiates its business: it owns 7.6% of Ferrovie Nord Milano (a small train management company).

ASTM is indirectly involved in the Frejus Tunnel car accident, since it 42% owns SITAF, which also manages the Monte Bianco tunnel. Due to an accident, traffic has been suspended for a long time. ASTM consolidates SITAF at equity, so the impact on the 2005-07 P&L account should be limited: we expect €5-6m pa on pre-tax profit.

Valuation

We base our **HOLD** rating and €21 target price on DCF. This valuation is equivalent to 9.4x 2006F EV/EBITDA and 15.7x PER. In our forecasts, ASTM has lower margins and lower free cash flow than its peers, leading to a lower valuation. ASTM trades at a c.5% discount on 2006F EV/EBITDAF and c.12% on PER versus peers.

Key ratios (%)

	2004	2005F
EBITDA margin	35.4	34.8
Operating margin	29.1	29.4
Net debt/equity	63.5	61.8
ROA	10.9	10.4
ROE	17.5	16.0

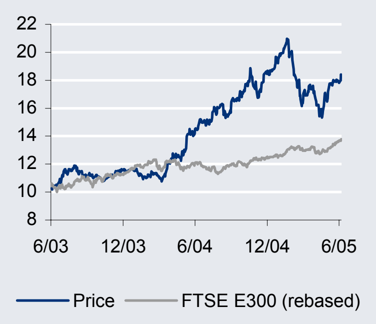
Performance

	12m	3m	Target
Absolute (%)	25.7	6.7	15.0
FTSE E300	997.3	1,081.6	
MIBTEL	20,923	24,395	
Relative to (%)			
FTSE E300	9.3	0.6	
MIBTEL	6.4	5.3	

Share data

No. of shares (m)	88.0
Volume	355,159
Free float (%)	34.6
Market cap (€m)	1,604.2
Enterprise value (€m)	1,789.2
Price/NAV (x)	2.2

Share price performance (€)



Source: ING

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Company profile

History

ASTM was created in 1928 to build and operate the motorway between Turin and Milan. The company has been listed since 1969 and is controlled by the Gavio family (50.8%). The group now controls a number of other motorway concessions in Lombardy and Piedmont. In 2002, ASTM spun off SIAS, a company with a number of motorway concessions in Tuscany and Liguria.

Description

The group manages 614km of motorway concessions in Lombardy and Piedmont (12% of the national network). Its sister company SIAS operates a further 450km (8%). The largest operator in Italy is Autostrade per l'Italia with 59%. ASTM's network includes the links between Turin and Milan, Turin and Piacenza, and Turin and Aosta. It also has equity participations in the Frejus tunnel to France and Gran San Bernardo tunnel to Switzerland, as well as the Milan ringroad and motorway to Liguria. These roads control the industrial corridor in Lombardy and Piedmont, as well as two tunnels to major trade partners. All the roads are concessions awarded on a long-term basis by state entity ANAS and are regulated with tariffs set every four years.

Main shareholders

Argo Finanziaria 39.7%, Aurelia SpA 5.4% (both directly owned by Mr Gavio) and Fondazione Cassa di Torino 4%.

Risks

Companies in this sector are subject to risks from economic growth, interest rates, regulation and changes in travel patterns. Economic growth rates can affect both passenger and freight transport growth rates. Interest rates have an impact on the companies' financial expenses and on the value attributed by investors to the shares. Changes in regulation, or changes in the tariff environment, can have a substantial impact on profitability. Changes in travel mode (ie, towards rail), competition from alternative routes (new toll roads or free motorways) or changes in travel destinations could have a material impact on toll-road operators.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	425.5	525.8	556.6	580.9	607.0
EBITDA	159.1	186.1	193.9	212.7	224.8
Depreciation	(26.3)	(32.9)	(30.5)	(35.9)	(37.5)
EBITA	132.8	153.2	163.4	176.8	187.3
EBIT	132.8	153.2	163.4	176.8	187.3
Operating exceptionals	(4.1)	(5.2)	(4.8)	(5.7)	(5.5)
Net financial charges	18.3	10.5	15.0	18.0	17.0
Pre-tax profit	147.0	158.5	173.6	189.2	198.8
Taxes	(51.4)	(53.8)	(60.0)	(65.6)	(69.6)
Minorities	(2.1)	(5.2)	(5.6)	(6.1)	(6.5)
Net profit	99.5	101.8	108.0	117.5	122.7
Adj net attributable profit	93.5	99.5	108.0	117.5	122.7
Ratios (%)					
EBITDA margin	37.4	35.4	34.8	36.6	37.0
EBIT margin	31.2	29.1	29.4	30.4	30.8
Net margin	23.9	20.4	20.4	21.3	21.3
Tax rate	35.0	33.9	34.6	34.7	35.0
Payout ratio	32.94	30.94	32.61	33.71	34.43
ROACE	11.1	10.9	10.4	10.0	9.3
ROE (%)	18.8	17.5	16.0	15.0	13.6
Debt/equity	101.0	74.3	71.0	62.3	56.6
Growth (%)					
Turnover	19.3	23.6	5.9	4.4	4.5
EBITDA	12.7	17.0	4.1	9.7	5.7
Adj pre-tax profit	38.8	7.9	9.5	9.0	5.1
Adj EPS	30.90	6.46	8.46	8.81	4.45
Per share					
Adj EPS	1.06	1.13	1.23	1.33	1.39
Cash EPS from ordinary operations	1.36	1.51	1.57	1.74	1.82
Dividend	0.35	0.35	0.40	0.45	0.48
NAV	5.91	7.04	8.25	9.56	10.96
Cash flow					
Operating cash flow	108.3	189.3	190.1	205.2	219.1
Cash taxes	(51.4)	(53.8)	(60.0)	(65.6)	(69.6)
Operating cash flow (after tax)	56.9	135.5	130.1	139.6	149.5
Net financial charges	18.3	10.5	15.0	18.0	17.0
Capital expenditures (net disposals)	(70.0)	(170.0)	(170.0)	(130.0)	(145.0)
Free cash flow	(23.6)	(45.8)	(49.9)	2.6	(0.5)
Balance sheet					
Working capital	(17.9)	(22.5)	(19.2)	(11.9)	(6.5)
Goodwill	29.8	25.0	23.0	21.0	18.0
Tangible fixed assets	920.7	1,120.1	1,301.3	1,453.7	1,598.6
Other intangible assets	5.8	7.0	7.0	7.0	7.0
L/T investments	375.9	260.0	265.0	265.0	285.0
Net debt	427.1	411.2	468.6	477.7	495.5
L/T non-interest bearing liabilities	343.9	330.5	350.0	377.7	398.9
Shareholders' equity	519.8	619.9	725.7	841.4	964.1
Capital employed	970.4	1,059.1	1,227.1	1,357.1	1,503.2
Valuation ratios					
Enterprise value	1,787.1	1,731.8	1,789.2	1,798.3	1,816.1
EV/turnover (x)	4.2	3.3	3.2	3.1	3.0
EV/EBITDA (x)	11.2	9.3	9.2	8.5	8.1
EV/EBIT (x)	13.5	11.3	11.0	10.2	9.7
Adj PER (x)	17.2	16.1	14.9	13.7	13.1
Cash PER (x)	13.4	12.1	11.6	10.5	10.0
Dividend yield (gross) (%)	1.9	1.9	2.2	2.5	2.6

All sources: Company data, ING estimates

Benetton

Sell

General retailers

Italy

Benetton's valuation does not seem especially demanding, trading at a 2005F PER of 13.4x. However, we do not see any short-term catalyst for the remainder of 2005 leading us to reiterate our SELL rating and €7.0 target price.

Price (21/06/05)	€7.45
Target price (12 mth)	€7.00
Market cap	€1,352.6m
Reuters	BNG.MI

Equity story

Benetton was established in Italy in 1965 by the Benetton family. At present, it is among the world leaders in casual apparel, under the 'United Colors of Benetton' and 'Sisley' brands, which account for around 90% of total revenues. It also offers sport-inspired apparel through 'Killer Loop' and 'Playlife'. The company is the most international within its sector, with presence in 120 countries through more than 5,000 stores, almost all of which are operated by third parties.

Benetton's business model is based on a network of independent stores located in five continents. These are co-ordinated by sales representatives, who help the company not only in controlling local entrepreneurs in their regions, but also in looking for new opportunities to grow. This model offers some similarities with those of Benetton's international peers such as Mango or Esprit, but is radically different to those of Inditex and H&M, which are based on directly-operated stores where the store manager provides information in terms of new trends and customer tastes.

Key newsflow

Preliminary 2005 guidance announced in March foresees total revenues to fall by c.4% YoY, a reduction in the EBIT margin of up to 180bp and net profit to reach around €100m, implying a 20% YoY decrease. The main reason behind the warning was the disappointing performance of the order book for the S/S collection (-9% YoY). As a result, the company decided to invest €70m to lower prices in favour of the network in order to be more competitive in the context of a weak international economic scenario.

Benetton had announced a new business plan in December 2003. That plan aimed to reach €2.2bn in total revenues and €324m in EBIT by 2007, implying a CAGR of 4% and 9% respectively during 2003-07F. 15 months later, those targets did not seem realistic after having reduced the guidance for 2004 three times and issuing a profit warning for 2005. It is expected that there will be a revision to the main strategic guidelines with a new business plan for 2005-08. CEO Mr Cassano said that he expects 2005 to be a "base year". This presentation will be announced during 4Q05.

Valuation

Benetton is trading at 13.4x 2005F PER, which does not seem especially demanding compared to the sector average. However, we do not see any catalysts in the short term, as after the profit warning in March, an update on strategy is not expected until the end of the year. In this context –with the risk of negative newsflow still pending in the remainder of 2005 – we believe Benetton might continue to underperform the sector.

Key ratios (%)

	2004	2005F
EBITDA margin	18.7	16.6
Operating margin	12.9	10.3
Net debt/equity	37.1	35.5
ROA	9.1	7.2
ROE	10.2	8.1

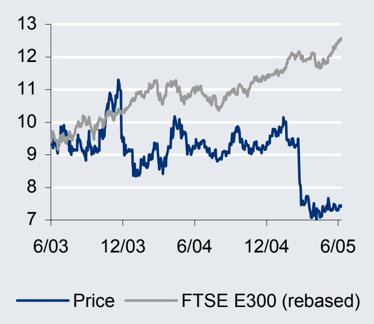
Performance

	12m	3m	Target
Absolute (%)	(20.2)	(0.8)	(6.0)
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(29.6)	(6.4)	
MIBTEL	(32.2)	(2.3)	

Share data

No. of shares (m)	181.6
Volume	104,493
Free float (%)	33.0
Market cap (€m)	1,352.6
Enterprise value (€m)	1,803.5
Price/NAV (x)	1.1

Share price performance (€)



Source: ING

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Company profile

History

Benetton was established in 1965 by the Benetton family in Italy. It is among the world leaders in casual apparel for men, women and children, under the brands 'United Colors of Benetton' and 'Sisley'. It operates in c.120 countries through more than 5,000 stores – mainly independent ones – and has 7,000 employees. It also offers sport-inspired apparel through 'Killer Loop' and 'Playlife'.

Shareholder structure

The company was listed in the Italian Stock Exchange on July 1986. Today, the Benetton family is the most important shareholder with a stake of 67% of total shares. The free float is around 33%, where c.20% is controlled by financial institutions and the remaining 13% is owned by retailers.

Business model

Benetton co-ordinates the distribution of its collections in 120 countries through c.70 independent sales representatives assigned by different geographical areas. The representatives receive commissions on sales in their areas and help the group to find investors, presenting Benetton's collections and monitoring store owners within their territories. Store-owners do not pay Benetton any fees or other consideration for establishing a store or for using the brand, or royalties based on a percentage of sales or profits.

Targets

In December 2003 Benetton announced its new strategy plan up to 2007 including a revenue target for 2007 of €2,187m, implying overall growth of 18% (4% CAGR 2003-07). The gross margin is targeted to be around 45% (+170bp), and EBIT of €324m (+9% CAGR).

Risks

Negative newsflow could still come in the remainder of 2005. Benetton is exposed to the US dollar (15% of sales) and to consumer spending in Italy and Europe, in particular.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	1,859.0	1,686.0	1,634.4	1,734.1	1,843.3
EBITDA	335.0	316.0	271.6	306.7	339.2
Depreciation	(103.0)	(99.0)	(103.2)	(107.8)	(112.0)
EBITA	232.0	217.0	168.3	198.9	227.3
EBIT	232.0	217.0	168.3	198.9	227.3
Net financial charges	(22.0)	(23.0)	(23.6)	(21.9)	(20.5)
Pre-tax profit	210.0	165.0	137.8	170.0	199.8
Taxes	(56.0)	(42.0)	(35.8)	(44.2)	(51.9)
Minorities	(1.0)	0.0	(1.0)	(1.0)	(1.0)
Net profit	108.0	123.0	100.9	124.8	146.8
Adj net attributable profit	153.0	123.0	100.9	124.8	146.8
Ratios (%)					
EBITDA margin	18.0	18.7	16.6	17.7	18.4
EBIT margin	12.5	12.9	10.3	11.5	12.3
Net margin	5.9	7.3	6.2	7.3	8.0
Tax rate	26.7	25.5	26.0	26.0	26.0
Payout ratio	45.09	50.00	50.00	50.00	50.00
ROACE	9.6	9.1	7.2	8.4	9.3
ROE (%)	13.2	10.2	8.1	9.6	10.6
Debt/equity	73.8	69.2	60.6	53.6	46.9
Growth (%)					
Turnover	(6.7)	(9.3)	(3.1)	6.1	6.3
EBITDA	(10.7)	(5.7)	(14.1)	12.9	10.6
Adj pre-tax profit	(0.2)	(21.4)	(16.5)	23.4	17.5
Adj EPS	0.86	(19.61)	(17.93)	23.66	17.62
Per share					
Adj EPS	0.84	0.68	0.56	0.69	0.81
Cash EPS from ordinary operations	1.41	1.22	1.12	1.28	1.43
Dividend	0.38	0.34	0.28	0.34	0.40
NAV	6.47	6.78	6.99	7.40	7.87
Cash flow					
Operating cash flow	471.7	354.6	284.8	296.0	328.0
Cash taxes	(56.0)	(42.0)	(35.8)	(44.2)	(51.9)
Operating cash flow (after tax)	415.7	312.6	249.0	251.8	276.0
Net financial charges	(22.0)	(23.0)	(23.6)	(21.9)	(20.5)
Capital expenditures (net disposals)	(151.0)	(152.0)	(150.0)	(110.0)	(110.0)
Free cash flow	242.7	137.6	75.4	119.9	145.5
Balance sheet					
Working capital	758.1	791.9	778.5	783.5	789.3
Tangible fixed assets	1,020.5	1,046.0	1,086.8	1,088.9	1,087.0
Net debt	496.4	456.8	450.9	389.5	314.4
L/T non-interest bearing liabilities	108.3	150.7	144.6	138.8	133.4
Shareholders' equity	1,173.9	1,230.3	1,269.8	1,344.1	1,428.5
Capital employed	1,670.3	1,687.2	1,720.7	1,733.6	1,742.9
Valuation ratios					
Enterprise value	1,849.1	1,809.5	1,803.5	1,742.1	1,667.0
EV/turnover (x)	1.0	1.1	1.1	1.0	0.9
EV/EBITDA (x)	5.5	5.7	6.6	5.7	4.9
EV/EBIT (x)	8.0	8.3	10.7	8.8	7.3
Adj PER (x)	8.8	11.0	13.4	10.8	9.2
Cash PER (x)	5.3	6.1	6.6	5.8	5.2
Dividend yield (gross) (%)	5.1	4.5	3.7	4.6	5.4

All sources: Company data, ING estimates

Biesse

Buy

Engineering & machinery

Italy

Biesse is No4 worldwide in the field of industrial woodwork machines. We estimate its EBITDA 2004-07F CAGR to be c.15% thanks to process and product innovation. Our target price of €6.00 offers upside potential of 58%. BUY.

Price (21/06/05)	**€3.79**
Target price (12 mth)	**€6.00**
Market cap	**€103.8m**
Reuters	**BSS.MI**

Equity story

The Biesse group produces machinery and systems for industries involved in the processing of wood (72% of 2004 revenues), glass and marble (22%). Thanks to its orientation towards innovation and research, over the years Biesse has perfected a highly efficient manufacturing process capable of developing products and modular solutions that can meet the varied needs of a broad customer base. Through this set-up, Biesse has built its competitive advantage, which is manifest in an array of custom solutions based on the specific needs of customers, while always relying on a standardised production approach.

Key newsflow

Management is committed to increasing the EBIDTA margin to 12-13% and improving net profit in the next three years, mainly thanks to: (1) a complete change in the production process; (2) strict working capital control; and (3) continuous product innovation. We forecast net profit to double to €9.7m in 2005, mainly thanks to profitability improvement. According to our forecasts, net profit could reach c€14.8m in 2007, a 2004-07 CAGR of c.43%. In 2006-07, net profit could jump more than we expect thanks to the possibility that the government will decide to cancel IRAP (the Italian tax based on personnel costs), judged unconstitutional by the EU Commission. Taking into account that Biesse paid c.€4m of IRAP in 2004, we calculate that net profit would further increase by c.23% in 2006 and c.20% in 2007.

Valuation

The stock trades at an appealing 2006F PER of 8.0x: a 32% discount to our sample of engineering and mechanical companies' 12.1x, though it does have a 28% lower 2006F EBITDA margin (14% excluding Interpump). At our target price of €6.0, the company would trade at a 2006F EV/EBITDA of 5.3x (a c.6% discount to the engineering companies' average) and PER of 12.7x (1% premium), justified in our view by the superior prospective EBITDA growth.

Key ratios (%)

	2004	2005F
EBITDA margin	8.3	9.4
Operating margin	4.3	5.3
Net debt/equity	50.3	32.9
ROA	2.7	8.4
ROE	6.5	10.5

Performance

	12m	3m	Target
Absolute (%)	67.7	(7.6)	58.3
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	47.8	(12.7)	
MIBTEL	42.5	(9.0)	

Share data

No. of shares (m)	27.4
Volume	33,131
Free float (%)	40.0
Market cap (€m)	103.8
Enterprise value (€m)	135.4
Price/NAV (x)	1.1

Share price performance

Source: ING

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Company profile

History

Since it was established in 1970, thanks to its strong focus on innovation and research, Biesse has had a highly efficient production system that combines all the advantages of a standardised production approach and the supply of customised solutions based on the specific needs of its clients. Biesse has plants in Italy and China.

Description

Biesse produces machinery and systems for industries involved in processing wood, glass and marble. The company offers modular solutions that range from the design of turnkey systems for large furniture manufacturers to individual automatic machines and workstations for small- and medium-sized companies, as well as the design and sale of individual high-tech components. As a multinational group with production plants in Italy and China, Biesse markets its products through a network of subsidiaries and 18 branch offices in strategic markets. The branch offices ensure specialised after-sales service to the customers, while also developing and carrying out feasibility studies and market research aimed at developing new products. Much of the manufacturing process is outsourced, except for design and final assembly, and production of key components.

Main shareholders

BI FIN Srl 58.3% (owned by Selci family); own shares 3.5%.

Risks

Economic recovery in Italy and Western Europe could differ significantly from our forecasts – and hamper achievement of the EBITDA margin target of 12.1% by 2007-08. Biesse is trying to penetrate the US market (the world's biggest wood machinery market) without much success. Thus, management does not have a good track record of growth through acquisition. Biesse will launch a new series of products, which may not meet clients' needs.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	315.0	312.5	317.5	335.0	351.7
EBITDA	8.1	25.8	29.8	34.2	39.4
Depreciation	(14.1)	(12.3)	(12.9)	(13.3)	(13.7)
EBITA	(5.9)	13.5	16.9	20.9	25.7
EBIT	(5.9)	13.5	16.9	20.9	25.7
Net financial charges	(6.6)	0.3	(2.0)	(1.6)	(1.0)
Pre-tax profit	(43.8)	16.8	14.9	19.3	24.7
Taxes	2.5	(11.8)	(5.2)	(6.4)	(9.9)
Net profit	(41.3)	5.0	9.7	12.9	14.8
Adj net attributable profit	(41.3)	5.0	9.7	12.9	14.8
Ratios (%)					
EBITDA margin	2.6	8.3	9.4	10.2	11.2
EBIT margin	(1.9)	4.3	5.3	6.2	7.3
Net margin	(13.1)	1.6	3.1	3.9	4.2
Tax rate	5.7	70.0	35.0	33.0	40.0
Payout ratio		48.92	28.23	23.35	22.19
ROACE	(3.0)	2.7	8.4	11.1	12.7
ROE (%)	(47.5)	6.5	10.5	12.8	13.3
Debt/equity	164.0	50.3	32.9	16.5	1.8
Growth (%)					
Turnover	(13.5)	(0.8)	1.6	5.5	5.0
EBITDA	(63.4)	216.7	15.7	14.5	15.3
Adj pre-tax profit	(2,962.1)		(11.1)	29.0	28.2
Adj EPS	(620.78)		92.55	33.00	14.78
Per share					
Adj EPS	(1.51)	0.18	0.35	0.47	0.54
Cash EPS from ordinary operations	(0.99)	0.63	0.83	0.96	1.04
Dividend	0.09	0.09	0.10	0.11	0.12
NAV	2.38	3.25	3.50	3.87	4.29
Cash flow					
Operating cash flow	(13.6)	65.6	28.9	30.9	36.2
Cash taxes	2.5	(11.8)	(5.2)	(6.4)	(9.9)
Operating cash flow (after tax)	(11.1)	53.9	23.7	24.5	26.3
Net financial charges	(6.6)	0.3	(2.0)	(1.6)	(1.0)
Capital expenditures (net disposals)	(7.9)	(10.0)	(6.0)	(6.0)	(7.0)
Free cash flow	(25.6)	44.2	15.7	16.9	18.3
Balance sheet					
Working capital	99.1	59.3	60.2	63.5	66.7
Goodwill	10.0	0.0	0.0	0.0	0.0
Tangible fixed assets	77.6	74.5	78.2	80.6	83.0
Other intangible assets	4.0	0.0	(11.9)	(21.9)	(31.3)
L/T investments	3.0	0.0	0.0	0.0	0.0
Net debt	106.8	44.8	31.6	17.5	2.2
L/T non-interest bearing liabilities	21.8	0.0	(1.1)	(1.1)	(1.1)
Shareholders' equity	65.1	89.0	96.0	105.9	117.4
Capital employed	171.9	133.8	127.6	123.3	119.6
Valuation ratios					
Enterprise value	210.6	148.6	135.4	121.3	106.0
EV/turnover (x)	0.7	0.5	0.4	0.4	0.3
EV/EBITDA (x)	25.8	5.8	4.5	3.5	2.7
EV/EBIT (x)	(35.5)	11.0	8.0	5.8	4.1
Adj PER (x)		20.6	10.7	8.0	7.0
Cash PER (x)		6.0	4.6	4.0	3.6
Dividend yield (gross) (%)	2.4	2.4	2.6	2.9	3.2

All sources: Company data, ING estimates

Brembo

Buy

Automobiles

Italy

World leadership, high-quality products and new capacity should assure growth and margin sustainability. We maintain our BUY rating and €7.50 target price, and believe a premium to peers is justified by superior margins.

Price (21/06/05)	**€6.14**
Target price (12 mth)	**€7.50**
Market cap	**€410.1m**
Reuters	**BRBI.MI**

Equity story

Brembo is the world leader in braking systems, supplying individual components and whole systems for the OE market. It is also world leader in after-market discs. Brembo's strategy for the next three years is to set up or buy production capacity in Europe, US and China, where it already has a production site.

Strong R&D, and ability to co-develop products with clients, manufacturing flexibility, focus on quality and innovation, and a large product catalogue are all elements that have given Brembo higher-than-peer growth and margins to date: in the past four years, Brembo's EBITDA and EBIT margins were c.60% and of c.35% higher than peers.

Brembo should be able to generate c.€23m of free cash flow on average in 2005-07, which should help it to sustain investments. Brembo's target is to maintain cash flow (net profit + depreciation) at 10-12% of sales (10.6% our forecast).

Key newsflow

Brembo could suffer from raw material price increases (mainly scrap metal), which could put both EBITDA and EBIT margins under pressure. To sustain industrial margins, Brembo launched a plan to reorganise the entire brake discs structure, concentrating the production of its three plants at the existing Mapello plant. The results of the plan could be more visible from 2006. We forecast that in 2005, new planned investments could be in line with cost savings (€10-12m). Starting in 2006, we forecast an additional and sustainable EBITDA margin due to total saving costs of 20-30ppt.

Moreover, Brembo continues to strongly reduce its entire structural costs, safeguarding R&D investment.

Valuation

Brembo trades at a 9% discount on 2006F PER of 12.2x in spite of ROACE and EBITDA margins that are c.10% and c.17% higher. At our target price of €7.50, Brembo would trade at a 6% premium on 2006F PER, which we believe is warranted by better margins, returns and resistance to the auto sector cycle.

Key ratios (%)

	2004	2005F
EBITDA margin	14.9	14.4
Operating margin	9.4	8.9
Net debt/equity	65.6	59.6
ROA	11.3	9.6
ROE	18.1	15.4

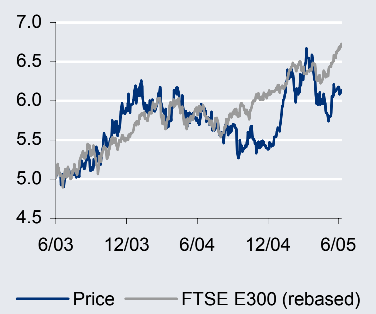
Performance

	12m	3m	Target
Absolute (%)	6.0	(5.5)	22.1
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(6.5)	(10.8)	
MIBTEL	(9.9)	(7.0)	

Share data

No. of shares (m)	66.8
Volume	28,102
Free float (%)	38.5
Market cap (€m)	410.1
Enterprise value (€m)	561.7
Price/NAV (x)	1.7

Share price performance (€)



Source: ING

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Company profile

History

Brembo is the world leader in brake systems, operating in both original equipment and after-market areas. Brembo is active in the research, design, production and sale of disk-braking systems. The company has an extensive product range, consisting of high-performance brake calipers, brake discs, wheel-side modules, complete braking systems and integrated engineering services.

Description

Brembo produces more than 1,200 different part-numerated discs. This puts a premium on the ability to manage batch production runs in the most efficient manner possible. Brembo constantly invests about 1.6% of its revenues in research & development in order to retain and strengthen its brake-disc and braking-systems expertise, which are used in motor vehicles around the world. Brembo's brake systems leadership could further improve thanks to carmakers' cost-reduction plans, which foresee outsourcing brake-system construction, and thanks to the increasing numbers of cars equipped with rear brakes. Brembo's senior management teams have been together for many years, including the period when the company was owned by US automotive group, Kelsy-Hayes. Brembo management currently owns about 4.5% of stock.

Main shareholders

FOURB B. 56% (owned by Bombassei family); own shares 4%.

Risks

1. Market conditions: European car market growth expected for the next two years does not help Brembo to further increase sales and margins. Cost reductions, we believe, run better in a short period. In the medium to long term, only a market recovery is able to sustain margins.

2. Increasing cyclicality on segment served: in the last few months the luxury market segment served by Brembo has experienced a growing cyclicality, which could reduce Brembo's order visibility.

3. Raw materials: scrap metal prices more than doubled during 2004, but were stable in 1Q05, showing an increasing and higher volatility. If scrap metal prices remain high, Brembo's EBITDA margin will suffer.

4. Investments in R&D could dilute profitability in the short term: Brembo usually writes off the amount spent on R&D every year. This prudent policy is able to create a base for future growth, but penalises profitability in the short term.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	633.7	678.2	722.7	782.3	852.7
EBITDA	100.6	101.2	103.8	120.1	136.0
Depreciation	(32.1)	(29.5)	(30.9)	(37.2)	(39.1)
EBITA	68.5	71.7	72.9	83.0	96.9
EBIT	54.1	58.3	64.3	72.7	86.1
Net financial charges	(6.4)	(0.2)	(5.0)	(4.0)	(3.0)
Pre-tax profit	47.7	58.1	59.3	68.7	83.1
Taxes	(20.7)	(22.7)	(23.7)	(30.5)	(38.7)
Minorities	(0.9)	(1.1)	(1.1)	(1.3)	(1.5)
Net profit	29.3	34.3	34.5	36.9	42.8
Adj net attributable profit	31.7	39.5	34.5	36.9	42.8
Ratios (%)					
EBITDA margin	15.9	14.9	14.4	15.4	15.9
EBIT margin	8.5	8.6	8.9	9.3	10.1
Net margin	4.8	5.2	4.9	4.9	5.2
Tax rate	43.4	39.1	40.0	44.3	46.6
Payout ratio	34.79	26.47	27.11	27.12	23.39
ROACE	10.4	11.3	9.6	9.2	9.9
ROE (%)	15.8	18.1	15.4	14.2	14.3
Debt/equity	92.2	70.8	67.5	54.2	41.3
Growth (%)					
Turnover	12.0	7.0	6.6	8.2	9.0
EBITDA	11.4	0.6	2.6	15.7	13.2
Adj pre-tax profit	30.6	18.8	(6.3)	15.8	20.9
Adj EPS	40.60	24.61	(8.68)	7.10	15.96
Per share					
Adj EPS	0.45	0.57	0.52	0.55	0.64
Cash EPS from ordinary operations	1.04	1.11	1.11	1.26	1.39
Dividend	0.13	0.13	0.14	0.15	0.15
NAV	2.46	2.96	3.61	4.16	4.80
Cash flow					
Operating cash flow	102.6	92.4	119.8	107.3	121.3
Cash taxes	(17.6)	(20.7)	(22.7)	(23.7)	(30.5)
Operating cash flow (after tax)	85.0	71.7	97.1	83.6	90.8
Net financial charges	(6.4)	(0.2)	(5.0)	(4.0)	(3.0)
Capital expenditures (net disposals)	(50.0)	(70.3)	(90.0)	(50.0)	(50.0)
Free cash flow	28.6	1.2	2.1	29.6	37.8
Balance sheet					
Working capital	98.1	102.6	85.8	98.4	112.6
Goodwill	13.7	18.0	15.0	12.0	10.0
Tangible fixed assets	183.6	198.8	273.1	293.0	307.6
Other intangible assets	12.0	14.0	14.0	14.0	15.0
L/T investments	27.3	50.0	40.0	35.0	32.0
Net debt	133.8	143.7	151.7	138.2	118.7
L/T non-interest bearing liabilities	19.6	20.8	21.8	22.3	22.8
Shareholders' equity	172.1	206.4	240.9	277.9	320.7
Capital employed	315.0	362.6	406.1	430.1	454.4
Valuation ratios					
Enterprise value	543.9	553.8	561.7	548.3	528.8
EV/turnover (x)	0.9	0.8	0.8	0.7	0.6
EV/EBITDA (x)	5.6	5.7	5.4	4.6	3.9
EV/EBIT (x)	10.4	9.8	8.7	7.5	6.1
Adj PER (x)	13.5	10.9	11.9	11.1	9.6
Cash PER (x)	5.9	5.6	5.5	4.9	4.4
Dividend yield (gross) (%)	2.1	2.1	2.3	2.4	2.4

All sources: Company data, ING estimates

Buzzi Unicem

Hold

Construction & building materials

Italy

Buzzi Unicem is the No2 cement producer in Italy and Germany, with c.17% market share in each, and one of the main producers in North America. We believe a higher EBITDA margin could sustain the premium versus peers.

Price (21/06/05)	**€12.38**
Target price (12 mth)	**€12.80**
Market cap	**€2,421.8m**
Reuters	**BZU.MI**

Key ratios (%)

	2004	2005F
EBITDA margin	25.6	25.6
Operating margin	16.8	16.8
Net debt/equity	38.4	44.6
ROA	9.8	9.3
ROE	9.6	11.6

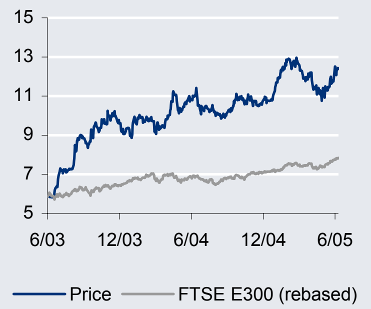
Performance

	12m	3m	Target
Absolute (%)	15.3	0.7	3.4
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	1.6	(4.9)	
MIBTEL	(2.1)	(0.8)	

Share data

No. of shares (m)	195.6
Volume	282,543
Free float (%)	42.1
Market cap (€m)	2,421.8
Enterprise value (€m)	3,763.0
Price/NAV (x)	1.3

Share price performance (€)



Source: ING

Equity story

The company is the result of a 1999 merger between privately-owned Buzzi and publicly-listed Unicem. In 2001, it gained control of Dyckerhoff of Germany, initially buying 34% of the ordinary capital. After the call option exercised in January 2005, Buzzi Unicem owns 91.2% of Dyckerhoff's share capital. In 2003, Buzzi Unicem produced 31.9mt of cement and c.15m cubic metres of aggregates. The company operates through 46 cement plants, 449 ready-mix concrete plants and 33 aggregate quarries. In 2005, Buzzi Unicem could further increase its cement production capacity in Mexico (Cerritos) by opening a second line of c.1.2mt (the first at the same cement capacity opened in 2004).

Key newsflow

In 2005, we expect a slight increase in construction investment in Italy, with cement consumption remaining at a historical peak. Competitive pressure, especially from grinders, could prevent prices from offsetting cost inflation (fuels, electricity, steel).

In Germany, construction investment could remain weak, with cement consumption declining further. Price recovery should continue at a slower pace. In the US, we expect the following changes in the breakdown of construction investment – growth leader: non-residential (strong economy); growth laggard: residential (rising interest rates); and public: up (state tax revenue recovery due to economic growth). Cement import profitability could fall strongly, due to the weak dollar and marine freights. A positive pricing environment should offset cost increases.

We expect Mexican construction investment to remain strong. Public spending is likely to be influenced by 2006 presidential elections, so we forecast cement consumption could grow by 4%. As far as cement price is concerned, it could grow in line with inflation.

Valuation

Our DCF-based valuation is €12.8 per share. Buzzi Unicem's 2004-07F average EBITDA margin and ROACE are in line with the peer average. We believe Buzzi Unicem should not trade at a premium to its peers due to an EBITDA margin in line with peers in all forecast periods, but higher EBITDA volatility due to the German market (Dyckerhoff may not recover as expected). At our €12.8 target price, Buzzi Unicem would trade at 5.0x 2006F EV/EBITDA and 11.3x 2006F PER, in line with the average of European cement companies. Our unchanged rating is **HOLD**.

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Company profile

History

Founded in 1907, Buzzi only started to expand significantly over the last five or six years: in 1997, it bought Unicem, which it incorporated in 2000; and in 2001, Buzzi and the Dyckerhoff family signed an agreement whereby Buzzi Unicem purchased a 38.4% stake in Dyckerhoff AG. Under the agreement, Buzzi Unicem's holding reached 66.2% in January 2004 and 90.4% in January 2005.

Description

Buzzi Unicem is the second-largest cement producer in Italy (after Italcementi) with a c.20% market share and in Germany (after Heidelbergcement) with a c.17% market share. It also has a sizeable presence in the US, Mexico and Eastern Europe. Buzzi Unicem's production capacity is c.45m tonnes of cement and 17m tonnes of aggregates, distributed through 53 cement plants, 436 ready-mix concrete plants and 34 aggregate quarries. The plants are mainly located in Italy, Germany, the US and Mexico.

Main shareholders

Buzzi family 57.9%, through Presa SpA (49.1%) and Fimedi SpA (8.8%); Fidelity 9.3%.

Risks

Energy prices could be higher than our forecast and put margins under pressure: the energy mix is made up of c.20% electricity, 78% petcoke and remainder alternative sources. On one side, the electricity liberalisation process has not caused a strong price reduction yet. For petcoke prices, they increased during 2004, and we forecast could remain high in 2005 as a whole. Thus, industrial margins could come under pressure.

The German construction market may not see the recovery expected, so cement volume consumption and prices may not increase as we expect.

Cement consumption partly depends on government public spending: cement consumption volume and prices could increase further if the government effectively starts the programme of new infrastructure, especially in Italy.

Exchange rates effect: the US dollar and the Mexican peso versus the euro could further reduce Buzzi Unicem's efforts to increase industrial margins.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	1,461.6	2,771.6	2,873.0	2,903.9	3,078.1
EBITDA	433.9	710.6	734.7	760.6	802.5
Depreciation	(82.3)	(206.3)	(222.1)	(214.6)	(223.1)
EBITA	351.6	504.4	512.7	546.0	579.4
EBIT	319.8	453.0	483.8	496.8	529.6
Net financial charges	(30.0)	(132.1)	(110.0)	(100.0)	(90.0)
Pre-tax profit	289.8	320.9	373.8	396.8	439.6
Taxes	(114.1)	(132.9)	(127.1)	(139.0)	(158.3)
Minorities	(19.8)	(38.8)	(34.6)	(36.0)	(38.9)
Net profit	159.3	238.8	212.2	221.8	242.5
Adj net attributable profit	173.1	162.8	212.2	221.8	242.5
Ratios (%)					
EBITDA margin	29.7	25.6	25.6	26.2	26.1
EBIT margin	21.9	16.3	16.8	17.1	17.2
Net margin	12.3	10.0	8.6	8.9	9.1
Tax rate	39.4	41.4	34.0	35.0	36.0
Payout ratio	23.08	25.55	20.29	21.17	21.79
ROACE	10.9	9.8	9.3	9.7	10.3
ROE (%)	12.7	9.6	11.6	11.1	11.1
Debt/equity	52.5	58.9	49.1	35.5	23.2
Growth (%)					
Turnover	(1.2)	89.6	3.7	1.1	6.0
EBITDA	(5.9)	63.8	3.4	3.5	5.5
Adj pre-tax profit	15.1	9.0	11.8	6.1	10.8
Adj EPS	2.50	(11.19)	20.93	4.56	9.30
Per share					
Adj EPS	1.01	0.90	1.08	1.13	1.24
Cash EPS from ordinary operations	1.58	2.24	2.37	2.48	2.63
Dividend	0.21	0.21	0.22	0.24	0.27
NAV	7.47	8.94	9.80	10.70	11.67
Cash flow					
Operating cash flow	463.7	966.6	719.7	752.1	783.5
Cash taxes	(114.1)	(132.9)	(127.1)	(139.0)	(158.3)
Operating cash flow (after tax)	349.6	833.7	592.6	613.1	625.3
Net financial charges	(30.0)	(132.1)	(110.0)	(100.0)	(90.0)
Capital expenditures (net disposals)	(159.6)	(198.0)	(608.0)	(200.0)	(230.0)
Free cash flow	169.1	509.2	(125.4)	313.1	305.3
Balance sheet					
Working capital	45.9	358.0	383.0	401.5	430.5
Goodwill	66.6	105.0	80.0	50.0	35.0
Tangible fixed assets	807.5	2,118.2	2,327.5	2,239.7	2,162.2
Other intangible assets	21.8	50.0	55.0	60.0	58.0
L/T investments	932.8	450.0	460.0	470.0	480.0
Net debt	406.3	842.3	1,005.8	735.7	477.4
L/T non-interest bearing liabilities	32.7	45.2	46.5	48.5	51.0
Minority interests	79.1	445.0	335.4	344.4	355.0
Shareholders' equity	1,356.5	1,748.7	1,917.8	2,092.7	2,282.3
Capital employed	1,841.9	3,036.0	3,259.0	3,172.7	3,114.7
Valuation ratios					
Enterprise value	2,907.2	3,709.1	3,763.0	3,501.9	3,254.2
EV/turnover (x)	1.9	1.3	1.3	1.2	1.1
EV/EBITDA (x)	6.3	5.2	5.1	4.6	4.1
EV/EBIT (x)	8.5	8.2	7.8	7.0	6.1
Adj PER (x)	12.3	13.8	11.4	10.9	10.0
Cash PER (x)	7.9	5.5	5.2	5.0	4.7
Dividend yield (gross) (%)	1.7	1.7	1.8	1.9	2.2

All sources: Company data, ING estimates

Davide Campari-Milano

Hold

Beverages

Italy

Campari's stock performance has been fuelled recently by sector multiple expansion (Allied takeover) and, to a lesser extent, improving fundamentals. Ruling out any speculative appeal, the shares seem to us fully valued. HOLD.

Price (21/06/05)	€6.15
Target price (12 mth)	€5.30
Market cap	€1,786.5m
Reuters	CPR.MI

Equity story

Campari is the No6 distiller worldwide (No4 in Europe) by number of top-100 brands. In addition to spirits (65% of sales), it sells soft drinks (20%) and wines (15%). The group has emerged from a local mono-brand company to an owner of global brands, thanks to an acquisition campaign well carried out by strong management. Its organic growth profile has improved and with the current portfolio Campari could grow at 5-6% pa, well above the 2-3% growth of its historical portfolio. Since the 2001 IPO, Campari has delivered 20% pa shareholder return (including 2.8% dividend yield), mostly explained by multiple expansion (adjusted 2000-05F EPS CAGR of 8%) driven by the sector and a lower discount to peers.

Key newsflow

After a solid 4Q, Campari also reported better-than-expected 1Q results (sales +1% and PBT +7% YoY). The group closed two agency agreements – for distribution of ultra-premium gin Martin Miller (owned by Reformed Spirits Co) in the US and another for distribution rights in Italy of the spirits portfolio of US-based Brown-Forman. These agreements have limited impact on short-term fundamentals, but improve long-term visibility. Important newsflow is coming from the takeover battle for Allied Domecq (No3 worldwide for number of top-100 brands) likely to be acquired by Pernod Ricard (No2). On one hand, this has driven sector multiples upwards; on the other, it could provide Campari with M&A opportunities for Pernod-Allied overlapping brands. On the positive side, the recent recovery in the dollar and Brazilian real are likely to benefit accounts in the next few quarters (26% of sales). On the negative, the Italian and German consumer spending outlooks have worsened (Italy and Germany accounts for c.60% of group sales), and the possible negative impacts of higher excise taxes and smoking ban in Italy are still unclear. Regarding IAS/IFRS, we expect the main impact to be termination of goodwill amortisation (€40m), with minor changes in treasury shares, derivatives and stock options.

Valuation

Campari seems slightly overvalued on DCF (7.6% WACC and 1% perpetuity growth rate). On multiples, it trades at a discount to peers (Allied, Pernod, Diageo and Remy) at 15.1x 2005F PER versus peers' calendarised 17.3x, and at a 10.8x EV/EBITDA (peers: 11.0x). Campari has historically traded at a 15-20% discount to peers, but this has gradually shrunk since the acquisition of Skyy Spirits at end-2001. We believe Campari deserves a discount to peers given its lack of speculative appeal, being 51% controlled by the Garavoglia family, and therefore seems fairly valued to us. **HOLD** and €5.30 target maintained.

Key ratios (%)

	2004	2005F
EBITDA margin	23.6	24.0
Operating margin	21.2	21.7
Net debt/equity	38.4	43.6
ROA	15.2	15.0
ROE	12.1	12.6

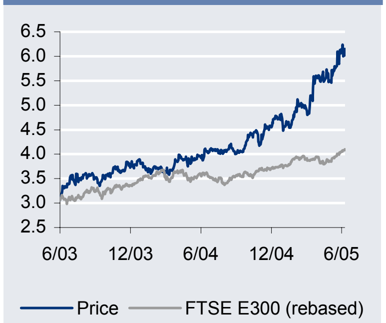
Performance

	12m	3m	Target
Absolute (%)	55.3	27.3	(13.8)
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	36.9	20.2	
MIBTEL	31.9	25.3	

Share data

No. of shares (m)	290.5
Volume	548,030
Free float (%)	45.5
Market cap (€m)	1,786.5
Enterprise value (€m)	2,116.8
Price/NAV (x)	2.8

Share price performance (€)



Source: ING

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Company profile

History

Founded more than 140 years ago, Campari is Italy's largest alcoholic beverage company and is ranked sixth worldwide by volume sold on top-100 premium distilled spirit brands. These brands are Campari, CampariSoda, Skyy Vodka and Cynar. Campari went public in July 2001 at €3.1/share. The group is family owned but run by impendent managers.

Description

Campari generates 50% of its turnover in Italy, 20% in the US, while other important countries are Germany (c10%) and Brazil (6%). In the last ten years, it has mushroomed through acquisitions transforming itself from a single-brand company into a global multi-brand player. Now Campari holds a unique, well-balanced and fast-growing spirits brands (65% of sales; 80% of profits), wines (16% sales, 6% profits) and soft drinks (17% and 13%). Apart from global brands, the group owns local brands such as Cinzano, Crodino, Tequila 1800, Aperol, Sella&Mosca.

Shareholders

Campari is controlled by the Garavoglia family (51% stake). Free float is 45.8%.

Risks

The company is subject to risks arising from foreign currency exposure, consumer spending trends, and regulation and taxation changes affecting its products.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	714.1	779.2	818.4	858.2	901.1
EBITDA	169.2	183.5	196.5	205.2	215.6
Depreciation	(15.4)	(15.7)	(16.2)	(16.0)	(15.9)
EBITA	153.8	167.8	180.3	189.2	199.7
EBIT	122.2	129.8	137.3	146.2	156.7
Operating exceptional	23.1	2.2	0.2	0.0	0.0
Net financial charges	(7.2)	(8.8)	(12.4)	(12.0)	(5.0)
Pre-tax profit	138.1	123.2	125.1	134.2	151.7
Taxes	(40.4)	(36.9)	(42.0)	(45.1)	(51.0)
Minorities	(17.9)	(17.0)	(5.0)	(5.4)	(6.0)
Net profit	79.8	69.3	78.1	83.7	94.7
Adj net attributable profit	108.2	104.4	118.2	124.6	135.6
Ratios (%)					
EBITDA margin	23.7	23.6	24.0	23.9	23.9
EBIT margin	17.1	16.7	16.8	17.0	17.4
Net margin	13.7	11.1	10.2	10.4	11.2
Tax rate	29.2	29.9	33.6	33.6	33.6
Payout ratio	32.01	41.90	37.20	34.71	30.68
ROACE	17.2	15.2	15.0	15.1	16.1
ROE (%)	15.5	12.1	12.6	12.2	12.2
Debt/equity	54.0	38.4	43.6	24.8	8.1
Growth (%)					
Turnover	8.1	9.1	5.0	4.9	5.0
EBITDA	5.8	8.4	7.1	4.4	5.1
Adj pre-tax profit	10.2	(4.9)	4.4	6.0	10.0
Adj EPS	(5.46)	(3.53)	13.17	5.41	8.84
Per share					
Adj EPS	0.37	0.36	0.41	0.43	0.47
Cash EPS from ordinary operations	0.44	0.42	0.47	0.49	0.53
Dividend	0.09	0.10	0.10	0.10	0.10
NAV	1.89	2.05	2.22	2.51	2.83
Cash flow					
Operating cash flow	109.9	156.6	166.7	201.7	214.4
Cash taxes	(40.4)	(36.9)	(42.0)	(45.1)	(51.0)
Operating cash flow (after tax)	69.5	119.7	124.7	156.7	163.4
Net financial charges	(7.2)	(8.8)	(12.4)	(12.0)	(5.0)
Capital expenditures (net disposals)	(43.7)	(30.2)	(15.0)	(15.0)	(15.0)
Free cash flow	18.6	80.7	97.3	129.7	143.4
Balance sheet					
Working capital	118.9	133.4	163.2	166.6	167.8
Goodwill	552.2	519.2	599.2	576.2	553.2
Tangible fixed assets	152.4	156.9	155.7	154.7	153.8
Other intangible assets	21.1	29.4	30.7	35.4	39.6
L/T investments	44.6	35.4	35.4	35.4	35.4
Net debt	298.7	230.4	282.6	181.9	67.4
L/T non-interest bearing liabilities	37.6	52.9	53.4	54.0	54.5
Minority interests	152.1	173.3	47.6	49.7	50.6
Shareholders' equity	548.2	596.0	645.1	728.8	823.5
Capital employed	851.6	830.7	930.8	914.3	895.3
Valuation ratios					
Enterprise value	2,237.3	2,190.2	2,116.8	2,018.1	1,904.5
EV/turnover (x)	3.1	2.8	2.6	2.4	2.1
EV/EBITDA (x)	13.2	11.9	10.8	9.8	8.8
EV/EBIT (x)	18.3	16.9	15.4	13.8	12.2
Adj PER (x)	16.5	17.1	15.1	14.3	13.2
Cash PER (x)	14.1	14.5	13.0	12.5	11.6
Dividend yield (gross) (%)	1.4	1.6	1.6	1.6	1.6

All sources: Company data, ING estimates

De'Longhi

Buy

Electronic & electrical equipment

Italy

De'Longhi is world leader in a number of household appliance segments. Shifting 70% of production to China should allow it to increase EBITDA margins by c.0.3% pa, reaching c.11.6% by 2007F. BUY and €3.30 target price maintained.

Price (21/06/05)	€2.92
Target price (12 mth)	€3.30
Market cap	€436.5m
Reuters	DLG.MI

Equity story

The De'Longhi group is world leader in portable heating and air-conditioning and European leader in the cooking and kitchen appliance segments. De'Longhi distributes its products in more than 60 countries worldwide. Due to increased competition, it decided in 2002 to move its production gradually to China. After buying Kenwood in 2001, De'Longhi produced c.42% of its total goods in China in 2004, with the aim of increasing this proportion to 70% in volume terms by 2005-06. De'Longhi has a good track record of anticipating consumer needs and creating products in all segments: Pinguino De'Longhi (portable air-conditioning) is an example. However, there are also many examples in the Heating division (portable oil-filled radiators), Cooking and Food Preparation (fryers, countertop ovens and coffee makers), and the Cleaning and Ironing segment (vacuum cleaners, steam ironing systems).

Key newsflow

Innovation is one of De'Longhi's key successes. We therefore expect at least 20-25% of 2005 group sales to relate to products launched during the previous 12-18 months. Profitability growth is 'granted' by shifting production to China, so it is vital that the operation goes according the plan. By the end of 2005, De'Longhi will produce most of its electric ovens in China. We estimate that the majority of the costs incurred in moving production to China have already been sustained, with the latest negative impact to be seen in 4Q05. Starting from 2006, assuming a 'normalised weather' and input costs scenario, the move to China could increase the group EBITDA margin by 2% to 12.5-13.0% in 2007 (versus ING's 11.6% forecast).

Valuation

De'Longhi trades at a c.10% discount on 2006F EV/EBITDA and a c.11% discount on PER against its main competitors, having the same 2006F EBITDA margin. The 2004 dividend yield of 2.1% is in line with the average among its European competitors. At our target price of €3.30, based on DCF (WACC 6.2%, risk premium 4%, terminal growth rate 1.5%), De'Longhi would trade at 6.4x EV/EBITDA and 15.7x PER for 2006F, a premium of 3% and 5%, respectively, to the average of its main peers.

Key ratios (%)

	2004	2005F
EBITDA margin	10.7	10.8
Operating margin	6.7	6.4
Net debt/equity	55.2	58.0
ROA	7.2	5.2
ROE	4.7	4.7

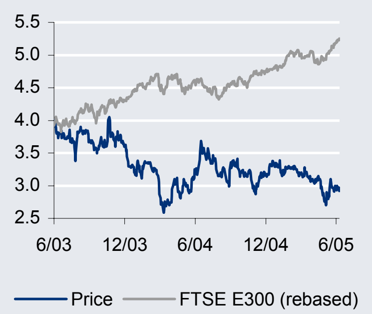
Performance

	12m	3m	Target
Absolute (%)	(11.0)	(7.3)	13.0
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(21.5)	(12.5)	
MIBTEL	(24.4)	(8.7)	

Share data

No. of shares (m)	149.5
Volume	166,909
Free float (%)	24.5
Market cap (€m)	436.5
Enterprise value (€m)	883.4
Price/NAV (x)	0.8

Share price performance (€)



Source: ING

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Company profile

History

De'Longhi is a well-established and highly competitive player in small household appliances. It designs, manufactures and distributes high-quality products in four key segments: cooking and food preparation (44% of sales), air-conditioning (22%), heating (19%), and cleaning and ironing (11%). De'Longhi sells 73% of its products in Europe, 10% in the US and 13% in the rest of the world.

Description

De'Longhi has a broad range of household products: c.11 key products account for c.50% of revenues – De'Longhi c.50%, Kenwood c.15% and Ariete c.10%. After the acquisition of Kenwood in 2001, De'Longhi decided to move its production gradually to China, with the target of reaching c.60% (70% in volume) of total production by 2006-07. At the end of 2005, De'Longhi's Chinese plant should employ more than 2,700 and use third-party producers (Chinese production outsourcing accounted for c.65%). The successful transfer of production to China is key to the margin improvement and competitiveness management expects.

Main Shareholders

De'Longhi Soparfu SA 75% (directly owned by Mr De'Longhi); Templeton MGMT 2.2%.

Risks

Exposure to exchange rates – in 2004, 15-20% of turnover was US dollar denominated (in line with SEB, but higher than Electrolux and Indesit). Around 5-10% of sales are realised in countries where currencies are vulnerable to dollar/yen trends (ie, Asia and Middle East). Production is located in Europe and China (we estimate that 70-75% of costs are euro denominated).

Weather conditions could affect profitability, even by gradually reducing seasonality effects through the product mix. If the start of summer is cool, sales in the air-conditioning and air-treatment segment (22% of sales) can suffer and it is difficult to recover in July and August, especially in portable air-conditioning (5-6% of sales). Moreover, if autumn/winter are quite warm, the group could lose a significant part of heating segment sales (20% sales), especially in the oil radiator segment (7-8% of sales).

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	1,278.0	1,287.0	1,222.7	1,271.6	1,332.0
EBITDA	151.0	137.2	132.0	141.1	154.2
Depreciation	(31.8)	(30.3)	(31.8)	(32.8)	(36.0)
EBITA	119.2	106.9	100.2	108.3	118.2
EBIT	84.7	74.0	77.8	85.2	92.8
Operating exceptionals	0.0	0.0	0.0	0.0	0.0
Net financial charges	(37.9)	(42.6)	(35.0)	(32.0)	(31.0)
Income from associates (pre-tax)	0.0	0.0	0.0	0.0	0.0
Income from associates (net)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	46.8	31.4	42.8	53.2	61.8
Taxes	(16.8)	(4.5)	(15.1)	(20.7)	(23.5)
Minorities	(0.1)	(0.2)	(1.0)	(1.5)	(1.3)
Net profit	22.3	15.0	21.7	30.9	37.0
Adj net attributable profit	43.1	39.3	26.7	30.9	37.0
Ratios (%)					
EBITDA margin	11.8	10.7	10.8	11.1	11.6
EBIT margin	6.6	5.8	6.4	6.7	7.0
Net margin	1.8	1.2	1.9	2.6	2.9
Tax rate	35.9	14.3	35.3	39.0	38.0
Payout ratio	30.00	33.60	33.62	33.82	32.31
ROACE	6.9	7.2	5.2	5.1	5.7
ROE	5.4	4.7	4.7	5.2	6.0
Debt/equity	68.4	68.6	70.4	67.9	54.9
Growth (%)					
Turnover	0.3	0.7	(5.0)	4.0	4.8
EBITDA	(16.3)	(9.1)	(3.8)	6.9	9.3
Adj pre-tax profit	(30.8)	(26.7)	(2.7)	24.3	16.2
Adj EPS	(26.20)	(8.86)	(32.08)	16.00	19.62
Per share					
Adj EPS	0.29	0.26	0.18	0.21	0.25
Cash EPS from ordinary operations	0.64	0.60	0.54	0.58	0.66
Dividend	0.06	0.06	0.06	0.07	0.08
NAV	3.75	3.79	3.88	4.01	4.18
Cash flow					
Operating cash flow	136.2	26.0	76.5	107.1	134.7
Cash taxes	(16.8)	(4.5)	(15.1)	(20.7)	(23.5)
Operating cash flow (after tax)	119.4	21.5	61.4	86.4	111.3
Net financial charges	(37.9)	(42.6)	(35.0)	(32.0)	(31.0)
Capital expenditures (net disposals)	(63.6)	(45.0)	(50.0)	(45.0)	(45.0)
Free cash flow	21.9	(66.1)	(23.6)	11.4	36.3
Balance sheet					
Working capital	131.8	232.5	263.0	277.0	276.5
Goodwill	217.3	204.0	190.0	175.0	150.0
Tangible fixed assets	229.6	231.1	253.6	266.4	275.2
Other intangible assets	213.0	203.0	195.0	200.0	210.0
L/T investments	11.1	7.5	15.0	15.0	10.0
Net debt	247.2	313.3	336.9	325.5	289.2
L/T non-interest bearing liabilities	(6.4)	(3.0)	(1.0)	6.0	5.0
Minority interests	110.0	110.0	110.0	110.0	110.0
Shareholders' equity	560.7	566.7	579.4	599.9	625.0
Capital employed	809.2	881.1	917.6	927.4	916.7
Valuation ratios					
Enterprise value	793.7	859.8	883.4	872.0	835.8
EV/turnover (x)	0.6	0.7	0.7	0.7	0.6
EV/EBITDA (x)	5.3	6.3	6.7	6.2	5.4
EV/EBIT (x)	9.4	11.6	11.4	10.2	9.0
Adj PER (x)	10.1	11.1	16.4	14.1	11.8
Cash PER (x)	4.5	4.9	5.4	5.0	4.4
Dividend yield (gross) (%)	2.1	2.1	2.1	2.4	2.7

All sources: Company data, ING estimates

Engineering

Buy

Software & computer services

Italy

Engineering, in the tough IT services market, is delivering sustained growth and sound profitability thanks to its improved competitive positioning. In our view, the acquisition of TREND is not priced in and the shares look cheap. BUY.

Price (21/06/05)	€26.65
Target price (12 mth)	€31.00
Market cap	€333.1m
Reuters	ENG.MI

Equity story

Engineering is a 100% Italian IT services player. It has a long track record of organic growth and profitability. It is the eighth largest IT services company in Italy, with market share of 3.3%, turnover of €350m and 3,300 employees. The business mix is 70% business/systems integration and 30% outsourcing/application management. By vertical market, Engineering is focused on the public administration (43% of sales) and finance sectors (35%) all in Italy. The shares were listed in December 2000 at €40, netting €100m cash, which has all been spent on medium-sized acquisitions (Engisanita, Neta, BIP, Caridata and TREND).

Key newsflow

Engineering reported solid 1Q05 results (IAS/IFRS compliant) with turnover +19% YoY (of which +13.7% organic), EBITDA +10%, EBIT +25% and PBT +21%. Orders grew 21% but the backlog fell to €250m (from €260m at end-2004). The cash pile at end-March was €26m and grew to €38m at end-May. For the full year, we consolidate in our estimates the acquisition of TREND, which was bought for €45m in April. We expect a turnover contribution in 2005 (six months) of €10m, with a 20% EBITDA margin. For 2006, we estimate €22m sales from TREND with 20% margin.

For 2005, we maintain conservative 6% top-line organic growth, but slightly decrease our margin forecast (core EBITDA +2% LFL). We also estimate a negative impact from taxes (up 42% YoY) due to termination of fiscal loss credit at the ESEL subsidiary, while we expect the tax rate to fall from 46.5% (2005F) to 41% (2008F) on the back of group fiscal optimisation. Moreover, the group could significantly benefit from expected forthcoming IRAP (regional taxes) cancellation, which now has an impact of €9m (or 20% of PBT). We estimate an EPS CAGR in 2003-07 of 10.7% (down from 12.9%).

Valuation

Despite lowering our short-term estimates on the back of expected margin pressure, the TREND acquisition should be accretive in the medium term and therefore we maintain our DCF-based €31 target price (9.0% WACC and 2.0% perpetuity growth rate). On our new estimates, the shares are trading at 6.5x 2005F EV/EBITDA or a 13% discount to our European IT service small-/mid-cap universe (17 companies with market cap below €1bn), and at 14.7x 2005F PER or an 8% discount to peers. We estimate that Engineering has the highest profitability in the sector (13.5% EBIT margin) versus a sector average of 6.3%. Moreover, it has no debt and management has proven its ability to acquire companies at low multiples. **BUY** with a €31 target (16% upside).

Key ratios (%)

	2004	2005F
EBITDA margin	15.5	15.1
Operating margin	13.3	13.0
Net debt/equity	(14.9)	2.4
ROA	14.7	12.2
ROE	10.6	12.6

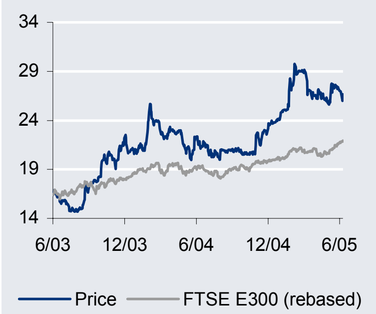
Performance

	12m	3m	Target
Absolute (%)	21.9	(6.0)	16.3
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	7.4	(11.3)	
MIBTEL	3.5	(7.5)	

Share data

No. of shares (m)	12.5
Volume	9,454.0
Free float (%)	33.0
Market cap (€m)	333.1
Enterprise value (€m)	347.9
Price/NAV (x)	1.8

Share price performance (€)



Source: ING

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Company profile

History

Engineering Ingegneria Informatica was founded in Padua in 1980 as Cerved Engineering. In 1984 there was an MBO and at the beginning of the 1990s new financial investors (Paribas, Italmobiliare and IBM) entered. At the end of the 1990s, there was an acceleration of growth driven mainly by organic development. Since 2003, Engineering has been acquiring small domestic IT players.

IT Services – 100% focused in Italy

Engineering is a key player in Italian IT services, with more than 3% market share and a strong franchise in the finance, PA and utilities segments. The group has more than 650 clients, a capillary presence in Italy (from north to south of the country) with 35 branches, three R&D laboratories, more than 3,300 employees (including a salesforce of 150) and more than 700 subcontractors.

Main subsidiaries

The group is structured as follows: an operative parent company with headcount of 1,450, €163m turnover and a 10.8% EBITDA margin. the main subsidiary (ESEL – 100% owned) operates in the healthcare sector and local PA with headcount of 528, generates €84m sales with 20% EBITDA margin. Neta (98% owned – acquired in 2003) operates in the local utility vertical market with €23m sales and 17% EBITDA margin. BIP (55% owned – start-up in 2003) is pure high-end consultancy with headcount of 126, €20m sales and 17% EBITDA margin. Caridata (70% owned – acquired in 2004 from Banca Intesa) has generated €23m sales with 15% EBITDA margin.

Shareholders

The main shareholders are the founding families (Cinaglia and Amodeo) and top managers. The free float is 33%.

Risks

Engineering is exposed to PA spending and could be affected by Italian deficit issues. Engineering is also exposed to the finance sector that in last year has been shrinking its IT investments. Despite the group being the eight-largest IT company, it could suffer competitive pressure from larger players (IBM, Accenture, etc).

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	265.0	322.6	351.9	381.7	401.8
EBITDA	41.7	50.0	53.2	58.8	62.6
Depreciation	(7.0)	(5.9)	(5.5)	(5.8)	(6.1)
EBITA	34.8	44.2	47.7	53.0	56.5
EBIT	29.3	35.2	45.7	51.2	54.6
Net financial charges	1.1	(0.1)	(0.5)	0.0	0.2
Pre-tax profit	28.1	33.6	45.2	51.2	54.8
Taxes	(11.8)	(14.8)	(21.0)	(23.0)	(23.6)
Minorities	(0.3)	(1.0)	(1.5)	(1.7)	(1.8)
Net profit	13.9	15.3	22.7	26.5	29.4
Adj net attributable profit	20.3	25.4	22.7	26.5	29.4
Ratios (%)					
EBITDA margin	15.8	15.5	15.1	15.4	15.6
EBIT margin	11.1	10.9	13.0	13.4	13.6
Net margin	5.4	5.1	6.9	7.4	7.8
Tax rate	41.9	44.2	46.5	45.0	43.0
Payout ratio	28.27	25.43	27.55	23.59	21.24
ROACE	12.6	14.7	12.2	13.2	13.2
ROE (%)	10.0	10.6	12.6	13.4	13.4
Debt/equity	8.3	10.4	5.1	4.6	4.1
Growth (%)					
Turnover	7.2	21.7	9.1	8.5	5.2
EBITDA	8.5	19.8	6.3	10.6	6.5
Adj pre-tax profit	(2.5)	27.0	9.6	13.4	6.9
Adj EPS	4.73	24.69	(10.56)	16.79	11.07
Per share					
Adj EPS	1.63	2.03	1.81	2.12	2.35
Cash EPS from ordinary operations	2.27	2.60	2.41	2.73	3.00
Dividend	0.36	0.36	0.50	0.50	0.50
NAV	13.10	13.69	15.00	16.62	18.48
Cash flow					
Operating cash flow	13.8	18.3	40.3	46.3	54.6
Cash taxes	(11.8)	(14.8)	(21.0)	(23.0)	(23.6)
Operating cash flow (after tax)	2.1	3.4	19.3	23.2	31.1
Net financial charges	1.1	(0.1)	(0.5)	0.0	0.2
Capital expenditures (net disposals)	(2.6)	(3.8)	(4.0)	(4.5)	(5.0)
Free cash flow	0.6	(0.5)	14.8	18.7	26.3
Balance sheet					
Working capital	121.4	147.6	160.5	173.0	181.0
Goodwill	11.1	17.9	22.5	22.5	22.5
Tangible fixed assets	7.8	8.4	14.0	15.0	16.0
Other intangible assets	3.1	3.1	31.2	28.8	26.5
L/T investments	11.5	11.7	12.0	12.0	12.0
Net debt	(40.5)	(26.1)	4.7	(7.8)	(27.8)
L/T non-interest bearing liabilities	29.9	39.3	42.4	44.6	46.9
Minority interests	4.9	11.3	22.0	21.4	20.6
Shareholders' equity	163.7	171.1	187.5	207.8	231.0
Capital employed	125.0	149.5	197.7	206.7	211.1
Valuation ratios					
Enterprise value	286.1	306.6	347.9	334.8	313.9
EV/turnover (x)	1.1	1.0	1.0	0.9	0.8
EV/EBITDA (x)	6.9	6.1	6.5	5.7	5.0
EV/EBIT (x)	9.8	8.7	7.6	6.5	5.8
Adj PER (x)	16.4	13.1	14.7	12.6	11.3
Cash PER (x)	11.7	10.2	11.0	9.8	8.9
Dividend yield (gross) (%)	1.4	1.4	1.9	1.9	1.9

All sources: Company data, ING estimates

Fineco Group

Buy

Banks

Italy

Fineco has been one of the best Italian bank performers year to date, rising 28% driven by restructuring scope. We keep our BUY rating and €7.50 target price ahead of the new business plan (5 July), which could renew momentum.

Price (21/06/05)	**€7.24**
Target price (12 mth)	**€7.50**
Market cap	**€2,285.4m**
Reuters	**FCO.MI**

Equity story

Fineco is a diversified financial player, focusing on retail banking through online trading and banking (Europe's market leader in online trading and Italy's leader in online banking), consumer credit, mortgage loans and leasing. Important businesses are also wealth management, asset management, life and non-life. Fineco ranks No4 in the Italian mutual funds industry, thanks to the captive agreement with Capitalia's distribution channels. Capitalia is in turn the major shareholder of Fineco. The group owns its proprietary financial consultant network, which consists of c.1,500 consultants and manages €3.4bn AuM or €2.26m/consultant. This network is being restructured and is one of the least productive in Italy.

Key newsflow

Most of the key newsflow appears to have taken place – disposal of the Fineco Vita majority stake to CNP (November 2004, closed in February 2005), disposal of the remaining stake in Banca della Rete to Sara Assicurazioni (December 2004) and closure of French subsidiary Banque Bipop (January 2005). The major newsflow to come concerns the new business plan, to be announced on 5 July (in conjunction with that of parent company Capitalia). The investment case is based on a recovery of profitability in the distribution network, which started restructuring in October 2004. Reorganisation of the network will be one of the pillars of the new plan. In addition, we expect the company to improve efficiency, by reorganising the corporate centre, specifically the treasury department that is currently run by two companies (Fineco Finance Ireland and Banca di Roma International – Lux).

Valuation

The stock has outperformed the Milan Banking Index since October 2004, and has been one of the best performers among Italian banks year to date rising 28%. We have adjusted our estimates for IFRS, which had a positive impact on both P&L and shareholders' equity. On valuation grounds, the stock offers low potential upside to our unchanged target of €7.50. Fineco trades at 5.9% 2005F P/AuM, versus a peer (Fideuram, Mediolanum and Azimut) average of 9.4%. On 2005F PER, it trades at a 5% discount to peers. Despite this small upside, we maintain our **BUY** rating ahead of the business plan, which could carry news and reasons to change our estimates.

Risks: The company, as an asset manager and gatherer, is exposed to the equity market, therefore its results are connected to market trends. In addition, the stock's volatility is higher that traditional banks; ie, Fineco is a high-beta stock, like its competitors.

Key ratios

	2005F	2006F
ROE (%)	11.53	13.58
Cost/income ratio (%)	57.88	52.75

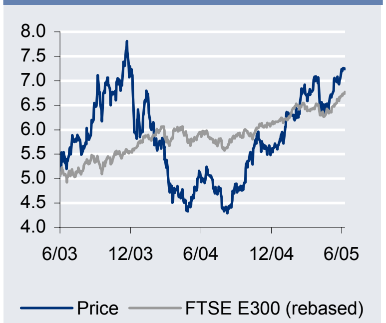
Performance

	12m	3m	Target
Absolute (%)	45.1	7.4	3.6
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	27.9	1.4	
MIBTEL	23.3	5.7	

Share data

No. of shares (m)	315.7
Volume	657,263
Free float (%)	41.0
Market cap (€m)	2,285.4
Enterprise value (€m)	2,285.4

Share price performance (€)



Source: ING

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Financials (€m)

	2004	2005F	2006F	2007F
Income statement				
Net interest income	91	205	235	256
Gains/losses on assets/liabilities at fair value	20	7	7	7
Dividends & income from participations valued on equity method	(2)	1	3	3
Net commissions	222	206	217	221
Other operating income, net	162	80	84	88
Income from insurance operations	0	10	12	13
Non-interest income	*402*	*304*	*322*	*332*
Total income	**493**	**509**	**556**	**589**
Personnel costs	(96)	(80)	(79)	(78)
Overhead expenses	(174)	(177)	(174)	(177)
Depreciation of tangible and intangible assets (net of goodwill)	(37)	(37)	(41)	(41)
Total operating costs	(308)	(295)	(293)	(296)
Gross operating profit	**185**	**214**	**263**	**292**
Provisions for liabilities and risks	0	(15)	(5)	0
Value adjustments on loans	(68)	(47)	(42)	(44)
Value adjustments on financial assets	(45)	0	0	0
Value adjustments of goodwill	(15)	0	0	0
Realised gains and losses on sales of assets	393	0	0	0
PBT	**450**	**152**	**216**	**249**
Income taxes	(35)	(41)	(78)	(92)
Income/loss pertaining to minority interests	0	(1)	(1)	(3)
Net income	**415**	**110**	**137**	**154**
Balance sheet (€m)				
Loans to customers	10,750	11,288	11,852	12,445
Deposits	8,703	8,964	9,233	9,510
Equity	938	979	1,040	1,113
Operating volumes (€m)				
AuM - Total	36,974	38,823	40,764	42,802
AuM - FC	6,047	6,107	6,168	6,230
Brokerage volumes	58,000	63,800	68,904	72,349
Ratios (%)				
ROE	2.31	11.53	13.58	14.34
Cost/income ratio	62.4	57.9	52.8	50.3
Tax rate	7.7	27.0	36.0	37.0
Core tier 1	8.02	8.43	8.66	8.96
Net interest income/total income	18.5	40.3	42.2	43.6
Total income/total asset	3.82	3.78	3.95	4.00
Operating cost/total asset	-2.39	-2.19	-2.08	-2.01
GOP/total asset	1.44	1.59	1.87	1.99
Growth (%)				
Total income		3.3	9.3	5.8
Gross operating profit		15.8	22.6	11.2
PBT		-66.2	41.9	15.3
Net profit		-73.4	24.1	12.5
Per share (€)				
EPS	0.07	0.35	0.43	0.49
BVPS	2.97	3.10	3.30	3.52
DPS	0.20	0.22	0.24	0.26
AuMPS	117.1	123.0	129.1	135.6
Valuation ratios				
PER (X)	105.5	20.7	16.7	14.8
P/BV (X)	2.44	2.33	2.20	2.05
P/AUM (%)	6.18	5.88	5.60	5.34

Source: Company data, ING estimates

Gewiss

Electronic & electrical equipment

Hold

Italy

Gewiss is one of the largest European players in the electrical and lighting market. We believe its unique portfolio of products, with more than 15,000 items, justifies the premium valuation versus its main competitors. HOLD.

Price (21/06/05)	**€4.91**
Target price (12 mth)	**€5.23**
Market cap	**€589.2m**
Reuters	**GEWI.MI**

Equity story

Gewiss was founded in 1970 by chairman Mr Bosatelli. During the 1990s, it expanded its network in Germany, France, UK, Spain and Portugal. Particularly important were the acquisitions of German company Schupa in 1997, which gave Gewiss leadership in the development/production of energy control panels. Gewiss operates in three market segments – energy, civil and lighting, which accounted for 69%, 24% and 7% of 2004 sales, respectively. Gewiss receives c.60% of sales in Italy, 35% in the rest of Europe (2.2% in UK), and 5% in South America and Asia. During 2004, Gewiss started to increase production capacity in China and India. Total investment could be €20-22m.

Key newsflow

We believe potential investment in 'special projects' (as Gewiss defines non-maintenance capex) by 2007 could be €120-140m, assuming a target debt/equity ratio of c.50% (in line with management expectations). A new Italian safety law (Marzano decree, article 44) could further sustain electrical products demand, since it is estimated that c.80% of Italian electrical equipment apartment is not in line with the safety law. We forecast that the potential additional market in the next five to seven years could be €50-70m. Thanks to its innovative products, which facilitate installation and the maintenance, and strong design impact, Gewiss could benefit more than its direct Italian competitors (B Ticino, Vemer).

Valuation

Our DCF valuation is €5.2 per share (beta 0.9x, risk premium 4%, WACC 7.3%). Gewiss trades at a 23% discount to European peers on 2006F EV/EBITDA and 6% premium on PER, confirming the difficulty of translating higher industrial profitability into net profit due to a higher tax rate (44%). Gewiss's estimated 2006 EBITDA margin of 25.1% is more than double that of competitors. At our unchanged €5.23 target price, Gewiss would trade at 5.8x EV/EBITDA and 16.2x PER for 2006F. Given the low net margin due to a high tax rate (which implies a low dividend yield) and the weak reference markets (electro technical and construction), we do not think Gewiss should trade above the current PER premium to its peers, despite its double EBITDA margin. Thus, our recommendation remains **HOLD**.

Key ratios (%)

	2004	2005F
EBITDA margin	24.4	24.7
Operating margin	18.0	18.3
Net debt/equity	2.1	(13.8)
ROA	14.2	18.1
ROE	15.3	16.8

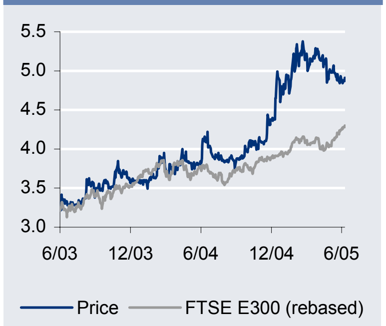
Performance

	12m	3m	Target
Absolute (%)	19.8	(3.2)	6.5
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	5.5	(8.6)	
MIBTEL	1.7	(4.7)	

Share data

No. of shares (m)	120.0
Volume	20,205
Free float (%)	38.5
Market cap (€m)	589.2
Enterprise value (€m)	561.2
Price/NAV (x)	2.9

Share price performance (€)



Source: ING

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Company profile

History

Gewiss is one of the most important European players in the electrical and lighting markets, offering systems and components for low-voltage installation, and computer-based management of household appliances. A unique portfolio of products, with more than 15,000 items, represents the broadest available range of 'integrated electrical systems'.

Description

During the 1990s, Gewiss expanded its network into Germany, France, the UK, Spain and Portugal, reducing geographical risks. Of particular importance from an industrial point of view was the acquisition of German group Schupa, which gave Gewiss leading expertise in the development/production of systems for building automation systems and residual electrical devices. Gewiss mainly operates in three market segments: energy, civil and lighting, which accounted for 69%, 24% and 7% of 2003 sales, respectively. Gewiss realises 59% of sales in Italy, 36% in the rest of Europe (2.2% in the UK), and 5% in South America and Asia. During the first nine months of 2004, Gewiss started building plants in China and India.

Main shareholders

The Bosatelli family with 62% (52% through Unifind SPA), and Polifin SA with 10%. Arnhold Bleichroeder Advisor holds 7.5%.

Risks

The European electrotechnical market is mature and characterised by overcapacity. Long-term growth is not higher than 1.0-1.5%. The only ways to growth are acquisitions and/or investment in new markets, which could dilute short-term profitability.

EBITDA and EBIT industrial margins could come under pressure due to strong competition from Asian manufactures.

Product innovation: Gewiss employs c.200 engineers to maintain product innovation and a high quality level. Every year, Gewiss launches 1,000-1,500 new items on average, which may not meet clients' needs.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	315.1	329.7	343.7	361.6	380.4
EBITDA	66.9	80.4	84.9	90.9	97.2
Depreciation	(20.4)	(21.2)	(22.1)	(23.2)	(24.4)
EBITA	46.5	59.2	62.9	67.6	72.7
EBIT	44.2	59.2	62.9	67.6	72.7
Net financial charges	(6.8)	(5.4)	(2.5)	(2.0)	(1.0)
Pre-tax profit	37.4	53.9	60.4	65.6	71.7
Taxes	(14.0)	(24.2)	(26.0)	(27.6)	(30.1)
Net profit	17.2	29.7	34.4	38.1	41.6
Adj net attributable profit	23.4	29.7	34.4	38.1	41.6
Ratios (%)					
EBITDA margin	21.2	24.4	24.7	25.1	25.5
EBIT margin	14.0	18.0	18.3	18.7	19.1
Net margin	5.5	9.0	10.0	10.5	10.9
Tax rate	37.4	44.9	43.0	42.0	42.0
Payout ratio	25.60	24.27	24.42	28.37	28.85
ROACE	10.9	14.2	18.1	21.7	23.0
ROE (%)	13.5	15.3	16.8	17.2	15.9
Debt/equity	36.6	2.1	(9.9)	(25.1)	(33.7)
Growth (%)					
Turnover	1.0	4.6	4.2	5.2	5.2
EBITDA	19.0	20.2	5.6	7.0	6.9
Adj pre-tax profit	64.0	43.9	12.1	8.8	9.2
Adj EPS	38.34	26.59	15.95	10.67	9.25
Per share					
Adj EPS	0.20	0.25	0.29	0.32	0.35
Cash EPS from ordinary operations	0.38	0.42	0.47	0.51	0.55
Dividend	0.05	0.06	0.07	0.09	0.10
NAV	1.49	1.74	1.69	2.00	2.35
Cash flow					
Operating cash flow	81.2	98.3	80.0	90.4	90.6
Cash taxes	(13.5)	(24.2)	(26.0)	(27.6)	(30.1)
Operating cash flow (after tax)	67.7	74.1	54.1	62.9	60.5
Net financial charges	(6.8)	(5.4)	(2.5)	(2.0)	(1.0)
Capital expenditures (net disposals)	(8.4)	(12.0)	(12.0)	(12.0)	(12.0)
Free cash flow	52.5	57.1	39.6	48.9	47.5
Balance sheet					
Working capital	73.4	66.4	71.3	71.8	78.3
Tangible fixed assets	171.4	156.9	118.1	117.7	119.8
Other intangible assets	4.1	3.9	3.1	3.0	2.0
L/T investments	1.4	1.8	2.0	2.2	2.0
Net debt	55.2	4.4	(28.0)	(68.4)	(105.1)
L/T non-interest bearing liabilities	16.5	16.2	20.2	22.7	25.2
Shareholders' equity	178.8	208.4	202.3	240.4	282.0
Capital employed	233.9	212.8	174.3	172.0	176.9
Valuation ratios					
Enterprise value	644.4	593.6	561.2	520.8	484.1
EV/turnover (x)	2.0	1.8	1.6	1.4	1.3
EV/EBITDA (x)	9.6	7.4	6.6	5.7	5.0
EV/EBIT (x)	14.6	10.0	8.9	7.7	6.7
Adj PER (x)	25.1	19.9	17.1	15.5	14.2
Cash PER (x)	12.8	11.6	10.4	9.6	8.9
Dividend yield (gross) (%)	1.0	1.2	1.4	1.8	2.0

All sources: Company data, ING estimates

Granitifiandre

Buy

Construction & building materials

Italy

Granitifiandre is a market leader in the production of high-quality, full-bodied porcelain stoneware slabs imitating quarried marble, stone and granite. We forecast rapid growth of 25% CAGR in 2004-07 from two new plants.

Price (21/06/05)	**€7.20**
Target price (12 mth)	**€8.05**
Market cap	**€265.4m**
Reuters	**GRF.MI**

Equity story

By 2007-08, Granitifiandre should triple its production capacity to c.18m^2 and double its market share to 2%. The additional capacity should provide Granitifiandre with substantial growth prospects in two potentially profitable regions (Germany and US) that have been untapped to date. Granitifiandre's lower-cost, high-quality alternative to quarried products is growing faster. This provides for top-line growth even when construction activity stalls. In addition, Granitifiandre is entering new markets where it has minimal or no presence to date. This should lead to a c.25% sales and c.31% EBITDA CAGR in 2004-07F

Granitifiandre is a free cash flow generator. Starting in 2005, when major investment in new plants should be completed, the company should, we believe, generate c.€15m free cash flow, which should increase to c.€30m in 2007.

Key newsflow

After a series of delays, the new US plant's production started on 1 April under the brand StonePeak (12 months later than the original date). Granitifiandre is now able to attack the €260m US glaze porcelain market, with a new series of products that cost 15-20% less than peers. StonePeak products were officially presented to the Coverings trade fair at Orlando at the beginning of May, the main trade fair in the American market. The fair was an important step in defining relationships with the main distributors at individual state level, while the creation of the internal commercial structure continues. Granitifiandre is confident of reaching US plant EBITDA breakeven during 4Q05. The profitability increase should be more visible in 2007F (we forecast an EBITDA margin of 20.6%).

Valuation

Granitifiandre trades at a premium to sector multiples on 2004 figures, but due to much higher-than-expected growth, it trades at a steep discount on 2006F (PER 2006F 5%). This is demonstrated by its low PEG (0.25x) against the sector average (0.94x). The 2006F EV/EBITDA valuation at a sector multiple gives an implied target price of €7.7 per share, slightly below our DCF base target price of €8.05. The target price could be conservative in the light of Granitifiandre's growth and cash flow generation in the future years. Starting in 2006-07, free cash flow generated could lead Granitifiandre to strongly increase the dividend. **BUY** maintained.

Key ratios (%)

	2004	2005F
EBITDA margin	17.0	18.2
Operating margin	9.7	10.3
Net debt/equity	8.3	3.5
ROA	4.4	7.0
ROE	4.3	7.2

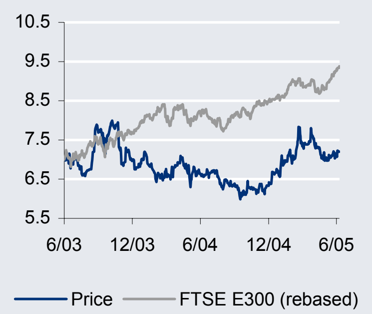
Performance

	12m	3m	Target
Absolute (%)	9.8	(3.1)	11.8
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(3.3)	(8.5)	
MIBTEL	(6.8)	(4.6)	

Share data

No. of shares (m)	36.9
Volume	4,072.0
Free float (%)	39.5
Market cap (€m)	265.4
Enterprise value (€m)	271.4
Price/NAV (x)	1.6

Share price performance (€)



Source: ING

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Company profile

History

Granitifiandre is a market leader in the production of high-quality full-bodied porcelain stoneware slabs in reproductions of quarried marble, stone and granite. Not only are the products cheaper than natural products, they also have much better wear-and-tear and resistance characteristics. The company is able to manufacture reproductions of many different types of stone and marble.

Description

Granitifiandre has adopted a unique marketing and distribution approach. One strength is a high recognition among architects and designers. About 80% of sales are from the commercial sector. The group has two plants in Italy: one manufacturing porcelain stoneware slabs, with annual capacity of about 7m m²; and the other dedicated to polishing marble products, with annual production capacity of over 3m m². In 2005, a new plant is expected to come on stream in the US (one was opened in Germany in 2003). This should allow Granitifiandre to treble its production capacity by 2006-07. The additional capacity should enable the group to penetrate two high-potential markets. The new plants should be more efficient than the existing ones, and we forecast a 15-18% cost advantage over the Italian plants. This should allow Granitifiandre to set a more aggressive pricing policy, while safeguarding both EBITDA and EBIT margins.

Main shareholders

Finanziaria Ceramica 61.5% (owned by Minozzi family); Minozzi Romano 2.5%.

Risks

Control shareholder owns another sector company – Mr Minozzi, the control shareholder (65%), also controls Maffei. Maffei is a smaller ceramic product company with lower margins. Investors have expressed some concern over the possibility of a merger between the companies – something management continues to exclude.

Economic growth in key markets – the new plants in Germany and the US are investments in countries with high potential, but with some uncertainty over the timing of economic recovery, especially in Germany.

FX risk – EU countries account for 66% of sales. Other markets could grow in significance, particularly the US. Although margins in the US should be protected from currency effects due to the local manufacturing base, the company will be more exposed to currency translation effects.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	148.6	162.8	205.2	276.3	302.3
EBITDA	29.8	27.6	37.3	53.2	62.2
Depreciation	(9.3)	(11.8)	(16.1)	(20.6)	(23.5)
EBITA	20.5	15.8	21.2	32.6	38.7
EBIT	20.5	15.8	21.2	32.6	38.7
Net financial charges	1.6	(1.7)	(2.5)	(2.0)	(1.5)
Pre-tax profit	22.1	14.0	18.7	30.6	37.2
Taxes	(7.8)	(6.8)	(6.5)	(10.7)	(13.0)
Minorities	(0.8)	(0.7)	(0.6)	(1.1)	(1.1)
Net profit	9.5	6.6	11.5	18.8	23.0
Adj net attributable profit	13.5	6.6	11.5	18.8	23.0
Ratios (%)					
EBITDA margin	20.0	17.0	18.2	19.3	20.6
EBIT margin	13.8	9.7	10.3	11.8	12.8
Net margin	7.0	4.5	5.9	7.2	8.0
Tax rate	35.2	48.1	35.0	35.0	35.0
Payout ratio	54.63	139.63	96.13	68.76	0.00
ROACE	7.6	4.4	7.0	9.9	11.5
ROE (%)	9.0	4.3	7.2	10.7	11.7
Debt/equity	10.4	14.8	24.0	13.8	4.4
Growth (%)					
Turnover	(2.6)	9.5	26.1	34.7	9.4
EBITDA	(16.4)	(7.3)	35.1	42.7	16.8
Adj pre-tax profit	(22.2)	(36.4)	33.0	63.9	21.5
Adj EPS	(22.10)	(51.10)	74.30	63.11	22.83
Per share					
Adj EPS	0.37	0.18	0.31	0.51	0.63
Cash EPS from ordinary operations	0.62	0.50	0.75	1.07	1.26
Dividend	0.20	0.25	0.30	0.35	0.00
NAV	4.10	4.21	4.52	5.03	5.65
Cash flow					
Operating cash flow	32.6	25.4	36.1	35.6	57.2
Cash taxes	(7.8)	(6.8)	(6.5)	(10.7)	(13.0)
Operating cash flow (after tax)	24.9	18.6	29.6	24.8	44.2
Net financial charges	1.6	(1.7)	(2.5)	(2.0)	(1.5)
Capital expenditures (net disposals)	(33.2)	(40.3)	(12.0)	(12.0)	(13.0)
Free cash flow	(6.7)	(22.8)	15.1	10.8	29.7
Balance sheet					
Working capital	45.9	53.5	55.0	72.7	77.6
Goodwill	0.0	0.0	2.7	2.4	2.4
Tangible fixed assets	94.5	121.9	122.2	124.5	125.8
Other intangible assets	5.0	7.6	7.8	8.5	8.5
L/T investments	2.4	1.9	2.0	2.0	2.0
Net debt	(17.4)	13.3	6.0	6.2	(10.6)
L/T non-interest bearing liabilities	10.2	11.5	12.9	14.1	14.1
Shareholders' equity	151.0	155.1	166.6	185.4	208.4
Capital employed	137.6	173.3	176.9	196.0	202.3
Valuation ratios					
Enterprise value	248.0	278.7	271.4	271.6	254.8
EV/turnover (x)	1.7	1.7	1.3	1.0	0.8
EV/EBITDA (x)	8.3	10.1	7.3	5.1	4.1
EV/EBIT (x)	12.1	17.7	12.8	8.3	6.6
Adj PER (x)	19.7	40.2	23.1	14.1	11.5
Cash PER (x)	11.6	14.4	9.6	6.7	5.7
Dividend yield (gross) (%)	2.8	3.5	4.2	4.9	0.0

All sources: Company data, ING estimates

Hera

Hold

Other utilities

Italy

Hera is a multi-utility company based in Romagna. The group was born from the only significant (and successful) merger among local utilities. Hera is set to grow further with the Meta Modena purchase. We are neutral on valuation grounds.

Price (21/06/05)	€2.19
Target price (12 mth)	€2.16
Market cap	€1,839.4m
Reuters	HRA.MI

Equity story

Hera is the result of the first, and up to now only, merger among the highly-fragmented municipal utilities. Hera has an open-ended business model to allow easy integration of companies acquired. Since its IPO in June 2003, Hera has bought Geat Riccione, Agea Ferrara and ENI's environmental assets in Ravenna. The group is finalising the acquisition of its first listed company, Meta Modena, which has a €470m market cap (versus Hera's €1.8bn). Hera went public at €1.25/share and is 56% owned by a syndicate (comprising 140 local city halls). The good stock performance since IPO (stock return plus dividend has been 37% annualised) reflects three factors, in our view: (1) an IPO discount; (2) strong sector performance (32% shareholder return in the last two years annualised); and (3) constant upgrade in guidance and analysts estimates.

Key newsflow

Hera's operating performance has exceeded its expectations announced two years ago during the IPO. It has been effective in extracting synergies and making acquisitions at non-dilutive multiples. Now the key challenge is integration of Meta Modena. The deal makes sense from an industrial standpoint as the two companies are located in the same territories and with a similar business portfolio. Moreover, Meta suffers from a low critical mass in gas and electricity businesses. Despite there being synergies to exploit, the threat is that Meta is a listed company and Hera may have to pay a higher premium (compared to previous deals) to convince minority shareholders to sell/tender their shares. Based on press sources, Hera will acquire 15% of Meta shares using cash (€70m) and swap the remaining 146m Meta shares into 183m Hera shares (based on the current stock market ratio of 1.25x) or into 205-210m shares offering a 10-15% takeover premium. Considering a 10-15% premium, and excluding any synergies, we estimate EPS/DPS dilution of 3.5-4.0%. To offset this dilution, we estimate the merger needs pre-tax synergies of c.€10m, corresponding to 3.6% of Meta turnover (ie, 3.6% EBITDA margin improvement). We note that in the AGEA acquisition, €5m announced synergies were exactly 3.6% of turnover.

Valuation

We still value Hera standalone at €2.16 based on DCF (6.65% WACC and 1% growth to perpetuity) and DDM (85% payout and 7.6% discount rate). This corresponds to 7.0x EV/EBITDA and 21.5x adjusted PER for 2005F. Compared to peers, Hera looks expensive on 2005F-06F multiples as its growth rates should continue to be double-digit in 2007-08. Hera offers a better dividend yield given its higher expected payout (3.8% in 2005F versus peers' 3.3%). Our **HOLD** rating is backed by lack of fundamental upside.

Key ratios (%)

	2004	2005F
EBITDA margin	18.9	20.0
Operating margin	9.8	11.3
Net debt/equity	57.6	63.9
ROA	6.0	6.8
ROE	6.2	7.6

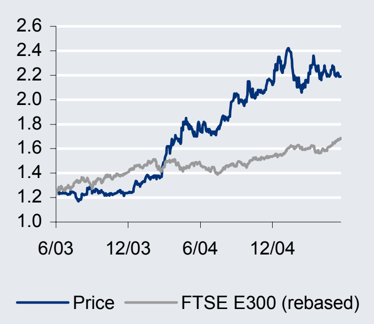
Performance

	12m	3m	Target
Absolute (%)	28.8	3.8	(1.4)
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	13.5	(2.0)	
MIBTEL	9.4	2.2	

Share data

No. of shares (m)	839.9
Volume	836,626
Free float (%)	43.4
Market cap (€m)	1,839.4
Enterprise value (€m)	2,358.1
Price/NAV (x)	1.9

Share price performance (€)



Source: ING

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Company profile

History

Hera is the result of the first, and only, significant merger in the highly fragmented Italian local utilities sector (completed in November 2002). The group is located in Romagna, one of the richest Italian regions, and was listed in June 2003 through a successful IPO at €1.25 per share. A shareholder syndicate (comprising local city halls) controls 56% of the share capital.

Energy (39% of EBITDA)

The energy division reported EBITDA of €116m in 2004, of which €109m came from gas and €8m electricity. In gas, Hera is the largest Italian local multi-utility player distributing 1.91bn m3 of gas (of which 80% is to domestic clients). Thanks to its critical mass, Hera has been able to diversify its sources and achieve significant savings on procurement. It has gas concessions through to 2009. Hera's entrance into the electricity market should be seen as a defensive move to retain gas customers through aggressive electricity pricing.

Water (26% of EBITDA)

Hera manages the entire water value chain: drinking water, sewage and waste water treatment services. With €305m in 2004 sales and 206cum distributed, Hera ranks among the top five water players in Italy. It is positioned within the four ATOs (area for integrated water services), with no competitors during the safeguard period and concessions until 2022. Hera has a 97% market share in water, 95% in treatment and 75% in sewage.

Waste management (30% of EBITDA)

Hera has strong exposure to this segment with 2.67mt of waste treated (50% urban, 30% third-party and 20% speciality) for 1.8m inhabitants. In particular, Hera is fairly efficient in speciality waste treatment with the additional benefit of considerable spare capacity given the structural shortage in the Italian system. Hera plans to build four WTE plants by 2007 contributing €53m to EBITDA. In 2004, it acquired ENI's environmental assets in Ravenna.

Risks

Hera operates in several regulated business (gas distribution, water and waste), which could be affected by a decrease in tariffs and/or by the way they are calculated. In energy sales, which are unregulated, Hera could suffer competitive pressure from new entrants. Hera has several new projects; in particular, in WTE and CCGT plant construction there is risk that it may not receive all green lights from authorities. Hera is leveraged and could suffer an upward shift of the interest rate curve.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	1,241.0	1,588.8	1,700.2	1,844.6	2,009.1
EBITDA	242.5	300.2	340.3	391.6	440.0
Depreciation	(84.9)	(93.8)	(112.0)	(120.0)	(129.0)
EBITA	157.7	206.4	228.3	271.6	311.0
EBIT	112.8	144.4	180.5	222.0	259.5
Net financial charges	(21.2)	(23.4)	(30.0)	(33.0)	(35.0)
Pre-tax profit	88.6	117.2	150.5	189.0	224.5
Taxes	(35.6)	(55.1)	(70.0)	(87.0)	(102.1)
Minorities	(3.6)	(5.3)	(8.0)	(8.2)	(8.7)
Net profit	49.5	56.8	72.5	93.8	113.7
Adj net attributable profit	60.1	68.6	84.3	105.6	125.5
Ratios (%)					
EBITDA margin	19.5	18.9	20.0	21.2	21.9
EBIT margin	9.1	9.1	10.6	12.0	12.9
Net margin	4.3	3.9	4.7	5.5	6.1
Tax rate	40.2	47.0	46.5	46.0	45.5
Payout ratio	85.00	84.61	92.67	85.00	85.00
ROACE	5.9	6.0	6.8	7.9	8.9
ROE (%)	5.8	6.2	7.6	9.7	11.5
Debt/equity	53.0	60.2	66.4	68.8	70.0
Growth (%)					
Turnover	12.9	28.0	7.0	8.5	8.9
EBITDA	26.4	23.8	13.3	15.1	12.3
Adj pre-tax profit	26.4	29.9	25.8	23.8	17.7
Adj EPS	64.01	12.93	17.22	25.31	18.79
Per share					
Adj EPS	0.08	0.09	0.10	0.13	0.15
Cash EPS from ordinary operations	0.23	0.27	0.28	0.31	0.35
Dividend	0.05	0.06	0.08	0.09	0.12
NAV	1.10	1.13	1.15	1.16	1.18
Cash flow					
Operating cash flow	238.5	209.4	368.8	390.6	438.9
Cash taxes	(35.6)	(55.1)	(70.0)	(87.0)	(102.1)
Operating cash flow (after tax)	203.0	154.3	298.8	303.6	336.8
Net financial charges	(21.2)	(23.4)	(30.0)	(33.0)	(35.0)
Capital expenditures (net disposals)	(209.9)	(202.2)	(290.0)	(240.0)	(250.0)
Free cash flow	(22.9)	(68.3)	(21.2)	30.6	51.8
Balance sheet					
Working capital	94.4	59.4	60.5	61.5	62.5
Goodwill	96.6	122.6	110.8	99.0	87.3
Tangible fixed assets	909.8	1,167.3	1,295.7	1,390.1	1,476.8
Other intangible assets	264.2	256.9	231.2	208.1	187.3
L/T investments	156.1	175.6	175.6	175.6	175.6
Net debt	449.2	563.9	635.5	672.0	700.0
L/T non-interest bearing liabilities	177.4	238.9	243.7	248.5	253.5
Minority interests	47.6	50.4	58.9	67.2	75.5
Shareholders' equity	870.3	952.6	963.4	977.5	994.6
Capital employed	1,343.8	1,542.9	1,630.2	1,685.8	1,736.0
Valuation ratios					
Enterprise value	2,180.1	2,278.1	2,358.1	2,403.0	2,439.3
EV/turnover (x)	1.7	1.4	1.4	1.3	1.2
EV/EBITDA (x)	8.6	7.2	6.9	6.1	5.5
EV/EBIT (x)	18.4	15.1	13.1	10.8	9.4
Adj PER (x)	28.9	25.6	21.8	17.4	14.7
Cash PER (x)	9.7	8.3	7.9	7.0	6.3
Dividend yield (gross) (%)	2.4	2.7	3.7	4.3	5.3

All sources: Company data, ING estimates

IGD

Buy

Real estate

Italy

We like IGD for its: (1) 100% focus on the attractive Italian real-estate retail market; (2) aggressive acquisition strategy; and (3) relationship with Italy's largest retailer. We initiate coverage with a BUY rating and €1.91 target.

Price	€1.69
Target price (12 mth)	€1.91
Market cap	€477.0m
Reuters	IGD.MI

Equity story

IGD went public on 11 February 2005 at €1.45/share. The company netted €145m net of commissions. Lock-up will expire on 11 August 2005. The shares closed at €1.72 on the first day of trading (+18.7%) and now trade 16% above the IPO price after distribution of a €0.02 DPS in May (1.4% yield on IPO price).

IGD specialises in the sale, acquisition, leasing and management of shopping centres, hypermarkets, supermarkets and shopping malls in Italy. It owns 12 hypermarkets, seven shopping malls, one supermarket and two shops in Emilia Romagna, Tuscany, Marche, Abruzzo, Campania and Lazio (north/central Italy), with aggregate surface area of 258,000sqm. The turnover breakdown (2004) is 95% rent and 4% services. The main shareholders are Coop Adriatica (47% stake) and Unicoop Tirreno (15%).

Key newsflow

IGD aims to buy shopping centres, either recently developed or already operating, in under-retailed markets (central and southern Italy in particular). It also aims to become the consolidator of cooperatives' real-estate portfolio (nearly 1,261 outlets with 1,32m sqm). This portfolio base is valued at nearly €3bn applying IGD's €/sqm multiples. It also aims to develop new shopping centres. IGD as a real-estate company is highly underleveraged. Management would like to leverage the balance sheet through acquisitions and a high payout ratio (80% IGD guidance, 60% our estimate). The policy is to maintain hedged interest rate exposure through use of derivatives instruments.

Valuation

We calculate IGD's value using a DDM model. The visibility given by long-term contracts and defensiness of IGD's positioning allow good visibility of cash flow generation and dividend distribution with the announced payout policy of 80% (under new IAS, we expect 60%). We have faded dividend growth after 2009 from 10% down to 2.0% perpetuity growth rate. Our 7.2% discount rate is conservative and based on a 4.0% risk-free rate, 4.0% equity risk premium and 0.8x beta (European peers' average beta is 0.4x while Italian comparables' beta is 0.5x, based on Bloomberg data). We initiate coverage with a **BUY** rating with €1.91 target price (for full details see *IGD – Shop around the clock*, 24 June 2005).

Key ratios (%)

	2004	2005F
EBITDA margin	64.3	68.7
Operating margin	35.4	65.8
Net debt/equity	84.5	18.6
ROA	2.7	6.2
ROE	2.6	7.4

Performance

	12m	3m	Target
Absolute (%)	N/A	4.3	13.0
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	

Share data

No of shares (m)	264.7
Volume	537,044
Free float (%)	37.2
Market cap (€m)	477.0
Enterprise value (€m)	579.2
Price/NAV (x)	0.9

Share price performance (€)

Source: ING

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Company profile

History

IGD specialises in the sale, acquisition, leasing and management of shopping centres, hypermarkets, supermarkets and shopping malls in Italy. It owns 12 hypermarkets, seven shopping malls, one supermarket and two shops in Emilia Romagna, Tuscany, Marche, Abruzzo, Campania and Lazio (north/central Italy), with an aggregate surface area of 258,000sqm.

Hypermarkets

Hypermarkets average lease maturity is 12-18 years plus six years renewal. Rents are indexed to 75% of inflation. The tenant is charged ordinary and extraordinary maintenance (virtually no capex for IGD). All hypermarkets/supermarkets are now leased to Coop Adriatica (ten hypermarkets and one supermarket) and Unicoop Tirreno (three in total), which are also IGD main shareholders. The hypermarket rents, given the long-term duration and quality of tenants, have excellent cash flow visibility and low risk (rents grow proportionally with inflation).

Shopping malls

Regarding shopping malls, a key point to clarify is that rental agreement includes the commercial licence. IGD therefore rents the enterprise, meaning that this rental contract does not falls into strict Italian rental regulation for real estate. Key advantages of renting an enterprise rather than a real estate are: term of the contract is much shorter (five versus 12 years); Rental income is based on a minimum guaranteed plus a percentage based on the tenant sales/turnover; Average key money is 20-60% of annual rent. Lease agreement indexation is 100% of inflation rate (versus 75%). On a negative note, the tenant base is diversified and therefore credit risk could be higher.

Risks

IGD could suffer tougher competition from new entrants, weak retail consumption trends and a reversal of real-estate cycle.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	53.9	51.0	60.7	67.7	84.7
EBITDA	24.6	32.7	41.7	47.2	62.4
Depreciation	(17.2)	(14.7)	(1.8)	(1.9)	(2.2)
EBITA	7.4	18.1	40.0	45.3	60.2
EBIT	7.2	17.6	40.0	45.3	60.2
Operating exceptionals	0.1	0.1	0.0	0.0	0.0
Net financial charges	(4.4)	(6.5)	(5.7)	(7.0)	(14.0)
Pre-tax profit	2.8	11.1	34.3	38.3	46.2
Taxes	(2.1)	(4.9)	(5.7)	(8.8)	(12.0)
Minorities	(0.1)	(0.2)	0.0	0.0	0.0
Net profit	0.6	6.0	28.5	29.5	34.2
Adj net attributable profit	0.8	6.4	28.5	29.5	34.2
Ratios (%)					
EBITDA margin	45.7	64.3	68.7	69.6	73.7
EBIT margin	13.3	34.5	65.8	66.8	71.1
Net margin	1.3	12.2	47.0	43.5	40.4
Tax rate	74.6	43.9	16.7	22.9	26.0
ROACE	0.6	2.7	6.2	4.7	4.6
ROE (%)	0.3	2.6	7.4	5.2	5.5
Debt/equity	56.3	84.5	18.6	41.9	69.9
Growth (%)					
Turnover	27.5	(5.4)	19.2	11.6	25.0
EBITDA	(4.6)	33.0	27.5	13.0	32.3
Adj pre-tax profit	(67.0)	284.5	197.8	11.7	20.8
Cash flow					
Operating cash flow	37.0	32.5	41.3	47.0	61.4
Cash taxes	(2.1)	(4.9)	(5.7)	(8.8)	(12.0)
Operating cash flow (after tax)	34.9	27.6	35.6	38.2	49.4
Net financial charges	(4.4)	(6.5)	(5.7)	(7.0)	(14.0)
Capital expenditures (net disposals)	(34.3)	(73.5)	(76.5)	(163.0)	(220.0)
Free cash flow	(3.9)	(52.4)	(46.6)	(131.8)	(184.6)
Balance sheet					
Working capital	3.3	4.0	4.8	5.4	6.7
Goodwill	3.6	4.4	4.5	4.5	4.5
Net debt	130.1	191.6	102.2	248.1	449.7
L/T non-interest bearing liabilities	17.4	17.4	17.7	18.1	18.4
Minority interests	3.4	0.0	0.0	0.0	0.0
Shareholders' equity	229.3	226.6	549.6	591.8	643.7
Capital employed	361.1	418.2	651.8	840.0	1,093.4
Valuation ratios					
Enterprise value	610.5	668.6	579.2	725.1	926.7
EV/turnover (x)	8.0	9.6	9.5	10.7	10.9
EV/EBITDA (x)	17.6	15.0	13.9	15.4	14.9
EV/EBIT (x)	60.5	27.9	14.5	16.0	15.4
Adj PER (x)	362.7	46.8	15.7	16.2	14.0
Cash PER (x)	16.6	14.1	14.8	15.2	13.1
Dividend yield (gross) (%)	0.0	3.0	3.0	3.6	4.1

All sources: Company data, ING estimates

IMA

Hold

Engineering & machinery

Italy

IMA has dominant market shares in packaging machines for the teabag and pharma industries. The Pharma division has suffered pricing pressure and from the weak dollar; despite this possibly coming to an end, the shares seem fully valued.

Price (21/06/05)	**€10.90**
Target price (12 mth)	**€11.00**
Market cap	**€393.5m**
Reuters	**IMAI.MI**

Equity story

Created more than 40 years ago, IMA has specialised – organically and through acquisitions – in the two niches of packaging machines for the teabag and pharma industries, where it enjoys high profitability and above-average return on capital employed. Group sales are more than 90% concentrated outside Italy where IMA has widespread sales/services networks, while production is mostly outsourced. The strong track record of growth was interrupted in 2003 when dollar devaluation, a slowdown in emerging countries and pricing pressure in the pharmaceutical industry drove down profitability by 5ppt (from an 18% EBITDA margin in 2002 to 13% in 2004). IMA believes it reached a trough in 2004.

Key newsflow

IMA delivers the majority of its machines in 4Q, therefore the first part of the year is characterised by low sales. The focus of 1Q results is normally on the order level. The 1Q order backlog decreased 2.6% YoY despite the consolidation of Nova, which we estimate should have contributed c.€10m orders. Therefore we estimate the order backlog was down 8% LFL, which contrasts with our 5% organic top-line growth estimate for 2005. Management commented that lower orders do not reflect a trend in demand as the gap (of lower orders) was closed in April. In May-June, we also expect the backlog to further build momentum. IMA confirmed strong interest in its new products during the Interpack Dusseldorf fair, which should translate into order intake. We believe IMA will have better visibility for the full year in the summer with the release of 2Q results.

Valuation

Management confirmed that the industry is still suffering pricing pressure, but there are increasing signs of an upswing in demand that could ease the phenomena going forward. Also the dollar, which has weighed on stock performance in the last two years, is recovering versus the euro. We still believe IMA is a 'cash machine' (good margins, low capex, low NWC requirements, sound financial structure) able to deliver good dividend flow (4.1% yield in 2005F and 4.6% in 2006F). Our DCF (7.2% WACC and 2.5% terminal growth) derives an €11.0 target price, that corresponds to a 16.7x 2005F PER and 8.8x 2005F EV/EBITDA (5-10% premium to historical multiples). **HOLD** reiterated given lack of upside.

Key ratios (%)

	2004F	2005F
EBITDA margin	13.0	14.2
Operating margin	10.0	11.1
Net debt/equity	72.8	59.1
ROA	10.0	12.2
ROE	15.2	22.4

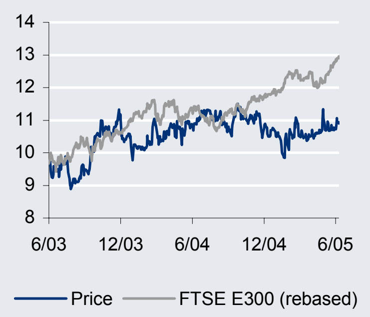
Performance

	12m	3m	Target
Absolute (%)	0.0	3.1	0.5
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(11.9)	(2.7)	
MIBTEL	(15.1)	1.5	

Share data

No. of shares (m)	36.1
Volume	13,356
Free float (%)	34.2
Market cap (€m)	393.5
Enterprise value (€m)	468.1
Price/NAV (x)	3.4

Share price performance (€)



Source: ING

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Company profile

History
IMA is a world leader in packaging machines for the pharmaceutical and teabag industries with €371m turnover. The group was born more than 40 years ago and specialised in these two niches where it holds important market share (70% in tea bags and 10% in pharma packaging). IMA is controlled by the Vacchi family (70% stake). Free float is 30%.

Pharma business (84% of sales)
IMA provides a full range of machines for the pharmaceutical industry, such as tabletting, capsule filling, treating containers, blister, powder and liquid filling, etc. The industry for pharmaceutical packaging machines has tracked, in developed countries, the growth of drug sales which has been 8-10% on average in the last decade. Drugs are driven by secular growth trends such as the ageing of the population, penetration into emerging markets and expansion of generics. This growth backbone also drives pharma suppliers such as IMA which provides packaging machines. IMA has a global market share of 10% in this market.

Tea business (16% of sales)
IMA is the world leader in teabag machines worldwide with a share of around 70% in terms of volume. Demand for teabag machines is highly concentrated in a few customers, such as Unilever, Twining, Tetley, OTG, Lyons, Gesellshaft and Teekanne. Demand for teabags mainly comes from Western countries (20% of world tea consumption) and is not increasing by much (2-3% pa due to improved mix and inflation) as the main tea consumers (China and India) are only gradually moving their habits from loose leaves to teabags. The market for teabag-packaging machines is therefore basically flat and nearly entirely driven by replacements and spare parts..

Risks
IMA is highly exposed to currency movements as most of its costs are EU based while revenues are 52% outside the Eurozone. In particular, North America weights 20% of sales and Asia 15%. IMA has exposure to emerging countries (Middle East, Latam), whose economies can be volatile. The group is also facing increasing competitive pressure from German producers in the pharmaceutical packaging division. Limited free float could mean also liquidity issues. IMA could be also affected by new regulations on pharmaceutical production.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	351.3	371.1	400.0	420.0	445.2
EBITDA	55.3	48.3	57.0	60.9	66.2
Depreciation	(7.2)	(7.5)	(7.9)	(8.3)	(8.7)
EBITA	48.1	40.7	49.1	52.6	57.5
EBIT	39.2	32.0	44.5	48.0	52.7
Net financial charges	(4.0)	(4.2)	(4.4)	(4.4)	(4.0)
Pre-tax profit	36.2	27.9	40.1	43.6	48.7
Taxes	(16.9)	(13.1)	(16.1)	(17.4)	(19.5)
Minorities	(0.3)	(0.2)	(0.3)	(0.4)	(0.4)
Net profit	19.0	14.6	23.7	25.8	28.8
Adj net attributable profit	24.0	19.8	23.7	25.8	28.8
Ratios (%)					
EBITDA margin	15.7	13.0	14.2	14.5	14.9
EBIT margin	11.2	8.6	11.1	11.4	11.8
Net margin	5.5	4.0	6.0	6.2	6.6
Tax rate	46.8	47.0	40.0	40.0	40.0
Payout ratio	152.29	99.13	68.42	70.01	68.92
ROACE	11.5	10.0	12.2	13.8	16.0
ROE (%)	18.7	15.2	22.4	21.4	22.4
Debt/equity	129.9	128.0	80.5	59.7	41.0
Growth (%)					
Turnover	(0.6)	5.6	7.8	5.0	6.0
EBITDA	(12.0)	(12.7)	18.0	7.0	8.6
Adj pre-tax profit	(15.6)	(19.6)	20.9	8.6	11.7
Adj EPS	(18.53)	(17.53)	19.74	8.59	11.74
Per share					
Adj EPS	0.67	0.55	0.66	0.71	0.80
Cash EPS from ordinary operations	0.97	0.85	1.00	1.07	1.17
Dividend	0.80	0.40	0.45	0.50	0.55
NAV	2.66	2.66	3.23	3.44	3.69
Cash flow					
Operating cash flow	49.2	51.9	51.3	54.9	60.0
Cash taxes	(16.9)	(13.1)	(16.1)	(17.4)	(19.5)
Operating cash flow (after tax)	32.3	38.8	35.2	37.5	40.5
Net financial charges	(4.0)	(4.2)	(4.4)	(4.4)	(4.0)
Capital expenditures (net disposals)	(20.3)	(12.0)	(12.5)	(13.0)	(13.0)
Free cash flow	8.0	22.6	18.4	20.1	23.5
Balance sheet					
Working capital	91.0	87.4	93.1	99.1	105.2
Goodwill	34.5	39.7	39.7	39.7	39.7
Tangible fixed assets	58.7	65.1	72.5	72.9	71.0
Other intangible assets	8.5	1.6	8.6	7.0	7.3
L/T investments	1.7	5.1	5.1	5.1	5.1
Net debt	68.7	71.6	70.3	66.5	61.0
L/T non-interest bearing liabilities	27.6	28.9	29.7	30.4	31.2
Minority interests	2.2	2.4	9.3	10.0	10.8
Shareholders' equity	95.9	95.9	116.4	124.2	133.1
Capital employed	166.8	169.9	189.4	193.5	197.2
Valuation ratios					
Enterprise value	462.7	462.3	468.1	464.9	460.2
EV/turnover (x)	1.3	1.2	1.2	1.1	1.0
EV/EBITDA (x)	8.4	9.6	8.2	7.6	7.0
EV/EBIT (x)	11.8	14.4	10.5	9.7	8.7
Adj PER (x)	16.4	19.8	16.6	15.3	13.7
Cash PER (x)	11.2	12.8	10.9	10.2	9.3
Dividend yield (gross) (%)	7.3	3.7	4.1	4.6	5.0

All sources: Company data, ING estimates

Interpump Group

Buy

Engineering & machinery

Italy

Interpump is a success story of growth through acquisition (21 since 1997). At the same time, through dividends and buybacks, it has returned to shareholders c.65% of the 1997 IPO market cap, meaning an 11.4% IRR.

Price (21/06/05)	€4.97
Target price (12 mth)	€5.70
Market cap	€376.8m
Reuters	IP.MI

Equity story

Interpump is the largest producer of professional ultra-high-pressure piston pumps and power take-off in the world, with more than a 50% share in each market. Recently, the group made two transactions that changed its structure. (1) It bought German company Hammelmann, the world's leading manufacturer of very high-pressure plunger pumps (4,000 bar). The systems are used for surface, vessel and pipe cleaning, as well as deburring, cutting and removing concrete, asphalt and paint from stone, concrete or metal surfaces. (2) It sold the IP Cleaning Group (the cleaning sector subholding), which produces machinery for cleaning for both the professional segment (high-pressure washers for both cold and hot water, vacuum cleaners, floor sweepers, floor scrubbers, professional trolleys and window-cleaning equipment) and the consumer segment. The two transactions were positive for Interpump, allowing it to increase the structural EBITDA margin from 14.5-15% to 20-21.5%. Our 2005-07 forecasts include both transactions.

Key newsflow

Acquisitions. After the Hammelmann acquisition, management said it could further increase its US market penetration over the next two years (we expect in the PTO sector). We would expect a positive reaction to any acquisition carried out at multiples similar to those paid historically, as acquisitions are the key driver to strong growth.

Valuation

Following the significant change in the company's structure, we have reduced our 2005-07 EPS forecasts by 9%. Debt reduction and a more stable business lead us to a 'new Interpump' DCF valuation (risk premium of 3.5% versus 4% previously, beta of 0.8, WACC of 5.2%, TV of 1.3%) of €5.7 per share (from €5.1). At our target price, Interpump would trade at 14.2x and 5.7x 2006F PER and EV/EBITDA, respectively, 7% and 5% premiums to the respective averages of European engineering and machinery companies. We believe these premiums are justified by the better 2007F EBITDA margin (20.5%) than the European peer average (13.5%).

Interpump management stressed that, in the absence of acquisitions, it continues to return cash to shareholders. (Its track record and IRR attainment since quotation have been positive.) **BUY** maintained.

Key ratios (%)

	2004	2005F
EBITDA margin	14.8	19.2
Operating margin	11.5	15.9
Net debt/equity	122.8	31.0
ROA	8.0	8.1
ROE	6.3	12.1

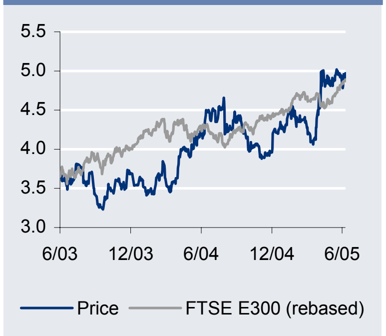
Performance

	12m	3m	Target
Absolute (%)	18.3	18.3	14.7
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	4.3	11.7	
MIBTEL	0.5	16.5	

Share data

No. of shares (m)	75.8
Volume	243,595
Free float (%)	60.2
Market cap (€m)	376.8
Enterprise value (€m)	450.1
Price/NAV (x)	1.7

Share price performance (€)



Source: ING

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Company profile

History

Interpump was originally a private equity investment held by BC Partners, which listed the shares in 1996 and sold its shares in 2003. Interpump is the world's largest producer of professional high-pressure piston pumps and power take-off, with more than 50% market share in each market.

Description

Following the sale of a large part of the cleaning sector, Interpump operates in three main areas. (1) Cleaning (10% of sales and 7% of EBIT). (2) Hydraulics (45% of sales and 31% of EBIT): here, the company is a world leader in the highly-concentrated market of power take-off, with c.50% market share. Main competitors are Italy's OMFB and Chelsea of the US. (3) Industrial (45% of sales and 43% of EBIT): Interpump is market leader with a 50% market share. It produces high-pressure plunger pumps and electric motor windings. In March 2005, Interpump bought Germany's Hammelmann, operating in the high and ultra high-pressure plunger market, further strengthening its world leadership. Main competitors are Italy's Annovi e Reverberi and Cat Pump of the US. About 73% of total revenues are generated in Europe (of which c.30% in Italy) and c.27% in North America.

Main shareholders

Harris Funds 22.9%; own shares 5%, EOS Servizi Fiduciari 3.1%; B Group 3.1%; Merrill Lynch Intl. 3.1%; Taburi Investments 3%; Rover Intl 3%, Massachusetts FInl. Services 2.9%.

Risks

The dollar/euro rate as 35-40% (after the cleaning divestiture) of revenues and 20-25% of costs are dollar denominated.

Possibility of further acquisitions, which could be earnings dilutive, even if management's track record is positive.

Moreover, the costs synergies between Hammelmann and Interpump may not come as fast as we expect, especially in the US.

The high and very high-pressure pump plunger market, characterised by low volatility versus GDP growth, may not continue its low cyclical growth trend, especially given the uncertain macroeconomic scenario.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	503.7	535.3	309.7	340.1	363.7
EBITDA	68.6	79.3	59.6	67.6	74.7
Depreciation	(14.7)	(17.5)	(10.1)	(12.4)	(13.9)
EBITA	53.8	61.8	49.4	55.2	60.9
EBIT	43.7	45.2	49.2	55.0	60.6
Net financial charges	(8.8)	(9.2)	(6.0)	(2.5)	(1.5)
Pre-tax profit	34.9	36.0	43.2	52.5	59.1
Taxes	(17.5)	(23.3)	(17.5)	(20.5)	(23.1)
Minorities	(3.2)	(2.9)	(3.2)	(1.6)	(1.6)
Net profit	8.9	8.4	72.5	30.4	34.4
Adj net attributable profit	24.2	26.2	22.5	30.4	34.4
Ratios (%)					
EBITDA margin	13.6	14.8	19.2	19.9	20.5
EBIT margin	8.7	8.4	15.9	16.2	16.7
Net margin	2.4	2.1	24.5	9.4	9.9
Tax rate	50.0	64.7	40.5	39.0	39.0
Payout ratio	172.56	93.05	43.73	37.39	35.23
ROACE	7.8	8.0	8.1	10.5	11.6
ROE	8.7	6.3	12.1	13.4	13.9
Debt/equity	142.8	135.8	35.2	24.5	14.1
Growth (%)					
Turnover	2.2	6.3	(42.1)	9.8	6.9
EBITDA	(21.2)	15.7	(24.9)	13.5	10.5
Adj pre-tax profit	(28.2)	16.8	(17.5)	21.5	12.6
Adj EPS	(29.35)	9.92	(13.89)	34.97	13.21
Per share					
Adj EPS	0.31	0.35	0.30	0.40	0.45
Cash EPS from ordinary operations	0.51	0.58	0.43	0.57	0.64
Dividend	0.32	0.12	0.13	0.15	0.16
NAV	1.88	1.94	2.87	3.12	3.42
Cash flow					
Operating cash flow	40.1	52.1	131.5	65.2	72.2
Cash taxes	(17.5)	(23.3)	(17.5)	(20.5)	(23.1)
Operating cash flow (after tax)	22.6	28.8	114.0	44.8	49.1
Net financial charges	(8.8)	(9.2)	(6.0)	(2.5)	(1.5)
Capital expenditures (net disposals)	(62.8)	(15.7)	96.0	(10.0)	(12.0)
Free cash flow	(48.6)	6.0	204.0	32.3	35.6
Balance sheet					
Working capital	103.0	122.6	112.7	114.6	116.8
Goodwill	136.9	121.6	40.0	108.0	98.0
Tangible fixed assets	100.2	121.9	136.2	67.3	75.0
Other intangible assets	7.2	7.0	8.0	8.0	8.5
L/T investments	40.8	40.3	24.5	24.5	24.5
Net debt	205.6	211.6	73.3	50.9	26.6
L/T non-interest bearing liabilities	8.6	29.3	11.8	14.7	16.0
Shareholders' equity	157.6	155.1	217.8	236.8	259.2
Capital employed	379.4	384.0	309.6	307.7	306.7
Valuation ratios					
Enterprise value	582.4	588.4	450.1	427.7	403.4
EV/turnover (x)	1.2	1.1	1.5	1.3	1.1
EV/EBITDA (x)	9.1	7.7	7.6	6.3	5.4
EV/EBIT (x)	14.3	13.5	9.1	7.8	6.7
Adj PER (x)	15.8	14.4	16.7	12.4	10.9
Cash PER (x)	9.8	8.6	11.5	8.8	7.8
Dividend yield (gross) (%)	6.4	2.4	2.6	3.0	3.2

All sources: Company data, ING estimates

Italcementi

Construction & building materials

Buy

Italy

Italcementi is the No5 cement producer in the world, with 42% production capacity in developing countries. The group is expanding fast in developing countries through acquisitions. Net profit is not dollar sensitive.

Price (21/06/05)	€13.18
Target price (12 mth)	€15.34
Market cap	€3,681.5m
Reuters	ITAI.MI

Equity story

In 1992, Italcementi started its internationalisation expansion acquiring Ciments Francais, which provided a presence in many Mediterranean countries and the US. In 1998, it further expanded its foreign activities by acquiring cement companies in Thailand, Bulgaria and Kazakhstan, while in 2001 it entered the Egyptian and Indian markets. In 2005, Italcementi acquired 55.4% of Egyptian Suez Cement Company.

Italcementi realises 32% sales in Italy, 52% in other mature countries and 16% in emerging countries. It has a target of raising emerging market production capacity from 42% to 50% by the end of 2007. Cement is the company's key product, generating 61% of sales, with ready-mix and aggregates accounting for 35% of sales.

Key newsflow

Italcementi has two major projects: increasing emerging country production capacity to 50% (from 42% in 2004), mainly through acquisition (eg, it could increase Egyptian market share from 23% to 31%); and increasing the EBITDA margin in mature countries through cement plant revamping. The big project is the US Martinsburg plant refurbishment (US$320m investment), which could see its production capacity increase by 40% to 1.6mt pa.

Valuation

We value the ordinary shares at €15.3 and the saving shares at €11.0 through a basic DCF and the economic profit model. Italcementi trades at a 22% discount to the peer group average on 2006F EV/EBITDA, having a 6% lower EBITDA margin. The ordinary shares trade on a 5% and 18% discount on 2006F PER and P/BV, respectively, to European competitors, having the same 2005F-07F EBITDA CAGR (4%, excluding Holcim and Cementir both affected by extraordinary operations).

We see no reason why Italcementi could not significantly reduce the valuation gap, given that the EBITDA margin is substantially in line and growth prospects are similar. We believe a strong increase in market shares in emerging countries and a consequential profitability increase could be catalysts. If Italcementi is able to implement its 2003-07 plan and reach the targeted production breakdown (50% in emerging countries), we believe it would gradually reduce the EV/EBITDA gap against its European peers.

Key ratios (%)

	2004	2005F
EBITDA margin	24.3	24.3
Operating margin	17.1	16.9
Net debt/equity	51.0	43.2
ROA	10.6	9.9
ROE	12.0	12.9

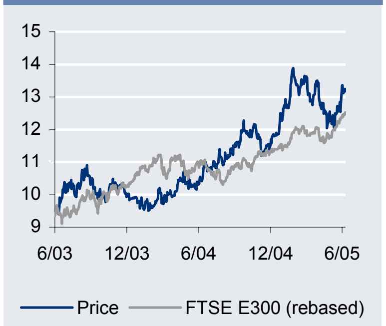
Performance

	12m	3m	Target
Absolute (%)	26.5	0.5	16.4
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	11.5	(5.2)	
MIBTEL	7.4	(1.1)	

Share data

No. of shares (m)	279.3
Volume	272,824
Free float (%)	38.5
Market cap (€m)	3,681.5
Enterprise value (€m)	5,116.3
Price/NAV (x)	1.4

Share price performance (€)



Source: ING

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Company profile

History

Italcementi is a leading player in the global cement industry. Its subsidiary, Ciments Francais, in which it has a stake of c.70%, manages all of Italcementi's assets outside Italy. The Italian group generates 63% of its sales in cement and 32% in aggregates and concrete.

Description

The EU is the main end market, representing 70% of overall turnover, 44% of which comes from the domestic market. While growth appears to remain dynamic in Spain, Italy and Greece, demand in France and Belgium has slowed. The group is restructuring in France and Belgium by pooling sales & marketing and industrial facilities. Synergies unlocked could generate further cost savings.

North America accounts for c.16% of overall turnover. Capacity at the production facilities of subsidiary Ciments Francais in the region is saturated, as is the case for other cement producers in North America. However, restructuring measures carried out in 2001 are starting to pay off and the group is also likely to benefit from additional business as a result of the TEA21 federal road-building programme.

Emerging markets contribute 13% of sales and represent a key strategic growth area. These regions harbour the strongest development prospects, thanks to strong demographic growth and a low level of per-capita cement consumption. In view of this, Italcementi has strengthened its presence in India and Egypt.

Main shareholders

Main shareholders: Italmobiliare 58.7% (owned by Pesenti family); Pioneer AM 2.4%; own shares 2%.

Risks

Cement market concentration could cause lower 2005-08 EBITDA margins than expected. Slow recovery of distressed markets could also put pressure on margins. The possibility of buying cement companies has become increasingly difficult in the last two years, especially in emerging countries. Thus, the plan to reach 50% production capacity in emerging countries by 2007 could be subject to delays. Given construction sector growth forecasts, we believe cement and ready-mix and aggregates prices could rise in 2005. However, construction growth depends on government economic policy, which may not be as expansive as we forecast. The costs of energy could be higher than our forecasts.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	4,284.7	4,527.8	4,706.5	4,854.6	5,143.5
EBITDA	1,060.9	1,098.4	1,143.0	1,187.7	1,339.7
Depreciation	(288.3)	(294.9)	(318.8)	(335.4)	(373.1)
EBITA	772.6	803.5	824.2	852.3	966.6
EBIT	656.4	714.6	794.7	821.9	934.3
Net financial charges	(117.7)	(94.2)	(82.0)	(80.0)	(75.0)
Pre-tax profit	538.7	620.4	712.7	741.9	859.3
Taxes	(229.1)	(247.9)	(277.9)	(281.9)	(326.5)
Minorities	(98.9)	(101.9)	(113.1)	(115.3)	(129.6)
Net profit	276.8	292.5	321.7	344.6	403.2
Adj net attributable profit	274.4	331.1	321.7	344.6	403.2
Ratios (%)					
EBITDA margin	24.8	24.3	24.3	24.5	26.0
EBIT margin	15.3	15.8	16.9	16.9	18.2
Net margin	8.8	8.7	9.2	9.5	10.4
Tax rate	42.5	40.0	39.0	38.0	38.0
Payout ratio	42.42	30.97	30.39	29.18	26.33
ROACE	9.2	10.6	9.9	10.1	11.1
ROE (%)	9.8	12.0	12.9	12.2	12.6
Debt/equity	73.6	59.9	49.8	39.8	29.9
Growth (%)					
Turnover	0.5	5.7	3.9	3.1	6.0
EBITDA	(4.3)	3.5	4.1	3.9	12.8
Adj pre-tax profit	(6.9)	13.0	4.7	4.1	15.8
Adj EPS	(29.61)	20.66	(2.85)	7.13	16.99
Per share					
Adj EPS	0.98	1.19	1.15	1.23	1.44
Cash EPS from ordinary operations	2.20	2.34	2.40	2.54	2.89
Dividend	0.32	0.30	0.35	0.36	0.38
NAV	7.82	8.38	9.53	10.76	12.21
Cash flow					
Operating cash flow	977.7	1,011.2	1,037.3	1,085.7	1,231.7
Cash taxes	(229.1)	(247.9)	(277.9)	(281.9)	(326.5)
Operating cash flow (after tax)	748.6	763.3	759.3	803.8	905.1
Net financial charges	(117.7)	(94.2)	(82.0)	(80.0)	(75.0)
Capital expenditures (net disposals)	(295.9)	(315.8)	(400.0)	(400.0)	(450.0)
Free cash flow	298.1	318.5	237.3	281.6	335.9
Balance sheet					
Working capital	447.7	454.3	470.0	482.0	500.0
Goodwill	1,168.8	1,100.4	950.0	840.0	770.0
Tangible fixed assets	2,832.4	2,815.4	2,883.9	3,154.8	3,414.0
Other intangible assets	104.6	94.3	105.0	110.0	115.0
L/T investments	536.2	562.6	813.0	823.0	828.0
Net debt	1,838.2	1,548.8	1,434.8	1,243.1	1,007.2
L/T non-interest bearing liabilities	426.3	443.8	465.0	490.0	520.0
Shareholders' equity	2,185.7	2,340.4	2,662.1	3,006.7	3,409.9
Capital employed	4,663.4	4,583.2	4,756.9	4,919.8	5,107.0
Valuation ratios					
Enterprise value	5,519.7	5,230.3	5,116.3	4,924.6	4,688.7
EV/turnover (x)	1.3	1.2	1.1	1.0	0.9
EV/EBITDA (x)	5.2	4.8	4.5	4.1	3.5
EV/EBIT (x)	8.4	7.3	6.4	6.0	5.0
Adj PER (x)	13.4	11.1	11.4	10.7	9.1
Cash PER (x)	6.0	5.6	5.5	5.2	4.6
Dividend yield (gross) (%)	2.4	2.3	2.7	2.7	2.9

All sources: Company data, ING estimates

Permasteelisa

Hold

Construction & building materials

Italy

Permasteelisa is the world leader in curtain walls. It has an 18% market share in Europe, 16% in Asia and 5% in the US. In the last two years, the company has experienced difficulties transforming backlog into revenues.

Price (21/06/05)	**€13.0**
Target price (12 mth)	**€14.0**
Market cap	**€358.0m**
Reuters	**PMS.MI**

Equity story

Mainly through acquisitions, Permasteelisa has reached world leadership in a niche of the construction sector – curtain walls. Permasteelisa designs and builds innovative and revolutionary architectural works in collaboration with major figures in contemporary architecture, through the application of high-technology solutions. Its strategy is based on the following: (1) further strengthen its core engineering company, alone and/or through further acquisitions; (2) constantly improve the performance of external cladding in terms of light, energy transmission, heat insulation and soundproof, thanks to continuous R&D commitment; and (3) develop strong synergies between curtain walls and the other business units, in order to offer a turnkey system.

Key newsflow

Over the last two years, Permasteelisa has experienced delays between receiving an order and actually starting the work. This has resulted in lower sales visibility, which tends to increase business risks. Management aims to increase 2005 revenues by 4-5% (we forecast 4.5%). To achieve this target, Permasteelisa needs to collect €600-650m orders during 1H05. We expect the general macroeconomic environment outside Europe (especially in the US) to improve in 2005, with vacancy rates also improving slightly. Thus, we are confident that management will improve on 2004 revenues, even if turnover and EBITDA growth rates could be lower than in past years. Particularly positive in 2005 could be the US, German and Asian markets, which accounted for 50% of revenues in 2004.

Valuation

Although the economic scenario is expected to improve during 2005, we expect the average backlog profitability to be lower than previous years, especially in the UK (Gartner). Lower backlog visibility means we maintain our 5% risk premium in our DCF model. This results in a target price of €14.0. At this target price, Permasteelisa's 2006F EV/EBITDA is c.6% lower than the average for construction companies, discounting, we believe, the increasing, and higher for Permasteelisa, business volatility. Our rating remains **HOLD**.

Key ratios (%)

	2004	2005F
EBITDA margin	7.0	7.8
Operating margin	5.6	6.3
Net debt/equity	(6.1)	(1.4)
ROA	14.1	15.2
ROE	12.0	13.6

Performance

	12m	3m	Target
Absolute (%)	(4.6)	(2.9)	8.3
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(16.0)	(8.4)	
MIBTEL	(19.0)	(4.4)	

Share data

No. of shares (m)	27.6
Volume	25,291
Free float (%)	38.5
Market cap (€m)	358.0
Enterprise value (€m)	354.6
Price/NAV (x)	1.5

Share price performance (€)

Source: ING

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Company profile

History

Permasteelisa was created in 1973. Its growth and international expansion continued throughout the 1990s with the creation of numerous subsidiaries in different countries. With the acquisition of Gartner Group in 2001, Permasteelisa became world leader in the engineering, manufacturing and installation of architectural envelopes (curtain walls).

Activities

Permasteelisa's main activity is the design, production and installation of architectural envelopes, which generated c.80% of total turnover in FY04. It is a world leader in design, manufacturing and installation of curtain walls. It is also active in the installation of partitions and industrial doors. Permasteelisa has a geographically diversified presence, operating in Europe, the US, Asia and Oceania. In a fragmented global market, Permasteelisa holds an 18.5% share in Europe, 17% in Asia and 3% in the US. The group has four operating sub-holdings, located in Europe, America and Asia. The Asia Pacific Holding Company, owned by Permasteelisa International BV, is listed on the Singapore stock exchange.

During the last two years, Permasteelisa's leadership has been further consolidated thanks to US competitor Glassalum in March 2003.

The mission

Permasteelisa's mission is to research and develop new construction systems and technologies, as well as the use of innovative materials, guaranteeing and constantly improving the quality of architectural claddings.

Shareholders

Holding Bau (management vehicle) and 21 Invest each own 15%. These two stakes have a shareholder agreement. The remaining 70% is free float.

Risks

About 50% of revenues are generated in dollars and sterling. Thus, results can be subject to higher volatility than pure Italian companies. The last company acquired (Glassalum of the US) has had a negative impact on the P&L due to the negative US construction trends since September 2001. Economic momentum may not allow construction companies to increase prices according to their costs. This could put pressure on margins, working capital and financial debts.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	889.7	876.4	900.0	940.4	1,002.6
EBITDA	73.4	61.8	70.3	82.4	98.8
Depreciation	(13.3)	(11.0)	(12.1)	(12.6)	(14.8)
EBITA	60.1	50.8	58.1	69.8	83.9
EBIT	55.2	46.5	56.3	67.6	81.4
Net financial charges	(6.2)	(7.1)	(7.5)	(6.0)	(5.0)
Pre-tax profit	47.9	38.6	48.8	61.6	76.4
Taxes	(2.6)	(12.1)	(16.6)	(23.4)	(29.0)
Minorities	(0.8)	(1.7)	(1.8)	(2.0)	(2.2)
Net profit	32.3	23.0	30.4	36.2	45.2
Adj net attributable profit	46.9	27.4	30.4	36.2	45.2
Ratios (%)					
EBITDA margin	8.2	7.0	7.8	8.8	9.9
EBIT margin	6.2	5.3	6.3	7.2	8.1
Net margin	3.7	2.8	3.6	4.1	4.7
Tax rate	5.5	31.2	34.0	38.0	38.0
Payout ratio	18.62	33.36	31.79	30.50	27.49
ROACE	24.0	14.1	15.2	15.8	15.3
ROE (%)	22.6	12.0	13.6	14.7	16.4
Debt/equity	19.0	17.6	3.6	12.9	26.5
Growth (%)					
Turnover	(16.7)	(1.5)	2.7	4.5	6.6
EBITDA	(21.4)	(15.8)	13.8	17.3	19.9
Adj pre-tax profit	(31.8)	(18.0)	18.2	26.3	24.1
Adj EPS	(12.54)	(41.46)	10.73	19.10	24.84
Per share					
Adj EPS	1.70	0.99	1.10	1.31	1.64
Cash EPS from ordinary operations	2.27	1.45	1.61	1.85	2.27
Dividend	0.30	0.30	0.35	0.40	0.45
NAV	7.35	7.70	8.45	9.36	10.55
Cash flow					
Operating cash flow	32.1	4.2	86.8	84.4	93.7
Cash taxes	(2.6)	(12.1)	(16.6)	(23.4)	0.0
Operating cash flow (after tax)	29.5	(7.8)	70.3	61.0	93.7
Net financial charges	(6.2)	(7.1)	(7.5)	(6.0)	(5.0)
Capital expenditures (net disposals)	(47.7)	8.7	(14.0)	(14.0)	(15.0)
Free cash flow	(24.4)	(6.2)	48.8	47.0	72.7
Balance sheet					
Working capital	88.0	116.0	99.0	96.2	99.8
Goodwill	0.5	0.3	0.0	0.0	0.0
Tangible fixed assets	85.7	86.3	141.1	199.7	279.1
Other intangible assets	24.7	20.9	18.0	15.0	12.0
L/T investments	0.7	2.3	3.0	3.0	3.0
Net debt	(33.1)	(13.4)	(3.3)	21.0	66.1
L/T non-interest bearing liabilities	23.2	18.9	23.2	26.0	27.7
Shareholders' equity	202.9	212.5	233.3	258.4	291.2
Capital employed	176.3	207.0	237.9	287.9	366.2
Valuation ratios					
Enterprise value	324.9	344.6	354.6	378.9	424.0
EV/turnover (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	4.4	5.6	5.0	4.6	4.3
EV/EBIT (x)	5.9	7.4	6.3	5.6	5.2
Adj PER (x)	7.6	13.0	11.8	9.9	7.9
Cash PER (x)	5.7	8.9	8.1	7.0	5.7
Dividend yield (gross) (%)	2.3	2.3	2.7	3.1	3.5

All sources: Company data, ING estimates

Recordati

Buy

Pharmaceuticals

Italy

Recordati is a mid-sized speciality pharma company, creating a direct presence in the largest European countries including UK, Germany and France. Growth is also being driven by the Lercanidipine franchise. Valuation is attractive, in our view.

Price (21/06/05)	€5.61
Target price (12 mth)	€6.25
Market cap	€1,131.8m
Reuters	RECI.MI

Equity story

Recordati is a family-owned (57% stake), medium-sized, fully-integrated pharmaceutical company. It has progressively reduced its presence in pharmaceutical chemicals (10% of sales and EBIT breakeven) concentrating on pharma. After acquisitions in France and Spain, Recordati acquired Merkle in January and announced recently that it is setting up its own distribution start-ups in the UK. With these two initiatives, Recordati will have its own selling platforms in Italy, France, Spain, Germany and the UK.

Key newsflow

Recordati, after better-than-expected 4Q results, reported strong 1Q05 numbers driven by pharmaceutical volume (+22% YoY). The operating margin was also strong despite Merkle's consolidation that was expected to slightly dilute margins. This was due to a strong sales mix and containment of G&A expenditure. Recordati's turnover guidance of €560m for 2005 implies LFL growth for the next nine months of 4.3%, which seems undemanding considering that last June there was a 6.8% price cut in Italy (50% of group sales). Guidance for 2005-08 CAGR (5% sales, 9% EBIT and 10.5% EPS) also seem conservative.

We believe German market entrance and UK start-up are major breakthroughs for Recordati's development in Europe. Now the group has important coverage (75% of the European pharma market) and it should be easier to attract new licences from third parties and extract more value from its product pipeline. We highlight that after all these deals the company will still have a €25m cash pile with acquisition firepower up to €300m; targets could be Benelux, Nordic countries or Eastern Europe.

Valuation

Our €6.25 (adjusted for the 18 April 1:4 share split) target price is based on DCF. Our main assumptions are WACC at 7.65% (risk-free rate of 3.65%, beta of 1x, equity risk premium 4%) and 2.0% long-term growth rate. At our target, Recordati would trade at a 7% average premium to peers on PER; however, this is mostly due to a lack of leverage as on EV/EBIT the premium shrinks to only 2%.

We believe acquisitions and continuing strong operating performance could be the main share price catalysts in the short term. **BUY** maintained.

Key ratios (%)

	2004	2005F
EBITDA margin	22.8	21.9
Operating margin	19.2	18.7
Net debt/equity	(28.7)	(7.9)
ROA	9.1	7.8
ROE	20.7	22.5

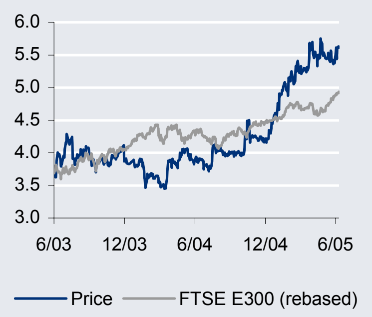
Performance

	12m	3m	Target
Absolute (%)	45.7	6.9	11.4
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	28.4	0.9	
MIBTEL	23.8	5.2	

Share data

No. of shares (m)	201.4
Volume	462,765
Free float (%)	45.0
Market cap (€m)	1,131.8
Enterprise value (€m)	1,104.9
Price/NAV (x)	3.7

Share price performance (€)



Source: ING

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Company profile

Overview

Recordati is a family-owned (57% stake), medium-sized, fully-integrated pharmaceutical company, with R&D, manufacturing and marketing activities. With more than 80 years of experience, the group has been listed on the Milan Stock Exchange since 1984. Recordati is based in Italy with operating subsidiaries in France, Ireland, Spain, Switzerland and the US.

Pharmaceuticals

Pharmaceuticals accounts for 90% of Recordati's sales and 100% of EBIT. By geography, 44% of pharma sales are concentrated in Italy, 22% in France, 10% in Germany, 5% in Spain with the remaining sales to international licensees (18%).

The main product is lercanidipine (25% weight) a calcium channel blocker discovered and fully developed by Recordati, followed by Antidepressant Elopram/Entact (Lundbek concession, 9%) and Peptazol/Ulcotenal, an ulcer treatment licensed by Altana (8%). Other major products are Tora-Dol (3%), Hexa line (3%), Exomuc (2%), Isocef (2%), Neo Codion (2%), Acequin (2%) and Urispas (2%).

Pharmaceutical Chemicals

Recordati is also involved in the pharmaceutical chemicals business, which accounts for 10% of total group turnover and closed 2004 at EBIT breakeven. Recordati produces active ingredients for its own proprietary pharmaceuticals and active ingredients for the generic drugs industry. Over 90% of production is for export markets. Pharmaceutical chemicals are produced in Italy, Spain and the US. This business is up for disposal.

Risks

(1) Pricing pressure in Europe; (2) research pipeline approval; (3) dilutive acquisitions; and (4) further postponement of Pharmaceutical Chemicals sale.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	487.5	488.3	555.9	594.6	624.5
EBITDA	110.8	111.6	121.8	131.8	138.8
Depreciation	(25.0)	(17.7)	(18.0)	(17.9)	(17.7)
EBITA	85.9	93.9	103.8	113.9	121.2
EBIT	81.0	90.4	103.8	113.9	121.2
Net financial charges	(6.4)	(4.8)	0.5	0.4	0.8
Pre-tax profit	74.6	85.6	104.3	114.3	122.0
Taxes	(14.7)	(32.8)	(40.7)	(44.6)	(47.6)
Net profit	23.7	54.0	63.6	69.7	74.4
Adj net attributable profit	64.7	56.3	63.6	69.7	74.4
Ratios (%)					
EBITDA margin	22.7	22.8	21.9	22.2	22.2
EBIT margin	16.6	18.5	18.7	19.2	19.4
Net margin	4.9	11.1	11.4	11.7	11.9
Tax rate	19.7	38.3	39.0	39.0	39.0
Payout ratio	31.46	41.83	37.99	37.61	37.97
ROACE	11.3	9.1	7.8	7.7	7.5
ROE (%)	24.3	20.7	22.5	21.4	20.0
Debt/equity	48.3	60.0	51.1	44.4	39.0
Growth (%)					
Turnover	(1.1)	0.2	13.8	7.0	5.0
EBITDA	(7.9)	0.7	9.2	8.2	5.4
Adj pre-tax profit	(14.6)	12.2	17.1	9.6	6.7
Adj EPS	3.19	(12.99)	12.73	9.43	6.68
Per share					
Adj EPS	0.32	0.28	0.32	0.35	0.37
Cash EPS from ordinary operations	0.45	0.37	0.41	0.43	0.46
Dividend	0.09	0.11	0.12	0.13	0.14
NAV	1.24	1.30	1.50	1.73	1.97
Cash flow					
Operating cash flow	96.8	205.0	94.4	123.7	132.9
Cash taxes	(14.7)	(32.8)	(40.7)	(44.6)	(47.6)
Operating cash flow (after tax)	82.1	172.2	53.7	79.1	85.4
Net financial charges	(6.4)	(4.8)	0.5	0.4	0.8
Capital expenditures (net disposals)	(21.1)	(30.8)	(15.0)	(15.0)	(15.0)
Free cash flow	54.9	136.6	39.2	64.5	71.2
Balance sheet					
Working capital	96.5	61.3	88.6	96.7	102.6
Goodwill	59.4	45.8	85.8	85.8	85.8
Tangible fixed assets	99.1	78.6	85.5	82.3	78.2
Other intangible assets	25.9	26.6	45.6	52.4	60.2
L/T investments	24.3	2.8	2.8	2.8	2.8
Net debt	21.4	(75.2)	(24.1)	(58.7)	(97.9)
L/T non-interest bearing liabilities	35.5	28.4	29.1	29.9	30.6
Shareholders' equity	248.4	261.8	303.3	348.8	396.9
Capital employed	269.7	186.5	279.2	290.1	299.1
Valuation ratios					
Enterprise value	1,128.9	1,053.8	1,104.9	1,070.4	1,031.2
EV/turnover (x)	2.3	2.1	2.0	1.8	1.7
EV/EBITDA (x)	10.1	9.4	9.1	8.1	7.4
EV/EBIT (x)	13.9	11.6	10.6	9.4	8.5
Adj PER (x)	17.4	20.0	17.8	16.2	15.2
Cash PER (x)	12.6	15.2	13.8	12.9	12.3
Dividend yield (gross) (%)	1.7	2.0	2.1	2.3	2.5

All sources: Company data, ING estimates

SABAF

Hold

Engineering & machinery

Italy

SABAF dominates gas cooking appliance components with a 42% European market share. It has a major opportunity to enter the North American market, where it could reach a c.20% market share by 2007-08.

Price (21/06/05)	€16.45
Target price (12 mth)	€19.10
Market cap	€186.4m
Reuters	SAB.MI

Equity story

SABAF is the European leader and one of the main manufacturers worldwide of components for domestic gas cooking appliances with a c.42% European market share. Continuous product innovation and a highly efficient and flexible manufacturing base have been the key factors in gaining market leadership. Over the past three years, EBITDA margins and ROACE have averaged 29% and 13%, respectively. We forecast an average EBITDA margin of 29.2% and ROACE of 14% for 2005-07. Margins are high but, we believe, sustainable thanks to SABAF's efficient manufacturing, product innovation and scale economies.

Key newsflow

We expect 2Q05 results below 2Q04, due to negative sector momentum and high raw material costs. SABAF should react to the negative framework, further reduce its production costs and increase selling prices. Moreover, positive results are expected from SABAF's three-year (2004-06) agreement with Turkey's Arcelik, one of the leading manufacturers of domestic appliances in Europe, for the supply of burners, valves and thermostats, for a total estimated value of €16-20m. SABAF's size and experience could allow it to be a leader in new markets such as North America and China. Given its substantial share of the European market, these new markets are likely to be the main drivers of growth in the future. It is possible that SABAF could reach a 20% market share in the US by 2007-08 (a market worth about €160m). The bankruptcy of main US competitor Harper Wyman could help SABAF reach this market share more rapidly than expected.

Valuation

At our target price of €19.1, SABAF would trade at a 2006F EV/EBITDA of 5x, in line with the average of the peer sample, and 14.5x PER. The 10% 2006F PER premium at the target price could be justified by higher and sustainable margins. Our €19.1 target price could prove conservative, as we believe that SABAF's expansion into North America and China is not fully priced in. If SABAF were to reach a 20% market share by 2007-08, this would add c.€0.6 per share to the target price (3%).

Key ratios (%)

	2004	2005F
EBITDA margin	28.9	28.8
Operating margin	18.9	18.2
Net debt/equity	23.2	14.1
ROA	13.2	12.6
ROE	16.1	15.2

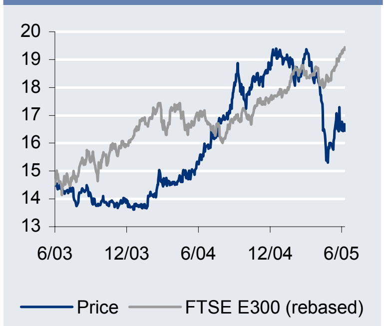
Performance

	12m	3m	Target
Absolute (%)	6.8	(14.3)	16.1
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(5.9)	(19.1)	
MIBTEL	(9.3)	(15.7)	

Share data

No. of shares (m)	11.3
Volume	10,307
Free float (%)	38.5
Market cap (€m)	186.4
Enterprise value (€m)	199.1
Price/NAV (x)	2.1

Share price performance (€)



Source: ING

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Company profile

History

SABAF is European leader (42% of the market) and one of the world's main manufacturers of components for domestic cooking appliances. It dominates its market thanks to its high technology and manufacturing flexibility. Business is concentrated in Italy, where SABAF has a covered factory area of c.80,000m². It also has a production plant in Brazil.

Description

SABAF's reference market is white goods manufacturers. In this market, six producers (Bosch-Siemens, Electrolux, Merloni, Whirlpool, Brandt and Candy) control about two-thirds of the market.

Thanks to its outsourcing process, we expect SABAF to further strengthen its leadership, reaching about 50% of the market by 2007-08.

SABAF's critical mass and high technological strength allow it to take full advantage of new market opportunities around the world. It is further strengthening its presence in China and, especially, in the North American markets, where it expects to grow at a faster pace than in Western Europe.

SABAF's growth strategy mainly focuses on further extending its product range, increasing value-added products, maintaining its style and innovation of appliances in line with fashion trends and further increasing product segmentation and customisation.

Main Shareholders

Mr Giuseppe Saleri 52.9%; Nazionale Fiduciaria 4.1%; Mr Oscar Saleri 4.1%; Robeco Investor 3.5%.

Risks

SABAF's business cycle is different from that of white goods producers, so a profit warning by one of its main clients could undermine industrial margins. Moreover, if raw material prices (ie, brass and aluminium) remained at the 2004 level, SABAF's EBITDA margin could decline by 0.3-0.4ppt due to the difficulty of transferring higher costs into selling prices. US market penetration (we forecast SABAF to reach 20% market share by 2008 from 1% of 2004) may not be as fast as we expect.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	110.0	120.5	125.0	140.1	155.2
EBITDA	31.9	34.8	36.0	41.0	45.9
Depreciation	(11.2)	(11.0)	(12.2)	(13.9)	(15.6)
EBITA	20.7	23.7	23.8	27.1	30.4
EBIT	19.3	21.8	22.8	25.9	29.0
Net financial charges	(1.5)	(0.9)	(0.9)	(0.7)	(0.6)
Pre-tax profit	16.9	21.0	21.9	25.2	28.4
Taxes	(7.6)	(9.2)	(9.2)	(10.3)	(11.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit	9.2	12.1	12.7	14.9	16.8
Adj net attributable profit	10.2	12.7	12.7	14.9	16.8
Ratios (%)					
EBITDA margin	29.0	28.9	28.8	29.3	29.6
EBIT margin	17.6	18.1	18.2	18.5	18.7
Net margin	8.4	10.1	10.2	10.6	10.8
Tax rate	44.9	43.8	42.0	41.0	41.0
Payout ratio	48.97	46.19	46.39	42.67	41.22
ROACE	12.1	13.2	12.6	14.1	15.0
ROE	13.6	16.1	15.2	15.3	14.8
Debt/equity	37.0	35.7	16.3	6.9	(3.8)
Growth (%)					
Turnover	6.6	9.6	3.7	12.0	10.8
EBITDA	8.1	8.9	3.5	14.0	12.0
Adj pre-tax profit	2.7	23.1	0.0	15.1	12.8
Adj EPS	(4.99)	24.73	(0.07)	17.08	12.77
Per share					
Adj EPS	0.90	1.12	1.12	1.31	1.48
Cash EPS from ordinary operations	1.93	2.18	2.29	2.65	2.97
Dividend	0.40	0.48	0.52	0.56	0.61
NAV	6.13	6.80	7.92	9.23	10.71
Cash flow					
Operating cash flow	28.6	36.1	35.7	39.3	45.4
Cash taxes	(7.6)	(9.2)	(9.2)	(10.3)	(11.7)
Operating cash flow (after tax)	21.1	26.9	26.5	29.0	33.7
Net financial charges	(1.5)	(0.9)	(0.9)	(0.7)	(0.6)
Capital expenditures (net disposals)	(10.3)	(19.6)	(15.0)	(15.0)	(15.0)
Free cash flow	9.2	6.4	10.7	13.3	18.1
Balance sheet					
Working capital	16.3	15.7	15.9	17.4	17.6
Tangible fixed assets	71.3	78.0	85.7	92.1	97.4
Other intangible assets	6.9	6.1	6.0	6.0	6.0
L/T investments	0.2	0.2	0.2	0.2	0.3
Net debt	20.1	17.9	12.6	5.2	(6.6)
L/T non-interest bearing liabilities	4.6	5.2	5.4	5.8	6.4
Shareholders' equity	69.5	77.1	89.8	104.7	121.4
Capital employed	90.0	95.0	102.4	109.9	114.9
Valuation ratios					
Enterprise value	206.5	204.3	199.1	191.7	179.9
EV/turnover (x)	1.9	1.7	1.6	1.4	1.2
EV/EBITDA (x)	6.5	5.9	5.5	4.7	3.9
EV/EBIT (x)	10.7	9.4	8.7	7.4	6.2
Adj PER (x)	18.3	14.7	14.7	12.5	11.1
Cash PER (x)	8.5	7.5	7.2	6.2	5.5
Dividend yield (gross) (%)	2.4	2.9	3.2	3.4	3.7

All sources: Company data, ING estimates

Saipem

Oil & gas

Hold

Italy

Saipem is the largest oil-service company in Europe. It is a world leader in offshore and harsh environment engineering & construction. It also has exposure to drilling, LNG, floating production and plant maintenance.

Price (21/06/05)	**€11.01**
Target price (12 mth)	**€11.20**
Market cap	**€4,857.4m**
Reuters	**SPMI.MI**

Equity story

We believe Saipem is the stock in the oil-service sector in Europe that offers share liquidity, high exposure to upstream spending, some early-cycle exposure through drilling, operational gearing, long-term visibility, high free cash flow and strong de-gearing in the forecast period. The sector in Europe has been less cyclical than in the US, due to its reduced exposure to exploration. In addition, large gas-driven projects such as the Blue Stream project have helped Saipem to attain record earnings during the recent sector trough.

Although Saipem works in a US-dollar-priced sector, it has shown the ability to pass through the effects of euro strength in the business lines in which the competition is mainly European (construction). Currency exposure is hedged, and due to the order backlog of more than one year of revenues, the impact of currency swings is delayed. Strong 2004 order inflow has added visibility, and this trend is expected to continue in 2005. However, strong earnings growth is not expected before 2006 – this due to the time lag between order intake and execution, and the lag between increased early-cycle spending by oil companies (exploration) and field development – Saipem's core activity. Early-cycle companies (mostly US based) are showing robust earnings trends on the back of high commodity prices.

Key newsflow

Order inflow and order backlog growth are significant company-specific share price drivers. Management expects order inflow in 2005 to be robust, leading them to give an indication of higher earnings growth in 2005 than for previous years. Sector shares in general show high sensitivity to oil prices, particularly to longer-dated oil futures prices.

Valuation

The stock trades at a 2006F EV/EBITDA of 8.6x and adjusted PER of 16.1x. Current multiples are at a 5% discount on EV/EBITDA to its closest peer (Technip) and a 37% discount on PER. While we do not believe a discount to Technip fairly reflects the company's relative merits, we do believe the shares are trading close to their fair value (based on long-term EV/EBITDA trends). We believe that we have to be nearer the period of earnings growth to further re-rate the shares – in practical terms we can start to look at 2007F multiples towards the end of this year. **HOLD** rating and €11.2 target price confirmed.

Key ratios (%)

	2004	2005F
EBITDA margin	12.3	12.7
Operating margin	7.7	8.2
Net debt/equity	58.7	46.6
ROA	11.1	12.2
ROE	14.0	13.7

Performance

	12m	3m	Target
Absolute (%)	41.3	11.1	1.7
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	24.6	4.9	
MIBTEL	20.1	9.4	

Share data

No. of shares (m)	441.2
Volume	1,357,820
Free float (%)	57.0
Market cap (€m)	4,857.4
Enterprise value (€m)	5,610.1
Price/NAV (x)	3.0

Share price performance

Source: ING

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Company profile

History

Saipem is the largest European oil-service company and is 43% controlled by ENI. The group builds infrastructure for oil and gas fields, and has a presence in drilling. Clients are oil majors and national oil companies. Recent acquisitions have increased the group's engineering capability, further strengthening its ability to perform complex EPIC projects.

Offshore construction

This division is world leader in offshore construction: pipe-laying, platform and subsea infrastructure installation; also unique high-end vessels tailored for the fast-growing deepwater market. Enhanced engineering capabilities and reduced competition make it one of the few players for turn-key-lump-sum contracts.

Land construction

This division specialises in construction of land-based oil industry infrastructure, mostly pipelines, in harsh and difficult environments. Here the key is project management and logistics skills, not assets.

Drilling

Saipem is a niche player in the offshore and land-drilling market, which is otherwise controlled by US-based players. The company has specialised in high-end assets. Given its small fleet, it tends to seek long-term contracts, giving it far more visibility than many peers.

Other business units

The group has units involved in: leased FPSOs; LNG terminals; and maintenance, modification and operation of upstream and downstream facilities. All business units serve the oil & gas industry, and help to have a full product and service offer, as well as giving the opportunity for continuous contact with clients.

Large shareholders

ENI (43.03%), Credit Agricole (2.85%), Fidelity (2.64%) and Artisan Partners (2.15%).

Risks

The company sells products and services to the oil & gas industries. These industries have volatile spending plans based on the volatility of oil & gas prices. The company operates in many countries with high political and commercial risk. The company often performs fixed price contracts, which subject it to potential losses if projects suffer from delays or cost overruns. Control by ENI (43% shareholder) does affect management and board selection and decisions.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	4,231.0	4,306.0	4,472.0	4,652.0	4,772.0
EBITDA	561.0	530.0	567.3	624.8	677.8
Depreciation	(216.0)	(198.0)	(200.0)	(195.0)	(191.0)
EBITA	345.0	332.0	367.3	429.8	486.8
EBIT	303.0	290.0	325.3	387.8	445.8
Net financial charges	(53.0)	(42.0)	(38.0)	(35.0)	(30.0)
Pre-tax profit	263.0	267.0	287.3	352.8	415.8
Taxes	(67.0)	(67.0)	(71.8)	(88.2)	(103.7)
Minorities	0.0	(3.0)	(4.0)	(4.0)	(4.0)
Net profit	196.0	197.0	211.4	260.6	308.1
Adj net attributable profit	240.2	239.0	253.4	302.6	349.1
Ratios (%)					
EBITDA margin	13.3	12.3	12.7	13.4	14.2
EBIT margin	7.2	6.7	7.3	8.3	9.3
Net margin	4.6	4.6	4.8	5.7	6.5
Tax rate	25.5	25.1	25.0	25.0	24.9
Payout ratio	33.20	33.00	33.00	33.00	32.89
ROACE	11.0	11.1	12.2	14.2	16.3
ROE (%)	14.9	14.0	13.7	15.3	16.1
Debt/equity	69.2	58.7	46.6	27.9	11.4
Growth (%)					
Turnover	33.7	1.8	3.9	4.0	2.6
EBITDA	0.7	(5.5)	7.0	10.1	8.5
Adj pre-tax profit	7.3	0.3	6.6	19.9	15.7
Adj EPS	8.17	(0.63)	6.04	19.38	15.38
Per share					
Adj EPS	0.55	0.54	0.57	0.69	0.79
Cash EPS from ordinary operations	1.03	0.99	1.03	1.13	1.22
Dividend	0.15	0.15	0.16	0.19	0.23
NAV	3.07	3.32	3.65	4.09	4.59
Cash flow					
Operating cash flow	720.0	453.0	542.3	599.8	652.8
Cash taxes	(67.0)	(67.0)	(71.8)	(88.2)	(103.7)
Operating cash flow (after tax)	653.0	386.0	470.4	511.6	549.1
Net financial charges	(53.0)	(42.0)	(38.0)	(35.0)	(30.0)
Capital expenditures (net disposals)	(262.0)	(209.0)	(260.0)	(160.0)	(159.0)
Free cash flow	338.0	135.0	172.4	316.6	360.1
Balance sheet					
Working capital	(92.0)	(15.0)	10.0	35.0	60.0
Goodwill	851.0	805.0	763.0	721.0	680.0
Tangible fixed assets	1,694.0	1,686.0	1,746.0	1,711.0	1,680.0
L/T investments	26.0	17.0	17.0	17.0	17.0
Net debt	953.0	866.0	756.8	508.0	232.9
L/T non-interest bearing liabilities	148.0	152.0	154.0	156.0	158.0
Minority interests	23.0	9.0	13.0	17.0	21.0
Shareholders' equity	1,355.0	1,466.0	1,612.2	1,803.0	2,025.1
Capital employed	2,331.0	2,341.0	2,382.0	2,328.0	2,279.0
Valuation ratios					
Enterprise value	5,807.4	5,715.4	5,610.1	5,365.3	5,094.2
EV/turnover (x)	1.4	1.3	1.3	1.2	1.1
EV/EBITDA (x)	10.3	10.8	9.9	8.6	7.5
EV/EBIT (x)	19.1	19.7	17.2	13.8	11.4
Adj PER (x)	20.2	20.3	19.2	16.1	13.9
Cash PER (x)	10.7	11.1	10.7	9.8	9.0
Dividend yield (gross) (%)	1.3	1.3	1.4	1.8	2.1

All sources: Company data, ING estimates

Seat Pagine Gialle

Media & entertainment

Hold

Italy

Seat has high exposure to the sluggish Italian economy and competition in its core print directories is growing. The shares trade near our €0.31 fair value. We initiated coverage on 3 May with a HOLD rating.

Price (21/06/05)	**€0.34**
Target price (12 mth)	**€0.31**
Market cap	**€2,805.4m**
Reuters	**PG.MI**

Equity story

Seat is the result of major corporate M&A in the last decade. The recent steps have been: (1) splitting the directories and internet/TV assets (Telecom Italia Media); (2) takeover by private equity funds (CVC, Permira, BC Partners and Investitori Associati), which now own 50.1% of the share capital; and (3) a €0.433 DPS in April 2004 (€3.6bn), which re-leveraged Seat at 6.4x 2004 net debt/EBITDA. Seat is now fully focused on its mature directories business in Italy (87% of current EBITDA) and the UK (Thomson is No2 after Yell, 7% of group EBITDA), and phone directories assistance through Telegate (6% of EBITDA), which has operations in Germany, Italy and Spain, and is planning to expand in France. The core Italian business has suffered corporate turmoil with several changes in management, ownership and business scope. In 2004, new management (CEO Majocchi) started a strategy to regain customer loyalty and quality of services to reverse the negative cycle of high discounts, decreasing customer satisfaction, growing churn rates and growing working capital.

Key newsflow

Seat has a highly cash-generative business and its valuation seems attractive compared with peers; however, its business plan (released last November) and consensus, in our view, fail to factor in that the Italian economic and political outlook has significantly worsened in the last few months. On a long-term perspective, the print classified directories sector (72% of sales) is becoming more competitive due to the entrance of internet search engines. But in Italy, *Cairo Directories* has also become a new competitor with an offering price at a deep discount to the incumbent. High leverage also means that cash generated in the short term is pledged to pay down debt and not available to pay dividends. We believe lack of a yield floor increases downside risks, while leverage increases the stock's volatility. Short-term newsflow should be rather negative. We expect Seat to report weak 2Q results on 9 September on the back poor performance of Italian directories.

Valuation

Valuing Seat is not an easy task. Its FCF profile is highly visible, but DCF fails to recognise that cash is not going into investors' pockets but is mostly pledged to debt holders; therefore valuation is highly sensitive to discount and capitalisation hypotheses. Comparing Seat with its peers (Yell, Pages Jaunes, Eniro and TPI) is also tricky with Seat 3x more leveraged than peers. We value Seat through a DDM and FCFE approach, which yields an unchanged €0.31 target price.

Key ratios

	2004	2005F
EBITDA margin (%)	43.0	43.4
Operating margin (%)	40.9	41.2
Net debt/equity (%)	581.7	464.8
ROA (%)	10.1	10.5
ROE (%)	(3.8)	13.2

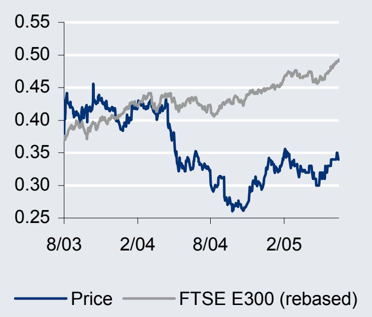
Performance (%)

	12m	3m	Target
Absolute (%)	3.0	6.2	(8.8)
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	(9.2)	0.3	
MIBTEL	(12.5)	4.6	

Share data

No. of shares (m)	8,251.3
Volume	18,963,000
Free float (%)	49.9
Market cap (€m)	2,805.4
Enterprise value (€m)	6,498.7
Price/NAV (x)	3.7

Share price performance



Source: ING

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Company profile

Overview

Seat is mainly focused on its directories businesses in Italy (87% of EBITDA) and the UK (Thomson is No2 after Yell, 7% of group EBITDA), and phone directories assistance with Telegate (6% of EBITDA), which has operations in Germany, Italy and Spain, and there are plans to expand in France. Seat is owned by private equity funds that control 50.1% of the share capital.

Seat SpA – Italian operations

Seat is the dominate player in Italy in print directories with market share in excess of 90% with its yellow and white pages products. It also has internet and voice offerings. In terms of sales, Yellow Pages accounts for 40%, White Pages 35%, online 10%, voice 5% and others (including one-to-one marketing) 10%.

Thomson

Thomson (100% owned by Seat) is the second-largest directory player in the UK, behind Yell, with 14% market share. The UK is becoming more competitive with the re-entrance of BT.

Telegate

In Germany, Telegate through its '11880' number, is the No2 player in directories assistance behind incumbent DT with a 32% market share. In Spain, where the market was recently liberalised, Telegate is now the No2 player behind incumbent Telefonica.

Risks

Seat could be affected by the weakening Italian economy. In Italy, Seat could also suffer from the recent entrance of Cairo Directories. Seat is highly leveraged and could be highly affected by a shift of the interest rate curve.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	1,377.6	1,406.1	1,421.2	1,481.9	1,541.2
EBITDA	599.5	604.2	616.5	634.9	659.8
Depreciation	(31.3)	(29.7)	(30.4)	(32.1)	(32.7)
EBITA	568.2	574.5	586.2	602.8	627.0
EBIT	329.8	185.4	424.1	440.7	465.0
Net financial charges	(125.1)	(226.4)	(263.5)	(237.2)	(216.5)
Pre-tax profit	204.7	(41.0)	160.6	203.5	248.5
Taxes	(117.3)	(48.1)	(60.0)	(75.0)	(90.0)
Minorities	(1.2)	(6.6)	(6.9)	(7.2)	(7.6)
Net profit	16.0	(126.6)	93.7	121.3	150.9
Adj net attributable profit	324.6	293.4	255.8	283.4	313.0
Ratios (%)					
EBITDA margin	43.5	43.0	43.4	42.8	42.8
EBIT margin	23.9	13.2	29.8	29.7	30.2
Net margin	1.2	(8.5)	7.1	8.7	10.3
Tax rate	57.3	117.2	37.4	36.8	36.2
Payout ratio	41.15		61.62	51.02	43.74
ROACE	12.9	10.1	10.5	11.2	11.9
ROE (%)	3.2	(3.8)	13.2	14.8	15.8
Debt/equity	14.3	602.3	464.8	367.0	283.0
Growth (%)					
Turnover	2.0	2.1	1.1	4.3	4.0
EBITDA	8.0	0.8	2.0	3.0	3.9
Adj pre-tax profit	5.5	(21.4)	(7.3)	13.3	12.3
Adj EPS	(23.64)	(9.61)	(12.82)	10.77	10.45
Per share					
Adj EPS	0.04	0.04	0.03	0.03	0.04
Cash EPS from ordinary operations	0.04	0.04	0.03	0.04	0.04
Dividend	0.00	0.00	0.01	0.01	0.01
NAV	0.53	0.08	0.09	0.11	0.12
Cash flow					
Operating cash flow	515.8	541.4	656.9	658.2	671.0
Cash taxes	(117.3)	(29.9)	(30.0)	(37.5)	(45.0)
Operating cash flow (after tax)	398.5	511.5	626.9	620.7	626.0
Net financial charges	(125.1)	(226.4)	(263.5)	(237.2)	(216.5)
Capital expenditures (net disposals)	(48.0)	(29.8)	(31.0)	(32.0)	(33.0)
Free cash flow	223.8	257.4	332.4	351.5	376.6
Balance sheet					
Working capital	(336.9)	(46.4)	(42.0)	(39.7)	(38.6)
Goodwill	3,602.8	3,392.6	3,392.6	3,392.6	3,392.6
Tangible fixed assets	42.6	33.2	34.9	36.6	38.4
Other intangible assets	954.7	866.6	671.1	525.0	375.6
L/T investments	13.7	3.7	3.7	3.7	3.7
Net debt	459.8	3,925.7	3,593.3	3,299.6	2,984.9
L/T non-interest bearing liabilities	128.0	106.7	108.8	111.0	113.2
Minority interests	0.0	113.4	114.0	114.7	115.3
Shareholders' equity	4,369.2	665.0	758.7	880.0	1,030.9
Capital employed	4,834.4	4,600.5	4,366.4	4,198.7	4,039.8
Valuation ratios					
Enterprise value	3,265.3	6,830.5	6,498.7	6,205.7	5,891.7
EV/turnover (x)	2.4	4.9	4.6	4.2	3.8
EV/EBITDA (x)	5.4	11.3	10.5	9.8	8.9
EV/EBIT (x)	9.9	36.8	15.3	14.1	12.7
Adj PER (x)	8.6	9.6	11.0	9.9	9.0
Cash PER (x)	7.9	8.7	9.8	8.9	8.1
Dividend yield (gross) (%)	1.3	0.0	2.1	2.2	2.4

All sources: Company data, ING estimates

SIAS

Buy

Transport

Italy

SIAS is Italy's No3 toll motorway player with 8% market share. It has obtained a generous tariff increase to finance its 2005-10 investment plan, which could increase the EBITDA margin. BUY maintained.

Price (21/06/05)	**€11.49**
Target price (12 mth)	**€14.72**
Market cap	**€1,831.2m**
Reuters	**SIS.MI**

Equity story

SIAS was created in February 2002 as a spin-off containing several motorway concessions held by Autostrada Torino Milano (ASTM). SIAS is a holding company. It is the third-largest highway operator in Italy, with a managed network of 450km, after Autostrade per l'Italia and its 'sister' company ASTM. SIAS is mainly concentrated in north-west Italy (Liguria and Toscany). SIAS has obtained a generous price-cap mechanism in order to finance its 2005-10 €460m investment plan (€2.1bn including Cisa 2 and Asti Cuneo). In particular, the Cisa 2 and the Asti-Cuneo new motorways could increase SIAS's long-term EBITDA margin.

Key newsflow

SIAS's two big projects are: Cisa 2 (Parma-Brennero) and Asti-Cuneo new motorways. Work on Cisa 2 could start in 2H05 (a new 81km stretch, implying an extension of the concession for the actual Cisa motorway from 2010 to 2038). Total investment is €1,550m, of which 41% (€635m) is to be financed by the Italian government and €915m by SIAS. Work could be completed by 2009-10. The Asti-Cuneo new motorway (92km) investment totals c.€1.6bn, of which €700m is from SIAS, €700m from Anas and €200m from the Italian state). We forecast an IRR and WACC of c.6.8% and 6%, respectively. Finally, there is the possibility of further increasing the Milano-Serravalle stake. According to unconfirmed reports in May, Mr Gavio offered to buy the 18.6% stake directly owned by Milan municipality at €6.0-6-5 per share. If so, SIAS would directly own 36.7% of the Milano-Serravalle shares (45.5% including the Auto TO/MI 8.8% stake, which could gradually shift into SIAS). Moreover, Mr Gavio could reach a majority (50.3%) if the Pavia province would sell its 4.8% stake.

Valuation

After the recent (20 June) convertible bond issue, SIAS trades at a 2006F EV/EBITDA of 9.6x and PER of 26.7x – in line and a 10% premium to European peers, respectively. Our EV is adjusted for the significant minority interests. At our unchanged DCF-based target price of €14.72 (fully diluted), SIAS would trade at a 2006F EV/EBITDA of 10.8x (a 12% premium to the European motorway companies' average) and PER of 33x (a 15% premium versus peers), due to the superior EBITDA margin growth expected thanks to the strong investments in the pipeline. The 2006F dividend yield of 2.5% is in line with other European motorway companies.

Key ratios (%)

	2004	2005F
EBITDA margin	47.9	45.9
Operating margin	29.7	29.9
Net debt/equity	37.9	21.1
ROA	9.6	8.2
ROE	13.6	10.2

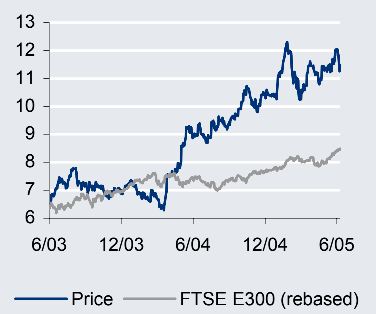
Performance

	12m	3m	Target
Absolute (%)	27.7	6.5	28.1
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	12.5	0.5	
MIBTEL	8.5	4.8	

Share data

No. of shares (m)	159.4
Volume	418,629
Free float (%)	32.2
Market cap (€m)	1,831.2
Enterprise value (€m)	2,427.3
Price/NAV (x)	2.0

Share price performance (€)



Source: ING

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Company profile

History

Societa Iniziative Autostradali e Servizi Group (SIAS) was created in February 2002 as a spin-off of ASTM and is listed on the Milan exchange. SIAS has motorway concessions in Tuscany and Liguria, as well as a telecom activity. The company is controlled by the Gavio family (with a 64.6% holding).

Description

The group manages 450km of motorway concessions (8% of the national network) in Tuscany and Liguria – the Tyrrhenian coast. Its sister company ASTM operates a further 614km (12%). The largest operator in Italy is Autostrade per l'Italia with 59% of the national network. SIAS's network includes: Autostrada dei Fiori (Voltri to Ventimiglia); Autostrada Ligure Toscana (Sestri Levante to Leghorn and Lucca); and Autocamionabile della Cisa (Parma to La Spezia). It also has equity participations in the Milan ringroad and motorway to Liguria, as well as Societa Autostrada Tirrenica (Leghorn to the southern tip of Tuscany, once finished). These roads control the north-west coast, as well as access to the coast and ports from Milan and Parma (the industrial region of Lombardy). All the roads are concessions awarded on a long-term basis by ANAS, the state entity that controls roads in Italy, and the concessions are regulated with tariffs set every four years.

Main shareholders

Autostrada Torino Milano (50.5% owned by Argo Finanziaria and Aurelia SpA, both directly owned by Mr Gavio) 30.7%; Argo Finanziaria 19.6%; Aurelia SpA 5.8%.

Risks

Companies in this sector are subject to risks from economic growth, interest rates, regulation and changes in travel patterns. Economic growth rates can affect both passenger and freight transport growth rates. Interest rates have an impact on the companies' financial expenses and on the value attributed by investors to the shares. Changes in regulation, or changes in the tariff environment, can have a substantial impact on profitability. Changes in travel mode (ie, towards rail), competition from alternative routes (new toll roads or free motorways) or changes in travel destinations could have a material impact on toll-road operators.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	455.6	495.0	534.8	588.5	647.8
EBITDA	203.7	237.0	245.6	264.1	291.9
Depreciation	(84.4)	(89.8)	(85.8)	(99.0)	(109.2)
EBITA	119.3	147.2	159.8	165.0	182.7
EBIT	119.3	147.2	159.8	165.0	182.7
Operating exceptionals	16.7	17.8	17.0	19.6	21.6
Net financial charges	(5.9)	(7.5)	(10.5)	(24.5)	(23.5)
Pre-tax profit	130.1	157.5	166.2	160.1	180.8
Taxes	(55.0)	(62.4)	(63.2)	(60.9)	(67.8)
Minorities	(23.8)	(28.4)	(29.8)	(28.7)	(32.4)
Net profit	58.5	67.8	73.3	70.6	80.6
Adj net attributable profit	51.3	66.7	73.3	70.6	80.6
Ratios (%)					
EBITDA margin	44.7	47.9	45.9	44.9	45.1
EBIT margin	26.2	29.7	29.9	28.0	28.2
Net margin	18.1	19.4	19.3	16.9	17.4
Tax rate	42.3	39.6	38.0	38.0	37.5
Payout ratio	111.62	50.82	56.53	67.71	65.24
ROACE	8.6	9.6	8.2	6.8	6.8
ROE	11.4	13.6	10.2	7.4	7.9
Net debt/equity	35.4	37.9	21.1	23.9	28.0
Growth (%)					
Turnover	18.7	8.6	8.0	10.0	10.1
EBITDA	17.5	16.3	3.6	7.5	10.5
Adj pre-tax profit	17.0	21.1	5.6	(3.7)	12.9
Adj EPS	12.27	30.02	(10.10)	(3.67)	14.17
Per share					
Adj EPS	0.39	0.51	0.46	0.44	0.51
Cash EPS from ordinary operations	1.04	1.20	1.00	1.06	1.19
Dividend	0.44	0.26	0.26	0.30	0.33
NAV	3.50	4.02	5.75	6.19	6.69
Cash flow					
Operating cash flow	179.9	161.8	265.6	286.1	308.7
Cash taxes	(55.0)	(62.4)	(63.2)	(60.9)	(67.8)
Operating cash flow (after tax)	124.9	99.4	202.5	225.2	240.9
Net financial charges	(5.9)	(7.5)	(10.5)	(24.5)	(23.5)
Capital expenditures (net disposals)	(168.5)	(111.0)	(150.0)	(220.0)	(260.0)
Free cash flow	(43.6)	(11.6)	52.5	5.2	(19.1)
Balance sheet					
Working capital	(541.7)	(541.0)	(561.1)	(583.1)	(599.9)
Goodwill	0.7	0.0	0.0	0.0	0.0
Tangible fixed assets	1,349.7	1,551.3	2,465.4	2,660.7	2,895.7
Other intangible assets	18.6	7.0	7.0	7.0	7.0
L/T investments	86.2	75.0	70.0	60.0	50.0
Net debt	230.6	283.7	276.0	336.8	427.2
L/T non-interest bearing liabilities	31.5	60.3	396.7	398.4	401.0
Minority interests	295.9	320.0	320.0	320.0	320.0
Shareholders' equity	455.9	523.7	915.7	986.3	1,066.9
Capital employed	882.0	1,032.0	1,584.6	1,746.2	1,951.8
Valuation ratios					
Enterprise value	2,357.7	2,434.9	2,427.3	2,488.0	2,578.4
EV/turnover (x)	4.4	4.2	4.5	4.2	4.0
EV/EBITDA (x)	9.9	8.9	9.9	9.4	8.8
EV/EBIT (x)	17.0	14.3	15.2	15.1	14.1
Adj PER (x)	29.2	22.5	25.0	25.9	22.7
Cash PER (x)	11.0	9.6	11.5	10.8	9.6
Dividend yield (gross) (%)	3.8	2.3	2.3	2.6	2.9

All sources: Company data, ING estimates

Socotherm

Hold

Oil & gas

Italy

Price (21/06/05)	€8.85
Target price (12 mth)	€8.90
Market cap	€332.8m
Reuters	SCTM.MI

Socotherm is the No2 player in pipe coating for the energy industry. The growth in pipeline construction should be a driver of growth, while deepwater expertise should enhance prospects further.

Equity story

Socotherm has become the No2 player in the pipe-coating market. These services are used mainly for pipelines and drilling-related oilfield pipes (OCTG – oil country tubular goods). Pipeline construction is expected to grow in the coming years – particularly in deeper water – where the company has developed some leading solutions. It is expanding into a number of new geographic regions and new market segments.

Key elements to the investment story for Socotherm are: (1) growth in the pipeline market in part driven by the growth of gas consumption; (2) growth of the market in the higher-margin deepwater segment; (3) the strategic JV with Tenaris, the largest pipe mill for the energy industry; and (4) entry into the OCTG maintenance and inspection market.

We believe the company's growth in the current market is more constrained by its ability to grow its management team than by the market itself.

Key newsflow

Socotherm continues to be a company that generates a lot of newsflow, whether on new contracts, new alliances and other company ventures. We do not foresee any diminution of this intra-reporting period newsflow. In our opinion, while in 2004 the key newsflow was order inflow related, in 2005 it must be results oriented. The company looks expensive on the basis of past results, and management must prove its ability to convert orders to profit.

Management indicated at the time of 1Q results that 65-70% of 2005 results will come in 2H, thus the first proof that we are looking for will come with the publication of 3Q results on 14 November.

Valuation

The stock trades at a 2006F EV/EBITDA of 6.3x and adjusted PER of 16.0x. Multiples have expanded considerably in the past year (through price appreciation and downward revision of estimates) as increased interest in the oil-service sector has rewarded this company's growing order backlog. Multiples are at a 12-25% discount on EV/EBITDA to sector peers (Saipem, Fugro, SBM Offshore) that are larger and more diversified, and at a 1-23% premium on PER multiples. We believe that given the small capitalisation and execution risks of management's plans, the current valuation is fair. **HOLD** rating and €8.90 target price confirmed.

Key ratios (%)

	2004	2005F
EBITDA margin	22.9	21.3
Operating margin	13.8	14.1
Net debt/equity	63.3	49.3
ROA	8.7	17.0
ROE	4.6	24.9

Performance

	12m	3m	Target
Absolute (%)	50.0	4.0	0.6
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	32.2	(1.8)	
MIBTEL	27.4	2.4	

Share data

No. of shares (m)	37.6
Volume	33,595
Free float (%)	35.0
Market cap (€m)	332.8
Enterprise value (€m)	395.0
Price/NAV (x)	4.8

Share price performance

Source: ING

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Company profile

History

Socotherm, based in Adria in the north-east of Italy, specialises in coating and insulating pipes. This activity is carried out almost exclusively for the oil & gas sector. The company was founded in 1859, has been performing its current activities since 1973, and has been listed on the Milan stock exchange since the end of 2002.

Activities

The company specialises in coating and lining pipes. Coatings can be weight coating, thermal coatings, flow coatings and anti-corrosion coating. The type of coating depends on the location of the pipe (onshore or offshore) and on what the pipe is transporting. The company relines old corroded pipes to recondition them. As Socotherm develops much of its own production equipment, it also sells complete pipe coating plants to clients. Lastly, the company has a small district heating activity in Italy.

Future prospects

With a 10% market share, the company is the second-largest player in the segment, after Bredero-Price (20% market share). It has recently strengthened its position with a joint venture with the largest manufacturer of seamless pipe (Tenaris), as well as a joint venture with the largest pipelay company in China. It has also spent a lot of time and money on developing products for offshore applications - particularly for deep waters. Driven by a strong market for pipeline construction, and its deepwater products, we see significant growth prospects for the company in the coming years.

Large shareholders

Zeno Soave (57.89%), Fernando Culzoni (8.50%).

Risks

The company sells products and services to the oil & gas industries. These industries have volatile spending plans based on the volatility of oil & gas prices. The company operates in many countries with high political and commercial risk. The company often performs fixed-price contracts, which subject it to potential losses if projects suffer from delays or cost overruns. Limited company size and management resources could impair its ability to grow.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	154.4	126.7	248.0	287.6	333.7
EBITDA	34.5	29.0	52.9	61.3	71.1
Depreciation	(7.7)	(11.5)	(18.0)	(20.0)	(23.0)
EBITA	26.7	17.5	34.9	41.3	48.1
EBIT	23.5	14.4	33.4	39.8	46.6
Operating exceptionals	(0.8)	(3.4)	0.0	0.0	0.0
Net financial charges	(5.1)	(4.2)	(3.0)	(2.0)	(0.5)
Pre-tax profit	17.6	6.8	30.4	37.8	46.1
Taxes	(3.5)	(0.9)	(10.0)	(12.5)	(15.2)
Minorities	(3.1)	(3.4)	(5.0)	(6.0)	(7.0)
Net profit	8.5	0.6	15.4	19.3	23.9
Adj net attributable profit	13.6	5.2	16.9	20.8	25.4
Ratios (%)					
EBITDA margin	22.3	22.9	21.3	21.3	21.3
EBIT margin	15.2	11.4	13.5	13.8	14.0
Net margin	7.5	3.1	8.2	8.8	9.3
Tax rate	19.6	12.5	33.0	33.0	33.0
Payout ratio	25.49	58.00	30.00	30.00	30.00
ROACE	14.5	8.7	17.0	20.3	23.7
ROE (%)	19.4	4.6	24.9	25.1	24.8
Debt/equity	60.9	107.2	49.3	27.1	(5.8)
Growth (%)					
Turnover	12.9	(18.0)	95.7	16.0	16.0
EBITDA	(4.2)	(15.9)	82.6	16.0	16.0
Adj pre-tax profit	(22.2)	(52.3)	221.5	23.4	21.1
Adj EPS	6.58	(61.66)	222.06	23.73	21.92
Per share					
Adj EPS	0.36	0.14	0.45	0.55	0.68
Cash EPS from ordinary operations	0.58	0.46	0.93	1.09	1.29
Dividend	0.08	0.04	0.12	0.15	0.19
NAV	1.54	1.43	1.85	2.24	2.88
Cash flow					
Operating cash flow	25.0	36.5	54.0	58.8	69.1
Cash taxes	(3.5)	(0.9)	(10.0)	(12.5)	(15.2)
Operating cash flow (after tax)	21.5	35.7	44.0	46.3	53.9
Net financial charges	(5.1)	(4.2)	(3.0)	(2.0)	(0.5)
Capital expenditures (net disposals)	(24.0)	(31.0)	(36.0)	(25.0)	(12.0)
Free cash flow	(7.5)	0.5	5.0	19.3	41.4
Balance sheet					
Working capital	16.7	11.4	10.6	13.5	16.8
Goodwill	14.4	18.4	16.9	15.4	12.9
Tangible fixed assets	77.8	93.6	111.6	116.6	108.6
L/T investments	2.5	2.3	4.3	4.3	5.3
Net debt	26.8	44.5	45.0	30.3	(8.3)
L/T non-interest bearing liabilities	4.6	6.9	7.2	7.5	8.8
Minority interests	22.0	16.6	21.6	27.6	34.6
Shareholders' equity	58.0	53.8	69.6	84.3	108.5
Capital employed	106.8	114.9	136.2	142.2	134.8
Valuation ratios					
Enterprise value	379.0	391.6	395.0	386.4	362.6
EV/turnover (x)	2.5	3.1	1.6	1.3	1.1
EV/EBITDA (x)	11.0	13.5	7.5	6.3	5.1
EV/EBIT (x)	16.1	27.2	11.8	9.7	7.8
Adj PER (x)	24.4	63.6	19.7	16.0	13.1
Cash PER (x)	15.1	19.4	9.5	8.1	6.9
Dividend yield (gross) (%)	0.8	0.5	1.4	1.7	2.2

All sources: Company data, ING estimates

Sorin

Health

Buy

Italy

Sorin is European leader in the cardiovascular medical sector. It is concluding a restructuring phase and has a strong product pipeline in vascular segment and defibrillators. We feel it could be a long-term takeover target.

Price (21/06/05)	**€2.45**
Target price (12 mth)	**€2.70**
Market cap	**€867.5m**
Reuters	**SORN.MI**

Equity story

Sorin was born in January 2004 as a spin-off of the medtech assets formerly embedded into the Snia conglomerate. At the beginning of last year, new management came on board to first restructure the company and then implement an aggressive investment plan. Profitability is now 50% below competitors and should recover quickly thanks to rationalisation of overheads, production reorganisation, and launch of new products in Europe and then US. On a longer-term perspective, we believe Sorin may attract attention from larger US players keen to expand their operations in Europe. Sorin is 60% owned by Bios (a pool of financial investors including Gnutti's Hopa and Interbanca) and was listed at €2.70/share as a partial and proportional Snia demerger (effective in January 2004).

Key newsflow

New management had some delay in implementing its industrial plan and approval of Janus (drug-eluting stent) was also delayed. In 2004, the company suffered production problems for its pacemakers/defibrillators. Now all the problems seem to be over and management announced in March a new more aggressive plan that envisages €1.3bn sales in 2009 (12% 2004-09 CAGR), €260m EBITDA (20% margin and 30% CAGR) and €190m EBIT (15% margin). Despite our estimates being more conservative (€1.24bn sales with €200m EBITDA in 2009) given management's poor track record, EBITDA growth of 25% pa is still impressive and hard to find among Italian listed companies. The company is highly leveraged (€316m net debt at end-2004 or 4.8x EBITDA) and despite evident improvement in the P&L, we estimate that capex and NWC requirements will burn most of the cash generated. For this reason, the company is thinking of disposing of its renal care division (€80-100m enterprise value) and issuing a €150m convertible bond. On a positive note, the strong expected EBITDA growth could drive the debt/EBITDA ratio below 3x in two years.

Valuation

Sorin is a growth stock trading at 28.9x 2006F PER with no intention of paying any dividend for the next five years. From a DCF standpoint, the shares look attractive, despite our conservative estimates, yielding a valuation above €2.7/share (WACC 7.3% with 40% debt/equity, 8.8% cost of equity and 1.2x beta). Assuming more aggressive management guidance derives a DCF fair value of €3.5 (in line with the acquisition price of BIOS). Sorin is trading at 13.8x 2005F EV/EBITDA, in line with peers, but at a discount on 2006-07 multiples (8% and 15% respectively) given its higher growth forecasts. **BUY** and €2.70 target maintained.

Key ratios (%)

	2004	2005F
EBITDA margin	9.1	10.9
Operating margin	2.5	4.8
Net debt/equity	0.0	0.0
ROA	4.7	3.5
ROE	(11.8)	(2.4)

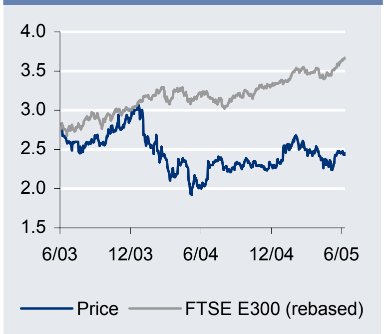
Performance

	12m	3m	Target
Absolute (%)	19.5	(1.6)	10.2
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300	5.3	(7.1)	
MIBTEL	1.5	(3.1)	

Share data

No. of shares (m)	354.1
Volume	425,204
Free float (%)	40.0
Market cap (€m)	867.5
Enterprise value (€m)	866.9
Price/NAV (x)	2.6

Share price performance (€)



Source: ING

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Company profile

History

Sorin was born in the 1960s as the medical technology arm of Fiat. During the 1990s, it grew quickly through R&D investments and acquisitions in Europe and the US. Sorin is now the largest European medical devices company in the cardiovascular sector. It is 60% owned by Bios (a pool of financial investors) and was listed in January 2004 at €2.70 as a spin-off from conglomerate Snia.

Cardiac Surgery (56% of sales)

Cardiac Surgery includes sales in extracorporeal blood circulation systems used during stopped-heart surgery. In these segments, Sorin is the worldwide leader with a 38-40% market share. This division also includes sales of heart valves. In mechanical valves, Sorin holds market shares of 45% in Europe and 15% in the US; in tissue valves, it has a 13% share in Europe. Overall, the cardiac surgery market is estimated at €2bn with a 5% 2004-09F CAGR. The main players are Medtronic, Edwards, Guidant, St Jude and Terumo.

Cardiac Rhythm Management (27% of sales)

Sorin's pacemakers, implantable defibrillators and holter monitors are used to diagnose and treat cardiac rhythm dysfunctions, including heart failure and arrhythmia. The market is estimated at €7.2bn with a 13% 2004-09F CAGR. Sorin's European market shares are 12% in pacemakers, 3% in ICDs and 2% in CRT-D. In the US, Sorin's market share is below 1%. The main players are Medtronic, Guidant, St Jude and Biotronik.

Vascular Therapy (4%)

In VT, the main products include drug-eluting and bare-metal coronary stents. Sorin has a 5% market share in Europe with its coated stent and recently DES Janus (10% target market share by end 2005).

Renal Care (13%)

Sorin has operations in Renal Care selling machines (5% share in Europe), disposable filters (7% market share), liquid solutions and bloodlines. The total market is worth €1.4bn. This area is under disposal.

Risks

Sorin competes with a few large players with dominant positioning in each market segment. Competitors' scale means strong financial, R&D and salesforce firepower. Approval timing from regulators (FDA, CE) could have a significant impact on group profitability. The group has a poor track record in maintaining management guidance. Government (or private insurance) policies regarding reimbursement could have a significant impact on profitability. Sorin is exposed to the dollar and yen. The group is also highly leveraged.

Financials

Yr to Dec (€m)	2003	2004	2005F	2006F	2007F
Income statement					
Turnover	715.3	721.3	775.6	860.9	971.7
EBITDA	84.1	65.4	84.2	108.9	135.5
Depreciation	(57.2)	(47.6)	(47.4)	(47.4)	(48.0)
EBITA	26.9	17.8	36.9	61.5	87.6
EBIT	11.3	2.2	22.6	47.2	73.3
Net financial charges	(18.2)	(17.8)	(18.0)	(17.5)	(17.5)
Pre-tax profit	(17.9)	(44.3)	4.6	29.7	55.8
Taxes	(13.4)	0.5	(12.7)	(13.8)	(15.0)
Minorities	(0.2)	(0.2)	0.0	(0.1)	(0.2)
Net profit	(31.5)	(44.1)	(8.1)	15.7	40.5
Adj net attributable profit	(15.9)	(28.5)	6.2	30.0	54.8
Ratios (%)					
EBITDA margin	11.8	9.1	10.9	12.6	13.9
EBIT margin	1.6	0.3	2.9	5.5	7.5
Net margin	(4.4)	(6.1)	(1.0)	1.8	4.2
Tax rate	74.9	1.0	278.1	46.6	26.9
ROACE		4.7	3.5	12.1	18.3
ROE (%)	(7.3)	(11.8)	(2.4)	4.5	10.8
Debt/equity	0.0	0.0	0.0	0.0	0.0
Growth (%)					
Turnover	6.4	0.8	7.5	11.0	12.9
EBITDA	(16.7)	(22.2)	28.7	29.3	24.5
Adj pre-tax profit		(1,130.3)		133.1	59.3
Adj EPS				382.71	82.50
Per share					
Adj EPS		(0.08)	0.02	0.08	0.15
Cash EPS from ordinary operations		0.05	0.15	0.22	0.29
Dividend	0.00	0.00	0.00	0.00	0.00
NAV		0.98	0.96	1.00	1.11
Cash flow					
Operating cash flow	39.2	11.7	69.8	94.2	105.9
Cash taxes	(13.4)	0.5	(12.7)	(13.8)	(15.0)
Operating cash flow (after tax)	25.8	12.2	57.1	80.3	90.9
Net financial charges	(18.2)	(17.8)	(18.0)	(17.5)	(17.5)
Capital expenditures (net disposals)	(48.4)	(56.5)	(65.0)	(65.0)	(70.0)
Free cash flow	(40.8)	(62.2)	(25.9)	(2.2)	3.4
Balance sheet					
Working capital	315.0	368.7	383.1	397.9	427.6
Goodwill	206.6	192.1	177.8	163.5	149.1
Tangible fixed assets	132.9	128.3	127.0	125.7	124.4
Other intangible assets	123.6	123.2	91.9	110.8	134.1
L/T investments	3.3	1.8	1.8	1.8	1.8
L/T non-interest bearing liabilities	81.6	100.2	100.8	101.4	102.1
Minority interests	1.1	1.3	1.3	1.4	1.6
Shareholders' equity	402.7	346.2	338.1	353.9	394.4
Capital employed	403.8	347.5	339.4	355.2	396.0
Valuation ratios					
Enterprise value	865.3	867.0	866.9	867.0	867.2
EV/turnover (x)	0.0	1.2	1.1	1.0	0.9
EV/EBITDA (x)	0.0	13.2	10.3	8.0	6.4
EV/EBIT (x)	(0.2)	386.0	38.4	18.4	11.8
Adj PER (x)			139.4	28.9	15.8
Cash PER (x)		45.4	16.2	11.2	8.4
Dividend yield (gross) (%)	0.0	0.0	0.0	0.0	0.0

All sources: Company data, ING estimates

Terna

Other utilities

Buy

Italy

Terna owns and operates most of the Italian electricity transmission grid, enjoying a clear and positive regulatory framework for 2004-07. We reiterate our BUY recommendation.

Price (21/06/05)	**€2.13**
Target price (12 mth)	**€2.20**
Market cap	**€4,260.0m**
Reuters	**TRN.MI**

Equity story

Defensive characteristics. The bulk of Terna's revenues are fully regulated, and it is at the beginning of the four-year regulatory period for the Italian assets (February 2004 to December 2007).

Significant incentives to growth. The new legislation guarantees an additional 2% return on assets for development capex, on top of the 6.7% allowed on existing assets, for the whole life of the new investments. This regulation also includes incentives to reduce total operating expenses through a 50% profit-sharing mechanism on excess efficiency gains.

Attractive dividend yield. In our forecasts, we assume a 2005F DPS of €0.12, which would correspond to an 87% payout rate and gross yield of more than 5.5%, as we believe management is committed to returning as much cash as possible to shareholders.

Key newsflow

Changes in management. The government (30% holding in ENI) decided in May to make Vittorio Mincato retire as CEO of ENI, and nominated Paolo Scaroni (previously CEO of ENEL) as replacement. Enel's CEO position will be taken, after approval at the AGM, by CFO Fulvio Conti. Mr Conti is currently Terna's chairman and Enel's No2 executive. We believe Mr Conti could leave his position as chairman of Terna, although this should not imply any change in Terna's strategy.

Changes in shareholding structure. In March, Enel agreed to sell a maximum 30% stake in Terna to Cassa Depositi e Prestiti (CDP), a lender controlled by the Ministry of Finance. The reference price announced for the transfer by Enel to CDP of a 30% stake in Terna was fixed at €1,362.6m or €2.27/share. The final price will be related to the weighted average price before the effective transfer to CDP plus a 3% premium, although some caps and floors (not disclosed) have been established.

Valuation

Our unchanged fundamental valuation of €2.20/share is based on the traditional DCF valuation. Despite the relatively limited upside to fundamental valuation, we believe Terna represents an attractive opportunity to invest in a bond proxy that offers a sustainable above-5.5% dividend yield, as it is at the beginning of its four-year regulatory period. **BUY** maintained.

Key ratios (%)

	2004F	2005F
EBITDA margin	75.5	79.2
Operating margin	56.6	56.9
Net debt/equity	102.5	97.5
ROA	8.1	8.1
ROE	13.2	13.1

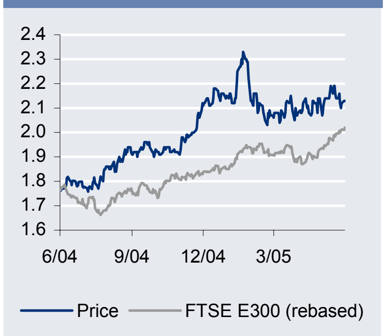
Performance

	12m	3m	Target
Absolute (%)	N/A	2.9	3.3
FTSE E300	1,008.4	1,080.0	
MIBTEL	21,024	24,363	
Relative to (%)			
FTSE E300		(2.9)	

Share data

No. of shares (m)	2,000.0
Volume	16,074,100
Free float (%)	0.5
Market cap (€m)	4,260.0
Enterprise value (€m)	6,040.4
Price/NAV (x)	2.3

Share price performance (€)



Source: ING

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Company profile

History

The company's core business is the operation, maintenance and development of the Italian electricity transmission grid according to guidelines set by the state-owned system operator GRTN.

Transmission business – Italy

Terna owns more than 38,000km of electricity transmission grid, which represents c.94% of the total Italian grid. This activity is fully regulated and the four-year regulatory period covers 2004-07. Allowed return of RAB is fixed at 6.7%, while returns for new investments provide an additional 2% allowed return during the whole life of the investment.

Transmission business – Brazil

Terna acquired two Brazilian companies, TSN and NVT, from Enelpower on 31 December 2004. These companies hold two 30-year concessions from the Brazilian Energy Authority (ANEEL) expiring on December 2030.

Shareholders

Currently Enel (36%) and free float (64%). After the transfer of a 30% by Enel to state-owned CDP, it will be CDP (30%), Enel (6%) and free float (64%).

Risks

Terna's main risk is the company's willingness to continue investing in Brazil, as it looks for investing opportunities.

Financials

Yr to Dec (€m)	2003	2004F	2005F	2006F	2007F
Income statement					
Turnover	871.6	904.2	900.2	925.0	955.5
EBITDA	623.2	683.0	713.0	737.4	766.9
Depreciation	(187.3)	(171.4)	(200.9)	(206.3)	(213.0)
EBITA	435.9	511.6	512.1	531.1	554.0
EBIT	435.9	511.6	512.1	531.1	554.0
Net financial charges	(116.2)	(79.5)	(97.9)	(99.1)	(97.7)
Pre-tax profit	304.7	409.4	414.2	432.0	456.3
Taxes	(131.9)	(173.4)	(175.4)	(183.0)	(193.3)
Net profit	172.8	236.0	238.8	249.0	263.0
Adj net attributable profit	172.8	236.0	238.8	249.0	263.0
Ratios (%)					
EBITDA margin	71.5	75.5	79.2	79.7	80.3
EBIT margin	50.0	56.6	56.9	57.4	58.0
Net margin	19.8	26.1	26.5	26.9	27.5
Tax rate	43.3	42.4	42.4	42.4	42.4
Payout ratio	0.00	97.46	97.46	97.46	97.46
ROACE	6.9	8.1	8.1	8.5	8.8
ROE (%)	9.8	13.2	13.1	13.6	14.3
Debt/equity	102.3	102.5	97.5	98.3	96.6
Growth (%)					
Turnover		3.7	(0.4)	2.8	3.3
EBITDA		9.6	4.4	3.4	4.0
Adj pre-tax profit		34.4	1.2	4.3	5.6
Adj EPS		36.57	1.17	4.30	5.62
Per share					
Adj EPS	0.09	0.12	0.12	0.12	0.13
Cash EPS from ordinary operations	0.18	0.20	0.22	0.23	0.24
Dividend	0.00	0.12	0.12	0.12	0.13
NAV	0.88	0.91	0.91	0.92	0.92
Cash flow					
Operating cash flow	608.2	660.3	713.0	737.4	766.9
Cash taxes	(131.9)	(173.4)	(175.4)	(183.0)	(193.3)
Operating cash flow (after tax)	476.3	486.9	537.6	554.4	573.7
Net financial charges	(116.2)	(79.5)	(97.9)	(99.1)	(97.7)
Capital expenditures (net disposals)	0.0	(179.9)	(249.9)	(299.9)	(259.9)
Free cash flow	360.1	(2.5)	(43.0)	(87.3)	(40.3)
Balance sheet					
Working capital	(199.8)	(197.2)	(325.1)	(390.8)	(456.8)
Tangible fixed assets	4,359.2	4,434.1	4,493.8	4,598.2	4,656.2
Net debt	1,807.1	1,865.3	1,780.4	1,802.0	1,776.3
L/T non-interest bearing liabilities	585.9	551.7	562.3	573.1	584.2
Shareholders' equity	1,766.4	1,819.9	1,826.0	1,832.3	1,839.0
Capital employed	3,573.5	3,685.2	3,606.4	3,634.3	3,615.3
Valuation ratios					
Enterprise value	6,067.1	6,125.3	6,040.4	6,062.0	6,036.3
EV/turnover (x)	7.0	6.8	6.7	6.6	6.3
EV/EBITDA (x)	9.7	9.0	8.5	8.2	7.9
EV/EBIT (x)	13.9	12.0	11.8	11.4	10.9
Adj PER (x)	24.7	18.1	17.8	17.1	16.2
Cash PER (x)	11.8	10.5	9.7	9.4	8.9
Dividend yield (gross) (%)	0.0	5.4	5.5	5.7	6.0

All sources: Company data, ING estimates

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Company visit notes

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Company visit notes

In the following pages are the unrated company visit notes that we have published since mid-October 2004. In these notes we use consensus estimates or management plans, and do not provide a rating. These notes serve to give information on companies that may not warrant coverage in a more structured manner. In the case of Italcementi, Biesse and Aeroporto di Firenze, we started formal coverage subsequently.

- Astaldi.
- Beni Stabili.
- Biesse.
- CAD IT.
- Cembre.
- Credito Artigiano.
- Datamat.
- EnerTAD.
- Esprinet.
- Italcementi.
- Lottomatica.
- Prima Industrie.
- Risanamento.
- Targetti.

Italy

Astaldi

Solid construction company

Not rated

Reuters: AST MI
Market cap: €308M

(20/10/2004)

Construction & building materials

Price: €3.2

Astaldi is one of the two Italian general contractors specialising in large public works. Astaldi's September 2004 backlog was €4.8bn, with €2.2bn further potential works by 2006. Astaldi's 2005-06F revenue visibility is 90% and 70%, respectively. Astaldi trades at a c.25% discount on 2006F PER to its competitors.

Main shareholders. Astaldi is 52.5% owned by the Astaldi family through a holding company (Fin.Ast), Gartmore 5%, Nextra 2.2%. The CEO is also a shareholder with a 2.2% stake.

Activity. Astaldi is a general contractor specialising in large public works. Astaldi mainly operates in three main construction market segments: infrastructure for the transportation sector, such as railways, subways and highways, etc (70% of FY03 revenues, c.65% of backlog and c.67% of EBITDA); industrial and civil buildings (17% of revenues, c.9% of backlog and 18% of EBITDA); and hydraulics works, such as dams and power generation plants (13% of revenues, 7% of backlog and c.15% of EBITDA). Concessions accounted for the remaining c.19% of backlog, which did not contribute to the top line at the end of FY03. Foreign operations were c.51% of 1H04 revenues (of which 22.4% US and Venezuela, 17.5% Europe, 8.1% Africa and 3% Middle East). Italy accounted for c.49% of 1H04 revenues.

Main results. At the end of September Astaldi's backlog accounted for €4.8bn, with the value of production standing at €922m at the end of 2003 and €525m at the end of June 2004. Astaldi also has orders worth €2.2bn in the pipeline (Milan subway line 5, Appia Antica underpass in Rome and part – €250m – of a high-speed railway contract between Verona and Padua, etc). The domestic market accounted for c.50% of the total, with the aim of reaching c.60% by 2006F. Astaldi's backlog visibility is rather high: c.90% and 70% of 2005F and 2006F revenues, respectively, at the end of October.

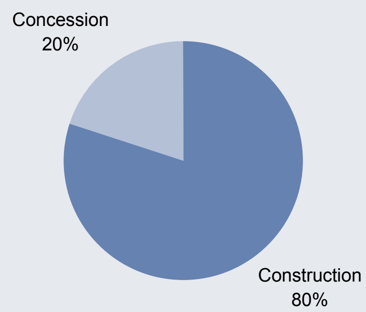
Sector could offer growth. The Italian 'Legge Obiettivo', anticipated the launch of a ten-year investment plan, aiming at endowing the country with infrastructure necessary to support Italian economic growth. According to the plan the total amount to be spent between 2002 and 2011 could be €125bn. Despite this ambitious plan, only a small amount of the designated total has so far been spent.

Valuation. Based on JCF consensus, Astaldi currently trades at a c.25% discount on 2006F PER and c.30% on EV/EBITDA to its main competitors, with a c. 20% higher EBITDA margin. The current valuation seems not to fully reflect either the possibility of increasing orders and the backlog further, especially in Italy, or the reduction in business risk due to the gradual increase in concession areas. Astaldi's superior EBITDA margin for all of the three forecast years could guarantee investors on the possibility of the company valuation gap being filled in a short time. At the average 2006F PER ratio, Astaldi would trade at €3.9 per share.

Antonio Tognoli **antonio.tognoli@ing.it**

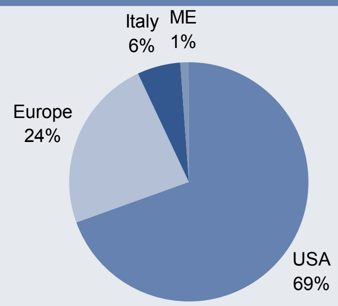
21 October 2004

Revenues breakdown (1H04 data)



Source: Company data

New orders geographic breakdown (1H04 data)



Source: Company data

Key facts & figures

Price (€)	3.17	CEO	Mr. V. Di Paola
52 wk low/high (€)	2.47 / 3.33	CFO	Mr. S. Cerri
YTD change (%)	0.6	IR (Tel)	Mrs. A Onorati, +39 06 4176 6389
1 yr total return (%)	26.2	Address	Via G.V. Bona , 65 - Roma
Shares outstanding (m)	98.4	Website	www.astaldi.it
Market capitalisation (€m)	312	Market segment	MTA
Beta vs. MIB30 (Bloomberg)	0.69	Index weights	N/M
DPS (€); gross yield (%)	0.065; 2.0	Shareholders	Astaldi family, 52.5%
Consensus EPS 2004F (€); PER 2004F	0.293 ; 10.6	Free float (%)	24.1%

Source: Company data, JCF Consensus, Bloomberg

SWOT analysis

Strengths	Weaknesses
Italian market leader and one of two general contractors High investments in project finance/concession works	Low market cap limits exposure to business in Europe Construction activity are GDP linked
Opportunities	**Threats/Risks**
Italian market could strongly growth thanks to the new law Concession revenue increase could limit business risks	Italian construction market recovery could be further delayed Competition could limit foreign expansion

Source: ING

Company financials (€m)

Yr to Dec	2003	2004F	2005F	2006F	2007F
Turnover	922.8	1031.0	1134.8	1277.9	N/A
EBITDA	113.3	122.0	133.3	155.7	N/A
EBITA	66.4	76.4	84.8	101.4	N/A
Net profit	22.4	29.3	36.8	42.2	N/A
WC requirements	(2.0)	5.0	5.0	5.0	N/A
Capex	46.8	75.0	100.0	85.0	N/A
Free cash flow	21.0	(3.0)	(18.0)	(15.0)	N/A
Net debt (cash)	(128.3)	(145.0)	(175.0)	(220.0)	N/A
Net debt/equity (x)	56.5	58.6	64.0	72.6	N/A
Capital employed	355.0	390.0	430.0	510.0	N/A
ROCE (%)	18.7	19.6	19.7	19.9	N/A
Adj EPS (€)	0.228	0.298	0.374	0.429	N/A
Adj PER (x)	13.8	10.5	8.4	7.3	N/A
BVPS (€)	227.0	247.5	273.3	302.8	N/A
P/BV (x)	2.31	2.51	2.78	3.08	N/A
DPS (€)	0.070	0.110	0.130	0.150	N/A
Yield (%)	2.2	3.5	4.2	4.8	N/A
FCF yield (%)	6.8	(1.0)	(5.8)	(4.9)	N/A
EV/EBITDA (x)	9.5	8.9	7.0	3.7	N/A

Source: Company data, Consensus estimates (JCF)

Group structure

One of the two Italian general contractors

Astaldi has achieved a leading position among general contractors in Italy following the acquisition of the publicly owned Italstrade SpA for €12.4m and Dipenda for €7.7 in 1998. Italstrade was involved in building the high-speed railway system, while both companies have played a leading part in the construction of transport infrastructure in Italy. The two acquisitions have helped Astaldi reach second place (after Impregilo) in domestic ranking construction players.

Astaldi operates through a series of companies set up to manage projects in partnership with other companies. These companies are usually liquidated once a project has been completed.

The activity

Transport infrastructure generates c.70% of revenues

Transport infrastructure contracts generated c.70% of Astaldi's FY03 revenues and made up c.65% of the backlog. The re-launch of Italian public works, with infrastructure investments of €125bn in 2002-11, could sustain Astaldi's transport sector growth. The transport infrastructure contracts also include subway contracts worth c.€560m (c.13% of backlog). The main contracts are: the Brescia light automated metropolitan subway for c.€280m, the Genoa subway for c.€100m, and the Caracas subway for c.€90m. Other important Astaldi contracts are: the Bologna high-speed-train station (€290m), the Anatolian motorway (€420m).

Astaldi's total backlog at the end of September 2004 accounted for €4.8bn. Moreover, additional contracts for c.€2.2bn could be included by 2006. These are: Milan subway line 5 (€163m), the stretch between Verona to Padova (c.€500m), the Puerto Cabello-La Encrujiada railway (€150m), the Appia antica underpass in Roma (€800m).

Concession could generate c.10% of revenues by 2007F

Approximately 20% of 1H04's backlog is concession contracts. Their value is obtained by discounting the net financial flows from the concession. Astaldi does not release the discounting factor it uses, but has said that it only considers a contract if its IRR exceeds 10%. The concession includes contracts won for management works once they have been completed. The concession backlog rose to 26% of total backlog at the end of September 2004, showing the group's strong effort to increase it. Starting in 2007F Astaldi management expects a gradual increase in concessions, which could account for c.10% of revenues (close to zero until 2006F).

Sector could provide Astaldi growth

Sector could sustain Astaldi growth

According to the Italian 'Legge Obiettivo' the total amount to be spent between 2002 and 2011 could be €125bn. Despite this ambitious plan, only a small part of the total amount has so far been spent. The Italian government's stance has not changed since the plan was approved. Moreover, the economic plan for the years 2003-07 cites the conclusion reached in the Van Miert report, indicating that an investment of €25bn pa would result in the completion of the Trans European Networks (TENs) in about 20 years' time. It also cites the need to raise infrastructure spending by 0.5-1.0% of GDP. The Italian stretch of Corridor 5 (Kiev, Budapest, Trieste, Turin, Lyon) and Corridor 8 (Berlin Prague, Bratislava, Budapest, Sofia, Istanbul, Costanza Salonicco) are viewed as 'important opportunities'. Astaldi is confident that some of the works indicated in the Legge Obiettivo should strongly increase starting in 2006F.

Valuation

Based on JCF consensus, Astaldi currently trades at a c.25% discount on 2006F PER and c.30% on EV/EBITDA to its main competitors, with a c.20% higher EBITDA margin.

Fig 1 Astaldi and peers

20/10/04	Price (€)	Mkt cap (€m)	EBITDA margin (%) 2004F	2005F	2006F	PER (x) 2004F	2005F	2006F	EV/EBITDA (x) 2004F	2005F	2006F	Div yld (%) 2004F
Astaldi	3.1	305.1	11.0	11.6	11.8	10.8	8.8	6.7	2.5	2.4	3.4	2.9
Grupo Ferrovial	36.6	5,129.5	13.6	14.0	14.0	13.4	12.3	11.4	10.6	9.6	9.7	1.7
Vinci	93.0	7,820.2	10.2	10.4	10.5	11.8	10.9	10.3	5.2	5.1	4.9	2.9
Impregilo	0.4	331.1	10.9	11.0	12.6	4.9	4.0	4.9	4.3	3.6	3.0	5.6
OHL	6.0	537.3	10.8	11.2	8.9	9.6	6.4	8.0	3.4	3.5	4.8	2.2
FCC	30.2	3,941.8	13.4	13.4	13.8	11.0	10.4	9.6	5.0	4.6	4.6	3.7
Bilfinger & Berger	28.3	1,040.6	3.8	4.0	4.4	15.0	13.0	11.6	2.7	2.5	2.1	2.6
NCC	8.4	910.1	4.4	4.4	4.3	8.7	8.8	9.5	6.2	6.0	5.9	3.9
Average			**9.8**	**10.0**	**10.0**	**10.7**	**9.3**	**9.0**	**5.0**	**4.7**	**4.8**	**3.2**

Source: Consensus Estimates (JCF)

Astaldi's 2004F dividend yield is slightly lower than the average (2.9% versus 3.2%).

The current valuation does not seem to fully reflect either the possibility of increasing orders and backlog further, especially in Italy, or the reduction in business risk due to the gradual increase in concession areas. Astaldi's superior EBITDA margin for all of the three forecast years could guarantee investors on the possibility of the company valuation gap being filled in a short time.

At the average 2006F PER ratio, Astaldi would trade at €3.9 per share.

Italy

Beni Stabili

A *'stable'* real estate business model

Not rated

Reuters: BNSI.MI
Market cap: €1.34bn

(28/01/05)

Real estate

Price: €0.789

The high quality of the portfolio and of its tenants, the long-term contract duration and management's excellent track record, make Beni Stabili a low-risk choice in Italian real estate. Spice could be added by more active portfolio management and more lobbying on REITs. Shares now trade at a 27% discount to NAV (€1.08).

Background. Beni Stabili (BS) was listed in November 1999 as a spin-off from the Sanpaolo IMI real estate company. In 2001 new managers and shareholders (eg, Del Vecchio) entered BS with a c.30% stake and initiated a new strategy focusing on offices and retail in major northern Italian towns. The group developed thereafter through acquisitions of large corporate portfolios (eg, €2.9bn Telecom Italia spin-off). Beni Stabili is now 34.9% owed by Leonardo Del Vecchio (Luxottica's founder), 47.3% by institutional investors (80% foreign and 20% Italian) and 17.8% by Italian retail investors.

Business model. The group, now one of the leading Italian players with a portfolio in excess of €3.6bn, focuses on three areas: (1) property management (80%) of a real estate portfolio, mostly rental offices with a 7.5% yield and contracts of 15-20 years' duration; (2) asset management (15%) with three to five years' holding period and minimum 18% IRR; and (3) real estate retail funds (5%). The quality of the tenants is one of the main features of Beni Stabili, with most of the property (>70%) rented to Telecom Italia, Intesa, Prada and FS. BS also has a division that manages retail funds (Finnat 15% and Iccrea 10% own minority stakes in this venture).

Market dynamics. The Italian real estate market is affected by concerns about interest rates rises; however, there is still little evidence of a stable economic recovery. Although opportunistic investors have shown diminished interest in investing in Italy's office sector, there is demand from long-term institutional investors, which is a positive factor. Moreover, the availability of large property portfolios has been lessening throughout 2003-04, in terms of both quality and quantity, but BS believes another season is just around the corner. Anyway, investors continue to be increasingly selective. Lastly, the amount of capital ready to be invested in the Italian real estate market seems significantly higher than the opportunities to invest. Overall, the Italian real estate office/retail market in Milan, Rome and prime regional locations, is seen as flattish or growing modestly.

Prospects and risks. BS is one of the most transparent and best-in-class corporate governance players in Italian real estate, with a clean portfolio and a very focused strategy. In 2005, BS expects to: (1) complete the disposal of its trading portfolio; (2) look for new acquisitions of investment portfolios (D/E from 1.5x to 1.7x); (3) decrease G&A costs. One of the biggest opportunities remains the adoption of REITs in Italy (which is already happening in France and likely to be adopted next in Germany/UK); while the main risks are tied to a slowdown in the office market or a shift/steepening in the interest rate curve.

Valuation. In terms of risk/yield, BS is an inflation bond (80% of portfolio at an average net yield of 7.5% for the next 24 years, growing at 75% of previous year inflation), plus the appeal of capital gain coming from trading (15% of portfolio) that could add 'extra yield' (the minimum IRR set up at 18%). Current discount to NAV stands at 27% (2004F NAVPS: €1.08).

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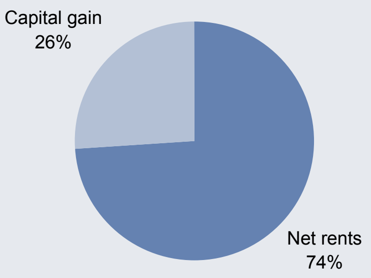
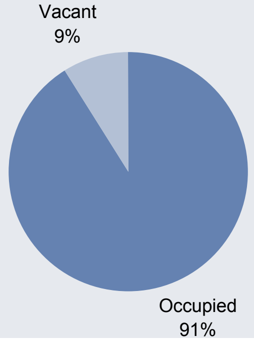
31 January 2005

Revenue breakdown (September 2004)



Source: Company data

Portfolio occupancy (2003)



Source: Company data

Key facts and figures

Price (€)	0.789	CEO	Mr. M. De Meo, Mr. A. Mazzocco
52 wk low/high (€)	0.523/0.833	CFO	Mr. L. Lucaroni
YTD change (%)	5.1	IR (Tel)	Mrs. S. Di Rosa (+39 06 36222319)
1 yr total return (%)	52.5	Address	Via del Corso, 63- 00186 Roma
Shares outstanding (m)	1,701.8	Website	www.benistabili.net
Market capitalisation (€m)	1,342	Market segment	MTA
Beta vs MIB30 (Bloomberg)	0.4	Index weights	1.218% (EPRA index)
DPS (€); gross yield (%)	0.018; 2.3	Shareholders	34.9% CFI (Leonardo Del Vecchio)
Consensus EPS 2004F (€) ; PE 2004F	0.025; 31.5x	Free float (%)	47.3

Source: Company data, JCF

SWOT analysis

Strengths	Weaknesses
Management track record and clear strategic focus	High financing cost (6.5%) and implied taxable capital gains
Tenants and portfolio quality; low vacancy risk	Concentration of the portfolio
Opportunities	**Threats/risks**
Introduction of REITs (real estate investment trusts) in Italy	Office market trend
Acquisition of new investment portfolios	Upwards shift/steepening in the interest rates curve

Source: ING

Beni Stabili NAV (€m)

	Book value 2003 (€m)	Market value 2003 (€m)	m^2	Market value 2004F (€m)	Market value/m^2 2004F (€)
Investment					
Imser 60	1,231	1,817	1,436,290	1,871	1,303
Gruppo Beni Stabili	434	527	215,854	548	2,541
Milano 02	297	328	97,758	344	3,523
Ferrovie delle Stato			33,251	113	3,398
Prada	119	103	17,240	108	6,267
Total investment	**2,080**	**2,775**	**1,800,393**	**2,985**	**1,658**
Trading					
Gruppo Beni Stabili	271	308	251,560	317	1,262
Milano 03	243	292	267,560	300	1,122
Lands	41	49	N/S	50	N/S
Total Trading	**555**	**648**	**519,120**	**667**	**1,286**
Total	**2,635**	**3,423**	**2,286,262**	**3,653**	**1,548**
Tax on capital gain (25%)				(255)	
Minorities				(29)	
Net debt				(1,525)	
Total net asset value				1,844	
NAV per share (€)				**1.08**	

Source: JCF, Ddata

Background

In 1999 BS was spun off from Sanpaolo-IMI

Beni Stabili has been active in the real estate sector since the beginning of the 1900s. In 1996, it was incorporated into the San Paolo banking group and then became the vehicle for the spin-off of its real estate assets. In November 1999, BS was spun off from Sanpaolo IMI and started trading independently on the stock exchange with an equity value of €800m.

€2.9bn portfolio acquisition from Telecom Italia

In November 2000 BS announced the €2.9bn portfolio acquisition of Telecom Italia real estate assets (TI and Lehman Brothers were minorities in the newco with 40% and 15% stakes, respectively).

CFI and the new management

On June 2001, CFI (a pool of financial investors including Del Vecchio, Benetton and other investors) acquired a 30% stake in the company at €0.62/share, and became leading shareholder. New management was brought in (Mazzocco and De Meo) with a clear, focused strategy on investing exclusively in major northern Italian cities in office and retail. In November 2002, BS acquired assets from Banca Intesa, located in downtown Milan, for €400m; and at the beginning of 2004 it announced the acquisition of Prada real estate assets for €130m.

Fig 1 Prada deal highlights

Use	City	Address	Price (€m)	Rents	Expiry
Office	Milan	Via Fogazzaro	46	Double net	2028
Retail	Florence	Via Tornabuoni	14	Double net	2028
Retail	Porto Cervo	Arzachena	1	Double net	2028
Retail	Paris	Rue de Grenell	15	Triple net	2025
Retail	Paris	St Honore	2	Triple net	2025
Retail	New York	Madison	40	Triple net	2028
Retail	LA	Melrose	5	Triple net	2028
Retail	Chicago	East Oak	10	Triple net	2028
Total			**131**		

Average entry yield 6.86%; reag valuation €150m; financing 77% debt
Source: Company data

Ferrovie deal

In December 2004, BS acquired for €113m from Ferrovie Real Estate (national railways operator) two towers in Milan, which had been used as Ferrovie's head office.

Fig 2 FS real estate deal highlights

	BV (€m)	m^2	BV/m^2 (€)	Occupancy	Tenant	Yield	Expiry
Tower A	57.5	16,634	3,457	100	FS	7.3	2010
Tower B	55.5	16,617	3,340	50	FS	3.6	2006
Total	**113.0**	**33,251**					

Financing €90m; 7 years; Euribor+100bp
Source: Company data

Del Vecchio compulsory tender offer

From 2003 onwards, Leonardo Del Vecchio started buying out CFI's remaining shares and, in September 2004, bought a 3.5% stake in BS. However, it went above the 30% share capital threshold and he had to launch a compulsory tender offer on 65% of BS's free float. The offer was increased from €0.634/share to €0.691/share in November, but with very low acceptance. The Board agreed that the prices offered did not reflect the fair value of €0.80/share at end-2003 (independent valuation). Leonardo Del Vecchio, through CFI and Leonardo Finanziaria, now owns 34.9% of the share capital. This stake allows him to block an EGM (where a two-thirds majority is required, according to Italian law).

Business profile

Investment portfolio

Beni Stabili is a real estate company with 80% of its portfolio focused on investment. This has a market value of €2.9bn with a total of 1.8m m^2 and is divided into four sub-portfolios: (1) **Imser 60:** 227 office units with a €1.8bn market value, all leased to Telecom Italia group, with a triple net yield of 9% and first expiry in 2021. (2) **Gruppo BS:** historic BS portfolio coming from Sanpaolo IMI plus other acquisitions. It has 100% occupancy and 5% net yield with first expiry in 2007. (3) **Milano 02:** three assets from downtown Milan, all leased to Banca Intesa, with first expiry in 2012 and net yield of 6.6%. (4) **Prada** portfolio. (5) **Ferrovie** portfolio.

Trading portfolio

The trading portfolio is divided into two sub-portfolios: (1) **Milano 03:** acquired with Banca Intesa (49% stake), with 50% occupancy and short-term contracts; this should be sold in the next three to five years, at an 18% IRR; and (2) **Gruppo Beni Stabili:** with assets from the Sanpaolo spin-off, this should be sold in the next couple of years.

Retail funds

BS also has a **retail fund management company** in which it owns 75% of share capital (15% owned by Finnat and 10% owned by Icrrea). Details are given in Figure 3.

Fig 3 Beni Stanili's real estate funds

Fund	Agent	Fund raised	NAV Dec-03	Perf. 2003 (%)	Maturity years	Expiry	Fees (€m)	Invested (%)	Leverage (%)
Securfondo	Banks	150	182	*7.0*	15	2013	1.6	100	5
Immobilium 2001	Banks	130	144	*7.5*	15	2016	1.6	75	0
Invest RS	Post office	142	143	*1.3*	10	2012	1.8	26	0
Italian R.E. Funds	Ist. Invest.	235	235		7	2010	N/A	81	50
Total		**657**	**704**						

Source: Company data

How does the market affect them?

Italian real estate on an upward curve since 1998

The Italian economy has been sluggish for the past four years; however, this has not had a negative impact on the real estate sector, which has been on an upward curve since 1998, with an acceleration starting in 2000. The performance has been driven mainly by a lack of alternative yield in other investments, with interest rates expected to remain low in the next two to three years. However, if there were negative market prospects, these would mostly affect the trading portfolio (20% of total), since real estate transactions could slow down and prices decrease.

Moderate growth in 2005

There should be limited impact from rising interest rates on the investment portfolio, with its long-term contracts, as cash flow is secured for the next 15-18 years. Looking in more detail at the BS forecast for Italian real estate office and retail markets in central locations, the company expects a standstill in Milan and prime regional locations, and a slight decrease in Rome.

Value drivers

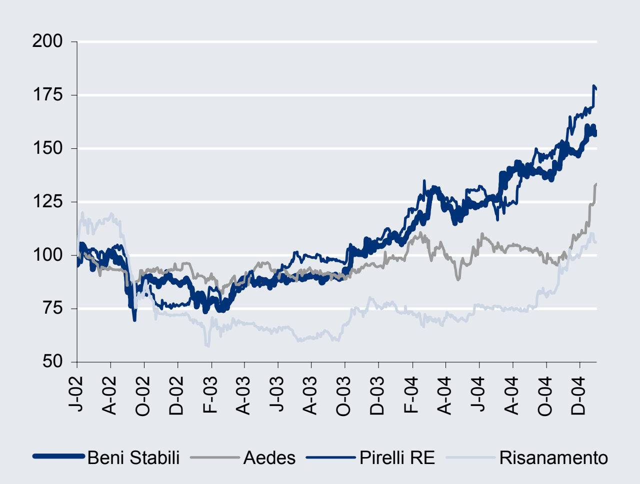
Strong stock performance

BS's stock performance has been impressive in the past two to three years, partly driven by the Del Vecchio tender offer and partly by the re-rating of the real estate sector. As a matter of fact, BS has underperformed since the IPO of Pirelli RE in June 2002, but with an absolute growth of more than 50% (Figure 4); while, since March 2003, the performance of both BS and Pirelli RE shares has more than doubled (Figure 5).

2004F NAV at €1.08/share

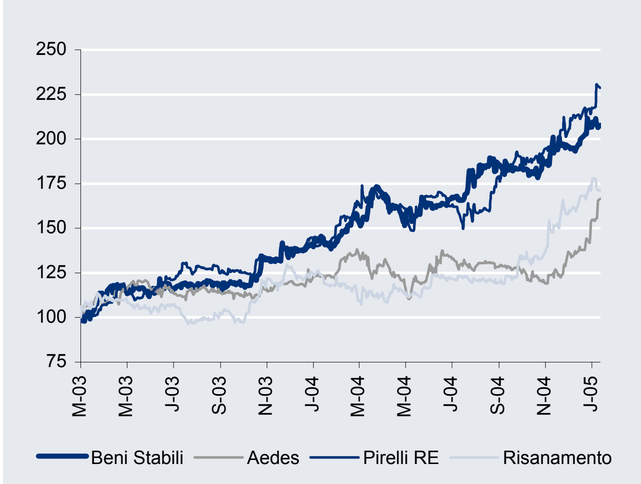
Valuing the portfolio at 31 December 2004, with a tax rate on implied capital gains of 25% (37.25% tax rate would reduce NAV by €0.06/share), 2004F NAV would stand at €1.08/share implying a discount to NAV of 27%.

Fig 4 Italian RE stocks perf. (100=25/06/02)



Source: Reuters

Fig 5 Italian RE stocks perf. (100=13/03/03)



Source: Reuters

Upcoming newsflow

February 2005 – Likely closure of Risascente deal.

21 March 2005 – Announcement of FY04 results.

22 March 2005 – CEOs Mr de Meo and Mr Mazzocco will present FY04 results to analysts in Milan (Palazzo Turati; Via Meravigli, 9).

12 May 2005 – Announcement of 1Q05 results.

12 September 2005 – Announcement of 2Q05 results.

10 November 2005 – Announcement of 3Q05 results.

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Italy

Biesse

Not rated

Reuters: BSS.MI
Market cap: €82.2

Turnaround just around the corner

(28/01/05)

Engineering & machinery

Price: €3.0

Biesse is the No.4 company worldwide in the field of industrial woodworking machines. After the trough in FY03, Biesse's profitability has started to recover: EBITDA margin could rise to 7.5% in 2004 from 2.8% in 2003. Biesse currently trades at a 30% discount on 2006F PER vs a sample of Italian engineering & machinery companies, despite having an EBITDA margin 40% lower.

Activity. The Biesse group produces machinery and systems for industrial companies involved in processing wood, glass and marble. The company offers modular solutions that range from the design of turnkey systems for large furniture manufacturers to individual automatic machines and workstations for small and medium-sized companies, as well as the design and sale of individual high-tech components. As a multinational group with production plants in Italy and China, the Biesse group markets its products through a network of subsidiaries and 18 branch offices located in strategic markets. The branch offices ensure specialised after-sales service to the customers, while also developing and carrying out feasibility studies and market research aimed at developing new products. Much of the manufacturing process is outsourced, except for design and final assembly, and production of key components.

Research and development. Thanks to its orientation towards innovation and research, over the years Biesse has perfected a highly efficient manufacturing process capable of developing products and modular solutions that can meet the varied needs of a broad customer base. Through this set-up, Biesse has built its competitive advantage, which is manifested in an array of custom solutions based on the specific needs of customers, while always relying on a standardised production approach.

FY04 results and 2005-07 outlook. Biesse's management has said that FY04 revenues should increase by 3% to c.€315m, while the EBITDA margin should rise to 7.5% (from 2.8% in 2003) on c.€23.6m. The strong recovery has been partly driven by the increasing penetration in foreign markets (especially China and the Far East) and by effective cost controls (in particular personnel). On a positive note there has also been a strong recovery of net debt, which declined from €107m at December 2003 to €46m at end-2004, mainly thanks to the disposal of some land (€20m) and working capital controls (both inventories and receivable/payables days). As far as 2005-07 is concerned, Biesse's management has said that by 2007 it is confident of reaching the pre-IPO EBITDA margin profitability level (12-13%), thanks to further cost-cutting and new product ranges. Management is also confident of producing c.€10-12m free cash flow pa, meaning that, without acquisitions, it could be debt-free in three/four years. Management has said that the dividend policy (60-65% payout) will be maintained.

Valuation. Biesse was listed in June 2001 at €9 per share. Since the IPO the price has continued to drop, driven by negative newsflow with a trough in 2003. The strong recovery in the company's results in FY04 is positive and, according to consensus estimates and management, could continue in FY05. Currently, the stock trades at a low 2006F PER of 6.8x: c.30% discount to a sample of engineering & machinery companies; although it has a c.40% lower level of EBITDA margin. We think that if Biesse confirms in 1Q05 the profitability trend shown in FY04, investors could re-rate the shares.

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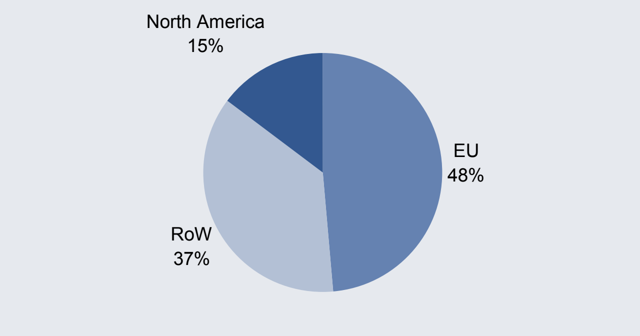
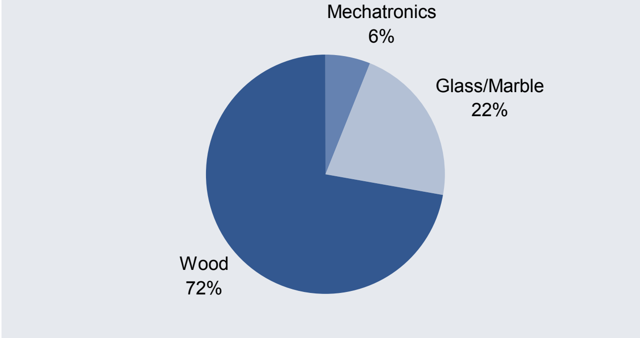
31 January 2005

Sales breakdown by division (FY04)



Source: Company data

Sales breakdown by region (FY04)



Source: Company data

Key facts & figures

Price (€)	3.0	CEO	G. Selci
52 wk low/high (€)	1.82 / 3.0	CFO	S. Porcellini
YTD change (%)	7.1	IR (Tel)	A. Amurri (+39 0721 439100)
1 yr total return (%)	46.1	Address	Via della Meccanica, 16 – 61100 Pesaro
Shares outstanding (m)	27.39	Website	www.biesse.it
Market capitalisation (€m)	82.2	Market segment	Star
Beta vs. MIB30 (Bloomberg)	0.57	Index weights	n.m.
DPS (€); gross yield (%)	0.09 / 3.2	Shareholders	Selci family (58.3%)
Consensus EPS 2004F (€) ; PER 2004F	0.207 / 14.5	Free float (%)	35.8%

Source: Company data, JCF estimates

SWOT analysis

Strengths	Weaknesses
Technological know-how Production and commercial presence in emerging markets	Low market share in US
Opportunities	**Threats/Risks**
Penetration in Chinese and Far East markets Recovery of Italian / EU markets	Market recovery could be lower than expected Reinvestment risk once debt-free

Source: ING

Company financials (€m)

Yr to Dec	2002	2003	2004F	2005F	2006F
Turnover	370.7	306.1	304.3	321.7	339.4
EBITDA	22.2	8.1	20.1	24.8	30.0
EBITA	8.0	-5.9	10.2	14.8	22.4
Net profit	(5.7)	(41.2)	14.1	8.6	11.0
WC requirements	120.0	99.1	80.0	75.0	70.0
Capex	6.0	6.0	6.0	6.0	6.0
Free cash flow	(18.2)	(15.7)	40.0	10.0	10.0
Net debt (cash)	86.0	106.7	48.0	37.0	22.0
Net debt/equity (x)	0.49	1.23	0.49	0.35	0.19
Capital employed	217.9	193.7	165.0	165.0	170.0
ROCE (%)	3.7	(3.0)	6.2	9.0	13.2
Adj EPS (€)	neg.	neg.	0.207	0.345	0.440
Adj PER (x)	n.m.	n.m.	14.5	8.7	6.8
BVPS (€)	4.8	3.2	3.6	3.8	4.1
P/BV (x)	0.6	0.9	0.8	0.8	0.7
DPS (€)	0.09	0.09	0.00	0.00	0.11
Yield (%)	3.0	3.0	3.2	0.0	3.7
FCF yield (%)	-22.1	-19.1	48.7	12.2	12.2
EV/EBITDA (x)	19.6	20.6	6.6	5.4	4.4

Source: Company data, Consensus estimates (JCF)

Activity

Machinery for processing wood

The Biesse group operates in the market of machinery and systems for industrial companies involved in processing wood, glass and marble. The Biesse group produces machinery and systems for working materials like wood (72% of FY04 revenues), glass and marble (22%) and a system and processes (6%).

Highly efficient production system

Ever since it was established in 1970, thanks to its strong focus on innovation and research, Biesse has had a highly efficient production system that combines all the advantages of a standardised production approach with customised solutions based on the specific needs of its clients.

Plants in Italy and China

As a multinational with production plants in Italy and China, the Biesse group markets its products through a network of subsidiaries and 18 branch offices located in strategic markets. The branch offices ensure specialised after-sales service to customers, while also developing and carrying out feasibility studies and market research aimed at developing new products. The Biesse group has a staff of 1,800 people distributed over its seven manufacturing sites located in Pesaro, Bergamo, Turin, Alfonsine, Anzola, and Lugo (all Italy), Dongguan (China) and its branch offices in Europe, North America, Asia and Oceania.

Biesse's market position is:

No.4 worldwide in woodworking machines

- No.4 worldwide in the field of woodworking machines.
- No.1 worldwide for digitally controlled work centres for glass and a leader in the division of drills and drilling lines.
- No.2 worldwide for the production of turnkey systems for large-scale industry in the field of equipment for panel-cutting and handling.
- No.2 in Italy for the standardised production of woodworking machines.

Research and development

Orientation towards innovation and research

Thanks to its orientation towards innovation and research, over the years Biesse has perfected a highly efficient manufacturing process capable of developing products and modular solutions that can meet the varied needs of a broad customer base. Through this set-up, Biesse has built its competitive advantage, which is manifested in an array of custom solutions based on the specific needs of customers, while always relying on a standardised production approach. The same focus on innovation and research led Biesse to transfer technologies originally developed for woodworking to new materials, accessing new application areas (such as glass and stone), while establishing high standards and assuming a leadership role.

The results

Unsuccessful acquisition of Schelling

Following the IPO, Biesse's EBITDA and EBIT margin dramatically declined: from 12.8% and 9.8% in 2000 to 2.7% and –1.9% in 2003. The main reasons for this decline were the extremely difficult European market, especially for wood machinery (following the 11 September 2001 terrorist attacks), and the bad acquisition of an Austrian company (Schelling Group), subsequently sold in 2003, generating a €23m loss. This negative mix led to a loss of €41m in FY03.

Back to profit

As far as FY04 is concerned, Biesse's management said that revenues rose by 3% to c.€315, with EBITDA of c.€23.6m (meaning an EBITDA margin of 7.5%). The good recovery against FY03 was partly driven by the increasing penetration in foreign market (China and Far East) and by the strong cost control (especially personnel). Italy and other Western European markets continue to be very difficult. The strong recovery of financial debt, which declined from €107m in December 2003 to €46m in FY04, is also positive and partly thanks to:

- The sale of non-core real estate to Bi.Fin (100% owned by the Selci family, Biesse's major shareholder) for €19m (paid in cash) with a capital gain of close on €10m. Praxi Real Estate (independent auditor) provided an independent valuation of €24m (including VAT on the transaction of 20%);
- Working capital control (both inventories and receivable/payables days).

€10-12m free cash flow per year

As far as 2005-07F is concerned, Biesse's management has said that by 2007 it is confident of reaching the pre-IPO EBITDA margin (12-13%). Management is also confident of producing c.€10-12m free cash flow per year, meaning that without acquisitions it could reach a positive financial position in three/four years. However, management has also said that the dividend policy would not change.

Valuation

Biesse was listed in June 2001 at €9 per share. Since the IPO the price has continued to drop, driven by negative newsflow. However, the management has said that Biesse may have seen its bottom in FY03. The strong company results recovery in FY04 is positive and, according to consensus estimates and management commitment, could continue in FY05-07.

Fig 1 Biesse and some engineering & machinery peers

28/1/2005	Price (€)	Rating	EBITDA margin (%) 2004F	2005F	2006F	EV/EBITDA (x) 2004F	2005F	2006F	PER (x) 2004F	2005F	2006F	Yield (%) 2004F
Biesse (*)	3.00	N/R	6.6	7.7	8.8	6.6	5.6	4.4	14.5	8.7	6.8	3.2
Cembre (*)	3.20	N/R	18.2	19.0	19.2	4.5	4.1	N/A	14.3	11.6	10.2	2.3
Interpump (§)	4.46	Buy	15.0	15.9	16.2	6.6	5.7	5.0	11.8	10.8	9.9	2.7
De'Longhi (§)	3.17	Hold	11.1	11.7	12.4	6.3	5.6	4.9	10.5	10.4	9.6	1.9
IMA (§)	9.98	Hold	15.0	16.0	16.7	7.7	6.7	6.0	15.1	13.7	12.0	4.0
Average			**13.2**	**14.1**	**14.7**	**6.4**	**5.5**	**5.1**	**13.2**	**11.0**	**9.7**	**2.8**

Source: (*) Jacques Chahine Finance, (§) ING estimates

Currently, the stock trades at an appealing 2006F PER of 6.8x, with a 30% discount to a sample of engineering & machinery companies, having a c.40% lower EBITDA margin. We think that if Biesse confirms in 1Q05 the profitability trend shown in FY04, investors could re-rate the shares.

Italy

CAD IT

Not rated

Highly leveraged to top-line growth

Reuters: CAD.MI
Market cap: €90M

(28/2/05)

IT Software

Price: €10.0

CAD is a small software player with a strong focus on finance customers. After three years of declining sales and profitability, it is better placed to cash in on its heavy investment (c€30m) in new software for medium-sized banks. Downside looks limited due to sound dividend yields.

Profile: CAD is a pure software house focused on back-office software for financial institutions with a small ERP division for industrial companies. The group, founded in 1977, is based in Verona with 650 employees and a 100% Italian client base. The shares were listed on Italy's Nuovo Mercato (now TechSTAR) in October 2000 at €32/share (IPO net inflow of €58m). CAD has made a few small acquisitions (€10m), built new headquarters (€11m) and distributed a special €3/share cash dividend in May 2003 (€40m total dividend outflow after IPO). Four families (Rizzoli, Magnani, Zanella, Dal Cortivo) control 70% of its capital through equal stakes. Management and Class Editori both own 2% and the free float is c25%.

Business model. 74% of 2004 sales (€40m) derived from *Finance Area* – CAD's flagship software for accountability of securities for banks' back offices. This software has a 60% market share among Italian banks (80% among the largest banks, ie, all excluding Banca Intesa). Although since 2002 there have been no new full licences/installation, CAD has a recurring revenues flow from services (c€30-33m pa), while the remainder is from new licenses for module software updates (IAS module, SWIFT messages, etc). 13% of sales (€7m) are from other banking and PA software (45% market share on tax collection), 4% (€2m) tied to online trading (Class Editori agreement), 2% (€1m) derive from training and finally 8% (€4m) are coming from the Industry division (c100 clients), where CAD has a proprietary ERP software (*SigmaWeb*) for SMEs and also offers some e-business services.

Financials. Until 2001, CAD experienced strong sales and margin growth driven by growing market share of its *Finance Area* software. In 2002-03, no new customers were added, while a big historical customer Cariplo, after merging with Ambroveneto, switched to an internal solution for its securities back office. The decrease in group profitability is also tied to investment in new products (in particular *SIBAC*, new software that manages the entire IT system of medium-sized banks). For this reason, headcount has increased YoY and R&D expenditure grew from €7m in 2000 (15% of sales) to €21m in 2004 (40%). CAD has historically fully expensed R&D, but since 2004 it has capitalised some R&D (€5m to be amortised over five to ten years). Looking at preliminary 2004 results, gross sales were flat YoY at €54m, EBITDA grew 11% (EBITDA margin up from 18% to 20%), EBIT grew 24% to €7.2m, while PBT grew 42% thanks to lower minorities. Net cash at end-December was €11.4m from €14m the previous year after €2.7m dividend payments.

Valuation. Consensus estimates point to multiples (2005F PER of 20x and EV/EBITDA of 6x) in line with similar-sized European players; however, we believe estimates do not take into account any potential pick-up in sales driven by new SIBAC software, that being fully amortised could provide healthy profitability. In any case, we believe CAD has limited downside as on conservative top-line growth it offers good cash generation and dividend yield.

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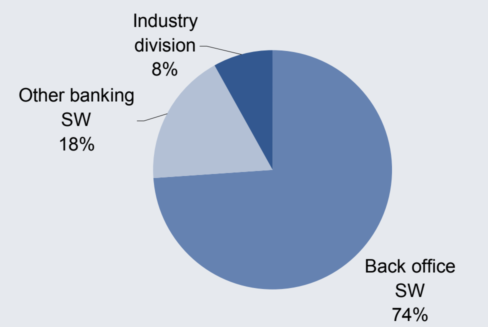
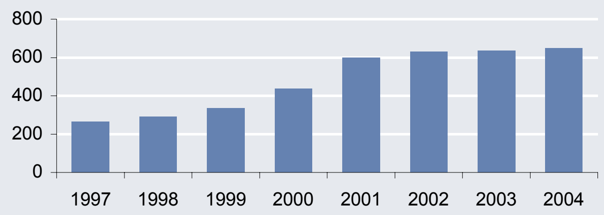
28 February 2005

Revenue breakdown (2004)



Source: Company data

Headcount trend (1997-04)



Source: Company data

Key facts & figures

Price (€)	10.0	CEO	Giuseppe Dal Cortivo
52-week low/high (€)	7.50/10.54	Co-CEOs	Zanella, Magnani, Rizzoli
YTD change (%)	31.1	IR (Tel)	Paolo Dal Cortivo (+39.045.8211.236)
1-year total return (%)	0.1	Address	Via Torricelli 44, Verona
Shares outstanding (m)	8.98	Website	www.cadit.it
Market capitalisation (€m)	90	Market segment	MIBTEL
Beta vs. SPMIB (Bloomberg)	0.43	Index weights	0.013%
DPS (€); gross yield (%)	0.30; 3.00	Shareholders	Founders 70%, managers 2%, class 2%
Consensus EPS 2004 (€)/PER 05F (x)	0.20/44.3	Free float (%)	26

Source: Company data, Bloomberg

SWOT analysis

Strengths	Weaknesses
Dominance in banking software for securities' back office	High dependence on a single product
Finance Area should insure recurring cash flow with low capital needs	Lack of critical mass in Industry division
Opportunities	**Threats/Risks**
SIBAC – the new complete software for medium-sized banks	*SIBAC* may prove unsuccessful in finding new clients
Penetration of *Finance Area* among new clients (insurance, etc)	High fixed cost base (50% personnel costs)

Source: ING

Company financials (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
Turnover	54.6	54.6	57.9	60.9	64.0
EBITDA	9.9	11.0	13.1	15.3	17.1
EBITA	6.9	8.5	11.0	13.0	14.6
Net profit, reported	1.84	1.96	4.59	5.56	6.35
WC requirements	6.0	(6.8)	0.6	(1.3)	(1.4)
Capex	(1.6)	(5.0)	(5.0)	(5.3)	(5.5)
Free cash flow/equity	11.7	(0.4)	3.4	2.4	3.1
Net debt (cash)	(14.0)	(11.4)	(12.1)	(11.8)	(11.7)
Net debt/equity (x)	cash	cash	cash	cash	cash
Capital employed	44.7	47.4	48.0	54.7	62.4
ROCE (%)	15.4	17.9	22.9	23.7	23.4
Adj EPS (€)	0.31	0.39	0.51	0.62	0.71
Adj PER (x)	28.3	22.4	19.6	16.1	14.1
BVPS (€)	5.70	5.62	5.69	6.31	7.02
P/BV (x)	1.55	1.55	1.76	1.58	1.43
DPS (€)	0.30	0.30	0.30	0.35	0.40
Yield (%)	3.4	3.4	3.0	3.5	4.0
FCF yield (%)	14.7	-0.5	3.8	2.7	3.4
EV/EBITDA (x)	6.9	6.5	6.3	5.6	5.1

Source: Company data, JCF estimates

Profile

Pure software house focused on banks, with a small division for industrials and PA

CAD is a software house founded in 1977 by four businessmen with common experience in computer systems. Through three distinctly different but synergetic divisions, CAD develops software, updates and maintenance systems, provides consultancy and training services for three main sectors – financials (banks and other financial institutions), industrials (mostly made up of SMEs but including some large industrial groups in the north-east) and PA (public administration – the most recent sector, which capitalises on traditional skills such as experience in the development of tax collection systems and software).

Listed on Nuovo Mercato in October 2000 at €32/share

CAD is based in Verona with 650 employees at the end of 2004 and 100% focused on Italian clients. The shares were listed in October 2000 at €32 on Italy's Nuovo Mercato. Now CAD is part of a specialised segment of the Italian Stock Exchange called TechSTAR. IPO net inflows were €58m, and this was mostly paid back to shareholders given the lack of sizeable investment opportunities. CAD has only made a few small acquisitions (€10m invested) and built a new headquarters (€11m), while most of the cash (€40m) was distributed as dividends (a special €3/share cash dividend was paid in May 2003).

Fig 1 Dividends payments (€m)

	2001	2002	2003	2004	Total
DPS (€)	0.36	0.65	0.18	0.30*	
Ordinary dividend	3.23	5.84	1.62	2.69	**13.4**
Extraordinary dividend			26.9		**26.9**
Total dividend	**3.2**	**5.8**	**28.6**	**2.7**	**40.3**

To be approved for the AGM.
Source: Company data

70% controlled by founders

Four families (Rizzoli, Magnani, Zanellaa and Dal Cortivo) control 70% of the capital through equal stakes. Management and Class Editori both own 2% stakes, and the free float is c25%. The board also includes three independent members. There is no syndicate pact among shareholders. The company voluntarily adopted the 'governance code' suggested by the Italian Stock Exchange.

Activities

Securities back-office software 74% of sales

The Finance and PA division accounts for 92% of total group sales. In detail, 74% of CAD sales (€40m) are from *Finance Area* – CAD's flagship software for management of accountability of securities for banks' back office. This software has a market share above 60% among Italian banks and c80% among the largest banks. Although since 2002 there have been no new full licences/installation, CAD has recurring revenues flow from services of €30-33m pa, while remaining sales are from new licences on module updates (IAS module, SWIFT messages, Basel2, etc). 13% of sales (€7m) are from other banking and PA software. In particular, CAD has a 40-45% market share of software for tax collection and 25% share of treasuries for PA. 3% of sales (€2m) are tied to online trading (10% market share) and virtual banking (Class Editori agreement). 2% of sales (€1m) derive from training, e-leaning and other projects. *SIBAC*, the newly-developed software that completely manages the information systems of small-/mid-sized banks, generated no revenues in 2004.

ERP division represents €4m turnover

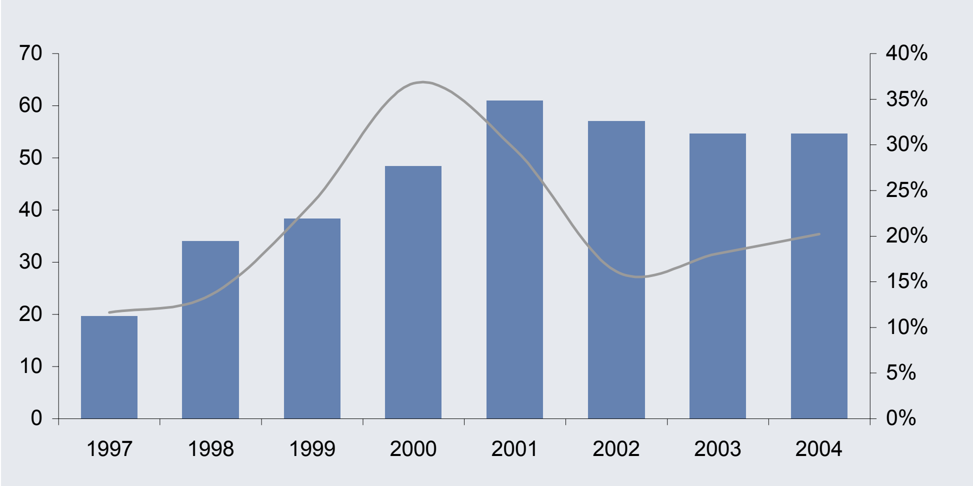
8% of sales (€4m) are from the Industry division (c100 clients). CAD has a proprietary ERP software (called SIGMAWEB) for SMEs that represents 7% of sales and also offers some e-business services (portal design and development), which is only 1% of group turnover.

Financials

Decreasing profitability due to R&D expenses…

Until 2001, CAD experienced strong sales and margin growth (see Figure 2) driven by growing market share of its *Finance Area* software. In 2002-03, no new customers were added, while a big historical customer Cariplo, after merging with Ambroveneto, decided to switch to an internal solution for its securities back office. The decrease in group EBITDA margin, from above 30% to the current 20%, was also due to investment in new products (in particular *SIBAC*). For this reason, headcount has increased YoY and R&D expenditure grew from €7m in 2000 (15% of sales) to €21m in 2004 (40% of sales). Note that CAD historically has fully expensed R&D, but since 2004 it has capitalised some R&D (€5m to be amortised over five to ten years).

Fig 2 Turnover (€m, lhs) and EBITDA margin (%, rhs)



Source: Company data

…but recovery in 2004 due to lower costs

Looking at preliminary 2004 results, net sales decreased 8% YoY, with Finance software sales down 9% (*Finance Area* sales down 6% to €37m) and Industry sales down 6%. Despite lower net sales, gross sales were flat at €54.6m. Value added (EBITDA before personnel and administrative costs) was up 6.1% thanks to lower external costs for services. EBITDA grew 11% due to lower growth of personnel costs (+4.7% YoY), which still represent more than 50% of turnover. Depreciation & amortisation decreased 7%, driving EBIT up 24%. Below the EBIT line, there were also €0.5m of extraordinary costs. Assuming a 59% tax rate, net profit should approach €2m (high single-digit growth YoY). Net cash at end-December was €11.4m versus €14m the previous year after €2.7m dividends were distributed.

Outlook

New compulsory requirements

Banks' spending on new software installation has suffered in the last three years. Banks have invested only in software/systems that were required to comply with new regulations. Looking at 2005 onwards, several new requirements are being put in place including the following. **IAS:** CAD has already sold the IAS module for *Finance Area* in 2004, but in 2005 it will implement related services with €5m sales expected from June 2005. **BASEL II:** this requires an adequacy of *Finance Area* in all CAD's customer base. CAD recently developed Basel II compliance software for banks in collaboration with MSFT (total investment of 20 people for two years = €2m). They target three to four customers (Italian medium-sized banks) by end-2005 (€5-6m target sales).

Current account adequacy: CAD is already selling software to comply with new regulations issued by the Bank of Italy. On the top of that, CAD aims to **increase its customer base** through offering new outsourcing services (application management, business process outsourcing). CAD would like also to gain new clients for its *Finance Area* software (a full new contract/installation could be worth €8-10m, with the value of the licence €4m).

Further cost cutting

On the cost side, CAD aims to maintain a stable level of employees in 2005-06 and targets a further reduction in external costs (mostly third-party employees) that were €13m in 2002, €12m in 2003 and €9.1m in 2004. Integration of overhead costs of controlled companies into the parent should also provide some savings.

Newsflow

Regarding upcoming newsflow, no big acquisitions are expected. It will use FCF to maximise the dividend payout. It will report 1Q05 results in mid-May 2005. 1Q05 is normally a weak quarter in terms of absolute sales, but a reversal of the negative top-line should not be seen as a structural change in the trend.

Valuation

Consensus estimates point to a 5% top-line CAGR in 2004-07 and a recovery in margins tied to the mentioned cost cutting (16% EBITDA CAGR in 2004-07). EBIT should benefit from the termination of €1.2m goodwill and €0.9m IPO cost amortisation. The tax rate is also expected to fall from 59% in 2004 to 50% thanks to: (1) lower IRPEG; (2) lower IRAP (tax shield on R&D headcount); and (3) IAS (€1.2m goodwill amortisation). Published net profit should therefore grow from €2m to €6m in 2007. Based on this, consensus estimate forecast adjusted EPS to grow from €0.39 in 2004 to €0.71 in 2007 (22% CAGR). The payout should be generous (60-70%) given the lack of capex and net working capital requirements. This should allow the dividend yield to reach 3.0% in 2005, 3.5% in 2006 and 4% in 2007 (consensus estimates). FCF/equity yield should also remain in the 3-4% region during the next three years.

New software sales do not seem priced in

Based on consensus 2005F multiples (20x PER and 6x EV/EBITDA), the shares seem fairly valued compared to a sample of small/mid-cap European software players. However, in our view, these estimates do not take into account any increase in sales due to new clients for *Finance Area* or first customers for new software *SIBAC*. Given that most of the development costs related to this software have been sustained, additional sales would contribute strongly to bottom-line and cash-flow growth. We believe this is the main opportunity for CAD looking forward.

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Italy

Cembre

Not rated

Electrical connection at cheap multiples

Reuters: CMB.MI
Market cap: €60.7m

(04/03/05)

Electronic & electrical equipment

Price: €3.55

Cembre is a European leader in electrical connectors, related installation tools and railway drilling machines. Despite the maturity of the underlying market, Cembre expects to be able to grow its top line by 8% and further improve its outstanding profitability thanks to product innovation and penetration of new markets. On these estimates it would trade below 11x 2005F PER.

Profile. Cembre is a producer and distributor of electrical crimp-type connectors (40% of 2004 turnover), related installation tools (23% of sales), related railway products (21%), terminal block (8%), cable markers (3.5%) and cable glands (3%). Italy accounts for 50% of its sales, rest of Europe 42%. Cembre was founded in 1969 and is located close to Brescia in Northern Italy. Shares are owned by founders and managers (73%) while free float is 27%. Cembre was listed on the Italian stock exchange in December 1997 and is part STAR segment since 2001.

Competitive position. The company is one of the top three players in Europe in its niche market. In Italy and the UK it has high market shares in crimp-type connectors (45% and 20%, respectively), while from a European standpoint it is leader in tools for the installation of electrical power connectors. Major clients include utilities, railway companies, electrical manufacturers (ABB) and distributors (Rexel). Although connectors are 'simple' products, there is a lot of skill/know-how in the manufacturing process, in delivering a client-friendly product, and in managing the logistics process. Competition from Asian companies is rare in Europe, because of both the relatively small size of the market and the lack of tangible cost advantages after shipping.

Strategy. Cembre aims to: (1) continuously increase its product range always adding innovation and value to clients; (2) streamline production and corporate structure to gain efficiency; (3) increase market share outside Italy, in particular the US market in which it currently generates only 5% of sales. In the US Cembre is looking for distribution partnership and/or acquisitions.

Financials. 2004 sales grew 9% YoY (+9.8% in 4Q04) thanks to growth in foreign markets (+13% vs +5% in Italy) and growth in each product line. By geography, only Germany and Norway posted declining sales in 2004 (-14% and –3%, respectively) due to persistent weakness in the reference markets. EBITDA grew 15% YoY (+32% in 4Q04) reaching an outstanding 19.2% margin (or 1ppt better than 2003). EBIT grew 27% (+47% in 4Q04) with a 12% margin (+2ppt YoY). PBT grew 36% (52% in 4Q04). Net debt was sharply down to €1.7m (from €7.5m). Management expects 2005 sales of €70m (+8%) with EBITDA margin continuing to improve, low expected capex and NWC requirements, thus FCF should be high in 2005.

Valuation. Based on management guidance of further growth in sales and margins Cembre would trade at less than 4.5x 2005 EV/EBITDA (from 5x in 2004) and 10.5x 2005 PER (from 14.4x in 2004). This represents a 40% discount to larger peers. The company has a payout policy of 40-45%, which should mean a 4% DPS yield in 2005. Cash generated could also be used for a small acquisition to complete the product range and reinforce its presence in the US (last acquisitions were made in 1999 and 2001).

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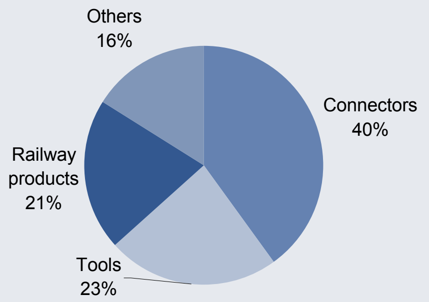
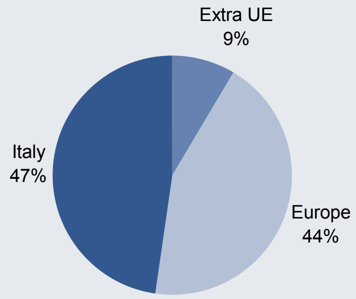
9 March 2005

Revenue breakdown by product (2004)



Source: Company data

Geographic breakdown (2004)



Source: Company data

Key facts & figures

Price (€)	3.58	CEO	Carlo Rosani
52 wk low/high (€)	2.21 / 3.65	CFO	
YTD change (%)	19.7	IR (Tel)	Claudio Bornati (+39 030 36921)
1 yr total return (%)	52.4	Address	Via Serenissima, 9 – Brescia 25100
Shares outstanding (m)	17.0	Website	www.cembre.it
Market capitalisation (€m)	60.7	Market segment	STAR
Beta vs. SPMIB (Bloomberg)	0.61	Index weights (%)	0.43%
DPS (€); gross yield (%)	0.11 / 3.1	Shareholders (%)	Rosani Family 73%
Bloomberg 2004F EPS (€); PER (x)	0.23 / 15.5	Free float (%)	27%

Source: Company data, Bloomberg

SWOT analysis

Strengths	Weaknesses
Leadership positioning in niche electrical connectors market	Leadership in a niche but size matters in the industry
Direct sales network with global footprint	Still high NWC/sales ratio despite latest rationalisations
Opportunities	**Threats/Risks**
Cembre will be debt-free in 2005 with potential for external growth	EBITDA margins at 20% extremely high for the industry
Market share expansion in Europe and the US	Increasing raw material prices

Source: ING

Company financials (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
Turnover	59.9	65.3	70.5	76.2	82.3
EBITDA	10.9	12.5	13.8	15.2	16.5
EBITA	6.4	8.1	9.8	11.2	12.5
Net profit	3.2	4.4*	5.7	6.6	7.3
NWC requirements	(2.8)	(3.5)	(3.5)	(3.5)	(3.5)
Capex	(3.7)	(3.0)	(3.0)	(3.0)	(3.0)
Free Cash Flow to Equity	1.4	1.6	3.2	4.1	4.8
Net debt (cash)	7.5	1.7	0.3	(1.3)	(3.4)
Net debt/equity (x)	0.2	0.0	0.0	cash	Cash
Capital employed	48.4	45.5	47.5	49.6	51.8
ROCE (%)	13.1	17.7	20.7	22.7	24.0
Adj EPS (€)	0.19	0.26	0.34	0.39	0.43
Adj PER (x)	12.1	13.7	10.6	9.2	8.3
BVPS (€)	2.4	2.6	2.8	3.0	3.2
P/BV (x)	0.9	1.4	1.3	1.2	1.1
DPS (€)	0.07	0.11	0.14	0.16	0.18
Yield (%)	3.2	3.1	4.0	4.6	5.1
FCFE yield (%)	3.7	2.7	5.3	6.7	7.9
EV/EBITDA (x)	4.1	5.0	4.4	3.9	3.5

Source: Company data, Management estimates, * To be officially released with approval of FY results

Background

Family owned company listed in 1997

Cembre was founded in 1969 and is located near to Brescia in Lombardy. The founders (Rosani Family) and managers owns 73% of the share capital while the remaining 27% is free float (no institutional investor with a stake above 2%). The group operates through the listed parent company and six, fully owned, commercial subsidiaries in the main EU countries (UK, France, Spain, Norway, Germany) and in the US. Cembre went public on the Milan Stock Exchange at the end of 1997 at €3/share and is now part of the STAR segment. In February 1999 Cembre acquired the Italian company OELMA active in the field of electrical materials. In 2001 it acquired General Marking, an Italian company operating in the field of industrial marking (cable markers, conductors and electrical components marking products).

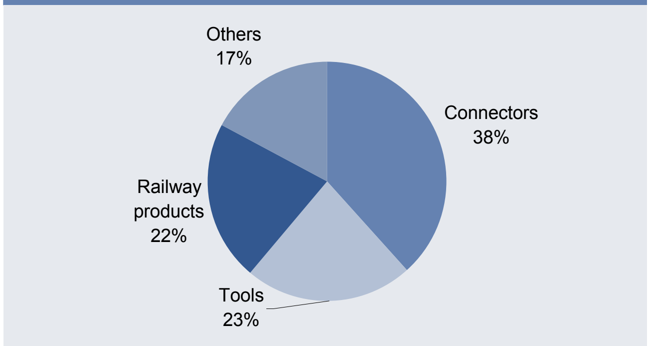
Profile

Product lines closely related by customer needs

Cembre is a producer and distributor of:

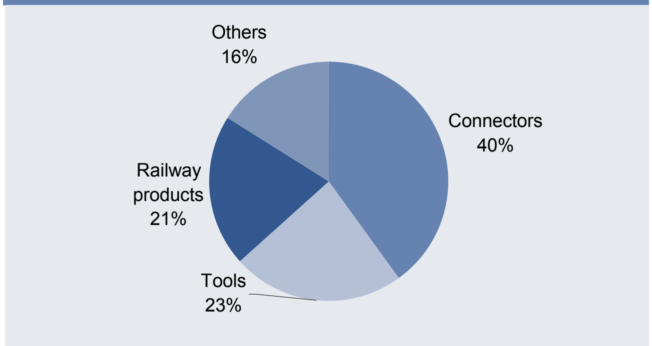
- **Electrical crimp-type connectors**: €25m sales in 2004 (+10% YoY). Sales are generated 57% in Italy, 39% in EU and 4% in RoW. These products are apparently the lowest value-added, but thanks to a highly-automated production process with quick adaptation of products to clients' needs they allow for sound profitability.
- **Installations tools:** €15m sales (+11% YoY). Sales are generated 26% in Italy, 56% in EU and 19% in RoW. This product range include mechanical, pneumatic, hydraulic tools used for compressing and cutting conductors. Cembre recently developed several new products including a hydraulic battery-operated pump. This is closely related to crimp-type connectors in terms of customer base mainly.
- **Railway products:** €13m sales (+4% YoY). Sales were generated 22% in Italy, 69% in EU and 9% in RoW. Railway products are characterised by high innovation and quality as well as high profitability.
- **Others products**. Includes cable markers (€2m; flat YoY), cable glands (€5m; +17% YoY); terminal blocks (€2m; +8%). These are all products related to the largest families described above.

Fig 1 Cembre: Turnover breakdown (2003)



Source: Company data

Fig 2 Cembre: Turnover breakdown (2004)



Source: Company data

Market trends and positioning

Fast growing market

The worldwide market for electrical connectors is large (US$33bn according to independent researchers) and fast-growing (+17% in 2004) driven by China (+30% YoY in 2004), Japan (+22% YoY), but also Europe (+19%) and the US (+8%). According to independent analysts, 2003-08 market CAGR is estimated at 9%.

Cembre operates in specific, but vertically integrated, niches

Cembre operates in specific, but vertically integrated, niches of this market where it holds significant market shares. Our belief is that Cembre's reference market is closely related to trends in the broader market for electrical connectors. The group is Italian market leader with 45% market share in crimp connectors and also has leading market shares in other EU countries (such as the UK where it holds 20%). Cembre has a strong positioning in Europe for tools for the installation of electrical power connectors. By geography Cembre's turnover is 47% in Italy, 44% in Europe and 9% in RoW.

Selling to distributors and directly to main clients

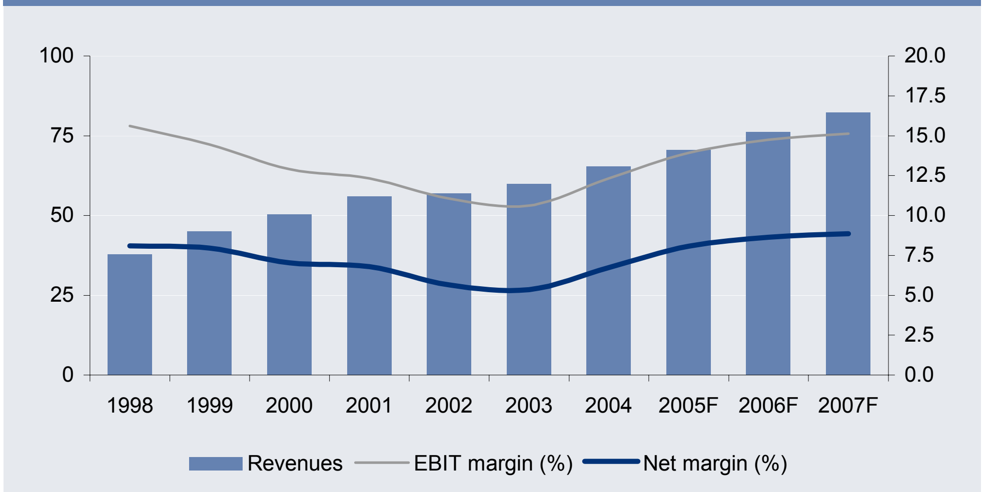
The company sells two-thirds of its production through electric company distributors (such as Rexel) while it serves its main customers directly – utilities, railway companies and electric manufacturers (Schneider, ABB, etc) – which represent one-third of turnover. The commercial network is exclusively made up of its own employed salesmen. Production is carried out exclusively in Italy and the UK. One of the group's strengths is its very extensive distribution network in Italy, as this allows an outstanding time-to-market and proximity to the customer in terms of fast and constant technical assistance.

Financials

Growing sales but declining margins until 2003

Cembre reported historically nearly double-digit top-line growth (9.5% CAGR 1998-04). However between 1998 and 2003 the EBIT margin declined (down from 15.6% in 1998 to 10.6% in 2003) due to over-dimensioned structure, increase in raw material prices, increasing distribution costs and in 2002-03 particularly euro strength. In 2004 margins grew significantly (1ppt at EBITDA level and 2ppt at EBIT level) driven by cost-cutting and reduction in depreciation and amortisation.

Fig 3 CEMBRE: Sales and margin trends (€m, %)



Source: Company data

2004 sales +9% and EBIT up 27% YoY

Looking at 2004 results: sales grew by 9% YoY thanks to strong growth in foreign markets (+13% vs +5% in Italy), EBITDA grew 15% YoY reaching an outstanding 19% margin (EBIT +27% with 12% margin). Net debt was down from €7.5m to €1.7m after a €1.2m dividend paid, driven by containment of NWC needs and capex (€3m vs €3.7m).

Fig 4 CEMBRE: Financial results (€m)

	1998	1999	2000	2001	2002	2003	2004
Revenues	37.8	45.0	50.4	56.0	56.9	59.9	65.3
EBITDA	8.4	9.9	10.4	11.0	10.2	10.9	12.5
EBIT	5.9	6.5	6.5	6.9	6.3	6.4	8.1
Net Income	3.1	3.6	3.6	3.8	3.2	3.2	4.4
Net debt/(cash)	(0.9)	6.7	4.4	3.3	9.8	7.5	1.7

Source: Company data

Management expects sales and margin growth to continue in 2005

Management expects 2005 sales to be around €70m, or up by c.8% YoY. Management expects growth to be driven by innovation/new products developed, increasing penetration in the US market and execution of high-speed railway lines in Europe. As far as profitability is concerned, Cembre's management expects to improve margins further based on higher operative efficiency in production and improvement of gross margin in cable markets due to synergies with General Marking's distribution network. The tax rate should remain also around 43% in 2005.

Capex should remain low

Capex should remain low – in the region of €3m pa according to management – ie, at the maintenance level. In past years the level of capex was higher, in part in an effort to benefit from tax incentives *(Tremonti Law),* in part to sustain product innovation. According to management, investments made are now able to support a level of sales in the region of €90-100m (utilisation plant is now 65%) without any additional significant investment. This mean that the net financial position at year-end could easily turn positive, also because working capital needs have been downsized significantly. The cash generated is likely to be used to strengthen group positioning outside Italy and Europe.

Valuation

c.40% discount on 2005 multiples

Based on management guidance of further growth in sales and margins Cembre would trade at 4.4x 2005 EV/EBITDA (from 5x in 2004) and less than 11x 2005 PER (from 14x in 2004). Compared with a blended peer group of both electrical manufacturers and distributors, Cembre would trade at a c.40% discount on 2005 EBITDA and PER multiples, with a 25% premium on 2005 DPS yield.

Fig 5 Peer comparison

	Country	Market Cap (€m)	2004F Sales (€m)	2004F EBITDA margin (%)	2004F Net margin (%)	EV/EBITDA 2005F (x)	PER 2005F (x)	DPS yield 2005F (%)
Carbone Lorraine	France	567	636	*12.0*	*3.2*	7.3	13.8	1.9
Gewiss	Italy	628	314	*26.1*	*9.2*	7.1	17.0	1.3
Schneider Electric	France	13,583	10,339	*16.0*	*5.8*	7.4	14.8	3.3
Actuant Corp	US	1,109	533	*15.1*	*4.8*	8.3	21.5	N/A
Cooper Industries Inc	US	4,876	3,272	*16.0*	*7.6*	6.6	17.1	2.0
Average Manufacturers				*17.0*	*6.1*	*7.4*	*16.8*	*2.1*
Electrocomponents	Great-Britain	1,909	1,112	*17.3*	*9.1*	9.8	17.0	6.4
Rexel	France	2,622	6,775	*5.2*	*2.0*	7.8	13.8	2.4
Premier Farnell	Great-Britain	975	1,101	*12.4*	*5.1*	8.8	16.5	4.9
Average Distributors				*13.0*	*5.6*	*8.4*	*16.0*	*4.0*
Total average				**15.0**	**5.8**	**7.9**	**16.4**	**3.2**
Cembre	Italy	60	65.3	19.2	6.7	4.4	10.6	4.0
Premium/(discount) vs. total average						*(44)*	*(36)*	*25*

Source: Company data, JCF consensus

4% DPS and 6.7% FCFE yield

Although cash generated could be used for a small acquisition to complete the product range, the dividend payout should be maintained at 40-45% in line with the historical average. This could lead to a DPS 2005 yield of 4.0% at current prices, highly sustainable given a 6.7% FCF-to-equity yield in 2005.

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Italy

Credito Artigiano

Not rated

Low risk, decent yield

Reuters: CRA.MI
Market cap: €392m

(10/12/04)

Banks

Price: €3.18

Credito Artigiano is a small local bank that serves small business customers. The bank is part of Credito Valtellinese Group, and is its arm in south Lombardy. The strong presence in northern Italy is a valuable feature of the branch network, which we believe could make the bank an interesting consolidation target.

Subsidiary of a *popolare* bank. Credito Artigiano is an ordinary *spa*, listed in 1999 at €3.49. The parent company and major shareholder, Credito Valtellinese, is a *popolare* bank, which cannot launch tender offers financed by its own paper. As a consequence, it listed its subsidiary Credito Artigiano as a takeover vehicle (acquiring Banca Popolare S.Angelo and BAI), however, the use for this sake was not frequent.

Credito Artigiano is a pure branch network, as the Credito Valtellinese Group optimises its banking subsidiaries by outsourcing all the support, central and production activities in dedicated companies. IT, planning, finance, organisation and logistics are managed by other companies of the group. We believe this feature could make Credito Artigiano a good target for any bank looking for growth in Lombardy. In fact, Credito Artigiano focuses its 91 branches mainly on Lombardy (75% of branches). The remaining branches are in Lazio and Tuscany. We consider it unlikely that Credito Valtellinese would sell its 65% stake in Credito Artigiano as it is one of the most profitable subsidiaries of the group. However, the market does not appear to be pricing in the acquisition potential. The bank is trading at €4.3m per branch, while market transactions in northern Italy have taken place at €5.5-6.0m per branch.

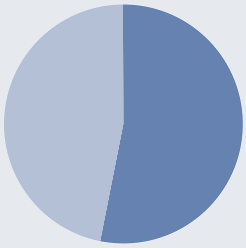
In addition, the bank has posted strong improvements in all P&L lines so far in 2004. Total income could close the year up 10%, thanks to both net interest income and net commission fees. Cost control is allowing strong growth in gross operating profit of 25% YoY. Asset quality is sound, with a c0.1% gross NPL ratio (following non-recourse disposals). Although the stock does not have an undemanding valuation, in our view, these improvements in fundamentals do not appear to be fully priced in.

Among the positives, we believe Credito Artigiano has consolidation appeal not fully recognised by the market, which may be looking for a potential minority buyout by the parent company, Credito Valtellinese. In our view, a minority buyout could take place, but not in the short term. 2004 has been a good year for Credito Artigiano, with improvements in the P&L. The small subsidiary has a generous payout ratio (94% in 2003), with an appealing yield of c3.5% last year. The small free float (c27%) is a weak point, as is the low trading volume, which makes the stock illiquid. Based on consensus estimates, the stock is trading at a 2006F PER of 12.6x, P/BV of 1.11x and adjusted ROE of 8% compared with a sector average P/BV of 1.35x (ROE of 12%).

Carlo Tommaselli carlo.tommaselli@ing.it

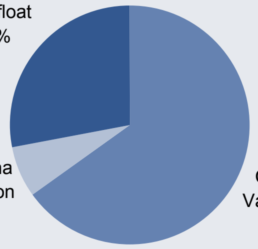
13 December 2004

Total income breakdown (2004F)



Source: Company data, IBIS consensus estimates

Shareholder structure



Source: Company data

Key facts & figures

Price (€)	3.18	General manager	Luciano Camagni
52-week low/high (€)	2.99/3.45	CFO	Vittorio Pellegatta
YTD change (%)	0.19	IR (Tel)	Tiziana Camozzi (+390280637471)
1-year total return (%)	-1.87	Address	Via Agnello, 20 – Milan
Shares outstanding (m)	122.719	Website	www.creval.it
Market capitalisation (€m)	392	Market segment	Mibtel
Beta vs. MIB30 (Bloomberg)	0.48	Index weight (%)	0.069
DPS (€); gross yield (%)	0.11; 3.4	Shareholders	Credito Valtellinese (65%)
Consensus EPS 2004F (€) ; PER 2004F (x)	0.16; 20.2	Free float (%)	27.5

Source: Company data, IBIS consensus estimates

SWOT analysis

Strengths	Weaknesses
Excellent asset quality (0.1% gross NPL ratio)	Low free float (27.5%)
Decent dividend	Operational gearing too high (c70%), notwithstanding the lean group
Opportunities	**Threats/Risks**
Potential takeover target	Potential bidder
Minority buyout	Dilution following convertible bond conversion in early 2005

Source: ING

Financials (€m)

	2002	2003	2004F	2005F	2006F
Net interest income	82	85	92	94	98
Net fees	37	39	43	48	53
Non-interest income	60	79	83	89	97
Total income	142	165	175	183	196
Gross operating profit	40	44	51	55	65
Net operating income	27	28	33	36	47
PBT	28	30	33	36	47
Net profit	15	15	18	22	29
Cost/income ratio (%)	72	73	71	70	67
Tax rate (%)	45	48	45	40	39
Adj ROE (%)	6.30	6.20	6.70	7.30	9.00
Loans/deposits ratio (%)	89	86	89	91	92
Adj. EPS (€)	0.13	0.14	0.16	0.2	0.25
Adj. PER (x)	24	22.4	20.2	16.4	12.6
BVPS (€)	1.37	2.53	2.57	2.86	2.87
P/BV (x)	1.37	1.26	1.24	1.12	1.11
DPS (€)	0.07	0.11	0.12	0.16	0.21
Payout (%)	60	94	94	94	95
Yield (%)	2.10	3.40	3.80	4.90	6.40

Source: Company data, IBIS consensus estimates

Lombardy is key

Credito Artigiano: member of Credito Valtellinese Group

Credito Artigiano is a small local bank focused on the small business segment (companies with turnover between €1.5m and €20m). The bank has 40,000 clients on the asset side and 160,000 on the liability side. It has 91 branches, mainly in Lombardy (66), as well as in Lazio (14 branches) and Tuscany (9).

Credito Artigiano is member of Credito Valtellinese Group, which has 323 branches across Italy. Credito Valtellinese is a mutual bank (*popolare* – one man, one vote system), and a holding company for four banks (including Credito Artigiano), four companies dealing in specialised finance and three companies dealing in support services (IT, logistics, etc). Credito Artigiano went public in 1999 with a specific motive – as the acquisition vehicle of the group. According to law, a mutual bank cannot use its paper in a share swap, hence management decided to list an ordinary *spa* in order to use its shares for potential external growth. The strategy was put in place with the acquisitions of Banca Popolare S.Angelo and BAI.

Credito Valtellinese Group is based on a business model where all support activities are outsourced to legally separate companies, which serve the banks of the group. Basically, each bank of the group is only a branch network, with lean central units, as all the support activities (IT, planning, organisation, logistics) are outsourced to other group companies. According to this model, the products offered by the banks are 'produced' by centralised companies, and shared by all the banks' networks. Thus, Credito Artigiano, has no 'production' itself and lean headquarter activities. The model is designed to have low operational gearing and high benefits in terms of scale economies. We believe such a structure would make Credito Artigiano a good target for any bank looking for expansion in Lombardy – a bank launching a tender offer would not face any charge for restructuring headquarter activities. Moreover, as bad loans management is centralised in one company of the Credito Valtellinese Group, Credito Artigiano has a clean balance sheet with sound asset quality. The location of branches, features of the group and asset quality make Credito Artigiano a potential target for an acquisition, in our view. The market valuation adds to this appeal, in our view, with the stock trading at an undemanding 1.11x 2006F P/BV (notwithstanding the low ROE, due to over-capitalisation).

Potential strategic developments

Credito Valtellinese Group has reached a sizeable c323 branches and underwent a restructuring over the last three years. The company can now be considered up and running and focused on consolidating its position. In the next three years, the group aims to grow in north-east Italy, where Credito Valtellinese could either open or buy 40 branches.

In our view, the potential merger mooted in the press between UniCredito and Sanpaolo could provide an opportunity for Credito Artigiano to meet its target of external growth in Veneto. Such a merger would generate branch overlap in Piedmont and Veneto of c400 branches out of c6,200 (according to our estimates). For the new national champion, the branch overlap could represent an opportunity to restructure the network with limited branch closures, by selling duplicated branches, as many players aim to improve their presence in those areas (eg, Credito Valtellinese, Banco Popolare Verona-Novara, BPU, Monte Paschi Siena). Therefore, in our view, a potential merger between UniCredito and Sanpaolo would not create a real social issue (unemployment) – we believe all the potential overlaps could be absorbed by the other banks willing to expand in northern Italy. Although Credito Valtellinese could look for expansion in north-east Italy, it would not do so at any price. Management thinks current prices are too expensive, hence the best way to increase its presence is by commercial/strategic agreements.

On the other hand, Credito Artigiano could be an appealing network in Lombardy for other competitors. As said, the local bank could be easily integrated into another group, as it mainly consists of front-office activities and few central operations. The market price of the subsidiary is c€4.3m per branch. Considering that the average price of a branch in northern Italy has been €5.5-6.0m, in our view the market is not factoring in the real value of the Credito Artigiano network. The market appears to be applying a discount to the bank, as it thinks the parent company, Credito Valtellinese, would not sell its 'jewel'. In theory, Credito Valtellinese could set up another network like Credito Artigiano quickly (any non-rivalry agreement permitting). Although Credito Valtellinese would be unlikely to sell one of its most profitable subsidiaries, in our view the market value does not imply any potential offer from another bank.

Recent P&L trends

Credito Artigiano has posted a strong performance so far in 2004, both on the revenue and cost side. On the revenue side, net interest income has been benefiting from an aggressive lending policy, pushing loan growth to 11% YoY at end-September. The bank posted robust improvement in net commission income of c20% YoY. Asset management increased by 6% YoY, and indirect deposits by 5% YoY. Credito Artigiano sharply improved its performance in 2Q04, posting record-high total income (54% cost/income ratio before depreciation, versus an average of 61%) mainly thanks to other income. Net commission income improved sharply versus 2003. In 2004, net interest income increased sharply thanks to lending volume growth, surging in June in particular. Overall, based on consensus estimates, Credito Artigiano should close 2004 with high growth in all P&L lines. The bank is forecast to record 10% improvement in total income, 25% in gross operating profit and 15% in net profit. However, the market price does not appear to imply such numbers.

Conclusions

In our view, Credito Artigiano features several interesting points that do not appear to be fully priced in. Although it does not have undemanding multiples, in our view, the stock does not factor in either any consolidation appeal or improvements of the P&L in 2004. We cannot exclude a minority buyout by the parent company, but do not expect it in the short term. A good dividend completes the picture.

Among negatives, the small liquidity of the stock is a weakness. The limited free float is mainly made up of retail investors. In addition, in January 2005, the last window for the conversion of the convertible bond will take place, carrying some dilution (10m new shares – 8% of the share capital). Given the small risks implied and considering its dividend, we believe the stock could be compared to a bond.

Italy

Datamat

Not rated

The new 'look' seems priced in

Reuters: DAM.MI
Market cap: €210m

(14/01/05)

Software and computer services

Price: €7.54

After several years of restructuring, Datamat now offers a solid position in the IT market for defence and finance clients. The group is currently debt-free and a new phase of external expansion could start. The share price has more than doubled since early 2003 and risen 25% in the past six months. It now trades at 14-16x consensus 2005-06 PER or a hard-to-justify double-digit premium to peers.

Company description. Datamat was founded in 1971, bought out from management and private equity funds in 1999 and finally listed on *Nuovo Mercato* in October 2000 at €23 per share. The current shareholding structure includes: founders & managers (49%), Mittel (7%) and free float (40%). Datamat specialises in IT solutions and integrated services for public and private clients in different vertical markets such as defence (42% of turnover), finance (24%), telecom, media & utilities (18%), PA/healthcare (14%).

Positioning. Datamat originally focused on software solutions for Italian banks (*Datasim*) and then entered the defence IT market. After the IPO, Datamat diversified into healthcare and expanded into telecoms, investing a large part of its IPO inflows (€140m) into a software house (CPG Smarten) that was soon after sharply written off (€70m). Recently, the defence division has proved to be the most profitable (25% 2003 EBITDA margin) and fastest growing (+26% YoY in 2003; +14% YoY in 9M04).

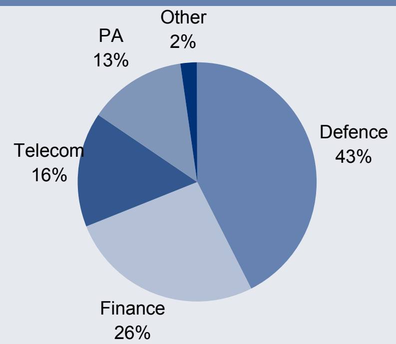
Financials. Datamat expects 2004 sales of €175m (5% organic growth) with €28m EBITDA (16% margin; +7% LfL) in line with consensus. Datamat net profit is expected to jump to €14m, from €5m reported last year, due to organic growth and lower extraordinary costs and taxes. Datamat should finish 2004 cash-positive, after the recent disposal of real estate assets (€22m). Cash generation in 2005 should also improve with decreasing incidence of WCR/sales (from current 36%) and lower recurrent capex of €7-8m.

Strategy & new developments. When the finance IT solution business started to lose momentum, Datamat turned most of its efforts towards integrated projects for defence customers, collaborating with the main European and Italian agencies. The company achieved €49m of new orders in 9M04 reaching a total €105m backlog (57% of estimated 2005 turnover). The mix towards defence also helped to reduce the working capital burden, given that most international defence agencies make downpayments. A new growth driver for 2005-06 is a new offer for testing telecom mobile networks – this new solution should also help the mix towards higher value-added activities. Regarding external growth, recently Datamat said it was interested in taking over Finmatica's (now in default) software banking division *Trend* (€24m turnover). Management recently mentioned that it is targeting acquisitions in all its core sectors.

Valuation. Based on consensus estimates, Datamat is trading at around 15.8/14.1x 2005/06 PER and 6.6/6.0x 2005/06 EV/EBITDA. These multiples are at a c.25-30% premium to Engineering (BUY; TP €25.3), the most comparable Italian company, which in our view offers a more consistent track record of organic growth and profitability. Compared with a larger sample of European IT service companies, Datamat trades at an average 15% premium to mid caps and 20% to small caps. From a cash flow standpoint, Datamat has a FCF to market cap yield of 6/7% on 2006/07, which is at the low end vs peers and Engineering at 8/9%.

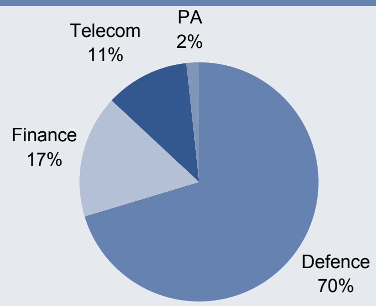
Vittorio Villa, CFA vittorio.villa@ing.it
Michael Carter michael.carter@ing.it
17 January 2005

Sales breakdown (9M04)



Source: Company data

EBITDA breakdown (9M04)



Source: Company data

Key facts & figures

Price (€)	7.54	Chairman	Franco Olivieri
52 wk low/high (€)	5.03 / 7.67	Managing Director	Lucio Magliozzi
YTD change (%)	4.2	IR (Tel)	Florence DELMAS (+39 06 5027 4702)
1 yr total return (%)	38.2	Address	Via Laurentina, 760 – Roma
Shares outstanding (m)	27.9	Website	www.datamat.it
Market capitalisation (€m)	210.2	Market segment	NUMTEL
Beta vs. SPMIB (Bloomberg) (x)	0.60	Index weights	2.464%
DPS (€); gross yield (%)	0.0; 0.0	Shareholders (%)	Founders & managers 49, Mittel 7, Treasury 4
Consensus EPS 2005F (€); PER 2005F (x)	0.33; 23.1	Free float (%)	40.0

Source: Company data, Bloomberg

SWOT analysis

Strengths	Weaknesses
Leading position in system integration in defence market	Lack of critical mass in many of its vertical sectors
Cross-sector expertise allows better resources allocation	Financial track-record
Opportunities	**Threats/Risks**
Growing relevance of products for mobile carriers & banks	Exposure to large contract in defence
Re-leveraging acquisition potential in a fragmented sector	Competitive pressure in finance and PA/health sectors

Source: ING

Company financials (€m)

Yr to Dec	2002	2003	2004F	2005F	2006F	2007F
Turnover	162	184	175	184	193	203
EBITDA	16.6	23.5	28.0	30.3	32.8	34.4
EBITA	9.8	16.2	20.2	23.3	25.5	26.7
Net profit	(28.6)	5.0	14.0	13.3	14.9	15.8
WC requirements	(1.7)	(2.8)	4.9	(3.1)	(3.2)	(3.4)
Capex	(19.8)	(6.4)	(10.0)	(7.5)	(7.7)	(8.0)
Free cash flow	(37.7)	8.2	17.0	15.0	13.2	13.9
Net debt (cash)	28.6	17.5	(21.4)	(26.5)	(34.3)	(42.2)
Net debt/equity (x)	0.4	0.2	cash	cash	cash	cash
Capital employed	96	91	62	65	66	68
ROCE (%)	4.3	11.5	24.0	35.7	38.3	39.3
Adj EPS (€)	(0.84)	0.39	0.69	0.48	0.53	0.57
Adj PER (x)			10.9	15.8	14.1	13.3
BVPS (€)	2.4	2.6	3.0	3.3	3.6	4.0
P/BV (x)			2.5	2.3	2.1	1.9
DPS (€)	0.00	0.00	0.14	0.19	0.21	0.23
Yield (%)			1.9	2.5	2.8	3.0
FCF yield (%)			8.1	7.1	6.3	6.6
EV/EBITDA (x)			7.4	6.6	5.9	5.4

Source: Company data, Consensus estimates

Italy

EnerTAD

Cleaning up

Not rated

Bloomberg: ENR IM
Market cap: €309m

(19/11/04)

Metals – Ferrous **Price: €3.11**

EnerTAD is a holding company with interests in steel distribution, renewable power generation, and waste and water treatment. After a period of unmanaged growth, new management was appointed in June. New management is focusing group activities and expects to present a long-term plan in January.

The group. The group originates from a JV between the Agarini family and Falck. The original activities were steel distribution and waste treatment. A period of unmanaged growth led to investments in wind power and WTE plants – and also to financial and management problems over the past year.

New management. New management was appointed at the time of the capital increase this year. The new CEO is the well-respected former CEO of Snam Rete Gas, Salvatore Russo. He has hired a group of top-line managers, a number from the ENI group. With the new management team, he has been restructuring the group, instituting a solid management structure and developing a long-term plan that should be presented to the financial community in 1Q05.

Focus and growth in wind power and WTE. Most of the group's revenues (79%) and margins (69%) come from steel distribution activities outside Italy, even more so in 2004 with the strong demand and prices for steel. Waste treatment and WTE plants are the second activity, followed by water treatment and wind power generation. The focus of investments in the future is expected to be wind generation, and possibly WTE plants from 2007. We would not be surprised to see asset sales in other business areas.

Metals – good while it lasts. The 2004 steel market has provided some external support for an area that had not been performing well in the past. New divisional management and a strategy to focus on less cyclical areas of the business may make this a less cyclical business in the future. Its future within the group depends on management's near-term success.

Newsflow – restructuring costs. We expect management to announce some asset sales, subsidiary mergers and liquidations, and other restructuring actions in the near term. Hence, we would expect to see restructuring provisions in 4Q04, as well as in 2005. These provisions will probably be both cash and non-cash, but should not lead to further calls for capital from the market. We would view these charges as the closing chapter on a troubled past, and they could well be the trigger to positive share price performance. We expect management to present its four-year plan in 1Q05, at which time investors will have much greater visibility on strategy, growth, investments and expected returns. We also believe the current control shareholder (Gruppo TAD Fin, owned by the Agarini family) could reduce its stake in the near term, both to lower its exposure to the banks and to be able to reimburse to EnerTAD cash that it has been managing in a cash pooling agreement.

Valuation. Investors need to look to 2006 and beyond to see the story play out. 2004-05F multiples are quite challenging, but do not show what new management and current investment plans can deliver.

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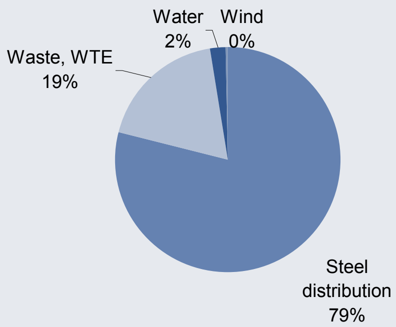
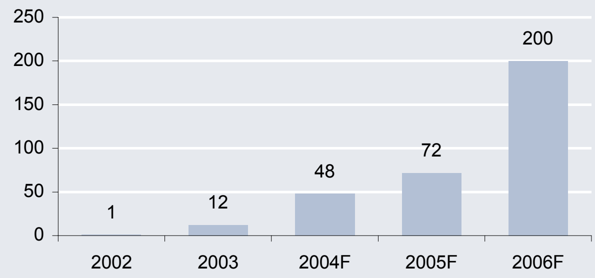
22 November 2004

Revenues by division (9M04)



Source: Company data

Wind power installed capacity (MW)



Source: Company data

Key facts & figures

Price (€)	3.13	CEO	Salvatore Russo
52-wk low/high (€)	2.61/4.04	CFO	Donatello Galli
YTD change (%)	-19.6	IR (Tel)	Stefano Francavilla (+39 02 62631)
1 yr total return (%)	-19.8	Address	Corso di Porta Nuova 13/15, Milan 20121
Shares outstanding (m)	98.9	Website	www.enertad.it
Market capitalisation (€m)	309.5	Market segment	Mibtel
Beta vs MIB30 (Bloomberg)	0.43	Index weights	0.04%
DPS (€); gross yield (%)	0.0; 0	Shareholders	Agarini (51.7%), Alerion (17.4%)
Consensus EPS 2004F (€) ; PE 2004F	0.17; 18.4	Free float (%)	30.9

Source: Company data, Bloomberg

SWOT analysis

Strengths	Weaknesses
New credible management team	Loss-making water treatment business
Good visibility of wind and WTE earning power	Cyclicality of steel business
Opportunities	**Threats/Risks**
Expansion of Wind generation beyond current plan of 200MW	Change in steel market could reduce margins significantly
Further WTE investments post 2006	Intentions of control shareholder and his banks

Source: ING

Company financials (€m)

Yr to Dec	2001	2002	2003	2004F	2005F	2006F
Turnover	20.6	84.0	238.0	298.0	339.0	404.0
EBITDA	12.3	24.8	35.5	50.0	90.0	120.0
EBITA	2.6	5.0	19.2	32.0	69.0	96.0
Net profit	0.2	4.0	5.3	7.3	25.5	38.3
WC requirements	(10.0)	(32.1)	(13.6)	(18.8)	(12.8)	(20.4)
Capex	(20.0)	(28.6)	(35.0)	(60.0)	(120.0)	(90.0)
Free cash flow	(20.3)	(34.6)	(24.8)	(50.4)	(82.2)	(43.0)
Net debt (cash)	106.8	175.7	179.2	229.6	311.9	354.9
Net debt/equity (x)	1.4	2.2	1.6	1.9	2.1	1.9
Capital employed	180.8	257.2	292.8	350.5	458.2	539.5
ROCE (%)	1.4	2.0	5.9	8.6	14.6	17.4
Adj EPS (€)	0.00	0.04	0.07	0.09	0.28	0.41
Adj PER (x)		76.8	42.8	33.6	11.3	7.7
BVPS (€)	0.7	0.8	1.1	1.2	1.5	1.9
P/BV (x)		4.00	2.70	2.60	2.10	1.70
DPS (€)	0.0	0.0	0.0	0.0	0.0	0.0
Yield (%)		0.0	0.0	0.0	0.0	0.0
FCF yield (%)		(11.1)	(8.0)	(16.2)	(26.5)	(13.9)
EV/EBITDA (x)		19.8	13.8	9.8	5.4	4.1

Source: Company data, Jacques Chahine Finance consensus estimates

The current business plan – will change

The old plan…

The old management group presented a 2003-07 business plan in March 2003 at the time of a capital increase and convertible bond issue. 2003 targets were not achieved in terms of revenues and margins. Financial and management problems also led to delays in the ambitious investment plans.

Fig 1 Old EnerTAD 2003-07 plan financial targets (€m)

	2002	2003	2007
Revenues			
Environment (% of total)	14	28	49
Steel (% of total)	86	72	51
Total Plan		250.0	485.7
Actual	***208.5***	***239.0***	
EBITDA			
Environment (% of total)	39	65	17
Steel (% of total)	61	35	83
Plan		47.5	148.6
Actual	***19.4***	***35.5***	

Source: Company data

... to change radically

While the 2003-04 plan is still the measuring stick and the basis for most analyst models, we believe new management is very likely to change priorities radically, possibly eliminating some businesses. Thus, it is difficult to believe that consensus represents the current vision that the management team is developing.

It is also very likely, in our view, that consensus estimates have not attempted to forecast the restructuring charges that are likely to come through in the next six to 12 months.

The wind generation business

Wind is the focus

The wind generation business in Italy is less mature than in other European countries, and thus shows more promising growth going forward. While it is believed that Germany (10,000MW installed) and Spain (5,000MW installed) have become replacement markets, Italy, with only 1,000MW installed, is expected to triple in the medium term. Investments in alternative energy generation have slowed in Italy over the past year due to the switchover from CIP6 tariff system to 'green certificates'.

EnerTAD is the third Italian player

The company is the third player in the Italian market, with 48MW installed, capacity that it intends to boost to 200MW by the end of 2006.

Installation costs are c. €1.1-1.2m/MW. The equipment has a life expectancy of 20 years, with a major revamp after ten years costing 15-20% of original cost. Operating costs are minimal, other than maintenance (c.3% of revenues) and site security costs. EBITDA margins are c.85%, higher in the first two years when equipment has free maintenance from the provider. Wind generators are forecast to work an equivalent of c.2,100 hours at full capacity per year (actual hours higher, but not at full power).

External promoters manage authorisation process

External promoters, who manage the entire authorisation process with local authorities, provide wind farm sites. EnerTAD then has a 29-year site concession, and pays a royalty to the local authorities and a site rental fee to the landowners.

Revenues are a sum of the price from the network or from contractual clients and the green certificates. The market for green certificates is managed by the network manager (GRTN), so it is not exactly a free market. 2003 prices for wind power producers were c.€82/MWh, and €97/MWh in 2004. We estimate that €82/MWh is a reasonable price to assume for the medium term. Green certificates for WTE plants provide a lower incentive than the old WTE CIP6 tariff, currently c.€30-35/MWh less. The network has paid an average of €55/MWh for electricity in 2004. Alternative energy producers have the right to sell all the energy they produce to the network – unlike normal power producers that can sell what is requested of them.

EnerTAD assets

Fig 2 EnerTAD power generation assets

Location	Type	Incentive	Started	MW	Sales (€m)	EBITDA (€m)
Terni	WTE Biomass	CIP6 8years	May-02	10	16	10
San Vittore	WTE CDR	CIP6 8years	Aug-02	10	16	10
Viticuso	Wind farm	CIP6 8years	Feb-02	12	4	3
Nurra	Wind farm	Green certificates	Ongoing	32	9	8
Troia	Wind farm	Green certificates	Ongoing	38	11	9
Total					**56**	**40**

Source: Company data

Two WTE plants and three wind farms

EnerTAD owns two WTE plants in central Italy and three wind farms in Southern Italy. In Figure 2, we specify some asset details and their economics, if working at full capacity. As outlined above, the main focus is now on wind. However, after 2006-07 when the Italian WTE will probably have more visibility, EnerTAD has a couple of 30MW projects, one in Northern and one in Central Italy. Moreover, given forthcoming administrative elections in June 2005, management expects a slowdown in authorisation processes.

Valuation

Current multiples based on old plan to be radically changed

Consensus would indicate that the company is quite attractive on multiples (2006F consensus PER stands at 7.7x). However, we believe the forthcoming strategic plan could significantly change assumptions for each business unit.

We believe the new management team is capable of creating shareholder value but until it communicates the new industrial plan, it is difficult to look at the current valuation in quantitative terms.

Italy

Esprinet

Upwards and onwards

Not rated

Bloomberg: PRT IM
Market cap: €198m

(20/12/04)

IT distribution

Price: €40.0

Esprinet is by far the largest Italian IT distributor with €1.5bn sales and best-in-class profitability. Rapid de-leverage driven by strict capital control should make Esprinet debt free in 2006, ready for European expansion. Despite a 77% surge YTD, the shares trade at 8x consensus 2005F EPS.

Profile: IT distribution in Italy. Esprinet was created in 2000 from the merger of three different local IT distributors, and went public in July 2001 at €14 per share with new management. Esprinet is an IT distributor 100% focused in Italy. The business model is simple – it acquires digital equipment (PCs, printers, cameras, mobile devices) from global vendors such as IBM, HP, Microsoft, Acer and sells it to dealers (computer shops, hypermarkets, system integrators, VAR, SW houses, corporate re-sellers) or directly through its 12 cash-and-carry outlets. This is a high-volume/low-margin business where key elements are scale, the marketing model and strict process cost/efficacy control all along the chain. Esprinet also owns 100% of Comprel, a distributor of microelectronics components.

Positioning: 22% market share. Several competitors in Italy (Tecnodiffusione, Opengate) went bust as soon as IT equipment market volumes slowed down; in the meantime, Esprinet has been able to grow turnover from €710m in 2000 to €1.5bn in 2004 and is now undisputed market leader with c22% market share (10% in 2000) and ranks sixth in Europe. More than doubling sales has not been at the expense of profit (which tripled in the same period) or financial debt (down from €182m in 2000 to €50m expected by year-end). Also, a 2.8% EBIT margin in 2004F (consensus estimates) is one of the industry benchmarks.

Digital convergence: opportunity that needs EU expansion. The traditional IT (PCs, servers, printers) market is worth €21bn in Italy and is expected to be flattish in the next two years, but including digital entertainment (cameras, MP3s – valued at €5.4bn in 2004F and growing 12% pa) and mobility (PDA, GPS – valued at €0.85bn and growing 20% pa), Esprinet's market is growing 4% pa with distribution faster at 7%; this matches Esprinet's planned sales CAGR in 2004-06. Esprinet could easily increase volumes without upgrading its plant, warehouse, etc, but protected from decreasing volumes as fixed costs are only 3.8% of total costs. Its next challenge is European expansion in 2006, when it is estimated to have domestic sales of €1.8bn and no debt. The targets are Scandinavia, Spain, Portugal, the UK and Germany. Esprinet could leverage its participation to EWG, a pan-European consortium of five independent distributors.

Valuation. On a global peers basis and using consensus estimates, Esprinet trades at 8x 2005F PER versus 12x for peers (a 30%-plus discount), but we note that EU players trade at an average 40% discount to US companies. On a European basis, Esprinet's valuation appears more in line (8x 2005F PER versus 9x for peers or a c10% discount), although still attractive considering that in terms of size and growth drivers, EU companies are more comparable. On a standalone basis, FCF yield is high although dependent on WCR control. Overall, despite 77% performance YTD and 38% total shareholder return since its IPO, Esprinet at 8x 2005F consensus EPS and with its growth potential and risk profile, does seems not fully valued, in our view.

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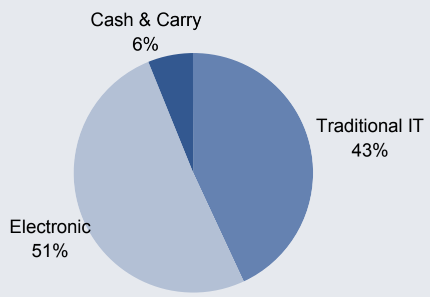
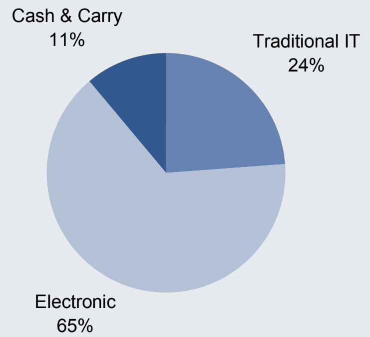
21 December 2004

Fig 13 Revenue breakdown (2003)



Source: Company data

Fig 14 Revenue breakdown (2006F)



Source: Company data, Bloomberg consensus estimates

Key facts & figures

Price (€)	40.0	CEO	Alessandro Cattani
52 wk low/high (€)	20.21/43.00	CFO	Valerio Casari
YTD change (%)	77	IR (Tel)	Valerio Casari (+39 02 0362 496 285)
1 yr total return (%)	79.8	Address	Via Saragat, 4, Nova Milanese 20054
Shares outstanding (m)	4.94	Website	www.esprinet.it
Market capitalisation (€m)	198.4	Market segment	Numtel
Beta vs. MIB30 (Bloomberg)	0.57	Index weights	2.253%
DPS (€); gross yield (%)	0.61; 1.53	Shareholders	Founders & Managers (66.9%)
Consensus EPS 2004F (€); PER 2004F (x)	3.75; 13.7	Free float	33.1%

Source: Company data, Bloomberg consensus estimates

SWOT analysis

Strengths	Weaknesses
Dominant market share in Italy	Lack of negotiation power with large vendors
Management team	Product obsolescence
Opportunities	**Threats/Risks**
Digital convergence	Lack of catalysts after Italian rollout
Exporting the Esprinet model to other EU countries	Control of working capital requirements

Source: ING

Company financials (€m)

Yr to Dec	2002	2003	2004F	2005F	2006F	2007F
Turnover	954	1,315	1,510	1,631	1,750	1,838
EBITDA	23.7	38.2	50.0	55.4	61.3	64.3
EBITA	22.6	34.6	44.8	48.9	53.4	55.3
Net profit	6.6	14.0	18.7	24.7	27.7	29.3
WC requirements	35	7	(9)	(10)	(10)	(7)
Capex	(13)	(6)	(6)	(6)	(6)	(6)
Free cash flow	32.5	22.3	12.3	15.7	20.2	25.5
Net debt (cash)	96	78	50	37	21	(0)
Net debt/equity (x)	2.3	1.5	0.7	0.4	0.2	(0.0)
Capital employed	138	130	118	126	133	136
ROCE (%)	14.6	24.7	35.7	38.8	40.2	40.6
Adj EPS (€)	1.72	3.34	4.34	5.00	5.61	5.93
Adj PER (x)			9.2	8.0	7.1	6.7
BVPS (€)	8.5	10.5	13.7	17.9	22.7	27.6
P/BV (x)			2.9	2.2	1.8	1.4
DPS (€)	0.55	0.57	0.64	0.75	0.86	0.96
Yield (%)			1.6	1.9	2.1	2.4
FCF yield (%)		11.3	6.2	8.0	10.2	12.9
EV/EBITDA (x)			5.1	4.3	3.7	3.2

Source: Company data, Bloomberg consensus estimates

Lean business model

35-40% of IT sold through distributors in Italy

Based on Esprinet's estimates, in Italy, total digital IT equipment sales to final customers (consumers, enterprises and public sector) break down as: 10-15% directly from vendors (IBM, HP, Sony, Samsung, etc), c50% through resellers (system integrators, VAR, dealers, computer shops, etc) and 35-40% through distributors.

Outsourcing vendor inventory…

The value added of distributors is that they allow vendors to outsource their inventory; vendors are able to reduce their invested capital but retain visibility on sales. Distributors also contribute to marketing activities and allow vendors to increase the availability of latest product launches (which is where the margins are). On a more positive note for distributors, the risk of obsolete inventory stays with the vendor – as the price of IT products decreases fast, they recognise receivables to distributors.

...a reference for clients

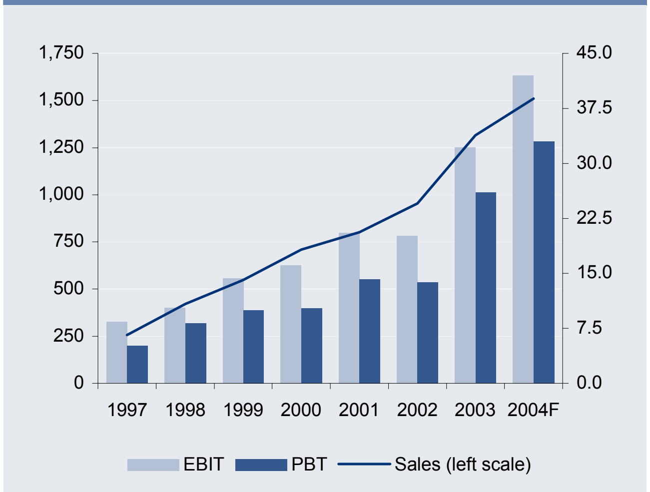
For distributors' clients (value-added resellers, computer shops, etc), it is important to have quick access to a wide basket of products in an efficient way at a reasonable price. Esprinet receives 77% of its orders through the internet, has one centralised, state-of-the-art warehouse close to Milan (200 people at any time in 24 hours) and several transport companies that cover the majority of Italian re-sellers. Within 12-24 hours of ordering online, products are normally shipped to the customer. Esprinet manages c900,000 orders pa and its customer base is highly diversified, the largest client being an electronics retail chain (MediaWorld, 5% of Esprinet sales).

Still leveraged to growth

Digital convergence

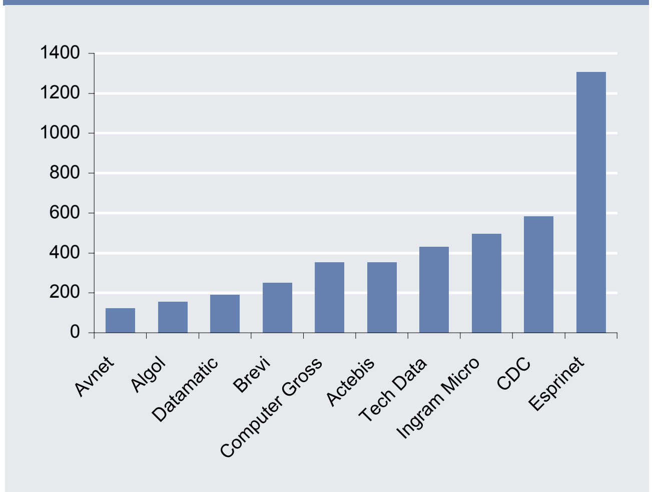
The BIT technology path, ie, the convergence of audio, video, PC, telecom and satellite service devices into single products, is a big opportunity for IT distributors, as it reduces their dependence on the commoditised PC market and could incorporate more value-added products such as cameras, PDA, GPS, MP3. Esprinet targets a reduction in its share of PC-related sales from 54% to 35-37% at the end of the plan.

Fig 1 Financial track record (€m)



Source: Company data

Fig 2 Italian distributors sales (€m)



Source: Sirmi

Outstanding financial track record

34% PBT CAGR in 2000-04F

Esprinet has experienced fast revenue growth mostly driven by market share gains (from 10% to 22% in 2000-04) in a flattish market. Moreover, Esprinet has been able to improve profitability (PBT from up 130bp to 2.2%) and steadily reduce its working capital absorption and net debt (gearing decreased from 10x to 0.6x).

Going to Europe

After 2006, EU expansion

With a market share close to 25% in Italy and no debt on the balance sheet, Esprinet is thinking of exporting its winning model after 2006. This should be carried out through an acquisition in a country that has a similar structure as the Italian market. We believe target countries are Scandinavia, Spain, Portugal, the UK and Germany. Esprinet could leverage its participation to EWG, a pan-European consortium of five independent distributors (Also, Copaco, Memory and GNI).

Comprel flotation

Comprel could be floated on the Expandi

Comprel is a 100%-owned division that distributes niche electronic components in Italy. This activity generates €33m sales and is largely unrelated to Esprinet's core business. Given that it aims to grow in this business through acquisition, it is studying a separate floatation of Comprel on Italy's Expandi market segment (micro-caps). In the case of an IPO, we believe Esprinet will maintain the majority of the capital.

Valuation

10% and 13% FCF/equity yield in 2006F and 2007F

The company's valuation on FCF is highly dependent on the assumption of working capital absorption; assuming it is stable at 8% of sales, FCF/equity yield is quite high at 10% and 13% in 2006F and 2007F, respectively.

Esprinet looks cheap

Looking at peers' multiples, Esprinet looks attractive mostly if compared to US players that however have larger scale (average turnover of €6-7bn); although a discount could be justified, c50% based on 2005-06F PER seems too much to us.

European and Italian peers trade at much lower multiples, but we believe the most comparable to Esprinet is Switzerland's Also Holding that trades at 14x and 13x 2006F and 2007F consensus EPS, respectively. Overall, despite an impressive stock performance in the last 12 months, Esprinet looks cheap – the major catalyst could be European expansion after 2006.

Stock liquidity has grown

The market cap is €198m with a free float of only 33% (€66m); however, its liquidity has improved recently with average daily volume of €1.0-1.2m

Fig 3 Peers' comparison

	Country	Sales 2004F (€m)	Mkt Cap (€m)	EV/EBITDA 2005F	EV/EBITDA 2006F	PER 2005F	PER 2006F
Ingram Micro	US	14,465	2,405	8.2	7.5	15.7	N/A
Tech Data	US	13,847	1,889	N/A	N/A	16.0	14.7
Arrow Electr.	US	8,389	2,190	8.1	7.9	12.5	11.7
Avnet	US	8,274	1,718	8.9	8.1	13.7	11.5
Synnex	US	4,013	507	7.8	N/A	13.7	N/A
Bell Micro	US	2,156	140	N/A	N/A	14.1	N/A
Systemax	US	1,658	169	N/A	N/A	N/A	N/A
Agilysys	US	1,116	416	7.8	7.5	17.8	16.5
Average US players				***8.2***	***7.8***	***14.8***	***13.6***
Medion	Germany	2,768	671	4.6	4.1	9.3	8.4
Scribona	Sweden	1,293	79	2.7	2.1	6.1	4.7
Also Holding	Switzerland	1,133	125	5.4	6.3	13.9	12.7
Copaco	Netherlands	439	50	4.9	4.3	8.4	7.7
Average EU players				***4.4***	***4.2***	***9.4***	***8.4***
CDC	Italy	626	121	3.6	3.1	9.0	7.3
Algol	Italy	10	137	N/A	N/A	N/A	N/A
IT Way	Italy	80	25	4.3	3.6	8.3	8.0
Average Italian players				***4.0***	***3.4***	***8.7***	***7.7***
Total average				**6.0**	**5.5**	**12.2**	**10.3**
Esprinet	Italy	1,510	198	4.3	3.7	8.0	7.1

Source: Bloomberg consensus estimates

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Italy

Italcementi

Not rated

Cemented profit

Reuters: IT.MI
Market cap: €2,977m

(23/12/2004)

Cement & construction materials

Price: €11.8

Italcementi is the fifth world cement producer with 45.6m tonnes of cement sold. Energy costs, raw material prices and a weak US dollar could undermine the profitability increase. Italcementi currently trades with a 30% and 1% discount on 2006F EV/EBITDA and PER respectively, having a 1.3ppt lower EBITDA margin.

The fifth-largest global cement producer. Italcementi is the fifth-largest world cement producer (after Lafarge, Holcim, Cemex and Heidelberg) with 45.6m of tonnes cement and clinker sold in FY03, sales of €4.2bn and 17,000 employees (of which more than 500 are dedicated to technical and research activities). Italcementi has a presence in 19 countries, with a total of 60 cement plants, 13 grinding centres, four terminals, 547 concrete batching units and 155 quarries. In 1992 Italcementi started its internationalisation expansion by acquiring Ciments Francais, which gives it a presence in many Mediterranean countries and in the US. In 1998 Italcementi further expanded its foreign activities, acquiring cement companies in Thailand, Bulgaria and Kazakhstan, and entering into the Egyptian and Indian markets in 2001. Today, Italcementi realises c.32% sales in Italy, c.52% in other mature countries and c.16% in emerging countries.

The first 9M results. Sales and EBITDA rose by 5.9% to €3.4bn and €854.4m respectively, mainly thanks to Asian improvement (+16.6% sales and 16.2% EBITDA including Kazakhstan) and European markets (+6.5% sales and 4.4% EBITDA). Pre-tax profit rose by 6.7% partly due to the c.26% reduction in financial charges and the contribution from the companies consolidated on an equity basis (mainly the Suez Cement Company). Financial debt including floating rate subordinated securities (FRSS), was €1.67bn, down by €257m on 1H04 and by €187m on FY03, mainly thanks to the cash flow generated (€587m).

2004 outlook. Despite a still unstable geopolitical situation, the international construction sector is maintaining positive growth levels, especially in North America and in emerging countries, albeit less dynamically than in 1H04, due to the high level of raw material prices, especially of fuels. In some countries the construction sector, remaining at historically high levels that are generally helped by the residential sector, could show some signs of a slowdown in the last part of the year. Against this background, it seems likely that the weakening of the trend in operating income that emerged in 3Q04 will continue into the last part of the year, mainly due to the impact of rising energy costs. The good performance already achieved during 9M04 and the contribution ensured by the positive trend in financial items should, therefore, keep results, before non-recurring items are considered, above the level achieved last year.

Valuation. According to JCF and ING (for Buzzi Unicem, Lafarge and Holcim) estimates, Italcementi currently trades at c.30% and c.1% discount on 2006F EV/EBITDA and PER respectively, having c.1.3ppt lower EBITDA margin. In the next three/six months, we think the price of fuels and related products and raw material costs could influence the price of cement stocks. Thus, we believe that investors should wait for a significant construction market recovery before further increasing their cement stocks portfolio weight.

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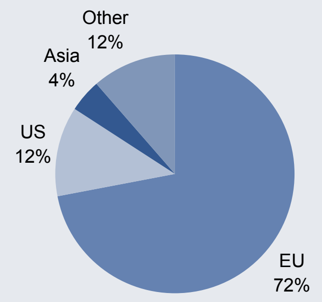
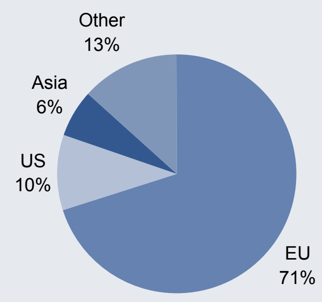
29 December 2004

Sales breakdown (2003)



Source: Company data

EBITDA breakdown (2003)



Source: Company data

Key facts & figures

Price (€)	11.78	CEO	Mr C. Pesenti
52 wk low/high (€)	12.32 / 9.47	CFO	Mr G. Bodo
YTD change (%)	19.1	IR (Tel)	Mr G. Berera, Mr A. Arrigoni
1 yr total return (%)	23.2	Address	Via G. Camozzi 124 – 24121 Bergamo
Shares outstanding (m)	177.1	Website	www.italcementigroup.com
Market capitalisation (€m)*	2977	Market segment	MTA
Beta vs. MIB30 (Bloomberg)	0.74	Index weights	NM
DPS (€); gross yield (%)	2.3	Shareholders	Italmobiliare 58.7%
Consensus EPS 2004F (€); PER 2004F	0.973 / 12.1	Free float (%)	39.5%

Source: Company data, JCF. *including saving shares

SWOT analysis

Strengths	Weaknesses
Geographical diversification reduces business risks Strong cash generator and solid financial structure	Limited exposure to developed countries
Opportunities	**Threats/Risks**
Increase sales in profitable emerging countries Italian public construction plan may sustain the positive market trend	Increase in production costs may tax profitability increase Country political risks in Egypt and Turkey

Source: ING

Company financials (€m)

Yr to Dec	2002	2003	2004F	2005F	2006F
Turnover	4,261.7	4,284.7	4,448.9	4,577.9	4,821.0
EBITDA	1,108.8	1,060.9	1,105.4	1,152.4	1,256.6
EBITA	711.2	656.4	685.4	720.2	801.5
Net profit	274.0	276.8	274.9	289.3	331.9
WC requirements	437.8	447.7	468.0	535.0	579.0
Capex	-971.1	-375.2	-470.0	-440.0	-440.0
Free cash flow	-219.1	288.4	194.5	215.0	314.6
Net debt (cash)	-2,086.1	-1,797.8	-1,603.3	-1,388.3	-1,073.7
Net debt/equity (x)	0.74	0.64	0.52	0.41	0.29
Capital employed	5,000.2	4,674.2	4,748.5	4,832.8	4,850.1
ROCE (%)	14.2	14.0	14.4	14.9	16.5
Adj EPS (€)	0.970	0.980	0.973	1.024	1.175
Adj PER (x)	12.2	12.0	12.1	11.5	10.0
BVPS (€)	7.5	7.7	8.7	9.7	10.9
P/BV (x)	1.6	1.5	1.4	1.2	1.1
DPS (€)	0.32	0.35	0.35	0.38	0.4
Yield (%)	2.7	3.0	3.0	3.2	3.4
FCF yield (%)	-8.0	10.5	7.1	7.8	11.4
EV/EBITDA (x)	4.36	4.29	3.94	3.59	3.04

Source: Company data, Consensus estimates (JCF)

The results

During the 9M04 sales volumes improved in most of the business areas, even if 3Q04 showed a less favourable trend than that of 1H04. Particularly positive was the volume growth in cement/clinker (4.7%-5.9%), mainly thanks to the European Union countries (+3.9%). The aggregates sector volume grew by 5.1% due to the emerging countries (+14.2%).

Favourable trend in Italy...

In Italy, the favourable trend in cement consumption strengthened further in 3Q04 leading to a 9M04 increase of 4.5%. The acceleration in 3Q04 was due to the recovery in consumption in the North, which had been hit in the first part of the year by unfavourable weather.

Ready mixed concrete market volumes continued in 3Q04 at an even higher rate than was recorded in 1H04. The public sector works crisis in the South continued, while business in the North remained strong, helped by works for the high-speed railway (albeit gradually winding down) and by works linked to the forthcoming Olympic Games in Turin.

...and France

In France, in a market that remains constantly positive, Italcementi's cement sales in 3Q04 grew by 5% in volume, with sale prices above those in the previous year (-c.2%).

Thailand sales fell...

As far as the emerging countries are concerned, in Thailand in 3Q04, overall Group cement and clinker sales fell by 12% (+10.3% growth in the nine months to the end of September), which was entirely due to the drastic fall in exports. Sales volumes were in fact very solid in the domestic market (+17.5%), albeit with a fall in sale prices due to the intensification of the fierce competition that arose at the end of the first half.

...but growth in India and Kazakhstan

In India and Kazakhstan, cement and clinker volumes grew by 13% and 15.8% respectively, continuing the positive trend of 1H04.

Debt continues to fall

The cash flow generated from operations in 3Q04 (€218m) allowed net debt to be reduced by €250m (€257m including the value of the floating rate subordinated securities) compared to 1H04 and by €165m (€187m including floating rate subordinated securities) compared to the situation in FY03, with investments in fixed assets in 9M04 of €199m overall. The impact of exchange rate changes, compared to FY03, on the net debt was a loss of €1.5m. The DE ratio (including the value of the floating rate subordinated securities) at the end of September was 55.2% (66.0% in 1H04 and 65.4% in FY03), and could support further investments.

2004-06F outlook

JCF consensus could be higher

The company is not used to releasing its long-term outlook target. The JCF consensus estimates that FY04 sales could grow by 4.2%, with a substantial stable EBITDA margin (24.8%).

As far as the FY05F results are concerned, the consensus forecasts sales growth of 3.8% and EBITDA growth of 0.4ppt to 25.2%. According to the guidelines contained in the last Italcementi presentation, and taking into account the cement sector key drivers (construction sector growth, raw material prices, energy costs, etc), the JCF consensus could be optimistic, especially in terms of EBITDA margin.

Valuation

According to JCF and ING (for Buzzi Unicem, Lafarge and Holcim) estimates, Italcementi currently trades at c.30% and c.1% discount on 2006F EV/EBITDA and PER respectively, having c.1.3ppt lower EBITDA margin.

Fig 1 Italcementi and peers

Company	Price	Rating	EBITDA margin			EV/EBITDA			PER		
			2004	2005	2006	2004	2005	2006	2004	2005	2006
Italcementi #	11.8	N/R	24.8%	25.2%	26.1%	3.9	3.6	3.0	12.1	11.5	10.0
Buzzi Unicem §	10.8	Buy	25.3%	25.6%	25.4%	5.0	4.9	4.4	16.8	10.8	9.6
Cementir #	3.9	N/R	27.9%	29.4%	30.3%	4.6	4.9	3.8	14.4	13.3	11.3
Lafarge §	71.4	Buy	21.0%	21.4%	21.7%	6.9	6.3	5.8	11.2	10.3	9.3
Holcim §	103.1	Buy	27.9%	28.9%	29.6%	6.4	5.6	4.8	13.5	11.7	10.2
Cemex #	5.4	N/R	32.7%	32.9%	31.4%	6.9	5.9	5.1	17.0	10.8	10.5
Average			26.6%	27.2%	27.4%	5.6	5.2	4.5	14.2	11.4	10.1

Source: # Jacques Chahine Finance; § ING estimates

The geographical diversification allows Italcementi to smooth the sales reduction risks of 'winter' European cold countries. For this reason and in view of its strong financial position and low volatility of operating earnings, Italcementi tends to behave as a defensive stock within its sector. In the meantime, trends in the US dollar, energy costs and cement prices across the markets covered by Italcementi could likely continue to influence sentiment on the stock.

Thus, we think that investors should wait for better economic conditions, especially for the construction sector (both private and public) before increasing their cement stocks portfolio weight further.

Italy

Lottomatica

Not rated

Play the high yield

Reuters: LTT.MI
Market cap: €2,100m

(28/10/04)

Leisure and entertainment

Price: €23.6

Lottomatica is the world leader in the lottery sector. Around 88% of its revenues depend on the lotto concession, which expires in 2012. Its strategy is to maximise shareholders' return: since 2001 it has paid out €730m. It trades at 16% and 22% premiums on PER and EV/EBITDA, respectively, against its peers.

Main shareholders. De Agostini group (one of the main Italian editorial non-listed groups), directly and indirectly owns 65.2% after a takeover bid launched in December 2001; Fidelity Funds owns 5%, free float is 29.8%.

Activity. Lottomatica managed the national lotto game due to a concession, which is due to expire in 2012. It is not clear whether the lotto concession will be awarded to Lottomatica again in 2012. The group is the biggest player in the lotto sector, since the Italian lotto game is amongst the biggest in the world. In 1H04 lotto collection represented the bulk of the company's business, accounting for c.88% of 1H04 sales and c.91% of EBITDA. Moreover, Lottomatica realised c.8% of 1H04 sales (6% of EBITDA) in the services area: payment of RAI television licences, sales of telephone top-ups and ticketing services for sporting and other events.

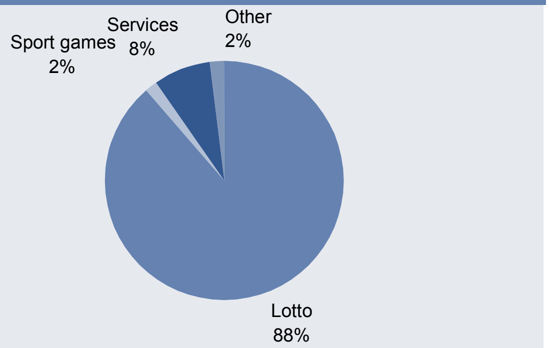
Results. 1H04 revenues rose by 22% to €321.6m from €263m. Services, including PCC, Betting Services and CNL grants for €2.9m, rose by 57% to €25.2m. EBITDA rose by 77% to €184m, mainly thanks to the lotto game (EBITDA rose by 90% to €171m). 1H04 figures show a growth of more than 29% in lotto wagers and in the commission due to Lottomatica, essentially due to the higher volume collected for late numbers. The same period also shows an increase in the overall number of bets, totalling 1.4bn compared to 1.3bn in the previous year. Free reserves, which Lottomatica could use to pay extra dividends (in line with the last two years), amounted to €160-170m, meaning a potential extra dividend of c.€1.8-2 per share.

Lottomatica's 2004-06 plan gives an indication for each company segment: the lotto, services and others businesses. As far as the lotto game is concerned, Lottomatica expects to reach c.€440m of sales and €230m EBITDA in 2006, despite a downward revision of volumes to a stable €7.5bn in the three-year period. The guidance reflects the benefit of lotto efficiencies achieved ahead of schedule (€34m in 2003 and €69m in total by 2006). Services is the area in which Lottomatica forecasts strong growth by 2006. Sales are expected to reach €100m (€31m in FY03).

Valuation. Lottomatica currently trades at 16% and 22% premiums on PER and EV/EBITDA, respectively, against its peers, having a c.70% higher EBITDA margin. If we add the potential extra dividend consensus of €1-1-3 per share to the ordinary consensus dividend of €0.83, Lottomatica's net yield at its current price would be c.7.7-9%. Basing the valuation only on ratios, Lottomatica's price could be close to fair value. On the other hand, Lottomatica could continue to offer a superior yield, with lower business risks.

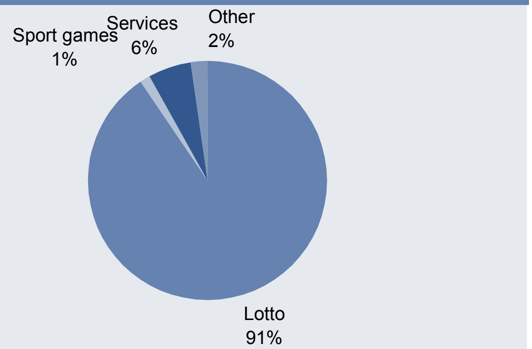
Antonio Tognoli antonio.tognoli@ing.it
Michael Carter michael.carter@ing.it
29 October 2004

Revenues breakdown (1H04 data)



Source: Company data

EBITDA breakdown (1H04 data)



Source: Company data

Key facts & figures

Price (€)	23.6	CEO	Mr R. Bifulco
52-wk low/high (€)	15.5 / 23.7	CFO	Mr F. Celadon
YTD change (%)	5.8	IR (Tel)	Mrs S. D'Agostino (+39 06 51899842)
One-year total return (%)	57.6	Address	Via Mosca, 45
Shares outstanding (m)	88.8	Website	www.lottomatica.it
Market capitalisation (€m)	2,100	Market segment	MTA
Beta vs. MIB30 (Bloomberg)	N/M	Index weights	N/M
DPS (€); gross yield (%) 2004F	€1.08; 4.5%	Shareholders	De Agostini 65.3%; Fidelity 5%
Consensus EPS 2004F (€); PER 2004F	€1.128; 18.8x	Free float (%)	29.8

Source: Company data, JCF, Bloomberg

SWOT analysis

Strengths	Weaknesses
Highly profitable lotto game business Lottery concession until 2012	Limited international diversification EBITDA strongly depends on lotto game
Opportunities	**Threats/risks**
Development in the service businesses	Regulatory risks for concession renewal Competition from other service players (post, banks, etc)

Source: ING

Company financials (€m)

Yr to Dec	2003	2004F	2005F	2006F	2007F
Turnover	501.1	551.0	612.8	661.2	N/A
EBITDA	203.8	253.6	282.3	304.0	N/A
EBITA	71.9	131.0	167.5	224.9	N/A
Net profit	9.2	69.0	94.4	114.7	N/A
WC requirements	(62)	(25)	20	22	N/A
Capex	147	65	35	35	N/A
Free cash flow	(96)	100	185	210	N/A
Net debt (cash)	167	160	90	(63)	N/A
Net debt/equity (x)	0.42	0.82	0.35	N/M	N/A
Capital employed	582.1	580	510	500	N/A
ROCE (%)	*12.3*	*22.6*	*32.9*	*45.0*	*N/A*
Adj EPS (€)	0.104	1.160	1.450	1.630	N/A
Adj PER (x)	N/M	20.3	16.3	14.5	N/A
BVPS (€)	4.5	3.2	2.9	3.5	N/A
P/BV (x)	5.2	7.3	8.1	6.7	N/A
DPS (€)	1.78	1.07	0.71	0.79	N/A
Yield (%)	*7.5*	*4.5*	*3.0*	*3.3*	*N/A*
FCF yield (%)	*-4.6*	*4.8*	*8.8*	*10.0*	*N/A*
EV/EBITDA (x)	11.10	8.93	7.81	6.86	N/A

Source: Company data, Consensus estimates (JCF)

A private company

De Agostini is the major shareholder with 65.2% of share capital

Lottomatica was listed on the Italian stock exchange in May 2001 at a price of €4.75. At the end of December 2001, the De Agostini group launched a takeover bid at a price of €6.55. In December 2002, Lottomatica merged with its controlling company, Tyche, at the merger ratio of 1:2, generating more than €500m of goodwill. At the time De Agostini group owned directly and indirectly c.65.2% of Lottomatica's share capital.

Activity

The biggest worldwide player in the lotto game

All games in Italy are regulated by the AAMS Administration (Amministrazione Autonoma dei Monopoli di Stato) of the Italian government. The lotto game alone represents c.50% of the total market (c.€16bn in FY03) and generated c.57% of government income from the gaming market. Thus, the lotto game represents a key item in the Italian government budget. Lottomatica is the biggest worldwide player in the lotto game due to a concession, which will expire in 2012. Is not clear whether the lotto concession will be awarded to Lottomatica again in 2012. It is possible that the Italian government could give the same concession to different companies.

The Italian lotto game

The game is based on drawing five winning numbers from each of the ten drawing wheels (located in ten Italian towns). Lotto drawings take place twice a week (on Wednesday and Saturday). The bets placed on the terminals are recorded in real time in the central database. The minimum bet that can be placed is €1 and the maximum is €200. Winnings are set to a pre-defined multiple of the original bet. Wagers can be made directly at the POS or by phone. Lotto gaming results from prescribed fees, as a percentage of total Lotto ticket collection, whereby commission rates are applied to different collection levels, according to a decreasing fee scale (decalage mechanism). Lottomatica's revenues depend only on total wagers and are not affected by the sum paid out to winners (which falls on the Ministry of Finance).

Lottomatica's strategy

Strategy: maximise the shareholders' return

The new management, formed after the De Agostini acquisition, has a clear strategy. It aims to maximise the return to shareholders (gearing optimisation, high payout ratio, non-core assets sale). Since the De Agostini acquisition, Lottomatica has paid out €730m in dividends (both ordinary and extraordinary), or c.35% of its current market cap.

Lottomatica's guidelines are based on: 1) diversification of its gaming portfolio in order to reduce the lotto revenues weight; 2) development in the service business, through new offers and a network expansion; 3) raising profitability through careful cost-cutting.

2004-06 plan seems feasible

Lottomatica's guidelines are explained better by its 2004-06F plan, which gives the indication for each business segment: lotto, services and others businesses. Lottomatica expects consolidated net sales of c.€600m (with single-digit growth for 2006) and EBITDA of c.€270-280m (excluding Bingo) in 2005F, meaning an EBITDA margin of c.45-46% (maintained in 2006). As far as lotto is concerned, Lottomatica expects c.€440m revenues and €230m EBITDA in 2006F (EBITDA margin c.52%), despite a downward revision of volume to a stable €7.5bn in the three-year period. The guidance reflects the benefit of lotto efficiencies achieved ahead of schedule (€34m in 2003 and €69m in total by 2006F).

Services is the area in which Lottomatica forecasts strong growth by 2006F: sales are expected to reach €100m (€31m in FY03), thanks to new services (utilities bill payment, stamped value). Part of the contribution could come from the Totobit acquisition and from existing services growth (€52m in 2006 vs €40m in 2003).

As far as Lottomatica's other businesses are concerned, they are expected to contribute modestly to group performance (c.3% of EBITDA as a whole in 2005 and c.6% in 2006). They could also still suffer from scarce visibility since some are still in relaunch mode.

Valuation

High and sustainable dividend yield

Lottomatica currently trades at 16% and 22% premiums on PER and EV/EBITDA, respectively, against its peers, having a c.70% higher EBITDA margin. At the current price JCF consensus forecasts a dividend of €1.08 per share, meaning c.€96m of total dividend. Since FY04 net profit consensus is €74m (€0.83 per share); the JCF analysts panel expects Lottomatica to distribute €22m of reserves (€0.25 per share). Lottomatica's free reserves would allow it to pay an extra dividend of €1.8-2.0 per share (analysts' consensus is c.€1-1.3 per share).

If we add the extra dividend of €1-1.3 per share to the ordinary dividend of €0.83, Lottomatica's net yield at the current price would be c.7.7-9%.

In conclusion, mainly basing the valuation on ratios, Lottomatica's price could be close to its fair value. On the other hand, it could continue to offer a superior yield, with lower business risks.

Fig 1 Lottomatica and its peers

Company	Price (€)	EBITDA margin (%)			EV/EBITDA (x)			PER (x)			Div. yield
	28/10/04	2004F	2005F	2006F	2004F	2005F	2006F	2004F	2005F	2006F	2004F
Lottomatica	23.6	46.0	46.1	46.0	8.9	7.8	6.9	20.3	16.3	14.5	4.5
Scientific Games	16.6	29.1	33.2	N/A	8.4	6.6	N/A	25.0	19.1	16.1	0.0
Stanley Leisure	6.0	4.6	5.4	5.6	8.8	7.2	6.4	16.0	14.5	13.2	2.5
Opap(Greece)	16.0	20.1	19.6	19.5	7.6	7.2	6.8	13.0	12.2	11.5	7.7
Intralot Sa	13.7	36.9	36.3	36.2	3.9	3.1	2.6	9.1	7.5	7.0	6.7
Average		27.4	28.1	26.8	7.5	6.4	5.6	16.7	13.9	12.5	4.4

Source: Company data, JCF consensus, ING estimates

Italy

Prima Industrie

Not rated

Laser machines on the way back to growth

Reuters: PRII.MI
Market cap: €40m

(09/03/05)

Engineering & Machinery

Price: €8.65

Prima Industrie is an integrated player of high-power laser machinery with a focus on 3D where it holds worldwide leadership. The market, after two difficult years, recovered in 2004 and should maintain its growth momentum in the future. Multiples based on management targets, shares are becoming quite attractive as 2006 approaches: <9x PER'06 vs. Rofin-Sinar at 12.5x and EL.EN at 18x (JCF est).

Profile. Prima Industrie (PRI) is a manufacturer of laser systems and machines for high-power industrial applications with more than 25 years experience in 3D lasers. PRI grew organically and through two acquisitions in the US in 2000/01. The group was one of the pioneers of Italian *Nuovo Mercato* in '99 (IPO at €7.5/s) and is now part of the TechSTAR segment. The main shareholders are managers (14%) and three financial investors (35%); free float is 51%. PRI now has five manufacturing facilities, two in Italy, two in the US and one in China.

Competitive position. The global market is made up of around 3,000 machines/year. PRI is the fifth player worldwide with c.200/year or 7% market share: leaders are Trumpf (German, 40% share), Bystronic (Switz; 25%) and Japanese Amada (10%) and Mazak (8%). The group has 50% market share in EU and 25% in the US in 3D laser machines (10% of total laser market), but its weaker on 2D (5% worldwide). Exposure to clients by industry is roughly 20% automotive, 15-20% aerospace and c.50% sheet metal processors, which are actually the main source of new demand. Market growth is expected in the high single digits over the next five years, driven by substitution of less efficient traditional machines. Trumpf recently gave 6-7% sales growth guidance for 2005.

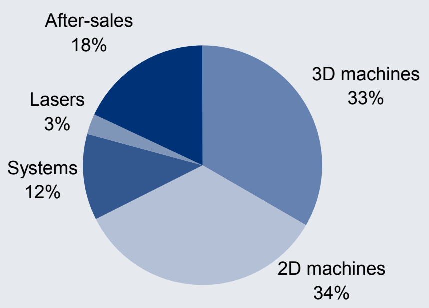
Strategy. PRI aims: (1) to continuously innovate: PRI just launched a new machine *'Syncrono',* which realises laser cuts at double-speed compared to previous technology; (2) to speed-up internalisation of laser sources, reinforcing positioning in Asia with a particular focus on China (30% market growth expected); and (3) to rationalise its corporate structure through G&A cost savings and strengthen its salesforce (commercial agreement signed with Salvagnini, a large domestic machinery producer).

Financials. In 2004 PRI reported €100m turnover, 5% growth YoY (+9% at constant forex). Sales growth was driven by non-EU countries (now >40% of sales vs <10% at IPO). PRI reached €7m EBITDA (vs €2.7m), €5m EBIT (vs €1m) and €1.3m profit (vs €3m loss) despite an abnormal 67% tax rate. Growth in margins has been driven by a higher utilisation of proprietary laser (<20% last year, >30% in 2004) and a turnaround of US business (now at EBIT breakeven). Net debt decreased from €22m in 2003 to €16m on the back of decreasing NWC.

Outlook & valuation. Management's outlook for 2005 is positive due to: 1) high growth in emerging markets; 2) margin improvement due to increasing penetration of proprietary lasers (>50% target); 3) progressing recovery of US subsidiary and 4) fulfilment of natural USD hedge. Order book at 1/1 was flattish at €19m, however, due to a shortening of time-to-market (last year was down 26%). IAS/IFRS main impact will be recognition of revenues at client acceptance rather than shipping. R&D is normally 6-7% of sales fully expensed on the P&L. Based on management guidance, PRI multiples are becoming quite attractive as from 2006: PER of 9x and DPS yield at 4%; this compares well to Rofin-Sinar (Germany; €0.4bn mkt cap) at 12.5x 2006F PER and low-power laser players such as: GSI (Canada, €350m MC) at 11x and EL.EN. (Italy; €120m) at 18x based on JCF consensus.

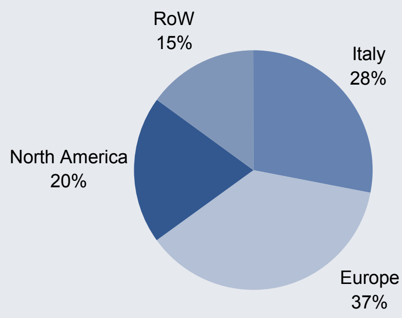
Vittorio Villa, CFA vittorio.villa@ing
Antonio Tognoli antonio.tognoli@ing
10 March 2005

Revenues breakdown by products (2004)



Source: Company data

Geographic breakdown (2004)



Source: Company data

Key facts & figures

Price (€)	€8.65	CEO	Gianfranco Carbonato
52 wk low/high (€)	€5.91 / 9.37	CFO	Massimo Ratti
YTD change (%)	19.7%	IR (Tel.)	Chiara Roncolini (+39 011 410 33 61)
1 Yr Total Return (%)	30.5%	Address	Via Antonelli, 32 – Collegno, Torino
Shares outstanding (m)	4.6	Website	www.primaindustrie.com
Market capitalisation (€m)	€40m	Market segment	STAR
Beta vs. SP/MIB (Bloomberg) (x)	0.65x	Index weights (%)	0.32%
DPS (€); Div. Yield (%)	€0.14 / 1.6%	Shareholders (%)	Management 14%, Financial investors (35%)
Bloomberg 2005F EPS (€); PER (x)	€0.67 / 13.2x	Free float (%)	51%

Source: Company data, Bloomberg

SWOT analysis

Strengths	Weaknesses
Leadership in 3D laser segment with 50% in Europe and 25% in US	Weak positioning in 2D, where there are large competitors
Speculative appeal (Gnutti&Interbanca launched a bid at €7.5 in '03)	Still small size, need to increase critical mass
Opportunities	**Threats/Risks**
Profitability surge in the US; increasing penetration of prop. laser	Exposure to automotive and aerospace sectors
Acquisitions in China or strengthening of existing JVs	Rising pressure from Asian competitors

Source: ING

Company financials (€m)

	2002	2003	2004	2005F	2006F	2007F
Turnover	100.5	95.0	100.0	110.0	120.0	130.0
EBITDA	0.1	2.7	6.9	8.5	10.8	13.0
EBITA	(1.9)	1.1	5.5	7.0	9.4	11.5
Net profit (published)	(5.0)	(3.0)	1.2	3.3	4.6	5.9
NWC requirements	1.0	15.4	4.7	(2.7)	(2.6)	(3.0)
Capex	(1.0)	(1.0)	(1.1)	(1.5)	(1.5)	(1.5)
Free cash flow to equity	(2.4)	14.1	6.7	0.6	2.1	2.9
Net debt (cash)	39.3	22.3	15.6	15.7	15.0	14.0
Net debt/equity (x)	1.4	0.8	0.5	0.5	0.4	0.4
Capital employed	66.5	50.1	44.4	46.4	48.5	51.0
Gross ROCE (%)	(3.8)	1.2	11.5	15.2	19.3	22.6
Adj EPS (€)	(1.21)	(0.54)	0.37	0.72	1.00	1.27
PER (x)	neg.	neg.	17.6	12.0	8.6	6.8
BVPS (€)	6.6	6.1	6.2	6.7	7.3	8.1
P/BV (x)	1.4	1.2	1.0	1.3	1.2	1.1
DPS (€)	0.00	0.00	0.14	0.30	0.40	0.50
Div yield (%)	0.0	0.0	2.2	3.4	4.6	5.7
FCFE yield (%)	(6.4)	43.2	22.6	1.5	5.2	7.2
EV/EBITDA (x)	NS	21.6	7.1	7.1	5.5	4.5

Source: Company data, Management estimates

Italy

Risanamento

Not rated

'Real' development and trading player

Reuters: RN.MI
Market cap: €531M

(21/12/2004)

Real Estate

Price: €1.91

Risanamento has emerged as one of the sharpest property developers in Italy. The company's main project is Milano Santa Giulia, which is expected to generate c.€3bn of revenues. Our view is that as soon as the visibility and critical mass of the group improve, management will be able to create even more value. The estimated discount to NAV is now 52%.

Activities: Risanamento is the third-largest Italian player in real estate activities, after Pirelli RE and Beni Stabili. The group was created through the merger of *Risanamento Napoli* and *Bonaparte* in 2002. In 2003, Risanamento bought 75% of IPI share capital from Fiat, and recently sold it to Coppola for a total consideration of c.€213m (€7/share). The group has operations in promotion and development (70% of its asset base), property trading (30%) and real estate services, the latter mainly through the IPI subsidiary (now sold to the Coppola group). Risanamento's portfolio has an overall area of about 1.7m sqm (of which 1.4m sqm is under development) with an overall pro forma asset value of €1.6bn (following the IPI sale, which is due to complete at the beginning of 2005), based on company estimates.

Management. One of the group's clearest strengths is management's outstanding track record of creating value in one of the higher risk/return activities in real estate: the development business. Luigi Zunino and his team have demonstrated their ability to extract significant returns from development projects and the trading business. Our view is that as soon as group critical mass and visibility improve, Risanamento will be increasingly able to create shareholder value.

Financials. Risanamento's 9M04 results showed a strong pick-up in production (from €98m to €270m) due to the sale of areas and buildings (from €58m to €200m). Among the sales, major transactions included: a building in Naples for €52m, land in Turin for €51m, and two buildings in Milan for €34m. Major acquisitions included: the purchase of property complexes in Paris for €190m from SFL group and the acquisition of buildings in Milan for c.€100m. In November, the group also acquired a large real estate portfolio from ENEL for a total consideration of €227m.

New initiatives. The main Risanamento investment initiative is Milano Santa Giulia. This is one of the most prestigious plans for valorization of an ex-industrial area in Milan, with a surface area of 1.2m sqm and total NLA (Net Lettable Area) of 708,000 sqm. The area is easily accessible: 4km (or eight subway stops) from Milan's historical city centre, near the high-speed railway station on the Milan-Rome route and 1km from Milan's Linate airport. The land previously hosted chemical and steel plants. Construction work will start in the first half of 2005, with completion expected within six years (2010/11). Total construction costs are estimated at €1.2-1.4bn (including €150-200m for infrastructure) with revenues estimated at €2.8-3bn.

Valuation. Models based on peer group multiples or cash flow are meaningless when valuing Risanamento. In the pages that follow, we provide a Net Asset Value calculation based on data discussed with the company. NAV is €4.0/share (70% in development and 30% in trading). The current stock price implies a 52% discount to NAV. We believe this will diminish, as more visibility on the group comes through.

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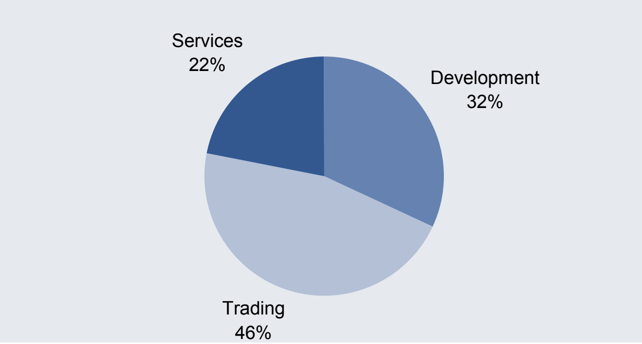
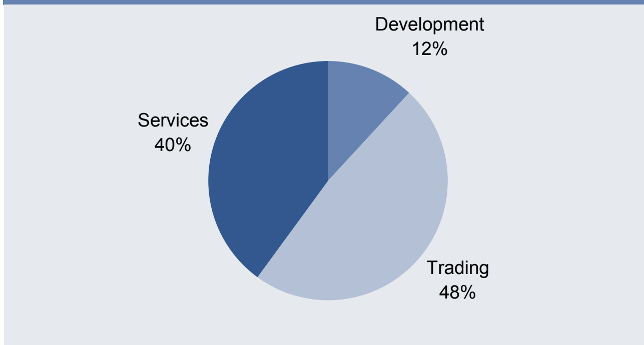
22 December 2004

Revenue breakdown (2003)



Source: Company data

Profitability breakdown (2003)



Source: Company data

Key facts & figures

Price (€)	1.91	CEO	Luigi Zunino
52-wk low/high (€)	2.00	CFO	Giulio Rasetta
YTD change (%)	1.29	IR (Tel)	
1-yr total return (%)	26.3	Address	Via Bagutta 20, Milano
Shares outstanding (m)	274.3	Website	www.risanamentospa.it
Market capitalisation (€m)	525.4	Market segment	MIBTEL
Beta vs. MIB30 (Bloomberg)	0.53	Index weights	0.092%
DPS (€); gross yield (%)	1.46	Shareholders	Luigi Zunino 69.7%; Others 7.7%
Consensus EPS 2004F (€) ; PE 2004F	N/A / N/A	Free float (%)	22.65%

Source: Company data, Bloomberg

SWOT analysis

Strengths	**Weaknesses**
Management track record in real estate development	Limited free float may tax financing access (capital increase)
Low fixed cost structure	Significant part of NAV depends on Santa Giulia project
Opportunities	**Threats/Risks**
Improving project visibility	Strong run in real estate prices
Increasing Italian real estate marketability/liquidity (REITs)	Rising interest rates

Source: ING

Pro-forma NAV calculation after IPI disposal (€m)

Milano Santa Giulia		1.2m sqm; 708,000sqm total NLA; Milan: 4km from city centre
Porta Vittoria		56,000 sqm total NLA; Prel. agreement to sell 12,000 sqm residential area for €21m
Naples shopping center		172,000 sqm gross
Other initiatives		
Total development	*1,100*	
Paris		Acquisition cost (Sept. 04);
ex-IPI assets		
Naples Umberto		
Other trading		
ENEL		
IPI		Remaining 10% stake
Total trading	*500*	
Total asset value	**1,600**	
Net debt 30 Sept. 2004	685	
+/- adjustments	(181)	IPI/ENEL deals
Net debt pro-forma	504	
Net asset value	**1,096**	
No. of shares (m)	274	
NAV/share (€)	**4.00**	
Stock price **(€)**	1.91	
Premium/(discount) to NAV (%)	***-52***	

Source: Company data

Activities: RE development and trading

An Italian real estate company…

Risanamento is the third-largest Italian player in the real estate business. It mainly operates in the following business areas: the promotion and development of medium- and large-scale sites; real estate services; and trading. As far as the promotion and development business is concerned, at the end of November 2004, NAV accounted for €1.1bn. As far as the trading business is concerned, the company has completed a lot of sales in 2004. These sales accounted for a total of €210m, resulting in a capital gain in excess of €50m, while sales with preliminary agreements, yet to be completed, accounted for €648m, which might result in a capital gain of c.€155m (the big transaction was the sale of IPI and part of the ENEL portfolio, both to Coppola).

... with some interesting property assets in Paris

In July 2004, Risanamento decided to expand its business in Paris. It bought a real-estate portfolio previously owned by Société Foncière Lyonnaise (SFL) for the equivalent of approximately €190m. The assets are located in the centre of Paris (8th district). The purchased portfolio, with an overall surface area of 23,000 sqm and approximately 700 parking spaces, is almost completely rented for office or residential uses. The purchase was formalised in September through two Luxembourg companies (Etoile Première Sàrl and Etoile Deuxième Sàrl) fully owned by Risanamento.

Financials

A difficult read

We provide a snapshot of Risanamento's P&L account, which in any case is not particularly useful from a valuation standpoint, and balance sheet, which assumes more importance in terms of valuation. We note a growth in invested capital since 2002, driven by trading, while the P&L is mostly driven by asset disposals. Management does not expect the new IAS/IFRS accounting rules to have a significant impact.

Fig 1 P&L and balance sheet (€m)

	2002	2003	9m04
Turnover	62.6	144.5	270.5
EBIT	8.2	40.5	41.9
Fin. income/costs	6.6	(34.7)	(33.9)
Others	7.9	(2.9)	3.7
PBT	22.8	2.9	11.8
Net profit	**1.5**	**0.3**	**(0.2)**
Intangible	15	28	29
Tangible	645	550	668
Financial	41	91	46
Total fixed assets	**701**	**669**	**744**
Inventory	325	408	532
Receivables	167	148	172
Other current assets	8	3	2
Current liabilities	(338)	(230)	(235)
Working capital	**162**	**330**	**471**
Other funds	59	64	65
Net invested capital	**804**	**936**	**1150**
Net equity	402	442	436
Net debt	402	493	715
- Convertible bonds	*175*	*175*	*0*
- Bank debt	*294*	*365*	*751*
- Other financial debt	*18*	*19*	*0*
+ Net cash	*(85)*	*(66)*	*(36)*

Source: Company data

Milano Santa Giulia

Milano Santa Giulia project

According to Risanamento's plans, the Milano Santa Giulia area will become a new city (in fact, Risanamento intends to create a second city centre), designed in accordance with the needs of those who live and work there. Milano Santa Giulia covers an area of 1.2m sqm and is located in the south-eastern area of Milan; a location that represents a strategic point, thanks to convenient connections with the city's historical centre, guaranteed by the metropolitan railway of Rogoredo and the nearby entry onto the East ring road.

Total construction costs are estimated at €1.2-1.4bn (including €150-200m for infrastructure) with revenues of €2.8-3.0bn. Construction work could start in 1H05 on the Rogoredo section (the south-western part of the area), while completion of the whole project is expected within six years (2010/11).

Valuation: >50% discount to NAV

Cash flow too volatile

Valuing a company such as Risanamento using traditional cash-flow-based models is a hard task. In development, the business is typically FCF negative for several years (five to 10, on average) until it sells the project (or the property). Nominal pre-tax IRR is normally in the region of 25-30%, but the success rate (ie, the disposal) is far from certain. Therefore, there is a high volatility in the median IRR of the project. Cash-flow estimates are even more difficult to make for the trading business, which is much more short-term. Multiples are also an erratic valuation metric for a company such as Risanamento given that its day-to-day performance is barely reflected in operating profit.

Valuation driven by the asset base

The only possible valuation methodology is based on the asset base (NAV, or revalued equity: ie, equity plus net implicit capital gains). To give a sense of where the Risanamento share are trading, we have used a NAV calculation provided by the company based on its internal estimates (see page 2).

Fig 2 Stock performance and volumes (€m – right scale)

Source: Reuters

A significant part of Risanamento's NAV depends on the Milano Santa Giulia project. The high dependence of the valuation on one project could result in a higher NAV implicit risk/discount. This means that investors may wait for the first signs that the scheduled work will proceed in accordance with company plans before reducing the gap between price and NAV.

Italy

Targetti

Increase in profitability is continuing

Not rated

Reuters: TS.MI
Market cap: €76m

(22/11/2004)

Electronic & electrical equipment

Price: €4.3

Targetti is one of the most important European players in the architectural interior and outdoor lighting sector. EBITDA margin could increase to 14.1% (from 12.7% in 2003) by 2006F, thanks to recovery in its markets, the Chinese joint venture and cost-cutting. Current valuation does not appear to price in the forecast recovery.

Profile. The Targetti group is the Italian market leader and one of the most important in European markets in the architectural interior (55% of sales) and outdoor lighting sectors (28%), proving all-round solutions in the lighting arena: commercial areas, luxury hotels, cruise ship and urban exteriors. It also produces lighting sources (17% of sales). Examples of Targetti's projects are: Notre Dame Cathedral, the Uffizzi Gallery, Benetton and McDonald's stores.

Competitive advantages. The lighting sector is very fragmented (c.8,200 producers in Europe) and cyclical, being subject to trends in consumer spending and construction. In this framework, Targetti was able to increase its market share mainly thanks to its high specialisation in market niches, achieved through aggressive acquisitions, a complete range of high quality products, an extensive distribution network and a good balance among different distribution channels (architects and designers, electrical wholesalers. etc).

9M04 results: past two years' investments bearing fruit. Targetti's 9M04 sales rose by 18.2% YoY to €101.1m. The growth was mainly driven by the lamp sector (+72%), external lightning (+26%) and the interior architectural sector (+6.5%). EBITDA rose by 33.2% YoY to €14.5m, while the EBITDA margin rose to 13.2% from 11.7%. EBIT rose by 63% to €10.1m. The good results were mainly due to: the closure of the French plant (owned by subsidiaries Exterieur Vert), followed by the opening of a new plant in Italy; completion of a second Chinese plant of 9,000m² in Heshan, following the acquisition in 2003 of a lamp plant in Hangzhou. The reduction in financial charges and the EBIT growth allowed Targetti to increase its pre-tax profit by 127% to €9.4m.

2004-06F outlook. Forecasts are JCF consensus estimates. Management expects to maintain for FY04F as a whole the good profitability of 9M04, thanks to double-digit growth in exterior lighting and lighting sources. The EBITDA margin could increase by 1.3 percentage points to 14%. As far as 2005-07F is concerned, Targetti expects to further increase the EBITDA margin to 14.5% by 2007F thanks to: the Chinese joint venture in the lighting sector, cost-structure savings, recovery in its markets, working capital control, new products.

Valuation. According to JCF forecasts, Targetti's ratios (2006F EV/EBITDA and PER at 4.0x and 8.4x, respectively) seem not to fully reflect the tangible profitability improvement. Moreover, Targetti's lower-than-peer multiples (5% discount on 2006F EV/EBITDA and 3% on PER) do not appear to price in the 2004-06F profitability increase that consensus estimates and management expect.

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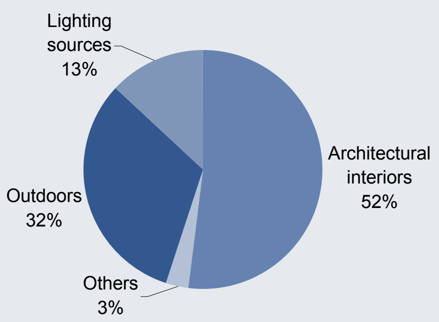
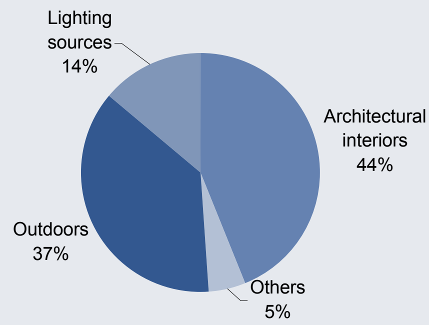
25 November 2004

Revenues breakdown (2003)



Source: Company data

EBITDA breakdown (2003)



Source: Company data

Key facts & figures

Price (€)	4.3	CEO	Mr. L. Targetti
52 wk low/high (€)	4.45 / 2.96	CFO	Mr. F. Norcini
YTD change (%)	1.1	IR (Tel)	Mr. M. Cisbani (tel. +39 055 3791299)
1 yr total return (%)	36.9	Address	Via Pratese, 11 - Firenze
Shares outstanding (m)	17.7	Website	www.targetti.it
Market capitalisation (€m)	76	Market segment	MTA
Beta vs. MIB30 (Bloomberg)	0.47	Index weights	N/M
DPS (€); gross yield (%)	0.14 / 3.3	Shareholders	G.Targetti 46%, D. Neri 15.2%
Consensus EPS 2004F (€); PER 2004F (x)	0.22 / 19.6	Free float (%)	32

Source: Company data, JCF Consensus

SWOT analysis

Strengths	Weaknesses
World leadership in architectural interior lighting	Cyclical sector
Strong brand recognition	Acquired companies penalise the EBITDA margin
Opportunities	**Threats/Risks**
Penetration of Eastern European and Chinese markets	Market could recover less than expected
Growth in outdoor division	Asian manufactured competition

Source: ING

Company financials (€m)

Yr to Dec	2003	2004F	2005F	2006F	2007F
Turnover	131.8	150.9	164.5	178.5	192.8
EBITDA	16.7	21.1	23.0	25.2	27.9
EBITA	11.8	16.7	18.3	20.0	22.2
Net profit	2.8	6.1	8.0	9.1	10.6
WC requirements	(6.0)	(6.8)	(4.8)	(5.0)	(5.1)
Capex	(6.7)	(5.0)	(6.0)	(6.0)	(7.0)
Free cash flow	(2.9)	0.4	3.6	5.1	6.0
Net debt (cash)	24.8	25.5	24.5	22.7	20.5
Net debt/equity (x)	0.54	0.50	0.44	0.37	0.30
Capital employed	73.8	79.7	84.1	88.1	92.7
ROCE (%)	13.8	19.0	19.9	20.8	22.3
Adj EPS (€)	0.10	0.22	0.45	0.51	0.60
Adj PER (x)	42.5	19.6	9.6	8.4	7.2
BVPS (€)	1.66	1.84	3.18	3.50	3.89
P/BV (x)	2.6	2.3	1.4	1.2	1.1
DPS (€)	0.09	0.14	0.19	0.22	0.25
Yield (%)	2.1	3.3	4.4	5.0	5.9
FCF yield (%)	-2.4	0.4	4.7	6.7	7.9
EV/EBITDA (x)	6.1	4.8	4.4	4.0	3.6

Source: Company data, JCF Consensus estimates

Flexible business model

At the central corporate level, Targetti has internalised key technologies by developing a proprietary know-how in filters, plastic moulding and metal forming, and outsourced all other low-value-added components and a section of lamps and lighting sources. At the local level, the company operates eight factories (seven of which are in Italy), three production platforms (North America, Philippines and Poland), and eight commercial companies (plus two representatives), which enable the strong personalisation and adaptation of products to customers' needs. One new plant for outdoor lighting should be ready to start by 2006F.

Strong brand recognition

Targetti now enjoys a well-established corporate customer base. An example of the company's international success is the contract signed in 2002 with Tag McLaren: Targetti has become the official partner on Norman Foster's Paragon project, the construction of the racing team's new headquarters on a 50-hectare greenfield site in Woking, Surrey, UK. The company has provided lighting systems for the interior and exterior environments, the building complex, the access routes and the lake.

9M04 results and FY04 outlook

Targetti's 9M04 results showed a robust increase in profitability, mainly driven by a good performance from all the group's business units and the first effects of:

- The closure of the Exterieur Vert plant in France and the relocation of production to Italy (where most of the architectural lighting will be centralised);
- Completion of a second Chinese plant of 9,000m² in Heshan, following the acquisition in 2003 of a lamp plant in Hangzhou.

In particular, 9M04 sales rose by 18.2% to €101.1m, mainly thanks to the lamp sector (+72%), external lighting (+26%) and the interior architectural sector (+6.5%). EBITDA rose by 33.2% to €14.5m, while the EBITDA margin rose to 13.2% from 11.7%. Good operational performance and a reduction in financial charges (-7%) allowed Targetti to increase its pre-tax profit by 127% to €9.4m.

Targetti expects double-digit FY04 growth

The good 9M04 results and visibility for recovery in the architectural lighting unit (52% and 44% of FY03 sales and EBITDA, respectively), which has suffered from a market crisis during the past two years, and the strong trend in external lighting (32% and 37% of FY03 sales and EBITDA) lead Targetti's management to expect double-digit FY04 growth and announce a good outlook for FY05.

Valuation

Due to the lack of significant competitors, we have identified some industrial competitors:

- Italian medium/small caps with similar-sized liquidity.
- Companies with leadership positions within their reference markets that boast a well known and successful product portfolio.

Targetti appears to be trading at a discount in terms of both 2006F EV/EBITDA (5%) and PER (3%). Moreover, Targetti's lower-than-peer-average multiples do not appear to price in the 2004-06F profitability increase that consensus estimates and management expect.

Fig 1 Targetti and industrial companies' ratios

Company	Rating	Price (€)	EBITDA margin (%)			EV/EBITDA (x)			PER (x)			Yield (%)
		22/11/04	2004F	2005F	2006F	2004F	2005F	2006F	2004F	2005F	2006F	2004F
Targetti	N/R	4.35	14.0	14.0	14.1	4.8	4.4	4.0	19.6	9.6	8.4	3.3
Interpump	Strong Buy	3.90	15.5	16.5	17.0	5.8	4.8	4.1	9.5	8.3	7.6	2.9
Sabaf	Buy	18.28	9.0	9.4	29.7	6.2	5.1	4.4	15.3	13.0	11.8	2.6
Carraro	N/R	3.60	11.6	11.8	12.5	4.5	4.1	N/A	16.2	10.8	7.9	3.9
Merloni	N/R	11.81	12.8	12.8	13.0	3.6	3.4	3.1	8.5	7.9	7.0	3.3
Average			**12.6**	**12.9**	**17.3**	**5.0**	**4.4**	**3.9**	**13.8**	**9.9**	**8.5**	**3.2**
Targetti Prem/Disc			11.3	8.7	-18.3	-3.5	1.1	3.4	42.0	-3.6	-2.2	4.3

Source: Company data, ING estimates, except those marked with * – JCF consensus estimates

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IPO previews

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IPO previews

In the following pages are the IPO previews that we published since mid-October 2004. TeamSystem's IPO was cancelled.

- Geox.
- IGD.
- Italease.
- MARR.
- Panaria.
- SAVE.
- TeamSystem.
- Toro Assicurazioni.

Italy

Recommendation

Geox

Subscribe

Breathes, but not too easily

Books close on:
26 November 2004

Household goods & textiles

Range: €3.6–4.8

Geox is one the few recent Italian industrial success stories built up on a mixture of brand and innovation. Despite a lack of catalysts for the IPO, visibility on European rollout is fairly good. A valuation below mid-range (<€1bn) gives some 20% IPO discount and does not factor a US breakthrough. We advise to subscribe.

Profile. Geox, founded in 1992 in Treviso province, invented the shoe that breathes and does not let in water. This patented innovation coupled with a simple but direct message *'Geox: Breathes'* has been a success story, first in Italy and now in Europe. Geox produces 20% of its c.7m shoes in two plants in Romania and Slovakia, while the remaining 80% of production is outsourced worldwide. Distribution is 80% through multi-brand stores and 20% with franchise stores and DOS. Shoes mix is equally split among men, women and children. Average retail price is c.€100 for adults and €60 for children. Geox has a 4% worldwide market share (16% in Italy; 3% in Spain, 2% in France and less than 1% in the US) in its reference market, which is flattish worldwide (average 2.0-2.5% growth pa).

Financials. Geox is entering the market with outstanding 2001-03 CAGRs: sales +31%; EBITDA +76%; EBIT +80% and net profit +102%, all coupled with an ungeared financial structure (€40m net debt at September 2004). Moreover, 9M04 results confirm growth: sales +32%; EBITDA +61%; EBIT +67% and net profit +58%. Looking at 2005 Geox guided for 35% top-line growth (order backlog for spring/summer campaign was up 39% at the end of October). Top-line growth is driven by the rollout of European expansion, in particular by mono-brand shop openings (from 66 in 2001 to 250 now). Organic growth on shops opened in Italy has been 15% in 2002 and 11% in 2003. Margin improvement is driven by: (1) operating leverage; (2) mono-brand shops coming on stream (Italy has >30% EBITDA margin) and (3) better product mix (adults vs children). Geox sells all its receivables to factoring companies and fully covers its currency exposure (US$69m cost vs US$23m sales) through derivatives.

Strategy. In Italy Geox aims to maintain its leadership opening new shops mainly via franchises. In Continental Europe Geox is rolling out its scheduled development strategy increasing: (1) multi-brand penetration; (2) mono-brands shops in AAA spots. After 2007 targets are the US, UK and Japan.

Valuation. Geox has low gearing and reaches FCF break-even this year. IPO inflows (€30-40m) will cover IPO costs (€7-13m) and some debt (€40m), but the real IPO catalyst, in our view, is related more to the founder's personality and the company's international standing than financing a true industrial plan. Visibility on European expansion, which is the main EBITDA driver until 2007, is fairly good. After that, Geox's big opportunity would be the US market, which could start to break even in that year. However, given significant investments needed to break into the US, this could also be a huge risk, jeopardising what Geox has achieved. Excluding the US, Geox, at the low end of the range, is trading on a single-digit PER in 2006F, reflecting a steady-state company in a competitive market. We advise to subscribe the issue below mid-range (up to €4.2/share) – based on company forecasts this price offers a c.20% discount to peers (Deckers, Kenneth Cole, Timberland and Wolverine) on 2006F PER (which we prefer given Geox's low tax rate) and, in addition, you effectively receive the US business for free.

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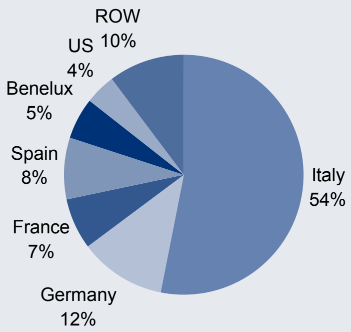
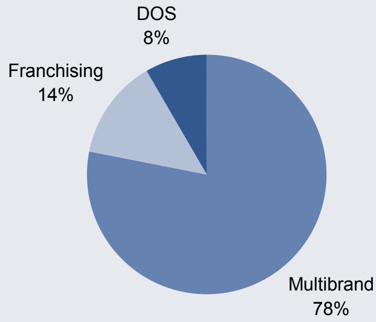
15 November 2004

Sales breakdown by country (1H04)



Source: Company data

Sales breakdown by channel (1H04)



Source: Company data

IPO factsheet

Institutional bookbuilding	15 – 26 November	No. of shares pre-IPO (m)	250.0
Max IPO price	14 November	*Shares from capital increase (m)*	*8.5*
Retail offering	15 – 26 November	*Shares from selling shareholder (m)*	*56.5*
Price settlement	Weekend of 27 November	*Greenshoe (m)*	*9.75*
First day of trading	1 December	Total shares floated (m)	82.75
Global coordinators	Merrill Lynch, UBM	Bonus share	No
Senior co-lead managers	Banca IMI	Lock-up period	180 days
Co-lead managers	Cazenove, Eurosim	Market cap (post IPO, greenshoe)	€931-1,241m
Shareholders (post-IPO, greenshoe)	Moretti Polegato (68.9%)	Free float (post-IPO, greenshoe)	31.1%

Source: Prospectus

SWOT analysis

Strengths	Weaknesses
Innovation protected by patents and brand equity	Lack of international management resources to deal with new size
Flexible business model skewed towards outsourcing	Italy is mature: growth of multi-brands in Italy was 2.8% in 9M04
Opportunities	**Threats/Risks**
Breakthrough in the US and UK (>50% of worldwide market)	Competitive pressure and reverse trend in consumer momentum
Entry into new product ranges (clothing, etc)	Euro strength has inflated profitability (one-third of total costs in USD)

Source: ING

Company guidance (€m)

Yr to Dec	2003	2004F	2005F	2006F	2007F
Turnover	254.1	340.4	452.8	534.3	614.4
EBITDA	50.0	91.6	125.9	153.3	184.3
EBITA	40.4	77.6	108.4	131.5	157.0
Net profit	30.7	52.5	74.5	90.3	107.5
WC requirements	(16.0)	(17.8)	(23.2)	(16.8)	(16.5)
Capex	(29.3)	(25.0)	(30.0)	(35.0)	(35.0)
Free cash flow	(3.2)	25.7	42.8	64.4	87.3
Net debt (cash)	40.4	(11.5)	(38.6)	(78.7)	(134.4)
Net debt/equity (x)	0.59	cash	cash	cash	cash
Capital employed	109.2	145.5	177.2	203.2	223.4
ROCE (%)	35.4	52.0	59.0	62.8	68.5
Adj EPS (€)	0.13	0.21	0.30	0.36	0.43
Adj PER* (x)		17.0 / 22.7	11.9 / 15.8	9.9 / 13.2	8.4 / 11.1
BVPS (€)	0.28	0.61	0.83	1.09	1.38
P/BV* (x)		5.9 / 7.9	4.3 / 5.7	3.3 / 4.4	2.6 / 3.5
DPS (€)	0.00	0.06	0.09	0.12	0.15
Yield* (%)		1.3 / 1.7	2.0 / 2.6	2.5 / 3.4	3.0 / 4.0
FCF yield* (%)		2.8 / 2.1	4.6 / 3.5	6.9 / 5.2	9.4 / 7.0
EV/EBITDA* (x)		10.0 / 13.4	7.0 / 9.5	5.5 / 7.5	4.3 / 6.0

IPO costs (€9.6m) have been amortised over five years; net IPO inflows estimated at €26m. * Based on IPO price range €3.6-4.8

Source: Company data

Recommendation

IGD

Subscribe

An attractive retail real estate pure play

Books closed on:
4 February 2004

Real estate

Range: €1.30–1.55

IGD operates a large-scale (€0.55bn) hypermarkets and galleries portfolio in Italy. The company is owned by Coop Adriatica and Unicoop (large domestic retail players) and plans to double its portfolio within five years by investing IPO inflows and increasing its debt/debt+equity ratio. Its focus on the retail segment warrants a premium to peers. SUBSCRIBE.

Profile. IGD specialises in the sale, acquisition, leasing and management of shopping centres, hypermarkets, supermarkets and shopping malls in Italy. It owns 12 hypermarkets, seven shopping malls, one supermarket and two shops located in Emilia Romagna, Tuscany, Marche, Abruzzo, Campania and Lazio, with an aggregate surface area of 258,000sqm.

Financials. Net sales (95% from rents) grew from €36.7m in 2001 to €58.3m in 2003 (26.1% organic CAGR). In the first 9M04, sales grew 2.67% YoY. EBITDA margin rose from 58.4% in 2001 to 61.4% in 2003 and was 65.1% in the first 9M04. Net profit has increased from €5.7m in 2001 to €11.5m in 2003 and grew 22.5% in first 9M04. At 31 December 2004, net debt was €192m (from €93m at the end of 2001). IGD aims to optimise its debt/equity ratio with a mid/long-term gearing target of 0.6x (from 9M04 0.46x). All long-term debt interest rate risk has been covered through derivatives.

Strategy. IGD aims to double its real estate portfolio in the next five years. It has already agreed with its shareholders to develop nine new initiatives, while in December it signed a preliminary agreement with a third party to buy an asset (a gallery in Northern Italy) valued at €55m. In addition to its external strategy, IGD would like to extract value from its current asset base through restructuring, developing, maintenance and improving its tenant mix. It also aims to develop its services arm.

Valuation. On traditional metrics such as PER and dividend yield, and also at €1.30 (bottom of the range), IGD seems quite expensive. However, we feel the true appeal of this IPO is found in IGD's asset base and its potential for further growth through acquisitions in the attractive and fast-growing Italian retail real estate sector. Given its 100% focus on retail and its relationship with COOP (a large Italian retailer), we believe IGD could trade at a lower discount to NAV vs its Italian peers. We have compared IGD with Beni Stabili (Not rated, EUR0.808) and Aedes (Not rated, €4.9475). We do not feel a comparison with foreign real estate companies is consistent given the difference in taxation, regulations and market dynamics. IGD's net NAV at end-04 is c.€1.95/share based on a 25% average tax rate. At the proposed IPO range, it would trade at a c.20-30% discount to NAV, compared to Beni Stabili (30%) and Aedes (40+%).

Peers comparison

	Market Cap (€m)	EV/EBITDA (2005F)	DPS yield (%) (2005F)	NNAV (2004F)	Discount to NAV (%)
Beni Stabili (Not rated, EUR0.808)	**1,336**	**15.0**	**2.3**	**1.2**	***30***
Aedes (Not rated, EUR4.9475)	**482**	**14.6**	**0.0**	**8.4**	***42***
Average		**14.8**	**1.1**	**4.8**	***36***
IGD at €1.30	367	10.0	1.4	2.0	*33*
IGD at €1.55	437	11.8	1.6	2.0	*21*

Source: Company data, JCF consensus

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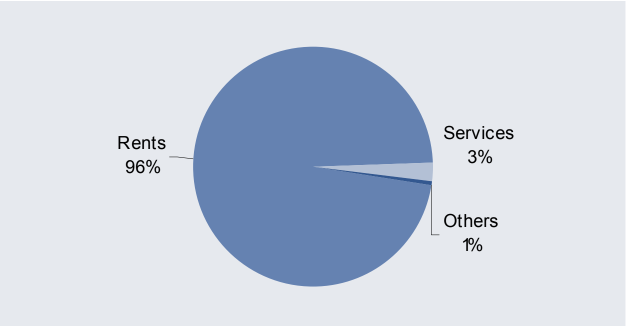
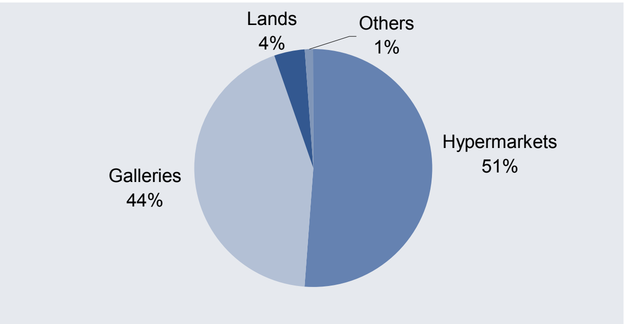
8 February 2005

Sales breakdown (9M04)



Source: Company data

Portfolio breakdown (July 2004)



Source: Company data

IPO factsheet

Institutional bookbuilding	26 January – 4 February	No. of shares pre-IPO	177,249,261
Max IPO price	31 January	*Shares from capital increase*	*95,450,000*
Retail offering	31 January – 4 February	*Shares from selling shareholders*	-
Price settlement	By 8 February	*Greenshoe*	*9,550,000*
First day of trading	11 February	Total shares floated (after Greenshoe)	105,000,000
Global coordinators	B. Caboto, JPMorgan, Unipol Merchant	Bonus share	No
Senior co-lead managers	JPMorgan	Lock-up period	180 days
Co-lead managers	RAS	Market cap (post-money and greenshoe)	€367 – 437m
Shareholders (post-IPO, Greenshoe)	Coop Adriatica (47%), Unicoop (15%)	Free float (post-IPO, greenshoe)	37.2%

Source: Prospectus

SWOT analysis

Strengths	Weaknesses
Long-term contracts; quality of tenants; high occupancy and yields. 100% focused on fast growing retail segment.	Shareholders represent 65% of sales. Limited size and track-record vs peers.
Opportunities	**Threats/risks**
Fresh money (€140-160m) plus FCF to fund acquisitions. Retail segment has greatest potential in Italy.	Real estate cycle. Increasing competition in retail segment by foreign players.

Source: ING

Company guidance (€m)

Yr to Dec	2003	2004F	2005F	2006F	2007F
Turnover	48.4	53.3	61.0	66.0	71.1
EBITDA	35.8	34.6	39.6	42.9	46.2
EBITA	21.4	19.0	21.6	23.5	25.2
Net profit	11.4	8.0	8.6	13.4	15.4
WC requirements	(6.0)	1.1	2.2	1.4	1.4
Capex	(100.0)	(80.0)	(10.0)	(10.0)	(10.0)
Free cash flow	(87.3)	(54.5)	19.7	25.1	28.8
Net debt (cash)	196.1	190.6	29.7	10.6	(8.9)
Net debt/equity (x)	0.85	0.82	0.08	0.03	0.02
Capital employed	427.1	423.6	412.8	401.2	388.1
ROCE (%)	4.9	4.4	5.1	5.7	6.4
Adj EPS (€)	0.07	0.05	0.03	0.05	0.06
Adj PER (x)		28.6 / 34.1	40.0 / 47.7	26.4 / 31.4	22.9 / 27.3
BVPS (€)	1.29	1.24	1.35	1.38	1.40
P/BV (x)		1.0 / 1.2	1.0 / 1.1	0.9 / 1.1	0.9 / 1.1
DPS (€)	0.00	0.02	0.02	0.03	0.04
Yield (%)		1.3 / 1.5	1.4 / 1.6	2.1 / 2.5	2.5 / 2.9
FCF yield (%)		(22.5) / (18.9)	5.4 / 4.5	6.9 / 5.7	7.9 / 6.6
EV/EBITDA (x)		16.1 / 18.1	10.0 / 11.8	8.8 / 10.5	7.8 / 9.3

Source: Company data, Company forecasts; IPO costs (€2.8m) have been amortised over five years; net IPO inflows estimated at €147m.

Italy

Recommendation

Banca Italease

Not Subscribe

Expensive activities

Books close on:
9 June 2005

Banking

Range: €8.5-9.6

Banca Italease (BI) is the second-largest Italian leasing player and ranks third in factoring activities. Thanks to its shareholder structure, it has access to the 4,900 branches of the popolari network. The agreement with 950 Poste Italiane branches is positive. Within the price range, BI's 2005F PER is higher than that paid by UniCredito in the Locat Finanziaria takeover in January 2004, and the ROE is lower.

Activity. Banca Italease is the second-largest Italian leasing player (after Locat of UniCredito) and ranks third in factoring activities with 12.6% and 10.9% market shares, respectively. Banca Italease distributes its products mainly through the 4,900 branches of its shareholders (the Italian 'Popolari' banks) and through 24 direct offices and branches. Moreover, in August 2004, Banca Italease started to distribute its products through 950 Banco Posta branches (the bank of the Italian post office, Poste Italiane SpA). In February 2005, Factorit (a factoring company) and the Banca Italease board approved an agreement for a merger, which legally took place on 6 May 2005, with accounting and tax effect from January 2005.

Results. FY04 interest from leasing operations rose 18.6% to €297m. Interest income rose 29% to €133m (€188m including Factorit, assuming the merger with Banca Italease occurred on 31 December 2004), mainly thanks to the securitisation operation (+33% to €111m). Gross operating income rose 51% to €184m (€243m including Factorit), thanks to the start at the end of 2003 of interest rate coverage transactions and a large increase in such transactions in 2003-04, partly offset by increases in the volume of services sold by Banca Italease's third-party distribution channels. The cost-income ratio declined to 37.4% (from 42.9%). 1Q05 gross profit rose 49% to €53m (€68.9m including Factorit), thanks to a further interest income increase (26%) to €35.4m (€50.7m including Factorit).

Risks. The leasing and factoring volumes generated by the key shareholders were c.43% and 40%, respectively, of total leasing and factoring operations in FY04. Thus, the interruption of any relationship with shareholders leading to the termination of marketing and distribution agreements could undermine Banca Italease's profitability. Moreover, Banca Italease's activity is affected by fluctuations in interest rates. Should interest rates rise, they could adversely affect a range of variables, including customers' willingness to borrow under leasing and factoring agreements and their ability to repay the borrowing they have assumed. At 31 December 2004, a parallel shift upward in the interest rate yield curve by 100bp would have exposed the bank to a risk of net loss of c.€8m (16% of net profit).

Valuation. Valuing the leasing and factoring activity is not an easy task, as there are no listed competitors. Banca Italease's only competitor is Locat Finanziaria, which is 100% owned by UniCredito (which delisted it in January 2004). Based on FY03 results, Locat Finanziaria was valued at a P/BV of 1.58x, a PER of 9x and an ROE of 17.4%. Banca Italease's FY05F ROE, based on management guidance, could be 10.8%, while its FY05F P/BV and PER multiples, based on the range of €8.5-9.6 per share, could be 1.25-1.42x and 11.6-13.2x, respectively. With the lack of listed leasing companies, investors could choose to diversify their portfolio risks, but considering the lower estimated ROE and higher PER than in the Locat takeover, we would advocate not subscribing for shares.

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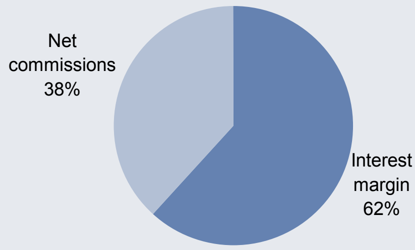
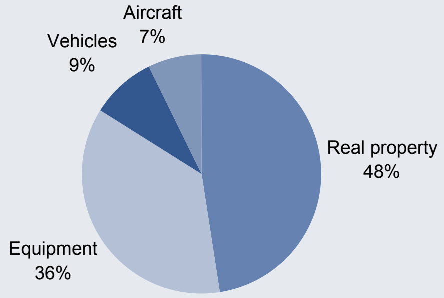
7 June 2005

Gross margin (2004 data)



Source: Company data

Leasing transaction (2004 data)



Source: Company data

IPO factsheet

Institutional bookbuilding	30 May – 9 June	No. of shares pre-IPO (m)	60.74
Max IPO price (€)	9.6	*Shares from capital increase (m)*	15.50
Retail offering	6 June – 9 June	*Shares from selling shareholder (m)*	3.04
Price settlement	9 June	*Greenshoe (m)*	1.38
First day of trading	9 June	Total shares floated (m)	76.24
Global coordinators	Mediobanca Lehman B.	Bonus share	
Senior co-lead managers	Mediobanca Lehman B.	Lock-up period	180 days
Co-lead managers	Mediobanca Lehman B.	Market cap (post IPO, greenshoe)	648 – 732
Shareholders (post-IPO greenshoe)	Pop. VR e NO, 28%	Free float (%)	24.3%

Source: Prospectus

SWOT analysis

Strengths	Weaknesses
Second Italian leasing and third factoring player Distribution network of 4,900 branches and 950 post offices	Negative economic scenario could undermine profitability growth One-third of business is generated by key shareholders
Opportunities	**Threats/risks**
Post office agreement could further increase activities	Interest rate hike could negatively affect the P&L account

Source: ING

Company guidance (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
Revenues from payment on leases	1,842.7	2,439.2	2,561.2	2,689.2	2,823.7
Adjustment value of leased tangible assets	1,591.8	2,142.4	2,249.5	2,362.0	2,480.1
Gross operating income	121.7	184.3	193.5	203.2	213.4
Net profit	15.4	50.6	55.7	60.7	66.1
Current assets	217.3	3,422.2	3,764.4	4,140.9	4,554.9
Tangible fixed assets	5,630.5	8,335.3	9,002.1	9,722.3	10,500.1
Current liabilities	5,627.5	2,521.7	2,736.0	2,968.6	3,220.9
Other liabilities	520.7	7,831.0	8,418.3	9,049.7	9,728.4
Shareholders' equity	320.8	461.4	517.1	577.7	643.9
Cost/income ratio (%)	45.5	38.5	38.4	38.2	38.0
Gross NPL/gross receivables (%)	3.0	2.3	2.2	2.1	2.0
Adj EPS (€)	0.337	0.833	0.730	0.796	0.867
Adj PER (x)			11.6-13.2	10.8-12.2	10.0-11.3
BVPS (€)	6.79	7.60	6.78	7.58	8.44
P/BV (x)			1.25-1.42	1.12-1.27	1.01-1.14
DPS (€)	0.10	0.20	0.22	0.22	0.26
Yield (%)			2.59-2.29	2.59-2.29	3.06-2.71
Tier 1	6.7	6.6	6.7	6.8	7.0
ROE (%)	5.0	11.0	10.8	10.5	10.3

Source: Company data, company forecasts

Italy

Recommendation

MARR

Subscribe

To dish up high yields

Books close on:
15 June 2005

Foodservice

Range: €6.00–7.85

MARR has a strong competitive position in the Italian foodservice distribution industry, which is, however, characterised by low growth rates (3% pa) and profitability. Nevertheless, with conservative 5% organic top-line growth, MARR would generate high FCF that would allow very attractive dividend yields. Given the considerable width of the IPO range (31% spread), we advise subscribing up to €7.

Profile. MARR is a wholesaler of fresh/frozen food products (meat, seafood, dairy, etc) to restaurants, hotels, schools, hospitals and wholesalers. The group owns distribution centres and sales forces spread across Italy, while products are shipped through an independent fleet of more than 500 fridge-trucks.

Financials. Based on pro forma IFRS figures for 2004, total sales were €786m (an 8% organic CAGR in 2002-04), EBITDA reached €50m (6.4% margin; 9% CAGR), while net profit grew from €4.2m in 2002 to €23.4m in 2004. In 1Q05, sales were up 12% (+7% LFL) to €173m with €6.2m EBITDA (+17% YoY), €4.3m EBIT (+30%) and €121m net debt (€116m last year and €66m at 31 Dec), which is highly seasonal. January-to-May sales were up 12.3% YoY. The main IFRS impact on the P&L is on termination of goodwill amortisation (less €4.6m), while on the balance sheet the €53m securitisation has been reclassified as net debt.

Strategy. MARR's strategy is to increase: a) *geographical coverage*, in Italy, through new distribution centres and salesmen; b) its share of higher-margin *private-label products*; c) *critical mass,* acquiring smaller companies (€25-50m sales at 0.25-0.3x EV/sales); d) *efficiency,* focusing on time-to-market, inventory management and salesforce remuneration systems. MARR aims with this strategy to benefit from the main sector trends: a) Large customers prefers a single nationwide supplier. b) Local wholesalers are suffering increasing regulations. c) Restaurant/catering sectors are becoming more and more demanding in terms of product range and quality standards. MARR forecasts the market CAGR at 3% (1% volumes).

IPO rationale. Founded as an independent foodservice company in Rimini in 1972, MARR was acquired by listed food group Cremonini in 1993. In May 2003, through a €65m cap hike, a pool of private equity (PE) investors (including Arca, Barclays and JP Morgan) bought a 33.3% stake. The financial investors and Cremonini are now selling up to 44% of the company to capitalise on the sound growth achieved in the last three years. The price paid by the PE investors was €4.6/share, implying an IRR of 19-28% (depending on the IPO selling price) compared with 12% and 29% returns from peers and the STAR Index, respectively. There are no new shares as management believes FCF is sufficient to fund growth. Net debt/EBITDA could easily be pushed up to 2x, according to management, while growth guidance is 10% (50/50 organic/external).

Valuation. We factor in 5% organic growth, a stable 6.5% EBITDA margin, a 10% NWC/sales ratio (ex-securitisation) and €2.5-3m maintenance capex (0.5% of sales vs Sligro's 2%), as suggested by management. This should translate into strong FCF generation (€30m pa), which would sustain the announced generous dividend policy (>90% payout). On this guidance, at €7/share, MARR would grant a >4.5% sustainable dividend yield, trading at 10x 2005F EV/EBITDA and 18x PER. Sligro (Hold; TP €34) trades at an average 7.7x 2005F EV/EBITDA and 13.4x PER but was recently hit by a profits warning, while ING's EU Food Retail universe (Ahold, Carrefour, etc) trades at 7.1x EBITDA and 14.6x PER, but with a much lower dividend yield (2.5% in 2005F).

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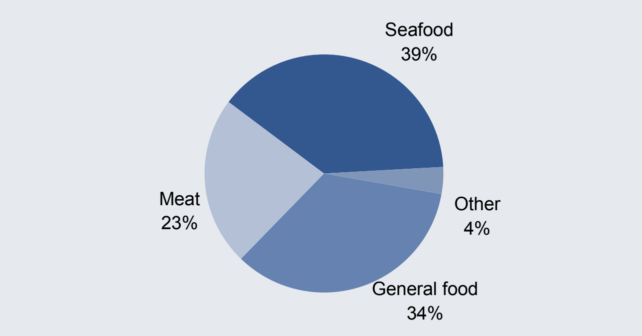
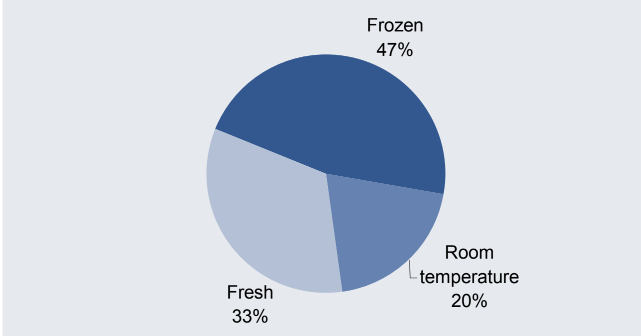
7 June 2005

Product mix by type (2004)



Source: Company data

Product mix by temperature (2004)



Source: Company data

IPO factsheet

Institutional bookbuilding	6 – 15 June	No. of shares before IPO	66,070,400
Max IPO price	Fixed at €7.85	*Shares from capital increase*	-
Retail offering	6 – 15 June	*Shares from selling shareholder*	*26,400,000*
Price settlement	Before 17 June	*Greenshoe*	*2,640,000*
First day of trading	21 June	Total shares floated (incl. Greenshoe)	29,040,000
Global Coordinators & Bookrunners	Banca IMI, Merrill Lynch	Bonus share	No
Lead Managers	Banca IMI, Merrill Lynch	Lock-up period	120 –180 days
Co-Lead Managers	JPMorgan Akros, Aletti	Market cap (post money & Greenshoe)	€396 – 519m
Shareholders (post money & Greenshoe)	Cremonini (51%), Mgt, others (5%)	Free float (before/after greenshoe)	40 – 44%

Source: IPO Prospectus

SWOT analysis

Strengths	**Weaknesses**
Market leadership in large and highly fragmented market	Almost totally focused on Italy (sluggish economic outlook)
Experienced management with track record of growth/profitability	Low-margin distribution business with low visibility (no order book)
Opportunities	**Threats/risks**
External growth at cheap multiples	Damage to health of consumers (19 liability claims in last 3 years)
Increasing professionalism/complexity in the industry	Dollar strength (non-€ purchases were €93m in 2004, or 15% of total)

Source: ING

Financial guidance and ratios (€m)

Yr to Dec	2002	2003	2004*	2005F**	2006F	2007F	2008F
Net sales	656.2	730.6	774.4	851.8	894.4	939.1	986.1
EBITDA	41.0	46.0	50.0	55.4	58.1	61.0	64.1
EBIT	31.2	35.9	42.7	47.4	49.8	52.3	54.9
Tax rate (%)	*69.6*	*54.2*	*41.2*	*40.0*	*40.0*	*40.0*	*40.0*
Net profit published	4.2	8.7	23.4	22.9	27.2	28.8	30.5
Capital employed	151.1	170.6	229.1	252.1	247.5	244.7	241.1
Net debt (cash)	84.5	36.3	65.8	86.4	79.0	73.2	66.4
Net debt/EBITDA (x)	2.1	0.8	1.3	1.6	1.4	1.2	1.0
NWC requirements	11.3	(28.0)	8.9	(11.0)	(5.3)	(5.0)	(4.7)
Capex	(8.2)	(1.8)	(17.7)	(12.0)	(3.0)	(3.0)	(3.0)
Free cash flow to equity	19.6	(8.2)	28.7	11.4	28.0	30.3	32.7
EV/sales (x)				0.58/0.72	0.54/0.68	0.51/0.64	0.48/0.6
EV/EBITDA (x)				8.9/11.1	8.4/10.5	7.9/9.9	7.4/9.3
EV/EBIT (x)				10.4/13	9.8/12.2	9.2/11.5	8.6/10.9
Adj. EPS (€)	0.13	0.19	0.36	0.39	0.41	0.44	0.46
Adj .PER (x)				15.2/20.0	14.5/19.0	13.7/18.0	12.8/17.0
Payout (%)	*90.0*	*94.4*	*94.4*	*90.0*	*90.0*	*90.0*	*90.0*
DPS (€)	0.11	0.12	0.28	0.31	0.37	0.39	0.42
Dividend yield (%)				4.0/5.2	4.8/6.2	5.0/6.6	5.3/7.0
FCFE yield (%)				2.2/2.9	5.4/7.1	5.9/7.7	6.4/8.3

Source: Company data, ING estimates on management guidance; *2004 is pro-forma IFRS adjusted; **IPO costs (€3m) have been expensed in 2005.

Italy

Recommendation

Subscribe at €5.6

and hold the shares for 12 months

Panaria

Quality tile player, but expensive

Books close on:

16 November 2004

Construction materials

Range: €5.6-6.2

Panaria is one of the main Italian porcelain gres manufacturers. Its growth track record is good, with 2001-03 sales and EBITDA CAGRs of 14.7% and 19.2%, respectively. What is unclear is future strategy, especially in North America. Subscribe only at €5.6, with the intention of holding the shares for 12 months.

Profile. Panaria is the seventh-largest Italian manufacturer of high-quality porcelain gres tiles, with c.16.2m sqm produced in FY03. During the last five years, Panaria has gradually increased its high-quality porcelain gres production, aimed mainly at the retail business (residential and civil infrastructure). Panaria owns four plants (one of which is in Portugal), in which it manufactures five product lines: Panaria (29% of FY03 revenues), characterised by a classic tile line, mainly aimed at the Italian market; Lea (32%), a brand dedicated to a particularly Italian style and design, mainly aimed at the foreign market; Cotto D'Este (26%), Italian brand leader in high-quality porcelain gres for both Italian and foreign markets; Fiordo (6%), a technical brand for business segments; and Magres (7%), a brand market leader in Portugal.

Financials. 1H04 sales rose 11.6% to €123m, while EBITDA rose 14.8% to €23.3m. The EBITDA margin rose from 18.1% to 18.9%. The results track record is very positive: in the last five years, Panaria's production volumes CAGR has been 8.9%, while the 2001-03 sales CAGR was 14.7%, with EBITDA growing 19.2% and EBIT 27.4%. As far as financial debt is concerned, it was €96.4m at the end of 2003 (a debt-to-equity ratio of 2x), mainly due to an increase in inventories (for a change in production from mono baked to porcelain gres), the Portuguese Maronagres acquisition, and the extraordinary dividend of €24.5m. During 1H04, financial debt improved to €52m (a debt-to-equity ratio of 1.1x), mainly thanks to a capital increase of €15m and the cash received for the property spin-off of c.€25.3m.

Strategy. During the roadshow, Panaria said that its three-year strategy will mainly focus on growth, both organic and through acquisitions. In particular, its strategy is aimed at strengthening its high-quality porcelain gres market share in Italy, making acquisitions (Spain), strengthening its European commercial networks and entering the US market. For the time being, Panaria has launched a commercial company – Lea – and could open a plant "shortly" (it has not said when and to produce what). To sustain market activities, it is going to open three further ovens in its Italian plants (one per year until 2006), which are able to increase volume produced by c.7% each.

Valuation. Granitifiandre is Panaria's main competitor, even if production is different (Granitifiandre's products are c.80% aimed at the commercial sector, vs Panaria's c.15%). We also include three other companies in our sample. At €5.8, Panaria's 2006F EV/EBITDA and PER ratios are c.8% and c.19% higher than Granitifiandre's respective multiples, despite having a c.3% lower 2006F EBITDA margin. Panaria's premium does not change comparing its ratio with the average of the sample. What is positive is the stock dividend of 1:10 shares owned for a consecutive 12 months, which at the low end of the offer range could drive the subscription price to €5.55 per share. In conclusion, we suggest subscribing for the Panaria shares only at the low end of the price range, with the intention of holding the share for 12 months.

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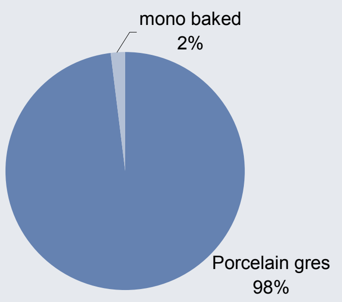
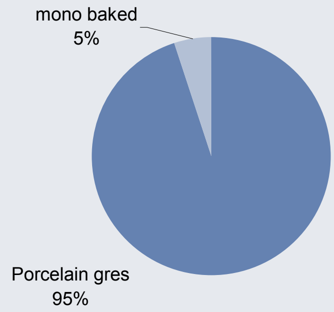
9 November 2004

Turnover breakdown by product (2003)



Source: Company data

EBITDA breakdown (2003)



Source: Company data

IPO factsheet

Institutional bookbuilding	5-16 November	No. of shares pre-IPO (m)	34.0
Max IPO price	By 9 November	*- Shares from capital increase (m)*	*11.0*
Retail offering	10-16 November	*- Shares from selling shareholder (m)*	*4.4*
Price settlement	19 November	*- Greenshoe (m)*	*1.44m (10%)*
First day of trading	19 November	Total shares floated (m)	15.84
Global coordinator	Abaxbank	Bonus share	1:10
Co-lead manager, specialist	Banca Akros, Banca Aletti	Lock-up period	12 months
Lead managers	Commerzbank	Market cap (post IPO, greenshoe)	€260-312m
Shareholders (pre-IPO)	Finpanaria 95%,Interbanca 5%	Free float (post-greenshoe)	Finpanaria 64.8%

Source: IPO prospectus

SWOT analysis

Strengths	**Weaknesses**
Brand recognition in the high-quality residential products Commercial network	Weak construction retail market, especially in Europe Not completely clear strategy, especially in North America
Opportunities	**Threats/risks**
Spanish market increase thanks to acquisition Lack of collateral services	Difficulties of penetrating the North American market China manufacturer quality increase of retail market products

Source: ING

Company financials (€m)

Yr to Dec	2003	2004F	2005F	2006F	2007F
Net sales	207.3	229.1	252.0	272.1	293.9
EBITDA	37.8	43.3	49.1	55.0	59.7
EBITA	25.5	30.2	34.7	39.1	42.2
Net profit	14.4	15.5	18.3	20.9	22.7
NWC requirements	(15.0)	(7.7)	(8.0)	(7.0)	(7.6)
Capex	(18.3)	(8.0)	(6.0)	(5.0)	(5.0)
Free cash flow	(6.6)	13.4	19.2	25.2	28.1
Net debt/(cash)	96.4	(5.0)	(16.4)	(32.5)	(50.2)
Net debt/equity (x)	2.22	-0.04	-0.12	-0.22	-0.32
Capital employed	139.9	119.0	118.1	113.7	108.3
ROCE pre-tax (%)	18.2	25.4	29.4	34.4	39.0
EPS (€)	0.41	0.37	0.41	0.46	0.50
P/E (x)		15.3/16.9	13.8/15.3	12.1/13.4	11.1/12.3
BVPS (€)	1.28	2.94	2.99	3.25	3.52
P/BV (x)		1.9/2.1	1.9/2.1	1.7/1.9	1.6/1.8
DPS (€)	0.00	0.17	0.20	0.23	0.30
Yield (%)		2.8/3.1	3.3/3.6	3.7/4.1	4.9/5.4
FCF Yield (%)		5.7/5.1	7.6/6.9	10/9	11.1/10.1
EV/EBITDA (x)		5.9/6.5	5/5.5	4.2/4.7	3.5/4

Source: Company data, ING estimates based on management targets.

Italy

Recommendation

SAVE

Do not subscribe

Flying too high?

Books close on:
20 May 2005

Transportation – airports

IPO range: €17-21

SAVE manages long-term concessions at the Venice and Treviso dual airport (third largest in Italy) and aims to develop more value-added services for travellers at airports and railway stations. Despite interesting growth opportunities, we believe the proposed price range does not leave upside relative to peers in the near term.

Airport and train station network. SAVE operates in three business areas: (1) *Airport concession* (58.4% of revenues and 87.3% of EBITDA in 2004). SAVE has concessions for the next 36 years at Venice's Marco Polo airport (98% stake) and the nearby Treviso airport (45% stake). This dual-system airport is ranked third in Italy after Milan and Rome, hosting 6.8m passengers pa. SAVE does not manage the handling activities, which are characterised by low profitability (EBITDA margin of 6-7%); (2) *Food, Beverage & Retail* (28.4% of sales, 7.8% of EBITDA) for railway stations and airports through sub-concession agreements; and (3) *Infrastructure Management* (13.2% of sales, 4.9% of EBITDA), with a 24% stake in Centostazioni, which is a 40-year property management contract for 103 Italian railway stations across northern and central Italy that transports 440m passengers pa.

New shares only. The IPO consists of 6.67m new shares (7.67m with the greenshoe), on top of 20m existing, at a price range of €17-21/share, meaning a post-IPO market cap of €453-560m. Marco Polo Srl (a vehicle owned by various institutional investors) is SAVE's main shareholder with a 40.4% stake. Venice Municipality owns 14.6% and Venice Province 14.5%. The free float will be 25% (27.7% after greenshoe).

Financial results. SAVE's 2004 revenues rose 17% to €148m, and EBITDA by 20.7% to €47.8m; consequently the EBITDA margin rose from 29.6% to 30.6%. The Airport business (87% of EBITDA) had the highest profitability (43.3% EBITDA margin), while Infrastructure and Food & Retail business margins were 19.7% and 8.3%, respectively. SAVE achieved these positive results despite the bankruptcy of low-cost aircraft carrier Volare in November 2004, which accounted for c.1m passengers (15% of total). In 1Q05, sales grew 6.3%, while EBITDA decreased by 2.4% due to start-up costs of a new flight to Shanghai. Net debt at 31 March 2005 was €129m and should be offset by IPO inflow (€113-161m).

Main risks. Save is involved in a legal dispute with two major shareholders (Venice Province and Municipality), which together own 38.8% of the share capital before the capital increase. The two shareholders asked Venice regional court to cancel the 2003-04 accounts approval and IPO authorisation. SAVE has created a €1.5m contingency fund. The possible economic effects on the P&L have been not quantified by the company.

Valuation. At €17/share, Save would trade on a 15% premium to average peer 2006F EV/EBITDA (BAA 10.5x, Copenhagen 9x, Zurich 7.8x, Wien 5.8x and Fraport 5.2x); the premium shrinks to 2% on 2007F figures. On PER, SAVE would be the most expensive airport operator in Europe at 24x 2006F (vs. 15.7x for peers) and 20.6x 2007F (vs. 14.3x) due to a higher tax rate (45% vs. 30%) and no financial leverage. Based on a 90% payout, dividend yield (3.8% in 2006F and 4.4% in 2007F) is above the peer average (3.2% and 3.4%) but below Zurich's 4.5%. There is a lack of an IPO discount, in our view.

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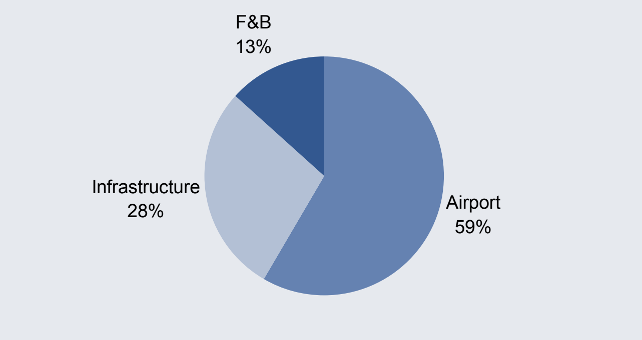
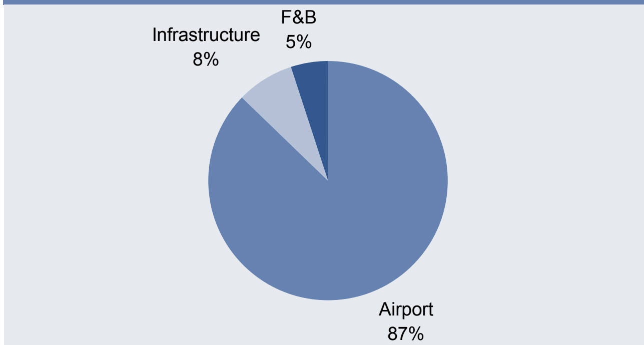
11 May 2005

Revenue breakdown (2004)



Source: Company data

EBITDA breakdown (2004)



Source: Company data

IPO fact sheet

Institutional book-building	9-20 May	No. of shares pre-IPO (m)	20.0
Max IPO price	By 15 May	*Shares from capital increase (m)*	6.67
Retail offering	16-20 May	*Shares from selling shareholders (m)*	0.0
Price settlement	By 22 May	*Greenshoe (m)*	1.0
First day of trading	25 May	Total shares floated (m)	6.67-7.67
Global coordinators	Mediobanca	Bonus share	No
Senior co-lead managers	BNP Paribas	Lock-up period	12 months
Co-lead managers		Market cap (post IPO, greenshoe)	€453-581m
Shareholders (post-IPO greenshoe)	40.4% Marco Polo Srl	Free float pre & after greenshoe (%)	25-27.7%

Source: Prospectus

SWOT analysis

Strengths	Weaknesses
Location – Venice and Treviso are strong tourist destinations Disposed of low-margin handling business	Exposure to weak carriers (ie, Volare, Alitalia) High seasonality of tourism business
Opportunities	**Threats/Risks**
Increasing presence in value-added services for travellers Acquisitions could increase profitability and leverage	Legal dispute with Venice Municipality and Province Tourism sensitivity to political events

Source: ING

Company guidance (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
Turnover	125.7	147.6	165.0	190.0	215.0
EBITDA	39.6	47.8	45.0	55.0	65.0
EBIT	17.9	19.3	27.0	36.0	45.0
Net profit	**8.7**	**5.8**	**13.0**	**19.0**	**22.0**
WC requirements	(13.4)	(18.6)	(5.0)	(5.0)	(5.0)
Capex	(7.0)	(18.5)	(30.0)	(27.0)	(15.0)
Free cash flow to equity	**10.0**	**(2.8)**	**(4.0)**	**6.0**	**22.0**
Net debt (cash)	129.1	133.7	12.9	24.0	21.8
Net debt/equity (x)	1.37	1.44	0.06	0.11	0.09
Capital employed	223.0	226.7	234.9	244.0	251.8
ROCE (%)	8.0	8.5	11.5	14.8	17.9
Adj EPS (€)	0.44	0.29	0.49	0.71	0.83
Adj PER (x)			**34.9 - 43.1**	**23.9 - 29.5**	**20.6 - 25.5**
BVPS (€)	4.7	4.7	8.3	8.4	8.6
P/BV (x)			2.0 - 2.5	2.0 - 2.5	2.0 - 2.4
DPS (€)	0.62	0.50	0.44	0.64	0.74
Yield (%)			2.1 - 2.6	3.1 - 3.8	3.5 - 4.4
FCF yield (%)			(0.7) - (0.9)	1.1 - 1.3	3.9 - 4.9
EV/EBITDA (x)			**10.4 - 12.7**	**8.7 - 10.6**	**7.3 - 9.0**

Source: Company data, ING forecasts based on company guidance

Italy

Recommendation

Do Not Subscribe

TeamSystem

Quality software player, but expensive

Books close on:

3 November 2004

Software

Range: €8.33–10.00

TeamSystem is a software house for SMEs and accountants with 2004F sales of €66m and 40% EBITDA margin. Despite an outstanding track record, the proposed IPO range puts TeamSystem at a substantial premium to peers. Moreover, these prices represent c.3x last year's MBO valuation. Good quality but expensive.

Profile. Founded 25 years ago, TeamSystem is now a domestic leader of ERP for SMEs (9% market share) and tax and payroll software to tax and labour advisors (24% market share). The group has c.43,000 customers (o/w 7,000 served directly), with very high product loyalty, as 98% of clients renew the service each year. TeamSystem operates through direct sales (11 subsidiaries) and c.280 software partners with a stronger presence in Southern Italy. In June 2004, it bought for €6m 67% of Euroconference, a provider of educational services (learning, conferences, meetings), which has 12,000 clients.

Financials. Sales grew from €37m in 2001 to €52m in 2003 (€58m 2003 pro-forma), EBITDA margin has been stable at around 40-42%, and net profit was up from €8.5m in 2001 to €11m in 2003 (€3m 2003 pro-forma after goodwill amortisation). TeamSystem net debt was €17m in 2001 and increased to €53m at the end of September 2004. Management is targeting at least double-digit top-line growth in the next three years, maintaining c.40% EBITDA margin. Keep in mind that customer growth has historically been 9% pa. For FY04, TeamSystem targets €66m sales, €25m EBITDA and net profit above 2003 pro-forma. At end-June sales increased 22% YoY, EBITDA margin was stable at 41% while net profit was up to €3.3m.

Strategy. TeamSystem aims to increase market share by opening new subsidiaries in Northern Italy and enhancing the number of, and relationships with, software partners. It also aims to increase the recurrent sales from maintenance and support services (now at 60% of turnover) and invest in new software products through R&D and partnerships. Investment will also be made to enhance brand awareness and increase cross-selling opportunities. On the M&A side, TeamSystem is also targeting two or three small-sized acquisitions in 1H05 and a bigger one (€50m investment) during 2006. If the IPO is successful TeamSystem could have appeal to potential acquirers (free float >50%). TeamSystem will pay down its MBO debt (€83m) through the IPO proceeds (€62m expected), terminating strict debt covenants.

Valuation. In September 2003 TeamSystem was acquired via an MBO that valued its equity at €75m (an independent appraisal, required by law, valued the company at €77m), this compares with a pre-money IPO valuation range of €200-240m (ie, 3x more). Looking at peers, the most comparable player would clearly be Sage (177p, Buy) as it sells exactly the same products to the same market with similar margins (40% in UK and c.20% in EU, US and RoW). Although Sage is much bigger, it trade on a 2005F PER of 16.5x. Other European peers include Exact Holdings (€20.15, Hold; PER 2005F of 10.8x) and Systems Union Group (PER 2005F 9x according to JCF). In the US, the main player is Intuit (U$8bn mkt cap; PER 2005F c.20x), which also has a very strong personal tax software product. Considering this IPO range values TeamSystem at a PER 2005F of between 16x and 20x, we believe the price is too expensive. Given its limited size and an IPO discount, we would expect the share to be offered at a discount to sector leaders. At the sector average 2005F PER the price would be €7/share (15% discount to Sage), below the offer range. Do not subscribe.

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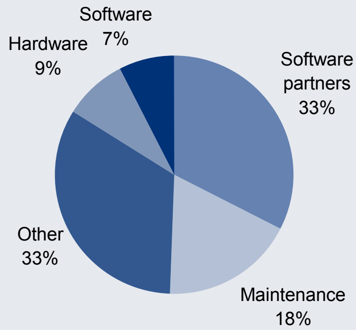
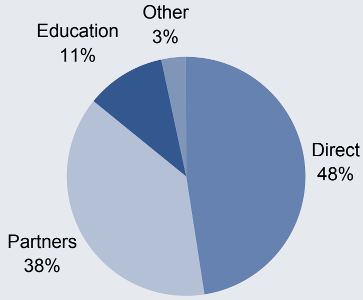
22 October 2004

Turnover breakdown by product (2003)



Source: Company data

Turnover breakdown by channel (2003)



Source: Company data

IPO factsheet

Institutional bookbuilding	22 October – 3 November	No. of shares pre-IPO (m)	24,000,000
Max IPO price	By 26 October	*- Shares from capital increase (m)*	*7,200,000*
Retail offering	27 October – 3 November	*- Shares from selling shareholder (m)*	*9,997,114*
Price settlement	4 November	*- Greenshoe (m)*	*1,910,790 (10%)*
First day of trading	9 November	Total shares floated (m)	19,107,904
Global coordinator	Citigroup	Bonus share	No
Co-lead manager, specialist	Banca IMI	Lock-up period	12/24-months for 50/50%
Lead managers	-	Market cap (post IPO, greenshoe)	€260-312m
Shareholders (pre-IPO)	Palamon (67%), others (33%)	Free float (post-greenshoe)	61.2%

Source: IPO prospectus

SWOT analysis

Strengths	**Weaknesses**
Significant market share, considering high fragmentation Long track record of growth and profitability with loyal client base	Competition on SME clients (Esa, Zucchetti, Wolters, Inaz, Sistemi) High dependence on re-sellers
Opportunities	**Threats/Risks**
Takeover target (expected >60% free float) Fragmented market means consolidation opportunities	Competitive pressure from international software houses Low visibility on new IFRS accounting standards

Source: ING

Company financials (€m)

Yr to Dec	2003	2004F	2005F	2006F	2007F
Net sales	58.4	66.0	74.0	82.0	90.0
EBITDA	23.1	26.4	29.6	32.8	36.0
EBITA	20.7	24.7	27.7	30.7	33.8
Net Profit	3.0	5.6	8.0	10.0	12.0
NWC requirements	(8.1)	(11.0)	(1.2)	(1.2)	(1.2)
Capex	(7.9)	(1.2)	(0.7)	(0.7)	(0.7)
Free Cash Flow	(3.8)	2.3	16.9	19.1	21.4
Net debt (cash)	67.7	5.4	(11.5)	(30.7)	(52.1)
Net debt/equity (x)	3.64	0.06	(0.12)	(0.29)	(0.44)
Capital employed	86.3	91.2	82.7	73.9	65.0
ROCE pre-tax (%)	16.7	20.2	23.9	30.8	39.6
EPS (€)	0.36	0.40	0.51	0.58	0.64
P/E (x)		20.7 / 24.8	16.2 / 19.5	14.5 / 17.4	13.0 / 15.6
BVPS (€)	0.73	2.87	2.96	3.28	3.66
P/BV (x)		2.9 / 3.5	2.8 / 3.4	2.5 / 3.1	2.3 / 2.7
DPS (€)	0.00	0.00	0.00	0.00	0.00
Yield (%)		0 / 0	0 / 0	0 / 0	0 / 0
FCF Yield (%)		0.9 / 0.8	6.5 / 5.4	7.4 / 6.1	8.2 / 6.9
EV/EBITDA (x)		10.3 / 12.2	8.6 / 10.4	7.2 / 8.8	6.0 / 7.5

Source: Company data, ING estimates based on management targets. Net profit excludes fiscal benefit of Law n.326/03 but includes IPO cost amortisation 5yr

Italy

Toro Assicurazioni

Bullish yield

Recommendation
Subscribe up to €11

Books close on:
25 May 2005

Insurance

Range: €10-12

Toro Assicurazioni is Italy's No5 non-life insurance company (81% of total premiums) with 5.7% market share. In the coming years, Toro aims to strengthen its life business and further improve the non-life technical margin. We believe Toro should trade at a discount to its peers due to lower life premiums. IPO shares are entitled to a 2004 DPS of €0.44 (yield 3.6-4.4%).

Business profile. Toro is Italy's No5 non-life insurance company with 5.7% market share. Toro shares were listed on the Milan stock exchange until Fiat (then the main shareholder) launched a residual bid offer to delist them in 2001. In 2003, De Agostini group bought 100% of the share capital from Fiat for €2.37bn (1.18x EV). Toro's 2004 premiums were €2.5bn, of which 81% was non-life and 19% life. The motor segment accounted for 75% of non-life business, with motor third-party liabilities at 57%. Looking at distribution channels, in 2004, 85% of total premiums were collected by agencies and 6% by brokers.

Financial results. In 2004, Toro's technical result was €67.5m (-21% YoY) driven by non-life business (€69.3m; -19% YoY), since life made a loss of €1.8m (breakeven in 2003) due to product mix changes. Thanks to strong portfolio selection and segmentation, Toro achieved a combined ratio of 96.6% in 2004 (73.5% loss ratio and 23.1% expense ratio). Financial income declined to €380m (from €486m) mainly due to lower interest rates. Net extraordinary costs were €113m (€20m in 2003) thanks to a €221m capital gain on property sales, compensated by the one-off goodwill amortisation of the merger with Ronda (De Agostini's 100%-owned vehicle used to buy Toro's shares). Toro's 2004 solvency margin was €1bn (2.1x the legal requirement). In 1Q05, non-life premiums rose 3.5% to €566m, while life premiums grew 48% to €129m. The 1Q05 technical result was €24.2m (+25.4% YoY).

2005-07 business plan. During the IPO roadshow, Toro management said it expects to increase the technical margin both in life and non-life business. In life, mainly through a strong commitment in cross-selling, while in non-life by introducing new profitable non-motor products and restructuring the claims structure, with the aim to increase the speed of claims payment. No numerical targets were given; these are expected at a September business plan presentation.

Main risks. Toro's technical margin largely depends on motor claims (especially third-party liabilities), which are difficult to forecast. Moreover, net profit also largely depends on financial market trends, which are unpredictable. In 2004, Toro made an extraordinary goodwill amortisation of €130m due to the merger between Toro and Ronda. A review of the valuation methodology could mean a goodwill writedown.

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22 October 2004

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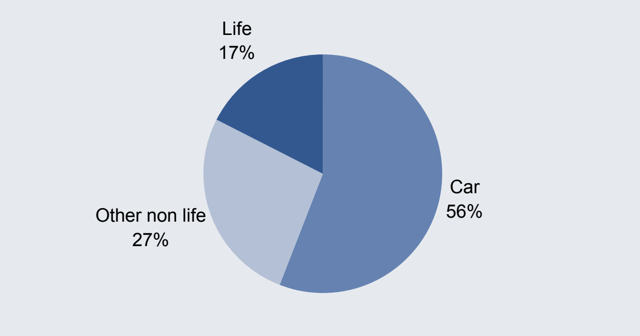
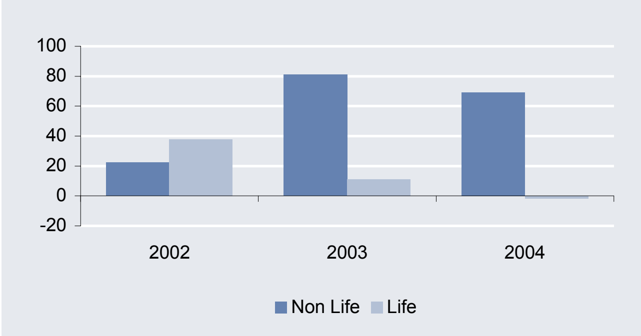
Premiums written (2004)



Source: Company data

Technical result (€m)



Source: Company data

IPO factsheet

Institutional book building	16-25 May	No. of shares pre-IPO (m)	181.8
Max IPO price (€)	12.0	*Shares from capital increase (m)*	0
Retail offering	16-26 May	*Shares from selling shareholder (m)*	54.5
Price settlement	31 May	*Greenshoe (m)*	8.1
First day of trading	1 June	Total shares floated (m)	54.5 (62.6)
Global coordinators	B.ca Caboto	Bonus share	0
Senior co-lead managers	UBM, Lehman Brothers	Lock-up period	6 months
Co-lead managers	Credit Suisse FB	Market cap (post IPO, greenshoe) - €bn	1.82-2.18
Shareholders (post-IPO greenshoe)	De Agostini, 70-65%	Free float (%)	30-35%

Source: Prospectus

SWOT analysis

Strengths	Weaknesses
Strong brand recognition.	Life business accounted only for 19% of premiums as a whole. Motor segments are c.75% of non-life business.
Opportunities	**Threats/Risks**
Life premiums increase through Lottomatica branch cross-selling. Claims centre creation could further improve technical margin.	Life business competition could undermine Toro's expansion plan. Motor claims could be subject to strong volatility.

Source: ING

Company guidance (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
Net non-life premium	2,014	2,029	2,101	2,172	2,239
Net life premium	427	469	621	754	908
Technical results	92	68	85	90	93
Net profit	116	0	179	156	159
Non-life reserves	3,649	3,661	3,716	3,772	3,828
Life reserves	3,400	3,608	4,762	5,858	7,146
Embedded value	N/M	1,632	1,795	1,975	2,172
Non-life reserves/premium (%)	181	180	179	177	175
Life reserves/premium	797	769	769	776	782
Combined ratio non-life business (%)	96	97	97	97	96
Investments yield (%)	3.8	3.8	3.7	3.7	3.7
Adj EPS (€)	0.64	NS	0.83	0.85	0.94
Adj PER (x)			12.1 - 14.5	11.7 - 14.1	10.7 - 12.7
BVPS (€)	9.05	10.93	11.34	11.78	12.31
P/BV (x)			0.88 - 1.06	0.85 - 1.02	0.81 - 0.98
DPS (€)		0.44	0.50	0.55	0.60
Yield (%)		4.4 - 3.6	5.0 - 4.1	5.5 - 4.6	6.0 - 5.5
Price/embedded value (x)			1.01 - 1.22	0.92 - 1.10	0.84 - 1.00
ROE (%)	0.07	N/M.	7.3	7.2	7.6

Source: Company data, ING elaboration of company guidance and press reports

Company exposures to macro factors

Company exposures to macro factors

Company	US$	Interest rates	Raw material costs	European consumers	European GDP	US consumers	US GDP	Asian consumers	Asian GDP	Regulation	Government spending	Italian tax changes
AEM	None	High - D/E 103%	Medium	None	None	None	None	None	None	High - 50% of revenues	Low	Medium
Aeroporto di Firenze	None	None	None	Medium	Medium	None	None	None	None	Medium - 37% of revenues	None	Medium
Auto TO-MI	None	Medium - D/E 64%	Medium	None	High	None	None	None	None	High - 54% of revenues	High - 50% of new project capex	None
Autogrill	High - 55% of sales	High - D/E 184%	None	High	Medium	High	Medium	None	None	High - anti-trust in Italy	None	High
Benetton	Low - 15% of sales	Medium - D/E 37%	Medium	High	Medium	Low	Low	Low	Low	None	None	Medium
Biesse	Low	Medium - D/E 50%	Medium (electricity costs)	None	Medium	None	Low	None	Medium	None	None	None
Brembo	Medium - 24% of sales	Medium - D/E 68%	High	Low	Medium	Low	None	Low	Low	Benefits from tighter regulation	None	High
Buzzi-Unicem	High - 40% of sales	Medium - D/E 39%	High	None	High	None	High	None	None	Low	High - public construction projects	None
Campari	Medium 30% of sales	Medium - D/E 38%	Medium	High	None	High	None	Medium	None	Low - harsher drink driving laws and bans on smoking depress sales	Low – indirectly, excise taxes increases can depress sales	None
De'Longhi	High - 60% of revenues	Medium - D/E 55%	High	High	High	High	High	Low	Low	None	None	Low
Engineering	None	None	None	None	High	None	None	None	None	Medium - linked to PA exposure	High - 40% of sales with PA	Benefit form IRAP reduction
Fineco	None	Medium	None	Medium	Medium	None	None	None	None	Low - performance fees calculation	None	Medium (positive IRAP, negative tax on financial income)
Gewiss	None	None - D/E 2%	Medium	High	High	None	None	None	None	Benefits from tighter regulation	Low - public construction projects	Medium
Granitifiandre	Medium - 35% of sales	Low - D/E 8%	None	Medium	Medium	Medium	Medium	None	None	None	Low - public construction projects	None
Hera	None	Medium - D/E 57%	Medium	None	None	None	None	None	None	High - 60% of revenues	Low	Medium
IMA	Very high - 52% of international sales	Medium - D/E 73%	Medium	None	Medium	None	Medium	None	Medium	Low - but affects pharma clients	None	Medium
IGD	None	Medium - plan D/E 42%	None	Low	Low	None	None	None	None	Low	None	None
Interpump	High - 30% of sales	High - target D/E 100%	High	High	High	Low	Medium	Low	Low	None	None	None

Company exposures to macro factors (cont'd)

Company	US$	Interest rates	Raw material costs	European consumers	European GDP	US consumers	US GDP	Asian consumers	Asian GDP	Regulation	Government spending	Italian tax changes
Italcementi	Medium on revenues and margins, low on net profit.	Medium - D/E 51%	Medium - high to oil prices	None	High	None	Medium	None	Medium	Low	High - public construction projects	None
Permasteelisa	High - 55% revenues	None	Medium	None	High	None	High	None	High	None	Medium - public construction projects	High
Recordati	Low - 5% of sales	None	None	None	Medium	None	None	None	None	High - products under approval and expiring patents	High - price pressure in Europe from reimbursement	Fiscal advantage on R&D
SABAF	None	Low - D/E 23%	Medium	High	High	None	None	Low	Low	Benefits from tighter regulation	None	None
Saipem	High - 75% of revenues	Low D/E 59% - gearing falling fast	Low - clients accept price increases. Benefit from high oil prices.	None	None	None	None	None	Medium - leading to growth of oil & gas infrastructure	Most projects subject to licences and permits	Low - only from national oil companies	None
Seat Pagine Gialle	None	Very high - D/E 582%	Medium - paper	Medium	High	None	None	None	None	Medium (UK, Germany)	None	Low
SIAS	None	Medium - D/E 38%	Medium	None	High	None	None	None	None	High - 77% of revenues	High - 50% of new project capex	None
Socotherm	High - 80% of revenues	Medium - D/E 63%	Low - clients accept price increases. Benefit from high oil prices.	None	None	None	None	None	Medium - leading to growth of oil & gas infrastructure	Most projects subject to licences and permits	Low - only from National Oil companies	Low
Sorin	Medium - 25% of revenues	Medium - D/E 40%	Medium	None	Medium	None	Medium	None	Medium	Dependence of product reimbursement policies and approvals	High	High
Terna	Low 10% sales in Brazil	Medium - D/E 102%, mostly fixed	None	None	None	None	None	None	None	High - 100% of revenues	None	Medium

Source: ING estimates

Italian industrials share information

Italian industrials share information

Company	Reuters	Blomberg	Rec.	Current price (€)	TP (€)	Upside (%)	Market cap (€m)	Free float (%)	Absolute perf (%) 1m	Absolute perf (%) 3m	Absolute perf (%) 12m	Absolute perf (%) YTD	Rel MIB30 (%) 1m	Rel MIB30 (%) 3m	Rel MIB30 (%) 12m	Rel MIB30 (%) YTD
AEM Milano	AEMI.MI	AEM IM	Hold	1.64	1.60	-2	2,952	39	-5.2	1.9	11.6	-3.5	-7.1	0.9	-2.9	-40.6
Aeroporto di Firenze	AFI.MI	AFI IM	Buy	12.18	14.80	22	110	40	8.4	14.4	27.4	26.9	6.2	13.3	10.9	-10.2
Autogrill	AGL.MI	AGL IM	Hold	11.17	12.00	7	2,869	43	0.4	-3.5	-4.0	-9.6	-1.6	-4.3	-16.5	-46.6
Autostrada To-Mi	ATMI.MI	AT IM	Hold	18.40	21.00	14	1,619	35	6.5	6.2	27.4	-2.2	4.4	5.3	10.9	-39.3
Benetton	BNG.MI	BEN IM	Sell	7.45	7.00	-6	1,353	33	-2.0	-0.8	-20.2	-23.9	-3.9	-1.7	-30.5	-61.0
Biesse	BSS.MI	BSS IM	Buy	3.79	6.00	58	104	40	-5.3	-7.6	67.7	45.3	-7.1	-8.4	46.0	8.2
Brembo	BRBI.MI	BRE IM	Buy	6.14	7.50	22	410	39	5.9	-5.5	6.0	10.8	3.8	-6.4	-7.7	-26.2
Buzzi Unicem	BZU.MI	BZU IM	Hold	12.38	12.80	3	2,422	42	7.9	0.7	15.3	14.1	5.8	-0.2	0.3	-23.0
Davide Campari-Milano	CPR.MI	CPR IM	Hold	6.15	5.30	-14	1,787	45	9.8	27.3	55.3	30.6	7.6	26.2	35.2	-6.5
De'Longhi	DLG.MI	DLG IM	Buy	2.92	3.30	13	437	25	3.2	-7.3	-11.0	-12.3	1.1	-8.1	-22.5	-49.4
Enel	ENEI.MI	ENEL IM	Hold	7.05	6.90	-2	42,745	32	-2.2	-3.7	8.1	-2.6	-4.2	-4.6	-5.9	-39.7
Engineering	ENG.MI	ENG IM	Buy	26.65	31.00	16	333	33	3.3	-6.0	21.9	11.3	1.2	-6.8	6.1	-25.8
ENI	ENI.MI	ENI IM	Hold	21.23	21.50	1	80,123	70	4.8	5.7	23.4	16.0	2.8	4.7	7.4	-21.1
Fiat	FIA.MI	F IM	Hold	6.28	6.00	-4	6,177	45	12.3	10.2	-1.3	5.4	10.1	9.2	-14.1	-31.7
Finmeccanica	SIFI.MI	FNC IM	Hold	0.78	0.75	-4	6,571	68	5.4	1.3	25.8	16.4	3.3	0.4	9.5	-20.7
Gewiss	GEWI.MI	GEWS IM	Hold	4.91	5.23	7	589	39	-1.4	-3.2	19.8	0.6	-3.4	-4.0	4.2	-36.5
Granitifiandre	GRF.MI	GRF IM	Buy	7.20	8.05	12	265	40	3.3	-3.1	9.8	7.6	1.3	-4.0	-4.5	-29.5
Hera	HRA.MI	HER IM	Hold	2.19	2.16	-1	1,839	43	-0.5	3.8	28.8	1.9	-2.4	2.9	12.1	-35.2
IMA	IMAI.MI	IMA IM	Hold	10.90	11.00	0	393	34	2.1	3.1	0.0	1.9	0.0	2.2	-13.0	-35.2
Interpump Group	IP.MI	IP IM	Buy	4.97	5.70	15	377	60	2.3	18.3	18.3	15.9	0.2	17.3	3.0	-21.2
IGD	IGD.MI	IP IM	Buy	1.69	1.91	13	477	37	9.0	4.3	N/A	-1.7	N/A	N/A	N/A	N/A
Italcementi	ITAI.MI	IT IM	Buy	13.18	15.34	16	3,682	39	6.0	0.5	26.5	11.1	3.9	-0.4	10.1	-25.9
Permasteelisa	PMS.MI	PMS IM	Hold	12.97	14.04	8	358	39	1.6	-2.9	-4.6	1.7	-0.4	-3.8	-17.0	-35.4
Recordati	RECI.MI	REC IM	Buy	5.61	6.25	11	1,132	45	3.1	6.9	45.7	23.9	1.1	5.9	26.8	-13.2
SABAF	SAB.MI	SAB IM	Hold	16.45	19.10	16	186	39	3.6	-14.3	6.8	-14.7	1.5	-15.1	-7.0	-51.8
Saipem	SPMI.MI	SPM IM	Hold	11.01	11.20	2	4,857	57	12.1	11.1	41.3	25.7	9.9	10.1	23.0	-11.4
Seat Pagine Gialle	PG.MI	PG IM	Hold	0.34	0.31	-9	2,805	50	6.3	6.3	3.0	0.5	4.1	5.3	-10.3	-36.6
SIAS	SIS.MI	SIS IM	Buy	11.49	14.72	28	1,831	32	1.1	6.5	27.7	10.0	-0.9	5.5	11.1	-27.1
Snam Rete Gas	SRG.MI	SRG IM	Hold	4.31	4.20	-3	8,426	40	-3.4	1.2	21.1	-0.2	-5.3	0.3	5.4	-37.3
Socotherm	SCTM.MI	SCT IM	Hold	8.85	8.90	1	333	35	3.8	4.0	50.0	22.7	1.7	3.1	30.6	-14.3
Sorin	SORN.MI	SRN IM	Buy	2.45	2.70	10	867	40	9.4	-1.6	19.5	5.6	7.2	-2.5	4.0	-31.5
Telecom Italia	TLIT.MI	TIT IM	Buy	2.58	2.90	12	49,441	80	-3.0	-9.2	-0.4	-15.7	-4.9	-10.0	-13.3	-52.8
Terna	TRN.MI	TRN IM	Buy	2.13	2.20	3	4,260	50	-0.5	2.9	N/A	0.5	N/A	N/A	N/A	-36.6
TIM	TIM.MI	TIM IM	Sell	4.46	5.30	19	38,204	44	-3.0	-11.0	-4.3	-19.2	-5.0	-11.8	-16.7	-56.3

Prices as of 21June 2005.

Source: Bloomberg, ING estimates

Italian industrials geared multiples

Italian industrials geared multiples

Company	Adj PER (x)			Cash PER (x)			Div yield (%)			P/NAV (x)			PEG (x)		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
AEM Milano	17.2	16.4	14.9	8.8	8.6	8.1	3.1	3.2	3.3	2.0	1.9	1.8	-0.4	3.5	1.5
Aeroporto di Firenze	112.9	43.1	29.4	14.8	12.9	11.2	0.7	0.8	0.9	4.1	3.9	3.7	0.3	0.3	0.6
Autogrill	24.6	18.8	16.3	10.0	8.7	8.2	1.1	1.4	1.9	9.4	9.3	9.3	-8.0	0.6	1.1
Autostrada To-Mi	16.3	15.0	13.8	12.2	11.7	10.6	1.9	2.2	2.4	2.6	2.2	1.9	2.5	1.8	1.6
Benetton	11.0	13.4	10.8	6.1	6.6	5.8	4.5	3.7	4.6	1.1	1.1	1.0	-0.6	-0.7	0.5
Biesse	20.6	10.7	8.0	6.0	4.6	4.0	2.4	2.6	2.9	1.2	1.1	1.0	N/A	0.1	0.2
Brembo	10.9	11.9	11.1	5.6	5.5	4.9	2.1	2.3	2.4	2.1	1.7	1.5	0.4	-1.4	1.6
Buzzi Unicem	13.8	11.4	10.9	5.5	5.2	5.0	1.7	1.8	1.9	1.4	1.3	1.2	-1.2	0.5	2.4
Davide Campari-Milano	17.1	15.1	14.3	14.5	13.0	12.5	1.6	1.6	1.6	3.0	2.8	2.5	-4.8	1.1	2.7
De'Longhi	11.1	16.4	14.1	4.9	5.4	5.0	2.1	2.1	2.4	0.8	0.8	0.7	-1.3	-0.5	0.9
Enel	11.8	14.0	13.0	5.5	5.9	5.7	9.6	5.1	4.3	2.1	2.0	1.8	1.0	-0.9	1.8
Engineering	13.1	14.7	12.6	10.2	11.0	9.8	1.4	1.9	1.9	1.9	1.8	1.6	0.5	-1.4	0.7
ENI	11.3	9.9	10.8	6.7	6.1	6.3	4.2	6.4	4.2	2.4	2.2	2.0	0.4	0.7	-1.4
Fiat	N/A	7.5	11.9	10.6	2.0	2.3	0.0	0.0	2.4	1.3	1.1	1.0	N/A	N/A	-0.3
Finmeccanica	8.7	13.5	12.4	5.9	7.9	7.2	1.3	1.4	1.5	1.8	1.7	1.6	0.1	-0.4	1.5
Gewiss	19.9	17.1	15.5	11.6	10.4	9.6	1.2	1.4	1.8	2.8	2.9	2.5	0.7	1.1	1.4
Granitifiandre	40.2	23.1	14.1	14.4	9.6	6.7	3.5	4.2	4.9	1.7	1.6	1.4	-0.8	0.3	0.2
Hera	25.6	21.8	17.4	8.3	7.9	7.0	2.7	3.7	4.3	1.9	1.9	1.9	2.0	1.3	0.7
IMA	19.8	16.6	15.3	12.8	10.9	10.2	3.7	4.1	4.6	4.1	3.4	3.2	-1.1	0.8	1.8
Interpump Group	14.4	16.7	12.4	8.6	11.5	8.8	2.4	2.6	3.0	2.6	1.7	1.6	1.5	-1.2	0.4
IGD	46.8	15.7	16.2	14.1	14.8	15.2	3.0	3.0	3.6	N/A	0.9	0.8	0.1	0.1	-5.2
Italcementi	11.1	11.4	10.7	5.6	5.5	5.2	2.3	2.7	2.7	1.6	1.4	1.2	0.5	-4.0	1.5
Permasteelisa	13.0	11.8	9.9	8.9	8.1	7.0	2.3	2.7	3.1	1.7	1.5	1.4	-0.3	1.1	0.5
Recordati	20.0	17.8	16.2	15.2	13.8	12.9	2.0	2.1	2.3	4.3	3.7	3.2	-1.5	1.4	1.7
SABAF	14.7	14.7	12.5	7.5	7.2	6.2	2.9	3.2	3.4	2.4	2.1	1.8	0.6	N/A	0.7
Saipem	20.3	19.2	16.1	11.1	10.7	9.8	1.3	1.4	1.8	3.3	3.0	2.7	-32.3	3.2	0.8
Seat Pagine Gialle	9.6	11.0	9.9	8.7	9.8	8.9	0.0	2.1	2.2	4.2	3.7	3.2	-1.0	-0.9	0.9
SIAS	22.5	25.0	25.9	9.6	11.5	10.8	2.3	2.3	2.6	2.9	2.0	1.9	0.7	-2.5	-7.1
Snam Rete Gas	16.0	15.5	14.5	8.3	8.2	7.8	4.6	4.7	4.8	1.4	1.4	1.4	-4.6	4.3	2.2
Socotherm	63.6	19.7	16.0	19.4	9.5	8.1	0.5	1.4	1.7	6.2	4.8	3.9	-1.0	0.1	0.7
Sorin	N/A	139.4	28.9	45.4	16.2	11.2	0.0	0.0	0.0	2.5	2.6	2.5	N/A	N/A	0.1
Telecom Italia	17.5	17.7	13.5	5.8	6.2	5.5	4.2	4.7	5.1	2.6	2.5	2.3	-0.4	-18.1	0.4
Terna	18.1	17.8	17.1	10.5	9.7	9.4	5.4	5.5	5.7	2.3	2.3	2.3	0.5	15.3	4.0
TIM	16.3	14.9	13.5	9.5	8.8	8.1	6.0	6.5	7.0	5.0	5.0	4.7	1.0	1.5	1.3

Prices as of 21June 2005.

Source: ING estimates.

Italian industrials EV multiples

Italian industrials EV multiples

Company	EV (€m)			EV/sales (x)			EV/EBITDA (x)			EV/EBIT (x)			EV/IC (x)		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
AEM Milano	4,454	4,305	4,140	2.45	2.18	2.01	10.3	9.0	8.1	16.6	13.6	12.0	1.6	1.5	1.4
Aeroporto di Firenze	107	107	107	3.82	3.56	3.23	12.0	10.4	8.5	43.7	24.7	16.7	4.6	4.4	4.1
Autogrill	3,478	3,299	3,143	1.10	1.00	0.92	8.0	7.0	6.4	17.4	13.9	12.0	3.4	3.9	4.6
Autostrada To-Mi	1,747	1,804	1,813	3.32	3.24	3.12	9.4	9.3	8.5	11.4	11.0	10.3	1.7	1.6	1.4
Benetton	1,809	1,804	1,742	1.07	1.10	1.00	5.7	6.6	5.7	8.3	10.7	8.8	1.1	1.1	1.0
Biesse	149	135	121	0.48	0.43	0.36	5.8	4.5	3.5	11.0	8.0	5.8	1.0	1.0	1.0
Brembo	554	562	548	0.84	0.78	0.70	5.7	5.4	4.6	9.8	8.7	7.5	1.6	1.5	1.3
Buzzi Unicem	3,709	3,763	3,502	1.34	1.31	1.21	5.2	5.1	4.6	8.2	7.8	7.0	1.5	1.2	1.1
Davide Campari-Milano	2,190	2,117	2,018	2.81	2.59	2.35	11.9	10.8	9.8	16.9	15.4	13.8	2.6	2.4	2.2
De'Longhi	860	883	872	0.67	0.72	0.69	6.3	6.7	6.2	11.6	11.4	10.2	1.0	1.0	0.9
Enel	67,041	64,097	62,991	1.84	1.73	1.68	6.1	5.9	5.7	10.6	9.6	9.3	1.5	1.4	1.4
Engineering	307	348	335	0.95	0.99	0.88	6.1	6.5	5.7	8.7	7.6	6.5	2.2	2.0	1.7
ENI	92,228	92,152	90,947	1.58	1.46	1.51	5.4	4.7	5.0	7.6	6.4	7.0	2.1	2.0	1.8
Fiat	9,504	9,757	9,567	0.21	0.21	0.20	4.3	3.4	2.7	190.1	13.9	6.8	1.0	1.0	0.9
Finmeccanica	6,941	7,393	7,207	0.77	0.68	0.60	7.7	6.5	5.6	13.4	12.1	9.6	1.8	1.7	1.5
Gewiss	594	561	521	1.80	1.63	1.44	7.4	6.6	5.7	10.0	8.9	7.7	2.7	2.9	3.0
Granitifiandre	279	271	272	1.71	1.32	0.98	10.1	7.3	5.1	17.7	12.8	8.3	1.8	1.6	1.5
Hera	2,278	2,358	2,403	1.37	1.39	1.30	7.2	6.9	6.1	15.1	13.1	10.8	1.6	1.5	1.4
IMA	462	468	465	1.25	1.17	1.11	9.6	8.2	7.6	14.4	10.5	9.7	2.7	2.6	2.4
Interpump Group	588	450	428	1.14	1.45	1.26	7.7	7.6	6.3	13.5	9.1	7.8	1.5	1.3	1.4
IGD	669	579	725	N.S.	N.S.	N.S.	15.0	13.9	15.4	27.9	16.6	18.0	1.7	1.1	1.0
Italcementi	5,230	5,116	4,925	1.16	1.09	1.01	4.8	4.5	4.1	7.3	6.4	6.0	1.1	1.1	1.0
Permasteelisa	345	355	379	0.39	0.39	0.40	5.6	5.0	4.6	7.4	6.3	5.6	1.8	1.6	1.4
Recordati	1,054	1,105	1,070	2.15	1.99	1.80	9.4	9.1	8.1	11.6	10.6	9.4	4.6	4.7	3.8
SABAF	204	199	192	1.70	1.59	1.37	5.9	5.5	4.7	9.4	8.7	7.4	2.2	2.0	1.8
Saipem	5,715	5,610	5,365	1.33	1.25	1.15	10.8	9.9	8.6	19.7	17.2	13.8	2.4	2.4	2.3
Seat Pagine Gialle	6,830	6,499	6,206	4.86	4.57	4.19	11.3	10.5	9.8	36.8	15.3	14.1	1.4	1.4	1.4
SIAS	2,435	2,427	2,488	4.25	4.54	4.23	8.9	9.9	9.4	14.3	15.2	15.1	2.5	1.9	1.5
Snam Rete Gas	11,300	11,303	11,196	6.35	6.11	5.82	7.8	7.6	7.2	11.7	11.2	10.5	1.3	1.3	1.3
Socotherm	392	395	386	3.09	1.59	1.34	13.5	7.5	6.3	27.2	11.8	9.7	3.5	3.1	2.8
Sorin	867	867	867	1.20	1.12	1.01	13.2	10.3	8.0	386.0	38.4	18.4	2.3	2.5	2.5
Telecom Italia	94,288	101,852	98,939	3.02	3.40	3.17	6.7	7.6	7.1	10.7	12.6	11.4	1.8	1.7	1.5
Terna	6,125	6,040	6,062	6.77	6.71	6.55	9.0	8.5	8.2	12.0	11.8	11.4	1.7	1.7	1.7
TIM	38,821	39,163	39,099	3.00	2.83	2.66	6.4	6.0	5.6	9.1	8.5	7.9	5.4	5.1	4.8

Prices as of 21June 2005.

Source: ING estimates

Italian industrials P&L

Italian industrials P&L estimates (€m)

Company	Sales			EBITDA			EBIT			PTP			Adj net profit		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
AEM Milano	1,816	1,973	2,061	432	481	509	268	316	344	254	267	302	172	180	198
Aeroporto di Firenze	28	30	33	9	10	13	2	4	6	2	4	6	1	3	4
Autogrill	3,182	3,298	3,430	439	473	492	202	238	262	140	185	223	118	153	176
Autostrada To-Mi	526	557	581	186	194	213	153	163	177	159	174	189	100	108	117
Benetton	1,686	1,634	1,734	316	272	307	217	168	199	165	138	170	123	101	125
Biesse	313	318	335	26	30	34	14	17	21	17	15	19	5	10	13
Brembo	678	723	782	101	104	120	58	64	73	58	59	69	40	34	37
Buzzi Unicem	2,772	2,873	2,904	711	735	761	453	484	497	321	374	397	163	212	222
Davide Campari-Milano	779	818	858	184	196	205	130	137	146	123	125	134	104	118	125
De'Longhi	1,287	1,223	1,272	137	132	141	74	78	85	31	43	53	39	27	31
Enel	36,489	37,131	37,478	11,010	10,869	10,972	6,325	6,700	6,808	5,183	5,692	5,851	3,633	3,055	3,277
Engineering	323	352	382	50	53	59	35	46	51	34	45	51	25	23	26
ENI	58,382	63,070	60,128	16,960	19,419	18,193	12,099	14,346	12,911	12,871	14,641	13,233	7,061	8,004	7,325
Fiat	45,637	46,000	47,200	2,218	2,900	3,600	50	700	1,400	-1,629	1,260	790	-1,586	820	520
Finmeccanica	9,012	10,896	11,974	903	1,141	1,281	518	609	748	932	539	682	761	488	529
Gewiss	330	344	362	80	85	91	59	63	68	54	60	66	30	34	38
Granitifiandre	163	205	276	28	37	53	16	21	33	14	19	31	7	12	19
Hera	1,589	1,700	1,845	300	340	392	144	180	222	117	150	189	69	84	106
IMA	371	400	420	48	57	61	32	44	48	28	40	44	20	24	26
IGD	2	2	2	33	42	47	18	35	40	11	29	33	6	29	29
Interpump Group	535	310	340	79	60	68	45	49	55	36	43	53	26	23	30
Italcementi	4,528	4,706	4,855	1,098	1,143	1,188	715	795	822	620	713	742	331	322	345
Permasteelisa	876	900	940	62	70	82	47	56	68	39	49	62	27	30	36
Recordati	488	556	595	112	122	132	90	104	114	86	104	114	56	64	70
SABAF	121	125	140	35	36	41	22	23	26	21	22	25	13	13	15
Saipem	4,306	4,472	4,652	530	567	625	290	325	388	267	287	353	239	253	303
Seat Pagine Gialle	1,406	1,421	1,482	604	617	635	185	424	441	-41	161	204	293	256	283
SIAS	495	535	588	237	246	264	147	160	165	158	166	160	67	73	71
Snam Rete Gas	1,780	1,850	1,925	1,454	1,491	1,555	969	1,008	1,063	858	893	953	526	545	581
Socotherm	127	248	288	29	53	61	14	33	40	7	30	38	5	17	21
Sorin	721	776	861	65	84	109	2	23	47	-44	5	30	-29	6	30
Telecom Italia	28,573	29,965	31,212	12,902	13,340	13,981	8,051	8,098	8,702	6,046	5,783	6,445	2,370	2,791	3,655
Terna	904	900	925	683	713	737	512	512	531	409	414	432	236	239	249
TIM	12,919	13,848	14,692	6,045	6,522	6,973	4,261	4,623	4,978	4,079	4,471	4,834	2,341	2,567	2,826

Source: ING estimates

Italian industrials per share data

Italian industrials per share data (€)

Company	Adj EPS			Cash EPS			DPS			NAV			FCFPS		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
AEM Milano	0.10	0.10	0.11	0.19	0.19	0.20	0.05	0.05	0.05	0.81	0.85	0.91	0.03	0.09	0.10
Aeroporto di Firenze	0.11	0.28	0.41	0.82	0.95	1.09	0.09	0.10	0.11	2.98	3.12	3.33	0.08	0.40	0.80
Autogrill	0.45	0.60	0.68	1.12	1.29	1.37	0.12	0.16	0.21	1.19	1.21	1.21	1.18	1.32	1.47
Autostrada To-Mi	1.13	1.23	1.33	1.51	1.57	1.74	0.35	0.40	0.45	7.04	8.25	9.56	-0.52	-0.57	0.03
Benetton	0.68	0.56	0.69	1.22	1.12	1.28	0.34	0.28	0.34	6.78	6.99	7.40	0.76	0.42	0.66
Biesse	0.18	0.35	0.47	0.63	0.83	0.96	0.09	0.10	0.11	3.25	3.50	3.87	1.61	0.57	0.62
Brembo	0.57	0.52	0.55	1.11	1.11	1.26	0.13	0.14	0.15	2.96	3.61	4.16	0.02	0.03	0.44
Buzzi Unicem	0.90	1.08	1.13	2.24	2.37	2.48	0.21	0.22	0.24	8.94	9.80	10.70	2.81	-0.64	1.60
Davide Campari-Milano	0.36	0.41	0.43	0.42	0.47	0.49	0.10	0.10	0.10	2.05	2.22	2.51	0.28	0.33	0.45
De'Longhi	0.26	0.18	0.21	0.60	0.54	0.58	0.06	0.06	0.07	3.79	3.88	4.01	-0.44	-0.16	0.08
Enel	0.60	0.50	0.54	1.29	1.19	1.23	0.68	0.36	0.30	3.39	3.58	3.82	0.02	0.21	0.25
Engineering	2.03	1.81	2.12	2.60	2.41	2.73	0.36	0.50	0.50	13.69	15.00	16.62	-0.04	1.19	1.50
ENI	1.87	2.14	1.97	3.16	3.49	3.38	0.90	1.35	0.90	8.75	9.60	10.73	1.41	1.47	1.23
Fiat	-1.61	0.83	0.53	0.59	3.07	2.77	0.00	0.00	0.15	5.01	5.84	6.37	-2.35	0.94	0.41
Finmeccanica	0.09	0.06	0.06	0.13	0.10	0.11	0.01	0.01	0.01	0.44	0.46	0.49	0.02	0.03	0.04
Gewiss	0.25	0.29	0.32	0.42	0.47	0.51	0.06	0.07	0.09	1.74	1.69	2.00	0.48	0.33	0.41
Granitifiandre	0.18	0.31	0.51	0.50	0.75	1.07	0.25	0.30	0.35	4.21	4.52	5.03	-0.62	0.41	0.29
Hera	0.09	0.10	0.13	0.27	0.28	0.31	0.06	0.08	0.09	1.13	1.15	1.16	-0.09	-0.03	0.04
IMA	0.55	0.66	0.71	0.85	1.00	1.07	0.40	0.45	0.50	2.66	3.23	3.44	0.63	0.51	0.56
IGD	0.04	0.11	0.10	0.12	0.11	0.11	0.05	0.05	0.06	0.01	0.01	0.01	-0.30	-0.18	-0.47
Interpump Group	0.35	0.30	0.40	0.58	0.43	0.57	0.12	0.13	0.15	1.94	2.87	3.12	0.08	2.69	0.43
Italcementi	1.19	1.15	1.23	2.34	2.40	2.54	0.30	0.35	0.36	8.38	9.53	10.76	1.14	0.85	1.01
Permasteelisa	0.99	1.10	1.31	1.45	1.61	1.85	0.30	0.35	0.40	7.70	8.45	9.36	-0.22	1.77	1.83
Recordati	0.28	0.32	0.35	0.37	0.41	0.43	0.11	0.12	0.13	1.30	1.50	1.73	0.68	0.19	0.32
SABAF	1.12	1.12	1.31	2.18	2.29	2.65	0.48	0.52	0.56	6.80	7.92	9.23	0.56	0.94	1.17
Saipem	0.54	0.57	0.69	0.99	1.03	1.13	0.15	0.16	0.19	3.32	3.65	4.09	0.31	0.39	0.72
Seat Pagine Gialle	0.04	0.03	0.03	0.04	0.03	0.04	0.00	0.01	0.01	0.08	0.09	0.11	0.03	0.04	0.04
SIAS	0.51	0.46	0.44	1.20	1.00	1.06	0.26	0.26	0.30	4.02	5.75	6.19	-0.09	0.33	0.03
Snam Rete Gas	0.27	0.28	0.30	0.52	0.53	0.55	0.20	0.20	0.21	2.98	3.05	3.14	0.01	-0.01	0.01
Socotherm	0.14	0.45	0.55	0.46	0.93	1.09	0.04	0.12	0.15	1.43	1.85	2.24	0.01	0.13	0.51
Sorin	-0.08	0.02	0.08	0.05	0.15	0.22	0.00	0.00	0.00	0.98	0.96	1.00	-0.18	-0.07	-0.01
Telecom Italia	0.15	0.15	0.19	0.45	0.42	0.47	0.11	0.12	0.13	1.01	1.03	1.15	0.32	-0.38	0.28
Terna	0.12	0.12	0.12	0.20	0.22	0.23	0.12	0.12	0.12	0.91	0.91	0.92	0.00	-0.02	-0.04
TIM	0.27	0.30	0.33	0.47	0.51	0.55	0.27	0.29	0.31	0.89	0.90	0.94	0.20	0.31	0.32

Source: ING estimates

Italian industrials margins

Italian industrials margins (%)

Company	EBITDA			EBITA			EBIT			Net profit			Tax rate		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
AEM Milano	23.8	24.4	24.7	14.7	16.0	16.7	14.7	16.0	16.7	9.5	9.2	9.7	29.1	30.5	33.1
Aeroporto di Firenze	31.8	34.3	37.8	8.7	14.4	19.4	8.7	14.4	19.4	3.5	8.5	11.3	60.8	42.0	42.0
Autogrill	13.8	14.3	14.3	8.2	8.9	9.2	6.3	7.2	7.6	1.7	3.1	3.8	57.2	44.5	42.3
Autostrada To-Mi	35.4	34.8	36.6	29.1	29.4	30.4	29.1	29.4	30.4	20.4	20.4	21.3	33.9	34.6	34.7
Benetton	18.7	16.6	17.7	12.9	10.3	11.5	12.9	10.3	11.5	7.3	6.2	7.3	25.5	26.0	26.0
Biesse	8.3	9.4	10.2	4.3	5.3	6.2	4.3	5.3	6.2	1.6	3.1	3.9	70.0	35.0	33.0
Brembo	14.9	14.4	15.4	10.6	10.1	10.6	8.6	8.9	9.3	5.2	4.9	4.9	39.1	40.0	44.3
Buzzi Unicem	25.6	25.6	26.2	18.2	17.8	18.8	16.3	16.8	17.1	10.0	8.6	8.9	41.4	34.0	35.0
Davide Campari-Milano	23.6	24.0	23.9	21.5	22.0	22.0	16.7	16.8	17.0	11.1	10.2	10.4	29.9	33.6	33.6
De'Longhi	10.7	10.8	11.1	8.3	8.2	8.5	5.8	6.4	6.7	1.2	1.9	2.6	14.3	35.3	39.0
Enel	30.2	29.3	29.3	18.7	18.0	18.2	17.3	18.0	18.2	9.7	9.0	8.7	37.1	46.0	43.7
Engineering	15.5	15.1	15.4	13.7	13.5	13.9	10.9	13.0	13.4	5.1	6.9	7.4	44.2	46.5	45.0
ENI	29.1	30.8	30.3	20.7	22.7	21.5	20.7	22.7	21.5	12.7	13.2	12.8	42.5	42.9	42.0
Fiat	4.9	6.3	7.6	4.9	6.3	7.6	0.1	1.5	3.0	-3.5	1.8	1.1	2.8	37.5	38.5
Finmeccanica	10.0	10.5	10.7	6.8	7.3	7.5	5.7	5.6	6.3	6.1	3.1	3.6	37.0	37.0	37.0
Gewiss	24.4	24.7	25.1	18.0	18.3	18.7	18.0	18.3	18.7	9.0	10.0	10.5	44.9	43.0	42.0
Granitifiandre	17.0	18.2	19.3	9.7	10.3	11.8	9.7	10.3	11.8	4.5	5.9	7.2	48.1	35.0	35.0
Hera	18.9	20.0	21.2	13.0	13.4	14.7	9.1	10.6	12.0	3.9	4.7	5.5	47.0	46.5	46.0
IMA	13.0	14.2	14.5	11.0	12.3	12.5	8.6	11.1	11.4	4.0	6.0	6.2	47.0	40.0	40.0
IGD	N.S.	N.S.	N.S.	N.S.	N.S.	N.S.	N.S.	N.S.	N.S.	N.S.	N.S.	N.S.	43.9	19.5	26.4
Interpump Group	14.8	19.2	19.9	11.5	16.0	16.2	8.4	15.9	16.2	2.1	24.5	9.4	64.7	40.5	39.0
Italcementi	24.3	24.3	24.5	17.7	17.5	17.6	15.8	16.9	16.9	8.7	9.2	9.5	40.0	39.0	38.0
Permasteelisa	7.0	7.8	8.8	5.8	6.5	7.4	5.3	6.3	7.2	2.8	3.6	4.1	31.2	34.0	38.0
Recordati	22.8	21.9	22.2	19.2	18.7	19.2	18.5	18.7	19.2	11.1	11.4	11.7	38.3	39.0	39.0
SABAF	28.9	28.8	29.3	19.7	19.1	19.4	18.1	18.2	18.5	10.1	10.2	10.6	43.8	42.0	41.0
Saipem	12.3	12.7	13.4	7.7	8.2	9.2	6.7	7.3	8.3	4.6	4.8	5.7	25.1	25.0	25.0
Seat Pagine Gialle	43.0	43.4	42.8	40.9	41.2	40.7	13.2	29.8	29.7	-8.5	7.1	8.7	117.2	37.4	36.8
SIAS	47.9	45.9	44.9	29.7	29.9	28.0	29.7	29.9	28.0	19.4	19.3	16.9	39.6	38.0	38.0
Snam Rete Gas	81.7	80.6	80.8	54.4	54.5	55.2	54.4	54.5	55.2	29.6	29.5	30.2	38.7	39.0	39.0
Socotherm	22.9	21.3	21.3	13.8	14.1	14.4	11.4	13.5	13.8	3.1	8.2	8.8	12.5	33.0	33.0
Sorin	9.1	10.9	12.6	2.5	4.8	7.1	0.3	2.9	5.5	-6.1	-1.0	1.8	1.0	278.1	46.6
Telecom Italia	45.2	44.5	44.8	28.2	27.0	27.9	28.2	27.0	27.9	11.5	10.4	12.0	43.9	46.2	42.3
Terna	75.5	79.2	79.7	56.6	56.9	57.4	56.6	56.9	57.4	26.1	26.5	26.9	42.4	42.4	42.4
TIM	46.8	47.1	47.5	33.8	34.1	34.6	33.0	33.4	33.9	17.9	18.8	19.6	42.8	41.9	40.3

Source: ING estimates

Italian industrials ratios

Italian industrials ratios

Company	RoaCE (%)			ROE (%)			Div payout (%)			Net debt/equity (%)			Net debt/EBITDA (x)		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
AEM Milano	6.0	7.1	7.7	12.2	12.1	12.5	53.6	52.5	49.0	102.7	87.3	72.0	3.5	2.8	2.3
Aeroporto di Firenze	4.1	10.2	14.2	3.7	9.3	12.9	83.4	35.4	26.5	-11.9	-9.1	-10.4	-0.4	-0.2	-0.3
Autogrill	13.1	17.1	22.1	18.5	31.0	39.2	59.7	43.0	43.8	183.6	129.6	82.7	1.4	0.9	0.6
Autostrada To-Mi	10.9	10.4	10.0	17.5	16.0	15.0	30.9	32.6	33.7	63.5	61.8	54.3	2.2	2.4	2.2
Benetton	9.1	7.2	8.4	10.2	8.1	9.6	50.0	50.0	50.0	37.1	35.5	29.0	1.4	1.7	1.3
Biesse	2.7	8.4	11.1	6.5	10.5	12.8	48.9	28.2	23.3	50.3	32.9	16.5	1.7	1.1	0.5
Brembo	11.3	9.6	9.2	18.1	15.4	14.2	26.5	27.1	27.1	65.6	59.6	47.4	1.4	1.5	1.2
Buzzi Unicem	9.8	9.3	9.7	9.6	11.6	11.1	25.6	20.3	21.2	38.4	44.6	30.2	1.2	1.4	1.0
Davide Campari-Milano	15.2	15.0	15.1	12.1	12.6	12.2	41.9	37.2	34.7	38.4	43.6	24.8	1.3	1.4	0.9
De'Longhi	7.2	5.2	5.1	4.7	4.7	5.2	33.6	33.6	33.8	55.2	58.0	54.1	2.3	2.6	2.3
Enel	9.8	7.9	8.5	15.0	14.4	14.6	132.1	71.4	55.5	112.0	93.4	83.2	2.2	2.0	1.8
Engineering	14.7	12.2	13.2	10.6	12.6	13.4	25.4	27.6	23.6	-14.9	2.4	-3.6	-0.5	0.1	-0.1
ENI	17.6	19.2	17.0	22.7	23.2	19.3	48.1	63.2	45.8	30.2	27.3	21.8	0.6	0.5	0.5
Fiat	-2.7	8.4	5.7	-27.1	15.4	8.7	N/A	0.0	28.4	59.6	55.5	48.7	1.5	1.2	0.9
Finmeccanica	13.5	8.8	9.0	20.9	8.0	9.5	12.0	29.5	26.1	10.0	21.0	15.5	0.4	0.7	0.5
Gewiss	14.2	18.1	21.7	15.3	16.8	17.2	24.3	24.4	28.4	2.1	-13.8	-28.5	0.1	-0.3	-0.8
Granitifiandre	4.4	7.0	9.9	4.3	7.2	10.7	139.6	96.1	68.8	8.3	3.5	3.2	0.5	0.2	0.1
Hera	6.0	6.8	7.9	6.2	7.6	9.7	84.6	92.7	85.0	57.6	63.9	66.3	1.9	1.9	1.7
IMA	10.0	12.2	13.8	15.2	22.4	21.4	99.1	68.4	70.0	72.8	59.1	52.4	1.5	1.2	1.1
IGD	2.7	6.2	4.7	2.6	7.4	5.2	150.7	46.4	57.4	84.5	18.6	41.9	5.9	2.4	5.3
Interpump Group	8.0	8.1	10.5	6.3	12.1	13.4	93.1	43.7	37.4	122.8	31.0	19.8	2.7	1.2	0.8
Italcementi	10.6	9.9	10.1	12.0	12.9	12.2	31.0	30.4	29.2	51.0	43.2	33.8	1.4	1.3	1.0
Permasteelisa	14.1	15.2	15.8	12.0	13.6	14.7	33.4	31.8	30.5	-6.1	-1.4	7.8	-0.2	0.0	0.3
Recordati	9.1	7.8	7.7	20.7	22.5	21.4	41.8	38.0	37.6	-28.7	-7.9	-16.8	-0.7	-0.2	-0.4
SABAF	13.2	12.6	14.1	16.1	15.2	15.3	46.2	46.4	42.7	23.2	14.1	5.0	0.5	0.4	0.1
Saipem	11.1	12.2	14.2	14.0	13.7	15.3	33.0	33.0	33.0	58.7	46.6	27.9	1.6	1.3	0.8
Seat Pagine Gialle	10.1	10.5	11.2	-3.8	13.2	14.8	N/A	61.6	51.0	581.7	464.8	367.0	6.5	5.8	5.2
SIAS	9.6	8.2	6.8	13.6	10.2	7.4	50.8	56.5	67.7	37.9	21.1	23.9	1.2	1.1	1.3
Snam Rete Gas	6.8	7.0	7.3	9.2	9.2	9.6	74.3	73.2	70.0	49.4	48.2	45.1	2.0	1.9	1.8
Socotherm	8.7	17.0	20.3	4.6	24.9	25.1	58.0	30.0	30.0	63.3	49.3	27.1	1.5	0.9	0.5
Sorin	4.7	3.5	12.1	-11.8	-2.4	4.5	0.0	0.0	0.0	91.0	101.0	97.0	4.8	4.1	3.1
Telecom Italia	8.2	7.4	7.7	14.7	15.5	17.5	74.3	82.6	69.3	157.7	159.1	133.2	2.5	3.0	2.7
Terna	8.1	8.1	8.5	13.2	13.1	13.6	97.5	97.5	97.5	102.5	97.5	98.3	2.7	2.5	2.4
TIM	33.4	34.4	36.5	29.0	32.1	34.5	103.0	101.1	98.2	-1.5	3.0	2.0	N.S.	N.S.	N.S.

Source: ING estimates

Italian industrials growth metrics

Italian industrials growth metrics (%)

Company	Sales		EBITDA		EBIT		PTP		Net profit		Adj. EPS		Dividend	
	2005F	2006F	2005F	2006F	2005F	2006F	2005F	2006F	2005F	2006F	2005F	2006F	2005F	2006F
AEM Milano	9	4	11	6	18	9	5	13	5	10	5	10	2	2
Aeroporto di Firenze	8	10	16	21	78	47	77	47	162	47	162	47	11	10
Autogrill	4	4	8	4	18	10	33	20	30	15	31	15	32	29
Autostrada To-Mi	6	4	4	10	7	8	9	9	8	9	8	9	14	13
Benetton	-3	6	-14	13	-22	18	-17	23	-18	24	-18	24	-18	24
Biesse	2	5	16	14	25	23	-11	29	93	33	93	33	11	10
Brembo	7	8	3	16	10	13	2	16	-13	7	-9	7	8	7
Buzzi Unicem	4	1	3	4	7	3	17	6	30	5	21	5	5	9
Davide Campari-Milano	5	5	7	4	6	6	2	7	13	5	13	5	0	0
De'Longhi	-5	4	-4	7	5	10	36	24	-32	16	-32	16	0	17
Enel	2	1	-1	1	6	2	10	3	-16	7	-16	7	-47	-17
Engineering	9	8	6	11	30	12	34	13	-11	17	-11	17	39	0
ENI	8	-5	14	-6	19	-10	14	-10	13	-8	14	-8	50	-33
Fiat	1	3	31	24	1300	100	-177	-37	-152	-37	-152	-37	N.S.	N.S.
Finmeccanica	21	10	26	12	18	23	-42	26	-36	9	-36	9	2	10
Gewiss	4	5	6	7	6	8	12	9	16	11	16	11	17	29
Granitifiandre	26	35	35	43	34	54	33	64	74	63	74	63	20	17
Hera	7	8	13	15	25	23	28	26	23	25	17	25	33	19
IMA	-59	175	18	7	39	8	44	9	20	9	20	9	13	11
IGD	-3	10	27	13	99	15	164	14	346	3	199	-3	-2	20
Interpump Group	-42	10	-25	14	9	12	20	21	-14	35	-14	35	8	15
Italcementi	4	3	4	4	11	3	15	4	-3	7	-3	7	17	3
Permasteelisa	3	4	14	17	21	20	26	26	11	19	11	19	17	14
Recordati	14	7	9	8	15	10	22	10	13	10	13	9	9	8
SABAF	4	12	4	14	4	14	4	15	0	17	0	17	8	8
Saipem	4	4	7	10	12	19	8	23	6	19	6	19	7	23
Seat Pagine Gialle	1	4	2	3	129	4	-491	27	-13	11	-13	11	N.S.	7
SIAS	8	10	4	8	9	3	6	-4	10	-4	-10	-4	0	15
Snam Rete Gas	4	4	3	4	4	6	4	7	4	7	4	7	2	2
Socotherm	96	16	83	16	132	19	346	25	222	24	222	24	206	26
Sorin	8	11	29	29	905	109	-110	550	-122	383	-122	383	N.S.	N.S.
Telecom Italia	5	4	3	5	1	7	-4	11	18	31	-1	31	10	10
Terna	0	3	4	3	0	4	1	4	1	4	1	4	1	4
TIM	7	6	8	7	8	8	10	8	10	10	10	10	8	7

Source: ING estimates

Italian financials share information

Italian financials share information

Company	Reuters	Blomberg	Rec	Current price (€)	TP (€)	Upside (%)	Mkt cap (€m)	Free float (%)	Absolute perf (%) 1m	3m	12m	YTD	Rel MIB30 (%) 1m	3m	12m	YTD
Banca AntonVeneta	NTV.MI	NTV IM	Hold	26.78	17.20	-36	7,720	70	2.6	14.7	62.1	36.9	0.5	13.7	41.1	-0.2
Banca Intesa	BIN.MI	BIN IM	Buy	3.74	4.40	18	22,125	44	3.0	0.0	21.0	6.3	1.0	-0.9	5.4	6.3
Banca Monte Paschi Siena	BMPS.MI	BMPS IM	Sell	2.87	2.55	-11	8,678	41	-6.2	13.9	10.0	10.0	-8.1	12.9	-4.3	10.0
Banca Nazionale Lavoro	BANI.MI	BNL IM	Hold	2.80	1.85	-34	6,128	41	3.3	13.8	66.7	27.9	1.3	12.8	45.1	27.9
Banche Popolari Unite	BPUN.MI	BPU IM	Hold	16.68	18.00	8	5,317	100	-2.2	5.8	23.0	10.5	-4.2	4.9	7.1	10.5
Banco Popolare di Verona e Novara	BPVN.MI	BPVN IM	Buy	14.35	17.00	18	5,313	100	-4.9	0.4	2.6	-3.2	-6.8	-0.5	-10.7	-3.2
Capitalia	CPTA.MI	CAP IM	Buy	4.52	4.85	7	9,975	65	6.6	18.3	79.4	33.3	4.5	17.3	56.1	33.3
Fineco Group	FCO.MI	FCO IM	Buy	7.24	7.50	4	2,285	41	7.6	7.4	45.1	25.7	5.4	6.5	26.3	25.7
Generali	GASI.MI	G IM	Hold	26.20	26.00	-1	33,414	86	10.4	4.8	19.8	4.3	8.2	3.8	4.3	4.3
RAS	RASI.MI	R IM	Hold	16.12	17.00	5	10,836	44	-2.5	-9.9	7.6	-3.4	-4.5	-10.7	-6.3	-3.4
SanPaolo IMI	SPI.MI	SPI IM	Hold	11.43	12.10	6	20,997	41	-1.9	-1.7	18.8	7.4	-3.8	-2.6	3.4	7.4
UniCredito	CRDI.MI	UC IM	Buy	4.50	5.00	11	28,326	66	0.9	0.2	11.7	6.6	-1.1	-0.7	-2.8	6.6

Prices as of 21June 2005

Source: Bloomberg

Italian financials multiples

Italian financials valuation multiples

Banks	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
	Adj PER (x)			Div yield (%)			P/BVPS (x)			ROE (%)			ROA (%)		
Banca AntonVeneta	19.9	17.6	15.5	1.7	2.1	2.6	2.6	2.8	2.6	13.3	15.3	16.8	0.83	0.98	1.10
Banca Intesa	12.9	12.4	11.6	2.8	3.7	4.5	1.6	1.6	1.5	12.8	12.5	12.7	0.74	0.74	0.78
Banca Monte Paschi Siena	14.1	13.5	11.5	3.0	3.2	4.2	1.4	1.3	1.2	9.6	9.4	10.3	0.49	0.49	0.56
Banca Nazionale Lavoro	N/M	19.4	16.9	0.0	1.8	2.5	1.3	1.6	1.6	-0.6	8.2	9.5	-0.04	0.51	0.61
Banche Popolari Unite	18.8	17.7	10.9	4.0	4.0	4.2	1.4	1.5	1.4	7.4	8.2	12.7	0.46	0.48	0.74
Banco Popolare di Verona e Novara	11.6	10.9	10.1	3.5	4.0	4.7	1.4	1.4	1.3	12.3	12.8	13.0	0.90	0.92	0.99
Capitalia	22.8	17.0	13.7	1.8	2.7	3.8	1.5	1.4	1.4	6.5	8.5	10.1	0.33	0.44	0.53
SanPaolo IMI	13.4	13.7	12.2	4.1	4.7	5.3	1.8	1.8	1.7	13.5	12.8	13.8	0.77	0.73	0.82
UniCredito	13.9	13.0	10.7	4.6	5.0	5.3	2.0	2.0	1.8	14.6	15.5	16.8	0.82	0.81	0.95
Insurance	Adj PER (x)			Div yield (%)			P/NAV (x)			P/EV (x)			P/AV (x)		
Generali	25.2	21.5	21.0	1.6	1.9	2.1	3.4	2.8	2.5	1.5	1.3	1.2	1.1	1.0	1.0
RAS	16.8	13.9	14.1	4.2	5.8	6.7	2.1	2.1	2.1	1.4	1.4	1.4	1.0	0.9	0.9
Other financial	Adj PER (x)			Div yield (%)			P/BVPS (x)			ROE (%)			ROA (%)		
Fineco Group	5.3	20.7	16.7	2.8	3.0	3.3	2.7	2.5	2.4	45.8	11.3	13.2	3.82	0.89	0.99

Prices as of 21June 2005.

Source: ING estimates

Italian financials P&L

Italian financials P&L forecasts (€m)

Company	Total income			Net op income			Operating profit			PTP			Adj net profit		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
Banca AntonVeneta	2,235	2,291	2,362	938	987	1,040	480	718	854	624	723	854	388	456	534
Banca Intesa	9,699	10,021	10,430	3,869	4,169	4,530	2,815	3,195	3,486	2,735	3,195	3,486	1,987	2,065	2,212
Banca Monte Paschi Siena	4,391	4,657	4,797	1,302	1,556	1,685	649	1,070	1,193	846	1,000	1,183	616	644	753
Banca Nazionale Lavoro	2,903	3,008	3,192	1,022	1,137	1,284	25	759	887	-18	759	887	-34	408	504
Banche Popolari Unite	2,506	2,586	2,708	862	964	1,072	583	735	860	681	735	885	293	322	521
Banco Popolare di Verona e Novara	2,291	2,333	2,444	962	971	1,039	777	818	881	758	818	881	458	486	526
Capitalia	4,826	5,010	5,237	1,635	1,758	1,986	689	1,202	1,413	968	1,152	1,363	437	589	728
SanPaolo IMI	7,912	8,142	8,514	2,890	3,066	3,383	2,134	2,512	2,817	2,300	2,487	2,817	1,592	1,549	1,751
UniCredito	10,375	10,816	11,474	4,434	4,771	5,413	3,270	3,744	4,417	3,482	3,969	4,405	2,059	2,198	2,666
Fineco Group	493	509	556	185	214	263	117	152	216	465	152	216	430	110	137

Source: ING estimates

Italian financials per share data

Italian banks per share data (€)

Company	Adj EPS 2004	Adj EPS 2005F	Adj EPS 2006F	DPS 2004	DPS 2005F	DPS 2006F	BVPS 2004	BVPS 2005F	BVPS 2006F	Div payout (%) 2004	Div payout (%) 2005F	Div payout (%) 2006F	EPS growth (%) 2005F	EPS growth (%) 2006F	DPS growth (%) 2005F	DPS growth (%) 2006F
Banca AntonVeneta	1.34	1.52	1.72	0.45	0.55	0.70	10.1	9.6	10.3	33	37	41	13	13	22	27
Banca Intesa	0.29	0.30	0.32	0.11	0.14	0.17	2.3	2.4	2.5	39	50	53	4	7	33	21
Banca Monte Paschi Siena	0.20	0.21	0.25	0.09	0.09	0.12	2.1	2.3	2.4	42	44	48	5	17	8	29
Banca Nazionale Lavoro	-0.01	0.14	0.17	0.00	0.05	0.07	2.2	1.8	1.7	0	35	42	N.S.	15	N.S.	40
Banche Popolari Unite	0.89	0.94	1.52	0.67	0.67	0.70	11.6	11.4	12.0	76	71	46	6	62	0	4
Banco Popolare di Verona e Novara	1.24	1.31	1.42	0.50	0.58	0.67	10.0	10.3	11.0	40	44	47	6	8	16	16
Capitalia	0.20	0.27	0.33	0.08	0.12	0.17	3.0	3.1	3.3	40	45	52	35	24	50	42
SanPaolo IMI	0.85	0.83	0.94	0.47	0.54	0.61	6.3	6.5	6.8	55	65	65	-3	13	15	13
UniCredito	0.32	0.35	0.42	0.21	0.23	0.24	2.2	2.2	2.5	63	65	57	7	21	10	6
Fineco Group	1.36	0.35	0.43	0.20	0.22	0.24	2.6	2.9	3.0	20	22	24	-74	24	10	9

Source: ING estimates

Italian insurance per share data (€)

Company	EPS 2004	EPS 2005F	EPS 2006F	DPS 2004	DPS 2005F	DPS 2006F	NAV 2004	NAV 2005F	NAV 2006F	EVPS 2004	EVPS 2005F	EVPS 2006F	AVPS 2004	AVPS 2005F	AVPS 2006F
Generali	1.04	1.22	1.25	0.43	0.51	0.54	7.7	9.2	10.4	17.5	19.8	21.2	22.9	26.0	26.0
RAS	0.96	1.16	1.14	0.67	0.93	1.08	7.7	7.5	7.7	11.2	11.3	11.9	16.3	18.1	17.9

Source: ING estimates

Italian financials margins

Italian financials margins (%)

Company	Interest spread 2004	Interest spread 2005F	Interest spread 2006F	Cost/income 2004	Cost/income 2005F	Cost/income 2006F	Provisions % of int-bearing assets 2004	Provisions % of int-bearing assets 2005F	Provisions % of int-bearing assets 2006F	Fees & comm % of tot income 2004	Fees & comm % of tot income 2005F	Fees & comm % of tot income 2006F	Tax rate 2004	Tax rate 2005F	Tax rate 2006F
Banca AntonVeneta	3.2	3.2	3.2	58	57	56	1.1	0.7	0.4	25	26	26	38	36	37
Banca Intesa	2.1	2.0	2.0	60	58	57	0.5	0.4	0.4	36	37	38	29	32	33
Banca Monte Paschi Siena	2.4	2.4	2.3	70	67	65	0.6	0.5	0.5	31	31	31	25	34	35
Banca Nazionale Lavoro	1.9	1.9	2.0	65	62	60	1.4	0.5	0.5	32	32	32	N.S.	46	43
Banche Popolari Unite	2.6	2.6	2.5	66	63	60	0.5	0.4	0.3	31	32	33	39	52	37
Banco Popolare di Verona e Novara	2.5	2.4	2.4	58	58	57	0.4	0.3	0.3	33	33	34	37	38	38
Capitalia	2.1	2.1	2.1	66	65	62	0.9	0.5	0.5	30	30	31	27	40	39
SanPaolo IMI	0.0	2.0	2.0	63	62	60	0.4	0.3	0.3	41	42	43	29	35	35
UniCredito	2.4	2.6	2.5	57	56	53	0.6	0.5	0.4	32	32	32	30	33	35
Fineco Group	0.9	1.7	1.8	0	N/A	N/A	0.6	0.5	0.3	45	41	39	7	27	36

Source: ING estimates

Italian financials ratios

Italian financials ratios (%)

Company	Tier 1			Core capital			Gross NPL % in bearing assets			NPL coverage ratio			Net NPL % shareholder funds		
	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F	2004	2005F	2006F
Banca AntonVeneta	5.8	6.7	6.8	5.0	6.0	6.1	8.1	8.2	8.1	61	61	62	44	45	41
Banca Intesa	8.2	8.2	8.2	7.5	7.6	7.6	5.6	5.4	5.3	67	68	70	27	24	22
Banca Monte Paschi Siena	6.7	6.8	7.0	6.5	6.6	6.8	3.0	3.0	3.0	49	49	50	24	24	22
Banca Nazionale Lavoro	7.7	7.4	7.2	7.7	7.4	7.2	6.6	3.5	2.7	56	65	69	38	18	12
Banche Popolari Unite	6.8	6.9	7.1	6.5	6.6	6.9	2.5	2.5	2.3	43	43	44	21	21	21
Banco Popolare di Verona e Novara	7.6	7.6	7.5	7.6	7.6	7.5	3.1	3.1	3.0	39	41	42	24	23	21
Capitalia	7.2	7.3	7.5	7.2	7.3	7.5	9.2	8.6	8.0	56	59	63	67	58	47
SanPaolo IMI	7.4	8.1	8.4	6.6	7.4	7.7	2.6	2.6	2.5	75	75	75	10	10	9
UniCredito	7.9	7.8	7.6	7.0	7.4	7.2	3.2	3.4	3.0	56	60	61	21	19	17
Fineco Group	8.0	7.6	7.4	8.0	7.6	7.4	1.1	1.1	1.1	42	43	45	9	8	8

Source: ING estimates

Disclosures Appendix

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