

Sogefi

Leveraging the US, Brazil, China and New Platforms

Sogefi - Key estimates and data					
Y/E December		2011E	2012E	2013E	2014E
Revenues	EUR M	1,131.67	1,344.06	1,400.96	1,438.88
EBITDA	EUR M	115.17	143.61	157.58	168.13
EBIT	EUR M	62.13	79.82	91.80	99.76
Net income	EUR M	28.96	36.98	44.31	50.28
Dividend ord.	EUR	0.16	0.20	0.24	0.28
Adj. EPS	EUR	0.25	0.32	0.38	0.43
EV/EBITDA	x	4.86	3.93	3.47	3.12
Adj. P/E	x	8.98	7.04	5.87	5.18

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- Results preview.** On 23 February Sogefi will release its 2011 results. On the back of an expected slight contraction of the market in 4Q11 (the European and Brazilian markets dropped), we maintained our bottom line estimate of EUR 29M, 17% below the current market consensus of EUR 34M (Factset). Despite more conservative figures, we believe the group has continued to efficiently manage its working capital: this should have benefited the group net debt level which we now estimate at EUR 300M.
- The outlook ahead:** While awaiting the FY11 results, we update our 2012-14 forecasts, which were significantly revised downward in September, following our macroeconomist's downgrade of European and US GDP. Overall we continue to maintain a cautious stance on Europe: however, within this context, we highlight that based on the order trend to date, Sogefi management expects a resilience of its car OE activities but a slowdown (estimated at only 5%, as the group is now present in new platforms that should commence production this year), in heavy trucks. As for AM activities, we believe the group is planning for a roughly flat and stable trend in 2012 vs. 2011: while we have considered the same trend in our estimates, we highlight that visibility on AM operations is rather low so far. As for Brazil, after the slowdown of car demand in 4Q11, market conditions should stabilise, delivering a middle digit growth thanks to both the expected decline of interest rates (consequently enhancing consumer credit) and to the increase of duties on imported cars. Furthermore, Sogefi has entered new platforms with VW in Brazil. The US car market appears better than our initial expectations: in this area the group should benefit from its filter activities (the suspension operations should recommence by year-end) and from the favourable trend of Mark IV Systemes Moteurs especially toward GM. Lastly, in 2012 Sogefi should see an acceleration of revenues from China mainly by the end of 2012: the group will start a new production site in China for its suspension business and one further site for the production of antiroll bars. Given the group expansion plans we expect an acceleration in capex (now estimated at EUR 70M) for 2012. Last but not least, we expect the group to further leverage its new suspension site in India and the Mark IV plant in Romania.
- Estimates and valuation.** Although we expect a lower operating profitability in 2012 vs. 2011 due to the weaker trend in Europe and a slowdown by trucks, on the back of better US prospects (that we expect to deliver an operating profitability above 10% together with Latam operations) we believe there is some room to slightly enhance our 2012 forecasts (+1.3% for revenues and +4.4% for EPS) and to upgrade our 2013 bottom line by 16.8%. We continue to view Sogefi as being one of the cheapest stocks within European auto suppliers: we view an eventual stock weakness on FY11 figures release (should figures be close to our estimates, i.e. below consensus) as a buying opportunity. Following our estimates revision **we upgrade our target price from EUR 2.60/share to EUR 2.80/share.**
- Key risks.** The main risks to our rating and target price are: 1) a stronger than expected deterioration of the main reference markets for both Sogefi and Mark IV; 2) a lower than expected operating profitability and revenue growth by Mark IV; 3) a poor management of working capital; and 4) the lack of visibility in AM and a halt to orders from the main customers and the main platform in OE.

See page 9 for full disclosures and analyst certification

Banca IMI is Specialist to Sogefi

10 February 2012

BUY

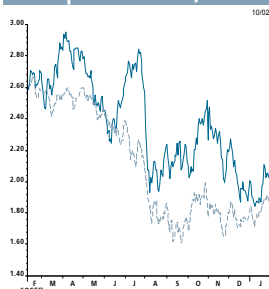
Target Price: EUR 2.80
(from EUR 2.60)

Auto & Components
Company Update

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Price performance, -1Y



Source: Thomson Reuters

Data priced on 08.02.2012

Target price (€)	2.80
Target upside (%)	25.40
Market price (€)	2.23
52-week range (€)	3/1.8
Market cap (€ M)	260.21
No. of shares (M)	116.48
Free float (%)	37.9
Major shareholder	De Benedetti
(%)	C, 56.6
Reuters	SGFI.MI
Bloomberg	SGFI IM
FTSE It All Shares	17622

Performance %			
	Absolute	Rel. to FTSE All Sh	
-1M	19.5	-1M	6.0
-3M	-3.8	-3M	-10.7
-12M	-17.3	-12M	7.3

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

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New Earnings Release and FY11 Preview

As we previously stated, on the back of a stronger than expected US outlook and taking into account a better trend in Brazil in 2012 vs. 4Q11, we slightly improved our top and bottom line expectations for 2012, and on the back of an expected recovery in the EU area in 2013 we upgrade our 2013 bottom line estimates by 4.4%. Group preliminary 2011 results are due out 23 February: we basically maintained our bottom line estimates, that position 17% below consensus (pointing to a net profit of EUR 34M according to Factset) while we improved our net debt position, as we believe the group has actively controlled its working capital over the last few months of the year.

Below, we show our main 2011E-14E change in estimates and our FY11 preview

Sogefi 2011E-14E changes in estimates							
EUR M	Old			New			
	2011E	2012E	2013E	2011E	2012E	2013E	2014E
Sales	1,131.67	1,326.50	1,357.42	1,131.67	1,344.06	1,400.96	1,438.88
EBITDA	115.17	136.28	141.82	115.17	143.61	157.58	168.13
EBITDA %	10.18	10.27	10.45	10.18	10.68	11.25	11.68
EBIT	62.13	74.76	77.48	62.13	79.82	91.8	99.76
EBIT %	5.49	5.64	5.71	5.49	5.94	6.55	6.93
Pre-tax income	47.61	57.48	62.06	47.61	60.82	72.78	82.08
Net income	28.96	35.39	37.92	28.96	36.98	44.31	50.28
Net debt	317.04	302.57	291.46	300.04	305.71	289.14	267.93

Source: Intesa Sanpaolo Research estimates

Sogefi Full P&L					
EUR M	2011E	2012E	2013E	2014E	2015E
Sales	1,131.7	1,344.1	1,401.0	1,438.9	1,472.3
COGS	511.9	628	654.6	672.3	687.9
Other operating costs	237.5	282	294	301.9	309
Value added	382.3	434	452.4	464.6	475.4
Cost of labour	252.1	278.4	284.8	291.5	298.2
EBITDA	115.2	143.6	157.6	168.1	172.2
EBITDA %	10.2	10.7	11.2	11.7	11.7
D&A	53	63.8	65.8	68.4	71.7
Operating Income	90.1	102.6	113	116.3	117.3
Operating income %	8.0	7.6	8.1	8.1	8.0
Restructuring costs (ex non rec fiscal items)	-15	-12	-10	-5	-5
EBIT	62.1	79.8	91.8	99.8	100.5
EBIT %	5.5	5.9	6.6	6.9	5.5
Financial charges	14.5	19	19	17.7	16
Pre Tax	47.6	60.8	72.8	82.1	84.5
Taxes	15.7	20.7	24.7	27.5	28.3
Minorities	2.9	3.2	3.7	4.3	4.5
Net attributable Profit	29	37	44.3	50.3	51.7
Other figures					
Capex	-56	-70.4	-71.9	-73	-75
Free cash flow	26	30.4	38.2	45.7	48.4
Total dividends	18.6	23.3	28.0	32.6	37.3
Pay-out %	64	63	63	65	72
Net Debt (Cash)	300	305.7	289.1	267.9	248.1
Tax rate %	33	34	34	34	34

Source: Intesa Sanpaolo Research estimates

Sogefi 4Q11 and FY11 preview					
EUR M	9M10	4Q10A	9M11	4Q11E	FY11E
Sales	687.1	236.9	829.8	301.9	1,131.7
EBITDA	64.5	22.2	76.4	38.7	115.2
Operating Income	50.5	17.0	69.6	22.3	90.1
Operating Income %	7.4	7.2	8.4	7.4	8.0
EBIT	31.3	10.5	41.6	20.6	62.1
EBIT %	4.56	4.44	5.01	6.81	5.49
Net Income	13.4	5.4	18.8	10.2	29.0
Net Debt	182.6	164.9	325.3	300.0	300.0

Source: Intesa Sanpaolo Research estimates

Valuation: Still One of the Cheapest EU Auto Supplier Stocks

Following our estimates revision we updated our group valuation. We continue to view Sogefi as the cheapest stock within the Auto suppliers sector: at current prices the stock trades at a P/E12 of 7.4x i.e. at 24% discount versus the European sector average (Factset). Also based on our DCF analysis coupled with our peer comparison **we upgrade our target price from EUR 2.60 to EUR 2.80/share**. We view an eventual stock weakness on FY11 release (should figures be closer to our estimates, i.e. below consensus) as a buying opportunity.

Sogefi target price definition	
Fair price DCF EUR	2.87
Fair price on multiples	2.73
Final target price	2.80

Source: Intesa Sanpaolo Research estimates

Sogefi sector peers			
x	EV/EBITDA 2012	P/E 2012	P/BV 2012
Sogefi SpA	4.13	7.41	1.21
Brembo SpA	4.96	10.50	1.41
Piaggio & C. SpA	5.32	16.41	1.97
Carraro SpA	4.96	7.47	1.04
Pirelli Co	3.88	7.59	1.20
Average total Europe	4.94	9.80	1.61
Premium (Discount) Sogefi vs. sector average %	-16.4	-24.4	-24.8
Fair price on sector Multiples	2.36	3.11	3.13
Average Fair prices on sector multiples			2.73

Source: FactSet and Intesa Sanpaolo Research estimates Factset price 7/02/2012

Sogefi DCF				
EUR M	2012E	2013E	2014E	2015E
Sales	1,344.1	1,401.0	1,438.9	1,472.3
Growth %	2.1	4.0	3.0	2.5
EBIT	79.8	91.8	99.8	100.5
Margin %	5.9	6.6	6.9	6.8
Depreciation and amortization	63.8	65.8	68.4	71.7
EBITDA adj. (post restructuring)	143.6	157.6	168.1	172.2
Tax rate %	34.0	34.0	33.5	33.5
Cash flow from operations	116.5	126.4	134.7	138.6
Capital expenditures	70.4	71.9	73.0	75.0
Decrease (increase) in working capital	14.1	3.8	2.5	2.2
Free cash flow	32.0	50.7	59.2	61.3
Discount factor	0.90	0.80	0.72	0.65
Discounted cashflow	28.7	40.8	42.7	39.7

Source: Intesa Sanpaolo Research estimates

WACC definition	
Risk free rate %	5.5
Equity risk premium	6.0
Beta * x	1.6
Tax rate (Long term) %	34.0
Cost of debt %	6.60
Cost of equity %	15.2
Debt/capital employed ratio %	43
Equity/capital employed ratio %	57
G %	1.5
WACC %	11.5

Source: *FactSet and Intesa Sanpaolo Research estimates

DCF results	
Terminal value	623
NPV 12E-13E	152
NPV terminal	449
Total	601
Cash (Debt) 2011E	-300
Minorities ¹² (x P/BV)	-30
Own Shares (Mkt price)	5
Pension Funds & TFR 2011 P	-58
Equity Value	334
N° shares	116
Fair Price DCF EUR	2.87

Source: Intesa Sanpaolo Research estimates

Sogefi - Key figures						
Sector	Auto & Components	Mkt price EUR/Share	Ordinary		Rating	
REUTERS CODE	SGFI.MI	Target price EUR/Share	2.23		BUY	
Values per share (EUR)	2010A	2011E	2.80	2012E	2013E	2014E
No. ordinary shares (M)	116.48	116.48		116.48	116.48	116.48
No. NC saving/preferred shares (M)	-	-		-	-	-
Total no. of shares (M)	116.48	116.48		116.48	116.48	116.48
Adj. EPS	0.16	0.25		0.32	0.38	0.43
CFPS	0.55	0.70		0.73	0.81	0.87
BVPS	1.69	1.79		1.95	2.13	2.32
Dividend Ord	0.13	0.16		0.20	0.24	0.28
Dividend SAV Nc	-	-		-	-	-
Income statement (EUR M)	2010A	2011E		2012E	2013E	2014E
Sales	924.00	1,131.67		1,344.06	1,400.96	1,438.88
EBITDA	86.74	115.17		143.61	157.58	168.13
EBIT	41.84	62.13		79.82	91.80	99.76
Pre-tax income	32.44	47.61		60.82	72.78	82.08
Net income	18.84	28.96		36.98	44.31	50.28
Adj. net income	18.84	28.96		36.98	44.31	50.28
Cash flow (EUR M)	2010A	2011E		2012E	2013E	2014E
Net income before minorities	20.84	31.90		34.11	41.05	47.42
Depreciation and provisions	44.90	53.04		48.22	49.77	51.27
Change in working capital	-16.80	31.52		-1.11	-2.18	-1.70
Operating cash flow	48.94	116.45		81.21	88.63	96.98
Capital expenditure	-42.00	56.02		-60.00	-55.00	-55.00
Other (uses of Funds)	-1.75	117.36		-5.48	-5.81	-6.15
Free cash flow	5.19	289.84		15.73	27.82	35.83
Dividends and equity changes	-	15.14		-18.64	-23.30	-27.95
Net cash flow	5.19	304.98		-2.91	4.53	7.88
Balance sheet (EUR M)	2010A	2011E		2012E	2013E	2014E
Net capital employed	379.34	528.51		555.61	563.77	569.19
of which associates	-	-		1.00	2.00	3.00
Net debt/-cash	164.90	300.04		305.71	289.14	267.93
Minorities	17.20	20.04		23.20	26.92	31.22
Net equity	197.24	208.42		226.69	247.71	270.04
Market cap	260.21	260.21		260.21	260.21	260.21
Minorities value	-	-		-	-	-
Enterprise value (*)	425.11	560.26		564.93	547.35	525.14
Stock market ratios (x)	2010A	2011E		2012E	2013E	2014E
Adj. P/E	13.81	8.98		7.04	5.87	5.18
P/CEPS	4.08	3.17		3.05	2.77	2.56
P/BVPS	1.32	1.25		1.15	1.05	0.96
Dividend yield (% ord)	5.82	7.16		8.95	10.74	12.53
Dividend yield (% sav)	-	-		-	-	-
EV/sales	0.46	0.50		0.42	0.39	0.36
EV/EBITDA	4.90	4.86		3.93	3.47	3.12
EV/EBIT	10.16	9.02		7.08	5.96	5.26
EV/CE	1.12	1.06		1.02	0.97	0.92
D/EBITDA	1.90	2.61		2.13	1.83	1.59
D/EBIT	3.94	4.83		3.83	3.15	2.69
Profitability & financial ratios (%)	2010A	2011E		2012E	2013E	2014E
EBITDA margin	9.39	10.18		10.68	11.25	11.68
EBIT margin	4.53	5.49		5.94	6.55	6.93
Tax rate	35.75	33.00		43.92	43.60	42.23
Net income margin	2.04	2.56		2.75	3.16	3.49
ROE	9.55	13.90		16.31	17.89	18.62
Debt/equity ratio	0.77	1.31		1.22	1.05	0.89
Growth (%)		2011E		2012E	2013E	2014E
Sales		22.47		18.77	4.23	2.71
EBITDA		32.77		24.70	9.73	6.70
EBIT		48.49		28.47	15.00	8.68
Pre-tax income		46.75		27.75	19.66	12.77
Net income		53.71		27.68	19.83	13.47
Adj. net income		53.71		27.68	19.83	13.47

(*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

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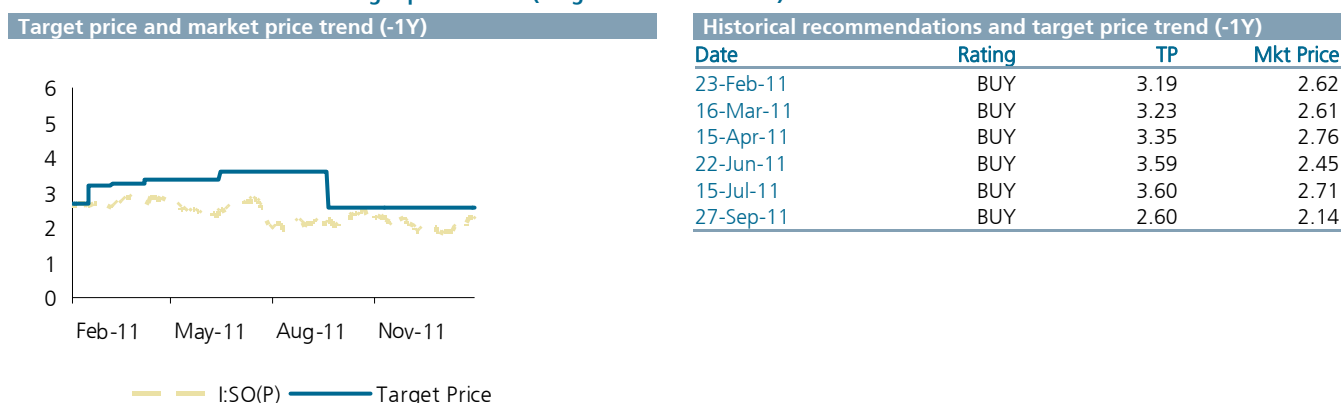
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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
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Historical recommendations and target price trends (long-term horizon: 12M)



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Total Equity Research Coverage %	42	22	31	3	1
of which Intesa Sanpaolo's Clients % (*)	61	50	43	67	-

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category. (**) The total number of companies covered is 103

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
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- 1 The Intesa Sanpaolo Group has a conflict of interest inasmuch as it plans to solicit investment banking business or intends to seek compensation from the Company in the next three months
- 2 The Intesa Sanpaolo Group has made significant financing to SOGEFI S.p.A. and its parent and group companies.
- 3 Banca IMI is a specialist relative to securities issued by SOGEFI SPA.

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