

Sogefi

Still Tough Outlook; Factoring in a Higher Cost of Debt

Sogefi - Key estimates and data					
Y/E December		2012A	2013E	2014E	2015E
Revenues	EUR M	1,319.20	1,356.14	1,438.88	1,472.34
EBITDA	EUR M	125.99	138.74	157.69	164.10
EBIT	EUR M	62.79	73.96	92.91	97.82
Net income	EUR M	29.33	29.57	42.68	45.87
Dividend ord.	EUR	0.13	0.13	0.17	0.21
Adj. EPS	EUR	0.25	0.25	0.37	0.39
EV/EBITDA	x	4.31	3.90	3.34	3.08
Adj. P/E	x	8.48	8.43	5.84	5.43

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

- Update.** Following Sogefi's FY12 results disclosure in late February, we have updated our 2013-15E earnings projections on the group. In detail, while leaving broadly unchanged our top-line and operating figures (see our report of 22/20/2012), at the bottom-line level we factored in the higher expected impact from financial charges following the group's net debt renegotiation. For 2013E, we cut our net income assumption by 8.6% to EUR 29.6M (from EUR 32.4M previously).
- Outlook.** As discussed in our last report, the group's outlook in Europe remains challenging in 2013 and we expect a further slowdown in volumes for Sogefi's operations in the Euro zone. By contrast, thanks to the still bright prospects in the NAFTA area, further progress in China and a more significant restart to the Brazilian market, we are convinced that Sogefi will continue to maintain a certain resilience in its operating margins thanks to the higher profitability of its operations outside Europe. Given the current macro scenario in the Euro zone, we see 2013E as mainly a transitional year for the group, while we expect more solid progress in group profitability from 2014E.
- Valuation.** Following 2012 results and our 2013-15E earnings revisions, we updated our valuation on the stock. While our discounted cash flow model does not suggest significant upside, group earnings and EV multiples remain undemanding even after our bottom-line downgrade. We acknowledge that the group's low liquidity and less appealing dividend outlook for 2013 could keep the stock under pressure. We also adjusted our valuation to incorporate a liquidity discount, estimated in the range of 10%. As a result of the above and the tougher outlook ahead, **we move our rating from BUY to ADD and our target price from EUR 2.72/share to EUR 2.44/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 and a poor management of working capital; 3) the lack of visibility in AM and a halt to orders from the main customer platforms in OE together with a limited stock; and 4) low stock liquidity.

See page 9 for full disclosures and analyst certification

Banca IMI is Specialist to Sogefi

14 March 2013

ADD (from BUY)

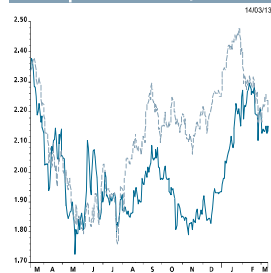
Target Price: EUR 2.44
(from EUR 2.72)

**Auto & Components
Company Update**

**Intesa Sanpaolo
Research Department**

Monica Bosio
Research Analyst
+39 02 8794 9809

Price performance, -1Y



Data priced on 13.03.2013

Target price (€)	2.44
Target upside (%)	14.34
Market price (€)	2.13
52-week range (€)	2.4/1.7
Market cap (€ M)	249.25
No. of shares (M)	116.80
Free float (%)	35.8
Major shareholder	De Benedetti, C. 56.6
Reuters	SGFI.MI
Bloomberg	SGFI IM
FTSE It All Shares	16775

Performance %			
	Absolute	Rel. to FTSE All Sh	
-1M	-6.8	-1M	-1.7
-3M	15.6	-3M	15.4
-12M	-8.6	-12M	-2.8

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

FY12 Results

With revenues up by 14% yoy to EUR 1.32Bn, Sogefi's 2012 bottom line came in roughly in line with our estimates at EUR 29.3Bn. The group's top-line hike was entirely attributable to the contribution of the group's operations outside Europe and to the businesses of Systèmes Moteurs, fully consolidated over the year. Net of Systèmes Moteurs, the 2012 top line would have stood at EUR 979.4M, implying a decline of 4.2% vs. 2011, at the same consolidation perimeter. Despite the tough market conditions in 4Q12, Sogefi managed to maintain its operating profitability at the same level as in 9M12, i.e. 7%. Due to the slightly higher restructuring charges and some non-operating items group FY12 EBITDA and EBIT were 1.7% and 5.5%, respectively, below our projections.

At the bottom-line level, these negative items were offset by a better than expected tax rate (30% vs. our expected 34%) and by slightly better financial charges as group net debt came in at EUR 295.8M, slightly better than our projections thanks to the group's efforts to cut working capital and the booking of EUR 7.4M from the sale of a plant in Brazil. However, we highlight that the announced dividend was a bit disappointing, at just EUR 0.13/share.

Dividend disappointing at EUR 0.13/share

Sogefi - FY12A results										
EUR M	9M11A	4Q11A	FY11A	9M12A	4Q12A	FY12A	4Q12E	FY12E	qoq %	yoy %
Sales	829.8	328.6	1,158.40	1,005.00	314.20	1,319.2	318	1,323.10	-4.4	13.9
EBITDA	76.4	31.8	111.9	98.1	27.9	126	21.6	128.3	-12.3	16.3
Operating income	69.6	18.2	86	70.6	22.1	92.7	21.6	94.1	21.4	7.8
Operating income (%)	8.4	5.5	7.4	7.0	7.03	7.03	6.8	7.1		
EBIT	41.6	17.9	58.5	52.4	10.4	62.8	14	66.5	-41.9	5.5
EBIT margin (%)	5.01	5.45	5.0	5.22	3.31	4.76	4.41	5.02		
Net income	18.8	5.9	24.0	22.4	6.9	29.3	7.1	29.5	16.9	18.6
Net debt	325.3	299.8	299.8	299.8	295.8	295.8	312.6	312.6	-1.3	-1.3

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

By division, we highlight that the best performer was the Engine System division, which benefited from the consolidation of Systèmes Moteurs together with the strong growth recorded in NAFTA and the progress made in China. By contrast, the Suspension Component Division suffered from the substantial drop in demand from the generalist car makers in Europe. The latter filtered through to both the top line (-3.5%) and the operating profitability of the BU, which declined from 9% in 2011 to just 7.8%.

Performance by division

2013E and Earnings Outlook

Following 2012 results' disclosure, we leave our 2013-15E top line and operating forecasts broadly unchanged. Overall, we believe that despite a tougher outlook in Europe where we expect a further volumes slowdown due to production cuts by mass market car players, Sogefi should be able to maintain a low single-digit revenue growth rate thanks to the still sound prospects of the NAFTA area, the further expected progress in China and last but not least the better anticipated in Brazil vs. 2102. We think the higher profitability of the group's operations outside Europe should enable the group to keep its operating profitability largely unchanged.

Low single-digit top line group anticipated

Below the operating profit and EBIT levels (booking restructuring charges for at least EUR 10M), we now expect a higher drag from the cost of debt on the back of the recent debt refinancing. While the likely increase in financial charges should be partially offset by a better tax rate, thanks also to the group's exposure in the US, we cut our 2013E net income assumption by 8.6%. We also fine-tuned our 2014-15E assumptions, as shown in the table below.

Higher drag from cost of debt partially offset by lower tax rate

Sogefi – IMI new vs. old estimates									
EUR M	2013E	Old		New			New vs. Old (%)		
		2014E	2015E	2013E	2014E	2015E	2012E	2013E	2014E
Revenues	1,356.10	1,438.90	1,472.30	1,356.10	1,438.90	1,472.30	0.0	0.0	0.0
EBITDA	139.5	159.5	166.5	138.7	157.7	164.1	-0.6	-1.1	-1.4
EBITDA (%)	10.3	11.1	11.3	10.23	10.96	11.15			
Operating Income	94.5	110.7	111.5	94.8	109.4	114.6	0.3	-1.2	2.8
Operating Income (%)	7	7.7	7.6	6.99	7.60	7.78			
EBIT	73.7	91.1	94.8	74	92.9	97.8	0.4	2.0	3.2
EBIT (%)	5.4	6.3	6.4	5.46	6.46	6.64			
Pre tax	54.7	73.1	78.8	49	69.1	75.7	-10.4	-5.5	-3.9
Net Income	32.4	44.3	47.9	29.6	42.7	45.9	-8.6	-3.6	-4.2
Net Debt (Net cash)	306.2	293.1	276.8	294.17	280.24	260.07	-3.9	-4.4	-6.0

E: estimates; Source: Intesa Sanpaolo Research estimates

Valuation

On the back of 2012 results and our 2013-15E earnings revisions, we also re-ran our valuation. While our DCF model does not offer significant upside, group earnings and EV multiples remain undemanding even after our bottom-line downgrade. We acknowledge that the group's low liquidity and less appealing dividend outlook for 2013E could keep the stock under pressure. We also adjusted our valuation to incorporate a liquidity discount (estimated in the range of 10%) on the back of the stock's trading volumes decline from 2012. As a result and given the tougher outlook ahead, **we move our rating from BUY to ADD and our target price from EUR 2.70/share to EUR 2.44/share.**

**ADD rating and new TP at
EUR 2.44/share**

Sogefi – Valuation summary (EUR/share)	
Fair value on DCF	2.17
Fair value on multiples	3.26
Average fair value	2.71
Liquidity discount (%)	10.0
Target price including liquidity discount	2.44

Source: Intesa Sanpaolo Research estimates

Multiples valuation

Sogefi - Multiples valuation										
x	EV/Sales 2013E	EV/Sales 2014E	EV/EBITDA 2013E	EV/EBITDA 2014E	Ev/EBIT 2013E	Ev/EBIT 2014E	P/E 2013E	P/E 2014E	Price/BV 2013E	Price/BV 2014E
Brembo SpA	0.75	0.68	5.84	4.96	10.62	8.18	10.74	8.51	1.82	1.59
Piaggio SpA	0.77	0.70	5.72	4.98	10.77	8.80	16.29	12.74	1.64	1.54
Sogefi SpA	0.40	0.37	3.92	3.36	8.65	8.43	6.65	5.76	1.18	1.05
Carraro SpA	0.35	0.30	4.57	3.87	8.56	6.77	6.41	4.46	0.88	0.75
Pirelli Co	0.83	0.76	4.71	4.22	6.32	5.33	8.39	6.98	1.48	1.30
Average total Europe	0.67	0.60	5.55	4.59	8.29	6.91	11.05	8.94	1.62	1.54
Sogefi discount vs. European sector avg %	-40.3	-39.1	-29.4	-26.9	4.4	22.0	-39.8	-35.6	-26.7	-31.7
Avg fair value on EV/EBITDA, P/E, P/BV-2013 sector multiples										3.26

Source: FactSet (average) and Intesa Sanpaolo Research estimates

DCF model

Sogefi – DCF valuation (2013E-15E)			
EUR M	2013E	2014E	2015E
Sales	1,356.1	1,438.9	1,472.3
Growth (%)	4.0	3.0	2.5
EBIT	74.0	92.9	97.8
Margin (%)	5.5	6.5	6.6
Depreciation and amortisation	64.8	64.8	66.3
EBITDA adj (post restructuring)	138.7	157.7	164.1
Tax rate (%)	32.0	32.0	33.5
Cash flow from operations	115.1	128.0	131.3
Capital expenditures (+intangibles)	82.2	82.4	77.6
Decrease (increase) in working capital	0.9	2.1	0.8
Free cash flow	32.0	43.5	52.9
Discount factor	0.90	0.80	0.72
Discounted cash flow	28.7	35.0	38.1

Source: Intesa Sanpaolo Research estimates.

WACC definition (%)		DCF result (EUR M)	
Risk-free rate	5.25	Terminal value	509
Risk premium market	6.0	NPV 12E-13E	102
Beta*	1.6	NPV Terminal	409
Tax rate	32.0	Total	511
Cost of debt	7.48	Cash (debt) 2012A	-296
Cost of equity	15.0	Minorities ¹³ (x P/BV)	-30
Debt/capital employed ratio	47	Own Shares (Mkt price)	8
Equity/capital employed ratio	53	Pension Funds & TFR 2012	-58
g	1.0	Equity value	253
WACC	11.5	N° shares	116
		Fair value DCF (EUR/share)	2.17

Source: *FactSet and Intesa Sanpaolo Research estimates

Source: Intesa Sanpaolo Research estimates

Sogefi - Key figures

Sector	Auto & Components	Mkt price EUR/Share	Ordinary 2.13	Rating ADD	
REUTERS CODE	SGFI.MI	Target price EUR/Share	2.44		
Values per share (EUR)	2011A	2012A	2013E	2014E	2015E
No. ordinary shares (M)	116.48	116.48	116.80	116.80	116.80
No. NC saving/preferred shares (M)	-	-	-	-	-
Total no. of shares (M)	116.48	116.48	116.80	116.80	116.80
Adj. EPS	0.21	0.25	0.25	0.37	0.39
CFPS	0.63	0.75	0.81	0.92	0.96
BVPS	1.68	1.68	1.80	2.03	2.26
Dividend Ord	0.13	0.13	0.13	0.17	0.21
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	2011A	2012A	2013E	2014E	2015E
Sales	1,158.4	1,319.2	1,356.1	1,438.9	1,472.3
EBITDA	111.9	126.0	138.7	157.7	164.1
EBIT	58.5	62.8	74.0	92.9	97.8
Pre-tax income	45.8	46.3	49.0	69.1	75.7
Net income	24.0	29.3	29.6	42.7	45.9
Adj. net income	24.0	29.3	29.6	42.7	45.9
Cash flow (EUR M)	2011A	2012A	2013E	2014E	2015E
Net income before minorities	27.2	32.5	33.3	47.0	50.4
Depreciation and provisions	49.8	58.4	64.8	64.8	66.3
Change in working capital	-11.2	22.1	-0.9	-2.1	-0.8
Operating cash flow	65.8	113.0	97.2	109.7	115.8
Capital expenditure	-56.0	-84.4	-75.0	-75.0	-70.0
Other (uses of Funds)	-129.7	-9.4	-5.4	-5.6	-5.8
Free cash flow	-120.0	19.2	16.7	29.1	40.0
Dividends and equity changes	-15.1	-15.1	-15.1	-15.2	-19.9
Net cash flow	-135.1	4.0	1.6	14.0	20.1
Balance sheet (EUR M)	2011A	2012A	2013E	2014E	2015E
Net capital employed	514.0	511.1	527.6	545.5	555.8
of which associates	-	1.0	2.0	3.0	4.0
Net debt/-cash	299.8	295.8	294.2	280.2	260.1
Minorities	19.0	19.8	23.5	27.8	32.3
Net equity	195.2	195.5	210.0	237.5	263.5
Market cap	248.6	248.6	249.3	249.3	249.3
Minorities value	-	-	-	-	-
Enterprise value (*)	548.4	543.4	541.4	526.5	505.3
Stock market ratios (x)	2011A	2012A	2013E	2014E	2015E
Adj. P/E	10.4	8.5	8.4	5.8	5.4
P/CEPS	3.4	2.8	2.6	2.3	2.2
P/BVPS	1.3	1.3	1.2	1.0	0.9
Dividend yield (% ord)	6.1	6.1	6.1	8.0	9.8
Dividend yield (% sav)	-	-	-	-	-
EV/sales	0.5	0.4	0.40	0.37	0.34
EV/EBITDA	4.9	4.3	3.90	3.34	3.08
EV/EBIT	9.4	8.7	7.32	5.67	5.17
EV/CE	1.1	1.1	1.03	0.97	0.91
D/EBITDA	2.7	2.3	2.12	1.78	1.58
D/EBIT	5.1	4.7	3.98	3.02	2.66
Profitability & financial ratios (%)	2011A	2012A	2013E	2014E	2015E
EBITDA margin	9.7	9.6	10.2	11.0	11.1
EBIT margin	5.0	4.8	5.5	6.5	6.6
Tax rate	40.6	29.8	32.0	32.0	33.5
Net income margin	2.1	2.2	2.2	3.0	3.1
ROE	12.3	15.0	14.1	18.0	17.4
Debt/equity ratio	1.4	1.4	1.3	1.1	0.9
Growth (%)		2012A	2013E	2014E	2015E
Sales		13.9	2.8	6.1	2.3
EBITDA		12.6	10.1	13.7	4.1
EBIT		7.4	17.8	25.6	5.3
Pre-tax income		1.1	5.8	41.1	9.6
Net income		22.3	0.8	44.4	7.5
Adj. net income		22.3	0.8	44.4	7.5

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

Notes

Notes

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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
SELL	If the target price is 20% lower than the market price
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MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

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Number of companies covered: 103	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	37	26	32	4	1
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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
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Banca IMI discloses interests and conflicts of interest, as defined by: Articles 69-quater and 69-quinquies, of Consob Resolution No.11971 of 14.05.1999, as subsequently amended and supplemented; the NYSE's Rule 472 and the NASD's Rule 2711; the FSA Policy Statement 04/06 "Conflicts of Interest in Investment Research – March 2004 and the Policy Statement 05/03 "Implementation of Market Abuse Directive", March 2005. The Intesa Sanpaolo Group maintains procedures and organisational mechanisms (Information barriers) to professionally manage conflicts of interest in relation to investment research. We provide the following information on Intesa Sanpaolo Group's conflicts of interest:

- 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.

Intesa Sanpaolo Research Department – Head of Research Gregorio De Felice

Head of Equity & Credit Research

Giampaolo Trasi +39 02 8794 9803 giampaolo.trasi@intesasnpaolo.com

Equity Research

Monica Bosio +39 02 8794 9809 monica.bosio@intesasnpaolo.com
 Luca Bacocoli +39 02 8794 9810 luca.bacocoli@intesasnpaolo.com
 Laura Carmignani +39 02 8794 9813 laura.carmignani@intesasnpaolo.com
 Manuela Meroni +39 02 8794 9817 manuela.meroni@intesasnpaolo.com
 Gian Luca Pacini +39 02 8794 9818 gianluca.pacini@intesasnpaolo.com
 Elena Perini +39 02 8794 9814 elena.perini@intesasnpaolo.com
 Bruno Permutti +39 02 8794 9819 bruno.permutti@intesasnpaolo.com
 Roberto Ranieri +39 02 8794 9822 roberto.ranieri@intesasnpaolo.com

Corporate Broking Research

Alberto Francese +39 02 8794 9815 alberto.francese@intesasnpaolo.com
 Marta Caprini +39 02 8794 9812 marta.caprini@intesasnpaolo.com

Research Production

Anna Whatley +39 02 8794 9824 anna.whatley@intesasnpaolo.com
 Bruce Marshall +39 02 8794 9816 robert.marshall@intesasnpaolo.com
 Annita Ricci +39 02 8794 9823 annita.ricci@intesasnpaolo.com
 Wendy Ruggeri +39 02 8794 9811 wendy.ruggeri@intesasnpaolo.com

Banca IMI SpA

Institutional Sales

Catherine D'Aragon +39 02 7261 5929 catherine.daragon@bancaimi.com
 Carlo Cavallieri +39 02 7261 2722 carlo.cavallieri@bancaimi.com
 Francesca Guadagni +39 02 7261 5817 francesca.guadagni@bancaimi.com
 Alberto Sartori +39 02 7261 5880 alberto.sartori@bancaimi.com
 Daniela Stucchi +39 02 7261 5708 daniela.stucchi@bancaimi.com
 Mark Wilson +39 02 7261 2758 mark.wilson@bancaimi.com

Corporate Broking

Carlo Castellari +39 02 7261 2122 carlo.castellari@bancaimi.com
 Laura Spinella +39 02 7261 5782 laura.spinella@bancaimi.com

Sales Trading

Lorenzo Pennati +39 02 7261 5647 lorenzo.pennati@bancaimi.com

Equity Derivatives Institutional Sales

Andrea Martini +39 02 7261 5977 andrea.martini@bancaimi.com
 Emanuele Manini +39 02 7261 5936 emanuele.manini@bancaimi.com
 Massimiliano Murgino +39 02 7261 2247 massimiliano.murgino@bancaimi.com

Market Hub – Brokerage & Execution

Italian Equities - Sergio Francolini +39 02 7261 5859 sergio.francolini@bancaimi.com
 Foreign Equities - Francesco Riccardi +39 02 7261 2901 francesco.riccardi@bancaimi.com

Market Hub – @ sales

Giovanni Spotti +39 02 7261 2339 giovanni.spotti@bancaimi.com

Banca IMI Securities Corp.

US Institutional Sales

Stephane Ventilato +1 212 326 1233 stephane.ventilato@bancaimi.com
 Barbara Leonardi +1 212 326 1232 barbara.leonardi@bancaimi.com

Banca IMI SpA

Largo Mattioli, 3
20121 Milan, Italy
Tel: +39 02 7261 1

**Banca IMI
Securities Corp.**

1 William Street
10004 New York, NY, USA
Tel: (1) 212 326 1230

**Banca IMI
London Branch**

90 Queen Street
London EC4N 1SA, UK
Tel +44 207 894 2600