

# GranitiFiandre SpA

## 1H10E Preview

GranitiFiandre SpA - Key estimates and data					
Y/E December		2009A	2010E	2011E	2012E
Revenues	EUR M	183.95	200.02	209.07	217.20
EBITDA	EUR M	21.48	28.29	31.72	33.77
EBIT	EUR M	7.48	14.80	18.38	20.58
Net income	EUR M	0.95	7.71	8.89	10.22
Dividend ord.	EUR	0.00	0.05	0.06	0.07
Adj. EPS	EUR	0.03	0.21	0.24	0.28
EV/EBITDA	x	6.95	4.99	4.25	3.60
Adj. P/E	x	84.22	13.95	12.09	10.53

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

- 1H10E results preview.** GranitiFiandre will report its 2Q10/1H10 results on 27 August. We expect the group to have posted sales of approximately EUR 98M in 1H10E, up by around 3% yoy, as a result of a still difficult construction market in Europe partly offset by the US. Here, some contracts were signed with important final customers and the reorganisation actions put in place in 2009 should have supported both revenue and profitability. At group level we expect EBITDA at approximately EUR 13.5M in 1H10E, up by approximately 19.6% yoy, corresponding to an EBITDA margin of 13.5% vs. 11.9% in 1H09. Following higher depreciation expenses from the Investments of EUR 12M in FY09 for "EXTREME", EBIT should be approximately EUR 5.7M in 1H10E, up by around 15.5% yoy, corresponding to an EBIT margin of 5.8% vs. 5.2% in 1H09. We forecast 1H10E PBT at approximately EUR 7.2M, given the positive contribution of non-recurring items, and a net profit at around EUR 6.9M. We expect the NFP to improve to approximately EUR 39M in 1H10E, from EUR 41.7M at end-2009 and from EUR 46M at 1H09, thanks to a significant free cashflow generation.
- Outlook.** Following the 1Q10 results, management described the recovery in the Italian and European construction sector as lagging behind group's expectations. However, the buoyant conditions in the US made management moderately optimistic for the FY10. We highlight that 2010E-11E results should be supported by important innovations: 1) EXTREME, a new large tile format; and 2) ACTIVE, a new technology for ceramics which reduces polluting agents and eliminates several bacteria.
- Estimates and valuation.** While awaiting the release of 1H10E results to adjust our estimates and valuation, **we maintain our target price of EUR 4.50/share and our ADD rating.**
- Key risks.** The main risks to our valuation are: 1) strong dependency on a few key managers; 2) potential customers trading down towards mid-low tile market segments where low cost producers are present; 3) a high capital-intensive business and thus a marked negative sensitivity to a lower volume trend; and 4) translation risk from USD exposure.

GranitiFiandre SpA - Key preview results data				
EUR M	1H09	1H10E	yoy %	FY10E
Total revenue	95.22	98.00	2.92	200.0
EBITDA	11.29	13.50	19.56	28.3
EBITDA margin %	11.86	13.50		14.09
EBIT	4.93	5.70	15.51	13.3
EBIT margin %	5.18	5.82		6.65
PBT	4.00	7.20	80.11	13.1
Net income	0.34	6.99	NM	
NFP	46	38.5		33.7

A: actual; E: estimates; NM: not meaningful. Source: Company data and Intesa Sanpaolo Research

11 August 2010

**ADD**

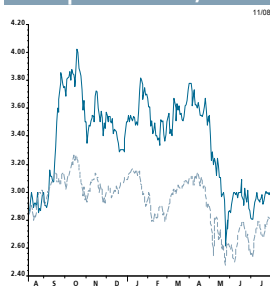
Target Price: EUR 4.50

Building & Materials  
Results Preview

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### Price performance, -1Y



Source: Thomson Reuters

### Data priced on 09.08.2010

Target price (€)	4.50
Target upside (%)	54.24
Market price (€)	2.92
52-week range (€)	4/2.6
Market cap (€ M)	107.55
No. of shares (M)	36.86
Free float (%)	20.6
Major shareholder	Minozzi R.,
(%)	66.8
Reuters	GRAN.MI
Bloomberg	GRF IM
FTSE It All Shares	21817
Performance %	
Absolute	Rel. to FTSE All Sh
-1M	-2.7 -1M -6.6
-3M	-8.8 -3M -20.7
-12M	4.4 -12M 4.7

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

See page 3 for full disclosures and analyst certification

## GranitiFiandre SpA - Key figures

Sector	Building Materials	Mkt price EUR/Share	Ordinary	Rating	
REUTERS CODE	GRAN.MI	Target price EUR/Share	2.92	ADD	
Values per share (EUR)	2008A	2009A	4.50		
No. ordinary shares (M)	36.86	36.86	36.86	36.86	
No. NC saving/preferred shares (M)	0.00	0.00	0.00	2.00	
Total no. of shares (M)	36.86	36.86	36.86	36.86	
Adj. EPS	0.17	0.03	0.21	0.28	
CFPS	0.54	0.37	0.54	0.60	
BVPS	4.20	4.12	4.47	5.01	
Dividend Ord	0.03	0.00	0.05	0.07	
Dividend SAV Nc	0.00	0.00	0.00	2.00	
<b>Income statement (EUR M)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Sales	219.39	183.95	200.02	209.07	217.20
EBITDA	30.10	21.48	28.29	31.72	33.77
EBIT	14.60	7.48	14.80	18.38	20.58
Pre-tax income	12.32	4.18	13.07	16.38	18.81
Net income	6.15	0.95	7.71	8.89	10.22
Adj. net income	6.15	1.28	7.71	8.89	10.22
<b>Cash flow (EUR M)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Net income before minorities	6.53	0.90	8.23	9.50	10.91
Depreciation and provisions	13.91	12.77	12.30	12.09	11.89
Change in working capital	-6.63	13.23	-4.91	-2.20	1.42
Operating cash flow	13.82	26.90	15.63	19.39	24.22
Capital expenditure	-14.13	-6.40	-10.44	-11.15	-8.65
Other (uses of Funds)	0.16	-0.40	3.04	0.04	0.04
Free cash flow	-0.15	20.10	8.22	8.28	15.61
Dividends and equity changes	-6.00	-8.37	-0.17	-1.93	-2.22
Net cash flow	-6.15	11.72	8.05	6.35	13.39
<b>Balance sheet (EUR M)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Net capital employed	215.19	197.04	202.01	203.23	198.53
of which associates	0.00	0.00	0.00	0.00	0.00
Net debt/-cash	53.46	41.73	33.68	27.33	13.94
Minorities	6.82	3.56	3.56	3.56	0.00
Net equity	154.92	151.76	164.77	172.34	184.59
Market cap	107.55	107.55	107.55	107.55	107.55
Minorities value	0.00	0.00	0.00	0.00	0.00
Enterprise value (*)	161.00	149.27	141.23	134.88	121.49
<b>Stock market ratios (x)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Adj. P/E	17.50	84.22	13.95	12.09	10.53
P/CEPS	5.36	7.84	5.37	5.13	4.87
P/BVPS	0.69	0.71	0.65	0.62	0.58
Dividend yield (% ord)	1.03	0.16	1.79	2.07	2.38
Dividend yield (% sav)					
EV/sales	0.73	0.81	0.71	0.65	0.56
EV/EBITDA	5.35	6.95	4.99	4.25	3.60
EV/EBIT	11.02	19.95	9.54	7.34	5.90
EV/CE	0.75	0.76	0.70	0.66	0.61
D/EBITDA	1.78	1.94	1.19	0.86	0.41
D/EBIT	3.66	5.58	2.28	1.49	0.68
<b>Profitability &amp; financial ratios (%)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
EBITDA margin	13.72	11.67	14.14	15.17	15.55
EBIT margin	6.66	4.07	7.40	8.79	9.48
Tax rate	46.97	78.56	37.00	42.00	42.00
Net income margin	2.80	0.52	3.86	4.25	4.70
ROE	3.97	0.63	4.68	5.16	5.54
Debt/equity ratio	0.33	0.27	0.20	0.16	0.08
<b>Growth (%)</b>		<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Sales		-16.16	8.74	4.52	3.89
EBITDA		-28.65	31.75	12.11	6.46
EBIT		-48.76	97.75	24.24	11.96
Pre-tax income		-66.04	212.49	25.29	14.87
Net income		-84.48	708.35	15.35	14.87
Adj. net income		-79.23	503.91	15.35	14.87

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

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We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

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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
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

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Total Equity Research Coverage %	47	26	27	-	-
of which Intesa Sanpaolo's Clients % (*)	69	48	62	-	-

(\*) 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 105

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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

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