

EEMS

BUY

SECTOR: Industrials

Price (Eu):

1.60

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Target Price (Eu):

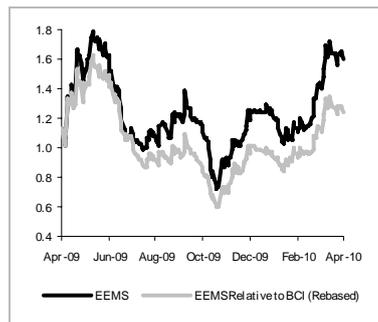
2.90

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Successful Restructuring in Sight

- 1Q reporting season for the semiconductor industry is boosting expectations that the sector will continue to grow**, as it has been for three consecutive quarters. For EEMS, which will report its figures on 14th May, this means better visibility on growth in the company's semiconductor division. We forecast exponential EBITDA growth in semiconductors to bring the consolidated result up to Eu10mn in the quarter, which would be more than a third the amount the group achieved in all of 2009. The solar power division is likely to contribute negatively to EBITDA for seasonal reasons. However, we would expect this to even out in forthcoming quarters, leading to a Eu53mn full year EBITDA, double the 2009 figure, to meet the goal of the business restructuring plan that began in early 2009 after the company lost its top client Qimonda, which had accounted for about a third of turnover in the division.
- Debt restructuring wipes away an element of uncertainty.** On 30th March, the group's holding company EEMS Italia finalised the second and final of two term sheet agreements with its creditors to renegotiate debts. Between mid-2011 and the end of 2014, EEMS will have to repay about Eu93mn, paying an interest rate of Euribor 6M + 150/250bps. These conditions should be considered good for a company that was practically in default less than a year ago. The company's creditors clearly took its semiconductor division restructuring plan and its decision to diversify into solar power into consideration, and were convinced that EEMS has the potential to meet its financial commitments.
- Buy confirmed; target up to Eu2.90.** The EEMS restructuring process is almost at an end. Concerns over the financial reorganisation have been allayed, while in terms of the core semiconductors business, the start of 2010 seems to indicate that this year it will reach levels that have not been seen for some 3 years, i.e. when the stock price was twice as high as at present. For this reason, we have decided to revise our valuation approach, which is based on an SoP between the semiconductors and photovoltaic businesses, halving the discount that until now we have been applying to the electronics business, which has always encountered extremely volatile results. It should be taken into account that the new target price does not incorporate the impact of a potential disposal of the Singapore electronics assets, for which a letter of intent was signed on 14th March. While on the one hand this deal would lower 2010 EBITDA by around 23%, on the other it would allow a significant reduction in the debt, as the proceeds would be poured into paying down the exposure towards the banks.

EEMS - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 1.8 to 2.90

Change in EPS est:	2010E	2011E
	0.0%	0.0%

STOCK DATA

Reuters code:	EEMS.MI
Bloomberg code:	EEMS IM

Performance	1m	3m	12m
Absolute	13.1%	33.4%	41.9%
Relative	9.9%	33.8%	12.9%
12 months H/L:	1.78/0.72		

SHAREHOLDER DATA

No. of Ord. shares (mn):	43
Total No. of shares (mn):	43
Mkt Cap Ord (Eu mn):	68
Total Mkt Cap (Eu mn):	68
Mkt Float - ord (Eu mn):	59
Mkt Float (in %):	86.6%
Main shareholder:	
Mutti family	7.7%

BALANCE SHEET DATA

	2010
Book value (Eu mn):	107
BVPS (Eu):	2.51
P/BV:	0.6
Net Financial Position (Eu mn):	-65
Enterprise value (Eu mn):	133

Key Figures	2008A	2009A	2010E	2011E	2012E
Sales (Eu mn)	154	134	194	206	216
Ebitda (Eu mn)	26	26	54	67	75
Net profit (Eu mn)	-35	-20	2	14	18
EPS - New (Eu)	-0.25	-0.47	0.05	0.32	0.43
EPS - Old (Eu)	-0.25	-0.47	0.05	0.32	0.75
DPS (Eu)	0.00	0.00	0.00	0.00	0.00

Ratios & Multiples	2008A	2009A	2010E	2011E	2012E
P/E	nm	nm	32.5	5.0	3.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	3.7	5.8	2.5	1.6	0.9
ROCE	-21.5%	-7.9%	4.9%	11.6%	15.1%

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EEMS - KEY FIGURES

		2008A	2009A	2010E	2011E	2012E
Fiscal year end		31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
PROFIT & LOSS (Eu mn)	Sales	154	134	194	206	216
	EBITDA	26	26	54	67	75
	EBIT	(45)	(16)	9	19	23
	Financial income (charges)	(3)	(6)	(5)	(3)	(2)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(49)	(21)	4	16	22
	Taxes	13	1	(2)	(2)	(4)
	Tax rate (%)	27.6%	5.3%	40.5%	14.2%	16.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	-35	-20	2	14	18
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	39	26	54	67	75
	Ebit excl. extraordinary items	(21)	(16)	9	19	23
Net profit restated	(11)	(20)	2	14	18	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	43	43	43	43	43
	EPS stated fd	-0.82	-0.47	0.05	0.32	0.43
	EPS restated fd	-0.25	-0.47	0.05	0.32	0.43
	BVPS fd	3.00	2.46	2.51	2.83	3.55
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
CASH FLOW (Eu mn)	Gross cash flow	12	21	47	62	83
	Change in NWC	5	(11)	(9)	(4)	(6)
	Capital expenditure	(29)	(6)	16	29	34
	Other cash items					
	Free cash flow (FCF)	(12)	4	54	86	111
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	0	0	43	85
Equity financing/Buy-back	0	0	0	0	0	
Change in Net Financial Position	(12)	4	54	129	197	
BALANCE SHEET (Eu mn)	Total fixed assets	212	182	101	54	43
	Net working capital	(12)	17	48	53	62
	Long term liabilities	8	(13)	23	50	48
	Net capital employed	208	186	172	157	154
	Net financial position	(75)	(81)	(65)	(36)	(2)
	Group equity	128	105	107	121	152
	Minorities	0	0	0	0	0
Net equity	128	105	107	121	152	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	68	68	68	68	68
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(75)	(81)	(65)	(36)	(2)
	Enterprise value	143	149	133	104	70
RATIOS(%)	EBITDA margin*	25.1%	19.1%	27.7%	32.7%	35.0%
	EBIT margin*	nm	nm	4.5%	9.3%	10.9%
	Gearing - Debt/equity	58.5%	76.9%	60.3%	29.7%	1.4%
	Interest cover on EBIT	nm	nm	1.7	6.4	15.6
	Debt/Ebitda	2.88	3.17	1.20	0.54	0.03
	ROCE*	-21.5%	-7.9%	4.9%	11.6%	15.1%
	ROE*	-23.9%	-17.3%	2.1%	12.1%	13.5%
	EV/CE	0.7	0.8	0.7	0.6	0.5
	EV/Sales	0.9	1.1	0.7	0.5	0.3
	EV/Ebit	nm	nm	15.3	5.4	3.0
Free Cash Flow Yield	-18.1%	6.0%	79.6%	126.8%	163.1%	
GROWTH RATES (%)	Sales	-2.0%	-13.4%	45.3%	6.0%	4.9%
	EBITDA*	-22.9%	-34.0%	110.5%	25.1%	12.3%
	EBIT*	nm	nm	nm	120.1%	22.3%
	Net profit	nm	nm	nm	528.5%	33.0%
	EPS restated	nm	nm	nm	554.7%	33.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

More visibility at top-down level

1Q reporting season for the semiconductor industry is boosting expectations that the sector will continue to grow, as it has been for three consecutive quarters. For EEMS, which will report its figures on 14th May, this means better visibility on growth in the company's semiconductor division. We forecast exponential EBITDA growth in semiconductors to bring the consolidated result up to Eu11mn in the quarter, which would be more than a third the amount the group achieved in all of 2009. The solar power division is likely to contribute negatively to EBITDA for seasonal reasons. However, we would expect this to even out in forthcoming quarters, leading to a Eu53mn full year EBITDA, double the 2009 figure, to meet the goal of the business restructuring plan that began in early 2009 after the company lost its top client Qimonda, which had accounted for about a third of turnover in the division.

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EEMS DRAM Valuation	2010	New			
		Multiple (Adj.)	EV	Debt*	Equity new
Ebitda	46.6	4.8	224	-10.0	214
Average DRAM Valuation					214

EEMS Solar Valuation	2010	Multiple (adj.)	Implied Multiples		
			EV	Debt*	Equity new
Ebitda	7.2	6.0	43	-10.0	33

Valuation	2010	Per share new
Dram (25% discount)	161	3.8
Solar	33	0.8
Holding cost	-4.0	0.0
NFP (outstanding average)	-65	
Fair value	125	
N. of shares	42.7	
Fair value per share	2.9	
Visibility discount (0%)	0.0	
Target price	2.9	
Price	1.6	
Upside	83.4%	

From 50% discount

Implied 2010 Multiples	M. Price	T. Price
Price	1.6	2.9
Market cap	68	125
Debt (end 2010)	-65	-65
EV	133	190
P/E	31.0	56.8
Ev/Ebitda	2.5	3.5
Ev/Ebit	15.3	21.8

Source: Intermonte SIM. (*) Working Capital Requirements

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NEUTRAL: stock performance expected at between +10% and - 10% compared to the market over a 12 month period ;
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NEUTRAL: 35.01%
UNDERPERFORM: 11.02%
SELL: 2.36%

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OUTPERFORM: 13.33%
NEUTRAL: 56.67%
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DETAILS ON STOCK RECOMMENDATION

Stock NAME	EEMS		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	2.90	Previous Target (Eu):	1.8
Current Price (Eu):	1.60	Previous Price (Eu):	1.34
Date of report:	19/04/2010	Date of last report:	15/03/10

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