

EEMS

OUTPERFORM

SECTOR: Industrials

Price (Eu):

1.16

Emanuele Isella +39-02-77115.358
e-mail: emanuele.isella@intermonte.it

Target Price (Eu):

1.80

Heading Downstream

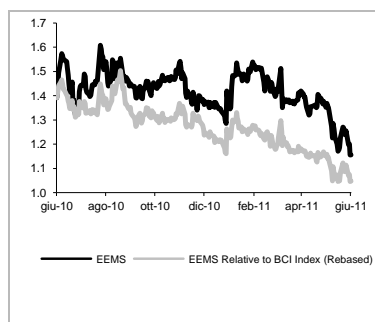
- Impact of the new solar power scenario.** EEMS is the largest solar module and cell producer settled in Italy with a fully automatized 140MW/year module production line and 40MW/year cell production. Lower Government incentives and overcapacity in the global photovoltaic (PV) manufacturing sector is pushing sale prices down, bringing about a tougher competitive scenario for Solsonica. However, its relatively low exposure to the market segment that is penalized most by the new incentive system (large ground-mounted solar parks), combined with a strategic choice to enter the downstream segment, could help the company maintain both affordable prices and reasonable operating margins. Moreover, module sales for Solsonica will be boosted by a 10% incentive premium offered for systems that use at least 60% of components made in Italy or elsewhere in the EU.
- A new business model.** In order to face tougher competition expected in the solar module supply sector and keep operating profits up, the company has chosen to redefine its business model, entering the downstream market through a new business unit called Solsonica Energia, which will be focused on integrated engineering, procurement and construction (EPC) solutions for residential and small business rooftop installations (under 500kW). The company plans to spend around Eu2.5mn a year for advertising and retail network development and expects to capture at least 2% of the Italian market. Solsonica Energia will offer integrated PV solutions, selling modules produced by Solsonica and all other components needed to build systems. We welcome this choice in favour of downstream integration because we think higher growth rates and better margins are to be had in the retail segment.
- Estimates update.** Despite weak semiconductor sector momentum, EEMS will score positive 2Q and 3Q numbers thanks to recovering volumes and margins. In 1Q, EEMS's main client had some volumes reduction due to deep technological turnaround. But in the solar power business, we expect the company to be able to have at least a 75% load factor as from 2012, that is, sell about 100MW of capacity per year. This will help Solsonica partially preserve its EBITDA margins in light of the expected price reduction, but the main factor that should help Solsonica's margins is lower cell and wafer prices, driven by a structural market overcapacity. Concerning the new Solsonica Energia, we expect negative EBITDA in 2011 due to start-up costs, while in 2012 the company should be able to reach the break-even point, to then generate positive operating income from 2013 onwards.
- Investment conclusion.** We are changing our target price from Eu2.00 to Eu1.80, in light of lower EBITDA estimates for Solsonica, partially offset by the contribution expected from the new business unit Solsonica Energia. Our SOP has been updated to include a valuation of Solsonica Energia through an average of EV/sales multiples and EV/EBITDA multiples, adjusted with a 30% visibility discount. We also foresee M&A opportunities for EEMS's activities in Asia: although there aren't currently any rumours on this issue, we think that management would be willing to sell if the right offer were to come along.

Key Figures	2009A	2010A	2011E	2012E	2013E
Sales (Eu mn)	102	192	177	227	246
Ebitda (Eu mn)	13	32	22	32	36
Net profit (Eu mn)	-22	-5	-7	3	7
EPS - New (Eu)	-0.52	-0.11	-0.17	0.07	0.15
EPS - Old (Eu)	-0.47	-0.06	0.00	-0.05	0.01
DPS (Eu)	0.00	0.00	0.00	0.00	0.00

Ratios & Multiples	2009A	2010A	2011E	2012E	2013E
P/E	nm	nm	nm	17.3	7.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	9.9	2.5	3.4	2.3	2.0
ROCE	-8.8%	-0.3%	-6.3%	3.4%	8.4%

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EEMS - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 2.00 to 1.80

Change in EPS est: 2011E 2012E
n.s. n.s.

STOCK DATA

Reuters code: EEMS.MI
Bloomberg code: EEMS IM

Performance	1m	3m	12m
Absolute	-16.1%	-17.5%	-15.2%
Relative	-9.9%	-10.5%	-26.7%
12 months H/L:	1.61/1.16		

SHAREHOLDER DATA

No. of Ord. shares (mn):	43
Total No. of shares (mn):	44
Mkt Cap Ord (Eu mn):	49
Total Mkt Cap (Eu mn):	49
Mkt Float - ord (Eu mn):	39
Mkt Float (in %):	78.3%
Main shareholder:	
Mutti Family	21.7%

BALANCE SHEET DATA

	2011
Book value (Eu mn):	103
BVPS (Eu):	2.37
P/BV:	0.5
Net Financial Position (Eu mn):	-26
Enterprise value (Eu mn):	76

EEMS - KEY FIGURES

		2009A	2010A	2011E	2012E	2013E
	Fiscal year end	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
PROFIT & LOSS (Eu mn)	Sales	102	192	177	227	246
	EBITDA	13	32	22	32	36
	EBIT	(17)	(0)	(9)	4	11
	Financial income (charges)	(6)	(5)	(2)	(1)	(1)
	Associates & Others					
	Pre-tax profit (Loss)	(23)	(5)	(10)	3	10
	Taxes	1	1	3	(0)	(4)
	Tax rate (%)	4.3%	11.6%	28.6%	1.0%	35.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	-22	-5	-7	3	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	13	32	22	32	36
	Ebit excl. extraordinary items	(17)	(0)	(9)	4	11
Net profit restated	(22)	(5)	(7)	3	7	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	43	44	44	44	44
	EPS stated fd	-0.52	-0.11	-0.17	0.07	0.15
	EPS restated fd	-0.52	-0.11	-0.17	0.07	0.15
	BVPS fd	2.46	2.54	2.37	2.44	2.59
	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	8	28	23	31	31
	Change in NWC	(11)	11	(7)	(6)	(2)
	Capital expenditure	(17)	(21)	(13)	(22)	(28)
	Other cash items	(1)	0	0	0	0
	Free cash flow (FCF)	(20)	18	4	3	1
	Acquisitions, divestments & others	(3)	(1)	(0)	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	1	0	0	0
Change in Net Financial Position	(8)	53	3	3	1	
BALANCE SHEET (Eu mn)	Total fixed assets	180	143	125	119	123
	Net working capital	17	12	19	25	27
	Long term liabilities	(9)	(15)	(15)	(15)	(15)
	Net capital employed	188	140	129	129	135
	Net financial position	(83)	(29)	(26)	(23)	(22)
	Group equity	105	111	103	106	113
	Minorities	0	0	0	0	0
Net equity	105	111	103	106	113	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	49	49	49	49	49
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(83)	(29)	(26)	(23)	(22)
	Enterprise value	132	79	76	73	72
RATIOS(%)	EBITDA margin*	13.0%	16.5%	12.6%	14.1%	14.7%
	EBIT margin*	nm	nm	nm	1.9%	4.5%
	Gearing - Debt/equity	78.5%	26.3%	25.3%	21.7%	19.8%
	Interest cover on EBIT	nm	nm	nm	3.0	9.8
	Debt/Ebitda	6.20	0.92	1.17	0.72	0.62
	ROCE*	-8.8%	-0.3%	-6.3%	3.4%	8.4%
	ROE*	-19.0%	-4.2%	-7.0%	2.8%	5.9%
	EV/CE	0.7	0.5	0.6	0.6	0.5
	EV/Sales	1.3	0.4	0.4	0.3	0.3
	EV/Ebit	nm	nm	nm	16.4	6.4
Free Cash Flow Yield	-41.4%	35.5%	7.1%	6.2%	1.4%	
GROWTH RATES (%)	Sales	-33.4%	87.9%	-7.8%	28.4%	8.4%
	EBITDA*	-48.7%	138.2%	-29.6%	44.0%	12.4%
	EBIT*	nm	nm	nm	nm	152.5%
	Net profit	nm	nm	nm	nm	123.5%
	EPS restated	nm	nm	nm	nm	123.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Key Financials

EEMS – Operating data

(Eu mn)	2009	2010	2011E	2012E	2013E
Semiconductor					
Volumes	n.a.	14%	-6%	13%	19%
Price/mix	n.a.	12%	3%	-7%	-7%
Capex/Sales	n.a.	25%	15%	25%	30%
Photovoltaic					
Module Capacity	60	70	140	140	140
Cell Capacity	10	30	40	50	60
MW Sales	17	64	71	105	105
Price/MW	2.11	1.71	1.30	1.10	1.00
EPC-Retail					
System Sales (MW)	0	0	1.5	10.0	20.0
Price/MW	n.a.	n.a.	3.5	3.0	2.8

(1) Year end. Source: Datastream and Intermonte SIM estimates

EEMS – Income Statement

(Eu mn)	2009	2010	2011E	2012E	2013E
Total Revenues	102	192	177	227	246
Adj. EBITDA	13	32	22	32	36
% EBITDA Margin	13%	16%	13%	14%	15%
Semiconductor	15	19	21	23	26
Photovoltaic	1	11	3	8	6
EPC-Retail	0	0	-2	2	4
Other	-2	1	0	0	0
Depr. Prov.'s. and Write-downs	-31	-32	-31	-28	-25
EBIT	-17	0	-9	4	11
% EBIT Margin	-17%	0%	-5%	2%	5%
Net Financial Charges	-6	-5	-2	-1	-1
Other Charges and Income	0	0	0	0	0
Net Operating Margin	-23	-5	-10	3	10
Taxes	1	1	3	0	-4
Tax Rate %	4%	12%	29%	1%	35%
Net Income	-22	-5	-7	3	7
Results from discontinued op.	0	0	0	0	0
Minorities	0	0	0	0	0
Group Net Income	-22	-5	-7	3	7
Adj. Net Income	-22	-5	-7	3	7

Source: Company data and Intermonte SIM estimates.

EEMS – Balance Sheet

(Eu mn)	2009	2010	2011E	2012E	2013E
Fixed assets	180	143	125	119	123
Net working capital	12	1	8	14	16
Gross inv. capital	192	144	133	133	139
Severance provision	-4	-4	-4	-4	-4
Net invested capital	188	140	129	129	135
Group sharehold. equity	105	111	103	106	113
Minority interests	0	0	0	0	0
Net financial position	-83	-29	-26	-23	-22
Total cover	188	140	129	129	135

Source: Company data and Intermonte SIM estimates.

EEMS – Cash Flow Statement

(Eu mn)	2009	2010	2011E	2012E	2013E
Net fin position beg of year	-75	-83	-29	-26	-23
Net income	-22	-5	-7	3	7
Depreciation	28	32	31	28	25
Change in working capital	-12	11	-7	-6	-2
Operating cash flow	-6	38	16	25	29
Investments	-17	-21	-13	-22	-28
Free cash flow	-23	17	4	3	1
Dividends	0	0	0	0	0
Other movements	16	36	0	0	0
Cash flow	-7	53	3	3	1
Net fin position end of year	-83	-29	-26	-23	-22

Source: Company data and Intermonte SIM estimates.

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	EEMS		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	1.80	Previous Target (Eu):	1.85
Current Price (Eu):	1.16	Previous Price (Eu):	1.16
Date of report:	13/06/2011	Date of last report:	

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