

DEA CAPITAL

BUY

SECTOR: Holdings & RE

Price (Eu):

1.28

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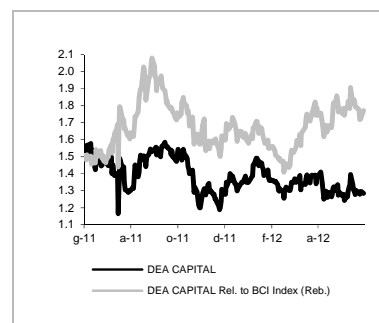
Target Price (Eu):

1.80

Defensive, Geographically Diversified, with an Increasing Focus on AAM

- Company description.** DeA Capital is the De Agostini Group's only vehicle for investments in private equity and alternative asset management. It carries out diversified Private Equity investments, specifically: 1) direct investments, which are focussed in Southern or emerging European markets; its main current investments are 43% of Générale de Santé, the largest French private hospital group, which is listed, and an indirect 13% stake in Migros Turk, the leading food retailer in Turkey, which is also listed; 2) Indirect Investments in private equity "funds of funds" or in co-investment funds. DeA Capital is also active in Alternative Asset Management, through IDeA Fimit, the largest real estate asset management company in Italy with some Eu9.5bn of AUM, and IDeA Alternative Investments, which controls funds and private equity funds of funds, and has some Eu1.2bn of AUM.
- Sector specific.** DeA Capital's positioning on the Italian market is quite unique in terms of size and diversification. DeA Capital competes with Italian and international private equity funds in order to raise capital and invest; its position as a listed entity should widen the base further.
- Company strategy.** DeA Capital's long term focus should remain on AAM activity, which is likely to enjoy stable income flows and should also offset the timing of the realisation of direct investments in private equity. If any of the company's private equity investments were to be sold, DeA Capital would evaluate reinvestment opportunities in the asset management sector, or alternatively it could proceed with a distribution of any excess liquidity to its shareholders.
- Key short term drivers.** DeA Capital currently benefits from: 1) its focus on defensive businesses (healthcare, food retail and alternative asset management) and its geographical diversification (50% of NAV located outside Italy); 2) its increased focus on AAM, which will stabilise cashflow and 3) in the medium term we expect DeA Capital to exit from its direct investments, potentially returning the proceeds to shareholders. The main threats could come from: 1) failure to raise further capital for its AAM business due to the current macro-economic crisis; 2) inability to withdraw from its direct investments or to generate a capital gain on exit; 3) the adverse cycle in the real estate sector in Italy.

DEA CAPITAL - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2012E	2013E
	0.0%	0.0%

STOCK DATA

Reuters code: DEA.MI
Bloomberg code: DEA IM

Performance	1m	3m	12m
Absolute	-0.2%	-4.7%	-15.7%
Relative	-0.5%	12.5%	12.2%
12 months H/L:	1.59/1.17		

SHAREHOLDER DATA

No. of Ord. shares (mn):	307
Total No. of shares (mn):	307
Mkt Cap Ord (Eu mn):	394
Total Mkt Cap (Eu mn):	394
Mkt Float - ord (Eu mn):	133
Mkt Float (in %):	33.7%
Main shareholder:	
De Agostini	58.3%

BALANCE SHEET DATA

	2012
Book value (Eu mn):	707
BVPS (Eu):	2.31
P/BV:	0.6
Net Debt (#BadKeyword mn):	76
NAV (Eu mn)	707

Key Figures	2010A	2011E	2012E	2013E	2014E
EBIT (Eu mn)	(2)	(8)	16	21	26
Net profit (Eu mn)	-26	-44	4	12	18
EPS - New (Eu)	-0.063	-0.110	0.051	0.076	0.096
EPS - Old (Eu)	-0.063	-0.110	0.051	0.076	0.096
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
NAVPS (Eu)	2.493	2.182	2.306	2.344	2.403
Ratios & Multiples	2010A	2011E	2012E	2013E	2014E
P/E	nm	nm	25.4	16.9	13.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
P/NAVPS	0.5	0.6	0.6	0.5	0.5
ROCE					

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DEA CAPITAL - KEY FIGURES

	2010A	2011E	2012E	2013E	2014E	
	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	
Fiscal year end						
PROFIT & LOSS (Eu mn)	Sales	38	58	83	87	91
	EBITDA	(2)	(8)	16	21	26
	EBIT	(2)	(8)	16	21	26
	Financial income (charges)	(5)	(3)	(4)	(3)	(1)
	Associates & Others	(16)	(56)	(2)	1	4
	Pre-tax profit (loss)	(22)	(42)	10	19	29
	Taxes	(3)	(4)	(5)	(6)	(7)
	Tax rate (%)	-15.6%	-9.1%	50.3%	29.2%	23.0%
	Minorities & discontinue activities	(1)	2	(1)	(2)	(4)
	Net profit	-26	-44	4	12	18
	Total extraordinary items					
	Ebitda excl. extraordinary items	(2)	(8)	16	21	26
	Ebit excl. extraordinary items					
	Net profit restated	(19)	(34)	16	23	30
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	307	307	307	307	307
	EPS stated fd	-0.086	-0.142	0.013	0.038	0.059
	EPS restated fd	-0.063	-0.110	0.051	0.076	0.096
	BVPS fd	2.493	2.182	2.306	2.344	2.403
	NAVPS fd	2.493	2.182	2.306	2.344	2.403
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
CASH FLOW (Eu mn)	Change in NWC	0	0	0	0	0
	Capital expenditure	0	0	0	0	0
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	0		0		0
	Acquisitions, divestments & other					
	Dividend					
	Change in Net Financial Position	15	(82)	27	38	46
BALANCE SHEET (Eu mn)	Total fixed assets	784	770	782	755	727
	Net working capital	1	1	1	1	1
	Long term liabilities					
	Net capital employed	785	772	783	756	728
	Net financial position	20	103	76	38	(9)
	Group equity	765	669	707	719	737
	Minorities	0	0	0	0	0
	Net equity	765	669	707	719	737
NAV DATA (Eu mn)	Properties and other assets - Book value					
	Properties and other assets - Market value					
	NAV	765	669	707	719	737
RATIOS(%)	EBITDA margin*	nm	nm	19.7%	24.1%	28.5%
	EBIT margin*					
	Gearing - Debt/equity	-2.7%	-15.3%	-10.7%	-5.2%	1.2%
	Interest cover on EBIT	nm	nm	3.7	7.5	37.6
	Debt/Ebitda	10.82	13.47	nm	nm	0.34
	Capex as % sales	0.0%	0.0%	0.0%	0.0%	0.0%
	ROCE*					
	ROE*					
GROWTH RATES (%)	Sales	11.8%	53.0%	43.1%	4.9%	4.7%
	EBITDA*	nm	nm	nm	28.4%	23.6%
	EBIT*					
	Net profit	nm	nm	nm	190.9%	53.2%
	EPS restated	nm	nm	nm	49.6%	26.9%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Executive Summary

- **Italian small caps: our reference panel** In this report, we are focusing our attention on mid/small cap stocks. With respect to our 31 January 2012 report, we have increased the number of stocks covered. Here are some key figures describing our reference panel:
 - 121 stocks covered (from 114 previously), of which 69 (previously 65) with proprietary estimates;
 - an aggregate market cap of around Eu28.3bn, or nearly 8.4% (vs. 7.5% previously) of the total Italian market cap;
 - these are all stocks with a market cap of less than Eu1.3bn and not included in the FTSE MIB Index;
 - average market cap: Eu234mn; 60 stocks (previously 57) have a market cap below Eu100mn;
 - average daily trading volume: around Eu325,000 (down from Eu370,000);
 - we have excluded financials and local utilities, which are thoroughly covered by our sector analysts.
- **Some financials.** From a financial point of view, the panel we cover (adjusted for changes in consolidation scope and discrepancies) has generated total combined sales of Eu72.1bn and EBITDA of Eu7.2bn, with average leverage of 3.0x (Net Debt/EBITDA) based on actual 2011 numbers. It is interesting to note that four years after the Lehman Brothers crisis, our panel's sales have barely recovered from 2007 levels, and profitability is some 30% lower than in 2007, leading to greater financial leverage. In 2012 our panel should post sales of Eu71.5bn, EBITDA of Eu7.9bn, reducing the leverage to 2.4x.
- **Sector distribution.** We have grouped the companies into 7 sectors: Telecom-Media-Technology (TMT), Industrial Cyclical, Industrial, Consumers, Energy & Utilities, Healthcare, and Real Estate and Holdings. With the exception of the Real Estate & Holding sector, which is smaller, all these sectors have a broadly similar weight on the total panel.
- **An outperforming asset class in 1H12.** The overall performance of Italian small caps YTD has been negative and has followed the downward trend of the Italian market as a whole. However, we highlight that in relative terms Italian Small Caps outperformed the broader market index. It therefore seems that in a very tough scenario for financial markets, and for Italy in particular, diversification and transparency have been a differentiating factor in 1H12. The trend seen in Italy has not been different from what other European markets have witnessed. Finally, we also note that of the seven sectors we delineated, Healthcare, Industrial and Consumers have significantly outperformed the broad FTSE Italy All Share index YTD as these sectors benefited from a defensive investor bias, from a well-diversified geographical exposure and from significant dollar sensitivity. On the flip side, Energy & Utilities have been the real losers in relative terms due to both significant exposure to Italy and high leverage.
- **Geographical breakdown: a significant factor going forward.** In the current tough macro scenario for Italy we believe that the market will continue differentiating among different growth potential. Our covered panel is significantly skewed towards Italy (that accounts for 54.8% of 2011 aggregate sales), with rest of Europe (including Turkey and UK) accounting for 22.8 % and US and Asia and other emerging market for 22.4%
- **Valuation analysis:** not cheap, but for a reason. We have updated our historical analysis (first introduced in our January release on small caps) to check where our panel of Italian mid-small caps stands in terms of valuations vs. the main FTSE MIB Index. To do so, we have compared 3 main ratios, in both absolute and relative terms:
 - P/E based on 2-year forward estimates;
 - P/BV based on the current fiscal year;
 - Dividend yield based on the current fiscal year.

Our historical analysis suggests that Italian small caps have significantly re-rated vs. big caps and, overall, do not look a bargain relative to the broader Italian large caps index. The premium on both historical average P/E and dividend yields, however, looks more like a reflection of the better relative strength of small caps compared to Italian financials in the current tough environment for Italy and financials in general. We believe that in the current macro environment the market will continue to focus more on geographical reach, earnings trend and balance sheet strength. In this environment a purely valuation based approach doesn't seem appropriate in our view.
- **Liquidity falling, and still the biggest short-term issue.** Overall liquidity in our small caps panel has decreased a further 13% in the last 3 months to an average daily amount of Eu325,000, and there has been a widening of the gap between the "good" names (both fundamentally and speculatively speaking) and the "bad" ones (mainly domestic businesses). From a top-down point of view we'd like to underline that the Italian equity market's appeal remains heavily dependent on developments in the euro crisis.

■ Our main drivers for Italian small cap selection in 2H12

After such a difficult first half of the year we believe that, based on the assumption that Italy will muddle through the ongoing crisis without an explosion of the euro, Italian small caps could provide attractive opportunities on a selective basis. We believe that main drivers for investing in small caps in 2H12 will be:

Earnings trend: The usual correlation between earnings trend (measured by 2-year forward EPS estimates) and share price has continued working in a reasonably reliable fashion, even in such a tough economic environment. We feel that again in 2H12, differences in earnings trends could prove to be a more accurate indicator of stock performances than pure valuation-based calls.

Geographical exposure: With Italy and most of peripheral Europe being the "sick men" we believe that geographical exposure to better growing economies will continue to be a differentiating factor.

Liquidity: While not a fundamental driver per se, we continue to see liquidity, or the lack of it, as another differentiating factor for performance. In this context, undervalued companies with lower liquidity should offer more upside to investors to compensate for the liquidity risk.

Speculative appeal: 1H12 has witnessed some takeovers (Benetton, Buongiorno) and well-reasoned speculation (Sorin, Engineering). Given the current depressed market environment, very low valuations could in some cases easily prompt corporate action on some stocks. This remains an interesting angle for investors.

Valuations: We continue to think that low valuations should not be seen as a real catalyst by themselves. It is worth noting that in most cases, the cheapest stocks in our panel (based on P/BV or EV/Sales) are companies showing significant risk, due to leveraged balance sheets or stagnation near cyclical lows. Therefore, these companies are not necessarily buying opportunities in our view, especially without signs of an upturn in the business cycle. A ranking of the stocks in our panel based on valuations can be found in the Appendix (pag. 21).

- **Our recommended small caps list for 2H12.** Our list of recommendations for 2H12 includes companies that offer a balanced mix of positive earnings trends with limited exposure to the struggling Italian economy and a sound balance sheet. For the stocks that suffer from limited liquidity, we tend to demand stronger fundamental upside. Finally, speculative appeal, although not prevalent in our recommended panel, is also taken into consideration.

Intermonte Mid & Small Caps - Recommended Portfolio (Ranked by Market Cap.)

Stock	Price (Eu)	Mkt Cap (Eu mn)	Recomm.	T.P. (Eu)	Liquidity (Eu '000)	Earnings trend	Geograp. exposure	Liquidity	Speculative appeal	Valuation
Recordati S.p.A.	5.41	1,130	OUTPERFORM	9.30	236,106	xxx	xx	x	xx	xxx
Gemina S.p.A.	0.60	879	OUTPERFORM	0.78	500,321	xx	x	xx	x	xx
Brunello Cucinelli S.p.A.	11.54	785	OUTPERFORM	12.75	440,837	xxx	xxx	xx	xxx	x
ERG S.p.A.	4.81	724	OUTPERFORM	7.00	3,432,199	x	x	xxx	xxx	xx
Brembo S.p.A.	7.77	519	OUTPERFORM	9.40	2,026,987	xx	xxx	xxx	x	xx
Astaldi S.p.A.	4.72	465	BUY	7.50	1,700,621	xxx	xx	xxx	x	xxx
El Towers	16.36	462	OUTPERFORM	24.50	349,263	xxx	x	xx	xx	xx
Zignago Vetro S.p.A.	4.77	419	OUTPERFORM	5.70	199,426	xxx	x	x	NO	xxx
DeA Capital S.p.A.	1.29	394	BUY	1.80	143,017	xx	xxx	x	xx	xx
Datalogic S.p.A.	6.50	380	BUY	9.50	208,020	xxx	xxx	x	x	xx
Indesit Co. S.p.A.	3.18	363	BUY	5.60	2,190,863	x	xx	xxx	xxx	xxx
Engineering S.p.A.	25.95	324	OUTPERFORM	30.00	236,106	x	x	x	xxx	xxx
Reply S.p.A.	17.25	159	OUTPERFORM	25.00	104,960	xxx	xx	x	x	xxx
Saes Getters S.p.A.	7.09	140	OUTPERFORM	11.00	56,935	xx	xxx	x	x	xx
Prelios S.p.A.	0.13	108	OUTPERFORM	0.20	1,851,862	x	x	xxx	xxx	xx

Source: Intermonte SIM