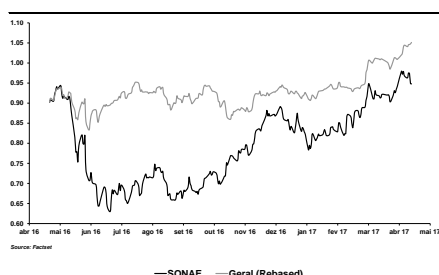


Preview Note

15 May 2017

Buy			
Recommendation unchanged			
Share price: EUR	0.95		
closing price as of 12/05/2017			
Target price: EUR	1.45		
Target Price unchanged			
Upside/Downside Potential	53.0%		
Reuters/Bloomberg		YSO.LS/SON PL	
Market capitalisation (EURm)	1,896		
Current N° of shares (m)	2,000		
Free float	36%		
Daily avg. no. trad. sh. 12 mth	3,935		
Daily avg. trad. vol. 12 mth (m)	2,141.00		
Price high/low 12 months	0.63 / 0.98		
Abs Perfs 1/3/12 mths (%)	3.61/15.75/1.17		
Key financials (EUR)	12/16	12/17e	12/18e
Sales (m)	5,376	5,754	6,052
EBITDA (m)	362	360	403
EBITDA margin	6.7%	6.3%	6.7%
EBIT (m)	162	123	157
EBIT margin	3.0%	2.1%	2.6%
Net Profit (adj.)(m)	215	127	156
ROCE	5.7%	4.2%	5.4%
Net debt/(cash) (m)	1,230	1,133	1,032
Net Debt Equity	0.6	0.5	0.5
Net Debt/EBITDA	3.4	3.2	2.6
Int. cover(EBITDA/Fin.int)	21.3	13.4	12.8
EV/Sales	0.3	0.3	0.3
EV/EBITDA	4.8	5.5	4.6
EV/EBITDA (adj.)	4.8	5.5	4.6
EV/EBIT	10.8	16.0	11.9
P/E (adj.)	8.1	14.9	12.1
P/BV	0.9	1.0	1.0
OpFCF yield	-3.6%	17.5%	12.5%
Dividend yield	0.0%	4.1%	4.2%
EPS (adj.)	0.11	0.06	0.08
BVPS	0.95	0.94	0.98
DPS	0.00	0.04	0.04
Shareholders			
Efanor 53%; BPI 9%; Fund. Berardo 2%; O 0.00%; Treas. Shares -0.17%;			



Analyst(s)

José Mota Freitas, CFA
mota.freitas@caixabi.pt
+351 22 607 09 31

1Q17 results preview – first quarter is usually the least impressive

The facts: Sonae is going to release 1Q17 results on May 18, after market close. The company will host a conference call with analysts on the following day.

Consolidated P&L (EURm)	1Q16	1Q17e	% Chg.
Sales and Services (adj.)	1,215	1,276	5.0%
Sonae MC (Food Retail)*	830	858	3.4%
Sonae SR (Specialized Retail)*	331	359	8.5%
Sonae RP (Retail Properties)	24	23	-7.1%
IM (Investment Management)	57	58	2.0%
Others & Adj	-27	-23	-15.5%
Underlying EBITDA (adj.)	46	54	17.4%
Sonae MC (Food Retail)*	32	32	0.6%
Sonae MC's Margin	3.8%	3.7%	
Sonae SR (Specialized Retail)*	-2	2	-203.7%
Sonae SR's Margin	-0.6%	0.6%	
Sonae RP (Retail Properties)	21	20	-4.8%
IM (Investment Management)	1	3	257.2%
Others & Adj	-6	-3	-41.9%
Underlying EBITDA margin	3.8%	4.2%	
Non-recurrent EBITDA	35	0	-100.0%
EBIT	57	4	-92.3%
Associates (Direct results)	12	14	20.1%
Financial Income	-14	-15	4.5%
Taxes	-12	0	-96.4%
Direct Net Income	43	4	-91.9%
Total Minorities	1	-2	-230.2%
Indirect results	-15	0	-100.0%
Total Net Income after Minorities	30	2	-93.5%
Eps	0.015	0.001	

Source: Company data and CaixaBI Equity Research

Our analysis: Our current estimates point to Sonae having reached EUR 1,276m in sales during the first quarter, managing to record a 5% yoy gain. This positive evolution should be mainly attributed to Sonae MC's sales area expansion during the last 12 months, which was mostly based on Continente Bom Dia stores' openings. Sonae SR's sales growth should have mostly resulted from the consolidation of Salsa's activity. Sonae RP's 7% sales decrease estimate corresponds to the reduction in the company's freehold that took place over the course of 2016. EBITDA's 17.4% yoy expected improvement and 0.4 p.p. higher margin should be mostly attributed to Salsa's contribution but, to some extent, should have also resulted from added contribution from the IM segment (where Sonae has been concentrating investments on the IT sector) and from less penalizing adjustments. Our figures consider a 3.7% EBITDA margin for Sonae MC, 10 bps below last year figure, which should reflect the stabilization of the promotional effort in food retail activities. In the absence of non-recurrent gains, the quarter's Net Income should have been close to EUR 2m.

Conclusion & Action: Usually, the first quarter of each year is operationally soft for Sonae and this year's first quarter activity was even faced with an adverse calendar effect. In spite of it, the company has been expanding its network of convenience related stores and that should lead to favourable sales growth figures in the quarter, although with a muted impact in Sonae's bottom line.

Sonae : Summary tables

PROFIT & LOSS (EURm)	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
Sales	4,974	5,014	5,376	5,754	6,052	6,320
Cost of Sales & Operating Costs	-4,615	-4,680	-5,014	-5,394	-5,650	-5,869
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	360	334	362	360	403	451
EBITDA (adj.)*	360	334	362	360	403	451
Depreciation	-171	-173	-183	-220	-227	-237
EBITA	189	161	179	140	175	214
EBITA (adj)*	189	161	179	140	175	214
Amortisations and Write Downs	-11.6	-13.1	-17.3	-17.3	-18.2	-19.0
EBIT	177	148	162	123	157	195
EBIT (adj.)*	177	148	162	123	157	195
Net Financial Interest	-57.1	-33.5	-17.0	-26.9	-31.4	-32.2
Other Financials	-14.3	-5.1	-34.3	-16.3	-14.8	-12.4
Associates	64.4	88.5	139	70.7	78.0	81.5
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	170	198	249	150	189	231
Tax	-24.7	-20.9	-26.9	-17.0	-26.4	-37.8
<i>Tax rate</i>	<i>14.5%</i>	<i>10.6%</i>	<i>10.8%</i>	<i>11.3%</i>	<i>13.9%</i>	<i>16.3%</i>
Discontinued Operations	0.0	0.0	-0.4	0.0	0.0	0.0
Minorities	-1.7	-1.5	-6.9	-6.2	-6.4	-6.6
Net Profit (reported)	144	175	215	127	156	187
Net Profit (adj.)	144	175	215	127	156	187
CASH FLOW (EURm)	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
Cash Flow from Operations before change in NWC	328	363	423	370	408	450
Change in Net Working Capital	-64.7	-66.7	-48.0	153	29.1	35.4
Cash Flow from Operations	263	296	375	523	437	485
Capex	-356	-300	-437	-191	-199	-191
Net Financial Investments	84.4	-163	51.0	133	0.0	0.0
Free Cash Flow	-7.8	-167	-11.4	466	238	294
Dividends	-69.6	-150	0.0	-78.5	-80.1	-81.7
Other (incl. Capital Increase & share buy backs)	43.2	277	85.7	-291	-56.9	-59.2
Change in Net Debt	-34.3	-39.9	74.3	96.8	101	153
NOPLAT	128	107	117	88.9	114	141
BALANCE SHEET & OTHER ITEMS (EURm)	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
Net Tangible Assets	1,802	1,543	1,612	1,783	1,799	1,797
Net Intangible Assets (incl. Goodwill)	842	869	1,027	1,059	1,059	1,059
Net Financial Assets & Other	1,296	1,459	1,408	1,275	1,275	1,275
Total Fixed Assets	3,939	3,871	4,048	4,117	4,132	4,131
Inventories	603	635	696	717	761	793
Trade receivables	308	341	347	395	414	433
Other current assets	140	95.5	80.6	112	117	122
Cash (-)	-589	-283	-341	-359	-365	-312
Total Current Assets	1,639	1,354	1,465	1,583	1,656	1,660
Total Assets	5,578	5,225	5,513	5,700	5,788	5,791
Shareholders Equity	1,693	1,658	1,894	1,889	1,965	2,070
Minority	161	136	171	211	215	218
Total Equity	1,854	1,795	2,064	2,100	2,180	2,288
Long term interest bearing debt	907	1,273	1,210	1,149	1,076	918
Provisions	40.2	41.9	29.4	47.4	50.4	53.6
Other long term liabilities	44.1	36.0	21.6	45.0	45.2	47.8
Total Long Term Liabilities	991	1,351	1,261	1,242	1,171	1,019
Short term interest bearing debt	946	314	361	343	321	274
Trade payables	1,601	1,600	1,620	1,842	1,933	2,019
Other current liabilities	186	165	206	173	183	191
Total Current Liabilities	2,733	2,079	2,188	2,358	2,437	2,484
Total Liabilities and Shareholders' Equity	5,578	5,225	5,513	5,700	5,788	5,791
Net Capital Employed	3,202	3,177	3,346	3,326	3,308	3,269
Net Working Capital	-691	-624	-576	-730	-759	-794
GROWTH & MARGINS	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
<i>Sales growth</i>	<i>3.2%</i>	<i>0.8%</i>	<i>7.2%</i>	<i>7.0%</i>	<i>5.2%</i>	<i>4.4%</i>
EBITDA (adj.)* growth	-3.6%	-7.2%	8.5%	-0.7%	12.0%	11.9%
<i>EBITA (adj.)* growth</i>	<i>1.6%</i>	<i>-14.8%</i>	<i>11.4%</i>	<i>-21.9%</i>	<i>25.4%</i>	<i>21.7%</i>
<i>EBIT (adj.)* growth</i>	<i>n.m.</i>	<i>-16.6%</i>	<i>9.5%</i>	<i>-24.2%</i>	<i>28.3%</i>	<i>23.7%</i>

Sonae : Summary tables

GROWTH & MARGINS	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
Net Profit growth	-54.9%	21.9%	22.7%	-41.0%	23.2%	19.7%
EPS adj. growth	-54.9%	21.9%	22.7%	-41.0%	23.2%	19.7%
DPS adj. growth	5.1%	115.5%	n.m.	n.m.	2.0%	2.0%
EBITDA (adj)* margin	7.2%	6.7%	6.7%	6.3%	6.7%	7.1%
EBITA (adj)* margin	3.8%	3.2%	3.3%	2.4%	2.9%	3.4%
EBIT (adj)* margin	3.6%	2.9%	3.0%	2.1%	2.6%	3.1%
RATIOS	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
Net Debt/Equity	0.7	0.7	0.6	0.5	0.5	0.4
Net Debt/EBITDA	3.5	3.9	3.4	3.2	2.6	2.0
Interest cover (EBITDA/Fin.interest)	6.3	10.0	21.3	13.4	12.8	14.0
Capex/D&A	194.9%	161.1%	218.2%	80.5%	81.2%	74.6%
Capex/Sales	7.1%	6.0%	8.1%	3.3%	3.3%	3.0%
NWC/Sales	-13.9%	-12.5%	-10.7%	-12.7%	-12.5%	-12.6%
ROE (average)	8.8%	10.5%	12.1%	6.7%	8.1%	9.3%
ROCE (adj.)	6.6%	6.0%	5.7%	4.2%	5.4%	6.8%
WACC	7.1%	6.9%	6.7%	6.9%	7.1%	7.3%
ROCE (adj.)/WACC	0.9	0.9	0.8	0.6	0.8	0.9
PER SHARE DATA (EUR)***	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
Average diluted number of shares	2000.0	2000.0	2000.0	2000.0	2000.0	2000.0
EPS (reported)	0.07	0.09	0.11	0.06	0.08	0.09
EPS (adj.)	0.07	0.09	0.11	0.06	0.08	0.09
BVPS	0.85	0.83	0.95	0.94	0.98	1.04
DPS	0.03	0.07	0.00	0.04	0.04	0.04
VALUATION	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
EV/Sales	0.4	0.4	0.3	0.3	0.3	0.3
EV/EBITDA	6.1	6.2	4.8	5.5	4.6	3.8
EV/EBITDA (adj.)*	6.1	6.2	4.8	5.5	4.6	3.8
EV/EBITA	11.5	12.9	9.7	14.1	10.6	8.0
EV/EBITA (adj.)*	11.5	12.9	9.7	14.1	10.6	8.0
EV/EBIT	12.3	14.1	10.8	16.0	11.9	8.8
EV/EBIT (adj.)*	12.3	14.1	10.8	16.0	11.9	8.8
P/E (adj.)	14.2	12.0	8.1	14.9	12.1	10.1
P/BV	1.2	1.3	0.9	1.0	1.0	0.9
Total Yield Ratio	7.3%	0.0%	4.1%	4.2%	4.3%	
EV/CE	1.1	1.2	0.8	0.9	0.9	0.8
OpFCF yield	-4.5%	-0.2%	-3.6%	17.5%	12.5%	15.5%
OpFCF/EV	-4.2%	-0.2%	-3.6%	16.9%	12.7%	17.1%
Payout ratio	48.4%	85.6%	0.0%	61.9%	51.2%	43.7%
Dividend yield (gross)	3.4%	7.2%	0.0%	4.1%	4.2%	4.3%
EV AND MKT CAP (EURm)	12/2014	12/2015	12/2016	12/2017e	12/2018e	12/2019e
Price** (EUR)	1.02	1.05	0.87	0.95	0.95	0.95
Outstanding number of shares for main stock	2000.0	2000.0	2000.0	2000.0	2000.0	2000.0
Total Market Cap	2,048	2,096	1,748	1,896	1,896	1,896
Net Debt	1,264	1,304	1,230	1,133	1,032	879
<i>o/w Cash & Marketable Securities (-)</i>	<i>-589</i>	<i>-283</i>	<i>-341</i>	<i>-359</i>	<i>-365</i>	<i>-312</i>
<i>o/w Gross Debt (+)</i>	<i>1853</i>	<i>1,587</i>	<i>1,571</i>	<i>1,492</i>	<i>1,397</i>	<i>1,192</i>
Other EV components	-1,135	-1,323	-1,237	-1,063	-1,060	-1,057
Enterprise Value (EV adj.)	2,177	2,078	1,741	1,966	1,869	1,718

Source: Company, Caixa-Banco de Investimento estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) = EBITDA (or EBITA) -/+ Non Recurrent Expenses/Income and where EBIT (adj.) = EBIT -/+ Non Recurrent Expenses/Income - PPA amortisation

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

Sector: Food & Drug Retailers/Food Retailers & Wholesalers

Company Description: Sonae is a holding company that operates mainly in the retail sector with partnerships in shopping centres (Sonae Sierra) and in the cable/telecom sector. The company's core business segments are Sonae MC (food retail business) and Sonae SR (specialized retail business). The Sonae RP segment is responsible for managing the retail real estate assets' portfolio while the Investment Management segment manages a diversified business portfolio that the company considers prone to undergo M&A operations. The company also owns 50% of ZOPT, which is the controlling shareholder of Zon Optimus (with a 52.15% stake).

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Since 18 October 2004, the Members of ESN are using an Absolute Recommendation System (before was a Relative Recommendation System) to rate any single stock under coverage. Since 4 August 2008, the ESN Rec. System has been amended, with a time horizon of 12 months (it was 6 months). Since 1 April

2015, the ESN Rec. System has been adjusted (Hold replaced with Neutral and expected return bands was modified). Caixa Banco de Investimento is a Member of ESN, therefore uses the same Recommendations System of ESN. The ESN Recommendation System is Absolute. It means that each stock is rated on the basis of a total return, measured by the upside potential (including dividends) over a 12 months' time horizon.

The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: Buy, Accumulate, Neutral, Reduce and Sell (in short: B, A, N, R, S).

Meaning of each rating or recommendation:

- Buy: the stock is expected to generate a total return of over 15% during the next 12-month time horizon;
- Accumulate: the stock is expected to generate a total return of 5% to 15% during the next 12-month time horizon;
- Neutral: the stock is expected to generate a total return of -5% to +5% during the next 12-month time horizon;
- Reduce: the stock is expected to generate a total return of -5 to -15% during the next 12-month time horizon;
- Sell: the stock is expected to generate a total return below -15% during the next 12-month time horizon;
- Rating Suspended: the rating is suspended due to a capital operation (take-over bid, SPO, ...) where the issuer or a related party of the issuer is or could be involved or to a change of analyst covering the stock;
- Not Rated: there is no rating for a company being floated (IPO) by the issuer or a related party of the issuer.

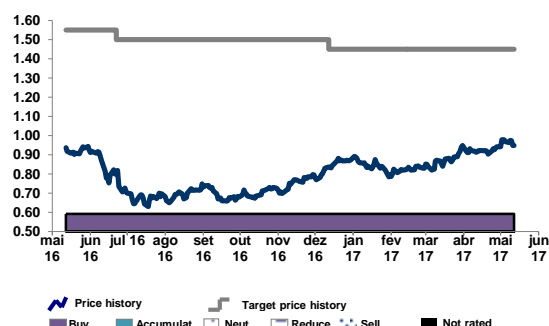
Recommendation history for SONAE

Date	Recommendation	Target price	Price at change date
12/dez/16	Buy	1.45	0.84
22/jun/16	Buy	1.50	0.80
02/set/15	Buy	1.55	1.11
12/mar/15	Neutral	1.45	1.35
10/jul/14	Buy	1.45	1.09

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Caixa-Banco de Investimento continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.

Current analyst: José Mota Freitas, CFA (since 06/05/2010)



ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.



The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy (B)**, **Accumulate (A)**, **Neutral (N)**, **Reduce (R)** and **Sell (S)**.

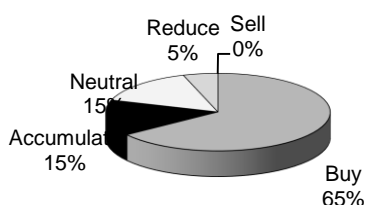
Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 15%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12 months time horizon
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -15%** during the next 12 months time horizon
- **Rating Suspended:** the rating is suspended due to a change of analyst covering the stock or a capital operation (take-over bid, SPO, ...) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved
- **Not Rated:** there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

Certain flexibility on the limits of total return bands is permitted especially during higher phases of volatility on the markets

Caixa Banco de Investimento Ratings Breakdown



For full ESN Recommendation and Target price history (in the last 12 months) please see ESN Website [Link](#)

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Members of ESN (European Securities Network LLP)



Banca Akros S.p.A.
Viale Eginardo, 29
20149 MILANO
Italy
Phone: +39 02 43 444 389
Fax: +39 02 43 444 302



Caixa-Banco de Investimento
Rua Barata Salgueiro, nº 33
1269-057 Lisboa
Portugal
Phone: +351 21 313 73 00
Fax: +351 21 389 68 98



CM - CIC Market Solutions
6, avenue de Provence
75441 Paris
Cedex 09
France
Phone: +33 1 53 48 81 93



equinet Bank AG
Gräfrstraße 97
60487 Frankfurt am Main
Germany
Phone: +49 69 - 58997 - 212
Fax: +49 69 - 58997 - 299



GVC Gaesco Beka, SV, SA
C/ Marques de Villamagna 3
28001 Madrid
Spain
Phone: +34 91 436 7813



Investment Bank of Greece
32 Aigialeias Str & Paradissou,
151 25 Maroussi,
Greece
Phone: +30 210 81 73 383



NIBC Markets N.V.
Nieuwezijds Voorburgwal 192
P.O.Box 235
1000 AE Amsterdam
The Netherlands
Phone: +31 20 550 8500
Fax: +31 20 626 8064



OP Corporate Bank plc
P.O.Box 308
Teollisuuskatu 1, 00013 Helsinki
Finland
Phone: +358 10 252 011
Fax: +358 10 252 2703

