



Buy

vs Not rated

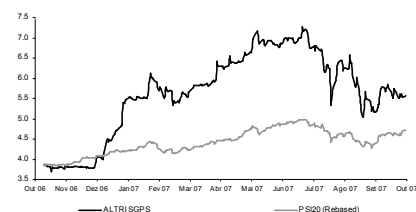
Share price*: EUR 5.57
Target price: EUR 7.20

Reuters/Bloomberg ALSS.LS/ALTR.PL

Accounting Standard/Since IFRS/2005

Market capitalisation (EURm)	571.0
No. of shares (m)	102.6
Free float	48.0%
Daily avg. no. trad. sh. 12 mth	826,800
Daily avg. trad. vol. 12 mth (m)	4.60
Price high 12 mth (EUR)	7.27
Price low 12 mth (EUR)	3.70
Abs. perf. 1 mth	7.9%
Abs. perf. 3 mth	-17.4%
Abs. perf. 12 mth	43.6%

(EUR)	12/07e	12/08e	12/09e
Sales (m)	428	454	535
EBITDA (m)	108	114	132
EBITDA margin	25.3%	25.1%	24.7%
EBIT (m)	73	75	87
EBIT margin	17.1%	16.5%	16.3%
ROCE	7.2%	6.3%	6.2%
Net debt/(cash) (m)	628	726	855
Debt Equity	nm	484.4%	456.8%
Debt/EBITDA	5.8	6.4	6.5
Int. cover(EBITDA/Fin.int)	5.8	5.4	5.4
EV/Sales	2.8	2.9	2.7
EV/EBITDA	11.1	11.4	10.8
EV/EBITDA (adj.)	11.1	11.4	10.8
EV/EBIT	16.4	17.4	16.4
P/E (adj.)	15.1	15.3	13.0
P/BV	4.9	3.8	3.1
OFCF yield	-10.3%	-9.8%	-9.3%
Dividend yield	1.0%	1.0%	1.2%
EPS (adj.)	0.37	0.36	0.43
BVPS	1.15	1.46	1.82
DPS	0.06	0.05	0.06



Shareholders: Management 32%; UBS 10%; Ana Fernandes 6%;

*closing price as of 29/10/2007

The coming of age of a pulp company

- We have reinitiated the coverage of Altri SGPS with a FY08 price target of EUR 7.20 per share and a Buy recommendation given the 28% upside from current market prices.
- We consider that BHKP prices will continue to be supported by increased world demand for hardwood pulp, confirming the trend in place for several years now.
- Expansion of pulp production capacity will dilute fixed costs and increase unit margin, while the upgrade of the cogeneration activity should provide additional improvements in efficiency.
- Celbi will increase production capacity by 245k tonnes a year to 550k by 1H09, which will be translated in an increase in sales and EBITDA. The expansion/upgrade programme of pulp production also contemplates a new bleaching unit at the Celtejo mill that will increase the value of the output by 1H08.
- The possibility of a spin-off or sale of F. Ramada, with the consequent incorporation of capital and the focus on the core pulp business could also act as a value driver.

Company Description

Altri SGPS is a Pulp and Paper (P&P) company with interests in the steel and storage businesses and in biomass. Its core operation is focused on pulp, currently holding 560 thousand tonnes of production capacity in three units (Celbi with 305k tonnes of BEKP, Caima with 115k tonnes of BEBP and Celtejo with 140k tonnes of UKP) and an additional 300 thousand tonnes capacity projected to be completed by 2009 (with an estimated total capacity production in the pulp business of 860k p.a.). Its paper business has a small dimension with a 60k tonnes capacity per year in one unit (Celtejo).

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CONTENTS

Investment Case	3
Valuation	4
Triggers & Swot Analysis	8
Company Profile & Market Environment	9
Company overview	9
Pulp and Paper	11
Steel and Storage	18
Financials	20
P&L Analysis	20
Cash Flow Analysis	21
Capital & Credit Analysis	22
Profitability Analysis	23
Recommendation system	25

Investment Case

We have reinitiated the coverage of Altri SGPS with a FY08 price target of EUR 7.20 per share and a Buy recommendation given the 28% upside from current market prices.

The valuation was made through a sum-of-the-parts methodology resumed in exhibit 3, which yielded an EV/EBITDA 08 of 12.9x and a PER 08 of 19.7x. The estimated dividend yield for 2008 @ fair value on a normalized payout of 15% is 0.8% that, considering an EBITDA CAGR 08-12 of 12.1%, yields a total return rate of 12.8%.

We consider that BHKP prices will continue to be supported by increased world demand for hardwood pulp, confirming the trend in place for several years now. Consumption from China should continue to support this scenario, absorbing additional capacity from Brazil and endogenous production that is physically capped by the lack of arable land.

On the costs side, Altri's flagship pulp mill Celbi is already one of the most efficient in Europe. The use of *eucalyptus globulus* as feedstock is one positive factor when comparing with Brazilian players that consume *eucalyptus grandis*. The use of *eucalyptus globulus* has advantages in paper production namely in terms of stiffness, bulk and opacity. It also has a lower lignin content which has advantages in terms of productivity, quality and environmental impact.

The upgrade of the cogeneration activity should provide additional improvements of costs, while the pulp production capacity expansion will dilute fixed costs and increase unit margin. Celbi will increase production capacity in 245k tonnes per year to 550k by 1H09, which will be translated in an increase in sales and EBITDA. The expansion/upgrade programme of pulp production also contemplates a new bleaching unit at the Celtejo mill that will increase the value of the output by 1H08 (from 145k tonnes of UKP to 195k tonnes of BKP).

All this will enable an improvement in efficiency and the decrease of cash costs that will smooth the effects of a downturn in the pulp cycle.

We acknowledge the possibility of a spin-off or sale of F. Ramada, with the consequent incorporation of capital and the focus on the core pulp business. This would also be a way for the company to position itself for any consolidation moves coming from the low end of the business cycle.

The Biomass business is a natural extension of the core activity taking advantage of a 25-year guaranteed green tariff that is significantly higher than pool prices.

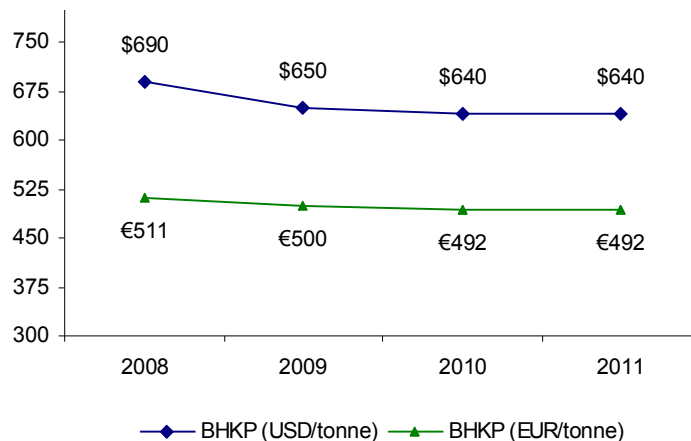
We see a number of factors acting as value drivers which the following are examples: (i) increase/upgrade of pulp production, (ii) development of cogeneration, (iii) support of BHKP prices and (iv) spin-off or sale of F. Ramada.

Valuation

We value Altri SGPS through a Sum-of-the-Parts (SoP) methodology that derives from sector DCFs. The main business area of Altri is Pulp & Paper, namely the production of bleached eucalyptus pulp, where the most important variable in the model is the selling price. Pulp prices per tonne are estimated according to the historic path taken up to now and assuming a mean reverting process in the long run. We think that this methodology is adequate when dealing with a commodity-like modelling variable due to the fact that the estimates incorporate the foreseeable approach to its long-run marginal production cost.

According to this methodology, we estimate lower BEKP prices going forward, but also acknowledge that the mean should increase due to the higher demand of eucalyptus pulp around the world. Demand coming from countries like China should contribute to this scenario, with additional support from the perceivable secular shift towards hardwood in pulp production.

Exhibit 1. BHKP price modelling assumptions



Source: CaixaBI Equity Research

The FX effect is also a determinant item of valuation as international market pulp prices are expressed in US dollars, though the impact in Altri's operating results should be offset by the fact that the company operates (in terms of revenues and costs) mainly in the Euro Zone. We have assigned a long-term EUR/USD rate of 1.30.

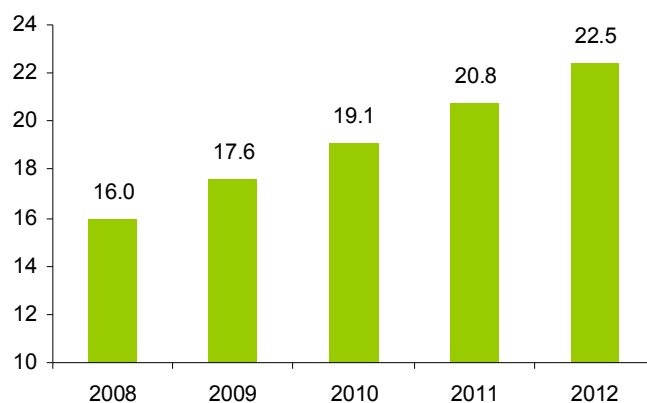
We have estimated a decline of cash costs in the pulp business following the upgrade in production capacity and higher power output from cogeneration. These will imply (i) lower unit costs and (ii) decrease in overall operating costs due to improved contribution of cogeneration. Additional decreases in unit cost should materialize if the company decides for further production expansion on existing sites.

Normalized EBITDA margin in the pulp business is set at 25% which we consider appropriate considering the above average efficiency of Altri's mills namely its flagship Celbi. For the sake of argument, we also consider this value as an acceptable approximation of reality given also the less pronounced nature of the pulp business cycle.

F. Ramada's steel business also has a commodity-like nature, with significant oscillations of steel prices in the international market. The ability of the company to pass through to consumers the increase in costs due to higher steel prices is limited. This is reflected in the model with revenues less sensitive to steel price increases and subsequent impact on EBITDA margins.

As for the storage business of F. Ramada, we find this segment less dependent on exogenous factors than the steel segment. Exhibit 2 gives the net effect of the considerations taken both in the steel and storage businesses.

Exhibit 2. EBITDA estimates on F. Ramada (EURm)



Source: CaixaBI Equity Research

The Biomass business (50-50 percent owned by Altri and EDP) is equity consolidated. We model the beginning of substantial additions to value from 2010, when the 120 MW should be fully installed. The load factor is set at 80% with a green tariff (EUR 106 per MWh from the first year of operation) hedged against inflation for a 25-year period. EBITDA margin is set at 45%, which is lower than the company's guidance of 50%. We admit the possibility of reviewing this value later on as data will begin to flow (as a guidance, a 50% EBITDA margin on a 25-year DCF should yield an increase of EUR 0.25 per share in the overall price target).

According to ESN valuation guidance, the risk-free rate is set at 4.5% and the market risk premium at 4%. We have used a CAPM beta parameter of 1.1 for the Pulp business, 1.2 for F. Ramada and 1.0 for Biomass. Gross cost of debt is set at 5.0% and the tax rate at 26.5%.

We assumed a target WACC in F. Ramada and the Biomass businesses and a combination of target WACC for the terminal value and leverage dependent WACC in the estimated period of the Pulp business DCF.



We value Altri SGPS through an S-o-P methodology at EUR 7.20 per share FY08, with the bulk of value coming from the Pulp & Paper business. This implies an EV/EBITDA 08 of 12.9x and a PER 08 of 19.7x (vs. 14.2x and 30.0x for Ence, respectively).

Exhibit 3. Sum-of-the-Parts

EURm	EV	% of EV	EV/EBITDA 08	Per Share	Valuation method
Pulp & Paper	1,262.4	86.2%	12.9x	12.31	DCF
F. Ramada	97.6	6.7%	6.1x	0.95	DCF
Biomass	104.6	7.1%		1.02	DCF
Total EV	1,464.6		12.9x	14.28	
Net debt 08	725.7			7.08	
Equity	739.0				
# shares (m)	102.6				
per share	7.20				

Source: CaixaBI Equity Research

The estimated dividend yield for 2008 @ fair value on a normalized payout of 15% is 0.8% that, considering an EBITDA CAGR 08-12 of 12.1%, yields a total return rate of 12.8%.

As said, we mainly use target WACC with a lower degree of leverage than the company currently holds. This ultimately increases the discount rate and lower EV. On the subject of leverage a quick word on the fact that Altri SGPS has a higher debt to EV ratio than the P&P sector, which follows the expansion of the company and namely the acquisition of Celbi in 2006. The company may decrease this exposure to debt in several ways one being the spin-off or sale of F. Ramada which is outside what is to be the core business of Altri, i.e. pulp.

Exhibit 4. Peer analysis (Pulp & Paper)

	EV/EBITDA 08	P/E 08	EBITDA margin 08	ROCE 08	Net debt / EBITDA 08	D/(D+E) 08
Altri	12.9x	19.7x	25.1%	6.3%	6.4x	83%
Ence	14.2x	30.0x	20.1%	3.8%	3.0x	31%
Portucel	8.2x	10.3x	27.8%	7.9%	2.2x	37%
Stora Enso	5.6x	14.8x	13.2%	5.9%	2.0x	34%
UPM	6.2x	13.6x	17.6%	5.8%	2.3x	36%

Source: CaixaBI Equity Research, ESN

When looking at peers in the Pulp & Paper industry we must use caution in order to filter important details. Altri is a business group that derives value fundamentally from its pulp production segment, thus comparisons should essentially be made with similar companies. Exhibit 4 gives us an idea of the European P&P industry covered by ESN, with Ence being the most comparable peer in our view. Ence is a company with two main areas, forest and pulp production, while the remaining companies are integrated P&P entities.

Exhibit 5. Sensitivity analysis of long term BEKP \$/ton vs. EUR/USD (price target as output)

	440	540	640	740	840
1.10	4.5	7.2	9.7	12.2	14.6
1.20	3.5	6.0	8.4	10.7	12.9
1.30	2.7	5.0	7.2	9.4	11.5
1.40	1.9	4.1	6.2	8.2	10.2
1.50	1.3	3.3	5.3	7.2	9.1

Note: Coloured cells represent PT above market price

Source: CaixaBI Equity Research

Triggers & Swot Analysis

Triggers & Drivers

One of the most important variables in modelling Altri is pulp prices, given the importance of this division in the group. BHKP price is the benchmark used as the main industrial input is eucalyptus.

Estimating the ability of the company to increase margin in pulp is naturally important and in this subject energy efficiency is one key driver. Increasing production on existing sites is also a key item as it decreases unit costs.

Foreign exchange volatility should have a limited impact as the company operates mainly in the Euro Zone, both in terms of BHKP and wood prices.

SWOT Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ▪ Celbi (highly efficient pulp mill) ▪ Focus on pulp and less dependent on specific market niches as integrated P&P ▪ Geographic localization vs. Brazilian pulp players ▪ Pulp feedstock (<i>eucalyptus globulus</i>) ▪ Cost efficiency oriented management 	<ul style="list-style-type: none"> ▪ Focus on the pulp business ▪ Above average leverage ratios ▪ Low permeability of cost increases to end consumers in the steel business ▪ Cyclical nature of the pulp business
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▪ Pulp production expansion plans ▪ Cogeneration upgrades ▪ Biomass business ▪ Higher growth rates of short fibre pulp consumption in the world ▪ Consolidation opportunities 	<ul style="list-style-type: none"> ▪ Lower BHKP prices ▪ Higher than estimated costs in production expansion plans ▪ Higher wood prices ▪ Competition from LatAm producers

Company Profile & Market Environment

Company overview

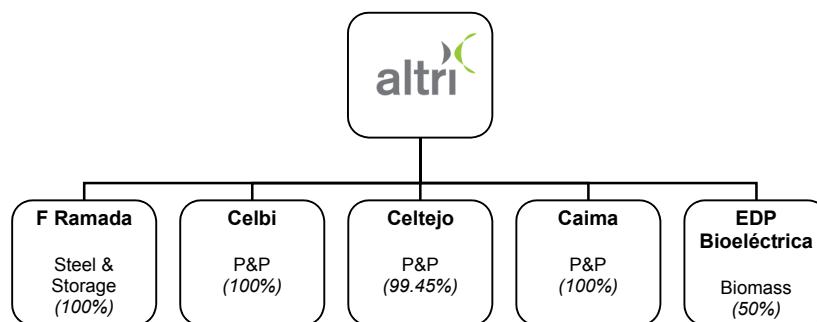
Altri SGPS is a Pulp and Paper (P&P) company with interests in the steel and storage businesses and in biomass. Its core operation is focused on pulp, currently holding 560 thousand tonnes of production capacity in three units (Celbi with 305k tonnes of BEKP, Caima with 115k tonnes of BEBP and Celtejo with 140k tonnes of UKP) and an additional 300 thousand tonnes capacity projected to be completed by 2009 (with an estimated total capacity production in the pulp business of 860k p.a.). Its paper business is small with a 60k tonnes capacity per year in one unit (Celtejo).

The steel business comprises the transformation of steel into a different range of products mainly for industrial use and also for retail distribution. The storage business is built upon the know-how acquired in the steel area and it mainly comprises the construction of storage racks of different kinds.

The biomass area is a joint-venture with EDP (Energias de Portugal) and its goal is to take advantage of byproducts from pulp operations and to generate electric power. The joint-venture named EDP Bioelétrica, has licences for 120 MW capacity and a guaranteed green tariff for 25 years. This division is equity consolidated.

The following chart gives us a summary of the business layout within Altri SGPS.

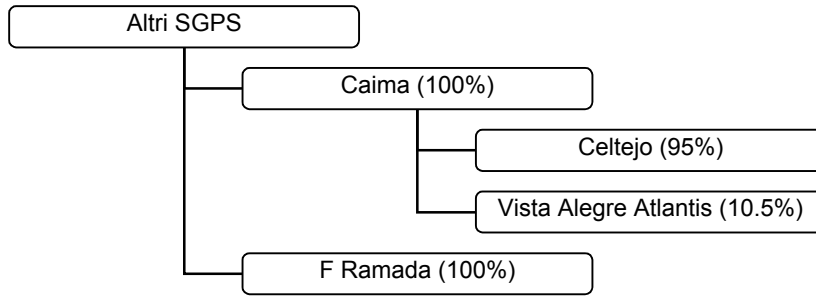
Exhibit 6. Business areas



Source: Altri

Altri SGPS was spun off from Cofina Group on February 14, 2005 with its first day of trading on March 1 of that same year. The rationale of the spin off was to detach the industrial and media areas of the Cofina Group to Altri SGPS and Cofina SGPS, respectively. At the time of the spin off, Altri's P&P business was comprised by Caima and was expanded through the acquisition of Celtejo during the third quarter of 2005 for EUR 38m. At the end of 2005, Altri's business layout was as depicted in exhibit 7.

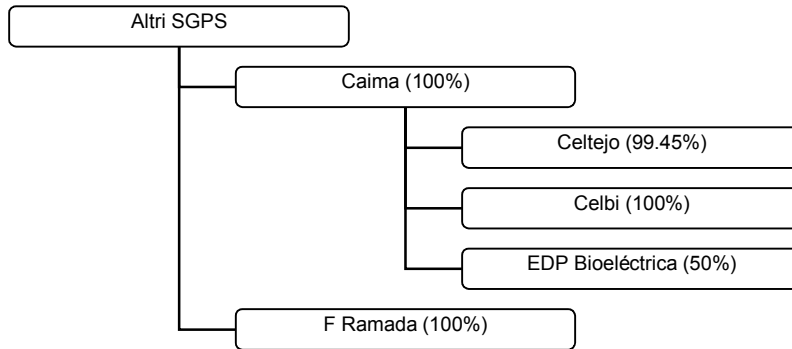
Exhibit 7. Business areas on December 2005



Source: Altri

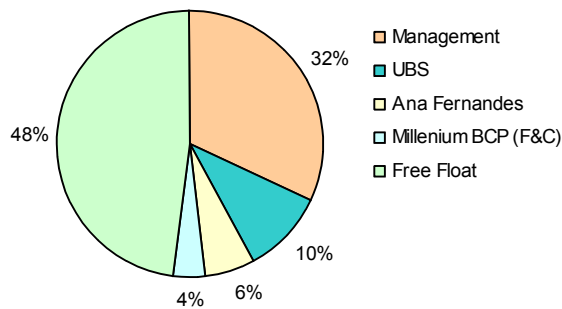
In January 2006, Altri SGPS acquired 50% of EDP Bioeléctrica from EDP for EUR 7.5m, thus enhancing its ambitions in the biomass business area. During March 2006, most of the stake held in Vista Alegre Atlantis was sold. Altri increased its stake in Celtejo by 4.45% through the first half of 2006 reaching 99.45% and in August it acquired 100% of Celbi from Stora Enso for EUR 428m. At the end of 2006, Altri’s business layout was as depicted in exhibit 8.

Exhibit 8. Business areas on December 2006



Source: Altri

Exhibit 9. Shareholder structure



Source: Altri

Pulp and Paper

The P&P business represents the core of Altri's activities, contributing the most to the overall value of the company. This business area is supported by three units currently totalling 560k tonnes pulp production per year.

Celbi is the crown jewel of Altri's P&P assets, representing its main production capacity and giving it enhanced ability to create value. On a pro-forma basis, EBITDA in 2005 would have expanded by 2.15x (an additional EUR 45m) considering the contribution of Celbi. This is translated in an EBITDA margin (pro-forma) of 39.8% for Celbi (vs. 20% for Celtejo, 22% for Caima and 14.9% for F. Ramada).

The acquisition of Celbi expanded Altri's forest assets by 50k ha to a total of 75k ha and more than doubled production capacity.

Celbi produces Bleached Eucalyptus Kraft Pulp from *Eucalyptus globulus* wood. The output consists of short fibre pulp, which is typical of hardwood raw materials, namely eucalyptus. Let us take a moment to look at the foundations of the pulp and paper industry, which will give us a better understanding of the main issues affecting Altri's operating performance.

Pulp – The Basics

Wood is formed by fibres, which are cellulose strands kept together by a natural adhesive material called lignin. The separation and reorganization of these fibres will ultimately produce paper.

Generally trees are catalogued into two designations, (i) softwood and (ii) hardwood. Softwood trees have long fibres and the paper made from this type of wood is stronger. The finish is rougher and generally it is not good for writing and printing. Hardwood trees have short fibres and the paper made from these trees is weaker, but its surface is smoother and better to write and print.

Long and short fibres can be blend into one paper, which allow the achievement of the best combination of strength, whiteness and writing surface.

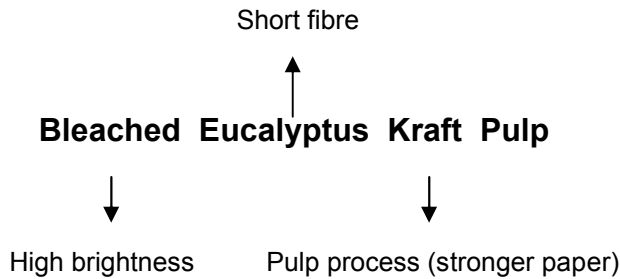
After the cut, the tree logs are transported to the P&P company and cleaned from dirt and impurities before being transformed into small wood chips. These chips are sorted according to size and moved to the pulping stage. At this stage, the wood fibres in the chips are separated through one of several available pulping techniques.

The main pulping method used by Altri's units is the Kraft (Sulphate) pulping. This is a chemical method for the production of wood pulp that employs a mixture of caustic soda and sodium sulphide as the solution in which the pulpwood is cooked in order to loosen the fibres. Kraft pulp delivers stronger paper than that made from any other pulping process.

Sulphite pulping (also a chemical pulping method) is used in Altri's unit Caima producing BESP, mainly targeting the tissue and sanitary markets because of fibre softness. This method represents only a fraction of global production due to the fact that is not so versatile in terms of its limited suitability of wood type inputs. Kraft pulping is less damaging than the sulphite method, producing stronger fibres but not so easy to bleach as by the latter process.

Bleaching is a posterior chemical process in order to decrease the colour of pulp (increasing whiteness/brightness).

The main product of Altri's pulp business is Bleached Eucalyptus Kraft Pulp or BEKP, a designation that gives us important information.

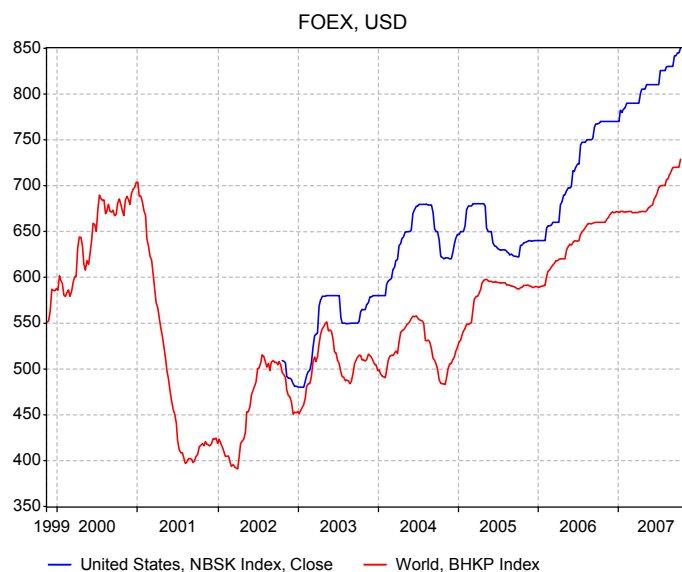


One of the main price benchmarks for pulp is Bleached Hardwood Kraft Pulp (BHKP), which in essence relates to BEKP as eucalyptus is a hardwood tree. The Northern Bleached Softwood Kraft (NBSK) is a price benchmark concerning softwood i.e. long fibre.

As already mentioned, generally paper is made through a combination of long and short fibres, allowing for the customization of the end product according to market needs. Long fibres act as the "skeleton" of the paper sheet giving it a grid-like structure, whereas short fibres fill the gaps of this grid, thus providing for the surface or the "body" of the paper sheet.

Altri wants to increase the use of short fibres, without compromising quality, taking advantage of (i) lower hardwood prices given the lower costs in developing a hardwood plantation, and (ii) expansion of short fibre markets like tissue paper (according to SCA, the leading European supplier of consumer tissue paper, Europe accounts for 22% of the global consumer tissue with an average growth rate of 3% p.a., while Central and Eastern Europe should grow on average 8% p.a.. Another point to be considered is the fact that Latin America and Asia are growing fast following their very positive economic performance).

Exhibit 10. Long and short fibre pulp prices (USD/tonne)



Source: Reuters EcoWin

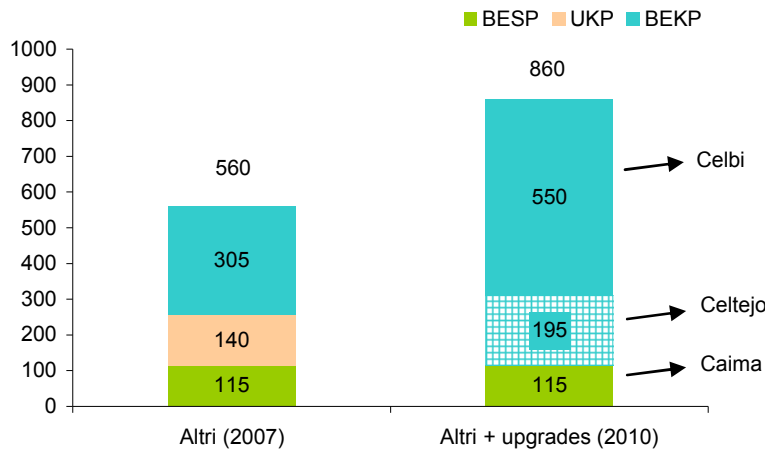
Exhibit 11. Long vs. short fibre pulp price spread (USD/tonne)



Source: Reuters EcoWin, CaixaBI Equity Research

The incorporation in the Celtejo mill of a bleaching unit will allow pulp production to increase from 140k tonnes of Unbleached Kraft Pulp (UKP) to 195k tonnes of BEKP. This will be possible due to fewer production stoppages and the enhanced productivity of eucalyptus versus pine in pulp production.

Exhibit 12. Altri's pulp production capacity (kton)



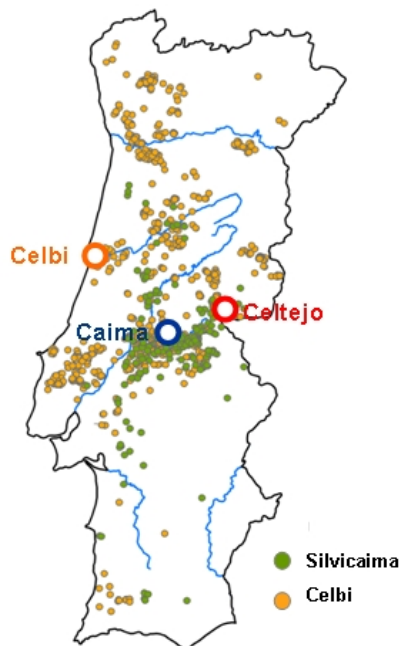
Source: Altri, CaixaBI Equity Research

Altri has 75k ha of forest under management of which 50k ha are owned by the company, contributing with 50% of the annual eucalyptus consumption (the company expects to retain this ratio by 2010). The remaining wood is bought at market prices and should incur higher transportation cost, considering that Altri's pulp plants are mostly integrated near its forest assets. All the forest activity is managed by Altri's Silvicaima.

The company expects to increase forest productivity by 20% in the next 15 to 20 years, as a result of genetic developments. The eucalyptus is already one of the fastest growing trees, providing shorter cut periods and studies from the industry are under way to increase productivity by developing trees with little bark and more density.

The main forestry assets of Altri are close to the mills, as we can witness in exhibit 13.

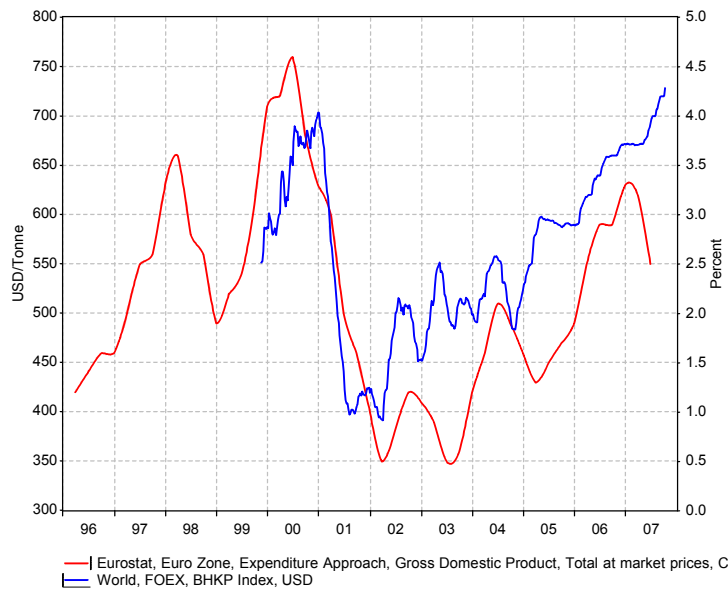
Exhibit 13. Mills and forestry assets



Source: Altri

These locations provide an enhanced cost structure as they decrease transport related costs (the company also achieved legal authorization to increase the maximum weight per truck from 5 tonnes to 15 tonnes leading to a reduction in transport costs).

Cost efficiency is the primordial concern in the P&P industry, providing the management with some degree of control of operating performance. This is true due to the commodity-like nature of the industry, very dependent on international pulp prices, which are cyclical (generally following economic performance as seen in exhibit 14).

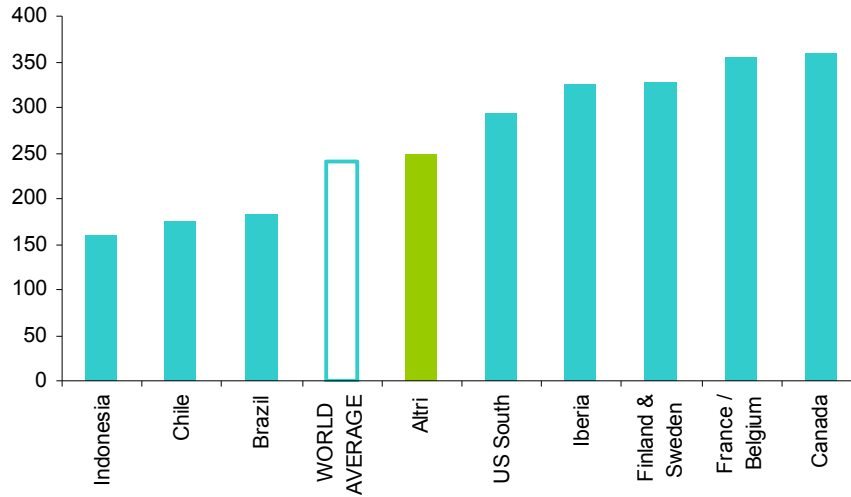
Exhibit 14. Eurozone GDP vs. BHKP prices

Source: Reuters EcoWin

As already said pulp prices tend to track economic growth and producing capacity follows with a lag. Generally, demand increases as the economy expands, leading to price increases given the same industrial capacity. Eventually, producers will increase capacity to respond to the strength in demand. However, this wider capacity base will usually come on line in an already declining economic growth path, which will leverage the also weaker growth in demand and affect pulp prices. Cost control gives the opportunity to smooth operating margins in a less upbeat economic environment and leverage it in an expansion period.

Altri is in the front run of cost efficiency at the European level, presenting the lowest cost of eucalyptus production in the continent and reduced overall cash costs per tonne. This improved cost profile is explained by (i) higher production yield of eucalyptus versus softwood species in Northern Europe, (ii) slightly lower personnel costs, (iii) efficient plants, (iv) cogeneration decrease energy costs. Exhibit 15 gives an image of cash costs across pulp sources (geography is still an advantage when it comes to shipping cost measures versus the Brazilian competitors, dragging down overall cash costs of Altri).

Exhibit 15. BHKP supply cash costs (EUR/tonne)

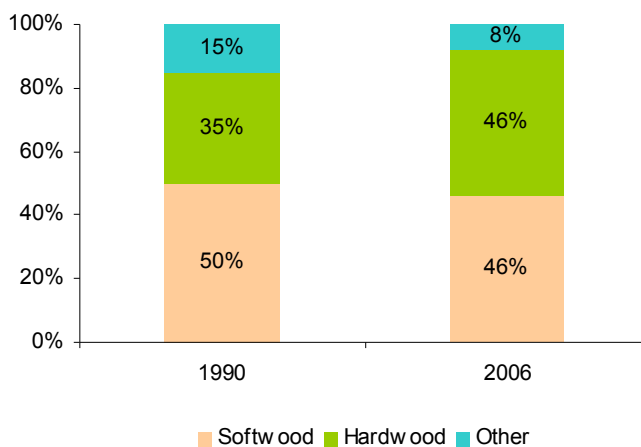


Source: Hawkins Wright, Altri, CaixaBI Equity Research

The main producers of hardwood pulp are Brazilian companies like Aracruz and Suzano. The Brazilian climate, which supports the high productivity of eucalyptus plantations mostly in the Atlantic forest, the availability of land and cheap labour, gives domestic companies an important advantage in the global pulp market.

In fact, in recent decades woodpulp production experienced what may be defined as a secular move towards the South hemisphere, where climate conditions and production costs are more favourable. Generally, a hardwood tree takes almost 3x more time to mature in the Northern hemisphere than a eucalyptus in Brazil. This means that the land required to produce the same volume of pulp per year is greater in the same magnitude in the North as in Brazil.

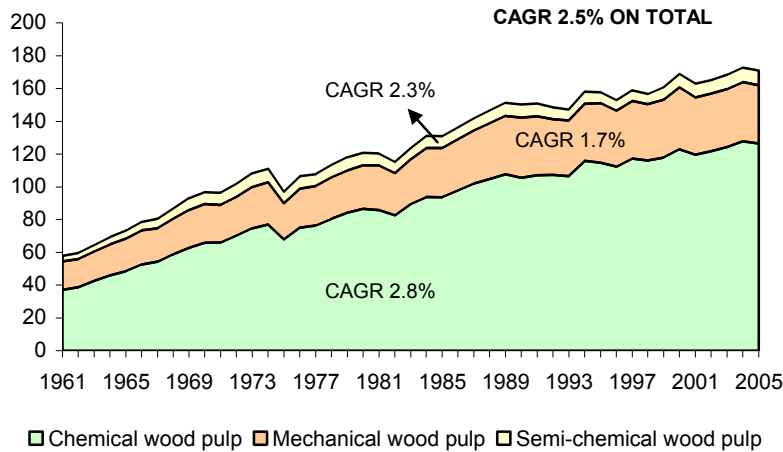
Exhibit 16. Global share breakdown of market pulp



Source: Aracruz

The demand of bleached eucalyptus market pulp (BEKP) rose from 2 Mton in 1980 to 10 Mton in 2005, recording an annual average growth rate of 7.4% versus 2.8% for other hardwoods and 3.2% for softwood pulp. The world production of BEKP represents almost half of the total hardwood pulp output and more than 20% of the total chemical market pulp.

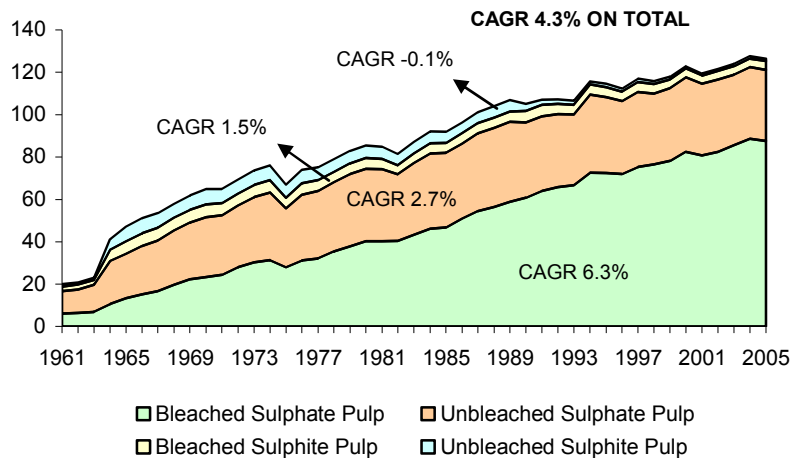
Exhibit 17. World pulp production 1961-2005 Mton (integrated + market pulp)



Source: FAO, CaixaBI Equity Research

The increase in demand of BEKP is based on its fibre characteristics, which fit to the current demand profile of end consumers (high quality products with reasonable prices). The economic expansion experienced in many Asian countries supported and should continue to support pulp production and especially eucalyptus as an important feedstock.

Exhibit 18. World pulp production 1961-2005 Mton (integrated + market pulp)



Source: FAO, CaixaBI Equity Research

All the previous considerations about the pulp market are fundamental in modelling future cash flows from the P&P business of Altri (as examined in more detail in the Valuation chapter). Altri's P&P business is essentially market driven, with management playing an important role in cost control, and the overall smoothing of decrease in operating margin when pulp prices fall.

Steel and Storage

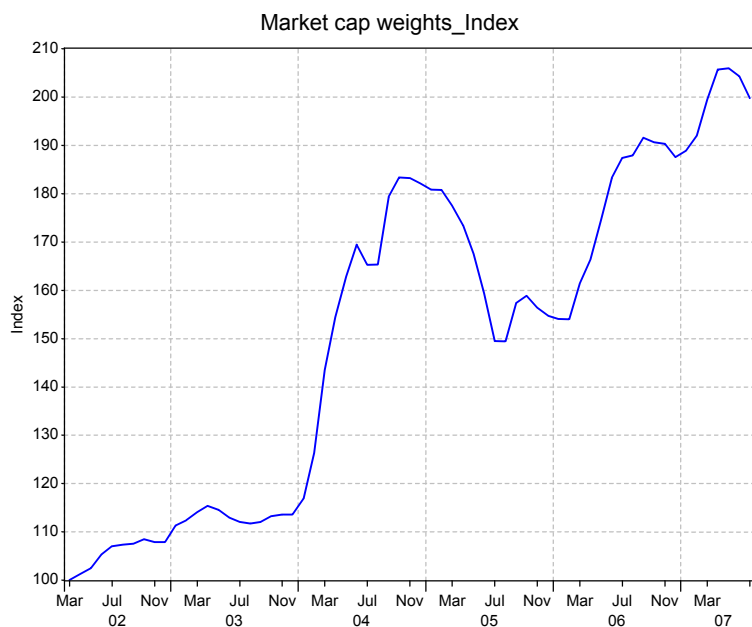
Apart from its main P&P business, Altri has interests in two other areas (i) steel and (ii) storage, both running under the F. Ramada brand. Essentially, we can lock F. Ramada's primary focus on the steel business and link it to the storage activity.

The steel business comprises the purchase of raw steel (in different forms) and its transformation into a range of products, which include both industrial and end consumers.

The storage business mainly comprises the construction of storage racks of different kinds (conventional racks, drive-in, flow track, amongst others). F. Ramada offers solutions that range from simple metallic storage facilities to automated platforms. The acquisition of two companies (B.P.S. in France and Storax in the UK) back in 2001, reinforced the presence in the cold storage business area, allowing the company to present a wider range of solutions to its clients.

Altri's steel business area is very dependent on international steel prices in terms of operating margins. In an environment of increases in steel prices, the capacity of the company to reflect the higher operating costs to its clients is limited. Thus, fluctuations in EBITDA margins can be significant.

Exhibit 19. European steel price index

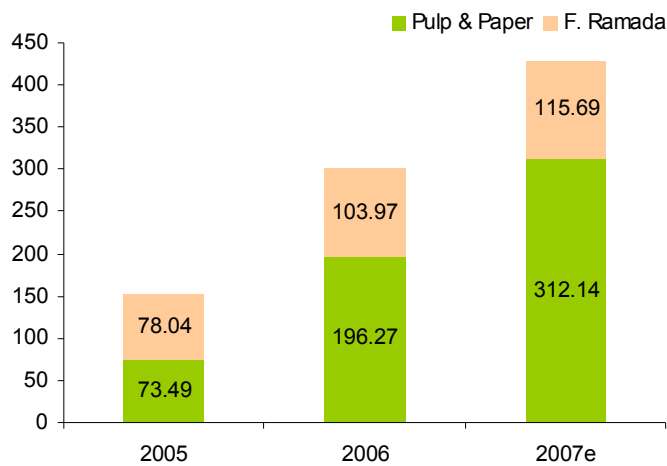


Source: Reuters EcoWin, CaixaBI Equity Research

The ability of the company to present a high-end quality offer is vital in order to sustain operating margins and secure customer loyalty.

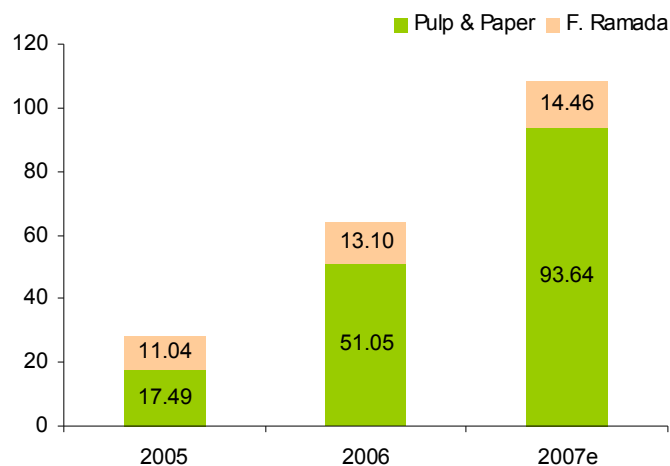
The exhibits below give an idea of the importance of F. Ramada in the context of Altri's group.

Exhibit 20. Revenues per business area (EURm)



Source: Altri, CaixaBI Equity Research

Exhibit 21. EBITDA per business area (EURm)



Source: Altri, CaixaBI Equity Research

Financials

P&L Analysis

As we can see in exhibit 22 the estimated compounded growth rate in the EBITDA line is significant, with an also visible increase in the margin. This follows the expansion of pulp production capacity and the upgrade of the Celtejo mill.

Exhibit 22. P&L summary

EURm	2007e	2008e	2009e	2010e	CAGR 08-10
Revenues	427.8	453.9	534.8	617.5	16.6%
Pulp	312.1	326.3	394.0	464.6	19.3%
F. Ramada	115.7	127.6	140.8	152.9	9.5%
EBITDA	108.1	113.8	131.9	166.8	21.1%
Pulp	93.6	97.9	114.3	147.7	22.9%
F. Ramada	14.5	16.0	17.6	19.1	9.5%
margin	25.3%	25.1%	24.7%	27.0%	
EBIT	73.0	74.7	86.9	125.6	29.6%
margin	17.1%	16.5%	16.3%	20.3%	
Net profit	37.9	37.4	44.0	71.7	38.5%
EPS	0.37	0.36	0.43	0.70	
DPS	0.06	0.05	0.06	0.10	

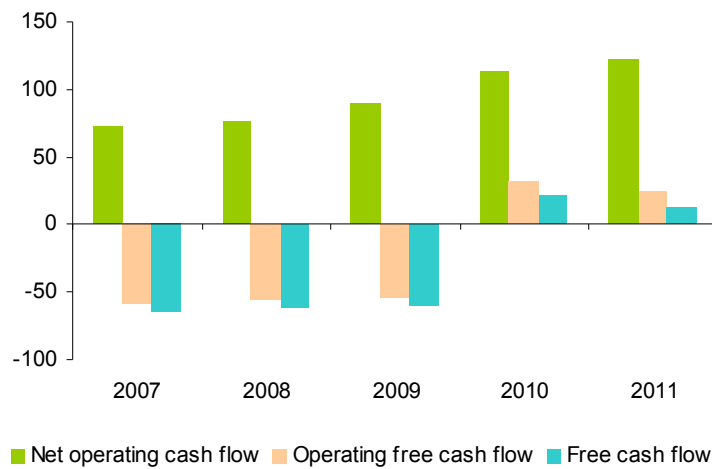
Source: CaixaBI Equity Research

The increase in the debt stock following the acquisition of Celbi in 2006, which places leverage levels above peer average, has consequences on the bottom line with an average of 25% of EBIT eroded each year by net financial costs up to 2015.

Cash Flow Analysis

The ability of the company to generate cash flow is strong, but will be affected by the heavy capex planned for the coming years. Overall, the company should invest EUR 320m in increasing capacity at the Celbi mill (EUR 180m of medium-long term debt, 80 from cash flow generation and EUR 60 from State subsidies), EUR 72m in the new bleaching line in Celtejo and EUR 250m in the Biomass business. This adds a gross EUR 517m (considering 50% of the Biomass investment) that are allocated from 2006 to 2010.

Exhibit 23. Cash flow estimates (EURm)

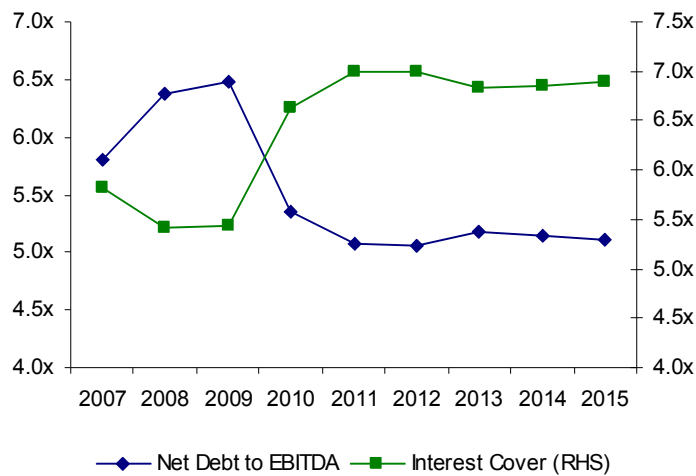


Source: CaixaBI Equity Research

Capital & Credit Analysis

As mentioned above, the company will experience a significant capex plan up to 2010, with the upgrade of Celbi, the new bleaching line in Celtejo and the cogeneration facilities. This will hurt leverage ratios as reflected in exhibit 24, which are already above peers. We find that these investments will leverage the strong position of the company in relation to geography and feedstock availability. It will also enhance energy efficiency and overall productivity in a market where cost control is king.

Exhibit 24. Coverage ratios estimates



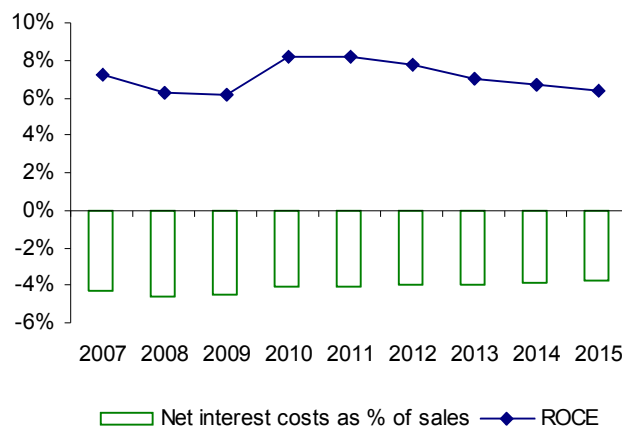
Source: CaixaBI Equity Research

However, we also consider that further expansion on existing sites should help offset the effect of declining pulp prices in the future (as explained in the Valuation chapter we opted to use a mean reverting process when modelling pulp prices) in a scenario of no expansion of pulp production capacity. This would decrease unit costs and enhance operating margins.

Profitability Analysis

The acquisition of Celbi in 2006 was fundamental in increasing operating margins of Altri, as already referred above. Exhibit 25 also illustrates the level of erosion of operating margins due to the above average leverage that the company currently shows.

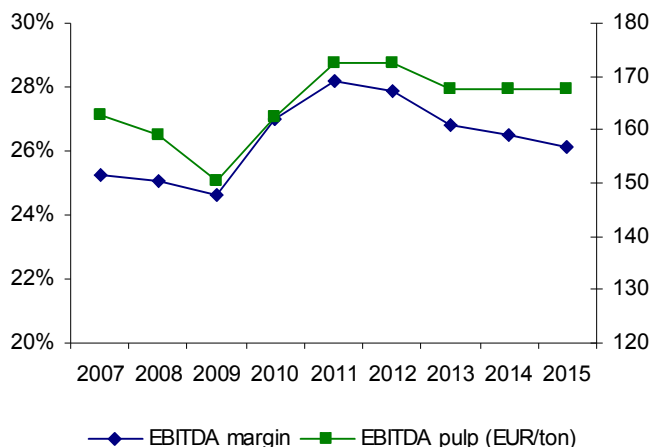
Exhibit 25. ROCE and net interest impact as % of sales



Source: CaixaBI Equity Research

Overall EBITDA margin mainly follows the performance of the pulp division, which is a natural consequence given the weight of this business. This is shown in exhibit 26, where the decline of Altri's margin from 2011 is due to the flat change in prices (as may be seen in our assumptions) and production capacity, besides the negative performance of F. Ramada in terms of EBITDA contribution given that this division has difficulty in passing on the estimated increase in steel prices to clients.

Exhibit 26. Operating margins (total and pulp per tonne)



Source: CaixaBI Equity Research

Altri Sgps: Summary tables

PROFIT & LOSS (EURm)	2004	2005	2006	2007e	2008e	2009e	CAGR 09/04
Sales	0.0	151.5	295.5	427.8	453.9	534.8	R+
Cost of Sales & Operating Costs (excl. Pers. Expenses)		-100.9	-187.9	-262.6	-279.3	-331.0	
Personnel Expenses		-213	-40.8	-57.1	-60.7	-71.9	
Non Recurrent Expenses/Income		0.0	0.0	0.0	0.0	0.0	
EBITDA	0.0	29.4	66.7	108.1	113.8	131.9	R+
EBITDA (adj.)*		29.4	66.7	108.1	113.8	131.9	
Depreciation, Amortisation & Write Downs	0.0	-113	-23.1	-35.1	-39.1	-44.9	
EBIT (reported)	0.0	18.0	43.7	73.0	74.7	86.9	
Net Financial Interest	0.0	-4.2	-14.5	-18.6	-21.0	-24.3	
Other Financials	0.0	0.9	-2.8	-2.8	-2.8	-2.8	
Associates	0.0	0.0	0.3	0.3	0.3	0.3	
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0	
Earnings Before Tax (EBT)	0.0	14.8	26.7	51.9	51.2	60.2	R+
Tax	0.0	-4.2	-5.6	-13.8	-13.6	-15.9	
Tax rate		28.6%	20.8%	26.5%	26.5%	26.5%	
Discontinued Operations		0.0	0.0	0.0	0.0	0.0	
Minorities	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	
Net Profit (reported)	0.0	10.4	20.8	37.9	37.4	44.0	R+
Net Profit (adj.)		10.4	20.8	37.9	37.4	44.0	
CASH FLOW (EURm)							
Net profit (reported) + Minorities	0.0	10.6	21.1	38.2	37.7	44.2	
Non cash items	0.0	11.3	23.1	35.1	39.1	44.9	
Cash Flow	0.0	21.9	44.2	73.3	76.7	89.2	R+
Change in Net Working Capital	0.0	0.0	12.9	-16	5.9	18.4	
Capex	0.0	-129.0	-545.6	-130.3	-138.6	-161.0	
Operating Free Cash Flow (OpFCF)	0.0	-107.1	-488.5	-58.6	-55.9	-53.4	R-
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0	
Dividends	0.0	0.0	-2.6	-5.7	-5.6	-6.6	
Other (incl. Capital Increase & share buy backs)	0.0	0.0	0.0	0.0	0.0	0.0	
Free Cash Flow	0.0	-107.1	-491.1	-64.3	-61.5	-60.0	
NOPLAT	0.0	13.1	31.7	53.6	54.9	63.9	
BALANCE SHEET & OTHER ITEMS (EURm)							
Net Tangible Assets	0.0	160.8	567.3	684.0	805.9	948.1	
Net Intangible Assets (incl. Goodwill)	0.0	0.5	0.7	0.7	0.7	0.7	
Net Financial Assets & Other	0.0	8.9	18.3	18.3	18.3	18.3	
Total Fixed Assets	0.0	170.1	586.3	702.9	824.9	967.1	R+
Net Working Capital	0.0	51.5	64.4	62.8	68.7	87.1	
Total capital invested/employed	0.0	212.7	632.4	747.5	875.3	1035.9	
Shareholders Equity	0.0	70.7	85.7	117.7	149.5	186.9	R+
Minorities Equity	0.0	18	0.3	0.3	0.3	0.3	
Net Debt	0.0	124.5	528.4	627.7	725.7	855.0	R+
Provisions	0.0	0.2	4.3	4.3	4.3	4.3	
Other Liabilities	0.0	56.2	95.6	90.2	90.2	90.2	
Total Market Cap		87.8	262.4	571.3	571.3	571.3	
Enterprise Value (EV adj.)		212.2	790.7	1,099.0	1,297.0	1,426.2	
MARGINS AND RATIOS							
Sales growth		+chg	95.0%	44.8%	6.1%	17.8%	
EBITDA growth		+chg	127.4%	62.0%	5.3%	15.8%	
EBIT growth		+chg	142.2%	67.1%	2.4%	16.3%	
EBITDA margin	nm	19.4%	22.6%	25.3%	25.1%	24.7%	
EBIT margin	nm	11.9%	14.8%	17.1%	16.5%	16.3%	
Debt/Equity (gearing)	nm	171.6%	nm	nm	484.4%	456.8%	
Debt/EBITDA	nm	4.2	7.9	5.8	6.4	6.5	
Interest cover (EBITDA/Fin.interest)	high	7.1	4.6	5.8	5.4	5.4	
ROCE	nm	6.1%	5.0%	7.2%	6.3%	6.2%	
WACC					4.6%	4.6%	
ROCE/WACC					1.4	1.3	
EV/CE		100	125	160	148	138	
OpFCF/CE	nm	-50.3%	-77.2%	-7.8%	-6.4%	-5.2%	
EV/Sales		140	2.68	2.80	2.86	2.67	
EV/EBITDA		7.2	11.8	11.1	11.4	10.8	
EV/EBITDA (adj.)*		7.2	11.8	11.1	11.4	10.8	
EV/EBIT		11.8	18.1	16.4	17.4	16.4	
P/E (adj.)		8.4	12.6	15.1	15.3	13.0	
P/CF		4.0	5.9	7.8	7.4	6.4	
P/BV		12	3.1	4.9	3.8	3.1	
OpFCF yield		-122.0%	-186.2%	-10.3%	-9.8%	-9.3%	
Payout ratio		0.0%	12.3%	15.0%	15.0%	15.0%	
Dividend yield (gross)		0.0%	0.4%	1.0%	1.0%	1.2%	
PER SHARE DATA (EUR)							
EPS (reported)		0.10	0.20	0.37	0.36	0.43	
EPS (adj.)		0.10	0.20	0.37	0.36	0.43	
CFPS		0.21	0.43	0.71	0.75	0.87	
BVPS		0.69	0.84	1.15	1.46	1.82	
DPS		0.00	0.03	0.06	0.05	0.06	

Source: Company, Caixa Banco de Investimento estimates. *Where EBITDA (adj.)= EBITDA +/- Non Recurrent Expenses/Income
2005 restated as IFRS pro forma

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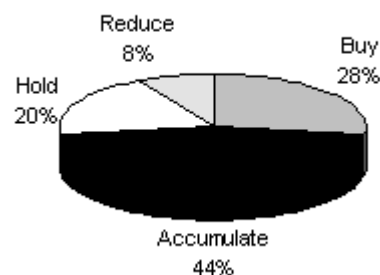
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- **Hold:** the stock is expected to generate a total return of **0% to 5%** during the next 6 months time horizon
- **Reduce:** the stock is expected to generate a total return of **0 to -15%** during the next 6 months time horizon
- **Sell:** the stock is expected to generate a total return **below -15%** during the next 6 months time horizon
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Caixa Banco De Investimento Ratings Breakdown



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- Hold: the stock is expected to generate a total return of 0% to 5% during the next 6-month time horizon;
- Reduce: the stock is expected to generate a total return of 0 to -15% during the next 6-month time horizon;
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Altri

Date	Recommendation	Fair Value
25-08-2005	Buy	3.80
11-05-2006	Accumulate	2.40(adj)
07-09-2006	Buy	3.75
15-01-2007	Buy	4.60
08-03-2007	Accumulate	6.00
30-10-2007	Buy	7.20

Source: CaixaBI

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