Lisbon, January 28, 2008

# SONAE CAPITAL — BUY

## Healthy Real Estate in Portugal

**INITIATION OF COVERAGE**

**CURRENT PRICE: NA**
**TARGET PRICE: €3.00**

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- Sonae Capital (SC) offers investors exposure to an interesting investment proposition: Troia (45% of EV), with 270,000sqm of land to develop luxury villas and apartments. Up to November 2007, SC had commitments from buyers for 30%-50% of the plots and apartments due to be delivered this summer at prices in line with our valuation.

- SC has potential to perform strongly as the market becomes aware of the structural difference between the Portuguese and Spanish real estate markets. While Portugal is now showing signs of recovery after seven years of declining volumes and stagnant prices, while Spain is decelerating.

- Even if we applied a discount to NAV in line with SC's Spanish peers and valued Sonae Indústria at its market price (€4.44), the upside potential would be 32%. This performance should be triggered by:(1) the end of a 15-day non-trading period for the shares on January 28; (2) better visibility for SC's portfolio.

- In the longer run, performance should be driven by: (1) better differentiation between SC's portfolio and those of Spanish housing developers; (2) improving earnings momentum from 4Q08E; and (3) value-unlocking asset disposals (c20% of EV).

**Company Data , January 24, 2008**

| | | | |
|---|---|---|---|
| Reuters/Bloomberg code | SONAC.LS/SONC PL | | |
| Market cap (€ mn) | 420 | | |
| Outst shares (mn) | 250 | | |
| Website | www.sonaecapital.pt | | |
| Free float (%) | 38 | | |
| Avg daily vol (€ mn) | NA | | |
| Range Jan 9-15 (€) | 1.28-1.84 | | |
| **Performance (%)** | **-1M** | **-3M** | **-12M** |
| Absolute | NA | NA | NA |
| Relative to PSI20 | NA | NA | NA |

| (€ mn) | 2005 | 2006 | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| EBITDA | 23.8 | 7.2 | 27.9 | 60.4 | 62.0 |
| % change | – | -70 | 286 | 117 | 3 |
| Net income | 72.9 | 2.2 | 0.2 | 68.9 | 17.9 |
| % change | – | -97 | -89 | 28,822 | -74 |
| EPS (€) | 0.07 | -0.01 | -0.01 | 0.09 | 0.07 |
| EV/EBITDA (x) | NA | NA | NA | 11.8 | 11.7 |
| P/E (x) | NA | NA | NA | 19.2 | 23.4 |
| GDY (%) | NA | NA | 0 | 0 | 0 |
| FCF yield (%) | NA | NA | NA | -12.7 | 1.6 |

Source: Reuters, Bloomberg

# SONAE CAPITAL AT A GLANCE

## SWOT ANALYSIS

### Strengths

- The healthiest exposure to real estate in Portugal: tourist resorts and upmarket housing development.
- Portugal's housing market could show the first signs of recovery in 2008E, after seven years of deceleration. By contrast, the Spanish market is slowing down.
- The Troia resort benefits from an excellent location and standards. The project's profitability is enhanced by the very low price paid for the land (bought ten years ago from a bankrupt company).

### Weaknesses

- Small cap. SC's free float of 38% could translate into a market value of around €160mn-€300mn. As a small cap, its share price performance could be penalised by the market's adverse sentiment on small, less liquid stocks.
- Lack of earnings visibility in 1H08E. Many of SC's projects are in the early stage of development or temporarily stopped for remodelling, capex is high and some of the projects are making a negative contribution to earnings. Thus, SC could struggle with unappealing trading multiples. We do not think earnings momentum will improve until 4Q08E.

### Opportunities

- Land banks (€6mn). SC owns land in the Algarve and in the emerging tourist areas of Alqueva and Douro, where new resorts could be built.
- Asset disposals. In the last eight months, SC disposed of nine business areas, reducing the number of smaller businesses to six. Further disposals could be on the cards (c20% of EV).

### Threats

- Funding costs. The funding of ambitious stand-alone investment plans (separate from Sonae SGPS) is likely to pose a challenge to SC under current credit market conditions.

## INVESTMENT CASE

- SC has 270,000sqm of land on which to develop villas and apartments in Troia, which it bought very cheap, and it plans to deliver the first set of units this summer. By November 2007 it had already pre-sold 50% of the apartments and 30% of the plots, respectively, at prices in line with our valuation.
- As well as in the Algarve, SC has properties in the emerging tourism regions of Alqueva and Douro, where it can develop new resort projects.
- SC's real estate arm (16% of EV) develops up-market housing projects, targeting one of the most active segments of the real estate market in Portugal. SC has 590,000sqm of gross build area already under development.
- Earnings momentum should improve from 4Q08E. SC is trading at a demanding 19.2x P/E and 11.8x EV/EBITDA for 2008E.
- SC is trading at a 40%-45% discount to NAV. We think its real estate assets deserve a lower discount (25%) because: (1) Portugal and Spain are at opposite points in the real estate cycle; (2) SC targets healthier market niches (second home and top-end residential); (3) Troia is an interesting investment proposition.

## VALUATION

- Our target price of €3.00/share is based on a SOP, with a 25% discount applied to real estate assets. The valuation of each of the parts, whenever possible, was based on DCF models. This target price entails an upside potential of 79% to the share price implicit in the last price of rights (on January 15).
- Based on our valuation, 67% of SC's EV stems from tourism and real estate operations: Troia (45%), up-market residential development projects (16%), and tourism operations (7%). The remaining 33% comes mainly from SC's 6.8% stake in Sonae Indústria (11% of EV), renewable energy projects (7%), a 25% stake in a shadow toll motorway (6%) and Selfrio (5%).
- Our valuation of Troia implies an EV/sqm of €1,786 (before any discount), reflecting the premium location of the project (as shown by selling prices so far).
- We value Sonae Indústria at €10.68/share (20% discount to our target price) as this is the price at which we feel SC would be willing to sell it. If we were to value it at its current market price (€4.44), our valuation of SC would be €59mn lower (€0.24/share), still entailing c65% upside potential.
- Even if we applied a discount to NAV in line with SC's Spanish peers (something we think is unfair) and valued Sonae Indústria at its market price, the upside potential would be 32%.

# EXECUTIVE SUMMARY

***A New Era Starts with Spin-off from Sonae***

Sonae Capital (SC) has, until now, been the less visible arm of Sonae SGPS (Sonae). With many early stage development projects, low earnings visibility and poor transparency, the market has long valued this arm well below €500mn. Sonae Capital's 250mn shares will be listed today (January 28). Each eight shares of Sonae held on January 3, or each eight rights, will entitle shareholders to receive one share of Sonae Capital.

***Exposure to Real Estate in Portugal***

SC is exposed to the healthier real estate segments in Portugal: resorts and upmarket housing developments. Demand in these segments has held steady during the last seven years of deceleration in the Portuguese construction sector. Portugal's real estate sector is showing signs of recovery, while the Spanish market is just starting to decelerate.

Before the first set of apartments has been completed, SC already has firm buyers for 50% of the apartments and 30% of the plots at an attractive average price per square metre. Value creation in this project is boosted by the low price SC paid for the land and relatively high selling prices, underpinned by the quality and location of the project. SC also owns large properties in the promising new resort areas Alqueva and Douro, as well as in the Algarve.

***Earnings Momentum Should Improve from 2008 Onwards***

SC's earnings momentum was poor in 2007E because its main projects (Troia and Efanor) are under development and most of its five hotels underwent thorough refurbishment in 2005-07 (three will not reopen until this summer). Once all the hotels resume operations and SC completes the sale of 10% of the total gross build area (GBA) for apartments and villas in Troia (out of 20% targeted for completion by this summer), SC will book the respective earnings and should be able to determine the profitability of these projects. In 2008E, we expect EBITDA to jump 116%.

***More Asset Disposals Could Help Unlock Value; Target Price of €3.00/Share***

SC began restructuring in 2007 by disposing of nine businesses. Looking ahead, we anticipate it will make further disposals (Sonae Indústria, Norscut, Box Lines) and sell or forge partnerships for its hotels. This could improve the SC's visibility and help unlock value. Based on a SOP valuation with a 25% discount applied to real estate assets, we reached a target price of €3.00/share, which represents an upside potential of nearly 80%.

***Strong Upside Potential Even under Adverse Stock Market Conditions***

The performance of the rights (January 9-15) was disappointing due to: (1) a 15-day trading suspension for the shares (up to January 28); (2) selling pressure as Sonae shareholders who did not want shares of the small cap disposed of their rights; (3) lack of visibility for SC's exposure to real estate.

The first two of these issues disappear from today (January 28), and we believe **SC has room to rise by at least 30%** (based on discounts the market is applying to Spanish housing developers and Sonae Indústria's current market value). **In the longer run, upside potential will be stronger** thanks to**:** (1) improving earnings visibility; (2) a simpler group structure as restructuring continues; (3) an increasing market appetite for small caps and real estate projects.

# Sonae Capital: Snapshot

## Brief Description

Sonae Capital (SC) is the result of Sonae SGPS's (Sonae) spin-off of all its tourism-related assets, real estate development and management business, venture capital holdings and other financial investments previously included in the group's Sonae Capital division.

**250mn shares, 38% free float**

The share capital of SC is made up of 250mn shares with a face value of €1.00/share. After the spin-off, SC will be controlled by Efanor (the Belmiro de Azevedo family's holding company), with 53%, and BPI should hold an 8.9% stake. As a result, the free float is likely to be 38%.

By separating Sonae Capital, Sonae SGPS aims to increase both its own visibility as a group and that of Sonae Capital, also enhancing the newly listed company's value.

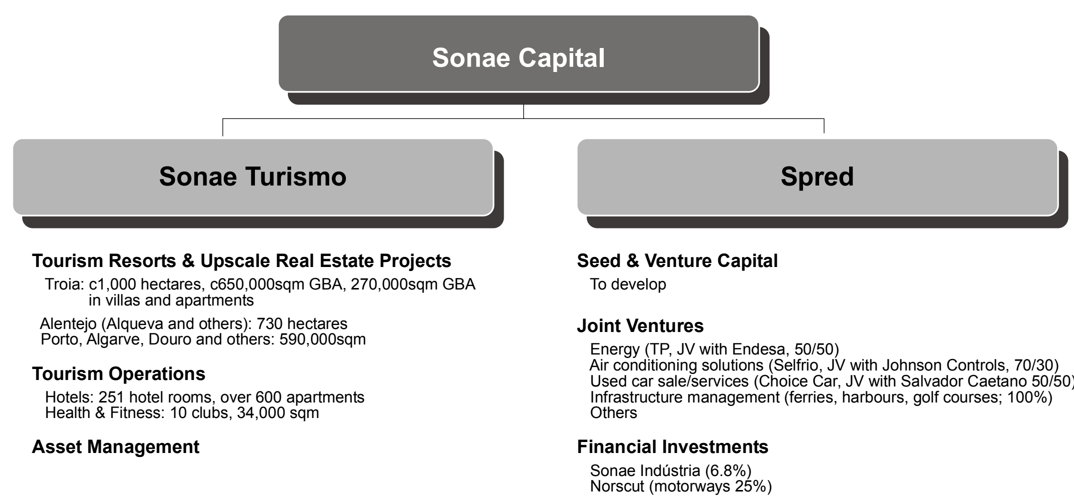
## Group Structure

As a result of restructuring carried out in the last year (including some disposals), SC's assets are grouped in two main divisions:

- **Sonae Turismo (ST).** This unit is focused on: (1) development of resorts and upmarket residential projects; (2) real estate asset management (including procurement services, management and condominium services); (3) tourism-related services, such as hotels, restaurants, catering, infrastructure management (marinas and golf courses) and health and fitness.

- **Spred.** This unit is focused on: (1) providing seed and venture capital and seeking new emerging/restructuring business opportunities; (2) joint ventures, including ownership and management of businesses with growth potential, in partnership with sector specialists whenever possible; and (3) financial investments.

**Figure 1. Sonae Capital – Group Structure, 2007**




Source: Company data.

**Figure 2. Sonae Capital – Breakdown by Revenues, EBITDA, 2006**

| (€ mn) | Sonae Turismo | Spred |
|---|---|---|
| Revenues | 31.0 | 235.6 |
| % total | 11.6 | 88.4 |
| EBITDA | -5.4 | 14.5 |
| % total | -59 | 159 |

Source: Company data.

Even though it is the smaller arm, the tourism division should be SC's main growth driver in the years ahead. Growth should be prompted by: (1) the development and sale of major real estate projects – Troia and Efanor – and (2) the reopening in mid-2008E of several hotels that were closed for refurbishment in 2005. In 2010E, we estimate that Sonae Turismo (ST) will account for 90% of consolidated EBITDA.

## JEWEL IN THE CROWN

Among SC's numerous units and businesses, it is worth highlighting that:

- Most of the value and growth opportunities stem from Troia and upscale real estate development (60%). This is a niche in the Portuguese construction industry that continues to enjoy strong demand.

- The bulk of the remaining value comes from Sonae Indústria (10%) and renewable energy projects (7%).

**Figure 3. Sonae Capital – Valuation, 2008E**

| (€ mn) | Enterprise Value | % of Total EV |
|---|---|---|
| **Sonae Turismo** | **621.2** | **66.5** |
| Troia | 407.4 | 43.6 |
| Real estate development | 146.1 | 15.6 |
| Tourism operations | 67.7 | 7.3 |
| **Spred** | **312.5** | **33.5** |
| Sonae Indústria | 101.3 | 10.8 |
| Others | 211.2 | 22.6 |
| **Total EV** | **933.7** | **100.0** |

Source: Banco Santander de Negócios Portugal estimates.

# VALUATION AND RECOMMENDATION

## SOP VALUATION

***Target Price of €3.00/Share***

As we did in our report *Sonae SGPS - Break-up: Part II*, dated June 12, 2007, we have valued Sonae Capital based on the sum of the parts to reflect better the mix of businesses included in this group. The valuation of each of these businesses is explained in the appendices.

**Figure 4. Sonae Capital – Enterprise Value, 2008E**

| (€ mn) | Sector | Stake (%) | Methodology | EV | % of EV |
|---|---|---|---|---|---|
| **Sonae Turismo** | | | | **621.2** | **66.5** |
| Troia | Resort development and hotels | 100 | 25% discount to NAV; EV/sqm of €1,440 | 407.4 | 43.6 |
| Praedium | Real estate development | 100 | 25% discount to NAV; EV/sqm of €297 | 146.1 | 15.6 |
| Tourism operations | Hotels and others | 100 | DCF implying 08E EV/sales of 2.6x | 67.7 | 7.3 |
| **Spred** | | | | **312.5** | **33.5** |
| Selfrio | Facility management | 70 | DCF implying 08E EV/Sales 0.9x | 48.7 | 5.2 |
| TP | Energy | 50 | SOP | 65.2 | 7.0 |
| Sonae Indústria | Wood panels | 6.8 | €10.68 (20% discount to BSNP target price) | 101.3 | 10.8 |
| Norscut | Motorways | 25 | PBV 2.4x | 58.8 | 6.3 |
| Choice Car | Car sales and services | 50 | 0.6x P/Sales 08E; CAGR 06-08E 5% | 26.6 | 2.8 |
| Box Lines | Shipping | 100 | 08E EV/EBITDA of 5x | 12.0 | 1.3 |
| **EV** | | | | **933.7** | 100.0 |

Source: Company data and Banco Santander de Negócios Portugal estimates.

In our valuation of Troia and other real estate assets we have applied a 25% discount to the NAV calculated in the section *Sonae Turismo – Seed of Growth*. In our view, this is a fair discount for SC's interesting investment propositions, like Troia or other upscale residential projects.

Thanks to its restructuring, SC has become more focused on fewer businesses, with tourism, resorts and real estate developments accounting for 67% of group EV (vs c60% in June 2007).

**Figure 5. Sonae Capital – Valuation, 2008E**

| (€ mn) | Enterprise Value | % of Total EV |
|---|---|---|
| **Sonae Turismo** | **621.2** | **66.5** |
| Troia | 407.4 | 43.6 |
| Real estate development | 146.1 | 15.6 |
| Tourism operations | 67.7 | 7.3 |
| **Spred** | **312.5** | **33.5** |
| Sonae Indústria | 101.3 | 10.8 |
| Others | 211.2 | 22.6 |
| **Total EV** | **933.7** | **100.0** |
| Net financial debt 2007E | 203.6 | – |
| Other adjustments[1] | 22.4 | – |
| **Total equity** | **752.5** | 76.4 |
| Number of shares (mn) | 250.0 | – |
| **Equity/share (€/share)** | **3.00** | – |

(1) Includes tax credits (€3.5mn) and total valuation implicit in the sale of Contacto (€17.5mn) and Isoroy Casteljoux (€1.3mn)
Source: Banco Santander de Negócios Portugal estimates.

Our valuation of Sonae Capital amounts to €752mn, which is 79% above the valuation implicit in the last trading price of the rights to Sonae Capital shares on January 15. It is also 4.5% above the top of the range given by the adviser bank (BPI) of €670mn-€720mn.

***Sensitivity Analysis of Discount Applied to Real Estate Assets***

In view of the weight of the real estate operations (60% of EV), we think it is worth developing a sensitivity analysis for the discount applied. Also, the marked difference between the minimum price at which we think SC would be willing to sell its shares in Sonae Indústria and the current share price justifies a sensitivity analysis.

**Figure 6. Sonae Capital – Sensitivity Analysis, 2008E**

| | | Real Estate Discount to NAV (%) | | |
|---|---|---|---|---|
| **(€/Share)** | | **45** | **25**[1] | **10** |
| Sonae Indústria ) | €10.64[1 2] | 2.47 | **3.00** | 3.42 |
| | €4.44 [3] | 2.23 | 2.76 | 3.18 |

(1) Base scenario. (2) 20% discount to BSNP target price. (3) Market price.
Source: Banco Santander de Negócios Portugal estimates.

Overall, we conclude that, even if the market decided to apply a discount to SC in line with its Spanish peers and valued Sonae Indústria at the current market price, SC should trade 32% above the price implicit when the rights last traded.

## BUY SONAE CAPITAL

We rate Sonae Capital a Buy for the following reasons:

- **Value pick.** SC is heavily exposed to the healthiest segments of Portugal's real estate market (60% of EV): second homes and upmarket housing development. The value of these businesses is enhanced by the excellent location of the bulk of the company's land bank and by the low price it paid for land in Troia. Our target price implies an upside potential of 79% from the valuation implicit in the last market price of the rights.

- **Attractive upside potential both in the short and longer run:**

  - **We see 30% as the minimum upside in the short term.** Based on last traded price of the rights (January 15), SC is now at a **40%-45% discount to NAV, largely due to the fact that investors were not able to trade SC shares during 15 days (ending today, January 28).** Even valuing SC's real estate assets at a discount similar to its closest comparables – Spanish housing developers (something we think is unrealistic) – and valuing Sonae Indústria at its current market price, the upside potential is 32%.

  - **In the longer run, further upside** should be prompted by: (1) improving earnings momentum from 4Q08E, (2) restructuring unlocking value; (3) greater visibility of Troia as an interesting investment proposition; (4) a growing market appetite for small caps.

- **Healthy exposure to a recovery in the real estate market.** SC offers exposure to high-quality real estate projects, a segment where demand has been steady throughout a seven-year downward adjustment of Portugal's housing market. Moreover, we think Portugal's real estate market should start to recover in 2008E.

# COMPARABLES: PORTUGAL IS NOT LIKE SPAIN

## EUROPEAN PROPERTY DEVELOPERS ARE TRADING AT A 15% DISCOUNT

Most of the real estate comparables used in Europe are exposed mainly to shopping centres, retail spaces and offices and are trading at an average discount to NAV of 15% (ranging from Unibail-Rodamco's 5% premium to NAV to Land Securities' 43% discount). This is not what we are looking for, since the business profile is very different. Even so, as explained below, we think it is important to keep an eye on this range in order to understand the market's appetite for European real estate.

## SPANISH HOUSING DEVELOPERS ARE 'FALSE' PEERS

**Figure 7. Sonae Capital – Comparison with Other Housing Developers**

| (€ mn) | Price (€) | Number of shares (mn) | NAV 2006 | Market Cap | Discount to NAV |
|---|---|---|---|---|---|
| **Home developers** | | | | | |
| Immofinanz | 6.38 | 447.5 | 4,452.6 | 2,855.1 | 35.9 |
| Martinsa Fadesa | 13.69 | 113.3 | 5,054.0 | 1,551.1 | 69.3 |
| Parquesol | 17.72 | 39.7 | 1,198.0 | 703.9 | 41.2 |
| **Average** | | | | | **48.8** |

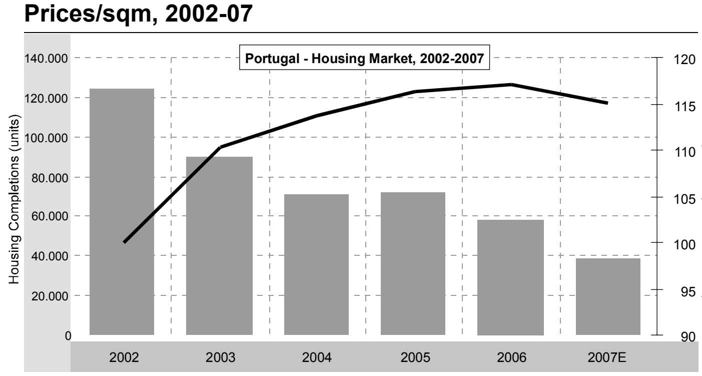
Source: Santander Investment Bolsa and Banco Santander de Negócios Portugal estimates.

### *Housing Developers: Portugal and Spain Are Clearly at Different Points in the Cycle*

We understand many investors may feel tempted to look at Spanish property developers, like Fadesa (trading at a 69% discount to NAV) or Parquesol (41% discount to NAV), as direct comparables in order to value SC's real estate development business. We think this makes little sense for several reasons:

- **The Spanish and Portuguese real estate sectors are at very different points in the cycle.** In Portugal, the adjustment in construction and real estate sectors started seven years ago, with: (1) volumes contracting steadily (house completions in 9M07 totalled c40,000 houses, or just 40% of the total booked five years before); and (2) average prices clearly decelerating and booking a CAGR of 1.1% (below inflation) in 2003-07E.

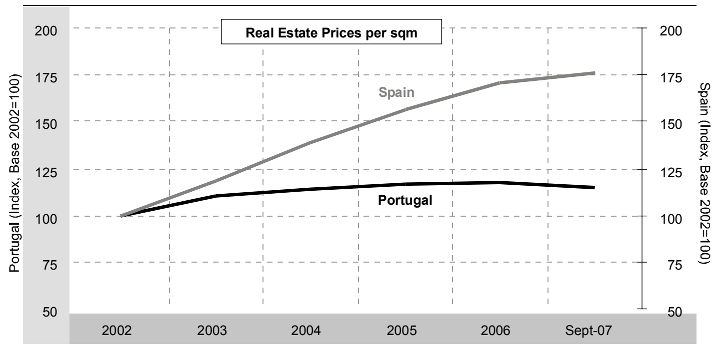
**Figure 8. Portugal – Housing Completions and Average Prices/sqm, 2002-07**




Source: INE.

In Spain, the adjustment in the housing market is just beginning to accelerate. Housing starts are already falling in annual terms (-13.5% YoY in 2Q07), although based on 12MO cumulative data, housing starts are still up by 0.25% YoY. Looking at the price data, building permits data and pre-sales date, we see further downward adjustments in the sector going forward.

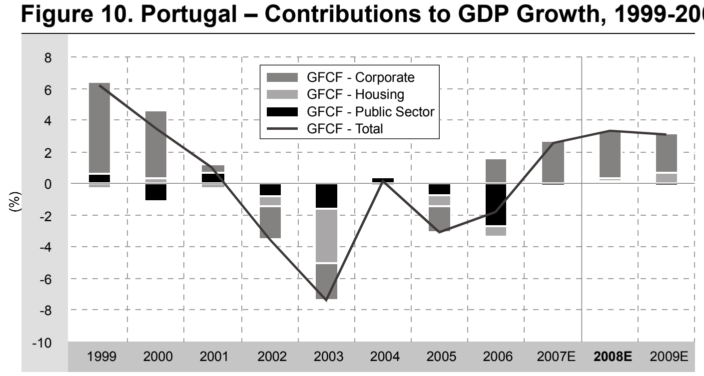
**Figure 9. Housing Prices – Portugal vs Spain, 2002-07**




Source: INE, Bankof Portugal mortgage loan valuations (LHS) and Spanish INE, Net house prices (RHS).

Overall, we feel that the Spanish market may be entering a period of downward adjustment, like the one Portugal started seven years ago. The first signs of a recovery in Portugal could appear in 2008E, with the sector making a small contribution to GDP growth, after nine years of negative impact.

**Figure 10. Portugal – Contributions to GDP Growth, 1999-2009E**




Source: INE and Banco Santander de Negócios Portugal estimates.

- **SC is focused on a different and more promising market niche: second homes.** SC's land bank includes several locations, with strong tourism potential (Alqueva, Douro, Algarve). While the market as a whole is adjusting for excess supply of homes, demand in regions with a strong market for second homes has held steady. As a result, **house prices in regions like Algarve and Alentejo have kept rising (+4.4% and +4.9% CAGR for 2002 to September 2007,** respectively).

- **Troia is a singular project.** The resort is at an early stage of development with the first units expected to be delivered this summer. The number of units pre-sold so far (50% of total apartments and 30% of plots available for sale) and the implicit price/sqm are clear evidence of the resort's quality and the level of demand**.**

For these reasons, we feel that Spanish comparables should be used with care. In our view, **Sonae Capital should trade at a much lower discount than its Spanish peers.** We think that, in light of current market conditions and comparisons with its peers, SC's P/NAV should be around 20%-25%. In our view, SC has better growth prospects than its Spanish home development counterparts and should stand out as a better investment. That said, under current conditions the market is applying discounts to real estate exposure and Sonae Capital is no exception.

### *Tourism Operations*

The European hotel sector is trading at an average 7.6x 2008E EV/EBITDA compared with 10x four months ago.

**Figure 11. European Hotel Sector– Peer Comparison**

| (x) | Price (€/Share) | 2008E P/E | 2009E P/E | 2008E EV/EBITDA | 2009E EV/EBITDA |
|---|---|---|---|---|---|
| Accor SA | 52.2 | 17.8 | 15.3 | 8.2 | 7.6 |
| Intercontinental Hotels (GBp) | 753.5 | 13.9 | 11.7 | 8.9 | 7.9 |
| Sol Melia | 9.4 | 10.9 | 9.9 | 6.9 | 6.3 |
| NH Hoteles | 9.3 | 14.8 | 12.1 | 8.0 | 7.7 |
| **Average** | | **14.4** | **12.2** | **8.0** | **7.4** |

Source: JCF. Closing prices on January 24.

Although tourism accounts for just 7% of SC's EV, it is important to highlight NH Hoteles, which in our view, has some affinities with SC.

According to Santander Investment Bolsa's valuation of NHH, 27% of its value stems from Sotogrande, a tourism resort project in the South of Spain, with around 1,800ha (versus Troia's 1,000ha). Sotogrande is at a more advanced stage of development than Troia as 80% of its building area is already completed.

Sonae Capital's portfolio of hotels (eight hotels, five of which are already built and fully owned, and ten health clubs) cannot be compared with NHH's (307 hotels, 44% owned). Despite this, we think that SC could form a partnership with a major sector player in this business. We believe this justifies a trading multiple in line with NHH's.

**In summary, it is difficult to find a valid comparison for SC. Spanish housing developers are the closest, but are experiencing much weaker momentum at a different stage of the cycle. Thus, we think SC should trade at a lower discount to NAV (25%, in our view).**

# MOMENTUM HAS ROOM TO IMPROVE

## CURRENT MOMENTUM IS POOR...

Given the 79% upside implicit in our target price, we think it is important to examine the reasons behind such a large discount:

- **Sonae Capital's shares will not be listed until the end of January.** While rights to receive shares of Sonae Capital (eight rights = one share) were traded between January 8 and 15, SC's shares will only be listed today (January 28). Many investors were unwilling to hold illiquid shares for this period and sold their rights or avoided buying the stock beforehand. This may create room for a recovery in February.

- **Some of Sonae's shareholders may not want to hold shares of a small cap** with €420mn of market value and limited free float (just 38%). Thus, the process of detaching and trading the rights to SC shares may have been followed by strong selling pressure. This should only hurt short-term performance, creating room for a subsequent recovery.

- **The market's appetite for small caps and real estate stocks is very limited.** 2008 has started with flows out of equities – and small caps in particular. Investors have also been avoiding exposure to real estate. Although we think the aversion to small caps may ease in the next few months, as stocks start trading at undemanding levels, SC will only be able to partially overcome investors' caution over real estate exposure when its unique profile becomes more visible.

As a result, SC's EV implicit in the performance of the rights during the trading period ranged from €320mn to €460mn. This is roughly in line with market's valuation of this arm of the business over the past 12 months (before details of the spin-off were released). SC's closing price on January 15 (€0.21 per right) implies a 44% discount to our own valuation of the company. Overall, we think negative sentiment since the beginning of 2008 has undermined SC's performance and has barely allowed shareholders to reap the fruit of SC's spin-off.

## ... BUT SHOULD IMPROVE

SC's management has been on a road show ahead of the listing. This, along with the release of a full prospectus in late December 2007, should enhance the visibility of its investment case, triggering new and more comprehensive research notes on the company which should, in turn, boost the profile of its business and prospects. Also, we think market momentum may improve in the coming months and, once SC's shares start trading, interest should increase.

## SHORT-TERM POTENTIAL

### *SC Rights Traded at a 40%-45% Discount to NAV, in Line with its 'False' Peers*

Based on the closing price of rights on January 15, the market is applying a discount to SC's NAV of between 40% (based on the minimum valuation by the adviser bank, BPI) and 50% (based on our valuation before any discount). Thus, the market seems to be valuing SC in line with its 'false' peers in Spain.

### *Higher Visibility Should Boost Market Value by 30% in the Short Term*

We have identified several things that could trigger a reduction in the discount to NAV in the coming months and should enhance the stock's valuation: (1) improving liquidity once the shares are listed, on January 28; (2) management road shows, which should improve the visibility of the business; and (3) wider coverage of the stock and improving earnings visibility throughout 2008.

In our worst-case scenario, the market would price in a 40% discount to SC's real estate assets (roughly in line with the Spanish peers) and would value the stake in Sonae Indústria at its market price. Even then, the upside potential would be c30%.

### *In the Longer Run Upside Potential Should Be Stronger*

In the longer run, we think the share price will appreciate because of: (1) the market's growing appetite for small caps; (2) further restructuring in the portfolio unlocking value; and (3) improving earnings momentum, particularly in 4Q08E.

# APPENDIX I. SONAE TURISMO – SEED OF GROWTH

## GROUP STRUCTURE

In our view, Sonae Turismo (ST) is SC's most promising business, given the value boost from the new licences and the completion of a first set of units at the Troia resort this summer and the growth prospects associated with its current land bank.

**Figure 12. Sonae Turismo – Group Structure**


(1) Remodelling works in 2005-07.
(2) Closed for remodelling works; reopening in summer 2008

Source: Company data.

Although ST covers three main areas, we will divide our description and valuation into three parts: Troia (development and hotels), real estate development and other tourism operations.

In our view, the asset management division acts more like a cost centre, carrying out the research to find and acquire new properties. It also holds SC's land bank which is in an early stage of development. We have opted to value this land bank within the real estate arm of the group.

## TROIA: BRIEF DESCRIPTION AND VALUATION

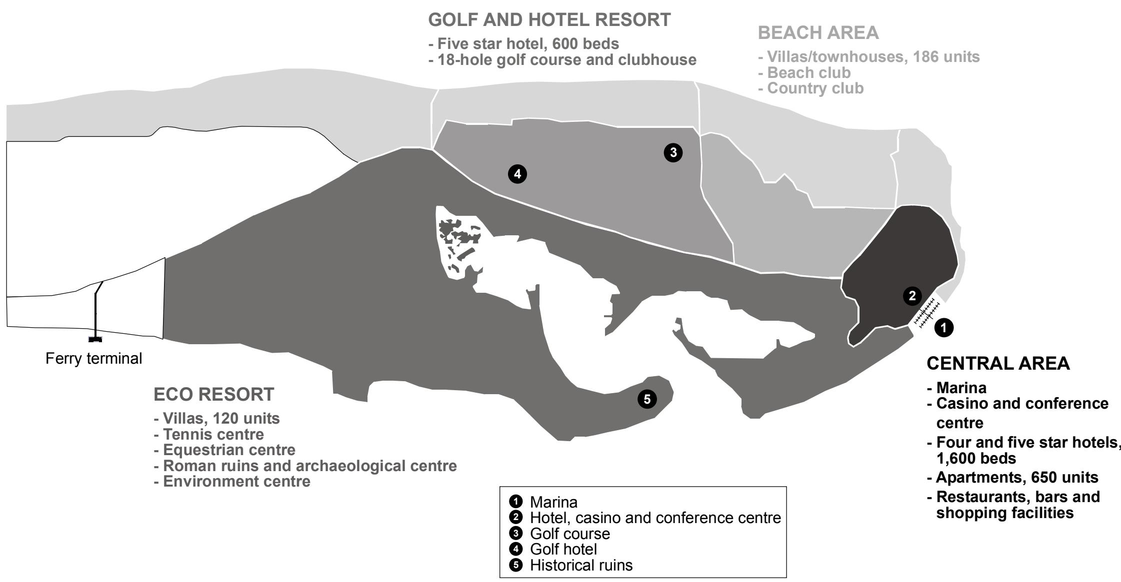
We have prepared a separate description and valuation for the real estate development (villas and apartments) and the hotel operations

***Troia - Real Estate Development (c40% of Sonae Capital's EV)***

This is the bulk of ST's value (55% of its EV) but it has little earnings visibility:

- Troia is an upmarket tourist project alongside the Sado Estuary Natural Reserve, less than one hour south of Lisbon. The project involves a total area of c1,000 hectares and a low rate of gross building area, at just 6.5%. SC will build 270,000sqm of villas and apartments. Additionally, it will refurbish three aparthotels (1,100 beds) and will build three new hotels (1,200 beds). The most developed part of this project so far, Troiaresort, has 380,000sqm of gross build area, 170,000sqm of which is apartments and villas. The final project will include hotels, conference centres, a marina and a golf course.

**Figure 13. Troia – Snapshot of Troiaresort**




Source: Company data.

- **Goals.** ST plans to build and then sell all the apartments. We estimate that 20% of the villas will be sold before any construction work is done, once the full project has been approved. The others are to be developed and sold by SC. Finally, the development and operation of hotel projects could be done either directly or through a partnership with a sector specialist. We estimate that out of the 270,000sqm SC can build, 60% will be devoted to villas (20% to be pre-sold in 2007-09E) and 40% to apartments.

**Figure 14. Troia – Investment Plans**

| | GBA (000 sqm) | Units | Likely Completion | Comments |
|---|---|---|---|---|
| **Troiaresort** | | | | |
| Apartments | 99,500 | 635 | 53% in 2008 | 66% for sale up to Nov 07 ; 50% of it sold |
| Villas | 68,700 | 330 | >2009 | 48% for sale up to Nov 07; 30% of it sold |
| Hotels | NA | 2,200(3) | 1,100 in summer 2008 | SC's share is 1,100 beds in 3 units |
| **Soltroia** | | | – | In early stage of development |
| Apartments | – | – | NA | – |
| Villas | 97,500 | 372 | NA | – |
| Hotels | NA | 662(3) | NA | – |
| **Others(1)** | | | | |
| Apartments | 37,000(2) | 955(3) | NA | – |
| Villas | – | – | NA | – |
| Hotels | NA | 300(3) | NA | – |

(1) SC has a 20% stake in these projects and the remaining stake is held by Pestana group. (2) BSNP estimates. (3) Company data, number of beds.
Source: Company data and Banco Santander de Negócios Portugal estimates.

- **Next milestone in summer 2008**. This summer, Troiaresort should gain visibility with the conclusion of: (1) 360 apartments; (2) 96 plots planned and assigned to villas; (3) three remodelled hotels with a total of 1,100 beds; and (4) several other urban infrastructures (shops, casino, congress centre complex, new harbour). This could accelerate its growth and enhance SC's earnings.

- **Little impact on the balance sheet so far.** The book value of Sonae Capital (€383mn) barely reflects the market value of the land SC has available for development in Troia – the group bought Torralta, owner of this land (when it was close to bankruptcy ten years ago) for the amount of its outstanding debt. Additional investments in Troia were €30mn in December 2006 (plus up to €85mn invested in real estate, both in Troia and other real estate projects), whilst the investment plans disclosed for 2006-11 amount to €400mn (for the development of Troiaresort). Ongoing construction work includes several service facilities and apartments.

- **Impact on earnings: from c0% in 2006 to 55% of EBITDA in 2010E.** Although SC had already sold (or promised to sell) 50% and 30% of available apartments and villas, respectively, by November 2007, the impact on P&L will only be visible when ST completes the sale of these units in 4Q08E. The completion of facilities, hotels and some construction work is expected to accelerate the sale of units in the coming years.

- **Valuation**. We have concentrated on villas and apartments, reaching a valuation of €485mn based on a DCF model (WACC 6.9%, assuming 50% debt). The FCF and the respective main assumptions are summarised in Figure 15 below. This valuation implies a high multiple of €1,786/sqm (for the built area) which is justified by the high proportion of villas (60%), the premium location and quality of the project.

**Figure 15. Troia – Valuation of Villas and Apartments, 2008E-12E**

| (€ mn) | 2008E | 2009E | 2010E | 2011E | 2012E | Comment |
|---|---|---|---|---|---|---|
| **Sales ('000 built sqm)** | 47.5 | 48.0 | 45.1 | 52.5 | 61.0 | – |
| Plots (for villas) | 19.8 | 9.9 | | | | 25% of planned villas to be sold before construction |
| Villas | 2.4 | 8.6 | 27.2 | 40.9 | 53.6 | – |
| Apartments | 25.3 | 29.5 | 17.9 | 11.6 | 7.4 | – |
| **Price (€/sqm built)** | 4,078.7 | 4,268.5 | 4,714.3 | 4,952.3 | 5,110.8 | Price based on GBA |
| Plots (for villas) | 2,987.0 | 3,016.9 | 3,047.0 | 3,077.5 | 3,108.3 | Based on historical data |
| Villas | 5,038.4 | 5,088.8 | 5,139.7 | 5,191.1 | 5,243.0 | Assuming 20% margin on final project |
| Apartments | 3,989.5 | 4,029.4 | 4,069.7 | 4,110.4 | 4,151.5 | Based on historical data |
| Sales (Cash inflow) | **171.9** | **192.6** | **212.6** | **260.2** | **311.8** | |
| Construction cost | -44.0 | -56.0 | -98.8 | -35.5 | 0.0 | |
| Construction cost/sqm (€) | 1,175.7 | 1,199.2 | 1,223.2 | 1,247.7 | 1,272.6 | Based on €400mn capex for 380,000sqm |
| Other costs | -12.9 | -14.4 | -15.9 | -19.5 | -23.4 | |
| Change in WC | -13.6 | 3.5 | 12.0 | -16.8 | -9.1 | |
| Taxes | -30.6 | -33.9 | -28.8 | -59.0 | -82.1 | |
| **FCF** | **70.8** | **91.9** | **81.1** | **129.4** | **197.2** | |

Note: Troia includesTroiaresort, Soltroia and others
Source: Banco Santander de Negócios Portugal estimates.

- **Valuation adjustment.** We raised our valuation by 30% to reflect the larger GBA for villas, the higher proportion of villas in the GBA at 60% (vs 46% before), and higher prices per sqm based on new data released (8% higher in plots, 4% in apartments).

**Figure 16. Troia(1) – Details of Sales Terms, November 2007**

| | Units | Area (GBA) ('000 sqm) | Average price/sqm (€) |
|---|---|---|---|
| **Apartments** | | | |
| Total | 715 | 149 | NA |
| For sale | 159 | 127 | 4,089 |
| Sold | 130 | 110 | 3,908 |
| **Plots (for villas)** | | | |
| Total | 702 | 185 | NA |
| For sale | 84 | 344 | 2,987 |
| Sold | 12 | 344 | 3,467 |

(1) SC's share in the global project
Source: Company data and Banco Santander de Negócios Portugal estimates.

- **Sensitivity analysis.** In our view, the most vulnerable assumptions underlying our estimates are the selling price and construction cost.

**Figure 17. Troia – Sensitivity Analysis, 2007E**

| | | Selling Price (€/sqm) | | |
|---|---|---|---|---|
| **(€ mn)** | | **-10%** | **Base Scenario** | **+10%** |
| Construction | -20% | 439 | 494 | 539 |
| costs | Base scenario | 428 | 485 | 541 |
| (per /sqm) | +20% | 415 | 474 | 534 |

Note: Troia includesTroiaresort, Soltroia and others
Source: Banco Santander de Negócios Portugal estimates.

A 20% increase in construction costs per square metre would imply a 2.3% decrease in our valuation of Troia project and 1% decrease in the value of Sonae Capital. A 10% decrease in average selling price/sqm would imply a 12% reduction in the value of this project and a 6% cut in the valuation of Sonae Capital.

### *Troia – Hotel Assets (4% of EV)*

SC's share of the Troia hotel projects involves an estimated 1,265 rooms and 2,422 beds. Although three units are already built, they are all being remodelled and are not expected to re-open until later in 2008 (1,100 beds). Thus, the top-line results and profitability of this division are being severely hit. Looking ahead, heavy capex may continue to undermine FCF generation through 2010E-11E.

We base our valuation on a DCF model (WACC of 6.9%, *g* of 1%). Given several assumptions (see Figure 18 below), we reach a valuation of €44mn. Based on the NPV of EBITDA in 2011E (since we are mainly valuing upcoming new capacity), this valuation implies an EV/EBITDA of 6.5x.

**Figure 18. Troia – Valuation of Hotels and Aparthotels, 2008E-12E**

| (€ mn) | 2008E | 2009E | 2010E | 2011E | 2012E | Perpetuity |
|---|---|---|---|---|---|---|
| Number of beds | 1,100 | 1,310 | 1,760 | 2,091 | 2,422 | 1,100 |
| Number of rooms | 407 | 485 | 652 | 774 | 897 | 407 |
| Avg revenue/room (€) | 54 | 71 | 90 | 102 | 116 | 54 |
| Occupancy rate (%) | 40 | 50 | 60 | 65 | 70 | 70 |
| **Sales** | **6.5** | **11.6** | **18.7** | **26.7** | **35.3** | **6.5** |
| Cash costs | -6.1 | -13.4 | -17.4 | -22.2 | -26.5 | -6.1 |
| Cash cost/room | 82.0 | 82.0 | 83.6 | 85.3 | 87.0 | 82.0 |
| EBITDA | 0.4 | -1.7 | 1.3 | 4.4 | 8.8 | 0.4 |
| EBITDA margin (%) | 5.8 | -14.8 | 7.1 | 16.7 | 24.8 | 5.8 |
| Depreciation | -7.0 | -11.7 | -15.2 | -16.4 | -16.4 | -7.0 |
| Taxes | 1.8 | 3.6 | 3.7 | 3.2 | 2.0 | 1.8 |
| Capex | -64.2 | -41.0 | -23.7 | -6.6 | -0.7 | -64.2 |
| **FCF** | **-62.1** | **-39.1** | **-18.6** | **1.0** | **10.1** | **-62.1** |

Note: Troia includesTroiaresort, Soltroia and others.
Source: Banco Santander de Negócios Portugal estimates.

Is this too stretched? On one hand, the small size of the portfolio means the project deserves to be valued at a discount to its peers (eg, NH Hoteles is trading at 8x). On the other hand, we expect SC to enter partnerships for the joint management of these projects. Therefore, the price a larger player would be willing to pay for such projects could be even higher than our valuation (the latest transactions in the hotel sector have been carried out done at 13.4x EV/EBITDA).

## REAL ESTATE – BUSINESS DESCRIPTION AND VALUATION (16% OF EV)

Praedium is the group's real estate development arm, and it is currently developing 590,000sqm of gross build area.

**Figure 19. Real Estate Development – Main Projects in Portfolio, November 2007**

| | Gross Build Area ('000 sqm) | Selling Price (€/sqm) | Completion Date | Details |
|---|---|---|---|---|
| Q. Sedas – City lofts and flats | 10 | 2,031 | 3Q07 | 50% up for sale; 80% of it sold at €2,023/sqm |
| Efanor | 110 | 2,367 | 2009-13 | Incl. school, garden and other shared facilities; Average price €2,367/sqm |
| Other | 470 | NA | NA | Oporto, Lisbon and others |

Source: Company data and Banco Santander de Negócios Portugal estimates.

We have separated the valuation of Efanor and Quinta das Sedas, because: (1) we have clear evidence of the superior quality/price of these projects; (2) these projects are up for sale and either constructed or under construction, whilst the others are at earlier stages of development.

### *Quinta das Sedas and Efanor*

We value this business (120,000sqm) at €36mn, based on a DCF model. We assume construction costs of €170mn (in line with SC's feedback) and other additional costs (eg, commissions and marketing expenses) of 10% of sales. We based our selling price estimates on feedback from Sonae Capital (see Figure 19) and a CAGR of -1% in 2009E-13E, assuming that value creation in the Efanor project will be the highest of the projects in backlog. Our new valuation implies €330/sqm.

### *Other projects*

Besides the more visible project under development, SC has:

- **Over 470,000sqm of property in Oporto, Douro, the Algarve and Viseu**. We value this area at €295/sqm, based on 90% of NPV calculated for the Quinta das Sedas and Efanor projects. In our view, the profitability of these two is enhanced by their attractive location. **Overall, we value the Oporto, Douro, Algarve and Viseu**. **projects at €142mn**.

- **Land bank with 730 hectares in Alentejo,** mainly in Alqueva, and Algarve, where a new resort could be developed. We have assumed Cushman & Wakefield's valuation **(€5.9mn),** since we lack data to give us a more accurate view.

- **Several assets for rent and sale.** Again, for the same reason, we use Cushman & Wakefield's valuation of **€10.9mn**.

**Overall, our valuation of SC's real estate operations totals €195mn**, which is slightly below the Cushman & Wakefield valuation (NAV of €215mn).

## TOURISM OPERATIONS: DESCRIPTION AND VALUATION (7% OF EV)

This area of ST encompasses:

- A five-star hotel in Oporto with 251 rooms and a four-star hotel in Lagos which is divided into 163 apartments. These were both remodelled in 2005-07 and resumed full operations in 2007.
- Five restaurants close to the Oporto hotel.
- Other facilities, like golf courses or the marina in Troia.
- Health clubs: ten clubs in a total area of 34,000sqm. Some of these units are located close to SC's hotels and some are near Sonae Sierra's shopping centres.

We value these assets at €68mn, based on a DCF model (WACC of 7.1%, *g* at 1%). This implies 2.6x EV/sales in 2008E.

# APPENDIX II. SPRED

Since Sonae announced the spin-off of SC in early 2007, it has disposed of six business areas (and nine companies), creating potential for the group to improve its visibility.

**Figure 20. Sonae Capital – Asset Disposals, 2007 to Date**

| (€ mn) | Date | Buyer | EV | BSNP/EV | Comments |
|---|---|---|---|---|---|
| Safira | May 07 | NA | 5.0 | 5.0 | – |
| Plysorol + Leroy Gabon | Jun 07 | MBO | 30.0 | 30.0 | €20mn to be received in 2011, final price depends on performance |
| Isoroy Casteljaloux | 3Q07 | NA | 1.3[2] | 10.0 | |
| Cinclus | 3Q07 | NA | 5.9 | 1.5 | 75% sold; option to sell further 25% in 2011 |
| Insurance brokerage[1] | 4Q07 | Sonae | NA | 64.0 | |
| Contacto | Jan 08 | Soares da Costa | 17.5 | 41.0 | |
| Total | | | **123.7[3]** | **151.5** | |

(1) Including MDS, Sonae Re, Cooper Gay, HDPA, Lazam/MDS. (2) Price paid. (3) Assuming EV of sale of insurance brokerage assets in line with our estimate.
Source: Company data and Banco Santander de Negócios Portugal estimates.

The total valuation of these assets is €27.8mn lower than our latest valuation (assuming no debt at Cinclus).

## BUSINESS DESCRIPTION AND VALUATION

We have split our valuation of Spred into two parts: (1) the assets we think SC may dispose of; and (2) the assets we think will stay in SC's portfolio.

### *Assets Likely to Be Sold (18% of EV, €196mn)*

In our view, Spred's focus on early stage developing businesses opens the door to more asset disposals:

- **Sonae Indústria (€102mn).** This is an asset for sale – but not at any price. The wood-based panel producer is in a cyclical sector and is now at a declining point in the cycle with its share price at its minimum since the spin-off from Sonae (in December 2005). In our view, SC will sell this stake, but not for less than a 20% discount to our target price of €13.30/share (ie, €10.64/share). Therefore, we value this stake at €102mn. If we were to use the market price (€4.44) as a basis, our valuation would be reduced to €42mn.

- **Norscut (€58mn).** This shadow toll motorway is 155km long. Following the completion of construction work (in June 2007), the shareholder structure could be as follows: Eiffage with 36%-39%, SC with 36%, CNCE with 15%-18% and Egis with 10%. SC has already asked for government approval to acquire an 11% stake from Eiffage for a price equivalent to book value plus interest (in line with their initial agreement). Despite this, we think SC could ultimately decide to exit Norscut. We value SC's 25% stake at €55mn (estimated P/BV of 2.4x). We also value SC's option on a further 11% stake at €3.8mn.

- **Choice Car (€27mn).** This is a 50/50 joint venture with the Portuguese group Salvador Caetano, which includes the sale of used cars and rent-a-car service companies. In our view, SC could divest this, since it does not control it and it is mature. We have valued the business at €53mn, based on a 0.6x P/sales multiple. SC's share in this business is worth €27mn.

- **Box Lines (€12mn).** This is a container shipping company, which operates three charter ships between the Portuguese mainland and Madeira and the Azores. Its business is closely linked to Sonae Distribuição, so we think it could ultimately be sold to the retail arm of Sonae group. In 9M07, it booked an EBITDA of €1.1mn on revenues of €34.7mn and a margin of 3.2%. We value this stake at €12mn, based on an EV/EBITDA for 2008E of 5x.

***Assets to Keep in Portfolio (12% of EV, €114mn)***

In our view, SC is unlikely to sell either TP (Sociedade Térmica Portuguesa), which is its energy generation development business and is a 50/50 joint venture with Endesa, or Selfrio (70% owned).

**Figure 21. TP – Valuation, 2008E**

| (€ mn) | Technology | Stake (%) | Status | Capacity (MW) | EV/MW | EV | Comments |
|---|---|---|---|---|---|---|---|
| Cogeneration - 16 projects | Cogeneration | NA | In Operation | 70 | 0.6 | 42.0 | – |
| Serra da Capucha | Wind | 50 | In Operation | 10 | 2.0 | 10.0 | – |
| Serra Sicó | Wind | 52 | 2008 | 20 | 2.0 | 20.8 | – |
| Eólicas de Portugal | Wind | 20 | Licensed | 1,200 | 0.2 | 57.6 | 20% discount for minority stake |
| **Total** | – | – | – | – | – | **130.4** | – |

Source: Company data and Banco Santander de Negócios Portugal estimates.

Our valuation of this business is based on benchmarks per MW. In the case of wind energy, we have used EV/MW calculated in the report *EDP – Hoist the Spinnaker*, from December 3, 2007. In the case of Eólicas de Portugal, we have applied a 20% discount to reflect SC's minority interest in the project.

**Overall, we reached a valuation of €130mn for TP. As a result, we value SC's 50% stake in this joint venture at €65mn.**

Selfrio is a holding company that indirectly operates refrigeration and air conditioning businesses. SC controls Selfrio with a 70% stake, after it acquired an additional 35% in May 2007. The remaining 30% stake is owned by Johnson Controls, Inc.

The group aims to expand its operations in Spain and Brazil, but for now the bulk of its revenues come from Portugal. The main clients for the equipment and maintenance services it provides are food retailers, hotels and construction companies.

We have based our valuation of Selfrio on a DCF model (WACC 6.5%, *g* of 1%), reaching a total valuation of €70mn. This implies EV/sales of 0.9x in 2008E and is 10% higher than the valuation implicit in SC's acquisition of a 35% stake in May 2007.

**As a result, we value SC's 70% stake in Selfrio at €49mn.**

## NOTES

## NOTES

# Important Disclosures

**ANALYST CERTIFICATION: We, Sonia Pimpao and Pedro Balcao, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and its securities. We also certify that we have not been promised compensation either directly or indirectly for expressing the recommendation in this report.**

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| | | % of Companies | |
|---|---|---|---|
| **Rating** | **Definition** | **Covered with This Rating** | **Provided with Investment Banking Services in Past 12M** |
| **Buy** | Upside of more than 15%. | 42.39 | 45.28 |
| **Hold** | Upside of 10%-15%. | 10.87 | 7.55 |
| **Underweight** | Upside of less than 10%. | 33.70 | 30.19 |
| **Under Review** | | 13.04 | 16.98 |

(*) Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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# Sonae Capital

**Current Price: NA**
**Target Price: €3.00**

**Buy**

Sonae Capital (SC) combines tourism and real estate development (Sonae Turismo) with several joint ventures and financial investments (Spred). The bulk of SC's value stems from Sonae Turismo (c70% EV), whose main projects – Troia and Efanor – target the most interesting segments of Portugal's real estate sector: second homes and the upscale residential market. Since Sonae announced the spin-off of SC (early 2007), Spred disposed of six businesses, and more disposals are likely to follow.

## Financial Data: P&L, Balance Sheet and CF Statement, 2005-09E

| P&L Account (€ mn) | 2005 | 2006 | 2007E | 2008E | 2009E | CAGR 06-09E (%) |
|---|---|---|---|---|---|---|
| **Revenues** | **266.0** | **266.6** | **300.0** | **268.1** | **274.5** | **1.0** |
| YoY Change (%) | | 0.2 | 12.5 | -10.7 | 2.4 | |
| Sonae Turismo | **36.5** | **31.0** | **58.3** | **173.7** | **176.2** | 78.5 |
| Spred | **230.0** | **235.6** | **241.7** | **94.3** | **98.3** | -25.3 |
| Others | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | |
| **EBITDA** | **44.2** | **18.0** | **27.9** | **60.4** | **62.0** | **51.0** |
| YoY Change (%) | | -59.3 | 54.8 | 116.9 | 2.5 | |
| EBITDA margin (%) | 16.6 | 6.8 | 9.3 | 22.5 | 22.6 | |
| Sonae Turismo | **11.2** | **-5.4** | **9.5** | **51.8** | **52.3** | 127.0 |
| Spred | **13.3** | **14.5** | **15.2** | **8.6** | **9.6** | -12.8 |
| Others | 19.7 | 8.9 | 3.2 | 0.0 | 0.0 | |
| **EBIT** | **18.2** | **1.2** | **16.8** | **45.8** | **42.2** | **227.7** |
| As % of revenues | | -93.4 | NM | 173.0 | -7.9 | |
| Net interest expenses | 4.3 | 4.6 | -17.5 | -14.4 | -16.8 | |
| Extraordinary items | 55.2 | 3.5 | 3.5 | 47.0 | 0.0 | |
| **Pre-tax profits** | 77.6 | 9.4 | 2.8 | 78.4 | 25.4 | **39.5** |
| YoY change (%) | | -87.9 | -69.9 | NM | -67.6 | |
| Taxes | 3.2 | 4.3 | 0.7 | 8.3 | 6.7 | |
| Tax rate (%) | 4 | 46 | 27 | 11 | 27 | |
| Minority interests | 1.6 | 2.8 | 1.8 | 1.2 | 0.7 | |
| **Net profit** | **72.9** | **2.2** | **0.2** | **68.9** | **17.9** | **101.6** |
| YoY change (%) | | -97.0 | -89.1 | NM | -74.0 | |
| **Adj. Net profit** | **17.8** | **-1.4** | **-3.3** | **21.9** | **17.9** | **147.7** |

| Balance Sheet (€ mn) | 2005 | 2006 | 2007E | 2008E | 2009E | CAGR 06-09E (%) |
|---|---|---|---|---|---|---|
| Fixed assets | 344.4 | 422.6 | 441.5 | 475.8 | 500.9 | – |
| Goodwill | 49.0 | 49.0 | 77.8 | 77.8 | 77.8 | – |
| Inventories | 80.7 | 93.4 | 132.5 | 90.8 | 108.4 | – |
| Trade receivables | 209.1 | 130.6 | 92.1 | 60.8 | 63.2 | – |
| Cash & equivalents | 9.2 | 15.9 | 10.9 | 10.9 | 10.9 | – |
| Total assets | **692.4** | **711.5** | **754.8** | **716.0** | **761.3** | – |
| Shareholders' equity | 391.4 | 292.2 | 294.3 | 354.4 | 373.1 | – |
| LT financial debt | 52.4 | 86.4 | 145.3 | 210.8 | 221.1 | – |
| ST financial debt | 51.3 | 47.4 | 47.4 | 47.4 | 47.4 | – |
| Trade payables | 177.4 | 266.9 | 247.0 | 82.6 | 99.0 | – |
| Provisions | 19.9 | 18.8 | 20.8 | 20.8 | 20.8 | – |

| CF Statement (€ mn) | 2005 | 2006 | 2007E | 2008E | 2009E | CAGR 06-09E (%) |
|---|---|---|---|---|---|---|
| Op cash flow | 18.0 | 27.9 | 60.4 | 62.0 | 44 | – |
| Chg in working capital | -4.8 | 14.6 | -24.3 | -3.8 | 8 | – |
| Capex | -68.2 | -120.6 | -89.3 | -51.3 | -35 | – |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0 | – |
| Free cash flow | -55.0 | -78.1 | -53.2 | 6.8 | 17 | – |

Source: Company data and Banco Santander de Negócios Portugal estimates.

## Per Share Data, 2006-09E

| (€) | 2006 | 2007E | 2008E | 2009E |
|---|---|---|---|---|
| EPS | 0.01 | 0.00 | 0.28 | 0.07 |
| % chg | -97 | -89 | 28,822 | -74 |
| Adj EPS | -0.01 | -0.01 | 0.09 | 0.07 |
| % chg | -108 | -144 | 762 | -18 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 |
| % chg | NM | NM | NM | NM |
| CFPS | 0.03 | 0.05 | 0.33 | 0.15 |
| % chg | -90 | 38 | 637 | -55 |
| FCFPS | -0.22 | -0.31 | -0.21 | 0.03 |
| % chg | -419 | -42 | 32 | 113 |
| Div payout | 0 | 0 | 0 | 0 |
| % chg | NM | NM | NM | NM |

Source: Company data and BSNP estimates.

## Market Ratios, 2006-09E

| (x) | 2006 | 2007E | 2008E | 2009E |
|---|---|---|---|---|
| P/E | -309.1 | -126.9 | 19.2 | 23.4 |
| EV/sales | 0.4 | 0.7 | 2.5 | 2.5 |
| EV/EBITDA | 18.9 | 8.0 | 11.8 | 11.7 |
| EV/EBIT | 114.1 | 13.4 | 15.5 | 17.1 |
| P/CF | 90.1 | 53.9 | 11.5 | 11.1 |
| P/BV | 0.0 | 0.0 | 1.2 | 1.1 |
| FCF yield | NM | NM | -12.7 | 1.6 |
| GDY | NM | NM | 0.0 | 0.0 |

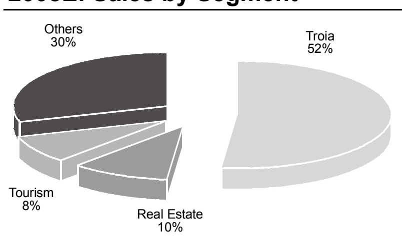
Source: Company data and BSNP estimates.

## Financial Ratios, 2006-09E

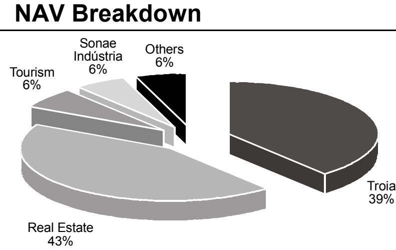
| (%) | 2006 | 2007E | 2008E | 2009E |
|---|---|---|---|---|
| ROE | -0.4 | -1.2 | 7.2 | 5.3 |
| ROCE | 0.2 | 2.0 | 5.1 | 4.5 |
| D/E | 40 | 69 | 76 | 75 |
| D/EBITDA (x) | 16.3 | 7.3 | 4.5 | 4.5 |
| Int cover | 0.2 | 1.5 | 3.2 | 2.5 |

Source: Company data and BSNP estimates.

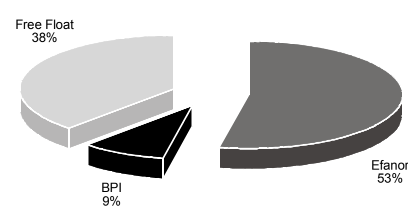
## 2008E: Sales by Segment




## NAV Breakdown




## Shareholder Structure




Source: Company data and Banco Santander de Negócios Portugal estimates.