



Reuters ETH.MI / Bloomberg ETH IM Index: FTSE Euro First 300

# Eurotech

Rating  
**Reduce**Previous  
**Buy**

9 September 2008 - EARNINGS REVISION

ITALY - SMALL / MID-CAPS

TECHNOLOGY HARDWARE &amp; EQUIPMENT

## Change of analyst: we revise our estimates and valuation

Coverage of Eurotech switches from Roberta Ciaccia to Alessio Rocci. After having lowered our estimates, we cut our target price from EUR6.5 to EUR3.5 and downgrade the stock from Buy to Reduce.

Target Price

**EUR3.50**

Current Price

**EUR4.10**

Market Cap

**EUR145.6m**

Free Float

**81%**

Year End Dec. 31	Sales (EURm)	EBIT (EURm)	EBIT Margin (%)	Net Profit (EURm)	EPS (EUR)	P/E	P/CF	EV/ Sales	EV/ EBITDA	EV/ EBIT	Div. Yield (%)
2006	50.8	-0.3	-0.7	0.6	0.02	423.5	na	na	na	na	0.0
2007	76.5	-4.1	-5.4	-4.9	-0.14	na	na	0.2	na	na	0.0
2008E	101.6	2.8	2.7	-3.7	-0.11	na	na	0.2	1.4	5.6	0.0
2009E	113.3	7.5	6.6	3.0	0.08	48.3	15.4	0.1	0.7	1.4	0.0
2010E	124.9	10.7	8.5	5.4	0.15	26.9	11.5	0.0	0.1	0.3	0.0

Source: Landsbanki Kepler

YTD Abs. Perf.	-19.6%
Shares Outstanding (m)	36
Daily Trade Vol. (sh. 000)	112
52 Week High/Low	EUR7.98/EUR3.65
Enterprise Value (EURm)	16
Net Debt (EURm)	13

## Change of analyst

We continue coverage of Eurotech, switching it from Roberta Ciaccia to Alessio Rocci. We have reviewed our previous estimates, valuation model and view on the stock.

## Lower estimates

We reduce the previous 2008-10 estimates on average by 32% for sales, by 31% for gross profit, 59% for EBITDA and 74% in terms of EBIT and we cut our net result from EUR7.1m profit to a EUR3.7m loss in 2008, from EUR15.6m to EUR3.0m in 2009 and from EUR19.8m to EUR5.4m in 2010. We have lowered our previous sales estimates, mainly in the high performance computer line. The cuts in EBITDA and EBIT are mainly due to lower sales owing to Eurotech's high operating leverage. We now take a conservative approach, not factoring in estimates for orders which are only likely, but may not materialise or could risk being postponed.

## Downgrade from Buy to Reduce

We have also changed previous analyst valuation model and have factored our new estimates into a DCF model fed with ten years' explicit estimates and a WACC of 10.5% and g of 2%. As a consequence, we cut our target price from EUR6.5 to EUR3.5. The entry of Finmeccanica into Eurotech's shareholder structure with an 11.1% stake is good news, although at present there is no data available to say just how positive this is. We expect more news in the months ahead. Adopting a conservative approach, excluding from our valuation most of the orders not yet signed, we downgrade the stock from Buy (the stock was Under Review during the change of analyst) to Reduce.

Landsbanki Kepler acts as "specialist" for Eurotech according to art. 2.2.3. of Borsa Italiana rules.

Eurotech rel. FTSE Euro Fir st 300



Source: Landsbanki Kepler

Published by:  
Landsbanki Kepler

This report is subject to important disclosures and disclaimers which can be found at the end of this report and which form an integral part of it.

# Key financials

## Company profile

Eurotech is a leading player in research, development, production and sale of miniaturized and high-performance PCS. The comprehensive range of products offered is Eurotech's key distinctive feature, which helped the company building a wide and diversified client base throughout key reference markets (industrial, defence, transport, medical and research).

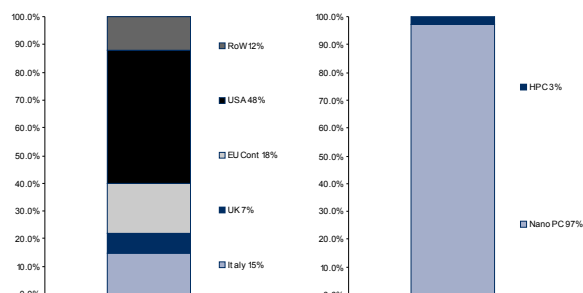
## Top shareholders

Management 19.5%

## Events calendar

Q3 2008 Results 14/11/2008

## Sales split – Geographical and divisional



## Income statement (EURm), Dec. 31

	2007	2008E	2009E	2010E
<b>Sales</b>	<b>76.5</b>	<b>101.6</b>	<b>113.3</b>	<b>124.9</b>
<b>EBITDA adjusted</b>	<b>-0.3</b>	<b>10.9</b>	<b>16.0</b>	<b>19.5</b>
Depreciation & amortisation	-3.8	-8.1	-8.5	-8.8
<b>EBIT adjusted</b>	<b>-4.1</b>	<b>2.8</b>	<b>7.5</b>	<b>10.7</b>
Net financial & associates	0.0	-3.7	-2.2	-1.4
Non recurring items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>-4.2</b>	<b>-0.9</b>	<b>5.4</b>	<b>9.2</b>
Income tax	-0.8	-2.5	-2.0	-3.5
Tax rate (%)	-20.4%	-268.7%	37.5%	37.5%
Minorities	0.1	-0.3	-0.3	-0.4
<b>Reported net earnings</b>	<b>-4.9</b>	<b>-3.7</b>	<b>3.0</b>	<b>5.4</b>
Adjustments	0.0	0.0	0.0	0.0
<b>Adj. net earnings (group)</b>	<b>-4.9</b>	<b>-3.7</b>	<b>3.0</b>	<b>5.4</b>

## Cash-flow statement (EURm)

	2007	2008E	2009E	2010E
Adj. net earnings	-4.9	-3.7	3.0	5.4
D&A	3.8	8.1	8.5	8.8
Change in WC	-16.1	-6.6	-2.3	-1.9
Other adjustments	-0.1	0.3	0.3	0.4
<b>Operating cash flow</b>	<b>-17.3</b>	<b>-2.0</b>	<b>9.5</b>	<b>12.6</b>
Capex	5.4	4.2	4.5	4.8
<b>Free cash-flow</b>	<b>-22.67</b>	<b>-6.15</b>	<b>4.97</b>	<b>7.83</b>
Disposals	0.0	0.0	0.0	0.0
Financial investments	83.9	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Share buy-backs	0.0	0.0	0.0	0.0
Equity issued	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Net debt change</b>	<b>106.6</b>	<b>6.2</b>	<b>-5.0</b>	<b>-7.8</b>

## Ratios

	2007	2008E	2009E	2010E
Sales growth (%)	50.8%	32.7%	11.6%	10.2%
EBITDA growth (%)	ns	ns	46.3%	21.8%
EBIT growth (%)	1,122.9%	-167.7%	169.8%	42.0%
Net earnings growth (%)	ns	ns	ns	79.6%
Gross margin (%)	49.8%	54.1%	54.6%	54.7%
EBITDA margin (%)	-0.4%	10.7%	14.1%	15.6%
EBIT margin (%)	-5.4%	2.7%	6.6%	8.5%
Net earnings margin (%)	-6.4%	-3.7%	2.7%	4.3%
Net debt/equity (%)	5.1%	10.4%	6.1%	-0.2%
Net debt/EBITDA (%)	-1,993.4%	114.8%	47.4%	-1.4%
ROE (%)	-3.8%	-3.1%	2.5%	4.4%
ROCE (%)	-4.4%	1.9%	5.1%	7.3%
Equity/total assets (%)	54.6%	51.2%	52.2%	54.2%
Net WC/sales (%)	35.1%	33.0%	31.6%	30.2%
Operating CF/sales (%)	-22.6%	-1.9%	8.4%	10.1%
Capex/sales (%)	7.0%	4.1%	4.0%	3.8%
FCF/sales (%)	-29.6%	-6.1%	4.4%	6.3%
Capex/D&A (%)	141.2%	51.7%	53.2%	54.6%
Dividend pay out (%)	0.0%	0.0%	0.0%	0.0%

## Balance sheet (EURm), Dec. 31

	2007	2008E	2009E	2010E
Cash and equivalents	56.7	55.8	56.5	57.7
Account receivables	18.8	23.9	25.5	27.5
Other current assets	29.5	37.7	40.9	43.9
<b>Current assets</b>	<b>105.0</b>	<b>117.3</b>	<b>122.9</b>	<b>129.0</b>
Goodwill	0.0	0.0	0.0	0.0
Other intangible assets	111.9	107.0	102.1	97.0
Property, plant & equipment	6.7	7.7	8.7	9.7
Financial assets	3.5	3.5	3.5	3.5
<b>Fixed assets</b>	<b>122.1</b>	<b>118.2</b>	<b>114.2</b>	<b>110.3</b>
Short-term debt	13.0	16.1	13.6	9.7
Accounts payable	14.5	19.3	21.0	23.1
Other current liabilities	9.0	10.9	11.8	12.6
<b>Current liabilities</b>	<b>36.6</b>	<b>46.3</b>	<b>46.3</b>	<b>45.4</b>
Long-term debt	50.0	52.2	50.5	47.7
Pension provisions	1.5	1.5	1.5	1.5
Other long-term liabilities	15.1	15.1	15.1	15.1
<b>Long-term liabilities</b>	<b>66.6</b>	<b>68.7</b>	<b>67.0</b>	<b>64.3</b>
Shareholders' equity	121.5	117.7	120.7	126.2
Minority interest	2.5	2.8	3.1	3.5
<b>Total shareholders' equity</b>	<b>123.9</b>	<b>120.5</b>	<b>123.9</b>	<b>129.6</b>
<b>Net debt</b>	<b>6.4</b>	<b>12.5</b>	<b>7.6</b>	<b>-0.3</b>
<b>Net working capital</b>	<b>26.9</b>	<b>33.5</b>	<b>35.8</b>	<b>37.8</b>
<b>Capital employed</b>	<b>145.5</b>	<b>148.2</b>	<b>146.6</b>	<b>144.5</b>
<b>Total assets</b>	<b>227.1</b>	<b>235.5</b>	<b>237.2</b>	<b>239.3</b>

## Per share (EUR)

	2007	2008E	2009E	2010E
EPS adjusted	-0.14	-0.11	0.08	0.15
EPS reported	-0.14	-0.11	0.08	0.15
CFPS	-0.49	-0.05	0.27	0.36
BV/PS	3.45	3.32	3.40	3.55
DPS	0.00	0.00	0.00	0.00
Year-end nb of shares(m)	35.5	35.5	35.5	35.5
Av. diluted nb of shares(m)	35.3	35.5	35.5	35.5

## Valuation

	2007	2008E	2009E	2010E
P/E	na	na	48.3	26.9
P/BV	2.3	1.2	1.2	1.2
P/CF	na	na	15.4	11.5
Dividend yield	0.0%	0.0%	0.0%	0.0%
FCF yield	-232.1%	-120.3%	97.1%	153.1%
EV/sales	0.23	0.15	0.09	0.02
EV/EBITDA	na	1.4	0.7	0.1
EV/EBIT	na	5.6	1.4	0.3
EV/capital employed	0.2	0.1	0.1	0.0

Source: Landsbanki Kepler

## Why the stock is a Reduce

### 2008-10 estimates cut: EBIT down 74% on average

Following the switch of Eurotech coverage from Roberta Ciaccia to Alessio Rocci, we have lowered the previous estimates for 2008-10. We cut the previous 2008-10 sales estimates by 32% on average, of which about 35% in nano pc, about 73% in high performance computers and 11% in Advanet. As a result, we now expect sales of EUR101.6m in 2008, EUR113.3m in 2009 and EUR124.9m in 2010. Following our sales revision, we expect 2008 top line to be organically flat; hence, growth comes from the Advanet acquisition made in October 2007. As a consequence of the sales cuts due to Eurotech high operating leverage, we have sliced EBITDA 2008-10 by 59%. Even if we cut our D&A 2008-10 estimates by 2.7% on average, EBIT for the next three years is reduced by an average 74%. We lower our net result for 2008-10 on the back of lower EBIT estimates and financial charges for the next three years (previous analyst model included neither financial income nor financial charges), therefore, we cut the net result from EUR7.1m profit to EUR3.7m loss in 2008, from EUR15.6m to EUR3.0m profit in 2009 and from EUR19.8m to EUR5.4m profit in 2010.

Table 1: Eurotech estimates revision

	2008E previous analyst	2008E current analyst	2009E previous analyst	2009E current analyst	2010E previous analyst	2010E current analyst
Sales	137.7	101.6	174.7	113.3	194.0	124.9
Gross profit	73.7	55.0	92.7	61.8	102.5	68.3
EBITDA	23.2	10.9	36.1	10.9	43.1	19.5
EBIT	14.8	2.8	27.6	7.5	33.9	10.7
Pre-tax profit/(loss)	14.8	-0.9	27.6	5.4	33.9	9.2
Net profit/(loss)	7.1	-3.7	15.6	3.0	19.8	5.4

Source: Landsbanki Kepler

### Finmeccanica partnership: an ongoing process

In May, Finmeccanica's BOD decided to buy 11.1% of Eurotech's share capital for EUR4.6 per share. The share transfer is pending CFIUS (Committee on Foreign Investment in the United States) approval, expected by the end of September 2008. The entry of Finmeccanica into Eurotech's capital will surely strengthen the partnership between the two companies begun in July 2006; but at this stage, we do not have data to gauge the amount of additional sales we can expect from Finmeccanica. Therefore, for now we prefer to take a conservative approach: not factoring any additional revenue from Finmeccanica. The development of the relationship in the coming months could lead us to review our estimates and stance on the stock.

## Valuation

### Change of analyst: target price down to EUR3.5 and rating to Reduce

With the change of analyst, we have modified the valuation model, now using a DCF model fed with ten years' explicit cash-flows with a WACC of 10.5% and g of 2%. Even if we cut previous analyst capex projections by 40% on average, factoring our new estimates into the modified DCF model yields a target price of EUR3.5 per share (EUR6.5 previously; during the change of analyst the stock was Under Review). At this stage, the relationship between Eurotech and Finmeccanica is still developing, so even if the entry of Finmeccanica into Eurotech's shareholder structure is positive, we do not have any data to say exactly to what extent. Moreover, the orders expected from Finmeccanica through the partnership signed in 2006 will not materialise in 2008. For the moment, we prefer to take a conservative approach factoring in only a small portion of sales coming from Finmeccanica partnership for 2009 and 2010. Accordingly, we downgrade the stock from Buy to Reduce. If the relationship with Finmeccanica develops positively, there may be scope to review our rating.

Table 2: DCF summary

(EUR m)	Nominal FCF	Discounted FCF
Full-year 2008-17E	109.0	60.7
Terminal value	203.1	71.1
EV		131.8
NFP		-6.4
Minorities		-2.9
Equity value		122.6
Number of shares		35.5
Value per share		3.5

Source: Landsbanki Kepler

## Catalysts and news flow

Finmeccanica's entry among Eurotech shareholders with 11.1% of the capital (share transfer is subject to CFIUS approval expected by the end of September 2008) is positive news that will strengthen the partnership between the two companies. For the moment, we have no data to allow us to estimate possible revenues coming from Finmeccanica. Visibility on this driver in the coming months could lead us to take a more positive stance on the stock.

## Risks to our rating

We believe that the main risk to our rating is linked to the relationship with Finmeccanica. A short-term positive development of the relationship with Finmeccanica, leading to new sales in 2008 and higher-than-expected contracts in 2009-10, could lead us to revise our rating.

## Additional insights

### H1 results below expectations.

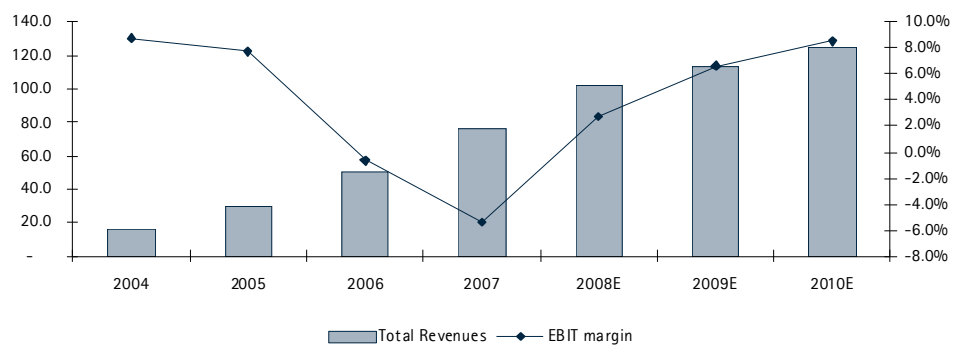
Eurotech reported H1 results below our expectations: sales EUR42.1m, +19% YOY (-5% vs. LKE); gross profit EUR23.3m, +31% YOY (-5% vs. LKE); EBITDA EUR1.7m, versus EUR0.7m in H1 2007 (vs. EUR4m LKE); EBIT minus EUR2.7m versus minus EUR1.5m in H1 2007 (vs. EUR0.7m LKE); net result minus EUR5.0m versus minus EUR0.9m in H1 2007 (vs. -EUR2.8m LKE).

H1 is the weakest season for Eurotech (accounts for roughly 40% of annual sales), hence we expected H2 results to be stronger not only in terms of sales but also EBIT and net result, due to Eurotech's high operating leverage.

## Company background

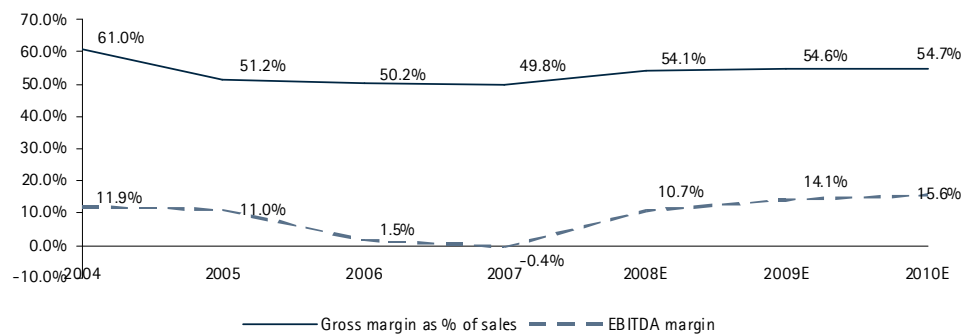
Eurotech is a leading player in research, development, production and the sale of miniaturised and high-performance PCs. Eurotech stands out for the comprehensive range of products it offers, which has allowed the company to build up a wide and diversified client base throughout key reference markets (industrial, defence, transport, medical and research).

Chart 1: Eurotech sales and EBIT margin performance



Source: Company data, Landsbanki Kepler

Chart 2: Eurotech gross and EBITDA margin development



Source: Company data, Landsbanki Kepler

# Disclosures

## Disclosure checklist – Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Eurotech	IT0003895668	7	EUR	4.10
Finmeccanica	IT0003856405	nothing to disclose	EUR	17.24

Source: Factset closing prices of 08/09/2008

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Rating History:

Landsbanki-Kepler's current rating for Eurotech is "Reduce" and was issued on 9 September 2008. The preceding rating was "Buy" and was issued on 18 July 2006.

We have disclosed the recommendation to the issuer before its dissemination and the recommendation has not been amended following this disclosure.

### Rating ratio Landsbanki Kepler Q2 2008

Rating breakdown	A	B
Buy	61.9%	0.0%
Hold	9.7%	0.0%
Reduce	24.3%	0.0%
Not Rated/Under Review/Accept Offer	4.1%	0.0%
Total	100.0%	0.0%

Source: Landsbanki Kepler

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

### Rating ratio Landsbanki Islands hf. Q2 2008

Rating breakdown	A	B
Buy	56.0%	56.0%
Hold	15.0%	15.0%
Reduce	20.0%	21.0%
Not Rated/Under Review/Accept Offer	10.0%	8.0%
Total	100.0%	100.0%

Source: Landsbanki Islands hf.

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

### Rating ratio Merrion Stockbrokers Limited Q2 2008

Rating breakdown	A	B
Buy	42.9%	0.0%
Hold	57.1%	0.0%
Reduce	0.0%	0.0%
Not Rated/Under Review/Accept Offer	0.0%	0.0%
Total	100.0%	0.0%

Source: Merrion Stockbrokers Limited

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

### Rating ratio Landsbanki Securities (UK) Limited Q2 2008

Rating breakdown	A	B
Buy	60.0%	70.0%
Hold	28.4%	20.0%
Reduce	7.4%	1.4%
Not Rated/Under Review/Accept Offer	4.2%	8.6%
Total	100.0%	100.0%

Source: Landsbanki Securities (UK) Limited

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

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**Stock prices:** Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

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Location	Regulator	Abbreviation
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Landsbanki Kepler Nederland	Autoriteit Financiële Markten	AFM
Landsbanki Kepler Switzerland	Swiss Federal Banking Commission	SFBC
Landsbanki Securities (UK)	The Financial Services Authority	FSA
Merrion Stockbrokers Limited	The Irish Financial Services Regulatory Authority	IFSRA
Landsbanki Helsinki Branch	The Finnish Financial Supervision Authority	FIN-FSA
Landsbanki Norway	The Financial Supervisory of Norway	FSAN
Landsbanki Islands hf.	The Financial Supervisory Authority	FME

Source: Landsbanki Kepler, Landsbanki Securities (UK) Limited, Merrion Stockbrokers Limited and Landsbanki Islands hf.

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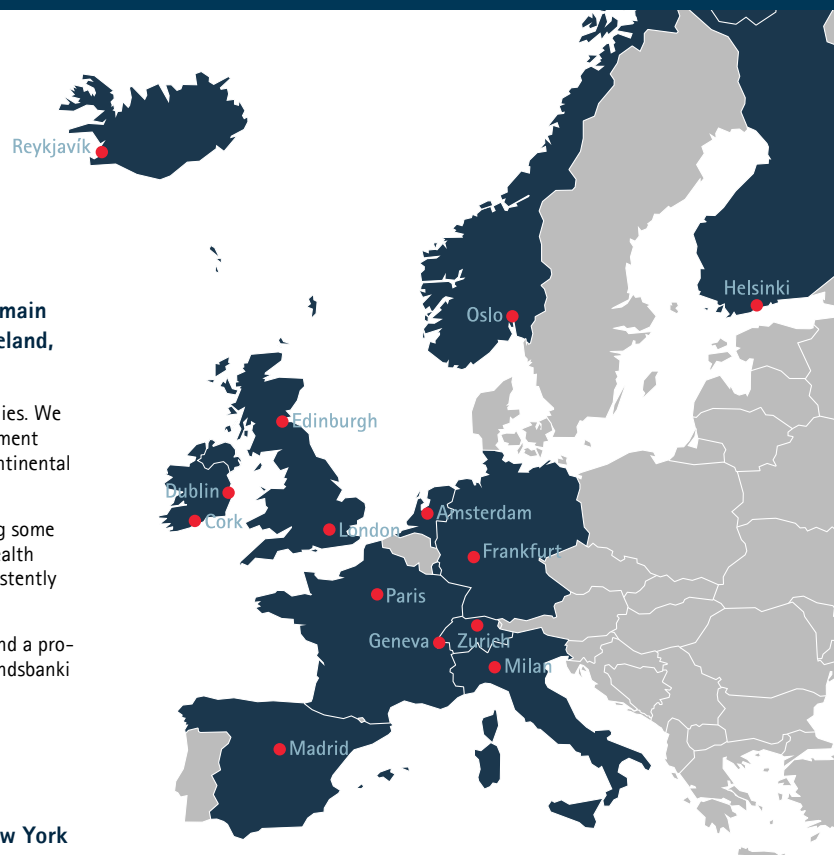
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