Equity Research

Eurotech

IT Hardware - Italy
Consumer Electronic Hardware

29 October 2008

Q3 results preview - Midcaps

Rating	TP	EPS 08e	EPS 09e
↘ (=)	↘ (44%)	↘ (62%)	↘ (69%)

Neutral (Downgraded from Outperform)

Target price **EUR3.10 (-2%)**
Sector rating **Underperform**

Price (28 October 2008)	**EUR3.17**
Market cap./Free float (EURm)	111.0/82.2
EV (EURm)	106.6
3m avg. volume (EURm)	0.4
Reuters/Bloomberg	E5T.MI/ETH IM

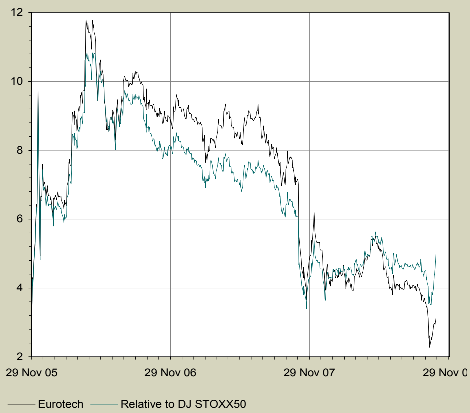
Financial data	**12/06**	**12/07**	**12/08e**	**12/09e**
Adjusted EPS (EUR)	0.01	(0.04)	0.08	0.12
EPS - IBES (EUR)	-	(0.07)	0.04	0.20
Net dividend (EUR)	0.00	0.00	0.00	0.00
Sales (EURm)	50.8	76.5	92.3	100.7
Adjusted EBIT (EURm)	(0.6)	(1.6)	4.4	5.7
Adj. net profit (EURm)	0.3	(1.3)	2.6	4.2
Adj. net debt / EBITDA (x)	-	-	-	-

Stockmarket ratios*	**12/06**	**12/07**	**12/08e**	**12/09e**
P/E (x)	785.1	-	42.2	26.4
P/BV (x)	2.2	2.1	0.8	0.8
Net yield (%)	0.0	0.0	0.0	0.0
FCF yield (%)	(5.0)	(2.4)	6.8	2.8
EV/Sales (x)	2.8	3.6	1.2	1.1
EV/EBITDA (x)	65.7	189.1	12.3	10.7
EV/EBIT (x)	-	-	24.4	20.0

** Yearly average prices for FY to end-12/06, 12/07*

Performance (%)	**1w**	**1m**	**3m**	**12m**
Absolute	6	(15)	(21)	(55)
Rel. IT Hardware	18	8	19	9
Rel. DJ STOXX50	21	13	9	(16)

Price relative to DJ STOXX50



Source: Datastream

Q3 results on 14 November: another profit warning looming

► **We understand Eurotech's Q3 was as weak as H1**

In Q3, we expect ETH to report revenues of EUR20.3m, up 37% YoY (an extremely easy comparison, as Q3 2007 has been an ugly one), but totally flat on Q1 and Q2. Although this can be partially attributed to the weak USD (ETH generates around 50% of its turnover in the US), it nonetheless highlights the zero growth in the order portfolio. Indeed, all YoY increases were derived from the Advanet consolidation (started in November 2007). In Q3, we expect EBITDA to reach -EUR0.44m, as opex is equally split on a quarterly basis.

► **We see no reason for a turnaround: EBITDA 08-09e cut by 44% & 57%**

Our previous estimates, which pointed at EUR106m revenues and EUR16m EBITDA, now look unrealistic, even assuming a recovery in Q4. We have therefore revised our 2008e sales and EBITDA down by 13% and 44%, respectively (cost structure is quite rigid). Looking forward, and taking into account the consistently disappointing growth in the new order pipeline over the last year, we believe it is wiser to assume a very limited contribution from new activities, such as the wearable PC and strategic partnerships (Finmeccanica and IBM). As a result, we have cut our revenues and EBITDA for 2009e by 30% and 57%, respectively, for a yoy top-line growth of less than 10%.

► **Estimates tuned with weaker outlook yield EUR3.1 target price. Neutral.**

Given our sharply revised estimates, we value Eurotech at EUR3.1/share, down from EUR5.5/share previously. This, coupled with the stock's recent recovery (almost 40% over the last two weeks), suggests maintaining a more cautious approach. We downgrade the stock to Neutral. The main risk to our rating derives from the potential intake of sizeable new orders, which we would nonetheless rule out at this stage.

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Figure 1: Eurotech – New versus old estimates 2008-09e

	new		old		New vs old	
EURm	**2008e**	**2009e**	**2008e**	**2009e**	**2008e**	**2009e**
Sales	92.3	100.7	106.2	143.6	(13.1)	(29.9)
Yoy % chg	20.6	9.2	38.8	35.2		
Gross profit	49.3	53.9	58.1	78.0	(15.1)	(30.9)
Gross margin (%)	53.4	53.5	54.7	54.3		
EBITDA	9.0	11.1	16.1	26.0	(43.7)	(57.2)
EBITDA margin (%)	9.8	11.1	15.1	18.1		
EBIT	1.7	3.1	8.7	18.0	(80.4)	(82.7)
EBIT margin (%)	1.9	3.1	8.2	12.5		
Profit before taxes	2.2	3.7	9.2	18.6	(76.5)	(80.1)

Source: Exane BNP Paribas estimates

Figure 2: Eurotech – Q3 and FY 2008e estimates

P&L	**Q1 08**	**Q2 08**	**Q3 08e**	**Q4 08e**	**FY 08e**
Sales	21.4	20.7	20.3	29.9	92.3
Yoy % chg	41.5	1.8	37.5	13.5	20.6
Gross profit	12.4	10.9	10.6	15.4	49.3
Gross margin (%)	58	53	52	52	53
EBITDA	1.87	(0.19)	(0.44)	8.54	9.0
EBITDA margin (%)	8.7	(0.9)	(2.2)	28.6	9.8
D&A	(0.8)	(1.8)	(1.8)	(1.8)	(4.3)
EBIT	1.11	(3.77)	(2.27)	6.71	1.7
EBIT margin (%)	5.2	(18.2)	(11.2)	22.5	1.9

Source: Company, Exane BNP Paribas estimates

Forthcoming events

Date	Event
14 Nov. 2008	Q3 2008 Results

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Exane is independent of BNP Paribas (BNPP) and the agreement between the two companies is structured to guarantee the independence of Exane's research, published under the brand name "Exane BNP Paribas". Nevertheless, to respect a principle of transparency, we separately identify potential conflicts of interest with BNPP regarding the company/(ies) covered by this research document.

Exane

Investment banking	Distributor	Liquidity provider	Corporate links	Analyst's personal interest	Equity stake		Amended after Disclosure to company	Additional material conflicts
					US Law	French Law		
NO	**NO**	**NO**	**NO**	**NO**	**NO**	**NO**	**NO**	**NO**

Source: Exane

BNP Paribas

Potential conflicts of interest: None.

Source: BNP Paribas

NB: This document has been modified since its initial post on web to give details on our previous estimates in the second bullet point on page 1.

Price at 28/10/08: EUR 3.2
Target price: EUR 3.1 / - 2.3%

Stock rating vs Sector: Neutral
Sector rating vs Market: Underperform

EUROTECH
Consumer Electronic Hardware | IT Hardware - Italy

Enterprise value (EURm)			107
Mkt cap. / Free float (EURm)			111 / 82
3m average volume (EURm)			0.39
12-mth high / low (EUR)			7.1 / 2.3
Performance	**1mth**	**3mths**	**12mths**
Absolute	(15%)	(21%)	(55%)
Rel. (Sector)	8%	19%	9%
Rel. (DJ STOXX50)	13%	9%	(16%)
Reuters/Bloomberg			E5T.MI / ETH IM
Analyst: Roberta Ciaccia			
CAGR	**2006/2008**		**2008/2009**
EPS restated (*)	156%		60%
CFPS	NC		44%

PER SHARE DATA (EUR)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**
No of shares year end, basic, (m)	18.675	35.004	35.004	35.004	35.004
Average no of shares, diluted, excl. treasury stocks (m)	18.675	26.840	35.004	35.004	35.004
Price (yearly avg from Dec. 05 to Dec. 07)	**6.0**	**9.0**	**7.9**	**3.2**	**3.2**
EPS reported	*0.05*	*0.01*	*(0.09)*	*0.02*	*0.06*
EPS restated	0.04	0.01	(0.04)	0.08	0.12
% change	*NS*	*(73.6%)*	*NS*	*NS*	*59.9%*
CFPS	0.08	(0.15)	(0.10)	0.19	0.27
Book value (BVPS) (a)	1.7	4.0	3.8	3.8	3.8
Net dividend	0.00	0.00	0.00	0.00	0.00
STOCKMARKET RATIOS — **YEARLY AVERAGE PRICES for end Dec. 05 to Dec. 07**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**
P / E (P/ EPS restated)	138.7x	NS	NC	42.2x	26.4x
P / E relative to DJ STOXX50	1,050%	NS	NC	577%	409%
P / CF	73.2x	NC	NC	17.1x	11.9x
FCF yield	3.3%	(5.0%)	(2.4%)	6.8%	2.8%
P / BVPS	3.47x	2.24x	2.09x	0.84x	0.83x
Net yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout	0.0%	0.0%	(0.0%)	0.0%	0.0%
EV / Sales	3.15x	2.79x	3.60x	1.15x	1.13x
EV / Restated EBITDA	31.7x	65.7x	189.1x	12.3x	10.7x
EV / Restated EBIT	47.8x	NC	NC	24.4x	20.0x
EV / OpFCF	17.1x	NC	NC	12.1x	31.7x
EV / Capital employed (incl. gross goodwill)	7.6x	3.5x	3.9x	0.8x	0.8x
ENTERPRISE VALUE (EURm)	**94**	**142**	**276**	**107**	**113**
Market cap	112	242	275	111	111
+ Adjusted net debt	(20)	(100)	(13)	(21)	(6)
+ Other liabilities and commitments			0	0	0
+ Revalued minority interests	2	0	17	17	8
- Revalued investments	0	0	4	0	0
P & L HIGHLIGHTS (EURm) — **Switch to IFRS data from FY ended 12/05**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**
Sales	**29.9**	**50.8**	**76.5**	**92.3**	**100.7**
Restated EBITDA (b)	**3.0**	**2.2**	**1.5**	**8.6**	**10.6**
Depreciation	(1.0)	(2.7)	(3.0)	(4.3)	(5.0)
Restated EBIT (b) (*)	**2.0**	**(0.6)**	**(1.6)**	**4.4**	**5.7**
Reported operating profit (loss)	2.3	(0.3)	(4.1)	1.7	3.1
Net financial income (charges)	(0.3)	2.2	0.3	0.4	0.6
Affiliates	-	-	-	-	-
Other					
Tax	(1.0)	(1.4)	0.4	(0.6)	(0.9)
Minorities	(0.0)	(0.1)	0.2	(1.0)	(0.7)
Goodwill amortisation	-	-	-	-	-
Net attributable profit reported	1.0	0.4	(3.2)	0.6	2.2
Net attributable profit restated (c)	**0.8**	**0.3**	**(1.3)**	**2.6**	**4.2**
CASH FLOW HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**
EBITDA (reported)	**3.3**	**2.4**	**(1.1)**	**6.0**	**8.1**
EBITDA adjustment (b)	**(0.3)**	**(0.2)**	**2.6**	**2.6**	**2.6**
Other items	0.3	0.2	0.3	0.4	0.5
Change in WCR	4.5	(2.7)	(0.2)	5.8	(1.6)
Operating cash flow	**7.8**	**(0.3)**	**1.6**	**14.8**	**9.6**
Capex	(2.3)	(4.1)	(3.5)	(6.0)	(6.0)
Operating free cash flow (OpFCF)	**5.5**	**(4.4)**	**(1.9)**	**8.8**	**3.6**
Net financial items + tax paid	(1.7)	(7.6)	(5.1)	(0.2)	(0.3)
Free cash flow	**3.8**	**(12.0)**	**(7.0)**	**8.7**	**3.3**
Net financial investments & acquisitions	0.2	(19.8)	(80.6)	0.0	(18.5)
Other	0.0	0.1	0.2	0.0	0.0
Capital increase (decrease)	25.3	111.3	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Increase (decrease) in net financial debt	**(29.3)**	**(79.6)**	**87.4**	**(8.7)**	**15.2**
Cash flow, group share	**2**	**(4)**	**(3)**	**7**	**9**
BALANCE SHEET HIGHLIGHTS (EURm)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**
Fixed operating assets, incl. gross goodwill	9	31	118	116	114
WCR	4	10	24	19	20
Capital employed, incl. gross goodwill	**12**	**41**	**142**	**135**	**134**
Shareholders' funds, group share	32	141	131	132	134
Minorities	1	0	8	8	(10)
Provisions/ Other liabilities	1	5	19	20	20
Net financial debt (cash)	(20)	(100)	(13)	(21)	(6)
FINANCIAL RATIOS (%)	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08e**	**Dec. 09e**
Sales (% change)	NS	70.0%	50.8%	20.6%	9.2%
Organic sales growth	50.0%	20.0%	4.4%	39.6%	9.2%
Restated EBIT (% change) (*)	NS	NS	(185.4%)	NS	29.8%
Restated attributable net profit (% change) (*)	NS	(62.0%)	NS	NS	59.9%
Personnel costs / Sales	24.2%	25.4%	29.6%	22.8%	22.4%
Restated EBITDA margin	9.9%	4.3%	1.9%	9.4%	10.6%
Restated EBIT margin	6.6%	(1.1%)	(2.1%)	4.7%	5.6%
Tax rate	49.0%	75.6%	NC	28.5%	23.6%
Net margin	3.4%	0.9%	(4.5%)	1.7%	2.8%
Capex / Sales	7.7%	8.0%	4.6%	6.5%	6.0%
OpFCF / Sales	18.4%	(8.6%)	(2.5%)	9.6%	3.6%
WCR / Sales	12.3%	19.7%	31.8%	20.1%	19.9%
Capital employed (excl. gross goodwill) / Sales	20.8%	27.8%	(52.0%)	(47.5%)	(22.6%)
ROE (before goodwill)	2.5%	0.2%	(1.0%)	2.0%	3.1%
Gearing	(62%)	(71%)	(9%)	(15%)	(5%)
EBITDA / Financial charges	10.0x	NC	NC	NC	NC
Adjusted financial debt / EBITDA	NC	NC	NC	NC	NC
ROCE, excl. gross goodwill	19.6%	(2.4%)	2.4%	(6.2%)	(15.4%)
ROCE, incl. gross goodwill	9.8%	(0.8%)	(1.4%)	2.0%	2.6%
WACC	9.2%	9.0%	8.9%	15.5%	15.5%
Average number of employees					

(a) Intangibles: EUR110.96m, or EUR3 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost
(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years