Intermonte

SERVIZI ITALIA NEUTRAL

SECTOR: *Industrials*

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Price (Eu): 3.76

Target Price (Eu): 4.50

Entering a Transformational Phase

- **On 21st December, Servizi Italia announced a sizeable acquisition and a rights issue to fund further growth.** In more detail, the company announced:
  - the acquisition of Lavanderia Industriale ZBM for up to Eu15.3mn, or 3.4x EV/EBITDA 2010, at a premium to SRI's current 2.3x EV/EBITDA multiple. ZBM, based in the northern Italian town of Trent, operates in laundry services. In 2010 ZBM posted revenues of Eu14mn, EBITDA of Eu4mn and net profit of Eu0.9mn. Through this deal, SRI will increase its share in the laundry service market to 27% and generate synergies with its existing business. The purchase price does not include the company's buildings, which will be rented;
  - a rights issue of up to Eu45mn, possibly coupled with the issue of up to Eu22mn in warrants, to fund both the acquisition and an international expansion plan. An EGM has been called for 31st January to give the BoD authorisation to increase paid-in capital on one or more occasions over the next 5 years;
  - up to Eu30mn of the aforementioned amount could be issued in 2012, possibly coupled with the issue of free warrants for the subscription of newly issued shares. The time frame to exercise the warrants would be 4 years. We understand that the full use of funds is directly linked with and subject to the finalisation of further acquisitions (beyond the ZMB deal, which will cost Eu15mn).
  - the controlling shareholder, AURUM (55.59%) is irrevocably committed to subscribing their shares to the rights issue. AURUM has also indicated the possibility of guaranteeing the rights issue in full or in part;
  - the company is seeking further expansion in the following geographical areas: Brazil, Russia, India, China and the Middle East.
- **Impact on estimates.** We have run a quick sensitivity analysis to simulate the potential impact of the rights issue and the consolidation of ZBM (which awaits the antitrust approval) on the company's EPS, assuming a Eu15mn rights issue at around Eu2.50ps (36% discount to December 21st close of Eu3.92) and a conservative forecast for additional revenue and EBITDA trends. In this case, the company's restated net income would increase by 12-14%, but the EPS dilution would be about 17%. If we were to assume a rights issue of Eu30mn, of which around Eu15mn to acquire ZMB and the remainder to fund another similar acquisition (similar in size and profitability to ZMB), the EPS dilution would be higher, in the 25-30% range.
- **Recommendation moved to NEUTRAL, target from Eu 6.0 to Eu4.5,** as the rights issue is likely to cap the stock price in the short term, even though the strategy of increasing market share in Italy and expanding in higher growth areas abroad makes sense. We also appreciate the fact that AURUM will take up its share of the rights issue, and may even guarantee it in full, highlighting its commitment to sustain the company in this transformational phase. On the other hand, at this stage there is little visibility on the international expansion plan, as details have yet to be disclosed. More generally, current depressed multiples are penalising SRI in case of further M&A.

*Key Figures before acquisition and R.I.

Key Figures	2009A	2010A	2011E	2012E	2013E
Sales (Eu mn)	185	195	199	203	211
Ebitda (Eu mn)	51	57	56	61	65
Net profit (Eu mn)	8	12	5	10	12
EPS - New (Eu)	0.506	0.631	0.473	0.613	0.764
EPS - Old (Eu)		0.631	0.473	0.613	0.764
DPS (Eu)	0.180	0.250	0.250	0.270	0.280

Ratios & Multiples	2009A	2010A	2011E	2012E	2013E
P/E	7.4	6.0	8.0	6.1	4.9
Div. Yield	4.8%	6.7%	6.7%	7.2%	7.5%
EV/Ebitda	2.4	2.2	2.3	1.9	1.7
ROCE	11.1%	13.2%	8.3%	13.2%	15.6%

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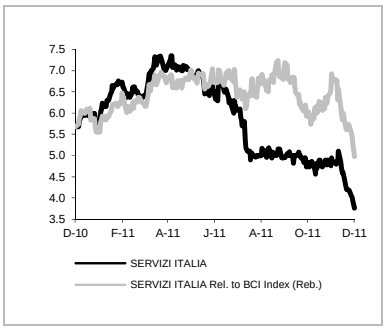
SERVIZI ITALIA - 12m Performance



RATING: from OUTPERFORM to NEUTRAL
TARGET PRICE (Eu): from 6.00 to 4.50

Change in EPS est:	2011E	2012E
	0.0%	0.0%

STOCK DATA

Reuters code:	SERIT.MI
Bloomberg code:	SRI IM

Performance	1m	3m	12m
Absolute	-23.9%	-24.1%	-33.8%
Relative	-29.7%	-33.7%	-9.3%

12 months H/L: 7.35/3.76

SHAREHOLDER DATA

No. of Ord. shares (mn):	16
Total No. of shares (mn):	16
Mkt Cap Ord (Eu mn):	61
Total Mkt Cap (Eu mn):	61
Mkt Float - ord (Eu mn):	23
Mkt Float (in %):	*38.5%*
Main shareholder:	
Aurum	55.6%

BALANCE SHEET DATA	2011
Book value (Eu mn):	84
BVPS (Eu):	5.10
P/BV:	0.7
Net Financial Position (Eu mn):	-69
Enterprise value (Eu mn):	129

SERVIZI ITALIA - *KEY FIGURES * (before acquisition and R.I.)*		2009A	2010A	2011E	2012E	2013E
	Fiscal year end	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
PROFIT & LOSS (Eu mn)	Sales	185	195	199	203	211
	EBITDA	51	57	56	61	65
	EBIT	16	19	12	20	24
	Financial income (charges)	(2)	(2)	(3)	(3)	(2)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	14	17	9	17	22
	Taxes	(5)	(5)	(4)	(7)	(9)
	Tax rate (%)	38.7%	29.4%	44.0%	40.0%	40.0%
	Minorities & discontinue activities	0	0	1	1	1
	Net profit	8	12	5	10	12
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	51	57	58	61	65
	Ebit excl. extraordinary items	16	19	12	20	24
	Net profit restated	8	10	8	10	12
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	16	16	16	16	16
	EPS stated fd	0.496	0.741	0.283	0.600	0.749
	EPS restated fd	0.506	0.631	0.473	0.613	0.764
	BVPS fd	3.832	4.818	5.101	5.702	6.450
	Dividend per share (ord)	0.180	0.250	0.250	0.270	0.280
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	44	50	49	52	56
	Change in NWC	(3)	11	(6)	3	(2)
	Capital expenditure	(49)	(62)	(41)	(39)	(41)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(8)	(2)	1	15	11
	Acquisitions, divestments & others	(1)	2	0	0	0
	Dividend	(2)	(3)	(4)	(4)	(4)
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	(4)	(2)	(3)	12	7
BALANCE SHEET (Eu mn)	Total fixed assets	133	136	149	148	155
	Net working capital	24	14	20	17	19
	Long term liabilities	(12)	(9)	(18)	(16)	(19)
	Net capital employed	145	141	151	149	155
	Net financial position	(64)	(66)	(69)	(57)	(50)
	Group equity	62	78	83	92	104
	Minorities	(0)	(1)	(1)	(2)	(2)
	Net equity	63	79	84	94	106
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	61	61	61	61	61
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(64)	(66)	(69)	(57)	(50)
	Enterprise value	124	127	129	118	111
RATIOS(%)	EBITDA margin*	27.8%	29.1%	29.3%	30.2%	30.9%
	EBIT margin*	8.7%	9.7%	6.1%	9.8%	11.2%
	Gearing - Debt/equity	102.3%	84.4%	83.0%	61.7%	48.1%
	Interest cover on EBIT	6.6	9.9	4.5	8.0	13.2
	Debt/Ebitda	1.24	1.16	1.22	0.93	0.77
	ROCE*	11.1%	13.2%	8.3%	13.2%	15.6%
	ROE*	13.6%	16.6%	5.7%	11.0%	12.1%
	EV/CE	0.9	0.9	0.9	0.8	0.7
	EV/Sales	0.7	0.6	0.6	0.6	0.5
	EV/Ebit	7.7	6.7	10.7	5.9	4.7
	Free Cash Flow Yield	-13.3%	-2.9%	2.1%	25.5%	18.2%
GROWTH RATES (%)	Sales	18.1%	5.6%	2.1%	1.9%	3.8%
	EBITDA*	17.9%	10.5%	2.7%	5.2%	6.2%
	EBIT*	8.7%	17.5%	-35.7%	63.7%	19.2%
	Net profit	nm	46.1%	-60.9%	111.9%	24.8%
	EPS restated	nm	24.7%	-25.1%	29.7%	24.8%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

Rights Issue Simulation: Eu15mn, the amount needed to fund the ZMB acquisition

SRI Rights Issue simulation			Current price		
Price	Eu	3.00	3.92	4.50	5.00
# of shares	mn	16.2	16.2	16.2	16.2
Current Market Cap	Eu mn	49	64	73	73
of which Aurum	%	56%	56%	56%	56%
Rights issue	Eu mn	15.0	15.0	15.0	15.0
R.I. price	Eu	1.9	2.5	2.9	3.2
Discount vs current	%	-36%	-36%	-36%	-36%
Discount on TERP	%	-28%	-29%	-30%	-31%
# of shares to be issued	mn	7.8	6.0	5.2	4.7
ratio	x	0.48	0.37	0.32	0.29
New # of shares	mn	24.0	22.2	21.4	20.9
Mkt cap after R.I.	Eu mn	64	79	88	88
Value of the right	Eu	0.35	0.38	0.40	0.41
Share price ex right	Eu	2.65	3.54	4.10	4.59
Change in EPS/ ratios After Eu 30mn R.i. and Acquisition of ZBM (based on 28mn shares)					
		2011	2012	2013	2014
Restated Net profit	Eu mn	5	10	12	14
Restated Net profit after R.I.	Eu mn		11	14	15
Change Restated Net profit	%		14%	12%	12%
EPS before R.I.	Eu	0.28	0.60	0.75	0.85
EPS after R.I.	Eu		0.50	0.61	0.69
Change in EPS	%		-17%	-18%	-19%
P/E before R.I.	x	10.6	6.5	5.2	4.6
P/E after R.I.	x		7.1	5.8	5.1
% change	%		8%	10%	11%
Net Debt Before R.I.	Eu mn	-69	-57	-50	-43
Net Debt After R.I.	Eu mn		-38	-46	-39
EBITDA ORG*	Eu mn	58	65	69	72
Net debt/EBITDA - Before R.I.	x	-1.2	-0.9	-0.7	-0.6
Net debt/EBITDA After R.I.	x		-0.6	-0.7	-0.5
Price Target before R.i.			6.0		
Upside to PT before R.I.			53%		
Market cap after			79		
Market cap at PT after R.I. and ZMB@ purch. Price			112		
Price Target after			5.1		
Change in Price Target			-16%		
Upside to PT after R.I.			43%		
Upside impact R.I.			-7%		

Source: Intermonte SIM

Rights Issue Simulation: Eu30mn, the maximum amount indicated for 2012, (assuming only ZMB acquisition)

SRI Rights Issue simulation			Current price		
Price	Eu	3.00	3.92	4.50	5.00
# of shares	mn	16.2	16.2	16.2	16.2
Current Market Cap	Eu mn	49	64	73	73
of which Aurum	%	56%	56%	56%	56%
Rights issue	Eu mn	30.0	30.0	30.0	30.0
R.I. price	Eu	1.9	2.5	2.9	3.2
Discount vs current	%	-36%	-36%	-36%	-36%
Discount on TERP	%	-22%	-25%	-26%	-26%
# of shares to be issued	mn	15.7	12.0	10.5	9.4
ratio	x	0.97	0.74	0.65	0.58
New # of shares	mn	31.9	28.2	26.7	25.6
Mkt cap after R.I.	Eu mn	79	94	103	103
Value of the right	Eu	0.53	0.60	0.64	0.67
Share price ex right	Eu	2.47	3.32	3.86	4.33
Change in EPS/ ratios After Eu 30mn R.i. and Acquisition of ZBN (based on 28mn shares)					
		2011	2012	2013	2014
Restated Net profit	Eu mn	5	10	12	14
Restated Net profit after R.I.	Eu mn		11	14	15
Change Restated Net profit	%		14%	12%	12%
EPS before R.I.	Eu	0.28	0.60	0.75	0.85
EPS after R.I.	Eu		0.39	0.48	0.55
Change in EPS	%		-35%	-36%	-36%
P/E before R.I.	x	10.6	6.5	5.2	4.6
P/E after R.I.	x		8.4	6.9	6.1
% change	%		29%	31%	32%
Net Debt Before R.I.	Eu mn	-69	-57	-50	-43
Net Debt After R.I.	Eu mn		-38	-46	-39
EBITDA ORG*	Eu mn	58	65	69	72
Net debt/EBITDA - Before R.I.	x	-1.2	-0.9	-0.7	-0.6
Net debt/EBITDA After R.I.	x		-0.6	-0.7	-0.5
Price Target before R.i.			6.0		
Upside to PT before R.I.			53%		
Market cap after			94		
Market cap at PT after R.I. and ZMB@ purch. Price			127		
Price Target after			4.5		
Change in Price Target			-25%		
Upside to PT after R.I.			36%		
Upside impact R.I.			-11%		

Source: Intermonte SIM

Short selling: extension until January 15, 2012 of the restrictions on securities extension without deadline of reporting obligations. New prohibition of "uncovered" short selling on all shares listed on the Italian regulated markets

Consob decided to extend until January 15, 2012 the Resolution on restrictive measures on net short positions on shares of the financial sector adopted on August 12, 2011 (by Resolution no. 17902) and subsequently extended until November 11, 2011 (by Resolution no. 17951). Therefore, the prohibition to take net short positions or to increase existing net short positions on shares of the banking-insurance sector is still in force (from December 1st, 2011).

New prohibition of "uncovered" short selling on all shares listed on the Italian regulated markets from December 1st, 2011(by CONSOB Resolution n. 17993 dated 11 November 2011).

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OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period ;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

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The stock price indicated is the reference price on the day prior to the publication of the report.

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NEUTRAL: 35.94%

UNDERPERFORM: 11.72%

SELL: 0.00%

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OUTPERFORM: 46.88%

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UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	**SERVIZI ITALIA**		
Current Recomm:	NEUTRAL	Previous Recomm:	OUTPERFORM
Current Target (Eu):	4.50	Previous Target (Eu):	6.00
Current Price (Eu):	3.76	Previous Price (Eu):	4.77
Date of report:	27/12/2011	Date of last report:	11/11/2011

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