

## EEMS

## NEUTRAL

SECTOR: Industrials

Price (Eu):

0.72

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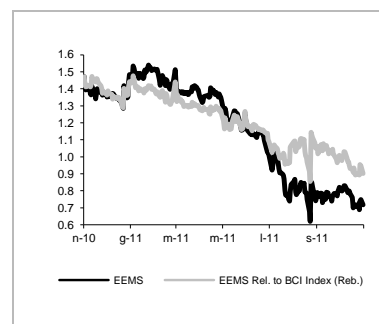
Target Price (Eu):

0.85

## Quarter Burdened By Write-Downs; Solsonica Shines

- Positive industrial results penalised by one-off factors.** EEMS closed 3Q11 with revenues of Eu55.4mn, down from Eu58mn one year ago. EBITDA came in at Eu7.6mn from Eu9.3mn in 3Q10, while EBIT closed in the red to the tune of Eu7.2mn from a profit of Eu800,000 last year. This figure was burdened by Eu6.5mn of write-downs on advance payment relating to long term silicon supply contracts that are currently being renegotiated. The DRAM division posted a 7% drop in turnover YoY, but EBITDA rose 57% thanks to an improvement in the production mix. Solsonica, on the other hand, performed superbly: volumes were up 33% YoY, EBITDA was positive to the tune of Eu3.5mn, an 11% margin (gross of start-up costs for Solsonica Energia), compared to 3% over the first 9 months. It is worth noting that whereas over the last 12 months sales prices for modules have fallen by 40%, putting industrial margins under pressure, Solsonica has moved in the opposite direction. The NFP improved slightly, coming to Eu53mn from Eu50mn at the end of June due to the impact of NWC.
- Estimates revised downwards due to a more conservative scenario.** Net of one-offs the top line was better than expected, the operating margin was in line and the bottom line disappointed due to higher taxes. Solsonica comfortably outperformed expectations, however, with EBITDA coming in at almost double the forecast amount. Nevertheless, the market environment is too uncertain for these quarterly results to be projected forwards. What's more, we need to round estimated sales prices for modules downwards for the 2012-13 period, with a decline of around 15% (from Eu1.05 to Eu0.90/Wp) in order to take into account increasingly fierce competition from Chinese manufacturers. These values remain above the cost of production, however. For 4Q we are factoring in further write-downs on advance payment, which will amount to Eu11mn overall throughout 2011. The net impact is a downward revision of on average 12% in EPS. The company has signed a standstill agreement with banks, which stipulates that the credit institutions will not demand payment of debts that were in place up to the renegotiation of the covenants that were missed in 1H (EEMS's gross debt amounted to Eu60mn at the end of September). We believe that EEMS will manage to negotiate revised terms for the debt, bringing them into line with existing market conditions without a major new restructuring of the debt being required.
- NEUTRAL, target down to Eu0.85.** We are confirming our NEUTRAL recommendation, cutting the target price to Eu0.85 in light of our new estimates. The coming quarters will be key to understanding how the company will shape up in the future. EEMS boasts a good competitive position on the domestic market, as demonstrated by the solid results posted by Solsonica. We welcome the fact that management is considering plans to diversify in renewable energy, although any such move must be valued on its merits as and when more details are available. In order to complete this diversification, however, the company must cash in on its semiconductor assets so that it can reduce the debt significantly and gather the necessary resources to fund growth. We are not including this in our fair value, but we continue to believe that EEMS may well be caught up in the consolidation process that we expect to transform the photovoltaic sector in the coming quarters. With a 70% float, M&A scenarios could well be supported by the majority shareholder if they were to have a strong industrial rationale.

## EEMS - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 1.00 to 0.85

Change in EPS est:	2011E	2012E
	nm	nm

## STOCK DATA

Reuters code:	EEMS.MI
Bloomberg code:	EEMS IM

<b>Performance</b>	<b>1m</b>	<b>3m</b>	<b>12m</b>
Absolute	-12.7%	-14.3%	-52.0%
Relative	-10.3%	-15.5%	-32.1%
12 months H/L:	1.54/0.62		

## SHAREHOLDER DATA

No. of Ord. shares (mn):	43
Total No. of shares (mn):	44
Mkt Cap Ord (Eu mn):	31
Total Mkt Cap (Eu mn):	31
Mkt Float - ord (Eu mn):	24
Mkt Float (in %):	78.3%
Main shareholder:	
Mutti Family	21.7%

## BALANCE SHEET DATA

	<b>2011</b>
Book value (Eu mn):	81
BVPS (Eu):	1.87
P/BV:	0.4
Net Financial Position (Eu mn):	-53
Enterprise value (Eu mn):	84

Key Figures	2009A	2010A	2011E	2012E	2013E
Sales (Eu mn)	102	192	165	192	217
Ebitda (Eu mn)	13	32	14	23	35
Net profit (Eu mn)	-22	-5	-29	-7	5
EPS - New (Eu)	-0.517	-0.105	-0.490	-0.165	0.120
EPS - Old (Eu)	-0.517	-0.105	-0.269	-0.099	0.128
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
Ratios & Multiples	2009A	2010A	2011E	2012E	2013E
P/E	nm	nm	nm	nm	6.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	8.5	1.9	6.2	3.6	2.4
ROCE	-8.8%	-0.3%	-20.7%	-3.8%	8.2%

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**EEMS - KEY FIGURES**

		2009A	2010A	2011E	2012E	2013E
Fiscal year end		31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	102	192	165	192	217
	EBITDA	13	32	14	23	35
	EBIT	(17)	(0)	(28)	(5)	11
	Financial income (charges)	(6)	(5)	(3)	(3)	(3)
	Associates & Others					
	Pre-tax profit (Loss)	(23)	(5)	(32)	(8)	8
	Taxes	1	1	3	1	(3)
	Tax rate (%)	4.3%	11.6%	9.3%	12.2%	35.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	-22	-5	-29	-7	5
	Total extraordinary items	0	0	(1)	0	0
	Ebitda excl. extraordinary items	13	32	14	23	35
Ebit excl. extraordinary items	(17)	(0)	(28)	(5)	11	
Net profit restated	(22)	(5)	(21)	(7)	5	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	43	44	44	44	44
	EPS stated fd	-0.517	-0.105	-0.673	-0.165	0.120
	EPS restated fd	-0.517	-0.105	-0.490	-0.165	0.120
	BVPS fd	2.456	2.541	1.868	1.703	1.823
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	8	28	13	21	30
	Change in NWC	(11)	11	(20)	(7)	(9)
	Capital expenditure	(17)	(25)	(16)	(12)	(22)
	Other cash items	(1)	0	0	0	0
	Free cash flow (FCF)	(20)	14	(23)	1	(1)
	Acquisitions, divestments & others	(3)	(1)	(0)	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	1	0	0	0
Change in Net Financial Position	(8)	53	(24)	1	(1)	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	180	143	117	102	99
	Net working capital	17	12	32	39	48
	Long term liabilities	(9)	(15)	(15)	(15)	(15)
	Net capital employed	188	140	135	127	133
	Net financial position	(83)	(29)	(53)	(52)	(53)
	Group equity	105	111	81	74	79
	Minorities	0	0	0	0	0
Net equity	105	111	81	74	79	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	31	31	31	31	31
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(83)	(29)	(53)	(52)	(53)
	Enterprise value	113	60	84	83	84
<b>RATIOS(%)</b>	EBITDA margin*	13.0%	16.5%	8.2%	11.9%	16.3%
	EBIT margin*	nm	nm	nm	nm	4.9%
	Gearing - Debt/equity	78.5%	26.5%	65.2%	70.6%	67.2%
	Interest cover on EBIT	nm	nm	nm	nm	4.0
	Debt/Ebitda	6.20	0.93	3.91	2.30	1.51
	ROCE*	-8.8%	-0.3%	-20.7%	-3.8%	8.2%
	ROE*	-19.0%	-4.3%	-30.5%	-9.2%	6.8%
	EV/CE	0.6	0.4	0.6	0.6	0.6
	EV/Sales	1.1	0.3	0.5	0.4	0.4
	EV/Ebit	nm	nm	nm	nm	7.9
Free Cash Flow Yield	-66.7%	44.6%	-75.7%	2.2%	-3.3%	
<b>GROWTH RATES (%)</b>	Sales	-33.4%	87.9%	-14.0%	16.2%	12.9%
	EBITDA*	-48.7%	138.2%	-57.2%	67.8%	55.2%
	EBIT*	nm	nm	nm	nm	nm
	Net profit	nm	nm	nm	nm	nm
	EPS restated	nm	nm	nm	nm	nm

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 3Q 2011 results

## EEMS - 3Q11 Results

(Eu mn)	3Q10	2Q11	3Q11	3Q11E	Chg YoY	Chg QoQ	9M10	9M10E	4Q11E	2010	2011E
<b>Revenues</b>	<b>58.0</b>	<b>35.8</b>	<b>55.4</b>	<b>50.0</b>	<b>-5%</b>	<b>55%</b>	<b>128.8</b>	<b>123.4</b>	<b>36.5</b>	<b>192.3</b>	<b>165.3</b>
Operating Costs	-31.5	-34.8	-47.8	-42.8	52%	37%	-116.9	-111.9	-34.8	-148.4	-151.8
<b>EBITDA</b>	<b>9.3</b>	<b>1.1</b>	<b>7.6</b>	<b>7.2</b>	<b>-19%</b>	<b>618%</b>	<b>11.9</b>	<b>11.5</b>	<b>1.7</b>	<b>31.7</b>	<b>13.6</b>
Margin (%)	16.0%	8.2%	13.6%	14.4%			9.2%	9.3%	4.7%	16.5%	8.2%
Depr., prov., write-downs	-5.7	-7.1	-15.0	-7.0			-29.7	-21.7	-12.3	-32.3	-42.0
<b>EBIT</b>	<b>0.8</b>	<b>-6.1</b>	<b>-7.2</b>	<b>0.2</b>	<b>-975%</b>	<b>19%</b>	<b>-16.9</b>	<b>-10.2</b>	<b>-11.5</b>	<b>-0.6</b>	<b>-28.4</b>
Margin (%)	1.4%	-17.2%	-13.0%	0.4%			-13.2%	-8.3%	-31.4%	-0.3%	-17.2%
Net Financial Charges	1.1	-1.6	-0.7	-1.0		-55%	-1.7	-2.7	-2.2	-4.8	-3.9
Other Charges/Income	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0
<b>Net Operating Margin</b>	<b>-1.8</b>	<b>-7.6</b>	<b>-7.9</b>	<b>-0.8</b>	<b>330%</b>	<b>4%</b>	<b>-18.6</b>	<b>-12.9</b>	<b>-13.7</b>	<b>-5.4</b>	<b>-32.3</b>
Taxes	0.4	1.7	0.1	1.0	-65%	-93%	2.0	3.0	1.0	0.6	3.0
Tax Rate (%)	19.3%	9.3%	1.6%	125.0%			10.9%	23.3%	7.1%	11.1%	9.3%
<b>Net Income</b>	<b>-3.3</b>	<b>-6.0</b>	<b>-7.8</b>	<b>0.2</b>	<b>136%</b>	<b>31%</b>	<b>-16.6</b>	<b>-9.9</b>	<b>-12.7</b>	<b>-4.8</b>	<b>-29.3</b>
Minorities	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0
<b>Group Net Income</b>	<b>-3.3</b>	<b>-6.0</b>	<b>-7.8</b>	<b>0.2</b>	<b>136%</b>	<b>31%</b>	<b>-16.6</b>	<b>-9.9</b>	<b>-12.7</b>	<b>-4.8</b>	<b>-29.3</b>
<b>Adj. Net Income</b>	<b>-3.3</b>	<b>-6.0</b>	<b>-2.9</b>	<b>0.2</b>			<b>-11.7</b>	<b>-9.9</b>	<b>-17.6</b>	<b>-4.8</b>	<b>-29.3</b>
<b>Capex</b>	<b>2.2</b>	<b>5.1</b>	<b>1.0</b>	<b>1.0</b>	<b>-54%</b>	<b>-80%</b>	<b>10.4</b>	<b>10.4</b>	<b>5.4</b>	<b>24.6</b>	<b>15.8</b>
<b>Equity</b>	<b>112.0</b>	<b>94.8</b>	<b>88.1</b>	<b>95.6</b>	<b>-21%</b>	<b>-7%</b>	<b>88.1</b>	<b>95.6</b>	<b>81.4</b>	<b>110.8</b>	<b>81.4</b>
<b>Net Debt</b>	<b>44.1</b>	<b>50.6</b>	<b>53.1</b>	<b>53.8</b>	<b>20%</b>	<b>5%</b>	<b>53.1</b>	<b>53.8</b>	<b>53.1</b>	<b>29.4</b>	<b>53.1</b>
<b>CE</b>	<b>156.1</b>	<b>145.4</b>	<b>141.2</b>	<b>149.5</b>	<b>-10%</b>	<b>-3%</b>	<b>141.2</b>	<b>149.5</b>	<b>134.5</b>	<b>140.2</b>	<b>134.5</b>
<b>D/E Ratio</b>	<b>0.39</b>	<b>0.53</b>	<b>0.60</b>	<b>0.56</b>			<b>0.60</b>	<b>0.56</b>	<b>0.65</b>	<b>0.27</b>	<b>0.65</b>

Source: Company data and Intermonte SIM estimates.

## Basic assumptions

## EEMS – Operating data

(Eu mn)	2009	2010	2011E	2012E	2013E
<b>Semiconductor</b>					
Volumes	n.a.	14%	-2%	20%	10%
Price/mix	n.a.	12%	-6%	-29%	33%
Capex/Sales	n.a.	25%	16%	15%	25%
<b>Photovoltaic</b>					
Module Capacity	60	70	140	140	140
Cell Capacity	10	30	40	50	60
MW Sales	17	64	76	100	90
Price/MW	2.11	1.71	1.15	0.90	0.81
<b>EPC-Retail</b>					
System Sales (MW)	0	0	1.5	15.0	25.0
Price/MW	n.a.	n.a.	3.5	3.0	2.8

(1) Year end. Source: Datastream and Intermonte SIM estimates

## Valuation summary

## EEMS Valuation

Eu mn	2011	2012	2013	Avg.
<b>Group</b>				
Total EV	130	92	110	117
NFP	(53)	(52)	(53)	(53)
<b>Equity Fair Value</b>	<b>77</b>	<b>40</b>	<b>57</b>	<b>58</b>
Liquidity Discount	25%	25%	25%	25%
<b>Equity Value Discounted</b>	<b>57</b>	<b>30</b>	<b>43</b>	<b>43</b>
Nº of Shares (mn)	42.7	42.7	42.7	42.7
<b>Target Price</b>	<b>1.35</b>	<b>0.70</b>	<b>1.00</b>	<b>0.85</b>

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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UNDERPERFORM: 11.72%

SELL: 0.00%

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**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	EEMS		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.85	Previous Target (Eu):	1.00
Current Price (Eu):	0.72	Previous Price (Eu):	0.79
Date of report:	16/11/2011	Date of last report:	31/08/2011

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