September 15, 2009

ACTION

Buy

De'Longhi (DLG.MI)

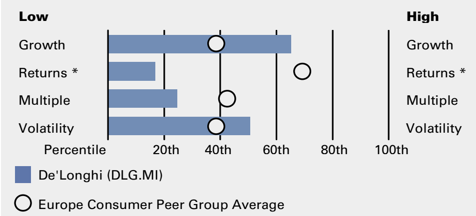
Return Potential: 37%

Shares undervalued vs. peers and trading history; upgrading to Buy

Source of opportunity

We are upgrading De'Longhi to Buy from Neutral in view of the company's current valuation relative to the historical trading range and peers. At 5.0x 2010E EV/EBITDA, De'Longhi is still below its historical 25th percentile of 5.4x, whereas other kitchen and household appliance companies have rebounded further off trough valuations. Although we believe the company will continue to face difficulty through the remainder of the year (particularly in the Professional division), it should recover in 2010 and 2011, with above-trend sales growth and improving EBITDA margins. Our unchanged six-month price target of €3.25 implies 37% potential upside.

Investment Profile



* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Catalyst

De'Longhi has announced that it will report 3Q results on November 11-13. However, we will get an earlier view on the kitchen appliance market in 3Q when Groupe SEB reports sales on October 27. This should give us some insight into the market development for some of De'Longhi's key businesses, including food prep, coffee machines, floor care and garment care.

Valuation

We base our unchanged €3.25 price target on De'Longhi's 6.1x median historical forward 12 month EV/EBITDA multiple. On this valuation, the company would still remain below the current valuation of European kitchen and household appliance peers, which are currently trading on 6.5x 2010E EV/EBITDA.

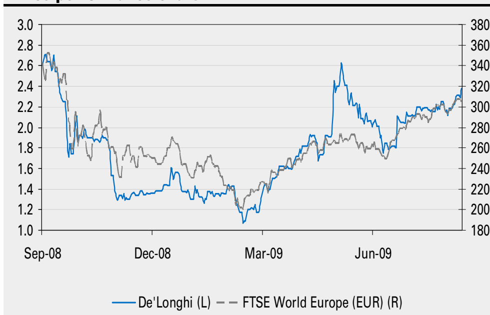
Key risks

Key downside risks to our estimates and price target are: an ebbing of the resilience in small household and kitchen appliance demand; further worsening conditions in the real estate and industrial goods markets.

Key data	Current
Price (€)	2.38
6 month price target (€)	3.25
Upside/(downside) (%)	37
Market cap (€ mn)	355.8
Enterprise value (€ mn)	629.6

	12/08	12/09E	12/10E	12/11E
Revenue (€ mn)	1,533.4	1,329.5	1,399.1	1,472.3
EBIT (€ mn)	108.5	63.0	82.1	107.1
EPS (€)	0.40	0.24	0.33	0.45
EV/EBITDA (X)	4.6	6.1	5.0	4.0
P/E (X)	6.6	10.0	7.2	5.3
Dividend yield (%)	2.3	2.9	3.4	3.8
FCF yield (%)	(1.0)	6.2	1.1	5.8
CROCI (%)	6.6	5.2	5.9	6.9
CROCI/WACC (X)	--	--	--	--
EV/GCI (X)	0.5	0.5	0.5	0.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	6.5	98.3	(8.5)
Rel. to FTSE World Europe (EUR)	(7.6)	38.4	2.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/15/2009 close.

INVESTMENT LIST MEMBERSHIP

Pan-Europe Buy List

Coverage View: Neutral

Italy:
Consumer Durables

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De'Longhi: Summary financials

Profit model (€ mn)	12/08	12/09E	12/10E	12/11E
Total revenue	1,533.4	1,329.5	1,399.1	1,472.3
Operating costs	(1,327.5)	(1,169.3)	(1,218.7)	(1,261.7)
R&D	(32.0)	(33.0)	(33.3)	(35.0)
Lease payments	(22.8)	(23.5)	(23.7)	(25.0)
Other operating profit/(expense)	(22.8)	(23.5)	(23.7)	(25.0)
EBITDA	**151.1**	**103.7**	**123.5**	**150.7**
Depreciation & amortisation	(42.6)	(40.8)	(41.4)	(43.6)
EBIT	**108.5**	**63.0**	**82.1**	**107.1**
Net interest income/(expense)	(31.5)	(19.3)	(18.5)	(18.3)
Associates	0.0	0.0	0.0	0.0
Profit/(loss) on disposals	0.0	0.0	0.0	0.0
Others (recurring)	(21.1)	(21.1)	(21.1)	(21.1)
Pretax profits	**55.9**	**22.6**	**42.5**	**67.7**
Income tax	(17.4)	(7.0)	(13.2)	(21.0)
Tax rate (%)	31.1	31.1	31.1	31.1
Minorities	(0.2)	(0.2)	(0.2)	(0.2)
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**38.3**	**15.3**	**29.0**	**46.4**
Other non-recurring items post tax	1.8	0.0	0.0	0.0
Net income	**40.2**	**15.3**	**29.0**	**46.4**
EPS (underlying) (€)	**0.26**	**0.10**	**0.19**	**0.31**
EPS (basic, reported) (€)	0.27	0.10	0.19	0.31
Weighted shares outstanding (mn)	149.5	149.5	149.5	149.5
Common dividends declared	9.0	10.5	12.0	13.5
DPS (€)	0.06	0.07	0.08	0.09
Dividend payout ratio (%)	23.4	68.3	41.2	29.0
Dividend cover (X)	4.3	1.5	2.4	3.5

Growth & margins (%)	12/08	12/09E	12/10E	12/11E
Revenue growth	2.9	(13.3)	5.2	5.2
EBITDA growth	(2.4)	(31.4)	19.0	22.0
EBIT growth	(4.0)	(42.0)	30.3	30.5
Net income growth	31.4	(61.8)	89.4	59.9
EPS growth	(7.1)	(60.0)	89.4	59.9
DPS growth	0.0	16.7	14.3	12.5
EBITDA margin	9.9	7.8	8.8	10.2
EBIT margin	7.1	4.7	5.9	7.3

Cash flow statement (€ mn)	12/08	12/09E	12/10E	12/11E
Net income	38.3	15.3	29.0	46.4
D&A add-back (incl. ESO)	42.6	40.8	41.4	43.6
Minority interest add-back	0.2	0.2	0.2	0.2
Net (inc)/dec working capital	(21.6)	12.2	(20.7)	(21.4)
Other operating cash flow	(8.2)	0.0	0.0	0.0
Cash flow from operations	**51.3**	**68.5**	**50.0**	**68.8**
Capital expenditures	(33.3)	(33.3)	(33.3)	(35.4)
Acquisitions	(12.0)	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Cash flow from investing	**(45.3)**	**(33.3)**	**(33.3)**	**(35.4)**
Dividends paid (common & pref)	(9.0)	(9.0)	(10.5)	(12.0)
Inc/(dec) in debt	(97.6)	0.0	0.0	0.0
Other financing cash flows	0.0	0.0	0.0	0.0
Cash flow from financing	**(106.5)**	**(9.0)**	**(10.5)**	**(12.0)**
Total cash flow	**1.8**	**26.2**	**6.2**	**21.4**
Capex/D&A (%)	78.2	81.7	80.4	81.4
Reinvestment rate (%)	45.7	59.1	47.1	39.3
Cash flow cover of dividends (X)	8.1	5.4	5.9	6.7
Free cash flow cover of dividends (X)	(0.4)	2.1	0.3	1.5

Balance sheet (€ mn)	12/08	12/09E	12/10E	12/11E
Cash & equivalents	109.2	135.4	141.6	163.0
Accounts receivable	367.2	325.6	342.7	360.6
Inventory	320.5	302.4	319.8	336.5
Other current assets	0.0	0.0	0.0	0.0
Total current assets	**796.8**	**763.4**	**804.1**	**860.1**
Net PP&E	178.5	183.0	187.5	192.6
Net intangibles	414.5	402.5	389.9	376.6
Total investments	105.9	105.9	105.9	105.9
Other long-term assets	0.0	0.0	0.0	0.0
Total assets	**1,495.7**	**1,454.8**	**1,487.3**	**1,535.3**
Accounts payable	286.2	238.7	252.5	265.7
Short-term debt	215.1	215.1	215.1	215.1
Other current liabilities	118.8	118.8	118.8	118.8
Total current liabilities	**620.1**	**572.7**	**586.4**	**599.6**
Long-term debt	161.3	161.3	161.3	161.3
Other long-term liabilities	52.0	52.0	52.0	52.0
Total long-term liabilities	**213.3**	**213.3**	**213.3**	**213.3**
Total liabilities	**833.4**	**785.9**	**799.7**	**812.9**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**659.9**	**666.3**	**684.9**	**719.3**
Minority interest	**2.3**	**2.6**	**2.8**	**3.0**
Total liabilities & equity	**1,495.7**	**1,454.8**	**1,487.3**	**1,535.3**
Capitalised leases	182.5	188.0	189.9	199.8
Capital employed	**1,038.7**	**1,045.3**	**1,064.1**	**1,098.8**
Adj for unfunded pensions & GW	(445.0)	(433.0)	(420.4)	(407.1)
Adj capital employed	**593.7**	**612.3**	**643.7**	**691.6**
Gross cash invested	**1,635.2**	**1,661.8**	**1,717.7**	**1,784.5**

Ratios	12/08	12/09E	12/10E	12/11E
CROCI (%)	6.6	5.2	5.9	6.9
CROCI/WACC (X)	--	--	--	--
ROIC (%)	10.8	9.5	11.0	12.7
ROIC/WACC (X)	--	--	--	--
ROA (%)	2.5	1.0	2.0	3.1
WACC (%)	--	--	--	--
Inventory days	76.3	83.0	83.4	83.4
Asset turnover (X)	8.6	7.3	7.5	7.6
Net debt/equity (%)	40.4	36.0	34.1	29.5
EBITDA interest cover (X)	4.8	5.4	6.7	8.2

Valuation	12/08	12/09E	12/10E	12/11E
EV/sales (X)	0.5	0.5	0.4	0.4
EV/EBITDAR (X)	5.0	6.4	5.5	4.6
EV/EBITDA (X)	4.6	6.1	5.0	4.0
EV/EBIT (X)	6.6	9.5	7.7	6.1
P/E (X)	10.2	23.2	12.2	7.7
Dividend yield (%)	2.3	2.9	3.4	3.8
FCF yield (%)	(1.0)	6.2	1.1	5.8
EV/GCI (X)	0.5	0.5	0.5	0.4
EV/adj. capital employed (X)	1.8	1.7	1.6	1.5
Price/book (X)	0.3	0.5	0.5	0.5

Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Reg AC

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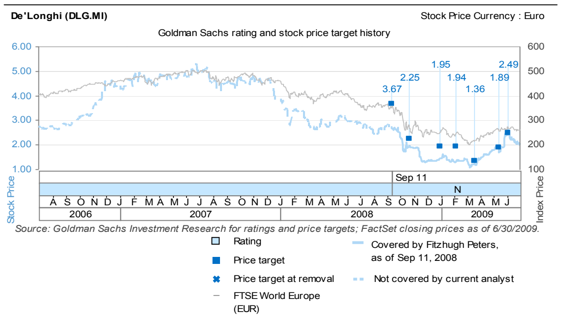

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