

# De Longhi

## Flat Revenues, Strong Cash Flow Generation

De Longhi - Key estimates and data					
Y/E December		2009A	2010E	2011E	2012E
Revenues	EUR M	1403.95	1436.44	1491.77	1545.17
EBITDA	EUR M	142.88	154.44	167.30	177.33
EBIT	EUR M	92.29	115.66	125.98	134.07
Net income	EUR M	32.39	53.17	61.97	69.89
Dividend ord.	EUR	0.08	0.11	0.12	0.12
Adj. EPS	EUR	0.30	0.36	0.41	0.47
EV/EBITDA	x	4.04	3.44	2.92	2.49
Adj. P/E	x	10.11	8.65	7.42	6.58

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- FY09 results.** Despite the very tough market conditions, particularly in 1H09, DLG delivered a very sound set of FY09 results, which exceeded both ours and consensus expectations, thanks to its strong leadership in the coffee maker and kitchen appliance segments, also supported by lower raw material costs. Despite the double-digit top-line decrease yoy to EUR 1.4Bn, FY09 EBITDA pre-extraordinary contracted by just 5.4% to EUR 143M while a stricter NWC management helped the company to close 2009 with an impressive free cash flow generation of more than EUR 120M and a net debt of just EUR 117M, corresponding to a very low net debt/EBITDA of 0.8x. Hence, DLG now boasts a clean and unlevered balance sheet, ready to support potential management initiatives on external growth. In fact, in a two-year timeframe, we calculate that DLG could reimburse its outstanding debt.
- Outlook.** Updated trading conditions to February confirm the trend seen in 4Q09, with a moderate growth in Household and a still double-digit dip for the very cyclical Professional unit. We feel that despite the low visibility and non-supportive market conditions, DLG is well placed to expand margins and generate significant cash flow again this year, leveraging on an improved sales/mix, a better absorption of fixed costs and the full effects of the company restructuring implemented in 4Q09, which should generate savings in the range of EUR 2-4M. Rising raw material prices are clearly the main concern for our 2010E forecasts as the company is exposed to the spot price, above all for steel (5.6% of sales) and plastic (3.6% of sales). We think that our 2010E assumption for a flat gross margin is sustainable if the rise in certain strategic input costs is limited to 20-30%, which could be offset via savings on better procurement activity and sales/mix. However, should the input costs increase be sharper, the other lever management has is to implement price list revisions. Given the company's leadership in many segments and the successful launch of new products, we think management should not have too many difficulties in convincing the retailers/distributors and final consumers to digest such increases.
- Estimates and valuation.** We have revised upwards our 2010E and 2011E EPS by 10.8% and 6.5%, respectively. Our 2010E EBITDA forecast now stands at EUR 154.4M (from EUR 146.7M previously), 4% ahead of consensus. On management's indications that the restructuring efforts have now been broadly completed, our EBITDA forecast does not factor in any extraordinary items. **We reiterate our BUY recommendation on the stock and raise our target price from EUR 4.00/share to EUR 4.50/share**, derived on a DCF model (g: 1%, WACC: 9.2%). Our valuation is fully supported by market multiples as DLG trades at an undemanding 8.7x 2010 P/E, corresponding to a 22% discount vs. its main peer and rival SEB, and offers a double-digit free cash flow yield (9.8%).
- Key risks.** The main risks on the downside relate to the cost structure and a lower than expected demand. On the upside, a quicker recovery at the Professional division could trigger a significant positive EPS revision.

See page 13 for full disclosures and analyst certification

25 March 2010

**BUY**

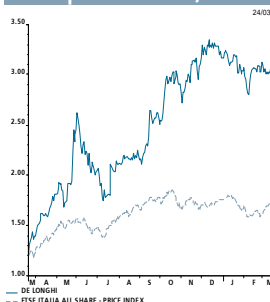
Target Price: EUR 4.50  
(from EUR 4.00)

Consumer Goods  
Company Update

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### Price performance, -1Y



Source: Thomson Reuters

### Data priced on 24.03.2010

Target price (€)	4.50
Target upside (%)	46.34
Market price (€)	3.08
52-week range (€)	3.3/1.4
Market cap (€M)	459.71
No. of shares (M)	149.50
Free float (%)	20.8
Major shareholder (%)	The Long E Trust, 75
Reuters	DLG.MI
Bloomberg	DLG IM
FTSE It All Shares	23309

Performance %			
	Absolute	Rel. to FTSE All Sh	
-1M	-0.2	-1M	-6.9
-3M	-6.4	-3M	-5.6
-12M	135.1	-12M	92.3

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

## Profitability and Cash Flow Generation Beat Expectations

Thanks to the very sound 4Q09, De Longhi reported much better than expected FY09 results driven by the new, successful product launches in the coffee maker and kitchen appliances divisions and the cost-cutting measures put in place during the year. Moreover, the re-engineering of the supply chain together with a more efficient and demand-driven management of the inventory level (production activity is now tuned to the effective market demand avoiding excessive stock accumulation), resulted in a marked contraction in WC requirements, which generated impressive benefits in terms of cash flow generation. Hence, DLG can now boast a clean and unlevered (net debt/EBITDA ratio 0.8x) balance sheet with a net debt of just EUR 117M (vs. EUR 159M expected and EUR 246M at FY08), ready to support management's potential initiatives on external growth, should attractive opportunities arise.

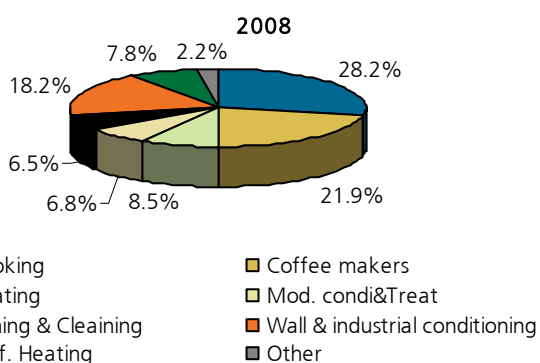
**Better than expected FY09 results**

### Revenue

In detail, FY09 revenue (already reported in mid-January) was confirmed at EUR 1.4Bn, corresponding to a 8.4% drop vs. FY08 at EUR 1,533.4M. The breakdown between the Household and Professional division revealed that the former showed some initial signs of a recovery in 4Q09 (+0.1% qoq, -5.3% yoy) while the latter, benefiting from an easier comps, reported a significant deceleration in turnover contraction, which amounted to 11.0% 4Q09 vs. 4Q08 vs. but -18.8% in FY09 vs. FY08.

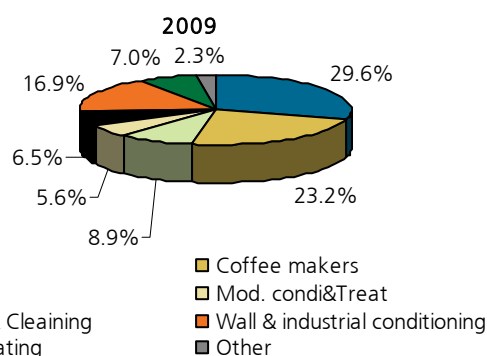
All the product segments reported falling sales in FY09, including coffee makers which fell by 3.0% to EUR 325.8M (from EUR 336M in FY08) due to the lower growth rate of the whole market in Europe (the coffee makers business in Europe grew at a high-single digit in 2009 vs. roughly 13% in 2008), but also mainly due to the loss of the OEM contract with Phillips in 1H09 after the acquisition of Saeco. However, in 4Q09 the coffee makers unit returned to growth. Cooking, the group's most important division (at 29.6% of the consolidated sales), was negative by 3% at EUR 415.6M in FY09, although our impression is that it turned positive in 2H09 with the launch of the new products in September and thanks to a more benign environment. The Professional div. was sharply hit by the economic crisis and the depreciation of the GBP vs. the EUR, with the Wall and Industrial conditioning segment falling by 15.0% and the professional Heating div. plummeting by 17.9%.

De Longhi - Sales breakdown by product (2008)



A: actual; Source: Company data

De Longhi - Sales breakdown by Product (2009)



A: actual; Source: Company data

## Profitability

Despite lower volume sales, the higher gross margin reported as a result of lower raw material prices and a better product mix (the gross margin weighting on sales rose by 320bps in FY09 and by 500bps in 4Q09), helped to minimise the flow through during the year and more clearly during the last part of 2009. As such and despite rising A&P and R&D expenses by 9% and 5% yoy, respectively, and rents up by EUR 5M vs. 2008 after the Gamma disposal, FY09 EBITDA pre non-recurring declined in absolute terms by 5.4% yoy to EUR 143M but improved in relative terms by 30bps, coming in 8.8% ahead of the EUR 131.4M expected, driven by a strong 4Q09 performance. The 4Q09 EBITDA margin jumped to 12.3% vs. 9.9% expected and 9.0% in 4Q08 driven by the Professional div., where profitability rose to pre-crisis levels at 11.4% in 4Q09 (4.4% in 4Q08), and by further improvements in the Household div., which reported an EBITDA margin at 12.6% vs. 10.5% in 4Q08.

**Higher gross margin underpinned by lower raw material prices and better product mix**

Management focused on streamlining its cost structure during the year, with more decisive initiatives taken in 4Q09 with some restructuring in Italy (in the Household division, Ariete Srl was merged with De Longhi Appliances srl, and in the Professional division, Home System was merged with Climaveneta) and abroad (Portugal and Spain) to further strengthen efficiency. This resulted in EUR 13M extraordinary items in FY09 (vs. EUR 8M expected), the bulk of which booked in 4Q09, bringing FY09 EBIT to EUR 92.4M from EUR 87M expected and EUR 111.2M in FY08.

**Decisive cost-cutting actions in 4Q09**

## Net debt and dividend

The lower net debt and market interest rates resulted in a roughly 33% decline in net financial charges to EUR 35.3M from EUR 52.6M in FY08 although by less than expected (EUR 28.3M) due to securitisation and hedging costs on the rouble exposure (roughly EUR 5M), which were not included in our forecasts. The BoD proposed a dividend distribution of EUR 0.08/share, from EUR 0.06/share in FY08 and EUR 0.04/share expected.

## Bottom line

Finally, a tax rate of 42.6% from 40.7% expected led to a net profit of EUR 32.4M, or 5.1% ahead of our EUR 30.8M estimate and down 19.8% vs. FY08A EUR 40.1M. Restating the bottom line for the extraordinary items, 2009 adj. net profit rose by a healthy 21.6% to EUR 45.5M from EUR 37.4M in FY08.

As stated, cash generation well exceeded the rosier expectations, amounting to EUR 129.4M (EUR 86.9M expected), thanks to lower capex (EUR 34.1M in FY09 vs. EUR 42.5M in FY08) and, in particular, a EUR 91.9M reduction in WC requirements (inventory declined by EUR 63.4M) which led to a NWC/Sales ratio at 18.8% from 23.2% in FY08.

De Longhi - 4Q09A vs. 4Q08A-4Q09E						
EUR M	4Q08A	4Q09A	4Q09E	4Q09A vs. 4Q08A %	4Q09A vs. 4Q09E %	
<b>Revenues</b>	<b>481.1</b>	<b>470.0</b>	<b>464.6</b>	<b>-2.3</b>	<b>1.1</b>	
Household	376.2	376.6	379.6	0.1	-0.8	
Professional	105.9	94.3	89.3	-11.0	5.6	
<b>Gross margin</b>	<b>182.1</b>	<b>205.7</b>	<b>187.3</b>	<b>13.0</b>	<b>9.8</b>	
on margin (%)	37.8	43.8	40.3			
<b>EBITDA pre non recurring items</b>	<b>43.4</b>	<b>57.6</b>	<b>46.0</b>	<b>32.7</b>	<b>25.3</b>	
EBITDA margin (%)	9.0	12.3	9.9			
<b>EBITDA post non recurring</b>	<b>51.0</b>	<b>50.9</b>	<b>44.4</b>	<b>-0.2</b>	<b>14.7</b>	
EBITDA margin (%)	10.6	10.8	9.5			
<b>EBIT post non recurring</b>	<b>29.2</b>	<b>39.9</b>	<b>34.5</b>	<b>36.6</b>	<b>15.6</b>	
EBIT margin (%)	6.1	8.5	7.4			
<b>PBT</b>	<b>15.7</b>	<b>28.7</b>	<b>30.2</b>	<b>82.9</b>	<b>-4.8</b>	

E: estimates; Source: Company data and Intesa Sanpaolo Research

De Longhi - FY09A vs. FY08A-FY09E						
EUR M	FY08A	FY09A	FY09E	FY09A vs. FY08A %	FY09A vs. FY09E %	
<b>Revenues</b>	<b>1,533.4</b>	<b>1,404.1</b>	<b>1,398.6</b>	<b>-8.4</b>	<b>0.4</b>	
Household	1,136.8	1,077.0	1,080.0	-5.3	-0.3	
Professional	411.2	334.0	329.0	-18.8	1.5	
<b>Gross margin</b>	<b>603.5</b>	<b>598.3</b>	<b>581.1</b>	<b>-0.9</b>	<b>3.0</b>	
on margin (%)	39.4	42.6	41.6	8.3	2.6	
<b>EBITDA pre non recurring items</b>	<b>151.1</b>	<b>143.0</b>	<b>131.4</b>	<b>-5.4</b>	<b>8.9</b>	
EBITDA margin (%)	9.9	10.2	9.4	3.3	8.4	
<b>EBITDA post non recurring</b>	<b>162.9</b>	<b>129.9</b>	<b>123.4</b>	<b>-20.3</b>	<b>5.3</b>	
EBITDA margin (%)	10.6	9.3	8.8	-12.9	4.9	
<b>EBIT post non recurring</b>	<b>111.2</b>	<b>92.4</b>	<b>87.0</b>	<b>-16.9</b>	<b>6.2</b>	
EBIT margin (%)	7.3	6.6	6.2	-9.3	5.8	
<b>PBT</b>	<b>58.6</b>	<b>57.2</b>	<b>58.7</b>	<b>-2.4</b>	<b>-2.5</b>	
<b>Net profit</b>	<b>40.1</b>	<b>32.4</b>	<b>30.8</b>	<b>-19.2</b>	<b>5.1</b>	
<b>Net debt</b>	<b>246.4</b>	<b>117.1</b>	<b>159.5</b>	<b>-52.5</b>	<b>-26.6</b>	

E: estimates; Source: Company data and Intesa Sanpaolo Research

## Updated Trade Conditions Confirm 4Q09 Trends

During the conference call, management also shed some light on the performances of the two divisions in the first two months of 2010, which broadly reflect the trends seen in 4Q09. The Household division (77% of revenues) seems to have kicked-off the year with a positive growth, again driven by the highly-profitable coffee maker and kitchen appliance divisions (we suspect that some orders were not fulfilled in 4Q09 due to the low stock levels), while the Professional division was down roughly 10%, thus showing no significant improvements so far despite the easy comparison (1Q09 sales for this unit were down 23.9% yoy). While March is still underway, the company expects to close 1Q10 almost in line with the performance seen in Jan-Feb, clearly implying that market conditions remain difficult.

**Jan-Feb performance: market conditions still difficult**

### Margin expansion in 2010 despite uncertain market conditions and rising raw materials

As expected, the company did not provide any specific guidance for the whole year. The general comments during the conference call were only moderately optimistic as, despite the good 4Q09 results, market conditions remain uncertain, above all for the Professional division. The indications for the Household division were more upbeat, which should continue to benefit from the solid momentum in coffee makers and kitchen appliances, where DLG has become market leader in Europe in this sector for the first time with the Kenwood brand. Moreover, according to management, some potential positive surprises could materialise from some emerging markets, such as Russia, where consumption has been hard hit due to the tight credit conditions and negative sentiment following the financial crisis.

**No detailed guidance, as expected**

Overall, this year DLG's turnover is seen returning to growth, albeit at a modest pace, driven by the Household division, for which management indicated a 2-3% growth, while the Professional div. should report flat sales with a still negative performance in 1H10, more than compensated by positive growth in 2H10. Operating leverage and the positive sales/mix should favour a further margins expansion in the region of 50/100bps, also benefiting from roughly EUR 2-4M savings thanks to the company's restructuring measures.

### Main concerns: rising raw material prices and revaluation of the Yuan

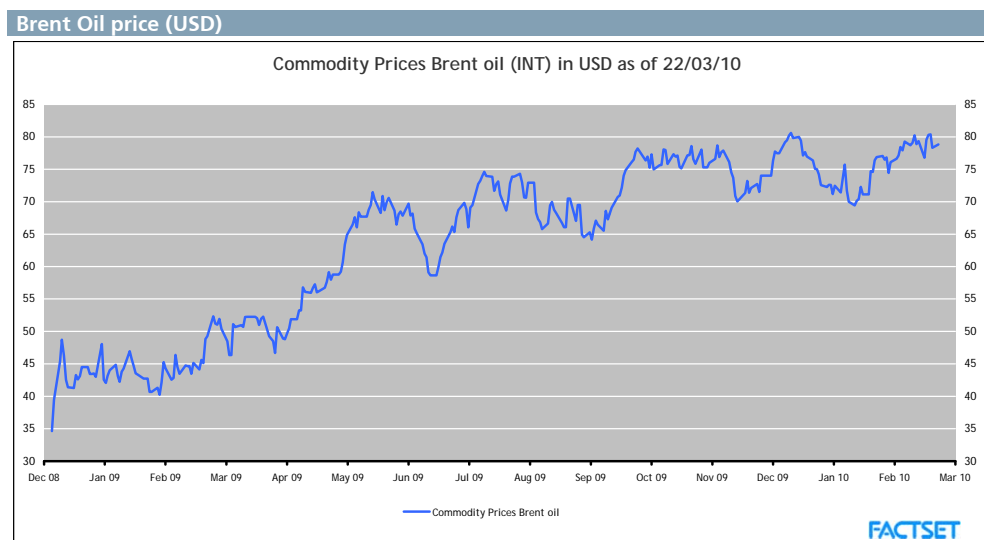
The two majors concerns for this year, flagged during the conference call, were the rising raw material prices and the increasing risk of the revaluation of the Chinese currency, the Yuan. We think that input costs inflation is the key risk for DLG as the company buys roughly EUR 400M of raw materials and components with no specific hedging policy to set prices at the beginning of the year. As a result, the company is fully exposed to the fluctuation of the spot price, above all for steel and plastic, which amount to EUR 80M (5.6% of sales) and EUR 50M (3.6% of sales), respectively.

### A closer look at the steel price trend...

DLG sources steel in Italy, Europe and China. In all these areas in 2H09 steel prices started to rise again after the sharp price dip in early 2009 following the financial crisis. The price recovery was underpinned by strong demand from emerging markets, in particular China, and the lower supply, as major players sharply cut production capacity to meet the lower expected demand levels. The Jan-Feb 2010 steel spot price in Italy stood at EUR 440 T/M, in line with the avg. price of EUR 430 T/M in FY09, although in March the spot price has risen by 11% to EUR 490 T/M. The consensus view is that prices should continue to rise in 2H10 as the steel manufacturers pass through higher production costs (iron ore price may even rise by 80% in the coming months according to Mr. Riva, the vice president of the European leader Riva Group). This risk was confirmed by recent press rumours, according to which Group Vale (a worldwide leader in iron ore mining), could shift to a new pricing method, setting benchmark prices on a three-month basis rather than on an annual one from April. Should this effectively be the case and the new method is also adopted by other such players (Bhp Billinton and Rio Tinto), steel producers could face a sharp rise in input costs sooner than expected, which in turn would be passed on to final products.

### ...and at plastic costs

Plastic costs are linked to the oil price, which has risen by 56% in the last 12 months and has more than doubled since the beginning of last year to about USD 79/boe. Our macroeconomists project a 2010E oil price average at USD 77/boe, which equates to roughly a 25% increase vs. the average USD 62 boe in 2009, which we think corresponds to the implicit price DLG paid last year.



De Longhi has not disclosed the expected price increases budgeted into their guidance for 'improving results' during the year but said that the sales mix and savings on procurement (different components and specifications) should almost offset the higher raw material prices. Clearly, a sharper than expected increase in the steel price would be compensated only via price list revisions (DLG has no planned price increases in 2010 unless there are significant changes in the scenario), which would nonetheless imply a certain time lag with probable short-term negative margin repercussions.

**Expected price increases to be offset by sales mix and procurement savings**

### Forex

As far as currency fluctuations are concerned, the bulk of the risk relates to the EUR/USD while the company's exposure to the Chinese currency is modest and amounts to roughly EUR 30-40M. Hence, while international pressure on the Chinese government to revalue its currency against the USD is growing, we calculate that the potential impact (if any given that the company may decide to hedge the risk at a reasonable cost, i.e. roughly 3%), would be below EUR 2M at the EBITDA level, assuming a Yuan revaluation against the USD currency of 5%.

A strengthening of the USD/EUR rate would be much more serious (since the beginning of the year, the EUR has devaluated by roughly 6%) as DLG has a short position of roughly USD 400M. However, again in this case, we think the risk is relatively limited given the company's hedging on about 70% of its budget purchases in USD at 1.47. Thus, the weighted average cost using the current USD/EUR of 1.35 is just above 1.43, still higher than the 1.42 level at which DLG in 2009 finalised its sourcing.

## Earnings Outlook

### Estimates revision

Following 4Q09 results and management's indications for 2010, we have revised upwards our 2010E and 2011E EPS by 10.8% and 6.5%, respectively. Our revision is underpinned by the better than expected profitability in 4Q09 and the costs savings related to the restructuring programme implemented last year. We have not revised our top-line growth assumption at 2.3%, although revenue has marginally increased due to a higher base effect.

**Moderate turnover growth to drive strong CF generation**

Thus, we forecast a flattish gross margin at 42.5% (from 42.6% in 2009) with the opposing trends of raw material prices, forex and sales/mix almost completely offsetting each other. As a result, the EBITDA margin is now expected to rise to 10.8% from 10.2% in 2009 thanks to the better operating leverage. In absolute terms, we now see 2010E EBITDA at EUR 154.4M from EUR 146.7M previously, roughly 4% ahead of FactSet consensus. We have not assumed any extraordinary items in 2010, although we would not exclude further cost-cutting initiatives (and thus one-off costs) if market conditions significantly deteriorate.

De Longhi - 2010E-2011E new vs. old estimates						
EUR M	2010E New	2010E Old	New vs Old '10E	2011E New	2011E Old	New vs Old '11E
Sales	1,436.4	1,431.1	0.4	1,491.8	1,486.3	0.4
<b>EBITDA</b>	<b>154.4</b>	<b>146.7</b>	<b>5.3</b>	<b>167.3</b>	<b>163.7</b>	<b>2.2</b>
EBITDA post extr.	154.4	146.7	5.3	167.3	163.7	2.2
<b>EBIT post. extr.</b>	<b>115.7</b>	<b>108.1</b>	<b>7.0</b>	<b>126.0</b>	<b>123.6</b>	<b>2.0</b>
Net Profit	53.2	48.0	10.8	62.0	58.2	6.5
<b>Net Profit adj.</b>	<b>53.2</b>	<b>48.0</b>	<b>10.8</b>	<b>62.0</b>	<b>58.2</b>	<b>6.5</b>

E: estimates; Source: Intesa Sanpaolo Research

As far as cash flow generation is concerned, we lowered our NWC weighting on sales assumption to 18.2% (from 18.8% in 2009 and 22.5% in our previous forecast) to factor in the still yet to be exploited efficiencies in the supply chain. Overall, we now expect a free cash flow generation of EUR 45.4M vs. EUR 11.6M previously, resulting in a sound 9.8% yield. Thus, according to our calculations, in just a few years DLG could completely reimburse its current outstanding debt, turning cash positive at the end of 2012E. The latter assumption discounts a NWC/sales ratio stabilising at 18%, a capex/sales ratio at 2.8% (between EUR 40M and EUR 43M in absolute terms) and a cumulative dividend payment of EUR 45M in the 2010-12E period (roughly 10% of the company's market cap). We think that to avoid the strong deleveraging being perceived negatively by investors, given the suboptimal mix between equity and debt, De Longhi will identify a means to exploit its releveraging potential to create value for shareholders, as was the case with the acquisition of Kenwood.

De Longhi - P&L new estimates (2007A-12E)						
EUR M	2007A	2008A	2009A	2010E	2011E	2012E
Sales	1,490.9	1,533.4	1,404.0	1,436.4	1,491.8	1,545.2
Growth	9.4	2.9	-8.4	2.3	3.9	3.6
<b>Gross margin</b>	<b>586.4</b>	<b>603.5</b>	<b>598.3</b>	<b>610.5</b>	<b>632.5</b>	<b>653.6</b>
% on sales	39.3	39.4	42.6	42.5	42.4	42.3
<b>EBITDA pre extraordinary</b>	<b>156.3</b>	<b>151.1</b>	<b>142.9</b>	<b>154.4</b>	<b>167.3</b>	<b>177.3</b>
% on sales	10.5	9.9	10.2	10.8	11.2	11.5
<b>EBITDA post extraordinary</b>	<b>145.4</b>	<b>153.8</b>	<b>129.8</b>	<b>154.4</b>	<b>167.3</b>	<b>177.3</b>
% on sales	9.8	10.0	9.2	10.8	11.2	11.5
<b>EBIT reported</b>	<b>103.7</b>	<b>111.2</b>	<b>92.3</b>	<b>115.7</b>	<b>126.0</b>	<b>134.1</b>
% on sales	7.0	7.3	6.6	8.1	8.4	8.7
Net fin charges	-49.4	-47.9	-30.3	-25.6	-21.4	-17.2
<b>PBT</b>	<b>52.4</b>	<b>58.6</b>	<b>57.2</b>	<b>90.1</b>	<b>104.6</b>	<b>116.9</b>
Taxes	-21.1	-18.3	-24.4	-36.7	-42.2	-46.8
<b>Net profit</b>	<b>30.6</b>	<b>40.1</b>	<b>32.4</b>	<b>53.2</b>	<b>62.0</b>	<b>69.9</b>
<b>Net profit Adj</b>	<b>41.5</b>	<b>37.4</b>	<b>45.5</b>	<b>53.2</b>	<b>62.0</b>	<b>69.9</b>

E: estimates; Source: Company data and Intesa Sanpaolo Research

De Longhi - Balance sheet (2007A-12E)						
EUR M	2007A	2008A	2009A	2010E	2011E	2012E
<b>Total fixed assets</b>	<b>709.4</b>	<b>640.2</b>	<b>632.9</b>	<b>634.1</b>	<b>634.2</b>	<b>634.0</b>
<b>NWC</b>	<b>363.4</b>	<b>356.1</b>	<b>264.4</b>	<b>261.7</b>	<b>268.5</b>	<b>276.7</b>
Inventory	335.2	320.5	257.1	259.7	267.7	275.2
Receivables	378.0	367.2	351.9	364.0	380.1	393.7
Payables	335.2	320.5	257.1	259.7	267.7	275.2
Others	-16.1	-45.1	-53.5	-74.7	-76.8	-78.9
Long-terms liabilities	86.2	87.7	91.7	94.3	96.9	99.5
<b>Net capital employed</b>	<b>986.6</b>	<b>908.6</b>	<b>805.6</b>	<b>801.6</b>	<b>805.8</b>	<b>811.2</b>
<b>Net financial position</b>	<b>-356.3</b>	<b>-246.4</b>	<b>-117.1</b>	<b>-71.7</b>	<b>-29.4</b>	<b>17.9</b>
<b>Shareholders' equity</b>	<b>630.7</b>	<b>662.3</b>	<b>688.5</b>	<b>729.9</b>	<b>776.3</b>	<b>829.1</b>

E: estimates; Source: Company data and Intesa Sanpaolo Research

De Longhi - Cash flow statement (2007A-12E)						
EUR M	2007A	2008A	2009A	2010E	2011E	2012E
<b>Net income</b>	<b>30.6</b>	<b>40.1</b>	<b>32.4</b>	<b>53.2</b>	<b>62.0</b>	<b>69.9</b>
Minorities	0.7	0.2	0.4	0.2	0.4	0.2
Depreciation	41.7	42.6	37.5	38.8	41.3	43.3
Dividends	-3.0	-9.0	-9.0	-12.0	-16.0	-17.4
<b>Gross cash flow</b>	<b>70.0</b>	<b>73.9</b>	<b>61.3</b>	<b>80.2</b>	<b>87.7</b>	<b>96.0</b>
Change in NWC	-56.4	7.3	91.7	2.7	-6.8	-8.2
Capex	-31.6	26.7	-30.2	-40.2	-41.8	-43.3
Acquisitions & divestments	0.0	0.0	0.0	0.0	0.0	0.0
Other cash items	-22.0	2.0	6.7	2.8	3.0	2.8
<b>Net cash flow</b>	<b>-40.1</b>	<b>109.9</b>	<b>129.5</b>	<b>45.4</b>	<b>42.2</b>	<b>47.3</b>

E: estimates; Source: Company data and Intesa Sanpaolo Research

## Valuation

We confirm **our BUY recommendation** on the stock and raise **our DCF model-based target price from EUR 4.00/share to EUR 4.50/share**, which corresponds to an attractive 46% potential upside vs current market prices, or a total return of over 50% including the expected 2010-12 dividend. At our target price, De Longhi would trade at 4.8x and 12.7x, respectively, on 2010E EV/EBITDA and P/E. Our valuation is underpinned by market multiples as DLG trades at an undemanding 8.7x 2010 P/E, corresponding to a 22% discount vs. its main peer and rival SEB, and by the double-digit free cash flow yield (9.8%). We thus maintain our positive stance on the stock, further supported by the very low leverage (net debt/EBITDA at 0.8x), which places the company in a solid position to exploit attractive external growth opportunities, and the resilient product portfolio.

**BUY recommendation; New EUR 4.50/share target price**

### DCF model

De Longhi - DCF Model (2010-13E)						
EUR M	2010E	2011E	2012E	2013E	Normalised Y	Terminal Value
<b>EBIT</b>	<b>115.7</b>	<b>126.0</b>	<b>134.1</b>	<b>144.6</b>	<b>144.6</b>	
Taxes	-47.1	-50.8	-53.7	-57.5	-58.3	
<b>NOPAT</b>	<b>68.5</b>	<b>75.1</b>	<b>80.4</b>	<b>87.1</b>	<b>86.2</b>	
Depreciation	38.8	41.3	43.3	45.6	45.6	
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0	
Capex	-40.2	-41.8	-43.3	-44.8	-45.6	
+/- D Working Capital	2.7	-6.8	-8.2	-10.3	-5.7	
Other	0.0	0.0	0.0	0.0	0.0	
<b>FCFF</b>	<b>69.8</b>	<b>67.9</b>	<b>72.2</b>	<b>77.6</b>	<b>80.6</b>	<b>986.2</b>
<b>Present Value (PV)</b>	<b>66.8</b>	<b>59.5</b>	<b>57.9</b>	<b>56.9</b>		<b>662.2</b>
Total PV - FCFF 10-13	241.1					
PV - terminal value	662.2					
<b>Enterprise value</b>	<b>903.3</b>					
Net financial position	-117.1					
Minorities	-2.7					
Securitization	-80.0					
Employee benefits	-30.5					
<b>Equity value</b>	<b>672.9</b>					
<b>Target price (EUR/share)</b>	<b>4.5</b>					
<b>Upside potential (%)</b>	<b>46</b>					

E: estimates; Source: Intesa Sanpaolo Research

### Multiples comparison cross check

We then cross-checked our valuation with market multiples, which confirm DLG's significant undervaluation as outlined by our DCF model. Despite the 2010-12 EPS CAGR of 15.4%, similar to SEB's EPS growth of 15.8% (FactSet consensus), DLG trades with a 22% discount vs. SEB on 2010 P/E and at a 32% discount vs. the sector average.

Market Multiples - EV/Sales and EV/EBITDA (2010-12E)								
(x)	EV/Sales				EV/EBITDA			
	2010E	2011E	2012E	to growth	2010E	2011E	2012E	to growth
Seb	0.8	0.7	0.7	0.2	6.2	5.5	5.1	0.9
Electrolux AB	0.5	0.4	0.4	0.1	6.0	5.2	4.7	0.6
Munters AB	0.7	0.7	0.6	0.1	7.5	6.3	5.1	0.4
Whirlpool Corp.	0.5	NM	NM	0.1	5.6	NM	NM	0.4
Indesit Company	0.5	0.4	0.4	0.1	4.5	3.9	3.6	0.6
Arcelik AS	0.8	0.7	0.6	0.1	6.8	6.4	5.2	1.2
De Longhi SpA	0.4	0.4	0.3	0.1	4.1	3.5	3.1	0.4
<b>De Longhi (our estimate)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.1</b>	<b>4.0</b>	<b>3.4</b>	<b>3.0</b>	<b>0.5</b>
Average All (ex-De Longhi)	0.6	0.6	0.5	0.1	6.2	5.4	4.8	0.7
<b>Premium/(Discount) (%)</b>	<b>-34.0</b>	<b>-35.6</b>	<b>-36.1</b>		<b>-35.2</b>	<b>-35.6</b>	<b>-37.1</b>	

Priced at 22/03/2010. E: estimates; Source: Factset and Intesa Sanpaolo Research

Market multiples - EV/EBIT and P/E Adj. (2010E-12E)								
(x)	EV/EBIT			EV/EBIT to growth	P/E Adj.			PEG
	2010E	2011E	2012E		2010E	2011E	2012E	
Seb	8.4	7.4	6.9	0.8	12.6	11.4	10.5	0.8
Electrolux AB	9.7	7.9	6.9	0.5	12.1	10.6	9.5	0.5
Munters AB	10.5	8.2	6.5	0.4	16.2	12.4	9.9	0.4
Whirlpool Corp.	9.6	NM	NM	0.5	12.7	11.7	8.9	0.4
Indesit Company	8.0	6.6	6.0	0.5	13.0	10.6	9.6	0.3
Arcelik AS	8.8	8.4	6.6	1.6	10.2	9.4	6.6	1.0
De Longhi SpA	5.5	4.7	4.1	0.4	9.8	8.2	7.0	0.4
<b>De Longhi (our estimate)</b>	<b>5.3</b>	<b>4.5</b>	<b>3.9</b>	<b>0.4</b>	<b>8.7</b>	<b>7.5</b>	<b>6.6</b>	<b>0.6</b>
Average All (ex-De Longhi)	9.1	7.7	6.6	0.8	12.8	11.0	9.2	0.6
<b>Premium/(Discount) (%)</b>	<b>-41.3</b>	<b>-40.9</b>	<b>-40.5</b>		<b>-31.9</b>	<b>-32.2</b>	<b>-27.7</b>	

Priced at 22/03/2010. E: estimates; Source: Factset and Intesa Sanpaolo Research

De Longhi - Market multiples valuation: EV/sales and EV/EBITDA (2010E-12E)						
	EV/Sales			EV/EBITDA		
	2010E	2011E	2012E	2010E	2011E	2012E
<b>Enterprise value</b>	<b>931.6</b>	<b>889.0</b>	<b>822.9</b>	<b>955.3</b>	<b>911.0</b>	<b>844.6</b>
Net debt	71.7	29.4	-17.9	71.7	29.4	-17.9
Securitisation	80.0	80.0	80.0	80.0	80.0	80.0
Employee benefits	-30.5	-30.5	-30.5	-30.5	-30.5	-30.5
<b>Equity value</b>	<b>749.4</b>	<b>749.1</b>	<b>730.3</b>	<b>773.2</b>	<b>771.1</b>	<b>752.0</b>
<b>Value per share (EUR)</b>	<b>5.0</b>	<b>5.0</b>	<b>4.9</b>	<b>5.2</b>	<b>5.2</b>	<b>5.0</b>

Priced at 22/03/2010. E: estimates; Source: Intesa Sanpaolo Research

De Longhi - Market multiples valuations: EV/EBIT and P/E Adj. (2010E-12E)						
	EV/EBIT			Adj. P/E		
	2010E	2011E	2012E	2010E	2011E	2012E
<b>Enterprise value</b>	<b>1,048.5</b>	<b>969.7</b>	<b>882.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Net debt	71.7	29.4	-17.9	0.0	0.0	0.0
Securitisation	80.0	80.0	80.0	0.0	0.0	0.0
Employee Benefits	-30.5	-30.5	-30.5	0.0	0.0	0.0
<b>Equity value</b>	<b>866.3</b>	<b>829.7</b>	<b>790.1</b>	<b>680.4</b>	<b>684.0</b>	<b>641.1</b>
<b>Value per share (EUR)</b>	<b>5.8</b>	<b>5.6</b>	<b>5.3</b>	<b>4.6</b>	<b>4.6</b>	<b>4.3</b>

Priced at 22/03/2010. E: estimates; Source: Intesa Sanpaolo Research

De Longhi - Key figures

Sector	Household Goods	Mkt price EUR/Share	Ordinary	Rating	
REUTERS CODE	DLG.MI	Target price EUR/Share	3.08 4.50	BUY	
Values per share (EUR)	2008A	2009A	2010E	2011E	2012E
No. ordinary shares (M)	149.50	149.50	149.50	149.50	149.50
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	149.50	149.50	149.50	149.50	149.50
Adj. EPS	0.25	0.30	0.36	0.41	0.47
CFPS	0.55	0.47	0.62	0.69	0.76
BVPS	4.41	4.59	4.86	5.17	5.52
Dividend Ord	0.06	0.08	0.107	0.12	0.12
Dividend SAV Nc	0.00	0.00	0.00	0.00	0.00
<b>Income statement (EUR M)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Sales	1533.40	1403.95	1436.44	1491.77	1545.17
EBITDA	151.12	142.88	154.44	167.30	177.33
EBIT	111.22	92.29	115.66	125.98	134.07
Pre-tax income	58.61	57.19	90.07	104.55	116.89
Net income	40.11	32.39	53.17	61.97	69.89
Adj. net income	37.41	45.49	53.17	61.97	69.89
<b>Cash flow (EUR M)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Net income before minorities	40.31	32.79	53.37	62.37	70.09
Depreciation and provisions	42.60	37.49	38.78	41.32	43.26
Change in working capital	7.28	91.72	2.66	-6.77	-8.21
Operating cash flow	90.20	161.99	94.81	96.92	105.15
Capital expenditure	26.66	-30.22	-40.22	-41.77	-43.26
Other (uses of Funds)	2.02	6.73	2.81	3.03	2.80
Free cash flow	118.89	138.51	57.40	58.18	64.68
Dividends and equity changes	-8.97	-8.97	-11.96	-15.95	-17.35
Net cash flow	109.92	129.54	45.44	42.23	47.33
<b>Balance sheet (EUR M)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Net capital employed	908.58	805.60	801.57	805.75	811.16
of which associates	0.00	0.00	0.00	0.00	0.00
Net debt/-cash	246.42	117.10	71.66	29.43	-17.91
Minorities	2.35	2.75	2.95	3.35	3.55
Net equity	659.82	685.75	726.96	772.98	825.52
Market cap	459.71	459.71	459.71	459.71	459.71
Minorities value	0.00	0.00	0.00	0.00	0.00
Enterprise value (*)	706.13	576.81	531.37	489.14	441.81
<b>Stock market ratios (x)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Adj. P/E	12.29	10.11	8.65	7.42	6.58
P/CEPS	5.56	6.58	5.00	4.45	4.06
P/BVPS	0.70	0.67	0.63	0.59	0.56
Dividend yield (% ord)	1.95	2.60	3.47	3.77	3.95
Dividend yield (% sav)					
EV/sales	0.46	0.41	0.37	0.33	0.29
EV/EBITDA	4.67	4.04	3.44	2.92	2.49
EV/EBIT	6.35	6.25	4.59	3.88	3.30
EV/CE	0.78	0.72	0.66	0.61	0.54
D/EBITDA	1.63	0.82	0.46	0.18	-0.10
D/EBIT	2.22	1.27	0.62	0.23	-0.13
<b>Profitability &amp; financial ratios (%)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
EBITDA margin	9.86	10.18	10.75	11.21	11.48
EBIT margin	7.25	6.57	8.05	8.44	8.68
Tax rate	31.22	42.66	40.75	40.35	40.03
Net income margin	2.62	2.31	3.70	4.15	4.52
ROE	6.08	4.72	7.31	8.02	8.47
Debt/equity ratio	0.37	0.17	0.10	0.04	-0.02
<b>Growth (%)</b>		<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Sales		-8.44	2.31	3.85	3.58
EBITDA		-5.45	8.10	8.32	6.00
EBIT		-17.02	25.32	8.92	6.42
Pre-tax income		-2.42	57.49	16.08	11.80
Net income		-19.25	64.14	16.55	12.79
Adj. net income		21.59	16.88	16.55	12.79

(\*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Equity Research

## Notes

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Long-term rating	Definition
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(\*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category. (\*\*) The total number of companies covered is 104

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#### Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

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