

Company Flash

Consumer Goods

Italy

22 July 2011

De' Longhi

A value-accretive spin-off

Last night, De' Longhi released its 1H11 preliminary sales and edged up FY11 guidance, but also announced its intention to spin off the professional division in a 1-for-1 share split. We deem both pieces of news to be positive overall for the stock, seeing the spin-off as a potentially value accretive operation.

- Lower than expected growth in 2Q11.** Preliminary 1H11 sales were EUR 760.6mn, up 16.8% yoy (vs. our estimate of EUR 769mn, +18.2%), implying a 13.6% yoy increase in 2Q11 (EUR 398.0mn), which was also lower than our forecast of +16.1% (EUR 406.8mn). On the back of these results, the management edged up its sales growth guidance for FY11 to about 12% from the previous 10%, which still looks conservative in light of the growth seen so far this year.
- Professional business spin-off.** The spin-off is justified by the two companies' different dynamics and client bases, and should allow the two entities to better focus their management and strategies and accelerate growth as well as bringing forth two clearly-differentiated equity stories. The professional business, representing 22% of De' Longhi's group sales in 2010, will initially be small, but the management intends to accelerate its growth through acquisitions and expansion in the Chinese market, where it has a manufacturing base.
- Value accretion is on the cards.** By applying peer group multiples to our 2011 EBITDA estimates for the two divisions, we obtain an upside of 41% which, if we account for low liquidity of the new shares, should yield at least 25% upside at current levels.

EUR mn	2008	2009	2010	2011E	2012E
Sales	1,533.4	1,404.1	1,626.3	1,773.1	1,861.1
EBITDA	162.9	129.9	193.1	228.6	249.7
EBIT	111.2	92.5	147.6	187.3	206.9
Group Net Profit	40.1	32.4	74.8	113.7	129.1
EPS Reported (EUR)	0.3	0.2	0.5	0.8	0.9
DPS (EUR)	0.1	0.1	0.1	0.2	0.3
After tax ROIC	8.9%	7.2%	12.7%	15.5%	16.4%
P/E	9.7x	9.8x	7.5x	10.9x	9.6x
P/CF	4.2x	4.3x	4.6x	8.0x	7.2x
EV/Sales	0.4x	0.3x	0.4x	0.7x	0.6x
EV/EBITDA	4.1x	3.6x	3.1x	5.4x	4.6x
EV/EBIT	6.0x	5.0x	4.0x	6.5x	5.6x
Free cash flow yield	26.2%	47.6%	26.4%	8.5%	11.0%
Dividend yield	2.3%	3.8%	3.9%	2.7%	3.0%

Source: De Longhi, UniCredit Research estimates

Buy (prev. Buy)

Price on 21 Jul 2011	EUR 8.31
Target price (prev. EUR 9.7)	EUR 9.70
Upside to TP	16.8%
Cost of equity	9.5%
High/Low (12M)	9.30/3.47

INVESTMENT HIGHLIGHTS

Leading player in household consumer products worldwide in several categories such as espresso coffee, cooking and food preparation, and portable air conditioning. Strong presence in large air conditioning systems in the professional segment.

STOCK TRIGGERS

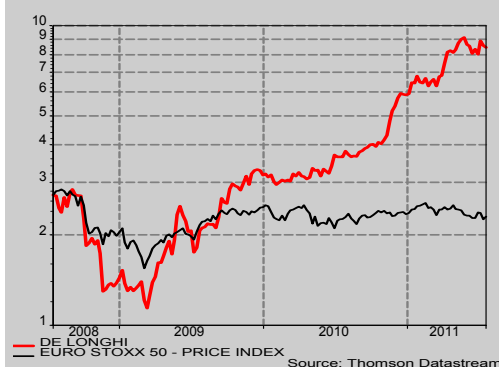
The consumer segment has proved surprisingly resilient and even a marginal recovery in consumer spending worldwide would further benefit DLG's product segments. New product launches and entry of existing products in new markets.

STOCK DATA

Reuters/Bloomberg	DLG.MI/DLG IM
Average daily volume (tds.)	341.9
Free float (%)	25.0
Market capitalization (EUR bn)	1.24
No. of shares in issue (mn)	149.5
Shareholders	De'Longhi family 75%

UPCOMING EVENTS

1H/2Q	29 Aug 2011
9M/3Q	10 Nov 2011



STOCK PERFORMANCE (% CHG.)

	1M	3M	6M
absolute	-7.0%	15.0%	45.0%
rel. to FTSE Italia	-5.0%	22.0%	45.0%
rel. to ES Retail	-2.0%	18.8%	51.3%

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A value-accretive spin-off

Last night, De'Longhi released its 1H11 preliminary sales (somewhat below our expectations) and edged up FY11 guidance, but also announced its intention to spin off the professional division in a 1-for-1 share split. We deem both pieces of news to be positive overall for the stock, seeing the spin-off as a potentially value-accretive operation.

2Q11 overall softer than expected, but FY guidance edged up

Preliminary 1H11 sales were EUR 760.6mn, up 16.8% yoy (vs. our estimate of EUR 769mn, +18.2%), implying a 13.6% yoy increase in 2Q11 (EUR 398.0mn), which was also lower than our forecast of +16.1% (EUR 406.8mn). The weaker than expected growth came as a result of the slower momentum for the household division's sales in 2Q11 (+11.9%, vs. +24.6% in 1Q11), whilst the professional division's sales accelerated to +19.2% (from +9.9% in 1Q11).

DE' LONGHI – SALES GROWTH BY QUARTER AND SEMESTER

EUR mn	1Q10	2Q10	1Q11	2Q11	1H10	1H11
Group sales	300.6	350.4	362.8	398.0	651.0	713.2
Household	230.4	266.7	287.0	298.4	497.1	553.7
Professional	70.5	85.0	77.5	101.3	155.5	162.5
Other	-0.3	-1.3	-1.7	-1.8	-1.6	-3.0
yoy growth						
Group sales	3.5%	15.0%	20.7%	13.6%	9.4%	16.9%
Household	4.0%	19.7%	24.6%	11.9%	11.9%	17.8%
Professional	0.4%	-1.4%	9.9%	19.2%	-0.6%	15.0%

Source: De'Longhi data, UniCredit Research

FY2011 guidance edged up

On the back of these results, the management has edged up its sales growth guidance for FY2011 to about 12% from the previous 10%, which still looks conservative in light of the growth seen so far this year. The management justified this by the lack of visibility driven by sovereign debt issues in Europe and elsewhere, combined with a more difficult comparison base in 2H11, although the product launch pipeline looks supportive. Indeed, the new Lattissima Plus has already been launched in a number of markets and the Dolce Gusto range is doing well in the markets where it has been launched (Scandinavia, Spain, Switzerland and Italy) and is due to be launched in the US market (with exclusive rights) in September.

Professional business spin-off

The spin-off is justified by the two companies' different dynamics and client bases, and should allow the two entities to better focus their management and strategies and accelerate growth as well as bringing forth two clearly-differentiated equity stories.

Effective as of 2 January 2012

The actual spin-off, for which details will be announced in the coming months, will take place on 2 January 2012, through a 1-to-1 split of the existing shares, which will both remain listed.

The professional business, representing 22% of De' Longhi's group sales in 2010, will initially be small but management intends to accelerate its growth through acquisitions and expansion in the Chinese market, where it has a manufacturing base. The main focus of its business is the production of highly energy-efficient large thermo-cooling machines used to cool and heat large buildings, including shopping malls and high rise constructions.

Spin-off to support share price

We do not expect consensus figures to rise significantly on the back of the preliminary sales announcement, although we expect that the news of the spin-off is likely to bring out the hidden value of the two distinct activities and allow the household division to gradually erode the discount to Groupe SEB, allowing the professional division to trade at higher multiples.

DLG – MULTIPLE COMPARISON

	Price	P/E			EV/EBIT			EV/EBITDA			Earnings	
		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	CAGR	CAGR
DAIKIN INDUSTRIES LTD	2,787.0	42.8	33.5	17.9	21.9	16.5	10.9	11.9	9.4	7.7	23.0%	9.5%
AAON INC	23.8	28.7	23.6	17.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NIBE INDUSTRIER AB-B SHS	110.0	20.0	16.3	14.7	14.8	12.1	10.2	11.6	9.7	8.4	22.8%	16.4%
JOHNSON CONTROLS INC	40.0	20.4	16.4	12.3	17.5	14.6	10.8	12.1	10.2	8.0	93.4%	42.4%
EMERSON ELECTRIC CO	56.0	20.7	17.1	14.5	13.5	11.2	9.4	11.1	9.1	8.0	20.2%	16.5%
SEB SA	72.1	14.1	13.1	12.0	10.2	9.6	8.5	7.7	7.4	6.6	25.4%	14.3%
Average small appl		14.1	13.1	12.0	10.2	9.6	8.5	7.7	7.4	6.6	25.4%	14.3%
Average Professional		26.5	21.4	15.3	16.9	13.6	10.3	11.7	9.6	8.0	37.0%	19.8%
De' Longhi	8.51	17.0	11.2	9.9	8.8	6.6	5.7	6.7	5.4	4.7	58.6%	24.3%
De' Longhi prem. (disc.) to SEB		20.4%	-14.9%	-18.1%	-13.5%	-30.9%	-33.4%	-12.9%	-26.8%	-28.4%	130.5%	70.7%
De' Longhi prem. (disc.) to Prof.		-35.9%	-47.7%	-35.7%	-48.1%	-51.1%	-45.0%	-42.5%	-43.4%	-41.3%	58.4%	22.8%

Source: Bloomberg consensus and UniCredit Research estimates

DLG MARGIN COMPARISON VERSUS THE PEER GROUP

	EBIT				EBITDA				Net debt/EBITDA			
	2009	2010	2011E	2012E	2009	2010	2011E	2012E	2009	2010	2011E	2012E
DAIKIN INDUSTRIES LTD	4.8%	4.8%	5.6%	7.6%	8.3%	8.9%	9.9%	10.7%	2.6 x	2.9 x	2.1 x	1.4 x
AAON INC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NIBE INDUSTRIER AB-B SHS	11.0%	12.0%	12.5%	12.6%	14.6%	15.3%	15.5%	15.4%	1.7 x	1.0 x	0.9 x	0.5 x
JOHNSON CONTROLS INC	1.9%	5.0%	5.2%	6.3%	4.7%	7.3%	7.5%	8.5%	2.5 x	1.0 x	1.2 x	0.8 x
EMERSON ELECTRIC CO	13.4%	15.5%	16.5%	17.4%	16.4%	18.8%	20.2%	20.4%	0.9 x	0.8 x	0.6 x	0.3 x
SEB SA	8.5%	10.6%	10.6%	10.7%	12.5%	14.0%	13.7%	13.8%	0.7 x	0.3 x	0.5 x	0.2 x
Average professional	7.8%	9.3%	10.0%	10.9%	11.0%	12.6%	13.3%	13.7%	1.9 x	1.4 x	1.2 x	0.8 x
Average	7.9%	9.6%	10.1%	10.9%	11.3%	12.9%	13.4%	13.8%	0.6 x	0.3 x	0.3 x	0.2 x
De' Longhi	6.6%	9.1%	10.6%	11.1%	9.3%	11.9%	12.9%	13.4%	0.9 x	0.0 x	-19.5%	-45.4%

Source: Bloomberg consensus and UniCredit Research estimates

In a quick sum-of-the-parts valuation of the two divisions to be spun-off into two companies at the start of next year, we calculate there is 41% upside from current levels. We would consider it more appropriate to think of a potential upside of at least 25%, after accounting for the low liquidity of the two shares resulting from the split.

We obtain this upside by applying air treatment peer group multiples for 2011 and 2012 to De' Longhi's 2011 divisional EBITDA after adjusting for central costs. We then add 50% of the net cash position we forecast for the end of 2011 to the enterprise value. We do the same for the household division, applying Groupe SEB's EBITDA multiple, taking the average of 2011 and 2012.

DE LONGHI – SUM OF PARTS VALUATION

	EBITDA 2010	EBITDA 2011E	Central costs	NFP 2011	EBITDA multiple (avge 2011-12)	Equity Value
Household division	176.2	208.4	4	22.3	7.0	1,483
Professional division	31.0	34.1	4	22.3	8.8	323
SOP DLG	-	-	-	-	-	1,806
Today's mkt cap	-	-	-	-	-	1,272
Upside	-	-	-	-	-	41.9%

Source: UniCredit Research estimates

DE LONGHI – KEY DATA

EUR mn	2007	2008	2009	2010	2011E	2012E
Market Data						
Price Ord	4.6	2.6	2.1	3.7	8.3	8.3
No. Issued Shares	149.5	149.5	149.5	149.5	149.5	149.5
Total Market Cap	693.4	388.3	318.6	558.8	1,241.6	1,241.6
P&L						
Group Net Sales	1,490.9	1,533.4	1,404.1	1,626.3	1,773.1	1,861.1
yoy % change	9.4%	2.9%	-8.4%	15.8%	9.0%	5.0%
EBITDA	145.4	162.9	129.9	193.1	228.6	249.7
EBITDA Margin	9.7%	10.6%	9.3%	11.9%	12.9%	13.4%
EBIT	103.7	111.2	92.5	147.6	187.3	206.9
EBIT Margin	7.0%	7.3%	6.6%	9.1%	10.6%	11.1%
Pretax	52.4	58.6	57.2	111.5	165.0	186.5
Group Net Profit	30.6	40.1	32.4	74.8	113.7	129.1
Net profit margin	2.1%	2.6%	2.3%	4.6%	6.4%	6.9%
Adj. Group Net Profit	30.6	40.1	32.4	74.8	113.7	129.1
Adj. EBITDA	145.4	162.9	129.9	193.1	228.6	249.7
Balance Sheet						
Net Fixed assets	705.4	640.1	630.3	630.6	639.3	646.5
Net working capital	378.1	356.4	267.1	226.8	260.7	280.0
Long term liabs. and TFR	-86.2	-87.7	-91.7	-92.2	-91.1	-90.1
Net Capital Required	997.3	908.8	805.7	765.2	808.8	836.3
Shareholders' Equity	630.7	662.3	688.6	760.6	853.5	949.6
Net Financial Debt (Cash)	366.6	246.5	114.7	4.7	-44.7	-113.3
Cash flow statement						
Operating Cash Flow	-3.3	115.2	163.6	161.3	120.5	152.0
Capex	-46.2	-44.8	-39.9	-45.4	-50.0	-50.0
Dividends	-9.0	-9.0	-9.0	-12.0	-21.8	-33.0
Change in net financial position	-49.6	120.2	129.3	112.4	49.4	68.6
Leverage						
Debt/Equity	0.6x	0.4x	0.2x	0.0x	-0.1x	-0.1x
Debt/EBITDA	2.5x	1.5x	0.9x	0.0x	-0.2x	-0.5x
EBITDA Interest Coverage	2.8x	3.1x	3.7x	5.4x	10.3x	12.2x
EV Ratios						
EV	1,101.7	666.6	462.7	592.4	1,226.0	1,156.1
EV/Sales	0.7x	0.4x	0.3x	0.4x	0.7x	0.6x
EV/EBITDA	7.6x	4.1x	3.6x	3.1x	5.4x	4.6x
EV/EBIT	10.6x	6.0x	5.0x	4.0x	6.5x	5.6x
[EV/CE]/[ROCE/WACC]	1.2x	0.7x	0.7x	0.5x	0.8x	0.7x
Per Share Data						
EPS	0.20	0.27	0.22	0.50	0.76	0.86
Adj. EPS	0.20	0.27	0.22	0.50	0.76	0.86
Free CFPS	0.45	0.63	0.50	0.81	1.03	1.15
BVPS	4.18	4.41	4.59	5.08	5.70	6.34
DPS Ord	0.06	0.06	0.08	0.15	0.22	0.25
Valuation Ratios						
P/E Ord	22.7x	9.7x	9.8x	7.5x	10.9x	9.6x
Adj. P/E Ord	22.7x	9.7x	9.8x	7.5x	10.9x	9.6x
Free cash flow yield	-2.5%	26.2%	47.6%	26.4%	8.5%	11.0%
Div. Yield Ord	1.3%	2.3%	3.8%	3.9%	2.7%	3.0%

Source: De Longhi, UniCredit Research estimates

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POTENTIAL CONFLICTS OF INTERESTS

Company	Key
De' Longhi	7

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RECOMMENDATIONS, RATINGS AND EVALUATION METHODOLOGY

Company	Date	Rating	Currency	Target price
De' Longhi	13/05/2011	BUY	EUR	9.70
De' Longhi	04/03/2011	BUY	EUR	9.00

De' Longhi	17/01/2011	BUY	EUR	7.90
De' Longhi	18/11/2010	BUY	EUR	6.30

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