

Sapec

15 February 2007

Waiting for news on renewables strategy

Diversified Industrials

Current Price € 96.00

Buy

Belgium

Target Price € 120.00

Initiating coverage



Source: Thomson Financial Datastream

FY/e 12.31	2005	2006E	2007E	2008E
Sales (€m)	517	516	543	557
EBITDA (€m)	33	25	33	35
Net earnings (€m)	12	5	9	11
Current EPS* (€)	5.07	2.72	6.97	7.91
Published EPS (€)	8.95	3.97	6.97	7.91
Dividend per share (€)	2.10	1.70	1.74	1.98
P/E (x)	16.2	35.3	13.8	12.1
Dividend yield (%)	2.6%	1.8%	1.8%	2.1%
EV/EBITDA (x)	8.1	11.3	8.5	7.9

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Reuters SAPE.BR
Bloomberg SAP BB

www.sapec.be

Market Cap € 130m
Shares outst. 1.4m
Volume (Daily) € 0.01m
Free float 25.65%

Next corporate event

Results FY06: 26 March 2007

Performance over	1m	3m	12m
Absolute	3%	9%	3%
Rel. BEL20	2%	2%	-14%
Relative to sector	3%	9%	3%
12-m Hi/Lo	€ 98.00/82.50		

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Sapec is an industrial holding company with a leading position in a number of niche sectors on the Iberian peninsula. There are currently six divisions (crop protection, crop nutrition, chemical products distribution & waste management, agro commodities distribution, logistics and renewable energy), which are each managed as independent profit centres.

- The company's activity range offers a nice mix between more mature businesses (like crop protection) and more growth oriented activities. The crop nutrition division for instance is banking on international growth and the future of activities like waste management and logistics also seems promising.
- The renewables subsidiary Naturener (a JV with a local Spanish bank) also looks capable of achieving solid growth. The renewables sector currently has bright prospects and the company has recently acquired a 1,800 MW portfolio of early-stage wind projects in North America. In the coming months, the company should reveal more concrete details on its ambitions in the renewables sector.
- Sapec also owns a number of non-operational real estate assets. The most important is a large industrial estate near the port of Setubal (50km south of Lisbon), which the company is gradually developing. This process should unlock value.
- In our opinion, Sapec is still an attractively priced stock. We initiate coverage with a Buy rating and a DCF-based target price of € 120.

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Executive summary

Industrial holding focused on Iberia

Saptec was formed at the beginning of the 20th century as a mining and chemicals company. In the past few decades however, the company has changed its activity profile quite drastically. The current activity mix has been built around the company's expertise and know-how in sectors like agriculture, chemicals and logistics. Geographically, the company concentrates on the Iberian peninsula, where it has excellent relationships and a good knowledge of the local industrial structure (which depends to a large extent on SMEs). Saptec deliberately focuses on niche markets, where it can reach the status of a leading player. Its current activity scope includes crop protection, crop nutrition, chemical distribution & waste management, agro commodities and logistics. The company also has an interesting renewables business, which it operates through its subsidiary Naturener (a joint venture with Caja Castilla La Mancha). Finally, Saptec has also built up a substantial real estate portfolio and is currently developing an industrial real estate near the port of Setubal, which might help to unlock some hidden value.

Good mix between stable businesses and more growth oriented activities

Saptec's current activity range offers a good mix of more stable businesses (like crop protection) and more growth oriented activities. Growth might come for instance from the crop nutrition division. In the past few years, Saptec has substantially increased its international commercial firepower, which should pay off in the coming years. In core Europe, crop nutrition is a low growth sector, but in emerging countries (like Brazil, Mexico, Middle East, and some European countries), the use of crop nutrition products is not yet as widespread. Other divisions (like e.g. waste management and logistics) should also offer decent growth. A recovery of the Portuguese economy in the next few years would obviously help.

Renewables

Saptec also has an interesting renewables subsidiary Naturener, which is set up as a joint venture with the Spanish local bank Caja Castilla La Mancha. The renewables sector is currently benefiting from strong tailwinds.

Most governments are currently promoting investments in renewables as they become increasingly aware of the environmental impact of more traditional energy sources. The problem of climate change is currently very high on the political agenda, as is security of supply. Renewables score well in both areas. By definition, renewable energy is characterised by low CO₂ emissions and it also helps to reduce dependence on politically unstable gas and oil producers.

Naturener made its first steps in the renewables sector as a developer and producer of hydro-electricity in Spain. In the past few years, the company has also built a proven track record as a project developer in wind energy in Spain. Last year however, Naturener sold its entire project portfolio in Spain to Iberdrola for an attractive price. It did not however want to waste its wind expertise and started looking for new opportunities.

The quest for new projects led it to North America (Montana (US) and Alberta (Canada)), where it acquired a 1,800MW early stage project portfolio. We see this as a favourable development as the wind industry is clearly less mature in North America than in European countries like Spain, Germany and Denmark.

Real Estate

The property division also adds to the attractiveness of Sapec. The company is currently developing and selling parcels on an industrial estate near the port of Setubal. The poor state of the Portuguese economy is not helping, but this development should lead to extra cash inflows in the medium term.

Valuation

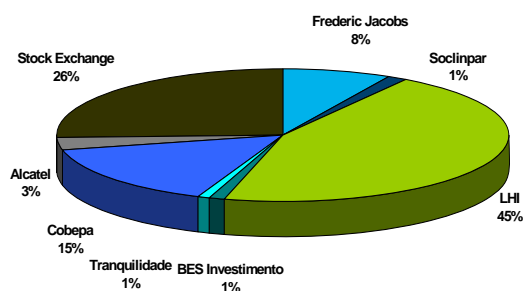
Sapec owns a number of healthy activities in Iberia and has also an interesting angle on the renewables sector. The market has not yet fully appreciated the stock's potential. We obtain a DCF-based target price of € 120. If the company is successful in finding new opportunities in the renewables market, additional value creation could be possible.

Shareholders

Shareholders

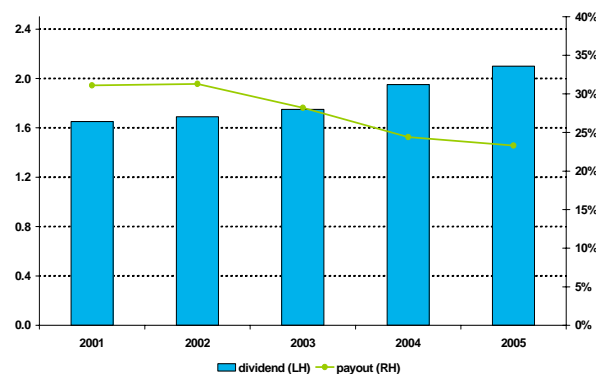
Sapec is to a large extent controlled by two families: the Velge family from Belgium and the Portuguese family Espirito Santo. These two families have a majority position in the company through a number of holdings, LHI (45.09%) and Financière Frédéric Jacobs (7.81%) being the two most important. Other shareholders like Soclinpar (1.33%), BES Investimento (1.05%), Tranquilidade (0.98%) are also closely linked to the two controlling families. The Velge and Espirito Santo families also have a long-term cooperation agreement with the Belgian holding company Cobepa, which owns 15.13%. Finally, Alcatel Bell Pensioenfond holds 3.10%, while there is also a free float of approximately 25.53%. There is no indication that the free float will increase in the short to medium term.

Shareholder structure



Source: Sapec, KBC Securities

Dividend policy 2001-2005



Source: Sapec, KBC Securities

Dividend

The company targets a dividend payout ratio of approximately 25% of the consolidated net result (group share). In 2005, this translated into a dividend yield in the lower 2%-area. In 2006, the consolidated net result will probably come in lower, but it is not clear yet how this will influence dividend policy.

Swot analysis

Strengths

- The company has a typical niche strategy concentrated on several sectors where it can achieve leadership status. Most activities are related to agriculture, chemicals and logistics.
- Geographically, the company is concentrated on the Iberian Peninsula, where it tries to lever its local network and its knowledge of the local industrial structure. But Sapec has also tried to exploit opportunities outside Spain and Portugal (international expansion in crop nutrition, the North American wind portfolio through Naturener).
- The company's activity range offers a nice balance between more mature activities and more growth oriented businesses (renewables, waste management, crop nutrition).

Weaknesses

- The balance sheet is already quite leveraged. If new investment opportunities arise, the company will probably have to look for alternative ways to finance investment.
- The businesses are highly working capital intensive, particularly the agro commodities division.
- A number of the company's activities are dependent on the agricultural sector. This makes the company vulnerable to weather conditions and other typical agricultural problems (like low demand for agro commodities because of the bird flu threat).

Opportunities

- In emerging markets, crop nutrition is not as developed as in a mature market like Europe. With its recent commercial investments, Sapec seems well placed to benefit from an increased penetration of crop nutrition products in these markets.
- Industrial waste management could become an interesting growth business, where Sapec could lever its strong local relations. The logistics sector might also provide new opportunities if the Portuguese economy picks up.
- The renewables activities will probably benefit from the current favourable investment climate, particularly in North America, where there still seem to be numerous opportunities. The popularity of wind energy in North America is still fresh compared to Europe. At this stage, it is not yet clear whether Naturener will confine its activities to the development of new wind projects. The subsidiary might also actually become the operator of the wind projects in which it is involved.

Threats

- A substantial portion of Sapec's profit comes from the Portuguese economy, whose performance has been sluggish in recent years, and whose recovery could prove slower than expected. The chemical distribution and logistics activities are particularly dependent on this component.
- The company has a lot of short-term debt on its balance sheet. Higher interest rates might cause some pain.

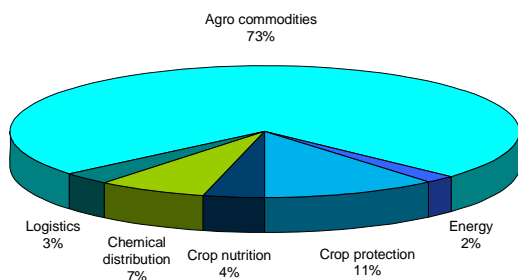
Business description

General

Diversified industrial holding

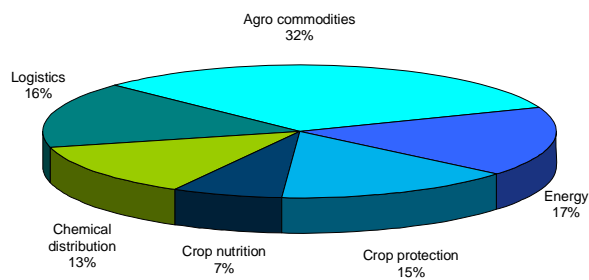
Saptec is an industrial holding with important market positions in a number of well-chosen sectors. Even though the diversification argument for holdings is often questionable, synergies clearly exist between a number of divisions. The crop protection and crop nutrition divisions target for instance the same clients, while other activities (like chemical distribution, logistics and even real estate development) also try to charm similar client segments (often SMEs which play an important role in the Iberian economy). In 2005, the company's broad activity range also provided a nice hedge against adverse weather conditions. The dry weather at the time hit the crop protection and crop nutrition divisions, when the agro commodities division was flying high. As a result of weak local harvests, both Spain and Portugal needed to import more agricultural commodities, which translated into increased volumes and good margins in the agro commodities division. The 1H06 results seem to indicate however that this natural hedge is far from perfect.

Breakdown sales 2005



Source: KBC Securities, Saptec

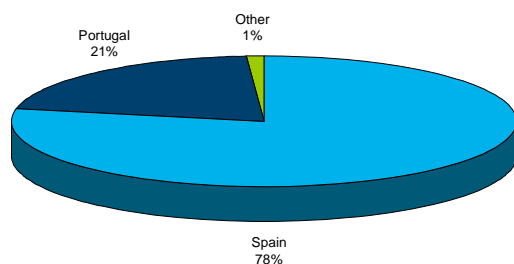
Breakdown Recurrent EBITDA 2005



Source: KBC Securities, Saptec

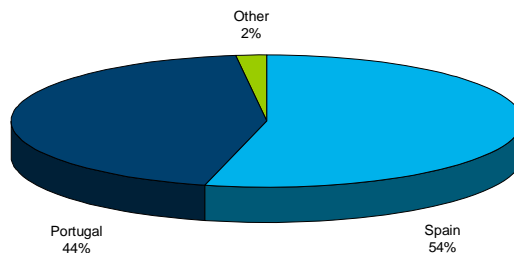
With more than 70% of overall revenues in 2005, the agro commodities division stands out in terms of sales. Given that this business is characterised by low margins, its relative size in terms of profitability is less pronounced, though it still represented roughly 1/3 of EBITDA in 2005. Other divisions like energy, crop protection, chemical distribution and logistics all take roughly 15% of company EBITDA. The crop nutrition division is currently the smallest division with roughly 7% of EBITDA in 2005.

Geographical breakdown sales 2005



Source: KBC Securities, Saptec

Geographical breakdown EBITDA 2005

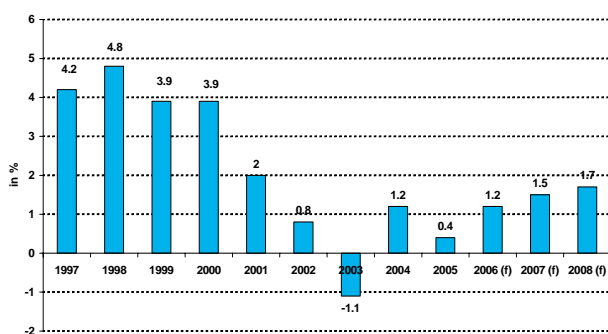


Source: KBC Securities, Saptec

Good geographical mix

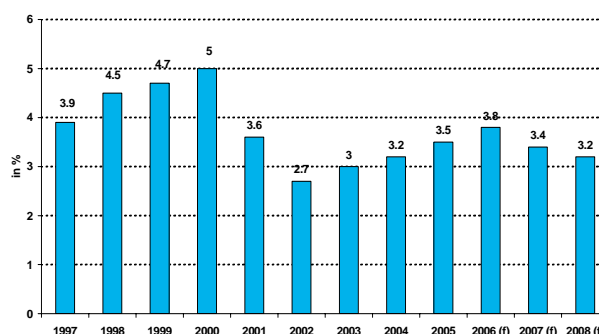
In terms of sales, Spain is the most important country for Sapec. To a large extent this is due to the agro commodities business, which represents much of Sapec's Spanish exposure and which typically has rather low margins. Looking at EBITDA, Spain and Portugal are more balanced. Generally speaking, Sapec has developed more or less the same activities in Spain and Portugal (crop protection, crop nutrition, agro commodities). The chemical distribution niche and also logistics are however mainly oriented towards Portugal. If opportunities show up, Sapec might try to develop these activities in Spain as well.

Portugal GDP-growth 1997-2008 (in %)



Source: Eurostat

Spain GDP-growth 1997-2008 (in %)



Source: Eurostat

Portuguese vs. Spanish GDP-growth

While the Spanish economy has been very strong in the past decade, the Portuguese economy has performed poorly. In the late nineties, when interest rates were converging, the country was still growing fast, but things have changed quite dramatically since then. Between 2000 and 2005, real GDP-growth was less than 1% on average. This rather poor growth has had an impact on a number of Sapec's activities like logistics, chemical distribution and real estate development.

Both the OECD and Eurostat expect somewhat stronger Portuguese growth in the next few years, but the recovery will probably be slow, mainly because Portugal's economic problems are largely structural. Exports have slowed quite substantially in a globalising economic environment where competition has become much harsher. The slowdown has been particularly marked in clothing and footwear exports. Moreover, the government cannot afford to conduct an expansionary budgetary policy because its fiscal deficit is already at an unsustainably high level (6% of GDP in 2005).

Crop protection (Portugal and Spain)

Generics

In the 60s and 70s, Sapec started to develop activities in the crop protection sector. The company set its first steps in the sector as a distribution partner for the patented crop protection products of companies like BASF, Dupont and Dow. Soon however the company realised that the 'generics' market also presented good opportunities. Sapec therefore became an important player in this generics segment, which meant that it also developed activities higher up the value chain (formulation, packaging, etc). Currently, Sapec has two production facilities for crop protection products, in Setubal (Portugal) and Reus (Spain).

Portugal

Sapec's Portuguese crop protection activities date back a long way. Over the years, Sapec has been able to become one of the leading players with a market share of approximately 30%. In order to achieve optimal coverage of its clients, the company uses two brand names in Portugal: Sapec Agro and Selectis. Selectis mainly targets smaller distributors. The Portuguese crop protection market is highly concentrated. The C4 index (which measures the combined market share of the 4 most important players in the sector) is as high as 80%. Important competitors include Bayer and Syngenta.

Spain

Sapec's Spanish activities have a much shorter history. The group was able to make an attractive acquisition in 2000, which was used as a springboard for growth. The company currently has a market share of approximately 6%, which we believe can still rise a few percentage points, helped by the growing popularity of generics, which is Sapec's only activity in Spain. It should therefore benefit from the increasing popularity of generics vs. more expensive patented products. In terms of brand names, Sapec also uses its Sapec Agro brand in Spain alongside a complementary brand Tradecorp.

Growth prospects on the Iberian peninsula seem relatively limited. It cannot be excluded however that sooner or later Sapec will try to target new markets, in an attempt to increase economies of scale. The company would probably prefer other Mediterranean markets, which often have similar characteristics to Iberia.

EU registration process

In terms of legislation and registration, the crop protection sector has a lot in common with the pharmaceutical sector. Currently, the most significant legal developments are coming from the EU. The European Commission has set up a plan to register all active molecules in crop protection products to ensure that all crop products on the European internal market comply to the same strict quality standards. Obviously, this process will require some investment, but Sapec is teaming up with a number of other parties in order to spread the costs. The EU registration procedure also has an impact on the average life of patents. When a product is registered in the EU, it gets a patent for a pre-defined period. The idea is to give registering companies a fair return on the registering costs that they incur. Short-term however, this might slow the penetration of generics slightly.

Crop nutrition (Portugal and Spain)

Crop nutrition

The crop nutrition division produces and sells a wide range of nutritional elements and enriching agents like trace elements (chelates), bio stimulants (humic acids and amino acids) as well as acid/salinity correctors. It is much easier to put a new product on the crop nutrition market, which implies it is very important to have a good sales force and to be creative. Sapec has a wide network of clients in a number of highly specialised agricultural sectors like horticulture, viticulture, floriculture and fruiticulture. The company uses its Sapec Agro brand both for Portugal and Spain and its complementary Tradecorp brand in Spain. The company also has two specialised production sites in Spain.

Successful international expansion strategy

In the past few years, this division has been able to develop a broad international footprint. The crop nutrition division has invested in commercial activities in Europe (e.g. Poland), the Middle East, Northern Africa, Mexico and Brazil. The fact that crop nutrition is not always well developed in these countries opens up opportunities for a company like Sapec. In recent years, the international activities have grown to represent a very important part of the division's results and more growth is likely in the next few years. In 2005, the crop nutrition division sold €7.3m in Spain and Portugal, while its international sales amounted to €13.5m. Several international divisions showed impressive sales growth in 2005 (+43% y/y in Europe (outside Portugal/Spain), +50% in Middle East, +60% Brazil and +72% Mexico)

Chemical distribution and waste management (Portugal)

Chemical distribution

This business unit (called Sapec Quimica) started as a spin-off from its former commodity fertilizer business. For these activities, Sapec had to invest in distribution and logistical capacity. Currently, the company has two big industrial and logistics platforms (in Setubal and Ovar covering respectively southern and northern Portugal). The company soon realised that it could also offer its expertise and infrastructure to third parties in Portugal. SMEs play a very important role in the Portuguese economy and they do not always have the ability to look after their own distribution and logistics. Clients are situated in a wide range of industries (paper, textile, shoes, construction, chemicals) but unfortunately, these activities have suffered from the poor health of the Portuguese economy.

Waste management

In Setubal, Sapec has also become active in the industrial waste management business through a subsidiary called CITRI. This sector is still in its infancy in Portugal. Given the limited market size of the Portuguese market, large players like Veolia Environnement and Suez Environnement show little interest, which presents opportunities for a company like Sapec. So far, CITRI has mainly focused on the disposal and recycling of non-toxic industrial waste, but new opportunities might show up.

Waste-to-energy

Recently, Sapec has made a concerted effort to become more active in the waste-to-energy sector. There is a trend to use waste residuals as a secondary fuel, which is particularly attractive in times of high fuel prices. Currently, Sapec is working on a project with the local cement industry, which started using this secondary fuel in September 2006.

Toxic waste management

Sapec is also trying to enter new niches in the waste sector. Recently, Sapec took a 35% stake in a consortium, which won a license for the processing and recycling of toxic industrial waste in Portugal. This project will be up and running in 2008. In general, we expect to see more initiatives and more growth in this field in the next few years. We have the impression however that waste collection for the household sector is not on the company's agenda. Given the low profitability of this business, this is probably a wise decision.

Agro commodities distribution (Portugal and Spain)

Agro commodities distribution

The distribution of agro commodities is a very important activity for Sapec, representing more than 70% of revenue and more than 30% of recurring EBITDA. The company mainly focuses on products for the animal feed sector (cereals, cereal substitutes, proteins). Activities include both 'trading' and 'distribution' activities.

Trade

Trading includes buying commodities on the international markets and selling them to end customers in Iberia. Negotiating interesting freight rates with shipping companies is an important part of Sapec's strategy, which has been highly successful in recent years. The company's agro commodities activities are spread over two separate companies. Interpec Iberia is responsible for Spain and handles approximately 2m tonnes a year. In Portugal, Sapec operates through its smaller subsidiary Seteia, which handles roughly 150,000 tonnes a year.

Distribution

Next to the rather volatile trading operations, Sapec also performs a number of distribution activities (delivery, transport, storage), which have a more stable income profile. This is largely because Sapec operates from its own logistical bases in Tarragona and Cadiz, which enables it to keep a large part of port handling fees in house. Approximately 50% of volumes imported by Sapec already make use of the company's own infrastructure. Obviously, third parties might also be interested in using Sapec's infrastructure, which provides the company with a nice recurring income. Sapec has also terminal use rights in the port of Cartagena.

Working capital

Even though cargoes are usually pre-sold, it cannot be denied that this division eats up a lot of working capital. Ships at sea and well-filled storage sites translate into high inventories. Obviously, the amount of working capital tracks commodity prices.

Logistics (Portugal)

Sale of Logic SA

In 2005, Sapec downscaled its ambitions in the logistics sector by selling its subsidiary Logic SA in a management buy out. Logic SA had an ambitious strategy (including expansion to Spain), but this required extensive investment and Sapec preferred to cash in and focus on its other logistics activities.

Multi-modal platforms

In the past few years, the company has developed a network of multi-modal land-based terminals in Portugal (Lisbon, Porto, Setubal). These terminals perform a number of specialised activities (container storage, repair activities, packaging, re-distribution) and play a very important role in the industrial heartland near Lisbon and Porto. Sapec has invested heavily in this activity (€33.2m between 2002-2006) and now has very modern platforms in place. The division targets various clients, mainly situated in the Portuguese SME sector, and should be able to show some growth if the Portuguese economy regains strength.

Port services

The logistics division also includes the port handling of bulk products (both solid and liquid) in Setubal (through the Sapec Port Terminals division). There is also still a stevedoring activity (Navipor), but this has shrunk in size. Sapec owns 50% of Navipor.

Renewables

Hydro

The company is active in the renewables sector through the Naturener joint venture, which it set up with the Spanish savings bank Caja Castilla La Mancha and a private US investor (holding a 16% stake). In recent years, Naturener has mainly been active in the hydro segment. The company operates 13 mini hydro power stations in the regions of Albacete, Galicia, Castilla Leon and Extremadura. These power plants have a combined installed capacity of 55 MW and the electricity generated is sold to large Spanish utilities (like Iberdrola and Endesa) through the Spanish electricity pool (Omel) or through fixed-price contracts. In the past few years, hydro levels have been lower than normal, which translated into low electricity output, but this was offset by higher electricity prices. Recently, the company has also done extensive work in the photovoltaics sector, where it is currently working on an important project (10 MW) that should get official approval in the next few months.

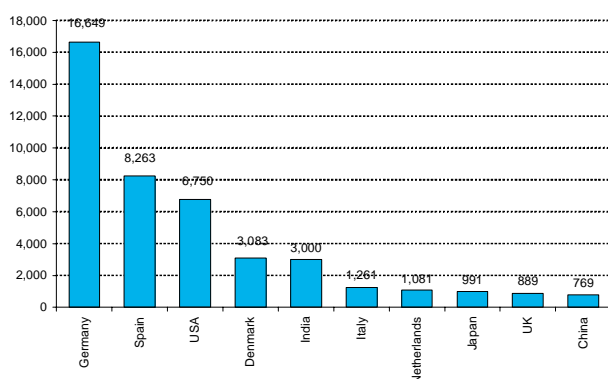
Wind energy in Spain

In recent years, Naturener has also become active in wind farm development in Spain. The company received the permits for a 29.9MW farm in Castilla La Mancha, while it is very close to obtaining the final licenses for 50 MW in capacity in Andalusia. The company has also been preparing other projects in northern Spain (approximately 200 MW), where it is still in competition with other developers. In January last year however, Naturener received a very attractive offer from Iberdrola to buy its Spanish projects. Iberdrola will pay Naturener (approximately 50% Sapec owned) a maximum of €25.7m, though part of this payment is conditional on the successful completion of a number of permit applications.

Wind energy in North America

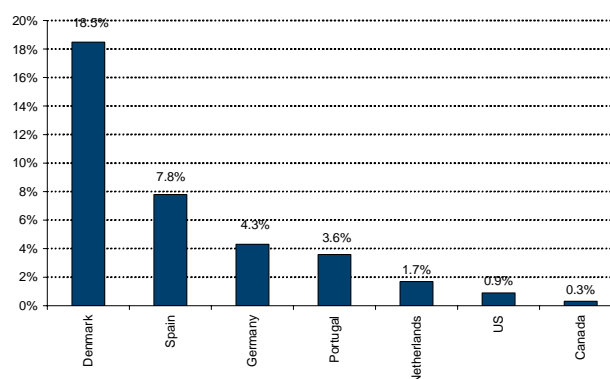
The company however decided to remain active in the wind business so as not to waste the expertise it had built up. Naturener started to look for other countries where it could deploy this know-how and concluded that North America still shows great promise. In the US and Canada, wind energy still represents a very small percentage of overall capacity installed and a number of relatively generous incentive schemes help to make new projects financially viable.

Top 10 wind power markets 2004 (MW installed)



Source: GWEC

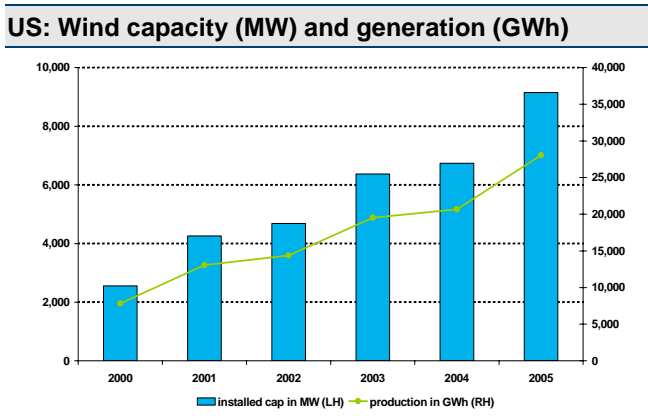
Wind generation (% of national electricity demand)



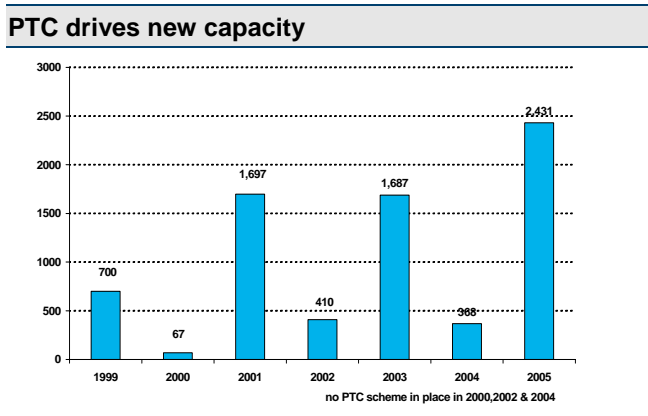
Source: IEA Wind

The company ended up buying a very early stage portfolio of 1,800 MW with projects in Montana (US) and Alberta (Canada). Naturener paid \$ 21.2m, of which \$ 10.9m was upfront.

Although the US wind market is still very immature, there are indications that the main political parties favour a more prominent role for wind energy, a stance clearly inspired by geopolitical and environmental concerns. In general terms, the US uses two sorts of incentive: tax credits and renewable portfolio standards. First of all, the US government grants a tax credit for every MWh of wind electricity produced. This so-called production tax credit scheme (a.k.a. PTC scheme) pays \$ 19 per MWh (to be adjusted annually for inflation) during the first ten years of operation. The only disadvantage is that the credit has to be renewed on a regular basis. This explains why new wind installations have been characterised by a stop-go pattern (see chart below). Last year, Congress approved an extension of the PTC system for another year – through 31/12/2008 – but it would be helpful if Congress were to authorise a longer-term extension. The federal tax authorities also allow wind farms to benefit from the use of accelerated depreciation. Wind farms are often depreciated on a 5-year basis, which creates a nice tax shield.



Source: IEA Wind



Source: IEA Wind

Renewable portfolio standards

The introduction of renewable portfolio standards (RPS) has been another important growth driver. RPS requires utilities to purchase a minimum percentage of their overall generating capacity from renewable resources. More than 20 states (including Montana) have introduced renewable portfolio standards. The share of renewables in Montana’s fuel mix is currently very limited. The state of Montana wants to increase this gradually according to the following timetable: 5% by 2009, 10% by 2014 and 15% by 2015. A utility that is unable to comply with the renewable portfolio standards must pay an administrative penalty of \$10/MWh. Obviously, utilities cannot pass this fine on to the end customer. Montana’s definition of ‘renewables’ includes wind, solar thermal electric, photovoltaics, landfill gas and biomass. Wind energy will clearly play an important role in bringing the targets of this state – which according to scientific research is one of the windiest in the US – within reach.

Annual wind energy potential (measured in bn kWh)

State	Potential	State	Potential
1 North Dakota	1,210	11 Colorado	481
2 Texas	1,190	12 New Mexico	435
3 Kansas	1,070	13 Idaho	73
4 South Dakota	1,030	14 Michigan	65
5 Montana	1,020	15 New York	62
6 Nebraska	868	16 Illinois	61
7 Wyoming	747	17 California	59
8 Oklahoma	725	18 Wisconsin	58
9 Minnesota	657	19 Maine	56
10 Iowa	551	20 Missouri	52

Source: American Wind Energy Association (AWEA)

Strategic skills

Obviously, wind farm developers need a number of important strategic skills. The permit application requires extensive legal know-how and good relationships with the local community. The choice of location is also crucial (e.g. one that enables an easy interconnection to the high voltage grid). Finally, it is also important to have good relationships with wind turbine manufacturers. There seems to be a bottleneck here, which is leading to price inflation. Finally, it should also be mentioned that other companies are trying to develop projects in the regions that Naturener is targeting. These include a number of larger players like FPL Energy and Seawest (AES), but also numerous smaller players (Cielo Wind Power, Clipper Wind Power, Coyote Energy and Energy Logics, to name a few).

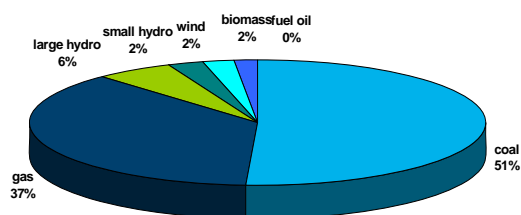
Canadian wind market

The Canadian wind market also looks underdeveloped compared to a number of other European countries. At the end of 2005, the country had an installed wind base of 683MW, which compares to the countrywide installed electricity generation capacity of 123GW. The amount of actual wind-based electricity produced was only 0.3% of total electricity output.

WPPI

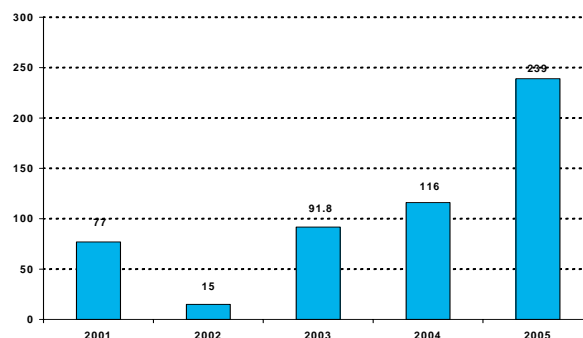
In the past few years the Canadian authorities have also become more positive towards wind energy. The most important measure on the federal level is the Wind Power Production Incentive (WPPI), which implies that new wind farms can obtain a subsidy of approximately 10CAD per MWh produced during the first ten years of operations. Canada hopes this will bring its objective to have 4,000MW of new wind farms by 2010 within reach. Canada also provides an accelerated depreciation scheme for wind investments (50% on a declining balance basis). The fact that the electricity market in Alberta is fully liberalised also helps. Like in the US, it is not always easy to find cheap turbines, while project developers in Alberta have also complained about difficulties with the connection to the transmission grid.

Alberta fuel composition



Source: Alberta Department of Energy

Canada: New installations in MW 2001-2005



Source: IEA Wind

At this stage, Sapec's ambitions in the renewables sector are not exactly clear. The company could remain a developer of new wind projects, thereby leaving the operation of wind parks to other players. The company could however choose to widen its expertise to become an actual operator of wind farms. It should be noted however that this is a capital intensive business and that Naturener would have to find a way to finance such projects. We estimate that the launch cost would amount to €1.5m per MW installed. If Naturener were to build wind parks totalling 1,800 MW of installed capacity, it would require a total investment of €2.7bn. Even assuming debt would finance a substantial portion of these investments, we think Naturener would still have to find some €540m in equity (20% equity financing). We expect the company to give more detail on this in the coming quarters.

Real estate

Real estate

Real estate is not a core activity, but over the years the company has been able to accumulate a healthy real estate portfolio. In Spain, Sapec owns 6,000 hectares of forested land, while in Portugal it owns roughly 300 hectares in industrial estates. The company also owns offices in Madrid and Lisbon.

Setubal estate

The most important non-operational asset is the industrial estate near Setubal. The company has developed this estate in three stages (Development I, Development II and Development III). Development III is very popular with buyers, thanks in part to its proximity to the port terminals of Setubal. The sluggishness of the Portuguese economy in recent years has dampened buyers' interest, but we still expect a gradual pick-up of sales in the coming years.

No more ICT

Sapec also used to have investments in ICT, but these have all been sold. Zetes (2005) was the most recent divestment in this sector, following earlier transactions in Iberia (Prologica (1999), Geslogica/Capgemini Portugal (2000)).

Financials

Dry weather impacted 2005 and 1H06 results

2005 results

The year 2005 was characterised by very dry weather conditions on the Iberian peninsula. Given that Sapec is exposed to agriculture-related sectors, this had an impact on the results. The company's activity mix however proved to be a good insurance policy against the adverse weather. The crop protection division suffered, posting a 6.39% drop in sales. Note however that Sapec did better than the overall market. According to official statistics, the crop protection market was down by 21% and 15% respectively in Portugal and Spain, implying that Sapec has won some market share.

The crop nutrition division showed a rise in sales of roughly 30%, which was the result of diverging trends in Iberia and the rest of the world. The Iberian crop nutrition division disappointed slightly, despite a rise of 7%. This was offset however by the very strong international division, which showed growth of more than 50%, illustrating that the company's expansion in areas like Poland, the Middle East, Brazil and Mexico is working.

The poor performance of the Iberian crop products was offset by stronger growth in the agro-commodities division. Especially in Spain, the company was much more active (2,4m tonnes in 2005 vs. 2,1m tonnes in 2004). Since commodity prices were relatively low, this did not translate into higher sales, but given these volatile market conditions, Sapec was able to improve its margins quite substantially. The fact that the company chartered its cargo ships under favourable terms also helps to explain the increase in margins. The logistics division also showed a substantial drop, but this is mainly an optical effect. In April 2005, the company sold its logistics subsidiary Logic SA to management and a number of private equity funds.

Finally, the drought was also having an impact on the hydro electricity business of Sapec. Because of low reservoir levels, electricity output was down substantially, although this was more than offset by higher prices and margins. The start-up of the Porma/Ferreras power station in June 2005 also supported growth.

Sapec: Sales 2004-2005

	2004	2005	y/y-increase
Sales	538,227	514,853	-4.34%
Sales crop protection	58,631	54,887	-6.39%
Sales crop nutrition	15,598	20,224	29.66%
Sales chemical products distribution & waste management	31,025	33,445	7.80%
Sales logistics	21,523	13,553	-37.03%
Sales agro commodities distribution	392,223	367,569	-6.29%
Sales Energy	7,947	9,290	16.90%
Unallocated (including holding & real estate)	11,280	15,885	

Source: KBC Securities

Recurring EBITDA

Although Sapec's sales were down 4.34% y/y in 2005, recurring EBITDA showed a nice 12.86% increase. As mentioned above, it is clear that the improving margins within agro commodities distribution were an important reason for this. This division is quite important for Sapec, which implies that small changes in divisional profitability might have an important impact on the company.

Recurring EBITDA 2004-2005			
	2004	2005	y/y
Total REBITDA	30,154	33,978	12.68%
REBITDA crop protection	7,484	6,290	-15.95%
Crop production margin	12.76%	11.46%	
REBITDA crop nutrition	2,053	2,260	10.08%
Crop nutrition margin	13.16%	11.17%	
REBITDA chemical products distribution & waste management	4,865	5,187	6.62%
Chemical products margin	15.68%	15.51%	
REBITDA logistics	3,806	1,902	-50.03%
Logistics margin	17.68%	14.03%	
REBITDA agro commodities distribution	9,674	12,486	29.07%
Agrocommodities margin	2.47%	3.40%	
REBITDA Energy	4,719	6,617	40.22%
Energy margin	59.38%	71.23%	
Unallocated (including holding & real estate)	-2,448	-765	

Source: KBC Securities

Non-recurrent profits (like Logic SA sale) helped 2005 result

In 2005, Sapec showed good growth at the REBITDA level. Lower lines were even slightly stronger, although this was largely thanks to non-recurring items. Sapec was able to sell Logic SA for a good nice price to management and a number of private equity funds.

Sapec: P&L 2004-2005			
	2004	2005	y/y
Sales	538,227	514,853	-4.34%
REBITDA	30,154	33,978	12.68%
Depreciation	-11,101	-11,074	
REBIT	19,052	22,907	20.23%
Non-recurring items	2,566	4,765	
EBIT	21,618	27,672	28.00%
Financial income	-6,001	-8,002	
PBT	15,617	19,670	25.95%
Tax	-4,341	-6,417	
PAT	11,276	13,253	17.53%
Minorities	-438	-1,120	
PAT Group share	10,838	12,133	11.95%
NOSH	1,355,000	1,355,000	
EPS	8.00	8.95	

Source: KBC Securities

First half 2006

In 2005, Sapec did well in difficult climatic circumstances. However, the impact of the drought is now feeding through to the company's results. Due to a stock overhang, the recovery of crop protection sales in 1H06 was only marginal and competitive pressure increased. This time, the agro commodities distribution division was not able to compensate, mainly due to two temporary reasons. First of all, demand for agricultural products in Spain dropped by approximately 15% due to problems in the pork and poultry industry (the latter related to the bird flue threat). A second reason was the fact that a number of producers preferred to import commodities in 2H05 rather than to put their own production on the market. In the first months of 2006 however, their production came on the market, leading to relatively difficult market conditions.

Unfortunately, a number of other divisions suffered from temporary setbacks too. The chemical distribution division continues to suffer from poor growth in Portugal (though there were signals of improvement in the second quarter) and in the energy division, the cost of major repairs were booked in 1H06

Guidance 2006

When publishing its 1H06 results, the company indicated that it expected a similar performance in the second half of the year, implying rather weak 2006 results and a transition year. We also remained very cautious when making our estimates for 2006. In the coming years however, we expect to see a gradual normalisation.

Divisional analysis 1H06

	1H05	1H06	Y/Y
Total sales	232,610	245,290	5.45%
Total REBITDA divisions	19,975	13,337	-33.23%
Sales crop protection	33,853	34,657	2.37%
REBITDA crop protection	5,077	4,419	-12.96%
Crop protection margin	15.00%	12.75%	
Sales crop nutrition	9045	10733	18.66%
REBITDA crop nutrition	788	567	-28.05%
Crop nutrition margin	8.71%	5.28%	
Sales chemical distribution & waste management	17959	17753	-1.15%
REBITDA chemical distribution	2368	1997	-15.67%
Chemical distribution margin	13.19%	11.25%	
Sales logistics	8223	6345	-22.84%
REBITDA logistics	1554	916	-41.06%
Logistics margin	18.90%	14.44%	
Sales agro commodities distribution	158454	167585	5.76%
REBITDA agro commodities distribution	6683	2778	-58.43%
Agro commodities distribution margin	4.22%	1.66%	
Sales energy	4560	4569	0.20%
REBITDA energy	3505	2660	-24.11%
Energy margin	76.88%	58.22%	

Source: KBC Securities

Our forecasts

Crop protection/crop nutrition

The company's activity mix combines a number of fairly mature activities with divisions that have more promising growth prospects. The crop protection division is probably characterised by rather slow growth. The overall market appears stable, although Sapec will probably be able to win some market share in Spain. In 2007, we see stronger growth for this division, due primarily to a catching-up effect after the slow drought-related figures of recent years. We expect some double-digit growth for crop nutrition in the coming years. The company has rolled out its international sales force and this should continue to bear fruit in the next few years.

Chemical distribution & waste management

The chemical distribution division should see growth of approximately 5% in the next few years. A recovery of the Portuguese economy would help and the waste management division still has bright prospects. The company is trying to recycle waste to be used as a secondary fuel in the cement process. The toxic waste sector could present additional opportunities.

Logistics, energy and agro-commodities

For the logistics, energy and agro-commodities division, we have growth in line with GDP (between 2-3%). For the agro-commodities division, we understand the company is deliberately avoiding excessive growth due to the capital-intensive character of these activities.

KBC Forecasts: Sales & Recurring EBITDA

	2005	2006	2007	2008	2009
Sales crop protection	54,887	56,259	60,197	61,401	62,629
Sales crop nutrition	20,224	23,258	26,049	28,653	30,946
Sales chemical distribution	33,445	35,117	36,171	37,979	39,878
Sales logistics	13,553	13,824	14,239	14,666	15,106
Sales agro commodities	367,569	374,920	393,666	401,540	409,571
Sales energy	9,290	9,569	9,856	10,151	10,456
REBITDA crop protection	6,290	6,470	7,043	7,184	7,328
Crop protection margin	11.5%	11.5%	11.7%	11.7%	11.7%
REBITDA crop nutrition	2,260	1,395	3,907	4,298	4,642
Crop nutrition margin	11.2%	6.0%	15.0%	15.0%	15.0%
REBITDA chemical distribution	5,187	4,214	4,883	5,127	5,384
Chemical distribution margin	15.5%	12.0%	13.5%	13.5%	13.5%
REBITDA logistics	1,902	2,074	2,136	2,200	2,266
Logistics margin	14.0%	15.0%	15.0%	15.0%	15.0%
REBITDA agro commodities	12,486	7,498	9,842	10,038	10,239
Agro commodities margin	3.4%	2.0%	2.5%	2.5%	2.5%
REBITDA energy	6,617	5,980	6,160	6,345	6,535
Energy margin	71.2%	62.5%	62.5%	62.5%	62.5%
REBITDA unallocated	-765	-2,530	-952	-142	-501
REBITDA holding		-4,500	-4,590	-4,682	-4,775
REBITDA real estate		1,970	3,638	4,539	4,275
Total REBITDA	33,977	25,102	33,019	35,050	35,892

Source: KBC Securities

All in all, it is clear that 2006 was a rather difficult year for Sapec. Net profit will be hit by the drop in the number of positive one-off items. In the coming years however, we expect the company to restore profitability. It should be underlined that most of the problems that we currently see are due to temporary factors, like unusually dry weather.

Sapec: P&L 2005-2009					
	2005	2006	2007	2008	2009
Total REBITDA	33,977	25,102	33,019	35,050	35,892
Depreciation	-11,074	-11,998	-12,404	-12,807	-13,206
REBIT	22,907	13,104	20,615	22,243	22,686
Non-recurrent items	5,272	1,700	0	0	0
EBIT	27,672	14,804	20,615	22,243	22,686
Financial income	-8,002	-7,156	-7,233	-7,100	-6,962
PBT	19,670	7,648	13,382	15,143	15,724
Tax	-6,417	-1,921	-3,339	-3,732	-3,924
PAT	13,253	5,727	10,042	11,411	11,800
Minorities	-1,120	-344	-603	-685	-708
PAT group share	12,133	5,383	9,440	10,727	11,092
NOSH	1,355,000	1,355,000	1,355,000	1,355,000	1,355,000
EPS	8.95	3.97	6.97	7.92	8.19

Source: KBC Securities

Balance sheet

Working capital

To a large extent, the company's balance sheet reflects the fact that the agro commodities division is very working capital intensive. The agro commodities business entails the buying of commodities (usually overseas), then chartering a cargo and finally shipping the merchandise to Iberia. There, the company stores its freight in warehouses. It is obvious that this type of business ties up a substantial amount of working capital (both inventories and accounts receivable). In the past few years, a number of temporary factors resulted in a further increase of working capital. The drought that hit the Iberian agricultural sector hit some local farmers quite severely, which led to an increase in payables. We assume this temporary increase of working capital will disappear in the next few years.

Leveraged balance sheet

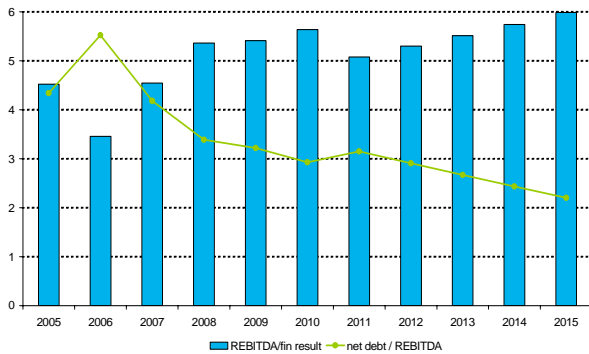
To a large extent, the company finances its net working capital needs with short-term debt, which is why the balance sheet looks relatively leveraged. Because we expect 2006 to be a rather slow year, debt metrics will deteriorate somewhat. We expect the ratio net debt over REBITDA to rise to above 5 times in 2006 and we expect the REBITDA/financial result to drop to close to 3.5. We should see a gradual improvement in the years thereafter. The company has undertaken substantial investments in the past few years, which should pay off in the future.

Short-term debt

Note also that a large part of the company's net debt position consists of short-term debt (short-term debt of €83m vs. total net debt of €143m). Obviously, this makes the company rather vulnerable to rising interest rates.

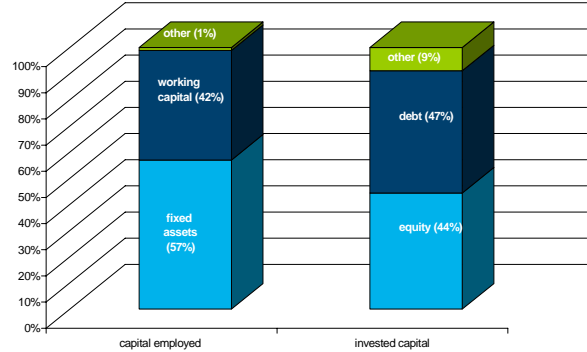
If the company chooses to become more active in the wind sector – by becoming a wind farm operator for example – the apparent inflexibility of the balance sheet may pose problems, because wind farms are a capital intensive activity.

Sapec: estimated evolution debt/total capital



Source: KBC Securities

Sapec: Estimated balance sheet 2006



Source: KBC Securities

Cash flow table

In 2005, the company's cash flow generation fell because of high working capital investments. This was due to buoyant activity in the agro commodities business and the fact that some farmers had problems paying their bills. We expect a normalisation of this situation in 2006. This implies that Sapec will see good cash generation in the next few years (not taking into account possible wind investments). In recent years, Sapec has been investing quite heavily, but we expect more moderate spending from now on, with capex falling back to levels close to depreciation. Cash outflows related to the dividend are also not that onerous as the company's dividend policy is not overly generous (25% payout).

Sapec: CF-table 2005-2009

	2005	2006	2007	2008	2009
Net result	13,253	5,727	10,042	11,411	11,800
Non cash adjustments (depreciation, capital gains)	6,604	10,298	12,404	12,807	13,206
Delta working capital	-16,507	2,156	-4,784	-2,002	-2,043
CFO	3,350	18,181	17,663	22,217	22,963
Investments	-18,107	-11,998	-12,404	-12,807	-13,206
Disposals	14,828	1,700	0	0	0
CFI	-3,509	-10,298	-12,404	-12,807	-13,206
CFF	2,764	-2,304	-2,360	-2,682	-2,773
Consolidation changes/forex changes	-49	0	0	0	0
Delta cash	2,556	5,579	2,898	6,728	6,983

Source: KBC Securities

Valuation

DCF

DCF-model assumptions

Our DCF uses our traditional risk-free rate of 4% and a risk premium of 3.5%. We also used a levered beta of 1.41 and a debt risk premium of 1%. Like this we obtain a cost of equity of 8.95% and a cost of debt (before tax) of 5%, which leads to a WACC of 6.27%. Our terminal growth rate is 2%.

Real estate

We preferred to value the real estate assets separately and to correct REBITDA for this. Non-operational real estate mainly relates to the development of industrial land near the port of Setubal (50km south of Lisbon). The company is currently developing this land in three stages. There are still parcels available from Development I and Development III phase I. In the coming years, the company will probably also start up phase II of Development III. Development III has been particularly easy to sell thanks to its proximity to the port installations of Setubal. It should be noted that only half of the sales proceeds are for Sapec. The company has set up a joint venture with a local construction company, which is responsible for building the required infrastructure. In return, the construction partner receives half the sales proceeds.

Development industrial real estate in Setubal

	In m ²	% still available	m ² still available	Est. price (€/ m ²)	Est. sales
Development I	233,000	44.50%	103,685	95	9,850,075
Development III phase I	675,395	8.50%	57,409	100	5,740,858
Development III phase II	423,000	100%	423,000	95	40,185,000

Source: KBC Securities

Sale of Spanish wind farms

In the beginning of 2006, Naturener (in which Sapec has a 52.45% stake) decided to sell its wind farm projects in Spain to Iberdrola. The sale related to a 29.4 MW wind farm in Castilla-La Mancha, for which Naturener had already received authorisation. Other projects involved in the deal were four wind farms in Andalusia (50MW), that were also well on their way to obtaining clearance and 200 MW of wind projects in the early stages in Northern Spain. The maximum amount that Naturener will receive for the deal is €25.7m (depending on the success rate of the projects), of which Sapec will receive around 50%. If all goes well, Sapec will receive €3.6m in 2006 and €7m in 2007/2008 (on the condition that projects run smoothly). We have assumed a success rate of 75% for the early stage projects and adjusted our valuation for this.

US wind farms

We also assumed that Naturener has already been able to create value in its US wind farm activities. The company has already paid \$ 10.9m for its wind projects when it signed the contracts and it will pay a balance of \$ 10.3m when the transaction will be finalised. We assumed that the company has already been able to increase the value of its total investment by approximately 50%. We understand that much higher returns are possible if Sapec is able to bring a project from 'unsecured' to 'secured' status. Moreover, it should be noted that the sector has gained in popularity since the beginning of the year. Stocks of other wind project developers have risen quite substantially in the past few quarters and transaction multiples have moved upward.

Investment conclusion

Healthy Iberian business

Saptec's core activities offer a good mix between more mature activities (like crop protection) and more growth oriented niches (like crop nutrition and waste management). The results in recent quarters have disappointed a bit, but we are convinced this was due to temporary factors. In 2005, Iberia was plagued by unusually dry weather, which translated into poor demand for a number of Saptec's products (like crop protection). Because of inventory-related issues, the impact of this drought will also have a substantial impact on the 2006 results. We expect however that the company's results will normalise in the next 12 to 24 months.

Real estate

There is not only the normalisation of Saptec's core activities. The company might also be able to unlock hidden value in its non-operational real estate portfolio. In the short and medium term, this mainly relates to the development of industrial land near the port of Setubal. Although the Portuguese economy is still rather slow, we think the company could create value by gradually selling parcels of industrial land in the next five to ten years.

Wind activities

Another trigger could come from the company's wind project portfolio. In the beginning of 2006, Saptec acquired a promising portfolio in North America for an attractive price. The fact that the US wind market is less developed compared to countries like Denmark, Spain, and Germany, is an important plus. Note also that political support for alternative energy is growing in the US and Canada and that attractive tax credits are available.

Valuation

The Saptec share is still attractively valued. We initiate coverage with a DCF-based target price of €120 and a Buy rating. Further upside cannot be excluded, if the company manages to create more value in the wind industry (by becoming a fully-fledged wind farm operator). We expect more news flow on the company's ambitions in this business over the next few months.

Financial data

Income statement (€m)	2004	2005	2006E	2007E	2008E	2009E
Sales	543	517	516	543	557	571
COGS	-433	-410	-418	-434	-445	-456
Gross profit	109	107	98	108	112	115
Other operating items	-79	-74	-73	-75	-77	-79
EBITDA	30	33	25	33	35	36
Depreciation	-11	-11	-12	-12	-13	-13
EBITA	19	22	13	21	22	23
Goodwill amortisation	0	0	0	0	0	0
EBIT	19	22	13	21	22	23
Net interest	-6	-8	-7	-7	-7	-7
Other financial result	-	-	-	-	-	-
Associates before tax	-	-	-	-	-	-
Exceptional result	1	5	2	0	0	0
Pre-tax earnings	14	20	8	13	15	16
Taxes	-4	-6	-2	-3	-4	-4
Associates after tax	-	-	-	-	-	-
Consolidated earnings	9	13	6	10	11	12
Minority interests	0	-1	0	-1	-1	-1
Net earnings	9	12	5	9	11	11
Retained earnings	6	9	3	7	8	8
Current earnings before goodwill	8	7	4	9	11	11
Current earnings after goodwill	8	7	4	9	11	11
Current cash flow	19	18	16	22	24	24
Balance sheet (€m)	2004	2005	2006E	2007E	2008E	2009E
Goodwill	-	-	-	-	-	-
Other intangible assets	19	18	18	18	18	18
Tangible assets	141	145	145	145	145	145
Associates	-	-	-	-	-	-
Other financial assets	15	7	7	7	7	7
Inventories	75	86	84	87	88	89
Trade receivables	87	84	83	86	88	89
Other current assets	2	2	2	2	2	2
Cash and equivalents	22	25	30	33	40	47
TOTAL ASSETS	360	367	370	378	388	398
Equity	100	109	113	120	128	136
Minorities	14	18	18	18	19	20
Provisions for pensions and similar	5	4	4	4	4	4
Other long-term liabilities (excl. debt)	10	9	9	9	9	9
Long term debt	77	85	85	85	85	85
Short term debt	87	84	84	84	84	84
Trade payables	54	44	43	44	45	45
Other short-term liabilities (excl. debt)	12	14	14	14	14	14
TOTAL LIABILITIES	360	367	370	378	388	398
Capital employed, incl. cum goodwill	278	292	290	295	297	299
Net debt	142	145	139	136	130	123
Net debt, incl. off balance sheet items	142	145	139	136	130	123
Cash flow statement (€m)	2004	2005	2006E	2007E	2008E	2009E
Consolidated earnings	9	13	6	10	11	12
Depreciation and goodwill amortisation	11	11	12	12	13	13
Other	0	-4	-2	0	0	0
Change in working capital	-2	-17	2	-5	-2	-2
CASH FLOW FROM OPERATIONS	19	3	18	18	22	23
Net capital expenditure	-11	-12	-10	-12	-13	-13
Acquisitions and disposals	0	9	0	0	0	0
Other	13	0	0	0	0	0
CASH FLOW FROM INVESTMENTS	1	-4	-10	-12	-13	-13
Dividend payments	-3	-3	-2	-2	-3	-3
Shares issues	0	0	0	0	0	0
New borrowings and reimbursements	-28	5	0	0	0	0
Other	-	-	-	-	-	-
CASH FLOW FROM FINANCING	-31	3	-2	-2	-3	-3
Fx and changes to consolidation scope	0	0	0	0	0	0
Change in cash & equivalents	-11	3	6	3	7	7
Free cash flow (before acquisitions)	8	-9	8	5	9	10
Change in net debt	-	2	-6	-3	-7	-7

Performance criteria	2004	2005	2006E	2007E	2008E	2009E
Sales growth	-	-4.7%	-0.4%	5.3%	2.6%	2.5%
Gross profit growth	-	-2.2%	-8.8%	11.0%	3.5%	2.5%
EBITDA growth	-	11.0%	-25.0%	31.5%	6.1%	2.4%
EBITA growth	-	17.6%	-41.5%	57.3%	7.9%	2.0%
EBIT growth	-	17.6%	-41.5%	57.3%	7.9%	2.0%
Pre-tax earnings growth	-	44.5%	-61.1%	74.9%	13.1%	3.8%
Net earnings growth	-	37.3%	-55.6%	75.3%	13.6%	3.4%
Gross margin	20.2%	20.7%	18.9%	20.0%	20.2%	20.2%
EBITDA margin	5.6%	6.5%	4.9%	6.1%	6.3%	6.3%
EBITA margin	3.5%	4.3%	2.5%	3.8%	4.0%	4.0%
EBIT margin	3.5%	4.3%	2.5%	3.8%	4.0%	4.0%
Pre-tax earnings / sales	2.5%	3.8%	1.5%	2.5%	2.7%	2.8%
Net earnings / sales	1.6%	2.3%	1.0%	1.7%	1.9%	1.9%
Inventories / sales	13.7%	16.7%	16.4%	16.0%	15.8%	15.7%
Trade receivables / sales	16.0%	16.2%	16.0%	15.9%	15.7%	15.6%
Trade payables / sales	10.0%	8.5%	8.3%	8.1%	8.0%	8.0%
Net capital expenditure / sales	2.0%	2.3%	2.0%	2.3%	2.3%	2.3%
Depreciation / Net capital expenditure	100.2%	92.3%	116.5%	100.0%	100.0%	100.0%
Free cash flow / sales	1.4%	-1.7%	1.5%	1.0%	1.7%	1.7%
Net debt / equity	142.1%	132.2%	123.7%	113.9%	101.5%	90.2%
Net debt / EBITDA	4.7	4.3	5.5	4.1	3.7	3.4
EBITDA / net interest	5.0	4.2	3.5	4.6	4.9	5.2
Pay-out ratio	30.7%	23.5%	42.8%	25.0%	25.0%	25.0%
Current earnings / sales	1.5%	1.3%	0.7%	1.7%	1.9%	1.9%
x CE turnover (sales / avg. CE)	-	1.82	1.77	1.86	1.88	1.92
x Leverage (avg. CE / avg. equity)	-	2.36	2.26	2.18	2.08	1.97
= Current return on equity (avg.)	-	5.7%	2.9%	8.1%	8.7%	8.4%
Net return on equity (avg.)	-	11.6%	4.8%	8.1%	8.7%	8.4%
Return on capital employed (avg.)	-	5.2%	6%	5.9%	5.8%	6.4%
Per share data (€)	2004	2005	2006E	2007E	2008E	2009E
Weighted average number of shares (m)	1.36	1.36	1.36	1.36	1.36	1.36
EBITDA per share	22.25	24.70	18.53	24.37	25.86	26.48
EBITA per share	14.06	16.53	9.67	15.21	16.41	16.74
EBIT per share	14.06	16.53	9.67	15.21	16.41	16.74
Published EPS	6.52	8.95	3.97	6.97	7.91	8.18
Current EPS, before GW	6.10	5.07	2.72	6.97	7.91	8.18
Current EPS, after GW	6.10	5.06	2.72	6.97	7.91	8.18
Current CFPS	14.30	13.24	11.57	16.12	17.36	17.93
Free cash flow per share	5.54	-6.38	5.82	3.88	6.94	7.19
Net book value per share	74.02	80.79	83.07	88.29	94.23	100.36
Current EPS (before GW): y/y growth	-	-17.0%	-46.3%	156.2%	13.6%	3.4%
Current EPS (before GW): CAGR 3Y	-	4.5%	16.0%	44.4%	-	-
Current CFPS: y/y growth	-	-7.4%	-12.6%	39.3%	7.7%	3.2%
Current CFPS: CAGR 3Y	-	4.1%	9.5%	15.7%	-	-
Published EPS (fully diluted)	6.52	8.95	3.97	6.97	7.91	8.18
Current EPS (before GW), fully diluted	6.10	5.07	2.72	6.97	7.91	8.18
Dividend per share (€)	2.00	2.10	1.70	1.74	1.98	2.05
Valuation data	2004	2005	2006E	2007E	2008E	2009E
Max share price (€)	72.50	96.20	97.00	98.00	-	-
Min share price (€)	44.80	67.00	82.50	90.00	-	-
Reference share price (€)	59.37	82.27	96.00	96.00	96.00	96.00
Reference market capitalisation (€ m)	80.4	111.5	130.1	130.1	130.1	130.1
Enterprise value (€ m)	227.0	270.9	284.2	281.9	275.9	269.6
P/E high (x)	11.9	19.0	35.7	14.1	-	-
P/E low (x)	7.3	13.2	30.4	12.9	-	-
P/E reference (x)	9.7	16.2	35.3	13.8	12.1	11.7
P/CF (x)	4.2	6.2	8.3	6.0	5.5	5.4
P/NBV (x)	0.8	1.0	1.2	1.1	1.0	1.0
Dividend yield (%)	3.4%	2.6%	1.8%	1.8%	2.1%	2.1%
EV/sales (x)	0.4	0.5	0.6	0.5	0.5	0.5
EV/EBITDA (x)	7.5	8.1	11.3	8.5	7.9	7.5
EV/EBITA (x)	11.9	12.1	21.7	13.7	12.4	11.9
EV/EBIT (x)	11.9	12.1	21.7	13.7	12.4	11.9
EV/Capital employed (x)	0.8	0.9	1.0	1.0	0.9	0.9

Source: KBC Securities

*Historic valuation data are based on historic prices

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The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

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Stock rating	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 10% over a 6-month period
REDUCE	Expected total return (including dividends) between -10% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	33.30%	50.00%
ACCUMULATE	48.60%	50.00%
REDUCE	15.90%	0.00%
SELL	2.20%	0.00%

Saptec is an industrial holding company with a leading position in a number of niche sectors in the Iberian peninsula (crop protection, crop nutrition, chemical products distribution, logistics and a renewable portfolio in North America)

The price target for Saptec is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Sum of Parts

The risks which may impede the achievement of our price target are: * The Portuguese economy could remain slow

* The company has a lot of exposure to the agricultural sector, which could lead to volatility

* Renewable projects could go wrong for a number of reasons (legal procedures, no permits,...)

Any reference made to a DCF valuation for Saptec is based on the following parameters: a forecast period from 2007 until 2015, a perpetual growth rate of 2% and a calculated WACC of 6.3%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
15-FEB-07	Buy	€ 120.00

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