

## Chemicals

## Saptec SA

Reuters: SAPE.BR

19/09/05

Price: €86.50

Maintained

## Belgium

## Hold

12-month

Target: €87.80

- Results disappointed mainly due to unfavourable weather, but guidance remains encouraging.
- We raise our target price to €88 as a result of a reduction in the WACC, as well as small IFRS and expectations adjustments. HOLD.

**1H05 results disappoint due to unfavourable climate.** Operating profit disappointed at €7.2m (€9.8m ING; €11.4m 1H04), after excluding the €4m one-off impact from capital gains on the sale of Saptec's Logic subsidiary. The disappointment was mainly caused by the exceptional drought in the Iberian peninsula, which weighed on Agro (-13% YoY), Micronutrients (+11%) and Energy (+22%). Moreover, Food processing distribution disappointed (-25%) due to price declines of agricultural products in Spain. Finally, the poor business climate in Portugal explains the poor performance of Logistics (-23%).

**New venture.** During 1H05, a consortium in which Saptec has a 35% stake received licences for the construction and management of a site for the treatment of toxic industrial waste. It should be operational in 2008. The €20m investment will be financed on a project finance basis.

**Guidance:** sequential growth in EBITDA and net result for FY05. Moreover, more usual weather should help improve the performance of Agro, Micronutrients and Energy. 2H05 should also benefit from real estate sales.

The IPO of Zetes in 2H05 should generate €5.5m in cash for Saptec's 5.75% stake. Moreover, Saptec has decided not to build the first wind farm for the time being, and the company is likely to sell or build only part of the obtained concessions. As a result, the company is likely to continue to build down its debt (interest cover is currently 3.5x).

**Model change:** We have adjusted our model to IFRS and recent news. Most importantly, we reduced our WACC from 6.2% to 5.6% to reflect declining interest rates and Saptec's improving risk profile. As a result, our DCF-based target price increases from €71 to €88, corresponding to 14.6x adjusted PER06F and 13.3x EV/EBITA06F.

**Investment case.** Micronutrients and Agro offer growth potential with little incremental investment. Other businesses (excluding Energy) are capital-intensive and cyclical, and may be viewed as investment concerns, but should not require large incremental investments in the medium term. As a result, we expect Saptec to generate €24m in free cash flow in 2005.

## Target price based on DCF

Target
€87.80

## Price performance

	12m	3m	Now	Target
Absolute (%)	41.2	1.8	-	
FTSE E300	1,001.6	1,139.6	1,216.4	
Rel to FTSE E300 (%)	16.3	(4.7)		

## Forecasts (€)

Yr to Dec	2004	2005F	2006F	2007F
Turnover (m)	528.7	463.4	477.4	488.7
Net profit (m)	8.4	13.8	11.1	12.6
Adj EPS	3.61	7.94	5.97	7.08
CFPS	16.11	20.11	10.03	11.87
Dividend	1.97	2.03	2.09	2.15
Adj PER (x)	23.9	10.9	14.5	12.2
EV/EBITDA (x)	9.6	8.0	7.7	7.2
Yield (%)	2.3	2.3	2.4	2.5

## Share data (€)

No. of shares (m)	1.4	Market cap (m)	117.2
Volume	15.0	Ent'prise val (m)	297.1
Free float (%)	21.4	Price/NAV (x)	1.1

## Key ratios (%)

Yr to Dec	2004	2005F	2006F	2007F
EBITDA margin	5.4	8.0	7.9	8.1
Gross margin	19.2	19.0	19.0	19.0
Net debt/equity	123.5	136.1	127.1	129.8
ROACE	2.0	3.9	2.9	3.4
ROE	4.1	10.5	7.6	9.1

Forecasts: ING High/Low 1 year

## Company profile

Saptec was created in 1926 as a mining and chemical company, and evolved into a holding company focused on the Iberian peninsula and active in six main businesses, detailed below. The company also holds some real estate, which it is currently divesting, and a 6% stake in Belgian smart card vendor Zetes.

### Agro (12% of 2003 revs; 31% of EBITA)

Through subsidiaries Saptec Agro and Selectis, the Agro (phytosanitary) division formulates, packs and distributes generic fertilisers and crop protection products under its own name in the Iberian peninsula. It also distributes patented ('specific') products for multinationals.

### Micronutrients (3%; 6%)

Saptec's sales of bio-stimulants and trace elements are grouped within Tradecorp. Unlike traditional fertilisers and minerals, micronutrients release their nutrients slower, and therefore have to be sprayed less often. Moreover, they can improve the chemical features of the soil, in order to better feed the plant. Micronutrients are mainly used in high-value-added crops.

### Chemical Distribution (8%; 15%)

Chemical Distribution packs and distributes chemicals in Portugal for industry, on behalf of major producers of specialty chemicals. In April 2002, Saptec added a new activity to this division, by creating a joint venture (75% owned by Saptec) with Spanish group Tecmed, called CITRI (Centre Industriel de Traitement et Résidus Industriels), which operates a burial site for non-toxic industrial waste.

### Food Processing Distribution (70%; 32%)

Through subsidiaries Seteia (Portugal) and Interpec Iberica (Spain), Saptec imports and distributes raw materials for animal food, such as cereals, cereal substitutes and proteins. Interpec Iberica represents the bulk of revenues (€273m of the division's €289m 2003 revs). Margins in this division depend mainly on commodity and freight prices.

### Logistics & Port Handling (5%; 12%)

Through its subsidiary SPC, Saptec offers port handling services in its Setubal terminal (to the south of Lisbon) and other rented terminals, operating mainly containers, solid and liquid bulk goods, roll on/roll off and general cargo.

### Energy (2% of revs; 12% of EBITA)

Subsidiary Naturener (54% owned by Saptec) owns 12 hydraulic power stations in Spain, with an installed capacity of 48MW at end 2003 (61MW end 2004). Naturener's subsidiary Generacion Eolica is applying for several wind farm concessions in Spain, with 200MW potential production capacity.

## Financials

Yr to Dec (€m)	2004	2005F	2006F	2007F
<b>Income statement</b>				
Turnover	528.7	463.4	477.4	488.7
EBITDA	28.6	37.3	37.5	39.6
Net financial charges	(7.0)	(8.7)	(8.2)	(8.2)
Operating exceptionals	0.3	4.5	0.0	0.0
Adj pre-tax profit	10.3	18.1	14.3	16.4
Corporate exceptionals	0.0	0.0	0.0	0.0
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
Amortisation of goodwill	(0.9)	0.0	0.0	0.0
Pre-tax profit	9.4	18.1	14.3	16.4
Taxes	(4.7)	(6.3)	(5.2)	(5.8)
Extraordinary items (net)	4.4	3.0	3.0	3.0
Minorities	(0.7)	(1.0)	(1.0)	(1.0)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	8.4	13.8	11.1	12.6
<b>Balance sheet</b>				
Total fixed assets and L/T investments	170.3	200.4	200.9	200.9
Working capital	100.8	100.1	99.1	98.0
L/T non-interest-bearing liabilities	6.4	6.4	6.4	6.4
Enterprise net assets	264.7	294.2	293.6	292.5
Group equity	115.0	121.0	121.7	119.1
Net debt	142.0	164.6	154.6	154.6
Capital employed	257.0	285.6	276.4	273.8
<b>Cash flow</b>				
Operating cash flow	33.6	42.3	27.0	30.1
Cash taxes	(4.7)	(6.3)	(5.2)	(5.8)
Net financial charges (CF)	(7.0)	(8.7)	(8.2)	(8.2)
Gross cash flow	21.8	27.3	13.6	16.1
Capital expenditures (net of disposals)	(14.5)	(10.0)	(10.0)	(10.0)
Free cash flow	7.3	17.3	3.6	6.1

All sources: Company data, ING estimates

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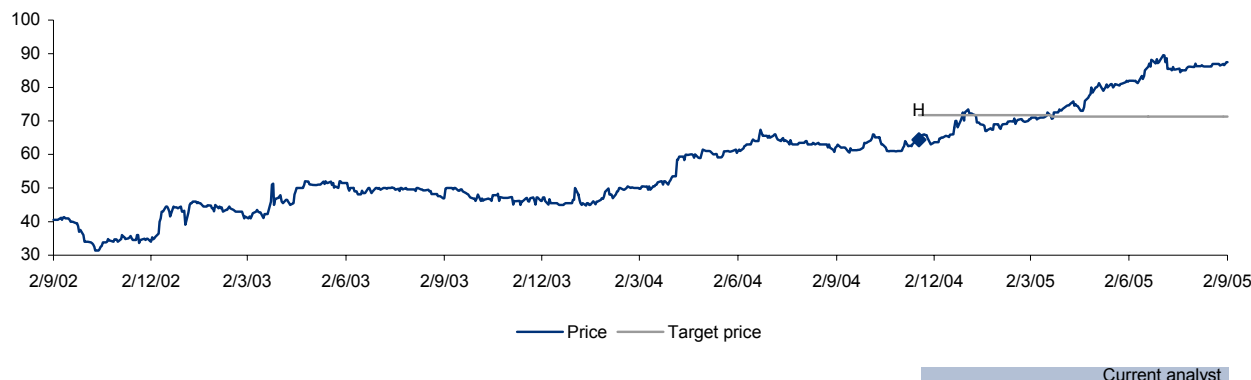
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