



16 May 2008

SONAE CAPITAL

BUY

Conglomerates/ Portugal

Previous: Buy

Price (€)	1.55	Performance	Size	Index Weight	Time View	Price Target (€)	1.95
52W High:	1.89	1M: +3.3%	Mkt Cap (€mn):	388	PSI20: n.a.	Short Term: Neutral	Previous Price Target: 1.95
52W Low:	1.29	3M: n.a.	Avg Vol 5D (th):	318			Potential Return: 26%
1 Year ago:	n.a.	YTD: (1.3%)	Free-Float:	35%			

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Closing prices as of May 16, 2008.

2008Q1: Weaker but not worrying

The company disclosed 1Q2008 results, which came below our estimates. EBITDA reached -€1.2mn on revenues of €45mn. Net income reached €39mn due to the accountancy of a capital gain related to the sale of Contacto (€46.4mn). We were forecasting EBITDA to reach €4.3mn on revenues of €48mn and net income of €38.3mn.

We reiterate our Buy recommendation as well as our neutral short term trading view on the stock. Results came below our forecasts from an operational perspective, mostly on the back of the strong efforts regarding Tróia resort project commercialization. Moreover, even if at a first glance our FY2008 estimates for Sonae Turismo may look optimistic, we will keep our estimates unchanged at this stage since the positive effect of the apartments sale in the P&L should only occur after the construction process is completed and the final deed is signed.

Major Highlights

- **Revenues** reached €45mn versus our expectation of €48mn. Regarding Sonae Turismo, we highlight that revenues from the real estate asset management unit stood above our expectations while both the resort and residential development and touristic operations posted a weaker than expected performance. Promissory sales agreements for apartments evolved at a slower pace than in the previous quarter, except for Efanor: Tróia Resort - 11 versus 16; City Flats - 0 versus 6 and Efanor - 1 versus 0.
- **EBITDA** came significantly below our expectations (losses of €1.2m versus expected profit of €4.3mn), which is mainly explained by Sonae Turismo's performance. Both the resort and the residential development and touristic operations posted a weaker than expected performance. The former was impacted by costs associated with the marketing and promotion of the Troia resort project. The latter is largely explained by seasonality effects that penalized the hotel activity, we highlight the good performance of the fitness business, which posted a 10% revenues increase on a yoy basis and an impressive EBITDA margin of 31%. Spread reported a worse than expected operating performance, with EBITDA margin declining to 2.8% from 5.8% in 1Q07, mainly due to a weaker than expected operating performance of Selfrio group. Selfrio's operating performance (EBITDA margin declined 2.0pp yoy to 6.2%) was mostly affected by a decline in the refrigeration business area, both in Portugal and Spain, due to a postponing of investment from its main clients – retail companies.
- **EBIT** loss is explained by a i) lower level of EBITDA; ii) higher level of depreciation and iii) an impairment loss booked on other debtors (€2.3mn).

- **Investment income** came slightly above our estimate, as the company booked dividends from Sonae Indústria (€2.7mn), which we were only expecting to be booked on Q2.

Sonae Capital – 2008Q1 P&L Highlights

P&L	1Q08R	1Q08E	Δ% yoy	1Q07
Revenues	45.0	48.0	8%	41.8
Sonae Turismo	11.4	16.8	19%	9.6
Spred	33.7	31.2	4%	32.3
Holding & Others	0.1	0.6	-	0.3
Eliminations & adj.	-0.3	-0.6	-32%	-0.5
EBITDA	-1.17	4.3	-	0.0
Sonae Turismo	-1.3	2.8	10%	-1.2
Spred	1.0	1.8	-	1.8
Holding & Others	-0.7	-0.3	14%	-0.6
Eliminations & adj.	-0.1	0.0	-	0.0
EBIT	-4.8	3.2	-	-1.7
Financial Income	-2.9	-2.7	50%	-1.9
Share of results of associated undertakings	-1.4	0.0	-	0.6
Investment Income	48.8	47.0	-	4.8
EBT	39.7	47.5	-	1.8
Tax Rate (%)	1.2%	0.3%	-	15.6%
Income Taxes	-0.5	-0.1	67%	-0.3
Minority Interests	-0.2	-0.1	-59%	-0.6
Net Income	39.0	47.3	-	0.9

Source: Banif, Banco de Investimento & company reports.

2008 Conference Call Highlights

- Evolution of sales agreements for apartments at Tróia Resort should evolve at a faster pace throughout the year, since the feedback from the sales force is positive, notably resulting from the participation in international exhibitions. However, the company plans to organize visits to Tróia resort only in the summer, which should have a positive impact in terms of units sold.
- The City Flats/City Lofts performance in terms of units sold is being affected by more squeezed credit conditions, regarding mortgage loans concession. Nevertheless, the demand from customers to rent apartments has increased, reaching 16 units in the quarter. In what concerns Efanor, only one promissory agreement was signed, but it is important to recall that the commercialization process only started in March.
- The fitness unit posted a good operational performance in 1Q, however it should be affected by seasonal effects in H2.
- The EBITDA performance of the hotels business was not only penalized by seasonality effects but also by the fact that at Porto Palácio Hotel complementary activities, launched during 2007, still contributed negatively in the quarter. Moreover, Tróia aparthotels refurbishing process remains in place which is affecting EBITDA. These aparthotels are scheduled to open during 2008.
- Regarding Spred, SONC expects a recovery already in this semester, as EBITDA margin should return to normal levels (~8%). Therefore, and taking in consideration the expansion plan from retail companies, we are still confident in our yearend estimates (EBITDA margin 8.26%).
- The dividends yet to be received from Sonae Indústria were recognized in the quarter, since they have been approved at the company's AGM.

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Sonae Capital- 12-month Rating History

Date	Fundamental Rec.	Price Target	Closing Price
27-03-2008	Buy	€ 1.95	€ 1.41



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