

SADI SERVIZI INDUSTRIALI

BUY

EQUITY RESEARCH

Initial Coverage

August 1, 2007

Italy: Waste management and remediation activities

	Sales	EBITDA	EBIT	Net Profit	EPS (adj.)	DPS	EV/Sales	EV/EBITDA	EV/EBIT	P/E (adj.)	Yield
	Eur m	Eur m	Eur m	Eur m	Eur	Eur	X	X	X	X	%
2005	134.4	9.8	6.6	2.5	0.054	0.0	nm	nm	nm	0.0	nm
2006A	144.3	8.1	4.6	0.5	0.005	0.0	1.7	30.3	53.2	nm	0.0%
2007E	119.0	15.6	11.7	8.0	0.087	0.0	1.9	14.9	19.9	27.5	0.0%
2008E	160.9	28.7	23.7	14.8	0.159	0.0	1.4	7.8	9.4	15.0	0.0%
2009E	170.5	30.4	25.8	16.3	0.176	0.0	1.2	6.9	8.1	13.6	0.0%

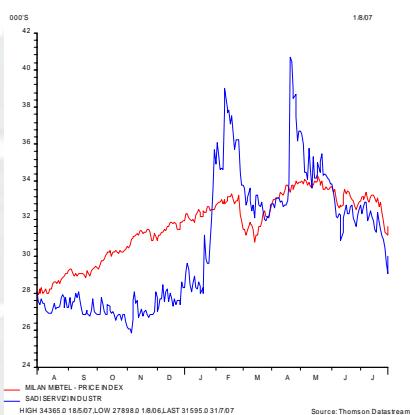
Source: Company data and Banca Aletti & C. S.p.A. estimates

Share Price 01/08/07 (Eur)	2.39
Tot Mkt Cap. (Eur m):	221.4
Tot N° of Shares (m):	92.700
Min-Max Ord.(52 wks Eur):	2.07-3.66
Price Target Ord. (Eur):	3.2

Major Shareholders:

Grossi Giuseppe	75.00%
Sopaf	2.91%
Fidelity Intl Ltd.	2.59%
Free Float	20.50%

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A leading player in the promising waste management sector

- Strong acceleration in 2007e-2008e earnings. Estimates below company guidance.** Sadi Servizi Industriali (SSI- see also next page) should experience a strong growth in 2007e-2008e EPS thanks to the restructuring of the loss-making (in 2006) Architecture business and the expansion of the waste management and remediation sites activities. In particular, over 2006-2008e we expect sales to reach Eur 161m from Eur 140m and EBITDA Eur 28.7m (17.9% EBITDA margin) from Eur 8.1m (5.6%) respectively. At the same time, net profit should be Eur 8m and Eur 14.8m in 2007e and 2008e from break-even in 2006. While our numbers are in line at sales level with the company business plan, the EBITDA and EBIT margins are between 350bp and 200bp lower.
- Key earnings drivers: ex-Falck site and La Torrazza.** Amongst the various growth drivers of the next few years, the major projects in 2008e-2009e should be the site-rehabilitation of the former Falck industrial area and the opening in January 2008e of La Torrazza industrial waste landfill. The first is a Eur 170m contract which will start unfolding important effects in the 2008e P&L by delivering about Eur 40-50m of sales per year, with EBITDA margin, we estimate, around 20%. The second should be filled homogeneously over the period 2008e- 2012e (app. Eur 8m sales yearly) with EBITDA margin, we estimate, around 50%. The ex-Falck rehabilitation program is very likely the largest private deal in the sector and involves the regeneration of four millions of cubic meters of land over 150Ha. The site is part of one of the most important Italian real estate development and is managed by Risanamento Spa. By 2008e moreover, thanks to cost cutting and better sales mix, we expect EBITDA margin of 9% in the Architecture business on app. Eur 25m sales. Our group forecasts do not include any benefit from a wider authorization portfolio on La Torrazza, the potential opening in '08e-'09e of an industrial waste landfill in Galles (UK) and new major rehabilitation and remediation contracts.
- Cash generation and ROCE.** The company is lowly geared with Eur 22m of net debt in 2006 or a gearing of 0.33x and should be able to generate Eur10-12m on average over 2007e-2009e or a 5%-6% free cash flow yield. The company needs very little capex for its operating activities (1%-2% of sales).
- Rating BUY – PT Eur 3.2 – 33% upside: sector trading at 20x '08e EPS.** The waste management sector is quite healthy delivering EBITDA margins in the 20%-30% region. Our JCF panel of nine companies trade on 2008e at 8x EV/EBITDA, 13x EV/EBIT and 20x PER respectively. We believe that Sadi, also thanks to its higher visibility from being listed, might become a leading player in its field. As such, we believe that the shares should trade in line with the sector at 20x EPS or a price target of Eur 3.2. Our DCF with a 8% WACC and 2% Itg yields a lower value (Eur 2.2) but the exercise assumes virtually no growth post 2008e. This is an unrealistic scenario given that we expect some newsflow on order backlog by year-end. **Major risks: delays on the two key projects.** The major risks to the equity story are a delay on the ex-Falck projects and in the opening of La Torrazza industrial waste landfill. Assuming zero contribution from the two projects, unlikely in our view, our 2008e EPS would decline by about 60%.

Sadi Servizi Industriali: Company Profile

Sadi Servizi Industriali (SSI) has been established in January 2007 from the merging of Sadi and Servizi Industriali. SSI is active in two main areas: 1) waste management and remediation sites, and 2) architecture. The **remediation sites** and **waste management** activities are the most important, accounting in 2006 for 73% of sales and being amongst the leading companies in Italy in this field. These activities are divided into 1) remediation and rehabilitation; 2) waste treatment, 3) reclamation from asbestos and mineral wool. The company is active in **remediation and rehabilitation** of industrial sites with a backlog as of end 2006 of about Eur240m. In waste treatment SSI owns the largest platform in Italy for the treatment of hazardous and non hazardous waste (authorized capacity: more than 500.000 tons/year). The platform is located in Orbassano (Torino) and operates on six parallel, independent and polyfunctional lines:

- CFB: chemical, physical and biological treatments for wastewater: 300.000 tons/year
- HS: recovery of non regenerable oil waste: 100.000 tons/year
- Solids: selection, neutralization, solubilization, inertization, volumetric reduction and conditioning: 120.000 t/year
- Storage: preliminary deposit of waste destined to third plants (9.240 cumt.)
- Asbestos: uninsulation of industrial and civil structures
- Recovery activities: preliminary storage, to be addressed to third recovery plants: 8.000 t

SSI is also one of the leading companies dealing with **reclamation from asbestos and mineral wools**.

The following companies (SSI group) operate in waste treatment, waste brokering, electricity production from biogas and in environmental engineering fields:

- **Ecoitalia** designs and builds plants for municipal and industrial waste treatment; in addition, it deals with intermediation for waste disposal and environmental remediation.
- **Bioagritalia** is a treatment plant for biological sludges to be utilized in agriculture.
- **Blu Ambiente** manages a plant authorized to store hazardous and non hazardous industrial waste, for a total of 950 cumt, in San Giuliano Milanese (Milano)
- **Cogiri** is specialized in the management of civil and industrial wastewater treatment plants, providing service to dispose various types of industrial waste.
- **Barricalla** is a formerly ex 2nd class, "C type" landfill and it is the first site in Italy for hazardous special waste.

Competition in the waste management sector is present but we believe fragmented with no players operating in both the waste treatment and rehabilitation and remediation. In the waste treatment and management we can mention Ecodeco (PV), Gruppo Systema (BS), Intergreen (BS) and Hera Group (RA). In the rehabilitation some players are: Unieco (Re), Ecodeco (PV), Gruppo Systema (BS), Riccoboni (PR), Fisia (GE), Teseco (PI), Iacrossi (RM) and Bilfinger Berger Ambiente (BZ).

The **architecture business** (27% 2006 sales) is an inheritance of the SADI part of the merger and consists in the following activities: 1) standard or custom *false ceilings* in metal, gypsum, wood, fibre and other materials; 2) production, development, sales and laying of *raised access floors*, 3) standard, special and safety *sign systems* and 4) *marine outfittings*: these includes false ceilings, decorative elements and other accessories dedicated to the naval sector. Also here, competition is present but we believe extremely fragmented in term of absolute sales.

The investment case. The rationale of the merger between Servizi Industriali and Sadi was to create a leading player in the environmental remediation and rehabilitation. This should allow the company to emerge as the preferred partner in what we believe, is an increasingly interesting field in term of volume and profitability. It is difficult to quantify the market size potential but some estimates provided by the Ministry of Environment put at about 2.5bn the cost for the remediation and rehabilitation of the most important sites qualified as of "national interest". In surface terms, the area involved is equivalent to about 2.3% of the Italian surface as a whole which is about 300,000 square kilometers. The company has about Eur 240m of order backlog in this sector, with the most important project represented by the former industrial Falck site (about Eur 170m), near Milan-Northern Italy. This should unfold essentially over the period 2008e-2012e. The ex-Falck rehabilitation program is very likely the largest private deal in the sector and involves the regeneration of 4 million of cubic meters of land (on 150Ha). The site is part of one of the most important Italian real estate development and is managed by Risanamento Spa. At the same time, by January 2008e, La Torrazza industrial waste landfill should start operating. This is a unique asset given the virtually impossibility to grant authorization from local authorities despite the constant growth of industrial special waste (3% CAGR over 2000-2004, from about Ton52m to Ton62m – Source SSI on Apat data). This site is already authorized and it has a capacity of about 500k tons and should be able to receive 100k tons of waste per year. Also this asset should unfold its revenues over the 2008e-2012e period. The profitability margins on these two projects should be extremely interesting given that, we expect EBITDA margins around 20% and 50% respectively. The major risks to the equity story are a delay on the former Falck project and in the opening of La Torrazza industrial waste landfill, which would have a very important impact on our EPS forecasts. Assuming zero contribution from the two projects, unlikely in our view, our 2008e EPS would decline by about 60%. On the other hand, our forecasts do not include any benefit from a wider authorization portfolio on La Torrazza, the potential opening in '08e-'09e of an industrial waste landfill in Galles (UK) and a growth in the remediation and rehabilitation order backlog.

Sadi Servizi Industriali: Aletti Summary

EV CALCULATIONS (EUR m)	2005	2006	2007e	2008e	2009e	CAGR 06/09e
Price of ordinary share	nm	2.40	2.39	2.39	2.39	
Total Shares outst. (000)	92,700	92,700	92,700	92,700	92,700	
Market Cap (adj.)	nm	222.5	221.4	221.4	221.4	
Others	nm	1.0	0.5	0.0	0.0	
EV (adj.)	nm	245.4	232.0	224.1	209.3	
PROFIT & LOSS (EUR m)						
Sales	134.4	144.3	119.0	160.9	170.5	8.7%
EBITDA	9.8	8.1	15.6	28.7	30.4	94%
Depr, Amort, Write Offs & Prov	-3.2	-3.5	-3.9	-5.0	-4.6	
EBIT	6.6	4.6	11.7	23.7	25.8	137%
Net Financial Interest	-0.4	-0.4	-1.0	-1.0	-0.7	
Other Financials	0.1	0.2	0.0	0.0	0.0	
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	
Earning Before Tax	6.3	4.5	10.7	22.7	25.1	
Tax	-3.8	-4.0	-2.7	-7.9	-8.8	
<i>Tax rate</i>	<i>60%</i>	<i>89%</i>	<i>25%</i>	<i>35%</i>	<i>35%</i>	
Minorities	0.0	0.0	0.0	0.0	0.0	
Net Profit (reported)	2.5	0.5	8.0	14.8	16.3	474%
Net Profit (adj.)	2.5	0.5	8.0	14.8	16.3	474%
PER SHARE DATA (EUR)						
EPS	0.054	0.005	0.087	0.159	0.176	474%
EPS (adj.)	0.054	0.005	0.087	0.159	0.176	474%
CFPS	0.122	0.043	0.115	0.189	0.200	116%
BVPS	0.630	0.712	0.799	0.958	1.134	26%
DPS	0.00	0.00	0.00	0.00	0.00	nm
KEY MARKET RATIOS						
EV/Sales	nm	1.70	1.95	1.39	1.23	
EV/EBITDA	nm	30.3	14.9	7.8	6.9	
EV/EBIT	nm	53.2	19.9	9.4	8.1	
P/E (adj)	0.0	nm	27.5	15.0	13.6	
P/CF	0.0	55.9	20.8	12.7	11.9	
P/BV	0.0	3.4	3.0	2.5	2.1	
Dividend Yield (Gross)	nm	0.0%	0.0%	0.0%	0.0%	
MARGINS AND RATIOS						
Sales growth	na	7.4%	-17.5%	35.2%	6.0%	
EBITDA growth	na	-17.5%	92.0%	84.9%	5.6%	
EBIT growth	na	-30.3%	152.9%	103.6%	8.7%	
EPS growth	na	-90.1%	1524.2%	83.8%	10.5%	
EBITDA margin	7.3%	5.6%	13.1%	17.9%	17.8%	
EBIT margin	4.9%	3.2%	9.8%	14.8%	15.1%	
ROCE	3.4%	0.5%	9.7%	15.7%	16.7%	
Debt / Equity	0.20	0.33	0.14	0.03	-0.11	
Interest Cover	24.6	20.2	16.0	27.7	42.2	
Payout Ratio	0%	0%	0%	0%	0%	
NWC/Sales	8.4%	19.5%	19.5%	19.5%	19.5%	
OpFCF/Mkt.Cap	nm	-5.9%	6.4%	4.0%	7.6%	
CASH FLOW (EUR m)						
Net Profit (reported)	2.5	0.5	8.0	14.8	16.3	
Non cash items	3.1	3.2	3.9	5.0	4.6	
Cash Flow	5.7	3.7	11.9	19.8	20.9	137%
Change in Net Working Capital	-11.3	-16.8	4.9	-8.2	-1.9	
Capex	0.0	0.0	-2.6	-2.7	-2.2	
Op. Free Cash Flow (OpFCF)	-5.7	-13.1	14.3	8.9	16.8	n.m.
Acquisitions	0.0	0.0	0.0	0.0	0.0	
Dividends	0.0	0.0	0.0	0.0	0.0	
Others	-5.9	2.4	-1.1	0.8	0.3	
Free Cash Flow	-11.6	-10.7	13.1	9.7	17.1	n.m.
NOPLAT	2.7	0.5	8.7	15.4	16.8	484%
BALANCE SHEET (EUR m)						
Net Tangible Assets	36.0	28.2	28.2	28.2	28.2	
Net Intangible Assets	18.5	33.3	33.3	33.3	33.3	
Net Financial Assets & Others	12.8	5.7	5.7	5.7	5.7	
Total Fixed Assets	67.3	67.2	67.2	67.2	67.2	0.0%
Net Working Capital	11.3	28.1	23.2	31.4	33.2	
Total Net Assets	78.6	95.4	90.4	98.6	100.5	
Shareholders Equity	58.4	66.0	74.0	88.8	105.1	26%
Minorities equity	-0.1	0.1	0.1	0.1	0.0	
Net Debt	11.5	22.0	10.2	2.7	-12.0	n.m.
Provisions	3.4	3.3	2.8	2.5	2.5	
Others liabilities	5.4	4.1	3.4	4.6	4.8	

Source: Company Data, Banca Aletti & C. S.p.A. forecasts

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SADI (SSI IM , SSI.MI): RATINGS HISTORY IN THE LAST 12 MONTHS

DATE:	RATING:
16/05/2007	NOT RATED
01/08/2007	BUY-INITIAL COVERAGE

STOCK RATINGS

THE RECOMMENDATIONS TO BUY, HOLD AND SELL ARE BASED ON EXPECTED MARKET OUTPERFORMANCE (EXPECTED OUTPERFORMANCE IN THE NEXT 12 MONTHS INCLUSIVE OF THE DIVIDEND PAID OUT BY THE STOCK'S ISSUER).

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BUY: STOCK ESTIMATED TO OUTPERFORM THE MARKET BY MORE THAN 10% OVER A NEXT 12 MONTHS PERIOD

HOLD: STOCK PERFORMANCE ESTIMATED AT BETWEEN -10% AND +10% COMPARED TO THE MARKET OVER A NEXT 12 MONTHS PERIOD

SELL: STOCK ESTIMATED TO UNDERPERFORM THE MARKET BY HIGHER THAN 10% OVER A 12 MONTHS PERIOD

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OF WHICH INV. BANKING CLIENTS	0%	0%	0%

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- THE CURRENT GENERAL AND/OR SPECIFIC GUIDANCE GIVEN BY THE GENERAL MANAGER TO THE DEPARTMENT SHOULD NOT RESULT IN CONTRAST WITH THE EXISTING LEGISLATIVE OBJECTIVES OF COMPLETENESS, CLEARNESS AND IMPARTIALITY OF THE PRODUCED STUDIES AND BE INFLUENCED BY THE SPECIFIC INTERESTS OF THE BANK RELATED TO A PARTICULAR SUBJECT OR FINANCIAL INSTRUMENT;
- THE REQUESTS OR THE COMMERCIAL COLLABORATIONS IN FAVOUR OF OTHER STRUCTURES OF THE SAME BANK OR THE GROUP TO WHICH THE BANK IS PERTINENT, WHICH, BY PRINCIPLE, COULD POTENTIALLY RESULT IN A CONFLICT OF INTEREST ACCORDING TO THE EXISTING REGULATIONS, CAN BE ORDERED TO THE DEPARTMENT OR A SINGLE ANALYST ONLY BY THE GENERAL MANAGER;
- IN THE RELATIONS WITH THE OTHER STRUCTURES OF THE BANK OR THE GROUP TO WHICH THE BANK BELONGS TO, THE DEPARTMENT OR EACH COMPONENTS OF THE SAME MUST RETAIN THEMSELVES FROM SEARCHING, RECEIVING OR FURNISH INFORMATION THAT MIGHT INVALIDATE THE INDEPENDENCE AND/OR THE IMPARTIALITY OF JUDGMENT OF THE RESEARCH COMMENT AND/OR RECOMMENDATIONS OF INVESTMENTS OR FAVOUR AN ASYMMETRIC DISTRIBUTION OF THE INFORMATION EITHER INSIDE OR OUTSIDE THE BANK OF OR THE GROUP. THE DEPARTMENT AND EACH COMPONENTS OF THE SAME MUST STICK TO THE PRINCIPLES AND BEHAVIOUR RULES FOR A CORRECT CARRY OUT OF THE FINANCIAL ANALYST ACTIVITIES;
- THE REMUNERATION OF THE FINANCIAL ANALYST(S) AND OF DEPARTMENT EMPLOYEES IS NOT TIED, DIRECTLY OR INDIRECTLY, TO INVESTMENT BANKING TRANSACTIONS AND/OR TO THE BUSINESS RELATIONSHIP DEVELOPMENT WITH ISSUERS UNDER FINANCIAL ANALYSIS.

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