Granitifiandre

Italy/ Construction & Materials

Company update

Investment Research

4 October 2010

Buy

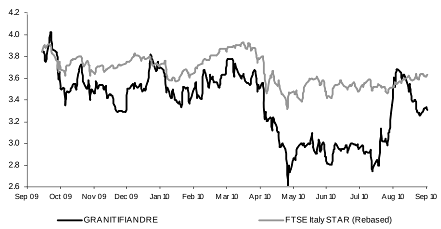
Recommendation unchanged

Share price: EUR	3.30
closing price as of 01/10/2010	
Target price: EUR	**4.10**
Target Price unchanged	

Reuters/Bloomberg	GRAN.MI/GRF IM
Daily avg. no. trad. sh. 12 mth	26,132
Daily avg. trad. vol. 12 mth (m)	0.09
Price high 12 mth (EUR)	4.02
Price low 12 mth (EUR)	2.62
Abs. perf. 1 mth	-6.2%
Abs. perf. 3 mth	17.3%
Abs. perf. 12 mth	-12.1%

Market capitalisation (EURm)	122
Current N° of shares (m)	37
Free float	34%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	184	191	209
EBITDA (m)	21	26	35
EBITDA margin	*11.7%*	*13.8%*	*16.5%*
EBIT (m)	7	12	20
EBIT margin	*4.1%*	*6.3%*	*9.4%*
Net Profit (adj.)(m)	2	8	13
ROCE	2.5%	4.0%	6.5%
Net debt/(cash) (m)	42	38	26
Net Debt Equity	*0.3*	*0.2*	*0.2*
Net Debt/EBITDA	1.9	1.4	0.8
Int. cover(EBITDA/Fin.int)	12.0	264.7	345.6
EV/Sales	1.0	0.9	0.7
EV/EBITDA	8.3	6.4	4.5
EV/EBITDA (adj.)	8.3	6.4	4.5
EV/EBIT	24.0	14.1	8.0
P/E (adj.)	nm	15.3	9.3
P/BV	0.9	0.8	0.7
OpFCF yield	*21.8%*	*19.4%*	*20.4%*
Dividend yield	*1.0%*	*1.1%*	*1.1%*
EPS (adj.)	0.05	0.22	0.35
BVPS	4.12	4.30	4.62
DPS	0.03	0.04	0.04



Source: Factset

Shareholders: Minozzi Romano 66%;

For company description please see summary table footnote

Eco-sustainability: the group's strategic target

In our opinion, at the current price, the stock certainly does not incorporate some important drivers for the coming future, namely:

ActiveTM: we believe that this innovation, which makes it possible to transform traditional stoneware slabs into "eco-active" material with real antibacterial and anti polluting properties, could play a leading role in the group's growth because:

1) *it is currently the only product on the market that meets the new requirements of eco-sustainability*

2) *it should be an important driver to raise the group's profitability due to the premium pricing* and the material processed using this method. Revenues *should account for 15-20% of the total brand sales in the next five years*.

Increasing the utilised production capacity to improve the profitability: thanks to the increase in the sold volumes forecast for the coming years, it is our opinion the group's management should be able to further reduce the fixed cost by fully exploiting the production capacity in the USA and in Italy (in this case especially thanks to an increase in the production of ActiveTM branded materials);

Expanding the group's presence in new growing markets: given the strong growth rates expected in the coming years in the construction sector in the emerging areas, we believe that the investment sustained for the 2010 Shanghai Worldwide Exposition will allow the group to become an important reference brand in the niche of eco-sustainable materials. The management said it had entered into important relationships with important potential Asian costumers (especially in China).

H1 10 results: though the difficulties in the global economy are continuing, in the first part of the year the group increased its market share, improved all profit indicators and continued to reduce the net debt through the creation of significant cash flows. H1 10 sales were in line with our estimates (+4.4% vs. Akros estimates of EUR 98.7, +3.8%): this growth in sales was obtained mainly outside Europe (+18% Y/Y) and because of the sales increase of US Stone Peak (+28.0%). H1 10 EBITDA was slightly higher than expected (+21.5% vs. Akros estimates +18.1%): this strong growth was due to the operating leverage, effective cost monitoring and production efficiency and reflects the introduction of innovative production methods.

Rating: based on our DCF model (WACC at 8.7% and perpetual growth rate at 1.2%), which is supported by the 10e and 11e EV/EBIT and P/E peer comparison, we confirm our Buy recommendation. We have set a Target Price of EUR 4.1 per share, with an upside of 24.0% on the current share price.

Analyst: Paola Saglietti +39 02 4344 4287 paola.saglietti@bancaakros.it

Produced by: Banca Akros Gruppo Bipiemme

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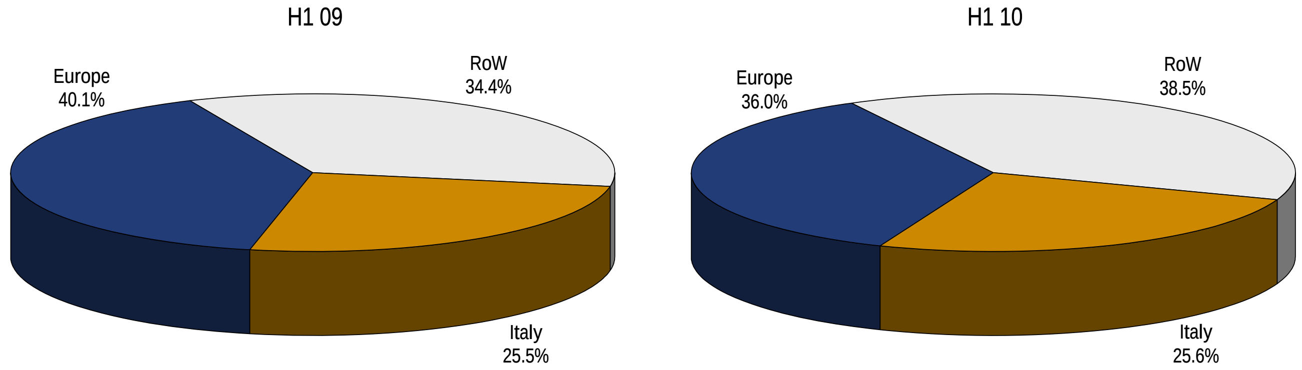
H1 10 results

Though there are still difficulties in the global economy, the group managed to increase its market share in the first part of the year, it improved all the profit indicators and is still continuing to reduce the net debt through the creation of significant cash flows.

H1 10 sales were in line with our estimates (+4.4% vs. Akros estimates of EUR 98.7, +3.8%): though the crisis in the construction and real estate sectors is continuing, this growth in sales, which accelerated in Q2 (+10% Y/Y), was reached especially thanks to the contribution from the markets outside Europe (+18% Y/Y) and to the strong sales increase of US Stone Peak (+28.0%).

GRANITIFIANDRE GROUP: Sales breakdown by geographical area



Source: Company data

H1 10 EBITDA was slightly higher than expected (+21.5% vs. Akros estimates +18.1%): this strong growth was due to the significant operating leverage which was obtained, on the one hand, thanks to the effective actions of cost monitoring and production efficiency and, on the other hand, thanks to the first few significant benefits from the innovative production methodos (Active^{TM}, Extreme, Serie 100).

GRANITIFIANDRE: H1 10 results

	H1 09a	H1 10a	*% Chg*	Akros H1 10e	*Vs Estimates*
Sales	95.2	99.4	*4.4%*	98.7	*+0.7%*
EBITDA	11.4	13.8	*21.5%*	13.4	*+3.0%*
% margin	*12.0%*	*13.9%*		*13.6%*	
EBIT	4.9	6.0	*21.6%*	-	
% margin	*5.1%*	*6.0%*			
Net profit (loss)	0.5	5.8	*nm*	-	
% margin	*0.5%*	*5.9%*			
Net Debt (Cash)	46.0	38.6		-	

Source: Company data and BANCA AKROS estimates

Future drivers from past investments

In the past few years the group has made significant investments in product and process innovations (Active™, Extreme, Serie 100), in the visibility of the company's brands and in the ownership of high know-how (GranitiFiandre was chosen as a partner of the Government Commission for the 2010 Shanghai Worldwide Exposition), in the increase in the production capacity in order to best serve the markets with an interesting growth potential (the establishment of a plant in Germany to reach the eastern European countries; the completion of the US plant in 2009 to directly serve the first tile market in the world and, lastly, the construction of the innovative Extreme production line which allows the company to make large format tiles - 50 x 75 cm – in the Italian plant in 2009).

Therefore, as shown by the H1 10 results, the group is currently beginning to benefit from the drivers that, in our opinion, will gain greater importance in improving the group's results in the coming years:

- Active™: the tile meets nature

Considering the group's most recent innovations (e.g. - ***Extreme***: thanks to this new production line in the Italian plant the group can make unique materials in the 150x75 format, both for flooring and walling, thereby meeting the needs of the design world, which demands materials that mimic quarry slabs, not just for aesthetic reasons, but also and particularly for the sizes ,which minimise leaks, creating unbroken slab surfaces; ***Serie 100***: through this technology the production cycle reutilises raw materials, waste and residual materials, at the same time guaranteeing large format tiles with optimal technical characteristics and with a minimal impact on the environment in terms of raw material consumption), the most important for the group is Active™.

Active™ is the new method used to make it possible to transform traditional stoneware slabs into an "eco-active" material with real antibacterial and anti polluting properties. Indeed, Active™ consists in treating stoneware slabs with micrometric titanium dioxide powder which, when treated with light (solar or artificial) and air, activates photocatalysis (a chemical process to transform harmful organic and inorganic substances into compounds that are absolutely harmless). In order to achieve this innovation, the group has invested heavily in R&D and in plant adaptation and in marketing (around EUR 8m) in the last few years. This technology is protected by an exclusive international thirty-year patent and its validity is attested by significant certifications (e.g. efficiency certifications from the Italian Ceramic in Bologna and the Tile Council of North America and the Pass d'Innovation obtained from the Centre Scientifique et Technique du Bâtiment); therefore, it can stand as an initial answer to the needs to respect the environment.

Based on the foregoing, we believe that this innovation could play a leading role in the group's growth. Indeed, though *Active™*, which was launched at Cersaie 2009 a year ago, *has only been marketed since the beginning of this year, the group already received two important orders for Active branded materials in North America during the summer*: *1)* a supply to the largest global fast food supply chain in North America; *2)* a supply to the prestigious "Princess Margaret Hospital" Clinic in Toronto (Canada). *Given the importance of the costumers*, these two orders *stand as two milestones that confirm the reliability of this new method and thus do much to help to obtain further contracts in the future*.

Active™ should be an *important driver for the group to raise profitability*; Active™ brand slabs are *sold at 25-30% higher than the average price of the group's products* and the material processed using this method, which should weigh for around 3-5% on total sales in 2010, *could double this percentage in 2011; indeed, the management thinks that it could reach around 15-20% of total brand sales in the next five years*.

Lastly, the group has obtained another important certification from the Tile Council of North America that attests the eco-sustainability of Active™:

Based on this testing, it is estimated that on reducing nitrogen oxides (NOx), the effect of Active™ on a 1,000 sqm surface area, radiated by sunlight, is equal to that of 20 timber trees. A 25 sqm wall and/or floor in Active™, properly lit, in addition to almost totally eliminating the bacteria that rests on it, can substantially reduce the pollutants present in the air, to the same extent as an average sized tree plant in the middle of the same surface.

- ### Increasing the production capacity to improve profitability

In the last few years the group has completed two plants abroad: 1) the StonePeak plant in the USA in order to directly serve the first tile market in the world; 2) the Porcelaingres plant in Germany in order to serve the markets in centre and eastern Europe. Furthermore, GranitiFiandre has completed the new production line for large format tiles (150 x 75 cm) in the Italian plant.

Although the group has progressively increased the utilisation of this new production capacity in the last year and a half, it can still be saturated.

The table below shows the current utilisation rate of the production capacity in the three plants:

Plant	Utilised production capacity	
Italy	88-90%	
Germany	90-95%	Spazio disponibile per costruire la 3° linea produttiva
USA	66%	

Source: Company indication

As such, in our opinion, thanks to the increase in the sold volumes forecast for the coming years, the group's management should be able to further reduce the fixed costs by saturating the production capacity in the USA and in Italy (in this case especially thanks to an increase in the production of Active™ brand materials).

The following tables are a summary of our forecasts for the three plants.

PORCELAIGRES Gmbh: 2010-11e forecasts (EUR m)

	2009	2010e	2011e
Sales	29.5	31.9	34.7
%Chg		*13.4%*	*9.0%*
EBITDA	5.3	6.0	6.3
Margin %	*17.9%*	*18.8%*	*18.0%*

Source: BANCA AKROS estimates

STONEPEAK CERAMICS Inc: 2010-11e forecasts (USD m)

	2009	2010e	2011e
Sales	60.6	76.4	84.6
%Chg		*26.0%*	*10.8%*
EBITDA	2.2	11.5	14.4
Margin %	*3.6%*	*15.0%*	*17.0%*

Source: BANCA AKROS estimates

GRANITIFIANDRE S.p.A.: 2010-11e forecasts (EUR m)

	2009	2010e	2011e
Sales	101.5	101.5	111.5
%Chg		*0.0%*	*9.9%*
EBITDA	13.5	12.5	18.5
Margin %	*13.3%*	*12.3%*	*16.6%*

Source: BANCA AKROS estimates

- Increasing the presence in new growing markets

The experience gained as a Government Commission partner for the 2010 Shanghai Worldwide Exposition has allowed Granitifiandre to put the spotlight on the technical and qualitative features of its products to around 300 architects and designers from all Asian countries.

The management said that it has entered into important relationships with potential important Asian costumers (especially in China).

Given the strong growth rates expected in the coming years for the construction sector in these emerging areas, we believe that the investment sustained in the 2010 Shanghai Worldwide Exposition will allow the group to become an important brand reference in the niche of the eco-sustainable materials.

If, in the next few months, the demand from these markets becomes as important for Granitifiandre as the current prospective seem to point at, in our opinion, the management could enter into some agreements to establish a new local plant in order to directly serve this area.

Management outlook and our estimates

Feedback from Cersaie 2010

Based on the data unveiled by *Confindustria Ceramica* during Cersaie 2010 fair (the main annual world tile fair, which took place in Bologna last week), after the strong fall in the tile industry in 2009 (sector revenues dropped by -18% and tile production by -28%), 2010 is showing an unexpected recovery. Indeed, based on the positive trend of the sector in H1 (+5.0% Y/Y in sales and +3.7% in volumes), *Confindustria Ceramica* forecast a sales recovery for the tile sector of around +2.5 / +4.5% in 2010. The driver behind this growth is in particular export. Lastly, it is important to highlight that the demand from emerging countries, such as China, India and Brazil, is playing an important role, so much so that the association of Italian tile producers believes that there could be important growth opportunities.

Management outlook

Despite the uncertainties as to whether the global economic climate will continue to particularly affect the construction sector, *the management said it expected a positive second half of the year*, particularly considering:

1) an expected increase in sales volumes on the second half of 2009, with the objective to consolidate profits;
2) the positive expectations for the German subsidiary Porcelaingres, both in terms of sales volumes and profit margins;
3) GranitiFiandre's H2 10e sales, which were in line with 2009 and showed continued strong operating margins and an improvement in the net result.

2010e - 2012e estimates

The following tables are summaries of our forecasts as processed using the management outlook for 2010 and our estimates for the three plants explained in the previous paragraph.

GRANITIFIANDRE: 2010-2012 estimates

PROFIT & LOSS (Euro m)	2009	2010e	*%Chg*	2011e	*%Chg*	2012e	*%Chg*
Sales	183.9	191.3	*4.0%*	209.2	*9.4%*	223.1	*6.6%*
EBITDA	21.5	26.5	*23.2%*	34.6	*30.6%*	40.1	*16.0%*
EBITDA margin	*11.7%*	*13.8%*		*16.5%*		*18.0%*	
Depreciation & amortization	(14.0)	(14.5)		(14.9)		(15.1)	
EBIT	7.5	12.0	*60.4%*	19.6	*63.5%*	25.0	*27.5%*
EBIT margin	*4.1%*	*6.3%*		*9.4%*		*11.2%*	
Net financial income(charges)	(1.8)	(0.1)		(0.1)		(0.3)	
Non Recurrent items	(1.5)	0.0		0.0		0.0	
Pre-tax profit	4.2	11.9	*184.5%*	19.5	*64.0%*	24.7	*26.7%*
Taxes	(3.3)	(3.9)		(6.4)		(8.2)	
Tax rate	*33.2%*	*33.0%*		*33.0%*		*33.0%*	
Minorities	0.1	0.0		0.0		0.0	
Net profit	0.9	8.0	*735.7%*	13.1	*64.0%*	16.6	*26.7%*

Source: BANCA AKROS estimates

Cash generation 2010e - 2012e

Given the sales recovery, the consequent improvement in profitability, which started in this first part of the year, should continue into the near future and since the significant investments planned by the management finished last year, we believe that the group will continue to generate strong cash flow in the next three years.

GRANITIFIANDRE: Cash flow model (EUR m)

	2009	2010e	2011e	2012e
Net Profit (reported) + Minorities	0.9	8.0	13.1	16.6
Non cash items	14.0	14.5	14.9	15.1
Cash Flow	14.9	22.4	28.0	31.7
Change in Net Working Capital	13.2	1.1	-3.2	-3.3
Capex	-13.5	-13.0	-12.0	-11.5
Operating Free Cash Flow (OpFCF)	14.6	10.6	12.9	16.9
Net Financial Investment	0.0	0.0	0.0	0.0
Dividends	-1.8	-1.2	-1.3	-1.4
Others (incl.Capital Increase)	-3.9	-5.9	0.4	2.0
Free Cash Flow	8.9	3.4	12.0	17.5
Net Debt	41.7	38.3	26.4	8.8
Debt / Equity	*0.3x*	*0.2x*	*0.2x*	*0.0x*
Debt / EBITDA	*1.9x*	*1.4x*	*0.8x*	*0.2x*

Source: BANCA AKROS estimates

Valuation

Based on our DCF model, we come to a fair value of EUR 4.10 per share, thus to an upside of around 24.0% on the current share price. We are also presenting a comparison with the peer group in order to show the undemanding multiples at which the company is trading.

DCF valuation

We have run our DCF analysis based on the following assumption:

- Sales and profitability forecast: a) for the period 2009/2011e we assume the estimates described in the paragraph above; b) for the period 2012/2013e, we estimate a sales CAGR of 2.5%; c) as regards long-term forecasts, we assume a stable EBIT margin at 9.5% (above the current level, because we believe that, given the strong measures aimed at increasing structure efficiency and the innovative products launched on the market, it is a sustainable level).
- A WACC of 8.5% calculated by assuming: a) a risk-free rate of 4.5% and a market risk premium of 4.0%; b) a target capital structure with debt covering 15% of net capital employed; c) a beta at 1.3, reflecting a certain degree of penalisation applied to mid/small caps in light of their modest liquidity.
- A terminal growth rate at 1.2%.

GRANITIFIANDRE: Free Cash Flow projection (EUR m)

	2010e	2011e	2012e	2013e	2014e
EBITA	12.0	19.6	25.0	25.1	24.6
Taxes	-4.0	-6.5	-6.3	-5.9	-5.7
Tax rate	*33.0%*	*33.0%*	*33.0%*	*33.0%*	*33.0%*
NOPLAT	8.0	13.1	18.8	19.2	18.9
Depreciation & other provisions	12.5	11.9	11.6	11.3	11.1
Operating Cash Flow	20.5	25.1	30.4	30.5	30.0
Capex	-13.0	-12.0	-11.5	-11.0	-11.0
Change in Net Working Capital	1.1	-3.2	-3.3	-0.7	0.4
Free Operating Cash Flow (FOCF)	8.6	9.9	15.6	18.8	19.4

Source: BANCA AKROS estimates

GRANITIFIANDRE: DCF analysis

Perpetual Growth Rate	*1.00%*
WACC	*8.71%*
Terminal Value	225.0
Discounting Rate of Terminal Value	0.61
Discounted Terminal Value	136.7
Cumulated DFOCF	54.9
Financial Assets as of 31/12/09	6.0
Enterprise Value (EUR m)	197.6
Net Financial Debt as of 31/12/09 (EUR m)	(41.7)
Minorities market value (EUR m)	(3.6)
Equity Value (EUR m)	152.3
Value per share (EUR)	4.13

Source: BANCA AKROS estimates

DCF sensitivity table (EUR)

WACC	*Terminal growth rate (g)*						
	0.45%	*0.70%*	*0.95%*	*1.20%*	*1.45%*	*1.70%*	*1.95%*
7.66%	4.26	4.40	4.56	4.73	4.92	5.12	5.34
8.01%	4.08	4.21	4.36	4.51	4.68	4.86	5.05
8.36%	3.92	4.04	4.17	4.31	4.46	4.62	4.80
8.71%	3.77	3.88	4.00	4.13	4.27	4.42	4.57
9.06%	3.63	3.74	3.85	3.97	4.09	4.23	4.37
9.41%	3.51	3.60	3.71	3.82	3.93	4.05	4.18
9.76%	3.39	3.48	3.58	3.68	3.78	3.90	4.02

Source: BANCA AKROS estimates

Multiple comparison

We are also presenting a comparison with other industry players, though it is worth noting that the business models are not entirely comparable.

Given the positive recovery both in terms of sales and in the profitability that the group achieved both in the first part of the year and the positive outlook on the coming months, as shown by the following table, we believe that Granitifiandre is trading at undemanding multiples.

GRANITIFIANDRE: multiple comparison

	EBIT margin 10	*EBIT margin 11*	EV/EBIT 10e	EV/EBIT 11e	P/E 10e	P/E 11e
MOHAWK	*6.1%*	*7.1%*	14.6x	11.0x	21.1x	16.2x
PANARIA GROUP	*3.8%*	*5.6%*	14.1x	8.4x	20.9x	10.4x
Average			14.3x	9.7x	21.0x	13.3x
GRANITIFIANDRE	*6.3%*	*9.4%*	14.2x	8.0x	15.4x	9.4x

Source: FACSET and BANCA AKROS estimates as of 1st October 2010

Conclusion

Recommendation and target price

Based on the foregoing consideration, we confirm our **Buy** recommendation and, considering our *valuation using the DCF model,* as supported by the 10e and 11e EV/EBIT and P/E peer comparison, we have set a **Target Price of EUR 4.10 per share**, with an upside of around 24.0% on the current share price.

Triggers

We believe that Granitifiandre is currently an attractive investment case.

In our opinion, and at the current price, the stock certainly does incorporate some important drivers for the coming future, namely:

- ***Active™***: we believe that this innovation, which makes it possible to transform the traditional stoneware slabs into “eco-active” material with real antibacterial and anti polluting properties, could play a leading role in the group’s growth because: 1) it is currently the only product on the market that meets the new requirements of eco-sustainability (based on tests it is estimated that on reducing the nitrogen oxides (NOx), the effect of ActiveTM on a 1,000 sqm surface area, radiated by sunlight, is equal to that of 20 timber trees); 2) it should be an important driver to raise the group’s profitability (Active™ branded slabs are sold at 25-30% higher than the average price of the group’s products) and the material processed using this method , which should weigh for around 3-5% on total sales in 2010, could account for around 15-20% of the total brand sales in the next five years;

- ***Increasing the utilised production capacity to improve the profitability***: thanks to the increase in the sold volumes forecast for the coming years, it is our opinion the group’s management should be able to further reduce the fixed cost by fully exploiting the production capacity in the USA and in Italy (in this case especially thanks to an increase in the production of Active™ branded materials)**;**

- ***Increasing the group’s presence in new growing markets:*** given the strong growth rates expected in the coming years in the construction sector in these emerging areas, we believe that the investment sustained for the 2010 Shanghai Worldwide Exposition will allow the group to become an important reference brand in the niche of eco-sustainable materials. The management said that it had entered into important relationships with important potential Asian costumers (especially in China).

Upcoming Events Calendar

Date	Event Type	Description	Period
06/10/10	Analyst Meeting	Analyst meeting {STAR Conference}	
07/10/10	Analyst Meeting	Analyst meeting {STAR Conference}	
12/11/10	Results	Q3 2010 Results	2010Q3

ESN Table Source

Granitifiandre: Summary tables

PROFIT & LOSS (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Sales	**229**	**204**	**184**	**191**	**209**	**223**
Cost of Sales & Operating Costs	189	176	162	165	175	183
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**40.2**	**28.2**	**21.5**	**26.5**	**34.6**	**40.1**
EBITDA (adj.)*	**40.2**	**28.2**	**21.5**	**26.5**	**34.6**	**40.1**
Depreciation	-14.9	-14.7	-14.0	-14.5	-14.9	-15.1
EBITA	**25.3**	**13.4**	**7.5**	**12.0**	**19.6**	**25.0**
EBITA (adj)*	**25.3**	**13.4**	**7.5**	**12.0**	**19.6**	**25.0**
Amortisations and Write Downs	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**25.3**	**13.4**	**7.5**	**12.0**	**19.6**	**25.0**
EBIT (adj.)*	**25.3**	**13.4**	**7.5**	**12.0**	**19.6**	**25.0**
Net Financial Interest	-2.7	-2.1	-1.8	-0.1	-0.1	-0.3
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	0.0	0.6	-1.5	0.0	0.0	0.0
Earnings Before Tax (EBT)	**22.6**	**11.9**	**4.2**	**11.9**	**19.5**	**24.7**
Tax	-7.5	-5.4	-3.3	-3.9	-6.4	-8.2
Tax rate	*33.4%*	*45.2%*	*33.2%*	*33.0%*	*33.0%*	*33.0%*
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-1.2	-0.4	0.1	0.0	0.0	0.0
Net Profit (reported)	**14**	**6**	**1**	**8**	**13**	**17**
Net Profit (adj.)	**14**	**6**	**2**	**8**	**13**	**17**

CASH FLOW (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Cash Flow from Operations before change in NWC	29.9	21.3	14.9	22.4	28.0	31.7
Change in Net Working Capital	-4.1	-15.1	13.2	1.1	-3.2	-3.3
Cash Flow from Operations	**25.9**	**6.2**	**28.1**	**23.6**	**24.9**	**28.4**
Capex	-16.0	-14.5	-13.5	-13.0	-12.0	-11.5
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**9.9**	**-8.3**	**14.6**	**10.6**	**12.9**	**16.9**
Dividends	-4.4	-5.5	-1.8	-1.2	-1.3	-1.4
Other (incl. Capital Increase & share buy backs)	-4.2	6.8	-0.4	-8.8	0.4	2.0
Change in Net Debt	**1**	**-7**	**12**	**0**	**12**	**18**
NOPLAT	17	7	5	8	13	25

BALANCE SHEET & OTHER ITEMS (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net Tangible Assets	127	130	124	128	125	122
Net Intangible Assets (incl.Goodwill)	10.7	10.4	8.4	8.4	8.4	8.4
Net Financial Assets & Other	11.7	2.7	6.0	6.0	6.0	6.0
Total Fixed Assets	**149**	**143**	**138**	**143**	**140**	**136**
Net Working Capital	66.1	81.2	68.0	66.8	70.0	73.3
Net Capital Invested	**215**	**225**	**206**	**209**	**210**	**209**
Group Shareholders Equity	**157**	**162**	**155**	**162**	**174**	**190**
o/w own Shareholders Equity	*151*	*155*	*152*	*158*	*170*	*187*
Net Debt	**46.4**	**53.5**	**41.7**	**38.3**	**26.4**	**8.8**
Provisions	8	8	7	7	7	7
Other Net Liabilities or Assets	3	2	2	2	3	3
Net Capital Employed	**215**	**225**	**206**	**209**	**210**	**209**

GROWTH & MARGINS	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Sales growth	*15.2%*	*-11.2%*	*-9.7%*	*4.0%*	*9.4%*	*6.6%*
EBITDA (adj.)* growth	***41.9%***	***-29.8%***	***-23.8%***	***23.2%***	***30.6%***	***16.0%***
EBITA (adj.) growth*	*79.5%*	*-46.9%*	*-44.3%*	*60.4%*	*63.5%*	*27.5%*
*EBIT (adj)*growth*	*79.5%*	*-46.9%*	*-44.3%*	*60.4%*	*63.5%*	*27.5%*
Net Profit growth	*+chg*	*-58.0%*	*-66.3%*	*306.7%*	*64.0%*	*26.7%*
EPS adj. growth	***+chg***	***-58.0%***	***-66.3%***	***306.7%***	***64.0%***	***26.7%***
DPS adj. growth	*25.0%*	*-66.7%*	*-33.0%*	*5.0%*	*5.0%*	*5.0%*
EBITDA margin	***17.5%***	***13.8%***	***11.7%***	***13.8%***	***16.5%***	***18.0%***
EBITDA (adj) margin*	*17.5%*	*13.8%*	*11.7%*	*13.8%*	*16.5%*	*18.0%*
EBITA margin	*11.0%*	*6.6%*	*4.1%*	*6.3%*	*9.4%*	*11.2%*
EBITA (adj) margin*	*11.0%*	*6.6%*	*4.1%*	*6.3%*	*9.4%*	*11.2%*
EBIT margin	*11.0%*	*6.6%*	*4.1%*	*6.3%*	*9.4%*	*11.2%*
EBIT (adj) margin*	*11.0%*	*6.6%*	*4.1%*	*6.3%*	*9.4%*	*11.2%*

Granitifiandre: Summary tables

RATIOS	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net Debt/Equity	0.3	0.3	0.3	0.2	0.2	0.0
Net Debt/EBITDA	1.2	1.9	1.9	1.4	0.8	0.2
Interest cover (EBITDA/Fin.interest)	14.9	13.2	12.0	nm	nm	nm
Capex/D&A	107.6%	98.3%	96.5%	89.9%	80.3%	76.2%
Capex/Sales	7.0%	7.1%	7.3%	6.8%	5.7%	5.2%
NWC/Sales	28.8%	39.8%	36.9%	34.9%	33.5%	32.8%
ROE (average)	9.2%	3.8%	1.3%	5.1%	8.0%	9.3%
ROCE (adj.)	8.3%	3.3%	2.5%	4.0%	6.5%	12.3%
WACC	8.2%	8.2%	7.9%	8.2%	8.6%	9.0%
ROCE (adj.)/WACC	1.0	0.4	0.3	0.5	0.8	1.4

PER SHARE DATA (EUR)***	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Average diluted number of shares	36.9	36.9	36.9	36.9	36.9	36.9
EPS (reported)	0.38	0.17	0.03	0.22	0.35	0.45
EPS (adj.)	0.38	0.16	0.05	0.22	0.35	0.45
BVPS	4.08	4.20	4.12	4.30	4.62	5.07
DPS	0.15	0.05	0.03	0.04	0.04	0.04

VALUATION	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
EV/Sales	1.7	0.9	1.0	0.9	0.7	0.6
EV/EBITDA	9.8	6.7	8.3	6.4	4.5	3.5
EV/EBITDA (adj.)*	**9.8**	**6.7**	**8.3**	**6.4**	**4.5**	**3.5**
EV/EBITA	15.5	14.0	24.0	14.1	8.0	5.6
EV/EBITA (adj.)*	**15.5**	**14.0**	**24.0**	**14.1**	**8.0**	**5.6**
EV/EBIT	15.5	14.0	24.0	14.1	8.0	5.6
EV/EBIT (adj.)*	**15.5**	**14.0**	**24.0**	**14.1**	**8.0**	**5.6**
P/E (adj.)	**23.1**	**20.9**	**nm**	**15.3**	**9.3**	**7.3**
P/BV	2.1	0.8	0.9	0.8	0.7	0.7
Total Yield Ratio	1.7%	1.5%	1.0%	1.1%	1.2%	
EV/CE	1.9	0.8	0.9	0.8	0.8	0.7
OpFCF yield	8.1%	5.1%	21.8%	19.4%	20.4%	23.3%
OpFCF/EV	6.6%	3.3%	15.7%	14.0%	15.9%	20.4%
Payout ratio	39.9%	30.0%	129.4%	16.3%	10.4%	8.6%
Dividend yield (gross)	1.7%	1.5%	1.0%	1.1%	1.1%	1.2%

EV AND MKT CAP (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Price** (EUR)	8.7	3.3	3.5	3.3	3.3	3.3
Outstanding number of shares for main stock	36.9	36.9	36.9	36.9	36.9	36.9
Total Market Cap	**320**	**122**	**129**	**122**	**122**	**122**
Net Debt	**46.4**	**53.5**	**41.7**	**38.3**	**26.4**	**8.8**
o/w Cash & Marketable Securities (-)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
o/w Gross Debt (+)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other EV components	**27**	**13**	**9**	**9**	**9**	**8**
Enterprise Value (EV adj.)	**393**	**188**	**179**	**169**	**157**	**139**

Source: Company, Banca Akros estimates.

Notes

** Where EBITDA (adj.) or EBITA (adj) or EBIT (adj.)= EBITDA (or EBITA or EBIT) +/- Non Recurrent Expenses/Income*

***Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years*

****EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.*

Sector: Construction & Materials/Building Materials

Company Description: GranitiFiandre is an Italian world-leading group in the production of top-of-the range technical porcelain floor and wall tiles. It has always been focused on innovation, offering products that recreate the look of some of the world's most famous and sought-after marbles, granites, and quarry stones, with similar aesthetic characteristics but superior technical qualities (uniformity, shine, strength, low absorption). GranitiFiandre operates through its 3 production sites: 1 in Italy, 1 in Germany and 1 in the USA. Approximately 80% of the group's sales come from business projects whilst the remaining 20% come from residential projects

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- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
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- **Sell**: the stock is expected to generate total return **under -10%** during the next 12 months time horizon
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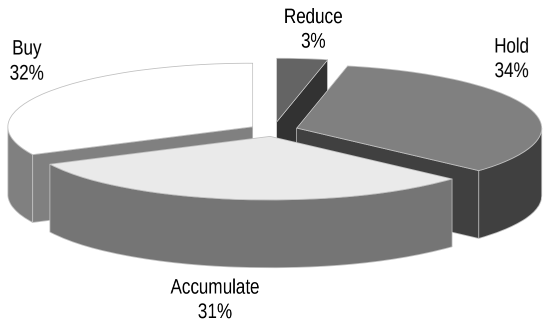
Banca Akros Ratings Breakdown



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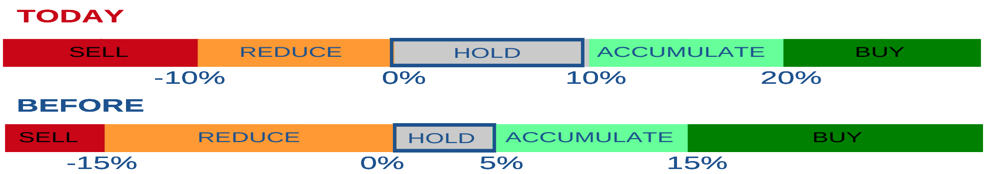
Since 4 August 2008, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



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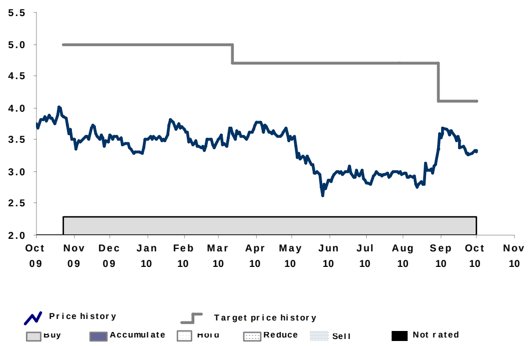
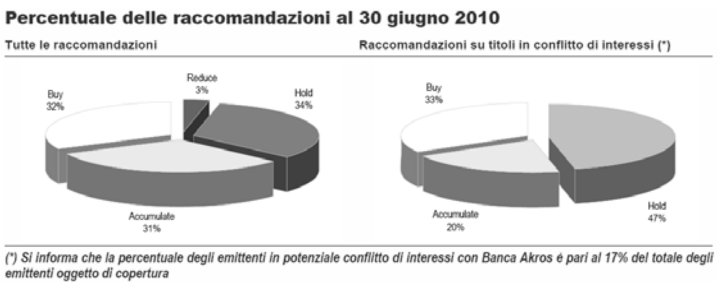
Recommendation history for GRANITIFIANDRE

Date	Recommendation	Target price	Price at change date
30-Aug-10	Buy	4.10	3.35
12-Mar-10	Buy	4.70	3.60
23-Oct-09	Buy	5.00	3.86

Source: Factset & ESN, price data adjusted for stock splits.
This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Paola Saglietti (since 23/10/2009)





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Members of ESN (European Securities Network LLP)

Banca Akros S.p.A.
Viale Eginardo, 29
20149 Milano
Italy
Phone: +39 02 43 444 389
Fax: +39 02 43 444 302

Danske Markets Equities
Holmens Kanal 2-12
DK-1092 Copenhagen K
Denmark
Phone: +45 45 12 00 00
Fax: +45 45 14 91 87

Bank Degroof
Rue de l'Industrie 44
1040 Brussels
Belgium
Phone: +32 2 287 91 16
Fax: +32 2 231 09 04

Equinet AG
Gräfstraße 97
60487 Frankfurt am Main
Germany
Phone:+49 69 – 58997 – 410
Fax:+49 69 – 58997 – 299

Caixa-Banco de Investimento
Rua Barata Salgueiro, 33-5
1269-050 Lisboa
Portugal
Phone: +351 21 389 68 00
Fax: +351 21 389 68 98

Investment Bank of Greece
24B, Kifisias Avenue
151 25 Marousi
Greece
Phone: +30 210 81 73 000
Fax: +30 210 68 96 325

Caja Madrid Bolsa S.V.B.
Serrano, 39
28001 Madrid
Spain
Phone: +34 91 436 7813
Fax: +34 91 577 3770

NCB Stockbrokers Ltd.
3 George Dock,
Dublin 1
Ireland
Phone: +353 1 611 5611
Fax: +353 1 611 5781

CM - CIC Securities
6, avenue de Provence
75441 Paris
Cedex 09
France
Phone: +33 1 4016 2692
Fax: +33 1 4596 7788

SNS Securities N.V.
Nieuwezijds Voorburgwal 162
P.O.Box 235
1000 AE Amsterdam
The Netherlands
Phone: +31 20 550 8500
Fax: +31 20 626 8064

European Securities Network LLP
Registered office c/o Withers LLP
16 Old Bailey - London EC4M 7EG