

Sonae

Holding/Retail

CoRe Buy
High Risk

January 2015

Portugal

On the Value Trail

(€ 1.75 Price Target and CoRe Buy Recommendation maintained)

- Easing deflation:** We have started to see some initial signs of easing food deflation in Portugal (-0.5% in Q4 vs. -2.8% in Q3). Competition remains high in the country but promotions are already at peak levels and profitability remains weak. Growing volumes backed by rising consumer spending and now easing price trends in the industry indicate a better 2015 for the food retail industry (70% of SON's sales). The improving macro backdrop should also trigger discretionary consumption (25% of sales) and real estate yields (40% NAV) while the ongoing turmoil at PT Portugal should strengthen NOS (19% NAV) competitive position in the market.
- Real estate value:** Property yields in Portugal still stand at quite high levels (35% above peak) despite the descending trends since 4Q13. We expect a continued downward trend which should improve SON's assets valuation and bring an opportunity for further asset rotation. SON has €1.2bn of IC in retail properties and the company plans to S&LB c€400-500mn while the remaining assets could be listed in a vehicle. This decision has a high strategic fit as it should allow SON to (1) assume a more capital-light approach which should have a direct impact on ROIC; (2) set a reference market price for its properties; and (3) raise a substantial amount of cash which we think could trigger an improved shareholder remuneration.
- A Value case:** SON's share price stands 30% below the Mar'14 peak and trades at quite attractive multiples, namely at 9.8x PE15^f or at 5.0x implied PE15 retail multiples (vs. 14.9x for its peers). The real estate angle is a source of value in a scenario of declining yields while EPS and CF should follow an interesting aisle supported by the discretionary part of the business and rising contribution from the financial stakes (NOS and Sierra). We have maintained our **YE15 Price Target unchanged at €1.75** (10% Holding disc.). **CoRe BUY.**

Sonae vs. PSI20 vs. MSCI Small Cap Index



Source: Bloomberg.

Valuation Summary

Business	Stake	€ mn	% NAV
Retail (DCF, Yields)	100%	3 124	67%
Sierra (NAV Forecast)	50%	628	13%
SNC (NAV) ⁽¹⁾	88%	874	19%
Inv. Management (BV)	100%	56	1%
TOTAL NAV		4 681	
Net debt YE15		745	
TOTAL Equity		3 936	
# shares (mn)		2 000	
YE15 Fair Value (€)		1.97	
Holding Discount		10%	
YE15 Price Target (€)		1.75	

(1) Cash + 27.14% of NOS @ MV + SSI (€101mn).

Source: BPI Equity Research.

*c6% through a cash settled Equity Swap.

Stock Data

Price (9 th Jan.):	1.01	Price Target (YE15):	1.75
# shares (mn):	2 000	M. Cap (€ mn) / F. Float:	2 010 / 29%
Reuters/Bloomberg:	SON.LS / SON.PL	Avg. Daily Vol. [€'000]:	3 195
Major Shareholders:	Efanor (52.6%); Banco BPI (9.4%)*; Bestinver (4.9%); Fundação Berardo (2.5%); Norges Bank (2.3%)		

Estimates	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f
PE Adj.	13.2	n.s.	n.s.	11.9	9.8	8.7	8.0
Dividend yield	3.3%	3.3%	3.3%	3.5%	3.5%	3.5%	3.5%
FCFE Yield	6.0%	9.7%	33.6%	2.0%	9.2%	11.1%	12.7%
FCFF Yield	13.1%	12.1%	17.9%	9.6%	10.5%	11.6%	11.9%
PBV	1.5	1.5	1.3	1.2	1.1	1.0	0.9
EV/EBITDA ⁽¹⁾	3.7	3.8	6.0	5.9	5.5	4.9	4.7
EV/Sales ⁽¹⁾	0.4	0.4	0.5	0.5	0.4	0.4	0.4

(1) EV is fixed with current market cap and MV of remaining items.

Analysts

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Historical Recommendation

Date	Recommendation
11-Jun-13	CoRe Buy

Source: BPI Equity Research.

Available on our website:
www.bpiequity.bpi.pt BPI Online.
 and Bloomberg at **NH BPD**.

P&L (€ mn)	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f	CAGR 13-17 ^f
Revenues	5541	5379	4821	5001	5157	5297	5404	3%
EBITDA	602	599	376	380	413	458	482	6%
EBITDA adj.	602	599	378	380	413	458	482	6%
EBITDA adj. mg.	10.9%	11.1%	7.8%	7.6%	8.0%	8.6%	8.9%	
Depreciation & others	368	366	187	177	177	177	177	-1%
EBIT	235	232	188	204	236	281	305	13%
EBIT adj.	235	232	190	204	236	281	305	13%
Net financial results	-84	-119	-10	-9	11	17	38	n.s.
Income tax	24	25	30	24	40	63	86	31%
Others	0	-17	315	0	0	0	0	n.s.
Minority Interests	23	39	145	2	3	5	6	-54%
Net Profit reported	104	33	319	168	204	230	251	-6%
Net Profit adj.	104	33	112	168	204	230	251	22%

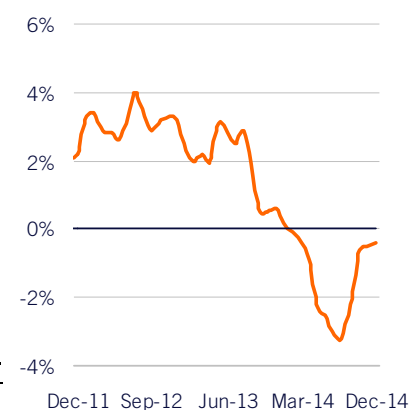
Balance Sheet (€ mn)	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f	CAGR 13-17 ^f
Net Intangibles	1240	1221	814	780	746	713	681	-4%
Net Fixed Assets	2672	2603	1827	1839	1858	1874	1885	1%
Net Financials	575	516	1379	1427	1480	1530	1579	3%
Inventories	651	538	589	636	667	688	702	4%
ST Receivables	493	505	346	351	359	368	375	2%
Other Assets	260	274	155	156	157	157	158	0%
Cash & Equivalents	426	378	366	200	200	200	312	-4%
Total Assets	6317	6035	5477	5389	5467	5530	5693	1%
Equity & Minorities	1700	1669	1908	2009	2147	2312	2499	7%
MLT Liabilities	2166	2029	1588	1375	1225	1225	1235	-6%
o.w. Debt	1791	1687	1363	1263	1113	1113	1 113	-5%
ST Liabilities	2451	2338	1980	2005	2095	1993	1 958	0%
o.w. Debt	600	526	230	192	226	73	0	n.s.
o.w. Payables	1313	1282	1218	1267	1307	1342	1369	3%
Equity+Min. + Liabilities	6317	6035	5477	5389	5467	5530	5693	1%

Cashflow (€ mn)	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f
+ EBITDA	602	599	376	380	413	458	482
- Chg in Net W.C.	33	1	-167	-8	-19	-22	-19
- Income Taxes	25	9	31	23	42	65	89
= Operating Cash Flow	544	588	511	366	390	414	412
- Growth Capex	158	15	8	7	5	0	0
- Replacement Capex	225	230	128	148	156	159	156
- Net Fin. Inv.	-44	-42	548	47	54	49	49
= Cash Flow after Inv.	204	384	-173	164	174	205	207
- Net Fin. Exp.	84	119	10	9	-11	-17	-38
- Dividends Paid	66	66	66	70	70	70	70
+/- Equity	4	4	1	0	0	0	0
Other	-5	-74	857	-114	0	0	10
=Change in Net Debt	-54	-129	-609	29	-116	-153	-185
Net Debt (+)/Net Cash (-)	1931	1802	1214	1 243	1 127	974	788

Growth. per share data and ratios	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f
Sales growth	-6%	-3%	n.s.	4%	3%	3%	2%
EBITDA Adj. growth	-19%	-1%	n.s.	1%	9%	11%	5%
EPS Adj. growth	-38%	-69%	244%	50%	21%	13%	9%
Avg. # sh (mn)	2000.0	2000.0	2000.0	2000.0	2000.0	2000.0	2000.0
Basic EPS	0.05	0.02	0.01	0.08	0.10	0.12	0.13
EPS Adj. Fully diluted	0.05	0.02	0.01	0.08	0.10	0.12	0.13
DPS	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Payout	63.64%	203.09%	21.82%	41.35%	34.11%	30.24%	27.77%
ROCE (after tax)	6.3%	5.5%	9.8%	10.0%	11.2%	12.8%	13.5%
ROE	7.7%	2.4%	22.1%	10.4%	11.8%	12.3%	12.2%
Gearing (ND/EV)	63.8%	64.8%	57.7%	47.8%	42.8%	38.5%	35.0%
Net Debt/EBITDA	3.2x	3.0x	3.2x	3.3x	2.7x	2.1x	1.6x

Source: Company data and BPI Equity Research (F).

Food inflation YoY evolution in Portugal



Source: INE, Bloomberg.

Real Estate Yields Sensitivity Analysis

Δ in yields vs. BPI (bps)	Retail Real Estate EV (€mn)	Sierra NAV (€/sh)	Sonae PT (€/sh)
-100	1 730	49.39	1.95
-50	1 601	43.64	1.85
Base Case	1 488	38.54	1.75
50	1 390	34.16	1.70
100	1 303	30.20	1.60

Source: BPI Equity Research.

DCF Assumptions (Food Retail)

Re	10.4%
Rf	3.25%
CRP	1.15%
Beta Equity	1.0
Market Premium	6.0%
Rd	6.0%
Tax Rate	27.5%
D/EV	30.0%
WACC	8.6%
g	1.0%

Source: BPI Equity Research.

Implied Retail multiples

SON's MK (@ €1.01)	2 010
Sierra (@ NAV)	548
SNC's MK NAV (@ €2.91)	786
Invest. Management (@BV)	56
Retail Market Value (€ mn)	621
Implied Retail PE15^f	5.0
Current MK	2 010
Adj. Net Debt ⁽¹⁾	1 422
Market Value Financial Stakes	1 333
Adjusted EV14	2 098
EV/EBITDA15^f	5.1

(1) Deducing the cash from SNC.
Source: Bloomberg and BPI Equity Research.

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INVESTMENT RATINGS AND RISK CLASSIFICATION (TOTAL RETURN IN 12-18 MONTHS):

	Low Risk	Medium Risk	High Risk
Buy/CoRe Buy	>15%	>20%	>30%
Neutral	>5% and < 15%	>10% and <20%	>15% and < 30%
Reduce	>-10% and < 5%	>-10% and < 10%	>-10% and < 15%
Sell	< -10%	< -10%	< -10%

These investment ratings are not strict and should be taken as a general rule.

INVESTMENT RATINGS STATISTICS

As of 31st December BPI Equity Research's investment ratings were distributed as follows:

CoRe Buy	9%
Buy	26%
Neutral	43%
Reduce	11%
Sell/Accept Bid	5%
Under Revision/Restricted	5%
Total	100%

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