CENTROBANCA
Gruppo UBI Banca

EXPRIVIA

Company Update | **Buy (maintained)**

01 September 2010 | **MARKET PRICE: EUR0.91** | **TARGET PRICE: EUR1.15 (from EUR1.38)**

Data

Shares Outstanding (m):	51.9	
Market Cap. (EURm):	47.2	
Enterprise Value (EURm):	77.9	
Free Float (%):	40.9%	
Av. Daily Trad. Vol. (m):	0.097	
Main Shareholder:	Abaco System (49.9%)	
Reuters/Bloomberg:	XPR.MI	XPR IM
52-Week Range	EUR0.8	EUR1.4

Performance

	1m	3m	12m
Absolute	-1.5%	1.2%	-36.4%
Rel. to FTSE IT	4.1%	0.3%	-28.5%

Financials

	2009	2010E	2011E
Revenues (EURm)	85.7	91.1	96.0
EBITDA (EURm)	14.7	13.9	14.7
Net Profit (EURm)	5.1	5.0	5.5
EPS (EUR)	0.100	0.097	0.106
CFPS (EUR)	0.152	0.150	0.159
BVPS (EUR)	1.208	1.239	1.305
DPS (EUR)	0.040	0.040	0.044

Ratios

	2009	2010E	2011E
EBITDA margin	17.1%	15.3%	15.3%
ROI	11.1%	9.9%	10.5%
ROAE	8.5%	8.0%	8.3%
Debt/Equity	0.6	0.6	0.5
Debt/EBITDA	2.7	2.7	2.5

Valuation

	2009	2010E	2011E
P/E (x)	11.0	9.4	8.6
P/CF (x)	7.2	6.1	5.7
P/BV (x)	0.9	0.7	0.7
Dividend Yield	3.6%	4.4%	4.8%
EV/Sales (x)	1.0	0.9	0.8
EV/EBITDA (x)	6.0	5.6	5.2
EV/CE (x)	0.9	0.8	0.7

Source: Centrobanca estimates

Still good visibility on sales in a difficult IT market

Exprivia reported higher 2Q10 sales, despite the still uncertain Italian IT market, but lower EBITDA due to higher operating costs for the new deals signed in the Health sector and the drop in tariffs in the PA division. Following the 1H10 results and given the trend expected for each business line, we have confirmed our total FY10 sales expectations (but altered the breakdown of revenues) and cut the EBITDA10-12 forecast by an average of 15%. Our target price, which derives from a DCF valuation and a relative comparison, drops to EUR1.15 from EUR1.38 per share. However, we reiterate our Buy recommendation as we believe that the stock represents an interesting investment due to the good visibility on sales in the health division, which offers long term contracts and represents the majority of group consolidated revenues (over 40%). At the current market price, the stock is trading at 5.6x EV/EBITDA10 vs 5.0x for its peers, which is justified by Exprivia's large exposure to resilient sectors.

> The Italian IT market is still suffering from the uncertainty surrounding the economic scenario and the historical gap with other countries. Nevertheless, Exprivia closed 2Q10 with sales up 4.0% due to the resilient performance of the health business unit (which represents the main division of the group and where sales in the semester were supported by the signing of new long term contracts) and the recovery of the "Banking, finance & Insurance" and the "Industry & Media" divisions. In 2Q10, the trend was still weak for "Oil&Gas and Tlc", and for the "PA, Transport & Utilities" division, which suffered from a change in the strategic approach to the PA.

> The start-up costs for the new deals and the lower profit coming from the PA, also due to the continuing reduction in tariffs, led to a 7.3% drop in EBITDA. Total net income fell to EUR1.1 million from EUR1.7 million in 2Q09.

> Following these results and given the expected performance for each business line, we have changed our estimates for the product mix while maintaining our forecast for total sales (2010-2012 CAGR of 6.1%) as we believe that the resilient health sector and increasing sales in the Industrial sector could offset the decrease in the other divisions. We have cut our 2010 EBITDA estimates believing that they could suffer from the higher impact of the operating costs of the new contracts signed and the drop in tariffs applied by the PA. There is a 19% negative impact on EPS in 2010-11 and 14% in 2012.

> Our target price moves to EUR1.15 from EUR1.38 per share but our recommendation on the stock remains positive as we believe that the group has a defensive profile due to its remarkable weighting in long term contracts from the health sector where it is often able to sign new contracts.

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Key Financials

(EURm)	2009	2010E	2011E	2012E
Revenues	85.7	91.1	96.0	102.5
EBITDA	14.7	13.9	14.7	16.2
EBIT	11.7	11.0	11.8	13.2
NOPAT	7.9	7.4	7.9	8.8
Free Cash Flow	-2.5	3.3	3.9	5.5
Net Capital Employed	100.9	102.7	104.3	105.0
Shareholders' Equity	61.3	64.3	67.7	71.7
Net Financial Position	39.3	38.0	36.2	33.0

Source: Company data, Centrobanca estimates

Key Profitability Drivers

	2009	2010E	2011E	2012E
Capital Turnover	0.8	0.8	0.8	0.9
Financial Leverage	1.6	1.6	1.5	1.5
Net Profit Margin	5.9%	5.5%	5.7%	6.1%
NOPAT Margin	9.2%	8.1%	8.2%	8.6%
Free Cash Flow Margin	nm	3.6%	4.1%	5.3%
ROAE	8.5%	8.0%	8.3%	9.0%
ROI	11.1%	9.9%	10.5%	11.5%
ROCE	7.4%	6.7%	7.0%	7.7%

Source: Company data, Centrobanca estimates

Key Valuation Ratios

	2009	2010E	2011E	2012E
P/E (x)	11.0	9.4	8.6	7.5
P/BV (x)	0.9	0.7	0.7	0.7
P/CF (x)	7.2	6.1	5.7	5.1
Dividend Yield (%)	3.6%	4.4%	4.8%	5.5%
EV/Sales (x)	1.0	0.9	0.8	0.7
EV/EBITDA (x)	6.0	5.6	5.2	4.5
EV/EBIT (x)	7.5	7.1	6.4	5.5
EV/CE (x)	0.9	0.8	0.7	0.7

Source: Company data, Centrobanca estimates

Key Value Drivers

	2009	2010E	2011E	2012E
Payout	40.1%	41.3%	41.5%	41.2%
Cost of Equity	8.8%	8.8%	8.8%	8.8%
WACC	6.9%	7.0%	7.1%	7.3%
EP Spread	-0.3%	-0.8%	-0.5%	0.2%
EVA Spread	1.1%	0.2%	0.5%	1.1%

Source: Company data, Centrobanca estimates

Recent Developments

- Exprivia reported an increase in 2Q10 sales but a decrease in margins due to one-off costs linked to the start-up of new long term contracts in the Health sector.

- The improvement in NWC, coupled with the share capital increase of ca. EUR1.0 million to service a stock option plan, helped maintain net debt unchanged (EUR40.3 million from EUR40.9 million in March 2010) despite capex of EUR1.3 million.

In a still uncertain economic scenario where companies are still postponing IT capital expenditure, Exprivia reported 2Q10 sales up 4.0% (but down 4.0% vs our estimates).

This result was driven by the resilient "Health" business unit, which had sales up 7.5%, and the improving "Banks, Finance and Insurance" and "Industry & Media" divisions which grew ca. 13.5%, also due to the easy comparison with 2Q09. As expected, the "Tlc, Oil&Gas" division had a decrease in sales (-9.1%) while the "PA, Transport and Utilities" division suffered primarily from a change in the business model (lower sales in the indirect channel).

The burden of one-off charges for the start-up of some long term contracts in the health sector drove EBITDA down to EUR3.3 million from EUR3.5 million in 2Q09 and the EBITDA margin to 13.8% from 15.7% in 2Q09.

Lower D&A and steady financial charges limited the drop in the pre-tax profit (down 5.3% to EUR2.2 million).

The improvement in NWC, coupled with the share capital increase of ca. EUR1.0 million reserved for a stock option plan, resulted in unchanged net debt (EUR40.3 million from EUR40.9 million of 1Q10) despite capex of EUR1.3 million compared to EUR0.5 million in 1Q10).

Figure 1. Exprivia_2Q10 results

(EURm)	2Q09A	2Q10A	% Chg.	2Q10E	delta vs CB	1H09A	1H10A	% Chg.
Sales	21.7	22.6	4.0%	23.5	-4.0%	41.5	46.4	11.8%
VoP	22.5	23.8	5.5%	24.7	-3.8%	43.8	48.2	10.1%
EBITDA	3.5	3.3	-7.3%	3.4	-2.6%	6.3	5.8	-8.6%
Ebitda margin (%)	15.7%	13.8%		14.3%		14.5%	12.0%	
D&A	-0.8	-0.6	18.2%	-0.8	-27.5%	-1.4	-1.5	8.3%
EBIT	2.8	2.7	-4.4%	2.5	5.8%	4.9	4.5	-8.5%
EBIT margin (%)	12.3%	11.2%		10.2%		11.2%	9.3%	
Financial Charges	-0.5	-0.5	-0.2%	-0.4	18.4%	-1.2	-0.8	-34.2%
Pre-Tax Profit	2.3	2.2	-5.3%	2.1	3.5%	3.7	3.6	-1.9%
Taxes and minorities	-0.6	-1.1	67.2%	-	-	-1.4	-2.0	45.0%
Net income	1.7	1.1	-32.6%	-	-	2.3	1.6	-30.2%
Net Debt	36.6	40.3	10.2%	40.3	0.1%	36.6	40.3	10.2%

Source: Company data, Centrobanca estimates

Financial Projections

- On the back of the 1H10 results and the trend we expect for each business division, we have revised our 2010-2012 sales breakdown but maintained unchanged the total revenue expectations. Higher operating costs (that in 1H10 were mainly linked to the new contracts signed in the Health division), lead to an average cut of 15% in the CAGR of EBITDA in 2010-2012.

- Better assumptions in terms of NWC, due to the better management of receivables and lower capital expenditure could give FY10 net debt of EUR38.0 million compared to EUR40.3 million at June-10.

We believe that our FY10 sales estimates are still compatible with the 1H10 results. Consequently our estimates remain broadly unchanged (total sales of EUR91.1 million from EUR91.0 million). The main driver should remain the "Health division", which we assume could contribute ca. 45% to total sales (it was 46% in 1H10 but 43.5% in 2Q10). As for the other divisions, we have changed the estimates regarding the sales mix on the back of 1H10 results and the recovering trend of the "Industry and Media" division, which in FY10 could report better results than previously expected. We assume that it could offset the lower increase we now expect for the other divisions.

Figure 2. Exprivia_2010-2012 sales breakdown

(EURm)	2009A	2010E	2011E	2012E
Banking, finance and insurance	10.1	9.2	9.8	10.6
Industry and media	11.6	13.5	14.2	15.2
Tlc, Oil & Gas	12.8	11.3	12.0	12.9
PA, transports & utilities	14.8	14.1	15.2	16.4
Health	35.3	40.8	42.7	45.3
Other	1.2	2.1	2.1	2.1
Total sales	**85.7**	**91.1**	**96.0**	**102.5**

Source: Company data, Centrobanca estimates

We have reduced our EBITDA estimates from EUR16.6 million to EUR14.0 million to factor in the higher raw material costs recorded in 1H10 for the new contracts signed in the Health sector. Consequently our EBITDA10E margin moves to 15.4% from 18.2% (it was 17.1% in 2009).

Therefore, our FY10 net profit estimate declines from EUR6.2 million to EUR5.0 million (in line with the net profit of 2009). Despite higher raw material costs, we have assumed lower D&A (EUR2.9 million vs our previous estimate of EUR3.2 million) and lower financial charges (due to the improvement we assume in net debt as a result of lower capital expenditure and better NWC) but an unchanged tax rate (of ca. 45%).

Despite the lower EBITDA projections due to higher raw material costs, we assume an improvement in net debt driven by lower capex and an improvement in net working capital. In previous years, capital expenditure was impacted by the start-up of a new project by Svimservice for the Region of Puglia.

We assume no change for group FY11 and FY12 total sales and for the CAGR in 2010-2012 sales (6.1%). However, on the back of higher operating cost assumptions due to a different product mix, our CAGR for EBITDA in 2010-2012 is now 3.4% (vs our previous estimate of 4.6%).

In total, we have cut our 2010-2012 net profit estimates by 17.5% but have reduced the net debt estimates for the next three years by 1.7% on average.

Figure 3. Exprivia_Revised estimates

	2009A	2010E		2011E		2012E	
(EURm)		Old	New	Old	New	Old	New
Sales	85.7	91.0	91.1	96.0	96.0	102.5	102.5
% change			0.1%		0.0%		0.0%
VoP	90.1	95.4	95.5	100.4	100.4	106.9	106.9
% change			0.1%		0.0%		0.0%
EBITDA	14.7	16.6	13.9	17.5	14.7	18.8	16.2
% change			-16.0%		-15.8%		-13.6%
Net profit	5.1	6.2	5.0	6.8	5.5	7.3	6.3
% change			-19.1%		-19.5%		-13.8%
Net Debt	39.3	40.5	38.0	36.4	36.2	32.4	32.9
% change			-6.1%		-0.7%		1.7%
EPS	0.10	0.12	0.10	0.13	0.11	0.14	0.12
% Change			-19.1%		-19.5%		-13.8%

Source: Company data, Centrobanca estimates

Valuation

- Our revised target price of EUR1.15 per share derives from a DCF valuation and a relative approach based on EV/EBITDA and P/E comparisons.
- The DCF method delivers a fair value of EUR1.32 per share. The relative approach gives a fair price of EUR0.77 per share.

Our new estimates result in a change in the fair price from the DCF model and the relative approach of ca. 17%, mostly due to the relative approach. However, we believe the latter is less meaningful than the DCF value due to the difficulty in comparing the company with other companies in the IT sector (both in and outside Italy). The majority of peers have huge exposure to the most cyclical markets. Exprivia derives most of its revenues from long term contracts in the Health sector.

Figure 4. Exprivia – Valuation map

Valuation		Fair value (EUR)
1	DCF - 70%	1.32
2	Relative valuation - 30%	0.77
	Weighted Average	**1.15**
	current market price	0.91
	upside /(downside) potential	26.7%

Source: Centrobanca estimates for Exprivia, Factset consensus for competitors

DCF valuation

Figure 5. Exprivia – WACC and DCF assumptions

Risk-free rate based on the current yield of the 10-year Italian Government Bond	4.10%
Market risk premium	4.00%
Beta	1.18
Cost of Equity – K (E)	**8.8%**
Lending spread	1.9%
Debt	30.0%
Equity	70.0%
Tax rate	33.0%
Net Cost of Debt – K (D)	**4.0%**
Weighted Average Cost of Capital (WACC)	**7.3%**
Perpetuity growth rate	0.5%

Source: Centrobanca estimates

Figure 6. Exprivia – DCF valuation

Free Cash Flow 2010E-2015E (EURm)	39.3
(A) Discounted free cash flow 2010E-2015E (EURm)	**30.4**
Free Cash Flow terminal year (EURm)	8.8
WACC	7.3%
Terminal Value (EURm)	129.4
(B) Discounted Terminal Value (EURm)	**84.7**
Value of Operating activities (A+B) (EURm)	115.0
Net Debt FY09 (EURm)	-39.3
Pension provisions (EURm)	-7.4
Minorities (EURm)	-0.3
Treasury shares (EURm)	0.4
Equity Value (EURm)	68.4
Number of shares (m)	51.9
Value per share (EUR)	**1.32**

Source: Centrobanca estimates

Relative valuation

Figure 7. Exprivia – P/E and EV/EBITDA vs main peers

		P/E			EV/EBITDA		
(x)	**Mkt Cap (EUR)**	**2010E**	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**
Steria (Groupe)	573	9.0	8.0	7.1	4.4	4.0	3.3
Computacenter	531	9.5	8.7	7.9	3.8	3.5	3.0
Sopra Group	609	10.5	9.3	8.3	5.7	4.8	4.1
Ordina	118	12.5	6.8	5.4	8.3	4.5	2.9
GFI Informatique	140	8.0	5.7	5.8	5.5	4.6	3.2
Devoteam	176	10.7	8.4	6.7	4.1	3.2	2.8
Tieto Oyj	935	12.0	10.0	8.8	5.6	4.6	4.1
Kewill	108	9.8	9.1	8.6	6.8	5.9	5.0
Cap Gemini	5,172	16.6	12.7	10.9	5.2	4.0	3.4
Atos Origin	2,129	11.0	9.5	8.4	4.2	3.5	2.9
Logica	2,102	9.0	8.4	7.7	6.1	5.4	4.8
Reply	151	14.3	9.8	8.9	3.6	2.6	1.9
TXT E Solutions	14	14.5	9.8	8.7	2.8	2.4	2.2
Engineering	239	7.8	6.9	6.4	3.9	3.5	3.0
NoemaLife	26	20.1	15.9	12.6	5.5	4.5	3.7
Average ex-Exprivia	**-**	**11.7**	**9.3**	**8.2**	**5.0**	**4.1**	**3.4**
Exprivia	47	9.4	8.6	7.5	5.6	5.2	4.5
premium/(discount)	**-**	**-19.7%**	**-7.3%**	**-8.0%**	**11.9%**	**27.7%**	**33.2%**

Source: Centrobanca estimates for Exprivia, TXT and Engineering, Factset for competitors

Figure 8. Exprivia– Multiples valuation

	2010E	2011E	2012E	Avg price
P/E (x)	12.0	11.7	9.3	
Exprivia - EPS (EUR)	0.10	0.10	0.11	
Fair price (EUR)	**1.20**	**1.13**	**0.98**	**1.03**
EV/EBITDA (x)	5.0	4.1	3.4	
Exprivia – EBITDA (EUR m)	13.9	14.7	16.2	
Exprivia – EV (EUR m)	70.0	59.7	54.7	
Net Debt (EUR m)	38.0	36.2	32.9	
Equity Value (EUR m)	31.9	23.6	21.8	
No. of shares post capital increase (m)	51.9	51.9	51.9	
Fair price (EUR)				**0.50**
Average relative price (EUR)				**0.77**
Market price (EUR)				**0.91**
Upside/(downside)				**-15.9%**

Source: Factset, Centrobanca estimates

Income Statement

(EURm)	2009	2010E	2011E	2012E
Net Revenues	85.8	91.1	96.0	102.5
EBITDA	14.7	13.9	14.7	16.2
EBITDA margin	17.1%	15.3%	15.3%	15.8%
EBIT	11.7	11.0	11.8	13.2
EBIT margin	13.7%	12.1%	12.3%	12.8%
Net financial income /expense	-2.1	-1.9	-1.8	-1.7
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	9.2	9.1	10.0	11.4
Taxes	-4.2	-4.1	-4.5	-5.1
Minorities & discontinued ops	0.0	0.0	0.0	0.0
Net Income	5.1	5.0	5.5	6.3

Source: Company data, Centrobanca estimates

Balance Sheet

(EURm)	2009	2010E	2011E	2012E
Net working capital	29.7	30.9	31.8	31.8
Net Fixed assets	80.1	80.9	81.7	82.7
M/L term funds	8.9	9.1	9.3	9.4
Capital employed	100.9	102.7	104.3	105.0
Shareholders' equity	61.3	64.3	67.7	71.7
Minorities	0.4	0.4	0.4	0.4
Shareholders' funds	61.7	64.7	68.1	72.1
Net financial debt/(cash)	39.3	38.0	36.2	33.0

Source: Company data, Centrobanca estimates

Cash Flow Statement

(EURm)	2009	2010E	2011E	2012E
NFP Beginning of Period	35.3	39.3	38.0	36.2
Group Net Profit	5.1	5.0	5.5	6.3
Minorities	0.0	0.0	0.0	0.0
D&A	2.9	2.9	2.9	3.1
Change in Funds & TFR	-0.3	-0.1	-0.2	-0.2
Gross Cash Flow	7.7	7.8	8.3	9.2
Change In Working Capital	-4.5	-1.2	-0.9	-0.0
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	3.2	6.6	7.4	9.2
Capex	-4.9	-3.3	-3.5	-3.7
Other Investments	0.0	0.0	0.0	0.0
Disposals	-0.8	0.0	0.0	0.0
Free Cash Flow	-2.5	3.3	3.9	5.5
Dividends Paid	-2.0	-2.0	-2.1	-2.3
Other & Chg in Consolid. Area	0.3	-0.0	-0.0	0.1
Chg in Net Worth & Capital Incr.	0.3	-0.0	-0.0	0.0
Change in NFP	-3.9	1.2	1.8	3.2
NFP End of Period	39.3	38.0	36.2	33.0

Source: Company data, Centrobanca estimates

Financial Ratios

(%)	2009	2010E	2011E	2012E
Net Margin	5.9%	5.5%	5.7%	6.1%
ROE	8.5%	8.0%	8.3%	9.0%
ROIC - after tax	7.4%	6.7%	7.0%	7.7%
Net Fin. Debt/Equity (x)	0.6	0.6	0.5	0.5
Net Fin. Debt/EBITDA (x)	2.7	2.7	2.5	2.0
NOPAT(EURm)	7.9	7.4	7.9	8.8
ROACE	8.1%	7.3%	7.6%	8.4%

Source: Company data, Centrobanca estimates

Per Share Data

(EUR)	2009	2010E	2011E	2012E
EPS	0.100	0.097	0.106	0.121
DPS	0.040	0.040	0.044	0.050
Op. CFPS	0.063	0.127	0.143	0.177
Free CFPS	-0.050	0.063	0.075	0.105
BVPS	1.208	1.239	1.305	1.382

Source: Company data, Centrobanca estimates

Stock Market Ratios

(x)	2009	2010E	2011E	2012E
P/E	11.0	9.4	8.6	7.5
P/OpCFPS	17.4	7.2	6.4	5.2
P/Free CFPS	nm	14.4	12.1	8.6
P/BVPS	0.9	0.7	0.7	0.7
Div. Yield (%)	3.6%	4.4%	4.8%	5.5%
Free Cash Flow Yield (%)	nm	7.0%	8.3%	11.6%
EV (EURm)	88.2	77.9	75.9	72.5
EV/Sales	1.0	0.9	0.8	0.7
EV/EBITDA	6.0	5.6	5.2	4.5
EV/EBIT	7.5	7.1	6.4	5.5
EV/Capital Employed	0.9	0.8	0.7	0.7

Source: Company data, Centrobanca estimates

Growth Rates

(%)	2009	2010E	2011E	2012E
Growth Group Net Sales	-5.1%	6.3%	5.4%	6.8%
Growth EBITDA	-4.1%	-5.1%	5.8%	10.2%
Growth EBIT	-4.6%	-6.1%	7.0%	11.7%
Growth Net Profit	-26.0%	-0.7%	9.4%	14.4%

Source: Company data, Centrobanca estimates

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Historical recommendations and target prices

Date	Rating	TP	MKT Price
02.12.2009	Buy	1.30	1.13
12.04.2010	Buy	1.38	1.17