

07 JUNE 2010

**SONAE SGPS***HOLDING/RETAIL*

ANALYST: CRISTIANA DE OLIVEIRA DIAS

**COMPANY REPORT****Retail: the anchor...***... of a drifting boat*

**Facts:** After previous price target of 1.18€, we upgraded our value to 1.33€ per share, reinforcing our **BUY** recommendation.

- **Sonae MC** will continue to grow, internally and externally, taking advantage of increasing demand of private labels and strong presence in both super and hypermarket, while specialized retail will continue to grow in Portugal and improve its performance in Spain.

- **Sonae Sierra** will take advantage of the increase in rents due to pipeline projects, and recover asset value from yields decrease in the majority of countries. Brazil will be its anchor in the process.

- **Sonaecom** will post positive results related with saving costs achieved with the integration of Optimus and Clix.

- Other relevant issues were studied, such as internationalization of further concepts, reorganization of formats, external opportunities, among others.

**Conclusion:** We maintain our confidence in Sonae SGPS progress, based on the dominant positioning in the retail market, the recognized value in Shopping Centres management and Sonaecom's redesign strategy.

**Company description**

Sonae SGPS is the largest private group in Portugal. Being a holding company, it has five subsidiaries, but focus mainly in the retail business (food and specialized retail). Sonae has also partnerships with Sonae Sierra (Shopping Centres specialist) and Sonaecom (Telecommunications, Media and SSI). Sonae Retail Properties is also part of Sonae's structure as a related business.

**Recommendation:** **BUY**Vs Previous Recommendation *BUY***Price Target FY10:** **1.33 €**

Vs Previous Price Target 1.18 €

**Price (as of 4-Jun-10)** **0.765 €**

Upside Potential 74%

Reuters: YSO.LS, Bloomberg: SON.PL

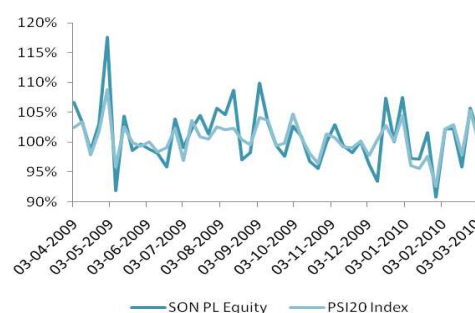
52-week range (€) 0.646-0.983

Market Cap (€m) 1494.00

Outstanding Shares (m) 2 000.00

Free-Float 33.4%

Source: Bloomberg and Company Report



Source: Bloomberg – Excess Returns (weekly data)

(Values in € millions)	2009	2010 <sup>F</sup>	2011 <sup>F</sup>
Revenues	5,665	6,159	6,615
EBIT	167	302	363
EBITDA	489	601	666
EBITDA Margin (%)	8.64	9.76	10.07
Net Financial Income	-123	-189	-196
Net Profit	94	86	117
Minority Interest			

EPS (Diluted)	0.05	0.05	0.06
P / E	12.66	28.75	21.05
EV / EBITDA	8.92	5.20	4.98
ROIC (%)	6.01	8.21	9.28

Source: Company Data and Equity Research Estimates

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## Executive summary

**The final objective is to reach Sonae FY2010 value per share**

This Equity Research report aims to intensively analyse Sonae SGPS<sup>1</sup>, and all of its sub-segments. Sonaecom, however, will be disregarded from our study, since there is a single report dealing with that business<sup>2</sup>. The orientation of the paper will be made from a broad macroeconomic perspective, into specific business characteristics and embrace both perspectives in our valuation model. After analytic work is completed, we will address some questions that in the future might have implications in firm's valuation. Finally, we will test the model against key variable changes, in order to evaluate how our major assumptions impact on the model.

After all these steps are successfully completed, we will be able to explain Sonae SGPS price target, *per share*, for 2010 Full Year, which, in our opinion, will converge to **1.33€**

## Macroeconomic Outlook

Before developing Sonae SGPS's model, we believe it is important to understand the recent past, and contextualize Sonae in the macroeconomic environment. According the most recent IMF's World Economic Outlook (WEO - January 2010), world's GDP real growth rate is expected to be 3.9% this year, improving to 4.3% by 2011, reflecting initial signs of recovery. In the Euro Zone, fiscal and monetary stimuli are expected to cause a GDP real growth of 0.8%<sup>3</sup> in 2010 and 1.5%<sup>1</sup> in 2011. Moreover, Harmonised Index of Consumer Prices (HICP) is expected to rise to 1.2%<sup>1</sup> in 2010 and 1.5%<sup>1</sup> in 2011, approaching to the 2% medium goal of ECB (in order to maintain price stability). These numbers also reflect a positive development of Euro Zone economy, since in 2009 the GDP real decrease was -4.1% and the HICP was set in 0.3%, but from March 2010 (publishing date) many events deteriorated the real situation. In this sense, and since each country will probably recover at a different pace, we decided to analyse the differences between the countries where Sonae has a higher dependency (Portugal, Spain and Brazil). Despite not being one of Sonae's most important markets, we will also analyse Greece, given the recent turmoil surrounding its public finances situation.

Table 1 - Eurozone GDP Growth Estimates

EuroZone	GDP Real Growth	
	2010 <sup>2</sup>	2011 <sup>2</sup>
OECD	0,90%	1,70%
IMF	1,00%	1,60%
Consensus Economics	1,30%	1,50%
European Committee	0,70%	1,50%
ECB specialists	0,4-1,2%	0,5-2,5%

Source: ECB specialists

Table 2 - Eurozone HICP Inflation Estimates

EuroZone	HICP Inflation	
	2010 <sup>2</sup>	2011 <sup>2</sup>
OECD	0,90%	0,70%
IMF	0,80%	0,80%
Consensus Economics	1,20%	1,50%
European Committee	1,10%	1,50%
ECB specialists	0,8-1,6%	0,9-2,1%

Source: ECB specialists

<sup>1</sup> For the future, Sonae SGPS will be referred only as "Sonae"

<sup>2</sup> For further information, see **Equity Research - Sonaecom**

<sup>3</sup> Average value of ECB specialists projections

The economic indicators of the selected countries already show a positive trend, beginning in 2010 (excluding Greece), which are mainly a result of governmental stimuli packages. Those packages translated into liquidity injection in the banking system (in order to redistribute to the whole economy), slackening the tax payments, aiming to preserve companies and jobs, and the stabilization of the financial turmoil. However, since governments are facing huge public deficits, and consequently, an increase in yields is expected, it is time to cutback public investment, which might imply that the first signs of recovery might be jeopardized.

In Portugal, the government approved Portuguese Stability and Growth Programme (SGP) that incorporates restrictive measures, such as the enlargement of taxable basis and the reduction of fiscal benefits. When Standard & Poor's downgraded the Portuguese debt rating, some of those restrictions were aggravated, putting at stake the weak growth of Portugal. The increase in tax burden and reduction of certain investments, will probably implicate a reduction of private consumption, which can imply a decrease in sales and services (retail and shopping centres activities). Furthermore, government froze public servant's salaries, and it expected that extra remuneration will be substituted by savings certificates (postponing consumption). On the other hand, however, the Portuguese economic activity and private consumption have been rising since last year, and according to Banco de Portugal, in the first quarter of the current year the index of retail turnover grew 1.6% in relation to the previous quarter (4<sup>th</sup> Quarter of 2009). In the end, and looking at previous table, we can see that private consumption will decrease, reaching 0% in 2011.

**Table 3 - Portugal Indicators (09-11E)**

Portugal	2009	2010 <sup>e</sup>	2011 <sup>e</sup>
Inflation	-0.90%	0.40%	0.80%
GDP Real Growth	-2.70%	0.50%	0.70%
Unemployment Rate	9.60%	11.00%	10.30%
Private Consumption Growth	-0.80%	1.00%	0.00%

Source: IMF (WEO – October 2009), Eurostat, Banco de Portugal

**Table 4 - Spain Indicators (09-11E)**

Spain	2009	2010 <sup>e</sup>	2011 <sup>e</sup>
Inflation	-0.29%	0.90%	0.70%
GDP Real Growth	-3.60%	-0.40%	0.80%
Unemployment	18.20%	20.00%	19.70%
Private Consumption Growth	-4.90%	0.20%	1.20%

Source: IMF (WEO – October 2009), Eurostat, Banco de Portugal

On a similar situation we can find Spain, since several measures are already being implemented to stop the rising of public debt level and also show signs of a weak economic performance. Spain, being a relevant market for Sonae, will also experience aggressive measures against the crisis, although Spanish government focused even more in the reduction of expenses in order to equilibrate public accounts. Nevertheless, specialists seem to believe in a more rapid recovery than the Portuguese one, benefiting both the retail and shopping operations that Sonae holds in Spain.

Greece is in a worse position, now that S&P cut Greek sovereign debt to junk grade, and will take longer to reach economic recovery, and all economic indicators remain negative, at least until 2011. Although Sonae has only two shopping's in Greece, the national unstable situation might be reflected in Sonae's activities.

Brazil, however, not only was able to escape from the crisis but attracted foreign investments during late 2008 and 2009 as well. In fact, Brazil's internal

**Table 5 - Greece Indicators (09-11E)**

Greece	2009	2010 <sup>e</sup>	2011 <sup>e</sup>
Inflation	1.13%	1.70%	1.60%
GDP Real Growth	-2.00%	-3.00%	-0.50%
Unemployment	9.50%	10.70%	9.70%
Private Consumption Growth	-1.80%	-3.50%	-2.40%

Source: IMF (WEO – October 2009), Eurostat, Banco de Portugal

Table 6 - Brazil Indicators (09-11E)

Brazil	2009	2010*	2011*
Inflation	4.85%	4.10%	4.50%
GDP Real Growth	-0.66%	3.46%	4.00%
Unemployment	7.90%	7.70%	7.50%

Source: IMF (WEO – October 2009), Eurostat, Banco de Portugal

consumption, financial institutions consistency, and recovery of capital markets were the basis for the good response against the crisis. In 2011, it is expected that GDP growth reaches 4%, proving to be one of the most important countries in the world scene.

The unemployment rate is also an important indicator, since it further influences the declining expectations for private consumption, and, therefore, the declining trend benefits the whole economy (Spain already exceeded the 20% of unemployment).

## Company overview

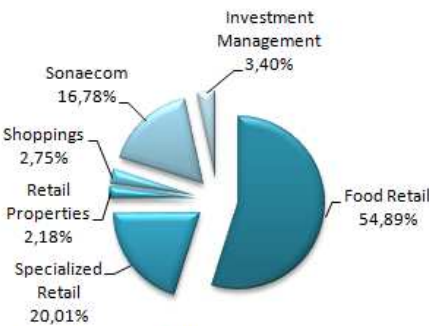
Sonae SGPS is, nowadays the largest private group in Portugal, and also a family-run business. Moreover, Sonae (SOciedade NAcional de Estratificados) is one of the oldest companies in Portugal, since it was established in 1959, by the renowned Pinto Magalhães family. At the time, this family was also present in the banking area and were one of the most influent in Portugal, especially in the north of the country. Sonae specialized in engineered wood (decorative laminates) which remained an important product and the main business of Sonae Indústria (spin-off from Sonae SGPS in 2005).

In 1965 Sonae hires Belmiro de Azevedo, and makes investments in the chemical industry sector, but it was not until the 80's that Sonae made its entrance in the retail business. In fact, the 80's became a decisive decade for Sonae: Belmiro wins a judicial process against Pinto Magalhães family; Sonae enters the stock exchange market (at the time known as Bolsa de Valores de Lisboa) with 500.000\$00 (which now amounts a total of 2 493€) market capitalization; in 1985 they opened the first hypermarket; and they also invested in tourism, telecommunications and insurance sectors, using different subsidiaries of Sonae.

In 1991, Sonae Imobiliária inaugurates the first modern shopping mall, Cascaishopping, while Sonae Distribuição diversifies its formats, creating the majority of brands that they now own, during that decade.

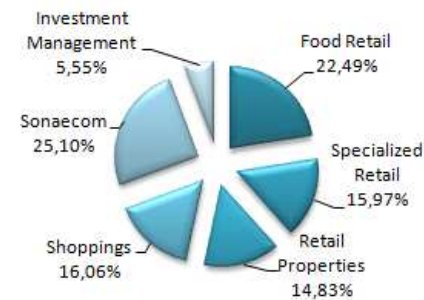
In the last years, Sonae started to reorganize its internal structure, defining what they perceived to be the core business and partnerships. Besides taking off some subsidiaries from the stock exchange market and launching others, Sonae also proceeded with changes in company's and management structure. Paulo Azevedo, son of the indisputable leader, succeeded his father Belmiro de Azevedo as President of the company, while Belmiro became Chairman of the Board.

Graph 1 - Turnover (%) - 2009



Source: Company Annual Report

Graph 2 - CapEx (%) - 2009



Source: Company Annual Report

**Figure 1 - Logo Evolution**



Source: Nova Equity Research

*Interest rates and tax evasion were the reasons for Sonae Distribuição Brazil Divestiture*

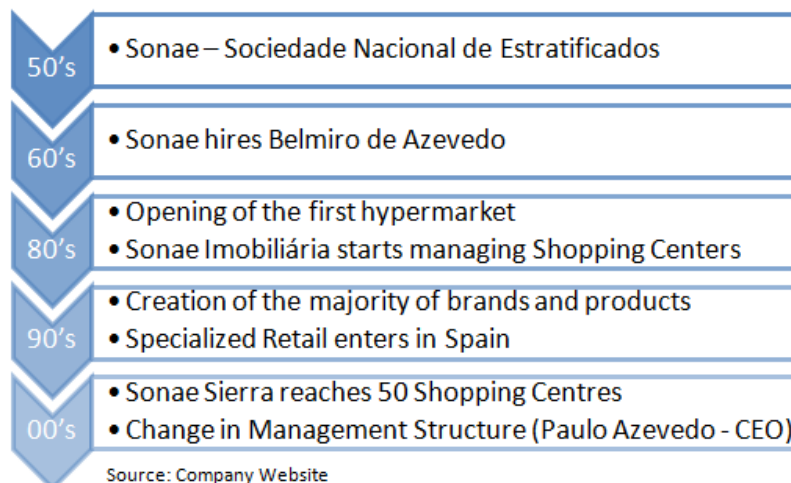
*Sonae discreetly alienated Banco Universo to BPI*

The year 2010 is already part of Sonae’s long history, due to changes in the corporative identity, where the main difference was the replacement of the old, yet charismatic logo, by a new more dynamic and innovative one.

The history of Sonae also includes failures, as two major projects were divested from Sonae’s businesses portfolio. The first was Sonae Distribuição Brazil, which moved to that country in late 80’s and opened its first hypermarket in 1990. From that date until 2003, total investment was around 1,5 billion Euros (including shopping centres) and granted Sonae the 4<sup>th</sup> place in the food retail segment. Belmiro de Azevedo, however, was not satisfied with the return from that investment, arguing that government actions to control inflation (at the time, Brazilian Central Bank set interest rates level at 16.5%) and tax evasion were compromising economic value creation. More recently, in 2009, Belmiro recognized that, at the time, the group was not ready and well prepared for Brazilian judicial system reality at the time. As a result, in 2005, Sonae alienated all retail operation to Wal-Mart for 635 million Euros, including 140 stores (Nacional, BIG, Mercadorama e Maxxi insignias).

The second failure was Banco Universo, a savings bank, created in 1995, and the idea behind that bank was to attract Continente/Modelo customers, under the premise that, since the bank counter were placed in the supermarkets, customers could manage their accounts as easily as they could go to a supermarket, benefiting from a discount agreement using Universo Visa card. Sonae was convinced that dealing with retailing customers was similar to what was required to deal with bank clients. Soon they understood that it was not true, and acknowledged that managing a bank required several other values, like loyalty, prestige and recognition, among others. The closeness with the client did not play a decisive role at Banco Universo’s operations and clients did not transfer their accounts and money to Universo, as they were expecting, resulting in a discreet alienation of the business to BPI, in exchange for Sonae SGPS’s shares.

**Figure 2 - Sonae most important milestones**



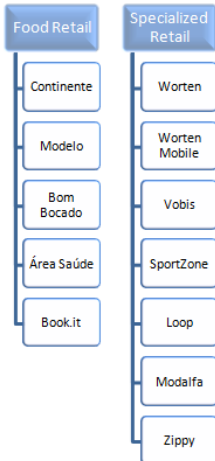
Source: Company Website

Figure 3 - Sonae SGPS Organization



Source: Company Data

Figure 4 - Sonae MC Brands



Source: Company Data

## Company description

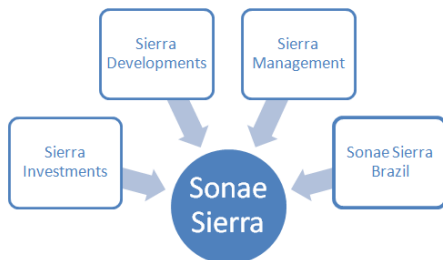
Sonae SGPS is a conglomerate of several other companies, each of them specialized in a different business.

**Sonae Investimentos (MC and SR)**, former Sonae Distribuição, focuses in the core business of the holding, the retail sector. In fact, the hyper and supermarkets chain started to proliferate after Belmiro Azevedo started managing the firm and soon became one of Sonae's stars. Seeing that potential, in 1995, Belmiro entered the specialized retail segment, with Modalfa chain, which stores were almost always placed in a Modelo/Continente. In the following years they developed several different brands and formats, from electronics to kids clothing, taking advantage of the money from Distribuição Brazil divestiture. Other opportunity taken by Sonae was the entrance in the Spanish market, not in the food-retail segment (the failure in Brazil was still very present in Sonae's memory), but in specialized retail. Nowadays, it operates only in Iberian market, focusing more on the development of the specialized retail, rather than food one, since the latter shows already some signs of being a saturated market.

**Sonae Sierra** was created in late 80's as Sonae Imobiliária, and in the same year they began to manage the first two shopping centres. Sierra's first Shopping opened in 1991 and started a very successful path. After eight years of expansion in the internal market, they started an international expansion, with some partners, in Spain, Greece and Brazil. In 2005, Sonae SGPS, as the major shareholder, decided to deepen the relation with the other shareholder, Grosvenor, and entered in a joint-venture in which both companies have a 50% stake in Sierra. That agreement lasts until now, and during these years they were able to take advantage of the arising opportunities. Nowadays, Sonae is owner of 53 shopping malls, spread between seven countries, which correspond to an area of two million square meters. Sierra also focuses in managing those properties, as well as, third parties, and recently stated that this segment will gain more projection within the firm's business. Sierra can be subdivided in Sierra Investments (own properties), Sierra developments (pipeline projects), Sierra Management (responsible for organizing all other branches) and Sierra Brazil (concentrated in Brazil operations). In 2009, Sierra's malls received 436 million visitors, but one of the Spanish shopping centres, Avenida M40, declared insolvency, and Sonae was forced to sell that unsuccessful investment. Nowadays it is responsible for the main losses of the group due to the suddenly increase in yields (devaluing Sierra's properties).

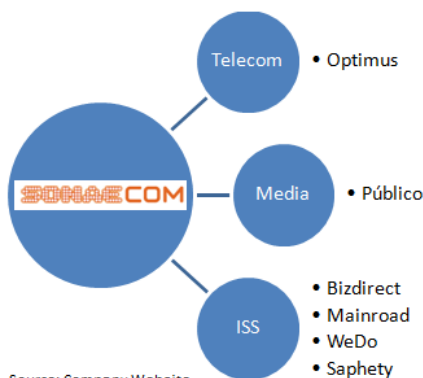
**Sonaecom** is the other core partnership developed by Sonae SGPS in 1994, even though the investment in information technology media had its origin in 1988. Right from the start, Sonae developed its media segment, launching the

Figure 5 - Sierra Structure



Source: Company Data

Figure 6 - Sonaecom Structure



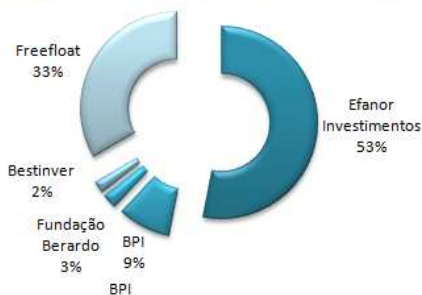
Source: Company Website

daily newspaper Público, which was never able to reach its segment leadership. In the 90's the company launched its core products, Optimus and Clix. The year 2000 became a turning point when they were awarded with the first of four UMTS licences, and by the end of the year bought the 4<sup>th</sup> license from Oniway. In 2003, for the first time, Sonaecom reaches positive FCF, and the following years are marked by the expansion of several other products (for instance, Rede4 and Optimus home). In 2008, they launch Optimus TAG, another innovative and successful service and in 2010, Sonaecom integrated Clix into Optimus brand, becoming the first and only fully integrated operator. Presently, the company contributes only with 16.8% of Sonae total turnover, but Capital Expenditures (CapEx) dedicated to this business is one fourth of total CapEx (the largest slice).

**Asset management** and **Retail properties (RP)** are related businesses and while the former manages Sonae's joint-ventures in insurance, DIY and travel agencies business, the latter manages the adjacent space of its retail properties, trying to improve properties profitability and capital releases for further investments (sale and lease back operations).

## Shareholder structure

Graph 3 - Sonae Shareholder's Structure



Source: Company Data

Sonae SGPS is a family controlled company since its foundation, although the control passed from Pinto Magalhães to Azevedo's family. In fact, since 1974, Belmiro de Azevedo detains the majority of Sonae's shares through Efanor Investimentos (53.1%). The remaining block holders are Banco Português de Investimento (BPI) with 8.9% of total shares, followed by Fundação Berardo (2.5%) and Bestinver (2.1%). Free-float accounts for 33.4% of total number of shares.

## The Sectors

Sonae SGPS, being a holding company, is present in several sectors of activity. The core business is related with Retail (both food and specialized), but they also developed important partnerships, in which they have stake of around 50%, in the Shopping Centres and Telecommunications area. Moreover, they have joint-ventures in the DIY (MaxMat) and travel agencies businesses (GeoStar).

### Retail

The Portuguese retail market is highly concentrated, very mature (especially in food segment) and accounts for approximately 20% of GDP (Planet Retail figures). In Portugal the APED members, association of distribution retailers, in 2009, were responsible for more than 9.1% of the country's GDP. Following

Table 7 - APED contribution for GDP (%)

	2006	2007	2008	2009
Sales Volume in GDP %	7.2	7.7	8.4	9,1*

Source: APED - Annual Report 2009

\* Estimative

European countries trends, nowadays, traditional retail is responsible for only 20% of the total retail sector, while modern retail accounts for the remaining 80%.

**Graph 4 - Sonae MC Seasonality Effect in Sales (%)**



Source: Company Data

Seasonality is a constant in Retail, and its effects appear mainly in the 2<sup>nd</sup> and 4<sup>th</sup> quarters, with a boost in sale volume, while the first months of the year are usually the worst. That seasonality in the 4<sup>th</sup> quarter is related with Christmas but also with the extra remuneration paid by companies to their employees. This extra income occurs also in August and alongside with the inflow of tourists, it contribute to the 2<sup>nd</sup> quarter increase in sales.

Other relevant observation relates with the high liquidity in such businesses. The bargaining power of Sonae or Jerónimo Martins allows them to negotiate better payment terms with suppliers while consumers pay up front.

Another common phenomenon has to do with the expansion of private label products. In fact, we can observe from the Portuguese market that every retail chain has a widely advertised private label: É, Pingo Doce, Continente, Auchan, among others. This recent trend has been the main responsible for the like-for-like growth in sales, and therefore, is gaining more importance in the market.

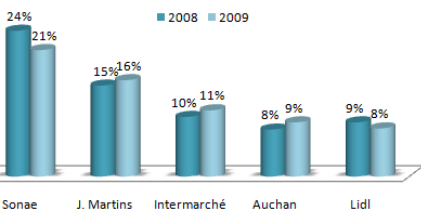
Finally, the recent economic crisis played an important role, since higher unemployment rates reduced internal consumption and Portugal's exports also decreased. However, in the retail segment, Sonae was not only able to maintain its leading position but also to maintain a similar level as before the severe economic crisis.

Since there are specific characteristics of each type of retail, we will now proceed with an individual analysis.

▪ Food Retail

The food-retail market in Portugal is in a maturity phase, as already mentioned, where the five main players account for almost the whole market (65%, according to APED). In fact, the market is a very concentrated and competitive one, and the leaders are both Portuguese companies – Sonae MC and Jerónimo Martins – with around 20% and 15%, respectively. The other three main players in the market are all around 10% of market share. The retail structure in Portugal is quite different from other European countries, given the higher protectionism of small family-run businesses and boutique shops. The structure of the Portuguese food sector can be subdivided into the following sub segments, according to Planet Retail<sup>4</sup>: hypermarkets & superstores; supermarkets; discount stores; neighbour stores; convenience & forecourt stores; and lastly, e-commerce. The

**Graph 5 - Market Share of the 5 Top Players (%)**

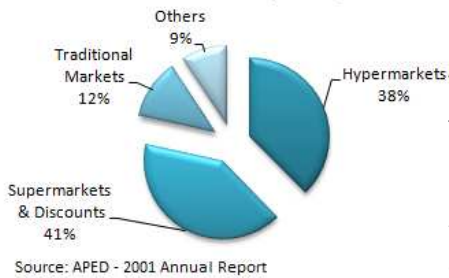


Source: Roland Berger (APED)

**Increase in unemployment rate decreased consumption...**

<sup>4</sup> Grocery Retailing in Portugal – April 2010

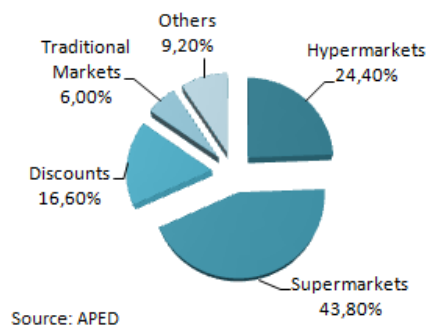
**Graph 6 - Distribution Chains Market Share (1999)**



main players, however, are only the first four categories, the ones being analyzed below.

Hypermarkets & superstores in Portugal were introduced by Sonae in 1985, but this type of markets experienced great development in the following years. In fact, in 2004 they had 37% market share, followed by supermarkets. More recently, however, supermarkets started to re-gain a dominant position, and if in 2008 they had already surpassed hypermarkets, in 2009 the difference accentuated.

**Graph 7 - Distribution Chains Market Share (2009)**



The most surprising development in the food retail occurred in the 90's, when discount chain Lidl entered the Portuguese market. Although in other European countries this distribution channel was already implemented, Portugal was still quite tied to traditional formats. The success was tremendous, and market shares kept increasing year after year. Several reasons were pointed to justify that evolution: consumers perceive discount chains to have lower prices; discount chains increased number of stores in a drastic way; and developed private labels.

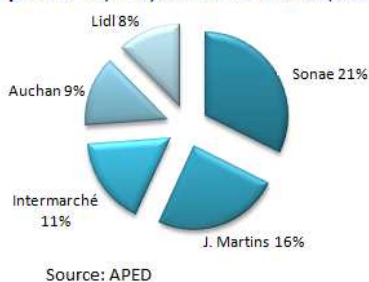
At last, the traditional neighbour stores still play an important role in Portuguese retail market. Given the late development of big markets, those stores were leader in retail sector. With supermarkets expansion, conventional stores owners start fearing competition and asked for government support, arguing that they belonged to Portuguese culture and unemployment would increase a lot. In 1998, government made almost impossible to open large-sized stores, and limited the opening hours on Sunday. Even though those measures are still active, traditional commerce lost the dominant position and from 1987 to 2004, market share sharply dropped from 74.2% to 16.3% (AC Nielsen).

**Continente Market Share is 13.8%...**

**... while Modelo gathers 10.40%**

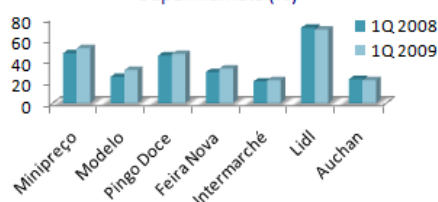
Consumers pattern, has shifted and evolved through time accompanying the pace of changes in the market itself. Before Matosinhos hypermarket opening, traditional formats accounted for the great majority of the market, but then, hypermarkets begun proliferating, and for several years occupied a dominant position in the market, due to the variety of products that these large scale stores offered. More recently, with the entrance of discounts, supermarkets started gaining more and more importance, since they are usually located in the urban area, nearby consumers' houses or workplace. On the contrary, hypermarkets are situated outside central urban areas and its most relevant differentiator factor is not so evident anymore, since supermarkets also display a good product diversity. Nevertheless, in terms of modern distribution ranking, Continente is the market share leader and gathers more 3% than Modelo, Sonae's supermarkets brand.

**Graph 8 - 5 Top Players Market Shares (2009)**



Private labels play an important role in food retail segment, especially since Lidl entered the market, but soon after, other distribution chains started developing

Graph 9 - Private Label Evolution in Supermarkets (%)



Source: TNS Worldpanel

their own brands, commercialized at a lower price. Actually, in 2009, every supermarket increased its private brands, and Minipreço has already 50% of sales based on this type of products. Sonae implemented its first private label products in 1991, in both Continente and Modelo, and nowadays, the brand “Continente” is recognized in the market and is also leader in brochure presences in almost all categories, according to Marketest – e-Foliotrack. Advertisement surrounding “Continente” insignia, according to the same source is huge in grocery, frozen products and alcoholic beverages. Personal hygiene, baby products and laundry goods, however, are the areas where the brand is not in the top three of brochure most publicized products. Currently, Continente stores detain 70 000 private label references and more 40 000 in Modelo stores.

#### ▪ Specialized Retail

Specialized retail is a recent trend that allowed companies to diversify their businesses, and this became especially important due to the maturity of food-retail sector and traditional commerce protectionism. This alternative, however, allowed firms to still apply its differentiation factor: know-how in retail sector. The main promoter for proliferation of this activity was Sonae, that from the 90’s on launched ten new insignias, but foreign companies also contributed (especially Intermarché). This development was also related with a period in which Portuguese started to look for different products to satisfy different needs (“consumerism era”).

Table 9 - Specialized Retail Sales Volume (M€)

	2008	2009
Equipment Goods	2514	2294
Entertainment & Stationery	485	510
Clothing	2357	2276
NPD	317	342

Source: APED

Nowadays, non-food retail is seen to have the higher growth potential, and the majority of commercial centres base its activity on these formats, rather than in food ones. Furthermore, the performance indicators show very positive results, specially turnover per square meter (Worten, the leader insignia of non-food retail has a higher turnover *per square meter* than Continente, the food leader).

The specialized retail structure can be subdivided in the following four categories: consumer electronics; entertainment and stationery; clothing and retail pharmacies (non prescription drugs - NPD). In terms of sales volume, equipment goods and clothing are the leaders, with almost the same amount. Far behind, we have entertainment & stationery, while the recent NPD is the category with lowest value.

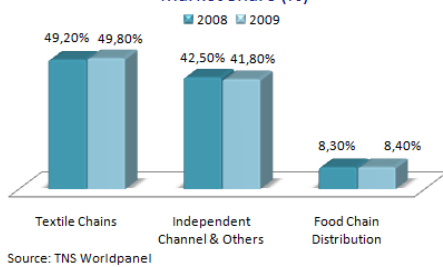
Consumer electronics started being developed in the 90’s, and the main promoter of this growth was Worten. Since the inception of the brand, Worten is the leader insignia in non-food retail segment, according to APED numbers. The main competitors, in Portugal, in this area are Fnac, Office Center, Media Market and even Vobis and Worten Mobile. Although these competitors are not completely equivalent to the leader Worten, Fnac is its direct competitor and the number two in sales volume. In fact, Fnac was the leader in the segment,

**Consumer goods are specialized retail leader in Sales volume**

**El Corte Inglés was not considered a competitor...**

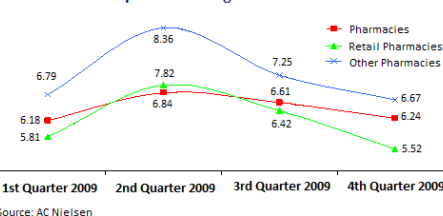
previous to Worten's entry, and was never able to get back its position, given the wider product range that Worten offered. Office Center also lost market share and occupies the fourth position in this retail sub-segment, followed by Vobis. Finally, Media Markt entered recently and transformed the portuguese market by adopting aggressive campaigns to advertise low prices. That posture, however, has not conducted Media Market to leadership, staying in a modest 9<sup>th</sup> place in APED's Top 20. El Corte Inglés is also considered a competitor, but since the total sales amount considers other areas rather than just consumer electronics, is hard to understand its real position in the market.

**Graph 10 - Clothing Distribution Market Share (%)**



Clothing, in Portugal, was always an important and diversified sector, and the main players are both portuguese and foreign companies. In the last years, however, we experienced a decrease in clothing sales, due to the crisis, but also a decrease in sales amount. The distribution channels remained stable, and the textile chains are still the main channel, although the difference for independent ones is small. The whole market is occupied by these two channels, but Continente implemented itself in the business and nowadays is the leader in sales volume of clothing products, followed by Jumbo, indicating the hypermarket's dominant position. Zara appears in 3<sup>rd</sup> place, while Modalfa is the 4<sup>th</sup>. Inditex, the strongest group present in Portugal, with its brand Zara, however, has the biggest market share in sales amount, with 6.6%, almost 3% more than the second insignia, Continente (3.7% of market share). Decathlon detains 3.1%, while C&A gathers only 0.1% less. Although SportZone does not appear in this ranking, in sports products category, it is the turnover leader insignia, with 197 M€, while Decathlon only gathers 120 M€ (2008 APEDdata). For the future, it is not expectable that distribution channels change a lot, being the traditional retail responsible for the majority of sales. Therefore, big groups like Inditex, Regojo, C&A and Sonae will be able to lead the clothing segment, not only in sales volume but also in amount.

**Graph 11 - Average Price of NPD**



Entertainment & Stationery and NPD together represent only 15% of specialized retail, but were the only groups that grew from 2008 to 2009. Book.it is a different concept in Portugal, since it gathers books, stationery and tobacco, and there are no direct competitors. Staples, Fnac, Papelaria Fernandes and Bulhosa, are, in some products, competitors but there is no available data on market shares. Non Prescription Drugs increased 8% in 2009, but retail pharmacies like Área Saúde saw its turnover increase 35%, the biggest increase in the distribution channels, since pharmacies only increased 5%, while other pharmacies (selling natural products, as well as, NPD's) increased 19%. According to APED, the boom depended on the opening of 61 new stores. For the future, we expect a stabilization of retail pharmacies sales, although the increase in profit margins from 6.85% to 8% will increase turnover.

After the analysis of the Portuguese market, we believe it is crucial to apply similar study to Spanish market, since the investment in that country was a recent bet of the group and seems to be an alternative to the intensively explored national market. In the last years, retail development was similar to Portuguese one, with a decrease in sales, especially in specialized segment, but already showing a positive 0.8% growth in the first quarter of the current year. Before entering in more detail, our analysis was compromised due to lack of information and the big dimension of Spanish market.

SportZone, in Spain found a highly concentrated sportive market, in which top 5 chains represent already 60%. Over the last years, market shares of big chains have been rising, over independent stores, given the decrease in sales (it forces small independent stores to close). The main player is Decathlon, but El Corte Inglés, Intersport and Nike Factory complement the market. In relation with the leader Spanish press considers that SportZone has competitive advantage in prices and they also benefit from sponsoring teams and charity events, although Decathlon is developing different and cheaper brands (Oxylane, for example). Despite that fact and according to 2008 market shares, there is still a long way for SportZone since Decathlon gathers 43% of it.

Worten España, is also in a very competitive market, in which leader Sinersis (owner of Tien21, Milar and Confort) has only 10% market share, although that market share is supposed to double with a recent agreement between Sinersis and HGM (Master Cadena and Master Kitchen). Worten is already referred as an important retailer in the market, along with other brands, like Media Markt, Urende, Menaje del Hogar and El Corte Inglés (like in Portugal, El Corte Inglés group possesses a diversified range products in their stores), among others. The consumer goods market, however, is in "recession" and in 2009 sales decreased almost 12%.

Finally, in kids clothing sector, Zippy Kids Store is integrating a market where big chains and warehouses represent half of the market, like Inditex, Chicco, Prénatal and C&A. Competitive prices and product variety are the main Zippy's advantages, although the market is expected to increase residually in 2010, after two years of decline in sales volume, recovering the 2% growth average in the following year, according to DBK recent study.

## Shopping Centres

The Portuguese market for Shopping Centres is very recent due to political reasons and only after 1974, the confidence environment and the higher degree of openness allowed European influences to spread to Portugal. Until the 90's the most important shopping malls were Brasília (in Oporto, 1976), Amoreiras

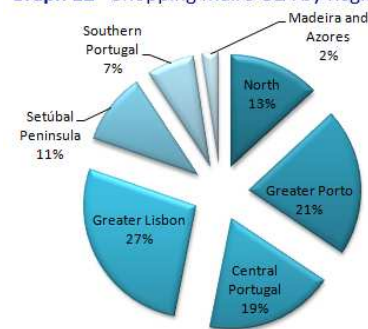
**Table 10 - Retailers per country in each sector**

Categories	Portugal	Spain
Fashion & Clothing	36	61
Consumer Electronics	26	26
Footwear & Leather	19	22
DIY & Gardening	5	16
Sports & Leisure	14	17
Books & Magazines	9	16
Optical	11	12

Source: Retail Index

***Worten, SportZone and Zippy are still very recent in Spanish market...***

Graph 12 - Shopping Mall's GLA by Regions (%)

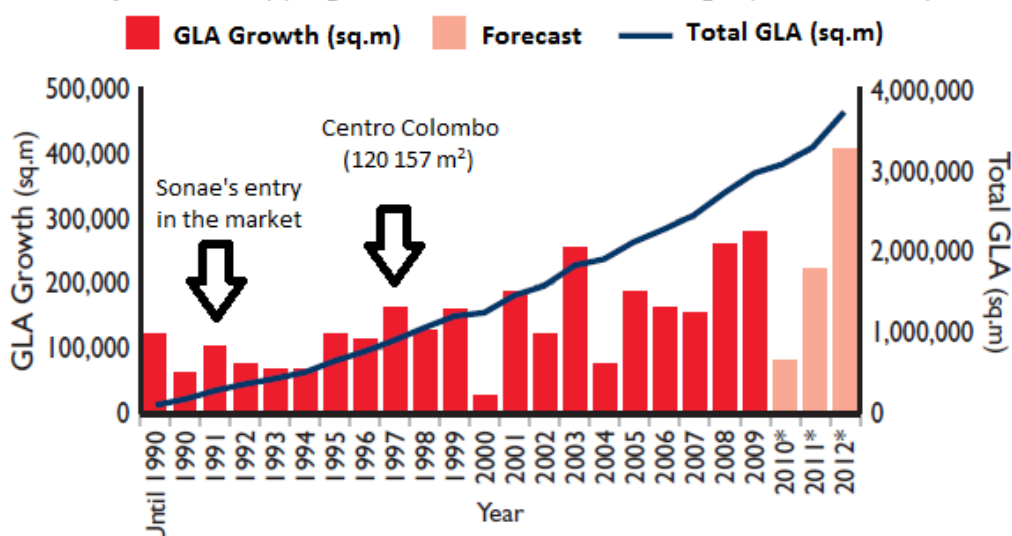


Source: Cushman & Wakefield

Shopping (1985) and Amadora's Commercial Centre (1987), that remain active nowadays, after some repairs and renovations.

The majority were located in the metropolitan areas of Lisbon and Oporto, but other areas were already being explored, such as Algarve and the autonomous regions. The shopping centres industry, nowadays, is more concerned with designing their projects in accordance to values such as quality, ambience, commercial mix, functional organization (architecture), as well as environmental issues.

Graph 13 - Shopping Centres Evolution in Portugal (1990-2012E)



Source: Cushman & Wakefield

Simultaneously, malls started to anchor themselves to distribution chains (mainly hyper and supermarkets), in order to attract more visitors.

Finally, a particular characteristic of the Portuguese market, that remained unchanged, is the persistency of the traditional commercial structure. Traditional markets are still active, and if in previous years there was a decreasing tendency, consulting agencies start to perceive an inversion, since malls are already saturated and there is a need for innovative formats. In fact, even though average rents are more expensive in street trading, shopping mall Gross Lettable Area (GLA)/1 000 people (that measures shopping mall density) is larger than EU average, despite the saturation and maturity levels; moreover, the occupancy rates of Sonae's malls are in the 90%-100% range. In this sense, we believe that Sonae will not anchor its growth in Portugal, besides the project already outlined (Centro Bordalo, for instance).

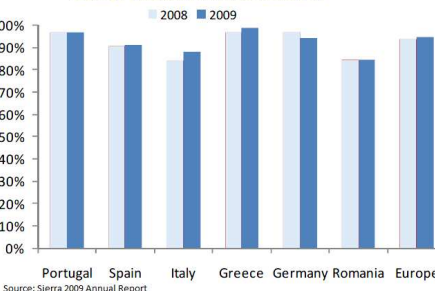
Nonetheless, it is important to point out that nowadays, and given the financial crisis that spread around the globe, industry development growth pace has slowed down. Even though the trend of early 2000's indicated a steady rapid

Table 11 - Prime Retail Rents in Portugal

Format	€/sq.m/mês
Shopping Centres	75
Retail Parks	10
High Street Trading – Lisbon (Chiado)	80
High Street Trading – Porto (Rua de Santa Catarina)	45

Source: Cushman & Wakefield, June 2009

Graph 14 - Occupancy Rates in Sierra Malls (%)



Source: Sierra 2009 Annual Report

growth, from late 2007 onwards, global economies started to decrease investment and this industry suffered a harsh reduction, especially due to increase in yields, devaluing real estate properties. We will refer again to this in **Valuation – Shopping Centres.**

## Do It Yourself (DIY) and Travel Agencies

The DIY industry in Portugal is recent, and was mainly developed with the entrance of AKI (Adeo group, since 2003) in the market. In 2004, AKI was already the undisputable leader of the segment, with 50% more turnover than MaxMat. In 2008, the group with higher sales volume was Moviflor<sup>5</sup> (185 M€), followed by AKI with less 4% in sales. Leroy Merlin (also from Adeo group), occupies the 3<sup>rd</sup> and the 4<sup>th</sup> place belongs to Sonae's MaxMat<sup>6</sup>, with a total amount of 89 M€ sales volume (and in the tail Mestre Maco has 23 M€). Taking this information into account, we believe that MaxMat will not be able to surpass its competitors, remaining fairly stable in the following years. Actually, Adeo group decided to heavily invest in Portuguese market, to reinforce its position and reach segment leadership, and that factor places MaxMat even further away. Nonetheless, we believe that MaxMax will continue to grow in stores and sales area to step up competition's moves.

Geostar is the most recent fusion in Sonae's universe (2008), joining Star and Geotur, indicating a strong will to grow in the travel agencies business. In order to analyse the sector, we based ourselves in Billing and Settlement Plan (BSP)<sup>7</sup>, and concluded that the market is highly concentrated. Actually, in 2004, the five main players accounted for already 43.60% market share, but from that date up until 2009, the top 5 gather already 60.2%. Top Atlântico (from Grupo Espírito Santo) is the leader, followed by Eloct (resultant from Eloair and HCT fusion), Abreu and Geostar. All the mentioned agencies now detain a double digit market share, and the 5<sup>th</sup> player (Atlântida) is the only with lower values. Moreover, the recent oil prices increase caused a relevant decrease in ticket sales (8.3% in 2009), and the development of low-cost travels. The first quarter of 2010, though, seem to be inverting the tendency, and gross sales increased by 7.3%. In this sense, we believe that Geostar will continue to grow, but unless there is another merger between players, we do not believe that Sonae's investment is going to reach the first two places (dethroning GES Viagens or Eloct).

**Table 12 - DIY Ranking (Turnover)**

	2008 (M€)	2008 vs. 2007
Moviflor	185	21,71%
Aki	177	7,93%
Leroy Merlin	129	34,38%
Maxmat	89	3,49%
Mestre Maco	66	-4,35%

Source: APED and Retail Index

**Table 13 - Production BSP  
Market Share Ranking**

2004	Agencies	2009
13.60%	ES Viagens	17.90%
11.56%	Abreu	11.50%
7.63%	Eloair	16.90%
5.44%	HCT	
5.38%	Star	10.60%
3.59%	Geotur	
3.55%	Worldtravel	-
2.47%	Wagonlit	-
2.31%	Atlântida	3.50%
1.52%	Escalatur	-

Source: BSP Portugal

<sup>5</sup> Although IKEA is the leader in sales volume (312 M€), we considered that its core business is not Bricolage, Decoration and Gardening, excluding the group from this ranking

<sup>6</sup> For future reference, whenever we refer to MaxMat, we are also including MaxGarden

<sup>7</sup> BSP include only transactions between travel agencies and airlines, excluding charter flight sales, low cost fares nor hotel and rent-a-car services

## Valuation

**We incorporated a defensive view...**

As an introductory note, we would like to point out that given the precarious economic situation, our analysis will incorporate a defensive view, and even though we predict growth, we will remain cautious and apprehensive regarding the nearest future. Moreover, Sonae is restructuring investment plans, in order to reduce debt levels, corroborating our view that aggressive expansion will be deferred in following years, or at least, will focus on priority investments.

Sonae, being a major player in Portuguese economy, is constantly analysing further investment opportunities and, in fact, recently, several projects were assumed to be under a detailed assessment (for instance, the entrance in Angolan market or Carrefour's exit from Portugal selling Minipreço's chain). Despite the reliability and eventual profitability, we will not incorporate those projects in our valuation, either because of events' uncertainty or insufficient information.

### Retail Forecasts

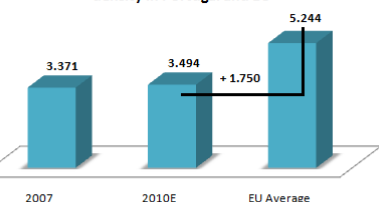
According to a study made by APED/Roland Berger, Portugal does not have a fully saturated market for hyper and supermarkets, when compared with the European average of stores density, and in order to achieve European figures, it would be necessary to open 112 hypermarkets and 1 750 supermarkets and discounters, decreasing the number of traditional stores in 12 527. Those numbers, however, are not likely to be achieved, since the main urban centres are already filled with retail stores, both food and non-food, and the more "empty" regions do not gather all requirements for such an investment, like low population density, low income levels, among others. On the other hand, the existent protectionism in relation with traditional commerce would not allow that more than twelve thousand shops were closed.

Retail is one of the more stable segments in the economy, since food and other consumer goods are the last to forego, conferring some protection to this sector. Finally, Portuguese retailers are still struggling against the existent law, which forces large-sized stores to close on Sunday's afternoon and holidays. The retail arguments that fully opening hours liberalization would help creating jobs, and improving stores performance.

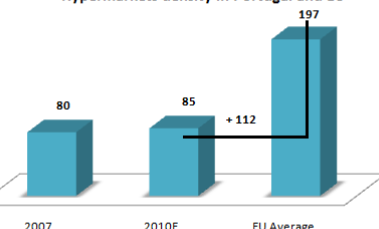
In the retail sector, Sonae is present in Spain and Portugal, and while some years ago the same analysis would have to be more meticulous nowadays the differences blurred and are no longer crucial. Portugal and Spain face, nowadays, the same problems and difficulties, and so we will only distinguish

**Graph 15 – Portugal vs. Europe**

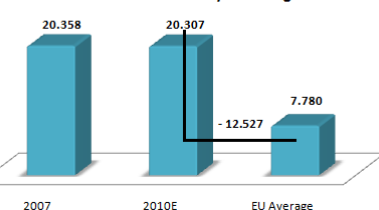
Supermarkets, Discounters and Convenience Stores density in Portugal and EU



Hypermarkets density in Portugal and EU



Traditional Stores density in Portugal and EU



Source: APED/Roland Berger

between the two countries in what concerns the different stages of Sonae's integration.

Concerning the two sub segments of Sonae's retail, we believe that the majority of the investment will be made in non-food retail, for the already mentioned reasons.

To make a thorough analysis of any segment, it is important to focus on value triggers to observe and estimate the most important inputs in such a complex company and, consequently, apply it in the valuation model. Therefore, we analysed the retail sector and identified the following value creating variables: **number of stores; sales area per n<sup>er</sup> of stores and turnover per square meter**. So, for each single format, we developed a demanding observation based on the three mentioned pillars, but also taking into account the development of the brand and its present stage.

#### ▪ Continente

Continente is the eldest of Sonae's brands and has reached some maturity and growth stabilization. In this status quo, not only the company assumes that growth in Continente number of stores will be residual, but also the market shows some saturation. The growth we considered is more related with commercial centres that Sonae Sierra develops in Portugal, rather than with "solo" openings. The sale area *per n<sup>er</sup>* of stores was based on 2009's value, as well as the turnover *per square meter*, given the same maturity argument.

#### ▪ Modelo

Modelo differs a lot from Continente since supermarkets are the preferred distribution chain in Portugal, followed by hypermarkets. Moreover, and given that they require smaller sales area, Sonae can consider profitable to bet in smaller urban regions (since the coastline is already filled with supermarkets). Therefore, we have estimated, for the referred range, 2009's similar growth figures (slow increase in the number of stores). Concerning sales area *per n<sup>er</sup>* of stores, we believe that it will suffer a slight decrease, given that small formats (Área Saúde and Book.it) are mainly present in Modelo's adjacent space. Turnover *per square meter* will remain equal to 2009's value, given the maturity of the brand.

#### ▪ Bom Bocado

Sonae started to bet in cafeterias some years ago, but only recently they created a brand, Bom Bocado, and invested on its development. Sonae disclosed its intention to open 31 new stores in 2010, but in the following years we believe this number will increase rapidly, since it is expectable that, in the future, each

**Table 14 - Continente Forecasts**

Continente	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	44	53	57
Sales Area	289000	348114	374386
Turnover ÷ sq.m	0,0054	0,0055	0,0055

Source: Nova Equity Research Estimates

**Table 15 - Modelo Forecasts**

Modelo	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	125	151	160
Sales Area	218000	256700	272000
Turnover ÷ sq.m	0,0067	0,0068	0,0068

Source: Nova Equity Research Estimates

**Table 16 - Bom Bocado Forecasts**

Bom Bocado	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	80	150	170
Sales Area	5000	9000	10200
Turnover ÷ sq.m	0,0037	0,0037	0,0037

Source: Nova Equity Research Estimates

Continente/Modelo has one cafeteria. The sales area *per n<sup>er</sup>* of stores will not suffer significant changes, resulting in stabilization of this format's turnover.

#### ▪ Área Saúde

Área Saúde was another opportunity Sonae decided to take advantage of, previous to 2006. This opportunity arose when the previous government approved pharmaceutical sector liberalization, making possible for supermarkets to sell non prescribed drugs. Área Saúde was the first retail pharmacy inserted in a food retail chain, and the business turned out to be very profitable, taking advantage of its location in supermarkets, where consumers go on a daily basis. So, and following past evolution, we expect the number of stores to increase intensively, as well as sales area *per n<sup>er</sup>* of stores, since the success opened new horizons for retail pharmacies: optical, aromatherapy and other dermatological products. Turnover *per square meter*, in the past suffered drastic oscillations, but from now on, it will experience an increasing trend, although in a smoother way, given the higher brand maturity and change in profit margins.

**Table 17 - Área Saúde Forecasts**

Área Saúde	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	115	160	170
Sales Area	11000	15304	16261
Turnover ÷ sq.m	0,0047	0,0050	0,0050

Source: Nova Equity Research Estimates

#### ▪ Book.it

Book.it opened its first store in 2007, being also a new concept develop by Sonae, embracing books, stationery and tobacco. Like Área Saúde, its location is near a Continente/Modelo, trying to benefit from cross-selling. Sonae, in the beginning of the year assumed that, in 2010, the insignia would open fourteen new stores, and we consider that, just like Bom Bocado and Área Saúde, that number will maintain the fast pace, tripling the number until 2015. Sales area *per n<sup>er</sup>* store will remain the same, as well as turnover *per square meter*.

**Table 18 - Book.it Forecasts**

Book.it	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	14	60	80
Sales Area	5000	18000	24000
Turnover ÷ sq.m	0,0010	0,0010	0,0010

Source: Nova Equity Research Estimates

#### ▪ Worten

**Portugal:** Using the same maturity argument, we expect the number of stores to maintain the growth rhythm, while the sales area *per n<sup>er</sup>* of stores will stay constant. The turnover *per square meter* is expected to remain stable or increase slightly.

**Spain:** Given the recent move into the neighbour country, it is expectable that Sonae invests aggressively on Worten, trying to reach the same leadership position in Spanish electronics sector, dominated by Sinersis with 10% market share. Therefore, we believe that the number of stores will increase rapidly. However, estimated sales area *per n<sup>er</sup>* of stores will decrease in the future, since with higher brand maturity that value usually decreases, just like the case of Worten in Portugal. In fact, we consider that in the long-run Worten's sales area will be the same in both countries.

**Table 19 - Worten Forecasts**

Worten	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	132	160	174
Sales Area	113000	136970	148955
Turnover ÷ sq.m	0,0055	0,0055	0,0056

Source: Nova Equity Research Estimates

Worten	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	14	42	54
Sales Area	34000	73500	94500
Turnover ÷ sq.m	0,0026	0,0055	0,0055

Source: Nova Equity Research Estimates

- Worten Mobile

Table 20 - Worten Mobile Forecasts

Worten Mobile	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>ef</sup> Stores	48	76	90
Sales Area	1000	1583	1875
Turnover ÷ sq.m	0,0150	0,01515	0,0153

Source: Nova Equity Research Estimates

Worten Mobile is a branch of Worten, specialized in telecommunications sector, usually located on the same space as Worten, or on a nearby supermarkets' space. Therefore, there is plenty of room for Worten Mobile to grow, however we believe this growth will be made in a quite smooth way, since it requires a bigger investment. Sales area *per n<sup>ef</sup>* of stores has been declining, however it is expectable some stabilization at 2009's level, as well as turnover *per square meter*.

- Vobis

Table 21 - Vobis Forecasts

Vobis	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>ef</sup> Stores	17	14	14
Sales Area	8000	6588	6588
Turnover ÷ sq.m	0,0056	0,0047	0,0047

Source: Nova Equity Research Estimates

Vobis is other distribution format, focusing in electronics and technology. Although the target and objectives diverge between Vobis and Worten, those concepts compete one with each other, and that competition might lead to a merger between Worten and Vobis, in the future (this subject will be further analyzed in **Other Relevant Issues** – Worten & Vobis case). Concerning the number of stores, we consider that it will suffer a slightly decrease, just like the sales area *per n<sup>ef</sup>* of stores, and turnover *per square meter*. These predictions are aligned with Sonae's previous actions, since all the figures have been declining, signalling the need for a structural change in the brand.

- Sportzone

Table 21 - SportZone Forecasts

SportZone	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>ef</sup> Stores	75	123	146
Sales Area	61000	104550	124100
Turnover ÷ sq.m	0,0026	0,0033	0,0033

Source: Nova Equity Research Estimates

**Portugal:** Sportzone was created ten years ago and is the current leader in sport retail. That strong positioning in the market is the fundamental under our assumption that Sonae will continue to invest in these concept, increasing the number of stores. Sales area *per n<sup>ef</sup>* of stores has been rising, and we assumed that same tendency. Turnover *per square meter*, however, will maintain stable.

**Spain:** Sonae disclosed the objective of twenty-five new Sportzone stores in 2010, and we kept that aggressive approach for the following years, betting on know-how transference from Portugal to Spain. As referred in Worten Spain, we believe that as the brand is integrated in the market, the sales area *per n<sup>ef</sup>* of stores will stabilize, as well as the turnover *per square meter*.

- Loop

Table 23 - Loop Forecasts

Loop	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>ef</sup> Stores	11	50	70
Sales Area	2000	8500	132
Turnover ÷ sq.m	0,0025	0,0025	1,21

Source: Nova Equity Research Estimates

Loop is the most recent move in the specialized retail segment (2008) and consists in a modern and informal footwear space, focused in urban and dynamic people target. It gathers several known and recognized brands (Nike, Cat, Fly London, among others), and also their own private brand, betting more on quality rather than accessible prices. Since it was launched in 2008, the available data is insufficient to fully understand Loop's reality. Total number of stores will certainly increase in a very intensive way, but in order to estimate the remaining items, we

compared it with Modalfa's case. Sales area *per n<sup>er</sup>* of stores will diminish a bit, stabilizing in the future, while turnover *per square meter* will grow progressively.

- Modalfa

**Table 24 - Modalfa Forecasts**

Modalfa	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	99	133	145
Sales Area	51000	79800	87000
Turnover ÷ sq.m	0,0023	0,0024	0,0024

Source: Nova Equity Research Estimates

Modalfa is the eldest brand of specialized retail, and the most mature one.

However, it has recently experienced a boom in sales and stores opened. Therefore, and following that trend, we expect the number of stores to increase, as well as sales *per n<sup>er</sup>* of stores, leading to a higher turnover *per square meter*.

- Zippy

**Table 25 - Zippy Forecasts**

Zippy	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	34	54	64
Sales Area	12000	21600	25600
Turnover ÷ sq.m	0,0024	0,0024	0,002425

Source: Nova Equity Research Estimates

**Portugal:** Zippy focuses in kids clothing, and, even though it was created in 2004, only in recent years became known. The number of stores will continue to increase, although in a steadier pace, just like sales area *per n<sup>er</sup>* of stores. Turnover *per square meter* will remain equal to 2009 value.

**Spain:** This format was the most recent to be internationalized (2009), and once again the information available is not sufficient to make a precise analysis. Given that in the first year, however, the numbers did not differ a lot from the Portuguese ones, we believe that Zippy was well integrated in the market and the number of stores will increase. Concerning sales area *per n<sup>er</sup>* of stores and turnover *per square meter*, we assumed last year's value, since it is already at the Portuguese level and we do not expect higher values.

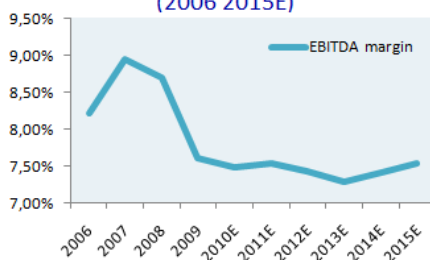
According to company's guidelines, the expansion plans should be similar to those made on 2009, for both countries. Moreover, until 2012, Sonae disclosed the ambitious target of one million square meters of sales area (58% from food retail and the remaining from specialized area). Finally, Sonae intends to have 25% of its sales coming from Spain by 2012. Our analysis concluded that the three objectives are perfectly attainable, and, in fact, we expect that Spanish sales will represent 27.33% of specialized retail.

## EBITDA Margin

First of all, it is important to say that Sonae does not provide detailed information *per format* besides turnover, and therefore, we will not be able to evaluate each format's EBITDA margin.

In the past years, EBITDA margins were rising and in 2007 they reached a 8.95% peak, according to company's data. However, in 2008, the margin suffered a slight decrease, possibly due to the severe macroeconomic situation, the acquisition of Carrefour hypermarkets and all the efforts to retain the leadership position. Moreover, the Spanish investment was contributing with negative EBITDA results. With the aggravation of the crisis, and the integration of ex-Carrefour stores, it was expectable that EBITDA margins decreased even more,

**Graph 16 - EBITDA margin % (2006 2015E)**



Source: Company Data and Nova Equity Research

and the year of 2009, showed that decrease of margin value to 7.62%. Those results demonstrated a significant decrease in the margin, which we consider to be extensible to the following years, due to the slow recovery process, in which there will be a pressure in prices and Sonae, like other groups, will decrease their EBITDA margin until full recovery is achieved. According to our expectations, that turning point will be in 2013, but the increase will be progressive and will not fully recover to the initial figures (the ones prior to the crisis).

## DIY and Travel Agencies Forecasts and Others

In order to analyse our expectations related with the two sub-segments, we used a similar method than the one used for retail forecasts, analysing MaxMat and GeoStar using **number of stores; sales area per n<sup>er</sup> of stores and turnover per square meter**.

### ▪ MaxMat and GeoStar

MaxMat and GeoStar were the only Sonae brands that had decreasing performances in the last years, and similarly to the case of Vobis we believe that the company felt the necessity to rethink the strategy of those formats (recall that the fusion GeoStar occurred in 2008). For the future, though, we bet on an increase in the number of stores (especially for MaxMat, since GeoStar has already 70 stores, when the leader in travel agencies segment has only 55), in sales *per n<sup>er</sup>* of stores and turnover *per square meter* for both concepts, to step up for direct competitors.

### ▪ Petrol Stations and Retail Properties

The mentioned Sonae's sub segments are the ones where the lack of information is greater, since Sonae's petrol stations are explored by Galp Energia and retail properties are recent in the firm's structure. In this sense, and given the relative lower importance of these activities, we adjusted future petrol stations income with inflation provisions, while retail properties income was computed taking into account the increase in asset portfolio and changes in rent actualizations (in 2010, rent indexation will be zero, for instance).

## Capital Expenditures

CapEx, just like EBITDA margins, is not disclosed *per format*, but the company said that they incur in a 3 000 € costs *per each square meter*. Therefore, in order to calculate retail total CapEx, we just need to multiply the new sales area for that value. The same logic was applied to Investment Management areas.

Table 26 - MaxMat Forecasts

MaxMat	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	35	43	47
Sales Area	63000	75541	82568
Turnover ÷ sq.m	0,0011	0,0013	0,0013

Source: Nova Equity Research Estimates

Table 27 - GeoStar Forecasts

GeoStar	2009	2013 <sup>E</sup>	2015 <sup>E</sup>
N <sup>er</sup> Stores	70	77	77
Sales Area	4000	4400	4400
Turnover ÷ sq.m	0,0243	0,0299	0,0013

Source: Nova Equity Research Estimates

**Table 28 - Retail CapEx Forecasts**

CapEx	2009	2010 <sup>E</sup>	2011 <sup>E</sup>	2012 <sup>E</sup>	2013 <sup>E</sup>	2014 <sup>E</sup>	2015 <sup>E</sup>
Sonae MC	108,00	115,68	77,19	87,34	77,14	77,14	72,04
Sonae SR	105,00	116,24	76,70	70,91	70,91	70,91	68,36
IM	-6,00	6,34	10,88	10,88	10,71	10,54	10,54
Total	207,00	238,26	164,77	169,14	158,77	158,60	150,95

Source: Nova Equity Research Estimates

## Shopping Centres Forecasts

Shopping centres evaluation must be based on the following key value triggers: number of shopping centres and rent's evolution. The case of Sonae Sierra, however, is a bit different, since Sierra claims to be only a specialist in shopping centres, with management skills, but looking at the real situation, we can observe that it possesses the real estate as well. Most of the times, Sierra is not only responsible for the initial steps (choosing location, the architecture, among others), but also for the construction process and they actually own a part of the building. Moreover, when looking at 2009 consolidated figures, we observe that Sierra Management contributed with 3.03% of total Net Operating Margin, being the major part from Sierra Investments. In this sense, we believe that, although they are specialists in managing shopping centres, the majority of the value comes from the properties.

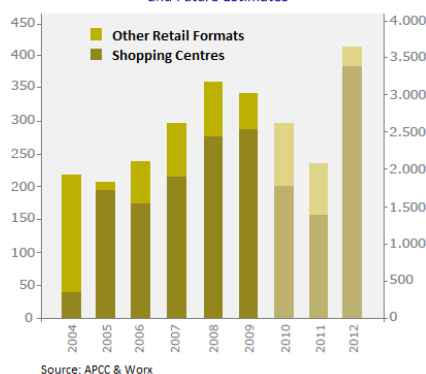
In our analysis, we considered Sierra's NAV, based on yields estimations made by Cushman & Wakefield, updated for 1<sup>st</sup> Quarter 2010.

**Table 29 - Sierra's NAV in March 2010**

Sonae Sierra	March 2010
NAV (Consolidated Balance Sheet)	982,24
Fair Value of Develop. Properties	14,505
Deferred Taxes in Properties	223,698
Goodwill (Deferred Taxes)	-37,932
Transaction Costs	25,089
<b>NAV</b>	<b>1207,6</b>

Source: Company Quarterly Results

This NAV reflects an adjusted net asset value (discounting liabilities), where real estate is being evaluated based on market values, the value that they would receive in case of an eventual sale. Therefore, we are assuming that Sonae Sierra would receive 1 207.6 M€ if they were to sell every property. This evaluation, though, is unrealistic, as it is not expectable that Sonae divest totally. Even if they wanted to do so, it would raise liquidity issues, since it would be

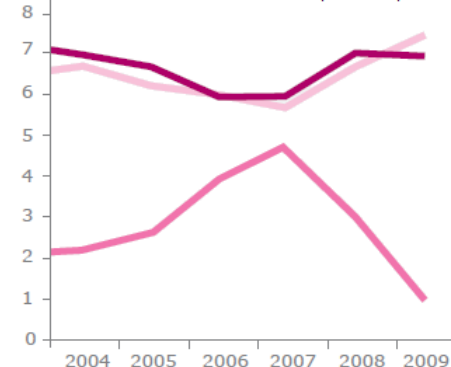
**Graph 17 - GLA Growth (04-09) and Future Estimates**

Source: APCC &amp; Worx

**Graph 18 - Prime Yields Evolution vs. ECB Interest Rates**

Interest Rates

- Offices
- Retail
- Euribor (6 months)



Source: Worx &amp; Banco de Portugal

extremely difficult for any investor to conduct an acquisition operation in the current worldwide poor economic performance and financial conditions. On the other hand, we believe that in the future, yields will continue to grow (in the first quarter of 2010, only Portugal suffered a further increase in yields), appreciating Sonae's real estate value.

Since consolidated figures require Sierra's input, we performed our forecasts in a similar way of historical consolidations.

Our initial step was to forecast revenues, based on the rents. We calculated the average value of shopping centre's rent *per country* (variable, fixed, and other common costs), taking into account company's guidelines in terms of new projects and its opening dates. We further assumed that each project will open in the beginning of the year, and, then, added the new rents from pipeline malls. Afterwards 2013, we established a 3% growth rate, since we consider that there is still room for Sierra expansion, primarily in Brazil. In fact, Portugal occupies the 11<sup>th</sup> place in the rank of shopping centres GLA/1 000 population, above European average. Spain and Italy are also giving some sign of saturation, while Romania and Greece are in the ranking tale. The macroeconomic situation, however, make us believe in a predominant expansion overseas, in Brazil, since European countries and economies went under deeper difficulties when facing the most recent economical and financial crisis. We also believe that the new projects will be partnerships, most likely joint-ventures, where Sonae enters with structuring and managing know-how, and partners enter with capital. This solution complies with the company's desire of reducing investment.

Sonae Sierra Brazil (Sierra subsidiary), in 2009, filed a "request for registration of a preliminary prospectus, for a possible public offer for the sale of its shares" (Sonae 2009 Annual Report), reinforcing our expectation of intensive developments in the Brazilian market. Although it is still early to conclude about that possibility, the fact that there is already a preliminary report (with Credit Suisse and Itaú/BBA banks) makes us believe that there is a strong determination in Sierra action.

## DCF Assumptions

In order to discount free cash flows from Retail operations, we applied Weighted Average Cost of Capital (WACC). The mentioned discount rate demands for several other assumptions and computations. The first one was cost of equity, and this value was derived through Capital Asset Pricing Model (CAPM). CAPM requires three different inputs: risk-free rate, levered beta and market premium. We assumed a 10-year German bond as risk-free, and used its last quotation (June 4). Beta was computed using comparables analysis of their levered betas

**Table 30 - Sierra's Pipeline (2011E-2013E)**

Pipeline	Date	Country
Le Terrazze	2011	Italy
Uberlândia	2011	Brazil
Centro Bordalo	2012	Portugal
Star Dome	2012	Greece
Adora Mall	2012	Romania
Parklake Plaza	2012	Romania
Boulevard Londrina	2012	Brazil
Passeio das Águas	2012	Brazil
Mitte Garbsen	2013	Germany
Ioannina	2013	Greece
Ploiesti	2013	Romania

Source: Company Data and Equity Research Team

***IPO in Brazil is a possibility...***

**Table 31 - Retail Discount Rate**

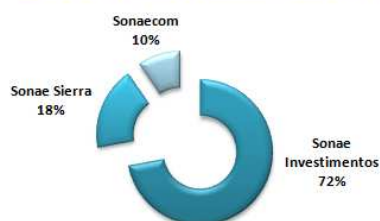
Retail Discount Rate	
Cost of Debt	6,08%
Cost of Equity	8,63%
Beta	1,12
Risk-free (G10Y)	2,58%
Market Premium	5,40%
Tax Rate	27,50%
D/EV	50%
D/E	100%
<b>WACC</b>	<b>6,52%</b>
<b>Growth Rate</b>	<b>1,00%</b>

Source: Nova Equity Research Team

that were then unlevered to adjust them to our debt-equity ratio. We considered a 5.4% of market premium, using Damodaran methodology, that combines bond ratings and default spreads adjusted for a country specific risk. Sonae's cost of debt was computed using the risk-free rate with a spread related with firm's rating that, once more, was computed using Damodaran interest coverage ratio approach. Since that ratio is between 5.38 and 2.75 in historical years, we used the average value, leading us to a BB<sup>+</sup> rating. Debt-to-equity ratio was computed using both historical and future expectations. In 2009, debt-to-equity was approximately 130%, indicating a decreasing trend that is further intensified, considering our conservative approach in CapEx value. Therefore, we believe that debt-to-equity ratio in 2019 (last year of our analysis) will be 100%. In tax rate assumption we confirmed our conservative approach, since we assumed the increase in Income Tax Rate, announced by government. Finally, terminal growth rate (TGR) applied to retail segment takes in account the markets where Sonae operates, and given that both Portugal and Spain are converging to a saturated market, we assumed a 1% TGR.

## Sum-of-Parts

After all our assumptions and computations were developed, including Retail and Sonaecom<sup>8</sup> DCFs, Sierra's Net Asset Value (NAV), we valued Sonae SGPS using a Sum-of-Parts method, where the its Enterprise Value is simply the value of each segment multiplied for the owned stake. Finally, we also considered a 5% holding discount, and our reasons behind that are further analysed in **Other Relevant Issues – Holding Discount**.

**Graph 19 - Segments contribution to Sonae EV**

Source: Company Data and Nova Equity Research Estimates

**Table 32 - Sonae SGPS Final Share Price**

	Enterprise Value (M€)	Sonae Stake (%)	EV attributable to Sonae	% of Total	Valuation Method
Sonae Investimentos	2379	100%	2378,55	71,70%	DCF
Sonae Sierra	1207	50%	603,50	18,19%	NAV
Sonaecom	633	53%	335,23	10,11%	DCF
<b>Sonae SGPS Total Value</b>			<b>3317,28</b>		
FY10 Net Holding Debt			515,00		
<b>Total Equity</b>			<b>2.802,28</b>		
# of shares			2000		
Share Price			1,40		
<b>Final Share Price*</b>			<b>1,33</b>		

Source: Company Data and Nova Equity Research Estimates

<sup>8</sup> See Equity Research – Sonaecom

## Comparables

An analysis like this, should always include peer comparison, to better understand how the company differs from its peers. Peers determination, however, is more difficult, since there is no firm exactly like Sonae SGPS, with a retail, shopping centres and telecommunications branches. Therefore, and since the majority of Sonae's EV comes from the retail segment, we analyzed the following retail firms:

**Table 33 - Comparables Analysis**

	EPS		P/E		EV/EBITDA	
	10 <sup>E</sup>	11 <sup>E</sup>	10 <sup>E</sup>	11 <sup>E</sup>	10 <sup>E</sup>	11 <sup>E</sup>
Sonae SGPS	0,06	0,07	21,3	19,2	5,20	4,98
Tesco	0,34	0,38	14,7	13,3	9,6	8,7
Carrefour	2,33	2,78	16,5	13,8	8	7,3
Metro	2,85	3,51	15,8	12,8	5,4	4,9
Ahold	0,84	0,93	12	10,8	6	5,7
Casino	5,09	5,72	12,8	11,4	6,6	6,2
Sainsbury	0,26	0,28	15,1	14	7,2	6,7
Delhaize	5,37	5,83	11,5	10,6	5,6	5,3
Morrison	0,22	0,26	14,7	12,8	7,9	7,1
Colruyt	10,3	11,24	17,9	16,4	10,1	9,3

Source: Bloomberg and Nova Equity Research

Peer group comparison showed that Sonae has the lowest Earnings *per Share*, and also has the highest Price-Earnings ratio, indicating that investors expect a higher earnings growth in the future. The low EV / EBITDA, when compared to its peers, might also indicate that Sonae is undervalued in the market, and that its intrinsic value is higher. These conclusions, however, are likely to be biased by the presence of other segments.

## Sensitivity Analysis

In order to finish our study about Sonae SGPS, we considered of utmost relevance to include a sensitivity analysis, over the more crucial assumptions, and where there is higher probability to occur changes in the following nine years (estimation period). The final objective is to analyze how those changes influence 2010 *per share* price target of Sonae SGPS.

On one hand we vary internal aspects, like turnover, holding net debt and holding discount, by 10%, and as expected, the holding discount (0.21 € variation) and turnover (0.17€) showed its major influence over price target.

On the other hand, the external variables (risk-free, cost of debt, cost of equity, among others) were also taken into consideration, since there are several perspectives and approaches to compute those WACC inputs. We also vary WACC in 1%, and, as expected, the discount rate was the most influential

variable. As a final analysis, we also did a 5% and 10% variation in each of Sonae's segments, and, not surprisingly, Sonae Investimentos, given its weight in Sonae's structure was the one varied the most.

**Table 34 - Sensitivity Analysis of several variables**

	-1%	Actual Value	1%		-10%	Actual Value	10%
WACC	1,54	1,33	1,17	FY10 Net Holding Debt	1,35	1,33	1,3
Cost of Debt	1,39	1,33	1,26	Holding Discount	1,53	1,33	1,25
Cost of Equity	1,42	1,33	1,24	Total Revenues (2015E)	1,17	1,33	1,48
Risk-free	1,42	1,33	1,24				
Market Premium	1,43	1,33	1,23				

	-10%	-5%	Actual Value	5%	10%
S. Investimentos	1,21	1,27	1,33	1,38	1,44
Sonae Sierra	1,29	1,31	1,33	1,34	1,35
Sonaeacom	1,31	1,32	1,33	1,33	1,34

Source: Nova Equity Research Estimates

## Other relevant issues

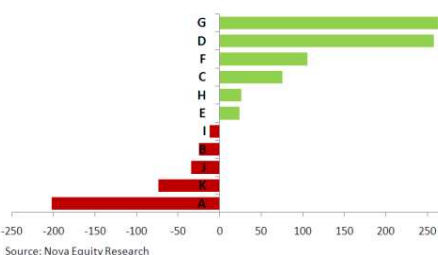
### Telecommunications

Sonaeacom is the third segment in Sonae SGPS structure, and the other core partnership, aside from Sierra. We believe that Sonae SGPS no longer has interest in keeping Sonaeacom on its portfolio, since the company is already listed (while the rest of the subsidiaries were taken off the market) in PSI-20, starts demonstrating some independency in relation with the parent company and is pulling back holding's performance. Actually, we believe that Sonae is looking for an alternative, either a spin-off, or a merger/sale. In the last year several news pointed to a merger between Sonaeacom and Zon Multimédia (and Sonae's interest was made public), but the recent Telefonica bid for PT's Brazilian market leader operator Vivo, revolutionized the entire market.

On one hand, and according to the valuation made by Equity Research Team<sup>9</sup>, there are synergies associated with the fusion. The relation between Belmiro group and Zon shareholder's (the same as PT ones), though, is not privileged since the takeover attempt that Sonae launched over PT. The entrance of Angolan Isabel dos Santos might alleviate the tension and open the doors to the profitable merger.

On the other hand, in the likely case of Vivo's sale, PT will have to invest the money in new operations, and a fusion between PT and Sonaeacom is a possibility. Autoridade da Concorrência (competition authority), at the time of public offer, authorized the whole operation, imposing some conditions only, making us believe that, once again, the fusion would be granted. PT can also

**Graph 20 - Negative and Positive Synergies of the M&A (M€)**



Source: Nova Equity Research

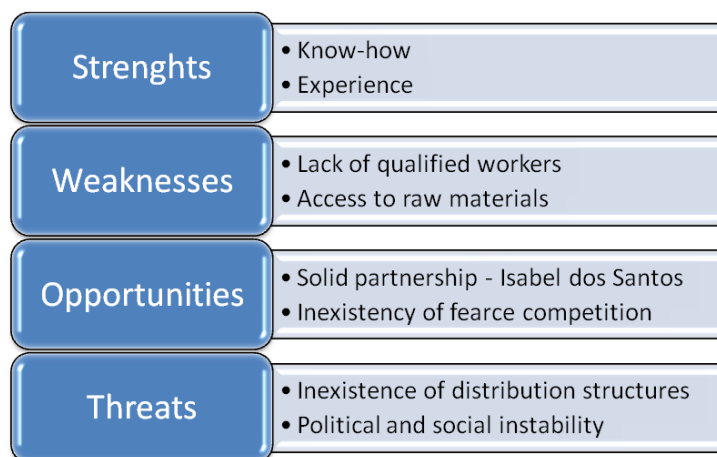
<sup>9</sup> See Equity Research – Zon/Sonaeacom

continue in the Brazilian telecommunication market, and some analysts point out that OI (4<sup>th</sup> biggest player) is their favorite target.

## Entering Angola

Sonae SGPS, in 2009, changed the internal structure, affirming that Sonae MC and SR were its core business, and revealed that investing in foreign countries (besides Spain) was aligned with its objectives. Angola, given the close relationship with Portugal, the cultural and linguistic similarities, and signs of economic and social progress, became an interesting market. In the presentation of FY 09 results, CEO Paulo Azevedo, admitted that Angola was a great opportunity to expand Sonae's retail, in the sense that both Angola and Sonae (as well as the local partner) would benefit from a future implementation of food retail distribution chain. In order to analyse a possible agreement, we decided to do a SWOT analysis, since we can not estimate the investment and future results.

Figure 7 - SWOT analysis of Angola Market



Source: Nova Equity Research

This qualitative analysis reflects the main characteristics of such a deal. On one hand, Sonae gathers all the capacities and know-how to produce, in Angola, what the group developed in Portugal (and more recently in Spain), and has also the experience of a failure investment (Brazil distribution chain). Moreover, it can take advantage of a "virgin" market, in which there is competition, but not at the levels Sonae is used to, nor the market is saturated, there is still room for new investors. In fact, "Nosso Super" is the major retail chain in Angola, and in the last years started to improve the retail segment by creating twenty-seven supermarkets spread over the country, betting on national products.

On the other hand, Angola is still very limited in infrastructures, and even though having some of the needed means, they still have to be completed and developed. Angolan government developed a program, PRESILD, in 2004, with the commitment to produce strategic changes such as actualization of legal

Table 35 - Nosso Super Indicators

Nosso Super	2008
N <sup>o</sup> of stores	27
Turnover M\$	139,966
Exchange Rate \$/€	1,22
Turnover M€	116,96
National Products	28,50%

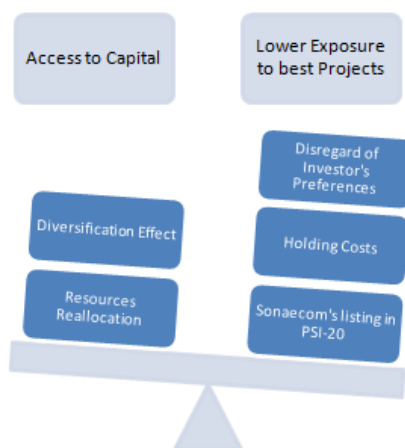
Source: Direcção Nacional do Comércio Angolano

framework, construction of new infrastructures and financial/fiscal incentives to retailers. That program was implemented, but there are several voices against it, claiming that the offer of essential products, with fair prices is not a reality in Angola. Moreover, the ally Isabel dos Santos grants some political trustability, but yet, Sonae must establish further agreements to avoid future problems, namely against nationalizations, or lack of political support. In addition, Angola does not have the talent needed to such project, forcing the “import” of qualified workers. Finally, PRESILD’s spokesman announced that if Sonae intends to occupy Nosso Super, it will have to wait until 2012, the time period of PRESILD’s implementation program in that retail chain.

The above mentioned aspects shall be considered and analysed in order to decide whether Angola’s venture will create value for investors.

## Holding Discount

**Graph 21 - Pros & Cons of being a Holding**



Source: Equity Research Team

***We believe that a Holding Discount must be added...***

There is an important question when evaluating holding companies, related with the known “holding discount/premium”. To do so, we made a benefit/costs of being holding based on the paper “Why do holding companies trade at a discount – a clinical study”<sup>10</sup>. On one hand, Sonae SGPS has some benefits of being a holding, in the sense that its relevant position and name in the market (major private group in Portugal) allows for a easiest and, probably at a lower price, access to capital, and subsidiaries share stocks can also be given as collateral in debt financing. In addition, inside of a holding company it is easier to reallocate resource, like in the case of the divestiture of Sonae Distribuição Brazil, which part of the money was reallocated in Portuguese market expansion. In fact, the relation between subsidiaries is privileged being part of a holding company, and for instance, we observe that Optimus is the mobile operator of all subsidiaries. There is also a higher control effect in a subsidiary-parent relationship than in simple partnership, since the hierarchy allows for a final parent decision. Finally, investing in a portfolio of different businesses allows for diversification effect, compensating the volatility in each individual business/smoothing businesses oscillations.

On the other hand, the diversification argument might be ambiguous, since investors can diversified their investments individually, without being subject to the segments that Sonae operates. In fact, investor preferences are a relevant issue, since investing in Sonae implies a Sonaecom share, that is also listed in PSI-20, and some investors might want to invest only in retail and shopping malls businesses. In case of sale, it is certainly more difficult to sell Sonae SGPS than each one of the subsidiaries (in theoretical terms, because we do not believe in

<sup>10</sup> Rommens, An, Deloof, Marc and Jegers, Marc, (2004), “Why do Holding Companies Trade at a Discount? A Clinical Study”

that scenario). Moreover, the integration of the subsidiaries implies several holding costs.

In the end, we consider that the market perceives Sonae SGPS as a “pure” holding (although they try to deny it, Sonae depends on subsidiaries operations only), and the capital access benefit alone does not offset the losses that being a holding entails to the more profitable businesses.

### Internationalization of new formats

In 2008, Sonae internationalized two of its eldest and successful non-food concepts: Sportzone and Worten. Sportzone entry in Spanish market was made organically, opening in a shopping centre, and all other Sportzones were implemented in the same way. In the case of Worten, to execute that expansionist plan, Sonae bought other existent chain, reducing initial investment and saving construction time. Considering the internationalization of further concepts, it might seem plausible to believe that Sonae will adopt the same method, based on Mergers and Acquisitions (M&A). Actually, the 2010 strategic reorganization structured a new area, Investment Management, with the objective of managing the existent investments, but also assumed to have a strong component of M&A operations. This new sub-segment is probably more focused in Spanish operations, rather than national ones, since in Portugal, Sonae took advantage of shopping centers and other commercial areas (Continente, etc) to implement their stores, which is not practicable in Spain.

Concerning the entrance of new formats, Sonae put aside the idea of Loop internationalization, however, that seems to be the most differentiated concept developed and the one that can easily match Spanish consumers preferences. As previously mentioned, Loop differentiates from other footwear chains for the innovative and modern style, as well as a wide range of brands with great awareness in the market, betting on a cosmopolitan target. Given the current Spanish crisis, and Sonae’s investment reduction, however, that expansion plan might be compromised or, at least, postponed.

### Worten & Vobis case

Worten is the leader brand of non-food retail market, and is specialist in electrical and consumer electronics, while Sonae considers that Vobis encompasses technology only. There is an overlap, however, in products range, since Worten has also a technological department, creating some competition. Sonae SR seemed to understand the problem, and its actions in the last couple of years might indict a probable merge between the two brands, since from 2006 to 2007 the investment in Vobis remained stable, but in 2008/09 the number of stores and turnover started declining. There is an evident issue, though, related with

***Sonae would expand through M & A...***

***Loop will not enter, according to Sonae...***

***Vobis, in a case of a merger, will be the sacrificed insignia...***

turnover *per square meter*, since Vobis has a higher value in that variable than Worten (although 2009 figures are very similar, and that difference is also due to Vobis smaller sales area). The fusion could be seen as a nonsense if we look only at the numbers, however, it can also be argued that Vobis is an extra cost that Sonae has to bear, since the overlap part of the sales area is redundant with the one of Worten's. Furthermore, Worten is the most recognized brand in Sonae's specialized retail portfolio (number one in market share), and that good performance, consequently, can grant Sonae higher turnover, that could not be achieved with Vobis brand.

### Minipreço Opportunity

In last April, *Le Figaro* published an article affirming that the French group Carrefour was looking for a opportunity to sell "Minipreço" chain, in Portugal. As a reaction to the sale proposal, it was argued that the main interested were Sonae (that in 2007 bought Carrefour hypermarkets) and Jerónimo Martins, since they are the main players in modern distribution and do not want to lose market share. In quantitative terms, such a business, at the light of the assumed "capital light" expansion could generate a liquidity issue, that could demand an increase in equity. But in strategic terms, it would be a very interesting opportunity since the majority of Sonae food retail stores are located in city's outer skirts while Minipreço stores are mainly located in urban centres. Moreover, it reinforce its leader position and would gain even more brand awareness (struggling against Jerónimo Martins fiercest marketing campaign). Finally, they could easily achieve the one million of square meters objective (established by Sonae SGPS). In the end, however, we do not believe that Sonae will buy Minipreço chain, given the high level of company's debt and because we do not believe that J. Martins is going to buy Carrefour's position, voiding the loss of market share argument. Although J. Martins has a higher financial flexibility, the integration of the stores would not be easy since there is an overlap in stores location (for instance, in Lisbon, some Minipreço stores are nearby Modelo and Pingo Doce ones). Therefore, we predict an entrance of a foreign competitor (like Mercadona, that assumed to be interested in Portuguese food-retail market) rather than a market consolidation.

***Sonae, Jerónimo Martins, Auchan and Lidl can take advantage of Minipreço's sale***

***We do not believe in this acquisition...***

## Financials

Sonae Income Statement	2008	2009	2010 <sup>E</sup>	2011 <sup>E</sup>	2012 <sup>E</sup>	2013 <sup>E</sup>	2014 <sup>E</sup>	2015 <sup>E</sup>	2019 <sup>E</sup>
Turnover	5.353	5.665	6.159	6.615	6.932	7.250	7.570	7.901	8.658
COGS	(3.304)	(3.581)	(4.020)	(4.373)	(4.601)	(4.835)	(5.063)	(5.292)	(5.724)
Personnel costs	(612)	(655)	(673)	(684)	(701)	(721)	(724)	(727)	(741)
D & A	(274)	(294)	(293)	(297)	(300)	(301)	(303)	(304)	(306)
Provisions	(036)	(028)	(006)	(006)	(006)	(006)	(006)	(006)	006
EBITDA Margin	9%	9%	10%	10%	10%	10%	11%	11%	14%
Net Financing Income	(174)	(123)	(190)	(195)	(197)	(197)	(194)	(193)	(212)
<b>EBT</b>	<b>026</b>	<b>085</b>	<b>125</b>	<b>180</b>	<b>213</b>	<b>252</b>	<b>322</b>	<b>398</b>	<b>683</b>
Income Tax	013	(012)	(034)	(049)	(059)	(063)	(080)	(099)	(171)
<b>Consolidated Net Profit</b>	<b>039</b>	<b>074</b>	<b>090</b>	<b>130</b>	<b>155</b>	<b>189</b>	<b>241</b>	<b>298</b>	<b>512</b>

Sonae Balance Sheet	2008	2009	2010 <sup>E</sup>	2011 <sup>E</sup>	2012 <sup>E</sup>	2013 <sup>E</sup>	2014 <sup>E</sup>	2015 <sup>E</sup>	2019 <sup>E</sup>
Tangible assets	2.508	2.781	2.618	2.654	2.692	2.718	2.742	2.757	2.826
Intangible assets	440	440	440	445	449	452	455	456	469
Investment properties	1.842	1.796	1.963	2.003	2.015	2.038	2.040	2.065	2.073
Other Non Current Assets	1.081	1.091	1.097	1.137	1.164	1.201	1.241	1.283	1.301
<b>Non current assets</b>	<b>5.871</b>	<b>6.108</b>	<b>6.118</b>	<b>6.240</b>	<b>6.321</b>	<b>6.409</b>	<b>6.478</b>	<b>6.560</b>	<b>6.669</b>
Inventory	560	603	677	735	773	811	848	886	913
Clients	215	208	170	177	183	189	195	201	214
Other Receivables	146	163	174	233	248	264	281	300	314
Cash and cash equivalents	184	172	139	143	145	154	249	263	323
Other Current Assets	332	297	440	475	513	558	612	674	676
<b>Current assets</b>	<b>1.438</b>	<b>1.443</b>	<b>1.601</b>	<b>1.763</b>	<b>1.862</b>	<b>1.975</b>	<b>2.185</b>	<b>2.324</b>	<b>2.440</b>
<b>TOTAL ASSETS</b>	<b>7.310</b>	<b>7.552</b>	<b>7.719</b>	<b>8.003</b>	<b>8.182</b>	<b>8.384</b>	<b>8.662</b>	<b>8.884</b>	<b>9.109</b>

<b>TOTAL EQUITY</b>	<b>1.566</b>	<b>1.701</b>	<b>1.722</b>	<b>1.770</b>	<b>1.830</b>	<b>1.910</b>	<b>2.027</b>	<b>2.167</b>	<b>2.470</b>
Long-Term Debt	3.016	2.944	2.914	2.994	3.015	3.009	3.010	2.925	2.779
Other Non-Current Liabilities	543	617	463	432	402	395	388	382	356
<b>Non-Current liabilities</b>	<b>3.560</b>	<b>3.561</b>	<b>3.376</b>	<b>3.426</b>	<b>3.417</b>	<b>3.403</b>	<b>3.398</b>	<b>3.308</b>	<b>3.135</b>
Short-Term Debt	370	314	324	333	335	334	334	325	309
Suppliers	1.050	1.220	1.182	1.260	1.308	1.358	1.407	1.456	1.504
Other current liabilities	763	755	1.116	1.215	1.292	1.378	1.496	1.629	1.691
<b>Current liabilities</b>	<b>2.184</b>	<b>2.289</b>	<b>2.622</b>	<b>2.808</b>	<b>2.935</b>	<b>3.071</b>	<b>3.237</b>	<b>3.410</b>	<b>3.503</b>
<b>TOTAL LIABILITIES</b>	<b>5.744</b>	<b>5.850</b>	<b>5.998</b>	<b>6.234</b>	<b>6.352</b>	<b>6.474</b>	<b>6.635</b>	<b>6.717</b>	<b>6.639</b>
<b>OWNER'S EQUITY + LIABILITIES</b>	<b>7.310</b>	<b>7.552</b>	<b>7.720</b>	<b>8.003</b>	<b>8.182</b>	<b>8.384</b>	<b>8.662</b>	<b>8.884</b>	<b>9.109</b>

Sonae Cash Flow Statement	2008	2009	2010 <sup>E</sup>	2011 <sup>E</sup>	2012 <sup>E</sup>	2013 <sup>E</sup>	2014 <sup>E</sup>	2015 <sup>E</sup>	2019 <sup>E</sup>
<b>(+) Net income</b>	080	094	081	113	127	147	185	209	376
(+) D & A	274	294	293	297	300	301	303	304	306
(+) Provisions	036	028	006	006	006	006	006	006	006
(-) Change in operating assets	(108)	(033)	(147)	(141)	(075)	(079)	(083)	(088)	(011)
(+) Change in operating liabilities	128	162	322	178	125	136	166	182	110
<b>CF from operating activities</b>	<b>410</b>	<b>545</b>	<b>555</b>	<b>452</b>	<b>482</b>	<b>511</b>	<b>577</b>	<b>613</b>	<b>787</b>
(-) Capital expenditures	(492)	(599)	(240)	(384)	(359)	(358)	(337)	(351)	(402)
(-) Other financial investments	(095)	055	(113)	(058)	(048)	(064)	(071)	(079)	(063)
(+) Other cash flows	(212)	074	(155)	(031)	(029)	(008)	(007)	(006)	(026)
<b>CF from investing activities</b>	<b>(799)</b>	<b>(470)</b>	<b>(508)</b>	<b>(472)</b>	<b>(437)</b>	<b>(429)</b>	<b>(415)</b>	<b>(435)</b>	<b>(492)</b>
(-) Dividends paid	000	000	064	065	066	067	068	069	073
(+) Increase in equity	(132)	041	(124)	(130)	(132)	(134)	(136)	(138)	(146)
(+) Increase in debt	419	(129)	(020)	089	023	(006)	002	(094)	(163)
<b>CF from financing activities</b>	<b>287</b>	<b>(088)</b>	<b>(080)</b>	<b>024</b>	<b>(043)</b>	<b>(073)</b>	<b>(066)</b>	<b>(163)</b>	<b>(236)</b>
Δ change in cash	(102)	(012)	(033)	004	002	008	095	014	060
Initial cash	286	184	172	139	143	145	154	249	263
<b>Ending cash</b>	<b>184</b>	<b>172</b>	<b>139</b>	<b>143</b>	<b>145</b>	<b>154</b>	<b>249</b>	<b>263</b>	<b>323</b>

## Disclosures and Disclaimer

### Research Recommendations

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<b>Buy</b>	Expected total return (including dividends) of more than 15% over a 12-month period.
<b>Hold</b>	Expected total return (including dividends) between 0% and 15% over a 12-month period.
<b>Sell</b>	Expected negative total return (including dividends) over a 12-month period.

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