

# TERNIENERGIA

# OUTPERFORM

**Price (Eu):** 2.14  
**Target Price (Eu):** 2.80

SECTOR: Industrials

Fabrizio Barini +39-02-77115.319  
 e-mail: fbarini@intermonte.it

## Good Set Of Results

- Results grow YoY in line with expectations.** Terni Energia closed 9M13 with growing results YoY: turnover came to Eu46mn, +12% YoY thanks to the consolidation of investments in JVs and the contribution from environmental activities; EBITDA came to Eu9mn, up a huge 134.7% YoY due to the above-mentioned consolidation of power generation assets, while EBIT came to Eu6mn, up 115.5% YoY including Eu1.25mn from JVs that are yet to be consolidated. The net financial position at the end of September was in the red to the tune of Eu116.3mn, an improvement on the Eu125.7mn posted at the end of June 2013. We note that our estimates consolidate the power generation JVs on a proportional basis. The comparison of actual 9M figures on this basis is therefore as follows: turnover came to Eu53.3mn vs. our forecast of Eu48.7mn, +9.4%, while EBITDA came to Eu15.1mn vs. our estimate of Eu14.2mn, EBIT came in at Eu8.5mn, lower than our Eu9.0mn estimate, and net profit came to Eu6mn vs. our Eu6.2mn figure.
- New business plan and developments in South Africa.** There were two important developments in 3Q: the 2014-16 business plan was approved, and there was an agreement for the construction of 148.5MW of plants in South Africa. The new business plan highlights the importance of EPC activity, especially following the agreement reached with Prelios and Power Capital to set up a closed-end real estate investment fund, named Renewable Asset, which will invest in renewable energy generation plants. The business plan foresees 35% growth in the value of production (in the 2014-16 period), with intermediate targets of Eu136mn in 2014, Eu201mn in 2015 and Eu248mn in 2016. Cumulative net profit is forecast to reach roughly Eu43mn, with intermediate targets of Eu8mn, Eu15mn and Eu20mn respectively. Meanwhile, on 31<sup>st</sup> October, Terni Energia was awarded a contract to construct turnkey industrial-scale photovoltaic plants in South Africa with total capacity of 148.5MW, which are scheduled to be completed in August 2015. Total turnover is forecast at around Eu150mn.
- New estimates.** We are revising our current year estimates to take into account the indications provided along with 3Q results, with EPS fine-tuned downwards (-4.6%). On the other hand, our 2014-15 estimates continue to incorporate the assumptions included in the previous business plan ahead of completion of the RA project, while we are also including the full impact of the major contract in South Africa. The net impact is an upward revision of around 10% on average in EPS.
- OUTPERFORM confirmed, target price unchanged.** Despite the upward revision to our estimates, we are leaving our target price unchanged. We believe that the main catalyst for the stock will be implementation of the 2014-16 business plan, which depends on completion of the RA project, expected at the beginning of 2014. We will wait for this newsflow before incorporating the impact in our assumptions. Even based on our more conservative approach, however, the stock remains an attractive investment opportunity within the panorama of renewable energy companies.

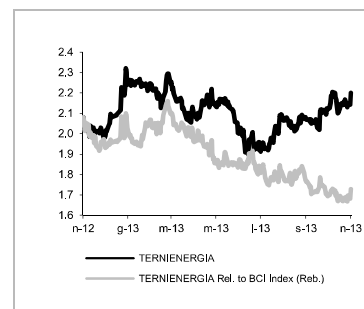
Key Figures	2011A	2012A	2013E	2014E	2015E
Sales (Eu mn)	169	65	70	115	168
Ebitda (Eu mn)	15	11	19	34	39
Net profit (Eu mn)	9	7	7	9	11
EPS - New (Eu)	0.325	0.151	0.194	0.231	0.288
EPS - Old (Eu)		0.151	0.204	0.225	0.246
DPS (Eu)	0.190	0.055	0.097	0.115	0.144

Ratios & Multiples	2011A	2012A	2013E	2014E	2015E
P/E	6.6	14.2	11.1	9.3	7.4
Div. Yield	8.9%	2.6%	4.5%	5.4%	6.7%
EV/Ebitda	6.7	17.4	10.5	5.6	4.7
ROCE	25.3%	6.5%	6.8%	11.4%	13.6%

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### TERNIENERGIA - 12m Performance



**RATING: Unchanged**

**TARGET PRICE (Eu): Unchanged**

**Change in EPS est:** 2013E 2014E  
 -5.0% 2.6%

#### STOCK DATA

Reuters code: TRNI.MI  
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	1.1%	2.3%	1.5%
Relative	-0.7%	-8.1%	-26.2%
12 months H/L:			2.32/1.90

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	31
Total No. of shares (mn):	38
Mkt Cap Ord (Eu mn):	67
Total Mkt Cap (Eu mn):	67
Mkt Float - ord (Eu mn):	28
Mkt Float (in %):	42.6%
Main shareholder:	
Stefano Neri	57.4%

#### BALANCE SHEET DATA

	2013
Book value (Eu mn):	52
BVPS (Eu):	1.39
P/BV:	1.5
Net Financial Position (Eu mn):	-135
Enterprise value (Eu mn):	202

**TERNIENERGIA - KEY FIGURES**

		2011A	2012A	2013E	2014E	2015E
	Fiscal year end	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	169	65	70	115	168
	EBITDA	15	11	19	34	39
	EBIT	13	6	10	21	25
	Financial income (charges)	(3)	(2)	(5)	(9)	(10)
	Associates & Others	2	3	2	1	1
	Pre-tax profit (Loss)	13	7	7	13	16
	Taxes	(4)	(0)	0	(4)	(5)
	Tax rate (%)	30.2%	1.9%	0.0%	33.0%	33.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	9	7	7	9	11
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	15	8	19	34	39
	Ebit excl. extraordinary items	13	6	10	21	25
Net profit restated	9	5	7	9	11	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	28	31	38	38	38
	EPS stated fd	0.325	0.221	0.194	0.231	0.288
	EPS restated fd	0.325	0.151	0.194	0.231	0.288
	BVPS fd	1.484	1.569	1.393	1.527	1.699
	Dividend per share (ord)	0.190	0.055	0.097	0.115	0.144
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	58.0%	50.0%	50.0%	50.0%	50.0%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	9	12	17	21	25
	Change in NWC	(14)	(10)	21	22	4
	Capital expenditure	(25)	(36)	(102)	(25)	(22)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(29)	(34)	(64)	18	7
	Acquisitions, divestments & others	(1)	(1)	(1)	0	0
	Dividend	(5)	(5)	(3)	(4)	(4)
	Equity financing/Buy-back	0	13	0	0	0
Change in Net Financial Position	(35)	(27)	(68)	14	3	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	53	90	166	179	187
	Net working capital	33	34	33	12	9
	Long term liabilities	(13)	(13)	(12)	(12)	(13)
	Net capital employed	68	111	188	179	183
	Net financial position	(36)	(62)	(135)	(121)	(119)
	Group equity	32	49	52	57	64
	Minorities	0	0	0	0	0
Net equity	32	49	52	57	64	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	67	67	67	67	67
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(36)	(62)	(135)	(121)	(119)
	Enterprise value	102	134	202	188	185
<b>RATIOS(%)</b>	EBITDA margin*	9.0%	11.7%	27.7%	29.3%	23.5%
	EBIT margin*	7.8%	9.0%	14.5%	18.2%	14.7%
	Gearing - Debt/equity	110.9%	127.8%	nm	nm	185.7%
	Interest cover on EBIT	5.1	2.8	1.9	2.3	2.6
	Debt/Ebitda	2.35	5.84	7.00	3.60	3.01
	ROCE*	25.3%	6.5%	6.8%	11.4%	13.6%
	ROE*	28.9%	17.0%	14.4%	15.8%	17.8%
	EV/CE	2.0	1.5	1.4	1.0	1.0
	EV/Sales	0.6	2.0	2.9	1.6	1.1
	EV/Ebit	7.8	nm	20.0	9.0	7.5
Free Cash Flow Yield	-44.2%	-51.0%	-95.5%	26.4%	10.4%	
<b>GROWTH RATES (%)</b>	Sales	69.6%	-61.4%	6.7%	65.0%	45.7%
	EBITDA*	4.1%	-49.6%	151.5%	74.6%	17.0%
	EBIT*	-4.5%	-55.5%	72.3%	107.8%	17.6%
	Net profit	0.7%	-24.0%	6.0%	19.1%	24.7%
	EPS restated	0.7%	-53.6%	28.5%	19.1%	24.7%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

### Strong growth in the quarter and margin expansion

Terni Energia closed 9M13 with growing results YoY: turnover came to Eu46mn, +12% YoY thanks to the consolidation of investments in JVs and the contribution from environmental activities; EBITDA came to Eu9mn, up a huge 134.7% YoY due to the above-mentioned consolidation of power generation assets, while EBIT came to Eu6mn, up 115.5% YoY including Eu1.25mn from JVs that are yet to be consolidated.

The net financial position at the end of September was in the red to the tune of Eu116.3mn, an improvement on the Eu125.7mn posted at the end of June 2013. We note that our estimates consolidate the power generation JVs on a proportional basis.

The comparison of actual 9M figures on this basis is therefore as follows: turnover came to Eu53.3mn vs. our forecast of Eu48.7mn, +9.4%, while EBITDA came to Eu15.1mn vs. our estimate of Eu14.2mn, EBIT came in at Eu8.5mn, lower than our Eu9.0mn estimate, and net profit came to Eu6mn vs. our Eu6.2mn figure

See table below for details

#### TerniEnergia 3Q2013

euro mil	3Q12	9M12	3Q13E*	3Q13A*	% A/E	9M13E*	9M13A*	% A/E	2013
<b>Total Revenues</b>	<b>9.6</b>	<b>41.0</b>	<b>17.7</b>	<b>22.2</b>	<b>25.8%</b>	<b>48.7</b>	<b>53.3</b>	<b>9.4%</b>	<b>69.8</b>
% change	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>		<i>nm</i>	<i>nm</i>		6.7%
<b>EBITDA</b>	<b>0.9</b>	<b>3.8</b>	<b>4.0</b>	<b>5.0</b>	<b>23.5%</b>	<b>14.2</b>	<b>15.1</b>	<b>6.7%</b>	<b>19.3</b>
<b>Adj. EBITDA</b>	<b>0.9</b>	<b>3.8</b>	<b>4.0</b>	<b>5.0</b>	<b>23.5%</b>	<b>14.2</b>	<b>15.1</b>	<b>6.7%</b>	<b>19.3</b>
% change	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>		<i>nm</i>	<i>nm</i>		80.8%
% EBITDA Margin	8.9%	9.3%	22.8%	22.4%		29.2%	28.4%		27.7%
Depr	-0.6	-1.5	-0.8	-2.4	186.1%	-5.2	-6.7	29.7%	-9.2
<b>EBIT</b>	<b>0.3</b>	<b>2.3</b>	<b>3.2</b>	<b>2.6</b>	<b>-18.5%</b>	<b>9.0</b>	<b>8.4</b>	<b>-6.6%</b>	<b>10.1</b>
% EBIT Margin	2.9%	5.7%	18.1%	11.8%		18.5%	15.8%		14.5%
% change	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>		<i>nm</i>	<i>nm</i>		72.3%
Net Financial Charges	-1.1	-2.8	-2.2	-2.3	4.5%	-3.5	-3.6	2.9%	-4.3
Results from JV participation	1.6	3.2	0.7	0.6	-22.2%	1.4	1.2	-12.0%	1.5
<b>Net Operating Margin</b>	<b>0.8</b>	<b>2.7</b>	<b>1.7</b>	<b>0.3</b>	<b>-82.1%</b>	<b>6.9</b>	<b>5.4</b>	<b>-20.6%</b>	<b>7.3</b>
Taxes	0.2	0.0	-0.9	0.4	-138.2%	-0.7	0.6	-185.3%	0.0
Tax Rate %	9%	-2%	-54%	116%		-10%	11%		0%
<b>Net Income</b>	<b>1.1</b>	<b>2.8</b>	<b>0.8</b>	<b>0.7</b>	<b>-15.2%</b>	<b>6.2</b>	<b>6.0</b>	<b>-1.9%</b>	<b>7.3</b>
% change	<i>nm</i>	<i>nm</i>	-26.7%	-37.8%		120.1%	115.9%		6.0%
Results from discontinued op	0.0	0.0	0.0	0.0		0.0	0.0		0.0
Minorities	0.0	0.0	0.0	0.0		0.0	0.0		0.0
<b>Group Net Income</b>	<b>1.1</b>	<b>2.8</b>	<b>0.8</b>	<b>0.7</b>	<b>-15.2%</b>	<b>6.2</b>	<b>6.0</b>	<b>-2.5%</b>	<b>7.3</b>
	<i>nm</i>	<i>nm</i>	-26.7%	-37.8%		121.4%	115.9%		6.0%
<b>Adj. Net Income</b>	<b>1.1</b>	<b>2.8</b>	<b>0.8</b>	<b>0.7</b>	<b>-15.2%</b>	<b>6.2</b>	<b>6.0</b>	<b>-2.5%</b>	<b>7.3</b>

Source: Intermonte SIM

**TERNIENERGIA Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>TERNIENERGIA</b>	<b>2.1</b>	<b>EUR</b>	<b>66.6</b>	<b>1.1%</b>	<b>2.3%</b>	<b>0.0%</b>	<b>5.1%</b>	<b>1.5%</b>	<b>-18.3%</b>
ALERION CLEAN	3.6	EUR	154.9	-0.6%	7.9%	-3.0%	-2.4%	-0.7%	-18.9%
ENEL GREEN POWER	1.8	EUR	9,040.0	6.5%	7.2%	8.2%	29.1%	42.7%	7.4%
FALCK RENEWABLES	1.3	EUR	380.9	18.2%	39.9%	45.2%	34.6%	37.9%	60.9%
KINEXIA	1.7	EUR	49.4	28.5%	27.0%	26.6%	53.1%	66.7%	35.0%
SAG SOLAR	2.7	EUR	31.1	-1.5%	-2.7%	-18.9%	9.8%	-11.3%	-21.9%
<b>Mean performance</b>				<b>8.7%</b>	<b>13.6%</b>	<b>9.7%</b>	<b>21.5%</b>	<b>22.8%</b>	<b>7.3%</b>
<b>Italy Fixed</b>	19,107.9	EUR	227,518	1.2%	11.2%	10.6%	16.8%	25.9%	21.1%

Source: FactSet

**TERNIENERGIA Peer Group - Multiple Comparison**

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
<b>TERNIENERGIA</b>	<b>2.1</b>	<b>EUR</b>	<b>66.6</b>	<b>2.9</b>	<b>1.6</b>	<b>10.5</b>	<b>5.6</b>	<b>20.0</b>	<b>9.0</b>	<b>11.1</b>	<b>9.3</b>	<b>4.5%</b>	<b>5.4%</b>
ALERION CLEAN	3.6	EUR	154.9	5.9	5.9	8.4	8.3	13.5	14.7	27.4	15.1	3.4%	3.4%
ENEL GREEN POWER	1.8	EUR	9,040.0	5.4	5.2	8.1	7.8	13.2	12.4	17.6	16.4	1.9%	1.8%
FALCK RENEWABLES	1.3	EUR	380.9	4.3	3.6	8.5	7.2	13.7	11.0	17.2	11.6	1.7%	2.6%
KINEXIA	1.7	EUR	49.4	2.1	1.4	8.2	6.4	19.6	11.7	20.6	8.6	2.2%	2.9%
SAG SOLAR	2.7	EUR	31.1	0.9	0.8	16.5	10.3	27.1	13.9		12.8	1.6%	3.2%
<b>Median</b>				<b>3.6</b>	<b>2.6</b>	<b>8.5</b>	<b>7.5</b>	<b>16.6</b>	<b>12.1</b>	<b>17.6</b>	<b>12.2</b>	<b>2.1%</b>	<b>3.0%</b>

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

**TERNIENERGIA - Estimates Comparison with Consensus**

(Eu mn)	2013			2014		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	69.8	66.0	5.8%	115.2	84.0	37.1%
<b>Ebitda</b>	19.3	23.0	-16.1%	33.7	33.0	2.1%
<b>Net Profit</b>	7.3	8.0	-8.9%	8.7	8.0	8.5%
<b>EPS</b>	0.2	0.2	-5.0%	0.2	0.2	2.6%
<b>Net Debt</b>	(135.2)	(138.0)	-2.0%	(121.3)	(139.0)	-12.8%

Source: Intermonte SIM estimates and Factset consensus estimates

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Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

The stock price indicated is the reference price on the day prior to the publication of the report.

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OUTPERFORM: 36.73%

NEUTRAL: 40.50%

UNDERPERFORM: 4.08%

SELL: 0.68%

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BUY: 15.38%

OUTPERFORM: 50.00%

NEUTRAL: 34.62%

UNDERPERFORM: 0.00%

SELL: 0.00%

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