

# TERNIENERGIA

# OUTPERFORM

**Price (Eu):** 1.22  
**Target Price (Eu):** 1.80

SECTOR: Industrials

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## Deleverage, good trend of Revenues and Profitability, weak Net Results.

- 4Q15 results.** The company posted Eu93mn in revenues in 4Q15, 27% higher than our Eu73mn estimate and up 47% YoY (4Q14 revenues: Eu63mn). The better sales trend was even higher than indicated in the business plan released in October 2015 (FY15 revenues were forecast at Eu350mn, but actually came to Eu370mn), mainly due to the company's new business model, which involved the sale of Free Energia and a renewed focus on the EPC segment and Smart Energy. Work on the 2 recent EPC plant orders in South Africa is proceeding very well and delivering positive results. 4Q15 EBITDA came in at Eu8.7mn, a 9% margin, better than our 6% forecast. Both revenues and margins set a new record for the company. 4Q15 EBIT closed at Eu4.8mn, broadly in line with estimates, meaning an EBIT margin of 5%. The high tax rate (58% on the whole year) and significant financial charges caused a deterioration in the bottom line, which closed 4Q15 in the red to the tune of Eu0.8mn, leading to a net profit of Eu3mn in FY15, lower than the Eu5mn forecast and down 59% YoY. The net financial position was in line with estimates and business plan guidelines, closing at Eu-87mn from Eu-108mn as at the end of December 2014. Ongoing deleveraging forms a key part of management's strategy for the years to come, along with international diversification in EPC and enhancement of the Smart Energy segment, as well as new cross-selling opportunities through the development of innovative technologies.
- New estimates for 2016 and 2017.** Considering that the company has shown some delays in reaching goals for the year 2015 in terms of Net Result, mostly because of high financial charges and a significant fiscal impact, we have revised our estimates for 2016 and 2017 at the bottom line level. Interest charges are expected to remain rather high over the next two years, so we have lowered our net income estimates to Eu4mn in 2016 and Eu7mn in 2017, thus reducing EPS by 50% in 2016 and 37% in 2017. The good performances of activities in South Africa and the growth in the energy efficiency segment allow to confirm our estimates in terms of revenues and profitability in compliance also with the recent Business Plan released in October 2015.
- OUTPERFORM; target price Eu1.8.** We have revised our SOP-based valuation in keeping with our new estimates. We are therefore lowering our target price from Eu2.1 to Eu1.8, although this still implies 48% upside to the current stock price. We maintain a positive view on the stock, as we are confident that management's strategy – to reduce debt and refocus on the EPC business and smart technology, potentially through meaningful M&A and partnerships – will enhance the company's competitive position. The company has announced a dividend of Eu0.025 per share that is a dividend pay out ratio of 43% as expected.

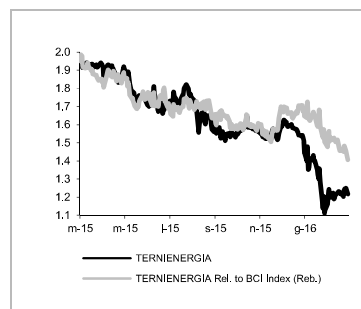
Key Figures	2014A	2015A	2016E	2017E
Sales (Eu mn)	95	370	220	328
Ebitda (Eu mn)	18	25	23	30
Net profit (Eu mn)	6	3	4	7
EPS - New (Eu)	0.141	0.080	0.080	0.157
EPS - Old (Eu)	0.141	0.103	0.159	0.248
DPS (Eu)	0.064	0.025	0.024	0.068

Ratios & Multiples	2014A	2015A	2016E	2017E
P/E	8.6	20.9	15.3	7.8
Div. Yield	5.2%	2.1%	2.0%	5.6%
EV/Ebitda	9.0	5.6	5.7	4.3
ROCE	4.6%	10.5%	12.6%	16.7%

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### TERNIENERGIA - 12m Performance



**RATING: Unchanged**

**TARGET PRICE (Eu): from Eu2.1 to Eu1.8**

**Change in EPS est:** 2016E 2017E  
 -50% -37%

#### STOCK DATA

Reuters code: TRNI.MI  
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	7.8%	-23.3%	-37.8%
Relative	-7.3%	-15.9%	-25.1%
12 months H/L:	1.97/1.11		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	44
Total No. of shares (mn):	44
Mkt Cap Ord (Eu mn):	54
Total Mkt Cap (Eu mn):	54
Mkt Float - ord (Eu mn):	23
Mkt Float (in %):	42.6%
Main shareholder:	
Stefano Neri	57.4%

#### BALANCE SHEET DATA

	2016
Book value (Eu mn):	71
BVPS (Eu):	1.60
P/BV:	0.8
Net Financial Position (Eu mn):	-77
Enterprise value (Eu mn):	131

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 on the last page of this report

**TERNIENERGIA - KEY FIGURES**

		<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>
	Fiscal year end	31/12/2014	31/12/2015	31/12/2016	31/12/2017
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	95	370	220	328
	EBITDA	18	25	23	30
	EBIT	8	17	19	25
	Financial income (charges)	(10)	(11)	(10)	(10)
	Associates & Others	1	0	0	0
	Pre-tax profit (Loss)	(1)	6	9	15
	Taxes	7	(4)	(5)	(9)
	Tax rate (%)	972.9%	58.3%	48.2%	51.9%
	Minorities & discontinue activities	0	0	0	0
	Net profit	6	3	4	7
	Total extraordinary items	0	0	0	0
	Ebitda excl. extraordinary items	18	25	23	30
Ebit excl. extraordinary items	8	17	19	25	
Net profit restated	6	3	4	7	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	44	44	44	44
	EPS stated fd	0.136	0.103	0.159	0.248
	EPS restated fd	0.141	0.080	0.080	0.157
	BVPS fd	1.625	1.865	1.605	1.702
	Dividend per share (ord)	0.064	0.025	0.024	0.068
	Dividend per share (sav)	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	45.1%	43.0%	30.0%	43.5%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	(3)	(6)	(1)	2
	Change in NWC	(21)	21	5	2
	Capital expenditure	(12)	(17)	(25)	(17)
	Other cash items	3	0	0	0
	Free cash flow (FCF)	(34)	(1)	(22)	(14)
	Acquisitions, divestments & others	26	18	13	0
	Dividend	(3)	(1)	(1)	(3)
	Equity financing/Buy-back	0	0	0	0
Change in Net Financial Position	(9)	5	1	(14)	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	150	137	137	141
	Net working capital	35	24	12	12
	Long term liabilities	6	4	2	1
	Net capital employed	180	147	147	152
	Net financial position	(108)	(87)	(77)	(74)
	Group equity	72	56	71	75
	Minorities	0	0	0	0
	Net equity	72	56	71	75
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	54	54	54	54
	Adjustments (associate & minorities)	0	0	0	0
	Net financial position	(108)	(87)	(77)	(74)
	Enterprise value	162	141	131	128
<b>RATIOS(%)</b>	EBITDA margin*	18.9%	6.8%	10.5%	9.1%
	EBIT margin*	8.9%	4.6%	8.4%	7.6%
	Gearing - Debt/equity	151.0%	106.3%	109.0%	98.7%
	Interest cover on EBIT	0.8	1.6	1.9	2.6
	Debt/Ebitda	6.00	3.46	3.35	2.47
	ROCE*	4.6%	10.5%	12.6%	16.7%
	ROE*	9.9%	3.3%	4.6%	9.5%
	EV/CE	0.9	0.9	0.9	0.9
	EV/Sales	1.7	0.4	0.6	0.4
	EV/Ebit	19.1	8.2	7.1	5.1
	Free Cash Flow Yield	-62.7%	-2.6%	-40.1%	-25.3%
<b>GROWTH RATES (%)</b>	Sales	42.3%	288.6%	-40.5%	49.1%
	EBITDA*	45.4%	40.1%	-8.9%	30.4%
	EBIT*	67.6%	103.0%	7.9%	34.6%
	Net profit	50.5%	-58.7%	36.7%	97.1%
	EPS restated	29.9%	-58.7%	36.7%	97.1%

\* Excluding extraordinary items

Source: Intermonte SIM estimates