

TERNIENERGIA

OUTPERFORM

Price (Eu): **2.25**
Target Price (Eu): **2.80**

SECTOR: *Industrials*

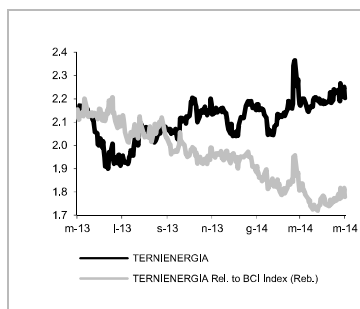
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Good 1Q14 triggered by PV Power Generation

- Power generation and business diversification boost results.** There was a positive impact from TerniEnergia's business diversification, which drove a net increase in revenues to Eu10.45mn, well above the Eu8.7mn posted in 1Q13 (+19.8% growth), although our forecast was slightly higher at Eu11mn. EBITDA also rose sharply, reaching Eu4.6mn from Eu1.1mn in 1Q13, mainly spurred by power generation activities (a solar park in Italy) and the environmental segment. The EBITDA margin came to 43.9%, a striking improvement on the 13.1% recorded in 1Q13. We expected EBITDA of Eu4mn, so the actual figure exceeded our estimate by 15%. EBIT also beat our Eu2mn forecast, closing at Eu2.8mn. 1Q14 net profit closed at Eu0.7mn, down 60% YoY due to the greater amortization relating to the consolidation of the power generation business; we estimated a sharp decline to Eu0.1mn. The NFP closed at Eu145mn vs. our forecast of over Eu147mn. The company has approved a dividend distribution of Eu0.06ps gross of deductions; the stock will trade ex-dividend on 19th May 2014.
- South African photovoltaic plant the next main goal, to be followed by new deals in Persian Gulf countries and the domestic market.** Terni Energia has completed construction of the Upington plant, which has 10MW of installed capacity, while it has also signed an EPC contract for 148.5MW in South Africa, which will be the main driver of revenues growth for this year and part of 2015. Construction of the first PV plant in the region once again underlines TerniEnergia's ongoing international mission; the company has also recently reached an agreement with the Al Hamed Group in Persian Gulf countries. The agreement was signed in Abu Dhabi with the aim of creating a JV for a NewCo with Khalid Al Hamed Group LLC. The domestic market is also significant for the company, as it can count on important orders, especially in the environmental plants segment. M&A is also increasingly affecting the Terni Energia's industrial development. To the most important recent deals were the acquisitions of Free Energia and Lucos Alternative Energies.
- OUTPERFORM recommendation confirmed; target Eu2.8.** 1Q is the weakest quarter of the year, but we still believe these results provide a good indication especially in terms of margins. TerniEnergia's future expectations focus on: 1) *international development (Middle East and South Africa)*; 2) *domestic enhancement* through the smart energy and energy efficiency segments and M&A deals; 3) *strategic actions* leveraging on consolidating high-margin segments and the power generation business. This commitment underpins our positive rating on the stock. Target price confirmed as we have only fine-tuned estimates for this year and 2015.

TERNIENERGIA - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est: **2014E** **2015E**
 1.2% 1.6%

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

| Performance | 1m | 3m | 12m |
|----------------|-----------|-------|--------|
| Absolute | 3.2% | 5.6% | 5.6% |
| Relative | 2.6% | -1.0% | -18.4% |
| 12 months H/L: | 2.36/1.90 | | |

SHAREHOLDER DATA

| | |
|---------------------------|-------|
| No. of Ord. shares (mn): | 31 |
| Total No. of shares (mn): | 38 |
| Mkt Cap Ord (Eu mn): | 70 |
| Total Mkt Cap (Eu mn): | 70 |
| Mkt Float - ord (Eu mn): | 30 |
| Mkt Float (in %): | 42.6% |
| Main shareholder: | |
| Stefano Neri | 57.4% |

BALANCE SHEET DATA

| | 2014 |
|---------------------------------|------|
| Book value (Eu mn): | 58 |
| BVPS (Eu): | 1.55 |
| P/BV: | 1.5 |
| Net Financial Position (Eu mn): | -120 |
| Enterprise value (Eu mn): | 190 |

| Key Figures | 2012A | 2013A | 2014E | 2015E | 2016E |
|--------------------|-------|-------|-------|-------|-------|
| Sales (Eu mn) | 65 | 67 | 115 | 168 | 137 |
| Ebitda (Eu mn) | 11 | 12 | 33 | 39 | 40 |
| Net profit (Eu mn) | 7 | 7 | 8 | 10 | 12 |
| EPS - New (Eu) | 0.151 | 0.193 | 0.220 | 0.275 | 0.318 |
| EPS - Old (Eu) | | 0.193 | 0.217 | 0.271 | 0.306 |
| DPS (Eu) | 0.055 | 0.060 | 0.073 | 0.091 | 0.105 |

| Ratios & Multiples | 2012A | 2013A | 2014E | 2015E | 2016E |
|--------------------|-------|-------|-------|-------|-------|
| P/E | 14.9 | 11.7 | 10.2 | 8.2 | 7.1 |
| Div. Yield | 2.4% | 2.7% | 3.2% | 4.0% | 4.7% |
| EV/Ebitda | 17.9 | 16.6 | 5.7 | 4.8 | 4.2 |
| ROCE | 6.5% | 3.4% | 11.3% | 13.5% | 14.9% |

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TERNIENERGIA - KEY FIGURES

| | | 2012A | 2013A | 2014E | 2015E | 2016E |
|----------------------------------|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | Fiscal year end | 31/12/2012 | 31/12/2013 | 31/12/2014 | 31/12/2015 | 31/12/2016 |
| PROFIT & LOSS (Eu mn) | Sales | 65 | 67 | 115 | 168 | 137 |
| | EBITDA | 11 | 12 | 33 | 39 | 40 |
| | EBIT | 6 | 5 | 21 | 24 | 26 |
| | Financial income (charges) | (2) | (2) | (9) | (10) | (9) |
| | Associates & Others | 3 | 3 | 1 | 1 | 1 |
| | Pre-tax profit (Loss) | 7 | 6 | 13 | 16 | 19 |
| | Taxes | (0) | 1 | (4) | (6) | (7) |
| | Tax rate (%) | 1.9% | -19.2% | 35.0% | 35.0% | 37.0% |
| | Minorities & discontinue activities | 0 | 0 | 0 | 0 | 0 |
| | Net profit | 7 | 7 | 8 | 10 | 12 |
| | Total extraordinary items | 0 | 0 | 0 | 0 | 0 |
| | Ebitda excl. extraordinary items | 8 | 12 | 33 | 39 | 40 |
| | Ebit excl. extraordinary items | 6 | 5 | 21 | 24 | 26 |
| Net profit restated | 5 | 7 | 8 | 10 | 12 | |
| PER SHARE DATA (Eu) | Total shares out (mn) - average fd | 31 | 38 | 38 | 38 | 38 |
| | EPS stated fd | 0.221 | 0.193 | 0.220 | 0.275 | 0.318 |
| | EPS restated fd | 0.151 | 0.193 | 0.220 | 0.275 | 0.318 |
| | BVPS fd | 1.569 | 1.392 | 1.548 | 1.751 | 1.978 |
| | Dividend per share (ord) | 0.055 | 0.060 | 0.073 | 0.091 | 0.105 |
| | Dividend per share (sav) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | Dividend pay out ratio (%) | 50.0% | 35.0% | 33.0% | 33.0% | 33.0% |
| CASH FLOW (Eu mn) | Gross cash flow | 12 | 14 | 21 | 25 | 26 |
| | Change in NWC | (10) | 6 | 22 | 4 | (3) |
| | Capital expenditure | (36) | (92) | (25) | (22) | 0 |
| | Other cash items | 0 | 0 | 0 | 0 | 0 |
| | Free cash flow (FCF) | (34) | (72) | 17 | 6 | 24 |
| | Acquisitions, divestments & others | (1) | 3 | 0 | 0 | (1) |
| | Dividend | (5) | (3) | (2) | (3) | (3) |
| | Equity financing/Buy-back | 13 | 0 | 0 | 0 | 0 |
| Change in Net Financial Position | (27) | (73) | 15 | 4 | 19 | |
| BALANCE SHEET (Eu mn) | Total fixed assets | 90 | 183 | 179 | 187 | 174 |
| | Net working capital | 34 | 14 | 12 | 9 | 11 |
| | Long term liabilities | (13) | (7) | (12) | (13) | (13) |
| | Net capital employed | 111 | 189 | 179 | 183 | 172 |
| | Net financial position | (62) | (135) | (120) | (117) | (98) |
| | Group equity | 49 | 54 | 58 | 66 | 74 |
| | Minorities | 0 | 0 | 0 | 0 | 0 |
| | Net equity | 49 | 54 | 58 | 66 | 74 |
| ENTERPRISE VALUE (Eu mn) | Average mkt cap - current | 70 | 70 | 70 | 70 | 70 |
| | Adjustments (associate & minorities) | 0 | 0 | 0 | 0 | 0 |
| | Net financial position | (62) | (135) | (120) | (117) | (98) |
| | Enterprise value | 137 | 205 | 190 | 187 | 168 |
| RATIOS(%) | EBITDA margin* | 11.7% | 18.5% | 29.1% | 23.4% | 29.5% |
| | EBIT margin* | 9.0% | 7.5% | 18.0% | 14.6% | 19.4% |
| | Gearing - Debt/equity | 127.8% | nm | nm | 177.4% | 131.4% |
| | Interest cover on EBIT | 2.8 | 2.5 | 2.3 | 2.6 | 3.1 |
| | Debt/Ebitda | 5.84 | 10.90 | 3.60 | 2.98 | 2.43 |
| | ROCE* | 6.5% | 3.4% | 11.3% | 13.5% | 14.9% |
| | ROE* | 17.0% | 13.3% | 14.7% | 16.7% | 17.0% |
| | EV/CE | 1.5 | 1.4 | 1.0 | 1.0 | 0.9 |
| | EV/Sales | 2.1 | 3.1 | 1.7 | 1.1 | 1.2 |
| | EV/Ebit | nm | nm | 9.2 | 7.7 | 6.3 |
| Free Cash Flow Yield | -48.5% | -103.4% | 24.6% | 9.1% | 33.6% | |
| GROWTH RATES (%) | Sales | -61.4% | 2.4% | 71.6% | 45.7% | -18.4% |
| | EBITDA* | -49.6% | 61.4% | 170.0% | 17.1% | 2.8% |
| | EBIT* | -55.5% | -13.9% | 311.3% | 17.8% | 8.5% |
| | Net profit | -24.0% | -0.5% | 20.9% | 25.1% | 15.6% |
| | EPS restated | -53.6% | 27.7% | 14.1% | 25.1% | 15.6% |

* Excluding extraordinary items

Source: Intermonte SIM estimates

1Q 2014: good results with strong margin expansion

There was a positive impact from Terni Energia's business diversification, which drove a net increase in revenues to Eu10.45mn, well above the Eu8.7mn posted in 1Q13 (+19.8% growth), although our forecast was slightly higher at Eu11mn.

EBITDA also rose sharply, reaching Eu4.6mn from Eu1.1mn in 1Q13, mainly spurred by power generation activities (a solar park in Italy) and the environmental segment. The EBITDA margin came to 43.9%, a striking improvement on the 13.1% recorded in 1Q13.

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See table below for details.

| TERNIENERGIA | | | | | |
|--------------------------------|-------------|--------------|--------------|--------------|---------------|
| PROFIT&LOSS (Eu mn) | 1Q13 | 1Q14E | 1Q14A | % A/E | 2014E |
| SALES | 8.7 | 11.0 | 10.4 | -5.5% | 115.0 |
| YoY change (%) | -62% | 27% | 20% | | 72% |
| EBITDA | 1.1 | 4.0 | 4.6 | 15.0% | 33.5 |
| % of sales | 13.0% | 36.4% | 44.2% | | 29.1% |
| YoY change (%) | -54% | 254% | 307% | | 170% |
| EBIT | 0.2 | 2.0 | 2.8 | 40.0% | 20.7 |
| % of sales | 1.8% | 18.2% | 26.9% | | 18.0% |
| YoY change (%) | -92% | 1163% | 1668% | | 311% |
| Pretax Profit | 1.6 | 0.1 | 0.6 | nm | 12.7 |
| YoY change (%) | -1% | -97% | -65% | | 122% |
| Net Profit | 1.7 | 0.1 | 0.7 | nm | 8.0 |
| YoY change (%) | 48% | -97% | -60% | | 17% |
| Net Financial Position | | 147 | 145 | nm | -120.7 |

Source: Intermonte SIM

TERNIENERGIA Peer Group - Absolute Performances

| Stock | Price | Ccy | Mkt cap | 1M | 3M | 6M | YTD | 1Y | 2Y |
|-------------------------|------------|------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| TERNIENERGIA | 2.3 | EUR | 69.9 | 3.2% | 5.6% | 3.4% | 1.6% | 5.6% | -10.0% |
| ALERION CLEAN | 3.6 | EUR | 153.2 | -1.9% | 6.3% | 0.0% | 10.1% | -4.0% | -4.7% |
| ENEL GREEN POWER | 2.1 | EUR | 10,640.0 | 8.4% | 8.3% | 17.5% | 15.6% | 28.0% | 58.8% |
| FALCK RENEWABLES | 1.3 | EUR | 389.6 | -5.4% | -3.7% | 7.4% | 0.6% | 52.5% | 51.5% |
| KINEXIA | 2.3 | EUR | 68.6 | -5.0% | 15.1% | 43.0% | 3.8% | 82.6% | 145.1% |
| SAG SOLAR | 0.4 | EUR | 4.3 | -7.7% | -41.7% | -86.1% | -37.0% | -88.7% | -85.8% |
| Mean performance | | | | -1.4% | -1.7% | -2.5% | -0.9% | 12.7% | 25.8% |
| Italy Fixed | 21,256.0 | EUR | 271,888 | 0.3% | 5.7% | 13.5% | 11.7% | 23.8% | 51.3% |

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 |
|---------------------|------------|------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| TERNIENERGIA | 2.3 | EUR | 69.9 | 1.7 | 1.1 | 5.7 | 4.8 | 9.2 | 7.7 | 10.2 | 8.2 | 3.2% | 4.0% |
| ALERION CLEAN | 3.6 | EUR | 153.2 | 5.9 | 5.0 | 8.5 | 7.1 | 31.1 | 22.0 | 19.2 | 12.5 | 3.9% | 3.3% |
| ENEL GREEN POWER | 2.1 | EUR | 10,640.0 | 6.1 | 5.8 | 9.1 | 8.7 | 14.7 | 13.5 | 19.5 | 17.0 | 1.5% | 1.8% |
| FALCK RENEWABLES | 1.3 | EUR | 389.6 | 4.0 | 3.6 | 7.5 | 6.7 | 12.6 | 10.8 | 26.0 | 17.1 | 2.4% | 2.4% |
| KINEXIA | 2.3 | EUR | 68.6 | 1.6 | 1.5 | 7.1 | 4.8 | 13.0 | 8.2 | 12.0 | 7.9 | 2.1% | 3.2% |
| SAG SOLAR | 0.4 | EUR | 4.3 | | | | | | | | | | |
| Median | | | | 4.0 | 3.6 | 7.5 | 6.7 | 13.0 | 10.8 | 19.2 | 12.5 | 2.4% | 3.2% |

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

TERNIENERGIA - Estimates Comparison with Consensus

| (Eu mn) | 2014 | | | 2015 | | |
|-------------------|------------|-----------|-------|------------|-----------|-------|
| | Intermonte | Consensus | %diff | Intermonte | Consensus | %diff |
| Revenues | 115.0 | 115.0 | 0.0% | 167.5 | 168.0 | -0.3% |
| Ebitda | 33.5 | 34.0 | -1.6% | 39.2 | 39.0 | 0.5% |
| Net Profit | 8.3 | 8.0 | 3.4% | 10.3 | 10.0 | 3.4% |
| EPS | 0.2 | 0.2 | 1.3% | 0.3 | 0.3 | 1.4% |
| Net Debt | (120.5) | (121.0) | -0.4% | (116.8) | (117.0) | -0.2% |

Source: Intermonte SIM estimates and Factset consensus estimates