

TERNIENERGIA

OUTPERFORM

Price (Eu): 2.15
Target Price (Eu): 2.80

SECTOR: Industrials

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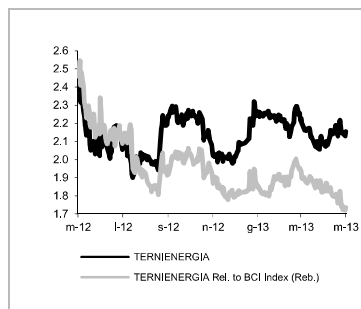
Weak Quarter But Best Is Yet To Come

- Weak 1Q13 results, as expected.** Terni Energia's top line closed down 62% and EBITDA also plummeted, but net profit actually increased. In detail, sales came to Eu8.7mn vs. Eu23mn in 1Q12; EBITDA was Eu1.1mn vs. Eu2.4mn and net profit came to Eu1.6mn from Eu1.1mn. The net financial position closed at Eu112mn vs. Eu62.3mn at YE12. The top line and operating margins were broadly in line with our expectations, while net profit was slightly better than forecast. The expected sharp increase in the debt reflects the extension of the consolidation base following the acquisition of a controlling stake in Energia Alternativa (previously a JV) which did not deliver the hoped-for financial benefits this quarter. The company expects revenues to increase considerably as of 2Q due to works starting on important EPC contracts: 35MW in the photovoltaic industry, through the FORSU plant and PFU.
- "Renewable Asset" project.** On 7th May Terni Energia signed an agreement with Power Capital, an investment consultant, for the development of the "Renewable Asset" (RA) project which aims to set up a mutual closed-end real estate investment fund under Italian law that will be reserved for qualified investors. Terni Energia will integrate its financial structure, participating in the formation of the fund by transferring part of its operational plant portfolio (estimated at around 20MW). This investment instrument will aim to grow industrial assets over the long term through the construction and subsequent management of industrial-size plants. The fund will specialise in energy generation from renewable resources and green industry projects. Between Eu50mn and Eu100mn of capital is expected to be gathered, allowing Terni Energia to bid for over Eu200mn of potential contracts (net of the transferred assets).
- Change in estimates.** The acquisition of a controlling stake in Energia Alternativa (the company previously owned a 50% stake) leads us to revise our estimates for 2013 and subsequent years, although there is no major impact on net profit. Indeed, the outcome is an increase of around Eu6mn per year in EBITDA, entirely offset by higher amortisation, debt charges and the reduced contribution to earnings from the JV. We have therefore only made slight changes to our net profit estimate, which also reflect other elements that are more closely related to the core business.
- OUTPERFORM confirmed, target price Eu2.8.** Quarterly results do not change our view on the stock. We expect significant growth in the coming quarters, which should be enough to achieve the results indicated in the current business plan. We are not including the impact of the RA project in our estimates for the time being, awaiting execution of the plans at the beginning of this summer. Nevertheless, we believe that the project will have an accretive impact on our current valuation, which reflects the baseline of the existing three-year business plan.

Key Figures	2011A	2012A	2013E	2014E	2015E
Sales (Eu mn)	169	65	82	104	108
Ebitda (Eu mn)	15	11	25	33	38
Net profit (Eu mn)	9	7	7	9	10
EPS - New (Eu)	0.325	0.151	0.192	0.228	0.254
EPS - Old (Eu)	0.325	0.151	0.206	0.257	
DPS (Eu)	0.190	0.055	0.096	0.114	0.127
Ratios & Multiples	2011A	2012A	2013E	2014E	2015E
P/E	6.6	14.3	11.2	9.5	8.5
Div. Yield	8.8%	2.6%	4.5%	5.3%	5.9%
EV/Ebitda	6.7	17.5	7.0	5.8	5.0
ROCE	25.3%	6.4%	11.7%	11.7%	12.9%

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TERNIENERGIA - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est: 2013E 2014E
 -6.9% -11.4%

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	3.1%	-2.8%	-12.4%
Relative	-5.0%	-8.3%	-36.5%
12 months H/L:	2.47/1.90		

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):	25
Mkt Float (in %):	37.1%
Main shareholder:	
Stefano Neri	62.5%

BALANCE SHEET DATA

	2013
Book value (Eu mn):	52
BVPS (Eu):	1.39
P/BV:	1.5
Net Financial Position (Eu mn):	-106
Enterprise value (Eu mn):	172

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
PROFIT & LOSS (Eu mn)	Sales	169	65	82	104	108
	EBITDA	15	11	25	33	38
	EBIT	13	6	16	20	24
	Financial income (charges)	(3)	(2)	(8)	(10)	(12)
	Associates & Others	2	3	2	2	2
	Pre-tax profit (Loss)	13	7	10	12	14
	Taxes	(4)	(0)	(3)	(4)	(4)
	Tax rate (%)	30.2%	1.9%	30.0%	30.0%	30.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	9	7	7	9	10
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	15	8	25	33	38
	Ebit excl. extraordinary items	13	6	16	20	24
Net profit restated	9	5	7	9	10	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	28	31	38	38	38
	EPS stated fd	0.325	0.221	0.192	0.228	0.254
	EPS restated fd	0.325	0.151	0.192	0.228	0.254
	BVPS fd	1.484	1.569	1.391	1.523	1.664
	Dividend per share (ord)	0.190	0.055	0.096	0.114	0.127
	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%
CASH FLOW (Eu mn)	Gross cash flow	9	12	15	21	24
	Change in NWC	(14)	(10)	7	(9)	(2)
	Capital expenditure	(25)	(36)	(56)	(25)	(22)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(29)	(34)	(34)	(13)	0
	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)	(38)	(17)	(4)	
BALANCE SHEET (Eu mn)	Total fixed assets	53	73	122	135	142
	Net working capital	33	22	54	63	66
	Long term liabilities	(13)	21	(18)	(18)	(19)
	Net capital employed	68	116	158	179	189
	Net financial position	(36)	(67)	(106)	(122)	(126)
	Group equity	32	49	52	57	63
	Minorities	0	0	0	0	0
	Net equity	32	49	52	57	63
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	67	67	67	67	67
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(36)	(67)	(106)	(122)	(126)
	Enterprise value	103	134	172	189	193
RATIOS(%)	EBITDA margin*	9.0%	11.7%	30.2%	31.2%	35.6%
	EBIT margin*	7.8%	9.0%	19.6%	18.9%	21.9%
	Gearing - Debt/equity	110.9%	137.8%	nm	nm	nm
	Interest cover on EBIT	5.1	2.8	2.1	2.1	2.0
	Debt/Ebitda	2.35	6.29	4.26	3.76	3.28
	ROCE*	25.3%	6.4%	11.7%	11.7%	12.9%
	ROE*	28.9%	17.0%	14.3%	15.6%	16.0%
	EV/CE	2.0	1.5	1.3	1.1	1.0
	EV/Sales	0.6	2.1	2.1	1.8	1.8
	EV/Ebit	7.8	nm	10.7	9.6	8.2
Free Cash Flow Yield	-43.9%	-50.7%	-50.7%	-19.4%	0.2%	
GROWTH RATES (%)	Sales	69.6%	-61.4%	25.3%	27.4%	3.6%
	EBITDA*	4.1%	-49.6%	222.7%	31.3%	18.3%
	EBIT*	-4.5%	-55.5%	174.2%	23.2%	19.8%
	Net profit	0.7%	-24.0%	5.0%	18.6%	11.7%
	EPS restated	0.7%	-53.6%	27.3%	18.6%	11.7%

* Excluding extraordinary items

Source: Intermonte SIM estimates