

TERNIENERGIA

OUTPERFORM

Price (Eu): **1.96**
Target Price (Eu): **2.30**

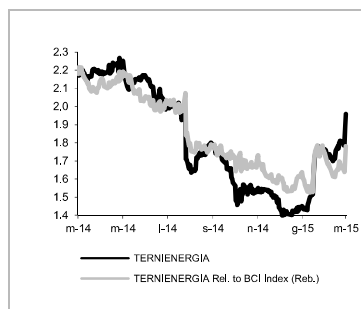
SECTOR: *Industrials*

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Good Results Reflect Smart Strategy To Become a Smart Energy Company

- Acquisition in energy management enhances 4Q results.** Thanks to the acquisition of Free Energia, which is active in energy management, a growing segment for Terni Energia, the company reported Eu62.8mn in revenue in 4Q14, up 75% YoY. Sharp growth was also aided by good performances in both photovoltaic plant power generation and the clean technology business line. EBITDA came in at Eu2.7mn (4% of sales), lower than our Eu3mn estimate, as we had estimated lower costs, offsetting the benefit of the deconsolidation of photovoltaic assets. The EBIT margin was 0.2%, an improvement from the -2% recorded in 4Q13. The bottom line was negative, but only by a marginal Eu0.1mn (better than both our estimate and the Eu1mn loss in 4Q13).
- FY2014 highlights: revenue up, debt down.** Terni Energia registered FY14 Revenues of Eu95.2mn (up from Eu67mn in 2013) thanks to the consolidation of Free Energia on the P&L. EBITDA closed at Eu18mn, 19% of sales (vs.18.5% in 2013). EBIT reached Eu8.4mn, from Eu5mn in 2013, after D&A of Eu9.6mn (vs. Eu7.4mn in 2013). The company reported a net profit of Eu6.2mn, better than our expectation for Eu5.3mn, thanks to the "Tremonti Ambientale" fiscal benefit. The net debt position improved to Eu108mn, from Eu135mn a year before; this reduction was made possible by the disposal of 50% of Energia Alternativa and Solter, which both run solar parks.
- OUTPERFORM, target price Eu2.3 confirmed.** The good results achieved in 2014 – meeting the company's business plan targets – make us confident in the company's ability to attain the goals it has set for 2015, 2016 and 2017, which entail solid double-digit growth and an increasing weight for the energy management and 'cleantech' business lines. The positive trend witnessed this year has enabled the company to announce it will distribute a dividend of Eu0.065 per share, higher than the amount paid the past two years and equivalent to a payout ratio of 46.2%.

TERNIENERGIA - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est: **2014A** **2015E**
3.4% **0.0%**

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	11.3%	35.9%	-10.2%
Relative	3.7%	13.9%	-20.1%
12 months H/L:	2.27/1.40		

SHAREHOLDER DATA

No. of Ord. shares (mn):	44
Total No. of shares (mn):	44
Mkt Cap Ord (Eu mn):	86
Total Mkt Cap (Eu mn):	86
Mkt Float - ord (Eu mn):	37
Mkt Float (in %):	42.6%
Main shareholder:	
Stefano Neri	57.4%

BALANCE SHEET DATA

	2015
Book value (Eu mn):	82
BVPS (Eu):	1.86
P/BV:	1.0
Net Financial Position (Eu mn):	-97
Enterprise value (Eu mn):	183

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Key Figures	2012A	2013A	2014A	2015E	2016E
Sales (Eu mn)	67	67	95	350	431
Ebitda (Eu mn)	11	12	18	23	28
Net profit (Eu mn)	4	4	6	8	11
EPS - New (Eu)	0.096	0.108	0.141	0.191	0.251
EPS - Old (Eu)	0.280	0.317	0.136	0.191	0.251
DPS (Eu)	0.170	0.055	0.064	0.045	0.075

Ratios & Multiples	2012A	2013A	2014A	2015E	2016E
P/E	20.5	18.0	13.9	10.3	7.8
Div. Yield	8.7%	2.8%	3.2%	2.3%	3.8%
EV/Ebitda	13.9	17.9	10.8	8.0	6.0
ROCE	7.2%	3.5%	4.6%	9.1%	12.5%

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TERNIENERGIA - KEY FIGURES

		2012A	2013A	2014A	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	67	67	95	350	431
	EBITDA	11	12	18	23	28
	EBIT	6	5	8	16	22
	Financial income (charges)	(2)	(2)	(10)	(4)	(5)
	Associates & Others	0	0	1	0	0
	Pre-tax profit (Loss)	4	3	(1)	12	17
	Taxes	(0)	1	7	(4)	(6)
	Tax rate (%)	3.5%	-36.5%	972.9%	30.0%	35.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	4	4	6	8	11
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	11	12	18	23	28
	Ebit excl. extraordinary items	6	5	8	16	22
Net profit restated	4	4	6	8	11	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	31	38	44	44	44
	EPS stated fd	0.096	0.317	0.136	0.191	0.251
	EPS restated fd	0.096	0.108	0.141	0.191	0.251
	BVPS fd	1.569	1.433	1.625	1.865	2.160
	Dividend per share (ord)	0.170	0.055	0.064	0.045	0.075
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	145.3%	50.2%	45.1%	23.8%	30.0%
CASH FLOW (Eu mn)	Gross cash flow	(1)	(4)	(3)	1	5
	Change in NWC	(12)	20	(21)	7	(1)
	Capital expenditure	(10)	(12)	(12)	(11)	(22)
	Other cash items	0	3	3	0	0
	Free cash flow (FCF)	(3)	8	(34)	(2)	(18)
	Acquisitions, divestments & others	1	(80)	26	13	13
	Dividend	(5)	(2)	(3)	(2)	(3)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(8)	(74)	(9)	(3)	2	
BALANCE SHEET (Eu mn)	Total fixed assets	90	182	150	147	146
	Net working capital	33	14	35	28	29
	Long term liabilities	(28)	7	6	4	3
	Net capital employed	95	189	180	171	173
	Net financial position	(62)	(135)	(108)	(97)	(82)
	Group equity	49	54	72	82	95
	Minorities	0	0	0	0	0
	Net equity	49	54	72	82	95
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	86	86	86	86	86
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(62)	(135)	(108)	(97)	(82)
	Enterprise value	149	221	194	183	168
RATIOS(%)	EBITDA margin*	16.0%	18.5%	18.9%	6.6%	6.5%
	EBIT margin*	8.8%	7.5%	8.9%	4.6%	5.0%
	Gearing - Debt/equity	127.8%	nm	151.0%	117.9%	86.4%
	Interest cover on EBIT	2.8	2.5	0.8	4.0	4.8
	Debt/Ebitda	5.84	10.91	6.00	4.21	2.94
	ROCE*	7.2%	3.5%	4.6%	9.1%	12.5%
	ROE*	8.9%	8.0%	9.9%	10.9%	12.4%
	EV/CE	1.8	1.6	1.1	1.0	1.0
	EV/Sales	2.2	3.3	2.0	0.5	0.4
	EV/Ebit	25.4	nm	23.0	11.4	7.8
Free Cash Flow Yield	-3.9%	8.9%	-39.0%	-2.8%	-21.2%	
GROWTH RATES (%)	Sales	-60.6%	0.1%	42.3%	267.7%	23.1%
	EBITDA*	-29.9%	16.1%	45.4%	27.7%	21.7%
	EBIT*	-55.5%	-14.0%	67.6%	89.5%	34.4%
	Net profit	-59.8%	13.4%	50.5%	35.4%	31.5%
	EPS restated	-70.6%	13.4%	29.9%	35.4%	31.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

4Q results show fast revenue growth

Terni Energia's revenue grew by 75% YoY in 4Q14 and the net loss was reduced from Eu1.25mn in 4Q13 to Eu0.1mn in 4Q14, thanks in part to the "Tremonti Ambientale" tax break.

The company ended 2014 with net debt of Eu108mn, down from Eu135mn at the end of 2013.

Terni Energia								
PROFIT&LOSS (Eu m)	4Q13	4Q14E	4Q14A	% A/E	2013A	2014E	2014A	% A/E
SALES	36	63	62,8	0,0%	66,9	95	95,2	0,0%
YoY change (%)	-	75%	75,0%		-	142%	42%	
EBITDA	2,23	3	2,7	-0,5%	12	18	18,0	-0,1%
% of sales	6%	4%	4%		18,5%	19%	18,9%	
YoY change (%)	-	22%	21,0%		-	45%	45,2%	
EBIT	-0,75	0	0,1	-30,4%	5	8	8,4	-0,5%
% of sales	-2%	0%	0,2%		7,5%	9%	9%	
YoY change (%)	-	nm	nm		-	nm	66,8%	
Net Profit	-1,25	-1,0	-0,1	-90,0%	7	5,3	6,2	17,1%
YoY change (%)	-	-20%	nm		-	-22%	-9%	
Net Financial Position					-135,0	-120	-108	-20%

Source: Intermonte SIM

TERNIENERGIA Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TERNIENERGIA	2.0	EUR	86.2	11.3%	35.9%	9.4%	37.5%	-10.2%	-11.6%
ALERION CLEAN	2.8	EUR	125.0	8.3%	1.4%	-11.0%	0.9%	-27.3%	-26.1%
ENEL GREEN POWER	1.8	EUR	9,105.0	0.6%	6.0%	-12.7%	5.0%	-9.3%	27.1%
FALCK RENEWABLES	1.2	EUR	341.0	3.8%	27.2%	5.0%	25.9%	-17.1%	23.5%
KINEXIA	1.4	EUR	81.6	29.2%	63.5%	-8.9%	63.1%	-44.4%	10.7%
SAG SOLAR	0.0	EUR	0.4	-25.0%	-43.4%	-70.3%	-21.1%	-93.9%	-98.9%
Mean performance				4.7%	15.1%	-14.7%	18.6%	-33.7%	-12.5%
Italy Fixed	22,713.6	EUR	305,184	7.1%	22.1%	7.8%	19.5%	10.3%	44.3%

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
				2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
TERNIENERGIA	2.0	EUR	86.2	0.5	0.4	8.0	6.0	11.4	7.8	10.3	7.8	2.3%	3.8%
ALERION CLEAN	2.8	EUR	125.0	6.2	6.0	9.2	8.8	16.6	16.0	29.5	26.9	4.3%	4.3%
ENEL GREEN POWER	1.8	EUR	9,105.0	5.9	5.5	9.2	8.5	15.9	14.7	19.7	15.8	1.5%	1.9%
FALCK RENEWABLES	1.2	EUR	341.0	3.7	3.5	6.6	6.3	11.5	10.7	21.7	17.4	2.7%	2.7%
KINEXIA	1.4	EUR	81.6	1.1	0.9	3.4	2.8	9.2	5.9	11.1	5.4	2.8%	5.8%
SAG SOLAR	0.0	EUR	0.4										
Median				3.7	3.5	8.0	6.3	11.5	10.7	19.7	15.8	2.7%	3.8%

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

TERNIENERGIA - Estimates Comparison with Consensus

(Eu mn)	2015			2016		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	350.0	350.0	0.0%	431.0	431.0	0.0%
Ebitda	23.0	23.0	0.0%	28.0	28.0	0.0%
Net Profit	8.4	8.0	5.0%	11.1	11.0	0.5%
EPS	0.2	0.2	0.0%	0.3	0.3	0.1%
Net Debt	(96.8)	(97.8)	-1.0%	(82.2)	(105.8)	-22.3%

Source: Intermonte SIM estimates and Factset consensus estimates

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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.

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BUY: 24.52%

OUTPERFORM: 36.13%

NEUTRAL: 32.54%

UNDERPERFORM: 5.81%

SELL: 0.65%

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BUY: 21.88%

OUTPERFORM: 43.75%

NEUTRAL: 34.37%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TERNIENERGIA		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	2.30	Previous Target (Eu):	2.30
Current Price (Eu):	1.96	Previous Price (Eu):	1.76
Date of report:	17/03/2015	Date of last report:	27/02/2015

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