

# TERNIENERGIA

# OUTPERFORM

**Price (Eu):** 1.55  
**Target Price (Eu):** 2.40

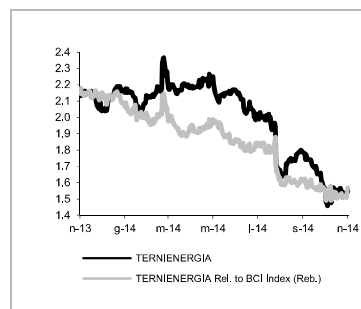
SECTOR: Industrials

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## Business Plan Profit Forecasts Confirmed

- Healthy margins and strong bottom line results.** 3Q14 revenues closed at Eu10.9mn, down 51% YoY and lower than our Eu22.2mn forecast. The recent slump is mainly attributable to a decrease in the EPC segment because of delays to the construction of two plants in South Africa, partly offset by good performances in the environment and power generation segments. EBITDA closed the quarter at Eu5.5mn, a 50% margin that is way higher than our estimate of 22%, which was also the figure posted in 3Q13. EBIT closed at Eu2.3mn, recording a 21% margin. The company posted strong net profit of Eu5.1mn, benefitting from the application of the "Tremonti Ambientale" tax break for companies operating in the photovoltaic (PV) sector and owners of PV parks. The NFP closed at Eu-155.5mn from a negative Eu152mn in 1H14.
- Industrial results.** Terni Energia can now count on a total of 273 PV plants with approximately 284MW of capacity, as well as between 1.5MW and 2MW of biomass plants. The overall power generated in 9M14 came to 44million KW/h, meaning the company is on track to hit its FY target of 60million KW/h. The environment sector includes several plants for the recycling of used tyres, bio-digestion and water purification.
- Future developments.** The company aims to cash-in on its portfolio of plants by selling ownership but continuing to manage the day-to-day operations. This should help reduce the NFP by more than 30% by year-end. The company is also looking for opportunities abroad, especially in high potential markets in the PV segment. Finally, the recent integration of Free Energia will ensure the company develops into an integrated operator across the entire value chain, from power generation through energy efficiency (Lucos Alternative Energies) to energy trading (Free Energia, acquired in October 2014). This should enable FY14 targets to be hit.
- Recommendation and target price confirmed.** We maintain a positive outlook on the company thanks to: 1) a business diversification strategy that allows control of the full energy value chain; and 2) management's claims that it will reduce NFP by 30% by year-end through asset disposals (for roughly Eu50mn). The company is also pursuing steady expansion in foreign markets, notably South Africa, Greece and Romania.

### TERNIENERGIA - 12m Performance



**RATING: Unchanged**  
**TARGET PRICE (Eu): Unchanged**  
**Change in EPS est:** 2014E 2015E  
 -0.0% -0.0%

#### STOCK DATA

Reuters code: TRNI.MI  
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	-0.8%	-6.6%	-28.8%
Relative	1.0%	-2.5%	-27.6%
12 months H/L:	2.36/1.46		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	31
Total No. of shares (mn):	38
Mkt Cap Ord (Eu mn):	48
Total Mkt Cap (Eu mn):	48
Mkt Float - ord (Eu mn):	21
Mkt Float (in %):	42.6%
Main shareholder:	
Stefano Neri	57.4%

#### BALANCE SHEET DATA

	2014
Book value (Eu mn):	57
BVPS (Eu):	1.51
P/BV:	1.0
Net Financial Position (Eu mn):	-122
Enterprise value (Eu mn):	170

Please see important disclaimer  
 on the last page of this report

Key Figures	2012A	2013A	2014E	2015E	2016E
Sales (Eu mn)	65	67	85	160	107
Ebitda (Eu mn)	11	12	30	37	38
Net profit (Eu mn)	7	7	7	9	10
EPS - New (Eu)	0.151	0.193	0.177	0.243	0.268
EPS - Old (Eu)		0.193	0.178	0.244	0.269
DPS (Eu)	0.055	0.060	0.058	0.080	0.088

Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	10.3	8.0	8.8	6.4	5.8
Div. Yield	3.5%	3.9%	3.8%	5.2%	5.7%
EV/Ebitda	15.0	14.8	5.6	4.6	3.8
ROCE	6.5%	3.4%	9.9%	12.5%	13.4%

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**TERNIENERGIA - KEY FIGURES**

		<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
	Fiscal year end	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	65	67	85	160	107
	EBITDA	11	12	30	37	38
	EBIT	6	5	18	23	23
	Financial income (charges)	(2)	(2)	(9)	(10)	(9)
	Associates & Others	3	3	1	1	1
	Pre-tax profit (Loss)	7	6	10	14	16
	Taxes	(0)	1	(4)	(5)	(6)
	Tax rate (%)	1.9%	-19.2%	35.0%	35.0%	37.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	7	7	7	9	10
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	8	12	30	37	38
	Ebit excl. extraordinary items	6	5	18	23	23
Net profit restated	5	7	7	9	10	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	31	38	38	38	38
	EPS stated fd	0.221	0.193	0.177	0.243	0.268
	EPS restated fd	0.151	0.193	0.177	0.243	0.268
	BVPS fd	1.569	1.392	1.505	1.690	1.878
	Dividend per share (ord)	0.055	0.060	0.058	0.080	0.088
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	50.0%	34.9%	33.0%	33.0%	33.0%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	12	14	19	23	24
	Change in NWC	(10)	6	7	(8)	4
	Capital expenditure	(36)	(92)	(10)	(12)	0
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(34)	(72)	16	4	29
	Acquisitions, divestments & others	(1)	3	0	0	(1)
	Dividend	(5)	(3)	(2)	(2)	(3)
	Equity financing/Buy-back	13	0	0	0	0
Change in Net Financial Position	(27)	(73)	13	1	25	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	90	183	164	162	149
	Net working capital	34	14	27	35	30
	Long term liabilities	(13)	(7)	(12)	(13)	(13)
	Net capital employed	111	189	178	184	166
	Net financial position	(62)	(135)	(122)	(120)	(95)
	Group equity	49	54	57	64	71
	Minorities	0	0	0	0	0
	Net equity	49	54	57	64	71
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	48	48	48	48	48
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(62)	(135)	(122)	(120)	(95)
	Enterprise value	115	183	170	168	144
<b>RATIOS(%)</b>	EBITDA margin*	11.7%	18.5%	36.0%	23.0%	35.3%
	EBIT margin*	9.0%	7.5%	21.5%	14.1%	21.9%
	Gearing - Debt/equity	127.8%	nm	nm	189.3%	135.0%
	Interest cover on EBIT	2.8	2.5	2.0	2.4	2.8
	Debt/Ebitda	5.84	10.90	4.00	3.27	2.52
	ROCE*	6.5%	3.4%	9.9%	12.5%	13.4%
	ROE*	17.0%	13.3%	12.0%	15.2%	15.0%
	EV/CE	1.3	1.2	0.9	0.9	0.8
	EV/Sales	1.8	2.7	2.0	1.1	1.3
	EV/Ebit	nm	36.4	9.3	7.5	6.1
Free Cash Flow Yield	-70.4%	-150.0%	33.0%	7.5%	60.1%	
<b>GROWTH RATES (%)</b>	Sales	-61.4%	2.4%	26.4%	89.4%	-33.2%
	EBITDA*	-49.6%	61.4%	145.9%	20.9%	2.6%
	EBIT*	-55.5%	-13.9%	261.9%	23.7%	4.2%
	Net profit	-24.0%	-0.5%	-2.8%	37.4%	10.3%
	EPS restated	-53.6%	27.7%	-8.2%	37.4%	10.3%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

### 3Q Results highlight significant margin growth

Terni Energia closed 3Q14 with a drop in revenues to Eu10.9mn because of a decline in the EPC segment, but very good profitability, with the EBITDA margin closing at 50%, better than our 22% estimate.

The bottom line closed in the black to the tune of Eu5.1mn, beating our expectations and the 3Q13 figure of Eu1.23mn, mainly thanks to the "Tremonti Ambientale" tax breaks for companies owning PV parks.

The outlook for FY14 is positive with the NFP set to come down thanks to asset sales in the next quarter.

<b>Terni Energia</b>									
<b>PROFIT&amp;LOSS (Eu mn)</b>	<b>9M13</b>	<b>9M14E</b>	<b>9MA</b>	<b>% A/E</b>	<b>3Q13A</b>	<b>3Q14E</b>	<b>3Q14A</b>	<b>% A/E</b>	<b>2014E</b>
<b>SALES</b>	<b>53,25</b>	<b>44,5</b>	<b>32,40</b>	<b>-27,2%</b>	<b>22,24</b>	<b>23,00</b>	<b>10,90</b>	<b>-52,6%</b>	<b>84,7</b>
YoY change (%)		-16,4%	-39,2%		-	3,4%	-51,0%		126,4%
<b>EBITDA</b>	<b>15,15</b>	<b>14,9</b>	<b>15,30</b>	<b>2,8%</b>	<b>4,99</b>	<b>5,09</b>	<b>5,50</b>	<b>8,1%</b>	<b>30,5</b>
% of sales		33,5%	47,2%		22,4%	22,1%	50,5%		36,0%
YoY change (%)		-1,7%	1,0%		-	2,1%	10,3%		145,9%
<b>EBITDA Adj.</b>	<b>15,15</b>	<b>14,9</b>	<b>15,30</b>	<b>2,8%</b>	<b>4,99</b>	<b>5,09</b>	<b>5,50</b>	<b>8,1%</b>	<b>30,5</b>
<b>EBIT</b>	<b>8,41</b>	<b>8,7</b>	<b>8,30</b>	<b>-4,0%</b>	<b>2,62</b>	<b>2,65</b>	<b>2,30</b>	<b>-13,2%</b>	<b>18,2</b>
% of sales		19,4%	25,6%		11,8%	11,5%	21,1%		21,5%
YoY change (%)		2,9%	-1,3%		-	1,3%	-12,1%		nm
<b>EBIT Adj.</b>	<b>8,41</b>	<b>8,7</b>	<b>8,30</b>	<b>-4,0%</b>	<b>2,62</b>	<b>2,65</b>	<b>2,30</b>	<b>-13,2%</b>	<b>18,2</b>
<b>Pretax Profit</b>	<b>6,01</b>	<b>1,9</b>		<b>-100,0%</b>	<b>0,87</b>	<b>0,90</b>	<b>-1,04</b>	<b>nm</b>	<b>10,2</b>
YoY change (%)		-67,8%	-100,0%		nm	3,6%	nm		
<b>Net Profit</b>	<b>6,60</b>	<b>2,8</b>	<b>6,30</b>	<b>125,0%</b>	<b>1,23</b>	<b>1,60</b>	<b>5,10</b>	<b>nm</b>	<b>6,7</b>
YoY change (%)		-57,6%	-4,6%			30,4%	nm		-2,8%
<b>NET PROFIT Adj.</b>	<b>6,60</b>	<b>2,8</b>		<b>-100,0%</b>	<b>1,23</b>	<b>1,60</b>	<b>-1,20</b>	<b>-175,0%</b>	<b>6,65</b>

Source: Intermonte SIM

**TERNIENERGIA Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>TERNIENERGIA</b>	<b>1.6</b>	<b>EUR</b>	<b>48.2</b>	<b>-0.8%</b>	<b>-6.6%</b>	<b>-31.1%</b>	<b>-28.6%</b>	<b>-28.8%</b>	<b>-24.0%</b>
ALERION CLEAN	2.7	EUR	115.5	-12.8%	-9.6%	-24.6%	-18.4%	-24.6%	-26.7%
ENEL GREEN POWER	1.8	EUR	9,200.0	-0.9%	-6.5%	-13.5%	0.5%	1.6%	49.1%
FALCK RENEWABLES	1.0	EUR	280.5	-1.3%	-11.6%	-28.0%	-25.7%	-22.7%	3.4%
KINEXIA	1.2	EUR	69.1	-12.5%	-33.5%	-49.1%	-46.6%	-27.3%	22.1%
SAG SOLAR	0.1	EUR	0.9	-45.8%	-79.4%	-82.4%	-88.6%	-97.6%	-97.5%
<b>Mean performance</b>				<b>-12.3%</b>	<b>-24.5%</b>	<b>-38.1%</b>	<b>-34.6%</b>	<b>-33.2%</b>	<b>-12.3%</b>
<b>Italy Fixed</b>	18,782.6	EUR	245,514	-1.9%	-3.9%	-11.6%	-1.0%	0.3%	22.5%

Source: FactSet

**TERNIENERGIA Peer Group - Multiple Comparison**

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
<b>TERNIENERGIA</b>	<b>1.6</b>	<b>EUR</b>	<b>48.2</b>	<b>2.0</b>	<b>1.1</b>	<b>5.6</b>	<b>4.6</b>	<b>9.3</b>	<b>7.5</b>	<b>8.8</b>	<b>6.4</b>	<b>3.8%</b>	<b>5.2%</b>
ALERION CLEAN	2.7	EUR	115.5	6.2	5.6	9.7	8.6	45.4	24.9	180.0	67.5	4.4%	4.4%
ENEL GREEN POWER	1.8	EUR	9,200.0	5.7	5.5	8.9	8.4	14.3	13.6	17.3	16.1	1.7%	1.9%
FALCK RENEWABLES	1.0	EUR	280.5	3.6	3.4	6.8	6.2	13.3	10.8	39.5	17.8	3.3%	3.3%
KINEXIA	1.2	EUR	69.1	1.1	1.0	4.3	3.2	10.7	8.7	12.8	9.4	2.5%	3.3%
SAG SOLAR	0.1	EUR	0.9										
<b>Median</b>				<b>3.6</b>	<b>3.4</b>	<b>6.8</b>	<b>6.2</b>	<b>13.3</b>	<b>10.8</b>	<b>17.3</b>	<b>16.1</b>	<b>3.3%</b>	<b>3.3%</b>

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
<b>Revenues</b>	84.7	85.0	-0.4%	160.4	160.0	0.3%
<b>Ebitda</b>	30.5	31.0	-1.7%	36.8	37.0	-0.5%
<b>Net Profit</b>	6.7	7.0	-5.0%	9.1	9.0	1.5%
<b>EPS</b>	0.2	0.2	-0.7%	0.2	0.2	-0.4%
<b>Net Debt</b>	(121.8)	(122.0)	-0.2%	(120.3)	(120.0)	0.3%

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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OUTPERFORM: 35.22%

NEUTRAL: 39.88%

UNDERPERFORM: 1.89%

SELL: 0.63%

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BUY: 21.88%

OUTPERFORM: 43.75%

NEUTRAL: 34.37%

UNDERPERFORM: 0.00%

SELL: 0.00%

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Stock NAME	TERNIENERGIA		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	2.40	Previous Target (Eu):	2.40
Current Price (Eu):	1.55	Previous Price (Eu):	1.70
Date of report:	17/11/2014	Date of last report:	14/10/2014

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