

TERNIENERGIA

NEUTRAL

Price (Eu):

0.80

Target Price (Eu):

1.05

SECTOR: Industrials

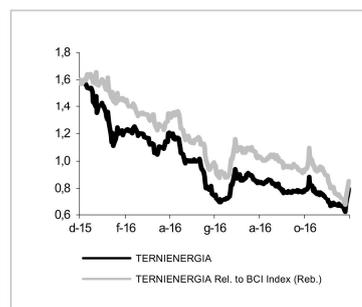
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Transformation from Industrial to Technology Company

- Business plan 2017-18: transformation from industrial to technology company.** On 4 November, the group presented the financial community with its updated business plan for the period to 2018, which sees it moving towards a model based on energy services and technological innovation. The first step will be the consolidation in 2017 of the companies acquired during 2016 (Softeco Sismat and Selesoft Consulting), the definitive closure of the acquisition of 51% of Energetic (energy services), and the implementation of the partnership with Roma Gas&Power, ranked fourth on the Italian market. Over the next two years, the company intends to increase expected revenues 67% to Eu395mn when the full effect of these new developments is felt, while EBITDA is seen doubling from Eu16mn at the end of 2016 to Eu32mn, with an impact on turnover of 8% (7% in 2017). The gearing ratio is also expected to come down from 1.37 to 1.09 by the end of the plan period. The two main revenue components in up-coming financial statements should be energy management and technical services (setting-up of plants for third-parties in Italy and internationally). This last sector should generate 66% of EBITDA, expected at Eu31mn in 2018 (from Eu16mn in 2016). Over 50% of profits will be generated abroad. As regards the Eu25mn TerniEnergia bond maturing February 2019, this will be repaid by various means including the issuing of new bonds. The company is not expecting to distribute profits in 2017, but from the following year it will make a 50% dividend pay-out. As regards 3Q16, revenues fell steeply to Eu61.4mn (-77.8% from 2015), while profits were down 86.8% to Eu400mn. The decline in results, which was in line with expectations, is explained by the deconsolidation of Free Energia (sales and energy services).
- Estimates update & comparison.** Guidance for the end of 2016 and the targets in the 2017-18 plan are not far removed from our estimates. For the year in progress, the company expects turnover of ca. Eu80mn, lower than our figure of Eu129mn. The difference is explained by the delay to closing the acquisition of Energetic (Eu130mn in annual sales), which is now expected in 1Q17 and not in 4Q16. EBITDA, however, is seen at Eu16mn, broadly in line with our estimate of Eu17mn, while net profit is seen at Eu3mn, better than our Eu2mn estimate. The company sees the NFP at Eu91mn as at end-2016, above the expected figure of Eu85mn due to the consolidation of debt from Softeco and Selesoft. For 2017, the targets in the business plan are higher than our estimates at the top line (Eu280mn vs Eu258mn) and lower in terms of EBITDA (Eu19mn vs Eu22). Nevertheless, management maintains that the figures are very conservative and highly visible. As for net profit, a lot will depend on the tax burden, which is somewhat unpredictable due to the volume of international activities. Our estimate of Eu5mn looks rather challenging. Borrowing, however, is in line with forecasts at Eu89mn.
- NEUTRAL recommendation and target price confirmed.** Visibility compared to the figures in the business plan is low but we think management is going in the right direction to position the group in the changing environment of the energy industry, in other words, towards technological innovation in the field of energy generation and distribution (Smart Grid). We have used the company's indications on top line and operating profit for the year in progress while leaving unchanged the estimates for 2017 pending assessment of developments in the group's new set-up and focus. Our valuation model, based on values for 2016-17 therefore remains unchanged, leading us to confirm the fair value of Eu1.05.

Key Figures	2013A	2014A	2015A	2016E	2017E
Sales (Eu mn)	67	95	370	85	258
Ebitda (Eu mn)	14	23	25	16	22
Net profit (Eu mn)	6	11	3	2	5
EPS - New (Eu)	0,155	0,247	0,058	0,067	0,114
EPS - Old (Eu)	0,155	0,247	0,058	0,067	0,114
DPS (Eu)	0,055	0,064	0,025	0,000	0,000
Ratios & Multiples	2013A	2014A	2015A	2016E	2017E
P/E	5,1	3,2	13,7	11,9	7,0
Div. Yield	6,9%	8,0%	3,1%	0,0%	0,0%
EV/Ebitda	12,0	6,3	4,8	8,1	5,8
ROCE	4,8%	7,1%	10,6%	6,8%	9,8%

TERNIENERGIA - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): Unchanged
 Change in EPS est: 2015A 2016E
 0.0% 0.0%

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

Performance

	1m	3m	12m
Absolute	9,5%	1,6%	-49,9%
Relative	-5,9%	-16,1%	-43,6%
12 months H/L:	1.60/0.63		

SHAREHOLDER DATA

No. of Ord. shares (mn): 44
 Total No. of shares (mn): 44
 Mkt Cap Ord (Eu mn): 35
 Total Mkt Cap (Eu mn): 35
 Mkt Float - ord (Eu mn): 15
 Mkt Float (in %): 42,6%
 Main shareholder:
 Stefano Neri 57,4%

BALANCE SHEET DATA

2016

Book value (Eu mn):	59
BVPS (Eu):	1,34
P/BV:	0,6
Net Financial Position (Eu mn):	-95
Enterprise value (Eu mn):	130

Please see important disclaimer
on the last page of this report

TERNIENERGIA - KEY FIGURES

		2013A	2014A	2015A	2016E	2017E
	Fiscal year end	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017
PROFIT & LOSS (Eu mn)	Sales	67	95	370	85	258
	EBITDA	14	23	25	16	22
	EBIT	7	13	17	10	15
	Financial income (charges)	(2)	(10)	(11)	(7)	(6)
	Associates & Others	0	1	0	0	0
	Pre-tax profit (Loss)	5	4	6	4	9
	Taxes	1	7	(4)	(2)	(4)
	Tax rate (%)			58,3%	55,6%	44,4%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	6	11	3	2	5
	Total extraordinary items	0	0	0	0	0
Ebitda excl. extraordinary items	14	23	25	16	22	
Ebit excl. extraordinary items	7	13	17	10	15	
Net profit restated	6	11	3	3	5	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	38	44	44	44	44
	EPS stated fd	0,317	0,136	0,191	0,042	0,114
	EPS restated fd	0,155	0,247	0,058	0,067	0,114
	BVPS fd	1,433	1,625	1,269	1,338	1,452
	Dividend per share (ord)	0,055	0,064	0,025	0,000	0,000
	Dividend per share (sav)	0,000	0,000	0,000	0,000	0,000
	Dividend pay out ratio (%)	35,1%	25,8%	0,0%	0,0%	0,0%
CASH FLOW (Eu mn)	Gross cash flow	12	20	11	9	12
	Change in NWC	20	(21)	12	8	(3)
	Capital expenditure	(12)	(12)	(17)	(15)	(3)
	Other cash items	2	3	0	0	0
	Free cash flow (FCF)	22	(10)	6	2	6
	Acquisitions, divestments & others	(80)	26	18	(10)	0
	Dividend	(2)	(3)	(1)	0	0
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(59)	(27)	(21)	(8)	6	
BALANCE SHEET (Eu mn)	Total fixed assets	182	150	126	145	146
	Net working capital	14	35	23	15	18
	Long term liabilities	(7)	(6)	(6)	(11)	(16)
	Net capital employed	189	180	143	149	148
	Net financial position	(135)	(108)	(87)	(95)	(89)
	Group equity	54	72	56	59	64
	Minorities	0	0	0	0	0
	Net equity	54	72	56	59	64
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	35	35	35	35	35
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(135)	(108)	(87)	(95)	(89)
	Enterprise value	170	143	122	130	124
RATIOS(%)	EBITDA margin*	21,2%	23,8%	6,8%	19,0%	8,3%
	EBIT margin*	10,2%	13,8%	4,6%	11,7%	5,6%
	Gearing - Debt/equity	nm	151,0%	156,3%	161,6%	139,4%
	Interest cover on EBIT	3,4	1,3	1,6	1,5	2,4
	Debt/Ebitda	9,55	4,76	3,46	5,91	4,14
	ROCE*	4,8%	7,1%	10,6%	6,8%	9,8%
	ROE*	11,4%	17,3%	4,0%	3,2%	8,1%
	EV/CE	1,2	0,8	0,8	0,9	0,8
	EV/Sales	2,5	1,5	0,3	1,5	0,5
	EV/Ebit	25,0	10,9	7,1	13,1	8,6
Free Cash Flow Yield	63,7%	-28,0%	17,7%	6,1%	17,4%	
GROWTH RATES (%)	Sales	0,1%	42,3%	288,6%	-77,0%	203,2%
	EBITDA*	18,3%	60,2%	11,3%	-36,2%	33,5%
	EBIT*	-4,8%	92,7%	30,7%	-42,0%	45,8%
	Net profit	19,5%	84,6%	-76,5%	-27,9%	171,1%
	EPS restated	19,5%	59,4%	-76,5%	15,1%	69,8%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Business plan 2017-18: from industrial to technology company

The strategic vision

On 4 November, the group presented the financial community with its updated business plan for the period to 2018, which sees it moving towards a model based on energy services and technological innovation.



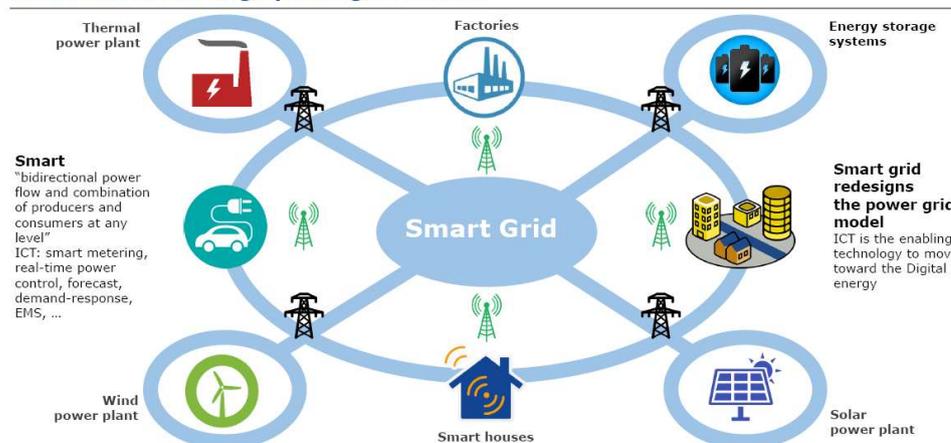
AN UNMATCHED MIX OF KNOW-HOW TO BOOST THE INTERNATIONAL GROWTH RIDING THE WAVE OF THE ENERGY [R] EVOLUTION

Source: company presentation

The first step will be the consolidation in 2017 of the companies acquired during 2016 (Softeco Sismat and Selesoft Consulting), which will propel the group into the field of smart grids, the fastest growing area in the energy industry.



Smart Grids: the huge paradigm shifters



Source: company presentation

Focus on energy services: the acquisition of Energetic and the Roma Gas&Power accord

Another important step will be the definitive closure of the acquisition of 51% of Energetic (energy services), and the implementation of the partnership with Roma Gas&Power, ranked fourth on the Italian market with turnover of over Eu1bn a year.

Acquisition of Energetic provides integration and cross-selling opportunities

Transaction scope

- Acquisition of **51% of Energetic S.p.A.** including stake in two subsidiaries: **Mya Energia Srl**, which operates in the electricity, natural gas and energy efficiency, with a stake equal to 74% of the share capital, and **Energetic Vendite Srl**, active in the trade of gas transmitted by pipeline, with a stake of 100% of the share capital.
- Strengthen the business line "Energy management"**, after the deconsolidation of Free Energia, **integrating downstream the value chain of the gas and power management business**
- Embedded revenue synergies**

Transaction rationale

- Excellent fit – cross selling opportunities for the energy efficiency business**
- Integrating energy business** along the value chain for corporate customers, large energy consumers and SMEs, PA and private end users
- Significant increase and diversification of the Group's turnover**, the **expansion of the scope of the core activities**, the **enhancement of the portfolio of investments** with an established brand, **promote innovative services and solutions**

Transaction facts

- The transaction **consideration** for the acquisition by TerniEnergia of **n. 177,634 shares representing 51% of the share capital of Energetic**, amounted to **Euro 7.3 million** and takes into account the income from the sale of subsidiaries Mya Energia and Energetic Vendite (for approximately Euro 4.1 million)
- TerniEnergia will recognize the fee in cash in three distinct phases after the closing date
- Energetic has entered into a **binding agreement with Roma Gas & Power** for the sale of the stake in **Mya Energia Srl and Energetic Vendite Srl** for an amount of **Euro 4.1 million**, corresponding to the value of budgeting of these investments
- Closing by end of November 2016**



Source: company presentation

Targets in the 2017-18 plan

Over the next two years, the company intends to increase expected revenues 67% to Eu395mn when the full effect of the above-mentioned developments is felt, while EBITDA is seen doubling from Eu16mn at the end of 2016 to Eu32mn, with an impact on turnover of 8% (7% in 2017). The gearing ratio is also expected to come down from 1.37 to 1.09 by the end of the plan period. The two main revenue components in up-coming financial statements should be energy management and technical services (setting-up of plants for third parties in Italy and internationally). This last sector should generate 66% of EBITDA, expected at Eu31mn in 2018 (from Eu16mn in 2016).

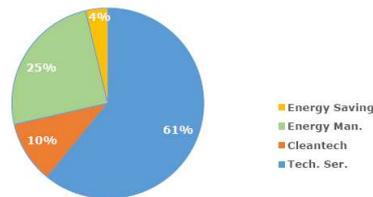
Forecast 2016 and foundation of the revenues growth

Forecast 2016* (Eur MIO)

Revenues: ≈ 85
Ebitda: ≈ 16
NFP: ≈ 92
Net equity: ≈ 63

*This forecast is based on information available at the time of publication, and current assumptions regarding uncertain factors affecting future business results.

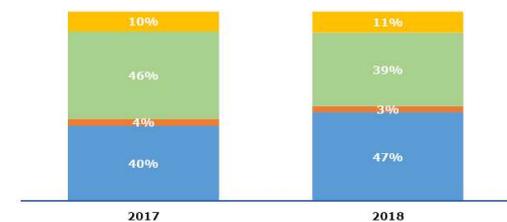
2016 Revenues breakdown F



2016-2018 Revenues E (Eur MIO)

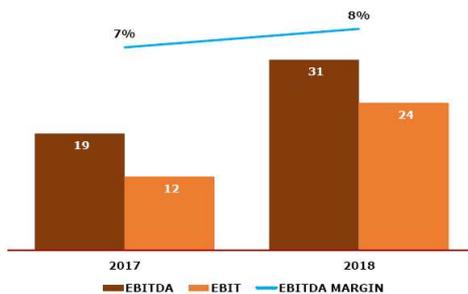


2017-2018 Revenues breakdown E

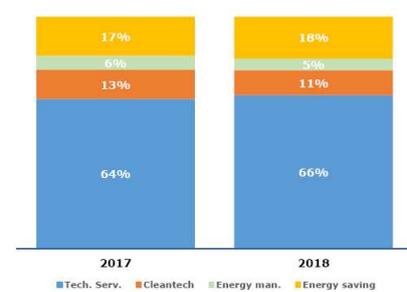


Ebitda and Ebit boost with a balanced mix

2017-2018 EBITDA – EBIT E (Eur MIO) | EBITDA MARGIN



2017-2018 EBITDA % BREAKDOWN E



Source: company presentation

The TerniEnergia 2019 bond que