

TERNIENERGIA

OUTPERFORM

Price (Eu): 2.00
Target Price (Eu): 2.80

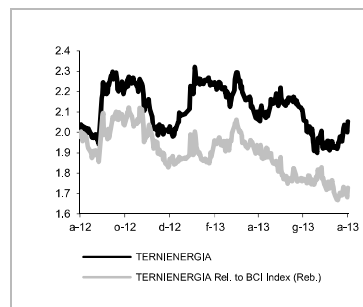
SECTOR: Industrials

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Strategic Repositioning Proceeding Without a Hitch

- Profit margins expand rapidly in 2Q.** TerniEnergia closed 2Q with turnover of Eu23mn, +173% YoY and better than our forecast of Eu21.3mn, EBITDA came to Eu4.6mn from Eu0.5mn in 2Q12, a margin of just under 20% of sales (5.8% in June 2012), and only slightly below our Eu4.9mn estimate. EBIT on the other hand rose to Eu2.9mn from breakeven in June 2012, just above our Eu2.8mn projection. Finally, net profit reached Eu3.7mn from Eu0.6mn one year ago, beating our Eu2.4mn estimate thanks to lower financial charges and positive taxes. The financial position at the end of June came to Eu124.8mn (our estimate Eu130mn) of which Eu30.7mn are short term maturities. The ratio between short term debt and shareholders' equity is 0.6x. On a half-yearly basis, TerniEnergia reported turnover of Eu31.7mn, flat YoY, while EBITDA came to Eu5.7mn, +97% YoY, a margin of 18% compared to 9.4% in June 2012. EBIT rose to Eu3mn, +48% YoY, while net profit reached Eu5.4mn from Eu1.7mn as at 1H12.
- 2013-15 estimates fine-tuned.** We have assumed a lower tax load for the current year and incorporated one-off financial income that was posted in 2Q following changes to the IFRS 13 accounting principle, which provides for new accounting of liabilities in derivative instruments. The net impact is a 6% increase in EPS. For the following years, however, we have lowered estimates slightly (EPS -2% on average), incorporating a higher tax load (from 30% to 33%) partly following the recently introduced changes that extended the "Robin Hood" tax to energy companies with turnover of over Eu3mn and taxable earnings of over Eu1mn, which affects the group's photovoltaic power generation assets.
- OUTPERFORM rating confirmed; target Eu2.8.** 2Q results demonstrate that Terni Energia is successfully implementing its plan to integrate its traditional photovoltaic plant construction business, both for third parties and on its own behalf through JVs (EPC), with its new energy efficiency and recovery of materials and energy with the aim of increasing the capacity to plan its business and expanding industrial margins. The second phase will begin in 2H13 following the start of the "RA" project, i.e. the mutual real estate investment fund formed in collaboration with Prelios, which will see Terni Energia play the role of "industrial asset manager". This will pave the way for a new season of growth and provide a definitive structure for the new strategic assets. We believe current market valuations do not discount this rosy picture,

TERNIENERGIA - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): Unchanged
Change in EPS est: 2013E 2014E
 6.2% -1.3%

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	2.8%	-6.1%	0.3%
Relative	-3.6%	-7.0%	-21.7%
12 months H/L:	2.32/1.90		

SHAREHOLDER DATA

No. of Ord. shares (mn):	31
Total No. of shares (mn):	38
Mkt Cap Ord (Eu mn):	62
Total Mkt Cap (Eu mn):	62
Mkt Float - ord (Eu mn):	26
Mkt Float (in %):	42.6%
Main shareholder:	
Stefano Neri	57.4%

BALANCE SHEET DATA

	2013
Book value (Eu mn):	53
BVPS (Eu):	1.40
P/BV:	1.4
Net Financial Position (Eu mn):	-138
Enterprise value (Eu mn):	200

Key Figures	2011A	2012A	2013E	2014E	2015E
Sales (Eu mn)	169	65	66	84	87
Ebitda (Eu mn)	15	11	23	33	37
Net profit (Eu mn)	9	7	8	8	9
EPS - New (Eu)	0.325	0.151	0.204	0.225	0.246
EPS - Old (Eu)		0.151	0.192	0.228	0.254
DPS (Eu)	0.190	0.055	0.102	0.112	0.123

Ratios & Multiples	2011A	2012A	2013E	2014E	2015E
P/E	6.1	13.3	9.8	8.9	8.1
Div. Yield	9.5%	2.8%	5.1%	5.6%	6.2%
EV/Ebitda	6.4	16.9	8.6	6.0	5.5
ROCE	25.3%	6.5%	10.0%	10.7%	11.1%

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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	66	84	87
	EBITDA	15	11	23	33	37
	EBIT	13	6	15	21	22
	Financial income (charges)	(3)	(2)	(8)	(9)	(10)
	Associates & Others	2	3	2	1	1
	Pre-tax profit (Loss)	13	7	10	13	14
	Taxes	(4)	(0)	(2)	(4)	(5)
	Tax rate (%)	30.2%	1.9%	20.7%	33.0%	33.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	9	7	8	8	9
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	15	8	23	33	37
	Ebit excl. extraordinary items	13	6	15	21	22
Net profit restated	9	5	8	8	9	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	28	31	38	38	38
	EPS stated fd	0.325	0.221	0.204	0.225	0.246
	EPS restated fd	0.325	0.151	0.204	0.225	0.246
	BVPS fd	1.484	1.569	1.403	1.526	1.660
	Dividend per share (ord)	0.190	0.055	0.102	0.112	0.123
	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	16	21	24
	Change in NWC	(14)	(10)	20	6	1
	Capital expenditure	(25)	(36)	(102)	(25)	(22)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(29)	(34)	(66)	2	2
	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)	(70)	(2)	(2)	
BALANCE SHEET (Eu mn)	Total fixed assets	53	90	167	180	188
	Net working capital	33	34	35	29	29
	Long term liabilities	(13)	(13)	(12)	(12)	(13)
	Net capital employed	68	111	190	197	204
	Net financial position	(36)	(62)	(138)	(139)	(141)
	Group equity	32	49	53	57	62
	Minorities	0	0	0	0	0
	Net equity	32	49	53	57	62
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	62	62	62	62	62
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(36)	(62)	(138)	(139)	(141)
	Enterprise value	98	129	200	202	204
RATIOS(%)	EBITDA margin*	9.0%	11.7%	35.4%	39.9%	42.5%
	EBIT margin*	7.8%	9.0%	22.9%	24.7%	25.6%
	Gearing - Debt/equity	110.9%	127.8%	nm	nm	nm
	Interest cover on EBIT	5.1	2.8	2.0	2.3	2.3
	Debt/Ebitda	2.35	5.84	5.91	4.18	3.81
	ROCE*	25.3%	6.5%	10.0%	10.7%	11.1%
	ROE*	28.9%	17.0%	15.1%	15.4%	15.4%
	EV/CE	1.9	1.4	1.3	1.0	1.0
	EV/Sales	0.6	2.0	3.0	2.4	2.3
	EV/Ebit	7.4	nm	13.3	9.8	9.1
Free Cash Flow Yield	-47.3%	-54.6%	-106.1%	3.1%	3.6%	
GROWTH RATES (%)	Sales	69.6%	-61.4%	0.6%	27.1%	4.4%
	EBITDA*	4.1%	-49.6%	203.4%	43.3%	11.2%
	EBIT*	-4.5%	-55.5%	157.4%	36.8%	8.2%
	Net profit	0.7%	-24.0%	11.5%	10.3%	9.5%
	EPS restated	0.7%	-53.6%	35.2%	10.3%	9.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

TerniEnergia's strategic repositioning going according to plan: margins expand rapidly in 2Q

TerniEnergia closed 2Q with turnover of Eu23mn, +173% YoY and better than our forecast of Eu21.3mn, EBITDA came to Eu4.6mn from Eu0.5mn in 2Q12, a margin of just under 20% of sales (5.8% in June 2012), and only slightly below our Eu4.9mn estimate.

EBIT on the other hand rose to Eu2.9mn from breakeven in June 2012, just above our Eu2.8mn projection. Finally, net profit reached Eu3.7mn from Eu0.6mn one year ago, beating our Eu2.4mn estimate thanks to lower financial charges and positive taxes.

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In the table below we compare our estimates and actual figures in 2Q/1H 2013.

TerniEnergia P&L									
Eu mn	2012	1Q13A	2Q13E	2Q13A	%A/E	1H13	1H13A	%A/E	2013
Total Revenues	65.4	8.7	21.3	23.0	7.9%	30.0	31.7	5.6%	65.8
% change	-61.5%	-62.3%	153.2%	173.2%		-4.6%	0.8%		0.6%
Total Operating Costs	-46.3	-6.0	-15.0	-17.2	14.8%	-21.0	-23.2	10.6%	na
Value Added	19.1	2.7	6.3	5.8	-8.3%	9.0	8.5	-5.9%	na
Labor Cost	-8.4	-1.5	-1.5	-1.2	-16.8%	-3.0	-2.8	-8.3%	na
EBITDA	10.7	1.1	4.9	4.6	-6.2%	6.0	5.7	-5.0%	23.3
Adj. EBITDA	7.7	1.1	4.9	4.6	-6.2%	6.0	5.7	-5.0%	na
% change	-29.9%	-54.1%	903.7%	841.8%		103.4%	93.2%		118.1%
% EBITDA Margin	11.7%	13.0%	22.8%	19.8%		20.0%	18.0%		35.4%
Depr	-4.8	-1.0	-2.0	-1.7	-16.5%	-3.0	-2.7	-11.1%	-8.2
EBIT	5.9	0.2	2.8	2.9	1.2%	3.0	3.0	1.1%	15.1
% EBIT Margin	13.4%	1.8%	13.3%	7.7%		10.0%	9.6%		22.9%
% change	-55.5%	-92.1%	6373.8%	6450.3%		46.2%	47.8%		157.4%
Net Financial Charges	-2.1	1.6	-1.3	-0.2	-87.5%	0.3	1.5	389.1%	-6.6
Results from JV participation	3.2	-0.1	0.9	0.8	-11.4%	0.7	0.6	-13.7%	1.2
Net Operating Margin	7.0	1.6	2.4	3.5	46.3%	4.0	5.1	27.4%	9.7
Taxes	-0.1	0.0	0.0	0.2	nm	0.0	0.2	nm	-2.0
Tax Rate %	2%	ns	0%	nm	nm	0%	nm	nm	-21%
Net Income	6.9	1.7	2.4	3.7	56.5%	4.0	5.4	33.3%	7.7
% change	-24.0%	48.0%	289.7%	509.7%		133.3%	210.9%		11.5%
Results from discontinued op.	0.0	0.0	0.0	0.0	0.0%	0.0	0.0	nm	0.0
Minorities	0.0	0.0	0.0	0.0	0.0%	0.0	0.0	nm	0.0
Group Net Income	6.9	1.7	2.4	3.7	56.5%	4.0	5.4	33.3%	7.7
% change	-24.0%	48.0%	289.7%	509.7%		133.3%	210.9%		11.5%
Adj. Net Income	4.7	1.7	2.4	3.7	56.5%	4.0	5.4	33.3%	7.7

Source: Intermonte SIM

"RA" project for future growth: OUTPERFORM confirmed, target price Eu2.8

2Q results demonstrate that TerniEnergia is successfully implementing its plan to integrate its traditional photovoltaic plant construction business, both for third parties and on its own behalf through JVs (EPC), with its new energy efficiency and recovery of materials and energy with the aim of increasing its capacity to plan its business and expanding industrial margins.

The second phase will begin in 2H13 following the start of the "RA" project, i.e. the mutual real estate investment fund formed in collaboration with Prelios, which will see TerniEnergia play the role of "industrial asset manager". This will pave the way for a new season of growth and provide a definitive structure for the new strategic assets. We believe current market valuations do not discount this rosy picture.

TERNIENERGIA Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TERNIENERGIA	2.0	EUR	62.2	2.8%	-6.1%	-10.9%	-2.0%	0.3%	-21.4%
PHOENIX SOLAR	2.6	EUR	19.4	92.0%	105.5%	103.8%	141.2%	150.6%	-77.1%
SAG SOLAR	2.9	EUR	33.9	9.9%	-12.2%	9.8%	13.1%	48.7%	-14.7%
SOLARIA	0.7	EUR	63.8	5.7%	18.2%	-20.2%	-4.3%	-12.8%	-56.4%
Mean performance				27.6%	26.4%	20.6%	37.0%	46.7%	-42.4%
Italy Fixed	16,757.2	EUR	195,740	7.9%	-1.0%	0.3%	2.5%	18.6%	4.6%

Source: FactSet

TERNIENERGIA Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
TERNIENERGIA	2.0	EUR	62.2	3.0	2.4	8.6	6.0	13.3	9.8	9.8	8.9	5.1%	5.6%
PHOENIX SOLAR	2.6	EUR	19.4										
SAG SOLAR	2.9	EUR	33.9	0.7	0.6	12.9	9.5	15.4	11.2	17.2	8.6	4.5%	4.5%
SOLARIA	0.7	EUR	63.8										
Median				1.9	1.5	10.7	7.8	14.3	10.5	13.5	8.8	4.8%	5.1%

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

TERNIENERGIA - Estimates Comparison with Consensus

(Eu mn)	2013			2014		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	65.8	82.0	-19.8%	83.6	104.0	-19.6%
Ebitda	23.3	25.0	-6.8%	33.4	33.0	1.1%
Net Profit	7.7	7.0	9.6%	8.5	9.0	-6.0%
EPS	0.2	0.2	6.2%	0.2	0.2	-1.4%
Net Debt	(137.6)	(106.0)	29.8%	(139.4)	(122.0)	14.3%

Source: Intermonte SIM estimates and Factset consensus estimates

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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.

The stock price indicated is the reference price on the day prior to the publication of the report.

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BUY: 20.00%

OUTPERFORM: 30.00%

NEUTRAL: 41.86%

UNDERPERFORM: 7.14%

SELL: 0.71%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (26 in total) is as follows:

BUY: 15.38%

OUTPERFORM: 50.00%

NEUTRAL: 34.62%

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):	2.80	Previous Target (Eu):	2.80
Current Price (Eu):	2.00	Previous Price (Eu):	2.14
Date of report:	07/08/2013	Date of last report:	16/05/2013

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