

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	129	258
	EBITDA	14	23	44	17	22
	EBIT	7	13	36	11	15
	Financial income (charges)	(2)	(10)	(11)	(7)	(6)
	Associates & Others	0	1	0	0	0
	Pre-tax profit (Loss)	5	4	25	5	9
	Taxes	1	7	(4)	(3)	(4)
	Tax rate (%)	-23.0%		14.2%	52.4%	44.4%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	6	11	3	2	5
	Total extraordinary items	0	0	0	1	0
	Ebitda excl. extraordinary items	14	23	44	17	22
	Ebit excl. extraordinary items	7	13	36	11	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	0.053	0.114
	EPS restated fd	0.155	0.247	0.058	0.078	0.114
	BVPS fd	1.433	1.625	1.269	1.349	1.462
	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	(2)	1	13	9	12
	Change in NWC	20	(21)	12	8	(3)
	Capital expenditure	(12)	(12)	(17)	(15)	(13)
	Other cash items	2	3	0	0	0
	Free cash flow (FCF)	8	(29)	9	3	(4)
	Acquisitions, divestments & others	(80)	26	18	0	0
	Dividend	(2)	(3)	(1)	0	0
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(74)	(27)	(21)	3	(4)	
BALANCE SHEET (Eu mn)	Total fixed assets	182	150	126	140	151
	Net working capital	14	35	23	15	18
	Long term liabilities	(7)	(6)	(6)	(11)	(16)
	Net capital employed	189	180	143	144	153
	Net financial position	(135)	(108)	(87)	(85)	(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	39	39	39	39	39
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(135)	(108)	(87)	(85)	(89)
	Enterprise value	175	147	127	124	128
RATIOS(%)	EBITDA margin*	21.2%	23.8%	12.0%	13.0%	8.3%
	EBIT margin*	10.2%	13.8%	9.8%	8.2%	5.6%
	Gearing - Debt/equity	nm	151.0%	156.3%	142.6%	137.6%
	Interest cover on EBIT	3.4	1.3	3.3	1.6	2.4
	Debt/Ebitda	9.55	4.76	1.97	5.04	4.12
	ROCE*	4.8%	7.1%	22.4%	7.4%	9.8%
	ROE*	11.4%	17.3%	4.0%	4.0%	8.1%
	EV/CE	1.2	0.8	0.8	0.9	0.9
	EV/Sales	2.6	1.5	0.3	1.0	0.5
	EV/Ebit	25.7	11.2	3.5	11.7	8.8
Free Cash Flow Yield	19.4%	-73.5%	22.8%	6.6%	-9.9%	
GROWTH RATES (%)	Sales	0.1%	42.3%	288.6%	-65.0%	99.0%
	EBITDA*	18.3%	60.2%	95.0%	-62.0%	28.0%
	EBIT*	-4.8%	92.7%	175.6%	-70.5%	36.2%
	Net profit	19.5%	84.6%	-76.5%	-9.6%	116.2%
	EPS restated	19.5%	59.4%	-76.5%	33.5%	46.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

1H16 results were impacted by the deconsolidation of Free Energia.

1H16 turnover came to Eu50.6mn (9.7% below our estimate), representing a 67% YoY decline, mainly due to the deconsolidation of Free Energia, which negatively affected the Energy Management business line (-98.1% YoY). The Technical Services business line posted positive growth (+132.2%), mainly due to the boost to the EPC business provided by the South African "Giant" contract.

EBITDA came to Eu9.5mn, representing a decrease of 11.4% YoY, but with a significant increase in the margin (18.8% vs. 7.1%) due to the greater weight of business lines with higher added value. EBIT stood at Eu5.9mn, down 25% YoY. This figure was also impacted by a negative one-off of around Eu1.1mn due to the devaluation of the credit position held in Veneto Banca.

The bottom line was dragged down by a higher than expected tax burden, closing at Eu1.1mn (-24.7% vs. 1H15).

Net debt went down from Eu87mn at the end of 2015 to Eu79.3mn at June 2016.

TERNIENERGIA - Results

(EU mn)	2Q15A	2Q16A	YoY	2Q16E	A vs E	1H15A	1H16A	YoY	1H16E	A vs E
SALES	82.7	19.3	-76.7%	24.7	-22.1%	151.3	50.6	-66.6%	56.0	-9.7%
<i>o/w Technical Services</i>	14.7	17.0	15.3%	20.8	-18.4%	19.4	44.9	132.2%	48.8	-7.8%
<i>o/w Cleantech</i>	3.2	1.0	-68.8%	2.0	-50.0%	5.0	2.8	-44.3%	3.8	-26.5%
<i>o/w Energy Management</i>	65.0	1.0	-98.5%	1.2	-16.7%	125.7	2.4	-98.1%	2.6	-7.8%
<i>o/w Energy Savings</i>	0.0	0.3	nm	0.7	-61.4%	1.3	0.5	-63.8%	0.9	-47.8%
Operating Costs	77.2	13.8	-82.1%	20.7	-33.4%	140.6	41.1	-70.8%	48.0	-14.4%
EBITDA	5.5	5.5	-1.4%	4.0	36.5%	10.7	9.5	-11.4%	8.0	18.1%
% of sales	6.7%	28.4%		16.2%		7.1%	18.8%		14.4%	
D&A	1.5	2.4	61.8%	1.1	116.2%	2.8	3.6	27.8%	2.3	55.2%
EBIT	4.1	3.1	-24.2%	2.9	6.2%	7.9	5.9	-25.3%	5.7	3.1%
% of sales	4.9%	16.0%		11.7%		5.2%	11.7%		10.2%	
Financial Charges and Associates	-2.88	-0.98		-1.72	-43.0%	-5.21	-2.67	-48.7%	-3.64	-26.7%
Pretax Profit	1.2	2.1	76.5%	1.2	78.0%	6.4	3.2	-49.3%	2.1	55.2%
Net Profit	0.3	0.5	76.7%	0.8	-36.1%	1.5	1.1	-24.7%	1.4	-21.4%
Adjusted Net Profit	0.30	0.53	76.7%	0.8		1.46	2.2	50.3%	1.4	56.9%

Source: Company data and Intermonte SIM

Estimates

Our 2016 and 2017 new estimates now incorporate the acquisitions of Softeco Sismat and Selesoft Consulting (Technical Services) and the agreement reached with Roma Gas (Energy Savings business line).

We have also included the purchase of an Energy Management company by year end, as according to TerniEnergia's management the deal should be finalized soon.

As far as EPC revenues are concerned, we have taken into account the contracts won in Zambia for a 36MW photovoltaic plant and in South Africa for an 86MW photovoltaic plant; we have not assumed the execution of the contract awarded in Egypt (worth some Eu17mn) due to the local current geopolitical situation.

All in all we have cut our adjusted net profit forecast by 22.4% on 2016 and by 32.4% on 2017.

TERNIENERGIA – Change in Estimates						
(EU mn)	2016 Old	2016 New	ch. %	2017 Old	2017 New	ch. %
SALES	220.0	129.4	-41.2%	328.0	257.5	-21.5%
Technical Services	160.1	66.8	-58.3%	210.0	129.5	-38.3%
Cleantech	41.6	8.8	-78.9%	55.0	10.0	-81.8%
Energy Savings	18.3	5.0	-72.8%	63.0	19.0	-69.8%
Energy Management	0.0	48.9	nm	0.0	99.0	nm
Operating Costs	197.0	112.6	-42.8%	298.0	236.0	-20.8%
EBITDA	23.0	16.8	-27.0%	30.0	21.5	-28.3%
% of sales	10.5%	13.0%		9.1%	8.3%	
D&A	4.5	6.2	36.8%	5.1	7.0	37.3%
EBIT	18.5	10.6	-42.5%	24.9	14.5	-41.8%
% of sales	8.4%	8.2%		7.6%	5.6%	
Financial Charges and Associates	(6.5)	(5.8)		(5.5)	(5.5)	
Pretax Profit	9.0	4.9	-46.0%	15.0	9.0	-40.0%
Net Profit	4.4	2.3	-47.4%	7.4	5.0	-32.4%
Adjusted Net Profit	4.4	3.4	-22.4%	7.4	5.0	-32.4%
Net debt	(87.0)	(84.7)	-2.6%	(77.0)	(88.6)	15.1%

Source: Intermonte SIM

Valuation & Action

We are downgrading the stock from Outperform to NEUTRAL as the ongoing business restructuring, combined with changes in the consolidation scope following the most recent acquisitions and agreements, mean visibility on future earnings is very low.

Awaiting the release of a new business plan, we prefer to take a cautious stance on the stock.

Our new target price, set at Eu1.05 per share from Eu1.80 previously, is based on an SOP valuation.

For the valuation of the Technical Services, Energy Management and Energy Savings business lines we have carried out a peer comparison based on the EV/EBITDA multiples of a panel of Engineering and Energy companies.

For the valuation of the Cleantech business line, we have used book values.

Finally, we have applied a 30% discount to our fair value to take into account the stock's low liquidity and the current lack of visibility on business trends given the ongoing restructuring.

TerniEnergia - SOP

(Eu mn)	Fair Value	Valuation methods
Technical Services	98.6	
o/w EPC&O&M	49.0	Peers Ev/Ebitda 16-17
o/w Joint Ventures	10.0	Ev/MW
o/w Power generation	39.6	Peers Ev/Ebitda 16-17
Cleantech	27.0	Book Value
Energy business	25.9	
o/w Energy Management	11.9	Peers Ev/Ebitda 16-17
o/w Energy Savings	14.0	Peers Ev/Ebitda 16-17
Total Enterprise Value	151.5	
Net debt	-84.7	2016E
Fair Value	66.8	
Discount	30%	Liquidity & Visibility
Equity Value	46.7	
Equity Value per share	1.05	
Current share price	0.90	
Upside	17.4%	

Source: Intermonte SIM

TERNIENERGIA - Peer Group Multiple Comparison

Stock	Price	CCY	Mkt Cap (mn)	Ev/Sales 2016	Ev/Sales 2017	Ev/Ebitda 2016	Ev/Ebitda 2017	Ev/Ebit 2016	Ev/Ebit 2017	P/E 2016	P/E 2017	Div Yield 2016	Div Yield 2017
TERNIENERGIA	0.88	Euro	38	1.0x	0.5x	7.5x	5.4x	11.9x	8.4x	11.2x	7.7x	0.0%	0.0%
ANSALDO STS	10.34	EU	2,068	1.2 x	1.1 x	10.9 x	10.2 x	12.2 x	11.4 x	22.6 x	21.4 x	1.6%	1.7%
MAIRETECNIMONT	2.13	EU	651	0.3 x	0.3 x	4.7 x	3.8 x	5.0 x	4.0 x	9.0 x	7.5 x	3.5%	4.4%
DANIELI & C.	17.53	EU	1,236	0.1 x	0.1 x	1.3 x	0.7 x	2.4 x	1.3 x	12.3 x	9.8 x	0.6%	1.1%
ABM INDUSTRIES INC.	33.48	USD	1,872	0.4 x	0.4 x	10.9 x	9.5 x	16.6 x	13.2 x	23.3 x	20.3 x	1.8%	1.8%
AMERESCO	4.50	USD	211	na	na	na	na	na	na	20.0 x	15.2 x	na	na
COMFORT SYSTEMS	25.94	USD	971	na	na	na	na	na	na	16.8 x	15.2 x	1.0%	1.0%
EMCOR GROUP	50.97	USD	3,099	na	na	na	na	na	na	18.4 x	17.0 x	0.6%	0.6%
KIER GROUP	13.13	GBP	1,264	0.3 x	0.3 x	6.9 x	6.6 x	8.2 x	7.7 x	10.8 x	10.1 x	5.7%	6.1%
MITIE GROUP	2.96	GBP	1,043	0.5 x	0.4 x	7.0 x	6.6 x	8.3 x	7.8 x	10.1 x	9.6 x	4.9%	5.2%
VEOLIA ENVIRON.	19.97	EU	11,250	0.8 x	0.7 x	6.4 x	6.0 x	14.2 x	12.7 x	19.1 x	16.0 x	4.0%	4.4%
ZEPHYRO	7.50	EU	71	0.8 x	0.6 x	5.6 x	4.3 x	11.9 x	9.7 x	13.8 x	12.6 x	3.0%	3.2%
MEDIAN				0.5 x	0.4 x	6.7 x	6.3 x	10.1 x	8.8 x	16.8 x	15.2 x	2.4%	2.5%

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

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OUTPERFORM: 46.67%

NEUTRAL: 18.42%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TERNIENERGIA		
Current Recomm:	NEUTRAL	Previous Recomm:	OUTPERFORM
Current Target (Eu):	1.05	Previous Target (Eu):	1.80
Current Price (Eu):	0.90	Previous Price (Eu):	1.20
Date of report:	12/08/2016	Date of last report:	15/03/2016

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