

TERNIENERGIA

OUTPERFORM

Price (Eu): **2.25**
Target Price (Eu): **2.80**

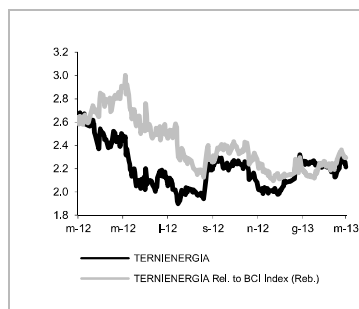
SECTOR: Industrials

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Execution of New Business Plan Moving Ahead

- 2012 results in line with expectations: a good end to a rough year for the renewable energy industry.** TerniEnergia reported Eu65.4mn in turnover for 2012, well below the Eu169.8mn recorded in 2011 but above our Eu55.3mn estimate. EBITDA was Eu10.7mn, vs. Eu15.2mn the previous year, but again better than our estimate of Eu6.9mn. This line was boosted by Terni's disposal of its stake in a joint venture in solar power production (13 plants, 8 of which are photovoltaic, with an installed capacity of 16.5MWp). Net of this sale, EBITDA would have been just in line with our estimate. Net profit came to Eu6.9mn, from Eu9mn a year ago and above our Eu3.8mn estimate, again thanks to the JV sale. Net debt rose, however, from Eu58.2mn to Eu62.3mn at the end of December, above our estimate of Eu58.4mn due to higher working capital absorption.
- 2013 Outlook: business plan execution moving ahead.** Terni's management did not provide quantitative indications on 2013 trends, but did confirm the business plan guidelines approved and presented last autumn. The company will focus on international development, asset ownership through direct investments, specialisation in energy services, and on business segments with the highest potential for development and profitability. Considering management's credibility in implementing this plan, and in light of 2012 results, we confirm our estimates for the current year, which are consistent with the company's business plan targets: turnover of Eu90mn in 2013, Eu117mn in 2014 and Eu144mn in 2015, with respective EBITDA margins of 27%, 28% and 29%. Our estimates still include Terni's JVs through the net book value method rather than proportional accounting; using the proportional method, 2012 turnover would have been Eu85.2mn and EBITDA would have been Eu27.3mn, for a 32% margin on sales.
- OUTPERFORM recommendation, target Eu2.80 confirmed.** On the back of FY2012 results, we confirm our positive view on the stock. In a terrible year for the solar power industry that witnessed several major international operators exit the stage, TerniEnergia managed to turn solid profits despite a sharp drop in turnover. This was accomplished thanks to the company's diversification and repositioning – prior to the outbreak of the industry crisis – in related but still expanding businesses such as energy efficiency. We confirm our target price of Eu2.80, based on a sum-of-the-parts valuation of Terni's renewable energy, energy efficiency, power generation and EPC businesses, through DCF calculations of the various assets.

TERNIENERGIA - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est: **2012AE** **2013E**
0.0% **0.0%**

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	0.4%	13.4%	-11.3%
Relative	1.7%	9.3%	-10.6%
12 months H/L:	2.68/1.90		

SHAREHOLDER DATA

No. of Ord. shares (mn):	31
Total No. of shares (mn):	38
Mkt Cap Ord (Eu mn):	70
Total Mkt Cap (Eu mn):	70
Mkt Float - ord (Eu mn):	26
Mkt Float (in %):	37.1%
Main shareholder:	
Stefano Neri	62.5%

BALANCE SHEET DATA

	2013
Book value (Eu mn):	53
BVPS (Eu):	1.41
P/BV:	1.6
Net Financial Position (Eu mn):	-68
Enterprise value (Eu mn):	138

Key Figures	2010A	2011A	2012A	2013E	2014E
Sales (Eu mn)	100	169	65	75	100
Ebitda (Eu mn)	15	15	11	20	27
Net profit (Eu mn)	9	9	7	8	10
EPS - New (Eu)	0.323	0.325	0.151	0.206	0.257
EPS - Old (Eu)	0.323	0.325	0.121	0.206	0.257
DPS (Eu)	0.195	0.190	0.055	0.103	0.129

Ratios & Multiples	2010A	2011A	2012A	2013E	2014E
P/E	7.0	6.9	14.9	10.9	8.8
Div. Yield	8.7%	8.4%	2.4%	4.6%	5.7%
EV/Ebitda	5.2	6.9	17.9	7.0	5.8
ROCE	53.2%	25.3%	6.4%	11.0%	12.4%

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TERNIENERGIA - KEY FIGURES

		2010A	2011A	2012A	2013E	2014E
	Fiscal year end	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014
PROFIT & LOSS (Eu mn)	Sales	100	169	65	75	100
	EBITDA	15	15	11	20	27
	EBIT	14	13	6	13	17
	Financial income (charges)	(0)	(3)	(2)	(6)	(8)
	Associates & Others	(0)	2	3	4	5
	Pre-tax profit (Loss)	14	13	7	11	14
	Taxes	(5)	(4)	(0)	(3)	(4)
	Tax rate (%)	33.5%	30.2%	1.9%	30.0%	30.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	9	9	7	8	10
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	15	15	8	20	27
Ebit excl. extraordinary items	14	13	6	13	17	
Net profit restated	9	9	5	8	10	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	28	28	31	38	38
	EPS stated fd	0.323	0.325	0.221	0.206	0.257
	EPS restated fd	0.323	0.325	0.151	0.206	0.257
	BVPS fd	1.090	1.484	1.728	1.406	1.560
	Dividend per share (ord)	0.195	0.190	0.055	0.103	0.129
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	60.5%	58.0%	30.0%	50.0%	50.0%
CASH FLOW (Eu mn)	Gross cash flow	9	9	12	14	20
	Change in NWC	(9)	(14)	(10)	11	(13)
	Capital expenditure	(5)	(25)	(36)	(21)	(25)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(5)	(29)	(34)	4	(18)
	Acquisitions, divestments & others	(8)	(1)	(1)	(1)	0
	Dividend	(2)	(5)	(5)	(3)	(4)
	Equity financing/Buy-back	11	0	13	0	0
Change in Net Financial Position	(3)	(35)	(27)	(0)	(22)	
BALANCE SHEET (Eu mn)	Total fixed assets	16	53	73	89	104
	Net working capital	63	33	22	50	63
	Long term liabilities	(43)	(13)	21	(18)	(18)
	Net capital employed	36	68	116	121	148
	Net financial position	(6)	(36)	(67)	(68)	(89)
	Group equity	30	32	49	53	59
	Minorities	0	0	0	0	0
Net equity	30	32	49	53	59	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	70	70	70	70	70
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(6)	(36)	(67)	(68)	(89)
	Enterprise value	76	106	137	138	159
RATIOS(%)	EBITDA margin*	14.7%	9.0%	11.7%	26.1%	27.4%
	EBIT margin*	13.8%	7.8%	9.0%	17.2%	16.6%
	Gearing - Debt/equity	18.2%	110.9%	137.8%	128.2%	152.2%
	Interest cover on EBIT	88.2	5.1	2.8	2.4	2.2
	Debt/Ebitda	0.38	2.35	6.29	3.44	3.26
	ROCE*	53.2%	25.3%	6.4%	11.0%	12.4%
	ROE*	40.8%	28.9%	17.0%	15.3%	17.3%
	EV/CE	2.9	2.0	1.5	1.2	1.2
	EV/Sales	0.8	0.6	2.1	1.8	1.6
	EV/Ebit	5.5	8.0	nm	10.6	9.6
Free Cash Flow Yield	-7.7%	-42.0%	-48.4%	5.5%	-25.2%	
GROWTH RATES (%)	Sales	113.4%	69.6%	-61.4%	15.4%	32.5%
	EBITDA*	102.0%	4.1%	-49.6%	156.7%	38.9%
	EBIT*	98.7%	-4.5%	-55.5%	121.9%	28.1%
	Net profit	130.3%	0.7%	-24.0%	12.7%	24.7%
	EPS restated	130.3%	0.7%	-53.6%	36.7%	24.7%

* Excluding extraordinary items

Source: Intermonte SIM estimates

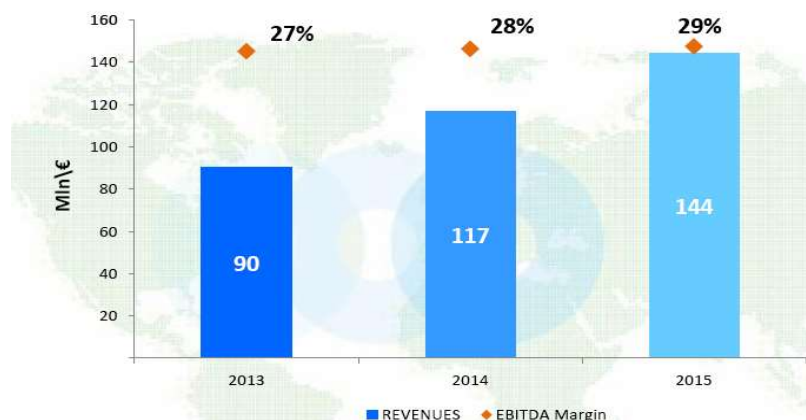
Execution of New Business Plan Moving Ahead

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TerniEnergia P&L											
euro mil	1Q12A	2Q12	1H12	3Q12	9M12	4Q12E	4Q12	% A/E	2012E	2012	% A/E
Total Revenues	23.0	8.4	31.4	9.6	41.0	14.4	24.4	69.4%	55.4	65.4	18.1%
Total Operating Costs	-19.0	-6.7	-25.7	-7.7	-33.3	na	-13.0	nm	na	-46.3	nm
Value Added	4.0	1.7	5.7	1.9	7.7	na	11.4	nm	nm	19.1	nm
Labor Cost	-1.5	-1.3	-2.8	-1.0	-3.8	na	-4.6	nm	na	-8.4	nm
EBITDA	2.5	0.5	2.9	0.9	3.8	3.1	6.9	121.8%	6.9	10.7	54.7%
Adj. EBITDA	2.5	0.5	2.9	0.9	3.8	3.1	3.9	25.0%	6.9	7.7	11.2%
% EBITDA Margin	10.7%	5.8%	9.4%	8.9%	9.3%	21.5%	28.2%	nm	12.5%	11.7%	-5.8%
Depr	-0.5	-0.4	-0.9	-0.6	-1.5	-0.4	-3.4	673.5%	-1.9	-4.8	153.8%
EBIT	2.0	0.0	2.1	0.3	2.3	2.7	3.5	32.0%	5.0	5.9	17.1%
% EBIT Margin	8.7%	0.5%	6.5%	2.9%	5.7%	18.5%	14.4%	nm	13.4%	13.4%	0.0%
Net Financial Charges	-0.8	-1.0	-1.7	-1.1	-2.8	0.7	0.7	0.0%	-2.1	-2.1	0.0%
Results from JV participation	0.4	1.2	1.6	1.6	3.2	0.0	0.0	0.0%	3.2	3.2	0.0%
Net Operating Margin	1.7	0.3	1.9	0.8	2.7	1.3	4.3	239.6%	4.0	7.0	75.3%
Taxes	-0.5	0.3	-0.2	0.2	0.0	-0.1	-0.1	0.0%	-0.1	-0.1	0.0%
Tax Rate %	-33%	22%	-11%	9%	-2%	7.0%	2.1%	nm	3%	2%	nm
Net Income	1.1	0.6	1.7	1.1	2.8	1.2	4.1	239.9%	4.0	6.9	72.0%
Results from discontinued op	0.0	0.0	0.0	0.0	0.0	0.0	0.0	nm	0.0	0.0	nm
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	nm	0.0	0.0	nm
Group Net Income	1.1	0.6	1.7	1.1	2.8	1.2	4.1	239.9%	4.0	6.9	72.0%
Adj. Net Income	1.1	0.6	1.7	1.1	2.8	1.2	1.9	57.4%	4.0	4.7	17.2%

Source: Intermonte SIM

Terni's management did not provide quantitative indications on 2013 trends, but did confirm the business plan guidelines approved and presented last autumn. The company will focus on international development, asset ownership through direct investments, specialisation in energy services, and on business segments with the highest potential for development and profitability. Considering management's credibility in implementing this plan, and in light of 2012 results, we confirm our estimates for the current year, which are consistent with the company's business plan targets: turnover of Eu90mn in 2013, Eu117mn in 2014 and Eu144mn in 2015, with respective EBITDA margins of 27%, 28% and 29%.



Our estimates still include Terni's JVs through the net book value method rather than proportional accounting; using the proportional method, 2012 turnover would have been Eu85.2mn and EBITDA would have been Eu27.3mn, for a 32% margin on sales.

TERNIENERGIA Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TERNIENERGIA	2.3	EUR	70.1	0.4%	13.4%	2.7%	5.8%	-11.3%	-37.5%
PHOENIX SOLAR	1.7	EUR	12.5	33.8%	70.5%	74.4%	51.9%	-16.3%	-92.1%
SAG SOLAR	2.6	EUR	31.4	-4.2%	10.4%	30.8%	5.9%	24.3%	-36.1%
SOLARIA	0.7	EUR	71.2	-8.2%	0.7%	-11.6%	2.9%	2.8%	-56.1%
Mean performance				5.5%	23.8%	24.1%	16.6%	-0.1%	-55.4%
Italy Fixed	16,024.0	EUR	181,909	-3.7%	1.6%	-2.4%	-3.2%	-2.6%	-26.7%

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	2.3	EUR	70.1	1.8	1.6	7.0	5.8	10.6	9.6	10.9	8.8	4.6%	5.7%
PHOENIX SOLAR	1.7	EUR	12.5	0.4	0.4		17.7		37.8			0.0%	0.0%
SAG SOLAR	2.6	EUR	31.4	0.7	0.6	12.0	7.7	16.7	9.9	18.1	7.5	2.5%	4.9%
SOLARIA	0.7	EUR	71.2							71.3	11.8	0.0%	6.9%
Median				0.7	0.6	9.5	7.7	13.7	9.9	18.1	8.8	1.2%	5.3%

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	75.5	75.0	0.7%	100.0	100.0	0.0%
Ebitda	19.7	20.0	-1.5%	27.4	27.0	1.4%
Net Profit	7.8		#DIV/0!	9.7		#DIV/0!
EPS	0.2	0.2	0.1%	0.3	0.3	0.0%
Net Debt	(67.8)	(81.0)	-16.4%	(89.3)	(92.0)	-2.9%

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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OUTPERFORM: 32.31%

NEUTRAL: 43.85%

UNDERPERFORM: 7.69%

SELL: 0.00%

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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):	2.25	Previous Price (Eu):	2.11
Date of report:	14/03/2013	Date of last report:	01/11/2012

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