

# TERNIENERGIA

# OUTPERFORM

**Price (Eu):** 2.37  
**Target Price (Eu):** 3.50

SECTOR: Industrials

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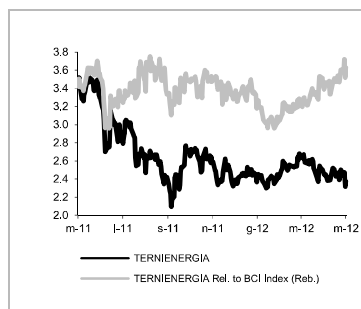
## A Defensive Outpost in a Turbulent Industry

- Downward trend in quarterly results, as expected.** TerniEnergia reported YoY decreases in 1Q12, but to a lesser extent than we were expecting. Turnover came in at Eu23mn, down 25% YoY but better than our Eu20mn estimate. Six new solar parks were completed during the quarter for third parties, for a total of 23.5MW of installed power capacity, while a lighting and energy efficiency project was also completed for a client. EBITDA and EBIT also declined YoY, to Eu2.5mn and Eu2.0mn, respectively, against our estimates of Eu2.3mn and Eu1.8mn. The bottom line was the only P&L figure that came up short of our estimates (Eu1.1mn vs. Eu1.3mn), down from Eu2.2mn a year ago. Net debt stood at Eu44.4mn (vs. our Eu36mn estimate), higher than at the end of 2011 due to a rise in working capital, as the company now has sizeable trade receivables having completed new installations without cashing in many down payments. Short-term debt (Eu31.1mn, of which Eu8mn was shifted to long-term debt) is lower than the net working capital figure of Eu38.4mn, so the company is not showing any worrisome financial imbalance.
- Italian solar energy market is still uncertain, but Terni is growing abroad.** The YoY turnover decline is mainly attributable to a tough comparison with 2011, when the company benefited from a very good price mix in an expanding solar energy market. The scenario has changed completely since then, due to somewhat unexpected regulatory changes that are stifling demand, as occurred in March 2011 when there was a shaky transition to the fourth "energy budget" framework. Terni's management did not announce any change of plans, thus confirming its strategy to diversify both geographically (by moving into Greece and Eastern Europe, Africa and the Middle East in the solar EPC business) and by entering the energy efficiency business. In light of 1Q results, and without any new business plan indications, we confirm our full year estimates. We currently forecast that a recovery will begin in the second half of the year, thanks especially to new contracts from abroad.
- OUTPERFORM, target price Eu3.50 confirmed.** Although there are both general economic concerns and sector-specific uncertainties affecting the solar power industry, Terni Energia has withstood the pressure very well. The stock has registered a relative performance of +14% over the last three months. The company's reactive business model is working to compensate for the effects of lower demand in its core solar EPC business in Italy with higher profitability and constant cash flows from the power generation division (62.1MWp in JV and 7.4MWp full equity of installed capacity, for over 80mn kilowatt-hours of energy produced yearly and sold with generous incentive-boosted tariffs), as well as with O&M activities for third parties (over 200MWp). Our SOP valuation (EPC and power generation valued separately) yields a fair value of Eu3.5 per share. We therefore confirm our positive recommendation on the stock.

Key Figures	2010A	2011A	2012E	2013E	2014E
Sales (Eu mn)	100	169	85	60	155
Ebitda (Eu mn)	15	15	13	13	154
Net profit (Eu mn)	9	9	10	10	104
EPS - New (Eu)	0.323	0.325	0.353	0.343	3.746
EPS - Old (Eu)	0.323	0.325	0.353	0.344	3.748
DPS (Eu)	0.196	0.190	0.176	0.171	1.873
Ratios & Multiples	2010A	2011A	2012E	2013E	2014E
P/E	7.3	7.3	6.7	6.9	0.6
Div. Yield	8.3%	8.0%	7.4%	7.2%	79.0%
EV/Ebitda	4.9	6.7	6.5	6.9	1.2
ROCE	53.2%	24.7%	15.2%	13.0%	82.7%

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### TERNIENERGIA - 12m Performance



**RATING: Unchanged**

**TARGET PRICE (Eu): Unchanged**

**Change in EPS est:** 2012E 2013E  
 0.0% -0.4%

#### STOCK DATA

Reuters code: TRNI.MI  
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	-3.3%	-2.5%	-30.7%
Relative	6.3%	15.5%	3.9%
12 months H/L:	3.57/2.10		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	28
Total No. of shares (mn):	28
Mkt Cap Ord (Eu mn):	66
Total Mkt Cap (Eu mn):	66
Mkt Float - ord (Eu mn):	24
Mkt Float (in %):	37.1%
Main shareholder:	
Stefano Neri	60.7%

#### BALANCE SHEET DATA

	2012
Book value (Eu mn):	38
BVPS (Eu):	1.38
P/BV:	1.7
Net Financial Position (Eu mn):	-41
Enterprise value (Eu mn):	87

**TERNIENERGIA - KEY FIGURES**

	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	
	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	
Fiscal year end						
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	100	169	85	60	155
	EBITDA	15	15	13	13	154
	EBIT	14	13	11	11	152
	Financial income (charges)	(0)	(3)	(2)	(2)	(4)
	Associates & Others					
	Pre-tax profit (Loss)	14	13	15	14	156
	Taxes	(5)	(4)	(5)	(5)	(51)
	Tax rate (%)	33.5%	30.2%	33.0%	33.0%	33.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	9	9	10	10	104
	Total extraordinary items	(0)	2	5	5	7
	Ebitda excl. extraordinary items	15	15	13	13	154
	Ebit excl. extraordinary items	14	13	11	11	152
	Net profit restated	9	9	10	10	104
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	28	28	28	28	28
	EPS stated fd	0.323	0.325	0.353	0.343	3.746
	EPS restated fd	0.323	0.325	0.353	0.343	3.746
	BVPS fd	1.090	1.484	1.384	1.550	5.125
	Dividend per share (ord)	0.196	0.190	0.176	0.171	1.873
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	60.5%	58.0%	50.0%	50.0%	50.0%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	9	9	10	10	104
	Change in NWC	(9)	(14)	5	1	(193)
	Capital expenditure	(5)	(25)	(10)	(8)	0
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(5)	(29)	5	3	(89)
	Acquisitions, divestments & others	(8)	(1)	(1)	(1)	0
	Dividend	(2)	(5)	(5)	(5)	(5)
	Equity financing/Buy-back	11	0	0	0	0
	Change in Net Financial Position	(3)	(35)	(0)	(3)	(94)
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	16	38	52	60	60
	Net working capital	63	33	79	80	275
	Long term liabilities	(43)	0	(51)	(53)	(55)
	Net capital employed	36	71	80	87	280
	Net financial position	(5)	(36)	(41)	(44)	(138)
	Group equity	30	41	38	43	143
	Minorities	0	0	0	0	0
	Net equity	30	41	38	43	143
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	66	66	66	66	66
	Adjustments (associate & minorities)	0	0	20	20	20
	Net financial position	(5)	(36)	(41)	(44)	(138)
	Enterprise value	71	102	87	90	183
<b>RATIOS(%)</b>	EBITDA margin*	14.7%	9.0%	15.7%	21.6%	99.6%
	EBIT margin*	13.8%	7.8%	13.4%	18.1%	98.2%
	Gearing - Debt/equity	18.1%	86.7%	106.9%	101.8%	96.4%
	Interest cover on EBIT	88.3	5.1	6.5	6.4	41.8
	Debt/Ebitda	0.38	2.35	3.06	3.39	0.89
	ROCE*	53.2%	24.7%	15.2%	13.0%	82.7%
	ROE*	40.9%	25.3%	24.6%	23.4%	nm
	EV/CE	2.8	1.9	1.2	1.1	1.0
	EV/Sales	0.7	0.6	1.0	1.5	1.2
	EV/Ebit	5.2	7.7	7.6	8.3	1.2
	Free Cash Flow Yield	-8.2%	-44.6%	11.9%	6.4%	-193.4%
<b>GROWTH RATES (%)</b>	Sales	113.4%	69.6%	-49.6%	-30.0%	158.2%
	EBITDA*	102.0%	4.1%	-11.8%	-3.7%	1089.6%
	EBIT*	98.7%	-4.5%	-13.1%	-5.4%	1302.7%
	Net profit	130.4%	0.6%	8.5%	-2.9%	993.2%
	EPS restated	130.4%	0.6%	8.5%	-2.9%	993.2%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## Downward trend in quarterly results, as expected

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In the table below we report the comparison between our estimates and 1Q 2012 results.

<b>TerniEnergia P&amp;L</b>							
<b>euro mil</b>	<b>1Q11</b>	<b>4Q11A</b>	<b>2011</b>	<b>1Q12E</b>	<b>1Q12A</b>	<b>% A/E</b>	<b>2012</b>
<b>Total Revenues</b>	<b>30.6</b>	<b>16.8</b>	<b>169.8</b>	<b>20.0</b>	<b>23.0</b>	<b>15%</b>	<b>85.4</b>
Total Operating Costs	-25.2	-6.3	-148.5	-16.0	-19.0		-72.0
<b>Value Added</b>	<b>5.4</b>		<b>21.3</b>	<b>4.0</b>	<b>4.0</b>	<b>0%</b>	<b>13.4</b>
Labor Cost	-2.0		-6.1	-1.8	-1.5		-6.0
<b>EBITDA</b>	<b>3.4</b>	<b>4.4</b>	<b>15.2</b>	<b>2.3</b>	<b>2.5</b>	<b>10%</b>	<b>13.4</b>
<b>Adj. EBITDA</b>	<b>3.4</b>	<b>4.4</b>	<b>15.2</b>	<b>2.3</b>	<b>2.5</b>	<b>10%</b>	<b>13.4</b>
% EBITDA Margin	11.1%	26.3%	9.0%	11.3%	10.7%		15.7%
Depr	-0.1	-1.0	-2.1	-0.5	-0.5		-2.0
<b>EBIT</b>	<b>3.3</b>	<b>3.5</b>	<b>13.2</b>	<b>1.8</b>	<b>2.0</b>	<b>15%</b>	<b>11.4</b>
% EBIT Margin	10.9%	20.5%	7.7%	8.8%	8.7%		13.4%
Net Financial Charges	-0.5	-0.7	-2.6	-0.4	-0.8		-1.8
Results from JV participation	0.1	-0.5	2.4	1.2	0.4		5.0
<b>Net Operating Margin</b>	<b>3.0</b>	<b>2.2</b>	<b>13.0</b>	<b>2.6</b>	<b>1.7</b>	<b>-35%</b>	<b>14.6</b>
Taxes	-0.9	-1.0	-3.9	-1.2	-0.5		-4.8
Tax Rate %	-28.8%	-44%	-30%	-47%	-33%		-33%
<b>Net Income</b>	<b>2.2</b>	<b>1.2</b>	<b>9.0</b>	<b>1.3</b>	<b>1.1</b>	<b>-17%</b>	<b>9.8</b>
Results from discontinued c	0.0	0.0	0.0	0.0	0.0		0.0
Minorities	0.0	0.0	0.0	0.0	0.0		0.0
<b>Group Net Income</b>	<b>2.2</b>	<b>1.2</b>	<b>9.0</b>	<b>1.3</b>	<b>1.1</b>	<b>-17%</b>	<b>9.8</b>
<b>Adj. Net Income</b>	<b>2.2</b>	<b>1.2</b>	<b>9.0</b>	<b>1.3</b>	<b>1.1</b>	<b>-17%</b>	<b>9.8</b>
<b>Capex</b>	<b>9.1</b>	<b>31.1</b>	<b>38.1</b>	<b>-1.0</b>	<b>1.0</b>		<b>-10.0</b>
<b>Equity</b>	<b>32.7</b>	<b>32.3</b>	<b>32.3</b>	<b>32.3</b>	<b>32.9</b>		<b>38.5</b>
<b>Net Debt</b>	<b>27.7</b>	<b>35.9</b>	<b>35.9</b>	<b>36.0</b>	<b>44.4</b>		<b>41.2</b>
<b>CE</b>	<b>60.4</b>	<b>68.1</b>	<b>68.1</b>	<b>68.3</b>	<b>77.3</b>		<b>79.7</b>
<b>D/E Ratio</b>	<b>0.90</b>	<b>1.11</b>	<b>1.11</b>	<b>1.12</b>	<b>1.12</b>		

Source: Intermonte SIM