

TERNIENERGIA

OUTPERFORM

Price (Eu): 2.13
Target Price (Eu): 3.50

SECTOR: Industrials

Fabrizio Barini +39-02-77115.319
 e-mail: fbarini@intermonte.it

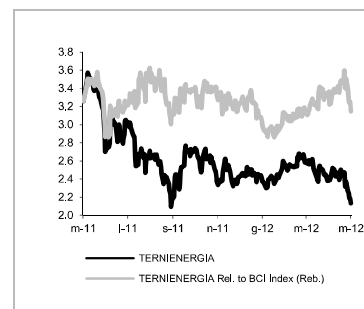
Welcoming Italy's Leading Listed "Pure Green" Player

- TerniEnergia and TerniGreen to merge.** The Boards of Directors of TerniEnergia and TerniGreen have approved a proposal to merge the two companies: TerniGreen will be incorporated into TerniEnergia. The equity swap ratio has been set at 0.34 TerniEnergia shares for each TerniGreen share. No cash adjustments will be paid. Based on the merger ratio, up to 9.792mn new ordinary TerniEnergia shares will be issued at Eu2.79 each, bringing the total to 38.8mn. TerniGreen shareholders will have withdrawal rights. The new company's top shareholder will be Terni Research, whose combined direct and indirect stake will be 61.56%.
- Leading listed "pure green" company is born.** We think that the merger ratio is good and that this deal makes strategic sense. The newly merged entity will be able to benefit from a diversified business mix and control of the full value chain. It will combine TerniGreen's fast-growing businesses with TerniEnergia's utility-like activities. There should also be major synergies to be obtained in terms of operational, productive and marketing efficiency. Last but not least, the company will simply become larger, giving it a competitive edge and potentially a stronger financial structure in order to penetrate foreign markets.
- Fair deal for TerniEnergia minorities.** The swap ratio of 0.34x is consistent with the ratio implied by market prices before the deal was announced (0.32x) and with the historical average (0.32x); there is very slight added value for TerniGreen. From a financial point of view, the impact will be neutral on the new company's 2013 EPS (the first year of full consolidation). Without counting on any merger synergies, and based on TerniGreen's business plan figures, we would estimate a 2013 EPS of Eu0.33 (vs. Eu0.34 for TerniEnergia alone). On the balance sheet, the debt/equity ratio will remain stable at around 1x (the net debt figure even assumes a 50% exercise of withdrawal rights). Market multiples would also remain similar: the new company's expected EV/EBITDA is 6.5x, vs. the current 6.7x for TerniEnergia on a standalone basis. We say that in terms of multiples the operation sounds good.
- OUTPERFORM; target price Eu3.50 confirmed.** We consider the merger deal to be neutral/positive for TerniEnergia's minorities. Excluding any impact in term of synergies (management considers the current business plan to be superseded and a new one will be drafted in the next 3 months) we do not see any dilution of margins or EPS in 2013. We therefore see large upside for the new group from the current equity position thanks to the value creation coming from efficiencies in operational activities and the acceleration in the internationalisation process in both renewable energy and environmental activities. The fair value for the new entity could range from Eu3.1 to Eu3.4 per share on the back of the current fair value of TerniEnergia and a valuation for TerniGreen based on the current market price and a DCF valuation.

Key Figures	2009A	2010A	2011A	2012E	2013E
Sales (Eu mn)	47	100	169	87	64
Ebitda (Eu mn)	7	15	15	14	14
Net profit (Eu mn)	4	9	9	10	10
EPS - New (Eu)	0.140	0.323	0.325	0.353	0.345
EPS - Old (Eu)	0.140	0.323	0.325	0.353	0.343
DPS (Eu)	0.070	0.196	0.190	0.176	0.172

Ratios & Multiples	2009A	2010A	2011A	2012E	2013E
P/E	15.2	6.6	6.6	6.1	6.2
Div. Yield	3.3%	9.2%	8.9%	8.3%	8.1%
EV/Ebitda	8.5	4.4	6.2	5.6	6.0
ROCE	44.7%	53.2%	24.7%	16.4%	14.1%

TERNIENERGIA - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est: 2011A 2012E
 0.0% 0.0%

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	-11.8%	-17.0%	-34.5%
Relative	-6.0%	0.7%	-2.3%
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):	59
Total Mkt Cap (Eu mn):	59
Mkt Float - ord (Eu mn):	22
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:	1.5
Net Financial Position (Eu mn):	-42
Enterprise value (Eu mn):	81

TERNIENERGIA - KEY FIGURES

		2009A	2010A	2011A	2012E	2013E
Fiscal year end		31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
PROFIT & LOSS (Eu mn)	Sales	47	100	169	87	64
	EBITDA	7	15	15	14	14
	EBIT	7	14	13	12	12
	Financial income (charges)	(0)	(0)	(3)	(2)	(2)
	Associates & Others	(1)	(0)	2	5	5
	Pre-tax profit (Loss)	6	14	13	16	15
	Taxes	(2)	(5)	(4)	(6)	(6)
	Tax rate (%)	37.0%	33.5%	30.2%	37.0%	37.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	4	9	9	10	10
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	7	15	15	14	14
Ebit excl. extraordinary items	7	14	13	12	12	
Net profit restated	4	9	9	10	10	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	28	28	28	28	28
	EPS stated fd	0.140	0.323	0.325	0.353	0.345
	EPS restated fd	0.140	0.323	0.325	0.353	0.345
	BVPS fd	0.493	1.090	1.484	1.383	1.552
	Dividend per share (ord)	0.070	0.196	0.190	0.176	0.172
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	50.0%	60.5%	58.0%	50.0%	50.0%
CASH FLOW (Eu mn)	Gross cash flow	3	9	9	10	10
	Change in NWC	2	(9)	(14)	5	1
	Capital expenditure	(1)	(5)	(25)	(10)	(8)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	4	(5)	(29)	5	3
	Acquisitions, divestments & others	(1)	(8)	(1)	(1)	(1)
	Dividend	0	(2)	(5)	(5)	(5)
	Equity financing/Buy-back	0	11	0	0	0
Change in Net Financial Position	3	(3)	(35)	(1)	(3)	
BALANCE SHEET (Eu mn)	Total fixed assets	6	16	38	52	60
	Net working capital	13	63	33	80	80
	Long term liabilities	(2)	(43)	0	(51)	(53)
	Net capital employed	16	36	71	80	87
	Net financial position	(2)	(5)	(36)	(42)	(44)
	Group equity	14	30	41	38	43
	Minorities	0	0	0	0	0
Net equity	14	30	41	38	43	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	59	59	59	59	59
	Adjustments (associate & minorities)	0	0	0	20	20
	Net financial position	(2)	(5)	(36)	(42)	(44)
	Enterprise value	62	65	95	81	84
RATIOS(%)	EBITDA margin*	15.5%	14.7%	9.0%	16.4%	21.8%
	EBIT margin*	14.8%	13.8%	7.8%	14.1%	18.5%
	Gearing - Debt/equity	16.9%	18.1%	86.7%	108.1%	102.5%
	Interest cover on EBIT	43.5	88.3	5.1	6.9	6.9
	Debt/Ebitda	0.32	0.38	2.35	2.90	3.17
	ROCE*	44.7%	53.2%	24.7%	16.4%	14.1%
	ROE*	33.9%	40.9%	25.3%	24.6%	23.5%
	EV/CE	4.0	2.5	1.8	1.1	1.0
	EV/Sales	1.3	0.6	0.6	0.9	1.3
	EV/Ebit	8.9	4.7	7.2	6.5	7.1
Free Cash Flow Yield	7.2%	-9.1%	-49.6%	12.7%	7.8%	
GROWTH RATES (%)	Sales	47.2%	113.4%	69.6%	-48.4%	-26.8%
	EBITDA*	198.6%	102.0%	4.1%	-5.7%	-3.0%
	EBIT*	294.5%	98.7%	-4.5%	-6.0%	-4.4%
	Net profit	421.8%	130.4%	0.6%	8.4%	-2.3%
	EPS restated	421.7%	130.4%	0.6%	8.4%	-2.3%

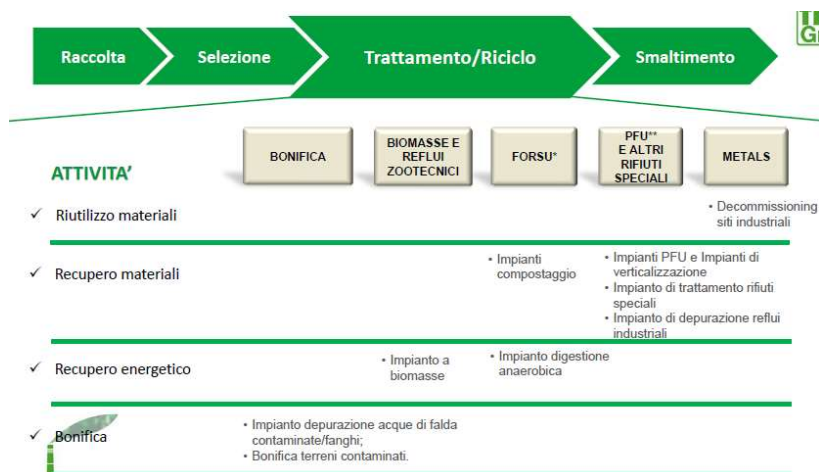
* Excluding extraordinary items

Source: Intermonte SIM estimates

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The Boards of Directors of TerniEnergia and TerniGreen have approved a proposal to merge the two companies: TerniGreen will be incorporated into TerniEnergia.

TerniGreen operates in the recovery of waste materials in the environmental sector, and in the development and production of technology in areas of the energy sector other than the photovoltaic, hydroelectric and wind power segments. In particular, the company operates in the recovery of used tyres, the treatment of biodegradable waste through the implementation of bio-digesters, the management of plants for biological depuration, the decommissioning of industrial plants, the recovery of demolition metals and the cleaning of industrial sites, and the development and production of technological apparatus.

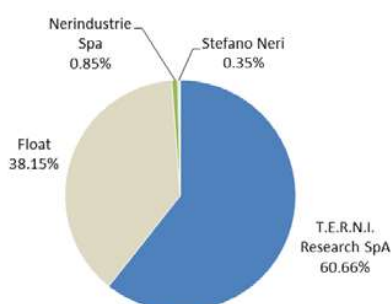


Source: company data

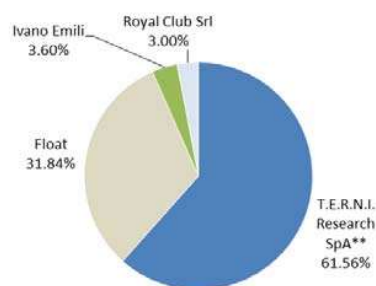
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T.E.R.N.I. Research S.p.A. will maintain a controlling stake of 55.84% of the corporate capital of the New Company in terms of ordinary shares. Nuova TIC S.r.l. will hold 5.72% of the corporate capital. The controlling stake held directly and indirectly by T.E.R.N.I. Research will amount to 61.56%. Upon completion of the merger, any treasury shares in TerniGreen will be annulled.

Current Shareholders



New Entity Shareholders



** includes Nuova TIC Spa e Nuova TIC Srl shares