

# TERNIENERGIA

# OUTPERFORM

**Price (Eu):** **2.59**  
**Target Price (Eu):** **3.50**

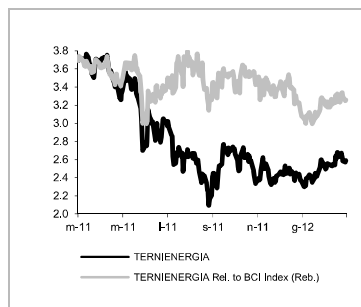
SECTOR: Industrials

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## Good Company Indications for 1Q 2012

- EPC division has kept on growing in 1Q12.** TerniEnergia announced it has completed six new industrial-size solar energy systems, in Italy and Greece, in the first quarter of 2012. The installed power capacity of these systems is a combined 23.5MW. This comes as a pleasant surprise, as we were expecting 15MW of new installed capacity in the quarter, which would have been consistent with the business plan target of 120MW for 2012-2013. The current trend is an encouraging sign that the business plan target could be beaten and, at the very least, increases visibility that the target will be achieved. The company also announced that its subsidiary Lucos Alternative Energies has completed major illumination engineering energy efficiency project, in which third party financing was used to install 401 LED lighting units.
- Thanks to geographical diversification, risk of legal changes poses less of a menace.** The negative news is that the Italian Government is set to replace the fourth "Conto Energia" ("Energy Budget") tariff mechanism with a new system in July 2012. According to press speculation, resources allocated for the current incentive scheme have run empty in advance; as such, the Government plans to pass a new law that would cut incentive-boosted renewable energy tariffs by a further 15-30% and place an installed capacity cap of somewhere between 300 and 600 megawatts. Such significant cuts would reduce the market size in Italy, where over 4GW of new capacity was installed in 2011.
- Estimates fine-tuned.** In light of the first quarter results and further indications provided by the company at the Star Conference yesterday, we are raising our installed power capacity estimate from 55MW to 65MW for 2012, also forecasting an improved geographical mix with more exposure abroad. Management also confirmed 2012-13 business plan targets, indicating that despite a deteriorating regulatory scenario in Italy, the group can attain about Eu7mn in recurring EBITDA from power generation and from plant maintenance activities for third parties (its order book amounts to 150MW of expected power capacity). Furthermore, the company expects Eu3mn in profit after tax from its JV in power generation. We nevertheless forecast a further erosion in EPC division margins due to stiffer competition in the domestic market. The net effect is an average change of 7% in 2012-2013 EPS.
- OUTPERFORM confirmed, target price Eu3.5.** Preliminary 1Q results provided by the company confirm TerniEnergia's ability to withstand growing competition and an unpredictable reference market. Expansion abroad will help mitigate the effects of a potential negative trend in the Italian solar power market; it should be noted that a reduction in incentives on new systems would actually have a positive effect on systems that are already up and running. TerniEnergia's installed capacity as at the end of 2011 was 72MW, of which 62MW in joint ventures and 10.4MW in full equity. These assets represent a solid foundation in the midst of deteriorating reference market conditions.

### TERNIENERGIA - 12m Performance



**RATING: Unchanged**  
**TARGET PRICE (Eu): Unchanged**  
**Change in EPS est:** **2011A 2012E**  
**0% -6.1%**

#### STOCK DATA

Reuters code: TRNI.MI  
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	2.7%	6.1%	-29.0%
Relative	0.5%	-4.9%	-8.7%
12 months H/L:	3.76/2.10		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	27
Total No. of shares (mn):	27
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	60.7%

#### BALANCE SHEET DATA

	2012
Book value (Eu mn):	41
BVPS (Eu):	1.54
P/BV:	1.7
Net Financial Position (Eu mn):	-39
Enterprise value (Eu mn):	109

Key Figures	2009A	2010A	2011A	2012E	2013E
Sales (Eu mn)	47	100	169	90	92
Ebitda (Eu mn)	7	15	15	16	17
Net profit (Eu mn)	4	9	9	10	11
EPS - New (Eu)	0.145	0.335	0.337	0.360	0.392
EPS - Old (Eu)	0.140	0.323	0.325	0.383	0.394
DPS (Eu)	0.073	0.203	0.190	0.180	0.196

Ratios & Multiples	2009A	2010A	2011A	2012E	2013E
P/E	17.8	7.7	7.7	7.2	6.6
Div. Yield	2.8%	7.8%	7.3%	6.9%	7.6%
EV/Ebitda	9.9	5.1	6.9	7.0	6.8
ROCE	44.7%	53.2%	24.7%	17.9%	17.3%

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**TERNIENERGIA - KEY FIGURES**

	<b>2009A</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Fiscal year end	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
<b>PROFIT &amp; LOSS (Eu mn)</b>					
Sales	47	100	169	90	92
EBITDA	7	15	15	16	17
EBIT	7	14	13	14	15
Financial income (charges)	(0)	(0)	(3)	(2)	(2)
Associates & Others					
Pre-tax profit (Loss)	6	14	13	15	16
Taxes	(2)	(5)	(4)	(5)	(5)
Tax rate (%)	37.0%	33.5%	30.2%	34.0%	34.0%
Minorities & discontinue activities	0	0	0	0	0
Net profit	4	9	9	10	11
Total extraordinary items	(1)	(0)	2	3	3
Ebitda excl. extraordinary items	7	15	15	16	17
Ebit excl. extraordinary items	7	14	13	14	15
Net profit restated	4	9	9	10	11
<b>PER SHARE DATA (Eu)</b>					
Total shares out (mn) - average fd	27	27	27	27	27
EPS stated fd	0.145	0.335	0.337	0.360	0.392
EPS restated fd	0.145	0.335	0.337	0.360	0.392
BVPS fd	0.510	1.129	1.538	1.538	1.639
Dividend per share (ord)	0.073	0.203	0.190	0.180	0.196
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%
<b>CASH FLOW (Eu mn)</b>					
Gross cash flow	3	9	9	10	11
Change in NWC	2	(9)	(14)	4	1
Capital expenditure	(1)	(5)	(25)	(10)	(8)
Other cash items	0	0	0	0	0
Free cash flow (FCF)	4	(5)	(29)	4	4
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)	(2)	(1)
<b>BALANCE SHEET (Eu mn)</b>					
Total fixed assets	6	16	38	52	60
Net working capital	13	63	33	80	81
Long term liabilities	(2)	(43)	0	(51)	(53)
Net capital employed	16	36	71	81	88
Net financial position	(2)	(5)	(36)	(39)	(44)
Group equity	14	30	41	41	44
Minorities	0	0	0	0	0
Net equity	14	30	41	41	44
<b>ENTERPRISE VALUE (Eu mn)</b>					
Average mkt cap - current	70	70	70	70	70
Adjustments (associate & minorities)	0	0	0	0	0
Net financial position	(2)	(5)	(36)	(39)	(44)
Enterprise value	72	75	105	109	113
<b>RATIOS(%)</b>					
EBITDA margin*	15.5%	14.7%	9.0%	17.3%	18.2%
EBIT margin*	14.8%	13.8%	7.8%	15.1%	15.9%
Gearing - Debt/equity	16.9%	18.1%	86.7%	95.4%	99.5%
Interest cover on EBIT	43.5	88.3	5.1	7.9	8.8
Debt/Ebitda	0.32	0.38	2.35	2.53	2.62
ROCE*	44.7%	53.2%	24.7%	17.9%	17.3%
ROE*	33.9%	40.9%	25.3%	23.4%	24.7%
EV/CE	4.6	2.9	2.0	1.4	1.3
EV/Sales	1.5	0.8	0.6	1.2	1.2
EV/Ebit	10.4	5.4	8.0	8.0	7.8
Free Cash Flow Yield	6.1%	-7.8%	-42.3%	6.1%	6.0%
<b>GROWTH RATES (%)</b>					
Sales	47.2%	113.4%	69.6%	-47.0%	1.9%
EBITDA*	198.6%	102.0%	4.1%	2.1%	7.5%
EBIT*	294.5%	98.7%	-4.5%	3.0%	7.7%
Net profit	421.8%	130.4%	0.6%	6.7%	8.9%
EPS restated	421.7%	130.4%	0.6%	6.7%	8.9%

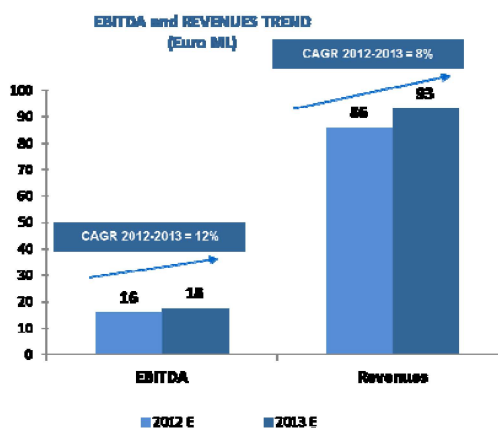
\* Excluding extraordinary items

Source: Intermonte SIM estimates

### Goodnesflow from 1Q 2012 preview results

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Source: Company data

### OUTPERFORM confirmed, target price Eu3.5.

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#### TerniEnergia – Sum of the Parts

(Eu mn)	Equity Fair Value
EPC Fair Value	22.0
JV Participation Fair Value (Pro Quota)	38.6
Full Equity	34.3
Energy Saving	0.0
<b>Average Equity Value</b>	<b>94.8</b>
Current Equity Value (Mkt Price)	63.4
n° of share	26.9
Current Market Price	2.4
<b>Target Price</b>	<b>3.5</b>

Source: Company data and Intermonte SIM estimates.

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- NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;
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- SELL: stock expected to underperform the market by over 25% over a 12 month period.

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- NEUTRAL: 36.43%
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**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	TERNIENERGIA		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	3.50	Previous Target (Eu):	3.50
Current Price (Eu):	2.59	Previous Price (Eu):	2.64
Date of report:	29/03/2012	Date of last report:	15/03/12

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