Italian Research | 2Q12 Results | Milan, July 31, 2012

Intermonte

TERNIENERGIA — OUTPERFORM

SECTOR: Industrials

Price (Eu): 1.98

Target Price (Eu): 2.80

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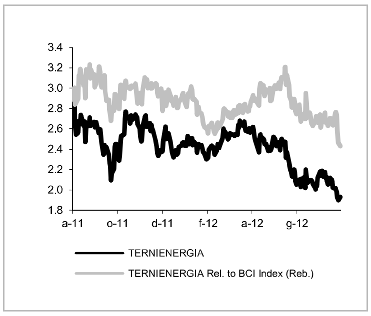
Weak Quarter As Expected But The Business Model Shows Its Benefits

- **1H12: sales -91%, bottom line still in the black.** The group closed 1H with turnover of Eu31.4mn, down from Eu116mn in 2011 but higher than our estimate of Eu29mn This figure discounts a tough comparison, as 2011 benefited from strong volumes (40MW vs. 25,9MW in 2012) due to the race to install equipment for third parties ahead of the expiry of the previous incentives regime (the third Conto Energia and the "salva Alcoa" decree). It is also affected by the company's decision to limit its activities as a result of regulatory uncertainty on the Italian market caused by the unexpected end to the fourth Conto Energia after after just one year in existence. EBITDA came to Eu3mn, down from Eu9mn in 2011 but in line with our forecast. Finally, net profit came to Eu1.7mn, below the Eu5.4mn in 2011 but slightly better than our estimate: Eu1.6mn. The NFP was negative to the tune of Eu45.9mn, slightly higher on a QoQ basis (Eu44.4mn in 1Q). We should note that 2Q revenues and net profit beat estimates, by 40% and 33% respectively, although the shift in absolute terms was minimal.
- **The sharp YoY decline in results came as no surprise.** The negative trend is destined to continue in 3Q, but there should be some signs of a recovery by year end thanks to the contribution of international activities (Greece and South Africa). The company will present a new business plan in September that will include Terni Green, as the merger should be completed by the end of August. The main positive factor that should be underlined, however, is that despite a 90% drop in turnover in 2Q, Terni Energia still managed to deliver positive EBITDA (with a 6% margin) and EBIT, as well as keeping the bottom line in the black (to the tune of Eu600k), thanks to the contribution from energy generation joint ventures. All of this highlights the quality of the group's business model, which is based on flexibility and the decision to diversify into power generation in order to provide some stability during negative phases of the cycle. Indeed, the company can count on 8.4MW of installed capacity in full equity and 61.1MW in JV.
- **Change in estimates.** We are incorporating the current trends in the Italian market and cautiously revising our volumes estimates for the core business of solar power installation downwards from 70MW to 40MW for 2012. We are also lowering our forecast for turnover form the energy saving business (from Eu5mn to Eu1mn), to include less striking growth than has been witnessed thus far. This causes a deteriorating turnover mix that is worse than previously forecast, especially when higher financial charges are taken into account (from roughly Eu1.5 to Eu3mn). We are therefore cutting EPS by 57%. We are projecting a similar scenario in 2013, but when EPC volumes are foreseen at 70MW (from 50MW), with a more favourable mix as they will nearly all be installed abroad. We are cutting 2013 EPS by 34%.
- **OUTPERFORM confirmed, target price to Eu2.8.** Despite the uncertainty surrounding the industry's future, we remain positive on the stock as we back decision to merge with Terni Green in order to diversify into environmental activities, as well as the international expansion that has already grown from nothing to 50% of turnover. The decision to bet on the energy saving business looks equally wise, although it will involve longer implementation timescales. In the medium term we expect group revenues and earnings to return to the levels seen in the recent past. Our new target price reflects the downward revision to estimates for industrial assets, which account for around 30% of our SoP-based valuation.

Key Figures	2009A	2010A	2011A	2012E	2013E
Sales (Eu mn)	47	100	169	66	70
Ebitda (Eu mn)	7	15	15	8	11
Net profit (Eu mn)	4	9	9	4	6
EPS - New (Eu)	0.140	0.323	0.325	0.152	0.228
EPS - Old (Eu)	0.140	0.323	0.325	0.353	0.345
DPS (Eu)	0.070	0.195	0.190	0.076	0.114

Ratios & Multiples	2009A	2010A	2011A	2012E	2013E
P/E	14.1	6.1	6.1	13.0	8.7
Div. Yield	3.5%	9.9%	9.6%	3.8%	5.7%
EV/Ebitda	7.9	4.1	6.0	12.9	9.6
ROCE	44.7%	53.2%	25.3%	7.8%	10.7%

TERNIENERGIA - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): from Eu3.5 to 2.8

Change in EPS est:	2012E	2013E
	-57.1%	-32.9%

STOCK DATA

Reuters code:	TRNI.MI
Bloomberg code:	TER IM

Performance	1m	3m	12m
Absolute	-2.4%	-18.1%	-34.0%
Relative	2.5%	-8.0%	-3.2%
12 months H/L:			3.02/1.98

SHAREHOLDER DATA

No. of Ord. shares (mn):	28
Total No. of shares (mn):	28
Mkt Cap Ord (Eu mn):	55
Total Mkt Cap (Eu mn):	55
Mkt Float - ord (Eu mn):	20
Mkt Float (in %):	*37.1%*
Main shareholder:	
Stefano Neri	60.7%

BALANCE SHEET DATA	2012
Book value (Eu mn):	33
BVPS (Eu):	1.18
P/BV:	1.7
Net Financial Position (Eu mn):	-43
Enterprise value (Eu mn):	98