

TERNIENERGIA

OUTPERFORM

Price (Eu): **1.94**
Target Price (Eu): **2.40**

SECTOR: Industrials

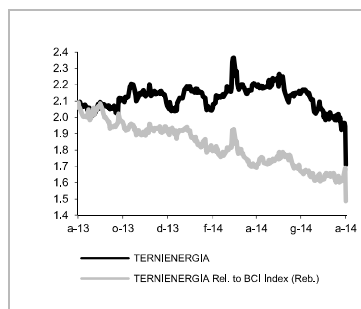
Fabrizio Barini +39-02-77115.319
 e-mail: fbarini@intermonte.it

Rita Mombello +39-02-77115.252
 e-mail: rita.mombello@intermonte.it

Weak Numbers, Focus On Deleveraging

- **Weak 2Q results.** TerniEnergia closed 2Q with a considerable year-on-year drop in turnover, as forecast, due to a major slowdown in EPC activity due to regulatory uncertainty in Italy with the end of a renewable energy incentives programme. In detail, sales came in at Eu11.1mn, -50.3% YoY and 60% below our estimate; EBITDA was Eu5.2mn, -42.4% YoY and 30% less than estimated, although the EBITDA margin of 46.8% was higher than the 40.4% in 2013 and our estimate of 26.9%. EBIT came to Eu3.2mn, vs. Eu5.6mn in 2Q13 and our Eu3.7mn estimate. Net profit was Eu0.5mn, vs. Eu3.7mn in 2Q13 and our Eu1.0mn estimate. Net debt was Eu152mn at the end of June, close to our Eu150mn estimate.
- **Focus on deleveraging.** Due to regulatory uncertainty, the company has wisely decided to suspend conferral of some assets into the Renewable Assets closed-end real estate investment trust. Management nevertheless intends to transfer some assets out (while still running the related operations) by the end of this year. The purpose is to substantially reduce net debt, which remains under control: the short-term debt to equity ratio is 0.23x, following a sizeable QoQ improvement.
- **Closer to acquiring Free Energia.** TerniEnergia has signed a contract to acquire the entire share capital of Free Energia, a company that achieved Eu100mn in revenue in 2013 and is projected to raise that figure to Eu170mn in 2014, with an EBITDA margin of about 4%. Free Energia is a trader in innovative energy, providing 1.3 TWh of energy. To execute the deal, TerniEnergia will carry out a rights issue reserved to Free Energia shareholders, who will own 15% of Terni's capital after the new shares are issued. Assuming the acquisition goes through, Terni will manage to extend its business downstream in the energy sector, adding new activities like electricity trading and the fast-growing smart energy services. The closing is subject to a series of conditions. Once the investment contract is set up, TerniEnergia will revise its business plan.
- **Change in estimates: EPS -15% on average.** Considering the company's 2Q results and management's affirmations about delays for the current year in South African construction projects, we have revised our top line estimate for the EPC segment, leaving those for other divisions unchanged. We have raised our group profit margin estimate owing to the lower weight of EPC, which carries low margins. The net effect is a 15% reduction on average in EPS for 2014 to 2016.
- **OUTPERFORM confirmed, target Eu2.4.** 2Q was weak end below expectations but we still believe the outlook remains positive for the company. TerniEnergia's future is centred around: 1) international development (Middle East and South Africa); 2) domestic enhancement through the smart energy and energy efficiency segments; 3) strategic actions leveraging on consolidating high-margin segments and the power generation business. This commitment underpins our positive rating on the stock. Target price changed due to the estimates revision for this year and the next two.

TERNIENERGIA - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): From 2.80 to 2.40

Change in EPS est: **2014E** **2015E**
-18.2% **-9.9%**

STOCK DATA

Reuters code: TRNI.MI
 Bloomberg code: TER IM

Performance	1m	3m	12m
Absolute	-5.4%	-12.5%	-5.3%
Relative	4.3%	-2.9%	-20.3%
12 months H/L:	2.36/1.93		

SHAREHOLDER DATA

No. of Ord. shares (mn):	31
Total No. of shares (mn):	38
Mkt Cap Ord (Eu mn):	60
Total Mkt Cap (Eu mn):	60
Mkt Float - ord (Eu mn):	26
Mkt Float (in %):	42.6%
Main shareholder:	
Stefano Neri	57.4%

BALANCE SHEET DATA

	2014
Book value (Eu mn):	57
BVPS (Eu):	1.51
P/BV:	1.3
Net Financial Position (Eu mn):	-122
Enterprise value (Eu mn):	182

Please see important disclaimer on the last page of this report

Key Figures	2012A	2013A	2014E	2015E	2016E
Sales (Eu mn)	65	67	85	160	107
Ebitda (Eu mn)	11	12	31	37	38
Net profit (Eu mn)	7	7	7	9	10
EPS - New (Eu)	0.151	0.193	0.178	0.244	0.269
EPS - Old (Eu)		0.193	0.217	0.271	0.306
DPS (Eu)	0.055	0.060	0.059	0.080	0.089

Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	12.9	10.1	10.9	8.0	7.2
Div. Yield	2.8%	3.1%	3.0%	4.1%	4.6%
EV/Ebitda	16.6	15.8	6.0	4.9	4.1
ROCE	6.5%	3.4%	9.9%	12.5%	13.5%

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein, and of any of its parts, is strictly prohibited. None of the contents of this document may be shared with third parties without Company authorization.