



## TERNA ENERGY S.A

### Outlook:

We retain TERNA's fair estimated price to 4.10Euros/Share, due to the evidenced increase in MW capacity in-line with the management's estimates, the considerable growth in revenues generated from the other operating sectors and the overall improvement in the company's profitability.

### FY 16 Results:

TERNA's revenues came out at 225mn. Euros, 14.00% up on a year-on-year basis and beat our estimates that called for a +4% revenue growth.

The revenues from Renewables sector were 7.50% up from the previous period and were substantially above our expectations that indicated a 4.00% growth for the period.

The rest operating sectors (Construction, Electricity trading, Concessions) continued growing in sales with a cumulative +27.00% y-o-y rate, surpassing our conservative projections that called for 5, 00% growth.

The Company's operating earnings (EBITDA) reached 128mn.Euros from 111mn.Euros in the previous year, surpassing our estimates that called for lower EBITDA (104.70mn. Euros) as were enhanced by the slightly decreased OPEX incurred for the period and the c.13mn. Other Income that came from insurance contracts.

Finally, Net Profitability stood at 21.90mn.Euros, higher than our expectations for c.17mn Euros.

The proposed DPS for the FY16 is 0.09Euros/Share (Dividend Yield 2.90%).

Date: 05/05/17

FAIR ESTIMATED PRICE: **4.10Euros/Share**

Investment Thesis: **UV**

### Key Statistics:

Valuation	Date 05/05/17
Share Price	3,17
Price High 52 week	3,22
Price Low 52 week	2,35
Current num. of shares	109.314.400
Trailing P/E	21
Market Cap.	346.526.648
EPS	0,20
DPS(Proposed)	0,09
<i>*Closing Price as 04/05/2017</i>	

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TERNA's FY16 results were characterized by the important growth in total revenues, the increase in Renewables MW capacity -in line with the management's projections- and the substantial generation of operating and net earnings recorded.

The 'Renewables' sector recorded another period of growth as its revenues ended up at 151mn.Euros, +7.50% than the previous year and above our expectations for +4.00%. For the full year 2016 the Sector's capacity reached 738MW in line with our estimates regarding the capacity expansion. Most importantly, the better than expected average load factor (28%) for the period surpassed our estimates for 27% and finally reached to better than expected revenue growth. The company has already set additional 72MW in capacity, fully functional for the FY17 and in line with both our estimates and the capacity expansion program. We should note that the other operating sectors performed equally well with significant growth which is mainly related to the overall Renewables activity and to public infrastructure projects (especially for the Concession sector).

In terms of Operating profitability, despite the slight reduction in the Gross profit margin (56.50% vs. 58% on the previous period, which is attributed to the higher share of other sectors revenues to the consolidated revenues), the EBITDA reached 128mn.Euros surpassing our estimates for 104.80mn.Euros. That significant improvement reflects the lower OPEX expenses incurred for the period combined with an additional amount of 13mn. Euros that came from an insurance contract reimbursement and significantly enhanced the Group's operating profitability and positively contributed to the y-o-y increase in the company's Net Profitability. We should note that the company's tax rate for the FY16 was negatively affected by the recognition of deferred taxes and lead to higher tax burden for the period.

We decide to keep our basic assumptions regarding our projections for the TERNA's ongoing performance. More precisely, we retain our previous estimates for the company's planned MW capacity expansion as we have already evidenced its efforts towards the completion of the critical 1GW capacity for the upcoming periods while we still incorporate a lower than the current year average load factor in order to reflect the average historical load factor rate. These assumptions are not changing our estimates regarding the potential stream of FCFE for the examined period and require that we retain our Fair Value estimates for the our three Risk scenarios already depicted in our previous analysis, (see TERNA ENERGY S.A190416). Finally, we insist that our Fair Value estimates are highly sensitive to the financial leverage of the company. TERNA's short term financing needs, as they reflected in the FY16 results, could negatively impact the shareholder's value (especially in a softer environment for the company's operations) making us cautious regarding the share's valuation at least until the completion of the 1GW capacity that could allow the company to reap the profits of the economies of scale that could arise and gradually deleverage its Balance sheet.

## FINANCIAL SUMMARY AND VALUATION TABLES

Table I: Income Statement

Income Statement	2016A	2017E	2018E	2019E	2020E
Sales	225.560.000	229.788.370	245.304.082	265.862.400	265.862.400
COGS	- 98.064.000	- 96.511.115	- 103.027.714	- 111.662.208	- 111.662.208
Gross Profit	127.496.000	133.277.254	142.276.367	154.200.192	154.200.192
Sales&Admin expenses	- 12.269.000	- 14.270.064	- 27.514.100	- 28.514.100	- 29.514.100
R&D costs	- 1.152.000	- 2.651.410	- 2.751.410	- 2.851.410	- 2.951.410
Other Costs/Revenues	13.969.000	1.000.000	1.000.000	1.000.000	1.000.000
EBITDA	128.044.000	117.355.780	113.010.857	123.834.682	122.734.682
D&A	53.294.000	52.393.850	52.393.850	52.393.850	52.393.850
EBIT	74.750.000	64.961.930	60.617.007	71.440.832	70.340.832
Interest Expense	- 39.448.000	- 34.000.000	- 34.000.000	- 34.000.000	- 34.000.000
Investm.in Assoc.	989.000				
EBT	36.291.000	30.961.930	26.617.007	37.440.832	36.340.832
Taxation	- 14.912.000	- 8.978.960	- 7.718.932	- 10.857.841	- 10.538.841
Net Income/Loss	21.379.000	21.982.971	18.898.075	26.582.991	25.801.991

Source: Company's statements, N.Chrysochoidis Research Department estimates.

Table II: Cash Flows

Cash Flow estimations (E)	2016A	2017E	2018E
EBIT	74.750.000	60.617.007	71.440.832
Taxation (1-Tax Rate)	58%	71%	71%
NOPAT	43.355.000	43.038.075	50.722.991
Depreciation	53.294.000	52.393.850	52.393.850
Capital Exp.	10.353.000	4.809.871	6.373.079
IWC	145.474.000	25.000.000	25.000.000
NCF	- 59.178.000	65.622.054	71.743.762

Source: Company's statements, N.Chrysochoidis Research Department estimates

Table III: Valuation Metrics

<b>Growth</b>	<b>12/16A</b>	<b>12/17E</b>	<b>12/18E</b>
Sales growth	14%	2%	8%
EBITDA growth	15%	-8%	10%
Net Profit/Loss growth	23%	3%	41%
<b>RATIOS</b>	<b>12/16A</b>	<b>12/17E</b>	<b>12/18E</b>
Debt/Equity	1,64	1,64	1,64
Capex/EBITDA	114%	43%	22%
ROE	6%	6%	5%
WACC	9,00%	9,00%	9,00%
<b>VALUATION</b>	<b>12/16A</b>	<b>12/17E</b>	<b>12/18E</b>
Book Value	3,19	3,19	3,19
P/BV	1,00	1,28	1,28
P/E	21	20	24

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### Σημειώσεις/Notes

P:	Τρέχουσα Τιμή	Market Price
MCAP:	Κεφαλαιοποίηση	Capitalization
EPS:	Καθαρά Κέρδη Ανά Μετοχή	Earnings per Share
P/E:	Λόγος Τιμής προς Κέρδη	Price/Earnings Ratio
P/S:	Λόγος Τιμής προς Πωλήσεις	Price/Sales Ratio
D/A:	Συνολικός Δανεισμός προς Παθητικό	Total Debt/Assets Ratio
DY:	Απόδοση Μερισμάτων	Dividend Yield
ROE:	Απόδοση Ιδίων Κεφαλαίων	Return on Equity
FV:	Τιμή Σωστής Αποτίμησης	Fair Value Price

### Οδηγός Συστάσεων/Ratings

UV	Χαμηλή Αποτίμηση/ Χαμηλός Κίνδυνος	Underpriced/ Small Risk
UV1	Χαμηλή Αποτίμηση/ Κίνδυνος	Underpriced/ Risk
FV	Σωστή Αποτίμηση/ Χαμηλός Κίνδυνος	Fairly Priced/ Small Risk
OV1	Σωστή Αποτίμηση/ Κίνδυνος	Fairly Priced/ Risk
OV	Υπερτιμημένη Μετοχή	Stock Price >10% of Fair Overvalued
N/R	Μη Αποτιμημένη Μετοχή	Stock Price >20% of Fair Not Rated