



## TERNA ENERGY S.A

### Outlook:

We further upgrade TERNA's fair estimated price to 6.50Euros/Share from 4.20Euros/Share, due to the effective capacity implementation both in the US and the Hellenic regions that enhances profitability, the better-than-expected growth in revenues generated by other operating sectors and the stabilization of operating margin to a comfortable level ensuring profitability and forthcoming return.

### FY 17 Results:

TERNA's consolidated revenues came out at 276.00mn.Euros from 225.50mn.Euros on a y-o-y basis.

Revenues generated from "Renewables" sector marked a 14.00% increase from the previous period surpassing our expectations that indicated an 4.10% growth for the respective period.

The Constructions sector marked a strong revenue increase of 27.7% on a y-o-y basis

Operating Earnings reached 105.34mn.Euros vs. 74.75mn.Euros respectively.

Net Profitability stood at 37.12mn.Euros. vs. 21.38 on a y-o-y basis.

Date: 04/05/18

FAIR ESTIMATED PRICE: **6.50Euros/Share**

Investment Thesis: **UWI**

### Key Statistics:

Valuation	4/5/2018
Share Price	5,15
Price High 52 week	5,30
Price Low 52 week	3,16
Current num. of shares	113.918.136
Trailing P/E	29
Market Cap.	586.678.400
EPS (Trailing)	0,32
DPS(Proposed)	0,22
<i>*Closing Price as 03/05/2018</i>	

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TERNA's FY17 published results were characterized by the successful implementation of the "set target" of 1GW in overall implemented capacity (including Hydro and PV capacity) in late 2017, the substantial revenue generation of the Concessions sector, the stabilization of operating margins and the boost in operating and net earnings recorded.

The "Renewables" sector revenues reached 173mn.Euros, +23.00% from the previous period and substantially above our expectations that called for +4.00%. According to the FY17 statements, the "Renewables" portfolio's capacity (including the PV and Hydro capacity) reached the critical 1.00GW surpassing our estimates regarding the planned capacity expansion for the 2017 and 2018 that called for 814MW and 980MW respectively. Moreover, the company is ready to implement additional 200MW in order to reach 1.200MW by the end of 2019. We note that the rest operating sectors performed equally well, excluding the "Electric Trading" sector which underperformed compared with the sector's FY16 results and the "Concessions" sector demonstrate an outstanding revenue growth mainly related to the public infrastructure projects.

In terms of operating profitability, the company operates in a more efficient manner as we evidence a gradually increase in the Gross profit margin (33.20% vs. 32.00% on the previous period), mainly driven by the "Renewables" and "Constructions" sector that effectively capitalize the advantages of the utilization of the additional capacity and the increased load factor that equally contributed to substantial EBITDA gains of 151.46mn.Euros surpassing our estimates for 117.35mn.Euros.

Following the management's feedback regarding the company's core operations and the the rate of installation of the additional MW capacity to the Hellenic and the US regions, we decide to alternate our basic assumptions regarding our projections for TERNA's ongoing performance. More precisely, we factor in our model the earlier implementation of the 1GW capacity as we have already evidenced that TERNA ENERGY finally reached the critical 1GW capacity is while we also increase our estimated average load factor in order to incorporate in a more clear manner the favorable load factor that derives from the new sites that the company install additional capacity. Additionally, we feel more confident regarding the feasibility of the company's forthcoming capacity expansion and we decide to incorporate in our model the company's plans for mid-term capacity expansion beyond the 1GW critical point, and the stabilization of the increased operating margins that could enhance the FCFF, and the Pay-out ratio of the company given that have already completed the required CAPEX for the extra capacity expansion. These modifications are changing our estimates regarding the potential stream of FCFF for the examined period and lead us to upgrade our Fair Value estimates for our three Risk cases to 6,50Euros/Share following the 4,50% risk free rate scenario. Finally, we continue to mention that our Fair Value estimates are still highly sensitive to the financial leverage of the company. TERNA's financing needs are covered of a mix of internal and external sources (Corporate Bond and Syndicated Loans), that brought a

stability of interest expenses that could negatively impact the shareholder's value (especially in a softer environment for the company's operating profitability).

## VALUATION TABLES

Table I: Income Statement

Income Statement	2017A	2018E	2019E	2020E
<b>REVENUES</b>	<b>276.400.000,00</b>	<b>273.045.600,00</b>	<b>313.271.520,00</b>	<b>317.294.112,00</b>
COGS	- 116.298.000,00	- 113.313.924,00	- 130.007.680,80	- 131.677.056,48
<b>GROSS PROFIT</b>	<b>160.102.000,00</b>	<b>159.731.676,00</b>	<b>183.263.839,20</b>	<b>185.617.055,52</b>
ADMIN. EXPENSES	- 14.199.000,00	- 27.514.100,00	- 28.514.100,00	- 29.514.100,00
SALES EXPENSES	- 1.186.000,00	- 2.751.410,00	- 2.851.410,00	- 2.951.410,00
OTHER INCOME/EXPENSE	6.601.000,00	1.000.000,00	1.000.000,00	1.000.000,00
<b>EBITDA</b>	<b>151.318.000,00</b>	<b>130.466.166,00</b>	<b>152.898.329,20</b>	<b>154.151.545,52</b>
D&A	46.112.000,00	59.893.850,00	61.893.850,00	63.893.850,00
<b>EBIT</b>	<b>105.206.000,00</b>	<b>70.572.316,00</b>	<b>91.004.479,20</b>	<b>90.257.695,52</b>
<b>FINANCIAL EXPENSES</b>	<b>- 47.225.000,00</b>	<b>- 34.000.000,00</b>	<b>- 34.000.000,00</b>	<b>- 34.000.000,00</b>
		-	-	-
PL FRO ASS.	- 1.113.000,00	-	-	-
<b>EBT</b>	<b>56.868.000,00</b>	<b>36.572.316,00</b>	<b>57.004.479,20</b>	<b>56.257.695,52</b>
TAX.	- 19.895.000,00	- 10.605.971,64	- 16.531.298,97	- 16.314.731,70
<b>NET PROFIT</b>	<b>36.973.000,00</b>	<b>25.966.344,36</b>	<b>40.473.180,23</b>	<b>39.942.963,82</b>

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

Table II: Cash Flows

Cash Flow estimations (E)	2018E	2019E	2020E
EBIT	77.444.530,00	72.344.530,00	65.784.830,00
Tax Rate	74%	74%	74%
NOPAT	57.308.952,20	53.534.952,20	48.680.774,20
D&A	68.374.560,00	79.834.260,00	91.293.960,00
IWC	3.057.774,28	3.057.774,28	3.057.774,28
CAPEX	250.000.000,00	50.000.000,00	50.000.000,00
FCFF	- 121.258.713,52	86.426.986,48	93.032.508,48

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

Table III: Valuation Metrics

<b>GROWTH</b>	<b>12/18E</b>	<b>12/19E</b>	<b>12/20E</b>
Sales growth	-1,21%	14,73%	1,28%
EBITDA growth	-13,78%	17,19%	0,82%
Net Profit/Loss growth	-29,77%	55,87%	-1,31%
<b>RATIOS</b>	<b>12/18E</b>	<b>12/19E</b>	<b>12/20E</b>
Debt/Equity	1,81	1,81	1,81
Capex/EBITDA	192%	33%	32%
ROE	7%	11%	11%
WACC	7,60%	7,60%	7,60%

<b>VALUATION</b>	<b>12/17A</b>	<b>12/18E</b>	<b>12/19E</b>
Book Value	3,38	3,38	3,38
P/BV	1,52	1,52	1,52
P/E	16	23	14

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

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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 Μερισμάτος	Dividend Yield
ROE:	Απόδοση Ιδίων Κεφαλαίων	Return on Equity
FV:	Τιμή Σωστής Αποτίμησης	Fair Value Price

### Οδηγός Συστάσεων/Ratings

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