



TERNA ENERGY S.A.

We upgrade Terna Energy fair estimated price to €7,20 per share on the back of the Group's FY 2018 results.

Terna Energy FY18 Performance at a Glance:

- Year on year Terna Energy SA grew revenues 5,61% from €276,54mn to €292,05mn
- Group's total installed capacity surpassed the mark of 1,000MW and reached 1,032MW at the end of 2018.
- Net Income improved 26,8% from €37,12mn to €47,05mn
- The management intends to return to the shareholders of the firm total cash distribution of €35mn or €0,31 per share.

Investment Thesis

In 2018 Terna Energy (TE) shares gained 24% outperforming significantly ATHEX index while distributed to its shareholders total cash returns of €0,27 per share. For the FY2018, the company reported positive financial results and expanded its RES installed capacity strengthening further its position in Greece and abroad.

We updated our financial model and incorporated the latest financial and operating data and as well as the new projects in Greece and US that are expected to commence operations in the period 2019-2020. Also we have taken into account the risks that are associated with the execution of the firm's business plan such as possible delays in the implementation of new wind parks, the profitability and efficient operation of the new biomass projects and also the future availability /cost of finance for the future development of the company.

As a result, we increased our target price by 11% to €7,20 which offers an implied upside potential of 11% from the current levels.

Date **3/4/2019**
FAIR ESTIMATED PRICE: **7,20 Euros /Share**

Investment Thesis : **UV1**

Stock Data

Ticker	TENERGY
Price (2/4/2019)	6,50
Low / High price 52w	4,59 / 6,78
Market Cap (€mn)	740
Enterprise Value (€mn)	1.454
Trailing P/E (x)	15,7
Trailing EPS	0,41
DPS (Proposed)	0,31
Dividend Yield %	4,7%

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Financial / Operating Results

At the end of 2018, the installed-licensed capacity of the company exceeded the milestone of 1 GW and reached the 1032MW. Total net revenue increased by 5,6% compared to last year and stood at €276,4mn, while total EBITDA reached €167,9mn, higher 13,8% from a year ago. The RES segment reported €156,3mn EBITDA significantly higher than in 2017 due to higher Load Factor from 28,9% to 30,8% as well as the capacity additions through the year. Finally the concession segment managed to increase its EBITDA by 130% from €2,1mn to €4,8mn.

Business Plan

The management has set a new ambitious target to double its installed capacity and to reach the 2 GW until 2025, which is translated in a 10% annual growth of installed capacity for the next 7 years. Furthermore, TE plans to develop a diversified portfolio of technologies, maintaining a strong position in wind and expanding in solar, hydro and biomass.

Currently the capacity which is under construction or ready to build is 280MW. Specifically, TE has 2 wind projects under construction, the Fluvanna 2 in USA with capacity of 158MW, the wind park Evoia SPA with a capacity of 120MW. In the biomass segment, the waste management plant of Peloponnese which has processing capacity of 200,000 tons of conventional wastes per year and 3MW power generation capacity, is expected to start this year. The total investment cost for the above projects is €472mn.

We note that despite the CAPEX hike in the period 2019-20 due to the construction of new renewable capacities, TE proposed to enhance its cash distribution to shareholders with the total return of 35mn or €0,31 per share, almost 17% higher compared with the last year.

At the end of the first quarter of 2019, the waste management plant in the Epirus region commenced commercial operation. Under the 25- year PPP contract that has signed with Epirus Municipality, the plant will process 105,000 tons of conventional wastes per year and 1,5MW power generation capacity. The total amount of investment settled at €52,6mn.

Valuation

We updated our DCF model and our new target price for TE is €7,20 per share, which implies a 11% total upside potential from the current share price levels. At our target price the shares would trade on a P/E 2019e of 16x.



Summary Financials					
(€mn)	FY2017a	FY2018a	FY2019e	FY2020f	FY2021f
Profit & Loss Items					
Total Net Revenues	276,4	292,0	323,4	348,7	372,8
EBITDA	147,6	167,9	191,9	210,3	228,0
EBIT	105,3	118,1	131,4	141,3	150,3
Net Income	37,1	47,1	51,4	54,5	61,1
Balance Sheet Items					
Total Assets	1.603,3	1.646,3	1.864,9	2.074,1	2.099,9
Current Liabilities	125,6	126,6	127,6	128,6	129,6
Total Debt	782,0	812,4	911,4	1.010,4	1.010,4
Total Equity	378,8	391,1	407,5	422,0	443,1
Cash Flow Items					
Operating Cash Flow	151,5	137,3	152,9	178,0	192,8
Free Cash Flow (FCFF)	-140,7	11,1	26,9	42,0	69,8
Net Cash Inflow	36,9	-35,0	31,8	36,5	-34,5
Cash at Hand	201,3	166,4	198,2	234,7	200,2
CAPEX	229,1	109,5	226,0	226,0	123,0
Key Financial Ratios					
Revenue Growth	22,5%	5,6%	10,8%	7,8%	6,9%
EBITDA Margin	53,4%	57,5%	59,3%	60,3%	61,1%
EPS	0,33	0,41	0,45	0,48	0,54
DPS	0,14	0,27	0,31	0,35	0,35
Dividend Yield	2,1%	4,2%	4,7%	5,4%	5,4%
ROE	9,8%	12,0%	12,6%	12,9%	13,8%
Total Debt / EBITDA (x)	5,3	4,8	4,8	4,8	4,4
P/E (x)	10,6	13,3	14,4	13,6	12,1
EV/EBITDA (x)	6,4	7,5	7,6	7,2	6,8



Ρήτρα Περιορισμού Ευθύνης:

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