

## ELETTRA INVESTIMENTI

### Strong 1H 2017 results driven by the Energy Efficiency Business

IR TOP RESEARCH

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#### 1H 2017 RESULTS AND NEW 2017 OUTLOOK

On September 29<sup>th</sup> ELETTRA INVESTIMENTI released 1H 2017 consolidated results that were above our expectations.

In particular, sales grew by +65% compared to 1H 2016. The important increase was mainly due to the Energy Efficiency business (white certificates) that was acquired in December 2016 and hence not included in 1H 2016 results. Pro-forma 1H 2016 results are not available, however, thanks to a very high average price of white certificates in 1H 2017, the EE business registered extraordinary results (12.2 Eu m in 1H 2017 vs. 18.8 Eu m pro-forma FY 2016). The Energy Generation business unit also showed a good performance, in line with our forecasts. 1H 2017 EBITDA reached 5.1 Eu m (19.2% EBITDA margin) vs. 2.1 Eu m in 1H 2016 (13.1% EBITDA margin). Net debt at the end of the period considered was 3.9 Eu m (2.1 Eu m as of December 31<sup>st</sup>, 2016)

As a consequence of the higher-than-expected results and the current trend of white certificate prices, management changed its outlook for 2017:

- Sales: 48.54 Eu m (45.2 Eu m previous)
- EBITDA 9.1 Eu m (8.06 Eu m) with an EBITDA margin consequently increased from 17.8% to 18.7%
- Net Financial Position: 0.2 Eu m (1.47 Eu m)

#### COMPANY DESCRIPTION

ELETTRA INVESTIMENTI is a leading Italian company active in the energy sector and, in particular:

- energy generation (43% of 2016 pro-forma sales) through cogeneration and trigeneration plants fuelled by natural gas or biomass/bioliquids;
- energy efficiency services (38%) by providing technological solutions to companies in order to save energy (white certificates market);
- trading raw materials (10%) for their or third party oil plants;
- O&M (3%), EPC and sale of PV plants (2%) and other revenues (4%);
- recent acquisitions in the IoT business.

#### MARKET AND STRATEGY

- Reference markets: distributed generation, energy efficiency, IoT and renewables. In particular, the expected investments in Italy in the IoT and energy intelligence are estimated to reach 3 billion by 2020 (Source: Energy & Strategy Group, Politecnico di Milano), also thanks to the Decree named Piano Nazionale Industria 4.0.
- Internal growth: (i) build new plants in Italy; (ii) develop IoT and energy efficiency interventions as services integrator, to reach new clients and new markets (in particular, industrial and residential segments), even abroad (France).
- External growth: acquisition of (i) cogeneration plants and (ii) renewable energy plants.

#### AIM POSITIONING

Compared to average AIM "Energy & Renewables" Sector, ELETTRA INVESTIMENTI shows:

- higher sales growth rate but lower EBITDA margin
- significantly better financial position and NFP/EBITDA ratio
- capitalisation in line and lower liquidity
- positive and strongly above average performance from IPO.

#### 2017-2019 ESTIMATES

Given the good 1H 2017 results and the new 2017 outlook, we upgraded our estimates. As we believe that the energy efficiency business will continue at the same pace as in 1H 2017 our estimates are slightly above those of the 2017 management outlook with 2017 Sales of 50.1 Eu m (45.2 Eu m previous) and EBITDA 9.9 Eu m (8.1 Eu m).

Our business plan forecasts 2017-2019 sales CAGR of 5% with an EBITDA margin of 21% in 2019 compared to 15% in 2016. Profitability increases thanks to high-margin white certificates business and higher weight of high-margin IoT business. Capex remain in line with previous estimates (10.8 Eu m in 2018-2019).

#### VALUATION

We increased our target price from 9.74 to 11.37 Eu p.s., obtained by applying 2 different approaches, equally weighted:

- 2017 EV/EBITDA and P/E multiples discounted by 28.5% to Mid and Small peers as of AIM Positioning (11.08 Eu p.s.);
- DCF model (11.65 Eu p.s. with WACC=9.4% and g=1.5%).

<b>Target Price (Eu)</b>	<b>11.37</b> (9.74 previous)
Market Price (Eu)	9.28
Capitalisation (Eu m)	36
Enterprise Value (Eu m)	40
<i>(as of September 29<sup>th</sup>, 2017)</i>	

#### AIM Positioning

2016 FY (Eu m)	Company	AIM Sector*	AIM Italia
Sales	49	38	39
Sales YoY	+61%	+26%	+18%
EBITDA Margin	15%	17%	15%
NFP (Cash)	2.1	27.6	10.2
NFP/EBITDA	0.3	13.2	3.2
Market Data	Company	AIM Sector*	AIM Italia
Capitalisation (Eu m)	36	36	58
Perf. from IPO	+55%	-17%	+7%
Free Float	16%	23%	35%
ADTT YTD (Eu)	38,661	55,223	124,738

Source: Osservatorio AIM Italia and FactSet data.

\* Energy & Renewables: Agatos, Ecosuntek, Elettra Investimenti, Energy Lab, Enertronica, Fintel Energia Group, Frendy Energy, Gala, Gruppo Green Power, Iniziative Bresciane, Innovatec, PLT Energia, Zephyro

#### Results & Estimates

Key Figures (Eu m)	15A	16A	17E	18E	19E
Sales	30.3	48.6	50.1	53.2	55.7
YoY growth	9.7%	60.7%	3.1%	6.0%	4.8%
EBITDA	3.4	7.1	9.9	11.4	11.8
EBITDA%	11.3%	14.6%	19.8%	21.4%	21.2%
EBIT	1.7	4.3	5.6	7.5	7.4
EBIT%	5.8%	8.8%	11.1%	14.1%	13.2%
Total net profit	0.8	2.4	3.3	4.2	4.1
NFP (Cash)	-4.8	2.1	4.6	3.8	3.9
EPS	0.22	0.66	0.87	1.08	1.08

Source: company data (pro-forma for FY 2016) and IR Top estimates.

#### Peers Comparison

EV/EBITDA (x)	17E	18E	19E
ELETTRA INVESTIMENTI	4.0	3.1	3.0
Mid and Small Cap peers median	7.7	7.3	7.0
Discount/Premium	-48%	-57%	-57%

#### P/E (x)

	17E	18E	19E
ELETTRA INVESTIMENTI	10.7	8.6	8.6
Mid and Small Cap peers median	14.3	19.4	19.1
Discount/Premium	-25%	-56%	-55%

Source: IR Top estimates for ELETTRA INVESTIMENTI and FactSet data for comparables.

#### Performance

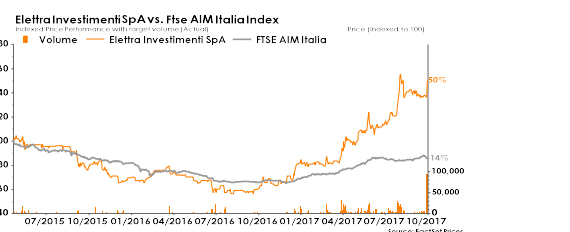
	1M	3M	1Y
Absolute	8.5%	+30.7%	+147.5%
Relative (FTSE AIM Italia)	6.7%	+30.6%	+90.9%
52-week High/Low	€ 9.57 / € 3.75		

Source: FactSet data.

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#### SHARE DATA

Market	AIM Italia
Reuters / Bloomberg	ELIN.MI / ELIN IM
ISIN	IT0004745607
N. of Shares (m)	3.84
Free Float	15.1%
Main Shareholder	Bombacci Family (71.2%)
CEO	Fabio Massimo Bombacci



**1H 2017 results above expectations. New management outlook**

## RESULTS AND ESTIMATES

**Sales +65%**  
**EBITDA 5.1 Eu m with an EBITDA margin of 19%**

## NEW 2017 GUIDANCE:

**Sales of 48.5 Eu m (+7% compared to previous)**  
**EBITDA 9.1 Eu m (+13%)**

## BUSINESS UPDATE

On September 29<sup>th</sup> ELETTRA INVESTIMENTI released 1H 2017 consolidated results (preliminary results already communicated on July 27<sup>th</sup>) that were above our expectations. As a consequence of the good results management also changed its 2017 outlook (previous one announced on March 29<sup>th</sup>).

On August 3<sup>rd</sup> the Company announced a business lease contract of a renewable energy for a total capacity of 990 kWe. The lease, with a total duration until 2026, will have a total cost of 400 Eu k. According to management, in full operation (after Q1 2018) the plant will generate annual revenues of about 2 Eu m with an EBITDA margin of 17%.

On September 13<sup>th</sup> the Company acquired, through a financial leasing agreement, a renewable energy district heating plant (in business lease since 2015) for a total capacity of 4MW electric and 18MW thermal. Total value of the transaction was 5.5 Eu m.

The outstanding warrants are currently in the money (strike price at 8.1 Eu). The warrants can be exercise from 2-13 October 2017, 2-15 October 2018, and 3- 14 October 2019.

## 1H 2017 RESULTS

Sales rose by +65% compared to 1H 2016. The important increase was mainly due to the white certificate business (Tholos) that was acquired in December 2016 and hence not included in 1H 2016 results. 1H 2016 pro-forma results are not available, however, thanks to a very high average white certificates market prices in 1H 2017, the Energy Efficiency business registered extraordinary results (12.2 Eu m in 1H 2017 vs. 18.8 Eu m pro-forma FY 2016). The Energy Generation business unit also showed a good performance, in line with our expectations.

1H 2017 EBITDA reached 5.1 Eu m (19.2% EBITDA margin) vs. 2.1 Eu m in 1H 2016 (13.1% EBITDA margin). Net debt at the end of the period considered was of 3.9 Eu m (2.1 Eu m as of December 31<sup>st</sup>, 2016).

## 1H 2017 KEY FINANCIALS

Key Figures (Eu m)	1H 2017	1H 2016	2016A
Sales	26.5	16.0	48.6
YoY growth	+65%	+17%	60.7%
EBITDA	5.1	2.1	7.1
EBITDA%	19.2%	13.1%	14.6%
EBIT	3.4	1.2	4.3
EBIT%	12.6%	7.3%	8.8%
Total net profit	2.3	0.6	2.4
NFP (Cash)	3.9	-3.0	2.1
Equity	15.2	12.2	13.2

Source: company data (pro-forma for FY 2016) and IR Top estimates.

## NEW FY 2017 GUIDANCE

As a consequence of the higher-than-expected results and the current trend of white certificate prices (300 Eu at the end of July, when the new outlook was released), management changed its outlook for 2017.

The new guidance shows that:

- 2017 sales was updated from 45.2 to 48.54 Eu m;
- EBITDA was improved from 8.06 to 9.1 Eu m with an EBITDA margin increased from 17.8% to 18.7%;
- EBIT is expected at 5.58 Eu m (4.91 Eu m the previous 2017 guidance);
- pre-tax profit was updated from 4.45 to 5.15 Eu m;
- net financial position was improved from 1.47 to 0.2 Eu m;
- total equity was increased from 15.5 to 16.67 Eu m.

Eu m	17E Old	17E New
Sales	45.2	48.5
EBITDA	8.1	9.1
EBIT	4.9	5.6
Pre-tax profit	4.6	5.1
Equity	15.5	16.6
NFP (Cash)	1.5	0.2

**Upgrade of estimates:  
2017 sales of 50.1 Eu m  
(+11% vs. previous)  
EBITDA margin 20% (18%)**

**2019 sales of 55.7 Eu m (51.5  
Eu m previous)  
EBITDA margin of 21%**

## ESTIMATES

Following the good 1H 2017 results and the acquisition of two new renewable plants, we upgraded our estimates for 2017-2019. In particular:

- 1) 2017-2019 sale was basically left untouched compared with previous estimates, with the exception of the average white certificate price, that we increased from previous 180 Eu to 250 Eu. As we believe that the energy efficiency business will continue at the same pace as in 1H 2017, our estimates are slightly above those of the 2017 management outlook. We forecast 2017 revenues at 50.1 Eu m, registering a +3% compared to 2016 (we recall that our previous estimates presented 2017 revenue growth of -7% due to different accounting of two important energy efficiency contracts (the ownership was given to the customers rather than remaining with Tholos, that will have lower revenues but higher margins).
- 2) Revenues for 2018 and 2019 are expected to grow in line with our earlier estimates (approximately 6% yoy). As of 2018 we have incorporated the impact of the new acquisitions that should add around 2.5 Eu m of revenues.
- 3) 2017-2019 EBITDA CAGR of 9% thanks to high-margin white certificates in portfolio and better product mix with higher weight of IoT business.
- 4) Capex remain in line with previous estimates: 10.8 Eu m 2018-2019 including earn-out payments for Tholos (1.75 Eu m in 2019).
- 5) Net financial debt is likely to increase to about 3.9 Eu m at the end of 2019 due to investment policy. Net debt at the end of 2017 reflects the 2.6 Eu m leasing contract relative to the renewable plant acquired in August.
- 6) We estimate a pay out ratio of 38% in line with management indications

Eu m		17E Old	17E New	18E Old	18E New	19E Old	19E New
<b>Sales</b>		<b>45.2</b>	<b>50.1</b>	<b>47.9</b>	<b>53.2</b>	<b>51.5</b>	<b>55.7</b>
	YoY growth	-7%	+3%	+6%	+6%	+8%	+5%
<b>EBITDA</b>		<b>8.1</b>	<b>9.9</b>	<b>10.2</b>	<b>11.4</b>	<b>10.8</b>	<b>11.8</b>
	Margin	18%	20%	21%	21%	21%	21%
D&A		3.0	3.6	3.2	3.9	3.9	4.5
<b>EBIT</b>		<b>5.1</b>	<b>5.6</b>	<b>7.0</b>	<b>7.5</b>	<b>7.0</b>	<b>7.4</b>
	Margin	11%	11%	15%	14%	14%	13%
Net financial charges		0.5	<b>0.5</b>	0.5	<b>0.5</b>	0.4	<b>0.4</b>
<b>Pre-tax profit</b>		<b>4.7</b>	<b>5.1</b>	<b>6.5</b>	<b>7.1</b>	<b>6.6</b>	<b>7.0</b>
	Margin	10%	10%	14%	13%	13%	13%
<b>Total net profit</b>		<b>2.7</b>	<b>3.3</b>	<b>3.4</b>	<b>4.2</b>	<b>3.5</b>	<b>4.1</b>
	YoY growth	+10%	+37%	+28%	+25%	+1%	+1%
EPS		0.70	0.87	0.90	1.08	0.91	1.08

Eu m		17A Old	17A New	18E Old	18E New	19E Old	19E New
Net working capital (NWC)		2.5	1.2	3.1	3.1	3.9	4.0
Fixed net assets		14.6	19.2	15.9	19.8	18.3	21.6
Funds		-0.6	-0.6	-0.6	-0.6	-0.6	-0.7
<b>Net capital employed</b>		<b>16.5</b>	<b>20.2</b>	<b>18.4</b>	<b>22.3</b>	<b>21.5</b>	<b>24.9</b>
<b>Net financial debt (Cash)</b>		<b>1.5</b>	<b>4.6</b>	<b>0.9</b>	<b>3.8</b>	<b>1.5</b>	<b>3.9</b>
NFP/EBITDA		0.18	0.46	0.09	0.33	0.14	0.33
<b>Equity</b>		<b>15.0</b>	<b>15.6</b>	<b>17.5</b>	<b>18.5</b>	<b>20.0</b>	<b>21.1</b>
<b>Sources</b>		<b>16.5</b>	<b>20.2</b>	<b>18.4</b>	<b>22.3</b>	<b>21.5</b>	<b>24.9</b>
<b>Change in NWC</b>		<b>-3.2</b>	<b>-2.4</b>	<b>-0.6</b>	<b>-1.4</b>	<b>-0.8</b>	<b>-0.9</b>
<b>Capex</b>		<b>-1.0</b>	<b>-1.0</b>	<b>-4.5</b>	<b>-4.5</b>	<b>-6.3</b>	<b>-6.3</b>

## VALUATION

We value ELETTRA INVESTIMENTI through 2 different approaches, equally weighted:

- market multiples comparison adjusted by AIM positioning;
- Discounted Cash Flow (DCF) model.

### AIM POSITIONING DISCOUNT/PREMIUM

When using market multiples to determine the fair value of an AIM Italia listed company, we apply a discount on the average peer multiple based on an algorithm that measures the positioning of the company compared to the AIM Italia market as a whole and to the relevant AIM Sector. Applying the algorithm on ELETTRA INVESTIMENTI we consider fair a discount of 28.5% to Mid and Small Cap peers.

**Unchanged AIM Positioning  
discount of 28,5%**

Average between 2017  
EV/EBITDA and P/E peer  
group multiples

### MULTIPLES

We used an average of 2017 EV/EBITDA and P/E multiples for a peer group consisting of utilities, both Italian (Iren, ERG, Falck Renewables) and European (Greentech Energy Systems, Fortum, DONG Energy, CEZ).

Applying a 28.5% discount -as explained above- we obtain a fair value of 11.08 Eu per share.

EV/EBITDA (x)	17E	18E	19E
ELETTRA INVESTIMENTI	4.0	3.1	3.0
Mid and Small Cap peers median	7.7	7.3	7.0
Discount/Premium	-48%	-57%	-57%

P/E (x)	17E	18E	19E
ELETTRA INVESTIMENTI	10.7	8.6	8.6
Mid and Small Cap peers median	14.3	19.4	19.1
Discount/Premium	-25%	-56%	-55%

Source: IR Top estimates for ELETTRA INVESTIMENTI and FactSet data for comparables.

### DCF

Our DCF valuation yields a target price of 11.65 Eu per share.

Main assumptions are:

- Risk-free interest rate: 2.0%
- WACC: 9.4%
- Perpetual growth: 1.5%

Sum of PV 2017-2025 FCF (Eu m)	22.3
Discounted Terminal Value (Eu m)	26.4
<b>Total Enterprise Value (Eu m)</b>	<b>48.6</b>
Net financial debt (Cash) as of June 30 <sup>th</sup> , 2017 (Eu m)	3.9
<b>Total Equity Value (Eu m)</b>	<b>44.7</b>
Number of outstanding shares (m)	3.84
<b>Fair Value per share</b>	<b>11.65</b>

Source: Company data and IR Top estimates.

### VALUATION SUMMARY

Weighting the 2 approaches equally we set a target price of 11.37 Eu, implying an upside of 23% with implicit 2017 and 2018 EV/EBITDA multiples of 4.8x and 4.2x respectively.

Method	Price (Eu)
DCF	11.65
Multiple analysis	11.08
<b>Target Price</b>	<b>11.37</b>

Our valuation yields a Target  
Price of 11.37 Eu per share  
(9.74 Eu previous)

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During the last 12 months, the following indications have been disseminated:

Date	Target Price	Market Price	Validity Time
October 2 <sup>nd</sup> , 2017	11.37	9.28	12 months
July 18 <sup>th</sup> , 2017	9.74	7.63	12 months

**VALUATION METHODOLOGY (HORIZON: 12M)** IR Top obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models.

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