ELETTRA INVESTIMENTI

Initiation of coverage | **Buy**

12 October 2015 | *MARKET PRICE:* ***EUR5.10*** | *TARGET PRICE:* ***EUR6.93***

Energy Services

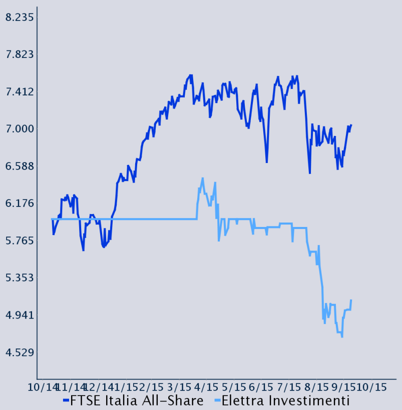
Data

Shares Outstanding (m):	3.7	
Market Cap. (EURm):	18.9	
Enterprise Value (EURm):	14.4	
Free Float (%):	22.5%	
Av. Daily Trad. Vol. (m):	0.001	
Main Shareholder:	Bombacci family 74.6%	
Reuters/Bloomberg:	ELIN.MI	ELIN IM
52-Week Range (EUR)	4.7	6.4

Performance

	1m	3m	12m
Absolute	2.0%	-13.7%	-
Rel. to FTSE IT	1.7%	-13.9%	-

Graph area Absolute/Relative 12 M



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Attractive developments support our Buy rating

Elettra Investimenti is a leading ESCO (Energy Service Company) and power generation company through Distributed Generation (DG). It has seven power plants with total installed capacity of 19.2 MW which should grow to 26 MW following recent acquisitions. The company is also active in oil trading (19% of sales in 2014) to secure vegetable oil fuel supplies and is diversifying its activities by entering the residential market (recent agreement for district heating), the highly profitable service sector and the photovoltaic sector (JV with a specialized operator). Despite recent acquisitions, the company has substantial cash resources (EUR5.2 million at June-15) which could be used to pursue further growth opportunities, replicating its successful business model. Consequently, we believe the current share price does not reflect the potential of Elettra Investimenti which is trading at >65% discount to the average 2015-16 EV/EBITDA of its peers. Our valuation of Elettra investimenti is EUR6.93 per share, 36% above the current market price which provides solid support for our Buy rating.

> Elettra Investimenti seems well on track to take advantage of its IPO proceeds (EUR4.3 million): it has acquired a new power plant, entered the photovoltaic sector and has begun development of the residential segment through a leasing contract.

> The company also reported a buoyant first half, with sales up 15% and a 60 bps improvement in its EBITDA margin despite the higher weighting of oil sales, which have a lower profitability.

> We expect Elettra Investimenti's revenues to rise to EUR50 million in 2017 (from EUR27.6 million in 2014) with an EBITDA margin of 16.4% compared with14.3% of last year, due to the different product mix. The bottom line could exceed EUR3.9 million in 2017 (more than doubling 2014 net result) while the net financial position should remain positive for almost EUR8 million at Dec-17, excluding new acquisitions and after paying dividends with a pay-out ratio of 30%, implying a yield of about 2.4% in 2015 and 3.9% in 2016.

> The main risk is clearly the low visibility of future acquisitions aimed at expanding the company's activities outside its current core activities.

Financials

	2014	2015E	2016E	2017E
Revenues (EURm)	27.6	29.6	38.8	50.1
EBITDA (EURm)	3.9	4.4	5.9	8.2
EBITDA margin (%)	14.3%	14.9%	15.1%	16.4%
EBIT (EURm)	2.4	2.8	4.2	6.4
EPS (EUR)	0.52	0.41	0.66	1.06
CFPS (EUR)	0.33	0.72	1.00	1.24
DPS (EUR)	0.00	0.12	0.20	0.32

Source: Company Data, UBI Banca Estimates

Ratios

	2014	2015E	2016E	2017E
P/E(x)	11.6	12.3	7.7	4.8
P/CF(x)	5.9	6.0	4.6	3.3
P/BV(x)	2.6	1.5	1.3	1.1
Dividend Yield	0.0%	2.4%	3.9%	6.2%
EV/EBITDA(x)	4.6	3.3	2.3	1.4
Debt/Equity (x)	-0.0	-0.4	-0.4	-0.4
Debt/EBITDA (x)	-0.1	-1.1	-1.0	-0.9

Source: Company Data, UBI Banca Estimates

Key Financials

(EURm)	2014	2015E	2016E	2017E
Revenues	27.6	29.6	38.8	50.1
EBITDA	3.9	4.4	5.9	8.2
EBIT	2.4	2.8	4.2	6.4
NOPAT	1.5	1.8	2.6	4.0
Free Cash Flow	2.6	0.8	2.1	2.7
Net Capital Employed	6.8	8.0	8.8	10.6
Shareholders' Equity	6.9	12.7	14.7	17.8
Net Financial Position	-0.3	-4.9	-6.0	-7.4

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2014	2015E	2016E	2017E
Net Debt/Ebitda (x)	-0.1	-1.1	-1.0	-0.9
Net Debt/Equity (x)	-0.0	-0.4	-0.4	-0.4
Interest Coverage (%)	0.0	0.0	0.0	0.0
Free Cash Flow Yield (%)	14.5%	4.3%	11.2%	14.1%
ROE (%)	22.4%	12.1%	16.7%	22.0%
ROI (%)	20.4%	23.1%	29.9%	39.7%
ROCE (%)	22.3%	23.7%	30.7%	40.8%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2014	2015E	2016E	2017E
P/E (x)	11.6	12.3	7.7	4.8
P/BV (x)	2.6	1.5	1.3	1.1
P/CF (x)	5.9	6.0	4.6	3.3
Dividend Yield (%)	0.0%	2.4%	3.9%	6.2%
EV/Sales (x)	0.7	0.5	0.3	0.2
EV/EBITDA (x)	4.6	3.3	2.3	1.4
EV/EBIT (x)	7.4	5.1	3.2	1.9
EV/CE (x)	2.7	1.8	1.5	1.1

Source: Company data, UBI Banca estimates

Key Value Drivers

(%)	2014	2015E	2016E	2017E
Payout	0.0%	30.0%	30.0%	30.0%
Cost of Equity	7.5%	7.5%	7.5%	7.5%
WACC	7.5%	7.5%	7.5%	7.5%
NWC/Sales	-4.5%	-2.6%	-0.8%	1.6%
Capex/Sales	-5.9%	6.3%	4.1%	3.9%

Source: Company data, UBI Banca estimates

INVESTMENT CASE

We initiate coverage of Elettra Investimenti with a Buy rating and a target price of EUR6.93 per share (based on a DCF valuation and a multiple comparison), which implies potential upside of 36%.

Elettra Investimenti is a leading ESCO (Energy Service Company) active in Italy, mostly in the province of Latina (close to Rome). It manages seven power plants with total installed capacity of 19.2 MW which should grow to 26 MW following recent acquisitions. The company was listed on the AIM Italia market on April 21 at EUR6.0 per share.

Several key factors could drive share price performance in the coming months:

Growing core market: Although energy consumption in Italy has declined 13.6% since 2006, Italy's energy dependence remains one of the highest in Europe (76.9% vs. a European Union average of 53.2%, source: Eurostat) and it is therefore crucial to increasing the efficiency of the Italian grid. The easiest way is to move toward a "smart grid" adopting a Distributed Generation (DG) approach (production sites close to consumption, exploitation of local renewable energy sources, cogeneration and/or trigeneration power plants), which is Elettra Investimenti's core market. We believe the DG market will grow significantly in coming years.

Management expertise: over the past ten years the company has built up a network of seven profitable power cogeneration plants close to clients of primary standing (mostly pharma and chemical companies) thanks to the expertise of its management. We believe the capability to offer power and thermal energy at competitive prices should allow Elettra Investimenti to further expand its activity, as recent acquisitions have demonstrated.

Sound fundamentals: Elettra Investimenti achieved an EBITDA margin of 11.4% in 2013, 14.3% in 2014 and 12.3% in 1H15. In addition, the company had net cash of EUR5.2 million at June-15. We forecast that revenues could rise to more than EUR50 million in 2017 (vs. EUR27.6 million in 2014) with a 16.4% EBITDA margin and a bottom line of EUR3.9 million. Strong cash generation should allow the company to distribute dividends on 2015 results, with attractive yields.

External growth: Given IPO proceeds of EUR4.3 million and its sound financial structure (net cash position at Dec-14, before the IPO) Elettra Investimenti immediately embarked on expansion of its existing power plant network to areas outside central Italy and has already finalized the acquisition of one oil power plant near Pisa, a 6-year leasing contract for district heating and entry to the photovoltaic sector. Nevertheless, the company retains significant cash resources and we estimate it could invest up to EUR15 million, maintaining gearing at 50% while rapidly increasing the size of the company.

Attractive valuation: The company is trading at >65% discount to peers on 2015-16 EV/EBITDA.

Elettra Investimenti is exposed to few risks; these are mostly related to low visibility on future acquisitions, possible changes in the regulatory framework, fluctuation in the USD/EUR exchange rate and the company's concentration in a small geographic area.

Recent Developments

- After a positive 2014, with sales up 30% (of which +7% organic), an EBITDA margin of 14.3% and a net profit of almost EUR1.6 million, Elettra Investimenti reported a buoyant 2015 first half. Revenues rose by 15% and the EBITDA margin rose 60 bps despite the higher weight of oil sales, which have lower profitability. Net profit increased by 46% and the net financial position turned positive with net cash of EUR5.2 million at June-15, augmented by the EUR4.3 million capital increase achieved through the IPO.
- The company is currently upgrading two cogeneration plant: one increasing its electrical capacity by 1MW (about 5% of Elettra Investimenti's total capacity) and another in development of a thermal power plant.
- In June Elettra Investimenti invested EUR0.7 million to acquire a power generation plant near Pisa fuelled by vegetable oil. The new plant has a capacity of 0.88 MW and is expected to generate EUR1.5 million revenues with an EBITDA of EUR0.25 million (16.6% margin) making the acquisition price particularly attractive (2.8x EBITDA).
- In September, the company signed an agreement for the 6-years lease of a business consisting of 4 cogeneration plants in Umbria (5.9 MW of electrical capacity and 7.5 MW thermal capacity) for district heating (29 Km). This new business should generate sales for EUR5 million p.a. with an EBITDA margin of >40% with a leasing cost of EUR0.42 million p.a. plus a variable cost related to the EBT generated.
- The company also entered the photovoltaic sector last July through a newco (called "Alea Quotida", 52% owned by Elettra Investimenti and 48% owned by the company controlling Quotidia) which will be active in project management and general contractor activities in setting up photovoltaic plants with SEU characteristics (direct connection between the power plant and the final customer without passing through the national grid, thereby saving transmission and distribution costs). These plants, when operational, may be acquired by Elettra Investimenti. According to management, this new business could generate consolidated revenues of almost EUR12 million in the next 30 months with an EBITDA contribution of EUR2.9 million.
- Elettra Investimenti has recently been awarded two revamping contracts, which will augment its service activity and is currently in talks with new clients to develop new cogeneration and trigeneration plants (some contracts could be finalized already this month).

2014 and 1H15 Results

2014 revenues rose 30% driven by the positive trend in both electrical energy sales (+9.1%) and the development of the oil activity that now account for EUR5.9 million of sales while thermal energy was broadly stable (+1.7%). Although the gross margin was substantially stable (26.4% vs. 26.7% in 2013), the company increased its EBITDA margin to 14.3% by applying strict controls on fixed costs (lower labour and SG&A costs).

EBIT in 2014 was EUR2.4 million (a margin of 8.8%), giving a net result of EUR1.56 million after tax of EUR0.47 million (23.1% tax rate compared with 54.6% in 2013).

Figure 1 – 2014 results

While revenues in 2014 rose by 30%, EBITDA was up 63% and EBIT doubled. The net result benefitted from a much lower tax rate.

(EURm)	2013A	2014A	% Chg.
Sales Energy	15.07	16.45	9.1%
Sales Thermal	4.71	4.79	1.7%
Sales Oil	0.26	5.19	nm
Sales Other	1.19	1.16	-2.4%
Sales total	**21.23**	**27.58**	**30.0%**
EBITDA	**2.42**	**3.94**	**62.9%**
% margin	**11.4%**	**14.3%**	
EBIT	1.17	2.44	109.0%
% margin	5.5%	8.8%	
Pre tax profit	0.84	2.05	144.1%
Net profit	**0.38**	**1.56**	**308.8%**
Net debt (cash)	0.74	-0.32	nm

Source: Company data

Net cash flow was positive for EUR1.1 million in 2014 giving net cash of EUR0.32 million at December 2014 (vs. net debt of EUR0.74 million at December 2013).

The Balance Sheet benefits from structural negative net working capital (-EUR1.5 million at Dec-14, representing 4.5% of sales) due to the absence of inventories (limited to less than 1% of revenues) and payment terms to suppliers of about 70 days compared to customer receivables with an average of about two months. Fixed assets of EUR8.19 million, are mainly represented by machinery.

As a result, invested capital at Dec-14 was limited to EUR6.8 million (equal to Dec-13 despite a 30% increase in revenues) with a turnover of 4.1x, resulting in ROI of >20%.

Figure 2 – 1H15 results

The increase in energy sales is particularly positive in our view, given that electricity prices fell 5% compared with last year.

(EURm)	1H14A	1H15A	% Chg.
Sales Energy	7.55	7.73	2.4%
Sales Thermal	2.36	2.68	13.9%
Sales Oil	1.63	2.98	83.0%
Sales Other	0.46	0.39	-14.8%
Sales total	**11.99**	**13.79**	**15.0%**
EBITDA	**1.40**	**1.70**	**21.2%**
% margin	**11.7%**	**12.3%**	
EBIT	0.71	0.90	27.5%
% margin	5.9%	6.5%	
Pre tax profit	0.55	0.72	31.5%
Net profit	0.32	0.46	46.7%
Net debt (cash)	0.25	-5.21	nm

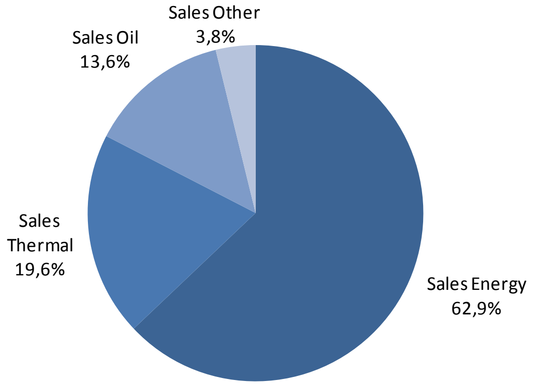
Source: Company data

The positive trend continued through 1H15, with the development of the oil trading business (sales up 83%) which lifted revenues by 15%. Gross margin fell slightly compared with 1H14 (25.5% vs. 26%) due to a different sales mix (oil trading activity has a lower margin compared with the ESCO business) but, once again, lower fixed costs led to an improvement in the EBITDA margin to 12.3% compared with 11.7% in 1H14.

At June 2015, net cash increased by EUR4.89 million (to EUR5.21 million), of which EUR4.6 million came from the capital increase through the IPO, reaching EUR5.21 million after capex of EUR1.8 million.

Figure 3 – 2014 sales breakdown by sector

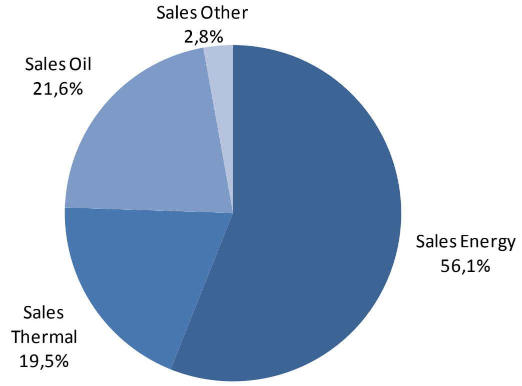
Compared with 2013 Energy increased by 9.1% and Thermal by 1.7%. Oil was not present in 2013.



Source: Company data

Figure 4 – 1H15 sales breakdown by sector

The weighting of the oil trading sector significantly increased compared with last year.



Source: Company data

Financial Projections

- Management has not disclosed specific guidance for the rest of the year but confirmed that it is confident of a positive second half with further profitability improvements. For the rest of the year our forecasts anticipate sales growing by 2% (to EUR15.8 million) with an EBITDA margin of 17.2%, in line with 2H14. However, the bottom line could be lower than 2H14 which benefitted from an unusually low tax rate (17% vs. 40% expected in 2H15). Net cash should remain broadly stable at EUR5 million, excluding further potential acquisitions.
- Our 2016-17 estimates have changed significantly compared with our IPO research *("Energy Efficiency" February 19th 2015*) as they incorporate recent acquisitions (one oil power plant near Pisa, the 6-year leasing contract for district heating and entry to the photovoltaic sector), which should lead to strong sales growth over the next two years (+31% in 2016 and +29% in 2017). Our revenues estimates imply organic growth of 12% in 2016 and 11% in 2017. Altogether, we expect CAGR in sales of >20% in 2014-17.
- The EBITDA margin is expected to rise in 2015 (to 14.9% from 14.3%) and again in 2016-17 due to the different product mix. Although oil trading margins are lower and its weight on consolidated sales is expected to grow from 15% in 2015 to 18% in 2017, income from the photovoltaic sector should boost the profitability of the Electrical Energy division when the photovoltaic plants have been acquired from Alea Quotidia. Net attributable profit should exceed EUR3.9 million in 2017 (CAGR of 36%). Net cash, assuming nearly EUR 2 million of capex per annum in 2015-17, should progressively grow to at least EUR7.4 million in 2017. This gives Elettra Investimenti sufficient financial firepower to pursue new opportunities (gearing of 50% in 2017 would translate to >EUR15 million of available resources for new acquisitions).
- Robust cash flow generation should support attractive dividend pay-outs in coming years. Assuming a pay-out ratio of 30%, we forecast a dividend of EUR0.12 per share for 2015 rising to EUR0.20 per share in 2016 and EUR0.32 per share in 2017, with an attractive dividend yield at current market prices (2.4% in 2015, 3.9% in 2016 and 6.2% in 2017).

We have estimated sales and EBITDA for each division:

- **Electrical energy:** this division represents the bulk of consolidated turnover. Our revenue forecasts are based on stable energy output for the existing plants with the addition of a fourth contributor in the Borgo S. Michele plant (EUR1.2 million of capex for 1 additional MW), the new oil plant recently acquired which should contribute sales of about EUR1.5 and EBITDA of EUR0.25 (margin of almost 17%), and the forthcoming acquisitions from Alea Quotidia (photovoltaic sector) which should deliver an EBITDA margin of >80%. The EBITDA margin could therefore increase to 24.5% in 2017 from 18.5% in 2014;
- **Thermal energy**: we expect a sharp increase in revenues in 2016-17, when the 6-year contract for the lease of 4 thermal plats in Umbria is fully operational. Sales could exceed EUR11 million in 2017 from less than EUR5 million in 2014. We expect the EBITDA margin to remain stable at about 15%;
- **Oil:** we expect Elettra Investimenti to expand this activity significantly. It has a long-term revenue target of EUR10 million due to its sunrise oil trading company in Bulgaria (90% controlled) and new agreements (still to be finalized) with large oil traders to share sources of supply. We

expect the EBITDA margin to stabilise at about 4-5%. If the sunrise oil price exceeds EUR1,000 per metric ton (currently EUR880) it is no longer economic for use in fuelling cogeneration plant and therefore the company is looking for new oil type through the aforementioned agreements;

> **Photovoltaic:** this new business is expected to generate revenues of EUR9.5 million in the next 30 months, approximately EUR0.3 million per month. However, for the current year we estimate less than two months of activity with revenues of less than EUR0.3 million, rising to >EUR3 million in 2016 and to EUR5.8 million in 2017. The EBITDA margin could be in the region of 7% and this new sector might therefore dilute the consolidated EBITDA margin in future;

> **Services:** this activity started this year following the acquisition of a small service company and could contribute revenues of about EUR0.6 million in 2015. We expect this business to develop rapidly and to generate an EBITDA margin of >25%.

Figure 5 – 2015-17 forecasts by division

	2013A	2014A	2015E	2016E	2017E
Electrical Energy					
Sales	15.07	16.45	17.09	19.22	20.45
% growth	6.4%	9.1%	3.9%	12.4%	6.4%
EBITDA	2.56	3.04	3.30	4.05	5.01
% margin	17.0%	18.5%	19.3%	21.1%	24.5%
Thermal energy					
Sales	4.71	4.79	5.30	6.36	11.43
% growth	3.1%	1.7%	10.7%	20.0%	79.8%
EBITDA	0.47	0.65	0.74	0.92	1.72
% margin	10.0%	13.5%	14.0%	14.5%	15.0%
Oil trading					
Sales	0.26	5.19	5.95	7.80	8.88
% growth			14.6%	31.1%	13.9%
EBITDA	0.01	0.25	0.27	0.35	0.39
% margin	5.0%	4.8%	4.5%	4.5%	4.4%
Photovoltaic					
Sales	0.26		0.25	3.20	5.80
% growth				1180.0%	81.3%
EBITDA	0.01		0.00	0.23	0.42
% margin	5.0%		0.0%	7.0%	7.2%
Services					
Sales	0.01	0.01	0.69	1.38	2.77
% growth			7592.2%	100.0%	100.0%
EBITDA	0.00	0.00	0.12	0.30	0.66
% margin	25.0%		18.0%	22.0%	24.0%
Other sales	1.18	1.15	0.35	0.79	0.79
Total sales	**21.23**	**27.58**	**29.63**	**38.75**	**50.12**
% growth	**6.4%**	**30.0%**	**7.4%**	**30.8%**	**29.3%**
Total EBITDA	**3.05**	**3.94**	**4.43**	**5.85**	**8.20**
% margin	**14.4%**	**14.3%**	**15.0%**	**15.1%**	**16.4%**

Source: Company data, UBI Banca estimates

In summary, Consolidated sales could grow at a CAGR of approximately 22% in 2014-17 (about 10% organically). The consolidated EBITDA margin is expected to rise to 16.4% in 2017 from 14.9% this year, due to the different product mix. After D&A costs, which are not expected to exceed EUR2 million, the EBIT margin could rise to 12.8% in 2017.

Below the operating level, the company's financial charges are expected to be minimal (given its net cash position). The tax rate, which was particularly low in 2014 (23.1%) due to the cancellation of the so called "Robin Hood tax" and benefiting from a tax credit from the disposal of GiavaUno, could rise to about 38%. Consequently, attributable net profit could increase from EUR1.56 million in 2014 to EUR1.54million in 2015 and to EUR3.92 million in 2017 (36% CAGR).

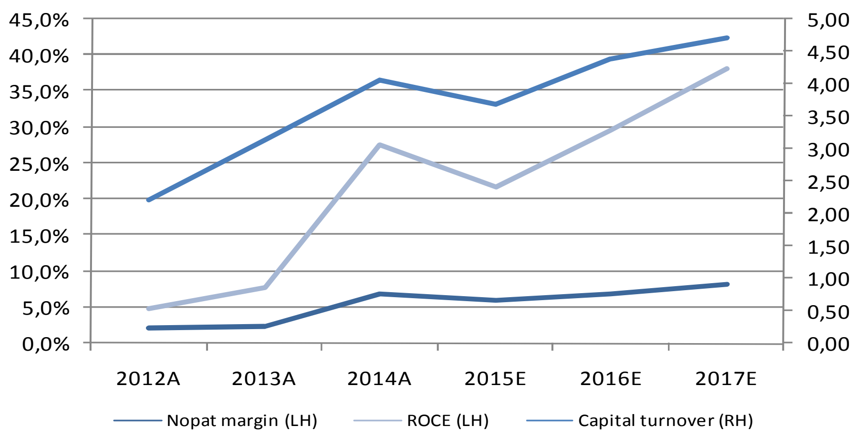
The implications for the Balance Sheet are that we expect Fixed assets to grow following recent acquisitions while ordinary capex is likely to be limited to about EUR0.6 million p.a. Net working capital (negative for EUR1.3 million in 2014) could rise gradually as payment periods to suppliers are reduced.

Elettra Investimenti should be able to generate significant net cash flow leading to an increase in net cash (EUR7.4 million expected by December 2017 vs. EUR5.2 million reported at June 2015).

Elettra Investimenti has given no clear indications of its dividend policy although management has not ruled out a dividend payment on 2015 results. Our estimates assume a pay-out ratio of 30%, which is in line with that of Elettra Investimenti's largest Italian peers, Enel GreenPower and Falck Renewables. Based on the current market price this implies a dividend yield of between 2.4% and 6.2%. In our view, the Group focus is on investing in new installed capacity rather than offering a higher return to its shareholders.

Figure 6 – NOPAT margin, Capital Turnover and ROCE trend

While we expect the NOPAT margin to remain mostly flat, while a strong improvement in capital turnover could boost ROCE.



Source: Company data, UBI Banca estimates

Valuation

> Our target price of EUR6.93 per share is based on the average of a DCF (fair value of EUR7.19 per share) and a relative valuation (applying a 20% discount to the values of large companies to factor in the limited size and limited liquidity of Elettra Investimenti) based on both the average of the multiples of small companies and the average of larger international companies. This gives a fair value of EUR6.67 per share using small peers and EUR6.92 per share using large companies.

> At its current market price (EUR5.10, down 18% vs. the IPO price), Elettra Investimenti is trading at a significant discount to peers: 67% on 2015-16 EV/EBITDA and 40% on P/E, while trades at a 46% premium in terms of P/BV. This reflects Elettra Investimenti's low invested capital compared to other companies which manage large power plants.

> Given the current estimated upside potential of >35%, we initiate coverage with a Buy rating. At the target price, the company would trade at 4.8x 2015 EV/EBITDA, which is still well below the average multiple for the industry (8.4x), at 16.7x P/E (the average of the industry stands at 20.1x) and at 2.0x P/BV (vs. 0.96x).

> Subscribers to the IPO received one free warrant for every share with duration of three years. The strike price is equal to EUR7.50 up to April 21 2016, EUR7.80 up to April 21 2017 and EUR8.10 up to April 21 2018. The outstanding warrants are therefore currently out of the money.

Figure 7 – Valuation summary

(EUR)		**Weight**
DCF valuation	7.19	33%
Relative valuation (large companies, 20% discount)	6.92	33%
Relative valuation (small companies, 20% discount)	6.67	33%
Target Price	**6.93**	
Current price	5.10	
Potential upside	35.8%	

Source: UBI Banca estimates

Discounted Cash Flow

Our conservative DCF model gives a fair value of EUR7.19 per share; it incorporates the following assumptions:

> a risk-free rate of 3.0%, which is our long-term assumption for the interest rate on Italian bonds;

> a market risk premium of 4.5%;

> a beta of 1.0, which is broadly in line with the average of the comparable companies listed on AIM (0.96, *source: Bloomberg*) but well above the European average for the green & renewable energy sector (0.59, *source: Damodaran*) and Utilities (0.71, *source: Damodaran*);

> a terminal growth rate of 1% and an operating margin of 9.0% at terminal value, which is above the 6.5% EBIT margin reported in 1H15,

but below the margin of 9.6% expected for the full year 2015.

Figure 8 - WACC and embedded DCF assumptions

WACC assumptions		Embedded DCF assumptions	
Risk-free rate	3.0%	Revenue CAGR 2015-2023 (%)	7.3%
Debt spread (%)	2.0%	EBIT CAGR 2015-2023 (%)	7.1%
Cost of debt [net] (%)	3.3%	EBIT margin 2015 (%)	9.6%
Market risk premium (%)	4.5%	Target EBIT margin 2023 (%)	9.0%
Beta (x)	1.00	D&A. on sales (avg. 2015-2023) (%)	4.5%
Cost of equity (%)	7.5%	Capex on sales (avg. 2015-2023) (%)	4.7%
Weight of Debt	0%		
Weight of Equity	100%		
WACC	**7.5%**		

Source: UBI Banca estimates

We estimate a WACC of 7.5%, obtaining a theoretical value of EUR7.19 per share.

Figure 9 – DCF Valuation

Our DCF valuation implies an EV/EBITDA of 3.0x at terminal value

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2015-23 FCF	12.61	48%	3.40
Terminal value	13.75	52%	3.71
Total Enterprise value	**26.36**	**100%**	**7.11**
- minorities	0.00		0.00
- Pension Provision	(0.01)		(0.00)
- Net cash (debt)	0.32		0.09
Total Equity value	**26.68**		**7.19**
Number of shares outstanding (m)	3.71		
Fair value per share (EUR)	**7.19**		

Source: UBI Banca estimates

Our valuation shows limited sensitivity to the terminal growth rate and WACC although a lower beta and/or stronger growth would increase our DCF target price

Figure 10 – Sensitivity analysis

g / WACC	0.50%	0.75%	1.00%	1.25%	1.50%
7.05%	7.21	7.37	7.53	7.71	7.91
7.20%	7.11	7.25	7.41	7.59	7.78
7.35%	7.01	7.15	7.30	7.47	7.65
7.50%	6.91	7.04	**7.19**	7.35	7.52
7.65%	6.82	6.95	7.09	7.24	7.40
7.80%	6.73	6.85	6.98	7.13	7.28
7.95%	6.64	6.76	6.89	7.03	7.17

Source: UBI Banca estimates

Relative Valuation

Elettra Investimenti has several comparable peers that are listed, although none of them are solely active in the management of cogeneration plants even from renewable sources. Moreover, many of the companies have an international presence and are much larger than Elettra Investimenti. For these reasons we have decided to divide our peer sample into two groups:

> **Large caps:** companies with a market capitalization of between EUR4 billion and EUR40 billion. These companies are broadly active in several geographical markets with operations throughout the entire energy production chain. We have selected Iberdrola. Fortum. Enel Green Power. Verbund. EDP Renovaveis and Acciona;

> **Small caps:** this group is composed of Italian companies with a market capitalization of less than EUR350 million. This sample includes Falck Renewables, Alerion Clean Power and Terni Energia. We did not consider micro-cap companies such as Kinexia as the consensus forecasts for these companies are not reliable.

Figure 11 – Relative valuation based on large caps companies

Based on a simple average of large caps companies, Elettra Investimenti has a valuation of EUR8.65 per share (EUR6.92 applying 20% discount) while using the median of multiples the fair value would be EUR8.29 per share.

Company	Market Cap	P/E		EV/EBITDA		P/BV	
	(EURm)	2015E	2016E	2015E	2016 E	2015E	2016E
Enel Green Power	8.820	20.3 x	20.3 x	8.6 x	8.5 x	1.06 x	1.03 x
EDP Renovaveis	5.516	38.4 x	29.7 x	9.0 x	8.0 x	0.93 x	0.92 x
Iberdrola	39.162	16.3 x	15.3 x	8.9 x	8.4 x	1.06 x	1.03 x
Acciona	4.116	22.5 x	19.5 x	8.2 x	7.9 x	1.23 x	1.18 x
Fortum	12.819	16.4 x	17.8 x	9.1 x	10.5 x	0.86 x	0.89 x
Verbund	4.324	18.8 x	21.1 x	9.4 x	9.7 x	0.90 x	0.88 x
Average		**22.1 x**	**20.6 x**	**8.8 x**	**8.8 x**	**1.01 x**	**0.99 x**
Median		**19.6 x**	**19.9 x**	**8.9 x**	**8.4 x**	**1.00 x**	**0.97 x**
Based on simple average	**(EUR)**	**9.17**	**13.58**	**9.34**	**12.44**	**3.45**	**3.91**
Based on median	**(EUR)**	**8.11**	**13.11**	**9.44**	**11.80**	**3.41**	**3.84**

Source: Factset, UBI Banca estimates

It should be noted that peer multiples have fallen compared with our original IPO report ("*Energy Efficiency*" on February 18th): the average 2015 P/E was 24.2x vs. 20.1x today and 2015 EV/EBITDA was 9.8x vs. the current 8.4x.

Based on the average of 2015-16 P/E, EV/EBITDA and P/BV of the large companies used as a peer group, and applying a 20% discount to factor in the limited size and low liquidity of the company, Elettra Investimenti would be valued at EUR6.91 per share. Applying the multiples of the group of smaller companies (without discount) produces a valuation for the company of EUR6.67 per share.

Figure 12 - Relative valuation based on small cap companies

Based on a simple average of small cap companies, Elettra Investimenti would be valued at EUR6.67 per share, while using the median of the multiples the fair value would be EUR6.58 per share.

Company	Market Cap	P/E		EV/EBITDA		P/BV	
	(EURm)	2015E	2016E	2015E	2016E	2015E	2016E
Falck Renewables	335			7.1 x	6.9 x	0.73 x	0.75 x
TerniEnergia	58	8.1 x	7.6 x	6.8 x	5.7 x	0.83 x	0.77 x
Alerion Clean Power	119		33.7 x	8.2 x	7.8 x	1.01 x	1.00 x
Average		**8.1 x**	**20.6 x**	**7.4 x**	**6.8 x**	**0.86 x**	**0.84 x**
Median		**8.1 x**	**20.6 x**	**7.1 x**	**6.9 x**	**0.83 x**	**0.77 x**
Based on simple average	**(EUR)**	**3.37**	**13.59**	**7.60**	**9.22**	**2.94**	**3.33**
Based on median	**(EUR)**	**3.37**	**13.59**	**7.28**	**9.36**	**2.85**	**3.05**

Source: Factset, UBI Banca estimates

At our EUR6.93 target price Elettra Investimenti would trade at 16.7x 2015 P/E, which is well below the average multiple for the larger cap peers (22.1x), and at 4.8x EV/EBITDA (vs. an average of 8.8x for large cap peers and 7.4x for small cap peers).

Figure 13 – Implicit multiples based on our EUR6.78 target price

	2015	2016	2017
P/E	16.7 x	10.5 x	6.6 x
EV/EBITDA	4.8 x	3.4 x	2.3 x
EV/EBIT	7.5 x	4.8 x	2.9 x
EV/Sales	0.72 x	0.52 x	0.37 x
P/BV	2.0 x	1.8 x	1.4 x
P/CF	9.59	6.95	5.57
EV/ Capital employed	2.7 x	2.3 x	1.8 x

Source: Company data, UBI Banca estimates

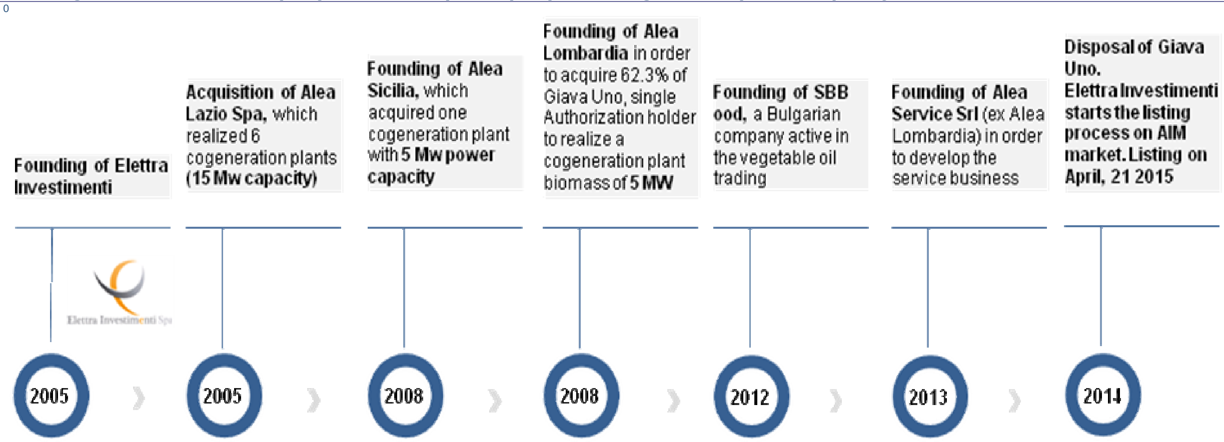
APPENDIX

COMPANY PROFILE AND BUSINESS MODEL

Elettra Investimenti is a traditional ESCO (Energy Service Company) that develops, designs, and manages energy production plants (mainly cogeneration producing electricity and useful heat, and trigeneration plants, which combine cooling, heating and power generation) from natural gas and renewable sources (bioliquids such as sunflower oil). It has also recently entered the photovoltaic sector. The Group operates in electricity and heat generation through the Distributed Generation (DG) approach, with cogeneration production facilities connected directly to end-users as well as to the national grid.
In addition, as a complementary activity to cogeneration, Elettra Investimenti trades in vegetable oil, produced by a certified sustainable supply chain, in order to secure vegetable oil fuel for its own needs and for third parties.

Elettra Investimenti is one of the main independent generators of renewable electricity in the region around Latina (close to Rome) and in Sicily, covering the entire life cycle of a project: from preliminary activities (pre-feasibility and feasibility studies, technical/economic evaluation, optimum design of the plant, and financial planning) and execution (preparation of the contract, technical specifications and contractual documents, negotiation and assignment of contracts, construction supervision), through to operation and maintenance of its own facilities, which it plans to expand to third parties in the near future. The Group had 29 employees at June 2015.

Figure 14 - Short history of Elettra Investimenti
Starting from 2005 the company has developed rapidly reaching current power capacity of 19.2 MW



Source: Company data

The business model is relatively straightforward:

> The company's normal activities involve projects to improve energy efficiency, assuming all related risk and relieving the end-user of any

organizational effort and investment. Normally, preliminary activities and execution last 18 months;

> The resultant economic savings are shared between Elettra Investimenti and the final customer (which also benefits from lower black out risks) through various types of trade agreements. Usually the company enters a six-year contract with clients and savings to the customer range from 6% to 10% (and up to 11% after 6 years). Any electricity not utilised by the client is sold to the national grid;

> Natural gas and bioliquids, which are the main fuels used by Elettra Investimenti, are usually bought through long-term contracts. In 2014, about 50% of the requirement was acquired on the spot market for opportunistic reasons;

> The company builds and manages small to mid-size cogeneration or trigeneration plants (from 1MW to 8MW of power capacity) that are normally owned and located near to the end-customer; however, some are also built to sell electricity to the Gestore dei Servizi Energetici (GSE);

The gross margin of a power plant is a function of the annual hours of operation and the energy demanded by the client and typically range from about 20% (6,000 annual hours of operation with 80% demand) to >30% (8,000 annual hours of operation with 100% demand).

Elettra Investimenti currently owns seven cogeneration and trigeneration plants with total capacity of 19.2 MW (72% cogeneration. 28% trigeneration) and potential sales up to EUR22 million. Capacity should rise to 26 MW as soon as the recent acquisitions (1 oil power plant close to Pisa and 4 plants for district heating in Umbria) are fully operational.

Figure 15 - Portfolio of cogeneration and trigeneration plants

The company recently acquired a plant near Pisa (0.9 MW capacity) and signed a 6-year contract to lease 4 cogeneration plants in Umbria, increasing its capacity to 26 MW.

Plant	Plant type	Sector	Capacity (MW)	Production (GWh)	Opex (EURm)	Opex/MW (EUR/000/MW)
Latina Scalo	cogeneration gas	Chemical	6,0	38,0	4,6	76,7
Aprilia	trigeneration gas	Pharma	2,0	6,0	1,6	80,0
Aprilia	cogeneration gas	Pharma	2,0	16,0	1,8	90,0
Borgo S. Michele	cogeneration gas	Pharma	3,0	28,0	3,1	103,3
Sutri	cogeneration oil		0,4	2,1	0,75	187,5
Doganella	cogeneration oil		1,0	5,2	1,15	115,0
Catania	trigeneration gas	Mall	4,8	15,0	1,8	37,5
Total			**19,2**	**110,3**	**14,8**	**77,1**

Source: Company data

Towards the close of 2013, Elettra Investimenti entered the oil trading sector through “SBB ood”, a 90% controlled company trading in sunflower oil (supplied by a Bulgarian producer), soybean and rapeseed oil (bought in Italy). The strategic aim is to provide a sustainable and reliable supply (certified production chain) to the company’s power plants and to third parties. This business represented 19% of sales in 2014 (or EUR5.2 million) and the company is targeting EUR10 million of turnover in coming years. The EBITDA margin of this business is typically around 4-5%.

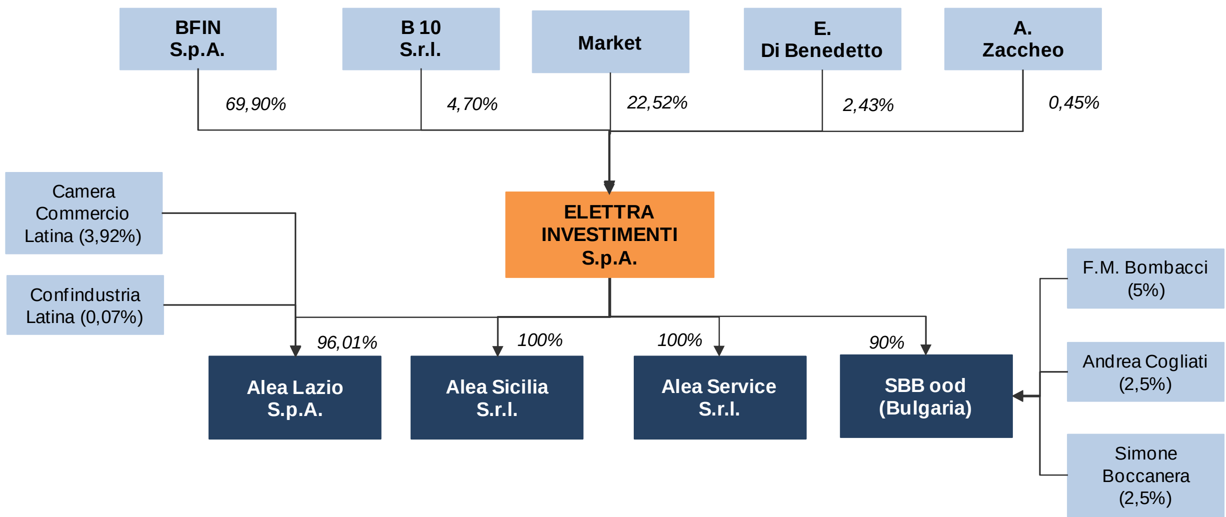
SHAREHOLDER STRUCTURE

Elettra Investimenti was listed on April 21 at EUR6.0 per share through a rights issue (85% of the offer) generating cash inflow of EUR4.3 million, and shares sold by BIFIN S.p.A. (15% of the offer), increasing the number of shares to 3.71 million (from 3 million) with a free float of 22.5%. The main stake is retained by BIFIN S.p.A. and B10 S.r.L. controlled by the Bombacci family.

The company has a board of five directors including Fabio Massimo Bombacci (CEO) and Luca Bombacci (CFO) who are also the main shareholders with a combined stake of 74.6%. There are two independent board members (Maria Francesca Talamonti and Giulia De Martino).

Figure 16 - Elettra investimenti group structure and shareholders

Following the listing. The stake of the Bombacci family (through BFIN and B10) has decreased from 86.4% to 74.6%.



Source: Company data

STRATEGY

Elettra Investimenti has already saturated its core market in the Latina area and its strategy is therefore aimed at replicating its successful business model in other geographical areas and growing through external acquisitions assisted by fresh financial resources (EUR4.3 million) from the IPO. Its strategy may be summarised as follow:

1. **Growth through the acquisition of cogeneration and trigeneration power plants**, increasing their efficiency and consequently their profitability. However, the company withdrew from negotiations to acquire a large company operating cogeneration plants in Piedmont (about EUR8.5 million revenues) and is now proceeding with small acquisitions (one plant with 0.88

MW capacity close to Pisa):

2. **To build new cogeneration plants in Italy and consolidate its competitive position.** Even if effective, this strategy would require a long implementation period and we therefore expect no impact on the P&L in the short-term;

3. **Developing two new service related business lines** (management and maintenance of cogeneration and trigeneration plants, or O&M) and actions to increase energy efficiency. Elettra Investimenti acquired (EUR0.1 million investment) a small O&M company operating in Piedmont and Lazio, which could contribute sales of about EUR0.6 million and EBITDA of EUR0.12 million in 2015 (representing an EBITDA margin of 20%) which is included in our estimates. It has four employees and service contracts with 12 clients. In addition, it recently won two contracts for the revamping of two power plants. These new business lines should generate a higher EBITDA margin than the other businesses (we estimate about 20-25% compared to the14.3% consolidated margin reported in 2014);

4. **To diversify its client base by entering the residential sector** for which attractive growth rates are expected in coming years. In September, the company entered this segment with a 6-year leasing agreement in Umbria for district heating (29 Km). This new business should generate sales of EUR5 million p.a. with an EBITDA margin of >40%. Elettra Investimenti also does not exclude the possibility of diversification through entry to the micro/mini wind and hydroelectric power generation segments despite the current high cost of investment in these technologies.

5. **Entering the photovoltaic sector,** exploiting the possibilities offered by SEU ("efficient system of user") rules or the direct connection between the photovoltaic power plant and the final customer without passing through the national grid, and therefore saving transmission and distribution costs. In July it created a new company ("Alea Quotidia", owned at 52%) for realizing photovoltaic plants on which Elettra Investimenti would have a pre-emptive right of purchase. This new company is expected to generate revenues for >EUR30 million in 2015-17 with an EBITDA margin of about 7%.

SWOT ANALYSIS

Figure 17 – SWOT Analysis

Strengths	Weaknesses
Profitable operating assets. not related to incentives	Limited size compared to main Italian peers
Solid balance sheet with net cash at June-15	Activities concentrated in the province of Latina
Clients of primary standing	Short history of the company
Opportunities	**Threats**
Expansion in other Italian regions	USD/EUR fluctuations
Entrance in the district heating and in the photovoltaic sectors	Mounting competition favoured by low entry barriers
M&A supported by the funds raised in the IPO	Changes in regulatory frameworks

Source: UBIBanca

Income Statement

(EURm)	2014	2015E	2016E	2017E
Net Revenues	27.6	29.6	38.8	50.1
EBITDA	3.9	4.4	5.9	8.2
EBITDA margin	14.3%	14.9%	15.1%	16.4%
EBIT	2.4	2.8	4.2	6.4
EBIT margin	8.8%	9.6%	10.8%	12.8%
Net financial income /expense	-0.4	-0.3	-0.3	-0.2
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	2.0	2.5	3.9	6.2
Taxes	-0.5	-1.0	-1.5	-2.3
Minorities & discontinuing ops	-0.0	-0.0	-0.0	-0.0
Net Income	1.6	1.5	2.4	3.9

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2014	2015E	2016E	2017E
Net working capital	-1.3	-0.8	-0.3	0.8
Net Fixed assets	8.2	9.0	9.4	10.1
M/L term funds	-0.1	-0.2	-0.3	-0.3
Capital employed	6.8	8.0	8.8	10.6
Shareholders' equity	6.9	12.7	14.7	17.8
Minorities	0.2	0.2	0.2	0.3
Shareholders' funds	7.1	12.9	14.9	18.1
Net financial debt/(cash)	-0.3	-4.9	-6.0	-7.4

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2014	2015E	2016E	2017E
NFP Beginning of Period	0.7	-0.3	-4.9	-6.0
Group Net Profit	1.6	1.5	2.4	3.9
Minorities	0.0	0.0	0.0	0.0
D&A	1.5	1.6	1.7	1.8
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	3.1	3.2	4.1	5.7
Change In Working Capital	-2.1	-0.5	-0.4	-1.1
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	1.0	2.7	3.7	4.6
Net Capex	1.6	-1.9	-1.6	-1.9
Other Investments	-0.0	0.0	0.0	0.0
Free Cash Flow	2.6	0.8	2.1	2.7
Dividends Paid	0.0	0.0	-0.5	-0.7
Other & Chg in Consolid. Area	-1.0	-0.5	-0.5	-0.6
Chg in Net Worth & Capital Incr.	-0.5	4.3	0.0	0.0
Change in NFP	1.1	4.6	1.1	1.4
NFP End of Period	-0.3	-4.9	-6.0	-7.4

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2014	2015E	2016E	2017E
ROE	22.4%	12.1%	16.7%	22.0%
ROI	20.4%	23.1%	28.9%	39.7%
Net Fin. Debt/Equity (x)	-0.0	-0.4	-0.4	-0.4
Net Fin. Debt/EBITDA (x)	-0.1	-1.1	-1.0	-0.9
Interest Coverage	0.0	0.0	0.0	0.0
NWC/Sales	-4.5%	-2.6%	-0.8%	1.6%
Capex/Sales	-5.9%	6.3%	4.1%	3.9%
Pay Out Ratio	0.0%	30.0%	30.0%	30.0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2014	2015E	2016E	2017E
EPS	0.52	0.41	0.66	1.06
DPS	0.00	0.12	0.20	0.32
Op. CFPS	0.33	0.72	1.00	1.24
Free CFPS	0.87	0.22	0.57	0.72
BVPS	2.31	3.43	3.95	4.80

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2014	2015E	2016E	2017E
P/E	11.6	12.3	7.7	4.8
P/OpCFPS	18.2	7.1	5.1	4.1
P/BV	2.6	1.5	1.3	1.1
Dividend Yield (%)	0.0%	2.4%	3.9%	6.2%
Free Cash Flow Yield (%)	14.5%	4.3%	11.2%	14.1%
EV (EURm)	18.2	14.4	13.3	11.9
EV/Sales	0.7	0.5	0.3	0.2
EV/EBITDA	4.6	3.3	2.3	1.4
EV/EBIT	7.4	5.1	3.2	1.9
EV/Capital Employed	2.7	1.8	1.5	1.1

Source: Company data, UBI Banca estimates

Growth Rates

(%)	2014	2015E	2016E	2017E
Growth Group Net Sales	30.0%	7.4%	30.8%	29.3%
Growth EBITDA	62.9%	12.4%	32.3%	40.0%
Growth EBIT	109.1%	16.0%	47.7%	53.2%
Growth Net Profit	315.8%	-1.0%	58.7%	60.2%

Source: Company data, UBI Banca estimates

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