

Company report

Buy (maintained)

28 November 2016

MARKET PRICE: EUR4.10 TARGET PRICE: EUR5.50 (from EUR5.39)

Energy Services

Data

Shares Outstanding (m):	3.7
Market Cap. (EURm):	15.3
Enterprise Value (EURm):	12.0
Free Float (%):	22.5%
Av. Daily Trad. Vol. (m):	0.001
Main Shareholder:	Bombacci family 74.8%
Reuters/Bloomberg:	ELIN.MI ELIN IM
52-Week Range (EUR)	3.5 4.9

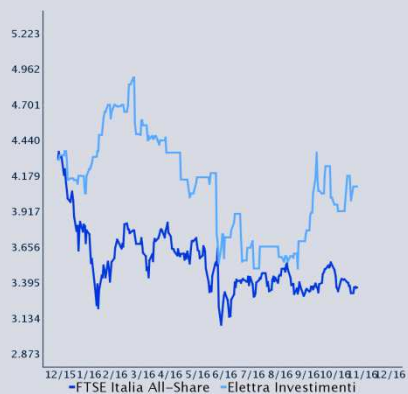
Source: Factset, UbiBanca estimates

Performance

	1m	3m	12m
Absolute	-3.5%	12.0%	-6.6%
Rel. to FTSE IT	0.7%	13.5%	24.2%

Source: Factset

Graph area Absolute/Relative 12 M



Marco Cristofori
Senior Analyst
marco.cristofori@ubibanca.it
Tel. +39 0277814393

Website: www.ubibanca.com/equity-research

Solid results in 1H16 support our positive stance

Eletttra Investimenti reported better than expected results in 1H16, with revenue growth of 16.5%, an improvement in the EBITDA margin to 13.1% (from 12.3% in 1H15) and net result up 33%. In addition, the company completed the acquisition of one cogeneration plant in Sicily (1MW) increasing its order backlog to EUR170 million (through to 2031, of which >EUR70 million over the next three years, therefore covering >60% of expected revenues in 2017-18. Since the announcement of positive 1H16 results, Eletttra Investimenti's share price has outperformed the market and has risen 17%. We maintain our positive stance with a new target price of EUR5.50 (vs. EUR5.39 previously) implying >30% upside. Valuation remains attractive, with >70% discount to the average 2017-18 EV/EBITDA of its peers and >50% discount in P/E terms. In addition, Eletttra Investimenti could benefit from further acquisitions (we estimate financial resources of >EUR12 million), from diversification in the car sharing business (not included in our estimates) and from transition to the MTA market segment. Buy.

- > Eletttra Investimenti not only reported positive results in 1H16, but also completed the acquisition of one 1MW cogeneration plant in Sicily for an investment of EUR 2 million, which presents an EBITDA margin of about 23% (almost double Eletttra Investimenti's normal margin). It also announced that it has entered the car sharing business in the area around Latina. We expect this activity to commence in 2H17 and, if successful, could be extended to local partners in other small towns.
- > The negative trend of energy prices, coupled with the length of photovoltaic authorization process, prompt us to slightly reduce our 2016-18 estimates, lowering bottom line projections by 3% on average. We now expect Eletttra Investimenti to achieve an EBITDA margin of 12.8% this year, with a positive performance in 2H16, growing to 14.4% in 2018. The bottom line could reach EUR2.0 million in 2018 (more than double the net result for 2015) while the net financial position is expected to improve further, excluding potential acquisitions and new investments.
- > Consequently, we have increased our target price, based on a DCF and a relative valuation, by 5% to EUR5.50 (from EUR5.39 previously) implying >30% upside. Buy reiterated.

Financials	priced on 25 November 2016			
	2015	2016E	2017E	2018E
Revenues (EURm)	30.3	32.2	37.9	39.4
EBITDA (EURm)	3.4	4.1	5.2	5.7
EBITDA margin (%)	11.3%	12.8%	13.8%	14.4%
EBIT (EURm)	1.7	2.1	3.0	3.3
EPS (EUR)	0.24	0.30	0.46	0.52
CFPS (EUR)	1.01	0.94	0.91	1.09
DPS (EUR)	0.13	0.14	0.17	0.20

Source: Company Data, UBI Banca Estimates

Ratios	priced on 25 November 2016			
	2015	2016E	2017E	2018E
P/E(x)	21.9	13.8	8.8	7.8
P/CF(x)	7.9	5.0	4.0	3.6
P/BV(x)	1.6	1.2	1.1	1.0
Dividend Yield	2.4%	3.4%	4.1%	4.9%
EV/EBITDA(x)	4.4	2.9	2.3	2.0
Debt/Equity (x)	-0.4	-0.2	-0.2	-0.3
Debt/EBITDA (x)	-1.4	-0.8	-0.6	-0.7

Source: Company Data, UBI Banca Estimates

Key Financials

(EURm)	2015	2016E	2017E	2018E
Revenues	30.3	32.2	37.9	39.4
EBITDA	3.4	4.1	5.2	5.7
EBIT	1.7	2.1	3.0	3.3
NOPAT	1.1	1.3	1.9	2.1
Free Cash Flow	0.3	-0.1	1.9	2.5
Net Capital Employed	7.3	9.5	10.6	11.3
Shareholders' Equity	12.1	12.8	14.1	15.5
Net Financial Position	-4.8	-3.2	-3.4	-4.0

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2015	2016E	2017E	2018E
Net Debt/Ebitda (x)	-1.4	-0.8	-0.6	-0.7
Net Debt/Equity (x)	-0.4	-0.2	-0.2	-0.3
Interest Coverage (%)	0.0	0.0	0.0	0.0
Free Cash Flow Yield (%)	1.4%	nm	12.1%	16.2%
ROE (%)	7.5%	8.7%	12.3%	12.6%
ROI (%)	15.0%	14.9%	18.2%	18.5%
ROCE (%)	15.4%	15.3%	18.8%	18.9%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2015	2016E	2017E	2018E
P/E (x)	21.9	13.8	8.8	7.8
P/BV (x)	1.6	1.2	1.1	1.0
P/CF (x)	7.9	5.0	4.0	3.6
Dividend Yield (%)	2.4%	3.4%	4.1%	4.9%
EV/Sales (x)	0.5	0.4	0.3	0.3
EV/EBITDA (x)	4.4	2.9	2.3	2.0
EV/EBIT (x)	8.6	5.8	3.9	3.3
EV/CE (x)	2.1	1.3	1.1	1.0

Source: Company data, UBI Banca estimates

Key Value Drivers

(%)	2015	2016E	2017E	2018E
Payout	53.3%	47.1%	36.6%	38.1%
NWC/Sales	-8.2%	-9.1%	-6.6%	-6.0%
Capex/Sales	11.3%	11.0%	4.1%	4.1%

Source: Company data, UBI Banca estimates

Recent Developments

- > 1H16 results were slightly above our expectations: while revenues were broadly in line (+16.5%) the product mix was different with some weakness in energy sales (-7.7%, due to declining energy prices) and oil (-6.2%, expected) offset by an improvement in thermal energy sales (+12.7%), services, EPC and O&M. The gross margin rose sharply (29.2% vs. 25.4% in 1H15 and 27.0% in FY15) leading to an improvement in the EBITDA margin (13.1% compared with 12.3% in 1H15) despite higher personnel and G&A costs (at 14.3% of sales vs. 11.4%).
- > Despite higher D&A costs (EUR0.9 million in 1H16) the EBIT margin improved to 7.3%, broadly in line with our forecast. Consequently, net profit increased 33% compared with 1H16. The net financial position was positive for EUR3.2 million but declined compared with Dec-15 (EUR4.8 million) mostly due to the deterioration of NWC which was negative for EUR0.9 million compared with EUR2.5 million at Dec-15. Net invested capital at June-16 increased to EUR9.1 million (EUR7.3 million at Dec-15). The order backlog at June-16 was EUR150 million, of which 50% should be delivered in the next three years, which implies coverage of >60% of the expected turnover in 2017-18.
- > The upgrading of the Johnson & Johnson plant (from 3 Mw to 4 MW) has been completed and is now fully operational.
- > In May, the company signed an important contract with IGD, a real estate company which operates supermarkets and shopping malls. The contract relates to 3 sites for a total of 1.4MWp. The new photovoltaic plants are expected to be completed by the end of 2016 and consequently leased to IGD for 15 years with the fee based on a fixed energy price. This contract could be extended to a further 30 sites of IGD in the future.
- > In June, Elettra Investimenti announced that it is planning to enter the car sharing business in the area around Latina (a town of 150k inhabitants, 70 Km from Rome, where the company's headquarters are located). This activity is expected to commence in 2H17 and, if successful, could be extended to local partners in other small towns. Given the limited investment (we estimate around EUR0.2 million) we have not included this diversification in our estimates.
- > In October, the company announced the acquisition of a small co-generation plant in Sicily (1MW capacity representing about 5% of the existing capacity of Elettra Investimenti) fuelled by animal fats (which cost 30% less than combustible oil and which allows diversification of the feed sources), for an EV of EUR2 million (of which EUR1.22 million debt). The plant enjoys tariff incentives up to 2027 and has turnover of about EUR2 million p.a. with 23% EBITDA margin (vs. 13.1% reported by Elettra Investimenti in 1H16). This translates to an EV/EBITDA 4.4x transaction multiple, above Elettra Investimenti's rating but well below peers' multiples.
- > The share capital slightly increased due to the allocation of 25k bonus shares. There are now 3.74 million shares in issue.
- > Elettra Investimenti is evaluating several new projects in new segments (hydroelectric plants, wind farms) leveraging on its available liquidity (EUR9.2 million), but for the time being, nothing has been finalized. Clearly, its entry into new segments would complete Elettra Investimenti's product range while reducing the overall risk of the company as energy sources should be more diversified. We should emphasise that Elettra Investimenti has sufficient financial capacity to pursue new opportunities (gearing of 50% in 2018 would translate to >EUR12 million of available resources for new acquisitions).

Figure 1 – 1H16 results

(EURm)	1H15A	1H16A	% Chg.
Sales Energy	7.73	7.14	-7.7%
Sales Thermal	2.68	3.03	12.7%
Sales Oil	2.98	2.80	-6.2%
Sales Other	0.39	3.10	693.6%
Sales total	13.79	16.06	16.5%
EBITDA	1.70	2.11	23.9%
% margin	12.3%	13.1%	
EBIT	0.90	1.17	30.3%
% margin	6.5%	7.3%	
Pre tax profit	0.72	1.01	40.0%
Net profit	0.46	0.61	32.9%
Net debt (cash)	(5.21)	(3.17)	nm

Source: Company data

Financial Projections

- > Following 1H16 results, we have fine-tuned our estimates for 2016-18. Compared with our previous estimates, our revenue estimates have been reduced by 3% on average, with a slight increase to reflect the impact of the new plant recently acquired offset by lower energy prices and the length of the authorization process for photovoltaic plants. Altogether, we expect CAGR in sales of 9% in 2015-18.
- > The EBITDA margin is expected to rise in 2016 (to 12.8% from 11.3%) and again in 2017-18, even though the regulatory scenario of system charges is unpredictable. However, our top line forecast reduction implies an EBITDA slightly below our previous estimates (-4% on average). We have reduced our D&A estimates to reflect lower capex, resulting in a downgrade to our EBIT estimates of 3% in 2016-18. After a tax rate of almost 40%, net attributable profit could be EUR1.1 million this year, rising to EUR2.0 million in 2018 (CAGR of 29%). We expect net cash to remain broadly stable in 2016-18, excluding potential acquisitions and non-recurring capex.
- > Our estimates imply a positive second half of the year, with revenues broadly flat and an EBITDA margin well above the level of 2H15.
- > The company confirmed its ambition to transition from the AIM market to MTA within two years, partly as a consequence of mergers with other companies. The main shareholder (Bombacci family, which currently has a 74.8% stake) did not rule out the possibility of reducing its stake below 50% if necessary.

Figure 2 – Old vs. new estimates

(EURm)	2015A	2016E		2017E		2018E	
		Old	New	Old	New	Old	New
VoP	30.26	34.01	32.23	38.69	37.94	40.07	39.38
% change			-5.2%		-1.9%		-1.7%
EBITDA	3.42	4.37	4.12	5.41	5.23	5.89	5.67
% change			-5.7%		-3.3%		-3.7%
EBIT	1.74	2.19	2.08	3.08	3.04	3.40	3.33
% change			-5.2%		-1.2%		-1.8%
Net Profit	0.90	1.18	1.11	1.76	1.74	2.00	1.96
% change			-5.8%		-1.3%		-1.9%
Net debt (cash)	(4.81)	(3.53)	(3.17)	(3.77)	(3.35)	(4.59)	(3.98)
EBIT margin	5.8%	6.5%	6.5%	8.0%	8.0%	8.5%	8.5%
EBITDA margin	11.3%	12.8%	12.8%	14.0%	13.8%	14.7%	14.4%

Source: Company data, UBI Banca estimates

Figure 3 – 2H16 estimates

(EURm)	2H15A	2H16E	% Chg.
Sales total	16.47	16.17	-1.8%
EBITDA	1.72	2.02	17.4%
% margin	10.4%	12.5%	
EBIT	0.84	0.91	7.8%
% margin	5.1%	5.6%	
Pre tax profit	0.69	0.71	2.6%
Net profit	0.44	0.50	12.1%
Net debt (cash)	(4.81)	(3.17)	nm

Source: Company data, UBI Banca estimates

Figure 4 – 2016-18 forecasts by division

	2014A	2015A	2016E	2017E	2018E
Electrical Energy					
Sales	16.45	17.03	16.01	18.15	18.62
% growth	9.1%	3.5%	-6.0%	13.4%	2.6%
EBITDA	3.04	2.72	2.96	3.63	3.85
% margin	18.5%	16.0%	18.5%	20.0%	20.7%
Thermal energy					
Sales	4.79	5.37	6.08	7.15	7.23
% growth	1.7%	12.1%	13.2%	17.7%	1.2%
EBITDA	0.65	0.43	0.58	0.80	0.90
% margin	13.5%	8.0%	9.5%	11.2%	12.5%
Oil trading					
Sales	5.19	6.14	5.60	6.26	6.30
% growth		18.3%	-8.8%	11.8%	0.6%
EBITDA	0.25	0.18	0.20	0.25	0.27
% margin	4.8%	2.9%	3.6%	4.0%	4.3%
Photovoltaic					
Sales		0.25	2.90	4.50	4.95
% growth			nm	36.4%	10.0%
EBITDA		0.00	0.24	0.33	0.38
% margin		0.0%	7.2%	7.3%	7.7%
Services					
Sales	0.01	0.45	0.65	0.88	1.07
% growth		nm	43.0%	36.0%	22.0%
EBITDA	0.00	0.08	0.14	0.22	0.27
% margin		18.0%	22.0%	24.5%	25.0%
Other sales	1.15	1.02	1.00	1.00	1.20
Total sales	27.58	30.26	32.23	37.94	39.38
% growth	30.0%	9.7%	6.5%	17.7%	3.8%
Total EBITDA	3.94	3.41	4.12	5.22	5.68
% margin	14.3%	11.3%	12.8%	13.8%	14.4%

Source: Company data, UBI Banca estimates

Valuation

- > Our new target price of EUR5.50 per share (up from EUR5.39) is based on the average of a DCF (fair value of EUR4.44 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 EUR5.34 per share using small peers and EUR6.39 per share using large companies.
- > At its current market price (EUR4.10), Elettra Investimenti is trading at a significant discount to peers: 74% on 2017-18 EV/EBITDA and 55% in P/E terms, a discount which has increased significantly in the past few months, while it trades at a small premium in terms of P/BV (15%). This reflects Elettra Investimenti's low invested capital compared to other companies which manage large power plants.
- > Given the current estimated upside potential of >30%, we confirm our Buy rating. At the target price, the company would trade at 3.2x 2017 EV/EBITDA, which is still well below the average multiple for the industry (8.6x), at 11.8x P/E (the average of the industry stands at 19.1x) and at 1.5x P/BV (vs. 0.91x).
- > The outstanding warrants are currently out of the money: the strike price is equal to EUR7.80 up to April 21 2017 and EUR8.10 up to April 21 2018. In the second conversion period (ended on 14 October) there was no conversion of warrants.

Figure 5 – Valuation summary

(EUR)		Weight
DCF valuation	4.77	33%
Relative valuation (large companies, 20% discount)	6.39	33%
Relative valuation (small companies)	5.34	33%
Target Price	5.50	
Current price	4.10	
Potential upside	34.2%	

Source: UBI Banca estimates

Figure 6 – DCF Valuation

Our DCF valuation implies an EV/EBITDA of 1.5x at terminal value			
	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2016-24 FCF	7.79	60%	2.10
Terminal value	5.10	40%	1.37
Total Enterprise value	12.89	100%	3.47
- Pension Provision	(0.00)		(0.00)
- Net cash (debt)	4.81		1.30
Total Equity value	17.70		4.77
Number of shares outstanding (m)	3.71		
Fair value per share (EUR)	4.77		

Source: UBI Banca estimates

Figure 7 – Relative valuation based on large cap companies (priced on 25 November 2016)

Based on a simple average of large cap companies, Elettra Investimenti has a valuation of EUR7.99 per share (EUR6.39 applying 20% discount) while using the median of multiples the fair value would be EUR7.84 per share. The share is trading at significant discount to EV/EBITDA and P/E, but at premium of P/BV.

Company	Market Cap (EURm)	P/E		EV/EBITDA		P/BV	
		2017E	2018E	2017E	2018E	2017E	2018E
EDP Renovaveis	5.282	28.5 x	24.6 x	7.1 x	6.6 x	0.84 x	0.83 x
Iberdrola	36.359	13.5 x	12.8 x	8.2 x	7.9 x	0.93 x	0.87 x
Acciona	3.682	15.6 x	13.7 x	7.5 x	7.1 x	0.97 x	0.94 x
Fortum	12.188	19.6 x	19.0 x	10.7 x	10.8 x	0.91 x	0.92 x
Verbund	4.806	18.4 x	19.1 x	9.4 x	9.4 x	0.92 x	0.89 x
Average		19.1 x	17.9 x	8.6 x	8.4 x	0.91 x	0.89 x
Median		18.4 x	19.0 x	8.2 x	7.9 x	0.92 x	0.89 x
Elettra investimenti	15	8.8 x	7.8 x	2.3 x	2.0 x	1.09 x	0.99 x
Premium (discount)		-52.1%	-58.9%	-72.6%	-75.4%	18.6%	11.1%
Based on simple average	(EUR)	8.88	9.37	10.71	11.83	3.45	3.69
Based on median	(EUR)	8.56	9.99	10.21	11.15	3.46	3.69

Source: Factset, UBI Banca estimates

Figure 8 - Relative valuation based on small cap companies (priced on 25 November 2016)

Based on a simple average of small cap companies (without discount), Elettra Investimenti would be valued at EUR5.34 per share.

Company	Market Cap (EURm)	P/E		EV/EBITDA		P/BV	
		2017E	2018E	2017E	2018E	2017E	2018E
Falck Renewables	210	19.2 x	14.4 x	5.7 x	5.0 x	0.45 x	0.45 x
Alerion Clean Power	108	21.5 x	20.6 x	6.8 x	6.4 x	0.98 x	0.97 x
Average		20.4 x	17.5 x	6.3 x	5.7 x	0.72 x	0.71 x
Median		20.4 x	17.5 x	6.3 x	5.7 x	0.72 x	0.71 x
Based on simple average	(EUR)	6.05	8.13	5.65	7.09	2.46	2.68

Source: Factset, UBI Banca estimates

Income Statement

(EURm)	2015	2016E	2017E	2018E
Net Revenues	30.3	32.2	37.9	39.4
EBITDA	3.4	4.1	5.2	5.7
EBITDA margin	11.3%	12.8%	13.8%	14.4%
EBIT	1.7	2.1	3.0	3.3
EBIT margin	5.8%	6.5%	8.0%	8.5%
Net financial income /expense	-0.3	-0.4	-0.3	-0.3
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	1.4	1.7	2.7	3.0
Taxes	-0.6	-0.7	-1.1	-1.2
Minorities & discontinuing ops	0.1	0.1	0.1	0.1
Net Income	0.9	1.1	1.7	2.0

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2015	2016E	2017E	2018E
Net working capital	-2.5	-2.9	-2.5	-2.4
Net Fixed assets	10.0	12.8	13.3	13.9
M/L term funds	-0.2	-0.3	-0.3	-0.3
Capital employed	7.3	9.5	10.6	11.3
Shareholders' equity	12.1	12.8	14.1	15.5
Minorities	-0.0	-0.1	-0.2	-0.3
Shareholders' funds	12.1	12.7	13.9	15.2
Net financial debt/(cash)	-4.8	-3.2	-3.4	-4.0

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2015	2016E	2017E	2018E
NFP Beginning of Period	-0.3	-4.8	-3.2	-3.4
Group Net Profit	0.9	1.1	1.7	2.0
Minorities	-0.1	-0.1	-0.1	-0.1
D&A	1.7	2.0	2.2	2.3
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	2.5	3.1	3.8	4.2
Change In Working Capital	1.2	0.4	-0.4	-0.1
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	3.7	3.5	3.4	4.1
Net Capex	-3.4	-3.6	-1.5	-1.6
Other Investments	-0.0	0.0	0.0	0.0
Free Cash Flow	0.3	-0.1	1.9	2.5
Dividends Paid	0.0	-0.5	-0.5	-0.6
Other & Chg in Consolid. Area	0.1	-1.1	-1.1	-1.2
Chg in Net Worth & Capital Incr.	4.1	0.0	0.0	0.0
Change in NFP	4.5	-1.6	0.2	0.6
NFP End of Period	-4.8	-3.2	-3.4	-4.0

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2015	2016E	2017E	2018E
ROE	7.5%	8.7%	12.3%	12.6%
ROI (pre-tax)	24.2%	24.0%	29.4%	29.8%
Net Fin. Debt/Equity (x)	-0.4	-0.2	-0.2	-0.3
Net Fin. Debt/EBITDA (x)	-1.4	-0.8	-0.6	-0.7
Interest Coverage	0.0	0.0	0.0	0.0
NWC/Sales	-8.2%	-9.1%	-6.6%	-6.0%
Capex/Sales	11.3%	11.0%	4.1%	4.1%
Pay Out Ratio	53.3%	47.1%	36.6%	38.1%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2015	2016E	2017E	2018E
EPS	0.24	0.30	0.46	0.52
DPS	0.13	0.14	0.17	0.20
Op. CFPS	1.01	0.94	0.91	1.09
Free CFPS	0.08	-0.02	0.50	0.66
BVPS	3.29	3.43	3.77	4.15

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2015	2016E	2017E	2018E
P/E	21.9	13.8	8.8	7.8
P/OpCFPS	5.3	4.4	4.5	3.7
P/BV	1.6	1.2	1.1	1.0
Dividend Yield (%)	2.4%	3.4%	4.1%	4.9%
Free Cash Flow Yield (%)	1.4%	nm	12.1%	16.2%
EV (EURm)	15.0	12.0	11.8	11.1
EV/Sales	0.5	0.4	0.3	0.3
EV/EBITDA	4.4	2.9	2.3	2.0
EV/EBIT	8.6	5.8	3.9	3.3
EV/Capital Employed	2.1	1.3	1.1	1.0

Source: Company data, UBI Banca estimates

Growth Rates

(%)	2015	2016E	2017E	2018E
Growth Group Net Sales	9.7%	6.5%	17.7%	3.8%
Growth EBITDA	-13.3%	20.7%	26.8%	8.5%
Growth EBIT	-28.6%	19.4%	46.2%	9.6%
Growth Net Profit	-41.8%	22.7%	56.2%	13.0%

Source: Company data, UBI Banca estimates

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Sell: if the target price is 10% lower than the market price, over the next 12 months.

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Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
95.0%	5.0%	0.0%	0.0%

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Buy	Hold	Sell	No Rating
100%	100%	-	-

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Historical ratings and target prices

Date	Rating	Target Price (EUR)	Market Price (EUR)
12 October 2015	BUY	6.93	5.10
12 May 2016	BUY	5.39	4.35