

Company report

Buy (maintained)

01 August 2017 – 5:30 PM

MARKET PRICE: EUR8.60

TARGET PRICE: EUR10.39 (from EUR8.31)

Energy Services

Data

Shares Outstanding (m):	3.8
Market Cap. (EURm):	33.0
Enterprise Value (EURm):	33.9
Free Float (%):	23.6%
Av. Daily Trad. Vol. (m):	0.01
Main Shareholder:	Bombacci family 71.2%
Reuters/Bloomberg:	ELIN.MI ELIN IM
52-Week Range (EUR)	3.5 8.6

Source: Factset, UbiBanca estimates

Performance

	1m	3m	12m
Absolute	20.3%	39.8%	135.5%
Rel. to FTSE	15.3%	34.5%	83.7%

IT
Source: Factset

Graph area Absolute/Relative 12 M



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Earnings surprise and improved outlook

Last week Eletttra Investimenti unexpectedly announced 1H17 preliminary results that were well above our expectations. Sales rose 65% (mostly due to the consolidation of Tholos, which was not present in 1H16). EBITDA margins grew to 19.2% from 13.1% in 1H16 in part due to soaring TEE prices, which reached EUR300 at the end of July 2017 (from EUR191 at the beginning of the year) and led to a pre-tax profit of over EUR3 million, three times that of the same period last year. Consequently, Eletttra Investimenti upgraded its 2017 outlook: sales are now expected to be EUR48.5 million (+7% vs. old guidance), EBITDA EUR9.1 million (13% above the previous guidance), implying an 18.7% margin and net debt EUR0.2 million at year-end (vs. a previous expectation of EUR1.5). The company also entered new markets (IoT applications for the energy industry, tailor-made solutions for waste heat recovery and waste to power) and took a lease on a power plant fired on vegetable oil until 2026. In addition, Eletttra Investimenti has been classified as an innovative small company ("PMI innovativa"). It has also extended the duration of its outstanding warrants (that are now in the money and should benefit from the 30% tax credit at conversion) until October 2019. This wave of positive news has driven the share price up 48% since our previous report ("Positive 2016 results and healthy outlook" of 31 March 2017) but the valuation still remains attractive at a discount of >60% to the average 2017-19 EV/EBITDA of its peers and over 50% to the average P/E. Following better than expected 1H17 results and the upgrade to the 2017 outlook, we have increased our 2017-19 EBITDA estimates by >15% and our EPS estimates by >18%. Our target price has risen 25% to EUR10.39 per share. Buy reiterated.

- > We are impressed by the proactive attitude of the management that in less than one year has nearly doubled the size of the company, entered new promising businesses (EsCo, IoT) and significantly increased margins while offering an attractive dividend yield and other features for investors (its qualification as a "PMI Innovativa", extended duration of warrants).
- > Against this backdrop, we believe 2018-19 should see sizeable improvements as all the initiatives finalised in the recent past should start to bear fruit while continuing to offer potential synergies.
- > We have increased our target price by 25% to EUR10.39 per share (from EUR8.31) implying 21% upside. The outstanding are particularly attractive given the 30% tax credit at conversion. Buy.

Financials	priced on 31 July 2017			
	2016	2017E	2018E	2019E
Revenues (EURm)	31.8	48.0	50.6	52.2
EBITDA (EURm)	4.0	9.1	10.0	10.3
EBITDA margin (%)	12.7%	19.0%	19.7%	19.6%
EBIT (EURm)	2.0	5.6	6.3	6.5
EPS (EUR)	0.25	0.80	0.92	0.96
CFPS (EUR)	0.31	1.14	3.03	2.28
DPS (EUR)	0.25	0.25	0.28	0.30

Source: Company Data, UBI Banca Estimates

Ratios	priced on 31 July 2017			
	2016	2017E	2018E	2019E
P/E(x)	16.4	10.8	9.3	8.9
P/CF(x)	5.3	5.0	4.6	4.4
P/BV(x)	1.2	2.1	1.8	1.6
Dividend Yield	6.0%	2.9%	3.3%	3.5%
EV/EBITDA(x)	4.4	3.7	2.6	2.2
Debt/Equity (x)	0.2	0.0	-0.4	-0.5
Debt/EBITDA (x)	0.5	0.1	-0.7	-1.1

Source: UBI Banca Estimates * based on average 2016 price

Key Financials

(EURm)	2016	2017E	2018E	2019E
Revenues	31.8	48.0	50.6	52.2
EBITDA	4.0	9.1	10.0	10.3
EBIT	2.0	5.6	6.3	6.5
NOPAT	1.3	3.5	3.9	4.0
Free Cash Flow	-8.4	1.6	8.5	5.1
Net Capital Employed	15.3	16.7	11.8	10.4
Shareholders' Equity	13.2	16.1	18.6	21.3
Net Financial Position	2.1	0.6	-6.9	-10.9

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2016	2017E	2018E	2019E
Net Debt/Ebitda (x)	0.5	0.1	-0.7	-1.1
Net Debt/Equity (x)	0.2	0.0	-0.4	-0.5
Interest Coverage (%)	37.1	0.0	0.0	0.0
Free Cash Flow Yield (%)	-54.3%	4.9%	25.7%	15.5%
ROE (%)	7.2%	19.1%	19.0%	17.4%
ROI (%)	10.8%	21.0%	26.5%	35.1%
ROCE (%)	11.2%	21.7%	27.3%	36.1%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2016	2017E	2018E	2019E
P/E (x)	16.4	10.8	9.3	8.9
P/BV (x)	1.2	2.1	1.8	1.6
P/CF (x)	5.3	5.0	4.6	4.4
Dividend Yield (%)	6.0%	2.9%	3.3%	3.5%
EV/Sales (x)	0.6	0.7	0.5	0.4
EV/EBITDA (x)	4.4	3.7	2.6	2.2
EV/EBIT (x)	8.8	6.0	4.2	3.4
EV/CE (x)	1.2	2.0	2.2	2.1

Source: Company data, UBI Banca estimates

Key Value Drivers

(%)	2016	2017E	2018E	2019E
Payout	98.8%	31.3%	30.4%	31.2%
NWC/Sales	-2.2%	3.1%	-5.8%	-8.0%
Capex/Sales	30.0%	5.7%	6.3%	6.9%

Source: Company data, UBI Banca estimates

Recent Developments

- > In a surprise move, Elettra Investimenti reported preliminary 1H17 results (final 1H17 results are due on 29 September). These were well above our expectations: revenues increased by 65.2% mostly due to the consolidation of Tholos (consolidated from 21 December 2016). The product mix was not given but we expect organic growth of around 10%. Benefiting the results was sales of TEE, which had a strong increase in price to over EUR300 in July 2017, compared with EUR191 at the beginning of the year. The EBITDA margin rose sharply (19.2% vs. 13.1% in 1H16), exceeding our expectations, and leading to an improvement in the EBIT margin (12.6% compared with 7.3% in 1H16) despite higher D&A costs (EUR1.7 million in 1H17). Net profit was not published but pre-tax profit nearly tripled year-on-year. As expected, net debt grew to EUR3.91 million due to an increase in NWC linked to the revenue growth.
- > Following stronger than expected first half results and rising TEE prices Elettra Investimenti upgraded its 2017 outlook: sales are now expected to be EUR48.5 million (+8% vs. our estimates and +7% vs. previous guidance), EBITDA to be EUR9.1 million (16% above our estimates and 13% above previous guidance), which implies a margin of 18.7%. The main reason for the margin improvement is the TEE price, which is well above the company's forecast. As the market price of TEE can be erratic, we believe Elettra Investimenti has already secured part of imminent TEE sales and this should make the new guidance achievable.
- > The average TEE price since the start of the year is EUR233, compared to EUR127 in the same period 2016, and it exceeded EUR300 at the end of July (*source: GME*). This performance clearly favours Elettra Investimenti, which sells its TEE on the market.
- > The company has been classified as an innovative small company ("PMI innovativa"). This classification gives Elettra Investimenti several advantages: some tax savings, the possibility of remunerating staff through a tax-free "work for equity plan" while investors in the company could benefit from a tax credit of 30% of their investment (up to EUR1.0 million for individuals and EUR1.8 million for legal entities per annum) thereby increasing the appeal of the warrant, which, when converted (at EUR8.10), will give the 30% tax credit to investors.
- > The expiry of the outstanding warrants has been extended to October 2019 (from April 2018). The strike price of EUR8.10 remains unchanged and is currently in the money. The warrants can be exercised from 2 - 13 October 2017, 2 - 15 October 2018 and 3 - 14 October 2019.
- > In July this year the company announced that it had taken a lease from Tonella lasting until June 2026 on a power plant fired by vegetable oil with capacity of 990 kWe for EUR0.4 million. According to Elettra Investimenti the plant should generate around EUR2.0 million of revenues p.a. (or around 4% of 2016 pro-forma revenues) with an EBITDA margin of 17% (compared to the company's margin of 14.6% in 2016).
- > In May 2017, the company entered the IoT (internet of things) market becoming the main shareholder in PHPower with a 52.4% stake (which could increase to 70% due to a call option) for an investment of EUR0.35 million. In June, through PHPower, the company also acquired 5% in two French companies: Greenprize and Inovadea for a total sum of EUR0.17 million. Despite the small size of the acquisitions and the limited impact on the company's P&L, we believe these deals represent an important strategic step for Elettra Investimenti: it will enlarge the company's product range (being one of the first movers in the IoT applied to the energy industry) while reaching new clients both in Italy and France. We

also expect some cross-selling synergies.

> Also in May, the company founded a new ESCO with C2P (65% Elettra Investimenti, 35% C2P) investing EUR0.3 million, which is specialized in tailor-made solutions for waste heat recovery and waste to power, thereby enlarging its product portfolio.

Figure 1 – 1H17 preliminary results

(EURm)	1H16A	1H7A	% Chg.
Sales total	16.06	26.53	65.2%
EBITDA	2.11	5.08	141.1%
% margin	13.1%	19.2%	
EBIT	1.17	3.36	186.5%
% margin	7.3%	12.6%	
Pre tax profit	1.01	3.05	203.5%
Net debt (cash)	-3.17	3.91	nm

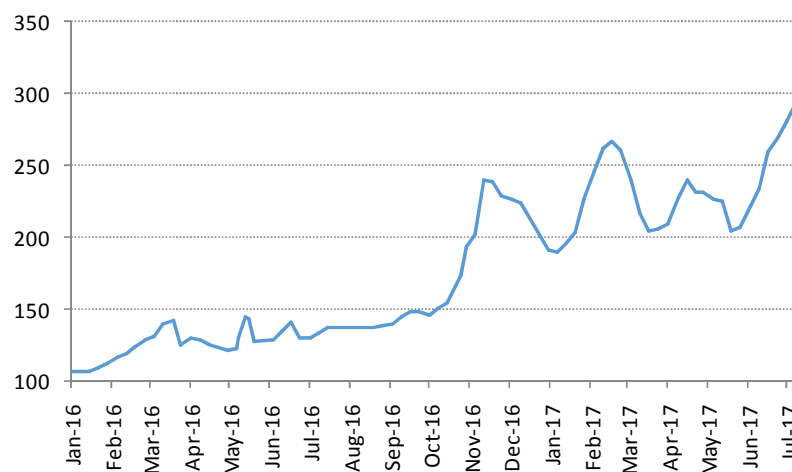
Source: Company data

Figure 2 – New outlook compared with the previous outlook and our estimates

(EURm)	2017 new outlook	2017 previous outlook	% Chg.	2017 UBI	% Chg.
Sales total	48.54	45.20	7.4%	44.96	8.0%
EBITDA	9.10	8.06	12.9%	7.83	16.2%
% margin	18.7%	17.8%		17.4%	
EBIT	5.58	4.91	13.6%	4.63	20.5%
% margin	11.5%	10.9%		10.3%	
Pre tax profit	5.15	4.45	15.6%	4.32	19.1%
Net Debt	0.20	1.47	-86.4%	1.38	-85.5%

Source: Company data, UBI Banca estimates

Figure 3 - Average TEE price (EUR)



Source: GME

Financial Projections

- > Following the company's new forecasts for 2017, the recent acquisitions and the sharp increase in TEE prices, we have upgraded our 2017-19 estimates. Our new 2017 estimates are substantially aligned with the company's new forecasts and give a net profit that is 20% above our previous estimates.
- > For 2018-19 we have incorporated the impact of the new acquisitions that should add around EUR3 million of revenues. Our new estimates indicate an EBITDA margin of over 19% in 2018-19, an increase of 15% compared to our previous estimates. Despite estimated higher D&A costs (to factor in the amortisation of the new assets acquired), our EBIT estimates have been upgraded by almost 18% in 2018-19. After a tax rate of >40%, net attributable profit could be EUR3.07 million in 2017 rising to EUR3.69 million in 2019 (2016-19 CAGR of 15%).

Figure 4 – Old vs. new estimates

(EURm)	2016A		2017E		2018E		2019E	
		Pro-forma	Old	New	Old	New	Old	New
VoP	31.84	48.63	44.96	47.96	46.28	50.57	47.88	52.24
% change				6.7%		9.3%		9.1%
EBITDA	4.04	7.12	7.83	9.11	8.58	9.95	9.08	10.25
% change				16.3%		16.1%		13.0%
EBIT	2.04	4.26	4.63	5.60	5.22	6.28	5.62	6.46
% change				20.9%		20.2%		14.9%
Net Profit	0.94	2.44	2.55	3.07	2.93	3.54	3.21	3.69
% change				20.4%		20.5%		15.0%
EPS	0.24	0.25	0.66	0.80	0.76	0.92	0.84	0.96
% change				20.4%		20.5%		15.0%
Net debt (cash)	2.09	2.09	1.38	0.64	(4.86)	(6.86)	(7.98)	(10.90)
EBIT margin	6.4%	8.8%	10.3%	11.7%	11.3%	12.4%	11.7%	12.4%
EBITDA margin	12.7%	14.6%	17.4%	19.0%	18.5%	19.7%	19.0%	19.6%

Source: Company data, UBI Banca estimates

Valuation

- > Following the revision to our estimates, our new target price is EUR10.39 per share (up from EUR8.31), an increase of 25%. Our target price is based on the average of a DCF (fair value of EUR9.05 per share) and a relative valuation (applying a 20% discount to factor in the limited size and modest liquidity of Elettra Investimenti) based on both the median of the multiples of small companies and the median of larger international companies. This gives a fair value of EUR10.38 per share using small-scale peers and EUR11.77 per share using large companies.
- > At its current market price (EUR8.60, above our previous target price), Elettra Investimenti is trading at a significant discount to its peers: 60% on 2017-19 EV/EBITDA and 52% in P/E terms, while it trades at a premium in terms of P/BV (83%). This reflects Elettra Investimenti's low invested capital compared to other companies that manage large power plants.
- > Given the current estimated upside potential of >20%, we confirm our Buy rating. At the target price, the company would trade at 4.5x 2017 EV/EBITDA, which is still well below the average multiple for the industry (7.5x), at 13.0x P/E (the average of the industry stands at 25.1x) and at 2.5x P/BV (vs. 0.99x).
- > The outstanding warrants are currently in the money. Assuming a full warrant conversion, the shares would nearly double in number and the company would receive around EUR30 million. We highlight the current undervaluation of the outstanding warrants that, in our view, do not incorporate the 30% tax benefit stemming from the "PMI Innovativa" qualification (up to EUR1.8 million investment for legal entities). As the strike price stands at EUR8.10, the tax benefit corresponds to EUR2.43 for each warrant converted into share.

Figure 5 – Valuation summary

(EUR)	New valuation	31/03/2017	delta
DCF	9.05	6.79	33.3%
Multiples (large caps, 30% discount)	11.75	10.60	10.8%
Multiples (small caps, 20% discount)	10.38	7.53	37.8%
Target price	10.39	8.31	25.1%
Current price	8.60	5.80	48.3%
Potential upside	20.8%	43.2%	

Source: UBI Banca estimates

Figure 6 – DCF Valuation

Our DCF valuation implies an EV/EBITDA of 4.6x at terminal value

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2017-25 FCF	21.70	58%	5.66
Terminal value	15.47	42%	4.03
Total Enterprise value	37.18	100%	9.69
- Pension Provision	(0.38)		(0.10)
- Net cash (debt)	(2.09)		(0.54)
Total Equity value	34.72		9.05
Number of shares outstanding (m)	3.84		
Fair value per share (EUR)	9.05		

Source: UBI Banca estimates

Figure 7 – Relative valuation based on large cap companies (priced on 31 July 2017)

Company	Market Cap (EURm)	P/E			EV/EBITDA			P/BV		
		2017	2018	2019	2017	2018	2019	2017	2018	2019
EDP Renovaveis	5,892	27.5 x	23.0 x	6.8 x	7.7 x	7.4 x	7.0 x	0.93 x	0.90 x	0.86 x
Iberdrola	42,100	15.4 x	14.2 x	13.1 x	9.1 x	8.4 x	8.1 x	1.09 x	1.06 x	1.03 x
Acciona	4,137	16.7 x	14.8 x	13.5 x	7.5 x	7.1 x	6.7 x	1.07 x	1.04 x	1.01 x
Fortum	12,277	19.6 x	18.3 x	18.0 x	10.8 x	10.4 x	10.5 x	0.93 x	0.94 x	0.94 x
Verbund	5,811	19.4 x	23.3 x	19.0 x	10.0 x	10.7 x	9.5 x	1.11 x	1.08 x	1.05 x
Average		19.7 x	18.7 x	14.1 x	9.0 x	8.8 x	8.4 x	1.03 x	1.01 x	0.98 x
Median		19.4 x	18.3 x	13.5 x	9.1 x	8.4 x	8.1 x	1.07 x	1.04 x	1.01 x
Elettra Investimenti	33	10.8 x	9.3 x	8.9 x	3.7 x	2.6 x	2.2 x	2.05 x	1.77 x	1.55 x
Premium (discount)		-44.5%	-49.1%	-33.7%	-59.0%	-68.6%	-73.2%	91.9%	70.4%	53.8%
Based on simple average	(EUR)	15.76	17.28	13.55	27.17	23.48	22.55	4.29	4.89	5.41
Based on median	(EUR)	15.48	16.90	12.97	27.32	22.50	21.86	4.48	5.05	5.59

Source: Factset, UBI Banca estimates

Figure 8 – Implicit multiples based on our EUR10.39 target price

(x)	2017E	2018E	2019E
P/E	13.0 x	11.3 x	10.8 x
EV/EBITDA	4.5 x	3.3 x	2.8 x
EV/EBIT	7.3 x	5.3 x	4.5 x
EV/Sales	0.85 x	0.66 x	0.56 x
P/BV	2.5 x	2.1 x	1.9 x
EV/ Capital employed	2.4 x	2.8 x	2.8 x

Source: UBI Banca estimates

Income Statement

(EURm)	2016	2017E	2018E	2019E
Net Revenues	31.8	48.0	50.6	52.2
EBITDA	4.0	9.1	10.0	10.3
EBITDA margin	12.7%	19.0%	19.7%	19.6%
EBIT	2.0	5.6	6.3	6.5
EBIT margin	6.4%	11.7%	12.4%	12.4%
Net financial income /expense	-0.4	-0.4	-0.3	-0.3
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	1.6	5.2	6.0	6.2
Taxes	-0.7	-2.1	-2.4	-2.5
Minorities & discontinuing ops	-0.0	-0.0	-0.0	-0.0
Net Income	0.9	3.1	3.5	3.7

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2016	2017E	2018E	2019E
Net working capital	-0.7	1.5	-2.9	-4.2
Net Fixed assets	16.6	15.7	15.1	14.9
M/L term funds	-0.6	-0.4	-0.4	-0.3
Capital employed	15.3	16.7	11.8	10.4
Shareholders' equity	13.2	16.1	18.6	21.3
Minorities	0.0	0.0	0.0	0.0
Shareholders' funds	13.2	16.1	18.7	21.3
Net financial debt/(cash)	2.1	0.6	-6.9	-10.9

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2016	2017E	2018E	2019E
NFP Beginning of Period	-4.8	2.1	0.6	-6.9
Group Net Profit	0.9	3.1	3.5	3.7
Minorities	0.0	0.0	0.0	0.0
D&A	2.0	3.5	3.7	3.8
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	2.9	6.6	7.2	7.5
Change In Working Capital	-1.8	-2.2	4.4	1.3
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	1.1	4.4	11.6	8.7
Net Capex	-9.6	-2.8	-3.2	-3.6
Other Investments	0.0	0.0	0.0	0.0
Free Cash Flow	-8.4	1.6	8.5	5.1
Dividends Paid	-0.5	-0.9	-1.0	-1.1
Other & Chg in Consolid. Area	2.0	0.0	0.0	0.0
Chg in Net Worth & Capital Incr.	0.0	0.8	0.0	0.0
Change in NFP	-6.9	1.4	7.5	4.0
NFP End of Period	2.1	0.6	-6.9	-10.9

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2016	2017E	2018E	2019E
ROE	7.2%	19.1%	19.0%	17.4%
ROI (pre-tax)	17.4%	33.8%	42.8%	56.6%
Net Fin. Debt/Equity (x)	0.2	0.0	-0.4	-0.5
Net Fin. Debt/EBITDA (x)	0.5	0.1	-0.7	-1.1
Interest Coverage	37.1	0.0	0.0	0.0
NWC/Sales	-2.2%	3.1%	-5.8%	-8.0%
Capex/Sales	30.0%	5.7%	6.3%	6.9%
Pay Out Ratio	98.8%	31.3%	30.4%	31.2%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2016	2017E	2018E	2019E
EPS	0.25	0.66	0.79	0.84
DPS	0.25	0.25	0.28	0.30
Op. CFPS	0.31	0.95	2.70	2.04
Free CFPS	-2.25	0.23	1.88	1.09
BVPS	3.53	4.05	4.57	5.12

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2016 *	2017E	2018E	2019E
P/E	16.4	10.8	9.3	8.9
P/OpCFPS	13.5	7.5	2.8	3.8
P/BV	1.2	2.1	1.8	1.6
Dividend Yield (%)	6.0%	2.9%	3.3%	3.5%
Free Cash Flow Yield (%)	-54.3%	4.9%	25.7%	15.5%
EV (EURm)	18.0	33.9	26.3	22.2
EV/Sales	0.6	0.7	0.5	0.4
EV/EBITDA	4.4	3.7	2.6	2.2
EV/EBIT	8.8	6.0	4.2	3.4
EV/Capital Employed	1.2	2.0	2.2	2.1

Source: Company data, UBI Banca estimates

* Based on average 2016 share price

Growth Rates

(%)	2016	2017E	2018E	2019E
Growth Group Net Sales	5.2%	50.6%	5.5%	3.3%
Growth EBITDA	18.3%	125.2%	9.3%	3.0%
Growth EBIT	17.2%	174.4%	12.0%	3.0%
Growth Net Profit	4.4%	224.6%	15.3%	4.4%

Source: Company data, UBI Banca estimates

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Analyst Declaration

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Hold: if the target price is 10% below or 10% above the market price, over the next 12 months.

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
83.3%	13.3%	0.0%	3.3%

Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months

Buy	Hold	Sell	No Rating
100%	100%	-	100%

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to www.ubibanca.com/equity-research.

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
28 November 2016	BUY	5.50	4.10
12 January 2017	BUY	7.30	5.50
31 March 2017	BUY	8.31	5.80