

Europe Italy
Utilities Electricity

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COMPANY ALERT

Terna S.p.A.

H1 2009 results preview

Results

Buy

Reuters:TRN.MI Exchange:MIL Ticker:TRN

Price (EUR)	2.43
Price target (EUR)	3.10
52-week range (EUR)	2.76 - 2.12
Market cap (EUR)(m)	4,862.2
Shares outstanding (m)	2,001
DJ (.STOXXE)	231.2
Free float (%)	100

FYE 12/31	2008A	2009E	2010E
Revenue (EURm)	1,395	1,523	1,438
DB PBT (EU-Rm)	534	553	570
Stated PBT (EURm)	534	1,043	570
DB EPS (EUR)	0.16	0.17	0.18
DPS (EUR)	0.16	0.19	0.19
P/E (DB EPS) (x)	16.3	14.5	13.3

Terna will report H1 results on the 28th of July. A conference call is scheduled the same day at 17.00CET, dial-in: +3902303509003, +442071620077.

We believe that H1 results should show a positive performance at operating level and will confirm that capex spending is accelerating. Besides this, comparing these results with year will be not too homogeneous due to one-offs in 2008 and the change in consolidation perimeter for the Brazilian unit. This will lead to double digit net income fall.

In H1 2009 Terna will account for the contribution of the Brazilian unit as discontinued operations: the table below shows results according to our restatement. Q2 will also be the first quarter to consolidate the HV grid (TELAT), contributing to improvements at operating level. The huge net profit drop that we are forecasting is the result of the mark-to-market of interest rates derivatives that positively contributed with Euro 53m in Q2 08. Stripping out that effect, the net income of the Italian activities should have been flat. On top of the net income derived from the Italian activities, the contribution from discontinued operation should amount to Euro 23m.

Net debt figure will show a significant rise due to the closing of TELAT acquisition for Euro1.15bn only partially compensated by the E0.4bn Brazilian debt deconsolidation. Including Euro 350m of estimated capex, we expect a 1H09 net debt of E4.3bn; this should be lowered by E0.8bn once the disposal of Terna Part is completed (Q4-09).

We confirm our Buy rating on Terna based on the 7.7% dividend yield, the 8% discount to RAB and the good visibility combined with attractive returns offered by the regulatory framework.

H1 2009 results preview (Euro m)	Q1 09A	Q1 09A*	Q2 09E	H1 09E	H1 08*	% yoy
Total revenues	367	310	324	633	574	10.3%
Opex	100	81	90	171	165	3.6%
EBITDA	267	229	234	462	409	13.0%
EBITDA mg %	72.8%	73.8%	72.2%	73.0%	71.3%	
D&A	72	65	76	141	121	17.3%
EBIT	195	164	157	321	288	11.3%
Net financial expenses	49	39	53	92	9	n.m
Taxes	52	45	37	82	100	-18.3%
Net profit from continuing operation	94	80	67	148	180	-17.9%
* restated excluding Terna Participacoes						

Source: Deutsche Bank

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