

Europe Italy
Utilities Electricity

29 Jul 2009 - 10:20:37 AM CEST

COMPANY ALERT

Terna S.p.A.

Solid quarter driven by non recurring items

Results

Buy

Reuters:TRN.MI Exchange:MIL Ticker:TRN

Price (EUR)	2.44
Price target (EUR)	3.10
52-week range (EUR)	2.76 - 2.12
Market cap (EUR)(m)	4,892.2
Shares outstanding (m)	2,001
DJ (.STOXXE)	237.2
Free float (%)	100

FYE 12/31	2008A	2009E	2010E
Revenue (EURm)	1,395	1,523	1,438
DB PBT (EURm)	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	14.6	13.3

Terna reported solid H1 numbers, that included several positive by one-offs. Recurrent NI was in line with our preview. 2009 guidance has been improved on higher spending. They also announced a new investment in a solar project for E250-350m to be completed in 2010, called Sungrid.

H1 2009 results. Revenues were E656m (+14.3%) on higher grid fees that included E20m of non recurrent premiums for dispatching activity. The maximum amount will be E40m in 09. On cost side, the partial release of the Energy Retirement Fund reduced Opex by E27m. Net of this effect Opex would have been 3% above DB est. Net profit from recurrent activities was E177m, 3% down yoy, after a 35.5% tax rate (in line with FY guidance). Cost of debt stood at 4% for 1H09.

Outlook. The company upgraded its capex guidance from E750m to E850m p.a. thanks to improved regulatory support that allows to accelerate investments, thus boosting returns in the medium term. Net debt at end of 2009 is expected at E4bn. Terna also announced a new investment out of its core activity, which is E250-350m of capex into Sungrid, a solar project to extract value from owned land surrounding substation. As per the co. over time those solar project may be sold. They expect 11-12% IRR from that project, with EPS enhancement starting in 2011 (E45-55m revenues with 85% EBITDA margin). Terna will increase its gearing in the medium term. We were somehow surprised by this partial use of the Terna Part proceeds, into an activity were they did not have previous knowhow. Company will also improve its dividend policy once year 2009 is finished. We confirm our long term positive stance on Terna that is currently trading at a 9% discount to RAB & offers a 7-8% div yield, with chances that the dividend may increase even further.

H1 2009 results review (Euro m)	H1 08	H1 09E	H1 09A	% diff	H1 09A*	% diff
Total revenues	574	633	656	3.6%	636	0.5%
Opex	165	171	149	-12.6%	176	3.0%
EBITDA	409	462	507	9.7%	460	-0.5%
D&A	121	141	144	1.8%	144	1.8%
EBIT	289	321	363	13.1%	316	-1.5%
Net financial expenses	5	92	87	-4.7%	87	-4.7%
Taxes	101	82	99	20.8%	82	0.3%
Net profit from continuing operations	183	148	177	19.9%	147	-0.4%

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