

02 Nov 2009 - 06:00:36 PM CEST

## COMPANY ALERT

Terna S.p.A.

9m 2009 results preview

## Results

Buy

Reuters:TRN.MI Exchange:MIL Ticker:TRN

Price (EUR)	<b>2.69</b>
Price target (EUR)	<b>3.10</b>
52-week range (EUR)	<b>2.71 - 2.12</b>
Market cap (EUR)(m)	<b>5,382.4</b>
Shares outstanding (m)	<b>2,001</b>
DJ (.STOXXE)	<b>256.6</b>
Free float (%)	<b>100</b>

FYE 12/31	2008A	2009E	2010E
Revenue (EURm)	1,395	1,332	1,459
DB PBT (EU-Rm)	536	500	555
Stated PBT (EURm)	536	1,010	555
DB EPS (EUR)	0.16	0.16	0.18
DPS (EUR)	0.16	0.19	0.19
P/E (DB EPS) (x)	16.2	17.0	15.1

Terna reports 9M results on 10 Nov. A conference call is scheduled at 4.15 pm CET, dial-in +390683360400 (Italy), +442030032666. We believe that the results should be uneventful as the company is likely to confirm capex and profitability targets for FY09. More important, a potential announcement of the closing of Terna Part. could act as a catalyst given that the new dividend policy is subject to finalization of this deal.

**9M-09 results.** Numbers should confirm the operating trends of H1 with regulated revenues boosted by premiums on dispatching activities (E10m in Q3) and the increase in tariffs (+5.5% since January 2009). The decoupling of revenues from volumes should continue to protect growth despite economic recession. Consequently, we expect EBITDA margins to increase from 73% to over 76%. Capex should be E550m; seasonality suggests that investments should accelerate in Q4 to meet FY target of over E800m. We estimate net debt at E4.250m, factoring in working capital deterioration of E150m in Q3 (due payment of energy items reported in H1).

**Dividend policy.** On 27 October "Il corriere della Sera" reported that the closing of the disposal of Terna Part. to Cemig could be announced at the beginning of November. This could be a trigger for a new dividend policy. Indeed, part of the proceeds (Euro 800m, more than E400m capital gain) will be used to support shareholders' remuneration: we estimate c.E60m in 2009 (E0.03/share) on top of the normalized dividend of E0.16/share. The normalized interim dividend should therefore be E0.062/share vs. E0.0592 in 2008. This would result in a FY dividend yield of over 7% in 2009, above sector average of 5.2%. This is one reason why we like this company.

9M results preview (Euro m)	9M-08	9M-08 R	9M-09	9M-09 %
<b>Operating revenues</b>	<b>1040</b>	<b>890</b>	<b>986</b>	<b>10.7%</b>
Regulated	836.2	836.2	935.9	11.9%
Other	66.0	54.0	50.0	-7.4%
Operating expenses	281.0	245.0	228.5	-6.7%
<b>EBITDA</b>	<b>759.1</b>	<b>645.2</b>	<b>757.4</b>	<b>17.4%</b>
EBIT	558.3	460.4	537.7	16.8%
Net financial expenses	61.6	34.0	128.0	276.5%
Taxes	154.0	150.3	146.5	-2.6%
<b>Net Profit</b>	<b>342.7</b>	<b>276.1</b>	<b>263.2</b>	<b>-4.7%</b>
<b>Discontinued operations</b>		<b>47.0</b>	<b>59.0</b>	<b>25.5%</b>
Minority interests	16.8	16.0	18.0	12.5%
<b>Group net income</b>	<b>325.9</b>	<b>307.1</b>	<b>304.2</b>	<b>-0.9%</b>

Source: Deutsche Bank, company data

<b>Virginia Sanz De Madrid Grosse</b> Research Analyst (+34) 913355898 virginia.sanz-de-madrid@db.com	<b>Gilles Errico</b> Research Analyst (+39) 02 86379-855 gilles.errico@db.com
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Deutsche Bank AG/London

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