

COMMENT

Terna (TRN.MI) €2.97

1Q preview (11 May): We forecast EBITDA growth of 17%

News

Terna is due to report its 1Q2010 results on May 11, with a conference call at 2pm UK time, 3pm CET.

Analysis

The yoy comparison for these results is made more difficult by the acquisition of TELAT in 2009, which was not consolidated in 1Q2009 but will be included in the 1Q2010 results, flattering the reported yoy growth rate. For the purposes of comparison, we are using 1Q2009 numbers excluding Terna's Brazilian business (Terna Participacoes), which was sold in 2009. We forecast 1Q2010 EBITDA of €270 mn (up 17% yoy from EBITDA ex-Brazil of €230 mn in 1Q2009) and net income of €98 mn (up 24% yoy from €79 mn ex-Brazil). Although we forecast strong growth in EBITDA and net income in 1Q, we expect the full-year will show lower yoy growth in EBITDA and net income (10% growth in both), as TELAT was consolidated from 2Q2009.

Excluding the impact of TELAT, we expect underlying growth in Terna's business in 1Q to be around 5%, driven by a 5.5% tariff increase. We also expect 1Q financial expenses to be lower yoy driven by a lower cost of debt; we forecast a full-year cost of debt of 3.5% (compared to just over 4% in 2009).

Implications

We do not expect that Terna's 1Q results will have a significant impact on the share price, owing to the relatively predictable nature of its regulated business. We continue to view Terna as expensive relative to the other regulated utilities. The stock is trading on a 2010E EV/EBITDA multiple of 9.2x, compared to the average for regulated utilities of 8.7x, and a 2010E P/E multiple of 15.2x, compared to an average of 11.9x. We rate Terna as Sell. Our price target is unchanged.

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Coverage View: Cautious

Italy
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We forecast 1Q EBITDA up 17% and net income up 24% yoy

Exhibit 1: 1Q 2010 forecast for Terna

yoy growth based on comparison with 1Q2009 (ex Brazil)

(€mn)	FY 10 GSf	FY 09A	yoy %	1Q 10 GSf	1Q 09A (reported)	1Q 09A (ex Brazil)	yoy %	Notes
Total revenues	1,493	1,361	10%	358	367	309	16%	TELAT not included in Q1 09, 5.5% tariff increase
Operating costs	-390	-358	9%	-89	-100	-80	11%	
Total EBITDA	1103	1003	10%	270	267	230	17%	
Depreciation & Provisions	-359	-309	16%	-86	-72	-65	32%	Depreciation up due to TELAT, expect to increase in 2H due to higher capex
EBIT	744	694	7%	184	195	164	12%	
Financial Expense	-144	-148	-3%	-33	-49	-40	-18%	Capex accelerated in 2H leading to higher net debt
PBT	601	546	10%	151	146	124	22%	
Tax	-210	-192	10%	-53	-52	-45	18%	
Others/discontinued	0	417						
Reported net income	390	771	-49%		89			
Clean net income	390	354	10%	98		79	24%	

Source: Company data, Goldman Sachs Research estimates.

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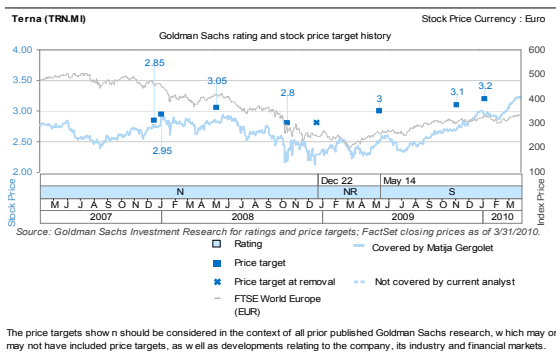
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