

ETRION Corporatilon

(ETX-T \$0.80)

Q2 Capacity Ramp Ahead of Forecast!

Financial Summary (US\$M)

(end-Dec)	Revenue	EPS	EBITDA	EV/EBITDA	P/E
FY10e	16.2	(0.06)	8.4	19.7x	nmf
FY11e	70.0	0.01	51.7	3.2x	80x
FY12e	107.2	0.04	83.3	2.0x	20x

All figures in C\$ unless otherwise noted

- ▶ Etrion reported Q2 revenues of \$127K and a loss of \$0.03/sh, in line with expectations.
- ▶ Etrion's growth will come from both building and buying solar assets in Italy. Last week the Company announced the purchase of 33MW of solar assets from SunPower in Italy bringing year-end capacity to just above 50MW and ahead of our 30MW forecast.
- ▶ Etrion's strong management team is showing it can execute its aggressive growth plan giving us confidence in our robust forecast.
- ▶ The Company has a strong backing from The Lundin Group (58% ownership) based in Vancouver with a €60M bridge loan providing Etrion low-cost capital to complement traditional bank project financing.
- ▶ The €/US spread should work in Etrion's favour over the next year.
- ▶ We recommend the shares of Etrion as a Buy with a 1-year target price of \$1.85. However, we see Etrion as a growth vehicle in the European solar power provider space and can envisage growth in 2012 to 140MW. This would imply an EBITDA of \$96.3M (annualized exit rate) and a 2-year share price target of \$2.45.

Stock Rating:

Buy

12-month target (C\$)	\$1.85
Potential ROR	131%

Company Profile

Sector	Industrial Products
Ticker	ETX-T
Shares O/S (M)	158.5
Fully siluted shares O/S(M)	166.0
Mkt cap (C\$M)	126.8
Next event	Q3/FY10

Key Metrics

Cash (\$M)	30.1
Debt (\$M)	75.7
Enterprise value (\$M)	165.4

Research Team

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Sales

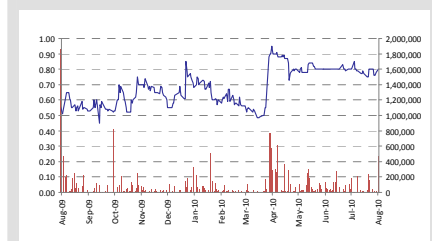
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1-Year Stock Chart



Source: Bloomberg

Etrion's Q2 in Line

Etrion reported Q2 revenues of \$127,000 and a loss of \$0.03/sh compared with our expectation of \$900,000 in revenue and a loss of \$0.02/sh. These results are in line as the Company is on track to report \$12-13M per quarter with its recent capacity increases.

Ramping Capacity Fast with Year in Exit Rate Already in Place

Etrion's plan for capacity growth is shown below.

1) Takes Capacity from 0 to 10MW in 5 Months

Etrion has taken its solar output capacity from 0 to almost 10MW in only 5 short months. This was achieved through the acquisition of 6.4MW of capacity from Deutsche Bank and by building 4MW of capacity. The 6.4MW is connected to the grid and the 4MW is in the process of being connected and should be complete by Oct. 2010.

2) 20MW to Be Built by Year End

In addition to the 10MW mentioned above, Etrion is in the process of building an additional 20MW by the end of 2010, bringing total megawatts to 30MW.

3) 30MW Term Sheet in Hand

Etrion has signed the definitive sale and purchase agreement with SunPower for the purchase of 33MW of installed and connected capacity in Italy. This purchase will close in Q3 (September) taking 2010 total capacity to 60MW.

4) Permits in Hand for Additional 150MW

Etrion has a pipeline of permits which could allow them to build an additional 150MW of capacity after 2010.

5) Acquisition Opportunities for 30-60MW

Etrion is exploring additional acquisition opportunities and we expect that 30 to 60MW of capacity could be completed over the next 2 years.

6) 2012: 140MW in Sight with Permits for Additional 120MW in Hand

Etrion is poised to have 120MW of capacity connected to the grid with open permits to build an additional 120MW in hand for growth through 2015.

Feed-in Tariffs Remain Attractive in Italy

Italy continues to have the highest FITS in Europe, as summarized in the table below. Even though these FITS are reduced from the initial FITS of 2007 they remain very attractive and reflect the fact that Italy has the highest electricity rates in Europe. The higher overall electricity rates are reflective of the country's high degree of imported electricity from France and Switzerland (70%-plus imported) as Italy has had a ban on nuclear-based plants since the 1970s.

Figure 1: Italian FIT and Electricity Pricing Summary

E/kwh	Existing Connected	Connecting			
		before 30-Apr-11	30-Apr-11 30-Aug-11	30-Aug-11 31-Dec-11	2012 & beyond
20 year Feed in Tariff	0.34	0.313	0.289	0.264	2%/yr red. 0.259
Electricity Rate	0.08	0.08	0.08	0.08	0.08
	0.42	0.39	0.37	0.34	0.34

Source: Company filings

Purchased Assets have Grandfathered FITS

The recent purchase of 33MW from SunPower at the Monalto Solar Park has a FIT contract at Euro 0.353 per KWh plus €0.08 per KWh for a total of €0.433 per KWh. This project should generate a total of 55M KWh per year and revenues of €22M. The Monalto solar assets FIT has 19 years remaining at the above prices. The 10MW purchased in Q2 from Deutschebank has a FIT contract at the same €0.433 per KWh total price.

Forecast Remains Unchanged

Figure 2: Forecast Summary

	Reported				Q4 Annualized		
	Q3 2010E	2010E	2011E	2012E	2010E	2011E	2012E
MW period end	10	60	110	140	60	110	140
Revenue \$m	1.5	16.2	70	107.2	52.5	96.3	122.5
EBITDA \$m	-0.4	8.4	51.7	96.3	44.7	74	96.3
EPS	-0.03	0.01	0.01	0.07	0.04	0.02	0.07
EBITDA/share	0.00	0.04	0.22	0.35	0.24	0.31	0.40
Free Cash Flow/share	-0.02	-0.02	0.10	0.17	0.08	0.15	0.20

Source: Company filings, Paradigm Capital

Valuation Parameters Remain Intact

EV/EBITDA

Independent power producers typically trade on an EBITDA basis and at EV/EBITDA multiples of 10 to 15x. Using a 12x EV/EBITDA basis we arrive at a 1-year share price target of \$1.85 based on our 2011 EBITDA of \$74M (Q4 run rate basis) and we assume a total of 238M shares outstanding. We note that 12x EV/EBITDA is at the low end of the European solar power producer comparables shown below. Note that there is no publicly traded pure-play solar IPP comparable to Etrion, and most of the comparables used are mainly wind generators, which, due to the higher-risk revenues and higher cost of capital, should trade at a lower multiple than Etrion.

Free Cash Flow Yield

A common valuation measure in high-cash-generating enterprises is free cash flow yield. Our forecast shows Etrion producing free cash per share in 2011 of \$0.15 (Q4 run rate basis) and in 2012 free cash flow of \$0.20 (Q4 run rate basis). Using an 8% free cash flow yield, the per-share valuation for 2011 is \$1.85 and for 2012 it is \$2.45. We view an 8% free cash flow yield as attractive because it implies the Company could pay a dividend of the same amount if it so desired.

Buy at Current Price for Attractive Return: 1-Year Target Price \$1.85

We recommend the shares of Etrion as a Buy with a 1-year share price target of \$1.85. However, we see Etrion as a growth vehicle in the European solar power provider space and can envisage growth in 2012 to 140MW which would imply an EBITDA of \$96.3M (Q4 run rate basis) and a 2-year share price target of \$2.45. With more than 100MW of permits in hand at that time, we do not expect the growth in revenues and profits to stop in 2012. Also the strong cash flow generation of the Company will allow quick debt repayment and thus more growth capacity and EBITDA and EPS expansion.

Figure 3: ETRION Income Statement

Etrion											
Income Statement											
US\$ 000's											
Period ending MW	Q1 2010	Q2 2010	Q3 2010E	Q4 2010E	2010E	Q1 2011E	Q2 2011E	Q3 2011E	Q4 2011E	2011E	2012E
Net Sales		127	1448	2359	3934	13125	13125	13125	19688	59063	91875
Dividends from investments											
Revenue		127	1448	2359	3934	13125	13125	13125	19688	59063	91875
Operating Costs		38	217	354	590	1969	1969	1969	2953	8,859	13781
SGA	2078	2329	1850	1950	8207	1950	1950	1950	1950	7800	7800
Depreciation and amortization	41	71	625	1750	2487	3500	3500	3500	5200	15700	24100
Non-cash compensation ex.	743	650	695	710	2798	450	450	450	450	1800	1800
Stock-based compensation	159	157	145	145	606	150	150	150	150	600	600
	3021	3207	3315	4555	14098	8019	8019	8019	10703	34759	48081
Profit(loss) before financing expense	-3021	-3080	-1867	-2196	-10164	5106	5106	5106	8984	24303	43794
EBITDA	-2078	-2202	-402	409	-4273	9206	9206	9206	14784	42403	70294
EBTIDA margin %	nmf	nmf	nmf	nmf	nmf	70.1%	70.1%	70.1%	75.1%	71.8%	1
Interest Expense (net)	33	1066	3250	3350	7699	4250	4250	4250	6300	19050	29400
Forex loss	2	1110			1112						
Loss on derivative instruments	810				810						
	845	2176	3250	3350	9621	4250	4250	4250	6300	19050	29400
EBT	-3866	-5256	-5117	-5546	-19785	856	856	856	2684	5253	14394
Income Tax	-242	45			-197	1072	1072	1072	1647	4862	7737
%	nmf	nmf	nmf	nmf	nmf	125.2%	125.2%	125.2%	61.3%	92.5%	1
Net Income	-3624	-5301	-5117	-5546	-19588	-215	-215	-215	1038	392	6657
sos	158501	198000	198000	198000	198000	238000	238000	238000	238000	238000	238000
EPS	-0.02	-0.03	-0.03	-0.03	-0.10	0.00	0.00	0.00	0.00	0.00	0
EBITDA/share	-0.01	-0.01	0.00	0.00	-0.02	0.04	0.04	0.04	0.06	0.18	0
Free CF/share	-0.02	-0.02	-0.02	-0.01	-0.07	0.02	0.02	0.02	0.03	0.08	0

Source: Company filings, Paradigm Capital

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