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November 14, 2011

## Etrion Corp. (TSX:ETX)

### Reports Solid Q3

#### Event:

Q3 results were solid. Sales of \$18 million beat our estimates by \$1 million and EBITDA of \$15 million exceeded our estimate by \$3 million.

#### Impact/ Implications:

- As O&M is largely fixed the \$1 million additional sales falls straight to the EBITDA line.
- Good corporate control added another \$700k to EBITDA and EPC-related cost settlements on delayed COD dates added \$600k.
- Etrion made the final drawdown on project financing for the last 10 MW and repaid the €28 million bridge loan to the Lundin family.
- Etrion has completed its 60 MW program and there are no plants under construction. However we do not expect Etrion to stand pat. The €28 million bridge loan is repaid but still available. PV prices are falling rapidly making PPA prices attractive enough in some jurisdictions.

#### Recommendation:

Our BUY rating and one-year price target of \$1.00 is maintained.

An asset sale scenario yields a valuation of \$1.16. A market multiple of 12x EV/EBITDA yields a valuation of \$0.61 so we see limited downside. Etrion has completed its 60 MW program – the next growth phase is not clear. Our model only includes the 60 MW online.

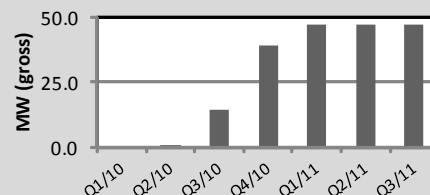
**Stock Rating:** Buy  
*Prior:* Hold  
**Risk Rating:** High

**1-Year Target Price:** \$1.00  
**1-Year ROR** 79%

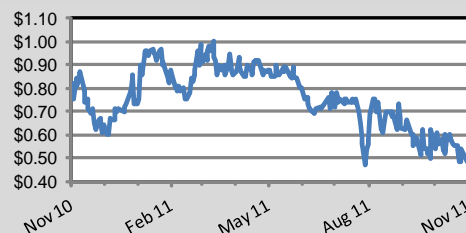
Snapshot		
Price Close		\$0.56
52 Wk Range		\$0.47 - \$1.05
Market Cap (\$000)		\$105,020
Avg Trading Volume		90,590
Fiscal Year End		Dec.31
Shares OS (basic) (000)		187,536
Shares OS (fd) (000)		193,636
Float (000)		142,226
Net Debt (\$000)		\$377,095
EV (\$000)		\$482,115

Estimates		2010A	2011E		2012E
US\$m (except for share data).					
Revenue	Q1	-	7.3	A	9.2
	Q2	0.1	17.8	A	19.9
	Q3	6.8	18.2	A	20.1
	Q4	4.6	7.4		7.4
	Year	11.6	50.7		56.6
EBITDA	Q1	(2.0)	5.4	A	5.4
	Q2	(2.2)	13.2	A	15.3
	Q3	2.1	15.1	A	15.2
	Q4	(0.3)	3.8		3.4
	Year	(2.4)	37.5		39.3
CFPS	Q1	\$(0.01)	\$ 0.03	A	\$(0.01)
	Q2	\$(0.01)	\$ 0.07	A	\$ 0.04
	Q3	\$ 0.01	\$ 0.08	A	\$ 0.04
	Q4	\$(0.00)	\$(0.02)		\$(0.02)
	Year	\$(0.02)	\$ 0.15		\$ 0.04

Valuation: 12X 2012 EV/EBITDA & 7% DCF



**Description:** Etrion is a leading solar power producer in Italy with over 47 MW online, over 10 MW under construction and a pipeline of 200 MW.



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**Details**

- EBITDA handily exceeded our estimate by \$3 million.
- Sales beat our estimates by \$1 million as generation exceeded management's expectations by 10%.
- Lower O&M contributed to better than expected EBITDA. This is a continuing benefit as the O&M contract fees are nil in the first two years and ~€30,000/MW annually thereafter.
- Below the EBITDA line costs are not meaningful to us as IFRS likes to account for non-cash events that will never occur.

**Exhibit 1: Summary of Results**

Q3-2011			Actual
	Fcst	Actual	Fav (Unfav) vs Fcst
Sales	17,211	18,219	1,008
O&M	1,377	667	710
Project EBITDA	15,834	17,552	1,718
<b>%GM to sales</b>	<b>92.0%</b>	<b>96.3%</b>	
SG&A	3,659	2,995	664
EPC related (income) costs	-	(579)	579
Corporate EBITDA	12,175	15,136	2,961
<b>%SG&amp;A to sales</b>	<b>21.3%</b>	<b>16.4%</b>	
<b>%EBITDA</b>	<b>70.7%</b>	<b>83.1%</b>	

In \$US thousands

Source: Company documents, Jacob Securities

**Summary of Operating Assets**

**Exhibit 2: Summary of Etrion's Operating Solar Plants**

Project	Online Date	MW	Capex €m	Debt €m	Equity €m	Sales €m	EBITDA €m	%EBITDA	MWh	PPA Price			€m/MW	Debt/Capex
										FIT	MKT	Total		
Helios ITA	Q1 2010	6.4	38.6	35.3	4.4	5.0	4.3	86%	56,064	354	80	434	6.0	91%
Cassiopea	Q4 2009	23.9	142.4	107.2	35.2	18.7	16.3	87%	209,364	361	80	441	6.0	75%
Centaurus	Q3 2010	8.8	51.8	38.4	13.8	6.7	5.8	87%	77,088	346	80	426	5.9	74%
SVE	Q4 2010	3.0	16.5	13.3	3.4	2.3	1.9	83%	26,280	346	80	426	5.5	81%
Borgo Piave	Q4 2010	3.5	12.3	10.3	1.8	2.1	1.7	81%	30,660	346	80	426	3.5	84%
Rio Martino	Q4 2010	1.7	6.3	5.3	0.9	1.1	0.8	73%	14,892	346	80	426	3.7	84%
Brindisi	Q3 2011	5.0	20.9	17.6	3.4	2.8	2.4	85%	43,800	250	80	330	4.2	84%
Mesagne	Q3 2011	5.0	20.9	17.6	3.5	2.8	2.4	85%	43,800	250	80	330	4.2	84%
Nettuno	Q4 2011	2.6	10.9	9.2	1.7	1.2	0.9	78%	22,776	250	80	330	4.2	84%
<b>Online 2011</b>		<b>59.9</b>	<b>320.7</b>	<b>254.2</b>	<b>68.1</b>	<b>42.6</b>	<b>36.4</b>	<b>85%</b>	<b>524,724</b>					

Source: Company documents, Jacob Securities

**Standing Pat?**

Etrion has completed its 60 MW program and there are no plants under construction. However we do not expect Etrion to stand pat. The €28 million bridge loan is repaid but still available. PV prices are falling rapidly making PPA prices attractive enough in some jurisdictions.

**Valuation**

ETX trades in the 11x-12x EV/EBITDA range. Market multiples for project companies have contracted to below what we believe asset sales would yield. At a 7% DCF ETX is valued at \$1.16 per share (Exhibit 3). Who would pay 7%? - a utility or large IPP with a cost of capital of 5%. A public market multiple of 12x EV/EBITDA yields \$0.61 per share so we see limited downside.

**Exhibit 3 Asset Sale vs. Public Markets**

<b>2012 Valuation</b>	<b>Asset Sale</b>		<b>Public</b>
Project EBITDA	51,484	Corporate EBITDA	39,293
Unlevered tax	<u>10,386</u>	EV at 12x	471,510
FCF	41,097	Net debt	<u>(357,193)</u>
DCF at 7%	587,104	Equity value	114,317
Net debt	(357,193)	Shares	187,536
Head office closing costs	<u>(12,191)</u>	Per share value	\$ 0.61
Net value	217,719		
Shares	187,536		
Per share value	\$ 1.16		

Source: Jacob Securities

**Key Risks to Target Price**

The current equity market is the key risk to growth as ETX's share price does not support an equity-financed growth plan. Italy has a strong resale solar PV market (free cash flowing assets are still desirable) and we believe a partial asset sale is a viable alternative to finance further growth. Sell one, build two, is a viable growth model. Our forecast only includes the online 60 MWs and thus financing risk and political risk (adverse changes to incentives) is mostly eliminated. The Lundin family's demonstrated support (€60 million and €28 million bridge loans) offers another financing alternative.

**Investment Conclusion**

Our BUY rating and one-year price target of \$1.00 is maintained.

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