NATIONAL BANK FINANCIAL

ETX(T)	Cdn$0.52
Stock Rating:	Sector Perform (Was Outperform)
Target:	Cdn$0.75 (Was $0.95)
Risk Rating:	Above Average (Unchanged)
Est. Total Return	44%

Stock Data:	
52-week High-Low (Canada)	$1.05 - $0.385
Bloomberg/Reuters: Canada	ETX CN / ETX.TO

(Year-End Dec. 31) (US$)	2010a	2011e	2012e
Revenue (mln)	$ 11.6	$ 51.6	$ 69.9
Capacity (net MW)	39.1	58.5	69.9
EBITDA ($mln)	$ (8.1)	$ 33.4	$ 39.7
adj. EBITDA ($mln)	$ 3.2	$ 41.9	$ 48.2
Net Income (mln)	$ (15.1)	$ (29.1)	$ (10.6)
EPS (diluted)	$ (0.11)	$ (0.09)	$ (0.06)
P/E	nmf	nmf	nmf
EV/adj. EBITDA		$ 11.4	$ 11.8

Financial Data:	
Market Capitalization (Cdn$mln)	$ 108
Total Debt[1] (mln)	$ 408.0
Cash and short term investments[1] (mln)	$ 39.2
Shares Outstanding[1] (basic mln)	187.5
Shares Outstanding[1] (FD mln)	208.6

Source: Thomson Financial and NBF estimates
[1] Quarter ended Sept. 30, 2011

Industry Rating: Market Weight
(NBF Economics & Strategy Group)

Company Profile:
Etrion is an Independent Power Producer (IPP) that focuses on solar energy. It currently sells 60 MW worth of electric capacity in Italy. The company's focus is to aggressively increase its capacity over the next several years to take advantage of power prices for solar projects that are currently favourable in several markets.

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Etrion Corporation

Q3 Results

Reducing target on sluggish growth

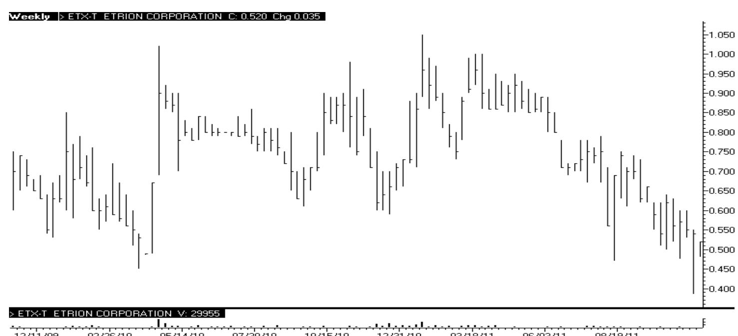
HIGHLIGHTS

- **Q3 sees record revenue offset by expenses**
  The company reported revenues of $18.2 mln vs. our $16.5 mln (cons. $17.8 mln) and EBITDA of $14.3 mln, higher than our $12.1 mln (cons. $15.4 mln). Some of the added EBITDA was due to lower than expected G&A costs ~$0.8 mln. EPS of $(0.02) was slightly less than our $(0.01) as a result of higher than expected income taxes and non-cash expense related to rate swaps and FX.

- **Growth estimates pushed to 2012 and overall trimmed**
  With the financial markets showing continued volatility, we believe it would be prudent to trim our forecasts to reflect this reality over the coming quarters. We have cut our estimates for 2011 to nil (from 20 MW) but maintained our 2012 estimates at 20 MW – we assume this will be a purchased project, not constructed. We had assumed that the company would come to market for $20 million, though we've cut that back as we believe ETX has enough cash on hand to fund our latest estimates. In the past we have seen the company call upon Lundin family resources (including the recent €28 million temporary loan that was repaid this November), however future financings are not certain.

- **Reduced multiple, moving to Sector Perform**
  The stock continues a downward trajectory seen by many small cap names that do not pay dividends. As it appears the current financial turmoil could continue for some time, we are trimming our multiple to 10.5x EV/EBITDA (was 11.8x) on our discounted 2013 estimates (as there is little maintenance capex required for the projects, this is a similar multiple for the Free EBITDA which is typically 1.5-2.0x higher). After incorporating these changes, our target is reduced to $0.75 (was $0.95). Given the current economic uncertainty and limited visibility on growth, we are reducing our rating to Sector Perform.

Stock Performance



Source: Reuters

■ **Valuation – Growth estimates and valuation multiple trimmed, Sector Perform**

While we have reduced our target and rating for the stock, economic stability, particularly in Italy, could go a long way to help increase the share price. To reflect this current instability that could remain for several quarters, we have trimmed our growth estimates to nil in 2011 while maintaining our previous 20 MW estimate in 2012, bringing the total capacity to 80 MW (from 60 MW today). In addition, we have trimmed our target to 10.5x, from 11.8x and increased our discount rate to 11% (from 10%). After incorporating these changes, we have reduced our target to $0.75 (from $0.95). The company has just under $40 million in cash, enough to fund our latest growth estimates, with current projects producing enough cash to fund ongoing G&A and other operational expenses.

EV/EBITDA Valuation on 2013E	
	Valuation
adj. EBITDA FY13E ($'000)	57 522
Multiple (FY1)	**10.5**
Implied EV ($'000)	603 984
Net Debt ($'000)	442 390
Equity ($'000)	161 594
Shares o/s (mln - Pro forma w/ dilution)	209.8
ETX Value /sh (start 2013)	$ 0.77
Discount rate	**11.0%**
Discount Years	0.2
Discount Factor	0.979
ETX Value /sh (12-mo)	**$ 0.75**

NBF estimates and analysis

Etrion Corp.

(all figures in Cdn$ unless otherwise noted)

Ticker	TSX-ETX
Market Price	$ 0.52
Shares Out.	182
Market Cap ($mln)	$ 95
Enterprise Value ($mln)	$ 333
52-week High	$ 1.05
52-week Low	$ 0.39
Stock Rating	Sector Perform
Risk Rating	Above average
Annual Yield ($/sh)	$ -
Yield (%)	0.0%
12-Mth Target Price	$ 0.75
12-Mth Total Return	44%

Selected Results (All figures in US$, YE Dec. 31st)

Income Statement	2010A	11 Q1A	11 Q2A	11 Q3	11 Q4E	2011E	2012E	2013E
Total Revenue ($mln)	11.6	7.3	17.8	18.2	8.3	51.6	58.5	69.9
Growth yoy (%)	0%	nmf	nmf	167%	80%	346%	13%	20%
Sales/Share (FD)	0.06	0.04	0.08	0.09	0.04	0.25	0.28	0.33
Net Installed Capacity (MW)	39.0	47.2	47.2	47.2	59.8	59.8	59.8	79.8
EBITDA ($mln)	(8.1)	3.1	13.5	14.3	2.6	33.4	39.7	48.9
NBF Adj. EBITDA ($mln)	3.2	4.8	15.2	16.0	6.0	41.9	48.2	57.5
EBIT ($mln)	(14.0)	(1.2)	8.9	9.4	(2.4)	14.7	19.7	23.8
Income from operations ($mln)	(18.1)	(1.5)	(2.1)	(2.8)	(10.3)	(16.8)	(10.6)	(11.0)
Income from operations (margin %)	-156.7%	-20.9%	-11.9%	-15.6%	-123.9%	-32.5%	-18.2%	-15.7%
Net Interest Expense ($mln)	4.7	2.5	8.2	8.4	7.6	26.6	27.7	31.4
Total Comprehensive Income ($mln)	(15.05)	4.41	(4.28)	(18.97)	(10.28)	(29.13)	(10.63)	(10.97)
Net Margin (%)	-130.1%	60.5%	-24.0%	-104.1%	-123.9%	-56.4%	-18.2%	-15.7%
EPS (diluted)	(0.11)	(0.01)	(0.01)	(0.02)	(0.05)	(0.09)	(0.06)	(0.06)
Balance Sheet ($mln)	**2010A**	**11 Q1A**	**11 Q2A**	**11 Q3**	**11 Q4E**	**2011E**	**2012E**	**2013E**
Cash and short term investments	45.0	31.6	45.2	39.2	37.6	37.6	10.0	14.2
Book Value	34.8	39.9	41.7	23.0	13.6	13.6	6.6	(0.8)
Debt	349.0	370.3	434.7	408.0	405.9	405.9	469.6	456.6
net debt	303.9	338.7	389.5	368.8	368.3	368.3	459.6	442.4
Working Capital	(73.3)	(81.4)	(8.9)	(28.0)	5.6	5.6	(25.0)	(21.7)
Net Debt / Capital	0.71	0.74	0.76	0.78	0.80	0.80	0.88	0.88
Cash Flow ($mln)	**2010A**	**11 Q1A**	**11 Q2A**	**11 Q3**	**11 Q4E**	**2011E**	**2012E**	**2013E**
Cash and st investments start of period	23.4	45.0	31.6	45.2	39.3	45.0	37.6	10.0
Operating Activities	0.9	(8.3)	(7.2)	24.8	0.6	9.9	13.8	18.9
Investing Activities	(76.9)	(0.9)	(31.8)	(21.8)	(0.1)	(54.6)	(104.1)	(0.6)
Financing Activities	98.2	(6.2)	52.6	(6.1)	(2.1)	38.3	62.7	(14.1)
Forex	(0.6)	2.9	0.6	(2.8)	0.0	0.7	0.0	0.0
Change in Cash	22.1	(12.5)	14.2	(5.9)	(1.5)	(6.4)	(27.6)	4.2
Cash and st investments end of period	45.0	31.6	45.2	39.3	37.8	37.6	10.0	14.2
Distributable Cash	**2010A**	**11 Q1A**	**11 Q2A**	**11 Q3**	**11 Q4E**	**2011E**	**2012E**	**2013E**
adj. Distributable CF ($mln)	7.3	(14.4)	14.8	(1.7)	(0.1)	(1.4)	(22.0)	9.8
adj. Distributable CF/Sh ($)	0.04	(0.07)	0.07	(0.01)	(0.00)	(0.01)	(0.10)	0.05
adj. Distributable CF Yield (%)	7%					-1%	-20%	9%
Valuation Metrics	**2010A**	**11 Q1A**	**11 Q2A**	**11 Q3**	**11 Q4E**	**2011E**	**2012E**	**2013E**
EV/Sales	35.4					9.2	9.7	7.9
Price/Sales	8.2					1.8	1.6	1.4
P/E	nmf					nmf	nmf	nmf
Book Value / sh	0.17	0.20	0.20	0.11	0.07	0.07	0.03	(0.00)
Tangible BV/Sh	0.12	0.13	0.14	0.04	(0.01)	(0.01)	(0.05)	(0.08)
Price/Book Value	3.02	2.64	2.62	4.72	7.98	7.98	16.64	(134.45)
Price/Tangible Book	4.32	3.86	3.81	13.18	(53.22)	(52.43)	(11.49)	(6.30)
EV	409	444	499	477	477	477	569	551
EV/Book Value	11.8	11.1	12.0	20.8	35.1	35.1	86.7	(679.6)
EV/EBITDA	nmf					14.3	14.3	11.3
EV/adj.EBITDA	84.5					11.4	11.8	9.6
Wavg shares outstanding (basic mln)	166.1	180.0	183.9	187.5	187.5	184.7	187.5	187.5
Wavg shares outstanding (Diluted mln)	165.6	182.2	185.7	188.5	187.9	186.1	188.2	189.0
Shares outstanding (FD mln, incl. minority int.)	202.0	202.4	209.8	208.6	208.6	208.6	209.8	209.8

Source: Company data and Reuters with NBF estimates and analysis 2011/11/11

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