

## Etrion Corporation

### Q3 In Line — Expansion to 85MW Pushed to 2012

#### Financial Summary (US\$M)

##### Paradigm Estimates

(y/e Dec.31)	Revenue (M)	EPS	EBITDA	EV/EBITDA	P/E
FY10	11.6	(0.11)	4.3	nmf	nmf
FY11e	50.7	(0.12)	36.1	13.5 x	nmf
FY12e	80.0	(0.15)	58.5	8.3 x	-4.2 x

##### Consensus Estimates

FY11e	54.5	(0.08)	37.30	13.1 x	nmf
FY12e	83.0	(0.05)	55.80	8.7 x	-12.7 x

Source: Company filings, Paradigm Capital Inc., First Call Consensus estimates

**Investment Thesis.** Etrion provides Canadian investors with the opportunity to participate in the growth in solar-produced electricity through a pure play. The company only operates in Italy, which has one of the highest Feed In Tariff programs and high electricity costs. The economics of solar in Italy are very attractive and the company's strong increase in output from 60MW currently to 250MW over the next few years should result in strong EBITDA and thus share price growth.

#### Event

Etrion released its Q3/11 financial results.

#### Details

- Etrion reported Q3 revenue of \$18.2M and an EPS loss of \$0.01, versus our estimates of \$19.6M and a \$0.01 loss.
- Etrion has now completed bank financing for its entire solar capacity of 60MW, on a non-recourse basis with an 18-year term. Etrion has repaid the Lundin bridge financing.
- Etrion had expected to exit 2011 at 85MW of solar capacity through solar park purchases totaling 25MW, with Spain and Italy being the likely site candidates. However, while negotiations continue, we expect this will be an early 2012 event.

#### Conclusion

With the company likely exiting 2012 with 60MW of capacity, compared to the previous forecast of 85MW, we are reducing our 2012 forecast capacity to 100MW from 125MW. Consequently, our forecasts are lower across the board. Our 2011 revenue forecast falls to \$50.7M from \$57.8M and our EPS estimate drops to a loss of \$0.12 from a loss of \$0.07. Our new 2012 revenue forecast is \$80M (was \$100M) and EPS is \$0.15 (was \$0.01). Our new 2012 EBITDA forecast is \$58.5M, down from \$65.5M. We are maintaining our valuation of 9x EV/EBITDA, giving us a one-year target price of \$0.85, down from \$1.25, due to the pause in capacity growth the company is experiencing. We are maintaining our Buy recommendation as we believe that Etrion's management team has the ability to find and secure solar projects with attractive economics, which will put the company back on an aggressive growth path toward 200MW+ annual capacity.

#### Company Profile (C\$)

Sector	Industrial Products
Ticker	ETX-T
Stock Rating	<b>Buy</b>
Closing Price	\$0.62
12-Mth Target	\$0.85 ↓
previously	\$1.25
Potential ROR	37%
Shares O/S Bsc (M)	187.5
Shares O/S FD (M)	190.4
Mkt Cap, Bsc (M)	\$116
Mkt Cap, FD (M)	\$118
Cash (M)	\$39
Net Debt (M)	\$374
Enterprise Value (M)	\$453

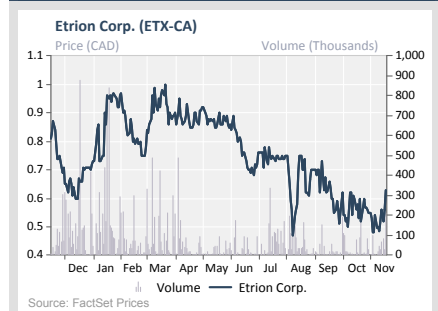
#### Company Description

Etrion is a unique company in that it is a producer of only solar generated electricity. The company's operations are only in Italy and the company currently has 60MW of production with a pipeline of another 200MW in the queue. It is listed on the TSX and the NASDAQ OMX Stockholm exchange. Etrion is well sponsored by the Lundin family.

#### Research Team

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#### 1-Year Stock Chart

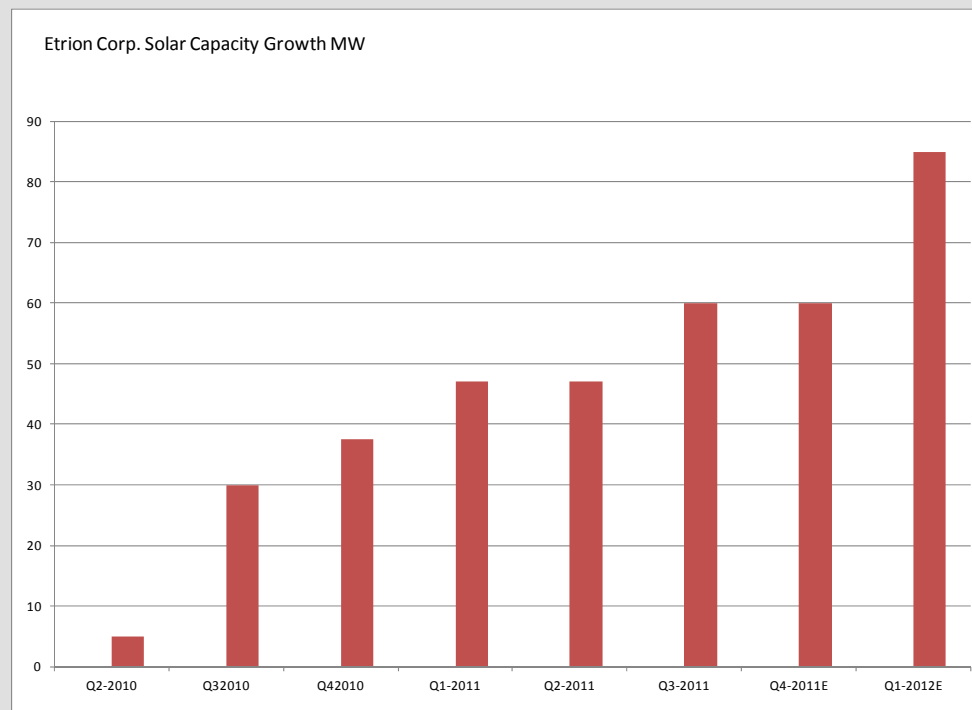


05/11/11 Target price lowered (\$1.25)  
 07/26/10 Initiating target price (\$1.85)

### Etrion on Growth Path to 85MW in Early 2012

Figure 1 summarizes Etrion's solar output growth and shows a resumption of growth from current levels to 85MW in 2012. The Q3 growth of 13MW was from projects completed in Italy with FITS and an 18-year non-recourse bank financing in place. The 25MW growth for Q1 is from expected asset purchases in either Italy or Spain that have been delayed due to the slowdown of transactions in Europe due to Eurozone issues.

**Figure 1: Etrion Growth Summary**



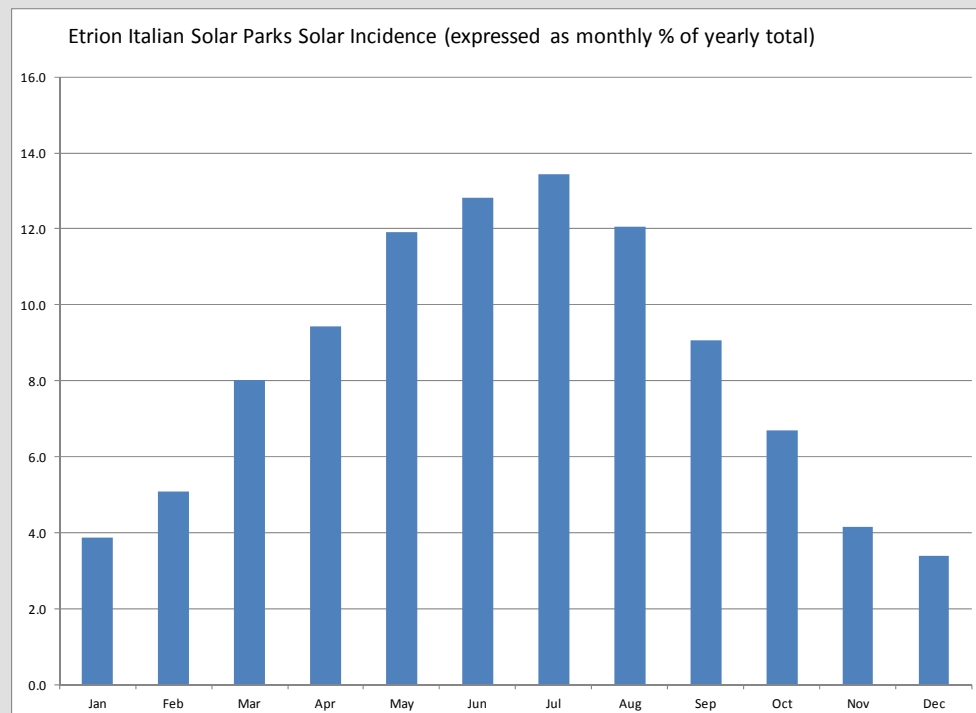
Source: Company filings, Paradigm Capital Inc.

### Solid EBITDA and Cash Flow Generation

Q3 was an important quarter from the point of view that Etrion reached production at the 60MW capacity level in September and good solar incidence as the sun moved away from the equinox (June 20). Consequently, Q3 is a good measure of Etrion's ability to generate EBITDA and operating cash flow. EBITDA in the quarter was \$14.9M — a new high. Cash flow net of working capital changes was \$24.6M as \$8.7M was generated from a reduction in receivables.

### Revenue Fluctuations Due to Seasonality in Sunshine

Solar panel revenue is greatly influenced by the seasonal variance in solar incidence, which can be large. In Figure 2, we show the solar incidence for Etrion's Italian solar parks by month. On a quarterly basis, this equates to Q4 having 41% of the solar incidence of Q3, which translates directly into revenue variance.

**Figure 2: Etrion Italian Solar Parks Incidence**


Source: Company filings, Paradigm Capital Inc.

### Balance Sheet Reflective of Utility Financing

In Figure 3, we show a summary of Etrion's balance sheet. The company currently has a 95% debt-to-equity ratio, which we believe will be maintained at the end of Q4 as the Lundin bridge loan was replaced with non-recourse bank debt in November. The company has a solid cash position of \$39M as of September 30.

**Figure 3: Etrion Debt Summary**

Balance Sheet Sept 30th -Nov 30th				
Debt			Sept 30th	pro-forma Nov 30th
Non recourse solar bank debt			286.6	325.9
Corporate debt (bond issue)			83.5	87.5
Lundin Bridge Loan			37.8	
			<u>407.9</u>	<u>413.4</u>
Cash			39	39
Net Debt			368.9	374.4
<b>Equity</b>			22.9	22.9
<b>Debt/Debt + Equity</b>			94.7	94.8

Source: Company filings, Paradigm Capital Inc.

#### Forecast Being Moved to 60MW Exit Rate for 2011, Moving to 85MW in 2012

The exit rate capacity of 60MW is lower than the 85MW we had been modelling as Etrion is experiencing a push-out in the expected acquisition of 25MW to Q1/12. Consequently, our forecast is lower, as shown in Figure 4.

**Figure 4: Forecast Summary**

Dec yr. end.	Current			Prior	
	Q4-2011E	2011E	2012E	2011E	2012E
<b>Exit MW</b>	<b>60</b>	<b>60</b>	<b>100</b>	<b>85</b>	<b>125</b>
<b>Rev. US\$m</b>	7.4	50.7	80	57.8	100
<b>EBITDA(corp)</b>	3.3	36.1	58.5	31.7	65.5
<b>EPS</b>	(0.07)	(\$0.12)	-0.15	(\$0.07)	0.01

Source: Company filings, Paradigm Capital Inc.

#### Valuation

We are maintaining our valuation of 9x EV/EBITDA, giving us a one-year target price of \$0.85, down from \$1.25, due to the pause in capacity growth the company is experiencing. We are maintaining our Buy recommendation as we believe that Etrion's management team has the ability to find and secure solar projects with attractive economics, which will put the company back on an aggressive growth path toward 200MW+ annual capacity.

**Income Statement**
**Etrion Income Statement**

	2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011E	2011E	2012E
Period Ending MW	47	47	47	60	60	60	100
<b>\$000's</b>							
Revenue	11,565	7,277	17,829	18,219	7,421 <span style="color: green;">▲</span>	50,746	80,000
Op Costs	6,502	4,833	4,896	5,454	5,650 <span style="color: green;">▲</span>	20,833	29,500
Gross Profit	5,063	2,444	12,933	12,765	1,771	29,913	50,500
G&A costs	19,113	3634	4039	3336	3450 <span style="color: green;">▲</span>	14,459	15500
Other Income		1,925	(539)	579	<span style="color: green;">▲</span>	1,965	
Operating Income	(14,050)	735	8,355	10,008	(1,679)	17,419	35,000
Dep and Amort	5,990	4,287	4,564	4,883	4,950 <span style="color: green;">▲</span>	18,684	23,500
EBITDA (corporate)	(8,060)	5,022	12,919	14,891	3,271	36,103	58,500
Margin %	nmf	69.0%	72.5%	81.7%	44.1%	71.1%	73.1%
Corporate Costs	16,496	2,878	4,039	2,832	2,850 <span style="color: green;">▲</span>	12,599	14,200
EBITDA (operating)	8,436 <span style="color: green;">▲</span>	5,975	16,958	17,723	6,121	48,702	72,700
Margin%	72.9%	82.1%	95.1%	97.3%	82.5%	96.0%	90.9%
Finance income	5,462	2,401	320	3,828	<span style="color: green;">▲</span>	6,549	
Finance costs	(10,121)	(4,936)	(8,439)	(12,202)	(12,600) <span style="color: green;">▲</span>	(38,177)	(53,500)
Net Finance income (costs)	(4,659)	(2,535)	(8,173)	(8,374)	(12,600) <span style="color: green;">▲</span>	(31,682)	(53,500)
Pre-tax income (loss)	(18,709)	(1,800)	182	1,634	(14,279)	(14,263)	(18,500)
Income tax	(588)	279	2,306	4,483	450 <span style="color: green;">▲</span>	7,518	9,250
%	nmf	nmf	nmf	274%	-3%	-53%	-50%
Net Income(loss)	(18,121)	(2,079)	(2,124)	(2,849)	(14,729)	(21,781)	(27,750)
EPS	(\$0.11)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.08)	(\$0.12)	(\$0.15)
	158,501,000	179,766,120	179,766,120	179,766,120	179,766,120	179,766,120	179,766,120

Source: Company filings, Paradigm Capital Inc.

**Balance Sheet**

<b>Etrion Balance Sheet</b>	<b>2009</b>	<b>2010</b>	<b>Q3-2011</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	855	341,225	384,858
Intangible assets	5,631	14,785	15,573
Available for sale investments	10,000	10,401	10,405
Derivative financial instruments	231	1,247	
Deferred income tax assets			2,812
Trade and other receivables	753	20,176	24,264
<b>Total non-current assets</b>	<b>17,471</b>	<b>387,833</b>	<b>437,912</b>
<b>Current assets</b>			
Trade and other receivables	1,334	13,359	30,564
Cash and cash equivalents	23,447	45,023	39,150
<b>Total current assets</b>	<b>24,779</b>	<b>58,383</b>	<b>69,714</b>
<b>Total assets</b>	<b>42,250</b>	<b>446,216</b>	<b>507,626</b>
<b>Equity and liabilities</b>			
<b>Attributable to owners of the Company</b>			
Share capital	107,557	16,741	23,293
Contributed surplus	10,341	15,296	15,782
Other reserves	-375	2,741	-9,609
Accumulated deficit	-87,889		-6,494
<b>Total equity</b>	<b>29,634</b>	<b>34,777</b>	<b>22,972</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	1,279	260,868	356,711
Derivative financial instruments		8,830	21,728
Deferred tax liabilities	773	8,762	4,710
Provisions and other liabilities	701	1,285	3,799
<b>Total non-current liabilities</b>	<b>2,753</b>	<b>279,745</b>	<b>386,948</b>
<b>Current Liabilities</b>			
Trade and other payables	9,062	35,931	31,468
Current tax liabilities	92	1,997	8,622
Borrowing		88,090	51,285
Derivative financial instruments	710	4,807	5,461
Provisions and other liabilities		870	870
<b>Total current liabilities</b>	<b>9,864</b>	<b>131,694</b>	<b>97,706</b>
<b>Total liabilities</b>	<b>12,616</b>	<b>411,439</b>	<b>484,654</b>

Source: Company filings, Paradigm Capital Inc.

**Statement of Cash Flows**

<b>Etrion Corp.</b>			
<b>Statement of Cash Flows</b>	<b>2009</b>	<b>2010</b>	<b>Q3-2011</b>
<b>Cash flow from operating activities</b>			
<b>Loss for the period</b>	(58,980)	(18,121)	(2,849)
Adjustments for:			
Depreciation and amortization	234	5,990	4,883
Impairment of investments	44,047		
Current income tax recovery			
Current tax expense	92	429	5,381
Deferred tax income		(1,016)	(898)
Disposal of fixed assets		35	
Interest income		(53)	
Interest expense		4,938	5,509
Interest expense (swaps)		3,337	1,584
FOREX loss		298	(657)
(Gain)/loss on derivatives	416	(4,696)	(129)
Amortization of transaction costs			215
Early redemption fee			921
Loss on changes in fair value of warrants		(11)	
Amortization of transaction costs	11	531	274
Share-based compensation expense	1,567	5,644	245
Decrease in trade and other receivables	5,535	4,715	(8,754)
(Decrease)/inc. trade & other payables	6,860	(1,166)	681
Income tax paid			(185)
<b>Total cash flow used in operating activities</b>	<b>(220)</b>	<b>853</b>	<b>24,608</b>
<b>Cash flow from investing activities</b>			
Purchase of property plant and equipment	(478)	(22,495)	(21,660)
Purchases of intangible assets	(1,909)	(2,310)	(118)
Purchases of investments		(368)	
Acquisition of subsidiaries (net of cash)	(2,995)	(42,453)	
Acquisition of assets		(9,096)	
Acquisition of non-controlling interest		(181)	
Dividends received from available for sale investments	1,125		
<b>Total cash flow used in investing activities</b>	<b>(4,257)</b>	<b>(76,904)</b>	<b>(21,778)</b>
<b>Cash flow from financing activities</b>			
Interest received		53	
Interest paid		(4,009)	(4,841)
Interest paid relating to swaps		(3,336)	(2,954)
Repayment of borrowings		(20,501)	(4,488)
Proceeds from private placement		15,051	
Proceeds from borrowings	1,257	111,219	6,196
Proceeds from the issuance of shares		144	
Settlement of share-based payments		(439)	
<b>Total cash flow from financing activities</b>	<b>1,257</b>	<b>98,182</b>	<b>(6,087)</b>
<b>Net increase/(decrease) in cash and cash equiv.</b>	<b>(3,220)</b>	<b>22,131</b>	<b>(3,257)</b>
Effect of exchange rate differences			
<b>FOREX differences</b>		(555)	(2,817)
Cash and cash equivalents beginning of period	26,667	23,448	45,224
<b>Cash and cash equivalents at end of period</b>	<b>23,448</b>	<b>45,024</b>	<b>39,150</b>

Source: Company filings, Paradigm Capital Inc.

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Recommendation	# of Companies	% of B/H/S	What our ratings mean:
<b>Buy</b>	149	71%	<b>Buy</b> – Expected returns of 20% or more over the next 6 to 12 months.
<b>Buy (Spec)</b>	31	15%	<b>Speculative Buy</b> - Expected returns of 20% or more over the next 6 to 12 months on high-risk development or "pre-revenue" companies, such as junior mining and early stage biotech companies.
<b>Hold</b>	23	11%	<b>Hold</b> - Expected returns of +/-20% over the next 6 to 12 months.
<b>Sell</b>	6	3%	<b>Sell</b> - Expected returns of -20% or more over the next 6 to 12 months.
<b>Total</b>	209		

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