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CFA Research Challenge 2021
Initiation of coverage
10th Feb. 2021

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ERG S.p.a. - Entering into a renewable future

BUY

Target Price: 29,29 €
Current Price: 26,42 €

Ticker: ERG.MI
Industry: Renewables and Alternative Energy Utilities
Exchange: Italian Stock Exchange, Milan

Target Price: 29,29 €
Current Price: 26,42 €
(closing price at 10th Feb. 2021)
Shares Outstanding:
150,32 Mio.
Market value: 3,911.33
52Wk High: 27,54 €
52Wk Low: 13,17 €

Ann. Div.: 0,75
Div. Yield: 2,88
LTM Div. Yield: 2,88
Ex Div. Date: 18th May 2020

EPS: 0,6853
PE: 37,97
EPS FY1: 0,6994
PE FY1: 37,20
Book Val.: 11,56
P/BV: 2,25
Beta: 0,7684

Sources: Factset (10th Feb. 2021)

We initiate our coverage of Erg S.p.a. (ERG.MI) with a **BUY** recommendation, assessing a **29,29€** target price delivering an upside of **10,7%** (considering 10 February approximated price). We believe that Erg can have a positive development in the future due to the increasing relevance of the industry in which the company is involved and the way Erg is expanding in the market.

A more sustainable future:

We believe in the future development of sustainable and renewable resources as a way to get out of global warming and climate change. We expect the renewable energy industry to grow as the coal and oil industry will be no more sustainable at past levels. Moreover, governamental incentives and permissions could increase the passage to this new sources of energy. Erg has begun its change into renewable almost a decade ago, establishing a strong competitive position in Italy and in Europe. Even if there are some risks related Erg's operations and this industry, we believe that the stock price will reasonably increase in the near future.

Industry outlook:

Erg is currently the leader producer of renewable energy in Italy and one of the major players in Europe. The production in Italy is diversified between four different sources: wind, water, sun and natural gas. In the other European countries, the company produces energy only from heolic turbines. The company has done different acquisitions in Italy, Germany, France, Poland, Romania, Bulgaria and Uk and it is willing to continue to grow through M&A in France, Germany and Uk. The peer group, that we selected for the comparison, includes: Orsted, Falck renewables, EDP R., E.On, Enel, Iberdrola and Solaria. These companies operate totally or in part in the renewable energy sector within Europe.

Valuation and Target price:

The target price has been estimated through an averege of different methods. We calculated the expected price with DCF analysis (WACC of 4,13%), multiples from industry M&A and multiples from competitors median. In particular, we selected the price on ebitda for industry M&A and Price/sales and Ev/Ebitda for competitors multiples analysis. The average gives an estimation of almost 29€ per share.

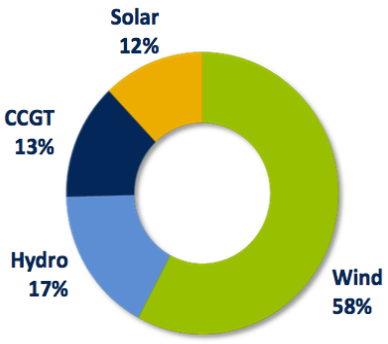
Three years price chart. Source: Fact set FTSE MIB ERG.MI

BUSINESS DESCRIPTION and INVESTMENT SUMMARY

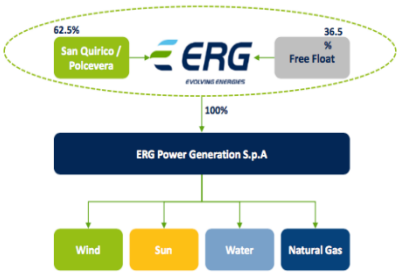
Edoardo Garrone founded ERG in 1938
Source: Erg website

ERG logo in 1984. Source: Erg website

ERG current logo. Source: Erg website



EBITDA by sector in 2019.
Source: Company data, presentation 2020



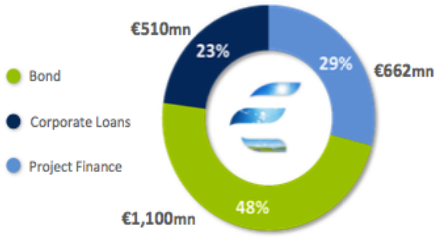
ERG main organisational structure.
Source: Company data, presentation 2020

The history of ERG goes back to 1938 when Edoardo Garrone founded the company in Genova and in 1947 when ERG started the production of the San Quirico refinery. In the post second World War period, the company faced a huge demand for the reconstruction of the country and found himselves in a strategic position. In the 60's, the company has grown its facilities in Italy enlarging its production and, in 1971, it entered in the construction of the Priolo Gargallo (Syracuse) IASB project to construct a large refinery which came operative in 1975. Since then the company expanded itself modernizing the San Quirico plant and making acquisitions. In 1997, ERG took the control of the IASB facility in Sicily and it was listed on the Italian stock exchange. In the 2000, the focus of the company started to switch to electricity and in 2006 it officially entered in the renewable market acquiring EnerTAD which owned wind farms in Italy and France. The company started to grow first in the wind sector, becaming the leader in 2013 in the Italian market. ERG understood that the Idrocarbons were a problem for the environment and it forseen a huge opportunity to start growing in the renewable sector. In 2014, ERG sold the IASB Energy plant and in 2017 it exited totally from the oil industry. The year after, ERG acquired 30 photovoltaic plants for a total of 89MW entering in the solar sector. In the last decade, ERG has seen a huge transformation and nowadays it count 4 different producing sectors: wind, hydroelectric, solar and natural gas. (Source: Annual report of 2019, Erg: Cfa Reseach Challenge Presentation)

Today the group is one of the major private operator of electricity from renewables in Europe with a total of almost 3,000Mwatt of installed capacity. It opertes directly or though its subsidiaries in all the continent for the wind sector and in Italy for the solar, hydroelectric and thermoelectric sectors. The wind sector is the most relevant for ERG, the capital employed on it accounts for almost 54% on the total and the production has an electricity generating capacity of 1,967Mwatt. Currently the company is leader in Italy and one of the 10 most important in Europe for the heolic power industry. The second sector for invested capital is the hydroelectric sector which account for 21% and has a total capacity of 527Mwatt. The production of hydroelectric sources is based in Lazio, Marche and Umbria (Italy) connected by rivers and canals. The solar power counts for 16% of capital employed and it is based in 9 different Italian regions from the North to the South with a total of 33 photovoltaic plants that generate almost 141Mwatt of electricity. The thermoelectric sector based only in Priolo Gargallo (Syracuse, Sicily) counts for the remaining 10% of investments with a power capacity of 480Mwatt. The total invested capital in 2019 accounted for €3,3 billion. In this respect, the revenue generating capacity has changed from the previous years. More than half of Ebitda in 2019 come from the wind sector, 17% from hydroelectric, 13% from natural gas and 12% from solar. During these years, the company has fostered its attention on environmental pollution and it is increasing the avoided amount of harmful emissions of CO_2. As a consequence of its sustainable production, ERG profits for almost 70% of its Ebitda from incentives and only 30% from merchant and others. Its large geographical diversification through all the European continent permits the company to balance the availability of natural resources during different seasons of the year. (Sources: Erg annual reports, Erg: Cfa Research Challenge Presentation)

ERG is pursuing a sustainable growth strategy for the following years though co-developments and greenfield, repowering and M&As. Co-developments and M&As for the wind sector are mainly focused on Germany, France and UK. In Italy, the espansion is concenrated on the solar sector with additional acquisitions and on the wind sector through repowering and reblading. Greenfield and co-developments permit at the company to grow in the long term, repowering and reblading of the wind facilities consent to extend the useful life of the assets and the M&A strategy is used to consolidate the leading position on the market. Since 2018, ERG has increased its power generating capacity for about 250Mwatt through M&A, 260Mwatt with repowering of its wind turbines and 350Mwatt from co-developments. Moreover, there are 8 project under construction in UK, Poland and France which will start operating in 2021 for a total of additional 280Mwatt. (Sources: Erg annual reports, Erg: Cfa Research Challenge Presentation)

The Group's organisation is structured into two macro-areas: ERG S.p.a. Corporate and ERG Power Generation S.p.a.. The fist provides guidance and it is responsible for the buisness development, while the second is the responsible for the industrial and commercial process. ERG S.p.a comprehend different offices: business development and M&A, engeneering development, corporate GM & CFO, corporate and legal affairs and regulatory & public affairs, with a total workforce of 350 employees. ERG Power Generation S.p.a. has a total workforce of 468 employees and includes the generation & market office which manages the assets, sales and O&M. Since April 2012, the CEO of the company is Luca Bettone, who is a Chartered Accountant and Auditor and has previously worked also as CFO of Atlantia S.p.a. and Indesit S.p.a.. The CFO of the company is Polo Merli who works with ERG since 2006. ERG has also a strict corporate governance model composed of different commitees. There is a rigorous discipline on investments though a strategic and investment comitee and a strong risk management policy with a best practice risk policy which ensures the hedging of the generation portfolio. The allignment of interst between the shareholders and the top management of the company is made by a compensation plan fully based on shares. (Sources: Erg annual reports, Erg: Cfa Research Challenge Presentation)



Erg main debt financing.
Source: Company data, presentation 2020

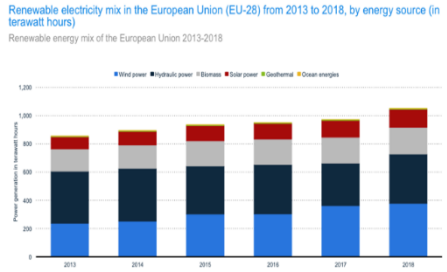
Currently, the company's debt financing is composed by corporate loans, bonds and project financing. At June 2020, the ERG Group has a total debt of €2,082 million divided into €678m of corporate loans, €600m of bond and €804 m of project financing. In September 2020 the company has also issued another bond for €700m with maturity in 2027. The Fitch rating of ERG in May 2020 was BBB- for long-term issuer default and senior unsecured, the outlook on the IDR was stable. The company is adopting a conservative financial policy to maintain the investment grade rating and consolidate net debt on EBITDA to be less than 3,0. It is also keeping a solid liquidity profile with an average of more than €700m in the last three years. ERG reports that in 2020 the company has not been particularly affected by the consequences of the Covid-19. This is due to the fact that the energy sector is included in the essential goods market. The company has put in place all the required measures to ensure the safety of its employees and adopted for 70% of its workforce the remote working. No reductions in personnel has been done neither planned for the upcoming years due to the pandemic. Our coverage estimates a target price for Erg of 29,29€ calculated through an avaerage of the price retrived from the industry price/ebitda multiple, DCF analysis and the median of other two competitors multiples (price/sales and ev/ebitda). (Sources: Erg annual reports, Erg: Cfa Research Challenge Presentation)

INDUSTRY OVERVIEW and COMPETITIVE POSITIONING

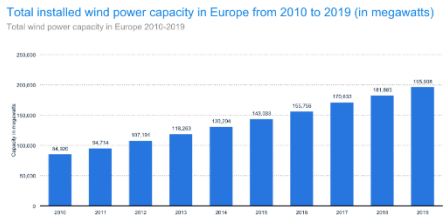
Since the beginning of its long history, Erg has improved its operations and its sources of output during time. In the last decades, the company has started the process of converting its production from oil and coal into renewable energy. The Group has now a vision of a more sustainable energy company and it competes in the utilities and renewable power generation industries.

INDUSTRY OVERVIEW

Erg competes in the utility and renewable industry for the production and selling of electricity in Italy and Europe. In particular, the Group produces electricity from natural and renewable resources such as wind, sun, water and natural gas. This allow the company to profit mostly from price incentives for clean and sustainable energy production. The competition is focused in Europe for the heolic sector and in Italy for the other sources of production. Erg is currently the leader in Italy for wind power generation and one of the 10 biggest producers in Europe. It is possible to think that the transformation to the renewable utilities sector will be a future trend to offset the climate change. This industry can be seen also as one of the main drivers to the decarbonisation targets in Europe and in the World. The governments could incentivize and support more the production and the improvements of this sector by providing more incentives and authorisations. The latest recovery found proposed by the EU could also provide future fundings to the decarbonisation process. Erg has currently implemented the repowering of the heolic generating capacity and it is willing to invest more in France, Germany and Uk, countries that probably will have higher incentives for clean energy. In 2020, Erg has got the authorization for three repowering projects in Sicily and the reblading of a pipeline project has been accelerated. Moreover, the Simplification Decree has had a positive impact on the repowering and reblading processes, speeding up the developments.



Source: Statista



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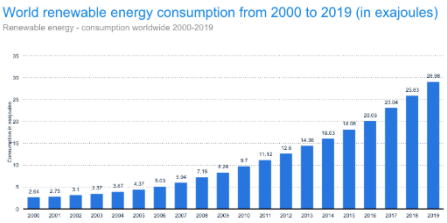
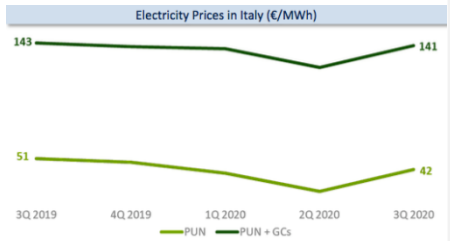


Source: Statista

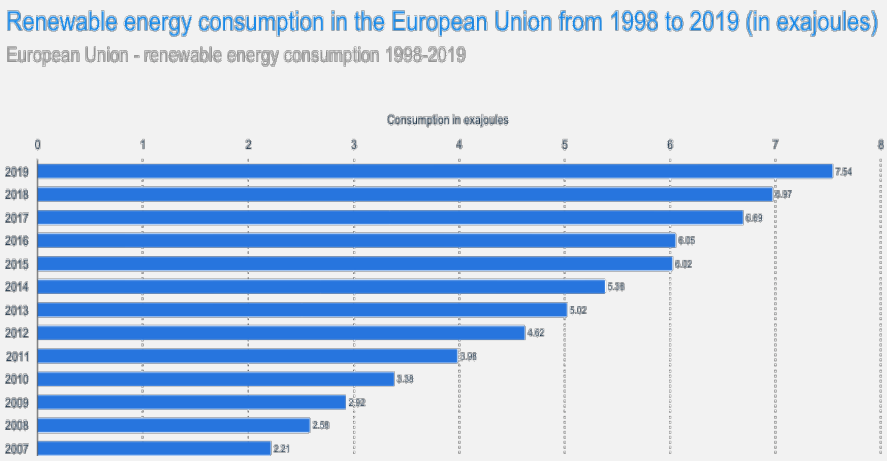
Italy: Electricity Production vs Demand (TWh)

	3Q 2019	3Q 2020	Delta %
Italian Electricity Demand	84	82	-3%
Italian Electricity Production	76	75	-1%
of which:			
- Thermo	50	49	-2%
- Hydro	14	13	-2%
- Solar	8	9	7%
- Wind	3	4	13%
- Other Sources	1	1	-3%

Source: Company data, presentation 2020

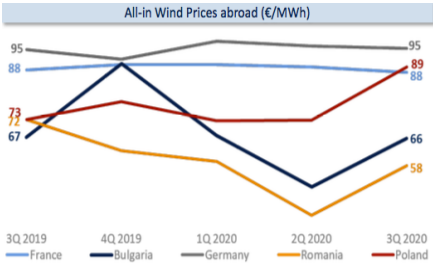


Source: Company data, presentation 2020

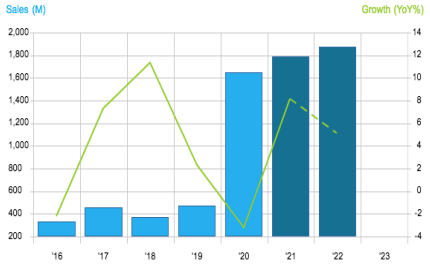


Source: Statista, Renewable energy in Europe

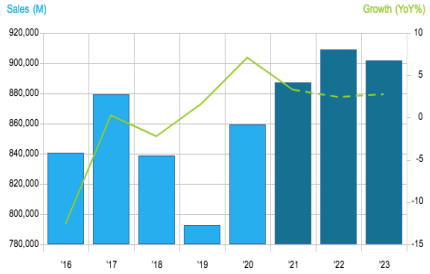
In the third quarter of 2020, Erg has seen a slight decrease in electricity demand (-3%) and in production (-1%) with an increase in wind production (13%). Electricity prices (€/MWh) in Italy have seen a decrease during the 1st quarter and a recovery in the 3rd quarter of 2020 to almost the pre-Covid levels. Wind prices abroad fluctuated mostly in Bulgaria, Romania and Poland, while they remained almost stable in France and Germany. They all came back to pre-Covid values except for Romania that remained below and Poland that went above. (Sources: Erg Annual Reports, Erg third quarter report 2020, Statista: Renewable energy in Europe)



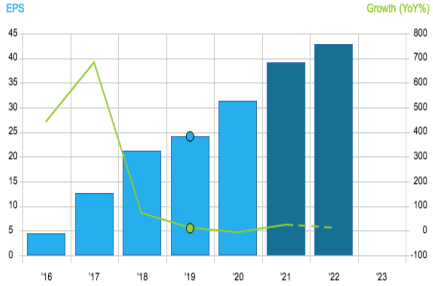
Source: Company data, presentation 2020



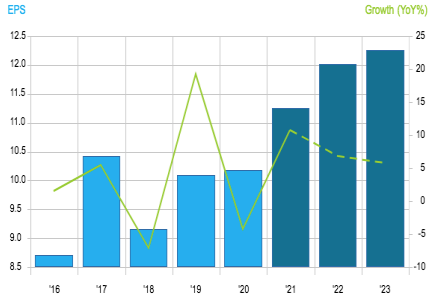
Sales volume in Italy for alternative utilities
Source: FactSet



Sales volume in Europe for utilities
Source: FactSet



EPS growth in Italy for alternative utilities
Source: FactSet



EPS growth in Europe for utilities

FINANCIAL COMPARISON

By comparing Erg's margins with the electric utilities industry median, the Group's profitability is slightly higher than the industry in 2019 (Gross Margin 71,5% and EBITDA Margin 57,3%) and increasing from the previous year. Capital expenditures over revenues (7,4% in 2019) is increasing and particularly under the industry median of 48,5%. Working capital divided by sales growth is decreasing from 2018 (1,4% in 2019) but higher than the industry value of -0,2%. Then, debt over equity is increasing (1,26 in 2019) and lower than the median of 1,80.

Refinitiv Eikon	Gross Margin %		Ebitda Margin %		CapEx/Revenues		WC/Sales Growth		Debt/Equity	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
ERG	68,0 %	71,5 %	44,3 %	57,3 %	5,8 %	7,4 %	9,5 %	1,4 %	1,20	1,26
Industry	-	64,2 %	-	52,3 %	-	48,5 %	-	-0,2%	-	1,80

Key metrics ERG and industry average. Source: Refinitiv Eikon

In 2019, more than 80% of Erg's revenues came from Italy and the main sources of sales were wind and natural gas. The only source that decreased in revenues is the hydroelectric power in Italy for € - 76 million. Total revenues are slowing over the last three years passing from € 1054m to € 1021m in 2019. Within the peer group, Erg has higher slaes than Falck Renewables and it is almost in line with EDPR. The other utility companies have much higer revenues than Erg. Sales volumes in Italy for the renewable energy industry and in Europe for the utility industry is expected to grow in the following years with a slight decrease in 2023 for European utilities. EPS is also expected to grow both in Italy and Europe until 2023.

Revenues - Peers	2017	2018	2019
ERG	1.054	1.024	1.021
Falck Renewables	288	335	374
Enel	72.664	73.134	77.366
Orsted	59.709	68.646	59.338
EDPR	1.604	1.678	1.794
Iberdrola	31.263	35.076	36.438
E.On	37.965	29.565	41.003

Revenues Peers in Mio. €. Source: FactSet

PRICE PERFORMANCE

The stock price of Erg is slightly above the pre-Covid levels and positively correlated with the main peers. The Group registered a significant decrease during March 2020, when the pandemic burst, and then it recovered. Even if the price had a positive trend, the two years stock performance (Feb 2019 - Feb 2021) appears worse for Erg then the main peers. EDPR increased 194%, Falck renewables 134%, Enel 65,72% while Erg 50%. However, by comparing the Erg price performance with the FTSE Mib and S&P 500, it is possible to note that Erg performed above the market in the same two years period. The FTSE Mib increased almost 10% while the S&P 500 39%. The difference with the S&P 500 is particularly noticeable since the beginning of 2021. (Sources: Factset) Appendix 3

ERG S&P500 FTSE MIB

ERG price chart comparison with the market. Source: Factset

SWOT Analysis: Team elaboration

Strengths
- Diversification of resources - Geographical diversification - Quality certification of the products
Weaknesses
- Forecasting production capacities - Seasonality of wind, weather and sunshine - Development of governmental incentives
Opportunities
- Sustainability trend - Strong competitive position - Increasing production capacities
Threats
- Increasing competition within the industry - Regulations - Dependence on government

Source: Company data

ERG's Sustainability numbers

3,086kt
CO_2 avoided by production of electricity from renewable sources

2.6GW
Installed capacity from renewable sources

100%
ISO 14001 and/or OHSAS 18001 – ISO 450001 certified Italian companies consistent with their activities

Source: Company data, presentation 2020

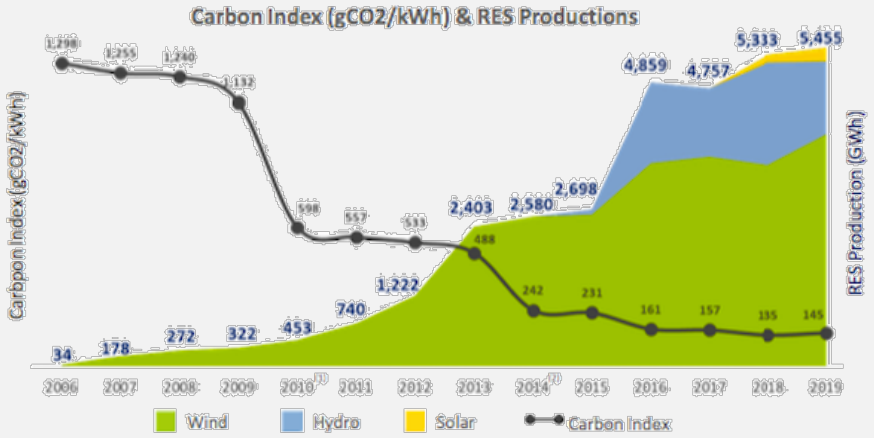
COMPETITIVE POSITIONING

We applied a Swot analysis in order to evaluate the main positive and negative features of Erg's competitive position.

Strengths – The company can count on different of resources (wind, sun, water and natural gas) and on a geographic diversification of the production. This permits to offset the possibility of risks related to the availability of resources due to seasonality and extraordinary weather conditions. Moreover, Erg has an high quality production, which is ISO and OHSAS certified, with strong competitive advantages in the renewable sector in Italy and Europe. The company has reached also a large dimension in Europe, which allows to exploit internally the different operations of the production with an international perspective.
Opportunities – The company can profit from the following development of the increasing global involvement into sustainability. Erg has the vision of a carbon neutral energy producer and it is increasing year by year the amount of avoided CO_2. The company has built a strong competitive position with its expansions in Europe and it has the purpose to continue to acquire new plants in Germany, France and UK in the forthcoming years. Moreover, the reblading process in the heolic sector will increase the production capacity and efficiency in the near future.
Weaknesses – The weaknesses that Erg faces are related to the main risks of the company. The availability of resources is not granted nor clearly forecastable in the long period. In addition, the seasonality in different areas of Europe can offset the production capacity. Moreover, the company's revenues came mostly from incentives which can vary from one year to another.
Threats – The Threats that Erg can face are different. First, since sustainability is one of the main trends for the future, the competition in the renewable industry is expected to increase in the future. Second, the company highly depends on incentives and government decisions which make the power prices volatile. Third, a change in regulation or authorisation process can slow the construction of new plants or the production. Fourth, a change in interest rates can affect the company's debt and financing. (Sources: Erg Annual Reports, Erg Sustainability Reports)

STRATEGY

Erg strategy is to grow in the renewable and clean energy production. During the last years the company has added new resources to the production (water and sun) and increased its wind power generation capacity. In 2019, the company has reduced is carbon intensity of production by 90% and it is willing to arrive at 100% in the following years. Erg has also started the reblading and repowering of the wind production in Italy, that will permit to benefit from an increased efficiency and capacity (from 92MW to 218MW). For the moment, new acquisitions of greenfields and windfarms are planned in Germany, France and UK, where it is expected the highest growth in incentives for renewable energy in Europe. Erg is also implementing its pipeline in Europe (UK and Poland under contruction) to boost future growth and competitive advantages. In 2019 and 2020, the Group has started to gradually switch its strategy on financial structure from project to corporate financing through liability management transaction and the issuing of two bonds in April 2019 and September 2020 (total €600m). This proceedings have rebalanced the quantity of corporate debt over project financing. The two obligations were issued in the form of Green Bonds to refinance the latest wind and solar project in the Group's portfolio and the new wind projects under construction in UK and Europe. Thanks to the liability management operations and the expected Ebitda, cash generation and Capex for 2020, the company is willing to reduce its indebtedness in the following period in a range between €1,35 billion and €1,43 billion (€1,48b in 2019). The company is also particularly committed in ESG management and recognition. The Group is implementing its ESG policies and structures to reach the highest acknowledgments. (Sources: Erg Annual Reports, Erg: Cfa Research Challenge Presentation, Erg Sustainability Reports)

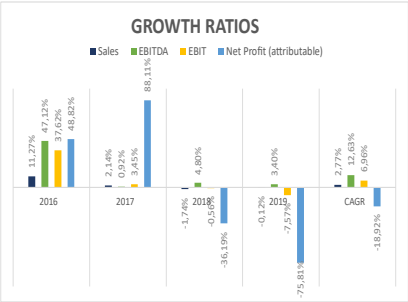


Source: Company data, presentation 2020

FINANCIAL ANALYSIS and VALUATION

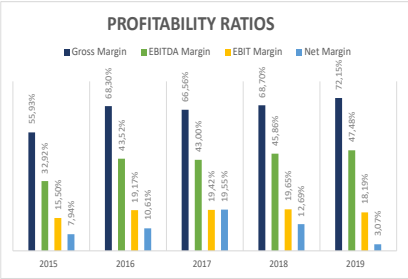
Our Historical Analysis starts in 2015, when ERG entered into the hydroelectric sector and began to expand its operations in France and Poland. Since then, the company switched its vision completely on renewable energy and aimed to become totally green in the future. During these years, Erg managed to spin off its refineries and nowadays it's the leading company in the heolic and renewable energy sector in Italy. (Every disclosed estimate come from team's assumptions, if not otherwise stated)(restated financial statement in the Appendix 4-16)

HISTORICAL ANALYSIS



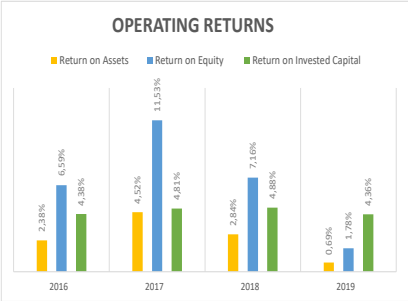
Source: team elaboration

From 2016 ERG showed positive revenue growth of +11,27% and 2,14%, declining slightly in the following years (-1,74% for 2018 and -0,12% for 2019) delivering a CAGR of 2,77%. EBITDA however followed a positive trend from 308mln in 2015 to 496mln in 2019 (CAGR +12,63%) driven from lower COGS (CAGR -8,37%) mainly due to transition from refinery to renewables and lower costs of energy. EBIT on the other hand, and alongside with Net Profit, followed the same evolution as sales, but at a higher level with exception of the year 2019 where the decrease was -7,57%. The main driver for revenues is the transition from oil refinery to renewables and the increased amount of GW sold. Net profit tracked EBIT dynamics closely, but at a considerable higher rate. The change for the years 2016-2018 is driven by the results of the joint venture in TotalERG S.P.A and Brockaghboy Windfarm Ltd, which are no longer part of ERG in 2019.



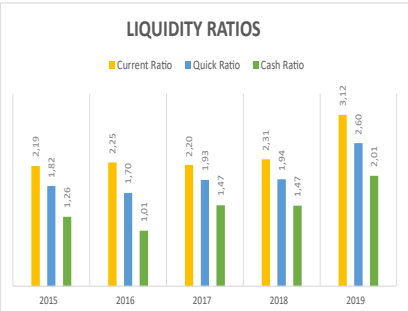
Source: team elaboration

Even though Profitability ratios look good the operating data is worse. In fact, ROA increased from 2,38% in 2016 to 4,52% highlighting a better and more efficient use of assets at disposal, but then declined drastically to 2,84% and 0,64% in in the next years. Its peer registered an average ROA of 3,74% which is considerably better *(source: Eikon)*. ROE followed the same trend as ROA, but at a much higher level (6,59% in 2016, 11,53% in 2017, 7,16% in 2018 and 1,78% in 2019). Compared to the peers (ROE of 10,11% source Eikon) the date is even worse. ROIC seems to be the only healthy return compared to ROE and ROA, since it's almost stable at a level of 4,16% meaning ERG is allocating the capital under control in profitable investments adding therefore value to the company. In this case ERG is positioning itself closely to its competitors average who have a ROIC of 4,67% *(source: Eikon)* (driven by Orsted 9,73%).



Source: Team elaboration

On a completely different way with regard to its peers, ERG is gradually improving its liquidity ratios. The current ratio grew steadily over the years from 2,19 (2015) to 3,12 (2019) pointing out the company's ability to meet its short-term obligations with respect to its current assets. This ability is not shown from the competitors average of 1,10 *(source: Eikon)*. The quick ratio highlights this capability, since it also grew from 1,82 to 2,60 in 2015 and 2019 respectively. Whereas the peer average is considerably below with 0,92 *(source: Eikon)*. It suffered a slight deflection in the year 2016 (1,70) but had overall an increasing performance. The cash ratio followed the same pattern of the Quick ratio and grew from 1,26 in 2015 to 2,01 in 2019 strengthening the previous ratios and highlighting ERG ability to pay its current liabilities with cash and cash equivalents. The D/E ratios was 0,95 in 2015 and increased to 0,96 in 2016 and decreased drastically to 0,67 in 2017 where it reached its best level of the past five years. However, from 2017 it increased again: 0,78 and 0,89 in 2018 and 2019 respectively leaving thus space for improvement even though the peers registered an average of 1,56 in 2019 *(source: Eikon)*.



Source: Team elaboration

FUTURE ANALYSIS

While forecasting future estimates, we divide our assumptions in four major sets: 2020E, 2021E-2022E, 2023E-2024E and the continuation value (CV). For the year 2020E, we base our projections on the interim report at 30th September 2020, by assuming the increase or decrease reported in the 3Q will be the same at year end. Then, for the year 2021E and 2022E we base our assumptions on ERG plans/target for 2022 considering mainly the increase of 584MW which is about 18% of the total MW installed (3.116) as of today. We use a compounded growth rate of 18%. For the year 2023E and 2024E we continue using the 18% compounded either as increase or as decrease as described in the following paragraph. Then, for the continuation value we use different approaches in order to be prudent: either we take the last percentage with respect to sales and PP&E for Depreciation or we take an average of the previous forecasts (2020E-2024E). Revenues for 2020E are forecasted based on the 3Q interim report 2020 which disclosed a decrease of -4,87%. For the following years (2021E-2024E) we then assume an increase of 5,67% decreasing by 100 basis points each year, arriving thus at 2,67% in 2024E. For the CV we assume growth rate of 2%. Those assumptions are based on the increased energy production through repowering, reblading and possible M&A disclosed in the company targets and the increased trend toward sustainable thinking.


Source: Erg website, Wind


Source: Erg website, Solar


Source: Erg website, Natural Gas


Source: Erg website, Water

Source: Team elaboration

In regards of COGS, we assume a decrease of -7,17% in 2020E based on the interim report and a compounded decline of 18% for the years 2021E-2024E, decreasing 1% each year due to improved efficiency of their plants, putting more emphasis on the wind sector since it accounts for the greatest part of ERG energy production. Furthermore, we assumed the prices to decline even in the future. We then assume a CV of 40% together with SG&A. SG&A for 2020E is built on the 2020 interim report (-2,55%). We assume it to increase in the following two years (+5,67% and 4,67%) driven from reblading, repowering and maintenance operations. Whereas we then project a decrease of -3,67% and -2,67% due the stabilization of the plants.
Depreciation is grounded on the increase of the 3Q of 2019 (+0,40%) and we assume it to grow at 5,67% and 4,67% in the years 2021E and 2022E respectively due to the increase of useful life of the assets generated from repowering and reblading. For the following years we assume it to decrease at -3,67% and -2,67% since no more changes in useful life or changes in scope are expected. The assumed continuation value is 9,9% with respect to PP&E alongside with amortization. We then assume amortization to increase in 2021E and 2022E (+3,67% and 2,67%) from possible M&A operations which the company might pursue especially in France, where ERG stated they will grow by M&A. For the following years we then expect a decrease (-2,67% and -1,67%) since no other Acquisitions are planned. The Capex is assumed to be the same as the forecast provided by ERG which amount to 450mln, 310mln, 340mln, 340mln, 240mln, 240mln, 240mln and 240mln from 2018 to 2024E and CV. We finally assume the minority interest to remain constant over the years.
From our estimates we then deduct an ever-increasing EBITDA margin going from 47,55% in 2020E to 56,53% in 2024E and a CV of 60%. EBIT margin is also expected to increase from 16,63% to 29,41% with a CV equal to the average of our projections (22,33%).

VALUATION

We based our target price as an average deriving from a DCF analysis and an average on industry median price/ebitda, competitors price/sales and competitors EV/EBITDA multiple analysis. Our target price is 29,29 accounting for an upside of 12,57% with respect to the price of 10th February 2021.
In order to perform our DCF analysis we first had to estimate the WACC:

WACC estimation		
Levered Beta - β	0,80	Levered beta is estimated through the median of the peers unlevered beta *(Source: Infrontanalytics)* the average tax rate over the last 5 years projection (team estimate), the value of debt (team estimate) and the market value of Equity *(Source: Eikon)*. β*(1+(1-Marginal Tax Rate)*(Tot value of Debt/MVE))
Risk free rate – rf	0,93%	Similar to what ERG discloses in its annual reports the rf is derived from an average rate on German 10Y Bonds over the last 10 years. *(Source: Statista)*
Market risk premium - MP	6,37%	Derived by taking the Risk premium of the countries where ERG operates – Italy, France, Germany, Romania, Poland and UK. *(Source: Statista)*
Cost of Equity - ke	6,05%	Ke was derived through the CAPM model – rf+β*MP *(team estimate)*
Cost of Debt - rd	1,13%	rd was derived as a weighted average of ERG outstanding debt (Bonds, Bank loans and Project Financing) *(team estimate)*
Marginal Tax Rate	25,3%	Is assumed to be the forecasted Marginal Tax rate (team estimate)
Leverage weight – D/(D+E)	36,89%	We considered the forecasted debt level and the MVE at 31/12/2020 *(Source: Eikon)*

We derived the FCF based on our future projections and calculated the total PV of FCF which together with the CV, expected to grow at a 2% rate in perpetuity gives an Enterprise Value 7,5bln. Subtracting then Financial Debt, Minority Interest and Pension obligations we get a price share price of 36,87. We finally developed a multiple analysis based on Competitors Enterprise Value/EBITDA, Competitors Price/Sales and Industry Price/Sales. Since we estimated many different target prices, ranging from €17,97 to €36,87 we decided to take an average of our five estimates arriving therefore at a final target price of €29,29 recommending thus to BUY the ERG share.

Reformulated income statement, balance sheet and other calculation on Appendix 4-16

RISK ANALYSIS

ERG faces different types of risks due to the type of industry in which it operates. These risks are related to different areas such as the the availability of natural resources, changes in price inventives, liquidity constraints or health and safety. ERG deals with the sources of uncertainty with its Enterprise Risk Management, which identify the main risks of the company and monitors the efficiency of the process. One of the major concerns is the limited capacity of forecasting the weather conditions and the availability of wind, sun and water in the long run. Moreover, the increasing impacts of climate change make the uncertainty even higher. The company has adopted a large geographic diversification in Europe especially for wind, which strategy has the purpose to lower this risk. The price of electricity and incentives is another danger for the revenues of the company. This risk is mostly related to politic decisions and the macroeconomic environment. Then, Covid-19 has not been a huge source of problems for the company, since it operates in the essential goods production. The virus has only affected the working conditions and safety of the employees, anyway ERG has adopted for almost 70% of its workforce the smart-working. (Sources: Erg Annual Report as at December 2019, Erg Interim Report 2020)

Environmental risk
Risk relevance

RISK RELATED TO ENVIRONMENT CONDITION

1) Risk of availability of renewable resources

The risk is related to the eventuality that ERG may face a decrease in the availability of natural resources such as wind, sun and water which can reduce significantly the production of electricity. The weather condition and the amount of natural resources is not clearly predictable in the long period and no significant estimation can be done. To avoid this issue, the company has put in place different strategies. First, it has diversified the production in different geographic areas and with different types of resources (wind, sun and water). Second, ERG schedule the production capacity in each area in relation to the season and periods of low resource contribution. Third, it is trying to foster the forecasting technologies to define better the production strategies at least in the short period. Moreover, the risk management of the company utilize statistical models to quantify the impacts of the plan during time.

2) Climate change risk

Climate change risk refers to the uncertainty of the weather conditions in the short, medium and long run. The consequences of a drastically change may have an impact on both the production capacity and the cost. A decrease in the volume of natural resources, impediments to the production and higher uncertainty can decrease the sales volume and increase the costs related to insurances, compliances and O&M. ERG, in accordance to the guidelines provided by the European Commission in 2019, publishes a disclosure on its commitment to climate change. The company identifies different scenarios and analys them through the variables that can affect the firm's business. It then look at the risks and opportunities linked to climate change that can affect the operations positively or negatively. Since the switch to renewables, ERG has adopted important prevention and protection measures with the objective of reducing pollution on its own assets and increasing the capacity to resist to extreme weather conditions. The company is also investing only on green projects, following its sustainable vision. Sources: Erg Annual Report as at December 2019, Erg Interim Report 2020)

Operating and financial risk
Risk relevance

OPERATING AND FINANCIAL RISKS

3) Price risk and subsidies risk:

The risk refers to the possibility of a change in the purchase and sale price of commodities which may cause the non-obtainment of the operationa objectives. The main fluctuation in price can happen for the electricity prices that is sold in the merket and oscillation of the price of gas for the natural gas-fulled cogeneration plant of ERG Power in Sicily. The Group take some actions to counterbalance the possible bad effects of changes in price though the assesment of the risk and the use of hedging instruments. However, the use of a derivative instrument is authorised only if an underlying asset is expected to reduce its economic impact linked to price volatility on the financial market. In 2020, the company reported that almost 70% of the Ebitda came from price incentives for renewable energy. The duration of these incentives varies frequently for each type of resource (wind, sun, water), project and country. The is a risk that these incentives may disappear or be reduced in the long run can be another point of concern.

4) Litigation risk

This risk refers to the possibility that one or more of the company's subsidiaries (or employees) may be involved in a legal proceed related to the violation of the low or for contractual and extra-contractual liability. The possibility of this event may have an impact on the company's image, cause sanctions and damage the Group. At this regard the company carries out corporate organisational units responsible for compliances in different fields of competencies and manages the litigation process through legal experts and monitoration of the ongoing litigations. When the company deals with important transaction such as M&A or establishments of joint ventures, it carries out specific due diligence work and may require in some cases the counterpart to provide warranties.

5) Liquidity risk

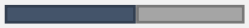
Liquidity risk relates to the possibility of a decrease in availability of financial resources to meet the company's short and medium term obligations. This risk comprehend the eventuality that ERG is not able to fulfill all its commitment and that the market perceives the company as a riskier investment increasing the cost for additional financing. ERG adopts a risk mitigation strategy aimed at reducing a liquidity emergence by balancing the duration and composition of debt, constantly monitoring the the financial situation and systematically generating cash from the business operations. The company wants to ensure a low level of risk and the availability of liquid resources to be solvent both in normal and crisis conditions. The treasury activity is centralised in the Parent Company which manages the liquidity requirements. Moreover, the company invests long in short term and highly liquid financial assets with low risk profile.

6) Trade credit risk

Trade credit risk is related to a change in the credit rating of the counterparties towards which ERG has an exposure. It may couse negative consequences on income and capital. The company has adopted a low risk profile by assessing the credit rating of the counterparties and adopting guaratees when necessary. The company manages this risk through a dedicated credit committee which assess and analyse the exposures. (Sources: Erg Annual Report as at December 2019, Erg Interim Report 2020)

HSE RISK

HSE risk
Risk relevance



7) Health Safety and Environment:

This risk is related to the potential negative inpacts that the production can have to worker's health and safety and on the environment. The health and safety risk may be caused by injuries and accidents in the production process, while the environmental risk is related to the alteration of the physical-chemical parameters of the natural habitat surrounding the production. ERG has taken strog measures to contrast this kind of risk. First, the company has a strict HSE policy which comprehend specific performance targets and continuous training of employees. Second, it has adopted high qulity safety standards to assure regulatory compliance. Third, the companies that manages the industrial asset are provided with quality certification (OHSAS and ISO). The Group apply all the possible effort and technology to avoid any possibility of this risk, its commitment to environmental sustainability and safety has been also particularly pursued since the change to renewables.

With reference to environmental risk, with regard to the south of italy and the Priolo site, the exposure to possible contingent liabilities related to pollution risks has been altready limited by the settlement reached with the Ministry of the Environment in August 2011 (registered by the Court of Auditors on December 2011) and the settlement agreement stipulated on 30 December 2013 between Erg S.p.a. and Lukoil. On the 9th of September 2017 the Ministry of the Environment warned some of the Priolo site, including Erg Power S.r.l and Erg Power generation S.p.a. to clean up the Augusta Roadstead. The request was unlawful and it has therefore been contested before the Administrative Courts Erg S.p.a. was not part of the proceedings but the environmentl issues related to the Augusta Roadsead arised in the context of the environmental guarantees present in the various contracts with Eni and Lukoil. (Sources: Erg Annual Report as at December 2019, Erg Interim Report 2020)

COVID-19

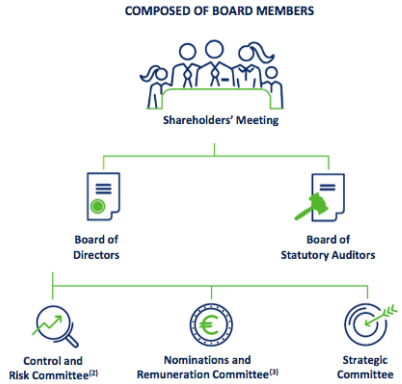
The company reports that Covid-19 has not changed substancially the amount of revenues expected. It is because the company operates in the renewable energy sector and produces electricity, which is an essential good for indistries, cities and households. The main internal change has regarded the working environment. ERG, as many others companies, has adopted the smart-working formula for almost 70% of the workforce to reduce the risks linked to the movement of people. The safety of the employees is one of the priority for the company. However, the possible risks related to the pandemic are an expected decrease in energy prices, limitations to the production operations and a slowdown for authorisations and developments of the projects under constructions. (Sources: Erg Annual Report as at December 2019, Erg Interim Report 2020)

ENVIRONMENTAL, SOCIAL and GOVERNANCE

ENVIRONMENTAL

ERG has a clear commitment to environmental responsibility since it has focused the whole production of electricity on renewable and natural resources. The company's past experience with oil has increased its awareness on the importance of avoiding pollution and not affecting the communities. The commitment of ERG towards these themes is carried forward thorugh a formalised code of ethics. These policies guide the group operations and goals to crate a more sustainable and resonsible internal envirmonment. The company has a sustainability committee which defines, evaluates and approves the objectives. In 2019, ERG was included in the 100 Most Sustainable Corporations in the World (35th place), an index that ranks the sustainabilty commitment among 7500 firms on the Thomson Reuters data stream. In the same year, the company has avoided 3,085Kt of CO_2 emissions and produced 5,455GWh of clean energy. The goal is to avoid from 2018 until 2022 a total of 15,000kt of CO_2. The decarbonisation of the firm's output of electricity in 2019 was at 90% and the Group is intended to fully deacarbonise it in the following years. The company's attention to a sustainable production is demonstrated also with the quality certification ISO 14001, OHSAS 18001 (environment) and ISO 45001 (safety). (Sources: Erg Sustainability Report 2020)

Source: Erg sustainability report 2019



Source: Company data, 2020 presentation

Source: Company data, 2020 presentation

ESG Rating Company	Rating
vigeoeiris	Advanced
Corporate Knights	35th place
CDP	B
ECPI	EE+
ISS ESG	B
MSCI | MSCI ESG RESEARCH LLC	AA
SUSTAINALYTICS	75 Outperformer
FORUM ETHIBEL	
standard ethics	E+
Gaia	78/100

Source: Company data, 2020 presentation

SOCIAL

Erg has also a strong commitment to social ethics and responsibility through certified management systems, enhancement of talent, suitable remunerations and support to the development of local areas in which it operates. In 2019, ERG has a percentage of female employment of 20,8% and a percentage of employees with permanent contracts of 99,7%. On average, the employees are trained 7,8 days per employee per year. The Group has formalised a human rights policy to clarify its involvement to the rispect of human rights and non discrimination in all the countries in which it operates. Moreover, it has a strong involvement into health and safety measures to avoid possible impacts on workers and the community. In 2019, the company has monitored a rise in accidents (not as result of negligence) due to an increase in maintainance hours, thus it has promptly lounched a programme aimed at increasing the awareness about safety and reinforce the reporting. Since the beginning of the Covid-19 pandemic, Erg has provided a health insuarance for all the employees, it has appllied the smart-working for more than 70% of its workforce and adopted safety measures for employees. Morover, the Group has donated €2m to support the healthcare systems of the areas in which the production is settled and 2,300 hours of work to the Civil Protection. Erg sustained also two healthcare projects in France. (Sources: Erg Sustainability Report 2020)

GOVERNANCE

The structure of Erg S.p.a's board of directos is composed by 12 people (8 men and 4 woman) at least until 31 Dec. 2020. The chairman is Edoardo Garrone while the CEO is Luca Bettone since 2009. The company has one chairman, Edoardo Garrone, and two deputy chairmans, Alessandro Garrone and Giovanni mondini. The elements that are included in the corporate governance of the company are the statutory bodies, the board of committees and the corporate governance documents which regulate the operations. The traditional model of Erg provides that the board of directors is responsible for determining and achieving the strategic objectives, while the board of statutory auditors has a supervisory responsibility. Both of them are elected by the shareholders meeting. Each board self assess the level of their skills to find areas that can be improved. These skills covers different areas of competency such as: knowledge of the energy sector, auditing, legal compliances, strategies, finance, risk management or managerial skills. Under the board of directors, there are different committees composed on managers for each decisional area. In particular, the control and risk committee assist the board of directors in decisions relating to the approval of the financial statements and it is composed by one chairman and 2 members. The nominations and remunerations committee recommend on the remuneration of managers and it is composed of one chairman and two memebers. Then, the strategic committee helps the board of directors on financial and operational plans and it is formed by one chairman and 5 memembers. These committees are directly connected with the board of directors. The board of statutory auditors is composed of three standing auditors and three alternate auditors. The company poses attention also on the protection of sharolder's minorities. One director, Mario Paterlini, and an alternate auditor were appointed from the minority list. The shareholder's structure is composed of four main parts. The majority of the shares is owned by San Quirico S.p.a. with 55,6% and Polcevera S.r.l. with 6,9% which are both controlled by Erg founding family. The rest of the shares is composed by a free float with 36,5% and treasury shares for 1%. The Garrone family has a leading position in the company and defines the companies long-term objectives with the top management. The managers have to follow a strict financial discipline and risk management policy. Moreover, since 2018, the company has adopted a stock based compensation for all its managers in order to better allign the shareholders expectations with the manaerg's incentives. (Sources: Erg Sustainability Report 2020)

ESG RATINGS

Erg ESG ratings are all in a good position even if they do not reach in most of the cases the highest grade. In 2019, ERG was ranked at the 35th place among 7500 companies in the list for its sustainability involvement. MSCI evaluated ERG as a double A, slightly below Enel which has a triple A, but still above the industry avarage of triple B. Also the ranking given by Sustainalytics of 75 settle Erg just 5 point below Enel. These scores are almost in line with all the other judgments given by the other rating companies. This has a positive impact on the image of Erg and the capacity to eventually reach investors and funds that follow strict ESG ethical principles as a requirement for investing. Among the peers group, the best performers, according to the Refinitiv ESG Scores, seem to be Orsted and Iberdrola which have a an A score in four out of five judgments. Erg is slightly below Enel and almost in line with EDPR, E.on and Falck. Solaria is the worse performer with different Ds. Erg had a B+ in the overall combined score, an A and A- in environmental and social commitment but only a C+ in governance. It is possible to conclude that Erg is not the best performing company in the market of utilities but it is still in line and slightly above the average. (Sources: Erg Sustainability Report 2020, Enel website, Refinitiv Eikon) Appendix 1-2

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RESOURCES Disclosure

- All the raw data for the assessment of the company have been retrieved either from the company's report, Refinitiv Eikon, FactSet, Statista or Infoanalytics.com.
- Part of the graphs have been downloaded through FactSet or Erg's report and presentations listed in the references.
- Part of the graphs have been downloaded from Statista "Renewable energy in Europe" and Statista "Electricity Market in Italy" listed in the references.

APPENDIX

1)

Indicator	Score	Industry average
MSCI	AAA (DDD/AAA)	BBB
Sustainalytics	80/100	n.a.
SAM ESG Rating	87/100	45/100
FTSE Russel	4,9/5	2.5/5
ISS ESG CR	B- (D-/A+)	C
CDP (Climate)	A (D-/A+)	B

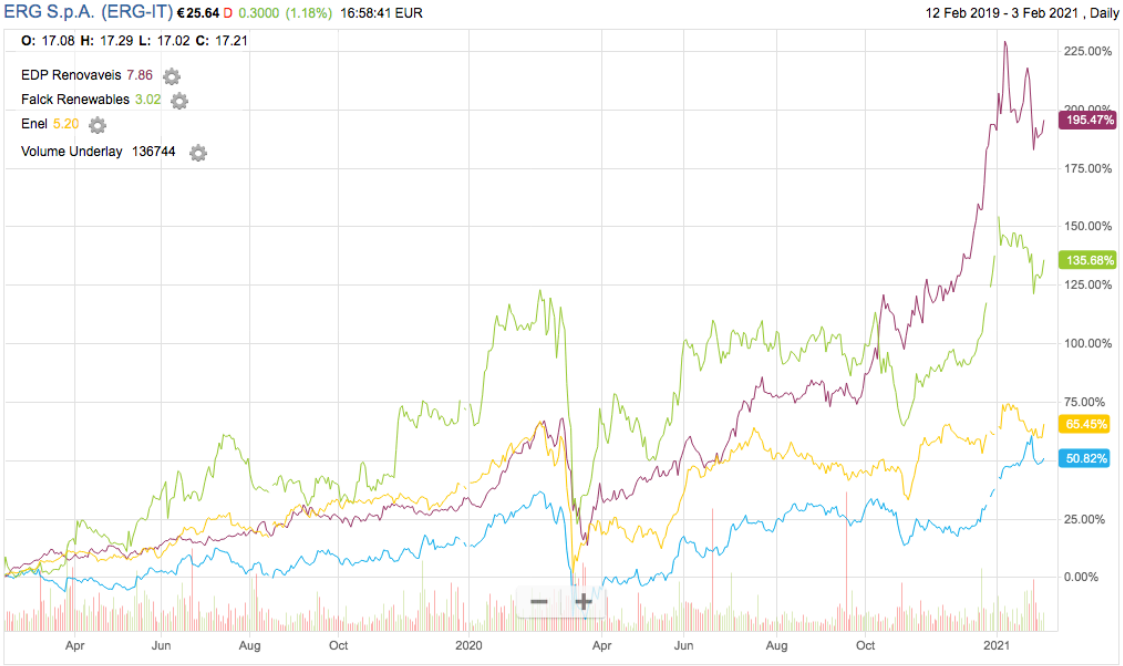
Enel ESG scores. Source: Enel website: https://www.enel.com/it/investitori/sostenibilita/rating-indici-esg

2)

Refinitiv ESG scores	Enel	Falck	Iberdrola	Orsted	Solaria	E.on	EDPR	**ERG**
ESG combined	C+	B-	A-	A-	D	B+	B	**B+**
ESG score wighted 100%	A	B-	A	A-	D	B+	B	**B+**
Environmental Pillar score (weight 42,5%)	A+	C+	A+	A-	D	B	A-	**A**
Social Pillar score (weight 32,5%)	A+	B+	A	B+	D+	A	B+	**A-**
Governance Pillar score (weight 25,0%)	A-	B	B-	A-	D	A-	C	**C+**

Peers ESG score comparison. Source: Refinitiv Eikon – ESG section

3)



FINANCIAL STATEMENTS

4)

Income Statement Reclassified

in EUR thousand	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Sales	936,264	1,041,801	1,064,133	1,045,639	1,044,389	993,539	1,049,894	1,098,947	1,139,303	1,169,747
COGS	(412,607)	(330,231)	(355,820)	(327,239)	(290,824)	(269,984)	(262,327)	(256,199)	(251,495)	(248,135)
Gross Profit	523,657	711,570	708,313	718,400	753,565	723,555	787,567	842,749	887,808	921,612
SG&A	(215,474)	(258,157)	(250,718)	(238,825)	(257,665)	(251,093)	(265,335)	(277,732)	(267,533)	(260,384)
EBITDA	308,183	453,413	457,595	479,575	495,900	472,462	522,232	565,016	620,275	661,228
Depreciation	(135,652)	(207,358)	(201,582)	(218,373)	(234,888)	(235,836)	(249,213)	(260,857)	(251,278)	(244,563)
Amortization of Intangibles	(27,378)	(46,295)	(49,353)	(55,695)	(71,065)	(71,352)	(73,972)	(75,949)	(73,919)	(72,683)
Other Operating expense										
Total D&A	(163,030)	(253,653)	(250,935)	(274,068)	(305,953)	(307,188)	(323,186)	(336,806)	(325,197)	(317,247)
EBIT (Operating Income)	**145,153**	**199,760**	**206,660**	**205,507**	**189,947**	**165,274**	**199,047**	**228,211**	**295,077**	**343,981**
Nonoperating Income (Expense) - Net										
Interest Expense	(54,745)	(83,494)	(65,298)	(61,416)	(137,097)	(108,989)	(111,433)	(93,962)	(86,676)	(75,876)
PROFIT BEFORE TAX	**90,408**	**116,266**	**141,362**	**144,091**	**52,850**	**56,285**	**87,614**	**134,249**	**208,401**	**268,105**
Income Taxes	(12,560)	(28,831)	(32,958)	(39,683)	(19,531)	(11,766)	(22,166)	(33,965)	(52,726)	(67,831)
Equity in Earnings of Affiliates										
Profit (loss) from discontinued operations	(500)	25,556	99,583	28,432	0					
Net Profit (Reported)	**77,348**	**112,991**	**207,987**	**132,840**	**33,319**	**44,519**	**65,447**	**100,284**	**155,676**	**200,274**
Minority Interest Expense	(3,055)	(2,425)	0	(133)	(1,218)	(1,705)	(1,705)	(1,705)	(1,705)	(1,705)
Net Profit (Attributable)	**74,293**	**110,566**	**207,987**	**132,707**	**32,101**	**42,814**	**63,742**	**98,579**	**153,970**	**198,569**
Common Shares Outstanding	150,320	150,320	150,320	150,320	150,320					
Average Shares Outstanding	142,804	144,143	148,817	148,817	148,868					
EPS(Basic)	0.49	0.74	1.38	0.88	0.21					

5)

Income Statement - Percentage of Sales

in EUR thousand	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
COGS	-44.07%	-31.70%	-33.44%	-31.30%	-27.85%	-27.17%	-24.99%	-23.31%	-22.07%	-21.21%
Gross Profit	55.93%	68.30%	66.56%	68.70%	72.15%	72.83%	75.01%	76.69%	77.93%	78.79%
SG&A	-23.01%	-24.78%	-23.56%	-22.84%	-24.67%	-25.27%	-25.27%	-25.27%	-23.48%	-22.26%
EBITDA	32.92%	43.52%	43.00%	45.86%	47.48%	47.55%	49.74%	51.41%	54.44%	56.53%
Depreciation	-14.49%	-19.90%	-18.94%	-20.88%	-22.49%	-23.74%	-23.74%	-23.74%	-22.06%	-20.91%
Amortization of Intangibles	-2.92%	-4.44%	-4.64%	-5.33%	-6.80%	-7.18%	-7.05%	-6.91%	-6.49%	-6.21%
Other Operating expense	0.00%	0.00%	0.00%	0.00%	0.00%					
Total D&A	-17.41%	-24.35%	-23.58%	-26.21%	-29.29%	-30.92%	-30.78%	-30.65%	-28.54%	-27.12%
EBIT (Operating Income)	**15.50%**	**19.17%**	**19.42%**	**19.65%**	**18.19%**	**16.63%**	**18.96%**	**20.77%**	**25.90%**	**29.41%**
Nonoperating Income (Expense) - Net	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest Expense	-5.85%	-8.01%	-6.14%	-5.87%	-13.13%	-10.97%	-10.61%	-8.55%	-7.61%	-6.49%
PROFIT BEFORE TAX	**9.66%**	**11.16%**	**13.28%**	**13.78%**	**5.06%**	**5.67%**	**8.34%**	**12.22%**	**18.29%**	**22.92%**
Income Taxes	-1.34%	-2.77%	-3.10%	-3.80%	-1.87%	-1.18%	-2.11%	-3.09%	-4.63%	-5.80%
Equity in Earnings of Affiliates										
Profit (loss) from discontinued operations	-0.05%	2.45%	9.36%	2.72%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Profit (Reported)	**8.26%**	**10.85%**	**19.55%**	**12.70%**	**3.19%**	**4.48%**	**6.23%**	**9.13%**	**13.66%**	**17.12%**
Minority Interest Expense	-0.33%	-0.23%	0.00%	-0.01%	-0.12%	-0.17%	-0.16%	-0.16%	-0.15%	-0.15%
Net Profit (Attributable)	**7.94%**	**10.61%**	**19.55%**	**12.69%**	**3.07%**	**4.31%**	**6.07%**	**8.97%**	**13.51%**	**16.98%**

Income Statement - YoY Growth

in EUR thousand	2016	2017	2018	2019	CAGR	2020E	2021E	2022E	2023E	2024E
Sales	11.27%	2.14%	-1.74%	-0.12%	2.77%	-4.87%	5.67%	4.67%	3.67%	2.67%
COGS	-19.96%	7.75%	-8.03%	-11.13%	-8.37%	-7.17%	-2.84%	-2.34%	-1.84%	-1.34%
Gross Profit	35.88%	-0.46%	1.42%	4.89%	9.53%	-3.98%	8.85%	7.01%	5.35%	3.81%
SG&A	19.81%	-2.88%	-4.74%	7.89%	4.57%	-2.55%	5.67%	4.67%	-3.67%	-2.67%
EBITDA	47.12%	0.92%	4.80%	3.40%	12.63%	-4.73%	10.53%	8.19%	9.78%	6.60%
Depreciation	52.86%	-2.79%	8.33%	7.56%	14.71%	0.40%	5.67%	4.67%	-3.67%	-2.67%
Amortization of Intangibles	69.10%	6.61%	12.85%	27.60%	26.93%	0.40%	3.67%	2.67%	-2.67%	-1.67%
Other Operating expense										
Total D&A	55.59%	-1.07%	9.22%	11.63%	17.04%	0.40%	5.21%	4.21%	-3.45%	-2.44%
EBIT (Operating Income)	**37.62%**	**3.45%**	**-0.56%**	**-7.57%**	**6.96%**	**-12.99%**	**20.43%**	**14.65%**	**29.30%**	**16.57%**
Nonoperating Income (Expense) - Net										
Interest Expense	52.51%	-21.79%	-5.95%	123.23%	25.80%	-20.50%	2.24%	-15.68%	-7.75%	-12.46%
PROFIT BEFORE TAX	**28.60%**	**21.58%**	**1.93%**	**-63.32%**	**-12.56%**	**6.50%**	**55.66%**	**53.23%**	**55.23%**	**28.65%**
Income Taxes	129.55%	14.31%	20.40%	-50.78%	11.67%	-39.76%	88.40%	53.23%	55.23%	28.65%
Equity in Earnings of Affiliates										
Profit (loss) from discontinued operations	5011.20%	289.67%	-71.45%	-100.00%	-100.00%					
Net Profit (Reported)	**46.08%**	**84.07%**	**-36.13%**	**-74.92%**	**-18.99%**	**33.61%**	**47.01%**	**53.23%**	**55.23%**	**28.65%**
Minority Interest Expense	-20.62%	-100.00%		815.79%	-20.54%	40.00%	0.00%	0.00%	0.00%	0.00%
Net Profit (Attributable)	**48.82%**	**88.11%**	**-36.19%**	**-75.81%**	**-18.92%**	**33.37%**	**48.88%**	**54.65%**	**56.19%**	**28.97%**

Income Statement - Change 3Q 2019-2020

in EUR million	2019	2020E	Change
Revenue	770.2	732.7	-4.87%
COGS (purchases)	(217.7)	(202.1)	-7.17%
Gross Profit	552.5	530.6	-3.96%
SG&A	(172.5)	(168.1)	-2.55%
EBITDA (Gross operating profit)	380.0	362.5	-4.61%
D&A	(222.9)	(223.8)	0.40%
EBIT (Operating profit (loss)	157.1	138.7	-11.71%
Net expense	(47.8)	(38.0)	-20.50%
Net gains (losses) from equity investments	0.1	0.2	100.00%
PROFIT BEFORE TAX	**109.4**	**100.9**	**-7.77%**
Income Taxes	(33.2)	(20.0)	-39.76%
Profit for the year	76.2	80.9	6.17%
Non-controlling interests	**(1.5)**	**(2.1)**	**40.00%**
Profit attributable to owners of the parent	74.7	78.8	5.49%

6)

Balance Sheet Reformulated

EUR thousand	2015	2016	2017	2018	2019
Inventories	21,224	20,365	20,597	21,623	22,273
Receivables	343,450	292,978	255,534	251,001	193,466
Payables	(162,101)	(152,680)	(126,796)	(92,294)	(87,830)
Other current liabilities (Net)	36,491	38,572	12,765	65,285	64,874
Net working capital	**239,064**	**199,235**	**162,100**	**245,615**	**192,783**
Net Property, Plant & Equipment	2,054,525	2,360,338	2,181,860	2,288,316	2,336,329
Financial Assets	275,373	318,087	349,862	140,294	77,852
Intangible Assets	986,829	802,545	760,501	930,780	1,110,716
Total Fixed Assets	**3,316,727**	**3,480,970**	**3,292,223**	**3,359,390**	**3,524,897**
Provision for Risk & Charges	(258,796)	(292,985)	(319,842)	(355,903)	(361,567)
Other Liabilities	(79,982)	7,844	6,358	8,473	8,212
Tot long-term non interest bearing liabilities	**(338,778)**	**(285,141)**	**(313,484)**	**(347,430)**	**(353,355)**
Capital employed	**3,217,013**	**3,395,064**	**3,140,839**	**3,257,575**	**3,364,325**
Share Capital	15,032	15,032	15,032	15,032	15,032
Reserves & Retauned Profit	1,610,927	1,714,067	1,862,434	1,813,800	1,759,574
Shareholders' Equity	1,625,959	1,729,099	1,877,466	1,828,832	1,774,606
Minorities	50,338	0	0	0	11,530
Total Equity	**1,676,297**	**1,729,099**	**1,877,466**	**1,828,832**	**1,786,136**
Net Debt (Cash)	1,540,716	1,665,963	1,263,373	1,428,744	1,578,190
o/ w Long-Term Debt	**1,987,829**	**1,934,060**	**1,788,714**	**1,868,211**	**2,102,754**
ST Debt & Curr. Port LT Debt	**323,451**	**159,098**	**287,651**	**334,726**	**128,964**
Cash & ST Investments	**(770,564)**	**(427,195)**	**(812,992)**	**(774,193)**	**(653,528)**
EQUITY & NET DEBT	**3,217,013**	**3,395,062**	**3,140,839**	**3,257,576**	**3,364,326**

7)

Balance Sheet - PP&E, Depreciation and Amoritzation

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
PP&E	2,054,525	2,360,338	2,181,860	2,288,316	2,336,329	2,148,392	2,231,992	2,315,592	2,391,210	2,469,297
As % of sales	219.44%	226.56%	205.04%	218.84%	223.70%	216.24%	212.59%	210.71%	209.88%	211.10%
Depreciation	135,652	207,358	201,582	218,373	234,888	235,836	249,213	260,857	251,278	244,563
As % of PP&E	6.60%	8.79%	9.24%	9.54%	10.05%	10.98%	11.17%	11.27%	10.51%	9.90%
Amortization	27,378	46,295	49,353	55,695	71,065	71,352	73,972	75,949	73,919	72,683
As % of PP&E	1.33%	1.96%	2.26%	2.43%	3.04%	3.32%	-3.31%	-3.28%	-3.09%	-2.94%

8)

Cash Flow Statement

in EUR thousand	2018	2019
Profit for the year	132,762	32,771
- Amortisation, depreciation and impairment of non-current assets	274,069	305,955
- Increase in other provisions	17,337	18,601
- Decrease in other provisions	(18,050)	(23,221)
- Net change in deferred tax assets and liabilities	(9,618)	(9,241)
- Impairment of current assets	25	903
- Gains (losses) on equity investments	(26,635)	259
- Changes to post-employment benefits	(583)	(439)
Other changes in non-monetary items	(9,586)	25,874
Change in other current assets and liabilities:		
- Change in inventories	(985)	(650)
- Change in trade receivables	22,280	64,661
- Change in trade payables	(46,289)	(5,641)
- Net change in other receivables/ payables and other assets/ liabilities	(47,522)	(4,754)
CASH FLOWS FROM OPERATING ACTIVITIES (A)	**287,207**	**405,077**
Acquisition of intangible assets	(7,546)	(4,229)
Acquisition of property, plant and equipment	(52,702)	(63,686)
Acquisitions of equity investments and other non-current financial assets	(6,098)	(1,211)
Net change in other increases/ decreases in non-current assets	(3,593)	(593)
Net change in equity investment consolidation method	6,915	9
Sale of Brockaghboy Windfarm Ltd(2)	105,740	
Sale of TotalErg	179,538	
TotalERG Vendor Loan Collection	(36,054)	36,179
Disposals of equity investments and other non-current financial assets	26	
Changes in Other current financial assets	20,407	27,364
Change in the Consolidation Scope due to business combination(3)	(146,623)	(146,838)
Change in the Consolidation Scope due to acquisition of assets(3)		(8,197)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B):	**60,010**	**(161,203)**
Increase in non-current loans	331,493	198,901
Green Bond Issue		500,000
Decrease in non-current loans	(405,257)	(935,555)
Net change in current bank loans and borrowings	(78,371)	(19,982)
Net change in other current financial liabilities	(62,742)	66,868
Early closure of IRS derivatives ERG Wind Investments Ltd and ERG Power S.r.l.		(55,001)
Dividends paid to shareholders	(171,139)	(112,362)
Payment of lease liabilities (4)		(7,406)
CASH FLOWS USED IN FINANCING ACTIVITIES (C):	**(386,016)**	**(364,537)**
NET CASH FLOW FOR THE YEAR (A+B+C+D)	(38,800)	(120,665)
CASH AND CASH EQUIVALENTS AT THE BEGINNING	812,992	774,193
NET CASH FLOWS FOR THE YEAR	(38,800)	(120,665)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**774,193**	**653,528**

9)

Forecast for DCF - Part 1

Assumptions	2018	2019	2020E	2021E	2022E	2023E	2024E	CV
Sales Growth (%/yr)	-1.74%	-0.12%	-4.87%	5.67%	4.67%	3.67%	2.67%	2.00%
COGS + SGA (% of Sales)	54.14%	52.52%	-52.45%	-50.26%	-48.59%	-45.56%	-43.47%	-40.00%
EBITDA Margin (% of Sales)	45.86%	47.48%	47.55%	49.74%	51.41%	54.44%	56.53%	60.00%
Depreciation (% of PPE)	11.98%	13.10%	10.98%	11.17%	11.27%	10.51%	9.90%	9.90%
EBIT Margin (% of Sales)	19.65%	18.19%	16.63%	18.96%	20.77%	25.90%	29.41%	22.33%
Marginal Tax Rate	25.30%	25.30%	25.30%	25.30%	25.30%	25.30%	25.30%	25.30%
PPE (% of Sales)	218.84%	223.70%	219.44%	226.56%	205.04%	218.84%	223.70%	223.70%
WCR (% of Sales)	17.25%	12.25%	9.67%	7.60%	5.89%	4.50%	3.35%	4.58%
WACC			4.13%					

Forecast for DCF - Part 2

Forecasts	2018	2019	2020E	2021E	2022E	2023E	2024E	CV
Sales	1,045,639	1,044,389	993,539	1,049,894	1,098,947	1,139,303	1,169,747	1,193,142
COGS + SGA	566,064	548,489	521,077	527,662	533,931	519,028	508,519	477,257
EBITDA	479,575	495,900	472,462	522,232	565,016	620,275	661,228	715,885
Depr. & Amort.	274,068	305,953	239,329	265,591	253,833	262,005	259,168	264,352
EBIT	205,507	189,947	233,133	256,641	311,183	358,269	402,060	451,534
Taxes	51,993	48,057	58,983	64,930	78,730	90,642	101,721	114,238
NOPLAT	**153,514**	**141,890**	**174,150**	**191,711**	**232,454**	**267,627**	**300,338**	**337,295**
Depr. & Amort.	274,068	305,953	239,329	265,591	253,833	262,005	259,168	264,352
Capex	450,000	310,000	340,000	340,000	240,000	240,000	240,000	240,000
ΔWCR		(52,421)	(31,787)	(16,317)	(15,024)	(13,558)	(11,984)	15,428
Free Cash Flow		**190,264**	**105,266**	**133,619**	**261,310**	**303,191**	**331,491**	**346,219**
PPE (tot fixed assets)	2,288,316	2,336,329	2,180,209	2,378,675	2,253,242	2,493,293	2,616,758	2,669,094
Capex	450,000	310,000	340,000	340,000	240,000	240,000	240,000	240,000
WCR	180,330	127,909	96,122	79,805	64,781	51,223	39,239	54,667
ΔWCR		(52,421)	(31,787)	(16,317)	(15,024)	(13,558)	(11,984)	15,428

DCF part III Valuation

Valuation	2020E	2021E	2022E	2023E	2024E	CV
Period	1	2	3	4	5	6
Discount Factor	0.96035	0.92227	0.88570	0.85058	0.81686	0.78447
PV (FCF)	101,092	123,233	231,443	257,889	270,781	
Total PV (FCF)	984,439					
Continuation Value (CV)						8,385,557
PV(CV)	6,578,214					
Enterprise Value	**7,562,653**					
- Net Financial Debt	2,050,267					
- Minority Interest	1,705					
+ Affiliates						
- Pension Obligations	5,381					
TOTAL EQUITY VALUE	5,505,299					
Estimated Shares Outstanding (mn)	149,332					
Equity Value (EUR per Share)	**36.87**					

10)

Cost of Equity CAPM

	2020 YE
Risk free	0.93%
Beta of assets (unlevered)	0.56
Beta of equity (levered)	0.81
Market risk premium	6.37%
CAPM	**6.06%**
Equity weight	63.02%
Market value of equity	3,494,135
Shares outstanding	149,322
Total value of debt from balace sheet of 2020	2,050,267
Add minority interest	1,705
Market value of equity - minority interest	3,492,430
Average tax rate over last 5 years	25.30%
Wacc estimation	
Cost of equity	6.06%
Equity weight	63.02%
Cost of debt	1.13%
Debt weight	36.98%
(1-tax)	74.70%
WACC	**4.13%**

11)

Growth Ratios

	ERG					ERG				
	2015	2016	2017	2018	2019	2016	2017	2018	2019	CAGR
Sales	936,264	1,041,801	1,064,133	1,045,639	1,044,389	11.27%	2.14%	-1.74%	-0.12%	2.77%
EBITDA	308,183	453,413	457,595	479,575	495,900	47.12%	0.92%	4.80%	3.40%	12.63%
EBIT	145,153	199,760	206,660	205,507	189,947	37.62%	3.45%	-0.56%	-7.57%	6.96%
Net Profit (attributable)	74,293	110,566	207,987	132,707	32,101	48.82%	88.11%	-36.19%	-75.81%	-18.92%
						Avg competitors (2019)				
Average share Outstanding	142,804	144,143	148,817	148,817	148,868					
Share outstanding at 31/12	150,320	150,320	150,320	150,320	150,320					
EPS (recurring)	49.42%	73.55%	138.36%	88.28%	21.36%	187.14%				
EPS (adjusted = average)	52.02%	76.71%	139.76%	89.17%	21.56%					
Price					19.52	20.08				
P/E					91.41	77.23				

Growth Ratios

	ERG					Competitors (2019)							
	2015	2016	2017	2018	**2019**	**Avg.**	Edpr	Orsted	E.On	Iberdrola	Enel	Solaria	Flack Renewables
Gross Margin	55.93%	68.30%	66.56%	68.70%	**72.15%**	**51.15%**	82.48%	37.07%	22.53%	38.74%	42.31%	91.23%	43.68%
EBITDA Margin	32.92%	43.52%	43.00%	45.86%	**47.48%**	**44.24%**	74.97%	31.35%	10.32%	26.70%	21.95%	92.11%	52.26%
EBIT Margin	15.50%	19.17%	19.42%	19.65%	**18.19%**	**23.32%**	38.88%	34.54%	1.94%	13.16%	5.57%	38.33%	30.82%
Net Margin	7.94%	10.61%	19.55%	12.69%	**3.07%**	**22.32%**	34.33%	31.00%	1.81%	10.65%	4.49%	57.10%	16.87%

12)

Operating Returns

	ERG				Competitors (2019)							
	2016	2017	2018	**2019**	**Avg**	Edpr	Orsted	E.On	Iberdrola	Enel	Solaria	Flack Renewables
Return on Assets	2.38%	4.52%	2.84%	**0.69%**	**3.74%**	3.55%	7.98%	0.98%	3.30%	2.06%	4.62%	3.71%
Return on Equity	6.59%	11.53%	7.16%	**1.78%**	**10.11%**	7.10%	16.72%	6.75%	9.35%	7.00%	14.63%	9.22%
Return on Invested Capital	4.38%	4.81%	4.88%	**4.36%**	**4.67%**	4.55%	9.73%	1.42%	4.23%	3.11%	5.30%	4.34%

13)

Liquidity

	ERG					Competitors (2019)							
	2015	2016	2017	2018	**2019**	**Avg.**	Edpr	Orsted	E.On	Iberdrola	Enel	Solaria	Flack Renewables
Current Ratio	218.53%	224.77%	220.11%	230.50%	**311.76%**	**109.71%**	64.00%	185.00%	86.00%	71.00%	91.00%	122.00%	149.00%
Quick Ratio	182.10%	169.72%	193.40%	194.13%	**260.12%**	**93.17%**	62.00%	142.00%	81.00%	56.00%	84.00%		134.00%

14)

Leverage

	ERG					Competitors (2019)							
	2015	2016	2017	2018	**2019**	**Avg.**	Edpr	Orsted	E.On	Iberdrola	Enel	Solaria	Flack Renewables
Net Debt / Equity	94.76%	96.35%	67.29%	78.12%	**88.93%**	**155.69%**	52.02%	44.20%	344.71%	107.55%	202.46%	187.95%	150.97%

15)

Multiples (Source: Eikon)

FY Dec 2020	Erg	EDPR	Orsted	E.On	Iberdrola	Enel	Falck	Median	Average
EV/Ebitda	**11.34**	15.03	28.69	8.31	11.46	8.31	13.66	**11.46**	**13.83**
PE	**37.45**	38.34	34.57	14.44	20.13	16.97	55.20	**34.57**	**31.01**
Price/Sales	**3.90**	10.95	10.42	0.35	1.94	1.13	5.36	**3.90**	**4.86**

Price estimated

Industry Price/EBITDA	36.32
Competitors Price/Sale	26.01
DCF Analysis	36.87
Competitors EV/EBITDA	17.97
Target Price	**29.29**

16)

WACC estimation

Beta - peers	3 years
	Unlevered
EDPR	0.50
Orsted	0.84
Erg	**0.56**
Enel	0.66
Falck	n.a.
Iberdrola	0.46
E.On	0.33
Solaria	0.59
Median	**0.56**
Mean	**0.52**

(Source: Infrontanalytics)

Market risk premium	
Italy	6.60%
France	6.20%
Germany	5.80%
Romania	7.20%
Poland	6.60%
UK	5.80%
Bulgaria	-
Average	**6.37%**

(Source: Statista 2020)

Avg rate on German Bond 10 years per year	
2010	2.27%
2011	2.65%
2012	1.57%
2013	1.63%
2014	1.24%
2015	0.54%
2016	0.14%
2017	0.37%
2018	0.46%
2019	-0.21%
2020	-0.47%
Average	**0.93%**
Median	**0.54%**

(Source: Statista 2020)