Mid Cap Research - Initiation Report

June 11, 2021

GEK TERNA
GROUP OF COMPANIES

GEK TERNA Group

EUROXX SECURITIES

Overweight

Great Value Greek Infrastructure Play

Share Price: €9.90 (close of June 10)

12M Price Target: €14.00

Expected Total Return: 41%

Estimates

	2020	2021e	2022e	2023e
Sales (€m)	971	1,156	1,387	1,539
Adj. EBITDA (€m)	306	258	292	396
margin (%)	*31.5%*	*22.3%*	*21.1%*	*25.7%*
EBIT rep. (€m)	157	162	189	245
Net profit rep. (€m)	12	-29	16	40
EPS rep. (€)	0.13	-0.30	0.16	0.42
EPS chng (%)	*-46.9%*	*n/m*	*n/m*	*153.0%*
DPS (€)	0.00	0.00	0.00	0.15

Source: GEK TERNA Group, Euroxx Research

Ratios

	2020	2021e	2022e	2023e
P/E (x)	42.9x	137.4x	64.0x	25.3x
EV/EBITDA (x)	9.9x	13.9x	13.3x	9.4x
EV/EBIT (x)	19.4x	22.2x	20.5x	15.2x
EV/Sales (x)	3.1x	3.1x	2.8x	2.4x
FCF Yield (%)	6.1%	-47.3%	-31.1%	11.9%
Div Yield (%)	0.0%	0.0%	0.0%	1.5%
Net Debt/EBITDA (x)	4.3x	7.3x	7.4x	5.0x
P/BV (x)	2.0x	2.0x	1.8x	1.7x

Source: GEK TERNA Group, Euroxx Research

Stock Performance

	3M	6M	12M	YTD
Absolute	6.6%	40.0%	47.8%	25.6%
Difference (ATG)	-3.3%	20.7%	8.3%	11.4%

Stock Data:

Market Cap (€ m)	1,024
Outstanding shares (#)	103,423,291
Daily volume (#)	712,200
Low / High 52 w (€)	5.63 / 10.64
Free float	54%
Bloomberg / Reuters	GEKTERNA GA / HMRr.AT

Company Description:

GEK TERNA Group (GTG) is a leading diversified construction group in Greece with operations also in SEE, USA, and Middle East. GTG's expertise spans from construction, energy production & supply, concessions, waste management and mining activities to real estate. With a total number of c3.4k employees in 16 countries around the world, GTG has made investments >€2.3bn in the last years. The current construction backlog amounts to c€3bn, GTG (through TE) has 758MW installed RES capacity in Greece, while the total installed capacity of the energy plants that GTG participates in stands at 582MW.

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Excellent Proxy for the Greek Economic Kick-Start…through a) its profitable and cash-generating construction activity (GTG is currently the largest domestic contractor with backlog of c€3bn – c22% foreign), for which we expect a strong turnaround in both public and private projects, spearheaded by NGEU funds, and b) its leading position in the Greek concessions market; GTG holds 17%-100% stakes in 3 mature (dividend-paying) road concessions, while the recent Kastelli Airport and Hellinikon Casino projects enhance visibility and offer good exposure to the promising tourism sector.

…and the Attractive Domestic RES Market – with a 37.3% stake in the fast-growing Terna Energy (TE), the largest domestic RES player with 890MW installed capacity (ex-Texas; 758MW in Greece). Hence, GTG offers significant exposure to the attractive Greek RES market (stable regulatory framework, high feed-in-tariffs, long-term contracts, strong & visible cash flows).

Diversification Pays-Off, Driving Deleveraging & DPS Resumption - In our view, GTG's diversity of activities with different growth and cash-flow generation profiles enables it to better hedge against cyclical variation in demand for construction projects, effectively reducing its risk profile. After a temporary setback this year due to TE's US asset disengagement, we expect concessions and RES to drive profitability to record levels post 2021e (2020-24e adj. EBITDA/EPS CAGRs of 7.9%/21.8%). On top, the cash streams from the motorway concessions should allow for the swift deleveraging and dividend resumption from 2023e onwards.

Good Value Infrastructure Play, With Limited Downside Risk: We favour GTG due to its defensive qualities (low-risk, long concession life of BOT portfolio, attractive regulatory environment and visible CF from RES), and its proven ability to renew its backlog and win new BOT projects in Greece. We also believe the stock has limited downside risk since the return on RES (which account for c60% of total EBITDA in 2022-24e) and already operational BOT projects is fairly predictable.

Initiate Coverage at O/W, TP of €14.00 (41% Upside) – based on a sum-of-the-parts model, to which we apply a 10% holding discount. We overall believe that the market undervalues GTG since it currently trades broadly at par with our fair value of its RES and Construction activities alone (which we calculate at c€1bn), which to us implies that the defensive concessions portfolio and all Other activities are essentially being assigned no value. Moreover, GTG's relative valuation becomes more attractive post 2022e. Finally, the win of the Egnatia Odos concession and the final decision to proceed with the construction of the c665MW CCGT plant in Komotini, are GTG's key short-term positive catalysts, which combined could add more than €2.5/share (or 18%) to our fair value.

Summary of Financials

in €m, unless otherwise stated

PROFIT & LOSS (€m)	2018	2019	2020	2021e	2022e	2023e
Sales	**1,403**	**1,156**	**971**	**1,156**	**1,387**	**1,539**
% change	*18%*	*-18%*	*-16%*	*19%*	*20%*	*11%*
EBITDA rep.	**270**	**272**	**282**	**258**	**292**	**396**
% change	*-1%*	*1%*	*4%*	*-8%*	*13%*	*36%*
EBITDA adj.	**281**	**285**	**306**	**258**	**292**	**396**
Depreciation & amortization	-104	-115	-125	-96	-103	-151
% change	*58%*	*11%*	*9%*	*-23%*	*7%*	*47%*
Operating profit (EBIT)	**166**	**157**	**157**	**162**	**189**	**245**
% change	*-20%*	*-6%*	*0%*	*3%*	*17%*	*29%*
Net financials (incl. derivatives)	-106	-80	-100	-111	-122	-123
Associate income, FX & other	3	-8	0	1	1	1
Profit before tax	**61**	**78**	**71**	**-48**	**67**	**122**
% change	*-60%*	*28%*	*-8%*	*-167%*	*-239%*	*82%*
Taxation	-25	-22	-13	10	-13	-24
% effective tax rate	*35%*	*25%*	*18%*	*-19%*	*20%*	*20%*
Minorities	-31	-32	-46	9	-38	-57
Net Income rep.	**4**	**23**	**12**	**-29**	**16**	**40**
% change	*-94%*	*425%*	*-47%*	*n/m*	*n/m*	*153%*
EPS rep (€)	**0.05**	**0.24**	**0.13**	**-0.30**	**0.16**	**0.42**
% change	*-94%*	*425%*	*-47%*	*-335%*	*-155%*	*153%*
EPS adj. (€)	**0.12**	**0.31**	**0.25**	**0.08**	**0.16**	**0.42**
Dividends	**0**	**0**	**0**	**0**	**0**	**16**
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.15

BALANCE SHEET (€m)	2018	2019	2020	2021e	2022e	2023e
Net fixed assets	2,135	2,426	2,234	2,816	3,157	3,090
Other non-current assets	506	550	578	578	578	578
Total non-current assets	**2,644**	**3,014**	**2,836**	**3,394**	**3,735**	**3,668**
Accounts receivable	504	396	349	374	445	489
Inventories	53	58	51	52	63	68
Other current assets	286	247	291	285	314	322
Cash & cash equivalent	523	595	1,108	791	725	691
Total current assets	**1,366**	**1,296**	**1,799**	**1,503**	**1,546**	**1,570**
TOTAL ASSETS	**4,010**	**4,309**	**4,636**	**4,897**	**5,282**	**5,238**
Total Gross Debt*	**1,851**	**2,031**	**2,426**	**2,671**	**2,885**	**2,688**
Total Net Debt*	**1,327**	**1,437**	**1,317**	**1,879**	**2,160**	**1,997**
Working Capital (incl. other)	**90**	**53**	**130**	**111**	**129**	**142**
Shareholders' funds	486	496	512	513	559	614
Minorities	243	271	312	303	340	397
Total Equity	**729**	**767**	**824**	**816**	**899**	**1,011**
Long-term Debt	1,574	1,802	2,214	2,441	2,571	2,385
Other LT liabilities	670	841	796	786	775	764
Non-Current liabilities	**2,244**	**2,644**	**3,010**	**3,227**	**3,346**	**3,149**
Accounts payable	286	264	223	253	304	337
Short-term bank debt	276	246	230	249	333	322
Other short-term Liabilities	467	384	338	347	388	400
Current liabilities	**1,037**	**899**	**802**	**854**	**1,036**	**1,078**
TOTAL EQUITY & LIABILITIES	**4,010**	**4,309**	**4,636**	**4,897**	**5,282**	**5,238**

CASH FLOW (€m)	2018	2019	2020	2021e	2022e	2023e
EBT	**61**	**78**	**71**	**-48**	**67**	**122**
Plus: D&A	112	123	128	96	103	151
Change in Working Capital	-244	-18	44	19	-18	-12
Net interest, Grants & Other	168	56	72	198	105	97
Operating Cash Flow	**96**	**238**	**316**	**265**	**257**	**357**
Less: CapEx	-212	-187	-121	-678	-444	-84
Less: Other Investments	-44	-51	-24	0	0	0
Free Cash Flow	**-160**	**0**	**171**	**-413**	**-187**	**273**
FCFE (Exx definition)	**-356**	**-108**	**62**	**-484**	**-319**	**122**
Increase/(Decrease) in Bank Credit	150	123	508	246	214	-197
Equity dividends paid	-4	-1	-26	0	0	0
Other	-128	-30	-195	-150	-93	-110
Financing Cash Flow	**41**	**72**	**342**	**96**	**121**	**-307**
Change in Cash Position	**-119**	**71**	**514**	**-317**	**-67**	**-34**

RATIO ANALYSIS	2018	2019	2020	2021e	2022e	2023e
P/E(x)	**84.2x**	**33.6x**	**42.9x**	**137.4x**	**64.0x**	**25.3x**
EV/Sales (x)	2.2x	2.7x	3.1x	3.1x	2.8x	2.4x
EV/adj. EBITDA (x)	**10.8x**	**11.1x**	**9.9x**	**13.9x**	**13.3x**	**9.4x**
EV/EBIT (x)	18.3x	20.1x	19.4x	22.2x	20.5x	15.2x
P/BV (x)	2.1x	2.1x	2.0x	2.0x	1.8x	1.7x
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%
FCF yield (%)	-34.8%	-10.6%	6.1%	-47.3%	-31.1%	11.9%
Net debt / adj. EBITDA (x)	**4.7x**	**5.0x**	**4.3x**	**7.3x**	**7.4x**	**5.0x**
ROE (%)	0.9%	4.7%	2.4%	-5.7%	2.9%	6.6%
RoCE (%)	4.8%	5.1%	6.0%	4.8%	5.0%	6.5%
Net debt to Equity (x)	2.7x	2.9x	2.6x	3.7x	3.9x	3.3x
EBITDA margin adj. (%)	20.0%	24.7%	31.5%	22.3%	21.1%	25.7%
EBIT margin (%)	11.9%	13.6%	16.1%	14.0%	13.7%	15.9%
Net profit margin (%)	*0.9%*	*2.6%*	*2.5%*	*0.6%*	*1.2%*	*2.6%*

Source: GEK TERNA Group, Euroxx Research   ** Gross debt incl. non-recourse debt & leasing, excl Tax Equity*

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Investment Thesis

Great value Greek infrastructure play (leader in construction & RES), with limited downside risk

Solid earnings growth outlook, driven by infrastructure and RES

Solid/liquid balance sheet with ample fund raising capacity to fund large investment programme in RES and concessions

We initiate coverage at O/W with TP of €14.00 per share (41% total upside potential)

GEK TERNA Group is a leading diversified construction group in Greece, with significant investments in various sectors that range from construction to concessions (motorway, airport and casino) and RES. The group's construction backlog is mostly focused in Greece, hence avoiding the harsh competition in international projects, which has often driven domestic contractors in losses. At the same time, the group holds 37.3% in the listed Terna Energy (TE), the largest RES producer in Greece, hence offering significant exposure to the attractive domestic RES market. GTG also owns real estate, thermal energy (25%-50% stakes in 2 CCGT plants) and industrial (magnesite mining) assets. Profitability wise, 2020 was a rather mixed year, during which GTG's diversified portfolio proved Covid-19 resilient, with RES and (to a lesser extent) Concessions providing earnings and FCF support, while, unlike peers, construction recorded adj. EBITDA y-o-y advances. Looking ahead, we forecast 2021e group EBITDA to be adversely affected by TE's USA disengagement, not fully offset by the solid performance of construction and concessions on the back of the recent infrastructure project wins (including Hellinikon Casino, the backlog currently stands at c€3bn i.e. 6x FY'20 divisional sales) and the anticipated return of the Greek economy and tourism to strong growth rates. Cash Flow wise, the predictable cash distributions from concessions and PPAs on RES assets provide long-term visibility, enabling GTG to turn FCF positive and resume dividends from 2023e onwards, based on our estimates. Finally, with regards to leverage, we expect Net Debt/EBITDA to peak in 2022e to 7.4x amid the implementation of TE's aggressive new capacity additions in Greece and GTG's equity contribution for the major Kastelli Airport and Hellinikon Casino concessions, before dropping below 5.0x post 2023e. We initiate coverage on GTG with an Overweight rating and a TP of €14.00 (41% upside potential), based on a sum-of-the-parts model, to which we apply a 10% holding discount.

In our view, GTG appears best placed to capitalize on a unique macro opportunity and lead in energy transition and major infrastructure project wins

Strategically positioned to benefit from the anticipated kick-start of the domestic economy, spearheaded by NGEU funds, that enhance growth prospects in key sectors such as infrastructure, RES and tourism

In our view, GTG has a unique opportunity to capitalize on the strong anticipated investment-driven kick-start of the Greek economy, driven by the EU funds directed to Greece, which are expected to exceed €70bn by 2027. The deployment of the RRF is expected to add, on average, 1.2%-2.0% p.a. to the Greek GDP growth trajectory over the following six years and we anticipate significant investment, among other sectors, in infrastructure, clean energy, digitalisation, real estate, tourism and shipping. As a result, in our view, GTG, with its well-diversified portfolio, should be among the key beneficiaries of this economic upturn. In more detail, GTG is an excellent proxy to gain exposure to the following sectors, which offer a solid growth outlook:

Infrastructure/Waste Management: the Greek government has repeatedly stated that infrastructure is one of the priority areas of public spending, with planned infrastructure projects of more than €43bn in the next 5 years. Obviously, this should directly and positively affect all leading diversified construction groups, with execution track record and strong balance sheet such as GTG.

Energy/RES: Greece's 2030 targets, its lignite phase-out, the streamlining of the RES permitting process and the finalization of the new legislative framework for offshore wind and storage projects should unlock sizeable investments in the domestic RES sector. Also important, Greece should benefit from funding from the EU's Green Recovery Plan, which aims to ensure that regions with carbon-intensive economies are not left behind in the energy transition. In our view, GTG, through TE, with its solid track record and execution capabilities, is well-placed to grab a significant share of the needed capacity additions.

Tourism: in our view, the recently awarded Kastelli Airport in Crete and the soon-to-be-officially-awarded Hellinikon Casino projects significantly contribute to GTG's future financial health and stability, but also render GTG a good tourism proxy, as their profitability is directly connected with Greece's growing tourism industry.

In our view, GTG's **investment positives** include the following:

Profitable Construction Business Provides CF to Support Group Investments

Profitable and CF generative construction activity allows the generation of synergies across group operations; Solid track record of successful backlog replenishment, targeted towards infrastructure projects that form the key pillars for the revival and future growth of the Greek economy

Unlike the majority of its local peers, GTG has managed to run a profitable (at EBIT level, or even at net profit level in 2015-17) and highly cash-generative construction activity since 2015, courtesy of its limited exposure abroad and the high margins in the construction of the motorway concessions. Following some recent project awards as well as projects to be signed shortly, Terna's construction backlog currently stands at c€3.0bn (vs. €1.7bn of its direct competitor, Ellaktor, as of end-Q1'21 and c€2bn for Avax as of end-2020), while as of end-2020 construction had a net cash position of €158m. We believe that after years of decline, Greek construction has reached its trough and a marked recovery in both public and private construction activity is on the cards, funded by NGEU, ESPA as well as private (PPP) funds. In our view, GTG has the size, know-how and proven execution track record to win a good share of the prospective large infrastructure and concession projects in Greece (i.e. Egnatia Odos, North Crete Motorway, etc.), stemming from the implementation of the country's infrastructure programme. Cash flow should also be supported by cash prepayments yielding from the official sign of the 3 pipeline projects (Kastelli Airport and Hellinikon Casino concessions, E65 North Part on an arms' length basis).

Significant Exposure in Concessions Improves CF Visibility & Reduces Risk Profile

Improved visibility in concessions; holds 17%-100% stakes in 3 motorway BOT concession projects, recently won the Kastelli Airport project in Crete; and the Hellinikon IRC is pending official award; concessions account for 47% of our appraised equity value (before holding discount)

GTG acquired in Dec'18 the remaining 33.3% stake in E65 and 21.4% in Ionia Odos from Ferrovial for a cash consideration of c€41m. GTG also officially signed in late Feb'20 a €480m concession contract for the Kastelli Airport in Crete, Greece's 2nd busiest airport, while it has been declared the provisional winner (official award is due shortly) of the Hellinikon Integrated Resort Casino concession project. These moves, in our view, significantly boost GTG's concession portfolio, rendering the company a key domestic concession holder, and further improve earnings, cash flow (and valuation) visibility. Also important, following the full completion of the construction of the 3 motorway concessions, GTG has started as of 2020 receiving c€30m p.a. of cash distributions (until 2038). Finally, GTG has also set up a Concessions SPV, through the spin-off of major concession stake holdings to a separate entity named GEK TERNA MOTORWAYS. In our view, this move, apart from improving the parent company's credit profile, should overall enhance corporate credit capacity (so as to fund equity participations in new projects such as Kastelli/Hellinikon), increase efficiency of capital investment decisions, improve transparency and efficiency in corporate governance and help crystallize the value of the group's concessions portfolio.

Excellent Proxy for the Fast-Growing and Highly Cash-Generative Greek RES Market through Terna Energy (37.3% Stake)

In our view, TE is the best proxy for the attractive Greek RES market, offering a compelling investment case given the limited operational impact from Covid-19, the stock's defensive qualities, sustainable dividends and limited downside risk

TE, in which GTG holds 37.3%, is the largest domestic RES player with 758MW installed capacity. After deducting 513MW (due to the Texas projects disengagement) from TE's total RES installed capacity of 1,403MW (1,234MW wind, 18MW hydro, 9MW solar/PV and 1MW biomass), we expect capacity to reach 1,687MW by end-2023e, implying 797MW new additions in Greece. We believe financing for the 2021-24e CapEx of c€943m is mostly secured by a combination of strong FCF generation and TE's leverage capacity (2020 net debt/EBITDA of 4.7x). In our view, GTG is an excellent vehicle to gain exposure to the attractive Greek RES market, which through a stable regulatory regime and favourable wind resources, offers visible cash flows; moreover, we believe that the domestic renewables sector is poised to play a key role in Greece's recovery from the economic impact of the pandemic and should benefit considerably from funding from the EU's Green Recovery Fund.

Activity Diversification Pays-Off, Driving Earnings/FCF Stability, Deleveraging & Dividend Resumption

Solid & sustainable future financial performance,

In our view, GTG's diversity of activities with different growth and cash-flow generation profiles enables it to better hedge against cyclical variation in demand for construction *assisted by GTG's diversification of activities, which seems to be paying off in the current environment, reducing its risk profile and enabling it to better take advantage of the anticipated economic kick-start*

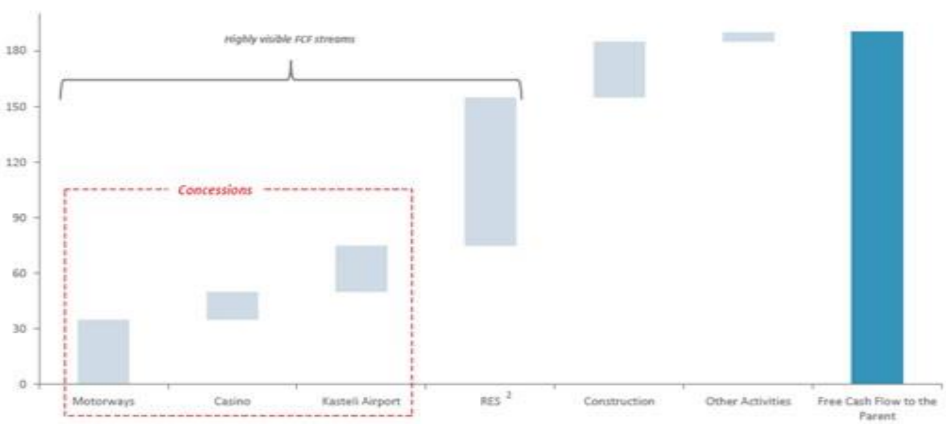
projects, effectively reducing its risk profile. Notably, following two consecutive years (2016-17) of extraordinary construction profits on the back of lucrative margins in the construction of the last parts of its road concession projects, RES and concessions have since taken the lead in driving financials, as construction activity stabilized at more sustainable levels. Having said that, in our view GTG is now ahead of a unique macro opportunity, which combined with GTG's recent project awards and aggressive future RES capacity additions offer a solid earnings momentum for all key divisions. In more detail, our estimates call for 11.6%/7.9%/21.8% 2020-24e sales/adj. EBITDA/adj. EPS CAGRs. In FCF terms, after a temporary RES-related CapEx pick up in 2021-22e, we expect GTG to turn FCF positive from 2023e onwards, hence driving group deleveraging and allowing the dividend resumption as of that year. Until that time, we expect GTG to top up shareholder remuneration through share buy-back schemes and cancellation of treasury stock; note that as of 31/12/2020 GTG held 6.55m own shares, representing 6.33% of its share capital, while base on our estimates, treasury stock has currently reached c7.7% (i.e. c8m shares).

Strong Long-Term CF Visibility: Recurring FCFE Streams of €185m (>18% Yield) at Full Deployment

Predictable and recurring FCFE streams from Concessions and PPA contracts on RES assets offer strong long-term CF visibility

This is mainly due to the predictable and recurring cash flows from Concessions (remaining life of concessions portfolio >30 years) and PPA contracts on RES assets (vast majority of the domestic RES installed capacity enjoys fixed pricing for the next 18 years). According to GTG management, on full deployment, i.e. upon completion of the Kastelli and Hellinikon Casino projects and the RES Kafireas wind park, recurring FCFE (i.e. attributable to GTG shareholders; defined as project level OpCF minus debt servicing towards project finance and recourse debt and excluding expansion CapEx) will amount to c€185m-190m, implying an impressive >18% yield. Also important, c80% of this or €150m derive from highly visible FCF streams from Concessions (€80m, mainly €30m from motorways, €20m from Kastelli Airport and €30m from Hellinikon Casino) and RES (€70m). Also important, unlike the majority of its domestic peers, the (cyclical) construction division generates FCFE of €30m or 16% of total, which further strengthens GTG's defensive qualities.

Chart 1. GTG's FCFE Contribution by Division



Source: GTG 1.Project level OpCF, less Debt Servicing towards project finance and recourse debt. 2.Assuming no expansion Capex; For RES, FCFE includes only project finance debt repayments

Diversified Asset Portfolio at a Discount to NAV; Relative Valuation Demanding in the Short-Term, More Attractive Post 2022e

GTG offers a well-diversified asset portfolio at 32% discount to NAV (before holding discount)

In our view, GTG is a good value Greek infrastructure play with limited downside risk as it trades broadly at par (i.e. just 4% above) with our fair equity value of its RES and Construction activities alone (€987m, excl. the parent net debt and holding overheads), which to us implies that the defensive concessions portfolio and Other activities are offered essentially for free. We also believe the stock has limited downside risk since the return on already operational BOT projects and wind farm assets is fairly predictable. In terms of relative valuation, with a (rather full) 2021e EV/EBITDA of 13.9x, GTG trades at a 25% premium against its foreign peers, only partly justified by its well-balanced portfolio and positive growth outlook, and penalized by the massive growth CapEx in RES. That said, GTG's EV/EBITDA drops to a more comfortable 9.4x in 2023e (10% premium to peers) and even below 8.5x from 2024e onwards, i.e. when the new investments should fully contribute hefty cash flows and growth CapEx should subside.

Experienced Management Team, Committed to High Corporate Governance and ESG Standards

Experienced management team, committed to high corporate governance and ESG standards; Mr. G. Peristeris has proved his commitment to GTG, by investing c€172m to buy most of Reggeborgh's stake

In our view, GTG has a high caliber management team, which has successfully navigated the company through the years in the admittedly difficult and demanding construction sector in Greece, managing to grow and strengthen its market position even through the Greek financial crisis. Moreover, GTG's management has a strong commitment to corporate governance focusing on high ESG standards. Finally, BoD Chairman and CEO Mr. Georgios Peristeris has recently proved his commitment to the company's future prospects, by investing c€172m (mostly financed through sale of TENERGY shares) to buy the majority of Reggeborgh's stake at €11.20/share (hence raising his stake to c30.84% from 15.98% previously).

In our view, the **key potential positive catalysts** for GTG in the short-term are the win of the Egnatia Odos concession project and the final decision to proceed with the construction of the c665MW CCGT plant in Komotini (capacity could be further raised to 877MW), which combined could add more than €2.5/share, or 18% (€1.85/share for Egnatia and up to €0.7/share for the CCGT) to our target price. Other positive catalysts also include the win of new major construction and/or BOT projects, higher-than-expected installation rates in wind parks, and the sooner-than-expected dividend resumption. Conversely, investors should also consider the following **downside investment risks**: a) execution risks in construction, weaker-than-projected margins (also adversely affected by rising raw materials/commodity prices), delays in payments by the Greek State and failure to secure new projects, b) lower-than-expected traffic in GTG's already operational motorway BOT projects, and c) future tariff fluctuations in RES and lower-than-expected wind capacity factors.

Valuation & Rating

Our SOTP model, to which we apply 10% holding discount, returns a fair value of €14.00/share (41% total upside); Initiate Coverage at O/W

We use a sum-of-the-parts (SOTP) model as in our view it better captures the different growth prospects of GTG's distinct business segments. We also apply a 10% holding discount, which we deem appropriate for a group that owns heterogeneous assets but also to account for GTG's holding status. Overall, our SOTP model returns a fair value of **€14.00** per share (excluding treasury stock), implying a total upside potential of 41% from current price levels. Hence, we initiate coverage on GEK TERNA Group with an **Overweight** rating.

Table 1. GEK TERNA Group SOTP Valuation

Subsidiary/Division	Appraised EV 100% €m	Net Debt (€m) 2020a*	Equity Value 100% (€m)	GTG % Stake	Appraised EV of GTG stake (€m)	---Equity Value of GTG's Stake---- €m	€/share	% of total	Valuation Details
Construction	116	-158	**274**	100%	116	274	€ 2.82	18%	DCF (WACC 7.5%, LTG 1.5%)
RES (Terna Energy)	2,367	444	**1,911**	37.3%	883	713	€ 7.33	47%	DCF (WACC 7.1%, LTG 1%)
Concessions	3,025	1,777	**1,258**	17-100.0%	1,260	606	€ 6.23	40%	DDM, BV multiple
Thermal Energy	327	91	**235**	25-50.0%	99	78	€ 0.81	5%	DCF (WACC 7.0%, LTG 1%)
Real Estate	92	56	**36**	100%	92	36	€ 0.37	2%	1x Book Value (FY'20a)
Industrial (Magnesite Mining)	111	91	**20**	100%	111	20	€ 0.21	1%	FY'20 NAV
Total GTG	**6,038**		**3,735**		**2,561**	**1,728**	**€ 17.75**	**114%**	
Holding co overheads						-56	-€ 0.58	-4%	€5m p.a. discounted at 7.5%
Holding/Parent Net debt						-158	-€ 1.62	-10%	FY'20a
GEKTERNA Group Appraised Equity Value						**1,514**	**€ 15.56**	**100%**	
Holding Discount						10%	€ 1.56		
GEKTERNA Group Appraised Equity Value After Discount						**1,362**	**€ 14.00**		
# of shares (m)						97.3			Excl. treasury shares
Target Price (€)						**14.00**			
Total Upside Potential						41%			

Source: Euroxx Research ** Terna Energy Net Debt excl. Texas*

Construction (100%-owned) fair equity value of €274m (18% of total)

Construction: We value GTG's construction division using a 2-stage DCF model in which we form an explicit set of forecasts for the period up to 2025e, after which we assign a terminal growth of 1.5%. Our WACC has been set at 7.5%. Overall, our DCF model yields an appraised EV of €116m, implying a 2021e EV/EBITDA of 4.2x. Accounting also for the division's net cash of €158m, the construction division's appraised equity value is €274m, or €2.8 per GTG share (excl. treasury stock), which accounts for 18% of total appraised equity value (before the valuation discount).

Table 2. Construction Division DCF Valuation and Sensitivity Analysis

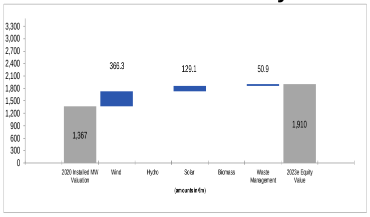
Valuation (in € m)	2020	2021e	2022e	2023e	2024e	2025e	TV
Sales	**498**	**720**	**917**	**937**	**877**	**857**	**870**
EBIT	7	16	27	31	30	32	22
Less: Adjusted Tax	2	4	6	7	7	7	5
NOPAT	**5**	**13**	**21**	**24**	**24**	**25**	**17**
Non-cash adjustments	11	11	11	11	11	11	11
Working capital delta	10	14	18	19	18	17	16
CapEx	4	5	5	5	5	5	5
Cash Flow to the Firm (FCFF)	**2**	**4**	**8**	**12**	**12**	**14**	**7**
Present Value of Cash Flows	-	4	7	9	9	10	77
		Equity Value sensitivity to WACC and long-term growth					
			0.5%	**1.0%**	**1.5%**	**2.0%**	**2.5%**
		6.5%	272	280	290	303	**318**
Terminal Value % of EV	66%	**7.0%**	266	273	282	292	305
Enterprise Value	**116**	**7.5%**	261	267	**274**	283	293
Less: Net Debt/(cash) - FY'20a	(158)	**8.0%**	256	262	268	275	284
Value of Equity	**274**	**8.5%**	**252**	257	263	269	277

Source: Euroxx Research

Terna Energy (37.3%-owned) fair equity value of €713m (47% of total)

Renewable Energy Sources (RES) –Terna Energy (37.3%-owned): We value TE through a two-stage DCF model, in which we form an explicit set of forecasts for the period up to 2024e, after which we assign a terminal growth of 1.0%. We use a WACC of 7.1%. Note that in our base-case scenario, we assume the disengagement of US projects. Our DCF model returns a target EV of €2,367m and a TP of **€16.50** per TE's share, which implies a 36% upside potential from the current share price levels. We have an **Overweight** rating on TE (for more details please see our latest company

Chart 2. TE Fair Value Analysis



Source: Euroxx Research

update report dated 7May'21 with title: "*Remains the Best Proxy for the Attractive Greek RES Market*"). The appraised equity value of GTG's stake in TE of €713m (€7.3/share) accounts for 47% of total, hence rendering TE the largest value contributor in the SOTP.

Our TE fair value implies a target EV/MW of €1.36m, or alternatively a target EV/EBITDA multiple of 11.3x based on full deployment, i.e. 2024e installed capacity of 1.74GW, EBITDA of €263m and net debt of €1.05bn. Our €16.50 TP implies a fair value of c€11.79/sh, €3.16/sh, c€1.11/sh and €0.41/sh for existing installed capacity, wind parks under construction, solar parks under construction and Peloponese waste management project, respectively (please see Chart 2).

Table 3. Terna Energy DCF Valuation and Sensitivity Analysis

DCF Valuation (in €m)	2020a	2021e	2022e	2023e	2024e	Terminal
Revenues	**328**	**265**	**282**	**399**	**411**	**415**
EBIT	129	117	121	162	168	170
Less: Adjusted Tax	17	(3)	19	29	32	27
NOPAT	**112**	**121**	**102**	**133**	**135**	**143**
Depreciation & Other	70	38	44	91	96	97
Working Capital Δ	6	12	(4)	(6)	(6)	-
CapEx	60	511	317	35	50	35
Cash Flow to the Firm (FCFF)	**117**	**(363)**	**(167)**	**195**	**187**	**204**
Present Value of Cash Flows	-	(339)	(145)	159	142	2,551

% Terminal Value of Total	107.8%
Enterprise Value	**2,367**
Less: Net debt (FY'20a)*	444
Minorities (FY'20a)	11
Value of Equity	**1,911**
Number of Shares (m)	115.86
Current Price (€)	
Value of share (€)	**16.50**
% total upside potential	***39%***

Source: Euroxx Research

TP sensitivity to WACC and terminal growth	0.0%	0.5%	1.0%	1.5%	2.0%
6.1%	€ 16.2	€ 18.3	€ 20.8	€ 23.8	**€ 27.6**
6.6%	€ 14.5	€ 16.3	€ 18.4	€ 20.9	€ 24.0
7.1%	€ 13.2	€ 14.7	**€ 16.5**	€ 18.6	€ 21.1
7.6%	€ 11.9	€ 13.3	€ 14.8	€ 16.6	€ 18.8
8.1%	**€ 10.9**	€ 12.0	€ 13.4	€ 14.9	€ 16.8

Source: Euroxx Research *Note: FY'20a Net Debt adjusted for the reduction of the deleverage due to Texas disengagement*

Terna Energy: Compelling investment case

Overall, we favour TE due to the following factors and believe that GTG is an excellent vehicle to gain exposure to attractive Greek RES market:

a) its relatively immune to Covid-19 business model and profitability,

b) Following the imminent disengagement of Texas assets (513MW), TE will focus on the attractive Greek RES market, which through a stable regulatory regime and favourable wind resources, offers visible cash flows; moreover, in our view, the domestic renewables sector is poised to play a key role in Greece's recovery from the economic impact of the pandemic and should benefit considerably from funding from the EU's Green Recovery Fund,

c) its strong growth potential (sales, EBITDA and adj. EPS 2020-24e CAGRs of 5.8%, 7.9% and 15.6%, respectively), driven by new capacity additions, for which financing is mostly secured, in our view; note that the recent wind farm sale in Idaho and the €68.5m SCI in cash should also assist TE to cover its CapEx in future investments,

d) the stock's defensive qualities and limited downside risk, since the return on wind farm assets is fairly predictable and TE's RES revenue stream is mostly determined from state-incentivized FiTs, PPAs over the life of the asset and relatively stable wind conditions.

Concessions fair equity value of €606m (40% of total)

Concessions (BOT Projects): We value GTG's operational motorway concessions, namely Ionia Odos and Central Greece (E65) through a Dividend Discount Model (DDM), with 7.9% discount rate (CoE), while we value GTG's 17% stake in Olympia Odos at FY'20 book value of €60m (incl. Olympia Odos Operation). Hence, our total appraised EV for GTG's mature motorway concessions is €626m, implying an equity value of €356m or €3.7 per share (21% of total) after deducting motorway net debt related to equity funding of €270m. We also value GTG's 32.5% stake in Kastelli airport at €120m (EV at €280m after allowing for the anticipated equity contribution of €160m) through a DDM (7.9% CoE), while regarding GTG's newer non-motorway concession Hellinikon Casino, we prefer to err on the conservative side, assigning an equity value of €60m (EV of €180m after allowing for the anticipated equity contribution of €120m), i.e. at 1.5x book value. Hence, our total appraised equity value for GTG's newer concessions is €180m (10% of total), or €1.85 per share. For the remaining concessions (i.e. parking slots) we assign an equity value of €10m (1x BV). On balance, our model yields an equity value of €606m, or €6.2 per share, for GTG's entire concessions portfolio, which accounts for 40% of our total fair value estimate for GTG (before the holding discount).

Table 4. GTG's Concessions Valuation Details

	Appraised EV 100%€m	Net Debt 2020a (€m)*	Equity Value 100% (€m)	GTG % Stake	Appraised EV of GTG stake (€m)	------Equity Value of GTG's Stake------- €m	€/share	% of total	Valuation Details
Ionian Road &E65 Motorways	626	270	356	100.0%	626	356	€ 3.66	21%	DDM (7.9% CoE)
Olympia Odos Motorway	1,022	671	351	17.0%	174	60	€ 0.61	3%	FY'20 Book Value
Kastelli Airport	863	493	370	32.5%	280	120	€ 1.23	7%	DDM (7.9% CoE)
Hellinikon Casino	514	343	171	35.0%	180	60	€ 0.62	3%	1.5x BV
Parking Stations	-	-	10	-	-	10	€ 0.10	1%	1.0x Book Value
Total Concessions	**3,025**	**1,777**	**1,258**		**1,260**	**606**	**€ 6.23**	**40%**	

Source: Euroxx Research ** Ionian Road and E65 Net Debt related to equity funding; Olympia Odos Net Debt is for 2019*

Thermal Energy (Heron I and II): We employ a DCF model (WACC: 7.0%) for Heron II, and we apply the appraised EV/MW to Heron I minus a discount. Overall we value GTG's participation in thermal power plants at an equity value of €78m (€0.8/share) or an EV of €99m.

Real Estate: We value GTG's real-estate assets at 1x their FY'20 book value of €36m (investment property). This implies an equity value of €0.37/share.

Magnesite Mining: We value GTG's industrial activity (magnesite mining) at 1.0x divisional NAV of €20m (total assets of €110m minus net debt of €90.8m). This implies an equity value of €0.21/share.

Finally, in our SOTP model we account for €5m of parent/holding company overheads p.a. discounted to perpetuity at 7.5% and we also exclude FY'20 parent/holding net debt of €158m.

Positive Risks to Our Rating

We see a number of upside risks that could increase our target price for GTG by up to €2.55 per share (or 18%) on our estimates. These include:

a) Egnatia Odos Project: Currently, an international tender is in progress regarding the award of the 35-year services concession contract in relation to operation, maintenance and exploitation of Egnatia Odos motorway (658km) and three vertical road axes. HRADF has received on 1April'21 two binding offers from 1) Gek Terna–Egis Projects, 2) Vinci Highways-Vinci Concesiones–Mytilineos–Avax; following the rejection of Ellaktor's appeal by the State Council, the tender should proceed, with the announcement of the preferred bidder expected within the next few months and the contract value seen >€1bn. Given that GTG participates with a 30% stake in the JV, the potential win of this major concession project could increase GTG's fair value (after the 10% discount) by c€1.85/share (or 13%).

b) the final decision to proceed with the construction of the c665MW CCGT plant in Komotini, Northern Greece, an investment worth c€300m. Assuming a fair value of c€0.56m per MW, this project could add up to €0.7/share (or 5%) to GTG's TP.

c) Finally, valuing the magnesite mining business at full deployment and assuming recurring EBITDA of €10m, GTG's valuation for the asset could almost double, hence adding €0.2/share (or 1%) to GTG's TP.

Valuation Considerations

What's the market pricing in

GTG is undervalued in our view…

In our view, the market undervalues GTG, since at current prices the stock is trading c34% below our fair value before the holding discount. Alternatively, GTG currently trades broadly at par with our fair equity value of its RES and Construction activities alone of €987m (excl. the parent net debt and holding overheads), which implies that the lucrative and defensive concessions portfolio and all Other activities (real estate, magnesite mining, thermal energy) are essentially being assigned no value.

Limited downside risk – defensive

…with limited downside risk, as the return on already operational BOT projects and wind farm assets is fairly predictable

We also believe that the stock has limited downside risk since the return on already operational BOT projects is fairly predictable. Moreover, TE's revenue stream of the RES units that were operational by 2020 is fairly stable, since it is determined largely from State-incentivized FiTs, PPAs over the life of the asset and relatively stable wind conditions in recent years. Finally, GTG's diversity of activities, with Concessions increasing their contribution to group profitability to the expense of construction, enables it to better hedge against cyclical variation in demand for construction projects, effectively reducing its risk profile.

Strong investment case

GTG offers a strong investment case i.e. a good way to gain exposure to the solid growth momentum in the attractive RES sector in Greece as well as other assets at a discount

There are three fundamental reasons, for our positive view on GTG, namely: (a) the favourable RES regulatory regime in Greece (high feed-in tariffs, 20-year PPAs and State CapEx subsidies), which offers visible cash flows and encourages future growth and the fact the management has managed to maintain a profitable and cash-generative construction business through the cycle; (b) its predictable and recurring CF streams from Concessions and PPA contracts on RES assets, which offer strong long-term CF visibility; and (c) GTG's ability to combine defensiveness with growth: in our view, GTG's diversification of activities seems to be paying-off in the current environment, reducing its risk profile during the pandemic but at the same time enabling it to better take advantage of the anticipated investment-driven unique macro opportunity and the drop in bond yields.

Relative Valuation: Demanding in the Short-Term and More Attractive Post 2022e (on EV/EBITDA Terms)

GTG trades at 25% premium to peers on 2021e EV/EBITDA, only partly justified by its well-balanced portfolio, defensive qualities and positive growth outlook

On conventional multiples, with a (rather full) 2021e EV/EBITDA of 13.9x, GTG trades at a 25% premium against its foreign peers [blend of pure construction (15%), Concessions (35%) and RES players (50%)], which, in our view, can be only partly justified by its well-balanced portfolio, defensive qualities and positive growth outlook, and is penalized by the massive growth CapEx in RES. That said, based on our estimates, GTG's EV/EBITDA drops to a more comfortable 9.4x in 2023e (10% premium to peers) and even below 8.5x from 2024e onwards, i.e. when the new investments should fully contribute hefty cash flows and growth CapEx should subside. Overall, we should stress at this stage that valuation comparisons should be treated with caution, owing to the operational disparities among European diversified construction groups.

Table 5. GEK Terna Group Relative Valuation

	Bloomberg	Price	Mcap	EV	P/E (x)			EV/EBITDA (x)			P/BV (x)			Net Debt/EBITDA (x)			DY (%)		
Company Name	Ticker	(€)	(€m)	(€m)	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
VINCI	DG FP	94.41	56,351	79,081	22.3x	15.9x	14.2x	11.0x	9.1x	8.3x	2.5x	1.3x	2.0x	3.6x	2.7x	2.0x	2.4%	3.3%	3.6%
ACCIONA	ANA SM	132.20	7,252	12,376	22.5x	17.4x	15.3x	9.5x	8.5x	7.6x	1.8x	1.8x	1.8x	4.1x	3.9x	4.2x	2.7%	3.0%	3.2%
BILFINGER	GBF GR	26.42	1,168	803	20.0x	11.7x	9.4x	4.5x	3.5x	3.1x	0.8x	0.8x	0.7x	-9.8x	-1.7x	-1.4x	3.4%	4.0%	4.6%
HOCHTIEF	HOT GR	64.72	4,572	5,466	9.6x	8.7x	8.1x	4.4x	4.1x	4.2x	4.3x	3.5x	3.5x	0.0x	-0.5x	-0.7x	6.4%	7.2%	7.8%
ACS	ACS SM	25.07	7,788	12,903	10.8x	11.5x	10.6x	7.2x	6.8x	6.2x	1.5x	1.5x	1.6x	1.1x	-0.5x	-0.7x	7.6%	7.3%	7.8%
EIFFAGE	FGR FP	89.80	9,013	20,991	13.3x	11.1x	10.0x	7.2x	6.6x	6.2x	1.5x	1.4x	1.3x	4.4x	3.6x	3.0x	4.3%	5.5%	6.2%
FERROVIAL	FER SM	24.98	18,448	22,811	8333.3x	77.9x	49.4x	40.5x	34.1x	30.2x	5.8x	6.1x	6.2x	7.8x	5.4x	5.0x	3.5%	3.6%	3.2%
SACYR	SCYR SM	2.22	1,369	7,102	11.7x	9.1x	8.7x	8.8x	8.3x	7.8x	1.8x	1.6x	1.4x	8.3x	7.4x	7.3x	3.5%	3.6%	3.2%
FCC	FCC SM	10.58	4,328	8,057	12.6x	12.6x	12.0x	7.9x	7.6x	7.4x	1.8x	1.6x	1.5x	3.2x	2.5x	2.1x	4.1%	4.2%	3.8%
Median Diversified Industrials					**13.3x**	**11.7x**	**10.6x**	**7.9x**	**7.6x**	**7.4x**	**1.8x**	**1.6x**	**1.6x**	**3.6x**	**2.7x**	**2.1x**	**3.5%**	**4.0%**	**3.8%**
SKANSKA	SKAB SS	24.11	10,124	8,915	15.2x	16.1x	14.8x	9.2x	9.3x	7.6x	2.4x	2.2x	2.0x	-0.4x	-1.5x	-1.5x	3.0%	3.2%	3.4%
HEIJMANS	HEIJM NA	12.96	295	258	6.7x	6.3x	6.0x	2.9x	2.7x	2.6x	1.1x	1.0x	0.9x	-0.4x	-0.5x	-0.9x	5.9%	6.2%	6.6%
STRABAG	STR AV	39.95	4,394	2,662	12.2x	11.2x	11.0x	2.5x	2.4x	2.3x	1.0x	0.9x	0.9x	-1.6x	-1.3x	-1.3x	2.2%	2.5%	2.6%
BALFOUR BEATTY	BBY LN	3.51	2,318	2,173	14.6x	12.0x	10.5x	7.8x	6.8x	6.1x	1.5x	1.3x	1.2x	0.0x	-0.1x	-0.1x	2.3%	2.7%	2.7%
COSTAIN GROUP	COST LN	0.68	186	107	7.7x	6.3x	5.6x	1.7x	1.5x	1.5x	-	-	-	-0.1x	-0.1x	-0.1x	4.3%	5.5%	6.2%
MOTA ENGIL	M09 GR	1.42	436	2,393	28.3x	10.1x	13.5x	5.7x	4.8x	4.2x	-	-	-	5.0x	3.2x	2.9x	7.1%	7.8%	7.8%
Median Construction					**13.4x**	**10.7x**	**10.8x**	**4.3x**	**3.8x**	**3.4x**	**1.3x**	**1.1x**	**1.0x**	**-0.2x**	**-0.3x**	**-0.5x**	**3.6%**	**4.4%**	**4.8%**
PINFRA	PINFRAL MM	4.34	2,819	2,656	9.6x	8.9x	8.1x	8.7x	8.0x	7.1x	1.0x	0.9x	0.9x	-2.7x	-1.4x	-1.6x	4.7%	4.8%	5.7%
ASTM SPA	AT IM	27.92	3,923	5,270	16.3x	17.7x	17.8x	5.7x	5.6x	5.3x	1.3x	1.3x	1.2x	1.9x	0.6x	0.7x	3.3%	3.3%	3.3%
GETLINK SE	GET FP	12.63	6,947	11,307	-	60.7x	33.1x	30.4x	19.7x	16.6x	5.0x	4.9x	4.5x	13.6x	11.8x	7.6x	2.1%	3.0%	3.1%
CCR Group	CCRO3 BZ	2.24	4,530	6,623	23.6x	20.3x	20.9x	6.9x	7.5x	7.7x	3.3x	3.3x	3.4x	2.8x	2.6x	2.6x	4.0%	4.6%	3.9%
ECORODOVIAS	ECOR3 BZ	2.14	1,193	2,243	19.3x	55.9x	18.6x	6.7x	8.4x	6.7x	4.5x	4.3x	3.9x	4.5x	3.5x	4.7x	0.6%	0.5%	6.1%
Median Concessions					**16.3x**	**19.0x**	**18.2x**	**6.8x**	**7.7x**	**6.9x**	**2.3x**	**2.3x**	**2.3x**	**2.3x**	**1.6x**	**1.7x**	**2.7%**	**3.1%**	**3.6%**
EDP Renovaveis	EDW GR	18.38	17,655	24,318	38.5x	31.9x	28.3x	15.8x	14.2x	12.9x	2.0x	1.9x	1.8x	2.5x	2.1x	2.2x	0.5%	0.6%	0.7%
Falck Renewables	FKR IM	5.32	1,549	2,354	40.9x	33.2x	26.6x	11.8x	11.0x	10.1x	-	2.0x	-	3.4x	4.1x	4.2x	1.3%	1.3%	1.3%
Neoen	NEOEN FP	32.30	3,455	5,725	87.1x	62.2x	42.7x	18.4x	14.9x	12.0x	3.2x	3.1x	2.7x	9.0x	7.7x	8.0x	0.1%	0.2%	0.7%
ERG	ERG IM	25.02	3,761	5,183	30.9x	29.7x	28.3x	10.3x	9.9x	9.5x	2.1x	2.0x	2.0x	3.3x	2.9x	3.0x	3.0%	3.0%	3.0%
Solaria Energia	SLR SM	14.61	1,825	2,164	57.7x	29.3x	21.7x	26.5x	14.8x	10.9x	6.9x	5.5x	4.3x	7.0x	10.0x	7.2x	0.0%	0.0%	0.0%
Median RES					**40.9x**	**31.9x**	**28.3x**	**15.8x**	**14.2x**	**10.9x**	**2.7x**	**2.0x**	**2.4x**	**3.4x**	**4.1x**	**4.2x**	**0.5%**	**0.6%**	**0.7%**
Median of foreign peers (15% construct-35% concess-50% RES)					**28.7x**	**24.7x**	**22.5x**	**11.2x**	**10.6x**	**8.5x**	**2.4x**	**2.0x**	**2.2x**	**2.6x**	**2.6x**	**2.7x**	**1.7%**	**2.0%**	**2.2%**
GEK TERNA Group	**GEKTERNA GA**	**9.90**	**1,024**	**3,035**	**137.4x**	**64.0x**	**25.3x**	**13.9x**	**13.3x**	**9.4x**	**2.0x**	**1.8x**	**1.7x**	**7.3x**	**7.4x**	**5.0x**	**0.0%**	**0.0%**	**1.5%**
Premium / (discount) to foreign peers					***378%***	***160%***	***12%***	***25%***	***26%***	***10%***	***-16%***	***-10%***	***-23%***	***181%***	***181%***	***86%***			***-33%***

Source: Closing prices as of 10 June2021, Bloomberg data for foreign peers, Euroxx estimates for GEK TERNA Group

Investment Risks and Future Potential Catalysts

We believe GTG has a medium risk profile, with its diverse activities having different growth and risk characteristics.

In our view, GTG's **key downside investment risks** include the following:

- **Execution Risks** – in the construction phase of the projects that have been officially awarded to GTG and **delays in payments** by the Greek State, which could result in higher working capital requirements. We also see RES-related execution risks in the form of installation and/or interconnection delays (partly due to Covid-19), mainly in Greece; that said, the streamlining of the permitting process for renewables by the Greek authorities may partly mitigate these delays. TE may also face delays in the construction and/or implementation of awarded or future waste management projects,

- **Challenging Financing Environment in Greece –** given Greek banks' still limited flow of financing to Greek companies, which may also affect GTG's (or TE's) ability to raise the necessary capital in order to participate in BOT and PPP projects. That said, the financing environment should improve considerably along with the anticipated return of the domestic economy to strong growth rates and the return of domestic banks to normality,

- **Large Exposure to Political and Macro Conditions in Greece -** as Greece accounted for 80.0% of GTG's group sales in 2020 (81.9% in 2019). That said, given that Greece is headed for a return to a trajectory of strong growth post the pandemic, assisted also by EU funds, this could also turn into an opportunity for GTG

- **Lower-than-Expected Traffic -** in GTG's already operational motorway BOT projects as a result of lower disposable income, changing driving habits due to high petrol prices and/or new section competition: this would obviously impact the fair value of related assets,

- **Failure to Win New Projects and Lower-than-Expected Construction Margins –** that would adversely impact group performance at both top and bottom line,

- **Future Price Fluctuation/Pressure -** The latest RES bill calls for a tender/auction process for the entrance of the units to the system at a price that will be equal to the wholesale price plus a feed-in premium, contrary to the current fixed FiT. This implies that any additional capacity beyond 2019 should be subject to potential downward pressures (mainly from international players, which enjoy lower financing costs), while TE will also need to start accounting for risk (and costs) linked to market participation and imbalances which could negatively affect profitability. Greece's current auction system was expiring at the end of 2020 however following the approval of Brussels, the RES auctions (a system which still secures a fixed 20-year tariff for new wind and solar energy installations) will be extended by 2024e. That said, the 330MW out of the 427MW which are going to be installed by 2022e are awarded with tariffs significantly higher (c€98/MWh) than the prices which were shaped at the latest RES capacity auctions. Furthermore, TE, through its aggregator/subsidiary "Optimus Energy", will have the ability to hedge its market imbalance risks,

- **Lower-than-Expected Wind Capacity Factors** - at the company's domestic and/or foreign sites may adversely impact profitability,

On the contrary, **future potential catalysts** to GTG's performance and valuation are the following:

- **New Domestic and International Project Wins:** The successful implementation of Greece's infrastructure programme and the recovery of investment should have positive implications for GTG's construction and concessions divisions, which could win major projects. As already outlined earlier in this report, the win of the Egnatia Odos concession project and the final decision to proceed with the construction of the c665MW CCGT plant in Komotini could add more than €2.5/share (or 18%) to our target price.

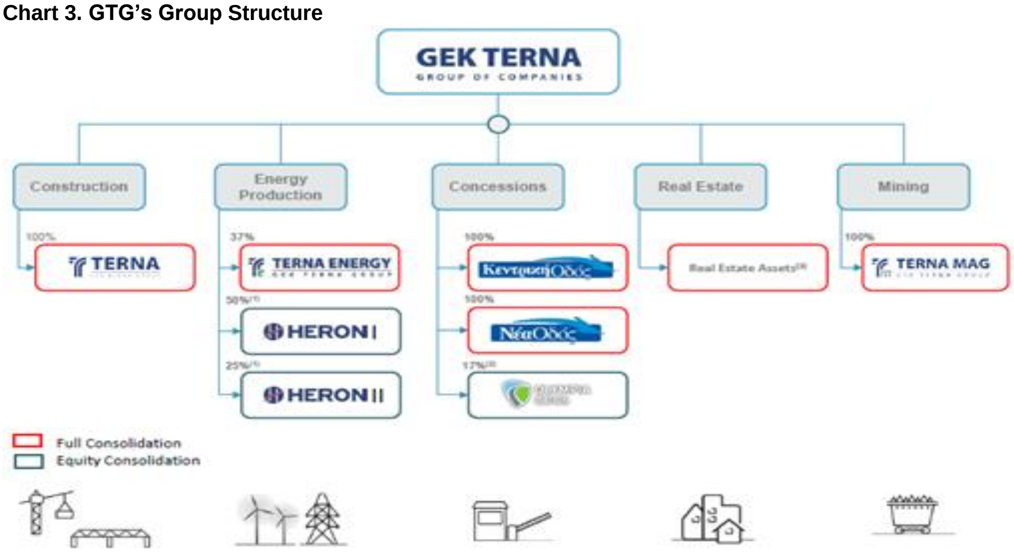
- **The Implementation of TE's Large RES Pipeline**: Higher-than-expected installation rates in wind parks would positively affect TE's long-term financials,
- **Increased Traffic Patterns in Existing BOT Projects** - and the potential securitization of future motorway concession dividends which could emerge as an additional funding source, enhancing substantially the group's balance sheet,
- **Lower Wind Turbine Prices** - Further cuts in RES technology/facility purchase and installation costs for both solar and wind energy, coupled with higher productivity gains for new technology turbines could enable the development of sustainable projects even with lower future tariffs and in areas offering lower wind energy potential.
- **Lower Financing Costs** – for domestic players, following the recent drop in GGB yields, could render them more competitive vis-à-vis their foreign rivals.
- **Storage & Offshore Wind Parks –** The finalization of the legislative framework (expected in June'21) and license permission procedure could pave the way for the launch of the development of the pumped storage projects in the area of Amfilochia and Amari, or the offshore wind parks such as the three (3) floating photovoltaic (FPV) systems in the area of Kastraki and Pournari.
- **A Sooner-than-Expected Dividend Resumption -** could support stock market performance, in our view. In our model, we expect GTG to start distributing dividends from 2023e onwards.

Group Description

Leading diversified construction group in Greece, with significant exposure in energy production and concessions

GEK TERNA Group is a leading diversified contractor in Greece, with operations also in Central and SE Europe, North Africa and the Middle East. GTG holds long-term investments in key fields, including construction/infrastructure, energy production (primarily renewables through its 37.3%-owned subsidiary Terna Energy, which is the largest RES producer in Greece) and participation in concession projects, mostly motorways, but recently expanded to airports and casinos.

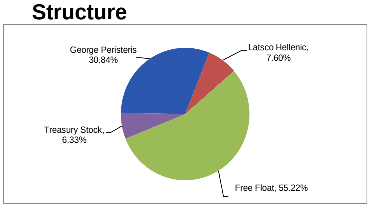
Chart 3. GTG's Group Structure



Source: GEK TERNA Group 1) ENGIE owns 50% of HERON I and HERON II; Qatar Petroleum owns 25% of HERON II, 2) Other shareholders: VINCI (29.9%); HOCHTIEF (17%); J&P AVAX (19.1%); AKTOR (17%), 3) 3.All Real Estate Segment subsidiaries are fully consolidated; two Real Estate JVs/Associates are consolidated under the Equity method

Key Historical Milestones: GTG was formed through the merger of GEK and TERNA, two of the largest construction companies in Greece, which gained listing on the Athens Stock Exchange in 1994. In 1997, Terna Energy was incorporated, and was listed on the ASE in 2007. In 2002, the group's restructuring was completed, with the absorption of GEK's construction division by TERNA, with GEK being the group's holding company. Finally, in 2008 GEK and TERNA merged into one entity, with the latter consolidating all the group construction activities as a 100% subsidiary. Currently there are two listed entities on the ASE, GEK TERNA Group and its 37.3%-owned subsidiary Terna Energy (TENr.AT / TENERGY GA); note that following Terna Energy's SCI in 2020, GTG's stake fell from 37.932% to 35.695% and, after the completion of the cancellation of 4,293,268 treasury shares GTG's participation rose to 37.298%.

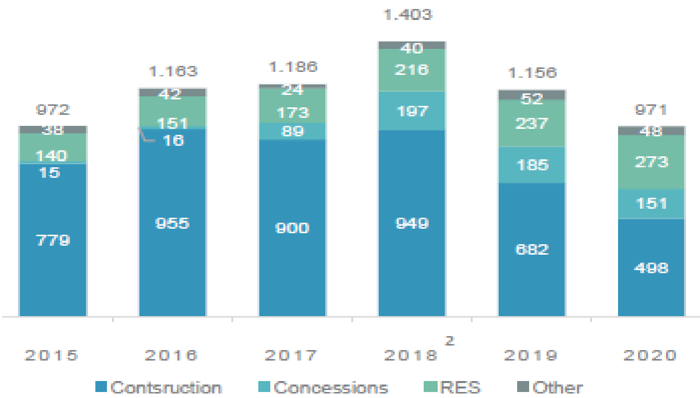
Chart 4. GTG's Shareholding Structure



Source: GEK TERNA Group Treasury shares as of 31/12/2020

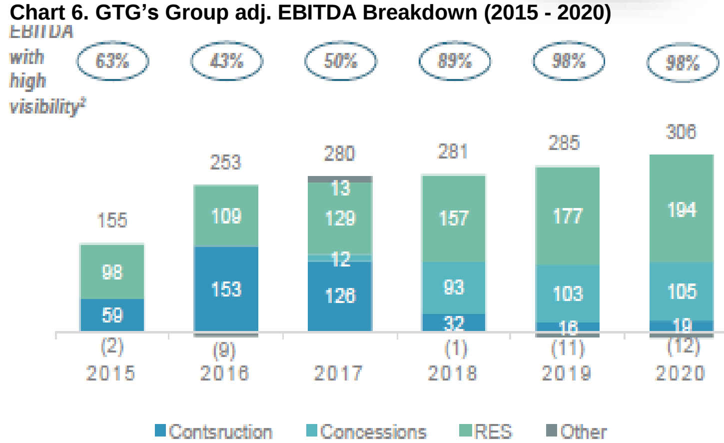
Shareholder Structure: At present, Mr. Georgios Peristeris, BoD Chairman and CEO, is GTG's largest shareholder, controlling c30.84% (based on our estimates). Mr. Peristeris has raised his stake in 2021 by c14.9% for c€172m in total, purchasing the shares from the Dutch Reggeborgh Invest B.V., which decided in early 2021 to disinvest from GTG (previously owning 31.275%), after a successful and profitable investment presence in the company. Part of Reggeborgh stake (7.60% or 7,858,571 shares shares) was acquired on 12March'21 by Latsco Hellenic Holdings (controlled by Mrs. Marianna Latsis) at €11.20 per share (€88m transaction). Mr. Peristeris financed his increased participation mostly through the sale of part of his direct stake in GTG's subsidiary Terna Energy. Own shares account for 6.33% of total share capital (as of 31Dec'20) and the remaining 55.2% is free float.

Chart 5. GTG's Group Sales Breakdown (2015 – 2020)



Source: GEK TERNA Group.

Chart 6. GTG's Group adj. EBITDA Breakdown (2015 - 2020)



Source: GEK TERNA Group

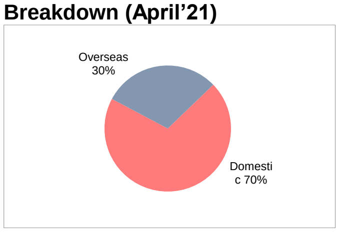
Business Divisions & Outlook

Construction: Profitable (EBITDA/EBIT Level) and Cash-Flow Generative Since 2015

Profitable and cash-generative activity since 2015; following the growth in concessions and RES, we consider construction as an auxiliary business, spearheading and complementing the other group activities

Founded in 1972, TERNA is GTG's construction arm and one of the leading Greek contractors, with significant experience in complex public and private projects and a proven track record in delivering large scale projects on time and within budget. TERNA is the flagship division of the group in terms of revenues (51% of group total in FY'20 and despite the impact from the pandemic, from 59% in FY'19). However, following the full consolidation of Ionia Odos and E65 in 2018, as well as the unsustainably high profit margins during their construction, construction accounted for just 6% of total group adj. EBITDA in FY'20 from 5.7% in FY'19 and >40% on average before 2018. Overall, profitability wise, we consider construction as an auxiliary business, spearheading and complementing the other group activities.

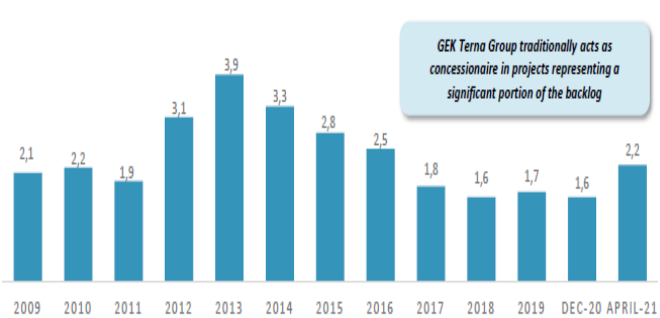
Chart 7. GTG's Backlog Breakdown (April'21)



Source: GTG

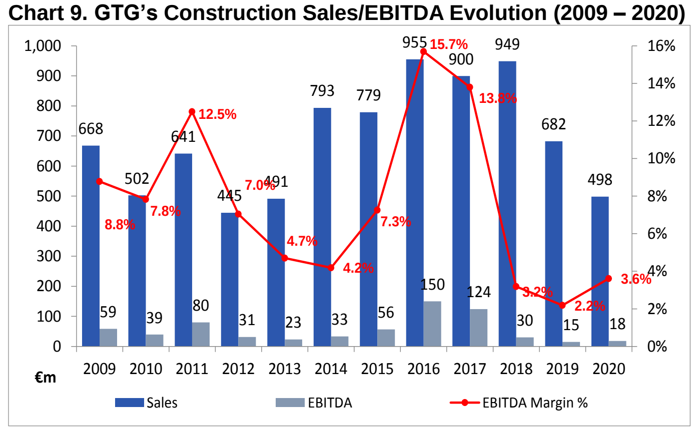
The division's signed backlog signed as of end-2020 amounted to €1.6bn, hence maintaining the prospects of a healthy construction activity in the next period. As of April'21, the signed contracts as well as the new ones to be signed reached €2.2bn. Of this, c70% refers to domestic projects, dominated by the design and construction of new international airport in Heraklion, Crete (€475m) as well as other projects including the construction of motorways, office buildings and power projects for clients such as the Ministry of Public Works. The international projects, which account for c30% of the backlog, are dominated by the execution of buildings in Agia Napa in Cyprus (€141m) as well as other projects including the construction of airports, roads and marinas in a number of countries including Cyprus, Serbia, Bahrain & UAE.

Chart 8. GTG's Backlog Evolution (2013 – 2020)



Source: GEK TERNA Group

Chart 9. GTG's Construction Sales/EBITDA Evolution (2009 – 2020)



Source: GEK TERNA Group, Euroxx Research

As of April'21, construction backlog increased to €2.2bn; to reach €3bn following the sign of the IRC project in Hellinikon

Moreover, with the completion of all necessary procedures in order for TERNA to be awarded important projects like the Integrated Casino Resort in Hellinikon area (Athens), where TERNA will undertake 100% of the (c€800m) construction works, the total construction backlog is expected to reach the level of €3bn, i.e. the highest among Greek contractors.

Greek Construction/Infrastructure Sector Outlook

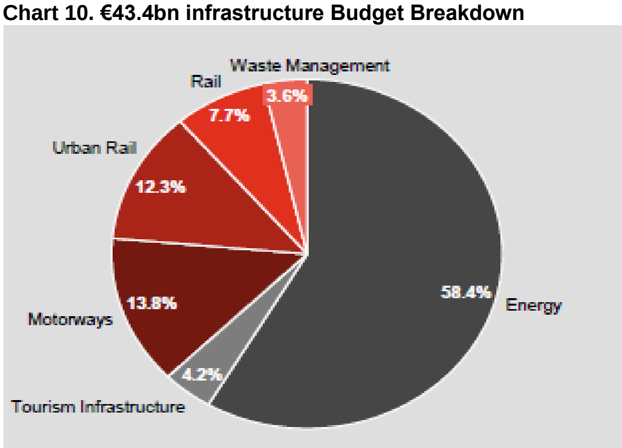
Infrastructure in Greece has been severely affected by the deep recession

Overall, infrastructure in Greece has been severely affected by the deep recession, with the total value of infrastructure projects falling by as much as 31% after 2009, and their share in Greek GDP decreasing by 1.9pps over the same period (currently at c1.1% of GDP, compared to the historical pre-crisis average of 3.0% and the European average of 2.1%). According to a study by PwC, the erosion of infrastructure investment in 2009-2019 has resulted in a c€13bn permanent shortage against the EU average and the systematic infrastructure investment gap is between 0.8pps of GDP (or c€1.5bn p.a. against the European average) or 1.9pps of GDP against Greece's pre crisis levels.

According to a study by PwC, the infrastructure pipeline, i.e. projects in progress or prepared but not yet funded, amounts to 118 projects with a budget of €43.4bn.

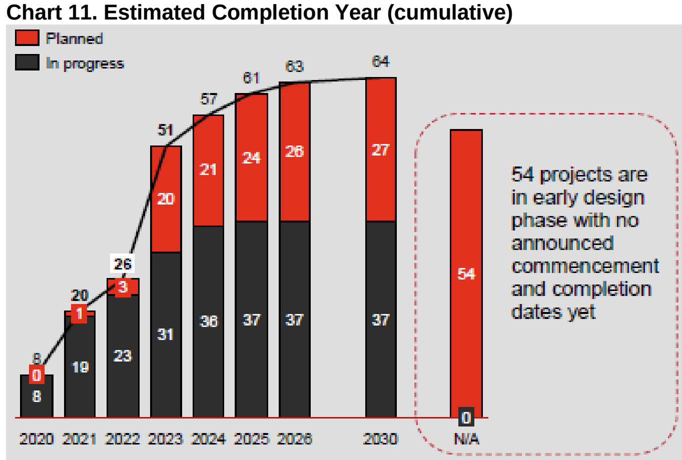
Looking ahead, the infrastructure pipeline, i.e. projects in progress or prepared but not yet funded, amounts to 118 projects with a budget of €43.4bn. The pipeline is higher than in the past due to addition of new high-cost projects in the preparation phase. €25.4bn of the budget refers to Energy projects, €8.7bn to Railways and €6bn to Motorways. Tourist infrastructure and Waste management projects account for a small part of the remaining budget taking up only about €1.8bn and €1.6bn, respectively. The infrastructure pipeline is concentrated (58%) on energy interconnection and generation. The current project portfolio is heavy on energy and transport but short on connectivity, tourism and the environment. The majority of the infrastructure projects are behind the starting line, either in the maturity phase or the bidding and contracting stage. Only 37 projects are in the construction phase, while 81 are in the designing phase, with 54 of them not having a start/completion date.

Chart 10. €43.4bn infrastructure Budget Breakdown



Source: PwC

Chart 11. Estimated Completion Year (cumulative)



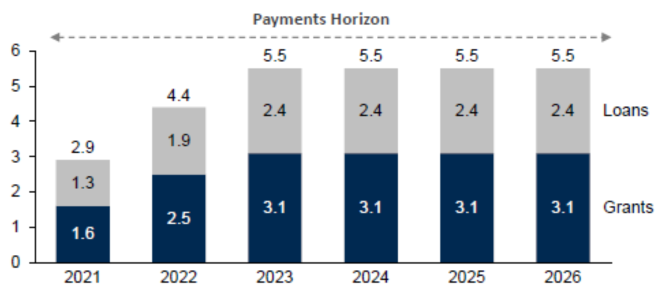
Source: PwC

In sectoral terms, 60% of the number of energy projects are interconnections (TAP, IGB, EuroAsia, Ariadne, EastMed), while the remaining 40% refers to electricity generation (Wind and solar parks, Power plants). In budget terms, 54% of the remaining budget is earmarked for energy interconnections and the rest for electricity generation. Finally, more than half of the total energy projects have not yet started. With regards to motorways, the investment pipeline is estimated by PwC at c€6bn. After the completion of many large motorway projects in 2017, the only major road projects in the pipeline are the Crete Northern highway, the southern and northern parts of E65 and the Patras Pyrgos link. The total motorway kilometers of planned and in progress projects in Greece amount to 1,184 km, of which only 9% has already been constructed. The average cost of motorway construction in Greece is € 4.7m per km. Finally, with respect to waste management (estimated budget at €1.6bn), during 2019, 2 PPP waste management projects were completed in Serres and Epirus. Also, 3 waste management projects are expected to be completed shortly (Voiotia, Alexandroupoli and the center of sewage treatment in Koropi Paiania), while the average budget of waste management projects amounts to €62.4m per project.

The Greek Recovery and Resilience Plan (RRP) aspires to change the Greek growth model and institutions via ambitious reforms and investments towards an extroverted, competitive, green and digital growth model

Last but not least, we also expect Greece to benefit significantly from the Recovery and Resilience Facility (RRF), which should be a catalyst for sustainable growth and economic transformation. The Greek government submitted a few weeks ago to the EC the Greek Recovery and Resilience Plan (RRP), the so-called Greece 2.0, which aspires to change the Greek growth model and institutions via ambitious reforms and investments towards an extroverted, competitive, green and digital growth model. Greece 2.0 is fully in line with the six pillars of EU's RRF, with particular emphasis on the green and digital transition. Its key element is to mobilise significant resources from the private sector, with the aim of increasing private investment, in order to achieve significant multiplier effects.

Chart 12. RRF Grants & Loans available to Greece (€bn)



Source: EC, Hellenic Republic

Chart 13. RRF Budget and Mobilised Investment Resources

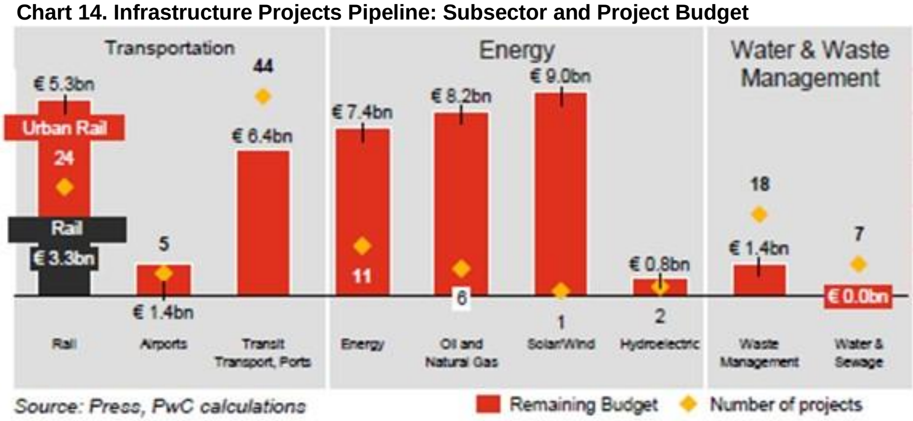
Pillars	RRF Budget (in €bn)	Mobilised Investment Resources (in €bn)
1. Green Transition	6.2	11.6
2. Digital Transformation	2.2	2.4
3. Employment, Skills, Social Cohesion (Health, Education, Social Protection)	5.2	5.3
4. Private investment and transformation of the economy	4.9	8.8
Sum of Grants *Green tag: €7.1bn (38%), Digital tag: €4.6bn (25%)*	**18.4**	**28.0**
Loans	**12.7**	**31.8**
Total Investment Resources	**31.2**	**59.8**

Source: Hellenic Republic

We expect GTG to benefit from a recovery in domestic public and private sector construction

Overall, given TERNA's and GTG's in general experience, know-how and execution capabilities, we expect it to significantly benefit from the award of major future infrastructure projects in Greece in the areas of motorways, energy and waste management. Moreover, we expect Greece to dominate GTG's future revenue mix, with limited contribution from abroad (mainly from closely scrutinized projects).

Chart 14. Infrastructure Projects Pipeline: Subsector and Project Budget



Source: Press, PwC calculations

Terna Energy currently operates 1,403MW of wind parks, with 758MW in Greece (the largest Greek wind park developer), 132MW in Poland/Bulgaria and 513MW in the US (in disengagement mode)

Renewable Energy (RES) – Terna Energy: Portfolio Expansion Improves Outlook

GTG is active in the RES sector through its 37.3% participation in Terna Energy (TE), which in FY'20 contributed 28.1% of total group revenues (from 20.5% in FY'19) and 63.3% of total group adj. EBITDA (from 62.0% in FY'19), hence rendering it currently the largest earnings contributor. With 1,403MW of RES installed capacity as of end-Q1'21 (1,373MW at end-2020), TE is the market leader in Greece (758MW), while it has also set footprint in Poland (102MW), Bulgaria (30MW) and the USA (513MW) where it operates a total of 645MW in wind parks. According to TE's management, the disengagement from the projects in the US, following the unprecedented weather conditions in Feb'21 and the operational constraints, is the optimal solution with the lowest negative impact, as the loss would be limited from $179m to €98.5m. Overall, TE has delivered strong RES growth historically, more than doubling its installed capacity since 2012 (499MW), in time and within budget.

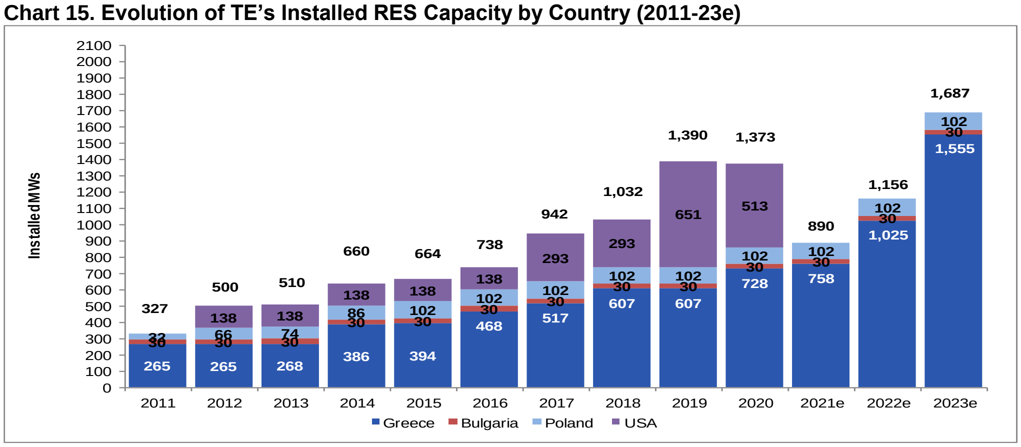
Good proxy for the attractive Greek RES sector, and the domestic energy transition theme

Looking ahead, we strongly believe that the upcoming domestic energy market transition is key, with Greece's 2030 targets, its lignite phase-out, the streamlining of the RES permitting process and the finalization of the new legislative framework for offshore wind and storage projects (expected in Q3'21e) being positive steps that will assist the unlocking of sizeable investments in the domestic RES sector. In our view, TE, with its solid track record and execution capabilities, is well-placed to grab a significant share of the needed capacity additions. Overall, we continue to believe that TE offers an excellent proxy for the attractive Greek RES sector, which offers a stable regulatory framework (competitive future FiTs and long-term contracts, hence strong & visible CFs) and favourable wind resources as well as for the domestic energy transition and green investing theme.

We expect TE's installed capacity to reach 1,687MW by end-2023e

Going forward, after deducting 513MW from TE's total end-2020 RES installed capacity of 1,373MW (1,204MW wind, 18MW hydro, 9MW solar/PV and 1MW biomass), we now expect capacity to reach 1,687MW by end-2023e, implying 827MW new additions in Greece. Of the total 1,687MW RES capacity, we expect 1,259MW to be wind parks, 18MW hydro parks, 408.5MW solar and 1MW biomass. Beyond 2023e, we still account for annual net additions of 50MW of wind park capacity (at a cost of €1m/MW) implying a 2020-24e RES capacity CAGR of 6.1%. Overall, we believe financing for the 2021-24e CapEx of c€943m is mostly secured by a combination of strong FCF generation and TE's leverage capacity (2020 net debt/EBITDA of 4.7x).

Chart 15. Evolution of TE's Installed RES Capacity by Country (2011-23e)



Source: Terna Energy, Euroxx Research

Through TE, GTG is also active in the waste management sector, whose prospects appear strong, as Greece needs to urgently proceed with new infrastructure to comply with national and EU waste management legislation and utilize the available EU funding within a very tight time frame

GTG, through TE, has been also actively involved in the Greek **waste management sector** and has participated in all the big tenders released throughout the country in the last few years. Overall, we consider waste management as a high growth area on the back of a solid demand outlook for waste treatment (vs. landfill disposal) and power generation from biogas, given that the country has been slow to adapt to European Union regulations on waste management, while at the same time it has been burdened with substantial fines for continuing to operate illegal landfills. Furthermore, we see significant prospects in Greece (numerous concession / PPP projects to be tendered), Cyprus and South Eastern Europe and the Balkans (given the low market penetration). According to industry sources, investments to be launched in the next 5 year period are expected to reach €2bn for the treatment of approximately 4mt of municipal waste.

Table 6. TE's Installation Forecasts 2018-24e

Total RES (MW)		2020	2021e	2022e	2023e	2024e	2020 y-o-y	2021e y-o-y	2022e y-o-y	2023e y-o-y	2024e y-o-y	CAGR 2020-24e
Existing installed capacity (start of year)		**1,390.0**	**1,372.5**	**889.5**	**1,156.5**	**1,686.5**	***34.7%***	***-1.3%***	***-35.2%***	***30.0%***	***45.8%***	***5.0%***
- Greece		607.0	727.5	757.5	1024.5	1554.5	*0.0%*	*19.9%*	*4.1%*	*35.2%*	*51.7%*	*26.5%*
	% of total	*44%*	*53%*	*85%*	*89%*	*92%*						
- Abroad		783.0	645.0	132.0	132.0	132.0	*84.2%*	*-17.6%*	*-79.5%*	*0.0%*	*0.0%*	*-35.9%*
	% of total	*56%*	*47%*	*15%*	*11%*	*8%*						
…of which in Poland		*102.0*	*102.0*	*102.0*	*102.0*	*102.0*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
…of which in Bulgaria		*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
…of which in USA		*651.0*	*513.0*	*0.0*	*0.0*	*0.0*	*122.2%*	*-21.2%*	*-100.0%*	*n/a*	*n/a*	*-100.0%*
Capacity additions		**-17.5**	**-483.0**	**267.0**	**530.0**	**50.0**						
- Greece		120.5	30.0	267.0	530.0	50.0						
	% of total	*-689%*	*-6%*	*100%*	*100%*	*100%*						
- Abroad		-138.0	-513.0	0.0	0.0	0.0						
	% of total	*789%*	*106%*	*0%*	*0%*	*0%*						
…of which in Poland		*0.0*	*0.0*	*0.0*	*0.0*	*0.0*						
…of which in Bulgaria		*0.0*	*0.0*	*0.0*	*0.0*	*0.0*						
…of which in USA		*-138.0*	*-513.0*	*0.0*	*0.0*	*0.0*						
Total installed capacity (end of year)		**1,372.5**	**889.7**	**1,156.5**	**1,686.5**	**1,736.5**	***-1.3%***	***-35.2%***	***30.0%***	***45.8%***	***3.0%***	***6.1%***
- Greece		727.5	757.5	1024.5	1554.5	1604.5	*19.9%*	*4.1%*	*35.2%*	*51.7%*	*3.2%*	*21.9%*
	% of total	*53%*	*85%*	*89%*	*92%*	*92%*						
- Abroad		*645.0*	*132.0*	*132.0*	*132.0*	*132.0*	*-17.6%*	*-79.5%*	*0.0%*	*0.0%*	*0.0%*	*-32.7%*
	% of total	*47%*	*15%*	*11%*	*8%*	*8%*						
…of which in Poland		*102.0*	*102.0*	*102.0*	*102.0*	*102.0*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
…of which in Bulgaria		*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
…of which in USA		*513.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-21.2%*	*-100.0%*	*n/a*	*n/a*	*n/a*	*-100.0%*

Source: Terna Energy, Euroxx Research

Concessions – BOT Projects: Low-Risk Activity Benefited by Greek Economic Turnaround Post Covid-19 and NGEU Funds

GTG has invested €295m of equity in 3 motorway concession projects, which are already in operation

Following the full consolidation of Ionia Odos Motorway and E65 as of Q4'17, this segment accounted for 15.6% of total FY'20 group revenues (from 16.0% in FY'19), contributing 34.4% of total group adj. EBITDA from 36.2% in FY'19, hence being GTG's second largest profitability pillar. GTG has invested c€295m of equity in three finished/already operational motorway concession projects in Greece, namely:

a) a 100% stake in Ionia Odos Motorway, increasing in Dec'18 its participation by 21.4% through the purchase of the stake previously held by the Spanish Ferrovial; note that in Oct'17 GTG had acquired another 21.4% from Dragados. Ionia Odos has a 380km total length divided into Ionia Odos motorway -196km- and part of PATHE motorway -184km,

b) a 100% stake in (E65) Central Greece Motorway, increasing in Dec'18 its participation by 33.3% through the purchase of the stake previously held also by Ferrovial; note that in Oct'17 GTG had acquired another 33.3% from Dragados. E65 is a 174km motorway connecting Thermopiles to Ioannina; the construction was completed in Aug'17 and the road has already been given to traffic as of Dec'17, and

c) a minority 17% stake in Olympia Odos Motorway (202km Elefsina-Corinthos-Patra motorway); the construction was completed in Aug'17 and the road has already been given to traffic.

Moreover, GTG has recently won 2 new major projects in Greece, which further boost GTG's concession portfolio and prove its ability to sign new projects in this highly competitive sector. In more detail:

GTG also officially signed in Feb'20 the 40-year concession project for the new international airport in Kastelli Crete…

a) GTG officially signed in Feb'20 the long-awaited concession project for the new <u>International Airport in Kastelli</u>, Crete (construction is 5yrs and operating concession is 35yrs). GTG is expected to invest c€160m, acquiring a 32.5% stake (the Greek State controls 45.9% and the Indian group GMR the remaining 21.6%); construction CapEx is seen around €480m. We expect construction works to launch later this year. Overall, the Kastelli airport is set to be Greece's 2[nd] busiest airport, able to handle up to 15m passengers (from 6m capacity currently) and is one of the country's key infrastructure projects.

...and was declared in Oct'20 as a Temporary Contractor for the Granting of a Casino Operating License (EKAZ) in the Hellinikon - Agios Kosmas Metropolitan Pole

b) Finally, GTG, as a member of INSPIRE ATHENS consortium (i.e. in a JV with Mohegan Gaming, in which it holds 35%), has been awarded in Oct'20 (temporary contractor) the construction and a 35-year concession for the development and operation of the Integrated Casino Resort (IRC) in Hellinikon. We expect the official signing of the contract to take place within the next couple of months. The estimated project budget is c€1bn with construction works at c€800m and TERNA taking over the construction activity. GTG is expected to invest c€120m of equity in this project

Concluding with GTG's concession portfolio, GTG has already constructed and participates in the operation of car parks (2.2k spaces in total), has also invested (through Terna Energy) c€26m in two waste management projects in Greece, while it participates (again through Terna Energy) with 70% in the company which undertook the project of a Unified Automatic Ticket Collection System (E-ticket) in Athens Metro via the SDIT (PPP) scheme.

Table 7. GTG's Concession Portfolio

Operational Motorway Concessions	Status	Participation	Equity Invested * (in €m)
Ionian Road	*In Operation*	*100.0%*	*192.0*
Central Creece Motorway	*In Operation*	*100.0%*	*67.0*
Olympia Odos Motorway	*In Operation*	*17.0%*	*35.5*
New Concessions	**Status**	**Participation**	**Equity Invested (in €m)**
Kastelli Airport	*Officially signed*	*32.5%*	*160.0*
Hellinikon Casino	*To be officially signed shortly*	*35.0%*	*120.0*
Other Concessions	**Capacity**		**Equity Invested (in €m)**
Parking Stations	*2,171 parking spaces*		*10.0*
*Waste Management ***	*2 projects in Greece*		*26.0*
E-ticket	*1 project in Greece*	*70.0%*	*8.0*

*Source: GTG, Euroxx Research * equity invested includes shareholders loans ** reported under Terna Energy*

In our view, GTG is well-placed to acquire significant stakes in potential forthcoming concession tenders, which could further enhance earnings visibility

Looking ahead, we overall expect the operation of road concession projects to prove lucrative for GTG, as the anticipated return of the Greek economy to growth rates >3% post the Covid-19 pandemic should positively affect traffic. Moreover, except from the large-scale BOT projects, the new generation and/or extension of current concessions offers significant opportunities in the construction segment. Note that increased infrastructure spending constitutes a matter of high priority of both the Greek State and the European Union in their attempt to facilitate economic recovery and address the financial consequences of the Covid-19 pandemic. In this context, the Greek State has expressed its willingness to accelerate tenders for new concession projects and PPPs, as given the multiplier effect, the infrastructure projects significantly contribute to GDP growth and boost employment. Note that GTG already participates in the tender procedure of concession projects such as Egnatia Odos, North Road Axis of Crete, the Underwater Coupling of Salamina – Perama, etc. Moreover, due to its financial capacity and balance sheet strength, we expect GTG to participate in all forthcoming tenders, and in our view, GTG is well-placed to acquire significant stakes, which could further enhance financial health and earnings visibility.

Thermal Energy – Electricity Trading

GTG owns 50% in HERON I (OCGT plant) and 25% in HERON II (CCGT plant)

GTG was the first private company to be involved in the thermal energy sector in Greece. The group currently holds:

a) a 50% stake (through TERNA, equity consolidated; the balance is owned by GDF Suez Group) in HERON I, a 147MW OCGT plant, which is operational since 2004, and

b) a 25% stake in HERON II (GDF-Suez and Qatar Petroleum own the remaining 50% and 25%, respectively), a 432MW CCGT plant, which is operational since 2010.

HERON's share in the domestic retail electricity market was 6.16% in Dec'20 (from 5.25% as of end-2019; no2 player behind Mytilineos' Protergia). In addition, GTG is also active in the gas retail market (the gas retail supply sector was fully liberated as of

Jan'18) as well as in cross border electricity trading. In FY'20, thermal energy (namely electricity trading as HERON I and II are consolidated through the equity method) generated revenues of €37.4m with adj. EBITDA of €0.85m.

Finally note that GTG considers the construction of a c665MW CCGT plant in Komitini, Northern Greece, an investment worth c€300m. The regulatory approval was received by RAE back in July'19 and the final investment decision is expected shortly.

Real Estate

Real estate division offers a small contribution to the group top-line and profitability

GTG holds a differentiated portfolio of real estate assets in Greece, Bulgaria and Romania with a total Gross Asset Value of €98.8m (divisional net debt as of FY'20 was €56.4m). The portfolio comprises mainly of commercial and residential properties, offices, entertainment parks, logistic centers, hotels & resorts and parking stations. In FY'20, real estate generated revenues of €3.7m (from €4.7m in FY'19), with adj. EBITDA of €0.25m (from €0.22 in FY'19).

GTG sold in Jan'19 a key Bulgarian asset for €40.6m in cash

Pursuant to the management's strategic target to gradually dispose key assets, aiming to generate significant proceeds that will assist group deleveraging, GTG completes in early Jan'19 the sale of its Bulgarian subsidiary I&B Real Estate, owner of a fully leased office building (City Tower, whose construction was completed in 2017) of a total of 54k m^2 in Sofia to NBG Pangea for a cash consideration of €40.6m. Note that this property was previously leased to 3rd parties, with annual rents of c€6m.

Magnesite Mining: Activity to Mature and Become Profitable in Next Few Years

Industrial activity (magnesite mining) to mature and become profitable in the next few years

GTG acquired the TERNA MAG (ex-Skalistiris group) magnesite mining business in 2010 and operations recommenced in 2012. The decision to proceed with the investment to produce magnesium-related products was taken in Feb'13. TERNA MAG is a 100% export company with 50mtn proven magnesite deposits of superior quality. In FY'20, this activity was significantly burdened by Covid-19 due to disruptions in the transportation of goods. As a result, the division generated sales of €7.1m (from €9.9m in FY'19) and adj. EBITDA loss of €4.1m (broadly flat y-o-y). Overall, despite the negative results recent years, the company, having already redesigned its operating activities in order to reduce OpEx and facilitate the optimal use of the existing inventory and equipment, estimates that in the future the industry sector will become profitable.

Financial Forecasts

FY'20 Results: well diversified activity mix, with Concessions and RES adding resilience and earnings/FCF stability

Mixed FY'20 results with sales declines but adj. EBITDA advances; well diversified mix of activities with Concessions and RES adding resilience and stability to operations

GTG released an overall mixed set of FY'20 results, recording a top-line drop of 16% y-o-y to €971m, underpinned by construction and concessions (mostly Covid-19 impact and base effects). That said, adj. EBITDA (excl. non-cash adjustments of €27.9m, namely provisions for staff compensation of €2.8m, stock option expenses of €3.3m, impairments of investment properties €0.5m, provisions for heavy maintenance of €16.5m, impairments of receivables and inventories, other provisions and earnings from elimination of liabilities of €5.0m; in 2019 related one-offs were €9.8m) posted an increase of 7% y-o-y to €306.3m. The increase was fueled by the solid RES performance, while construction and concessions also recorded y-o-y advances. Further down the P&L, owing to higher depreciation expenses and lower derivatives results (mostly offset by TE-related capital gains from the sale of a US wind farm) as well as higher minorities due to TE, reported net profits were down by €11m y-o-y or 47% to €12.5m.

Solid FCF drives Net Debt lower by €119m y-o-y to €1,317m (4.3x adj. EBITDA from 5.0x in 2019)

Finally, OpCF rose by 33% y-o-y to €316m, buoyed by the improved operating profitability and positive working capital moves. Allowing also for the lower InvCF (due to lower y-o-y payments for purchases of fixed assets and subsidiaries), FCF soared to €171m from 0 in 2019, hence driving group Net Debt lower to €1,317m compared to €1,437m in 2019 (4.3x adj. EBITDA from 5.0x in 2019). Overall, in our view, FY'20 results highlight GTG's significant steps towards rebalancing its portfolio, with the full consolidation of several of its concessions and investments in RES activities offering good profitability support and more stable longer-term cash flows.

Table 8. GTG's FY'20 Results Table

(amounts in €m)	FY'19a	FY'20a	*y-o-y*
Total Group Sales	**1,155.7**	**971.3**	***-16.0%***
Construction	682.2	498.3	*-27.0%*
Concessions	184.5	151.3	*-18.0%*
RES	237.3	273.4	*15.2%*
Other	51.7	48.3	*-6.6%*
Total Group EBITDA adj.	**285.1**	**306.3**	***7.4%***
Construction	16.2	19.0	*17.7%*
Concessions	103.1	105.3	*2.1%*
RES	176.9	193.9	*9.6%*
Other	(11.1)	(11.9)	*7.6%*
Group EBITDA margin	***24.7%***	***31.5%***	
Construction EBITDA %	*2.4%*	*3.8%*	
Consession EBITDA %	*55.9%*	*69.6%*	
RES EBITDA %	*74.6%*	*70.9%*	
Depreciation	114.6	125.0	*9.1%*
EBIT rep.	**157.3**	**156.8**	***-0.3%***
EBIT margin	*13.6%*	*16.1%*	
Net financials	(118.3)	(119.9)	*1.4%*
Derivatives	46.0	20.4	*-55.6%*
Results from associates/JVs/par	(3.6)	25.8	*n/m*
Pre-tax profit	**77.8**	**71.4**	***-8.2%***
Tax	22.1	13.4	*-39.5%*
Effective tax rate	*28.4%*	*18.7%*	
Minorities	-32.3	-45.6	*41.3%*
Reported Net profit	**23.5**	**12.5**	***-46.9%***

Source: GTG, Euroxx Research

Table 9. FY'20 Results: Divisional Data

2020	Construction	Concessions	RES	Thermal Energy	Real Estate	Industrial	Holding	TOTAL
Sales	498.3	151.3	273.4	37.4	3.7	7.1	0.2	**971.3**
y-o-y	-27.0%	-18.0%	15.2%	1.2%	-21.9%	-28.4%	2.4%	**-16.0%**
% of total	51.3%	15.6%	28.1%	3.9%	0.4%	0.7%	0.0%	**100.0%**
Adj. EBITDA	19.0	105.3	193.9	0.9	0.3	-4.1	-8.9	**306.3**
y-o-y	17.7%	2.1%	9.6%	-62.2%	17.1%	-0.8%	-5.2%	**7.4%**
EBITDA margin	*3.8%*	*69.6%*	*70.9%*	*2.3%*	*6.9%*	*-57.8%*	*n/m*	***31.5%***
% of total	6.2%	34.4%	63.3%	0.3%	0.1%	-1.3%	-2.9%	**100.0%**
Net profit bef. mins	-9.7	27.3	68.8	0.4	-2.4	-16.3	-10.1	**58.1**
y-o-y	-4.6%	-49.5%	47.9%	n/m	n/m	-22.4%	23.0%	**4.2%**
% of total	n/a	47.0%	118.5%	0.8%	n/a	n/a	n/a	**100.0%**
CapEx	4.2	9.9	113.4	0.1	0.8	5.6	0.0	**134.0**
y-o-y	-36.9%	296.7%	-56.4%	n/m	-58.0%	-17.8%	-93.7%	**-51.9%**
% of total	3.2%	7.4%	84.6%	0.0%	0.6%	4.2%	0.0%	**100.0%**
FCF*	10.4	51.3	15.3	0.8	-0.9	-12.3	-12.1	**52.4**
y-o-y	105.9%	-9.2%	n/m	-65.9%	-55.9%	-9.2%	-6.3%	**n/m**
% of total	19.8%	98.0%	29.2%	1.4%	-1.8%	-23.5%	-23.2%	**100.0%**
Net debt/(cash)	-158.3	553.6	644.7	-2.3	56.4	90.9	132.4	**1,317.3**
y-o-y	134.8%	-2.9%	-10.7%	52.4%	-2.3%	16.6%	68.9%	**-8.3%**
% of total	-12.0%	42.0%	48.9%	-0.2%	4.3%	6.9%	10.1%	**100.0%**
net interest expense	-4.4	-44.1	-65.2	0.0	-0.4	-2.6	-3.2	**-119.9**

Source: GTG, Euroxx Research. * FCF is calculated as adj. EBITDA minus CapEx minus net financial expenses. All figures are in €m

2019	Construction	Concessions	RES	Thermal Energy	Real Estate	Industrial	Holding	TOTAL
Sales	682.2	184.5	237.3	37.0	4.7	9.9	**0.2**	**1,155.7**
% of total	59.0%	16.0%	20.5%	3.2%	0.4%	0.9%	0.0%	**100.0%**
Adj. EBITDA	16.2	103.1	176.9	2.3	0.2	-4.1	-9.4	**285.1**
EBITDA margin	*2.4%*	*55.9%*	*74.6%*	*6.1%*	*4.6%*	*-41.7%*	*n/m*	***24.7%***
% of total	5.7%	36.2%	62.0%	0.8%	0.1%	-1.4%	-3.3%	**100.0%**
Net profit bef. mins	-10.2	54.1	46.5	-5.8	0.3	-21.0	-8.2	**55.7**
% of total	n/a	97.0%	83.5%	n/a	0.5%	n/a	n/a	**100.0%**
CapEx	6.7	2.5	260.2	0.0	2.0	6.8	0.4	**278.6**
% of total	2.4%	0.9%	93.4%	0.0%	0.7%	2.5%	0.1%	**100.0%**
FCF *	5.0	56.6	-148.5	2.2	-2.1	-13.6	-13.0	**-113.3**
Net debt/(cash)	-67.4	569.9	721.7	-1.5	57.7	78.0	78.4	**1,436.7**
% of total	n/a	39.7%	50.2%	n/a	4.0%	5.4%	5.5%	**100.0%**
net interest expense	-4.4	-44.1	-65.2	0.0	-0.4	-2.6	-3.2	**-119.9**

Source: GTG, Euroxx Research. * FCF is calculated as adj. EBITDA minus CapEx minus net financial expenses. All figures are in €m

2021-24e Group Financials: Solid Earnings Momentum Driven by Construction, Concessions and RES

We present below our key forecasts per GTG's main segment:

Construction: well-placed for strong profitability and FCF growth

Construction: TERNA's backlog, the group's fully-owned construction arm, currently stands at €2.2bn (c4.4x 2020 divisional sales), with c30% relating to foreign projects. We estimate the average duration at c4-5 years. Note that after the construction of the major motorway concession projects was completed in 2017-18, construction revenues stabilised at lower (albeit solid) levels in 2019, while in 2020 there was also the negative effect of the pandemic.

We expect average 2021-24e revenues of €862m supported by pipeline and new infrastructure projects

Looking ahead, following the official signing of the Integrated Casino Resort in Hellinikon, where TERNA will undertake 100% of the construction works, the total construction backlog will reach €3bn, hence providing excellent scope for the return of construction activity closer to pre-crisis levels. On balance, we estimate 2021-24e revenues to average €862m (up from €590m in 2019-20 and closer to the c€935m in

2016-18), gaining support by the start of construction works for the Kastelli airport (€480m budget, to be completed in 2025e), the North part of E65 motorway (€442m budget, to be completed in 2024e), the Attica-Crete Interconnection (€370m budget, in a JV with Siemens, to be completed in 2023e). We also assume additional contribution from new domestic projects related to the implementation of Greece's infrastructure programme (also assisted by NGEU funds), such as the North Crete highway, the Thessaloniki Ring Road, several regional roads, etc. Note that in the construction division, we also include c€30m of construction-related revenues from Terna Energy.

EBITDA margins to head north to c4%, leading to FCF of €30m

Regarding profitability, following the unsustainably high EBITDA margins of >13% in 2016-17, underpinned primarily from the motorway concessions, and a normalisation thereafter to around 3%, we expect margins on an upward path going forward, supported by GTG's own concession projects. As a result, we forecast EBITDA margins to average 4.2% in 2021-24%, implying average EBITDA of c€37m over the same period, which implies that GTG's construction activity will remain highly cash generative, with divisional FCF seen at c€30m. We also believe that the risks to our forecasts lie to the upside, given that historically construction margins for already awarded concession projects tend to exceed industry norms.

RES: Strong earnings momentum still in place, driven by Greece, even after the disengagement of Texas assets

RES – Terna Energy: Reflecting the imminent decommissioning of 513MW in US in 2021e, some short delays in Evritania Project (67MW) and Kafireas Project (330MW), as well as the contribution of another 350MW (totaling 400MW) of solar parks by end-2023e (200MW by end-2022e and another 200MW by end-2023e), we forecast 2021e RES revenues of €206m, €217.2m in 2022e, €327m in 2023e and €340m in 2024e, exhibiting a 2020-24e CAGR of 5.6%. We estimate the group average load factor to range between 27.7% and 25.8% in 2021-24e.

2020-24e revenue and EBITDA CAGRs at 5.6% and 6.8% respectively, driven by new capacity additions

As far as profitability is concerned, we expect RES EBITDA of €150m in 2021e (down 23% y-o-y), €157m in 2022e and €242m in 2023e, while we expect EBITDA to shape at €253m in 2024e, accounting for RES EBITDA margins of c74.4% and implying a 2020-24e CAGR of 6.8%. RES EBITDA growth is mainly attributed to incremental capacity additions in Greece, despite the decommissioning of Texas assets in 2021e, which were contributing c€50m-60m p.a.

All in all, after accounting for the retired capacity in Texas but also the inclusion of 400MW of PV parks in Greece (expected to come on stream in 2022-23e), our latest estimates still suggest a strong earnings momentum for RES, with 2020-24e sales/EBITDA CAGRs of 5.6%/6.8, with adj. group TE EPS seen at €0.84/share in 2024e (implied CAGR of 15.6%), benefited also by the full deployment of the new PV projects (the last 200MW to be installed in late 2023e). We also continue to assume a generous shareholder remuneration policy for TE, with total yield (DPS and/or capital return) of 3%-4% in 2020-24e, well ahead of European peers. Finally, in leverage terms, despite the deleverage achieved due to the elimination of Tax Equity Liability post the disengagement from the US assets, the concurrent EBITDA loss (c€50m) from the related assets and the increased CapEx of €893m in 2021-22e due the inclusion of PVs parks, we expect adj. net debt / EBITDA to peak to 7.0x in 2022e. That said, we expect a large decline to 4.2x in 2023e, supported by higher group profitability (upon the deployment of group's upcoming 427MW in wind parks, 400MW in solar and the implementation of waste management projects) as well as cumulative OpCF of €378m in 2021-23e.

Table 10. Terna Energy's P&L Forecasts (2020-24e)

in €m	2020	y-o-y	2021e	y-o-y	2022e	y-o-y	2023e	y-o-y	2024e	y-o-y	2020-24e CAGR
- RES revenues	273.4	15.2%	206.0	-24.6%	217.2	5.4%	327.4	50.8%	339.7	3.8%	5.6%
% of total sales	*83.3%*		*77.7%*		*76.9%*		*82.1%*		*82.7%*		
- Construction revenues	5.5	-62.3%	1.0	-81.7%	1.0	0.0%	1.0	0.0%	1.0	0.0%	-34.6%
% of total sales	*1.7%*		*0.4%*		*0.4%*		*0.3%*		*0.2%*		
- Electricity Trading revenues	35.9	-2.8%	40.0	11.3%	40.0	0.0%	40.0	0.0%	40.0	0.0%	2.7%
% of total sales	*11.0%*		*15.1%*		*14.2%*		*10.0%*		*9.7%*		
- Concessions	13.3	27.4%	18.2	37.2%	24.2	32.7%	30.2	24.8%	30.2	0.0%	22.8%
% of total sales	*4.1%*		*6.9%*		*8.6%*		*7.6%*		*7.3%*		
Group Sales	**328.1**	**9.7%**	**265.3**	**-19.1%**	**282.4**	**6.4%**	**398.6**	**41.2%**	**410.9**	**3.1%**	**5.8%**
- RES EBITDA	194.1	10.2%	150.1	-22.6%	157.4	4.9%	242.1	53.8%	252.6	4.3%	6.8%
% of total EBITDA	*99.7%*		*96.6%*		*95.2%*		*95.7%*		*95.8%*		
EBITDA margin	*71.0%*		*72.9%*		*72.5%*		*73.9%*		*74.4%*		
- Construction EBITDA	-0.8	n/a	0.2	n/a	0.4	75.0%	0.4	0.0%	0.4	0.0%	n/a
% of total EBITDA	*-0.4%*		*0.1%*		*0.2%*		*0.1%*		*0.1%*		
EBITDA margin	*-15.3%*		*20.0%*		*35.0%*		*35.0%*		*35.0%*		
- Electricity Trading EBITDA	0.8	-65.9%	1.2	56.5%	1.2	0.0%	1.2	0.0%	1.2	0.0%	11.8%
% of total EBITDA	*0.4%*		*0.8%*		*0.7%*		*0.5%*		*0.5%*		
EBITDA margin	*2.1%*		*3.0%*		*3.0%*		*3.0%*		*3.0%*		
- Concessions EBITDA	0.9	57.6%	3.9	315.4%	6.4	66.0%	9.4	46.6%	9.4	0.0%	78.3%
% of total EBITDA	*0.5%*		*2.5%*		*3.9%*		*3.7%*		*3.6%*		
EBITDA margin	*7.0%*		*21.3%*		*26.6%*		*31.2%*		*31.2%*		
Group EBITDA	**194.7**	**7.0%**	**155.4**	**-20.2%**	**165.4**	**6.4%**	**253.1**	**53.0%**	**263.6**	**4.1%**	**7.9%**
EBITDA margin	*59.4%*		*58.6%*		*58.6%*		*63.5%*		*64.1%*		
Depreciation	70.2	18.9%	38.3	-45.5%	44.2	15.6%	91.2	106.2%	95.8	5.0%	8.1%
Group Adj. EBIT	**128.6**	**2.5%**	**117.2**	**-8.9%**	**121.2**	**3.4%**	**161.9**	**33.6%**	**167.8**	**3.6%**	**6.9%**
Adj. EBIT margin	*39.2%*		*44.2%*		*42.9%*		*40.6%*		*40.8%*		
Net financials	(61.8)	1.8%	(36.9)	-40.2%	(40.2)	8.8%	(40.4)	0.5%	(37.3)	-7.8%	
Group Adj. EBT	**67.1**	**-7.1%**	**80.4**	**19.9%**	**81.2**	**0.9%**	**121.7**	**49.9%**	**130.8**	**7.4%**	**18.2%**
Adj. EBT margin	*20.4%*		*30.3%*		*28.8%*		*30.5%*		*31.8%*		
Taxes	*(16.6)*	*1.3%*	*3.5*	*n/a*	*(19.5)*	*n/a*	*(29.2)*	*49.9%*	*(31.4)*	*7.4%*	*17.2%*
Effective tax rate	*18.5%*		*24.0%*		*24.0%*		*24.0%*		*24.0%*		
Group Net Profit	71.8	39.3%	-12.7	n/a	60.1	n/a	90.9	51.2%	97.8	7.6%	8.0%
Group Adj. Net Profit	**54.4**	**1.6%**	**59.5**	**9.5%**	**60.1**	**1.0%**	**90.9**	**51.2%**	**97.8**	**7.6%**	**15.8%**
Adj. net margin	*16.6%*		*22.4%*		*21.3%*		*22.8%*		*23.8%*		
EPS (€)	0.62	36.9%	-0.11	n/a	0.52	n/a	0.78	51.2%	0.84	7.6%	8.0%
Adjusted EPS (€)	**0.47**	**-0.1%**	**0.51**	**9.5%**	**0.52**	**1.0%**	**0.78**	**51.2%**	**0.84**	**7.6%**	**15.8%**
DPS & Capital Return (€)	**0.37**	**-26.7%**	**0.38**	**2.0%**	**0.41**	**7.0%**	**0.45**	**10.0%**	**0.49**	**10.0%**	**7.2%**

Source: Terna Energy, Euroxx Research *Note: net financials in 2020 include capital gains from the sale of Idaho*

Concessions: to remain as the second largest contributor to group EBITDA, supported by the anticipated return of the Greek economy to strong growth rates

Concessions: Following GTG's increase in participation in Ionia (Nea) Odos and E-65, GTG fully consolidates these assets as of 2018. Following the traffic decline last year due to the pandemic, we expect traffic volumes to gradually recover from Q2'21e onwards, even exceeding pre-crisis levels post 2022e. In more detail, following a 15.9% y-o-y drop in Nea Odos and E-65 combined revenues last year to €127m, we expect them to grow by 13% y-o-y this year to €143.5m, and exceed 2019 levels thereafter, reflecting the anticipated return of the Greek economy to strong growth rates. Furthermore, we also incorporate in the concessions division the contribution of Terna Energy's new waste management projects post 2020. As a result, we project TE-related concession revenues of €18m in 2021e (from €13m in 2020), €24m in 2022e and c€30m thereafter. All in all, we expect GTG concession revenues to pick up to €174m in 2021e (+14.8% y-o-y), growing to >€200m from 2023e onwards (10.2% 4-year CAGR).

Regarding profitability, bear in mind that in 2020 GTG was compensated by the Greek State for the losses suffered due to the pandemic with an amount of €33.7m for the first 2 semesters (booked as other operating income, hence boosting EBITDA). As a result, we expect a more 'linear' increase this year to divisional reported EBITDA to €97m (+10% y-o-y), with growth remaining around these levels in 2022-23e, fueled by the strong economic growth. All in all, on our estimates, concessions remain as the group's second largest EBITDA contributor (although we would expect their net profit contribution to be considerably lower due to high depreciation and provisions for increased maintenance of motorways).

Small contribution from other activities

Other (Real Estate, Industrial, Electricity Trading, and Holding): We overall expect a small sales/earnings contribution from GTG's other activities, namely real estate, Industrial (magnesite mining), electricity trading and holding.

Table 11. GEK TERNA Group Divisional Sales, adj. EBITDA and rep. EBIT Forecasts (2018-24e)

Construction	2018	2019	2020	2021e	2022e	2023e	2024e	2019 y-o-y	2020 y-o-y	2021e y-o-y	2022e y-o-y	2023e y-o-y	2024e y-o-y	CAGR 2020-24e
Revenues	**949**	**682**	**498**	**720**	**917**	**937**	**877**	*-28%*	*-27%*	*44%*	*27%*	*2%*	*-6%*	*21%*
of total (%)	*68%*	*59%*	*51%*	*62%*	*66%*	*61%*	*58%*							
EBITDA adj.	**32**	**16**	**19**	**27**	**38**	**42**	**41**	*-50%*	*18%*	*44%*	*37%*	*12%*	*-2%*	*29%*
EBITDA margin (%)	*3.4%*	*2.4%*	*3.8%*	*3.8%*	*4.1%*	*4.5%*	*4.7%*							
of total (%)	*11%*	*6%*	*6%*	*11%*	*13%*	*11%*	*10%*							
EBIT rep.	**20**	**4**	**7**	**16**	**27**	**31**	**30**	*-82%*	*90%*	*136%*	*63%*	*17%*	*-3%*	*64%*
EBIT margin (%)	*2.1%*	*0.5%*	*1.4%*	*2.3%*	*2.9%*	*3.3%*	*3.5%*							
of total (%)	*12%*	*2%*	*4%*	*10%*	*14%*	*13%*	*12%*							
Renewable Energy	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**2024e**							
Revenues	**216**	**237**	**273**	**206**	**217**	**327**	**340**	*10%*	*15%*	*-25%*	*5%*	*51%*	*4%*	*8%*
of total (%)	*15%*	*21%*	*28%*	*18%*	*16%*	*21%*	*23%*							
EBITDA adj.	**157**	**177**	**194**	**150**	**157**	**242**	**253**	*13%*	*10%*	*-23%*	*5%*	*54%*	*4%*	*9%*
EBITDA margin (%)	*72.4%*	*74.6%*	*70.9%*	*72.9%*	*72.5%*	*73.9%*	*74.4%*							
of total (%)	*56%*	*62%*	*63%*	*58%*	*54%*	*61%*	*61%*							
EBIT rep.	**109**	**120**	**127**	**114**	**116**	**154**	**160**	*10%*	*7%*	*-11%*	*2%*	*32%*	*4%*	*8%*
EBIT margin (%)	*50.3%*	*50.4%*	*46.6%*	*55.3%*	*53.5%*	*47.0%*	*47.1%*							
of total (%)	*65%*	*76%*	*81%*	*70%*	*61%*	*63%*	*62%*							
Concessions	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**2024e**							
Revenues	**197**	**185**	**151**	**174**	**194**	**213**	**223**	*-6%*	*-18%*	*15%*	*12%*	*10%*	*5%*	*14%*
of total (%)	*21%*	*27%*	*30%*	*24%*	*21%*	*23%*	*25%*							
EBITDA adj.	**93**	**103**	**105**	**93**	**103**	**111**	**117**	*11%*	*2%*	*-11%*	*10%*	*8%*	*6%*	*4%*
EBITDA margin (%)	*47.2%*	*55.9%*	*69.6%*	*53.7%*	*52.9%*	*52.1%*	*52.7%*							
of total (%)	*33%*	*36%*	*34%*	*36%*	*35%*	*28%*	*28%*							
EBIT rep.	**50**	**52**	**44**	**53**	**64**	**74**	**80**	*4%*	*-15%*	*19%*	*21%*	*16%*	*8%*	*22%*
EBIT margin (%)	*25.2%*	*28.0%*	*29.2%*	*30.3%*	*32.8%*	*34.8%*	*35.8%*							
of total (%)	*30%*	*33%*	*28%*	*33%*	*34%*	*30%*	*31%*							
Other (*)	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**2024e**							
Revenues	**40**	**52**	**48**	**56**	**59**	**63**	**65**	*28%*	*-7%*	*16%*	*5%*	*6%*	*4%*	*10%*
of total (%)	*3%*	*4%*	*5%*	*5%*	*4%*	*4%*	*4%*							
EBITDA adj.	**-1**	**-8**	**-12**	**-17**	**-12**	**-8**	**-6**	*773%*	*54%*	*41%*	*-28%*	*-31%*	*-32%*	*-22%*
of total (%)	*0%*	*-3%*	*-4%*	*-6%*	*-4%*	*-2%*	*-1%*							
EBIT rep.	**-12**	**-18**	**-22**	**-21**	**-17**	**-14**	**-12**	*47%*	*23%*	*-3%*	*-18%*	*-17%*	*-14%*	*-17%*
of total (%)	*-7%*	*-11%*	*-14%*	*-13%*	*-9%*	*-6%*	*-5%*							
Total	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**2024e**							
Revenues	**1,403**	**1,156**	**971**	**1,156**	**1,387**	**1,539**	**1,504**	***-18%***	***-16%***	***19%***	***20%***	***11%***	***-2%***	***16%***
EBITDA adj.	**281**	**285**	**306**	**258**	**292**	**396**	**415**	***2%***	***7%***	***-16%***	***13%***	***36%***	***5%***	***11%***
EBITDA margin (%)	*20.0%*	*24.7%*	*31.5%*	*22.3%*	*21.1%*	*25.7%*	*27.6%*							
EBIT rep.	**166**	**157**	**157**	**162**	**189**	**245**	**258**	***-6%***	***0%***	***3%***	***17%***	***29%***	***5%***	***18%***
EBIT margin (%)	*11.9%*	*13.6%*	*16.1%*	*14.0%*	*13.7%*	*15.9%*	*17.1%*							

Source: GTG, Euroxx Research estimates *Note: (*) Includes Thermal Energy, Real Estate, Industrial & Holding*

Pulling it altogether…

We expect group revenues to grow by 19% this year to €1,156m, fueled mainly by construction and to a lesser extent concessions

Looking ahead, we expect the domestic economic kick-start and the revival of public and private construction activity to have positive implications for new infrastructure projects. This, combined with the anticipated launch of the pipeline projects and the implementation of Greece's infrastructure programme, should assist construction revenues. Furthermore, the continuing implementation of its RES pipeline should support top line. To this end, we expect 2021e group sales to grow by 19% to €1,156m, fueled mostly by construction and to a lesser extent concessions, as RES turnover should be negatively affected this year by the Texas disengagement.

We expect a temporary decline in 2021e profitability, underpinned by the disengagement of

Regarding operating profitability, we expect group adj. EBITDA this year to drop by 15.7% y-o-y (€48m) to €258m owing to the disengagement of Texas assets in the RES division (which were contributing c€50m p.a.), not fully offset by profitability growth in construction and concessions. That said, at a reported level, i.e. assuming zero one-

Texas assets in the RES division

offs this year and excluding last year's non-cash adjustments of €27.9m (provisions for staff compensation of €2.8m, stock option expenses of €3.3m, impairments of investment properties €0.5m, provisions for heavy maintenance of €16.5m, impairments of receivables and inventories, other provisions and earnings from elimination of liabilities of €5.0m), we expect group EBIT to grow by 3% y-o-y this year to €161.8m. On our estimates, growth is driven primarily by construction and concessions, which more than offset the RES decline, hence highlighting all too well, in our view, GTG's activity diversification benefits. Note also that the impact from the Texas disengagement is lower at the EBIT level due to the lower depreciation.

We forecast GTG adj. group net profits to grow at a 2020-24e CAGR of 21.8%, driven primarily by RES

Further down the P&L, accounting also for the 6% lower y-o-y total net financial expenses -excl. derivatives results- despite the increased leverage, mainly due to the drop in interest cost owing to the new bond, and the €98.5m one-off loss from Texas, we forecast GTG to record reported net losses of €29.3m this year from net profits of €12.5m in 2020 (also buoyed by €20m of derivatives and €25m capital gains). Excluding the Texas one-off, adj. net profits are seen at +€7.5m this year, growing further to €16m (+115%) in 2021e and €40.5m in 2023e (+153%), also assisted by lower tax rates, and despite the higher RES-related minorities.

2020-24e group sales and adj. EBITDA CAGRs of 11.6% and 7.9%, respectively, growing exposure of Greek ops to revenue and earnings

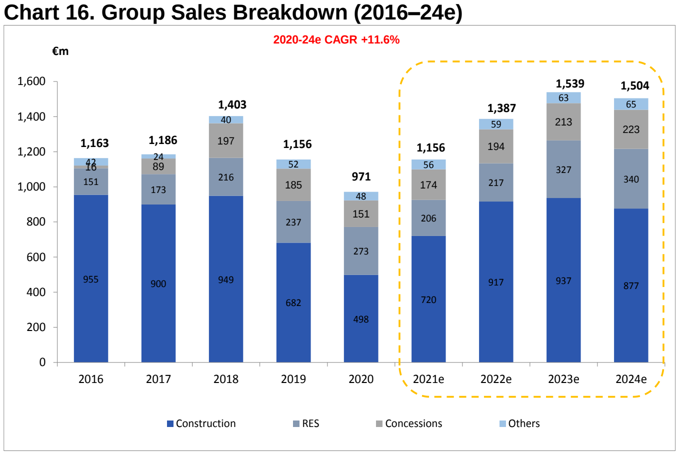
To summarize, we expect GTG to achieve 2020-24e group revenue CAGR of 11.6%, being closely linked to the post Covid-19 Greek economic revival theme, the successful implementation of Greece's infrastructure programme as well as the RES capacity additions in Greece. In a similar pattern, we forecast group adj. EBITDA and reported EBIT to grow on average by 7.9% and 13.2%, respectively, over the same period, as we assume margins to improve, primarily in construction. Overall, due to the group's exposure to the Greek market (80% of revenues in 2020) and our expectations for an increasing contribution of domestic operations in the profitability and cash flow mix going forward, we believe GTG is one of the best ways for investors to play the Greek investment-driven infrastructure boom and energy transition themes.

Table 12. GEK TERNA Group P&L Forecasts (2018-24e)

(amounts in €m)	2018	2019	2020	2021e	2022e	2023e	2024e
Sales	**1,402.7**	**1,155.7**	**971.3**	**1,155.9**	**1,387.0**	**1,539.3**	**1,504.2**
% change	*18%*	*-18%*	*-16%*	*19%*	*20%*	*11%*	*-2%*
EBITDA rep.	**270.1**	**271.9**	**281.8**	**258.1**	**292.1**	**396.3**	**415.1**
% change	*-1%*	*1%*	*4%*	*-8%*	*13%*	*36%*	*5%*
EBITDA margin %	*19.3%*	*23.5%*	*29.0%*	*22.3%*	*21.1%*	*25.7%*	*27.6%*
EBITDA adj.	**280.8**	**285.1**	**306.3**	**258.1**	**292.1**	**396.3**	**415.1**
Depreciation	-103.6	-114.6	-125.0	-96.3	-102.8	-151.3	-157.4
% change	*58%*	*11%*	*9%*	*-23%*	*7%*	*47%*	*4%*
EBIT rep.	**166.5**	**157.3**	**156.8**	**161.8**	**189.3**	**245.0**	**257.7**
% change	*-20%*	*-6%*	*0%*	*3%*	*17%*	*29%*	*5%*
EBIT margin %	*11.9%*	*13.6%*	*16.1%*	*14.0%*	*13.7%*	*15.9%*	*17.1%*
Net financial income (excl. derivatives)	-116.6	-118.3	-119.9	-112.3	-123.5	-124.4	-116.7
Derivatives results	8.3	46.0	20.4	0.0	0.0	0.0	0.0
Results from associates and JVs	2.6	-3.6	25.8	-97.5	1.0	1.0	1.0
EBT rep.	**60.8**	**77.8**	**71.4**	**-48.0**	**66.9**	**121.6**	**142.0**
% change	*-60%*	*28%*	*-8%*	*n/m*	*n/m*	*82%*	*17%*
EBT margin %	*4.3%*	*6.7%*	*7.4%*	*-4.2%*	*4.8%*	*7.9%*	*9.4%*
Tax	-25.0	-22.1	-13.4	9.8	-13.2	-24.1	-28.2
Effective tax rate	*35%*	*25%*	*18%*	*20%*	*20%*	*20%*	*20%*
Minorities	-31.4	-32.3	-45.6	8.9	-37.7	-57.0	-61.3
Net profit rep.	**4.5**	**23.5**	**12.5**	**-29.3**	**16.0**	**40.5**	**52.5**
% change	*-94%*	*425%*	*-47%*	*n/m*	*n/m*	*153%*	*30%*
Net profit adj.	**12.2**	**30.5**	**23.9**	**7.5**	**16.0**	**40.5**	**52.5**
% change	*-84%*	*151%*	*-22%*	*-69%*	*115%*	*153%*	*30%*
EPS (€)	**0.05**	**0.24**	**0.13**	**-0.30**	**0.16**	**0.42**	**0.54**
% change	*-94%*	*431%*	*-47%*	*n/m*	*n/m*	*153%*	*30%*
DPS (€)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.15**	**0.20**
Dividend payout	0%	0%	0%	0%	0%	38%	39%

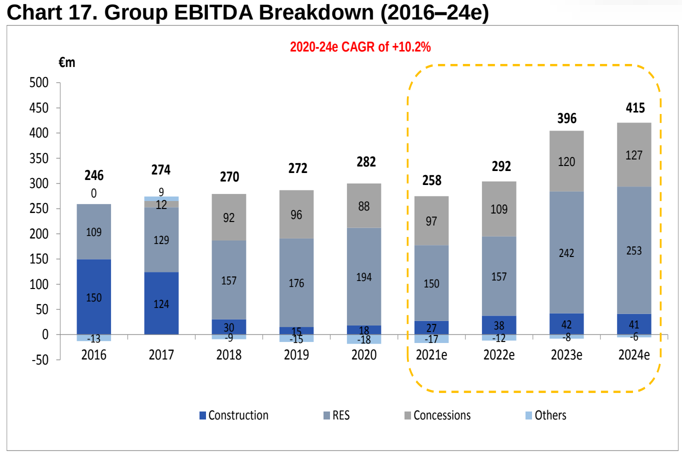
Source: GTG, Euroxx Research estimates

Chart 16. Group Sales Breakdown (2016–24e)



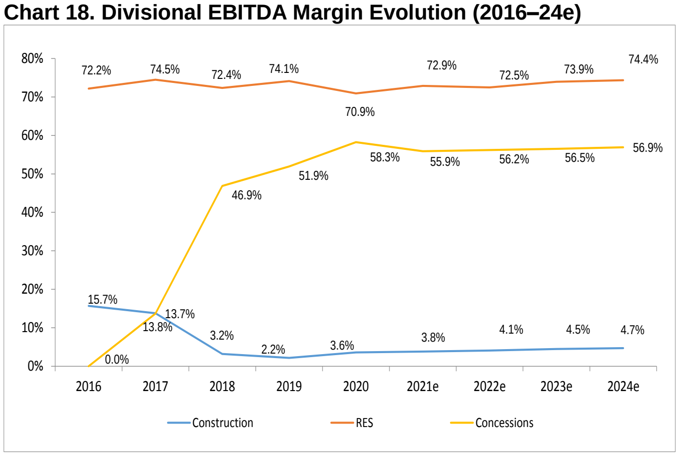
Source: GTG, Euroxx Research

Chart 17. Group EBITDA Breakdown (2016–24e)



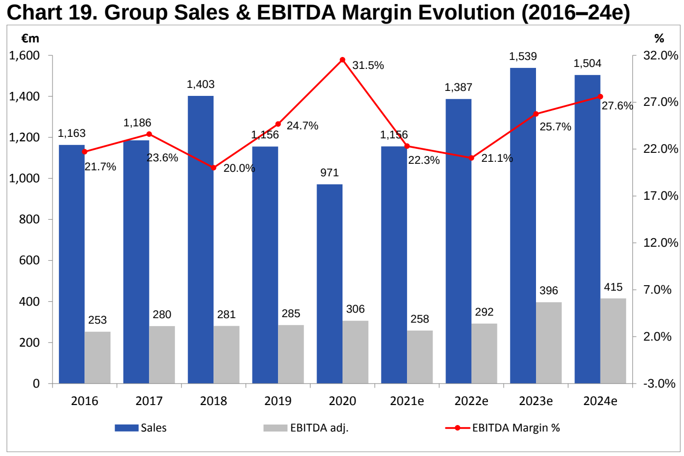
Source: GTG, Euroxx Research

Chart 18. Divisional EBITDA Margin Evolution (2016–24e)



Source: GTG, Euroxx Research

Chart 19. Group Sales & EBITDA Margin Evolution (2016–24e)



Source: GTG, Euroxx Research

After a Temporary Pick Up in 2021-22e on RES Capacity Additions, We Expect Deleveraging From 2023e Onwards

Table 13. Group Net Debt and Capex Breakdown (FY'20)

€m	Net debt/(cash) 2020	CapEx 2020
Construction	-158.3	4.2
Thermal Energy	-2.3	0.1
Real Estate	56.4	0.8
Renewables	644.7	113.4
Concessions	553.6	9.9
Industrial	90.9	5.6
Holdings	132.4	0.0
Total	**1,317.3**	**134.0**

Source: GTG

As of end-2020, GTG group net debt (incl. non-recourse debt & leases, and excl. Tax Equity) amounted to €1,317m, with RES-related net debt (mostly non-recourse to parent as it is related to wind farm projects, excl. tax equity) at €645m, and the construction division being net cash of €158m. At a parent level, net debt was €158m. In 2020, group net debt fell by €120m y-o-y, implying a net debt/adj. EBITDA ratio of 4.3x from 5.0x in 2019, owing mainly to the strong OpCF and despite the €113m RES-related CapEx. According to GTG's financial statements, out of the total borrowings of €2,425m, subordinated, non-recourse loans amount to €1,763m (vs. €1,573m in 2019), while recourse debt stood at €663m vs. €458m in 2019, accounting for 27.3% of total.

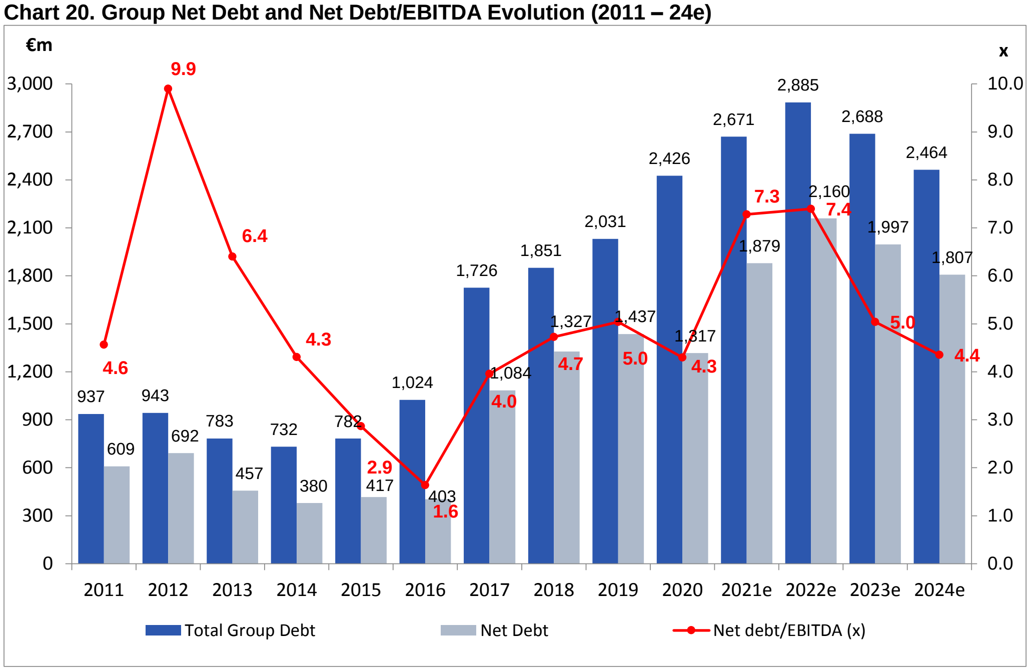
2020 bond loan issue drove group cost of debt down by 1pps y-o-y to 4.38%

In terms of duration, as of FY'20, out of the total group loans of €2,425m, 9.3% have a duration of up to 1 year, 29% have a duration of 1-5 years and the remaining 61.7% have a 5+ year duration. Note that during 2020, EH issued a 7-year common bond loan of €500m at a yield of 2.75% (the placement of the bonds was made through a public offering, which was c1.4x oversubscribed, and the bonds were listed on the Regulated Market of the ATHEX under the fixed income securities segment), hence lowering overall cost of debt to 4.38% in 2020 from 5.38% in 2019. Overall, GTG's funding strategy is based on autonomous funding by business unit along with corporate bond funding at the Holding Company level (the group allocates debt according to debt capacity per BU and market conditions), which is serviced by dividends. Also important, the recent bond covenants allow significant headroom for further growth investments.

After a temporary pick-up in 2021-22e on RES capacity additions, we expect deleveraging from 2023e onwards

Looking further ahead, we project group net debt to peak to €2,160m in 2022e, implying a net debt/EBITDA ratio of 7.4x, on the back of large (€893m combined in 2021-22e) investments in RES for new wind capacity and the equity contributions for the new concession projects (€200m combined in 2021-22e). That said, we project contained CapEx requirements from 2023e onwards, and the cash distributions from the operating concessions to drive deleveraging, leading to a net debt/EBITDA of 5.0x in 2023e (on net debt of €2.0bn) and 4.4x in 2024e (on net debt of €1.81bn). Note also that the recent establishment of the concessions SPV should also improve the parent company's credit profile and overall enhance corporate credit capacity (so as to fund equity participations in new projects).

Chart 20. Group Net Debt and Net Debt/EBITDA Evolution (2011 – 24e)



Source: GTG, Euroxx Research

To Turn FCF Positive & Resume Dividend Distribution Post 2022e

FCFE to turn positive from 2023e onwards

Regarding FCF, in 2020 GTG generated FCFE (i.e. after TE minorities) of €62m, courtesy of the robust OpCF (€316m, also supported by positive working capital moves) and lower y-o-y CapEx requirements.

Looking ahead, we expect 2021/22e group FCF to turn well in the red, owing to a huge jump in CapEx to €678m/€444m, mainly due to RES but also due to the expected equity contributions for the Kastelli and Hellinikon Casino concessions. That said, we expect FCF to turn positive from 2023e onwards, generating yields >12%.

Table 14. GEK TERNA Group Free Cash Flow Forecasts (2018-24e)

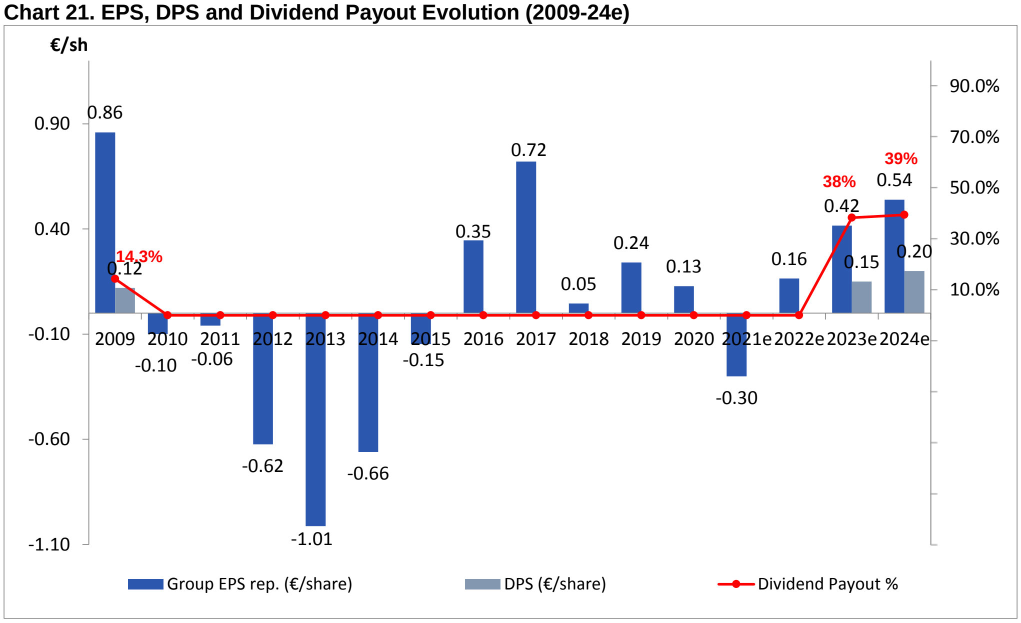
FCF (€m)	2018	2019	2020	2021e	2022e	2023e	2024e
EBITDA (adj.)	280.8	285.1	306.3	258.1	292.1	396.3	415.1
-Tax paid	-6.0	-16.9	-7.8	0.0	-7.5	-16.6	-26.5
-CapEx (Net), of which	-256.5	-238.3	-144.7	-677.8	-444.1	-84.3	-84.3
-RES	-108.1	-260.2	-113.4	-543.5	-349.8	-50.0	-50.0
-Concessions	-29.5	-2.5	-9.9	-122.3	-82.3	-22.3	-22.3
-WC changes	-244.0	-18.5	44.3	19.1	-17.9	-12.5	3.1
-Interest paid	-100.4	-89.0	-91.2	-92.3	-103.5	-104.4	-96.7
FCFF	**-325.0**	**-76.1**	**107.7**	**-493.0**	**-280.8**	**178.5**	**210.7**
-Minorities	-31.4	-32.3	-45.6	8.9	-37.7	-57.0	-61.3
FCFE	**-356.4**	**-108.3**	**62.1**	**-484.0**	**-318.5**	**121.5**	**149.4**
FCFE yield	*-34.8%*	*-10.6%*	*6.1%*	*-47.3%*	*-31.1%*	*11.9%*	*14.6%*

Source: GTG, Euroxx Research

GTG's improving FCF generation leaves scope for dividend resumption from 2023e onwards, based on our estimates; we expect DPS of €0.15 in 2023e (DY of 1.5%)

Regarding dividends, GTG's last distribution was back in 2009 with €0.12/share. Since then, the domestic recession has put heavy pressure on construction profits and led to sizeable impairments in real-estate assets, hence pushing GTG to net losses until 2015. That said, the construction division's recovery was mainly responsible for a return to profitability since 2016. Looking ahead, the maturing of GTG's investment portfolio and the improving FCF generation leaves good scope for dividend resumption, which we expect to take place from 2023e onwards. In more detail, we pencil in a payout ratio of c38% (on group net earnings) in 2023e, which results in DPS of €0.15 (DY of 1.5%). Finally, until the dividend resumption, we expect GTG to top up shareholder remuneration through share buy-back schemes (and cancellation of treasury stock). Note that as of 31/12/2020 GTG held 6.55m own shares, representing 6.3% of its share capital, while base on our estimates, treasury stock has currently reached c7.7% (i.e. c8m shares).

Chart 21. EPS, DPS and Dividend Payout Evolution (2009-24e)



Source: GTG, Euroxx Research. Note: Dividend payout is on group EPS

IMPORTANT DISCLOSURES

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Equalweight	Expected total return between -10% and +10%	0	0%	0%
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Valuation Method

We value GTG through a SOTP model, to which we apply a 10% holding discount mainly to account for GTG's holding status.

Rating History

Date	Rating	Share Price	Target Price
11-06-2021	Overweight	9.90	14.00

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