GEK TERNA S.A.

Construction / Greece
Reuters/Bloomberg: HMrr.AT / GEKTERNA GA

February 16th, 2021

Firing on all cylinders

Rating	**Buy**
vs. Previous	*Buy*
Target Price (EUR)	**10.90**
vs. Previous	*8.80*
*Current Share Price**	**8.22**
**15/02/2020*	

Gek Terna is the leader in infrastructure investments in Greece holding a lucrative portfolio of assets which secure cash-flow visibility and along with its healthy balance sheet structure, allows management to go after new opportunities. As the outlook for the investment cycle in the country is becoming increasingly positive, we view Gek Terna to be best positioned to benefit from tailwinds to its greenfield development appetite, thus allowing for significant value creation in the coming years. On the back of this, we now expect 2021-23 EBITDA and EPS CAGR of 18.5% and 55.5% respectively. We are increasing our TP to EUR 10.90/sh (vs. EUR 8.80/sh previously) and re-iterate our Buy recommendation.

Construction & Infrastructure sector outlook turning positive: Following a volatile decade for the domestic economy that has led to a depletion of the domestic infrastructure stock with very few projects tendered, the country aims to take full advantage of the fiscal stimulus environment on an EU level and accelerate project tendering, setting the background for a sustainable growth in the coming years. Over 2021-2027 a total of EUR 72bn of EU funds are earmarked to be invested in Greece, while these funds will be further leveraged by private sector participation, leading to a very positive outlook for the construction/infrastructure sector in the country. Tendering process has already accelerated with Ministry of Infrastructure having recognized EUR 13bn of mature projects to be tendered over the next 12-18 months.

Construction activity to pick up: Gek Terna's backlog from EUR 1.5bn is expected to increase substantially over the coming months following the signing of new public projects (EUR 450m motorway North extension) and Hellinikon casino (EUR 0.8bn contract). Along with the launch of the Kasteli airport contract in 2020 and execution of E-65 South extension (~60% completed) we expect the company's construction activity to pick up its pace, with operating leverage supporting also margin expansion. Looking forward, Gek Terna has already expressed interest in tenders of more than EUR 2.0bn that have reached the market. We note that Gek Terna commands a ~30% market share in the Greek market. We note that strategically Gek tends to also be involved in the concession/PPP level, allowing for better visibility on project specs and minimizing cost over-run risk and execution delays.

Further concession portfolio expansion: As management discussed the company was compensated for the decline in traffic volumes in 2020 on its motorways due to the lockdown, allowing for seamless cash distributions. Also over the last 12 months two new projects have matured i.e. Kasteli airport (construction launched in 2020) and Hellinikon (JV of Mohegan-Gek Terna named official winner for the casino license in Hellinikon). As expected management continues to screen the market for opportunities, reckoning the sizable concession/PPP pipeline (Egnatia Odos, Attika Ring Road, Thessaloniki Ring Road, Salamina subsea, public buildings etc.). We believe that the concession portfolio of Gek Terna could more than double in size over the next 3 years should management be able to take advantage of the available firepower.

RES remains the crown jewel: Our visibility for Terna Energy's growth momentum has improved significantly over the last period, on the back of a more dynamic outlook on the RES sector in the company's core market, Greece and also following management's recent capital strengthening actions to support the expansion. In this context we now have a higher conviction over management's target to reach a total installed capacity of 2.8GW within the next 5 years by adding 1.0GW to its 1.8GW of currently installed and under construction project. This is forecasted to drive RES EBITDA growth of 11.3% CGR in 2020-25, facilitating a cash distributions growth of 33% in the same period.

Balance sheet structure well supported by stable and visible cash flows: As is the case for companies holding assets with long term life (motorways and RES assets have >17 years of remaining lifetime) and early stage investments, Gek Terna's headline leverage is expected to remain above the 5.0x mark for 2020-22. We note though that out of the total EUR 2.4bn of gross debt, less than EUR 0.5bn are recourse debt with an average cost of >3.0% and no maturities for the next 5 years. Moreover they are well covered by dividend streams from operating assets (RES, motorways, construction) that exceed EUR 60m p.a. (with >17-year lifetime) and are expected to grow to >EUR 100m upon the commercial operation of under development projects. Currently the company has EUR 450m of cash free to be used as equity contribution in projects (inc. Kasteli and Hellinikon) and a headroom to increase liquidity by another ~EUR 400m.

Valuation: Earnings multiples not reflective of underlying value: Given the long duration of Gek Terna's asset base and diverse business lines, we argue that earnings multiples based on consolidated financials are not fully reflective of the company's value proposition. The stock has recovered from the COVID-era lows but not reflecting on our view the tailwinds for the company's investment case. Our updated SOTP valuation returns a TP of EUR 10.90/sh (including a 10% holdingCo discount) pointing to a 32% upside.

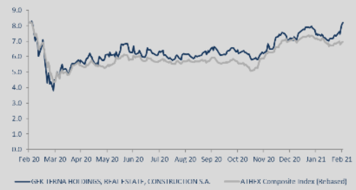
EUR m	2019	2020E	2021F	2022F	2023F
Revenues	1,155.7	1,026.6	1,138.2	1,407.9	1,521.0
EBITDA	271.9	308.8	342.5	401.6	480.6
Net Income	23.4	16.0	22.5	43.0	54.5
P/E	31.5 x	50.2 x	35.7 x	18.7 x	14.7 x
EV/EBITDA	9.3 x	8.0 x	7.9 x	7.4 x	6.2 x
Net debt/EBITDA(1)	6.2 x	5.4 x	5.5 x	5.5 x	4.6 x

Source: AXIA Research, The Company, (1) inc. tax equity liabilities

Stock Data

MCap (EUR m)	799.1
Free Float	51%
EV (EUR m)	2,113
Num. of Shares (m)	97m (ex-treasury)

Performance (%)	1m	3m	12m
Absolute	10.6	29.4	-0.2
ASE General	0.8	15.2	-13.7



GEK TERNA is the parent company of the group that is active in construction, renewable energy, thermal energy, real estate and concessions. The Renewable energy activity falls under Terna Energy (39%). The thermal energy division includes 50% and 25% ownership in the plants HERON I and HERON II. The group holds one of the leading positions in their area of activities in Greece and also has established a strong position in key markets in South East Europe in Energy, real estate and construction

Shareholders: Reggeborgh Invest 30% Peristeris Georgios 15.9%, Treasury 6.26%

Argyrios Gkonis - Analyst
Argyrios.gkonis@axiavg.com
+30 210 7424462

Produced and disseminated: Athens on February 16th at 14.20 CET

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Valuation

Gek Terna share performance has been traditionally driven by the crystallization of the value of its mature asset base but also company's success in booking new projects. Following the breakout of the pandemic, share price has been affected by concerns regarding impact on motorways traffic but also on the implications for tourism related greenfield projects (airport and casino). Since then the share price has bounced back, partially reflecting the strong underlying performance of its RES subsidiary (Terna Energy +37.5% in 2H20 vs. Gek Terna +23%). On an YTD-basis Gek Terna shares are up by 3.9%, in line with sector peers (EUROSTOXX construction is +4.0% ytd).

Exhibit 1a. Gek Terna & Terna Energy 3Y-stock performance (%)

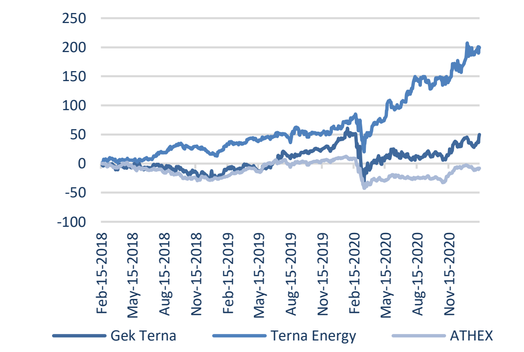
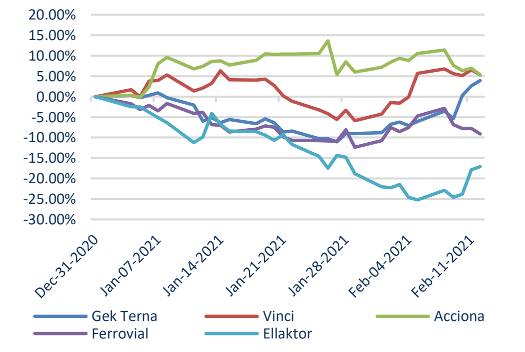


Exhibit 1b. Gek Terna vs. peers YTD



Source: Capital IQ, AXIA Research

Following our new set of estimates we have fine-tuned our SOTP valuation for Gek Terna. Our exercise now yields a Target Price of EUR 10.90/sh (vs. EUR 8.80/sh previously) with our major changes related to i) higher terminal capacity and lower discount rates for the RES division (more details *here*); ii) adjustment higher for greenfield concessions portfolio valuation (Kasteli & Hellinikon) given improved visibility; iii) higher mid-cycle activity levels for construction division given positive outlook; iv) higher valuation for thermal energy and energy supply assets following improved underlying market conditions. That said we continue to apply a 10% holding discount to our estimated NAV.

We note that despite having revised higher the value of Kasteli airport stake (given the launch of construction works) and for the first time including the stake in Hellinikon casino (following the formal awarding of the project), we continue to treat both as early stage developments with a combined NAV (equity minus debt adjusted for equity contributions) of EUR 117m (~EUR 1.2/sh). As the projects come closer to commercial operation (expected in 2025) we could increase the total adj. NAV to ~EUR 360m or ~EUR 3.6/sh.

In more detail our valuation assumptions include:

- **E-65 and Nea Odos:** In the near term, we are assuming traffic volumes to recover to 2019 levels by 2022, while we account for 2019-37 traffic volumes growth of 1.3% CAGR taking into consideration the underlying economic growth but also the uplift in traffic expected in 2023-24 following the completion of North and South extensions for E-65. We also assume a 0.7% CAGR on average toll fees for the period, leading to revenues and EBITDA CAGR of 2.0% and 2.4% respectively for 2019-37. We note that given the compensations for lost traffic volumes in 2020, we expect no material impact in cash distributions. Discount rate at 8.0%.
- **Olympia Odos:** 1.5% CAGR in traffic volumes and 1.0% in average toll fees for 2019-38. Distributions start at 2025. Discount rate at 8.0%.
- **Kasteli:** Construction of project launched in 2020, with commercial operation scheduled for 2025. Given the early stage we currently assume a value for Gek Terna's stake of 1.5x of equity contribution (implying a 10.5% normalized dividend yield). Moving closer to commercial operation we estimate we could increase the value of the stake significantly (6-7% normalized yield). We also adjust on the liabilities line for the invested equity amount.

- **Hellinikon Casino:** Following the formal announcement of the Mohegan-Gek Terna as developer of the project we now include Gek Terna's 35% stake in our valuation. Given the early stage and similar completion time with Kasteli airport we assume a value of 1.5x on invested equity (implying a 12.7% yield). Coming closer to commercial operation we could increase the value of the stake (7-8% targeted yield). We also adjust on the liabilities line for the invested equity amount.
- **Construction:** We apply a multiple of 7.0x on mid-cycle EBIT. We assume mid-cycle activity levels of EUR 700m (inline with 2008-20 average) and EBIT margin of 3.5% (EUR 25m mic-cycle EBIT vs. 2008-20 average EBIT of EUR 33m)).
- **Terna Energy:** Targeted installed capacity of 2.8GW by 2025 (vs. 1.3GW currently) and average WACC of 6.0%. Waste management projects valued at 10.0x EV/EBITDA
- **Thermal energy generation (Heron I & II):** We value Gek Terna's 25% participation in Heron II CCGT assuming a 6.0x EV/EBITDA multiple on mid-cycle EBITDA noting though the expected increase in profitability given the tightening of power markets. For the electricity retail business (50% stake in Heron) we assume EV/customer of EUR 350 on the current 6.0% retail market share. We assume no value for the Heron I open-cycle power plant.
- **Other assets:** For real estate we assume book value, noting though that it mainly concerns land plots that could be further exploited at a later stage. For the magnesite mine we assume book value as the mine is still to deliver meaningful commercial results.
- **Liabilities:** We adjust for i) EUR 160m and EUR 120m committed equity contributions for Kasteli and Hellinikon projects; ii) EUR 260m of recourse net debt related to motorways; iii) EUR 260m parent company net debt.
- **Finally we apply a 10% holding company discount**

Exhibit 2. Gek Terna Group SOTP valuation

Division	Valuation method	NAV (for 100% of asset)	Gek Terna stake	Value for Gek Terna (EUR m)	Value per Share (€/sh)
Concessions				**1,064.2**	**11.0**
Ionian & Central Greece	DDM (8.0% CoE)	606.7	100%	606.7	6.3
Olympia Motorway	DDM (8.0% CoE)	352.9	17%	60.0	0.6
Kasteli airport	1.5x Equity Contribution	740.0	32.5%	240.0	2.5
Hellinikon	1.5x Equity Contribution	450.0	35%	157.5	1.6
Construction (EV)	7.0x mid-cycle EBIT	**175.0**	**100%**	**175.0**	**1.8**
RES (Terna Energy)	AXIA TP @ EUR 15.40/sh	**1,784.9**	**37.0%**	**660.4**	**6.8**
Other activities				**108.5**	**1.1**
Real Estate	1.0xBV	31.0	100%	31.0	0.3
Industry-Mines	1.0xBV	16.0	100%	16.0	0.2
Heron I Supply and Trading	1.5.x BV	82.5	50%	41.3	0.4
Herron II CCGT 432MW	6.0x mid-cycle EBITDA	81.0	25%	20.3	0.2
HQ cost	7.0x EV/EBITDA EUR -5.0m			**-35.0**	**-0.4**
Net Liabilities				**-800.0**	**-8.2**
o/w Parent net debt				-260.0	-2.7
o/w motorways recourse net debt				-260.0	-2.7
o/w Kasteli related debt				-160.0	-1.6
o/w Hellinikon committed cash (equity and shareholders loans)				-120.0	-1.2
Appraised value				**1,173.1**	**12.1**
Holding Co. Discount				***10.0%***	
Appraised value				**1055.8**	
Num of Shares[(1)]				97.0	
Target Price				**10.90**	
Current price				8.22	
Upside (%)				***32.6%***	

Source: AXIA Research, (1) excluding treasury

Exhibit 3. Gek Terna Group sectors peer comps

Company	Country	MCap	P/E (x)			EV/EBITDA (x)			EV/EBIT (x)			Net Debt/EBITDA (x)		
		EUR m	FY2021	FY2022	FY2023	FY2021	FY2022	FY2023	FY2021	FY2022	FY2023	FY2021	FY2022	FY2023
Heijmans N.V.	Netherlands	286.5	6.9	6.6	NA	2.9	2.7	NA	4.8	4.2	NA	-0.7	-1.0	NA
Koninklijke BAM Groep nv	Netherlands	559.2	17.1	5.1	NA	1.1	0.9	0.9	3.5	1.9	NA	-1.6	-1.3	NA
Bouygues SA	France	13,049.6	13.1	11.6	9.4	5.5	5.2	4.7	11.8	10.7	8.7	0.8	0.7	0.3
Nexity SA	France	2,058.0	14.2	11.9	NA	7.6	6.8	NA	13.0	11.4	10.0	3.1	2.9	NA
Kaufman & Broad S.A.	France	846.8	11.1	11.7	NA	5.4	5.5	NA	5.8	6.1	6.1	-0.5	-0.5	NA
Balfour Beatty plc	United Kingdom	2,163.3	13.8	10.8	NA	8.3	6.8	NA	11.8	9.6	8.2	-2.4	-2.3	NA
Skanska AB (publ)	Sweden	8,635.1	15.9	14.3	13.9	7.8	7.2	NA	10.7	9.7	9.6	-0.9	-0.8	NA
Budimex SA	Poland	1,819.6	17.9	17.2	NA	7.8	7.8	NA	9.3	9.3	10.5	-2.5	-2.3	NA
PORR AG	Austria	435.5	13.1	8.3	NA	2.9	2.6	2.6	9.0	6.7	6.0	1.0	0.9	NA
Strabag SE	Austria	3,067.7	9.1	8.6	8.8	1.9	1.9	2.0	3.7	3.5	3.7	-0.7	-0.9	NA
Webuild S.p.A.	Italy	1,519.0	14.1	11.2	NA	6.8	6.2	NA	11.7	10.1	NA	NA	NA	NA
Mota-Engil, SGPS, S.A.	Portugal	332.3	14.4	10.3	6.8	5.7	4.8	4.2	12.3	8.9	7.1	3.2	2.9	NA
Average Construction Companies			**13.9**	**11.0**	**9.1**	**5.6**	**5.3**	**2.6**	**10.0**	**9.1**	**8.2**	**-0.7**	**-0.8**	**0.3**
Atlantia SpA	Italy	12,895.9	18.8	13.5	9.4	9.4	8.9	8.3	24.6	19.6	16.1	6.1	5.3	4.6
ASTM S.p.A.	Italy	2,662.9	12.3	15.5	NA	5.3	5.3	4.1	10.1	10.4	8.8	3.5	3.3	2.3
Getlink SE	France	7,165.7	NM	52.2	38.0	29.6	22.0	20.7	51.5	33.3	28.1	10.1	7.1	6.5
CCR S.A.	Brazil	3,870.5	21.0	16.2	NA	6.9	7.1	7.3	13.2	11.6	13.8	2.4	2.4	1.9
EcoRodovias	Brazil	1,072.6	17.3	16.7	NA	6.1	7.0	6.4	10.3	11.6	10.5	3.2	3.6	2.8
PINFRA	Mexico	2,686.8	14.5	13.2	NA	7.9	6.9	NA	8.7	7.3	NA	-1.9	-1.9	NA
Atlas Arteria Limited	Australia	3,723.8	19.2	15.3	NA	97.2	78.9	68.2	20.0	17.2	NA	17.5	12.7	NA
Transurban Group	Australia	23,494.4	NM	134.8	NA	30.0	23.9	21.6	88.6	45.4	NA	9.7	8.0	NA
Average Concession Companies			**18.1**	**15.8**	**23.7**	**8.6**	**8.0**	**8.3**	**16.6**	**14.4**	**13.8**	**4.8**	**4.4**	**2.8**
VINCI SA	France	48,640.6	18.9	15.0	13.6	9.6	8.3	8.1	16.3	12.9	12.3	2.5	1.9	1.5
Eiffage SA	France	8,186.9	12.0	10.3	9.9	7.4	6.9	6.6	11.9	10.7	10.4	3.5	3.1	2.6
Acciona, S.A.	Spain	6,746.5	22.1	18.7	15.6	9.7	8.7	8.1	18.5	16.3	14.6	4.5	4.3	4.3
ACS	Spain	7,571.8	11.9	10.2	10.4	4.9	4.8	6.0	7.9	7.6	8.9	0.4	0.1	-1.3
Ferrovial	Spain	4,075.6	13.8	12.8	11.0	7.7	7.3	6.8	14.4	13.4	11.8	2.4	2.2	1.9
Sacyr, S.A.	Spain	1,181.5	7.3	5.4	NA	10.8	10.3	NA	14.4	13.8	NA	7.4	7.7	6.9
SNC-Lavalin Group Inc.	Canada	3,048.1	12.5	11.7	10.0	7.9	7.7	7.3	10.6	10.6	9.1	0.6	NA	NA
Average Diversified Companies			**12.5**	**11.7**	**10.7**	**7.9**	**7.7**	**7.0**	**14.4**	**12.9**	**11.1**	**3.0**	**3.1**	**2.6**
Aena S.M.E., S.A.	Spain	19,920.0	59.6	20.7	16.4	18.6	11.8	10.7	50.0	19.0	16.1	4.9	2.5	1.9
Fraport AG	Germany	4,166.8	NM	15.9	11.7	19.7	10.0	8.7	NM	19.7	15.4	14.5	6.6	6.3
Aeroports de Paris SA	France	9,889.5	NM	45.0	21.3	28.4	12.8	10.5	NM	29.6	18.9	12.4	5.9	4.7
Flughafen Zürich AG	Switzerland	4,298.2	82.6	22.0	18.4	17.6	10.3	9.0	102.6	20.1	16.8	4.8	2.7	2.6
Flughafen Wien	Austria	2,398.8	NM	29.0	18.8	20.7	10.8	8.9	100.4	22.1	15.1	1.8	0.6	NA
ENAV S.p.A.	Italy	2,059.5	23.7	18.4	19.1	9.0	8.0	8.0	18.0	14.4	14.0	1.8	1.6	NA
Average Airport Operators			**59.6**	**21.4**	**18.6**	**19.1**	**10.6**	**8.9**	**75.2**	**19.9**	**15.7**	**4.9**	**2.6**	**3.6**
MGM Resorts International	United States	14,665.7	NM	NM	39.1	24.8	14.0	11.7	NM	36.2	24.9	5.4	3.1	2.3
Las Vegas Sands Corp.	United States	35,305.7	98.6	19.6	16.3	22.6	11.8	9.7	46.6	16.9	13.9	4.4	2.3	1.9
Wynn Resorts, Limited	United States	11,147.5	NM	75.5	35.5	24.0	13.3	11.5	142.7	24.2	19.3	10.4	5.3	4.0
Caesars Entertainment, Inc.	United States	13,789.2	NM	56.6	27.4	17.5	13.0	11.6	43.9	23.4	22.8	5.3	3.7	2.7
Average Casino Operators			**98.6**	**56.6**	**31.4**	**23.3**	**13.2**	**11.5**	**46.6**	**23.8**	**21.0**	**5.3**	**3.4**	**2.5**
Gek Terna	**Greece**	**799.1**	**35.7**	**18.7**	**14.7**	**7.9**	**7.4**	**6.2**	**12.6**	**11.7**	**9.6**	**5.5**	**5.5**	**4.6**
Gek Terna @ AXIA TP	**Greece**	**1,055.8**	**46.9**	**24.6**	**19.4**	**8.6**	**8.1**	**6.8**	**13.8**	**8.5**	**7.0**	**5.5**	**5.5**	**4.6**

Source: Capital IQ, AXIA Research

Risks

As an infrastructure operator and owner and construction services provider, we believe Gek Terna is exposed to a number of risks. In more detail:

Macro-political risk: Company's activity is increasingly focused on Greece (>75% of current backlog and thus is exposed to the State's involvement in projects (permitting, delivering sites on time, timely resolve of litigations, delays in payments) that could affect the company's activity levels. Also tendering pace of new projects may affect the company's backlog replenishment ability.
Also the company's concession portfolio is currently solely focused in Greece. Any adversities on the macro side affecting economic activities and tourism could have an impact on the company's motorways and airport and casino assets profitability.

Construction cost overrun: Traditionally contractors are exposed to execution risks for the projects including cost inflation, cost overrun or delays on specific contracts. Gek Terna has strategically focused on getting involved in projects as part of the concession/PPP (vs. as a pure third party contractor) and thus being able to have improved visibility on the project design specs, execution pace and financing.

Interest rates: Traditionally companies in the infrastructure sectors holding assets with long lifetimes tend to trade as bond proxies. Any rise in interest rates could have an impact on the company's funding costs but also an impact on its assets valuation due to the discount rate effect. On the other hand we need to consider that traditionally any inflationary driven rise in interest rates comes with increasing economic activity levels, having a positive impact on operating cash flows of the concession and construction activities.

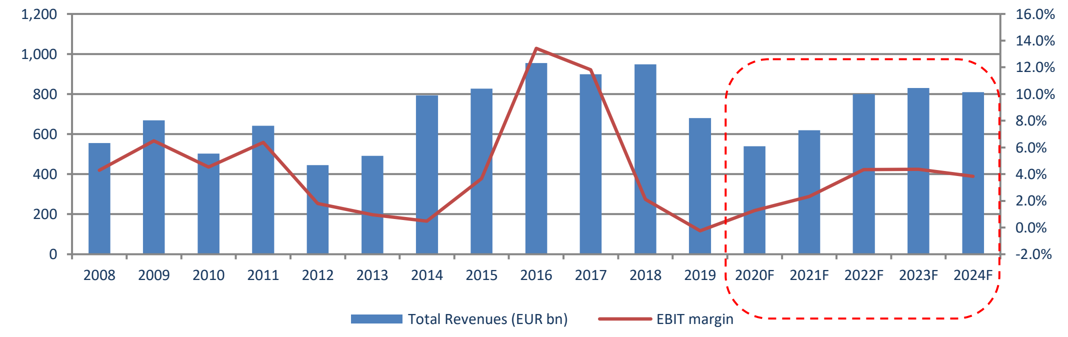
Regulation: As an infrastructure operator managing public assets Gek Terna is exposed to regulatory risks that would impact its cash flows and asset valuation. In this context we note the recently introduced measures on the Greek RES market (having though a minimal impact on the company's RES activity) as well as the State's decisions to impose lockdowns that affected traffic volumes (albeit the company was thereafter compensated).

Capital allocation: Company's strategy to get access to attractive greenfield or brownfield projects that after maturing create significant value makes a lot of sense. Management has been very successful until now implementing this strategy. We note though the exposure to competition and market conditions in order to secure projects at attractive pricing and be able to generate high returns.

Construction division

With a total backlog (signed and pending) that currently stands at ~EUR 2.8bn, Gek Terna's construction division is the sector leader in the country with a ~30% market share. Following a period of low activity due to the completion of valuable contracts in 2015-18 and a slow tendering process by the Greek State, the division is now looking to ramp up is activity. As the outlook for the construction sector in Greece has turned to positive, driven by the already witnessed acceleration of project tenders from the Greek State, flow of EU funds and private sector appetite, Gek Terna has already started to replenish its backlog with lucrative contracts. Importantly to note that the division has managed to maintain a net cash position even during the downturn of activity and stay clear of any legacy issues that would affect its capacity to go aggressively after new projects.

Exhibit 4. Gek Terna construction division revenues and EBIT margin



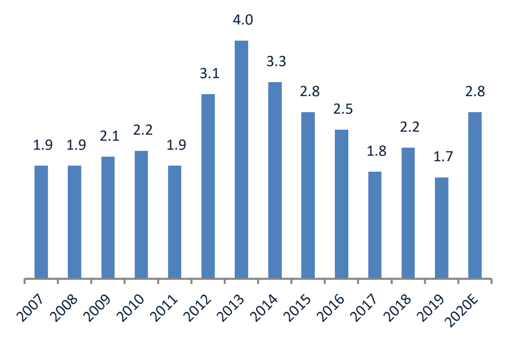
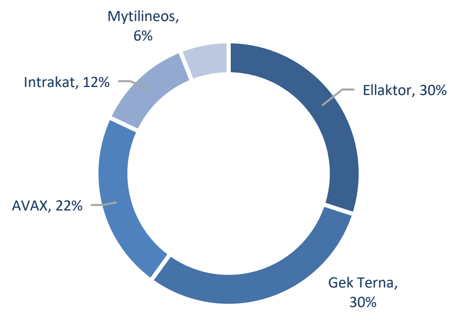
Source: AXIA Research, The Company

Backlog mix and outlook

As of 9M20 signed backlog stood at EUR 1.5bn out of which EUR 1.2bn were related to projects in Greece and EUR 0.3bn to international contracts. In respect of Greek projects biggest contract relate to the Kasteli airport (EUR 470m contract launched in mid-2020, executed under a concession agreement) and the South extension of E65 motorway (EUR 300m contract ~60% completed). In terms of international contract projects they are focused in Serbia, Cyprus, Bahrain and UAE. Backlog has been enhanced as of early 2021, the company formally signed a EUR 450m contract with the Greek State for the construction of the North extension of E65 motorway that will be funded by EU (construction to start in late 2021). Finally towards the end of 1H21 the company is expected to formally assume the contract for the construction of the casino in Hellinikon (Gek Terna participates as member of the winning consortium), adding another EUR 800m to its backlog.

In the near term Gek Terna is participating in a number of tenders for construction contracts already tendered by the Greek State either as public projects or under concessions/PPP arrangement. More specifically Gek Terna has expressed interest for: i) Egnatia Motorway concession (~EUR 800m construction related backlog); ii) South extension of Moreas motorway under a PPP framework (EUR 300m contract); ii) Development of underground gas storage facility in Northern Greece; iii) Thessaloniki rind road PPP (EUR 400m project); iv) North Crete motorway concession (EUR 1.5bn project); v) Olympia Odos extension; vi) railway infrastructure projects.

In total the Greek ministry of infrastructure is targeting to tender EUR 13bn of projects in the coming 18-24months that are at mature stage and their financing is secured (either as public projects with the use of EU funds or as concession/PPP with the support of private sector). Indicatively we mention i) railway infrastructure development and improvements of EUR 3.3bn; ii) EUR 1.2bn of flood protection and safety improvement works to be executed at the existing motorways network and be undertaken by concessionaires; iii) Attika Ring Road concessions and construction of extensions (EUR 1.5bn construction contracts).

Exhibit 5a. Gek Terna construction backlog (EUR bn)	Exhibit 6a. Greek construction market shares 2020 (big- 5 players)
	

Source: AXIA Research, Press reports

Revenues and profitability

Following the completion of the execution of lucrative contracts in 2015-18 with revenues averaging EUR 900m per year, Gek Terna's construction activity slowed down affected by very slow tendering progress. In this context construction revenues in 2019 declined by 28.4% y-o-y to EUR 680m and a further decline of 20.6% y-o-y is forecasted for 2020 with revenues seen at EUR 540m (affected also by the pandemic).

Despite any volatility related to the pandemic in early 2021, we expect construction revenues to start increasing in the coming period as the company launches the execution of recently signed construction contracts, namely Kasteli, E-65 extensions and Hellinikon. In this context we have adequate visibility for revenues to gradually increase to ~EUR 800m per year by 2022-23 assuming only currently signed projects plus Hellinikon. Looking further ahead considering the volumes of projects to be tendered and assuming an uninterrupted tendering process we believe the company could maintain its leading market share and thus keep activity levels close to the EUR 800m mark.

Considering the construction profitability margins we note that those are affected by the market competition but also the ability to closely monitor and control execution and risks and right-size fixed cost base. That said we recon the traditional volatility in margins especially when considering short time periods. In this context we note that Gek Terna's construction EBIT margin in 2018-20 averaged 1.0% (compared to 12.6% in 2016-17) reflecting the slowdown in activity levels, timeline of profitability booking and fixed cost base. Examining though a larger time horizon (2008-2020), EBIT margin averages 4.4%, which compares to the traditional 3.0%-3.5% range for EU contractors. We attribute the higher margins on i) focused contracting activity with selective projects and geographies; ii) lower competition levels vs. EU markets; and iii) the fact that in many of the projects Gek Terna also participates in the concession, essentially having better control over project execution.

Considering the above, we expect EBIT margins for the construction activity to gradually recover in 2021-23 and revert to the long term average (4.4%) delivered by the company. Thereafter we take a more cautious approach considering mainly higher competition and assume mid-cycle EBIT margin of 3.5%.

Exhibit 7. Construction division estimates

EUR m	2016	2017	2018	2019	2020E	2021F	2022F	2023F	2024F
Revenues	**899.5**	**949.0**	**679.8**	**540.0**	**620.0**	**800.0**	**830.0**	**810.0**	**800.0**
y-o-y	*-5.8%*	*5.5%*	*-28.4%*	*-20.6%*	*14.8%*	*29.0%*	*3.8%*	*-2.4%*	*-1.2%*
adj.EBITDA	126.2	32.1	10.9	18.9	26.5	46.8	48.2	43.1	40.0
margin	14.0%	3.4%	1.6%	3.5%	4.3%	5.8%	5.8%	5.3%	5.0%
adj. EBIT	**108.5**	**22.0**	**-0.4**	**6.9**	**14.5**	**34.8**	**36.2**	**31.1**	**28.0**
adj. EBIT margin	***12.1%***	***2.3%***	***-0.1%***	***1.3%***	***2.3%***	***4.3%***	***4.4%***	***3.8%***	***3.5%***
EBT	90.1	22.8	-5.5	-0.1	7.5	27.8	29.2	24.1	21.0

Source: AXIA Research

Concessions

Gek Terna holds a lucrative concessions portfolio comprising of mature and cash yielding assets (motorways) but also projects under development that are to be commercially available over the next 3-4 years (Kasteli airport, Hellinikon casino). Moreover the management's strategy is to further enhance the portfolio taking advantage of opportunities in Greece over the coming years. The company's healthy balance sheet structure and construction experience are seen as enablers of those efforts, with Gek Terna creating values for its shareholders by i) constructing and de-risking the projects and increasing NAV; and ii) generating profitability for its construction division.

Exhibit 8. Gek Terna's concession portfolio

Project	Commercial operation	Concession Expiration	Stake	Equity Invested[2] (EUR m)
E65 & Nea Odos motorways	2018	2037	100%	254
Olympia Odos	2018	2041	17%	35
Epirus waste management[1]	2019	2047	100%	10
Peloponnese waste management[1]	2023	2047	100%	16
Kasteli airport	2025	2060	32.5%	160
Hellinikon casino	2025	2060	~35%	120
Other (Parking, e-Ticket)	NA	NA	10%-20%	18
Total				**613**

Source: The Company, AXIA Research, (1) reported under Terna Energy, (2) inc. shareholders loans

Operating concessions outlook

Motorways

Traffic volumes in Gek Terna's motorways has been adversely impacted by the pandemic, with traffic volumes declining by 70%-80% during the first lockdown period, swiftly recovering during 3Q20 but affected again by the imposition of the second national wide lockdown. We note though that the decline in Gek Terna's motorways traffic was not as steep as other motorways given the profile of users (heavy transportation usage in Athens-Thessaloniki part). In this context revenues of the overall concession division were down by 22% y-o-y in 1H20 and came flat y-o-y in 3Q20. As management has disclosed they were compensated by the State for the impact of the lockdown impositions on their operations for both lockdown periods. More specifically Gek Terna received EUR 13.7m for the first period (thus 1H20 EBITDA was flat y-o-y despite the drop in revenues) and a similar treatment is expected for the second lockdown period.

Reckoning the limited near term visibility given the pandemic effect, we expect traffic volumes in motorways to start recovering as of summer 2021 onwards and reach 2019 levels by 2022. Supportive to the recovery of traffic volumes is also the construction of south and north extension of E-65 motorway that although not part of the concession are expected to increase motorway utilization. Despite the drop in revenues in 2020-21, considering the compensations received for the pandemic we expect EBITDA and cash generation to be stable for 2019-21. In this context dividend distribution towards the parent company is expected to continue uninterrupted yielding EUR 50-60m annually for the company (coming from Nea Odos and E-65), Olympia Odos to start dividend distributions after 2026 with ~EUR 5.0m annual payment expected).

Under development projects

Kasteli airport

In 2020 the construction of the new airport in Kasteli, Crete commenced. The project is budgeted at EUR 480m and Gek Terna participates in the project as a leader in the private participation JV with a 60% stake (32.5% in the overall project). GMR is the minority holder in the JV with 40% stake (21.6% in the overall project), while the Greek State, will hold a 45.9% stake. Note that the concession agreement has a tenor of 35 years, including a 5 year construction period.

In terms of funding, the construction will be fully covered by shareholder funds, with the private JV of Gek Terna-JMR contributing EUR 260m (Gek Terna to contribute EUR 160m, funded by a loan from a Greek commercial bank) and the Greek State the remaining EUR 220m, out of which EUR 180m will be funded by signed EIB line.

The existing Heraklion airport is the second busiest in Greece and the most important of three civil airports on Crete. Passenger numbers at the current airport have grown and now exceed 8.1 million passengers a year (this compared to 5.0 million in 2015). This is well above the number expected when the Heraklion airport was built and can be adequately handled today. Note that total passenger traffic in across all 3 Crete airports stood at 9.7 million in 2019. Upon its commercial operation Kasteli airport is expected to be the second largest airport in the country (second to Athens International Airport), with passenger numbers exceeding the 8.1m recorded by the existing Heraklion airport.

Trying to get some sense around financials we note that passenger fees for Greek regional airports acquired by Fraport in 2015 are set at EUR 13/PAX and are set to increase to EUR 18/PAX (indexed to CPI) pending completion of required capex. Passenger revenue for airport operators is complemented by a EUR 2.0-4.0/PAX income from retail services. In this context we note that Athens International Airport reported in 2018-19 average revenue of EUR 20/PAX and EBITDA of EUR 13/PAX. Under these assumptions we can approximate the airport's EBITDA upon full commercial operation to EUR 100-130m, which after the payment of any taxes, fees and maintenance capex should be fully available to shareholders (no funding costs at project level). Gek Terna could thus claim EUR 35-40m of EBITDA, which would translate to EUR 20-30m of cash distribution, yielding a 15% IRR on invested capital (in line with company's targeted returns).

Exhibit 9. Fraport Greece acquisition framework

Description	40-year concession of 14 Greek regional airports with 30m PAX in 2019
Cost of acquisition	Upfront payment of EUR 1.234bn., fixed annual installments of EUR 22.9m (indexed with Greek CPI), and starting in 2021: additional variable component of 28.5% EBITDA
Regulation	Dual till with aviation charges set at EUR 13 per departing passenger at the beginning, and fixed increase to EUR 18.5 +/- 90% of Greek CPI following fulfillment of capex obligation
Capex Obligation	~EUR 400m planned for modernizing and expanding airports until 2021

Source: Fraport, AXIA Research

Hellinikon Casino

Gek Terna participates as a minority shareholder with a 35% stake in the JV with Mohegan that has been awarded the development of a hotel casino in Hellinikon site and was granted a 35 year concession on the gaming license. Currently final steps are taken for the ratification of the contract with the Greek State and Lamda Development (the developer of Hellinikon), with final signing expected to take place by the end of 1H21. Construction could thereafter start in late 2021, with the commercial operation of the site by 2025.

The project will concerns the development of 1,275,000 sq. ft. of casino area with 2,000 slot machines and 200 table games. Also a 5* resort hotel will be developed with 1,100 rooms along with a 10,000 seats arena.

The total budget of the project is estimated at EUR 1.0bn with construction cost of the project of EUR 800m. Apart from the development cost, the JV will need to pay a fee to the gaming commission for the license and also a fee to Lamda development for the land usage (estimated at EUR 10-15m annually). We assume that the JV will contributing 30-35% in equity and the rest funded at project level. Gek Terna is thus expected to contribute EUR 120m to the project, with the money already raised through the recent EUR 500m bond issue.

New projects outlook

Apart from the operating and under development portfolio, Gek Terna continues to actively monitor the market for new concession opportunities. In total we reckon >EUR 6.0bn of concession/PPP projects to come to market in the coming periods.

The most imminent and interesting case is the privatization of Egnatia motorway (658km operating motorway) under a 40-year concession including the development of extensions. The deadline for binding bids submission is set for April and Gek Terna participates as a 30% minority in a JV with Egis Projects. Tender terms suggest that the bid will concern both the concession of the operating motorway (toll revenues to the tune of EUR 100m p.a.) plus capex commitment for new developments (extensions with an estimated cost to the tune of EUR 400-600m), raising the total value of the contract to the levels of >EUR 1.0bn.
Based on the traditional approach by the company on those cases, Gek Terna would be looking to create value through 1) the de-risking of the project that could lead the valuation of its stake to grow by 2.0x; and 2) the profitability for its construction division. Under this framework and assuming a successful bid we view that at a de-risked level Egnatia Concession would increase our TP by ~EUR 2.0/sh

Other significant assets that are expected to come to market in the coming period under the concession/PPP framework include:

- Attika Ring Road concession extension, with estimated size of >EUR 1.0bn
- North Crete motorway (mixed concession and PPP), total contract cost EUR 1.5bn
- Moreas motorway South extension (PPP project), contract cost EUR 300m
- Thessaloniki Ring Road (PPP project), contract cost EUR 400m
- Salamina undersea connection, contract cost EUR 400m
- Kavala underground gas storage, EUR 200-300m
- State buildings infrastructure under PPP framework (student housing, courts etc.) total cost ~EUR 1.2bn
- Waste management facilities under PPP framework, >EUR 1.0bn

Exhibit 10. Gek Terna concessions division estimates

EUR m	2018	2019	2020E	2021F	2022F	2023F
Total Revenues	**197.0**	**187.0**	**138.7**	**156.3**	**199.0**	**204.0**
Motorways	*158.5*	*276.4*	*121.7*	*139.2*	*165.8*	*170.7*
E-Ticket(1)	*42.0*	*11.0*	*10.0*	*10.0*	*10.0*	*10.0*
Waste management(1)	*0.0*	*10.7*	*7.0*	*7.1*	*23.2*	*23.3*
Other/Eliminations	*-3.5*	*-111.1*	*0.0*	*0.0*	*0.0*	*0.0*
Total EBITDA	**92.4**	**96.4**	**96.3**	**96.5**	**109.7**	**116.0**
Motorways	*74.0*	*83.0*	*81.8*	*81.0*	*86.2*	*92.5*
E-Ticket(1)	*1.6*	*0.9*	*1.0*	*1.0*	*1.0*	*1.0*
Waste management(1)	*0.0*	*0.2*	*1.5*	*2.5*	*10.5*	*10.5*
Other (inc. O&M)	*16.7*	*12.3*	*12*	*12*	*12*	*12*

Source: AXIA Research, (1) reported and valued under Terna Energy

Renewables (Terna Energy)

Our visibility for Terna Energy's growth momentum has improved significantly over the last period, on the back of a more dynamic outlook on the RES sector in the company's core market, Greece and also following management's recent capital strengthening actions to support the expansion. In this context we now have a higher conviction over management's target to reach a total installed capacity of 2.8GW within the next 5 years by adding 1.0GW to its 1.8GW of currently installed and under construction projects. For the addition of another 1.0GW the company will be looking to utilize its organic pipeline (8.5GW of projects at various stages) investing primarily in the Greek RES market, while funding needs are well covered by the improved balance sheet capacity (4.0x net debt/EBITDA for 2020E) and strong organic FCF generation (~EUR 550m of cash available to shareholders to be generated in 2020-25). Also the strong organic FCF generation should allow management to sustainably distribute up to 50% of the equity cash flow every year.

You can find more details on Terna Energy on our most recent dedicated note "*Improved growth visibility*".

Exhibit 11a. Terna Energy capacity growth (MW)

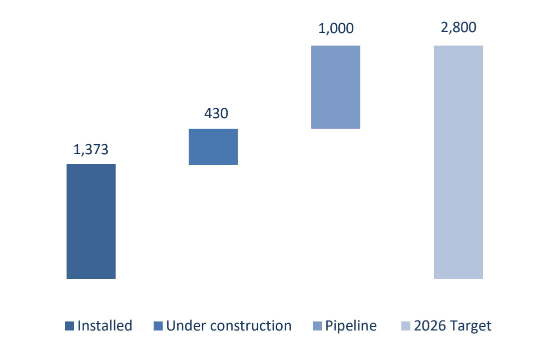
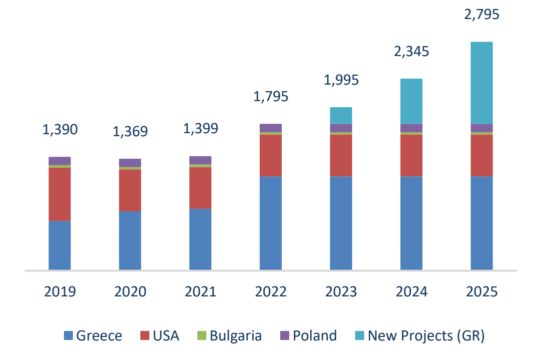


Exhibit 11b. Terna Energy RES capacity growth per region estimates (MW)



Source: The Company, AXIA Research

Pipeline roll-out plans

The company has currently 1.373GW installed (almost 100% wind), while another 430MW of wind projects in Greece are under construction and should be fully commissioned by end-2022. For the additional 1.0GW we expect the company to utilize part of its organic pipeline. This could include: i) solar projects in Greece (we understand 200MW could start within 2022); iii) 600MW of pump storage hydro project in Greece that is maturing at an accelerated pace (regulatory framework could be finalised in 1H21); iii) mature greenfield wind and solar projects in Greece out of its 5.1GW portfolio. Finally the company could opportunistically pursue early–stage greenfield/acquisition opportunities in US and Poland.

Capacity expansion capital needs are well covered, allowing also for hefty distributions

Terna Energy should face a capex bill of EUR 1.8bn over the next 5 years for accounting for its 430MW that are under construction (EUR 800m) plus the new 1.0GW pipeline. We estimate this to be well covered by the company's existing financial capacity (EUR 324m of cash as of 9M20 and run-rate leverage of 4.0x) as well as its organic cash flow generation (~EUR 550m expected in total in 2020-25). Also at the current investment pace, we estimate the company can distribute up to 50% of its CAFD, allowing management to maintain dividend distribution without undermining growth prospects.

2020-26 Revenues, EBITDA and EPS growth of 9.5%, 11.5% and 16.0% CAGR respectively

Terna Energy's assets have an average remaining lifetime of more than 20 years, while the bulk of its capacity (including the 430MW under construction) is under contracted 20-year PPA's with guaranteed tariffs (bulk of Greek capacity) or locked in long term hedges (US). We estimate the company has currently more than EUR 8.0bn of contracted revenues (~82% in EUR and 15% in USD). In respect of new capacity, as discussed above the company can either seek for a tariff through regulated tenders or utilizing the target model framework compete in the open market or sign bilateral PPA's. On our modelling assumption we pencil in an effective tariff of EUR 50/MWh for the projects included in the 1.0GW pipeline (lower of prices achieved at auctions). This compares to an average realised tariff for the existing portfolio of about EUR

68/MWh. Driven by capacity growth, we expect Terna Energy's EBITDA to grow by 11.0% CAGR in 2020-26 and reach EUR 411m at the end of the period starting from EUR 214m in 2020E.

Exhibit 12. Terna Energy RES division key estimates (EUR m)

	2020E	2021F	2022F	2023F	2024F	2025F	2026F
Greece	*727*	*757*	*1,153*	*1,153*	*1,153*	*1,153*	*1,153*
USA	*513*	*513*	*513*	*513*	*513*	*513*	*513*
Bulgaria	*30*	*30*	*30*	*30*	*30*	*30*	*30*
Poland	*102*	*102*	*102*	*102*	*102*	*102*	*102*
New Projects (GR)	*0*	*0*	*0*	*200*	*550*	*1,000*	*1,000*
Total Installed Capacity YE (MW)	**1,371**	**1,401**	**1,798**	**1,998**	**2,348**	**2,798**	**2,798**
Greece	*181.6*	*202.0*	*249.0*	*311.3*	*311.3*	*311.3*	*311.3*
USA	*89.8*	*83.5*	*83.5*	*83.5*	*83.5*	*83.5*	*83.5*
Bulgaria	*6.1*	*6.1*	*6.1*	*6.1*	*5.8*	*6.3*	*6.3*
Poland	*15.3*	*15.3*	*15.3*	*15.3*	*15.3*	*15.3*	*15.3*
New Projects (GR)	*0.0*	*0.0*	*0.0*	*15.8*	*54.5*	*82.5*	*112.3*
Total RES Revenues	**292.9**	**307.0**	**353.9**	**432.0**	**470.5**	**498.9**	**528.8**
Greece	*130.7*	*160.4*	*184.6*	*245.9*	*244.9*	*243.9*	*242.9*
USA	*61.6*	*54.9*	*54.5*	*54.0*	*53.6*	*53.1*	*52.7*
Bulgaria	*5.1*	*5.0*	*5.0*	*5.0*	*4.7*	*5.1*	*5.1*
Poland	*11.8*	*11.7*	*11.6*	*11.5*	*11.4*	*11.3*	*11.2*
New Projects (GR)	*0.0*	*0.0*	*0.0*	*10.5*	*39.9*	*55.5*	*85.0*
Total RES EBITDA	**209.2**	**232.0**	**255.6**	**327.0**	**354.5**	**369.0**	**396.9**
margin	*71.4%*	*75.6%*	*72.2%*	*75.7%*	*75.4%*	*74.0%*	*75.1%*

Source: AXIA Research

As the company has disclosed it is going to invest cEUR 800m in 2021-22 in order to deploy 430MW of wind, plus a waste management project. Given the customary leverage, this capex will require an equity contribution by the company of EUR 157m, with the rest being covered by already agreed project finance facilities plus an EUR 66m cash subsidy (for the waste management project).

In order to support this capex, the company over the last 14 months has taken specific capital strengthening actions including: i) issue of an EUR 150m bond in the relevant ATHEX market with a coupon of 2.6% in Sep'19; ii) sale of its 138MW wind project in Idaho, US for an EV of $212m in early 2Q20 realising EUR 30m of capital gains; and iii) secured EUR 68m through a private placement in the company in Sep'20.

Those specific action along with company's organic FCF generation have significantly enhanced the company's funding capacity, with leverage (net debt and tax equity/EBITDA) declining from 6.0x in Dec'19 to 4.0x in 2020E, while cash at hand as of Sep'20 stood at EUR 324m.

Regarding the 1.0GW of new pipeline that we expect to start developing in 2022, management has provided a guidance for a capex need of EUR 1.0bn, with an equity portion of ~EUR 250m (i.e. EUR 50-60m contribution per year in 2022-26). This amount should be adequately covered by the company's organic FCF generation during the period (we estimate cumulative CAFD of ~EUR 550m in 2023-26)

Exhibit 13. Terna Energy cash flow generation capacity

	2020E	2021F	2022F	2023F	2024F	2025F	2026F
Operating FCF before WC changes	**241.2**	**238.5**	**270.1**	**341.5**	**369.0**	**383.5**	**411.4**
WC Change	(7.5)	1.0	-	-	-	-	-
Taxes	(25.1)	(24.6)	(28.1)	(42.6)	(47.8)	(49.9)	(49.3)
Net Interest expense	(70.7)	(65.8)	(72.2)	(71.9)	(70.1)	(68.6)	(65.2)
FCF (pre-expansion capex)	**137.9**	**149.1**	**169.8**	**227.0**	**251.1**	**265.0**	**297.0**
Tax Equity Payment	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(30.0)
Bank Debt Payment	(70.0)	(70.0)	(70.0)	(70.0)	(100.0)	(100.0)	(100.0)
Cash from asset sale/equity raisings	118.0						
FCF available to shareholders (CAFD)	**160.9**	**54.1**	**74.8**	**132.0**	**126.1**	**140.0**	**167.0**
Cash distributions	**19.7**	**45.0**	**50.0**	**55.0**	**70.0**	**80.0**	**110.2**
Operating cash for investments or additional debt repayment	141.2	9.1	24.8	77.0	56.1	60.0	56.8
Equity participation in investments	30.0	50.0	75.0	47.5	63.8	45.0	22.5
Grants/subsidies	-	33.0	33.0				
Project Debt (New issues)	100.0	300.0	370.0	142.5	191.3	135.0	67.5
Total Capex	**130.0**	**383.0**	**478.0**	**190.0**	**255.0**	**180.0**	**90.0**
FCF	**7.9**	**(233.9)**	**(308.2)**	**37.0**	**-3.9**	**85.0**	**207.0**

Source: AXIA Research

Estimates update

Our estimates for Gek Terna group call for adj.EBITDA growth of 15.9% CAGR for 2020-23 driven by the increased contribution of RES division (courtesy of capacity additions) and eth ramp-up of construction activity. Importantly the expected rise in construction profitability should have a significant contribution on the company's bottom line (note the high minorities related to RES and still this bottom line of operating concessions), with EPS seen growing by 50.8% CAGR in the period.
Please note that on our current set of estimates we account only for construction related revenues and profitability from Gek's under development concessions (Kasteli and Hellinikon) as assets will be commercially available after 2024.

Exhibit 14. Gek Terna Group key PnL estimates

EUR m	2018	2019	2020E	2021F	2022F	2023F
Group Revenues	**1,402.7**	**1,155.7**	**1,026.6**	**1,138.2**	**1,407.9**	**1,521.0**
Construction	*949.0*	*679.8*	*540.0*	*620.0*	*800.0*	*830.0*
Electricity sale from RES	*216.3*	*237.3*	*292.9*	*307.0*	*353.9*	*432.0*
Thermal Energy sales and Trading	*19.7*	*37.0*	*40.0*	*40.0*	*40.0*	*40.0*
Real Estate	*9.2*	*4.7*	*5.0*	*5.0*	*5.0*	*5.0*
Mining/industry	*11.4*	*9.9*	*10.0*	*10.0*	*10.0*	*10.0*
Concessions	*197.0*	*187.0*	*138.7*	*156.3*	*199.0*	*204.0*
Holding (other before 2016)	*0.2*	*0.2*	-	-	-	-
Group EBITDA	**270.1**	**271.9**	**308.8**	**342.5**	**401.6**	**480.6**
Construction	*30.2*	*9.6*	*18.9*	*26.5*	*46.8*	*48.2*
Electricity sale from RES	*156.6*	*177.8*	*209.2*	*232.0*	*255.6*	*327.0*
Thermal Energy sales and Trading	*1.6*	*2.3*	*1.0*	*1.0*	*1.0*	*1.0*
Real Estate	*(0.6)*	*0.5*	*0.5*	*0.5*	*0.5*	*0.5*
Mining/industry	*(2.6)*	*(8.6)*	*(10.0)*	*(8.0)*	*(7.0)*	*(7.0)*
Concessions	*92.4*	*96.4*	*96.3*	*96.5*	*109.7*	*116.0*
Holding (other before 2016)	*(7.5)*	*(6.1)*	*(7.0)*	*(6.0)*	*(5.0)*	*(5.0)*
non-cash adjustments	*10.7*	*13.3*				
adj. EBITDA	**280.8**	**285.1**	**308.8**	**342.5**	**401.6**	**480.6**
y-o-y	*0.3%*	*1.5%*	*8.3%*	*10.9%*	*17.2%*	*19.7%*
EBT	**60.8**	**77.8**	**79.3**	**89.4**	**127.8**	**180.4**
Minorities(1)	**31.4**	**32.3**	**48.2**	**47.2**	**54.2**	**82.6**
Net Income	**4.5**	**23.4**	**16.0**	**22.5**	**43.0**	**54.5**
EPS	**0.05**	**0.24**	**0.16**	**0.23**	**0.44**	**0.56**

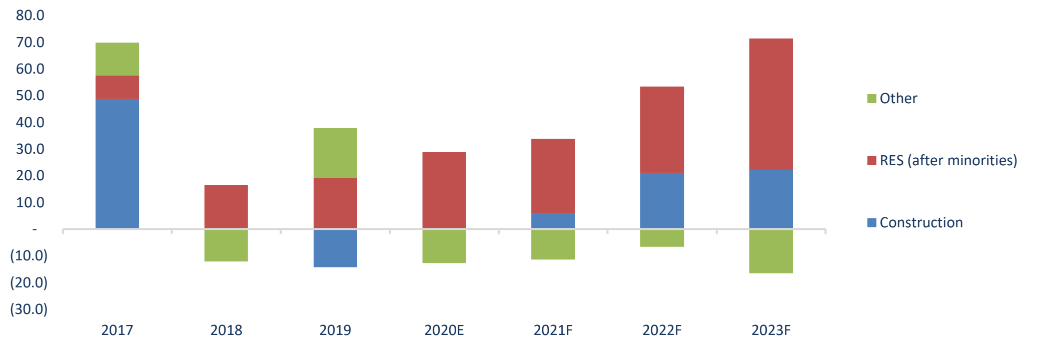
Source: AXIA Research, (1) mainly reflecting the 37% stake in Terna Energy

In more detail we expect group revenues in 2020 to decline by 11.2% y-o-y mainly reflecting the impact on the pandemic on construction division activity and traffic volumes in motorways. Looking forward we expect revenues to grow by 14.0% CAGR in 2020-23 driven by: i) the ramp up of construction activity upon the launch of new projects (+15.4% CAGR estimated); ii) capacity addition in the RES division (effective capacity to rise by ~600MW in 2019-23; and iii) pick up in traffic volumes in motorways concessions.

On the EBITDA level we forecast 2020 adj.EBITDA to increase by 13.6% y-o-y on the back of higher RES contribution (EBITDA +17.6% y-o-y) and stable concessions EBITDA, on the back of received compensations. For 2020-23 we forecast group EBITDA to grow by 15.9% CAGR primarily driven by RES EBITDA (+16.1% CAGR) and the higher activity levels in construction along with improved margins (+36.7% CAGR).

Looking below the EBITDA line, we note the rise in D&A charges on the back of new RES assets. In respect of financial expenses, we expect a modest increase reflecting higher debt levels to support expansion plans. We note though the continued management efforts to reduce funding costs (EUR 500m July 2020 bond was priced at 2.75% compared to 2018 EUR 120m issue that was priced at 3.95%). Note that 2019 and 2020E EBT include positive one offs related to gains from derivatives (2019) and capital gains from US wind park (2020E)
In respect of bottom line performance we estimate that the increased profitability of the construction division (100% owned) will boost EPS despite the rising minorities related to RES division.

Exhibit 16. Gek Terna Group net income contributors (EUR m)*



*Source: AXIA Research, The Company, *Other mainly related to overheads, parent co funding costs and other divisions*

Balance sheet and cash flow

One of the key enables of Gek Terna's strategy is the balance sheet structure that allows the company to have access to financing in order to pursue new opportunities. In this context we note that out of the EUR 2.4bn gross debt at Gek Terna Group level in 9M20, based on the bond prospectus definitions only EUR 460m are recourse to parent company. We note that bond covenants allow recourse leverage to increase up to EUR 800m, providing essentially to Gek Terna a firepower of EUR 800m (inc. the EUR 450m of cash at hand) to be used as equity contribution in new projects over the next periods.

Exhibit 16. Gek Terna Group 9M20 pro-forma debt breakdown

EUR m	Gross Debt	Cash	Comment
Terna Energy[1]	950	300	Bulk of this is project finance facilities serviced at SPV level. Most of cash are free to be used for new wind park projects equity contributions
Bonds (500+120)	620	450	Two domestically issued retail bonds. Part of the proceeds were used to repay existing debt. The EUR 450m in cash are currently available and free of any pledges to be used for new investments. This debt is supported by dividend streams from Terna Energy (EUR 20-15m), Motorways (after recourse and non-recourse debt payment EUR 20-25m) and construction (EUR 10-15m).
Construction	~70	~350	Construction carries ~EUR 70m gross debt that is mainly used for short term WC purposes. Its debt position varies over time depending on the pre-payments of projects and execution pace (construction recurring EBITDA >EUR 30m)
Concessions Recourse	~320		This is recourse debt guaranteed by parent Co and used to fund the equity contribution and acquisitions of stakes in motorways. Soon this will be refinanced and raised at project level (becoming non-recourse). This is supported by dividend payments received from motorways (EUR 50-60m).
Motorways Non-Recourse	~440		Project level debt raised to fund the construction of the projects. This is repaid by the FCF generation of motorways (EBITDA of EUR 80-90m p.a.) before any dividend payments. Cash is partially kept in escrow accounts to secure debt prepayments but there are also EUR 100-150m of cash free to be distributed at any given time ensuring seamless dividend distributions.
Group Total	**2,400**	**1,100**	

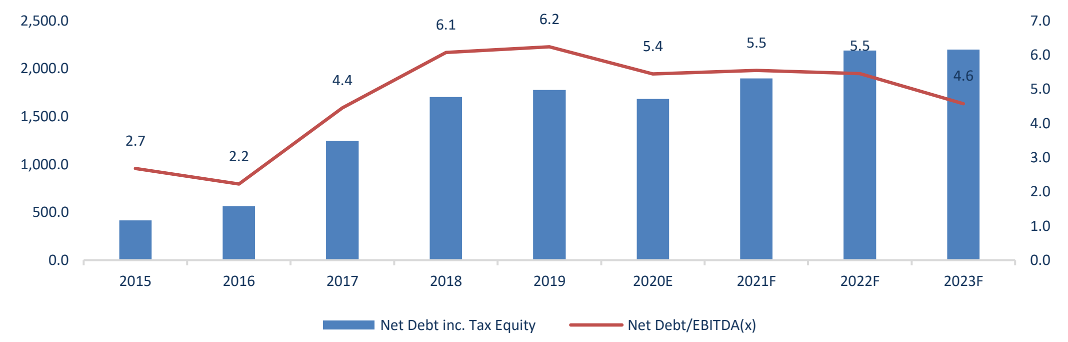
Source: AXIA Research, The Company, (1) not including EUR 300m of tax equity liabilities

In terms of capex needs, the main commitments relate to:

- The equity contributions for the Kasteli and Hellinikon concessions totaling EUR 280m that are well covered by existing cash at hand.
- EUR 1.1bn capex in total for 2020-23 in the RES segment. This to be covered by existing cash at hand of the subsidiary (secured organically, through the recent capital raise and form eth proceeds from the sale of US wind park) and project finance facilities.

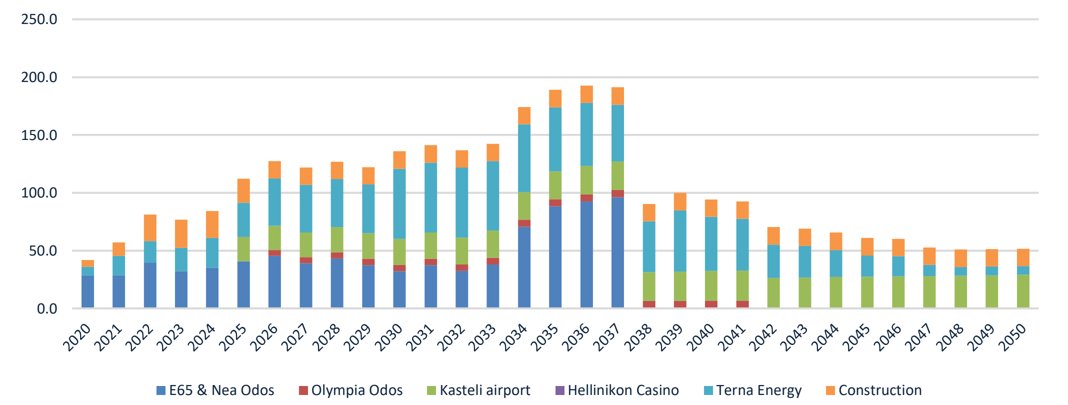
On a consolidated basis we forecast net debt (including tax equity liabilities) to stand at EUR 1.68bn in 2020 compared to EUR 1.77bn in 2019 on the back of higher cash inflows in the RES division. Going forward and as the group roll's out its investment schedule we expected net debt to gradually increase to EUR 2.2bn by 2023. Supported by the growth in EBITDA though, leverage (net debt/EBITDA) on a consolidated basis is seen declining from 6.1x-6.2x in 2018-19 to 5.5x for 2020-22 and slide to 4.6x in 2023.

Exhibit 17. Gek Terna Group net debt (EUR m) and leverage estimates



Source: AXIA Research, The Company

Exhibit 18. Gek Terna "secured" dividend streams cash profile 2020-2050 (EUR m)



Source: AXIA Research, The Company

9M Earnings review

Gek Terna 9M20 adj.EBITDA grew by 9.3% y-o-y to EUR 235.1m on the back of growth in RES segment and stable contribution from construction and concessions. Net profits in the 9-month period stood at EUR 11.8m compared to EUR 29.7m in 9M19 impacted by higher minorities and funding costs. In 3Q20 group revenues and profitability showed improving trends vs. 1H20 boosted by construction division contribution reflecting launch of construction works for Kasteli airport.

In respect of contribution per division we note:

- Construction division ramped up its contribution in 3Q20 supported by the launch of works for the Kasteli airport. Revenues in 3Q20 came at EUR 128.8m, declining by 14.3% y-o-y (vs. a decline of 30.7% in 1H20). EBITDA in 3Q20 settled at EUR 9.1m (vs. loss of EUR 5.5m in 3Q19) with the respective margin at 7.0% vs. 2.1% in 1H20. For the 9-month period construction revenues stood at EUR 367m (-25.7% y-o-y) and EBITDA at EUR 14.0m (+12% y-o-y) with respective margin at 3.8% vs. 2.5% in 9M19. Backlog currently stands at EUR 1.5bn (80% domestic) while another EUR 1.0bn is pending to be signed (i.e. Hellinikon Casino).
- RES division sales and EBITDA in 9M20 increased by 20.3% y-o-y and EUR 15.5% y-o-y respectively to stand at EUR 203.6m and EUR 150.7m on the back of higher effective installed capacity during 1H20. In 3Q20 RES sales grew by 7.2% y-o-y to stand at EUR 61.5m with EBITDA flat y-o-y at EUR 43.2m reflecting the sale of 138MW in the US. Installed capacity in 9M20 stood at 1,373MW (compared to 1,390MW in 9M19). Capacity in Greece increased during the quarter to stand at 727MW following the commissioning in 3Q20 of 119MW. In the US capacity stands at 513MW, following the sale of the 138MW Mountain Park in early 3Q20. Poland and Bulgaria unchanged at 102MW and 30MW respectively.
- Concessions division revenues were down by 13.7% y-o-y in 9M20 to EUR 118.6m reflecting the impact of the first lockdown period in traffic volumes. In 3Q20 revenues were flat y-o-y at EUR 51.4m, while EBITDA grew by 6.7% y-o-y to EUR 30.0m. For 9M20 concession EBITDA stands at EUR 79.7m (+10.1% y-o-y) including though EUR 17.3m of compensation claims (accounted in 1H20 as other income, below revenues) filed by the company to the Greek State for the impact of lockdown measures as per the concession agreement.

On a consolidated basis group revenues in 3Q20 came at EUR 253.7m (-6.5% y-o-y) while EBITDA came at EUR 79.6m (+16.5% y-o-y) with the respective margin at 31.4% vs. 25.2% in 3Q19. EBT came at EUR 36.2m (vs. EUR 12.1m in 3Q19) boosted by EUR 27.7m of capital gains from the sale of US wind park.
For 9M20 consolidate revenues stand at EUR 723.3m (-13.7% y-o-y), with EBITDA at EUR 235.1m (+9.3% y-o-y) and the respective margin at 32.5% vs. 25.7% y-o-y. EBT came at EUR 55.5m (-13.8% y-o-y) reflecting higher financials and depreciation charges and tough comps due to financial gains in 1H19 in concessions division. Net income settled at EUR 11.8m in 9M20 vs. EUR 29.7m in 9M20 affected also by higher minorities (i.e. RES segment).

In 9M20 group net debt (inc. tax equity liabilities) stood at EUR 1.605bn compared to EUR 1.879bn in 1H20, with the sequential improvement reflecting the proceeds from the sale of the US wind park ($212m) and EUR 68m capital raise in the RES segment. Leverage (net debt/LTM EBITDA declined to 5.4x vs. 6.4x in 1H20 and FY2019. Cash at hand stood at EUR 1.11bn, reflecting the EUR 500m bond issue completed in 3Q20.

Exhibit 19. Gek Terna 9M PnL highlights

EUR m	3Q19	3Q20	*y-o-y*	9M19	9M20	*y-o-y*
Group Revenues	**271.4**	**253.7**	*-6.5%*	**837.9**	**723.3**	*-13.7%*
Construction	*150.3*	*128.8*	*-14.3%*	*493.9*	*366.9*	*-25.7%*
RES	*57.4*	*61.5*	*7.2%*	*169.3*	*203.6*	*20.3%*
Concessions	*51.5*	*51.4*	*-0.3%*	*137.4*	*118.6*	*-13.7%*
Group EBITDA	**68.3**	**79.6**	*16.5%*	**215.1**	**235.1**	*9.3%*
Construction	*-5.5*	*9.1*	*NM*	*12.5*	*14.0*	*12.0%*
RES	*43.6*	*43.2*	*-0.8%*	*130.5*	*150.7*	*15.5%*
Concessions	*28.2*	*30.0*	*6.7%*	*72.4*	*79.7*	*10.1%*
Net Income	**2.4**	**10.4**	*341.8%*	**29.7**	**11.8**	*-60.3%*

Source: The Company, AXIA Research

Detailed financials

Income Statement (EUR m)	2017	2018	2019	2020E	2021F	2022F	2023F
Total Revenues	1,161.3	1,402.7	1,155.7	1,026.6	1,138.2	1,407.9	1,521.0
Construction	899.5	949.0	679.8	540.0	620.0	800.0	830.0
RES	173.0	216.3	237.3	292.9	307.0	353.9	432.0
Concessions	88.7	197.0	187.0	138.7	156.3	199.0	204.0
Other	0.0	40.4	51.7	55.0	55.0	55.0	55.0
Total EBITDA	274.0	270.1	271.9	308.8	342.5	401.6	480.6
Construction	124.1	30.2	9.6	18.9	26.5	46.8	48.2
RES	128.9	156.6	177.8	209.2	232.0	255.6	327.0
Concessions	12.1	92.4	96.4	96.3	96.5	109.7	116.0
Other	8.8	(9.1)	(12.0)	(15.5)	(12.5)	(10.5)	(10.5)
adj. EBITDA	279.9	280.8	285.1	308.8	342.5	401.6	480.6
D&A	65.5	103.6	114.6	129.9	128.2	144.9	167.6
Net Financials	(46.4)	(108.3)	(118.3)	(127.4)	(125.0)	(128.8)	(132.6)
Other Income	(8.6)	2.6	38.8	27.7	-	-	-
EBT	153.4	60.8	77.8	79.3	89.4	127.8	180.4
Taxes	(58.7)	(25.0)	(22.1)	(15.1)	(19.7)	(30.7)	(43.3)
Earnings After Tax	94.8	35.8	55.7	64.2	69.7	97.1	137.1
Minorities	25.0	31.4	32.3	48.2	47.2	54.2	82.6
Net Income	69.8	4.5	23.4	16.0	22.5	43.0	54.5
EPS	0.72	0.05	0.24	0.16	0.23	0.44	0.56

Balance Sheet Highlights (EUR m)	2017	2018	2019	2020E	2021F	2022F	2022F
Total Non-Current Assets	2,680.0	2,644.1	3,013.3	2,973.2	3,286.0	3,699.6	3,835.0
Current assets	771.5	842.5	701.1	701.1	701.1	701.1	701.1
Cash	642.2	523.2	594.7	1,055.4	1,004.3	778.4	834.1
Total Assets	4,093.8	4,009.8	4,309.0	4,729.7	4,991.4	5,179.0	5,370.2
Equity	488.9	486.3	495.9	511.9	534.4	577.4	631.9
Minorities	279.3	242.7	271.0	319.2	366.4	420.5	503.1
Total Equity	768.2	729.0	766.9	831.1	900.8	997.9	1,135.0
Total Debt	1,726.3	1,850.7	2,038.1	2,438.1	2,638.1	2,738.1	2,838.1
Current Liabilities	831.8	898.6	987.0	952.1	917.1	882.1	847.1
Noncurrent Liabilities	767.5	531.6	517.0	508.5	535.4	560.9	550.0
Total Liabilities	3,325.6	3,280.9	3,542.1	3,898.6	4,090.6	4,181.1	4,235.2
Net Bank Debt	1,084.1	1,327.4	1,436.7	1,375.9	1,627.0	1,952.9	1,997.2
Tax Equity Liabilities	160.4	375.8	340.8	305.8	270.8	235.8	200.8
Total Net Debt	1,244.5	1,703.2	1,777.5	1,681.7	1,897.9	2,188.8	2,198.0
Total Net Debt/adj. EBITDA	4.4 x	6.1 x	6.2 x	5.4 x	5.5 x	5.5 x	4.6 x

Cash Flow Statement	2017	2018	2019	2020E	2021F	2022F	2022F
Gross Operating Cash Flow	279.0	296.8	273.5	337.1	342.5	401.6	480.6
WC changes	-182.0	-193.1	-20.5	0.0	0.0	0.0	0.0
Taxes	(74.9)	(6.0)	(16.9)	(15.1)	(19.7)	(30.7)	(43.3)
Net Operating Cash Flow	22.1	97.7	236.1	322.1	322.9	370.9	437.3
Capex	(260.0)	(212.3)	(187.0)	(99.0)	(449.0)	(568.0)	(314.0)
Other Financing (grants received etc.)	92.1	(44.2)	(51.3)	5.0	40.0	40.0	5.0
Investing Cash Flow	(167.9)	(256.5)	(238.3)	(94.0)	(409.0)	(528.0)	(309.0)
Interest and related expenses paid	(74.9)	(100.4)	(89.0)	(132.4)	(130.0)	(133.8)	(137.6)
Debt movements	169.4	154.4	133.5	400.0	200.0	100.0	100.0
Other Financing (dividend to minorities)	96.6	(39.1)	47.6	(35.0)	(35.0)	(35.0)	(35.0)
Financing cash flow	191.0	14.9	92.0	232.6	35.0	(68.8)	(72.6)

Per share data	2017	2018	2019	2020E	2021F	2022F	2023F
EPS	0.72	0.05	0.24	0.16	0.23	0.44	0.56
BVPS	7.87	7.47	7.86	8.52	9.23	10.23	11.64
DPS	-	-	-	-	-	-	-

Valuation multiples	2017	2018	2019	2020E	2021F	2022F	2023F
P/E	6.2 x	104.8 x	31.5 x	50.2 x	35.7 x	18.7 x	14.7 x
EV/EBITDA	6.1 x	8.0 x	9.3 x	8.0 x	7.9 x	7.4 x	6.2 x
EV/EBIT	8.0 x	13.0 x	16.0 x	13.9 x	12.6 x	11.7 x	9.6 x
EV/Sales	1.4 x	1.5 x	2.2 x	2.4 x	2.4 x	2.1 x	2.0 x
P/BV	0.6 x	0.6 x	1.0 x	1.0 x	0.9 x	0.8 x	0.7 x
Div. yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROA	1.9%	0.1%	0.6%	0.4%	0.5%	0.8%	1.0%
ROE	10.2%	0.6%	3.1%	2.0%	2.6%	4.5%	5.1%
ROIC	2.5%	0.1%	0.7%	0.4%	0.5%	1.0%	1.2%

Growth rates	2017	2018	2019	2020E	2021F	2022F	2023F
Revenues	1.9%	18.3%	-17.6%	-11.2%	10.9%	23.7%	8.0%
EBITDA	11.3%	-1.4%	0.6%	13.6%	10.9%	17.2%	19.7%
EBIT	15.9%	-20.1%	-5.6%	13.8%	19.8%	19.7%	22.0%
EBT	63.9%	-60.4%	27.9%	1.9%	12.7%	43.1%	41.1%
Net Income	101.6%	-93.6%	424.6%	-31.8%	40.7%	91.1%	26.8%

Profitability margins	2017	2018	2019	2020E	2021F	2022F	2023F
EBITDA margin	23.1%	19.3%	23.5%	30.1%	30.1%	28.5%	31.6%
EBIT margin	17.6%	11.9%	13.6%	17.4%	18.8%	18.2%	20.6%
Net Income margin	5.9%	0.3%	2.0%	1.6%	2.0%	3.1%	3.6%

Leverage	2017	2018	2019	2020E	2021F	2022F	2023F
Total Debt / Total Capitalization	4.0 x	4.0 x	2.8 x	3.1 x	3.3 x	3.5 x	3.6 x
Net Debt/EBITDA (inc. tax equity)	4.4 x	6.1 x	6.2 x	5.4 x	5.5 x	5.5 x	4.6 x
Gearing (Total debt / Debt+Equity)	69.2%	71.7%	72.6%	74.5%	74.5%	73.2%	71.4%
Net Debt / Equity	1.4 x	1.8 x	1.9 x	1.7 x	1.8 x	2.0 x	1.8 x
Gross operating FCF/Interest	3.5 x	2.8 x	2.7 x	2.5 x	2.6 x	3.0 x	3.5 x
Total Debt/Equity	2.2 x	2.5 x	2.6 x	2.9 x	2.9 x	2.7 x	2.5 x

Source: AXIA Research, The Company

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Persons responsible for this report: Argyrios Gkonis (Analyst), Constantinos Zouzoulas (Head of research).

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AXIA Research 12-month rating*	
Buy	The stock to generate total return** of and above 10% within the next 12-months
Neutral	The stock to generate total return**between -10% and 10% within the next 12-months
Sell	The stock to generate total return** of and below -10% within the next 12 months
Under Review	Stock's target price or rating is subject to possible change
Restricted	Applicable Laws / Regulation and AXIA Ventures Group Limited policies might restrict certain types of communication and investment recommendations
Not Rated	There is no rating for the company by AXIA Ventures Group Limited

* Exceptions to the bands may be granted by the Investment Review Committee of AXIA taking into account specific characteristics of the Subject Company
**Total return: % price appreciation equals percentage change in share price from current price to projected target price plus projected dividend yield.

Rating history for Gek Terna S.A.

Date	Rating	Share Price (EUR)	Target Price (EUR)
11/03/2014	Buy	3.84	7.00
18/06/2015	Buy	1.46	3.80
19/04/2016	Buy	1.71	3.40
12/05/2017	Buy	3.35	4.70
26/10/2017	Buy	3.94	5.50
02/07/2018	Buy	5.14	6.10
25/02/2019	Buy	4.97	6.70
16/10/2019	Buy	6.60	8.80
16/02/2021	Buy	8.22	10.90

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Neutral	2	10.5%			
Sell					
Restricted					
Not Rated					
Under Review	2	10.5%			

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AXIA Ventures Group

10 G. Kranidiotis, Suite 102, 1065 Nicosia, Cyprus, Tel: +357 22 742000	4, Vas. Sofias Ave., 3rd Floor, 10674 Athens, Greece, Tel: +30 210 7414400	555 Madison Avenue, Suite 11A, NY 10022, New York , US, Tel: +1 212 7920255	Broadgate Tower, 3rd Floor, 20 Primrose St, EC2A 2RS, London, UK, Tel: +44 20 7987 6033	Avenida da Liberdade 240, 4th floor, 1250-096 Lisbon, Portugal, Tel: +351 219364444	26 Corso Venezia, 1st floor, 20121 Milan, Italy, Tel: +39 3480801411

www.axiavg.com

Research

Constantinos Zouzoulas	constantinos.zouzoulas@axiavg.com	+30 210 7414460
Jonas Floriani	jonas.floriani@axiavg.com	+44 208 068 3516
Argyrios Gkonis	argyrios.gkonis@axiavg.com	+30 210 7414462
Mary Mantzourani	mary.mantzourani@axiavg.com	+30 210 7414475

Equity Capital Markets and Sales

Thanos Adamantopoulos	thanos.adamantopoulos@axiavg.com	+44 207 9876033
Maria Mitsouli	maria.mitsouli@axiavg.com	+30 210 7414424
Vaia Dotsia	Vaia.Dotsia@axiavg.com	+30 210 7414430