

Albioma

Price EUR14.30

Further development in Brazil, as planned by management

Fair Value EUR16 (+12%)

BUY

Bloomberg	ABIO.FP
Reuters	ABIO.PA
12-month High / Low (EUR)	19.0 / 11.9
Market Cap (EURm)	426
Ev (BG Estimates) (EURm)	1,065
Avg. 6m daily volume (000)	22.20
3y EPS CAGR	18.4%

Albioma announced this morning it has signed a JV agreement with Vale do Parana to develop a new cogeneration operation in the State of Sao Paulo. With this project, in which Albioma will own 40%, the group is further increasing its presence in this high growth potential market, while the timing is good in our view given the BRL depreciation compared with 2014-15. We confirm our Buy rating with FV unchanged at EUR16/share. Positive.

ANALYSIS

- A new Brazilian project:** Albioma announced this morning it has signed a JV agreement with Brazilian company **Vale do Parana** aiming at developing a new cogeneration operation in the State of Sao Paulo in Brazil. This is Albioma's third project in the country after Rio Pardo Termoelétrica in March 2014 and Codora Energia in April 2015. Albioma and Vale do Parana are to create a project company that will own and operate the cogeneration plant. Albioma is to own **40%** of this project company. The **BRL100m investment** (c. EUR25m) is eligible for a BNDES (*Brazil National Bank for Development*) long-term loan. The project company will build an extension raising the plant's installed capacity from **16MW to 48MW of which 30MW** being exported to the power grid. **80%** of the expected electricity production has already been secured as it has been sold on the regulated market: **120GWh/year** has been sold over 25 years from January 2021 at **BRL245.2/MWh** (c. EUR59/MWh), which is lower than the 20-year PPA contracts recently signed by Codora (BRL278/MWh) but above Rio Pardo's 20-year PPA contracts (BRL121/MWh).
- A deal in line with the group's guidance:** This deal is in line with the group's guidance to announce a project in Brazil every 12 to 18 months and clearly confirms its appetite for this high growth potential market. We appreciate the timing as the group is set to engage capital in the country at a cheaper rate than 12 months ago (c. EUR to BRL rate currently at 4 vs. 3.7 in 2015 and 3.12 in 2014) and more importantly, is investing through a JV (40% stake within new project) limiting the financial risk on this specific project while raising the implicit number of new potential Brazilian projects. As a reminder, during its investor day the group indicated it will spend around **EUR400m** in Brazil over 2013-2023 representing **40%** of its 10-year capex budget. With this new deal we estimate the group will have spent less than **EUR100m** representing less than **25%** of its Brazilian capex envelope.
- Conclusion:** In our model we were already assuming the group would develop its Brazilian capacities as planned, but via integrated full investments (100%) and not investments through JVs implying a lower EBITDA contribution but also a lower financial cash-out. We currently stick to our Buy rating with FV unchanged at **EUR16/share**. We expect a positive share price reaction this morning with investors appreciating the group's commitment to its guidance.

VALUATION

- At the current share price the stock is trading at 8.4x its 2016e EBITDA and offers a 4% yield
- Buy, FV unchanged at EUR16/share

NEXT CATALYSTS

- 26th July 2016: H1 2016 earnings

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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