

Fintel Energija

Buy

Initiation of coverage

Price: RSD 620

Price target: RSD 824

Small, but powerful

We initiate coverage of Fintel Energija with a BUY recommendation and a 12M price target (PT) of RSD 824/share, implying 33% upside. Fintel, an onshore wind power producer, is the first company to build and operate a wind farm in Serbia. The company operates 86MW of capacity and plans to reach 1GW of wind capacity in the coming years. Currently, the company is awaiting a new support scheme for renewables, which is being prepared now. Thanks to a generous feed-in tariff (FiT), Fintel's current portfolio generates solid profitability, which should be boosted this and next year, when its third (69MW Kosava 1) plant unlocks its full potential. While, on our P/E and EV/EBITDA multiples, Fintel seems fairly valued, our DCF implies 38% upside, based on the projects ahead. Moreover, through its 633MW Maestrale project, the company is aiming to become reliant on merchant pricing only in the future, independent of any support scheme. Fintel's plans are bullish and there are certainly still many obstacles ahead, but we view Fintel as one of the best bets on the slow, but inevitable power transformation in the overlooked, western Balkans region.

Fintel operates 86MW of wind capacity, and is planning 1GW in total. The company has 10 more projects in Vojvodina (north Serbia) and the Braničevo (east Serbia) region. In May this year, the 69MW Kosava plant received the status of a privileged power producer and all assets are selling at the full FIT price currently, at EUR 98.9/MWh. In 2019, Fintel generated 115GWh of electricity (+190% yoy). This year, we expect 105% yoy production growth.

Fintel's IPO, in October 2018 on the Belgrade Stock Exchange, was the first in Serbia in 78 years. The company does not rule out raising more capital later this year, to be ready for the expected RES auctions and further capacity growth. While share value dilution is very likely in Fintel's case, in our view, we would see it as a good entry point for larger investors, given the stock's low liquidity.

Acquisition target? With its dominant position in terms of planned capacity in Serbia, in our view, Fintel stands out as a perfect target for larger RES players not yet present in Serbia. By acquiring Fintel, an investor would acquire a 1GW pipeline, local knowledge of the market, and operating portfolio that is small in size, but generates very good margins thanks to the generous FiT.

New support scheme in progress. Currently, the government is developing a new support scheme for RES. This is what Fintel is waiting for with its smaller assets, while separately developing projects that would operate as merchant plants. We expect the framework to be released within two years.

Fintel is a cheap option for Serbia's power transition. While the peer multiples indicate that Fintel is fairly valued, in our DCF, we try to capture the upside from future projects. This leads to 33% upside to the current price.

The risks are many: from regulatory risks, to the company's ability to execute its bullish plan. Fintel is expected to rely on debt to finance its projects, and borrowing costs, as well as the power price outlook, play a crucial role in its investment case. So far, Fintel has a good track record in terms of execution, load factor and opex, but our estimates might be subject to change, based on the company's ongoing performance.

Year	Sales (RSD m)	EBITDA (RSD m)	Net profit (RSD m)	EPS (RSD)	EPS growth	P/E (x)	P/CE (x)	EV/ EBITDA	DPS (RSD)	Dividend yield (%)
2017*	497	351	44	1.68	93%	370.1	70.1	54.8	0.00	0.0%
2018	450	299	28	1.04	-38%	595.4	132.5	88.4	0.00	0.0%
2019	881	677	55	2.06	98%	301.0	771.0	40.1	0.00	0.0%
2020E	2,265	1,747	591	22.31	983%	27.8	24.9	16.8	0.00	0.0%
2021E	2,784	2,255	805	30.38	36%	20.4	22.3	13.0	0.00	0.0%
2022E	2,821	2,279	565	21.31	-30%	29.1	24.0	17.1	0.00	0.0%

*Valuation multiples on current share price

Analysts: Ondrej Slama; Bram Buring, CFA
E-mail: ondrej.slama@wood.com, bram.buring@wood.com

Expected events

AGM	29 July
1H20 results	15 August

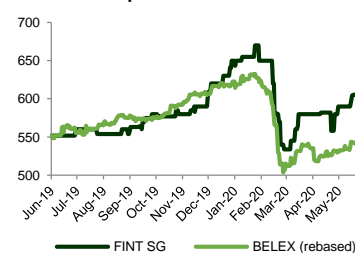
Key data

Market Cap	EUR 140m
Free float	6%
3M ADTV	EUR 0.2k
Shares outstanding	26.5m
Major Shareholder	Fintel Energija Group 94% (Tiziano Giovannetti, 81%)
Reuters Code	FINT.SG
Bloomberg Code	FINT SG
BELEX Index	1,499

Price performance

52-w range	523-670
52-w performance	12%
Relative performance	15%

Fintel Energija 12M share price performance



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Closing Prices as of 30 June 2020

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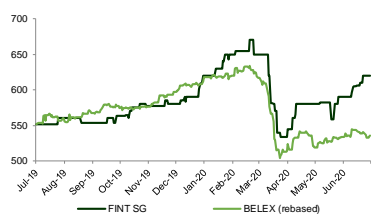
WOOD & Company Financial Services a.s.
Palladium, Namesti Republiky 1079/1a,
110 00 Prague 1 – Czech Republic
tel.: +420 222 096 111
fax: +420 222 096 222
<http://www.wood.cz>

Company snapshot – BUY, PT RSD 824

Fintel Energija

BUY

Bloomberg ticker	FINT SG
Closing price (RSD)	620
Price Target (RSD)	824
Upside to PT	33%
Shares outstanding (m)	26.5
MCAP (EUR m)	140
Free float	6.0%
ADTV (EUR k)	0.24
52 Week Range (RSD)	523-670



COMPANY DESCRIPTION

Fintel is an independent renewables power producer in Serbia. Currently, Fintel's capacity stands at 86MW, at three wind farms, but the company aims to reach 1GW of capacity in the coming years. The three wind farms enjoy a favourable subsidy scheme, set up by the Serbian government. In October 2018, Fintel's IPO on the Belgrade stock exchange was the first in 78 years. Fintel sold 1.5m shares, priced at RSD 500/share, raising EUR 6.7m. Fintel was established in 2007 in Beograd. Fintel Energija's largest shareholder is Fintel Energia Group S.p.A., based in Italy. Fintel Energia Group owns 94% of Fintel Energija, and is 86% owned by Hopafi Srl and other investors. Mr. Tiziano Giovannetti owns a 99.99% stake in Hopafi. Mr. Giovannetti has been Fintel's CEO since 2007.

RATIOS

PER SHARE RATIOS	2017	2018	2019	2020E	2021E	2022E	VALUATION RATIOS	2017*	2018	2019	2020E	2021E	2022E
EPS	1.68	1.04	2.06	22.31	30.38	21.31	P/E	370.1x	595.4x	301.0x	27.8x	20.4x	29.1x
CEPS	8.84	4.68	0.80	24.92	27.86	25.81	P/CF	70.1x	132.5x	771.0x	24.9x	22.3x	24.0x
BVPS	-2.04	19.72	16.11	38.42	68.80	90.11	P/B	n.m.	31.4x	38.5x	16.1x	9.0x	6.9x
DPS	0.00	0.00	0.00	0.00	0.00	0.00	EV/EBITDA	54.8x	88.4x	40.1x	16.8x	13.0x	17.1x
FINANCIAL RATIOS	2017	2018	2019	2020E	2021E	2022E	EV/Sales	38.8x	58.7x	30.8x	13.0x	10.5x	13.8x
Capex/depreciation	2.3x	58.7x	7.9x	9.0x	3.4x	25.6x	EV/EBIT	90.4x	165.0x	68.1x	20.9x	15.7x	21.0x
Capex/net fixed assets	0.10x	0.71x	0.17x	0.20x	0.08x	0.41x	Cash flow from ops, RSD m	234	124	21	660	738	684
Op. cash flow/capex	0.2x	n.m.	0.2x	0.3x	0.6x	0.1x	EV, RSD m	19,259	26,448	27,140	29,379	29,294	39,041
EBITDA margin	70.7%	66.4%	76.9%	77.2%	81.0%	80.8%	FCF, RSD m	-173	-7,997	-2,130	-2,403	-592	-10,100
EBIT margin	42.9%	35.6%	45.3%	62.1%	67.0%	65.9%	FCF yield	-1.1%	-48.7%	-13.0%	-14.6%	-3.6%	-61.5%
Net margin	8.9%	6.1%	6.2%	26.1%	28.9%	20.0%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	-37.3%	11.8%	11.5%	81.8%	56.7%	26.8%	Net debt/(cash) to equity	n.m.	19.2x	25.1x	12.7x	7.1x	9.5x
Net debt/(cash) to equity	n.m.	19.2x	25.1x	12.7x	7.1x	9.5x	Net debt/EBITDA	8.1x	33.5x	15.8x	7.4x	5.7x	9.9x

COMPANY FINANCIALS

INCOME STATEMENT, RSD m	2017	2018	2019	2020E	2021E	2022E	BALANCE SHEET, RSD m	2017	2018	2019	2020E	2021E	2022E
Revenues	497	450	881	2,265	2,784	2,821	Current assets	208	643	728	584	673	664
COGS & opex	-145	-151	-202	-517	-529	-541	Cash & Equivalents	113	539	278	307	395	387
EBIT	213	160	399	1,405	1,866	1,859	Trade receivables	0	0	183	0	0	0
Depreciation	-138	-139	-278	-342	-389	-421	Inventories	0	1	10	21	21	21
EBITDA	351	299	677	1,747	2,255	2,279	Other	94	103	257	257	257	257
Financial income/(expense) & other	-63	-25	-221	-544	-594	-1,020	Non-current assets	3,184	11,578	13,298	15,793	16,325	26,496
Profit before tax	150	136	178	1,203	1,662	1,259	Tangible	3,054	11,480	13,205	15,638	16,170	26,340
Taxes	-37	-61	-33	-148	-224	-251	Intangible	130	98	59	122	122	122
Net profit	113	75	144	1,056	1,438	1,008	Other	0	0	33	33	33	33
Minority interest	69	47	90	465	633	444	Total assets	3,393	12,221	14,026	16,377	16,998	27,160
Net income to Fintel	44	28	55	591	805	565	Current liabilities	1,600	2,950	1,836	2,975	2,858	4,658
CASH FLOW, RSD m	2017	2018	2019	2020E	2021E	2022E	ST debt	1,150	2,069	1,159	2,590	2,573	4,522
CF from Operations	234	124	21	660	738	684	Trade payables	393	795	591	300	200	50
Thereof depreciation	138	139	278	342	389	421	Other	58	85	85	85	85	85
Thereof changes in w/c	174	402	-396	-118	-100	-150	Non-current liabilities	1,847	8,749	11,763	12,293	12,225	20,023
CF from Investments	-407	-8,121	-2,152	-3,063	-1,330	-10,784	LT debt	1,793	8,488	9,829	10,359	10,291	18,089
Thereof CAPEX	-318	-8,153	-2,190	-3,063	-1,330	-10,784	Other	54	262	1,934	1,934	1,934	1,934
CF from Financing	101	8,432	1,870	1,961	-85	9,747	Total liabilities	3,447	11,699	13,599	15,268	15,083	24,680
Thereof debt	101	7,750	1,870	1,961	-85	9,747	Minority interest	9	-27	44	91	91	91
Dividends	0	0	0	0	0	0	Shareholders' equity	-54	522	427	1,018	1,823	2,388
Change in Net debt	59	7,189	692	2,239	-85	9,747	Total liabilities and equity	3,393	12,221	14,026	16,377	16,998	27,160

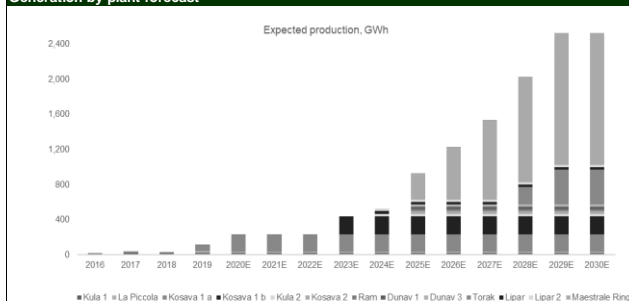
OPERATIONS

	2017	2018	2019	2020E	2021E	2022E
Generation capacity, MW	17	17	45	86	86	86
Capacity additions (adjusted)	5	0	29	40	0	0
Generation volume, GWh	44	40	115	236	236	236
Growth (yoy)	72%	-9%	190%	105%	0%	0%

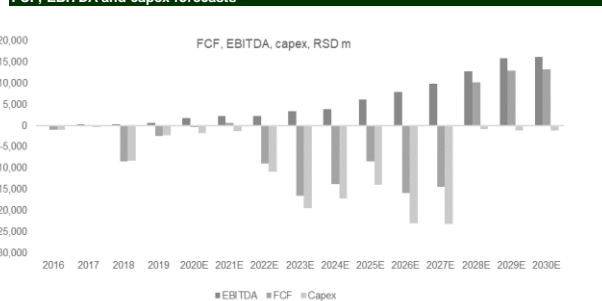
MACRO ASSUMPTIONS

	2017	2018	2019	2020E	2021E	2022E
Inflation, EU	1.5%	1.8%	1.2%	0.4%	1.1%	1.3%
Inflation, Serbia	3.1%	2.0%	1.9%	1.2%	2.0%	2.4%
Baseload price (RSD/MWh)	6,192	5,918	5,698	4,130	5,358	6,620
Baseload price (EUR/MWh)	51	50	49	35	45	55
FIT price (EUR/MWh)	95	96	98	99	100	101

Generation by plant forecast



FCF, EBITDA and capex forecasts



Source: Bloomberg, company data, WOOD Research; *valuation multiples on current share price

Restless, wild south-east pioneer

We initiate coverage of Fintel Energija with a BUY recommendation and a 12M price target (PT) of RSD 824/share, implying 33% upside. Fintel, an onshore wind power producer, is the first company to build and operate a wind farm in Serbia. The company has 86MW of operating capacity, with a bullish plan to reach 1GW in the coming years. Thanks to a generous feed-in tariff (FIT) mechanism, Fintel has been achieving very good margins through its two smaller plants, and expects its earnings to grow further this and next year, when its third (69MW, in Kosava) plant starts unlocking its full potential. Fintel was IPOed on the Belgrade Stock Exchange in 2018, selling 6% of its shares to the market. Currently, the company is awaiting a new support scheme for renewables, which is being prepared now, before expanding its capacity. On our three-year forward P/E and EV/EBITDA multiples, Fintel seems fairly valued. However, we try to capture the value of future projects through our DCF, as the company stands ready for the next regulations, having an undisputed advantage vs. its peers operating in Serbia, with a detailed plan on the expansion ahead. Moreover, with its recently-announced 633MW Maestrale project, the company is aiming to become reliant on merchant pricing only, independent of any support scheme. We acknowledge that Fintel's plans are bullish and there are many obstacles ahead. That said, we see the company as a good bet on the slow, but inevitable power transformation in the overlooked, western Balkans region.

Fintel, the first company to install and operate a wind farm in Serbia

Since 2007, Fintel has been a pioneer in onshore wind generation in Serbia. In 2015, it became the first company to install and operate an onshore wind farm in the country. Now, Fintel has added 86MW of wind capacity, operating under a generous FIT mechanism, and is planning 1GW of wind capacity in total. The company has 10 more projects, in Vojvodina (north Serbia) and Braničevo (Southern and Eastern Serbia), in its pipeline. In 2019, Fintel generated 115GWh of electricity (+190% yoy), all sold under the FIT scheme. Currently, the company is patiently awaiting a new support mechanism, which is being prepared by the government now, in cooperation with the EBRD. Separately, in line with its long-term strategy and ahead of its competitors, the company is also planning projects independent of the support scheme and relying on merchant pricing only. In October 2018, Fintel's IPO on the Belgrade Stock Exchange was the first in 78 years.

Growing revenue and EBITDA from generous FIT and capacity additions

In May this year, the 69MW Kosava 1 Phase 1 plant received the status of a privileged power producer and all assets are selling at the full FIT price currently, at EUR 98.9/MWh. This high revenue also translates into solid margins. This year, we expect Fintel to generate an EBITDA margin of 77%, at an average load factor of 32%. Going forward, Fintel plans to develop its future projects depending on the form of the next support scheme and its ability to access debt financing. That said, our power price outlook for Serbia allows sufficient returns, even at future baseload prices. We understand that the banks are looking for stability, Fintel still has to prove the reliability of its current portfolio, and the company is more likely to secure loans with the new regulatory scheme in place.

In the end, wind farm generation is a function of the power price, the load factor, the capex and the cost of funding. With the capex spent on some parts of the infrastructure in the Vojvodina region already, the high competition among contractors, Fintel's track record so far, the declining capital costs and our expectations of a growing Serbian baseload price in the coming years, we believe the company should be able to keep adding capacity, even if the regulatory scheme implementation is delayed.

New tariff mechanism expected in 2021-22E

Currently, the government is working on a new support scheme for renewables. The EBRD is helping with this process. There is still a lot to be done, and we do not assume any new capacity supported by the new mechanism will be finished before 2023E, assuming the auction takes place in 2022E. At this point, it seems likely that Serbia could follow the North Macedonia model, where premium to market pricing is auctioned (FiP). The discussed auction volumes stand at 300MW currently (perhaps up to 500MW) for onshore wind, based on the information we have. We assume no caps on plant capacity in the tender and only one tender to take place. With 86MW operating already, there is still about 900MW in Fintel's pipeline. In our model, we use assume Fintel will grab 46% of the auction volume in 2022E. We assume a 5% premium to the baseload price, but even a 0% premium would generate a solid IRR of 13% and would reduce our PT by only 3%, assuming baseload prices at EUR 55/MWh in 2022E and growing afterwards. Although this is much lower than the current 98.9/MWh Fintel receives, we see our outlook for the Serbian baseload price as attractive enough, given the improved wind production economics and the recent auction pricing in the EU. We also do not rule out a higher premium. Fintel is in a position to offer the lowest premium, in our view, given its more developed portfolio compared to its peers or investments in infrastructure. Although Fintel is no longer the largest wind producer in Serbia,

we note that its dominant position in terms of its planned portfolio additions might also be addressed by the new mechanism, in our view. Moreover, with low competition in the tender, if the premium is too high, there is a risk of the government pulling out of the tender.

Serbia cannot resist RES economics for much longer, despite the new lignite capacity planned

We expect the Serbian baseload prices to increase over time. Our thinking is simple: 1) the integration with EU regulations and Serbia's reliance on dirty lignite generation will lead to increasing pressure on domestic baseload prices; and 2) despite new lignite additions, which work well with the hydro capacity, Serbia will start the gradual decommissioning of its lignite fleet, the renewables and gas additions will not be enough to replace the old lignite capacity and the country will have to start paying premiums for imported baseload. In either scenario, we believe there is a low risk of the baseload prices being at lower levels than in the EU. Serbian consumers already pay some of the lowest power bills in the region and we also see upside to the current levels. That said, the Serbian power price outlook also depends on local consumption and development in the bordering countries.

Last month, general elections took place in Serbia. We expect a new government to be formed in late-summer. With the EBRD consultation process running already, we do not expect significant delays in the new RES scheme, should the long-serving Minister of Energy, Mr. Antic, be replaced. However, in our view, Serbia needs a more fundamental change in its outdated energy policy and, should the government decide to present a new overhaul of the entire energy sector, the RES scheme could be delayed as well.

Expansion plan: 1GW onshore wind pipeline

Fintel stands ready for the wind power growth expected in the coming years. However, there is no detailed pipeline on capacity additions. The company and the banks are patiently awaiting the new regulation, which is expected to improve the bankability of the projects. If the new tariff scheme is in place by 2022E, we believe the company would participate in the tender with its 10MW plants, and perhaps Kosava 1 Phase 2 and Torak, assuming no caps on plant capacity. Separately, the company is working on a 633MW project in Vojvodina, the Maestrals Ring. This project serves as a clear signal that Fintel's strategy is to become a renewables producer independent of the support schemes, relying solely on merchant pricing.

Based on this, should there be a RES tender in 2022E, if not sooner, we expect Fintel to add 68MW in 2023E, 30MW in 2024E, 40MW in 2025E (all under FiP), and then 100MW per year in 2025-27E, driven by the Maestrals additions. In 2028E and 2029E, we model 320MW of additions in total, from Maestrals and Torak (both merchant).

We note that our model is based on the company's guidance, to which we apply some discounts in terms of time delivery and capacity additions. Without securing debt financing or a capital increase, Fintel can hardly finance such an expansion via its cash flow, given its high debt exposure. Generating power since 2015, Fintel has a solid track record, and this year will play a crucial role as an indicator for the banks, with the Kosava 1 Phase 1 unlocking its full potential in terms of power generation. On our numbers, Kosava should deliver even higher revenue next year, given that it received the privileged power producer status in May this year.

COVID-19 impact unimportant at this stage

On 15 March, Serbia declared a state of emergency and the FiT scheme was suspended for 40 days. At the same time, debt payments were frozen and the FiT scheme was prolonged by the same period. Therefore, the impact on Fintel is negligible, in our view. At the same time, the COVID-19 situation led to a halt in the Kosava 1 Phase 2 project. So far, Fintel has invested its own equity in the project. While we believe the company is liquid enough to continue working on the project, the development of the future regulation and higher power prices are more crucial variables for the final capacity and commissioning of the second phase of Kosava 1, rather than the COVID-19 related delay.

Acquisition target?

Fintel has the largest pipeline of wind projects in Serbia, with most of the projects being in a relatively advanced stage, compared to its peers in Serbia, and should be ready for the next support scheme auction, assuming that the framework is in place in the next two years. In our view, it is only a matter of years before Serbia catches up with other countries in the region and starts unlocking its renewables potential gradually. By acquiring Fintel, large utility players, private equity groups or other investors would acquire a 1GW wind pipeline with reasonable chances of being fully developed, in our view, local knowledge of the market and a 86MW operating portfolio, which is small in size, but generates very good margins thanks to the generous FiT. On our estimates, Fintel's current portfolio generates sufficient funds for debt repayments, as well as ongoing works on the second phase of Kosava 1. The current 86MW portfolio is fairly valued on its three-year forward peer P/E and EV/EBITDA, in our view. However, we

would expect the acquirer to pay a premium for the remaining c.900MW in the pipeline. We attempt to catch the premium through our conservative DCF model.

Share issuance and potential value depletion

Depending on a clearer picture of the upcoming new regulations, as well as the power price outlook, Fintel does not rule out share issuance later this year, based on its previous comments, so the company is ready for the RES tenders and the expected capex wave in the coming years. While this could lead to value dilution for the existing shareholders, we believe the improved liquidity of the stock would be appreciated by the market. Currently, only EUR 0.2k/day is traded, based on the 3M average, at a free flow of only 6%. Institutional investors hold 5% of Fintel's shares currently.

Cash flow breakeven in 2021E, net debt/EBITDA falling in 2020-21E, before growing again

In our model, we compute breakeven free cash flow next year, pencilling in EUR 10m capex at Kosava in 2021E. This year, Fintel will book the final invoice from the TSA supplier at Kosava, leading to negative FCF, on our numbers. Going forward, the cash flow generation is hit by the development capex and we do not expect Fintel to turn FCF positive until 2028E. As of end-2019, the net debt/EBITDA stood at 15.8x; while, on our numbers, the ratio will fall to 5.7x in 2021E, mainly on EBITDA growth. By 2029E, assuming that almost 760MW capacity will be added gradually, financed through the company's cash flow and debt, we see the debt increasing ninefold. This would lead to the net debt/EBITDA reaching its peak in 2024E, at 13.9x, before falling to 4.4x in 2029E and 1.9x by 2032E. We assume an EBITDA CAGR of 20% over 2020-32E, supported by capacity additions, but also the baseload price growth, which should partly offset the falling revenue from the three existing plants ceasing to operate under the FIT by 2028-31E.

Valuation: attractive pricing, disappointing liquidity

We value Fintel using DCF and peer valuations. We apply an 80% weight to our DCF and 20% to our peer valuation. While Fintel seems fairly valued on peer multiples, we believe our DCF better captures the company's position and investments plans in Serbia. Our weighted PT produces upside of 33%, or a PT of RSD 824/share. We note, however, that our PT is very sensitive to movements in future power pricing, the cost of funding, Fintel's capital participation in the projects, capex and execution delivery, the development of Serbia's next regulatory framework for RES, and Fintel's success in the upcoming tenders.

Valuation

We initiate coverage of Fintel with a BUY rating and a 12M price target (PT) of RSD 824/share, implying 33% upside. We value Fintel using a DCF and peer multiples. We assign an 80% value to our DCF valuation, as we believe that it better captures Fintel's growth story, while the peer multiples (20% weight) indicate a fair value at today's valuation.

Valuation summary

RSD m	Equity value	RSD/sh	Upside
DCF	19,390	854	38%
Peers	18,684	705	14%
EV/EBITDA	20,542	775	25%
P/E	16,826	635	2%
Weighted average (80 DCF: 20 peers)	19,249	824	33%

Source: WOOD Research

DCF

Our DCF generates RSD 854/share, or 38% upside. We assign an 80% weight to our DCF, as we believe it captures Fintel's future growth, with the first new capacity added in 2023E, better than the peer multiples. We believe our assumptions are conservative, and we do not rule out upside to our DCF PT, depending on Fintel's successful execution in future. Our assumptions are the following:

- We apply some discount to Fintel's plan in terms of capacity growth, expecting 760MW to come online by 2029E. Our capex assumptions are presented below.
- A WACC of 8.5% for the entire period, with the COE at 16.7% and the after-tax cost of debt at 5%. We use a 70/30 debt/financing model for the entire forecast period.
- Our cost of equity is a function of a risk-free rate of 5% and a risk premium of 9.0%, which we adjust upwards, compared to our standard Serbian ERP, to account for the uncertainty of the future capex execution, the auction results, the regulatory environment, and the power price outlook in Serbia. We use a levered beta of 1.3x for our whole forecast period, assuming much higher debt in the coming years.

DCF

RSD m	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033-2058E
EBIT	1,405	1,866	1,859	2,555	2,419	4,166	5,590	6,820	9,141	12,225	12,709	13,199	12,646	378,814
Depreciation	342	389	421	766	1,386	1,911	2,309	2,994	3,665	3,571	3,487	3,407	3,330	67,896
Capex	-1,765	-1,330	-10,784	-19,373	-17,132	-13,844	-22,871	-23,106	-851	-1,056	-1,081	-1,107	-1,081	-30,041
Working capital	-118	-100	-150	0	0	0	0	0	0	0	0	0	0	0
Tax	-211	-224	-251	-345	-363	-625	-838	-1,023	-1,371	-1,834	-1,906	-1,980	-1,897	-57,131
FCF	-347	602	-8,906	-16,396	-13,690	-8,391	-15,810	-14,315	10,583	12,906	13,208	13,519	12,998	359,537
Discount factor	0.96	0.88	0.82	0.75	0.69	0.64	0.59	0.54	0.50	0.46	0.42	0.39	0.36	
Discounted FCF	-333	532	-7,262	-12,321	-9,481	-5,356	-9,299	-7,759	5,287	5,941	5,604	5,286	4,683	54,622

Discounted cash flows 30,145

Terminal value	0		
Enterprise value	30,145	Risk free	5.0%
2019 net debt	10,710	Beta	1.30
Minorities	44	ERP	9.0%
Equity value	19,390	Cost of equity	16.7%
PT PT, RSD/sh	732	LT capitalisation ratio	70.0%
12M PT, RSD/sh	854	Cost of debt, net tax	5.0%
Upside	38%	WACC	8.5%

Source: Company data, WOOD Research

As flagged above, our DCF, through which we attempt to capture the value of Fintel's potential future growth, is very sensitive to the power price outlook, borrowing costs and the weight of debt. Below, we present a sensitivity analysis for our DCF PT. In our model, we forecast a EUR 55/MWh baseload price in 2022E and growing c.2% thereafter, with the long-term baseload price at EUR 85/MWh.

DCF PT sensitivity: cost of debt and baseload price

		Cost of debt after tax							
		854	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
Baseload price	40	-219	-337	-445	-543	-634	-716	-791	
	45	331	183	47	-78	-192	-298	-394	
	50	882	704	539	388	249	121	2	
	55	1,433	1,224	1,031	854	690	539	399	
	60	1,983	1,744	1,524	1,320	1,131	957	796	
	65	2,534	2,265	2,016	1,785	1,572	1,375	1,193	
	70	3,085	2,785	2,508	2,251	2,014	1,794	1,590	

Source: WOOD Research

DCF PT sensitivity: FiP and baseload price

		Feed-in-premium							
		854	0.0%	1.7%	3.3%	5.0%	6.7%	8.3%	10.0%
Baseload price	40	-565	-558	-551	-543	-536	-529	-521	
	45	-102	-94	-86	-78	-69	-61	-53	
	50	361	370	379	388	397	407	416	
	55	824	834	844	854	864	874	884	
	60	1,287	1,298	1,309	1,320	1,331	1,342	1,353	
	65	1,750	1,762	1,773	1,785	1,797	1,809	1,821	
	70	2,213	2,225	2,238	2,251	2,264	2,277	2,290	

Source: WOOD Research

DCF PT sensitivity: weight of debt and baseload price

		Weigh of debt							
		854	55%	60%	65%	70%	75%	80%	85%
Baseload price	40	-923	-815	-690	-543	-374	-176	52	
	45	-566	-426	-264	-78	137	385	671	
	50	-208	-36	162	388	648	947	1,290	
	55	150	354	587	854	1,159	1,508	1,909	
	60	507	744	1,013	1,320	1,670	2,070	2,528	
	65	865	1,133	1,438	1,785	2,181	2,632	3,147	
	70	1,223	1,523	1,864	2,251	2,692	3,193	3,765	

Source: WOOD Research

DCF PT sensitivity: cost and weight of debt

		Cost of debt after tax							
		854	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
Weigh of debt	55%	446	341	242	150	63	-19	-96	
	60%	726	594	470	354	246	145	50	
	65%	1,053	886	731	587	454	330	215	
	70%	1,433	1,224	1,031	854	690	539	399	
	75%	1,876	1,616	1,377	1,159	959	775	606	
	80%	2,394	2,071	1,776	1,508	1,264	1,042	839	
	85%	3,000	2,599	2,237	1,909	1,612	1,344	1,101	

Source: WOOD Research

Peers

Being the only traded renewables producer in Serbia, which is a specific market, by itself, and having only 86MW, out of the 1GW planned, in operation, Fintel's peer valuation proves difficult. As we expect most of the capacity additions to come after 2022E, in our peer valuation, we only attempt to compare Fintel's current portfolio with its peer group. On EV/EBITDA, Fintel looks cheap. This is, however, caused by its 54% equity participation in the current projects. On P/E, Fintel is fairly valued. We apply only a 20% weight to our peer multiples valuation, as we expect Fintel to deliver growth and value after 2022E. Our peer valuation produces PT of RSD 705/share, or 14% upside.

EV/EBITDA

RSD m	2020E	2021E	2022E
Peer multiple	20.5	17.7	15.1
EBITDA	1,747	2,255	2,279
Net debt	12,949	12,864	22,611
Equity value	22,845	26,975	11,804
Average	20,542		
RSD/sh	775		
<i>Upside</i>	25%		

Source: WOOD Research

P/E

RSD m	2020E	2021E	2022E
Peer multiple	32.9	25.1	19.2
Net profit	591	805	565
Equity value	19,426	20,201	10,851
Average	16,826		
RSD/sh	635		
<i>Upside</i>	2%		

Source: WOOD Research

Selected peers

Company	MCAP (EUR m)	AVTD 3M (EUR m)	P/E (x)	EV/EBITDA			Div. yield (%)				
				2020E	2021E	2022E	2020E	2021E	2022E		
Falck Renewables	1,574	4.0	39.3	33.1	27.1	21.3	20.1	18.9	1.3	1.3	1.3
EDP Renovaveis	10,712	4.8	31.1	27.4	24.7	19.2	17.1	16.4	0.7	0.8	0.9
Albioma	1,160	1.4	22.8	20.7	19.0	17.5	16.6	15.7	2.2	2.6	2.6
Energienton	330	0.2	20.9	15.3	13.8	14.9	12.6	12.1	2.1	2.7	2.8
Aventron	486	0.0	39.4	37.7	na	27.8	27.2	na	2.2	2.2	na
Acciona	4,704	11.5	19.2	15.2	12.8	16.8	14.2	12.8	3.4	3.9	4.0
Terna Energy	1,100	1.1	18.0	16.3	10.3	15.0	15.5	11.3	2.1	3.0	3.8
NEOEN	3,110	3.1	82.0	62.6	43.6	31.7	27.7	25.0	0.0	0.0	0.3
ENCAVIS AG	1,778	5.5	29.5	23.9	23.0	27.4	23.4	23.9	2.2	2.4	2.6
ENERGIEKONTOR	330	0.2	20.9	15.3	13.8	14.9	12.6	12.1	2.1	2.7	2.8
ARISE	125	0.4	38.5	8.5	4.0	18.9	7.3	2.7	0.0	8.0	5.8
Average			32.9	25.1	19.2	20.5	17.7	15.1	1.7	2.7	2.7
Fintel	140	0.0002	27.8	20.4	29.1	16.8	13.0	17.1	0.0	0.0	0.0
discount/(premium)			-15%	-19%	51%	-18%	-26%	13%	na	na	na

Source: Bloomberg, WOOD Research

Risks

Regulatory risk. As for any regulated power producer, any change in the current FiT scheme presents a significant risk for the investment case. The current wind capacity is relatively small in Serbia and the final consumer, who pays very low prices, does not notice the RES component. According to the best of our knowledge, there is no political will to interfere with the current FiT mechanism. Separately, the structure and timing of the next regulatory scheme is crucial for Fintel's development pipeline and our DCF model.

Operational risks. So far, Fintel has delivered on its generation volume expectations. Lower wind load factors, caused by unfavourable weather or inaccurate estimates, could affect the company's profitability. We apply some discount to Fintel's expected future generation, to remain on the conservative side. Other operational risks include the performance of third-party contracts, higher-than-expected maintenance capex, or a lower lifetime of the assets, expected at 30 years currently. Moreover, we note that the fixed and variable costs in the future could differ significantly from our current estimates. Before executing its bullish plan, Fintel also needs to make sure the country's grid is prepared for the company's additions, especially the large projects, such as Maestrale.

Execution risk. Fintel plans to add some 900MW in the coming years. We apply a discount to the additions, modelling 760MW in total, but we note that this is unprecedented in Serbia. Fintel is in a unique position in Serbia and we believe it should be able to deliver. However, the plan is certainly a challenge for a EUR 140m company, which employs only 13 people (end-2019).

Funding costs. We assume 70% of the funds for the expansion to come from debt financing. So far, thanks to its track record, Fintel has been able to refinance its debts and the funding cost outlook looks supportive for the company. Should the funding costs increase, either in RSD for smaller projects or in EUR for the bigger ones, the company's IRR might not reach sufficient levels to execute the expansion that we model currently in our DCF. On the upside, the share of debt financing could be higher than 70%.

Serbia's power strategy. We see Serbia's long-term energy strategy as outdated and we expect changes ahead. Serbia relies heavily on lignite and hydros and, despite our expectations of a closer alignment with the EU's regulations, the expansion of renewable power could be delayed due to several factors, from employment losses at mines to energy independence.

Serbian power prices. In our model, we expect baseload power prices to return to their pre-COVID-19 levels in the coming years and rise thereafter, mainly on increasing pressure from the EU, which should lead to higher power imports, and therefore premiums, given Serbia's heavy reliance on lignite. We do not expect lignite blocks to be phased out fully for decades, but the old fleet will face increasing cost pressure due to the EU's regulations, in our view.

Low liquidity and potential share value dilution from a capital increase. Currently, only 6% of shares are in free float. The free float is composed of only three institutional investors, according to the local central register. Its 3M ADTV stands at only EUR 0.2k. Fintel does not rule out a share issuance later this year, depending on the development of the upcoming RES regulation. We would expect Fintel to offer its shares at a discount to the current price, but believe this would be a good entry point for institutional investors and the increased liquidity should remove some discount applied to the share price now.

Portfolio: 86MW standing, out of 1GW planned

Currently, Fintel operates three wind farms with total capacity of 86MW, all three under a FiT regime. Completed in 2015, Fintel's Kula 9.9MW plant became the first onshore wind farm in Serbia (except for one 0.5MW plant built in 2011). Later, in 2016, the 6.6MW La Piccolina plant was commissioned. The most recent addition is the 69MW Kosava 1 Phase 1 plant, where 20 3.45MW turbines were launched gradually in 3Q19. Currently, the company is building the second phase of Kosava 1, which should result in an additional 68MW of capacity in the portfolio.

Most of Fintel's projects are located in the Vojvodina region, in the northern part of Serbia, which is well-connected to Romania and Hungary. Ram, Dunav 1 and Dunav 3 are planned for the east of Serbia, in the Braničevo region.

Fintel's portfolio

SPV	Wind farms	Capacity (MW)	Status of project	Location	Stake, %
Vetropark Kula d.o.o.	Wind Farm Kula	9.9	In operation	West Bačka	54
Energobalkan d.o.o.	Wind Farm La Piccolina	6.6	In operation	South Banat	54
MK-Fintel Wind a.d.	Wind Farm Košava Phase 1	69	In operation	South Banat	54
Vetropark Torak d.o.o.	Wind Farm Kula 2	10	Under development	West Bačka	54
MK-Fintel Wind a.d.	Wind Farm Košava Phase 2	68	Under construction	South Banat	54
Vetropark Ram d.o.o.	Wind Farm Ram	9.9	Ready to build	Braničevo	54
Vetropark Lipar d.o.o.	Wind Farm Kula 3	10	Under development	West Bačka	100
Vetropark Lipar 2 d.o.o.	Wind Farm Kula 4	10	Under development	West Bačka	100
Vetropark Maestrals Ring d.o.o.	Wind Farm Maestrals Ring	633	Under development	North Bačka	100
Vetropark Košava 2 d.o.o.	Wind Farm Košava 2	9.9	Under development	South Banat	54
Vetropark Dunav 1 d.o.o.	Wind Farm Dunav 1	10	Under development	Braničevo	54
Vetropark Dunav 3 d.o.o.	Wind Farm Dunav 3	10	Under development	Braničevo	54
Project Torak d.o.o.	Wind Farm Torak	140	Under development	West Bačka	100

Source: WOOD Research

Fintel provides the expected annual production for each plant. In the Vojvodina region, the company estimates the load factor between 27-39%. In Braničevo, the estimated load factor stands at 30-31%. We apply a 98% availability factor for all the plants throughout the our model. The projects range from two 3.3MW turbines at Kula, to more than a planned 100 >5MW turbines at Maestrals. Until now, all the turbines have been delivered by Vestas. The turbine contractor for future projects has not been chosen yet. In our model, based on the solid delivery so far, we broadly follow the company's production volumes guidance, being slightly more conservative in a few cases, i.e., the Kosava 1 Phase 2 (35% in the model vs. 39% computed by the company), leaving upside for our DCF, should Fintel deliver.

Fintel's portfolio

	Turbines	Model	Est. annual production, GWh	Derived load factor	Launch*	Capex, EURm*
Wind Farm Kula	3	V117 – 3.3MW	24	28%	2015	15
Wind Farm La Piccolina	2	V117 – 3.3MW	16	27%	2016	10
Wind Farm Košava Phase 1	20	V126 – 3.45MW	200	33%	2019	115
Wind Farm Kula 2	2	5MW	28	32%	2024E	13
Wind Farm Košava Phase 2	19	3.6MW	232	39%	2023E	89
Wind Farm Ram	2	5MW	26	30%	2025E	17
Wind Farm Kula 3	2	5MW	30	34%	2024E	13
Wind Farm Kula 4	2	5MW	30	34%	2024E	13
Wind Farm Maestrals Ring	c.100	>5MW	2,000	36%	2025-29E	550
Wind Farm Košava 2	3	3.3MW	29	33%	2024E	13
Wind Farm Dunav 1	2	5MW	27	31%	2025E	14
Wind Farm Dunav 3	2	5MW	27	31%	2025E	14
Wind Farm Torak	40	3.5MW	402	38%	2028-29E	144
Fintel (total, average)	199		3,071	33%		1,020

Source: Company data; *WOOD Research

Capex: the calm before the storm

Fintel is focusing currently on the Vojvodina region, where it has invested in the infrastructure already. In Braničevo, the Ram plant has a building permit already and Fintel owns the land for all three projects there. In Vojvodina, Fintel purchased the land for the smaller plants (10MW), while the larger projects (Kosava, Torak, Maestrals), due to their size, operate under long-term land lease agreements.

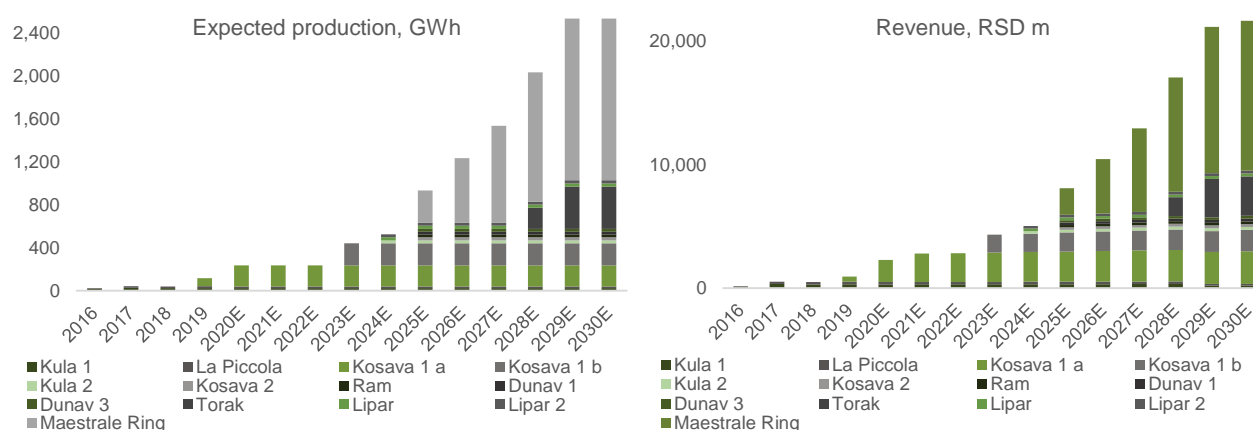
So far, about EUR 145m of development capex has been invested in Kula (EUR 15m), La Piccolina (EUR 10m) and Kosava Phase 1 (c.EUR 115m). In terms of capex/MW, these plants look rather expensive, at EUR 1.5-1.7m/MW. This is, however, driven by the smaller size of the orders for Kula and

La Piccolina, as well as the infrastructure works, which should allow for lower capex for the future projects in the Vojvodina region.

The Kosava 1 Phase 2 (68MW) is in wait-and-see mode currently, given the depressed power prices, and Fintel is waiting for the form of the next regulatory mechanism. So far, Fintel has built five foundations (out of the expected 19) and needs to add more transformers. During Phase 1, a large substation and access roads were built. Phase 2 is therefore estimated at EUR 1.3m/MW, or c.EUR 90m in total, compared to the EUR 115m (our estimate) spent on the 69MW Phase 1. Projects Lipar 1 & 2, Kula 2 and Kosava 2 are expected by the company to kick off once the next regulatory scheme is known and, therefore, more easily bankable. We expect them at EUR 1.3m/MW, depending on the final size of the order. The giant 633MW Maestrals project is expected by the company below EUR 1.1m/MW. In our model, to remain conservative, we pencil in 500MW to be built, at EUR 1.1m/MW. Finally, we pencil in EUR 1.2m/MW for the 120M Torak plant. The expected capacity at Torak could even reach 140MW, according to the company. The company expects the 30MW portfolio in eastern Serbia (Ram, Dunav 1 and Dunav 3), in Braničevo, to be more expensive, given that there have been no infrastructure investments so far. There, we model the capex at EUR 1.4-1.7m/MW.

In the first phase, assuming that the tender will take place in 2021-22E and 68MW at Kosava 1 will be built, we expect Fintel to spend EUR 123m in next three years and then an additional EUR 771m by 2027E. The investment pipeline depends largely on the government's necessary regulatory changes, and Fintel's ability to successfully tender the capacity and to secure financing for the capex ahead. We believe that Fintel could even pursue its project pipeline without the support scheme, given our view on the power price outlook in Serbia. That said, we believe it is worth waiting for the auctions, in which Fintel has a competitive advantage currently vs. its peers. Until the regulations have been announced, we do not expect debt financing to be available for the smaller projects.

Production and revenue forecasts



Source: company data, WOOD Research

Financing: pipeline plan bullish, but credible, IRR in low teens

Until now, Fintel has relied on a 30/70 equity to debt financing model. Going forward, if the company retains its solid track record in capex and operation execution, and the regulatory environment becomes clearer, we believe Fintel could reach higher debt ratio in its financing, in line with the trends in the EU. To remain conservative, we stick to the 30/70 model in our valuation. This leaves some upside for our valuation for future projects, should Fintel secure >70% debt financing for the future projects. Currently, Fintel's cost of debt in EUR terms is being discussed below 4% (Maestrals), according to the company. We expect the smaller, 10MW projects, to obtain financing from local banks. In our model, we use a normalised level of 5% (after tax). Fintel's expected project IRR in the low teens is in line with our model and WPP projects in the region.

As of end-2019, Fintel has RSD 10.5bn of debt (up from RSD 8.6bn in 2018). The debt maturity is aligned with the RES scheme, both at 12 years, except for a RSD 800k loan for Kosava (maturing in 2024). The FX exposure risk to the USD and EUR-denominated debt is managed by EUR-denominated FIT revenue.

Debt overview

Company	Project	Creditor	Maturity	Years	Rate	Residual debt, RSD ths, end-2019
Vetropark Kula	Kula	Erste	2027	12	EURIBOR+3.55-4.00%	831
Energobalkan	La Piccolina	Unicredit	2027	12	4.50%	518
MK Fintel Wind	Kosava 1 P1	Unicredit, OoEb, Zagrabacka Banka	2030	12	4.1%-4.5%	8,346
Fintel Energija	Kosava 1 P1	AIK Bank*	2024	6	fixed	800

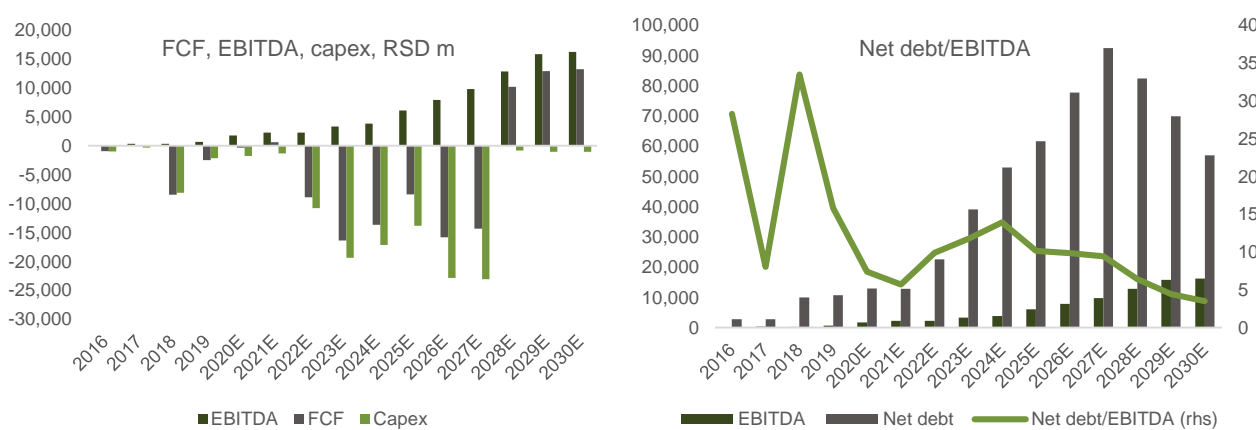
Source: Company data, WOOD Research, *Fintel S.p.A pledges its Fintel Energija shares as collateral for the AIK Bank loan

In the four projects so far, MK Group is a minority partner, owning a 46% stake in the SPVs. Fintel does not rule out further cooperation with MK Group. Currently, Lipar 1 & 2, Torak and Maestrale are fully owned by Fintel. The remaining projects are 46% owned by MK Group.

Fintel also does not rule out share issuance later this year, so the company is ready for the tenders and the expected capex wave in the coming years. While this could lead to value dilution for the existing shareholders, we believe the improved liquidity of the stock would be appreciated by the market. Currently, only EUR 0.2k/day is traded, based on the 3M average.

As of end-2019, Fintel's net debt remained largely flat yoy, at RSD 11bn, implying net debt/EBITDA of 15.8x. Going forward, assuming no share issuance, we expect the debt to remain flat over the next two years, at RSD 13bn, while we forecast the net debt/EBITDA to drop to 5.7x in 2021E, supported by EBITDA growth driven by Kosava 1 Phase 1. By 2029E, assuming that almost 760MW capacity will be added gradually, financed through the company's cash flow and debt, we see debt increase ninefold. This will lead to the net debt/EBITDA reaching peak in 2024E, at 13.9x, before falling to 4.4x in 2029E and 1.9x by 2032E. We assume an EBITDA CAGR of 20% over 2020-32E, supported by capacity additions, but also baseload growth, which should partly offset the falling revenue from the three existing plants, which will stop receiving FIT revenue by 2028-31E.

EBITDA, FCF, capex and net debt/EBITDA forecasts



Source: Company data, WOOD Research

Profitability: solid EBITDA margins, driven by generous FIT. Mid-term margins yet to be tested

We note that our margin estimates rely significantly on future Serbian power prices, the form of the next regulatory scheme and also the company's successful execution of the planned pipeline and, therefore, the future portfolio mix. Currently, we have only four years of operations of Kula and La Piccolina and less than a year for Kosava. So far, Fintel's plants have delivered the expected power production volumes, but there is still risk for our estimated volumes. To stay conservative, we are less bullish on load factors and capacity additions, compared to the company's estimates.

We do not expect the next regulatory scheme or future baseload pricing to be as favourable as the current scheme. The large size projects, however, should help to offset the expected fall in revenues, after the 12-year PPAs run out.

Currently, Fintel enjoys a very favourable EUR 98.9/MWh at all three wind farms. With the Kosava 1 Phase 2 approved as a privileged power producer in May this year and given the yoy capacity growth, this should result in revenue of RSD 2,265m (+147% yoy) in 2020E and EBITDA of RSD 1,747m (+144% yoy, at a 77% margin), on our estimates. Next year, we model EBITDA of RSD 2,255m (+29% yoy), again supported by the low base at Kosava in the first half of 2020E. On our numbers, the Kosava boost should increase the EBITDA margin further, to 81% in 2021E and 2022E. In the mid-term, we expect the smaller projects and the costs connected to capex to lead to an EBITDA margin of 74-77%. In the long term, Fintel will lose the high FIT revenues, but its profitability should be boosted by larger projects and growing power prices, which should offset the growing costs. In the long term, we believe an EBITDA margin above 70% is a fair estimate.

The Maestrale Ring

In February last year, Fintel announced its largest addition to the capacity pipeline so far, the Maestrale Ring project. Over time, Fintel has increased its estimate for the capacity of the project to 633MW (from 572MW and later 599MW). Currently, Fintel owns 100% of the SPV responsible for the project. Maestrale would operate as a merchant plant, independent from the support scheme that the government is preparing currently.

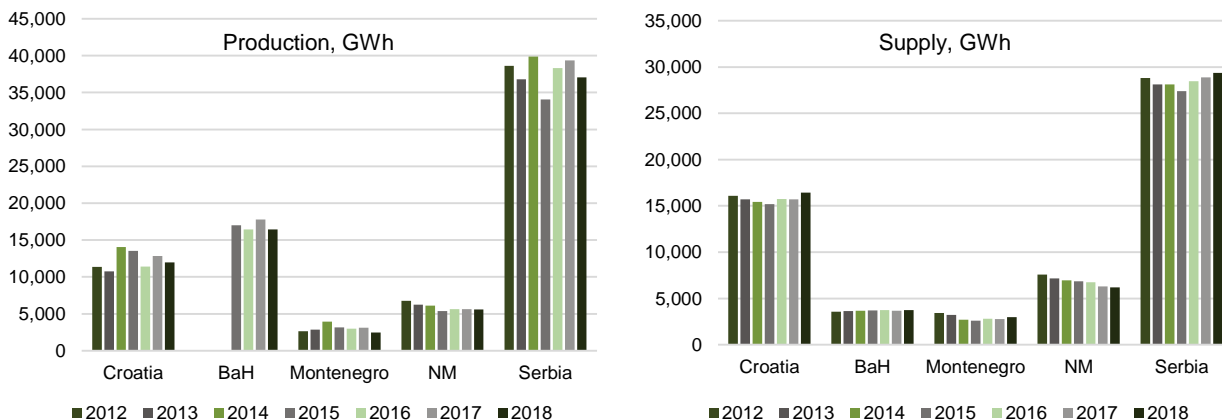
Maestrals is located in the Vojvodina region, near the town of Subotica, at the Hungarian border, spreading across 11k hectares. The project is expected to be built in three phases. According to Fintel's website, the company plans to build around 100 turbines with above 5MW capacity each, generating around 2,000GWh per year. Fintel estimates the capex per MW at EUR 1.1m, or c.EUR 700m in total. Despite being in the early stages, without a strategic environmental impact assessment, and facing criticism from the local opposition, we include Maestrals in our model, at 500MW capacity, as we believe that, through the Maestrals project, our DCF captures the value of the company's aim to become a merchant power producer in the future, independent from the regulatory mechanism. Fintel believes it will obtain the building permit in 16-20 months. Fintel has already solved the land issue, achieved the connection approval and consent from the local authorities to change the spatial planning, and collected offers and term sheets from large international lenders. Fintel is also evaluating to sell up to 50% of the project to an equity partner and has collected three LOIs so far. On this front, no decision has been made yet. Fintel plans to start the construction of the first phase within three years. We expect the first 100MW capacity to start producing in 2025E and then 100MW/year additions through to 2029E.

After the announcement in February last year, Fintel's shares started picking up on higher volumes. Later, in December last year, the share price was boosted after a local council's decision to move ahead with the project by delegating the relevant bodies to work out the plan for Maestrals's development. To us, this serves as an indication that the market, despite the sorry liquidity, takes Fintel's strategy to become a merchant producer in the future seriously. This is also one of the reasons that we use an 80% weight for the DCF in our valuation and only a 20% weight for the peer multiples, which put Fintel in HOLD territory.

Serbia's power market

With its 7.0m people, Serbia is the largest power producer in the Western Balkans. Serbia relies heavily on conventional power generation, with some 60-70% coming from lignite and the rest mainly from hydro power plants (25-30%). In the past five years, there have been new RES additions, but their weight in total generation remains insignificant. Serbia is relatively well-connected to the European grid and most of the power consumption is produced domestically currently. Depending on the season and other factors (i.e., floods), Serbia has been both a net importer and exporter of power in past years. The largest market player in power production is the state-owned Elektroprivreda Srbije (EPS), which also owns distribution and supply units that dominate the market.

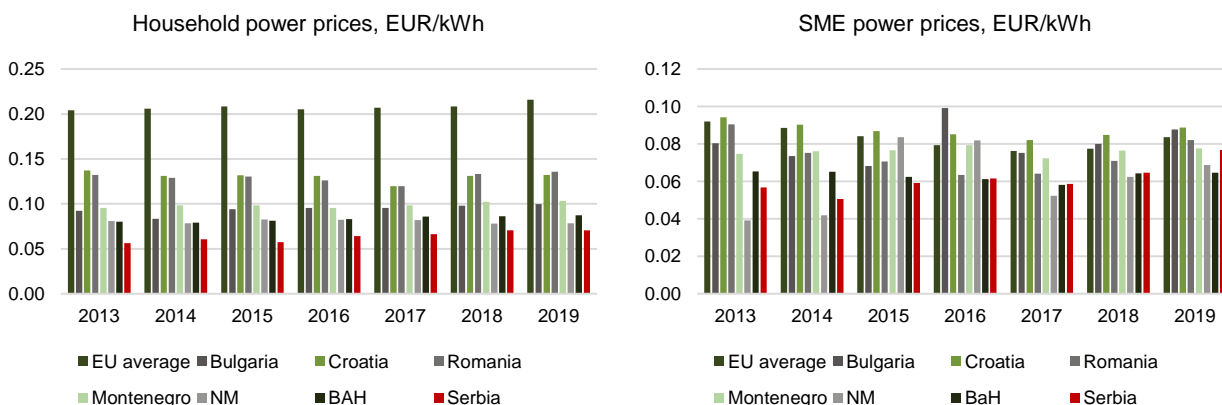
Serbia is the dominant power player in the Western Balkans region



Source: Eurostat, WOOD Research

The Serbian market is characterised by low household prices, influenced by the government through EPS. The final consumer pays for renewables in their bills, but the cost is quite low, as is the total cost of power, thanks mainly to EPS, which owns both mines and generation assets, while the fees for water usage also remain cheap. A new tax on carbon could change the pricing for the final consumer, but this is not planned at the moment, according to the latest comments from the government.

Serbian household prices are kept low, while SME prices are closer to the EU average



Source: Eurostat, WOOD Research

The grid is operated by EMS (Elektro Mreza Srbije). In 2016, the Serbian EMS and European Power Exchange launched the Serbian Power Exchange SEEPEX to support the competitiveness and transparency of the local power market. We see this as an important step forward, yet there are many obstacles ahead, including the proper functioning of the balancing market for the future RES additions. Going forward, the necessary regulations still need to be introduced, especially the balancing costs, which are, in the case of the FiT producers, borne by EPS currently. The distribution is serviced by EPS. Bordering eight countries, Serbia has large potential as a regional transmission hub.

Lignite not yet dead in Serbia

The majority of the lignite (75%) comes from the Kolubara Mining Basin and its three mines (Kolubara, Morava and Nikola Tesla), which feed three adjacent power plants, accounting for half of Serbia's power

generation. The Kostalac power plants are fed by the Drmno mine, which accounts for one-quarter of lignite production. All the major mines are state-owned. According to the government, Serbia has enough lignite reserves to satisfy demand until the end of the century. The lignite is low in calorific value, but is relatively easy to extract and contributes to the lower pricing in Serbia.

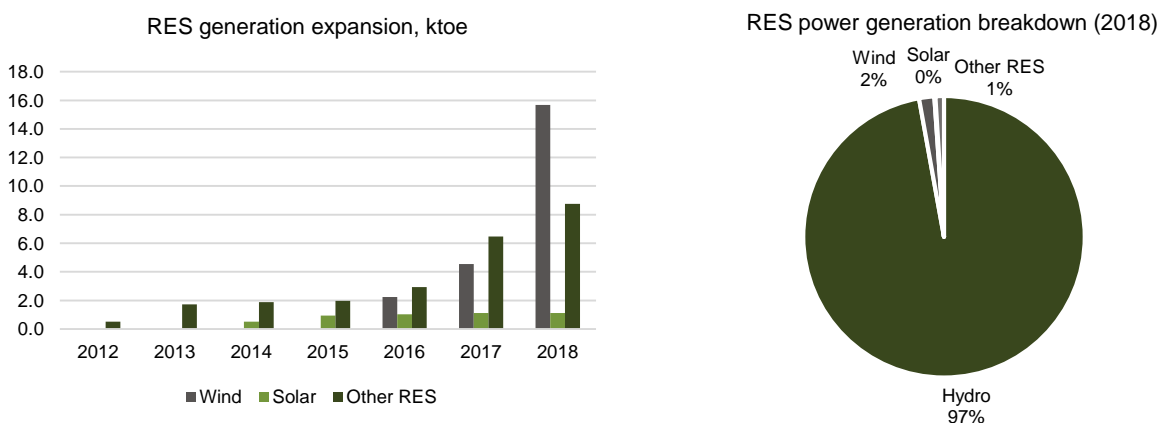
The government's current 2030 strategy also relies heavily on conventional generation, with the new unit at the 350MW Kostalac being built now and an additional c.2.5GW lignite capacity in the pipeline, to offset the phasing out of the old blocks. The new Kostalac block will have a desulphurisation unit, but a new opencast mine will be opened nearby. Serbia's lignite units are relatively old, but most of the units have been refurbished, since the 2000s, improving their efficiency and carbon footprint. Despite the pressure from the EU, Serbia does not plan to abandon lignite soon, reasoning that it provides stability to the system. From that point of view, in its next energy strategy, the government could also assess the risk of floods, which pose a significant risk to the lignite mines, as history has shown.

This year, EPS signed a preliminary agreement with PowerChina to build a Kolubara B block. Serbia and BiH therefore are the last two countries in the Balkans region that are planning more coal capacities, after all the other countries abandoned such plans in past years. Lower public climate awareness, job losses connected to the coal phase out and EPS's willingness to suffer losses are postponing the inevitable, in our view. That said, the discussion on the future renewables potential keeps coming back and, with Serbia's increasing integration with the EU and banks' declining appetite to provide loans for coal projects, we expect more changes ahead and an increasing political will to focus on greener production in the coming years, following trends in neighbouring countries.

Renewables: humble beginnings, large potential

Serbia's large hydro plants go hand-in-hand with its lignite fleet, thanks also to the Bajina Basta reversible pump storage. With around one-quarter of power output from the legacy hydropower plants, we believe Serbia should aim to increase its exposure to other renewables sources. Serbia has wind and solar potential but, as other Western Balkans countries, has lagged in terms of these renewables capacity growth so far, compared to the more developed EU countries. The current feasibility study sees most RES potential in biomass (49%), followed by large HPPs (27%), solar (13%), wind (4%), geothermal (4%) and small HPPs (3%). However, recent studies by international agencies present even larger potential for wind and solar. While there was a relatively successful launch of the first support scheme for 500MW of offshore wind in 2016 (398MW built already), since then, the government has not published a new scheme to support renewables growth. A new mechanism is being prepared currently. As of end-2019, the government has stopped its support for smaller hydro projects (as well as cogeneration), which have been criticised by environmentalists and local communities.

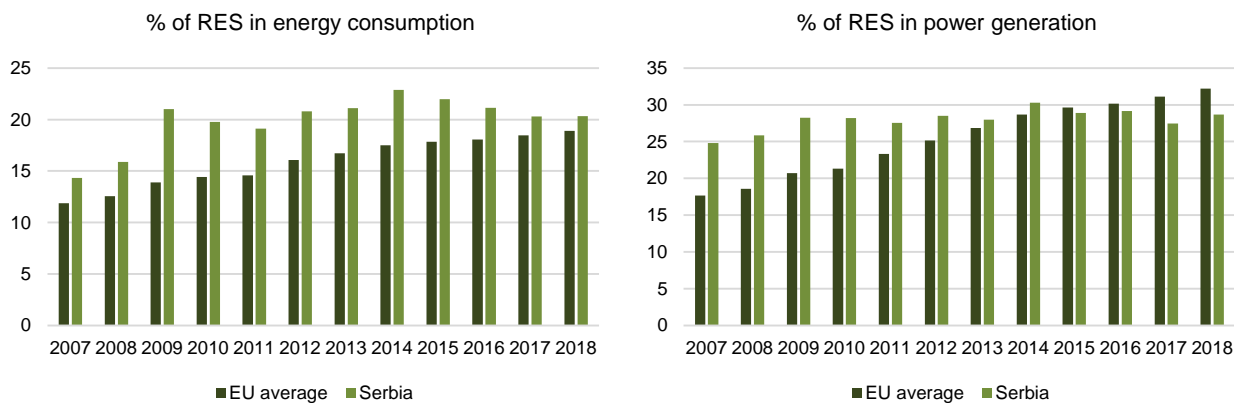
There is new RES growth, but the old hydro plants still dominate the renewables segment



Source: Eurostat, WOOD Research

In line with the Energy Community Treaty, Serbia commits to reach 27% of energy consumption from renewables sources by 2020E. Despite the government's recent renewables push and onshore wind additions in 2019, this will be difficult to achieve, in our view, given no wind or solar additions expected this year, and the halting of the support for small hydros.

27% share of RES in total energy consumption by 2020E looks unlikely to be met



Source: Eurostat, WOOD Research

New gas to back up RES, but detailed plan still blurry

This year, Serbia is expected to be connected via an extension to Turkish Stream, which carries natural gas from Russia, through the Black Sea to Turkey and then to Bulgaria. Serbia has its own gas production (NIS), but most of the gas is imported, through already built pipelines. The Bulgaria-Serbia extension could play a crucial role in Serbia’s future power generation mix. The new, more flexible gas plant additions, as in other countries, would ensure the security of the power balance by serving as a back-up for the renewables assets planned in the coming years. Gazprom (NIS) is building a gas plant at NIS’ refinery already. This unit will serve the refinery mainly, selling excess production to the market. We expect more detailed plans on the gas additions to arrive soon, but we note that the new gas and RES capacity, based on the current energy strategy, will hardly push out the reliable lignite-hydro mix in the next decade.

Serbian RES tariff schemes

Current tariff scheme

In 2013, Serbia unveiled a tariff scheme for onshore wind producers, with a cap of 500MW capacity for the market. The cap was filled quickly but only 398MW has been built so far, with 102MW still in development. The FiT price for onshore wind was set at EUR 92/MWh. The price is indexed to the EU's annual inflation rate, announced by Eurostat. Fintel secured 85.5MW, or 17.1% of the tendered capacity. Apart from Fintel's three plants, 158MW Cibuk, 106MW Kovacica, 102MW Plandiste, 42MW Alibunar and 8MW Malibunar were added to the FiT scheme. Only NIS' 102MW Plandiste project remains unfinished, due mainly to the delays caused by changes in the ownership structure of NIS' partners.

The wind farm operators need to obtain the status of a privileged power producer and sign a power purchase agreement (PPA) to reach the regulated price support. Before they reach this status, the producers are eligible for half the regulated price in the trial period. The support period lasts 12 years from the conclusion of the PPA. The producers are paid through sales to EPS, which buys the power at the regulated price level. The RES scheme is funded by the incentive fee paid by the final consumer.

Serbia also has a support scheme for other renewable sources. However, the cap of 10MW for solar (6MW on the ground, 4MW on installations), announced together with the 500MW for wind, speaks for itself. Recently, the government cut support for small hydros and cogeneration.

Next scheme expectations

The previous excitement over the 500MW for wind and the support for other RES has dwindled over past years. In all segments, including wind, the government still needs to keep incentivising investments through regulatory mechanisms before the plants switch to merchant pricing, as the infrastructure requires sizable investments, while the banks are provided with a clearer and more stable outlook to fund the projects. In this light, Serbia is preparing a new scheme currently to support renewables growth. The government announced, two years ago, that it would switch from the current FiT scheme to a feed-in-premium model. However, until recently, few steps have been taken to achieve this. Currently, the Serbian government is cooperating with the EBRD on the new procurement plan. The EBRD has launched a tender, seeking consultants to find the best solution for Serbia.

Looking at the North Macedonian case and the recent tenders in the EU, the most likely form of the mechanism is premium to market price auctions, which would also be in line with the previous comments made by the government. Although the final decision on the next RES scheme is down entirely to the Serbian government, we see the EBRD's involvement as a game changer. In our view, investors are hungry to allocate funds in the region; however, without a framework in place, investments are difficult to execute. Fintel expects the new mechanism to be announced in 2021E. To remain conservative, we assume a one-year delay. The Northern Macedonia (NM) case does raise many questions for Serbia, in our view. The NM framework introduced caps for capacity types (50MW for wind, 30MW for solar). If a similar framework were to be introduced in Serbia, with the cap at 50MW for wind, this could affect Fintel's decision on the Kosava Phase 2 capacity, which is planned currently at 68MW, as well as the 120-140MW Torak. According to the information we have, the government will most likely launch a 300MW tender for wind (or higher, up to 500MW), with no caps on plants. In our view, worth noting are Mining and Energy Minister Antic's previous comments that, by 2023-24E, solar and wind projects could already be developed as merchant plants. We note that this is in line with Fintel's current strategy.

The introduction of a new support scheme would certainly attract investors' interest, and the RES projects, including Fintel's, whose 10MW plants would be able to access cheaper financing. That said, there still are many obstacles ahead, and almost no experience with premium auctions in Serbia. We believe that Fintel could secure almost half of the 300MW tender with its seven 10MW plants and Kosava 1 Phase 2. However, to remain conservative, we do not expect Torak 120-140MW to participate in the auction, leaving upside for our valuation. In our model, we use a 5% premium to the baseload price, but we believe the premium could be higher, given the current state of Fintel's competitors, which leaves upside for our DCF, again. We model 12 years of support for the eligible plants, but we note that this is yet to be announced. Fintel's strategy is to become a renewable producer independent from the regulatory mechanism (Maestrals). Depending on the cost of debt, the power price outlook, and Serbia's future strategy for RES, we believe the Kosava 1 Phase 2 and Torak projects could also operate as merchant plants. We model Torak as a merchant plant.

Wind competition in Serbia

In our view, the success of the potential wind tender depends not only on the actual delivery of the framework, but also on the number of competing companies in the tender. Currently, there are four different wind groups operating under FiTs: Nikola Tesla, Enlight Renewable Energy (ERE), Elicio and Fintel (Fintel/MK Group). NIS' 102MW Plandiste project is still in the development phase, and might not

be eligible for the FiT, given the delay so far. There is also a small, 0.5MW, Devrec wind farm, and EPS is planning a 66MW Kostolac wind farm, but the company has failed to deliver so far.

Most of those mentioned above could be interested in the tender, given their already acquired knowledge of the Serbian market. However, their future strategy is not clear to us at this point. NIS's project seems to be stuck, while EPS has failed so far in wind growth. Apart from Fintel, which aims to secure above 100MW in the auction, if not significantly more, depending on the form of the new framework, we have found only ERE's plan to build a 7MW wind farm near Crepaja, in South Banat. Also, a 50MW project in the Crni Vrh area is planned (announced in December 2019), in Braničevo. Looking at the projects that were planned before the current FiT scheme kicked off, we count 14 projects, with almost 1GW of capacity, most of which were cancelled or put on hold for various reasons, from not winning the FiT, to opposition from local municipalities.

Based on this, we believe there could be sufficient competition in the tender and the 300MW cap should be filled, assuming no caps on plants' capacity, leading to a successful tender. That said, compared to all those above, Fintel seems much better prepared for the tender, in our view, should it take place in the next two years. We do not rule out other international or regional players entering the market to participate in the auction, but we note that there is little time, if the auction takes place in 2021-22E. Therefore, we believe the companies operating in Serbia already are the most likely participants, depending on their future strategy, which is not well-known to us. In our view, Fintel, with its portfolio spanning from West Bačka to South Banat and Braničevo, and some of the infrastructure built already in West Bačka and South Banat, seems to be well-positioned for the tender. All of its current competitors operating under FiT are in South Banat, close to Fintel's Kosava plant.

WPP overview

	Owner	Capacity, MW	Capex*	EURm/MW*	Turbines	MW/Turbine	Completion	District	Turbine
FiT									
Čibuk 1	Tesla Wind	158	300	1.89	57	2.78	2019	South Banat	GE
Kovačica	Enlight Renewable Energy	105	189	1.81	38	2.75	2019	South Banat	GE
Plandišće 1	NIS/MET Renewables	102	160	1.57	34	3.00	in development	South Banat	TBD
Kula	Fintel/MK Group	10	15	1.52	3	3.30	2015	West Bačka	Vestas
La Piccolina	Fintel/MK Group	7	10	1.52	2	3.30	2016	South Banat	Vestas
Kosava 1 P1	Fintel/MK Group	69	115	1.67	20	3.45	2019	South Banat	Vestas
Alibunar	Elicio	42	72.6	1.73	21	2.00	2018	South Banat	Senvion
Malibunar	Elicio	8	17	2.06	4	2.00	2017	South Banat	Senvion
Total/Average		500	878	1.75	179	2.80			
Planned mid-size wind projects									
Kostolac	EPS	66	97	1.47	20	3.30	in development	Braničevo	TBD
Crepaža	Enlight Renewable Energy	7	na	na	na	na	in development	South Banat	TBD
Kula 2	Fintel/MK Group	10	13	1.30	2	5.00	in development	West Bačka	TBD
Košava Phase 2	Fintel/MK Group	68	89	1.30	19	3.60	in development	South Banat	TBD
Ram	Fintel/MK Group	10	17	1.70	2	4.95	in development	Braničevo	TBD
Kula 3	Fintel	10	13	1.30	2	5.00	in development	West Bačka	TBD
Kula 4	Fintel	10	13	1.30	2	5.00	in development	West Bačka	TBD
Košava 2	Fintel/MK Group	10	13	1.30	3	3.30	in development	South Banat	TBD
Dunav 1	Fintel/MK Group	10	14	1.40	2	5.00	in development	Braničevo	TBD
Dunav 3	Fintel/MK Group	10	14	1.40	2	5.00	in development	Braničevo	TBD
Torak	Fintel	140	168	1.20	40	3.50	in development	West Bačka	TBD
Crni Vrh	Crni vrh Power	50	100	2.00	40	1.25	in development	Braničevo	TBD
Total/Average		401	551	1.37	134	2.99			
Other									
Devreč	Hidrovint	0.5	1	2.00	na	na	2011	Raška	TBD
Maestrle	Fintel	633	700	1.11	100	6.33	in development	North Bačka	TBD
Total/Average		634	701	1.11	100	6.34			
Total		1,535	2,130	1.39	413	3.72			

Source: Company data; *WOOD Research

Company overview

Fintel is an independent renewables power producer in Serbia. Currently, Fintel's capacity stands at 86MW, at three wind farms, but the company aims to reach 1GW of capacity in the coming years. The three wind farms enjoy a favourable subsidy scheme, set up by the Serbian government. In October 2018, Fintel's IPO on the Belgrade stock exchange was the first in 78 years. Fintel sold 1.5m shares, priced at RSD 500/share, raising EUR 6.7m. The largest shareholder is Fintel Energia Group, based in Italy, with a 94% stake. Fintel was established in 2007 in Beograd.

Shareholder structure

Fintel Energija's largest shareholder is Fintel Energia Group S.p.A., based in Italy. Fintel Energia Group owns 94% of Fintel Energija and is 86% owned by Hopafi Srl and other investors. Mr. Tiziano Giovannetti, owns a 99.99% stake in Hopafi. Mr. Giovannetti has been Fintel's CEO since 2007. Since the IPO, he has not received any compensation from Fintel.

Fintel Energia Group is a joint stock company based in Italy. The company engages in the sale of electricity and natural gas, and renewables power production and engineering. Fintel Energia Group was founded by Alcide Giovannetti and Tiziano Giovannetti in 1999.

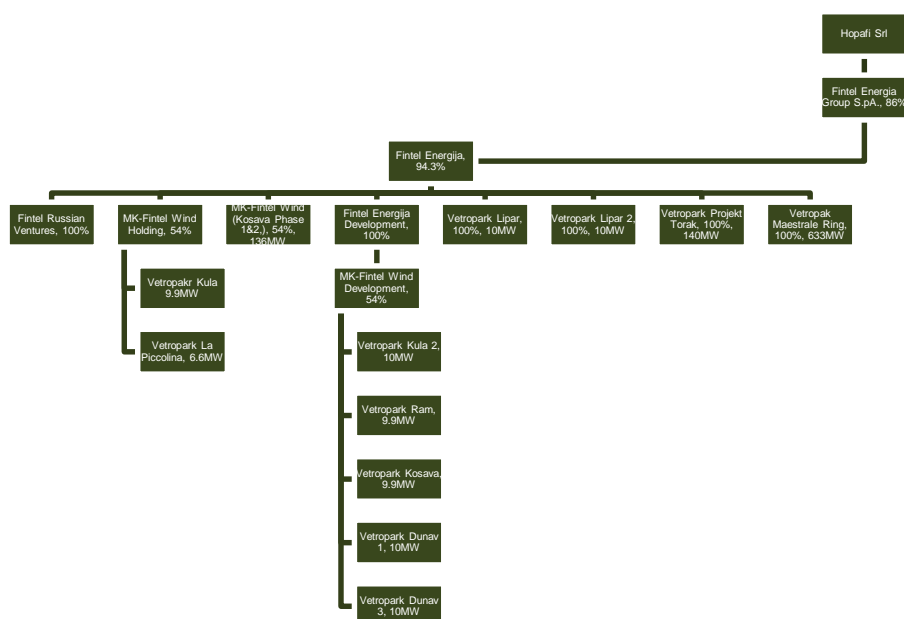
Operations

Fintel generates currently all the power at its onshore wind farms in Serbia, which is then sold to its sole client, state utility EPS, through a FiT. The company does not engage in retail sales. So far, Fintel has built three wind farms, with total generation capacity of 86MW. In 2019, Fintel generated 115GWh of electricity, 190% yoy. The planned portfolio amounts to 1GW in Serbia. Recently, in 2018, Fintel also established a Russian subsidiary, planning wind farms in the Ulyanovsk and Saratov regions. Due to the tough levels of bureaucracy and the US sanctions, Fintel's Russian renewables plans are on hold currently, but the company sees the potential for future growth there in the coming decades.

Company structure

Fintel has set up a separate SPV for each of its wind farms. MK Group, a Serbian holding controlled by one of Serbia's richest men, Mr. Miodrag Kostic, is a joint venture partner in several of Fintel's projects through MK-Fintel Wind Holding, MK-Fintel Wind and MK-Fintel Development. MV Group has more than 30 companies in various segments and the investments in power offer MV Group diversification. Lipar 1 & 2, Torak and Maestrals are fully owned by Fintel.

Fintel's company structure



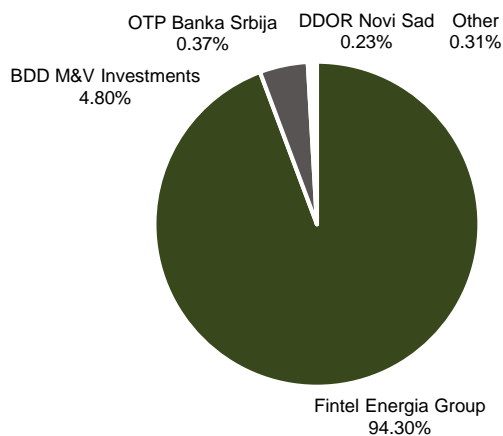
Source: Company data

Management

Since 2007, Mr. Tiziano Giovannetti has been Fintel's CEO. He is also the CEO of MK-Fintel Wind, MK-Fintel Wind Holding, Vetroparka Kula and Energobalkan. He is the founder, a member of the Board of Directors and Executive Director of Fintel Energia Group S.P.A, Fintel's 94% owner; while, at

Agroenergije societa agricola SRL, he holds the position of Chairman of the Board of Directors. Mr. Giovannetti also holds an executive director role in several other energy companies. His experience in wind farm development, combined with the Serbian members of the management's team's knowledge of the domestic market, has worked well so far, in our view, based on Fintel's successful track record.

Shareholder structure



Source: Centralni register, WOOD Research

Financials

Income statement

RSD m	2017	2018	2019	2020E	2021E	2022E
Revenues	497	450	881	2,265	2,784	2,821
COGS & opex	-145	-151	-202	-517	-529	-541
EBITDA	351	299	677	1,747	2,255	2,279
Depreciation	-138	-139	-278	-342	-389	-421
EBIT	213	160	399	1,405	1,866	1,859
Financial income/(expense) & other	-63	-25	-221	-544	-594	-1,020
Profit before tax	150	136	178	1,203	1,662	1,259
Taxes	-37	-61	-33	-148	-224	-251
Net profit	113	75	144	1,056	1,438	1,008
Minority interest	69	47	90	465	633	444
Net income to Fintel	44	28	55	591	805	565

Source: Company data, WOOD Research

Balance sheet

RSD m	2017	2018	2019	2020E	2021E	2022E
Current assets	208	643	728	584	673	664
Cash & Equivalents	113	539	278	307	395	387
Trade receivables	0	0	183	0	0	0
Inventories	0	1	10	21	21	21
Other	94	103	257	257	257	257
Non-current assets	3,184	11,578	13,298	15,793	16,325	26,496
Tangible	3,054	11,480	13,205	15,638	16,170	26,340
Intangible	130	98	59	122	122	122
Other	0	0	33	33	33	33
Total assets	3,393	12,221	14,026	16,377	16,998	27,160
Current liabilities	1,600	2,950	1,836	2,975	2,858	4,658
ST debt	1,150	2,069	1,159	2,590	2,573	4,522
Trade payables	393	795	591	300	200	50
Other	58	85	85	85	85	85
Non-current liabilities	1,847	8,749	11,763	12,293	12,225	20,023
LT debt	1,793	8,488	9,829	10,359	10,291	18,089
Other	54	262	1,934	1,934	1,934	1,934
Total liabilities	3,447	11,699	13,599	15,268	15,083	24,680
Minority interest	9	-27	44	91	91	91
Shareholders' equity	-54	522	427	1,018	1,823	2,388
Total liabilities and equity	3,393	12,221	14,026	16,377	16,998	27,160

Source: Company data, WOOD Research

Cash flow statement

RSD m	2017	2018	2019	2020E	2021E	2022E
Profit before income tax	208	643	728	584	673	664
Depreciation and amortisation	138	139	278	342	389	421
Finance costs	63	25	221	544	594	1,020
Operating cash flows before WC changes	410	807	1,228	1,470	1,656	2,105
WC changes	174	402	-396	-118	-100	-150
Net interest received/(paid)	-63	-25	-221	-544	-594	-1,020
Income tax paid	-37	-61	-33	-148	-224	-251
Other	-250	-999	-555	0	0	0
Net cash from operating activities	234	124	21	660	738	684
Capex	-318	-8,153	-2,190	-3,063	-1,330	-10,784
Other	-37	-61	-33	0	0	0
Net cash used in investing activities	-407	-8,121	-2,152	-3,063	-1,330	-10,784
Net proceeds from borrowings	101	7,750	1,870	1,961	-85	9,747
Dividend paid to the Group's owner	0	0	0	0	0	0
Capital increase	0	681	0	0	0	0
Net cash used in financing activities	101	8,432	1,870	1,961	-85	9,747
Net decrease in cash and cash equivalents	-72	435	-260	29	88	-9
Cash and cash equivalents at the beginning of year	187	113	539	278	307	395
Cash and cash equivalents at the end of year	113	539	278	307	395	387

Source: Company data, WOOD Research

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Date	Rating	Date	PT
02/07/2020	BUY – initiation of coverage	02/07/2020	RSD 824

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CD Projekt	5
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CME	5
Dino	5
DO&CO	5
Electrica	5
Erste Group Bank	5
Eurobank	4
Eurocash	4, 5
Fortuna	5
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Graphisoft Park	5
ING BSK	5
Kazatomprom	5
Kernel	5
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MedLife	4
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O2 Czech Republic	1, 2, 4, 5
OMV Petrom	5
Orange PL	5
Pekao	4, 5
PGE	5

PGNiG	5
Philip Morris CR	5
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CONTACTS

Czech Republic

namesti republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Romania

Metropolis Center
89-97 Grigore Alexandrescu St.
010624 Bucharest 1
Tel.: +40 316 30 11 81

Poland

Skylight Zlote Tarasy
Zlota 59
00 120 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

City Point, 11th Floor
1 Ropemaker Street
London EC2Y 9HT

Tel +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy

Tel +39 02 36692 500

Kristen Andrasko

Head of Equities
+420 222 096 253
kristen.andrasko@wood.com

Bloomberg page
WUCO

www.wood.com

Research

Co-Head of Research/ Head of Research Poland

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Energy

Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Consumer

Jakub Mician
+420 222 096 320
jakub.mician@wood.com

Co-Head of Research/Head of Greek Research

Alex Boulougouris
+30 211 106 9447
alex.boulougouris@wood.com

EMEA TMT & Industrials/Turkey

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Financials/Turkey

Can Demir
+44 20 3530 0623
can.demir@wood.com

Energy/Utilities

Ondrej Slama
+420 222 096 484
ondrej.slama@wood.com

Romania

Stefan Lungu
+44 203 530 0694
stefan.lungu@wood.com

Head of Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Russia & CIS Region

Ildar Davletshin
+44 203 530 0631
ildar.davletshin@wood.com

Poland/TMT

Piotr Raciborski
+44 22 222 1551
piotr.raciborski@wood.com

Poland

Pawel Wieprzowski
+48 22 222 1549
pawel.wieprzowski@wood.com

Greece

Fani Tzioukalia
+30 211 106 9449
fani.tzioukalia@wood.com

Macroeconomics

Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Metals/Mining

Andy Jones
+44 20 3530 0629
andrew.jones@wood.com

Consumer/Industrials

Gabriela Burdach
+48 22 222 1545
gabriela.burdach@wood.com

Financials

David Lojkasek
+420 222 096 256
david.lojkasek@wood.com

Sales

Head of Sales

Kristen Andrasko
+420 222 096 253
kristen.andrasko@wood.cz

Grzegorz Skowronski
+48 22 222 1559
grzegorz.skowronski@wood.com

Jan Koch
+48 22 222 1616
jan.koch@wood.com

Jarek Tomczynski
+44 203 530 0688
jarek.tomczynski@wood.com

Piotr Kopec
+48 22 222 1615
piotr.kopec@wood.com

Kostas Tsigkourakos
+30 694 082 5810
kostas.tsigkourakos@wood.com

Ioana Pop
+44 20 3530 0693
ioana.pop@wood.com

Tatiana Sarandinaki
Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Ermir Shkurti
+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra
+420 222 096 397
vladimir.vavra@wood.com

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