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11/12/2017

EZE – Cp*: €0.60; Tp: €0.85 (Initiation of coverage)
Rating: **Buy** (Initiation of coverage)
Market Cap.: €178m

EZENTIS

Ezentially promising

Positive FCF generation to put the Group in the spotlight, with pending refinancing as key catalyst

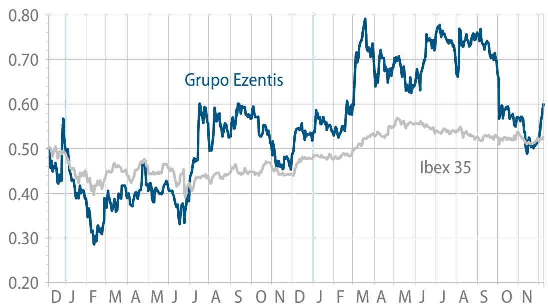
(EZE.MC/EZE SM)

		Years	P/E (x)	P/CF (x)	EV/EBITDA (x)	P/BV (x)	Div. Yield (%)	Performance	(%)
Last (€)*	0.60	2016	121.1	10.1	6.3	6.3	0.0	1M	6.6
Rec.:	**Buy**	2017e	-44.6	25.8	8.1	6.5	0.0	3M	-18.2
Tp (€):	0.85	2018e	48.1	12.6	6.5	5.7	0.0	YTD	16.4

Source: Bloomberg, JB Capital Markets. (*) Price as of 8.12.2017

The group provides operations and maintenance services in LatAm and Spain, benefitting from substantial order intake and growing margins in recent years. We think 2018 will be a turning point, with positive FCF for the first time and a likely debt refinancing, which should contain considerable financial expenses and give the group a new and more diversified financing source. Appealing entry-point multiples: 6.5-5.7x EV/EBITDA 2018-2019 and 4.5-6.1% FCF/Equity 2018-2019. Buy rating.

Ezentis relative performance



Source: Thomson Reuters Datastream

Ezentis in a nutshell. Ezentis provides telecoms and utilities with specialised operations and maintenance services in LatAm in an industry that is expected to see +5.7% annual growth in coming years. The first results of management's strategic focus on this context is a solid backlog (two years of sales) and best-in-class margins (10.2% EBITDA in 2016). In this regard, our estimates point to an +11.7% CAGR in uptrend in 2016–2021 EBITDA based solely on organic development. In this respect, the group has strong ambitions and intends to double its size on the back of a 50%/50% organic and inorganic expansion plan. In this sense, we have seen in the past strict acquisition criteria that we think will be met before potential transactions.

Positive FCF generation from 2018. After some years of reduction of the rate of cash consumed by Ezentis, the group's increased size and improved profitability suggest that we will see positive FCF generation in 2018. We think this will draw the market's attention, as it would kick off a highly appreciated cash generation scenario.

Refinancing as a risk or as an opportunity. While the B/S situation can be deemed to be somewhat binary and, therefore, is not risk-free, we think Ezentis will restructure its current debt through an agreement with a pool of financial institutions in 2018 in order to reduce its current rate of financial expense and to diversify its financing sources. Therefore, 2019 could offer a taste of the potential of Ezentis after the likely debt restructuring deal. Insofar as valuation (6.1% FCF/Equity 2019), we think the market is taking a very prudent approach to the recognition of the potential value of the group's future order intake.

CONTENTS

EXECUTIVE SUMMARY

Ezentis provides services for the operation, maintenance and construction of networks, mainly in the telecommunications (68% of 9M17 sales) and energy industries (25% sales 9M17). The group is currently positioned in LatAm, where it obtains 90.7% of its sales within the aforementioned sectors (9.3% related to Spain).

After several years in which it maintained a blurred strategy, **new management strategically focussed the group in 2011, reaping the first benefits of the efforts undertaken**. In this sense, Ezentis recorded last year its highest backlog (representing 2.7x of its 2016 sales) and has significantly increased operating profitability, with best-in-class margins (10.2% EBITDA margin in 2016, far above US and European peers).

In this context, **the group benefits from a unique platform that makes use of bright prospects in LatAm** after some years of macro instability, specifically in operations and maintenance, a segment for which estimates indicate +5.7% annual growth in coming years. In this respect, we think the group will see further incremental growth vs. underlying GDP+CPI growth, given its geographical diversification (with presence in eight countries), its obsessive approach to quality service, its technological expertise and its diversified portfolio of services. Additionally, we think the absence of a large O&M operator in the group's area of activity allows it to offer unrivalled service and provides interesting opportunities insofar as M&A with local operators (as evidenced by recent transactions with Tecnet and CyS in Chile and Mexico, respectively). Furthermore, **the group's positioning in LatAm at this time (no other listed group with relevant operations in the region) constitutes scarcity value as regards investment in the stock**.

One of the group's main short-term targets is a new financing agreement with a pool of financial institutions in order to replace the current bullet-financing agreement with Highbridge with a more reasonable rate (from the current 9% to less than 6%). This would reduce the financing cost (from a total of 16% to 12% by our estimates) and lift debt covenants.

Part of Ezentis' recent €29.7m capital increase was put toward a €10m reduction of the Highbridge financing and was used to trim non-recourse factoring debt by another €9m. In this sense, **our figures reflect debt refinancing anticipated for 2H18,** which should have a full positive impact on 2019 accounts.

In our opinion, said debt refinancing/restructuring of the group is vital to improvement of FCF generation. In this respect, we have already seen a significant albeit still insufficient reduction vs. cash consumed in previous years, with negative FCF ex inorganic deals of €32m in 2013, which was reduced to €-12.5m in 2016. Said improvement of the FCF profile should offer a positive print in 2018, with more tangible effects from 2019. **We think the market would applaud the delivery of positive FCF in 2018, such as that reflected in our estimates, as it would be the first positive generation of cash in years and the inauguration of a scenario of generation of cash (greatly appreciated by investors). Said cash generation would allow reduction of organic debt and a return to more normalised multiples, in line with peers trading with a 29% premium to EV/EBITDA 2018–2019 ratios**.

Insofar as valuation, **our end-of-2018 valuation is based on a sum-of-the-parts model applied to the group's regional businesses**. In this respect, we have applied a per-country DCF model based on 1.5x ND/EBITDA targeted leverage, with current 10-year bond yields for the explicit forecast period 2018–2021 (10.8% average WACC), and terminal-value WACC at normalised 10-year bond rates (average WACC TV 11.3%). In relation to terminal-growth rates, we have considered the terminal forecast period GDP rate for each country with an average outcome of 2.9%. We have adjusted our valuation to provisions, non-cash CF elements and headquarter costs (not included in the company's regional EBITDA disclosure).

In addition, **we have performed a back-of-the-envelope valuation** in order to evaluate the consistency of our DCF-based approach, analysing market expectations in relation to future order intake. In this respect, **the current backlog and future order intake valuation suggest that the market is currently anticipating c. €420m in future average intake** (below 2018e sales), which we think is highly conservative.

We therefore recommend Buy, target price €0.85/share (December 2018), which constitutes 41% upside potential. At current prices, Ezentis offers attractive 6.1% and 8.7% FCF/equity yields in 2019 and 2020, respectively.

BRIEF HISTORY OF THE GROUP

Ezentis provides services for the operation, maintenance and construction of networks, mainly in the telecommunications (68% of 9M17 sales) and energy industries (25% sales 9M17). The group is currently positioned in LatAm, where it obtains 90.7% of its sales (9.3% Spain) within the aforementioned sectors.

The Ezentis Group commenced operations in 1959 as Radiotrónica, a unit of Agromán, specialising in the field of electronic installations, an activity to which it was dedicated for the next 10 years. The group was first listed on the stock market in Spain in 1988, and began its Chilean expansion by serving Telefónica as its main customer. From 1992 to 1996, it expanded its operations to Peru, Argentina and Colombia, with Telefónica generating 90% of revenues. In 2000, it changed its name to Avanzit in order to embrace new businesses, such as in the TMT sector (it even created the unit Vertice 360 for audio-visual content production), following an agreement with Acciona to acquire TSIP (Telefónica Engineer Product Systems).

In 2010, the group changed its name to Ezentis, and, in 2011, chapter 11 protection concluded after having commenced in 2003 and in the wake of fulfilment of all of its creditors' liabilities. **In November 2011, a new management team was incorporated** to the operations of the company in order to regain strategic focus with a 100-day plan. November 2011 saw the commencement of refocusing toward the core activities of telecoms and utilities operations and maintenance activities, and abandonment of the unprofitable businesses of Sedesa (a Mediterranean-basin contractor) and Elfer (engineering company acquired in 2007 for €6.5m). That same year, the group signed a credit line with GEM capital for an aggregate amount of €30m.

The year 2012 saw fresh LatAm expansion of the group, with the awarding in May 2012 of several relevant contracts, such installation of optical fibre networks of Arsat in Argentina (worth €49m), a Chilean optical fibre networks installation from Movistar (for €9.4) and a €39m utilities contract from Edelnor in Peru. In June 2012, the local loop contract with Telefónica was cancelled in order to concentrate efforts on the LatAm market, and, in November of that year, the group announced a new strategic plan for 2013–2015. Toward the end of the year, Ezentis was awarded a new utilities contract in Argentina by Edenor and launched a €13.3m capital increase.

In 2013, the group was awarded several contracts, such as an external plant maintenance project from Telefónica in Peru (€49m) and other contracts associated with Telefónica in Chile and Peru totalling USD100m and €63.3m, respectively. In **2013, the group took on its recent inorganic acquisitions** with the buyout of a 45% stake in Consorcio Chile (50% already owned by Ezentis) and an agreement to purchase a 60% stake in the Brazilian company SUL (currently Ezentis Energia). By the end of 2013, Ezentis had also acquired 55% of Brazilian Seicom (currently Ezentis Engenharia), associated with the telecom sector.

2014 was an exciting year for Ezentis, as the group defined its 2014–2017 strategic plan and launched a €50.4m capital increase. In 2014, Ezentis was awarded a €69m electricity contract in Brazil by Calpe and a €59.2m contract in Brazil by Telefónica. In June 2014, the group agreed to purchase 100% of Networks Test, with operations in Spain, Peru and Colombia, for €7.1m.

In July 2015, Ezentis signed a €126m senior facility loan agreement with HPS Investment Partners that involved an initial disposal of €68.8m. That same year, the group agreed to the acquisition of a stake from Ezentis Engenharia in Brazil and also saw relevant changes in its board of directors, with the appointment of a non-executive chairman (Luis Solana) and a non-executive vice chairman (Guillermo Fernández Vidal).

All-time record order intake in 2016. By the end of said year, Ezentis was awarded relevant contracts, including a €120m deal from Chilean Telefónica and a €100m Peruvian contract linked to Telefónica. In June 2016, Guillermo Fernández Vidal was appointed CEO and chairman in February 2017 (we think his lengthy experienced in the Telefónica Group has been crucial to the reinforcement of operations with the incumbent, as shown by recent awardings). In said year, the group acquired 100% of the Chilean company Tecnet (within the utilities segment) and also acquired the remaining 4.7% of Ezentis Chile.

Earlier **this year, the group accessed the market in Mexico, with its acquisition of CyS, and has completed a €29.7m capital increase**.

CURRENT SHAREHOLDERS

The group has sought in the past to build a core reference shareholder base as a means of underpinning financial stability within its expansion plans. After the October 2017 capital increase —which raised €29.7m—, share capital remains highly fragmented, with a sizeable free-float of 79%. In this respect, the fact that there is no main shareholder with a large stake makes the group highly vulnerable to potential M&A.

Regarding the most relevant shareholdings (including the recent capital increase) the following are worth noting:

- **Financial Investors (10.1%**, for stakes above 0.5%): in this category we find Lierde (3.3% and linked to César Alierta), Santander Asset Management (2.7%), Ibercaja (1.5%), Gesmadrid (1.0%), Merchbank (0.9%) and Cobas (0.6%).

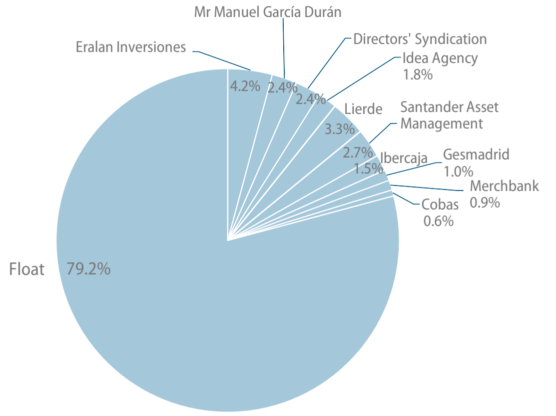
- **Eralan Inversiones (4.2%)**: Linked to Juan Carlos Smith (65 years of age and not involved in management), who allegedly intended to sell it in the past. He held a 8.1% stake in May 2014. Eralan is located in Vizcaya and is dedicated to temporary investments.

- **Manuel García Durán (2.4%)**: Former chairman, who had held a 9.1% stake (bought from Nomura). Involved in the Sedesa acquisition in 2011 (contractor linked to the Cotino family) which was ultimately unwound.

- **Directors' Syndication (2.4%)**: In June 2016, several investors agreed to form a union of shareholders in order to vote unanimously at all meetings of the firm under the guidance of Guillermo Fernández-Vidal (chairman and CEO). The trust agreement is to be in effect for three years and does not constitute a restriction on the free transferability of shares, as it affects shares acquired by the parties after the signing. The shareholders linked to the syndication of shares are: Guillermo Fernández Vidal, Fernando González, Carlos Mariñas, Jorge de Casso, José María Maldonado, Robert Cuens, Gabriel García Fías, Ademir Piquiera Castilho, Roberto Takashi Araki, Victor Alfredo Drasal, and Teleprocessing Services and Constanter.

- **Idea Agency (1.8%):** The Idea Agency is associated with the Department of Innovation and Development of the regional government of Andalusia. In fact, it is out of the director's syndicated stake and is the only shareholder represented on the board of directors (since December 2013) through Mrs Ana María Azcárate Palacios.

Shareholder base



Source: JB Capital Market

O&M SECTOR

The operations and maintenance sector (O&M) within the telecoms and utilities businesses reached an accumulated €12bn in total annual business in 2016, and it is expected that the figure will amount to €15.5bn in 2020. This constitutes an attractive growth profile of +5.7% CAGR during 2016–2020, not only in view of the organic expansion of the activity but also because of the progressive outsourcing of telecom and utilities players, which, as a whole, generated €207bn in revenues in 2016 (in Brazil, Argentina, Colombia, Chile, Peru, Mexico and Spain).

Telecoms and utilities revenues (€bn)

	13	14	15	16	20e
Fixed telecom revenues	50	46	42	42	45
Mobile telecom revenues	67	64	65	72	99
Telecoms revenues	117	110	107	114	144
Utilities revenues	90	92	93	93	104
Total	**207**	**202**	**200**	**207**	**248**

Source: Eurostat, ITU, Gartner, EIU, IEA, World Bank and Deloitte. Includes Brazil, Argentina, Colombia, Peru, Chile, Mexico and Spain

O&M Market (€bn)

	13	14	15	16	20e
Fixed telecoms	5.4	5.1	4.9	5.2	6.5
Mobile telecoms	0.7	0.7	0.8	0.8	1.0
Telecoms	6.1	5.8	5.7	6.0	7.5
Utilities	5.6	5.6	5.7	6.4	8.0
Total	**11.7**	**11.4**	**11.4**	**12.4**	**15.5**

Source: Eurostat, ITU, Gartner, EIU, IEA, World Bank and Deloitte. Includes Brazil, Argentina, Colombia, Peru, Chile, Mexico and Spain

Ezentis revenues and share (€m)

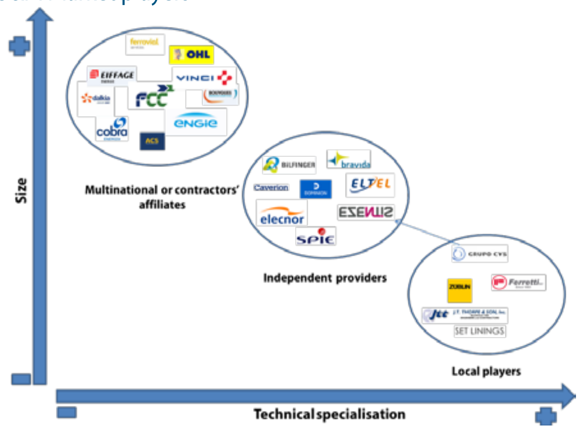
EZE revs breakdown (%)	13PF	14	15	16
Telecoms	58.2	63.0	71.6	74.3
Utilities	24.8	25.2	20.7	21.2
Others	17.0	11.8	7.7	4.5
Total	**100.0**	**100.0**	**100.0**	**100.0**
EZE revs by segment (€m)				
Telecoms	118.0	162.1	217.4	235.1
Utilities	50.3	64.8	62.8	67.1
Others	34.5	30.4	23.4	14.2
Total	**202.8**	**257.3**	**303.6**	**316.5**
O&M telco/telcos market (%)	5.6	5.7	5.7	5.6
O&M utils /utils market	7.8	7.6	7.6	8.4
O&M total/telcoUtils mkts	**6.6**	**6.6**	**6.6**	**6.9**
EZE O&M telcos mkt share (%)	1.8	2.6	3.6	3.7
EZE O&M utils market share	0.7	0.9	0.9	0.9
EZE O&M total market share	**1.5**	**1.9**	**2.3**	**2.2**

Source: JB Capital Markets and Company data

In this respect, although the group has diversified into utilities O&M, this still accounts for a small part of total revenues (21.2% in 2016 vs. 74.3% for telecoms sector). Additionally, we believe that there is huge potential in this segment, given the notably higher portion of O&M vs. overall utilities revenues (8.4% vs. 5.6% for telecom sector) and in view of the reduced market share of Ezentis within the utilities O&M market (0.9% share vs. 3.7% for telecoms).

With regard to the telecom sector, the fact that the group is closely associated with Telefónica is appealing, given telecom deployments of the incumbent in Spain and LatAm. In this respect, as of 3Q17, Telefónica had already covered 18.6 million FTTH premises in Spain as well as 18.0 million in Brazil and 6.2 million FTTX connections in the rest of LatAm (1.1 million in Argentina, 1.2 million in Chile, 3.3 million in Peru and 0.5 million in Colombia) of a total market of 193 million homes (100% deployment in Spain and 13.8% average deployment in Latam). Hence, the future FTTX deployment along with further network densification suggests that revenue growth for the O&M segment will be steady.

O&M Market players



Source: JB Capital Markets

SERVICES AND CUSTOMERS

Ezentis provides services for the operation, maintenance and construction of networks, mainly in the telecommunications and energy industries.

With regard to the **telecommunications sector** (**which accounted for 68% of total sales as of 9M17)**, the group offers fixed-network services such as:

- Assessment, design and engineering of optical fibre networks, multi-pair cables and structured cabling.
- Installation and maintenance of ADSL networks, optical fibre , FTTX, radio systems for mobile networks, microwave networks and special projects for companies.
- Remodelling and recovery of customer premises equipment (CPE) to originate, route or terminate a communication.

Within the mobile networks, the group offers:

- Construction, installation and maintenance of mobile radio base stations from mobile telephone networks.
- Telecommunication projects for companies.
- Multi-service network management.
- Development of Operation Support Systems (OSS).
- Geographical information systems for plants.

In terms of services provided to the **utilities sector (25% of total sales as of 9M17)**, Ezentis offers distribution and transmission network services such as:

- Maintenance and installation of transmission and distribution networks.
- Services for high-voltage power lines.
- Power management including metering, partitions, cuts, and reconnection, standardisation of electrical meters, electricity thefts, etc.
- Preventive and corrective maintenance of public lighting and buildings.
- Industrial facilities and shopping centres energy provision and lighting.

Within the utilities sector, Ezentis also offers substations and processing platform services such as:

- Technical consulting and specialised engineering.
- Maintenance and installation of substations and transformation platforms.
- Civil and electromechanical works.
- Geographical information systems for plants.
- Commercial services.
- Smart networks.

Ezentis also offers operating and maintenance services in the **oil, gas, mining and water distribution industries (7% of total sales as of 9M17)**. In addition, it provides support services for the management of infrastructures. With regard to specific service provisioning in each of the countries where it is present, the following is a summarised chart for each of the aforementioned categories:

Service/Country

	BRA	ARG	CHI	PER	SPA	COL	CAR	MEX
Telecommunications								
Fixed outside plant								
Inside plant								
Operation								
Customer service								
Mobile external plant								
Utilities								
Distribution networks								
Commercial services								
Other								
Mining, oil, gas, water								

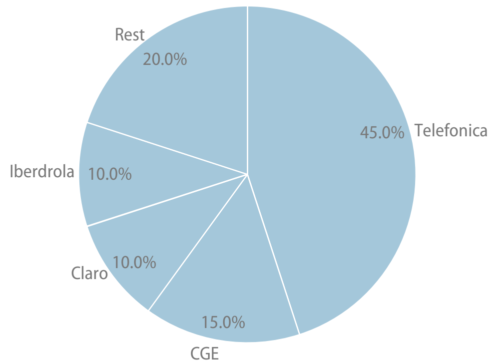
Source: Company data

Operating resources

	BRA	ARG	CHI	PER	SPA	COL	CAR	MEX	Total
Sales weight 9M17 (%)	34	18	25	10	9	1	2	1	100
Logistic centres	63	10	46	10	3	8	6	10	156
Employees	3,561	596	3,176	1,745	657	920	82	715	11,452
Vehicles	2,000	565	1,585	641	n.m.	272	n.m.	n.m.	5,063
Main customers	Telefónica	Telefónica	Telefónica	Telefónica	Telefónica	Telefónica	Digicel	Telefónica	
	TIM	Edesur	Claro	Claro	Aena	Enel	bmobile	teklcek	
	Claro	Elecnor	enel	Distriluz	Ericsson	Nokia	blink	Nokia	
	AES Electropaulo	gasNatural	CGE	Enel				AT&T	
	Light			Entel					
				Huawei					

Source: Company data and JB Capital Markets

Main customers of group and sales weighing



Source: Company data and JB Capital Markes

Portfolio of customers

Source: Company data

Recent awardings of relevant contracts

Date	Country	Customer	Sector	Amount (€m)	Years
25.02.16	Brazil	Telefónica	Telecoms	7	2.0
3.03.16	Peru	Edelnor	Utilities	38	3.0
18.03.16	Brazil	Light	Utilities	23	3.0
23.05.16	Chile	Chilectra	Utilities	47	3.0
23.06.16	Brazil	Claro/Embratel	Telecoms	22	2.0
5.07.16	Argentina	Gas Natural	Gas	21	5.0
7.07.16	Chile	CGE (Gas Natural)	Utilities	32	6.0
18.08.16	Brazil	TIM	Telecoms	41	3.0
12.12.16	Chile	Telefónica	Telecoms	120	4.0
19.12.16	Argentina	Edenor	Utilities	5	1.7
21.12.16	Peru	Telefónica	Telecoms	100	4.0
27.12.16	Colombia	Codensa/Telefónica	Util/Telecoms	24	3.5
13.03.17	Brazil	ElectroPaulo	Utilities	18	3.0
6.04.17	Colombia	Telefónica	Telecoms	18	n.m.
10.04.17	Argentina	Telefónica	Telecoms	118	4.0
Total				**632.8**	**3.5**

Source: Company data and JB Capital Markets

Some of the group's most relevant contracts in the last year include a €120m Chilean project that renewed the construction, operation and maintenance of the fixed telecom network of Telefónica in Chile. Another is a €100m Peruvian contract related to the renewal and extension of the construction, operation and maintenance of a fixed and mobile telecom network, with the deployment of 1,100 new mobile towers. In this sense, the group has set up operations in one-third of the country, after beating Dominion and Ericsson and Huawei as vendors. The €118m Argentine awarding corresponds to the installation and maintenance of the Telefónica Argentina telecom network.

The group's telecom activity includes the maintenance of 26,000 Brazilian sites (mainly linked to TIM and present in 10 states) and service for 40,000 sites of the group as a whole. With regard to Brazilian operations, the group is present in Pernambuco, Bahia, Rio de Janeiro and Sao Paulo, where it provides telecom and utilities O&M services. In the remaining six states, Ezentis only offers telecom O&M services (not present in Minas Gerais, which has a population base of 40 million and holds great opportunity). In this sense, we note to investors the remaining potential growth in the LatAm market associated with Telefónica transactions.

In this respect, it must be observed that contracts have historically averaged two years of duration, as they were mainly focused on network maintenance. The group has recently gravitated toward network construction, operation and maintenance, therefore incurring in greater risk as well as better return. In this sense, the group generally signs a framework agreement (known as "contrato bucle") which involves the outdoor plant (mobile and fixed related to fibre and copper networks), the indoor plant, maintenance and customer support. **Construction is not included in backlog figures;** we estimate that this amounts to nearly €80m a year in sales. In this respect, and regarding the contracting process, each one of the contracts is based on a technical and economic offer that includes, for example, maintenance of the external plant and a price per activity, which includes a premium or a penalty, depending on the service level. In terms of internal procedures, the company performs a profitability analysis on a case-by-case basis for approve of the final proposal.

Tariff updates are revised according to local CPI (plus a margin) and the number of sites, and in accordance with the Service Level Agreement (SLA) defined between both parties.

RECENT M&A

In the last five years, Ezentis has closed eight corporate transactions that are concentrated in the Telecoms O&M sector and that reflect a disciplined investment approach. With regard to the geographical expansion, three of the transactions have increased exposure to the Chilean market, and another three have built the group's presence in Brazil. In this sense, **total cash funds devoted to the deals amount to €44m and have constituted an average 9.0% EBITDA margin together with average 4.6x EV/EBITDA.** In our opinion, this reflects the group's disciplined approach in an inorganic growth environment.

In relation to the different transactions, it is worth noting that the 2013 Consorcio RDTC 45% acquisition followed the previously held 50% stake, which was increased to 100% with the Ezentis Chile 4.69% stake acquired in 2016. Similarly, the 2015 acquisition of a 45% stake in Seicom followed the 55% stake acquired in 2013.

In fact the O&M market is a highly fragmented sector in LatAm with 1) small companies (€34m sales on average in recent transactions) run by an elder entrepreneur (65/75 years old) willing to monetise the investment, or 2) smaller companies that are willing to join a larger corporation.

Acquisitions track-record

	2013	2013	2013	2014	2015	2016	2016	2017
Name	SUL	Consorcio RDTC	Seicom	Networks Test	Seicom	Ezentis Chile	Tecnet	CyS
Currently	EZE Energy	EZE Chile	Engenharia	Networks Test	Engenharia	Ezentis Chile	Tecnet	CyS
Country	Brazil	Chile	Brazil	Spain, Peru, Colombia	Brazil	Chile	Chile	Mexico
Sector	Utilities	Telecoms	Telecoms	Telecoms	Telecoms	Telecoms	Utilities	Telecoms
Date	6.08.13	30.08.13	3.12.13	17.06.14	26.06.15	26.05.16	1.12.16	1.08.17
Stake	60%	45%	55%	100%	45%	4.69%	100%	100%
Amount (€m) cash	4.2	8	4.9	10.8	4.26	0.0	9.0	3.0
Sales	17.2	35	34	14.7	54	55.6	30	30.6
EBITDA	1.46	4	2.6	1.323	7	5.6	2.4	1.3
Mg (%)	8.5%	11.4%	7.6%	9.0%	13.0%	10.1%	8.0%	4.2%
ND	n.a.	4.8	n.a.	n.a.	n.a.	0	0	0
Backlog	37.7	41	60	n.m.	124	69.1	130	n.m.
Backlog/sales	2.19	1.17	1.8	n.m.	2.3	1.2	4.3	n.m.
Mkt Share			n.a.	n.a.	36%	n.m.	15%	n.m.
EV/EBITDA	**4.8**	**5.6**	**3.4**	**8.2**	**1.4**	**4.4**	**3.8**	**5.3**
Amount (€m) in shares	0	0	0	0	0	1.15	0	3.85
mSh to issue	0	0	0	0	0	n.m.	0.0	7.3

Source: Company Data and JB Capital Markets

For coming years and in light of potential M&A, the group has defined a clear set of acquisition rules such as:

1) Price should fit within a 4-6x EV/EBITDA range.
2) ND/EBITDA of the acquired company of less than 2x.
3) EBITDA margin of 7.5% threshold after one year of operations.
4) Additionally, the group has already established a new scheme for payment of transactions, setting a 50% initial cash payment, a two-year deferred 25% cash payment and a two-year 25% share handout in order to limit the initial cash outflow.

With regard to the different markets in which Ezentis might expand its operations, the group is seeking new geographical presence to widen its services portfolio or to diversify its customer base. Interestingly enough, Ezentis has identified the following specific areas in which to expand its operations, including the following:

- The utilities sector is a priority for the group, especially in external plant in Brazil.
- The group would be willing to increase its presence in the Colombian mobile O&M segment.
- The Spanish market seems to be a priority for the group as it withdrew from the activity in the past, due to quality concerns which reduced profitability and given the increased competitive landscape which produced high transaction prices when compared to the margins attained. Currently, Telefónica is allegedly asking the group to return to the Spanish market, where it aims to substantially increase business and which would rebalance the group's geographical exposure and the risk perception of the investment community. Recently, it installed the AENA wifi network in Spanish airports (in alliance with Telefónica) and it is also working on the maintenance of data processing centres and on maintenance of the mapping of the network.

RECENT FINANCIAL PERFORMANCE

Ezentis has delivered sound operating performance in recent years, which enabled the group to triple its sales from 2013 to 2017e (2.7x or +28.0% CAGR 2013–2017e). We believe that said performance is largely attributable to the strategic refocussing of the group in late 2011 and its focus on the telecoms and utilities O&M sectors in LatAm, which reflects the talent of current management.

During said period, the group doubled its backlog (from €407m in 2013 to €734m in 2017e) and steadily increased its EBITDA margin from 3.0% in 2013, 5.9% in

2014, 8.0% in 2015 and 10.2% in 2016, with forecasts indicating 8.7% in 2017. It is also worth noting that 2016 was the first year in the group's recent history in which it attained positive net profit, at €0.9m. The anticipated decline in the margin in 2017 is largely attributable to the initiation of the increased backlog that appeared in 4Q16 and which dragged down the 1Q17 and 2Q17 margins, as the group incurs in Opex and WC expenses in the first three-to-five months of the contract (employees, vehicles, training, etc.) This represents c. 10/15% of overall contract expenses, with an expected payback period of 18 months.

2013–3Q17 backlog and P&L

	2013	2014	2015	2016	1Q17	2Q17	3Q17
Backlog	**407**	**423**	**539.6**	**848.4**	**1000.5**	**908**	**793.3**
Incr YoY	106.6%	3.9%	27.6%	57.2%	94.5%	78.2%	53.3%
New contracts	253	298	446	671.9	168.1	22.9	8.7
organic	253.0	268.6	446	549.8	0	0	0
inorganic	104.0	29.4	0	122.1	0	0	0
Production	49%	62%	63%	46%	0%	0%	0%
Fx in backlog	0	-27	-25.2	-46.5	80.4	-20.4	-23.2
Sales	148.8	257.3	303.6	316.5	96.3	95.0	100.2
Backlog/sales	2.7	1.6	1.8	2.7	2.5	2.3	2.0
P&L							
Sales	**148.8**	**257.3**	**303.6**	**316.5**	**96.3**	**95.0**	**100.2**
Incr YoY	-6%	73%	18%	4.2%	48.8%	32.7%	28.1%
COGS	-57.52	-68.6	-72.1	-58.9			
Gross margin	**91.3**	**188.7**	**231.5**	**257.6**			
GM (%)	61%	73%	76%	81%			
Personnel expenses	-68.0	-115.2	-138.4	-143.8			
Other expenses	-18.9	-58.3	-68.7	-81.4			
EBITDA	**4.397**	**15.2**	**24.4**	**32.4**	**7.3**	**7.6**	**9.2**
EBITDA mg (%)	3.0%	5.9%	8.0%	10.2%	7.6%	8.0%	9.1%
Incr. (%)	-47%	246%	60%	33%	21%	-13%	-38.0%
Amortisations and provisions	-5.358	-5.6	-8.2	-8.1	-2.3	-2.2	-2.1
PPAs	-0.235	-1.6	-1.9	-1.8	-0.6	-0.6	-0.5
EBIT	**-1.196**	**8.0**	**14.2**	**22.5**	**4.4**	**4.8**	**6.5**
EBIT mg (%)	-0.8%	3.1%	4.7%	7.1%	4.6%	5.1%	6.5%
Incr. (%)	-130%	-769%	77%	58%	23%	-24%	12%
Financial exp	-7.068	-11.4	-12.4	-11.5	-3.4	-3.0	-3.4
Structural fin exp	0	0.0	-7.5	-8.7	-2.5	-2.5	-3.1
Ex rate and var fin instr	0	-1.0	-2.1	-0.4	0.0	-0.7	0.7
Fin exp total	*-7.1*	*-12.5*	*-22.0*	*-20.6*	*-5.9*	*-6.2*	*-5.8*
Equity accounted	-17.4	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary earnings	-6.2	-1.3	-2.4	-0.7	-0.4	-0.4	-2.3
PBT	**-31.9**	**-5.8**	**-10.2**	**1.1**	**-1.8**	**-1.8**	**-1.5**
Taxes	-2.057	-0.7	-1.1	-0.4	0.3	1.0	-0.7
Minorities	-0.476	-0.9	0.4	0.1	-0.1	0.1	0.0
Discont operations	-6.498	0.0	0.0	0.0	0.0	0.0	0.0
Net Attrib Profit	**-40.9**	**-7.4**	**-10.9**	**0.9**	**-1.7**	**-0.7**	**-2.2**

Source: Company data and JB Capital Markets

2013–3Q17 cash flow

Consolidated CF	2013	2014	2015	2016	1Q17	2Q17	3Q17
NP	-40.9	-7.4	-10.9	0.9	-1.7	-0.7	-2.2
Amortisations + PPAs	5.6	7.2	10.2	9.9	2.9	2.8	2.6
FFO	**-35.3**	**-0.2**	**-0.7**	**10.8**	**1.1**	**2.1**	**0.4**
WC	-7.0	-16.4	1.5	-4.4	-3.6	-2.7	-0.9
Capex maint + organic	-4.6	-12.8	-7.0	-13.1	-2.5	-0.4	-0.3
Capex inorganic	-1.6	-9.4	-16.9	-4.8	0.0	-3.0	0.0
Taxes accrued	2.1	0.7	1.1	0.4	-0.3	-1.0	0.7
Taxes paid	-1.2	-7.9	-3.5	-1.1	0.3	1.0	-0.7
Fin exp accrued	7.1	12.5	22.0	20.6	5.9	6.2	5.8
Fin exp paid	-7.6	-11.2	-19.9	-19.8	-0.8	-1.4	-5.5
Others	14.4	4.6	-4.9	-5.9	-3.6	-10.1	1.7
FCF	**-33.7**	**-40.2**	**-28.3**	**-17.3**	**-3.5**	**-9.3**	**1.2**
Dividends	0	0	0	0	0	0	0
Capital increase	31.3	50.4	0.0	0	0	0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF for debt service	**-2.4**	**10.2**	**-28.3**	**-17.3**	**-3.5**	**-9.3**	**1.2**
FCF ex inorg	**-32.1**	**-30.8**	**-11.4**	**-12.5**	**-3.5**	**-6.3**	**1.2**
ND reported	**60.3**	**50.1**	**78.4**	**95.7**	**99.2**	**108.5**	**107.3**
ND/EBITDA	**13.7**	**3.3**	**3.2**	**3.0**	**2.9**	**3.3**	**3.2**

Source: Company data and JB Capital Markets

2013–16 country sales and EBITDA breakdown

	2013	2014	2015	2016
Total sales	**148.8**	**257.3**	**303.6**	**316.5**
Brazil	0	77.521	96.4	121.2
Argentina	65.005	71.55	75.7	56.3
Chile	35.21	43.71	56.4	64.1
Peru	24.172	32.911	37.8	31.0
Spain	14.911	20.347	25.6	28.8
Caribbean	4.687	8.618	6.9	6.0
Colombia	0	1.912	4.6	8.4
Others	4.8	0.523	0.3	0.6
Total sales weighing	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Brazil	0.0%	30.1%	31.7%	38.3%
Argentina	43.7%	27.8%	24.9%	17.8%
Chile	23.7%	17.0%	18.6%	20.3%
Peru	16.2%	12.8%	12.5%	9.8%
Spain	10.0%	7.9%	8.4%	9.1%
Caribbean	3.1%	3.3%	2.3%	1.9%
Colombia	0.0%	0.7%	1.5%	2.7%
Others	3.2%	0.2%	0.1%	0.2%
Total EBITDA	**4.397**	**15.207**	**24.38**	**32.416**
Brazil	0	5.949	7.319	11.054
Argentina	4.948	6.199	4.722	6.854
Chile	4.612	4.315	5.632	10.702
Peru	1.543	3.146	4.315	4.759
Spain	-0.98	0.998	2.285	3.663
Caribbean	0.345	1.183	0.724	2.186
Colombia	0	0.23	0.448	0.429
Others	-6.071	-6.751	-1.065	-7.231
EBITDA margin	**3.0%**	**5.9%**	**8.0%**	**10.2%**
Brazil	0.0%	7.7%	7.6%	9.1%
Argentina	7.6%	8.7%	6.2%	12.2%
Chile	13.1%	9.9%	10.0%	16.7%
Peru	6.4%	9.6%	11.4%	15.4%
Spain	-6.6%	4.9%	8.9%	12.7%
Caribbean	7.4%	13.7%	10.5%	36.6%
Colombia	0.0%	12.0%	9.7%	5.1%
Others	0.0%	44.0%	-400.4%	-1305.2%

Source: Company data nad JB Capital Markets

Regarding historical performance, we would point out the continuous progression of the GM derived mainly from efficiencies in the subcontracting of the group, which accounted for 14.2% of sales in 2016 vs. 21.5% in 2013. This evidences the lower proportion vs. rivals, which derives ultimately in superior and standardised service quality.

Additionally, we note the human resources intensive business model of the group, as personnel expenses accounted for 45.4% of total sales in 2016. This has remained fairly stable over the years (45.7% in 2013), which reflects the variable nature of the group's Opex base (directly linked to the contracted nature of its activity).

DEBT COMPONENT

With regard to **financing in recent years**, the 2015 **Highbridge financing agreement** is worth noting. Highbridge Principal Strategies Investment Partners, LLC ("HPS") is a global investment firm focussed on non-investment grade credit. Established in 2007, it was originally formed as a unit of Highbridge Capital Management, a subsidiary of J.P. Morgan Asset Management, and formerly known as Highbridge Principal Strategies (in March 2016, the partners of HPS acquired the firm from J.P. Morgan, which retained Highbridge's hedge-fund strategies. As of March 2017, HPS had approximately USD39bn in assets under management). In this respect, in July 2015, Highbridge agreed with Ezentis the provisioning of financing for an aggregate amount of €126m structured in three different tranches of €67m (T1), €31m (T2) addressed at the acquisition of an identified target (Ability Technology and Services in Brazil) and a further line of €28m (T3) for purposes of organic and inorganic growth. The total financing cost was set at the Euribor rate + 8pp (with a minimum Euribor of 1pp) therefore yielding a 9.0% interest rate. Said financing has a bullet maturity in July 2020 (five-year term). By the time of the signing of the financing agreement, Brazil was mired in massive currency depreciation, and the T2 was not finally disposed, resulting in loss of the line and **€82.7m in total Highbridge financing at the end of 3Q17**. The Highbridge agreement prevents Ezentis from obtaining any other source of financing (with the exception of local financing, mainly factoring lines), and sets certain covenants which were tight upon the recent €29.7m capital increase. Additionally, the Highbridge financing has set an undisposable account of €6m (under the long-term financial investments print on the balance sheet), which, as of September 2017, amounted to €2.3m (and therefore has to be recharged). In this respect, such financing is reduced on the Balance Sheet by €7.4m as of June 2017 by the pending amortisation expenses which reflect the fees paid at the time of the signing of the original financing agreement and with a portion of them annually included under the P&L financial expenses with no reflection of cash disbursement.

With regard to the rest of the debt financing, the group counts on €35.6m which results in total gross debt of €118.2m on the balance sheet as of 3Q17 (€107.3m ND and 3.2x EBITDA/LTM). Additionally, the group has €18.6m in non-recourse factoring that is not reflected in financial liabilities but generates financial expenses within the P&L.

Therefore the group's total financing cost at the end of 3Q17 was 15.8% (including non-recourse factoring, ex accrued fees and ex FX fluctuation), 16.7% if total financial expenses are considered (including non-recourse factoring line) and 19.4% if total financial expenses and reported gross debt on the balance sheet are considered. Therefore, we believe that the group has ample room for improvement if an alternative financing is considered that would substantially reduce the cost of the current debt.

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Financial indebtedness and financial expenses

	2015	2016	1Q17	2Q17	3Q17
ND	**78.4**	**95.7**	**99.2**	**108.5**	**107.3**
Total debt BS	**95.3**	**108.4**	**111.8**	**121.8**	**118.2**
Highbridge	70.1	74.6	79.9	88.1	82.7
Rest debt	25.2	33.8	31.9	33.7	35.6
Non recourse factoring debt (off balance)	16.1	20.4	19.8	19.2	18.6
Rates (%) incl non recourse factoring/ex accrued fee/exExRate	-18.4%	-15.0%	-16.2%	-14.9%	-15.8%
Rates (%) incl non recourse factoring	-22.6%	-17.2%	-18.1%	-18.3%	-16.7%
Rates (%) on avg BS gross debt	**-27.1%**	**-20.3%**	**-21.4%**	**-21.3%**	**-19.4%**
Highbridge	9.0%	9.0%	9.7%	9.7%	9.6%
Rest Debt	40.8%	31.1%	33.3%	29.4%	32.5%
Non recourse factoring debt	13.0%	13.0%	13.0%	13.0%	13.0%
Financial expenses	**-22.0**	**-20.6**	**-5.9**	**-6.2**	**-5.8**
Financial expenses	-12.4	-11.5	-3.4	-3.0	-3.4
Rest debt	-10.3	-9.2	-2.7	-2.4	-2.8
Non recourse debt	-2.1	-2.4	-0.7	-0.6	-0.6
Structural financial esp	-7.5	-8.7	-2.5	-2.5	-3.1
Highbridge	-5.5	-6.5	-1.7	-1.9	-1.9
Accrued fee	-2.0	-2.2	-0.7	-0.6	-1.2
Ex rate and chg fin instr	-2.1	-0.4	0.0	-0.7	0.7

Source: JB Capital Markets

Regarding the group's recent equity financing, we must point out the **€50.4m capital increase of 2014** (the group saw in 2013 a counter split of one new share for every 4 old shares) which was followed **in October 2017 by a new €29.7m capital increase** (at €0.56/share issuance price) in exchange for 53.965m shares, which resulted in a total number of shares of 294.91m. Investors should note that the stock is currently trading below the TERP value of €0.63/share.

STRATEGIC PLANS

In the last six years, Ezentis has presented two strategic plans, the first one covering 2013–2015 and the second 2014–2017.

The first plan was presented on 28 November 2012, which means that 2011 is the last year with current figures. The estimates and delivered figures are included in the following table:

2013–2015 strategic plan

	Strategic plan 2013–15					
	2011	2012e	2015e	2015a	Change	2015 FX
Sales (€m)	191.7	185-195	400-420	304	-26.0%	417
Order intake (€m)		> 200	400-420	446	8.7%	
Order intake/sales		1.0	1.0	1.5	0.5	
EBITDA (€m)	2.7	>8	36-40	24.38	-35.8%	
EBITDA margin (%)	1.4%	4.2%	9.3%	8.0%	-13.3%	
ND (€m)		42	57	78.4	-37.5%	
ND/EBITDA (x)	15	5-6	1-2	3.2	1.7	
Capex		3	2	24	n.m.	

Source: Company data and JB Capital Markets

In the table above, we can see that delivery of the plan has fallen short by one-third vs. the group's estimates. Nonetheless, we believe that most of the deviation may be attributable to FX. In the 2013–2015 strategic plan, there is no reference to the FX forecast used in the forward statements. If we adjust 2015 figures to 2011 FX rates (2015 FX column), we may conclude that said strategic plan was not far from the operating figures that were ultimately achieved, with the exception of profitability (the group counts on a natural hedge) as well as in terms of indebtedness.

2014–2017 strategic plan

		Strategic plan 2014–17		JBCMe		JBCMe FX	
	2013	2013PF	2017e	2017e	Variance	2017e	Variance
Sales (€m)	148.8	203	656.3	395.7	-39.7%	458.9	**-30.1%**
Order intake (€m)	253.0	n.m.	n.m.	269.7			
Order intake/sales	1.7	n.m.	n.m.	0.4			
Backlog	407.0	407.0	1312.6	734.2	-44.1%		
Backlog/sales	2.7	2.0	1.8-2.2	0.0			
EBITDA (€m)	4.4	11.1	66.6	34.4	-48.4%	39.9	**-40.1%**
EBITDA margin (%)	3.0%	5.5%	10.1%	0.1		8.7%	
NP	-40.9	n.m.	32.2	-4.0			
ND (€m)	60.3		61	99.2			
ND/EBITDA (x)	13.7			395.7	-39.7%	458.9	**-30.1%**
Capex	6.2						

Source: Company data and JB Capital Markets

The 2014–2017 strategic plan was presented on 2 April 2014 and projected tripling of sales vs. 2013 pro forma figures (PF). Most of the growth would come from inorganic deals (71.8% or €326m contribution in new sales envisaged), while the remaining 28.2% (€128m) was attributed to organic performance. The fact is that the estimates of the plan only accounted for a forward estimate of the Argentine peso, while the rest of the currencies remained constant, making the comparison rather distorted. If we look at our 2017 estimates (4Q17 earning not yet released), the actual figures seem to have clearly underperformed the company's estimates by 39.1% in sales. Nevertheless, if we consider the constant FX rates for the rest of the currencies and the 2017 ARS rate, we still sense a huge difference in terms of top line and ND. According to our estimates, the plan's figures have not been that far from reality, with regard to organic growth, but they have been clearly out of scope in terms of inorganic performance and cash generation, which may suggest a more adverse environment than envisaged in terms of financing and deal closures. In any case, we think the group's organic vision and its ambitious inorganic aspirations are deserving of praise.

In this respect, and in order to address the sustainability of the top-line performance, we have referred to the last five years in order to evaluate the organic incremental growth of the group isolating FX and the acquisition components. In this respect, we can conclude that Ezentis has attained organic growth of 23.5% CAGR 2012–2017e, coupled with -12.8% CAGR2012–2017e derived from FX and +10.2% CAGR2012–2017e resulting from inorganic growth (please see preceding section on recent corporate transactions). We have confronted said organic performance with the weighed GDP+CPI growth of the group, which has reached +7.0% CAGR 2012–2017e. Therefore, we can conclude that Ezentis has widely surpassed GDP+CPI local growth in terms of organic performance, with a 16pp spread during 2013–17e and a 5pp spread in 2016 and 2017e, which we believe is reasonable, given that the first years of said period saw the group entering new markets. This is approaching a spread that remains healthy but is more moderate.

Organic vs. GDP+CPI growth

Incremental inorganic performance	2012	2013	2014	2015	2016	2017e	
SUL - Bra			17				
Seicom - Bra			34				
Networks test - SP, Peru, Col			7	8			
Tecnet - Chile					3	27	
CyS - Mexico						13	
Total sales from acquisitions		**0**	**58**	**8**	**3**	**40**	
Sales (€m)	**158**	**149**	**257**	**304**	**316**	**395**	
Organic growth		35	70	47	55	44	
Ex rate		-45	-20	-9	-45	-5	
Acquisitions		0	58	8	3	40	**CAGR 12-17e**
Total sales growth		**-6.0%**	**72.9%**	**18.0%**	**4.2%**	**24.9%**	**20.1%**
Organic growth		22.2%	47.4%	18.4%	18.1%	13.9%	23.5%
Ex rate		-28.2%	-13.4%	-3.5%	-14.7%	-1.6%	-12.8%
Acquisitions		0.0%	38.9%	3.1%	0.8%	12.6%	10.2%
Organic growth		22.2%	47.4%	18.4%	18.1%	13.9%	23.5%
GDP+CPI		7.1%	1.3%	4.8%	13.3%	8.7%	7.0%
Organic spread vs. GDP+CPI		**15.1%**	**46.0%**	**13.5%**	**4.8%**	**5.3%**	**16.5%**

Source: JB Capital Markets

FINANCIAL ESTIMATES

We believe that, given the current geographical presence of the group, Ezentis is well positioned to capitalise on the dynamism and recovery of the LatAm market, mainly driven by its Brazilian presence. We have performed a weighed GDP analysis based on the group's current geographical presence with a positive outcome, especially in 2018 and 2019 vs. 2017.

Weighed GDP

	2012	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Brazil	1.9%	3.0%	0.5%	-3.8%	-3.5%	0.7%	2.5%	2.5%	3.0%
Argentina	0.6%	-0.1%	-2.8%	2.7%	-2.3%	2.8%	3.2%	3.0%	3.3%
Chile	5.5%	4.0%	1.9%	2.3%	1.6%	1.5%	2.6%	2.9%	3.0%
Peru	6.2%	5.8%	2.4%	3.2%	3.9%	2.6%	4.0%	4.2%	4.0%
Spain	-2.9%	-1.7%	1.4%	3.4%	3.3%	3.1%	2.5%	2.2%	2.3%
Mexico	4.0%	1.4%	2.3%	2.6%	2.3%	2.1%	2.2%	2.4%	2.4%
Caribbean	2.8%	4.7%	7.6%	7.0%	6.6%	5.3%	4.7%	4.5%	4.5%
Colombia	4.0%	4.9%	4.4%	3.1%	2.0%	1.7%	2.6%	3.0%	3.3%
Total weighed GDP	**2.2%**	**1.8%**	**0.4%**	**0.8%**	**-0.6%**	**1.7%**	**2.8%**	**2.8%**	**3.1%**

Source: JB Capital Markets and Bloomberg

We have approached Ezentis' estimates on the basis of three components per country, in turn based on local GDP and CPI growth, FX and inorganic growth. We have also applied a 5pp spread to the GDP+CPI element in order to reflect the group's historically superior performance.

With regard to FX, the table below shows our estimates of future average rates.

Forex assumptions

Currencies	2013	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
USD/€	1.33	1.33	1.11	1.11	1.17	1.20	1.24	1.25	1.26
BRL/USD	2.16	2.36	3.34	3.48	3.19	3.28	3.40	3.59	3.74
ARS/USD	5.47	8.12	9.26	14.78	16.53	18.85	21.26	22.32	23.44
CLP/USD	495	571	655	676	649	632	635	645	664
PEN/USD	2.70	2.84	3.19	3.37	3.26	3.28	3.27	3.30	3.45
COP/USD	1868	2002	2749	3052	2951	3017	3051	3130	3309
MXN/USD	12.76	13.31	15.88	18.69	18.86	18.98	19.18	20.09	20.90
BRL/€	2.86	3.13	3.71	3.86	3.72	3.94	4.20	4.49	4.72
ARS/€	7.27	10.79	10.29	16.40	19.29	22.67	26.31	27.90	29.59
CLP/€	657.74	758.53	726.83	750.42	757.30	759.98	786.12	805.83	837.67
PEN/€	3.59	3.77	3.54	3.74	3.81	3.94	4.05	4.12	4.36
COP/ €	2481.83	2659.28	3051.62	3386.73	3444.40	3627.34	3775.92	3912.92	4177.61
MXN/€	16.95	17.69	17.63	20.74	22.01	22.83	23.74	25.12	26.38
BRL/€	-12.5%	-8.5%	-15.6%	-4.0%	3.8%	-5.6%	-6.2%	-6.5%	-4.8%
ARS/€	-19.6%	-32.6%	4.9%	-37.3%	-15.0%	-14.9%	-13.8%	-5.7%	-5.7%
CLP/€	-5.0%	-13.3%	4.4%	-3.1%	-0.9%	-0.4%	-3.3%	-2.4%	-3.8%
PEN/€	-5.6%	-4.8%	6.7%	-5.6%	-1.6%	-3.4%	-2.8%	-1.7%	-5.4%
COP/ €	-6.9%	-6.7%	-12.9%	-9.9%	-1.7%	-5.0%	-3.9%	-3.5%	-6.3%
MXN/€	-0.3%	-4.2%	0.3%	-15.0%	-5.8%	-3.6%	-3.8%	-5.5%	-4.8%
Weighed FX	**-28.2%**	**-13.4%**	**-3.5%**	**-14.7%**	**-1.6%**	**-4.9%**	**-5.7%**	**-4.2%**	**-4.3%**

Source: JB Capital Markets

With regard to intake in future years, we anticipate more moderate performance in the short term, given the large inflow in 2016 which should resume at the end of 2018 and especially in 2019. In terms of inorganic growth, we are only incorporating the recently announced CyS deal (incorporated in mid-2017) and the Tecnet acquisition in December 2016. Hence, we are considering no other inorganic deals, as we believe that the group would rely on additional equity financing in order to accomplish its inorganic aspirations.

Therefore we have included no further acquisitions in our estimates, offering in this sense a view of the group's current consolidation scope.

The table below shows our estimates of top-line performance in coming years, based on the aforementioned assumptions.

Future sales performance

	2013	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Total sales	**148.8**	**257.3**	**303.6**	**316.5**	**395.7**	**443.7**	**474.2**	**514.1**	**554.8**
Brazil	0	78	96	121	137	145	153	162	174
Argentina	65.0	71.8	75.7	56.3	66.4	73.6	77.8	87.5	96.3
Chile	35.2	43.7	56.4	64.1	95.2	104.9	113.0	122.9	132.1
Peru	24.2	32.9	37.8	31.0	33.8	36.5	39.8	43.8	46.6
Spain	14.9	20.3	25.6	28.8	31.7	34.6	37.7	41.1	44.9
Mexico	0.0	0.0	0.0	0.0	15.0	31.0	33.1	34.8	36.7
Caribbean	4.7	8.6	6.9	6.0	6.8	7.7	8.7	9.9	11.2
Colombia	0.0	1.9	4.6	8.4	9.2	9.7	10.5	11.3	11.9
Others	4.8	0.5	0.3	0.6	0.6	0.6	0.6	0.7	0.7
Breakdown									
Brazil	0.0%	30.1%	31.7%	38.3%	34.6%	32.7%	32.3%	31.5%	31.4%
Argentina	43.7%	27.9%	24.9%	17.8%	16.8%	16.6%	16.4%	17.0%	17.4%
Chile	23.7%	17.0%	18.6%	20.3%	24.1%	23.7%	23.8%	23.9%	23.8%
Peru	16.2%	12.8%	12.5%	9.8%	8.5%	8.2%	8.4%	8.5%	8.4%
Spain	10.0%	7.9%	8.4%	9.1%	8.0%	7.8%	7.9%	8.0%	8.1%
Mexico	0.0%	0.0%	0.0%	0.0%	3.8%	7.0%	7.0%	6.8%	6.6%
Caribbean	3.1%	3.3%	2.3%	1.9%	1.7%	1.7%	1.8%	1.9%	2.0%
Colombia	0.0%	0.7%	1.5%	2.7%	2.3%	2.2%	2.2%	2.2%	2.1%
Others	3.3%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total sales growth	**-6.0%**	**72.9%**	**18.0%**	**4.2%**	**25.0%**	**12.1%**	**6.9%**	**8.4%**	**7.9%**
Organic	22.2%	47.4%	18.4%	18.1%	14.1%	13.0%	12.6%	12.6%	12.2%
Currency	-28.2%	-13.4%	-3.5%	-14.7%	-1.6%	-4.9%	-5.7%	-4.2%	-4.3%
Inorganic	0.0%	38.9%	3.1%	0.8%	12.6%	4.1%	0.0%	0.0%	0.0%

Source: JB Capital Markets

Breakdown by country

	2016	2017e	2018e	2019e	2020e	2021e
Brazil	**121.2**	**137.0**	**145.0**	**153.0**	**162.0**	**174.3**
Incr. YoY	**25.8%**	**13.0%**	**5.8%**	**5.5%**	**5.9%**	**7.6%**
Organic	29.9%	9.2%	11.4%	11.7%	12.4%	12.4%
Forex	-4.0%	3.8%	-5.6%	-6.2%	-6.5%	-4.8%
Inorganic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Argentina	**56.3**	**66.4**	**73.6**	**77.8**	**87.5**	**96.3**
Incr. YoY	**-25.6%**	**17.8%**	**10.9%**	**5.7%**	**12.5%**	**10.0%**
Organic	11.7%	32.8%	25.8%	19.5%	18.3%	15.8%
Forex	-37.3%	-15.0%	-14.9%	-13.8%	-5.7%	-5.7%
Inorganic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Chile	**64.1**	**95.2**	**104.9**	**113.0**	**122.9**	**132.1**
Incr. YoY	**13.8%**	**48.4%**	**10.2%**	**7.7%**	**8.8%**	**7.4%**
Organic	11.6%	8.8%	10.6%	11.0%	11.3%	11.3%
Forex	-3.1%	-0.9%	-0.4%	-3.3%	-2.4%	-3.8%
Inorganic	5.3%	40.5%	0.0%	0.0%	0.0%	0.0%
Peru	**31.0**	**33.8**	**36.5**	**39.8**	**43.8**	**46.6**
Incr. YoY	**-18.0%**	**9.0%**	**8.1%**	**9.0%**	**10.0%**	**6.4%**
Organic	-12.4%	10.6%	11.5%	11.8%	11.8%	11.8%
Forex	-5.6%	-1.6%	-3.4%	-2.8%	-1.7%	-5.4%
Inorganic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Spain	**28.8**	**31.7**	**34.6**	**37.7**	**41.1**	**44.9**
Incr. YoY	**12.6%**	**10.1%**	**8.9%**	**8.9%**	**9.3%**	**9.3%**
Organic	12.6%	10.1%	8.9%	8.9%	9.3%	9.3%
Forex	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inorganic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mexico	**0.0**	**15.0**	**31.0**	**33.1**	**34.8**	**36.7**
Incr. YoY	**n.m.**	**n.m.**	**110.1%**	**6.9%**	**4.9%**	**5.6%**
Organic	n.m.	n.m.	11.1%	10.7%	10.4%	10.4%
Forex	n.m.	n.m.	-7.7%	-3.8%	-5.5%	-4.8%
Inorganic	n.m.	n.m.	106.7%	0.0%	0.0%	0.0%
Caribbean	**6.0**	**6.8**	**7.7**	**8.7**	**9.9**	**11.2**
Incr. YoY	**-13.1%**	**13.4%**	**13.6%**	**13.4%**	**13.4%**	**13.4%**
Organic	-13.4%	13.4%	13.6%	13.4%	13.4%	13.4%
Forex	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Inorganic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Colombia	**8.4**	**9.2**	**9.7**	**10.5**	**11.3**	**11.9**
Incr. YoY	**82.5%**	**9.3%**	**6.0%**	**7.3%**	**7.9%**	**5.1%**
Organic	92.4%	11.0%	11.0%	11.2%	11.5%	11.5%
Forex	-9.9%	-1.7%	-5.0%	-3.9%	-3.5%	-6.3%
Inorganic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: JB Capital Markets

The group's guidance suggests €600m to €700m in sales in 2020, with growth (+20-25% annually) equally divided between organic and expansion. Therefore, with €396m as the 2017 starting base, Ezentis is anticipating €127m in incremental growth of organic sales, which is closely in line (slightly above our estimates of €514m in 2020 sales). Therefore, our sales estimates point to 11.9% CAGR 2016–2021e based on the group's consolidation scope at this time. The group's other targets include a 10% EBITDA margin and ND/EBITDA of less than 2x.

The table below shows P&L and cash flow estimates for coming years:

P&L and backlog estimates

	2016	1Q17	2Q17	3Q17	4Q17e	2017e	2018e	2019e	2020e	2021e
Backlog	**848**	**1001**	**908**	**793**	**734**	**734**	**604**	**596**	**757**	**719**
	57.2%	94.5%	78.2%	53.3%	-13.5%	-13.5%	-17.7%	-1.4%	27.0%	-4.9%
New contracts	671.9	168.1	22.9	8.7	70	270	350	500	700	550
Production	46%	0%	0%	0%	0%	50%	66%	79%	76%	75%
FX in backlog	-46.5	80.4	-20.4	-23.2	-25	11.8	-36	-34	-25	-33
Backlog/sales	2.7	2.5	2.3	2.0	1.9	1.9	1.4	1.3	1.5	1.3
Sales	**316.5**	**96.3**	**95.0**	**100.2**	**104.1**	**396**	**444**	**474**	**514**	**555**
Incr YoY	4.2%	48.8%	32.7%	28.1%	2.2%	25%	12.1%	6.9%	8.4%	7.9%
COGS	-58.9					-73.2	-81.0	-86.5	-93.8	-101.3
Gross margin	**257.6**					**322.5**	**362.7**	**387.6**	**420.2**	**453.5**
GM (%)	81.4%					81.5%	81.8%	81.8%	81.8%	81.8%
Personnel expenses	-143.8					-179.6	-200.5	-213.4	-230.3	-248.6
Other expenses	-81.4					-108.5	-120.6	-128.2	-138.1	-148.5
EBITDA	**32.4**	**7.3**	**7.6**	**9.2**	**10.3**	**34.4**	**41.6**	**46.1**	**51.8**	**56.5**
EBITDA mg (%)	10.2%	7.6%	8.0%	9.1%	9.9%	8.7%	9.4%	9.7%	10.1%	10.2%
Incr. (%)	33%	21%	-13%	-38%	-38%	6%	21%	11%	13%	9%
Amortisations and provisions	-8.1	-2.3	-2.2	-2.1	-2.1	-8.7	-8.4	-8.2	-8.3	-8.5
PPAs	-1.8	-0.6	-0.6	-0.5	-0.5	-2.2	-2.0	-2.0	-2.0	-2.0
EBIT	**22.5**	**4.4**	**4.8**	**6.5**	**7.7**	**23.5**	**31.2**	**35.8**	**41.5**	**46.0**
EBIT mg (%)	7.1%	4.6%	5.1%	6.5%	7.4%	5.9%	7.0%	7.6%	8.1%	8.3%
Incr. (%)	58%	23%	-24%	12%	16%	5%	33%	15%	16%	11%
Financial exp	-11.5	-3.4	-3.0	-3.4	-3.2	-13.1	-11.2	-9.2	-7.7	-6.3
Structural fin exp	-8.7	-2.5	-2.5	-3.1	-2.5	-10.5	-14.9	-4.3	-4.0	-3.7
Ex rate and chg fin instr	-0.4	0.0	-0.7	0.7	-1.0	-1.0	0	0	0	0
Fin exp total	*-20.6*	*-5.9*	*-6.2*	*-5.8*	*-6.7*	-24.6	*-26.0*	*-13.5*	*-11.7*	*-10.0*
Equity accounted	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0
Extraordinary earnings	-0.7	-0.4	-0.4	-2.3	0.0	-3.1	0	0	0	0
PBT	**1.1**	**-1.8**	**-1.8**	**-1.5**	**1.0**	**-4.2**	**5.1**	**22.3**	**29.8**	**36.0**
Taxes	-0.4	0.3	1.0	-0.7	-0.3	0.3	-1.5	-6.7	-8.9	-10.8
Minorities	0.1	-0.1	0.1	0.0	0.0	-0.1	0.1	0.4	0.5	0.6
Discont operations	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0
Net attrib profit	**0.9**	**-1.7**	**-0.7**	**-2.2**	**0.7**	**-4.0**	**3.7**	**16.0**	**21.4**	**25.9**

Source: JB Capital Markets

Financial expenses estimates

	3Q17	4Q17e	17e	18e	19e	20e	21e
ND	**107.3**	**99.2**	**99.2**	**91.2**	**80.2**	**64.4**	**44.2**
Total debt BS	**118.2**	**113.8**	**113.8**	**105.8**	**94.8**	**79.1**	**58.9**
Highbridge/Banks	82.7	74.7	74.7	74.7	69.2	63.6	58.1
Rest debt	35.6	39.2	39.2	31.2	25.7	20.2	14.7
Non recourse factoring debt (off balance)	18.6	9.6	9.6	10.8	11.5	12.5	13.5
Rates (%) incl non recourse factoring/ex accrued fee/exExRate	-15.8	-16.3	-16.8	-16.8	-12.1	-11.8	-12.2
Rates (%) incl non recourse factoring	-16.7	-20.6	-19.5	-21.7	-12.1	-11.8	-12.2
Rates (%) on BS gross debt	-19.4	-23.1	-22.2	-23.7	-13.5	-13.5	-14.4
Highbridge/Banks	9.6	9.0	9.0	9.0	6.0	6.0	6.0
Rest Debt	32.5	30.0	29.5	28.0	28.0	28.0	28.0
Non recourse factoring debt	13.0	12.6	15.7	13.0	11.0	11.0	11.0
Financial expenses	**-5.8**	**-6.7**	**-24.6**	**-26.0**	**-13.5**	**-11.7**	**-10.0**
Financial expenses	-3.4	-3.2	-13.1	-11.2	-9.2	-7.7	-6.3
Rest debt	-2.8	-2.8	-10.8	-9.9	-8.0	-6.4	-4.9
Non recourse debt	-0.6	-0.4	-2.3	-1.3	-1.2	-1.3	-1.4
Structural financial esp	-3.1	-2.5	-10.5	-14.9	-4.3	-4.0	-3.7
Highbridge/Banks	-2.0	-2.1	-8.0	-9.0	-4.3	-4.0	-3.7
Accrued fee	-1.1	-0.4	-2.5	-5.9	0.0	0.0	0.0
Ex Rate and chg fin instr	0.7	-1.0	-1.0	0.0	0.0	0.0	0.0

Source: JB Capital Markets

CF estimates

	2016	1Q17	2Q17	3Q17	4Q17e	2017e	2018e	2019e	2020e	2021e
NP	0.9	-1.7	-0.7	-2.2	0.7	-4.0	3.7	16.0	21.4	25.9
Amortisations + PPAs	9.9	2.9	2.8	2.6	2.6	10.9	10.4	10.2	10.3	10.5
FFO	**10.8**	**1.1**	**2.1**	**0.4**	**3.3**	**6.9**	**14.1**	**26.3**	**31.7**	**36.4**
WC	-4.4	-3.6	-2.7	-0.9	1.5	-5.7	2.4	-3.0	-3.7	-3.7
Capex maint + organic	-13.1	-2.5	-0.4	-0.3	-5.7	-8.9	-10.0	-10.7	-11.6	-12.5
Capex inorganic	-4.8	0.0	-3.0	0.0	0.0	-3.0	0.0	0.0	0.0	0.0
Taxes Accrued	0.4	-0.3	-1.0	0.7	0.3	-0.3	1.5	6.7	8.9	10.8
Taxes Paid	-1.1	0.3	1.0	-0.7	-1.5	-0.9	-0.5	-2.3	-3.1	-3.8
Fin Exp Accrued	20.6	5.9	6.2	5.8	6.7	24.6	26.0	13.5	11.7	10.0
Fin Exp Paid	-19.8	-0.8	-1.4	-5.5	-13.5	-21.2	-20.0	-13.5	-11.7	-10.0
Others	-5.9	-3.6	-10.1	1.7	0.0	-12.0	-5.5	-5.9	-6.4	-6.9
FCF	**-17.3**	**-3.5**	**-9.3**	**1.2**	**-8.9**	**-20.5**	**8.0**	**11.0**	**15.8**	**20.2**
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital increase	0.0	0.0	0.0	0.0	29.7	29.7	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	-12.6	-12.6	0.0	0.0	0.0	0.0
CF for debt service	**-17.3**	**-3.5**	**-9.3**	**1.2**	**8.1**	**-3.5**	**8.0**	**11.0**	**15.8**	**20.2**
FCF ex inorg	**-12.5**	**-3.5**	**-6.3**	**1.2**	**-8.9**	**-17.5**	**8.0**	**11.0**	**15.8**	**20.2**
ND Reported	95.7	99.2	108.5	107.3	99.2	99.2	91.2	80.2	64.4	44.2
ND/EBITDA	3.0	2.9	3.3	3.2	2.9	2.9	2.2	1.7	1.2	0.8

Source: JB Capital Markets

As we have seen, we anticipate +11.7% EBITDA CAGR during 2016–2021, with favourable performance of margins amounting to 8.7% in 2017, 9.4% in 2018, 9.7% in 2019, 10.1% in 2020 and 10.2% in 2021e, which would meet the group's 10.0% mid-term target.

With regard to the financial estimates, we have factored into our numbers anticipated debt refinancing expected to take place in 2H18, which should have a full positive impact on 2019 accounts. In this regard, the group has already pointed out the interest of several financial institutions in providing financing in order to replace the current Highbridge bullet. In this sense, the group has already indicated in a regulatory filing a targeted 6% interest cost vs. the current 9% target. Therefore, the potential agreement would result in lower financial expenses, together with a non-cash charge of €5.9m derived from the expected accrued fees at the end of 2017 as well as an estimated charge of €2.2m related to the early bullet amortisation deriving from a 3% cancellation fee. Therefore, in terms of P&L, 2018 will likely include one-offs that should provide a much clearer view in 2019.

In terms of cash flow, we must point out a €17.1m reduction of net debt in 4Q17 (on top of the €29.7m cash inflow). This is the result of the recent capital increase following the expected €9m reduction of the non-recourse factoring line, and because of the reloading of the non-disposable cash line with €3.6m. Therefore, of total subscribed funds, €10m will be put toward early amortisation of the current HPS financing and €9m toward the aforementioned nonrecourse line.

With regard to the "others" entry within CF, the items mainly correspond to non-cash components (such as works for own assets, etc.) that we estimate to be 1.25% of sales going forward (i.e. €-6.2m average during 2018–21).

Also worth noting is the **trend of improvement seen in the group's FCF ex inorganic growth** in recent years. This was brought on by increased operating profitability and by improvement in funds from operations. In this respect, the group has achieved a substantial reduction in cash consumption in recent years (ex inorganic growth), from €-32.1m in 2013, to €-30.8m in 2014, followed by €-11.4m in 2014 and €-12.5m in 2016. Hence, we expect to see a positive swing in 2018 which should become more tangible toward 2019 after the potential agreement with financial institutions and should the cost of current financing debt be reduced from 16.8% to 12%. In this respect, we believe that said refinancing will be the group's most relevant milestone throughout 2018, as we think it could convey further opportunities outside of the constraints of the Highbridge financing agreement.

PEER MULTIPLES

Ezentis' peers may be categorised in two different groups that comprise US O&M service providers and European operators. In fact, no other listed company has Ezentis' LatAm exposure, which makes it a unique alternative to play anticipated O&M sector growth and offers clear scarcity value for investors.

The following is a summary of the businesses and activities of Ezentis' main listed peers, followed by comparable multiples and operating metrics.

Quanta Services (US) provides specialty contracting services, offering infrastructure solutions to electric power, natural gas, and oil pipeline industries. It is engaged in the design, installation upgrade, repair and maintenance of infrastructures within each of the industries it serves, such as electric power transmission and distribution networks, substation facilities, renewable energy facilities and pipeline transmission, gathering and distribution systems and facilities. It posted €7,262m in sales in 2016 and has a total workforce of 28,100 employees. Its business is generated mainly in North America (94.8% of sales).

Mastec (US) is a contractor that engineers, procures, constructs and maintains the infrastructures that enable electric transmission and distribution, oil and natural gas pipelines and communications companies to facilitate the production and delivery of their products from the source to their customers. From extra high voltage transmission lines and cross continental oil and natural gas pipelines, to renewable energy, wireless towers and microwave backhaul systems, the company's industry expertise allows it to provide end-to-end services. It generated €4,858m in sales in 2016 in the US and has a workforce of 15,400 employees.

SPIE (FR) is a multi-technical services provider in the areas of energy and communications. SPIE provides its customers with support to design, build, operate and maintain energy-efficient and environmentally friendly facilities. With 38,000 employees working at nearly 600 sites in 38 countries, SPIE achieved in 2016 €5.1 billion in consolidated revenues and €352 million in consolidated EBITA**.** Its business is generated mainly in Europe (71.6% of sales), followed by ROW (15.6%), North America (9.4%) and LatAm (3.4%).

Bilfinger (GR) is an international industrial services provider. Its portfolio covers the whole of the value chain, including consulting, engineering, manufacturing, assembly, maintenance, plant expansion and turnarounds, and also covers environmental technologies and digital applications. The company delivers its services in two business segments: engineering and technologies as well as maintenance, modifications and operations. Bilfinger recorded €4,249m in 2016 revenues (with a workforce of 37,000 employees) generated in Europe (77.1%), North America (10.7%), ROW (8.4%) and LatAm (3.8%).

Bravida (SW) is a multi-technical service provider for buildings and plants in the Nordic countries (100% of its €1,561m 2016 revenues). Bravida installs and upgrades technical systems in all types of properties and facilities. The group is also involved in energy optimisation and coordinated installations. Bravida has a workforce of 9,700 employees.

Caverion (FI). Caverion designs, builds, operates and maintains intelligent and energy-efficient solutions for buildings, industries and infrastructures. The group is structured in two business units: Projects and Services. With a workforce of 16,500 employees in 12 countries, Caverion generated €2,364m in 2016 revenues in northern, central and eastern Europe.

Eltel (SW) is a northern European provider of technical services for critical infrastructure networks (Infranets) in the segments of power, communication and other. Eltel provides a broad and integrated range of services, spanning from maintenance and upgrade services to project deliveries. In 2016, Eltel's net sales amounted to €1.4bn, with a workforce comprised of 8,400 employees. With operations throughout Nordic countries, Poland and Germany, it generated 95.5% of its sales in Europe.

Comparable multiples

	Ctry	Pr. €/Sh	Mkt Cap (€m)	P/E (x) 17e	18e	19e	EV/EBITDA (x) 17e	18e	19e	DvdYield (x) 17e	18e	19e	EPS gr (%) 17e	18e	19e
US O&M	**US**		**8,529**	**18.5**	**15.7**	**13.9**	**8.7**	**7.4**	**6.3**	**0.0**	**0.0**	**0.0**	**24.4**	**17.9**	**13.4**
Quanta Services, Inc.	US	33.53	5,187	20.2	15.9	14.0	9.5	7.7	6.7	0.0	0.0	0.0	16.1	27.1	13.5
MasTec, Inc.	US	40.38	3,342	16.9	15.6	13.8	7.9	7.1	6.0	0.0	0.0	0.0	32.6	8.7	13.3
European O&M	**WE**		**8,270**	**19.1**	**18.6**	**14.3**	**17.8**	**9.8**	**7.9**	**1.9**	**2.6**	**2.9**	**51.6**	**22.5**	**28.4**
SPIE SA	FR	22.33	3,441	16.0	13.8	12.7	10.8	9.3	8.5	2.5	2.9	3.2	9.4	15.7	8.9
Bilfinger SE	GR	37.29	1,649		30.0	19.4	19.8	9.6	6.5	2.7	2.7	2.7	n.m.	n.m.	55.0
Bravida Holding AB	SW	5.83	1,175	15.0	13.5	12.7	12.6	11.1	10.2	2.6	3.0	3.2	9.5	10.6	6.7
Caverion Oyj	FI	6.43	808		15.0	12.9	34.1	8.4	6.8	0.0	3.7	4.7	-94.7	n.m.	16.3
Eltel AB	SW	2.81	440		20.8	12.5		11.5	7.9	0.0	1.8	3.4	312.5	n.m.	66.7
Global Dominion Access SA	SP	4.48	759	26.3	18.7	16.0	11.5	8.8	7.7	0.0	0.0	0.0	21.4	41.2	16.7
Avg ex Ezentis	**US/WE**		**16,799**	**18.8**	**17.2**	**14.1**	**13.2**	**8.6**	**7.1**	**1.0**	**1.3**	**1.4**	**38.0**	**20.2**	**20.9**
Ezentis Factset	SP	0.602	178	41.4	13.8	9.5	7.0	5.7	4.8	0.0	0.0	0.0	229.5	199.6	45.9
Ezenits JBCM	SP	0.602	178	-44.6	48.1	11.3	8.1	6.5	5.7	0.0	0.0	0.0	n.m.	n.m.	325.0

Source: Factset and JB Capital Markets. Prices as of 8.12.17

Comparable financial metrics

	Ctry	Pr. €/Sh	Mkt Cap €m	EBITDA Mg (%) 17e	18e	19e	ND/EBITDA (x) 17e	18e	19e	Capex/Sales (%) 17e	18e	19e
US O&M	**US**		**8,529**	**8.6**	**9.1**	**9.7**	**1.1**	**0.7**	**0.4**	**2.1**	**2.2**	**2.2**
Quanta Services, Inc.	US	33.53	5,187	7.2	8.1	8.6	0.5	0.2	0.0	2.6	2.5	2.4
MasTec, Inc.	US	40.38	3,342	10.0	10.2	10.7	1.6	1.2	0.7	1.6	1.9	1.9
European O&M	**WE**		**8,270**	**3.9**	**5.8**	**6.5**	**-1.2**	**0.7**	**0.2**	**1.5**	**1.3**	**1.1**
SPIE SA	FR	22.33	3,441	7.1	7.3	7.5	3.0	2.3	1.9	0.7	0.7	0.6
Bilfinger SE	GR	37.29	1,649	1.9	3.9	5.3	-2.7	-0.9	-1.0	2.4	1.8	1.9
Bravida Holding AB	SW	5.83	1,175	6.4	6.6	6.7	1.9	1.4	0.9	0.1	0.1	0.1
Caverion Oyj	FI	6.43	808	1.2	4.3	4.9	4.1	0.4	-0.2	0.7	0.9	1.0
Eltel AB	SW	2.81	440	-0.9	3.9	5.4	-11.8	2.3	1.1	1.0	1.0	1.0
Global Dominion Access SA	SP	4.48	759	7.9	8.7	9.0	-1.6	-1.3	-1.6	4.0	3.0	2.0
Avg ex Ezentis	**US/WE**		**16,799**	**6.3**	**7.5**	**8.1**	**-0.1**	**0.7**	**0.3**	**1.8**	**1.7**	**1.6**
Ezentis Factset	SP	0.60	178	9.3	10.0	10.3	2.3	1.7	1.2	1.5	1.4	1.3
Ezentis JBCM	SP	0.60	178	8.7	9.4	9.7	2.9	2.2	1.7	3.0	2.3	2.3

Source: Factset and JB Capital Markets. Prices as of 8.12.17

Regarding peer multiples, it is worth noting that the P/E and EV/EBITDA of European companies are higher than those of US-based companies (18.6x P/E2018 and 9.8x EV/EBITDA2018 vs. 15.7x P/E, 7.4x EV/EBIDTA, respectively). We think this is attributable to brighter prospects of growth in Europe and an average 2.5% dividend yield during 2017–2019 vs. zero dividends from US service providers. Conversely, we must point out the broader margins of US operators (9.1% EBITDA 2018 vs. 5.8% for European operators) as well as their increased capex needs (2.2% 2018) vs. European companies (1.3%).

The fact that there is no clear geographical fit between Ezentis and its peers distorts any comparison of multiples. In this sense, Ezentis is trading at 6.5x EV/EBITDA 2018 vs. US/WE 8.6x, which may be attributable to the perceived higher risk of its LatAm activities. In any case, we believe that such a difference is not justifiable given the stronger growth prospects of Ezentis, in addition to its superior margins, which are positioned at the forefront in terms of profitability (except for Mastec), reaching nearly 9.4% in 2018 in our numbers vs. 7.5% on average for its peers. Therefore, we would not expect to see closing of the huge gap in multiples but rather significant narrowing, once the group contains its above-average indebtedness (2.2x ND/EBITDA 2018 vs. 0.7x for peers).

VALUATION

Our year-end 2018 valuation is based on a sum-of-the-parts of the businesses in its different regions. In this respect, we have worked on a per-country DCF based on 1.5x ND/EBITDA targeted leverage together with current 10-year bond yields for the explicit forecast period 2018–2021 (10.8% average WACC). We have also applied a terminal value WACC at normalized 10-year bond rates (average WACC TV 11.3%). In terms of terminal growth rates, we have considered GDP terminal forecast period rates with an average outcome of 2.9%.

The aforementioned variables, together with our forecasts, yields a total EV of €475m, from which we deduct our estimates of €102m net debt in 2018, provisions (€31m) and other elements, such as our forecast of non-cash elements within CF (€33m valued at 6x). We have also applied estimated corporate headquarters NPV expenses not included in reported EBITDA per region (2% of 2018 sales at 6x).

With regard to the total number of shares, we have taken into consideration the figure of 241.9 million shares before the recent capital increase, together with 52.97 million shares issued and the estimated 6.4m shares to be issued from recent corporate transactions. This results in 301.3 million fully diluted shares and a 2018 target price of €0.85/share.

In view of this and the 56% upside potential, our recommendation is Buy. It is worth noting that the stock is trading at a discount vs. the TERP value set at the time of the recent capital increase, which was set at €0.63/share (€0.56/share issuance price). Additionally, we believe that the anticipated deleveraging should produce a re-rating more in line with the group's European peers. Furthermore, we believe the expected 6.4% FCF/EV 2020 (4.2% 2019) and the 8.7% FCF/Equity in 2020 (6.1% 2019) are reasons to invest in the stock.

SOTP valuation

	% sales 2018	EV	WACC	WACC TV	g
Brazil	32.7%	72	13.2%	13.8%	3.0%
Argentina	16.6%	56	17.5%	15.6%	3.3%
Chile	23.7%	195	9.4%	9.5%	3.0%
Peru	8.2%	62	10.1%	10.3%	4.0%
Spain	7.8%	46	5.7%	8.3%	2.3%
Mexico	7.0%	7	10.5%	8.4%	2.4%
Caribe	1.7%	32	11.3%	11.8%	4.5%
Colombia	2.2%	4	10.9%	11.2%	3.3%
Total EV		**475**	**10.8%**	**11.3%**	**2.90%**
ND 2018		**-102**			
Provisions		-31			
Others (CF non cash elements)		-33			
Others (Corporate HQ)		-53			
Equity		**256**			
no. shares pre rights issue		241.9			
no. shares of rights issue		53.0			
no. sh. pending issuance (recent acq)		6.4			
no. sh. fully diluted		**301.3**			
€/share		**0.85**			
Price		0.60			
Upside		**41%**			

Source: JB Capital Markets

We have also performed a **back-of-the-envelope valuation** in order to assess current market expectations of the group's future order intake. Therefore, we provide the following value in order to have a reference based on normalised parameters and we split the value derived from the current backlog and the value of the ongoing business based on its future order intake.

Therefore, we value the current backlog of €734m (2017e) at €0.13/share. The main assumptions behind said value correspond to a 9.4% EBITDA margin (the expected margin for 2018) as well as 2% Capex/sales, a 20% tax rate and a 1% WC/sales investment.

Separately, we have considered an average order intake for a normalised period (2018–2021), which reaches an average of €525m (vs. expected 2017 sales of €396m), according to our calculations. In this case, we have considered a normalised 10.0% EBITDA margin, as well as the same aforementioned assumptions for Capex, taxes and WC. In this case, we have applied a normalised yield of 7.9% to FCF, which is in line with 11.1% WACC (average of explicit period and terminal WACC), as well as an average terminal growth rate of 2.9%. In this case, we reach a €422m EV, from which we deduct provisions and non-CF items, which reveals a €0.72/share future order intake valuation (€1.06/share EV - €0.34/share ND), and a total aggregate value of €0.85/share (backlog+order intake).

Backlog and order intake valuation

	Backlog	Intake	
€m	734	525	
Sales	734	525	
EBITDA	69	53	
EBITDA mg	9.4%	10.0%	
Capex	-15	-11	
Tax	-11	-8	
WC	-5	-4	
FCF	**38**	**30**	7.9% Yield
Yield		7.9%	12.7x
NPV	**38**	**383**	11.1% WACC
Provisions		-31	2.9% g
Others (CF non cash items)		-33	
Total EV	**38.4**	**319.3**	
#shares out (m)	241.9	241.9	
#shares cap increase (m)	53.0	53.0	
#shares pending release (m)	6.4	6.4	
#shares final (m)	**301.3**	**301.3**	
EV (€/share)	0.13	1.06	
Total EV (€/share)		**1.19**	
ND 2018 (€m)		-102	
ND/share (€/share)		-0.34	
TP (€/share)		**0.85**	

Source: JB Capital Markets

In view of the above analysis, we can conclude that 21.2% of the current market price is due to the group's current backlog (i.e. €0.13/share of €0.60/share). The following tables show analyses of sensitivity to the expected order intake and the EBITDA margin (first table) and to WACC and the terminal growth rate (second table).

Valuation sensitivity to order intake and EBITDA margin

					Order intake (€m)			
		375	425	475	**525**	575	625	675
EBITDA margin (%)	9.3%	0.39	0.50	0.61	0.71	0.82	0.93	1.04
	9.5%	0.42	0.53	0.65	0.76	0.87	0.98	1.09
	9.8%	0.45	0.57	0.69	0.80	0.92	1.04	1.15
	10.0%	0.49	0.61	0.73	**0.85**	0.97	1.09	1.21
	10.3%	0.52	0.64	0.77	0.89	1.02	1.14	1.27
	10.5%	0.55	0.68	0.81	0.94	1.06	1.19	1.32
	10.8%	0.58	0.71	0.85	0.98	1.11	1.25	1.38

Source: JB Capital Markets

Valuation sensitivity to WACC and terminal growth (g)

					WACC			
		9.6%	10.1%	10.6%	**11.1%**	11.6%	12.1%	12.6%
g	1.4%	0.83	0.76	0.69	0.63	0.58	0.53	0.49
	1.9%	0.92	0.83	0.76	0.70	0.64	0.59	0.54
	2.4%	1.02	0.92	0.84	0.77	0.70	0.64	0.59
	2.9%	1.14	1.03	0.93	**0.85**	0.77	0.71	0.65
	3.4%	1.27	1.14	1.03	0.94	0.85	0.78	0.71
	3.9%	1.43	1.28	1.15	1.04	0.94	0.86	0.78
	4.4%	1.62	1.44	1.29	1.16	1.05	0.95	0.87

Source: JB Capital Markets

The two charts below show sensitivity, highlighting the percentage of future order intake valuation that is due to the current market price (depending on different EBITDA margin assumptions in the first table and related to different market prices in the second).

% of future order intake valuation due to current market price

		Order intake						
		375	425	475	**525**	575	625	675
EBITDA margin	9.3%	179.9%	127.6%	98.8%	80.7%	68.1%	59.0%	52.0%
	9.5%	160.6%	116.3%	91.2%	75.0%	63.7%	55.3%	48.9%
	9.8%	145.0%	106.9%	84.7%	70.1%	59.8%	52.1%	46.2%
	10.0%	132.2%	98.9%	79.0%	**65.8%**	56.3%	49.3%	43.8%
	10.3%	121.5%	92.0%	74.0%	62.0%	53.3%	46.7%	41.6%
	10.5%	112.3%	86.0%	69.7%	58.6%	50.5%	44.4%	39.6%
	10.8%	104.5%	80.7%	65.8%	55.5%	48.0%	42.3%	37.8%

Source: JB Capital Markets

% of future order intake valuation due to different market prices with 10.0% EBITDA margin

		Order intake (€m)						
		375	425	475	**525**	575	625	675
Market price (€/share)	0.50	102.9%	77.0%	61.5%	51.2%	43.9%	38.4%	34.1%
	0.53	112.7%	84.3%	67.3%	56.1%	48.0%	42.0%	37.3%
	0.57	122.4%	91.6%	73.2%	60.9%	52.2%	45.6%	40.5%
	0.60	132.2%	98.9%	79.0%	**65.8%**	56.3%	49.3%	43.8%
	0.64	141.9%	106.2%	84.8%	70.6%	60.5%	52.9%	47.0%
	0.67	151.7%	113.5%	90.7%	75.5%	64.6%	56.5%	50.2%
	0.71	161.4%	120.8%	96.5%	80.3%	68.8%	60.2%	53.5%

Source: JB Capital Markets

ANNEX I

Board of directors

Board member	Position	Category	Represents
Guillermo José Fernández Vidal	Chaiman and CEO	Executive	
Enrique Sánchez de León García	Board member	Independent	
Pedro María Azcárate Palacios	Board member	Independent	
Ana María Sánchez Tejada	Board member	Nominee	IDEA Agency
Laura Gómez-Molero	Board member	Independent	
Emma Fernández Alonso	Board member	Independent	
Carmen Gómez de Barreda	Board member	Independent	
Jorge de Casso Pérez	Secretary	n.m.	

Source: Company data

Mr Guillermo José Fernández Vidal

Mr Fernández Vidal studied industrial engineering and holds a degree in computer science. Since 2006, Mr Fernández Vidal has been advisor of Telefónica, counselor of Telefónica O2 Czech Republic, counselor of Telesp in Brazil, Telefónica Spain, and Telefónica Moviles Spain, member of the advisory board of Accenture, of NOKIA Spain and also advisor of Telefónica R & D. Previously, he was a member of the steering committee of Amper, Telefónica in Peru, Telefónica in Chile, TPI, Terra, Telefónica Moviles, Via Digital, Unisource and Portugal Telecom. Additionally, he has held various management positions within the Telefónica group, among others, managing director of business development of affiliate companies and contents, general business director, managing commercial director and general manager of Telefónica in Spain. He was also chairman of Telefónica Systems, CEO of Telefónica Data and assistant to the CEO. Previously, Mr Fernández Vidal also worked at NCR and Entel.

Mr Enrique Sánchez de León

Mr Sánchez de León García holds a degree in economics and business science from the College of Financial Studies (C.U.N.E.F) and a degree in law from the National University of Education at Distance; diploma in financial management and banking, foreign trade and business management for European communities by several institutions. He is currently the managing director of the Association for the Advancement of Management (APD) since 1998, after serving for 10 years as associate to the management of the aforementioned institution. He is also head of Madrid Foundation for Knowledge, (Madrid R&D) board member of the Institute of Counsellors and Administrators, chairman of the Committee of Professional Development from the Institute of Counsellors and Administrators (IC_A), and member of the advisory board of Merco. He is also a consultant of the companies Methodia, Avalon and Cuvitt.

Mr Pedro María Azcárate Palacios

Mr Azcárate Palacios received a degree in economic and business sciences from the Complutense University of Madrid in 1974. He is a member of the Registry of Economists Auditors (REA), of the Official Register of Auditors of Accounts (ROAC) and of the Spanish Association of Accounting and Business Administration (AECA), among other institutions. He has also been a member since 1978 (through competitive examination) of the Institute of Chartered Accountants.

Mr. Pedro María Azcárate Palacios has extensive experience in the supervision, development and completion of audit and consulting projects covering a wide range of organizations and services rendered. In 1974, he joined the Audit division of Bilbao of Andersen. In 1985, he moved to San Sebastian to take charge of this office and that of Pamplona, which would be inaugurated in 1988. In 1994, he rejoined the Bilbao office as managing partner of branches in Navarra, Basque Country, Rioja and Cantabria, where he developed professional relationships with Andersen's main customers (Banco Guipuzcoano, BBVA, BBK, Caja Cantabria, Provincial Councils, Gamesa, Basque Government, Iberdrola, IBV, MCC, etc.) and joined the Andersen Spanish executive committee. During 1998–02 he was chairman of the economic and financial advisory council of the Guggenheim Foundation in Bilbao. In September 2000, he moved to the branch in Madrid as national director, executive officer of the assurance services area (audit, financial advice and transactions and information security) of Arthur Andersen. Since the merger of Deloitte with Arthur Andersen in 2003, he has assumed the same responsibilities in the merged company (Deloitte). Since 2004, he has been a member of the Deloitte Assurance World executive committee.

Until 31 July 2008, he was a member of the executive committee of Deloitte in Spain. During these years, he chaired the risk committee of Deloitte, which oversaw the audits of its main customers (ACS, Banco Santander, BBVA, El Corte Ingles, FCC, Inditex, La Caixa, NH Hotels, Repsol, etc.) In July 2008, Deloitte's statutory retirement took place. Currently, he is a businessman with investments in certain energy-producing companies (photovoltaic), real estate firms and publishers. He is an advisor to several unlisted companies. In addition, he audits an NGO and is vice treasurer and member of the governing council of the Economists Association of Madrid and member of the board of directors of the Register of Economists Auditors (REA) and of the General Council of Economists of Spain.

Ms Ana María Sánchez Tejeda

Ms Sánchez Tejeda has a degree in economics and business administration, a PHD in economics and is member of the Grupo Andaluza of the public finance of the Andalusian Research Programme. Since 1988, she has performed duties as associate professor in the department of applied economics, department of public finance at the faculty of economic sciences of the University of Málaga. She has been associate dean of academic planning at the faculty of economic science (1989–98), dean of the faculty of economic science (1998–03), vice chancellor of faculty of the University of Malaga (2004–08) and vice chancellor of university business relations (2008–12). She is presently Minister of the Economic and Social Council of Andalusia (since 2010) and member of the board of the Andalusian Studies Centre Foundation (since 2001).

Ms Laura González-Molero

Ms Laura González-Molero has over 25 years of experience working in large international corporations in the healthcare and chemical sectors. She began her professional career in 1989 at the pharmaceutical company Roche as a sales rep and assumed responsibilities until reaching the position of commercial director for Spain and Portugal. In 2006, she joined Guerbet as general manager, establishing the company in Spain for business development in this new territory. She has held various positions at Schering Plough and the biotechnological company Serono, where she was in charge of the business in southern and northern Europe. She has successfully led the integration of the German group Merck with Serono, becoming the new CEO of the group in Spain. In December 2011, she was promoted to the position of president in LatAm, based in Brazil. Among the awards and recognition received, it must be pointed out that she was the first woman to receive the award for executives from the Chamber of Commerce of Madrid in 2007. The last award was received in January 2016: "Executive Talent" III Edition CincoDías & Manpower. She is also a board member of the Adecco Foundation and was a member of the National Council of ApD for eight years. Currently, she is an independent director of Viscofan S.L., and Calidad Pascual S.A. At present, she is executive chairwoman of Bayer HealthCare in LatAm, based in the United States. Her extensive experience in markets and continued pursuit of excellence (strengthened in prestigious business schools such as IE, Kelloggs, IMD, INSEAD and Harvard Business School), have led her to become an acknowledged leader in the industry and an expert on strategy and business transformation in corporate governance in Europe and Latin America.

She holds a degree in pharmacy from the Complutense University of Madrid and an executive MBA from IE Business School.

Ms Emma Fernández Alonso

Ms Emma Fernández Alonso is a telecommunications engineer from the Polytechnic University of Madrid, MBA, and global CEO PROGRAM IE, IESE.

She has a proven track record in the fields of information technology, security & defence and transport & traffic. She began her career at Alcatel, moved on to Telefónica and joined Indra in 1991. Indra has been responsible for strategy for 20 years. With the global perspective that comes with this responsibility, she has managed the key intangible assets of this business: innovation and development of new supply, talent management, communication, brand, institutional relations, corporate governance and corporate responsibility. In addition, between 2003 and 2006, she was responsible for M&A and conducted corporate operations that consolidated the leadership of Indra in Spain and strengthened its presence in LatAm. She is a lecturer and writer, and is actively involved in partnerships and initiatives to promote the leadership of women in the business world. She is a telecommunications engineer from the Polytechnic University of Madrid, MBA, and global CEO PROGRAM IE, IESE.

Ms Carmen Gómez de Barreda

Ms Gómez de Barreda has more than 25 years of experience working in large corporations in the energy, oil, gas and electricity sectors, with experience in the private and public spheres. She began her professional career in 1991 in the company Enagás, in the department of cogeneration, as a technician. In 1994 she joined the international division of the Repsol group where she held different positions. In 1999, she joined Unión Fenosa as director of the new business line.

Subsequently, she was appointed deputy director for oil markets by the National Energy Commission (CNE). In 2011, she assumed the position of director of institutional relations and communication of BP OIL Spain, where she was simultaneously a board member of the Association of Operators of Petroleum Products (AOP).

Currently, she is an independent director of Red Eléctrica Corporación, where she also holds the positions of president of the appointments and remuneration committee and independent lead coordinator, as well as a member of the commission for governance and corporate responsibility, which supervises the focus on excellence in corporate governance. She is also general manager of the Strategic Oil Reserves Corporation (CORES).

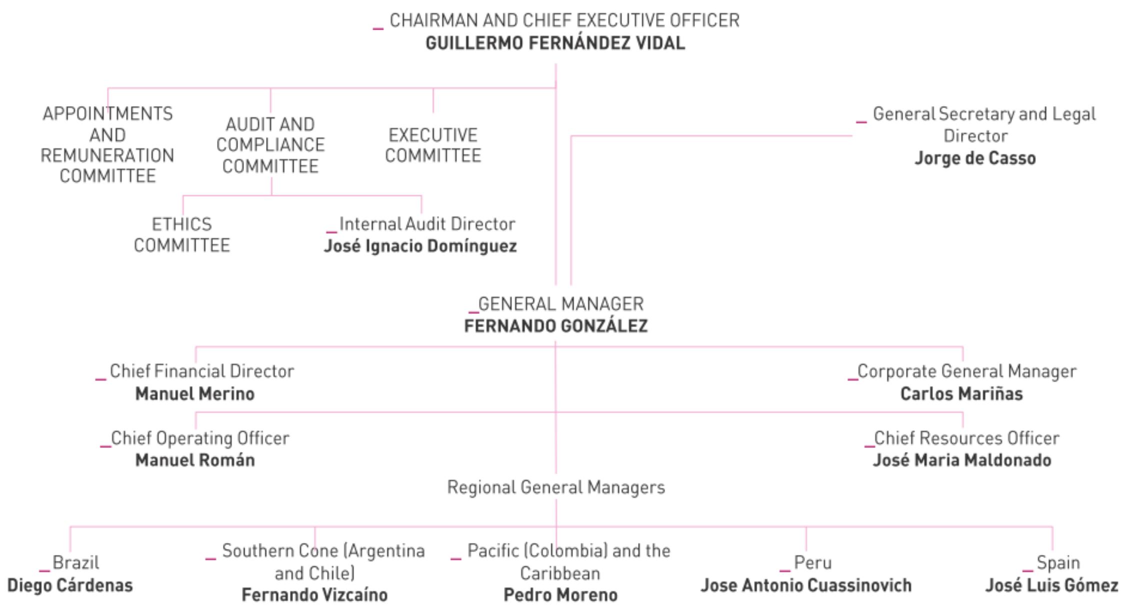
ANNEXII

Management team

Position	Name
Chairman and CEO	Guillermo José Fernández Vidal
Managing Director	Fernando González Sánchez
Internal Audit Director	José Ignacio Domínguez Hernández
Chief Financial Officer	Manuel Merino Lanza
COO	Manuel Román Caroca
Corporate General Director	Carlos Mariñas Lage
Chief Resources Officer	José María Maldonado Carrasco
Chief Corporate Legal Officer	Jorge de Casso Pérez
Regional General Manager Brazil	Diego Cárdenas
Regional General Manager Argentina/Chile	Fenando Vizcaíno Garrido
Regional General Manager Pacific/Caribbean	Pedro Moreno
Regional General Manager Peru	Jose Antonio Cuassinovich
Regional General Manager Spain	José Luis Gómez

Source: Company data

Organisation chart



Source: Company data

The following is a summary of the CVs of the management team:

Mr Guillermo José Fernández Vidal (Chairman and CEO)

Mr Fernández Vidal studied industrial engineering and holds a degree in computer science. Since 2006, he has been advisor of Telefónica, counsellor of Telefónica O2 Czech Republic, counsellor of Telesp in Brazil, Telefónica Spain, and Telefónica Moviles Spain, member of the advisory board of Accenture, of NOKIA Spain and also advisor of Telefónica R&D. Previously, he was a member of the steering committee of Amper, Telefónica in Peru, Telefónica in Chile, TPI, Terra, Telefónica Moviles, Via Digital, Unisource and Portugal Telecom. Additionally, he has held various management positions within the Telefónica Group, among others, managing director of business development, of affiliate companies and contents, general business director, managing commercial director and general manager of Telefónica in Spain. He has also been chairman of Telefónica Systems, CEO of Telefónica Data and assistant to the CEO. Prior to that, he also worked at NCR and Entel.

Mr Fernando González Sánchez (Managing Director)
Bachelor's degree in business administration from the University of Granada and post graduate degree in IE Business School, ESADE and Universidad Pontificia de Salamanca (UPS). He has over 24 years of experience in leading national and international corporations on infrastructure services, transport, tourism and oil and gas sectors, where he held different positions such as CFO and managing director. In 2011, he joined Ezentis, where he currently serves as CEO.

Mr José Ignacio Domínguez Hernández (Internal Audit Director)
Mr Jose Ignacio Dominguez is an executive with over 30 years of professional experience in several fields of private listed multinational companies, such as Fomento de Construcciones y Contratas (FCC Group), with lengthy international experience, specialising in positions of CFO, general manager of internal audit, chief risk officer, compliance officer, and corporate governance with broad experience as an advisor to the board of directors.

His professional experience is supplemented as vice-president economic of Giant Cement Holding in USA, CFO of Multinational Sulzer Group in Spain and Switzerland, audit manager in Price Waterhouse Auditors in Madrid and London, deputy chief financial officer in Spantax Airlines, partner consultant of advisory business in Adea Consultores and currently as corporate director of internal audit in Ezentis Group.
He holds a bachelor's degree in business and economics from Complutense University of Madrid and San Pablo CEU University, master business programme from IESE Business School-Navarra University. He graduated as an official auditor of accounts in Spain (ROAC) and holds an international risk management assurance certificate (CRMA) from the US Institute of Internal Auditors (IIA)

He is an active member of several corporate governance committees, such as Internal Audit Institute Spain, Risk Management Group for IBEX 35, and Normalisation AENOR. He speaks fluent English in addition to Spanish.

Mr Manuel Merino Lanza (Chief Financial Officer)
Mr Manuel Merino has lengthy experience in the financial area for multinational companies of the construction, real estate, industrial, energy and services sectors, including San José Group (2005–16). In this company, he initially held the positions of CFO in the energy sector, Industrial division, then CFO of San Jose Group for the last three years.

He holds a degree in business studies and business administration from the University of Cantabria. He also has an executive MBA from Spain-based Instituto de Empresa.

Mr Manuel Román Caroca (Chief Operating Officer)
Mr Manuel Román Caroca is a civil electrical engineer specialised in electronics and telecommunications, with postgraduate studies in marketing and business management. He has been a founder and managing partner of several companies. He has 28 years of experience in the area of telecommunications in Chile. Of particular note is his knowledge of management teams and his participation in directories of corporations, direction of trade and sell teams in mass consumer, small and medium-sized enterprises, large companies and corporations.

He began his career as a product manager in the company SISTECO SA., and later joined Telefónica Chile, where he held several positions: chief projects division of communications; chief commercial, finance, education and services area, head of Coordination and Monitoring department, head of Marketing department, head of business development, chief commercial controller; head of Presales department, and business centre manager. Entrepreneur, founder and general director of Comservice and Tecnoredes.

In 2005 he was appointed general manager of the company CONSORTIUM RDTC SA, a position that he held until 2013. Currently, he is general director of the Pacific region of EZENTIS Group, SA, headquartered in Santiago de Chile.

Mr Carlos Mariñas Lage (Corporate General Director)
Another of the forward-looking professionals who transformed Telefónica into a global corporation, Mr Mariñas Lage dedicated his career to positioning the telecom provider as a premier vehicle for the delivery of IT services. Much of his career has been associated with Telefónica, where he held positions of responsibility as executive president of Terra Networks Associates (2005–07), CEO of Telefónica International Wholesale Services and member of the steering committee of Telefónica LatAm (2004–05) and CEO of Telefónica Data Spain and member of the steering committee of Telefónica of Spain (1999–03).

He studied computer science at the Polytechnic University of Madrid and holds a diploma in business management and marketing from the Instituto de Empresa. He was in charge of Siemens Business Services, counselor CEO of Siemens Corporate Networks from 1996 to 1999 and member of the steering committee of Siemens Spain.

He arrived at the German company from Entel, where, between 1980 and 1986, he was successively responsible for the technical direction and marketing of the Telefónica subsidiary.

Mr Jose María Maldonado Carrasco (Chief Resources Officer)
With over 25 years of experience in human resources strategic management, Mr Maldonado joined the Ezentis management team after honing his skills at a series of renowned companies: EEIG ERTMS Users Group (European Economic Interest Group European Rail Traffic Management System), where he held the position of financial manager and representing RENFE before the European Commission in Brussels, then director of human resources and labour relations at the ENCE Business Group. In April 2008, he joined the Ezentis Group, where he assumed the post of HR director and resources until his appointment as director general of group resources. He holds a degree in industrial engineering from the School of Forestry Engineering of the Polytechnic University of Madrid and Computer Systems of Pontificia de Salamanca. He holds several MAs such as human resources from the Centre for Financial Studies Madrid (CEF) and an MBA in Company ESADE Business School.

Mr Jorge de Casso Pérez (Chief Corporate Legal Officer)
He has been chief corporate legal officer since February 2006. Mr de Casso Pérez holds a degree in law from the Autonomous University of Madrid and a master’s degree in judicial practice and practice of law from Carlos III University of Madrid.

He has over 15 years of professional experience. Before he joined Ezentis Group, he worked professionally in the Procedural Law department of the firm Ramón & Cajal Abogados. Previously, from September 2000 to March 2003, he worked for the law firm of Mariano Muñoz Bouzo. He has been a practicing member of the Madrid Bar Association since 2000. Mr de Casso holds a law degree from the Autonomous University of Madrid, as well as a masters in legal practice and practice of law by Carlos III University of Madrid.

Mr Diego Cárdenas (Regional General Manager Brazil)
Mr Cárdenas has extensive international experience in business management, integrations, implementation of transversal projects of transformation and management of equipment. For 14 years, he held various positions at Telefónica, including CFO at Telefónica Empresas Brazil and director of management control, investment and planning at the company in Argentina and Brazil, as well as global positions at the corporate headquarters in Spain.

Mr Fernando Vizcaíno Garrido (Regional General Manager Argentina/Chile)
He has 23 years of experience in the world of multinational communication, and specialises in customers, markets and LatAm consumers, with direct responsibility for operations in the following countries: Mexico, Spain, Chile, Argentina, Uruguay.

With extensive training in the management of companies, Mr. Vizcaíno was for 11 years CEO of Euro RSC Argentina and Chile. He was then appointed for a period of four years CEO of Havas WW South Iberoamerica (Spain, Argentina, Chile), and he led the transformation of traditional business operations to the new paradigm of digital companies for all LatAm.
His track record as a leader of businesses is worth noting: he maintained all operations under his responsibility in the first three rankings of industry and achieved double-digit growth for nine consecutive years. In 2009 and 2011, he was named worldwide "Man of The Year" in the Havas network.

He studied information sciences and international marketing at ESIC and a postgraduate course at IMD (Lausanne / Switzerland).

Mr José Luis Gómez (Regional General Manager Spain)
Mr Gómez is a senior telecommunications engineer with over 26 years of experience in the positioning of solutions and services in the sector, in the leading of teams locally and internationally, and in achieving remarkable results in the units he has led as head of Alcatel-Lucent and Nokia, all under the global business and commercial strategy of Telefónica in Europe and LatAm. Previously, he was general manager of Dominion Ingeniería y Tecnología during the period 2001–04 and commercial director of Philips Telecomunicaciones. In 2017, he joined Grupo Ezentis S.A as general director of Spain.

BASIC EQUITY STORY

Company overview and strategy: Ezentis provides services for the operation, maintenance and construction of networks, mainly in the telecommunications (68% of 9M17 sales) and energy industries (25% of 9M17 sales). The group is currently positioned in LatAm, from which it obtains 90.7% of its sales within the aforementioned sectors (9.3% Spanish related). After some years of wielding a blurred strategy, new management strategically focussed the group in 2011 and has begun to reap the benefits of its vision. Ezentis is present in eight regions: Brazil, Argentina, Chile, Peru, Spain, Mexico, Caribbean and Colombia. The group increased in 2016 its backlog to €848m (from €540m the preceding year) and reached a first-in-class 10.2% EBITDA margin. Ezentis plans to double its size in the medium term, combining organic and inorganic growth strategies and keeping a debt ratio of less than 2.0x ND/EBITDA. The group plans to enter a new financing agreement that will reduce its current Highbridge financing.

Valuation and drivers: We have performed a year-end 2018 valuation based on a sum-of-the-parts model applied to its undertakings in different countries. In this respect, we have worked on a per-country DCF valuation based on 1.5x ND/EBITDA targeted leverage, along with current 10-year bond yields for the explicit forecast period 2018–2021 (10.8% average WACC). We have also applied terminal value WACC at normalised 10-year bond rates (average WACC TV 11.3%). In relation to terminal growth rates, we have considered the terminal forecast period GDP rate for each country with an average outcome of 2.9%. We have adjusted our valuation to provisions, non-cash CF items and headquarter costs (not included in the regional EBITDA disclosure of the company). We have also applied a rough valuation in order to gauge the consistency of our DCF-based approach, analysing market expectations in relation to future order intake. In this respect, the current backlog and future order intake valuation suggests that the market is currently anticipating average future intake of c. €420m (below 2018e sales), which we consider to be highly conservative.

Recommendation: In view of this, our recommendation is Buy, target price €0.85/share (December 2018), which constitutes 41% upside potential. At current prices, Ezentis offers an attractive 6.1% and 8.7% FCF/equity yield in 2019 and 2020, respectively. We believe that anticipated forthcoming positive FCF will put the group in the spotlight.

SOTP Valuation

	% sales 2018	EV	WACC	WACC TV	g
Brazil	32.68%	72	13.2%	13.8%	3.0%
Argentina	16.59%	56	17.5%	15.6%	3.3%
Chile	23.65%	195	9.4%	9.5%	3.0%
Peru	8.23%	62	10.1%	10.3%	4.0%
Spain	7.79%	46	5.7%	8.3%	2.3%
Mexico	6.99%	7	10.5%	8.4%	2.4%
Caribbean	1.73%	32	11.3%	11.8%	4.5%
Colombia	2.20%	4	10.9%	11.2%	3.3%
Total EV		**475**	**10.8%**	**11.3%**	**2.90%**
ND 2018		**-102**			
Provisions		-31			
Others (CF non cash items)		-33			
Others (corporate HQ)		-53			
Equity		**256**			
no. shares pre rights issue		241.9			
no. shares of rights issue		53.0			
no. sh. pending issuance (recent acq)		6.4			
no. shares fully diluted		**301.3**			
€/share		**0.85**			
Price		0.60			
Upside		**41%**			

Source: JB Capital Markets

Historical figures and estimates

€m	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Sales	149	257	304	316	396	444	474	514
EBITDA	4	15	24	32	34	42	46	52
EBIT	-1	8	14	22	24	31	36	42
Net profit	-41	-7	-11	1	-4	4	16	21
Fixed assets	89	107	114	132	135	134	136	138
Inventory	5	5	3	6	10	6	7	7
Receivables	52	71	72	103	125	140	149	162
Other assets	1	1	0	0	0	0	0	0
TOTAL ASSETS	147	184	189	241	270	279	292	307
Equity	-12	36	14	11	16	15	18	18
Net debt	60	50	78	96	99	91	80	64
Payables	43	49	49	56	63	68	78	78
Other assets	56	48	48	78	92	105	116	147

Growth rates

%	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Sales	-6.0	72.9	18.0	4.2	25.0	12.1	6.9	8.4
EBITDA	-46.6	245.8	60.3	33.0	6.0	21.0	10.8	12.5
EBIT	-130.0	-769.5	77.5	58.1	4.6	32.6	14.9	15.8
Net profit	110.2	-81.9	46.8	-108.3	-541.6	-192.7	334.3	33.4
Fixed assets	-5.2	20.8	6.8	15.2	2.8	-1.4	1.5	2.0
Working capital	348.0	86.4	-2.6	104.5	35.5	8.7	0.4	16.8
Net debt	4.2	-16.9	56.5	22.1	3.6	-8.1	-12.1	-19.7

Per share data

€	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Avg. no. shares (€'000)	156,218	235,105	235,655	235,655	294,909	294,909	301,305	301,305
EPS	-0.26	-0.03	-0.05	0.00	-0.01	0.01	0.05	0.07
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CFPS	-0.23	0.00	0.00	0.05	0.02	0.05	0.09	0.11
EBITDA PS	0.03	0.06	0.10	0.14	0.12	0.14	0.15	0.17
BVPS	-0.08	0.16	0.06	0.05	0.05	0.05	0.06	0.06
Net debt PS	0.39	0.21	0.33	0.41	0.34	0.31	0.27	0.21

Margins on sales

%	2013	2014	2015	2016	2017e	2018e	2019e	2020e
EBITDA	3.0	5.9	8.0	10.2	8.7	9.4	9.7	10.1
EBIT	-0.8	3.1	4.7	7.1	5.9	7.0	7.6	8.1
Net profit	-27.5	-2.9	-3.6	0.3	-1.0	0.8	3.4	4.2
Working capital	-27.2	-8.0	-7.3	-7.9	-5.2	-6.3	-7.9	-10.9

Returns

%	2013	2014	2015	2016	2017e	2018e	2019e	2020e
ROE	340.3	-20.4	-77.7	8.1	-25.5	25.2	90.1	120.2
ROA	-27.8	-4.0	-5.8	0.4	-1.5	1.3	5.5	7.0
ROCE	-2.5	9.3	15.4	21.0	20.5	29.5	36.6	50.5

Leverage

%	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Net debt/equity (book incl. minor.)	-5.02	1.37	5.60	8.58	6.35	6.23	4.51	3.62
Net debt/equity (market value)	0.51	0.23	0.48	0.88	0.62	0.57	0.49	0.39
Net debt/EBITDA (x)	13.71	3.29	3.22	2.95	2.89	2.19	1.74	1.24

Historical multiples

x	2013	2014	2015	2016	2017e	2018e	2019e	2020e
P/E	-2.91	-29.51	-15.06	121.12	-44.57	48.10	11.32	8.48
EV/EBITDA	40.78	17.69	9.94	6.32	8.05	6.46	5.68	4.74
EV/EBIT	-149.91	33.60	17.05	9.12	11.77	8.62	7.30	5.92
P/sales	0.80	0.85	0.54	0.35	0.45	0.40	0.38	0.35
EV/sales	1.20	1.05	0.80	0.65	0.70	0.61	0.55	0.48
P/BV	-7.72	6.60	12.65	6.33	6.51	5.74	3.86	2.65

Source: CNMV, Thomson Reuters Datastream/Ibes and JB Capital Markets

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