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Piper Jaffray Ltd.

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Piper Jaffray Ltd.

Reason for Report:

Change in Price Target

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	130p	200p
FY10E Rev (€m)	21.9	20.6
FY11E Rev (€m)	33.8	42.9
FY10E EPS (€)	0.04	0.03
FY11E EPS (€)	0.10	0.06

Price:	156p
52 Week High:	158p
52 Week Low:	38p
12-Month Price Target:	200p
Shares Out (mil):	119.4
Market Cap. (mil):	£186.9
Market Cap. (\$m):	\$279.9
Avg Daily Vol (000):	282
Est Next Rep Date:	06/15/2010
Fiscal Year End:	Mar

Stock symbol/code:

Bloomberg:	GKO LN
Thomson Financial:	GKO-LN
Reuters:	GKO.I

Rev (€m)	2009A	2010E	2011E
H1	6.7A	8.6A	NA
H2	<u>7.2A</u>	<u>12.0E</u>	<u>NA</u>
FY	13.9A	20.6E	42.9E
FY RM	14.8x	10.0x	4.8x
EPS (€)	2009A	2010E	2011E
H1	0.00A	0.01A	NA
H2	<u>0.04A</u>	<u>0.03E</u>	<u>NA</u>
FY	0.04A	0.03E	0.06E
FY P/E	43.0x	57.4x	28.7x

Greenko Group Overweight

GKO LN - 156.0p

Funded for accelerated growth. Raise PT to 200p

CONCLUSION:

Greenko has successfully raised over €110m since November 2009, leaving it well positioned to accelerate the redeployment of capital into highly attractive renewable energy assets in India. Taking into account the latest raise and the ability of the company to self fund expansion to an estimated 538MW by FY-15, we raise our PT from 130p to 200p and reiterate our Overweight recommendation.

- **Cash rich balance sheet:** Greenko completed a £72m (gross) equity placement on 23 February. Combined with a US\$46m cash injection from Global Environmental Fund (GEF) in November, the company has raised significant cash resources to be reinvested into additional Indian renewable energy projects. We estimate that Greenko will have gross cash of €89m (€35m net cash) at the end of FY-10. The combination of its existing cash pile and internally generated cash flow should enable the company to grow its installed base from 91MW at present to 538MW by FY-15. The company continues to target 1GW by 2015, which we believe would require further equity injections in due course. We assume a 70:30 debt:equity ratio for projects going forward.
- **More acquisitions on the way.** In Jan 2010, Greenko announced it had agreed to acquire 20.25MW of operational hydro assets and 100MW of hydro projects in India, increasing visibility on the company's reinvestment plans. We understand that the company is targeting the acquisition of an additional 70-80MW of installed or late-stage hydro projects in FY-11.
- **Forecasts:** On the back of the completed equity raise, we raise our FY-11 revenues from €33.8m to €42.9m to reflect the higher expected pace of project rollout. FY-11 EPS falls from €0.10 to €0.06 on dilution from an increased share count. We tweak down our FY-10 revenues from €21.9m to €20.6m to reflect greater CER stock-piling in H2-10. Our FY-10 EPS falls from €0.04 to €0.03 as a result.

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INVESTMENT RECOMMENDATION:

We reiterate our Overweight recommendation. Our price target, which continues to be based on valuing the company at the project level using asset class specific WACCs of 9-11%, increases from 130p to 200p on the back of the latest equity raise and subsequent greater reinvestment opportunity.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Risks: 1) Financing 2) Change in incentives; 3) Biomass feedstock supply risk.

COMPANY DESCRIPTION:

Greenko is an owner and operator of biomass and hydro projects in India.

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Valuation

Installed base. Reflecting recent FX translation benefits and the rolling forward of our project-level DCFs to 2010, we raise the EV for Greenko's existing assets (excluding the value of the CERs) from €119m to €133m. Of the total, €59m relates to the biomass assets (equating to €1.4m/MW) and €74m for the hydro projects (€1.5m/MW). We assume that the biomass plants have a 25 year life, with the hydro facilities lasting for 30 years. Where a project is currently on a short-term PPA, we forecast that it will revert to long-term state PPA rates once the contract expires - a conservative view in our opinion.

EXHIBIT 1: ASSET VALUATION SUMMARY

Asset type	Gross MW	Net MW	NPV (€m)	NPV/MW
Existing assets				
India - Biomass	42	42	59	1.4
India - Hydro	50	50	74	1.5
Total existing assets	91	91	133	1.5
Pipeline assets				
India - Biomass	51	51	32	0.6
India - Hydro	396	396	90	0.2
Total pipeline	447	447	122	0.3

Source: Piper Jaffray research

Group equity value. Taking into account the value of the CERs for existing projects and the value-creation from the funded pipeline, we reach a revised group EV of €266m (up from €155m previously). Adjusting for the current net debt and the expected holding costs for the project development period, we raise our target price from 130p to 200p using the fully diluted share count. We reiterate our Overweight recommendation.

EXHIBIT 2: NEW PRICE TARGET DERIVATION TABLE

SOTP - 2010	Comment	€m	GBp per share
NPV of existing assets	Project level DCF	133	81
CER value from existing assets	NPV of CER generation under current contracts	11	7
NPV of pipeline	Probability weighted DCF	122	74
EV of renewable energy assets		266	162
(Net debt)/cash	Book value at H1-10, adusted for equity raises	71	43
Pension costs	Book value at H1-10	(0)	(0)
Capex adjustment	Construction & development capex adjustment	1	1
Corporate overheads	DCF FY10-FY15 (portfolio build period)	(11)	(7)
Implied equity value		328	200

Source: Piper Jaffray research

EXHIBIT 3: PREVIOUS PRICE TARGET DERIVATION TABLE

SOTP - 2009	Comment	€m	GBp per share
NPV of existing assets	Project level DCF	119	111
CER value from existing assets	NPV of CER generation under current contracts	11	10
NPV of pipeline	Probability weighted DCF	25	23
EV of renewable energy assets		155	144
(Net debt)/cash	Book value at y/e FY-09, adusted for GEF raise	(0)	(0)
Pension costs	Book value at y/e FY-09	(0)	(0)
Capex adjustment	Construction & development capex adjustment	(2)	(2)
Corporate overheads	DCF FY10-FY15 (portfolio build period)	(13)	(12)
Implied equity value		140	130

Source: Piper Jaffray research

For up-to-date disclosure information on this company, please visit
<http://www.piperjaffray.com/researchdisclosures>

Last updated 3rd March 2010

Greenko Group PLC (GKO LN)

PROFIT & LOSS

(MEUR) YE Mar	Mar-07A	Mar-08A	Mar-09A	Mar-10E	Mar-11E
Sales	3.5	13.1	13.9	20.6	42.9
Operating Expenses	-2.8	-7.8	-7.8	-11.7	-15.6
EBITDA	0.7	5.3	6.1	8.9	27.2
Depreciation & Amortisation	-0.2	-1.1	-1.5	-2.3	-5.7
EBIT	0.5	4.2	4.5	6.6	21.6
Investment revenue	0.2	0.9	0.9	2.3	3.4
Finance costs	-0.5	-2.2	-2.3	-6.1	-16.0
Pre-tax profit	0.3	2.8	3.2	2.8	9.0
Income tax	-0.2	-0.3	-0.5	-0.6	-1.4
Net profit	0.1	2.5	2.7	2.3	7.6

Growth	Mar-07A	Mar-08A	Mar-09E	Mar-10E	Mar-11E
Sales (%)		270.6%	5.7%	48.5%	108.0%
EBITDA (%)		637.8%	13.9%	47.1%	205.3%
EBIT (%)		675.7%	8.1%	45.6%	225.9%
Net profit (%)		3306.6%	6.3%	-15.1%	235.8%
EPS, diluted (%)		1532.8%	-30.4%	-31.6%	90.8%

Margin

EBITDA margin, %	20.4%	40.6%	43.7%	43.3%	63.5%
EBIT margin, %	15.3%	32.0%	32.7%	32.1%	50.3%
Net Profit margin, %	2.1%	19.1%	19.2%	11.0%	17.7%
Tax rate, %	72.3%	11.3%	16.0%	20.0%	16.0%

Reported

EPS (EURc)	0.4	6.1	3.9	3.1	6.3
EPS fully diluted (EURc)	0.3	5.4	3.9	2.7	5.1

Source: Company data, Piper Jaffray Equity Research

BALANCE SHEET

(MEUR) YE Mar	Mar-07A	Mar-08A	Mar-09A	Mar-10E	Mar-11E
ASSETS					
Property, plant and equipment	8	59	67	109	297
Intangible assets	0	9	11	16	16
Other non-current assets	1	0	1	1	1
Total non current assets	9	69	79	125	314
Cash and cash equivalents	1	23	4	89	42
Trade and other receivables	1	8	15	15	17
Inventories	0	1	2	3	4
Investment in bank deposits	1	1	8	14	9
Other current assets	1	0	0	0	0
Total current assets	3	33	29	121	72
Total Assets	13	102	108	246	386
LIABILITIES					
Shareholders' equity	3	56	57	170	178
Borrowings	7	35	33	52	157
Deferred income tax liabilities	1	2	3	3	3
Total long-term liabilities	7	36	35	54	160
Trade and other payables	1	4	6	6	6
Current income tax liabilities	0	0	0	0	0
Borrowings	1	5	11	15	42
Total current liabilities	2	9	16	22	48
Total liabilities	9	45	51	76	208
Total equity and liabilities	13	102	108	246	386

Net interest bearing debt	6	15	32	-35	148
% of total assets	49.5%	15.1%	29.4%	-14.2%	38.4%
% of equity	189.6%	27.1%	56.1%	-20.5%	83.3%
Net working capital	0	5	11	12	15
% of sales	6.5%	37.8%	80.8%	60.0%	35.0%

Source: Company data, Piper Jaffray Equity Research

SUMMARY CASH FLOW

(MEUR) YE Mar	Mar-07A	Mar-08A	Mar-09A	Mar-10E	Mar-11E
Operating cash flow pre working capital	0	3	3	5	13
Total change in working capital	0	-6	-6	-1	-3
Net capital expenditure	0	-6	-10	-38	-194
(as % sales)	5.8%	43.5%	72.6%	186.0%	451.9%
Free Cash Flow	-1	-9	-12	-35	-183

Source: Company data, Piper Jaffray Equity Research

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R: Resuming Coverage

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D: Discontinuing Coverage

S: Suspending Coverage

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N: Neutral

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			Count	Percent
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