



NEUTRAL

Current Share Price (€): 5.3

Target Price (€): 5.6

Enertronica – 1Y Performance

Bloomberg code	ENT IM
Reuters code	ENER.MI
Share Price (€)	5.3
Date of Price	29/04/2016
Shares Outstanding (m)	3.5
Market Cap (€m)	18.2
Market Float (%)	14%
Daily Volume	4,800
Avg Daily Volume YTD	7,390
Target Price (€)	5.6
Upside (%)	6%
Recommendation	NEUTRAL

Note: 29/04/2015=100

Company data

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Share price performance

	1M	3M	1Y
Enertronica - Absolute (%)	-1%	-1%	57%
FTSE AIM Italia (%)	-1%	-3%	-23%
1Y Range H/L (€)		6.1	3.3
YTD Change (€) / %		1.4	37%

Luigi Tardella – Co-Head of Research
tardellaresearch@advisory.envent.it

Serena Polini – Research Analyst
research@enventcapitalmarkets.com

EnVent Capital Markets Limited
25, Savile Row - London W1S 2ER
United Kingdom
Phone +44 (0) 20 35198451

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The harvesting years

South Africa Project at 54% of delivery, leap of revenues

FY15 consolidated revenues were at €108m (vs. €10m in 2014), thanks to the contribution of the EPC activity (SA Project €79m, out of a total of €147m) and Energy Retail (€23.4m, 22% weight on 2015 consolidated revenues). The EPC activity showed a higher than expected delivery rate and supported also the profitability (EBITDA at €8.6m, with a margin of 8%). The Company closed the year with a net profit of €1.2m (vs. €-1.6m in 2014). Enertronica reported at year end a cash position of €21.3m, thanks to the financing dynamics of the SA Project, expected to be balanced at project end.

A new global player in EPC?

The Company confirms two pillars strategy: 1) focus on internationalization of the EPC activity, through participation in several tenders in South Africa and Latin America, where Enertronica could exploit the acquired know-how and reputation; 2) on the domestic market, although the merger with Energ.it has not been successful, the Company aims to increase the weight of energy retail and saving services, in order to achieve product diversification and a more stable turnover. According to the management, Enertronica foresees in 2016 revenues at €103m and EBITDA at €9.5m.

Target Price €5.6 per share, NEUTRAL recommendation

In 2016, our assumptions at top line foresee revenues at €102.8m, of which €68m related to the SA Project; in addition, we expect a positive sales trend of the Energy Retail and Efficiency business (25% weight in 2016 and further increase expected in 2017-2018). We foresee in 2016 an EBITDA margin at around 8%, more conservative than the BP announced by the Company. The capability of Enertronica to replicate the success of the SA Project has still to be confirmed by the acquisition of large size projects; the growing competition in Africa and in other key markets is a critical factor that could affect the profitability. Following our estimates revision, our analysis yields a target price of €5.6 per share, with a NEUTRAL recommendation on the stock.

Key risks

Main risks are: 1) unexpected SA Project costs increase and exchange rate risk; 2) possible difficulties or delays in international markets targeted for EPC; 3) high competition and low entry barriers for the activity of energy saving services for retail and small businesses.

Key financials

€ m	2015A	2016E	2017E	2018E
Revenues	108.1	102.8	103.7	112.0
Yoy%	nm	-5%	1%	8%
EBITDA	8.6	8.1	9.6	9.3
Margin	8%	8%	9%	8%
EBIT	7.7	7.1	8.4	8.0
Margin	7%	7%	8%	7%
Net Income/Loss	4.0	4.5	5.7	5.3
Net Debt/(Cash)	-21.3	-4.2	-5.8	-10.8
Cash Flow	30.2	-17.0	1.6	4.9
EPS	0.3	0.6	1.0	1.1

Source: Company data and EnVent Research

2015 - Year of the EPC delivery take off

54% delivery of SA Project

Enertronica reported a substantial growth in revenues at €108.1m (vs. €10.2m in FY14), due to the EPC contractors' activity (165MWp Project in South Africa, assigned by Enel Green Power and started in March 2015). A faster than expected rate of delivery in 2015 confirmed the skills of the Group in the EPC activity, whose results at year end were above the previous estimates. In detail, Enertronica delivered around 54% of the project (€79.3m out of a total of €147m): we highlight that, due to the steep depreciation of the South Africa Rand, we reduced the total value of the project to €147m (EUR/ZAR at 16.2237 as of 19.04.2016), from an initial projection of €170m; however, the final value in € could be estimated only after completion of the project and of all the financial flows.

The PV Components/Mounting division reported revenues at €4.2m (vs. €2.2m in 2014); the Energy Retail/ESCO division contributed revenues for €23.4m (vs. €6.8m in 2014), with a 22% weight on the top line. Revenues of the Energy Retail division did not include any contribution from Energ.it, as Enertronica announced the acquisition in July, but in December cancelled the deal and never aggregated the company.

Based on our estimates, the three divisions (EPC, PV Components/Mounting and Energy Retail) have been profitable in 2015.

Profitability supported by EPC

Following the increase in the EPC revenues, the Company reported an EBITDA of €8.6m (vs. €-1.5m in 2014), with a margin of 8%. EBIT came in at €7.7m vs. €-1.8m in 2014. The financial charges are mainly related to the convertible bond (€6m issued in May 2014, expiry November 2016) and a loss from forex. The Company closed the year with a net profit of €1.2m, net of €2.8m of minorities, vs. €-1.6 in 2014.

Consolidated Profit and Loss

€ m	2014A	2015A
EPC	1.1	80.5
<i>% on Revenues</i>	11%	74%
PV Components/Mounting	2.2	4.2
YoY%		90%
<i>% on Revenues</i>	22%	4%
Energy Retail/ESCO	6.8	23.4
YoY%	12.5	242%
<i>% on Revenues</i>	67%	22%
Revenues	10.2	108.1
YoY%	<i>nm</i>	<i>nm</i>
EPC Cost	-1.1	-73.6
PV Components Cost	-0.5	-1.9
Energy Retail Cost	-6.0	-17.7
Tot. Materials	-7.6	-93.2
Operating Costs	-3.2	-4.4
Labour	-0.9	-1.9
EBITDA	-1.5	8.6
<i>Margin</i>	-15%	8%
D&A	-0.3	-0.9
EBIT	-1.8	7.7
<i>Margin</i>	-18%	7%
Interest	-0.6	-1.4
EBT	-2.3	6.3
<i>Margin</i>	-23%	6%
Income taxes	0.4	-2.2
Group Net Income/(Loss)	-1.9	4.0
Minorities	-0.3	-2.8
Net Income	-1.6	1.2

Source: Company data

Imbalance of working capital

The EPC activity has caused a substantial imbalance of the working capital, due to the amount of payables at year end (€29.7m in 2015 vs. €3.7m in 2014), of which around 78% related to SA Project. We assume that the SA Project suppliers would be payable according to the financing dynamics of the project and the effect on working capital has to be considered temporary and not structural.

We recall that financial assets (within net cash) include restricted funds received as advance payments for the SA Project (€12m at the end of 2015). Half of this amount will be held until the expected completion of the project in 2016 as an advance payment. The remaining €6m will be unavailable for 24 months, being a guarantee of the performance bond undersigned for the project; from January 2019, the fund will be available for the Company.

The surge in cash at year end (€21m) is mainly due to advance payments from the SA project. However, as highlighted before, €12m of that amount should be considered as a collateral of the performance and advance

payment bonds; the real cash generation related to the SA project would not be accountable in 2016.

At the end of 2015, financial debt included €6m of convertible bond and €4.8m of bank debt/leasing for a total amount of €10.8m.

Balance Sheet

€m	2014A	2015A
Receivables	7.2	8.5
Inventory	0.1	0.1
Payables	-3.7	-29.7
Working Capital	3.6	-21.1
Other assets	1.8	3.6
Other liabilities	-1.1	-4.9
Other assets and liabilities	0.7	-1.3
Intangible assets	0.4	1.2
Fixed assets	3.6	3.4
Financial investments	0.7	0.3
Non-current assets	4.7	4.9
Provisions	-0.1	-0.2
Invested capital	8.9	-17.7
Net Debt/(Cash)	7.9	-21.3
Shareholders' Equity	0.8	1.1
Minorities	0.0	2.5
Group Equity	0.8	3.6
Sources	8.9	-17.7

Source: Company data

Cash Flow

€m	2014	2015A
EBIT	-1.8	7.7
D&A	0.3	0.9
Current taxes	0.0	-2.2
Operating cash flow	-1.3	6.5
(Capex)/Disposal	-3.2	-1.5
Working capital	1.1	24.7
Other assets	-0.9	-1.8
Other liabilities	0.4	3.8
Δ net working capital	0.6	26.6
Gross cash flow	-3.9	31.7
Interest	-0.6	-1.4
Net cash flow	-4.5	30.2
Currency Adjustment	0.0	-1.2
Change in Net Debt/(Cash)	-4.5	29.0
Net Debt/(Cash) Beginning	3.3	7.8
Net Debt/(Cash) Ending	7.8	-21.2
Change in Net Debt/(Cash)	-4.5	29.0

Source: Company data

Outlook and estimates revision

Cancellation of Energ.it acquisition

In July 2015 Enertronica acquired 51% of Energ.it, an electricity and gas retail company. However, in December 2015, Enertronica rescinded the deal, reversing all the effects of the transaction. The rationale of the cancellation comes from the Group management's risk evaluation with respect to the value of Energ.it, since the mandatory re-assessment (art. 2343 Italian Civil Code) of the stake value after 6 months resulted in a material devaluation.

In detail, the November 2015 business review highlighted a significant amount of previously undisclosed claims and higher receivables from Onda Srl, the seller.

Enertronica's strategy

Currently the strategy of the Company is based on two pillars, the EPC international activity and the Energy Retail and Efficiency business, mainly on the domestic market. In detail:

- **SA Project:** the Company expects the completion of the SA Project assigned by Enel Green Power by September 2016. We highlight that the remaining estimated value of the project of €67.8m (out of the total of €147m) is calculated on the present South African Rand exchange rate and is subject to further adjustments.
- **Internationalisation of the EPC activity** as a contractor for primary international utilities. At the moment, in the EPC business, the Company is present in Italy, South Africa, Namibia, Eritrea, Romania and Latin America. Although Enertronica is continuously scouting new opportunities worldwide, according to the management the most interesting areas remain South Africa and Latin America, where the Group is participating to several international tenders. Following the assignment in South Africa, Enertronica has gained the reputation and the competitive advantage to develop further EPC projects in Africa.
- **Energy Retail and Efficiency:** although the merger with Energ.it has not been successful, the Group aims to maintain the focus on the domestic market, providing energy saving solutions to residential, small businesses and industrial clients. In 2015 Enertronica founded Smartutility (95%), with the aim to reorganize and develop the electricity and gas division (in 2016 the Energy Retail activity of Enertronica SpA has been transferred to Smartutility). The subsidiary will focus on Energy Retail and on ESCO services, i.e. energy efficiency projects and other energy services. In February 2016, Smartutility won an order for the construction of a cogeneration plant in Sicily, worth €750.000. The Energy Retail business is usually a low-margin business, but the Company aims to develop tailor-made solutions for

Positive trend expected in EPC

Smartutility

residential/corporate users, with higher profitability, with the intent to enter the fast growing energy efficiency sector. According to the management, the ESCO and Energy Saving business will be strategic for Enertronica, as it allows a more stable and predictable turnover for the Group and generates cross-selling synergies with the other units.

- **PV Components:** In January 2016, the contract value with the Italian Army has been increased by €0.9m to provide 20 additional mobile cooking systems. The original contract (€5m) has been delivered by around 80%. The mounting systems division will continue to deliver the components also through the production site realized in South Africa in 2015.
- **International BOT (Build-Operate-Transfer):** the Company intends to build PV plants abroad (below 10MW), with the aim to sell them on the secondary market. Waiting for more details on possible projects, at the moment we do not include this activity in our estimates. In March 2016, Enertronica acquired 70% of Sertum Energy Namibia Pty Ltd, which owns the authorisations and the Power Purchase Agreement for the construction of a 6MW plant in Namibia. Enertronica will realize the plant (project completion expected by end 2016), with an investment of around €7m, financed by local banks. The incentive scheme of the Namibia PV plant will be valid for 25 years and starts at an initial value of Numidian USD 1.37 per kWh produced (around €0.081). The feed-in tariff will be increased by a compound annual growth rate correlated to the rise in energy prices in the Namibian market.

First contract in Namibia

We highlight that in February 2016 the Group has been rated B1.2 by Cerved Rating Agency, indicating an adequate capacity to meet financial commitments, with a moderate credit risk.

Enertronica's Targets

The Company announced also a new 2016-2019 BP, with the following targets:

2016-2019 Targets announced by Enertronica

€ m	2016	2017	2018	2019
Revenues	103	107	161	161
EBITDA	9.2	12.6	18.5	19.3
Margin	8.9%	11.8%	11.5%	12.0%

Source: Company data

Enertronica forecasts in 2016 consolidated revenues at €103m and EBITDA at €9.2m. We believe that for Enertronica would not be a challenge to reach 2016 revenues of €100m, given the current backlog. In 2016, we forecast revenues at €102.8m, based on the contribution of:

- EPC activity (€68m, i.e. 66% of 2016 expected revenues from the SA

Our estimates

project commissioned by Enel Green Power and the balance of €6m from other potential EPC projects)

- Activity of the subsidiary Smartutility (25% weight on 2016 revenues).

In 2017-2018 we expect revenues still driven by new EPC projects and the Energy Retail/ESCO division.

Our forecasts are more conservative than the Company at profitability level. EBITDA margin is estimated at 7.9% in 2016, in line with the previous year. We expect an improvement at 9.3% in 2017 and 8.3% in 2018, as we foresee a partial success of the ongoing scouting activities; the profitability in 2018 is decreasing yoy for the effect of increasing energy retail revenues (margin is lower than other businesses). In addition, Enertronica has to confirm the ability to replicate the success of the SA Project with the acquisition of large size projects. The growing competition in Africa and in other key markets is a critical factor that could negatively affect the profitability.

We believe that the scouting activity for new international projects, alongside with potential new acquisitions in the cleantech sector, could create some pressure on the operating margin.

On the Balance Sheet, fixed assets in 2016 mainly refer to Enertronica SpA, Enertronica SGR and the new project Sertum Energy Namibia (capex of €7m). In 2016, working capital and cash flow from operations will be still temporarily influenced by the SA contract financing and they will be normalized at the end of the project. Although we include in our estimates a normalized WC from 2017, the real WC dynamics will depend on the new EPC contracts undersigned by the Company.

At the end of the year, we expect a cash position of €4.2m, thanks to the payment of advances from SA Project, after the reimbursement of €6m convertible bond (whose warrants are out of the money) in 2016 3Q. We forecast a further improvement in the cash position in 2017-18, reflecting the inflows from the expected International EPC Project and the domestic activities.

Assumptions

Revenues	<ul style="list-style-type: none"> EPC: €68m in 2016 as balance of 165MWp SA Project; about €6m in 2016 for other orders. Estimates revenues of €70m and €72m in 2017 and 2018 respectively from EPC activity PV Components: contribution of around €3m per year. Italian Army order will be completed in 2016. Mounting systems projects mainly concentrated abroad Energy retail/ESCO: €25.7m in 2016 (25% of weight on consolidated revenues); €31m in 2017; €37m in 2018 with increasing weight on consolidated revenues
Costs Structure	<ul style="list-style-type: none"> EPC: direct cost about 85%-90% on Revenues PV Components: direct cost average 40-60% on Revenues Energy Retail/ESCO: direct cost average 80-90% on Revenues Personnel cost estimated in €1.9m in 2016, €2.0m in 2017 and 2018 Overheads allocation per BU as follows: EPC 50%, PV Components 15%, Energy Retail 35% Expected operating costs slightly lower in 2016 vs. €4.4m in 2015
Profitability	<ul style="list-style-type: none"> EPC: average Gross margin above 10% PV Components: average Gross margin above 40% Energy Retail/ESCO: average Gross margin above 10%
Working Capital	<ul style="list-style-type: none"> Receivables: EPC 50 DSO; Components average 60 DSO; Energy retail 60 DSO Payables: EPC 45 DPO; Components average 30 DPO; Energy retail over 35 DPO Advances from customers: €8m related to SA project and monthly payments as per percentage of completion of work in progress
Capex	<ul style="list-style-type: none"> Fixed assets: €6m in 2016 for the project in Namibia, €2m in 2017 and 2018 Intangible assets: €0,1m per year

Source: EnVent Research

Consolidated projections

Consolidated Profit and Loss			
€ m	2016E	2017E	2018E
EPC	74.0	69.8	71.9
<i>% on Revenues</i>	72%	67%	64%
PV Components/Mounting	3.0	3.0	3.0
YoY%	-28%	0%	0%
<i>% on Revenues</i>	3%	3%	3%
Energy Retail/ESCO	25.7	30.9	37.1
YoY%	10%	20%	20%
<i>% on Revenues</i>	25%	30%	33%
Revenues	102.8	103.7	112.0
YoY%	-5%	1%	8%
EPC Cost	-66.6	-63.0	-64.7
PV Components Cost	-1.4	-1.4	-1.4
Energy Retail Cost	-20.6	-24.4	-30.2
Tot. Materials	-88.6	-87.7	-96.2
Operating Costs	-4.2	-4.4	-4.5
Labour	-1.9	-2.0	-2.0
EBITDA	8.1	9.6	9.3
<i>Margin</i>	7.9%	9.3%	8.3%
D&A	-1.0	-1.2	-1.3
EBIT	7.1	8.4	8.0
<i>Margin</i>	6.9%	8.1%	7.1%
Interest	-0.6	0.0	0.0
EBT	6.6	8.4	8.0
<i>Margin</i>	6.4%	8.1%	7.1%
Income taxes	-2.1	-2.7	-2.6
Group Net Income/(Loss)	4.5	5.7	5.3
Minorities	-2.2	-2.3	-1.6
Net Income	2.2	3.4	3.7

Source: EnVent Research

Balance Sheet

€m	2016E	2017E	2018E
Receivables	11.5	13.2	14.3
Inventory	0.2	0.2	0.2
Payables	-16.7	-15.0	-16.3
Working Capital	-4.9	-1.6	-1.8
Other assets	3.4	3.4	3.7
Other liabilities	-4.7	-4.7	-5.1
Other assets and liabilities	-1.3	-1.3	-1.4
Intangible assets	0.3	0.3	0.3
Fixed assets	9.6	10.5	11.1
Financial investments	0.3	0.3	0.3
Non-current assets	10.2	11.0	11.6
Provisions	-0.2	-0.2	-0.2
Invested capital	3.9	7.9	8.3
Net Debt/(Cash)	-4.2	-5.8	-10.8
Shareholders' Equity	3.3	6.7	10.4
Minorities	4.8	7.1	8.7
Group Equity	8.1	13.8	19.1
Sources	3.9	7.9	8.3

Source: EnVent Research

Cash Flow

€m	2016E	2017E	2018E
EBIT	7.1	8.4	8.0
D&A	1.0	1.2	1.3
Current taxes	-2.1	-2.7	-2.6
Operating cash flow	6.0	6.9	6.7
(Capex)/Disposal	-6.3	-2.0	-2.0
Working capital	-16.2	-3.3	0.1
Other assets	0.2	-0.0	-0.3
Other liabilities	-0.2	0.0	0.4
Δ net working capital	-16.2	-3.3	0.3
Gross cash flow	-16.5	1.6	4.9
Interest	-0.5	0.0	0.0
Net cash flow	-17.0	1.6	4.9
Currency Adjustment	-0.0	0.0	0.0
Change in Net Debt/(Cash)	-17.0	1.6	4.9

Source: EnVent Research

Valuation

We decided to rely solely on DCF model because the evolution of the peers sample used in the past has shown excessive issues in comparability as per business mix and market position.

Based on our revised estimates, we update our valuation of the Group:

- EPC: our DCF model delivered an EV of €11.9m, with related minorities estimated at €4.5m; for the EPC activities we applied a DCF model without terminal value, since SA Project will end in 2016 and other EPC contracts would have short duration.
- PV Components/Mounting and Energy Retail and Efficiency: DCF delivered an EV of €16.7m.

Our DCF assumptions are:

- Risk free rate: 2.3% (Italian 10-year government bonds interest rate – 3Y average. Source: Bloomberg, 19.04.2016)
- Market return: 13.8% (1Y average. Source: Bloomberg 19.04.2016)
- Beta: 1.0
- 60% Debt/(Debt + Equity) as sustainable ratio
- Cost of Equity: 16%
- WACC: 9.5%

For PV Components/Mounting and Energy Retail and Efficiency only:

- G (perpetual growth rate after explicit projections): 2%
- EBIT margin expected at 2.8% in 2016-17 and to 6.1% in 2018. Terminal value assumes a normalized sustainable EBIT margin of 5.8%

The resulting Enterprise Value is:

- €4.8m for the SA Project commissioned by Enel Green Power (expected completion in 2016 3Q), with related minority of €2.4m;
- €7.1m for the other expected EPC Projects, with related minorities of €2.1m;
- €16.7m for the PV Components/Mounting and Energy Retail and Efficiency activities.

We are not including in the Equity Value calculation the cash/net financial debt, because the reported cash of €21m should be considered substantially committed, since the restricted portion of €12m will be released as future revenues settlement and balance is likely to be used to normalize the working capital imbalance at 2015-year end.

Net of the minorities, our sum of the part yields a value of €5.6 per share; therefore, we assigned a NEUTRAL rating on the stock.

Enertronica Valuation – Sum of the Parts

€m

EV - SA Project	4.8
EV - Other EPC Projects	7.1
EV - Other BUs	16.7
EV - Sum of the parts	23.8
Minority interest	-4.5
Equity value	19.3
Shares outstanding	3,459,906
Target price (€)	5.6

Source: EnVent Research

The valuation does not consider the effect of a possible full conversion of Enertronica warrants, whose strike price is well below current market cap.

Please refer to important disclosures at the end of this report.

Peer Group - Performances

Stock	Currency	Price	Mkt Cap (m)	1M	3M	6M	YTD	1Y	2Y
Enertronica	Euro	5.27	18.2	-0.6%	-0.8%	49.3%	37.3%	56.9%	51.0%
TerniEnergia	Euro	1.20	48.3	2.7%	-14.4%	-24.4%	-24.2%	-37.1%	-46.1%
Phoenix Solar	Euro	4.24	31.2	-11.0%	12.3%	13.6%	-1.5%	35.0%	28.8%
First Solar	USD	55.68	5,693.0	-19.3%	-18.9%	-2.4%	-15.6%	-6.7%	-17.5%
Mean				-9.2%	-7.0%	-4.4%	-13.8%	-2.9%	-11.6%

Source: Bloomberg 29/04/16

Peer Group – Market Multiples

Comparables	EV/REVENUES				EV/EBITDA				EV/EBIT				P/E			
	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
Enertronica	0.2x	0.2x	0.2x	0.2x	2.5x	2.9x	2.5x	2.6x	2.7x	3.3x	2.8x	3.0x	15.2x	8.2x	5.4x	4.9x
TerniEnergia	0.4x	0.7x	0.4x	n.a.	6.4x	6.3x	4.8x	n.a.	8.3x	7.6x	5.8x	n.a.	35.6x	13.2x	7.5x	n.a.
Phoenix Solar	0.5x	0.4x	0.4x	0.3x	neg.	15.0x	11.2x	8.8x	neg.	22.3x	14.6x	11.0x	neg.	neg.	n.m.	16.2x
First Solar	1.4x	1.5x	1.7x	1.5x	6.7x	10.0x	10.2x	8.2x	10.0x	17.7x	19.5x	13.1x	12.2x	16.9x	22.8x	17.9x
Mean	0.8x	0.8x	0.8x	0.9x	6.6x	10.4x	8.8x	8.5x	9.1x	15.9x	13.3x	12.0x	23.9x	15.0x	15.2x	17.1x

Source: S&P Capital IQ 29/04/16

Note: Enertronica implied multiples calculated on consolidated data (SA Project and ongoing businesses).

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Date	Recommendation	Target Price (€)	Share Price (€)
04/08/2014	OUTPERFORM	4.2	3.0
17/10/2014	NEUTRAL	3.2	2.8
13/03/2015	UNDER REVIEW	n.a.	3.6
05/06/2015	NEUTRAL	3.8	3.4
05/08/2015	UNDER REVIEW	n.a.	3.6
06/10/2015	OUTPERFORM	4.0	3.4
29/04/2016	NEUTRAL	5.6	5.3

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