Intermonte

Milan, 22 March 2024

Italian Equity Research – 4Q23 Results

ENAV

OUTPERFORM

Sector: Utilities

Price: Eu3.53 - **Target: Eu4.50**

Strong Remuneration and New Growth Opportunities

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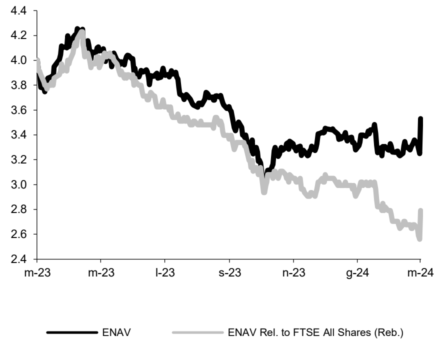
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 4.30 to 4.50
	2024E	**2025E**	**2026E**
Chg in Adj EPS	5.7%	0.1%	0.2%

ENAV - 12M Performance



Stock Data			
Reuters code:			ENAV.MI
Bloomberg code:			ENAV IM
Performance	**1M**	**3M**	**12M**
Absolute	6.1%	2.2%	-11.8%
Relative	-0.9%	-10.5%	-38.8%
12M (H/L)			4.25/2.98
3M Average Volume (th):			502.77

Shareholder Data	
No. of Ord shares (mn):	542
Total no. of shares (mn):	542
Mkt Cap Ord (Eu mn):	1,912
Total Mkt Cap (Eu mn):	1,912
Mkt Float - Ord (Eu mn):	893
Mkt Float (in %):	46.7%
Main Shareholder:	
MEF	53.3%

Balance Sheet Data	
Book Value (Eu mn):	1,227
BVPS (Eu):	2.27
P/BV:	1.6
Net Financial Position (Eu mn):	-248
Enterprise Value (Eu mn):	2,160

- **4Q23 results and DPS beat expectations.** ENAV reported 4Q23 results that were above our expectations and consensus at all levels. Revenues from operations closed at Eu234mn, +9% YoY driven by some Eu158mn in en-route revenues, while non-regulatory revenues were also higher than expected and the balance was positive to the tune of Eu16.5mn (Eu10mn expected). A flattish performance of operating costs (+1% YoY) led to EBITDA of Eu80mn (19% above) and a bottom line of Eu25.9mn (18% above est. despite higher write-downs). Cash generation was also better, leading to net debt of Eu322mn. Management proposed a DPS of Eu0.23 vs. the Eu0.21 expected.
- **FY24 guidance.** The group sees revenues up mid-single-digit vs. 2023 (including revenues from the non-regulated market, up double-digit YoY) and EBITDA up mid-single-digit, based on 11.3mn en-route service units (+6.7% YoY), in line with the Eurocontrol forecast (this points to revenues at c.Eu1,050mn and EBITDA at c.Eu315mn).
- **Focus on non-regulated businesses: leveraging on existing capabilities.** The company has also presented development lines for expansion in the non-regulated market over the next three years, both through organic and external growth. Organic development involves the consolidation of growth in the current core areas (e.g. licences and software, technical and engineering services, etc.), and the optimisation of the development of other businesses in which Enav is already present, such as services for drones (see the joint project with Amazon), training, etc.. Organic development will allow non-regulated revenues to increase to Eu70mn in 2026 (vs. Eu43mn in 2023) with a target EBITDA margin of 35%. Additionally, external growth will involve selected M&A deals with the aim of strengthening the company's positioning in software licences and services and technical and engineering services; on top of this is an assessment of the airport management market (at a very early analysis stage, no assets in mind). In the context of overall investments of up to Eu250mn to 2026, it is estimated that any deals may bring over Eu100mn of additional revenues. ENAV will retain a solid and sustainable financial structure with target leverage substantially below 2.0x.
- **Full plan and new dividend policy after approval of fourth regulatory period (RP4)**. The group also stated that a full plan will be released at the beginning of 2025 once the performance plan for RP4 has been approved (expected by year-end). At that time a new dividend policy will also be announced, based on "pure" FCF vs. the current "normalised" FCF. While details of the new policy will be revealed with the plan, we believe the reference to "pure" FCF points to a more generous distribution, thanks to the recovery of the balance over the next few years.
- **Estimates and valuation.** On 2024 we are aligning ourselves to guidance, while we are broadly confirming our numbers for the following years. Our target price moves to Eu4.5 (from Eu4.3 previously) and is still based on a DCF valuation (risk-free rate at 4.0%).
- **OUTPERFORM; target Eu4.50 (from Eu4.30).** After the extremely poor performance over the last 12 months, we expect the stock to continue its recovery thanks to the details provided yesterday in terms of a selective approach to M&A (besides EPS accretion, we believe that metrics such as IRR will be key when the company considers value creation) and a commitment to dividend growth. At our target the stock would trade at a 5.4% equity FCF yield vs. the historical range of 4-6%.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	944	1,000	1,047	1,062	1,063
EBITDA Adj (Eu mn)	272	300	314	321	319
Net Profit Adj (Eu mn)	105	113	124	132	134
EPS New Adj (Eu)	0.194	0.208	0.229	0.244	0.248
EPS Old Adj (Eu)	0.194	0.201	0.217	0.244	0.248
DPS (Eu)	0.197	0.230	0.237	0.244	0.251
EV/EBITDA Adj	9.6	7.9	6.9	6.5	6.3
EV/EBIT Adj	17.7	13.8	11.5	10.8	10.4
P/E Adj	18.2	16.9	15.4	14.5	14.2
Div. Yield	5.6%	6.5%	6.7%	6.9%	7.1%
Net Debt/EBITDA Adj	1.5	1.1	0.8	0.6	0.3

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.
Frequency of research: quarterly.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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