

ENEL

Sector: Utilities

OUTPERFORM

Price: Eu6.12 - Target: Eu7.80

Very Strong Operating Margins, Guidance Improved

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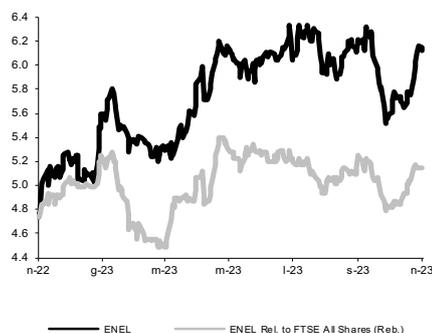
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	4.9%	0.1%	0.1%

Next Event

CMD 22 November

ENEL - 12M Performance



Stock Data

Reuters code:	ENEL.MI		
Bloomberg code:	ENEL IM		
Performance	1M	3M	12M
Absolute	9.2%	3.2%	29.2%
Relative	7.2%	4.1%	10.2%
12M (H/L)	6.34/4.78		
3M Average Volume (th):	22,935.49		

Shareholder Data

No. of Ord shares (mn):	10,167
Total no. of shares (mn):	10,167
Mkt Cap Ord (Eu mn):	62,212
Total Mkt Cap (Eu mn):	62,212
Mkt Float - Ord (Eu mn):	42,802
Mkt Float (in %):	68.8%
Main Shareholder:	
Italian treasury	31.2%

Balance Sheet Data

Book Value (Eu mn):	30,504
BVPS (Eu):	3.00
P/BV:	2.0
Net Financial Position (Eu mn):	-55,719
Enterprise Value (Eu mn):	136,644

■ **3Q23 results.** ENEL's 3Q23 P&L results beat our expectations, with a continuation of the robust margin improvements posted in 1H23, primarily underpinned by a strong recovery in Renewables and Supply activities in Italy after the losses recorded last year. Group ordinary EBITDA closed at Eu5,647mn (+29% YoY, vs. Eu5,371mn exp.) and ordinary net income was Eu1,754mn (+102% YoY, vs. Eu1,641mn exp.). Looking at ENEL's three key markets, Italy reported EBITDA of Eu3,127mn (+149% YoY, vs. Eu2,902mn exp., strong Generation & Trading, recovery in Renewable Energies and Market); Iberia closed at Eu845mn (-43% YoY, vs. Eu855mn exp., weak performance in Generation & Supply); LatAm at Eu1,407mn (+10% YoY, vs. Eu1,316mn exp., positive impact from tariff adjustments). On the balance sheet, net debt rose to Eu63.3bn (in line) from Eu62.1bn as at the end of June, reflecting Eu2.7bn of CapEx and Eu2.6bn in dividend payments. The quarter did not benefit from the cash-in from Eu6.5bn in asset sales closed and announced, which will be booked in 4Q23 and 1Q24.

■ **2023 EBITDA and net income guidance improved.** Taking the robust 9M23 results into account, ENEL raised its FY23 guidance, with ordinary EBITDA now seen at Eu21.5-22.5bn (from Eu20.4-21.0bn, +6%) and ordinary net income at Eu6.4-6.7bn (vs. prev. Eu6.1-6.3bn, +6%). On the financial side, ENEL confirmed a pro-forma net financial debt/EBITDA target of 2.4x-2.5x, also taking the financial impact of planned and non-finalised asset disposals into account. ENEL highlighted that the possible differences compared to the 2023 net financial debt target (Eu51-52bn) are entirely attributable to the different timing of the finalisation of asset disposals compared with the 2023-2025 Strategic Plan estimates.

■ **New 2024-26 business plan.** ENEL will hold its Capital Markets Day on 22 November. We expect ENEL's new 2024-26 business plan to be focused on the following strategic guidelines: returns over growth, Group rationalisation, cost cutting, deleverage and shareholders' returns. On the financial side, we see the possibility ENEL could also offer slightly more aggressive EBITDA targets for 2024 and the following years, reflecting a normalisation of hydro production, the expiry of price caps and a recovery in sales margins. On the disposal plan, we would not rule out a potential slight deceleration, while we expect a potential 5-10% reduction in CapEx. On dividends, we expect ENEL to confirm the current Eu0.43ps dividend for 2023 and 2024, while we believe it may return to dividend growth from 2025 onwards.

■ **Updated estimates and valuation.** Following 3Q23 results, we are updating our 2023 projections, increasing EBITDA by around 4%. This primarily reflects higher Generation and Supply margins in Italy. In terms of the valuation, we are confirming our target price of Eu7.80ps, with raised projections offsetting a higher WACC.

■ **Investment case.** 3Q23 results showed a continuation of the robust margin improvements recorded in the domestic market in 1H23, after the losses recorded last year. On the debt front, despite a slight increase as at the end of September, we see room for a significant reduction in 4Q23 thanks to further gradual working capital normalisation and the cash-in from asset sales. We believe the next CMD could offer positive catalysts for the stock. We confirm our positive recommendation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	88,006	140,517	105,223	101,447	102,670
EBITDA Adj (Eu mn)	19,210	19,683	22,173	22,405	22,771
Net Profit Adj (Eu mn)	5,593	5,391	6,694	7,043	7,322
EPS New Adj (Eu)	0.550	0.530	0.658	0.693	0.720
EPS Old Adj (Eu)	0.550	0.530	0.628	0.692	0.719
DPS (Eu)	0.380	0.400	0.430	0.430	0.430
EV/EBITDA Adj	7.8	6.8	6.2	6.0	5.9
EV/EBIT Adj	19.4	12.0	9.9	9.0	8.9
P/E Adj	11.1	11.5	9.3	8.8	8.5
Div. Yield	6.2%	6.5%	7.0%	7.0%	7.0%
Net Debt/EBITDA Adj	2.7	3.1	2.5	2.4	2.4