Milan, 23 November 2023

Italian Equity Research – Company Update

ENEL

OUTPERFORM

Sector: Utilities

Price: Eu6.39 - **Target: Eu7.80**

More Focus on Grids, 70% Dividend Payout Policy Introduced

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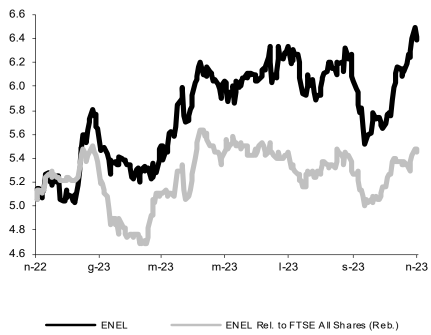
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-0.4%	-5.1%	-5.6%

ENEL - 12M Performance



Stock Data			
Reuters code:			ENEI.MI
Bloomberg code:			ENEL IM
Performance	**1M**	**3M**	**12M**
Absolute	13.2%	6.7%	25.1%
Relative	6.4%	3.5%	8.1%
12M (H/L)			6.49/5.03
3M Average Volume (th):			24,038.60

Shareholder Data	
No. of Ord shares (mn):	10,167
Total no. of shares (mn):	10,167
Mkt Cap Ord (Eu mn):	64,977
Total Mkt Cap (Eu mn):	64,977
Mkt Float - Ord (Eu mn):	44,704
Mkt Float (in %):	68.8%
Main Shareholder:	
Italian treasury	31.2%

Balance Sheet Data	
Book Value (Eu mn):	30,475
BVPS (Eu):	3.00
P/BV:	2.1
Net Financial Position (Eu mn):	-60,549
Enterprise Value (Eu mn):	144,239

- **New 2024-26 business plan:** ENEL's new 2024-26 business plan aims to reshape the Group into a leaner, more flexible and resilient organisation. The new plan is based on three strategic guidelines: i) profitability, flexibility and resilience, with selective capital allocation to maximise the risk/return profile; ii) efficiency and effectiveness, with cost discipline, leaner organisation and processes, focusing on core geographical markets and activities to maximise cash generation; and iii) financial and environmental sustainability, reducing leverage, pursuing value creation and decarbonisation.
- **CapEx: more selective/flexible approach, more Grids.** ENEL's total 2024-26 gross CapEx will come to Eu35.8bn, down 4% vs. last year's plan (Eu37.4bn). In what remains a very volatile market scenario, ENEL plans to increase the focus on Grids (supportive regulatory frameworks and European grants) and establish partnerships in Renewables projects (more flexibility on financial resources invested). Group net CapEx (excl. grants and partnerships) is set at Eu26.2mn, down 24% (Eu34.6bn). From a geographical standpoint, ENEL will focus on Europe (49% of total CapEx in Italy, 25% in Iberia).
- **Updated asset disposals plan: Eu8bn cash-in expected in 2024.** The asset disposal plan has been partially redefined, focusing on value-driven portfolio rotation. The updated plan is expected to deliver a positive impact of around Eu11.5bn on net financial debt in 2023-24, with an Eu8bn cash-in expected in 2024, following mandatory regulatory approvals and the completion of new deals identified in 2H23.
- **Financial targets.** Group ordinary EBITDA is expected to reach Eu23.6-24.3bn in 2026, from Eu20.0-21.0bn 2023 pro-forma (5% CAGR). Growth is expected to be fuelled primarily by higher margins on Grids (+Eu1.0bn) and Renewables (+Eu3.0bn), partly offset by lower ones in Conventional Generation (Eu-1.5bn). At bottom line, net ordinary income is expected to reach Eu7.1-7.3bn in 2026, from Eu5.8-6.1bn 2023 pro-forma (6% CAGR). The net debt/EBITDA ratio is projected to drop to 2.3x in 2026 from 2.4-2.5x in 2023 pro-forma (2.7-2.8x 2023 reported net debt of Eu60-61bn). The FFO/net debt ratio is expected to increase to 29% in 2026 vs. 26% in 2023 pro-forma.
- **70% dividend payout policy introduced.** ENEL presented a new policy, based on a minimum DPS of Eu0.43 for 2024-26, with a potential increase up to a payout of 70% of net ordinary income, if cash flow neutrality is achieved (FFO fully covering Group net CapEx and dividends on top of the minimum DPS set). During the presentation, CEO Cattaneo highted expectations for a potential increase already in 2024.
- **Updated estimates and valuation.** We are updating our projections, primarily to reflect the updated asset disposals plan and the new CapEx plan, with a greater focus on Grids. On the dividend side, we are raising our DPS projections, now based on the new 70% payout policy. In terms of the valuation, we are confirming our target price of Eu7.80ps, still based on a mix of DCF, SOP and market multiples.
- **Investment case.** While we were expecting slightly more aggressive indications for 2024, especially on net income, we appreciate the medium-term targets, as well as the projected deleveraging process. With increasing exposure to Grids, we continue to believe ENEL deserves a re-rating, as it is currently trading at undemanding valuations.

Key Figures & Ratios	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Sales (Eu mn)	88,006	140,517	105,223	101,397	102,620
EBITDA Adj (Eu mn)	19,210	19,683	22,173	22,485	23,293
Net Profit Adj (Eu mn)	5,593	5,391	6,664	6,683	6,911
EPS New Adj (Eu)	0.550	0.530	0.655	0.657	0.680
EPS Old Adj (Eu)	0.550	0.530	0.658	0.693	0.720
DPS (Eu)	0.380	0.400	0.430	0.450	0.470
EV/EBITDA Adj	7.8	6.8	6.5	6.3	6.0
EV/EBIT Adj	19.4	12.0	10.5	9.3	9.0
P/E Adj	11.6	12.1	9.7	9.7	9.4
Div. Yield	5.9%	6.3%	6.7%	7.0%	7.4%
Net Debt/EBITDA Adj	2.7	3.1	2.7	2.5	2.4