Intermonte

Milan, 14 March 2024

Italian Equity Research – Change in View/4Q23 Results

ERG

NEUTRAL

Sector: Utilities

Price: Eu23.90 - **Target: Eu28.00**

2024 Guidance Dented by Falling Electricity Prices

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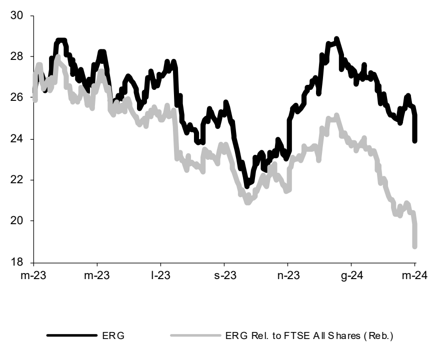
Stock Rating			
Rating:	form OUTPERFORM to NEUTRAL		
Target Price (Eu):	from 33.00 to 28.00		
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-18.3%	-6.6%	-9.7%

ERG - 12M Performance



Stock Data			
Reuters code:			ERG.MI
Bloomberg code:			ERG IM
Performance	**1M**	**3M**	**12M**
Absolute	-7.1%	-11.2%	-8.5%
Relative	-15.4%	-22.9%	-35.8%
12M (H/L)			28.86/21.68
3M Average Volume (th):			463.93

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	3,593
Total Mkt Cap (Eu mn):	3,593
Mkt Float - Ord (Eu mn):	1,311
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

Balance Sheet Data	
Book Value (Eu mn):	2,190
BVPS (Eu):	14.57
P/BV:	1.6
Net Financial Position (Eu mn):	-1,935
Enterprise Value (Eu mn):	5,545

- **4Q23 results.** ERG reported better than expected figures, primarily supported by higher volumes (strong wind load factors in Italy and additional wind and solar capacity abroad), offsetting lower average selling prices. Group adj. EBITDA (pre-IFRS16 net of clawback) closed at Eu155mn (+24% YoY, vs. exp. Eu138mn), while adj. net income from continued operations closed at Eu77mn (+76% YoY, vs. exp. Eu64mn). Looking at the various business segments, Wind Italy reported EBITDA of Eu71mn (+54% YoY, vs. exp. Eu34mn, higher volumes); Solar Italy Eu11mn (+14% YoY, vs. exp. Eu14mn), Wind Abroad Eu77mn (flat YoY, vs. exp. Eu95mn, lower volumes), and Solar Abroad Eu1mn (-37% YoY, vs. exp. Eu4mn, lower prices). Moving to the balance sheet, net debt (pre-IFRS16) closed at Eu1,458mn (vs. exp. Eu1,423mn), slightly up from Eu1,406mn in 3Q23. The dividend was set at Eu1.00ps (in line).
- **2024 guidance:** ERG has set a group EBITDA target (post-IFRS16) of Eu520-580mn in 2024. Guidance includes the consolidation of US assets (316MW, of which 224MW wind and 92MW solar) for just six months. Assuming consolidation for the full year, it would have been around Eu20mn higher, in the Eu540-600mn range. Looking at the different areas in more detail, for Wind Italy, ERG projects higher margins vs. 2023 (GRIN incentive at Eu41/MWh vs. zero in 2023, additional capacity, partly offset by lower PUN prices); for Solar Italy, margins are projected up YoY (higher volumes, higher hedged selling prices). Abroad, Wind is seen down YoY (lower average selling prices, partly offset by additional capacity in US and France), while Solar is expected to increase (additional capacity). Total Wind & Solar abroad is expected down YoY. CapEx is expected in the Eu550-600mn range (US$270mn cash-out for US assets included), while YE24 net debt (pre-IFRS16) is seen at Eu1,750-1,850mn. On the operational side, ERG confirmed the target for an additional 589MW in 2024, with installed capacity expected to reach 3,855MW at YE24.
- **Exposure to electricity market prices.** Out of the total 7.4TWh projected production in 2024 (six-month contribution of US assets), around 1.6TWh (of which c.1.1TWh under the GRIN scheme in Italy and 0.5TWh abroad) are exposed to electricity market prices. Moving to 2025, around 2.0-2.5TWh are currently exposed to market prices, with hedging now covering around 65% of the projected total production (vs. a target of 80-85%). We remind that ERG's last business plan was based on medium-long term electricity price assumptions of Eu80-90/MWh.
- **Updated estimates and valuation.** We are updating our projections, primarily to reflect lower energy prices (2024/25/26 PUN now assumed at Eu95/90/85/MWh, from Eu120/110/100/MWh previously), reducing EBITDA by 10% for 2024 and around 5% for 2025-26. In terms of the valuation, we are cutting our target price from Eu33.00 to Eu28.0, with lower projections only partly offset by a lower WACC.
- **Action on the stock. Downgrade from Outperform to NEUTRAL.** We continue to think ERG represents an appealing investment in Renewables thanks to its very solid balance sheet and growth potential. Having said that, we see a risk that ongoing pressure on electricity prices could cap the potential share price recovery in the short term. For this reason, we are lowering our recommendation to NEUTRAL.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	749	767	849	931	948
EBITDA Adj (Eu mn)	549	534	555	617	612
Net Profit Adj (Eu mn)	232	226	207	238	216
EPS New Adj (Eu)	1.545	1.503	1.375	1.586	1.434
EPS Old Adj (Eu)	1.546	1.442	1.682	1.698	1.588
DPS (Eu)	1.000	1.000	1.000	1.000	1.000
EV/EBITDA Adj	11.2	10.4	10.0	9.2	9.6
EV/EBIT Adj	19.9	18.3	18.7	16.3	17.9
P/E Adj	15.5	15.9	17.4	15.1	16.7
Div. Yield	4.2%	4.2%	4.2%	4.2%	4.2%
Net Debt/EBITDA Adj	2.9	3.0	3.5	3.3	3.7

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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)

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Frequency of research: quarterly.
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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;
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OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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