

ERG

Sector: Utilities

OUTPERFORM

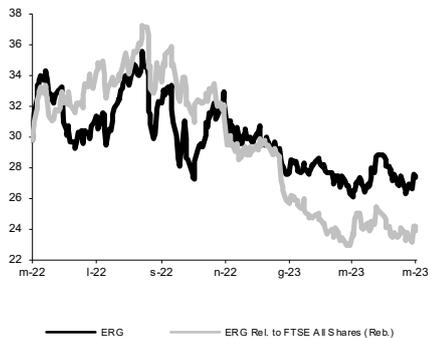
Price: Eu27.36 - Target: Eu34.00

Results Better, EBITDA Guidance Confirmed

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	2.2%	3.5%	3.4%

ERG - 12M Performance



Stock Data			
Reuters code:	ERG.MI		
Bloomberg code:	ERG IM		
Performance	1M	3M	12M
Absolute	-4.7%	-3.0%	-7.9%
Relative	-3.6%	-3.1%	-22.6%
12M (H/L)	35.58/26.12		
3M Average Volume (th):	337.81		

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	4,113
Total Mkt Cap (Eu mn):	4,113
Mkt Float - Ord (Eu mn):	1,501
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

Balance Sheet Data	
Book Value (Eu mn):	2,110
BVPS (Eu):	14.04
P/BV:	1.9
Net Financial Position (Eu mn):	-1,579
Enterprise Value (Eu mn):	5,722

■ **1Q23 results.** On the macro front, 1Q saw a further reduction in electricity and gas prices, after the dramatic spikes recorded in August last year. The electricity PUN declined to Eu157/MWh from Eu244/MWh in 4Q22 and Eu472/MWh in 3Q22, while the gas PSV went down to Eu57/MWh from Eu96/MWh and Eu198/MWh respectively. Electricity demand in Italy remained under pressure, down 4% YoY; on the production front, thermal was down 14% YoY, while among renewables, hydro was up 1% YoY, wind down 3%, and solar up 4%. In this context, ERG's wind and solar production in Italy amounted to 784GWh (+11% YoY, vs. exp. 791GWh), while abroad it reached 996GWh (+20% YoY, vs. exp. 1,009GWh), with new installed capacity offsetting weaker load factors. Group adj. EBITDA (pre-IFRS16 net of clawback) closed at Eu161mn (vs. Eu168mn in 1Q22, or Eu165mn net of clawback, -2% YoY, vs. exp. Eu152mn) and adj. net income at Eu78mn (-7% YoY, vs. exp. Eu64mn). The bottom line benefitted from lower-than-expected depreciation and net financial charges, partly offset by a negative contribution from discontinued operations (Priolo CCGT plant, penalized by much weaker spark spreads and machine downtime). Moving to the balance sheet, net debt (pre-IFRS16) declined to Eu1,206mn (vs. exp. Eu1,340mn) from Eu1,434mn as at YE22, reflecting Eu66mn CapEx and a Eu100mn working capital reduction (Eu113mn in commodity derivatives reabsorption).

■ **Divisional results.** Looking at the various business segments, Wind Italy reported EBITDA net of clawback at Eu69mn (flat YoY, vs. exp. Eu63mn, higher volumes, lower electricity prices, feed-in premium zero); Solar Italy at Eu12mn (-8% YoY, in line, lower prices), Wind Abroad at Eu80mn (-8% YoY, vs. exp. Eu77mn, additional capacity, higher volumes, lower prices,) and Solar Abroad at Eu5mn (flat YoY).

■ **2023 EBITDA guidance confirmed.** ERG confirmed its 2023 Group EBITDA target (pre-IFRS16 net of clawback) in the Eu500-550mn range, compared to Eu502mn net of clawback recorded in 2022. CapEx is now indicated at Eu500-600mn from the previous Eu400-500mn, after the recent acquisition in Spain (149MW solar assets, Eu170mn EV, exp. EBITDA Eu15mn), with YE23 net debt (pre-IFRS16) consequently now seen between Eu1,400-1,500mn, from the previous Eu1,300-1,400mn.

■ **Updated estimates and valuation.** Following 1Q results, we have merely fine-tuned our revenue projections to reflect slightly lower load factors and average selling prices. Below EBITDA, we have slightly reduced depreciation and net financial charges. We have also factored in slightly higher CapEx, in line with the new updated guidance. These translate into approx. 2-3% EPS accretion for 2023-24. In terms of the valuation, we confirm our target price of Eu34.0ps, still based on DCF, market multiples and SOP valuations.

■ **Action on the stock. Outperform confirmed.** We continue to think ERG represents an appealing investment in Renewables thanks to the company's pipeline of investment opportunities in Italy and abroad. ERG's growth strategy is focused on sustainability-oriented investments in renewables via a geographical and technological diversification strategy and the progressive securitisation of revenues (PPAs for 1.1TWh recently signed), with the objective being to achieve 4.6GW by 2026.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,228	729	878	964	1,030
EBITDA Adj (Eu mn)	589	549	551	613	656
Net Profit Adj (Eu mn)	202	232	210	229	239
EPS New Adj (Eu)	1.347	1.544	1.396	1.522	1.589
EPS Old Adj (Eu)	1.347	1.544	1.366	1.470	1.537
DPS (Eu)	0.900	1.000	1.000	1.000	1.000
EV/EBITDA Adj	10.4	11.2	10.4	9.8	9.6
EV/EBIT Adj	20.1	19.9	19.0	17.5	17.2
P/E Adj	20.3	17.7	19.6	18.0	17.2
Div. Yield	3.3%	3.7%	3.7%	3.7%	3.7%
Net Debt/EBITDA Adj	3.7	2.9	2.9	3.0	3.2