

ERG

Sector: Utilities

OUTPERFORM

Price: Eu24.96 - Target: Eu33.00

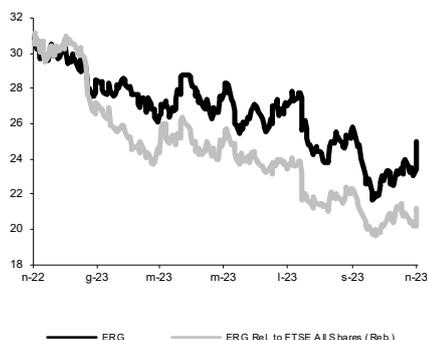
EBITDA Guidance Raised Slightly, Robust Outlook for 2024

 Paolo Citi +39-02-77115.430
 paolo.citi@intermonte.it

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	3.1%	9.3%	7.1%

ERG - 12M Performance



Stock Data

Reuters code:	ERG.MI		
Bloomberg code:	ERG IM		
Performance	1M	3M	12M
Absolute	9.6%	2.0%	-18.3%
Relative	5.4%	-0.8%	-35.9%
12M (H/L)	31.04/21.68		
3M Average Volume (th):	432.53		

Shareholder Data

No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	3,752
Total Mkt Cap (Eu mn):	3,752
Mkt Float - Ord (Eu mn):	1,369
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

Balance Sheet Data

Book Value (Eu mn):	2,114
BVPS (Eu):	14.06
P/BV:	1.8
Net Financial Position (Eu mn):	-1,582
Enterprise Value (Eu mn):	5,355

- 3Q23 results.** ERG reported declining YoY figures, as expected, primarily penalised by lower selling prices (negative impact roughly Eu-40mn in the quarter), partly offset by improving wind load factors and additional capacity (Eu14mn positive contribution in the quarter, Eu51mn in 9M23). In detail, ERG's wind and solar production in Italy reached 584GWh (+18% YoY), while abroad it reached 641GWh (+34% YoY). Group adj. EBITDA (pre-IFRS16 net of clawback) closed at Eu102mn (-23% YoY, vs. exp. Eu104mn), while adj. net income from continued operations closed at Eu35mn (-31% YoY, vs. exp. Eu31mn). Moving to the balance sheet, net debt (pre-IFRS16) closed at Eu1,406mn (vs. exp. Eu1,508mn), down from Eu1,516mn at the end of June, benefitting also from Eu88mn equity distribution from Erg Power (thermal plant sale).
- Divisional results.** Looking at the various business segments, Wind Italy reported EBITDA of Eu36mn (-39% YoY, vs. exp. Eu39mn, higher volumes offset by lower electricity prices, zero feed-in premium); Solar Italy Eu30mn (-3% YoY, vs. exp. Eu26mn, slightly lower prices), Wind Abroad Eu31mn (-24% YoY, vs. exp. Eu37mn, additional capacity and higher volumes offset by lower electricity prices), and Solar Abroad Eu10mn (+25% YoY, vs. exp. Eu8mn, higher volumes and prices).
- 2023 EBITDA guidance raised slightly.** Thanks to the good start to 4Q23, with good wind conditions and further growth in installed capacity, ERG slightly raised its 2023 Group EBITDA target (pre-IFRS16 net of clawback), now seen in the Eu490-520mn range (from Eu480-520mn previously). CapEx was confirmed at Eu500-600mn, with YE23 net debt (pre-IFRS16) indicated between Eu1,400-1,500mn, unchanged despite the planned outlays for the buyback programme (Eu60mn expected by year-end). Looking at the different areas, for Wind Italy, ERG projects lower margins vs. 2022 (lower average selling prices); for Solar Italy, margins are projected up YoY (additional capacity). Abroad, Wind is seen substantially in line (additional capacity offset by lower prices), Solar expected to increase (additional capacity).
- Robust outlook for 2024:** ERG offered a robust outlook for 2024, with all the investments managed in the last 12 months in operation, better hedging prices than in 2023, and a higher domestic feed-in premium (exp. around Eu40/MWh vs. zero in 2023). Around Eu100mn of additional EBITDA is expected (Eu60mn from increased capacity/higher prices, Eu40mn feed-in premium).
- Updated estimates and valuation.** Following 3Q results, we are fine-tuning our 2023 EBITDA projections (-1%) and raising 2024 (+5%), primarily to reflect higher average selling prices. In terms of the valuation, we are confirming our target price of Eu33.00ps, with raised projections offsetting a higher WACC.
- Action on the stock.** While 3Q23 results suffered a very tough YoY comparison in terms of average selling prices, the slight upward revision to FY23 EBITDA guidance confirms gradually improving earnings momentum, which should become increasingly visible in the coming quarters. We continue to think ERG represents an appealing investment in Renewables thanks to its very solid balance sheet and growth potential. We confirm our positive view on the stock.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,232	782	781	933	1,001
EBITDA Adj (Eu mn)	589	549	517	619	641
Net Profit Adj (Eu mn)	202	232	217	253	255
EPS New Adj (Eu)	1.347	1.546	1.442	1.682	1.698
EPS Old Adj (Eu)	1.347	1.549	1.400	1.540	1.585
DPS (Eu)	0.900	1.000	1.000	1.000	1.000
EV/EBITDA Adj	10.4	11.2	10.4	8.9	9.1
EV/EBIT Adj	20.1	19.9	17.8	15.1	15.4
P/E Adj	18.5	16.1	17.3	14.8	14.7
Div. Yield	3.6%	4.0%	4.0%	4.0%	4.0%
Net Debt/EBITDA Adj	3.7	2.9	3.1	2.8	3.2