

# ERG

Sector: Utilities

# OUTPERFORM

Price: Eu26.54 - Target: Eu34.00

## Constructive Outlook despite Still Volatile Market Scenario

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### Stock Rating

**Rating:** from NEUTRAL to OUTPERFORM

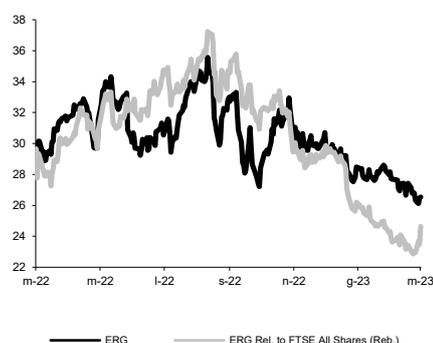
**Target Price (Eu):** Unchanged

	2023E	2024E	2025E
Chg in Adj EPS	-8.2%	-3.7%	-0.4%

### Next Event

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### ERG - 12M Performance



### Stock Data

**Reuters code:** ERG.MI

**Bloomberg code:** ERG IM

Performance	1M	3M	12M
Absolute	-4.3%	-11.4%	-10.5%
Relative	2.8%	-18.9%	-18.3%
12M (H/L)	35.58/26.12		
3M Average Volume (th):	314.14		

### Shareholder Data

No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	3,989
Total Mkt Cap (Eu mn):	3,989
Mkt Float - Ord (Eu mn):	1,456
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

### Balance Sheet Data

Book Value (Eu mn):	2,105
BVPS (Eu):	14.01
P/BV:	1.9
Net Financial Position (Eu mn):	-1,626
Enterprise Value (Eu mn):	5,645

■ **4Q22 results.** ERG reported slightly weaker-than-expected results at P&L level, penalized primarily by lower wind load factors in Italy, although cash generation was stronger. In detail: group adj. EBITDA (pre-IFRS16) closed at Eu126mn (vs. Eu145mn pro-forma in 4Q21, -13% YoY, vs. exp. Eu140mn) and adj. net income from continuing operations at Eu43mn (-29% YoY, vs. exp. Eu58mn). Moving to the balance sheet, net debt (pre-IFRS16) closed at Eu1,434mn (vs. exp. Eu1,548mn), down from Eu1,542mn as at the end of September. The dividend was set at Eu1.00ps (vs. exp. Eu0.90ps). Clawback measures and windfall taxes, not included in adj. EBITDA as special items, had a total impact of Eu91mn on FY22, of which Eu63mn in Italy.

■ **Divisional results.** Looking at the various business segments, Wind Italy reported EBITDA of Eu46mn (-53% YoY, vs. exp. Eu61mn); Solar Italy at Eu10mn (+25% YoY, vs. exp. Eu14mn); Wind Abroad at Eu77mn (+64% YoY, vs. exp. Eu72mn); and Solar Abroad at Eu2mn (vs. Eu1mn in 3Q22, vs. exp. Eu7mn).

■ **2023 guidance.** In terms of guidance for 2023, ERG has set a Group EBITDA target (pre-IFRS16) net of clawback measures in the Eu500-550mn range, up from Eu502mn net of clawback in 2022. CapEx is expected in the Eu400-500mn range, while YE23 net debt (pre-IFRS16) is seen between Eu1,300-1,400mn.

■ **Updated 2022-26 Business Plan.** ERG has updated the 2022-26 Business plan, confirming the growth strategy in Wind & Solar through a policy of geographical and technological diversification and the gradual securing of revenues. ERG confirmed its 2026 target of reaching installed capacity of 4.6GW and the ambition of reaching 5.0GW in 2027, an increase of 2.2GW in the 2022-2026 period of which 526MW already achieved in 2022 and around 1.7GW to be installed in the 2023-26 period.

■ **Financial targets.** For 2026, the last year of the plan, ERG forecasts EBITDA of more than Eu650mn in 2026 (vs. Eu560mn in last year's plan). Group net debt (pre IFR16) as at the end of the plan is projected to reach around Eu2.3bn (vs. Eu2.1bn in last year's plan) after cumulative CapEx of Eu3.5bn (vs. Eu2.9bn in last year's plan). In terms of the dividend policy, ERG announced an ordinary dividend of Eu1.00ps (from the previous Eu0.90ps), sustainable over the plan period. The relaunch of the sale of the thermoelectric CCGT plant has been confirmed in order to complete the transformation into a pure renewable player.

■ **Updated estimates and valuation.** We have updated our projections to reflect a smoothed capacity addition profile in 2023-24 coupled to slightly higher average electricity selling prices and higher CapEx. In terms of the valuation, we trim our target price from Eu35.0ps to Eu34.0ps, still based on DCF, market multiples and SOP.

■ **Action on the stock. Upgrade to OUTPERFORM.** We suggested taking profit on the stock after 3Q22 results in mid-November following a very solid share price performance. After the correction recorded in the last three months and the constructive indications released by the company, we move back to OUTPERFORM. We believe ERG represents a quality renewable stock, overly penalized in recent months by rising interest rates and concerns over new project returns.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,228	729	878	964	1,030
EBITDA Adj (Eu mn)	589	549	560	618	657
Net Profit Adj (Eu mn)	202	232	205	221	231
EPS New Adj (Eu)	1.347	1.544	1.366	1.470	1.537
EPS Old Adj (Eu)	1.343	1.754	1.488	1.527	1.542
DPS (Eu)	0.900	1.000	1.000	1.000	1.000
EV/EBITDA Adj	10.4	11.2	10.1	9.6	9.5
EV/EBIT Adj	20.1	19.9	18.7	17.5	17.3
P/E Adj	19.7	17.2	19.4	18.1	17.3
Div. Yield	3.4%	3.8%	3.8%	3.8%	3.8%
Net Debt/EBITDA Adj	3.7	2.9	2.9	3.1	3.3