

# ERG

Sector: Utilities

# NEUTRAL

Price: Eu26.60 - Target: Eu28.00

## New 2024-26 Business Plan: Value over Volume

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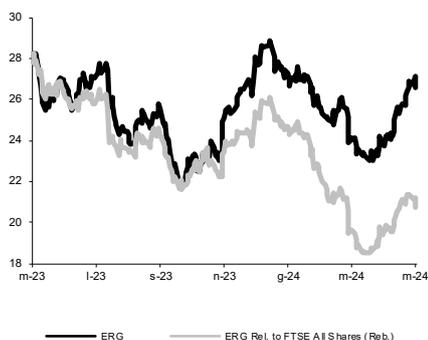
### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	1.1%	-5.5%	-2.7%

### Next Event

1H24 results on 2 August

### ERG - 12M Performance



### Stock Data

Reuters code:	ERG.MI		
Bloomberg code:	ERG IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	12.0%	4.9%	-5.9%
Relative	6.0%	-6.2%	-34.2%
12M (H/L)	28.86/21.68		
3M Average Volume (th):	560.73		

### Shareholder Data

No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	3,999
Total Mkt Cap (Eu mn):	3,999
Mkt Float - Ord (Eu mn):	1,459
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

### Balance Sheet Data

Book Value (Eu mn):	2,192
BVPS (Eu):	14.58
P/BV:	1.8
Net Financial Position (Eu mn):	-1,984
Enterprise Value (Eu mn):	6,002

- 1Q24 results.** ERG reported slightly better-than-expected figures, supported by stronger margins in the domestic Wind segment. At operational level, production reached 1,947GWh, up 9% YoY, with Wind Italy reaching 834GWh, +13% YoY; Solar Italy 41GWh, -11%; Wind Abroad 972GWh, +3%; and Solar Abroad 100GWh, +92%. Group adj. EBITDA closed at Eu165mn (-2% YoY, vs. exp. Eu160mn), with higher volumes offset by lower average selling prices. At the bottom-line, adj. net income closed at Eu78mn (-1% YoY, vs. exp. Eu72mn). Moving to the balance sheet, net debt (pre-IFRS16) slightly increased to Eu1,680mn (vs. exp. Eu1,674mn) from Eu1,617mn as at YE23, reflecting Eu154mn CapEx and a Eu40mn cash-out for buybacks.
- 2024 guidance confirmed.** ERG confirmed its 2024 Group EBITDA target (post-IFRS16) of Eu520-580mn, which we note includes the consolidation of the recently acquired US assets for just six months (316MW, roughly a Eu20mn contribution). CapEx is confirmed at Eu550-600mn, YE24 net debt (pre-IFRS16) at Eu1,750-1,850mn.
- New 2024-26 Business Plan: Value over Volume.** In a highly volatile market scenario, ERG presented a new competitive growth strategy aimed at increasing installed capacity by 1.2 GW in 2026 (4.5GW target, slightly down vs. last year's plan 4.6GW), with focus on returns (200-400 bps on the WACC). ERG can count on a solid and visible 5GW pipeline among organic development, greenfield, repowering and co-development agreements, with M&A still seen as a flexible tool for accelerating growth.
- Financial targets.** For 2026, ERG forecasts EBITDA in the range of Eu600-650mn, vs around Eu665mn (Eu650mn pre-IFRS16) in last year's plan, reflecting a lower electricity price scenario (PUN 2024-26 in the Eu90-105/MWh range). Cumulative 2024-26 CapEx projected at Eu1.2bn, lowered vs. last year's plan, reflecting a more selective approach and co-development agreements in the US. ERG confirmed its commitment to maintaining the Investment Grade rating, with a net debt/EBITDA ratio not exceeding 4x over the plan period (3.3x in 2024, declining to 3.0x in 2026).
- Enhanced shareholder remuneration policy.** ERG presented a new, more generous shareholder remuneration policy based on a minimum guaranteed cash dividend of Eu1.0ps, up to a maximum of Eu1.3ps, to be set year by year on the basis of the Group's economic and financial performance and future investment prospects (with the upside potentially distributed also via buybacks).
- Updated estimates and valuation.** Following 1Q results and the new business plan presentation, we have fine-tuned our projections to reflect slightly higher margins for Wind Italy, offset by weaker ones for Wind Abroad. Dividends are still projected stable at Eu1.0ps. In terms of the valuation, we confirm our target price of Eu28.0ps, still based on DCF, market multiples and SOP valuations.
- Action on the stock.** We continue to think ERG represents an appealing investment in Renewables thanks to its very solid balance sheet and growth potential. That said, following the recent robust share price recovery and limited upside on our target price, we confirm our NEUTRAL recommendation on the stock.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	749	767	854	947	960
EBITDA Adj (Eu mn)	549	534	559	601	609
Net Profit Adj (Eu mn)	232	226	209	225	210
EPS New Adj (Eu)	1.545	1.503	1.389	1.499	1.395
EPS Old Adj (Eu)	1.545	1.503	1.375	1.586	1.434
DPS (Eu)	1.000	1.000	1.000	1.000	1.000
EV/EBITDA Adj	11.2	10.4	10.7	10.1	9.9
EV/EBIT Adj	19.9	18.3	20.3	18.6	19.5
P/E Adj	17.2	17.7	19.1	17.7	19.1
Div. Yield	3.8%	3.8%	3.8%	3.8%	3.8%
Net Debt/EBITDA Adj	2.9	3.0	3.5	3.4	3.3

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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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

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;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emitente	%	Long/Short

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