Intermonte

Milan, 19 July 2023

Italian Equity Research – 2Q23 Preview

ERG

OUTPERFORM

Sector: Utilities

Price: Eu27.34 - **Target: Eu34.00**

Quarterly Results Set to Be Penalised by Poor Load Factors

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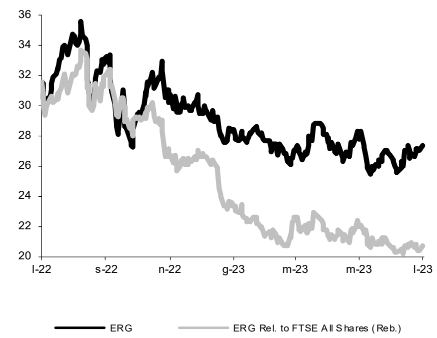
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

2Q23 Results Out 28 July

ERG - 12M Performance



Stock Data			
Reuters code:			ERG.MI
Bloomberg code:			ERG IM
Performance	**1M**	**3M**	**12M**
Absolute	2.2%	-0.9%	-13.4%
Relative	-0.1%	-3.1%	-45.8%
12M (H/L)			35.58/25.48
3M Average Volume (th):			388.78

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	4,110
Total Mkt Cap (Eu mn):	4,110
Mkt Float - Ord (Eu mn):	1,500
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):	5,719

- **ERG reports 2Q23 results on 28 July,** with the press release to go out at early afternoon and the conference call scheduled for 14.30 CEST the same day.
- **2Q23 results preview.** On the macro front, 2Q23 saw a further reduction in electricity and gas prices after the dramatic spikes recorded in August last year. The electricity PUN declined to Eu120/MWh from Eu157/MWh in 1Q23, Eu244/MWh in 4Q22 and Eu472/MWh in 3Q22, while the gas PSV went down to Eu35/MWh from Eu57/MWh, Eu96/MWh and Eu198/MWh respectively. Electricity demand in Italy remained under pressure, down 5% YoY in April and May. 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, we expect ERG's wind and solar production in Italy to have reached 578GWh, up 6% YoY thanks to the 172MW EDP Renewables Italia wind assets acquired in 2H22, while in foreign markets wind and solar production is expected to have reached 665GWh, up 16% YoY, again thanks to the ongoing increase in installed capacity. Moving to P&L projections, we expect Group adj. EBITDA (pre-IFRS16) to have reached Eu102mn (-7% YoY) and adj. net income of Eu31mn (-18% YoY). Moving to the balance sheet, net debt (pre-IFRS16) is expected to have increased to Eu1,519mn from Eu1,206mn as at the end of March, following Eu70mn of CapEx, Eu180mn of M&A cash-outs and the dividend payment for Eu150mn.
- **2023 guidance.** With 1Q23 results, 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 was indicated at Eu500-600mn from the previous Eu400-500mn, after the acquisition of the 149MW Garnacha solar plant in Spain (Eu170mn EV, exp. EBITDA Eu15mn), with YE23 net debt (pre-IFRS16) consequently seen between Eu1,400-1,500mn. Despite quite a weak 1H23, we believe ERG could confirm its EBITDA guidance.
- **Estimates and valuation.** Following 1Q results we merely fine-tuned our revenue projections to reflect slightly lower load factors and average selling prices. Below EBITDA, we trimmed depreciation and net financial charges. We also factored in slightly higher CapEx, in line with the new updated guidance. These translated into an EPS accretion of approx. 2-3% for 2023-24. Ahead of 2Q23 results, we are leaving our estimates unchanged, as well as our Eu34.0ps target price for the stock.
- **Action on the stock.** We expect quite a weak quarter, primarily penalised by poor production. As over the last few days other Renewables players have flagged up poor load factors across Europe, we believe this headwind could already be largely discounted in the share price. That said, 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, 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	1.396	1.522	1.589
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