

ERG

Sector: Utilities

OUTPERFORM

Price: Eu23.46 - Target: Eu33.00

Quarterly Results Set to Be Impacted by Lower Prices

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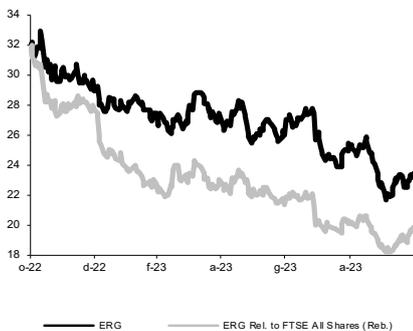
Stock Rating

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

Next Event

3Q23 Results Out 14 November

ERG - 12M Performance



Stock Data

Reuters code:	ERG.MI		
Bloomberg code:	ERG IM		
Performance	1M	3M	12M
Absolute	2.7%	-8.6%	-24.9%
Relative	6.1%	-0.9%	-43.8%
12M (H/L)	32.96/21.68		
3M Average Volume (th):	419.60		

Shareholder Data

No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	3,527
Total Mkt Cap (Eu mn):	3,527
Mkt Float - Ord (Eu mn):	1,287
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

Balance Sheet Data

Book Value (Eu mn):	2,111
BVPS (Eu):	14.04
P/BV:	1.7
Net Financial Position (Eu mn):	-1,599
Enterprise Value (Eu mn):	5,148

■ **3Q23 results preview.** On the macro front, both electricity and gas prices were broadly stable QoQ, with the PUN at Eu113/MWh (vs. Eu115/MWh in 2Q23 and Eu472/MWh in 3Q22) and the PSV at Eu34/MWh (vs. Eu35/MWh and Eu198/MWh respectively). Electricity demand in Italy remained under pressure in July and August before recovering slightly in September (3Q23 down 1.4% YoY). On the production front, all renewable sources in Italy were up (hydro +43% YoY, wind +20%, solar +17%), confirming the recovering trend that started in 2Q23, while thermal was down 15%. In this context, we expect ERG's wind and solar production in Italy to have reached 580GWh, up 18% YoY (the 172MW EDP Renewables Italia wind assets acquired in mid-2022 contributed for two months in 3Q22), while in foreign markets wind and solar production is expected to have reached 585GWh, up 23% YoY, thanks to the ongoing increase in installed capacity. Moving to P&L projections, we expect Group adj. EBITDA (pre-IFRS16) to have reached Eu104mn (-22% YoY) and adj. net income Eu33mn (-35% YoY). Moving to the balance sheet, net debt (pre-IFRS16) is expected to have closed at Eu1,508mn, stable QoQ.

■ **2023 guidance.** With 2Q23 results, due to the weak wind conditions recorded in the quarter and some minor delays to contributions from new assets, ERG trimmed its 2023 Group EBITDA target (pre-IFRS16 net of clawback), seen in the Eu480-520mn range from the previous Eu500-550mn. Net income was indicated slightly in excess of Eu200mn. CapEx was confirmed at Eu500-600mn, with YE23 net debt (pre-IFRS16) still seen between Eu1,400-1,500mn. On EBITDA, we believe the company could guide for the lower part of the range, while it could offer more constructive indications on net debt.

■ **Estimates and valuation.** We are leaving our estimates unchanged ahead of 3Q23 results, even if we see some potential downside risk on our current FY23 EBITDA projection (Eu514mn pre-IFRS16). We are more confident on our current bottom-line projection, potentially reflecting lower depreciation and lower net financial charges. On the YE23 net financial position, by contrast, we see potential upside risk, taking into account the Eu192mn cash-in related to the sale of the Priolo CCGT thermal plant to be booked in 4Q.

■ **Action on the stock.** We expect another quite weak quarter at EBITDA level, with slightly improving wind load factors offset by lower electricity prices. On the other hand, cash generation is expected to remain healthy with the net financial position expected to close broadly stable QoQ at very comfortable levels. Despite earnings momentum remaining quite weak, we continue to think ERG represents an appealing investment in Renewables thanks to its very solid balance sheet and growth potential. As a reminder, 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)	1,232	749	827	944	1,009
EBITDA Adj (Eu mn)	589	549	524	591	627
Net Profit Adj (Eu mn)	202	233	210	231	238
EPS New Adj (Eu)	1.347	1.549	1.400	1.540	1.585
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	9.8	9.1	9.0
EV/EBIT Adj	20.1	19.9	17.5	15.7	15.9
P/E Adj	17.4	15.1	16.8	15.2	14.8
Div. Yield	3.8%	4.3%	4.3%	4.3%	4.3%
Net Debt/EBITDA Adj	3.7	2.9	3.0	3.0	3.3