

# ERG

Sector: Utilities

# NEUTRAL

Price: Eu17.20 - Target: Eu20.00

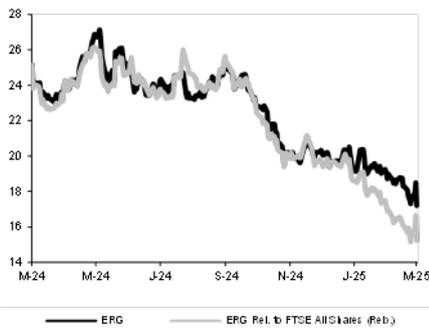
## Results and Guidance Penalised by Wind Drought

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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 24.50 to 20.00		
	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>Chg in Adj EPS</b>	-11.3%	-3.7%	-2.4%

### 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	-8.1%	-14.8%	-31.6%
Relative	-9.9%	-24.1%	-44.5%
12M (H/L)	27.14/17.20		
3M Average Volume (th):	516.16		

### Shareholder Data

No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	2,586
Total Mkt Cap (Eu mn):	2,586
Mkt Float - Ord (Eu mn):	944
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

### Balance Sheet Data

Book Value (Eu mn):	2,180
BVPS (Eu):	14.50
P/BV:	1.2
Net Financial Position (Eu mn):	-2,125
Enterprise Value (Eu mn):	4,823

■ **4Q24 results.** ERG reported weaker-than-expected figures, primarily penalised by poor wind load factors, only partly offset by higher electricity selling prices and ongoing capacity additions. Group adj. EBITDA (pre-IFRS16) closed at Eu145mn (-9% YoY, vs. exp. Eu153mn), while adj. net income closed at Eu45mn (-42% YoY, vs. exp. Eu66mn), dented by higher depreciation and net financial charges. Looking at the various business segments, Wind Italy reported EBITDA of Eu75mn (+4% YoY); Solar Italy Eu13mn (+18% YoY), Wind Abroad Eu60mn (-23% YoY), and Solar Abroad Eu2mn (-30% YoY). Moving to the balance sheet, net debt (pre-IFRS16) closed at Eu1,793mn (vs. exp. Eu1,808mn), down from Eu1,888mn at the end of September. The dividend was set at Eu1.00ps (in line).

■ **2024-26 Strategy Update: 'Value or Volume' approach strengthened.** In a highly volatile market scenario, ERG strengthened its 'Value over Volume' strategic approach introduced last year, aimed at maximising the return on investments through selective growth. Following the extended waiting times before the final approval of the FER X Decree, as well as a more cautious approach in the US, cumulative 2024-2026 CapEx has been reduced by 20% to Eu1.0bn (vs. Eu1.2bn in last year's plan). Consequently, the 2026 asset portfolio target has been trimmed to 4.2GW (vs. 4.6GW in last year's plan), with a stronger focus on assets currently under construction, repowering initiatives and the pipeline of organic projects.

■ **Financial targets.** In terms of guidance for 2025, ERG has set a group EBITDA target (post-IFRS16) of Eu540-600mn (vs. exp. Eu570-610mn, cons. Eu600mn). CapEx is seen at Eu190-240mn (vs. exp. Eu300mn), and YE25 net debt (pre-IFRS16) between Eu1,850-1,950mn (vs. exp. Eu1,870mn). For 2026, ERG forecasts EBITDA of over Eu600mn (vs. Eu600-650mn in last year's plan, cons. Eu626mn), reflecting lower capacity additions. In terms of shareholder remuneration, ERG confirmed the annual dividend of Eu1.00ps, while maintaining the flexibility to enhance shareholder returns through additional buybacks. Maintaining the Investment Grade rating remains a key priority, with the net debt/EBITDA ratio not exceeding 4x over the plan period (3.3x expected in 2025, declining to 3.0x in 2026).

■ **Updated estimates and valuation.** Following 4Q results we are revising our projections downwards, primarily to reflect lower Wind Abroad (lower volumes) and Solar Abroad (lower volumes and lower prices), partly offset by higher Solar in Italy (higher prices). In terms of the valuation, we are cutting our target price to Eu20.0ps from Eu24.5ps, still based on a mix of DCF (lower long-term growth), market multiples (sector de-rating) and SOP valuations (still based only on the existing capacity).

■ **Action on the stock.** We continue to believe ERG represents an attractive investment proposition in the Renewables arena thanks to its solid balance sheet and high-quality asset base. However, given the current highly volatile market outlook, both in term of electricity prices and interest rates, and the growing concerns over the wind drought issue, we do not expect the stock's current significant valuation discount to be enough to drive a reversal in its performance in the short term. We remain NEUTRAL.

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales (Eu mn)	793	850	905	921	929
EBITDA Adj (Eu mn)	534	535	572	583	587
Net Profit Adj (Eu mn)	226	175	185	188	181
EPS New Adj (Eu)	1.503	1.165	1.233	1.253	1.207
EPS Old Adj (Eu)	1.442	1.682	1.401	1.301	1.237
DPS (Eu)	1.000	1.000	1.000	1.000	1.000
EV/EBITDA Adj	10.4	10.7	8.4	8.2	8.1
EV/EBIT Adj	18.2	21.2	16.5	16.2	16.3
P/E Adj	11.4	14.8	14.0	13.7	14.3
Div. Yield	5.8%	5.8%	5.8%	5.8%	5.8%
Net Debt/EBITDA Adj	3.0	3.8	3.7	3.6	3.5

