ERG

NEUTRAL

Sector: Utilities

Price: Eu22.76 - **Target: Eu23.50**

M&A Speculations, While Waiting for Energy Decree

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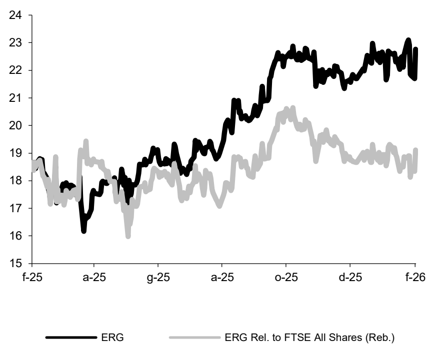
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2025E	**2026E**	**2027E**
Chg in Adj EPS	-10.7%	-4.7%	-3.8%

Next Event
4Q25 Results Out 12 March

ERG - 12M Performance



Stock Data			
Reuters code:			ERG.MI
Bloomberg code:			ERG IM
Performance	**1M**	**3M**	**12M**
Absolute	0.4%	3.5%	22.0%
Relative	0.8%	-1.1%	2.7%
12M (H/L)			23.10/16.17
3M Average Volume (th):			278.15

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	3,421
Total Mkt Cap (Eu mn):	3,421
Mkt Float - Ord (Eu mn):	1,249
Mkt Float (in %):	36.5%
Main Shareholder:	
Garrone family	62.5%

Balance Sheet Data	
Book Value (Eu mn):	2,188
BVPS (Eu):	14.56
P/BV:	1.6
Net Financial Position (Eu mn):	-2,132
Enterprise Value (Eu mn):	5,539

Yesterday *Il Corriere della Sera* reported that ERG could consider industrial alliances and eventually also extraordinary deals that could lead to a reshaping of the company's shareholding. As we only assign a limited chance that the Garrone family is willing to sell, we are not applying an M&A premium on the stock. In the meantime, the entire Italian Utilities sector is waiting for clarification on the proposed Energy Decree, especially the potential interventions aimed at neutralising certain gas transport and CO2 costs in the marginal price mechanism for the electricity system. While waiting for more details, we are trimming our projections for ERG, primarily to reflect weaker wind production in 4Q25 and slightly lower selling prices/load factors for 2026 onwards. We remain NEUTRAL.

- **M&A speculations…** yesterday *Il Corriere della Sera* reported that ERG could consider potential industrial alliances in the renewable sector and possibly also extraordinary deals that could lead to a reshaping of the company's shareholding. ERG is currently controlled by SQ Renewables, which has 62.5% of the capital and 77% of voting rights. The Garrone family holds 51% of SQ Renewables and IFM Investors has 49%. IFM is an Australian fund that entered the ERG capital in two phases between 2022 and 2024 with an overall investment of Eu1.5bn. A2A and Swiss operator Axpo were mentioned as potential partners. As we only assign a limited chance that the Garrone family is willing to sell, we are not applying an M&A premium on the stock. A potential deal with A2A on Italian assets would make strategic sense for ERG, considering A2A's large customer base.
- **… while waiting for the Energy Decree.** This week the long-awaited Energy Decree should finally be under discussion at Cabinet. The most controversial proposed measures involve the voluntary reshaping of PV incentives and the neutralisation of certain gas transport and CO2 costs (subject to EU approval) in the formation of electricity prices on the power exchange (marginal price mechanism), shifting their weight onto components applied to electricity bills. We continue to believe that potential interventions on the functioning of the electricity market are very complex to implement and must necessarily be discussed at European level, possibly as part of a broader review of CO2 costs across all industrial sectors. For ERG, we project an impact of roughly Eu15mn on EBITDA (2.6%) for every Eu10/MWh change in Italian electricity prices, assuming merchant production in the region of 1.5TWh.
- **4Q25 preview** (results out on 12 March). We are cutting our 4Q25 projections to reflect lower wind load factors in Italy and Rest of Europe. We are now projecting 4Q25 EBITDA of Eu151mn and net income of Eu46mn. This translates into a 4% cut in FY25 EBITDA (Eu542mn, at the bottom of the Eu540-600mn guidance range) and 11% on the bottom line.
- **Updated estimates and valuation.** For 2026 onwards, we are trimming our projections to reflect slightly lower wind load factors and average selling prices, translating into a reduction of roughly 4-5% on the bottom line. As for the valuation, we confirm our target price of Eu23.50ps, still calculated based on a mix of DCF, SOP and market multiple models. Our updated projections still do not include any potential impact on Italian electricity prices from the Energy Decree currently under discussion.

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales (Eu mn)	793	851	868	918	925
EBITDA Adj (Eu mn)	534	535	542	586	588
Net Profit Adj (Eu mn)	226	175	156	180	177
EPS New Adj (Eu)	1.503	1.166	1.040	1.198	1.180
EPS Old Adj (Eu)	1.503	1.166	1.164	1.256	1.226
DPS (Eu)	1.000	1.000	1.000	1.000	1.000
EV/EBITDA Adj	10.4	10.7	9.4	9.5	9.4
EV/EBIT Adj	18.2	21.2	19.1	18.3	18.6
P/E Adj	15.1	19.5	21.9	19.0	19.3
Div. Yield	4.4%	4.4%	4.4%	4.4%	4.4%
Net Debt/EBITDA Adj	3.0	3.8	3.9	3.6	3.6

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- 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)

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Frequency of research: quarterly.

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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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NEUTRAL:	29.33%
UNDERPERFORM:	00.75%
SELL:	00.00%

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OUTPERFORM:	31.94%
NEUTRAL:	12.50%
UNDERPERFORM:	01.39%
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