ERG

OUTPERFORM

Sector: Utilities

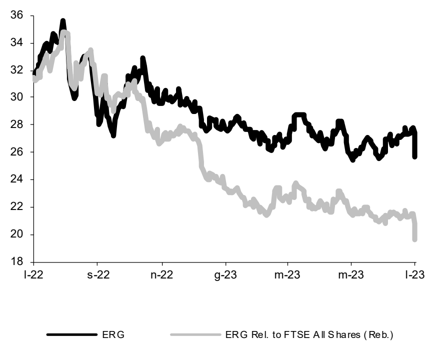
Price: Eu25.66 - **Target: Eu33.00**

Results in Line, Guidance Trimmed Due to Weak Windiness

Paolo Citi +39-02-77115.430
paolo.citi@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 34.00 to 33.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.3%	1.2%	-0.3%

ERG - 12M Performance



Stock Data			
Reuters code:			ERG.MI
Bloomberg code:			ERG IM
Performance	**1M**	**3M**	**12M**
Absolute	-2.2%	-6.4%	-18.4%
Relative	-8.4%	-14.2%	-49.6%
12M (H/L)			35.58/25.48
3M Average Volume (th):			416.85

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	150
Mkt Cap Ord (Eu mn):	3,857
Total Mkt Cap (Eu mn):	3,857
Mkt Float - Ord (Eu mn):	1,408
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:	1.8
Net Financial Position (Eu mn):	-1,599
Enterprise Value (Eu mn):	5,482

- **2Q23 results.** From a macro standpoint, 2Q23 saw a further reduction in electricity and gas prices after the dramatic spikes recorded in August last year. Electricity demand in Italy remained under pressure, down 7% YoY in the quarter. On the production front, thermal was down 20% YoY, while among renewables, hydro was up 28% YoY and solar 5%, but wind was down 2%. In this context, ERG reported quite a weak quarter, as expected, penalized by poor load factors across Europe. ERG's wind and solar production in Italy amounted to 565GWh (+4% YoY, vs. exp. 578GWh), while abroad it reached 644GWh (+13% YoY, vs. exp. 665GWh), with new installed capacity offsetting weaker load factors. Group adj. EBITDA (pre-IFRS16 net of clawback) closed at Eu103mn (-6% YoY, vs. exp. Eu102mn) and adj. net income from continued operations at Eu37mn (-2% YoY, vs. exp. Eu31mn). Moving to the balance sheet, net debt (pre-IFRS16) increased to Eu1,516mn (vs. exp. Eu1,519mn) from Eu1,206mn as at the end of March, following Eu246mn of CapEx and M&A cash-outs and the dividend payment for Eu150mn.
- **Divisional results.** Looking at the various business segments, Wind Italy reported EBITDA net of clawback at Eu41mn (-8% YoY, vs. exp. Eu40mn, slightly higher volumes, lower electricity prices, feed-in premium zero); Solar Italy at Eu25mn (+9% YoY, vs. exp. Eu22mn, additional capacity), Wind Abroad at Eu35mn (-13% YoY, vs. exp. Eu37mn, additional capacity and higher volumes offset by lower electricity prices,) and Solar Abroad at Eu8mn (-4% YoY, in line).
- **2023 EBITDA guidance trimmed.** Due to weak wind conditions in 2Q and some minor delays in contributions from new assets**,** ERG trimmed its 2023 Group EBITDA target (pre-IFRS16 net of clawback), now seen in the Eu480-520mn range from the previous Eu500-550mn. During the call, ERG said net income is seen slightly in excess of Eu200mn. By contrast, CapEx was confirmed at Eu500-600mn, with YE23 net debt (pre-IFRS16) still seen between Eu1,400-1,500mn, thanks primarily to lower net financial charges. Looking at the different areas, for Wind Italy, ERG projects lower margins vs. 2022, reflecting lower volumes and lower average selling prices (lower PUN and feed-in premium at zero); for Solar Italy, margins are projected up YoY, thanks primarily to the contribution of the 34MW acquired in July 2022. The overall Wind&Solar Italy business is seen down YoY. Abroad, both Wind and Solar are expected to report higher margins thanks to the full contribution of the new capacity.
- **Updated estimates and valuation.** Following 2Q results, we have updated our 2023 projections to reflect lower load factors and slightly lower average selling prices. Below EBITDA, we have slightly reduced depreciation and net financial charges. In terms of the valuation, we trim our target price to Eu33.0ps from Eu34.0ps, still based on DCF, market multiples and SOP valuations.
- **Action on the stock.** 2Q23 was a weak quarter, as was more generally the whole of 1H23, penalised by poor wind load factors across Europe. Despite the downward revision of 2023 guidance, we continue to think ERG represents an appealing investment in Renewables thanks to the company's pipeline of investment opportunities in Italy and abroad.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,232	749	842	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	1.544	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	10.5	9.6	9.6
EV/EBIT Adj	20.1	19.9	18.6	16.7	16.8
P/E Adj	19.0	16.6	18.3	16.7	16.2
Div. Yield	3.5%	3.9%	3.9%	3.9%	3.9%
Net Debt/EBITDA Adj	3.7	2.9	3.0	3.0	3.3