# INWIT

**BUY**

*Sector: Telecoms*

Price: Eu12.10 - **Target: Eu15.00**

## Strong Execution Despite Some Volatility in the Customer Mix

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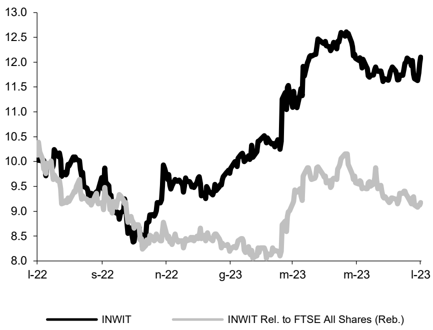
| Stock Rating | | | |
|---|---|---|---|
| **Rating:** | | | Unchanged |
| **Target Price (Eu):** | | | from 15.50 to 15.00 |
| | **2023E** | **2024E** | **2025E** |
| **Chg in Adj EPS** | -2.9% | -1.3% | -1.4% |

**Next Events**
2Q23 Results 26 July

**INWIT - 12M Performance**




| Stock Data | | | |
|---|---|---|---|
| Reuters code: | | | INWT.MI |
| Bloomberg code: | | | INW IM |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute | 3.5% | -2.5% | 19.4% |
| Relative | -0.2% | -5.9% | -12.8% |
| 12M (H/L) | | | 12.61/8.29 |
| 3M Average Volume (th): | | | 1,176.85 |

| Shareholder Data | |
|---|---|
| No. of Ord shares (mn): | 960 |
| Total no. of shares (mn): | 942 |
| Mkt Cap Ord (Eu mn): | 11,618 |
| Total Mkt Cap (Eu mn): | 11,618 |
| Mkt Float - Ord (Eu mn): | 3,904 |
| Mkt Float (in %): | 33.6% |
| Main Shareholder: | |
| Vodafone | 33.2% |

| Balance Sheet Data | |
|---|---|
| Book Value (Eu mn): | 4,306 |
| BVPS (Eu): | 4.57 |
| P/BV: | 2.6 |
| Net Financial Position (Eu mn): | -4,258 |
| Enterprise Value (Eu mn): | 15,662 |

- **2Q23 preview.** Results should show similar trends to 1Q, albeit with a different top line mix, highlighting continuing strong support from anchor tenants and a decent performance with OLOs (some new PoPs from Wind3 and Iliad), partially offset by softer demand from selected FWAs, while there was robust uptake from OTMOs and IoT operators, although these feature much lower hosting fees. We see sales at €238.9mn, up +13.4% (1Q: +12.8%, 4Q: +8.1%) boosted by the CPI link (8% on average in 2022), new sites (2Q: +150, 1Q: +130), new PoPs (+650 anchors and +420 other clients) and new services (€11mn, +39% YoY). We still see room for margin expansion (EBITDAaL margin at 71%, +2.6pp YoY, flattish QoQ) despite increases in ground lease costs due to inflation and a larger asset base. On the other hand, we remind that in 1Q the company signed an agreement with TIM for the purchase of ~200 plots of land with economic impact from 2Q onwards. 1H RFCF should have reached €278mn, up 22% (2Q: +40%, 1Q: +8%), showing 65% cash conversion on EBITDA, mainly thanks to the unwinding of NWC in 2Q more than offsetting 1Q outflows, and despite tax payments and higher interest charges. Considering €336mn in dividend payments and a buyback of c.€5mn, net debt, including IFRS16, should have risen to €4.31bn (YE22: €4.08bn) with leverage stable at 5.0x.
- **Trimming FY23 estimates from high end to middle of guidance range.** We are lowering our FY23 top line projections by 1% to embody a more sustainable progression in OLO&Other revenues and new services for 2H, now assuming FY trends more consistent with the middle of the FY guidance range (previously upper end). This leads to cuts of 3%/1%/1% in 2023/24/25 adj. EPS and 1% in RFCF.
- **BUY confirmed; new target €15.0 (from €15.5)** to reflect new estimates and a 15% speculative premium (unchanged) on our fundamental FV of €13.00 (from €13.60). The recent delisting of Vantage Towers (33.2% stake in INWIT) supports the speculative appeal on INWIT in the event of a potential take-private move by KKR/Vodafone or Ardian (30% stake), but we would not be surprised if the transaction takes longer, given the current high interest rate environment and the substantial financial commitment such a deal would entail. We stick to our BUY rating on INWIT to reflect: a) strong value generation embedded in current targets, thanks to industry-leading organic growth (+11% EBITDAaL CAGR) and high visibility from the MSA with anchor tenants; b) very generous shareholder remuneration (15% DPS CAGR + €600mn buyback in 2023-24); c) further balance sheet optionality, with up to €1.0-1.5bn of financial headroom by 2026 (assuming a 5.0-5.5x corridor, vs. our 4.0x forecast) to pay extra dividends/buyback for up to €1.5/share; d) speculative appeal from M&A. Long-term RFCF visibility comes with almost no downside risk and strong protection in the current inflationary environment (MSA 100% CPI-linked, 0% floor, no cap). The stock is currently trading at 23x EV/EBITDAL 2023E, well below the multiples implicit in the recent transactions for Vantage Towers (26x) and GD Towers (25x), and an RFCF yield of 5% in 2023 (6% in 2026).

| Key Figures & Ratios | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Sales (Eu mn) | 785 | 853 | 970 | 1,053 | 1,119 |
| EBITDA Adj (Eu mn) | 714 | 781 | 883 | 958 | 1,024 |
| Net Profit Adj (Eu mn) | 301 | 405 | 478 | 536 | 586 |
| EPS New Adj (Eu) | 0.313 | 0.422 | 0.500 | 0.571 | 0.622 |
| EPS Old Adj (Eu) | 0.313 | 0.422 | 0.514 | 0.579 | 0.631 |
| DPS (Eu) | 0.323 | 0.347 | 0.480 | 0.516 | 0.555 |
| EV/EBITDA Adj | 18.6 | 17.0 | 17.7 | 16.4 | 15.5 |
| EV/EBIT Adj | 37.5 | 31.9 | 30.3 | 26.6 | 24.2 |
| P/E Adj | 38.6 | 28.7 | 24.2 | 21.2 | 19.5 |
| Div. Yield | 2.7% | 2.9% | 4.0% | 4.3% | 4.6% |
| Net Debt/EBITDA Adj | 5.7 | 5.2 | 4.8 | 4.6 | 4.4 |