

ITALGAS

Sector: Utilities

NEUTRAL

Price: Eu5.84 - Target: Eu5.60

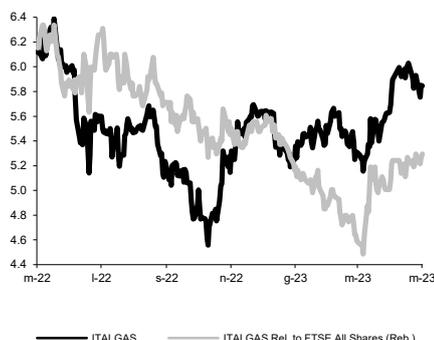
Positive Start to the Year

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	0.2%	-0.3%	0.6%

ITALGAS - 12M Performance



Stock Data

Reuters code:	IG.MI
Bloomberg code:	IG IM

Performance	1M	3M	12M
Absolute	2.6%	7.1%	-5.0%
Relative	4.1%	8.4%	-15.3%
12M (H/L)	6.39/4.56		
3M Average Volume (th):	1,616.55		

Shareholder Data

No. of Ord shares (mn):	809
Total no. of shares (mn):	810
Mkt Cap Ord (Eu mn):	4,729
Total Mkt Cap (Eu mn):	4,729
Mkt Float - Ord (Eu mn):	2,861
Mkt Float (in %):	60.5%
Main Shareholder:	
CDP	26.0%

Balance Sheet Data

Book Value (Eu mn):	2,257
BVPS (Eu):	2.79
P/BV:	2.1
Net Financial Position (Eu mn):	-6,222
Enterprise Value (Eu mn):	11,449

- Positive 1Q23 results, P&L a touch better:** yesterday IG published results that slightly exceeded expectations on the P&L, while cash flow generation was a touch worse than forecast, due to VAT receivables and stronger-than-expected growth in the group's efficiency businesses. Specifically, revenues closed at Eu480mn, +36% YoY, featuring a +14% performance from distribution revenues or +5% YoY when adjusted for both the contribution from Depa (+Eu44mn) and the exit from the Naples 1 concession (ca Eu15mn), as well as a sharp rise in other revenues (+226% YoY). Adj. EBITDA was Eu297mn (+19% YoY or +11% YoY adj for Depa and Naples 1; Eu292mn expected) with a LFL cost inflation in regulated activities of ca.3%, EBIT was Eu172.5mn, and adj. net income was Eu103.6mn (+16.5% YoY, Eu100mn expected). During the quarter capital expenditure was down 3% YoY despite the contribution from Depa, and net debt closed at Eu6,090mn (including the IFRS16 impact), slightly above our estimates and consensus.
- Main pointers from the conference call. EBITDA growth:** some Eu30mn of the Eu47mn increase compared to the same period of 2022 refers to the consolidation of the DEPA Infrastructure Group and c.Eu20mn from ESCo activities, while the impact of the exit from the Naples ATEM had a negative impact of around Eu11mn; **Working capital:** the expansion in working capital was due to VAT receivables (Eu100mn), superbonus and ecobonus activities, as well as the impact of the mild weather; **ESCOs:** management expects revenues from these activities to peak around the second quarter of this year. **Depa:** the Greek regulator will start updating the WACC for 2023 while leaving it open to further adjustments for the following years of the regulatory period that began on 1 January 2023; while waiting for the final number, in its 1Q23 numbers Italgas has already assumed an increase vs. the previous WACC, but once it has been defined the update in allowed WACC will be backdated to 1 January 2023; **Progress on sustainability objectives:** 1Q23 featured a sharp reduction in net consumption of total energy, with a drop of 17.3% compared to the corresponding period of 2022, despite the increase due to the inclusion of the DEPA Infrastructure Group.
- Changes to estimates.** Despite a 1% increase in FY23 EBITDA, we are broadly confirming our EPS estimates as well as our net debt forecasts. Please note that for 2024 and 2025 we are assuming a gas distribution WACC of 6.4% and 6.2% respectively (unchanged). Our target price is also confirmed at Eu5.60.
- NEUTRAL (target Eu5.60).** Management continues to deliver strong operational and financial results, leveraging on the integration of sustainability targets which help direct investments towards the energy transition process, in line with EU guidelines. The acquisition of Depa is helping to sustain the trajectory of the group's bottom line despite the reduction in allowed WACC, while also helping the expected dividend payment trend (we would once again stress that Italgas has the lowest payout ratio among its peer group). Still, at this stage we continue to prefer Snam among regulated names based on absolute valuations and a greater exposure to the hydrogen theme.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,371	1,556	1,816	1,922	2,081
EBITDA Adj (Eu mn)	1,009	1,097	1,179	1,321	1,410
Net Profit Adj (Eu mn)	368	392	409	478	504
EPS New Adj (Eu)	0.454	0.485	0.506	0.591	0.624
EPS Old Adj (Eu)	0.454	0.489	0.505	0.593	0.620
DPS (Eu)	0.295	0.317	0.327	0.359	0.381
EV/EBITDA Adj	9.8	10.0	9.7	8.9	8.5
EV/EBIT Adj	17.4	18.8	18.3	17.6	
P/E Adj	12.9	12.0	11.6	9.9	9.4
Div. Yield	5.0%	5.4%	5.6%	6.1%	6.5%
Net Debt/EBITDA Adj	4.9	5.5	5.3	4.9	4.8