

# ITALGAS

Sector: Utilities

## NEUTRAL

Price: Eu5.43 - Target: Eu6.10

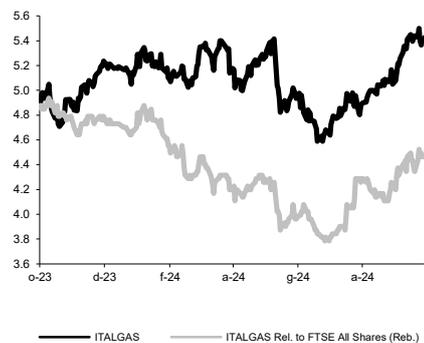
## Leveraging AI to Make the Gas Distribution Champion

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### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 5.70 to 6.10		
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	-0.7%	-1.7%

### ITALGAS - 12M Performance



### Stock Data

Reuters code:	IG.MI		
Bloomberg code:	IG IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	7.5%	16.0%	12.1%
Relative	5.9%	16.8%	-9.2%
12M (H/L)	5.50/4.59		
3M Average Volume (th):	2,907.42		

### Shareholder Data

No. of Ord shares (mn):	809
Total no. of shares (mn):	810
Mkt Cap Ord (Eu mn):	4,393
Total Mkt Cap (Eu mn):	4,393
Mkt Float - Ord (Eu mn):	2,658
Mkt Float (in %):	60.5%
Main Shareholder:	
CDP	26.0%

### Balance Sheet Data

Book Value (Eu mn):	2,480
BVPS (Eu):	3.07
P/BV:	1.8
Net Financial Position (Eu mn):	-6,587
Enterprise Value (Eu mn):	11,199

- **Binding offer for 2i Rete Gas...** on Saturday evening, Italgas announced that F2i SGR and Finavias had accepted the binding offer relating to the purchase of their stakes in 2i Rete Gas for a total EV of Eu5.3bn. Italgas will finance the deal through bridge financing initially subscribed by JP Morgan and underwritten by a pool of financing banks; this bridge financing will then partially be refinanced through a Eu1.0bn capital raise aimed at ensuring the company retains its current credit rating. Closing of the deal is envisaged in 1H25, once the necessary regulatory approvals have been obtained.
- **... at a reasonable price.** We believe the transaction has significant industrial and strategic value, enabling Italgas to become the leading European operator in the gas distribution sector and extending its digital applications to the entire network, improving operational efficiency, and increasing security and reliability. The deal values 2i Rete Gas at 11.4x 2023 earnings (a 15% premium vs. the 9.9x for Italgas), 9.7x EV/EBITDA 2023 (a 3% premium vs. Italgas) and at a premium of c.8-9% to 2023 RAB (vs. c.14% for Italgas).
- **New Strategic Plan presented...** yesterday, management also presented the Group's Strategic Plan for the 2024-2030 period, envisaging investments of Eu15.6bn over the plan period, with an increase of Eu7.5bn (+92% vs the previous plan) and aimed at the acquisition of 2i Rete Gas, interventions for the development of gas distribution in Italy and Greece, strengthening the presence in the water sector, and accelerating growth in energy efficiency, with a strong commitment to achieving EU climate targets.
- **... targeting a 10% CAGR for EPS to 2030.** Investments will include Eu12.8bn for the Italian gas distribution network, Eu1.0bn for the development of the Greek network and Eu750mn for diversification in water and energy efficiency initiatives. By 2030, the plan envisages Eu200mn of synergies from efficiency gains, cost cutting and AI (higher than expected), as well as Eu80mn in revenues deriving from the incremental investments in the digitalisation of the 2i Rete Gas network. Net profit is expected to grow at a 13% CAGR to 2030, while EPS accretion is expected to start as of 2026, including the expected capital raise, and should reach c.15% in 2029 (vs previous plan).
- **Dividend policy improved slightly.** The dividend policy (up to 2026): 65% payout confirmed, minimum annual growth threshold raised to 5%, now based on 2023 DPS.
- **Estimates and target price.** While our estimates on a stand-alone basis are broadly confirmed (slight cut based on lower WACC from 2025), we see significant upside potential from the acquisition of 2i Rete Gas and broader indications from the new Strategic Plan. Despite taking a more conservative view on deal synergies, regulated WACC, gas tenders, and consolidation of Water assets, we see average upside on 2026-2030 EPS of ca. 9% with a similar impact on average DPS. Our TP moves to Eu6.1 as we incorporate a portion of the NPV of the synergies targeted in the plan.
- **NEUTRAL, TP Eu6.1 (from Eu5.70).** In our view, the 2i Rete Gas transaction has a clear industrial and strategic rationale and the value creation potential from synergies and efficiencies looks significant. At this stage, we confirm our recommendation given the strong recent performance (+16% vs FTSE MIB over 3 months) and the potential impact of the capital increase.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	1,556	1,818	1,784	1,829	1,910
EBITDA Adj (Eu mn)	1,101	1,208	1,343	1,369	1,434
Net Profit Adj (Eu mn)	396	440	485	485	508
EPS New Adj (Eu)	0.489	0.543	0.600	0.599	0.628
EPS Old Adj (Eu)	0.489	0.543	0.600	0.603	0.639
DPS (Eu)	0.317	0.352	0.387	0.387	0.407
EV/EBITDA Adj	9.6	9.2	8.3	8.2	8.0
EV/EBIT Adj	17.0	16.3	14.1	13.9	13.3
P/E Adj	11.1	10.0	9.1	9.1	8.6
Div. Yield	5.8%	6.5%	7.1%	7.1%	7.5%
Net Debt/EBITDA Adj	5.4	5.5	4.9	4.9	4.7

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- 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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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

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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OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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