Intermonte

Milan, 10 March 2023

Italian Equity Research – 4Q22 Results

ITALGAS

NEUTRAL

Sector: Utilities

Price: Eu5.16 - **Target: Eu5.60**

Solid End to FY22 Leads to 7.5% YoY DPS Growth

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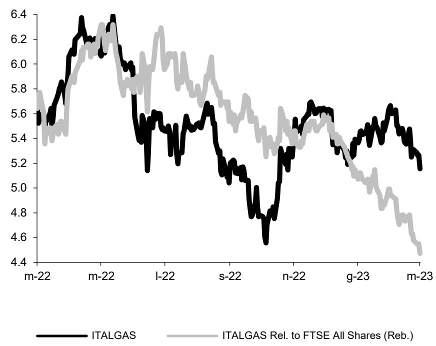
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 5.40 to 5.60
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-1.1%	-1.4%	-2.7%

ITALGAS - 12M Performance



Stock Data			
Reuters code:			IG.MI
Bloomberg code:			IG IM
Performance	**1M**	**3M**	**12M**
Absolute	-9.0%	-8.4%	-8.6%
Relative	-9.6%	-22.2%	-23.7%
12M (H/L)			6.39/4.56
3M Average Volume (th):			1,187.94

Shareholder Data	
No. of Ord shares (mn):	809
Total no. of shares (mn):	810
Mkt Cap Ord (Eu mn):	4,170
Total Mkt Cap (Eu mn):	4,170
Mkt Float - Ord (Eu mn):	2,523
Mkt Float (in %):	60.5%
Main Shareholder:	
CDP	26.0%

Balance Sheet Data	
Book Value (Eu mn):	2,260
BVPS (Eu):	2.79
P/BV:	1.8
Net Financial Position (Eu mn):	-6,197
Enterprise Value (Eu mn):	10,791

- **4Q22 results broadly in line with expectations when adjusted for exceptional items:** Yesterday IG published a set of results that exceeded expectations in reported terms but were broadly in line with estimates when adjusted for exceptional items. Specifically, revenues closed at Eu469mn, +28% YoY or c.+15% when adjusted for both the special items (capital gains on disposals and fair value adjustments) and the one-offs that were included in the group's adj. results (capital gains on the Naples concession and some real estate assets), featuring a +4% performance from distribution revenues (Depa consolidation) but a sharp rise in other regulated activities and other revenues, adj. EBITDA at Eu297mn (+14% YoY) or Eu267mn excl. capital gains (Eu270mn expected) benefiting from further like-for-like efficiencies and the consolidation of Depa, EBIT at Eu186mn, and adj. net income at Eu107mn (+14% YoY, Eu97mn expected). Net debt closed at Eu6,000mn (including the IFRS16 impact), slightly above our estimates and consensus, despite a 11% YoY drop in investments to Eu268mn. Following these results management proposed a DPS of Eu0.317, up 7.5% YoY in line with FY22 adj. net profit.
- **Main pointers from the conference call:** working capital: a big portion of the working capital increase (+Eu240mn in FY22) comes from the increase in receivables relating to superbonus works, something that will be recovered in the next four years starting from 2023. The other driver of the increase relates to receivables from Cassa Conguaglio (regulatory items) and can be recovered in December 2023; ESCOs: in order to sustain these activities, the group will direct its efforts to potential M&A as well as increasing the customer base (raised focus on industrial clients thanks to energy efficiency offering) and management expects stable cash flow in the year to come. Depa**:** regulatory talks are ongoing - there is no precise deadline but the situation is expected to be finalised in the next 1-2 months, but will also depend on political elections on which there is no date yet. Regardless of the date, the update in allowed WACC will be backdated to 1 January 2023. In 2023 the group's CapEx in Greece is expected to reach around Eu200mn. Strategic plan: on 14 June, Italgas will present the update to the Strategic Plan (2023 guidance will also be presented at the same time) and management sounded fairly confident that the group will be able to reach the previous 2025 EBITDA targets (i.e. Eu1.45bn).
- **Changes to estimates and target price.** We are broadly confirming our 2023-2024 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 moves from Eu5.40 to Eu5.60 as a consequence of the rolling over of our DCF.
- **NEUTRAL; target Eu5.60 (from Eu5.40).** Management continues to deliver strong operational and financial results, also 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 will help sustain the trajectory of the group's bottom line despite the reduction in allowed WACC also helping the expected trend in dividend payments (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	1,669	1,843	1,969
EBITDA Adj (Eu mn)	1,009	1,101	1,167	1,323	1,404
Net Profit Adj (Eu mn)	368	396	408	480	502
EPS New Adj (Eu)	0.454	0.489	0.505	0.593	0.620
EPS Old Adj (Eu)	0.454	0.476	0.511	0.601	0.637
DPS (Eu)	0.295	0.317	0.327	0.359	0.381
EV/EBITDA Adj	9.7	9.9	9.2	8.3	8.0
EV/EBIT Adj	17.3	18.7	17.3	16.6	
P/E Adj	11.3	10.5	10.2	8.7	8.3
Div. Yield	5.7%	6.2%	6.3%	7.0%	7.4%
Net Debt/EBITDA Adj	4.9	5.4	5.3	4.9	4.7