ITALGAS

NEUTRAL

Sector: Utilities

Price: Eu8.46 - **Target: Eu8.00**

Fine-Tuning Estimates Ahead of BP Update

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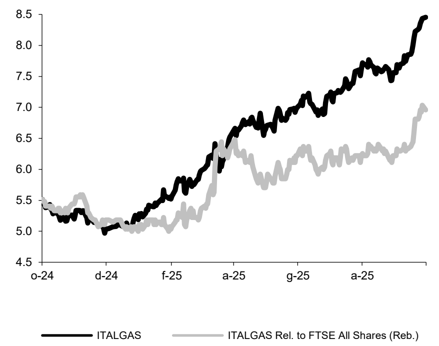
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.30 to 8.00
	2025E	**2026E**	**2027E**
Chg in Adj EPS	0.0%	1.3%	3.8%

Next Event
Results/BP Out October 30

ITALGAS - 12M Performance



Stock Data			
Reuters code:			IG.MI
Bloomberg code:			IG IM
Performance	**1M**	**3M**	**12M**
Absolute	11.8%	17.8%	52.9%
Relative	11.7%	12.7%	32.4%
12M (H/L)			8.46/4.97
3M Average Volume (th):			2,550.37

Shareholder Data	
No. of Ord shares (mn):	1,015
Total no. of shares (mn):	1,015
Mkt Cap Ord (Eu mn):	8,579
Total Mkt Cap (Eu mn):	8,579
Mkt Float - Ord (Eu mn):	5,190
Mkt Float (in %):	60.5%
Main Shareholder:	
CDP	26.0%

Balance Sheet Data	
Book Value (Eu mn):	3,812
BVPS (Eu):	3.76
P/BV:	2.3
Net Financial Position (Eu mn):	-10,976
Enterprise Value (Eu mn):	20,063

- **Business Plan update:** on 30th October, Italgas will present the update to its 7-year rolling plan, to cover the 2025-2031 period. We expect the plan to be structured along three main lines: 1) integration of 2i Rete Gas and associated synergy extraction, continuation of the digital transformation of the network, consolidation of Italian gas distribution sector; 2) development of gas distribution in Greece; 3) new development opportunities in the water sector and the energy efficiency business.
- **Focus on gas distribution and 2i RG integration:** when excluding the Eu5.3bn spent for the acquisition of 2iRG, we expect investments in the domestic gas network to increase slightly from Eu7.5bn to over Eu8bn, with the focus remaining on the digital transformation and repurposing of the network in order to distribute renewable gases. A lot of attention will be paid to any new colour on/ improvement to last year's target for Eu200mn of synergies by 2030. Including the 2i RG acquisition, total investments could reach Eu13.4bn, and we expect Italgas to target an exit RAB of c.Eu17.3bn (some Eu1.2bn of investments for tenders could push total domestic RAB to Eu18.4bn). As far as Greece is concerned, we expect Enaon RAB to grow to c.Eu1.4bn by 2031 on the back of c.Eu1.1bn in investments.
- **Water and energy efficiency:** in Water we expect broad confirmation of last year's targets, with a focus on the transfer of expertise in complex networks (digitalisation, etc.), and some targeted M&A. The development of energy efficiency activities should also continue and be supported by selected external growth opportunities. Overall, we expect CapEx in these areas to amount to some Eu0.8bn. Finally, management should broadly confirm some development opportunities offered by tenders, with an overall investment close to the (net) Eu1.1bn target communicated last year.
- **Financial targets and dividend policy.** we expect management to target an exit EBITDA of just under Eu3.0bn, assuming a flat allowed WACC at 5.9%, while in terms of RAB we expect an overall exit RAB of just under Eu20bn. As far as net debt/RAB is concerned, we still expect an exit level close to 62%. The group's current dividend policy, which expires in 2026, envisage a DPS corresponding to the higher of a 5% CAGR from 2023 and a 65% payout ratio. We expect management to improve the policy slightly by rolling it over by one year to 2027, the final year of the WACC regulatory period.
- **Change in estimates and TP:** we are broadly confirming our 2025-2026 estimates while raising 2027-2031 EPS by 6.5% on average mainly on the back of lower financial charges and slightly lower D&A. Our 2030 bottom line is still some 8% below the target provided by management 12 months ago, due to more conservative assumptions on cost synergies (70% of target), absence of smart meters substitution and a lower contribution from tenders (c.50%). Our target moves to Eu8.0 from Eu7.3 previously, mostly on the back of higher estimates.
- **NEUTRAL confirmed; target Eu8.0 (from Eu7.3):** the rapid integration of 2i RG has once again proven management's ability to master complex organisational tasks and bodes well for the future of the merger, including the identification of best practices and the pursuit of efficiencies. We confirm our positive view on the transaction and on the value creation potential from synergies and efficiencies, although in our view this already seems to be largely incorporated in the group's valuation (24% premium to 2024 RAB).

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales (Eu mn)	1,818	1,740	2,537	2,798	2,908
EBITDA Adj (Eu mn)	1,208	1,312	1,883	2,085	2,193
Net Profit Adj (Eu mn)	440	506	641	723	755
EPS New Adj (Eu)	0.543	0.626	0.632	0.713	0.744
EPS Old Adj (Eu)	0.543	0.626	0.632	0.703	0.717
DPS (Eu)	0.352	0.406	0.414	0.460	0.482
EV/EBITDA Adj	9.0	8.4	10.7	9.7	9.3
EV/EBIT Adj	16.0	13.9	17.4	15.7	15.1
P/E Adj	15.6	13.5	13.4	11.9	11.4
Div. Yield	4.2%	4.8%	4.9%	5.4%	5.7%
Net Debt/EBITDA Adj	5.5	5.2	5.8	5.3	5.1

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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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium between 5.5% - 6.0% are being used.
Frequency of research: quarterly.
Reports on all companies listed on the FTSEMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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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:	37.40%
NEUTRAL:	30.54%
UNDERPERFORM:	00.00%
SELL:	00.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (76 in total) is as follows:

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NEUTRAL:	18.42%
UNDERPERFORM:	00.00%
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