

# ITALGAS

Sector: Utilities

## NEUTRAL

Price: Eu4.80 - Target: Eu5.20

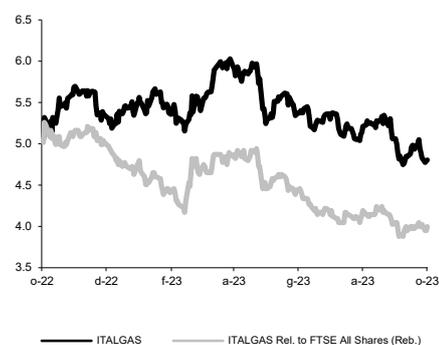
## Solid 3Q Numbers and Confirmation of FY23 Guidance

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### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 5.60 to 5.20		
	2023E	2024E	2025E
Chg in Adj EPS	0.3%	-1.0%	-1.3%

### 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	-5.1%	-9.3%	-4.7%
Relative	-1.6%	-3.5%	-25.0%
12M (H/L)	6.03/4.75		
3M Average Volume (th):	1,778.66		

### Shareholder Data

No. of Ord shares (mn):	809
Total no. of shares (mn):	810
Mkt Cap Ord (Eu mn):	3,886
Total Mkt Cap (Eu mn):	3,886
Mkt Float - Ord (Eu mn):	2,351
Mkt Float (in %):	60.5%
Main Shareholder:	
CDP	26.0%

### Balance Sheet Data

Book Value (Eu mn):	2,264
BVPS (Eu):	2.80
P/BV:	1.7
Net Financial Position (Eu mn):	-6,601
Enterprise Value (Eu mn):	10,794

- Solid 3Q23 results broadly in line with expectations.** Yesterday IG published results that were broadly in line with our expectations at most levels, characterised by another excellent performance in terms of cost control. Revenues closed at Eu438mn, +15% YoY, featuring a +11% performance from distribution revenues (or c.+3% YoY when adjusted for both the contribution from Depa and the exit from the Naples 1 concession), as well as a strong rise in other revenues (+43% YoY). Adj. EBITDA was Eu303mn (+11.5% YoY or c.+3.5% YoY adj. for Depa and Naples 1; Eu299mn expected), EBIT was Eu178mn, and adj. net income was Eu103.5mn (+3% YoY, in line). During 3Q23 CapEx was Eu191mn (+11% YoY), which along with the seasonal expansion in working capital pushed net debt to Eu6,482mn (including IFRS16) also broadly in line with our estimates and consensus.
- Main pointers from the conference call.** Working capital: the Eu6.4bn FY23 net debt guidance provided by management is still based on neutral working capital trends, and this assumes the use of factoring, as in 9M Geoside showed a Eu180mn working capital increase (alternatively, the group will take advantage of fiscal incentives over a 4-year period); Depa: discussions are ongoing to complete the regulatory period until 2026 and management hopes to get the allowed WACC from the authority before year end; Water business: management shared some numbers of water activities post-Veolia deal, with 2022 pro-rata EBITDA of Eu36mn, net income of Eu8mn and RAB of Eu274mn. Management expects actionable operating synergies e.g. overlap of gas and water activities in Latina. 2024 WACC: final decision from Arera expected by early December, management expects +80-90bp with the range depending on some elements surrounding inflation. For 2025 the company expects WACC to be close to 2024, +/- 10bp.
- 2023 guidance confirmed.** Management confirmed guidance for 2023 EBITDA of approximately Eu1.18bn, EBIT at c.Eu680mn, net debt at Eu6.4bn, and CapEx at Eu0.9bn. Last quarter, CEO Gallo had added that the positive performance made him very confident on meeting current guidance (i.e. Eu1.18bn can now be considered a floor).
- Change in estimates and target price.** We are broadly confirming our FY23 estimates, with a slight reduction in operating costs broadly offset by higher financial charges. For 2024 we have only consolidated Siciliacque (74% stake) and not Acqualatina and Acqua Campania (49% and 48% stakes, respectively). Please note that for 2024 and 2025 we still assume a gas distribution WACC of 6.4% (+80bp vs. current levels) and 6.2%, respectively. Despite the confirmation in estimates, we are trimming our target price to Eu5.20 (from Eu5.60) on the back of the higher risk-free rate used (4.5%, up from 4.0%).
- NEUTRAL; target Eu5.20 (from Eu5.60).** Italgas continues to direct investments towards the energy transition process, and the development of DEPA along with the expansion in water distribution will help sustain the group's bottom line trajectory despite the stability of domestic investments and the delays in gas tenders. Following the sector's de-rating, we are starting to see some value emerge in the stock, although at this stage we confirm our recommendation, as among regulated names we prefer SNAM which we consider more leveraged to the hydrogen theme despite similar valuations.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,371	1,556	1,806	1,903	2,003
EBITDA Adj (Eu mn)	1,009	1,101	1,197	1,329	1,390
Net Profit Adj (Eu mn)	368	396	413	473	488
EPS New Adj (Eu)	0.454	0.489	0.511	0.585	0.603
EPS Old Adj (Eu)	0.454	0.489	0.509	0.591	0.610
DPS (Eu)	0.295	0.317	0.330	0.379	0.391
EV/EBITDA Adj	9.6	9.8	9.0	8.2	7.9
EV/EBIT Adj	17.0	18.5	17.3	16.3	
P/E Adj	10.6	9.8	9.4	8.2	8.0
Div. Yield	6.1%	6.6%	6.9%	7.9%	8.1%
Net Debt/EBITDA Adj	4.9	5.4	5.5	5.0	4.9