RAI WAY

BUY

Sector: Telecoms

Price: Eu5.39 - **Target: Eu7.50**

1Q Margin Peak Not a Proxy for Coming Qs. No Update on M&A

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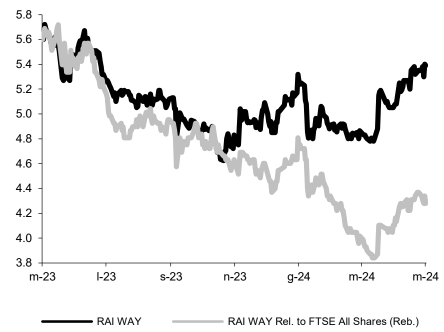
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event
2Q24 Results 1 August 2024

RAI WAY - 12M Performance



Stock Data			
Reuters code:			RWAY.MI
Bloomberg code:			RWAY IM
Performance	**1M**	**3M**	**12M**
Absolute	6.3%	9.8%	-3.8%
Relative	4.5%	-1.0%	-29.2%
12M (H/L)			5.72/4.63
3M Average Volume (th):			358.65

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,466
Total Mkt Cap (Eu mn):	1,466
Mkt Float - Ord (Eu mn):	514
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	190
BVPS (Eu):	0.70
P/BV:	7.7
Net Financial Position (Eu mn):	-169
Enterprise Value (Eu mn):	1,635

- **1Q24 results.** Although revenues were in line with our estimates /consensus, the company showed rock-solid profitability at 68% (our exp. 65.5%, consensus 65.6%), up 2.5pp YoY thanks to reductions in all cost items, including energy (bills down 8% vs. 1Q23 thanks to lower tariffs, despite a lack of tax credits) and personnel, as development activities drove a higher portion of capitalised costs on personnel (+€1.1mn YoY). For the coming quarters, we expect a less dynamic EBITDA trend (FY24E: +0.3% YoY), considering the fading of the favourable comparison on energy costs (a sharp reduction occurred between 2Q23 and 4Q23) and the lack of tax incentives. Core revenue (€68.9mn, up 1.5%) grew above CPI (0.7%) supported by: i) full impact of regional refarming in the Media Distribution segment, ii) a healthy performance of FWAPs and radio broadcasters in Tower Hosting. In this quarter, diversification activities did not yet yield top line benefits, while €0.4mn of start-up costs were absorbed. Net profit was €23.8mn (+8% vs our/cons. exp.), up single-digit (+1.4%) as EBITDA growth (+5.3% YoY) was partially offset by higher D&A (investment cycle), financial charges (increased interest rates) and tax rate (28.8%). Solid RFCF (€33mn, our exp. €31) was partially absorbed by NWC absorption (€14.3mn) and development CapEx (€4.4mn, of which €2.5mn for diversification activities) leading to a €14mn reduction in net debt to €90.6mn (our exp. €88.9mn, cons. €88.8mn) from YE23. LTM leverage down to 0.5x (YE23: 0.58x).
- **Neutral feedback from call.** FY24 guidance confirmed as expected, considering the relatively short time since the presentation of the business plan. M&A: no relevant update; firm commitment to working on this chapter, which represents an important area of development for RAI Way. Edge DCs: rising commercial interest; discussions are ongoing with prospective customers. Hyperscale DC: still too early to engage in commercial discussions despite the increasing interest in Rome; all permits have been obtained, with support from the Rome City Council confirmed.
- **Change in estimates.** FY24-27 estimates virtually unchanged.
- **BUY confirmed; target still €7.5.** 1Q results shed more light on FY expectations. The recent business plan offered a clear industrial path for Rai Way, especially in traditional business that continues to offer considerable growth opportunities, while value creation from diversification should emerge over the longer term. On the back of current estimates, we confirm our TP at €7.5 which reflects a fair value of c.€6.6 from our DCF model (implying 11x 2024E EV/EBITDA) and additional upside from synergies with EIT (c.€0.6/share) and diversification opportunities (€0.3/share). RWAY is currently trading at an undemanding 9x 2025E EV/EBITDA, a discount of c.30% to key peers, as well as showing a compelling 2024 RFCF yield of c.8%. We remain positive on the stock, which benefits from speculative appeal on the potential merger with EI Towers and the upside from strategic opportunities in adjacent sectors (DC project with >10% unlevered IRR). In addition, RWAY has solid fundamentals (long-term visibility from the RAI MSA, 100% CPI-indexed with no cap, but also no floor), very low risk (limited leverage) and an attractive dividend yield (6%).

Key Figures & Ratios	2023A	2024E	2025E	2026E	2027E
Sales (Eu mn)	272	276	286	300	312
EBITDA Adj (Eu mn)	180	181	186	198	205
Net Profit Adj (Eu mn)	92	88	86	88	92
EPS New Adj (Eu)	0.337	0.325	0.315	0.322	0.338
EPS Old Adj (Eu)	0.337	0.325	0.315	0.322	0.338
DPS (Eu)	0.319	0.325	0.315	0.322	0.338
EV/EBITDA Adj	8.5	9.0	9.2	8.8	8.5
EV/EBIT Adj	11.7	12.6	13.5	12.9	12.3
P/E Adj	16.0	16.6	17.1	16.7	16.0
Div. Yield	5.9%	6.0%	5.8%	6.0%	6.3%
Net Debt/EBITDA Adj	0.6	0.9	1.4	1.4	1.3

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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 of 5.5% are being used.

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.

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BUY:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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