Intermonte

Milan, 14 November 2024

Italian Equity Research – 3Q24 Results

RAI WAY

BUY

Sector: Telecoms

Price: Eu5.08 - **Target: Eu7.50**

9M Results in Line, FY Outlook Confirmed, Still No News on M&A

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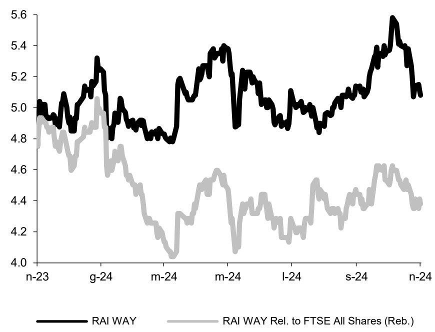
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-0.3%	-0.5%	-0.9%

Next Event

FY24 Results late March 2025

RAI WAY - 12M Performance



Stock Data			
Reuters code:			RWAY.MI
Bloomberg code:			RWAY IM
Performance	**1M**	**3M**	**12M**
Absolute	-5.2%	4.1%	6.9%
Relative	-3.5%	-0.9%	-9.3%
12M (H/L)			5.58/4.78
3M Average Volume (th):			238.21

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,382
Total Mkt Cap (Eu mn):	1,382
Mkt Float - Ord (Eu mn):	484
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	191
BVPS (Eu):	0.70
P/BV:	7.2
Net Financial Position (Eu mn):	-143
Enterprise Value (Eu mn):	1,525

- **9M24 results.** 9M results were in line with expectations overall, with a positive surprise on adj. EBITDA (+€1.4mn vs. our exp., mainly thanks to a one-off contribution) entirely offset at bottom line level by higher D&A (€38.1mn vs. our exp. €37.2mn) and interest (€5.0mn vs. our €4.3mn). Media Distribution (+1.1%) grew in line with core revenues, benefitting from the CPI link (+0.7%) on the RAI MSA and the contractual contribution from the start-up in regional broadcasting networks. Digital Infrastructure saw +3.3% underlying growth (excluding non-core and residual refarming impacts) supported by mid-to-high single-digit growth in FWAPs, MNOs and radio broadcasters. Adj. OpEx was under control (-0.3% YoY), with labour costs flat YoY excluding higher capitalisation (+€1.0mn YoY), while energy bills increased by 13% in 9M (+25% in 3Q) due to the absence of the incentives reported in 1H23. Solid RFCF (€96mn, our exp. €92mn) was entirely absorbed by NWC absorption (€34.5mn, mainly related to CapEx and taxes), development CapEx (€19.9mn, our exp. €26mn) and dividends (€87mn), leading to a €43mn increase in net debt to €148.2mn (our exp. €137mn, cons. €143mn) with leverage up to 0.81x (YE23: 0.58x).
- **Neutral feedback from call.** No news on M&A: a potential combination with EIT makes sense, but hinges on external regulatory, financial, and legislative factors, so is not fully within the company's control. Management urged patience and will focus on building shareholder value as developments unfold. FY24 outlook confirmed**:** adj. EBITDA growth despite new infrastructure costs and the lack of an energy tax credit. Maintenance and development CapEx broadly in line YoY (the 9M level implies a catch-up in 4Q). CPI trending towards 1.1% in October (BP assumes 1.5% CPI to be applied to the RAI MSA in 2025). New HQ in Rome: located in the city centre and able to host corporate functions, ready by April 2025, 9+9 years rental contract, 230 employees to be relocated, estimated annual saving run-rate €0.2mn. Edge DCs: no pre-committed capacity, the company has begun marketing activity with ongoing customer engagements that may soon convert to contracts.
- **Change in estimates**. Minor changes to FY24-27 estimates lead to a -0.5%/1% EPS cut.
- **BUY confirmed; target still €7.5.** 9M results shed more light on FY expectations. The current business plan offers a clear industrial path for Rai Way, especially in its 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 target price of €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.9%. 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 (c.7%).

Key Figures & Ratios	2023A	2024E	2025E	2026E	2027E
Sales (Eu mn)	272	277	286	298	309
EBITDA Adj (Eu mn)	180	184	187	196	203
Net Profit Adj (Eu mn)	92	90	87	87	91
EPS New Adj (Eu)	0.337	0.329	0.319	0.319	0.333
EPS Old Adj (Eu)	0.337	0.330	0.320	0.322	0.338
DPS (Eu)	0.319	0.328	0.319	0.319	0.333
EV/EBITDA Adj	8.5	8.3	8.8	8.4	8.1
EV/EBIT Adj	11.7	11.5	12.8	12.4	11.8
P/E Adj	15.1	15.4	15.9	15.9	15.2
Div. Yield	6.3%	6.5%	6.3%	6.3%	6.6%
Net Debt/EBITDA Adj	0.6	0.8	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.
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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OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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