

# RAI WAY

Sector: Telecoms

**BUY**

Price: Eu5.72 - Target: Eu7.50

## New CEO Inspires Continuity and a Pragmatic Approach on M&A

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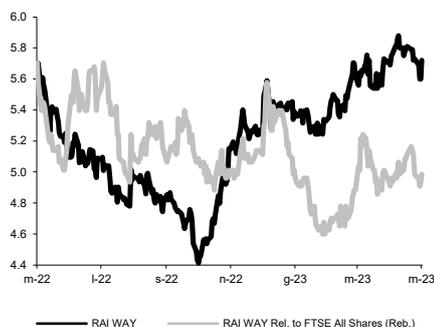
### Stock Rating

|                           |              |              |              |
|---------------------------|--------------|--------------|--------------|
| <b>Rating:</b>            | Unchanged    |              |              |
| <b>Target Price (Eu):</b> | Unchanged    |              |              |
|                           | <b>2023E</b> | <b>2024E</b> | <b>2025E</b> |
| <b>Chg in Adj EPS</b>     | 0.0%         | 0.0%         | 0.0%         |

### Next Event

2Q23 Results out 27 July

### RAI WAY - 12M Performance



### Stock Data

|                 |         |
|-----------------|---------|
| Reuters code:   | RWAY.MI |
| Bloomberg code: | RWAY IM |

| Performance             | 1M   | 3M        | 12M    |
|-------------------------|------|-----------|--------|
| Absolute                | 0.5% | 7.3%      | 0.3%   |
| Relative                | 1.6% | 7.3%      | -14.4% |
| 12M (H/L)               |      | 5.88/4.41 |        |
| 3M Average Volume (th): |      | 149.88    |        |

### Shareholder Data

|                           |       |
|---------------------------|-------|
| No. of Ord shares (mn):   | 272   |
| Total no. of shares (mn): | 272   |
| Mkt Cap Ord (Eu mn):      | 1,556 |
| Total Mkt Cap (Eu mn):    | 1,556 |
| Mkt Float - Ord (Eu mn):  | 545   |
| Mkt Float (in %):         | 35.0% |
| Main Shareholder:         |       |
| RAI                       | 65.0% |

### Balance Sheet Data

|                                 |       |
|---------------------------------|-------|
| Book Value (Eu mn):             | 189   |
| BVPS (Eu):                      | 0.70  |
| P/BV:                           | 8.2   |
| Net Financial Position (Eu mn): | -167  |
| Enterprise Value (Eu mn):       | 1,723 |

- 1Q23 results:** 1Q results slightly exceeded our expectations and consensus estimates, coming in 1% better on adj. EBITDA, 3% on net profit (€23.5mn vs. our exp. €22.7mn) but in line on RFCF (c.€31mn) and net debt (€92mn). The core top line rose to €245.4mn, 12.8% (+4.9% in 4Q) supported by revenues from RAI (€55.7mn, up +9.7%) reflecting CPI-indexation and termination of a minor radio service effective from 3Q and also by accelerating double-digit growth in third-party revenues (1Q23: +34%, 4Q: +27%, 3Q: +17%) boosted by the new regional MUXes business, the CPI-link and the supportive trend of FWAPs and radio broadcasters. Adj. EBITDA rose by 12.4% to €44.4mn, with the margin at 65.5%, despite higher OpEx (+15%) due to a tough comp on energy prices (1Q22 still benefitting from a fixed price contract signed in 2021) and higher labour costs (+12%, +3.6% underlying). Net profit rose by 25% to €23.5mn as a result of much higher EBITDA, lower D&A (-14%) for the termination of the useful life of DVB-T equipment, limited impact on financial charges from rising interest rates and a stable tax rate (28%). FY RLFCF at €31mn was partly absorbed by development CapEx (€5mn) and NWC absorption (€13mn), driving net debt down to €92mn (€105mn at YE22), leverage at 0.6x adj. EBITDA LTM.
- 2023 guidance confirmed:** Adj. EBITDA up mid-teens (our exp. €172mn/+14% YoY, IR consensus €171.1mn/+13% YoY), on the basis of current forecasts on electricity prices for 2023 (c. €150/MWh); maintenance CapEx in line with previous years (our exp. €18mn; FY22: €17.4mn); development CapEx in line with previous years (our exp. €70mn; FY22: €62.8mn) but with a different RAI/third-party mix.
- Feedback from the call with new CEO.** A very convincing introductory presentation in his new role as CEO by Roberto Cecatto who boasts long experience in RAI in roles of increasing responsibility at a number of divisions. He has frequently worked with previous RWAY management with whom he has good relations. Beyond confirming FY23 guidance, Mr. Cecatto expressed the willingness to maintain the Group's current strategic direction, with opportunities to accelerate value creation in businesses that are up-and-running and to identify areas ripe for further efficiencies or improvement. Opening to sector consolidation, held to be an important lever for value generation and industrial synergies. Consolidation with EI Towers was the first dossier looked at by the new CEO, who is committed to bringing it before the new RWAY board as soon as possible, taking a pragmatic approach that prefers "action to words". Management will work from 2H on a new business plan (likely to be presented with FY23 results in March'24).
- No change to our FY23-25 estimates.**
- BUY confirmed; target still €7.5.** Our €7.5 TP still reflects a €6.6 fair value from our DCF model (implying 12x 2023E EV/EBITDA) and additional upside from synergies with EIT (c.€0.6/share) and the Hyperscale datacentre (€0.4/share). RWAY is currently trading at an undemanding 10x 2023E EV/EBITDA, a discount of c.50% to key peers, as well as showing a compelling 2023 RFCF yield of 7%. Even though speculative appeal on the stock (linked to M&A with EIT) might have cooled in the short term, we believe the investment case remains unchanged. In particular, the company's hints on the next 3 years, confirming the role of traditional TV (Italy to remain a largely FTA market) and looking at strategic opportunities in adjacent sectors (DC project with >10% IRR) prompt us to remain positive. 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 (5%) on top of upside from a potential tie-up with EIT in the near future.

| Key Figures & Ratios   | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------|-------|-------|-------|-------|-------|
| Sales (Eu mn)          | 230   | 245   | 271   | 279   | 285   |
| EBITDA Adj (Eu mn)     | 143   | 151   | 172   | 179   | 184   |
| Net Profit Adj (Eu mn) | 66    | 74    | 90    | 91    | 93    |
| EPS New Adj (Eu)       | 0.244 | 0.271 | 0.330 | 0.334 | 0.343 |
| EPS Old Adj (Eu)       | 0.244 | 0.271 | 0.330 | 0.334 | 0.343 |
| DPS (Eu)               | 0.244 | 0.275 | 0.322 | 0.334 | 0.343 |
| EV/EBITDA Adj          | 10.3  | 9.9   | 10.0  | 9.9   | 9.9   |
| EV/EBIT Adj            | 16.1  | 14.5  | 13.6  | 13.8  | 13.9  |
| P/E Adj                | 23.5  | 21.1  | 17.3  | 17.1  | 16.7  |
| Div. Yield             | 4.3%  | 4.8%  | 5.6%  | 5.8%  | 6.0%  |
| Net Debt/EBITDA Adj    | 0.6   | 0.7   | 1.0   | 1.2   | 1.5   |