RAI WAY

BUY

Sector: Telecoms

Price: Eu4.90 - **Target: Eu7.00**

FY Guidance Raised, Focus Shifts to Diversification Initiatives

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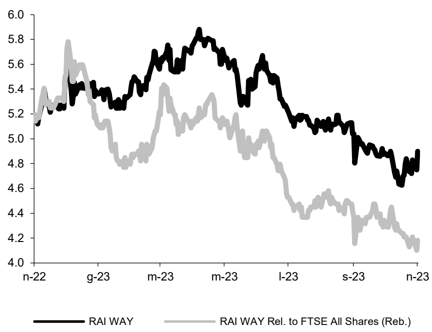
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.3%	0.7%	-2.7%

Next Event
FY23 Results out March 2024

RAI WAY - 12M Performance



Stock Data			
Reuters code:			RWAY.MI
Bloomberg code:			RWAY IM
Performance	**1M**	**3M**	**12M**
Absolute	0.2%	-3.9%	-5.7%
Relative	-4.0%	-6.7%	-23.2%
12M (H/L)			5.88/4.63
3M Average Volume (th):			162.79

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,333
Total Mkt Cap (Eu mn):	1,333
Mkt Float - Ord (Eu mn):	467
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	191
BVPS (Eu):	0.70
P/BV:	7.0
Net Financial Position (Eu mn):	-143
Enterprise Value (Eu mn):	1,476

- **3Q/9M23 results.** The company's 9M results were slightly better than forecast: a +1% surprise on EBITDA, but with net debt in line. Looking at quarterly progression, top line trends remained broadly flat QoQ in 3Q, with the core top line at €68mn (3Q: +7.8%, 2Q: +11.5%, 1Q: +12.8%). The adj. EBITDA margin soared to 69.9% in 3Q (+10.5pp YoY) and 67.8% in 9M (+5.1pp YoY, our exp. 67%) due to higher revenues and lower costs following the significant drop in electricity tariffs (especially compared to 3Q22), lower energy consumption and the control over other OpEx. Despite further NWC absorption, 9M RLFCF stood at €91.5mn (our exp. €90.9mn), entirely absorbed by dividends (€74mn) and development CapEx (€19.7mn, significantly down from €35mn in FY22 as refarming-related activities are now nearing completion), driving net debt up to €134mn (our exp. €128mn, €105mn at YE22), 0.77x LTM adj. EBITDA.
- **FY23 guidance raised:** i) Adj. EBITDA growth now expected in the high-teens (based on current electricity price forecasts for 2023) already in line with our expectations (our exp. +17.7% /cons. +16.9% YoY); b) Maintenance CapEx in line with the previous year (FY22: €17.4mn); c) Development CapEx now expected below the 2022 level (FY22: €62.8mn).
- **Feedback from the conference call**. a) Strategic review: the BoD completed its in-depth review of development projects (to be outlined in the new BP being drawn up by spring 2024), confirming full support for their execution. b) Consolidation with EI Towers: no further update but this does not mean that the process is frozen. According to *La Stampa* today, the Italian government (through RAI) would be ready to back a deal and to cash in a special dividend of up to €150mm from an EIT-RWAY paper deal, aligning with its budget adjustments and lowering the RAI licence fee from €90 to €70. The CEO reiterated the commitment to update the market as and when there are significant events and stressed the opportunity for additional value creation (financial and industrial benefits) on top of other strategic initiatives. c) 4Q costs: seasonally higher vs. 3Q, step-up on personnel (a few million more, positive impact from holidays in 3Q, increase in FTE for new services in 4Q) and higher maintenance, and the lack of tax credits on energy costs. d) Refinancing: new 3-year loan for up to €185mn (€ 101m drawn as of today) to fully repay pre-existing one; interest rate: Euribor (0 floor) + 1.10%, covenant: ND/EBITDA ≤ 3.0x.
- **FY23-26 estimates.** We are tweaking our top line estimates, raising FY23 adj. EBITDA by c.1%: our new estimate (€179.8mn, +19.1% YoY) is in line with revised guidance and implies a c.17% increase in 4Q. On FY24 we still assume c.1% top line growth (+€3.9mn YoY), partially absorbed by higher OpEx (labour costs and lack of tax credits on energy) and the start-up of strategic initiatives, before including potential efficiency gains. Finally, we are including higher financial charges following the new refinancing, and lowering FY23 development CapEx by c.€20mn, all of which results in a 2% increase in our RFCF estimate.
- **BUY confirmed; target still €7.0.** Our €7.0 TP reflects a fair value of c.€6.2 from our DCF model (implying 10x 2023E EV/EBITDA) and additional upside from synergies with EIT (c.€0.5/share) and the Hyperscale datacentre (€0.3/share). RWAY is currently trading at an undemanding 8x 2024E EV/EBITDA, a discount of c.40% to key peers, as well as showing a compelling 2024 RFCF yield of >8%. We remain positive on the stock, which continues to benefit from speculative appeal on the potential merger with EI Towers. In addition, 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 (DCs project with >10% unlevered 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 (7%).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	230	245	271	275	280
EBITDA Adj (Eu mn)	143	151	180	181	184
Net Profit Adj (Eu mn)	66	74	92	91	90
EPS New Adj (Eu)	0.244	0.271	0.340	0.333	0.331
EPS Old Adj (Eu)	0.244	0.271	0.339	0.330	0.340
DPS (Eu)	0.244	0.275	0.327	0.333	0.331
EV/EBITDA Adj	10.3	9.9	8.2	8.4	8.6
EV/EBIT Adj	16.1	14.5	11.0	11.6	11.9
P/E Adj	20.1	18.1	14.4	14.7	14.8
Div. Yield	5.0%	5.6%	6.7%	6.8%	6.7%
Net Debt/EBITDA Adj	0.6	0.7	0.8	1.1	1.4