

RAI WAY

Sector: Telecoms

BUY

Price: Eu5.21 - Target: Eu7.40

Supportive Trends Boosted by CPI and Energy Tailwinds

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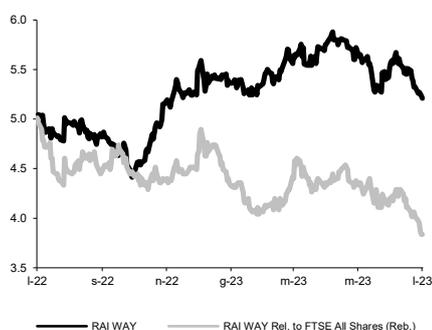
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 7.50 to 7.40		
	2023E	2024E	2025E
Chg in Adj EPS	-0.4%	-1.5%	-1.4%

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	-6.5%	-9.5%	4.0%
Relative	-8.9%	-11.7%	-32.2%
12M (H/L)	5.88/4.41		
3M Average Volume (th):	172.53		

Shareholder Data

No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,417
Total Mkt Cap (Eu mn):	1,417
Mkt Float - Ord (Eu mn):	496
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data

Book Value (Eu mn):	187
BVPS (Eu):	0.69
P/BV:	7.6
Net Financial Position (Eu mn):	-169
Enterprise Value (Eu mn):	1,586

- 2023 results preview.** Trends should have remained broadly flat QoQ in 2Q, with the core top line at €68mn (2Q +11.3% YoY, 1Q +12.8%, 4Q +4.9%), supported by revenues from RAI (€57.6mn, up +10%) reflecting CPI-indexation (+11.5% registered at November 2022) and partially offset by the termination of a minor radio service effective from 3Q (on an annualised base, we assume this to be worth c.€2-3mn on revenues and c.€1mn on EBITDA) while trends in third-party revenue should have been similar (2Q: €10.3mn, flat QoQ) boosted by the new regional MUXes business, the CPI link and the supportive trend of FWAPs and radio broadcasters. Adj. EBITDA should have risen 16% to €45.0mn, with the margin at 66.2% (+280bp), benefitting from an easier comparison on energy prices (2Q23 c.€3mn vs. €5.3mn in 2Q22; 1Q23 €3.6mn vs. €2.3mn in 1Q22) which is set to amplify in 3Q considering this corresponded with last year's peak (€8.7mn). Assuming some NWC unwinding in 2Q, 1H RLFCF at €62mn should be entirely absorbed by dividends (€74mn) and development CapEx (€15mn), driving net debt up to €140mn (€105mn at YE22), leverage at 0.8x LTM adj. EBITDA.
- 2023 guidance:** adj. EBITDA seen up mid-teens (our exp. €174mn, +15% YoY; cons. €171mn, +13% YoY), assuming a normalisation in electricity costs for 2023 (assumption of c. €150/MWh price, costs at c.€18mn); maintenance CapEx indicated in line with previous years (our exp. €18mn; FY22: €17.4mn); as is development CapEx (our exp. €70mn; FY22: €62.8mn) but with a different RAI/third-party mix.
- Speculative appeal from merger with EI Towers.** According to recent press rumours (*La Repubblica*, 6 June), the merger project is back on the agenda with the support of the Meloni government: following the renewal of the boards of RAI (the main shareholder in RWAY with 65%) and RWAY, the RWAY CEO Cecatto should call a board meeting to explain the industrial advantages of the project, and then make contact with the controlling shareholder in EI Towers (F2i 60% MFE 40%). The newspaper reports estimates for annual cost synergies of c.€u30mn and the possibility of the combined entity paying a maxi dividend that would release new financial resources for RAI and enable the Finance Ministry to cash in its stake. More recently, *Corriere Economia* (3 July) reported market expectations for an extraordinary dividend, following the merger, of €u0.5-0.75bn (above our €0.4-0.5bn forecast).
- FY23-25 estimates.** We are revising our FY24-25 estimates to embody a 1% CPI (previously 2%) and minor tweaks to the top line mix, largely offset by cost efficiencies, but we underline that medium-term estimates are crucially linked to CPI expectations and energy cost trends (current futures are €143/MWh for Jan'24 and €123/MWh for Jan'25, vs. c.100-114/MWh for Aug-Sep'23) and on the timing of new initiatives on datacentres. Our bottom line reflects an additional €2mn of financial charges, leading to a 1% cut in adj. EPS and 2% on 2024-25 RFCF.
- BUY confirmed; new target €7.4 (from €7.5).** Our new €7.4 TP reflects a fair value of €6.4 (€6.6 previously) from our DCF model (implying 11x 2023E EV/EBITDA) and additional upside from synergies with EIT (c.€0.6/share, unchanged) and the Hyperscale datacentre (€0.4/share, unchanged). RWAY is currently trading at an undemanding 9x 2023E EV/EBITDA, a discount of c.50% to key peers, as well as showing a compelling 2023 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 (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 (6%).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	230	245	271	275	281
EBITDA Adj (Eu mn)	143	151	174	178	182
Net Profit Adj (Eu mn)	66	74	89	89	92
EPS New Adj (Eu)	0.244	0.271	0.328	0.329	0.338
EPS Old Adj (Eu)	0.244	0.271	0.330	0.334	0.343
DPS (Eu)	0.244	0.275	0.315	0.329	0.338
EV/EBITDA Adj	10.3	9.9	9.1	9.2	9.3
EV/EBIT Adj	16.1	14.5	12.3	12.7	12.8
P/E Adj	21.4	19.2	15.9	15.8	15.4
Div. Yield	4.7%	5.3%	6.1%	6.3%	6.5%
Net Debt/EBITDA Adj	0.6	0.7	1.0	1.2	1.5