

# RAI WAY

Sector: Telecoms

**BUY**

Price: Eu4.78 - Target: Eu7.00

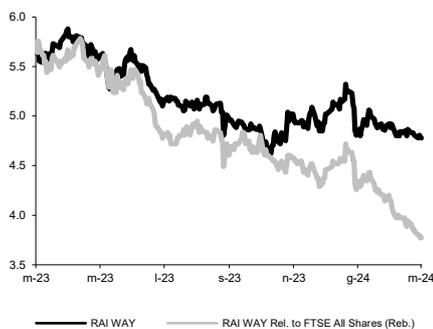
## New BP To Focus on Diversification and Traditional Business

 Giorgio Tavolini +39-02-77115.279  
 giorgio.tavolini@intermonte.it

Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	0.1%	0.1%	-0.1%

 Next Event FY23 Results out 25 March (COB)  
BP'24-27 presentation out 26 March ([invite](#))

### RAI WAY - 12M Performance



Stock Data			
Reuters code:	RWAY.MI		
Bloomberg code:	RWAY IM		
Performance	1M	3M	12M
Absolute	-2.8%	-4.8%	-16.9%
Relative	-9.8%	-17.5%	-44.0%
12M (H/L)	5.88/4.63		
3M Average Volume (th):	305.00		

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,300
Total Mkt Cap (Eu mn):	1,300
Mkt Float - Ord (Eu mn):	455
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	193
BVPS (Eu):	0.71
P/BV:	6.7
Net Financial Position (Eu mn):	-196
Enterprise Value (Eu mn):	1,496

■ **FY23 results and 2024-27 business plan.** Ahead of the publication of FY23 results on Monday (presentation Tuesday afternoon), we expect more colour on the breakdown of Traditional business and Diversification initiatives (namely edge and hyperscale datacentres), which after an initial investment cycle, should reach cruising speed from 2027 onwards. Assuming an overall investment of c.€200mn in 2023-25 for the Hyperscale DC and run-rate EBITDA of €20mn (10x CapEx/EBITDA), we estimate EV of c.€300mn (15x EV/EBITDA, in line with current trading multiples of DC co-locators and WIIT), meaning an opportunity for RAI Way to crystallise c.€80mn of value, or €0.4/share (already captured in our SOP). On the other hand, we do not expect any major update on consolidation at this stage. Despite the disposal of the 15% stake by RAI (more news may come after Easter), the reassuring messages from RAI and the recent appointment of an advisor by Rai Way should suggest the consolidation scenario is not at risk in the short term.

■ **Our 2024-27 estimates.** Assuming 0.7% CPI in FY24 and 1% later on, we see the group's core top line growing at a 1.8% 2023-27 CAGR (cons. +2.2%), rising from €270.8mn in FY23 (consensus €271.6mn) to €274.2mn in FY24 (cons. €275.7mn) and €291.3mn in FY27 (cons. €296.3mn), with the contribution from new initiatives starting this year (our exp. €0.1mn, cons. €0.8mn) and reaching few million euros by 2027 (our exp. €4.5mn, consensus €7.8mn). Adj. EBITDA should show a similar progression, with a 1.1% CAGR (cons. +1.5%), from €179.9mn in FY23 (in line with consensus) to €181.2mn in FY24 (cons. €180.8mn) and €188.1mn in FY27 (cons. €190.8mn), with a negative EBITDA contribution from new initiatives this year (our exp. €-0.1mn, cons. €-0.8mn) due to start-up costs and breakeven by 2027 (our exp. €0.9mn, cons. €1.4mn). Recurring EFCF should go from €111mn in FY24 (broadly flat vs. FY23) to €114mn in FY27, contributing to dividends (100% payout) and financing of the cumulative 2024-27 CapEx cycle for development activities (our exp. €185mn, cons. €112mn), of which €135mn related to diversification initiatives (cons. €92.5mn), mostly front-end loaded. We expect net debt to increase from €143mn in FY23 (cons. €116mn) to €196mn in FY24, peaking in FY25 (€264mn, 1.4x EBITDA) before coming down to €235mn in FY27 (1.25x).

■ **Change in estimates.** In this note we provide more colour on the split between traditional business and new activities. We are only tweaking our estimates, with a neutral impact on EPS.

■ **BUY confirmed; target still €7.0.** After rolling over our DCF model by one year and lowering the risk-free rate, we confirm our €7.0 TP, which reflects a fair value of c.€6.0 from our DCF model (implying 10x 2024E 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 8x 2024E EV/EBITDA, a discount of c.40% to key peers, as well as showing a compelling 2024 RFCF yield of c. 9%. We remain positive on the stock, which continues to benefit from speculative appeal on the potential merger with EI Towers and strategic opportunities in adjacent sectors (DCs 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 (7%).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	230	245	271	274	280
EBITDA Adj (Eu mn)	143	151	180	181	184
Net Profit Adj (Eu mn)	66	74	93	91	90
EPS New Adj (Eu)	0.244	0.271	0.340	0.333	0.330
EPS Old Adj (Eu)	0.244	0.271	0.340	0.333	0.331
DPS (Eu)	0.244	0.275	0.327	0.333	0.330
EV/EBITDA Adj	10.3	9.9	8.8	8.3	8.5
EV/EBIT Adj	16.1	14.5	11.8	11.3	11.7
P/E Adj	19.6	17.7	14.1	14.4	14.5
Div. Yield	5.1%	5.7%	6.8%	7.0%	6.9%
Net Debt/EBITDA Adj	0.6	0.7	0.8	1.1	1.4

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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)

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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:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
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UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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