Milan, 23 October 2023

Italian Equity Research – 3Q23 Preview

RAI WAY

BUY

Sector: Telecoms

Price: Eu4.87 - **Target: Eu7.00**

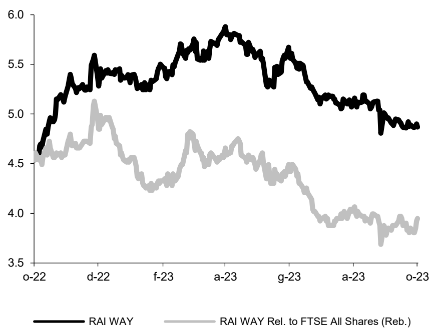
9M Preview: a Glimpse of High-Teen FY Growth

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

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.50 to 7.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.6%	0.0%	0.0%

Next Event
3Q23 Results out 14 November

RAI WAY - 12M Performance



Stock Data			
Reuters code:			RWAY.MI
Bloomberg code:			RWAY IM
Performance	**1M**	**3M**	**12M**
Absolute	-2.1%	-5.3%	7.3%
Relative	4.3%	0.2%	-16.3%
12M (H/L)			5.88/4.56
3M Average Volume (th):			166.74

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,325
Total Mkt Cap (Eu mn):	1,325
Mkt Float - Ord (Eu mn):	464
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	191
BVPS (Eu):	0.70
P/BV:	6.9
Net Financial Position (Eu mn):	-165
Enterprise Value (Eu mn):	1,490

- **3Q/9M23 results.** Trends should have remained broadly flat QoQ in 3Q, with the core top line at €68mn (3Q: +7%, 2Q: +11.5%, 1Q: +12.8%), affected not only by the tough comparison base with a year ago by the ending of a minor radio service from 3Q22 (on an annualized basis, we assume this to be worth c.€2-3mn of revenues and c.€1mn of EBITDA) but also by a €2.0m one-off paid in 3Q22 by RAI for this service termination. On the other hand, trends in third-party revenue should have been similar (3Q: €10.1mn, up 22%) boosted by the rising contribution of regional refarming, the CPI link, and the supportive trend of FWAPs and radio broadcasters. Adj. EBITDA should have risen 22% to €45.0mn (€136.6mn in 9M, up +18%), with the margin at 67.5% (9M: 67.0%), assuming benefits from an easier comparison on energy prices (last year's peak of €8.7mn in 3Q22), with other costs broadly stable QoQ. Assuming further NWC absorption, 9M RLFCF at €91mn should be entirely absorbed by dividends (€74mn) and development CapEx (€22mn, decreasing YoY due to lower refarming activities and some likely postponements to 4Q), driving net debt up to €128mn (€105mn at YE22), 0.5x LTM adj. EBITDA.
- **FY23-26 estimates.** We make marginal tweaks to our top-line estimates but revise the mix with a higher contribution from third parties (+7%) vs RAI (-1%), while for this year we strengthen adj. EBITDA growth to around 18% (€178mn, 65.7% margin). The implied slower growth in 4Q (€41mn, +16%) is coherent with a seasonally weaker quarter and c. €4mn higher operating costs (personnel, maintenance, energy prices, lack of tax credits) compared to the previous 3 quarters. We note that for this year, management expects adj. EBITDA growth in the mid-teens area (15-18% range) but skewed to the higher part of the range.
- **Consolidation still on the table.** During the recent investor meeting, the new CEO appeared confident on a deal and on the possible resumption of negotiations after the summer break, also suggesting that the option of consolidation with EIT does not stop RWAY realising investments in data centres covered by the new industrial plan at start-2024.
- **BUY confirmed; new target €7.0 (from €7.5) on higher risk-free rate.** Our new €7.0 TP reflects a fair value of c.€6.1 (prev. €6.5) 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 2023E EV/EBITDA, a discount of c.30-35% 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 (7%).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	230	245	270	275	281
EBITDA Adj (Eu mn)	143	151	178	179	183
Net Profit Adj (Eu mn)	66	74	92	90	92
EPS New Adj (Eu)	0.244	0.271	0.339	0.330	0.340
EPS Old Adj (Eu)	0.244	0.271	0.337	0.330	0.340
DPS (Eu)	0.244	0.275	0.326	0.330	0.340
EV/EBITDA Adj	10.3	9.9	8.4	8.6	8.7
EV/EBIT Adj	16.1	14.5	11.2	11.9	12.1
P/E Adj	20.0	18.0	14.4	14.7	14.3
Div. Yield	5.0%	5.6%	6.7%	6.8%	7.0%
Net Debt/EBITDA Adj	0.6	0.7	0.9	1.2	1.5