Milan, 27 March 2024

Italian Equity Research – FY23 Results/Company Update

RAI WAY

BUY

Sector: Telecoms

Price: Eu5.15 - **Target: Eu7.50**

A Clear Industrial Path, M&A Upside Risk Continues in S/Term

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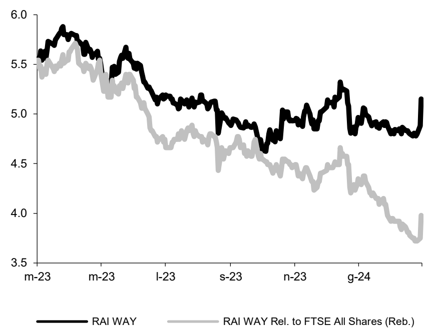
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.00 to 7.50
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-2.3%	-4.6%	-0.1%

Next Event

1Q24 Results 10 May 2024

RAI WAY - 12M Performance



Stock Data			
Reuters code:			RWAY.MI
Bloomberg code:			RWAY IM
Performance	**1M**	**3M**	**12M**
Absolute	7.3%	2.6%	-7.3%
Relative	1.0%	-11.0%	-38.9%
12M (H/L)			5.88/4.63
3M Average Volume (th):			337.78

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,401
Total Mkt Cap (Eu mn):	1,401
Mkt Float - Ord (Eu mn):	491
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	190
BVPS (Eu):	0.70
P/BV:	7.4
Net Financial Position (Eu mn):	-169
Enterprise Value (Eu mn):	1,570

- **FY23 results and 2024-27 business plan.** FY23 was broadly in line with our/consensus expectations, albeit with lower net debt (better WKC mix, lower development CapEx). Qualitative FY24 outlook was in line with our/consensus estimates, assuming further growth expected in adj. EBITDA, although limited by new infra costs and the lack of the energy tax credit. On the other hand, FY27 targets were 8%/10% better for the top line and adj. EBITDA thanks to a more sustained contribution from the traditional business, only partly attributable to higher CPI after 2024 (1.5% vs our estimate of 1.0%); diversification, albeit leading to turnover of €10mn in 2027, will not make a significant contribution to EBITDA in the plan term. Overall investments foreseen for development of circa €240mn, of which circa Eu100mn for the traditional business and circa €140mn to roll out diversification initiatives (assuming for 2027 the completion of the CDN network, 10 edge data centres and the development of the first data hall of the hyperscale data centre for 4.4MW).
- **Our new 2024-27 estimates**. Assuming 0.7% CPI in FY24 (unchanged) and 1.5% later on (previously 1.0%), we now see the group's core top line growing at a 3.5% 2023-27 CAGR (tgt: +3.8%), rising from €272mn in FY23 to €276mn in FY24 and €312mn in FY27 (tgt: €316mn), with a €10mn boost from new initiatives by 2027 (in line with tgt). Adj. EBITDA show a similar trend, with a 3.2% CAGR (tgt: +3.5%) from €180mn in FY23 to €181mn in FY24 and €205mn in FY27 (tgt: €207mn), with EBITDA breakeven from new initiatives from FY27 (our exp. €0.5mn, tgt: €1mn). Rec. EFCF moves from €114mn in FY23 to €110mn in FY24 (higher D&A and interest rates) to €124mn in FY27 (tgt: €130mn), contributing to dividends (cum. €348mn, tgt: €350mn, 100% payout, c.24% of current market cap) and financing of the cumulative 2024-27 CapEx cycle for development activities (our exp. €248mn, tgt: €240mn), of which €145mn related to diversification initiatives (tgt: €140mn), mostly front-end loaded. We expect net debt to increase from €105mn in FY23 (0.6x) to €169mn in FY24 (0.9x), peaking at €271mn in FY27 (tgt: €286mn, 1.4x).
- **Change in estimates.** The new estimates, while entailing a negative revision of EPS for the first two years of the plan to reflect higher D&A and interest (to reflect the development CapEx cycle), result in an upward revision of recurring EFCF after 2024.
- **BUY confirmed; target increased to €7.5 (from €7.0).** Albeit showing substantial continuity, the new plan highlights a strengthening on a standalone basis of Rai Way, above all in traditional business that continues to offer considerable growth opportunities, while value creation from diversification should emerge over the longer term. On the back of new estimates, we increase our TP to €7.5 (from €7.0), which reflects a fair value of c.€6.6 from our DCF model (implying 11x 2024E EV/EBITDA) and additional upside from synergies with EIT (c.€0.6/share) and from the diversification opportunities (€0.3/share). RWAY is currently trading at an undemanding 9x 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 the upside from strategic opportunities in adjacent sectors (DC 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	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**
Sales (Eu mn)	272	276	286	300	312
EBITDA Adj (Eu mn)	180	181	186	198	205
Net Profit Adj (Eu mn)	92	88	86	88	92
EPS New Adj (Eu)	0.337	0.325	0.315	0.322	0.338
EPS Old Adj (Eu)	0.340	0.333	0.330	0.322	
DPS (Eu)	0.319	0.325	0.315	0.322	0.338
EV/EBITDA Adj	8.5	8.7	8.9	8.5	8.1
EV/EBIT Adj	11.7	12.1	13.0	12.4	11.8
P/E Adj	15.3	15.8	16.3	16.0	15.2
Div. Yield	6.2%	6.3%	6.1%	6.3%	6.6%
Net Debt/EBITDA Adj	0.6	0.9	1.4	1.4	1.3

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- 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;
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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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UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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