Intermonte

Milan, 28 July 2023

Italian Equity Research – 2Q23 Results

RAI WAY

BUY

Sector: Telecoms

Price: Eu5.19 - **Target: Eu7.50**

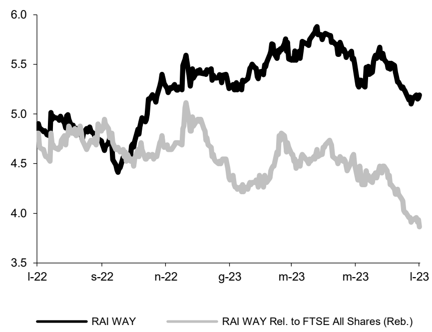
Better Visibility on 2H Outlook, M&A Appeal to Remain High in S/T

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

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.40 to 7.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	2.6%	0.4%	0.4%

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	-4.9%	-10.5%	8.0%
Relative	-12.4%	-18.4%	-26.2%
12M (H/L)			5.88/4.41
3M Average Volume (th):			178.93

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,412
Total Mkt Cap (Eu mn):	1,412
Mkt Float - Ord (Eu mn):	495
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	191
BVPS (Eu):	0.70
P/BV:	7.4
Net Financial Position (Eu mn):	-165
Enterprise Value (Eu mn):	1,577

- **1H23 results.** Adj. EBITDA was 2% better than our/consensus expectations mainly thanks to stronger margins. Revenues rose 12% (2Q: +11.5%), benefitting from the CPI-link, the termination of minor radio services (effective from 3Q) and a rising contribution from regional refarming (pushing 3rd party revenues up 26.8% YoY); while adjusted EBITDA was up 16% in 1H (2Q: +20%), with the underlying OpEx trend under control, supported by lower energy consumption (-14%) rather than falling prices (-4%, declining electricity tariffs limited to 2Q) resulting in a €6.3mn energy bill (-17% YoY) and explaining the record profitability achieved in 1H (66.8%) and especially 2Q (68%). 1H net income was up 21.3% to €44.9mn despite €3.6m in non-recurring costs, driven by significantly higher EBITDA and lower D&A following the termination of the useful life of DVB-T equipment, partially offsetting higher financial charges and a stable tax rate. Development CapEx was lower at €14.3mn, with a reduced component related to the completion of refarming (€5.5mn vs €19.1m in 1H22, for both RAI and regional networks) and new infrastructure projects starting to enter the investment phase. Thanks to some NWC unwinding in 2Q, 1H RLFCF at €62mn (in line with our exp.) was entirely absorbed by dividends (€74mn) and development CapEx (€14mn), driving net debt up to €139mn (our exp. €140mn, YE22: €105mn), leverage at 0.85x LTM adj. EBITDA.
- **FY guidance confirmed, with "*increased comfort on achieving targets supported by 1H operating performance and energy price expectations for 2H*".** In particular, for this year management expects mid-teens adj. EBITDA growth (15-17% range) skewed towards the upper end of the range. 17% growth would imply adj. EBITDA of c.Eu177mn, i.e. 2% above consensus (Eu173.1mn). The CEO seems extremely confident in short-term consolidation efforts, yesterday's comments by Minister Giorgetti (suggesting that RAI could sell part of its stake in RWAY to state-backed players to gather funds for its investments) suggest something is moving forward, while the BoD has embarked upon a strategic asset review. On hyperscale DC, the considerable size of the investment requires RWAY to identify available resources separately to follow a proper development path without jeopardising the chances of a consolidation with EIT.
- **FY23-25 estimates.** We are raising FY23 EBITDA by 2% to Eu177mn (up 17% YoY) to reflect management hints and encapsulate lower energy costs, leading us to raise adj. EPS for this year by c.3% (+0.4% for FY24-25).
- **BUY confirmed; new target €7.5 (from €7.4).** Our new €7.5 TP reflects a fair value of €6.5 (€6.4 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	177	179	183
Net Profit Adj (Eu mn)	66	74	92	90	92
EPS New Adj (Eu)	0.244	0.271	0.337	0.330	0.340
EPS Old Adj (Eu)	0.244	0.271	0.328	0.329	0.338
DPS (Eu)	0.244	0.275	0.324	0.330	0.340
EV/EBITDA Adj	10.3	9.9	8.9	9.1	9.2
EV/EBIT Adj	16.1	14.5	12.0	12.6	12.7
P/E Adj	21.3	19.2	15.4	15.7	15.3
Div. Yield	4.7%	5.3%	6.2%	6.4%	6.5%
Net Debt/EBITDA Adj	0.6	0.7	0.9	1.2	1.5