SNAM

OUTPERFORM

Sector: Utilities

Price: Eu5.07 - **Target: Eu5.50**

Solid 1Q23 Numbers and Constructive Outlook

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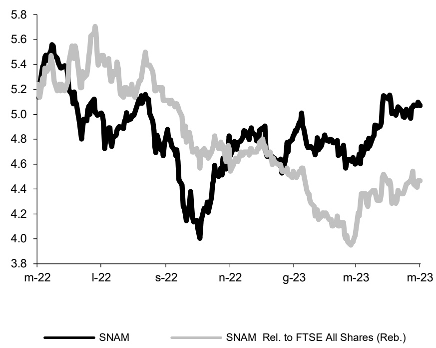
- **1Q23 results substantially in line.** Yesterday SNAM released a set of 1Q23 results that was substantially in line with expectations at most levels. Regulated revenues (ex. energy costs) closed at Eu651mn, or up 1% YoY, with RAB growth and higher revenues for flexibility services mostly counterbalanced by lower gas volumes and lower input-based incentives. This was accompanied by strong revenues from new businesses, which increased to Eu248mn from Eu127mn in 1Q22. All this led to adj. EBITDA of Eu597mn (+1% YoY and 1% above est.), and adj. net profit of Eu301mn (-7% YoY; in line). On the cash flow side, net debt closed at Eu12.9bn, up from FY22 levels mainly due to the dynamics of working capital related to balancing activities, new investments in associates, and the payment of the 2023 interim dividend.
- **2023 guidance confirmed.** SNAM confirmed guidance for investments of Eu2.1bn, a tariff RAB of about Eu22.4bn, adjusted net profit of approximately Eu1.1bn, and debt in the Eu15.0-15.5bn range, depending on the evolution of regulated working capital. During the call, guidance of Eu2.4bn for EBITDA was also confirmed, of which ca. Eu100mn from incentives and ca. Eu70mn from Energy Transition businesses.
- **Conference call feedback.** Equity investments: contribution down by ca. Eu6mn due to a reduction in performance by TAG, partially offset by the contributions from Desfa, Sea Corridor and Italian associates; Potential M&A: Snam confirmed its potential interest in Edison gas storage but needs to understand the company's intentions; the same story for Adriatic LNG where they are following the process. These acquisitions could be funded through asset rotation (management clarified once again they are not considering a disposal of Italgas for the time being).
- **SoutH2-Corridor**. This week, Italian Environment Minister Pichetto, the German vice-chancellor and Economy and Climate Minister Habeck and the Austrian Energy and Climate Minister Gewessler wrote to EU Energy Commissioner Simson to ask for various parts of the SoutH2-Corridor to be given EU Common Interest Project (CIP) status as soon as possible. The Ministers mentioned the CIP candidate projects on hydrogen involving SNAM in Italy, TAG and GCA (both SNAM associate companies) in Austria, and Bayernets and Terranets in Germany. The SoutH2-Corridor from Nord Africa is one of the three corridors for transporting hydrogen identified by the REPowerEU plan, which foresees imports of 10mn tons of green H2 by 2030. The Italian H2 Backbone foresees 2,800km of pipelines (73% converted from existing ones) for an estimated total investment of circa Eu4bn (CapEx outside the plan to 2026).
- **Estimates and target price confirmed.** Following 1Q23 results we improve 2023 EBITDA/EPS by 1.4% and revise the target price from Eu5.40 to Eu5.50. As a reminder, our 2024 estimates assume a 90bp increase in allowed WACC, e.g. up from the current 5.1% to 6.0% for 2024 Transport WACC.
- **OUTPERFORM, TP Eu5.50 (from Eu5.40).** Following 1Q23 results and the constructive outlook given, even in such a volatile environment, we confirm our OUTPERFORM recommendation on the stock. SNAM benefits from a relatively appealing valuation and direct/indirect exposure to the hydrogen theme, with the likelihood of hydrogen investments taking off, as these have increased since the start of the war in Ukraine.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	3,297	3,516	3,894	4,085	4,347
EBITDA Adj (Eu mn)	2,243	2,237	2,409	2,703	2,862
Net Profit Adj (Eu mn)	1,218	1,163	1,130	1,277	1,314
EPS New Adj (Eu)	0.362	0.346	0.336	0.380	0.391
EPS Old Adj (Eu)	0.362	0.346	0.332	0.381	0.392
DPS (Eu)	0.262	0.275	0.282	0.289	0.296
EV/EBITDA Adj	11.5	10.5	11.5	10.4	10.1
EV/EBIT Adj	17.9	17.1	19.4	18.6	
P/E Adj	14.0	14.7	15.1	13.3	13.0
Div. Yield	5.2%	5.4%	5.6%	5.7%	5.8%
Net Debt/EBITDA Adj	6.3	5.3	6.5	5.9	5.9

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 5.40 to 5.50
	2023E	2024E	2025E
Chg in Adj EPS	1.2%	-0.2%	-0.3%

SNAM - 12M Performance



Stock Data			
Reuters code:			SRG.MI
Bloomberg code:			SRG IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.0%	5.8%	-3.2%
Relative	0.6%	6.6%	-16.3%
12M (H/L)			5.56/4.00
3M Average Volume (th):			5,419.84

Shareholder Data	
No. of Ord shares (mn):	3,361
Total no. of shares (mn):	3,361
Mkt Cap Ord (Eu mn):	17,040
Total Mkt Cap (Eu mn):	17,040
Mkt Float - Ord (Eu mn):	11,280
Mkt Float (in %):	66.2%
Main Shareholder:	
Cassa Depositi e Prestiti	30.8%

Balance Sheet Data	
Book Value (Eu mn):	7,695
BVPS (Eu):	2.27
P/BV:	2.2
Net Financial Position (Eu mn):	-15,606
Enterprise Value (Eu mn):	27,726