

SNAM

Sector: Utilities

OUTPERFORM

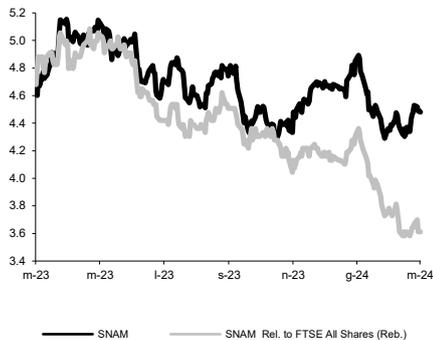
Price: Eu4.48 - Target: Eu5.20

Solid 4Q23 Results, FY24 Guidance Confirmed

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	0.0%	0.0%

SNAM - 12M Performance



Stock Data			
Reuters code:	SRG.MI		
Bloomberg code:	SRG IM		
Performance	1M	3M	12M
Absolute	3.1%	-4.7%	-4.3%
Relative	-4.3%	-15.6%	-28.3%
12M (H/L)	5.15/4.29		
3M Average Volume (th):	7,022.45		

Shareholder Data	
No. of Ord shares (mn):	3,361
Total no. of shares (mn):	3,361
Mkt Cap Ord (Eu mn):	15,060
Total Mkt Cap (Eu mn):	15,060
Mkt Float - Ord (Eu mn):	9,970
Mkt Float (in %):	66.2%
Main Shareholder:	
Cassa Depositi e Prestiti	30.8%

Balance Sheet Data	
Book Value (Eu mn):	7,943
BVPS (Eu):	2.34
P/BV:	1.9
Net Financial Position (Eu mn):	-17,539
Enterprise Value (Eu mn):	27,438

- 4Q23 bottom line and cash generation beat expectations.** Yesterday Snam released 4Q23 results that, in adjusted terms, were above our expectations and consensus on the bottom line and for cash flow generation. Regulated revenues (excl. energy costs) closed at Eu674mn, or up 5% YoY, driven by capital expenditure and the investment deflator, as well as by the contribution of output-based incentives for fully depreciated assets. This was accompanied by much higher-than-expected revenues from new businesses, which rose to Eu369mn from the Eu215mn recorded in 3Q23. All of this led to adj. EBITDA of Eu555mn (+4% YoY and 4% below est.), while below the line a good contribution from associates net of one-off items and a lower impact from minorities took adj. net profit to Eu126mn, down 2% YoY and 15% above our estimates. On the cash flow front, net debt closed at Eu15.3bn, up from 3Q23 but better than expected, especially considering total CapEx of Eu962mn recorded in the quarter. Finally, management proposed a 2023 DPS of Eu0.282, in line with the dividend policy.
- 2024 guidance confirmed.** In terms of 2024 numbers, management confirmed the guidance provided in January which foresees EBITDA at Eu2.7bn, adj. net income at Eu1.18bn and net debt at Eu17.6bn, including Eu2.9bn of CapEx.
- Main messages from the conference call.** Cost of debt: in 2023 the average cost of debt increased from 1.1% to 2.0%, while for 2024 management expects it to move to 2.6%, although the group will work to reduce this increase; Write-downs of biomethane assets: the main reasons for the Eu186mn write-down had to do with conditions in the market for Forsu feedstocks (excess capacity of plants in Northern Italy leading to increased competition for the feedstock, lower-than-expected organic waste quality leading to an increase in disposal costs that is believed to be structural, while some plants also encountered technical problems); management noted that the group is now investing in agri plants, an area with better returns and market conditions; Energy efficiency: the company had a Eu1.2bn backlog at YE23 and an FY order intake of >Eu500mn, made up of multiyear contracts with public entities and industrial players, with an average duration of 7 years. With the end of Superbonus, 2024 EBITDA is expected to be down some Eu30mn, but management expects a return to 2023 levels during the plan period.
- Estimates and target price confirmed.** Following full 4Q23 results and confirmation of the 2024 guidance we are also broadly confirming our 2024-2025 numbers. Please note that our 2025 estimates incorporate a 20bp reduction for allowed WACC in the transport business and -30bp for storage, in line with management's current expectations.
- OUTPERFORM confirmed (target Eu5.20).** Snam's recently-presented plan will allow the group to continue to grasp the many short-term opportunities arising from recent geopolitical developments, while also driving longer-term value by helping establish Italy as a key European hub and pushing the energy transition process forward. On capital allocation, the dividend looks safe and over the plan period the company could benefit from c.Eu2.0bn of financial flexibility to grasp new potential M&A/investment opportunities. The stock also shows an attractive valuation at a 15% premium to 2024 equity RAB and a 6.5% DY.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	3,516	4,288	4,253	4,523	4,740
EBITDA Adj (Eu mn)	2,237	2,416	2,701	2,910	3,102
Net Profit Adj (Eu mn)	1,163	1,168	1,197	1,265	1,310
EPS New Adj (Eu)	0.346	0.347	0.356	0.376	0.390
EPS Old Adj (Eu)	0.346	0.339	0.356	0.380	0.393
DPS (Eu)	0.275	0.282	0.290	0.299	0.308
EV/EBITDA Adj	10.3	10.8	10.2	9.7	9.3
EV/EBIT Adj	17.1	20.1	15.9	15.1	14.4
P/E Adj	13.0	12.9	12.6	11.9	11.5
Div. Yield	6.1%	6.3%	6.5%	6.7%	6.9%
Net Debt/EBITDA Adj	5.3	6.3	6.5	6.3	6.1

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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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

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

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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