

SNAM

Sector: Utilities

OUTPERFORM

Price: Eu4.73 - Target: Eu5.20

2027 Strategic Plan: Upside from CapEx and Regulation

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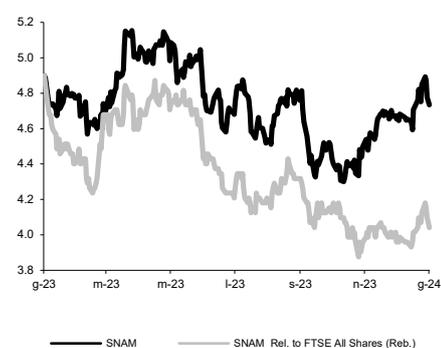
Stock Rating

Rating: Unchanged

Target Price (Eu): from 5.10 to 5.20

	2023E	2024E	2025E
Chg in Adj EPS	0.0%	-0.7%	-3.0%

SNAM - 12M Performance



Stock Data

Reuters code: SRG.MI

Bloomberg code: SRG IM

Performance	1M	3M	12M
Absolute	1.7%	7.0%	-3.4%
Relative	2.0%	-2.5%	-20.0%
12M (H/L)	5.15/4.30		
3M Average Volume (th):	5,867.10		

Shareholder Data

No. of Ord shares (mn):	3,361
Total no. of shares (mn):	3,361
Mkt Cap Ord (Eu mn):	15,910
Total Mkt Cap (Eu mn):	15,910
Mkt Float - Ord (Eu mn):	10,533
Mkt Float (in %):	66.2%
Main Shareholder:	
Cassa Depositi e Prestiti	30.8%

Balance Sheet Data

Book Value (Eu mn):	8,088
BVPS (Eu):	2.38
P/BV:	2.0
Net Financial Position (Eu mn):	-16,386
Enterprise Value (Eu mn):	27,405

■ **2027 Strategic Plan out Thursday:** on 25 January, Snam will present the update to the 5-year Strategic Plan, extending the outlook to 2027. We expect general confirmation of the main pillars, with the group continuing to leverage on the opportunities that have arisen since the start of the war in Ukraine and which could also drive longer-term value by helping to establish Italy as a key European hub. At the same time, we also expect confirmation of the commitment to net zero by 2040 and of the efforts to decarbonize the system through green gases (H2 and biogas) and solutions.

■ **Domestic CapEx and regulation the main drivers of growth:** we expect the plan to focus on the investments in the domestic regulated business, mainly through the process of replacing existing gas pipelines with ones that are hydrogen-ready standard, strengthening of the Adriatic backbone (Eu2.5bn CapEx that will already be largely included in the plan vs Eu0.9bn in the previous plan), the investment in the second FSRU (vs 2 FSRUs in the previous plan), and the push for an increase in digitalisation. Another driver of growth will be the new regulatory developments, in particular thanks to the impact of the ROSS-base regulation (e.g. changes in time lag and fast money vs slow money) as well as the slightly higher increase in the allowed return vs previous plan assumptions. We then expect overall confirmation of outlook for the new energy transition businesses, with a possible acceleration of development of biomethane capacity offset by a slowdown in energy efficiency activities; regarding associate companies, we foresee outlook for a slight rise in the contribution, mainly thanks to the performance of Italgas and a partial recovery by TAG. Finally, we expect management to provide an update on the prospects for the H2 backbone, with potential cumulative CapEx throughout 2030-32 of ca. Eu4bn for 2,300km of H2 network, o/w 70% repurposed.

■ **Key financial targets: we expect CapEx up ca. 5% and broad confirmation of EPS growth.** From a financial standpoint, we expect management to look at a total investment plan of ca. Eu10.5bn (+5% vs Eu10bn in the previous plan) and a 2023-2027 EBITDA CAGR of 5.7%, down from +7% in the previous plan due to the strong carry-over growth effect in 2023. Regarding EPS, we expect confirmation of a ca. 3% CAGR, with rises in WACC, inflation and CapEx more than counterbalancing the increase in the cost of debt. Finally, regarding the dividend policy, we think management will propose an extension of the annual growth floor of 2.5% to 2027, although, for the final year, we do not rule out a shift to a policy tied to a payout ratio (around 80%) with a floor for 2027 DPS at the same level as the one for 2026 (Eu0.304).

■ **Change in estimates and target price:** we substantially confirm 2023-2024 numbers while trimming 2025-2026 due to slightly higher D&A. Our target price moves to Eu5.2 with the lower risk-free rate (down to 4.0% from 4.5%) counterbalancing the lower EPS.

■ **Outperform, TP 5.20 (from Eu5.10).** SNAM continues to benefit from an appealing valuation (ex-dvd trading at an 18% premium to 1YFwd equity RAB) and direct/indirect exposure to the hydrogen/CCS themes. We expect the Strategic Update next Thursday to provide evidence of the group's investment opportunities and the positive impact of recent regulatory updates.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	3,297	3,516	4,169	4,101	4,286
EBITDA Adj (Eu mn)	2,243	2,237	2,429	2,671	2,795
Net Profit Adj (Eu mn)	1,218	1,163	1,133	1,211	1,246
EPS New Adj (Eu)	0.362	0.346	0.337	0.360	0.371
EPS Old Adj (Eu)	0.362	0.346	0.337	0.363	0.382
DPS (Eu)	0.262	0.275	0.282	0.289	0.296
EV/EBITDA Adj	11.5	10.5	10.9	10.3	10.0
EV/EBIT Adj	18.1	17.5	17.9	16.2	15.8
P/E Adj	13.1	13.7	14.0	13.1	12.8
Div. Yield	5.5%	5.8%	6.0%	6.1%	6.3%
Net Debt/EBITDA Adj	6.3	5.3	6.4	6.1	6.1