

SNAM

Sector: Utilities

OUTPERFORM

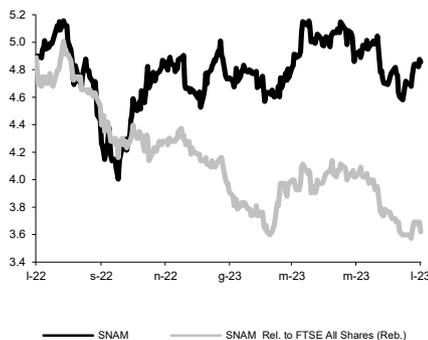
Price: Eu4.86 - Target: Eu5.50

2Q23 P&L Slightly Above Estimates, FY23 Guidance Confirmed

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	-0.1%	0.4%	0.4%

SNAM - 12M Performance



Stock Data			
Reuters code:	SRG.MI		
Bloomberg code:	SRG IM		
Performance	1M	3M	12M
Absolute	2.8%	-2.9%	-0.7%
Relative	-4.6%	-10.8%	-34.9%
12M (H/L)	5.16/4.00		
3M Average Volume (th):	5,295.19		

Shareholder Data	
No. of Ord shares (mn):	3,361
Total no. of shares (mn):	3,361
Mkt Cap Ord (Eu mn):	16,320
Total Mkt Cap (Eu mn):	16,320
Mkt Float - Ord (Eu mn):	10,804
Mkt Float (in %):	66.2%
Main Shareholder:	
Cassa Depositi e Prestiti	30.8%

Balance Sheet Data	
Book Value (Eu mn):	7,768
BVPS (Eu):	2.29
P/BV:	2.1
Net Financial Position (Eu mn):	-15,533
Enterprise Value (Eu mn):	26,906

■ **2Q23 P&L slightly above expectations.** Yesterday Snam released 2Q23 results that were slightly above expectations on the P&L and broadly in line in terms of cash generation. In detail, regulated revenues (excl. energy costs) closed at Eu673mn (in line), or up 8% YoY, driven by capital expenditure and the investment deflator (RAB growth) as well as by the contribution of output-based incentives for fully depreciated assets. This was accompanied by stronger-than-expected revenues from new businesses, which increased to Eu273mn from Eu159mn in 2Q22 and Eu248mn in 1Q23. All this led to adj. EBITDA of Eu625mn (+10% YoY and 3% above est.), while the increase in financial charges and the slight fall in the contribution from associates (net of the capital gain on De Nora booked in both 2Q22 and in 2Q23) took adj. net profit to Eu320mn, broadly flat YoY but 7% above our estimates. On the cash flow side, net debt closed at Eu14.6bn, up significantly from 1Q23 levels on the back of Eu421mn of CapEx, the expected expansion of working capital (reversal of the extraordinary drop in 2022 for over Eu1.0bn) and the payment of the dividend balance.

■ **2023 guidance substantially confirmed.** SNAM confirmed guidance for investments of Eu2.1bn, a tariff RAB of about Eu22.4bn, adjusted net profit of “at least” (it was “approximately” in previous guidance) Eu1.1bn, and debt in the Eu15.0-15.5bn range, (more likely towards the high end of the range) depending on the evolution of regulated working capital. During the call, guidance of Eu2.4bn for EBITDA was also confirmed, of which c.Eu100mn from incentives and c.Eu80mn from Energy Transition (up from Eu70mn).

■ **Main messages from the conference call.** Equity investments: net proceeds from investments came to Eu82mn, down Eu12mn vs. 2Q22. This decline is largely attributable to the Austrian subsidiary TAG (expiry of majority of long-term transport contracts and drop in gas volumes imported to Italy through the Tarvisio entry point), and to the Interconnector (exceeding the regulatory cap, which compared to 2022 does not benefit from a recovery of underperformances in previous years), partly offset by a higher contribution from Greek operator DESFA (increase in flows from Revithoussa terminal and towards Bulgaria) and the entry of the SeaCorridor JV into the consolidation base. Potential M&A: Snam confirmed its potential interest in Edison’s gas storage assets but clarified that the process has not started yet, although it should get underway soon.

■ **Estimates and target price confirmed.** Following 2Q23 results we have broadly confirmed our adjusted EBITDA/EPS estimates as well as our target price of 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; target Eu5.50.** Following 2Q23 results and the constructive outlook given, 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	1,129	1,283	1,320
EPS New Adj (Eu)	0.362	0.346	0.336	0.382	0.393
EPS Old Adj (Eu)	0.362	0.346	0.336	0.380	0.391
DPS (Eu)	0.262	0.275	0.282	0.289	0.296
EV/EBITDA Adj	11.5	10.5	11.2	10.1	9.8
EV/EBIT Adj	18.1	17.4	17.9	15.4	14.8
P/E Adj	13.4	14.0	14.5	12.7	12.4
Div. Yield	5.4%	5.7%	5.8%	5.9%	6.1%
Net Debt/EBITDA Adj	6.3	5.3	6.4	5.9	5.8