

# TERNA

Sector: Utilities

## NEUTRAL

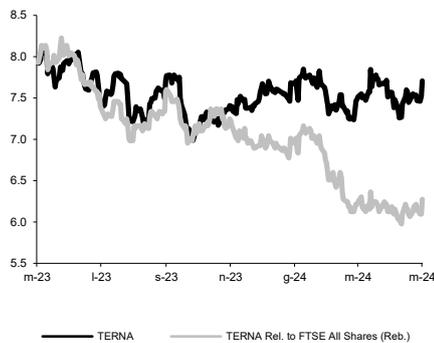
Price: Eu7.71 - Target: Eu8.50

## 1Q24 Results: Good Start to the Year

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	0.8%	0.7%	1.2%

### TERNA - 12M Performance



Stock Data			
Reuters code:	TRN.MI		
Bloomberg code:	TRN IM		
Performance	1M	3M	12M
Absolute	1.8%	3.9%	-2.8%
Relative	2.2%	-5.7%	-25.8%
12M (H/L)	8.10/6.99		
3M Average Volume (th):	4,126.49		

Shareholder Data	
No. of Ord shares (mn):	2,010
Total no. of shares (mn):	2,010
Mkt Cap Ord (Eu mn):	15,493
Total Mkt Cap (Eu mn):	15,493
Mkt Float - Ord (Eu mn):	9,916
Mkt Float (in %):	64.0%
Main Shareholder:	
Cassa Depositi e Prestiti	29.9%

Balance Sheet Data	
Book Value (Eu mn):	6,639
BVPS (Eu):	3.30
P/BV:	2.3
Net Financial Position (Eu mn):	-12,354
Enterprise Value (Eu mn):	28,838

- 1Q24 results: P&L above expectations.** Yesterday, Terna disclosed a set of 1Q24 numbers that beat expectations on the P&L, mostly thanks to better-than-expected cost control (as well as different phasing of operating expenses) while cash generation was broadly in line with estimates. In detail: revenues closed at Eu858mn (+20% YoY and broadly in line with expectations), driven by RAB growth (impact of CapEx and investment deflator) and the increase in allowed returns, output-based incentives slightly higher YoY and non-regulated activities up strongly to Eu110mn (+30% YoY). Adj. EBITDA was Eu628mn (+25% YoY; 4% above) thanks to good control of regulated operating costs, EBIT came to Eu419mn, and adj. net income was Eu268mn (+37% YoY; 6% above estimates). CapEx was Eu482mn in the quarter (+53% YoY and vs. Eu375mn expected) and net debt closed marginally up at c.Eu10.6bn, broadly in line with expectations.
- 2024 guidance confirmed.** Management confirmed its recent FY24 guidance which foresees revenues at Eu3.55bn, EBITDA of Eu2.42bn and EPS at Eu0.49, with CapEx at around Eu2.6bn and a RAB of Eu22.5bn.
- Key conference call messages. Output-based incentives:** In 1Q24 the company booked Eu62mn in output-based incentives, mostly relating to dispatching services. Management confirmed that over the plan period it still expects around Eu400mn to be cashed-in, with a front-end loaded path (in previous calls it was commented that for 2024 a figure of c.Eu300mn could be expected). **Hybrid capital:** management stated that the company's goal is to continue to optimise the capital structure, and with regard to the potential issuance of hybrid capital it was specified that Eu2.0bn of additional capacity is still available if needed (management also stressed that the cost of coupons from hybrids is not included in the P&L). **Regulated returns:** during the call the CFO confirmed that the group still expects the 2025 allowed WACC to end up at 5.5%, down from 5.8% currently.
- Recently-presented 2028 plan points to 5% EPS CAGR.** With the 2028 BP, presented in March, the group committed to 2028 EBITDA of Eu3.25bn for a CAGR in excess of 8%, and an exit EPS of Eu0.55, a c.5% CAGR. In terms of leverage, Terna foresees an FFO/net debt ratio of c.11% in 2028.
- Estimates and target price confirmed.** Following this set of results we broadly confirm our estimates (we expect the drop in operating costs seen in 1Q24 not to be replicated in following quarters but have included the small positive impact of the hybrid on the P&L) and also confirm the target price of Eu8.50. After the business plan presentation back in March we confirmed our 2024 estimates but raised average 2025-2028 EPS estimates by 6%, mostly due to higher CapEx deployment, broadly aligning ourselves to guidance.
- NEUTRAL confirmed (target Eu8.50).** The company remains very much at the centre of the global energy transition trend and we believe it will continue to attract a premium to other regulated peers. Despite a potentially more benign interest rate environment we confirm our NEUTRAL view, as we see limited upside at current prices.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	2,965	3,187	3,550	3,753	4,019
EBITDA Adj (Eu mn)	2,059	2,169	2,436	2,575	2,791
Net Profit Adj (Eu mn)	857	885	995	1,004	1,048
EPS New Adj (Eu)	0.426	0.440	0.495	0.499	0.521
EPS Old Adj (Eu)	0.426	0.440	0.491	0.496	0.515
DPS (Eu)	0.314	0.340	0.368	0.367	0.382
EV/EBITDA Adj	11.7	12.3	11.8	12.0	11.7
EV/EBIT Adj	18.1	19.5	18.4	18.9	18.6
P/E Adj	18.1	17.5	15.6	15.4	14.8
Div. Yield	4.1%	4.4%	4.8%	4.8%	5.0%
Net Debt/EBITDA Adj	4.2	4.8	5.1	5.6	5.8

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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:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emitente	%	Long/Short

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