

TERNA

Sector: Utilities

NEUTRAL

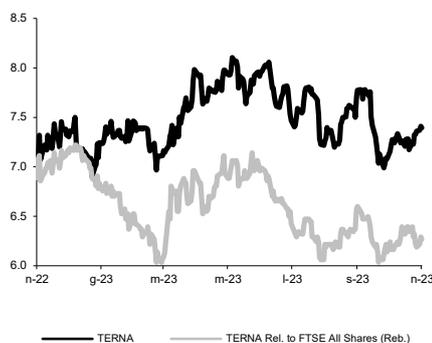
Price: Eu7.39 - Target: Eu7.60

3Q23 Results Beat Expectations, FY23 Guidance Confirmed

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 7.70 to 7.60		
	2023E	2024E	2025E
Chg in Adj EPS	0.4%	1.2%	0.7%

TERNA - 12M Performance



Stock Data			
Reuters code:	TRN.MI		
Bloomberg code:	TRN IM		
Performance	1M	3M	12M
Absolute	4.4%	1.9%	7.4%
Relative	2.2%	0.6%	-10.9%
12M (H/L)	8.10/6.90		
3M Average Volume (th):	3,398.14		

Shareholder Data	
No. of Ord shares (mn):	2,010
Total no. of shares (mn):	2,010
Mkt Cap Ord (Eu mn):	14,858
Total Mkt Cap (Eu mn):	14,858
Mkt Float - Ord (Eu mn):	9,509
Mkt Float (in %):	64.0%
Main Shareholder:	
Cassa Depositi e Prestiti	29.9%

Balance Sheet Data	
Book Value (Eu mn):	6,378
BVPS (Eu):	3.17
P/BV:	2.3
Net Financial Position (Eu mn):	-10,525
Enterprise Value (Eu mn):	26,373

- 3Q23 P&L above expectations.** Yesterday, Terna disclosed a set of 3Q23 numbers that beat expectations on the P&L (mostly linked to different phasing of operating expenses) while cash generation was broadly in line. In detail: revenues closed at Eu769mn (+16% YoY and 3% above expectations), driven by RAB growth (impact of CapEx and investment deflator), higher output-based incentives (around Eu200mn recorded in the first nine months), and growth in the non-regulated assets of Tamini and Brugg (+27% YoY). Adj. EBITDA was Eu544mn (+17% YoY; 6% above) thanks to regulated operating costs remaining broadly stable, EBIT came to Eu347mn, and adj. net income was Eu237mn (+25% YoY; 9% above estimates). CapEx was Eu604mn in the quarter (a YoY increase of as much as +60%, Eu70mn above our expectations) and net debt closed broadly unchanged at c.Eu9.5bn (in line) partly thanks to a small reduction in working capital.
- 2023 guidance confirmed.** Management confirmed its recent guidance for FY23 which foresees revenues at Eu3.11bn, EBITDA at Eu2.12bn, EPS of Eu0.43, and Eu2.2bn of CapEx. These objectives will be pursued whilst maintaining a commitment to maximising cash generation, necessary to ensure a sound and balanced financial structure.
- Key conference call messages.** Output-based incentives: Management is still expecting around Eu300mn in output-based incentives to be cashed in during 2023 (around two thirds from dispatching) and added that at this stage a similar figure is also expected for 2024. Working capital: of the Eu0.9-1bn extraordinary working capital contraction seen in 2022 (pass-through items for which a specific resolution is needed from the authority), c.Eu200mn was reversed in the first nine months of the year and the company expects a further reversal in the last part of the year (the company does not provide official net debt guidance).
- Review of 2024 allowed WACC.** Management expects an increase of +80bp vs. current levels, with the range depending on some elements surrounding inflation. The group's indications are in line with our expectations (in our model we now assume an 80bp increase, down from +90bp previously) and we expect a final decision from Arera to come by early/mid December.
- Estimates and target price confirmed.** Following 3Q23 results we are broadly confirming our estimates with the impact from the change in the 2024 WACC assumption (down to +80bp vs. +90bp previously) broadly offset by slightly higher output-based incentives. Our target price moves from Eu7.70 to Eu7.60, partly affected by a higher risk-free rate in our valuation.
- NEUTRAL confirmed; target price Eu7.60 (from Eu7.70).** 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. The update to the group's Business Plan is expected in 1Q24.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	2,605	2,965	3,149	3,362	3,414
EBITDA Adj (Eu mn)	1,855	2,059	2,147	2,348	2,392
Net Profit Adj (Eu mn)	789	857	892	975	967
EPS New Adj (Eu)	0.393	0.426	0.444	0.485	0.481
EPS Old Adj (Eu)	0.393	0.426	0.442	0.480	0.478
DPS (Eu)	0.291	0.314	0.339	0.350	0.360
EV/EBITDA Adj	12.3	11.7	12.3	11.8	12.1
EV/EBIT Adj	19.1	18.1	19.0	17.7	18.5
P/E Adj	18.8	17.3	16.6	15.2	15.4
Div. Yield	3.9%	4.3%	4.6%	4.7%	4.9%
Net Debt/EBITDA Adj	5.4	4.2	4.9	5.0	5.5