TERNA

NEUTRAL

Sector: Utilities

Price: Eu7.57 - **Target: Eu8.50**

Eu16.5bn of CapEx to Accelerate Italy's Decarbonisation

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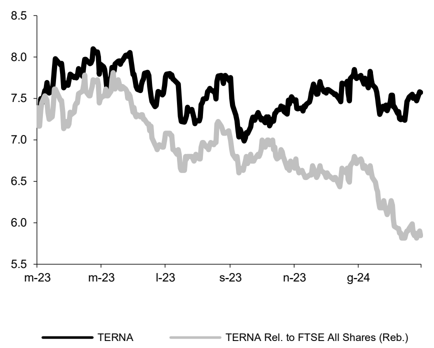
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.60 to 8.50
	2024E	**2025E**	**2026E**
Chg in Adj EPS	1.2%	3.2%	12.5%

TERNA - 12M Performance



Stock Data			
Reuters code:			TRN.MI
Bloomberg code:			TRN IM
Performance	**1M**	**3M**	**12M**
Absolute	1.6%	-0.2%	4.9%
Relative	-6.1%	-12.4%	-27.0%
12M (H/L)			8.10/6.99
3M Average Volume (th):			3,779.76

Shareholder Data	
No. of Ord shares (mn):	2,010
Total no. of shares (mn):	2,010
Mkt Cap Ord (Eu mn):	15,220
Total Mkt Cap (Eu mn):	15,220
Mkt Float - Ord (Eu mn):	9,741
Mkt Float (in %):	64.0%
Main Shareholder:	
Cassa Depositi e Prestiti	29.9%

Balance Sheet Data	
Book Value (Eu mn):	6,632
BVPS (Eu):	3.30
P/BV:	2.3
Net Financial Position (Eu mn):	-12,362
Enterprise Value (Eu mn):	28,572

- **2024-2028 business plan:** yesterday Terna presented an update to its 5-year plan, rolling it forward to 2028, with the issues of decarbonisation, market efficiency, resilience and sustainability confirmed as the main strategic drivers. To achieve the decarbonisation goals set in the European Green Deal and the National Integrated Energy and Climate Plan, Terna plans to increase its investments over the life of the plan to Eu16.5bn, the highest level ever in the Group's history and up 65% on the last plan.
- **Eu14.4bn of net CapEx on regulated activities.** The group is giving domestic regulated CapEx another huge boost by targeting Eu15.5bn for the 2024-28 period, or Eu14.4bn net of grants, c.50% above the old plan (Eu9.5bn) and some 20% above our expectations. Development CapEx will amount to Eu10.8bn; the most important projects include the Tyrrhenian Link, the Adriatic Link, and Sacoi 3. About Eu1.7bn will be invested in the Defence Plan, with the aim of boosting the system's technical and technological capabilities, and Eu2.9bn will be spent on asset renewal and efficiency, primarily for the streamlining of existing infrastructure and the replacement of obsolete components. The calendar RAB CAGR is foreseen at 8%, taking it to Eu30.6bn in 2028.
- **Eu600mn of cumulative EBITDA from non-regulated activities.** In line with previous years, under the new plan non-regulated activities will focus on developing innovative, digital technological solutions. Terna foresees that non-regulated activities will account for about Eu600mn in terms of cumulative EBITDA over the plan period, in return for limited investment and risk exposure.
- **2028 financial targets and dividend policy slightly ahead of expectations.** The group committed to 2028 EBITDA of Eu3.25bn for a CAGR in excess of 8%, including some Eu150mn from ROSS-base (fast-money), and an exit EPS at Eu0.55, a CAGR of c.5%. In terms of leverage, Terna foresees an FFO/net debt ratio of c.11% in 2028.
- **Dividend policy broadly in line with expectations.** The company also committed to a dividend policy broadly in line with expectations, with a 4% DPS CAGR over the plan period, starting from Eu0.34 in 2023 (exit DPS Eu0.41). For 2024, DPS will be equal to the higher of 4% YoY growth and a 75% payout ratio, with any greater distribution in 2024 not affecting dividends from 2025 onwards.
- **Solid 2024 guidance.** Management guidance indicates EBITDA of Eu2.42bn and EPS at Eu0.49, with CapEx at around Eu2.8bn and a RAB at Eu22.5bn.
- **Change in estimates and target.** We are broadly confirming our 2024 estimates while raising average 2025-2028 EPS estimates by 6%, mostly due to higher-than-expected CapEx deployment, broadly aligning ourselves to guidance. Our target moves from Eu7.60 to Eu8.50 on the back of the change in estimates, the lower risk-free rate, (down from 4.5% to 4.0%) and the one-year rollover of our DCF.
- **NEUTRAL confirmed; target Eu8.50 (from Eu7.60).** The new plan clearly once again shows the company's commitment to driving Italy's energy transition while also keeping a close eye on financial stability, and for this reason we believe it will continue to attract a premium to other regulated peers. Most plan assumptions seem conservative (no new output-based incentives, etc) but hybrid capital issuances could burden the average cost of debt. We confirm our NEUTRAL view, based on the upside to our new target price.

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	2,432	2,580	2,796
Net Profit Adj (Eu mn)	857	885	987	997	1,036
EPS New Adj (Eu)	0.426	0.440	0.491	0.496	0.515
EPS Old Adj (Eu)	0.426	0.444	0.485	0.481	0.458
DPS (Eu)	0.314	0.340	0.368	0.367	0.382
EV/EBITDA Adj	11.7	12.3	11.7	11.8	11.6
EV/EBIT Adj	18.1	19.5	18.3	18.7	18.4
P/E Adj	17.8	17.2	15.4	15.3	14.7
Div. Yield	4.2%	4.5%	4.9%	4.9%	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.

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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.

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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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