

TERNA

Sector: Utilities

NEUTRAL

Price: Eu7.30 - Target: Eu7.60

Positive 4Q/FY22 Results Driven by Output-Based Incentives

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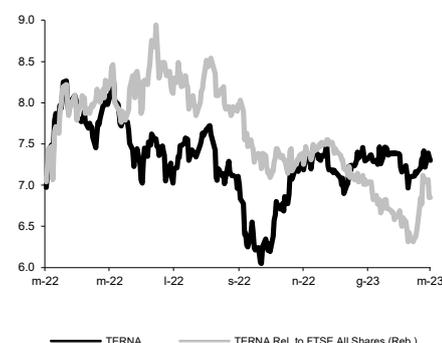
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 7.10 to 7.60		
	2023E	2024E	2025E
Chg in Adj EPS	5.4%	0.4%	-3.5%

Next Event

1Q23 Results Out May 10

TERNA - 12M Performance



Stock Data

Reuters code:	TRN.MI		
Bloomberg code:	TRN IM		
Performance	1M	3M	12M
Absolute	1.1%	2.1%	3.0%
Relative	3.3%	-9.0%	-4.0%
12M (H/L)	8.33/6.05		
3M Average Volume (th):	3,247.89		

Shareholder Data

No. of Ord shares (mn):	2,010
Total no. of shares (mn):	2,010
Mkt Cap Ord (Eu mn):	14,677
Total Mkt Cap (Eu mn):	14,677
Mkt Float - Ord (Eu mn):	9,393
Mkt Float (in %):	64.0%
Main Shareholder:	
Cassa Depositi e Prestiti	29.9%

Balance Sheet Data

Book Value (Eu mn):	6,360
BVPS (Eu):	3.16
P/BV:	2.3
Net Financial Position (Eu mn):	-10,542
Enterprise Value (Eu mn):	26,209

- 4Q22 results better than expected at most levels.** Yesterday, Terna reported 4Q22 numbers that beat our estimates and consensus at operating level and were broadly in line for net profit, while cash generation was also much better than expected thanks largely to some (temporary) regulatory items that boosted working capital. Revenues closed at Eu972mn, (+38% YoY and 14% above expectations), helped by a positive performance from regulated activities (higher output-based incentives) as well as the contribution from non-regulated ones (+44% YoY). Adj. EBITDA was Eu647mn (+34% YoY; 11% above), EBIT came to Eu438mn, and adj. net income was Eu271mn (30% YoY; in line). CapEx was Eu724mn in the quarter (+21% YoY; 6% below exp.) and net debt closed at Eu8,576mn vs. our expectation of Eu9,712mn. DPS at Eu0.3144 was in line with dividend policy and expectations.
- 2023 EPS guidance broadly in line with expectations.** Thanks to initiatives aimed at increasing benefits for the system and designed to further boost efficiency, 2023 EBITDA is expected to reach Eu2.12bn with an EPS of Eu0.43.
- Key conference call messages. Output-based incentives:** Output-based incentives came to c.Eu400mn in 2022 (around 50% from dispatching) and are expected at around Eu300mn in 2023 (also c.50% from dispatching), with a similar number expected for 2024 at this stage. **Working capital:** for 2023 management expects a reabsorption of Eu0.9-1bn of extra cash (pass-through items for which specific resolution is needed from the authority).
- 10-year development plan update.** Last week Terna presented its 2023 development plan for the national transmission network, indicating over Eu21bn of investments over the next 10 years, 17% more than in the previous 2021 plan (considering the entire life cycle of plan projects beyond the 10-year horizon, investments will come to over Eu30bn). The main new element introduced by the 2023 plan is the Hypergrid network, five new electricity backbones designed to integrate renewable energy capacity, supported by overall investments of Eu11bn. The project includes important modernisation of existing electricity cables along the Tyrrhenian and Adriatic overland backbones and towards the islands, and with the Hypergrid it will be possible to double the transmission capacity between market zones from the current 16GW to over 30GW, a level consistent with the target for 70GW of additional renewable energy capacity. We believe this new plan enhances visibility on the post-2025 investment trend (there is Eu5.6bn of development CapEx in the 2025 business plan) and confirms Terna's role as a key player in the energy transition process. As usual, the majority of the proposed projects require the green light from the authorities, but the demands of the decarbonisation process make this plan highly credible, in our view.
- Change in estimates and valuation.** We are raising our 2023 EPS estimates by 5%, mostly thanks to higher output-based incentives partly offset by increased financial charges. For 2024 please note that we are incorporating a 90bp increase in the allowed WACC, up from 5.0% to 5.9%. Our valuation moves to Eu7.60 (from Eu7.10), mostly as a consequence of higher incentives and c.Eu3bn more development CapEx until 2035.
- NEUTRAL; target Eu7.60 (from Eu7.10).** The company clearly 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 nevertheless confirm our NEUTRAL view, as we see limited upside at current prices.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	2,605	2,965	3,124	3,334	3,404
EBITDA Adj (Eu mn)	1,855	2,059	2,123	2,320	2,382
Net Profit Adj (Eu mn)	789	857	875	950	960
EPS New Adj (Eu)	0.393	0.426	0.435	0.472	0.478
EPS Old Adj (Eu)	0.391	0.426	0.413	0.471	0.495
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	18.9	20.5	21.2	20.9	20.6
P/E Adj	18.6	17.1	16.8	15.5	15.3
Div. Yield	4.0%	4.3%	4.6%	4.8%	4.9%
Net Debt/EBITDA Adj	5.4	4.2	5.0	5.1	5.6