Intermonte

Milan, 28 July 2023

Italian Equity Research – 2Q23 Results

TERNA

NEUTRAL

Sector: Utilities

Price: Eu7.73 - **Target: Eu7.70**

Good 2Q23 Numbers, FY23 Guidance Confirmed

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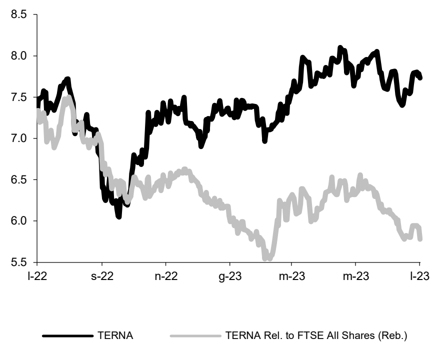
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

TERNA - 12M Performance



Stock Data			
Reuters code:			TRN.MI
Bloomberg code:			TRN IM
Performance	**1M**	**3M**	**12M**
Absolute	0.9%	-0.5%	5.4%
Relative	-6.5%	-8.3%	-28.8%
12M (H/L)			8.10/6.05
3M Average Volume (th):			3,975.56

Shareholder Data	
No. of Ord shares (mn):	2,010
Total no. of shares (mn):	2,010
Mkt Cap Ord (Eu mn):	15,541
Total Mkt Cap (Eu mn):	15,541
Mkt Float - Ord (Eu mn):	9,946
Mkt Float (in %):	64.0%
Main Shareholder:	
Cassa Depositi e Prestiti	29.9%

Balance Sheet Data	
Book Value (Eu mn):	6,374
BVPS (Eu):	3.17
P/BV:	2.4
Net Financial Position (Eu mn):	-10,528
Enterprise Value (Eu mn):	27,059

- **2Q23 results slightly better than expected.** Yesterday, Terna reported 2Q23 numbers that were slightly better than expected, especially at the P&L level. In detail: revenues closed at Eu770mn (+12% YoY and 5% above expectations), driven by RAB growth (impact of CapEx and investment deflator), by higher output-based incentives (around Eu135mn in the first six months), and by growth in the non-regulated assets of Tamini and Brugg (+30% YoY). Adj. EBITDA was Eu517mn (+6.5% YoY; 2% above), EBIT came to Eu323mn, and adj. net income was Eu209mn (+1% YoY; 5% above estimates). CapEx was Eu515mn in the quarter (a YoY increase of as much as +40%, and Eu90mn above our expectations) and net debt increased to c.Eu9.46bn (vs Eu9,477mn expected) also driven by a further reversal of the extraordinary decline in working capital witnessed in 2022 and the payment of the dividend balance.
- **2023 EPS guidance confirmed.** Management has 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.
- **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.Eu370mn was reversed in the first six months of the year and the company expects further progressive reversal in the second part of the year (the company does not provide official net debt guidance); Potential opportunities from the NRRP: last December, the government approved 9 projects worth Eu150mn and Terna can confirm that they will be completed by 2026. On top of that, further discussions are ongoing for other projects linked to the increase of transfer capacity among different zones (in previous calls, management had clarified that projects linked to the NRRP are a residual option for Terna and that in any case any public incentives would clearly be deducted from RAB).
- **Estimates and target price confirmed.** Following 2Q23 results we broadly confirm our 2023 EPS estimates. For 2024, please note that we are incorporating a 90bp increase in the allowed WACC, up from 5.0% to 5.9%. Our valuation is also confirmed at Eu7.70.
- **NEUTRAL confirmed (target price 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 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	3,144	3,354	3,404
EBITDA Adj (Eu mn)	1,855	2,059	2,143	2,340	2,382
Net Profit Adj (Eu mn)	789	857	889	964	960
EPS New Adj (Eu)	0.393	0.426	0.442	0.480	0.478
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	12.6	12.1	12.5
EV/EBIT Adj	19.1	18.1	19.5	18.3	19.1
P/E Adj	19.7	18.1	17.5	16.1	16.2
Div. Yield	3.8%	4.1%	4.4%	4.5%	4.7%
Net Debt/EBITDA Adj	5.4	4.2	4.9	5.0	5.5