Milan, 02 April 2024

Italian Equity Research – 4Q23 Results

IREN

OUTPERFORM

Sector: Utilities

Price: Eu1.89 - **Target: Eu2.20**

A Positive End to the Year and Solid FY24 Guidance

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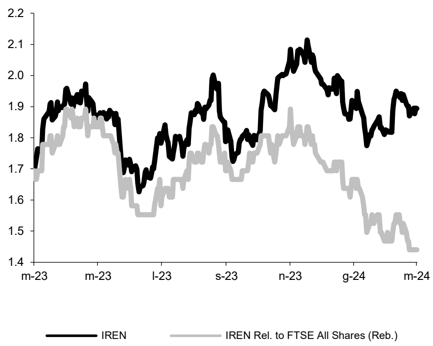
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-5.6%	-8.2%	-5.8%

IREN - 12M Performance



Stock Data			
Reuters code:			IREE.MI
Bloomberg code:			IRE IM
Performance	**1M**	**3M**	**12M**
Absolute	4.2%	-4.0%	7.3%
Relative	-1.3%	-17.8%	-18.8%
12M (H/L)			2.11/1.63
3M Average Volume (th):			1,738.11

Shareholder Data	
No. of Ord shares (mn):	1,301
Total no. of shares (mn):	1,301
Mkt Cap Ord (Eu mn):	2,464
Total Mkt Cap (Eu mn):	2,464
Mkt Float - Ord (Eu mn):	1,189
Mkt Float (in %):	48.3%
Main Shareholder:	
FSU Genoa	18.9%

Balance Sheet Data	
Book Value (Eu mn):	2,443
BVPS (Eu):	2.20
P/BV:	0.9
Net Financial Position (Eu mn):	-4,014
Enterprise Value (Eu mn):	6,714

- **A positive set of 4Q23 results**. Last Thursday, Iren reported a set of 4Q23 results that was better than expected at EBITDA level and broadly in line in terms of bottom line and CF generation, with a net debt / EBITDA ratio at 3.3x, in line with guidance. In detail: EBITDA closed at Eu340mn (+15% YoY in adjusted terms and 9% above our estimate), EBIT at Eu140mn, and adj. net income at Eu78mn (-12% YoY and in line with our estimates). On the balance sheet, net debt was stable at Eu3,932mn (in line) on the back of Eu319mn of technical investments. The Board proposed a DPS of Eu0.1188, an increase of 8% YoY (vs +10% in previous group guidance) and equal to a 60% pay-out.
- **Divisional performances: strong recovery in energy supply.** Energy: EBITDA was up 8% YoY and 27% above estimates thanks to stronger heat production and improved margins from thermal production despite another lower contribution from MSD; Market: EBITDA closed at Eu78mn (vs. Eu7mn in 4Q22 and well above expectations), mostly thanks to the recovery in electricity supply unit margins and higher-than-expected unit margins in gas supply; Networks (including Water): EBITDA down 21% YoY to Eu95mn due to the absence of one-offs for Eu15mn that had impacted 4Q22 and still negatively affected by higher operating costs due to inflation, which will be recovered in tariffs as of next year; Waste: EBITDA down 13% YoY to Eu58mn (12% below estimates), as lower prices of electricity sold, lower contribution from landfill and lower plant availability were only partly offset by the positive contribution of M&A in waste collection (SEI Toscana).
- **2024 guidance.** Management provided FY24 guidance, with EBITDA seen in a Eu1,220-1,230mn range, NFP/EBITDA at 3.3x (implying net debt of c.Eu4.04bn), with total investments of Eu1.0bn (excluding grants).
- **Messages from the conference call:** Working capital: as well as Eu250mn in tax credits to be resold, guidance on debt includes a deterioration of operating working capital by circa Eu100mn as the long position on generation (9TWh produced vs 5TWh sold to customers) has a negative impact in periods of falling prices. Energy supply: profitability should be maintained for 2024, with some possibility of further upside. Powergen forward sales: the group has hedged 65% of renewable production at Eu130/MWh and 60% of thermal production at Eu3-4/MWh; Egea: Last Saturday Iren finalised a deal, for the purchase of 50% of a NewCo to which EGEA operating arms will be transferred for an equity cash out of Eu85mn. Net debt/EBITDA would not increase above 3.4x (see comment on page 4 of the note).
- **Change in estimates and target price.** Following results and management indications we have updated our projections, primarily to reflect lower energy prices (PUN 2024/25/26 now assumed at Eu95/90/85/MWh from previous Eu120/110/100/MWh), with an average 6.5% cut in 2024-2026 EPS also on the back of higher D&A. DPS 2024-2026 also revised slightly downwards and based on a 60% payout ratio. Our Eu2.20 TP is confirmed (risk free down to 4.0% from 4.5%), still based 50% on DCF and 50% on sector multiples.
- **OUTPERFORM confirmed (TP Eu2.20).** Following 4Q23 results and the new guidance, we confirm our view as we continue to believe that the company remains attractive thanks to an appealing valuation, a good dividend yield, a balanced portfolio, and a commitment to decarbonisation. The stock is the among cheapest among its peer group, trading at an attractive 2024 EV/EBITDA of 5.5x and a 2024 P/E of 9.3x.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	7,886	6,639	5,975	5,450	5,528
EBITDA Adj (Eu mn)	1,055	1,197	1,230	1,298	1,370
Net Profit Adj (Eu mn)	253	278	266	288	296
EPS New Adj (Eu)	0.194	0.214	0.204	0.221	0.227
EPS Old Adj (Eu)	0.194	0.213	0.219	0.245	0.244
DPS (Eu)	0.110	0.119	0.125	0.131	0.138
EV/EBITDA Adj	5.9	5.5	5.5	5.3	5.2
EV/EBIT Adj	13.5	14.1	12.8	12.2	11.9
P/E Adj	9.7	8.9	9.3	8.6	8.3
Div. Yield	5.8%	6.3%	6.6%	6.9%	7.3%
Net Debt/EBITDA Adj	3.2	3.3	3.3	3.3	3.2

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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&PMIB40 Index, most of those on the MIDEX 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.
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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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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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