Intermonte

Milan, 12 May 2023

**Italian Equity Research – 1Q23 Results**

# IREN

# OUTPERFORM

*Sector: Utilities*

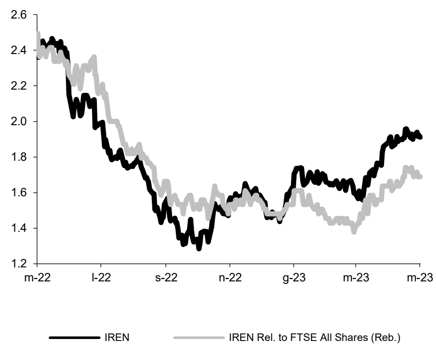
Price: Eu1.91 - **Target: Eu2.20**

## Jump in Working Capital is Temporary; Guidance Confirmed


**Federico Pezzetti +39-02-77115.268**
federico.pezzetti@intermonte.it


| Stock Rating | | | |
|---|---|---|---|
| **Rating:** | | | Unchanged |
| **Target Price (Eu):** | | | from 2.00 to 2.20 |
| | **2023E** | **2024E** | **2025E** |
| **Chg in Adj EPS** | 0.4% | 0.1% | 0.1% |

**IREN - 12M Performance**




| Stock Data | | | |
|---|---|---|---|
| Reuters code: | | | IREE.MI |
| Bloomberg code: | | | IRE IM |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute | 1.5% | 15.2% | -23.3% |
| Relative | 3.1% | 16.0% | -36.3% |
| 12M (H/L) | | | 2.47/1.28 |
| 3M Average Volume (th): | | | 2,009.50 |

| Shareholder Data | |
|---|---|
| No. of Ord shares (mn): | 1,301 |
| Total no. of shares (mn): | 1,301 |
| Mkt Cap Ord (Eu mn): | 2,487 |
| Total Mkt Cap (Eu mn): | 2,487 |
| Mkt Float - Ord (Eu mn): | 1,200 |
| Mkt Float (in %): | 48.3% |
| Main Shareholder: | |
| FSU Genoa | 18.9% |

| Balance Sheet Data | |
|---|---|
| Book Value (Eu mn): | 2,327 |
| BVPS (Eu): | 2.12 |
| P/BV: | 0.9 |
| Net Financial Position (Eu mn): | -3,719 |
| Enterprise Value (Eu mn): | 6,474 |

- **1Q23 results in line with expectations.** Yesterday Iren reported a set of 1Q23 results that were substantially in line with our expectations and the consensus at most levels. In datail, EBITDA closed at Eu369mn (+2% YoY in adjusted terms and in line with our estimate), EBIT at Eu210mn, and adj. net income at Eu135mn (-5% YoY and 3% above our estimate). On the balance sheet, net debt ended strongly up at Eu3,715mn (vs. Eu3,675mn) also on the back of Eu191mn of CapEx (+35% YoY).
- **Divisional performances.** Energy: EBITDA was down 19% YoY (8% below our estimates) as a tough comparison in district heating and lower volumes in thermo production, partly due to the extraordinary stoppage at Turbigo, were mitigated by better margins in hydro; Market: EBITDA closed at Eu70mn (+85% and 13% above expectations) mostly thanks to the recovery in electricity supply; Networks: EBITDA was up 1% YoY to Eu96mn; Waste: EBITDA up 5% YoY to Eu68mn, as lower prices of electricity sold were counterbalanced by the positive contribution of M&A in waste collection (SEI Toscana).
- **2023 guidance confirmed.** Management confirmed its previous 2023 guidance for EBITDA to rise 6% YoY to c.Eu1,120mn, NFP/EBITDA of 3.3x for net debt of c.Eu3.7bn, with technical CapEx at c.Eu0.9-1.0bn.
- **Other messages from the conference call:** Working capital: temporary increase of around Eu350mn: Eu120mn from acceleration of CapEx in 4Q22, Eu105mn from seasonal absorption, Eu130mn for superbonus tax credits. The change in the waste collection payment method also had a Eu60mn negative impact (from monthly payments to half yearly in selected areas) and gas payment terms that are still not normalised had a further Eu60mn impact (the company is working to reduce this). Management expects Eu350mn to be reabsorbed in the coming quarters (certainly by year-end). Egea: the group is analysing why A2A ended exclusive talks, and is considering the asset due to attractive potential synergies, but financial solidity remains a priority. Gas distribution dossier: expect non-binding offers by mid-May, closing by year-end. Photovoltaic assets: the group is developing 70MW of greenfield plants in Basilicata, Lazio and Sicily while another 400 MW of pipeline are currently under authorization.
- **Change in estimates and target price.** Following results we are broadly confirming our 2023-2024 estimates. Our TP moves to Eu2.20 from Eu2.00, mostly on the back of a sector re-rating, and is still 50% based on DCF and 50% on sector multiples.
- **OUTPERFORM; target Eu2.20 (from Eu2.00).** Short-term headwinds continue to include the water crisis and an energy environment that remains uncertain despite the recent drop in gas/electricity prices, but we believe the company remains attractive thanks to an appealing valuation, a good dividend yield, a balanced portfolio, and a strong commitment to decarbonisation. The stock is trading at a 2023 EV/EBITDA of 5.7x and a 2023 P/E of 9.5x and we would view any weakness in the share price as a buying opportunity.

| Key Figures & Ratios | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Sales (Eu mn) | 4,967 | 7,862 | 6,690 | 6,068 | 5,613 |
| EBITDA Adj (Eu mn) | 1,016 | 1,055 | 1,129 | 1,219 | 1,349 |
| Net Profit Adj (Eu mn) | 262 | 253 | 261 | 283 | 317 |
| EPS New Adj (Eu) | 0.201 | 0.194 | 0.201 | 0.217 | 0.244 |
| EPS Old Adj (Eu) | 0.201 | 0.194 | 0.200 | 0.217 | 0.244 |
| DPS (Eu) | 0.105 | 0.110 | 0.121 | 0.133 | 0.146 |
| EV/EBITDA Adj | 6.4 | 5.9 | 5.7 | 5.5 | 5.2 |
| EV/EBIT Adj | 14.4 | 12.7 | 12.7 | 12.8 | 12.7 |
| P/E Adj | 9.5 | 9.8 | 9.5 | 8.8 | 7.8 |
| Div. Yield | 5.5% | 5.8% | 6.3% | 7.0% | 7.7% |
| Net Debt/EBITDA Adj | 2.9 | 3.2 | 3.3 | 3.3 | 3.1 |