RAI WAY

BUY

Sector: Telecoms

Price: Eu5.66 - **Target: Eu7.50**

Diversification Strategy Confirmed in Current Environment

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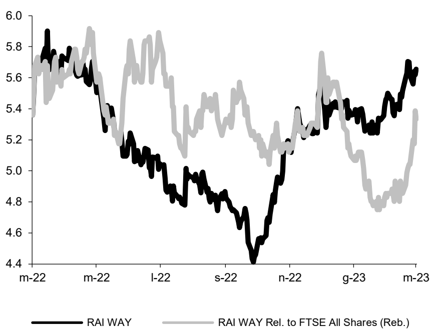
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.1%	0.3%	0.3%

Next Event
1Q23 Results out 11 May

RAI WAY - 12M Performance



Stock Data			
Reuters code:			RWAY.MI
Bloomberg code:			RWAY IM
Performance	**1M**	**3M**	**12M**
Absolute	3.4%	1.2%	5.5%
Relative	10.1%	-8.0%	-0.3%
12M (H/L)			5.90/4.41
3M Average Volume (th):			138.89

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	1,538
Total Mkt Cap (Eu mn):	1,538
Mkt Float - Ord (Eu mn):	539
Mkt Float (in %):	35.0%
Main Shareholder:	
RAI	65.0%

Balance Sheet Data	
Book Value (Eu mn):	189
BVPS (Eu):	0.70
P/BV:	8.1
Net Financial Position (Eu mn):	-167
Enterprise Value (Eu mn):	1,705

- **FY22 results:** FY results slightly exceeded our expectations and consensus estimates, coming in 1% better on adj. EBITDA, 2% on net profit (€73.7mn vs. our exp. €72.0mn) and 3% on RFCF (€93.4mn vs. our exp. €90.5mn). The core top line rose 6.7% to €245.4mn in FY22 (4Q: +4.9%) supported by revenues from RAI, (€204mn, up +6.1%) benefitting from higher CPI (3.6% recorded in November 2021) despite the tougher comp on refarming upside (from 2H21), and also by accelerating double-digit growth in third-party revenues (4Q: +27%, 3Q: +17%, 2Q: +14%) boosted by a rising contribution from new regional MUXes as well as lower pressure from MNOs and higher demand from FWA/radio clients. FY adj. EBITDA rose 5.7% YoY to €149mn, overturning the negative trend witnessed in 3Q (4Q: +7.3%, 3Q: -6.5%, 2Q: +8.5% YoY) due to lower headwinds on energy costs (€8.5mn impact in FY, o/w €1.4mn in 4Q and c.€6mn in 3Q) mitigated by government measures (tax credits and cuts in other components) and lower consumption (-13%). FY RLFCF at €93.5mn, was entirely absorbed by higher development CapEx (€62mn) and dividends (€65mn), driving net debt up to €105mn (from €88mn at YE21; our exp. €101mn), i.e. 0.7x adj. EBITDA. DPS proposed at €0.275 (+6% above our/consensus exp.), a 100% payout and 5% yield.
- **2023 guidance:** the adj. EBITDA target ("mid-teens growth") was in line with our estimates (our exp. +14% YoY at €172mn) but leaves some room for a low single-digit revision in consensus estimates (which currently foresees +11% YoY growth at c.€169mn). Our overall CapEx assumptions are consistent with company guidance ("broadly stable YoY"), assuming c. €18mn maintenance CapEx (FY22: €17.4mn) and c. €70m development CapEx (FY22: €62.8mn).
- **Neutral feedback from the conference call**: no major update on consolidation, while management confirmed the commitment to business diversification through new strategic initiatives (namely, Edge DCs and hyperscale datacentre). The new business plan is due to be presented next March.
- **Updated estimates:** minor tweaks on 2023-25 estimates with no major impact on EPS.
- **BUY confirmed; target still €7.5.** Our €7.5 TP still reflects a €6.6 fair value from our DCF model (implying 12x 2023E EV/EBITDA) and additional upside from synergies with EIT (c.€0.6/share) and the Hyperscale datacentre (€0.4/share). RWAY is currently trading at an undemanding 10x 2023E EV/EBITDA, a discount of c.50% to key peers, as well as showing a compelling 2023 RFCF yield of 7%. Even though speculative appeal on the stock (linked to M&A with EIT) might have cooled in the short term, we believe the investment case remains unchanged. In particular, the company's hints on the next 3 years, confirming the role of traditional TV (Italy to remain a largely FTA market) and looking at strategic opportunities in adjacent sectors (DC project with >10% IRR) prompt us to remain positive. In addition, RWAY has solid fundamentals (long-term visibility from the RAI MSA, 100% CPI-indexed with no cap, but also no floor), very low risk (limited leverage) and an attractive dividend yield (5%) on top of upside from a potential tie-up with EIT in the near future.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	230	245	271	279	285
EBITDA Adj (Eu mn)	143	151	172	179	184
Net Profit Adj (Eu mn)	66	74	90	91	93
EPS New Adj (Eu)	0.244	0.271	0.330	0.334	0.343
EPS Old Adj (Eu)	0.244	0.265	0.329	0.333	0.342
DPS (Eu)	0.244	0.275	0.322	0.334	0.343
EV/EBITDA Adj	10.3	9.9	9.9	9.8	9.8
EV/EBIT Adj	16.1	14.5	13.4	13.6	13.7
P/E Adj	23.2	20.9	17.1	16.9	16.5
Div. Yield	4.3%	4.9%	5.7%	5.9%	6.1%
Net Debt/EBITDA Adj	0.6	0.7	1.0	1.2	1.5