

Company Flash

Italgas

Positive 1H results; 2021 guidance confirmed

Italgas reported positive 1H21 results, in line with Bloomberg consensus. Cost efficiencies were confirmed as a driver for company results. Net debt was overall in line with year-end 2020, benefitting from positive seasonality on working capital. The company confirmed its full-year 2021 guidance. We maintain a BUY recommendation on Italgas' bonds.

Italgas - Investment recommendations

	Sen Secured	Chg	Sen Unsec	Chg	Sub	Chg	Hybrid	Chg
Investment Grade	-	-	BUY	c	-	-	-	-
High Yield	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-

Note: c = confirmed; d= downgraded; u = upgraded; n = new; NA = not assigned; na = no action; U/R = under review. Source: Intesa Sanpaolo Research

1H21 Results

Italgas' 1H21 revenues were up 2.9% yoy, to EUR 665M. Regulated revenues from gas distribution were up 2.6% yoy, at EUR 642M, driven by RAB growth and a contribution from investments in Sardinia. These positive items more than offset the negative impact from lower allowed opex (-EUR 4M). Operating costs decreased by 4.7% yoy (to EUR 176M). EBITDA rose by 6% yoy, to EUR 489M (Bloomberg consensus: EUR 484M), while EBIT was up 10% despite slightly higher D&A costs (+1% yoy). On a quarterly basis, EBITDA rose by 8% yoy, to EUR 255M (Bloomberg consensus: EUR 250M). Net profit, net of minority interests, increased by 11% yoy, partly impacted by higher net financial costs due to the costs related to the bond buyback completed in February 2021 (EUR 6.4M). Net profit adjusted was up 14% yoy. Net debt rose by EUR 70M vs year-end 2020, to EUR 4,807M (EUR 4,737M net of IFRS 16 effects), with cash generation allowing the company to entirely cover technical investments (EUR 420M, +14% vs 1H20) and dividend payments (EUR 219M). In 1H21, working capital contributed EUR 196M to cash generation, mainly driven by the positive impact of billing seasonality. The net debt/EBITDA ratio (LTM) improved to 4.8x from 4.9x at year-end 2020.

NEUTRAL Credit View

Part of the conference call focused on the first consultation document for the 2021 allowed return (WACC) review, recently published by the Italian Authority (ARERA). In the document, ARERA is proposing to maintain the WACC formula unchanged, with a calculation of a real pre-tax WACC based on factors including the cost of equity, the cost of debt, gearing levels and corporate tax rates. It also proposes changes for the calculation of some parameters to be included in the formula (eg, cost of debt, country risk premium). The document contained various proposals for a number of variables, making it difficult to provide a clear first simulation of potential impacts on new WACCs, in our view. However, the changes included in the document could potentially lead to a cut in rates above that forecast by the market before the publication of the paper (at around 50-60bps). According to our very preliminary simulation, a 50bps lower

28 July 2021: 16:09 CET
Date and time of production

Credit View
NEUTRAL

Italy/Gas Distribution
Results

Key Results

EUR M	1H20	1H21
Sales	647	665
EBITDA	462	489
Margin (%)	71.4	73.5
	31.12.20	30.6.21
Net debt	4,737	4,807
Leverage (x)	4.9	4.8

Source: Intesa Sanpaolo research elaborations on company data

Credit Ratings

	Rating	Outlook
Moody's	Baa2	Stable
Fitch	BBB+	Stable

Source: Bloomberg data

Report priced at market close on day prior to the issue (except where otherwise indicated)

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WACC for gas distribution could translate to c.3-4% lower EBITDA for Italgas. A second document is scheduled to be presented by the end of October, with the final one to be presented in December. During the call, management did not make specific comments about the document, but reiterated its view that the regulator should take into account the peculiarity of the current environment as well as the Italian energy infrastructure's need for investments: "...we expect that the regulator will consider the extraordinary time we are facing, the need for investment infrastructure and therefore the need to support this sector" (Source: Bloomberg transcript of analyst call). Italgas reported solid 1H results, driven by a positive Q2 (EBITDA and EBIT were 2% and 4% above consensus, respectively). Cost efficiencies were confirmed as a driver for company results. Management confirmed the full-year 2021 guidance released in June, with the new 2021-2027 BP, which envisages: revenues of above EUR 1.35Bn, EBITDA at EUR 1Bn, EBIT of EUR 560-580M, capex at EUR 850-900M, and net debt at c.EUR 5Bn. We confirm our NEUTRAL Credit View on Italgas.

Market Focus

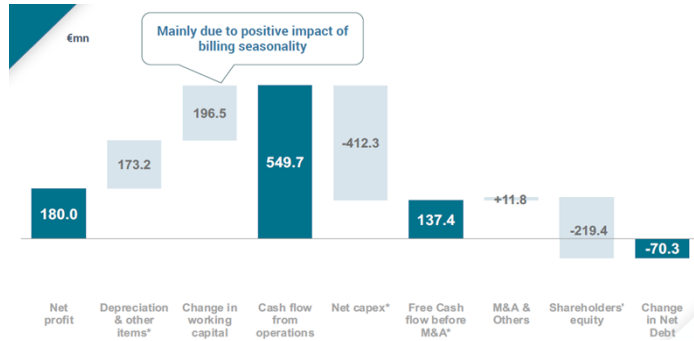
In the last month, Italgas' bonds have tightened by around 5-7bps on average, overall in line with the iBoxx Utilities IG index (-7bps). In terms of relative value, the issuer's bonds are currently trading wider compared to their main Italian peers (Snam and Terna), especially on longer maturities, eg: IGIM 1 12/11/31 +10 bps, in terms of ASW, vs SRGIM 0 5/8 06/30/31 and vs TRNIM 0 % 07/24/32. We consider the second consultation paper from ARERA, expected in October, as the current common main catalyst for this group of companies. We confirm our BUY recommendation on Italgas' bonds.

Italgas main results

EUR M	2020A	2Q20A	2Q21C	2Q21A	% yoy	1H20A	1H21C	1H21A	% yoy
Sales	1,334	320	330	332	4.0	647	663	665	2.9
_of which regulated	1,286	311		321	3.4	626		642	2.6
EBITDA	971	235	250	255	8.4	462	484	489	5.9
EBITDA margin	72.8	73.5	75.8	76.6	4.3	71.4	73.0	73.5	3.0
Operating costs	362	-85		-77	-8.7	-185		-176	-4.9
EBIT	547	131	143	150	14.6	254	273	279	10.0
EBIT margin	41.0	40.8	43.3	45.0	10.2	39.3	41.2	42.0	6.9
Net financial expenses	-49	-13		-12	-6.3	-26		-32	23.1
Equity investments	2	0		1	400.0	1		1	10.0
Group net profit	383	79	90	95	19.7	154	170	171	11.0
Group net profit adj.	345	74		95	27.7	154		176	14.1
Capex	778					369	427	420	14.1
Net debt	4,737						4,814	4,807	1.5
Net debt/EBITDA (x)	4.9						4.8	4.8	

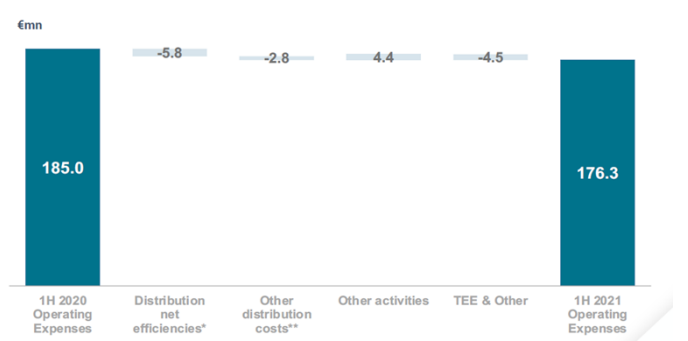
A: actual; C: consensus. Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

Italgas cash flow 1H21 (EUR M)



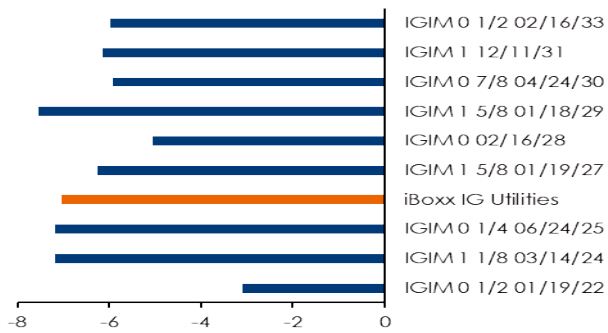
Source: Company data

Italgas operating expenses 1H21 (EUR M)



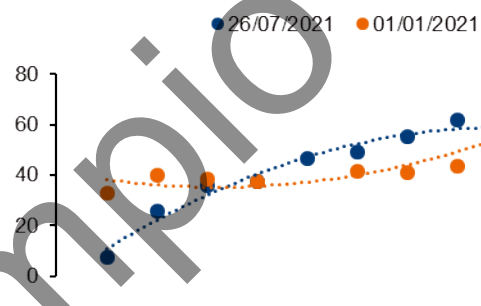
Source: Company data

Italgas selected bonds: one month performance (ASW, bps)



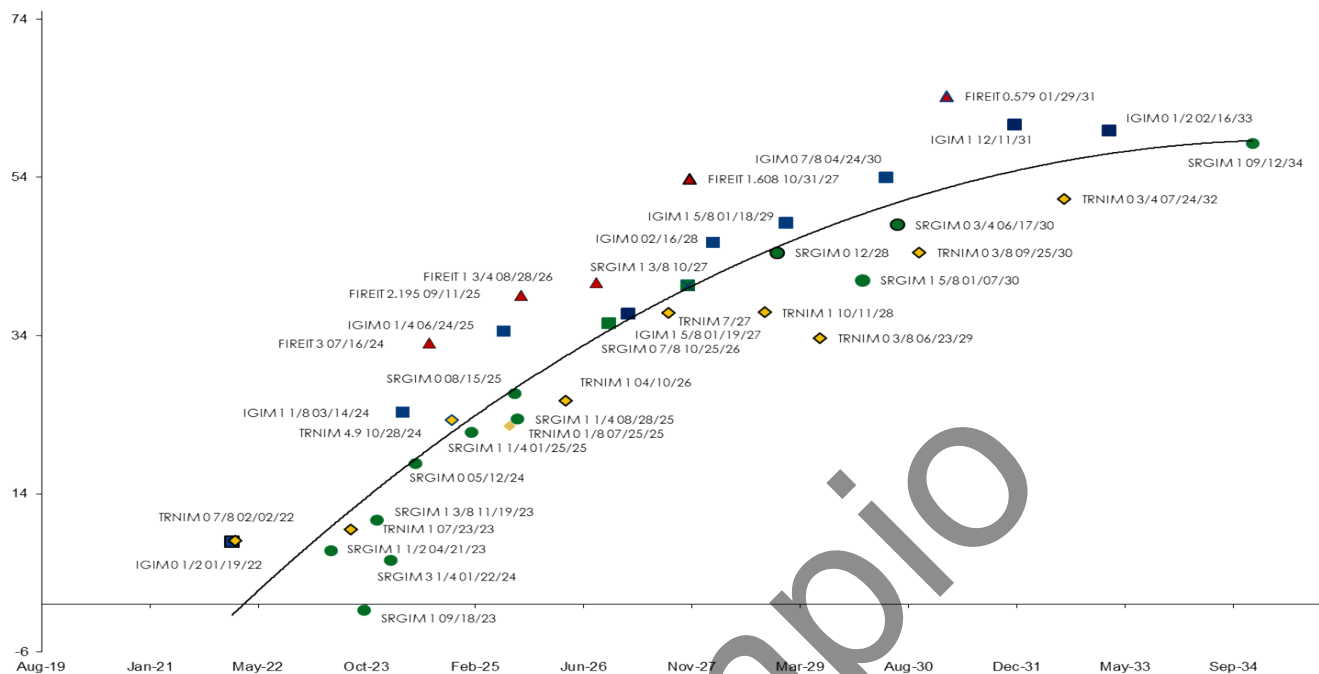
Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Italgas selected bonds (ASW, bps)



Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Italian "regulated" bonds (ASW, bps)



Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Recommendations on Italgas' bonds (ASW spread, bps)

Date	Bond/CDS	Type	Spread	Rate	Buy/Sell	Entry level	Current level	Pick-up	Status
24.06.21	FIREIT 1.608 10/31/27	Sen	ASW	FX	BUY	63,4	51,8	11,6	OPEN
	IGIM 1 5/8 01/19/27	Sen	ASW	FX	SELL	44,1	34,6	-9,4	
08.04.21	IGIM 0 1/4 06/24/25	Sen	ASW	FX	BUY	40,3	32,8	7,5	OPEN
	IGIM 1 5/8 01/18/29	Sen	ASW	FX	SELL	44,7	45,9	1,2	
26.11.20	IGIM 0 1/4 06/24/25	Sen	ASW	FX	BUY	34,6	32,8	1,8	OPEN
	IGIM 1 5/8 01/19/27	Sen	ASW	FX	SELL	33,9	34,6	0,8	

Source: Intesa Sanpaolo Research elaboration on Bloomberg data on 28.07.21

Italgas SpA bonds/CDS (ASW, bps)

Bond	Next call and price	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD	-1W (bps)	-1M (bps)	YTD (bps)	52-week range		Ratings					
											max	min	Mdy	Fitch	BBG			
													28.7.21			4.1.21		
Italgas SpA																		
IGIM 0 1/2 01/19/22	-	FX	112	100.4	-0.4	ASW	8	-1	-4	-25	47	7	Baa2	BBB+	BBB			
IGIM 1 1/8 03/14/24	-	FX	381	103.6	-0.2	ASW	24	-2	-9	-17	53	24	Baa2	BBB+	BBB			
IGIM 0 1/4 06/24/25	-	FX	500	101.3	-0.1	ASW	33	-3	-9	-5	58	33	Baa2	BBB+	BBB			
IGIM 1 5/8 01/19/27	-	FX	750	108.8	0.0	ASW	35	-3	-8	-2	62	34	Baa2	BBB+	BBB			
IGIM 0 02/16/28 ¹	-	FX	500	98.7	0.2	ASW	45	-3	-7	0	53	44	Baa2	BBB+	BBB			
IGIM 1 5/8 01/18/29	-	FX	750	110.3	0.2	ASW	46	-3	-6	5	74	38	Baa2	BBB+	BBB			
IGIM 0 7/8 04/24/30	-	FX	600	104.2	0.4	ASW	52	-4	-9	11	67	37	Baa2	BBB+	BBB			
IGIM 1 12/11/31	-	FX	500	104.5	0.6	ASW	59	-3	-7	15	73	40	Baa2	BBB+	BBB			
IGIM 0 1/2 02/16/33 ¹	-	FX	500	98.5	0.6	ASW	58	-3	-8	0	67	54	Baa2	BBB+	BBB			

Type: FX = Fixed; FL=Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds. SPRD TYPE: ASW=Asset Swap. Ratings: reported in the table refer to individual issues. Notes: 1) YTD from launch date for bonds issued in 2021. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 12:07.

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In the case of significant events, which could determine a change in our credit view, we may place our recommendation under review. This review does not necessarily imply a change in the credit view.

Corporate credit view key

Credit rating key

Credit view	Definition
POSITIVE	We expect an improvement in fundamentals over the next six months
NEUTRAL	We expect substantially stable fundamentals over the next six months
NEGATIVE	We expect a deterioration in fundamentals or visibility on fundamentals over the next six months
SUSPENDED	The credit view and investment recommendation for this company have been suspended as there is not a sufficient fundament
NOT ASSIGNED	The previous credit view, if any, is no longer in effect for this company The company is or may be covered by the Research Department but no credit view and investment recommendation are c
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Historical Credit View and Investment Recommendation Changes

Italgas - Historical Credit View (-1Y)		Italgas - Historical Investment Recommendations (-1Y)	
Date	Credit View	Date	Investment Grade Senior Unsecured
		22-Jun-21	BUY
		29-Jan-21	HOLD
		28-Jul-20	BUY
2i Rete Gas - Historical Credit View (-1Y)		2i Rete Gas - Historical Investment Recommendations (-1Y)	
Date	Credit View	Date	Investment Grade Senior Unsecured
		03-Feb-21	BUY

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Number of Companies subject to credit views: 29*	Positive	Neutral	Negative
Total Credit Research coverage - last credit view** (%)	6.9	86.2	6.9
of which Intesa Sanpaolo's clients*** (%)	100	80	50

* Total number of companies covered is 33; **Last credit view refers to credit view as at end of the previous quarter; ***Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category.

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Recommendation	Definition
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