

From: ResearchGreece <contact@researchgreece.com>
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To: contact@researchgreece.com
Subject: ADMIE Holdings: Investments on Track || Update
Attachments: ADMIE Holdings_ Found the Catch __ Update.pdf; ADMHE Forecasts 2022_2025.xlsx



RESEARCH | ANALYSIS | IDEAS

ADMIE Holdings (OI): One offs & Depreciation Weigh But Investments Are On Track

Apr 20

Target price: E3.35; Share price: E2.29; Market Cap: E532m, Rating: OI
Valuation multiples* (2022E): 0.90x RAB; 10.4x EPS; 8.2x EBITDA; 3.9% dividend yield
Attached: Company Forecasts; Research notes

What's new? Q4/FY results confirmed the mismatch between regulated and actual depreciation (see our previous note attached). This, plus some smaller one-off items, drove net income and dividend 10%-12% lower compared to our estimates. More importantly though, capex spent (E412m in FY 2021) to interconnect the islands remained on track. The new 2022-2025 RAB is expected shortly and should lead to double the EBITDA by 2024 at E380m.

Conclusion. We made slight changes to our 2022-2025 forecasts; the main one is increasing our non-regulated depreciation to E20m (from E15m p.a.) We still model for a lower RoRAB (vs. IPTO's proposal to the regulator), closer to what the distribution operator (HEDNO) got a few months ago. We project 2025 EBITDA of E380m, which is 7% below IPTO's proposal implied EBITDA of E407m. We reiterate our OI rating and PT of E3.35.

The lower dividend coming out of 2021 earnings is a bit frustrating, but our focus remains on capex and RAB. Management remains confident the RoRAB will be at 6.7%-7.0% for the new period. Enough to prove our forecasts correct.

Accounting Vs Regulated

EURm	2018	2019	2020	2021
RAB revenues	234.0	252.4	281.0	285.9
Actual revenues	247.4	249.8	286.7	286.0
RoRAB EBIT	101.5	116.2	126.2	129.8
Reported EBIT	112.2	134.8	122.1	89.0
Underlying EBIT	96.7	103.9	114.0	89.8
Underlying Vs. RoRAB EBIT	-4.7%	-10.6%	-9.7%	-30.8%
Reported Vs. RoRAB EBIT	10.7	18.5	-4.1	-40.8
o/w revenues delta	13.4	-2.6	5.7	0.1
o/w reversal of provisions	26.6	20.0	8.7	
o/w new provisions	-9.9	-0.6	-0.6	
o/w higher depreciation	-13.5	-14.2	-12.4	-24.2
o/w other	-5.9	16.0	-5.5	-16.7

source: company data & RG estimates

Most notable points from FY results and conference call:

- The new 2022-2025 RAB numbers are expected shortly. Management remains confident they will get a WACC/RoRAB at least equal to HEDNO's c.7%.
- The delay is not expected to affect 2022 financials, as system tariffs will be adjusted retroactively.
- The company will not consider returning capital to shareholders or raising the ordinary dividend payout to pay back the excess depreciation (E24m in 2021, E64m since 2018) that has been weighing on accounting net income. They prefer to use the cash flow towards capex. This is strange because there was never a funding issue to begin with.
- Management is considering introducing stock options and extending the share buyback program. Both should help the share price to move higher (hopefully). Valuation is stuck during the last 2.5 years.
- Items that burdened the P&L: a) retroactive special allowances to employees of E2m; b) cost of Covid tests to employees of E4.5m; c) E8.9m higher consulting fees; d) E24m higher depreciation costs relating to the E291m revaluation of fixed assets, and which are not incorporated in the regulator's asset registry.
- Higher subsidies and lower capex resulted to lower net debt in 2021 compared to our estimates (at E662m from E878m) with net debt / EBITDA at 3.46x. As a result, we see the latter peaking at a lower level than previously (4.44x in 2024 vs. 5.08x in 2023), all other things being equal.

Valuation. We value IPTO (and ADMIE Holding 51% stake) on transaction multiples (distribution network, HEDNO 49% sale to Macquarie), equity RAB and DCF. The latter is based on 2025 operating cash flow and maintenance-only capex (equal to half the capex amount of 2025). When it comes to peer multiples, there are not that many EUR grid operators listed in the stock market. But those that are listed (Belgium, Italy, Portugal) have EV/RAB above 1.2x.

Risks. a) Lower RAB or RoRAB granted by the regulator for 2022-2025; b) Lower dividends from regulated vs actual P&L mismatch; c) Execution risk in implementing the investment program. The

latter is mitigated, we think, by the necessity to interconnect the islands with the mainland system and accommodate for the bigger penetration of renewables into the energy mix.

**Multiples, valuation, and forecasts reflect 100% of IPTO (grid operator) with the market cap induced by ADMIE Holding's which owns 51% of IPTO.*

Best regards,
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