

ADMIE Holding

Q1 update

Valuation remains attractive after strong Q1

Utilities

10 June 2019

ADMIE Holding started FY19 with a strong Q1 (IPTO's EBITDA +19% y-o-y). We increased FY20e DPS by 12% and made small changes to earnings forecasts (FY19e adjusted net income +5%). Despite the recent share price appreciation, the stock still trades at a large discount to both European regulated utilities and the implied equity regulated asset base (RAB).

Year end	EBIT* (€m)	Net income* (€m)	EPS* (c)	DPS** (c)	P/E (x)	Dividend yield (%)
12/17	25.1	25.1	10.84	0.00	17.4	N/A
12/18	36.2	36.4	15.68	5.96	12.1	3.2
12/19e	38.0	38.2	16.47	8.83	11.5	4.7
12/20e	39.7	39.9	17.19	8.24	11.0	4.4

Note: *EBIT, net income and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Related to fiscal year (not cash dividend).

Q1 earnings well above our forecast trend for 2019

IPTO's Q1 adjusted EBITDA grew 19% y-o-y, well above the trend we previously forecast for the full year (-3%). The EBITDA increase was driven by revenue growth (+14% due to increased electricity demand as a result of more favourable weather conditions) and stable costs. Although we see no read-across for revenue in Q2–Q4, the stability in costs was supportive for future profitability. We calculate that IPTO's net income, adjusted for a one-off provision release, grew by 75% y-o-y to €21m. IPTO spent little capex in Q1, but we expect a pick-up of investments in the coming quarters when most of the work for extending the network should be carried out. We have made small changes to our FY19 forecasts for ADMIE Holding with adjusted net income increasing 5% and FY20e DPS increasing 12%.

Investment case focused on network expansion

ADMIE Holding offers exposure to growth in the Greek electricity transmission grid company IPTO, a regulated utility with significant growth opportunities from investments in new transmission lines. IPTO's underleveraged balance sheet (0.9x adjusted net debt/EBITDA at the end of 2018) sustains a c €4bn investment plan, which we estimate will result in an RAB CAGR of 11% in 2018–27. We estimate a 9% EPS CAGR for ADMIE Holding (FY19-23) and a 5% DPS CAGR (FY19-24).

Valuation: Large discount to peers and RAB

Despite the recent share price increase, ADMIE Holding is trading at a large discount to other European regulated utilities on P/E, EV/EBITDA and dividend yield. In addition, ADMIE Holding is trading at c 35% discount to equity RAB, even though we believe the returns allowed by the regulator are broadly in line with ADMIE's WACC. Our RAB-based valuation of €2.85/share (from €2.83 per share) is c 50% higher than the current share price and implies no premium or discount to RAB.

Price €1.89
Market cap €438m

Net cash (€m) at 31 March 2019	4.9
Shares in issue	232.0m
Free float	48.9%
Code	ADMIE
Primary exchange	ASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	11.2	11.1	7.1
Rel (local)	11.6	6.2	13.9
52-week high/low	€1.95	€1.46	

Business description

ADMIE Holding is a holding company that owns a 51% stake in IPTO, a Greek regulated utility. IPTO owns, manages and operates the Greek electricity transmission grid. The network includes 11,801km of high voltage lines. The company plans a c €4bn investment plan over 2019–27.

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ADMIE Holding reports strong Q1

ADMIE Holding/ IPTO started FY19 with a strong Q1 (IPTO's EBITDA up 19% y-o-y). We have increased our FY20 DPS estimate by 12% and made small changes to earnings forecasts (FY19 adjusted net income +5%). Despite the recent share price appreciation, the stock still trades at a large discount to both European regulated utilities and the implied equity RAB.

FY19 off to a strong start

ADMIE Holding and IPTO started FY19 with strong earnings growth, ahead of our full-year expectations.

IPTO's adjusted EBITDA grew 19% y-o-y, which is well above the trend we previously forecasted for the full year (-3%). The EBITDA growth was driven by revenue growth (+14%) and broadly stable costs (EBITDA margins grew to 70.6% in Q119 from 67.6% one year earlier). Revenue growth was helped by increased electricity demand as a result of more favourable weather conditions. Although we see no read-across for revenue in Q2–Q4, we feel the stability in costs is encouraging. We calculate that IPTO's net income, adjusted for a one-off provision release, grew by 75% y-o-y to €21m.

IPTO's capex in Q1 was €19m, up 76% y-o-y but representing only 5% of the capex we expect for the full-year (€390m). Although capex may appear low, we note that Q118 capex also represented only 6% of the FY18 amount – we expect a pick-up of investments in the coming quarters when most of the work for extending the network should be carried out. Capex is the key growth driver of IPTO, as it increases the regulated asset base on which IPTO is remunerated (RAB multiplied by the allowed rate of return = allowed EBIT).

Small earnings forecasts changes post Q1; FY20e DPS increased 12%

We have made small forecast earnings changes, mainly reflecting the stronger than expected Q1. The most notable change is the increase in DPS for FY20e (+12%), which reflects a stable payout ratio applied to increased earnings (FY19e adj. net income up 5%; in addition reported earnings, on which DPS is calculated, benefitted from a one-off provision release of €6.9m in Q1).

Exhibit 1: Forecast changes: small increase for FY19

ADMIE Holding					IPTO				
€ 000		2019e	2020e	2021e	€m		2019e	2020e	2021e
Adj. EBIT	NEW	38,044	39,732	41,435	Revenues	NEW	256	273	279
	OLD	36,208	39,691	41,336		OLD	251	273	279
	% change	5%	0%	0%		% change	2%	0%	0%
Adj. net income	NEW	38,200	39,888	41,591	Adj. EBITDA	NEW	168	185	190
	OLD	36,364	39,846	41,492		OLD	163	185	190
	% change	5%	0%	0%		% change	3%	0%	0%
DPS	NEW	0.088	0.082	0.081	Adj. net income	NEW	75	79	82
	OLD	0.088	0.073	0.081		OLD	72	79	82
	% change	0%	12%	0%		% change	5%	0%	0%
					Adj. net debt	NEW	368	728	1025
				OLD		374	742	1039	
				% change		-1%	-2%	-1%	

Source: Edison Investment Research

Investment case: Regulated utility with large capex opportunity

IPTO has launched a c €4bn investment plan, mainly focused on the connection of the Greek islands to the electricity grid of the mainland, with the objectives of reducing costs for consumers, improving security of supply and environmental sustainability. The investment plan is very large

when compared to the current RAB of IPTO (€1.4bn at the end of 2018) and we estimate it should result in an 11% 2018–27 RAB CAGR (in real terms). We forecast FY19–23 EBITDA and net income CAGR of 16% and 9%, respectively, for IPTO, based on the assumption that the capex plan is implemented in a timely manner. This translates into a 9% EPS CAGR for ADMIE Holding. IPTO has a target of a minimum 50% payout ratio on earnings. Assuming a flat dividend payout ratio on earnings of 50% for IPTO, we forecast a 5% DPS CAGR for ADMIE Holding. We note the payout ratio of 50% is well below the average level of European regulated utilities (70%+), which indicates the future growth potential of the dividend is significantly higher than other European peers. Because of the high level of capex, we expect an average annual cash outflow of c €300m for IPTO. As a result, the leverage increases significantly but only towards levels broadly in line with other European regulated utilities (around 5x net debt/EBITDA and c 50% debt/RAB in 2025). In our view, these levels do not suggest a capital increase is needed.

Exhibit 2: Key financials for IPTO (revised post Q1; see exhibit 1 for forecasts changes)							
€m	2017	2018	2019e	2020e	2021e	2022e	2023e
Revenues	256.5	249.2	255.8	273.1	278.9	283.6	418.0
% y-o-y change		-3%	3%	7%	2%	2%	47%
Reported EBITDA	172.0	182.7	174.7	185.1	189.9	194.8	316.4
% y-o-y change		6%	-4%	6%	3%	3%	62%
Adj. EBITDA	177.5	168.0	167.8	185.1	189.9	194.8	316.4
% y-o-y change		-5%	0%	10%	3%	3%	62%
Reported EBIT	107.7	115.4	116.7	109.1	112.9	116.6	195.2
% y-o-y change		7%	1%	-6%	4%	3%	67%
Adjusted EBIT	113.2	100.7	109.8	109.1	112.9	116.6	195.2
% y-o-y change		-11%	9%	-1%	4%	3%	67%
Reported net income	61.7	85.9	80.2	78.6	81.9	89.5	107.8
% y-o-y change		39%	-7%	-2%	4%	9%	20%
Adjusted net income	65.9	74.3	75.3	78.6	81.9	89.5	107.8
% y-o-y change		13%	1%	4%	4%	9%	20%
Adjusted net debt	285.8	171.1	368.5	727.9	1024.9	1415.0	1459.6
Capex (gross of subsidies) incl. ARIADNE	70.1	183.1	390.7	592.3	436.2	550.8	262.8

Source: Company data, Edison Investment Research.

Valuation: Discount to peers and RAB still excessive

Despite the recent share price appreciation, we believe ADMIE Holding still trades at an excessive discount to both its own implied equity RAB value (Exhibit 3) and other European regulated utilities (Exhibit 4).

Exhibit 3: Discount to RAB				
€m	2018	2019e	2020e	2021e
EV RAB of IPTO + work in progress	1437	1741	2133	2424
-net debt	-171	-368	-728	-1025
-provisions	-78	-74	-77	-80
Equity RAB of IPTO	1188	1299	1328	1319
ADMIE Holding's stake in IPTO	51%	51%	51%	51%
Value of ADMIE Holding's 51% stake in IPTO	606	662	677	673
ADMIE Holding adjustments (net cash position, DCF of corporate costs)	-2	2	1	2
RAB-based equity value of ADMIE Holding	603	664	679	675
Market cap	438	438	438	438
Premium / (discount) to equity RAB	-27%	-34%	-35%	-35%
Premium / (discount) to EV RAB	-23%	-25%	-22%	-19%

Source: Company data, Edison Investment Research

Exhibit 4: Valuation multiples of European regulated utilities

Company	Country	Mkt cap (€m)	---P/E---			---EV/EBITDA---			---Div. Yld---			FY0- FY2 EBITDA CAGR	FY0- FY2 EPS CAGR
			FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2		
Terna Rete Elettrica Nazionale	Italy	14,828	16.4x	15.6x	15.1x	11.8x	11.2x	10.8x	4.1%	4.3%	4.7%	4.4%	4.2%
Snam	Italy	20,625	15.7x	15.1x	14.7x	13.0x	12.8x	12.5x	4.8%	5.0%	5.3%	2.1%	3.2%
Italgas	Italy	6,181	15.2x	14.5x	13.9x	10.2x	10.1x	9.8x	3.9%	4.1%	4.4%	1.8%	4.8%
Enagas	Spain	7,803	13.7x	14.4x	13.4x	10.1x	10.2x	10.0x	5.9%	6.3%	6.6%	0.5%	1.1%
Red Electrica Corporacion	Spain	13,679	15.0x	14.6x	15.1x	10.0x	9.5x	9.6x	5.0%	5.3%	5.4%	2.2%	-0.4%
National Grid PLC	UK	40,759	13.6x	14.2x	13.3x	10.9x	10.4x	9.8x	5.8%	5.9%	6.1%	5.1%	1.0%
Elia System Operator SA	Belgium	5,747	14.5x	16.7x	15.9x	13.9x	10.9x	10.3x	1.8%	2.6%	2.7%	16.1%	-4.5%
Ren Redes Energeticas Nacionais	Portugal	2,114	14.5x	13.4x	13.3x	8.6x	8.8x	8.9x	5.0%	6.7%	6.8%	-1.3%	4.5%
Severn Trent PLC	UK	7,148	14.3x	15.7x	18.0x	11.9x	11.5x	11.9x	4.5%	4.8%	4.9%	0.0%	-11.0%
Pennon Group PLC	UK	4,638	13.2x	12.9x	14.0x	NA	10.8x	11.1x	5.4%	5.8%	6.0%	NA	-3.0%
United Utilities Group PLC	UK	8,241	15.0x	14.5x	18.2x	12.7x	11.5x	12.5x	4.9%	5.0%	5.0%	0.9%	-9.1%
Average			14.5x	14.5x	14.7x	11.3x	10.8x	10.3x	4.9%	5.0%	5.3%	2.0%	1.0%
ADMIE Holding	Greece	438	12.1x	11.5x	11.0x	6.6x	7.8x	9.0x	3.2%	4.7%	4.4%	5.0%	4.7%

Source: Refinitiv, Edison Investment Research. Note: Priced at 7 June 2019.

While we believe there may be some reasons that partly justify a discount to other European peers (limited liquidity of the stock, higher country risk premium, control by the Greek government and the fact that the regulation for IPTO has a shorter track record than other European countries), we believe the discount is excessive.

Our RAB-based valuation of ADMIE Holding is €2.85/share (small change vs €2.83/share previously thanks to slightly lower net debt) and is broadly in line with the equity RAB implied by IPTO. This is because we calculate that the return allowed by the regulator is broadly in line with the actual cost of capital for the company, based on current market values for cost of debt and cost of equity.

As the capex plan is gradually implemented and the company establishes a growth track record, we expect a gradual re-rating of the stock.

Key risks for ADMIE Holding are rising interest rates, changes in the regulatory framework, increasing country risk premium and political intervention risks.

Exhibit 5: Financial summary

Accounts: IFRS, Yr end: December, EUR: Thousands	2017	2018	2019e	2020e	2021e	2022e	2023e
Income statement							
Total revenues	0	0	0	0	0	0	0
Cost of sales	0	0	0	0	0	0	0
Gross profit	0	0	0	0	0	0	0
SG&A (expenses)	(973)	(239)	(335)	(341)	(348)	(355)	(362)
Profit (loss) from JVs / associates (post tax)	24,024	42,353	40,919	40,082	41,794	45,646	54,971
Depreciation and amortisation	(2)	(4)	(6)	(8)	(10)	(12)	(14)
Reported EBIT	23,049	42,110	40,578	39,732	41,435	45,279	54,595
Finance income/(expense)	(8)	156	156	156	156	156	156
Reported PBT	23,041	42,265	40,733	39,888	41,591	45,434	54,751
Income tax expense (includes exceptionals)	0	0	0	0	0	0	0
Reported net income	23,041	42,265	40,733	39,888	41,591	45,434	54,751
Adjusted net income	25,139	36,376	38,200	39,888	41,591	45,434	54,751
Basic average number of shares, m	232	232	232	232	232	232	232
Basic EPS, €cents/share	9.93	18.22	17.56	17.19	17.93	19.58	23.60
Adjusted EBITDA							
Adjusted EBITDA	25,149	36,225	38,050	39,740	41,446	45,291	54,609
Adjusted EBIT	25,147	36,221	38,044	39,732	41,435	45,279	54,595
Adjusted PBT	25,139	36,376	38,200	39,888	41,591	45,434	54,751
Adjusted EPS, cents/share	10.84	15.68	16.47	17.19	17.93	19.58	23.60
Adjusted diluted EPS, cents/share	10.84	15.68	16.47	17.19	17.93	19.58	23.60
DPS, cents/share (declared for fiscal year)	0.00	5.96	8.83	8.24	8.06	8.41	9.20
DPS, €cents/share (cash payment for the year)	0.00	3.16	8.80	8.83	8.24	8.06	8.41
Balance sheet							
Property, plant and equipment	5	5	9	11	10	8	4
Intangible assets	9	7	7	7	7	7	7
Other non-current assets	520,134	550,439	569,466	589,088	610,841	635,590	667,739
Total non-current assets	520,148	550,451	569,482	589,106	610,858	635,606	667,750
Cash and equivalents	2,181	4,843	6,130	5,914	6,640	8,619	11,711
Inventories	0	0	0	0	0	0	0
Trade and other receivables	79	9,907	9,907	9,907	9,907	9,907	9,907
Other current assets	0	0	0	0	0	0	0
Total current assets	2,260	14,750	16,037	15,821	16,547	18,526	21,618
Non-current loans and borrowings	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0
Total non-current liabilities	0	0	0	0	0	0	0
Trade and other payables	18	20	20	20	20	20	20
Current loans and borrowings	0	0	0	0	0	0	0
Other current liabilities	3,731	0	0	0	0	0	0
Total current liabilities	3,749	20	20	20	20	20	20
Equity attributable to company	518,659	565,181	585,498	604,906	627,385	654,112	689,348
Non-controlling interest	0	0	0	0	0	0	0
Cashflow statement							
Profit before tax	23,041	42,265	40,733	39,888	41,591	45,434	54,751
Net finance expenses	19	(156)	(156)	(156)	(156)	(156)	(156)
Depreciation and amortisation	2	4	6	8	10	12	14
Other adjustments	(24,024)	(42,353)	(40,919)	(40,082)	(41,794)	(45,646)	(54,971)
Movements in working capital	(622)	(1,053)	0	0	0	0	0
Cash from operations (CFO)	(1,584)	(1,293)	(335)	(341)	(348)	(355)	(362)
Capex	(16)	(2)	(10)	(10)	(10)	(10)	(10)
Cash used in investing activities (CFIA)	(16)	(2)	(10)	(10)	(10)	(10)	(10)
Net proceeds from issue of shares	70	0	0	0	0	0	0
Dividends paid	0	(6,300)	(20,416)	(20,479)	(19,112)	(18,708)	(19,515)
Other financing activities	3,711	10,256	22,047	20,615	20,196	21,052	22,979
Cash from financing activities (CFF)	3,781	3,956	1,631	135	1,084	2,344	3,464
Increase/(decrease) in cash and equivalents	2,181	2,662	1,287	(216)	726	1,979	3,092
Cash and equivalents at end of period	2,181	4,843	6,130	5,914	6,640	8,619	11,711
Net (debt) cash	2,181	4,843	6,130	5,914	6,640	8,619	11,711
Movement in net (debt) cash over period	2,181	2,662	1,287	(216)	726	1,979	3,092

Source: Company data, Edison Investment Research

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