

ADMIE Holding

9M19 results

Yield with growth

ADMIE Holding reported 9M19 results, with net income up 12% y-o-y, and said that IPTO's 2019 development capex plan is being implemented in a timely manner. We believe the stock continues to trade at an excessive discount to peers and to the implied regulated asset base (RAB) value. Such a discount would only be justified if allowed regulatory returns were significantly below the actual cost of capital, which we believe is not the case. Our valuation of ADMIE Holding is broadly unchanged at €2.89/share and is roughly in line with the RAB value implied by IPTO.

Year end	EBIT* (€m)	Net income* (€m)	EPS* (c)	DPS** (c)	P/E (x)	Yield (%)
12/17	25.1	25.1	10.84	0.00	19.6	N/A
12/18	36.0	36.1	15.57	5.96	13.7	2.8
12/19e	39.6	39.9	17.18	8.83	12.4	4.1
12/20e	39.4	39.6	17.09	8.18	12.5	3.8

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).

9M results show earnings advance

ADMIE Holding's 9M19 results showed net income up 12% y-o-y to €33m. IPTO's EBITDA of €140m was broadly flat y-o-y. Adjusting EBITDA for exceptional items in both 9M18 and 9M19 (mainly the release of provisions and reversal of impairments), we calculate that adjusted EBITDA was up 8% y-o-y to €134.7m. PBT of €88m was up 5% y-o-y or 17% on an adjusted basis. Our adjusted net income forecasts for FY19–21 are down 1–5%, mostly reflecting revised capex assumptions.

Large capex plan drives earnings growth

IPTO has made progress on its development plans and at the 9M results said that the 2019 investment programme is on track. We believe IPTO's underleveraged balance sheet (1.2x net debt/EBITDA at FY19e, the lowest among its peer group of EU regulated utilities) sustains its c. €4.0bn capex plan (2020–29). We estimate a RAB CAGR of 14% in 2019–23e, with an adjusted EBITDA and net income CAGR of 12% and 7%, respectively, for IPTO. We estimate a 7% EPS CAGR for ADMIE Holding (FY19–23) and a 4% DPS CAGR (FY19–24).

Valuation: Excessive discount persists

We believe the stock continues to trade at an excessive discount to peers and to the implied RAB value. Despite the positive share price performance, we estimate that ADMIE Holding is trading at a 30% discount to FY20 equity RAB. Such a discount would only be justified if allowed regulatory returns were significantly below the actual cost of capital for the company. However, we do not believe this is the case for IPTO and the pre-tax real return on assets of 6.9% in FY19e, reducing to 6.3% in FY21e, looks increasingly supportive considering the recent reduction in Greek country risk premium and the announced (but not yet approved) reduction in corporate tax rates. As a benchmark, Italy-regulated stocks Snam and Terna are trading at more than a 20% premium to equity RAB, despite Italian and Greek government bond yields now trading at similar levels. Our valuation of ADMIE Holding is broadly unchanged at €2.89/share and is roughly in line with the RAB value implied by IPTO.

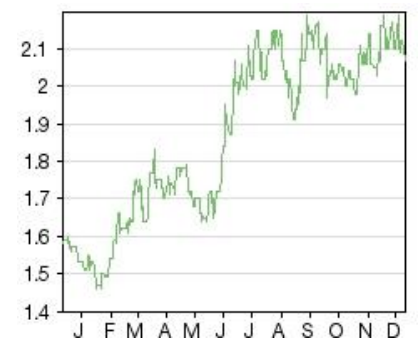
Utilities

11 December 2019

Price **€2.11**
Market cap **€490m**

Net cash (€m) at 30 September 2019	9.4
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	1.0	(3.3)	30.2
Rel (local)	2.2	(9.2)	5.8
52-week high/low		€2.19	€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 11,732km of high-voltage lines. The company plans c. €4.0bn in investments over 2020–29.

Next events

FY19 results March 2020

Analyst

Dario Carradori +44 (0)20 3077 5700

industrials@edisongroup.com

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9M results show earnings advance

ADMIE Holding's nine-month results showed strong profit growth, in line with expectations. Overall, ADMIE Holding reported net income up 12% y-o-y to €33m, including equity consolidation of its 51% stake in IPTO. The key aspects of IPTO Group's nine-month results included:

- EBITDA of €140m, broadly flat y-o-y. Adjusting EBITDA for exceptional items in both 9M18 and 9M19 (mainly the release of provisions and reversal of impairments), we calculate that adjusted EBITDA was up 8% y-o-y to €134.7m. EBITDA growth was driven by €13m higher revenues (+7% y-o-y), roughly split 50/50 between an increase in 'transmission system rent' (ie revenue recognized by the regulator) and 'other revenues' (non-regulated revenues), with a high level of the latter that may not be sustained over time.
- Profit before tax of €88m, up 5% y-o-y, thanks to an improvement in net financial expenses (driven by a reduction in the cost of debt and also by higher positive income, including one-off items such as the return of a significant part of cash in a Bank of Greece special account and the inflow of a lump sum repayment from the Polypotamos project). Adjusting for exceptional items, adjusted profit before tax was up 17% y-o-y to €80m.
- Net debt of €89m was at a similar level to 9M18 (€84m) and H119 (€94m). Capex was €117m, up 4x y-o-y. We expect an acceleration in investment in Q4, which appears possible considering a similarly strong pick-up in Q418 with capex of more than €150m (this is driven by seasonality as the majority of the works are carried out during the summer and mostly invoiced in Q4).

ADMIE Holding says IPTO's 2019 capex plan is on track

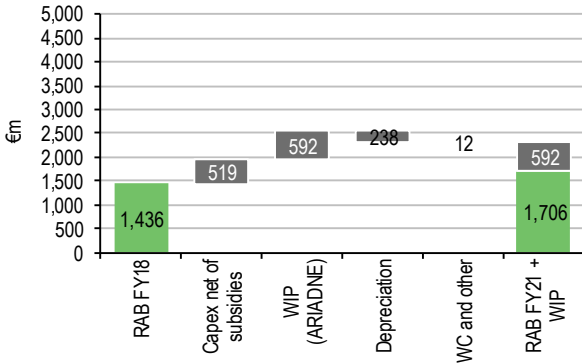
The Greek government and IPTO have launched large projects for the interconnection of the Greek islands, with the objectives of reducing costs for consumers, improving security of supply and environmental sustainability. In most cases, the Greek islands currently rely on expensive and polluting fuel oil-fired plants (often close to tourist areas). The extra costs of running these plants is shared among all Greek consumers (this component represents 4–12% of a retail consumer's bill). The construction of interconnections should allow for the replacement of these plants (which would be put in cold reserve) with renewables and imports from the mainland, lowering both costs for the consumers and carbon emissions.

IPTO has made progress on its development plans and at the 9M results said that the 2019 investment programme is on track. In terms of key upcoming projects, the construction of the Crete-Peloponnese interconnection (€364m investment) has started and the company expects it to be completed in 2020. The first part of the upgrade of the Cyclades interconnection is expected to be completed in early 2020. Requests for tenders for the Sporades interconnection (€54m budget) are also in progress. The €995m Crete-Attica interconnection (developed by 100%-owned subsidiary ARIADNE) is making progress, with the tender process ongoing and construction contracts expected to be signed in Q120 (project completion expected by Q422/Q123). Finally, the €1.5bn project for the interconnection of the Dodecanese has been included in the 2020–29 development plan and is expected to be completed in the second half of the next decade.

Our capex assumption for FY19 is unchanged at €251m, having been reduced in our previous [update note](#) (from €391m), reflecting the extension in the tendering process and delayed approval by the Regulatory Authority for Energy, RAE). We have revised our capex estimates for FY20–23, to broadly align them to the 2020–29 10-year network development plan published by IPTO (published for consultation and not yet approved by the regulator). The main change is for FY20, for

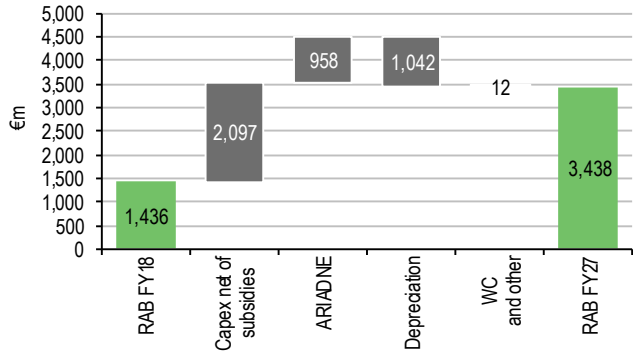
which we assume a significant year-on-year pick-up in capex, to €587m, although this estimate has been revised down from €731m previously. This year-on-year growth reflects the timing of the large growth projects planned by the company.

Exhibit 1: RAB growth 2018–21 (enterprise value)



Source: Edison Investment Research

Exhibit 2: RAB growth 2018–27 (enterprise value)

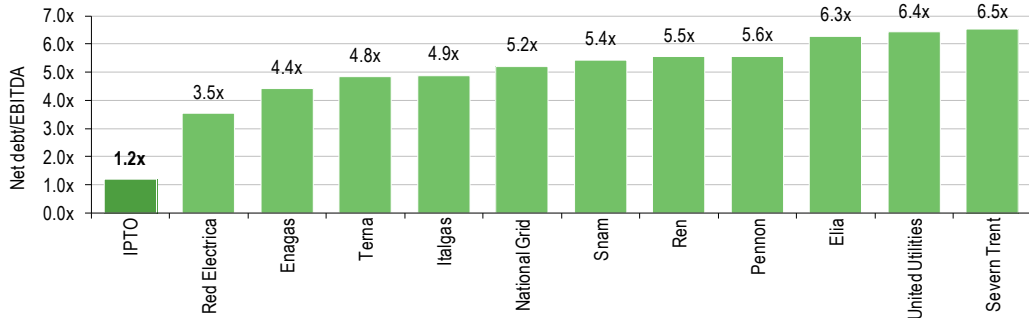


Source: Edison Investment Research

Financials and forecasts changes

We believe IPTO's underleveraged balance sheet (1.2x adjusted net debt/EBITDA at the end of FY19e, the lowest among European regulated utilities) sustains its c €4.0bn investment plan in the 10-year development plan period 2020–29.

Exhibit 3: FY1 net debt/EBITDA for listed European regulated utilities



Source: Refinitiv, Edison Investment Research

We estimate the development capex will result in a RAB CAGR of 14% in 2019–23e. We forecast FY19–23 adjusted EBITDA and net income CAGR of 12% and 7%, respectively, for IPTO, based on the assumption that the capex plan is implemented as planned. We estimate a 7% EPS CAGR for ADMIE Holding (FY19–23) and a 4% DPS CAGR (FY19–24).

Following the nine-month results, we have made some changes to our forecasts (adjusted net income in FY19–21 down 1–5%), incorporating higher D&A offset by higher financial income in FY19e and the impact of lower capex estimates for FY20–21.

Exhibit 4: Forecasts changes

ADMIE Holding					IPTO				
€000s		2019e	2020e	2021e	€m		2019e	2020e	2021e
Adjusted EBIT	New	39,609	39,397	40,065	Revenues	New	258.8	267.7	271.0
	Old	40,120	40,707	42,032		Old	258.8	271.8	279.0
	% change	-1%	-3%	-5%		% change	0%	-2%	-3%
Adjusted net income	New	39,859	39,647	40,315	Adjusted EBITDA	New	180.8	180.7	183.0
	Old	40,370	40,957	42,282		Old	180.8	184.8	191.0
	% change	-1%	-3%	-5%		% change	0%	-2%	-4%
DPS (€)	New	0.088	0.082	0.080	Adjusted net income	New	78.3	77.9	79.3
	Old	0.088	0.083	0.083		Old	79.3	80.5	83.1
	% change	0%	-1%	-3%		% change	-1%	-3%	-5%
					Adjusted net debt	New	216.5	557.9	849.1
				Old		222.5	703.3	1004.6	
				% change		-3%	-21%	-15%	

Source: Edison Investment Research

Our net income forecasts exclude any non-recurring impact from the periodic assessment of non-current assets, which is scheduled for Q419. While this may result in a one-off impact on the bottom line (if any), with no implication for future years' earnings, there may be an impact on ADMIE Holding's dividend, which currently yields c 4% in FY19. Finally, while we assume a gradual reduction in corporate tax rates, our forecasts do not fully incorporate the announced (but not yet approved) reduction in corporate tax rates (to 24% in 2020 from 28% currently), which represents upside potential to our forecasts. The government has also proposed a decrease in dividend tax from 10% to 5%.

Exhibit 5: IPTO key financials

€m	2017	2018	2019e	2020e	2021e	2022e	2023e
Revenues	256.5	249.2	258.8	267.7	271.0	258.3	376.2
% y-o-y change		-3%	4%	3%	1%	-5%	46%
Reported EBITDA	172.0	182.7	182.7	180.7	183.0	174.9	286.0
% y-o-y change		6%	0%	-1%	1%	-4%	63%
Adj. EBITDA	177.5	168.0	180.8	180.7	183.0	174.9	286.0
% y-o-y change		-5%	8%	0%	1%	-4%	63%
Reported EBIT	107.7	115.4	112.7	104.7	106.0	107.1	182.8
% y-o-y change		7%	-2%	-7%	1%	1%	71%
Adjusted EBIT	113.2	100.7	110.8	104.7	106.0	107.1	182.8
% y-o-y change		-11%	10%	-6%	1%	1%	71%
Reported net income	61.7	85.9	79.7	77.9	79.3	84.8	102.0
% y-o-y change		39%	-7%	-2%	2%	7%	20%
Adjusted net income	65.9	73.8	78.3	77.9	79.3	84.8	102.0
% y-o-y change		12%	6%	-1%	2%	7%	20%
Adjusted net debt	286	171	216	558	849	1,168	1,263
Capex (gross of subsidies) incl. ARIADNE	70	183	251	587	436	480	263

Source: Company data, Edison Investment Research

Valuation: Further upside despite share price pick-up

Our RAB-based valuation of ADMIE Holding is broadly unchanged at €2.89/share (from €2.87/share) and is broadly in line with the equity RAB implied by IPTO. Although we acknowledge the limited liquidity of the stock, higher country risk premium vs other European countries, control by the Greek government and the fact that the regulation of IPTO has a shorter track record than in other European countries, we believe the stock continues to trade at an excessive discount to peers and to the implied RAB value.

Exhibit 6: Regulated companies – peer comparison

Company	Country	Market cap (€m)	P/E (x)			EV/EBITDA (x)			Dividend yield (%)			FY0–FY2 EBITDA CAGR	FY0–FY2 EPS CAGR
			FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2		
Terna Rete Elettrica Nazionale	Italy	11,333	17.0	16.0	15.3	11.8	11.2	10.9	4.2	4.4	4.8	4.2%	3.8%
Snam	Italy	14,870	17.0	14.5	13.6	12.5	12.2	12.0	5.2	5.5	5.8	1.8%	4.3%
Italgas	Italy	4,452	22.4	14.0	13.3	9.8	9.6	8.9	4.3	4.5	4.8	5.0%	5.1%
Enagas	Spain	5,465	16.6	12.2	12.5	9.7	9.5	9.5	6.5	7.0	7.4	0.8%	1.3%
Red Electrica Corporacion	Spain	9,589	19.0	13.5	13.3	9.2	8.9	8.8	5.6	6.0	5.8	2.2%	-2.0%
National Grid	UK	37,028	10.5	14.8	15.2	N/A	N/A	N/A	7.2	5.5	5.6	4.1%	1.2%
Elia System Operator	Belgium	5,151	7.6	16.7	19.2	14.9	11.1	10.6	1.5	2.3	2.3	18.4%	-4.6%
Ren Redes Energeticas Nacionais	Portugal	1,829	7.5	16.0	15.1	8.9	9.2	9.4	4.5	6.2	6.2	-2.4%	1.3%
Severn Trent	UK	6,378	22.1	15.4	16.6	12.5	12.2	12.8	4.2	4.5	4.5	-1.2%	-12.5%
Pennon Group	UK	4,677	15.3	16.2	16.1	NA	12.3	12.4	4.4	4.7	4.9	2.7%	-1.9%
United Utilities Group	UK	7,013	9.6	15.5	15.4	12.8	12.2	13.7	4.8	4.8	4.7	-3.5%	-12.6%
Average			16.6	15.4	15.2	11.8	11.2	10.8	4.5	4.8	4.9	2.2%	1.2%
ADMIE Holding	Greece	494	13.7	12.4	12.5	7.2	7.0	8.9	2.8	4.1	3.8	3.7%	4.8%

Source: Refinitiv, Edison Investment Research. Note: Prices as at 9 December 2019.

Exhibit 7: RAB-based valuation for IPTO and ADMIE Holding

	€m
IPTO RAB FY 2019 + work in progress	1,604
Value of financial outperformance/underperformance	(3)
- Net debt FY19	(216)
- Provisions FY19	(74)
+ Associates	0
- Minorities	0
Equity value IPTO	1,311
ADMIE Holding stake	51%
Value of ADMIE Holding's 51% stake in IPTO	669
ADMIE net cash FY19	6
DCF of ADMIE Holding corporate costs	(5)
Equity value ADMIE Holding	670
NOSH FY19 (thousands)	232
Equity value per share (€)	2.89

Source: Edison Investment Research.

Despite the positive share price performance year to date, we estimate that ADMIE Holding is trading at a 30% discount to equity RAB (FY20) and a 20% discount to EV RAB (these discounts are calculated on the basis of ADMIE Holding's 51% stake in the RAB of IPTO, as shown below). Such a discount would only be justified if allowed regulatory returns were significantly below the actual cost of capital for the company. But the pre-tax real return on assets of 6.9% in FY19, reducing to 6.3% in FY21, looks increasingly supportive considering the recent reduction in Greek country risk premium (10-year Greek bond spreads vs German bonds have more than halved ytd) and the announced (but not yet approved) reduction in corporate tax rates (to 24% in 2020 from 28% currently).

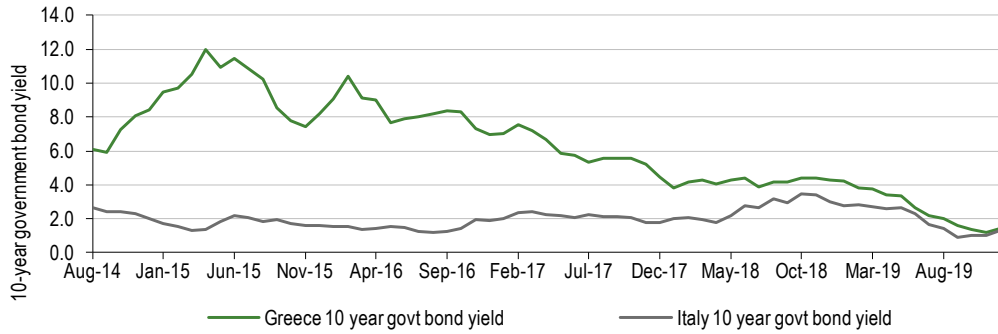
Exhibit 8: Calculation of ADMIE Holding's discount to equity/EV RAB

€m	2019e	2020e	2021e
EV RAB of IPTO + work in progress	1,604	2,008	2,298
- net debt	(216)	(558)	(849)
- provisions	(74)	(77)	(80)
Equity RAB of IPTO	1314	1373	1369
ADMIE Holding's stake in IPTO	51%	51%	51%
Value of ADMIE Holding's 51% stake in IPTO	670	700	698
ADMIE Holding adjustments (net cash position, DCF of corporate costs)	2	1	2
RAB-based equity value of ADMIE Holding	672	702	700
Market cap	494	494	494
Premium/(discount) to equity RAB	(26%)	(30%)	(29%)
Premium/(discount) to EV RAB	(22%)	(20%)	(18%)

Source: Edison Investment Research. Note: Prices as at 9 December 2019.

As a benchmark, Italy-regulated stocks Snam and Terna are trading at more than a 20% premium to equity RAB. The disconnection between the valuation of Italian and Greek regulated utilities is despite the convergence between Italian and Greek government bond yields, as shown in Exhibit 9 below.

Exhibit 9: Italy and Greece 10-year government bond yield



Source: Refinitiv

Key risks to our forecasts and valuation are any potential rise in interest rates and country risk premium, any regulatory changes (allowed returns in particular) and delays in implementing the capex plan.

Exhibit 10: Financial summary

Accounts: IFRS, year-end: December, €000s	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	40,641	39,746	40,424	43,268	52,003
Depreciation and amortisation	(2)	(4)	(6)	(8)	(10)	(12)	(14)
Reported EBIT	23,049	42,110	40,301	39,397	40,065	42,900	51,627
Finance income/(expense)	(8)	156	250	250	250	250	250
Reported PBT	23,041	42,265	40,551	39,647	40,315	43,150	51,877
Income tax expense (includes exceptionals)	3,778	4,256	0	0	0	0	0
Reported net income	26,819	46,521	40,551	39,647	40,315	43,150	51,877
Basic average number of shares, m	232	232	232	232	232	232	232
Basic EPS (c)	9.93	18.22	17.48	17.09	17.38	18.60	22.36
Adjusted EBITDA	25,149	35,969	39,615	39,405	40,075	42,913	51,641
Adjusted EBIT	25,147	35,964	39,609	39,397	40,065	42,900	51,627
Adjusted PBT	25,139	36,120	39,859	39,647	40,315	43,150	51,877
Adjusted EPS (c)	10.84	15.57	17.18	17.09	17.38	18.60	22.36
Adjusted diluted EPS (c)	10.84	15.57	17.18	17.09	17.38	18.60	22.36
DPS (c) (declared for fiscal year)	0.00	5.96	8.83	8.18	8.00	8.13	8.71
DPS (c) (cash payment for the year)	0.00	3.16	8.80	8.83	8.18	8.00	8.13
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	569,189	588,614	609,165	632,221	662,590
Total non-current assets	520,148	550,451	569,204	588,632	609,182	632,236	662,601
Cash and equivalents	2,181	4,843	6,224	5,964	6,749	8,297	10,945
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	16,131	15,871	16,656	18,204	20,852
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	585,316	604,483	625,818	650,420	683,432
Non-controlling interest	0	0	0	0	0	0	0
CASH FLOW STATEMENT							
Profit before tax	23,041	42,265	40,551	39,647	40,315	43,150	51,877
Net finance expenses	19	(156)	(250)	(250)	(250)	(250)	(250)
Depreciation and amortisation	2	4	6	8	10	12	14
Other adjustments	(24,024)	(42,353)	(40,641)	(39,746)	(40,424)	(43,268)	(52,003)
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)	(18,980)	(18,549)	(18,864)
Other financing activities	3,711	10,256	22,142	20,571	20,123	20,462	21,884
Cash from financing activities (CFF)	3,781	3,956	1,726	91	1,143	1,913	3,020
Increase/(decrease) in cash and equivalents	2,181	2,662	1,381	(260)	784	1,548	2,648
Cash and equivalents at end of period	2,181	4,843	6,224	5,964	6,749	8,297	10,945
Net (debt) cash	2,181	4,843	6,224	5,964	6,749	8,297	10,945
Movement in net (debt) cash over period	2,181	2,662	1,381	(260)	784	1,548	2,648

Source: Company accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia