

ADMIE Holding

H1 results

Valuation attractive despite recent share price rise

Utilities

30 October 2019

Price €2.14
Market cap €496m

Net cash (€m) at 30 June 2019 26.6
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	(4.4)	1.5	24.4
Rel (local)	(4.2)	6.6	28.2
52-week high/low		€2.27	€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 a €4bn investment plan over 2019–27.

Next events

Nine-month results December 2019

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ADMIE Holding offers an attractive opportunity to gain exposure to the strong growth of Greek electricity transmission grid company, IPTO, a regulated utility with significant growth opportunities from investments in new transmission lines. Despite the recent share price rise and supportive H1 results (adjusted net income up 9% y-o-y), ADMIE Holding is trading at a large discount to European regulated utilities peers and to its regulated asset base (RAB).

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	19.7	N/A
12/18	36.0	36.1	15.57	5.96	13.7	2.8
12/19e	40.1	40.4	17.40	8.83	12.3	4.1
12/20e	40.7	41.0	17.65	8.29	12.1	3.9

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).

H1 adjusted net income up 9% y-o-y

We see IPTO's (and therefore ADMIE Holding's) H1 results as continuing the trend of Q1. We calculate that H119 adjusted EBITDA was slightly lower y-o-y (-2%), while H119 adjusted net income was up 9% to €39m, thanks to a significant reduction in net financial expenses. H1 capex of €78m was more than four times the H118 level (€17m), but still represents a relatively small percentage (31%) of our FY19 forecast of €251m (revised down from €391m, mostly due to capex related to ARIADNE being transferred to FY20). In FY19, we expect a large pick-up in capex in H219. We have made small changes to our FY19–21 forecasts, with IPTO's adjusted net income up 1% on average driven by a 2% increase in EBITDA.

Large investments, low leverage, visibility on returns

We continue to believe that IPTO's underleveraged balance sheet (0.9x adjusted net debt/EBITDA at the end of 2018) sustains its c €4bn investment plan, which we estimate will result in a RAB CAGR of 11% in 2018–27e. In its recent investor presentation, ADMIE Holding confirmed the previously disclosed allowed regulatory returns (pre-tax real return on assets of 6.9% in FY19, reducing to 6.3% in FY21), which look 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). We now estimate a 8% EPS CAGR for ADMIE Holding (FY19–23) and a 5% DPS CAGR (FY19–24).

Valuation: Large discount to peers and RAB value

We believe ADMIE Holding is trading at an excessive discount to both European regulated peers (17%/37% for FY1 P/E and EV/EBITDA) and its own RAB (c 30% discount to equity RAB value). Our RAB-based valuation of ADMIE Holding is €2.87/share (broadly unchanged), which is in line with the equity RAB implied by IPTO. Our valuation implies significant upside to the current share price, despite the c 40% share price rise ytd.

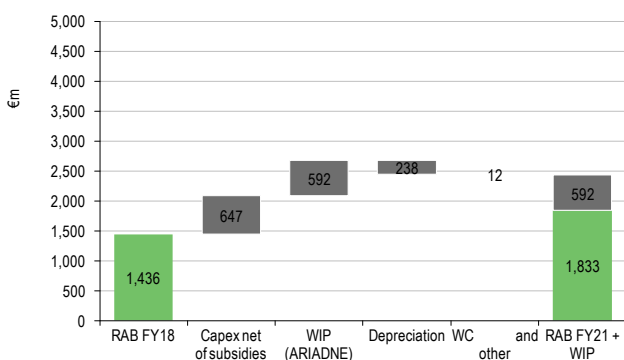
Investment case remains intact: Long-term infrastructure growth

ADMIE Holding is a holding company which owns a 51% stake in IPTO, a Greek regulated utility. IPTO owns, manages and operates the Greek electricity transmission grid. It is implementing a c €4bn investment plan, mainly focused on connecting 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 compared to IPTO's current RAB (€1.4bn at the end of 2018) and we estimate it should result in an 11% 2018–27 RAB CAGR (in real terms). Based on our slightly updated estimates, we forecast FY19–23 adjusted EBITDA and net income CAGR of 14% and 8%, respectively, for IPTO, based on the assumption that the capex plan is implemented in a timely manner. This translates into an 8% 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 that the payout ratio of 50% is well below the average level of European regulated utilities (70%+), which indicates that the future growth potential of the dividend is significantly higher than for other European peers.

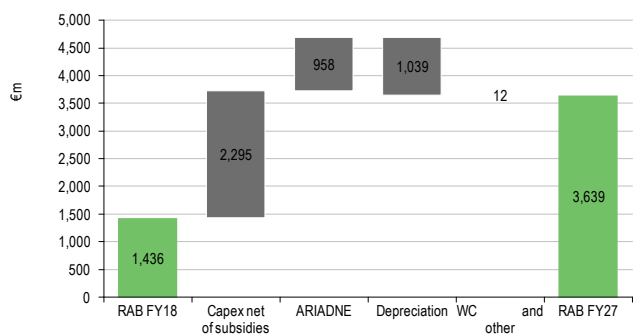
Because of the high level of capex, we expect an average annual cash outflow of c €300m for IPTO (2019–23). As a result, leverage increases significantly, but only towards levels broadly in line with other European regulated utilities (c 5x net debt/EBITDA and c 50% debt/RAB in 2025). In our view, these levels do not suggest that a capital increase is needed over the course of the investment programme.

Exhibit 1: RAB evolution 2018/21



Source: Company data, Edison Investment Research

Exhibit 2: RAB evolution 2018/27



Source: Company data, Edison Investment Research

H1 net income show continued growth trend

We see IPTO's H1 results as continuing the trend of Q1. EBITDA was 13% lower as H118 benefited from a significant provisions release. We calculate that EBITDA adjusted for provisions in H118 and H119 was only slightly lower y-o-y (-2%) to €87m. H119 adjusted net income was instead up 9% to €39m, thanks to a significant reduction in net financial expenses.

IPTO's net debt was little changed (€94m at the end of H119 vs €84m at the end of FY18). H1 capex of €78m was more than four times the H118 level (€17m), but still represents a relatively small percentage (31%) of our revised FY19 forecast of €251m. In FY19, we expect a large pick-up in capex in H219, in particular because ADMIE Holding has stated that the substantial capex programme is being implemented in a 'timely' manner, but we have now reduced our 2019 capex

forecast by around one-third (we have transferred these investments to FY20). The company is making progress on the tenders for the Crete-Attica link. The first €600m tender for this project has been completed and technical bids are being considered, while the second (€315m) is still running.

Small forecast changes for FY19–21, 2019 capex reduced

On the back of the H1 results, we have made small changes to our FY19–21 forecasts for both IPTO and ADMIE Holding, with IPTO's adjusted net income up 3% on average driven by a 3% increase in EBITDA, partly offset by higher D&A. Our FY20–21 net income estimates for ADMIE Holding increase by 2%. We have reduced our capex forecast to €251m (down from €391m previously) as we now expect some capex (the majority of the reduction is related to the ARIADNE project, due to the extension in the tendering process demanded by the participants) to be transferred into FY20. We expect little impact on earnings as capex related to ARIADNE is not remunerated until the project is completed (which we expect in FY23). Our net income forecasts do not include any non-recurring impact from the periodical assessment of non-current assets, which is scheduled for Q419. 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) – this represents an upside risk to our forecasts. The government has also announced a decrease in dividend tax from 10% to 5%.

Exhibit 3: FY19–21 forecast changes

ADMIE Holding				IPTO group					
€000s		2019e	2020e	2021e	€m	2019e	2020e	2021e	
Adj. EBIT	New	40,120	40,707	42,032	Revenues	New	259	272	279
	Old	38,044	39,732	41,435		Old	256	273	279
	% change	5%	2%	1%		% change	1%	0%	0%
Adj. net income	New	40,370	40,957	42,282	Adj. EBITDA	New	181	185	191
	Old	38,200	39,888	41,591		Old	168	185	190
	% change	6%	3%	2%		% change	8%	0%	1%
DPS* (€/share)	New	0.088	0.083	0.083	Adj. net income	New	79	81	83
	Old	0.088	0.082	0.081		Old	75	79	82
	% change	0%	1%	2%		% change	5%	2%	1%
					Adj. net debt	New	222	703	1005
				Old		368	728	1025	
				% change		-40%	-3%	-2%	

Source: Edison Investment Research. Note: *Declared for the year.

Exhibit 4: Key forecasts for IPTO group

€m	2017	2018	2019e	2020e	2021e	2022e	2023e
Revenues	256.5	249.2	258.8	271.8	279.0	277.6	401.2
% y-o-y change		-3%	4%	5%	3%	-1%	45%
Reported EBITDA	172.0	182.7	182.7	184.8	191.0	191.9	306.6
% y-o-y change		6%	0%	1%	3%	0%	60%
Adj. EBITDA	177.5	168.0	180.8	184.8	191.0	191.9	306.6
% y-o-y change		-5%	8%	5%	3%	0%	60%
Reported EBIT	107.7	115.4	119.7	108.8	114.0	117.6	195.8
% y-o-y change		7%	4%	-9%	5%	3%	67%
Adjusted EBIT	113.2	100.7	117.8	108.8	114.0	117.6	195.8
% y-o-y change		-11%	17%	-4%	5%	3%	67%
Reported net income	61.7	85.9	80.7	80.5	83.1	90.5	108.4
% y-o-y change		39%	-6%	0%	3%	9%	20%
Adjusted net income	65.9	73.8	79.3	80.5	83.1	90.5	108.4
% y-o-y change		12%	7%	6%	3%	9%	20%
Adjusted net debt	286	171	222	703	1,005	1,399	1,463
Capex (gross of subsidies) incl. ARIADNE	70	183	251	731	436	551	263

Source: Company data, Edison Investment Research

Valuation attractive despite recent share price rise

Our RAB-based valuation of ADMIE Holding is €2.87/share (a small change vs €2.85/share previously) and is broadly in line with the equity RAB implied by IPTO. Our valuation implies significant upside to the current share price, despite the c 40% share price rise ytd. Although we acknowledge the limited liquidity of the stock, relatively high 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 (see Exhibit 5 below) and to the implied RAB value.

Exhibit 5: Peers table

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	14,918	16.7	15.9	15.4	12.1	11.5	11.2	4.0	4.2	4.6	4.2	3.9
Snam	Italy	19,462	15.0	14.1	13.9	12.7	12.5	12.2	5.0	5.3	5.6	2.0	3.8
Italgas	Italy	5,880	14.7	14.0	13.2	10.0	10.0	9.3	4.1	4.3	4.6	4.0	5.4
Enagas	Spain	6,280	11.1	11.6	10.8	9.1	9.0	8.9	7.2	7.7	8.0	0.9	1.4
Red Electrica Corporacion	Spain	12,512	13.9	13.7	14.5	9.2	8.8	8.9	5.4	5.8	5.7	1.9	(2.2)
National Grid	UK	46,824	15.1	15.6	14.9	N/A	N/A	N/A	5.2	5.4	5.5	4.1	0.6
Elia System Operator	Belgium	6,701	17.2	20.0	18.9	15.1	11.4	10.8	1.5	2.2	2.2	18.1	(4.6)
Ren Redes Energeticas Nacionais	Portugal	2,209	15.3	14.4	14.6	8.9	9.1	9.3	4.7	6.4	6.5	(2.1)	2.6
Severn Trent	UK	8,143	15.9	17.3	20.8	12.6	12.3	12.9	4.0	4.3	4.4	(1.2)	(12.5)
Pennon Group	UK	5,741	16.0	15.9	17.0	N/A	12.4	12.7	4.4	4.8	4.9	N/A	(2.9)
United Utilities Group	UK	8,979	16.0	15.8	20.5	12.6	12.0	13.3	4.6	4.7	4.6	(2.9)	(11.6)
Average			15.3	15.6	14.9	12.1	11.4	11.0	4.6	4.8	4.9	2.0	0.6
ADMIE Holding	Greece	496	13.7	12.3	12.1	7.3	7.0	9.5	2.8	4.1	3.9	4.9	6.5

Source: Refinitiv, Edison Investment Research. Note: Prices as at 22 October 2019.

Key risks include delays in the implementation of the capex plan, rising Greek country risk premium, and unfavourable changes in the regulation of electricity transmission.

Exhibit 6: 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	41,152	41,057	42,390	46,158	55,304
Depreciation and amortisation	(2)	(4)	(6)	(8)	(10)	(12)	(14)
Reported EBIT	23,049	42,110	40,811	40,707	42,032	45,790	54,927
Finance income/(expense)	(8)	156	250	250	250	250	250
Reported PBT	23,041	42,265	41,061	40,957	42,282	46,040	55,177
Income tax expense (includes exceptionals)	3,778	4,256	0	0	0	0	0
Reported net income	26,819	46,521	41,061	40,957	42,282	46,040	55,177
Basic average number of shares, m	232	232	232	232	232	232	232
Basic EPS (c)	9.93	18.22	17.70	17.65	18.22	19.84	23.78
Adjusted EBITDA	25,149	35,969	40,126	40,715	42,042	45,802	54,941
Adjusted EBIT	25,147	35,964	40,120	40,707	42,032	45,790	54,927
Adjusted PBT	25,139	36,120	40,370	40,957	42,282	46,040	55,177
Adjusted EPS (c)	10.84	15.57	17.40	17.65	18.22	19.84	23.78
Adjusted diluted EPS (c)	10.84	15.57	17.40	17.65	18.22	19.84	23.78
DPS (c) (declared for fiscal year)	0.00	5.96	8.83	8.29	8.26	8.53	9.30
DPS (c) (cash payment for the year)	0.00	3.16	8.80	8.83	8.29	8.26	8.53
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	569,699	590,180	612,042	637,004	669,229
Total non-current assets	520,148	550,451	569,715	590,198	612,059	637,020	669,240
Cash and equivalents	2,181	4,843	6,224	6,220	7,417	9,326	12,484
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	16,127	17,324	19,233	22,391
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	585,826	606,304	629,363	656,232	691,611
Non-controlling interest	0	0	0	0	0	0	0
CASH FLOW STATEMENT							
Profit before tax	23,041	42,265	41,061	40,957	42,282	46,040	55,177
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)	(41,152)	(41,057)	(42,390)	(46,158)	(55,304)
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)	(19,223)	(19,171)	(19,798)
Other financing activities	3,711	10,256	22,142	20,826	20,778	21,445	23,329
Cash from financing activities (CFF)	3,781	3,956	1,726	347	1,555	2,274	3,531
Increase/(decrease) in cash and equivalents	2,181	2,662	1,381	(4)	1,197	1,909	3,159
Cash and equivalents at end of period	2,181	4,843	6,224	6,220	7,417	9,326	12,484
Net (debt) cash	2,181	4,843	6,224	6,220	7,417	9,326	12,484
Movement in net (debt) cash over period	2,181	2,662	1,381	(4)	1,197	1,909	3,159

Source: Company data, Edison Investment Research

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