PLC S.p.A.

Renewable Energy

KT&PARTNERS

Ready to Rebound in 2023

HOLD | Fair Value: €1.68 (€2.65) | Current Price: €1.51 | Upside: +11.8%

Research Update

January 25, 2023 – 7.00h

€ Million	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Total Revenue	45.6	65.5	75.1	66.0	78.6	100.3	109.4	122.4
EBITDA	0.4	3.4	7.7	(2.5)	0.1	4.6	7.2	10.6
margin	*0.9%*	*5.2%*	*10.2%*	*-3.8%*	*0.1%*	*4.6%*	*6.6%*	*8.6%*
Net Profit	(2.5)	0.1	3.0	(4.1)	(2.5)	0.4	2.0	4.0
margin	*-5.4%*	*0.2%*	*4.0%*	*-6.3%*	*-3.2%*	*0.4%*	*1.9%*	*3.2%*
EPS	-0.09	0.00	0.11	-0.16	-0.10	0.02	0.08	0.15
NFP	**8.0**	**4.1**	**2.7**	**6.9**	**8.3**	**8.1**	**7.8**	**5.3**

Source: Company data (2019-2021), KT&Partners' estimates (2022-26)

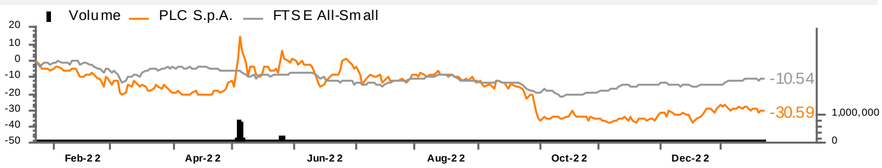
PLC-IT set new 2023-2027 goals… On December 23rd, PLC-IT released its 2023–27 business plan, setting a sustainable growth model based on three main strategic drivers: i) seize the opportunity of the increasing Italian renewable energy markets; ii) corporate reorganization focusing on the development of human capital, on the optimization of the most critical processes, and on the simplification of the corporate structure; and iii) technical investments to support the growth. The strong demand for renewable energy should guarantee the feasibility of the challenging goals set by PLC-IT. Indeed, as of December 2022, PLC-IT backlog and pipeline is already at ca. 80% of 2023 revenues expected by the Company, between €75mn-€85mn. However, for the next years, PLC-IT's challenge will be to deliver its projects to selected clients on time, reaching €140mn-150mn of revenues and with an EBITDA at €12mn-€14mn at the end of 2027.

…relying on its leadership and expertise in the growing Italian renewable energy market. The renewable energy domestic market is expected to show a strong growth path, also boosted by government commitments to meet the goals in the Sustainability Agenda 2020 set by the European Commission. Indeed, according to GSE, the Italian solar and wind market is expected to benefit from new 50GW additional capacity, (including 8GW wind farms and 42GW PVs) by 2030. As results, Construction and O&M of renewable plants, in a context where capacity is seen at 2030 2-3x vs today, are considered strong attractive sectors, given also the shortage of EPC Contractors on the actual Italian competitive arena.

Estimates Revision. Starting from the top line, we adjusted our FY22E total revenues to €66mn (vs €83.9mn our previous estimate) by cutting EPC-BOT's sales due to a slowdown in PLC System construction activities that occurred in 1H2022, following the postponement of some Italian decrees on renewable energy sources (e.g., FER 2 and Biogas & Biomethane decrees), initially expected at the beginning of 2022. However, we forecast total revenues growing at a CAGR 2021A-2026E of 10.3%, reaching €122.4mn at the end of the period, driven by the market's strong growth path. On the profitability side, we mainly factor i) gradual resolution of raw-material shortage and contract renegotiation to shift higher cost to customers by 2024; ii) although an increase in personnel costs to support company growth, we estimate a decrease in terms of revenues incidence expected at 27.5% at the end of 2026E. We therefore project a recovery in terms of EBITDA from the -€2.5mn expected in FY22E (vs €8.4mn of our previous estimates) to €10.6mn in FY26E, with 8.6% of EBITDA margin. We now estimate NFP to progressively improve over the 2022E–26E period, going from a net debt position of €6.9mn in FY22E (vs. €0.3mn of net cash position of our previous estimates) to €5.3mn by FY26E also including a cash-out of €18mn of CAPEX and €3.4mn of dividends payout in the period 2022E-2026E.

Fair value at €1.68ps. Following the new PLC-IT's guidance and given the still-uncertain global macroeconomic scenario, we decided to update our valuation and recommendation. Our valuation, based on the DCF model, returns an average equity value of €43.7mn, or €1.68ps, implying a potential upside of +11.8% on the current market price.

1Y – Relative Performance Chart



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Market Data

Main Shareholders	
Fraes Srl	73.5%
Free Float	26.5%
Mkt Cap (€ mn)	39.1
EV (€ mn)	41.7
Shares out.	26.0
Free Float	26.5%

Market multiples	**2021A**	**2022E**	**2023E**
EV/EBITDA			
PLC SpA	5.4x	n.m.	n.m.
Comps median	18.9x	11.5x	9.7x
Delta	*-71%*	*n.m.*	*n.m.*
P/E			
PLC SpA	13.2x	n.m.	n.m.
Comps median	27.6x	17.8x	11.6x
Delta	*-52%*	*n.m.*	*n.m.*

Stock Data

52 Wk High (€)	2.66
52 Wk Low (€)	1.32
Avg. Daily Trading 90d	7,658
Price Change 1w (%)	-4.4
Price Change 1m (%)	-2.6
Price Change YTD (%)	21.4

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Key Figures – PLC

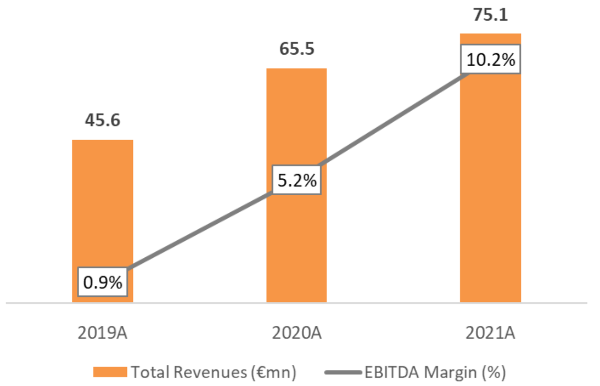
Current price (€)	Fair Value (€)	Sector	Free Float
1.51	1.68	Renewable Energy	26.50%

Per Share Data	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Total shares outstanding (mn)	25.96	25.96	25.96	25.96	25.96	25.96	25.96	25.96
EPS	(0.09)	0.01	0.11	(0.16)	(0.10)	0.02	0.08	0.15
Dividend per share (ord)	n.a.	n.a.	n.a.	-	-	0.05	0.08	0.10
Dividend pay out ratio (%)	n.a.	n.a.	n.a.	-	-	2.96	1.02	0.66
Profit and Loss (EUR million)								
Revenues	45.6	65.5	75.1	66.0	78.6	100.3	109.4	122.4
EBITDA	0.4	3.4	7.7	(2.5)	0.1	4.6	7.2	10.6
EBIT	(1.6)	0.7	4.9	(5.6)	(3.3)	0.9	3.1	5.8
EBT	(2.2)	(0.3)	4.0	(5.8)	(3.5)	0.6	2.9	5.6
Taxes	(0.2)	0.3	(1.0)	1.7	1.0	(0.2)	(0.8)	(1.6)
Tax rate	(0.1)	0.8	0.3	0.3	0.3	0.3	0.3	0.3
Net Income	(2.5)	0.1	3.0	(4.1)	(2.5)	0.4	2.0	4.0
Balance Sheet (EUR million)								
Total fixed assets	28.6	25.1	23.2	21.1	21.8	22.6	23.0	22.2
Net Working Capital (NWC)	5.7	6.7	11.7	15.3	15.2	16.9	19.2	21.8
Provisions	(1.6)	(2.8)	(3.8)	(5.3)	(7.0)	(9.1)	(11.4)	(13.8)
Total Net capital employed	32.7	28.9	31.1	31.2	30.0	30.4	30.8	30.2
Net financial position/(Cash)	8.0	4.1	2.7	6.9	8.3	8.1	7.8	5.3
Group Shareholder's Equity	24.7	24.8	28.4	24.3	21.8	22.2	22.9	24.8
Minorities	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholder's Equity	24.7	24.8	28.4	24.3	21.8	22.2	22.9	24.8
Cash Flow (EUR million)								
Net operating cash flow	0.2	2.8	6.4	(0.9)	1.0	4.3	6.3	8.9
Change in NWC	(7.2)	(1.0)	(5.1)	(3.6)	0.1	(1.7)	(2.3)	(2.6)
Capital expenditure	4.4	0.7	(1.6)	(1.0)	(4.0)	(4.5)	(4.5)	(4.0)
Other cash items/Uses of funds	0.5	1.5	1.0	1.4	1.7	2.1	2.3	2.5
Free cash flow	(2.0)	4.1	0.8	(4.0)	(1.2)	0.3	1.8	4.7
Enterprise Value (EUR million)								
Market Cap	38.7	32.2	54.0	39.1	39.1	39.1	39.1	39.1
Minorities	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0
Net financial position/(Cash)	8.0	4.1	2.7	6.9	8.3	8.1	7.8	5.3
Enterprise value	46.7	36.3	56.7	46.0	47.3	47.2	46.9	44.4
Ratios (%)								
EBITDA margin	0.9%	5.2%	10.2%	-3.8%	0.1%	4.6%	6.6%	8.6%
EBIT margin	-3.4%	1.0%	6.5%	-8.5%	-4.1%	0.9%	2.9%	4.8%
Gearing - Debt/equity	32.4%	16.6%	9.4%	28.5%	38.0%	36.7%	34.1%	21.5%
Interest cover on EBIT	-32.1%	143.0%	19.3%	-4.2%	-7.7%	0.0%	0.0%	0.0%
NFP/EBITDA	n.m.	1.22x	0.35x	-2.76x	n.m.	1.78x	1.08x	0.50x
ROCE	-4.8%	2.4%	15.7%	-17.9%	-10.8%	2.9%	10.1%	19.3%
ROE	-10.0%	0.7%	10.5%	-17.0%	-11.4%	2.0%	8.9%	16.0%
EV/Sales	0.92x	0.64x	0.56x	0.63x	0.53x	0.42x	0.38x	0.34x
EV/EBITDA	n.m.	12.34x	5.44x	-16.72x	n.m.	9.11x	5.77x	3.94x
P/E	n.m.	n.m.	13.16x	-9.46x	-15.69x	n.m.	19.17x	9.86x
Free cash flow yield	-4.8%	9.8%	2.0%	-9.6%	-2.8%	0.7%	4.3%	11.3%
Growth Rates (%)								
Sales	-8.6%	43.7%	14.6%	-12.2%	19.2%	27.6%	9.1%	11.9%
EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	58.0%	46.3%
EBIT	n.m.	n.m.	n.m.	n.m.	-41.6%	n.m.	n.m.	86.5%
Net Income	n.m.	n.m.	n.m.	n.m.	-39.7%	n.m.	n.m.	94.4%

Source: Company data (2019-21), KT&Partners' estimates (2022-26)

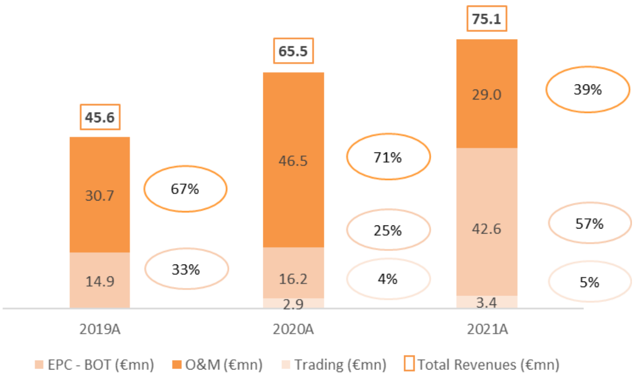
Key Charts

Total Revenue and EBITDA margin (€mn, %)



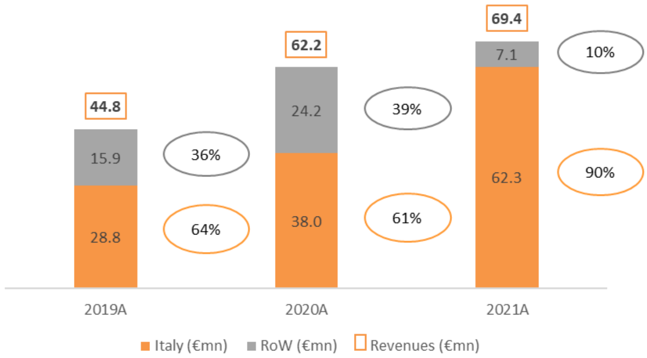
Source: Company data, KT&Partners' elaboration

Total Revenues by BU (€mn, %)



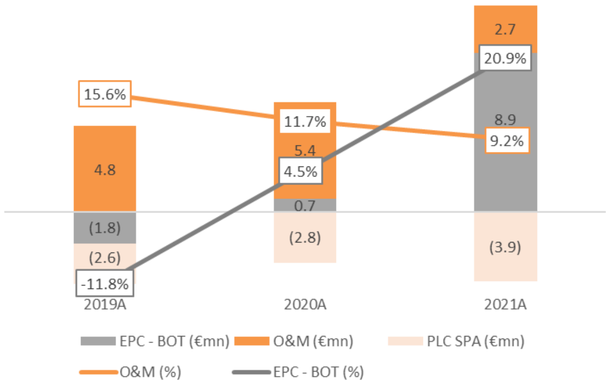
Source: Company data, KT&Partners' elaboration

Sales Revenues by Geography (€mn, %)



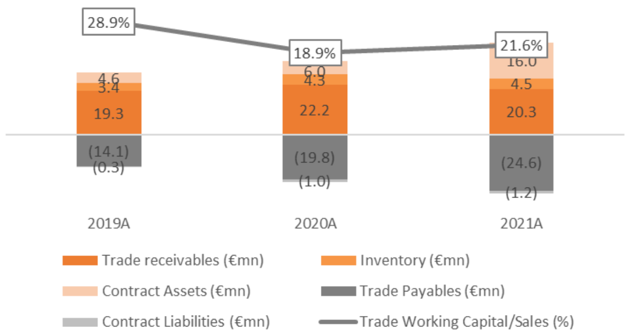
Source: Company data, KT&Partners' elaboration

EBITDA by BU (€mn, %)



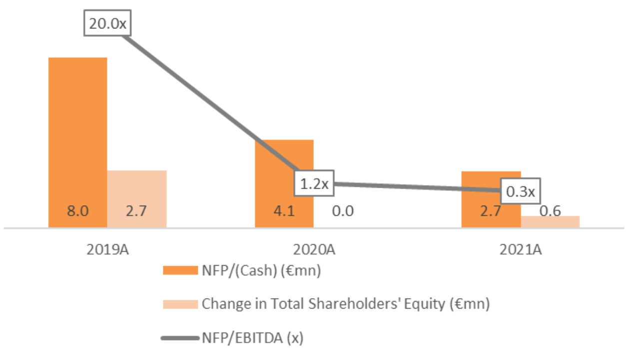
Source: Company data, KT&Partners' elaboration

Trade Working Capital (€mn, %)



Source: Company data, KT&Partners' elaboration

NFP and Change in Total Shareholders' Equity (€mn, x)



Source: Company data, KT&Partners' elaboration

Overview

Company description

PLC (PLC-IT), with its 20+ years of activity, is a leading operator in the Italian **renewable energy market**, offering Engineering Procurement and Construction (**EPC**), Built, Operate and Transfer (**BOT**) and Operation and Maintenance (**O&M**) services focusing on wind farms and solar plants. The Group aims to become an international **Independent Service Provider** (ISP) with multi-technology expertise in renewable and decarbonized energy sources. PLC-IT pursues a sustainable model of growth that is based on the following main strategic drivers: i) **exploiting EPC-BOT synergies**; ii) **scaling O&M to boost growth**; iii) **entering new renewable segments and markets with international activities**; and iv) **enhancing its offer with new technologies** to innovate and provide cutting-edge services.

In 2017, PLC-IT became listed on the MTA of the Borsa Italiana stock exchange following the reverse merger with Industria e Innovazione (INDI).

Investment case

- ***Low-risk business profile*.** Through its 20+ years of activity, the company has developed a solid revenue model. PLC-IT was born as an electrical infrastructure installer and now, partly thanks to Monsoon and Schmack M&As, has increased its revenue visibility by strengthening the O&M division. Furthermore, as opposed to the other renewable players, PLC-IT enjoys lower business and financial risk since it does not act as an asset owner. Moreover, the company minimizes BOT risk by acquiring projects that have already been started for a low financial amount, developing and selling them before the construction phase, and also usually signing an EPC contract.
- ***A sound track record.*** PLC-IT's outstanding track record and its financial soundness proved by its 20+ years of activity make the Group a reliable partner in the renewable energy market. This track record includes more than 200MW of BOT activities in recent years (including the project sold to EDPR in 2021 and Enel Green Power in 2020) and 250+ activities in the EPC business. Looking at the other business unit, PLC-IT conducted O&M activities on more than 8.4GW plants and farms.
- ***Market opportunities.*** In the following years, the renewable energy market is expected to show a strong growth path also boosted by governments' commitments to meet the goals in the Sustainability Agenda 2020 set by the European Commission. Indeed, according to SolarPower Europe, the EU solar market is expected to grow at a CAGR 2021-25 of 18.1%' whereas the EU wind market is projected to increase at a CAGR 2021-26 of 7.7%. Moreover, the Italian renewable energy market is expected to further expand also fostered by government funding of PNRR. According to GSE, the Italian solar and wind market is expected to benefit from new 50GW additional capacity, (including 8GW wind farms and 42GW PVs) by 2030. As results, Construction and O&M of renewable plants, in a context where capacity at 2030 2-3x vs today, are strong attractive sectors also given the shortage of EPC Contractors on the actual Italian competitive arena. Furthermore, the biogas power plants are also expected to see a strong boost, thanks to the implementation of FER 2 measures dedicated to the sector. Indeed, according to Consorzio Italiano Biogas (Cib), the production of biogas is expected to reach 8000mm^3 by 2030 from the actual 150 mm^3. Finally, according to Terna, HV connection volumes are expected to grow at a CAGR2021-30 of 2.7%, reaching a volume of 5.7K of HV connections by 2030.

Recent developments

- ***PLC-IT set new 2023-2027 goals.*** On December 23rd, PLC-IT released its 2023–27 business plan, setting a sustainable growth model of growth based on the following three main strategic drivers: i) seize the opportunity of the increasing Italian renewable energy markets; ii) corporate reorganization focusing on the development of human capital, on the optimization of the most critical processes and on the simplification of the corporate structure; and iii) technical investments to support the growth. The strong demand for renewable energy should guarantee the feasibility of the challenging goals set by PLC-IT. Indeed, as of December 2022, PLC-IT backlog and pipeline is already at ca. 80% of 2023 revenues expected by the Company between €75mn-€85mn. However, for the next years, PLC-IT's challenge will be to deliver its projects on time to selected clients, reaching €140mn-150mn of revenues with an EBITDA at €12mn-€14mn at the end of 2027.
- ***Interesting 2023 backlog for EPC-BOT division.*** As of December 2022, PLC-IT already reached an interesting backlog, representing 80% of revenues budget for 2023, announcing the closing of: i) €10mn of contract for the construction of Terna electrical switching station and a utility substation subservient to a 37.8 MWp wind farm located in San Marco dei Cavoti, expected to be completed in 1H2024; ii) €2mn of contract value to build 4 PVs farms with a total power of 4MWp, based in Sicily, with a delivery time expected in 3Q2023; iii) €10mn of contracts to build HV connection works for an 84MWp wind farm, located in Avellino, expecting to be completed in 1Q2024; iv) €3mn of contract value for the construction of an electric substation linked to an 18MWp PV plant in Taranto, expected be completed in 1Q2024, with the possibility to extend the contract value to ca. €40mn; and v) new contract with EDPR (ca. €6mn), providing project design and the electrical and electromechanical installation of the substation based in Ariano Irpino.
- ***RePowerEU: provisional agreement reached.*** With the aim to accelerate its independence from Russian fossil fuel imports, on December 14th, 2022, the European Parliament reached a provisional agreement on the REPowerEU proposal that aims to strengthen the strategic European Union autonomy by diversifying energy supplies and boosting its energy independence from the other countries. The agreement is subject to final approval by the Council and the European Parliament before undergoing the formal adoption procedure.
- ***Strengthening the Italian Sustainable Commitment.*** In September 2022, the Italian government signed the Biogas and Biomethane Decree providing new financing for ca €1.7bn, related to the PNRR channel. Moreover, the FER 2 Decree expected to be approved at the beginning of 2023 will boost the production from sustainable energy sources aiming to achieve decarbonization targets by 2030.
- ***PLC-IT corporate structure reorganization.*** In July 2022, PLC-IT faced a part of corporate reorganization with the aim to better reflectGroup's business lines. Therefore, by demerging PLC Service and PLC System, PLC-IT acquired the relative share capital of PLC Service Wind and PLC Power. Finally, following the resignation of Dr. Michele Scoppio (PLC-IT's CEO) on April 27, 2022, PLC-IT announced in June 2022 the appointment of the new CEO, Dr. Diego Percopo, and from January 2023, the new CFO Dr. Marco Aulisa.

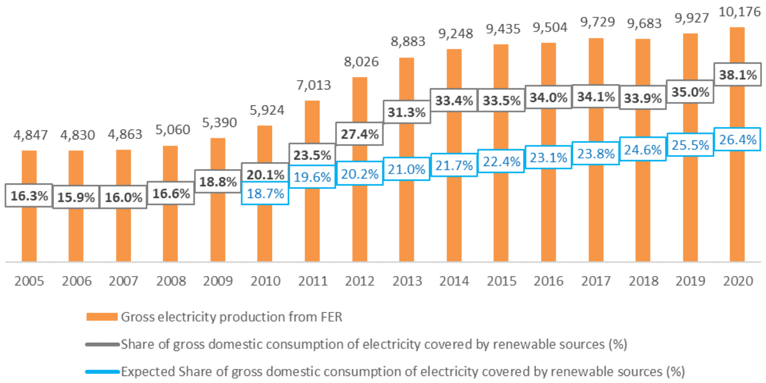
Italian renewables electricity market update

According to the Paris Climate Agreement (PCA) signed by the Italian government and 195 other countries on April 22, 2016, over the years, Italy adopted a set of measures to fight climate change with a particular focus, among others, on CO_2 emission cuts and on the promotion of energy production from a mix of renewable sources. Three years later, in 2019 the European sustainable commitment was renewed by signing the European Green Deal with the aim to become the first continent climate-neutral by 2050. Furthermore, the latest geopolitical and environmental scenario has highlighted the need to boost the energy transition process from traditional to renewable and to reduce energy dependence from specific countries. Indeed, on December 14th, 2022, the provisional agreement of RePowerEU was reached, with the aim to finance key investments to strengthen the strategic autonomy of the Union by diversifying energy supplies.

Italy electricity production from renewable energy beats expectations

The share of Italian Gross Domestic Consumption of Electricity (GDCE) covered by renewable energy sources (FER) continued its growth path over the years, reaching 38.1% in 2020 (vs 35% in 2019), +11.7pp above the expected GDCE/FER ratio provided by the National Renewable Energy Action Plan (NREAP). This result highlighted the Italian commitment to achieve Sustainability Agenda 2030 goals. Moreover, according to NREAP, the expected ratio of FER/GDCE is expected to continue its increase reaching ca. 55% by 2030.

GDCE's share covered by renewable energy sources (FER/GDCE %) vs NREAP estimates (ktep, %)



Source: KT&Partners' elaboration on GSE data

Uncertainty on FER 2 Decree caused weak participation on GSE's auctions, but the PNRR is expected to boost the renewable energy market

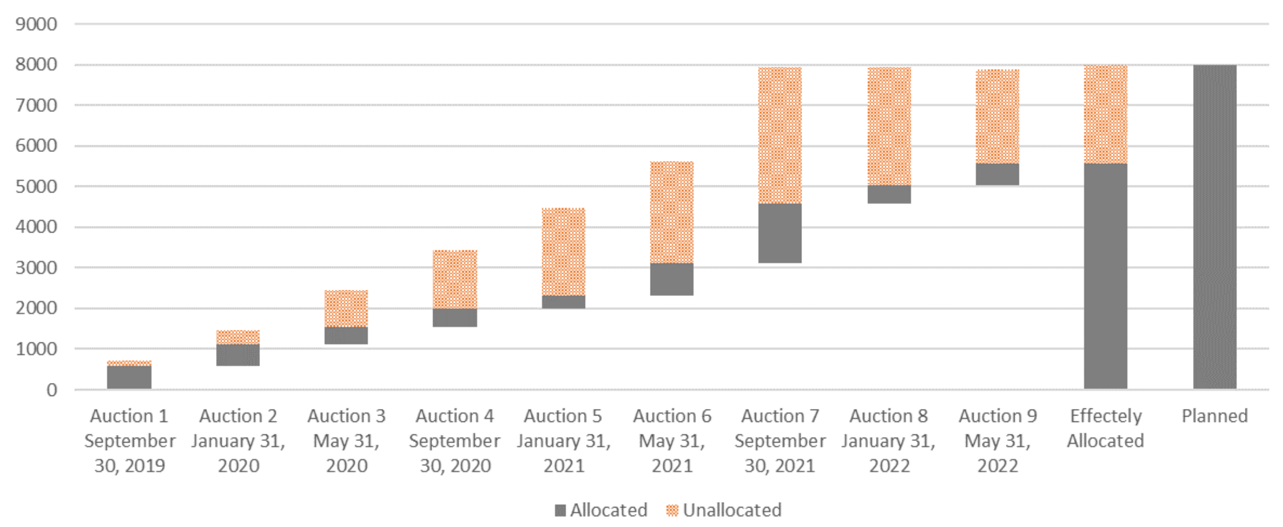
In August 2019, the Italian government, with the aim to reach Energy and Climate Plan - PNIEC objectives, launched the FER 1, introducing incentives to produce renewable energy and the optimization of plant performance.

Eligible renewable energies covered by the FER 1 Decree are: a) wind (onshore only); b) solar PV; c) hydro (running water and reservoir/basin); and d) sewage gases. More in detail, FER 1 Decree promotes incentives through a reverse auction system for plants with a capacity over 1MWp. The scheme was expected to be applied until the end of 2021, providing new incentives of ca. €1bn per year.

With FER 1, the government planned the construction of new plants with a total capacity of about 8,000MW, with investments estimated to be €10bn.

As of today, the allocation coverage is ca. 69.5%, indeed ca. 2,440.1MW are unallocated out of the 8,000MW planned.

Results of FER renewables energy auctions (MW)



Source: KT&Partners' elaboration on GSE data

The weak participation on the latest two auctions could be explained by the uncertainty related to the FER 2 Decree approval. However, the FER 2 Decree is expected to be approved within 2023. The Decree regulates incentives for sources and technologies that are not yet fully mature or with such high operating costs as geothermal, thermodynamic solar, and biogas.

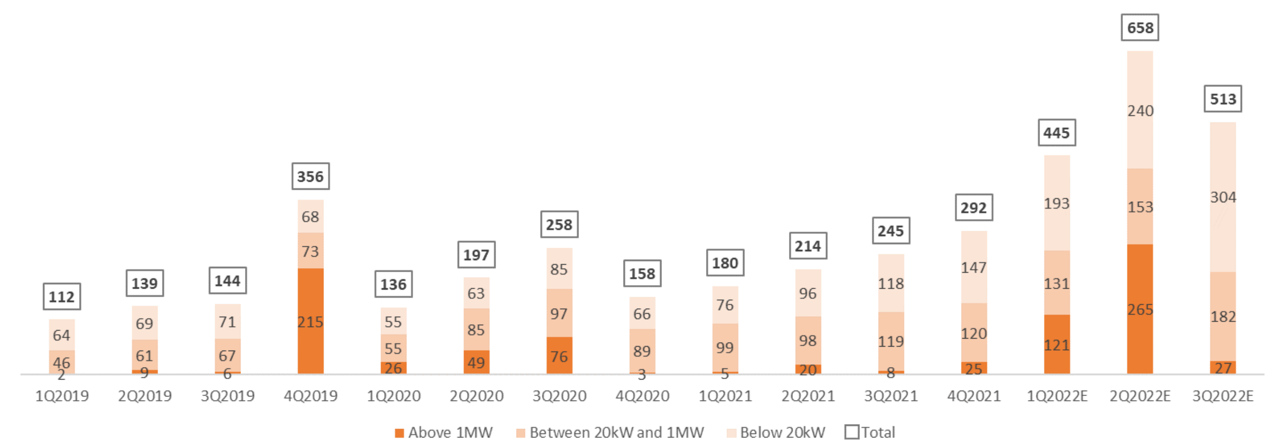
Moreover, in September 2022, the Italian government, through the new minister dedicated to green transition, signed the Biogas and Biomethane Decree that provides new financing for ca €1.7bn through the PNRR channel, which was expected to start by the end of 2022.

Triple-digit acceleration is expected in 9M2022 for PV investments

According to GSE and Terna data, over the past 12 months, a significant acceleration in photovoltaic system installations can be observed. The growth is mainly supported by small-scale installations (< 20 kW), which have benefited from regulatory and tax interventions introduced in the 2021-2022 biennium (e.g., 110% Superbonus) and from the rising energy prices. In 2022, there are also signs of recovery among installations of large-scale (over 400 MW from early 1Q2022 to 3Q2022), located mainly onshore.

Moreover, in 2022, the trend of photovoltaic system installations progressively improved. Indeed, the estimated installed power figure for the first three quarters of 2022 grew strongly compared to the similar period in 2021 (ca. +153%).

Quarterly installed power of photovoltaic systems from 2019 to 2022E (MW)

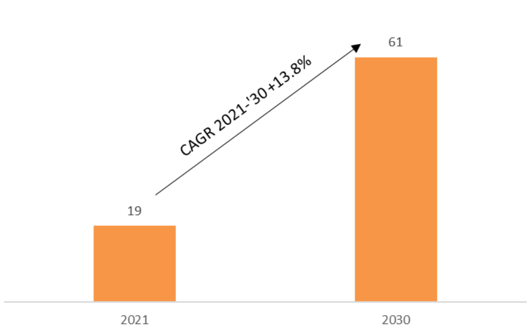


Source: KT&Partners' elaboration on GSE and Terna data

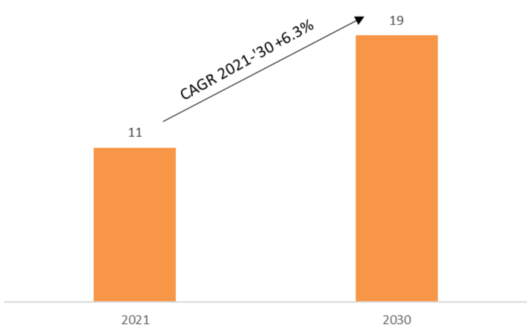
Renewables energy market outlook: huge investments planned until 2030

Fostered by PNRR, according to GSE, the Italian solar and wind markets are expected to experience a strong growth of +13.8% and 6.3% of CAGR2021-2030, respectively. The new 50GW additional capacity (8GW wind farms and 42GW PVs) by 2030 from the capacity of 30GW (11GW wind farms and 19GW PVs) in 2021. As results, Construction and O&M of renewable plants the capacity is expected at 2030 2/3x vs today.

Installed power capacity of PVs (GW)



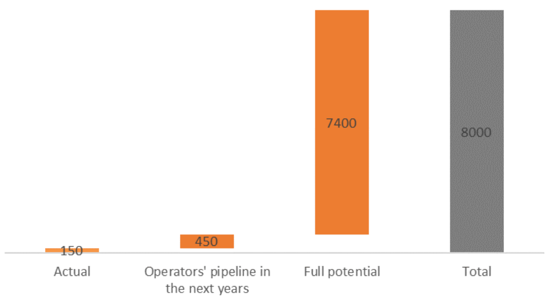
Installed power of capacity onshore wind farms (GW)



Source: KT&Partners' elaboration on GSE data

Given the Italian Government attention to the youngest renewable energy sources, the Biogas power plants also are expected to see a strong boost, thanks to the implementation of FER measures dedicated to the sector. Indeed, Italy is already the second-largest country in Europe in terms of biogas production and among the main ones in the world, according to Consorzio Italiano Biogas (Cib), and it is expected to reach a production of 8000mm^3 by 2030 from the actual 150 mm^3.

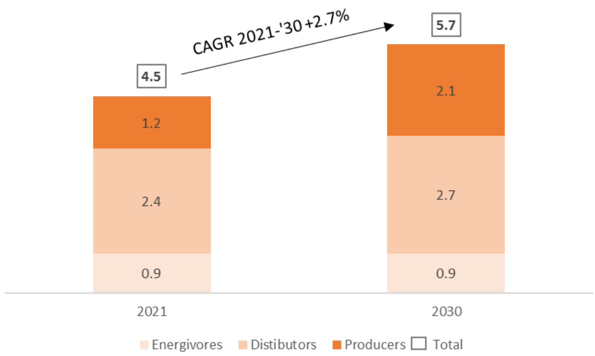
Production of biomethane outlook by 2030 (mm^3)



Source: KT&Partners' elaboration on Consorzio Italiano Biogas (Cib)

Finally, the electricity infrastructure market, essential for connecting renewable energy producers to the HV grid, with connection volumes is expected to reach ca. 5.7K volume of HV connections by 2030 from ca. 4.5K in 2021, growing at 2.7% of CAGR2021-'30. According to PLC-IT's top management, the Company could have a role in the energy users and distributors sectors.

Volume of HV connection (# '000)



Source: KT&Partners' elaboration on Terna data

Group's Strategy

PLC-IT aims to become the main partner for the Italian energy transition, with multi-technology expertise in renewable and decarbonized energy sources. The Group pursues a sustainable growth model, which is based on the following main strategic drivers:

- **Seize the opportunity of Italian renewable energy markets.** PLC-IT is currently covering interesting end markets (wind, PV, and, in a residual way, the hydroelectric market) with an expected huge demand for renewable energy; indeed, e.g., according to the goals set by sustainability agenda, almost 55% of the Italian gross domestic electricity consumption must be produced from renewable sources by 2030. Recently, the Group entered the biogas and biomethane markets with the aim of seizing the growth that these sectors will experience thanks to the increasing adoption of renewable natural gas and other advanced biofuels in the transport industry. The company forecasts to i) exploit new EPC opportunities deriving from the HV grids, solar and biomethane farms markets, and PNRR by offering new innovative features (e.g., PV farms with storage) and focusing on small-scale installations; ii) accelerate the growth of Schmack Biogas – PLC-IT's subsidiary – thanks to a geographical diversification on high-potential European markets with revamping and construction farms activity.

- **Corporate reorganization, focusing on the development of human capital.** PLC-IT's top management expects to enhance group organization: i) acquiring and retaining highly skilled employees essential to support Company's business growth; ii) new operating organization of strategic business areas to make operational processes more effective and efficient; iii) corporate structure review to better reflect Group's business lines and its financial soundness.

- **Enhance its offer with new technical investments.** Following the technological innovation that already occurred in 2022 (e.g., PON MISE M4.0 European project), PLC-IT will invest in technological platforms, know-how, innovation, and development licensing in order to improve margins and boost revenues. On one hand, the Company will invest in strategic inventory (i.e., spare parts, tools), new geographic hubs, and internalization of skills in order to reduce the impact of further unexpected supply-chain disruption. On the other hand, with the aim to be competitive, the Company will improve its R&D department with highly specialized personnel in order to further innovate its product and service offering and provide cutting-edge services (i.e., new monitoring systems, augmented reality, artificial intelligence, etc.) to improve margins.

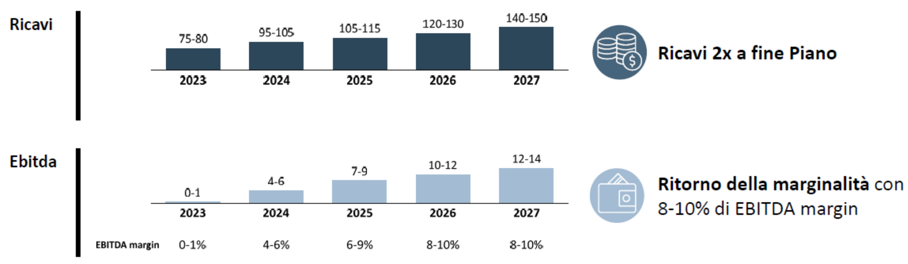
Deconstructing Forecasts

PLC-IT's business plan 2023-2027

Given the slowdown in the Construction of renewables plants market that occurred in 1H2022, on September 28th, 2022, the Company withdraw its previous business plan and on December 23rd, 2022, PLC-IT announced its new economic and financial 2023-27 targets relying on technical investments, strong renewable market outlook, and on highly skilled human capital:

- 2027 Revenues expected between €140mn - €150mn, backed by high visibility on 2023 revenues thanks to backlog and pipeline (already ca. 80% of 2023 revenues);
- Reduction of overhead costs incidence on assumed revenues by ca. 10pp in 2027;
- EBITDA in the range of €12mn - €14mn in 2027;
- Cumulative investment plan of ca. €20mn over the period 2023-2027;
- Significant cash generation capable to self-financing Company growth and the investment plan, leading to a reduction in NFP with NFP/EBITDA ratio below 2x by 2024;
- Expected €6mn of total dividends distributed over the length of the business plan.

PLC-IT business plan guidelines



Source: Company presentation

KT&Partners' financial forecasts 2022E-2026E

Following the recent PLC-IT's top management guidelines and new market trends, we updated our financial projections over the 2022E–26E period. No impact from future M&As has been considered.[1]

Starting from the top line, we adjusted our FY22E total revenues to €66mn (vs €83.9mn in our previous estimate) by cutting EPC-BOT's sales due to a slowdown in PLC System construction activities occurring in 1H2022 following the postponement of Italy implementing decrees on renewable energy sources (e.g., FER 2 and Biogas & Biomethane decrees), initially expected at the beginning of 2022. Furthermore, we forecast total revenues growing at a CAGR 2021A-2026E of 10.3%, reaching €122.4mn at the end of the period driven by the market strong growth path. We made our assumptions on revenues following PLC-IT's main business lines:

- **EPC-BOT:** we estimate that the business line will grow to €82.9mn in 2026 from €42.6mn in 2021, showing 14.2% of CAGR2021A-26E. We built our forecasts starting from PLC's backlog in the current regulatory framework:
    - For the BOT business, we prudentially considered each year the sale of projects for ca. 2MWh, 10MWh, 25MWh, 20MWh, 25MWh in 2023, 2024, 2025, and 2026, respectively.
    - Looking at the EPC division, we considered both activities related to the BOT projects already sold – such as the EDPR project occurred in 2021 – and to third-party plants, deriving from large investments related to FER

[1] *Financial projections have been prepared by KT&Partners independently of PLC S.p.A. projections and forecasts involve risks and uncertainties and are subject to change. Therefore, actual results may differ materially from those contained in the projections and forecasts.*

1, FER 2, and PNRR. Therefore, the pipeline announced by the top-management counts for more than 100MWh of new farms are expected to be built over 2023 and the first quarter of 2024.

- **O&M:** this business line is anticipated to grow at a CAGR21A–26E of 6.3%, reaching €39.5mn in FY26E. Growth will be mainly driven by the synergies with the EPC division, focusing on solar service in north-central Italy and on wind service for southern Italy.

We note that BU Trading is not included in PLC's new business plan. Therefore, we maintain our projections only until 2022.

At the EBITDA level, we mainly factor i) gradual resolution of raw-material shortage and contract renegotiation to shift higher cost to customers by 2024; ii) although an increase in personnel costs to support company growth, we estimate a decrease in terms of revenues incidence expected at 27.5% at the end of 2026E. We therefore expect a negative EBITDA to €2.5mn (vs €8.4mn of our previous estimates) in FY22E, experiencing a CAGR21A–26E of +6.6%, reaching €10.6mn in FY26E. EBITDA margin is anticipated to reach 8.6% in 2026 from -3.8% seen in 2022E, thanks to OpEx economies of scale.

Looking at the bottom line, we now expect that PLC-IT will be able to produce a net income by 2024 due to the increased profitability. We therefore projected net income increase to €4mn or €0.15ps in 2026E, growing at a CAGR21A–26E of 5.9% with a FY26E net margin of 3.2%.

2019A–26E Consolidated Income Statement

€ million	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	CAGR 21A-26E
EPC - BOT	14.9	16.2	42.6	30.2	47.7	66.7	73.0	82.9	14.2%
O&M	30.7	46.5	29.1	28.5	31.0	33.6	36.4	39.5	6.3%
Trading	-	2.9	3.4	7.2	-	-	-	-	n.m.
Total Revenues	**45.6**	**65.5**	**75.1**	**66.0**	**78.6**	**100.3**	**109.4**	**122.4**	**10.3%**
Growth %		*43.7%*	*14.6%*	*-12.2%*	*19.2%*	*27.6%*	*9.1%*	*11.9%*	
Products and Raw materials	(9.1)	(14.6)	(23.4)	(26.7)	(29.4)	(35.3)	(38.2)	(42.2)	12.5%
Gross Profit	**36.5**	**51.0**	**51.7**	**39.3**	**49.2**	**65.0**	**71.2**	**80.2**	**9.2%**
Gross Margin	*80.1%*	*77.8%*	*68.8%*	*59.6%*	*62.6%*	*64.8%*	*65.1%*	*65.5%*	
Cost of Services	(17.7)	(25.9)	(21.6)	(19.7)	(23.2)	(28.0)	(29.9)	(32.7)	8.7%
Personnel Expenses	(15.6)	(19.5)	(20.0)	(19.5)	(23.2)	(29.0)	(30.4)	(33.3)	8.2%
Other Operating Expenses	(2.8)	(2.2)	(2.4)	(2.6)	(2.7)	(3.4)	(3.7)	(3.6)	8.2%
EBITDA	**0.4**	**3.4**	**7.7**	**(2.5)**	**0.1**	**4.6**	**7.2**	**10.6**	**6.6%**
EBITDA margin	*0.9%*	*5.2%*	*10.2%*	*-3.8%*	*0.1%*	*4.6%*	*6.6%*	*8.6%*	
D&A and Provisions	(2.0)	(2.7)	(2.8)	(3.1)	(3.3)	(3.7)	(4.1)	(4.8)	11.3%
EBIT	**(1.6)**	**0.7**	**4.9**	**(5.6)**	**(3.3)**	**0.9**	**3.1**	**5.8**	**3.6%**
EBIT margin	*-3.4%*	*1.0%*	*6.5%*	*-8.5%*	*-4.1%*	*0.9%*	*2.9%*	*4.8%*	
Financial Income and Expenses	(0.5)	(1.0)	(0.9)	(0.2)	(0.2)	(0.3)	(0.3)	(0.2)	
Income (Charges) from shareholdings	(0.1)	(0.1)	0.0	-	-	-	-	-	
Profit (Loss) from discontinued operations	-	-	-	-	-	-	-	-	
EBT	**(2.2)**	**(0.3)**	**4.0**	**(5.8)**	**(3.5)**	**0.6**	**2.9**	**5.6**	**7.0%**
Taxes	(0.2)	0.3	(1.0)	1.7	1.0	(0.2)	(0.8)	(1.6)	9.8%
Tax Rate	*-9.9%*	*81.0%*	*25.4%*	*29.0%*	*29.0%*	*29.0%*	*29.0%*	*29.0%*	
Net Income	**(2.4)**	**(0.1)**	**3.0**	**(4.1)**	**(2.5)**	**0.4**	**2.0**	**4.0**	**5.9%**
Net margin	*-5.2%*	*-0.1%*	*4.0%*	*-6.3%*	*-3.2%*	*0.4%*	*1.9%*	*3.2%*	
Minorities	(0.0)	(0.1)	0.0	-	-	-	-	-	
Net Income attributable to the Group	**(2.5)**	**0.2**	**3.0**	**(4.1)**	**(2.5)**	**0.4**	**2.0**	**4.0**	**5.9%**
Net margin after minorities	*-5.4%*	*0.3%*	*4.0%*	*-6.3%*	*-3.2%*	*0.4%*	*1.9%*	*3.2%*	
EPS	**(0.09)**	**(0.00)**	**0.11**	**(0.16)**	**(0.10)**	**0.02**	**0.08**	**0.15**	**5.9%**

Source: Company data (2019-21), KT&Partners' estimates (2022-26)

As for the balance sheet, PLC-IT is mainly affected by the length of the construction process and related payment schedules, which generate substantial absorption in terms of working capital until the delivery of the farms built. However, we expect an improvement toward the end of the forecast period in terms of working capital absorption due to: i) a reduction in DIO driven by increased production efficiency; and ii) a reduction in DSO due to a focus on small-scale installations. We expect TWC to grow to €25.1mn in FY26E, mainly following business growth, but with a decreasing incidence on sales revenues to 21% in FY26E (from 29% expected in FY22E).

CAPEX are expected to be on average ca. €3.6mn per year or €18mn over the period 2022E-2026E, factoring in investments in new technologies to innovate and provide cutting-edge services. Therefore, we foresee fixed assets increasing to €22.2mn in 2026E from €21.1mn in FY22E.

Looking at the Group's financial soundness, we expect NFP to progressively improve over the 2022E–26E period, going from its net debt position of €6.9mn in FY22E to €5.3mn by FY26E, mainly following Group's growth, profitability improvement, and better working capital management thanks to the increasing efficiency on completing the setup projects. From 2024, the Company foresees maintaining NFP/EBITDA ratio below 2x by 2024, although the dividend payout considered.

2019A–26E Consolidated Balance Sheet

€ million	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Fixed Assets	**28.6**	**25.1**	**23.2**	**21.1**	**21.8**	**22.6**	**23.0**	**22.2**
Trade receivables	19.3	22.2	20.3	18.4	21.7	27.2	29.5	32.1
Inventory	3.4	4.3	4.5	6.5	5.8	7.0	7.5	8.3
Contract Assets	4.6	6.0	16.0	19.2	19.7	21.0	22.6	25.7
Trade Payables	(14.1)	(19.8)	(24.6)	(24.7)	(27.5)	(33.1)	(35.2)	(38.7)
Contract Liabilities	(0.3)	(1.0)	(1.2)	(0.9)	(1.1)	(1.9)	(2.1)	(2.3)
Trade Working Capital	**13.0**	**11.7**	**15.0**	**18.6**	**18.5**	**20.1**	**22.4**	**25.1**
Other assets and liabilities	(7.3)	(5.1)	(3.3)	(3.3)	(3.3)	(3.3)	(3.3)	(3.3)
Net Working Capital	**5.7**	**6.7**	**11.7**	**15.3**	**15.2**	**16.9**	**19.2**	**21.8**
Other Provisions	**(1.6)**	**(2.8)**	**(3.8)**	**(5.3)**	**(7.0)**	**(9.1)**	**(11.4)**	**(13.8)**
Net Capital Employed	**32.7**	**28.9**	**31.1**	**31.2**	**30.0**	**30.4**	**30.8**	**30.2**
Total shareholders' equity	**24.7**	**24.8**	**28.4**	**24.3**	**21.8**	**22.2**	**22.9**	**24.8**
Short-term debt / Cash (-)	1.0	(5.2)	(5.8)	(1.6)	(0.2)	(0.3)	(0.7)	(3.1)
Long-term liabilities	7.0	9.3	8.5	8.5	8.5	8.5	8.5	8.5
Net Financial Position	**8.0**	**4.1**	**2.7**	**6.9**	**8.3**	**8.1**	**7.8**	**5.3**
Sources	**32.7**	**28.9**	**31.1**	**31.2**	**30.0**	**30.4**	**30.8**	**30.2**

Source: Company data (2019-21), KT&Partners' estimates (2022-26)

Valuation

Following the projections of PLC-IT's future financials, we carried out the valuation of the company by applying a DCF Model.

Unlike the previous research, we do not rely on the Market Multiples model since we believe it does not capture PLC-IT's value properly. Indeed, in the next two years, we expect that the company will not fully express its profitability potential, mainly because of i) persistent high raw material costs with gradual improvement by 2024 also thanks to contracts renegotiation; and ii) an increase in personnel costs to support company growth with highly specialized people.

According to our valuation method, our estimated fair value is equal to €43.69mn or €1.68ps.

DCF Model

We have also conducted our valuation using a five-year DCF model, based on 13.4% cost of equity, 4.5% cost of debt, and a target capital structure with 41% debt. The cost of equity is a function of the risk-free rate of 4.3% (Italian 10y BTP, +2pp compared to our previous research), 5.1% equity risk premium (Damodaran for a mature market, 0.5pp higher than our previous research), and a premium for size and liquidity of 3.1% (+0.3pp vs our previous research). We therefore obtained 9.3% WACC, 0.8pp higher than our previous research due to weakening macroeconomic scenario.

We discounted 2022E–26E annual cash flows and considered a terminal growth rate of 2%; then we carried out a sensitivity analysis on the terminal growth rate (+/- 0.25%) and on WACC (+/- 0.25%).

DCF Valuation

€ million	2022E	2023E	2024E	2025E	2026E
EBIT	**(5.6)**	**(3.3)**	**0.9**	**3.1**	**5.8**
Taxes	1.6	0.9	(0.3)	(0.9)	(1.7)
D&A	3.1	3.3	3.7	4.1	4.8
Change in Net Working Capital	(3.6)	0.1	(1.7)	(2.3)	(2.6)
Change in Funds	1.4	1.7	2.1	2.3	2.5
Net Operating Cash Flow	**(3.0)**	**2.8**	**4.8**	**6.3**	**8.7**
Net Capex	(1.0)	(4.0)	(4.5)	(4.5)	(4.0)
FCFO	**(4.0)**	**(1.2)**	**0.3**	**1.8**	**4.7**
g	***2.0%***				
Wacc	***9.3%***				
FCFO (discounted)	(4.0)	(1.1)	0.3	1.4	3.3
Discounted Cumulated FCFO	(0.1)				
TV	66.0				
TV (discounted)	46.5				
Enterprise Value	**46.4**				
NFP FY21A	2.7				
Equity Value	**43.7**				
Current number of shares (mn)	26.0				
Value per share (€)	**1.68**				

Source: Company data, FactSet, KT&Partners' estimates

DCF Sensitivity Analysis

€ million		WACC				
Terminal growth Rate		9.8%	9.5%	9.3%	9.0%	8.8%
	1.5%	37.1	38.7	40.5	42.4	44.4
	1.8%	38.4	40.2	42.0	44.0	46.2
	2.0%	39.9	41.7	43.7	45.8	48.1
	2.3%	41.4	43.4	45.5	47.7	50.2
	2.5%	43.0	45.1	47.4	49.8	52.4

Source: Company data, FactSet, KT&Partners' estimates

Appendix

Glossary

- **BoP:** Balance of Plant. All the supporting components and auxiliary systems of a power plant needed to deliver the energy, other than the generating unit itself
- **BOT:** Build, Operate, and Transfer
- **FER 1 Decree:** The New Renewables Decree introduced by the Italian Government that will grant new incentives to renewable energy sources
- **FER 2 Decree:** Regulates incentives for sources and technologies that are not yet fully mature or with high operating costs, such as geothermal, thermodynamic solar, and biogas
- **EPC:** Engineering, Procurement, and Construction
- **IPP:** Independent Power Producer
- **ISP:** Independent Service Provider
- **HV/MV/LV:** High Voltage/ Medium Voltage/ Low Voltage
- **O&M:** Operation and Maintenance
- **PNRR:** Piano Nazionale di Ripresa e Resilienza
- **PV:** Photovoltaic

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IN THIS STUDY DCF AND MULTIPLE VALUATION MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE

- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE

- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE

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