

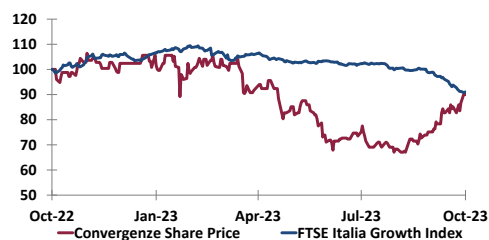


## OUTPERFORM

**Current Share Price (€): 2.24**

**Target Price (€): 3.50**

### Convergenze - 1Y Performance



Source: S&P Capital IQ - Note: 10/10/2022=100

### Company data

ISIN number	IT0005426215
Bloomberg code	CVG IM
Reuters code	CVG.MI
Industry	TLC - Energy
Stock market	Euronext Growth Milan
Share Price (€)	2.24
Date of Price	10/10/2023
Shares Outstanding (m)	7.5
Market Cap (€m)	16.8
Market Float (%)	23.1%
Daily Volume	1,000
Avg Daily Volume YTD	4,371
Target Price (€)	3.50
Upside (%)	56%
Recommendation	OUTPERFORM

### Share price performance

	1M	3M	6M	1Y
Convergenze - Absolute (%)	20%	20%	-3%	-10%
FTSE Italia Growth (%)	-8%	-11%	-14%	-9%
1Y Range H/L (€)			2.65	1.67
YTD Change (€) / %			-0.39	-15%

Source: S&P Capital IQ

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## Energy BU breaks even amid challenges, TLC biz thrives. M&A for growth

### Trading update: resilience amid volatility

Over past 12-months, the stock exhibited a rather erratic pattern when compared to the Italia Growth index. Initially, Convergenze posted a performance that closely tracked the benchmark until the end of March. However, from April to mid-August, the stock experienced a bearish trend, hitting a relative low point at €1.66. Since mid-August, there has been a notable turnaround, outperforming the reference index by over 30%, reaching a relative high of €2.14. Looking at the trailing twelve months, stock performance (-10%) moved closer to Italia Growth index (-9%).

### H1 2023: Energy BU margin fast recovery and TLC sales up

H1 2023 sales were €10.4m vs €12.5m in H1 2022, with TLC BU up by 6% vs H1 2022, reaching €4.9m, and lower Energy BU turnover reflecting energy prices decrease. EBITDA was €1.3m, 12.5% margin vs 5% in H1 2022. The TLC BU generated €1.3m EBITDA, in line YoY, with margin at 27%. The Energy BU EBITDA, shifting to indexed supply contracts, is showing a progressive recovery, reaching break-even in the period. Bottom line at break-even vs a minor loss in H1 2022. Net financial debt was €6.5m, from €6.1m as of year-end 2022, capex €1.9m, mainly for optic fiber network which has reached 8,600km, +1,100km from FY22 (plus 1,036 km in IRU).

### Business outlook

Management expects Energy BU's margin improvement in H2, upon the full indexing of contracts to date and despite exogenous factors that could escalate pressures on energy and gas prices. EVO network development is ongoing. For TLC BU: own FTTH infrastructure continues to expand; a contract with Suez Italy introduces Convergenze to smart meter business; cloud storage capacity is scheduled to increase. The new Media & Content Delivery Network BU, after an agreement with the Spanish provider of digital OTT TV Agile Content, will enter its operational phase in 2024. Management eyes also M&A for growth.

### Estimates revision: revenues confirmed, upgrade on EBITDA with FY23 margin expected double-digit

Based on H1 2023 figures, we have fine-tuned our estimates assuming the return to Energy BU profitability in FY23E, amid energy market normalization, and confirming solid TLC BU trend.

### Target Price €3.50 per share (from €3.27), OUTPERFORM rating confirmed

Based on our new estimates, we revise upward Convergenze target price to €3.50 (from €3.27), 56% upside on current stock price, implying 2023-24E 1.5x-1.4x EV/Revenues vs 1.2x-1.1x for peers. We confirm an OUTPERFORM rating on the stock.

### KEY FINANCIALS AND ESTIMATES

€m	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	16.8	16.5	18.9	28.4	22.7	24.9	27.0
Adj. EBITDA	1.6	2.3	1.8	1.4	2.8	3.6	4.2
Margin	10%	14%	10%	5%	12%	15%	16%
Net Income (Loss)	0.5	0.7	0.2	(0.8)	0.2	0.5	0.4
Net (Debt) Cash	(0.5)	0.1	(2.3)	(6.1)	(6.0)	(5.7)	(5.2)

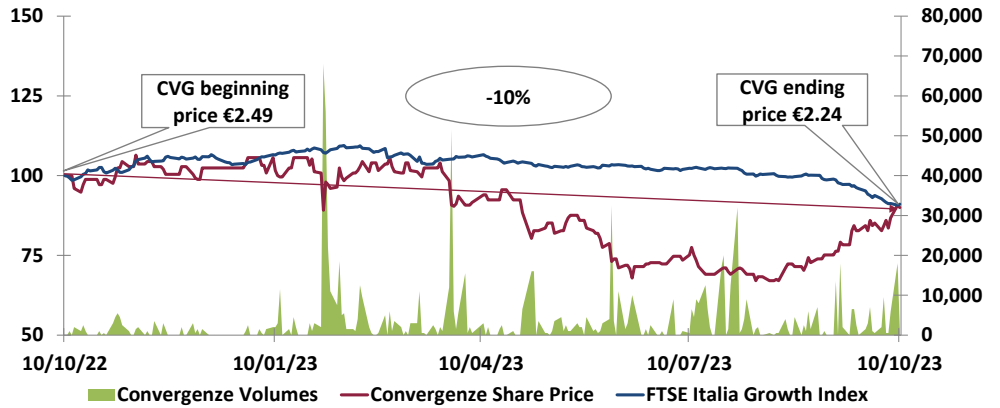
Source: Company data 2019-22A, EnVent Research 2023-25E

## Market update

Trading price range €1.67-2.65 per share

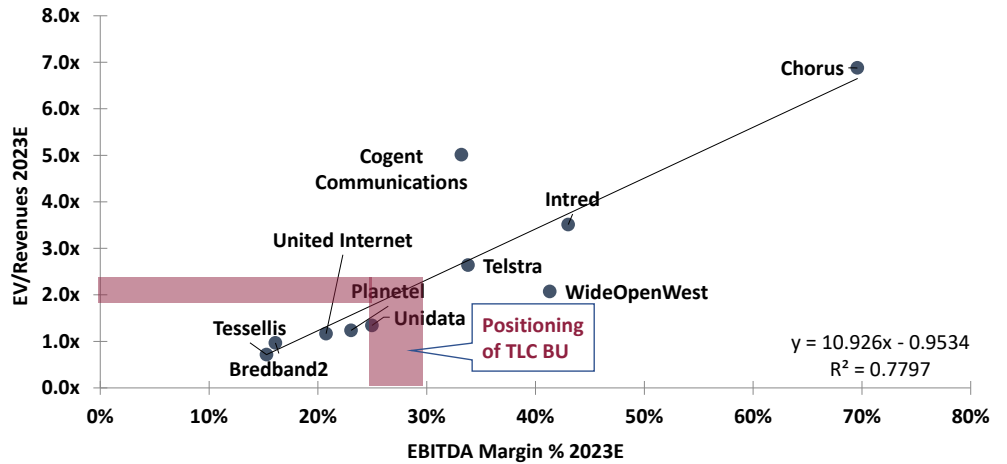
Performance at -10%, below the Italia Growth Index which lost 9%

### Convergenze - 1Y Share price performance and trading volumes



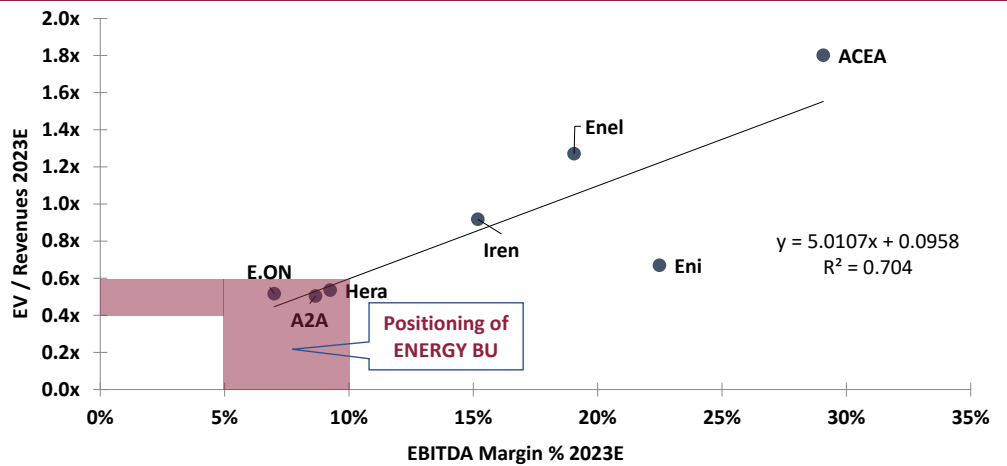
Source: EnVent Research on S&P Capital IQ - Note: 10/10/2022=100

### TLC BU peer group - Regression analysis



Source: EnVent Research on S&P Capital IQ, October 2023

### Energy BU peer group - Regression analysis



Source: EnVent Research on S&P Capital IQ, October 2023

Low comparability with the Energy peer group

## Investment case

### A single touchpoint for connectivity and energy

### M&A

### Strategy

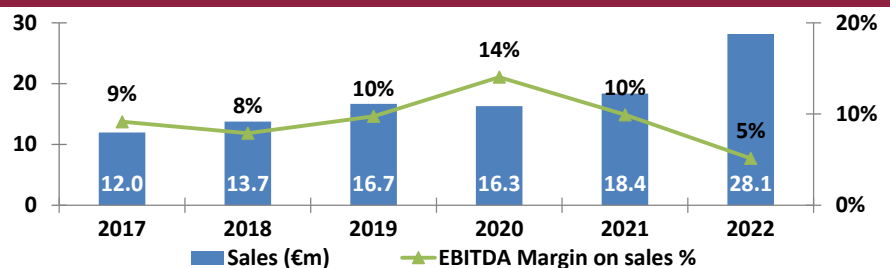
Convergenze SpA *Benefit Corporation*, founded in 2005 and public company since 2020 on the Euronext Growth Milan, is an Italian local multi-utility provider of internet and voice services, electricity, and natural gas to residential and business customers in Salerno-Cilento area (Southern Italy). It operates with a joint business model: provider of broadband connectivity services through a proprietary infrastructure made of 8,600km of FTTH optic fiber network (plus 1,036km in IRU) and over 100 BTS WiFi towers; energy dispatch operator and owner of a network of patented electric cars charging points/stations *Electric Vehicle Only*.

Acquisition of Positivo (2022), to consolidate coverage in the Salerno area.

Strategy pillars:

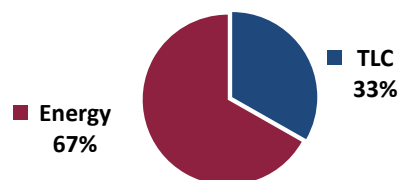
- Extension of the proprietary fiber optic network in the municipalities where Convergenze has already reached a critical mass of customers served by wireless technology
- Increase in the number of Energy customers, taking advantage of cross-selling opportunities between the TLC and Energy BUs, also through the e-commerce
- Value-added services such as cloud, datacenter as a service, virtualization
- Introduction of the BU Media & Content Delivery for product diversification
- Acquisition of TLC players to expand the geographical coverage

### Historical Sales and EBITDA



Source: Company data

### Sales breakdown, FY22



Source: Company data

### Industry and company drivers

- EU and Italy digital targets call for continued broadband expansion
- Connectivity and convergence of emerging technologies such as cloud and IoT
- Electric and sustainable mobility trends
- Smart and connected devices are turning upside-down attitude to home energy

savings and efficiency

- Heat pumps: a promising solution for lowering greenhouse gas emissions
- Value of customer base and cross selling opportunities
- Proprietary network and interconnections
- Sustainability and corporate responsibility

### Challenges

- Energy prices volatility and risk management
- Highly competitive telco and energy markets
- The number of customers and churn rate may fluctuate and cause volatility
- Regulatory risk

### H1 2023 results

#### Profit and Loss

€m	H1 2022	H1 2023
Sales TLC BU	4.7	4.9
Sales Energy BU	7.9	5.5
Sales	12.5	10.4
Other income	0.1	0.1
<b>Total Revenues</b>	<b>12.7</b>	<b>10.5</b>
YoY %	40.3%	-17.1%
Cost of sales	(9.8)	(6.7)
<b>Gross profit</b>	<b>2.9</b>	<b>3.8</b>
Margin	22.6%	36.5%
Services	(0.8)	(0.9)
Personnel	(1.2)	(1.4)
Other operating costs	(0.2)	(0.3)
Operating costs	(2.2)	(2.6)
<b>Adjusted EBITDA</b>	<b>0.6</b>	<b>1.3</b>
Margin	5.0%	12.1%
Non-recurring items	(0.1)	0.0
<b>EBITDA</b>	<b>0.5</b>	<b>1.3</b>
Margin	3.8%	12.5%
D&A	(0.8)	(0.9)
<b>EBIT</b>	<b>(0.3)</b>	<b>0.4</b>
Margin	-2.1%	3.8%
Interest	(0.2)	(0.3)
<b>EBT</b>	<b>(0.4)</b>	<b>0.1</b>
Margin	-3.4%	1.2%
Income taxes	0.0	(0.1)
<b>Net Income (Loss)</b>	<b>(0.4)</b>	<b>0.0</b>
Margin	-3.4%	0.4%

#### Balance Sheet

€m	H1 2022	2022	H1 2023
Inventory	0.2	0.3	0.3
Trade receivables	3.4	3.2	3.2
Trade payables	(2.9)	(2.1)	(2.6)
Trade Working Capital	0.7	1.4	0.9
Other assets (liabilities)	(1.9)	(2.1)	(2.2)
<b>Net Working Capital</b>	<b>(1.2)</b>	<b>(0.8)</b>	<b>(1.3)</b>
Intangible assets	1.0	0.9	0.9
Property, plant and equipment	11.4	11.8	12.9
Equity investments and financial assets	0.1	0.1	0.1
<b>Non-current assets</b>	<b>12.4</b>	<b>12.8</b>	<b>13.8</b>
<b>Provisions</b>	<b>(0.7)</b>	<b>(0.8)</b>	<b>(0.8)</b>
<b>Net Invested Capital</b>	<b>10.5</b>	<b>11.3</b>	<b>11.7</b>
Bank debt	4.8	6.5	6.3
Bonds	0.8	0.8	0.7
Other financial debt	0.1	0.1	0.1
Cash and equivalents	(0.7)	(1.2)	(0.6)
<b>Net Debt (Cash)</b>	<b>5.0</b>	<b>6.1</b>	<b>6.5</b>
<b>Equity</b>	<b>5.5</b>	<b>5.2</b>	<b>5.2</b>
<b>Sources</b>	<b>10.5</b>	<b>11.3</b>	<b>11.7</b>

Source: Company data

## Cash Flow

€m	H1 2022	H1 2023
<b>EBIT</b>	<b>(0.3)</b>	<b>0.4</b>
Current taxes	0.0	(0.1)
D&A	0.8	0.9
Provisions	0.1	0.1
<b>Cash flow from P&amp;L operations</b>	<b>0.6</b>	<b>1.3</b>
Trade Working Capital	(1.7)	0.5
Other assets and liabilities	0.3	0.1
<b>Operating cash flow before capex</b>	<b>(0.9)</b>	<b>1.8</b>
Capex	(1.7)	(1.9)
<b>Operating cash flow after WC and capex</b>	<b>(2.5)</b>	<b>(0.1)</b>
Interest	(0.2)	(0.3)
Changes in equity	0.1	0.0
<b>Net cash flow</b>	<b>(2.7)</b>	<b>(0.4)</b>
Net (Debt) Cash - Beginning	(2.3)	(6.1)
Net (Debt) Cash - End	(5.0)	(6.5)
<b>Change in Net (Debt) Cash</b>	<b>(2.7)</b>	<b>(0.4)</b>

## Ratio analysis

	H1 2022	H1 2023
ROE	neg	1%
ROA	neg	2%
ROS	neg	4%
ROI	neg	3%
DSO	40	46
DPO	40	49
DOI	3	5
TWC/Sales	3%	9%
NWC/Sales	neg	neg
Capex/Sales	13%	18%
Net Debt/Revenues	0.2x	0.6x
Net Debt/EBITDA	5.1x	5.0x
Net Debt/EBIT	neg	8.2x
Net Debt/Equity	0.9x	1.2x
Cash flow from P&L operations/EBITDA	126%	99%
FCF/EBITDA	neg	neg
Basic EPS (€)	neg	0.01

Source: Company data - Note: H1 KPIs calculated on LTM economics

## Business update

- First batch of optic fiber in Sapri area completed, about 70% of the entire project
- Launch of 60 Gigahertz Fixed Wireless technology, offering users up to 2.5Gb/s of connection speed
- Agreement with SUEZ Italy to provide smart water metering for LoRaWan connectivity services in Salerno
- Start of Media&Content Delivery Network BU by five-year sales agreement with the Spanish provider of digital OTT TV Agile Content to offer entertainment to subscribers from Q1 2024

## Corporate period facts

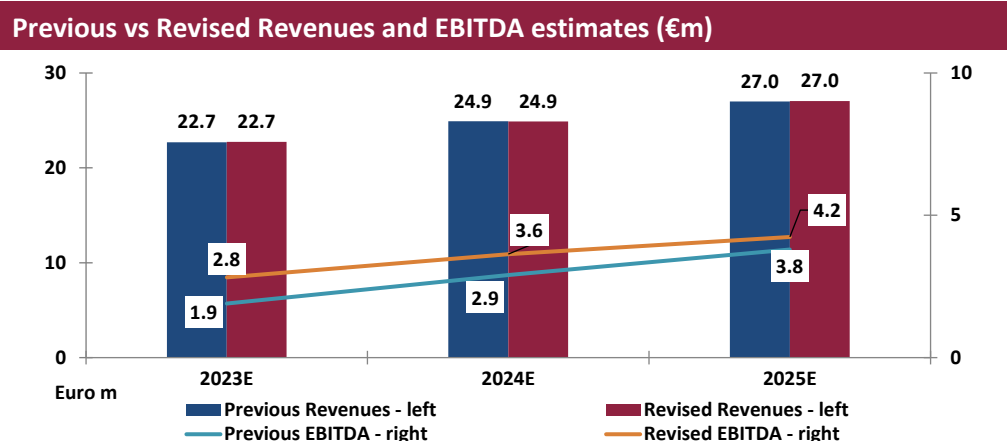
- Convergence Warrant 2020-23 (IT0005426199) may be exercised during the third (and last) exercise period between December 1-18, 2023, at a strike price of €2.54, with a conversion ratio of 1 share:2 warrants
- FY22 Sustainability Report issued

## Estimates revision

H1 2023 figures are consistent with our FY23 forecast at the top-line level, that we confirm. When examining margins, we acknowledge and factor-in the performance of the Energy BU, exceeding our expectations, and we maintain our projections for

the TLC BU. Our refined results have driven an increase in adjusted EBITDA in absolute terms, with a 400 bps rise in the EBITDA margin for FY23, contributing to an improvement in financial position.

### Change in estimates



Source: EnVent Research

€m	Revised			Previous			Change %		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
<b>Revenues</b>	22.7	24.9	27.0	22.7	24.9	27.0	0%	0%	0%
<b>Adj. EBITDA</b>	2.8	3.6	4.2	1.9	2.9	3.8	48%	25%	12%
<i>Margin</i>	12%	15%	16%	8%	12%	14%			
<b>EBIT</b>	0.9	1.0	1.0	(0.0)	0.4	0.6	nm	161%	63%
<i>Margin</i>	4%	4%	4%	0%	2%	2%			
<b>Net Income (Loss)</b>	0.2	0.5	0.4	(0.3)	0.0	0.1	179%	nm	325%
<b>Net (Debt) Cash</b>	(6.0)	(5.7)	(5.2)	(7.4)	(8.1)	(7.6)	-20%	-30%	-32%
<i>Net Debt/EBITDA</i>	2.1x	1.6x	1.2x	3.9x	2.8x	2.0x			

Source: EnVent Research

## Financial projections

Profit and Loss							
€m	2019	2020	2021	2022	2023E	2024E	2025E
Sales TLC BU	7.0	7.5	8.9	9.3	10.0	11.3	13.2
Sales Energy BU	9.7	8.8	9.4	18.8	12.5	13.4	13.7
Sales	16.7	16.3	18.4	28.1	22.5	24.7	26.8
Other income	0.1	0.2	0.6	0.2	0.2	0.2	0.2
<b>Total Revenues</b>	<b>16.8</b>	<b>16.5</b>	<b>18.9</b>	<b>28.4</b>	<b>22.7</b>	<b>24.9</b>	<b>27.0</b>
YoY %	-	-1.9%	14.9%	49.8%	-19.8%	9.5%	8.7%
Cost of sales	(11.7)	(10.1)	(12.6)	(22.0)	(15.0)	(15.9)	(16.5)
<b>Gross profit</b>	<b>5.1</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>7.7</b>	<b>8.9</b>	<b>10.6</b>
Margin	30.4%	38.5%	33.5%	22.4%	33.8%	36.0%	39.1%
Services	(1.4)	(1.7)	(1.5)	(1.3)	(1.2)	(1.4)	(2.0)
Personnel	(1.8)	(2.1)	(2.5)	(3.1)	(3.3)	(3.4)	(3.8)
Other operating costs	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Operating costs	(3.5)	(4.0)	(4.5)	(4.9)	(4.9)	(5.3)	(6.3)
<b>Adjusted EBITDA</b>	<b>1.6</b>	<b>2.3</b>	<b>1.8</b>	<b>1.4</b>	<b>2.8</b>	<b>3.6</b>	<b>4.2</b>
Margin	9.7%	13.9%	9.6%	5.1%	12.4%	14.6%	15.7%
Non-recurring items	(0.1)	(0.1)	(0.0)	(0.1)	0.0	0.0	0.0
Writedown of trade receivables	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0
<b>EBITDA</b>	<b>1.6</b>	<b>2.2</b>	<b>1.8</b>	<b>1.2</b>	<b>2.8</b>	<b>3.6</b>	<b>4.2</b>
Margin	9.4%	13.1%	9.5%	4.2%	12.4%	14.6%	15.7%
D&A	(0.6)	(0.9)	(1.3)	(1.6)	(2.0)	(2.6)	(3.3)
<b>EBIT</b>	<b>1.0</b>	<b>1.2</b>	<b>0.5</b>	<b>(0.4)</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>
Margin	5.9%	7.5%	2.8%	-1.6%	3.8%	4.2%	3.6%
Interest	(0.2)	(0.2)	(0.2)	(0.4)	(0.5)	(0.4)	(0.4)
<b>EBT</b>	<b>0.8</b>	<b>1.0</b>	<b>0.3</b>	<b>(0.8)</b>	<b>0.4</b>	<b>0.7</b>	<b>0.6</b>
Margin	4.6%	6.2%	1.5%	-2.8%	1.6%	2.8%	2.3%
Income taxes	(0.3)	(0.3)	(0.0)	0.0	(0.1)	(0.2)	(0.2)
<b>Net Income (Loss)</b>	<b>0.5</b>	<b>0.7</b>	<b>0.2</b>	<b>(0.8)</b>	<b>0.2</b>	<b>0.5</b>	<b>0.4</b>
Margin	3.1%	4.2%	1.3%	-2.8%	1.0%	1.9%	1.6%

Source: Company data 2019-22A, EnVent Research 2023-25E

Balance Sheet							
€m	2019	2020	2021	2022	2023E	2024E	2025E
Inventory	0.1	0.1	0.2	0.3	0.2	0.2	0.3
Trade receivables	2.0	2.0	2.5	3.2	2.6	2.5	2.7
Trade payables	(3.2)	(3.3)	(3.7)	(2.1)	(3.0)	(3.2)	(3.4)
Trade Working Capital	(1.0)	(1.1)	(1.0)	1.4	(0.1)	(0.5)	(0.4)
Other assets (liabilities)	(1.1)	(1.0)	(1.7)	(2.1)	(1.7)	(1.9)	(2.0)
<b>Net Working Capital</b>	<b>(2.1)</b>	<b>(2.0)</b>	<b>(2.7)</b>	<b>(0.8)</b>	<b>(1.8)</b>	<b>(2.3)</b>	<b>(2.4)</b>
Intangible assets	0.2	0.6	0.9	0.9	0.9	0.8	0.6
Property, plant and equipment	4.8	6.8	10.5	11.8	13.0	13.8	14.1
Equity investments and financial assets	0.1	0.1	0.0	0.1	0.1	0.1	0.1
<b>Non-current assets</b>	<b>5.0</b>	<b>7.5</b>	<b>11.4</b>	<b>12.8</b>	<b>13.9</b>	<b>14.7</b>	<b>14.8</b>
<b>Provisions</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.6)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.9)</b>
<b>Net Invested Capital</b>	<b>2.4</b>	<b>5.0</b>	<b>8.2</b>	<b>11.3</b>	<b>11.4</b>	<b>11.5</b>	<b>11.5</b>
<b>Net Debt (Cash)</b>	<b>0.5</b>	<b>(0.1)</b>	<b>2.3</b>	<b>6.1</b>	<b>6.0</b>	<b>5.7</b>	<b>5.2</b>
<b>Equity</b>	<b>1.9</b>	<b>5.0</b>	<b>5.9</b>	<b>5.2</b>	<b>5.4</b>	<b>5.9</b>	<b>6.3</b>
<b>Sources</b>	<b>2.4</b>	<b>5.0</b>	<b>8.2</b>	<b>11.3</b>	<b>11.4</b>	<b>11.5</b>	<b>11.5</b>

Source: Company data 2019-22A, EnVent Research 2023-25E

### Cash Flow

€m	2019	2020	2021	2022	2023E	2024E	2025E
<b>EBIT</b>	<b>1.0</b>	<b>1.2</b>	<b>0.5</b>	<b>(0.4)</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>
Current taxes	(0.3)	(0.3)	(0.0)	0.0	(0.1)	(0.2)	(0.2)
D&A	0.6	0.9	1.3	1.6	2.0	2.6	3.3
Provisions	0.1	(0.0)	0.1	0.2	0.0	0.0	0.1
<b>Cash flow from P&amp;L operations</b>	<b>1.4</b>	<b>1.8</b>	<b>1.8</b>	<b>1.4</b>	<b>2.7</b>	<b>3.5</b>	<b>4.1</b>
Trade Working Capital	0.3	0.0	(0.1)	(2.3)	1.4	0.4	(0.1)
Other assets and liabilities	0.6	(0.1)	0.7	0.5	(0.4)	0.2	0.2
<b>Operating cash flow before capex</b>	<b>2.3</b>	<b>1.7</b>	<b>2.5</b>	<b>(0.5)</b>	<b>3.7</b>	<b>4.0</b>	<b>4.2</b>
Capex	(1.4)	(3.4)	(5.2)	(3.0)	(3.0)	(3.3)	(3.3)
<b>Operating cash flow after WC and capex</b>	<b>0.9</b>	<b>(1.7)</b>	<b>(2.8)</b>	<b>(3.5)</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>
Interest	(0.2)	(0.2)	(0.2)	(0.4)	(0.5)	(0.4)	(0.4)
Equity investments and financial assets	(0.0)	(0.0)	0.0	(0.1)	0.0	0.0	0.0
IPO proceeds	0.0	2.5	0.3	0.0	0.0	0.0	0.0
Warrants exercise	0.0	0.0	0.3	0.004	0.0	0.0	0.0
Changes in equity	0.0	0.0	0.0	0.1	0.0	0.0	0.0
<b>Net cash flow</b>	<b>0.7</b>	<b>0.6</b>	<b>(2.4)</b>	<b>(3.8)</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>
Net Debt (Beginning)	(1.2)	(0.5)	0.1	(2.3)	(6.1)	(6.0)	(5.7)
Net Debt (End)	(0.5)	0.1	(2.3)	(6.1)	(6.0)	(5.7)	(5.2)
<b>Change in Net Debt (Cash)</b>	<b>0.7</b>	<b>0.6</b>	<b>(2.4)</b>	<b>(3.8)</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>

Source: Company data 2019-22A, EnVent Research 2023-25E

### Ratio analysis

KPIs	2019	2020	2021	2022	2023E	2024E	2025E
ROE	28%	14%	4%	-15%	4%	8%	7%
ROA	12%	9%	3%	-3%	5%	6%	5%
ROS	6%	8%	3%	-2%	4%	4%	4%
ROI	41%	25%	6%	-4%	8%	9%	9%
DSO	36	37	40	34	35	30	30
DPO	65	63	55	24	45	45	45
DOI	5	7	9	12	9	8	8
TWC/Sales	-6%	-7%	-5%	5%	0%	-2%	-1%
NWC/Sales	-13%	-13%	-14%	-3%	-8%	-9%	-9%
Capex/Sales	8%	21%	29%	11%	14%	14%	12%
Net Debt/Revenues	0.0x	cash	0.1x	0.2x	0.3x	0.2x	0.2x
Net Debt/EBITDA	0.3x	0.0x	1.3x	5.1x	2.1x	1.6x	1.2x
Net Debt/EBIT	0.5x	cash	4.4x	neg	nm	nm	5.3x
Net Debt/Equity	0.3x	0.0x	0.4x	1.2x	1.1x	1.0x	0.8x
Cash flow from P&L operations/EBITDA	88%	84%	103%	116%	96%	95%	97%
FCF/EBITDA	56%	neg	neg	neg	24%	18%	20%
Basic EPS (€)	na	0.09	0.03	neg	0.03	0.06	0.06

Source: Company data 2019-22A, EnVent Research 2023-25E



## Valuation

Our valuation rationale is underpinned by key factors:

- prioritizing investment in TLC infrastructure effectively shields Convergence from margin fluctuations, ensuring profitability in a fiercely competitive market environment, and adding intrinsic value to the Company
- the Energy business has now achieved higher stability, largely due to the implementation of indexed supply contracts
- the presence of a highly fragmented customer base significantly reduces the risk implied in revenue concentration

While we acknowledge that business expansion necessitates a substantial financial commitment, beside we appreciate the management's strategy of pursuing growth also through acquisitions, targeting companies with proprietary networks.

On these considerations, we have updated our DCF model and market multiples for each business unit as part of our SoP approach.

### Discounted Cash Flows

Updated assumptions:

- Risk free rate: 4.0% (Italian 10-year government bonds interest rate - last 30 days average. Source: Bloomberg, October 2023)
- Market return: 12.5% (last 30 days average. Source: Bloomberg, October 2023)
- Market risk premium: 8.5%
- Beta: 0.7 (from selected comparable companies. Source: Bloomberg, October 2023)
- Cost of equity: 9.5%
- Cost of debt: 4.0%
- Tax rate: 24% IRES
- 50% debt/(debt + equity) as capital structure
- WACC calculated at 6.3%
- Perpetual growth rate after explicit projections (G): 2.5%
- Terminal Value assumes a 15% EBITDA margin

### DCF Valuation

€m	2019	2020	2021	2022	2023E	2024E	2025E	Perpetuity
<b>Revenues</b>	<b>16.8</b>	<b>16.5</b>	<b>18.9</b>	<b>28.4</b>	<b>22.7</b>	<b>24.9</b>	<b>27.0</b>	<b>27.7</b>
<b>EBITDA</b>	<b>1.6</b>	<b>2.2</b>	<b>1.8</b>	<b>1.2</b>	<b>2.8</b>	<b>3.6</b>	<b>4.2</b>	<b>4.2</b>
<i>Margin</i>	9.4%	13.1%	9.5%	4.2%	12.4%	14.6%	15.7%	15.0%
<b>EBIT</b>	<b>1.0</b>	<b>1.2</b>	<b>0.5</b>	<b>(0.4)</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>2.2</b>
<i>Margin</i>	5.9%	7.5%	2.8%	-1.6%	3.8%	4.2%	3.6%	7.8%
Taxes	(0.3)	(0.4)	(0.2)	0.1	(0.3)	(0.3)	(0.3)	(0.6)
<b>NOPAT</b>	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>(0.3)</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>1.5</b>
D&A	0.6	0.9	1.3	1.6	2.0	2.6	3.3	2.0
Provisions	0.1	(0.0)	0.1	0.2	0.0	0.0	0.1	0.0
<b>Cash flow from P&amp;L operations</b>	<b>1.4</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>2.6</b>	<b>3.4</b>	<b>4.0</b>	<b>3.5</b>
Trade Working Capital	0.3	0.0	(0.1)	(2.3)	1.4	0.4	(0.1)	(0.2)
Other assets and liabilities	0.6	(0.1)	0.7	0.5	(0.4)	0.2	0.2	0.0
Capex	(1.4)	(3.4)	(5.2)	(3.0)	(3.0)	(3.3)	(3.3)	(2.0)
<b>Unlevered free cash flow</b>	<b>0.9</b>	<b>(1.7)</b>	<b>(2.9)</b>	<b>(3.3)</b>	<b>0.6</b>	<b>0.6</b>	<b>0.8</b>	<b>1.3</b>
<b>- H1 Unlevered Free Cash Flows</b>					<b>0.1</b>			
<b>Free Cash Flows to be discounted</b>					<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	
WACC		6.3%						
Long-term growth (G)		2.5%						
<b>Discounted Cash Flows</b>					<b>0.7</b>	<b>0.5</b>	<b>0.7</b>	
Sum of Discounted Cash Flows					1.8			
<b>Terminal Value</b>								<b>35.3</b>
Discounted TV					30.4			
<b>Enterprise Value</b>					<b>32.2</b>			
Net debt as of 30/06/23					(6.5)			
<b>Equity Value</b>					<b>25.7</b>			
<b>Equity Value per share (€)</b>					<b>3.43</b>			

Source: EnVent Research

<b>DCF - Implied multiples</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
EV/Revenues	2.0x	1.7x	1.1x	1.4x	1.3x	1.2x
EV/EBITDA	15.0x	18.0x	26.7x	11.4x	8.9x	7.6x
EV/EBIT	26.0x	61.4x	neg	37.1x	30.9x	32.8x
P/E	37.0x	107.7x	neg	neg	neg	60.4x
<b>Discount of current valuation vs DCF</b>	<b>28%</b>					
<b>Current market price - Implied multiples</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
EV/Revenues	1.4x	1.2x	0.8x	1.0x	0.9x	0.9x
EV/EBITDA	10.8x	13.0x	19.3x	8.3x	6.4x	5.5x
EV/EBIT	18.8x	44.4x	neg	26.8x	22.3x	23.8x
P/E	24.2x	70.4x	neg	neg	neg	39.5x

Source: EnVent Research

## SoP valuation on market multiples by BU

Company	EV/Revenues			EV/EBITDA			EV/EBIT			P/E		
	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
<b>TLC</b>												
Unidata	2.5x	1.3x	1.1x	7.8x	5.4x	4.5x	11.7x	7.9x	6.6x	15.6x	12.8x	10.3x
Intred	5.3x	3.5x	3.1x	12.4x	8.2x	7.3x	20.4x	16.3x	15.0x	26.4x	21.2x	19.6x
Planetel	1.7x	1.2x	1.0x	8.3x	5.4x	4.0x	24.8x	12.6x	7.2x	35.3x	13.3x	7.5x
Tessellis	2.2x	0.7x	0.7x	neg	4.7x	4.2x	neg	neg	neg	neg	na	na
United Internet	1.2x	1.2x	1.1x	6.2x	5.6x	5.2x	8.8x	9.6x	8.9x	9.6x	10.3x	9.3x
Bredband2	1.0x	1.0x	0.9x	6.2x	6.0x	5.6x	15.8x	13.8x	11.4x	17.8x	16.1x	13.1x
Cogent Communications	6.6x	5.0x	4.2x	18.5x	15.1x	13.2x	33.1x	neg	neg	nm	neg	nm
Chorus	7.0x	6.9x	6.6x	11.6x	9.9x	9.6x	28.5x	28.3x	26.8x	nm	nm	nm
WideOpenWest	2.1x	2.1x	2.1x	7.0x	5.0x	4.7x	43.6x	neg	16.4x	neg	na	na
Telstra	2.8x	2.6x	2.6x	10.7x	7.8x	7.5x	22.7x	18.4x	16.7x	26.3x	23.1x	20.9x
<b>Mean</b>	<b>3.2x</b>	<b>2.6x</b>	<b>2.3x</b>	<b>9.8x</b>	<b>7.3x</b>	<b>6.6x</b>	<b>23.3x</b>	<b>15.3x</b>	<b>13.6x</b>	<b>21.8x</b>	<b>16.1x</b>	<b>13.4x</b>
<b>Mean w/out extremes</b>	<b>3.0x</b>	<b>2.2x</b>	<b>2.0x</b>	<b>9.1x</b>	<b>6.7x</b>	<b>6.1x</b>	<b>22.4x</b>	<b>14.1x</b>	<b>12.6x</b>	<b>21.5x</b>	<b>15.8x</b>	<b>13.1x</b>
<b>Median</b>	<b>2.3x</b>	<b>1.7x</b>	<b>1.6x</b>	<b>8.3x</b>	<b>5.8x</b>	<b>5.4x</b>	<b>22.7x</b>	<b>13.8x</b>	<b>13.2x</b>	<b>22.1x</b>	<b>14.7x</b>	<b>11.7x</b>
<b>Energy - Local multi-utilities</b>												
A2A	0.4x	0.5x	0.5x	6.4x	5.8x	5.5x	13.1x	12.0x	11.3x	9.7x	11.5x	10.6x
ACEA	1.6x	1.8x	1.9x	7.6x	6.2x	5.9x	16.6x	14.2x	13.7x	9.8x	8.2x	7.9x
Hera	0.4x	0.5x	0.6x	8.7x	5.8x	5.7x	15.6x	11.7x	11.6x	14.3x	11.1x	10.5x
Iren	0.8x	0.9x	1.0x	6.6x	6.0x	5.6x	14.3x	14.7x	12.8x	8.3x	8.4x	8.3x
<b>Mean</b>	<b>0.8x</b>	<b>0.9x</b>	<b>1.0x</b>	<b>7.3x</b>	<b>6.0x</b>	<b>5.7x</b>	<b>14.9x</b>	<b>13.2x</b>	<b>12.3x</b>	<b>10.6x</b>	<b>9.8x</b>	<b>9.3x</b>
<b>Median</b>	<b>0.6x</b>	<b>0.7x</b>	<b>0.8x</b>	<b>7.1x</b>	<b>5.9x</b>	<b>5.7x</b>	<b>14.9x</b>	<b>13.1x</b>	<b>12.2x</b>	<b>9.8x</b>	<b>9.7x</b>	<b>9.4x</b>
<b>Energy - Multinational ex-incumbents</b>												
Enel	0.9x	1.3x	1.2x	8.2x	6.7x	6.5x	12.5x	10.6x	10.0x	30.4x	9.4x	8.7x
Eni	0.4x	0.7x	0.6x	2.3x	3.0x	3.1x	3.2x	4.6x	5.0x	3.2x	6.0x	6.5x
Electricité de France	na	na	na	na	na	na	na	na	na	na	na	na
E.ON	0.4x	0.5x	0.6x	19.1x	7.4x	7.7x	neg	11.0x	12.1x	10.9x	10.1x	11.0x
Edison	0.2x	na	na	8.0x	na	na	13.1x	na	na	42.7x	na	na
<b>Mean</b>	<b>0.5x</b>	<b>0.8x</b>	<b>0.8x</b>	<b>9.4x</b>	<b>5.7x</b>	<b>5.7x</b>	<b>9.6x</b>	<b>8.7x</b>	<b>9.0x</b>	<b>21.8x</b>	<b>8.5x</b>	<b>8.8x</b>
<b>Median</b>	<b>0.4x</b>	<b>0.7x</b>	<b>0.6x</b>	<b>8.1x</b>	<b>6.7x</b>	<b>6.5x</b>	<b>12.5x</b>	<b>10.6x</b>	<b>10.0x</b>	<b>20.7x</b>	<b>9.4x</b>	<b>8.7x</b>
<b>Energy - Full sample</b>												
<b>Mean</b>	<b>0.7x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>8.4x</b>	<b>5.8x</b>	<b>5.7x</b>	<b>12.6x</b>	<b>11.3x</b>	<b>10.9x</b>	<b>16.2x</b>	<b>9.2x</b>	<b>9.1x</b>
<b>Median</b>	<b>0.4x</b>	<b>0.7x</b>	<b>0.6x</b>	<b>7.8x</b>	<b>6.0x</b>	<b>5.7x</b>	<b>13.1x</b>	<b>11.7x</b>	<b>11.6x</b>	<b>10.4x</b>	<b>9.4x</b>	<b>8.7x</b>
<b>Full sample</b>												
<b>Mean</b>	<b>2.1x</b>	<b>1.9x</b>	<b>1.8x</b>	<b>9.1x</b>	<b>6.7x</b>	<b>6.2x</b>	<b>18.6x</b>	<b>13.3x</b>	<b>12.4x</b>	<b>18.6x</b>	<b>12.4x</b>	<b>11.1x</b>
<b>Median</b>	<b>1.4x</b>	<b>1.2x</b>	<b>1.1x</b>	<b>8.0x</b>	<b>6.0x</b>	<b>5.6x</b>	<b>15.7x</b>	<b>12.3x</b>	<b>11.6x</b>	<b>15.0x</b>	<b>11.1x</b>	<b>10.3x</b>
<b>Convergenze</b>	<b>0.9x</b>	<b>1.0x</b>	<b>0.9x</b>	<b>21.5x</b>	<b>8.3x</b>	<b>6.5x</b>	<b>neg</b>	<b>26.4x</b>	<b>22.9x</b>	<b>neg</b>	<b>68.0x</b>	<b>37.1x</b>

Source: S&P Capital IQ, 10/10/2023

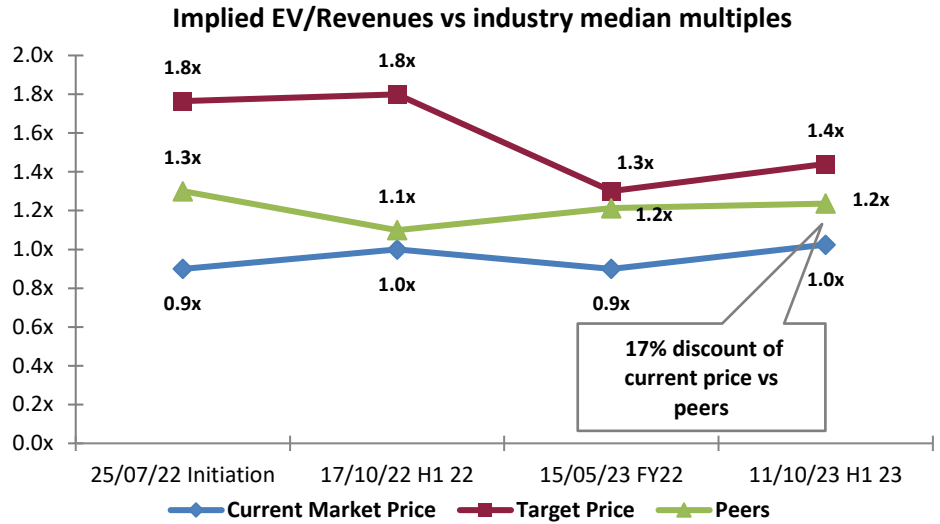
We have applied market multiples from peers, based on analysts' 2023E consensus data. For the Energy BU, we have applied multiples from local multi-utilities, considering comparability. We focus on EV/Revenues to assess Convergenze's short-term value, not being affected by investment cycles or temporary profitability below industry norms, which is the case with the Energy BU.

### SoP application

€m			
Convergenze	2023E Market multiples		
<b>EV TLC BU</b>			
2023E Sales	10.0	2.2x	22.5
<b>EV Energy BU</b>			
2023E Sales	12.5	0.9x	11.7
<b>SOP EV Convergenze</b>	<b>34.2</b>		
Net debt as of 30/06/23	(6.5)		
<b>Equity value Convergenze</b>	<b>27.7</b>		
<b>Equity value Convergenze per share (€)</b>	<b>3.70</b>		

Source: EnVent Research

## Target Price



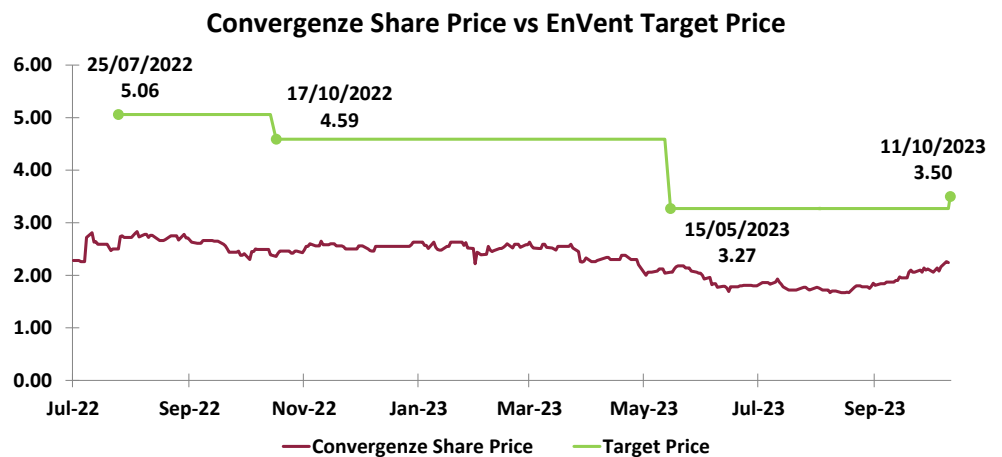
Source: EnVent Research on S&P Capital IQ, 11/10/2023

Our valuation of Convergence incorporates both the DCF analysis and market references for the two BUs, as indicated by SoP method. This results in a target price upgrade to €3.50, from €3.27. With a potential upside of 56% compared to the current share price, we reaffirm our OUTPERFORM rating on the stock.

Please refer to important disclosures at the end of this report.

Convergence Price per Share	€
<b>Target Price</b>	<b>3.50</b>
Current Share Price (10/10/2023)	2.24
<b>Premium (Discount)</b>	<b>56%</b>

Source: EnVent Research



Source: EnVent Research on S&P Capital IQ, 11/10/2023

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## STOCK RATINGS

The “OUTPERFORM”, “NEUTRAL”, AND “UNDERPERFORM” recommendations are based on the expectations within a 12-month period from the date of rating indicated in the front page of this publication.

Equity ratings and valuations are issued in absolute terms, not relative to market performance.

Rating system and rationale (12-month time horizon):

OUTPERFORM: stocks are expected to have a total return above 10%;

NEUTRAL: stocks are expected to have a performance between -10% and +10% consistent with market or industry trend and appear less attractive than Outperform rated stocks;

UNDERPERFORM: stocks are among the least attractive in a peer group, with the target price 10% below the current market price;

UNDER REVIEW: target price under review, waiting for updated financial data, or other key information such as material transactions involving share capital or financing;

SUSPENDED: no rating/target price assigned, due to material uncertainties or other issues that seriously impair our previous investment ratings, price targets and earnings estimates;

NOT RATED: no rating or target price assigned.

Some flexibility on the limits of the total return rating ranges is permitted, especially during high market volatility cycles.

The stock price indicated in the report is the last closing price on the day of Production.

Date and time of Production: 10/10/2023 h. 7.00pm

Date and time of Distribution: 11/10/2023 h. 6.40pm

## DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Date	Recommendation	Target Price (€)	Share Price (€)
25/07/2022	OUTPERFORM	5.06	2.50
17/10/2022	OUTPERFORM	4.59	2.39
15/05/2023	OUTPERFORM	3.27	2.04
11/10/2023	OUTPERFORM	3.50	2.24

## ENVENT RECOMMENDATION DISTRIBUTION (October 9<sup>th</sup>, 2023)

Number of companies covered:	23	OUTPERFORM	NEUTRAL	UNDERPERFORM	SUSPENDED	UNDER REVIEW	NOT RATED
Total Equity Research Coverage %		83%	9%	0%	4%	4%	0%
of which EnVent clients % *		74%	50%	na	100%	0%	na

\* Note: Companies to which corporate and capital markets services were supplied in the last 12 months.

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