

A2A

Sector: Utilities

NEUTRAL

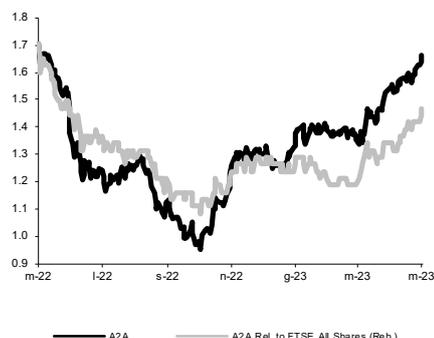
Price: Eu1.66 – Target: Eu1.70

Very Robust Results, Guidance Slightly Improved

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 1.50 to 1.70		
	2023E	2024E	2025E
Chg in Adj EPS	5.8%	4.2%	3.2%

A2A - 12M Performance



Stock Data			
Reuters code:	A2.MI		
Bloomberg code:	A2A IM		
Performance	1M	3M	12M
Absolute	7.7%	19.8%	-2.3%
Relative	9.3%	20.6%	-15.3%
12M (H/L)	1.67/0.95		
3M Average Volume (th):	10,669.72		

Shareholder Data	
No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	5,208
Total Mkt Cap (Eu mn):	5,208
Mkt Float - Ord (Eu mn):	2,196
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data	
Book Value (Eu mn):	4,022
BVPS (Eu):	1.28
P/BV:	1.3
Net Financial Position (Eu mn):	-4,723
Enterprise Value (Eu mn):	10,688

■ **1Q23 results.** On the macro front, 1Q saw a further reduction in electricity and gas prices, after the dramatic spikes recorded in August last year. The electricity PUN declined to Eu157/MWh from Eu244/MWh in 4Q22 and Eu472/MWh in 3Q22, while the gas PSV to Eu57/MWh from Eu96/MWh and Eu198/MWh respectively. Electricity demand in Italy remained under pressure, down 4% YoY; on the production front, thermal was down 14% YoY, while among renewables, hydro was up 1% YoY, wind down 3%, and solar up 4%. As for gas, demand was down 18% YoY (residential -17%, thermal powergen -27%, industrial -13%), confirming the very robust contraction recorded in 2H22. Against this still quite complex macro backdrop, A2A reported very solid figures, slightly above our expectations thanks primarily to stronger-than-expected margins at Generation & Trading. On the financial side, net debt was slightly up sequentially, as expected. In detail: group EBITDA closed at Eu500mn, ordinary EBITDA at Eu492mn (+28% YoY, vs. exp. Eu479mn) and ordinary net income at Eu173mn (+63% YoY, vs. exp. Eu143mn). On the balance sheet, net debt increased to Eu4.37bn from Eu4.26bn as at YE22, reflecting a working capital expansion of Eu360mn, as partial reversal of the robust reduction recorded in 4Q22.

■ **Divisional results.** At divisional level, Generation & Trading reported EBITDA of Eu179mn (+42% YoY, vs. exp. Eu155mn, hedging strategies on CCGT and coal and additional renewables capacity, partly offset by weaker MSD margins and still weak hydro production); Market Eu48mn (vs. Eu-21mn in 1Q22, vs. exp. Eu50mn, contract repricing, increased mass-market customer base); Heat Eu58mn (-22% YoY, vs. exp. Eu65mn, lower volumes/prices); Networks Eu100mn (+10% YoY, vs. exp. Eu91mn, increase in the permitted revenue constraint and higher electricity connection fees) and Waste Eu122mn (-1% YoY, vs. exp. Eu125mn, higher margins for Collection, lower availability of WTE plants due to extraordinary maintenance).

■ **2023 guidance slightly improved.** Thanks to the very strong results recorded in 1Q and a positive market outlook, A2A slightly improved its 2023 guidance, with EBITDA seen at Eu1,640-1,680mn from the previous Eu1,600-1,640mn (+2%) and net income at Eu390-410mn from the previous Eu380-390mn (+4%). On the financial side, the YE23 net debt/EBITDA ratio is still seen below 3.0x.

■ **Updated estimates and valuation.** Following 1Q23 results, we have increased our projections (2023-24 EBITDA +3% and +2%) primarily to reflect higher margins at Generation & Trading, partly offset by slightly lower ones at Heat. In terms of the valuation, we are increasing our target price from Eu1.50ps to Eu1.70ps, still based on a mix of DCF and market multiples.

■ **Investment case.** 1Q23 results highlighted stronger-than-expected margins at Generation & Trading, just partly offset by slightly weaker ones at Heat and Waste. On the financial front, net debt was slightly up vs. YE22 due to a seasonal working capital expansion after the stronger-than-expected reduction recorded in 4Q22. We maintain our NEUTRAL recommendation on the stock as at current prices we see more upside on other names in the Italian Utilities sector.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	11,549	20,605	20,478	20,482	20,447
EBITDA Adj (Eu mn)	1,397	1,502	1,671	1,761	1,869
Net Profit Adj (Eu mn)	400	380	406	436	481
EPS New Adj (Eu)	0.128	0.121	0.130	0.139	0.154
EPS Old Adj (Eu)	0.128	0.121	0.122	0.133	0.149
DPS (Eu)	0.090	0.090	0.093	0.096	0.099
EV/EBITDA Adj	7.2	6.2	6.4	6.2	6.0
EV/EBIT Adj	15.3	13.5	13.7	13.4	12.9
P/E Adj	13.0	13.7	12.8	12.0	10.8
Div. Yield	5.4%	5.4%	5.6%	5.8%	5.9%
Net Debt/EBITDA Adj	2.9	2.8	2.8	2.8	2.8