

A2A

Sector: Utilities

NEUTRAL

Price: Eu1.68 - Target: Eu1.90

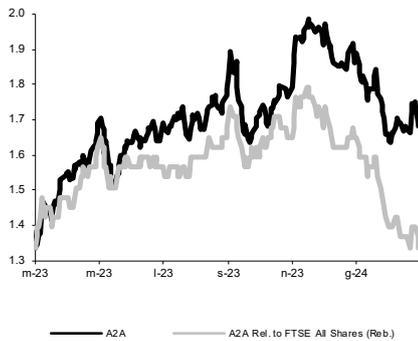
Shifting Focus towards Electrification of Consumption

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 2.00 to 1.90		
	2024E	2025E	2026E
Chg in Adj EPS	2.6%	-10.8%	-14.6%

A2A - 12M Performance



Stock Data

Reuters code:	A2.MI		
Bloomberg code:	A2A IM		
Performance	1M	3M	12M
Absolute	1.6%	-12.0%	24.1%
Relative	-5.3%	-23.1%	2.3%
12M (H/L)	1.99/1.34		
3M Average Volume (th):	11,701.96		

Shareholder Data

No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	5,274
Total Mkt Cap (Eu mn):	5,274
Mkt Float - Ord (Eu mn):	2,224
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data

Book Value (Eu mn):	4,529
BVPS (Eu):	1.45
P/BV:	1.2
Net Financial Position (Eu mn):	-6,227
Enterprise Value (Eu mn):	12,273

■ **FY23 results.** After releasing preliminary results in late February, A2A unveiled full 2023 figures. Ordinary EBITDA closed at Eu1,930mn (+28% YoY), in line with the preliminary figure, EBIT was Eu1,017mn (+48% YoY, vs. exp. Eu1,018mn), ordinary net income came in at Eu635mn (+67% YoY, vs. exp. Eu565mn), benefitting from lower taxes. On the balance sheet, net debt closed at Eu4,683mn (2.4x net debt/EBITDA), in line with the preliminary figure. The dividend was set at Eu0.0958ps (+6% YoY, vs. Eu0.093ps expected).

■ **2023-35 business plan: strategic guidelines.** The new 2024-35 Business Plan shows strategic continuity with last year's. With the aim of contributing to the achievement of national and international decarbonisation targets, the Group aims to increase its leadership in the electrification of consumption, the development of renewables and the circular economy. Decarbonisation characterises the entire Plan, with the 2030 target confirmed and the 2035 target reinforced, and a forecast of a 65% reduction in the Group's overall emission factor compared to the 2017 figure.

■ **Financial targets.** 2024 EBITDA has been indicated at Eu2.00-2.02bn, 2026 at Eu2.2bn (vs. Eu2.1bn in last year plan) with a different mix: lower Generation, higher Market and Smart Infrastructures (contribution of Enel grid), slightly lower Waste; 2030 confirmed at Eu2.6bn; 2035 seen in excess of Eu3.2bn. At bottom line, A2A gave an indication for 2024 of Eu570-590mn, while 2026 continues to be seen at Eu600mn, 2030 at Eu700mn, and 2035 in excess of Eu1.0bn. More than 40% of EBITDA, both in 2026 and 2030, is regulated or contractualised, and characterised by low volatility.

■ **Capital structure and dividend policy.** A2A confirmed its focus on a balanced and sustainable capital structure aimed at maintaining the Group's credit profile at a solid investment grade. A2A plans to sell minority stakes (in the Networks and Waste segments, we suppose) for around Eu0.6bn in 2024-25, allowing it to maintain the NFP/EBITDA ratio below 2.8x (before gradually declining to below 2.4x at the end of the Plan). The FFO/net debt ratio is projected to stay at around 25% until 2030, in compliance with the metrics required by the agencies to maintain the current rating. The dividend policy has been confirmed, with a 3% CAGR (Eu0.099 DPS in 2023).

■ **Updated estimates and valuation.** We have updated our projections primarily to reflect lower electricity prices and slightly lower margins in Waste, partly offset by higher hydro production, slightly higher margins in the Market segment and the contribution of Enel Grid starting from 2025. As for the valuation, we are trimming our target price from Eu2.00ps to Eu1.90ps, with the new lower projections partly offset by a lower WACC.

■ **Investment case.** The new 2024-35 Strategic Plan highlighted a clear acceleration of CapEx towards Electricity Networks, with A2A aiming at supporting consumption electrification in its core geographical areas. While we appreciate this strategic approach, we continue to see pressures on electricity and gas prices as a key negative catalyst for the stock in the short term, capping a potential share price recovery. We confirm our NEUTRAL recommendation.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	23,166	14,743	13,745	12,422	12,767
EBITDA Adj (Eu mn)	1,502	1,930	2,044	2,043	2,056
Net Profit Adj (Eu mn)	380	635	588	521	514
EPS New Adj (Eu)	0.121	0.203	0.188	0.166	0.164
EPS Old Adj (Eu)	0.121	0.180	0.183	0.186	0.192
DPS (Eu)	0.090	0.096	0.099	0.102	0.105
EV/EBITDA Adj	6.2	5.5	6.0	5.8	5.9
EV/EBIT Adj	13.5	10.4	11.4	11.8	12.1
P/E Adj	13.9	8.3	9.0	10.1	10.3
Div. Yield	5.4%	5.7%	5.9%	6.0%	6.2%
Net Debt/EBITDA Adj	2.8	2.4	3.0	2.9	2.9

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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