Intermonte

Milan, 14 May 2025

Italian Equity Research – 1Q25 results

A2A

NEUTRAL

Sector: Utilities

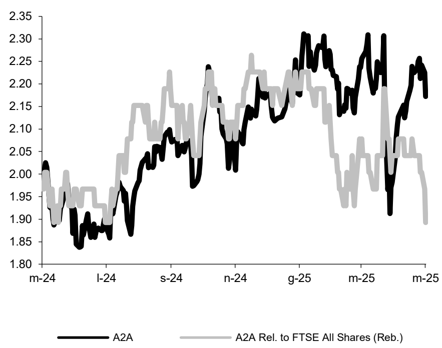
Price: Eu2.17 - **Target: Eu2.40**

1Q25 Results Slightly Better, FY25 Guidance Confirmed

Paolo Citi +39-02-77115.430
paolo.citi@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2025E	**2026E**	**2027E**
Chg in Adj EPS	1.8%	1.3%	1.4%

A2A - 12M Performance



Stock Data			
Reuters code:			A2.MI
Bloomberg code:			A2A IM
Performance	**1M**	**3M**	**12M**
Absolute	9.6%	-2.6%	10.4%
Relative	-8.1%	-8.4%	-4.4%
12M (H/L)			2.31/1.84
3M Average Volume (th):			12,005.17

Shareholder Data	
No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	6,805
Total Mkt Cap (Eu mn):	6,805
Mkt Float - Ord (Eu mn):	2,870
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data	
Book Value (Eu mn):	5,841
BVPS (Eu):	1.86
P/BV:	1.2
Net Financial Position (Eu mn):	-5,633
Enterprise Value (Eu mn):	13,870

- **1Q25 results.** On the macro front, 1Q25 saw a further slight increase in electricity prices, driven upwards by higher gas and CO_2 prices. The electricity PUN averaged Eu138/MWh (+50% YoY and +8% QoQ), with the gas PSV at Eu49/MWh (+66% and +9%) and EU CO_2 at Eu74/ton (+23% and +10%). On the electricity production side, both hydro and wind were down, while thermal was up, underpinning gas demand. In this context, A2A reported solid figures, slightly above our expectations thanks primarily to stronger-than-expected margins at Market, Waste and Electricity Distribution. On the financial side, net debt was down sequentially, by a greater amount than expected. In detail: group EBITDA closed at Eu675mn, ordinary EBITDA at Eu672mn (-4% YoY, vs. exp. Eu652mn) and ordinary net income at Eu252mn (-14% YoY, vs. exp. Eu235mn). On the balance sheet, net debt declined to Eu5,616mn (vs. exp. Eu5,725mn) from Eu5,835mn as at YE24 (Eu101mn working capital reduction in the quarter), with the net debt/EBITDA ratio declining to 2.4x from 2.5x.
- **Divisional results.** A2A established a new Business Unit called Circular Economy, into which the Waste, Heat and Water activities have been merged. Looking at the different divisions' results, Generation & Trading reported EBITDA of Eu224mn (-25% YoY, vs. exp. Eu225mn, lower hydro volumes, -20% YoY, and less opportunities for gas supply optimisation, partly offset by higher CCGT production, +68% YoY, and Capacity Market); Market Eu133mn (-1% YoY, vs. exp. Eu125mn, higher contribution from the mass market segment, offset by a lower one from large customers and loss of 'Safeguard', -Eu12mn). Circular Economy reported EBITDA of Eu202mn (+4% YoY, vs. exp. Eu193mn), with Waste at Eu119mn (+2% YoY, vs. exp. Eu110mn, higher prices at Treatment, partly offset by lower ones in Collection), Heat at Eu64mn (+12%, higher electricity and heat prices) and Water at Eu19mn (-5%). Smart Infrastructure closed at Eu122mn (+37% YoY, vs. exp. Eu119mn), with Electricity Distribution at Eu72mn (+85% YoY, thanks to the consolidation of Duereti, formerly ENEL's grid, +Eu23mn) and Gas distribution at Eu43mn (flat YoY).
- **2025 guidance confirmed, in the upper part.** A2A confirmed its 2025 guidance, with EBITDA seen at Eu2,170-2,200mn and net income at Eu680-700mn. On the financial side, A2A confirmed expectations to close the year with an NFP/EBITDA ratio below 2.7x.
- **Updated estimates and valuation.** Following 1Q25 results, we are fine-tuning our operating projections, with slightly higher numbers for Market and Electricity Distribution largely offset by slightly lower ones for Generation & Trading. We are also trimming net financial charges and taxes, resulting in an increase of roughly 2% in EPS. Our updated Group projections continue to be in the upper part of the 2025 guidance ranges for both EBITDA and net income. In terms of the valuation, we are confirming our target price of Eu2.40ps, still based on a mix of DCF and market multiples.
- **Investment case.** We downgraded the stock to NEUTRAL at the end of March with 4Q24 results, highlighting a potential deceleration in earnings momentum for the stock in the coming months. After having surprised on the upside every quarter over the last two years, fuelling repeated guidance upgrades, we now see more limited room for significant earnings upgrades on 2025-26 numbers. NEUTRAL confirmed.

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales (Eu mn)	14,758	12,857	11,441	10,790	10,119
EBITDA Adj (Eu mn)	1,930	2,317	2,237	2,250	2,315
Net Profit Adj (Eu mn)	635	816	705	705	700
EPS New Adj (Eu)	0.203	0.261	0.225	0.225	0.223
EPS Old Adj (Eu)	0.203	0.261	0.221	0.222	0.220
DPS (Eu)	0.096	0.100	0.104	0.108	0.112
EV/EBITDA Adj	5.5	5.7	6.2	6.3	6.2
EV/EBIT Adj	10.4	10.0	11.6	11.8	12.0
P/E Adj	10.7	8.3	9.7	9.7	9.7
Div. Yield	4.4%	4.6%	4.8%	5.0%	5.2%
Net Debt/EBITDA Adj	2.4	2.5	2.5	2.6	2.7

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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.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
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;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
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.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.
As at 31 March 2025 Intermonte's Research Department covered 131 companies.
As of today Intermonte's distribution of stock ratings is as follows:

BUY:	32.59 %
OUTPERFORM:	37.78 %
NEUTRAL:	29.63 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

As at 31 March 2025 the distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (74 in total) is as follows:

BUY:	52.70 %
OUTPERFORM:	29.73 %
NEUTRAL:	17.57 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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