

A2A

Sector: Utilities

NEUTRAL

Price: Eu1.86 - Target: Eu2.00

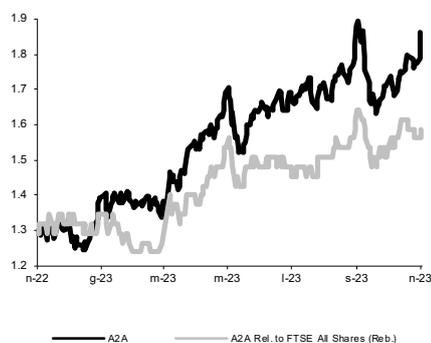
Results Beat Expectations, Guidance Raised Again

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 1.80 to 2.00		
	2023E	2024E	2025E
Chg in Adj EPS	21.9%	19.8%	20.4%

A2A - 12M Performance



Stock Data

Reuters code:	A2.MI		
Bloomberg code:	A2A IM		
Performance	1M	3M	12M
Absolute	8.2%	8.2%	44.1%
Relative	3.9%	5.4%	26.6%
12M (H/L)	1.89/1.24		
3M Average Volume (th):	7,897.25		

Shareholder Data

No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	5,832
Total Mkt Cap (Eu mn):	5,832
Mkt Float - Ord (Eu mn):	2,459
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data

Book Value (Eu mn):	4,197
BVPS (Eu):	1.34
P/BV:	1.4
Net Financial Position (Eu mn):	-4,756
Enterprise Value (Eu mn):	11,354

■ **3Q23 results.** A2A's 3Q23 results exceeded our expectations, primarily underpinned by stronger figures in the Generation & Trading and Market divisions. Group ordinary EBITDA closed at Eu479mn (+12% YoY, vs. exp. Eu465mn) and ordinary net income at Eu145mn (+9% YoY, vs. exp. Eu134mn). Looking at the various business areas, Generation & Trading reported EBITDA of Eu234mn (+4% YoY, vs. exp. Eu235mn, supported by positive hydraulicity effects, optimisation of hedging strategies and higher renewable volumes, partly offset by lower MSD margins and lower thermal production), Market Eu83mn (+34% YoY, vs. exp. Eu75mn, supported by a positive contribution from the large customers' segment & Safeguard market and an increased customer base in the free mass market), Heat Eu-6mn (vs. Eu-2mn in 3Q22, exp. zero, lower heat volumes partly offset by newly acquired A2A airport contribution), Networks Eu102mn (+21% YoY, vs. exp. Eu90mn, higher allowed revenues and connection contributions in Electricity & Gas, lower electricity costs in Water), and Waste Eu75mn (-6% YoY, in line, lower availability of WTE plants due to extraordinary maintenance). On the balance sheet, net debt slightly increased QoQ to Eu4,469mn (vs. exp. Eu4,443mn) from Eu4,372mn at the end of June.

■ **2023 guidance raised again.** Thanks to the robust 9M23 figures and hydro basins at full capacity, A2A improved its 2023 EBITDA guidance, now seen in the Eu1,880-1,920mn range from the previous Eu1,740-1,780mn (+8%). This translated into a further increase for the bottom line, with ordinary net income now seen at Eu550-570mn from the previous Eu450-470mn (+20%). On the financial front, CapEx was indicated at around Eu1.3bn, while the YE23 net debt/EBITDA ratio is expected to stay below 2.6x.

■ **2024 outlook:** Looking ahead to 2024, A2A sees a flattish scenario in terms of commodity prices. On hydro volumes, A2A guided for an increase of roughly 10% YoY (3.8-3.9TWh in 2024 vs. 3.6TWh in 2023), with around 60% of the budget production already sold at forward prices in excess of Eu150/MWh. In the Market segment A2A sees the possibility of slightly higher margins, thanks primarily to a higher customer base. Looking at Group EBITDA, A2A considers 2023 levels to be sustainable, with added industrial growth (that we quantify in around Eu100mn).

■ **Updated estimates and valuation.** Following 3Q23 results we are updating our 2023-24 projections, primarily to reflect higher margins in the Generation & Trading and Market divisions. We are increasing 2023-24 Group EBITDA by around 7%, while lifting the bottom line by around 20%. In terms of the valuation, we are moving our target price to Eu2.00ps from Eu1.80ps, with raised projections more than offsetting a higher WACC (risk-free rate moved to 4.50% from 4.00%).

■ **Investment case.** A2A once again reported better-than-expected results, confirming the robust margin improvements recorded in 1H23. While we appreciate A2A's very strong operational performance and the supportive industrial macro scenario, we maintain a NEUTRAL recommendation on the stock, following the very robust share price performance recorded YTD and the limited upside to our updated target price.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	11,718	23,673	20,818	20,747	20,784
EBITDA Adj (Eu mn)	1,397	1,502	1,906	2,007	2,028
Net Profit Adj (Eu mn)	400	380	559	573	583
EPS New Adj (Eu)	0.128	0.121	0.178	0.183	0.186
EPS Old Adj (Eu)	0.128	0.121	0.146	0.153	0.155
DPS (Eu)	0.090	0.090	0.093	0.096	0.099
EV/EBITDA Adj	7.3	6.2	6.0	5.7	5.7
EV/EBIT Adj	15.4	13.6	11.5	11.1	11.0
P/E Adj	14.6	15.3	10.4	10.2	10.0
Div. Yield	4.9%	4.9%	5.0%	5.2%	5.3%
Net Debt/EBITDA Adj	2.9	2.8	2.5	2.4	2.4