A2A

NEUTRAL

Sector: Utilities

Price: Eu1.37 - **Target: Eu1.50**

2023 EBITDA Guidance Raised Slightly

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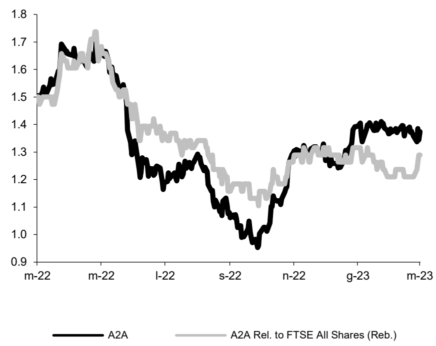
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 1.40 to 1.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	3.7%	4.0%	3.4%

A2A - 12M Performance



Stock Data			
Reuters code:			A2.MI
Bloomberg code:			A2A IM
Performance	**1M**	**3M**	**12M**
Absolute	-0.7%	8.2%	-8.4%
Relative	6.0%	-0.9%	-14.2%
12M (H/L)			1.70/0.95
3M Average Volume (th):			9,703.10

Shareholder Data	
No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	4,305
Total Mkt Cap (Eu mn):	4,305
Mkt Float - Ord (Eu mn):	1,815
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data	
Book Value (Eu mn):	3,999
BVPS (Eu):	1.28
P/BV:	1.1
Net Financial Position (Eu mn):	-4,686
Enterprise Value (Eu mn):	9,607

- **FY22 results:** after releasing preliminary results in late February (ordinary EBITDA Eu1.50bn, net debt Eu4.26bn), A2A has now unveiled full 2022 figures. Ordinary EBITDA closed at Eu1,502mn (+8% YoY), EBIT was Eu687mn (+4% YoY, vs. Eu678mn expected), net income came to Eu401mn, and ordinary net income came in at Eu380mn (-5% YoY, vs. Eu367mn expected). On the balance sheet, net debt closed at Eu4,258mn (2.8x net debt/EBITDA), in line with the preliminary figure. The ordinary dividend was set at Eu0.0904ps (vs. Eu0.0824ps expected), of which Eu0.0849ps recurring and Eu0.0055ps as a non-recurring component.
- **Divisional results.** Looking at the different divisions, Generation & Trading reported FY22 EBITDA of Eu554mn (+51% YoY, vs. exp. Eu546mn); Market Eu125mn (-41% YoY, vs. exp. Eu120mn); Heat Eu135mn (+26% YoY, vs. exp Eu134mn); Networks Eu383mn (-11% YoY, vs. exp. Eu370mn); Waste Eu359mn (+5% YoY, vs. exp. Eu367mn).
- **2023 EBITDA guidance raised slightly.** A2A increased its 2023 EBITDA guidance slightly, now indicating Eu1,600-1,640mn, from Eu1,600mn previously, despite the current dramatic drought conditions in Northern Italy penalising hydro production (A2A is assuming 3.5TWh for FY23). This primarily reflects expectations for higher margins in the Market segment (positive commercial campaign and 'Mercato Salvaguardia'). By contrast, net income was confirmed at Eu380-390mn, reflecting slightly higher provisions. Moving to the balance sheet, A2A confirmed the target of maintaining a net debt/EBITDA ratio below 3.0x, implying YE23 net debt below Eu4.9bn. Dividend policy confirmed, with a +3% CAGR.
- **Energy Transition and Sustainable Finance.** Thanks to both organic growth and M&A, A2A's installed capacity in renewable energy increased to 2.5GW at YE22 (up 12% YoY), with production from wind and solar plants reaching 638GWh (+104% YoY). On the financial side, A2A placed in 2022 three bonds in ESG format for a total of Eu1.75bn (one Sustainability-Linked Bond for Eu500mn and two Green Bonds for Eu600mn and Eu650mn respectively to finance the Group's investment projects). A few weeks ago, A2A placed a new Green Bond for Eu500mn.
- **Updated estimates and valuation.** We are fine-tuning our 2023 projections to reflect lower hydro production, offset by higher margins in the Market segment. Our new updated projections are now in the middle of the guidance ranges for both EBITDA and net income. We are also slightly increasing our DPS projections. As for the valuation, we are slightly raising our target price from Eu1.40 to Eu1.50, primarily to reflect the lower-than-expected net debt recorded at YE22.
- **Investment case.** 4Q22 results highlighted slightly stronger-than-expected margins in both Generation & Trading and Market, while Waste was weaker. On the financial front, net debt showed a sharp sequential reduction, primarily thanks to working capital improvement. While this trend could see a partial reversal in 1H23, we appreciate A2A's ongoing deleveraging process, as well as the confirmation of the dividend policy. We maintain our NEUTRAL recommendation on the stock for the time being, as 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	20,425	20,447	20,412
EBITDA Adj (Eu mn)	1,397	1,502	1,623	1,726	1,834
Net Profit Adj (Eu mn)	400	380	384	418	467
EPS New Adj (Eu)	0.128	0.121	0.122	0.133	0.149
EPS Old Adj (Eu)	0.128	0.117	0.118	0.128	0.144
DPS (Eu)	0.090	0.090	0.093	0.096	0.099
EV/EBITDA Adj	7.1	6.1	5.9	5.8	5.5
EV/EBIT Adj	15.1	13.3	13.1	12.7	12.1
P/E Adj	10.8	11.3	11.2	10.3	9.2
Div. Yield	6.6%	6.6%	6.8%	7.0%	7.2%
Net Debt/EBITDA Adj	2.9	2.8	2.9	2.9	2.8