

A2A

Sector: Utilities

NEUTRAL

Price: Eu1.68 - Target: Eu1.70

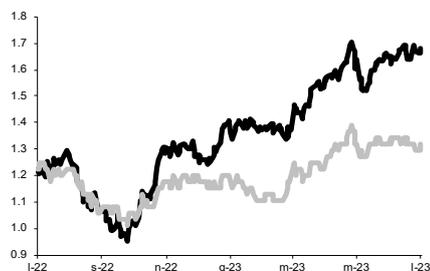
Another Solid Quarter in Sight, Potential Upside on Guidance

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| Stock Rating | | | |
|--------------------|-----------|-------|-------|
| Rating: | Unchanged | | |
| Target Price (Eu): | Unchanged | | |
| | 2023E | 2024E | 2025E |
| Chg in Adj EPS | 0.0% | 0.0% | 0.0% |

Next Event
 2Q23 Results Out 28 July

A2A - 12M Performance



| Stock Data | | | |
|-------------------------|-----------|------|-------|
| Reuters code: | A2.MI | | |
| Bloomberg code: | A2A IM | | |
| Performance | 1M | 3M | 12M |
| Absolute | 2.0% | 7.0% | 37.3% |
| Relative | -0.9% | 4.9% | 8.0% |
| 12M (H/L) | 1.70/0.95 | | |
| 3M Average Volume (th): | 10,848.67 | | |

| Shareholder Data | |
|--------------------------------------|-------|
| No. of Ord shares (mn): | 3,133 |
| Total no. of shares (mn): | 3,133 |
| Mkt Cap Ord (Eu mn): | 5,263 |
| Total Mkt Cap (Eu mn): | 5,263 |
| Mkt Float - Ord (Eu mn): | 2,220 |
| 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): | 10,752 |

- **A2A reports 2Q23 results on 28 July**, with the press release due out at lunchtime and the conference call scheduled for 15.30 CEST on the same day.
- **2Q23 results preview.** On the macro front, 2Q23 saw a further reduction in electricity and gas prices, after the dramatic spikes recorded in August last year. The electricity PUN declined to Eu120/MWh from Eu472/MWh in 3Q22, while the gas PSV went down to Eu35/MWh from Eu198/MWh. Electricity demand in Italy remained under pressure, down 6.7% YoY in the quarter. On the production front, thermal was down 20% YoY, while among renewables, hydro was up 28% YoY and solar 5%, but wind was down 2%. In this context, we expect A2A's 2Q23 results to confirm the robust margin improvements recorded in 1Q23, primarily underpinned by stronger figures in the Generation & Trading and Market divisions. Moving to Group P&L figures, we project ordinary EBITDA of Eu363mn (+16% YoY) and net income of Eu72mn (-10% YoY). Looking at the various business areas, we project EBITDA of Eu125mn for Generation & Trading (+32% YoY), Eu62mn for Market (+114% YoY), Eu3mn for Heat (-70% YoY), Eu99mn for Networks (-12% YoY), and Eu84mn for Waste (flat YoY). On the balance sheet, net debt is expected to have remained broadly stable QoQ at around Eu4.4bn, with the net cash-out from the dividend payment and M&A largely offset by the expected reabsorption of working capital.
- **2023 guidance.** With 1Q23 results A2A slightly improved its 2023 guidance, reflecting the very strong figures recorded in the quarter and a positive market outlook. EBITDA was indicated 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 was confirmed below 3.0x. We would not rule out potentially higher P&L targets, reflecting the clawback expiry and higher hydroelectricity volumes.
- **Estimates and valuation.** Ahead of 2Q23 results we are leaving our projections unchanged, even if we see some potential upside on our current numbers for the Generation & Trading and Market divisions. We remind that after 1Q23 results we raised our projections (2023-24 EBITDA +3% and +2%) primarily to reflect a return to higher margins in the Generation & Trading segment.
- **Investment case.** We expect A2A's 2Q23 results to confirm the robust margin improvements recorded in 1Q23, primarily underpinned by stronger figures in the Generation & Trading and Market divisions. Focus will be on the impact of the clawback expiry, which we quantify at around Eu120mn for 2H23, on updated assumptions for FY23 hydroelectricity volumes (3.3TWh indication with 1Q23 results) and expected margin developments in the thermoelectric segment. Our NEUTRAL recommendation on the stock reflects the current limited upside at our target price.

| 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 | 1,663 | 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 | 0.130 | 0.139 | 0.154 |
| DPS (Eu) | 0.090 | 0.090 | 0.093 | 0.096 | 0.099 |
| EV/EBITDA Adj | 7.2 | 6.2 | 6.5 | 6.3 | 6.0 |
| EV/EBIT Adj | 15.3 | 13.5 | 13.8 | 13.5 | 13.0 |
| P/E Adj | 13.2 | 13.9 | 13.0 | 12.1 | 10.9 |
| Div. Yield | 5.4% | 5.4% | 5.5% | 5.7% | 5.9% |
| Net Debt/EBITDA Adj | 2.9 | 2.8 | 2.8 | 2.8 | 2.8 |

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