

# A2A

Sector: Utilities

# NEUTRAL

Price: Eu1.68 – Target: Eu1.80

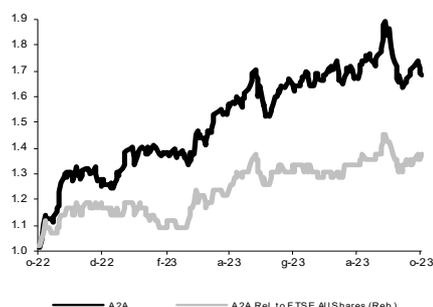
## Another Robust Quarter in Sight

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Stock Rating				
Rating:	Unchanged			
Target Price (Eu):	Unchanged			
	2023E	2024E	2025E	
Chg in Adj EPS	0.1%	0.0%	0.1%	

**Next Event**  
 3Q23 Results Out 14 November

### A2A - 12M Performance



Stock Data			
Reuters code:	A2.MI		
Bloomberg code:	A2A IM		
Performance	1M	3M	12M
Absolute	-9.9%	-0.1%	64.6%
Relative	-3.4%	5.4%	41.1%
12M (H/L)	1.89/1.01		
3M Average Volume (th):	8,167.91		

Shareholder Data	
No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	5,271
Total Mkt Cap (Eu mn):	5,271
Mkt Float - Ord (Eu mn):	2,223
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data	
Book Value (Eu mn):	4,097
BVPS (Eu):	1.31
P/BV:	1.3
Net Financial Position (Eu mn):	-4,721
Enterprise Value (Eu mn):	10,753

■ **3Q23 results preview.** On the macro front, both electricity and gas prices were broadly stable QoQ, with the PUN at Eu113/MWh (vs. Eu115/MWh in 2Q23 and Eu472/MWh in 3Q22) and the PSV at Eu34/MWh (vs. Eu35/MWh and Eu198/MWh respectively). Electricity demand in Italy remained under pressure in July and August before slight recovering in September (3Q23 down 1.4% YoY). On the production front, all renewable sources were up (hydro +43% YoY, wind +20%, solar +17%), confirming the recovering trend that started in 2Q23, while thermal was down 15%. In this context, we expect A2A's 3Q23 results to show very solid figures once again in the Energy segment, with both Generation & Trading and Market expected to record improving margins. Generation is expected to benefit from higher hydro volumes and higher average selling prices (the price cap expired at the end of June), partly offset by 'more normalized' revenues on the DSM/Capacity after the record high figures posted in 3Q22. The Market segment in turn should continue to benefit from margin recovery on fixed price contracts and an increased mass-market customer base. Moving to Group P&L figures, we project ordinary EBITDA at Eu465mn (+9% YoY) and net income at Eu134mn (+1% YoY). Looking at the various business areas, we project EBITDA of Eu235mn for Generation & Trading (+5% YoY), Eu75mn for Market (+21% YoY), zero for Heat (-Eu2mn in 3Q22), Eu90mn for Networks (+7% YoY), and Eu75mn for Waste (-6% YoY, delays in starting up new plants). On the balance sheet, net debt is expected to have slightly increased QoQ to Eu4,443mn from Eu4,372mn as at the end of June, with cash-flow in part penalized by the payment of the last instalment of windfall profit taxes.

■ **2023 guidance.** With 2Q23 results, A2A improved its 2023 EBITDA guidance by Eu100mn, seen in the Eu1,740-1,780mn range from the previous Eu1,640-1,680mn (+7%). This translated into a robust increase for the bottom line, with ordinary net income seen at Eu450-470mn from the previous Eu390-410mn (+15%). On the financial front, CapEx was confirmed at Eu1.4bn, while the YE23 net debt/EBITDA ratio was expected to stay below 2.8x. We expect A2A to confirm these indications, potentially guiding for the top of the EBITDA and net income ranges.

■ **Estimates and valuation.** Ahead of 3Q23 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. As a reminder, following 2Q23 results we raised our projections (2023-24 EBITDA +5%) to reflect higher margins at the Generation & Trading and Market divisions.

■ **Investment case.** We expect A2A's 3Q23 results to confirm the robust margin improvements recorded in 1H23, primarily underpinned by stronger figures at the Generation & Trading and Market divisions. 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)	11,718	23,673	20,753	20,615	20,694
EBITDA Adj (Eu mn)	1,397	1,502	1,764	1,849	1,907
Net Profit Adj (Eu mn)	400	380	458	478	484
EPS New Adj (Eu)	0.128	0.121	0.146	0.153	0.155
EPS Old Adj (Eu)	0.128	0.121	0.146	0.153	0.154
DPS (Eu)	0.090	0.090	0.093	0.096	0.099
EV/EBITDA Adj	7.2	6.2	6.1	6.0	5.9
EV/EBIT Adj	15.3	13.5	12.6	12.1	12.1
P/E Adj	13.2	13.9	11.5	11.0	10.9
Div. Yield	5.4%	5.4%	5.5%	5.7%	5.9%
Net Debt/EBITDA Adj	2.9	2.8	2.7	2.7	2.7