

A2A

Sector: Utilities

NEUTRAL

Price: Eu1.70 - Target: Eu1.80

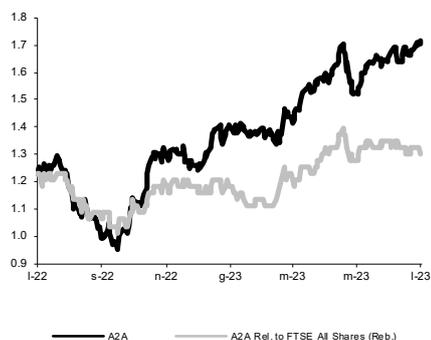
Results above Expectations, Guidance Improved

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 1.70 to 1.80		
	2023E	2024E	2025E
Chg in Adj EPS	12.8%	9.8%	0.5%

A2A - 12M Performance



Stock Data

Reuters code:	A2.MI		
Bloomberg code:	A2A IM		
Performance	1M	3M	12M
Absolute	2.3%	6.4%	38.5%
Relative	-3.9%	-1.4%	7.3%
12M (H/L)	1.72/0.95		
3M Average Volume (th):	10,898.94		

Shareholder Data

No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	5,335
Total Mkt Cap (Eu mn):	5,335
Mkt Float - Ord (Eu mn):	2,250
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):	-4,720
Enterprise Value (Eu mn):	10,828

■ **2Q23 results.** 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 (A2A -47%), while among renewables, hydro was up 28% YoY (A2A +23%) and solar 5%, but wind was down 2%. In this context, A2A's 2Q23 results confirmed the robust margin improvements recorded in 1Q23, primarily underpinned by stronger figures at the Generation & Trading and Market divisions. Moving to Group P&L figures, ordinary EBITDA closed at Eu376mn (+20% YoY, vs. exp. Eu363mn) and ordinary net income at Eu84mn (+5% YoY, vs. exp. Eu72mn). On the balance sheet, net debt remained stable QoQ at Eu4,372mn (vs. exp. Eu4,427mn), with the net cash-out from the dividend payment and M&A offset by working capital reduction.

■ **Divisional results.** Looking at the various business areas, Generation & Trading reported EBITDA of Eu128mn (+35% YoY, vs. exp. Eu125mn, hedging strategies on thermal production and additional renewables capacity, partly offset by weaker MSD margins and lower CCGT production), Market Eu74mn (+155% YoY, vs. exp. Eu62mn, margin recovery on fixed price contracts, increased mass-market customer base), Heat Eu17mn (+70% YoY, vs. exp. Eu3mn, newly acquired A2A airport contribution), Networks Eu95mn (-16% YoY, vs. exp. Eu99mn, lower contribution from Public Lighting, Smart City and E-mobility), and Waste Eu81mn (-4% YoY, vs. exp. Eu84mn, lower availability of WTE plants due to extraordinary maintenance).

■ **2023 guidance improved.** Thanks to the robust figures recorded in 1H and the clawback expiry, A2A improved its 2023 EBITDA guidance by Eu100mn, now 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 now 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 is expected to stay below 2.8x.

■ **Updated estimates and valuation.** Following 2Q23 results we are updating our 2023-24 projections to reflect higher margins at the Generation & Trading and Market divisions, with Group EBITDA increasing by around 5%. By contrast, below EBITDA we have increased net financial charges while reducing taxes, leading to a 12%-10% increase in the bottom line for the next two years. In terms of the valuation, we are increasing our target price to Eu1.80ps from Eu1.70ps on the basis of our new, updated higher projections and slightly higher market multiples.

■ **Investment case.** A2A's 2Q23 results confirmed the robust margin improvements recorded in 1Q23, primarily underpinned by stronger figures at the Generation & Trading and Market divisions. Nevertheless, following the robust share price performance recorded YTD, we maintain a NEUTRAL recommendation on the stock.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	11,549	20,605	20,578	20,532	20,472
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	0.154
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	6.1	6.0	5.9
EV/EBIT Adj	15.3	13.5	12.2	12.2	12.2
P/E Adj	13.3	14.0	11.7	11.2	11.0
Div. Yield	5.3%	5.3%	5.5%	5.6%	5.8%
Net Debt/EBITDA Adj	2.9	2.8	2.7	2.7	2.7