

A2A

Sector: Utilities

OUTPERFORM

Price: Eu1.94 - Target: Eu2.40

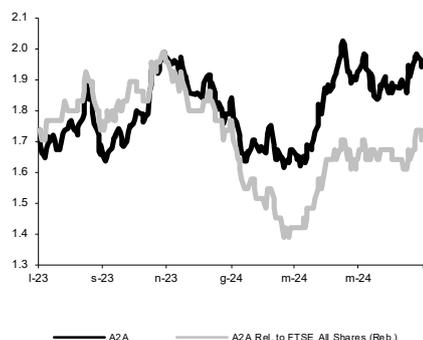
Another Set of Very Strong Results, Guidance Further Improved

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 2.30 to 2.40		
	2024E	2025E	2026E
Chg in Adj EPS	7.3%	16.1%	9.5%

A2A - 12M Performance



Stock Data

Reuters code:	A2.MI		
Bloomberg code:	A2A IM		
Performance	1M	3M	12M
Absolute	4.3%	4.6%	13.9%
Relative	2.1%	4.1%	-0.6%
12M (H/L)	2.02/1.62		
3M Average Volume (th):	11,951.21		

Shareholder Data

No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	6,078
Total Mkt Cap (Eu mn):	6,078
Mkt Float - Ord (Eu mn):	2,563
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data

Book Value (Eu mn):	5,421
BVPS (Eu):	1.73
P/BV:	1.1
Net Financial Position (Eu mn):	-5,426
Enterprise Value (Eu mn):	13,011

■ **2Q24 results.** On the macro front, both electricity and gas prices were up QoQ in 2Q24, with the PUN at Eu95/MWh and the gas PSV at Eu33/MWh, while EU CO2 prices closed at around Eu70/ton. On the electricity side, the quarter was characterized by very strong hydro production (+55% YoY), while on the gas side, demand in Italy remained under pressure (-4% YoY), penalized by weak demand from the residential thermoelectric and residential segments. In this context, A2A reported another set of very solid figures, above our expectations, thanks primarily to very robust margins in the hydroelectricity segment (higher production, higher average electricity selling prices) and higher margins in the Market segment. In detail: group ordinary EBITDA at Eu570mn (+52% YoY, vs. exp. Eu510mn), and ordinary net income at Eu184mn (+119% YoY, vs. exp. Eu162mn). On the balance sheet, net debt declined to Eu4,019mn (vs. exp. Eu4,124mn) from Eu4,755mn as at the end of March thanks to partial reabsorption of the working capital expansion recorded in 1Q and the booking of the Eu750mn hybrid bond issued at the beginning of June.

■ **Divisional results.** At divisional level, Generation & Trading reported EBITDA of Eu258mn (+102% YoY, vs. exp. Eu215mn, a very strong contribution from Renewables more than offsetting lower Thermal margins); Market Eu116mn (+57% YoY, vs. exp. Eu103mn, strong margins and growing customer base); Waste Eu99mn (+22% YoY, vs. exp. Eu85mn, sound industrial performance partly offset by negative energy scenario); Smart Infrastructure at Eu124mn (+11% YoY, vs. exp. Eu122mn, with Electricity distribution at Eu42mn, +14% YoY, Gas distribution at Eu48mn, +17%, Water at Eu19mn, +32%, and Heat at Eu8mn, -53%).

■ **2024 guidance further improved.** Thanks to the very strong results recorded in 2Q, A2A further raised its 2024 guidance, with EBITDA seen at Eu2.18-2.22bn from Eu2.08-2.12bn previously (+5%) and net income at Eu700-720mn from Eu650-670mn (+7%). On the financial side, A2A confirmed plans to maintain the NFP/EBITDA ratio below 2.8x (pre hybrid bond effect). Regarding disposals, A2A announced it has received a non-binding offer from Ascopiave for the purchase of a portfolio of assets consisting of approximately 490k gas distribution points in Lombardy (we estimate a potential EV of Eu350-400mn, EBITDA of around Eu40mn).

■ **Updated estimates and valuation.** Following 2Q24 results, we are further raising our 2024 EBITDA projections by around 4% (2025 by 7%) and net income by 7% (2025 by 16%), primarily to reflect higher margins at Generation & Trading (higher margins for hydro and a higher capacity market) and Market, just partly offset by lower ones at District Heating. On the balance sheet, we have booked the hybrid bond. In terms of the valuation, we are increasing our target price to Eu2.40ps from the previous Eu2.30ps, still based on a mix of DCF and market multiples.

■ **Investment case.** 2Q24 results highlighted much stronger-than-expected margins, primarily at Generation & Trading. Despite the share price recovery recorded in recent weeks, on our updated projections A2A continues to trade at a very undemanding valuation (5.8x 2024 EV/EBITDA, 8.3x P/E). We confirm our positive view on the stock.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	23,166	14,758	14,324	13,004	13,204
EBITDA Adj (Eu mn)	1,502	1,930	2,233	2,250	2,201
Net Profit Adj (Eu mn)	380	635	731	685	634
EPS New Adj (Eu)	0.121	0.203	0.233	0.219	0.202
EPS Old Adj (Eu)	0.121	0.203	0.217	0.188	0.185
DPS (Eu)	0.090	0.096	0.099	0.102	0.105
EV/EBITDA Adj	6.1	5.5	5.8	5.5	5.6
EV/EBIT Adj	13.3	10.4	10.8	10.7	11.3
P/E Adj	16.0	9.6	8.3	8.9	9.6
Div. Yield	4.7%	4.9%	5.1%	5.2%	5.4%
Net Debt/EBITDA Adj	2.8	2.4	2.4	2.1	2.2

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- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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Emittente	%	Long/Short

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