

A2A

Sector: Utilities

OUTPERFORM

Price: Eu2.20 - Target: Eu2.40

Strong Earnings Momentum Expected to Continue

 Paolo Citi +39-02-77115.430
 paolo.citi@intermonte.it

Stock Rating

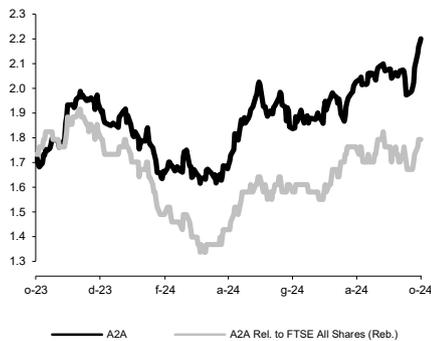
 Rating: Unchanged
 Target Price (Eu): Unchanged

| | 2024E | 2025E | 2026E |
|----------------|-------|-------|-------|
| Chg in Adj EPS | 0.0% | 0.0% | 0.0% |

Next Event

3Q24 Results and BP Update 11 November

A2A - 12M Performance



Stock Data

 Reuters code: A2.MI
 Bloomberg code: A2A IM

| Performance | 1M | 3M | 12M |
|-------------------------|-----------|-------|-------|
| Absolute | 6.2% | 14.8% | 27.0% |
| Relative | 2.6% | 13.2% | 3.7% |
| 12M (H/L) | 2.20/1.62 | | |
| 3M Average Volume (th): | 8,444.12 | | |

Shareholder Data

| | |
|--------------------------------------|-------|
| No. of Ord shares (mn): | 3,133 |
| Total no. of shares (mn): | 3,133 |
| Mkt Cap Ord (Eu mn): | 6,896 |
| Total Mkt Cap (Eu mn): | 6,896 |
| Mkt Float - Ord (Eu mn): | 2,908 |
| 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: | 1.3 |
| Net Financial Position (Eu mn): | -5,451 |
| Enterprise Value (Eu mn): | 13,867 |

■ **3Q24 results preview.** On the macro front, electricity and gas prices rose further QoQ in 3Q24, with the PUN at Eu119/MWh (+26% QoQ, +5% YoY) and the gas PSV at Eu38/MWh (+14% QoQ, +12% YoY), while EU CO2 prices closed at around Eu68/ton (-2% QoQ, -20% YoY). On the electricity front, the quarter was characterized by robust hydro production, while on the gas front, demand in Italy showed signs of improvement in both the thermoelectric and industrial segments. In this context, we expect A2A to report another set of solid figures, thanks primarily to very robust margins in the hydroelectricity segment (higher production, flattish selling prices) and higher margins in the Market and Waste segments. In detail: we project ordinary EBITDA at Eu504mn (+5% YoY) and ordinary net income at Eu164mn (+13% YoY). On the balance sheet, net debt is expected to increase marginally to Eu4.1bn from Eu4.0bn as at the end of June, reflecting a slight working capital expansion after the reabsorption recorded in 1H. In terms of FY24 guidance, we see the possibility of a further improvement (current EBITDA target Eu2.18-2.22bn).

■ **Strategic plan update.** Together with 3Q24 results, A2A will offer an update to its Strategic Plan. We expect the new 2024-35 plan to show strategic continuity with last year's, with electrification of consumption, development of renewables and the circular economy continuing as strategic drivers. We expect A2A to offer slightly higher EBITDA targets (2025-27), potentially reflecting slightly higher average electricity selling prices (Eu100-110/MWh in last year's plan), a higher capacity market contribution (additional Eu60mn EBITDA), potentially slightly higher margins in Market (higher volumes, ongoing shift from the tied to the free market) and Smart Infrastructures (higher Enel grid contribution/synergies and efficiencies, offsetting the sales of part of the gas distribution network). On the financial front, we expect A2A to confirm a target of a net debt/EBITDA in the region of 2.5x over the plan period, as well as a 3% CAGR for the dividend.

■ **Latest 2023-35 financial targets,** released in March. We recap the key targets: 2024 EBITDA was indicated at Eu2.00-2.02bn (raised to Eu2.18-2.22bn with 2Q24 results), 2026 at Eu2.2bn (vs. Eu2.1bn in the previous plan) with a different mix: lower Generation, higher Market and Smart Infrastructures (contribution of Enel grid), slightly lower Waste; 2030 confirmed at Eu2.6bn; 2035 seen in excess of Eu3.2bn. On the bottom line, A2A gave an indication for 2024 of Eu570-590mn (raised to Eu700-720mn), while 2026 was seen at Eu600mn, 2030 at Eu700mn, and 2035 in excess of Eu1.0bn. The NFP/EBITDA ratio was seen below 2.8x (before gradually declining to below 2.4x at the end of the Plan); the FFO/net debt ratio was projected to stay at around 25% until 2030 in compliance with the metrics required by agencies to keep the rating. The dividend policy was confirmed with a 3% CAGR (Eu0.099 DPS in 2023).

■ **Investment case.** We expect 3Q24 results to confirm A2A's very strong earnings momentum, while the Strategic Plan update should offer greater visibility on the sustainability of company earnings and potential for growth. Despite the share price recovery in recent weeks, A2A continues to trade at an undemanding valuation (6.1x 2025 EV/EBITDA, 10.1x P/E).

| Key Figures & Ratios | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------|--------|--------|--------|--------|--------|
| Sales (Eu mn) | 23,166 | 14,758 | 14,324 | 13,299 | 13,357 |
| 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 | 0.233 | 0.219 | 0.202 |
| DPS (Eu) | 0.090 | 0.096 | 0.099 | 0.102 | 0.105 |
| EV/EBITDA Adj | 6.1 | 5.5 | 6.2 | 6.1 | 6.3 |
| EV/EBIT Adj | 13.3 | 10.4 | 11.3 | 11.7 | 12.3 |
| P/E Adj | 18.1 | 10.9 | 9.4 | 10.1 | 10.9 |
| Div. Yield | 4.1% | 4.4% | 4.5% | 4.6% | 4.8% |
| Net Debt/EBITDA Adj | 2.8 | 2.4 | 2.4 | 2.4 | 2.4 |

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- 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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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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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| | |
|--------------|---------|
| BUY: | 28.24 % |
| OUTPERFORM: | 48.09 % |
| NEUTRAL: | 23.67 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| | |
|--------------|---------|
| BUY: | 55.74 % |
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| NEUTRAL: | 09.83 % |
| UNDERPERFORM | 00.00 % |
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| Emittente | % | Long/Short |
|-----------|---|------------|
| | | |

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