

ACEA

Sector: Utilities

NEUTRAL

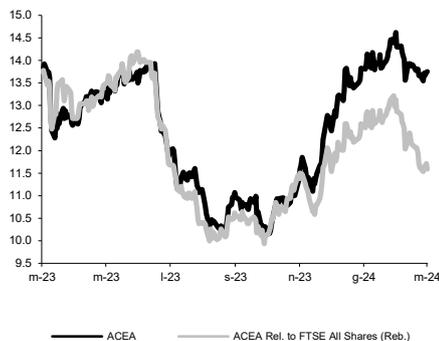
Price: Eu13.75 - Target: Eu15.00

4Q23 Results and 2028 Plan Preview

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 13.00 to 15.00		
	2023E	2024E	2025E
Chg in Adj EPS	-1.3%	-2.9%	-4.4%

ACEA - 12M Performance



Stock Data			
Reuters code:	ACE.MI		
Bloomberg code:	ACE IM		
Performance	1M	3M	12M
Absolute	-3.8%	10.5%	0.0%
Relative	-10.6%	0.6%	-18.5%
12M (H/L)	14.62/10.09		
3M Average Volume (th):	153.74		

Shareholder Data	
No. of Ord shares (mn):	213
Total no. of shares (mn):	213
Mkt Cap Ord (Eu mn):	2,928
Total Mkt Cap (Eu mn):	2,928
Mkt Float - Ord (Eu mn):	735
Mkt Float (in %):	25.1%
Main Shareholder:	
Council of Rome	51.0%

Balance Sheet Data	
Book Value (Eu mn):	2,003
BVPS (Eu):	11.92
P/BV:	1.2
Net Financial Position (Eu mn):	-5,161
Enterprise Value (Eu mn):	9,011

- 4Q23 preview (Wednesday 6th): a good end to the year.** On the macro front, 4Q saw a slight increase in power and gas prices vs 3Q23, although the sharp fall on the corresponding period of 2022 was confirmed (-49% YoY and -58% YoY respectively) with electricity demand in Italy slightly up (+2% YoY after the 1.4% YoY reduction seen in 3Q) and gas demand broadly unchanged YoY. In this context, we expect a very solid set of results for Acea, with EBITDA up 20% YoY (an acceleration of growth even when adjusted for the ca. Eu29mn of quality premiums in Water) and characterized by the following: 1) continuation of the recovery of profitability in electricity sales; 2) normalisation of generation margins due to the reduction of electricity prices and the deconsolidation of PV solar assets; 3) excellent organic growth by the Water division (ca. +7% YoY), which also includes some Eu30mn of quality premiums; 4) good resilience of the Waste area, which also benefitted from consolidation of ASM Terni. The bottom line is expected to close at Eu85mn, up strongly YoY, while we see net debt to close below Eu4.9bn for a net debt / EBITDA ratio of ca. 3.55x (vs conservative guidance of “below 3.8x”).
- Presentation of 2024-2028 Business Plan.** Together with FY23 results, management will also unveil the targets in the new 2024-2028 Business Plan. This will be the first update in more than 3 years by Acea to its medium-term strategy and financial objectives and we expect the event to be closely watched. In reported terms, we expect the group to target over Eu5.3bn in overall CapEx with a particular focus on regulated activities, something that could lead to an EBITDA CAGR of ca. 5.8% and an EPS CAGR of around 4%, with the net debt / EBITDA ratio to converge towards 3.2x by the end of the plan, also thanks to a partial cash-in of the tariffs balance in water distribution. As far as dividend policy is concerned, we expect a 3% CAGR starting from Eu0.85 in 2023 (flat YoY) and an average payout of 59% (also in reported terms).
- A number of extra opportunities could be taken also helped by portfolio rotation.** We believe that Acea could also point to a number of opportunities not included in the plan targets, such as the construction of the Rome WtE (expected gross CapEx ca. Eu1bn). The disposal of certain non-core activities could help finance these further growth opportunities: press articles have suggested that the group is in talks with Eni – Plenitude on the disposal of Acea Energia, and that it could also consider the disposal of the HV lines from its electricity distribution network. Furthermore, some press articles also mention the possibility of the sale of a minority stake in the group’s Waste activities.
- Change in estimates and target price.** We have increased 2023-2025 EBITDA by 2.8% on average (higher performance at the Water division) while we have reduced EPS by 3% on higher D&A and financial charges. We have also increased our 2026-2028 EBITDA by 5% on average on the back of better Water results and higher CapEx, with a low single-digit impact on EPS. Our target increases to Eu15.0, mostly as a consequence of the lower risk-free rate in our valuation (target still calculated as a mix of DCF and sector multiples).
- NEUTRAL, TP Eu15.00:** We believe new management’s update to the business plan, the first in more than 3 years, could represent a good opportunity to redirect focus to the stock, especially considering the numerous opportunities seemingly emerging in appealing sectors such as water and electricity distribution. Ahead of the plan we confirm our NEUTRAL recommendation based on the 9% upside to our target price.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	3,976	5,304	3,913	3,219	3,115
EBITDA Adj (Eu mn)	1,147	1,191	1,251	1,343	1,406
Net Profit Adj (Eu mn)	313	299	294	317	319
EPS New Adj (Eu)	1.469	1.406	1.383	1.486	1.499
EPS Old Adj (Eu)	1.469	1.407	1.401	1.531	1.568
DPS (Eu)	0.851	0.851	0.851	0.876	0.902
EV/EBITDA Adj	7.7	7.0	6.7	6.7	6.7
EV/EBIT Adj	15.3	14.8	13.7	13.4	13.4
P/E Adj	9.4	9.8	9.9	9.3	9.2
Div. Yield	6.2%	6.2%	6.2%	6.4%	6.6%
Net Debt/EBITDA Adj	3.5	3.8	3.9	3.8	3.9

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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:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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