

# ACEA

Sector: Utilities

# NEUTRAL

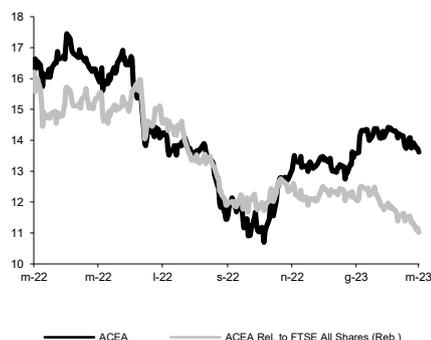
Price: Eu13.62 - Target: Eu15.50

## Guidance on 2023 Cash Generation Falls Short of Expectations

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	3.6%	0.0%	0.4%

### ACEA - 12M Performance



Stock Data			
Reuters code:	ACE.MI		
Bloomberg code:	ACE IM		
Performance	1M	3M	12M
Absolute	-5.2%	1.9%	-16.0%
Relative	-7.8%	-13.0%	-39.7%
12M (H/L)	17.45/10.70		
3M Average Volume (th):	84.36		

Shareholder Data	
No. of Ord shares (mn):	213
Total no. of shares (mn):	213
Mkt Cap Ord (Eu mn):	2,901
Total Mkt Cap (Eu mn):	2,901
Mkt Float - Ord (Eu mn):	728
Mkt Float (in %):	25.1%
Main Shareholder:	
Council of Rome	51.0%

Balance Sheet Data	
Book Value (Eu mn):	1,925
BVPS (Eu):	11.38
P/BV:	1.2
Net Financial Position (Eu mn):	-4,951
Enterprise Value (Eu mn):	8,700

- 4Q22 broadly in line with consensus expectations.** On the macro front, 4Q22 was characterised by a partial reabsorption of the unprecedented spikes recorded by electricity and gas prices across Europe in 3Q22 (Italy PSV Eu96/MWh, vs. Eu94/MWh in 4Q21 and Eu198/MWh in 3Q22; Italy PUN Eu244/MWh, vs. Eu242/MWh and Eu472/MWh respectively). Moving to volumes, electricity demand in Italy declined by 7.0% YoY in the quarter. In this context, ACEA released a set of 4Q22 results that were broadly in line with consensus at most levels, but lower than our expectations. EBITDA closed at Eu303mn (-7% YoY, consensus Eu310mn), EBIT at Eu81mn (-33% YoY), and adj. net income at Eu36mn (-44% YoY, consensus Eu54mn). On the balance sheet, net debt closed at Eu4,439mn (consensus Eu4.4bn) on the back of Eu301mn in CapEx (+22% YoY). At Eu0.85 (flat YoY), the DPS was in line with expectations.
- 4Q22 divisional breakdown.** At Water (EBITDA -8% YoY), tariff effects were more than offset by higher sludge treatment and a Eu14mn one-off at ATO2; at Energy infrastructure, overall EBITDA was down 19% YoY with a lower electricity distribution performance partly offset by power generation. In the Environment division, the positive performance (+25% YoY) once again reflected higher electricity sales margins and changes in the consolidation base (mainly Deco Group). Finally, Sales & Trading saw EBITDA rise 32% YoY, partly thanks to the impact of Energy Efficiency projects.
- 2023 net debt guidance higher than expected.** For 2023, management sees EBITDA growth of +2-4% YoY to a Eu1,331-1,357mn range, CapEx in line with 2022, and net debt/EBITDA below 3.8x (i.e. below c.Eu5.1bn).
- Main pointers from the conf call:** Management explained that the net debt guidance is conservative and that the higher cash absorption assumed by the company is affected by two key factors: 1) the Supply business is burdened by the switch of contracts from fixed to variable and the transfer of energy purchases from the usual suppliers (with 60-90 day payment terms) to the electricity market manager (GME), with payment terms of just 8 days (this component is a burden of c.Eu150mn, but at an avg energy price of Eu280/MWh); 2) in Water, the regulator is yet to take a stance on potential caps to the recognition of energy prices: ACEA assumes a cap that may be recovered over two years, although it remains a wait-and-see situation (impact Eu150mn).
- Changes to estimates and target price.** We are raising our 2023 EPS estimates by 4% on stronger results in Power Generation, while leaving 2024-2025 mostly unchanged. Our target price is confirmed at Eu15.50 and is still calculated as a 50/50 combination of the DCF model and market multiples.
- NEUTRAL (TP Eu15.50).** We believe the negative surprise on 2023 net debt guidance is partly due to management's cautious assumptions, but still think that over the next few months it will draw a lot of attention from investors, especially in the current context of high interest rates. As we await the presentation of the Business Plan update we expect interest rates to remain the main driver for the stock and confirm our NEUTRAL recommendation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	3,976	5,138	4,637	3,953	3,931
EBITDA Adj (Eu mn)	1,256	1,305	1,340	1,373	1,402
Net Profit Adj (Eu mn)	313	300	315	324	333
EPS New Adj (Eu)	1.469	1.407	1.479	1.523	1.561
EPS Old Adj (Eu)	1.469	1.474	1.427	1.523	1.556
DPS (Eu)	0.851	0.851	0.851	0.876	0.902
EV/EBITDA Adj	7.1	6.4	6.5	6.4	6.2
EV/EBIT Adj	15.3	14.7	14.6	14.1	13.6
P/E Adj	9.3	9.7	9.2	8.9	8.7
Div. Yield	6.2%	6.2%	6.2%	6.4%	6.6%
Net Debt/EBITDA Adj	3.2	3.4	3.7	3.6	3.5