

ACEA

Sector: Utilities

NEUTRAL

Price: Eu17.27 - Target: Eu18.50

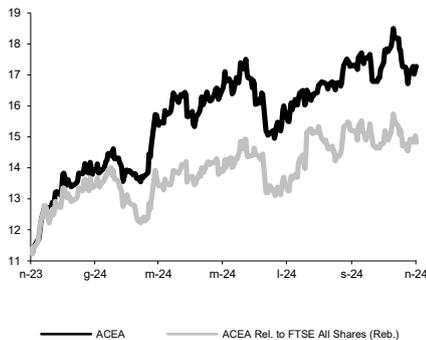
Positive 3Q24 Leads to Upgrade in Estimates

Federico Pezzetti +39-02-77115.268
 federico.pezzetti@intermonte.it

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 17.00 to 18.50		
	2024E	2025E	2026E
Chg in Adj EPS	6.4%	4.1%	3.7%

ACEA - 12M Performance



Stock Data

Reuters code:	ACE.MI		
Bloomberg code:	ACE IM		
Performance	1M	3M	12M
Absolute	-0.7%	3.5%	51.8%
Relative	0.2%	-2.5%	35.1%
12M (H/L)	18.50/11.26		
3M Average Volume (th):	108.26		

Shareholder Data

No. of Ord shares (mn):	213
Total no. of shares (mn):	213
Mkt Cap Ord (Eu mn):	3,678
Total Mkt Cap (Eu mn):	3,678
Mkt Float - Ord (Eu mn):	923
Mkt Float (in %):	25.1%
Main Shareholder:	
Council of Rome	51.0%

Balance Sheet Data

Book Value (Eu mn):	2,033
BVPS (Eu):	12.07
P/BV:	1.4
Net Financial Position (Eu mn):	-5,071
Enterprise Value (Eu mn):	9,555

- 3Q24 results above expectations.** ACEA recorded recurring EBITDA of Eu410mn, up 30% YoY, and recurring net income of Eu106mn, up 30% YoY and 7% above expectations. Reported EBITDA also included an increase in Acea's non-recurring ATO2 revenues of Eu24mn due to the recognition of past tariff items pertaining to FY2022 and FY2023. On the balance sheet, net debt closed at Eu5,232mn (in line) on the back of Eu326mn in net CapEx (+42% YoY) and good control of WC.
- Divisional breakdown.** The Commercial business saw EBITDA rise 66% YoY to Eu38mn (15% above exp.), primarily reflecting a continuation of the recovery of profitability in electricity sales; at Power generation, overall EBITDA was down 22% YoY to Eu13.5mn, hit by the reduction in electricity prices for forward sales and poor volumes in hydro production in Central Italy, while Energy infrastructure showed a 14% increase to Eu106mn thanks to the increase in allowed returns and RAB growth; at Water, reported EBITDA was up 44% YoY to Eu251mn or +30% to Eu227mn, mostly thanks to the recovery of tariff increases foreseen for 2024 and not yet booked in 1H24; at the Environment division, EBITDA was down 7% YoY to Eu20mn (13% below expectations) due to lower prices of electricity sold at WTE plants.
- 2024 guidance improved.** Management improved FY24 guidance, including EBITDA growth now seen at +7-9% YoY (from the previous 3-5%) to Eu1,488-Eu1,516mn, which includes Eu31mn of non-recurring items but does not include any potential quality premium in Water; net debt / EBITDA is now seen at 3.4x (from the previous 3.5x), pointing to net debt of ca. Eu5.1bn (from the previous Eu5.0-5.1bn).
- Main pointers from the confcall.** Water tariffs: the upward adjustment to tariffs is in line with forecasts: the only approved plan concerned ATO2 but all companies have already adjusted the income statement and this leads to an increase in working capital that will stabilize from 2025. Arera has said that excess balances must be reimbursed by the end of the regulatory period (thus by 2029).; Disposal of HV grid: management has provided no indications on the size of the capital gain as current figures are based on provisional RAB and the premium recognised by Arera will depend on the closing date.
- Estimates and target price.** We have increased FY24 adj. EPS estimates by 6% on the back of the good performance seen in the quarter, while 2025-2026 numbers are up ca. 4% as the increase in operating trends is partly counterbalanced by the dilution from the disposal of the Rome HV grid (expected for mid-2025). Our EBITDA includes Eu10mn in quality premiums in Water. Our TP moves to Eu18.50 (from Eu17.00) and is still calculated as a 50/50 combination of a DCF model and a multiple-based approach.
- NEUTRAL confirmed (target Eu18.50).** 3Q24 results showed a continuation of the group's very solid performance, with high visibility on new FY24 guidance. The company benefits from the numerous opportunities emerging in sectors such as Water and Waste, and we appreciate the diligent approach to growth contained in the group's strategy. At the same time, after the strong run YTD we confirm our NEUTRAL recommendation based on the limited upside to our target price.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	5,304	4,627	4,320	4,073	4,122
EBITDA Adj (Eu mn)	1,191	1,267	1,411	1,458	1,537
Net Profit Adj (Eu mn)	300	294	344	341	355
EPS New Adj (Eu)	1.407	1.380	1.613	1.600	1.665
EPS Old Adj (Eu)	1.407	1.380	1.516	1.537	1.605
DPS (Eu)	0.851	0.880	0.916	0.952	0.990
EV/EBITDA Adj	7.0	6.5	6.8	6.5	6.4
EV/EBIT Adj	14.7	13.5	13.2	13.5	13.2
P/E Adj	12.3	12.5	10.7	10.8	10.4
Div. Yield	4.9%	5.1%	5.3%	5.5%	5.7%
Net Debt/EBITDA Adj	3.7	3.8	3.6	3.4	3.4

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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.

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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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OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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