

ACEA

Sector: Utilities

NEUTRAL

Price: Eu11.43 - Target: Eu13.50

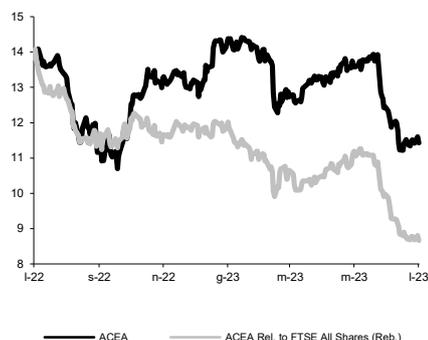
FY23 Guidance, Focus on Regulated Activities Confirmed

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

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 15.50 to 13.50		
	2023E	2024E	2025E
Chg in Adj EPS	-4.3%	-1.5%	-1.7%

ACEA - 12M Performance



Stock Data

Reuters code:	ACE.MI		
Bloomberg code:	ACE IM		
Performance	1M	3M	12M
Absolute	-8.2%	-13.0%	-17.3%
Relative	-14.0%	-18.3%	-49.2%
12M (H/L)	14.42/10.70		
3M Average Volume (th):	160.06		

Shareholder Data

No. of Ord shares (mn):	213
Total no. of shares (mn):	213
Mkt Cap Ord (Eu mn):	2,434
Total Mkt Cap (Eu mn):	2,434
Mkt Float - Ord (Eu mn):	611
Mkt Float (in %):	25.1%
Main Shareholder:	
Council of Rome	51.0%

Balance Sheet Data

Book Value (Eu mn):	1,908
BVPS (Eu):	11.30
P/BV:	1.0
Net Financial Position (Eu mn):	-4,966
Enterprise Value (Eu mn):	8,248

- 2Q23 results slightly worse than expected.** Yesterday ACEA released a set of 2Q23 results that were a touch worse than expected at most levels. EBITDA closed at Eu335mn (-5% YoY in adjusted terms or +3% YoY when also excluding the premiums for quality in the Water business; 1.6% below expectations), EBIT at Eu150mn, and adj. net income at Eu70mn, some 11% below expectations. On the balance sheet, net debt closed at Eu4,798mn (Eu4,728mn expected) on the back of Eu256mn in CapEx (+7% YoY).
- Divisional breakdown.** Sales & Trading saw EBITDA rise 9% YoY to Eu23mn (19% below exp.), primarily reflecting a normalisation of margins on the sale of energy and a lower impact from Energy Efficiency projects; at Power generation, overall EBITDA was down 29% YoY (and 9% below exp.) hit by lower energy prices, while Energy infrastructure showed overall stability; in Water (EBITDA -5% YoY but +11% YoY when adjusted for the quality premiums recorded in 2Q22), the impact from the consolidation of ASM Terni boosted performance that also featured solid organic growth despite sludge treatment costs remaining high; in the Environment division, EBITDA declined 41% YoY to Eu22mn (17% below estimates), capped by lower electricity prices and higher treatment costs.
- 2023 guidance confirmed.** Management confirmed the guidance provided at the time of FY22 results, including EBITDA growth of +2-4% YoY to Eu1,331-1,357mn, CapEx in line with 2022, and net debt/EBITDA below 3.8x (i.e. below c.Eu5.1bn). Actions taken by management nevertheless point towards guidance being raised in the coming months. Management stated that FY23 EBITDA could also include some one-off items.
- Presentation of strategic guidelines.** Ahead of the new strategic plan that will be presented in the autumn, yesterday management revealed the group's main strategic pillars in its drive to grow through major infrastructure projects in regulated sectors: Water: 1) strengthening position in Italy through infrastructure development (e.g. Peschiera doubling), geographical expansion, etc.; 2) growth in the management of industrial waters; 3) assessment of foreign opportunities. Electricity: 1) focus on Rome electricity network; 2) growth in renewable energy through the development of photovoltaic plants to offset group consumption, achieve SBTi objectives, etc.; 3) consolidation of performance and service on the retail market. Environment: 1) consolidation in central Italy; 2) growth in WTE through revamping and development of new lines; 3) reinforcement of expertise in the recycling of materials through enhancing capacity and quality in this area.
- Change in estimates and target price.** We are trimming FY23 EBITDA to reflect a lower contribution from Power Generation and cutting EPS by 6% also due to higher-than-previously-estimated financial charges. Our target price moves to Eu13.50 and is still calculated as a 50/50 combination of a DCF model and market multiples.
- NEUTRAL confirmed, target Eu13.50 (from Eu15.50).** We still believe 2023 net debt guidance reflects management's caution, but also think that over the next few months leverage will draw a lot of investor attention, especially in the current high-interest-rate environment. As we await the presentation of the strategic plan update later in the year, we confirm our NEUTRAL recommendation on the stock.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	3,976	5,138	4,621	3,962	3,940
EBITDA Adj (Eu mn)	1,256	1,305	1,330	1,379	1,408
Net Profit Adj (Eu mn)	313	300	297	314	322
EPS New Adj (Eu)	1.469	1.407	1.396	1.475	1.511
EPS Old Adj (Eu)	1.469	1.407	1.459	1.497	1.536
DPS (Eu)	0.851	0.851	0.851	0.876	0.902
EV/EBITDA Adj	7.1	6.4	6.2	6.1	6.0
EV/EBIT Adj	15.3	14.7	14.1	13.4	13.0
P/E Adj	7.8	8.1	8.2	7.7	7.6
Div. Yield	7.4%	7.4%	7.4%	7.7%	7.9%
Net Debt/EBITDA Adj	3.2	3.4	3.7	3.6	3.5