

# ACEA

Sector: Utilities

# NEUTRAL

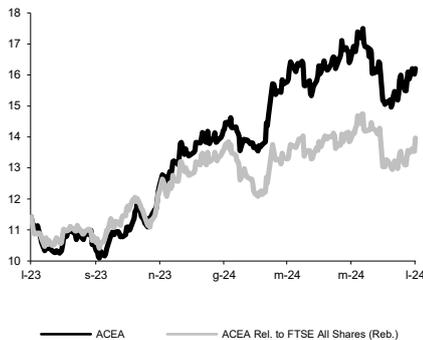
Price: Eu16.21 - Target: Eu17.00

## Strong P&L Trend in 2Q24; FY Guidance Confirmed

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	-0.1%	-0.6%	-0.7%

### ACEA - 12M Performance



Stock Data			
Reuters code:	ACE.MI		
Bloomberg code:	ACE IM		
Performance	1M	3M	12M
Absolute	7.1%	1.1%	41.8%
Relative	6.9%	1.4%	25.7%
12M (H/L)	17.50/10.09		
3M Average Volume (th):	147.07		

Shareholder Data	
No. of Ord shares (mn):	213
Total no. of shares (mn):	213
Mkt Cap Ord (Eu mn):	3,452
Total Mkt Cap (Eu mn):	3,452
Mkt Float - Ord (Eu mn):	866
Mkt Float (in %):	25.1%
Main Shareholder:	
Council of Rome	51.0%

Balance Sheet Data	
Book Value (Eu mn):	2,005
BVPS (Eu):	11.92
P/BV:	1.4
Net Financial Position (Eu mn):	-5,099
Enterprise Value (Eu mn):	9,351

- 2024 net income better than expected.** On the macro front, 2Q saw a rebound of gas and electricity prices (+3.5% and 14.5% QoQ respectively) although these were still well below last year (-18% and -11% YoY), while demand was relatively flat for electricity (+1.5% YoY) but lower for gas (-10% YoY, sharp reduction in thermal power generation). On the production front, hydroelectric remained strong (+55% YoY) as did solar (+24%) but thermal power generation was weak (-15%). In this context, ACEA recorded recurring EBITDA of Eu363mn, up 8.5% YoY, EBIT of Eu170mn, and recurring net income of Eu85mn, up 54% YoY and 19% above expectations. On the balance sheet, net debt closed at Eu5,130mn (in line) on the back of Eu321mn in CapEx (+25% YoY), good control of WC, and the dividend payment.
- Divisional breakdown.** The Commercial business saw EBITDA rise 61% YoY to Eu37mn (14% above exp.), primarily reflecting a normalisation of energy supply margins; at Power generation, overall EBITDA was down 43% YoY to Eu10mn (22% below exp.), hit by the sharp reduction in electricity prices and poor volumes in hydro production in Central Italy, while Energy infrastructure showed a 24% increase to Eu116mn thanks to the increase in allowed returns and RAB growth but also a Eu17mn release of the provision for tariff subsidies; at Water, EBITDA was up just 2% YoY to Eu182mn despite the increase in allowed WACC and RAB due to only a partial tariff update (expected to be recovered in 2H); at the Environment division, EBITDA was up 2% YoY to Eu22mn (42% above expectations), despite lower electricity prices and the downtime for revamping the Terni WTE plant (back up and running in May 2024).
- 2024 guidance confirmed.** Management confirmed guidance, including EBITDA growth of 3-5% (to Eu1,433-Eu1,461mn), which does not include any quality premium in Water, net investments at Eu1.1bn and net debt / EBITDA at 3.5x.
- Main pointers from the conference call.** Working capital: 1H saw an expansion of c.Eu130mn, mainly linked to the impact of some regulatory items; an improvement is expected by year-end, but in any case the company is outperforming its budget; Rome WTE: in the next few days there should be official confirmation of the tender award (management is very confident on this), while it is hoped works can begin in early 2025.
- Estimates and target price.** Our FY24/25 EPS estimates are broadly unchanged (in our EBITDA we are including some Eu10mn in quality premiums in Water, whereas management guidance assumes zero contribution) and we also confirm our target price of Eu17.0 which is still calculated as a 50/50 combination of a DCF model and a multiple-based approach.
- NEUTRAL confirmed (target Eu17.00).** 2Q24 results showed a continuation of the group's solid performance, with visibility on FY24 guidance remaining very high, in our opinion. 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 recently-presented business plan. At the same time, 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	4,154	3,957	4,045
EBITDA Adj (Eu mn)	1,191	1,295	1,382	1,434	1,520
Net Profit Adj (Eu mn)	300	294	323	327	342
EPS New Adj (Eu)	1.407	1.380	1.516	1.537	1.605
EPS Old Adj (Eu)	1.407	1.380	1.518	1.547	1.616
DPS (Eu)	0.851	0.880	0.916	0.952	0.990
EV/EBITDA Adj	7.0	6.4	6.8	6.7	6.5
EV/EBIT Adj	14.7	13.5	14.0	13.9	13.5
P/E Adj	11.5	11.7	10.7	10.5	10.1
Div. Yield	5.2%	5.4%	5.6%	5.9%	6.1%
Net Debt/EBITDA Adj	3.7	3.7	3.7	3.7	3.7

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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&PMB40 Index, most of those on the MIDEX 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:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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