

HERA

Sector: Utilities

OUTPERFORM

Price: Eu2.70 - Target: Eu3.30

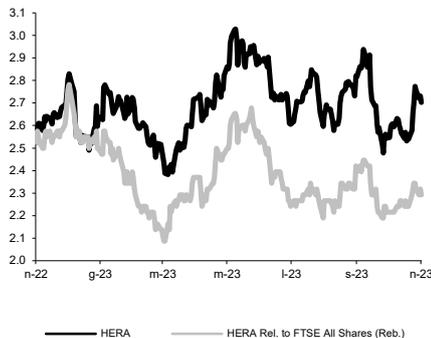
Positive 3Q23 Results And Constructive 2024 Outlook

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 3.40 to 3.30		
	2023E	2024E	2025E
Chg in Adj EPS	2.5%	0.5%	-0.2%

HERA - 12M Performance



Stock Data

Reuters code:	HRA.MI		
Bloomberg code:	HER IM		
Performance	1M	3M	12M
Absolute	6.2%	2.1%	7.1%
Relative	3.9%	0.8%	-11.2%
12M (H/L)	3.03/2.38		
3M Average Volume (th):	2,318.22		

Shareholder Data

No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	4,025
Total Mkt Cap (Eu mn):	4,025
Mkt Float - Ord (Eu mn):	2,032
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

Balance Sheet Data

Book Value (Eu mn):	3,100
BVPS (Eu):	2.30
P/BV:	1.2
Net Financial Position (Eu mn):	-4,070
Enterprise Value (Eu mn):	8,066

- 3Q23 EBITDA in line, bottom line better than expected.** Yesterday Hera reported 3Q23 operating results and cash generation that were broadly in line with expectations, followed by a bottom line that was better than forecast. In detail: 3Q23 adj. EBITDA closed at Eu289mn (+18.4% YoY; in line with expectations), EBIT at Eu130mn (+27% YoY; +14% vs. our expectations), and adj. net income at Eu48mn (vs. Eu14mn in 3Q22; +43% vs. our expectations). On the balance sheet, net debt closed at Eu4,149mn (in line) on the back of Eu196mn in CapEx (+11% YoY) and a broadly neutral working capital trend.
- Divisional EBITDA breakdown.** Gas: the division showed a 47% YoY drop to Eu41mn due to lower volumes and unit margins in supply activities and in spite of another good contribution from energy efficiency activities; Electricity: EBITDA was Eu62mn, up Eu80mn from 3Q22 (30% above estimates) thanks to significant growth in both margins and volumes sold to end customers, and the impact of the lots awarded last autumn in the safeguarded service for 2023 and 2024; Waste closed with EBITDA of Eu95mn (flat YoY, 8% better) driven by the change in scope (consolidation of ACR) and the higher prices at which electricity generated by WTE has been hedged; Water closed with EBITDA of Eu81mn (flat YoY and 3% above exp.), with the impact on revenues from RAB growth counterbalanced by higher operating expenses.
- Key messages from the conference call.** FY23 guidance: the group does not provide official guidance, but in 4Q management expects to be able to consolidate the Eu132mn YoY increase in EBITDA produced in the first nine months; Outlook for 2024: looking ahead to next year, management notes a series of positive factors, including growth in the results from Networks (increased WACC, impact of inflation on RAB-based tariffs, inflation contribution to recognised costs), consolidation of energy supply performance (no critical issues expected but at most small growth thanks to contract revision trends), good visibility on last resort contracts and expected growth in the Waste business. Among the headwinds, management pointed out the lower contribution expected from energy efficiency activities linked to the superbonus, especially relating to managed apartment buildings (partly offset by activity for the retail market).
- Change in estimates and target price.** We are raising our 2023 EBITDA estimates by 1% on the back of stronger results in the Electricity division, while we are leaving 2024 numbers largely unchanged despite the positive momentum due to relatively low visibility on results from energy efficiency activities. Our target moves to Eu3.30 (from Eu3.40) as the DCF component (50%) is also affected by a higher risk-free rate (up from 4.00% to 4.50%).
- OUTPERFORM confirmed; target Eu3.30 (from Eu3.40).** Hera's results confirm the positive momentum and have driven another upward revision in estimates. At 5.7x 2023E EV/EBITDA (a slight discount to its peer group) and 11.8x 2023E P/E (at a premium but well below historical levels and partly due to lower leverage), today's valuation looks appealing, in our view, and over the next few quarters we think that the company could continue to benefit from the solidity of its balance sheet, growth of the Energy Supply customer base, and its leadership in the Waste business. The update to the Business Plan at the beginning of 2024 could represent another positive catalyst.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	10,957	20,630	15,362	14,027	12,890
EBITDA Adj (Eu mn)	1,224	1,295	1,415	1,434	1,471
Net Profit Adj (Eu mn)	321	322	342	351	373
EPS New Adj (Eu)	0.216	0.216	0.230	0.236	0.250
EPS Old Adj (Eu)	0.216	0.216	0.224	0.235	0.251
DPS (Eu)	0.120	0.125	0.130	0.135	0.145
EV/EBITDA Adj	6.8	6.7	5.7	5.6	5.3
EV/EBIT Adj	13.6	13.8	11.4	11.1	10.3
P/E Adj	12.5	12.5	11.8	11.5	10.8
Div. Yield	4.4%	4.6%	4.8%	5.0%	5.4%
Net Debt/EBITDA Adj	2.7	3.3	2.9	2.8	2.6