

HERA

Sector: Utilities

NEUTRAL

Price: Eu3.86 - Target: Eu4.40

Solid 1Q26 Results Consistent with FY Estimates

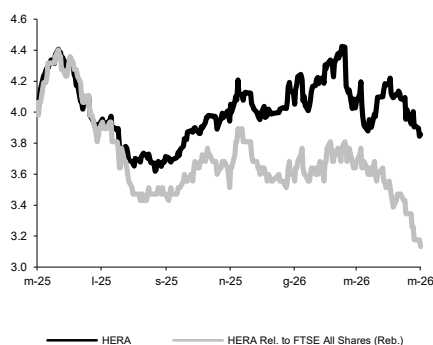
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2026E	2027E	2028E
Chg in Adj EPS	1.8%	2.3%	-0.4%

HERA - 12M Performance



Stock Data

Reuters code:	HRA.MI
Bloomberg code:	HER IM

Performance	1M	3M	12M
Absolute	-8.0%	-10.5%	-5.1%
Relative	-12.1%	-18.5%	-27.5%
12M (H/L)	4.43/3.62		
3M Average Volume (th):	2,635.11		

Shareholder Data

No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	5,744
Total Mkt Cap (Eu mn):	5,744
Mkt Float - Ord (Eu mn):	2,901
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

Balance Sheet Data

Book Value (Eu mn):	3,919
BVPS (Eu):	2.89
P/BV:	1.3
Net Financial Position (Eu mn):	-4,191
Enterprise Value (Eu mn):	10,828

■ **1Q26 results in line with expectations.** Yesterday Hera disclosed a set of 1Q26 numbers that were very much in line with expectations at all levels. In detail, EBITDA closed at Eu419mn (flat YoY; in line with expectations), EBIT at Eu249mn (flat YoY, in line), and adj. net income at Eu155mn (+1% YoY; 1% above exp.) supported by a slightly lower-than-expected tax rate. Net debt closed at Eu4,029mn (Eu3,970mn exp., NFP/EBITDA at 2.6x) on the back of Eu222mn in net CapEx (+34% YoY).

■ **Divisional performances: Electricity counterbalances Gas.** Electricity: EBITDA was up 22% to Eu74mn (vs. Eu75mn expected) or c.4% excluding a Eu11mn positive one-off, with performance supported by the continued shift of clients from the STG to the free market, as well as solid unit margins for the rest of the group's client base. Gas: EBITDA closed at Eu171mn (-9% YoY; in line) reflecting lower profitability on contracts renewed in the last resort market in 4Q25; Water: EBITDA closed at Eu75mn (+5% YoY; 1% better) thanks to the RAB growth on the back of the ongoing investments; Environment: the unit closed with EBITDA at Eu92mn (flat YoY; 1% below expectations) as lower prices for WtE electricity generation are offset by higher waste tariffs and some small M&A.

■ **Key messages from the call.** Supply business: competition is increasing, but this is nothing new, some larger players have entered the market in recent years. There are no current concerns over margins, as they reflect greater commercial efforts. The use of physical channels helps secure customer loyalty. Historically, competition in gas has always been less fierce, but lately the two markets are coming more into line. Leverage: Eu142mn of deals have already been closed this year, management continues to work on assessing initiatives, but there is nothing significant on the table for now. Tax rate: Eu8mn IRAP impact in 2026, the company is working on bringing the tax rate to a similar level as last year (28.5%).

■ **2026 outlook:** over the remaining three quarters the group will have to recover another ca. Eu30mn of 2025 temporary opportunities (mostly contributions from last resort markets) on top of some Eu27mn of positive one-off contributions received by networks in 2025 and Eu13mn of water premiums also registered in 2025. On the other hand, positive factors include the contributions from M&A (ca. Eu25mn), network growth, and waste.

■ **Estimates and target price.** On the back of 1Q26 results we are broadly confirming our estimates (2% EPS increase driven by lower tax rate) and our Eu4.40 target, still calculated as a 50/50 combination of a DCF model and a multiple-based approach.

■ **NEUTRAL confirmed (target Eu4.40).** We continue to believe that the group is very well placed to benefit from its leadership in the Waste business and further growth in its retail customer base. Moreover, Hera's financial flexibility enables it to continue to seize growth opportunities in its core markets, which are still highly fragmented. At 7.0x 2026E EV/EBITDA the stock is trading broadly in line with the sector average, but the relatively low DY and the lack of clear short-term catalysts, lead us to confirm our NEUTRAL recommendation.

Key Figures & Ratios	2024A	2025A	2026E	2027E	2028E
Sales (Eu mn)	13,054	12,735	12,946	12,937	12,992
EBITDA Adj (Eu mn)	1,588	1,537	1,550	1,608	1,655
Net Profit Adj (Eu mn)	447	464	469	482	499
EPS New Adj (Eu)	0.300	0.312	0.315	0.324	0.335
EPS Old Adj (Eu)	0.300	0.312	0.309	0.316	0.336
DPS (Eu)	0.150	0.160	0.165	0.170	0.180
EV/EBITDA Adj	5.6	6.9	7.0	6.8	6.7
EV/EBIT Adj	10.7	13.2	13.1	12.8	12.4
P/E Adj	12.9	12.4	12.2	11.9	11.5
Div. Yield	3.9%	4.1%	4.3%	4.4%	4.7%
Net Debt/EBITDA Adj	2.5	2.6	2.7	2.7	2.6

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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 between 5.5% - 6.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the FTSEMIB40 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:	32.35%
OUTPERFORM:	39.71%
NEUTRAL:	27.94%
UNDERPERFORM:	00.00%
SELL:	00.00%

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BUY:	53.75%
OUTPERFORM:	30.00%
NEUTRAL:	15.00%
UNDERPERFORM:	01.25%
SELL:	00.00%

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