

HERA

Sector: Utilities

OUTPERFORM

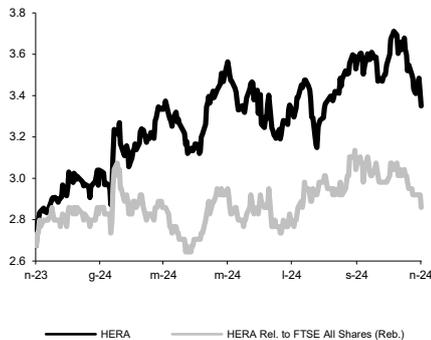
Price: Eu3.35 - Target: Eu4.00

Good 3Q24 with Enhanced Visibility on FY24 Estimates

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	3.2%	6.7%	6.4%

HERA - 12M Performance



Stock Data			
Reuters code:	HRA.MI		
Bloomberg code:	HER IM		
Performance	1M	3M	12M
Absolute	-5.6%	0.3%	25.3%
Relative	-3.9%	-4.7%	9.1%
12M (H/L)	3.71/2.78		
3M Average Volume (th):	1,831.28		

Shareholder Data	
No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	4,990
Total Mkt Cap (Eu mn):	4,990
Mkt Float - Ord (Eu mn):	2,520
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

Balance Sheet Data	
Book Value (Eu mn):	3,318
BVPS (Eu):	2.47
P/BV:	1.4
Net Financial Position (Eu mn):	-4,114
Enterprise Value (Eu mn):	9,174

■ **3Q24 P&L beats estimates.** On the macro front, 3Q saw a rebound in gas and electricity prices (+25% and 14% QoQ respectively) to levels slightly above 3Q23 (+2% and +12% YoY), with rising demand trends (electricity +3.8% YoY, gas +2.9% YoY, boosted above all by a recovery in thermal power generation). On the production side, numbers remained strong for both hydroelectric (+19% YoY) and solar (+15%). In this context, Hera's operating results were extremely solid, with EBITDA up 5.7% YoY, mainly driven by: 1) a recovery of average profitability in gas sales, which more than offset the fall in the contribution from the energy efficiency business in the gas division (end of Superbonus); 2) a slight decline in the Electricity division due to the impact of new "protected" customers acquired at negative margins, which entered the group scope as of 1 July; 3) strong growth in regulated business thanks to the WACC update and the increase in RAB; 4) solid growth in the Environment division. In more detail: 3Q24 EBITDA closed at Eu305mn (+5.7% YoY and 3% higher than expected), EBIT at Eu137mn (+6% YoY), and adj. net income at Eu65mn (+35% YoY; 24% above forecasts) with slightly higher D&A more than offset by lower financial charges (reduced charges from the resale of credits). Net debt closed at Eu4,175mn (Eu4,106mn expected, NFP/EBITDA at 2.74x) on the back of Eu233mn in CapEx (+19% YoY) and an expansion of c.Eu100mn in working capital.

■ **Key messages from the conference call.** Supply business: at the moment progress with the portfolio of protected market customers acquired is going better than expected, with onboarding activity being completed very rapidly. The 1.0mn customers joining in July have been whittled down to 0.9mn (further exits and some customers moving to the free market); Waste business: treatment performance remains positive, with rising volumes (+257k tons of special waste in 9 months, solid, liquid and also from urban collection in other regions) as well as stable and in some cases even rising prices (especially for liquid waste). Industrial production is slowing but Hera grew market share thanks to its focus on sectors not affected by the economic cycle, such as oil & gas. Working capital: the c.Eu100mn increase in the quarter was linked to commercial development but also new electricity customers. Management expects the FY level to be similar to 9M.

■ **Change in estimates.** Following 3Q24 results, we have increased 2024-2026 EBITDA by 1.4% on average and EPS estimates by 5.4% (mostly higher contribution from Gas division). We are confirming our Eu4.00 target price, still calculated as a 50/50 combination of a DCF model and a multiple-based approach.

■ **OUTPERFORM confirmed (TP Eu4.00).** We continue to believe that the group is 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. The group is trading at 6.0x 2025E EV/EBITDA, a multiple broadly in line with the sector average. OUTPERFORM confirmed.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	20,630	15,564	12,052	12,771	12,738
EBITDA Adj (Eu mn)	1,295	1,495	1,529	1,541	1,572
Net Profit Adj (Eu mn)	322	375	429	454	460
EPS New Adj (Eu)	0.216	0.252	0.288	0.305	0.309
EPS Old Adj (Eu)	0.216	0.252	0.279	0.286	0.290
DPS (Eu)	0.125	0.140	0.145	0.150	0.155
EV/EBITDA Adj	6.7	5.3	6.0	6.0	5.9
EV/EBIT Adj	13.8	10.6	11.7	11.2	11.1
P/E Adj	15.5	13.3	11.6	11.0	10.8
Div. Yield	3.7%	4.2%	4.3%	4.5%	4.6%
Net Debt/EBITDA Adj	3.3	2.6	2.7	2.7	2.7

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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.

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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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As at 30 September 2024 Intermonte's Research Department covered 125 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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