

# HERA

Sector: Utilities

## OUTPERFORM

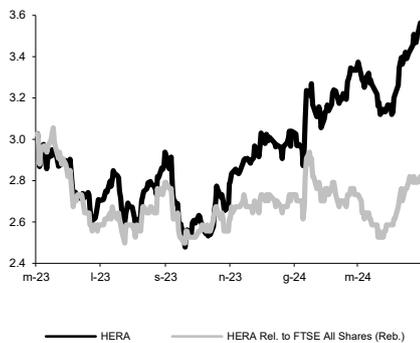
Price: Eu3.54 - Target: Eu4.00

## A Positive Start to The Year

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 3.80 to 4.00		
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	0.0%	0.0%

### HERA - 12M Performance



Stock Data			
Reuters code:	HRA.MI		
Bloomberg code:	HER IM		
Performance	1M	3M	12M
Absolute	11.7%	12.6%	18.0%
Relative	7.6%	0.9%	-8.7%
12M (H/L)	3.56/2.48		
3M Average Volume (th):	2,568.76		

Shareholder Data	
No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	5,267
Total Mkt Cap (Eu mn):	5,267
Mkt Float - Ord (Eu mn):	2,660
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

Balance Sheet Data	
Book Value (Eu mn):	3,300
BVPS (Eu):	2.46
P/BV:	1.4
Net Financial Position (Eu mn):	-3,934
Enterprise Value (Eu mn):	9,299

■ **1Q24 results broadly in line with expectations.** On the macro front, 1Q saw a further reduction in electricity and gas prices (-39% YoY and -49% YoY respectively) with electricity demand in Italy recovering slightly (+1% YoY) and gas demand down c.4% YoY (very strong impact of hydroelectric on thermal production, above-average temperatures). In this context, Hera's results contained no major surprises, with EBITDA fairly flat YoY, mainly driven by: 1) recovering profitability in electricity sales and continuation of the positive impact of protected market contracts; 2) a decrease in the energy efficiency contribution in the gas division (end of Superbonus); 3) strong growth in regulated business thanks to the WACC update and the increase in the RAB; 4) slight growth at the Environment division despite the negative impact of the decrease in electricity prices on WTE production. In more detail: 1Q24 EBITDA closed at Eu417mn (+1.7% YoY and in line with expectations), EBIT at Eu246mn (+4% YoY; in line), and adj. net income at Eu143mn (+11.6% YoY; 2% above expectations) thanks to lower provisions (end of Superbonus and falling energy prices) and lower financial charges (reduction in resale of credits). Net debt closed at Eu3,987mn (in line, NFP/EBITDA at 2.66x) on the back of Eu157mn in CapEx (flat YoY) and an expansion of some Eu300mn in working capital because of the impact of the backlog of payments for the Superbonus.

■ **Key messages from the conference call.** 2024 outlook: the group does not provide official guidance, but management stated that the year has started well, and that for FY24 it is reasonable to expect earnings growth in line with consensus forecasts; Waste business: the quarter was undermined by stoppages at some plants that had a c.Eu2mn negative impact, while pricing trends for treatment activity remained healthy, staying flat or rising slightly vs. YE23 (the Spilamberto biodigester will be operating at full capacity in 2024. M&A: management is actively seeking opportunities, with a focus on value creation.

■ **Change in estimates and target price.** Following 1Q24 results that were broadly in line with expectations, we are confirming our estimates for FY24 and the following years. Our target moves to Eu4.00 (from Eu3.80) thanks to the sector re-rating that has taken place over the past few weeks (TP still calculated as a 50/50 combination of a DCF model and a multiple-based approach).

■ **OUTPERFORM confirmed; target Eu4.00 (from Eu3.80).** We continue to believe that the group is well placed to benefit from its leadership in the Waste business, further growth in its retail customer base and a strategy built around the concepts of resilience and environmental and digital transition. Moreover – and as underlined by the CEO – regaining its usual financial flexibility (Eu1.5bn firepower for further market expansion) enables Hera to continue to seize opportunities for growth in its core markets, which are still highly fragmented. The group is trading at 6.2x 2024E 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	13,995	12,604	12,712
EBITDA Adj (Eu mn)	1,295	1,495	1,500	1,517	1,548
Net Profit Adj (Eu mn)	322	375	415	425	431
EPS New Adj (Eu)	0.216	0.252	0.278	0.285	0.290
EPS Old Adj (Eu)	0.216	0.252	0.278	0.285	0.290
DPS (Eu)	0.125	0.140	0.145	0.150	0.155
EV/EBITDA Adj	6.7	5.3	6.2	6.2	6.1
EV/EBIT Adj	13.8	10.6	11.7	11.7	11.6
P/E Adj	16.4	14.0	12.7	12.4	12.2
Div. Yield	3.5%	4.0%	4.1%	4.2%	4.4%
Net Debt/EBITDA Adj	3.3	2.6	2.6	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.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX 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:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

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

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Emitente	%	Long/Short
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