

HERA

Sector: Utilities

NEUTRAL

Price: Eu2.49 – Target: Eu3.00

Solid Outlook Despite Still Volatile Environment

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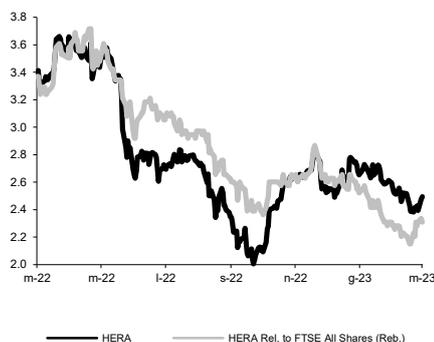
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	2.4%	-0.2%	0.7%

Next Event

1Q23 Results Out May 10

HERA - 12M Performance



Stock Data

Reuters code:	HRA.MI		
Bloomberg code:	HER IM		
Performance	1M	3M	12M
Absolute	-2.7%	-2.5%	-26.0%
Relative	0.4%	-12.5%	-34.2%
12M (H/L)	3.66/2.00		
3M Average Volume (th):	2,692.72		

Shareholder Data

No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	3,715
Total Mkt Cap (Eu mn):	3,715
Mkt Float - Ord (Eu mn):	1,876
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

Balance Sheet Data

Book Value (Eu mn):	3,082
BVPS (Eu):	2.28
P/BV:	1.1
Net Financial Position (Eu mn):	-4,076
Enterprise Value (Eu mn):	7,716

- Overall 4Q/FY22 final results broadly in line.** Yesterday Hera released 4Q22 final results that were broadly in line with estimates at most levels (preliminary EBITDA and net debt had already been released at the beginning of February). In detail: 4Q22 adj. EBITDA closed at Eu420mn (+14% YoY when adjusted for the temporary accounting difference in the valuation of stored gas; +2% vs our expectations), EBIT at Eu191mn (+35% YoY; 10% below our estimate), and adj. net income at Eu108mn (57% above estimates; 6% below expectations). On the balance sheet, net debt closed at Eu4,247mn vs. Eu4,235mn expected on the back of Eu247mn in CapEx (+28% YoY) and a partial working capital contraction mostly linked to the reduction of stored gas (a trend that is expected to continue in 1Q23 with the end of the thermal season).
- Divisional EBITDA breakdown.** Gas: EBITDA closed at Eu208mn (+35% YoY and 15% above estimates mostly thanks to the Eu30mn premium for “gas stock”) mainly due to increased unit margins and incentivised energy efficiency activities; Electricity: EBITDA at Eu50mn was up 20% YoY (4% below estimates) thanks to a reduction of imbalance and modulation costs and the policy of updating and renewing contracts; Waste closed with EBITDA of Eu92mn (+26% YoY, 6% below estimates) thanks to further strong performances from Aliplast and WTE generation, only partly offset by higher energy costs and the revamping of WTE plants in Trieste (now restarted) and Ravenna, and the impact of discounts offered in waste collection tenders; Water closed with EBITDA of Eu56mn (-13% YoY and 21% below est.), as quality premiums and RAB growth more than counteracted the cut in the allowed return.
- Key messages from the conference call.** Gas storage/working capital: management pointed out that the value of gas inventory closed 2022 down at Eu0.5bn (from ca. Eu0.9bn at 9M22) and is expected to be close to zero at the end of 1Q23 (without the storage activity the group’s debt/EBITDA ratio of 3.28x would have closed at ca. 2.9x). For 2023, the storage activity remains strategic but if prices stay close to current levels the impact on investment/working capital will be considerably lower than in 2022; ESG achievements: in 2022, shared value EBITDA (from business activities that are capable of meeting Global Agenda 2030 targets) increased to 52% of the total (70% target in 2030) while circa 90% of Taxonomy eligible investments are already aligned to European regulatory criteria.
- Estimates broadly confirmed.** We are leaving our 2023-2024 estimates broadly unchanged and also confirm our Eu3.00 target price with our valuation still 50% based on DCF and 50% on sector multiples.
- NEUTRAL confirmed (TP Eu3.00).** Hera managed to close FY22 with a solid set of numbers despite the exceptional volatility of the energy market (Chairman Tommasi called 2022 the “most challenging year of his tenure”), which confirms the ability of the group to navigate even the most complex environment. Hera’s valuation looks increasingly appealing (the group is trading at 5.9x 2023E EV/EBITDA, at a slight discount to its peer group and at a 12.1x 2023E P/E or at a slight premium) but we confirm our Neutral recommendation as within the sector we continue to prefer players that are more leveraged to the structurally higher energy prices environment.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	10,957	20,630	14,269	12,888	11,834
EBITDA Adj (Eu mn)	1,224	1,295	1,339	1,353	1,373
Net Profit Adj (Eu mn)	321	321	308	333	353
EPS New Adj (Eu)	0.216	0.216	0.207	0.224	0.237
EPS Old Adj (Eu)	0.216	0.221	0.202	0.224	0.235
DPS (Eu)	0.120	0.125	0.130	0.135	0.145
EV/EBITDA Adj	6.8	6.6	5.8	5.6	5.4
EV/EBIT Adj	14.1	13.8	12.2	11.7	11.0
P/E Adj	11.6	11.6	12.1	11.1	10.5
Div. Yield	4.8%	5.0%	5.2%	5.4%	5.8%
Net Debt/EBITDA Adj	2.7	3.3	3.0	2.9	2.8