

HERA

Sector: Utilities

OUTPERFORM

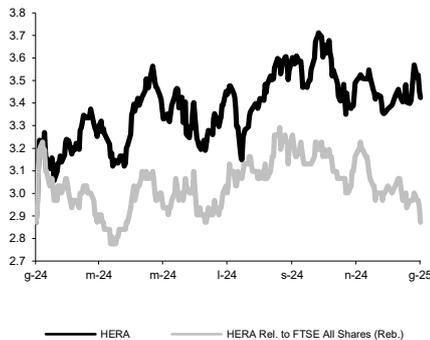
Price: Eu3.42 - Target: Eu4.00

Highly Visible Plan and Upgrade to Dividend Policy

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	3.7%	5.3%	1.2%

HERA - 12M Performance



Stock Data			
Reuters code:	HRA.MI		
Bloomberg code:	HER IM		
Performance	1M	3M	12M
Absolute	1.5%	-6.3%	19.2%
Relative	-5.2%	-10.4%	0.2%
12M (H/L)	3.71/2.96		
3M Average Volume (th):	2,119.54		

Shareholder Data	
No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	5,100
Total Mkt Cap (Eu mn):	5,100
Mkt Float - Ord (Eu mn):	2,576
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

Balance Sheet Data	
Book Value (Eu mn):	3,526
BVPS (Eu):	2.65
P/BV:	1.3
Net Financial Position (Eu mn):	-4,371
Enterprise Value (Eu mn):	9,554

- New 2028 Strategic Plan presented.** Yesterday HERA's top management presented its 5-year rolling Strategic Plan to 2028, consolidating the group's commitment to balanced and sustainable development in all business areas and confirming a strategy focused on resilience, socio-economic factors, and innovation. Sustainability remains a strategic priority, with 65% of investments directed towards decarbonisation or the circular economy and with "shared value" EBITDA increasing to 66% in 2028.
- Eu4.6bn of CapEx and EBITDA at Eu1.7bn for 2028.** Management indicated a 2028 EBITDA target of Eu1,700mn, corresponding to a 2.6% CAGR (5.0% in the previous plan) and an increase of Eu205mn vs. 2023 or +Eu305mn when adjusted for the one-offs linked to the Superbonus. Of this increase, some Eu100mn will come from M&A (in line with the previous plan) with the contribution from Aimag not included. Net CapEx over the 5-year period is forecast at Eu4.6bn (Eu920mn per year, up from Eu4.4bn in the previous plan), including around Eu350mn for "external development" through M&A. Management expects net debt to reach Eu4.76bn at the end of 2028 (including some Eu350mn in debt from M&A) for an implied debt/EBITDA ratio of 2.8x, with the ratio expected to remain below 3.0x throughout the plan period.
- Networks and Waste main drivers of growth. M&A already in the bag.** In this plan, EBITDA growth (before adjusting for one-offs) will mainly be driven by Networks and Waste, as growth in the Energy divisions will be dragged down by the exceptional results achieved in 2023 (Eu100mn from Superbonus) and the assumption of zero contribution from markets of last resort. Growth in Waste will be driven by an increased market share, supported by the development and diversification of the plant base (Eu1.1bn of CapEx), while a Eu2.5bn investment plan in the Networks business (corresponding to 54% of total CapEx) will aim to increase resilience and the digitalisation of infrastructure. The Energy division will benefit from a recovery in shaping costs and the expansion of the client base, which is expected to reach 4.5mn in 2028 (Eu1.0bn of CapEx). EBITDA from bolt-on M&A is expected to remain an important lever, amounting to Eu100mn, of which effectively 80% is already in the bag thanks to the Aimag deal announced yesterday.
- Dividend policy improved.** Management has improved the group's dividend policy with a 2024 DPS of Eu0.15 (+7% YoY) and an overall CAGR of 4% to reach Eu0.17 per share in 2028 (5.0% exit dividend yield).
- Positive preliminary 2024 results.** Hera sees 2024 EBITDA at over Eu1,550mn and a net debt/EBITDA ratio of 2.6x, implying net debt of around Eu4.0bn.
- Change in estimates.** Following management's business plan presentation, we are raising our 2024-2028 EPS forecast by 3%, thanks to better performance in Supply and by the contribution from Aimag. We confirm our Eu4.00 target price, still calculated using a risk-free rate of 4.0% and based on a mix between DCF and market multiple valuation approaches.
- OUTPERFORM confirmed (target Eu4.00).** We consider this plan highly visible and with significant upside potential that could come from likely new M&A, synergies from the Aimag operation, and some contribution from the last resort markets. The group is trading at 6.1x 2025E EV/EBITDA, a multiple at slight discount to the sector average. OUTPERFORM confirmed.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	20,630	15,564	12,052	12,894	12,912
EBITDA Adj (Eu mn)	1,295	1,495	1,555	1,572	1,604
Net Profit Adj (Eu mn)	322	375	445	465	466
EPS New Adj (Eu)	0.216	0.252	0.299	0.312	0.313
EPS Old Adj (Eu)	0.216	0.252	0.288	0.296	0.309
DPS (Eu)	0.125	0.140	0.150	0.155	0.160
EV/EBITDA Adj	6.7	5.3	5.8	6.1	6.1
EV/EBIT Adj	13.8	10.6	11.3	11.2	11.2
P/E Adj	15.8	13.6	11.4	11.0	11.0
Div. Yield	3.7%	4.1%	4.4%	4.5%	4.7%
Net Debt/EBITDA Adj	3.3	2.6	2.6	2.8	2.9

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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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OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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