Milan, 25 January 2024

Italian Equity Research – Company Update

HERA

OUTPERFORM

Sector: Utilities

Price: Eu2.96 - **Target: Eu3.60**

Front-End Loaded Plan and Improved Dividend Policy

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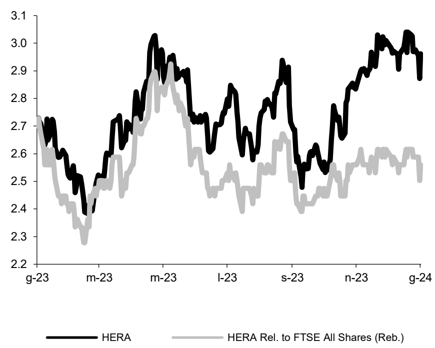
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 3.30 to 3.60
	2023E	**2024E**	**2025E**
Chg in Adj EPS	13.5%	15.0%	10.2%

HERA - 12M Performance



Stock Data			
Reuters code:			HRA.MI
Bloomberg code:			HER IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.6%	15.3%	9.7%
Relative	-1.6%	4.6%	-6.0%
12M (H/L)			3.04/2.38
3M Average Volume (th):			2,024.52

Shareholder Data	
No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	4,412
Total Mkt Cap (Eu mn):	4,412
Mkt Float - Ord (Eu mn):	2,228
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

Balance Sheet Data	
Book Value (Eu mn):	3,283
BVPS (Eu):	2.46
P/BV:	1.2
Net Financial Position (Eu mn):	-3,801
Enterprise Value (Eu mn):	8,246

- **New 2027 Strategic Plan.** Yesterday HERA's top management presented its 5-year rolling Strategic Plan to 2027, 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 60% of investments directed towards decarbonisation or the circular economy and with "shared value" EBITDA increasing to 64% in 2027.
- **Eu4.4bn of CapEx and EBITDA at Eu1.65bn for 2027.** Management indicated a 2027 EBITDA target of Eu1,650mn, corresponding to a 5.0% CAGR (3.7% in the previous plan) and an increase of Eu345mn vs. 2022 (+Eu246mn in the old plan). Of this increase, some Eu100mn, or 29%, will come from M&A (down from 41% in the old plan), while the remaining 71% will come from organic growth. CapEx over the 5-year period is forecast at Eu4.4bn (Eu880mn per year, up from Eu4.1bn in the previous plan which also included a Eu130mn contribution from the NRRP, whereas this year the Eu4.4bn is a net number), including around Eu350mn for "external development" through M&A. Management expects net debt to reach Eu4.45bn at the end of 2027 (including some Eu350mn in debt from M&A) for an implied debt/EBITDA ratio of 2.7x, with the ratio expected to remain below 3.0x throughout the plan period.
- **Growth very well balanced across businesses.** In this plan EBITDA growth is no longer skewed towards Waste but very much balanced across the three main areas of business. In Waste (37% of growth vs. 61% in the previous plan) the group aims to consolidate its leadership through acquisitions, commercial development, growth in volumes treated, increased recovery and recycling activities. The contribution to growth from Networks will be 33%, broadly in line with the last plan, while Energy is expected to contribute 31% of growth (up from just 7% of growth in the previous plan) thanks to continued efforts to expand the customer base and cross-selling (target of 4.3mn customers up from 4.0mn in the previous plan, partly thanks to the 1.1mn "acquired" with the recent competitive procedures). EBITDA from M&A is expected to remain an important lever, amounting to Eu100mn of which 25% already in the bag (Eu100mn in the last plan) and contributing around 30% of total growth, down from over 40% in last year's plan.
- **Dividend policy improved.** Management has improved the group's dividend policy with a 2023 DPS of Eu0.14 (+12% YoY) and an overall CAGR of 5.1% to reach Eu0.16 per share in 2027 (5.4% exit dividend yield).
- **Strong preliminary 2023 results.** Hera sees 2023 EBITDA at Eu1,480mn (well above consensus) and a net debt/EBITDA ratio of 2.6x, implying net debt of around Eu3.85bn.
- **Change in estimates and target price.** Following management's business plan presentation, we are raising our 2023-2027 EPS forecast by 10%, moving our TP to Eu3.60, also factoring in a lower risk-free rate (4.0% from 4.5%); our target is still calculated as a mix between DCF and market multiples.
- **OUTPERFORM confirmed; target Eu3.60 (from Eu3.30).** We continue to believe that the group is well placed to benefit from its leadership in the Waste business, further growth in its customer base and a strategy built around the concepts of resilience and environmental and digital transition. The group is trading at 5.6x 2024E EV/EBITDA, a multiple broadly in line with the sector average. OUTPERFORM confirmed.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	10,957	20,630	15,504	14,018	12,753
EBITDA Adj (Eu mn)	1,224	1,295	1,482	1,485	1,504
Net Profit Adj (Eu mn)	321	322	388	404	411
EPS New Adj (Eu)	0.216	0.216	0.261	0.271	0.276
EPS Old Adj (Eu)	0.216	0.216	0.230	0.236	0.250
DPS (Eu)	0.120	0.125	0.140	0.145	0.150
EV/EBITDA Adj	6.8	6.7	5.3	5.6	5.6
EV/EBIT Adj	13.6	13.8	10.2	10.6	10.6
P/E Adj	13.7	13.7	11.4	10.9	10.7
Div. Yield	4.1%	4.2%	4.7%	4.9%	5.1%
Net Debt/EBITDA Adj	2.7	3.3	2.6	2.6	2.6