HERA

OUTPERFORM

Sector: Utilities

Price: Eu3.27 - **Target: Eu3.80**

FY23 Impacted by Provisions but 2024 Has Started Well

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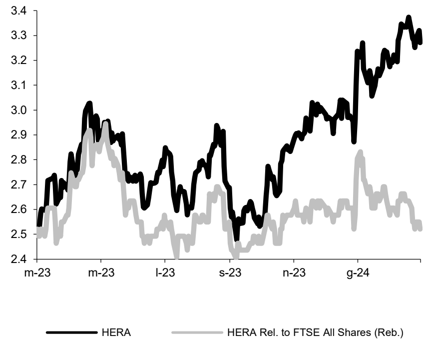
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 3.60 to 3.80
	2024E	**2025E**	**2026E**
Chg in Adj EPS	2.6%	3.4%	4.1%

HERA - 12M Performance



Stock Data			
Reuters code:			HRA.MI
Bloomberg code:			HER IM
Performance	**1M**	**3M**	**12M**
Absolute	3.1%	8.7%	31.4%
Relative	-3.2%	-4.9%	-0.2%
12M (H/L)			3.37/2.48
3M Average Volume (th):			2,474.56

Shareholder Data	
No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	4,874
Total Mkt Cap (Eu mn):	4,874
Mkt Float - Ord (Eu mn):	2,461
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:	1.3
Net Financial Position (Eu mn):	-3,934
Enterprise Value (Eu mn):	8,867

- **4Q/FY23 final results: better EBITDA, lower bottom line.** Yesterday, Hera reported 4Q23 EBITDA at Eu488mn (+16% YoY and 3% above expectations), EBIT at Eu236mn (+24% YoY; 14% below our expectations), and adj. net income at Eu140mn (+29% YoY; 9% vs. our expectations). Net debt closed at Eu3,828mn (in line, NFP/EBITDA at 2.56x) on the back of Eu302mn in CapEx (+22% YoY) and a further improvement in working capital. As communicated in January, management proposed a DPS of Eu0.14.
- **Divisional EBITDA breakdown.** Gas: the division showed a 12% YoY drop to Eu183mn due to lower volumes and unit margins in supply activities and in spite of another good contribution from energy efficiency activities; Electricity: EBITDA was Eu132mn, up 2.7x from 3Q22 thanks to significant growth of both margins and volumes sold to end customers, and the impact of the lots awarded in the safeguarded service for 2023 and 2024; Waste closed with EBITDA of Eu98mn (+4% YoY, 2% worse) driven by the change in scope (consolidation of ACR) and the higher prices at which electricity generated by WTE has been hedged; Water closed with EBITDA of Eu82mn (+11% YoY and 24% below exp.), with the impact on revenues from RAB growth partly counterbalanced by higher operating expenses.
- **Key messages from the conference call.** Outlook for 2024: the group does not provide official guidance, but management stated that the year has started well, allowing full confirmation of the recently presented business plan thanks to a number of drivers, including the strong growth expected at the Water division (EBITDA +Eu48mn) and the expected resilience of electricity supply activities (lower shaping costs and contract renewals partly counterbalanced by expenditure for newly acquired customers). Working capital evolution. In terms of working capital, the period of normalization of energy prices is also continuing in the first months of 2024 with a positive outcome; furthermore, part of the tax credits linked to the superbonus (over Eu200mn) will be cashed in. On the other hand, the acquisition of new customers from July will have some negative impact on working capital but will be absolutely manageable; Provisions: management said superbonus financing disbursed in 2023 led to higher (perhaps overly conservative) provisions. They also set something aside for last-resort markets out of prudence and not in light of market trends (unpaid stable). 2024 will not see any of these negative effects but will see a further positive impact from falling prices.
- **Change in estimates and target price.** We are marginally increasing our 2024-2026 estimates (average EPS +4%) on the back of stronger results at the Electricity division. Our target moves to Eu3.80 (from Eu3.60), with our valuation still 50%-based on DCF and 50% on sector multiples.
- **OUTPERFORM confirmed; target Eu3.80 (from Eu3.60).** 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 mkt expansion) enables Hera to continue to seize opportunities for growth in its core markets, which are still highly fragmented. The group is trading at 5.9x 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	0.261	0.271	0.276	0.278
DPS (Eu)	0.125	0.140	0.145	0.150	0.155
EV/EBITDA Adj	6.7	5.3	5.9	5.9	5.9
EV/EBIT Adj	13.8	10.7	11.2	11.2	11.0
P/E Adj	15.1	13.0	11.8	11.5	11.3
Div. Yield	3.8%	4.3%	4.4%	4.6%	4.7%
Net Debt/EBITDA Adj	3.3	2.6	2.6	2.7	2.7

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- 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)

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Frequency of research: quarterly.
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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;
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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:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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