

# HERA

Sector: Utilities

# OUTPERFORM

Price: Eu2.81 - Target: Eu3.40

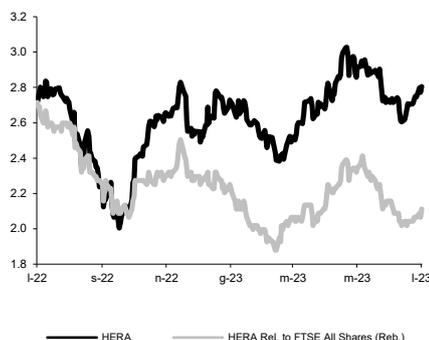
## Estimates Upgraded on Strong 2Q23

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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 3.30 to 3.40		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	6.2%	3.9%	5.4%

### HERA - 12M Performance



### Stock Data

Reuters code:	HRA.MI		
Bloomberg code:	HER IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	3.4%	3.8%	3.4%
Relative	-2.4%	-2.0%	-30.0%
12M (H/L)	3.03/2.00		
3M Average Volume (th):	2,845.54		

### Shareholder Data

No. of Ord shares (mn):	1,490
Total no. of shares (mn):	1,490
Mkt Cap Ord (Eu mn):	4,180
Total Mkt Cap (Eu mn):	4,180
Mkt Float - Ord (Eu mn):	2,111
Mkt Float (in %):	50.5%
Main Shareholder:	
Municipality of Bologna	9.7%

### Balance Sheet Data

Book Value (Eu mn):	3,092
BVPS (Eu):	2.30
P/BV:	1.2
Net Financial Position (Eu mn):	-4,044
Enterprise Value (Eu mn):	8,211

- 2Q23 EBITDA better than expected.** Yesterday Hera released a set of 2Q23 results that was better than expected at operating level while net income and cash flow generation were broadly in line with expectations. In detail: 1Q23 adj. EBITDA closed at Eu308mn (+20% YoY; +7% vs our expectations), EBIT at Eu139mn (+21% YoY; +16% vs our expectations), and adj. net income at Eu60mn (+5% YoY; in line). On the balance sheet, net debt closed at Eu4,146mn (in line) on the back of Eu162mn in CapEx (+2% YoY), the seasonal CapEx expansion, and the dividend payment.
- Divisional EBITDA breakdown.** Gas: the division showed great resilience bearing in mind that 2Q22 was up 50% YoY, with EBITDA closing at Eu99mn (+1% YoY and +3% vs our exp.), also supported by the contribution from energy services aimed at reducing customers' consumption; Electricity: EBITDA at Eu50mn was up 4x YoY (45% above estimates) thanks to significant growth in terms of both margins and volumes sold to end customers, and the effects of the lots awarded last autumn in the safeguarded service for 2023 and 2024; Waste closed with EBITDA of Eu75mn (+5% YoY, 2.6% below) 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 Eu73mn (+5% YoY and 4% above exp.), with the impact on revenues from RAB growth partly counterbalanced by higher operating expenses.
- Key messages from the conference call.** FY23 guidance: management does not provide official guidance but during the call it was commented that the group is not expected to show negative growth either at EBITDA level or in terms of bottom line, while net debt/EBITDA is seen at or slightly below 3.0x; Gas storage/working capital: For 2023, the storage business remains strategic but if prices stay close to current levels the impact on investment/working capital could be around 20-25% of the amount spent last year (which is not far from what Hera spends in a normal year); Contribution from M&A: in the first half, ACR contributed ca. Eu9mn to EBITDA and usually the second half is seasonally stronger. Looking at 2024, management might expect to extract synergies close to the level of similar acquisitions (i.e. ca. 25% of EBITDA).
- Change in estimates and target price.** We are increasing our 2023-24 EBITDA estimates by 5% on average on the back of stronger results at the Gas division (higher unit margins in gas supply and stronger performance of efficiency services), with only a similar impact on EPS due to the effect of higher-than-expected financial charges. Our target price moves to Eu3.40 (from Eu3.30), with our valuation is still 50%-based on DCF and 50% on sector multiples.
- OUTPERFORM confirmed, TP Eu3.40 (from Eu3.30).** Hera's good start to the year confirms once again the ability of the group to navigate even the most complex environment and at 5.9x 2023E EV/EBITDA (a slight discount to its peer group) and 12.5x 2023E P/E (at a premium but well below historical levels and partly due to lower leverage), today's valuation looks increasingly appealing. Over the next few quarters we think that the company could benefit from the solidity of its balance sheet (M&A in the sector could accelerate again after the 3-year halt due to Covid-19 and the Ukraine war), the growth of the Energy Supply customer base, and leadership in the Waste business.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	10,957	20,630	14,813	13,493	12,475
EBITDA Adj (Eu mn)	1,224	1,295	1,401	1,432	1,471
Net Profit Adj (Eu mn)	321	322	334	350	374
EPS New Adj (Eu)	0.216	0.216	0.224	0.235	0.251
EPS Old Adj (Eu)	0.216	0.216	0.211	0.226	0.238
DPS (Eu)	0.120	0.125	0.130	0.135	0.145
EV/EBITDA Adj	6.8	6.7	5.9	5.7	5.4
EV/EBIT Adj	14.1	14.0	13.0	12.5	11.8
P/E Adj	13.0	13.0	12.5	12.0	11.2
Div. Yield	4.3%	4.5%	4.6%	4.8%	5.2%
Net Debt/EBITDA Adj	2.7	3.3	2.9	2.8	2.6