

HERA

Sector: Utilities

OUTPERFORM

Price: Eu2.87 - Target: Eu3.30

Good 1Q23 and Compelling Valuation: Move to OUTPERFORM

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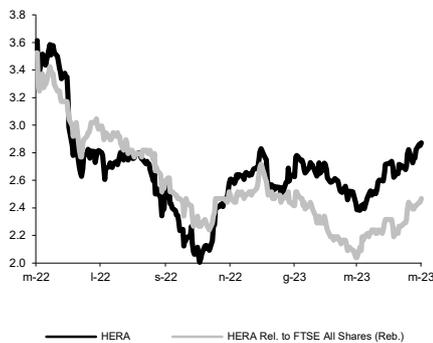
Stock Rating

Rating: from NEUTRAL to OUTPERFORM

Target Price (Eu): from 3.00 to 3.30

	2023E	2024E	2025E
Chg in Adj EPS	2.0%	1.0%	0.7%

HERA - 12M Performance



Stock Data

Reuters code: HRA.MI

Bloomberg code: HER IM

Performance	1M	3M	12M
Absolute	5.7%	9.7%	-18.5%
Relative	5.8%	10.0%	-35.3%
12M (H/L)		3.62/2.00	
3M Average Volume (th):		2,806.91	

Shareholder Data

No. of Ord shares (mn): 1,490

Total no. of shares (mn): 1,490

Mkt Cap Ord (Eu mn): 4,278

Total Mkt Cap (Eu mn): 4,278

Mkt Float - Ord (Eu mn): 2,160

Mkt Float (in %): 50.5%

Main Shareholder:

Municipality of Bologna 9.7%

Balance Sheet Data

Book Value (Eu mn): 3,071

BVPS (Eu): 2.28

P/BV: 1.3

Net Financial Position (Eu mn): -3,959

Enterprise Value (Eu mn): 8,237

■ **1Q23 numbers better than expected.** Yesterday Hera released a set of 1Q23 results that was better than expected both at operating level and in terms of cash generation. In detail: 1Q23 adj. EBITDA closed at Eu410mn (+10% YoY; +3.4% vs our expectations), EBIT at Eu192mn (+0.6% YoY; in line), and adj. net income at Eu128mn (+1% YoY; in line). On the balance sheet, net debt closed at Eu3,777mn vs. Eu3,978mn expected on the back of Eu156mn in CapEx (+21% YoY) and a strong working capital contraction, mostly linked to the reduction in the amount of stored gas.

■ **Divisional EBITDA breakdown.** Gas: EBITDA closed slightly down at Eu194mn (-4% YoY and in line with estimates) mainly due to lower unit margins and despite a continuation of the strong trend for incentivised energy efficiency activities; Electricity: EBITDA at Eu65mn was up 112% YoY (20% above estimates) thanks to significant growth in terms of both margins and volumes sold to end customers, and the initial effects of the lots awarded last autumn in the safeguarded service for 2023 and 2024; Waste closed with EBITDA of Eu88mn (+11% YoY, 1.4% above) thanks to 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 Eu56mn (flat YoY and in line with est.), with the impact on revenues from RAB growth counterbalanced by higher operating expenses.

■ **Key messages from the conference call.** Gas storage/working capital: the extraordinary levels of gas inventory were brought close to zero at the end of 1Q23 in line with previous guidance, and the group's debt/EBITDA ratio is now at 2.8x. 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; Networks: the quarter was impacted by cyclical phenomenon such as the effect of higher temperatures on DH, higher costs in Water (although initiatives to raise efficiency are in progress), and the lack of inflation adjustment in gas distribution and electricity which will have a positive impact on subsequent quarters. It is reasonable to expect water to offer some rewards in the coming quarters.

■ **Change in estimates and target price.** We are slightly increasing our 2023 EPS estimates on the back of stronger results in Electricity Supply and Waste. Our target price moves from Eu3.00 to Eu3.30 thanks to improved P&L numbers, lower net debt and the sector re-rating, with our valuation still 50%-based on DCF and 50% on sector multiples.

■ **We move to OUTPERFORM, TP Eu3.30 (from Eu3.00).** Hera's good start to the year confirms once again the ability of the group to navigate even the most complex environment. Since the start of the Covid-19 pandemic the stock has underperformed the market by ca. 50% and the local utilities peer group by ca.23%: at 6.1x 2023E EV/EBITDA (a slight discount to its peer group) and 12.7x 2023E P/E (at a premium but well below historical levels), today's valuation looks increasingly appealing. Over the next few quarters we think that the company could benefit from the solidity of its B/S (M&A in the sector could accelerate again after the 3-year stop due to Covid-19 and the Ukraine war), the growth of the Energy supply customer base, and leadership in the Waste business. Although within the sector we continue to prefer players that are more leveraged to the structurally higher energy prices environment, we move to OUTPERFORM (from Neutral) and set a Eu3.30 target.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	10,957	20,630	14,279	12,865	11,806
EBITDA Adj (Eu mn)	1,224	1,295	1,342	1,351	1,387
Net Profit Adj (Eu mn)	321	322	314	337	355
EPS New Adj (Eu)	0.216	0.216	0.211	0.226	0.238
EPS Old Adj (Eu)	0.216	0.216	0.207	0.224	0.237
DPS (Eu)	0.120	0.125	0.130	0.135	0.145
EV/EBITDA Adj	6.8	6.7	6.1	6.0	5.8
EV/EBIT Adj	14.1	14.0	13.0	12.5	
P/E Adj	13.3	13.3	13.6	12.7	12.1
Div. Yield	4.2%	4.4%	4.5%	4.7%	5.0%
Net Debt/EBITDA Adj	2.7	3.3	2.9	2.8	2.7