INTESA SANPAOLO

Credit

Sector Report

Italian Utilities Sector

Local Multi-Utilities: Resilient Business Model

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Italian local multi-utilities reported resilient 1H20 results, in line or slightly above Bloomberg consensus. Regulated activities and business diversification allowed companies to mitigate the effects of the Covid-19 crisis. Based on 1H20 results, Acea and Iren improved their EBITDA guidance for 2020. In general, companies confirmed the upside potential for future investment, based on the role that utility infrastructure can play in the economic recovery post-Covid.

Sector View

NEUTRAL

Italy/Italian Utilities Sector

Investment Grade

Company	Credit View
A2A	NEUTRAL
Acea	NEUTRAL
Hera	POSITIVE
Iren	NEUTRAL

Intesa SanPaolo Research

In this report, we confirm the company views and recommendations assigned in the last company reports (unless otherwise indicated).

Sector Overview

Italian local multi-utilities reported resilient 1H20 results, in line or slightly above Bloomberg consensus. Regulated activities and business diversification allowed companies to mitigate the effects of the Covid-19 crisis. Lockdown in Italy was implemented starting from March, and therefore the main effects of the pandemic appeared in Q2 results. As expected, the main impact from the crisis was on energy businesses, due to a weaker energy scenario (lower volumes and prices). Working capital also experienced negative impacts, albeit limited, on average, mainly due to delays in payments and higher provisions for bad debt. These negatives likely peaked in Q2, and companies seem confident that these effects will have reversed by year-end 2020 or in 2021.

Outlook 2020

Based on 1H20 results, **Acea** raised its 2020 EBITDA guidance to over 8% growth compared to 2019 (previous guidance: +6-8%). In light of the visibility achieved after H1, **Iren** improved its EBITDA guidance (EUR 905-915M vs the previous EUR 890-900M), reflecting a forecast less severe impact from Covid-19 (EUR 15M vs the previous EUR 25-30M). **A2A** and **Hera** confirmed their previous expectations. In general, companies confirmed upside potential for future investment, based on the role that utility infrastructure can play in economic recovery post-Covid.

Market Focus

In recent months, Italian utilities' bonds have shown a higher resilience compared to other sectors more exposed to the economic cycle and demand dynamics. Among the Italian companies we cover, we currently prefer the more regulated names, due to the insulation from volume risks provided by current regulatory framework. In light of current wider spreads compared to Italian peers and a higher share of regulated activities (c.80% of EBITDA), we confirm our BUY recommendation on **Acea**'s bonds.

Investment recommendations on italian utilities bonds

IG	BUY		HOLD		SELL
	Acea	c	A2A	c	
		c	Hera	c	
		c	Iren	c	
HY	-		-		-
Unrated	-		-		-

Note: the table above refers to senior unsecured bonds unless otherwise indicated; C = Confirmed. Source: Intesa Sanpaolo Research elaboration

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IMI CORPORATE & INVESTMENT BANKING

Contents

Sector Overview

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Based on 1H20 results, **Acea** improved its 2020 EBITDA guidance to over 8% growth in compared to 2019 (previous guidance: +6-8%).

In light of the visibility achieved after H1, **Iren** lowered its expectation regarding the impact from Covid-19 on its EBITDA, to EUR 15M from the previous EUR 25-30M. As a result, Iren now targets full-year 2020 EBITDA of EUR 905-915M vs the previous EUR 880-890M (revised down from EUR 900-910M in May). We note that new guidance provided (EUR 905-915M) is slightly above the old target revised in May.

A2A and **Hera** confirmed their previous expectations.

In general, companies confirmed the upside potential for future investment based on the role that utility infrastructure can play in the economic recovery post-Covid.

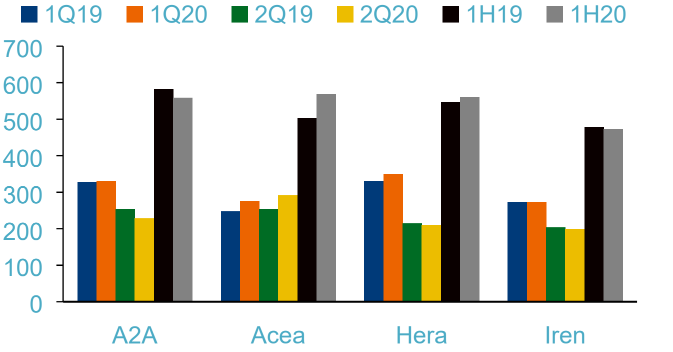
Italian multi-utilities

	1H20 vs Consensus	2020 Guidance
A2A	slightly above	confirmed
Acea	slightly above	EBITDA guidance improved
Hera	in line	confirmed
Iren	In line	EBITDA guidance improved

Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

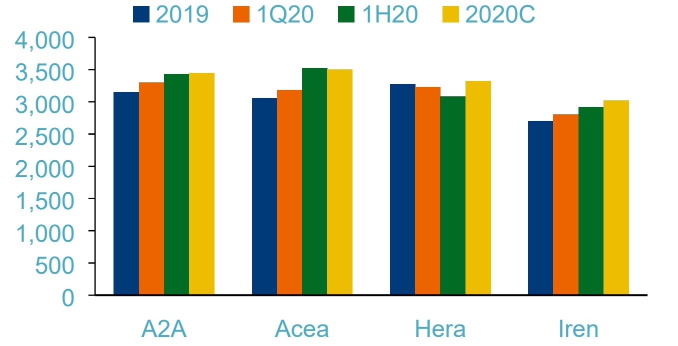
As shown in the chart below, the companies that are more regulated or less exposed to the energy business (eg, Acea) were less impacted by the pandemic, reporting positive year-on-year results. Lockdown in Italy was implemented starting from March, and therefore the main effects appeared in Q2 results. We think it worth noting that energy businesses were also impacted by the warmer winter (mainly district heating and gas sales).

EBITDA (EUR M)



Source: Intesa Sanpaolo Research elaboration on Company data

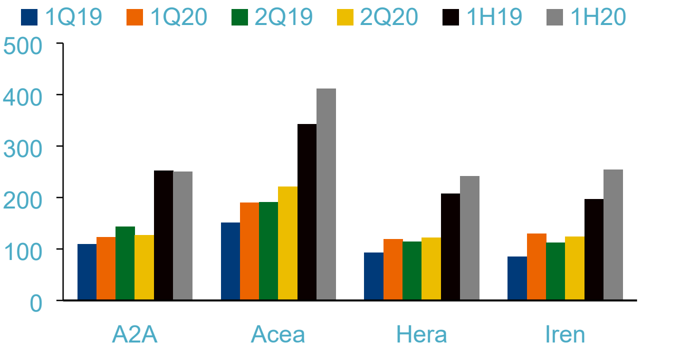
Net debt* (EUR M)



*reported net debt; C: consensus. Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

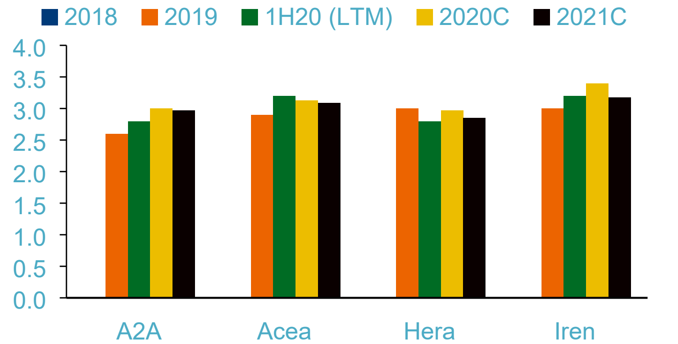
In 1H20, companies' net debt reflected the impact of higher working capital, capex, and dividend payments (note that Hera paid its 2019 dividend in July). Despite Covid-19, investments deployed remained solid, in general above 1H19 levels.

Capex (EUR M)



Source: Intesa Sanpaolo Research elaboration on Company data

Net debt/EBITDA ratio*(x)



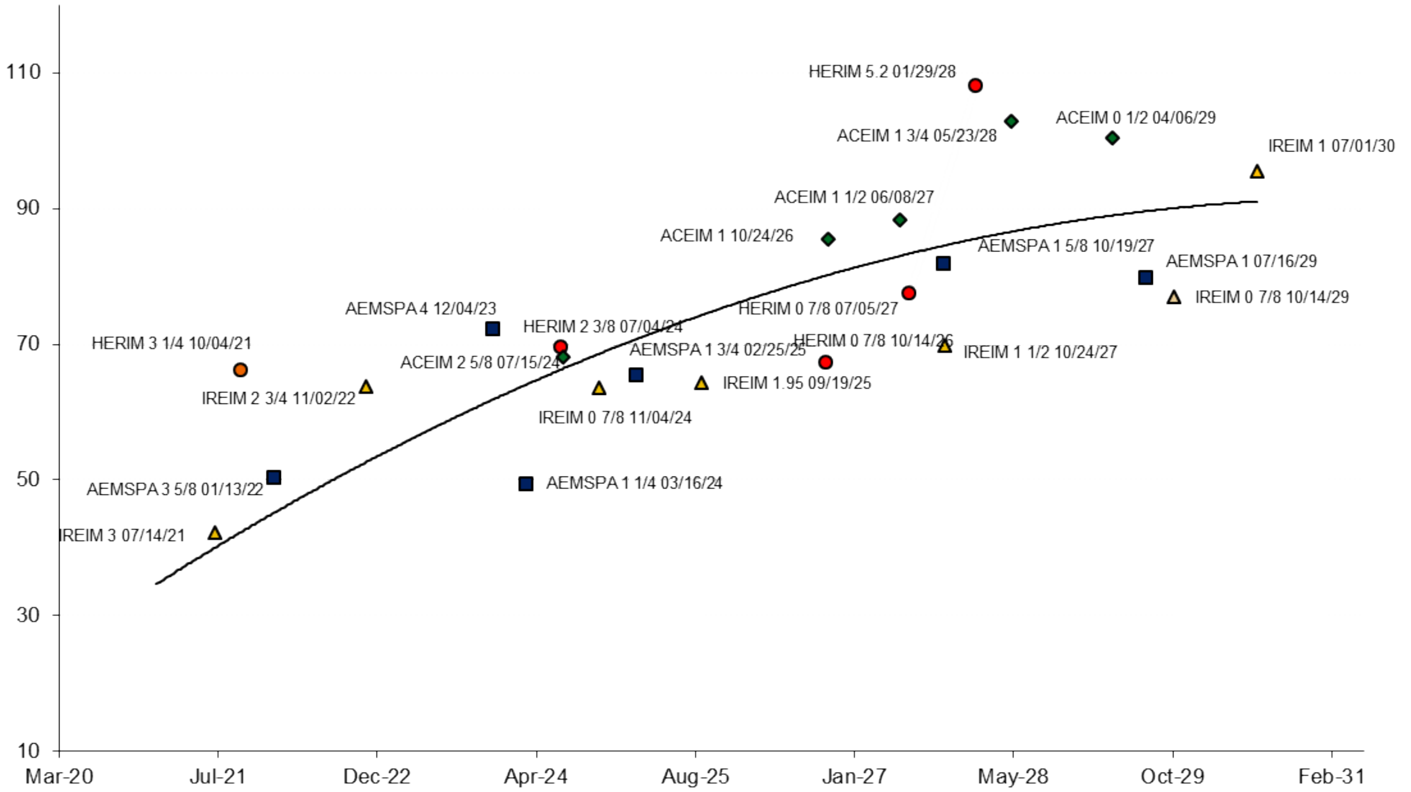
*reported net debt; C: consensus. Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

Market Focus

In recent months, Italian utilities' bonds have shown a higher resilience compared to the bonds of other sectors more exposed to the economic cycle and demand dynamics. Among the Italian companies we cover, we currently prefer the more regulated names, due to their insulation from volume risks provided by current regulatory frameworks.

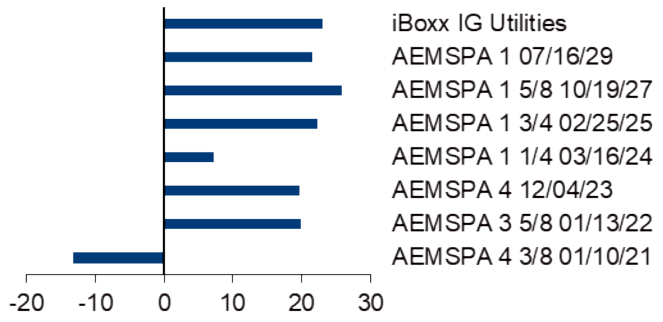
Acea's bonds are currently trading wider compared to other Italian multi-utilities (ie, A2A, Hera and Iren). We confirm our BUY recommendation on Acea's bonds in light of the group's higher share of regulated EBITDA vs its peers (c.80% of total).

Italian multi-utilities (ASW, bps)



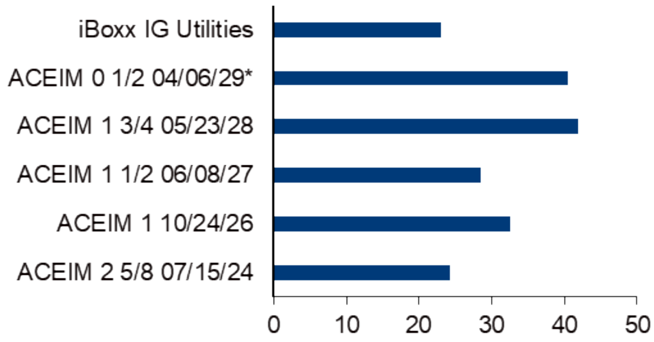
Note: AEM's 2023 and 2024 notes are private placements. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

A2A YTD 2020[1] performance (ASW, bps)



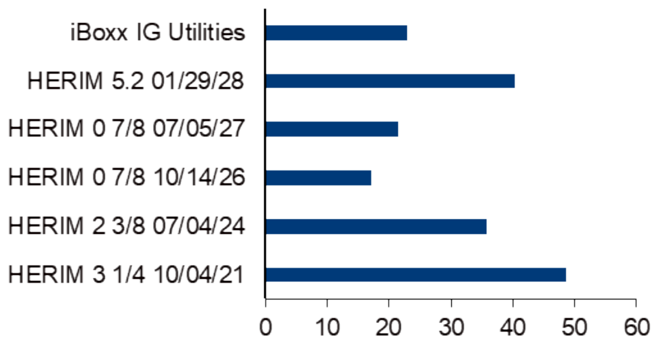
[1] as of 30 July. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

ACEA YTD 2020[1] performance (ASW, bps)



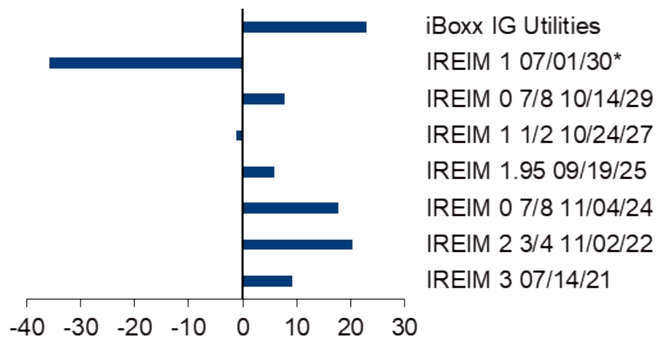
[1] as of 30 July. *issued on 29 January. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

HERA YTD 2020[1] performance (ASW, bps)



[1] as of 30 July. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

IREN YTD 2020[1] performance (ASW, bps)



[1] as of 30 July. *issued on 23 June. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

ACEA, A2A, Hera, Iren bonds/CDS (ASW, bps)

Bond	Next call and price	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 6.8.20	-1W (bps)	-1M (bps)	YTD (bps) 2.1.20	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
A2A SpA															
AEMSPA 4 3/8 01/10/21	-	FX	351	102.0	-0.3	ASW	4	-5	-19	-18	71	3	Baa2	-	BBB
AEMSPA 3 5/8 01/13/22	-	FX	500	105.1	0.1	ASW	49	0	-14	20	108	23	Baa2	-	BBB
AEMSPA 4 12/04/23	-	FX	300	112.2	0.3	ASW	72	3	-14	22	117	42	Baa2	-	-
AEMSPA 1 1/4 03/16/24	-	FX	300	104.2	0.1	ASW	49	0	-17	7	105	32	-	-	-
AEMSPA 1 3/4 02/25/25	11/24 100.0	FX	300	106.4	0.3	ASW	66	1	-16	23	131	34	Baa2	-	BBB
AEMSPA 1 5/8 10/19/27	07/27 100.0	FX	300	107.8	0.5	ASW	82	0	-16	26	137	47	Baa2	-	BBB
AEMSPA 1 07/16/29	04/29 100.0	FX	400	104.1	0.5	ASW	79	-3	-25	18	160	52	Baa2	-	BBB
ACEA SpA															
ACEIM 2 5/8 07/15/24	04/24 100.0	FX	600	108.6	0.4	ASW	69	1	-12	25	133	38	Baa2	BBB+	BBB
ACEIM 1 10/24/26	07/26 100.0	FX	500	102.9	0.5	ASW	86	0	-13	32	145	49	Baa2	BBB+	BBB
ACEIM 1 1/2 06/08/27	03/27 100.0	FX	700	106.2	0.6	ASW	88	0	-12	29	147	54	Baa2	BBB+	BBB
ACEIM 1 3/4 05/23/28	02/28 100.0	FX	500	107.7	0.7	ASW	103	-1	-16	41	159	57	Baa2	BBB+	BBB
ACEIM 0 1/2 04/06/29[1]	01/29 100.0	FX	500	97.8	0.8	ASW	101	-1	-12	40	156	59	Baa2	BBB+	BBB
Hera SpA															
HERIM 3 1/4 10/04/21	-	FX	250	103.5	0.2	ASW	65	4	-4	52	76	5	Baa2	-	BBB
HERIM 2 3/8 07/04/24	-	FX	329	108.1	0.3	ASW	69	-1	-11	35	121	27	Baa2	-	BBB
HERIM 0 7/8 10/14/26	-	FX	400	103.3	0.3	ASW	68	0	-8	18	120	43	Baa2	-	BBB

ACEA, A2A, Hera, Iren bonds/CDS (ASW, bps)

Bond	Next call and price	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 6.8.20	-1W (bps)	-1M (bps)	YTD (bps) 2.1.20	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
HERIM 0 7/8 07/05/27	04/27 100.0	FX	500	102.9	0.5	ASW	77	1	-11	22	136	46	Baa2	-	BBB
HERIM 5.2 01/29/28	-	FX	700	133.7	0.6	ASW	105	-3	-9	38	170	65	Baa2	-	BBB
Iren SpA															
IREIM 3 07/14/21	-	FX	182	102.8	0.0	ASW	41	-1	-14	9	100	16	-	BBB	-
IREIM 2 3/4 11/02/22	-	FX	360	105.6	0.2	ASW	64	0	-16	21	114	31	-	BBB	-
IREIM 0 7/8 11/04/24	-	FX	500	102.6	0.3	ASW	64	1	-12	19	139	41	-	BBB	-
IREIM 1.95 09/19/25	06/25 100.0	FX	500	108.3	0.3	ASW	65	0	-16	6	146	47	-	BBB	-
IREIM 1 1/2 10/24/27	07/27 100.0	FX	500	107.8	0.4	ASW	70	0	-16	-1	164	57	-	BBB	-
IREIM 0 7/8 10/14/29	07/29 100.0	FX	500	103.2	0.5	ASW	77	-1	-17	7	166	58	-	BBB	-
IREIM 1 07/01/30[1]	04/30 100.0	FX	500	102.6	0.7	ASW	95	-	-	-37	133	95	-	BBB	-

Type: FX = Fixed; FL=Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds. SPRD TYPE: ASW=Asset Swap. Ratings: reported in the table refer to individual issues . Notes: 1) YTD from launch date for bonds issued in 2020. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 08:59.

A2A: lower yoy results, but above consensus

A2A reported lower year-on-year 1H20 results, but slightly above Bloomberg consensus expectations. As expected, the performance was weighed on by a negative energy scenario which mainly impacted the Generation business unit. Based on the information currently available, A2A believes that the Covid-19 crisis should have an impact of EUR 10-20M on full-year 2020 EBITDA vs 2019 while the impact on net working capital is estimated at c.EUR 100M at year-end, before then being progressively reabsorbed during 2021. We confirm our NEUTRAL Credit View on A2A.

1H20 results

EBITDA was down 4% yoy, to EUR 559M (Bloomberg: EUR 550M). The performance was mainly due to the result recorded by the Generation business unit (-16% yoy) based on lower energy prices and volumes sold, partially offset by the company's hedging policy, better results from ancillary services (MSD), and lower operating costs. In Q2, EBITDA was down 10% yoy, at EUR 228M (Bloomberg: EUR 219M). EBIT decreased by 14%, to EUR 281M, due to higher D&A (+8% yoy) and increased provisions vs 1H19 (which benefitted from a EUR 4M provision release). Net profit after minorities amounted to EUR 154M (-7% yoy), due to lower net financial expenses (-40% yoy) and lower taxes. Net debt was EUR 3,433M vs EUR 3,154M at YE19, and EUR 3,311M net of change-in-perimeter effects (EUR 122M). Capex were broadly in line with 1H19 (EUR 250M) while working capital was negative for EUR 121M, impacted by Covid-19 effects: ie, difficulties in making payments for retail customers (around EUR 35M) and administrative cash-in delays (around EUR 45M). Leverage (net debt/EBITDA ratio) was 2.8x vs 2.6x at year-end 2019.

Outlook

A2A estimates a net negative impact from the Covid-19 crisis compared with 2019 of EUR 10-20M, mainly deriving from: i) a slowdown in commercial activities (in particular, in the Market and Waste BU) and lower consumption of electricity, gas, heat and water; and ii) direct costs arising from the management of the health emergency situation (eg, purchase of PPE, ICT supplies for collective smart working, extraordinary contributions to municipalities). Based on these hypotheses, A2A confirmed the previously provided 2020 full-year EBITDA guidance of EUR 1,140M (in line with Bloomberg consensus), including EUR 20M of extraordinary items. Regarding working capital, the company expects that tensions experienced in the first half will continue to be seen through the end of 2020 (around EUR 100M estimated for NWC), before then being progressively reabsorbed during 2021. Based on capex of EUR 670-710M (EUR 627M in 2019), net cash flow at year-end is expected to be c. -EUR 300M (excluding M&A impact).

EBITDA breakdown analysis by division

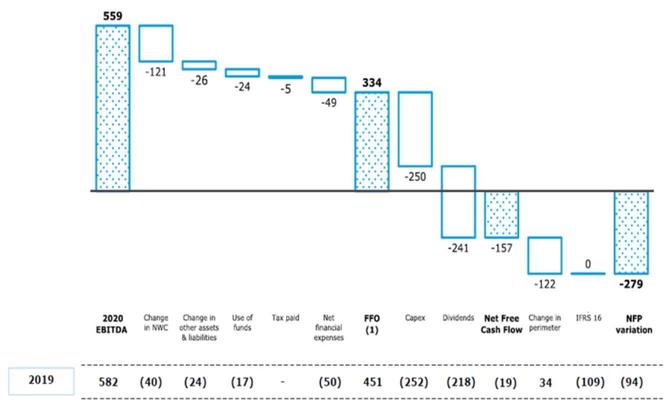
The 1H20 EBITDA breakdown showed: i) Generation down 16% yoy, weighed on by the negative energy scenario partly offset by hedging strategies, higher hydroelectric productions, and a better ancillary service market (MSD); ii) Market EBITDA down 3% yoy, but broadly flat net of non-recurring items (+EUR 3M in 2019), with lower gas volumes (due to the mild temperatures and lockdown) and a lower contribution from white certificates, offset by higher B2B electricity volumes and operating cost reduction; iii) Waste EBITDA up 7%, driven by M&A and higher treatment prices, which more than offset the effects of lower electricity prices and lower waste volumes (collection -6% yoy and treatment -4% yoy); and iv) Network and DH EBITDA down 3% yoy, mainly attributable to a poor district heating performance (-EUR 5M), due to lower volumes sold due to temperature effects and the Covid-19 health emergency.

A2A main results

EUR M	2019A	1H19A	1H20C	1H20A	% yoy	2020G
Revenues	7,324	3,711		3,181	-14.3	
EBITDA	1,234	582	550	559	-4.0	~ 1,140
EBITDA ordinary	1,192	575	98	553	-4.0	
EBITDA margin %	16.8	15.7		17.6		
Generation	301	117		98	-16.2	
Market	229	116		113	-2.6	
Waste	271	135		144	6.7	
Networks & DH	461	227		220	-3.1	
International	-3	-1		-1	0.0	
Corporate	-36	-12		-15	-25.0	
EBIT	687	327	271	281	-14.1	
EBIT margin %	9.4	8.8		8.8		
Group net profit	389	166	147	154	-7.2	~ 690
Capex	627	252	253	250	-0.8	
Net debt	**3,154**		**3,500**	**3,433**	**8.8**	
Net debt/EBITDA (x)	**2.6**		**2.9**	**2.8**		

A: actual; C: consensus: G: guidance. Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

A2A cash flow, 1H20 (EUR M)



Source: Company data

Acea: positive 1H20, EBITDA guidance raised

Acea posted a positive 1H20 performance, with results slightly above consensus expectations. The performance was driven by regulated activities, which in 1H20, contributed around 86% of total EBITDA. Based on these results, Acea raised its 2020 guidance to over 8% growth in EBITDA compared to 2019 (previous guidance: +6%-8%). We confirm our NEUTRAL Credit View on Acea.

1H20 results

Acea's EBITDA rose by 13% yoy, to EUR 569M (Bloomberg: EUR 553M), driven by: i) the Water division (+25% yoy), due to a larger perimeter (manly Acquedotto del Fiora, + EUR 28M), investments made in past years and higher tariffs; and ii) by the Energy Infrastructure division (+7% yoy), due to tariff and regulatory effects. The Environment business performance was negative (-22% yoy), mainly weighed on by the end of CIP6 incentives, only partially offset by a larger perimeter. Regulated activities contributed around 86% of total EBITDA. EBIT was EUR 277M, +7% yoy (Bloomberg: EUR 266M), mainly due to higher depreciation, reflecting the larger perimeter, and increased capex. Group net profit was up 1% yoy, to EUR 144M, partly reflecting positive non-recurring items posted in 1H19. Net debt amounted to EUR 3,528M vs EUR 3,063M at year-end 2019 while leverage (net debt/EBITDA ratio) was 3.2x vs 2.9x. The debt increase mainly reflected: i) higher capex (+20% yoy), of which around 87% of the total was deployed for regulated activities; and ii) a c.EUR 210M working capital impact, mainly due to seasonal effects, and to the impact of the Covid-19 emergency for c.EUR 120M (c.EUR 60M due to delays in collections by Acea Energia and water companies, and c.EUR 60M due to deferred collection of regulatory items).

2020 EBITDA guidance raised

Acea raised its full-year guidance for EBITDA to growth of over 8% growth compared to 2019 (previous guidance: +6-8%). When asked about the drivers for this increase, management highlighted that in 1H, organic growth was 8%, mainly driven by regulated activities, a rate of growth that it expected to be at least confirmed in H2. Net debt guidance was confirmed at EUR 3.45-3.55Bn, factoring in capex broadly in line with 2019 (at c. EUR 800M) and partial reabsorption of the working capital deterioration due to Covid-19 (forecast at c.EUR 50M at year-end).

EBITDA breakdown analysis by division

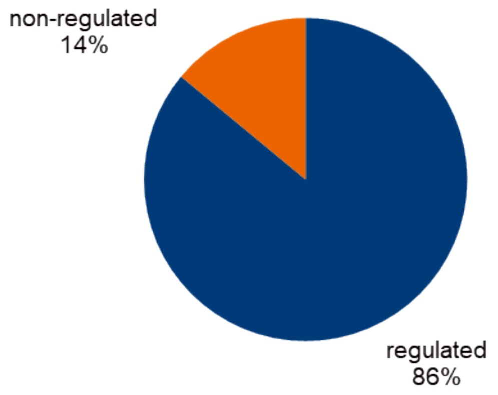
Acea's 1H20 EBITDA breakdown showed the following: i) Water division (including gas distribution) up 25% yoy, driven by the consolidation of Acquedotto del Flora from October 2019 (+EUR 28M) and higher tariffs. Divisional capex rose by 36% yoy (c.56% of total); ii) Energy Infrastructure (generation, electricity distribution and public lighting) up 7% yoy, with positive electricity distribution (+8% yoy) driven by tariffs and regulatory effects. Capex were up 6% yoy, to EUR 141M (34% of total); iii) Commercial & Trading division (energy management and sales) down 5% yoy, weighed on by regulatory effects and a reduction in business customers' consumption in the March-June period due to the Covid-19 emergency; and iv) Environment division (waste treatment, recovery, recycling and disposal, WTE) down 22% yoy (-EUR 7M), with the impact of the expiration of incentives (CIP6) of -EUR 18M only partly offset by M&A, higher disposal prices and higher volumes.

Acea main results

EUR M	2019A	1H19A	1H20A	1H20A	%yoy	2020G
Revenues	3,186	1,553	1,600	1,622	4.4	
EBITDA	1,042	503	553	569	13.2	> 1,125
EBITDA margin %	32.7	32.4	34.6	35.1		
Water	505	244		305	25.0	
Energy Infrastructures	392	193		206	6.6	
Comm. & Trading	69	31		30	-4.5	
Environment	52	34		26	-21.8	
Overseas	17	8		14	75.0	
Engineering	13	7		6	-14.3	
EBIT	518	260	266	277	6.5	
EBIT margin %	16.3	16.7	16.6	16.7		
Net profit	284	143	138	144	0.6	
Capex	793	342	390	411	20.1	~ 800
Net debt	**3,063**		**3,511**	**3,528**	**14.6**	**~ 3,500***
Net debt/EBITDA (x)	**2.9**		**3.2**	**3.2**		

A: actual; C: consensus: G: guidance; * mid-point of provided guidance. Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

Acea EBITDA breakdown (1H20)



Source: Company data

Hera: solid 1H20, in line with consensus

Hera reported solid 1H20 results, broadly in line with consensus expectations. The health emergency impacted all business areas, by roughly EUR 30M overall, entirely due to non-recurring effects, according to Hera, and in line with its previous indications. This negative effect was more than offset by the consolidation of EstEnergy Group (following the partnership with Ascopiave) and improved efficiencies. Cash generation was confirmed as solid, benefitting from positive working capital management. In our view, Hera's 1H20 performance confirmed the group's business resiliency, showing that the economic crisis should have a limited impact. We confirm our POSITIVE Credit View on Hera.

1H20 results

EBITDA was up by 2.5% yoy, to EUR 560M. The performance was driven by both organic growth (+EUR 19M) and M&A activity (+EUR 32M), which allowed Hera to fully offset the impact of Covid-19 (EUR 29.8M), and of mild temperatures (EUR 7.5M). Network activities (regulated) accounted for about 40% of total EBITDA. In Q2, EBITDA was down 2% yoy, at EUR 211M (Bloomberg: EUR 212M). EBIT was up 2.4% yoy, mainly reflecting the higher D&A costs. Net income after minorities was flat yoy, at EUR 166M. Net debt at end of June was EUR 190M lower than at year-end 2019, at EUR 3,084M. Cash generation allowed Hera to cover higher investments (+16% yoy), and to finance M&A transactions and shares buybacks (for a total of EUR 16.4M). The annual dividend payment was postponed to July; however, factoring in the related EUR 164.5M cash-out, the net debt position improved vs year-end 2019, we calculate by c.-1%. For 1H20, working capital management was confirmed to be solid, with a positive contribution of EUR 93M partly reflecting seasonal effects. The net debt/EBITDA ratio was 2.8x (2.95x if we consider dividends paid in July) vs 3.02x at year-end 2019. The ratio was 2.35x excluding the put option on EstEnergy (2.55x at year-end 2019).

EBITDA breakdown analysis by division

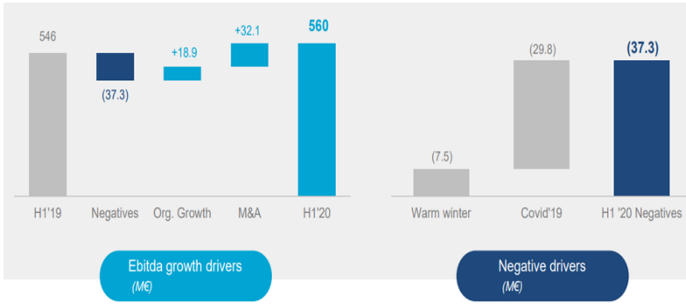
The 1H20 EBITDA breakdown by business area showed the following: i) Electricity EBITDA (electricity production, distribution and sales) was up 12% yoy, to EUR 97M, driven by acquisitions (EstEnergy Group), and ancillary services. The number of customers increased by 14% yoy, to slightly over 1.3 million. The electricity segment accounted for about 17% of group EBITDA; ii) Waste EBITDA (including waste collection, treatment and disposal services) decreased by 3% yoy, to EUR 122M, mainly due to the end of incentives for the Ferrara WTE plant (-EUR 3M) and impact of the Covid-19 pandemic on waste volumes, partly offset by the positive trend in prices for special waste treatment and the newly acquired landfill in Pistoia. The division accounted for c.22% of Hera's EBITDA; iii) Water EBITDA was flat yoy, at EUR 123M, with efficiencies offsetting lower revenues from new connections, customer requests and subcontracted works. The division accounted for c.22% of Hera's EBITDA; and iv) EBITDA for the Gas segment (services in natural gas distribution and sales, district heating and heat management) was up 3% yoy, due to the inclusion of the companies belonging to the EstEnergy Group and AmgasBlu, which offset the lower volumes of gas sold and lower margins for district heating and heat management, due to the mild temperatures experienced in 1H20. The overall number of gas customers increased by almost 560,000, reaching a total of over 2 million, mainly due to the transaction with Ascopiave. The division accounted for c.36% of group EBITDA.

Hera main results

EUR M	2019A	1H19A	1H20C	1H20A	% yoy
EBITDA	1,085	546	560-565	560	2.5
EBITDA margin %	14.6	15.1		15.4	
Gas	342	196		201	2.7
Electricity	179	86		97	12.3
Water	265	123		123	0.0
Waste	264	126		122	-3.1
EBIT	543	289	293-297	296	2.4
EBIT margin %	7.3	8.0		8.2	
Group net profit	402	166	165	166	0.0
Capex	534	207	271	241	16.2
Net debt	**3,274**		**3,341**	**3,084**	**-5.8**
Net debt/EBITDA (x)	**3.02**		**3.0**	**2.81**	
Net debt adj.*	**3,274**			**3,248**	**-0.8**
Net debt adj.*	**3.02**			**2.95**	

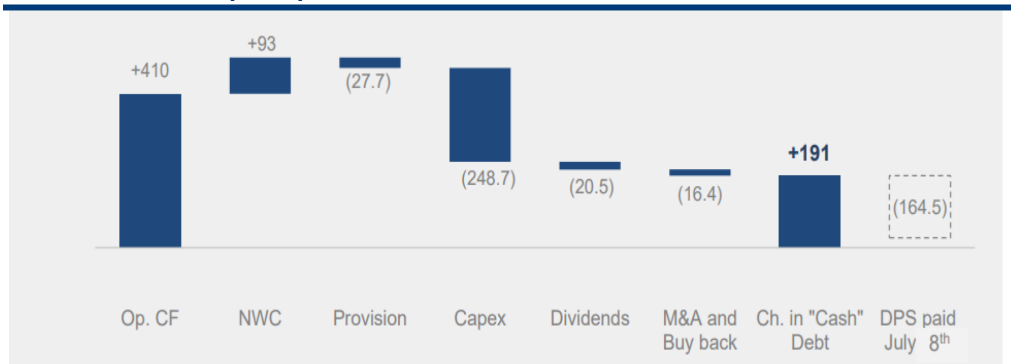
A: actual; C: consensus: G: guidance; * calculated including dividend payment.
Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

Hera EBITDA drivers, 1H20 (EUR M)



Source: Company data

Hera cash flow, 1H20 (EUR M)



Source: Company data

Iren: resilient 1H, EBITDA guidance raised

Despite the materially weaker performance of the Energy business unit, Iren posted resilient 1H20 results, benefitting from its diversified business mix, and from the contribution of regulated (c.46% of consolidated EBITDA) and quasi-regulated activities (c. 24%). In light of the visibility achieved after H1, Iren raised its EBITDA guidance, reflecting expectations of a less severe impact from Covid-19 (EUR 15M vs the previous EUR 25-30M). In May 2020, Iren lowered its forecast for 2020 EBITDA to EUR 880-890M from EUR 900-910M. We note that new guidance (EUR 905-915M) is slightly above the pre-revision target. We confirm our NEUTRAL Credit View on Iren.

1H20 results

EBITDA was down 1% yoy, to EUR 473M (in line with Bloomberg consensus), up 4% yoy when excluding 2020 and 2021 non-recurring items (total net balance of EUR 20M), with a negative performance from the Energy business (-24% yoy) offset by improvements from the Market (+57% yoy) and Networks (+4% yoy) business units. According to Iren, the negative impact on EBITDA generated by the Covid-19 crisis was EUR 10M. In 2Q, EBITDA was down 2% yoy, to EUR 199M (Bloomberg: EUR 198M). EBIT was EUR 232M (-10% yoy), reflecting higher D&A costs and higher provisions for bad debt mainly related to the health crisis. The net financial position increased by EUR 213M vs year-end 2019, to EUR 2,919M, reflecting: i) EUR 254M of technical investments (+29% yoy); and ii) a EUR 118M negative working capital impact, of which EUR 50M was due to provisions for bad debt related to Covid-19. The net debt/EBITDA ratio was 3.2x vs 3.0x at YE19 (3.1x at 1Q20). At the end of June, 96% of Iren's gross debt was at fixed interest rates and the average long-term debt duration was about six years (vs 5.3 years in June 2019). The average cost of debt was 2.2% vs 2.5% in 1H19.

2020 EBITDA guidance raised

In light of the visibility achieved after H1, Iren improved its EBITDA guidance to reflect a forecast less severe impact from Covid-19 (EUR 15M vs the previous EUR 25/30M). At the same time, Iren management confirmed expectations for a net working capital increase of EUR 80M and credit losses of around EUR 25M. The new 2020 guidance envisages: i) EBITDA of EUR 905-915M (of which EUR 5-7M from M&A) vs the previous EUR 880-890M; ii) a net debt/EBITDA ratio of c.3.5x (of which 0.2x from M&A) vs the previous 3.4-3.5x; and iii) capex of c.EUR 650M (in line with previous expectations). Iren expects to present its updated strategic plan by the end of September.

EBITDA breakdown analysis by division

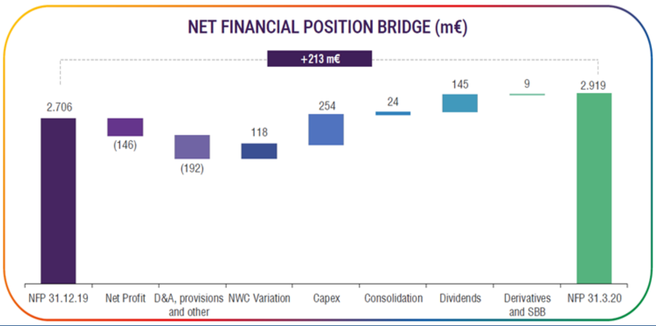
The 1H20 EBITDA breakdown showed the following results: i) Energy (generation, district heating and energy efficiency) down 24% yoy (-13% yoy net of non-recurring items for 2020 and 2021), weighed on by lower prices and lower volumes (due to the health crisis and mild temperatures); ii) Market up 57% yoy, driven by higher margins, more than offsetting the lower volumes due to lockdown. During 1H20, the customer base increased by about 47,000 (of which 21,000 related to the SanremoLuce acquisition), reaching 1.863 million. For full-year 2020, Iren expects to see a stabilisation of the recovery in gas and electricity margins; iii) Networks (electricity, gas and water) up 3.5% yoy, driven by higher revenues (RAB growth) and synergies; and iv) Waste down 4% yoy, mainly due to the lower prices of electricity produced by the waste-to-energy plants (WTE) and lower volumes of special waste treated and disposed of. For 2020, Iren expects waste results to be slightly above those recorded in 2019, with consolidation activities offsetting the Covid-19 impacts.

Iren main results

EUR M	2019A	1H19A	1H20C	1H20A	yoy%	2020G
Revenues	4,275	2,238	1,901	1,826	-18.4	
EBITDA	917	478	474	473	-1.0	905-915
EBITDA margin %	21.5	21.4		25.9		
Energy	274	166		127	-23.5	
Networks	164	77		78	1.3	
Water	209	95		101	5.2	
Market	110	55		86	57.0	
Waste	158	84		80	-3.8	
Services and other	2	1		1	0.0	
EBIT	452	258	208	232	-10.0	
EBIT margin %	10.6	11.5		12.7		
Group net profit	237	151		133	-11.9	
Capex	524	197		254	28.9	~650
Net Debt	**2,706**		**2,937**	**2,919**	**7.9**	
Net Debt/EBITDA (x)	**3.0**		**3.0**	**3.2**		**~3.5**

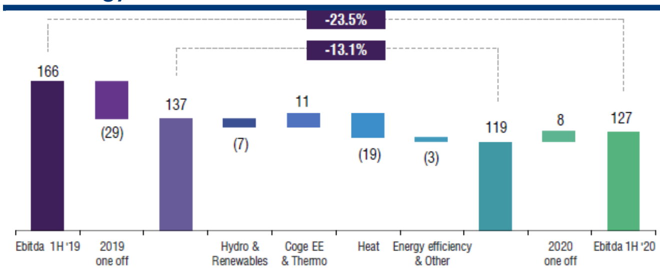
A: actual; C: consensus: G: guidance. Source: Intesa Sanpaolo Research elaboration on Company and Bloomberg data

Iren cash flow, 1H20 (EUR M)



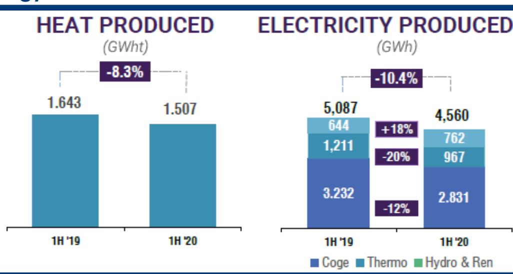
Source: Company data

Iren: Energy business unit



Source: Company data

Iren: Energy business unit



Source: Company data

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Corporate credit view key

Credit rating key

Credit view	Definition
POSITIVE	We expect an improvement in fundamentals over the next six months
NEUTRAL	We expect substantially stable fundamentals over the next six months
NEGATIVE	We expect a deterioration in fundamentals or visibility on fundamentals over the next six months
SUSPENDED	The credit view and investment recommendation for this company have been suspended as there is not a sufficient fundamental basis for determining an investment view. The previous credit view, if any, is no longer in effect for this company
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Historical Credit View and Investment Recommendation Changes

A2A - Historical Credit View (-1Y)

Date	Credit View

Acea - Historical Credit View (-1Y)

Date	Credit View

Hera - Historical Credit View (-1Y)

Date	Credit View

Iren - Historical Credit View (-1Y)

Date	Credit View
30-Oct-19	NEUTRAL

A2A - Historical Investment Recommendations (-1Y)

Date	Investment Grade Senior Unsecured

Acea - Historical Investment Recommendations (-1Y)

Date	Investment Grade Senior Unsecured
14-May-20	BUY

Hera - Historical Investment Recommendations (-1Y)

Date	Investment Grade Senior Unsecured

Iren - Historical Investment Recommendations (-1Y)

Date	Investment Grade Senior Unsecured
16-Sep-19	HOLD

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of which Intesa Sanpaolo's clients* (%)	67	88	75

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category; ** Total number of companies covered is 33.

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