

Societatea Energetică Electrica (EL)

BUY

Interim Update

Price Target: 13.0 RON (+16.8%)

Key Points

- **Electrica's final results for 2024 showed a 19.8% drop in total revenues, from RON 13.3 bn to RON 10.7 bn**, in line with expectations and slightly above our estimate (RON 10.2 bn). The decrease was driven by a slowdown in the supply segment, where the company recorded 13.1% lower revenues (RON 6.3 bn vs. RON 7.28 bn previously), only partially offset by growth in the distribution segment (+6.8% compared to 2023).
- **EBITDA fell by 13.8% to RON 1.85 bn (vs. RON 1.98 bn estimated)**, amid a somewhat faster rise in salary expenses (+12.0%, to RON 1.07 bn vs. RON 1.02 bn estimated). Although energy costs recorded a significant decline (from RON 9.05 bn to RON 6.58 bn, -27.3%), they were still slightly above our estimate of RON 6.14 bn. Net profit dropped by 49.5%, from RON 772 mil to RON 390 mil, compared to RON 471 mil estimated.
- **The DCF model estimate indicates a price of RON 13.0/share for Electrica (+16.8% upside potential)**, but given the recent extreme volatility caused by new tariff measures imposed by the US, the target price estimate remains under review — not least due to the material macro-level implications, both for economic growth and inflation.
- **An important aspect to mention is the qualified opinion expressed by the auditor.** The basis of this opinion was related to the evaluation of trade receivables, specifically, a portion of receivables that were still unbilled to end clients, for which the auditor did not receive sufficient audit evidence to determine any necessary adjustments. The receivables in question total RON 979.5 mil — approximately equal to the total profit generated over the past two years. During the investor conference, the company's management provided sufficient and appropriate clarifications, in our view. Specifically, the unbilled amounts were caused by the need to apply GEO 312/2024, which required the cancellation and reissuance of invoices with the tariff related to contributions under CfD contracts — a situation that triggered complex technical adjustments in the company's IT systems and led to delays in the billing process. Management stated that the amount corresponds to approximately 430 GWh of electricity delivered and 97% mapped to consumption points, and that it will be invoiced no later than April 30, 2025. Based on our surveys, the situation faced by the company was not unique, being similar to that of other energy suppliers in the market (Hidroelectrică, PPC Energie, E.ON Energie), which is why we did not deem it necessary to estimate a potential write-off.

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Sector: Utilities

Shares information

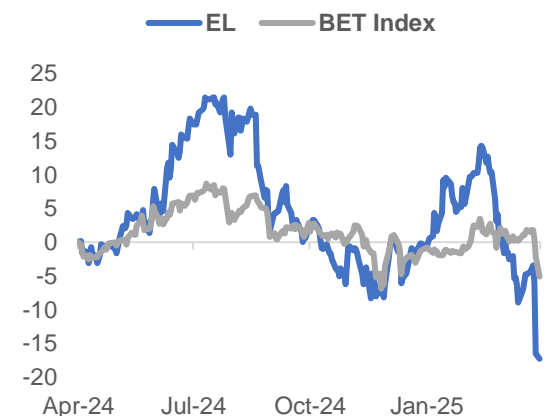
Min/max price, 52 weeks.	11,2 – 16,38
Dividend/share	0,1767
Total Shares (mln.)	339,55
Capitalization (mln. RON)	3.802,9
52 weeks liquidity (mln. RON)	344,7

Major Shareholders

	%
Romanian Gov.	49,8
Institutional	45,6
Retail	4,6

1-year performance vs BET

	%
EL	-17,3
BET Index	-5,1



source: Bloomberg

2024 Results Overview

Electrica's results for the end of 2024 showed a 19.8% drop in total revenues, from RON 13.3 bn to RON 10.7 bn, driven by a 13.1% decline in supply segment revenues (RON 6.3 bn vs. RON 7.3 bn), as well as a 51.7% drop in other revenues, down to RON 1.7 bn, due to significantly lower subsidies received compared to the previous year.

The distribution segment recorded a 6.8% increase year-over-year, with revenues reaching RON 4.7 bn, supported by a 4.2% increase in distributed electricity volumes, up to 17.77 TWh, and a 2.5% rise in the average achieved tariff, up to RON 265/MWh (own calculations, regulated tariff +6.8%).

CPT (technological consumption) costs rose by 9%, reaching RON 1,077 mil, mainly due to an 11% increase in the average purchase price, felt especially in Q4 2024, when producers sold voluntarily to OPCOM at RON 400/MWh.

Distribution EBITDA rose by 10.0%, reaching RON 1.58 bn, while net profit increased by 13.7% to RON 726 mil. The regulated net profit for 2024 stood at RON 900 mil, excluding the effect of the capitalized CPT cost deviation of RON 190 mil.

The Regulated Asset Base (RAB) for 2024 increased by 6.1%, reaching RON 8.16 bn, while the RAB for 2022 and 2023 was adjusted based on actual inflation instead of estimated inflation. The return on assets (RRR) for Regulatory Period 5 (RP5) was revised upward to 6.39% from 5.66%, which led us to revise our distribution revenue forecast upward (RON 4.46 bn vs. RON 3.99 bn previously), with a positive impact on the company's target price.

However, much of this upside was offset by a less optimistic forecast regarding CPT cost evolution, which exceeded estimates in 2024.

In the supply segment, Electrica reported a 13.1% decline in revenues, down to RON 6.32 bn, due to a 2.6% drop in sales volumes and a 36.0% decrease in electricity purchase costs (which also contributed to the revenue decline).

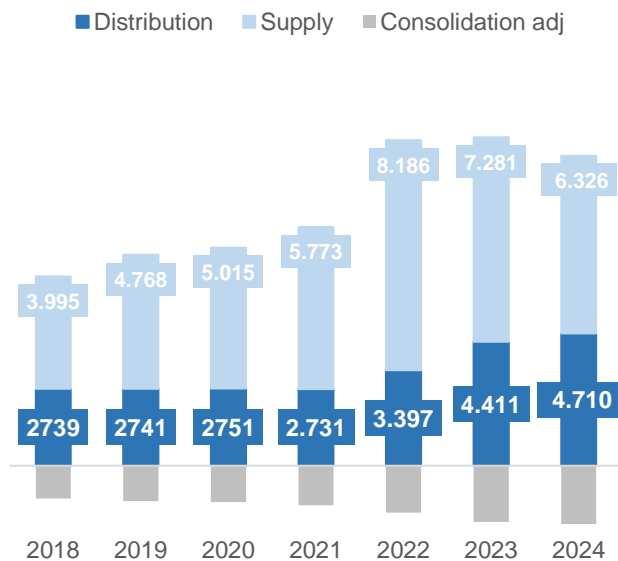
EBITDA for the supply segment was negative, at -RON 167 mil, compared to +RON 305 mil a year earlier. Overall, the segment posted losses of -RON 338 mil, significantly affected by the drop in subsidies received from the state following the decrease in electricity acquisition costs.

(RON mln, consolidated)	2023	2024	chg
Total Revenues	13.315	10.684	-19,8%
Energy Costs	(9.058)	(6.589)	-27,3%
Gross Result	4.257	4.095	-3,8%
Salary Expenses	(962)	(1.078)	12,0%
Construction & Repairs	(1.147)	(1.166)	1,6%
EBIT	2.148	1.852	-13,8%
Depreciation and Amortization	(524)	(598)	14,0%
Other Operating Expenses	(431)	(490)	13,6%
EBIT	1.192	764	-35,9%
Financial Revenue	3	13	268,5%
Financial Expenses	(297)	(290)	-2,5%
Pre-tax Income	898	487	-45,8%
Income Tax	(126)	(97)	-22,7%
Net Income	772	390	-49,5%

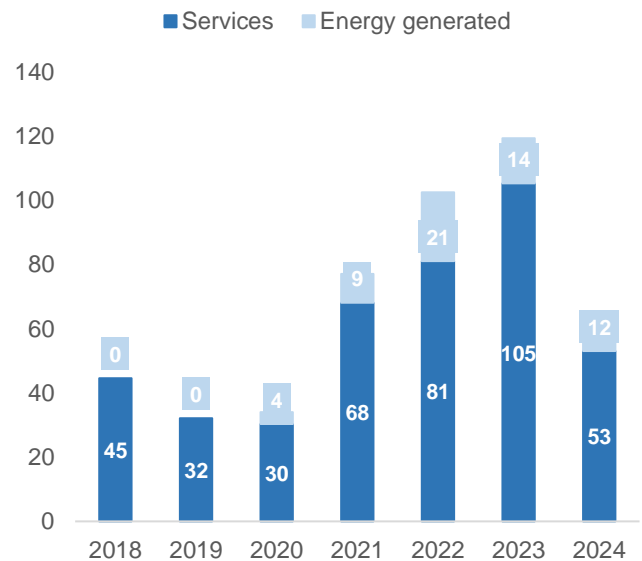
source: EL, own estimates

(RON mln, consolidated)	2024f	2024e	chg
Total Revenues	10.684	10.229	4,4%
Energy Costs	(6.589)	(6.143)	7,3%
Gross Result	4.095	4.086	0,2%
Salary Expenses	(1.078)	(1.023)	5,3%
Construction & Repairs	(1.166)	(1.074)	8,5%
EBIT	1.852	1.989	-6,9%
Depreciation and Amortization	(598)	(615)	-2,8%
Other Operating Expenses	(490)	(522)	-6,1%
EBIT	764	852	-10,3%
Financial Revenue	13	16	-20,9%
Financial Expenses	(290)	(307)	-5,6%
Pre-tax Income	487	561	-13,3%
Income Tax	(97)	(90)	8,3%
Net Income	390	471	-17,4%

source: EL, own estimates



source: EL, own estimates



source: EL, own estimates

DCF Valuation

We value the company at RON 13.0/share in our DCF model (+16.8% upside), where we factored in an improvement in the EBITDA margin from the current 17.3% to 21.5% by 2029. Other assumptions in our model include:

- Weighted Average Cost of Capital (WACC) of 10.3%, calculated using a cost of equity of 13.5% and a cost of debt of 7.8%;
- Levered Beta of 0.8, estimated through linear regression against the BET index;
- Market Risk Premium of 7.7%, representing the historical total return of the BET index over the 10-year government bond yield of 7.3%;
- Terminal Value estimated using the Gordon Growth model, with a terminal growth rate of 3.0%, aligned with the long-term inflation rate.

(RON mln, consolidated)	Reported 31-Dec-24	Estimated 31-Dec-25	Estimated 31-Dec-26	Estimated 31-Dec-27	Estimated 31-Dec-28	Estimated 31-Dec-29
Total Revenues	10.684	10.432	10.086	9.969	10.196	10.457
<i>% chg</i>	-19,8%	-2,4%	-3,3%	-1,2%	2,3%	2,6%
EBITDA	1.852	2.387	1.778	1.727	1.975	2.250
<i>EBITDA M</i>	17,3%	22,9%	17,6%	17,3%	19,4%	21,5%
EBIT	764	1.298	619	552	768	1.008
<i>EBIT M</i>	7,2%	12,4%	6,1%	5,5%	7,5%	9,6%
EBIT*(1- Tax Rate)	611	1.091	520	464	645	847
D&A	598	640	725	746	769	792
WCC	-1.023	-94	-91	-90	-92	-94
CAPEX	-1.206	-906	-933	-959	-968	-986
FCFF	-1.019	730	221	161	354	558
<i>discount factor</i>		0,91	0,82	0,74	0,67	0,61
<i>NPV FCFF</i>		662	181	120	239	341
PV FCFF	1.543					
PV Terminal Value	7.326					
Terminal growth	3,0%					
Firm Value	8.869					
Net Debt	4.468					
Equity Value	4.401					
No. shares	340					
Price/share	12,96					
Market Price	11,10					
Upside/Downside	16,76%					

source: EL, own estimates

Financial Statements and Estimates

(RON M, consolidated)	Reported 2021	Reported 2022	Reported 2023	Reported 2024	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e	Estimated 2029e
Total Revenues	7.375	12.851	13.315	10.684	10.432	10.086	9.969	10.196	10.457
Energy Costs	-5.695	-10.507	-9.058	-6.589	-6.094	-6.432	-6.368	-6.304	-6.241
Gross Result	1.680	2.344	4.257	4.095	4.337	3.654	3.601	3.892	4.215
Salary Expenses	-803	-823	-962	-1.078	-960	-928	-917	-938	-962
Construction & Repairs	-659	-794	-1.147	-1.166	-991	-948	-957	-979	-1.004
EBITDA	218	727	2.148	1.852	2.387	1.778	1.727	1.975	2.250
Depreciation and Amortization	-481	-496	-524	-598	-640	-725	-746	-769	-792
Other Operating Expenses	-343	-353	-431	-490	-449	-434	-429	-438	-450
EBIT	-606	-123	1.192	764	1.298	619	552	768	1.008
Financial Revenue	3	10	3	13	16	16	16	16	16
Financial Expenses	-30	-175	-297	-290	-223	-216	-214	-218	-224
Other financial income/exp	0	0	0	0	0	0	0	0	0
Pre-tax Income	-632	-288	898	487	1.091	419	354	565	800
Income Tax	80	47	-126	-97	-175	-67	-57	-90	-128
Net Income	-553	-240	772	390	916	352	297	475	672

source: EL, own estimates

RATIOS	Reported 2021	Reported 2022	Reported 2023	Reported 2024	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e	Estimated 2029e
GPM	22,8%	18,2%	32,0%	38,3%	41,6%	36,2%	36,1%	38,2%	40,3%
EBITDA M	3,0%	5,7%	16,1%	17,3%	22,9%	17,6%	17,3%	19,4%	21,5%
EBIT M	-8,2%	-1,0%	9,0%	7,2%	12,4%	6,1%	5,5%	7,5%	9,6%
NPM	-7,5%	-1,9%	5,8%	3,6%	8,8%	3,5%	3,0%	4,7%	6,4%
ROE	-10,3%	-5,0%	15,6%	7,0%	13,3%	4,8%	3,7%	5,4%	7,3%
ROA	-6,9%	-2,6%	6,6%	2,9%	5,6%	2,0%	1,5%	2,2%	3,0%

source: EL, own estimates

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