

Societatea Energetică Electrica (EL)

HOLD

Company Update

Price Target: 14.8 RON (+10.3%)

Key Points

- **In the first nine months of the year, Electrica reported total revenues of 7,375.8 mn RON, down by 24.9%** compared to the same period last year. This decline was primarily driven by a 15.2% decrease in revenues from the supply segment, while the distribution segment showed positive performance with an 8.1% increase in revenues. On the other hand, electricity acquisition costs significantly decreased by 36.1%, primarily due to the lower average price achieved by the company following the implementation of the MACEE centralized procurement mechanism.
- **EBITDA increased by 3.2% YoY, reaching 1,561 mn RON. This growth was also supported by a 10.3% reduction in construction and repair expenses.** The net energy margin (revenues minus electricity costs) reached 33.1%—the highest level in the last three years—aligning with historical averages after two years where margins were near 0%.
- **The upward adjustment of distribution tariffs by an average of 5%, combined with reduced electricity acquisition costs and associated lower NL (network loss) costs (-10.9%),** improved the EBITDA margin from 15.4% to 21.2% as the company managed to return to pre-2020 levels. However, net profit declined by 38.4%, impacted by a 53.2% rise in operating expenses and a negative financial result (-237.8 mn RON).
- **For the year-end 2024, we expect total revenues to decrease by 23.2%, primarily due to declining supply revenues and reduced state subsidies.** NL-related costs for the next year will continue to be influenced by the MACEE-regulated procurement mechanism, which we expect to remain in place until at least the first half of 2026. Consequently, we see energy acquisition costs lower in the next two years.
- **In our DCF model, the company is valued at 14.8 RON per share, where we penciled in an improvement in the EBITDA margin to 25% over the next two years.** We anticipate the extension of the MACEE mechanism up to 2026 and then expect a phase-out after 2027. While we see electricity prices lower over the next five years (aligned with German energy prices), the company's results remain vulnerable to temporary price spikes and increased costs during periods of high demand. Our forecast for the regulated revenues for the distribution segment implies a gradual 5% average annual tariff increase over the next five years while remaining well below market levels.

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Sector: Utilities

Shares information

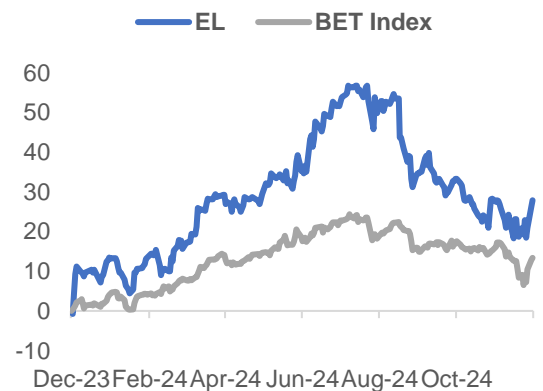
Min/max price, 52 weeks.	10,1 – 16,38
Dividend/share	0,1178
Total Shares* (mln.)	339,55
Capitalization (mln. RON)	4.454.93
52 weeks liquidity (mln. RON)	573,3

Major Shareholders

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

1-year performance vs BET

EL	27,9
BET Index	13,4



source: Bloomberg

9M Results Overview

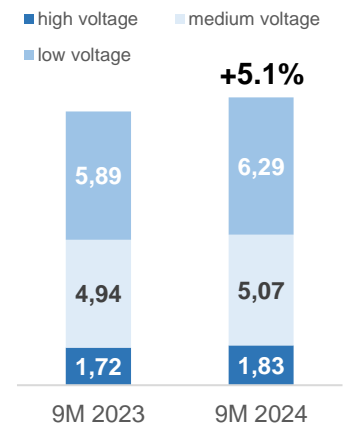
Electrica reported a 24.9% decline in total revenues compared to the same period last year. The decrease was mainly driven by weaker performance in the supply segment, with revenues falling to 4,531 mn RON from 5,344 mn RON in the prior period (-15.2%). This decline resulted from a 1.8% reduction in supplied electricity volumes, dropping from 5.7 TWh to 5.6 TWh, as well as lower electricity procurement costs (on forward markets and DAM). These factors also led to reduced subsidies from the Ministry of Energy. Supply segment EBITDA was negative at -255 mn RON, a drop of 478 mn RON compared to the same period last year. While the number of consumption points remained stable at 3.5 mn, the company's market share in the total supply market declined from 16.6% in 2023 to 15.43% in July 2024, reflecting limited success in expanding the customer base.

On the distribution side, revenues increased by 8.1%, driven by a 5.1% growth in distributed electricity volumes, from 12.55 TWh to 13.19 TWh, and a 5.3% average increase in ANRE-regulated tariffs across the pricing framework. NL (network losses) costs dropped by 10.9% to 671 mn RON, corresponding to 1.274 TWh, aligning with the revised NL targets set by ANRE. These improvements were influenced by changes to the MACEE mechanism from April 1, 2024, which allowed producers to sell 80% of available energy at 400 RON/MWh, compared to 450 RON/MWh previously.

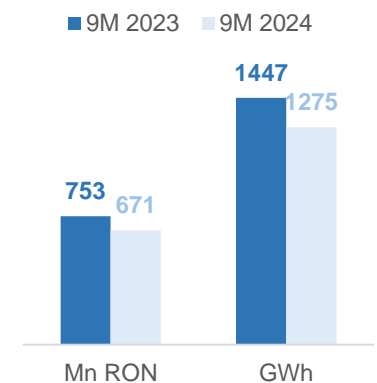
Overall company EBITDA grew modestly by 3.2% to 1,561 mn RON, supported by a 10.3% reduction in construction and repair expenses. However, increased depreciation expenses (+12.9%) and other operating costs (+53.2%) led to a 21.9% decrease in EBIT.

Net profit for the first nine months was reported at 302 mn RON, down 38.4% compared to the same period last year. For the full year 2024, we forecast a net profit of 471 mn RON.

Energy Volumes - Distribution



Network Losses (RON & GWh)



source: EL, own estimates

(RON mln, consolidated)	9M 2023	9M 2024	var
Total Revenues	9.824	7.376	-24,9%
Energy Costs	(6.854)	(4.377)	-36,1%
Gross Result	2.970	2.999	1,0%
Salary Expenses	(692)	(752)	8,6%
Construction & Repairs	(766)	(687)	-10,3%
EBIT	1.512	1.561	3,2%
Depreciation and Amortizatic	(388)	(438)	12,9%
Other Operating Expenses	(326)	(499)	53,2%
EBIT	798	624	-21,9%
Financial Revenue	18	8	-57,0%
Financial Expenses	(235)	(245)	4,6%
Pre-tax Income	582	386	-33,6%
Income Tax	(91)	(84)	-8,1%
Net Income	491	302	-38,4%

source: EL, own estimates

(RON mln, consolidated)	Q3 2023	Q3 2024	var
Total Revenues	3.142	2.656	-15,5%
Energy Costs	(1.913)	(1.588)	-17,0%
Gross Result	1.230	1.068	-13,2%
Salary Expenses	(241)	(263)	9,2%
Construction & Repairs	(292)	(208)	-28,7%
EBIT	697	596	-14,4%
Depreciation and Amortization	(131)	(146)	11,8%
Other Operating Expenses	(90)	(149)	66,0%
EBIT	476	301	-36,8%
Financial Revenue	6	4	-39,1%
Financial Expenses	(82)	(71)	-13,6%
Pre-tax Income	401	234	-41,5%
Income Tax	(52)	(34)	-35,4%
Net Income	348	200	-42,5%

source: EL, own estimates

Model Update and Estimates

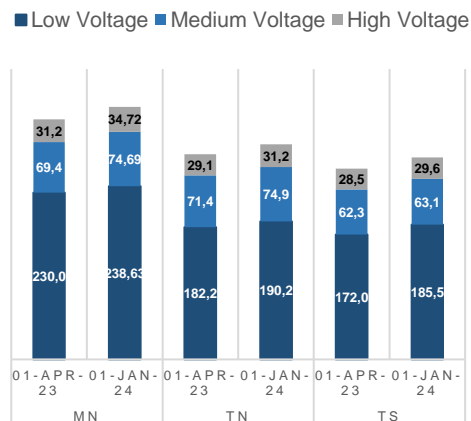
By end-2024, we forecast revenues from the distribution segment at 4,609 mn RON, a 4.5% increase driven by higher distributed volumes. Supply segment revenues are expected to decline by 17.1% to 6,035 mn RON. However, Q4 revenues in both segments could be above average lifting our 2024 forecast, considering the significant rise in electricity prices on the Day-Ahead Market (DAM) in November, when it reached 836.1 RON/MWh.

We anticipate the extension of the MACEE mechanism until 2026, as it is formally set to expire in March 2025. Tariff caps are unlikely to be removed, as energy prices have increased in the latter half of the year. Political discussions amongst the main parties have also included continuing price caps and energy subsidies as key conditions for forming the new government.

We assume the mechanism will be phased out starting in 2027, which will directly impact NL costs. We forecast the regulated tariff for the distribution segment to increase from 219.0 RON/MWh in 2024 to 241.1 RON/MWh by 2029, driven by annual growth assumptions of 3.0%- 4.0% for OPEX, CAPEX, and depreciation expenses. We estimate the regulated return on the Regulated Asset Base (RAB) at 6.94% for the 2025-2029 regulatory period while regulated assets are assumed to grow at an average rate of 2.0% per year during this period.

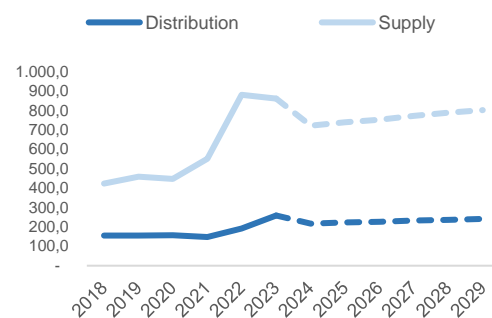
NL-related costs are projected to decrease, driven by a reduction in NL energy volumes from 2.02 TWh in 2024 to 1.84 TWh by 2029. This decline is coupled with an anticipated 2% annual decrease in energy prices. We used the same market price forecast applied to Transelectrica, based on a linear regression model aligned with international energy prices (e.g., Germany).

Regulated Tariffs - Distribution



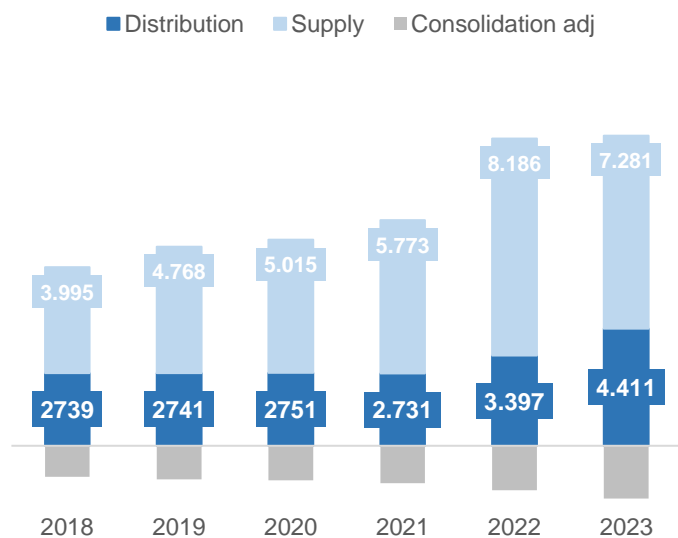
source: EL, own estimates

Average Tariffs - Distribution & Supply



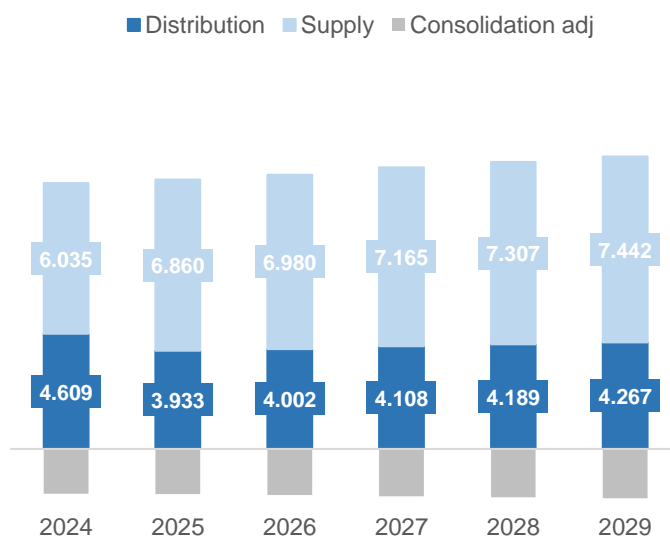
source: EL, own estimates

Segment income – Supply & Distribution



source: EL, own estimates

Segment Forecasts – Supply & Distribution



source: EL, own estimates

DCF Valuation

We value the company at 14.8 RON per share based on our DCF model (+10.3% upside). Electrica trades close to fair value but we still see a high degree of uncertainty related to the electricity price forecasts. We see an EBITDA improvement from 19.6% to 22.5% by the end of 2029. Other assumptions in our model include:

- Weighted Average Cost of Capital (WACC) of 10.6%, calculated using a cost of equity of 13.6% 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 8.2%, representing the historical total return of the BET index over the 10-year government bond yield of 7.07%;
- 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-23	Estimated 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	13.315	10.229	10.432	10.615	9.772	9.966	10.151
% chg	3,6%	20,7%	20,7%	20,7%	20,7%	20,7%	20,7%
EBITDA	2.148	1.989	2.387	2.651	1.867	2.085	2.284
EBITDA M	16,1%	19,4%	22,9%	25,0%	19,1%	20,9%	22,5%
EBIT	1.192	852	1.298	1.529	755	936	1.099
EBIT M	9,0%	8,3%	12,4%	14,4%	7,7%	9,4%	10,8%
EBIT*(1- Tax Rate)	1.085	716	1.091	1.284	634	787	923
D&A	524	615	640	665	692	720	748
WCC	379	-89	-91	-92	-85	-87	-88
CAPEX	-877	-1.127	-906	-933	-959	-968	-986
FCFF	1.111	115	733	924	282	452	597
discount factor		0,90	0,82	0,74	0,67	0,60	0,55
NPV FCFF		104	599	682	188	273	326
PV FCFF	2.172						
PV Terminal Value	6.587						
Terminal growth	3,0%						
Firm Value	8.759						
Net Debt	3.725						
Equity Value	5.034						
No. shares	340						
Price/share	14,83						
Market Price	13,44						
Upside/Downside	10,32%						

source: EL, own estimates

Sensitivity Analysis:

		Terminal Growth Rate				
		2,00%	2,50%	3,00%	3,50%	4,00%
Weighted Average Cost of Capital	10,00%	14,48	15,84	17,40	19,19	21,29
	10,62%	12,41	13,54	14,83	16,29	17,97
	11,00%	11,29	12,31	13,46	14,76	16,25
	12,00%	8,76	9,54	10,41	11,39	12,49

Financial Statements

(RON M, consolidated)	Reported 2021	Reported 2022	Reported 2023	Estimated 2024e	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e	Estimated 2029e
Total Revenues	7.375	12.851	13.315	10.229	10.432	10.615	9.772	9.966	10.151
Energy Costs	-5.695	-10.507	-9.058	-6.143	-6.094	-5.990	-6.068	-6.008	-5.959
Gross Result	1.680	2.344	4.257	4.086	4.337	4.625	3.704	3.958	4.192
Salary Expenses	-803	-823	-962	-1.023	-960	-977	-899	-917	-934
Construction & Repairs	-659	-794	-1.147	-1.074	-991	-998	-938	-957	-974
EBITDA	218	727	2.148	1.989	2.387	2.651	1.867	2.085	2.284
Depreciation and Amortizatic	-481	-496	-524	-615	-640	-665	-692	-720	-748
Other Operating Expenses	-343	-353	-431	-522	-449	-456	-420	-429	-436
EBIT	-606	-123	1.192	852	1.298	1.529	755	936	1.099
Financial Revenue	3	10	3	16	16	17	15	16	16
Financial Expenses	-30	-175	-297	-307	-223	-227	-209	-213	-217
Other financial income/exp	0	0	0	0	0	0	0	0	0
Pre-tax Income	-632	-288	898	561	1.091	1.318	560	739	897
Income Tax	80	47	-126	-90	-175	-211	-90	-118	-144
Net Income	-553	-240	772	471	916	1.107	471	620	754

source: EL, own estimates

RATIOS	Raportat 2021	Raportat 2022	Raportat 2023	Estimat 2024e	Estimat 2025e	Estimat 2026e	Estimat 2027e	Estimat 2028e	Estimat 2029e
GPM	22,8%	18,2%	32,0%	39,9%	41,6%	43,6%	37,9%	39,7%	41,3%
EBITDA M	3,0%	5,7%	16,1%	19,4%	22,9%	25,0%	19,1%	20,9%	22,5%
EBIT M	-8,2%	-1,0%	9,0%	8,3%	12,4%	14,4%	7,7%	9,4%	10,8%
NPM	-7,5%	-1,9%	5,8%	4,6%	8,8%	10,4%	4,8%	6,2%	7,4%
ROE	-10,3%	-5,0%	15,6%	8,1%	14,2%	14,8%	5,5%	6,3%	7,3%
ROA	-6,9%	-2,6%	6,6%	3,5%	5,9%	6,2%	2,3%	2,7%	3,0%

source: EL, own estimates

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