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CREDIT OPINION

27 August 2020

Update

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RATINGS

Hera S.p.A.

Domicile	Bologna, Italy
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Hera S.p.A.

Update following Q2 results

Summary

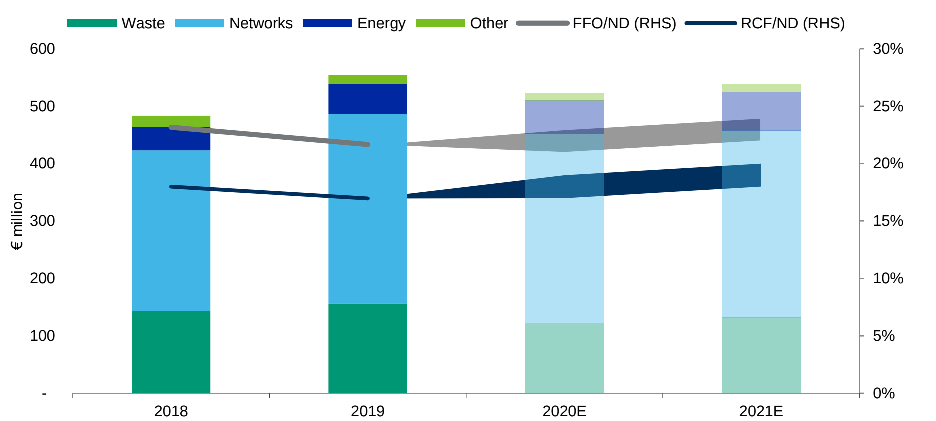
The credit profile of Hera S.p.A. (Hera, Baa2 stable) is supported by the company's (1) diversified business mix; (2) portfolio of low-risk domestic regulated activities (43% of EBITDA in 2019),with limited exposure to volumes and underpinned by supportive and transparent regulatory frameworks; (3) strategy of growth through small and medium scale acquisitions funded with exchange of shares; and (4) solid liquidity and financial profiles.

These positives are balanced by (1) the exposure to the credit profile of the Government of Italy (Baa3 stable), given that Hera generates all its earnings domestically; (2) Hera's exposure to the macroeconomic cycle and competitive pressure through its waste management and electricity and gas supply businesses (around 47% of EBITDA in 2019) and (3) the exposure, although limited, of Hera's power generation (4% of EBITDA in 2019) and waste businesses to volatile power prices in Italy.

Exhibit 1

Hera's investment plan is calibrated to support the company's current financial profile

Planned capital spending (LHS) and evolution of key credit metrics (RHS



(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) Historical and projected ratios do not include the adjustment related to Hera's securitisation of receivables because the company does not disclose such amounts. (3) 2020-21 metrics and ratios represent Moody's forward view and not the view of the issuer. The slight drop in 2019 metrics mainly reflects the financial liability linked to put option granted to the minority shareholders of EstEnergy and Hera Comm following the partnership with Ascopiave S.p.A. (Ascopiave). (4) Networks mainly include electricity, gas and water distribution regulated activities in Italy. (5) FFO stands for funds from operations, RCF stands for retained cash flow and ND stands for net debt. (6) Capex excludes consolidation activities.
Source: Hera, Moody's Investors Service

We consider that the impact from the coronavirus outbreak on Hera´s credit profile will remain limited, largely concentrated on the power generation and energy supply segment, owing to lower commodity prices, and the waste management segment due to lower treatment volumes. Nonetheless, Hera's portfolio of regulated activities as well as the changes in its scope of operations, in particular following the recent partnership with Ascopiave, will offset the negative effects of the coronavirus outbreak.

Credit strengths

» Diversified business mix

» Portfolio of low-risk domestic regulated networks, with limited price and volume exposure

» Credit-friendly strategy of external growth based on small and medium scale acquisitions funded through exchange of shares

» Solid financial and liquidity profiles

Credit challenges

» Exposure to potential changes in the Government of Italy's credit profile, since all of Hera's revenue and earnings are generated domestically

» Exposure of unregulated businesses to the cyclical macroeconomic environment and, although to a lesser extent, to volatile power prices

» Planned liberalisation of the retail energy supply market in Italy is likely to increase competition and could weigh on Hera's energy business margins

Rating outlook

The stable outlook is in line with the stable outlook on the Government of Italy's rating, reflecting the company's links with the sovereign, which constrain Hera's ratings at Baa2. The stable outlook also reflects our expectation that Hera will maintain its current solid financial and liquidity profiles.

Factors that could lead to an upgrade

» An upgrade of the Government of Italy's rating; and

» Hera maintaining its current underlying credit profile, reflected in funds from operations (FFO)/net debt above the high teens and retained cash flow (RCF)/net debt above the low teens, both in percentage terms, and a good liquidity position.

Factors that could lead to a downgrade

» A downgrade of the Government of Italy's rating

» A structural deterioration in Hera's own credit profile as might be illustrated, for example, by a weakening of its financial ratios, including FFO/net debt below the mid-teens or RCF/net debt below the low double digits, both in percentage terms

» A deterioration in Hera's business risk profile as a result of its growth strategy, with no offsetting strengthening in its credit metrics

Key indicators

Exhibit 2
Hera S.p.A.

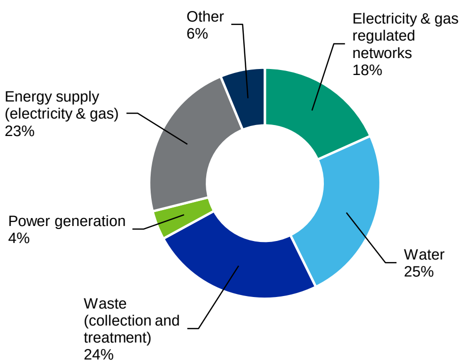
	2016	2017	2018	2019	2020E	2021E
FFO interest coverage	6.2x	7.0x	7.4x	8.2x	6.6x	6.6x
FFO / Net Debt	20.5%	21.7%	23.2%	21.7%	22.0%	23.0%
RCF / Net Debt	15.4%	16.8%	18.0%	17.0%	17.7%	19.0%

(1) All figures and ratios are calculated using Moody's standard adjustments. (2) All figures and ratios do not include the adjustment related to Hera's securitisation of receivables because the company does not disclose such amounts. (3) Metrics and ratios for 2020-21 represent Moody's forward view and not the view of the issuer.
Source: Moody's Investors Service

Profile

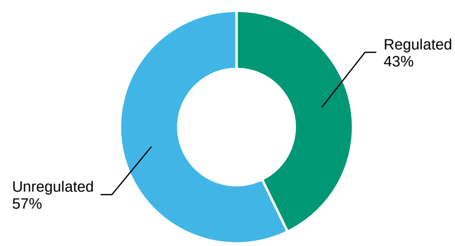
Hera S.p.A. (Hera) is one of the largest multi-utilities in Italy. Around 50% of the company's capital is held by 111 municipalities (46.6%, public shareholders), the largest of which is the City of Bologna (around 9%). Hera has a strong territorial presence in the region of Emilia Romagna and more generally in the northeast of Italy. The company has a diversified and vertically integrated portfolio of public utility services, which includes regulated water and energy networks, waste collection, treatment and energy from waste generation activities, gas and electricity retail sales, as well as ancillary activities such as district heating and public lighting. In 2019, Hera reported consolidated revenue of €6,912 million and EBITDA of €1,085 million.

Exhibit 3
Hera's EBITDA breakdown (2019)



Source: Hera, Moody's Investors Service

Exhibit 4
EBITDA split regulated/unregulated (2019)



As of December 2019 unregulated activities include waste collection and treatment. The first half regulatory period for waste management services became effective starting from January 2020.
Source: Hera, Moody's Investors Service

Detailed credit considerations

Sizeable and diversified portfolio of regulated activities supports stability of revenues...

Hera's gas, electricity and water distribution activities accounted for almost 45% of its consolidated EBITDA in 2019. The revenues generated by these activities are fully regulated by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA) through similar capital remuneration and cost recovery mechanisms. The regulatory frameworks applicable to Italian energy and water distribution networks are stable and transparent, supporting the predictability of Hera's revenues and cash flows. The regulatory frameworks also leave the company exposed to little or no volume risk.

- More specifically, water distribution activities accounted for 25% of Hera's consolidated EBITDA in 2019. These activities benefit from a regulatory framework (Metodo Tariffario Idrico, MTI) which is similar to the well-established regulations that ARERA applies to Italy´s electricity and gas networks. The third regulatory period (MTI-3) for water distribution activities started in January 2020 and extends over four years, with two interim periods (2020-21 and 2022-23). The update of the tariff methodology for MTI-3 was based on principles of continuity with the previous MTI-1 and MTI-2 (see Regulator's final determination is credit neutral for Italian water networks). Among others, MTI-3 continues to allow for a full recovery of efficient operating expenses and an annual revision of the allowance for non-controllable costs incurred by the operators.

- Hera's electricity and gas distribution networks accounted for around 18% of its consolidated EBITDA in 2019. The fifth six-year tariff cycle for gas distribution activities started in January 2020 and it is essentially in line with the previous regulatory periods, albeit with a reduction in the allowance for efficient operating costs for distribution services and tightened levels of efficiency requirements. Similarly, the new four-year regulatory semi-period for electricity distribution networks started in 2020. In this case as well, the approved measures are fundamentally in line with the methodology used in the first semi-period, with the introduction of a net revenue sharing mechanism and an update of the bonus scheme for service quality.

...and offers visibility into future cash flow in the context of a stable regulatory framework

Water and the electricity and gas distribution networks are also subject to periodic reviews of the allowed return on invested capital (WACC). The update of the allowed return for Italian water grids was included in the MTI-3 regulatory determination of January 2020 and included only minor changes to the allowed return formula parameters versus the second regulatory period (MTI-2). In particular, (1) the Water Risk Premium applicable to the real risk free rate was confirmed at 1.7% to continue reflecting the non-systemic risks associated with the sector; (2) the debt risk premium was set broadly in line with the previous level (2.77% versus 2.80%) and (3) the sector's levered beta was marginally reduced from 0.8 under MTI-2 to 0.79 under MTI-3. These changes translated in only a small reduction in the allowed return at 5.24% (5.30% under MTI-2). The regulatory update was broadly in line with our expectations and continues to support the credit profile of Hera´s water activities. Furthermore, we view positively that the efficiency measures achieved by the group were able to compensate the negative effects of the coronavirus emergency during the first half of 2020, resulting in an EBITDA related to Hera's integrated water cycle in line with H12019 at around €123 million.

The first regulatory period for the WACC formula applicable to all electricity and gas grids in Italy started in January 2016 and extends over six years (2016-21), divided into two interim periods (2016-18 and 2019-21). The real pretax allowed cost of capital (WACC) for gas and electricity distribution activities was set at 6.1% and 5.6%, respectively for 2016-18. The December 2018 interim review of the WACC formula incorporated changes to various WACC formula parameters, including (1) an increase of the Italian country risk premium to 1.39% (from 1.00% previously); (2) a 3.5% reduction of the IRES (Imposta sul reddito delle societa, or tax on corporate income) to 24% introduced in 2017; and (3) an upward revision of the regulatory gearing to align with the levels adopted by other European regulators (see Regulator's consultation paper on WACC for energy networks in line with expectations). The combination of these changes, coupled with an increase in the long-term inflation assumptions to 1.7% (versus 1.5% previously), translated into an increase of the gas and electricity distribution WACC of 20-30 bps for the three years starting from January 2019, which has had positive effects on Hera's revenue. Nevertheless, these positives will be offset by the impact of the review of the operating costs recognized in the gas distribution tariffs, which were effective from January 2020 and contributed to a reduction of around 2% of the gas distribution EBITDA as of 30 June 2020 compared to the first half of 2019.

Exhibit 5

Summary of regulatory frameworks applicable to Hera's water, electricity and gas distribution network activities

	Water distribution	Electricity distribution	Gas distribution
Regulatory body	ARERA	ARERA	ARERA
		Independent authority, 7-year mandate. 2/3 majority vote by Parliament required to appoint board members	
Start of regulatory period	Jan-20	Jan-16	Jan-20
End of regulatory period	Dec-23	Dec-23	Dec-25
Length of regulatory period	4-year period divided in two interim periods (2020-21 and 2022-23)	8-year period divided in two interim periods (2016-19 and 2020-23)	6-year period divided in two interim periods (2020-22 and 2023-25)
Teriff-setting framework	Price-cap with incentives	Price-cap with incentives	Price-cap with incentives
Incentives	Incentives on quality of service provided (inc. environment sustainability)	Incentives on investments and quality of service provided	
Volume exposure	No long term exposure given ex post volume correction	No long term exposure given ex post volume correction	No long term exposure given ex post volume correction
RAB calculation	Re-evalued historical cost: RAB adjusted for inflation annually	Re-evalued historical cost: RAB adjusted for inflation annually	Re-evalued historical cost: RAB adjusted for inflation annually
Allowed return on capital (real pre-tax)	5.2%	5.9%	6.3%
Next rewiew of allowed return on capital	Dec-21	Dec-21	Dec-21
Time lag on investments/D&A	2 years (investments and D&A)	1 year on investments, 2 years on D&A	1 year
Time lag compensation on WACC	1%	0%	0%
Total RAB (2019)		€ 3.02 billion	

Source: Hera, ARERA, Moody's Investors Service

The process for the reorganisation of Italy's gas distribution districts kicked off in 2016 and is proceeding at a pace slower than expected. Hera intends to participate in tenders where it is already the incumbent operator, thus limiting potential execution risk. In its latest business plan of January 2020, after conducting an analysis of the state of activities of the contracting authorities, the company decided to postpone its tenders by an average of two years, thus shifting part of the investments allocated under the previous business plan (around €290 million) beyond 2023. In line with the management, we expect the capital expenditure (capex) allocated to gas distribution tenders to translate into an additional €10-15 million annual EBITDA starting from late years of the current business plan horizon (2019-2023).

Exposure of energy supply and waste management businesses to cyclical macroeconomic conditions

The full liberalisation of the Italian electricity & gas supply markets could exert some pressure on margins however Hera has expanded its client base following the partnership with Ascopiave

We estimate that almost 23% of Hera's consolidated EBITDA in 2019 came from natural gas and electricity sales and trading businesses. We consider these activities as exhibiting a high risk profile because the company is exposed to volume fluctuations owing to the cyclical macroeconomic environment and market competition.

In the gas segment, Hera has a significant presence, with around 2.30 billion cubic meters (bcm) of gas sold in 2019 (excluding Ascopiave) to retail, industrial and commercial customers and a total of 2.0 million clients served (+41% increase compared to whole-year 2018, including clients from the new partnership). Around 20% of Hera's gas sales (excluding distribution activities) are under regulated retail tariffs, which are set by ARERA and are linked to gas spot prices, while the remaining 80% are sold in the liberalised market where retail prices are generally determined in relation to reference market prices. The company has also a strong presence in the electricity segment, with 12.85 terawatt hours (TWh) sold in 2019 to retail, industrial and commercial customers (1.3 million in total).

On 19 December 2019, following the signing of a framework agreement in July 2019, Hera completed a transaction to enter into a partnership with Ascopiave S.p.A. (Ascopiave), a group mainly operating in the gas sector, through the distribution and sale of gas to end users in the North East of Italy. The addition of Ascopiave's gas and electricity sales business, through the consolidation of a joint venture named EstEnergy S.p.A. (EstEnergy), is in line with Hera's strategic plan to expand its client base in the energy segment to 3 million by the end of 2022. Through the new partnership, Hera benefits from more than 700,000 additional customers and an incremental net EBITDA contribution estimated at around €40 million per annum. The company's customers base could further grow in future, mainly through M&A, which the management expects to support profitability. However, the profitability of Hera's Energy division remains exposed to volatile volumes intensified by the coronavirus outbreak and to increasing competition in light of the liberalization of the Italian electricity and gas supply markets, now planned to be finalized by January 2022. Nevertheless, we expect the potential margin reduction to be offset by the growing customer base as well as by the material synergies that could be extracted from the partnership.

In addition, the previous contracts for gas and electricity safeguarded customers expired at the end of 2018. Following a public re-tendering process, Hera was confirmed as the preferred provider of electricity safeguard services in the majority of Italian regions for two additional years (2019/2020). This notwithstanding, the company has been reporting lower margins and a reduced EBITDA contribution from these services (€65 million of EBITDA as of December 2019) due to the increased competition in the tenders for the reassignment of such contracts. In future, we expect that Hera will continue to participate in the tenders for last resorts markets (held annually for the gas services and every two years for the safeguarded electricity service), however the declining contribution of the safeguarded business to the divisional EBITDA will likely continue through the end of 2021.

The under-supplied nature of the domestic waste treatment market mitigate volume and price exposure

Hera's environment activities (24% of 2019 consolidated EBITDA) are split between treatment of urban and industrial volumes (18% of EBITDA in 2019) and collection (6% of EBITDA in 2019). Following positive performance in 2015-2018 (around 3% of average annual EBITDA growth), the company's waste activities continued to grow in 2019, with divisional EBITDA reaching €264 million in December 2019, driven by an increase in special waste prices and small-scale additions to its scope of operations.

The fragmented and under-supplied waste treatment market in Italy increases the potential for Hera to reach its target of 8.5 total million tonnes treated in 2023 (from 7.3 million tonnes in 2018, excluding M&A). This target mainly relies upon increasing its market share in the northeastern regions and capturing part of the intra-regional waste flows from southern and central Italy. More specifically, in recent years Hera has been pursuing a strategy of vertical integration and expansion through small and medium scale acquisitions. As an example, in 2017 the company acquired the 80% of Aliplast, operating in plastic recycling. Similarly, during 2019 Hera finalized the full acquisition of Cosea Ambiente, a company managing urban and assimilated waste services mainly within the province of Bologna.

Hera's waste treatment activities expose the company to the cyclical macroeconomic environment. Such exposure was also evidenced by the contraction in treated urban waste volumes during the first half of 2020 (-10% versus H12019), which was driven by the confinement measures imposed by the Italian government and the consequent shut down of local businesses starting from mid-March 2020. Nevertheless, this impact was mitigated by the positive trend in prices for special waste, which is largely driven by the under-supplied nature of the Italian special waste treatment market and the operating continuity of Hera's treatment facilities during the lock-down.

To a lesser extent, waste treatment activities also expose Hera to volatile power prices in Italy through the electricity produced from its waste to energy (WTE) plants (around 130 MW of capacity installed and 0.7 TWh of power generated in 2019). The exposure to power prices coming from Hera's WTE fleet is nevertheless mitigated by the fixed price subsidies and green certificate incentives that these plants receive. Notably, in 2019, around 51% of the electricity produced from WTE was overall incentivised, although this share will decline to around 23% by 2022, with divisional earnings to come under pressure due to weaker power prices.

The company also relies on a solid urban waste collection base, which is a natural upstream contributor to waste treatment activities. Collection activities reduce the overall risk of this segment given the cost recovery mechanism embedded in the concession agreements. This is because the waste collection business in Italy is performed under concessions assigned through tenders. At the end of 2019, around two-thirds of Hera's concessions were re-tendered. As an incumbent operator, the company was able to leverage its knowledge of the territory and it was re-awarded the vast majority of such concessions. Lastly, the introduction of a new regulatory framework for waste collection activities by ARERA in January 2020 (which took over the responsibility to oversee the sector in 2018), is anticipated to enhance the predictability of Hera's revenue and potentially increase collection margins. Taking into account some sector specificities (including a high-level of complexity and heterogeneity of the services), the new regulation will be implemented under principles similar to those applied to more established regulated activities such as energy networks and water services. Notwithstanding some residual uncertainties around the final regulatory framework for waste treatment activities, we see positively the authority's efforts to provide regulatory stability and promote efficiency in the management of the waste cycles services.

Some exposure, although limited, of power generation activities to declining power prices

Hera's power generation activities expose the company to volatile power prices in Italy, although this exposure is limited by their small weight (we estimate these activities contributed to around 4% of the company's 2019 EBITDA). In addition to the power generated through its WTE plants, in 2019 Hera produced more than 0.5 TWh of electricity through its cogeneration and renewable plants capacity.

Hera's 2019 consolidated EBITDA was positively affected by the results of the power generation segment (around €45 million versus €21 million at 2018 year-end). However, following a period of relatively stable power prices in Italy and Europe, the recent coronavirus outbreak has driven down prices and electricity demand. Power demand in Italy is down by around 10% year-on-year, given the lockdowns and social distancing measures imposed by the Italian national government that have been materially affecting the consumption by industrial and commercial activities. As a consequence, Italian one-year wholesale forward power prices have dropped by circa 7% since the beginning of 2020, broadly in line with the rest of Europe, and the decline is expected to weigh on the divisional EBITDA at least during 2021. [1]

The plan to 2023 leaves business risk broadly unchanged and supports financial flexibility

In January 2020 Hera updated its five-year business plan (2018-2023) targeting EBITDA of €1,250 million by 2023, with an expected increase of around 15% from 2019 (€1,085 million EBITDA). This growth is underpinned by €2.8 billion of investments through 2023 (€264 million lower than under the previous plan) mostly directed towards regulated activities (approximately 73%, excluding waste). Around 68% of the total planned capital spending is earmarked for maintenance, while the rest is split among organic development (€540 million), M&A (€170 million) and gas tenders (around €190 million, included in the regulated share of investments mentioned above).

The key levers that management expects to help Hera achieve EBITDA of €1,250 million by 2023 are:

1. Efficiencies, amounting to around €75 million up to 2023 and the majority of which will be achieved in the energy and networks divisions. According to management, efficiencies will be driven by a reduction in controllable costs and innovation (including, for example, energy-efficiency projects and increased automation in workflows and processes). Given Hera's track record, we expect the company to be able to reach this similar target over the business plan period;

2. Additional top-line growth of around €35 million, driven by regulated tariff increases and synergies. In particular, cross-selling opportunities arising from the partnership with Ascopiave are anticipated to contribute around €28 million during the plan horizon, while the contribution from new gas tenders will only be marginal given investments will mainly occur after 2023;

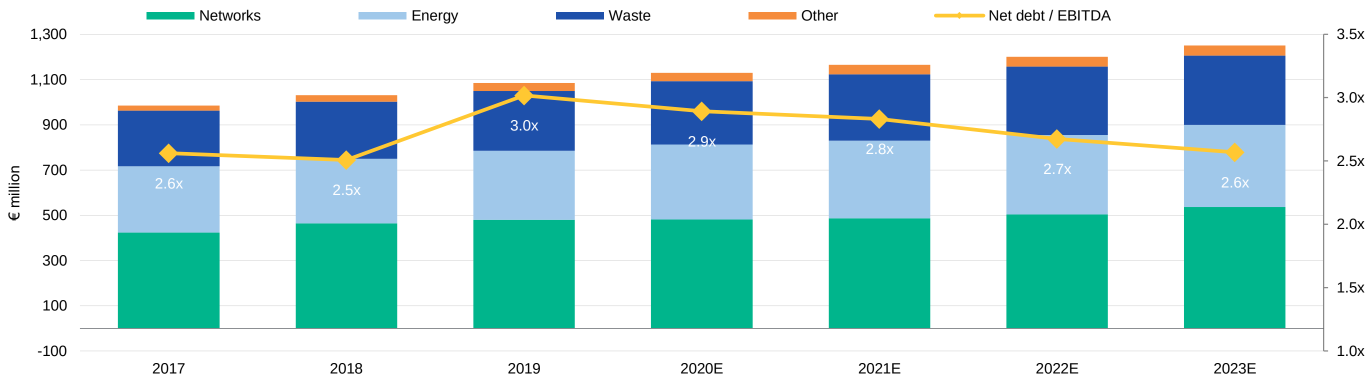
3. Small and medium scale credit-friendly M&A, contributing €107 million EBITDA by 2023, and mostly directed towards the waste and energy segments.

The above contributions are net of the expected reduction in the incentives for waste-to-energy plants (around €10 million in total) and the reduced margins in the last resort electricity market illustrated above, which are anticipated at around €65 million over the plan period.

The share of Hera's EBITDA generated by unregulated and regulated activities (57% and 43%, respectively, as of December 2019) is expected to remain broadly stable over the next eighteen months, driven by the renewed focus on commercial activities and the delays in the participation to gas tenders. Nonetheless, in the medium-term we expect the company´s business risk to increasingly focus on lower-risk regulated activities, that is to say, electricity and water distribution networks, but also the newly-regulated waste management services. Overall, these regulated activities are anticipated to contribute for around two-thirds of Hera's projected consolidated EBITDA to 2023. From a financial risk perspective, management expects leverage to increase only slightly, resulting in debt/EBITDA remaining around the 3x threshold set by the company for every year of the plan.

Exhibit 6

Hera's business plan 2018-23: planned EBITDA growth (4% CAGR) and reported net debt/EBITDA evolution



(1) Net debt/EBITDA includes the full consolidation of financial debt coming from M&A targets but excludes additional investments to seize new opportunities. (2) The evolution of leverage is calculated starting from Hera's 2019 reported net debt/EBITDA including the put option related to the Ascopiave deal.
Sources: Hera, Moody's Investors Service

We anticipate Hera's strategic plan to 2023 plan to support its current credit profile, in line with our expectation that the company will maintain FFO/net debt at above 20% and RCF/net debt at above 15%.

Consolidation strategy remains creditor friendly

The high degree of voting rights fragmentation, resulting from Hera's ownership by more than 100 local municipalities, has historically prevented any major shareholder interference in the company's corporate strategy. This ownership structure has favoured the execution of a balanced financial policy over the years, based on growth through small and medium- scale acquisitions financed through share exchanges and ensured the company's stable dividend policy. Hera's strategy of external growth has created a solid track record of synergy extraction from the acquired entities, which positions the company well to achieve additional synergies in future.

Low exposure to carbon transition risks

The European Union (EU) has committed to reduce greenhouse gas emissions by 40% from the 1990 levels and to increase the contribution of renewables to energy demand to 27% by 2030. These targets, agreed in 2014, formed the basis of the EU's Nationally Determined Contributions incorporated into the Paris Agreement, and are designed to significantly decarbonise the region's economies. We believe that unregulated utilities, which account for 40% of EU carbon emissions, will need to deliver a significant share of the reductions, and that this will create a variety of risks and opportunities for individual utilities.

In the context of the EU's targets discussed above, in November 2017[2], Italy committed to achieve an ambitious target of 28% of final energy consumption from renewable sources by 2030. This translates into a 55% renewable penetration rate in the electric sector, which the government intends to achieve by completely phasing out its coal capacity (currently 8 GW) by 2025. In December 2018, the Italian government also submitted a new proposal to the EU, which revises slightly upward to almost 30%[3] (from the 28% under the National Energy Strategy) the targeted rate of renewables penetration in final consumption by 2030, thereby confirming its commitment towards the objectives set at the broader EU level.

Hera has a low exposure to carbon transition risks compared with that of other unregulated utilities because of the reduced contribution of power generation activities to the group's consolidated EBITDA (around 4% at the end of 2019). Furthermore, around 35% of the 1.3 TWh net electricity produced in 2019 was generated by renewable sources. In addition, the high contribution from domestic regulated networks and waste collection services provide a more resilient source of earnings for the group, enhancing the predictability of its cash flows.

Our framework for assessing the risk associated with decarbonisation in this industry is set out in Carbon transition brings risks and opportunities (26 June 2018).

Liquidity analysis

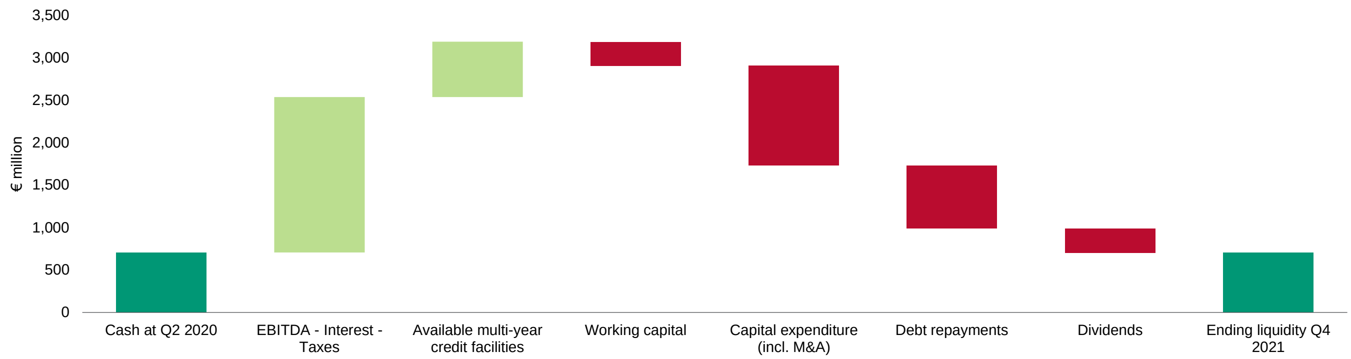
As of June 2020, Hera had strong liquidity, backed by around €705 million in cash and cash equivalents and €650 million of committed credit lines. Most of the committed credit lines are available until 2022 and 2023 (only €50 million will mature in December 2021). All the committed lines benefit from the absence of any financial covenant and material adverse change clauses. In addition to this liquidity, the company has also €123 million short-term loans available in the form of hot money.

We expect Hera's total cash availability (including cash and available committed lines) and internal cash flow generation to be sufficient to cover its liquidity needs over the next eighteen months (including working capital, debt repayments, investments and dividends), as evidenced in the exhibit below.

Exhibit 7

We expect Hera's cash availability to cover its liquidity needs

Liquidity as of June 2020

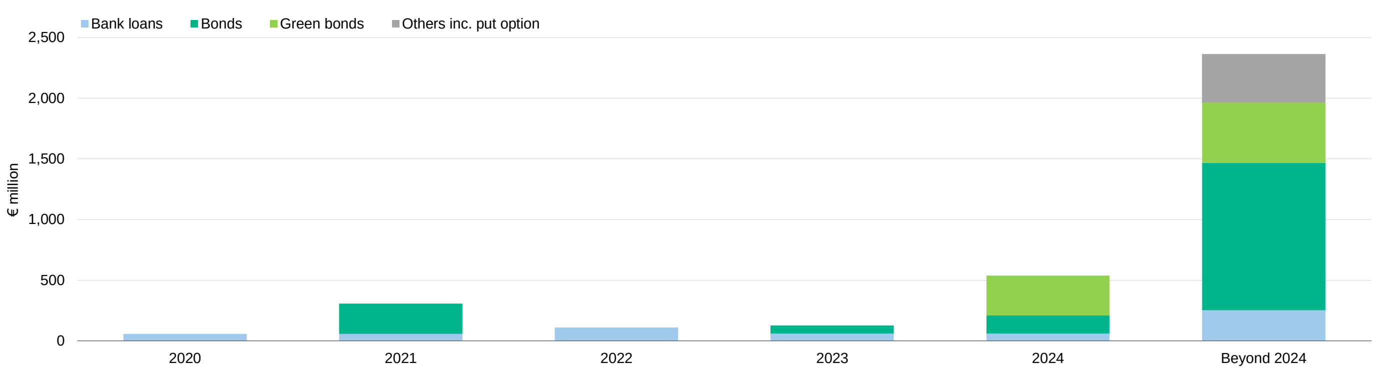


Source: Hera, Moody's Investors Service

As of June 2020, Hera's reported net financial debt amounted to €3.1 billion with an average maturity of approximately seven years. The net debt amount is around €270 million higher than that as of June 2019, also to reflect the accounting for the financial liability related to the put option granted to the minority shareholders of the EstEnergy partnership. Hera's next relevant debt maturity will be in Q4 2021, when a €250 million bond is due for redemption. Hera's latest bond issuance was in June 2019, when the company's board authorised the issuance of a green bond for a maximum amount of €500 million.

Exhibit 8

Hera's reported maturity profile as of June 2020



Excludes short-term (hot money) maturities

Source: Hera, Moody's Investors Service

Rating methodology and scorecard factors

When assessing Hera's standalone credit profile, we apply our rating methodology for Unregulated Utilities and Power Companies, published in May 2017. The forward-looking scorecard indicated outcome for Hera is Baa2, as summarised in exhibit below.

Given its public shareholder base, Hera also falls within the scope of our Government-Related Issuers rating methodology, published in February 2020. However, given the limited capacity of its public shareholders to provide support to the company in a scenario of financial distress, the rating does not incorporate any uplift to Hera's standalone credit quality (or Baseline Credit Assessment [BCA]) for potential government support.

Exhibit 9
Methodology grid

Unregulated Utilities and Unregulated Power Companies Industry [1][2]	Current FY 12/31/2019		Moody's 12-18 Month Forward View As of August 2020 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)		Baa		Baa
Factor 2 : Business Profile (40%)				
a) Market Diversification		Ba		Ba
b) Hedging and Integration Impact on Cash Flow Predictability		Ba		Ba
c) Market Framework & Positioning		Baa		Baa
d) Capital Requirements and Operational Performance		Baa		Baa
e) Business Mix Impact on Cash Flow Predictability		Aaa		Aaa
Factor 3 : Financial Policy (10%)				
a) Financial Policy		Baa		Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	6.9x	Baa	6x - 8x	Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	21.9%	Baa	22% - 24%	Baa
c) RCF / Net Debt (3 Year Avg)	16.8%	Baa	17% - 19%	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Baseline Credit Assessment Assigned				baa2
Government-Related Issuer				**Factor**
a) Baseline Credit Assessment				baa2
b) Government Local Currency Rating				Baa3
c) Default Dependence				Moderate
d) Support				Low
e) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] All figures and ratios shown do not include the adjustment related to Hera's securitisation of receivables as the company does not disclose such amounts. [3] This represents Moody's forward view, not the view of the issuer.
Source: Moody's Financial Metrics™

Appendices

Exhibit 10

Hera S.p.A.

Adjusted net debt calculation

(in EUR million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Total Debt	3,115	3,172	3,296	3,701
Pensions	130	126	115	112
Leases	52	47	83	0
Non-Standard Public Adjustments	(67)	(33)	(29)	(14)
Moody's Adjusted Total Debt	3,230	3,313	3,466	3,799
Cash & Cash Equivalents	(352)	(451)	(536)	(364)
Moody's Adjusted Net Debt	2,878	2,862	2,930	3,435

(1) All figures and ratios are calculated using Moody's estimates and standard adjustments. (2) All figures and ratios shown do not include the adjustment related to Hera's securitisation of receivables as the company does not disclose such amounts. (3) Non-Standard Public Adjustments include the reclassifications of fair value hedges and guarantees.
Source: Moody's Investors Service

Exhibit 11

Hera S.p.A.

Selected historical financial data

(in EUR million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
INCOME STATEMENT				
Revenue	5,131	5,612	6,134	6,913
EBITDA	815	860	920	1,081
EBIT	458	480	524	653
Interest Expense	113	103	106	104
Net income	220	276	293	411
BALANCE SHEET				
Net Property Plant and Equipment	2,068	2,060	2,084	1,990
Total Assets	8,227	8,769	9,135	10,322
Total Debt	3,230	3,313	3,466	3,799
Cash & Cash Equivalents	352	451	536	364
Net Debt	2,878	2,862	2,930	3,435
Total Liabilities	5,809	6,223	6,474	7,514
CASH FLOW				
Funds from Operations (FFO)	589	621	679	744
Cash Flow From Operations (CFO)	677	765	632	730
Dividends	145	141	151	162
Retained Cash Flow (RCF)	443	480	527	583
Capital Expenditures	(395)	(451)	(474)	(552)
Free Cash Flow (FCF)	136	173	6	16
INTEREST COVERAGE				
(FFO + Interest Expense) / Interest Expense	6.2x	7.0x	7.4x	8.2x
LEVERAGE				
FFO / Net Debt	20.5%	21.7%	23.2%	21.7%
RCF / Net Debt	15.4%	16.8%	18.0%	17.0%
Debt / EBITDA	4.0x	3.9x	3.8x	3.5x
Net Debt / EBITDA	3.5x	3.3x	3.2x	3.2x

(1) All figures and ratios are calculated using Moody's estimates and standard adjustments. (2) All figures and ratios shown do not include the adjustment related to Hera's securitisation of receivables as the company does not disclose such amounts.
Source: Moody's Investors Service

Exhibit 12

Hera S.p.A.

Adjusted Funds from Operations calculation

(in EUR million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Funds from Operations (FFO)	674	776	755	872
Leases	11	10	10	0
Alignment FFO	(14)	(62)	3	(47)
Unusual Items	3	0	0	0
Non-Standard Public Adjustments	(85)	(103)	(89)	(81)
Moody's Adjusted Funds from Operations (FFO)	589	621	679	744

(1) All figures and ratios are calculated using Moody's estimates and standard adjustments. (2) Non-Standard Public Adjustments include the reclassification of bad debt provisions.
Source: Moody's Investors Service

Exhibit 13
Hera S.p.A.
Peer comparison

	Hera S.p.A. Baa2 Stable			ACEA S.p.A. Baa2 Stable			A2A S.p.A. Baa2 Stable		
(in EUR million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19
Revenue	5,612	6,134	6,913	2,670	2,837	3,022	5,590	6,271	7,122
EBITDA	860	920	1,081	733	860	893	1,165	1,219	1,205
Total Assets	8,769	9,135	10,322	7,321	8,262	8,954	9,982	10,335	10,725
Total Debt	3,313	3,466	3,799	3,527	3,943	4,281	4,139	3,845	3,770
Net Debt	2,862	2,930	3,435	2,847	2,875	3,445	3,448	3,221	3,336
FFO / Net Debt	21.7%	23.2%	21.7%	23.5%	22.4%	22.0%	26.1%	31.2%	30.0%
RCF / Net Debt	16.8%	18.0%	17.0%	18.7%	17.7%	19.8%	21.6%	25.4%	23.1%
(FFO + Interest Expense) / Interest Expense	7.0x	7.4x	8.2x	8.9x	8.0x	9.3x	7.4x	8.6x	8.9x
Debt / Book Capitalization	54.6%	54.5%	54.6%	66.1%	67.4%	67.0%	57.9%	52.2%	50.8%

(1) All figures and ratios are calculated using Moody's estimates and standard adjustments. (2) Hera and ACEA's figures and ratios do not include the adjustment related to the companies' securitisation of receivables, given the lack of publicly available data.
Source: Moody's Investors Service

Ratings

Exhibit 14

Category	Moody's Rating
HERA S.P.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

Moody's related publications

» Moody's affirms Hera´s Baa2 rating; outlook stable, 24 June 2019

» Moody's downgrades the ratings of four Italian utilities, 23 October 2018

» Italy faces greater challenge in meeting 2030 decarbonisation targets, July 2018

Endnotes

1 Moody's expects lower power prices will hit the earnings of merchant power generators whereas lower electricity demand will reduce supply margins (Outlook changed to stable as coronavirus hits power prices, political intervention rises, April 2020).

2 National Energy Strategy (Strategia Energetica Nazionale) 2017, Ministero dello Sviluppo Economico, 10 November 2017

3 Proposta di Piano Nazionale Integrato per l'Energia e il Clima, 31 December 2018.

REPORT NUMBER 1231166

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