

Research Update:

# Italian Multi-Utility Hera Affirmed At 'BBB+' On Strategic Continuity; Outlook Stable

May 6, 2026

## Rating Action Overview

- By 2029, S&P Global Ratings projects that regulated activities will represent about 40% of Italian multiutility Hera SpA's EBITDA, supporting its business risk profile. We estimate that investments in regulated networks will represent about 60% of the company's €5.5 billion capital expenditure (capex) plan for 2025-2029.
- In addition, dividends are forecast to be relatively high, averaging more than €280 million per year over 2026-2029. These factors, combined, are likely to eat into Hera's rating headroom, which was significant at year-end 2025, when S&P Global Ratings-adjusted funds from operations (FFO) to debt was 25.4%. Adjusted FFO to debt is expected to decline to about 23.5% in 2028.
- We affirmed our long-term 'BBB+' issuer credit and issue ratings on Hera SpA and its senior unsecured debt.
- The stable outlook reflects our expectation that Hera will maintain adjusted FFO to debt well above 23%, and factors in management's commitment to maintaining a rating at the current level, as well as the company's prudent risk management and financial policy.

## Rating Action Rationale

**Hera's planned investment up to 2029 reinforces its focus on regulated activities and we anticipate that it will maintain at least a limited degree of rating headroom.** Of the €5.5 billion in gross capital investments planned for the 2025-2029 period, about €5.0 billion will be internally funded; the remaining €0.5 billion will be covered by grants. Hera plans to allocate about 60% of the total capex to regulated activities (mainly water networks) and 40% to market activities (primarily waste treatment). We anticipate that these investments will support EBITDA growth of about 4% per year over 2025-2029, and that by end-2029, adjusted EBITDA will exceed €1.6 billion, up from €1.4 billion at year-end 2025.

**The plan also incorporates acquisition spending of about €400 million.** This includes the €138 million acquisition of water treatment and environmental services company, Sostelia, which is due to be completed and consolidated by end-June 2026. The shareholder dividend policy is

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## Italian Multi-Utility Hera Affirmed At 'BBB+' On Strategic Continuity; Outlook Stable

projected to remain supportive, with distributions averaging about €280 million per year, based on a dividend payout of 50%-55%.

**In our view, the impact of the new Italian energy decree is likely to be limited.** It imposes a 2% surcharge on regulated activities through the IRAP corporate tax, which will increase tax expenses modestly in 2026-2027; and introduces a measure to limit the premium paid for gas in Italy (the PSV-TTF spread), which we anticipate will have minimal effect. The proposed exclusion of the European Emission Trading System (ETS) costs from gas generation pricing remains subject to European review and we consider it unlikely to be approved.

**Hera's 2025 results were broadly in line with expectations, with adjusted EBITDA broadly stable at €1,418 million.** Reported EBITDA showed a moderate decline, reflecting normalization in the energy segment linked to the absence of the nonrecurring opportunities recorded in 2024. Positively, Hera reported solid growth in regulated networks, supported by expansion of the regulated asset base (RAB) and the pass through of inflation costs and incentives, as well as further expansion in waste management. Net capex increased by 19.5% in 2025, to €1,028 million, bolstered by increased investment in the integrated water cycle and waste management businesses. At the same time, dividends rose 10% to €274 million. The increase in capex and shareholder remuneration was mitigated by solid generation of discretionary cash flow, which kept adjusted debt broadly stable at about €4.3 billion in 2025. Adjusted FFO to debt stood at 25.4%, slightly above our expectations.

**Hera's limited exposure to power generation is mitigated by stable earnings from its regulated activities.** We assess the 2024-2029 regulatory framework for water as stable and supportive, given that it provides full cost recovery, investment incentives, and protection against exogenous risks. The Italian regulator for energy and infrastructure, ARERA, ensures consistency despite sector fragmentation and multilevel governance. These factors underpin our positive view of Hera's significant investment allocation to this segment.

Similarly, we assess Italy's electricity and gas distribution frameworks as strong, supported by a long record of predictable and transparent tariff-setting and full cost recovery. That said, a key risk for gas distribution is that many operators have operated under expired concessions for prolonged periods. In our view, the waste collection framework is comparatively weak, given its shorter track record, exposure to volume risk, the lag in recovering operating expenditure, and the greater involvement of local authorities in tariff validation. Compared with other integrated Italian multiutilities, Hera has little vertical integration; it has a relatively small waste-to-energy fleet but a large retail portfolio of about 4.4 million customers (1.9 million gas and 2.5 million electricity).

**We forecast that Hera's capex plan will increase adjusted debt above €5 billion by 2029 but that credit metrics will remain consistent with the 'BBB+' rating.** We anticipate that FFO will rise to just under €1.3 billion by 2029, from about €1.1 billion in 2025, supported by EBITDA growth and disciplined financial management. Over the same period, we expect adjusted debt to EBITDA to remain below 3.5x, and that FFO to debt will be 23%-25%, in line with the current rating. Our view is underpinned by the controlled cost of debt--over 90% of existing debt pays a fixed rate. Although Hera plans to issue about €2.4 billion of debt by end-2029, it expects to use most of the proceeds to refinance €2.1 billion of maturing debt.

**Our rating on Hera has been in line with that on the sovereign since April 2025, when we raised our rating on Italy to 'BBB+'.** We recently revised our outlook on Italy to positive; this had no impact on Hera because it is rated at the same level as the sovereign (see "[Bulletin: The Outlook Revision On Italy Has No Direct Impact On Italian Utilities](#)," published on Feb. 2, 2026).

## Outlook

The stable outlook indicates that we expect Hera to maintain adjusted FFO to debt well above 23% over the next three years, while executing its planned capex and paying dividends based on a generous, albeit measured, dividend policy. The outlook also incorporates management's commitment to the 'BBB+' rating, and we understand that management will put in place remedial measures if credit metrics decrease to close to the rating thresholds without material recovery prospects.

### Downside scenario

We could downgrade Hera if adjusted FFO to debt declines below 23%. This could happen if:

- The company undertakes larger cash acquisitions or increases its dividends, deviating from what we view as a prudent financial policy;
- Hera fails to meet the growth expectations it outlined in its strategic plan, due to setbacks in operating performance; or
- Significant unexpected changes in the regulatory framework and Hera's operating environment impair the company's ability to achieve its EBITDA targets.

Lowering the rating on Italy would not automatically lead to a similar action on Hera because, in our view, Hera could be rated one notch above the sovereign.

### Upside scenario

Although we view an upgrade as unlikely within the next two to three years, we could raise the rating on Hera if the company were to strengthen its credit metrics and achieve adjusted FFO to debt at or above 30% on a sustainable basis.

## Company Description

Hera is among Italy's largest domestic utilities and headquartered in Bologna. It operates across three core segments, providing the following services:

- Networks (38% of reported EBITDA in 2025): gas distribution, electricity distribution, water, and district heating;
- Energy (35%): gas and power supply, power generation, energy efficiency, and public lighting; and
- Waste (24%): urban waste collection and treatment.

The group is one of the main operators in Italy for waste activities and treats over 7.6 million tons of waste a year. It is also one of the largest providers in the water sector, supplying about 286 million cubic meters of water each year. In the energy market, the group is the third-largest operator in Italy, by customers; it serves about 4.4 million customers. Each year, it distributes 2.3 billion cubic meters of gas and 2.7 gigawatt hours of electricity through its networks.

On Dec. 31, 2025, Hera's shareholding structure included 110 of the municipalities it serves, which hold about 46% of its share capital and are united by a shareholders' agreement. The remaining 54% floats freely on the Italian stock exchange and is owned by institutions and private corporations. Hera's total market capitalization was about €5.9 billion as of May 2026.

## Our Base-Case Scenario

### Assumptions

- Real GDP in Italy to rise by 0.4% this year and 0.8%-0.7% over 2027-2028.
- Consumer price index growth in Italy of about 2% year-on-year. That said, Hera's regulated activities partially hedge its earnings against inflation because allowed revenue and the regulatory asset base are indexed annually to inflation through the regulated asset base (RAB) deflator.
- For Hera's regulated activities, remuneration at a weighted average cost of capital (WACC) of 6.1% for water services, 5.6% for gas distribution and for electricity distribution, and 7.3% for waste collection activities. Our base case assume that this remuneration rate will remain stable until 2027 for power and gas, and until 2029 for water and waste activities.
- Adjusted EBITDA margin of 12%-13%.
- Average annual cash tax expenses of €160 million-€170 million.
- Annual working capital to show a positive inflow in 2026 and remain neutral on average over 2027-2029.
- Annual average organic capex of about €1.1 billion, in line with the company's strategic plan.
- Acquisition of Sostelia to close by end-June 2026. Sostelia will contribute about €20 million in EBITDA and €130 million of additional adjusted debt.
- In addition to Sostelia, we include limited acquisitions amounting to about €200 million in total over 2027-2029, with no material earnouts.
- Our adjusted debt includes stable lease liabilities, asset-retirement obligations, and pension and postretirement benefit obligations. We assume trade receivables sold will stabilize at about €60 million-€70 million a year over 2026-2029, from a peak of more than €332 million at year-end 2024, when Hera sold most of its fiscal credits linked to energy efficiency incentives.
- Average annual dividend distributions, including minorities, of about €280 million.
- The gross cost of the debt issued to end-2029 is expected to be about 3.7%.

### Key metrics

#### Hera SpA forecast summary

Period ending	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. EUR)	2024a	2025a	2026f	2027f	2028f	2029f
<b>EBITDA</b>	1,423	1,418	1,400-1,450	1,500-1,550	1,550-1,600	1,650-1,700
<b>Less: Net Cash interest paid</b>	(193)	(150)	(165)-(175)	(165)-(175)	(190)-(200)	(180)-(190)
<b>Less: Cash taxes paid</b>	(193)	(165)	(140)-(150)	(145)-(155)	(180)-(190)	(180)-(190)
<b>Funds from operations (FFO)</b>	1,038	1,103	1,100-1,150	1,150-1,200	1,200-1,250	1,250-1,300
<b>Cash flow from operations (CFO)</b>	635	1,531	1,325-1,375	1,225-1,275	1,150-1,200	1,250-1,300
<b>Capital expenditure (capex)</b>	860	1,028	~1,200	~1,100	~1,000	~1,000
<b>Free operating cash flow (FOCF)</b>	(225)	503	150-200	150-200	125-175	275-325
<b>Dividends</b>	255	274	270-280	270-280	280-290	300-310

## Italian Multi-Utility Hera Affirmed At 'BBB+' On Strategic Continuity; Outlook Stable

<b>Discretionary cash flow (DCF)</b>	(481)	229	(100)-(150)	(100)-(150)	(100)-(150)	(50)-0
<b>Debt</b>	4,334	4,351	~4,600	~4,900	~5,200	~5,200
<b>Adjusted ratios</b>						
<b>Debt/EBITDA (x)</b>	3.0	3.1	~3.2	~3.3	~3.2	~3.2
<b>FFO/debt (%)</b>	23.9	25.4	24-25	23.5-24.5	23-24	24-25

## Liquidity

Hera's liquidity is strong. Based on data from Dec. 31, 2025, we expect its available cash and committed credit lines to cover liquidity uses--which mainly comprise capex, debt service, and dividends--by more than 1.5x over the next 12 months and by more than 1.0x over the subsequent 12 months.

Furthermore, Hera has a high credit standing in capital markets, strong relationships with banks, and solid and prudent risk management. The company has a large liquidity buffer that benefits from about €1 billion in undrawn committed credit lines, most of which are long-term.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> <li>• Our estimate of €845 million in fully available cash and liquid investments;</li> <li>• About €1 billion in available, undrawn, committed credit lines, as of Dec. 31, 2025, most of which mature after more than 24 months;</li> <li>• Our forecast of about €1 billion in cash FFO over the next 12 months; and</li> <li>• More than €300 million in working capital inflows in 2026.</li> </ul>	<ul style="list-style-type: none"> <li>• Debt maturities of about €416 million over the next 12 months and €470 million over the subsequent 12 months;</li> <li>• Capex of about €1.2 billion over the next 12 months;</li> <li>• Cash spending on acquisitions of about €110 million; and</li> <li>• About €280 million in dividends, including dividends to minorities.</li> </ul>

## Issue Ratings--Subordination Risk Analysis

### Capital structure

At year-end 2025, the Hera group's capital structure comprised about €4.7 billion in gross debt (bonds and loans), almost all of which was unsecured and issued by the parent company, Hera SpA.

### Analytical conclusions

We rate Hera's senior unsecured notes at 'BBB+', reflecting the long-term issuer credit rating, because the capital structure does not include any significant subordination risks.

## Italian Multi-Utility Hera Affirmed At 'BBB+' On Strategic Continuity; Outlook Stable

### Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2
Business risk	Strong
Country risk	Intermediate risk
Industry risk	Low risk
Competitive position	Strong
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb+
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb+

## Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

## Related Research

## Italian Multi-Utility Hera Affirmed At 'BBB+' On Strategic Continuity; Outlook Stable

- [Bulletin: The Outlook Revision On Italy Has No Direct Impact On Italian Utilities](#), Feb. 2, 2026
- [Italy Outlook Revised To Positive On Fiscal And External Resilience: 'BBB+/A-2' Ratings Affirmed](#), Jan. 30, 2026
- [Bulletin: Hera's New Business Plan Strengthens Its Focus On Regulated Activities While Maintaining Rating Headroom](#), Jan. 27, 2026
- [Industry Credit Outlook 2026: EMEA Utilities](#), Jan. 14, 2026
- [Hera SpA](#), May 15, 2025
- [Italy Rating Raised To 'BBB+' On External Buffers and Monetary Flexibility; Outlook Stable; 'A-2' Rating Affirmed](#), April 11, 2025

## Ratings List

### Ratings List

#### Ratings Affirmed

#### [Hera SpA](#)

Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

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## Italian Multi-Utility Hera Affirmed At 'BBB+' On Strategic Continuity; Outlook Stable

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