

Hidroelectrica (H2O)

Hold

Initiation of Coverage

Target price: 130.3 RON (+6.9%)

Company key elements

- Hidroelectrica stands as a key contributor to Romania's energy security, serving as the leading producer of electricity from renewable sources and holding a 29.39% market share of the country's total electricity generation in 2024. The company's average electricity production over the past decade stands at 16 TWh. However, output in Q1 2025 reached only 2.7 TWh, which is 32% below the average production for Q1 over the 2014–2024 period, due to unfavorable hydrological conditions.
- The company entered the electricity supply segment for household customers at the beginning of 2021. Based on electricity volumes sold on the competitive market in 2024, Hidroelectrica held a market share of 13.07%, which increased to 14.52% by February 2025. As of March 31, 2025, the number of consumption points in its portfolio reached 630,927, reflecting an 8% year-over-year growth.
- Hidroelectrica achieved a five-year revenue CAGR of 17% and a net profit CAGR of 24%, with an average operating margin exceeding 50% and a net profit margin over 40%. The dividends distributed by H2O have provided investors with attractive returns: 11.5% in 2024 and 7.4% in 2025 (based on market price).
- Starting July 1, 2025, Romania's electricity market will be fully liberalized, marking the end of the price cap period. We estimate a positive impact on the company's supply segment, driven by a projected 42% increase in the average supply price in 2026 compared to 2024. Another key factor for this segment is the growth of the customer base, for which we estimate a compound annual growth rate (CAGR) of 8% through 2030. However, greater visibility on the segment's performance is expected after Q3–Q4 2025.
- The company has an ambitious investment plan focused on three strategic areas: development, refurbishment, and modernization. For 2025, H2O has budgeted investments totaling RON 1,916 million, financed through a combination of internal resources and bank loans. Of this amount, RON 75 million was allocated in Q1 2025—a modest share of the total.
- We value the company at RON 130.3/share, based on a weighted average of a DCF valuation of RON 126.1/share (70% weight) and a multiples-based valuation of RON 140/share (30% weight).
- Potential risks associated with our recommendation include instability in the national fiscal and regulatory framework governing the electricity market, hydrological conditions, energy market volatility, and possible delays in the implementation of investment projects.

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Sector: Utilities

Shares information

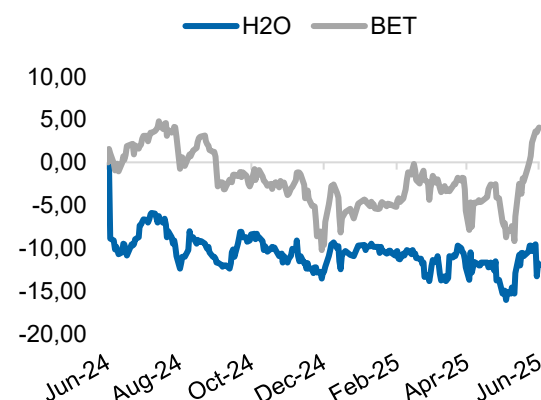
Min/max price, 52 weeks.	115 – 129
Total shares (mil.)	449.8
Market cap. (mil. RON)	54,831
52 weeks liquidity (mil. RON)	1,804

Shareholders

	%
State of Romania through the Ministry of Energy	80.06
Others	19.94

1-year performance

	%
H2O	-10.96
vs. BET Index	3.51



source: Bloomberg, BVB

About Hidroelectrica

Hidroelectrica is Romania's largest electricity producer, operating 188 hydropower plants with a total installed capacity exceeding 6.3 GW, distributed across the country's main hydrographic basins. Since 2021, the company has diversified its portfolio by acquiring the Crucea wind farm (108 MW), becoming an integrated renewable energy producer. Hidroelectrica has also entered the electricity supply segment, serving both household and non-household consumers. Its shares have been traded on the Bucharest Stock Exchange (BVB) since July 2023.

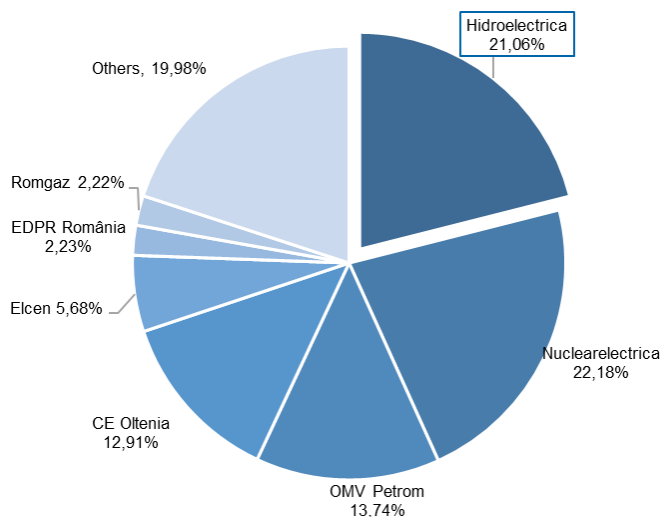
Hidroelectrica stands as a key contributor to Romania's energy security, playing a vital role through its substantial production capacity and competitive electricity prices. Due to its strategic market position, the company has a direct influence on the stability and accessibility of electricity for consumers.

Market Share, Electricity Generation and Supply

Hidroelectrica holds a leading position, accounting for 29.39% of Romania's total electricity production in 2024, according to ANRE data. In the first two months of the year, the company's market share based on electricity volume delivered to the grid stood at 21.06%.

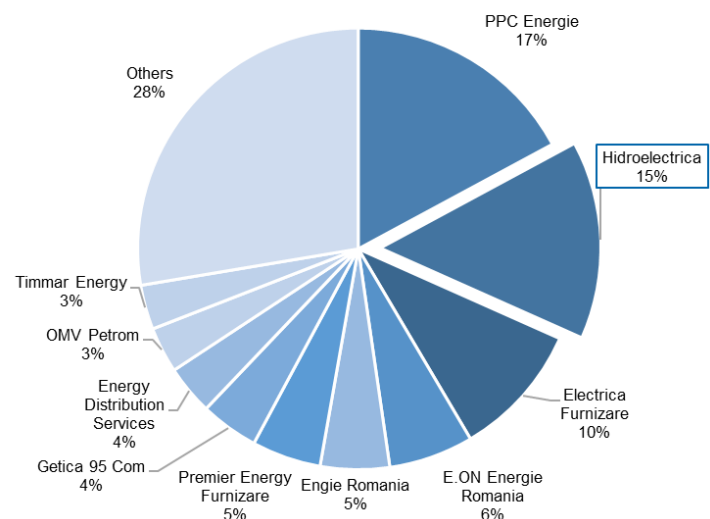
In the supply segment, based on electricity volumes sold on the competitive market in 2024, Hidroelectrica held a market share of 13.07%, which increased to 14.52% by February 2025.

**Top electricity producers
january–february 2025**



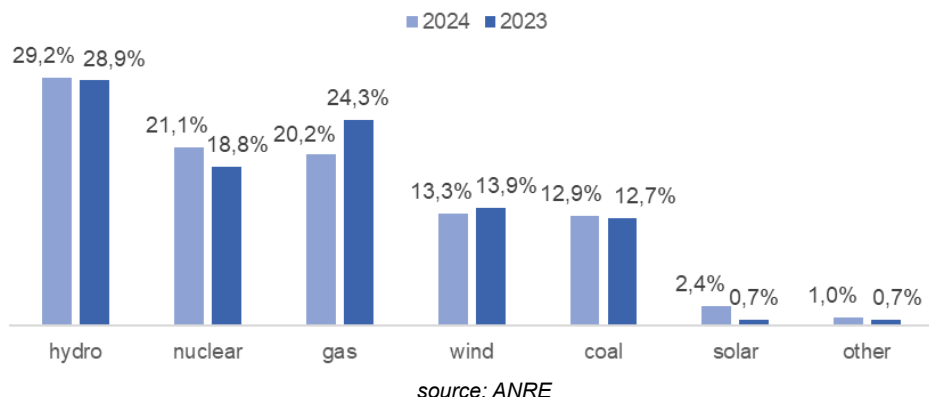
source: ANRE

**Top electricity suppliers
february 2025**



source: ANRE

Energy mix of electricity delivered to the grid by producers



According to Romania's Energy Strategy 2025–2035, with a 2050 outlook, the primary focus is to accelerate the energy transition by significantly increasing renewable capacity. Hydropower will continue to play a crucial role in grid balancing and the provision of system services. While no major investments in new large hydropower plants are planned, the strategy emphasizes modernizing and digitizing existing facilities to enhance efficiency and extend their operational lifespan.

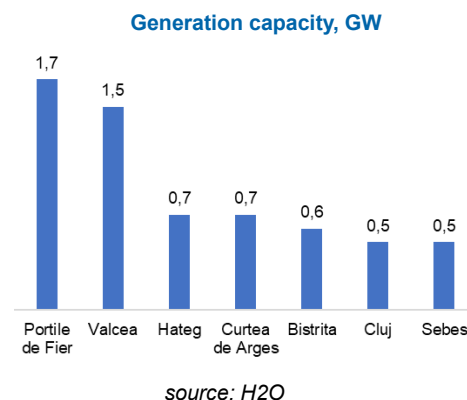
Generation capacity

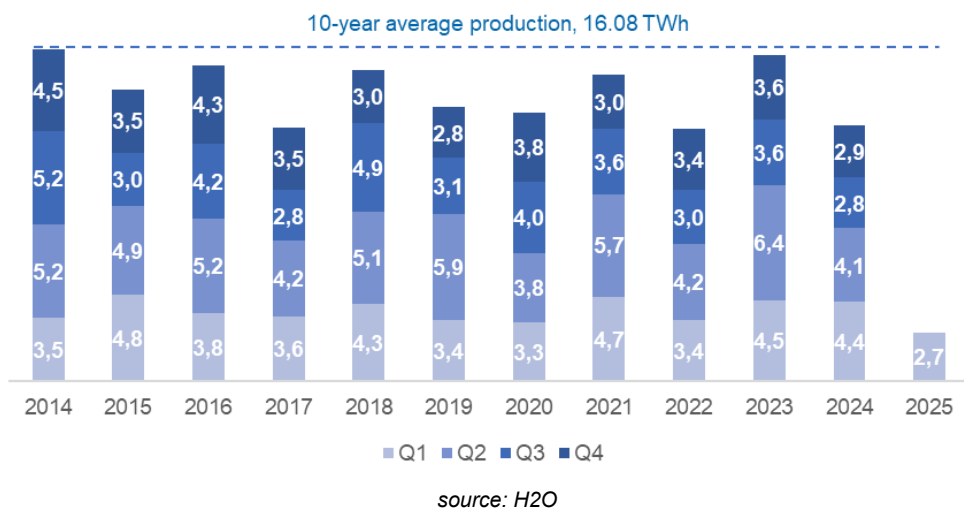
Net generation capacity can vary significantly depending on hydrological conditions, yet it consistently contributes to balancing the national energy system and ensuring Romania's energy security.

The main generation facilities are Porțile de Fier I and Porțile de Fier II, which together account for approximately 27% of the installed capacity and 40% of the company's total electricity production over the past decade.

The recorded production in Q1 2025 of 2.7 TWh is 32% below the average Q1 production recorded during 2014–2024. This decline is attributed to unfavorable hydrological conditions, with the average flow of the Danube in Q1 2025 measuring only 4,257 m³/s—approximately 40% lower than during the same period in 2024.

The company's portfolio includes the Crucea wind farm, with an installed capacity of 108 MW. Additionally, the company plans to acquire stakes in photovoltaic generation capacities totaling 550 MW during the 2025–2027 period.





Investment projects

Hidroelectrica has planned an extensive investment program, structured in three major directions: development, refurbishment, and modernization.

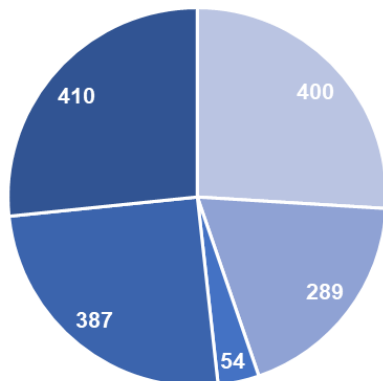
The projects aim to expand production capacity by operating strategic power plants such as Livezeni-Bumbești and Răstolița, which are designed to further harness Romania's hydropower potential. In parallel, refurbishment efforts are underway at existing plants—including Vidraru, Mărișel, and Stejaru—to improve efficiency, lower maintenance costs, and extend operational lifespans by up to 40 years. Modernization initiatives at sites like Vaduri, Remeți, and Arcești also target enhanced performance through automation and equipment upgrades.

The company's investment budget is highly ambitious for the upcoming period, with both internal funds and bank loans planned as sources of financing. In Q1 2025, the level of realized investments remained modest relative to the annual allocation, although management expects a significant increase in the subsequent quarters.

The following graphs present a selection of Hidroelectrica's most representative investment projects planned for implementation between 2026 and 2034.

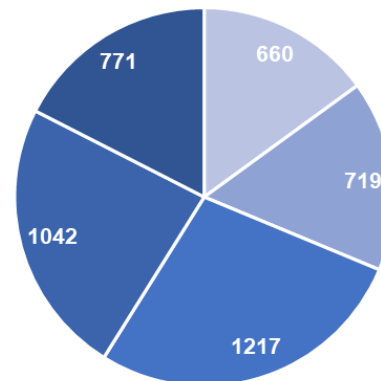
Major Hydro Projects (mil. RON)

■ Livezeni-Bumbesti ■ Cainenii ■ Rastolita (phase 1) ■ Pascani ■ Surducu Siriu



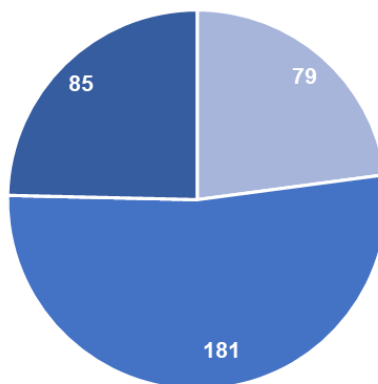
Major Refurbishment Projects (mil. RON)

■ Bradisor ■ Stejaru ■ Vidraru ■ Marisel ■ Raul Mare-Retezat



Major Modernisation Projects (mil. RON)

■ Vaduri ■ Remeti ■ Arcesti



source: H2O

Market background

Regulatory framework

Starting 1 July 2025, the Romanian electricity market will be fully liberalized, marking the end of the price cap period. Energy suppliers will be free to set their tariffs, and consumers will be able to choose the offers that best suit their needs. The price comparison tool available on ANRE's website indicates that electricity prices are expected to rise after this date. In this context, a shift in consumer behavior is likely, with many customers expected to switch to suppliers offering more competitive rates.

At the same time, the Special Construction Tax was reintroduced in 2025. According to Emergency Ordinance No. 156/2024, as amended by GEO No. 21/2025, this tax is applied to constructions that are not subject to the standard building tax. The applicable rate is 0.5%, calculated on the net book value of buildings owned by the company as of December 31 of the previous year. For

buildings under administration, concession, or free use—provided they are part of the public or private domain of the State or local administrative units—the tax rate is reduced to 0.25%.

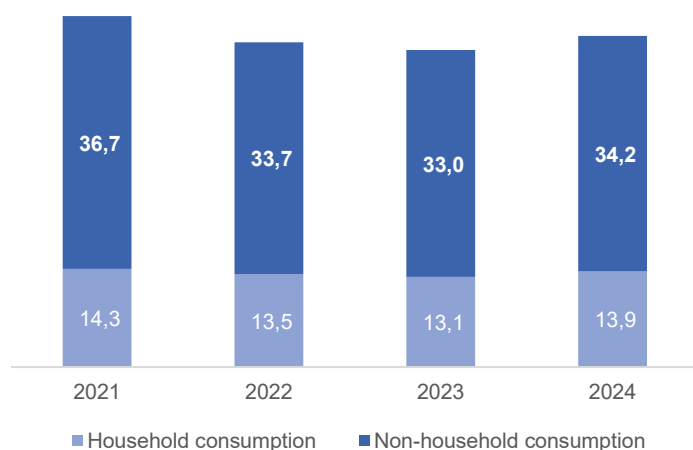
Electricity production and consumption

In 2024, total electricity consumption in Romania reached approximately 55,320 GWh, of which 13,907 GWh was delivered to household consumers and 34,200 GWh to non-household consumers, primarily under the competitive market regime.

Electricity production delivered to the grid by large producers (with an installed capacity above 5 MW) totaled 47,585 GWh. Hydropower was the primary source of generation, accounting for 29.2% of the total, followed by nuclear energy (21.1%) and natural gas (20.2%).

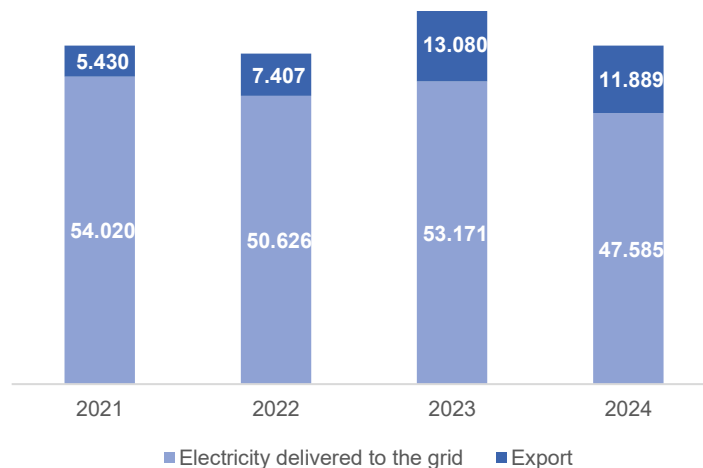
Externally, Romania exported 11,889 GWh and imported 14,904 GWh of electricity, resulting in a negative trade balance despite substantial domestic production.

National electricity consumption, TWh



source: ANRE

Quantity of electricity delivered to the grid and exported, GWh

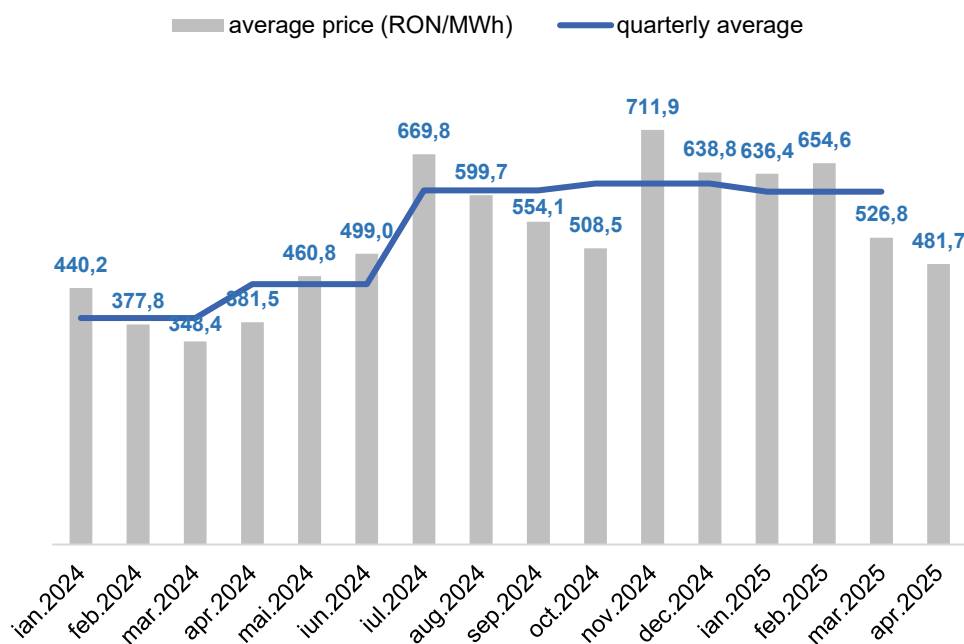


source: ANRE

Electricity prices

According to OPCOM data, the weighted average price on the DAM, ID, and PCBB contracts markets in the first quarter was 605.9 lei/MWh, 55.8% higher than in the same period of the previous year. Electricity prices remained elevated during the first part of the year, declining only in April to 481.7 lei/MWh. For 2025, prices are expected to remain high, particularly as the MACEE support mechanism was not extended.

Prices remain higher in the first part of 2025 vs. 2024

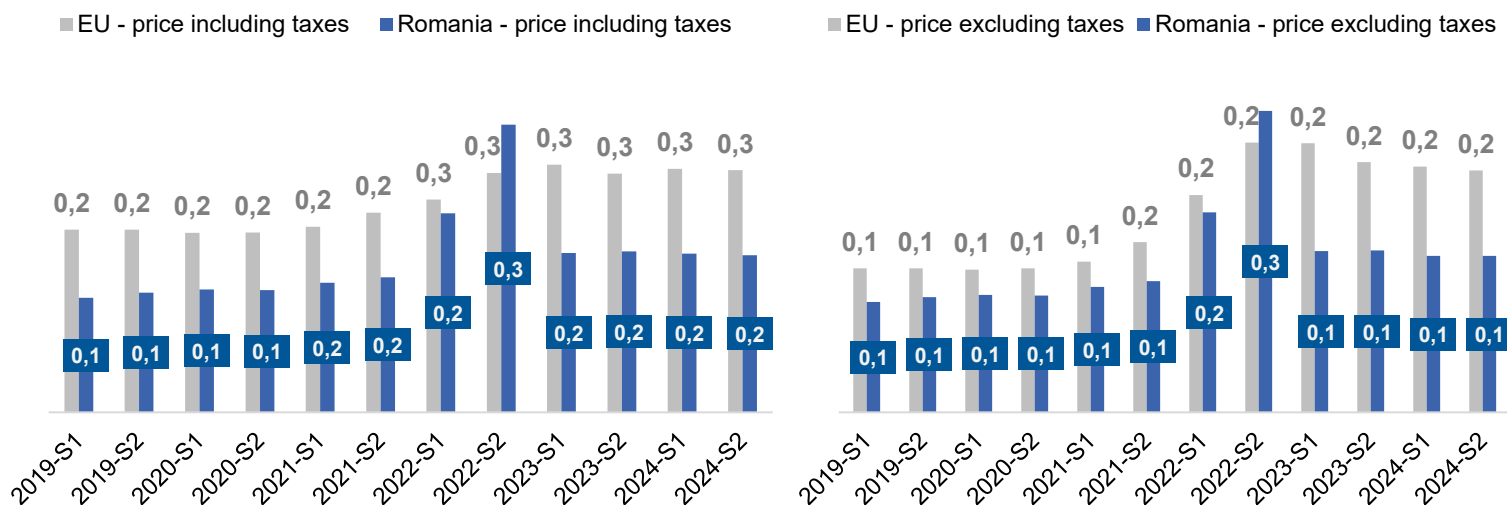


source: OPCOM, BRK calculation

When comparing the evolution of electricity prices in Romania with those in the European Union, it is evident that Romanian prices remained consistently below the EU average throughout the 2019–2024 period.

For household consumers, electricity prices in Romania have consistently remained below the EU average. A sharp increase occurred in 2022, when the price (including taxes) rose from €0.16/kWh in the second half of 2021 to €0.34/kWh in the second half of 2022—effectively doubling within a year. Subsequently, starting in 2023, prices stabilized at around €0.19/kWh, supported by the implementation of price cap and offset mechanisms.

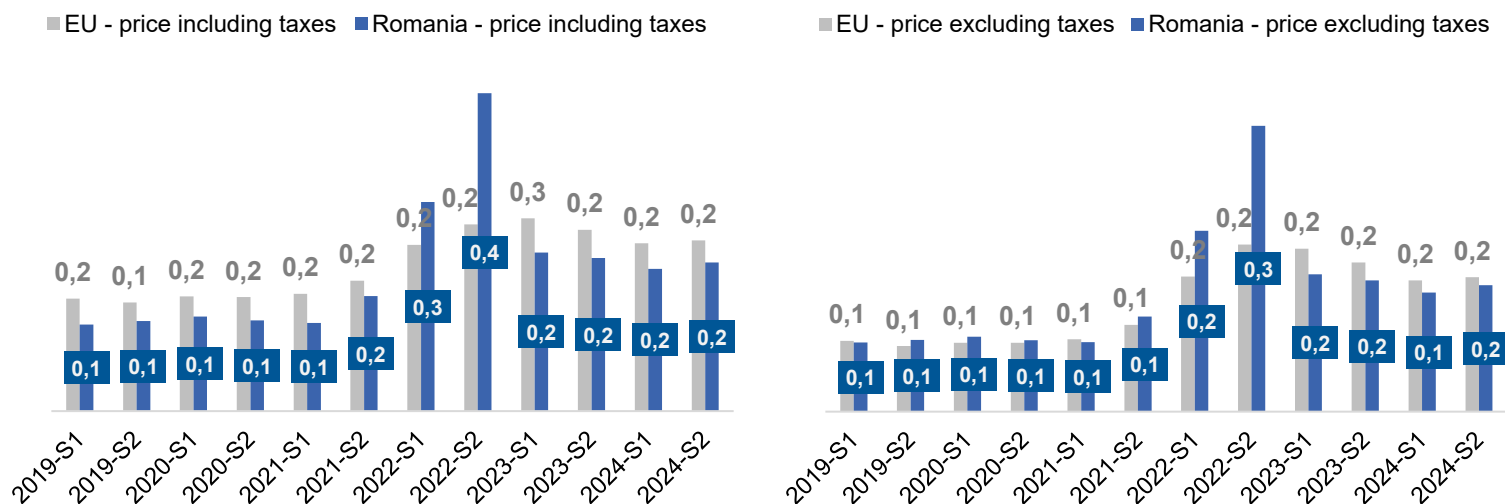
Electricity price evolution EU vs. Romania for households (euro/kWh) Prices in Romania were 35% below the EU level in 2024



source: Eurostat

For non-household consumers, the trend was similar, with prices peaking in the second half of 2022, when the rate (including taxes) reached €0.43/kWh. Subsequently, tariffs declined significantly, falling to €0.20/kWh in 2024, approaching the European average in the second half of the year.

Electricity price evolution EU vs. Romania for non-household consumers (euro/kWh)
Romanian prices in 2024 were 8% below the EU level (excluding taxes)



source: Eurostat

Thus, Romania remains one of the countries with the lowest electricity prices in the European Union, particularly for household consumers.

Q1 2025 financial results

In Q1 2025, Hidroelectrica reported a net profit of RON 589 million, down 56% compared to the same period of the previous year, when the net result reached RON 1.3 billion. Revenues declined by 26%, to RON 1,868 million from RON 2,536 million in Q1 2024, while operating profit also dropped by 56%. Operating expenses increased by 19% year-on-year, and employee benefit expenses rose by 25%, driven by both a higher headcount and the implementation of salary increases introduced in July 2024.

This negative performance was primarily driven by unfavorable hydrological conditions, which resulted in a 38% decline in net electricity generation, from 4,296 GWh in Q1 2024 to 2,654 GWh in Q1 2025. The significantly lower output led to an 8.9x increase in electricity purchase costs, which reached RON 95 million. Meanwhile, the average wholesale electricity selling price rose from RON 437/MWh in Q1 2024 to RON 529/MWh in Q1 2025, representing a 21% increase. In the supply segment, the average selling price stood at RON 408/MWh, down 14% from RON 471/MWh in the same period of the previous year.

The volume of electricity delivered to end customers increased by 22%, from 1,318 GWh in Q1 2024 to 1,604 GWh in Q1 2025, resulting in a 5% increase in supply revenues—from RON 622 million to RON 655 million. Conversely, revenues from wholesale market sales fell by 53%, reflecting the impact of lower generation, although this negative effect was partially mitigated by higher prices.

The number of customers in the supply segment increased by 8% compared to Q1 2024, reaching a total of 630,927. According to data published by ANRE, the company's market share in this segment stood at 14.5% in February 2025, positioning Hidroelectrica as the second-largest supplier.

GWh	T1 2025	T1 2024	var %
Total energy sold (GWh)	2.850	4.475	-36%
Electricity wholesale (GWh)	1.131	2.897	-61%
Average wholesale price (RON/MWh)	529	437	21%
Wholesale revenue (mil. RON)	599	1.265	-53%
Quantity of electricity Supply (GWh)	1.604	1.318	22%
Average supply price (RON/MWh, ex-pass through)	408	471	-13%
Supply revenue (mil. RON)	655	622	5%
Transferred costs (mil. RON)	466	380	23%
Quantity of electricity - Balancing (GWh)	55	94	-41%
Average price Balancing (RON/MWh)	1.568	1.535	2%
Balancing revenue (mil. RON)	86	144	-40%
System services revenue (mil. RON)	41	64	-36%
Other revenues (mil. RON)	21	61	-66%
Total Revenue (mil. RON)	1.868	2.536	-26%

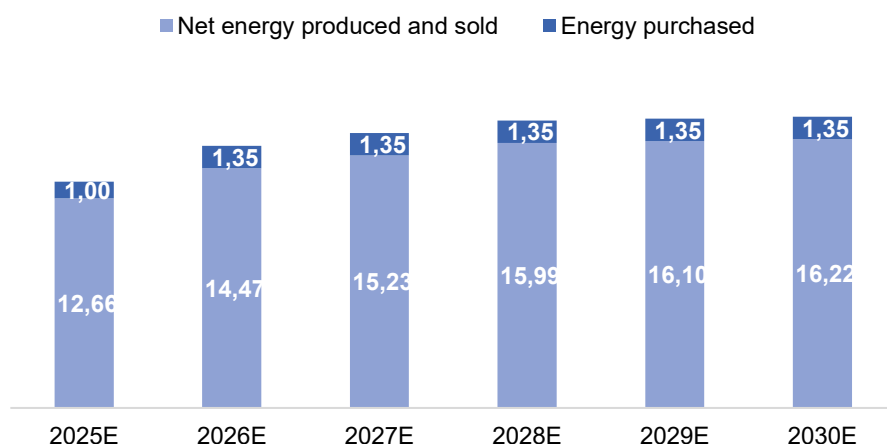
source: H2O

`000 RON	T1 2025	T1 2024	var %
Revenue	1.868.174	2.536.090	-26%
Other income	19.357	17.025	14%
Turbinated water	-99.174	-159.986	-38%
Employee benefits expenses	-219.581	-175.849	25%
Transport and distribution of electricity	-382.084	-344.109	11%
Electricity purchased	-95.177	-10.671	792%
Green certificates expenses	-83.446	-56.525	48%
Depreciation and amortization	-219.582	-222.869	-1%
Impairment on property, plant and equipment and intangible assets, net	39	0	
Impairment loss on trade receivables, net	-31.139	-3.964	686%
Repair, maintenance, materials and consumables	-23.421	-14.729	59%
Tax on electricity producers	-15.738	0	
Other operating expenses	-75.105	-57.635	30%
Operating profit	643.123	1.506.778	-57%
Finance income	78.322	98.822	-21%
Finance costs	-18.992	-18.978	0%
Net finance result	59.330	79.844	-26%
Profit before tax	702.453	1.586.622	-56%
Income tax expense	-113.229	-260.467	-57%
Profit for the period	589.224	1.326.155	-56%

source: H2O

Estimates

Both the 2025 and 2024 financial results were negatively affected by unfavorable hydrological conditions. For 2025, we estimate an 8.7% decline in the volume of electricity produced and sold, totaling 12.7 TWh, along with the purchase of 1 TWh of electricity. For the 2025–2030 period, we project an average net production of 15.6 TWh—slightly above the five-year historical average—supported by the company's planned acquisition of 550 MW of photovoltaic capacity, which we have incorporated into our model starting in 2027. Over the same forecast horizon, we also expect Hidroelectrica to purchase an average of 1.35 TWh of electricity annually.



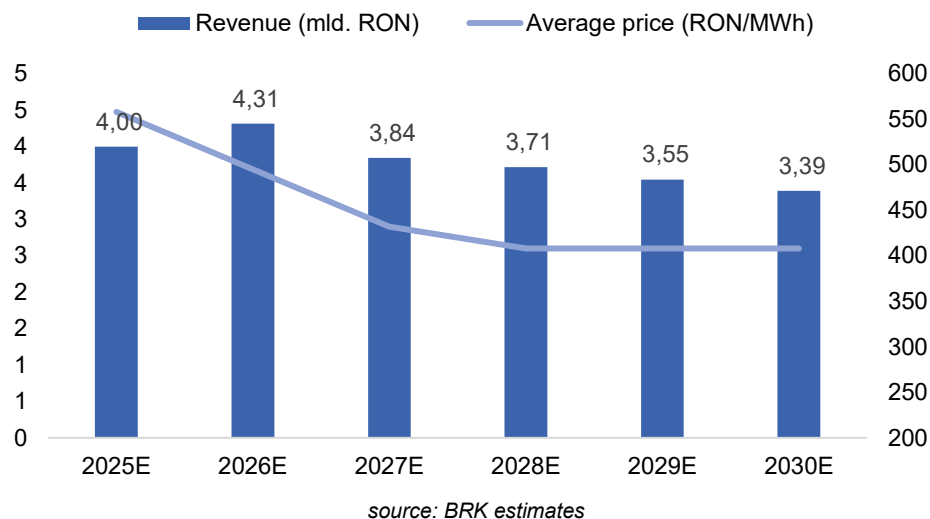
source: BRK estimates

The estimated selling price of electricity produced by Hidroelectrica is subject to a high degree of uncertainty, influenced by factors such as national energy production levels, consumption demand, hydrological and meteorological conditions, and the specific dynamics of the liberalized supply market.

For 2025, we estimate that revenues will reach RON 9.6 billion, representing a 5.3% increase year-on-year. In 2026, we expect a further increase of 17.7%, driven by higher sales prices in the supply segment.

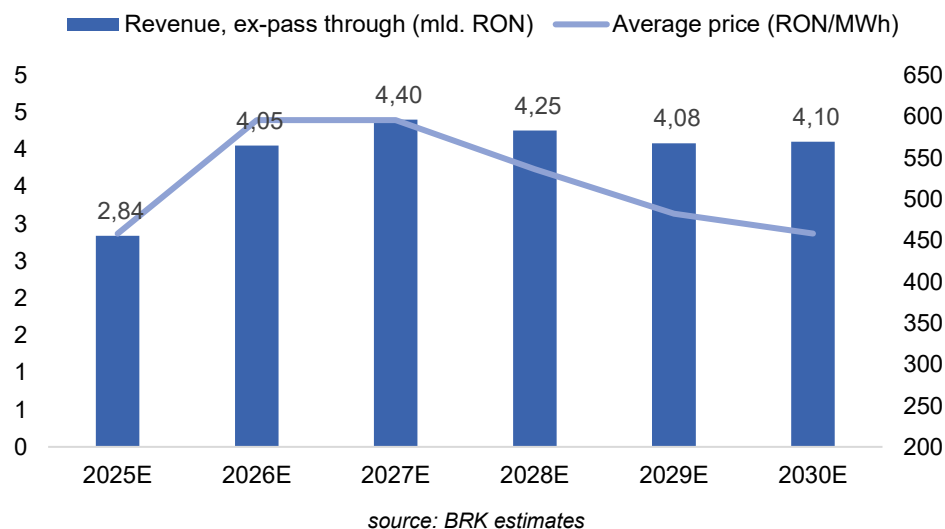
Regarding the wholesale electricity sales segment, we estimate an increase in the average sales price to RON 558/MWh in 2025, followed by a slight downward trend between 2026 and 2030, in line with projected price developments in the German market. At the same time, we expect the segment's share in total revenues to gradually decline.

Estimated evolution of wholesale revenues



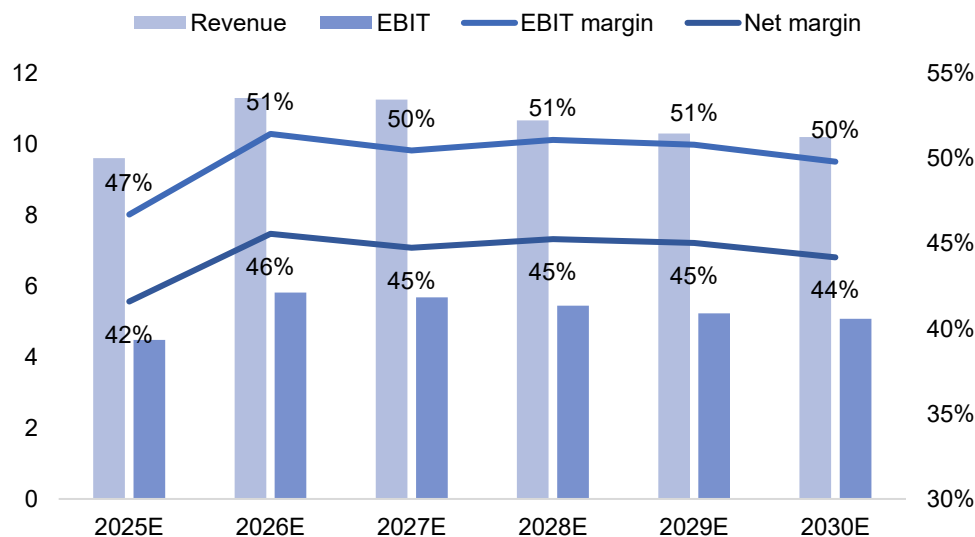
For the supply segment, a key driver will be market liberalization, set to take effect in July 2025. The average price in 2025 is expected to be lower, influenced by contracts concluded the previous year under regulated conditions. The impact of liberalization is anticipated to be reflected in the 2026–2027 results, with an average price projected at around 600 RON/MWh, followed by a slight downward trend thereafter. Another important factor for this segment is the growth in the customer base, for which we estimate a compound annual growth rate (CAGR) of 8% through 2030.

Estimated evolution of supply revenue



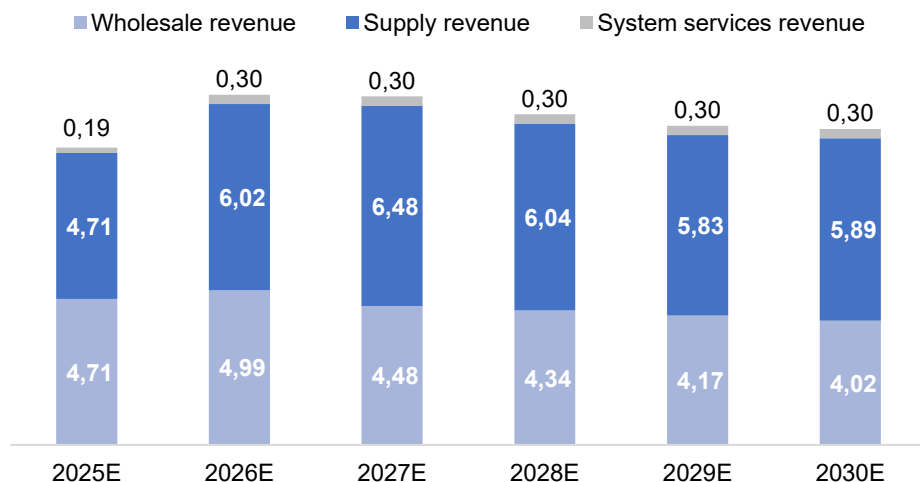
In recent years, Hidroelectrica has maintained an average operating margin exceeding 50%. For 2025, we expect this to decline to 46.7%, due to a projected decrease in electricity production. Between 2026 and 2030, we anticipate the operating margin to average around 51%.

We estimate that margins could return to slight growth from 2026, but below the average of the last six years



source: BRK estimates

Revenues estimated at over 11 bn. RON between 2026-2027



source: BRK estimates

Company valuation

We value the company at RON 130.3 per share, based on a weighted average of the DCF valuation of RON 126.1 per share (weighted at 70%) and the valuation derived from price multiples of RON 140 per share (weighted at 30%).

DCF valuation

We value the company at RON 126.1 per share, implying a potential upside of 3.5% from the current market price. We applied a weighted average cost of capital (WACC) of 11.2%, based on an estimated cost of equity of 13.06% and a cost of debt of 6%.

Other assumptions in our model include:

- BETA of 0,72, estimated through a simple regression against the BET index;
- Market risk premium of 7,9%, estimated using the long-term return of the BET index and the 10-year Romanian government bond yield;
- Terminal value estimated using a 3% growth rate and weighted cost of capital.

<i>mil. RON</i>	31-Dec-25	31-Dec-26	31-Dec-27	31-Dec-28	31-Dec-29	31-Dec-30
Revenues	9.609	11.309	11.260	10.678	10.306	10.208
% growth	5,3%	17,7%	-0,4%	-5,2%	-3,5%	-0,9%
EBITDA adj.	5.449	6.962	6.821	6.531	6.272	6.110
EBITDA M	56,7%	61,6%	60,6%	61,2%	60,9%	59,9%
EBIT	4.488	5.818	5.683	5.455	5.237	5.085
EBIT M	46,7%	51,4%	50,5%	51,1%	50,8%	49,8%
EBIT*(1- Tax Rate)	3.815	4.945	4.830	4.637	4.451	4.322
D&A	913	1.074	1.070	1.014	979	970
WCC	-173	-204	-203	-192	-186	-184
CAPEX	-913	-1.262	-1.309	-1.118	-603	-455
FCFF	3.641	4.554	4.389	4.341	4.641	4.653
<i>discount factor</i>	<i>0,90</i>	<i>0,81</i>	<i>0,73</i>	<i>0,65</i>	<i>0,59</i>	<i>0,53</i>
<i>NPV FCFF</i>	<i>3.274</i>	<i>3.681</i>	<i>3.190</i>	<i>2.837</i>	<i>2.727</i>	<i>2.458</i>
PV FCFF	18.167					
PV Terminal Value	32.819					
Terminal growth rate	3,0%					
Company value	50.986					
Net Debt	-5.745					
Company value	56.731					
No. Shares	450					
Price/share (RON)	126,1					
Market price (RON)	121,9					
Upside/Downside	3,5%					

source: BRK estimates

		Terminal Growth Rate				
		1,0%	2,0%	3,0%	4,0%	5,0%
WACC	10,5%	118,44	126,73	137,23	150,96	169,69
	11,2%	110,71	117,58	126,12	137,03	151,45
	12,0%	103,55	109,23	116,19	124,88	136,05
	12,5%	99,45	104,52	110,65	118,23	127,83

Multiples valuation

We value H2O at RON 140 per share, reflecting a potential upside of 14,9%, based on the average of EV/EBITDA and P/E valuations, using the median multiples of 10 utilities companies with an average market capitalization of EUR 31.8 billion. H2O trades at a forward P/E of 13.7x, below the sector median of 16.9x. The company remains attractively valued, trading at a discount to industry peers.

Company	Country	Market Cap. (EUR mil.)	BETA	ROE 5Y	NIM	EV/ EBITDA	PE	PB
EDP RENOVAVEIS S	ES	9.465	0,79	2%	4%	12,57	26,52	0,88
ORSTED A/S	DK	14.754	0,74	7%	8%	11,39	17,43	1,68
CORP ACCIONA ENE	ES	6.421	0,70	9%	8%	10,63	18,04	1,10
ERG SPA	IT	2.815	0,77	6%	21%	8,89	16,46	1,29
VERBUND AG	AT	23.555	0,90	20%	24%	8,03	12,46	2,26
IBERDROLA SA	ES	103.371	0,76	11%	13%	11,37	21,00	2,20
CEZ AS	CZ	26.262	0,46	17%	9%	5,70	20,75	2,56
NUCLEARELECTRICA	RO	2.531	0,59	18%	37%	3,61	7,75	1,00
ENEL SPA	IT	82.299	1,00	20%	9%	6,59	13,56	2,22
ENGIE	FR	46.599	0,94	12%	8%	5,20	7,82	1,34
Median		19.154	0,8	11,3%	8,8%	8,5	16,9	1,5

source: Bloomberg

RON	Price/share
Target price @ EV/EBITDA	129,46
Target price @ P/E	150,59
Average target price	140,0
H2O market price	121,9
Upside/Downside	14,9%

source: Bloomberg, BRK estimates

Financial statements and estimates

(mil. RON)	2024	2025e	2026e	2027e	2028e	2029e	2030e
Revenue	9.123	9.609	11.309	11.260	10.678	10.306	10.208
COGS	-1.839	-2.068	-2.179	-2.327	-2.066	-2.008	-2.020
Gross Profit	7.284	7.541	9.130	8.933	8.613	8.298	8.188
Salary expenses	-885	-930	-958	-986	-1.016	-1.041	-1.067
General & admin. Expenses	-1.024	-1.163	-1.210	-1.125	-1.066	-984	-1.011
EBITDA adj.	5.374	5.449	6.962	6.821	6.531	6.272	6.110
Amortization and depreciation	-905	-913	-1.074	-1.070	-1.014	-979	-970
Other income / (expenditure)	119	-47	-70	-69	-61	-57	-55
EBIT	4.588	4.488	5.818	5.683	5.455	5.237	5.085
Financial income	342	360	424	422	400	386	383
Financial expenses	-85	-90	-106	-105	-100	-97	-96
Gross Profit	4.845	4.758	6.136	5.999	5.755	5.526	5.372
Income tax	-717	-761	-982	-960	-921	-884	-859
Net profit	4.128	3.997	5.154	5.039	4.835	4.642	4.512

source: H2O, BRK estimates

Ratios	2024	2025e	2026e	2027e	2028e	2029e	2030e
GPM	79,8%	78,5%	80,7%	79,3%	80,7%	80,5%	80,2%
EBITDA M adj.	58,9%	56,7%	61,6%	60,6%	61,2%	60,9%	59,9%
EBIT M	50,3%	46,7%	51,4%	50,5%	51,1%	50,8%	49,8%
NPM	45,2%	41,6%	45,6%	44,8%	45,3%	45,0%	44,2%
ROE	17,2%	17,3%	21,8%	20,4%	18,6%	16,9%	15,5%

source: H2O, BRK estimates

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Company	Symbol	Explanatory note No.
Hidroelectrica	H2O	5, 7, 10, 11

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