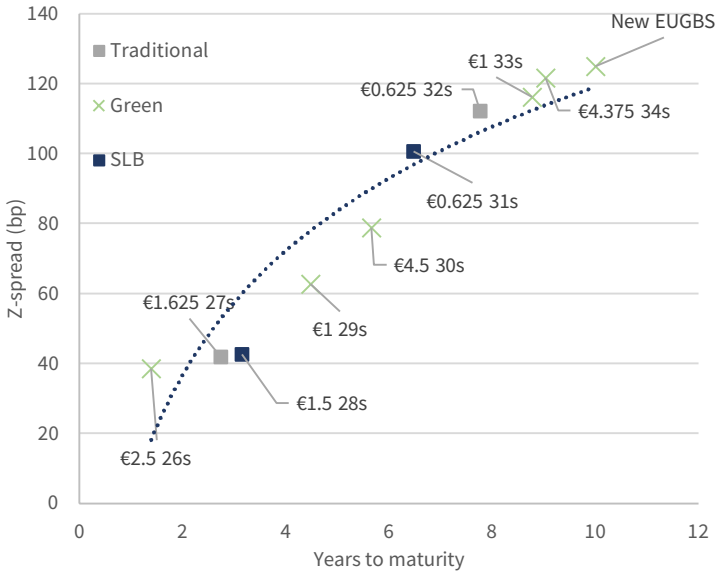
A2A goes for gold with an EU green bond

Josephine Richardson (*), Patricia Hutchinson

Italian utilities company A2A (credit ticker AEMSPA, equity ticker A2A IM) priced the first bond under the new EU Green Bond Standard (EUGBS) on 23 Jan 2025.[1] The regulation (effective as of 21 Dec 2024) is a voluntary standard which relies on the EU Taxonomy,[2] and is designed to support transparency in the green bond market.[3] The regulation's requirements are extensive,[4] and the eligibility and reporting obligations are less permissive than the International Capital Market Association (ICMA) standards,[5] leading to fears of slow uptake.

Figure 1. A2A EUR bond pricing. Source: Bloomberg, accessed 23 Jan 2025.



A2A has several ESG-labelled bonds, both green bonds issued prior to EUGBS, but also Sustainability-Linked Bonds (SLBs). In this note we review the pricing of A2A's bond curve, to analyse how investors are valuing the sustainability commitments embedded in each security.

- This is the first security issued under the EUGBS. By pricing only slightly wider than a shorter-dated bond (4.375% 34s) this suggests it was well-received by the market. If bonds issued under this structure offer attractive pricing to borrowers, then that may outweigh any additional compliance and reporting costs and support greater issuance.
- Of A2A's earlier five bullet green bonds, four already fully allocate proceeds to EU Taxonomy-aligned projects, meaning the new bond may offer limited additional impact. Unintuitively, the one bond which does not, the 1% 29s, seems currently to be pricing the tightest.
- The shorter-dated SLB, 1.5% 28s, is forecast to miss its Sustainability Performance Target (SPT), which would result in a coupon step-up. However the higher coupon will not begin to accrue until the audited figures are released, which potentially puts one annual step-up coupon at risk. This timing is worth nearly 8bps on a bond trading at 40bps, and may create volatility for annual bonds paying coupons in reporting season.

[1] "Italian Energy Firm Offers First 'Gold Standard' Green Bond", Bloomberg, 23 Jan 2025.
[2] "EU Green Bonds Regulation", Linklaters, accessed 23 Jan 2025.
[3] "The European green bond standard", European Commission, accessed 23 Jan 2025.
[4] "EU's Green Bonds Will Avoid Bloc's Own 'Gold Standard' Rules", Bloomberg.com, 16 Jan 2025.
[5] "ICMA green bond principles and the EU green bond regulation: a comparison", Clifford Chance, Nov 2023.

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(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org). Author for contacts: jor@anthropocenefii.org

A2A outstanding bonds

A2A (rated BBB/Baa2) has €5.5bn bonds outstanding, as detailed in Table 1, plus a legacy ¥14bn private placement issued in 2006.

Since 2021 all its bullet issuance has been in ESG-labelled debt form, and it has used both green and sustainability-linked structures. Indeed, A2A has targeted having over 80% of its debt be sustainable by 2026 and 100% by 2035.[6]

Table 1. A2A's outstanding EUR bonds. Source: Bloomberg, accessed 23 Jan 2025.

Description	ISIN	Issue Date	Maturity	Currency	Amount Outstanding	ESG Label
AEMSPA €1.75 25s	XS1195347478	25-Feb-15	25-Feb-25	EUR	300,000,000	
AEMSPA €1.625 27s	XS1701884204	19-Oct-17	19-Oct-27	EUR	300,000,000	
AEMSPA €1 29s	XS2026150313	16-Jul-19	16-Jul-29	EUR	400,000,000	Green
AEMSPA €0.625 32s	XS2250376477	28-Oct-20	28-Oct-32	EUR	500,000,000	
AEMSPA €0.625 31s	XS2364001078	15-Jul-21	15-Jul-31	EUR	500,000,000	SLB
AEMSPA €1 33s	XS2403533263	02-Nov-21	02-Nov-33	EUR	500,000,000	Green
AEMSPA €1.5 28s	XS2457496359	16-Mar-22	16-Mar-28	EUR	500,000,000	SLB
AEMSPA €2.5 26s	XS2491189408	15-Jun-22	15-Jun-26	EUR	600,000,000	Green
AEMSPA €4.5 30s	XS2534976886	19-Sep-22	19-Sep-30	EUR	650,000,000	Green
AEMSPA €4.375 34s	XS2583205906	03-Feb-23	03-Feb-34	EUR	500,000,000	Green
AEMSPA €5 PERP	XS2830327446	11-Jun-24	PERP	EUR	750,000,000	Green
AEMSPA new bond	XS2986639701		30-Jan-35	EUR	500,000,000	Green EUGBS

Green bonds

A2A has issued seven green bonds in total, of which the latest is aligned to the EUGBS. It has published four distinct financing frameworks, the first three with second party opinions from Vigeo Eiris, and the latest from S&P.

The categories of investments are renewable energy, energy efficiency, pollution prevention and control, transmission and distribution networks, clean transportation, and water and wastewater management.

Sustainability-Linked Bonds

A2A has issued two Sustainability-Linked Bonds (SLB).

The first, issued 15 Jul 2021, used as a KPI A2A's Scope 1 CO_2 emissions intensity. The associated SPT is a reduction of intensity to 296 gCO_2/kWh by 31 Dec 2025.[7] The bond could potentially pay a step-up coupon of 25bps for five years if this target is missed.

The second, issued in Mar 2022, has as its SPT the installation of 3GW of total renewable energy capacity by 31 Dec 2024.[8] It potentially pays a step-up coupon of 25bps for two or three years,

[6] "Sustainable finance programme", A2A, accessed 23 Jan 2025.
[7] "Investor Presentation Inaugural Sustainability-Linked Bond", A2A, 5 Jul 2021.
[8] "Investor Presentation New SLB Bond", A2A, Mar 2022.

depending on when an auditor's report is issued.[9] This bond was classified as 'Likely MISS' in our analysis of the 2024 cohort of SLB triggers.[10]

Latest sustainability reporting

Green bond proceeds

Table 2 gives details on the latest allocation of A2A's green bonds.[11] All bonds issued before 2023 are fully allocated, and most bonds are EU Taxonomy aligned. The earliest issuance, 1% 29s, is reported as not aligned to the EU Taxonomy.

Table 2. A2A green bond allocation details. Source, A2A, accessed 23 Jan 2025.

Description	ISIN	Issue Date	Maturity	Currency	Amount Outstanding	Amount Allocated	EU Taxonomy aligned
AEMSPA €1 29s	XS2026150313	16-Jul-19	16-Jul-29	EUR	400	419	No
AEMSPA €1 33s	XS2403533263	02-Nov-21	02-Nov-33	EUR	500	495	Yes
AEMSPA €2.5 26s	XS2491189408	15-Jun-22	15-Jun-26	EUR	600	597	Yes
AEMSPA €4.5 30s	XS2534976886	19-Sep-22	19-Sep-30	EUR	650	647	Yes
AEMSPA €4.375 34s	XS2583205906	03-Feb-23	03-Feb-34	EUR	500	257	Yes
AEMSPA €5 PERP	XS2830327446	11-Jun-24	PERP	EUR	750	197	No
AEMSPA new EUGBS	XS2986639701		30-Jan-35	EUR	500	0	Yes

The 2031 SLB - Emissions intensity

The first SLB is linked to Scope 1 emissions intensity with a target of 296 gCO_2e/KWh, as detailed in the 2021 Sustainability Linked Financing Framework (SLFF).[12]

This KPI is repeated in the later 2022 SLFF, with a more ambitious 2025 target.[13] In the third SLFF, published in 2024, the KPI is adjusted to be Scope 1 + 2 emissions intensity.[14] Reported historical KPI figures however are unchanged despite this metric adjustment.

[9] Step-up applies to full coupon periods after the notification date, which is when the KPI results are confirmed as detailed in the prospectus. The notification timeline however appears to rely on the independent auditor's report which covered annual financial reports as well as non-financial information. The auditor report on 2023 results is dated 27 Mar 2024, and we see a board meeting is currently scheduled for 20 Mar 2025, at which the 2024 financial statements will be approved. It appears to be the case that if the notification misses the coupon payment date of 16 Mar 2025, then the step-up will apply only for two years, and investors will receive 0.25% less. This introduces quite a specific timeline risk, and potentially reduces the attractiveness of annual SLBs with payment dates early in the year, prior to typical financial reporting dates.

[10] "SLBs: a summary of 2024 targets", AFII, 9 Jul 2024.

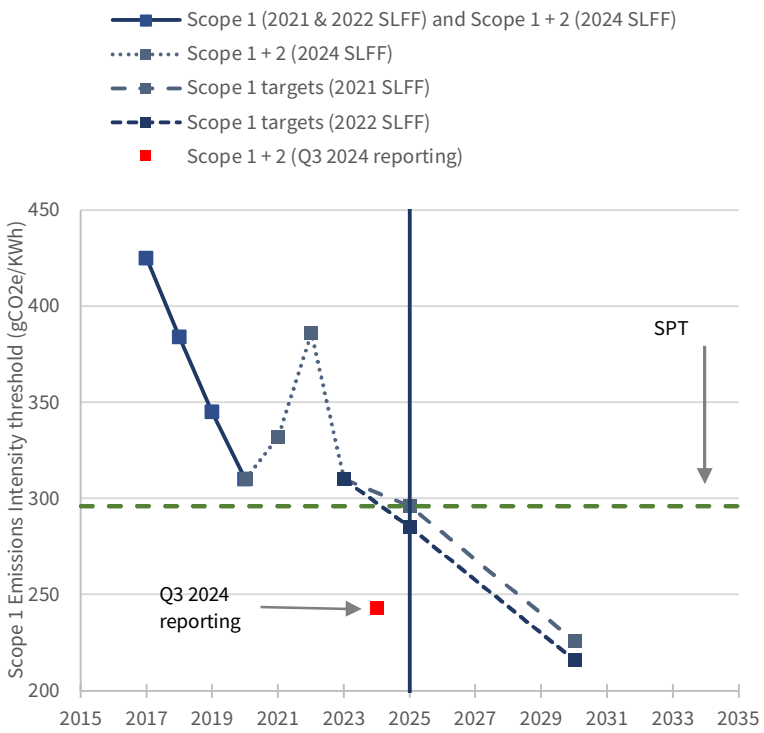
[11] See green bond allocation report as of 31 Dec 2024 which can be downloaded from "Sustainable finance programme", A2A, accessed 23 Jan 2025.

[12] "Sustainable Finance Framework", A2A, May 2021.

[13] "Sustainable Finance Framework", A2A, Feb 2022.

[14] "Sustainable Finance Framework", A2A, Jul 2024.

Figure 2. Historical and target emissions intensity figures. Source: A2A



Data from all three SLFFs can be seen in Figure 2, which shows that this KPI has been volatile from 2020-2023, and suggests that the small reduction needed before 2025 could well already be achieved. A figure was also provided as part of Q3 2024 reporting, albeit for for the full year, which was well below the target.[15] This figure was also for Scope 1 + 2 emissions intensity, which must by definition be greater than Scope 1 emissions intensity alone.

Notwithstanding the metric adjustments, and appreciating that this metric could still increase, it would seem A2A are on track to meet this SPT at the end of 2025.

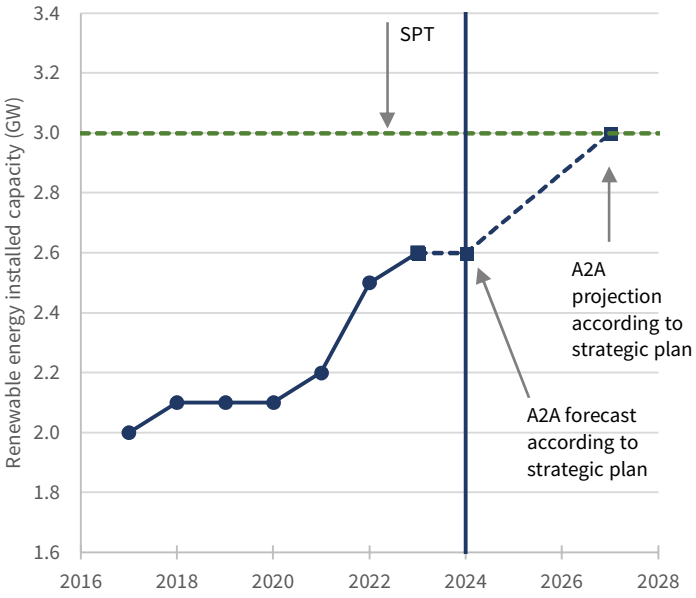
The 2028 SLB – Renewable energy capacity

A2A has a detailed energy transition plan on its website.[16] It was analysis of this plan in 2023 which drove our classification of this SPT as 'Likely MISS', since the 2024 plan was for installed capacity below the target.[17]

A review of its current plan shows a 2024 forecast figure for installed capacity of 2.6GW, well below the 3GW SPT (as shown in Figure 3).[16]

Initial financial reporting is expected on 20 Feb 2025,[18] which is likely the point at which a miss could first be confirmed by the company.

Figure 3. A2A renewable installed capacity, historical and projected. Source; A2A, accessed 23 Jan 2025.



[15] "A2A Life Company 9M 2024 results", A2A, 12 Nov 2024.
[16] "Our strategy for the energy transition", A2A, accessed 23 Jan 2025.
[17] For full details please see "SLBs: a summary of 2024 targets", AFII, 9 Jul 2024.
[18] On the day of board meeting as detailed in "Financial Calendar", A2A, accessed 23 Jan 2025.

Current pricing

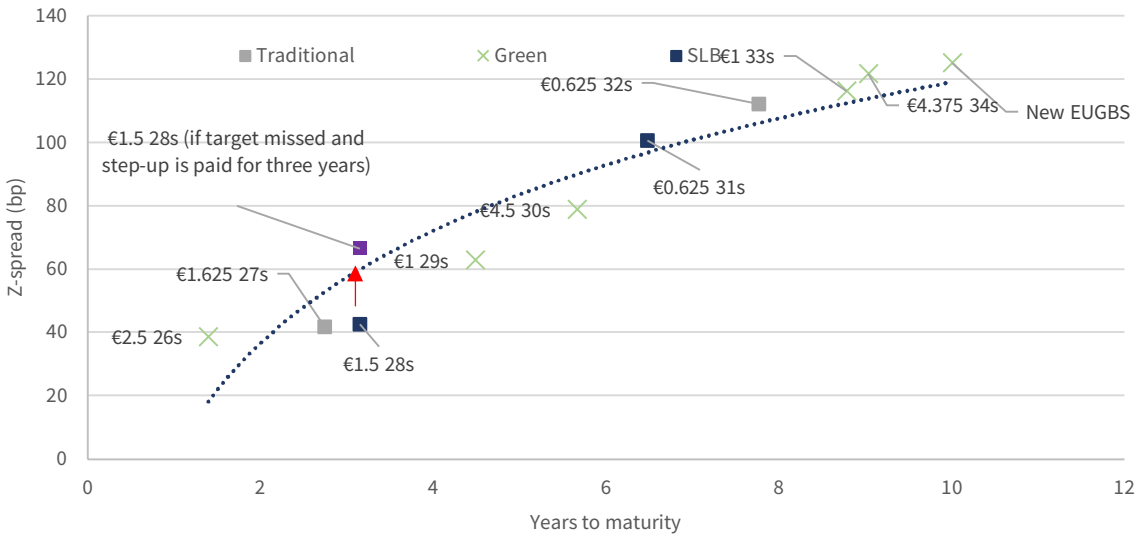
Figure 4 shows current market pricing on A2A EUR bonds (excluding the bond maturing next month).

First looking at the green bonds, the 1% 29s is the only bond not aligned with the EU Taxonomy, and yet this looks to be the tightest compared to the curve. The new EUGBS appears to have priced largely in-line, suggesting limited if any new-issue premium, which does suggest good investor demand for this label.

Now considering the 28s SLB, if the SPT is missed, then an additional 25bps is paid from the first full coupon following confirmation, which is either for two or three years.[9] Due to the coupon dates being so close to the start of the year, this presents quite a different step-up accrual, and in turn a potentially high financial value. If the step-up begins in Mar 2025, this date being imminent, the value of this step-up across the full life of the bond is very close to the full 25bps; our calculations show 23.8bps.[19] If the step-up doesn't start until Mar 2026, then the value is only 15.7bps.

It is using the maximum figure of 23.8bps that we have estimated the spread if the missed target is confirmed. This is included in Figure 4 for hypothetical comparison purposes.

Figure 4. Current pricing of A2A EUR bonds, plus implied SLB option pricing. Source: Bloomberg, AFII, accessed 23 Jan 2025.



[19] This raises an interesting dynamic of SLBs. As they approach the accrual start of the step-up, the spread value of the step-up will increase, as the potential increased coupon is paid for a higher proportion of the remaining life of the bond. For a bond with a high probability of missing its target, one would expect some spread outperformance as the observation date approaches, potentially more accentuated when the step-up accrual start date is closer to the observation date. This would apply to any step-up bond, but is perhaps a feature of the SLB where the step-ups are typically not included on the bond structure for pricing until the miss is confirmed.

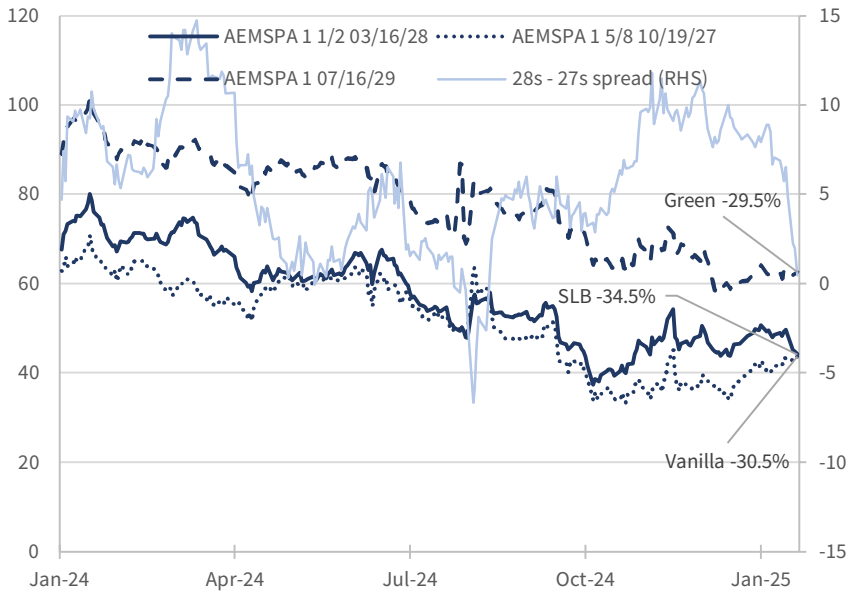
2024 performance

As shown in Figure 5, there has been relatively homogenous performance between the 2027-2029 bonds in 2024.

While in Q2 the SLB (1.125% 28s) traded flat or even slightly through the vanilla 1.625% 27s, the spread widened again in Q4 before ending the year close to flat.

The value of the SLB step-up on the 28s could be 23.8bps, if a missed target were confirmed.

Figure 5. 2024 spread performance for A2A bonds. Source: Bloomberg, accessed 23 Jan 2025.



Conclusions

A2A is a prolific issuer of ESG-labelled bonds, and by using a selection of different structures, we can analyse the relative impact and pricing for investors.

The firm has been issuing green bonds since 2019, the latest being the inaugural issuance in the market under the EU Green Bond Standard. Pricing of that bond suggests it was well-received by investors. However, all but one of its existing bullet green bonds already allocate 100% to EU Taxonomy-aligned projects, and so the new bond may offer limited additional impact.

It also has two SLBs outstanding, one of which is forecast to miss its 2024 SPT, an event which will likely soon be confirmed. As the confirmation may fall close to a coupon date, it is uncertain whether any resultant step-up coupon will apply for two or three years, which is material for a tight-spread bond.

Version Log

Date	Comment
23 Jan 2025	Document published
19 Feb 2025	Front page typo corrected, and sentence on timing risk to step-up coupon clarified

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