

Sector View

Integrated Utilities

	1 M	3 M	6 M	31/12/15
Utilities	-1.2%	-8.9%	-5.2%	-5.7%
DJ Stoxx 600	-1.9%	-13.1%	-8.2%	-9.3%

*Stoxx Sector Indices

Companies covered

E.ON	BUY	EUR10,2
Last Price	EUR8,941	Market Cap. EUR17,891m
EDF	BUY	EUR14,5
Last Price	EUR10,61	Market Cap. EUR20,373m
ENGIE	BUY	EUR19
Last Price	EUR14,49	Market Cap. EUR35,287m
RWE	NEUTRAL	EUR9,8
Last Price	EUR10,875	Market Cap. EUR6,592m



E.ON/RWE: Nuclear commission proposes that firms transfer cash to pay for clean-ups by 2022

According to Reuters, which is sourcing its news from a draft report from a government-appointed committee, Germany's utilities (*E.ON, RWE, EnBw & Vattenfall*) will have to transfer provisions set aside to pay for the interim and final storage of nuclear waste to a fund, in cash, by 2022. The report also recommends that the four utilities remain liable for costs of up to double the EUR18bn allocated so far to pay for interim and final storage. The companies will also have to set aside a further EUR1.3bn in provisions, on top of the existing provisions dedicated to nuclear dismantling. An official report is to be published before the end of the month.

ANALYSIS

- What to retain from the commission's proposals:** 1/ E.ON, RWE, EnBw & Vattenfall will have to transfer provisions set aside to pay for interim storage of nuclear waste to a fund in cash by 2022. We are talking about around **EUR18bn**. 2/ The four utilities will remain liable for costs of up to double the **EUR18bn** allocated for the state fund. 3/ The companies will also have to set aside a further **EUR1.3bn** in provisions, on top of the **EUR17.7bn** in existing provisions dedicated to nuclear dismantling. 4/ The commission recommends provisions left with the power companies should be more transparent. 5/ The commission also recommends that utilities **drop suits against the German government**.
- Our view on this news:** We now have more visibility on these provisions, on the cash needed, and on the calendar effect. This is **definitively positive for the E.ON & RWE** investment cases. Only the provisions set aside to pay for the interim and final storage of nuclear waste will be transfer ed to an external state fund: **EUR18bn** o/w **EUR9.2bn for E.ON (EUR4.8/share)** & **EUR4.8bn for RWE (EUR7.8/share)**. Short-term cash-out is therefore limited to only (on average) **50-55%** of the total provisions booked in accounts. However, on the negative side, the cap on nuclear waste management costs implies a potentially negative provision adjustment over the mid/long term (potential of **EUR18bn** in additional provisions for the four operators). Besides this, **EUR1.3bn** in additional provisions could be required by the four utilities, this time for the dismantling phase. Assuming a similar split between the four utilities as for the EUR17.7bn implies **EUR680m for E.ON (EUR0.35/share)** and **EUR270m for RWE (EUR0.5/share)**. The latest recommendation concerns law suits: the commission recommends utilities drop suits against the German government, and assuming it is accepted, we may have to adjust our FV negatively as a consequence (**EUR885m for RWE or EUR1.4/share, & EUR1.65bn for E.ON or EUR0.9/share**).
- Conclusion:** As it is, assuming that both groups will have to book fresh provisions of up to double their current nuclear waste storage provisions at some point **is clearly negative**. However, this report simply indicates a cap on liabilities, and does not indicate that utilities have to book additional provisions **NOW** (except the **EUR1.3bn** for dismantling). **The positive news** concerns the fact that the four utilities will only have to **cash-out half** of the provisions booked in their accounts by 2022. **We hope to get more clarity on these conclusions soon. We continue to prefer E.ON over RWE as downside risk for shareholders on nuclear issues is more limited.**

VALUATION

- At the current share price, E.ON trades at 8x its 2016e EBITDA and offers a 5.5% yield
- At the current share price, RWE trades at 7.5x its 2016e EBITDA and offers a 5.1% yield

NEXT CATALYSTS

- 8th March – RWE // 2015 earnings
- 9th March – E.ON // 2015 earnings

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Distribution of stock ratings

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