

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	25.1 / 9.2
Market Cap (EURm)	6,269
Ev (BG Estimates) (EURm)	42,518
Avg. 6m daily volume (000)	6 520
3y EPS CAGR	-11.0%

RWE, in a press release, unveiled its preliminary 2015 earnings yesterday, ahead of its traditional 2015 earnings publication (March 8th 2016). Important element to retain is the suspension of the dividend payment to holders of common shares for fiscal 2015, while we anticipated the payment of a EUR1/share (consensus was at EUR0.6/share). The lack of visibility on the European energy sector, combined with the current political risks explain this decision. Negative.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-9.3%	-36.6%	-11.7%
Utilities	-1.6%	-10.6%	-13.0%	-8.2%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-10.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	48,468	48,194	48,267	48,345
% change		-0.6%	0.2%	0.2%
EBITDA	7,131	6,191	5,558	5,669
EBIT	4,017	3,700	3,099	3,221
% change		-7.9%	-16.2%	3.9%
Net income	1,282	957.4	830.0	903.9
% change		-25.3%	-13.3%	8.9%

	2014	2015e	2016e	2017e
Operating margin	8.3	7.7	6.4	6.7
Net margin	2.6	2.0	1.7	1.9
ROE	10.9	7.4	6.7	7.6
ROCE	6.6	6.1	5.3	5.5
Gearing	93.3	52.1	55.4	55.3

(EUR)	2014	2015e	2016e	2017e
EPS	2.09	1.56	1.35	1.47
% change		-25.3%	-13.3%	8.9%
P/E	5.0x	6.6x	7.7x	7.0x
FCF yield (%)	49.2%	31.6%	14.6%	18.8%
Dividends (EUR)	1.00	0.62	0.54	0.59
Div yield (%)	9.7%	6.0%	5.2%	5.7%
EV/Sales	1.2x	0.9x	0.9x	0.9x
EV/EBITDA	8.1x	6.9x	7.7x	7.6x
EV/EBIT	14.4x	11.5x	13.9x	13.4x

- Main 2015 metrics:** Despite this negative surprise, RWE posted 2015 operating performance in line with expectations, with **EBIT at EUR3.8bn** (BG at EUR3.7bn, and consensus at EUR3.6bn) and in line with group's 2015 targets. Adjusted net income came out at EUR1.1bn in line with consensus (EUR1.16bn) but ahead with our EUR961m estimate. Like other European integrated utilities, RWE suffered in 2015 from massive deterioration of wholesale electricity prices in Germany and in UK. This caused RWE to recognise an impairment of **EUR2.1bn** for its German and UK power stations, which reduced the non-operating result. Moreover, a write-down of **EUR0.9bn** in deferred taxes had to be recognized in the P&L. Net debt dropped by one-fifth to **EUR25.1bn** (BG at EUR23bn). To face the massive market changes that negatively impacted its business model, RWE decided to upgrade its cost reduction program from **EUR2bn to EUR2.5bn** (EBIT level), but adding one additional year of costs reduction (2018 vs. 2017 previously). In our model we only assumed an additional annual costs reduction of EUR75m on EBIT level for 2018, implying potential upside on our 2018 EPS (all things being equal).

- Outlook for 2016:** As for 2016, the group supplied the following targets: **1/** An EBITDA between **EUR5.2bn and EUR5.5bn**. We currently stands at **EUR5.5bn** as well as consensus. **2/** An EBIT between **EUR2.8bn and EUR3.1bn**. We currently stands at **EUR3.1bn**, while consensus is closer to **EUR3bn**. **3/** An Adjusted Net income between **EUR0.5bn and EUR0.7bn**. We currently stands at **EUR0.8bn** while consensus is closer to **EUR0.7bn**. **4/** Management still anticipates burdens in the UK supply business this year, as in 2015, despite its efforts to tackle the operating and technical problems in this business. **5/** Management also unveiled net debt and headcounts at the group level are unlikely to change significantly compared to 2015. All these indications imply a **potential negative adjustment from consensus on short term**.

- Our view on this publication:** 2015 operating performance is poor, as expected, with no real surprise on preliminary figures reported by the group. The 2016 outlook is more bearish than we and market initially thought, implying potential negative earnings adjustments to expect on short term (minus 6-8% on EBIT level and minus 25% on adjusted net income level, assuming we stand at the middle range of group's guidance). Most of the uncertainties are on linked to future dividend payment, following this announcement to suspend 2015 dividend to holders of common shares (for owners of preferred shares, the proposed dividend corresponds to the preferred share of profits of EUR0.13 per share stipulated by the Articles of Association). For 2016, we were assuming the payment of a **EUR0.5/share** dividend, while consensus was at **EUR0.56**. A suspension of 2016 dividend is clearly a risk. We hope to get more details in March.

- Conclusion:** We always preferred E.ON over RWE to play the positive newsflow and the potential earnings recovery in German integrated utilities. This publication clearly confirms this view. This dividend suspension is clearly alarming, yet only reflects the lack of visibility of RWE and most importantly its lack of financial flexibility.

VALUATION

- At current share price the stock is trading at 7.7x its 2016e EBITDA & offers a 5.2% yield
- Neutral, FV @ EUR9.8

NEXT CATALYSTS

- March 8th, 2016: 2015 earnings presentation

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Analyst :

Xavier Caroen
33(0) 1.56.68.75.18
xcaroen@bryangarnier.com

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by the	Financial Conduct Authority (FCA) and		Regulated by the	Fax +91 11 2621 9062
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