

## E.ON

Price EUR8.33

2015 earnings - First take: 2015 in line, cautious on 2016 as anticipated

Fair Value EUR10.2 (+22%)

BUY

Bloomberg	EOA GY
Reuters	EONGn.DE
12-month High / Low (EUR)	14.7 / 7.1
Market Cap (EURm)	16,668
Ev (BG Estimates) (EURm)	50,078
Avg. 6m daily volume (000)	14 332
3y EPS CAGR	

This morning, E.ON posted 2015 metrics in line with targets and with expectations, while guiding for cautious 2016 EBITDA, as anticipated. No cut in dividend was mentioned for 2016, at least so far, confirming our view that E.ON has a stronger balance sheet than RWE. The spin-off E.ON/Uniper was confirmed, yet the difficult market environment will oblige the group to review its targets for both entities. We continue to prefer E.ON over RWE. Positive.

## ANALYSIS

- Main 2015 metrics?** Group's operating results are in line with expectations this morning, with EBITDA down **10% YoY** to **EUR7.6bn**, in line with group guidance (*EUR7-7.6bn*) and above consensus and our estimates (*Consensus & BG at EUR7.4bn*). The underlying net income came out at **EUR1.6bn**, also in line with the group's target (*EUR1.4-1.8bn*), while we expected **EUR1.62bn**. The group managed to reduce its economic debt by **EUR5.7bn to EUR27.7bn**, thanks notably to **EUR4.5bn** of disposals and to positive impact on pensions. **The EUR0.5/share** dividend for 2015 was confirmed, differing from dividend payment suspension announced recently by RWE. E.ON shareholders can play the margin recovery of the sector (*not before 2017*) with an attractive yield. As a reminder, the group booked **EUR8.8bn** of impairments on its 2015 accounts following the further deterioration of market conditions, having already booked **EUR5.5bn** in 2014.
- What about 2016?** In the press release, the group indicated it is targeting EBITDA between **EUR6bn and EUR6.5bn** for 2016, bang in line with our **EUR6.5bn target**. Consensus is currently at **EUR6.5bn**, like us. As for the bottom line of its P&L, E.ON mentioned it aims at generating **EUR1.2bn and EUR1.6bn** of underlying net income. We are currently at the low range of group's guidance, while consensus is closer to **EUR1.4bn**. This 2016 guidance is pre-spin-off basis and reflects recent commodity prices & FX.
- What to retain from this publication?** **1/** 2015 metrics are line with guidance and market expectations, **2/** the group booked, as other European integrated utilities, massive impairments on its merchant activities (*EUR8.8bn booked in 2015 by E.ON*), **3/** 2016 guidance is cautious yet is in line with market expectations, compared with RWE, **4/** Dividend was not cut, or suspended, at least for now, confirming that the group is still confident today on its cash equation and on its strategy, **5/** the spinoff of a majority stake in Uniper is confirmed despite the more difficult market environment, with more financial details unveiled during group's Capital Market day (*April 26<sup>th</sup> 2016*) and ahead of group's annual shareholders meeting (*June 8<sup>th</sup> 2016*)
- Conclusion:** Situation remains tough for all European integrated utilities, and most importantly for German utilities. Yet compared with RWE, E.ON has still the ability to maintain dividend (*for 2015, while for 2016 we agree visibility is low*), while maintaining important growth capex envelop. Despite the uncertainties linked to the conditions of the spin-off we expect a positive share price reaction today. Buy, FV @ EUR10.2. Conference call is at 12.30pm CET (+44 203 1940 561)

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.1%	-1.1%	-14.3%	-6.7%
Utilities	-0.2%	-6.7%	-5.4%	-8.1%
DJ Stoxx 600	7.4%	-7.7%	-6.0%	-7.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	111,556	116,238	127,006	143,892
% change		4.2%	9.3%	13.3%
EBITDA	8,337	7,357	6,492	6,787
EBIT	4,664	3,819	3,265	3,492
% change		-18.1%	-14.5%	7.0%
Net income	-3,160	1,624	1,283	1,451
% change		NS	-21.0%	13.1%

	2014	2015e	2016e	2017e
Operating margin	4.2	3.3	2.6	2.4
Net margin	-2.8	1.4	1.0	1.0
ROE	-11.8	9.6	7.7	8.7
ROCE	8.5	10.0	8.5	8.8
Gearing	50.9	50.4	53.5	53.0

(EUR)	2014	2015e	2016e	2017e
EPS	-1.66	0.85	0.67	0.76
% change	-	NS	-21.0%	13.1%
P/E	NS	9.8x	12.4x	10.9x
FCF yield (%)	10.2%	7.2%	4.3%	7.7%
Dividends (EUR)	0.50	0.50	0.50	0.50
Div yield (%)	6.0%	6.0%	6.0%	6.0%
EV/Sales	0.6x	0.4x	0.4x	0.4x
EV/EBITDA	7.8x	6.8x	7.9x	7.6x
EV/EBIT	13.9x	13.1x	15.7x	14.8x



## VALUATION

- At current share price E.ON trades at 7.9x its 2016e EBITDA and offers a 6% yield
- Buy, FV @ EUR10.2

## NEXT CATALYSTS

- April 26<sup>th</sup>: Capital Market day
- May 11<sup>th</sup> 2016: Q1-16 earnings



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