

E.ON

Price EUR8.15

2016 guidance revised up thanks to gas renegotiation

Fair Value EUR10,2 (+25%)

BUY

Bloomberg	EOA GY
Reuters	EONGn.DE
12-month High / Low (EUR)	14.7 / 7.1
Market Cap (EURm)	16,304
Ev (BG Estimates) (EURm)	49,714
Avg. 6m daily volume (000)	12 869
3y EPS CAGR	

The German integrated utilities group raised its 2016 earnings guidance yesterday following positive renegotiations with Gazprom on price adjustments to long-term gas supply contracts. The group is now targeting EBITDA of between EUR6.4bn and EUR6.9bn vs. EUR6-6.5bn previously and net income of EUR1.5bn and EUR1.9bn vs. EUR1.2-1.6bn previously.

ANALYSIS

- 2016 guidance revised up:** The German integrated utilities group has raised its 2016 earnings guidance (*during market*) following a positive renegotiation with Gazprom on price adjustments to long-term gas supply contracts. The positive impact will still impact E.ON's earnings but in reality will affect the new entity called Uniper. Negotiations between Uniper, the fully-owned E.ON subsidiary, and Gazprom to adjust the prices of long-term gas supply contracts have led to an agreement earlier than anticipated. The agreement resolves a pending arbitration procedure between the companies. Alexander Medvedev, Deputy Chairman of the Management Committee of OAO Gazprom, Elena Burmistrova, General Director of Gazprom export LLC, and Klaus Schäfer, Chairman of Management Board of Uniper AG, signed an agreement to this effect.
- What impacts for the group?** The agreement will enable E.ON to release some of the provisions recorded in prior years, resulting in a non-recurring positive EBITDA effect of about **EUR380m** in Q1 2016. The release of the remaining provisions, over several years, will result in cash outflow of circa **EUR800 million**, probably in Q2 2016. For E.ON, the agreement will have a non-recurring positive effect increasing E.ON's forecast range for its 2016 EBITDA from between **EUR6bn** and **EUR6.5bn** to between **EUR6.4bn** and **EUR6.9bn**. Similarly, instead of underlying net income of **EUR1.2-1.6bn**, E.ON now expects the range to be between **EUR1.5** and **EUR1.9bn**.
- Conclusion:** This contract renegotiation is clearly positive for the group, and for Uniper more precisely, although in a way it simply reflects the massive decline in commodity prices observed over the past **two/three years**. With this agreement, gas prices are adjusted on the basis of the group's current market conditions. Uniper has derisked its long-term gas supply contracts for coming years. We confirm our Buy rating with a FV unchanged at **EUR10.2**.

VALUATION

- At the current share price E.ON is trading at 7.8x its 2016e EBITDA and offers a 6% yield
- Buy, FV @ EUR10.2

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BUY ratings 72%

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