

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	25.1 / 9.2
Market Cap (EURm)	6,839
Ev (BG Estimates) (EURm)	43,088
Avg. 6m daily volume (000)	6 517
3y EPS CAGR	-11.0%

RWE posted 2015 metrics ahead of expectations, notably explained by positive one-off effect; while releasing prudent 2016 guidance which reflects group's hedging policy for its outright power position. Yet market was already aware of that following the trading statement in February. 2016 is not set to be a growth year for the group (2017 is more likely), as for other sector peers. We continue to prefer E.ON over RWE. Neutral.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.1%	-3.1%	-10.3%	-3.5%
Utilities	-2.7%	-7.0%	-2.1%	-6.9%
DJ Stoxx 600	4.0%	-7.8%	-3.2%	-6.6%

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	5.4x	7.3x	8.4x	7.7x
FCF yield (%)	45.0%	29.0%	13.4%	17.2%
Dividends (EUR)	1.00	0.62	0.54	0.59
Div yield (%)	8.9%	5.5%	4.8%	5.2%
EV/Sales	1.2x	0.9x	0.9x	0.9x
EV/EBITDA	8.2x	7.0x	7.8x	7.7x
EV/EBIT	14.5x	11.6x	14.1x	13.6x

- Main 2015 metrics:** EBITDA came out at **EUR7bn** down **1.6%** compared with 2014, and ahead of both consensus and our estimates (*EUR6.1bn and EUR6.4bn*). This is above group's guidance of **EUR6.1-6.4bn**, mainly due to the fact that in the context of the decision not to finish the German hard coal plant unit D in Hamm, RWE received insurance payments, among other things. Operating result came out at **EUR3.84bn**, down **4.5%** YoY, ahead of also our **EUR3.7bn** estimate and also ahead of group's 2016 target. Group's net income was negative at minus EUR170m while we anticipated a positive performance. Most of the difference comes from asset impairments on group's German and Dutch conventional power plants (*minus EUR2.1bn*) and write-off of deferred tax assets (*minus EUR0.9bn*). When adjusted from the non-recurring elements, the group's net income is ahead our EUR0.9bn estimates at **EUR1.1bn**. Net debt strongly declined compared with last year, from EUR31bn to **EUR25.1bn**, thanks notably to the disposal of **RWE DEA** (*EUR5.3bn positive impact on group's net debt*).

- What about 2016?** As for 2016 RWE mentioned that it is targeting to generate an EBITDA between **EUR5.2bn and EUR5.5bn** and an operating profit between **EUR2.8bn and EUR3.1bn** while we respectively expected **EUR5.5bn and EUR3.1bn**. We are then at the high range of the group's guidance. As expected, the group is reducing its short-term capex envelop and now targets to spend around EUR1.8bn for 2016 o/w EUR1.1bn for regulated gris business and up to EUR0.7bn for growth investments, mainly in renewables. In our model, we forecasted a YoY decline compared with 2015, yet to EUR2.2bn. This higher decline will negatively impact group's long-term growth on new segments.

- What to retain from this publication:** **1/** the suspension of the dividend payment to holders of common shares for fiscal 2015 (*EUR0.13/share for preferred shareholders*) (-); **2/** the extension of the costs reduction program by one year to 2018 with volumes stepped-up by another **EUR0.5bn** to a total net benefit to operating result of EUR2.5bn (+); **3/** the restructuring of RWE npower (UK) seems well on track, with the situation expected to stabilise in 2016. Yet according to the group the situation will be fully resolved by the end of 2018. Job cuts unveiled by the press were not confirmed; **4/** the group confirmed its strategy to carry out a capital increase (**10%**) at the **NewCo** by the end of the year (**Q4-16**), to fund future growth capex; **5/** without providing more details, management unveiled policy makers have sent "some promising signals" regarding solution for funding of nuclear provisions.

- Conclusion:** Most of 2015 metrics as well as 2016 targets **were already released by the group** in its trading statement on February 17th 2016. We already knew we were at the high end of group's guidance for 2016. Consensus on 2016 may have to adjust negatively, as us. Yet we assume most of the earnings deterioration for 2016 was already priced in. We hope to get more details on dividend distribution policy and on solution for funding nuclear provisions during the conference call at 12.30 pm (CET).

VALUATION

- At current share price RWE trades at 7.8x its 2016e EBITDA and offers a 4.8% yield
- Neutral, FV @ EUR9.8

NEXT CATALYSTS

- May 12th : Q1-16 earnings

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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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