

Edp Renovaveis

Price EUR6.44

Renewables, what else? (Full report released today)

Fair Value EUR7,5 (+17%)

NEUTRAL

Coverage initiated

Bloomberg	EDPR.LI
Reuters	EDPR.LS
12-month High / Low (EUR)	7.3 / 5.7
Market Cap (EURm)	5,614
Ev (BG Estimates) (EURm)	10,856
Avg. 6m daily volume (000)	444.7
3y EPS CAGR	8.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	-11.1%	3.6%	-11.2%
Utilities	-0.9%	-6.6%	-5.9%	-7.8%
DJ Stoxx 600	-4.0%	-8.6%	-8.4%	-10.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,549	1,750	1,927	2,128
% change		13.0%	10.1%	10.4%
EBITDA	1,142	1,198	1,306	1,432
EBIT	577.8	606.3	667.5	722.2
% change		4.9%	10.1%	8.2%
Net income	166.6	145.2	174.1	211.2
% change		-12.9%	19.9%	21.3%

	2015	2016e	2017e	2018e
Operating margin	37.3	34.7	34.6	33.9
Net margin	10.8	8.3	9.0	9.9
ROE	2.4	2.1	2.5	3.0
ROCE	4.4	4.5	4.9	5.2
Gearing	72.4	69.9	67.5	65.4

(EUR)	2015	2016e	2017e	2018e
EPS	0.19	0.17	0.20	0.24
% change		-12.9%	20.0%	21.3%
P/E	33.7x	38.7x	32.2x	26.6x
FCF yield (%)	NM	NM	3.9%	3.6%
Dividends (EUR)	0.04	0.06	0.07	0.08
Div yield (%)	0.6%	0.9%	1.1%	1.3%
EV/Sales	7.1x	6.2x	5.5x	5.0x
EV/EBITDA	9.7x	9.1x	8.2x	7.4x
EV/EBIT	19.1x	17.9x	16.0x	14.6x

This morning, in a report, we initiate coverage on EDPR, the renewables subsidiary of EDP, the largest listed Portuguese integrated utility. Armed with its strong expertise in the wind sector in Europe and North America, the group is engaging in a new growth area more geared to emerging markets and it is also looking at other technologies (*offshore wind and solar*). We appreciate the group's positioning in these high growth potential markets, but initiate coverage with a Neutral rating and a FV of EUR7.5 as political risk in U.S combined with demanding multiples make the case not so attractive, for now.

ANALYSIS

- **A European leader within the renewables sector...**: With its **9.3GW** of installed capacities, o/w **99%** in wind and **53%** in Europe, EDPR is today one of the European leaders within the renewables sector. As a reminder, this subsector, within what we call the global utilities sector, is set to represent roughly **60-70%** of the **2012-2030e** additional worldwide installed capacities growth. EDPR as a pure player is therefore well positioned.
- **...offering strong and visible earnings growth**: The beauty of the subsector, when not impacted by political changes, is to offer strong and visible earnings growth to long-term investors. EDPR, within this universe, is one of the perfect vehicles to play the market (*large market cap, solid majority shareholder, margin resilience...*) even if dividend yield is not so attractive. We currently estimate the group will be able to generate an EBITDA CAGR of **8%** over the 2015-2020 period, clearly above SX6P Index and the European renewable players average. Besides this, most of the growth will come from outside Europe.
- **Neutral, with FV at EUR7.5/share**: Despite the good track record of the group and the solid earnings growth we expect over the coming years, the negative short-term risk linked to the US presidential elections (*none of the credible candidates are strongly in favour of expanding renewables*), combined with the poor visibility on the EDPR's strategy on solar technology and the limited upside our model gives us (**16%**), leads us to initiate coverage with a Neutral rating. Inside our renewable subsector we continue to favour Albioma & Voltalia (*respectively 20% and 45% upside*).

VALUATION

- At current share price EDPR is trading at 9.1x its 2016e EBITDA and offers a 1.1% yield
- Neutral, FV @ EUR7.5/share

NEXT CATALYSTS

- May 4th: Q1-16 earnings
- May 5th: Investor Day

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BUY ratings 59,6%

NEUTRAL ratings 32,4%

SELL ratings 8,1%

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