

11th May 2016

Utilities

E.ON

Price EUR8.50

Growing EBITDA in Q1 thanks to Gazprom

Fair Value EUR10 (+18%)

BUY

Bloomberg	EOA GY
Reuters	EONGn.DE
12-month High / Low (EUR)	14.2 / 7.1
Market Cap (EUR)	17,000
Ev (BG Estimates) (EUR)	52,231
Avg. 6m daily volume (000)	12,257
3y EPS CAGR	

E.ON posted this morning solid Q1-16 metrics in line with expectations, with the group being favourably impacted by non recurring effect from the agreement with Gazprom. Despite this positive effect metrics came out slightly above market expectations. Positive.

ANALYSIS

- Main Q1-16 metrics:** Total EBITDA came out at **EUR3.1bn up 8%** compared with last year above market expectations (*EUR2.9bn*), with group being favourably impacted by non recurring effect from the agreement with Gazprom (*which results in provisions release of EUR400m*). The group also benefited from positive earnings contribution from new capacities (*mainly wind offshore capacities*) as well as from strong performance in Other EU countries yet suffered as other European utilities integrated from lower prices and volumes in European power portfolio (minus EUR300m), from disposals (minus EUR300m) and from effects related to accident in Beresovskaja power plant (minus EUR100m). The highest EBITDA decline in value came from E&P business (disposals and lower commodities prices) and from Non EU countries (accident). Underlying net income came out at **EUR1.3bn, 30%** above last year and most importantly slightly above the consensus (*EUR1.25bn*) with group benefiting from lower depreciation and tax rate. Economic net debt declined **EUR1.1bn to EUR26.6bn despite the EUR1.5bn** pension provision increase. E.ON had however no choice to reduce its capex to compensate this negative effect.
- What to retain from this publication?** 1/Q1-16 metrics strongly benefited from positive agreement with Gazprom. Excluding this impact, Q1-16 EBITDA would have been **6%** lower compared with last year. The group is then not entering yet into an earnings growth phase. 2017 is set to be the growing year, not 2016. 2/2016 group's targets to generate **EBITDA of EUR6.4-6.9bn** (*future E.ON EBITDA of EUR4.6-5bn*) and to post an underlying net income of **EUR1.5-1.9bn** (*future E.ON underlying net income of EUR600m-EUR1bn*). 3/The spin-off is on track with next milestone being the AGM decision to validate the spinoff process which will be hold **on June 8th**. 4/As for the nuclear decommission, the group is still unhappy with commission recommendations as it will imply important cash out for the group and important capex cut to the detriment of future earnings growth.
- Conclusion:** Given Q1 metrics are in line with expectations and given the group is confirming its 2016 targets we do not expect important negative share price reaction today despite the underlying net negative EBITDA growth compared with last year. Conference call starts at 11.00am today

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.7%	1.3%	-7.4%	-4.9%
Utilities	2.6%	5.7%	-5.5%	-4.0%
DJ Stoxx 600	1.3%	6.7%	-10.6%	-8.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	116,218	110,156	112,752	124,299
% change		-5.2%	2.4%	10.2%
EBITDA	7,557	6,691	6,666	6,572
EBIT	4,369	3,162	2,921	2,771
% change		-27.6%	-7.6%	-5.1%
Net income	-6,999	1,519	1,345	1,237
% change		NS	-11.4%	-8.1%

	2015	2016e	2017e	2018e
Operating margin	3.8	2.9	2.6	2.2
Net margin	-6.0	1.4	1.2	1.0
ROE	-36.7	7.9	6.9	6.4
ROCE	9.5	7.0	6.4	6.0
Gearing	50.1	53.5	50.9	47.3

(EUR)	2015	2016e	2017e	2018e
EPS	-3.67	0.80	0.71	0.65
% change	-	NS	-11.4%	-8.0%
P/E	NS	10.7x	12.0x	13.1x
FCF yield (%)	12.1%	1.5%	4.0%	5.6%
Dividends (EUR)	0.50	0.40	0.54	0.52
Div yield (%)	5.9%	4.7%	6.4%	6.1%
EV/Sales	0.4x	0.5x	0.5x	0.4x
EV/EBITDA	6.8x	7.8x	7.9x	8.0x
EV/EBIT	11.8x	16.5x	17.9x	18.9x

VALUATION

- At current share price the stock is trading at 7.8x its 2016e EBITDA and offers a 4.7% yield
- Buy, FV @ EUR10/share

NEXT CATALYSTS

- June 8th: AGM

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