

## RWE

Price EUR11.45

Better than expected Q1 metrics thanks to Energy Trading gains

Fair Value EUR9,5 (-17%)

NEUTRAL

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	22.7 / 9.2
Market Cap (EURm)	6,917
Ev (BG Estimates) (EURm)	44,484
Avg. 6m daily volume (000)	5 320
3y EPS CAGR	

RWE has posted higher than expected Q1 metrics thanks notably to Energy Trading gains. EBIT was up 7% to EUR1.7bn, >20% above market expectations, although excluding this positive non recurring item, EBIT was down 5% and only 4% ahead of consensus. Like other European integrated utilities, RWE suffered from a low power prices environment. 2016 targets were confirmed and still imply a >20% drop in the group's EBITDA this year compared with only 12% targeted by E.ON. Besides this, E.ON still aims to distribute a dividend, contrary to RWE. We confirm our Neutral rating.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.6%	6.4%	-8.1%	-2.3%
Utilities	0.2%	7.6%	-6.6%	-5.6%
DJ Stoxx 600	0.6%	10.3%	-11.6%	-8.5%

## ANALYSIS

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	48,599	48,259	48,337	48,416
% change		-0.7%	0.2%	0.2%
EBITDA	7,017	5,401	5,565	5,280
EBIT	3,837	2,942	3,117	2,866
% change		-23.3%	5.9%	-8.1%
Net income	-170.0	450.1	552.3	395.1
% change		NS	22.7%	-28.5%

	2015	2016e	2017e	2018e
Operating margin	7.9	6.1	6.4	5.9
Net margin	-0.3	0.9	1.1	0.8
ROE	-19.0	7.9	9.5	8.1
ROCE	6.4	4.9	5.2	5.0
Gearing	186.2	201.8	206.8	215.5

(EUR)	2015	2016e	2017e	2018e
EPS	-0.28	0.73	0.90	0.64
% change	-	NS	22.7%	-28.5%
P/E	NS	15.6x	12.7x	17.8x
FCF yield (%)	NM	NM	13.1%	14.3%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.9x	0.9x	0.9x	0.9x
EV/EBITDA	6.2x	8.2x	8.0x	8.4x
EV/EBIT	11.3x	15.1x	14.3x	15.5x

- Main Q1 metrics:** Q1 EBITDA rose 5% compared with last year to EUR2.3bn, 13% ahead of the consensus, while the group's operating profit was up 7% to EUR1.7bn, >20% above market expectations, thanks notably to energy trading, which made an unusually high earnings contribution. As expected conventional power generation business operating profit dropped considerably, falling by 20% to EUR354m and was the main negative contributor to the group's margin. The renewables division posted a flat EBIT performance notably due to lower realised generation spreads of market exposed assets. This division still represents a small portion of the group's EBIT (9%) despite being identified as high growth potential markets by most sector players. Adjusted net income came out at EUR900m, ahead of the consensus, while net debt increased by EUR2.8bn to EUR27.9bn due to negative cash flows from operating activities and to higher pension provisions on the back of lower discount rates.
- What to retain from this publication? 1/** Excluding this positive unexpected effect on the energy trading business, the group's operating result was down 5% YoY and not up 7%, in the same magnitude of what E.ON posted yesterday. **2/** The group's 2016 targets were confirmed: with an EBITDA target of EUR5.2-5.5bn (-24% at middle range); operating result target of EUR2.8-3.1bn (-23% at middle range) and adjusted net income target of EUR500-700m (-46%). No adjustments were made to group's guidance as for dividend (no dividend except for preferred shares). **3/As** for German nuclear decommissioning, RWE's CFO indicated additional nuclear premium asked by Nuclear commission could cost up to EUR1.7bn to RWE (in line with our first estimates of EUR3/RWE share) assuming operators need to be responsible of up to EUR23bn as for German nuclear storage cost.
- Conclusion:** As expected, underlying operating performance was poor during the first quarter, mainly due to the low power price environment in Europe. Interestingly, RWE unveiled as for 2017 more than 90% of its power generation outputs is hedged at price below EUR35/MWh while as for 2018 only 70% is hedged as price below EUR30/MWh. This needs to be compared with respectively 100% at EUR33/MWh and 80% at EUR25-29/MWh for E.ON in Central Europe. Both groups seems to be exposed in a similar way, yet RWE has still lower exposure to Renewables and still higher exposure to Europe than E.ON. We continue to favour E.ON over RWE. **Neutral rating with FV at EUR9.5/share confirmed.**

## VALUATION

- At the current share price, the stock is trading at 8.2x its 2016e EBITDA and offers no yield
- Neutral, FV @ EUR9.5

## NEXT CATALYSTS

- 11th August 2016: H1 2016 earnings

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