

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	20.3 / 9.2
Market Cap (EURm)	8,022
Ev (BG Estimates) (EURm)	45,556
Avg. 6m daily volume (000)	4 971
3y EPS CAGR	

RWE provided more details yesterday on the Innogy subsidiary its aims to put on the market before the end of the year. Highly exposed to regulated activities and to renewables, the new entity will be able to generate recurrent CF and to distribute a dividend to RWE and new shareholders, while raising cash during the IPO. We appreciate this move given that it will give the group access to cash at a lower discount yet have a limited impact on valuation for RWE given the group will remain shareholder of both "good" and "bad assets".

## ANALYSIS

- What to retain from the investor day?** The group gave us more details on Innogy, the "sexy" subsidiary it aims to put on the market before the end of the year. As a reminder Innogy will be composed of the group's **Grid & Infrastructure segment** (550,000-kilometre-long distribution grid), the **Retail segment** (23 million customers in 11 European countries - largest electricity retailer in Germany based on volumes) and the **Renewables segment** (3.1GW of installed capacities), while the remaining activities will stay at RWE. All combined, Innogy generates **EUR46bn** in sales, EBITDA of **EUR4.5bn** (10%) and a net income of **EUR1.6bn** (3.5%) and will therefore be more focused on regulated activities (60% of EBITDA is being regulated) where visibility on CF is better. The majority of capex (EUR2-2.3bn per year) will be allocated into regulated businesses and is intended to drive growth over coming years. The group unveiled Innogy's pay-out will be between **70-80%** with the group distributing a dividend as early as 2017 for 2016 earnings. The unit is set to be listed on the market before the end of the year, with the size of the listing at a minimum of **10%** with both a capital increase and share placement. No indications were given on potential value yet we assume based on our assumptions, that Innogy could represent an EV of **EUR37-40bn** and an equity value of **EUR10-15bn** depending on the amount of provisions taken into calculation. Putting on the market **10%** of Innogy could therefore generate around **EUR1-1.5bn** in cash for RWE.
- A word on nuclear talks with Berlin:** The group's CEO said he would seek improvements in the liabilities it faces over nuclear waste disposals in talks with the German government. As a reminder, RWE has put the cost of waste disposal under current government plants by roughly **EUR6.7bn**, ahead of the **EUR5.5bn** provisioned in group's account while it will remain responsible for the **EUR4.8bn** in nuclear dismantling provisions. The CEO added that the Berlin government would want the issue out of the way ahead of general elections in 2017. It still implies the amount and timing of cash outflows are not fully defined yet.
- A strategy that makes sense, but clearly overpriced:** Providing more visibility on the group's best in class assets by giving the choice to investors on which vehicle to invest in makes sense, especially in such a difficult commodities environment. However, at the end of the day, current shareholders in RWE remain the owners of "bad" and "good assets" and will even at some point lose some of the profits of the "good assets" assuming they do not take a stake within the listing of Innogy. Since the beginning of the year and more specifically Q2, the stock has enjoyed a strong rally compared with the SX6P and Stoxx 600 (+25% vs. respectively +2.8% and -2.3%) and even E.ON (+7%). While we admit visibility on the group's IPO and on the nuclear dismantling funding process is better now than before, we believe the group's valuation is no longer attractive with the stock trading at **8.3x** its 2016e EBITDA and at **17x** its 2016e earnings vs. **6.7x** and **13x** for the integrated utilities stocks. **We would recommend investing in Innogy (assuming valuation is attractive) and not in RWE while still favouring E.ON over RWE.**

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.7%	23.0%	14.3%	13.5%
Utilities	-3.1%	0.0%	-5.9%	-5.0%
DJ Stoxx 600	-6.6%	-3.1%	-11.7%	-10.8%

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	5,461	5,543	5,234
EBIT	3,837	3,002	3,095	2,820
% change		-21.8%	3.1%	-8.9%
Net income	-170.0	483.0	533.8	361.4
% change		NS	10.5%	-32.3%

	2015	2016e	2017e	2018e
Operating margin	7.9	6.2	6.4	5.8
Net margin	-0.3	1.0	1.1	0.7
ROE	-19.0	8.3	9.3	7.7
ROCE	6.4	5.0	5.2	4.9
Gearing	186.2	200.8	206.8	217.3

(EUR)	2015	2016e	2017e	2018e
EPS	-0.28	0.79	0.87	0.59
% change	-	NS	10.5%	-32.3%
P/E	NS	16.9x	15.3x	22.6x
FCF yield (%)	NM	NM	11.0%	11.9%
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	6.3x	8.3x	8.2x	8.7x
EV/EBIT	11.6x	15.2x	14.7x	16.2x



## VALUATION

- At the current share price, RWE is trading at 8.3x its 2016e EBITDA
- Neutral, FV @ EUR9.5

## NEXT CATALYSTS

- 11th August 2016: H1 2016 earnings

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