

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	18.6 / 9.2
Market Cap (EUR)	9,092
Ev (BG Estimates) (EUR)	46,626
Avg. 6m daily volume (000)	4,749
3y EPS CAGR	

RWE posted this morning poor H1-16 metrics as expected, despite solid growth coming from regulated activities and despite recovery on its UK supply activities. On almost all metrics, consensus was too high by around 5-6% putting potentially current market expectations for 2016 at risk. Despite that, 2016 targets have been reiterated for the group, as well as for Innogy. We maintain our Neutral rating with FV unchanged at EUR9.5 and still see as unjustified the recent share price surge.

ANALYSIS

- Main H1-16 metrics:** EBITDA came out at **EUR3bn** down 5% compared with last year and **missed by 5.4% consensus expectations** while adjusted operating income is down 7% and is 5.8% below market expectations. As expected most of the earnings drop is coming from **1/lower** earning from trading activities, **2/from** increased costs to operate and maintain the distribution grid at group's infrastructure business, and **3/from** lower revenues at group's renewables business due to lower wholesale prices and to negative base effect with last year (book gain from disposals). The group benefited also from positive earnings growth generated by its power and gas supply division thanks notably to the recovery of the UK business. All in all group' adjusted net income (restated from provisions and negative non operating elements) is up 10% to **EUR598m** while consensus was expecting EUR634m. Net debt is up compared with end 2015, by **EUR2.8bn** to **EUR28.3bn** due notably to lower operating cash flow generation and to a EUR2bn surge in pension, nuclear and mining provisions (change in interest/discount rates).
- What to retain from this publication?** **1/H1-16** metrics are **5-6%** below market expectations, all almost all metrics, **2/Despite** this poor year's start **the group confirmed its guidance for 2016** and then still targets to generate an EBITDA between **EUR5.2bn** and **EUR5.5bn** (consensus is currently at EUR5.4bn) and an operating result of **EUR2.8bn-3.1bn** (consensus is at EUR3bn). The guidance implies a lower H2 compared with H1. **3/Targets** for new entity Innogy was also reiterated with the group targeting to generate an EBITDA of around **EUR4.1-4.4bn** fueled mainly by the solid performance coming from grid business. Group's management indicated the preparation for the IPO is well on track. **4/Despite** all discussions, a consensus has not been found yet between German government and RWE and other utilities about the way to finance the nuclear exit, putting in our view group's current EV at risk.
- Conclusion:** As for E.ON, group's performance for the first semester is poor, yet is not poor enough to put group's guidance at risk. Yet given the 5-6% miss compared with market expectations we expect a negative earnings adjustment on 2016 market expectations. As of today the risk on nuclear dismantling costs remain important, and could still alter significantly group's balance sheet despite all investors's recent attractiveness for Innogy. At this stage we confirm the Hold rating with FV unchanged at EUR9.5 per share. The recent share price surge is in our view not justified.

VALUATION

- At current share price, RWE is trading at 8.5x its 2016e EV/EBITDA multiple
- Neutral, FV @ EUR9.5

NEXT CATALYSTS

- 14th November 2016: Q3-16 results:

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Distribution of stock ratings

BUY ratings 55.7%

NEUTRAL ratings 33.6%

SELL ratings 10.7%

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