

Bloomberg	RWE GR
Reuters	RWEG.DE
12-month High / Low (EUR)	15.9 / 10.2
Market Cap (EURm)	7,450
Ev (BG Estimates) (EURm)	44,985
Avg. 6m daily volume (000)	4 245
3y EPS CAGR	

RWE reported its 9M-16 results this morning. Q3-16 EBITDA reached EUR810m down about 33% yoy and around 10% below consensus' expectations, mainly due to a poor performance in the company's conventional power generation business and its grid business. The company's adjusted net income has been negatively impacted by lower capital gains vs. Q3-15, notably due to the conversion of long-term investments in securities to short-term liquidity investments in order to fund the company's contribution to the nuclear energy fund. Negative.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.3%	-21.2%	7.7%	5.3%
Utilities	-4.6%	-11.9%	-9.3%	-14.4%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

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	5,461	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	15.7x	14.2x	21.0x
FCF yield (%)	NM	NM	11.8%	12.8%
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	8.2x	8.1x	8.6x
EV/EBIT	11.5x	15.0x	14.5x	16.0x

- RWE reported this morning its 9M-16 results. 9M-16 EBITDA reached **EUR3,821m** which implies Q3-16 EBITDA at **EUR810m** down **33%** yoy and **10%** below consensus' expectations. Main declines have been reported in the conventional power generation business (Q3-16 EBITDA down 30.5% yoy), in the grids business (-29%) and in the supply business (from EUR17m to EUR(47)m). The grids business has been notably penalized by **1/**one-offs in 2015 linked to the revaluation of the company's investment in VSE; and **2/**increased expenses for grid infrastructure maintenance. Q3-16 operating result reached **EUR232m** well below consensus' expectations at **EUR281m**. Finally, Q3-16 adjusted net income reached **EUR(371)m** vs. consensus' expectations at **EUR(192)m**. The company notably bore the brunt of **higher capital gains achieved in 2015** (high gains on the sale of securities in 2015 vs. losses from similar transactions in 2016). **Sales of long-term securities have been completed in order to finance the company's contribution to a state nuclear-waste fund.**
- Despite this performance, RWE confirmed its full-year guidance** with EBITDA expected to be between **EUR5.2bn and EUR5.5bn**, operating result between **EUR2.8bn and EUR3.1bn** and adjusted net income between **EUR500m and EUR700m**. Despite the poor performance posted by the conventional power generation business in Q3-16 with an operating result down c. 60% yoy, RWE now expects the division's FY16 operating result to be at **the level recorded in 2015** (i.e. **EUR596m** which would however imply a c. 15% decline yoy in Q4-16) vs. a significant decline previously expected.
- Conclusion:** RWE results are clearly **below consensus' expectations** on almost all the company's metrics. This has mainly been triggered by higher maintenance expenses in the company's infrastructure business as well as by lower capital gains at the bottom line level. **Negative.**
- Neutral rating confirmed.**

VALUATION

- At current share price, the stock trades at 8.2x its 2016e EV/EBITDA multiple
- Neutral, FV @ EUR9.5

NEXT CATALYSTS

- March 14th 2017: FY16 results

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