SOCIETE GENERALE
Cross Asset Research

EQUITY
24 September 2015

Iberian Utilities

Many risks are priced in, but momentum is negative

Underweight

Stock selection

Preferred
Iberdrola, UU, SNAM

Least preferred
SSE

Iberian utilities have had a torrid summer, weighed down by a series of negative developments (LatAm currencies, commodities and elections) and with sharp share price corrections. However, our analysis suggests in many cases the correction is overdone, although we do expect momentum to remain negative for the time being.

LatAm exposure: sensitive to currencies more than any slowdown EPS exposure to LatAm is material among Iberian utilities (for IBE 12%, GasNat 24%, EDP 8% and Enagas 15%), but mitigated in some cases by their USD-denominated activities there. On the whole we believe earnings are relatively resilient to any slowdown as 50% of assets there are regulated (networks/renewables) or on long-term contracts (generation).

Power prices in Spain bottoming out, but risks remain Naturally, EPS exposure to power prices in Spain is high for Endesa (27%), Iberdrola (24%) and EDP (17%), but we expect some rebound in power prices (viz €54/MWh in 2020e vs €47/MWh in 2016e). However commodity prices can fall further and there is a risk of a ramp-up in renewables projects.

Elections risks cannot be ignored Spain has a general election before year-end and Catalonia holds its election on 27 September. The risks are pressure on gas and electricity supply margins and a new drive for renewables (negative for power prices), which might also create a tariff deficit.

There is value, but momentum is negative Our analysis shows the share price correction for most stocks since June matches the EPS impact of LatAm currency depreciation, a LatAm economic slowdown (with a potential 10% cut to EBITDA in the region), and lower power prices in Spain from lower commodity prices. These issues seem priced in and so there is value, but momentum is likely to remain negative until visibility improves.

Sector recommendation & catalysts We favour Enagas (Buy, TP €28.5) and EDPR (Buy, TP €6.9) for their attractive value and limited exposure to the above risks. We see value in Iberdrola (Buy, TP €6.7) and Gas Natural (Buy, TP €22.0), which in our view have sound fundamentals, but where visibility to risks is needed. At REE (Hold, TP €72.4) and Endesa (Hold, TP €18.5) the positives seem priced in (no exposure to LatAm, sound financials and high yield). On EDP (Sell=>Hold, TP €3.10) and REN (Hold, TP €2.65) we remain cautious due to earnings fragility.

Key recommendations

Company	Curr	Reco	Price 22/9/15	Target price	12m f'cast div	12m TSR	P/E 15e	Comments
Iberdrola	€	BUY	5.82	6.7	0.28	20%	15.3x	Switching to growth mode, keeping attractive dividends
Enagas	€	BUY	24.8	28.5	1.32	20%	14.1x	High yield and low risk at attractive price
EDPR	€	BUY	5.84	6.9	0.04	19%	38.0x	The beauty of growth and FCF (in 2017e)
Gas Natural	€	BUY	17.4	22.0	0.91	32%	11.9x	Sound fundamentals but momentum is negative


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Iberdrola

(BUY, TP €6.70) vs (BUY, TP €6.85) €m	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBITDA	7,500	7,500	0.0%	7,342	2.2%	7,942	7,862	-1.0%	7,678	2.4%
EPS	0.38	0.38	0.0%	0.37	3.1%	0.39	0.38	-2.4%	0.40	-5.4%
DPS	0.28	0.28	0.0%	0.28	1.2%	0.28	0.28	0.0%	0.29	-2.4%

Source: SG Cross Asset Research/Equity

Endesa

(HOLD, TP €18.5) vs (HOLD, TP €18.3)	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBITDA	3,125	3,125	0.0%	3,164	-1.2%	3,056	3,028	-0.9%	3,118	-2.9%
EPS	1.08	1.08	0.0%	1.12	-3.5%	1.08	1.06	-1.8%	1.14	-6.9%
DPS	1.08	1.08	0.0%	1.10	-1.8%	1.08	1.06	-1.8%	1.16	-8.0%

Source: SG Cross Asset Research/Equity

Gas Natural

(BUY, TP €22.0) vs (BUY, TP €23.0)	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBITDA	5,368	5,362	-0.1%	5,331	0.6%	5,217	5,054	-3.1%	5,437	-7.0%
EPS	1.47	1.47	-0.2%	1.48	-1.0%	1.46	1.40	-4.3%	1.57	-10.8%
DPS	0.91	0.91	-0.2%	0.93	-1.9%	0.91	0.87	-4.3%	0.98	-11.4%

Source: SG Cross Asset Research/Equity

EDP

(HOLD, TP €3.1) vs (SELL, TP 3.23)	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBITDA	3,714	3,698	-0.4%	3,614	2.3%	3,694	3,621	-2.0%	3,805	-4.8%
EPS	0.27	0.27	0.0%	0.24	12.1%	0.26	0.25	-2.3%	0.28	-10.2%
DPS	0.19	0.19	0.0%	0.19	-2.6%	0.19	0.19	0.0%	0.19	-2.6%

Source: SG Cross Asset Research/Equity

Enagas

(BUY, TP €28.5) vs (BUY, TP €26.4)	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBITDA	930	940	1.1%	926	1.5%	891	904	1.5%	897	0.8%
EPS	1.72	1.75	1.7%	1.72	2.0%	1.83	1.88	2.4%	1.79	4.9%
DPS	1.32	1.32	0.0%	1.33	-0.6%	1.39	1.39	0.0%	1.40	-0.8%

Source: SG Cross Asset Research/Equity

REE

(HOLD, TP €72.4) vs (HOLD, TP €77.6)	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBITDA	1,478	1,461	-1.1%	1,435	1.8%	1,530	1,514	-1.0%	1,480	2.3%
EPS	4.50	4.41	-2.0%	4.33	1.8%	4.93	4.85	-1.8%	4.57	6.0%
DPS	3.21	3.21	0.0%	3.22	-0.3%	3.43	3.43	0.0%	3.51	-2.2%

Source: SG Cross Asset Research/Equity

REN

(HOLD, TP €2.65) vs (HOLD, TP €2.75)	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBIT	494	494	0.0%	478	3.3%	466	469	0.7%	489	-4.2%
EPS	0.21	0.19	-8.8%	0.18	7.3%	0.20	0.21	1.9%	0.22	-6.1%
DPS	0.17	0.17	0.0%	0.17	0.6%	0.17	0.17	0.0%	0.17	0.0%

Source: SG Cross Asset Research/Equity

EDPR

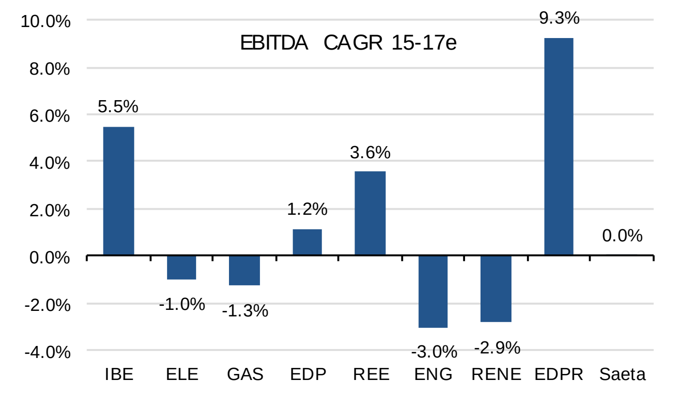
(BUY, TP €6.9) vs (BUY, TP €7.0)	old	new	2015 %chg.	Cns.	SG vs Cns.	old	new	2016 %chg.	Cns.	SG vs Cns.
EBITDA	1,071	1,056	-1.4%	1,072	-1.5%	1,212	1,200	-1.0%	1,200	0.0%
EPS	0.16	0.15	-2.4%	0.16	-5.3%	0.23	0.22	-2.1%	0.21	3.8%
DPS	0.04	0.04	-2.4%	0.05	-14.8%	0.06	0.06	-2.1%	0.061	0.6%

Source: SG Cross Asset Research/Equity

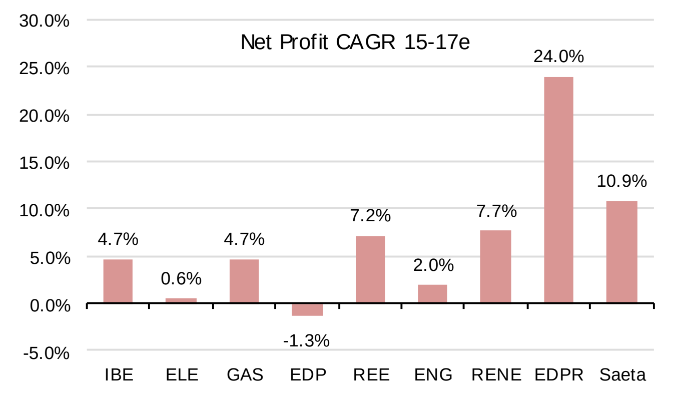
Contents

Sector anatomy – Performance and valuation

Sector EBITDA

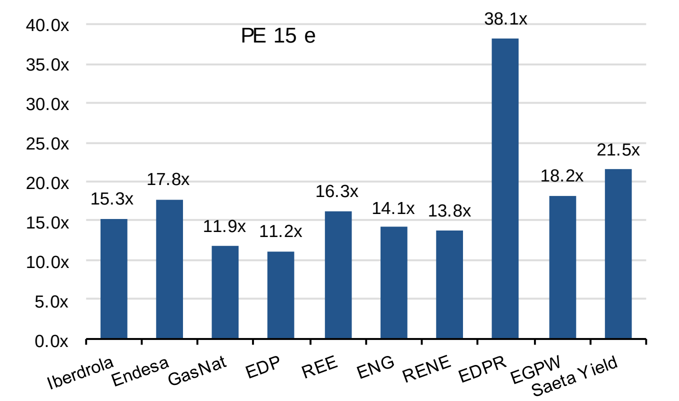


Sector net profit

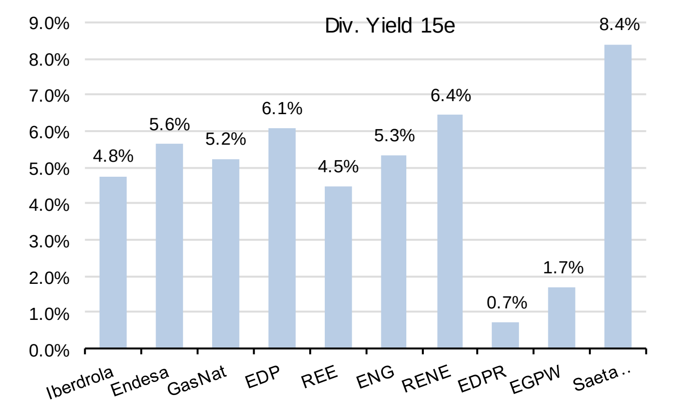


Source: SG Cross Asset Research/Equity

Sector P/E multiples



Sector dividend yield



Source: SG Cross Asset Research/Equity

Exposure to LatAm region and LatAm currencies

%	IBE	GasNat	EDP	EDPR	REE	ENG
% EBITDA LatAm region	8.0%	32.9%	15.3%	3.9%	1.0%	0%
% EPS LatAm region	11.7%	23.9%	8.1%	5.1%	0.8%	15%
% EBITDA LatAm currency	2.7%	28.7%	15.3%	3.9%	1.0%	15%
% EPS LatAm currency	5.0%	20.3%	8.1%	5.1%	0.8%	0%

Source: SG Cross Asset Research/Equity

Investment summary

In this report we explore the main sector drivers currently at work, the risks to share prices, and whether they are fully priced in. These four issues are:

i. **Exposure to LatAm** and currency depreciation (including the US dollar vs euro)

ii. The **Spanish electricity market**, as it still accounts for a material amount of earnings (see page 17) as opposed to EBITDA, where it is much less.

iii. The main risks that arise from the **elections in Spain**.

iv. The **sustainability of dividends** based on cash flow generation and sound financials.

More sensitive to LatAm currency moves than a LatAm slowdown

EPS exposure to LatAm is on average moderate (8-10%), although not for GasNat (24%). However the risk is more related to LatAm currency moves than economic slowdown as 50% of earnings there are linked to networks (regulated assets with small sensitivity to GDP) and 18% to Renewables (with long-term contracts). On top of this, the generation assets (sensitive to GDP) are also often on long-term contracts.

Power prices in Spain bottoming out, but still exposed to commodities and renewables

For local reasons, power prices in Spain are set by the hard coal plants. Our economics team expects to see a recovery in both coal and CO_2 prices from current low levels. On this basis we expect to see higher power prices. We expect new renewables capacity to reach Spain's 2020 CO_2 targets as the transport sector is lagging behind its target. We also look at the impact of the new interconnection with France, the energy efficiency measures, and the domestic coal-fed plants life extension decision. All in all we think we have now reached a bottom on power prices, although there are still risks from lower coal prices and more renewables capacity than expected coming on stream (in the event the transport sector fails to reach its CO_2 reduction target).

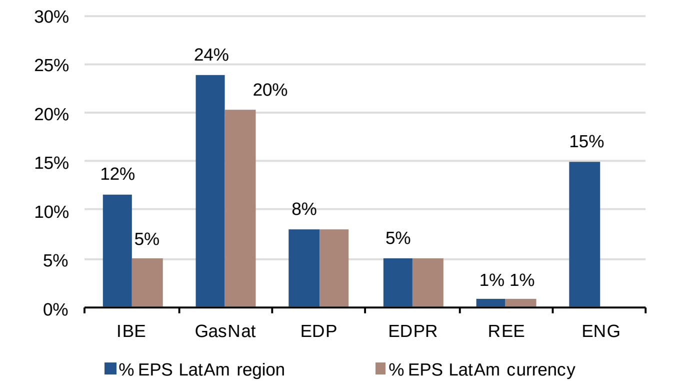
Elections risks relate specifically to integrated utilities

The upcoming Catalonian regional elections (27 September) will likely increase noise levels on that issue of Catalonian independence. Catalonia accounts for 20% of the power system's output and 17% of its consumption. The company with the highest exposure to the region is Endesa (a big part of its power distribution business and several of its nuclear plants are located there). On top of this, the general elections in Spain will take place by end-December. If a radical left-wing party plays a key role in the new government we see a risk to supply margins, a rise in renewables installation, and a risk of a tariff deficit. This would be negative for the Generation & Supply businesses, but neutral for networks and renewables.

Dividends should be safe with just couple of exceptions

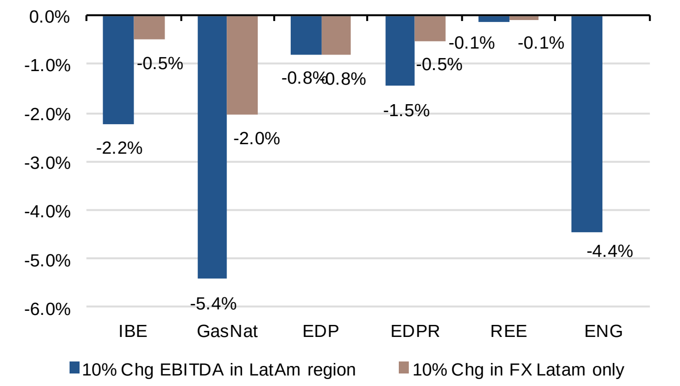
We expect to see 5% DPS growth for Iberdrola and Gas Natural (with a good chance of hikes). REE'S DPS growth is among the highest (7%), supported by new asset deployment and stable regulation. We expect EDPR to show a high growth rate (though still a low yield) on the back of disposals and new capacity. With EDPR things get interesting in 2017-2018 as it should be generating high cash flow with few capex commitments. Hence, higher dividends are logical for the prevention of rapid deleveraging. Endesa offers a high dividend yield, but we see minimal prospect of dividend growth as there is a risk of a material acquisition, and that dilutes market expectations for future dividends. Finally at EDP, we expect DPS growth to be zero due to its high leverage and EPS fragility (as its earnings recovery relies on hydro normalisation in Brazil, debt reduction linked to disposals, securitization of regulatory receivables, and new renewables capacity). At REN, dividend growth should be flat due to its high leverage and our expectation of an EBITDA decline from a reduction in its allowed return.

EPS exposure to LatAm region and to LatAm currencies



Source: SG Cross Asset Research/Equity

EPS sensitivity to EBITDA chg in LatAm and chg in FX rates



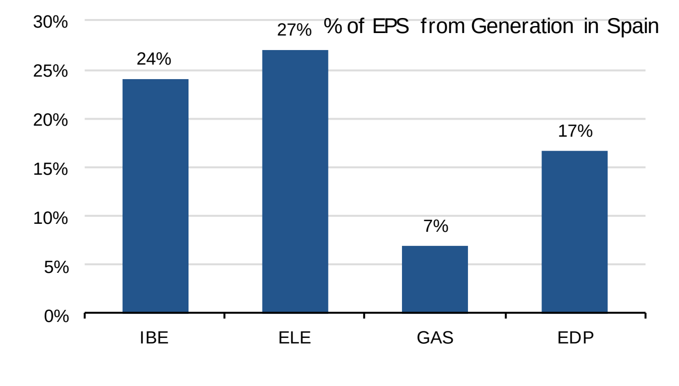
Source: SG Cross Asset Research/Equity

EBITDA by type of business in LatAm region (Average 2015-2017e)

€m	IBE	GasNat	EDP	EDPR	REE
Power generation	5.4%	4.5%	8.6%		
Power networks	2.7%	11.4%	5.4%		1.0%
Gas networks		14.7%			
Gas supply		1.5%			
Renewables		0.8%	1.2%	3.9%	
As % Total EBITDA	**8.0%**	**32.9%**	**15.3%**	**3.9%**	**1.0%**

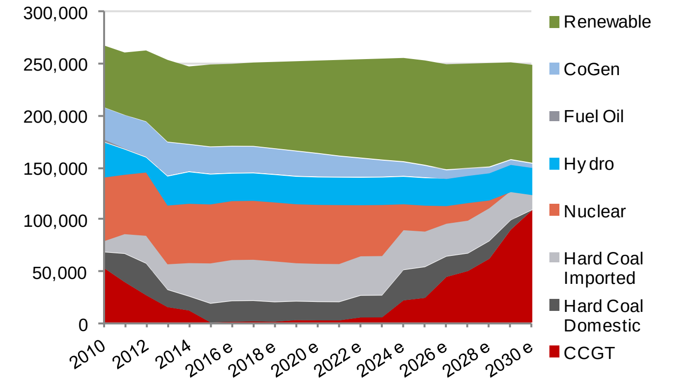
Source: SG Cross Asset Research/Equity

EPS exposure to Generation & Supply in Spain



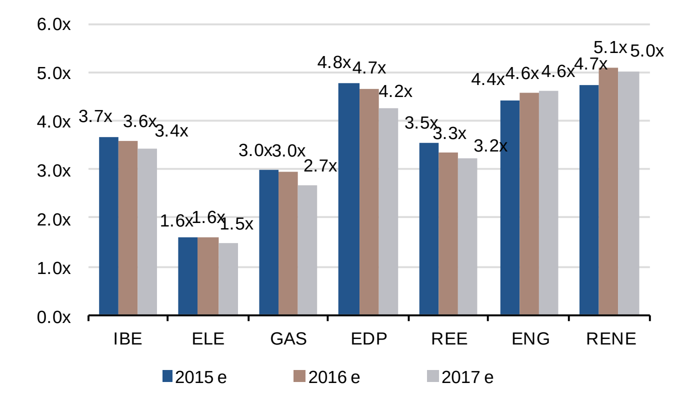
Source: SG Cross Asset Research/Equity

Generation mix in Spain (GWh)



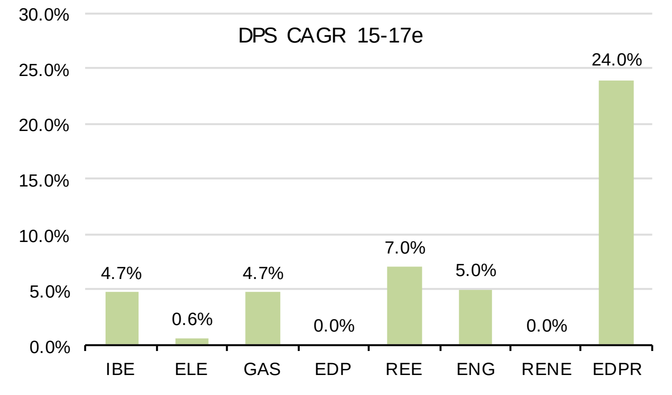
Source: SG Cross Asset Research/Equity

ND/EBITDA performance



Source: SG Cross Asset Research/Equity

DPS CAGR 15-17e



Source: SG Cross Asset Research/Equity

What is already priced in?

Any attempt to assess whether some event has been priced into a stock is always difficult. What we have done here is to compare share price performance since mid-July (when we saw an acceleration in LatAm currency depreciation) against the potential impact of a LatAm economic slowdown, FX depreciation, and lower power prices due to commodity price falls.

The table below shows the EPS impact of a 10% decline in the EBITDA of various LatAm units (even if they are US dollar-denominated) from an economic slowdown (no FX change). We then add to this the EPS impact of a 10% currency depreciation (LatAm currencies and US dollar and British pound). We also factor in the impact of lower gas supply earnings from the lower Brent oil price (for Gas Natural), and the impact of lower power prices from a fall in hard coal prices. We then compare this result against share price performance (as we see in the table below).

Potential EPS impact vs share performance

% EPS impact	IBE	GasNat	EDP	ELE	EDPR	ENG	REE	REN
Due to 10% EBITDA slowdown	-2.2%	-5.4%	-0.1%	0.0%	-1.5%	-4.4%	-0.1%	0.0%
Due to currency depreciation	-2.6%	-4.1%	-2.2%	0.0%	-1.4%	-0.1%	-0.1%	0.0%
Due to 10% decline gas supply margins	0.0%	-4.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EPS impact decline power price	-2.5%	-0.9%	-3.2%	-5.5%	0.0%	0.0%	0.0%	0.0%
Total EPS impact	**-7.9%**	**-15.1%**	**-6.1%**	**-5.5%**	**-3.3%**	**-4.7%**	**-0.2%**	**0.0%**
vs								
Share price performance vs mid-July	**-7.9%**	**-16.0%**	**-13.4%**	**7.8%**	**-14.1%**	**-2.6%**	**-1.7%**	**-0.7%**

Source: SG Cross Asset Research/Equity. Share prices as of 22/09/2015

As we see from all this, it seems many stocks have already priced in a potential impact from the currency moves, power prices, commodity price falls and an economic slowdown in LatAm (though we should add that our assumed loss of 10% of EBITDA does seem excessive given this type of business).

The main exceptions are: i) Endesa as in our view the market is not yet perceiving the risk on generation while it is favouring the name's zero exposure to LatAm and high payout ratio, ii) EDP and EDPR where we believe, based on the above figures, that there has been a particular overreaction by the market. However, we note that both these names were trading at two-year highs in mid-July.

Peer comparison

	PE 15 e	PE 16 e	EV/EBITDA 15e	EV/EBITDA 2016e	ND/EBITDA 15e	ND/EBITDA 2016e	Div. Yield 15e	Div. Yield 2016e
Iberdrola	**15.3x**	**15.5x**	**11.2x**	**10.9x**	**3.7x**	**3.6x**	**4.7%**	**4.8%**
Endesa	**17.7x**	**18.0x**	**8.4x**	**8.6x**	**1.6x**	**1.6x**	**5.5%**	**5.4%**
GasNat	**11.9x**	**12.6x**	**7.1x**	**7.4x**	**3.0x**	**3.0x**	**5.0%**	**4.8%**
EDP	**11.2x**	**12.2x**	**9.0x**	**9.5x**	**4.5x**	**4.4x**	**5.9%**	**5.9%**
REE	**16.3x**	**15.2x**	**10.6x**	**10.1x**	**3.5x**	**3.3x**	**4.4%**	**4.7%**
ENG	**14.1x**	**13.6x**	**10.0x**	**10.3x**	**4.4x**	**4.5x**	**5.2%**	**5.4%**
RENE	**13.8x**	**12.9x**	**7.3x**	**7.8x**	**4.7x**	**5.1x**	**6.4%**	**6.4%**
EON	10.3x	11.4x	6.9x	7.3x	0.7x	1.0x	6.5%	6.5%
RWE	5.5x	9.8x	6.5x	7.2x	1.0x	0.9x	4.6%	4.6%
Enel	12.5x	11.7x	5.0x	4.8x	2.5x	2.4x	4.1%	4.6%
EDF	7.8x	7.8x	6.6x	6.6x	3.1x	3.2x	7.4%	7.4%
Engie	14.3x	11.5x	7.6x	7.1x	2.7x	2.5x	6.7%	6.7%
SSE	12.4x	13.9x	10.3x	11.4x	3.6x	4.5x	6.2%	6.3%
Drax	25.5x	58.4x	9.9x	11.9x	0.3x	0.3x	1.9%	0.8%
Centrica	12.3x	12.6x	7.4x	6.6x	2.1x	1.3x	5.3%	5.4%
Terna	14.4x	17.2x	10.3x	11.3x	4.7x	5.2x	4.7%	4.7%
SNAM	12.6x	16.1x	10.2x	11.8x	4.8x	5.6x	5.4%	5.4%
Nat. Grid	15.6x	14.7x	9.8x	9.3x	4.2x	4.1x	5.1%	5.3%
EDPR	**38.1x**	**26.4x**	**9.6x**	**8.3x**	**4.4x**	**3.6x**	**0.7%**	**1.0%**
Saeta Yield	**21.5x**	**18.1x**	**9.5x**	**9.1x**	**4.7x**	**4.3x**	**8.3%**	**8.3%**

Source: SG Cross Asset Research/Equity

Iberdrola (BUY, TP €6.7) – Among our preferred names in Iberia

Maintaining dividend visibility and turning to growth

EPS growth at Iberdrola (4.7% 2015-17e) owes to its high organic capex in generation capacity (mainly in Mexico through CCGT plants with long-term PPA contracts) and to its renewables where there has been a push in offshore wind in Europe and the UK/US grids. All this is quite visible and the returns are supported by PPA contracts and regulatory frameworks. The exposure to LatAm exists but it is limited (5% of earnings exposure to LatAm currencies) and we have already factored in lower power prices for 2016 due to current commodities prices. Regarding dividends, the high visibility is provided by its sound cash flow and the deleveraging process (DPS growth of 4.7% 2015-17e).

We are reiterating our positive stance on the stock with a Buy recommendation. We are revising our TP to €6.7/share vs €6.85/share previously to reflect new assumptions for LatAm and power prices in Spain. We value Iberdrola on a sum-of-the-parts with a separate DCF model for each asset class. In our EV valuation, Iberian generation and distribution assets now account for 33% of the total, UK assets 16%, renewable assets 26%, LatAm assets 8% and US networks 17.5% (o/w 12.5% current Iberdrola USA networks and 5.0% UIL assets). With our 12m dividend roll-forward of €0.28, this gives a 20% total shareholder return.

EDP (Sell=>Hold, TP €3.10): Earnings face uncertainties and leverage is high

The shares have priced in all the positives

We are raising our rating on EDP to Hold from Sell as there is no longer a negative total shareholder return to our target price following the 12% drop in the share price over the last three months. However we remain cautious (see our 31 July note) as EDP's adjusted EPS growth (9% 2015-17e) is highly dependent on the Brazilian hydro reserves normalisation (still uncertain) and its ability to cut its cost of debt (the higher the sovereign risk, the more difficult that becomes). EDP is making a big effort to maintain its capex level, which leaves little room for DPS growth, and despite the debt reduction, leverage should still be high by 2017 (ND/EBITDA 4.2x). In essence, we see no DPS growth and dividend visibility will depend on earnings performance.

We are revising our valuation of EDP down in line with our new estimates and setting a new target price of €3.10/share (vs €3.23/share previously). Our valuation is based on a sum-of-the-parts, which is in turn based on a DCF analysis (in which we apply a WACC of 5.0% for the regulated Iberian assets, of 6.0% for Iberian liberalised assets and 10% for Brazilian assets). The Iberian electricity and gas assets account for 55% of our total EV calculation (equivalent to a 2016e EV/EBITDA ratio 9.0x), renewable assets for 35% (a 2016e EV/EBITDA ratio of 9.6x), the Brazilian assets 8.2% (a 2016e EV/EBITDA ratio 6.3x) and other assets 1.8%.

Gas Natural (Buy, TP €22): Growth, cash flow, debt reduction and high DPS growth

Momentum is not positive due to LatAm exposure and oil price weakness

Gas Natural's earnings growth rate (EPS 2015-17e of 4.7%) relies on lower financial charges (due to debt reduction) and a recovery at affiliates as EBITDA momentum is negative due to its high exposure to LatAm and LatAm currencies and the gas supply margin contraction (oil price weakness). However it seems the stock has already priced in those events.

The stock is trading on a 2016e P/E multiple of 12.5x, and a 2016e EV/EBITDA multiple of 7.6x, with a dividend yield of c.5% (ND/**EBITDA of 3.0x and payout of 62%). We think it has strong fundamentals and offers high upside potential based on our valuation (total shareholder return of 32%).**

On top of that, due to the strong FCF generation (€1.0bn after dividends), the company should deleverage rapidly (ND/EBITDA 2.7x by 2017e) having a low payout ratio (62%). We think a positive review of the dividend policy is highly likely at the investor day (Q4 2015).

Our valuation is based on a sum-of-the-parts approach. Our lower estimates trim our TP to €22 from €23 – still DCF-based with 5.1% WACC for regulated assets in Spain, 8.3% for liberalised gas activities and 7% for CGE assets. We take into consideration the regulatory frameworks of each country and the useful lives of the assets. Of our EV, gas distribution accounts for 29%, power distribution 17%, power generation 20%, liberalised gas activities 23%, CGE (Chile) 10% and other 2%.

Endesa (Hold, TP €18.5): Investment case offers well balanced pros and cons

High dividend yield supported by cash flow vs low EPS growth and potential acquisitions

Endesa's earnings growth rate is low (0.6% 2015-17e) as a result of a decline in the average selling price of energy, lower hydro output and lower supply margins in electricity vs past years (exceptionally high). It is true that Endesa showed higher margins in Generation & Supply than expected in H1-15, but this was helped by ancillary services. However it is still convinced about getting higher selling prices in coming years, which supports its strategic plan targets. On dividends, Endesa is dazzling investors as it is likely to apply a 100% payout ratio. That translates into attractive dividend yield next year (5.6% on SG estimates and 6.1% on consensus estimates). The risk we see for that dividend on top of lower power prices than forecast is a potential acquisition of Enel Green Power assets in Iberia that would materially dilute its high dividends going forward, while EPS would be positively impacted only marginally at best. The positives of not having exposure to LatAm and low leverage are offset by its high exposure to power prices in Spain and the Catalonia region.

We are revising our valuation to factor in our new power price estimates. Based on a sum-of-the-parts, we are setting a new TP of €18.5/share vs €18.3/share previously and a DPS of

€1.08 vs €0.84 previously. Our valuation is derived from a DCF (6% WACC for liberalised assets and 4.8% for regulated assets) and a multiples approach for non-mainland generation (EV/EBITDA 8.5x) and the electricity supply unit (EV/EBITDA 8.0x). In our EV estimate, Generation & Supply accounts for 43%, Distribution assets for 55% and other assets, 1%.

Red Electrica, (Hold, TP €72.4): Already reflects the positives

Capex and regulation clear until 2020, attractive dividend growth (CAGR 2015-17e of 7.0%) supported by low ND/EBITDA, but higher sovereign risk

REE's strategic presentation confirmed that the company is moving in the right direction as it is: a) consolidating investments in the Spanish system for the foreseeable future and preparing itself for possibly high investment spending post 2020 (interconnection with France may require €5.0bn in capex), b) searching for opportunities such as the acquisition of the Adiff fibre optics network and seeking quality projects in LatAm, and c) improving its shareholder remuneration policy as cash flow generation supports investments and higher dividends.

The potential life extension of pre-98 assets to 15 years (vs 10 years) would have a negative impact on EPS in the short term but the valuation impact is positive as cash flows for those assets will last longer. We have revised our estimates in order to factor in the life extension and higher revenues from new standard costs. All in all, 2015 net profit decreases by -1.8% (or -€15m).

We retain a Hold on the stock as we think it is already pricing in all the positives; low interest rate environment, visibility in regulation/capex and dividend growth. We have cut our TP to €72.4/share from €77.6/share previously to reflect our new estimates and a higher bond yield in Spain (2.5% vs 1.5% factored in our latest review), which increases the WACC (4.1%% vs 3.5% prev.) Our valuation is based on a DCF for the assets considering the current regulatory framework. Of total EV, transmission accounts for 93%, fiber optic 3% and others 4%.

Enagas (Buy, TP €28.5): Reiterating our positive stance

Earnings visibility, limited exposure to LatAm and attractive yield

We reiterate our positive stance on Enagas with a BUY recommendation for its earnings visibility, limited exposure to LatAm region (and zero exposure to LatAm currencies) and attractive dividend yield. Despite few greenfield investment needs in Spain, Enagas is actively searching for opportunities abroad. On top of this the GDP recovery in Spain and the hydro normalisation in power generation terms are driving up gas demand and Enagas is benefiting as the current regulation links part of Enagas's revenues (20%) to gas demand. We project an EPS CAGR 15-17e of 2.7% while the stock is trading on a 2016e P/E of 13.2x and 2016e dividend yield of 5.6%, with 2016e ND/EBITDA at 4.5x (and FFO/ND 18%).

Our valuation is based on a sum-of-the-parts using a DCF with WACC at 4.0% for the Iberian assets and 8.0% for LatAm assets. We are revising up our TP to €28.5/share vs €26.6/share in order to reflect our new estimates. In our EV calculation, regulated assets in Spain account for 81% of total, the stakes in LatAm projects 12.4%, and other assets 6.6%.

REN (Hold, TP €2.65): Dividend yield is attractive, but with good reason

REN is in a 'sweet spot' as low interest rates mean a lower cost of capital. As a result, REN expects to reduce its cost of debt and extend duration at attractive rates. However, we retain a HOLD stance as if the cost of debt reduction plan fails (or is watered down) due to higher bond yields and sovereign risks, EPS expectations will likely be materially below market expectations as a net profit recovery is heavily dependent on lower financial costs. We estimate quite low EPS growth (excluding the special tax reduction) through 2014-17e and despite low capex, we estimate quite limited debt reduction. On top of this, a gas assets review is scheduled for 2016: we factor in a cut in the regulated rate of return of 100bp to 6.5%.

The main two catalysts for the share price are the market appetite for REN's debt at a lower cost and the final decision on the special tax. If the special tax is removed in 2016, EPS (and hence valuation) may increase by 13%. However, if a Portuguese court rules against the removal, the negative impact on EPS could be of a similar scale (as we are factoring in a 50% reduction in the special tax to reflect a 50% chance of the tax being removed).

We are cutting our REN TP to €2.65/share vs €2.75/share previously on a higher WACC (due to higher bond yields since our last review). Our valuation is based on a sum-of-the-parts with a separate DCF for each asset (WACC 4.55%). Within our EV, the electricity assets account for 68% of the total, and gas assets for 32%.

EDPR (Buy, TP €6.9): An attractive investment case

High short-term EPS growth and high mid-term cash flow generation

We reiterate our positive view on EDPR on its solid growth prospects (EPS CAGR over 2015-17e of c.25%) and cash flow generation, driven by asset rotation, past efforts in capacity installation and lower capex (ND/EBITDA 17e 3.2x vs 4.4x in 2015e). We also see it entering an interesting situation in 2017, with sound cash flow generation but lower capex needs (lower opportunities to develop new assets), together with a low payout ratio. While lower growth prospects could reduce the multiples at which the stock trades, on the other hand dividend yield could rise materially (to 4.5% on a 100% payout ratio). Another possibility would be for it to buy out minorities (reversing the current trend), or it could even do a buyout.

We are cutting our TP to €6.9/share from €7.0/share due to Brazilian real depreciation. Our valuation is based on a sum-of-the-parts (a DCF for each asset applying the regulations, power purchase agreement and WACC for each region). Of our EV, Spanish assets account for 23%, Portuguese 13%, rest of Europe 18%, US 41%, and 'Others' and the value created by assets under development for the remaining 5%. Including the €0.04 dividend, this implies a TSR of 18%.

Saeta (Buy, TP €12): A pure high-yield player with attractive growth options

In our view Saeta has a sound asset portfolio and low leverage (vs peers and also in absolute terms considering the low risk profile of the asset portfolio), which should pave the way for strong growth (above peers) on the back of the attractive ROFO assets offered by its sponsor. It is a dividend-oriented stock which already offers a yield of 8.5%, but dividends could potentially double in two years due to the acquisition of already identified assets (ROFO).

Saeta has a commitment to distribute 90% of the cash available for distribution (CAFD) as dividends which, based on the current asset portfolio, equates to €57m per annum and a dividend yield of 8.5%. The company has noted in H1-15 results presentation that an acquisition of two solar thermal plants could be imminent. That would increase its leverage (lowering the WACC), but the cash flow available for distribution would also increase by €13-15m, raising dividend yield to 10%.

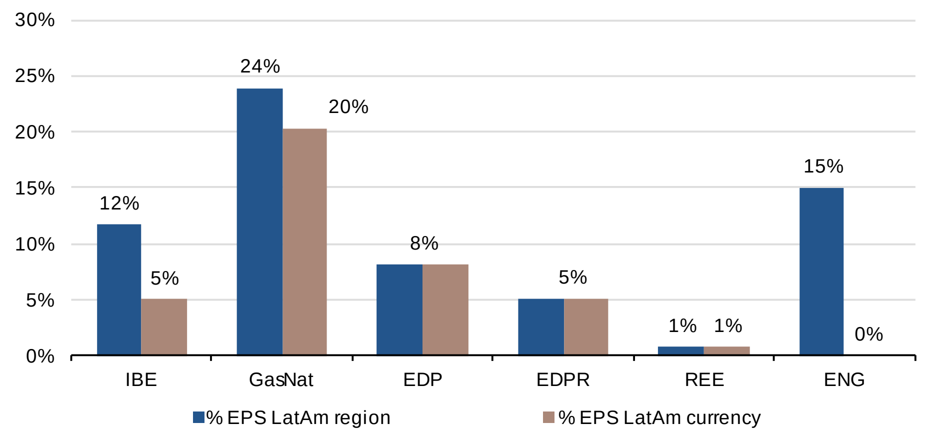
We are setting a TP of €12.0/share based on a sum-of-the-parts model (DCF of the current assets at a WACC of 4.3%). This also reflects value creation linked to the acquisition of three solar thermal plants in Spain on which Saeta has a call option.

Measuring exposure to LatAm

In this section we want to measure the exposure of Iberian stocks to the LatAm markets. We first look at the *geographical exposure,* i.e. how much EBITDA each utility produces in each of the LatAm countries and then we look at the *currency exposure*. The two differ as in many cases (typically for generation assets) utilities render their services under 'dollarised' tariffs, which means that the currency exposure is usually smaller than the geographical exposure.

In the chart below we show firstly the EPS exposure to the LatAm region (activities denominated in local currencies and in US dollars) and the EPS exposure only to activities denominated in LatAm currencies. For the calculation we have taken into consideration the debt linked to those assets, the currency in which that debt is denominated, the affiliates and the minorities. **The conclusion is that only Gas Natural has a material exposure**.

EPS exposure to LatAm (average EPS 2015-2017 period)



Source: SG Cross Asset Research/Equity EPS average 2015-2017 period

Geographical exposure

If LatAm economies deteriorate materially so that businesses are hit, regulated or not, we estimate that a **10% fall in EBITDA** (in local currencies) has an impact of between 1.5% and 5.5% on the earnings of the Iberian utilities.

EPS sensitivity to 10% drop in EBITDA LatAm region

Impact 10% EBITDA drop	IBE	GasNat	EDP	EDPR	REE	ENG
Impact EBITDA	-10%	-10%	-10%	-10%	-10%	-10%
Impact in EPS (%)	**-2%**	**-6%**	**-1%**	**-2%**	**--0.1%**	**-4%**

Source: SG Cross Asset Research/Equity

However, we think businesses would be impacted in a much lighter way as they are typically not exposed to volumes whilst investments are needed to connect new customers. Also, the long-term contracts under which many plants operate provide some protection against an economic slowdown. For gas distribution and gas supply, in our view, the fundamentals supporting an attractive midterm growth outlook remain in place: electricity systems where CCGT plants are increasing in weight to act as a backup (vs fuel oil currently) in the event of a severe drought and in order to balance the system on the back of higher renewables as well as a progressive increase in the use of gas for heating and cooking.

Currency exposure

As mentioned, to quantify the exposure to LatAm currencies we need to take into account the dollarization of tariffs from which some utilities benefit and the fact that when currencies depreciate this also has an impact on financial charges for LatAm currency-denominated debt as well as minorities interests. Taking into consideration all the above-mentioned issues, our analysis shows that earnings exposure to LatAm currencies is moderate (c.7%), with the exception of Gas Natural as c.20% of its earnings are exposed (see table below).

Exposure to LatAm currencies (average 2015e-2017e period)

%	IBE	GasNat	EDP	EDPR	REE	ENG
% EBITDA LatAm currency	2.7%	28.7%	15.3%	3.9%	1.0%	15%
% EPS LatAm currency	5.0%	20.3%	8.1%	5.1%	0.8%	0%

Source: SG Cross Asset Research/Equity

However, the Spanish utilities are not exposed just to LatAm in terms of currencies since they have assets and/or debt that is, for example, denominated in US dollars and/or British pounds. Adding these two further currencies into the mix, **we estimate that the overall sensitivity to a 10% depreciation in ANY currency** is a follows: Iberdrola exposure is close to 20%, GasNat 43%, EDP c.19%, EDPR c.0.7%, Enagas c.15% and REE c.1%. The figures mentioned are based on average earnings for the 2015-2017e period as some companies increase exposure to currencies over time.

Who does what in LatAm

Attending to a geographical split, Iberdrola's EBITDA is exposed to Brazil and Mexico (it is important to bear in mind that **Iberdrola** owns 39% of Neoenergia and such a stake would mean an extra EBITDA of €276m if proportional consolidation is done, so doubling the exposure to Brazil). **Gas Natural** is present in the main LatAm countries in a well diversified way. The biggest exposure corresponds to Chile due to the CGE acquisition. **EDP's** almost unique presence is in Brazil through its 51% stake in Energias do Brazil. EDPR has little exposure to LatAm and just in Brazil. All in all, c.35% of EBITDA exposure is to Brazil, Mexico 25%, Chile 20%, Colombia 10% and 10% to other countries.

EBITDA in LatAm region by country (average 2015e-17e)

€m	IBE	GasNat	EDP	EDPR	REE
Brazil	210	263	564	45	
Mexico	426	350			
Chile		535			
Colombia		351			
Argentina		15			
Other		202			14
Total EBITDA LatAm Avg 2015-17e	**636**	**1,716**	**564**	**45**	**14**
Brazil	2.7%	5.0%	15.3%	3.9%	
Mexico	5.4%	6.7%			
Chile		10.3%			
Colombia		6.7%			
Argentina		0.3%			
Other		3.9%			1.0%
As % Total group's EBITDA	**8.0%**	**32.9%**	**15.3%**	**3.9%**	**1.0 %**

Source: SG Cross Asset Research/Equity. Only EBITDA consolidated

When we look at the type of business, both regulated electricity and gas grids account for 52% of EBITDA, generation 28%, renewables 18% and gas supply 2%.

EBITDA in LatAm region by type of business (average 2015e-17e)

€ m	IBE	GasNat	EDP	EDPR	REE
Power generation	426	233	319		
Power distribution/transmission	210	593	200		14
Gas distribution		767			
Gas supply		79			
Renewables		44	450	45	
Total EBITDA LatAm Avg 2015-17	**636**	**1,716**	**564**	**45**	**14**
Power generation	5.4%	4.5%	8.6%		
Power distribution	2.7%	11.4%	5.4%		1.0%
Gas distribution		14.7%			
Gas supply		1.5%			
Renewables		0.8%	1.2%	3.9%	
As % of group's total EBITDA	**8.0%**	**32.9%**	**15.3%**	**3.9%**	**1.0%**

Source: SG Cross Asset Research/Equity

One aspect that is worth mentioning is that nearly half of the business in LatAm is regulated and therefore less subject to up/downturns in economic conditions, although of course it is not completely immune, as experience in LatAm or indeed in Europe has shown. Regarding the **regulated networks** business in LatAm, the regulatory period usually lasts for four years, remuneration recognises the inflation in operating costs and the financial return is linked to the local sovereign bond yields. The operator agrees a capex plan for the following regulatory period and based on estimated demand and the return allowed, a fee per MWh (electricity or gas) is agreed with the regulator. If demand (volumes) is different from the initial expectations the grid operator takes the risks/benefits while if interest rates/sovereign bond yields change materially, the risks are also borne by the grid operator until the next regulatory review.

As a general observation, sensitivity of demand to GDP changes has increased in the post-2009 period (red arrow in the scatter diagrams) although data are more scattered in some cases. For Colombia for example, there seems to be a very weak linear relationship between GDP and electricity demand.

This is illustrated in the next table where the values for the slope of the regression lines have increased post-2009. This is not a good omen if one thinks that GDP in LatAm could slow down more than SG economists (and the IMF) are predicting, as this means electricity demand could fall faster than previously experienced.

Peru's sensitivity has also increased post-2009 but less so than peers in percentage terms given that it was probably already starting from a fairly high level. Of the group, Brazil is that with the highest sensitivity.

Electricity demand growth vs GDP growth – regression analysis

	All years			Post-2009			Pre-2009		
	α	β	R-sq	α	β	R-sq	α	β	R-sq
Chile	0.03	0.53	29%	0.01	0.67	51%	0.04	0.39	17%
Peru	0.01	0.86	86%	0.01	0.89	84%	0.02	0.75	53%
Colombia	0.02	0.16	16%	0.02	0.23	5%	0.03	0.14	5%
Brazil	0.04	0.34	12%	0.01	1.06	83%	0.02	0.49	12%

Source: SG Cross Asset Research/Equity, Datastream.

On the basis of these regressions we have simulated electricity demand growth rates based on the IMF's GDP forecasts, as shown in the next table.

Estimating electricity demand growth based on GDP growth expectations (%)

	2015	2016
GDP growth*		
Chile	2.7	3.3
Peru	3.8	5.0
Colombia	3.4	3.7
Brazil	-1.0	1.0
Electricity demand - all years		
Chile	1.5	1.8
Peru	3.3	4.3
Colombia	0.6	0.7
Brazil	-0.3	0.4
Electricity demand - post 2009		
Chile	1.8	2.2
Peru	3.4	4.5
Colombia	0.8	0.9
Brazil	-1.1	1.1

Source: SG Cross Asset Research/Equity; (*) IMF.

All in all, electricity demand should grow by between 1% and 3%+ this year, except in Brazil where demand could fall by at least 1%. For 2016, demand should grow by between 1% and 4%+, with Brazil also recovering at +1%.

The LatAm generation markets are very heterogeneous depending on the generation mix of the country. However, there are some common features as: i) a big part of the expected output is sold under long-term contracts (to the distributors or even to a public company) which reduces the volatility of the business, ii) electricity markets (contracts and prices) are US-dollar denominated in many countries (Chile, Colombia, Peru and Mexico). In the past two to three years the most important factor determining the profitability of the generation units has been the hydro conditions in the region (severe drought) vs the demand evolution (3-4% growth).

The renewable assets in LatAm operate under prices awarded in public auctions for long periods (usually the useful life of the asset) with inflation escalators and are in many cases US-dollar denominated. In the case of EDPR and Enel Green Power, they operate in local currency in Brazil but in US dollars in the rest of the region.

The four key topics in the Spanish electricity market

We look at the Spanish generation market because it still accounts for a material part of companies' group net profit (25% Iberdrola, 35% Endesa, 7% GasNat and 20% EDP). There are several factors to bear in mind when looking at how power prices may evolve over the coming years**: I)** the new renewals which will be auctioned after a two-year moratorium, **II)** the energy efficiency measures (and how demand may be impacted), **III)** the planned new interconnection with France, **IV)** the future of the domestic coal-fed plants, and finally **V)** the life extension of the nuclear plants.

Introducing our new power price scenario

With this report we take the opportunity of updating our power price scenario to reflect the most recent developments in commodity forward prices (next table). All in all, we are expecting a gradual increase in electricity price up to €54/MWh in 2020 from €47/MWh now, and this should be driven by a gradual increase in the price of hard coal and CO2 price.

Commodity price assumptions and Spanish power price estimates

	2016 e	2017 e	2018 e	2019 e	2020 e
EUR/USD	1.1	1.1	1.1	1.1	1.1
Brent oil (USD/bbl)	60	65	74	76	78
Coal Price (API2) USD/Ton	55	57	60	65	67
CO2 (Eur/Ton)	8.2	8.5	9.0	9.5	10
CDkS (€/MWh)	9.6	10.4	9.2	10.5	10.1
CSks Gas linked to Oil (€/MWh)	(11.2)	(11.9)	(15.9)	(13.4)	(13.7)
CSks Gas linked to Pool (€/MWh)	1.8	2.8	2.7	4.8	4.8
Power price (Eur/MWh)	46.8	48.6	49.2	52.8	53.9

Source: SG Cross Asset Research/Equity

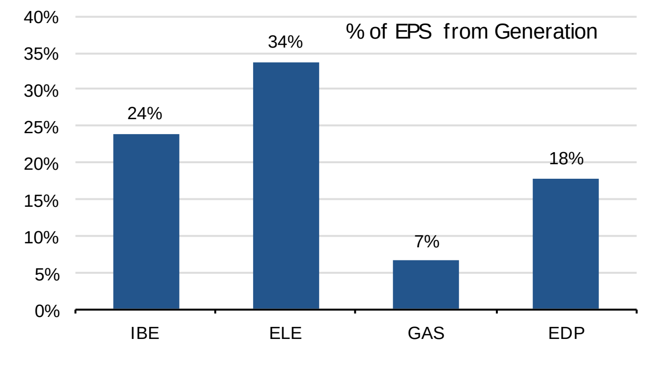
As we will explain later in more detail, our forecasts take into account annual demand growth of 1.5% in 2016, +0.5% in 2017e and +0.25% p.a. thereafter, and also include the new interconnection with France which should become operational by 2020.

Finally, after two years the government looks set to approve incentives for new renewable capacity. As we explain later in this section, the crux of the problem is that for Spain to reach its 20-20-20 targets all sectors need to contribute to emissions reductions, but it is now becoming clearer that transport may miss its individual target. We fear that, realising this, the government may push for renewables in the power sector to make up for the difference.

In the next two charts we show our new power price scenario and the Spanish utilities' exposure to the Spanish power markets. Our conclusion is that with relatively muted demand growth and more renewables in the system, we do not expect a major change in the clean dark or spark spreads; we also expect coal to continue to set the price whilst load factors for gas stations should remain at very low levels.

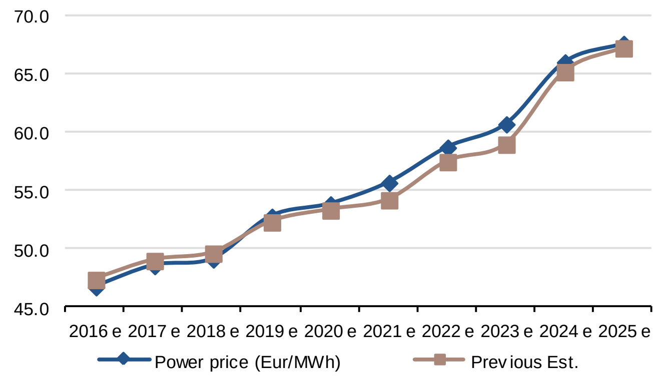
The only exception is for Gas Natural which has its gas purchasing contract with Egypt and another one with Trinidad and Tobago where the gas price is linked to the pool power price. As a result, in 2014a Gas Natural's average load factor for its gas fleet stood at 24%, compared, for example, with just 6% for Endesa.

% of EPS linked to generation in Spain



Source: SG Cross Asset Research/Equity

Power price estimates (€/MWh)



Source: SG Cross Asset Research/Equity

Are Spanish prices too high?

We are often asked why power prices in Spain are higher than in the rest of Europe. For the last three years, coal has set the price in the pool and not gas. While low demand and a raft of subsidised renewable capacity has increased competitiveness in the wholesale market, coal generation has gained market share, squeezing out the more expensive gas. But, if anything, this should lead to even lower power prices as Germany would be the best comparison where power prices are just at €30/MWh.

However, following the energy reform (2011-2013) generators are taxed on the output and on the fuel consumed to produce electricity. Since these taxes are paid by all generators in (broadly) equal measure, power prices reflect them and we calculate they amount to up to €10/MWh. So starting from €46/MWh Cal16 in Spain and subtracting the taxes we get much closer to German power prices and well below Italian prices at €48/MWh where these taxes don't exist (although there gas sets the price).

In Spain there are two types of coal-generating unit; those that burn imported coal and therefore pay international prices for it and those (more inland) that burn domestic coal. As in most European countries, domestic coal is more expensive – we estimate that in Spain it costs c.€7/MWh more than international coal. Previously in Spain, the power companies were required by legislation to burn domestic coal and although, as we explain later, this legislation is changing, companies are still likely to be incentivised to burn domestic coal to some extent.

Sensitivity to power prices

In the next table we show the sensitivity of the Spanish utilities to a €1/MWh change in power prices. Note that here we simply adjust the power prices which is equivalent to a move in the clean spread of the price-setting technology. Of course power prices also move when the fuel of the marginal technology moves, but in that case a lower sensitivity than that shown in the table should be expected.

EPS sensitivity to power price in the Spanish market

EPS chg €1/MWh power price	2016 e	2017 e	2018 e
IBE	-2.8%	-2.6%	-2.3%
ELE	-4.6%	-4.4%	-4.4%
GAS	-1.6%	-1.4%	-1.5%
EDP	-1.6%	-2.5%	-2.4%

Source: SG Cross Asset Research/Equity

The four key topics

1) Renewable capacity yet again – After a two-year moratorium the renewable segment of the market seems to have sprung back to life with the new auction announced for 700MW. But Spain is at risk of missing its emissions reduction targets which would prompt more capacity to be built and this is probably not yet factored into market expectations;

2) Efficiency measures – these could also have a negative impact on power prices although we also look at electric vehicles, but any negative impact could be offset in the longer term;

3) French interconnection – Europe has set a 10% target for interconnection capacity and for this Spain is building a new interconnection with France for 1.4GW. This link is to become operational only after 2020, so it is not a near-term threat, but longer term cheaper electricity flowing from France to Spain could also be seen as a negative;

4) Domestic coal – units that burn domestic coal could be phased out by 2023 if they don't upgrade their equipment and reduce SOx and NOx emissions. Their closure could tighten the market in the longer run which should be seen as a positive. However, the Spanish government wants to hand out incentives to reduce SOx and NOx emissions which, if high enough, could lead operators to extend their useful lives of their domestic coal-burning units.

As a rule of thumb, all else being equal, for every USD10/tonne change in the price of hard coal, the Spanish power price changes by €3.3/MWh, while 500MW of additional renewable capacity has an impact of -€2.0/MWh and 1% higher power demand than expected has an impact of €0.6/MWh.

Spanish power price sensitivity

€ MWh	Power price
USD10 /tonne coal	3.3
500MW /y new renewable	-2.0
1% higher demand 2020	0.6

Source: SG Cross Asset Research/Equity

1. Renewables to rescue the transport sector

Spain has committed to reduce emissions in line with EU requirements. The targets are set by the government for each sector in the economy. So by 2020, 39% of Spanish electricity should be generated from renewable sources while for heating/cooling a target of 16% applies and for transport the target is 10% (next table).

% of energy consumption or electricity generation from renewable sources

% target	2020
% electricity generated from renewable sources	39%
% heating/cooling energy consumption from renewables	16%
% transport energy consumption from renewables	10%

Source: Agriculture and environment Ministry

However, transport is a thorn in the side of the Spanish authorities. Not that Spain is alone in this: according to a European commission report published in June 2015, in 2013 EU members reached a level of 5.4% of energy consumption in transport from renewable sources (5.7% expected for 2014) vs the 10% target.

The same report shows that for Spain transport stood at an abysmal 0.4%. The use of biofuels in transport represents a key focus for the achievement of the target. Thus, the Spanish government intends (according to an article published by Energia Diario web daily on 17 July 2015) to increase the biofuels target to 8.5% in 2020 according to a draft royal decree on biofuels. Based on this draft biofuels should reach 5% in 2016 and 2017, increasing to 6% in 2018, 7% in 2019 and 8.5% in 2020.

Our analysis starts looking at the government's estimates of gross energy demand to be covered by renewable sources in Spain (see table below) through to 2020. The main three sectors that should contribute to the emissions reductions are: electricity generation, heating/cooling and transport.

Gross energy consumption from renewable sources estimates

Ktep	2014	2015	2016	2017	2018	2019	2020
Electricity – gross demand from renewable sources	91,212	9,586	9,982	10,547	11,064	11,669	12,455
Heating/cooling – gross demand from renewable sources	4,181	4,404	4,651	4,834	5,013	5,152	5,357
Transport sector end consumption from renewable sources	2,418	2,500	2,586	2,702	2,826	2,965	3,216
Gross energy consumption	**96,955**	**97,486**	**97,843**	**98,028**	**98,198**	**98,328**	**98,443**
Electricity as % gross energy consumption		29%	29%	30%	31%	32%	32%
Heating/cooling as % gross energy consumption		33%	33%	33%	33%	33%	33%
Transport as % gross energy consumption		38%	37%	37%	36%	35%	35%

Source: Ministry of agriculture and environment

Making up for the shortfall

We estimate that if transport reaches 5% in 2020 (vs the 10% target) then electricity's target needs to rise from 39% to 46.4%, i.e. 7.100MW of additional renewable capacity by 2020 (1.400MW p.a. additional capacity).

And the process seems to have begun already. After a two-year moratorium, new renewable capacity could soon land in the system, taking market share from conventional operators and putting downward pressure on the electricity price. According to a government spokesman, a new auction for 700MW of renewable capacity is to be launched in Q3 (500MW wind and 200MW biomass). Assuming an additional 70MW is built each year, new renewable capacity could take out 3.6% of expected demand from conventional generators by 2020.

However, there is a **risk that even more renewable capacity will enter the system in order to reach the 20-20-20 targets**. If the transport sector CO_2 reduction target is only 50% met (given the high uncertainty based on the performance up to now) another 1,400MW per annum could be required, or 7.4% of expected demand (cutting power prices by €4.2/MWh or -8% in 2020). In our estimates we are factoring in new capacity of 525MW being commissioned in 2017 and 1.050MW per year thereafter (750MW of wind and 300MW PV solar) which corresponds to a scenario in which the transport sector reaches the midpoint of the CO_2 emissions reduction target.

Implications for renewable electricity generation

	2020	2020	2020
% transport energy consumption from renewables	**5.0%**	**8.50%**	**10.0%**
in ktep	1,615	2,746	3,216
Gap to be filled by Electricity (ktep)	1,601	470	0
As% of electricity target	17%	5%	0%
Gap to be filled (GWh)	18,788	5,521	0
As % of electricity output	**7.4%**	**2.2%**	**0.0%**
New renewables MW (30% load factor)	**7,149**	**2,101**	**0**

Source: SG Cross Asset Research/Equity

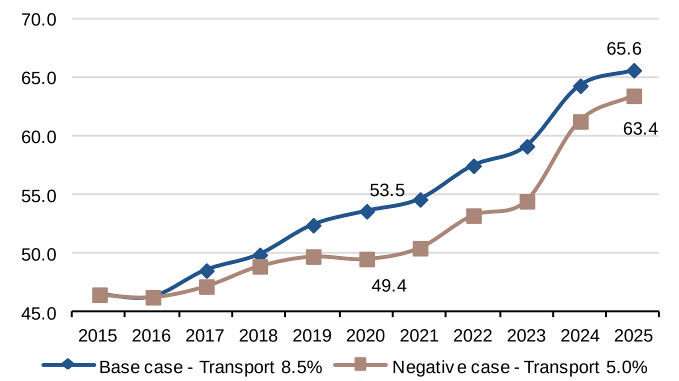
Our base case is that the government will take measures (such as increasing biofuel consumption) to get closer to the target. In our estimates, we assume that transport will reach a level of 8.5% by 2020. However, if the level is lower and only 5% is reached, this could have a material negative impact on power prices as volumes of energy generated by conventional plants would be lower and the incentives paid by consumers via their power bills would increase materially.

Impact on power prices under different transport scenarios

	2015	2020	2025
Base case - Transport 8.5%			
Power price (€/MWh)	46.4	53.5	65.6
Renewable MW installed	39,990	42,503	42,829
Negative case - Transport 5.0%			
Power price (€/MWh)	46.4	49.4	63.4
Renewable MW installed	39,990	48,878	49,204

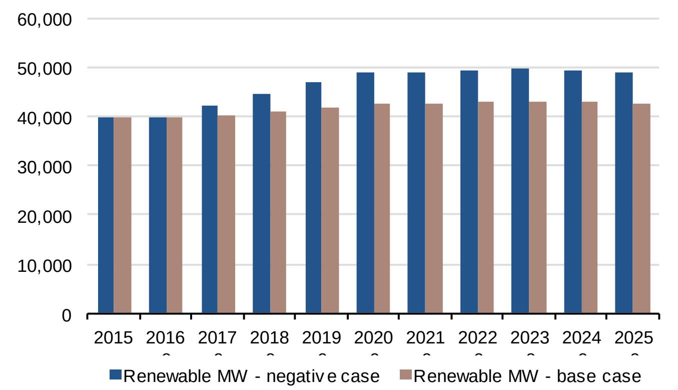
Source: SG Cross Asset Research/Equity

Power price under different scenarios for transport



Source: SG Cross Asset Research/Equity

Renewable capacity under different scenarios for transport



Source: SG Cross Asset Research/Equity

2. Efficiency measures and electric vehicles

Although efficiency measures haven't had a material impact in recent years due to the economic crisis we expect higher energy efficiency to be promoted as soon as the economy recovers. Based on the government plan (2011-2020), measures to be taken with a direct impact on electricity demand would amount to 11,642GWh by 2020 (or 4.6% of our estimated demand by that date).

Impact on electricity demand of efficiency measures by 2020

	Ktep p.a.	GWh	% Demand 2020
Building construction	842	9,881	3.9%
Public administration	58	681	0.3%
Home appliances	92	1,080	0.4%
Total	**992**	**11,642**	**4.6%**

Source: IDAE – 2011-2020 energy efficiency plan

Alongside the efficiency measures, it is important to take into consideration the increase in electrification. We have estimated the potential positive impact that electric cars could have electricity demand.

According to Spanish government plans, by 2020 Spain will have 2.5m **electric vehicles** (vs 6,780 in April 2015). If the target is reached, we estimate this will generate additional electricity demand of 1.9% by 2020 (0.4% extra demand for each 0.5m of electric cars). The analysis that we have followed (see table below) is based on the average consumption of electric cars today (source www.technologicvehicles.com) and the average distance per vehicle on an annual basis.

Impact of electric car in power demand by 2020

Targeted vehicles	2.5
Consumption KWh/100Km	0.13
Avg Km/y per vehicle	15,000
Demand (GWh)	**4,875**
as % of 2020 demand	**1.9%**

Source: SG Cross Asset Research/Equity

The impact of the efficiency measures is already reflected in our electricity demand estimates for the coming years as some of them have been put in place already with excellent results. However, we are not factoring in a meaningful impact from the electric car due to the big difference between the current amount of cars and the target.

All in all, should both the efficiency measures and the electric car targets be met, electricity demand would reach 255.5TWh by 2020 (mainland), representing a CAGR of 0.8% between 2015 and 2020.

Electricity demand by 2020

	2020e
Elec. demand related to GDP	262,319
Impact efficiency measures	-11,642
Electric car impact	4,875
Electricity demand in 2020	**255,552**
CAGR 15-20e	**0.8%**

Source: SG Cross Asset Research/Equity

3. New interconnection capacity with France

A 1.400MW interconnection line with France was commissioned in June and it is clear that more capacity is coming, though questions remain about when and how much. The politicians have given the green light to this initiative and part of the infrastructure can be supported by the Juncker plan.

According to Spanish daily "ABC" there are already three potential projects under consideration (Gatica –Aquitaine, Aragon – France and Navarra –France), worth a total investment of €5.2bn, and aimed at doubling the interconnection with France (to 2.800MW). We have assumed that such an increase in interconnection capacity wouldn't be in operation until 2025. Given that France is already net exporting to Spain, we estimate that each new 1.000MW of new interconnection would subtract 1.7% of demand from Spanish generators.

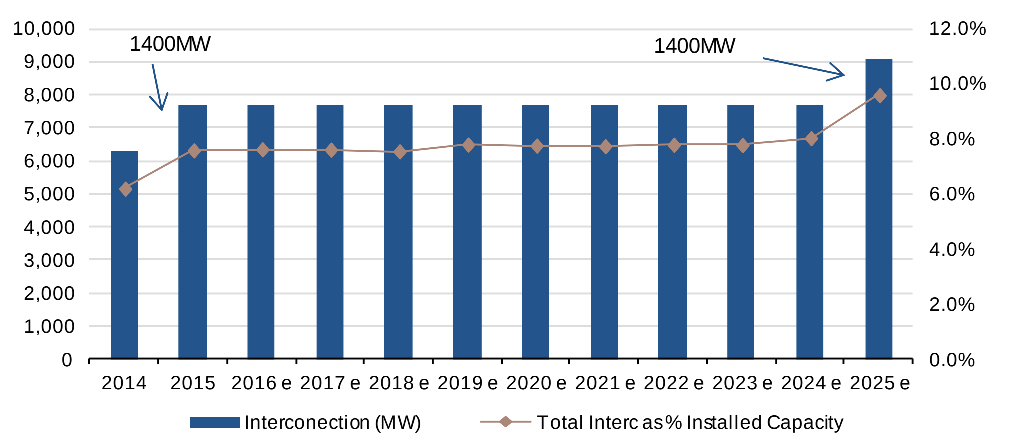
Interconnection capacity at end-2014

	MW	% Capacity installed	balance (GWh)	
Spain - France	2,400	2.4%	3,800	Import
Spain - Portugal	3,000	3.0%	-1,200	Export
Spain - Morocco	900	0.9%	-6,000	Export
Total	**6,300**	**6.2%**	**-3,400**	**Net Export**

Source: SG Cross Asset Research/Equity and REE

REE, the Spanish electricity system operator, has not included investments linked to interconnection lines in its 2015-2020 capex plan. However, it hasn't ruled out the possibility that more interconnection could become a reality between 2020 and 2025 if the plans go ahead. In our estimates we are factoring in an additional 1.400MW line with France in 2025 which would increase the interconnection capacity to 10%.

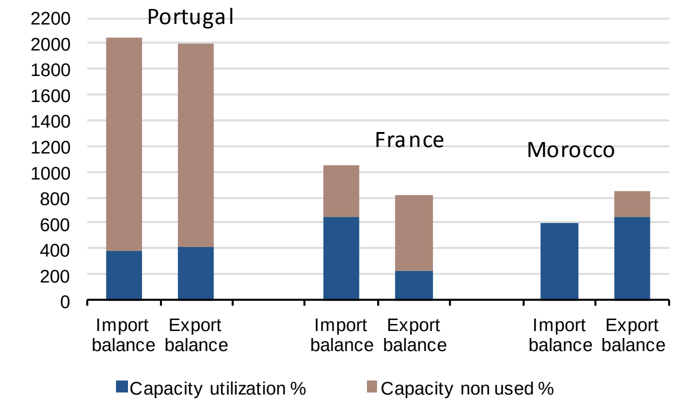
Interconnection capacity and % of interconnection of installed generation capacity



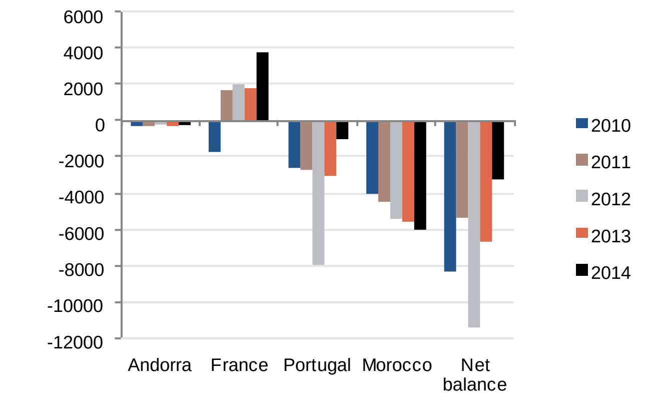
Source: SG Cross Asset Research/Equity

That increase in interconnection (1400MW line) would reduce demand for domestic generators by the equivalent of 2.4% of the electricity demand expected in 2024. This estimate is based on the capacity usage of the current interconnection capacity and the net balance (export/import) of the current capacity with France.

Capacity usage of interconnection lines



Export/import balance (positive figure means import) GWh



Source: SG Cross Asset Research/Equity

4. Domestic coal fed plants

Hard coal plants using domestic coal play a material role in the power price fixing process (forward price) as the presence of CCGT (gas-fed) plants in the system has fallen sharply (more expensive then hard coal plants).

Up until December 2014 these plants were working under a regulated framework in order to provide a minimum output and hence provide a minimum level of domestic coal consumption. The price at which the energy was sold was regulated (as well as the price at which the hard coal was acquired).

Currently the government is proposing (likely to be approved before the year-end) a different mechanism to incentivise domestic coal-fed plants to continue. Current legislation requires those plants to reduce emissions (NOX and SOX) in order to continue producing. Otherwise there is a limit of working 15,000h or until 2023, whichever comes first. The government is proposing to offer an incentive of €90,000 per MW in exchange for a compromise whereby generators will acquire 5.6 tons of domestic coal per annum. We estimate that the incentives cover half of the cost of the investments required.

Our central scenario is that generators will take the incentives and make the investments to reduce emissions, hence the plants using domestic coal will remain in operation until the end of their useful lives.

Domestic hard coal capacity and production in Spain

h	2010	2011	2012	2013	2014	2015 e	2016 e	2017 e
Domestic hard coal Capacity (MW)	9,925	8,214	6,191	6,031	5,403	5,403	4,951	4,730
Domestic hard coal output (GWh)	14,711	27,179	30,465	16,614	13,486	18,069	19,922	19,816
as % of system output	5%	10%	12%	7%	5%	7%	8%	8%

Source: SG Cross Asset Research/Equity

We estimate that if the investments do not go ahead in 2020 the domestic coal-fed plants will be phased out. Domestic coal plant output accounts for c.7% of total output. Should the domestic coal plants be phased out by 2020, the electricity price would increase by c.€8/MWh as they would be replaced by CCGT plants.

Power price in Spain: positive trend but risks remain

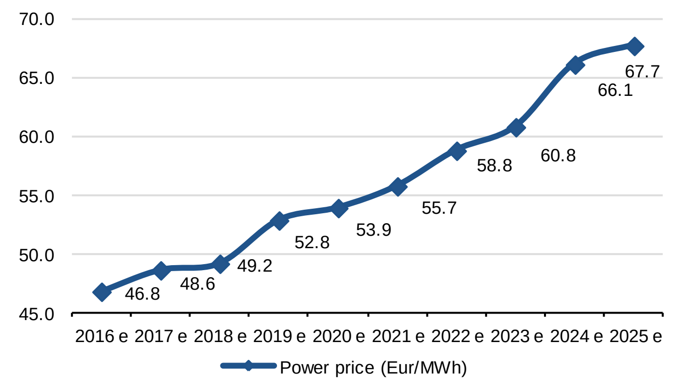
All in all, we expect Spanish power prices to embark on a positive trend driven by sound demand, higher coal and oil prices next year as well as higher CO_2 prices. However, there are still risks as the power price is still highly sensitive to hard coal prices and new renewable capcity.

The issues mentioned in the previous section are key elements that are likely to have a material impact on Spanish power prices going forward. Among them, the two that are likely to have the highest potential impact over the coming five years are: i) **how much new renewable capacity will be installed** in order to reach the 20-20-20 target; and ii) **how many domestic coal plants will get incentives** to reduce emissions and hence be in operation beyond the current limits.

With regards to these two issues in particular, we have already indicated that our central scenario: a) factors in c.1.000MW of new renewable capacity per year as we expect the transport sector to be able to reach 8.5% of energy consumption from renewable sources; and b) assumes that the domestic coal plants will get the incentives and hence be able to operate for the remainder of their useful lives.

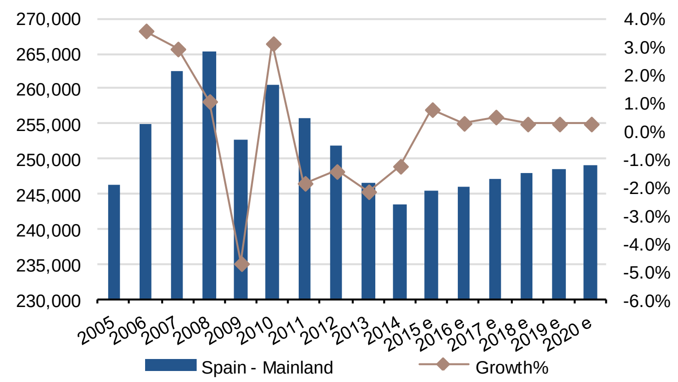
We estimate that power prices will increase over the coming years due to higher hard coal and oil prices. The increase in commodity prices should offset the lower power demand growth rate (CAGR 2014-20e of +0.4% as demand to be covered by domestic generation capacity as imports from France will increase due to new interconnection capacity) and the new renewables in the system.

Power price 1-year forward €/MWh



Source: SG Cross Asset Research/Equity

Electricity demand (mainland) GWh

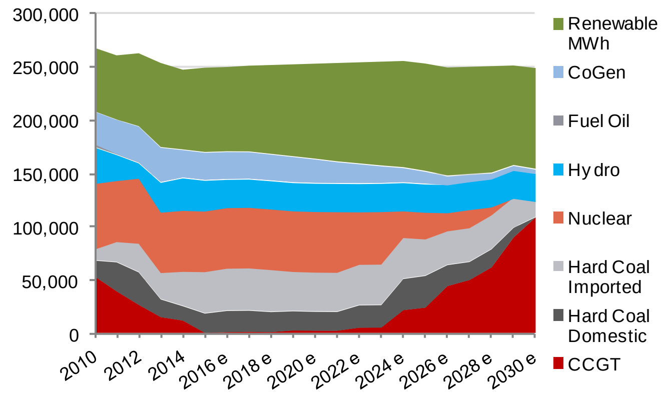


Source: SG Cross Asset Research/Equity

All in all (see chart above), we are expecting a moderate increase in power prices in Spain until 2018, mainly driven by a slight increase in coal and carbon prices. However, in 2019 the level of demand reached will mean that CCGT plants will be setting marginal prices and although this will only concern a few hours (and a small portion of volumes), the price difference is big enough to have an impact on the average price of the whole system.

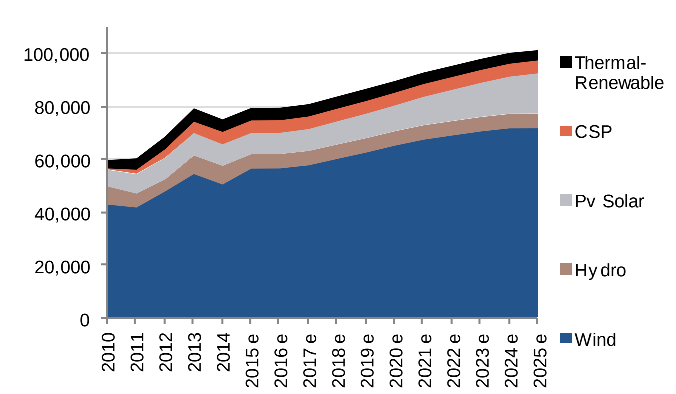
Other issues (which we have factored in) also have a material impact on power prices, such as the phasing-out of the nuclear plants (gradual from 2022 to 2028), gas linked to Henry Hub that will likely be used in generation plants from 2019 onwards and the expiry of the gas contract (owned by Gas Natural) where the gas price is linked to the electricity spot price.

Output mix (GWh)



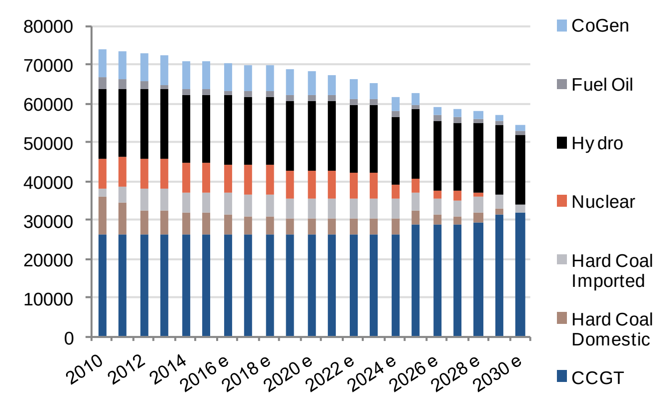
Source: SG Cross Asset Research/Equity

Renewable output breakdown (GWh)



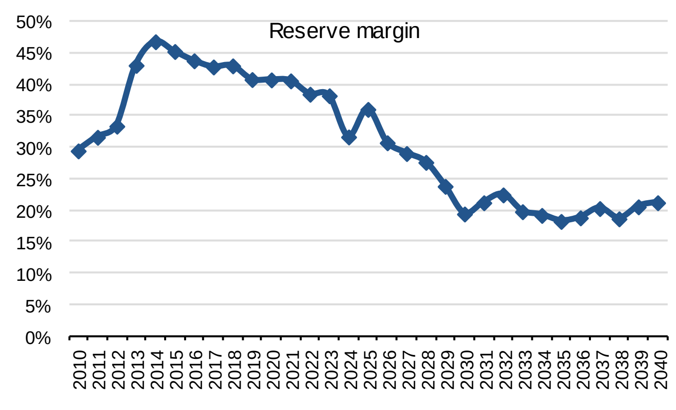
Source: SG Cross Asset Research/Equity

Capacity mix (MW)



Source: SG Cross Asset Research/Equity

Reserve margin (%)



Source: SG Cross Asset Research/Equity

However, there is one key element that makes power price formation even more complex; currently (and according to our estimates at least until 2020) the hard coal plants set the price and specifically the plants using domestic coal will have a key role.

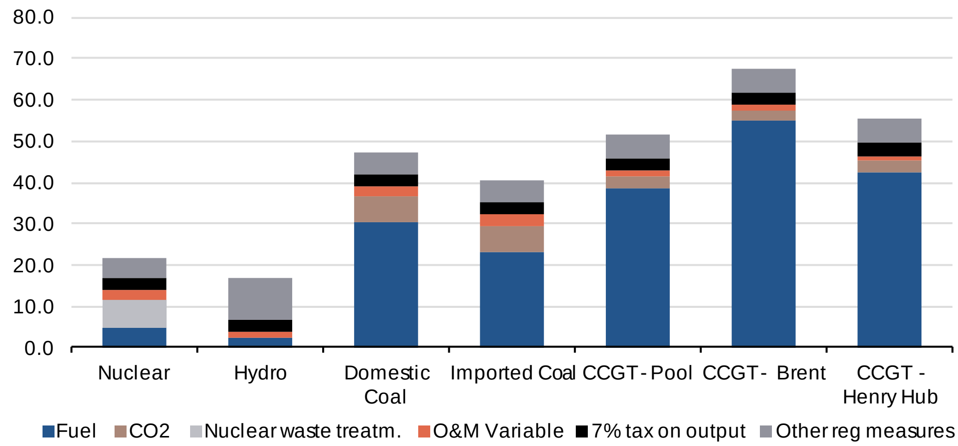
The domestic hard coal price follows the imported coal price (i.e. international prices) despite the fact that extraction cost should not move much in local mines. Local mining companies have been helped by the government which has set a minimum level of electricity output that must be generated from domestic coal. It seems likely that this sort of legislation will remain in place over the coming years to give visibility in volumes (for the mines).

If international hard coal prices fall, the price at which the domestic coal price is sold should decrease as well and hence power prices will be negatively impacted (all else being equal). However, local mines would likely incur losses and a new form of government "support" would probably have to be activated which would consequently support power prices.

It is the way in which this support is implemented that will be key for power prices: if the support goes directly to the mines and they continue to sell the coal at a low price, power prices will remain linked to international coal price moves. However, if the support is indirect and generators are “incentivized” to acquire domestic coal at a price that makes the mines profitable, then power prices will clearly be supported.

On top of this if in 2015 a three-year agreement is signed between the generators and the mines to acquire domestic coal and the price is fixed, an additional fall in international coal prices would have a limited impact on power prices over these three years. However, we think the most likely scenario is that the domestic coal price will be linked in the agreements to the international coal price.

Total operating variable generation cost breakdown



Source: SG Cross Asset Research/Equity

Our central scenario is that for the next three years power prices in Spain will be driven by hard coal prices with little support from the domestic coal price (as the government will only intervene again if mines risk to incur in losses for a long period, and convince the government of that it will likely take time).

The potential election risk

The next two political events that will matter for the equity markets are the regional elections in Catalonia (27 September) and the general elections (which may be delayed to the end of December according to recent comments made by the Spanish prime minister).

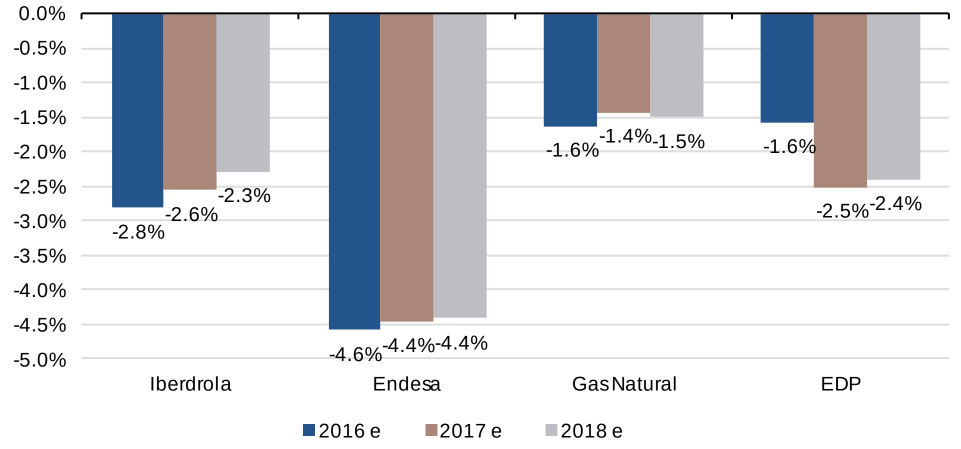
The relevance of the **elections in Catalonia** reflects from the amount of independence noise that such events induce. Legally the election winner cannot declare independence for Catalonia but significant uncertainty and political instability could arise if the parties supporting independence were to obtain the majority.

To put things into perspective, Catalonia accounts for c.21% of electricity generation and c.18% of electricity consumption. Three nuclear reactors are located in the region (owned by Endesa and Iberdrola (c.80% Endesa, 20% Iberdrola). The distribution network in Catalonia is owned almost entirely by Endesa while Gas Natural has CCGT plants and its headquarters in the region.

Regarding the **general elections in Spain**, we would highlight the potential problems that could arise if the radical left-wing party Podemos gained a material role in the new government. The issues mainly relate to supply margins, renewables, the tariff deficit and nuclear operating life extensions. The latest poll (from CIS) shows the following vote split: PP 28.2%, PSOE 24.9%, Podemos 15.7%, Ciudadanos 11.1% and IU 3.7%. A PSOE/Podemos government is likely, but the chances of a PP/Ciudadanos government are also high. In short, political uncertainty is likely to remain high until December. Support for Podemos has fallen substantially in the wake of the Greek crisis and as a result of alleged corruption scandals within the party, but other news could reverse that trend.

If the new government put more pressure on **supply margins** to make power bills more affordable for consumers, the potential EPS impact (see chart below) ranges from -1.6% to -4.6% among the Iberian generators.

Sensitivity to €1/MWh in electricity supply margin



Source: SG Cross Asset Research/Equity

A coalition of PSOE and Podemos would likely increase the presence of **renewables** in the generation mix. We have already seen the implications of new renewables in the system (lower power prices, higher power bill and lower volumes for conventional plants). The impact will depend on the amount of new renewables and the speed of capacity installation. We estimate that 500MW of additional capacity every year will have an impact of -€1.2/MWh in 2017 and -€2.2/MWh on the power price by 2020.

The risk of another material **tariff deficit** is also very much linked to the amount of new renewable capacity in the system. Higher renewable capacity means higher incentives to renewables which are covered by access tariffs. On top of this, lower power prices will in three years' time lead to an upward review of the fixed incentives granted to current renewable installed capacity. So access tariffs would have to increase to cover the costs. This risk should be mitigated thanks to the current law stating that: a) any new costs in the system should go hand-in-hand with higher proceeds or a cut in other costs of a similar size; and b) a tariff deficit of above 2% of system proceeds (c.€200m) will trigger an increase in tariffs and the system cannot have a cumulated tariff deficit of above 5% of annual system proceeds (c.€500m). The factors surrounding this issue are complex, as the law could be honoured in such a way as to offset the increase in renewable incentives by cutting other system costs such as distribution, capacity payments transmission, impacting company earnings.

Finally concerning the **nuclear operating life extensions**, the socialist party has officially said that it is against any extension of life for the nuclear plants. In our earnings and power price estimates we have not factored any nuclear life extension. However, Endesa is factoring a 10-year life extension (lower D&A).

Dividend sustainability

In this section we indicate our estimates of the earnings, dividends, cash flow and leverage of the Iberian utilities based on our updated our exchange rate and power price assumptions for the Spanish market. The exchange rates we are factoring into our models are shown in the table below. The changes mainly reflect the mark-to-market of LatAm currencies. We have also factored in the impact of the economic slowdown on power demand and power and gas distribution volumes.

FX rates

Exchange rates used	2016 >	Avg 2015	Current
EUR/USD	1.10	1.11	1.12
EUR/BR$	4.20	3.44	4.20
EUR/COP	3,400	2,898	3,506
EUR/CLP	775	707	773
EUR/PEN	3.60	3.49	3.58

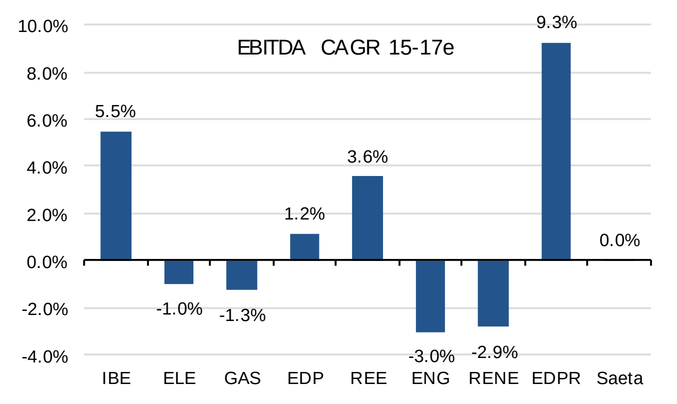
Source: SG Cross Asset Research/Equity

All in all, among the integrated utilities the highest 2015-2017e EPS growth rates are shown by Iberdrola (+4.7%) and Gas Natural (+4.7%), with the former helped by the acquisition of UIL in the US and the latter benefiting from lower financial charges (debt reduction) and the recovery of the affiliates' contribution. On EDP, we expect low EPS growth pushed up by renewables, a recovery in earnings at the Brazilian unit (normalisation off hydro output) and lower financial costs. Concerning Endesa we expect almost flat earnings over the 2015-2017 period backed by lower generation and supply margins.

Among the grid operators we highlight REE which shows a 2015-17e EPS CAGR of 7.2% vs a moderate 2% and 3.0% (recurrent EPS) for Enagas and REN (Portuguese electricity and gas grid operator), respectively. REE's growth is supported by the capex plan once the regulatory review is over. Enagas is gradually offsetting a lack of capex in Spain with LatAm projects but its earnings profile looks set to remain quite modest while REN's low EPS growth is driven by low capex and a regulatory review.

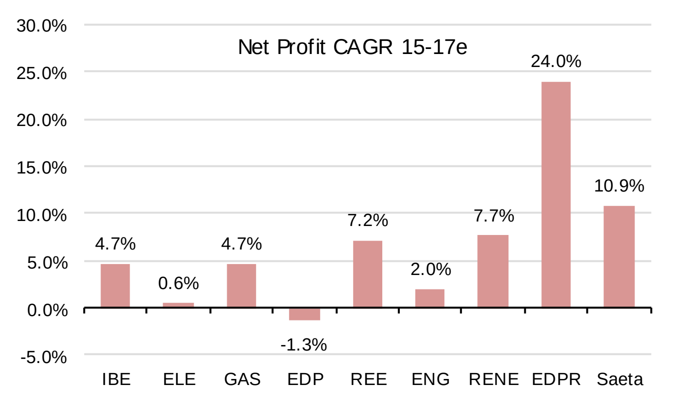
Finally, turning to the renewables companies, EDPR shows a high earnings growth profile driven by new capacity installation and flat financial costs thanks to a cut in net debt helped by its asset rotation policy. Saeta Yield is a special case as our estimates reflect only the earnings of the current portfolio of assets. The EPS growth (c.11% 2015-17e CAGR) is sound due to debt reduction which significantly reduces financial costs.

EBITDA CAGR 15-17e



Source: SG Cross Asset Research/Equity

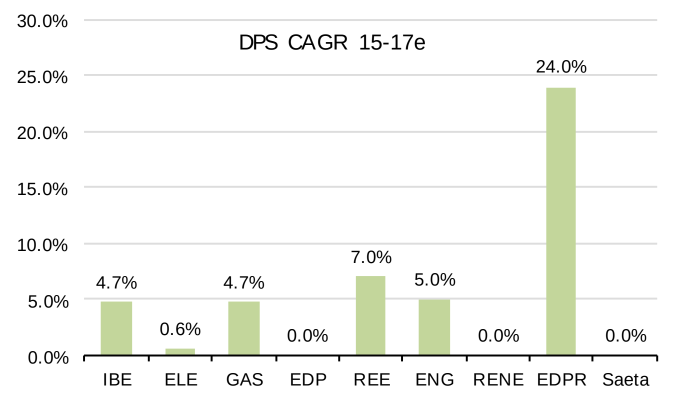
NET PROFIT CAGR 15-17e



Source: SG Cross Asset Research/Equity

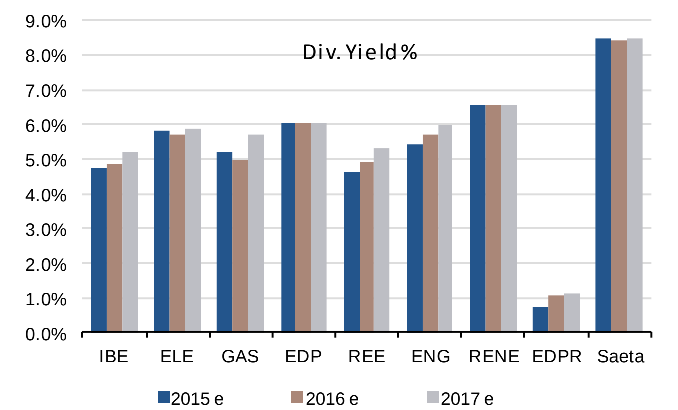
Looking at the potential **growth in dividends,** the situation is similar to EPS. **Iberdrola's** moderate earnings growth should translate into DPS supported by the cash flow generated by the grids. The payout ratio should be in the 73-75% range and leverage is expected to decrease. All this leads us to believe that Iberdrola dividends are sustainable.

DPS CAGR 15-17e



Source: SG Cross Asset Research/Equity

Dividend yield 15e-16e–17e



Source: SG Cross Asset Research/Equity

With regard to **Gas Natural**, our analysis shows that, even after marking-to- market the LatAm currencies and factoring in more conservative margins in LNG, free cash flow generation should be sound (c.€1.0bn p.a.), leading to debt reduction and lower leverage. Gas Natural's payout ratio is 62% with ND/EBITDA of 3.0x and decreasing. Taking all this into consideration, we think the current dividends are safe (and that there is a high chance they will be increased at the next strategy review in Q4 15).

Cash flow

IBE			
€m	2015 e	2016 e	2017 e
EBITDA	**7,500**	**7,862**	**8,346**
Taxes	(809)	(811)	(894)
Financial costs	(1,095)	(1,126)	(1,144)
WK	184	16	23
Other	0	0	0
OPCF	**5,779**	**5,943**	**6,332**
Capex	(5,648)	(4,679)	(4,890)
Cap. increase	(979)	(877)	(919)
Dividends	(882)	(894)	(986)
Disposals /Other	192	0	0
FCF	**(1,538)**	**(508)**	**(463)**
ND/EBITDA	3.7x	3.6x	3.4x

ELE			
€m	2015 e	2016 e	2017 e
EBITDA	**3,125**	**3,028**	**3,062**
Taxes	(433)	(377)	(367)
Financial costs	(190)	(173)	(167)
WK	(65)	(52)	46
Other	(250)	(200)	(50)
OPCF	**2,186**	**2,227**	**2,524**
Capex	(915)	(965)	(1,071)
Cap. increase	0	0	0
Dividends	(805)	(1,144)	(1,126)
Disposals /Other	0	0	0
FCF	**467**	**118**	**327**
ND/EBITDA	1.6x	1.6x	1.5x

Source: SG Cross Asset Research/Equity

The case of **Endesa** seems straight-forward due to the high cash flow generation and low capex needs. In the absence of material acquisitions we think that Enel will monetise its stake in Endesa through high dividends (payout ratio 100%). We therefore see the main risk to dividends as a potential big acquisition in order to allocate all that cash. One possibility we have analysed is the acquisition of Enel Green Power assets in Iberia (both in Portugal and Spain). We estimate the EV of those assets at €2.7bn. Such an acquisition would probably oblige the company to scale back its 100% payout ratio policy as leverage would increase to

ND/EBITDA 2.3x (still a reasonable level for a company that derives 40% of earnings from liberalised generation).

Our view on **EDP's** dividends is linked to our view on its EPS performance. We still see earnings recovery potential as fragile as earnings are highly dependent on: a) the reduction of financial costs (debt reduction due to disposals and Portuguese tariff deficit securitisation, with both dependent on market mood), b) hydro normalisation in Brazil due to the costs incurred by generation plants with a certain amount of output contracted. On top of this, the economic slowdown in Brazil could put power demand below expectations, and c) new renewable capacity mainly in US. We feel comfortable with the targets and EDPR's track record in this regard is impressive. However, with leverage remaining high (ND/EBITDA 4.7x 2016e) and a payout ratio of 73% in 2016e, any unexpected earnings headwinds could take their toll on dividends as well.

Cash flow

GAS				EDP			
€m	2015 e	2016 e	2017 e	€m	2015 e	2016 e	2017 e
EBITDA	**5,362**	**5,054**	**5,225**	**EBITDA**	**3,698**	**3,621**	**3,783**
Taxes	(608)	(531)	(590)	Taxes	(329)	(321)	(353)
Financial costs	(890)	(811)	(751)	Financial costs	(748)	(714)	(677)
WK	25	40	(45)	WK	(215)	(250)	(252)
Other	0	0	0	Other	236	300	300
OPCF	**3,889**	**3,751**	**3,839**	**OPCF**	**2,641**	**2,647**	**2,801**
Capex	(1,979)	(1,898)	(1,760)	Capex	(1,640)	(1,563)	(1,253)
Capital increase	0	0	0	Capital increase	0	0	0
Dividends	(911)	(868)	(999)	Dividends	(676)	(676)	(676)
Disposals /Other	0	0	0	Disposals /Other	240	350	0
FCF	**999**	**986**	**1,080**	**FCF**	**565**	**747**	**872**
ND/EBITDA	3.0x	3.0x	2.7x	ND/EBITDA	4.8x	4.7x	4.2x

Source: SG Cross Asset Research/Equity

Turning to the regulated names (grid operators), we think that **REE and ENG's** dividends are sustainable backed by cash flow generation and earnings visibility (based on a clear capex plan and new regulatory framework). In the case of REE, and despite factoring in 7% growth in DPS per year, leverage should continue to decrease while payout should remain in the 70s of percent. Concerning Enagas, we expect a DPS increase of 5% p.a. backed by the payback of investments in LatAm and the cash flow of the Iberian assets. Enagas's leverage is higher than REE's but the company still offers sound financials (FFO/ND 18%).

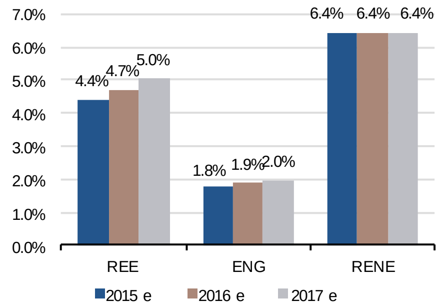
The case of **REN** is different as we expect EBITDA to decline due to the low capex and the cut in allowed returns. This means leverage is likely to remain high, as is payout (80%+). Hence, we forecast a flat dividend.

Cash flow

REE €m	2015 e	2016 e	2017 e	ENG €m	2015 e	2016 e	2017 e	RENE € m	2015 e	2016 e	2017 e
EBITDA	**1,461**	**1,514**	**1,567**	**EBITDA**	**930**	**891**	**874**	**EBITDA**	**494**	**469**	**466**
Taxes	(233)	(219)	(229)	Taxes	(153)	(127)	(122)	Taxes	(79)	(62)	(66)
Financial costs	(159)	(152)	(149)	Financial costs	(104)	(103)	(103)	Financial costs	(103)	(97)	(80)
WK	108	(23)	(22)	WK	1	8	3	WK	(11)	(12)	(9)
Other	(25)	(25)	(25)	Other	18	59	78	Other	0	0	0
OPCF	**1,152**	**1,095**	**1,141**	**OPCF**	**692**	**727**	**730**	**OPCF**	**302**	**297**	**312**
Capex	(520)	(520)	(670)	Capex	(445)	(339)	(339)	Capex	(175)	(245)	(175)
Capital increase	0	0	0	Capital increase	0	0	0	Capital increase	0	0	0
Dividends	(406)	(434)	(465)	Dividends	(315)	(331)	(347)	Dividends	(91)	(91)	(91)
Disposals /Other	0	0	0	Disposals /Other	0	0	0	Disposals	63	0	0
FCF	**226**	**141**	**6**	**FCF**	**(67)**	**58**	**44**	**FCF**	**99**	**(39)**	**45**
ND/EBITDA	3.5x	3.3x	3.2x	ND/EBITDA	4.4x	4.6x	4.6x	ND/EBITDA	4.8x	5.1x	5.0x

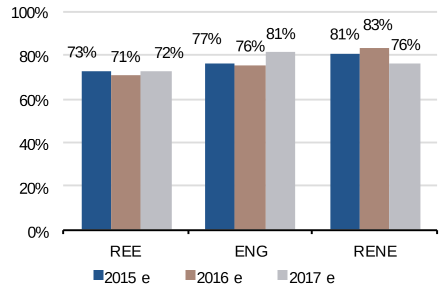
Source: SG Cross Asset Research/Equity

Dividend yield



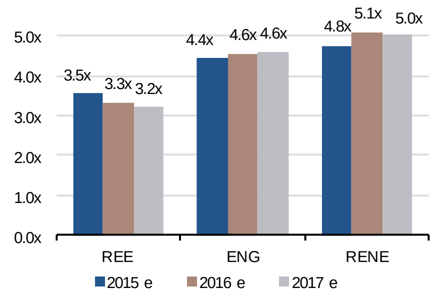
Source: SG Cross Asset Research/Equity

Payout ratio



Source: SG Cross Asset Research/Equity

ND/EBITDA (x)



Source: SG Cross Asset Research/Equity

Dividend yield is not the main reason to invest in EDPR or Enel Green power. Both companies are in a growth phase that should drive up earnings. **EDPR's** capex is set to decrease over the coming years, pushing up free cash flow and enabling debt to decrease. Should new growth opportunities not arise, higher dividends would be the best option to allocate the cash, in our view. We estimate that payout could increase to 100% without harming the financials too much. This would put dividend yield at 4.5% in 2017e**.**

By contrast, high dividend yield and potential for high dividend growth are the main reasons supporting **Saeta Yield's** investment case. Dividends of €57m are well supported by the current asset base and, in the event that no acquisitions are made, rapid debt reduction would allow for an increase in dividends and deleveraging towards a more efficient financial structure.

Cash flow

EDPR			
€m	2015 e	2016 e	2017 e
EBITDA	**1,056**	**1,200**	**1,260**
Taxes	(83)	(110)	(126)
Financial costs	(255)	(250)	(229)
WK	63	42	(28)
Other	145	146	146
OPCF	**926**	**1,027**	**1,023**
Capex	(903)	(805)	(549)
Capital increase	0	0	0
Dividends	(37)	(53)	(57)
Disposals /Other	300	300	0
FCF	**36**	**470**	**417**
ND/EBITDA	4.4x	3.6x	3.2x

Saeta			
€m	2015 e	2016 e	2017 e
EBITDA	**155**	**155**	**156**
Taxes	(12)	0	0
Financial costs	(42)	(36)	(35)
WK	101	0	0
Other	(53)	(57)	(58)
OPCF	**149**	**63**	**63**
Capex	0	0	0
Capital increase	130	0	0
Dividends	(57)	(56)	(57)
Disposals /Other	0	0	0
FCF	**233**	**6**	**6**
ND/EBITDA	4.7x	4.3x	3.9x

Source: SG Cross Asset Research/Equity

All in all, once we have factored in the LatAm currency depreciation and economic slowdown and our estimates for power prices going forward, the main conclusion is that with some exceptions, dividends among the Iberian utilities look sustainable.

| Electric Utilities | 12m target upgrade | Spain |

Iberdrola

Diversification and dividend visibility at attractive prices

Buy

Price 22/09/15	**€5.82**
12m target	**€6.70**
Upside to TP	**15.1%**
12m f'cast div	**€0.28**
12m TSR	**19.9%**

@ Go to SG website

Sector stance

Underweight

Preferred stock

Iberdrola, UU, SNAM

Least preferred stock

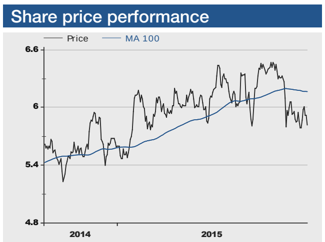
SSE

Investment trigger

Value

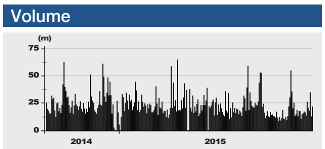
High dividend yield

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update We are updating our estimates to reflect depreciation in LatAm currencies and the economic slowdown there (impacting power/gas demand and power prices), as well as for lower near-term power prices in Spain due to commodities weakness. All in all we are cutting our EPS -2.4% and -1.3% for 2016e and 2017e respectively. For further details on LatAm exposure and Spanish generation market please see our report "Iberian Utilities: Many risks are priced in, but the momentum is negative".

SG view Iberdrola's EPS growth (+4.7% 2015-17) is driven by its high organic capex in generation capacity (mainly in Mexico through CCGT plants with long-term PPA contracts), and in renewable assets (with a push into wind offshore in Europe and UK/US grids). All is quite visible and the returns are supported by PPA contracts and regulatory frameworks. The exposure to LatAm exists but it is limited (5% of earnings exposure to LatAm currencies) and we have already factored in lower power prices for 2016 due to current commodities prices. On dividends, high visibility is supported by sound cash flow and the deleveraging process (DPS +4.7% 2015-17e).

How we value the stock We reiterate our positive stance on the stock with a BUY recommendation. We are revising up our TP to €6.7/sh vs. €6.85/sh previously to reflect new assumptions for LatAm and higher long term power prices in Spain. We value Iberdrola on a sum of parts with a separate DCF model for each asset class. In our EV valuation, Iberian generation and distribution assets now account for 33% of the total, UK assets 16%, renewable assets 26%, LatAm assets 8%, and US networks for 17.5% (o/w 12.5% is Iberdrola USA networks and 5.0% is in the US-based UIL assets). With our 12m dividend roll-forward of €0.28, this gives a 20% Total Shareholder Return. At our new TP the shares would be trading on a P/E multiple 2016e of 17.6x and a dividend yield of 4.2%.

Events, catalysts & risks The material upcoming events are the 9M 15 results in October, the general election in Spain (Dec-15), completion of the UIL merger (Dec-15), and Investor day (1Q-16). The main risks to our TP are lower power prices than we project, an unexpected negative regulatory review on Networks, and/or renewable assets and higher sovereign risks.

Share data			
RIC IBE.MC, Bloom IBE SM			
52-week range			6.47-5.23
EV 15 (€m)			75,007
Mkt cap. (€m)			36,298
Free float (%)			81.2
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	-4.6	-8.5	3.5
Rel. Eurofirst 300	-0.2	4.9	5.6

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	30.0	30.8	32.8	34.0
EBIT margin (%)	13.1	13.7	13.2	13.7
Rep. net inc. (€bn)	2.33	2.38	2.36	2.61
EPS (adj.) (€)	0.34	0.38	0.38	0.42
Dividend/share (€)	0.27	0.28	0.28	0.31
Payout (%)	72	73	75	73
Interest cover (x)	1.95	2.12	2.14	2.29
Net debt/equity (%)	73	76	76	75
Prev. EPS (changed as of 23/09/15)		0.38	0.39	0.42

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	15.3	15.3	15.4	13.9
FCF yield (/EV) (%)	3.5	1.6	3.2	3.4
Dividend yield (%)	5.1	4.8	4.9	5.2
Price/book value (x)	0.92	1.01	0.99	0.97
EV/revenues (x)	2.34	2.44	2.29	2.23
EV/EBIT (x)	17.8	17.8	17.4	16.2
EV/IC (x)	1.0	1.0	1.0	1.0
ROIC/WACC (x)	0.5	0.6	0.0	0.0
EPS CAGR 14-17e: +6.78%				


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Main changes

(BUY TP 6.7) vs (BUY TP 6.85)	2015					2016				
€ m	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBITDA	7,500	7,500	0.0%	7,342	2.2%	7,942	7,862	-1.0%	7,678	2.4%
EPS	0.38	0.38	0.0%	0.37	3.1%	0.39	0.38	-2.4%	0.40	-5.4%
DPS	0.28	0.28	0.0%	0.28	1.2%	0.28	0.28	0.0%	0.29	-2.4%

Source: SG Cross Asset Research/Equity

P&L

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Revenues	30,765	32,822	33,969	35,407	37,033	38,735
Opex	(23,266)	(24,960)	(25,623)	(26,498)	(27,717)	(29,080)
EBITDA	**7,500**	**7,862**	**8,346**	**8,910**	**9,316**	**9,655**
D&A	(3,292)	(3,544)	(3,682)	(3,833)	(3,942)	(3,921)
EBIT	**4,207**	**4,318**	**4,664**	**5,077**	**5,374**	**5,734**
Fin expecnses	(1,095)	(1,126)	(1,143)	(1,148)	(1,186)	(1,192)
Affilates	125	115	129	145	163	173
Other	0	0	0	0	0	0
PBT	**3,237**	**3,308**	**3,650**	**4,074**	**4,351**	**4,714**
taxes	(809)	(811)	(894)	(998)	(1,066)	(1,155)
Minorities	(49)	(136)	(146)	(151)	(161)	(174)
Net profit	**2,379**	**2,362**	**2,609**	**2,925**	**3,124**	**3,385**

Source: SG Cross Asset Research/Equity

EBITDA Breakdown

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Liberalized	**2,184**	**1,925**	**2,140**	**2,215**	**2,360**	**2,122**	**29%**	**24%**	**26%**	**25%**	**25%**	**22%**
Spain	1,379	1,127	1,197	1,207	1,347	1,376	18%	14%	14%	14%	14%	14%
UK	442	383	461	517	512	235	6%	5%	6%	6%	5%	2%
Mexico	378	425	474	483	493	503	5%	5%	6%	5%	5%	5%
US & Canada	(15)	(10)	8	8	8	8	0%	0%	0%	0%	0%	0%
Regulated	**3,608**	**3,734**	**3,872**	**4,001**	**4,142**	**4,243**	**48%**	**47%**	**46%**	**45%**	**44%**	**44%**
Spain	1,518	1,504	1,513	1,522	1,529	1,536	20%	19%	18%	17%	16%	16%
UK	1,135	1,183	1,253	1,318	1,380	1,436	15%	15%	15%	15%	15%	15%
USA	955	1,047	1,105	1,161	1,232	1,272	13%	13%	13%	13%	13%	13%
Brazil	**248**	**189**	**194**	**200**	**206**	**212**	**3%**	**2%**	**2%**	**2%**	**2%**	**2%**
Distribution	248	189	194	200	206	212	3%	2%	2%	2%	2%	2%
Generation	0	0	0	0	0	0	0%	0%	0%	0%	0%	0%
Renewables	**1,598**	**1,720**	**1,817**	**2,144**	**2,223**	**2,655**	**21%**	**22%**	**22%**	**24%**	**24%**	**28%**
Spain	488	480	478	506	506	506	7%	6%	6%	6%	5%	5%
USA	536	611	632	653	667	685	7%	8%	8%	7%	7%	7%
UK	408	429	442	465	491	867	5%	5%	5%	5%	5%	9%
Other	84	84	105	325	326	327	1%	1%	1%	4%	4%	3%
UIL	**0**	**428**	**452**	**474**	**504**	**536**	**0%**	**5%**	**5%**	**5%**	**5%**	**6%**
Diversification	**-13**	**-9**	**-5**	**0**	**6**	**11**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
Adj. & cost cutting	(125)	(125)	(125)	(125)	(125)	(125)	-2%	-2%	-1%	-1%	-1%	-1%
Total EBITDA	**7,500**	**7,862**	**8,346**	**8,910**	**9,316**	**9,655**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

CF

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
EBITDA	**7,500**	**7,862**	**8,346**	**8,910**	**9,316**	**9,655**
Taxes	(809)	(811)	(894)	(998)	(1,066)	(1,155)
Fin costs	(1,095)	(1,126)	(1,143)	(1,148)	(1,186)	(1,192)
Wk& Other	184	16	23	15	7	(1)
Op CF	**5,779**	**5,943**	**6,332**	**6,779**	**7,071**	**7,307**
Capex	(5,648)	(4,679)	(4,890)	(4,377)	(4,472)	(3,052)
Disposals /Other (IFRS)	192	0	0	0	0	0
Capital increase (cash in/out)	(979)	(876)	(918)	(1,025)	(1,134)	(1,220)
Dividends	(882)	(891)	(987)	(1,169)	(1,209)	(1,318)
FCF	**(1,538)**	**(503)**	**(463)**	**208**	**256**	**1,716**
Net Debt	**27,594**	**28,097**	**28,560**	**28,351**	**28,095**	**26,379**
ND/EBITDA (x)	**3.7x**	**3.6x**	**3.4x**	**3.2x**	**3.0x**	**2.7x**

Source: SG Cross Asset Research/Equity

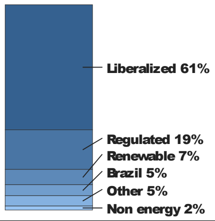
Iberdrola sum of the part

€ m	EV	Criteria	% EV	WACC	EV/EBITDA 15	EV/EBITDA 16
Iberian Electricity	**24,013**	**DCF**	**33%**	**4.6%**	**8.3x**	**9.1x**
Generation	9,237	DCF	13%	5.3%	6.7x	8.2x
Distribution	14,776	DCF	20%	4.1%	9.7x	9.8x
UK	**11,631**	**DCF**	**16%**	**6.0%**	**7.4x**	**7.4x**
Networks	8,915	RoRAV	12%	5.0%	9.1x	8.7x
WholeSale	2,716	DCF	4%	6.0%	6.1x	7.1x
Renewable	**18,611**	**DCF**	**26%**	**n.a.**	**11.6x**	**10.8x**
Spain	4,922	DCF	7%	4.7%	10.1x	10.3x
USA	7,387	DCF	10%	5.3%	13.8x	12.1x
UK	4,447	DCF	6%	4.8%	10.9x	10.4x
Other	1,855	DCF	3%	5.1%	22.1x	22.0x
LatAm	**5,662**	**DCF**	**8%**	**7.0%**	**9.0x**	**9.2x**
Mexico	4,052	DCF	6%	6.4%	10.7x	9.5x
Brazil	1,610	RAB	2%	8.6%	6.5x	8.5x
USA	**9,046**	**RAB**	**12.5%**	**5.0%**	**9.5x**	**8.6x**
UIL	**3,648**	**RAB**	**5.0%**	**0.0%**	**n.a.**	**8.5x**
Non energy	**-105**	**8X EBITDA**	**0%**	**n.a.**	**8.0x**	**11.7x**
EV	**72,505**					
Net Debt	(29,804)					
Minorities	(667)					
Net Contingencies	(3,251)					
Neoenergia (equity stake)	1,109					
Financial assets	1,544					
Tariff Deficit	386					
Equity	**41,822**					
TP Eur/sh	**6.70**					

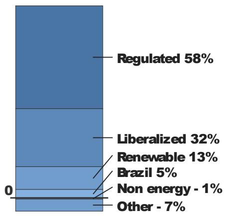
Source: SG Cross Asset Research/Equity

Iberdrola

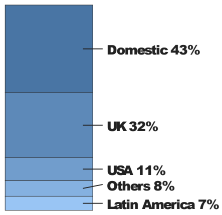
Sales/division 14



EBIT/division 14



Sales/region 14



Major shareholders (%)

Qatar Holding	8.2
ACS	5.6
BBK	5.0

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	5,496	5,925	6,139	6,240	6,240	6,240	6,240	6,240
Share price (average)	5.75	5.60	3.81	4.17	5.26	5.82	5.82	5.82
Average market cap. (SG adjusted) (1)	31,625	33,198	23,416	26,022	32,824	36,298	36,298	36,298
Restated net debt (-)/cash (+) (2)	-30,112	-32,373	-30,429	-28,042	-26,056	-27,594	-28,097	-28,560
Value of minorities (3)	-320	-325	-225	-200	-249	-384	-530	-681
Value of financial investments (4)	10,718	3,881	3,152	3,224	3,360	3,485	3,600	3,729
Other adjustment (5)	13,064	13,429	14,718	13,949	14,910	14,985	15,060	15,135
EV = (1) - (2) + (3) - (4) + (5)	63,762	74,794	65,186	64,589	70,181	75,007	75,324	75,582
P/E (x)	11.9	12.0	8.2	9.9	15.3	15.3	15.4	13.9
Price/cash flow (x)	4.9	7.1	4.0	3.9	5.7	6.1	6.1	5.7
Price/free cash flow (x)	23.4	85.4	9.10	7.12	22.7	277	28.7	25.2
Price/book value (x)	1.09	1.01	0.69	0.74	0.92	1.01	0.99	0.97
EV/revenues (x)	2.10	2.36	1.91	1.97	2.34	2.44	2.29	2.23
EV/EBITDA (x)	8.5	9.8	8.4	9.0	10.1	10.0	9.6	9.1
Dividend yield (%)	5.8	6.0	8.5	7.2	5.1	4.8	4.9	5.2
Per share data (€)								
SG EPS (adj.)	0.48	0.47	0.46	0.42	0.34	0.38	0.38	0.42
Cash flow	1.17	0.79	0.95	1.07	0.93	0.95	0.95	1.01
Book value	5.29	5.55	5.50	5.63	5.70	5.79	5.88	6.00
Dividend	0.33	0.34	0.33	0.30	0.27	0.28	0.28	0.31
Income statement (€m)								
Revenues	30,431	31,648	34,201	32,808	30,032	30,765	32,822	33,969
Gross income	11,645	12,026	12,578	12,577	12,180	12,477	13,311	13,776
EBITDA	7,528	7,651	7,727	7,205	6,965	7,500	7,862	8,346
Depreciation and amortisation	-2,698	-3,146	-3,350	-4,770	-3,024	-3,292	-3,544	-3,682
EBIT	4,830	4,505	4,377	2,435	3,941	4,207	4,318	4,664
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-1,288	-1,062	-1,100	-1,292	-1,122	-1,095	-1,126	-1,143
Exceptional & non-operating items	272	46	-14	-25	248	0	0	0
Taxation	-899	-549	-207	1,424	-837	-809	-811	-894
Minority interests	-71	-101	-28	-42	-38	-49	-136	-146
Reported net income	2,871	2,805	2,841	2,572	2,327	2,379	2,362	2,609
SG adjusted net income	2,663	2,766	2,854	2,627	2,144	2,379	2,362	2,609
Cash flow statement (€m)								
EBITDA	7,528	7,651	7,727	7,205	6,965	7,500	7,862	8,346
Change in working capital	694	-1,780	-1,180	-1,708	1,930	-302	-84	-77
Other operating cash movements	-1,783	-1,211	-715	1,183	-4,599	-1,419	-1,836	-1,938
Cash flow from operating activities	6,439	4,660	5,832	6,680	4,296	5,779	5,943	6,332
Net capital expenditure	-5,087	-4,271	-3,259	-3,024	-2,848	-5,648	-4,679	-4,890
Free cash flow	1,352	389	2,572	3,657	1,448	131	1,264	1,442
Cash flow from investing activities	1,605	-1,800	300	0	1,220	192	0	0
Cash flow from financing activities	-456	-850	-928	-912	-792	-1,860	-1,767	-1,905
Net change in cash resulting from CF	2,501	-2,261	1,944	2,744	1,875	-1,538	-503	-463
Balance sheet (€m)								
Total long-term assets	83,050	84,540	83,743	81,779	83,506	85,691	86,988	88,376
of which intangible	10,634	12,000	11,094	9,373	8,508	8,744	8,857	8,978
Working capital	-2,873	-1,093	87	1,795	-135	167	251	328
Employee benefit obligations	0	0	0	0	0	0	0	0
Shareholders' equity	29,079	32,888	33,760	35,136	35,591	36,110	36,705	37,410
Minority interests	2,584	320	325	225	200	249	384	530
Provisions	3,643	3,427	4,363	4,645	4,852	4,952	5,052	5,152
Net debt (-)/cash (+)	-30,112	-32,373	-30,429	-28,042	-26,056	-27,594	-28,097	-28,560
Accounting ratios								
ROIC (%)	5.7	5.5	5.6	3.4	4.0	4.3	4.3	4.6
ROE (%)	10.3	9.1	8.5	7.5	6.6	6.6	6.5	7.0
Gross income/revenues (%)	38.3	38.0	36.8	38.3	40.6	40.6	40.6	40.6
EBITDA margin (%)	24.7	24.2	22.6	22.0	23.2	24.4	24.0	24.6
EBIT margin (%)	15.9	14.2	12.8	7.4	13.1	13.7	13.2	13.7
Revenue yoy growth (%)	23.9	4.0	8.1	-4.1	-8.5	2.4	6.7	3.5
Rev. organic growth (%)	23.9	4.0	8.1	-4.1	-8.5	2.4	6.7	3.5
EBITDA yoy growth (%)	10.5	1.6	1.0	-6.8	-3.3	7.7	4.8	6.2
EBIT yoy growth (%)	7.1	-6.7	-2.8	-44.4	61.9	6.8	2.6	8.0
EPS (adj.) yoy growth (%)	-3.4	-3.7	-0.4	-9.5	-18.4	11.0	-0.7	10.5
Dividend growth (%)	1.5	1.2	-3.0	-7.4	-10.6	3.1	1.7	7.8
Cash conversion (%)	73.3	44.4	88.6	nm	86.5	48.4	74.1	74.6
Net debt/equity (%)	95	97	89	79	73	76	76	75
FFO/net debt (%)	17.7	18.7	21.1	26.2	19.2	20.3	21.1	22.1
Dividend paid/FCF (%)	135.0	512.0	77.8	51.5	116.4	1326.9	139.8	132.1

Source: SG Cross Asset Research/Equity

| Electric Utilities | 12m target downgrade | Spain |

Endesa SA

Positives priced in, but keep an eye on power prices and elections

Hold

Price 22/09/15	**€19.2**
12m target	**€18.5**
Upside to TP	**-3.6%**
12m f'cast div	**1.08**
12m TSR	**2.0%**

@ Go to SG website

Sector stance

Underweight

Preferred stock

Iberdrola, UU, SNAM

Least preferred stock

SSE

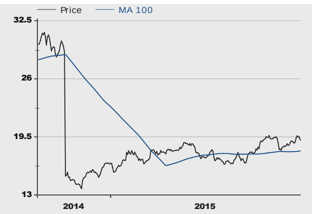
Investment trigger

Value

Debt reduction

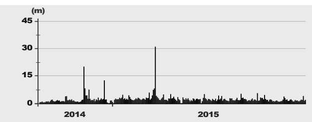
High dividend yield

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update We are fine-tuning our estimates to reflect our new scenario for power prices in Spain. We now project power prices for 2016 and 2017 of €46.8/MWh and €48.6/MWh respectively (down from €47.4/MWh and €49/MWh). Endesa's EPS exposure to liberalized generation in Spain is 27%. All in all we are trimming our EPS estimates by -1.8% and -0.8% in 2016e and 2017e respectively.

SG view Endesa's earnings growth is low (0.6% for 2015-17) owing to a drop in the average selling price of energy, lower hydro output and lower supply margins in electricity vs. previous years (exceptionally high). In 1H-15 Endesa showed higher margins in generation than expected, but helped by ancillary services. On the dividend side, Endesa is dazzling investors next year by applying a 100% payout ratio. That translates into an attractive dividend yield next year (5.6% on SG estimates and 6.1% on consensus estimates). The risk we see for that dividend (over and above lower than forecast power prices) is the potential acquisition of Enel Green Power's assets in Iberia, which would materially dilute its high dividends going forward, while EPS would be positively impacted but only marginally. Endesa's positives of having no exposure to LatAm and low leverage are offset by its high exposure to power prices and to Catalonia.

How we value the stock We are revising our valuation to factor in our new power price estimates, which are more than offset by lower provisions as the company has already provisioned for its workforce restructuring process. Based on a sum of parts we set a new TP of €18.5/sh vs. 18.3/sh before, and a DPS of €1.08 vs €0.84. Our valuation is derived from a DCF (6% WACC for liberalised assets and 4.8% for regulated assets) and a multiples approach for non-mainland generation (EV/EBITDA of 8.5x) and the electricity supply unit (EV/EBITDA of 8.0x). In our EV estimate, Generation & Supply accounts for 43%, Distribution assets for 55%, and other assets for 1%. With the 12m dividend forecast of €1.06, this implies a TSR of 2.0%.

Events, catalysts & risks The next events are the ENEL investor day in November and the Spanish general elections. The main risks to our price target are lower than anticipated power prices, any unexpected regulatory changes, and/or any change in sovereign risk.

Share data			
RIC ELE.MC, Bloom ELE SM			
52-week range			31.3-13.7
EV 15 (€m)			26,314
Mkt cap. (€m)			20,290
Free float (%)			8.0
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	1.7	13.4	-36.0
Rel. Eurofirst 300	6.3	30.1	-34.7

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	21.5	20.7	20.1	20.7
EBIT margin (%)	6.8	8.4	8.1	7.9
Rep. net inc. (€bn)	3.34	1.14	1.13	1.16
EPS (adj.) (€)	0.37	1.08	1.06	1.09
Dividend/share (€)	15.3	1.08	1.06	1.09
Payout (%)	485	70	102	97
Interest cover (x)	8.87	9.12	9.38	9.79
Net debt/equity (%)	63	56	55	51
Prev. EPS (changed as of 23/09/15)		1.08	1.08	1.10

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	67.3	17.7	18.0	17.5
FCF yield (/EV) (%)	15.4	6.8	5.4	6.4
Dividend yield (%)	61.6	5.6	5.5	5.7
Price/book value (x)	3.06	2.28	2.28	2.27
EV/revenues (x)	1.53	1.27	1.30	1.24
EV/EBIT (x)	22.4	15.1	16.1	15.7
EV/IC (x)	2.1	1.8	1.8	1.8
ROIC/WACC (x)	0.8	1.4	1.4	1.4

EPS CAGR 14-17e: +43.6%


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Main changes

(Hold TP €18) vs (Hold TP €18.3)	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBITDA	3,125	3,125	0.0%	3,164	-1.2%	3,056	3,028	-0.9%	3,118	-2.9%
EPS	1.08	1.08	0.0%	1.12	-3.5%	1.08	1.06	-1.8%	1.14	-6.9%
DPS	1.08	1.08	0.0%	1.10	-1.8%	1.08	1.06	-1.8%	1.16	-8.0%

Source: SG Cross Asset Research/Equity

P&L

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Revenues	**20,731**	**20,104**	**20,659**	**21,003**	**22,150**	**22,413**
Opex	(17,606)	(17,076)	(17,597)	(17,941)	(18,942)	(19,453)
EBITDA	**3,125**	**3,028**	**3,062**	**3,063**	**3,208**	**2,960**
D&A	(1,388)	(1,407)	(1,426)	(1,447)	(1,469)	(1,491)
EBIT	**1,737**	**1,621**	**1,636**	**1,616**	**1,740**	**1,468**
Fin expecnses	(190)	(173)	(167)	(160)	(151)	(145)
Affilates	31	54	56	57	59	61
Other	0	0	0	0	0	0
PBT	**1,577**	**1,502**	**1,525**	**1,514**	**1,648**	**1,384**
taxes	(433)	(377)	(367)	(364)	(397)	(331)
Minorities	0	0	0	0	0	0
Net profit	**1,144**	**1,126**	**1,157**	**1,150**	**1,251**	**1,053**

Source: SG Cross Asset Research/Equity

EBITDA breakdown

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Generation	1,451	1,268	1,307	1,273	1,394	1,364	46%	42%	43%	42%	43%	46%
Distribution	1,724	1,710	1,705	1,739	1,765	1,546	55%	56%	56%	57%	55%	52%
Others & Adj.	(50)	(50)	(50)	(50)	(50)	(50)	-2%	-2%	-2%	-2%	-2%	-2%
Cost cutting	0	100	100	100	100	100	0%	3%	3%	3%	3%	3%
Total EBITDA	**3,125**	**3,028**	**3,062**	**3,063**	**3,208**	**2,960**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

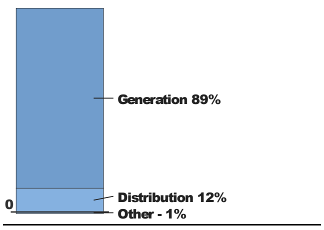
Sum of the parts

€ m	EV	%EV	Criteria	WACC	15 e	16 e
Generation & Supply	**10,767**	**43%**	**DCF**	**6.0%**	**7.4x**	**8.5x**
Generation Mainland	6,508	26%	DCF	6.0%	7.0x	8.5x
Generation Non Mainland	3,412	14%	8.5X EBITDA	n.m.	8.5x	8.5x
Power Supply	847	3%	8.0X EBITDA	n.m.	7.0x	8.5x
Distribution	**14,155**	**56%**	**DCF**	**4.8%**	**8.2x**	**8.3x**
Distrib. Grid	11,868	47%	RAB model	4.8%	8.3x	8.4x
Other Distrib. Services	2,287	9%	DCF	n.m.	8.0x	7.9x
Other& Adj.	**300**	**1%**	**7.0x EBITDA 15e**	**n.m.**	**6.0x**	**6.0x**
EV	**25,221**	**100%**				
Net Debt	(5,436)					
Provisions	(2,468)					
Fin. Assets	1,104					
Regulatory receivables	1,173					
Equity value	**19,594**					
TP (Eur/sh)	**18.5**					

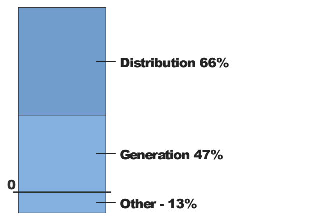
Source: SG Cross Asset Research/Equity

Endesa SA

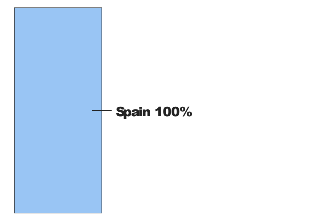
Sales/division 14



EBIT/division 14



Sales/region 14



Major shareholders (%)

Enel	92.0

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059
Share price (average)	20.1	19.8	14.7	18.3	24.8	19.2	19.2	19.2
Average market cap. (SG adjusted) (1)	21,235	20,931	15,523	19,430	26,281	20,290	20,290	20,290
Restated net debt (-)/cash (+) (2)	-15,413	-11,073	-9,158	-4,368	-5,436	-4,969	-4,852	-4,525
Value of minorities (3)	5,927	5,388	5,716	6,248	0	0	0	0
Value of financial investments (4)	2,609	2,792	2,949	4,283	2,277	2,277	2,277	2,277
Other adjustment (5)	3,536	4,168	4,381	3,627	3,518	3,331	3,181	3,143
EV = (1) - (2) + (3) - (4) + (5)	43,501	38,768	31,829	29,390	32,959	26,314	26,046	25,682
P/E (x)	9.3	9.9	7.6	10.5	67.3	17.7	18.0	17.5
Price/cash flow (x)	2.3	3.2	2.5	4.2	4.9	8.0	9.2	7.9
Price/free cash flow (x)	2.56	5.31	6.09	6.49	6.61	12.6	16.3	13.7
Price/book value (x)	1.19	0.85	0.60	0.73	3.06	2.28	2.28	2.27
EV/revenues (x)	1.40	1.19	0.94	0.94	1.53	1.27	1.30	1.24
EV/EBITDA (x)	5.8	5.3	4.5	4.4	10.7	8.4	8.6	8.4
Dividend yield (%)	5.1	5.1	4.1	0.0	61.6	5.6	5.5	5.7
Per share data (€)								
SG EPS (adj.)	2.15	2.00	1.93	1.75	0.37	1.08	1.06	1.09
Cash flow	8.55	6.24	5.85	4.35	5.09	2.39	2.09	2.41
Book value	16.8	23.3	24.6	25.3	8.10	8.42	8.40	8.43
Dividend	1.02	1.02	0.60	0.00	15.3	1.08	1.06	1.09
Income statement (€m)								
Revenues	31,177	32,686	33,933	31,203	21,512	20,731	20,104	20,659
Gross income	11,409	11,004	10,828	10,414	7,180	6,919	6,710	6,895
EBITDA	7,474	7,265	7,005	6,720	3,090	3,125	3,028	3,062
Depreciation and amortisation	-2,443	-2,612	-2,587	-2,418	-1,618	-1,388	-1,407	-1,426
EBIT	5,031	4,653	4,418	4,302	1,472	1,737	1,621	1,636
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-883	-622	-641	-350	-166	-190	-173	-167
Exceptional & non-operating items	2,361	119	-12	37	3,022	0	0	0
Taxation	-1,398	-1,159	-1,053	-1,075	-296	-433	-377	-367
Minority interests	-989	-809	-737	-1,064	-651	0	0	0
Reported net income	4,129	2,212	2,034	1,879	3,337	1,144	1,126	1,157
SG adjusted net income	2,275	2,117	2,044	1,849	391	1,144	1,126	1,157
Cash flow statement (€m)								
EBITDA	7,474	7,265	7,005	6,720	3,090	3,125	3,028	3,062
Change in working capital	1,496	-1,175	580	894	346	275	-71	78
Other operating cash movements	80	514	-1,391	-3,012	1,956	-873	-749	-584
Cash flow from operating activities	9,050	6,604	6,194	4,602	5,392	2,526	2,208	2,555
Net capital expenditure	-755	-2,661	-3,646	-1,608	-1,413	-915	-965	-1,071
Free cash flow	8,295	3,943	2,548	2,994	3,979	1,611	1,243	1,484
Cash flow from investing activities	-1,640	0	0	0	0	0	0	0
Cash flow from financing activities	-3,228	-1,077	-633	1,796	-16,194	-1,144	-1,126	-1,157
Net change in cash resulting from CF	3,427	2,866	1,915	4,790	-12,215	467	118	327
Balance sheet (€m)								
Total long-term assets	53,522	49,210	50,012	45,965	25,969	25,527	25,139	24,840
of which intangible	3,167	3,013	2,772	2,290	627	627	627	627
Working capital	-3,606	-6,560	-7,457	-8,487	-6,394	-6,329	-6,277	-6,323
Employee benefit obligations	826	826	826	826	827	777	737	727
Shareholders' equity	17,776	19,291	20,369	20,521	8,575	8,915	8,896	8,928
Minority interests	5,388	5,388	5,716	6,248	0	0	0	0
Provisions	3,888	3,342	3,555	2,801	3,308	3,108	2,948	2,908
Net debt (-)/cash (+)	-13,939	-11,073	-9,158	-4,368	-5,436	-4,969	-4,852	-4,525
Accounting ratios								
ROIC (%)	10.4	9.6	9.6	10.0	4.7	8.2	8.2	8.5
ROE (%)	25.8	11.9	10.3	9.2	22.9	13.1	12.6	13.0
Gross income/revenues (%)	36.6	33.7	31.9	33.4	33.4	33.4	33.4	33.4
EBITDA margin (%)	24.0	22.2	20.6	21.5	14.4	15.1	15.1	14.8
EBIT margin (%)	16.1	14.2	13.0	13.8	6.8	8.4	8.1	7.9
Revenue yoy growth (%)	21.8	4.8	3.8	-8.0	-31.1	-3.6	-3.0	2.8
Rev. organic growth (%)	21.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EBITDA yoy growth (%)	3.4	-2.8	-3.6	-4.1	-54.0	1.1	-3.1	1.1
EBIT yoy growth (%)	-0.4	-7.5	-5.1	-2.6	-65.8	18.0	-6.7	0.9
EPS (adj.) yoy growth (%)	1.1	-7.0	-3.5	-9.5	-78.9	193.0	-1.6	2.8
Dividend growth (%)	-1.0	0.0	-41.2	-100.0	na	-92.9	-1.6	2.8
Cash conversion (%)	nm	123.0	96.0	102.7	nm	128.6	110.6	123.4
Net debt/equity (%)	60	45	35	16	63	56	55	51
FFO/net debt (%)	33.7	49.5	58.0	121.2	48.3	50.3	51.1	55.9
Dividend paid/FCF (%)	13.0	27.3	24.9	0.0	407.0	50.0	92.0	75.9

Source: SG Cross Asset Research/Equity

| Gas Utilities | 12m target downgrade | Spain |

Gas Natural SDG

Negative scenario priced in, but visibility on LatAm and commodities is still reduced

Buy

Price 22/09/15	**€17.4**
12m target	**€22.0**
Upside to TP	**26.4%**
12m f'cast div	**€0.91**
12m TSR	**31.7%**

@ Go to SG website

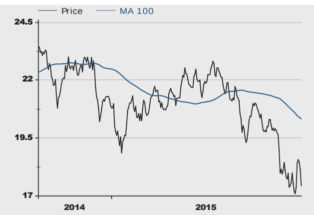
Sector stance
Underweight

Preferred stock
Iberdrola, UU, SNAM

Least preferred stock
SSE

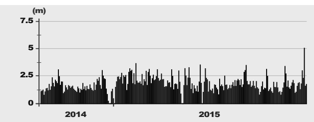
Investment trigger
Value
Debt reduction
High dividend yield

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update We are revising our estimates in order to factor in the recent moves in LatAm currencies and the impact on gas supply margins and power prices in Spain from lower commodities prices. All in all we are cutting our EPS by -0.2%, -4.3% and -4.2% for 2015e, 2016e and 2017e respectively.

SG view Gas Natural offers growth opportunities while strong cash flow should mean rapid debt reduction and a high DPS growth rate. However, earnings momentum is not positive due to LatAm exposure and oil price weakness. As we detail in our report 'Iberian Utilities: Many risks priced in, but momentum is negative', Gas Natural should have already priced in all these negatives. On our estimates for 2016, the stock is currently trading at a P/E multiple of 12.5x, EV/EBITDA of 7.6x, and a dividend yield of c.4.7% (with ND/EBITDA of 3.0x and payout of 62%). We think the company has good fundamentals, and there is sizeable upside to our target price (plus a total shareholder return of 23.8%). Also, thanks to strong FCF generation (€1.0bn after dividends) the company should deleverage rapidly (ND/EBITDA 2.7x by 2017e) as it has a low payout ratio (62%). We think that a positive change in the dividend policy is highly likely at the investor day (Q4 2015).

How we value the stock Our valuation is based on a sum-of-parts. Our lower estimates bring our TP down to €22 from €23, still DCF-based with a 5.1% WACC for regulated assets in Spain, 8.3% for liberalised gas activities, and 7% for CGE assets. This takes into consideration the various regulatory frameworks in each country and the useful lives of the assets. Within our EV, gas distribution accounts for 29%, power distribution 17%, power generation 20%, liberalised gas activities 23%, CGE (Chile) 10%, and other 2%. With the 12m forecast dividend of €0.91, this implies a total shareholder return of 31.7%. At our TP the shares would be trading on 2016e P/E multiple of 15.7x and dividend yield of 4.0%.

Events, catalysts & risks Strategic update (expected November 2015), regulatory review in Colombia and Chile. Risks to TP: unexpected negative regulatory measures, a negative regulatory review in Colombia and Chile, lower-than-expected power and gas demand and prices, and lower-than-expected gas supply margins.

Share data			
RIC GAS.MC, Bloom GAS SM			
52-week range			23.3-17.1
EV 15 (€m)			39,093
Mkt cap. (€m)			17,470
Free float (%)			31.0
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	-7.9	-19.7	-25.6
Rel. Eurofirst 300	-3.7	-7.9	-24.0

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	24.7	24.2	23.4	24.3
EBIT margin (%)	12.9	13.7	13.0	13.2
Rep. net inc. (€bn)	1.46	1.47	1.40	1.61
EPS (adj.) (€)	1.46	1.47	1.40	1.61
Dividend/share (€)	0.91	0.91	0.87	1.00
Payout (%)	62	62	62	62
Interest cover (x)	3.98	3.74	3.73	4.27
Net debt/equity (%)	94	85	76	68
Prev. EPS (changed as of 23/09/15)		1.47	1.46	1.68

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	14.6	11.9	12.5	10.8
FCF yield (/EV) (%)	-2.9	7.2	6.9	7.5
Dividend yield (%)	4.3	5.2	5.0	5.7
Price/book value (x)	1.51	1.19	1.15	1.10
EV/revenues (x)	1.76	1.61	1.64	1.54
EV/EBIT (x)	13.7	11.8	12.7	11.7
EV/IC (x)	1.2	1.1	1.1	1.0
ROIC/WACC (x)	1.0	0.8	0.8	0.8

EPS CAGR 14-17e: +3.30%


Equity analyst
Jorge Alonso
(34) 91 589 39 13


Equity analyst
Alberto Ponti
(44) 20 7762 5440


Specialist sales
Sophia Hart
(44) 20 7762 5256

Main changes

Main changes

(Buy TP €22) vs (Buy TP €23)	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBITDA	5,368	5,362	-0.1%	5,331	0.6%	5,217	5,054	-3.1%	5,437	-7.0%
EPS	1.47	1.47	-0.2%	1.48	-1.0%	1.46	1.40	-4.3%	1.57	-10.8%
DPS	0.91	0.91	-0.2%	0.93	-1.9%	0.91	0.87	-4.3%	0.98	-11.4%

Source: SG Cross Asset Research/Equity

P&L

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Revenues	**24,208**	**23,358**	**24,320**	**25,594**	**26,197**	**28,196**
Opex	(18,847)	(18,304)	(19,095)	(20,335)	(20,804)	(22,550)
EBITDA	**5,362**	**5,054**	**5,225**	**5,259**	**5,393**	**5,646**
D&A	(2,039)	(2,028)	(2,017)	(2,099)	(2,138)	(2,188)
EBIT	**3,323**	**3,026**	**3,208**	**3,159**	**3,255**	**3,458**
Fin expenses	(890)	(811)	(751)	(692)	(627)	(558)
Affiliates	(45)	(20)	22	97	130	131
Other	0	0	0	0	0	0
PBT	**2,388**	**2,195**	**2,479**	**2,564**	**2,758**	**3,030**
taxes	(608)	(531)	(590)	(592)	(631)	(696)
Minorities	(310)	(263)	(277)	(287)	(302)	(326)
Net profit	**1,470**	**1,400**	**1,612**	**1,685**	**1,825**	**2,008**

Source: SG Cross Asset Research/Equity

CF

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
EBITDA	**5,362**	**5,054**	**5,225**	**5,259**	**5,393**	**5,646**
Taxes	(608)	(531)	(590)	(592)	(631)	(696)
Fin costs	(890)	(811)	(751)	(692)	(627)	(558)
Wk& Other	25	40	(45)	(60)	(28)	(94)
Op CF	**3,889**	**3,751**	**3,839**	**3,915**	**4,107**	**4,298**
Capex	(1,979)	(1,898)	(1,760)	(1,673)	(1,692)	(1,713)
Disposals	0	1	2	3	4	5
Capital increase	0	0	0	0	0	0
Dividends	(911)	(868)	(999)	(1,045)	(1,131)	(1,245)
FCF	**999**	**986**	**1,080**	**1,197**	**1,284**	**1,340**
Net Debt	**15,973**	**14,987**	**13,907**	**12,710**	**11,427**	**10,087**
ND/EBITDA (x)	**3.0x**	**3.0x**	**2.7x**	**2.4x**	**2.1x**	**1.8x**

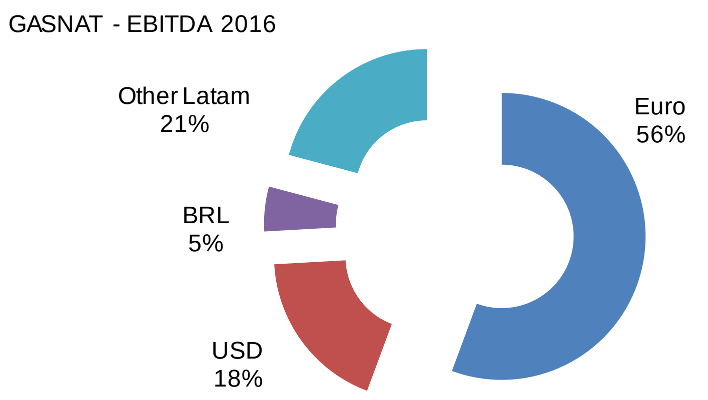
Source: SG Cross Asset Research/Equity

EBITDA breakdown

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Gas Distribution	**1,565**	**1,506**	**1,516**	**1,539**	**1,578**	**1,619**	**29%**	**30%**	**29%**	**29%**	**29%**	**29%**
Spain	887	904	921	939	956	974	17%	18%	18%	18%	18%	17%
Italy	63	64	64	65	66	66	1%	1%	1%	1%	1%	1%
LatAm	614	538	530	536	557	578	11%	11%	10%	10%	10%	10%
Power Distribution	**994**	**972**	**995**	**1,021**	**1,054**	**1,089**	**19%**	**19%**	**19%**	**19%**	**20%**	**19%**
Spain	596	603	613	623	632	641	11%	12%	12%	12%	12%	11%
Moldavia	38	39	40	42	43	44	1%	1%	1%	1%	1%	1%
LatAm	360	330	341	356	379	404	7%	7%	7%	7%	7%	7%
Power Generation	**989**	**872**	**924**	**907**	**962**	**978**	**18%**	**17%**	**18%**	**17%**	**18%**	**17%**
Spain	721	592	642	621	673	685	13%	12%	12%	12%	12%	12%
Mexico	211	222	225	228	231	234	4%	4%	4%	4%	4%	4%
Rest LatAm	58	58	57	58	58	59	1%	1%	1%	1%	1%	1%
GAS	**1,146**	**1,091**	**1,165**	**1,147**	**1,131**	**1,273**	**21%**	**22%**	**22%**	**22%**	**21%**	**23%**
Up & Midstream	317	333	338	343	348	354	6%	7%	6%	7%	6%	6%
Gas supply	830	758	826	804	783	919	15%	15%	16%	15%	15%	16%
UNF Gas	0	0	0	0	0	0	0%	0%	0%	0%	0%	0%
CGE	**567**	**513**	**526**	**544**	**566**	**587**	**11%**	**10%**	**10%**	**10%**	**10%**	**10%**
Power Distrb.	156	151	149	153	157	162	3%	3%	3%	3%	3%	3%
Power Sub-transm	97	96	101	105	110	114	2%	2%	2%	2%	2%	2%
Gas Distribution	230	190	199	207	215	223	4%	4%	4%	4%	4%	4%
GLP	90	81	84	86	91	97	2%	2%	2%	2%	2%	2%
Other	-5	-5	-6	-7	-8	-9	0%	0%	0%	0%	0%	0%
Other	**100**	**100**	**100**	**100**	**100**	**100**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**
Total EBITDA	**5,362**	**5,054**	**5,225**	**5,259**	**5,393**	**5,646**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

Gas Natural EBITDA 2016e breakdown by currency



Source: SG Cross Asset Research/Equity

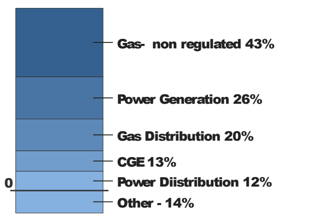
Sum of the parts

(€m)	EV	% EV	Criteria	WACC	15 e	16 e
Gas Distribution	**11,739**	**29%**			**7.5x**	**7.8x**
Spain	7,527	18%	DCF	5.1%	8.5x	8.3x
Italy	537	1%	8.5x EBITDA 15	n.a.	8.5x	8.4x
Latam	3,676	9%	DCF	7.8%	6.0x	6.8x
Power Distribution	**7,013**	**17%**			**7.1x**	**7.2x**
Spain	4,618	11%	DCF	5.1%	7.7x	7.7x
Moldavia	286	1%	7.5x EBITDA 15	n.a.	7.5x	7.3x
LatAm	2,109	5%	DCF	7.8%	5.9x	6.4x
Power Generation	**8,074**	**20%**			**8.2x**	**9.3x**
Spain Conventional	4,497	11%	DCF	5.8%	7.4x	9.4x
Spain Renewable	1,075	3%	DCF	5.8%	9.8x	9.3x
Mexico CCGT	1,651	4%	DCF	6.2%	7.8x	7.4x
Mexico Wind	448	1%	DCF	6.2%	10.8x	10.2x
Rest LatAm	403	1%	7.0x EBITDA 15	7.8%	7.0x	6.9x
GAS	**9,242**	**23%**			**8.2x**	**8.5x**
Up & Midstream	3,049	7%	DCF	5.6%	9.6x	9.1x
Gas supply	6,193	15%	7.5x avg. EBITDA 15-25	8.3%	7.5x	8.2x
CGE	**4,175**	**10%**			**7.4x**	**8.1x**
Power Distrb.	1,175	3%	DCF	7.1%	7.5x	7.8x
Power Sub-transm	724	2%	DCF	7.1%	7.5x	7.5x
Gas Distribution	1,686	4%	DCF	7.1%	7.3x	8.9x
GLP	629	2%	7.0x EBITDA 15	n.a.	7.0x	7.7x
Other	-38	0%	7.0x EBITDA 15	n.a.	7.0x	7.1x
Other /headcount	**700**	**2%**	**7.0x EBITDA 15**	**n.a.**	**7.0x**	**7.0x**
EV	**40,943**	**100%**			**7.6x**	**8.1x**
Net debt	(16,789)					
Provisions & Liabilities	(1,170)	BV				
Minorities	(3,267)	BV				
Fin. Assets	1,427	Mkt Value				
UNF gas equity value	877					
Equity Value	**22,021**					
TP €/sh	**22.0**					

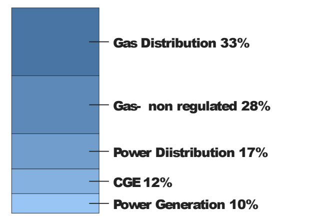
Source: SG Cross Asset Research/Equity

Gas Natural SDG

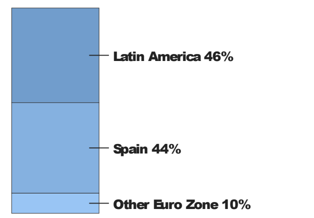
Sales/division 15



EBIT/division 15



Sales/region 15



Major shareholders (%)

La Caixa	35.0
Repsol YPF	30.0

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	954	992	1,001	1,001	1,001	1,001	1,001	1,001
Share price (average)	12.4	12.9	11.3	15.7	21.3	17.4	17.4	17.4
Average market cap. (SG adjusted) (1)	11,853	12,796	11,348	15,769	21,316	17,470	17,470	17,470
Restated net debt (-)/cash (+) (2)	-19,103	-17,294	-15,998	-14,659	-16,972	-15,973	-14,987	-13,907
Value of minorities (3)	1,590	1,649	1,618	1,566	3,879	4,189	4,452	4,730
Value of financial investments (4)	99	99	99	99	99	99	99	99
Other adjustment (5)	-582		1,665	1,564	1,560	1,560	1,560	1,560
EV = (1) - (2) + (3) - (4) + (5)	31,865	31,640	30,530	33,459	43,628	39,093	38,371	37,568
P/E (x)	10.2	9.7	7.9	10.9	14.6	11.9	12.5	10.8
Price/cash flow (x)	7.4	3.5	2.9	3.7	6.1	4.5	4.7	4.6
Price/free cash flow (x)	212	5.89	4.48	5.78	nm	9.15	9.43	8.40
Price/book value (x)	1.04	1.00	0.86	1.17	1.51	1.19	1.15	1.10
EV/revenues (x)	1.62	1.50	1.23	1.34	1.76	1.61	1.64	1.54
EV/EBITDA (x)	7.1	6.8	6.0	6.6	9.0	7.3	7.6	7.2
Dividend yield (%)	6.3	6.4	7.9	5.7	4.3	5.2	5.0	5.7
Per share data (€)								
SG EPS (adj.)	1.21	1.33	1.44	1.44	1.46	1.47	1.40	1.61
Cash flow	1.68	3.72	3.88	4.21	3.47	3.88	3.75	3.83
Book value	11.9	12.9	13.2	13.4	14.1	14.7	15.2	15.8
Dividend	0.78	0.83	0.89	0.90	0.91	0.91	0.87	1.00
Income statement (€m)								
Revenues	19,630	21,076	24,904	24,969	24,742	24,208	23,358	24,320
Gross income	6,660	7,002	7,595	7,741	7,374	7,215	6,961	7,248
EBITDA	4,477	4,645	5,080	5,085	4,853	5,362	5,054	5,225
Depreciation and amortisation	-1,584	-1,698	-2,013	-2,122	-1,663	-2,039	-2,028	-2,017
EBIT	2,893	2,947	3,067	2,963	3,190	3,323	3,026	3,208
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-1,059	-934	-874	-838	-801	-890	-811	-751
Exceptional & non-operating items	44	2	0	0	0	0	0	0
Taxation	-468	-496	-546	-468	-257	-608	-531	-590
Minority interests	-214	-201	-216	-219	-196	-310	-263	-277
Reported net income	1,201	1,325	1,441	1,445	1,462	1,470	1,400	1,612
SG adjusted net income	1,157	1,323	1,441	1,445	1,462	1,470	1,400	1,612
Cash flow statement (€m)								
EBITDA	4,477	4,645	5,080	5,085	4,853	5,362	5,054	5,225
Change in working capital	-1,395	471	229	442	-321	25	40	-45
Other operating cash movements	-1,483	-1,428	-1,420	-1,306	-1,058	-1,498	-1,343	-1,341
Cash flow from operating activities	1,599	3,688	3,889	4,221	3,474	3,889	3,751	3,839
Net capital expenditure	-1,543	-1,514	-1,357	-1,494	-5,439	-1,979	-1,898	-1,760
Free cash flow	56	2,174	2,532	2,727	-1,965	1,910	1,853	2,080
Cash flow from investing activities	3,108	2,803	0	0	0	0	0	0
Cash flow from financing activities	-1,349	-3,168	-3,368	-1,388	-348	-911	-868	-999
Net change in cash resulting from CF	1,815	1,809	-836	1,339	-2,313	999	986	1,080
Balance sheet (€m)								
Total long-term assets	36,892	35,945	35,191	34,260	39,507	39,401	39,251	39,016
of which intangible	4,295	4,152	3,836	3,317	3,055	3,049	3,036	3,010
Working capital	2,451	1,980	1,751	1,309	1,630	1,605	1,565	1,610
Employee benefit obligations	35	35	35	35	35	35	35	35
Shareholders' equity	11,384	12,792	13,261	13,444	14,141	14,699	15,231	15,844
Minority interests	1,590	1,649	1,618	1,566	3,879	4,189	4,452	4,730
Provisions	2,830	1,677	1,630	1,529	1,525	1,525	1,525	1,525
Net debt (-)/cash (+)	-19,103	-17,294	-15,998	-14,659	-16,972	-15,973	-14,987	-13,907
Accounting ratios								
ROIC (%)	5.8	6.1	6.5	6.8	7.9	6.8	6.3	6.7
ROE (%)	10.9	11.0	11.1	10.8	10.6	10.2	9.4	10.4
Gross income/revenues (%)	33.9	33.2	30.5	31.0	29.8	29.8	29.8	29.8
EBITDA margin (%)	22.8	22.0	20.4	20.4	19.6	22.1	21.6	21.5
EBIT margin (%)	14.7	14.0	12.3	11.9	12.9	13.7	13.0	13.2
Revenue yoy growth (%)	31.9	7.4	18.2	0.3	-0.9	-2.2	-3.5	4.1
Rev. organic growth (%)	31.9	7.4	18.2	0.3	-0.9	-2.2	-3.5	4.1
EBITDA yoy growth (%)	13.7	3.8	9.4	0.1	-4.6	10.5	-5.7	3.4
EBIT yoy growth (%)	11.8	1.9	4.1	-3.4	7.7	4.2	-8.9	6.0
EPS (adj.) yoy growth (%)	-18.4	10.0	7.9	0.3	1.2	0.5	-4.8	15.1
Dividend growth (%)	-7.3	6.4	8.0	0.3	1.2	0.2	-4.8	15.1
Cash conversion (%)	54.7	122.3	128.9	136.1	-28.4	102.6	105.6	106.6
Net debt/equity (%)	147	120	108	98	94	85	76	68
FFO/net debt (%)	15.4	18.6	22.9	25.8	22.4	24.2	24.8	27.9
Dividend paid/FCF (%)	1324.6	37.8	35.3	32.9	nm	47.7	46.8	48.1

Source: SG Cross Asset Research/Equity

| Electric Utilities | Rating upgrade | Portugal |

Energias de Portugal

We still see EPS growth as fragile – cautious view reiterated

Hold (from Sell)

Price 22/09/15	**€3.03**
12m target	**€3.10**
Upside to TP	**2.3%**
12m f'cast div	**€0.19**
12m TSR	**8.6%**

@ Go to SG website

Sector stance

Underweight

Preferred stock

Iberdrola, UU, SNAM

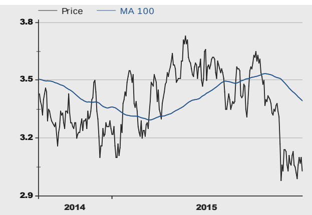
Least preferred stock

SSE

Investment trigger

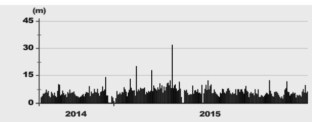
Value
High dividend yield
high leverage

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update We are updating our estimates to take into account the depreciation of LatAm currencies, the expected economic slowdown, and the issuance of a hybrid bond (€750m coupon 5.37%) which should increase the average cost of debt slightly. All in all we are cutting our estimates by -2.3% and -3.6% in 2016e and 2017e respectively.

SG view We are upgrading EDP to Hold from Sell as the total shareholder return (TSR) is no longer negative after the 12% drop in share price since our last report. However, we maintain our cautious stance as EDP's adjusted EPS growth (c.9% 2015-17e) is highly dependent on the normalisation of Brazilian hydro reserves (still uncertain) and the company's capacity to reduce the cost of debt (the higher the sovereign risk, the more difficult this becomes). EDP is making a big effort to maintain its capex level which leaves little room for DPS growth. Despite the debt reduction, leverage should still be high in 2017e (ND/EBITDA 4.2x). In short, we see no DPS growth, and dividend visibility depends on the earnings performance.

How we value the stock We are revising our valuation in order to reflect our new estimates. Our target price now comes to €3.1 (vs €3.23 previously). Our valuation is based on a sum-of-the-parts, which is in turn based on a DCF analysis (in which we apply a WACC of 5.0% for the regulated Iberian assets, 6.0% for liberalised Iberian assets, and 10% for Brazilian assets). The Iberian electricity and gas assets account for 55% of our total EV calculation (9.0x EV/EBITDA 16e), renewable assets 35% (9.6x EV/EBITDA 16e), the Brazilian assets 8.2% (6.3x EV/EBITDA 16e) and other assets 1.8%. Including €0.19 12m dividend, TSR is now 8.6%.

Events, catalysts & risks Risks to our target price: on the downside, further depreciation of Brazilian Real, lower power prices and higher sovereign risks; on the upside, higher-than-anticipated power prices and demand, better-than-forecast hydro levels in Brazil, and lower-than-expected cost of debt and sovereign risk. Next events are H1 15 results (on 30 July), news on the hydro reserves in Brazil, the general elections in Portugal (October 2015) and Spain (December 2015).

Share data			
RIC EDP.LS, Bloom EDP PL			
52-week range			3.73-2.98
EV 15 (€m)			33,310
Mkt cap. (€m)			11,074
Free float (%)			65.5
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	-4.4	-13.4	-11.8
Rel. Eurofirst 300	0.0	-0.7	-10.0

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	14.1	14.7	14.6	15.3
EBIT margin (%)	16.0	15.4	14.6	14.7
Rep. net inc. (€bn)	1.04	1.00	0.91	0.97
EPS (adj.) (€)	0.28	0.27	0.25	0.27
Dividend/share (€)	0.19	0.19	0.19	0.19
Payout (%)	65	68	74	70
Interest cover (x)	3.93	3.02	3.00	3.32
Net debt/equity (%)	144	135	124	112
Prev. EPS (changed as of 23/09/15)		0.27	0.26	0.28

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	11.6	11.1	12.2	11.4
FCF yield (/EV) (%)	4.8	3.1	5.5	6.9
Dividend yield (%)	5.6	6.1	6.1	6.1
Price/book value (x)	1.39	1.25	1.22	1.18
EV/revenues (x)	2.47	2.27	2.24	2.11
EV/EBIT (x)	15.4	14.8	15.3	14.3
EV/IC (x)	1.2	1.1	1.1	1.1
ROIC/WACC (x)	1.0	1.0	1.0	1.0

EPS CAGR 14-17e: -2.25%


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Main changes

(Hold TP €3.1) vs (Sell TP 3.23)	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBIT	3,714	3,698	-0.4%	3,614	2.3%	3,694	3,621	-2.0%	3,805	-4.8%
EPS	0.27	0.27	0.0%	0.24	12.1%	0.26	0.25	-2.3%	0.28	-10.2%
DPS	0.19	0.19	0.0%	0.19	-2.6%	0.19	0.19	0.0%	0.19	-2.6%

Source: SG Cross Asset Research/Equity

P&L

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Revenues	**14,666**	**14,633**	**15,254**	**15,343**	**15,886**	**16,272**
Opex	(10,968)	(11,013)	(11,471)	(11,581)	(11,984)	(12,291)
EBITDA	**3,698**	**3,621**	**3,783**	**3,762**	**3,901**	**3,981**
D&A	(1,440)	(1,481)	(1,538)	(1,591)	(1,634)	(1,715)
EBIT	**2,258**	**2,140**	**2,246**	**2,171**	**2,267**	**2,266**
Financial expenses	(748)	(714)	(677)	(631)	(583)	(532)
Affiliates	33	41	47	51	53	56
Other	0	0	0	0	0	0
PBT	**1,543**	**1,467**	**1,616**	**1,591**	**1,738**	**1,790**
Taxes	(329)	(321)	(353)	(346)	(379)	(390)
Minorities	(216)	(235)	(291)	(302)	(330)	(340)
Net profit	**998**	**912**	**972**	**942**	**1,028**	**1,060**

Source: SG Cross Asset Research/Equity

EBITDA breakdown

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Iberian Generation & Supply	**1,072**	**1,050**	**1,079**	**968**	**1,024**	**1,027**	**29%**	**29%**	**29%**	**26%**	**26%**	**26%**
LT contracted generation	631	526	520	427	430	425	17%	15%	14%	11%	11%	11%
Generation Liberalised	371	453	487	466	518	524	10%	13%	13%	12%	13%	13%
Power & gas supply	70	71	73	74	76	77	2%	2%	2%	2%	2%	2%
Iberian network	**945**	**957**	**971**	**985**	**1,001**	**1,018**	**26%**	**26%**	**26%**	**26%**	**26%**	**26%**
Power distribution	721	730	740	752	764	779	19%	20%	20%	20%	20%	20%
Gas Networks	224	227	230	233	236	239	6%	6%	6%	6%	6%	6%
Renewable	**1,056**	**1,200**	**1,260**	**1,321**	**1,373**	**1,414**	**29%**	**33%**	**33%**	**35%**	**35%**	**36%**
Iberia	421	482	485	485	496	496	11%	13%	13%	13%	13%	12%
USA	431	484	516	538	556	574	12%	13%	14%	14%	14%	14%
Other	205	234	259	297	320	345	6%	6%	7%	8%	8%	9%
Brazil	**640**	**429**	**489**	**503**	**520**	**537**	**17%**	**12%**	**13%**	**13%**	**13%**	**13%**
Generation	429	238	288	292	295	299	12%	7%	8%	8%	8%	8%
Distribution	211	190	200	211	224	238	6%	5%	5%	6%	6%	6%
Other & Adj.	**(15)**	**(15)**	**(15)**	**(15)**	**(15)**	**(15)**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
TOTAL EBITDA	**3,698**	**3,621**	**3,783**	**3,762**	**3,901**	**3,981**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

Cash flow

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
EBITDA	**3,698**	**3,698**	**3,698**	**3,698**	**3,698**	**3,698**
Taxes	(329)	(321)	(353)	(346)	(379)	(390)
Financial costs	(748)	(714)	(677)	(631)	(583)	(532)
Wk& Other	21	50	48	115	100	93
Op CF	**2,641**	**2,636**	**2,801**	**2,900**	**3,040**	**3,152**
Capex	(1,640)	(1,563)	(1,253)	(1,142)	(1,221)	(1,252)
Disposals	240	350	0	0	0	0
Capital increase	0	0	0	0	0	0
Dividends	(676)	(676)	(676)	(676)	(690)	(704)
FCF	**565**	**747**	**872**	**1,081**	**1,129**	**1,197**
Net debt	**17,671**	**16,924**	**16,052**	**14,971**	**13,842**	**12,645**
ND/EBITDA (x)	**4.8x**	**4.7x**	**4.2x**	**4.0x**	**3.5x**	**3.2x**

Source: SG Cross Asset Research/Equity

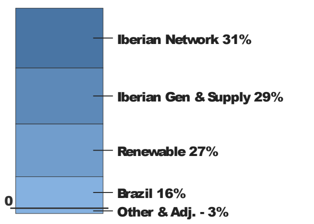
Sum of the parts

€ m	EV	% EV	Criteria	WACC	15 e	16 e
Iberian Electricity & Gas	**18,086**	**55%**	**DCF & ratio**	**n.a.**	**9.0x**	**9.0x**
Regulated Generation	2,526	8%	DCF	5.0%	4.0x	4.8x
Liberalised Generation	6,557	20%	DCF	6.0%	17.7x	14.5x
Power Supply	529	2%	8x EBITDA	n.a.	8.0x	7.8x
Gas Supply	29	0%	8x EBITDA	n.a.	8.0x	7.7x
Power Distribution	6,213	19%	DCF	5.0%	8.6x	8.5x
Gas Network	2,233	7%	DCF	5.0%	10.0x	9.8x
Renewables	**11,465**	**35%**	**Ratio per MW**	**n.a.**	**10.9x**	**9.6x**
Iberia	4,169	13%	Ratio per MW	5.3%	9.9x	8.7x
US	4,747	14%	Ratio per MW	5.0%	11.0x	9.8x
ROW	2,549	8%	Ratio per MW	9.0%	12.5x	10.9x
Brazil	**2,700**	**8.2%**	**DCF**	**10.7%**	**4.2x**	**6.3x**
Generation	1,568	5%		10.7%	3.7x	6.6x
Distribution	1,133	3%		10.7%	5.4x	6.0x
Stakes	**588**	**1.8%**				
EV value	**32,839**				**9.1x**	**9.0x**
Net debt	(18,423)					
Minorities	(3,765)					
Net contingencies	(1,822)					
Regulatory receivables	2,504					
Equity value	**11,333**					
Target price (€/share)	**3.10**					

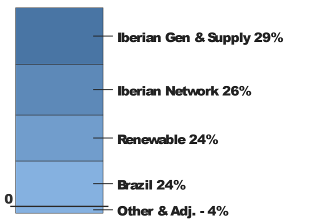
Source: SG Cross Asset Research/Equity

Energias de Portugal

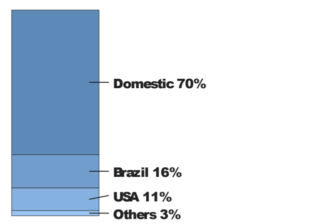
Sales/division 15



EBIT/division 15



Sales/region 15



Major shareholders (%)

China Three Gorges	21.4
Oppidum	6.2
Senfora (Ipic Abu Dhabi)	4.1

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	3,656	3,656	3,656	3,656	3,656	3,656	3,656	3,656
Share price (average)	2.65	2.50	2.07	2.54	3.31	3.03	3.03	3.03
Average market cap. (SG adjusted) (1)	9,706	9,151	7,573	9,294	12,088	11,074	11,074	11,074
Restated net debt (-)/cash (+) (2)	-16,380	-18,008	-19,139	-18,256	-18,221	-17,671	-16,924	-16,052
Value of minorities (3)	2,688	3,277	3,239	3,083	3,288	3,504	3,739	4,030
Value of financial investments (4)	622	534	587	1,115	1,272	1,305	1,347	1,394
Other adjustment (5)	2,551	1,823	2,316	2,323	2,366	2,366	2,366	2,366
EV = (1) - (2) + (3) - (4) + (5)	30,703	31,725	31,680	31,841	34,691	33,310	32,756	32,128
P/E (x)	9.5	8.3	7.5	9.2	11.6	11.1	12.2	11.4
Price/cash flow (x)	11.0	4.2	6.0	3.2	5.0	4.2	4.2	4.0
Price/free cash flow (x)	nm	65.4	nm	1.60	11.6	39.5	10.3	7.15
Price/book value (x)	1.24	1.13	0.92	1.10	1.39	1.25	1.22	1.18
EV/revenues (x)	2.17	2.23	2.23	2.19	2.47	2.27	2.24	2.11
EV/EBITDA (x)	8.5	8.4	8.7	8.8	9.5	9.0	9.0	8.5
Dividend yield (%)	6.4	7.4	8.9	7.3	5.6	6.1	6.1	6.1
Per share data (€)								
SG EPS (adj.)	0.28	0.30	0.28	0.27	0.28	0.27	0.25	0.27
Cash flow	0.24	0.60	0.35	0.78	0.67	0.72	0.72	0.77
Book value	2.15	2.22	2.24	2.31	2.37	2.42	2.49	2.57
Dividend	0.17	0.19	0.19	0.19	0.19	0.19	0.19	0.19
Income statement (€m)								
Revenues	14,170	14,254	14,233	14,555	14,073	14,666	14,633	15,254
Gross income	5,404	5,436	5,428	5,551	5,367	5,593	5,581	5,818
EBITDA	3,613	3,755	3,629	3,616	3,643	3,698	3,621	3,783
Depreciation and amortisation	-1,550	-1,488	-1,469	-1,477	-1,397	-1,440	-1,481	-1,538
EBIT	2,063	2,267	2,160	2,139	2,246	2,258	2,140	2,246
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-462	-696	-682	-703	-557	-715	-673	-630
Exceptional & non-operating items	61	21	3	0	0	0	0	0
Taxation	-427	-260	-283	-188	-372	-329	-321	-353
Minority interests	-156	-207	-170	-188	-223	-216	-235	-291
Reported net income	1,079	1,125	1,013	1,005	1,041	998	912	972
SG adjusted net income	1,018	1,104	1,010	1,005	1,041	998	911	972
Cash flow statement (€m)								
EBITDA	3,613	3,755	3,629	3,616	3,643	3,698	3,621	3,783
Change in working capital	-3,205	882	-1,394	474	-754	-215	-250	-252
Other operating cash movements	477	-2,460	-963	-1,230	-454	-841	-735	-730
Cash flow from operating activities	885	2,177	1,271	2,860	2,435	2,641	2,636	2,801
Net capital expenditure	-1,776	-2,037	-1,398	2,944	-1,389	-2,361	-1,563	-1,253
Free cash flow	-891	140	-127	5,804	1,046	280	1,073	1,548
Cash flow from investing activities	0	0	0	0	0	1,093	350	0
Cash flow from financing activities	-567	-622	-676	-676	-676	-676	-676	-676
Net change in cash resulting from CF	-1,458	-482	-803	5,128	370	697	747	872
Balance sheet (€m)								
Total long-term assets	31,424	33,524	34,740	34,330	34,024	33,650	33,123	32,585
of which intangible	9,963	10,128	9,860	6,028	5,813	6,049	6,205	6,331
Working capital	-1,424	-2,306	-912	-1,386	-632	-417	-167	85
Employee benefit obligations	1,904	1,823	2,316	2,323	2,366	2,366	2,366	2,366
Shareholders' equity	7,855	8,110	8,192	8,446	8,681	8,856	9,091	9,387
Minority interests	2,930	3,277	3,239	3,083	3,288	3,504	3,739	4,030
Provisions	0	0	0	0	0	0	0	0
Net debt (-)/cash (+)	-16,380	-16,985	-18,401	-17,584	-17,255	-16,705	-15,958	-15,086
Accounting ratios								
ROIC (%)	5.6	6.6	6.0	6.4	6.1	6.1	5.7	6.0
ROE (%)	14.2	14.1	12.4	12.1	12.2	11.4	10.2	10.5
Gross income/revenues (%)	38.1	38.1	38.1	38.1	38.1	38.1	38.1	38.1
EBITDA margin (%)	25.5	26.3	25.5	24.8	25.9	25.2	24.7	24.8
EBIT margin (%)	14.6	15.9	15.2	14.7	16.0	15.4	14.6	14.7
Revenue yoy growth (%)	-2.2	0.6	-0.1	2.3	-3.3	4.2	-0.2	4.2
Rev. organic growth (%)	-2.2	0.6	-0.1	2.3	-3.3	4.2	-0.2	4.2
EBITDA yoy growth (%)	7.4	3.9	-3.4	-0.3	0.7	1.5	-2.1	4.5
EBIT yoy growth (%)	4.7	9.9	-4.7	-0.9	5.0	0.5	-5.2	4.9
EPS (adj.) yoy growth (%)	5.6	8.4	-8.5	-0.5	3.6	-4.2	-8.7	6.7
Dividend growth (%)	9.7	8.8	0.0	0.0	0.0	0.0	0.0	0.0
Cash conversion (%)	1.0	49.2	39.9	nm	88.6	60.1	98.5	114.8
Net debt/equity (%)	152	149	161	153	144	135	124	112
FFO/net debt (%)	16.6	15.5	13.9	14.9	14.9	15.0	15.5	17.4
Dividend paid/FCF (%)	nm	483.4	nm	11.7	64.7	241.5	63.0	43.7

Source: SG Cross Asset Research/Equity

| Electric Utilities | 12m target downgrade | Spain |

Red Electrica

Sound fundamentals priced in. Hold reiterated

Hold

Price 22/09/15	**€71.6**
12m target	**€72.4**
Upside to TP	**1.1%**
12m f'cast div	**€3.00**
12m TSR	**5.3%**

@ Go to SG website

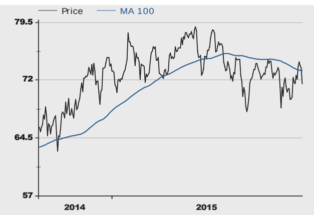
Sector stance
Underweight

Preferred stock
Iberdrola, UU, SNAM

Least preferred stock
SSE

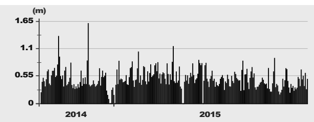
Investment trigger
Growth
Debt reduction
High dividend yield

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update The potential extension of pre-1998 asset lifespans to 15 years (vs 10 years) would have a negative impact on EPS in the short term although the impact on the valuation is positive as cash flow from those assets will last longer. We have revised our estimates to factor in lifespan extension and higher revenues from new standard costs. This leads us to cut our EPS estimates by -2.0% for 2015e, -1.8% for 2016e and -1.6% for 2017e.

SG view REE's strategic presentation confirmed the company is moving in the right direction as it is: a) consolidating investments in the Spanish system for the foreseeable future and preparing itself for possible heavy capex post 2020 (interconnection with France may require €5.0bn in capex); b) looking for opportunities such as the acquisition of the Adiff fibre optics network and seeking quality projects in LatAm; and c) improving the shareholder remuneration policy as cash flow generation supports investments and higher dividends. However, we maintain our Hold recommendation as we think that all the positives (low interest rate environment, visibility on regulation, the capex plan and dividend growth) are already priced in.

How we value the stock We have cut our TP to €72.4 from €77.6 previously in order to reflect our new estimates and the higher bond yield in Spain (2.5% vs 1.5% in our last report) which increases the WACC (4.1%% vs 3.5% before). Our valuation is based on DCF for the assets considering the current regulatory framework. Within the total EV, transmission accounts for 93%, fibre optic 3% and other 4%.

Events, catalysts & risks Risks to our TP are an unexpected change in regulation, material changes in capex and assets put into operation vs expectations, or substantial change in sovereign risks. Main catalysts could be the publication of details on pending regulation (expected before summer), the general election in Spain in December, and the realisation of the new interconnection projects with France.

Share data			
RIC REE.MC, Bloom REE SM			
52-week range			78.9-62.8
EV 15 (€m)			15,192
Mkt cap. (€m)			9,680
Free float (%)			80.0
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	0.6	-4.5	8.6
Rel. Eurofirst 300	5.1	9.5	10.8

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	1.85	1.95	2.02	2.07
EBIT margin (%)	51.2	50.6	51.0	51.4
Rep. net inc. (€m)	718	597	656	686
EPS (adj.) (€)	5.31	4.41	4.85	5.07
Dividend/share (€)	3.00	3.21	3.43	3.68
Payout (%)	57	73	71	72
Interest cover (x)	8.82	5.77	6.21	6.53
Net debt/equity (%)	212	189	170	158
Prev. EPS (changed as of 23/09/15)		4.50	4.93	5.15

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	11.8	16.2	14.8	14.1
FCF yield (/EV) (%)	-2.8	5.2	4.8	4.1
Dividend yield (%)	4.8	4.5	4.8	5.1
Price/book value (x)	3.34	3.56	3.29	3.06
EV/revenues (x)	7.66	7.77	7.47	7.25
EV/EBIT (x)	15.0	15.3	14.6	14.1
EV/IC (x)	1.6	1.7	1.7	1.6
ROIC/WACC (x)	2.3	1.9	2.1	2.2

EPS CAGR 14-17e: -1.50%


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Main changes

(Hold, TP €72.4) vs (Hold, TP €77.6)	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBITDA	1,478	1,461	-1.1%	1,435	1.8%	1,530	1,514	-1.0%	1,480	2.3%
EPS	4.50	4.41	-2.0%	4.33	1.8%	4.93	4.85	-1.8%	4.57	6.0%
DPS	3.21	3.21	0.0%	3.22	-0.3%	3.43	3.43	0.0%	3.51	-2.2%

Source: SG Cross Asset Research/Equity

P&L

(€m)	2015e	2016e	2017e	2018e	2019e	2020e
Revenues	**1,955**	**2,015**	**2,075**	**2,153**	**2,274**	**2,032**
Opex	(494)	(501)	(508)	(516)	(525)	(522)
EBITDA	**1,461**	**1,514**	**1,567**	**1,637**	**1,748**	**1,510**
D&A	(471)	(486)	(501)	(524)	(539)	(559)
EBIT	**990**	**1,028**	**1,066**	**1,114**	**1,210**	**951**
Financial expenses	(159)	(152)	(149)	(150)	(149)	(145)
Affiliates	0	0	0	0	0	0
PBT	**831**	**876**	**916**	**964**	**1,061**	**806**
Taxes	(233)	(219)	(229)	(241)	(265)	(202)
Minorities	(1)	(1)	(1)	(1)	(1)	(1)
Net profit	**597**	**656**	**686**	**722**	**795**	**603**

Source: SG Cross Asset Research/Equity

EBITDA breakdown

(€m)	2015e	2016e	2017e	2018e	2019e	2020e	2015e	2016e	2017e	2018e	2019e	2020e
Reg Transmission.	1,334	1,386	1,437	1,506	1,615	1,375	91%	92%	92%	92%	92%	91%
Fiber Optic	61	62	63	64	65	66	4%	4%	4%	4%	4%	4%
Other	34	34	35	35	35	35	2%	2%	2%	2%	2%	2%
LatAm	14	14	15	15	15	15	1%	1%	1%	1%	1%	1%
Other Op. Income	18	18	18	18	19	19	1%	1%	1%	1%	1%	1%
Total EBITDA	**1,461**	**1,514**	**1,567**	**1,637**	**1,748**	**1,510**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

CF

(€m)	2015e	2016e	2017e	2018e	2019e	2020e
EBITDA	**1,461**	**1,514**	**1,567**	**1,637**	**1,748**	**1,510**
Taxes	(233)	(219)	(229)	(241)	(265)	(202)
Financial costs	(159)	(152)	(149)	(150)	(149)	(145)
Working capital & Other	83	(48)	(47)	(54)	(70)	66
Op CF	**1,152**	**1,095**	**1,141**	**1,192**	**1,264**	**1,229**
Capex	(520)	(520)	(670)	(770)	(620)	(605)
Disposals	0	0	0	0	0	0
Capital increase	0	0	0	0	0	0
Dividends	(406)	(434)	(465)	(497)	(532)	(569)
FCF	**226**	**141**	**6**	**(75)**	**112**	**54**
Net debt	**5,181**	**5,040**	**5,035**	**5,110**	**4,998**	**4,944**
ND/EBITDA (x)	**3.5x**	**3.3x**	**3.2x**	**3.1x**	**2.9x**	**3.3x**

Source: SG Cross Asset Research/Equity

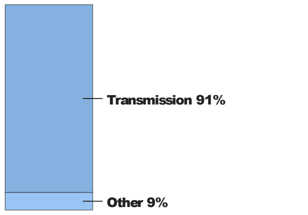
Sum of the parts

(€m)	EV	% EV	IRR	WACC	RAB	EV/RAB	EV/EBITDA 15e
Transmission Assets	13,119	86%	5.0%	4.1%	12,523	1.05x	10.2x
Future capex value	1,049	7%	5.7%	4.1%	n.a.	1.22x	n.a.
Adif Optic fiber	458	3%	6.4%	5.6%	n.a.	n.a.	10.0x
Other Telecom	135	1%	n.a.	4.1%	n.a.	n.a.	9.0x
Other (third party works)	326	2%	n.a.	n.a.	n.a.	n.a.	9.0x
LatAm assets	122	1%	n.a.	n.a.	n.a.	n.a.	8.5x
Total EV	**15,209**	**100%**				**1.18x**	**11.7x**
Net Debt 14e	(5,407)						
Debt Adj.	480						
Liabilities	(494)						
Equity Value	**9,788**						
TP € /Share	**72.4**						

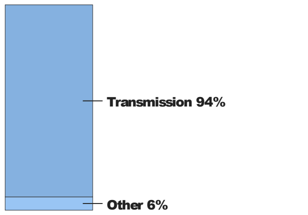
Source: SG Cross Asset Research/Equity

Red Electrica

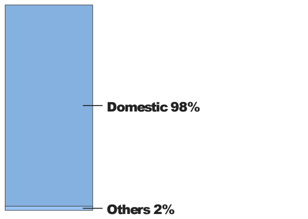
Sales/division 14



EBIT/division 14



Sales/region 14



Major shareholders (%)

SEPI	20.0

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	135	135	135	135	135	135	135	135
Share price (average)	35.2	36.9	34.6	42.2	62.5	71.6	71.6	71.6
Average market cap. (SG adjusted) (1)	4,760	4,990	4,682	5,702	8,455	9,680	9,680	9,680
Restated net debt (-)/cash (+) (2)	-4,757	-4,692	-4,873	-4,540	-5,407	-5,181	-5,040	-5,035
Value of minorities (3)	0	0	-4	-18	-23	-24	-25	-27
Value of financial investments (4)	0	0	-381	-403	-461	-461	-461	-461
Other adjustment (5)	-88	-132	-83	-101	-106	-106	-106	-106
EV = (1) - (2) + (3) - (4) + (5)	9,429	9,550	9,848	10,526	14,195	15,192	15,050	15,043
P/E (x)	12.2	10.8	9.5	10.8	11.8	16.2	14.8	14.1
Price/cash flow (x)	6.9	4.3	5.7	4.6	19.5	8.4	8.8	8.5
Price/free cash flow (x)	nm	15.7	39.4	8.74	nm	15.3	16.8	20.6
Price/book value (x)	2.93	2.75	2.36	2.58	3.34	3.56	3.29	3.06
EV/revenues (x)	6.68	5.80	5.57	5.94	7.66	7.77	7.47	7.25
EV/EBITDA (x)	9.4	7.9	7.6	8.1	10.2	10.4	9.9	9.6
Dividend yield (%)	5.3	6.0	6.8	6.0	4.8	4.5	4.8	5.1
Per share data (€)								
SG EPS (adj.)	2.88	3.40	3.64	3.91	5.31	4.41	4.85	5.07
Cash flow	5.10	8.60	6.10	9.23	3.21	8.52	8.10	8.43
Book value	12.0	13.4	14.7	16.3	18.7	20.1	21.7	23.4
Dividend	1.88	2.21	2.37	2.54	3.00	3.21	3.43	3.68
Income statement (€m)								
Revenues	1,413	1,647	1,769	1,773	1,854	1,955	2,015	2,075
Gross income	1,367	1,605	1,699	1,706	1,794	1,893	1,951	2,009
EBITDA	1,002	1,215	1,299	1,302	1,385	1,461	1,514	1,567
Depreciation and amortisation	-313	-371	-439	-403	-436	-471	-486	-501
EBIT	689	844	860	899	949	990	1,028	1,066
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-129	-161	-181	-166	-96	-159	-152	-149
Exceptional & non-operating items	0	0	0	0	0	0	0	0
Taxation	-170	-223	-188	-203	-134	-233	-219	-229
Minority interests	0	0	0	-1	-1	-1	-1	-1
Reported net income	390	460	492	529	718	597	656	686
SG adjusted net income	390	460	492	529	718	597	656	686
Cash flow statement (€m)								
EBITDA	1,002	1,215	1,299	1,302	1,385	1,461	1,514	1,567
Change in working capital	-13	158	-266	73	-723	108	-23	-22
Other operating cash movements	-299	-210	-209	-127	-228	-417	-396	-403
Cash flow from operating activities	690	1,163	825	1,248	434	1,152	1,095	1,141
Net capital expenditure	-865	-845	-706	-596	-958	-520	-520	-670
Free cash flow	-175	318	119	652	-523	632	575	470
Cash flow from investing activities	-1,412	0	0	0	0	0	0	0
Cash flow from financing activities	-91	-254	-299	-320	-344	-406	-434	-465
Net change in cash resulting from CF	-1,678	64	-180	332	-867	226	141	6
Balance sheet (€m)								
Total long-term assets	7,760	8,333	8,487	8,614	9,138	9,188	9,222	9,391
of which intangible	3	5	23	87	109	109	109	109
Working capital	-513	-672	-428	-675	-37	-145	-123	-100
Employee benefit obligations	0	0	0	0	0	0	0	0
Shareholders' equity	1,624	1,813	1,987	2,207	2,529	2,721	2,942	3,163
Minority interests	2	2	4	18	23	24	25	27
Provisions	76	67	65	84	106	106	106	106
Net debt (-)/cash (+)	-4,757	-4,692	-4,873	-4,540	-5,407	-5,181	-5,040	-5,035
Accounting ratios								
ROIC (%)	7.9	7.8	8.1	8.3	9.5	7.9	8.6	8.8
ROE (%)	25.5	26.8	25.9	25.2	30.3	22.7	23.2	22.5
Gross income/revenues (%)	96.8	97.4	96.1	96.2	96.8	96.8	96.8	96.8
EBITDA margin (%)	70.9	73.8	73.4	73.4	74.7	74.7	75.1	75.5
EBIT margin (%)	48.7	51.2	48.6	50.7	51.2	50.6	51.0	51.4
Revenue yoy growth (%)	16.5	16.6	7.4	0.2	4.6	5.4	3.1	3.0
Rev. organic growth (%)	16.5	16.6	7.4	0.2	4.6	5.4	3.1	3.0
EBITDA yoy growth (%)	18.5	21.3	6.9	0.2	6.4	5.5	3.6	3.5
EBIT yoy growth (%)	26.4	22.6	1.9	4.5	5.6	4.3	3.9	3.6
EPS (adj.) yoy growth (%)	18.1	18.0	6.9	7.5	35.7	-16.8	9.8	4.6
Dividend growth (%)	26.9	18.0	6.9	7.5	18.0	7.0	7.0	7.0
Cash conversion (%)	18.0	83.3	56.7	113.7	nm	103.4	92.0	79.7
Net debt/equity (%)	293	259	245	204	212	189	170	158
FFO/net debt (%)	14.8	17.7	19.1	20.5	21.4	20.6	22.7	23.6
Dividend paid/FCF (%)	nm	94.1	269.4	52.7	nm	68.7	80.8	105.7

Source: SG Cross Asset Research/Equity

| Gas Utilities | **12m target upgrade** | Spain |

Enagas

Attractive yield with a low risk profile - BUY reiterated

Buy

Price 22/09/15	**€24.8**
12m target	**€28.5**
Upside to TP	**14.9%**
12m f'cast div	**€1.32**
12m TSR	**20.2%**

@ Go to SG website

Sector stance

Underweight

Preferred stock

Iberdrola, UU, Snam

Least preferred stock

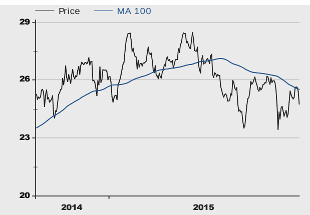
SSE

Investment trigger

Value

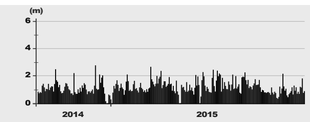
High dividend yield

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update We are revising up our estimates to reflect higher gas demand in Spain than we previously expected. We now estimate gas demand growth of 5.7% in 2015e, with 5.4% in 2016e. On this basis we are raising our EPS estimates by 1.7%, 2.4% and 3.0% in 2015e, 2016e and 2017e respectively.

SG view We reiterate our positive stance in Enagas with a BUY rating given its attractive dividend yield and its relatively good earnings visibility, with limited exposure to the LatAm region and its exposure there to the stronger economies such as Mexico, Peru and Chile. On top of this the LatAm activities are USD-denominated and remuneration is set out in contracts. With few greenfield investment opportunities in Spain, Enagas has been pursuing opportunities abroad, while within Spain it is raising its stakes in regasification plants that are not fully owned. (As a result, while we expect its EPS to rise over the next three years, we project its EBITDA to decline.) On top of this, there is an economic recovery underway in Spain (GDP is now set to rise 3.7% in 2015), while 'hydro normalization' in power generation terms is driving up gas demand, from which Enagas is benefiting as current regulation links part of Enagas's revenues (c.20%) to gas demand. We expect an EPS CAGR 15-17e of 2.8% while the stock is trading at a 2016e PE of 13.2x and a dividend yield of 5.6%, with ND/EBITDA of 4.5x (and FFO/ND of 18%).

How we value the stock We are raising our SOP-based TP to €28.5 (from €26.4) to reflect our new gas demand assumptions and EPS estimates. Our TP uses DCF for all the assets, applying a WACC of 4.0% for Spanish assets and 8% for LatAm. In our EV, regulated assets in Spain account for 81%, stakes in international projects for 12%, and other assets for 7%. Including our estimated 12m dividend, this implies a TSR of 20.2%.

Events, catalysts & risks The main risks to our price target on the downside are unexpected regulatory changes or delays in executing international projects, an increase in sovereign risk or further US$ depreciation. Next catalysts: news on new projects abroad.

Share data			
RIC ENAG.MC, Bloom ENG SM			
52-week range			28.5-23.5
EV 15 (€m)			9,192
Mkt cap. (€m)			5,911
Free float (%)			85.0
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	0.3	-4.8	-2.0
Rel. Eurofirst 300	4.8	9.2	0.0

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	1.22	1.24	1.21	1.20
EBIT margin (%)	48.2	53.4	51.5	50.5
Rep. net inc. (€m)	407	419	448	441
EPS (adj.) (€)	1.70	1.75	1.88	1.85
Dividend/share (€)	1.30	1.32	1.39	1.45
Payout (%)	76	75	74	79
Interest cover (x)	5.59	6.38	6.06	5.91
Net debt/equity (%)	182	176	165	157
Prev. EPS (changed as of 23/09/15)		1.72	1.82	1.78

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	13.7	14.1	13.2	13.4
FCF yield (/EV) (%)	5.7	3.9	5.5	5.6
Dividend yield (%)	5.6	5.3	5.6	5.9
Price/book value (x)	2.52	2.55	2.42	2.33
EV/revenues (x)	7.19	7.42	7.54	7.56
EV/EBIT (x)	14.9	13.9	14.7	15.0
EV/IC (x)	1.5	1.6	1.5	1.5
ROIC/WACC (x)	2.0	2.1	2.0	2.0
EPS CAGR 14-17e: +2.76%				


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Main changes

(BUY TP €28.5) vs (BUY TP €26.4)	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBITDA	930	940	1.1%	926	1.5%	891	904	1.5%	897	0.8%
EPS	1.72	1.75	1.7%	1.72	2.0%	1.83	1.88	2.4%	1.79	4.9%
DPS	1.32	1.32	0.0%	1.33	-0.6%	1.39	1.39	0.0%	1.40	-0.8%

Source: SG Cross Asset Research/Equity

P&L

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Revenues	**1,239**	**1,210**	**1,202**	**1,242**	**1,264**	**1,252**
Opex	(299)	(306)	(311)	(341)	(347)	(351)
EBITDA	**940**	**904**	**891**	**901**	**917**	**901**
D&A	(279)	(281)	(284)	(308)	(312)	(313)
EBIT	**661**	**623**	**607**	**593**	**605**	**588**
Fin expenses	(104)	(103)	(103)	(101)	(99)	(94)
Affilates	18	59	64	68	73	112
Other	0	0	0	0	0	0
PBT	576	579	568	560	579	606
taxes	(156)	(130)	(126)	(123)	(127)	(123)
Minorities	(1)	(1)	(1)	(1)	(1)	(1)
Net profit	**419**	**448**	**441**	**436**	**452**	**481**

Source: SG Cross Asset Research/Equity

EBITDA Breakdown

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Regasification- Spain	187	184	181	199	211	206	20%	20%	20%	22%	23%	23%
Gas Storage - Spain	62	66	70	73	76	77	7%	7%	8%	8%	8%	9%
Transm. - Spain	589	591	577	565	565	552	63%	65%	65%	63%	62%	61%
Other	102	63	63	64	65	66	11%	7%	7%	7%	7%	7%
Total EBITDA	**940**	**904**	**891**	**901**	**917**	**901**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

Cashflow

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
EBITDA	**940**	**904**	**891**	**901**	**917**	**901**
Taxes	(156)	(130)	(126)	(123)	(127)	(123)
Fin costs	(104)	(103)	(103)	(101)	(99)	(94)
Wk& Other	17	65	80	78	84	131
Op CF	**697**	**737**	**742**	**755**	**775**	**814**
Capex	(445)	(339)	(339)	(244)	(226)	(226)
Disposals	0	0	0	0	0	0
Capital increase	0	0	0	0	0	0
Dividends	(315)	(331)	(347)	(365)	(383)	(402)
FCF	**(63)**	**67**	**56**	**146**	**166**	**186**
Net Debt	**4,117**	**4,049**	**3,994**	**3,848**	**3,681**	**3,495**
ND/EBITDA (x)	**4.4x**	**4.5x**	**4.5x**	**4.3x**	**4.0x**	**3.9x**

Source: SG Cross Asset Research/Equity

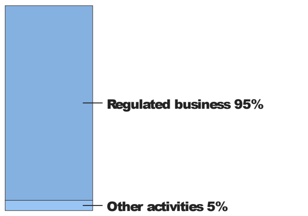
Sum of the parts

Eur Mn	EV	% EV	RAB	EV/RAB	WACC	EV/EBITDA 15e
Transmission -Dec-14e	4,036	37%	3,600	1.12x	4.0%	6.9x
Capex Transm -15e-25e	35	0.3%	n.a.	1.12x	4.0%	
Regasification - Dec-14e	1,099	10%	1,173	0.94x	4.0%	5.9x
Capex Regasf. 15e-25e	16	0%	n.a.	1.03x	4.0%	
Gas Storage - Dec-14e	464	4%	450	1.03x	4.0%	7.5x
Capex Gas Storage 15e-25e	7	0%	n.a.	1.03x	4.0%	
Continuity of supply (RCS)	3,241	29%	n.a.	n.a.	4.5%	12.5x
Regulated assets - Spain	**8,898**	**81.1%**	**5,223**	**1.07x**	**4.0%**	**9.3x**
Regasf -Altamira Mx (40%)	141	1%			8.0%	6.7x
Gas Pipe -Morelos Mx (50%)	57	1%			8.0%	10.8x
Regasf Plant Quintero Ch (20%)	139	1%			8.0%	6.9x
TAP gas pipeline (16% stake)	77	1%			5.0%	13.4x
Regasf plants BBG (40% stake)	74	1%			4.0%	5.9x
Gas Pipe - TgP (Peru 24.34% stake)	529	5%			8.0%	7.1x
Gas Pipe - Gasoducto Sur (Peru 25% stake)	179	2%			8.0%	10.6x
Swedegas (50%)	106	1%			4.9%	11.1x
Saggas (30%)	35	0%			4.0%	5.9x
Other Assets	**1,338**	**12.4%**				
TD recovery	**136**	**1.3%**				
Other	**626**	**5.2%**				
EV value (Eur Mn)	**10,999**					**11.5x**
Net Debt & other	(4,170)					
Provisions	(122)					
Minorities	(14)					
Financial assets	100					
Equity value (Eur mn)	**6,792**					
TP (Eur ps)	**28.5**					

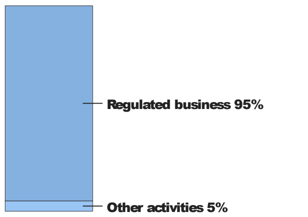
Source: SG Cross Asset Research/Equity

Enagas

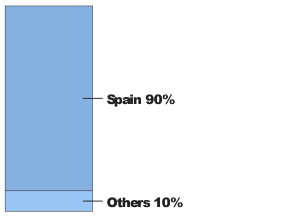
Sales/division 14



EBIT/division 14



Sales/region 14



Major shareholders (%)

BBK	5.0
Oman Oil	5.0
SEPI (Spanish State)	5.0

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	239	239	239	239	239	239	239	239
Share price (average)	14.8	15.0	14.6	18.6	23.4	24.8	24.8	24.8
Average market cap. (SG adjusted) (1)	3,524	3,577	3,476	4,435	5,585	5,911	5,911	5,911
Restated net debt (-)/cash (+) (2)	-3,204	-3,496	-3,604	-3,773	-4,054	-4,117	-4,049	-3,994
Value of minorities (3)	0	0	0	14	14	15	16	18
Value of financial investments (4)	0	58	182	183	1,141	1,141	1,141	1,127
Other adjustment (5)	0	69	132	300	289	289	289	289
EV = (1) - (2) + (3) - (4) + (5)	6,728	7,083	7,031	8,339	8,803	9,192	9,126	9,086
P/E (x)	10.6	9.8	9.2	11.0	13.7	14.1	13.2	13.4
Price/cash flow (x)	4.9	7.1	4.2	2.4	5.4	8.5	8.0	8.0
Price/free cash flow (x)	nm	nm	14.9	3.46	13.5	23.4	14.9	14.7
Price/book value (x)	2.03	1.92	1.73	2.09	2.52	2.55	2.42	2.33
EV/revenues (x)	6.72	6.13	5.86	6.37	7.19	7.42	7.54	7.56
EV/EBITDA (x)	8.6	8.0	7.5	8.1	9.4	9.8	10.1	10.2
Dividend yield (%)	5.7	6.6	7.6	6.8	5.6	5.3	5.6	5.9
Per share data (€)								
SG EPS (adj.)	1.40	1.53	1.59	1.69	1.70	1.75	1.88	1.85
Cash flow	3.02	2.12	3.43	7.60	4.35	2.92	3.09	3.11
Book value	7.27	7.80	8.40	8.87	9.29	9.73	10.2	10.6
Dividend	0.84	0.99	1.11	1.27	1.30	1.32	1.39	1.45
Income statement (€m)								
Revenues	1,001	1,155	1,199	1,308	1,224	1,239	1,210	1,202
Gross income	934	1,088	1,120	1,223	1,139	1,152	1,122	1,109
EBITDA	781	886	934	1,028	940	940	904	891
Depreciation and amortisation	-250	-300	-316	-359	-350	-279	-281	-284
EBIT	531	586	619	669	590	661	623	607
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-59	-66	-77	-110	-106	-104	-103	-103
Exceptional & non-operating items	0	0	0	0	0	0	0	0
Taxation	-139	-156	-163	-161	-88	-156	-130	-126
Minority interests	0	0	0	-1	-1	-1	-1	-1
Reported net income	334	365	380	403	407	419	448	441
SG adjusted net income	334	365	380	403	407	419	448	441
Cash flow statement (€m)								
EBITDA	781	886	934	1,028	940	940	904	891
Change in working capital	138	-158	125	1,056	292	17	65	80
Other operating cash movements	-197	-221	-240	-270	-193	-260	-233	-229
Cash flow from operating activities	722	506	820	1,814	1,038	697	737	742
Net capital expenditure	-781	-790	-586	-534	-625	-445	-339	-339
Free cash flow	-59	-284	233	1,281	413	252	398	403
Cash flow from investing activities	0	0	0	0	0	0	0	0
Cash flow from financing activities	-200	-237	-417	-311	-875	-315	-331	-347
Net change in cash resulting from CF	-259	-521	-184	970	-462	-63	67	56
Balance sheet (€m)								
Total long-term assets	5,229	5,723	5,978	6,137	6,652	6,818	6,876	6,917
of which intangible	37	55	75	81	81	84	85	86
Working capital	40	190	333	464	272	273	267	265
Employee benefit obligations	0	0	0	0	0	0	0	0
Shareholders' equity	1,736	1,862	2,005	2,118	2,219	2,322	2,439	2,533
Minority interests	0	0	0	14	14	15	16	18
Provisions	34	92	175	177	163	163	163	163
Net debt (-)/cash (+)	-3,204	-3,496	-3,634	-3,790	-4,054	-4,117	-4,049	-3,994
Accounting ratios								
ROIC (%)	7.5	7.4	7.3	7.7	8.0	8.3	8.2	7.9
ROE (%)	20.1	20.3	19.6	19.6	18.7	18.4	18.8	17.7
Gross income/revenues (%)	93.3	94.2	93.4	93.5	93.1	93.0	92.7	92.3
EBITDA margin (%)	78.0	76.7	77.9	78.6	76.8	75.9	74.7	74.1
EBIT margin (%)	53.0	50.7	51.6	51.1	48.2	53.4	51.5	50.5
Revenue yoy growth (%)	11.0	15.4	3.8	9.1	-6.5	1.2	-2.3	-0.7
Rev. organic growth (%)	11.0	15.4	3.8	9.1	-6.5	1.2	-2.3	-0.7
EBITDA yoy growth (%)	11.3	13.4	5.5	10.0	-8.6	0.0	-3.8	-1.5
EBIT yoy growth (%)	9.5	10.4	5.5	8.1	-11.9	12.1	-5.8	-2.6
EPS (adj.) yoy growth (%)	11.8	9.4	4.1	6.2	0.8	3.0	7.0	-1.5
Dividend growth (%)	11.8	18.5	12.1	14.1	2.4	1.5	5.0	5.0
Cash conversion (%)	26.1	-10.6	76.5	nm	102.9	77.5	101.2	104.1
Net debt/equity (%)	185	188	181	178	182	176	165	157
FFO/net debt (%)	18.2	19.0	19.3	20.1	18.4	16.5	16.6	16.6
Dividend paid/FCF (%)	nm	nm	113.9	23.7	75.1	124.8	83.1	86.2

Source: SG Cross Asset Research/Equity

| Electric Utilities | 12m target downgrade | Portugal |

Redes Energeticas Nacionais

Earnings and dividends remain fragile - Cautious view reiterated

Hold

Price 22/09/15	**€2.65**
12m target	**€2.65**
Upside to TP	**0.0%**
12m f'cast div	**€0.17**
12m TSR	**6.4%**

@ Go to SG website

Sector stance

Underweight

Preferred stock

Iberdrola, UU, SNAM

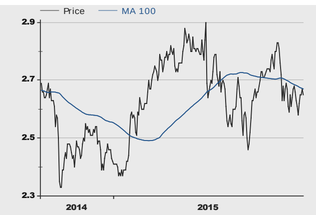
Least preferred stock

SSE

Investment trigger

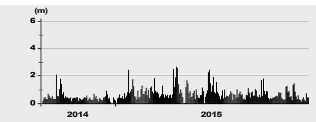
Value
High dividend yield
High leverage

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update REN's asset remuneration is pegged to the Portuguese sovereign CDS, so as the CDS level rises, so does REN's remuneration. As a result, we are raising our revenue forecasts slightly, and also the WACC we use in its valuation. We have also taken into account the negative one-off reported in the H1-15 results. All told, we are cutting our (reported) EPS by c.9% for 2015e and increasing it by +1.9% for both 2016e and 2017e.

SG view REN is in a 'sweet spot' as low interest rates mean a lower cost of capital. As a result, REN expects to reduce its cost of debt and extend its duration at attractive rates. However we maintain our Hold recommendation because if the plan to reduce the cost of debt fails (or is watered down) due to higher bond yields and sovereign risks, EPS will likely be substantially below market expectations as the net profit recovery highly depends on lower financial costs. We estimate very low EPS growth (excluding the special tax reduction) through 2014-17e, and despite low capex, quite limited debt reduction. On top of this, a gas assets review is scheduled for 2016: we factor in a 100bp cut to the regulated rate of return to 6.5%. The main two catalysts for the share price are the market appetite for REN's debt at a lower cost and the final decision on the special tax. If the special tax is removed in 2016, EPS (and hence the valuation) may increase by 13%. However if the Portuguese court upholds the tax, the negative impact on EPS could be of similar size (as we factor in just half the tax to reflect the chances that it will be removed).

How we value the stock We are cutting our sum-of-parts based TP to €2.65 vs €2.75 previously on our higher WACC assumption (due to higher bond yields since our last report) which more than offsets higher our EPS estimates. Our SOP valuation uses a DCF for each inidividual asset (WACC 4.55%). Within our EV, electricity assets account for 68% of the total and gas assets 32%.

Events, catalysts & risks The main catalysts should be the court ruling regarding the special tax and any news concerning the gas assets review. Risks to our TP: substantial changes in sovereign risks, higher interest rates, a negative outcome relative to our assumptions on the special tax case or the gas assets review.

Share data			
RIC RENE.LS, Bloom RENE PL			
52-week range			2.90-2.33
EV 15 (€m)			3,612
Mkt cap. (€m)			1,414
Free float (%)			25.2
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	-2.7	-0.7	-1.4
Rel. Eurofirst 300	1.7	13.9	0.7

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€m)	756	735	703	691
EBIT margin (%)	40.1	38.7	36.8	36.8
Rep. net inc. (€m)	113	103	110	119
EPS (adj.) (€)	0.21	0.21	0.21	0.22
Dividend/share (€)	0.17	0.17	0.17	0.17
Payout (%)	81	89	83	76
Interest cover (x)	2.30	2.57	2.47	2.90
Net debt/equity (%)	219	209	209	201
Prev. EPS (changed as of 23/09/15)		0.21	0.20	0.22

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	12.4	12.3	12.9	11.8
FCF yield (/EV) (%)	4.9	6.1	4.1	6.1
Dividend yield (%)	6.5	6.5	6.5	6.5
Price/book value (x)	1.24	1.23	1.21	1.18
EV/revenues (x)	4.82	4.91	5.18	5.18
EV/EBIT (x)	12.0	12.7	14.1	14.1
EV/IC (x)	1.0	1.0	1.0	1.0
ROIC/WACC (x)	1.1	1.0	1.0	1.0

EPS CAGR 14-17e: +1.90%


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Main changes

(Hold TP €2.65) vs (Hold TP €2.75)	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBIT	494	494	0.0%	478	3.3%	466	469	0.7%	489	-4.2%
EPS, reported	0.21	0.19	-8.8%	0.18	7.3%	0.20	0.21	1.9%	0.22	-6.1%
DPS	0.17	0.17	0.0%	0.17	0.6%	0.17	0.17	0.0%	0.17	0.0%

Source: SG Cross Asset Research/Equity

P&L

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Revenues	**735**	**703**	**691**	**677**	**664**	**652**
Opex	(241)	(234)	(225)	(215)	(207)	(199)
EBITDA	**494**	**469**	**466**	**462**	**457**	**453**
D&A	(209)	(210)	(212)	(209)	(205)	(202)
EBIT	**285**	**259**	**254**	**253**	**252**	**251**
Financial expenses	(103)	(97)	(81)	(70)	(60)	(49)
Affiliates	9	11	11	13	13	15
Other	(12)	0	0	0	0	0
PBT	**179**	**172**	**185**	**195**	**205**	**217**
Taxes	(76)	(62)	(66)	(68)	(70)	(73)
Minorities	0	0	0	0	0	0
Net profit	**103**	**110**	**119**	**127**	**135**	**144**

Source: SG Cross Asset Research/Equity

Cash flow

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
EBITDA	**494**	**469**	**466**	**462**	**457**	**453**
Taxes	(76)	(62)	(66)	(68)	(70)	(73)
Financial costs	(103)	(97)	(81)	(70)	(60)	(49)
Wk& Other	(22)	(12)	(9)	(9)	(8)	(8)
Op CF	**292**	**297**	**312**	**314**	**318**	**323**
Capex	(175)	(245)	(175)	(138)	(138)	(138)
Disposals	63	0	0	0	0	0
Capital increase	0	0	0	0	0	0
Dividends	(91)	(91)	(91)	(91)	(91)	(91)
FCF	**89**	**(39)**	**45**	**86**	**90**	**95**
Net debt	**2,348**	**2,387**	**2,342**	**2,256**	**2,166**	**2,072**
ND/EBITDA (x)	**4.7x**	**5.1x**	**5.0x**	**4.9x**	**4.7x**	**4.6x**

Source: SG Cross Asset Research/Equity

EBITDA Breakdown

(€m)	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Electricity	340	331	334	333	331	328	69%	71%	72%	72%	72%	72%
Gas	153	154	147	140	137	133	31%	33%	31%	30%	30%	29%
Other	1	(16)	(14)	(12)	(10)	(8)	0%	-3%	-3%	-3%	-2%	-2%
Total EBITDA	**494**	**469**	**466**	**462**	**457**	**453**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

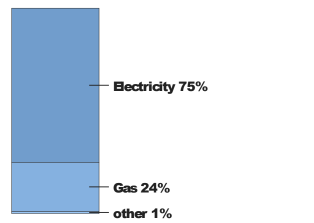
Sum of the parts

(€m)	EV	EV %	RAB	WACC	Premium to RAB
Transmission before Jan-09	1,051	28%	1,151	4.5%	0.9x
Transmission after Jan-09	1,051	28%	999	4.5%	1.1x
Transmission future capex	185	5%		4.5%	
Hydro Land	164	4%	294	4.5%	0.6x
Electr. Other	83	2%		4.5%	
Total electricity	**2,535**	**68%**	**n.a.**	**4.5%**	**n.a.**
Gas	1,119	30%	1,114	4.5%	1.0x
Gas other	60	2%		4.5%	
Gas future capex	26	1%		4.5%	
Total gas	**1,205**	**32%**	**n.a.**	**0.0%**	**n.a.**
Total EV	**3,740**				
Net debt	(2,436)				
Provisions	(91)				
Minorities	0				
Financial Assets	350				
Tariff deficit & other	(145)				
Total Equity	**1,417**				
TP €/Share	**2.65**				

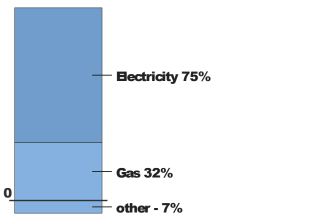
Source: SG Cross Asset Research/Equity

Redes Energeticas Nacionais

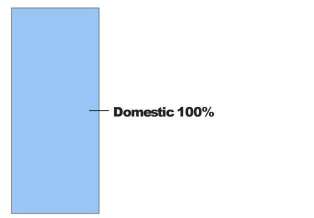
Sales/division 14



EBIT/division 14



Sales/region 14



Major shareholders (%)

China Sate Grid	25.0
Oman Oil	15.0
Port. Gvt	11.1

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	534	534	534	534	534	534	534	534
Share price (average)	2.73	2.30	2.05	2.24	2.63	2.65	2.65	2.65
Average market cap. (SG adjusted) (1)	1,456	1,228	1,093	1,195	1,403	1,414	1,414	1,414
Restated net debt (-)/cash (+) (2)	-2,119	-2,338	-2,514	-2,401	-2,436	-2,348	-2,387	-2,342
Value of minorities (3)	6	6	6	6	6	0	0	0
Value of financial investments (4)	114	116	171	271	335	281	292	304
Other adjustment (5)	71	103	111	131	132	132	132	132
EV = (1) - (2) + (3) - (4) + (5)	3,537	3,561	3,553	3,462	3,642	3,612	3,640	3,584
P/E (x)	5.2	10.2	8.7	10.3	12.4	12.3	12.9	11.8
Price/cash flow (x)	2.7	5.8	9.5	3.1	6.4	4.8	4.8	4.5
Price/free cash flow (x)	14.4	nm	nm	6.03	25.0	12.1	27.1	10.4
Price/book value (x)	1.43	1.19	1.07	1.11	1.24	1.23	1.21	1.18
EV/revenues (x)	3.09	3.88	4.38	4.39	4.82	4.91	5.18	5.18
EV/EBITDA (x)	6.0	7.7	6.9	6.7	7.2	7.3	7.8	7.7
Dividend yield (%)	6.2	7.3	8.3	7.6	6.5	6.5	6.5	6.5
Per share data (€)								
SG EPS (adj.)	0.52	0.23	0.24	0.22	0.21	0.21	0.21	0.22
Cash flow	1.02	0.40	0.22	0.72	0.41	0.55	0.56	0.58
Book value	1.90	1.93	1.91	2.01	2.13	2.15	2.18	2.24
Dividend	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Income statement (€m)								
Revenues	1,145	917	811	789	756	735	703	691
Gross income	670	548	581	583	568	555	528	523
EBITDA	591	465	514	516	506	494	469	466
Depreciation and amortisation	-173	-182	-197	-201	-202	-209	-210	-212
EBIT	418	283	317	315	303	285	259	254
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-88	-108	-143	-150	-123	-103	-97	-81
Exceptional & non-operating items	0	-4	0	-6	0	-12	0	0
Taxation	-56	-59	-55	-57	-76	-76	-62	-66
Minority interests	0	0	0	0	0	0	0	0
Reported net income	278	117	126	110	113	103	110	119
SG adjusted net income	278	121	126	116	113	115	110	119
Cash flow statement (€m)								
EBITDA	591	465	514	516	506	494	469	466
Change in working capital	284	-22	-174	68	26	-11	-12	-9
Other operating cash movements	-331	-231	-224	-198	-312	-191	-159	-146
Cash flow from operating activities	544	212	115	386	219	292	297	312
Net capital expenditure	-443	-349	-201	-188	-163	-175	-245	-175
Free cash flow	101	-136	-85	198	56	117	52	137
Cash flow from investing activities	0	0	0	0	0	63	0	0
Cash flow from financing activities	-109	-90	-91	-91	-91	-91	-91	-91
Net change in cash resulting from CF	-8	-227	-176	107	-35	89	-39	45
Balance sheet (€m)								
Total long-term assets	3,967	4,101	4,288	4,303	4,330	4,242	4,287	4,262
of which intangible	0	0	0	0	0	0	0	0
Working capital	-229	-208	-33	-101	-127	-117	-104	-96
Employee benefit obligations	66	71	106	126	127	127	127	127
Shareholders' equity	1,016	1,031	1,021	1,073	1,136	1,147	1,166	1,194
Minority interests	6	6	6	6	0	0	0	0
Provisions	5	32	5	5	5	5	5	5
Net debt (-)/cash (+)	-2,119	-2,338	-2,645	-2,512	-2,490	-2,401	-2,441	-2,395
Accounting ratios								
ROIC (%)	9.9	5.2	5.8	5.4	4.8	4.4	4.4	4.4
ROE (%)	27.6	11.4	12.3	10.5	10.2	9.0	9.5	10.1
Gross income/revenues (%)	58.5	59.8	71.6	73.9	75.2	75.5	75.1	75.6
EBITDA margin (%)	51.6	50.7	63.4	65.4	66.9	67.2	66.7	67.5
EBIT margin (%)	36.5	30.9	39.0	39.9	40.1	38.7	36.8	36.8
Revenue yoy growth (%)	13.3	-19.9	-11.6	-2.8	-4.2	-2.7	-4.5	-1.6
Rev. organic growth (%)	26.1	-19.9	-11.6	-2.8	-4.2	-2.7	-4.5	-1.6
EBITDA yoy growth (%)	40.9	-21.3	10.5	0.4	-2.0	-2.2	-5.1	-0.5
EBIT yoy growth (%)	61.6	-32.3	11.8	-0.6	-3.7	-6.0	-9.2	-1.7
EPS (adj.) yoy growth (%)	107.5	-56.6	4.4	-7.9	-2.6	1.6	-4.3	8.9
Dividend growth (%)	1.8	0.6	0.6	0.6	0.0	0.0	0.0	0.0
Cash conversion (%)	58.6	9.3	35.6	128.6	84.1	104.2	81.8	111.2
Net debt/equity (%)	207	225	257	233	219	209	209	201
FFO/net debt (%)	21.1	12.7	12.6	12.9	12.6	13.4	13.0	13.7
Dividend paid/FCF (%)	88.7	nm	nm	46.0	163.0	78.0	175.3	66.9

Source: SG Cross Asset Research/Equity

Renewable energies utilities | 12m target downgrade | Portugal

| Renewable energies utilities | **12m target downgrade** | Portugal |

EDP Renovaveis SA

Growth outlook looks very good as does the high FCF (in 2017e)

Buy

Price 22/09/15	**€5.84**
12m target	**€6.90**
Upside to TP	**18.2%**
12m f'cast div	**€0.04**
12m TSR	**18.8%**

@ Go to SG website

Sector stance

Underweight

Preferred stock

Iberdrola, UU, SNAM

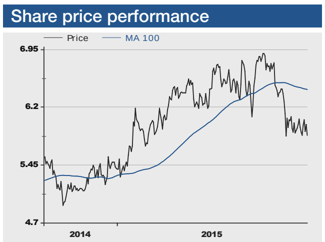
Least preferred stock

SSE

Investment trigger

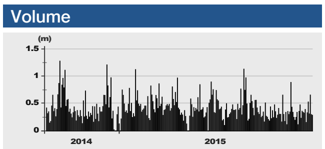
Growth
Debt reduction

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update Our new estimates factor in the depreciation of the Brazilian real as well as lower power prices in Spain based on new commodity price assumptions. As a result, we are cutting our EPS by -2.4%, -2.1% and -3.5% for 2015e, 2016e and 2017e respectively.

SG view We reiterate our positive stance on the back of solid growth prospects (SGe EPS CAGR over 2015-17e of c.25%) and future cash flow generation driven by asset rotation, past efforts in capacity installation, and lower capex ahead (3.2x ND/EBITDA 17e vs 4.4x in 2015e). On top of this, we expect EDPR to be in an interesting situation in 2017 with sound cash flow generation but lower capex needs (fewer opportunities to develop new assets) together with a low payout ratio. On the one hand, weaker growth prospects may lower the stock's multiples but on the other hand, dividend yield may increase materially (to 4.5% with a 100% payout ratio). Another possibility would be to reduce minorities (reversing the current trend) or the parent company may decide to buy them out.

How we value the stock We are trial our TP to €6.9 vs €7.0 due to Brazilian real depreciation. Our valuation is based on a sum-of-the-parts (DCF for each asset, applying regulations, PPA (purchase power agreement) and WACC for each region). Within our EV, Spanish assets account for 23%, Portuguese 13%, the rest of Europe 18%, US assets 41%, while others and the value created by assets under development represent the remaining 5%. Including the €0.04 dividend, this implies a TSR of c.19%.

Events, catalysts & risks The main catalysts ahead are the consolidation of ENEOP and execution of pending asset rotation moves. The main risks to our valuation are lower wind loadings and selling prices than expected as well as a cancellation or delay in the expected rollout of new capacity. Any increase in sovereign risk would also have a negative impact on our valuation, as would US dollar depreciation.

Share data			
RIC EDPR.LS, Bloom EDPR PL			
52-week range			6.90-4.93
EV 15 (€m)			10,072
Mkt cap. (€m)			5,097
Free float (%)			22.5
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	-4.5	-10.1	5.0
Rel. Eurofirst 300	-0.2	3.1	7.2

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	1.32	1.52	1.71	1.80
EBIT margin (%)	31.9	35.7	36.9	36.9
Rep. net inc. (€m)	126	134	193	206
EPS (adj.) (€)	0.14	0.15	0.22	0.24
Dividend/share (€)	0.040	0.043	0.061	0.066
Payout (%)	28	28	28	28
Interest cover (x)	1.69	2.12	2.56	2.91
Net debt/equity (%)	71	71	64	57
Prev. EPS (changed as of 23/09/15)		0.16	0.23	0.25

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	34.8	38.0	26.4	24.7
FCF yield (/EV) (%)	-3.8	2.8	4.8	7.3
Dividend yield (%)	0.8	0.7	1.1	1.1
Price/book value (x)	0.69	0.78	0.75	0.72
EV/revenues (x)	6.94	6.64	5.75	5.37
EV/EBIT (x)	21.7	18.6	15.6	14.5
EV/IC (x)	0.8	0.9	0.8	0.8
ROIC/WACC (x)	0.5	0.5	0.5	0.0
EPS CAGR 14-17e: +17.9%				


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

Main changes

Main changes

(Buy, TP €6.9) vs (Buy, TP €7.0)	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBITDA	1,071	1,056	-1.4%	1,072	-1.5%	1,212	1,200	-1.0%	1,200	0.0%
EPS	0.16	0.15	-2.4%	0.16	-5.3%	0.23	0.22	-2.1%	0.21	3.8%
DPS	0.04	0.04	-2.4%	0.05	-14.8%	0.06	0.06	-2.1%	0.061	0.6%

Source: SG Cross Asset Research/Equity

P&L

€m	2015e	2016e	2017e	2018e	2019e	2020e
Revenues	**1,518**	**1,708**	**1,800**	**1,884**	**1,959**	**2,023**
Opex	(462)	(509)	(540)	(563)	(586)	(609)
EBITDA	**1,056**	**1,200**	**1,260**	**1,321**	**1,373**	**1,414**
D&A	(514)	(570)	(595)	(614)	(634)	(652)
EBIT	**542**	**630**	**665**	**707**	**739**	**762**
Financial expenses	(255)	(246)	(229)	(208)	(185)	(161)
Affiliates	22	23	23	24	24	25
Other	0	0	0	0	0	0
PBT	**309**	**406**	**459**	**522**	**578**	**625**
Taxes	(83)	(111)	(127)	(145)	(161)	(174)
Minorities	(92)	(102)	(127)	(131)	(144)	(148)
Net profit	**134**	**193**	**206**	**246**	**274**	**303**

Source: SG Cross Asset Research/Equity

CF

(€m)	2015e	2016e	2017e	2018e	2019e	2020e
EBITDA	**1,056**	**1,200**	**1,260**	**1,321**	**1,373**	**1,414**
Taxes	(83)	(111)	(127)	(145)	(161)	(174)
Financial costs	(255)	(246)	(229)	(208)	(185)	(161)
Working capital & other	(42)	188	118	(44)	(56)	(67)
Op CF	**926**	**1,030**	**1,023**	**925**	**971**	**1,012**
Capex	(903)	(805)	(549)	(403)	(403)	(403)
Disposals	300	300	0	0	0	0
Capital increase	0	0	0	0	0	0
Dividends	(37)	(54)	(57)	(68)	(76)	(84)
FCF	**36**	**472**	**417**	**454**	**492**	**526**
Net debt	**4,633**	**4,311**	**4,045**	**3,591**	**3,099**	**2,573**
ND/EBITDA (x)	**4.4x**	**3.6x**	**3.2x**	**2.7x**	**2.3x**	**1.8x**

Source: SG Cross Asset Research/Equity

EBITDA breakdown

(€m)	2015e	2016e	2017e	2018e	2019e	2020e	2015e	2016e	2017e	2018e	2019e	2020e
Spain	249	272	274	273	283	281	24%	23%	22%	21%	21%	20%
Portugal	171	209	210	212	213	214	16%	17%	17%	16%	16%	15%
Rest of Europe	179	193	203	227	233	239	17%	16%	16%	17%	17%	17%
North America	431	484	516	538	556	574	41%	40%	41%	41%	41%	41%
Brazil	29	45	61	77	94	113	3%	4%	5%	6%	7%	8%
Adj	(3)	(4)	(5)	(6)	(7)	(7)	0%	0%	0%	0%	0%	-1%
Total EBITDA	**1,056**	**1,200**	**1,260**	**1,321**	**1,373**	**1,414**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

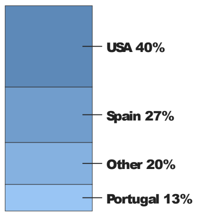
Sum of the parts

€m	EV	EV/MW	MW Dec 14	IRR%	% EV	WACC	EV/EBITDA 15e	EV/EBITDA 16e
Spain	**2,640**	**1.20**	**2,194**	**8.1%**	**23%**	**5.3%**	**10.6x**	**9.7x**
Pre 2004	240	0.69	346	4.2%	2%	5.3%		
Capacity 2005-2008	847	1.21	700	8.7%	7%	5.3%		
Post 2008	1,554	1.35	1,148	8.9%	14%	5.3%		
Portugal	**1,529**	**1.78**	**1,157**	**9.6%**	**13%**	**5.4%**	**8.9x**	**7.3x**
Direct MW	1,099	1.76	624	9.9%	10%	5.4%		
ENEOP (Equity value)	430	1.79	533	9.3%	4%	5.4%		
RoE	**2,112**	**1.49**	**1,414**	**9.4%**	**18%**	**7.5%**	**11.8x**	**10.9x**
France & Belgium	537	1.35	397	6.7%	5%	5.0%		
Poland	636	1.62	392	9.5%	6%	7.5%		
Romania	940	1.50	625	11.0%	8%	9.0%		
USA	**4,747**	**1.24**	**3,835**	**7.8%**	**41%**	**5.0%**	**11.0x**	**9.8x**
MW PPA	4,379	1.30	3,360	8.4%	38%	5.0%		
MW Merchant	368	0.78	475	3.7%	3%	5.0%		
RoW	**85**	**1.02**	**84**	**14.0%**	**1%**	**9.0%**	**2.9x**	**1.9x**
Pipeline 2015-2017	**446**	**0.29**	**1,555**	**n.a.**	**4%**	**n.a.**		
Work in progress	**177**				**2%**			
Structure costs	**-272**				**-2%**			
Total EV	**11,465**						**10.9x**	**9.6x**
Net Debt	(3,692)							
Tax equity liabilities	(1,235)							
Provisions & liabilities	(74)							
Minorities	(544)							
Financial Assets	103							
Equity	**6,022**							
Equity value	**6.90**							

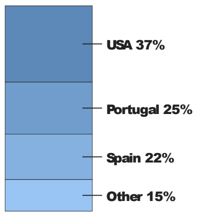
Source: SG Cross Asset Research/Equity

EDP Renovaveis SA

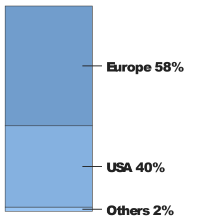
Sales/division 14



EBIT/division 14



Sales/region 14



Major shareholders (%)

EDP	77.5

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	872	872	872	872	872	872	872	872
Share price (average)	4.97	4.47	3.50	3.93	5.03	5.84	5.84	5.84
Average market cap. (SG adjusted) (1)	4,335	3,901	3,055	3,424	4,385	5,097	5,097	5,097
Restated net debt (-)/cash (+) (2)	-4,119	-4,630	-4,570	-4,263	-4,519	-4,633	-4,311	-4,045
Value of minorities (3)	126	127	325	418	549	641	742	869
Value of financial investments (4)	64	61	57	72	376	398	421	444
Other adjustment (5)	54	58	64	68	99	99	99	99
EV = (1) - (2) + (3) - (4) + (5)	8,570	8,655	7,957	8,101	9,176	10,072	9,829	9,665
P/E (x)	54.1	51.1	24.8	25.3	34.8	38.0	26.4	24.7
Price/cash flow (x)	5.2	21.0	4.7	10.3	39.4	5.5	4.9	5.0
Price/free cash flow (x)	nm	nm	34.4	nm	nm	223	22.6	10.8
Price/book value (x)	0.80	0.72	0.53	0.56	0.69	0.78	0.75	0.72
EV/revenues (x)	9.04	8.10	6.19	5.97	6.94	6.64	5.75	5.37
EV/EBITDA (x)	12.0	10.8	8.5	8.6	10.2	9.5	8.2	7.7
Dividend yield (%)	0.0	0.0	1.0	1.0	0.8	0.7	1.1	1.1
Per share data (€)								
SG EPS (adj.)	0.092	0.087	0.14	0.15	0.14	0.15	0.22	0.24
Cash flow	0.95	0.21	0.74	0.38	0.13	1.06	1.18	1.17
Book value	6.18	6.25	6.59	6.98	7.26	7.47	7.75	8.07
Dividend	0.00	0.00	0.036	0.040	0.040	0.043	0.061	0.066
Income statement (€m)								
Revenues	948	1,069	1,285	1,356	1,322	1,518	1,708	1,800
Gross income	768	862	1,000	1,014	969	1,113	1,252	1,320
EBITDA	713	801	938	947	903	1,056	1,200	1,260
Depreciation and amortisation	-423	-453	-487	-474	-481	-514	-570	-595
EBIT	290	348	450	473	422	542	630	665
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	-169	-239	-271	-247	-228	-233	-224	-206
Exceptional & non-operating items	0	11	3	0	0	0	0	0
Taxation	-38	-28	-46	-57	-16	-83	-111	-127
Minority interests	-3	-2	-10	-34	-52	-92	-102	-127
Reported net income	80	89	126	135	126	134	193	206
SG adjusted net income	80	76	123	135	126	134	193	206
Cash flow statement (€m)								
EBITDA	713	801	938	947	903	1,056	1,200	1,260
Change in working capital	140	-269	-99	-98	474	63	42	-28
Other operating cash movements	-22	-346	-192	-518	-1,266	-193	-212	-210
Cash flow from operating activities	831	186	646	332	111	926	1,030	1,023
Net capital expenditure	-1,801	-708	-557	-627	-732	-903	-805	-549
Free cash flow	-970	-522	89	-295	-621	23	225	474
Cash flow from investing activities	0	0	0	637	400	300	300	0
Cash flow from financing activities	0	11	-29	-35	-35	-287	-54	-57
Net change in cash resulting from CF	-970	-511	60	307	-256	36	472	417
Balance sheet (€m)								
Total long-term assets	11,452	11,906	12,010	11,888	12,840	13,211	13,179	13,165
of which intangible	1,367	1,334	1,327	1,346	1,405	1,443	1,436	1,431
Working capital	-878	-609	-510	-412	-886	-949	-991	-963
Employee benefit obligations	54	58	64	68	99	99	99	99
Shareholders' equity	5,268	5,328	5,424	5,672	5,782	5,879	6,019	6,168
Minority interests	126	127	325	418	549	641	742	869
Provisions								
Net debt (-)/cash (+)	-4,119	-4,630	-4,570	-4,263	-4,519	-4,633	-4,311	-4,045
Accounting ratios								
ROIC (%)	2.0	2.5	3.0	3.1	3.4	3.4	3.9	4.1
ROE (%)	1.5	1.7	2.3	2.4	2.2	2.3	3.3	3.4
Gross income/revenues (%)	81.0	80.6	77.8	74.8	73.3	73.3	73.3	73.3
EBITDA margin (%)	75.2	74.9	73.0	69.8	68.3	69.6	70.2	70.0
EBIT margin (%)	30.6	32.5	35.0	34.9	31.9	35.7	36.9	36.9
Revenue yoy growth (%)	30.8	12.8	20.2	5.5	-2.5	14.8	12.6	5.4
Rev. organic growth (%)	10.0	10.0	20.2	5.5	-2.5	14.8	12.6	5.4
EBITDA yoy growth (%)	31.4	12.3	17.1	1.0	-4.6	16.9	13.6	5.1
EBIT yoy growth (%)	25.6	19.9	29.5	5.1	-10.7	28.3	16.2	5.6
EPS (adj.) yoy growth (%)	-29.7	-4.9	61.2	9.9	-6.8	6.5	44.1	6.7
Dividend growth (%)	na	na	na	10.5	0.0	6.5	44.1	6.7
Cash conversion (%)	nm	nm	91.6	5.2	nm	66.6	92.5	124.7
Net debt/equity (%)	76	85	79	70	71	71	64	57
FFO/net debt (%)	12.3	11.5	13.6	15.1	14.6	16.0	20.1	23.0
Dividend paid/FCF (%)	nm	nm	35.6	nm	nm	162.3	23.8	12.1

Source: SG Cross Asset Research/Equity

-

| Energy Equipment & Services | **Rating reiterated** | Spain |

Saeta Yield

High Yield and high growth, with a clear catalyst around the corner

Buy

Price 22/09/15	**€8.30**
12m target	**€12.0**
Upside to TP	**44.6%**
12m f'cast div	**€0.69**
12m TSR	**52.9%**

@ Go to SG website

Sector stance

Underweight

Preferred stock

Iberdrola, UU, SNAM

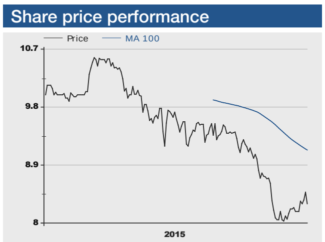
Least preferred stock

SSE

Investment trigger

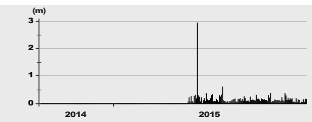
Growth
High dividend yield

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update Management said at the H1 15 results presentation that an acquisition of two solar thermal plants could be around the corner. That would increase the company's leverage (lowering WACC), but cash flow available for Distribution would also increase by c.€13-15m, increasing the dividend yield to 10%.

SG view In our view, Saeta has a sound asset portfolio and low leverage (vs. peers and also in absolute terms considering the low risk profile of the asset portfolio), which should pave the way for strong growth on the back of the attractive ROFO assets offered by its sponsor. It is a dividend-oriented company which already offers a dividend yield of 8.5%, but dividends could potentially double in two years due to the acquisition of already identified assets (ROFO). Saeta has a commitment to distribute as dividends 90% of the cash available for distribution (CAFD) which, based on the current asset portfolio, equates to €57m per annum. On top of that, Saeta has no exposure to LatAm currently, and in our view, Renewable assets are (together with regulated networks) the least risky assets to have ahead of the general elections in Spain.

How we value the stock Our unchanged €12.0 target price is based on a sum-of-the parts (current assets DCF at a WACC of 4.3%). This also reflects value creation linked to the acquisition of three solar thermal plants in Spain on which Saeta has a call option.

Events, catalysts & risks Risks to TP relate to unexpected regulatory changes, failure or delay of the anticipated asset acquisitions, lower power prices in Spain and higher sovereign risks. The main catalyst would be the acquisition of assets included in the ROFO or any other acquisition from third parties.

Share data			
RIC SAY.MC, Bloom SAY SQ			
52-week range			na-na
EV 15 (€m)			1,468
Mkt cap. (m)			677
Free float (%)			52.0
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	-3.7	-13.1	na
Rel. Eurofirst 300	na	na	na

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€m)	216	224	224	224
EBIT margin (%)	35.5	38.5	38.4	38.4
Rep. net inc. (€m)	11.4	31.5	37.4	38.7
EPS (adj.) (€)	0.14	0.39	0.46	0.47
Dividend/share (€)	0.098	0.69	0.69	0.69
Payout (%)	70	180	151	146
Interest cover (x)	1.36	2.03	2.39	2.49
Net debt/equity (%)	282	158	151	142

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	na	21.5	18.1	17.5
FCF yield (/EV) (%)	-19.1	16.7	11.1	11.6
Dividend yield (%)	na	8.4	8.3	8.4
Price/book value (x)	na	1.47	1.53	1.60
EV/revenues (x)	na	6.56	6.28	5.97
EV/EBIT (x)	na	17.0	16.4	15.6
EV/IC (x)	na	0.6	0.6	0.6
ROIC/WACC (x)	na	0.5	0.6	0.6

EPS CAGR 14-17e: +50.3%


Equity analyst
Jorge Alonso
(34) 91 589 39 13
jorge.alonso@sgcib.com


Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

P&L

€m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Revenues	224	224	224	225	226	227
Opex	(68)	(69)	(69)	(69)	(70)	(70)
EBITDA	**155**	**155**	**156**	**156**	**156**	**157**
D&A	(69)	(69)	(69)	(69)	(70)	(70)
EBIT	**86**	**86**	**86**	**87**	**87**	**88**
Financial expenses	(42)	(36)	(35)	(33)	(30)	(27)
Affiliates	0	0	0	0	0	0
Other	0	0	0	0	0	0
PBT	**44**	**50**	**52**	**54**	**57**	**61**
Taxes	(12)	(12)	(13)	(13)	(14)	(15)
Minorities	0	0	0	0	0	0
Net profit	**31**	**37**	**39**	**40**	**43**	**46**

Source: SG Cross Asset Research/Equity

Cash Flow

€m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
EBITDA	**155**	**155**	**156**	**156**	**156**	**157**
Taxes	(12)	0	0	0	0	0
Fin costs	(42)	(36)	(35)	(33)	(30)	(27)
Wk& Other	48	(57)	(58)	(60)	(63)	(67)
Op CF	**149**	**63**	**63**	**64**	**64**	**64**
Capex	0	0	0	0	0	0
Disposals	0	1	2	3	4	5
Capital increase	130	0	0	0	0	0
Dividends	(57)	(57)	(57)	(57)	(57)	(57)
FCF	**223**	**7**	**8**	**10**	**11**	**12**
Net debt	**728**	**665**	**601**	**535**	**465**	**393**
ND/EBITDA (x)	**4.7x**	**4.3x**	**3.9x**	**3.4x**	**3.0x**	**2.5x**

Source: SG Cross Asset Research/Equity

EBITDA breakdown

€ m	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e	2015 e	2016 e	2017 e	2018 e	2019 e	2020 e
Wind assets	76	76	76	76	76	77	49%	49%	49%	49%	49%	49%
Solar thermal assets	82	82	82	82	82	82	52%	53%	53%	53%	53%	52%
Other	(2)	(2)	(2)	(2)	(2)	(2)	-1%	-1%	-1%	-1%	-1%	-1%
Total EBITDA	**155**	**155**	**156**	**156**	**156**	**157**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SG Cross Asset Research/Equity

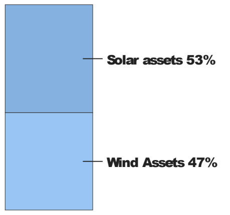
Sum-of-the-parts

€m	EV	MW	EV/MW	Criteria	WACC	EV/EBITDA 15e	EV/EBITDA 16e	EV/EBITDA 17e
Wind assets - Spain	575	539	1.07	DCF	4.3%	7.6x	7.6x	7.6x
Extresol 1 - CSP	297	50	5.9	DCF	4.3%	10.9x	10.9x	10.8x
Manchasol 2 - CSP	320	50	6.4	DCF	4.3%	11.5x	11.5x	11.5x
Casablanca - CSP	308	50	6.2	DCF	4.3%	11.7x	11.7x	11.7x
ROFO assets								
Manchasol 1 - CSP	281	50	5.6	DCF	4.3%	n.a.	n.a.	10.1x
Extresol 2 - CSP	296	50	5.9	DCF	4.3%	n.a.	10.7x	10.7x
Extresol 3 - CSP	323	50	6.5	DCF	4.3%	n.a.	11.5x	11.4x
Total EV	**2,400**					**10.0x**	**10.0x**	**10.0x**
Net debt	(1,503)							
Minorities	0							
Liabilities	0							
Provisions	0							
Tax credits	71							
Fin assets	9							
Equity value	**977**							
TP (€ p.s.)	**12.0**							

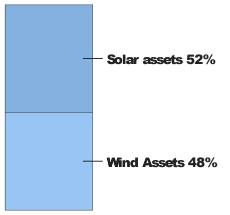
Source: SG Cross Asset Research/Equity

Saeta Yield

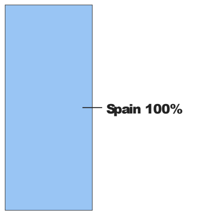
Sales/division 15



EBIT/division 15



Sales/region 15



Major shareholders (%)

ACS	24.0
GIP	24.0

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	na	0.00	0.00	0.00	81.6	81.6	81.6	81.6
Share price (average)						8.30	8.30	8.30
Average market cap. (SG adjusted) (1)	0	0	0	0	0	0	0	0
Restated net debt (-)/cash (+) (2)	na	0	0	0	-1,004	-728	-665	-601
Value of minorities (3)	na	0	0	0	0	0	0	0
Value of financial investments (4)	na	0	0	0	9	9	9	9
Other adjustment (5)	na	0	0	0	71	71	71	71
EV = (1) - (2) + (3) - (4) + (5)	na	na	na	na	na	1,468	1,405	1,340
P/E (x)	na	na	na	na	na	21.5	18.1	17.5
Price/cash flow (x)	na	na	na	na	nm	3.4	5.7	5.6
Price/free cash flow (x)	na	na	na	na	nm	3.35	5.68	5.60
Price/book value (x)	na	na	na	na	na	1.47	1.53	1.60
EV/revenues (x)	na	na	na	na	na	6.56	6.28	5.97
EV/EBITDA (x)	na	na	na	na	na	9.4	9.0	8.6
Dividend yield (%)	na	na	na	na	na	8.4	8.3	8.4
Per share data (€)								
SG EPS (adj.)	na	0.00	0.00	0.00	0.14	0.39	0.46	0.47
Cash flow	na	0.00	0.00	0.00	-4.54	2.48	1.46	1.48
Book value	na	0.00	0.00	0.00	4.36	5.65	5.41	5.19
Dividend	na	0.00	0.00	0.00	0.098	0.69	0.69	0.69
Income statement (€m)								
Revenues	na	0	0	0	216	224	224	224
Gross income	na	0	0	0	203	210	210	211
EBITDA	na	0	0	0	153	155	155	156
Depreciation and amortisation	na	0	0	0	-76	-69	-69	-69
EBIT	na	0	0	0	77	86	86	86
Impairment losses	0	0	0	0	0	0	0	0
Net interest income	na	0	0	0	-56	-42	-36	-35
Exceptional & non-operating items	0	0	0	0	0	0	0	0
Taxation	na	0	0	0	-9	-12	-12	-13
Minority interests	na	0	0	0	0	0	0	0
Reported net income	na	0	0	0	11	31	37	39
SG adjusted net income	na	0	0	0	11	31	37	39
Cash flow statement (€m)								
EBITDA	na	0	0	0	153	155	155	156
Change in working capital	na	0	0	0	-466	101	0	0
Other operating cash movements	0	0	0	0	-56	-55	-36	-35
Cash flow from operating activities	na	0	0	0	-370	202	119	121
Net capital expenditure	na	0	0	0	-20	0	0	0
Free cash flow	na	0	0	0	-390	202	119	121
Cash flow from investing activities	na	0	0	0	0	0	0	0
Cash flow from financing activities	na	0	0	0	926	21	-113	-115
Net change in cash resulting from CF	na	0	0	0	536	223	6	6
Balance sheet (€m)								
Total long-term assets	na	0	0	0	2,904	2,765	2,614	2,462
of which intangible	0	0	0	0	1,410	1,340	1,271	1,202
Working capital	0	0	0	0	51	-50	-50	-51
Employee benefit obligations	na							
Shareholders' equity	na	0	0	0	356	461	442	424
Minority interests	na	0	0	0	0	0	0	0
Provisions	na	0	0	0	0	0	0	0
Net debt (-)/cash (+)	na	0	0	0	-1,004	-728	-665	-601
Accounting ratios								
ROIC (%)	na	na	na	na	na	2.3	2.5	2.7
ROE (%)	na	na	na	na	na	7.7	8.3	8.9
Gross income/revenues (%)	na	na	na	na	94.1	93.9	93.9	93.9
EBITDA margin (%)	na	na	na	na	70.7	69.5	69.3	69.3
EBIT margin (%)	na	na	na	na	35.5	38.5	38.4	38.4
Revenue yoy growth (%)	na	na	na	na	na	3.7	0.0	0.2
Rev. organic growth (%)	na	0.0	0.0	0.0	-3.7	3.7	0.0	0.2
EBITDA yoy growth (%)	na	na	na	na	na	1.9	-0.1	0.2
EBIT yoy growth (%)	na	na	na	na	na	12.4	-0.3	0.2
EPS (adj.) yoy growth (%)	na	na	na	na	na	176.1	18.9	3.3
Dividend growth (%)	na	na	na	na	na	nm	-0.4	0.3
Cash conversion (%)	na	na	na	na	nm	nm	nm	nm
Net debt/equity (%)	na	na	na	na	282	158	151	142
FFO/net debt (%)	na	na	na	na	8.7	13.8	16.1	18.0
Dividend paid/FCF (%)	na	na	na	na	nm	28.1	47.3	46.8

Source: SG Cross Asset Research/Equity

APPENDIX

COMPANIES MENTIONED

ACS (ACS.MC, Buy)
Centrica (CNA.L, Hold)
Compania General de Electricidad (CGE.CI, No Reco)
Drax (DRX.L, Hold)
E.ON (EONGn.DE, Buy)
EDF (EDF.PA, Hold)
EDP Renovaveis SA (EDPR.LS, Buy)
Enagas (ENAG.MC, Buy)
Endesa SA (ELE.MC, Hold)
Enel (ENEI.MI, Buy)
Enel Green Power (EGPW.MI, Buy)
Energias de Portugal (EDP.LS, Sell)
Engie (ENGIE.PA, Buy)
Gas Natural SDG (GAS.MC, Buy)
Iberdrola (IBE.MC, Buy)
IPIC (nocode98, No Reco)
Norsk Hydro (NHY.OL, No Reco)
Red Electrica (REE.MC, Hold)
Redes Energeticas Nacionais (RENE.LS, Hold)
Repsol (REP.MC, Hold)
RWE (RWEG.DE, Sell)
Saeta Yield (SAY.MC, Buy)
SM Energy (SM.N, No Reco)
SNAM (SRG.MI, Buy)
SSE (SSE.L, Sell)
Terna (TRN.MI, Hold)
United Utilities (UU.L, Buy)

ANALYST CERTIFICATION

The following named research analyst(s) hereby certifies or certify that (i) the views expressed in the research report accurately reflect his or her or their personal views about any and all of the subject securities or issuers and (ii) no part of his or her or their compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report: **Jorge Alonso**

The analyst(s) who author research are employed by SG and its affiliates in locations, including but not limited to, Paris, London, New York, Dallas, Hong Kong, Tokyo, Bangalore, Mumbai, Frankfurt, Madrid, Milan, Seoul, Warsaw and Moscow.

SG EQUITY RESEARCH RATINGS on a 12 months period

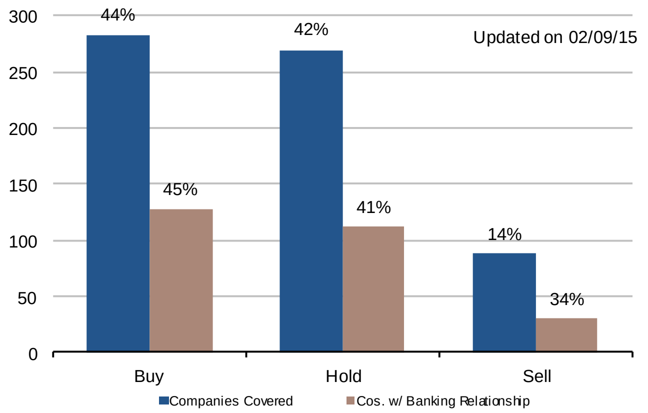
BUY: absolute total shareholder return forecast of 15% or more over a 12 month period.

HOLD: absolute total shareholder return forecast between 0% and +15% over a 12 month period.

SELL: absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

Sector Weighting Definition on a 12 months period:

The sector weightings are assigned by the SG Equity Research Strategist and are distinct and separate from SG equity research analyst ratings. They are based on the relevant MSCI.

OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

NEUTRAL: sector expected to perform in-line with the relevant broad market benchmark over the next 12 months.

UNDERWEIGHT: sector expected to underperform the relevant broad market benchmark over the next 12 months.

The Preferred and Least preferred stocks are selected by the covering analyst based on the individual analyst's coverage universe and not by the SG Equity Research Strategist.
All pricing information included in this report is as of market close, unless otherwise stated.

MSCI DISCLAIMER: The MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are service marks of MSCI and its affiliates or such similar language as may be provided by or approved in advance by MSCI.

IMPORTANT DISCLOSURES

ACS	SG acted as joint bookrunner in ACS' inaugural bond issue (5yr).
ACS	SG acted as joint dealer manager in the tender offer of outstanding ACS exchangeable bonds into Iberdrola (EUR 721.1M 2.625% 2018 & EUR 405.6M 1.625% 2019).
Compania General de Electricidad	SG acted as financial advisor to Gas Natural in the acquisition of CGE (and potentially its subsidiary GASCO)
EDF	SG is acting as financial advisor in the potential acquisition of Areva NP by EDF.
Enagas	SG acted as passive bookrunner for Enagas's bond issue (8y EUR).
Enagas	SG acted as joint bookrunner in Enagas' bond issue (EUR, 10yr)
Enel	SG acted as joint dealer manager in Enel's Tender offer.
Enel	SG makes a market in Enel warrants
Enel Green Power	SG acted as financial advisor to Enel Green Power for the disposal of its French subsidiary (Enel Green Power SAS) to Boralex Inc.
Energias de Portugal	SG acted as joint bookrunner in EDP's bond issue.
Energias de Portugal	SG acted as joint bookrunner in EDP's bond issue (EUR, 2.625% 18/01/2022)
Engie	SG acted as a lead structuring advisor in Engie's bond tender offer.
Engie	SG acted as passive joint bookrunner in GDF Suez's bond issue.
Engie	SG acted as joint dealer manager in GDF SUEZ's tender offer (targeting some 10/2017, 02/2021, 07/2022, 10/2022, 02/2023 bonds).
Gas Natural SDG	SG acted as joint bookrunner in Gas Natural's hybrid bond issue
Gas Natural SDG	SG acted as a bookrunner in Gas Natural hybrids issue
Gas Natural SDG	SG acted as financial advisor to Gas Natural in the acquisition of CGE
Iberdrola	SG acted as joint dealer manager in the tender offer of outstanding ACS exchangeable bonds into Iberdrola (EUR 721.1M 2.625% 2018 & EUR 405.6M 1.625% 2019).
Saeta Yield	SG acted as joint global coordinator and joint bookrunner in Saeta Yield's IPO.
Terna	SG acted as joint bookrunner in Terna's bond issue (EUR, 7yr)

SG and its affiliates beneficially own 1% or more of any class of common equity of ACS, Enel.
SG or its affiliates act as market maker or liquidity provider in the equities securities of ACS, E.ON, EDF, Enagas, Endesa SA, Enel, Engie, Gas Natural SDG, Iberdrola, RWE, Repsol, SNAM, Terna.
SG or its affiliates expect to receive or intend to seek compensation for investment banking services in the next 3 months from ACS, E.ON, EDF, Enagas, Enel Green Power, Enel, RWE, Terna.
SG or its affiliates had an investment banking client relationship during the past 12 months with ACS, Compania General de Electricidad, EDF, Enagas, Enel Green Power, Enel, Energias de Portugal, Engie, Gas Natural SDG, Iberdrola, Saeta Yield, Terna.
SG or its affiliates have received compensation for investment banking services in the past 12 months from ACS, Compania General de Electricidad, EDF, Enagas, Enel Green Power, Enel, Energias de Portugal, Engie, Gas Natural SDG, Iberdrola, Saeta Yield, Terna.
SG or its affiliates managed or co-managed in the past 12 months a public offering of securities of ACS, Enagas, Enel, Energias de Portugal, Engie, Gas Natural SDG, Iberdrola, Saeta Yield, Terna.
SG received compensation for products and services other than investment banking services in the past 12 months from ACS, Centrica, Drax, E.ON, EDF, EDP Renovaveis SA, Enagas, Enel Green Power, Enel, Engie, Gas Natural SDG, IPIC, Iberdrola, Norsk Hydro, RWE, Repsol, SNAM, SSE, Saeta Yield, Terna, United Utilities.
SGAS had a non-investment banking non-securities services client relationship during the past 12 months with ACS, Centrica, Drax, E.ON, EDF, EDP Renovaveis SA, Engie, Gas Natural SDG, IPIC, Norsk Hydro, RWE, Repsol.
SGAS received compensation for products and services other than investment banking services in the past 12 months from ACS, Centrica, Drax, E.ON, EDF, EDP Renovaveis SA, Engie, Gas Natural SDG, IPIC, Norsk Hydro, RWE, Repsol.

FOR DISCLOSURES PERTAINING TO COMPENDIUM REPORTS OR RECOMMENDATIONS OR ESTIMATES MADE ON SECURITIES OTHER THAN THE PRIMARY SUBJECT OF THIS RESEARCH REPORT, PLEASE VISIT OUR GLOBAL RESEARCH DISCLOSURE WEBSITE AT http://www.sgresearch.com/compliance.rha or call +1 (212).278.6000 in the U.S.

European Specialty Sales
If a European specialist sales personnel is listed on the cover of research reports, these employees are in SG's Global Markets division responsible for the sales effort in their sector and are not part of SG's Cross-Asset Research Department. Specialist Sales do not contribute in any manner to the content of research reports in which their names appear.

The analyst(s) responsible for preparing this report receive compensation that is based on various factors including SG's total revenues, a portion of which are generated by investment banking activities.

Non-U.S. Analyst Disclosure: The name(s) of any non-U.S. analysts who contributed to this report and their SG legal entity are listed below. U.S. analysts are employed by SG Americas Securities LLC. The non-U.S. analysts are not registered/qualified with FINRA, may not be associated persons of SGAS and may not be subject to the FINRA restrictions on communications with a subject company, public appearances and trading securities held in the research analyst(s)' account(s): Jorge Alonso Société Générale Madrid, Alberto Ponti Société Générale London

IMPORTANT DISCLAIMER: The information herein is not intended to be an offer to buy or sell, or a solicitation of an offer to buy or sell, any securities and has been obtained from, or is based upon, sources believed to be reliable but is not guaranteed as to accuracy or completeness. Material contained in this report satisfies the regulatory provisions concerning independent investment research as defined in MiFID. Information concerning conflicts of interest and SG's management of such conflicts is contained in the SG's Policies for Managing Conflicts of Interests in Connection with Investment Research which is available at https://www.sgresearch.com/Content/Compliance/Compliance.aspx SG does, from time to time, deal, trade in, profit from, hold, act as market-makers or advisers, brokers or bankers in relation to the securities, or derivatives thereof, of persons, firms or entities mentioned in this document and may be represented on the board of such persons, firms or entities. SG

does, from time to time, act as a principal trader in equities or debt securities that may be referred to in this report and may hold equity or debt securities positions. Employees of SG, or individuals connected to them, may from time to time have a position in or hold any of the investments or related investments mentioned in this document. SG is under no obligation to disclose or take account of this document when advising or dealing with or on behalf of customers. The views of SG reflected in this document may change without notice. In addition, SG may issue other reports that are inconsistent with, and reach different conclusions from, the information presented in this report and is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. To the maximum extent possible at law, SG does not accept any liability whatsoever arising from the use of the material or information contained herein. This research document is not intended for use by or targeted to retail customers. Should a retail customer obtain a copy of this report he/she should not base his/her investment decisions solely on the basis of this document and must seek independent financial advice.
The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed decisions and seek their own advice regarding the appropriateness of investing in financial instruments or implementing strategies discussed herein. The value of securities and financial instruments is subject to currency exchange rate fluctuation that may have a positive or negative effect on the price of such securities or financial instruments, and investors in securities such as ADRs effectively assume this risk. SG does not provide any tax advice. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Investments in general, and derivatives in particular, involve numerous risks, including, among others, market, counterparty default and liquidity risk. Trading in options involves additional risks and is not suitable for all investors. An option may become worthless by its expiration date, as it is a depreciating asset. Option ownership could result in significant loss or gain, especially for options of unhedged positions. Prior to buying or selling an option, investors must review the "Characteristics and Risks of Standardized Options" at http://www.optionsclearing.com/about/publications/character-risks.jsp or from your SG representative. Analysis of option trading strategies does not consider the cost of commissions. Supporting documentation for options trading strategies is available upon request.

Notice to French Investors: This publication is issued in France by or through Société Générale ("SG") which is authorised and supervised by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the Autorité des Marchés Financiers (AMF).
Notice to U.K. Investors: Société Générale is a French credit institution (bank) authorised by the Autorité de Contrôle Prudentiel (the French Prudential Control Authority) and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.
Notice to Swiss Investors: This document is provided in Switzerland by or through Société Générale Paris, Zürich Branch, and is provided only to qualified investors as defined in article 10 of the Swiss Collective Investment Scheme Act ("CISA") and related provisions of the Collective Investment Scheme Ordinance and in strict compliance with applicable Swiss law and regulations. The products mentioned in this document may not be suitable for all types of investors. This document is based on the Directives on the Independence of Financial Research issued by the Swiss Bankers Association (SBA) in January 2008.
Notice to Polish Investors: this document has been issued in Poland by Societe Generale S.A. Oddzial w Polsce ("the Branch") with its registered office in Warsaw (Poland) at 111 Marszałkowska St. The Branch is supervised by the Polish Financial Supervision Authority and the French "Autorité de Contrôle Prudentiel". This report is addressed to financial institutions only, as defined in the Act on trading in financial instruments. The Branch certifies that this document has been elaborated with due dilligence and care.
Notice to U.S. Investors: For purposes of SEC Rule 15a-6, SG Americas Securities LLC ("SGAS") takes responsibility for this research report. This report is intended for institutional investors only. Any U.S. person wishing to discuss this report or effect transactions in any security discussed herein should do so with or through SGAS, a U.S. registered broker-dealer, futures commission merchant (FCM) and swap dealer. SGAS is a member of FINRA, NYSE, NFA and SIPC and its registered address is at 245 Park Avenue, New York, NY, 10167. (212)-278-6000.
Notice to Canadian Investors: This document is for information purposes only and is intended for use by Permitted Clients, as defined under National Instrument 31-103, Accredited Investors, as defined under National Instrument 45-106, Accredited Counterparties as defined under the Derivatives Act (Québec) and "Qualified Parties" as defined under the ASC, BCSC, SFSC and NBSC Orders
Notice to Singapore Investors: This document is provided in Singapore by or through Société Générale ("SG"), Singapore Branch and is provided only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. Recipients of this document are to contact Société Générale, Singapore Branch in respect of any matters arising from, or in connection with, the document. If you are an accredited investor or expert investor, please be informed that in SG's dealings with you, SG is relying on the following exemptions to the Financial Advisers Act, Cap. 110 ("FAA"): (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts SG from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts SG from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAR, which exempts SG from complying with Section 36 of the FAA on disclosure of certain interests in securities.
Notice to Hong Kong Investors: This report is distributed in Hong Kong by Société Générale, Hong Kong Branch which is licensed by the Securities and Futures Commission of Hong Kong under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). This document does not constitute a solicitation or an offer of securities or an invitation to the public within the meaning of the SFO. This report is to be circulated only to "professional investors" as defined in the SFO.
Notice to Japanese Investors: This publication is distributed in Japan by Societe Generale Securities (North Pacific) Ltd., Tokyo Branch, which is regulated by the Financial Services Agency of Japan. This document is intended only for the Specified Investors, as defined by the Financial Instruments and Exchange Law in Japan and only for those people to whom it is sent directly by Societe Generale Securities (North Pacific) Ltd., Tokyo Branch, and under no circumstances should it be forwarded to any third party. The products mentioned in this report may not be eligible for sale in Japan and they may not be suitable for all types of investors.
Notice to Korean Investors: This report is distributed in Korea by SG Securities Korea Co., Ltd which is regulated by the Financial Supervisory Service and the Financial Services Commission.
Notice to Australian Investors: Societe Generale is exempt from the requirement to hold an Australian financial services licence (AFSL) under the Corporations Act 2001 (Cth) in respect of financial services, in reliance on ASIC Class Order 03/8240, a copy of which may be obtained at the web site of the Australian Securities and Investments Commission, http://www.asic.gov.au. The class order exempts financial services providers with a limited connection to Australia from the requirement to hold an AFSL where they provide financial services only to wholesale clients in Australia on certain conditions. Financial services provided by Societe Generale may be regulated under foreign laws and regulatory requirements, which are different from the laws applying in Australia.