European Equity Research

Spain – Electricity

June 23, 2016

# ACCIONA

**BUY**

## Here Comes the Cash

**CURRENT PRICE: €68.02**
**TARGET PRICE: €83.20**

**We are upgrading Acciona to Buy from Hold and raising our TP to €83.20/share from €69.65/share, implying 22% upside potential.** We think the best way for investors to be protected from technological disruptions is through networks and renewables. Acciona is one of the best options, in our view, due to its strong CF generation with average operating CF 2017E-20E c€0.8bn pa (for a €3.8bn market cap company). This gives the company freedom to decide between: (1) further improving the balance sheet; (2) paying higher dividends; or (3) more growth.

**ND/EBITDA 2016E may look a bit tight at 4.6x vs the target range of 4.0-4.5x, but in 2017E it should be 4.1x.** The main reasons for 2016's ratio are higher capex, dividends and a small decrease in EBITDA due to low power prices in Spain. We are not including possible disposals of assets, which could improve the ratio. In 2017E, updated Spanish regulations, lower capex and the commissioning of assets should improve Acciona's ND/EBITDA.

**Renewable regulations to be updated in Spain by year end. We expect an increase in incentives** to offset the decrease in power prices in 2016. Even if the regulator increases incentives less than it theoretically should, the impact on ANA would be small: less than 2% of total 2017E-19E EBITDA and 1% of our TP.

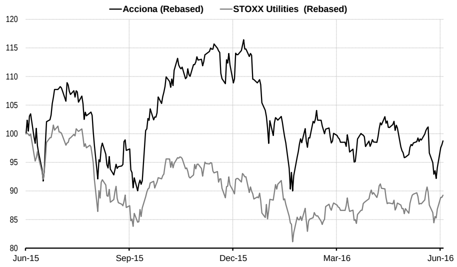
**Optionality.** We forecast cash generation of c€1.0bn in 2017E-20E. In our central scenario, 100% of it is used to reduce leverage (3.0x ND/EBITDA 2020E) as the visibility on new growth capex is limited. We think that in a more reasonable scenario, ANA would allocate most of the cash to capex. This would imply that: (1) leverage ratios would be higher but still much lower than now (ND/EBITDA 2020E would be 3.4x with an almost flat net debt vs 2016E); (2) EBITDA would be higher (c€1.5bn in total) and (3) DPS could increase further up to c€4.0/share.

**In conclusion**, we see ANA as an interesting option to play technological disruption in the sector, with attractive cash flow generation and restructuring potential via reducing its exposure to non-core activities like Trasmediterránea, real estate or concessions.

**What Has Changed**

| | |
|---|---|
| **Rating:** | **To Buy from Hold** |
| **Target Price:** | **To €83.20 from €69.65** |

**Relative Performance (12 Months)**




Source: FactSet.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**Company Data, June 22, 2016.**

| | | | |
|---|---|---|---|
| Reuters/Bloomberg code | | | ANA.MC / ANA SM |
| Market cap (€ mn) | | | 3,895 |
| Outst shares (mn) | | | 57 |
| Free float (%) | | | 44.6 |
| Avg daily vol (€ mn) | | | 19.8 |
| 12-month range (€) | | | 61.99 - 80.19 |
| Historical volatility (%) | | | 21.0 |
| **Performance (%)** | **-1M** | **-3M** | **-12M** |
| Absolute | 3.0 | -0.6 | -1.2 |
| Relative to STOXX Utilities | 0.3 | -2.9 | 10.6 |

Source: FactSet.

| **(€ mn)** | **2015** | **2016E** | **2017E** | **2018E** | **2019E** |
|---|---|---|---|---|---|
| EBITDA | 1,174 | 1,162 | 1,260 | 1,329 | 1,379 |
| EBIT | 627 | 1,332 | 711 | 760 | 792 |
| Net income | 207 | 884 | 255 | 308 | 349 |
| EPS (€) | 3.62 | 15.44 | 4.45 | 5.38 | 6.09 |
| Net debt | 5,160 | 5,371 | 5,226 | 5,025 | 4,701 |
| FCF | 514 | -42 | 314 | 379 | 511 |
| EV/EBITDA (x) | 9.3 | 9.4 | 8.6 | 8.0 | 7.5 |
| Net debt/EBITDA (x) | 4.4 | 4.6 | 4.1 | 3.8 | 3.4 |
| P/E (x) | 19.3 | 4.4 | 15.3 | 12.6 | 11.2 |
| GDY (%) | 2.9 | 3.7 | 3.7 | 3.9 | 4.1 |
| FCF yield (%) | 12.8 | -1.1 | 8.1 | 9.7 | 13.1 |

Source: Company data and Santander Investment Bolsa estimates.

# ACCIONA AT A GLANCE

## Key Company Data

| (€ mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|
| **P&L ACCOUNT (€ mn)** | | | | | | |
| EBITDA – liberalised Europe | 386 | 436 | 297 | 329 | 333 | 336 |
| EBITDA – regulated Europe | 381 | 389 | 452 | 455 | 460 | 464 |
| Other | 320 | 349 | 414 | 476 | 536 | 578 |
| Consolidated EBITDA | 1,088 | 1,174 | 1,162 | 1,260 | 1,329 | 1,379 |
| EBIT | 572 | 627 | 1,332 | 711 | 760 | 792 |
| Non-recurrent items | 0 | 0 | 0 | 0 | 0 | 1 |
| Net income | 185 | 207 | 884 | 255 | 308 | 349 |
| | | | | | | |
| **CASH FLOW STATEMENT (€ mn)** | | | | | | |
| Funds from operations (FFO) | 577 | 717 | 664 | 762 | 827 | 879 |
| Working capital | 217 | -36 | -75 | -50 | 0 | 0 |
| Operating Cash Flow | 794 | 681 | 589 | 712 | 827 | 879 |
| Capex | -340 | -223 | -631 | -398 | -448 | -368 |
| Other | -17 | 320 | 26 | 26 | 26 | 26 |
| FCF | 1,042 | 514 | -42 | 314 | 379 | 511 |
| Dividends | 0 | -115 | -143 | -143 | -152 | -160 |
| Others | – | – | – | – | – | – |
| Change in debt | -746 | -135 | 211 | -145 | -201 | -325 |
| | | | | | | |
| **BALANCE SHEET (€ mn)** | | | | | | |
| **Assets** | **15,774** | **15,365** | **16,267** | **16,223** | **16,217** | **16,123** |
| Fixed assets | 10,772 | 10,885 | 11,787 | 11,743 | 11,737 | 11,642 |
| Other | 0 | 0 | 0 | 0 | 0 | 1 |
| Current assets | 5,002 | 4,480 | 4,480 | 4,480 | 4,480 | 4,480 |
| **Liabilities** | **16,143** | **15,778** | **16,680** | **16,635** | **16,629** | **16,535** |
| Shareholders' equity | 3,380 | 3,493 | 4,234 | 4,346 | 4,502 | 4,691 |
| Minority interests | 233 | 261 | 296 | 334 | 373 | 413 |
| Provisions | 518 | 577 | 577 | 577 | 577 | 578 |
| Other | 1,804 | 2,008 | 1,998 | 1,998 | 1,998 | 1,999 |
| Debt | 6,990 | 7,032 | 7,243 | 7,099 | 6,898 | 6,573 |
| Current liabilities | 3,218 | 2,406 | 2,331 | 2,281 | 2,281 | 2,281 |
| | | | | | | |
| **NET DEBT & LEVERAGE RATIOS** | | | | | | |
| Net debt (Curr mn) | 5,294 | 5,160 | 5,371 | 5,226 | 5,025 | 4,701 |
| Adj net debt (Curr mn) | 5,582 | 5,447 | 5,658 | 5,514 | 5,313 | 4,988 |
| Net debt/EBITDA (x) | 4.9 | 4.4 | 4.6 | 4.1 | 3.8 | 3.4 |
| Adj net debt /EBITDA (x) | 5.1 | 4.6 | 4.9 | 4.4 | 4.0 | 3.6 |
| | | | | | | |
| **CAPITAL EMPLOYED (€ mn)** | | | | | | |
| Year-end | 8,907 | 8,913 | 9,901 | 9,906 | 9,900 | 9,062 |
| Adjusted | 8,907 | 8,913 | 9,901 | 9,906 | 9,900 | 9,803 |
| Adjusted Average | 9,522 | 9,301 | 9,820 | 10,316 | 10,316 | 10,265 |
| | | | | | | |
| **RETURNS (%)** | | | | | | |
| ROCE (average) | -5.3 | 4.7 | 8.8 | 8.9 | 5.3 | 5.7 |
| RoE (average) | 5.6 | 6.0 | 4.8 | 5.9 | 7.0 | 7.6 |
| | | | | | | |
| **VALUATION MULTIPLES (x)** | | | | | | |
| **Market cap-based multiples** | | | | | | |
| P/E | 17.8 | 19.3 | 4.4 | 15.3 | 12.6 | 11.2 |
| Cash P/E (*) | 17.8 | 19.3 | 4.4 | 15.3 | 12.6 | 11.2 |
| P/CF | – | – | – | – | – | – |
| P/BV | 1.0 | 1.1 | 0.9 | 0.9 | 0.9 | 0.8 |
| FCF yield (%) | 31.7 | 12.8 | -1.1 | 8.1 | 9.7 | 13.1 |
| GDY (%) | 0 | 2.9 | 3.7 | 3.7 | 3.9 | 4.1 |
| Pay-out (%) | 0 | 55.3 | 16.2 | 56.1 | 49.3 | 46.0 |
| **EV-based multiples** | | | | | | |
| EV/sales | 1.5 | 1.6 | 1.8 | 1.7 | 1.6 | 1.5 |
| EV/EBITDA* | 9.4 | 9.3 | 9.4 | 8.6 | 8.0 | 7.5 |
| EV/Invested capital | 1.1 | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 |

Source: Company data and Santander Investment Bolsa estimates.

## Investment Case

- Attractive cash flow generation, c€1.0bn 2017E-20E.
- Optionality to use that cash to further improve the balance sheet, dividends and/or growth.
- Restructuring opportunities in the non-core business.

## Key Value Drivers

- Power prices in Spain.
- More focus on renewables worldwide.
- Low interest rates.

## Investment Risks

- A decrease in power prices in Spain after the regulator sets the reference prices.
- Higher competition and lower returns in the renewable business.
- ND/EBITDA ratio above 4.5x.

## Catalysts

- An increase in power prices in Spain after the regulator sets the reference prices.
- Disposal of non-core assets.
- Increase in $CO_2$ prices.

## Company Description

Acciona is an industrial group that operates in three main sectors: renewable energy, infrastructure and water. It develops and operates seven different renewable technologies (wind power, solar photovoltaic and thermosolar, hydro, mini-hydro, biomass and cogeneration). As an infrastructure company, Acciona builds large civil works and operates motorways, railways and other assets under concession schemes. Acciona also builds and operates water treatment and distribution systems. In addition, it owns real estate assets, a ferry company, a financial asset manager and a winery.

# INVESTMENT CASE

## FUTURE CASH WOULD BRING OPTIONALITY; BALANCE SHEET COMES FIRST

As a result of progressive technological improvements in some renewables (onshore wind and solar PV, two technologies ANA focuses on), they are now, in many cases, more competitive than traditional technologies. This should imply that renewables are likely to (1) **capture high market shares in the installation of new capacity** in developing countries (ANA's most recent projects are located in India, Mexico and Chile) and in the replacement of capacity coming offline in developed countries (ANA is building 93MW in the US, and Spain remains its main market with c4.1GW of installed capacity); (2) **put pressure on wholesale markets;** and (3) **start competing in supply**.

**We think the best way for investors to be protected against technological disruptions is through networks** (see our report *Technological Disruption I: Networks*, dated April 21, 2016) **and renewables**. Due to this, and the upside we estimate for these companies, among developers we recommend **ANA** (Buy; TP €83.20/share) and **EDPR (Buy; TP €7.80/share).** In this report, we focus on ANA; for more detail on EDPR, which is our top pick, please see our report *Technical Disruption II: EDPR*, dated May 26, 2016.

**ANA's balance sheet metrics may look a bit tight in 2016E with 4.6x ND/EBITDA.** This would be due to higher capex (there could be some disposals not included in our calculations), higher dividends (ANA increased its DPS from €2.00/share in 2015 to €2.50/share in 2016) and because we are expecting a small decrease in EBITDA mainly due to low power prices in Spain. **In 2017E we are expecting much better financial ratios with ND/EBITDA of 4.1x, due to the update in Spanish regulations, lower capex and the commissioning of assets.**

**By the end of 2016, the regulator is to update the remuneration for the second semi-period of three years for two reasons.** First, the compensation of low power prices in 2016 beyond the band limits (power prices are c€41/MWh, while the reference price set by the regulator for 2016 is €49.75/MWh and the maximum loss is €6/MWh; the difference –in this example, c€4/MWh– should be compensated during the remaining life of the asset with a higher incentive). Second, the regulator has to update the reference price to c€41-44/MWh (see page 13 for more details). **These would be two positive developments.**

**Even if the regulator does not increase the incentives at it theoretically should, the impact in ANA would be relatively small.** The regulated renewable assets could receive a lower amount of incentives than expected. The regulator would update the power prices to c€41-44/MWh for the period 2017-19. However, what will happen with the reference prices beyond 2020? Would those remain at €52/MWh as they are today? If the reference prices are set above the price set for 2017-19, the increase in the incentives would be lower than expected. ANA has less than €600mn of regulated sales (of which c€325mn are linked to incentives). According to our estimates, if the reference prices remain at €52/MWh from 2020, the increase in the incentives would be c60% of what they should be. This means that, assuming a difference between the reference price and one set for the period 2017-19 of c€10/WMh, this would mean €4-5/MWh lower power prices. According to our numbers, **the impact of a €4.50/MWh lower electricity price for the regulated assets (c6TWh of output out of c10.5TWh in Spain) for the period 2017E-19E would be less than 2% of total EBITDA and 1 % of our valuation**.

**From 2017E onwards, we are expecting an increase in the optionality of the group to use its operating CF: more than €800mn on average for the period 2017E-20E (or c€440mn FCF before dividends for a €3.8bn market cap company, 11% FCF yield on average).**

According to ANA, **the main priority is to continue strengthening the balance sheet**. ANA is targeting a ND/EBITDA ratio of 4.0x-4.5x for 2016. We would prefer the ratio to be in the 3.5x-4.0x range due to lower ND. By 2018E, we estimate a 3.8x ND/EBITDA ratio. In our estimates we do not take into account possible disposals of assets that ANA might decide to carry out, such as: (1) Trasmediterránea; (2) Real Estate (ANA cancelled the IPO due to market conditions); and (3) certain concessions.

The **second priority would be shareholder remuneration.** ANA increased its DPS from €2.00/share in 2014 to €2.50/share in 2015, for an implicit yield of 3.7% to be paid on July 1. We think ANA will continue increasing the DPS along with its growth. We are expecting a DPS of €3.00/share by 2020E (4.5% implicit yield), and we think there is further upside.

The **last of the three main priorities would be growth.** According Mr Entrecanales, Chairman and CEO of ANA, the company will invest c€2bn in the Energy division in the period 2016E-20E (we estimate €1,550mn due to the lack of visibility beyond 2017). We think competition is tougher for renewables and, despite the lower installation cost, returns would be lower in absolute terms (obviously higher than WACCs) in developing countries and where renewables are growing more (eg, Mexico, Chile and South Africa). That is why ANA is looking at smaller countries with the aim of being one of the first investors and obtaining better remuneration (more information is needed to determine the profitability of this strategy vs its risks). We expect ANA to increase its international capacity from 2,384MW in 2015 to 3,549MW by 2020E (565MW have already been awarded). In the case of ANA, the average life of the international assets is seven years, while for the Spanish assets is 11 years.

**We have come up with a Scenario B**, which assumes that not all the cash goes to reduce debt but rather to a mix of three targets: 20% for debt, 15% for dividends and 65% for growth (see page 11 for further details). In this case, net debt would be higher than in our central scenario (c€0.8bn) and ND/EBITDA would be 3.4x vs 3.0x in our central scenario. On the other hand, dividends would be higher, c€4.00/share by 2020E, and EBITDA would be c6% higher. We think this scenario could be closer to reality than our central one. However, the lack of visibility on future assets is the main reason we are not going with it at this time.

**Figure 1. Acciona – Scenario B: Not Allocating 100% of the Cash to Reduce Debt**

| (€ mn) | 2017E | 2018E | 2019E | 2020E | Accumulated |
|---|---|---|---|---|---|
| **Change in net debt** | **145** | **201** | **325** | **363** | **–** |
| Allocation to net debt | 20% | 20% | 20% | 20% | – |
| Allocation to dividends | 15% | 15% | 15% | 15% | – |
| Allocation to capex | 65% | 65% | 65% | 65% | – |
| **Central scenario** | | | | | |
| Net debt | 5,226 | 5,025 | 4,701 | 4,338 | – |
| DPS (€/share) | 2.50 | 2.65 | 2.80 | 3.00 | – |
| Yield (%) | 3.7% | 3.9% | 4.2% | 4.5% | – |
| Capex for Energy | 294 | 342 | 260 | 260 | – |
| Capacity in International (MW) | 2,890 | 3,149 | 3,349 | 3,549 | – |
| EBITDA | 1,260 | 1,329 | 1,379 | 1,432 | – |
| **ND/EBITDA** | **4.1** | **3.8** | **3.4** | **3.0** | **–** |
| **Scenario B** | | | | | |
| Net debt | 5,342 | 5,302 | 5,237 | 5,164 | 826 |
| DPS (€/share) | 2.88 | 3.18 | 3.65 | 3.95 | 0.95 |
| Yield (%) (*) | 4.3% | 4.7% | 5.4% | 5.9% | 4.0% |
| Capex for Energy (*) | 388 | 473 | 471 | 496 | 671 |
| Capacity in International (MW) | 2,957 | 3,309 | 3,660 | 4,029 | 480 |
| EBITDA | 1,272 | 1,358 | 1,435 | 1,518 | 86 |
| **ND/EBITDA** | **4.2** | **3.9** | **3.7** | **3.4** | 0.4 |

(*) For the whole period of 2017E-20E, while the others are for 2020E. Source: Santander Investment Bolsa estimates.

**In conclusion**, despite the minor concerns we have for 2016, we think ANA is a good way to play growth in renewables. According to our estimates, in two years' time, ANA will a more attractive company in terms of balance sheet, shareholder remuneration and growth in P&L.

# VALUATION

## NEW TP OF €83.20/SHARE, +22% UPSIDE

We have updated our valuation for ANA mainly taking into account: (1) the disposal of Acciona Wind Power; (2) current power prices in Spain; (3) new investments in international; and (4) more information on the real estate business. In terms of multiples, our valuation is in line with other companies in the sector, not only for renewables, but for the rest of the businesses as well.

**Figure 2. Acciona – SoTP Valuation**

| | | | | EV/EBITDA | | | | 2017E | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **€ mn** | **WACC** | **% EV** | **2016E** | **2017E** | **2018E** | **Method** | **MWs** | **EV/ MW** | **Age** | **EV/MW** |
| Wind Spain | 2,089 | 6.8% | 18% | 8.9 | 7.3 | 7.4 | DCF | 3,470 | 0.6 | 13.0 | 1.26 |
| Other Renewables | 2,311 | 7.1% | 20% | 12.7 | 11.8 | 11.6 | I Cap/DCF | 1,211 | 1.9 | 12.7 | 3.86 |
| Energía Internacional | 3,531 | 8.7% | 30% | 8.8 | 7.7 | 7.0 | DCF | 2,732 | 1.1 | 6.9 | 1.50 |
| Ind Development & Other | -407 | 7.0% | -3% | 14.5 | 6.8 | 6.8 | DCF | – | – | – | – |
| Equity Method | 185 | 6.5% | 2% | – | – | – | DCF | – | – | – | – |
| **ANA Energía** | **7,710** | **7.0%** | **65%** | **9.8** | **8.6** | **9.8** | | **7,413** | **1.0** | **10.7** | **1.8** |
| Concessions | 762 | 1.0 | 6% | 16.3 | 15.5 | 14.8 | Invested Capital | | | | |
| Construction | 317 | 4.5 | 3% | 4.6 | 4.4 | 3.7 | EBITDA17E | | | | |
| Acciona Water | 565 | 7.5 | 5% | 4.9 | 4.8 | 4.7 | EBITDA17E and BV ATLL | | | | |
| Services | 197 | 6.0 | 2% | 6.2 | 6.0 | 5.8 | EBITDA17E | | | | |
| Trasmediterranea | 246 | 5.0 | 2% | 4.8 | 5.0 | 5.4 | EBITDA17E | | | | |
| Acciona Real Estate | 622 | 1.0 | 5% | – | – | – | GAV Discount | | | | |
| Rest of the RE business | 291 | 0.5 | 2% | – | – | – | GAV Discount | | | | |
| Bestinver | 395 | 12.5 | 3% | 7.0 | 7.2 | 6.8 | P/E peers/AUM | | | | |
| Winery & advertising | 25 | 5.0 | 0% | 5.0 | 5.0 | 5.0 | EBITDA17E | | | | |
| Corporate costs | -53 | 8.8 | 0% | 8.8 | 8.8 | 8.8 | EBITDA17E | | | | |
| 29.9% of Nordex (€/share) | 762 | 26.3 | 6% | | | | | | | | |
| **Total EV** | **11,839** | **–** | **100%** | **10.2** | **9.4** | **8.9** | | | | | |
| Net Debt | -5,066 | | | | | | | | | | |
| Provisions | -421 | | | | | | | | | | |
| Minorities | -836 | | | | | | | | | | |
| TEIs | -287 | | | | | | | | | | |
| **Fair value** | **5,229** | | | | | | | | | | |
| Nº of Shares non-diluted | 57.26 | | | | | | | | | | |
| New Shares | 5.6 | | | | | | | | | | |
| Nº Shares fully diluted | **62.85** | | | | | | | | | | |
| **Fair value per share** | **83.20** | | | | | | | | | | |
| Current price | 68.00 | | | | | | | | | | |
| Upside | **22.4%** | | | | | | | | | | |

Source: Company data and Santander Investment Bolsa estimates.

Our main assumptions are:

- **Wind Spain.** We have adjusted our power prices due to the weakness in the last few months. It is true that in recent weeks there has been some improvement that, if maintained, would positively impact our numbers from 2017E onwards.

  For non-regulated assets, we assume a market price of €41.00/MWh in 2016 and €44.00/MWh from 2017 to 2019 and €45.00/MWh from 2020E onwards. For the regulated ones, we apply the same price as for the non-regulated ones for 2016 and the reference price set by the regulator for 2017 onwards. The reason is to keep total income in line with the regulations. We know there is a risk that the incentives are not updated as they should be, and this is why we have done the sensitivity analysis explained in previous sections.

  The average life of the assets is 11 years at the end of 2015. We assume a lifetime of 20 years plus five years' extension (at market prices without incentives for the regulated assets). Lastly, we have added a 10% terminal value due to the value of the renewable sites.

The implicit valuation in terms of EV/MW is €0.60/MW. If we adjust this for the age of the assets, it would increase to €1.26/MW. Out of the total output of 7.4TWh per year, 5.1TWh is regulated.

**Figure 3. Acciona – Power Prices for the Spanish Wind Assets, 2014-20E**

| (€/MWh) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| Pool prices | 42.2 | 50.3 | 41.0 | 44.0 | 44.0 | 44.0 | 45.0 |
| Regulatory prices | 48.2 | 49.5 | 49.8 | 52.0 | 52.0 | 52.0 | 52.0 |
| Prices for regulated assets | 42.2 | 50.3 | 41.0 | 52.0 | 52.0 | 52.0 | 52.0 |
| Spot price 2016/Forwards (June 21 2016) | 42.2 | 50.3 | 38.4 | 44.3 | 43.1 | 43.3 | 43.3 |

Source: Bloomberg, Omei, Omip and Santander Investment Bolsa estimates.

- **Other renewables in Spain.** This includes hydro (conventional and mini-hydro), thermo-solar, solar PV, biomass and cogeneration. Out of the total valuation, c61% relates to the hydro assets and c30% to thermo-solar assets. We have applied the same reference prices as for wind. In this case, the adjusted valuation is much higher due to hydro and thermo-solar.

- **Energy International.** We calculate the sales per country and have a blended WACC of 8.4%. In terms of output, 72% comes from four countries: the US, Mexico, Chile, Canada and Australia. This would decrease to c61% by 2020E due to the new assets (although some of the 600MW we have included and not yet allocated to any country we think would go to these countries).

  These are younger assets (five years old in 2015), the oldest of which are those in the above-mentioned countries (except Chile), plus Italy and Portugal (around seven years old). We arrive at an implicit valuation, adjusted for age, of €1.5/MW.

- **Concessions.** We regard our one-time book value of concessions shown in Figure 4 below as conservative. Should ANA finally sell several concessions, which we expect it will, the book value and ratios would obviously change.

**Figure 4. Acciona – Valuation of the Concession Businesses**

| (€ mn) | 2015 |
|---|---|
| BV | 1,332 |
| Equity (1) | 444 |
| Debt (2) | 888 |
| Debt of concession for equity method (3) | 570 |
| Debt of fully consolidated (4= 2-3) | 318 |
| **EV Concessions (1+4)** | **762** |

Source: Company data and Santander Investment Bolsa estimates.

- **Water.** In this case, we carry out two different valuations: one with a 7.5x 2017E EV/EBITDA multiple for the concessions ex-ATLL, and one with ATLL's book value (at least until we have more visibility on the vehicle).

  In the case of ATLL, ANA bought 39% of the initial offer at an initial implicit value (for 100%) of €300.0mn. At the end of 2015, ANA bought another 37% from BTG Pactual at a lower valuation (implicit valuation for 100% of €200mn). We include the book value of the initial transaction, as we consider ANA got a good price in the deal with BTG.

**Figure 5. ANA – Valuation of the Water Business, 2017E**

| (€ mn) | Stakes | 2017E |
|---|---|---|
| Water EBITDA | – | 36.8 |
| Multiple | – | 7.5 |
| Valuation | – | 275.8 |
| ATLL | – | |
| EBITDA | – | 81.6 |
| Price paid 1st time | 80.0 | 117.0 |
| Price paid to BTG | 39.0% | 74.0 |
| Total price paid | 37.0% | 191.0 |
| Valuation of the concession | 76.0% | 300.0 |
| Cash/debt | 100.0% | 8.0 |
| **Total Water EV** | **–** | **565.1** |

Source: Company data and Santander Investment Bolsa estimates.

- **Real Estate.** ANA has separated the assets for the Real Estate division. These have a gross asset value (GAV) of €630mn. Out of this, 63% is residential and 22% commercial. For these businesses, we apply a higher multiple: 1.02x. For the rest of the assets the GAV is €641mn, but c69% of it is land for development, to which we give a lower valuation, 0.25x.

**Figure 6. ANA – Valuation of the Real Estate Business, 2015**

| (€ mn) | Valuation | Multiple |
|---|---|---|
| Acciona Real Estate: | | |
| GAV | 630 | – |
| Residential | 397 | 1.02 |
| Commercial RE | 139 | 1.02 |
| Land for development | 95 | 0.80 |
| **Valuation ANA Real Estate** | **–** | **622** |
| Rest of the Real Estate business: | | |
| GAV | 641 | |
| Residential | 156 | 0.90 |
| Commercial RE | 46 | 0.90 |
| Land for development | 439 | 0.25 |
| **Valuation rest of Real Estate business** | **–** | **291** |
| **Total EV valuation** | **–** | **913** |

Source: Company data and Santander Investment Bolsa estimates.

- **Bestinver.** We have applied two methods of valuation that provide different values: a P/E multiple of 12.5x (c€468mn valuation); and a 2% AUM (€100mn valuation). We have applied an 80%/20% assignation of value, respectively.

**Figure 7. ANA – Valuation of Bestinver**

| (€ mn) | 2017E |
|---|---|
| EBITDA | 55 |
| Net profit | 37 |
| Multiple | 12.5 |
| EV | 468 |
| AUM | 5,012 |
| Multiple | 2.00% |
| Valuation | 100 |
| P/E | 80% |
| AUM | 20% |
| **Total valuation** | **395** |

Source: Company data and Santander Investment Bolsa estimates.

- **Nordex.** We use the MtM of the 29.9% stake, or €26.28/share.
- **Net debt and number of shares and TEIs.** We use 2016E net debt of €5,371mn, adjusting the amount by €305mn due to the convertible bond. At the same time, we increase the number of shares by 5.6mn. We added the adjustment of €287mn due to the tax equity investors (TEIs).

# CASH GENERATION AND BALANCE SHEET

## LESS NET DEBT, BETTER DIVIDENDS OR HIGHER GROWTH? WHY NOT ALL THREE?

**In 2016E we are expecting a ND/EBITDA ratio of 4.6x, slightly above the range given by ANA of 4.0x-4.5x.** It is true the difference is not very big, but it would be a negative message if the ratio was higher than the range targeted. The reasons for our target of 4.6x are: (1) higher capex (c€630mn vs €600mn guided including disposals, which we have not included); (2) slightly lower EBITDA due to low power prices in Spain; and (3) a higher dividend (ANA increased it from €2.00/share to €2.50/share.

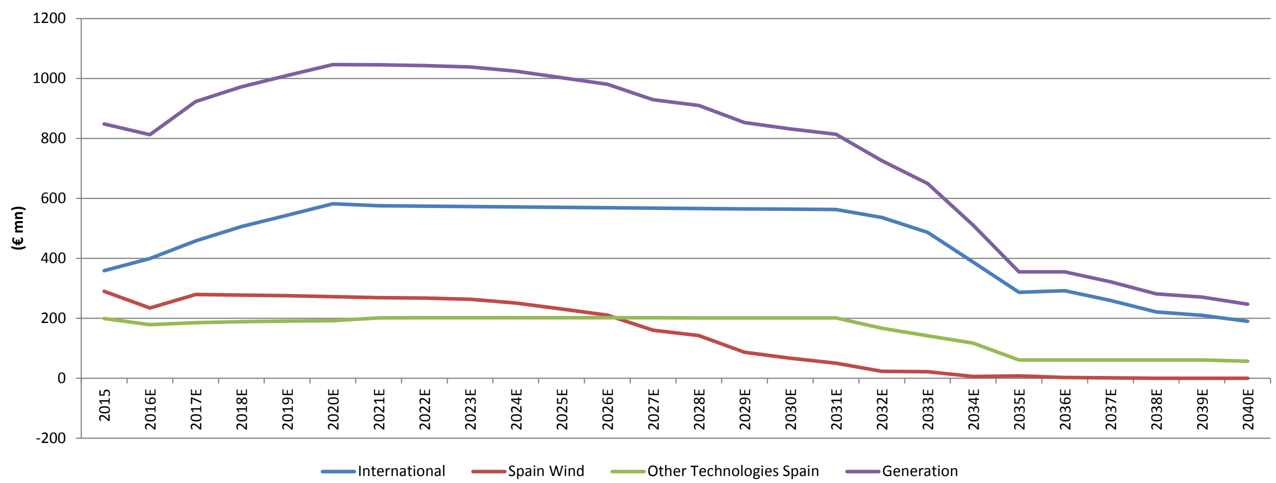
**There is the possibility of improvement.** In our capex estimates we are not including possible asset disposals. We will include them once they are announced. ANA could sell vessels it is not using in Trasmediterranea after the acquisition of two new ones for €48mn, real estate assets to finance growth, and some concessions.

***Optionality: Leverage vs Growth vs Dividends***

**We believe ANA needs to improve its leverage ratios**. We expect such improvement to take place even assuming growth in dividends (to €3.00/share by 2020E) and c€0.4bn capex pa vs c€500-600mn/year suggested by the company. **The speed of deleveraging will depend on the capex plan for energy.** We think ANA should concentrate on improving the leverage for a couple more years, moderating a bit the growth in new assets or selling non-core assets to raise cash or deconsolidate debt (Trasmediterránea, Real Estate, Concessions, Bestinver, see page 16). This does not mean it should stop investing, but perhaps at a slower pace. This way, the balance sheet would be much stronger, say ND/EBITDA below 4.0x, and ANA could face higher investments without worrying about getting into financial difficulties again.

**Growth is necessary to compensate for future closures.** The average life of the Spanish wind assets is 11 years, while for the international ones it is seven years. This means there is still a long time until the EBITDA begins to decrease, almost a decade until 2025E. By then, ANA will have to decide whether to: (1) extend even further the life of the existing assets (we estimate 20 years plus five years' extension vs the 30 years the company firmly believes they will reach thanks to the O&M program it is applying); (2) invest in new ones; or (3) do nothing with them, and in this case, continue growing abroad to offset the decline. This is why we think ANA has to improve its balance sheet to be able to deploy the necessary investments, mainly in Spain.

**Figure 8. Acciona – EBITDA for Generation: International, Wind Spain and Other Assets Spain, 2015-40E**




Source: Company data and Santander Investment Bolsa estimates.

**The dividend policy should remain attractive.** ANA will pay €2.50/share on July 1, following the cancellation of the DPS in 2014 and the €2.00/share distributed in 2015. We expect stable growth for the coming years, in line with growth in net income, with a pay-out of c60%. We think the DPS could be even higher if needed thanks to cash generation. We could argue that ANA would use the cash first to grow. However, according to the company, its second priority is shareholder remuneration, so we cannot rule out further improvements.

**Figure 9. Acciona – DPS in Terms of Year Paid, 2014-20E**

| (€ mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| DPS (€/share) | 0.0 | 2.0 | 2.5 | 2.5 | 2.7 | 2.8 | 3.0 |
| Cash out | 0.0 | -114.5 | -143.1 | -143.1 | -151.7 | -160.3 | -171.8 |
| Yield | 0.0% | 2.9% | 3.7% | 3.7% | 3.9% | 4.1% | 4.4% |
| Implicit pay-out | 0.0% | 62% | 69% | 77% | 60% | 52% | 49% |

Source: Company data and Santander Investment Bolsa estimates.

### *Central Scenario*

**Our central scenario contemplates a fast reduction of leverage and the ND/EBITDA ratio. We assume the real capex will be c€150mn/year higher from 2017E, but there is not enough visibility on the projects to include them in our assumptions, which are:**

(1) **Operating cash flow.** Increasing from 2017E thanks to higher EBITDA and lower financials.

(2) **Capex.** We assume c€400mn 2017E-20E vs the c€500-600mn suggested by ANA. As already noted, we have no visibility beyond the projects already announced. We would need more information on geographies, contracts, load factors, etc. Despite the lack of information, we have included another €600MW on top of the announced ones. We have applied average load factors and prices of the division in our estimates. Each 100MW adds c€18mn of EBITDA. We estimate total capex 2016-20E for energy of €1,550mn vs the c€2bn suggested by the Chairman and CEO, José Manuel Entrecanales.

(3) **FCF.** In the period 2017E-20E we expect an average FCF of €440mn/year, or a FCF yield of 11.3%. The trend would be positive due to the operating CF and the lower capex expected.

(4) **Change in net debt.** All the cash would be used to reduce leverage: c€1.0bn in 2017E-20E.

**Figure 10. Acciona – Central Scenario for Cash Flow Generation, 2015-20E**

| (€ mn) | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| **Operating CF** | **681** | **589** | **712** | **827** | **879** | **930** |
| Net capex | -167 | -631 | -398 | -448 | -368 | -370 |
| of which Energy | -130 | -394 | -294 | -342 | -260 | -260 |
| FCF | **514** | **-42** | **314** | **379** | **511** | **561** |
| **FCF yield** | **13.0%** | **-1.1%** | **8.1%** | **9.7%** | **13.1%** | **14.4%** |
| Dividends | -115 | -143 | -143 | -152 | -160 | -172 |
| Others | 375 | 26 | 26 | 26 | 26 | 26 |
| **Change in net debt** | **-135** | **211** | **-145** | **-201** | **-325** | **-363** |
| Net debt | 5,160 | 5,371 | 5,226 | 5,025 | 4,701 | 4,338 |
| EBITDA | 1,174 | 1,162 | 1,260 | 1,329 | 1,379 | 1,432 |
| **ND/EBITDA (x)** | **4.4** | **4.6** | **4.1** | **3.8** | **3.4** | **3.0** |

Source: Santander Investment Bolsa estimates.

*Scenario B: Optionality of Cash Allocation*

**The scenario B could be closer to reality**, but we do not assume it is our central one due to the lack of information on the new projects**. We would prefer to reduce the ND/EBITDA ratio by reducing further the absolute amount of debt, and not just with growth in EBITDA and almost not reducing the amount of debt**. We think it would be a safer option. In Spain, the next revision of the 7.4% return remuneration will take place at the end of 2019E. While we are currently assuming no changes, there could be some and, if so, they could affect cash flow generation and leverage ratios. Furthermore, as seen before, by the middle of the next decade, ANA would need to begin to think about replacement capex, so it would be better for the company to have a lower amount of debt.

**Our main assumption is a different allocation of cash.** Instead of allocating 100% to reduce net debt, we assume a different allocation: (1) for debt, 20%; (2) for dividends, 15%; and (3) for capex, 65% (please see Figure 11). The main conclusions would be:

(1) **Capacity in International and EBITDA.** Assuming that capex increases by a total of €671mn and assuming an installation cost of €1.40/MW (that should be decreasing over time), this would imply additional capacity of c480MW by 2020E. Assuming c€18mn of EBITDA for each 100MW, this would imply a total increase at EBITDA of €86mn by 2020E as well. This would partially compensate for the lower decrease in net debt.

(2) **Leverage.** The speed of deleveraging would be a bit lower but still successful. ND/EBITDA would be 3.4x by 2020E vs 3.0x in our central scenario. ND itself would decrease much less, from €5.3bn in 2016E to €5,2bnn vs €4.3bn in our central scenario. However, this is partially offset by the expected increase in EBITDA.

(3) **Dividends.** ANA could use 15% of the cash to increase dividends further. However, we believe this cash would be used mainly for the other two options. DPS would increase to c€4.00/share by 2020E, implying a 5.8% yield.

*Comparing Central Scenario and Scenario B*

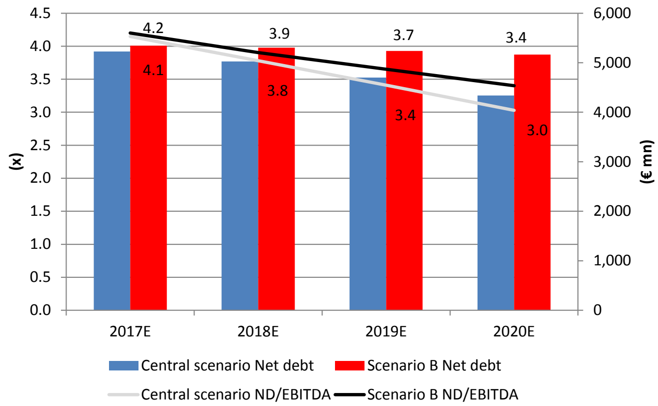
**Figure 11. ANA – Central Scenario vs Scenario B, 2017E-20E**

| (€ mn) | 2017E | 2018E | 2019E | 2020E | Accumulated |
|---|---|---|---|---|---|
| **Change in net debt** | **145** | **201** | **325** | **363** | **–** |
| Allocation to net debt | 20% | 20% | 20% | 20% | – |
| Allocation to dividends | 15% | 15% | 15% | 15% | – |
| Allocation to capex | 65% | 65% | 65% | 65% | – |
| Cash for net debt | 29 | 40 | 65 | 73 | – |
| Cash for dividends | 22 | 30 | 49 | 54 | – |
| Cash for capex | 94 | 131 | 211 | 236 | – |
| **Central scenario** | | | | | |
| Net debt | 5,226 | 5,025 | 4,701 | 4,338 | – |
| DPS (€/share) | 2.50 | 2.65 | 2.80 | 3.00 | – |
| Yield (%) | 3.7% | 3.9% | 4.1% | 4.4% | – |
| Capex for Energy | 294 | 342 | 260 | 260 | – |
| Capacity in International (MW) | 2,890 | 3,149 | 3,349 | 3,549 | – |
| EBITDA | 1,260 | 1,329 | 1,379 | 1,432 | – |
| **ND/EBITDA** | **4.1** | **3.8** | **3.4** | **3.0** | **–** |
| **Scenario B** | | | | | |
| Net debt | 5,342 | 5,302 | 5,237 | 5,164 | 826 |
| DPS (€/share) | 2.88 | 3.18 | 3.65 | 3.95 | 0.95 |
| Yield (%) (*) | 4.2% | 4.7% | 5.4% | 5.8% | 4.0% |
| Capex for Energy (*) | 388 | 473 | 471 | 496 | 671 |
| Capacity in International (MW) | 2,957 | 3,309 | 3,660 | 4,029 | 480 |
| EBITDA | 1,272 | 1,358 | 1,435 | 1,518 | 86 |
| **ND/EBITDA** | **4.2** | **3.9** | **3.7** | **3.4** | **0.4** |

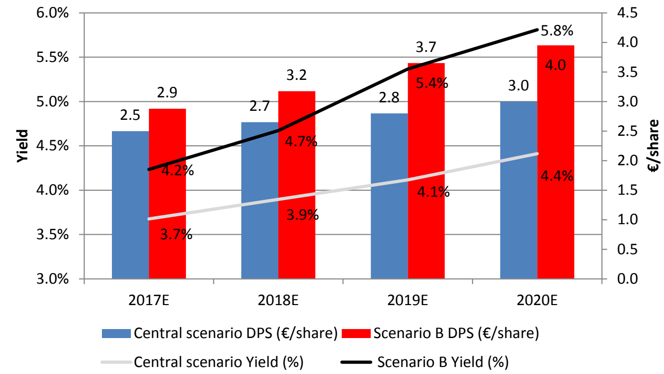
(*) for the whole period 2017E-2020E while the others are for 2020E; Source: Santander Investment Bolsa estimates.

**Figure 12. Acciona – Central Scenario vs Scenario B, 2017E-20E**

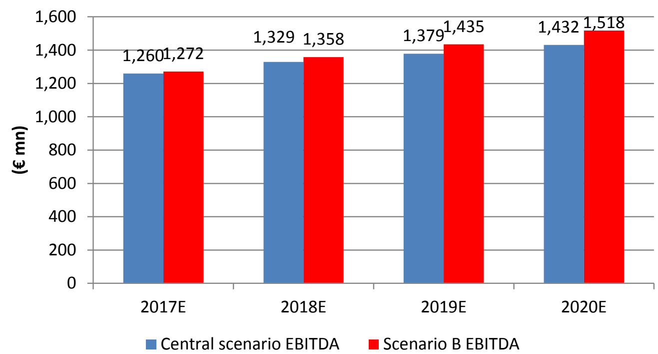
**ND/EBITDA, 2017E-20E**



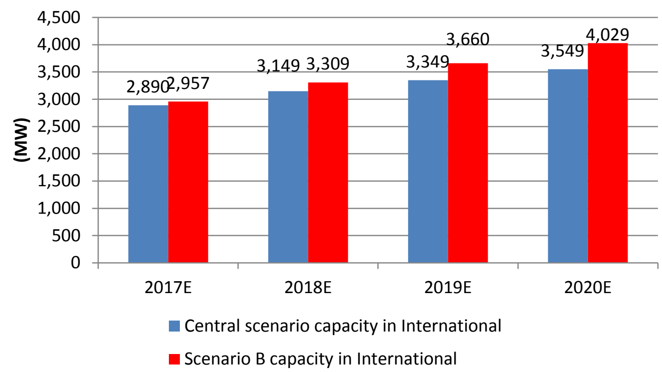

**DPS and Yield, 2017E-20E**




**EBITDA, 2017E-20E**




**Installed Capacity, 2017E-20E**




Source: Santander Investment Bolsa estimates.

# Regulatory Changes by Year-End

***Adjustment of Power Prices and Incentives for 2017-19***

In 2017 the regulator is due to adjust market prices and increase incentives. For ANA, this implies that its exposure to incentives would increase, but we do not know the precise figure. The adjustment implies an increase in incentives, which is positive for the sector. However, the possibility that this increase is not as high as it should be could be negative. **In ANA's case we think the impact will be relative small.** If power prices are €4.5/MWh lower than they should be, ANA would receive only c60% of the increase in incentives. **This would have an impact for 2017-19 of less than 2% of total EBITDA and 1.1% of our valuation**.

The regulations work as follows:

- **Regulatory periods.** The six-year regulatory periods are divided into two 'semi-periods' of three years. In these semi-periods the regulator adjusts market prices and incentives. These semi-periods have been set at 2014-16 and 2017-19. In the six-year regulatory periods, the regulator also updates prices and incentives and could revise the 7.4% pre-tax return. The next regulatory period revision would be in 2019.

- **Caps and floor.** The semi-periods exist to update the reference market prices in case there is a lot of volatility. The adjustments are based on a cap-and-floor system linked to the reference prices. Taking into account the reference price (€49.75/MWh for 2016 or €52/MWh from 2017 onwards) the impact of the price changes is:

  - First €4/MWh: the impact will be absorbed 100% by the company.
  - Next €4/MWh: 50% of the impact will be absorbed by the company and 50% by the regulator in the next semi-period.
  - From €8/MWh: 100% absorbed by the regulator.
  - Conclusion: a maximum of €6/MWh is absorbed by the companies.

**There should be two changes at the end of 2016:**

(1) **Due to the decrease of power prices beyond the band limits:** If finally power prices are c€10/MWh below the reference price, the regulator will adjust for the €4/MWh not recovered by the companies. This will be paid as a higher incentive during the remaining life of the assets. The companies would absorb the impact of the €10.0/MWh decrease in their 2016 cash flow and only the first €6.0/MWh in their valuation.

The average price will be taken as the average between October 1, 2015 and September 30, 2016. The sector is trying to change this calculation because: (1) power prices were higher in 4Q15 than during 2016 and this would increase the reference price; and (2) the year when power prices are impacting their results and CFs is 2016, not 4Q15. The companies propose taking the average price of the first 9M16 and then the forwards price for the 4Q16 and we think this makes sense.

(2) **Due to the update of the reference price:** The regulator will adjust the reference prices from €52/MWh to the current levels of c€40/MWh and increase the incentives. It will take the average of the last six months of the forwards for the next three years.

**The main concern for this calculation is: will the regulator maintain the €52/MWh from 2020 onwards, or will this figure be closer to MtM prices?** If the regulator sets a higher price from 2020 than in the 2017-19 period, the increase in the incentives would be lower than it should be.

ANA has less than €600mn of regulated sales (of which c€325mn are linked to incentives). According to our estimates, if the reference prices remain at €52/MWh from 2020, the increase in the incentives would be c60% of what they should be. This means assuming a difference between the reference price and the one set for 2017-19 of c€10-12/MWh, which would mean €4-5/MWh lower power prices.

According to our numbers, the impact of €4.5/MWh lower electricity price for the regulated assets (c6TWh of output out of c10.5TWh in Spain) for 2017-19 would be less than 2% of the total EBITDA and 1.5% of our valuation.

**Figure 13. Acciona – Impact on EBITDA If the Incentives Do Not Increase as They Should in Spain in 2017-19**

| (€ mn) | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| EBITDA Wind Spain | 431 | 487 | 487 | 486 | 484 |
| EBITDA Spain | 774 | 841 | 841 | 840 | 840 |
| EBITDA Group | 1,162 | 1,260 | 1,329 | 1,379 | 1,432 |
| Net income | 884 | 255 | 308 | 349 | 384 |
| **After not increasing the incentives as much in Spain from 2017 (Pool price at €47.5/MWh vs €52/MWh)** | | | | | |
| EBITDA Wind Spain | 431 | 466 | 466 | 465 | 484 |
| EBITDA Spain | 774 | 819 | 819 | 818 | 840 |
| EBITDA Group | 1,162 | 1,240 | 1,309 | 1,358 | 1,432 |
| Net income | 884 | 240 | 292 | 332 | 382 |
| Difference | | | | | |
| EBITDA Wind Spain | 0.0% | -4.2% | -4.2% | -4.2% | 0.0% |
| EBITDA Spain | 0.0% | -2.6% | -2.6% | -2.6% | 0.0% |
| EBITDA Group | 0.0% | -1.6% | -1.5% | -1.5% | 0.0% |
| Net income | 0.0% | -6.1% | -5.2% | -4.7% | -0.3% |

Source: Company data and Santander Investment Bolsa estimates.

# ENERGY INTERNATIONAL

## INTERNATIONAL MARKETS ARE ANA'S FUTURE

**International markets are the main growth driver for ANA**. It has a 67% stake in Acciona International (KKR holds the other 33%), which is its main vehicle for growth in renewables outside Spain. Currently, this represents 34% of total EBITDA 2016E for the group and we estimate this will rise to c41% by 2020E. Countries are in favour of investing more and more in the renewable sector, mainly in onshore wind and solar PV. Acciona has a good platform outside Spain and we think it will be able to continue growing. In the last year, ANA has won four projects in the US, Mexico, India and Chile for a total capacity of 565MW.

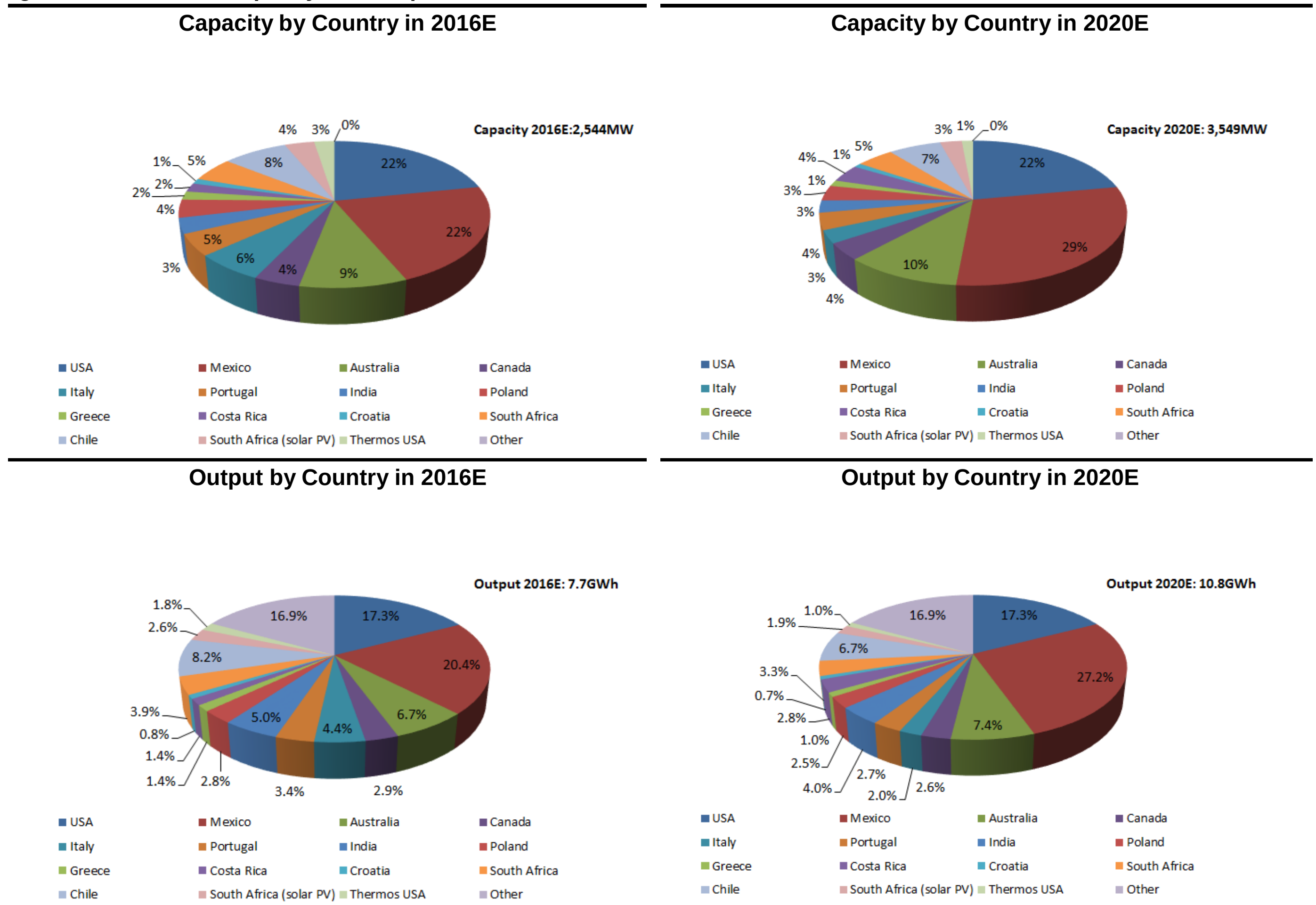
**The main problem we see for this division, and for the renewables sector, in general, is that competition is getting a lot tougher. Winning a contract is going to get more difficult** as the main utility companies are investing more in renewables. Solar PV and onshore wind farms are, in general, technologies with low barriers to entry. In addition, we expect that **the returns should be lower** in absolute terms and closer to the WACCs in those countries with higher competition. Other companies, as well as ANA, are moving from project financing to financing at corporate level, at least in those countries where the remuneration is in, or linked to, the US dollar.

**To improve its P&L and returns, ANA's strategy is based on:** (1) going to new and smaller markets where renewables are not so established, or not established at all, and investing there to obtain better remuneration schemes; (2) improving the cost of capital, financing at corporate level vs project financing in countries where there is good access to the financial markets; and (3) reducing the cost of its turbines and solar panels.

**We currently lack sufficient information about the new projects** if this is going to be the new strategy of the group. We do not think ANA will abandon the US or LatAm as those are its main influence areas. But the competition is tough and getting tougher in those areas. **We highlight several things to take into account under these investment criteria**: **(1) in these new and smaller markets, the risks would be higher**, regulatory regimes are uncertain (for example, we do not know if the regimes would last during the whole life of the asset), making investments in new areas is not easy to secure, despite the expectation of good, a priori, returns, and ANA will have a difficult task here, although it has the experience; (2) **regarding financing at the corporate level**, this would be good if there is no forex risk between income and financial expenses/debt; and (3) **regarding the cost of the wind turbines**, we think the merger of the wind turbine business with Nordex could be positive for ANA.

**ANA has a diversified mix, mostly concentrated in four countries where we can trust the regulatory regime**. In 2016E we estimate ANA will have 61% of its installed capacity and 68% of its output in the US, Mexico, Australia and Chile. By 2020E, we project that these figures may decrease to 53% and 59%, respectively. We are raising out estimate for capacity by 600MW, but we have low visibility on where it will be built. This new capacity is under 'Other', and we expect that part of it will be built in these four countries.

Figure 14. Acciona – Capacity and Output, 2016E vs 2020E




Source: Company data and Santander Investment Bolsa estimates.

In EBITDA, we project an 11.7% 2014-20E CAGR thanks to the increase in capacity of 7.8% CAGR in the same period. At the end of the decade, we expect EBITDA to reach almost €0.6bn, with capacity close to 3.5GW. These figures compare with its Spanish wind EBITDA 2020E of €279mn and a capacity of 3,4GW.

We think the returns of the new projects in Energy International will be lower than they are currently, at least until ANA begins investing in new countries. However, these returns would still be higher than the current returns in the rest of the divisions. That is why we expect ROCE to grow from 4.8% in 2016E to 6.1% by 2020E.

Figure 15. Acciona International – Main Figures, 2014-20E

| (€ mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E | CAGR 2014-20E |
|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **300** | **359** | **399** | **458** | **506** | **543** | **582** | **11.7%** |
| Change (%) | 1.3% | 19.7% | 11.2% | 14.8% | 10.5% | 7.4% | 7.1% | |
| Weight on total EBITDA | 27.6% | 30.6% | 34.4% | 36.4% | 38.1% | 39.4% | 40.7% | |
| **Installed capacity (MW)** | **2,260** | **2,384** | **2,544** | **2,890** | **3,149** | **3,349** | **3,549** | **7.8%** |
| Total output (GWh) | 6,395 | 6,941 | 7,657 | 8,715 | 9,557 | 10,167 | 10,775 | 9.1% |
| Average load factor (%) | 34.4% | 34.1% | 35.5% | 36.6% | 36.1% | 35.7% | 35.7% | |
| Average Achieved price (€/MWh) | 66.0 | 69.7 | 70.8 | 70.7 | 71.5 | 72.2 | 72.9 | 1.7% |
| ROE | 5.6% | 6.0% | 4.8% | 5.9% | 7.0% | 7.6% | 8.0% | |
| **ROCE** | **4.7%** | **5.3%** | **4.8%** | **5.2%** | **5.5%** | **5.8%** | **6.1%** | |

Source: Company data and Santander Investment Bolsa estimates.

# DISPOSALS AND M&A

### PENDING DELIVERY

This is one of the main things the market focuses on in ANA. ANA is a company where c70% of the EBITDA comes from its energy division. In the other 30% there are business we do not consider core and that prevent ANA's equity story from being that of a pure renewable player as, for example, EDPR is. The Nordex transaction in 2015 was a very good one, in our opinion and it would be difficult for ANA to achieve another sizable transaction like this, which would be as beneficial for the group. However, there are several options ahead of selling some business or integrating them into a bigger vehicle having a smaller stake. As we see it, the main focus could be on:

- **Real Estate**: ANA has already separated the asset that would be involved in its stated M&A plan. The Real Estate company has a GAV of €630mn. However, according to the company, the IPO is not going ahead, mainly due to the current market environment and because Real Estate needs to be bigger. In this regard, ANA could sell some individual assets separately to help it to self-finance the development of some real estate projects. ANA said that its intention now is to make Real Estate bigger before a possible sale or merger.

- **Trasmediterranea**: We think that if a good offer comes along, ANA will sell this asset. ANA has recently bought two vessels and is in the process of selling those they are not using. Trasmed represents c5-6% of ANA's EBITDA and, in our opinion, would be a good disposal target.

- **Concessions:** ANA had equity invested in concessions ex-water of €444mn at the end of 2015. These concessions are mainly roads, hospitals, rails, ports and canals. We think ANA could sell some of them, perhaps those that are more mature or should a good opportunity present itself.

- **Bestinver:** We are not expecting a quick or full disposal of the vehicle. However, we cannot rule out some kind of operation with other fund managers.

**In conclusion,** we expect that in three to five years ANA should have reduced its exposure to what we consider non-core businesses and increase its exposure to Energy. If ANA sells/deconsolidate the four business areas mentioned above (in the case of the concessions we take 30% of its EBITDA contribution), the weight of energy would go to c77% of the EBITDA, while the rest would be mainly water concessions and construction.

# FINANCIALS

**Figure 16. Acciona – P&L, 2014-20E**

| (€ mn, year end December 31) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| **Sales** | **6,499** | **6,544** | **5,966** | **6,256** | **6,487** | **6,710** | **6,874** |
| Other income | 357 | 244 | 222 | 233 | 242 | 250 | 256 |
| Costs of goods sold | (1,854) | (1,830) | (1,812) | (1,964) | (2,072) | (2,149) | (2,232) |
| **Gross margin** | **5,002** | **4,958** | **4,377** | **4,525** | **4,657** | **4,811** | **4,898** |
| Personnel expenses | (1,275) | (1,254) | (1,317) | (1,383) | (1,452) | (1,524) | (1,600) |
| Operating costs | (2,639) | (2,530) | (1,899) | (1,882) | (1,877) | (1,908) | (1,865) |
| Energy | 788 | 897 | 788 | 879 | 928 | 965 | 1,006 |
| Construction | 78 | 52 | 69 | 72 | 86 | 91 | 93 |
| Concessions | 40 | 49 | 47 | 49 | 52 | 54 | 57 |
| Water | 35 | 35 | 116 | 118 | 121 | 124 | 127 |
| Services | 21 | 31 | 32 | 33 | 34 | 35 | 36 |
| Other activities | 126 | 113 | 111 | 109 | 108 | 109 | 114 |
| Adjustments | - | (4) | - | - | - | - | - |
| **EBITDA** | **1,088** | **1,174** | **1,162** | **1,260** | **1,329** | **1,379** | **1,432** |
| Growth | **2%** | **8%** | **-1%** | **8%** | **5%** | **4%** | **4%** |
| Depreciation | (494) | (510) | (528) | (549) | (569) | (586) | (603) |
| Gains from asset sale/provisions/impairments | (22) | (37) | 698 | - | - | - | - |
| **EBIT** | **572** | **627** | **1,332** | **711** | **760** | **792** | **829** |
| Capitalised expenses/forex | 17 | 21 | 10 | - | - | - | - |
| Financial income | 50 | 35 | 9 | 9 | 9 | 9 | 9 |
| Financial expenses | (435) | (424) | (440) | (429) | (418) | (404) | (394) |
| Associates | 46 | 60 | 82 | 100 | 112 | 120 | 121 |
| Other | 26 | - | - | - | - | - | - |
| Ordinary | **277** | **318** | **993** | **391** | **462** | **518** | **565** |
| Extraordinaries | - | - | - | - | - | - | - |
| **Pre-tax profit** | **277** | **318** | **993** | **391** | **462** | **518** | **565** |
| Corporation tax | (70) | (83) | (74) | (98) | (116) | (129) | (141) |
| Minorities | (22) | (28) | (36) | (38) | (39) | (40) | (40) |
| **Net income attributable** | **185** | **207** | **884** | **255** | **308** | **349** | **384** |
| **DPS** | - | 2.0 | 2.5 | 2.5 | 2.7 | 2.8 | 3.0 |
| **Yield** | 0.0% | 2.9% | 3.7% | 3.7% | 3.9% | 4.1% | 4.4% |

Source: Company data and Santander Investment Bolsa estimates.

### Figure 17. Acciona – EBITDA by Division, 2014-20E

| (€ mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| **Energy** | **788** | **897** | **788** | **879** | **928** | **965** | **1,006** |
| of which International | 300.0 | 359.0 | 399.2 | 458.1 | 506.0 | 543.4 | 582.1 |
| of which Total Spain | 524.0 | 489.0 | 416.5 | 480.7 | 482.1 | 482.1 | 484.0 |
| Spain Wind | 244.9 | 290.0 | 234.6 | 284.9 | 283.2 | 281.1 | 279.4 |
| Other Technologies | 279.1 | 199.0 | 182.0 | 195.8 | 198.9 | 201.0 | 204.6 |
| Hydro Conventional | 54.3 | 47.4 | 34.1 | 38.4 | 38.4 | 38.4 | 39.9 |
| Mini-Hydro | 20.7 | 17.3 | 14.2 | 16.0 | 16.0 | 16.0 | 16.7 |
| Thermosolar | 115.5 | 114.9 | 109.2 | 112.4 | 112.3 | 112.1 | 112.0 |
| Other tech & hedges | 88.7 | 19.4 | 24.5 | 29.0 | 32.2 | 34.4 | 36.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Generation** | **824.0** | **848.0** | **815.7** | **938.8** | **988.1** | **1,025.5** | **1,066.1** |
| Windpower | 39.0 | 84.0 | 8.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Development & construction | -28.0 | 9.0 | -1.0 | -25.0 | -25.0 | -25.0 | -25.0 |
| Structure | -47.0 | -44.0 | -35.0 | -35.0 | -35.0 | -35.0 | -35.0 |
| **Industrial & other** | **-36.0** | **49.0** | **-28.0** | **-60.0** | **-60.0** | **-60.0** | **-60.0** |
| **Construction** | **78** | **52** | **69** | **72** | **86** | **91** | **93** |
| **Concessions** | **40** | **49** | **47** | **49** | **52** | **54** | **57** |
| **Water** | **35** | **35** | **116** | **118** | **121** | **124** | **127** |
| of which ATLL | - | - | 80 | 82 | 83 | 85 | 87 |
| of which the rest | 35 | 35 | 36 | 37 | 38 | 39 | 40 |
| **Services** | **21** | **31** | **32** | **33** | **34** | **35** | **36** |
| **Other activities** | **126** | **113** | **111** | **109** | **108** | **109** | **114** |
| of which Trasmediterranea | 30 | 41 | 51 | 49 | 45 | 43 | 44 |
| of which Real Estate | 3 | 6 | 5 | 5 | 6 | 6 | 7 |
| of which Bestinver | 96 | 67 | 56 | 55 | 58 | 61 | 64 |
| of which Vineyards | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| of which corp & other | (7) | (6) | (6) | (6) | (6) | (6) | (6) |
| **Adjustments** | **-** | **(4)** | **-** | **-** | **-** | **-** | **-** |
| **EBITDA** | **1,088** | **1,174** | **1,162** | **1,260** | **1,329** | **1,379** | **1,432** |

Source: Company data and Santander Investment Bolsa estimates.

### Figure 18. Acciona – Debt, 2014-20E

| (€ mn, year-end December 31) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| **Gross debt** | **6,990** | **7,032** | **7,243** | **7,099** | **6,898** | **6,573** | **6,210** |
| **Cash & cash equivalents** | **-1,695** | **-1,873** | **-1,873** | **-1,873** | **-1,873** | **-1,873** | **-1,873** |
| **Net debt** | **5,294** | **5,160** | **5,371** | **5,226** | **5,025** | **4,701** | **4,338** |
| Energy | 4,653 | 4,295 | 4,380 | 4,262 | 4,098 | 3,833 | 3,537 |
| Infrastructure | 119 | 136 | 174 | 169 | 163 | 152 | 141 |
| Water | 111 | 17 | 89 | 87 | 83 | 78 | 72 |
| Service | 23 | 9 | 29 | 28 | 27 | 25 | 23 |
| Other | 145 | 210 | 224 | 218 | 210 | 196 | 181 |
| Corporate | 243 | 492 | 475 | 462 | 444 | 416 | 384 |
| Energy | 88% | 83% | 82% | 82% | 82% | 82% | 82% |
| Infrastructure | 2% | 3% | 3% | 3% | 3% | 3% | 3% |
| Water | 2% | 0% | 2% | 2% | 2% | 2% | 2% |
| Service | 0% | 0% | 1% | 1% | 1% | 1% | 1% |
| Other | 3% | 4% | 4% | 4% | 4% | 4% | 4% |
| Total | 5% | 10% | 9% | 9% | 9% | 9% | 9% |
| **Net debt /EBITDA** | **4.9** | **4.4** | **4.6** | **4.1** | **3.8** | **3.4** | **3.0** |
| Energy | 5.9 | 4.8 | 5.6 | 4.8 | 4.4 | 4.0 | 3.5 |
| Infrastructure | 1.5 | 2.0 | 2.5 | 2.3 | 1.9 | 1.7 | 1.5 |
| Water | 3.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Service | 1.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Other | 1.2 | 1.9 | 2.0 | 2.0 | 1.9 | 1.8 | 1.6 |

Source: Company data and Santander Investment Bolsa estimates.

**Figure 19. Acciona – Cash Flow, 2014-20E**

| (€ mn, year-end December 31) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| **EBITDA** | **1,088** | **1,174** | **1,162** | **1,260** | **1,329** | **1,379** | **1,432** |
| Paid interests | -379 | -390 | -431 | -420 | -409 | -394 | -384 |
| Interest collection | 0 | 0 | 16 | 20 | 22 | 24 | 24 |
| Tax expense | 0 | -83 | -74 | -98 | -116 | -129 | -141 |
| Change in WC | 217 | -36 | -75 | -50 | 0 | 0 | 0 |
| Other | -132 | 16 | -10 | 0 | 0 | 0 | 0 |
| **Operating cash flow** | **794** | **681** | **589** | **712** | **827** | **879** | **930** |
| Acciona Energía | -282 | -130 | -394 | -294 | -342 | -260 | -260 |
| Construction/Concessions | -39 | -49 | -62 | -50 | -50 | -50 | -50 |
| Service | -22 | -12 | -14 | -13 | -14 | -14 | -15 |
| Water | -9 | -19 | -101 | -28 | -29 | -29 | -30 |
| Other businesses | 12 | -13 | -60 | -13 | -14 | -14 | -15 |
| Other | - | - | - | - | - | - | - |
| **Capex** | **-340** | **-223** | **-631** | **-398** | **-448** | **-368** | **-370** |
| Acquisitions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 629.0 | 51.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends from associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | -41.0 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **FCF** | **1,041.8** | **514.2** | **-42.1** | **313.7** | **378.8** | **511.0** | **560.6** |
| Paid dividends | 0.0 | -114.5 | -143.1 | -143.1 | -151.7 | -160.3 | -171.8 |
| Paid dividends to minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Treasury stock | -26.0 | 11.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest hedging and other | -287.0 | 44.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other & perimeter change | -17.0 | 320.0 | 26.0 | 26.0 | 26.0 | 26.0 | 26.0 |
| **Net debt change** | **-745.8** | **-134.7** | **211.2** | **-144.6** | **-201.0** | **-324.7** | **-362.8** |

Source: Company data and Santander Investment Bolsa estimates.

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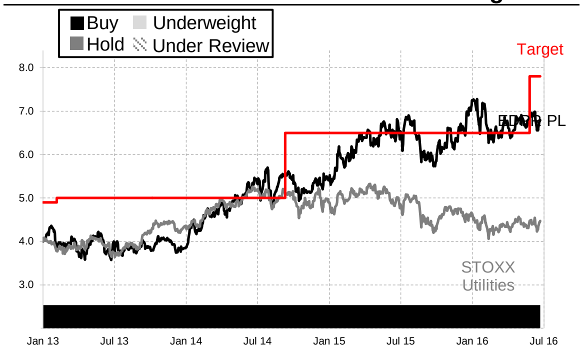
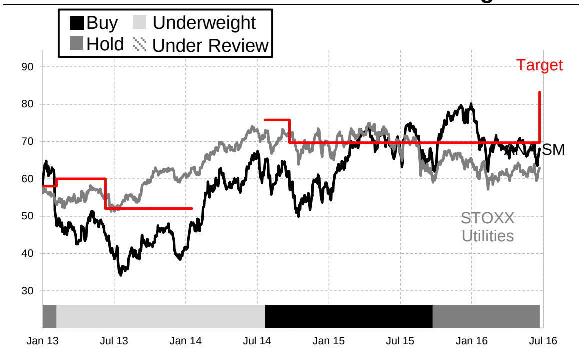



Source: FactSet and Santander Investment Bolsa.

**ANA SM – 3Y Stock Performance vs Rating**




Source: FactSet and Santander Investment Bolsa.

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|---|---|---|---|
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| **Under Review** | | 0 | 0 |

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