

ACCIONA

BUY

Facing a Good 2017E

CURRENT PRICE: €69.01
TARGET PRICE: €82.40

ANA released 9M16 results on Nov 4 and we have adjusted our estimates and TP. We maintain our positive view on the stock. ANA is facing a challenging 4Q16 if it is to improve its ND/EBITDA ratio to the 4-4.5x guidance, from the 4.8x of the last 12 months. It needs some disposals to reach the target. That said, **2017E looks promising** with the commissioning of 418MW, the update of Spain's renewable regulations (which should add c€30-60mn to EBITDA) and the reduction in financial costs of c€75mn per year from refinancing project-related debt. In 2017 we expect EBITDA to increase by 9% and ND/EBITDA to decrease to 4.2x. We also expect CF generation 2017E-20E of c€1.0bn and a dividend yield of c4%.

9M16 results: ANA has taken advantage of the €657mn capital gain on the Nordex-AWP transaction to clean up its B/S by: (1) refinancing project finance debt, which generated a negative one-off of c€0.3bn and (2) charging c€0.3bn of provisions and impairments due to a road in Brazil and some real estate assets.

Updated numbers: (1) We have cut our estimated electricity prices in Spain to €42/MWh in 2017E-19E; (2) lowered output from international assets slightly; (3) improved the numbers in Construction and Trasmediterranea; and (4) reduced financial costs in line with the company's indications. These changes increase our net profit for 2017E to €305mn from €255mn and add c€13mn/year in 2018E-20E. In terms of ND/EBITDA we are expecting 4.7x pre further disposals for FY16E, and just 3.1x by 2020E. ANA could use the c€1.0bn extra cash in for (1) higher capex; (2) lower debt, or (3) higher dividends. In our opinion, it should improve its balance sheet further to stand closer to 3.5-4.0x ND/EBITDA and allocate the rest to dividends/capex.

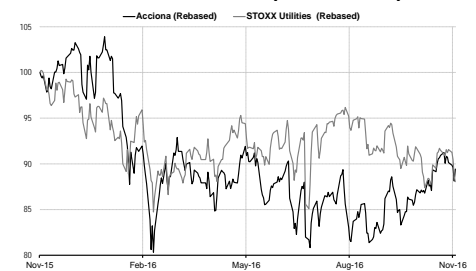
New TP of €82.40/share, 22% upside. We have cut our TP less than 1%. The main relevant change is the update in the MtM valuation of Nordex (NR) from €26.28/share (June 2016) to €21.82/share). This implies a €129mn negative impact in our valuation. We maintain our DPS profile. We are expecting €2.50/share in 2016E, rising to €3.00/share by the end of the decade.

What Has Changed

Target Price: To €82.40 from €83.20

Previous TP was set on 23/06/16.

Relative Performance (12 Months)



Source: FactSet.

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Company Data, November 3, 2016. (closing price)

| Reuters/Bloomberg code | ANA.MC / ANA SM | (€mn) | 2015 | 2016E | 2017E | 2018E | 2019E | | |
|-----------------------------|-----------------------------------|---------------------|-------|---------------|-------|-------|-------|------|------|
| Market cap (€ mn) | 3,951 | EBITDA | 1,174 | 1,153 | 1,260 | 1,284 | 1,332 | | |
| Outst shares (mn) | 57 | EBIT | 627 | 965 | 699 | 703 | 733 | | |
| Free float (%) | 44.6 | Net income | 207 | 541 | 305 | 323 | 361 | | |
| Avg daily vol (€ mn) | 16.3 | EPS (€) | 3.62 | 9.44 | 5.32 | 5.64 | 6.31 | | |
| 12-month range (€) | 61.99 - 80.19 | Net debt | 5,160 | 5,384 | 5,267 | 5,046 | 4,705 | | |
| Historical volatility (%) | 18.6 | FCF | 514 | -81 | 286 | 398 | 528 | | |
| Implied volatility (%) | 30.4 | EV/EBITDA (x) | 9.3 | 9.6 | 8.7 | 8.3 | 7.8 | | |
| Performance (%) | -1M -3M -12M | Net debt/EBITDA (x) | 4.4 | 4.7 | 4.2 | 3.9 | 3.5 | | |
| Absolute | 3.0 | 9.7 | -10.6 | P/E (x) | 19.3 | 7.3 | 13.0 | 12.2 | 10.9 |
| Relative to STOXX Utilities | 6.5 | 16.7 | 1.6 | GDY (%) | 2.9 | 3.6 | 3.6 | 3.8 | 4.1 |
| | | | | FCF yield (%) | 12.8 | -2.0 | 7.2 | 10.1 | 13.4 |

Source: FactSet.

Source: Company data and Santander Investment Bolsa estimates.

ESTIMATES

Figure 1. ANA – Sum of the Parts

| | €mn | WACC/Mult | % EV | EV/EBITDA | | | Method | 2017E | | | |
|-------------------------------------|---------------|-------------|-------------|-------------|------------|-------------|-------------------------------|--------------|------------|-------------|------------|
| | | | | 2016E | 2017E | 2018E | | MWs | EV/ MW | Age (yrs) | EV/MW |
| Wind Spain | 2,082 | 6.8% | 18% | 8.9 | 7.4 | 7.5 | DCF | 3,470 | 0.6 | 13.0 | 1.25 |
| Other Renewables | 2,308 | 7.1% | 20% | 12.7 | 12.1 | 11.9 | I Cap/DCF | 1,211 | 1.9 | 12.7 | 3.86 |
| AEI (Acciona Energía Internacional) | 3,545 | 7.9% | 30% | 9.4 | 8.3 | 7.6 | DCF | 2,732 | 1.1 | 6.9 | 1.50 |
| Industrial Development & Other | -414 | 7.0% | -4% | 14.8 | 6.9 | 6.9 | DCF | - | - | - | - |
| Equity Method | 185 | 6.5% | 2% | - | - | - | DCF | - | - | - | - |
| ANA Energía | 7,706 | 7.0% | 65% | 9.8 | 8.6 | 10.1 | | 7,413 | 1.0 | 10.7 | 1.8 |
| Concessions | 762 | 1.0 | 6% | 16.3 | 15.5 | 14.8 | Invested capital | | | | |
| Construction | 418 | 4.5 | 4% | 5.8 | 3.7 | 4.8 | EBITDA17E | | | | |
| Acciona Water | 565 | 7.5 | 5% | 4.9 | 4.8 | 4.7 | EBITDA17E and book value ATLL | | | | |
| Services | 182 | 6.0 | 2% | 6.2 | 6.0 | 5.8 | EBITDA17E | | | | |
| Trasmediterranea | 258 | 5.0 | 2% | 4.4 | 5.0 | 5.4 | EBITDA17E | | | | |
| Acciona Real Estate | 622 | 1.0 | 5% | - | - | - | GAV Discount | | | | |
| Rest of the real estate 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 | 8.9 | 0% | 8.9 | 8.9 | 8.9 | EBITDA17E | | | | |
| 29.9% of Nordex (€/share) | 633 | 21.8 | 5% | | | | | | | | |
| Total EV | 11,804 | | 100% | 10.2 | 9.4 | 9.2 | | | | | |
| Net debt | -5,079 | | | | | | | | | | |
| Provisions | -421 | | | | | | | | | | |
| Minorities | -841 | | | | | | | | | | |
| TEIs | -287 | | | | | | | | | | |
| Fair value | 5,176 | | | | | | | | | | |
| Nº of shares non-diluted | 57.26 | | | | | | | | | | |
| New shares | 5.6 | | | | | | | | | | |
| Nº shares fully diluted | 62.85 | | | | | | | | | | |
| Fair value per share | 82.37 | | | | | | | | | | |
| Current price | 67.14 | | | | | | | | | | |
| Upside | 22.7% | | | | | | | | | | |

Source: Company data and Santander Investment Bolsa estimates.



Figure 2. ANA – EBITDA by Division, 2014-20E

| (€mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Energy | 788 | 897 | 764 | 837 | 883 | 919 | 966 |
| of which International | 300 | 359 | 376 | 425 | 469 | 505 | 542 |
| of which Total Spain | 524 | 489 | 417 | 473 | 474 | 474 | 484 |
| Spain Wind | 245 | 290 | 235 | 281 | 279 | 277 | 279 |
| Other Technologies | 279 | 199 | 182 | 192 | 195 | 197 | 205 |
| Hydro Conventional | 54 | 47 | 34 | 35 | 35 | 35 | 40 |
| Mini-Hydro | 21 | 17 | 14 | 15 | 15 | 15 | 17 |
| Thermosolar | 115 | 115 | 109 | 112 | 112 | 112 | 112 |
| Other tech & Hedges | 89 | 19 | 24 | 29 | 32 | 34 | 36 |
| Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Generation | 824 | 848 | 792 | 897 | 943 | 979 | 1,026 |
| of which Windpower | 39 | 84 | 8 | 0 | 0 | 0 | 0 |
| of which Development & Construction | -28 | 9 | -1 | -25 | -25 | -25 | -25 |
| Structure | -47 | -44 | -35 | -35 | -35 | -35 | -35 |
| Industrial & Other | -36 | 49 | -28 | -60 | -60 | -60 | -60 |
| Construction | 78 | 52 | 73 | 113 | 86 | 91 | 93 |
| Concessions | 40 | 49 | 47 | 49 | 52 | 54 | 57 |
| Water | 35 | 35 | 116 | 118 | 121 | 124 | 127 |
| of which ATLL | 0 | 0 | 80 | 82 | 83 | 85 | 87 |
| of which the rest | 35 | 35 | 36 | 37 | 38 | 39 | 40 |
| Services | 21 | 31 | 29 | 30 | 31 | 32 | 33 |
| Other activities | 126 | 113 | 124 | 111 | 111 | 112 | 117 |
| of which Trasmediterranea | 30 | 41 | 59 | 52 | 48 | 46 | 47 |
| of which Real Estate | 3 | 6 | 10 | 6 | 6 | 7 | 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 | 1,153 | 1,260 | 1,284 | 1,332 | 1,392 |

Source: Company data and Santander Investment Bolsa estimates.

Figure 3. ANA – P&L, 2014-20E

| (€mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 6,499 | 6,544 | 5,944 | 6,214 | 6,441 | 6,663 | 6,833 |
| Other income | 357 | 244 | 222 | 232 | 240 | 248 | 255 |
| Costs of goods sold | -1,854 | -1,830 | -1,798 | -1,964 | -2,002 | -2,077 | -2,170 |
| Gross margin | 5,002 | 4,958 | 4,368 | 4,482 | 4,680 | 4,835 | 4,918 |
| Personnel expenses | -1,275 | -1,254 | -1,317 | -1,383 | -1,452 | -1,524 | -1,600 |
| Operating costs | -2,639 | -2,530 | -1,898 | -1,839 | -1,944 | -1,978 | -1,926 |
| Energy | 788 | 897 | 764 | 837 | 883 | 919 | 966 |
| Construction | 78 | 52 | 73 | 113 | 86 | 91 | 93 |
| Concessions | 40 | 49 | 47 | 49 | 52 | 54 | 57 |
| Water | 35 | 35 | 116 | 118 | 121 | 124 | 127 |
| Services | 21 | 31 | 29 | 30 | 31 | 32 | 33 |
| Other activities | 126 | 113 | 124 | 111 | 111 | 112 | 117 |
| Adjustments | 0 | -4 | 0 | 0 | 0 | 0 | 0 |
| EBITDA | 1,088 | 1,174 | 1,153 | 1,260 | 1,284 | 1,332 | 1,392 |
| Growth | 2% | 8% | -2% | 9% | 2% | 4% | 4% |
| Depreciation | -494 | -510 | -532 | -561 | -581 | -599 | -616 |
| Gains from asset sale/Provisions/Impairments | -22 | -37 | 344 | 0 | 0 | 0 | 0 |
| EBIT | 572 | 627 | 965 | 699 | 703 | 733 | 776 |
| Capitalised expenses/forex | 17 | 21 | 10 | 0 | 0 | 0 | 0 |
| Financial income | 50 | 35 | 9 | 9 | 9 | 9 | 9 |
| Financial expenses | -435 | -424 | -413 | -351 | -341 | -328 | -320 |
| Associates | 46 | 60 | 82 | 100 | 112 | 120 | 121 |
| Other | 26 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ordinary | 277 | 318 | 654 | 457 | 482 | 534 | 586 |
| Extraordinaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 277 | 318 | 654 | 457 | 482 | 534 | 586 |
| Corporation tax | -70 | -83 | -77 | -114 | -121 | -134 | -146 |
| Minorities | -22 | -28 | -36 | -38 | -39 | -40 | -40 |
| Net income attributable | 185 | 207 | 541 | 305 | 323 | 361 | 399 |
| DPS | - | 2.0 | 2.5 | 2.5 | 2.7 | 2.8 | 3.0 |
| Yield | 0.0% | 2.9% | 3.7% | 3.7% | 3.9% | 4.2% | 4.5% |

Source: Company data and Santander Investment Bolsa estimates.

Figure 4. ANA – Cash Flow, 2014-20E

| (€mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|------------------------------|----------------|---------------|--------------|---------------|---------------|---------------|---------------|
| EBITDA | 1,088 | 1,174 | 1,153 | 1,260 | 1,284 | 1,332 | 1,392 |
| Paid interests | -379 | -390 | -404 | -342 | -332 | -319 | -311 |
| Interest collection | 0 | 0 | 16 | 20 | 22 | 24 | 24 |
| Tax expense | 0 | -83 | -77 | -114 | -121 | -134 | -146 |
| Change in WC | 217 | -36 | -30 | -30 | 0 | 0 | 0 |
| Other | -132 | 16 | -10 | 0 | 0 | 0 | 0 |
| Operating cash flow | 794 | 681 | 648 | 794 | 854 | 904 | 959 |
| Acciona Energía | -282 | -130 | -441 | -247 | -342 | -260 | -260 |
| Construction/concessions | -39 | -49 | -200 | -200 | -50 | -50 | -50 |
| Service | -22 | -12 | -27 | -20 | -21 | -22 | -23 |
| Water | -9 | -19 | -101 | -28 | -29 | -29 | -30 |
| Other businesses | 12 | -13 | -60 | -13 | -14 | -14 | -15 |
| Other | - | - | 100 | - | - | - | - |
| Capex | -340 | -223 | -729 | -508 | -456 | -376 | -378 |
| 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 | -80.9 | 285.9 | 398.2 | 528.0 | 580.7 |
| 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 | 0.0 | 26.0 | 26.0 | 26.0 | 26.0 |
| Net debt change | -745.8 | -134.7 | 224.1 | -116.7 | -220.5 | -341.7 | -383.0 |

Source: Company data and Santander Investment Bolsa estimates.



Figure 5. ANA – Net Debt, 2014-20E

| (€mn) | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E |
|-------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Gross debt | 6,990 | 7,032 | 7,256 | 7,140 | 6,919 | 6,577 | 6,194 |
| Cash & cash equivalents | -1,695 | -1,873 | -1,873 | -1,873 | -1,873 | -1,873 | -1,873 |
| Net debt | 5,294 | 5,160 | 5,384 | 5,267 | 5,046 | 4,705 | 4,322 |
| Net debt /EBITDA | 4.9 | 4.4 | 4.7 | 4.2 | 3.9 | 3.5 | 3.1 |

Source: Company data and Santander Investment Bolsa estimates.

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| Under Review | | 0 | 0 |

NOTE: Given the recent volatility seen in the financial markets, the recommendation definitions are only indicative until further notice.

(*) Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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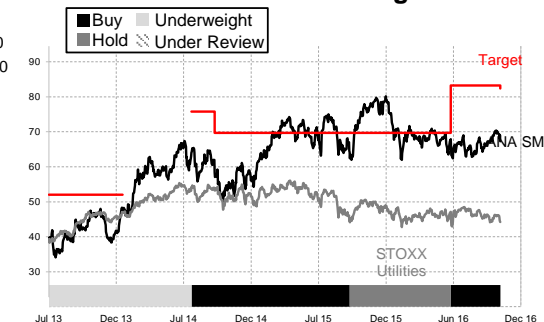
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| Bogotá Tel: 571-644-8006 Fax: 571-592-0638 | Buenos Aires Tel: 54114-341-1052 Fax: 54114-341-1226 | Caracas Tel: 582-401-4306 Fax: 582-401-4219 | Lima Tel: 511-215-8100 Fax: 511-215-8185 | Mexico City Tel: 5255-5629-5040 Fax: 5255-5629-5846 |
| Santiago Tel: 562-336-3300 Fax: 562-697-3869 | São Paulo Tel: 5511-5538-8226 Fax: 5511-5538-8407 | | | |

3Y Stock Performance vs Rating



Source: FactSet and Santander Investment Bolsa.