



| Electric Utilities | **Rating downgrade** | Portugal |

Energias de Portugal

Going through hard times: downgrading to Sell

Sell (from Hold)

Price 02/03/16 **€2.88**
12m target **€2.60**
Upside to TP **-9.6%**
12m f'cast div **€0.19**
12m TSR **-3.1%**

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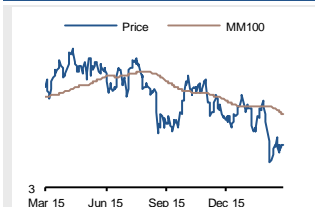
Sector stance

Underweight
Preferred stock
Enel, Suez, Enagas, E.ON
Least preferred stock
Centrica, SSE

Investment trigger

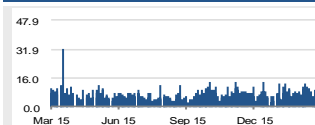
Overvalued
high leverage

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update We are downgrading EDP to Sell (from Hold). In our view, market earnings expectations for 2016e and 2017e are too high; we cannot rule out new regulatory measures in Portugal negatively impacting company's earnings; the sustainability of the dividend is in doubt (high payout ratio); and the big jump in the CDS will not help the highly leveraged company optimize its cost of debt. All in all, we are cutting our reported EPS by 7.2% for 2016e, 8.6% for 2017e and 9.7% for 2018e.

SG view We think that market expectations are still too positive regarding earnings and dividends sustainability. Low power prices will take a toll in coming years when hedges end, while the pumping hydro plants are not delivering as expected (lower price volatility and lower spread between peak and off-peak prices). At the same time, Brazil will only recover gradually (better hydro output, but low demand and currency depreciation). On top of this, based on our estimates the payout is reaching high levels (81% in 2016e and 78% in 2017e), while credit metrics remain far from being comfortable. On top of that, Portugal's economic / political environment is not helping (no spending cuts on the horizon, but high deficit remains, which means the risk of another bailout, as well as potential new corporate taxes). All in all, we think that the 6.4% DY is not enough to support the stock.

How we value the stock We are setting a new TP of €2.60/sh (vs €3.1/sh previously) based on a sum-of-the-parts valuation (DCF for assets, using a WACC of 5.2% for Iberian regulated assets, 6.4% for assets in liberalized markets and 12% for Brazilian assets). In our EV, Iberian assets account for 51% of total, Renewables 39%, Brazil 10% and other assets 1%.

Events, catalysts & risks to price target, rating & recommendation The main catalysts are the formation of a government in Spain and the approval of the 2016 budget in Portugal. Upside risks are higher-than-expected power prices and supply margins, as well as an appreciation of the Brazilian real and US\$ vs the euro. Each 41/MWh variation in power prices and in supply margins has respective impacts on our EPS of 2.0% and 4.5% respectively. A 10% appreciation of BR\$ and US\$ have an impact on EPS of 3.0%.

Share data

RIC EDP.LS, Bloom EDP PL			
52-week range	3.73-2.72		
EV 16 (€m)	33,412		
Mkt cap. (€m)	10,511		
Free float (%)	65.5		
Performance (%)	1m	3m	12m
Ordinary shares	-10.7	-7.9	-18.1
Rel. Eurofirst 300	-12.3	3.9	-4.7

Financial data

	12/15	12/16e	12/17e	12/18e
Revenues (€bn)	14.3	14.5	15.0	15.1
EBIT margin (%)	17.1	14.5	14.3	13.8
Rep. net inc. (€m)	912	846	888	850
EPS (adj.) (€)	0.25	0.23	0.24	0.23
Dividend/share (€)	0.19	0.19	0.19	0.19
Payout (%)	74	80	76	81
Interest cover (x)	2.93	2.89	3.05	3.10
Net debt/equity (%)	148	138	129	119
Previous EPS		0.25	0.27	0.26

Ratios

	12/15	12/16e	12/17e	12/18e
P/E (x)	13.5	12.4	11.8	12.4
FCF yield (/EV) (%)	0.9	4.4	5.6	6.1
Dividend yield (%)	5.5	6.4	6.4	6.6
Price/book value (x)	1.42	1.19	1.16	1.14
EV/revenues (x)	2.49	2.30	2.21	2.17
EV/EBIT (x)	14.6	15.8	15.5	15.7
EV/IC (x)	1.2	1.1	1.1	1.1
ROIC/WACC (x)	1.0	0.9	0.9	0.9
EPS CAGR 15-18e: -2.32%				

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Main changes

Main changes

(Sell TP €2.60) vs (Hold TP €3.1)

	2016e					2017e				
	old	new	% chg.	Cns.	SG vs Cns.	old	new	% chg.	Cns.	SG vs Cns.
EBITDA (€m)	3,621	3,569	-1.4%	3,678	-3.0%	3,783	3,666	-3.1%	3,726	-1.6%
EPS (€)	0.25	0.23	-8.0%	0.25	-9.9%	0.27	0.24	-8.6%	0.25	-2.3%
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

Estimates revision

€ m	2016 e	2017 e	2018 e
EBITDA			
New	3,569	3,666	3,649
Old	3,621	3,783	3,762
% chg.	-1.4%	-3.1%	-3.0%
EPS			
New	0.23	0.24	0.23
Old	0.25	0.27	0.26
% chg.	-7.2%	-8.6%	-9.7%
DPS			
New	0.19	0.19	0.19
Old	0.19	0.19	0.19
% chg.	0.0%	0.0%	0.0%

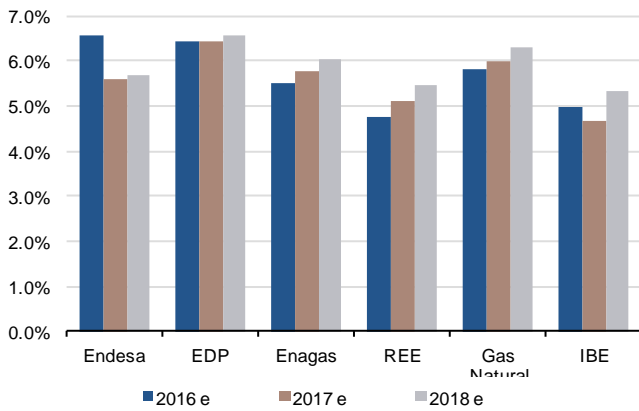
Source: SG Cross Asset Research/Equity

EBITDA estimates revision

€ m	2015 e	New 2016 e	2017 e	2015 e	Old 2016 e	2017 e	2015 e	% chg. 2016 e	2017 e
Iberian Gen & Supply	910	882	789	1,050	1,079	968	(13.3%)	(18.2%)	(18.4%)
LT contracted gen.	507	490	417	526	520	427	(3.7%)	(5.7%)	(2.3%)
Generation Liberalised	355	342	321	453	487	466	(21.6%)	(29.6%)	(31.2%)
Power & gas supply	49	50	51	71	73	74	(31.8%)	(31.5%)	(31.2%)
Iberian Network	942	955	955	957	971	985	(1.6%)	(1.6%)	(3.1%)
Power distrib.	724	735	731	730	740	752	(0.9%)	(0.8%)	(2.7%)
Gas Networks	218	221	224	227	230	233	(4.0%)	(4.1%)	(4.2%)
Renewable	1,200	1,260	1,321	1,200	1,260	1,321	0.0%	0.0%	0.0%
Iberia	482	485	485	482	485	485	0.0%	0.0%	0.0%
USA	484	516	538	484	516	538	0.0%	0.0%	0.0%
Other	234	259	297	234	259	297	0.0%	0.0%	0.0%
Brazil	532	583	599	429	489	503	24.2%	19.3%	19.0%
Generation	331	372	376	238	288	292	39.0%	28.9%	28.9%
Distribution	201	211	223	190	200	211	5.6%	5.5%	5.4%
Other & Adj.	(15)	(15)	(15)	(15)	(15)	(15)	0.0%	0.0%	0.0%
TOTAL EBITDA	3,569	3,666	3,649	3,621	3,783	3,762	(1.4%)	(3.1%)	(3.0%)

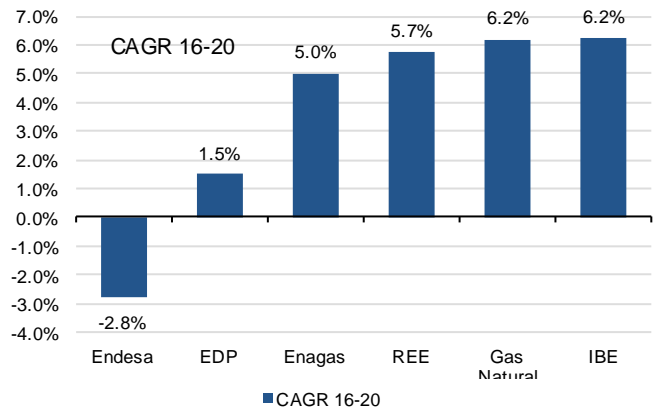
Source: SG Cross Asset Research/Equity

Dividend yield comparison



Source: SG Cross Asset Research/Equity

DPS CAGR16-20



Source: SG Cross Asset Research/Equity

EDP payout ratio and financial ratios

	2016 e	2017 e	2018 e	2019 e	2020 e
Payout ratio	80%	76%	81%	79%	75%
ND/EBITDA	4.8x	4.5x	4.4x	4.0x	3.7x
FFO/ND adj.	15%	17%	18%	19%	22%
RCF/ND Adj.	11%	12%	13%	14%	16%

Source: SG Cross Asset Research/Equity

CF

€ m	2016 e	2017 e	2018 e	2019 e	2020 e
EBITDA	3,569	3,666	3,649	3,764	3,913
Fin costs	(733)	(702)	(672)	(674)	(639)
Taxes	(311)	(325)	(317)	(334)	(360)
WK	(223)	(216)	(177)	(161)	(170)
Other	0	0	0	0	0
OP CF	2,302	2,423	2,450	2,595	2,745
Disposals	650	0	0	0	0
Other	0	0	0	0	0
Capex	(1,571)	(1,256)	(1,145)	(1,224)	(1,255)
Capital increase	0	0	0	0	0
Dividends	(676)	(676)	(676)	(690)	(704)
Debt reduction	705	490	661	680	786
Net debt	17,066	16,576	15,915	15,235	14,449

Source: SG Cross Asset Research/Equity

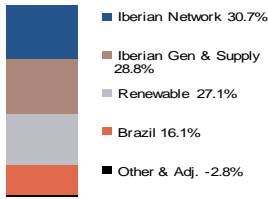
SOP

€m	EV	Criteria	% EV	WACC	16 e	17 e
Iberian Electricity & Gas	15,059	DCF & ratio	49%	n.a.	8.1x	8.2x
Regulated Generation	2,156	DCF	7%	5.2%	4.3x	4.4x
Liberalized Generation	4,644	DCF	15%	6.4%	13.1x	13.7x
Power Supply	254	8x EBITDA	1%	n.a.	7.0x	6.9x
Gas Supply	86	8x EBITDA	0%	n.a.	7.0x	6.7x
Power Distribution	6,133	DCF	20%	5.3%	8.4x	8.2x
Gas Network	1,806	DCF	6%	5.3%	8.3x	8.2x
Renewables	12,335	Ratio per MW	40%	n.a.	10.3x	9.8x
Iberia	4,169	Ratio per MW	14%	5.3%	8.7x	8.6x
USA	4,997	Ratio per MW	16%	5.0%	10.3x	9.7x
ROW	3,169	Ratio per MW	10%	9.0%	13.5x	12.2x
Brazil	3,003	DCF & Mkt value	9.8%	12.4%	5.6x	5.2x
Generation	1,657	DCF & Mkt value	6%	12.4%	5.0x	4.5x
Distribution	1,346	DCF & Mkt value	4%	12.4%	6.7x	6.4x
Stakes	228		0.7%	0%		
REN (3.5%)	50	Mkt value	0%	0%		
BCP (2.6%)	10	Mkt value	0%			
Others	168	BV	1%			
EV value	30,624					
Net debt	(18,018)					
Minorities	(3,479)					
Net contingencies	(2,090)					
Regulatory receivables	2,477					
Work in progress	0					
Equity value	9,515					
Target price (€/sh)	2.60					

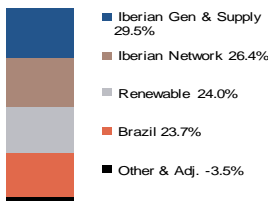
Source: SG Cross Asset Research/Equity

Energias de Portugal

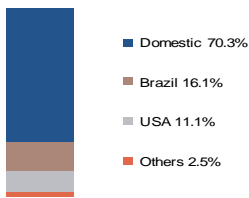
Sales/division 15



EBIT/division 15



Sales/region 15



Major shareholders (%)

Valuation (€m)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
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)	2.50	2.07	2.54	3.31	3.37	2.88	2.88	2.88
Average market cap. (SG adjusted) (1)	9,151	7,573	9,294	12,088	12,320	10,511	10,511	10,511
Restated net debt (-)/cash (+) (2)	-16,836	-18,848	-17,947	-17,777	-18,562	-17,922	-17,432	-16,771
Value of minorities (3)	3,277	3,239	3,083	3,288	3,452	3,698	3,963	4,243
Value of financial investments (4)	534	587	1,115	1,272	1,028	1,048	1,084	1,122
Other adjustment (5)	1,823	2,316	2,323	2,366	2,329	2,329	2,329	2,329
EV = (1) - (2) + (3) - (4) + (5)	30,552	31,389	31,533	34,247	35,635	33,412	33,151	32,733
P/E (x)	8.3	7.5	9.2	11.6	13.5	12.4	11.8	12.4
Price/cash flow (x)	4.0	5.7	3.4	4.7	4.2	4.6	4.3	4.2
Price/free cash flow (x)	37.3	nm	1.63	10.2	nm	14.4	9.01	7.86
Price/book value (x)	1.13	0.92	1.10	1.39	1.42	1.19	1.16	1.14
EV/revenues (x)	2.14	2.21	2.17	2.43	2.49	2.30	2.21	2.17
EV/EBITDA (x)	8.1	8.7	8.7	9.4	9.1	9.4	9.0	9.0
Dividend yield (%)	7.4	8.9	7.3	5.6	5.5	6.4	6.4	6.6
Per share data (€)								
SG EPS (adj.)	0.30	0.28	0.27	0.28	0.25	0.23	0.24	0.23
Cash flow	0.62	0.36	0.76	0.70	0.80	0.63	0.66	0.68
Book value	2.22	2.24	2.31	2.37	2.37	2.42	2.48	2.52
Dividend	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19
Income statement (€m)								
Revenues	14,254	14,233	14,555	14,073	14,304	14,550	15,021	15,088
Gross income	5,436	5,428	5,551	5,367	5,455	5,549	5,729	5,754
EBITDA	3,755	3,629	3,616	3,643	3,924	3,569	3,666	3,649
Depreciation and amortisation	-1,488	-1,469	-1,477	-1,397	-1,481	-1,454	-1,521	-1,567
EBIT	2,267	2,160	2,139	2,246	2,443	2,115	2,145	2,082
Impairment losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net interest income	-696	-682	-703	-557	-857	-712	-666	-634
Exceptional & non-operating items	20.9	2.80	0.00	0.00	0.00	0.00	0.00	0.00
Taxation	-260	-283	-188	-372	-340	-311	-325	-317
Minority interests	-207	-170	-188	-223	-334	-246	-265	-281
Reported net income	1,125	1,013	1,005	1,041	912	846	888	850
SG adjusted net income	1,104	1,010	1,005	1,041	912	845	888	850
Cash flow statement (€m)								
EBITDA	3,755	3,629	3,616	3,643	3,924	3,569	3,666	3,649
Change in working capital	882	-1,394	474	-754	795	-223	-216	-177
Other operating cash movements	-2,355	-902	-1,318	-319	-1,800	-1,044	-1,027	-990
Cash flow from operating activities	2,282	1,332	2,772	2,571	2,918	2,302	2,423	2,482
Net capital expenditure	-2,037	-1,398	2,944	-1,389	-3,444	-1,571	-1,256	-1,145
Free cash flow	245	-66	5,716	1,181	-525	731	1,167	1,337
Cash flow from investing activities	0	0	0	0	0	650	0	0
Cash flow from financing activities	-622	-676	-676	-676	-676	-676	-676	-676
Net change in cash resulting from CF	-376	-743	5,040	505	-1,202	705	490	661
Balance sheet (€m)								
Total long-term assets	33,524	34,740	34,330	34,024	35,780	35,268	35,038	34,655
of which intangible	10,128	9,860	6,028	5,813	5,525	5,682	5,808	5,922
Working capital	-2,306	-912	-1,386	-632	-1,427	-1,204	-988	-811
Employee benefit obligations	1,823	2,316	2,323	2,366	2,329	2,329	2,329	2,329
Shareholders' equity	8,110	8,192	8,446	8,681	8,670	8,839	9,051	9,225
Minority interests	3,277	3,239	3,083	3,288	3,452	3,698	3,963	4,243
Provisions	0	0	0	0	0	0	0	0
Net debt (-)/cash (+)	-16,985	-18,401	-17,584	-17,255	-17,946	-17,241	-16,751	-16,090
Accounting ratios								
ROIC (%)	6.6	6.0	6.4	6.1	6.5	5.4	5.6	5.4
ROE (%)	14.1	12.4	12.1	12.2	10.5	9.7	9.9	9.3
Gross income/revenues (%)	38.1	38.1	38.1	38.1	38.1	38.1	38.1	38.1
EBITDA margin (%)	26.3	25.5	24.8	25.9	27.4	24.5	24.4	24.2
EBIT margin (%)	15.9	15.2	14.7	16.0	17.1	14.5	14.3	13.8
Revenue yoy growth (%)	0.6	-0.1	2.3	-3.3	1.6	1.7	3.2	0.4
Rev. organic growth (%)	0.6	-0.1	2.3	-3.3	1.6	1.7	3.2	0.4
EBITDA yoy growth (%)	3.9	-3.4	-0.3	0.7	7.7	-9.1	2.7	-0.5
EBIT yoy growth (%)	9.9	-4.7	-0.9	5.0	8.8	-13.4	1.4	-2.9
EPS (adj.) yoy growth (%)	8.4	-8.5	-0.5	3.6	-12.4	-7.3	5.1	-4.3
Dividend growth (%)	8.8	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Cash conversion (%)	53.8	42.7	nm	94.6	26.5	83.9	102.3	111.8
Net debt/equity (%)	149	161	153	144	148	138	129	119
FFO/net debt (%)	16.6	14.1	15.2	15.3	14.7	14.2	15.3	16.1
Dividend paid/FCF (%)	275.8	nm	11.8	57.3	nm	92.5	58.0	51.6

Source: SG Cross Asset Research/Equity

APPENDIX

COMPANIES MENTIONED

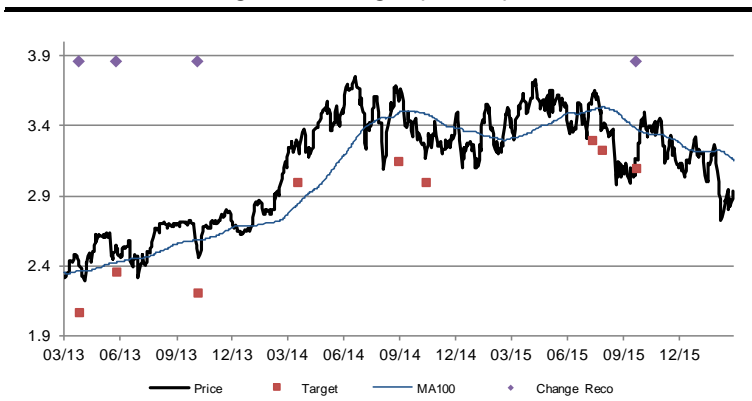
Centrica (CNA.L, Sell)
E.ON (EONGn.DE, Buy)
Enagas (ENAG.MC, Buy)
Enel (ENEI.MI, Buy)
Energias de Portugal (EDP.LS, Sell)
SSE (SSE.L, Sell)
Suez (SEVI.PA, Buy)

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Historical Price: Energias de Portugal (EDP.LS)



2013/2014	Change	2015/2016	Change
28/03/13	New Rating: Sell	15/07/15	New Target: 3.3
28/03/13	New Target: 2.07	31/07/15	New Target: 3.23
28/05/13	New Rating: Hold	25/09/15	New Rating: Hold
28/05/13	New Target: 2.36	25/09/15	New Target: 3.1
08/10/13	New Rating: Sell		
08/10/13	New Target: 2.21		
20/03/14	New Target: 3.0		
01/09/14	New Target: 3.15		
16/10/14	New Target: 3.0		

Source: SG Cross Asset Research/Equity

SG EQUITY RESEARCH RATINGS on a 12 month 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.

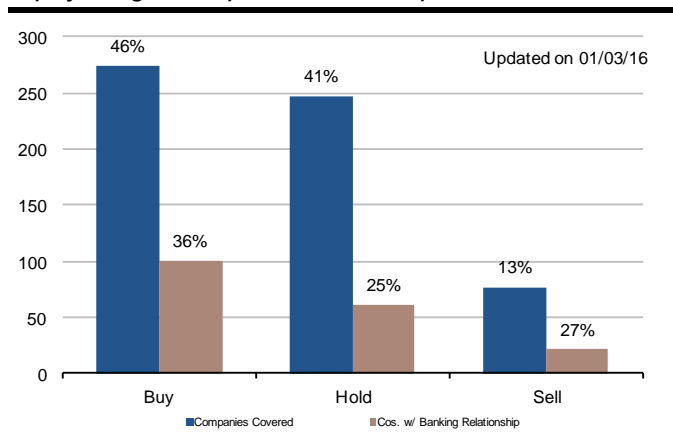
Sector Weighting Definition on a 12 month period:

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

Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

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.

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