| 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

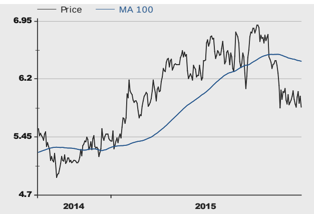
Sector stance
Underweight

Preferred stock
Iberdrola, UU, SNAM

Least preferred stock
SSE

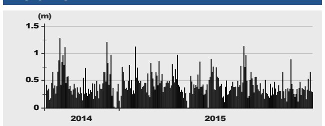
Investment trigger
Growth
Debt reduction

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 cutting our TP to €6.9 vs €7.0 due to the Brazilian real's 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%				

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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

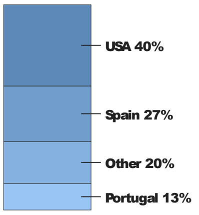
Sum of the parts

€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**							

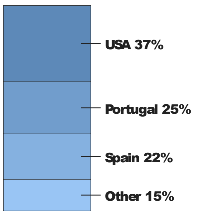
Source: SG Cross Asset Research/Equity

EDP Renovaveis SA

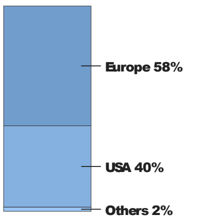
Sales/division 14



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

APPENDIX

COMPANIES MENTIONED
EDP Renovaveis SA (EDPR.LS, Buy)
Iberdrola (IBE.MC, Buy)
SNAM (SRG.MI, Buy)
SSE (SSE.L, Sell)
United Utilities (UU.L, Buy)

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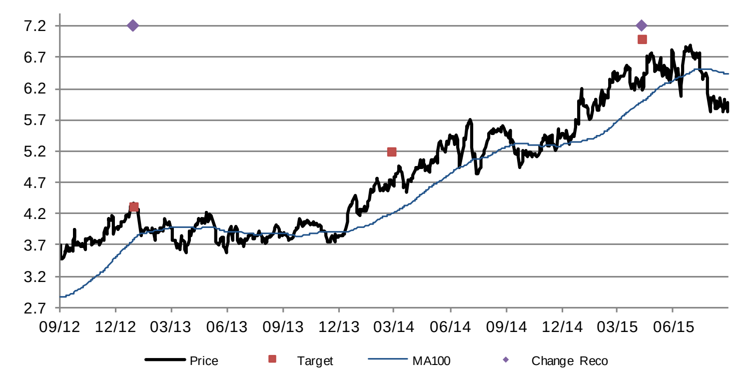
Historical Price: EDP Renovaveis SA (EDPR.LS)



Source: SG Cross Asset Research/Equity

2012/2013	Change	2014/2015	Change
21/01/13	New Rating: No Reco	20/03/14	New Target: 5.2
22/01/13	New Rating: Hold	04/05/15	New Rating: Buy
22/01/13	New Target: 4.32	04/05/15	New Target: 7.0

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.

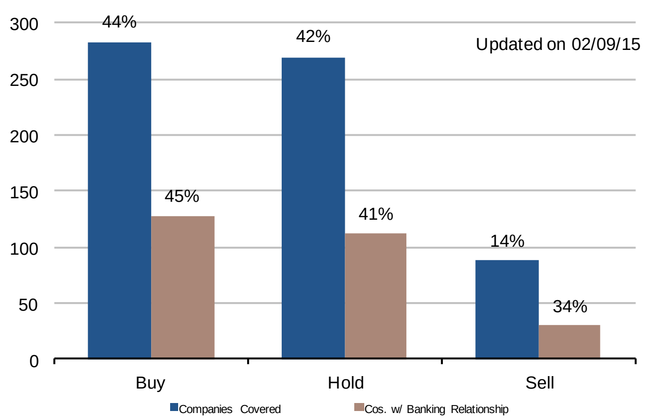
Sector Weighting Definition on a 12 months period:

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.

Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

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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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).

SG or its affiliates act as market maker or liquidity provider in the equities securities of Iberdrola, SNAM.
SG or its affiliates had an investment banking client relationship during the past 12 months with Iberdrola.
SG or its affiliates have received compensation for investment banking services in the past 12 months from Iberdrola.
SG or its affiliates managed or co-managed in the past 12 months a public offering of securities of Iberdrola.
SG received compensation for products and services other than investment banking services in the past 12 months from EDP Renovaveis SA, Iberdrola, SNAM, SSE, United Utilities.
SGAS had a non-investment banking non-securities services client relationship during the past 12 months with EDP Renovaveis SA.
SGAS received compensation for products and services other than investment banking services in the past 12 months from EDP Renovaveis SA.

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