

| Electric Utilities | **Rating downgrade** | Spain |

Iberdrola

Time to take a break despite solid fundamentals: downgrading to Hold

Hold (from Buy)

Price 02/03/16 **€5.92**
12m target **€6.15**
Upside to TP **3.8%**
12m f'cast div **€0.28**
12m TSR **8.5%**

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Sector stance

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

Investment trigger

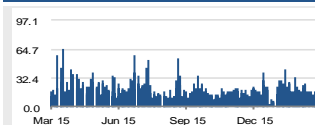
Value
High dividend yield

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update On 25 February, Iberdrola released its targets for 2016-20. Key metrics: 6% EBITDA and EPS CAGR, capex €24bn, payout ratio 65-75%. Capex will mainly be allocated to grids and renewables, targeting 3.1x ND/EBITDA by 2020. Power price assumptions (per MWh) are Spain €48 and UK £40, well above the current forward curve of €41 and £32, respectively.

SG view We are downgrading Iberdrola to Hold from Buy as we think that the positives (growth and diversification strategy; market perception of dividend sustainability) are almost fully priced in. Our new estimates are 3% below the company's guidance mainly due to lower power price assumptions in Spain and the UK. Moreover, we do not expect EPS growth until 2018 and some headwinds may materialise in 2016/17 (additional pressure on supply margins in Spain and in UK, further deceleration in Brazil, and USD depreciation vs the EUR). In addition, due to the high capex forecast for 2016/2017, any unexpected negative impact on earnings could create doubt on DPS sustainability as credit metrics do not offer much of a buffer. We like the fundamentals and the strategy of being focused on grids and renewables in the UK/US. However we would wait for a better entry point as at the current price, upside potential is limited to c.7%.

How we value the stock Inputting our revised estimates we reduce our TP to €6.15 (was €6.70). This is based on an SOP, with a DCF for each division (6% WACC for liberalised assets in Iberia and the UK, 4.5% for regulated assets, 10% for Brazil and 6.5% for Mexico). At the EV level, Iberian assets account for 30%, the UK 19%, renewables 25%, LatAm 9% and the US 17%. See page 9 for details.

Events, catalysts & risks to price target, rating & recommendation Main catalysts are the formation of a new government in Spain and the outcome of the rate cases in US. Upside risks are higher power prices and supply margins than expected, USD appreciation vs the EUR and higher returns in grids than forecast. Downside risks are lower power prices and supply margins, as well as a better outcome from the regulatory review on US grids. See page 9 for more details.

Share data

RIC IBE.MC, Bloom IBE SM			
52-week range	6.67-5.78		
EV 16 (€m)	76,156		
Mkt cap. (€m)	36,966		
Free float (%)	81.2		
Performance (%)	1m	3m	12m
Ordinary shares	-7.9	-10.4	-2.3
Rel. Eurofirst 300	-9.6	1.0	13.6

Financial data

	12/15	12/16e	12/17e	12/18e		12/15	12/16e	12/17e	12/18e
Revenues (€bn)	31.4	40.3	39.7	41.1	P/E (x)	16.7	15.5	16.1	14.4
EBIT margin (%)	12.2	10.9	10.8	11.4	FCF yield (EV) (%)	-0.7	3.0	1.5	4.1
Rep. net inc. (€bn)	2.42	2.38	2.30	2.57	Dividend yield (%)	4.6	4.8	4.5	5.2
EPS (adj.) (€)	0.37	0.38	0.37	0.41	Price/book value (x)	1.02	0.96	0.95	0.93
Dividend/share (€)	0.28	0.29	0.27	0.31	EV/revenues (x)	2.45	1.89	1.95	1.88
Payout (%)	77	75	73	75	EV/EBIT (x)	20.1	17.4	18.1	16.5
Interest cover (x)	2.38	2.52	2.42	2.59	EV/IC (x)	0.9	0.9	0.9	0.9
Net debt/equity (%)	69	70	72	71	ROIC/WACC (x)	0.5	0.0	0.0	0.0
Previous EPS		0.38	0.42	na	EPS CAGR 15-18e: +3.79%				

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Main changes

Main changes

(Hold TP €6.15) vs (Buy TP €6.7)

	2015					2016				
	old	new	%chg.	Cns.	SG vs Cns.	old	new	%chg.	Cns.	SG vs Cns.
EBITDA	7,862	7,784	-1.0%	7,894	-1.4%	8,346	7,732	-7.4%	8,114	-4.7%
EPS	0.38	0.38	0.7%	0.40	-5.8%	0.42	0.37	-11.9%	0.42	-12.5%
DPS	0.28	0.29	0.7%	0.29	-1.0%	0.31	0.27	-11.9%	0.29	-7.8%

Source: SG Cross Asset Research/Equity

Peer comparison

Company	EV/EBITDA	EV/EBITDA	EBITDA CAGR	P/E	P/E	EPS CAGR	Div Yield%	DPS CAGR	ND/EBITDA		
	FY 16E	FY 17E	15-17E (%)	FY 16E	FY 17E	15-17E (%)	FY 16E	FY 17E	15-17E (%)	FY 16E	FY 17E
Iberdrola	10.7x	11.0x	2.9%	15.5x	16.1x	-2.5%	4.8%	4.5%	-2.5%	3.7x	4.0x
Endesa *	7.4x	7.9x	-1.9%	13.4x	15.3x	-3.0%	6.5%	5.8%	-3.0%	2.4x	2.5x
Gas Natural SDG	7.2x	7.0x	0.2%	10.9x	10.4x	4.7%	5.9%	6.3%	4.2%	2.8x	2.7x
EDP	9.2x	8.9x	-5.3%	12.4x	12.1x	-3.1%	6.5%	6.5%	0.0%	4.7x	4.4x
Enel	6.8x	6.8x	-2.4%	13.4x	12.9x	-6.6%	4.3%	4.9%	10.5%	2.7x	2.7x
Engie	7.5x	7.8x	-2.9%	13.0x	14.6x	-4.1%	4.9%	4.9%	-16.3%	4.2x	4.4x
EDF	5.3x	5.9x	-4.3%	5.9x	8.3x	-23.5%	12.9%	12.9%	0.0%	4.3x	4.8x
E.ON	7.6x	7.0x	-2.2%	12.3x	10.2x	6.9%	6.0%	6.6%	4.9%	5.1x	4.7x
RWE	7.4x	5.9x	-0.5%	9.9x	7.1x	-10.9%	4.7%	5.7%	9.5%	4.5x	3.2x
Centrica	8.4x	8.1x	-2.9%	14.9x	14.4x	-2.0%	5.8%	5.8%	0.0%	2.2x	1.9x
SSE	10.8x	11.0x	4.1%	13.9x	14.2x	-1.4%	6.7%	6.8%	2.7%	5.1x	5.4x
Terna	11.8x	11.5x	0.4%	17.3x	16.0x	0.9%	4.3%	4.4%	3.0%	5.5x	5.4x
Snam	12.5x	12.6x	-5.8%	18.5x	18.2x	-10.9%	4.8%	4.8%	0.0%	5.6x	5.8x
Red Electrica	9.8x	9.4x	4.3%	14.7x	13.7x	6.6%	5.0%	5.4%	7.0%	3.2x	3.0x
Enagas	9.9x	9.9x	-3.5%	15.2x	14.7x	0.5%	5.6%	5.9%	5.0%	4.8x	4.6x
REN	7.7x	7.6x	-2.9%	12.7x	11.6x	2.0%	6.6%	6.6%	0.0%	5.1x	5.0x
United Utilities	12.7x	12.0x	4.8%	20.8x	18.2x	3.8%	4.2%	4.3%	2.2%	6.3x	6.1x
Pennon Group	11.9x	11.9x	7.7%	19.7x	18.9x	9.4%	4.4%	4.7%	7.2%	5.7x	6.1x
Severn Trent	12.2x	12.0x	2.3%	21.6x	21.2x	-0.7%	3.8%	3.9%	1.7%	6.1x	6.2x
National Grid	10.0x	9.9x	5.4%	16.6x	16.2x	4.4%	4.7%	4.8%	3.8%	4.0x	4.1x

Source: SG Cross Asset Research/Equity * Endesa multiples considering re-leveraged to ND/EBITDA 2.5x

Iberdrola main estimates

(€m)	2015	2016e	2017e	2018e	2019e	2020e
EBITDA	7,306	7,784	7,732	8,294	8,716	9,469
Net profit	2,422	2,379	2,300	2,567	2,777	3,170
DPS	0.28	0.29	0.27	0.31	0.33	0.38
Capex	5,313	4,584	5,690	4,162	4,177	3,080
Net debt	28,336	28,997	30,693	30,688	30,564	29,057
ND/EBITDA (x)	3.9x	3.7x	4.0x	3.7x	3.5x	3.1x

Source: SG Cross Asset Research/Equity

Strategic update

Iberdrola has presented its targets for 2016-2020 with the key ones in our view being:

- EBITDA and EPS CAGR 2016-2020 of 6%, although the company expects that the growth rate until 2018 will be close to 5% with an acceleration from that date onwards due to asset commissioning. That implies an EBITDA of €9.8bn and net profit of €3.25bn in 2020.
- Capex of €24bn of which 46% will be allocated to networks, 36% to renewables, 12% to generation & retail and 9% to regulated generation. All in all 3,400 MW of renewables will be deployed, 1,100MW of new generation capacity in Mexico (CCGT and CHP) and an increase in the RAV base of €5.0bn.
- Iberdrola expects ND/EBITDA of 3.6x in 2018 decreasing to 3.1x by 2020. That means net debt of €30.4bn in 2018e and €30.2bn in 2020. Iberdrola also pointed that the FFO/ND is expected to be above 22% throughout the plan.
- Regarding the dividends, Iberdrola has kept the payout policy of 65% to 75% unchanged, which should mean that DPS will keep pace EPS growth rate. The scrip dividend will continue despite the change in legislation in Spain in 2017 (making it less attractive than before) while the compromise of buying back shares to maintain the number of shares (6.240m) remains.

In essence, Iberdrola is in line with market expectations (mid single-digit growth in EPS and DPS). However the main difference we want to highlight is that the market (and our estimates) has been factoring likely lower power prices and lower capex in grids and renewables although we should bear in mind that close to €1.2bn of capex will contribute to EBITDA after 2020.

All in all we think that the plan is solid but some issues may impact and put some pressure on the targets such as lower power prices, lower supply margins and some regulatory reviews (rate cases in US).

Iberdrola guidance and SG estimates

(€m)	2018e	2020e	CAGR
EBITDA			
IBE guidance	8,450	9,770	6.0%
SGe	8,294	9,469	5.3%
Net profit			
IBE guidance	2,800	3,240	6.0%
SGe	2,379	3,170	5.5%
DPS			
IBE guidance	0.33	0.39	6.6%
SGe	0.29	0.38	6.1%

Source: SG Cross Asset Research/Equity

Positives priced in while some risks may materialise

As we mentioned in our report ([Iberian Utilities: risks ahead but there's a joker in the deck](#)) we think that in 2016 (or 2017 depending on how much time will it take to form a new government in Spain) the supply margins among other areas within the generation & supply segment in Spain will be under pressure.

Regarding the **electricity supply** unit, Iberdrola is long in supply (sales of c.80TWh vs output of 46TWh including wind assets in Spain). In addition, Iberdrola is highly exposed to the liberalised household segment (with the highest margins) which we believe is the segment most likely to be closely monitored by the new government. We are already considering a moderate cut in the electricity supply margins in our estimates. However, we cannot rule out that more pressure than anticipated may come.

Generation & supply in Spain

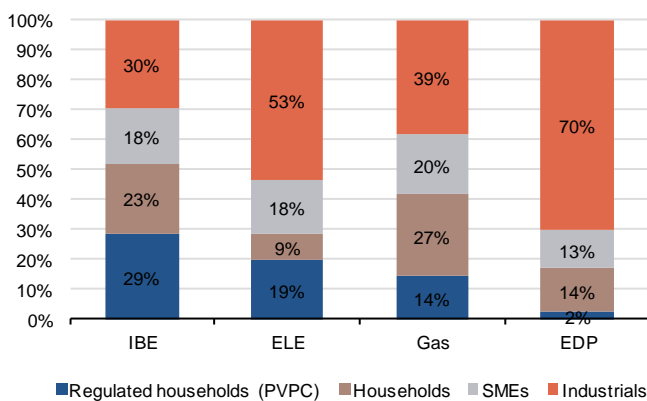
(€m)	2015e	2016e	2017e	2018e	2019e	2020e
EBITDA	1,502	1,402	1,178	1,102	1,201	1,266
Generation	838	834	639	608	700	798
Supply	664	568	539	495	501	467
Avg selling price (€/MWh)	59.0	56.0	50.7	50.0	52.0	54.7
Forward price (€/MWh)	51.0	47.4	41.3	40.6	42.6	46.9
Avg supply margin (€/MWh)	8.6	7.1	6.6	6.1	6.1	5.7
Output (GWh)	46,606	46,839	47,073	47,309	47,545	47,640
Energy sales (GWh)	77,100	80,514	81,360	81,766	82,175	82,586

Source: SG Cross Asset Research/Equity

In order to put things into perspective, we estimate that each €1/MWh cut in the electricity supply margin would have an impact on net profit of c.€60m or +/-2.5% of 2016e expected net profit (see full details on the supply unit in Spain in the Iberian utilities report: [Iberian Utilities: risks ahead but there's a joker in the deck](#)).

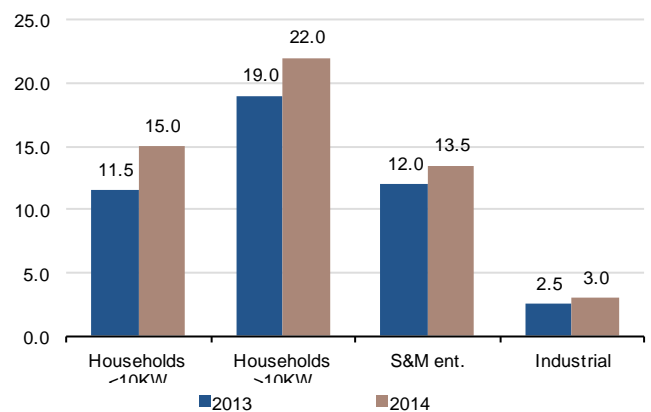
In the charts below we show the client mix in electricity supply in Spain and the Spanish regulator estimates of the gross margins obtained by client in 2013 and 2014. Iberdrola is highly biased to households (where the margin is the highest) and we think that it is precisely this segment where the regulator/government and the market will put more pressure.

Client mix in supply unit in Spain



Source: SG Cross Asset Research/Equity

Gross margins in supply according to the Spanish regulator



CNMC

We would also highlight the **risk on power prices** from a **push for renewables** by the potential new government (the socialist party has been and continues to be a big supporter of renewable energy).

The risk stems from the fact that in order to reach the 20-20-20 target the transport sector would have to make a big effort (as it is lagging behind its own sector target). We estimate that if the transportation sector only reaches 5% of energy consumption from renewable sources vs the expected 8.5%, the electricity sector would need to installed 1.5GW per year on top of our estimates of 1GW/y to close that gap.

That would have a material impact on volumes (accounting for 5% of expected demand in 2020) and achieved prices for the conventional plants being the most impacted the hydro and nuclear assets (where Iberdrola has sizeable exposure as 80% of its output in Spain is related to those technologies).

Another issue that provides some uncertainty is the likely **pressure on supply margins in the UK**. The regulator is in an open fight for making the fuel cost reduction to be passed onto customer bills more effective. Iberdrola is becoming longer in supply as a result of the closure of the Longannet hard coal plant. We estimate that a cut of 10% in the energy supply unitary margin would have an impact of -1.3% on EPS.

Moreover, power price assumptions that Iberdrola has in the plan (average of €48/MWh in Spain and £40/MWh in UK) are well above the forward curve. We estimate that the difference between our power price assumption and Iberdrola assumptions may lead to a difference in EBITDA of €300-400m in the 2017-2019 period while in 2020 the difference decreases materially as we expect a recovery in power prices by that date. Regarding net profit, the potential impact on the company's estimates could be material (-8% to-10% in the 2017-2019 period).

Potential impact of lower power prices on company's guidance

(€m)	2017e	2018e	2019e	2020e
Price differential in:				
Spain	6.7	7.4	5.4	1.1
UK	4.4	3.4	2.8	2.4
Output effect (GWh)				
Spain	53,431	53,431	53,431	53,431
UK	5,769	5,972	6,175	6,004
Impact on				
EBITDA	384	414	306	74
Net profit	288	310	230	56
As a % of EBITDA target	4.8%	4.9%	3.4%	0.8%
As a % of net profit target	10.8%	11.1%	7.6%	1.7%

Source: SG Cross Asset Research/Equity

Dividends: the weak link in the chain?

Iberdrola has a clear capex plan in assets well defined and mostly are or regulated grids or assets with a clear remuneration frameworks such as the renewables. This is positive in our view and provides visibility on the company's growth profile. We expect that 2016e and 2017e will be the years with the highest capex, which should then decrease from 2018e onwards mainly driven by the development of offshore wind assets and CCGT plants in Mexico.

Capex

(€m)	2015e	2016e	2017e	2018e	2019e	2020e
Liberalised	679	898	461	463	303	254
Spain	211	150	150	150	150	150
UK	94	91	94	96	98	49
Mexico	370	653	213	213	50	50
US & Canada	4	4	4	4	4	4
Regulated	3,691	2,236	2,052	1,998	2,265	2,132
Spain	347	340	300	300	300	300
UK	847	856	749	734	734	734
US	2,497	1,039	1,003	964	1,231	1,098
Brazil	71	88	88	88	88	88
Renewables	735	1,301	3,028	1,552	1,460	545
Diversification	11	11	11	11	11	11
Other	128	50	50	50	50	50
Total	5,313	4,584	5,690	4,162	4,177	3,080

Source: SG Cross Asset Research/Equity

Iberdrola is distributing all the remaining cash flow to shareholders through dividends, which again is seen as positive. However, based on our estimates, the payout in the coming years will be close to 75% and the FFO/ND and RCF/ND will deteriorate from 2015 levels.

Payout and dividend yield

	2016e	2017e	2018e	2019e	2020e
DPS	0.29	0.27	0.31	0.33	0.38
Payout	75%	73%	75%	75%	75%
Dividend yield *	4.8%	4.5%	5.1%	5.6%	6.4%

Source: SG Cross Asset Research/Equity. Price of €5.97/sh

In the table below we show the FFO and the RCF performance in the following years. The most problematic years are 2016e and 2017e as we expect earnings to be under pressure due to low power prices while some of the investments are not yet bearing fruit.

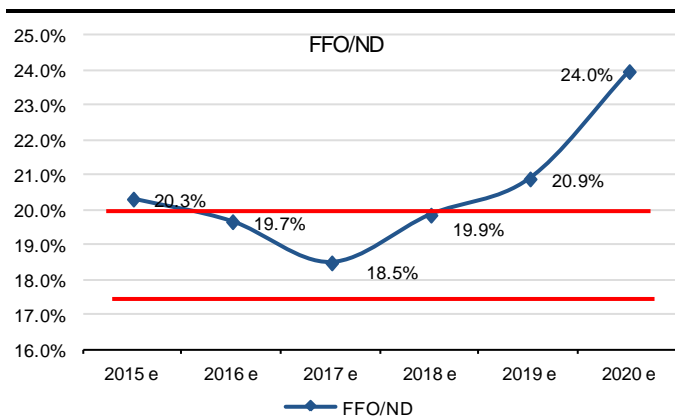
FFO and RCF

(€m)	2016e	2017e	2018e	2019e	2020e
EBITDA	7,784	7,732	8,294	8,716	9,469
Taxes	(816)	(789)	(881)	(953)	(1,088)
Fin costs	(1,151)	(1,195)	(1,226)	(1,273)	(1,290)
Wk& Other	(115)	(75)	(95)	(105)	(127)
FFO	5,702	5,673	6,092	6,385	6,964
Dividends	(1,779)	(1,679)	(1,925)	(2,083)	(2,377)
RCF	3,923	3,994	4,167	4,302	4,586

Source: SG Cross Asset Research/Equity

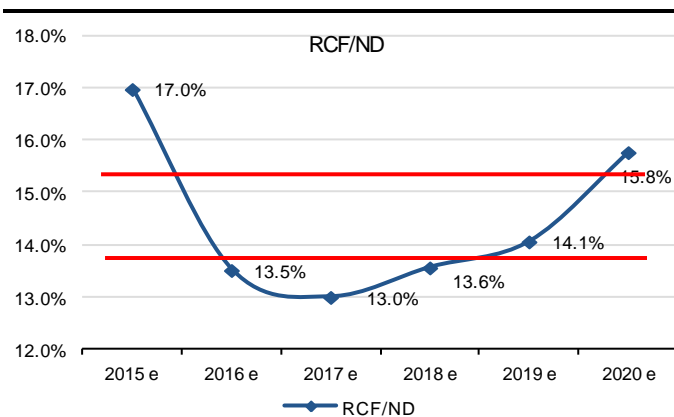
We expect Iberdrola to be above the level required by the rating agencies for FFO/ND (>18% for S&P and 20% Moody's) although just barely until 2020 when the big reduction in capex will boost this ratio. As for RCF/ND, Iberdrola according to our estimates will be slightly below the S&P requirement (>14%) as well as Moody's (high teens). The gap is not substantial and again after the period of high capex commitments, the ratio recovers to a comfortable level.

FFO/ND



Source: SG Cross Asset Research/Equity

RCF/ND



Source: SG Cross Asset Research/Equity

However as we have mentioned, the capex plan is almost committed and any unexpected headwind could reduce the buffer for FFO/ND and RCF/ND vs the requirements. We do not see Iberdrola's rating at risk, but in such a scenario investors would perceive the dividends as less safe (considering the recent examples of EDF and RWE this would be more than justified).

In terms of financial leverage, our estimates are in line with Iberdrola's guidance (ND/EBITDA 3.6x in 2018 and 3.1x in 2020) though with lower EBITDA and capex estimates.

CF

(€m)	2016e	2017e	2018e	2019e	2020e
EBITDA	7,784	7,732	8,294	8,716	9,469
Taxes	(816)	(789)	(881)	(953)	(1,088)
Fin costs	(1,151)	(1,195)	(1,226)	(1,273)	(1,290)
Wk& other	(115)	(75)	(95)	(105)	(127)
Op CF	5,702	5,673	6,092	6,385	6,964
Capex	(4,584)	(5,690)	(4,162)	(4,177)	(3,080)
Disposals /other (IFRS)	0	0	0	0	0
Dividends	(1,779)	(1,679)	(1,925)	(2,083)	(2,377)
Debt reduction	(661)	(1,696)	5	125	1,506
Net debt	28,997	30,693	30,688	30,564	29,057
ND/EBITDA	3.7x	4.0x	3.7x	3.5x	3.1x

Source: SG Cross Asset Research/Equity

Estimate review

We are revising our estimates in order to take into account:

- **Lower power prices in Spain:** mainly impacting 2017 onwards as the energy for 2016e has been hedged already. We are increasing our estimates for the generation and supply unit in Spain as the company is guiding for higher achieved prices than we expected. However for 2017 we are estimating a forward price of €41/MWh which is €7/MWh below the forward price for 2016. Considering just the expected hydro and nuclear output, the impact on EBITDA should be €285m.
- **Lower supply margins in Spain:** as we explained in the sector report we expect some pressure on unitary supply margins. Hence we are moderately cutting the margins in this segment by €0.5/MWh in 2017e and by another €0.5/MWh in 2018e.
- **Lower profitability in the UK liberalised activities** as a result of lower power prices in the UK driven down by low gas prices, the closure of the Longannet hard coal plant and lower supply margins due to regulatory and competitive pressure.
- **Lower profitability in Renewables** mainly due to lower power prices in Spain and the UK. In Spain despite the fact that long-term returns are granted by the regulation, the volatility in power prices must be borne by the generators until the regulatory review (2019). In UK renewable assets get the market price and the ROC, both affected by market forces.

We are revising our EBITDA estimates by -1.0%, -7.4% and -6.9% in 2016e, 2017e and 2018e respectively. We are increasing our EPS estimates in 2016e by 0.7% (due to lower depreciation than expected linked to the Longannet plant closure). However in 2017e and 2018e we are cutting our EPS estimate by -11.9% and -12.2%.

Revised estimates

(€m)	2016e	2017e	2018e
EBITDA			
New	7,784	7,732	8,294
Old	7,862	8,346	8,910
%Chg	-1.0%	-7.4%	-6.9%
EPS			
New	0.38	0.37	0.41
Old	0.38	0.42	0.47
%Chg	0.7%	-11.9%	-12.2%
DPS			
New	0.29	0.27	0.31
Old	0.28	0.31	0.35
%Chg	0.7%	-11.9%	-12.2%

Source: SG Cross Asset Research/Equity

Valuation

We are revising our valuation in order to take into account our new power price estimates (in Spain and the UK), some pressure on supply margins and new exchange rates in Brazil. We set a TP of €6.15 (vs €6.7 previously) based on sum of the parts (DECF for each division using a WACC of 6% for liberalised assets in Iberia and the UK, 4.5% for regulated assets, 10% for Brazil and 6.5% for Mexico. In our EV, Iberian assets account for 30%, the UK 19%, Renewables 25%, LatAm 9% and the US 17.0%).

SOP

(€m)	EV	Criteria	% EV	WACC	EV/EBITDA		
					16e	17e	18e
Iberian Electricity	20,989	DCF	30%	5.1%	7.3x	7.9x	8.2x
Generation	8,347	DCF	12%	6.0%	6.0x	7.1x	7.6x
Distribution	12,642	DCF	18%	4.5%	8.7x	8.6x	8.6x
UK	13,095	DCF	19%	6.1%	8.9x	8.8x	8.4x
Networks	8,824	RoRAV	13%	5.0%	9.0x	8.5x	8.1x
WholeSale & Supply	4,271	DCF	6%	6.1%	10.6x	12.2x	11.9x
Renewable	16,966	DCF	25%	n.a.	10.5x	10.4x	8.3x
Spain	4,135	DCF	6%	4.7%	9.9x	12.4x	9.5x
US	6,853	DCF	10%	5.3%	10.9x	10.7x	9.8x
UK	3,875	DCF	6%	4.8%	10.2x	9.6x	9.1x
Other	2,103	DCF	3%	5.0%	11.5x	8.5x	4.4x
LatAm	6,090	DCF	9%	7.0%	9.4x	8.7x	8.1x
Mexico	4,882	DCF	7%	6.4%	10.8x	9.7x	8.9x
Brazil	1,207	RAB	2%	9.7%	6.0x	6.2x	6.0x
US networks	11,727	RAB	17.0%	5.0%	8.4x	7.9x	7.5x
Non energy	-44	7.0x EBITDA	0%	n.a.	7.0x	29.6x	-11.9x
EV	68,823				8.8x	8.9x	8.3x
Net debt	(28,336)						
Minorities	(1,343)						
Net contingencies	(3,504)						
Neoenergia (equity stake)	1,295						
Financial assets	1,464						
Equity	38,399						
TP €/sh	6.15						

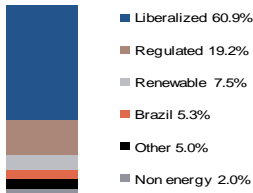
Source: SG Cross Asset Research/Equity

Risks to our recommendation,

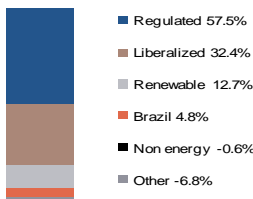
Upside risks are higher than expected power prices and supply margins, USD appreciation vs the EUR, and a better outcome for regulatory reviews than forecast. Downside risks are incurring higher cost when building up the grids (as capex has been agreed with the regulator), lower ROE awarded in US grids as a result of rate case reviews, and lower than expected new wind farms outcome (due to lower wind resource or plants availability).

The main sensitivities to our valuation are the following: for a €1/MWh variation in power prices in Spain, the impact on EPS is +/- 1.8%; for a €1/MWh variation in the supply margin in Spain, the impact on EPS is +/- 2.5%; for a €1/MWh variation in power prices in the UK, the impact on EPS is +/- 0.3% and in the case of supply margins +/-0.7%. Any 10% variation in the USD, GBP and BRL vs the EUR has a +/- 5% impact on EPS. A variation of 1% in the ROE in US grids has an impact of 2% on EPS.

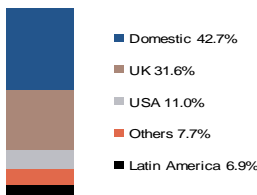
Sales/division 15



EBIT/division 15



Sales/region 15



Major shareholders (%)

Iberdrola

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	5,925	6,139	6,240	6,240	6,240	6,240	6,240	6,240
Share price (average)	5.60	3.81	4.17	5.26	6.15	5.92	5.92	5.92
Average market cap. (SG adjusted) (1)	33,198	23,416	26,022	32,824	38,394	36,966	36,966	36,966
Restated net debt (-)/cash (+) (2)	-32,373	-30,429	-28,042	-26,056	-28,336	-28,997	-30,693	-30,688
Value of minorities (3)	-325	-225	-200	-3,246	-3,383	-3,515	-3,662	-3,822
Value of financial investments (4)	2,857	3,825	3,152	3,224	3,360	3,415	3,519	3,638
Other adjustment (5)	13,429	14,718	13,949	14,910	17,122	17,122	17,122	17,122
EV = (1) - (2) + (3) - (4) + (5)	75,818	64,513	64,661	67,319	77,110	76,156	77,600	77,317
P/E (x)	12.0	8.2	9.9	15.3	16.7	15.5	16.1	14.4
Price/cash flow (x)	7.1	4.0	4.2	7.6	10.2	6.5	6.5	6.1
Price/free cash flow (x)	nm	9.10	8.07	22.7	nm	33.1	nm	19.1
Price/book value (x)	1.01	0.69	0.74	0.92	1.02	0.96	0.95	0.93
EV/revenues (x)	2.40	1.89	1.97	2.24	2.45	1.89	1.95	1.88
EV/EBITDA (x)	9.9	8.3	9.0	9.7	10.6	9.8	10.0	9.3
Dividend yield (%)	6.0	8.5	7.2	5.1	4.6	4.8	4.5	5.2
Per share data (€)								
SG EPS (adj.)	0.47	0.46	0.42	0.34	0.37	0.38	0.37	0.41
Cash flow	0.79	0.95	1.00	0.69	0.61	0.91	0.91	0.98
Book value	5.55	5.50	5.63	5.70	6.04	6.14	6.24	6.34
Dividend	0.34	0.33	0.30	0.27	0.28	0.29	0.27	0.31
Income statement (€m)								
Revenues	31,648	34,201	32,808	30,032	31,419	40,348	39,699	41,058
Gross income	12,026	12,578	12,577	12,180	12,843	16,492	16,227	16,783
EBITDA	7,651	7,727	7,205	6,965	7,306	7,784	7,732	8,294
Depreciation and amortisation	-3,146	-3,350	-4,770	-3,024	-3,477	-3,406	-3,434	-3,607
EBIT	4,505	4,377	2,435	3,941	3,829	4,378	4,298	4,687
Impairment losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net interest income	-1,062	-1,100	-1,292	-1,122	-1,023	-1,151	-1,195	-1,226
Exceptional & non-operating items	45.8	-13.9	-24.9	248	125	0.00	0.00	0.00
Taxation	-549	-207	1,424	-837	-527	-816	-789	-881
Minority interests	-101	-27.9	-41.8	-38.2	-38.0	-137	-132	-147
Reported net income	2,805	2,841	2,572	2,327	2,422	2,379	2,300	2,567
SG adjusted net income	2,766	2,854	2,627	2,144	2,296	2,379	2,300	2,567
Cash flow statement (€m)								
EBITDA	7,651	7,727	7,205	6,965	7,306	7,784	7,732	8,294
Change in working capital	-1,780	-1,180	-1,708	1,930	-161	-265	-75	-95
Other operating cash movements	-1,211	-715	750	-4,599	-3,362	-1,817	-1,984	-2,107
Cash flow from operating activities	4,660	5,832	6,247	4,296	3,782	5,702	5,673	6,092
Net capital expenditure	-6,071	-3,259	-3,024	-2,848	-5,313	-4,584	-5,690	-4,162
Free cash flow	-1,411	2,572	3,223	1,448	-1,531	1,118	-17	1,931
Cash flow from investing activities	0	300	0	1,220	192	0	0	0
Cash flow from financing activities	-850	-928	-836	-681	-941	-1,779	-1,679	-1,925
Net change in cash resulting from CF	-2,261	1,944	2,387	1,986	-2,280	-661	-1,696	5
Balance sheet (€m)								
Total long-term assets	85,613	85,141	81,204	82,935	93,369	94,502	96,876	97,566
of which intangible	12,000	11,094	9,373	8,508	11,407	11,525	11,750	11,806
Working capital	-1,093	87	1,795	-135	26	291	365	460
Employee benefit obligations	0	0	0	0	0	0	0	0
Shareholders' equity	32,888	33,760	35,136	35,591	37,710	38,309	38,930	39,572
Minority interests	320	325	225	200	3,246	3,383	3,515	3,662
Provisions	3,427	4,363	4,645	4,852	5,006	5,006	5,006	5,006
Net debt (-)/cash (+)	-32,373	-30,429	-28,042	-26,056	-28,336	-28,997	-30,693	-30,688
Accounting ratios								
ROIC (%)	5.5	5.6	3.4	4.0	4.1	3.9	3.8	4.1
ROE (%)	9.1	8.5	7.5	6.6	6.6	6.3	6.0	6.5
Gross income/revenues (%)	38.0	36.8	38.3	40.6	40.9	40.9	40.9	40.9
EBITDA margin (%)	24.2	22.6	22.0	23.2	23.3	19.3	19.5	20.2
EBIT margin (%)	14.2	12.8	7.4	13.1	12.2	10.9	10.8	11.4
Revenue yoy growth (%)	4.0	8.1	-4.1	-8.5	4.6	28.4	-1.6	3.4
Rev. organic growth (%)	4.0	8.1	-4.1	-8.5	4.6	28.4	-1.6	3.4
EBITDA yoy growth (%)	1.6	1.0	-6.8	-3.3	4.9	6.5	-0.7	7.3
EBIT yoy growth (%)	-6.7	-2.8	-44.4	61.9	-2.8	14.3	-1.8	9.1
EPS (adj.) yoy growth (%)	-3.7	-0.4	-9.5	-18.4	7.1	3.6	-3.3	11.6
Dividend growth (%)	1.2	-3.0	-7.4	-10.6	4.8	0.8	-5.6	14.7
Cash conversion (%)	4.4	88.6	nm	86.5	0.5	70.5	45.8	86.1
Net debt/equity (%)	97	89	79	73	69	70	72	71
FFO/net debt (%)	18.7	21.1	26.2	19.2	20.3	20.1	18.7	20.2
Dividend paid/FCF (%)	nm	77.8	58.5	116.4	nm	159.1	nm	99.7

Source: SG Cross Asset Research/Equity

APPENDIX

COMPANIES MENTIONED

Centrica (CNA.L, Sell)
E.ON (EONGn.DE, Buy)
EDF (EDF.PA, Buy)
EDP Renovaveis SA (EDPR.LS, Buy)
Electrica (nocode061, No Reco)
Enagas (ENAG.MC, Buy)
Endesa SA (ELE.MC, Hold)
Enel (ENEL.MI, Buy)
Energias de Portugal (EDP.LS, Hold)
Engie (ENGIE.PA, Buy)
Gas Natural SDG (GAS.MC, Hold)
Iberdrola (IBE.MC, Buy)

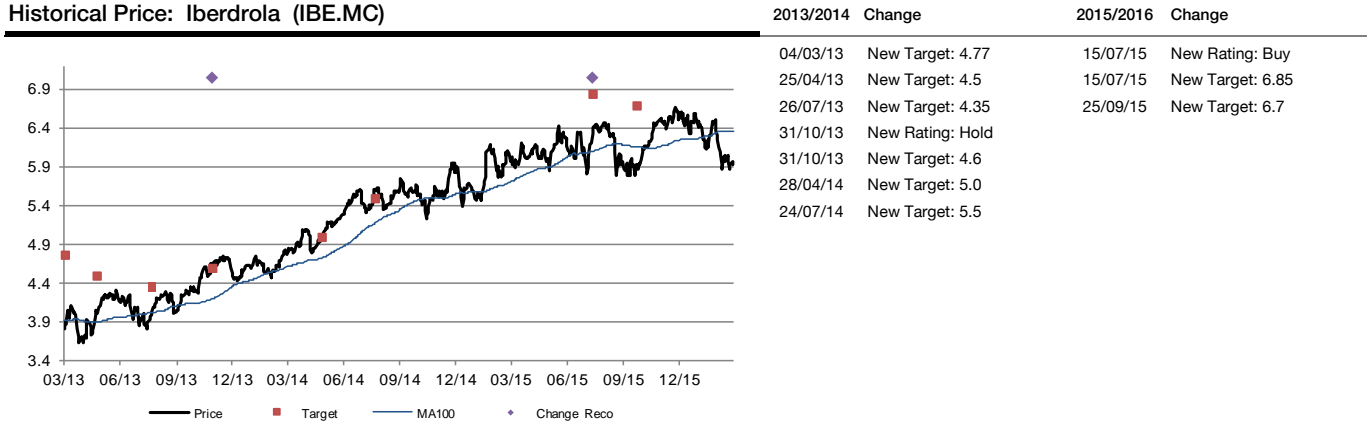
Iberia (IBLA.MC, No Reco)
National Grid (NG.L, Sell)
Norsk Hydro (NHY.OL, No Reco)
Pennon Group (PNN.L, Hold)
Red Electrica (REE.MC, Hold)
RWE (RWE.G.DE, Hold)
Severn Trent (SVT.L, Hold)
SNAM (SRG.MI, Buy)
SSE (SSE.L, Sell)
Suez (SEVI.PA, Buy)
Terna (TRN.MI, Hold)
United Utilities (UU.L, Hold)

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Historical Price: Iberdrola (IBE.MC)



Source: SG Cross Asset Research/Equity

SG EQUITY RESEARCH RATINGS on a 12 month period

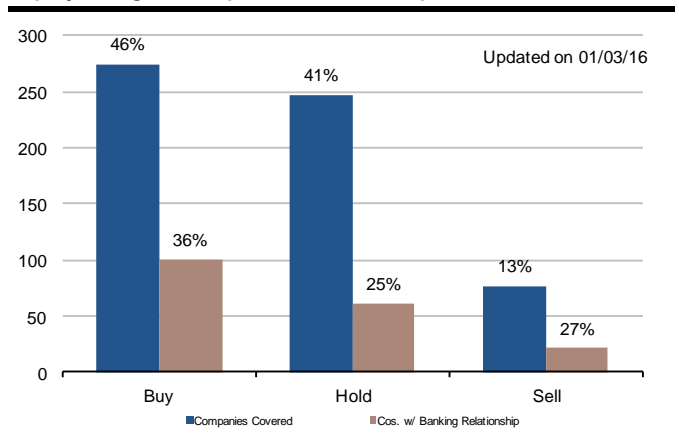
BUY: absolute total shareholder return forecast of 15% or more over a 12 month period.

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.

Equity rating and dispersion relationship



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 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.

Source: SG Cross Asset Research/Equity

All pricing information included in this report is as of market close, unless otherwise stated.

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EDF	SG is acting as financial advisor in the potential acquisition of Areva NP by EDF.
Enagas	SG acted as passive bookrunner for Enagas's bond issue (8y EUR).
Enel	SG makes a market in Enel warrants
Energias de Portugal	SG acted as joint bookrunner in EDP's bond issue.
Engie	SG acted as a lead structuring advisor in Engie's bond tender offer.
Engie	SG acted as passive joint bookrunner in GDF Suez's bond issue.
Gas Natural SDG	SG acted as joint bookrunner in Gas Natural's hybrid bond issue
Severn Trent	SG acted as Joint dealer manager in Severn Trent's tender offer.
SNAM	SG acted as a joint bookrunner in SNAM's bond issue (EUR 8yr).

SG and its affiliates beneficially own 1% or more of any class of common equity of Engie, Severn Trent, Suez.

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