



| Electric Utilities | **EPS downgrade** | Germany |

RWE

Re-rating possible, but income not great

Hold

Price 15/01/16 **€10.8**
12m target **€12.0**
Upside to TP **11.1%**
12m f'cast div **€0.50**
12m TSR **15.7%**

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Sector stance

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

Investment trigger

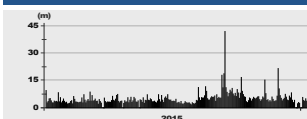
Value

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Update We have updated our forecasts for the latest downward shift in the power forward curve but have also introduced a post 2020 medium-term price of €30/MWh as we regard current power prices as unsustainable in the medium term given German nuclear closures. RWE, like E.ON, has interesting catalysts on the horizon which could lead to a substantial re-rating. However, unlike E.ON, the yield outlook does not look appealing.

SG view After a turbulent year which saw RWE's share price half (worst performer in the sector after fending off tough competition from Drax and Enega), RWE stock is trading on very undemanding multiples, especially if we focus on 2017 when the nuclear fuel tax no longer applies. At 6x 2017e EV/EBITDA and 7x P/E, it is difficult to argue that expectations are high. In 2016 RWE could easily go from "cheap for a reason" to a serious re-rating, as there are important upcoming catalysts. A final framework of how to deal, once and for all, with nuclear provisions could be in place before summer. The Constitutional Court is due to rule on the legality of the nuclear fuel tax in 2016 (a positive ruling would add €3 to our TP). Although in 2014 we also thought that a decision would be made in 2015. However, we also expect RWE to cut its dividend by 50% to €0.50 and to keep it at this level in 2016 as well. A 2016e yield of 4.4% compares unfavourably to the sector (5.3%), the generators (5.6%) and E.ON (5.8%). It could be too early for bottom fishing.

How we value the stock We value RWE on an SOTP model for our unchanged €12 TP. For each part, we use a DCF with pre-tax WACCs ranging from 7.5% (Supply/Distribution Networks Germany) to 10% (Eastern Europe, Supply Netherlands/Belgium and Trading).

Events, catalysts & risks to price target, rating & recommendation The main catalyst is the ruling from the Constitutional Court on the nuclear fuel tax, which is now expected sometime in 2016. RWE has to comment on the 2015 dividend with FY15 results on 8 March 2016 at the latest. **Risks:** downside – capacity payments for lignite ruled to be State Aid; lower power prices; upside – higher power prices, nuclear decisions in RWE's favour, a potential re-rating from the NewCo post spin-off. See page 7 for details.

Share data			
RIC RWE.G.DE, Bloom RWE GR			
52-week range	25.1-9.20		
EV 15 (€m)	42,096		
Mkt cap. (€m)	6,655		
Free float (%)	84.0		
Performance (%)	1m	3m	12m
Ordinary shares	1.5	-11.2	-51.9
Rel. Eurofirst 300	10.5	-2.5	-48.3

Financial data	12/14	12/15e	12/16e	12/17e	Ratios	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	48.5	50.3	50.8	51.6	P/E (x)	13.8	9.8	10.2	7.3
EBIT margin (%)	8.3	7.4	6.1	7.1	FCF yield (/EV) (%)	7.7	4.7	6.3	8.0
Rep. net inc. (€bn)	1.70	2.50	0.50	0.68	Dividend yield (%)	3.5	2.7	4.6	5.5
EPS (adj.) (€)	2.09	1.87	1.06	1.48	Price/book value (x)	2.40	1.22	0.70	0.49
Dividend/share (€)	1.00	0.50	0.50	0.60	EV/revenues (x)	1.18	0.93	0.81	0.71
Payout (%)	48	27	47	40	EV/EBIT (x)	14.2	12.6	13.4	9.96
Interest cover (x)	3.72	3.68	3.05	3.62	EV/IC (x)	1.3	1.2	1.1	1.0
Net debt/equity (%)	72	45	37	nm	ROIC/WACC (x)	0.7	0.8	0.7	0.8
Prev. EPS (changed as of 18/01/16)		1.79	1.04	1.61	EPS CAGR 14-17e: -10.7%				

Equity analyst
Lueder Schumacher
(44) 20 7762 5044
lueder.schumacher@sgcib.com

Equity analyst
Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com

Specialist sales
Sophia Hart
(44) 20 7762 5256
sophia.hart@sgcib.com

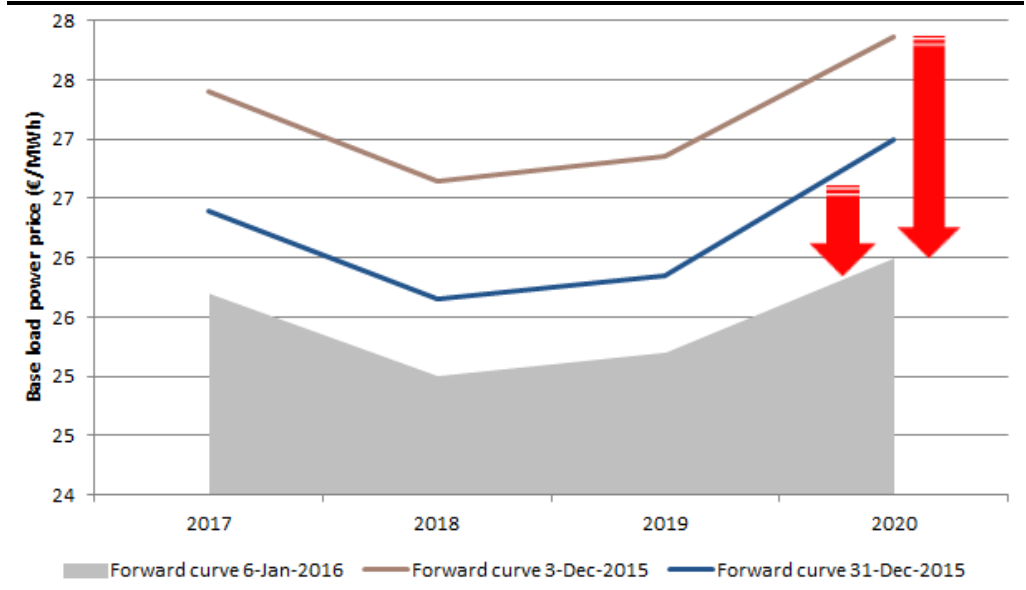
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Earnings down, prospects up?

Well that was a brutal start to the year. Within the first week of trading German forward power prices lost €1/MWh across the curve. Since our last update on RWE ([link](#), 3 Dec 2015) the curve lost about €2/MWh. Presumably the mild Q4 2015 also won't have helped.

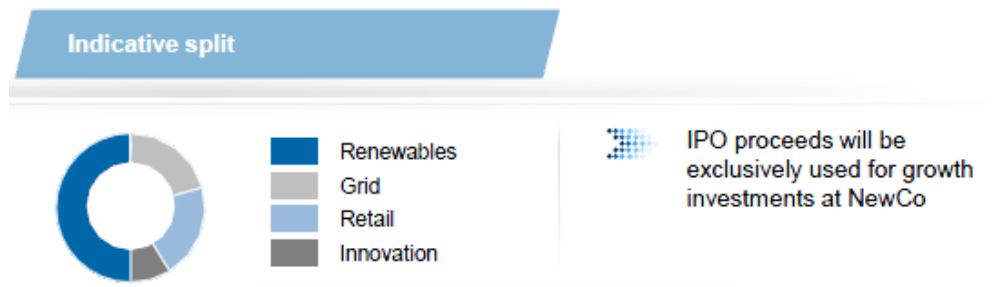
Forward curve for German base load power prices (€/MWh)



Source: Bloomberg, SG Cross Asset Research/Equity

And then there is the dilution that can be expected from RWE's plans to spin off 10% of the five divisions that will comprise NewCo at the end of 2016. In our SOTP the NewCo companies have a combined EV of €38bn, so selling 10% should give proceeds of €3.8bn. Assuming a relatively generous 2% interest return on the proceeds (still way above what Fortum is earning on its substantial disposal proceeds) would see interest income of €76m. However, minorities would also rise by a net €160m (post interest and tax) on our numbers.

RWE NewCo – IPO proceeds to be used for growth capex



Source: RWE, "Transforming RWE", 1 Dec 2015

Now, RWE states that “IPO proceeds will be exclusively used for growth investments at NewCo.” If RWE, unlike Fortum, already has enough projects lined up to reinvest the proceeds, there might not be any dilution at all. However, unless we actually know specific projects, we can only assume a simple cash return where 2% is rather generous these days.

German power price assumptions

		2014	2015	2016	2017	2018	2019	2020
Coal generation cost	EUR/MWh	23.2	19.9	16.8	15.7	16.4	15.4	15.4
CO2 generation cost	EUR/MWh	6.0	7.4	7.4	7.5	7.6	7.8	8.0
Implied clean dark spread	EUR/MWh	5.8	3.6	3.8	2.5	1.1	2.0	2.6
Baseload power price	EUR/MWh	35.1	30.9	28.0	25.7	25.0	25.2	26.0
Forward curve	EUR/MWh				25.7	25.0	25.2	26.0
Peakload power price	EUR/MWh	44.4	39.0	35.0	33.0	31.8	34.5	33.4
Forward curve	EUR/MWh				33.0	31.8	34.5	33.4
Peak/base spread	EUR/MWh	9.3	8.1	7.0	7.3	6.8	9.3	7.4
Clean dark spread	EUR/MWh	5.8	5.6	5.6	4.2	2.7	3.7	4.0
Clean spark spread	EUR/MWh	-13.1	-5.8	-5.8	-8.9	-9.9	-10.1	-9.6

Source: SG Cross Asset Research/Equity

We have updated our power price assumptions in line with the forward curve, but have also introduced a long-term sustainable power price of **€30/MWh post 2020**. That is in line with recent changes we made to our Nord Pool price assumptions for Fortum. The forward curve only tends to be liquid, and hence meaningful, in the front two calendar years. Beyond that it is usually just a straight extrapolation with a sprinkle of sentiment. We very much doubt that €26/MWh is a realistic forecast for German base load prices post 2020, especially with the remaining nuclear capacity to come off by 2022.

Our forecast changes are in the table below. Excluding the dilution effect from NewCo, 2018e EPS would only fall by 2.5%, but 2019 and 2020 EPS would still be down by 13.3% and 9.8%, respectively, due to the lower power price assumptions.

RWE forecast changes

	2014	2015e	2016e	2017e	2018e	2019e	2020e
Old EBITDA	7,131	6,106	5,536	6,081	5,579	5,744	5,795
New EBITDA	7,131	6,175	5,556	6,114	5,527	5,532	5,604
% change		1.1%	0.4%	0.5%	- 0.9%	- 3.7%	- 3.3%
Old Adj. Net Income	1,282	1,103	640	991	753	908	993
New Adj. Net Income	1,282	1,150	654	913	611	658	759
% change		4.3%	2.2%	- 7.9%	- 18.9%	- 27.5%	- 23.5%
Old recurring EPS	2.09	1.79	1.04	1.61	1.23	1.48	1.62
New recurring EPS	2.09	1.87	1.06	1.48	0.99	1.07	1.24
% change		4.3%	2.2%	- 7.9%	- 18.9%	- 27.5%	- 23.5%
Old DPS	1.00	0.50	0.50	0.70	0.70	0.70	0.80
New DPS	1.00	0.50	0.50	0.60	0.60	0.60	0.60
% change		0.0%	0.0%	- 14.3%	- 14.3%	- 14.3%	- 25.0%

Source: SG Cross Asset Research/Equity

SG vs. Bloomberg consensus (13 Jan 2016)

	2015	2016	2017	2018
EBITDA (SGCIB)	6,175	5,556	6,114	5,527
EBITDA (consensus)	6,118	5,562	5,609	5,403
RWE outlook	6,100 - 6,400			
SGCIB vs. consensus	0.9%	(0.1%)	9.0%	2.3%
EBIT (SGCIB)	3,722	3,082	3,655	3,087
EBIT (consensus)	3,628	3,062	3,181	3,050
RWE outlook	3,600 - 3,900			
SGCIB vs. consensus	2.6%	0.6%	14.9%	1.2%
Adjusted Net Income (SGCIB)	1,150	654	913	611
Adjusted Net Income (consensus)	1,111	683	740	690
RWE outlook	1,100 - 1,300			
SGCIB vs. consensus	3.5%	(4.3%)	23.4%	(11.4%)
Adjusted EPS (SGCIB)	1.87	1.06	1.48	0.99
Adjusted EPS (consensus)	1.80	1.10	1.19	1.06
RWE outlook	1.79 - 2.11			
SGCIB vs. consensus	3.7%	(3.0%)	25.1%	(6.2%)
DPS (SGCIB)	0.50	0.50	0.70	0.70
DPS (consensus)	0.63	0.58	0.57	0.45
SGCIB vs. consensus	(20.0%)	(14.1%)	22.0%	55.2%

Source: Bloomberg, SG Cross Asset Research/Equity

Comparisons to consensus forecasts can be a somewhat tricky these days, especially below the EBIT line. From roughly €5.5bn of EBITDA precious little trickles through to the bottom line these days, which makes EPS subject to some volatility. Nevertheless, after falling more than 50% in 2015, RWE is trading on some rather undemanding multiples, especially if the nuclear fuel tax were to be repaid.

RWE key ratios

RWE key ratios	2015e	2016e	2017e	2018e	2019e	2020e
EPS (recurring)	1.87	1.06	1.48	0.99	1.07	1.24
P/E	6.1 X	10.7 X	7.7 X	11.4 X	10.6 X	9.2 X
EPS (excl. nuclear fuel tax)	2.24	1.43	1.48	0.99	1.07	1.24
P/E	5.1 X	7.9 X	7.7 X	11.4 X	10.6 X	9.2 X
DPS	0.50	0.50	0.60	0.60	0.60	0.60
Yield	4.4%	4.4%	5.3%	5.3%	5.3%	5.3%
Payout ratio	26.7%	47.0%	40.4%	60.4%	56.0%	48.6%
CFPS	5.45	5.77	6.25	5.63	5.55	5.66
P/CF	2.1 X	2.0 X	1.8 X	2.0 X	2.1 X	2.0 X
FCF yield	1.9%	3.5%	5.0%	4.9%	4.9%	5.3%
BVPS (EUR)	15.09	15.40	22.24	22.38	22.60	22.99
P/BV	0.8 X	0.7 X	0.5 X	0.5 X	0.5 X	0.5 X
EV / EBITDA	6.9 X	7.5 X	6.0 X	6.5 X	6.3 X	6.0 X
EV / EBITDA (excl. nuclear fuel tax)	6.3 X	6.7 X	5.7 X	6.1 X	5.9 X	5.7 X

Source: SG Cross Asset Research/Equity

Compared to the sector RWE appears cheap, especially on 2017e multiples where RWE no longer pays the nuclear fuel tax. However, so do other utilities with commodity exposure, as sector multiples are boosted by regulated utilities.

Key multiples – RWE vs. the sector and vs. generators in the sector

	2015	2016	2016	2017	2017
EV / EBITDA	Sector	Sector	Genco	Sector	Genco
RWE	6.9 X	7.5 X	7.5 X	6.0 X	6.0 X
Sector / generators	8.7 X	8.7 X	7.7 X	8.4 X	7.5 X
Premium / (discount)	(21.0%)	(13.9%)	(2.7%)	(28.5%)	(19.9%)
RWE (excl. nuclear tax)	6.3 X	6.7 X	6.7 X	5.7 X	5.7 X
Sector	8.7 X	8.7 X	7.7 X	8.4 X	7.5 X
Premium / (discount)	(27.9%)	(22.6%)	(12.5%)	(32.3%)	(24.2%)
PE					
RWE	6.1 X	10.7 X	10.7 X	7.7 X	7.7 X
Sector	15.2 X	15.1 X	13.5 X	13.9 X	12.9 X
Premium / (discount)	(60.0%)	(29.2%)	(20.8%)	(44.9%)	(40.6%)
RWE (excl. nuclear tax)	5.1 X	7.9 X	7.9 X	7.7 X	7.7 X
Sector	15.2 X	15.1 X	13.5 X	13.9 X	12.9 X
Premium / (discount)	(66.6%)	(47.4%)	(41.2%)	(44.9%)	(40.6%)
Yield					
RWE	4.4%	4.4%	4.4%	5.3%	5.3%
Sector	5.4%	5.3%	5.6%	5.6%	5.9%
Premium / (discount)	(18.6%)	(17.0%)	(21.5%)	(5.8%)	(10.6%)

Source: SG Cross Asset Research/Equity

RWE's 45% P/E discount to the sector on 2017e EPS does look striking, even allowing for RWE's commodity exposure and political risks. Depending on RWE's speed of re-investing IPO proceeds the balance sheet could also be much stronger by 2017 with net debt/EBITDA falling to 3.2x, which leaves EV/EBITDA at 6.0x or 5.7x depending on the repayment of the nuclear fuel tax. That's about a 30% discount to the sector and a 20% discount to other generators, which also could look tempting, especially as we expect two positive catalysts on nuclear issues to emerge in 2016:

- (1) **Nuclear provisions to be given the all-clear.** For all intents and purposes Economics Minister Gabriel has already given the all-clear on the overall level of nuclear provisions (see: [Economics Minister Gabriel gives the all-clear on nuclear provisions, 12 Oct 2015](#)) in October last year. Since then the debate has moved on to which extent the provisions should be moved to an external fund and how fast, which are issues currently discussed by the "commission for the financing of the nuclear exit", or KFK (see [link](#)). We believe that a consensus is building around moving only the provisions associated with end-storage (roughly 50% of total provisions) into an external fund and over a rather long time (say, 4-8 years), a conclusion which would be well received in our view. The commission is due to report its findings by the end of February, and we believe that the government is keen to get this issue off the table, given the many other pressing issues it has to deal with and the fact that there are federal elections in 2017. This would suggest a likely conclusion before the summer.
- (2) **Nuclear fuel tax.** The German Constitutional Court (CC) is due to rule on the legality of the nuclear fuel tax in 2016. But then again, in 2014 we were told that it would do so in 2015. The truth is the CC is quite unaffected by deadlines and acts when it feels the time is right to act and the issue is high enough on the list of priorities. So we have absolutely no idea when the ruling will take place, apart from a vague idea that it should be in 2016.

Nevertheless, we do believe that there is a good case to be made for the CC finding in favour of the utilities, which would increase our valuation for RWE from €12 to €15. When the Advocate General presented his view on the conformity of the tax with European treaties (see [link](#)) he made it quite clear that the nuclear fuel tax is not a consumption tax, which is the main issue under consideration. However, with no visibility on when the ruling will take place, it is difficult for us to include the potential upside in a 12-month TP. It certainly would have been in 2014 when a ruling was expected in 2015.

- (3) **Nuclear phase-out.** The third legal issue to do with nuclear is the potential compensation for the early nuclear exit, where hearings will take place on 2015/16 March this year. The fact that a hearing has been set for two days rather than one suggests that the CC has already done some extensive work on the issue and is likely to use the hearings to test its initial conclusions. However, while the CC could well find in favour of the utilities and order the government to issue a compensation decree, it **can't** fix the actual compensation itself. This is why we are rather sceptical that this case will ever result in any cash payments to the utilities as layers could delay the process almost indefinitely (the Mülheim-Kärlich case might serve as a good precedent here).

However, then there is the **dividend**. And with no growth to speak of in most of the sector, the dividend is very much key to performance in our view. We expect RWE to cut its 2015 dividend by 50% to €0.50, which is also the level indicated by dividend swaps.

At this level RWE yields 4.4%. We expect 2016e EPS of €1.06, which would make it difficult for RWE to raise the dividend in 2016, unless it were prepared to increase the payout ratio above 50%. So on our forecasts RWE yields 4.4%, which compares to about 5.3% for the market and, perhaps more importantly, 5.8% for E.ON (5.6% for gencos). Accepting a 17% yield discount to the sector when less risky utilities are available will be difficult for income investors. However, investors with less focus on the dividend could be tempted by the re-rating argument, which would make the loss of dividend seem insignificant. Nevertheless, E.ON offers the same upside to a re-rating argument without the potential loss of yield.

VALUATION

RWE – SGe sum-of-the-parts

	EBITDA 2016E	EV/EBITDA (Implied)	Method	EV
Power Generation - Western Europe	889	4.6 X	DCF	4,120
Power Generation - UK	128	5.4 X	DCF	693
Supply/Distribution Networks Germany	2,342	9.4 X	DCF	22,068
Supply Netherlands/Belgium	244	8.3 X	DCF	2,039
Supply UK	211	7.3 X	DCF	1,542
Central Eastern and South Eastern Europe	927	7.7 X	DCF	7,116
Renewables	731	7.4 X	DCF	5,406
Trading/Gas Midstream	259	4.0 X	Multiple	1,035
Other, consolidation	(175)	7.5 X	Multiple	- 1,313
Group	5,556	7.7 X		42,706
Net debt RWE Group	2015E			- 25,787
Other provisions	2015E		P/Book	- 5,185
Minorities	2015E	1.0 X	1.1 X	- 3,328
Other financial assets & property				898
Hybrid adjustment				(2,039)
Equity value (EURm)				7,265
Shares				614.75
Equity value (EUR)				11.80

Source: SG Cross Asset Research/Equity

Risks to recommendation, rating and target price

Risks:

Downside

- Capacity payments for lignite ruled to be State Aid; TP would fall by -€0.70 (as seen as State Aid and prohibited);
- Lower power prices; losing €1/MWh on base and peak load prices across the curve would lower our TP by -€0.60 per share.

Upside

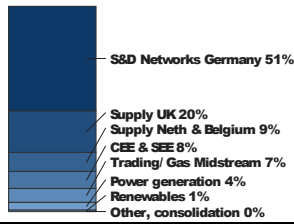
- Higher power prices, gaining €1/MWh on base and peak load prices across the curve would increase our TP by +€0.60 per share;
- Nuclear decisions going in RWE's favour, if the nuclear fuel tax is repealed and previous payments paid back this would increase our TP for RWE by €3 per share;
- A potential re-rating from the NewCo post spin-off. We currently value the NewCo company in our SOTP at 8.6x EV/EBITDA. If NewCo would see multiple expansion to 9x EV/EBITDA our TP for RWE would rise by €3.10.

RWE – Summary P&L (€m, €)

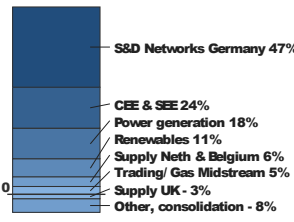
	2013	2014	2015e	2016e	2017e	2018e	2019e
Conventional Power Generation	2,455	2,522	1,558	1,018	1,288	620	618
Supply/Distribution Networks Germany	2,316	2,650	2,494	2,342	2,530	2,547	2,565
Supply Netherlands/Belgium	368	203	271	244	240	236	232
Supply UK	366	294	- 22	211	242	274	277
Central Eastern and South Eastern Europe	1,281	913	1,124	927	938	949	960
Renewables	454	547	767	731	792	817	795
Trading/Gas Midstream	841	286	184	259	259	259	259
Other, consolidation	- 177	- 284	- 200	- 175	- 175	- 175	- 175
EBITDA	7,904	7,131	6,175	5,556	6,114	5,527	5,532
Guidance			6,100 - 6,400				
Conventional Power Generation	1,384	979	671	136	425	- 227	- 211
Supply/Distribution Networks Germany	1,626	1,871	1,764	1,612	1,800	1,817	1,835
Supply Netherlands/Belgium	278	146	214	187	183	179	175
Supply UK	290	227	- 96	138	169	201	204
Central Eastern and South Eastern Europe	1,032	690	900	703	714	725	736
Renewables	203	186	397	358	417	444	444
Trading/Gas Midstream	831	274	172	247	247	247	247
Other, consolidation	- 275	- 356	- 300	- 300	- 300	- 300	- 300
Operating result	5,369	4,017	3,722	3,082	3,655	3,087	3,131
Guidance			3,600 - 3,900				
Non-operating	- 5,480	77	- 170	0	0	0	0
Financial	- 1,905	- 1,848	- 1,450	- 1,464	- 1,367	- 1,349	- 1,330
PBT	- 2,016	2,246	2,102	1,618	2,287	1,738	1,801
Net income	- 2,757	1,704	2,503	499	758	456	503
Adjusted net income	2,314	1,282	1,150	654	913	611	658
Guidance			1,100 - 1,300				
EPS	- 4.48	2.77	4.07	0.81	1.23	0.74	0.82
Adjusted EPS	3.76	2.09	1.87	1.06	1.48	0.99	1.07
DPS	1.00	1.00	0.50	0.50	0.60	0.60	0.60
Payout ratio	27%	48%	27%	47%	40%	60%	56%
Average achieved power price (€/MWh)	51.00	48.00	39.21	34.56	33.87	28.10	26.48

Source: SG Cross Asset Research/Equity

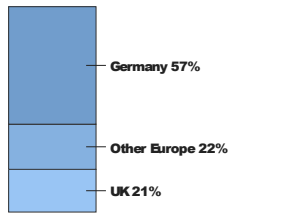
Sales/division 15



EBIT/division 15



Sales/region 15



Major shareholders (%)

RWEB GmbH	15.0
RWE employees	1.0

ADR Pr. \$11.9 Target: \$13.1

(1 for 1 sh.)	14	15e	16e
P/E (x)	4.3	5.7	10.4
Yield (%)	11.2	4.9	4.6
P/CF (x)	1.0	1.9	1.9
€/€	1.33	1.16	1.10
Bloomberg	RWE0Y US		

RWE

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	562	614	615	615	615	615	615	615
Share price (average)	57.0	37.6	32.6	26.3	28.8	18.3	10.8	10.8
Average market cap. (SG adjusted) (1)	32,071	23,066	20,066	16,193	17,699	11,280	6,655	6,655
Restated net debt (-)/cash (+) (2)	-11,904	-12,239	-33,015	-30,727	-29,924	-25,787	-24,812	-19,720
Value of minorities (3)	0	0	3,328	3,328	3,328	3,328	3,328	3,328
Value of financial investments (4)	0	0	898	898	898	898	898	898
Other adjustment (5)	29,057	29,156	6,585	7,902	7,049	7,225	7,406	7,594
EV = (1) - (2) + (3) - (4) + (5)	73,032	64,461	62,095	57,251	57,102	46,721	41,302	36,398
P/E (x)	8.5	13.1	8.2	7.0	13.8	9.8	10.2	7.3
Price/cash flow (x)	7.0	2.7	4.6	3.4	3.2	3.4	1.9	1.7
Price/free cash flow (x)	nm	7.27	nm	16.9	7.66	13.8	4.56	3.65
Price/book value (x)	2.20	1.94	1.65	2.09	2.40	1.22	0.70	0.49
EV/revenues (x)	1.37	1.27	1.17	1.09	1.18	0.93	0.81	0.71
EV/EBITDA (x)	7.0	7.6	6.7	7.2	8.0	7.6	7.4	6.0
Dividend yield (%)	6.1	5.4	6.1	3.8	3.5	2.7	4.6	5.5
Per share data (€)								
SG EPS (adj.)	6.68	2.87	4.00	3.76	2.09	1.87	1.06	1.48
Cash flow	8.11	13.8	7.15	7.81	9.04	5.45	5.77	6.25
Book value	25.9	19.4	19.8	12.6	12.0	15.1	15.4	22.2
Dividend	3.50	2.02	2.00	1.00	1.00	0.50	0.50	0.60
Income statement (€m)								
Revenues	53,320	50,864	53,227	52,425	48,468	50,251	50,803	51,568
Gross income	10,427	8,460	53,227	52,425	48,468	50,251	50,803	51,568
EBITDA	10,427	8,460	9,314	7,904	7,131	6,175	5,556	6,114
Depreciation and amortisation	-2,746	-2,690	-2,898	-2,535	-3,114	-2,454	-2,475	-2,459
EBIT	7,681	5,770	6,416	5,369	4,017	3,722	3,082	3,655
Impairment losses	0	0	-3,051	-6,023	-48	-170	0	0
Net interest income	-2,703	-2,790	-2,092	-1,905	-1,848	-1,450	-1,464	-1,442
Exceptional & non-operating items	0	0	0	0	0	0	0	0
Taxation	-1,376	-854	-526	-739	-553	-648	-636	-886
Minority interests	-294	-364	-398	-314	-353	-475	-483	-643
Reported net income	3,308	1,762	1,306	-2,757	1,704	2,503	499	683
SG adjusted net income	3,754	1,762	2,457	2,314	1,282	1,150	654	913
Cash flow statement (€m)								
EBITDA	10,427	8,460	9,314	7,904	7,131	6,175	5,556	6,114
Change in working capital	-2,557	2,500	-1,190	-65	1,476	461	339	230
Other operating cash movements	-3,312	-2,487	-3,729	-3,036	-3,051	-3,283	-2,348	-2,499
Cash flow from operating activities	4,558	8,473	4,395	4,803	5,556	3,353	3,548	3,845
Net capital expenditure	-6,356	-5,300	-5,081	-3,843	-3,245	-2,535	-2,089	-2,022
Free cash flow	-1,798	3,173	-686	960	2,311	819	1,459	1,823
Cash flow from investing activities	3,011	2,200	1,815	1,948	906	3,195	-105	-105
Cash flow from financing activities	-3,250	-2,678	-1,229	-1,229	-615	-615	-307	-307
Net change in cash resulting from CF	-2,037	2,695	-100	1,679	2,602	3,399	1,046	1,410
Balance sheet (€m)								
Total long-term assets	59,983	62,926	63,338	56,905	54,224	51,110	50,829	50,497
of which intangible	17,350	16,946	0	0	0	0	0	0
Working capital	-1,408	-4,642	-151	-1,999	-367	-1,148	-1,815	-2,533
Employee benefit obligations	0	0	6,856	6,227	7,871	5,976	6,096	6,217
Shareholders' equity	14,574	11,889	12,171	7,738	7,388	9,276	9,467	13,674
Minority interests	1,084	1,344	4,318	4,399	4,384	4,384	4,384	4,384
Provisions	23,485	23,829	21,135	21,124	19,669	19,180	18,968	18,755
Net debt (-)/cash (+)	-11,904	-12,239	-12,335	-10,320	-8,519	-6,144	-5,098	69
Accounting ratios								
ROIC (%)	12.3	8.6	8.9	7.6	6.2	6.1	5.4	6.6
ROE (%)	24.2	13.3	10.9	-27.7	22.5	30.0	5.3	5.9
Gross income/revenues (%)	19.6	16.6	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	19.6	16.6	17.5	15.1	14.7	12.3	10.9	11.9
EBIT margin (%)	14.4	11.3	12.1	10.2	8.3	7.4	6.1	7.1
Revenue yoy growth (%)	11.8	-4.6	4.6	-1.5	-7.5	3.7	1.1	1.5
Rev. organic growth (%)	11.8	-4.6	3.0	-1.5	-7.5	3.7	1.1	1.5
EBITDA yoy growth (%)	9.6	-18.9	10.1	-15.1	-9.8	-13.4	-10.0	10.0
EBIT yoy growth (%)	8.3	-24.9	11.2	-16.3	-25.2	-7.4	-17.2	18.6
EPS (adj.) yoy growth (%)	6.1	-57.0	39.3	-5.9	-44.6	-10.3	-43.2	39.6
Dividend growth (%)	0.0	-42.3	-0.9	-50.0	0.0	-50.0	0.0	20.0
Cash conversion (%)	19.7	98.1	10.9	55.7	102.0	70.1	105.5	103.5
Net debt/equity (%)	76	92	75	85	72	45	37	nm
FFO/net debt (%)	53.3	39.4	20.3	17.1	15.8	15.8	13.9	19.2
Dividend paid/FCF (%)	nm	67.7	nm	64.0	26.6	37.5	21.1	20.2

Source: SG Cross Asset Research/Equity

APPENDIX

COMPANIES MENTIONED

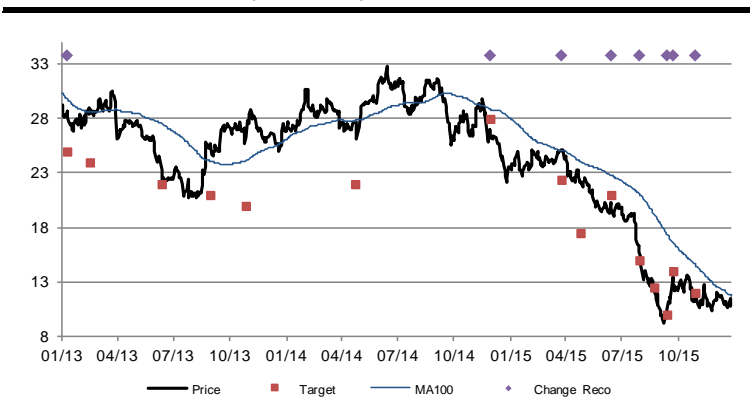
Drax (DRX.L, Hold)
E.ON (EONGn.DE, Hold)
Enagas (ENAG.MC, Buy)
Enel (ENEL.MI, Buy)
Energia (ENGP.WA, Buy)
Fortum (FUM1V.HE, Hold)
RWE (RWE.G.DE, Hold)
SSE (SSE.L, Sell)
Suez (SEVI.PA, Buy)

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Historical Price: RWE (RWE.G.DE)



2013/2014	Change	2015/2016	Change
28/01/13	New Rating: Sell	13/04/15	New Rating: Sell
28/01/13	New Target: 25.0	13/04/15	New Target: 22.4
06/03/13	New Target: 24.0	14/05/15	New Target: 17.5
01/07/13	New Target: 22.0	03/07/15	New Rating: Hold
18/09/13	New Target: 21.0	03/07/15	New Target: 21.0
15/11/13	New Target: 20.0	18/08/15	New Rating: Sell
12/05/14	New Target: 22.0	18/08/15	New Target: 15.0
18/12/14	New Rating: Hold	11/09/15	New Target: 12.5
18/12/14	New Target: 28.0	02/10/15	New Rating: Hold
		02/10/15	New Target: 10.0
		12/10/15	New Rating: Buy
		12/10/15	New Target: 14.0
		17/11/15	New Rating: Hold
		17/11/15	New Target: 12.0

Source: SG Cross Asset Research/Equity

SG EQUITY RESEARCH RATINGS on a 12 month period

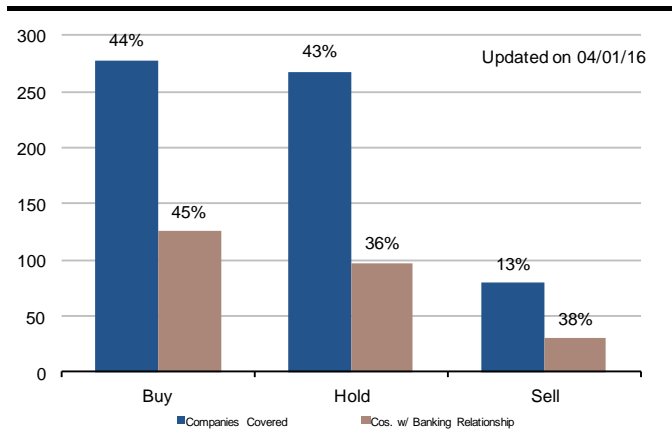
BUY: absolute total shareholder return forecast of 15% or more over a 12 month period.

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.

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Equity rating and dispersion relationship



Sector Weighting Definition on a 12 month period:

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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

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Enagas	SG acted as joint bookrunner in Enagas' bond issue (EUR, 10yr)
Enel	SG makes a market in Enel warrants

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