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17 meetings yield fresh perspectives

- **In the last fortnight we have hosted two events: the Berenberg Winter Power Trip and Berenberg's flagship Pennyhill European Conference (170 companies, 400 investors). All in all, we met 17 utility CEO/CFO/COOs.** The Power Trip covered five countries (Italy, France, Germany, Spain and the UK) across five days and gave 22 investors a fresh view on the sector. In this note, we draw together the main takeaways from this plethora of meetings which included Terna, Acea, Snam, Veolia, Suez, ENGIE, RWE, innogy, E.ON, Iberdrola, Red Eléctrica, Enagás, Centrica and National Grid.
- **Save the date:** The Summer Berenberg Power Trip takes place on 5-9 June 2017.
- **Renewables overheating:** November saw another record low bid in a European offshore tender, this time from Vattenfall. Returns are being squeezed, with bids relying on increasingly aggressive assumptions about technological progress to clear hurdle rates. Striking a cautious note on the industry, innogy said it will not blindly join the race to the bottom, preferring to reallocate capital elsewhere (such as networks) or return the cash to shareholders. In the same tone, E.ON flagged a cut in renewables capex as a potential option to plug its financing needs. Iberdrola sees a healthy US renewables market despite Trump's pronunciations.
- **German nuclear compensation a bonus, while overall resolution draws closer:** The recent court ruling on compensation for early nuclear closure is a bonus for RWE and E.ON, and may raise the market's hopes ahead of another compensation lawsuit (concerning the legitimacy of the nuclear fuel tax) in early 2017. The finalisation of a law which will allow the companies to transfer the waste management component of their nuclear liabilities to the government is expected around year-end. This will leave RWE and E.ON with bills of c€6.8bn and c€9.8bn respectively (including premiums). Both have indicated they will pay these off quickly (we assume all in 2017), given a desire to take uncapped risk off the balance sheet. RWE looks well prepared, with up to €6bn of liquidity and options to raise the remainder, including bonds or a partial sale of its innogy stake. E.ON, meanwhile, has significantly less balance sheet flexibility and looks set for a capital raise to partially fund its c€2bn premium.
- **Suez and Veolia ramp up cost-cutting, offsetting weakness in France:** Both French utilities continue to be frustrated by their home market. Growth and inflation (which affects margins) remain low (Veolia sees inflation at 0.2% this year and said it is likely to be negative in 2017), and the Brottes law (which allows customers to not pay for water) prevents them from cutting bad debtors' water supplies. This is compensated by stronger international performance (particularly at Suez) and an upsizing of their respective cost-cutting targets (Veolia is ahead of 2016 targets).
- **Politics; more noise than risk:** Italian companies (Terna, Snam and Acea) are sanguine about the fall-out from the Italian referendum result. They expect Italian energy policy to stay the course, with Italy's sovereign yield the significant unknown (Terna is shielded by a largely fixed cost of debt for the next five years). In the UK, we continue to believe fears of intervention, following recent comments by Prime Minister Theresa May about the UK energy retail market, are overplayed.
- **Balance shifts in favour of big six in UK:** Price hikes and bankruptcy among smaller new entrants demonstrates that these new players were taking market share while riding a wave of falling commodity prices, but have been left exposed as wholesale markets rebound. Centrica, SSE and E.ON's decisions to freeze their maligned standard variable tariffs (SVTs), while previously discounted fixed rate tariffs surge, should also reduce political pressure for intervention.
- Our top five picks are Veolia, Suez, Enel, Centrica and innogy. Our bottom five picks are Verbund, EDF, Fortum, E.ON and National Grid.

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Key takeaways

These takeaways are in order of the visit. The companies are Terna, Acea, Snam, Veolia, Suez, ENGIE, RWE, innogy, E.ON, Iberdrola, Red Eléctrica, Enagás, Centrica and National Grid.

Italy

Terna (Buy): CEO Matteo del Fante

- **Impression**: Solid and dependable
- The CEO really understands his business; he does not want to listen to investment bankers and charge around the planet on an M&A spree. He believes many of his peers will, in a few years' time, have a much more diversified business. Terna will probably be one of the few pure regulated plays in the market, and the hope is that this will allow it to have a premium versus peers.
- Terna's CEO has managed to navigate his way out of the previous CEO's Greek M&A gambit.
- Terna is also well protected against any political fall out on the bond market. By its own admission, the company fortuitously accelerated the launch of its 12-year bond in November at a 1% coupon, now trading at €92. Essentially, the company now has 85% of outstanding debt fixed at a cost of 1.5% for the next five years.
- Management does not expect any regulatory changes over the next eight years given that the consultation process has just finished. The interim review in 2018 will look at the risk free rate, country risk premium, tax rate and gearing.
- Terna is open to giving cash back to shareholders should the opportunity present itself.

Acea (n/c): CEO Alberto Irace, CFO Demetrio Mauro

- **Impression:** Optimistic about growth and digitalisation; fits in well with Suez (which owns 23%).
- Even though it is small compared to Enel, Acea is the second-largest electricity distribution company in Italy, with a wish to double its existing capacity. The company is positive about the effects of improving water regulation in Italy, which is following the path of UK regulation.
- Acea is arguably at the forefront of digitalisation. At the time of our meeting, the CEO expected to have a full roll-out of a single digital platform in the coming week. This was to include real-time billing and asset management. As such, this is state of the art.
- Management provided colour on the ways it connects processes to the final customer, which allows customers to have a relationship with the supplier at a low cost. Customers will be able to do everything via their app. This will also allow technicians to have current data at their fingertips, paving the way for a much slicker operation.
- Acea's CEO summed up its view on smart meters: "the device in the home has huge competition; the only thing I know is that it is not my business". Acea believes that owning the grid backbone is key. Apps can be built on top.
- Management expects modest customer losses as the Italian retail market is liberalised in 2018. By 2020 it sees a decline from 1.439m customers to just 1.327m by 2020. This will be a managed process: digitalisation will help it to target specific customers it wishes to retain and those it wants to jettison (due to, for example, bad debt risk).
- Acea believes retail margins are tight at just €12-25/MWh on a final customer price of €350/MWh. It has a strategy in place to ensure a smoothing of retail price increases from the regulated €12/MWh to a liberalised level of c€25/MWh.

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Snam (Hold): CFO Alessandra Pasini

- **Impression:** Steady as she goes
- The CFO felt that the Italian referendum, which took place on 4 December, does not pose any major risks other than the effect that the resulting uplift in Italian sovereign spreads could have on the valuation of regulated assets.
- Rising spreads will ultimately mean a higher allowed return. However, they also mean that a higher WACC will be used by the market to value the business. Usually, the WACC effect is the first to bite, as we have seen in the regulated sub-sector in recent weeks.
- Snam has a limited 1% regulated asset base (RAB) growth per annum, supported in the long term by a large amount of replacement and maintenance capex (although it will receive a return on this).
- There are additional capex opportunities in Italy (LNG and pipelines). However, they have not yet been approved (and have been potential opportunities for some time).
- Following Snam's split with Italgas, which took place in November, the group has additional balance sheet headroom if it needs it (debt-to-RAB is 52% and the company's threshold is 57%) to pursue new opportunities and/or increase the shareholder remuneration.
- Snam's dividend is expected to grow at 2.5% per annum and the company has also obtained shareholders' approval for €500m of buybacks (the first tranche already started).

France

Veolia (Buy): COO François Bertreau (Power trip and Pennyhill)

- **Impression**: Cautious despite cost performance
- COO François Bertreau was cautious about Veolia's outlook, despite the company's improved cost performance. Management gave more colour on its cost-cutting plan and other initiatives that it has put in place to improve the way the business operates. Moreover, Veolia is trying to nurture much more interaction between its business units and regions.
- The company is also seeing the benefits of formalised procurement and operational improvements; however, management said that these will take time and there is plenty more to do. Management is confident, therefore, that it can outperform their original cost target, as was communicated in Q3.
- Veolia confirmed that revenue "headwinds" such as commodities, construction and power prices, have limited implications for profit. That said, there was a clear air of caution over other factors leading into 2017, such as France's Brottes law (implemented in February 2014 and prevents utilities providers from cutting off water supplies to bad debtors) and the drag of the French economy.
- Low inflation in France could also create some near-term margin challenges. This fits with our recent decision to lower our assumptions for economic growth. It seems that cost-cutting outperformance could be mopped up by these issues.

Suez (Buy): CFO Christophe Cros

- **Impression**: Cautious on France; International bright-spot
- Like Veolia, Suez is cautious about the frustrating economic progress in France, which is acting as a drag on the company's much better performance internationally.
- On costs, the group should be able to generate savings equivalent to c1% of opex a year (so roughly €120m). This helps offset the structural volume decline in French water and cost inflation. Suez will continue to step-up cost savings when market conditions are tricky. It is doing so again this year, although these savings are likely to be absorbed by challenges in the domestic market (lack of economic progress and low inflation).
- Suez is also seeing an impact from the recently introduced Brottes Law in France. There has been some increase in the number of late payments for water bills, although the level of concern seems somewhat less than that expressed by Veolia. This may be due to a difference between the regions served. The impact so far has been around €10m.

- Suez management continues to rebalance the portfolio toward international and industrial markets.
- The CFO believes that growth trends elsewhere are encouraging.

ENGIE (Hold): CFO Judith Hartmann

- **Impression**: A value trap
- The CFO summed up our feelings about the company: "In our three year transformation, this is the most difficult point, as we are nine months into it and everyone is waiting to see what happens."
- Although ENGIE does not guide beyond this year, there was no strong disagreement from management that earnings could be flat for three years, despite the company being very confident that investors will be able to see the benefits of cost cutting.
- There is a risk that higher nuclear provisions will be announced in Belgium in the coming weeks (each 1% move in discount rate shifts nuclear liabilities by €1.1bn and net income €100m via D&A).
- Management said that its efficiency programme goes beyond simply cost-cutting – it is about implementing a more agile decision-making processes.
- The €15bn 2016-18 disposal programme could quite possibly be completed early in 2018.

Germany

RWE (Buy): IR Martin Vahlbrock

- **Impression:** Neutral
- RWE will have a capital markets day and a new equity story in March 2017.
- Management said that we should expect more detailed cost-cutting pertinent to RWE (as opposed to the group, which includes innogy), although we should not expect the same rate as prior years, which was very dramatic. Capex requirements probably have little scope for reduction.
- RWE is also expected to give more details on the profitability of the generation portfolio.
- RWE is awaiting finalisation of the nuclear draft law, with Germany's ministry of economy aiming for completion around year end. RWE will probably have to pay out c€6.8bn by summer next year to fund this bill. Its balance sheet is cash rich, with up to c€6bn of liquidity, and it has a number of options to raise additional funds, including bonds and a sell-down in its innogy stake (which is locked up for another six months).

innogy (Buy): CFO Dr. Bernhard Günther

- **Impression**: Positive; discipline rules
- innogy did not issue net income guidance for 2016, contrary to a broker's statement that the company is now guiding at the lower end of the "€1.1bn-1.3bn range".
- Now that the IPO is out of the way, management is focused on ongoing cost cutting and efficiencies, ie going back to what this management team do well.
- The CFO believes that renewables are over-heating. He said: "Our view is let them have it: the worst thing that can happen is that we fail to find a place for the money and give it back to shareholders". Equally the company could divert potential renewables capex into networks.
- innogy's CFO is bullish about being able to turn around the UK, although competition in the UK remains high. Management is not concerned about recent noises from Theresa May about possible intervention in the UK power market; it thinks this is just political noise.
- The CFO said that they do not like hybrid debt.

innogy (Buy): Renewables COO Hans Bünting

- **Impression**: Value creation is the number one driver
- European offshore wind has become very competitive, and innogy is surprised at the speed at which aggressiveness has risen. The group thinks that Vattenfall's recent (very low) bid for a Danish offshore wind project must have included some pretty aggressive assumptions about future technological breakthroughs.
- Management said the renewables business will not chase bids simply to have another project; projects must clear their hurdle rate.
- innogy is looking at other markets, such as the US, but it will take many years for this to become significant.
- In the meantime, the group is happy to scale down future new renewables build and put the capex into the networks business. Management is currently debating this topic.

E.ON (Hold): CEO Johannes Teyssen (Power Trip), IR (Pennyhill)

- **Impression**: Nuclear compensation a bonus, but balance sheet pressure remains a distraction
- This was the first meeting that the CEO has held for a while, so it was a bit of a coup for us.
- We assume a capital increase of some form is likely once the nuclear deal over waste management liabilities with the government is settled. E.ON expects a conclusion to the issue by Q1 2017.
- Management said Germany's recent court ruling on compensation for early nuclear closure should amount to a "few hundred million euros"; we have never believed that E.ON was going to come close to the full €8bn it claimed for. The court determined that investment done to upgrade reactor lives in the run up to the Fukushima disaster (and the subsequent U-turn in German nuclear policy) should be compensated for, although this does not include lost profits. The law has to be ready by mid-2018, and once negotiations are taken into account, the payment looks unlikely before 2019.
- A ruling on the legitimacy of the nuclear fuel tax could come by January or February 2017, E.ON believes. A win in this case would entail compensation of €2.9bn with 6.5% interest accrual (all of which is taxable), which would significantly alleviate balance sheet concerns. Given a surprise (albeit partial) success in the early-closure lawsuit, market expectations for another favourable ruling will have risen.
- The CEO does not see a general financing issue at present, and does not rule out capital measures to cover the nuclear top-up payment. However, he seems aware that some investors are calling for E.ON to raise more and properly tackle balance sheet issues.
- We gained the impression that disposals are not really an option given that the company does not have many strategic assets left to sell. However, it can rein back capex, especially since the renewables market seems to be overheating (the onshore pipeline is easier to cut, given shorter build times and less committed capital than offshore). Mr Teyssen ultimately still feels that the group is not constrained in its ability to invest in its core assets.
- The current leverage situation is also due to recent adjustments to pensions, among other things, which are volatile and do not pose immediate liquidity issues.
- E.ON is also looking for €400m of cost savings as part of its Phoenix programme, with the majority to come by 2018. It also believes the organisational overhead currently reflects a far larger group, so there are savings to be made.

Spain

Iberdrola (Buy): CFO José Sainz

- **Impression:** Confident heading into 2017, with optimism intact for the European offshore outlook
- Iberdrola is not looking to acquire US utility Washington Gas (as rumoured in the media), although is would be interested in consolidation in US markets.

- The company is still optimistic about European offshore wind, despite a string of record low bids in the industry. It has solid returns on its pipeline until 2020, and the CFO thinks competition will be limited somewhat by the huge commitments of the four main players. He also views onshore wind as a much more competitive space.
- Management acknowledges the Trump-induced caution towards US renewables, although Mr Sainz believes Republican senators in central states (home to many US onshore wind facilities) may oppose regressive changes to renewables policy.
- The company is positive about smart meter prospects. It believes customer loyalty and cross-selling opportunities can create value for the networks business.
- Iberdrola is confident about heading into 2017; it expects net income growth and a reasonable EBITDA performance (although slightly less than 2016).

Red Eléctrica (Buy): CFO Tomás Gallego

- **Impression:** Dividend optimism is justified by a strong capex pipeline
- The new Spanish energy minister, Alvaro Nadal, is a good appointment in management's opinion; his ideas are clear and long-term.
- Red Eléctrica is running behind its €3.1bn 2014-19 capex plan, although management is sticking with the target so a big step-up in 2018/19 will be needed.
- Red Eléctrica has three cross-border connection projects lined up for 2020-24 and expects related capex of €4bn. Mr Gallego also expects strong EU support for the projects.
- The company is confident it will achieve a 7% DPS CAGR until 2019, which is supported by 5-6% net income growth and an uplift in the payout ratio.
- Buybacks are unlikely given SEPI's (a state holding company) 20% stake, which needs to be held in a 10-20% range. Red Eléctrica's dividends also form an important compensation for the losses in its other holdings.

Enagás (Hold): IR team Antonio Velázquez-Gaztelu and Cesar Garcia

- **Impression:** Latin American diversification is not as straightforward as it seemed (it rarely is)
- Problems with the Gasoducto Sur Peruano (GSP) pipeline in Peru have thrown question marks over the group's Latin American growth aspirations. Enagás's (25%) lead partner in the $5bn project, Odebrecht (55%), is ensnared in a corruption scandal in Brazil and the JV has struggled to find a company to replace it. It had been hoped that US-based Sempra would step-in. However, the deal broke down after authorities in Peru refused to remove an anti-corruption clause from the contract, which Sempra believed would leave it liable for any corruption by Odebrecht. The clock is ticking before the January financing deadline. If a solution is not found, then the contract could be re-tendered. Enagás would expect to be refunded its share of the capital already committed (to date, the group has $268m of equity committed) but it would lose out on the incremental income this venture was expected to deliver. The situation has also highlighted the risk of seeking growth through junior roles in projects in new markets for Enagás.
- Growth in international participations, however, forms an important part of the group's targeted c2% pa net income CAGR target for 2015-20. The group forecasts that its committed investments will contribute 25% of net profit in 2025 versus 13% expected in 2017.
- It is well understood that the core Spanish regulated asset base is in decline. It could remain so for decades. Management, therefore, also expects revenues to fall; Enagás expects a -0.7% CAGR 2015-20 and must combat this with ongoing cost savings and financial discipline; it will also be aided by lower D&A charges thanks to a regulatory life extension for pre-2008 assets.
- Despite its Latin American uncertainties, a 5% pa dividend CAGR 2015-20 remains the group's top priority.

UK

Centrica (Buy): CFO Jeff Bell

- **Impression:** Management is fully committed to the dividend and has cash flows and flexibility to defend its commitment to a progressive dividend policy
- Politics has been, and always will be, a feature of the energy sector. Recent comments from the UK government about "dysfunctional markets" have been a little disappointing. Centrica and its peers are, however, interacting with this new government to address key issues, including the implementation of the Competition and Markets Authority (CMA) proposals. We continue to think that the government is unlikely to overrule the CMA in a heavy-handed intervention; more likely, it is keeping a close eye on the implementation of the CMA's remedies.
- Cash flow from operations is improving, as is the balance sheet. Commodities, cost-cutting and FX are all tailwinds compared to the start of the year.
- Price hikes and failures of some smaller new entrants demonstrate that these newcomers were riding a wave of falling commodity prices but have been left exposed to the rebound in wholesale markets. The decision to freeze British Gas standard variable tariffs (SVTs), while previously heavily discounted fixed price deals are disappearing, helps tackle the recent accusations that SVTs are bad: as we predicted, the gap between SVTs and discounted rates is narrowing as commodities rise. British Gas can achieve this thanks to hedging.
- Cost savings are ahead of plan: roughly half of the targeted £750m (by 2020) is headcount reduction. The other half relates to procurement (especially in exploration and production (E&P), and IT).
- The dividend is covered by the business's operating cash flows. Management expects to be able to grow the dividend by 3-5%, in line with operating cash flow growth. The group has previously indicated that the dividend is sustainable at commodity prices as low as $35/bbl oil and 35p/therm gas. Current forward prices are well above this. Even if there were a pinch in supply margins due to political pressures, we believe the group has plenty of wriggle room. For example, it could cut E&P capex further.
- In North America, margins are improving. There has been a positive translation effect on profits from £/$ FX (even though the group has $1bn of US debt). Management is predominantly targeting organic growth, but would not rule out bolt-on acquisitions. Centrica is also in the early stages of a "connected home" roll-out in the US; it is currently selling the Nest smart thermostat and in the future it will also offer Hive's version.

National Grid (Hold): Andy Agg, group tax and treasury director (Pennyhill)

- **Impression:** Dependable
- Although the market has been spooked by the prospects of rising interest rates, it is worth remembering that moderate inflation is no bad thing for National Grid's RPI-linked UK business. Furthermore, with c90% of debt secured at fixed rates and UK financial cost allowances linked to the iBoxx (10-year average), rising interest rates will, eventually, benefit the group. Of course, in the US, rising financial costs would require pro-active rate case filings.
- The company is back in full swing on rate-case filings in the US after the self-enforced hiatus of recent years. The group hopes to follow up on a reasonable outcome for Massachusetts Electricity (September) with filings in KeySpan Energy Delivery New York (KEDNY) and KeySpan Energy Delivery Long Island (KEDLI). A joint proposal for KEDNY/KEDLI has been agreed, which includes a return of 9%. Although this is subject to a final approval, the company believes it would represent a positive outcome. It seems likely that the group will also look to file rate cases for Niagara Mohawk Power (NiMo) and Massachusetts Gas next year.
- The group still thinks that achieving an ROE at 90-95% of the allowed level is a sensible target. We note that capex and opex allowances are as, if not more, important than the headline allowed ROE in these cases.

- Iberdrola is consolidating in neighbouring north-east US markets but this does not mean that National Grid must also pursue M&A to drive the growth agenda. It sees 7% pa growth in its US rate base and there are other projects on top of this that the group can consider.
- Following our Pennyhill conference, National Grid announced that it has reached an agreement on the disposal of a majority stake in its gas distribution business to a consortium of investors, comprising Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships. National Grid has agreed a sale of a 61% stake in its Gas Distribution business, which implies an EV for the business of £13.8bn. That is more than the 51% stake sale and £12bn EV that we had assumed. In total, the group will receive a cash payment of £5.4bn (£3.6bn for the equity and £1.8bn related to additional financing in the new holding company) and will, as promised, return the bulk of the net proceeds to shareholders. It will return £4bn through a combined special dividend (together with share consolidation) and share buybacks. At least 75% of the net proceeds will be returned via special dividend in Q2 2017. The transaction is expected to complete on or prior to 31 March 2017. National Grid and the consortium have expressed an interest in the potential future sale and purchase of an additional 14% of equity in the newly formed "GasD HoldCo". National Grid will also pay £150m as a voluntary distribution to benefit energy customers.

Utilities

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Summary valuation table

Company	P/E					EPS CAGR	Div Yield					DPS CAGR	EV/EBITDA					EBITDA CAGR	FCF Yield					FCF CAGR
	2015A	2016E	2017E	2018E	2019E	17E-19E	2015A	2016E	2017E	2018E	2019E	17E-19E	2015A	2016E	2017E	2018E	2019E	17E-19E	2015A	2016E	2017E	2018E	2019E	17E-19E
Sector	**13.8**	**14.3**	**13.5**	**12.6**	**12.0**	**7%**	**5.7%**	**5.5%**	**5.3%**	**5.6%**	**5.9%**	**5%**	**8.6**	**8.9**	**8.6**	**8.4**	**8.1**	**3%**	**5.0%**	**4.0%**	**5.1%**	**5.9%**	**6.9%**	**26%**
Energy and Integrated	**12.5**	**13.3**	**12.5**	**11.6**	**11.0**	**8%**	**6.0%**	**5.7%**	**5.4%**	**5.7%**	**6.0%**	**6%**	**7.3**	**7.6**	**7.3**	**7.1**	**6.9**	**3%**	**6.8%**	**4.7%**	**6.4%**	**6.9%**	**8.2%**	**29%**
Centrica	12.4	14.0	13.5	10.9	9.8	**17%**	5.6%	5.6%	5.6%	5.9%	6.2%	**5%**	6.1	6.3	6.4	5.8	5.5	**8%**	6%	7%	6%	8%	9%	**23%**
EDF	4.7	6.3	8.4	9.7	15.1	**(25%)**	12.7%	9.5%	7.1%	6.2%	4.0%	**(25%)**	6.2	6.8	7.2	7.3	7.7	**(3%)**	(9%)	3%	0%	6%	0%	**(50%)**
EDP	11.3	10.5	11.4	10.6	10.0	**7%**	6.6%	6.6%	6.6%	6.6%	6.6%	**0%**	7.7	7.8	7.8	7.5	7.3	**3%**	7%	11%	18%	9%	10%	**(26%)**
EDP Renovaveis	38.4	40.1	26.1	26.9	22.4	**8%**	0.8%	0.7%	1.1%	1.1%	1.3%	**8%**	8.7	7.9	7.3	7.1	6.6	**5%**	2%	(3%)	6%	2%	2%	**(38%)**
Endesa	17.4	16.3	18.0	17.9	17.9	**0%**	5.7%	6.1%	5.6%	5.6%	5.6%	**0%**	8.8	8.5	9.0	9.1	9.2	**(1%)**	8%	9%	9%	9%	9%	**(1%)**
Enel	12.9	12.8	11.5	10.2	9.1	**12%**	4.1%	4.3%	5.2%	6.4%	7.1%	**17%**	6.5	6.7	6.4	6.2	6.0	**4%**	7%	6%	10%	12%	13%	**17%**
ENGIE	11.0	11.9	12.2	12.1	10.8	**6%**	8.4%	8.4%	5.9%	5.9%	6.3%	**3%**	6.4	6.5	6.6	7.4	7.1	**(3%)**	11%	2%	1%	5%	6%	**216%**
EON	7.6	14.8	12.2	11.7	10.7	**7%**	7.7%	3.4%	4.1%	4.3%	4.7%	**7%**	5.9	9.2	8.9	9.1	8.7	**1%**	16%	1%	4%	2%	4%	**(6%)**
Fortum	16.7	22.5	15.7	14.0	13.1	**10%**	8.1%	8.1%	5.1%	5.7%	6.1%	**10%**	12.9	12.5	9.3	8.3	7.7	**9%**	6%	3%	5%	6%	7%	**19%**
Gas Natural	11.0	10.7	10.6	10.1	9.3	**7%**	5.5%	5.8%	5.9%	6.1%	6.6%	**7%**	7.1	7.1	7.1	7.0	6.8	**3%**	13%	10%	9%	9%	10%	**0%**
Iberdrola	15.1	14.6	14.1	13.2	12.2	**8%**	4.7%	4.8%	5.0%	5.3%	5.7%	**8%**	8.4	7.6	7.5	7.2	7.0	**4%**	5%	5%	6%	6%	7%	**10%**
Innogy	n.a.	15.6	13.7	12.9	12.5	**5%**	n.a.	4.8%	5.1%	5.4%	5.8%	**7%**	8.2	8.8	8.5	8.2	8.1	**3%**	n.a.	2%	4%	5%	7%	**29%**
RWE	6.3	12.3	11.7	10.0	8.0	**21%**	0.0%	2.4%	2.6%	3.0%	3.7%	**21%**	4.9	6.2	6.0	5.9	5.6	**3%**	14%	8%	16%	12%	18%	**6%**
SSE	13.0	14.1	14.2	13.4	11.8	**9%**	6.0%	6.1%	6.3%	6.4%	6.5%	**2%**	9.5	9.7	9.4	9.0	8.4	**6%**	1%	2%	2%	4%	6%	**61%**
Suez	19.8	14.9	11.5	9.3	7.7	**22%**	4.9%	4.9%	5.3%	6.6%	7.9%	**22%**	6.5	6.1	5.6	5.2	4.8	**8%**	2%	3%	4%	6%	7%	**31%**
Uniper	n.a.	4.9	7.4	8.1	8.0	**(4%)**	n.a.	4.8%	5.0%	5.5%	6.0%	**10%**	5.3	4.5	5.3	5.3	5.1	**2%**	n.a.	(1%)	3%	3%	13%	**122%**
Veolia Environnement	16.0	16.5	13.8	10.9	9.7	**19%**	4.7%	5.2%	5.7%	6.2%	6.9%	**10%**	6.4	6.4	6.0	5.5	5.2	**7%**	9%	5%	6%	8%	8%	**11%**
Verbund	22.3	18.3	27.9	33.0	31.3	**(6%)**	2.2%	2.2%	1.4%	1.2%	1.3%	**(6%)**	9.7	10.9	12.7	13.4	13.2	**(2%)**	14%	8%	4%	3%	3%	**(10%)**
Regulated	**16.2**	**16.2**	**15.4**	**14.7**	**13.9**	**5%**	**5.0%**	**5.1%**	**5.3%**	**5.5%**	**5.6%**	**3%**	**11.2**	**11.5**	**11.2**	**10.9**	**10.5**	**3%**	**2%**	**2%**	**3%**	**4%**	**4%**	**19%**
Enagas	13.7	13.3	13.1	13.4	13.0	**0%**	5.6%	5.9%	6.2%	6.5%	6.8%	**5%**	10.4	10.7	11.2	11.7	11.5	**(2%)**	7%	8%	8%	9%	9%	**9%**
National Grid	14.9	16.7	16.1	15.2	14.4	**6%**	4.8%	4.9%	5.0%	5.1%	5.3%	**3%**	10.4	12.6	11.9	11.3	10.6	**6%**	1%	2%	2%	1%	1%	**(29%)**
Pennon	21.2	19.1	17.8	15.1	14.4	**11%**	4.3%	4.6%	4.9%	5.2%	5.6%	**7%**	13.6	13.0	12.6	11.4	10.8	**8%**	(3%)	(2%)	(0%)	6%	6%	**n.a.**
Red Electrica	14.8	13.6	13.2	12.9	12.6	**3%**	5.4%	5.9%	6.0%	6.2%	6.4%	**3%**	10.4	10.1	9.8	9.6	9.3	**3%**	4%	5%	5%	5%	5%	**(4%)**
Severn Trent	20.6	20.1	19.4	17.9	16.6	**8%**	3.9%	3.9%	4.0%	4.1%	4.3%	**3%**	11.8	11.7	11.5	11.2	10.6	**4%**	2%	(1%)	(3%)	0%	0%	**n.a.**
Snam	10.8	11.3	10.3	9.9	9.8	**3%**	6.8%	6.8%	6.8%	6.8%	6.8%	**0%**	9.6	9.8	9.6	9.2	9.1	**3%**	4%	3%	4%	4%	2%	**(22%)**
Terna	14.6	16.5	14.8	15.9	15.7	**(3%)**	4.8%	4.8%	4.8%	5.0%	5.1%	**3%**	11.0	11.4	10.9	11.2	11.1	**(1%)**	(2%)	3%	3%	5%	6%	**29%**
United Utilities	18.7	19.2	18.9	17.1	14.8	**13%**	4.4%	4.4%	4.5%	4.7%	4.8%	**3%**	12.6	12.7	12.3	11.7	11.0	**6%**	1%	1%	1%	2%	5%	**129%**

Source: Berenberg Estimates

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ENGIE SA	5
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Iberdrola SA	no disclosures
Innogy SE	1, 3
National Grid plc	no disclosures
Red Eléctrica de España SA	no disclosures
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Production of the recommendation completed: 12.12.2016, 17:56

Historical price target and rating changes for Centrica plc in the last 12 months

Date	Price target - GBp	Rating	First dissemination GMT	Initiation of coverage
10 February 16	230.00	Buy	2016-02-11 07:01	05 December 11
04 November 16	240.00	Buy	2016-11-07 06:51	

Historical price target and rating changes for E.ON SE in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	8.00	Sell	2016-02-11 07:01	08 November 10
16 November 16	6.40	Hold	2016-11-16 06:55	

Historical price target and rating changes for EDF SA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	10.00	Sell	2016-02-11 07:01	04 April 11

Historical price target and rating changes for Enagás SA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
				08 December 14

Historical price target and rating changes for Enel SpA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	4.00	Buy	2016-02-11 07:01	14 July 11
31 October 16	4.50	Buy	2016-11-01 07:00	

Historical price target and rating changes for ENGIE SA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	17.00	Buy	2016-02-11 07:01	02 March 12
24 March 16	16.00	Buy	2016-03-29 07:08	
08 November 16	13.50	Hold	2016-11-09 07:07	

Historical price target and rating changes for Fortum Corp in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	10.50	Sell	2016-02-11 07:01	11 January 11
03 November 16	13.00	Sell	2016-11-04 07:01	

Historical price target and rating changes for Iberdrola SA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	6.70	Buy	2016-02-11 07:01	13 October 11

Historical price target and rating changes for Innogy SE in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
16 November 16	37.00	Buy	2016-11-16 06:55	16 November 16

Historical price target and rating changes for National Grid plc in the last 12 months

Date	Price target - GBp	Rating	First dissemination GMT	Initiation of coverage
12 May 16	970.00	Hold	2016-05-13 07:04	06 March 12

Historical price target and rating changes for Red Eléctrica de España SA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
				08 December 14

Historical price target and rating changes for RWE AG in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	10.50	Sell	2016-02-11 07:01	12 January 11
27 July 16	16.00	Hold	2016-07-28 07:11	
16 November 16	14.00	Buy	2016-11-16 06:55	

Historical price target and rating changes for Snam SpA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
				19 July 11

Historical price target and rating changes for SUEZ in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
				05 February 13

Historical price target and rating changes for Terna SpA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
				19 July 11

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Historical price target and rating changes for Veolia Environnement SA in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	23.50	Buy	2016-02-11 06:57	05 February 13
10 November 16	19.70	Buy	2016-11-11 07:06	

Historical price target and rating changes for Verbund AG in the last 12 months

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
10 February 16	4.00	Sell	2016-02-11 07:01	13 April 11
13 May 16	5.50	Sell	2016-05-16 06:38	

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