

Higher returns, but no dividend upside

- Positive regulatory outcome:** The Italian energy regulator, AEEGSI, published its final document on the weighted average cost of capital (WACC) for Snam's upcoming interim reset (it also included information about Terna's WACC) on 2 December. Overall, we believe this document was positive for the Italian regulated companies. The returns for Snam's divisions came out at the upper end of the expected range. The WACC for each business is now set at: storage 6.5%, regasification 6.6%, transport 5.4%, distribution 6.1% and metering 6.6%. The WACCs will last from 2016 until the end of 2018, except for those applied to the regasification and transport divisions, which will have a new WACC from the start of 2018. On average, these returns are 50bp higher than our previous estimates, although they are still lower than under the current regulation. This has boosted our EPS estimates by an average of 4% over the next three years; we had initially assumed the mid-point of these ranges. Even so, we still do not think there is any upside for the dividend, although we do believe it is sustainable. Consequently, our Hold recommendation remains and our price target stays at €5.0/share. If investors are seeking a dividend play in the regulated sector, then Red Eléctrica is the one to look at. We believe the company has the balance sheet and cash flow generation to increase its dividend above guidance.
- Earning certainty improved:** As expected, the regulator has increased the regulatory period for the WACC to six years, from four years currently. Additionally, interim resets have been lengthened to three years from two years. Although this does improve EBIT certainty, any interest rate rise would increase financial expenses. Furthermore, the company now has a longer wait before the regulator adjusts the risk-free rate in the WACC calculation.
- €0.25/share dividend looks safe, although no upside:** Even with our improved EPS estimates, we do not see any dividend upside, due to the heavy balance sheet and cash flow constraints. However, we do believe the dividend is sustainable. The dividend is a key priority for management.
- 2019 EPS increases by 3% with opportunistic investments:** Snam should be able to tackle the regulatory cuts. For one, the company, through Italgas, has the economies of scale to bid more aggressively in the upcoming distribution tender. In our view, this should allow Snam to consolidate its position as a leading gas player. In addition to the guided capex, we assume €1.0bn of opportunistic investments. This should increase Italgas's market share by 7ppt to 37%, and add 2% to the SOTP.
- Next catalysts:** The finalisation of the electricity transmission regulation for Terna, by the end of the year, should give some insight into Snam's new regulatory period, starting in 2018. The start of the Italian distribution tender should begin in H2 2016.

Y/E 31/12., EURm	2013	2014	2015E	2016E	2017E
EBITDA	2,803	2,776	2,860	2,782	2,862
EBIT	2,060	1,973	2,000	1,902	1,956
EPS	0.28	0.31	0.34	0.33	0.36
DPS	0.25	0.25	0.25	0.25	0.25
FCF per share	0.2	0.1	0.2	0.1	0.2
Y/E net debt (net cash)	13,326	13,652	13,718	14,220	14,490
EBITDA Growth	-0.5%	-1.0%	3.0%	-2.7%	2.9%
EPS Growth	-5.9%	11.5%	10.6%	-4.2%	8.8%
DPS Growth	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE	10.2%	9.4%	9.3%	8.6%	8.6%
EV/EBITDA	10.5x	11.0x	10.7x	11.2x	11.0x
P/E	17.2x	15.5x	14.0x	14.6x	13.4x
Dividend Yield	5.2%	5.2%	5.2%	5.2%	5.2%
FCF Yield	3.4%	1.3%	4.1%	2.8%	3.6%

Source: Company data, Berenberg

4 December 2015

HOLD

Current price **Price target**
EUR4.76 EUR5.00

02/12/2015 Milan Close

Market cap (EURm) 16,665
Reuters SRG.MI
Bloomberg SRG IM

Changes made in this note

Rating: Hold (no change)
Price target: EUR5.00 (no change)

Estimates changes

	2015E		2016E		2017E	
	old	Δ %	old	Δ %	old	Δ %
EBITD	2,861	0.0	2,680	3.8	2,760	3.7
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EBIT	2,001	0.0	1,800	5.7	1,854	5.5
EPS	0.34	-0.1	0.31	6.3	0.34	6.0

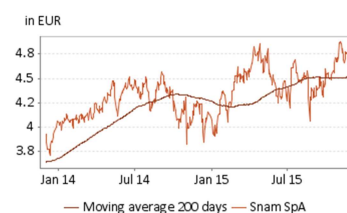
Source: Berenberg estimates

Share data

Shares outstanding (m) 3,500
Enterprise value (EURm) 30,733
Daily trading volume 9,715,980

Key data

Net gearing 2.2
CAGR EPS 2009-2013 183.2%



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HOLD

4 December 2015

Current price **Price target**

EUR4.76 EUR5.00

02/12/2015 Milan Close

Market cap (EURm) 16,665
EV (EURm) 30,733
Trading volume 9,715,980
Free float 45.0%

Non-institutional shareholders

CDP Reti: 30%; ENI: 8.5%; Other: 10.7%

Share performance

High 52 weeks EUR4.87
Low 52 weeks EUR3.85

Business description

Snam is a 100% regulated utility active in the regasification, transmission, storage and distribution of gas in Italy. The company is 30% owned by government-controlled CDP Reti.

Performance relative to

	SXXP	SX6P
1mth	-2.6%	-1.4%
3mth	2.1%	3.9%
12mth	5.9%	17.8%

Investment thesis

- The €0.25/share dividend looks safe. However, with the balance sheet already stretched, we are unlikely to see a dividend hike anytime soon. The dividend is a key priority for management.
- The WACCs for the upcoming interim reset (2016) came out at the top end of the expected range, increasing our EPS estimates by c4% over the next three years. Additionally, the regulator has confirmed that the WACC period will now be six years (from four years), with interim resets every three years.
- Snam has earmarked €1.0bn-1.3bn for “opportunistic” investments in distribution. We incorporate €1.0bn into our estimates, as we expect some tender losses. These extra investments should be 3% accretive to EPS by 2019.
- The company is looking to become a leader in the European gas market. Snam is relatively shielded from the volatility in the gas market, as it receives a fixed fee on its infrastructure.
- Our price target is based on a blend of metrics: a DCF sum-of-the-parts (SOTP), a dividend discount model and a target P/E and yield.

Profit and loss summary

EURm	2013	2014	2015E	2016E	2017E
Revenues	3,848	3,882	3,775	3,695	3,779
EBITDA	2,803	2,776	2,860	2,782	2,862
EBITA	2,060	1,973	2,000	1,902	1,956
EBIT	2,060	1,973	2,000	1,902	1,956
Associates contribution	45	79	125	132	138
Net interest	472	397	378	366	349
Tax	690	509	555	526	501
Minorities	0	0	0	0	0
Net income adj.	934	1,078	1,192	1,143	1,244
EPS reported	0.27	0.35	0.34	0.33	0.36
EPS adjusted	0.28	0.31	0.34	0.33	0.36
Year end shares	3,380	3,500	3,500	3,500	3,500
Average shares	3,380	3,500	3,500	3,500	3,500
DPS	0.25	0.25	0.25	0.25	0.25

Cash flow summary

EURm	2013	2014	2015E	2016E	2017E
Net income	917	1,198	1,192	1,143	1,244
Depreciation	769	803	860	880	906
Working capital changes	187	-88	13	10	-10
Other non-cash items	-24	-378	0	0	0
Operating cash flow	1,839	1,529	2,065	2,032	2,139
Capex	-1,290	-1,313	-1,390	-1,560	-1,535
FCFE	549	216	675	473	604
Acquisitions, disposals	-14	-10	0	0	0
Other investment CF	486	-91	0	0	0
Dividends paid	845	507	875	875	875
Buybacks, issuance	4	2	0	0	0
Change in net debt	-13	72	-74	0	0
Net debt	13,326	13,652	13,718	14,220	14,490
FCF per share	0.16	0.06	0.19	0.14	0.17

Growth and margins

	2013	2014	2015E	2016E	2017E
Revenue growth	-2.5%	0.9%	-2.7%	-2.1%	2.3%
EBITDA growth	-0.5%	-1.0%	3.0%	-2.7%	2.9%
EBIT growth	-2.4%	-4.2%	1.4%	-4.9%	2.8%
EPS adj growth	-5.9%	11.5%	10.6%	-4.2%	8.8%
FCF growth	-214.4%	-60.7%	212.6%	-30.0%	27.9%
EBITDA margin	72.8%	71.5%	75.8%	75.3%	75.7%
EBIT margin	53.5%	50.8%	53.0%	51.5%	51.7%
Net income margin	24.3%	27.8%	31.6%	30.9%	32.9%
FCF margin	14.3%	5.6%	17.9%	12.8%	16.0%

Key ratios

	2013	2014	2015E	2016E	2017E
Net debt / equity	222.3%	190.4%	183.2%	183.3%	178.3%
Net debt / EBITDA	4.8x	4.9x	4.8x	5.1x	5.1x
Avg cost of debt	3.7%	2.9%	2.8%	2.6%	2.4%
Tax rate	49.3%	42.8%	34.1%	34.1%	31.1%
Interest cover	4.4x	5.0x	5.3x	5.2x	5.6x
Payout ratio	90.5%	81.2%	73.4%	76.6%	70.4%
ROCE	10.2%	9.4%	9.3%	8.6%	8.6%
Capex / sales	33.5%	33.8%	36.8%	42.2%	40.6%
Capex / depreciation	167.8%	163.5%	161.6%	177.2%	169.4%

Valuation metrics

	2013	2014	2015E	2016E	2017E
P / adjusted EPS	17.2x	15.5x	14.0x	14.6x	13.4x
P / book value	2.7x	2.3x	2.2x	2.1x	2.1x
FCF yield	3.4%	1.3%	4.1%	2.8%	3.6%
Dividend yield	5.2%	5.2%	5.2%	5.2%	5.2%
EV / sales	7.6x	7.9x	8.1x	8.4x	8.3x
EV / EBITDA	10.5x	11.0x	10.7x	11.2x	11.0x
EV / EBIT	14.3x	15.5x	15.4x	16.4x	16.1x
EV / FCF	53.6x	141.4x	45.5x	65.9x	52.0x
EV / cap. employed	1.5x	1.5x	1.4x	1.4x	1.4x

Key risks to our investment thesis

- The new regulation (starting in 2018) turns out not to be balanced and, therefore, does not allow Snam to effectively manage its business.
- Italgas is unable to secure as many concessions as planned, in the upcoming distribution tender.
- Snam's pursuit of bolt-on acquisitions and JVs in Europe present some, albeit limited, M&A risk.
- Rising bond yields would, in the first instance, have a detrimental effect on Snam's valuation in our view even if, ultimately, it means a higher allowed return.

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Snam SpA – investment thesis

What is new? We have updated our estimates following the finalisation of the WACC for the upcoming interim reset in 2016.

Key investment point snapshot

Key investment point one: €1.0bn of “opportunistic” investments in distribution increases SOTP by 2%

- **Key stat:** Our assumption of €1.0bn of opportunistic investments in distribution increases group SOTP by 2%. This translates to Snam increasing its market share from 30% to 37%.
- Of the €1.0bn-1.3bn of opportunistic distribution investments earmarked by the company, we believe €1.0bn will actually materialise. This increases EPS by 3% by 2019.
- Snam, through Italgas, should be able to take advantage of the consolidation process that is currently occurring in the distribution sector in Italy. Italgas has economies of scale.
- However, the tendering process has been delayed due to uncertainties surrounding auction rules, industrial versus regulated asset base (RAB) values and issues over labour contracts. All draft tenders are expected to be in by year-end/the start of 2016, with the actual auction starting in H2 2016.

Key investment point two: €0.25/share dividend is safe, despite regulatory cuts

- **Key stat:** We believe the €0.25/share dividend is safe, even with regulatory cuts and opportunistic investments in distribution.
- With the company seeking growth opportunities and regulatory cuts looming, Snam’s balance sheet is stretched and cash flow is constrained.
- Economic net debt/EBITDA is expected to be c5.0x between 2015 and 2020.
- The heavy balance sheet is manageable due to regulated earnings. It does not, however, allow for a dividend hike; sustaining the dividend is a top priority for management and, therefore, we believe it will be maintained at €0.25/share.

Key investment point three: allowed WACC at the top end of the expected range

- **Key stat:** The dividend looks safe despite the interim reset reducing EPS by 4% in 2016.
- The regulator published its final document on the WACC on 2 December. Snam’s WACC for each business is now set at: storage 6.5%, regasification 6.6%, transport 5.4%, distribution 6.1% and metering 6.6%. The WACCs will last from 2016 until the end of 2018, except for those applied to the regasification and transport divisions, which will have a new WACC from the start of 2018.
- In addition, the regulator has extended the regulatory period to six years for the WACC, with interim resets every three years instead of two years. Although this does improve EBIT certainty, any interest rate rise would increase financial expenses. Furthermore, the company now has a longer wait before the regulator adjusts the risk-free rate in the WACC calculation.
- It is also worth noting that, for gearing, the regulator had recently stated that it would be looking to gradually increase this from 44.4% to 50-65% over the next couple of years. It has now stated that 50% will be a cap.

Key investment point four: Snam should benefit from European gas integration

- **Key stat:** With Italy in favour of gas, Snam’s RAB should grow at a CAGR of 3% 2014-2019. As a reminder, we include an additional €1.0bn of opportunistic investments in our RAB estimates.

Snam SpA

Utilities – Regulated



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- Although we expect total gas demand in Europe to remain weak over the next two decades, the proportion of net imports should, in our view, slowly displace domestic production.
 - Italy needs gas infrastructure, unlike Spain. The Italian National Energy Plan supports long-term investment opportunities in regulated infrastructure.
 - RAB evolution should translate into EPS growth, offsetting regulatory cuts and, ultimately, supporting the dividend.
 - Snam is at the forefront of helping to develop a southern European gas hub. But the company should be wary of the current risks of low gas prices; although we expect demand for cheap gas to increase, Snam should be mindful of the pressure on supply-side infrastructure.

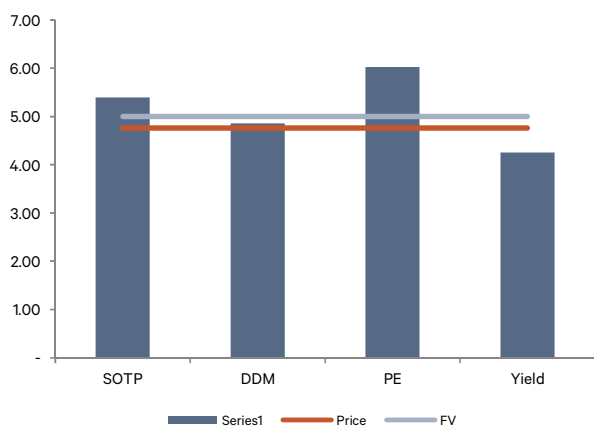
Other key investment points

- Non-traditional investments should be 1% accretive to EPS by 2018
- Corporate tax reduced; Robin Hood tax eliminated
- Italgas court case closed
- China's state grid owns 35% of CDP Reti

Valuation and sensitivity analysis

- We value Snam using a blend of metrics: a DCF-based SOTP, a dividend discount model, a target yield and target P/E.
- Our blended price target is €5.0/share (5% upside). This offers a total shareholder return of 10%.

Blended price target (€/share)



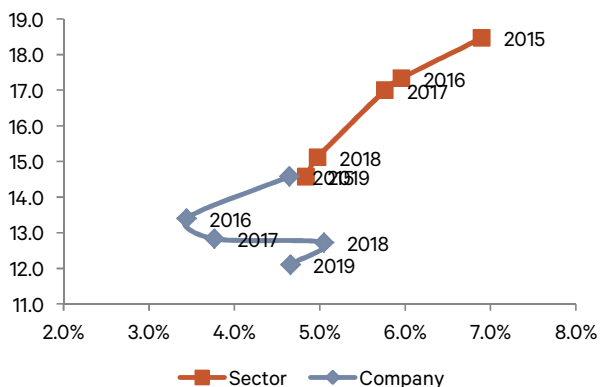
Source: Berenberg estimates

DCF EV split (€m)

	Value	€/Share	2016 EV/ EBITDA	Method
Transportation	17,554	5.02	10.9	DCF
Distribution	8,412	2.40	11.0	DCF
Storage	5,076	1.45	12.5	DCF
Regasification (LNG)	357	0.10	71.2	DCF
Other	1,690	0.48	-	JVs
Enterprise Value	33,089	9.46	11.9	
Debt	(14,470)	(4.13)	(5.2)	2016E
Provisions	-	-	-	2016E
Other	250	0.07	0.1	2016E
Minorities	(1)	(0.00)	(0.0)	2016E
Liabilities	(14,221)	(4.06)	(5.1)	
Equity	18,868	5.39		
NOSH	3,500			2016E
Equity per Share	5.39			
DPS	-			
Sum of the Parts	5.39			

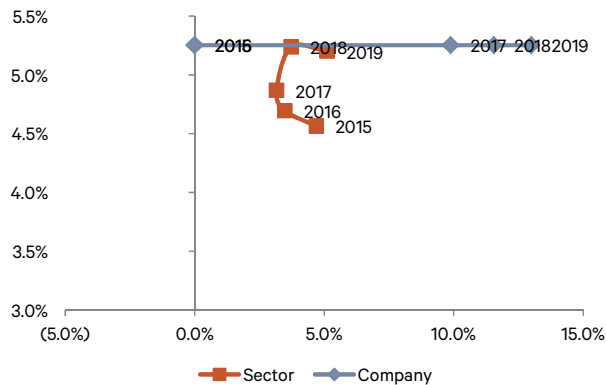
Source: Berenberg

P/E and EPS CAGR



Source: Berenberg estimates using three-year forward EPS CAGR

Dividend yield and DPS CAGR

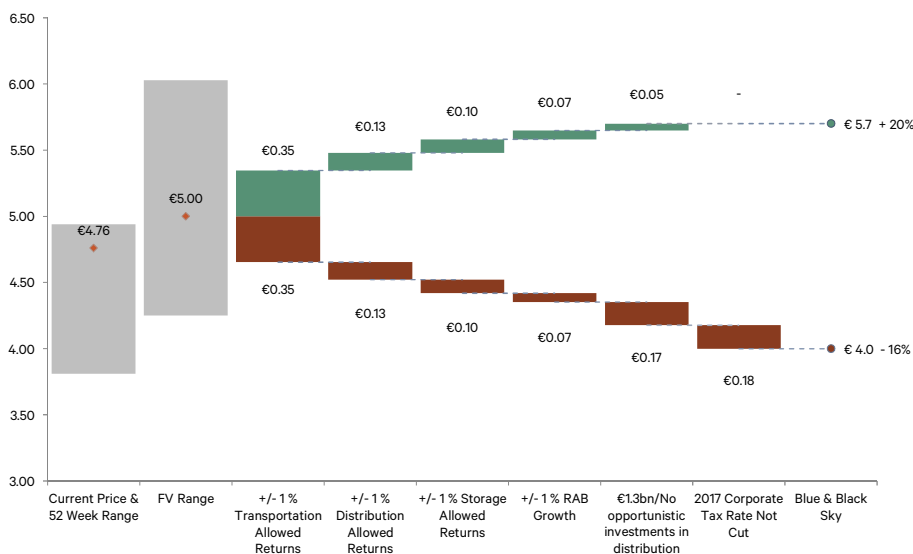


Source: Berenberg estimates using three-year forward DPS CAGR

Black-sky/blue-sky scenario

Our black-sky/blue-sky price target range is €4.0/€5.7 per share respectively. Our black-sky price target gives 16% downside, while our blue-sky price target gives 20% upside. Below we highlight the drivers of our black-sky/blue-sky scenarios.

Price target black-sky/blue-sky scenario (€/share)



Source: Berenberg estimates

Black-sky/blue-sky assumptions

Driver	Bull €/share	Bear €/share	Assumptions
Base Case Valuation	5.0	5.0	
+/- 1% Transportation Allowed Returns	0.3	(0.3)	Transportation WACC is lower/higher than expected
+/- 1% Distribution Allowed Returns	0.1	(0.1)	Distribution WACC is lower/higher than expected
+/- 1% Storage Allowed Returns	0.1	(0.1)	Storage WACC is lower/higher than expected
+/- 1% RAB Growth	0.1	(0.1)	RAB growth/slowdown
€1.3bn/No opportunistic investments in distribution	0.1	(0.2)	€1.3bn/No opportunistic investments in distribution
2017 Corporate Tax Rate Not Cut		(0.2)	No cut to corporate tax rate in 2017
Blue & Black Sky Valuation	5.7	4.0	
Upside/(Downside) from share price	20%	(16%)	

Source: Berenberg estimates

Changes to earnings

Estimate changes

Estimate Changes	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA (New - as reported; € m)	2,860	2,782	2,862	2,975	3,019	3,145
EBITDA (Old - as reported; € m)	2,861	2,680	2,760	2,777	2,896	3,020
Change	-0%	+4%	+4%	+7%	+4%	+4%
EBIT (New - as reported; € m)	2,000	1,902	1,956	2,036	2,056	2,157
EBIT (Old - as reported; € m)	2,001	1,800	1,854	1,838	1,936	2,036
Change	-0%	+6%	+5%	+11%	+6%	+6%
EPS (New - as reported; €)	0.34	0.33	0.36	0.37	0.37	0.39
EPS (Old - as reported; €)	0.34	0.31	0.34	0.33	0.35	0.37
Change	-0%	+6%	+6%	+12%	+7%	+7%
DPS (New - as reported; €)	0.25	0.25	0.25	0.25	0.25	0.25
DPS (Old - as reported; €)	0.25	0.25	0.25	0.25	0.25	0.25
Change	+0%	+0%	+0%	+0%	+0%	+0%

Source: Berenberg

Berenberg versus consensus

Berenberg versus consensus

Berenberg Forecasts vs Consensus	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA* (€ m)	2,803	2,776	2,860	2,782	2,862	2,975	3,019	3,145
Consensus (Average)	2,772	2,808	2,855	2,621	2,676	2,779	#N/A	#N/A
<i>Berenberg +/- vs Cons</i>	+1%	-1%	+0%	+6%	+7%	+7%	#N/A	#N/A
EBIT* (€ m)	2,060	1,973	2,000	1,902	1,956	2,036	2,056	2,157
Consensus (Average)	2,016	2,019	2,023	1,784	1,815	1,861	#N/A	#N/A
<i>Berenberg +/- vs Cons</i>	+2%	-2%	-1%	+7%	+8%	+9%	#N/A	#N/A
Net Income* (€ m)	934	1,078	1,192	1,143	1,244	1,298	1,309	1,376
Consensus (Average)	909	1,069	1,183	1,027	1,056	1,127	#N/A	#N/A
<i>Berenberg +/- vs Cons</i>	+3%	+1%	+1%	+11%	+18%	+15%	#N/A	#N/A
EPS* (€)	0.28	0.31	0.34	0.33	0.36	0.37	0.37	0.39
Consensus (Average)	0.27	0.32	0.34	0.29	0.30	0.32	#N/A	#N/A
<i>Berenberg +/- vs Cons</i>	+2%	-3%	+1%	+11%	+18%	+17%	#N/A	#N/A
DPS (€)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Consensus (Average)	0.25	0.25	0.25	0.25	0.25	0.25	#N/A	#N/A
<i>Berenberg +/- vs Cons</i>	+0%	+0%	+0%	+0%	-1%	+0%	#N/A	#N/A

* Based on company's definition of metric

Source: Berenberg estimates, Bloomberg

Sensitivity analysis

The following table highlights Snam's key sensitivities.

Sensitivity analysis

Sensitivities	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA Sensitivity to								
+/- 10 % RAB Growth	10%	10%	10%	10%	10%	10%	10%	10%
+/- 1 % Transportation Allowed Returns	5%	5%	5%	5%	5%	5%	5%	5%
+/- 1 % Distribution Allowed Returns	2%	2%	2%	2%	2%	2%	2%	2%
+/- 1 % Storage Allowed Returns	1%	1%	1%	1%	1%	1%	1%	1%
Net Income Sensitivity to								
+/- 10 % RAB Growth	14%	13%	12%	12%	12%	12%	12%	12%
+/- 1 % Transportation Allowed Returns	10%	9%	8%	9%	8%	8%	8%	8%
+/- 1 % Distribution Allowed Returns	3%	3%	3%	3%	3%	3%	3%	3%
+/- 1 % Storage Allowed Returns	2%	2%	2%	2%	2%	2%	2%	2%

Source: Berenberg

Key assumptions

Key assumptions

Power Price Forecasts		2014A	2015E	2016E	2017E	2018E	2019E	2020E
Country	Unit							
UK (Local)	£/MWh	47.0	46.7	47.1	48.2	48.5	49.6	49.0
UK (EUR)	EUR/MWh	58.5	63.1	66.5	67.7	68.1	69.6	68.8
Germany	EUR/MWh	35.0	31.1	31.8	34.9	35.8	37.3	37.3
Nordic	EUR/MWh	33.1	29.2	25.1	30.3	31.3	32.8	32.8
Italy	EUR/MWh	52.9	53.8	48.1	48.1	52.2	52.2	52.2
Benelux	EUR/MWh	47.0	41.1	39.5	44.7	46.1	47.6	47.6
France	EUR/MWh	47.0	41.1	39.5	44.7	46.1	47.6	47.6
Spain/Portugal	EUR/MWh	47.0	44.9	49.8	7.2	8.7	10.2	10.2

Fuel Price Forecasts		2014A	2015E	2016E	2017E	2018E	2019E	2020E
Fuel	Unit							
Oil (Brent)	\$/bbl	101.9	55.4	51.2	56.2	56.2	56.2	56.2
Coal	\$/t	78.3	57.0	46.3	44.9	49.9	54.9	54.9
Gas (Europe LTC)	EUR/MWh	26.4	26.4	26.4	26.4	26.4	26.4	26.4
Gas (Italy)	EUR/MWh	23.2	23.3	23.3	23.3	23.3	23.3	23.3
Gas (UK) £	£/MWh	14.1	12.8	11.3	11.3	10.9	10.9	10.9
Carbon UK floor	£/t	14.3	20.0	22.0	24.0	26.0	28.0	28.7
US Gas Henry Hub	\$/MWh	14.7	11.1	9.0	9.8	10.0	10.2	10.6
Uranium	EUR/MWh	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Carbon	EUR/t	6.0	7.5	10.0	15.0	15.0	15.0	15.0

Year end currency rates	2014A	2015E	2016E	2017E	2018E	2019E	2020E
EURGBP	0.78	0.70	0.71	0.71	0.71	0.71	0.71
EURTRY	2.83	3.11	3.48	3.48	3.48	3.48	3.48
EURSEK	9.44	9.26	9.25	9.25	9.25	9.25	9.25
EURUSD	1.21	1.06	1.08	1.08	1.08	1.08	1.08
EURRUB	73.50	70.42	78.09	78.09	78.09	78.09	78.09
EURMXN	17.84	17.59	18.33	18.33	18.33	18.33	18.33
USDBRL	2.66	3.78	4.21	4.21	4.21	4.21	4.21

Inflation	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Central Europe	0.8%	0.2%	1.1%	1.6%	1.6%	1.6%	1.6%
Eastern Europe	5.7%	8.8%	5.8%	5.3%	5.3%	5.3%	5.3%
UK	1.5%	0.1%	1.5%	1.9%	1.9%	1.9%	1.9%
Nordic	0.4%	-0.1%	1.2%	1.6%	1.6%	1.6%	1.6%
Spain/Portugal	-0.2%	-0.1%	1.0%	1.5%	1.5%	1.5%	1.5%
US	1.6%	0.1%	1.9%	2.3%	2.3%	2.3%	2.3%

Source: Berenberg

Financials

Income statement

Income Statement (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	3,848	3,882	3,775	3,695	3,779	3,896	3,936	4,063
Reported EBITDA	2,803	2,776	2,860	2,782	2,862	2,975	3,019	3,145
Change	-0%	-1%	+3%	-3%	+3%	+4%	+1%	+4%
Margin	+73%	+72%	+76%	+75%	+76%	+76%	+77%	+77%
Depreciation	(769)	(803)	(860)	(880)	(906)	(939)	(963)	(988)
Other OPEX	26	-	-	-	-	-	-	-
Reported EBIT	2,060	1,973	2,000	1,902	1,956	2,036	2,056	2,157
Change	-2%	-4%	+1%	-5%	+3%	+4%	+1%	+5%
Margin	+54%	+51%	+53%	+51%	+52%	+52%	+52%	+53%
Net Financial Expenses	(472)	(397)	(378)	(366)	(349)	(360)	(377)	(395)
Tax	(690)	(509)	(555)	(526)	(501)	(523)	(524)	(550)
Other	36	11	125	132	138	145	155	165
Minorities	-	-	-	-	-	-	-	-
Reported Net Income	934	1,078	1,192	1,143	1,244	1,298	1,309	1,376
Change	-6%	+15%	+11%	-4%	+9%	+4%	+1%	+5%
Margin	+24%	+28%	+32%	+31%	+33%	+33%	+33%	+34%
Number of Shares	3,380	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Per Share:								
Basic EPS	0.27	0.35	0.34	0.33	0.36	0.37	0.37	0.39
Change	+18%	+31%	-4%	-4%	+9%	+4%	+1%	+5%
Reported EPS	0.28	0.31	0.34	0.33	0.36	0.37	0.37	0.39
Change	-6%	+11%	+11%	-4%	+9%	+4%	+1%	+5%
DPS	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Change	+0%	+0%	+0%	+0%	+0%	+0%	+0%	+0%
Payout	90%	81%	73%	77%	70%	67%	67%	64%

Source: Berenberg

Divisional split

Transportation (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	2,075	2,087	2,011	1,923	1,941	1,987	1,984	2,021
Change	+8%	+1%	-4%	-4%	+1%	+2%	-0%	+2%
% Group	+54%	+54%	+53%	+52%	+51%	+51%	+50%	+50%
EBITDA	1,701	1,679	1,691	1,606	1,628	1,678	1,679	1,716
Change	+7%	-1%	+1%	-5%	+1%	+3%	+0%	+2%
Margin	+82%	+80%	+84%	+84%	+84%	+84%	+85%	+85%
% Group	+61%	+60%	+59%	+58%	+57%	+56%	+56%	+55%
EBIT	1,228	1,196	1,167	1,070	1,076	1,106	1,101	1,132
Change	+8%	-3%	-2%	-8%	+1%	+3%	-0%	+3%
Margin	+59%	+57%	+58%	+56%	+55%	+56%	+55%	+56%
% Group	+60%	+61%	+58%	+56%	+55%	+54%	+54%	+52%

Distribution (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	1,038	1,053	1,114	1,105	1,151	1,207	1,251	1,321
Change	-28%	+1%	+6%	-1%	+4%	+5%	+4%	+6%
% Group	+27%	+27%	+30%	+30%	+30%	+31%	+32%	+33%
EBITDA	730	722	775	766	808	862	905	975
Change	-10%	-1%	+7%	-1%	+5%	+7%	+5%	+8%
Margin	+70%	+69%	+70%	+69%	+70%	+71%	+72%	+74%
% Group	+26%	+26%	+27%	+28%	+28%	+29%	+30%	+31%
EBIT	516	477	509	494	528	571	602	659
Change	-18%	-8%	+7%	-3%	+7%	+8%	+5%	+9%
Margin	+50%	+45%	+46%	+45%	+46%	+47%	+48%	+50%
% Group	+25%	+24%	+25%	+26%	+27%	+28%	+29%	+31%

Storage (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	489	541	459	475	491	501	500	519
Change	+22%	+11%	-15%	+4%	+3%	+2%	-0%	+4%
% Group	+13%	+14%	+12%	+13%	+13%	+13%	+13%	+13%
EBITDA	379	378	389	405	421	431	430	449
Change	+14%	-0%	+3%	+4%	+4%	+2%	-0%	+4%
Margin	+78%	+70%	+85%	+85%	+86%	+86%	+86%	+87%
% Group	+14%	+14%	+14%	+15%	+15%	+14%	+14%	+14%
EBIT	318	318	323	339	352	360	354	367
Change	+18%	+0%	+2%	+5%	+4%	+2%	-2%	+4%
Margin	+65%	+59%	+71%	+71%	+72%	+72%	+71%	+71%
% Group	+15%	+16%	+16%	+18%	+18%	+18%	+17%	+17%

Regasification (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	31	28	28	28	28	28	28	28
Change	-9%	-10%	+0%	+0%	+0%	+0%	+0%	+0%
% Group	+1%	+1%	+1%	+1%	+1%	+1%	+1%	+1%
EBITDA	10	5	5	5	5	5	5	5
Change	+0%	-50%	+0%	+0%	+0%	+0%	+0%	+0%
Margin	+32%	+18%	+18%	+18%	+18%	+18%	+18%	+18%
% Group	+0%	+0%	+0%	+0%	+0%	+0%	+0%	+0%
EBIT	5	-	(0)	(1)	(1)	(1)	(1)	(1)
Change	+0%	-100%	+0%	+28%	+29%	+29%	-1%	-1%
Margin	+16%	+0%	-1%	-2%	-2%	-3%	-3%	-3%
% Group	+0%	+0%	-0%	-0%	-0%	-0%	-0%	-0%

Source: Berenberg

Divisional split

Other* (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	(17)	(8)	-	-	-	-	-	-
<i>o/w Unallocated Cost Savings</i>	-	-	-	-	-	-	-	-
<i>o/w Unallocated Aqn / Disp</i>	-	-	-	-	-	-	-	-
<i>% Group</i>	-1%	-0%	+0%	+0%	+0%	+0%	+0%	+0%
EBIT	(7)	(18)	-	-	-	-	-	-
<i>o/w Unallocated Cost Savings</i>	-	-	-	-	-	-	-	-
<i>o/w Unallocated Aqn / Disp</i>	-	-	-	-	-	-	-	-
<i>% Group</i>	-0%	-1%	+0%	+0%	+0%	+0%	+0%	+0%

* Includes, if applicable, other group income/costs and unallocated cost savings, CAPEX returns and acquisitions and disposals

Source: Berenberg

Cash flow statement

Cash Flow (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Net Income	917	1,198	1,192	1,143	1,244	1,298	1,309	1,376
Depreciation	759	797	860	880	906	939	963	988
Working Capital	187	(88)	13	10	(10)	(14)	(5)	(15)
Other Operating Cash Flow	(24)	(378)	-	-	-	-	-	-
Operating Cash Flow	1,839	1,529	2,065	2,032	2,139	2,223	2,268	2,349
CAPEX	(1,290)	(1,313)	(1,390)	(1,560)	(1,535)	(1,566)	(1,899)	(1,968)
FCF (Post CAPEX)	549	216	675	473	604	658	368	381
Acquisitions and Disposals	(14)	(10)	-	-	-	-	-	-
FCF (p. CAPEX, Aq&D)	535	206	675	473	604	658	368	381
Other Investment Cash Flow	(486)	91	-	-	-	-	-	-
Dividends	(845)	(507)	(875)	(875)	(875)	(875)	(875)	(875)
FCF (p. CAPEX, Aq&D, Divs)	(796)	(210)	(200)	(402)	(270)	(217)	(507)	(494)
Buybacks and Equity Issuance	4	2	-	-	-	-	-	-
Borrowings	779	274	126	402	270	217	507	494
Other Financing, Disc and FX	-	6	-	-	-	-	-	-
Net Change in Group Cash	(13)	72	(74)	-	-	-	-	-

Source: Berenberg

Balance sheet statement

Balance Sheet (€m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Intangible Fixed Assets	4,710	5,076	5,076	5,076	5,076	5,076	5,076	5,076
PP&E	14,851	15,399	15,929	16,608	17,237	17,864	18,800	19,780
Other Non-Current Assets	1,557	1,955	1,955	1,955	1,955	1,955	1,955	1,955
Total Non-Current Assets	21,118	22,430	22,960	23,639	24,268	24,895	25,831	26,811
Inventories and Receivables	2,598	2,236	2,175	2,128	2,177	2,244	2,267	2,340
Cash	2	74	-	-	-	-	-	-
Other Liquid Assets	-	-	-	-	-	-	-	-
Other Current Assets	118	166	166	166	166	166	166	166
Assets Held for Sale	-	-	-	-	-	-	-	-
Total Current Assets	2,718	2,476	2,341	2,294	2,343	2,410	2,433	2,506
Total Assets	23,836	24,906	25,300	25,933	26,611	27,305	28,264	29,317
Short-Term Debt	(2,250)	(2,057)	(2,057)	(2,057)	(2,057)	(2,057)	(2,057)	(2,057)
Payables	(1,898)	(1,769)	(1,720)	(1,684)	(1,722)	(1,775)	(1,794)	(1,851)
Provisions	-	-	-	-	-	-	-	-
<i>o/w Nuclear Liabilities</i>	-	-	-	-	-	-	-	-
<i>o/w Pensions</i>	-	-	-	-	-	-	-	-
<i>o/w Other Provisions</i>	-	-	-	-	-	-	-	-
Other Current Liabilities	(230)	(72)	(72)	(72)	(72)	(72)	(72)	(72)
Liabilities of Businesses Held for Sale	-	-	-	-	-	-	-	-
Total Current Liabilities	(4,378)	(3,898)	(3,849)	(3,813)	(3,851)	(3,904)	(3,923)	(3,980)
Long-Term Debt	(11,078)	(11,885)	(12,011)	(12,413)	(12,683)	(12,900)	(13,407)	(13,901)
Provisions	(961)	(1,155)	(1,155)	(1,155)	(1,155)	(1,155)	(1,155)	(1,155)
<i>o/w Nuclear Liabilities</i>	-	-	-	-	-	-	-	-
<i>o/w Pensions</i>	-	-	-	-	-	-	-	-
<i>o/w Other Provisions</i>	(961)	(1,155)	(1,155)	(1,155)	(1,155)	(1,155)	(1,155)	(1,155)
Other Non-Current Liabilities	(1,425)	(796)	(796)	(796)	(796)	(796)	(796)	(796)
Total Non-Current Liabilities	(13,464)	(13,836)	(13,962)	(14,364)	(14,634)	(14,851)	(15,358)	(15,852)
Shareholders' Equity	(5,994)	(5,994)	(7,488)	(7,756)	(8,125)	(8,548)	(8,983)	(9,484)
Minorities	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Total Equity	(5,994)	(7,172)	(7,489)	(7,757)	(8,126)	(8,549)	(8,984)	(9,485)
Total Liabilities and Equity	(23,836)	(24,906)	(25,300)	(25,933)	(26,611)	(27,305)	(28,264)	(29,317)
Net Debt (As Reported)	13,326	13,652	13,718	14,220	14,490	14,707	15,214	15,708
Economic Net Debt	13,326	13,652	13,718	14,220	14,490	14,707	15,214	15,708
Net Debt / EBITDA (As Reported)	4.8	4.9	4.8	5.1	5.1	4.9	5.0	5.0
Economic Net Debt / EBITDA	4.8	4.9	4.8	5.1	5.1	4.9	5.0	5.0

Source: Berenberg

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Date	Price target - EUR	Rating	Initiation of coverage
<u>10 November 15</u>	<u>5.00</u>	<u>Hold</u>	<u>19 July 11</u>

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

Date	Price target - EUR	Rating	Initiation of coverage
<u>08 December 14</u>	<u>83.90</u>	<u>Buy</u>	<u>08 December 14</u>

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