

# Utilities/Energy



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## Energy/Utilities Universe:

- EDP
- Endesa
- Vestas
- GALP
- Royal Dutch Shell

## This month's detailed company review:

- Royal Dutch Shell



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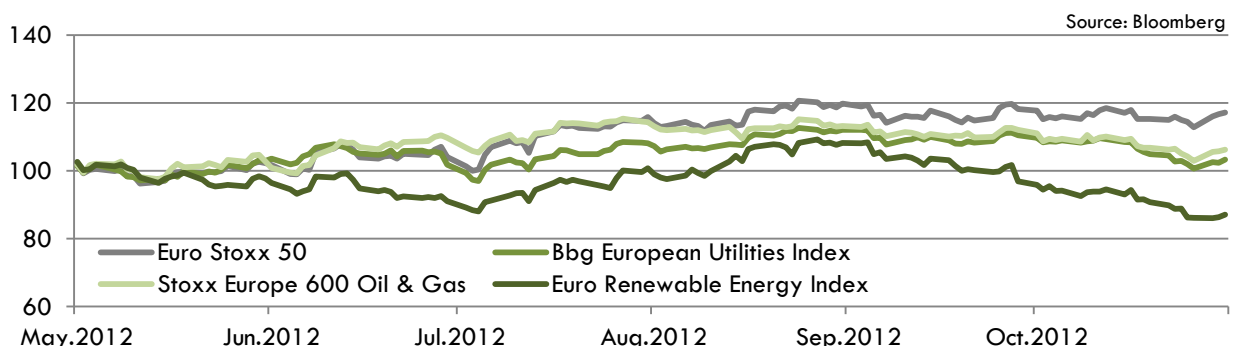
## 1. Sector Overview

- Our selection of industry indexes is based on the Stoxx Europe 600 O&G (SXEP), the Bloomberg European Utilities Index (BEUTIL) and the European Renewable Energy Index (ERIX). During November, the Euro Stoxx gained 3.1%, while all sector indexes underperformed. Renewables suffered the most with a 5.4% drop in the ERIX, while the BEUTIL decreased by 4.1% and Oil & Gas stocks dropped 1.5%.
- Renewable energy is reported to rival coal as the main electricity generator by 2035. Main reasons are falling technology costs as well as increasing subsidies. Global renewable energy subsidies are expected to rise to USD 240 billion in 2035 from USD 88 billion in 2011 (versus USD 523 billion paid for fossil fuels last year).
- The British government announced changes in energy regulation in order to encourage development of renewable energy and nuclear power. The changes will gradually quadruple the charges levied on consumers and businesses to a total of about GBP 9.8 billion in FY2020-21 from currently GBP 2.35 billion.
- In France, electricity transport and distribution grids plan to spend EUR 21 billion in the next four years on improving and expanding networks, potentially pushing up power prices. The investment plans are contained in the regulator's evaluation of tariff increases required by the network operators to operate and maintain infrastructure.

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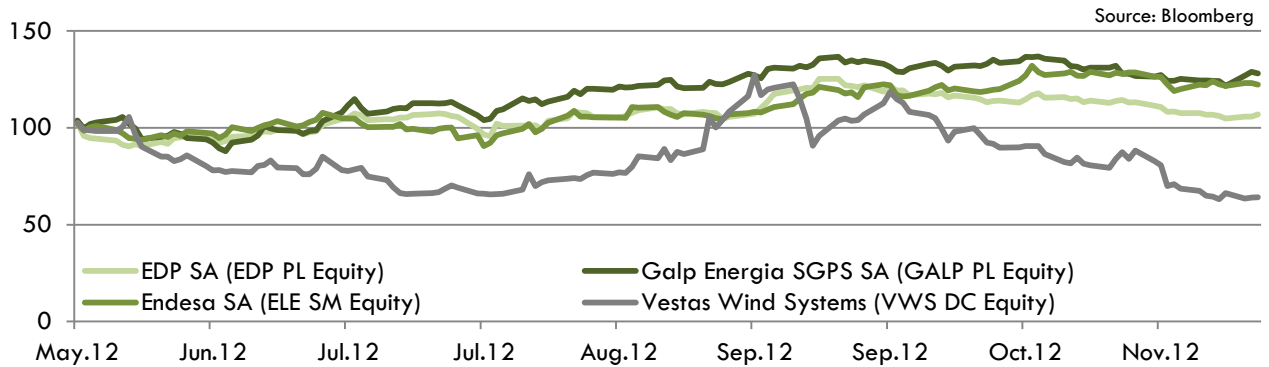
## Energy/Utilities Sector vs. Overall market



- The Renewable Energy Index was the one performing poorest over the six months under analysis. The top performer was the Euro Stoxx, closely followed by the Oil & Gas Index.

## 2. Universe News

### Share price over the last 6-month



Similarly to the Renewable Energy Index, Vestas was the stock with the worst performance, among the four companies under analysis.

#### EDP (Ticker: EDP)

- EDP acquires a portfolio of solar and wind projects in Romania, reinforcing its presence in the country.
- EDP Renewables (EDP's renewable division) agreed to sell 49% stake in US windfarms for USD 230 million.
- EDP's nine-month EBITDA decreased by 1.2%; mainly due to a shrinkage of Brazil's business unit contribution by 28%.

Price (EUR):	↑ 1.95
Target price (EUR):	2.49
Up/downside:	27.69%
Performance 3M:	4.30%
P/E Ratio:	6.53x
ROC/WACC:	0.88x

#### Endesa (Ticker: ELE)

- Endesa's third quarter results disappointed, as profits fell by 44%, mainly explained by a drop in prices in both Argentina and Chile. Net income registered the value of 64.9 billion pesos, slightly below the analysts estimates of 79.6 billion pesos. In the first nine months of this year, average power prices in Chile and Argentina decreased by 14.6% and 15.9%, respectively.

Price (EUR):	↑ 15.78
Target price (EUR):	19.1
Up/downside:	21.08%
Performance 3M:	19.90%
P/E Ratio:	8.81x
ROC/WACC:	0.94x

#### Vestas (Ticker: VWS)

- Vestas expects to keep more than 50% of the Australian wind energy market, even with increasing competition. This relies on the forecast that Australia will increase its power consumption in the coming years.
- Vestas signed an agreement to sell a wind project in Chile to Enel (Italian multinational wind energy company).

Price (DKK):	↑ 26.05
Target price (DKK):	32.95
Up/downside:	26.49%
Performance 3M:	-37.50%
P/E Ratio:	NA
ROC/WACC:	-0.02x

#### GALP (Ticker: GALP)

- GALP third quarter results show an increase in profit of 58%, driven by its increasing business in Brazil, that managed to overcome the falling production verified in Angola. Though very good, results still lagged behind the EUR 103.9 million forecasted by analysts. This profit increase was possible, even with a 4.5% decrease in the average selling price.

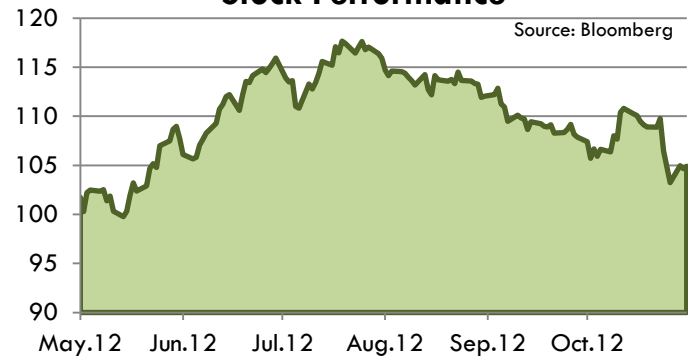
Price (EUR):	↑ 12.40
Target price (EUR):	15.98
Up/downside:	28.87%
Performance 3M:	23.40%
P/E Ratio:	26.96x
ROC/WACC:	0.33x

### 3. Stock Analysis

#### Royal Dutch Shell PLC

- Currently, analysts estimate a 12-months target price of EUR 30.78 for Royal Dutch Shell implying a premium of 19.44% over the current stock price.
- During November, Egyptian General Petroleum awarded 11 onshore oil blocks in a licensing round of which RDS won rights on three blocks; furthermore, the company sold 30% in its stake in the 3,600-square-mile lease in the Niger Delta to Shoreline Natural Resources Ltd. for USD 567 million.
- Royal Dutch Shell expects to invest more than USD 20 billion in natural gas projects through 2015 as its profit from extracting, processing and selling the fuels soars; the company's integrated-gas earnings more than tripled within the last five years, reaching USD 9 billion over the last year.
- The company also announced that its shale gas project in China would require billions of dollars in investments from 2014 before it can supply the domestic market; the company plans to take a final investment decision by the end of next year after carrying out exploration work at the Fushun-Yongchuan block in the Sichuan basin; China is assumed to hold 1,275 trillion cubic feet of technically recoverable gas (approx. 50% more than the US).

#### Stock Performance



■ Royal Dutch Shell (RDSA NA Equity)

Royal Dutch Shell PLC	
Current Price (25/11/2012)	€25.77
Median Target Price	€30.78
Market Capitalisation	€166,164.81
Return on Common Equity	15.17%
Dividend Yield	5.12%
Beta	0.81
Total Debt/Equity	19.78%
Relative Stock Price Performance	
RDSA NA EQUITY YTD	-8.45%
AEX Index YTD	6.1%

Source: Bloomberg

- Shell shows negative return so far this year; while the Dutch stock market index has performed much better, showing contrasting positive results.

#### Comparables Analysis

Company	in EUR bn		EV /Sales		EV / EBITDA		Price / Earnings		EBITDA margin
	Equity Value	EV	LTM	2013E	LTM	2013E	LTM	2013E	
Royal Dutch Shell	166,2	234,5	0,51x	0,50x	4,5x	3,9x	7,9x	8,0x	11,2%
BP	83,0	166,7	0,45x	0,47x	5,4x	4,3x	12,7x	7,4x	8,3%
Total	91,3	109,3	0,58x	0,58x	3,2x	3,2x	8,2x	7,1x	18,7%
Exxon Mobil	406,2	411,2	0,99x	0,90x	6,3x	4,7x	11,3x	11,2x	15,2%
Chevron	206,4	198,5	0,98x	0,81x	4,1x	3,5x	9,0x	8,5x	21,6%
Petrobras	254,9	390,1	1,57x	1,40x	7,2x	6,3x	-	9,9x	19,9%
Average			0,83x	0,76x	4,7x	4,1x	9,2x	9,0x	16,2%
<b>MEDIAN</b>			<b>0,67x</b>	<b>0,71x</b>	<b>4,4x</b>	<b>3,9x</b>	<b>8,6x</b>	<b>8,6x</b>	<b>16,6%</b>

**BUY**

- Due to the rapid growth of the energy sector in Asia and Shell's strong presence in China and other Asian countries, we would recommend to buy Shell's shares, given an up-side potential of almost 20%.

Source: Bloomberg, Thomson Reuters