

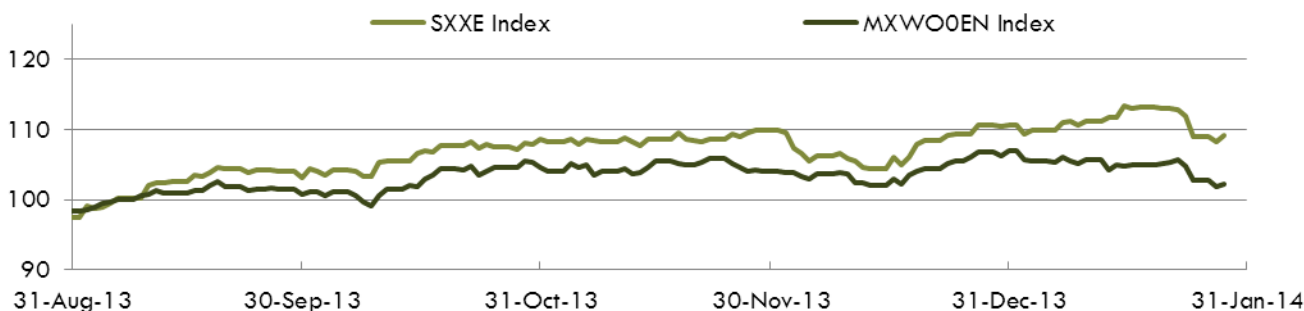
Energy

Sector Review – January 2014

1. Sector Overview

- Shale gas promises to be a hot topic in 2014, as it gains importance as the main source of the US' energy cost reduction. As the US increase the amount of shale gas weight in the total gas consumption, there is speculation about a near future EU investment on the sector, in order to rebalance natural gas' price competitiveness.
- The European Commission proposed a 40% reduction of carbon emissions until 2030, based on 1990 emission levels, with distinct targets to be met by all member states. The Commission has been criticized for not setting goals regarding renewable energies, which can deter much needed investments to reduce the cost of such technologies. However, pressing for usage of renewable energy sources at this point has raised competitiveness concerns in the EU.
- Strain over the export of Kurdistan's crude between the regional government and the Iraqi central government has led to a delay on the promised large scale export of crude by this Iraqi province. Kurdistan has some of the world's largest oil reserves and, since the Iraqi war, as led its own oil extraction program. The oil majors are reluctant to buy the ready-to-deliver oil, as they do not wish to hinder their relationship with Iraq's central government.
- The International Energy Agency reports an increase in US and European oil demand in 2013, with the American growth rate surpassing China's for the first time in more than a decade. The IEA estimates for 2014 reveal a growth of global estimated oil demand, associated to a Brent crude oil price increase close to 1%, to over 107\$ a barrel.

Energy Sector vs. Overall market



- The Euro Stoxx Index (SXXE) has clearly outperformed the Morgan Stanley Capital International Index for World Energy (MXWOEN). Although following a similar trend, the SXXE reveals a higher growth rate than the MXWOEN, with the gap apparently increasing in January 2014. Hence, the energy sector's performance has been worse than the overall market, a trend that apparently will be maintained in 2014.

Energy Universe:

- EDP
- GALP
- Vestas
- BP
- EDF

This month's detailed company review:

- EDF



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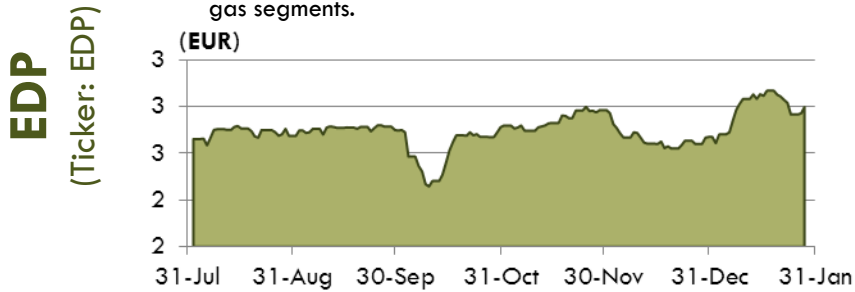
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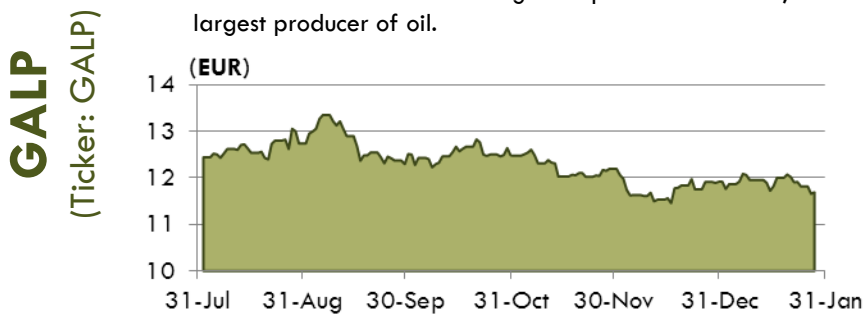
2. Followed Companies

- By the end of January, Standard&Poor's reviewed EDP's rating from "negative" to "stable", an encouraging sign for the markets. The firm also reinforced its stake in Hidroeléctrica Del Cantábrico, a Spanish electricity producer and distributor, which has extended its business to renewable and natural gas segments.



Price (EUR):	→	2,80
Target Price (EUR):		2,85
Up/downside:		1,9%
Performance 3M:		4,8%
P/E Ratio:		10,3x
ROC/WACC:		0,5x

- GALP's disappointing third quarter results were compensated by an increased production and sale in the final months of 2013, which allows for a more optimistic expectation of the fourth quarterly results of 2013. The firm continues to gain importance in Brazil, where it was announced in January to be the 7th largest producer of oil.



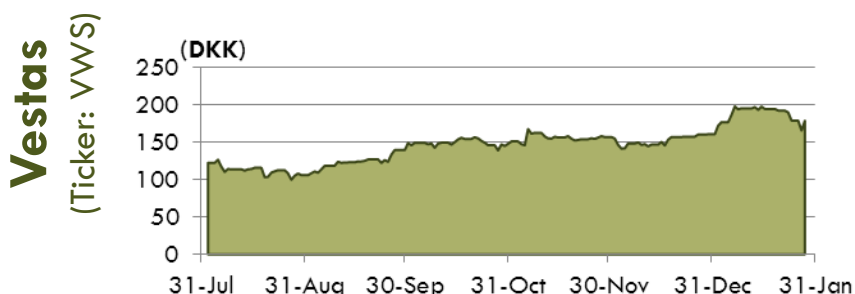
Price (EUR):	↑	11,69
Target Price (EUR):		15,90
Up/downside:		36,0%
Performance 3M:		-6,2%
P/E Ratio:		58,8x
ROC/WACC:		0,2x

- BP proceeds with the plan to sell an additional USD 10 billion assets by the end of 2015, accompanying the decision with a spending contraction. These might be indications that the company is proceeding with a divestment strategy, set in motion particularly after the Deepwater Horizon disaster, in 2010.



Price (GBP):	↑	476,90
Target Price (GBP):		505,00
Up/downside:		5,9%
Performance 3M:		5,5%
P/E Ratio:		6,3x
ROC/WACC:		0,4x

- After the reduction of revenue of almost 30% announced in the end of 2013, Vestas launched the prototype of the most powerful wind turbine produced, a clear effort of innovation in the renewable sector. The serial production of these state-of-the-art turbines might begin in 2015.



Price (DKK):	→	138.60
Target Price (DKK):		142.50
Up/downside:		2.8%
Performance 3M:		28.8%
P/E Ratio:		N/A
ROC/WACC:		-2.0x

3. Stock Analysis: EDF

Corporate News

EDF became the first European firm to issue 100-Y bonds in more than three years, following GDF Suez (in early 2011). Such centenary issue of USD 2.2B of notes yielding at 6 1/8, added to the issue of USD 700M of bonds with the same maturity, made Electricité de France SA cap a USD 12.4B global fundraising this January. EDF took advantage of current market conditions, upon which new credit has become exceptionally cheap.

Cielo's large wind project "The Spinning Spur III" in Texas has been acquired by EDF, adding an additional 194MW of power to the firm's production capacity. The new wind power plant is expected to be operational by the end of next year, although the terms of such deal were not disclosed yet. The company's overall power production in Texas is predicted to overcome the 1GW target by 2015.

EDF announced for the first time its intentions to expand power production to the bordering state of New Mexico. From Infinity Wind Power Inc., the firm is acquiring "Roosevelt Wind Project" located 30 km SW of Portales. The 300MW wind farm will be a valuable addition to the growing army of French-owned power plants in American soil.

Market Performance

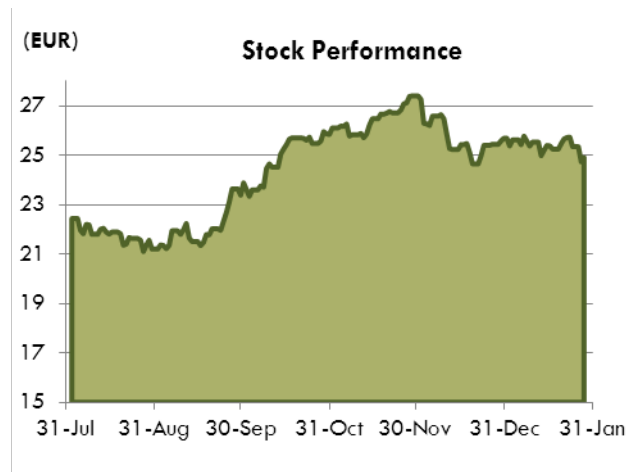
The stock kept its performance fairly stable throughout this January, oscillating close to the 25 figure. The same pattern had already been observed in December's report, which was a clear deceleration from the stock's Autumn growth.

Currently, EDF trades at EUR 24.90, slightly below the 1Y target price. If the analysts' consensus is to be verified, we should expect a 4.66% rise in the price of the stock by the end of the year.

Valuation Summary

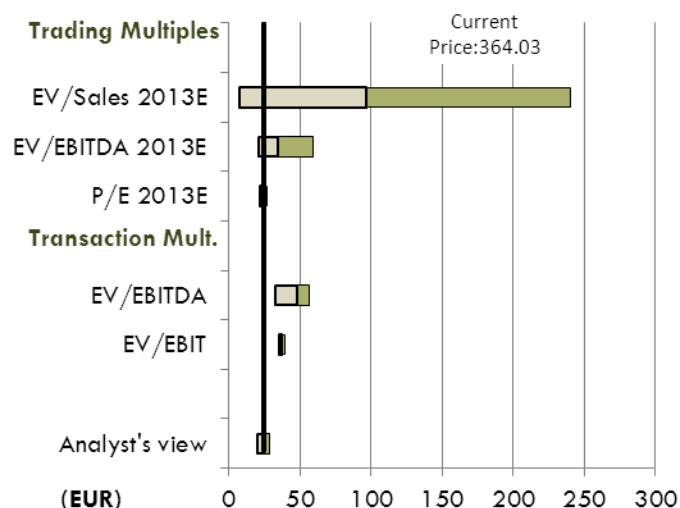
All the multiples under analysis are suggesting a slight undervaluation of the stock, given its lower multiples in relation to its peers.

Such undervaluation is clearer under the transaction multiples scope, where EDF stands below the 25th percentile.



EDF (EUR)	
Current Price (28/01/2014)	24,90
52-week high % change	-9,7%
Median Target Price	26,06
Market Capitalisation (mn)	46.018
Return on Common Equity	10,9%
Dividend Yield	5,0%
Beta (vs. CAC)	1,0x
Total Debt/Equity	210,0%

Valuation Summary (Price per Share)



Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E			
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E	
EDF	EUR	46.018	84.601	0,9x	1,1x	1,1x	5,6x	5,1x	4,9x	12,5x	13,4x	12,2x	
Red Electrica Corporation	EUR	7.068	12.568	#N/A	N/	7,1x	6,9x	9,5x	9,7x	9,4x	27,7x	13,9x	13,8x
Terna	EUR	7.256	14.073	7,4x	7,5x	7,5x	9,5x	9,7x	9,6x	14,0x	14,6x	14,6x	
RWE AG	EUR	16.267	32.354	0,6x	0,6x	0,6x	3,0x	3,7x	4,2x	11,6x	6,9x	11,4x	
Royal Dutch Shell	EUR	167.603	252.770	0,5x	0,6x	0,6x	5,0x	4,7x	4,3x	11,8x	11,1x	9,6x	
RENE	EUR	1.341	3.911	6,5x	4,8x	4,7x	7,7x	7,6x	7,8x	11,6x	11,1x	11,3x	
75th Percentile				6,5x	6,5x	6,4x	9,1x	9,2x	9,0x	13,6x	13,7x	13,4x	
Median				0,9x	3,0x	2,9x	6,6x	6,4x	6,3x	12,1x	12,3x	11,8x	
25th Percentile				0,6x	0,7x	0,7x	5,2x	4,8x	4,4x	11,7x	11,1x	11,3x	

- In terms of comparable listed companies, EDF appears to be slightly undervalued, as the company trades 5.1x EV/EBITDA (2013E), lower than the 6.4x median – in consistency with the trading and transactional multiples analyzed before. However, the P/E ratio is telling us a different story, as EDF is trading at faintly higher prices than its peers in terms of its earnings, never reaching the 75th percentile, though.
- The most comparable company in terms of EV is Red Electrica Corporation (REE), the partially state-owned Spanish firm that controls a substantial portion of the national electric grid. REE is trading at a EV/Sales 2013E of 7.1x, therefore highly above EDF's 1.1x. The fact that all Sales multiples are lower than the industry median might indicate that REE is undervalued, while P/E ratios indicate a close-to-median figure.

Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
31-Oct-13	Alliance Oil Co Ltd	SS	Alliance Group OJSC	UZ	2162,05	5,5x	7,9x
22-Oct-12	Rosneft OAO	RU	BP PLC	GB	3674,00	4,5x	7,0x
30-May-12	Snam SpA	IM	Cassa Depositi e Prestiti SpA	IM	3517,00	4,4x	5,9x
17-Oct-11	Brigham Exploration Co	US	Statoil ASA	NO	3296,47	14,3x	20,5x
04-Aug-11	EDF Energies Nouvelles SA	FP	Electricite de France SA	FP	5491,23	15,3x	22,9x
07-Feb-11	Pride International Inc	US	Enesco PLC	US	6248,73	18,4x	30,7x
24-Jun-09	Addax Petroleum Corp	CN	China Petrochemical Corp	CH	6311,65	3,2x	4,1x
75th Percentile						15,0x	22,3x
Median						9,9x	14,2x
25th Percentile						4,7x	7,2x

- When looking at various precedent transactions in the sector over the last five years, the most popular one was the transaction between BP and Rosneft in late 2012; the Russian integrated Oil&Gas giant was valued at an EV/EBITDA of 4.5x and EV/EBIT of 7.0x.;
- Another interesting transaction occurred between Eni and Cassa Depositi e Prestiti. A 30% stake in Snam, the Italian natural-gas distributor, was sold by the energy giant in Italy to a national state bank. The valuation of 4.4x EV/EBITDA and 5.9x EV/EBIT were both below the market, where transactions occurred at a median 9.9x EV/EBITDA and the median EV/EBIT being 14.2x.