

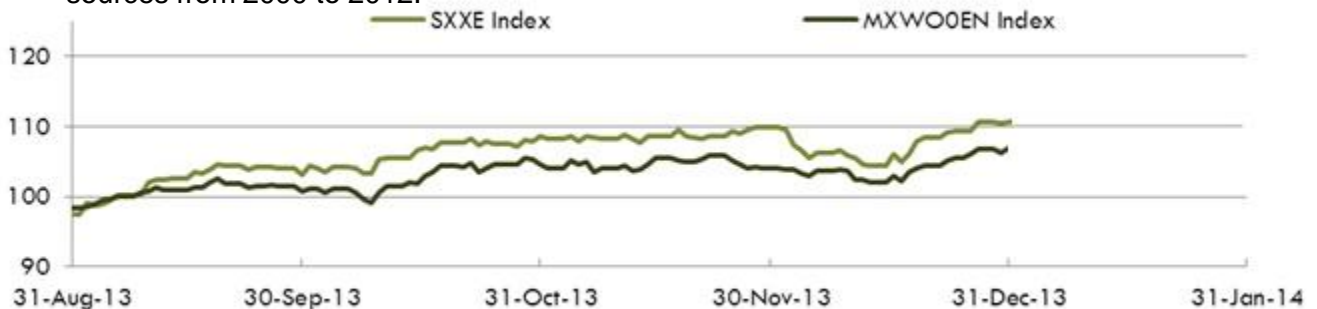
Energy

Sector Review – November & December

1. Sector Overview

- The Portuguese energy sector has been shaken by news on the Government's creation of a special tax over energy firms operating in the country. The surtax will reduce profit on the impacted companies, an expected decrease of a EUR 45 million magnitude on EDP's profit, for instance.
- Global oil supply has increased in November, in spite of a reduction of OPEC crude supply. The non-OPEC countries gained ground as disruptions in Libya and also in Nigeria, Kuwait and UAE offset the increased supply from Iran, Iraq and Angola. The South Sudanese instability remains as a source of strain in the heart of Africa, jeopardizing the neighboring countries' oil exploit. In December, the increase on OPEC crude oil supply reversed the four months' reduction registered, although the supplied amount in December was still lower than in December 2012. Saudi Arabia led the increase, also with Libya and UAE seeing a gain.
- Asset sales on the Oil&Gas sector continues, with a total of USD 135 billion worth of assets available to sale in the third quarter of the year, USD 8 billion more than in the corresponding period of 2012. As larger companies sell non-core assets, as set by restructuring plans and are not as available to buy, deals have taken longer to be closed than in previous periods.
- Research by the US Department of Energy released in November, details the positive evolution of renewable energies' weight on global energy supply, pointing out the doubling of installed capacity of renewable energy sources from 2000 to 2012.

Energy Sector vs. Overall market



- The Morgan Stanley Capital International for Europe Energy (MXWO0EN) has consistently been unsuccessful in achieving the same growth as the Euro Stoxx Index. While Euro Stoxx had a 10,4% growth rate from July to December 2013, MSCI Europe Energy grew only 7.38%. The SXXE Index displayed a clear upward trend since late August 2013, when the gap between the two indexes became increasingly clearer.



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Energy Universe:

- EDP
- GALP
- Vestas
- Endesa
- EDF

This month's detailed company review:



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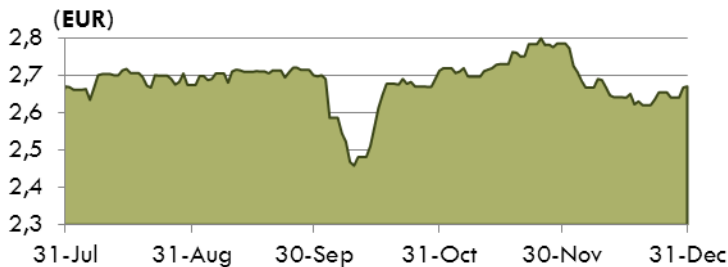
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2. Universe News
3. Detailed review: GALP

2. Followed Companies

EDP

(Ticker: EDP PL)

- EDP's focus on Brazil was maintained, with the firm investing in further renewable projects in this country. In addition to the Rio Grande do Norte wind farm project, EDP secured a hydro plant project in the Teles Pires river, with a future capacity of 700 MW.

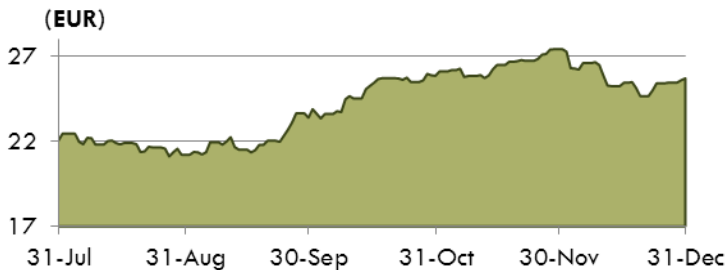


Price (EUR):	↑	2,67
Target Price (EUR):		2,85
Up/ downside:		6,7%
Performance 3M:		-1,0%
P/ E Ratio:		10,3x
ROC/ WACC:		0,5x

EDF

(Ticker: EDF FP)

- Most headlines this November regarding EDF focused on the historical decision by the British government to allow EDF to build the first nuclear plant in British soil since 1995. The new plant will require a 26M€ investment and will generate 25.000 new jobs. The stock decelerated from its Autumn growth, readjusting its price almost two figures by year-end.

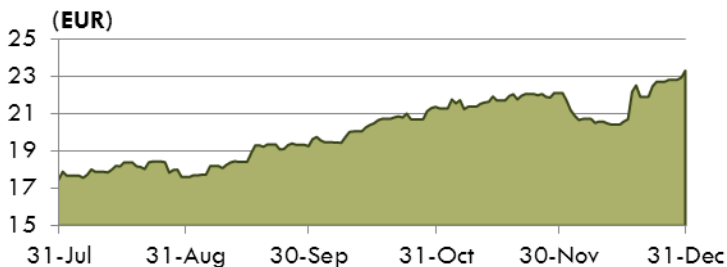


Price (EUR):	→	25,69
Target Price (EUR):		26,00
Up/ downside:		1,2%
Performance 3M:		7,6%
P/ E Ratio:		13,4x
ROC/ WACC:		0,5x

Endesa

(Ticker: ELE SM)

- The Spanish company has witnessed a recovery of its stock price during the second half of 2013, having surpassed the targeted price in December. Endesa's performance is expected to improve in 2014, after disappointing 3Q earnings - result of consumption slowdown and regulatory measures in Iberia



Price (EUR):	→	23,30
Target Price (EUR):		22,60
Up/ downside:		-3,0%
Performance 3M:		18,7%
P/ E Ratio:		12,1x
ROC/ WACC:		0,7x

Vestas

(Ticker: VWS DC)

- Vestas has continued its path on the planned restructuring, having managed to get significant orders in the analyzed period, namely in the USA and in France. The earnings announcement for the third quarter revealed an improve on the EBIT, in spite of an almost 30% lower revenue.



Price (DKK):	↑	160,20
Target Price (DKK):		190,00
Up/ downside:		18,6%
Performance 3M:		7,9%
P/ E Ratio:		#N/ A N/
ROC/ WACC:		-1,8x

3. Stock Analysis: GALP

Corporate News

- GALP's activity throughout 2013 focused especially on Brazil and Angola, where it is involved in the Lula and Tômbua-Lândana projects, having as partners Petrobras, BG Group, Chevron, Sonangol, Total and Eni. GALP holds a 9% stake in the Tômbua-Lândana oil field, one of the most ambitious engineering projects ever.

- ENI has announced a further EUR 10 billion asset disposal program, which includes a second sale of a stake in GALP. The sale might influence future governance in the company, which registered a disappointing Net Income result in the third quarter of 2013, as a result of reduced profitability on refining.

Market Performance

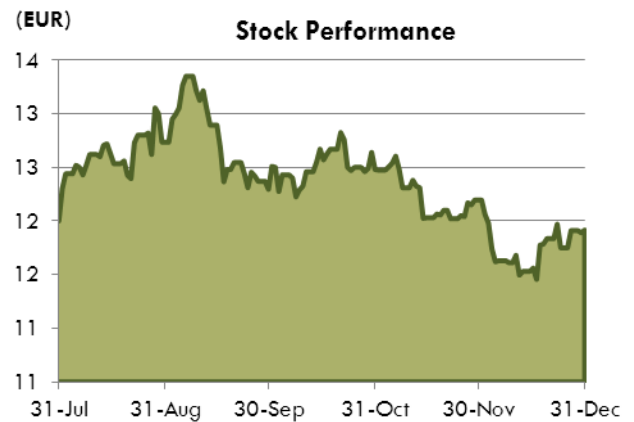
- In November, GALP was able to sell EUR 500 million worth of corporate bonds, maturing in 2019. The firm was able to finance itself at lower yields than those required on Portuguese government bonds, which might reveal investors willingness to look beyond sovereign debt issues in Portugal.

- The stock has been keeping a cautious downward trend, falling by three figures since late summer 2013 to just under the EUR 12 level.

Valuation Summary

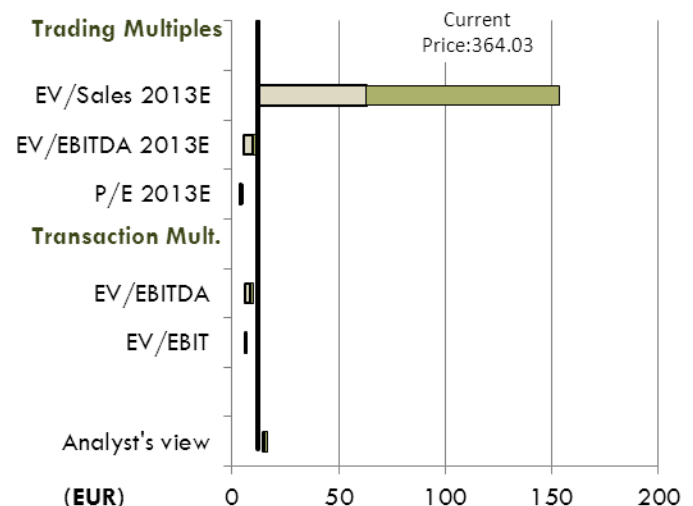
- The most prominent analysis to be made is the clear undervaluation of the stock when looking at the 2013E EV/Sales multiple. The remaining ratios suggest GALP is a fairly overvalued stock, trading at slightly higher multiples than its peers.

- Analysts' expectations suggest a target price of EUR 15.89 well above the current 11.92. In case expectations are met, we can expect a 33,3% upside potential in GALP's stock by the end of 2014.



GALP (EUR)	
Current Price (31/ 12/ 2013)	11,92
52-week high % change	-11,1%
Median Target Price	15,89
Market Capitalisation (mn)	9.756
Return on Common Equity	2,9%
Dividend Yield	2,2%
Beta (vs CAC)	0,7x
Total Debt/ Equity	53,4%

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
GALP	EUR	9.756	13.228	0,7x	0,7x	0,6x	15,0x	11,7x	9,8x	76,6x	33,3x	26,4x
BP	GBP	88.218	167.291	0,4x	0,5x	0,5x	7,0x	4,5x	4,2x	13,7x	10,8x	9,3x
Terna	EUR	7.256	14.073	7,4x	7,5x	7,5x	9,5x	9,7x	9,6x	14,0x	14,6x	14,6x
Exxon Mobil	USD	417.564	439.780	1,0x	1,0x	1,0x	7,4x	5,7x	5,5x	12,8x	12,9x	12,2x
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
Endesa	EUR	23.255	30.540	0,9x	0,9x	0,9x	4,4x	4,6x	4,8x	11,8x	13,2x	13,5x
75th Percentile				1,0x	1,0x	1,0x	9,0x	8,7x	8,6x	13,9x	14,3x	14,3x
Median				0,8x	0,8x	0,8x	7,2x	5,2x	5,1x	13,2x	13,1x	12,8x
25th Percentile				0,6x	0,6x	0,6x	5,5x	4,7x	4,4x	12,1x	11,6x	10,2x

- In terms of comparable listed companies, GALP appears to be overvalued, as the company trades at 11.7x EV/EBITDA and 33.3x P/E for 2013E, contrasting with the industry peers, which are trading at a median 2013E EV/EBITDA and P/E of 5.2x and 13.1x, respectively.
- The most comparable company in terms of market capitalization is Terna (TRN), the Italian firm that controls a substantial portion of the national electric supply. Terna is trading at a EV/Sales 2013E of 7.5x, therefore above GALP, and at 2013E EV/EBITDA and P/E of 9.7x and 14.6x, respectively, below GALP's figures. The fact that all multiples are higher than the industry median might indicate that Terna is also overvalued.

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	Bedricite de France SA	FP	5491,23	15,3x	22,9x
07-Feb-11	Pride International Inc	US	Enso 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.