

# Energy

## Sector Review – February 2014

### 1. Sector Overview

- Oil output in early 2014 was higher than in the corresponding period of 2013, although global supply by non-OPEC countries has decreased. Overall, supply decreased in January 2014 by 290.000 barrels per day, to a total of 92 million barrels a day. Crude oil producers from OPEC countries have marginally increased supply, with a downturn in supply from Iraq was partially compensated by increased supply from Lybia. Non-OPEC countries supply growth estimates for 2014 remain steady at 1.7 million barrels per day.
- Russia has been undertaking an ambitious electricity reform, namely by privatizing generation infrastructure and by creating a wholesale spot market for electricity in some key regions. Regulatory institutions have also been strengthened, aiming at placing the energy sector as a central industry for future growth. However, the IEA considers, the Russian government still owns a significant portfolio of assets, which limits the creation of a larger number of competitors, which would be desirable in order to boost efficiency. Ukraine's instability has caused significant impact on Russian energy firm, such as Rosneft, which raises concerns.
- EU's plans of implementing binding renewable energy objectives up to 2030 have been accepted by the UK, after this country lobbied against it for long, while supporting an alternative ambitious greenhouse gas emission reduction, given the EU's acceptance of not passing this objective onto in individual countries. This move, its opponents say, might shift focus from energy efficiency targets to a renewable hype, which might not be optimal in terms of cost and pollution efficiency.



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#### Energy Universe:

- EDP
- GALP
- Vestas
- BP
- Endesa

#### This month's detailed company review:

- BP



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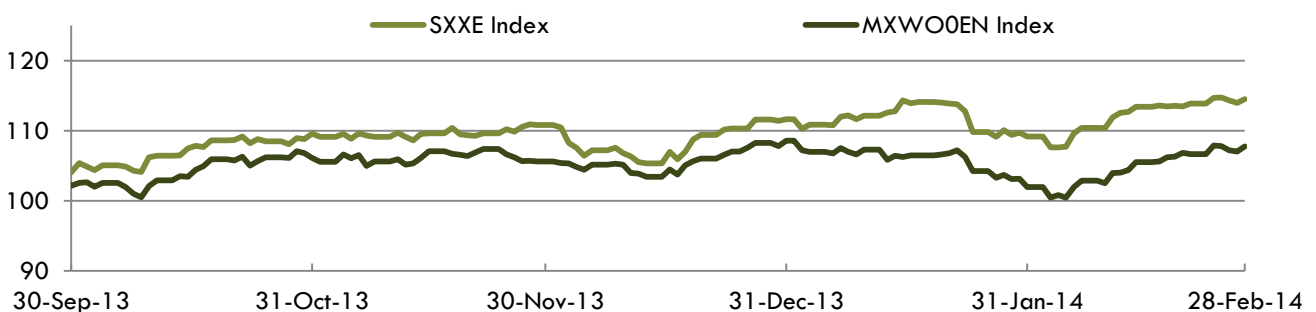
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### Energy Sector vs. Overall market



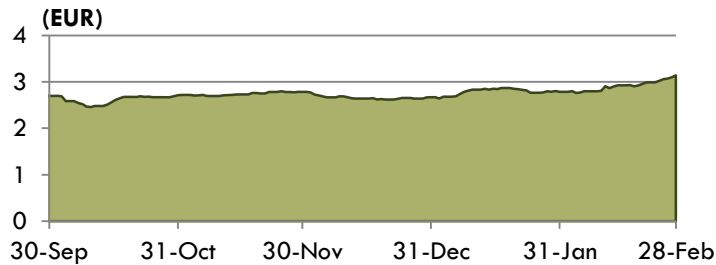
- The Euro Stoxx Index (SXXE) has clearly continued to outperform the Morgan Stanley Capital International Index for World Energy (MXWOEN). Although following a similar trend, the SXXE reveals a higher growth rate than the MXWOEN, with the gap apparently increasing in January 2014, a trend maintained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

Source: Bloomberg; Reuters (as of 28.02.2014)

## 2. Followed Companies

- Iberdrola, the Spanish energy giant, has decreased its stake on EDP by selling 160.000 shares, corresponding to 0.004% of EDP's share capital. The sale was not expected to impact significantly EDP's share price, as it in fact did not, and follows sales carried out by the firm since December 2013. Iberdrola currently holds 4.996% of EDP's shares and voting power.

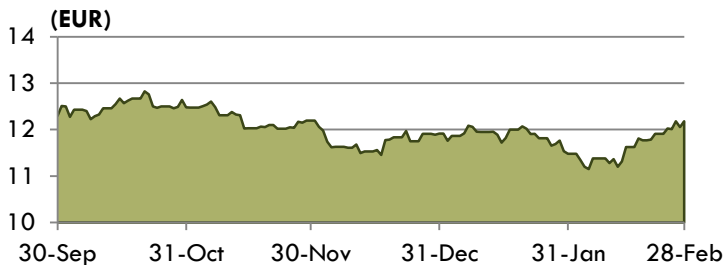
**EDP**  
(Ticker: EDP)



Price (EUR):	→	3.14
Target Price (EUR):		3.03
Up/downside:		-3.7%
Performance 3M:		13.2%
P/E Ratio:		12.1x
ROC/WACC:		0.5x

- The Portuguese company has beaten analyst expectations with a 92 EUR million 2013's fourth quarter earnings, a 10% increase in profit in comparison to 2012's. This positive result is a consequence of increasing refining margins, higher oil output and refining volumes, namely due to a new diesel production unit in Sines and the success of Brazilian operations.

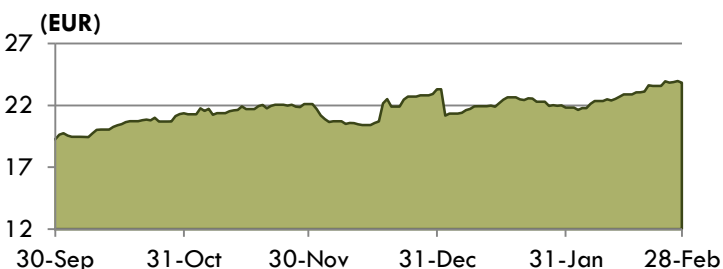
**GALP**  
(Ticker: GALP)



Price (EUR):	↑	12.18
Target Price (EUR):		15.00
Up/downside:		23.2%
Performance 3M:		0.2%
P/E Ratio:		50.5x
ROC/WACC:		0.2x

- With a 1.879 EUR million profit in 2013, the Spanish firm has registered a decrease of 8% in comparison with the 2012 results. The negative performance was mostly a result of Spain's slowing demand and the impact of the energetic reforms - namely in terms of pricing and taxes on energy producers - undertaken by the government.

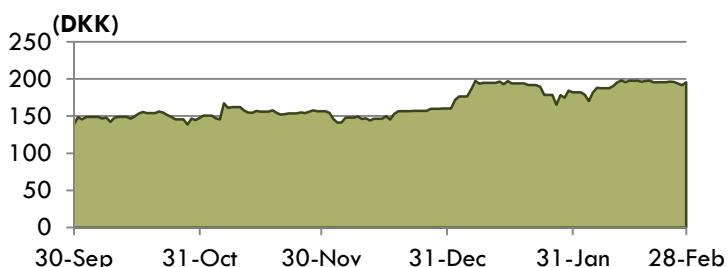
**Endesa**  
(Ticker: ELE)



Price (EUR):	→	23.83
Target Price (EUR):		22.90
Up/downside:		-3.9%
Performance 3M:		9.0%
P/E Ratio:		13.6x
ROC/WACC:		0.8x

- Vestas has registered quarterly profit for the first time since 2011, an encouraging sign that hints that the firm has finally reached a sustainable business model, after the restructuring undertaken over the past two years. Net income in 2013's last quarter was of 218 EUR million, surpassing analyst expectations and firm's forecasts for revenue and margins. The firm is now considering a share issue.

**Vestas**  
(Ticker: VWS)



Price (DKK):	↑	195.40
Target Price (DKK):		215.00
Up/downside:		10.0%
Performance 3M:		23.9%
P/E Ratio:		N/A
ROC/WACC:		0.6x

### 3. Stock Analysis: BP

#### Corporate News

Strain in Ukraine has been affecting Rosneft, the Russian energy giant, which has seen a decrease in its share price. Rosneft has lost market capitalization value and BP, as the holder of a significant stake in the firm, which also provides 30% of BP's oil production, has been also impacted. A sudden 1 billion overnight loss registered by Rosneft highlights the risk of this investment for BP.

BP's announcement of 2013's earnings reveals that the firm might be on a strong path towards total recovery after major divestments in the aftermath of the 2010 Gulf of Mexico oil spill. In 2013, the firm registered a USD 23,451 billion, a significant increase from the USD 11,017 billion registered in 2012.

#### Market Performance

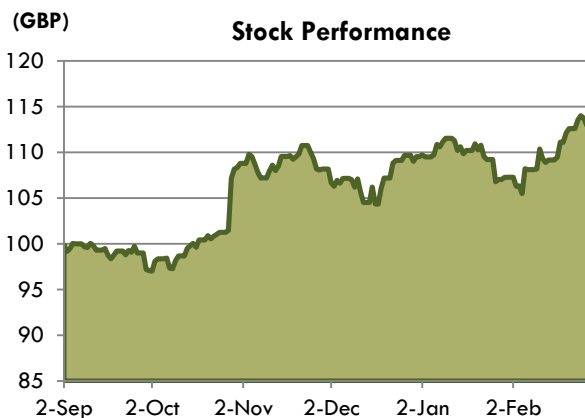
BP's stock price overall reacted positively to the earnings announcement in early February 2014. The financial results for 2013 caused a positive surprise among analysts, which can explain the subsequent stock price increase, with a performance increase of close to 10% in the referred month. This trend is contrary to the low growth observed until November 2013 and might be an indication that the firms' buybacks and divestments have brought the company back to high growth targets. The firm has also increased dividend paid in 2013 in comparison to 2012.

BP's current stock price, £504.40, is still below the targeted £512.19. This might be an indication that the firm's stock price is still expected to increase.

#### Valuation Summary

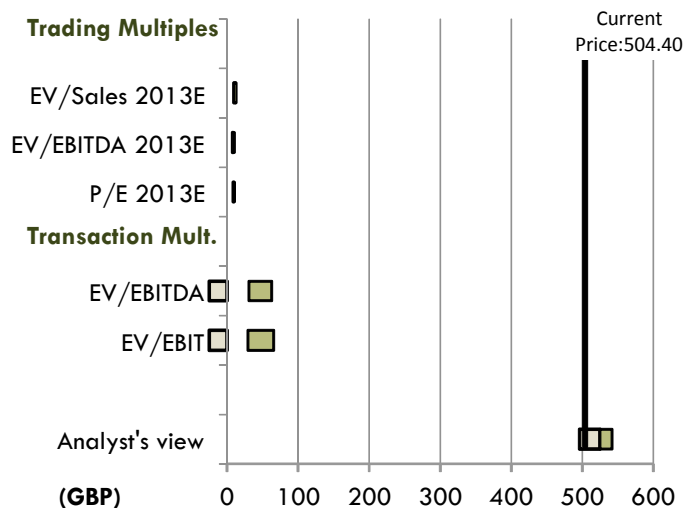
BP shares are clearly overvalued, both from a Trading and a Transaction Multiple perspective. Transaction Multiples seem to overvalue the stock price slightly less than Trading Multiples.

However, it is the Analysts' opinion that the firm's shares are in fact undervalued. This might be the result of a discrepancy between the firm's current performance and a promising future envisioned by the markets.



BP (GBP)	
Current Price (28/02/2014)	504.40
52-week high % change	-1.1%
Median Target Price	512.19
Market Capitalisation (mn)	89,868
Return on Common Equity	18.9%
Dividend Yield	5.3%
Beta (vs. CAC)	0.9x
Total Debt/Equity	37.0%

#### 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
<b>BP PLC</b>	GBP	89,868	176,772	0.5x	0.5x	0.5x	5.5x	4.5x	4.3x	10.9x	9.9x	9.6x
Royal Dutch Shell PLC	EUR	171,007	273,102	0.6x	0.6x	0.6x	5.6x	4.6x	4.4x	14.2x	10.5x	9.9x
Total SA	EUR	111,894	132,177	0.7x	0.8x	0.8x	4.7x	4.1x	3.9x	12.7x	9.6x	9.3x
ENI SPA	EUR	63,635	86,955	0.8x	0.8x	0.8x	4.8x	3.7x	3.4x	41.4x	12.6x	10.8x
Exxon Mobil Corp	USD	404,770	429,317	1.2x	1.0x	1.0x	7.4x	5.6x	5.5x	12.7x	12.5x	12.3x
Repsol SA	EUR	24,364	36,791	0.6x	0.7x	0.7x	6.2x	5.8x	5.4x	N.A	13.1x	11.6x
75th Percentile				0.8x	0.8x	0.8x	6.1x	5.4x	5.1x	14.2x	12.6x	11.4x
<b>Median</b>				<b>0.7x</b>	<b>0.7x</b>	<b>0.7x</b>	<b>5.6x</b>	<b>4.6x</b>	<b>4.4x</b>	<b>12.7x</b>	<b>11.5x</b>	<b>10.4x</b>
25th Percentile				0.6x	0.6x	0.6x	5.0x	4.2x	4.0x	12.7x	10.1x	9.7x

- In terms of comparable listed companies, BP appears to be slightly undervalued, as the company trades 4.3x EV/EBITDA (2014E), lower than the 4.4x median. This is inconsistent in relation to trading and transactional multiples analyzed before. As for the P/E ratio, BP is trading at lower ratios than its peers in terms of its earnings, not even reaching the 25<sup>th</sup> percentile. For a median of 10.4x P/E ratio, BP is expected to trade at 9.6x (2014E).
- The most comparable company in terms of Enterprise Value is Total SA, the French energy company with the second largest market capitalization on Euronext Paris. Total is trading at a EV/Sales 2014E multiple of 0.8x, therefore above BP's 0.5x. Regarding EV/EBITDA, Total has a lower multiple than BP, and both score lower than the industry median. A similar situation occurs with the P/E ratio. Therefore, similarly to BP, its closest comparable appears to be undervalued.

## 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
<b>Median</b>						<b>9,9x</b>	<b>14,2x</b>
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.