

Energy

Sector Review – March

1. Sector Overview

- OPEC Oil output fell in March, led by declines in the Angolan and Libyan oil production. As a whole, the 12-member union slipped by 117,000 barrels a day to an average of 30,293 million from 30,410 million in February. Their leaders kept the output target unchanged at 30 million, established by early December. The group is expected to meet again on June 11th at its headquarters in Austria.
- Following the aftermath of the Russian entry in Crimea, in Ukraine, there has been an increasing concern over the robustness of the Russian economy because of the international sanctions planned by the West. Russian energy stocks are expected to be among those which will struggle the most with these endorsements, as the EU is currently actively looking for alternative gas and electricity suppliers, namely in the Maghreb region and the Middle-East.
- On March 31st, China has began operations on its first deep-water natural gas field. The gas is being extracted from reserves buried deep under the South China Sea seafloor, 325 Km southeast of Hong Kong. Such event comes as an attempt to exploit cleaner sources of energy – the government wants to increase to 10% the total weight of Natural Gas in the country's power supply, bearing in mind the overwhelming pollution cloud most Chinese cities have been under these last months. The US\$6.5 billion project, is 49% owned by the Canadian Husky Energy Inc.



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Energy Universe:

- BP
- EDF
- EDP
- GALP
- Vestas

This month's detailed company review:

- EDP



Diogo Sasseti

diogo.sasseti@novainvestmentclub.com



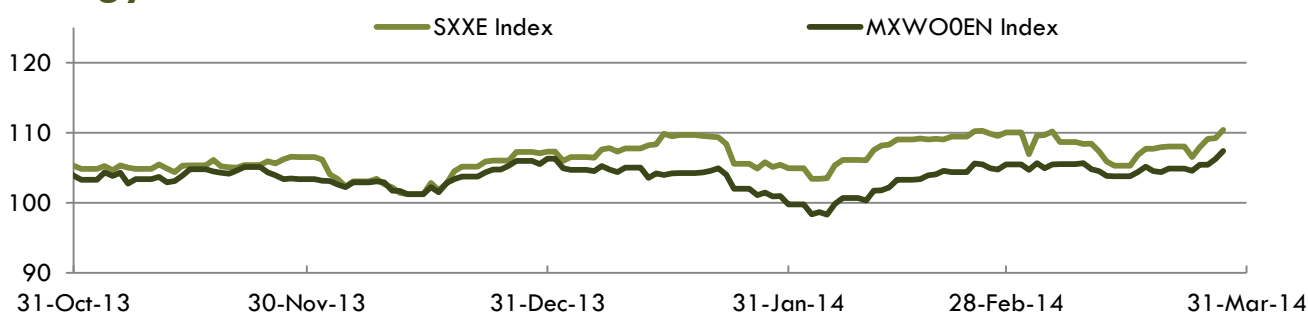
Mariana Coelho

mariana.coelho@novainvestmentclub.com

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Energy Sector vs. Overall market



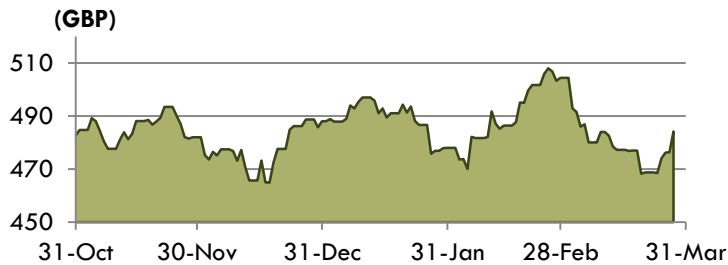
- The Euro Stoxx Index (SXXE) has continued to outperform the Morgan Stanley Capital International Index for World Energy (MXWOEN). Although the gap between the two indexes remains, favouring SXXE, the difference between the two has diminished in March. Therefore, the performance of the Energy industry has been coming closer to the market as a whole, a potentially positive sign for the companies of the sector.

2. Followed Companies

BP

(Ticker: BP\LN Equity)

- BP, through its stake in Rosneft, is the largest foreign investor in Russian oil&gas. Although shares have dropped 6% since Putin placed troops in Crimea, BP's CEO claims that the firm "stands by its investment in Russia" and has appointed David Campbell, with previous experience in Alaska and Iraq, to manage the business in this country.

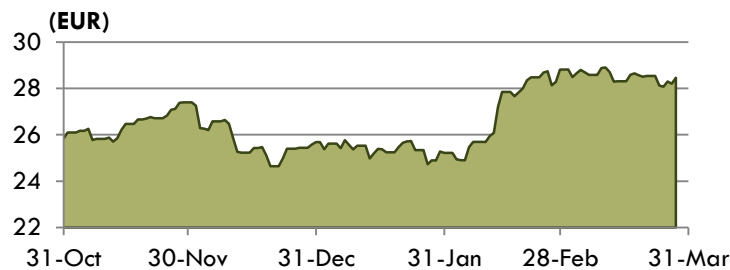


Price (GBP):	↑	484,15
Target Price (GBP):		525,00
Up/downside:		8,4%
Performance 3M:		-0,9%
P/E Ratio:		6,6x
ROC/WACC:		0,8x

EDF

(Ticker: EDF FP Equity)

- With its nuclear energy generating plants being criticized by environmentalist groups and some strain over the regulated nuclear energy supply price, EDF has now to increase the level of security of its plants, under operation for as long as 30 years, to the current levels demanded, says the French regulator of the sector.

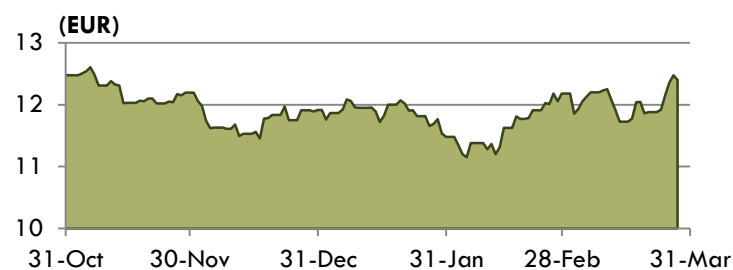


Price (EUR):	→	28,46
Target Price (EUR):		29,00
Up/downside:		1,9%
Performance 3M:		11,9%
P/E Ratio:		14,9x
ROC/WACC:		0,8x

GALP

(Ticker: GALP PL Equity)

- Galp has reviewed its investment plan for 2014-2018 with an increase in its predicted CAPEX. An annual investment of €1,5 and €1,7 billion is expected, allocated mostly to the upstream segment in Lula/Iracema (Brazil) and Mozambique. Until 2020, Galp aims namely at installing 14 new oil platforms in Angola and Brazil.

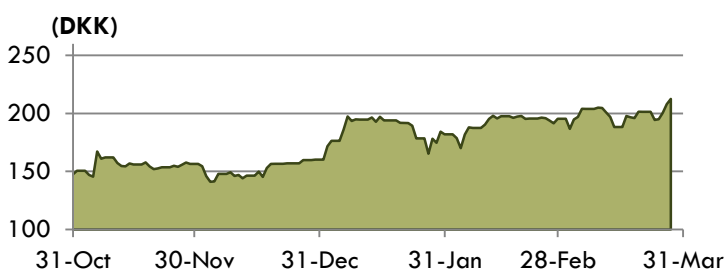


Price (EUR):	↑	12,40
Target Price (EUR):		15,00
Up/downside:		21,0%
Performance 3M:		4,1%
P/E Ratio:		52,1x
ROC/WACC:		0,2x

Vestas

(Ticker: VWS DC Equity)

- After a roaring stock revaluation (more than 400%, according to the FT) with the conclusion of the ambitious restructuring which saved the firm from collapse, Vestas was rumoured to be about to distribute its first dividend in 10 years. Vestas' chairman states his optimism but reaffirms that no dividend is to be expected yet.



Price (DKK):	→	212,50
Target Price (DKK):		217,50
Up/downside:		2,4%
Performance 3M:		33,0%
P/E Ratio:		N/A
ROC/WACC:		0,6x

3. Stock Analysis: EDP

Corporate News

EDP has announced, in early March, its financial results for the precedent year of 2013. Profit remains above the €2 billion hurdle, though it fell by a slight percentage point when compared to the 2012 figure. At the same time, debt fell by 4% to €17.457 million, foreign investments fell by 2%, while EBITDA remained relatively stable (-0,3%).

The emblematic EDP office in downtown Lisbon, at Marquês de Pombal Square, is being acquired by GA Capital, an American Investor. In case the deal is put forward, it would be one of the largest real estate transactions in the city for a long time.

Market Performance

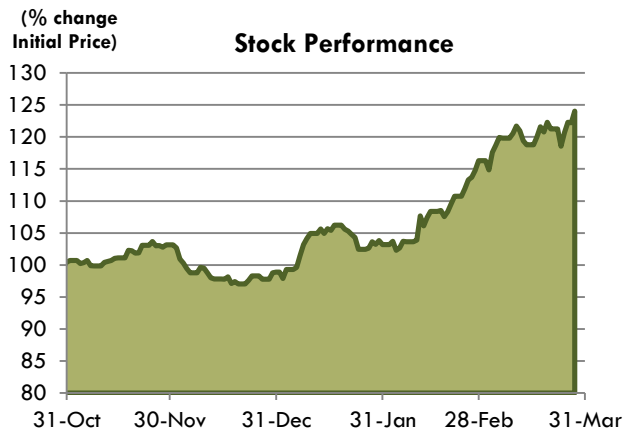
The firm has been able to sustain its stock price growth. This figure rose by nearly 10% in March, in accordance with the pattern observed since the inception of the year. In fact, this increase in the stock price has almost been enough to achieve once again last year's price, staying only -0,5% below this figure.

EDP's current stock price, €3.35, is above the targeted €3.08. This might be an indication that the markets do not predict the firm's stock price to increase further.

Valuation Summary

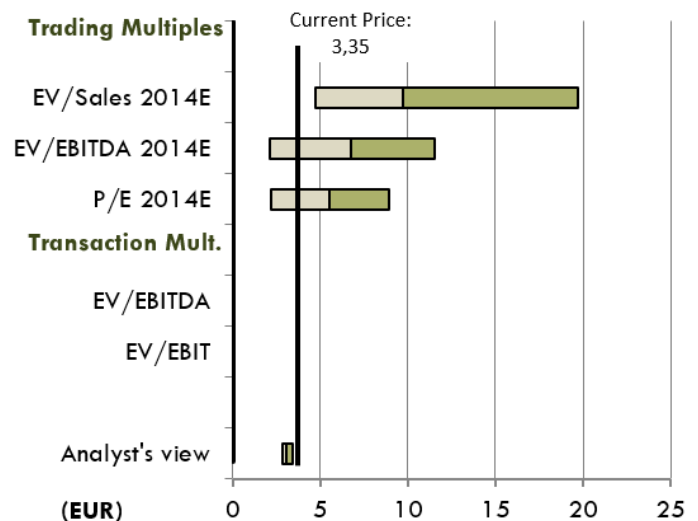
EDP shares appear to be slightly undervalued through the Trading Multiple's perspective, especially according to EV/Sales.

Analysts, on the other hand, seem to all be tuned to a systematic opinion on how the EDP stock price stands when faced-off to its peers. Note the slimness of the last horizontal bar. Their perspective is that this equity shares are marginally overvalued, consistent with the fact that EDP's shares are currently above their target price of €3.08.



EDP (EUR)	
Current Price (28/03/2014)	3,35
52-week high % change	-0,5%
Median Target Price	3,08
Market Capitalisation (mn)	12.260
Return on Common Equity	12,1%
Dividend Yield	5,5%
Beta (vs. CAC)	0,9x
Total Debt/Equity	174,9%

Valuation Summary (Price per Share)



Note: Transaction Multiples unavailable.

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
EDP PL	EUR	12.260	32.875	1,9x	2,1x	2,0x	9,2x	9,3x	8,8x	12,5x	13,7x	12,3x
Red Electrica Corp	EUR	7.978	13.435	6,8x	7,3x	7,1x	10,2x	9,8x	9,5x	31,0x	14,6x	14,1x
Terna Spa	EUR	7.831	14.648	7,4x	7,8x	7,4x	9,9x	10,0x	9,5x	15,2x	15,5x	14,6x
Federal Grid Co Unified	RUB	94.058	281.677	2,1x	1,7x	1,7x	3,5x	3,1x	3,0x	N/A	3,2x	3,4x
Northeast Utilities	USD	14.188	23.703	3,1x	3,3x	3,2x	9,9x	9,9x	9,3x	17,9x	16,7x	15,6x
Snam Spa	EUR	14.304	27.631	7,2x	7,7x	7,5x	9,9x	10,0x	9,7x	N.A	14,6x	14,1x
75th Percentile				7,1x	7,6x	7,3x	9,9x	9,9x	9,5x	21,2x	15,2x	14,5x
Median				5,0x	5,3x	5,1x	9,9x	9,8x	9,4x	16,6x	14,6x	14,1x
25th Percentile				2,4x	2,4x	2,3x	9,4x	9,4x	8,9x	14,6x	13,9x	12,8x

- Comparing to the most alike listed companies, EDP appears to be undervalued. The Portuguese company trades at 9.3x EV/EBITDA (2014E), lower than the 9.8x median. As for the P/E ratio, EDP is trading at lower ratios than its peers in terms of its earnings, not even reaching the 25th percentile. Also, for an expected median of 5.1x EV/ Sales in 2014, EDP is expected to trade at 2.1x.
- At their current market capitalization, one of EDP's closest comparable is Snam, the Italian natural-gas distributor. Snam trades at 10.0x EV/EBITDA 2014E, above EDP's 9.3x. Regarding P/E, Snam has also a higher multiple than EDP, but in line with the median multiple for the comparable companies. Therefore, contrarily to EDP, Snam appears to be overvalued in the set of comparable companies. The same is true for Terna, other Italian distribution firm closely comparable to EDP.

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
24-Jun-09	Addax Petroleum Corp	CN	China Petrochemical Corp	CH	6311,65	3,2x	4,1x
75th Percentile						4,7x	7,2x
Median						4,4x	6,5x
25th Percentile						4,1x	5,5x

- An interesting transaction occurred in May 2012, between Snam SpA and Cassa Depositi e Prestiti. A 30% stake in Snam, the Italian natural-gas distributor, closely comparable to EDP, 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 closely ranked against the market, where transactions occurred at a median 4.4x EV/EBITDA and the median EV/EBIT being 6.5x.
- When looking at several precedent transactions in the sector over the last six years, the most popular one was the transaction between BP and Rosneft in late 2012; the purchase of a stake in the Russian integrated Oil&Gas giant was valued at an EV/EBITDA of 4.5x and EV/EBIT of 7.0x.