

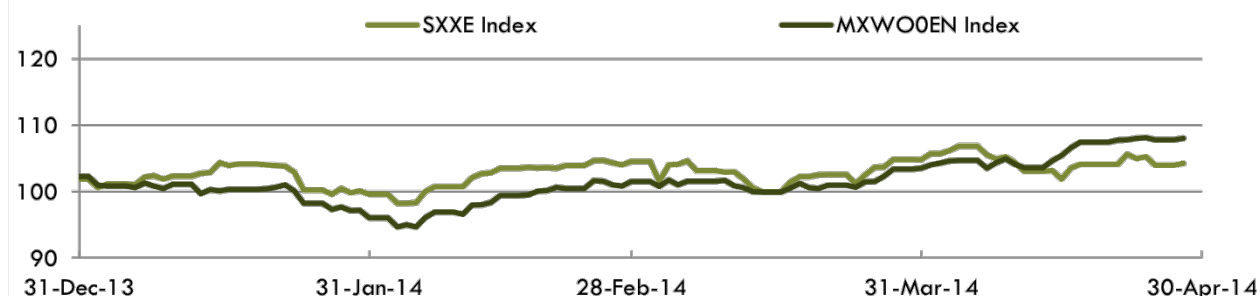
Energy

Sector Review – April

1. Sector Overview

- Asset managers are actively reducing net-long positions in oil indexes as oil futures have dropped below \$100, according to the Commodity Futures Trading Commission. Crude oil provisions have risen to 399.4 million barrels last week.
- Financial implications of sanctions against the Russian economy and administration have not heavily affected world economy. Instead, this crisis has become a “wake-up call” for European governments on the need to develop local energy resources, namely natural gas. This would provide greater security of supply at a time when Russia has threatened to curb gas shipments needed to power European economies. Rising violence in Ukraine heated up by separatists has intensified calls to develop local prospects, especially in EU-countries as Bulgaria very dependent on Russian gas, he said. Russia provides about a third of the EU’s oil and gas needs, mainly via state-controlled Gazprom or OAO Rosneft through pipelines that cross Ukraine.
- The new Libyan government has regained control of its ports from armed rebels in the west of the Maghreb country. The country is finally starting to regularly export crude oil again. Libya’s oil has essentially been trapped since militias seized its three largest ports last summer in an attempt to grab a share of the country’s oil revenue. In the last two weeks two shipments have already been sent to continental Europe. On April 16, a ship called the Aegean Dignity began loading crude for export for the first time since rebels took over the port last July. Such event is expected to lift some of the pressure on the commodity.

2. Energy Sector vs. Overall Market



- In April, an interesting performance has occurred, given that the Euro Stoxx Index (SXXE) has underperformed the Morgan Stanley Capital International Index for World Energy (MXWO0EN). For the first time since December 2013. The reversion in this trend follows a period of close performance of the two indexes and might indicate that stocks from the energy sector are now yielding higher returns than the overall market, which provides a positive outlook for firms in the sector.



www.novainvestmentclub.com

Energy Universe:

- EDP
- GALP
- Iberdrola
- BP
- Vestas

This month’s detailed company review:

- Iberdrola



Diogo Sasseti
 diogo.sasseti@nova
 investmentclub.com



Mariana Coelho
 mariana.coelho@nova
 investmentclub.com

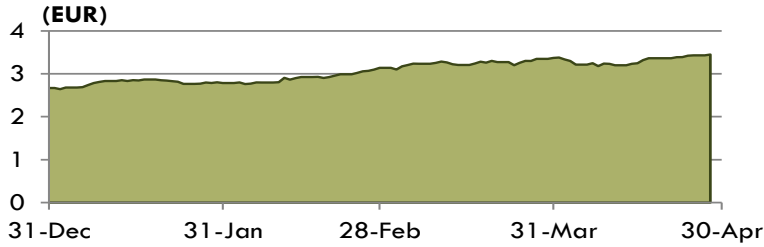
Table of Contents

1. Sector Overview
2. Universe News
3. Detailed review: Iberdrola

3. Followed Companies

EDP (Ticker: EDP PL)

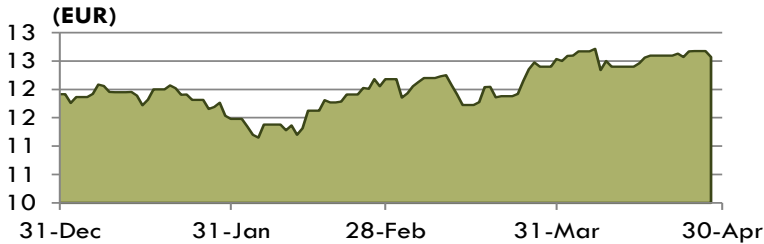
- EDP's stock price felt the strengthen of the positions hold by the Spanish LiberBank and The Masaveu Group in the firm after this new alliance achieved a 6.18% stake in the Portuguese utility last month. Throughout April, EDP shares have appreciated by nearly 500bp, breaking mid-2008 highs. However, most analysts project a future downward correction on the stock price.



Price (EUR):	↓	3.45
Target Price (EUR):		3.10
Up/downside:		-10.1%
Performance 3M:		23.3%
P/E Ratio:		13.0x
ROC/WACC:		0.4x

GALP (Ticker: GALP PL)

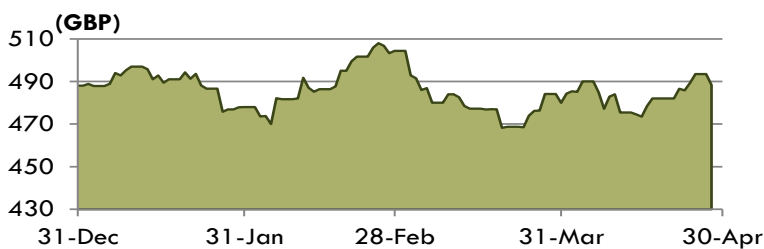
- The tensions between the company and the Portuguese Government are heating up, as a 5% reduction on gas prices is to be imposed soon. By the end of last month, some Q1 figures were announced: Profits failed to meet projections, as they decreased by more than -37% and exports followed the same path sinking by -45%. On the other hand, EBITDA rose by 4.8% to €265Mn.



Price (EUR):	↑	12.57
Target Price (EUR):		15.00
Up/downside:		19.3%
Performance 3M:		7.5%
P/E Ratio:		69.2x
ROC/WACC:		0.2x

BP (Ticker: BP LN)

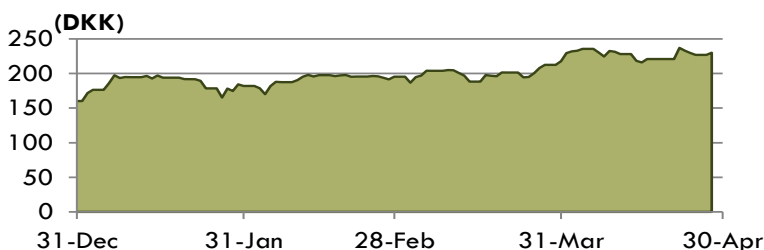
- Even though BP reported a sharp decline in profit for the first quarter, this was mainly due to a drop in production as the company continued its asset sale program. BP, meanwhile, raised its dividend for the second time in six months, a renewed sign that the company is to get back on track.



Price (GBP):	↑	488.35
Target Price (GBP):		525.00
Up/downside:		7.5%
Performance 3M:		2.4%
P/E Ratio:		15.6x
ROC/WACC:		0.8x

Vestas (Ticker: WS DC)

- Last month alone was enough to push Vestas stock price by almost 30%. Analysts predict that there is still room for growth until next year, as the DKK 270 price target is still a 17% rise away. The wind energy company has received a order by the French EDF to supply the construction of a 194MW wind farm in the US.



Price (DKK):	↑	230.00
Target Price (DKK):		270.00
Up/downside:		17.4%
Performance 3M:		29.1%
P/E Ratio:		N/A
ROC/WACC:		0.6x

4. Stock Analysis: IBERDROLA

Corporate News

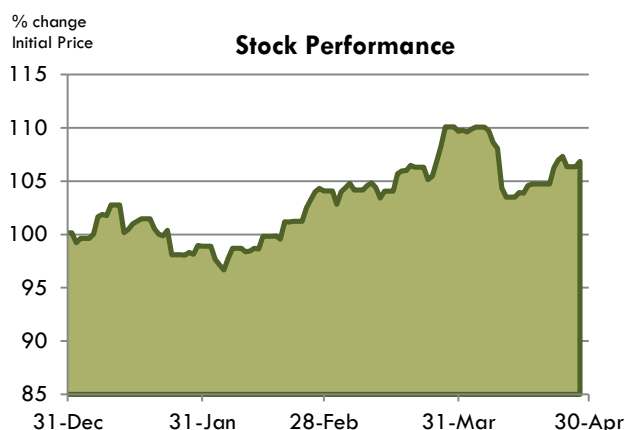
- The Spanish electricity and gas producer and distributor has announced a net profit increase of 8.4% in 2014's first quarter, in comparison to the same period of 2013. This result comes in spite of the adverse impact of Spain's regulatory changes and reduced demand of electricity in its home market.
- The slower demand in Spain and uncertainty regarding regulation leads to the company's goal of investing in markets with stable regulatory frameworks, such as the UK, Mexico and the US, and to divest in some domestic assets.
- The largest Spanish utility considers that in 2014 there will be no tariff deficit (gap between the price paid by consumers and the actual energy production cost). So far, Iberdrola has securitized part of these government regulatory receivables, similarly to what EDP did.

Market Performance

- Iberdrola's share price has reacted positively to the first quarter's earnings announcement, which beat the analysts' expectations. The negative impact of regulatory changes in Spain, namely with a sharp decrease of profit in renewables, was compensated by international results.
- The company's stock price stands at €4.95, above its target price of €4.81. This might be an indication that the firm's stock price is expected to decrease.

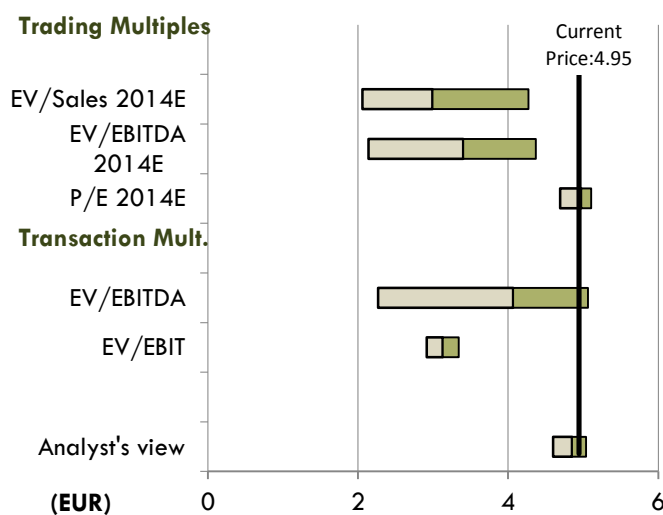
Valuation Summary

- According to EV/Sales and EV/EBITDA, Iberdrola's enterprise value is overvalued in relation to its peers. The P/E ratio places it as in line with the average industry, meaning that it is trading at a fair price given its earnings by comparison to its peers.
- Transaction multiples based on precedent transactions place the stock as overvalued, especially EV/EBIT.
- It is the Analysts' opinion that the firm's shares are only slightly overvalued, a perception in line with the small difference observed between current stock price and median target price.



IBE (EUR)	
Current Price (28/04/2014)	4.95
52-week high % change	-3.4%
Median Target Price	4.81
Market Capitalisation (mn)	32,377
Return on Common Equity	7.6%
Dividend Yield	5.6%
Beta (vs. CAC)	1.0x
Total Debt/Equity	83.7%

Valuation Summary (Price per Share)



Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2014E	2015E	LTM	2014E	2015E	LTM	2014E	2015E
Iberdrola SA	EUR	32,377	56,330	1.7x	1.7x	1.7x	8.0x	8.4x	8.1x	12.4x	14.6x	14.0x
ENEL SPA	EUR	38,591	108,048	1.3x	1.4x	1.4x	6.6x	7.0x	6.8x	11.4x	13.1x	12.1x
Endesa SA	EUR	28,877	36,383	1.0x	1.1x	1.1x	5.3x	5.7x	5.6x	14.8x	16.8x	15.7x
EDF	EUR	50,964	90,187	1.2x	1.2x	1.2x	5.2x	5.4x	5.1x	11.9x	13.4x	12.6x
Gas Natural SDG SA	EUR	20,664	36,472	1.4x	1.5x	1.4x	7.5x	7.5x	7.4x	14.3x	14.9x	14.1x
EDP	EUR	12,813	33,853	1.9x	2.2x	2.1x	9.3x	9.6x	9.1x	12.5x	14.3x	12.8x
75th Percentile				1.7x	1.7x	1.6x	7.9x	8.2x	7.9x	13.9x	14.8x	14.1x
Median				1.3x	1.4x	1.4x	7.0x	7.2x	7.1x	12.4x	14.4x	13.4x
25th Percentile				1.2x	1.2x	1.2x	5.6x	6.0x	5.9x	12.0x	13.6x	12.7x

- In terms of comparable listed companies, Iberdrola appears to be slightly overvalued. The Spanish company trades 8.4x EV/EBITDA (2014E), higher than the 7.1x median. As for EV/Sales, the company trades at 1.7x, also slightly higher than the median 1.4x. It is actually trading above the 75th Percentile threshold, 1.6x, as occurs with EV/EBITDA. As for the P/E ratio, the Spanish utility is also trading at a slightly higher ratio. This is consistent with the analysts' view of mild overvaluation of the stock.
- The most comparable company is clearly Endesa, the Spanish utility which operates in the same areas as Iberdrola. Endesa trades at an EV/Sales 2014E multiple of 1.1x, therefore below Iberdrola. Regarding EV/EBITDA, Endesa also has a lower multiple than Iberdrola. Endesa trades at a higher P/E ratio than Iberdrola, much higher than the 75th Percentile. However, overall, Endesa appears to be undervalued, maybe partly a result of stronger impact taken by this firm concerning regulatory changes in Spain.

Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
14-Dec-10	Petrobras Logistica da Exploracao	BZ	Petroleo Brasileiro SA	BZ	850.00	3.4x	5.0x
04-Aug-11	EDF Energies Nouvelles SA	FP	Electricite de France SA	FP	4.210	7,9x	11,6x
20-Dec-11	Repsol SA	SP	Repsol SA	SP	3365.79	2.2x	3.2x
29-Mar-12	Galp Energia SGPS SA	PO	Amorim Energia BV	NE	784.27	11.3x	18.4x
23-Jul-12	Nexen Energy ULC	HK	CNOOC	HK	17.432	4.3x	8.9x
22-Oct-12	Rosneft OAO	FRN	BP PLC	FRN	4.799	4,5x	7.0x
4-Mar-13	Repsol SA	SP	Temasek Holdings Pte Ltd	SI	1346.19	2.8x	4.3x
13-Jan-14	Foster Wheeler AG	USD	AMEC PLC	USD	2.766	9,8x	13,0x
75th Percentile						8,8x	12,6x
Median						7,9x	12,3x
25th Percentile						6,2x	11,9x

- When looking at various precedent transactions in the sector over the last four 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.;
- Although the sector has had M&A activity picking up slowly, an interesting transaction occurred earlier this year. In January, Amec, the oil and gas engineer, purchased Foster Wheeler to expand its fuel production business. The valuation of 9.8x EV/EBITDA and 13.0x EV/EBIT were both above the market, where transactions occurred at a median 7.9x EV/EBITDA and the median EV/EBIT being 12.3x.