

Energy

Sector Review – May

1. Sector Overview

- On Wednesday, 4th of June, Brent crude price rose above \$109 a barrel, as traders eyed the U.S.' low oil inventory data and looked to euro zone policies that may spur growth and boost the region's energy demand.
- The European Central Bank will meet on June 6th, to discuss measures aimed at stimulating the economy after inflation in the region dropped to record lows in May. "At the moment, we're factoring in a little contribution to global demand for oil from Europe," said Michael McCarthy, chief strategist at CMC Markets in Sydney.
- Oil prices have stabilized over the last week of May, after slipping 1.5% in the previous week as traders booked profits on an expected rise in OPEC supply to the highest in three months in May.
- Tensions between Russia and Western nations over Ukraine and the political tumult in Libya have been underpinning oil prices. U.S. President Barack Obama revealed plans to spend up to \$1 billion on military support for eastern European members of the NATO alliance.
- Iranian oil exports are on course to run well above the levels the Obama administration said they would when the U.S. agreed to allow some crude shipments in exchange for limits on Iran's domestic nuclear program.



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Energy Universe:

- BP
- EDP
- GALP
- Iberdrola
- Vestas

This month's detailed company review:

- Galp



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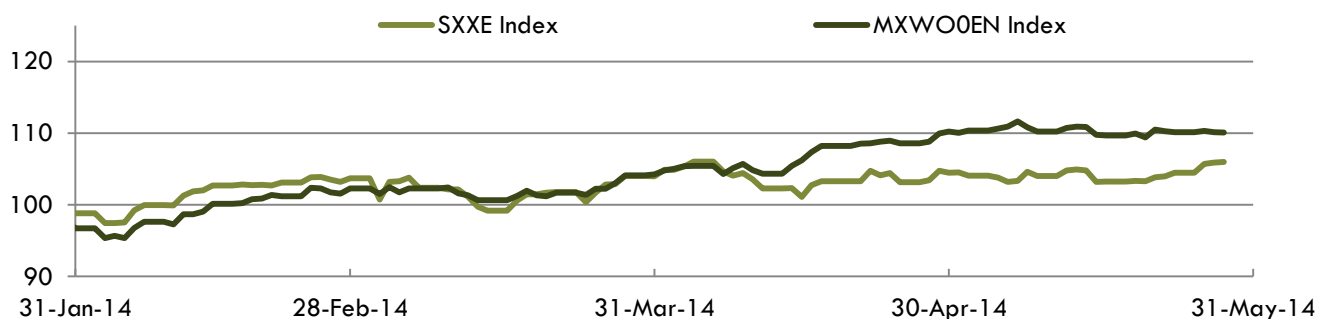
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Energy Sector vs. Overall Market



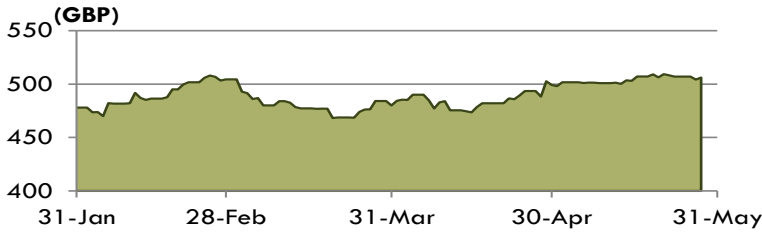
- In April, an interesting performance has occurred, given that the Euro Stoxx Index (SXXE) has underperformed the Morgan Stanley Capital International Index for World Energy (MXWO0EN) - for the first time since December 2013. This trend has yet to be broken, as the energy sector has outperformed the SXXE benchmark by a solid and increasing margin during May.

2. Followed Companies

BP

(Ticker: BP LN Equity)

- BP's stock price has stabilized just above the \$506 mark, growing by only 0.3% in the last quarter. Analysts expect a 4.7% rise in this figure by the end of the year. However, US court decisions concerning fines related to the Gulf of Mexico oil spill in 2010 may pressure the stock price on the medium run, as the firm is forced to resume compensation payments halted in December 2013.

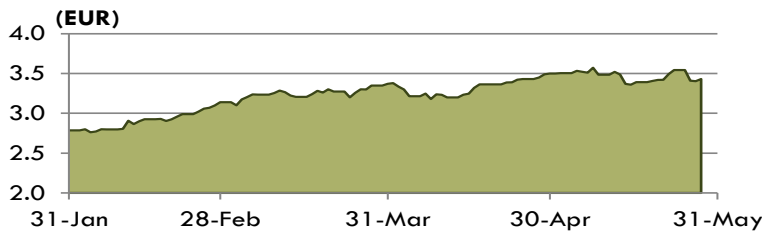


Price (GBP):	→	506.10
Target Price (GBP):		530.00
Up/downside:		4.7%
Performance 3M:		0.3%
P/E Ratio:		15.5x
ROC/WACC:		0.6x

EDP

(Ticker: EDP PL Equity)

- The rating agency Moody's confirmed the "Ba1" ratings of non-prime long and short-term debt of EDP and two of its subsidiaries, EDP Finance BV and the Spanish Hidroelectrica del Cantabrico. All ratings have a negative outlook. Following these news, the mother firm's stock price suffered a bump, with analysts believing a downward trend is to be observed until the target price of €3.2 is achieved.

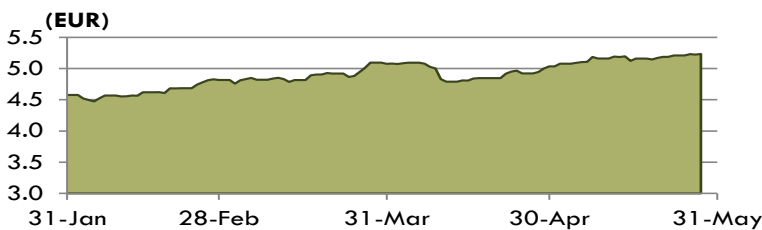


Price (EUR):	↓	3.43
Target Price (EUR):		3.20
Up/downside:		-6.7%
Performance 3M:		9.3%
P/E Ratio:		13.3x
ROC/WACC:		0.4x

Iberdrola

(Ticker: IBE SM Equity)

- Iberdrola and a subsidiary of Cheniere Energy, Inc. have signed a contract for the supply of approximately 1 bcm (billion cubic meters) of liquefied natural gas (LNG) per year, beginning in 2019. The 20-year agreement, valued at around €4.1 billion, involves the supply of LNG to Iberdrola at the Corpus Christi liquefaction plant that Cheniere will build near Corpus Christi, Texas, U.S.

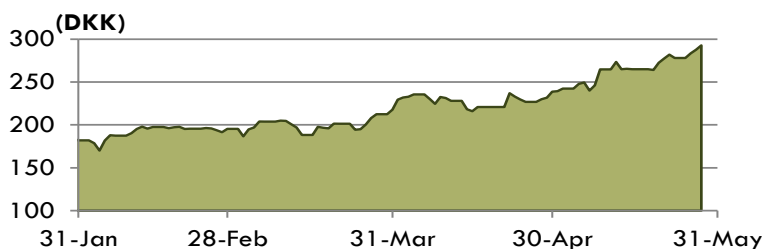


Price (EUR):	→	5.23
Target Price (EUR):		5.00
Up/downside:		-4.5%
Performance 3M:		8.6%
P/E Ratio:		12.6x
ROC/WACC:		-0.1x

Vestas

(Ticker: WS DC Equity)

- Vestas has signed an order for sixteen 3.3 MW wind turbines for the San Antonio wind power plant in Guatemala. The project will be the first wind power plant in the country, proving Vestas' ambitions as wind power pioneer in new markets. The stock price has stabilized on the 292.8 Danish crowns, coming closer to its target price of 300 DKK.



Price (DKK):	→	292.80
Target Price (DKK):		300.00
Up/downside:		2.5%
Performance 3M:		49.8%
P/E Ratio:		N/A
ROC/WACC:		-0.6x

3. Stock Analysis: Galp

Corporate News

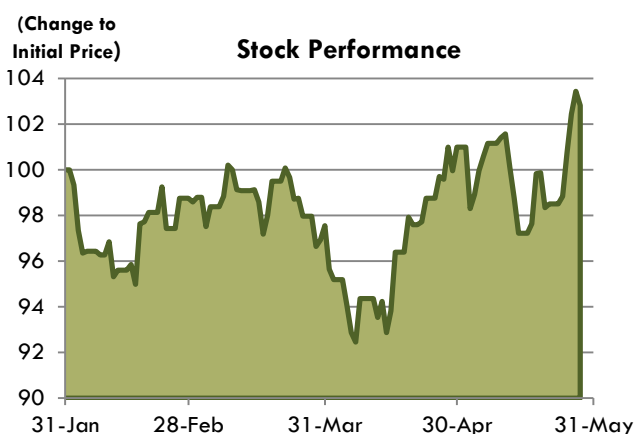
- Galp Energia's profit fell on the first quarter of the year compared to the same period last year, mainly due to amortization related to complex 'hydro cracking' in Sines, which transforms petroleum hydrocarbons in gasoline. The earnings announced in late April were below forecasted and the effects of the refining plant maintenance are to be expected still in May. EBITDA however rose 5%.
- The Portuguese government and Galp are on the verge of discussing in court the transfer of winnings from Galp on natural gas contracts with its consumers, through lower gas prices. Galp is also being questioned by the competition authorities regarding the geographic areas in which gas retailers distribute bottled-gas. Petrolgal, Galp Açores and Galp Madeira are the entities involved.

Market Performance

- Galp's share price has reacted moderately well to the first quarter's earnings announcement, recovering towards the end of the month.
- The company's stock price stands at €12.84, below its target price of €15.32. This might be an indication to hold this stock in order to capitalize this slight foreseen rise in value.

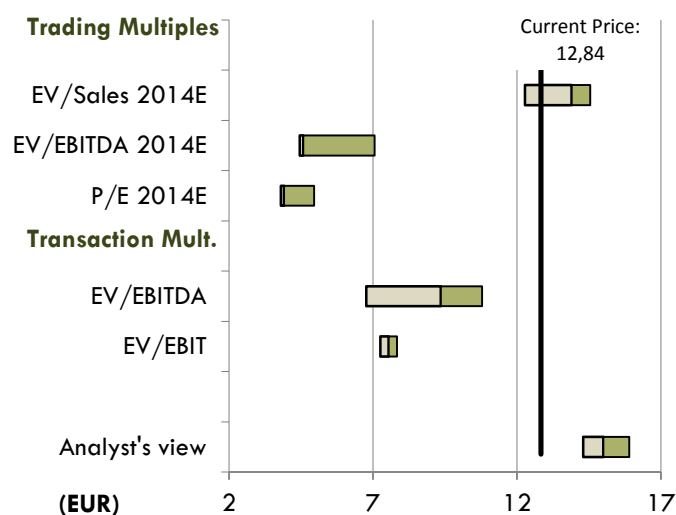
Valuation Summary

- According to EV/Sales, Galp's enterprise value is in line with its peers. EV/EBITDA and P/E point out a significant overvaluation of the firm's value.
- Transaction multiples based on precedent transactions place the stock as undervalued, especially EV/EBIT.
- It is the Analysts' opinion that the firm's shares are slightly undervalued, a perception in line with only one of the trading multiples.



GALP (EUR)	
Current Price (28/05/2014)	12.84
52-week high % change	-4.2%
Median Target Price	15.32
Market Capitalisation (mn)	10,677
Return on Common Equity	2.6%
Dividend Yield	2.2%
Beta (vs. CAC)	0.6x
Total Debt/Equity	57.3%

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	10,677	14,246	0.7x	0.7x	0.7x	14.6x	11.3x	9.4x	73.3x	35.5x	27.5x
Royal Dutch Shell	GBP	151,603	288,615	0.6x	0.6x	0.6x	6.1x	4.8x	4.6x	29.8x	10.8x	10.6x
BP	GBP	91,782	179,791	0.5x	0.5x	0.5x	5.8x	4.6x	4.5x	13.7x	10.4x	9.9x
Repsol	EUR	26,610	36,393	N/A	0.7x	0.7x	N/A	6.9x	6.1x	N/A	14.6x	13.1x
RN Holding	RUB	993,099	1,032,549	0.8x	0.6x	0.6x	2.5x	2.4x	2.4x	N/A	4.3x	4.6x
Total	EUR	120,073	140,964	0.8x	0.8x	0.8x	5.3x	4.6x	4.4x	12.5x	10.7x	10.1x
75th Percentile				0.8x	0.7x	0.7x	6.1x	6.4x	5.7x	40.7x	13.7x	12.4x
Median				0.7x	0.7x	0.7x	5.8x	4.7x	4.5x	21.8x	10.8x	10.4x
25th Percentile				0.6x	0.6x	0.6x	5.3x	4.6x	4.4x	13.4x	10.5x	9.9x

- In terms of comparable listed companies, Galp seems to be overvalued. The Portuguese company trades at 0.7x EV/Sales (2014E), similar to the 0.7x median. However, as for EV/EBITDA, the company trades at 9.4x, higher than the median 4.5x. It is actually trading above the 75th Percentile threshold, 5.7x. As for the P/E ratio, the utility enterprise is also trading significantly above the industry median and the 75th Percentile threshold.
- The closest comparable company is Repsol, the Spanish utility which operates in the same field as Galp – even though Repsol is more than twice as large as Galp in terms of Market Capitalization. Repsol trades at 0.7xEV/Sales 2014E, the same as Galp. Regarding EV/EBITDA and P/E, Galp has significantly higher multiples than Repsol, reinforcing the sense of overvaluation of Galp.

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.