IBERIAN NETWORKS

Decent Value but Out of Favour

Changes in market sentiment on interest rates, inflation and growth have reduced the attractiveness of the Iberian networks compared with: (1) other stocks with a higher exposure to the real economy, and (2) the integrated utilities, although this is more so in sentiment than in reality, since the impact of higher rates on the utilities is only marginally smaller than on the networks.

We have cut our TPs for the different companies (by ~8% ENG; ~11% REE and ~9% REN) in order to adjust to a new economic context of higher inflation and interest rates. We have **increased our discount rates** (from 4.5% to 4.7% for ENG; from 4.9% to 5.2% for REE and from 4.7% to 4.9% for REN) **and have increased their opex** going forward.

Our new TPs, whether calculated with historic or with implicit equity risk premiums, **offer upside to current prices, which, together with well-funded dividends, offer total returns (TRs) of around 10% for all three companies.**

Although it might be argued that these returns do not compensate for the risk of a rising bond yield, we think that:

(1) **The debate about rising rates should focus on the EPR** instead of the WACC, as the cost of debt may prove pretty resilient (**the three companies could still issue bonds well below their average cost of debt**).

Moreover, whereas the **sensitivity of TPs to changes in WACCs is very high** (9% for ENG and REE and 12% for REN for a 50bp move), **sensitivity to equity risk premiums (ERPs) is much more limited** (+2.6% for ENG and REN and +4.5% for REE for 50bp).

(2) The fact that **implicit ERPs** (5.9% in Spain and 4.4% in Portugal) **are well above historic ones** (4% for both) **means, in our view, that higher bonds are already priced in to these stocks.**

Therefore, we believe it makes no sense to ignore networks because the interest rate environment is unfriendly. We think that it is worth paying attention to the companies' specificities. **REE (Buy, TP €18.50), remains our favourite.** It offers the highest return (+11%) and the lowest leverage (net debt/EBITDA of 3.4x 2017E) and lowest pay-out (71% for 2017E). **We downgrade REN (TP: €2.73) to Hold** and maintain our Hold rating on **ENG (TP: €24.00)**, since they offer lower returns and higher risk than REE.

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Key Data, February 8, 2017 (closing price)

	Rating	Mkt Cap (€ mn)	Current Price (€)	Target Price (€)	Up/Down-side (%)	EV/EBITDA (x) 2019E	EV/EBITDA (x) 2020E	P/E (x) 2019E	P/E (x) 2020E	2019E ND/EBITDA	2019E GDY (%)
ENG SM	Hold	5,527	23.15	24.00	3.7	9.2	8.7	13.1	11.4	5.7	6.9
REE SM	Buy	9,293	17.18	18.50	7.7	8.9	8.6	12.3	12.4	3.3	6.1
RENE PL	Hold	1,399	2.62	2.73	4.2	7.7	7.4	9.1	9.1	4.8	6.5

Source: FactSet, Company data and Santander Investment Bolsa estimates.

EXECUTIVE SUMMARY

Since our last report on the Iberian Networks (in April 2016) the Spanish companies have underperformed their main national index and the Euro Stoxx Utilities, whereas REN has slightly outperformed both. However, since the US presidential election all the networks' share prices have lost steam and their negative trend has accelerated.

Figure 1. Iberian Networks – Share Prices and Market Performance

€/Share	Current Price (Feb 9)	Last Report (April 19, 2016)	Change Last	US Election (Nov 8, 2016)	Change Since US Election
ENG	23.2	25.9	-11%	24.8	-7%
REE	17.2	18.7	-8%	17.8	-4%
REN	2.62	2.54	3%	2.66	-2%
Ibex-35	9,329.7	9,359.3	0%	8,937.0	4%
PSI-20	4,560.1	4,562.4	0%	4,562.1	0%
SX6E	238.4	239.6	-1%	242.7	-2%

Source: Company data and Santander Investment Bolsa estimates.

In our view, the reason for this poor performance lies in the change in sentiment about interest rates, inflation and economic growth. The new mood significantly reduces the attractiveness of these stocks in absolute and relative terms. In relative terms they lose versus both: (1) other stocks with a larger exposure to the real economy; and (2) the integrated utilities (although this is more sentiment than reality, given that impact of higher rates for the integrated companies is only marginally smaller than for the networks).

Moreover, recent news flow generated by all three companies has not been precisely conductive to improving sentiment, especially in the case of ENG. What would have passed unnoticed in a different context (as the news generally has a negligible impact on valuation), looks, in current conditions, like a good reasons to justify a sell-off.

We have cut our TPs in order to reflect the new economic context. We have increased the discount rates and opex (due to higher inflation). After these cuts, our TPs, whether calculated on normalised bond yields and historic equity risk premiums (ERP), or at current bond yields and at implied ERP, still show upside to current prices. This, together with sound dividends, puts total returns at around 10%.

Figure 2. Iberian Networks – Total Return at Historic and Implicit ERPs

	Historic				Implicit			
(€/share)	TP	10Yb	ERP	TR	TP*	10Yb	ERP	TR*
ENG	24.01	4.0%	4.0%	9.8%	24.24	1.7%	5.9%	10.8%
REE	18.49	4.0%	4.0%	11.3%	18.73	1.7%	5.9%	12.7%
REN	2.73	5.0%	4.0%	10.7%	2.59	4.0%	4.4%	5.3%

*Resulting TP and Total Return if instead of normalized bonds and historic ERP are used current bonds and implicit ERPs
Source: Company data and Santander Investment Bolsa estimates.

It might be argued that the margin of guarantee offered by these returns does not compensate for the risk of a rising bond yield. However, we believe that:

- The debate about rising rates should be mainly focused on the ERP instead of on the whole WACC, because the Kd of these companies is pretty resilient and could even continue falling, as they are able to refinance at costs well below their current average cost of debt. And, as opposed to what happens to the WACC, the sensitivity of their TPs to changes in the EPR is pretty limited (50bp of increase in the ERP could shave between 2.5% and 5% off the TPs, while a 50bp higher WACC could impact TPs by between 9% and 12%)

- The fact that the implicit ERP is well above the historical level (especially in Spain), means, in our view, that the equity market has already discounted higher bond yields. This means that rising yields might be absorbed by equivalent reductions in the ERPs, before they start affecting share prices.

We therefore believe it makes more sense to take into consideration the companies' own specificities than to ignore the networks just because the interest rate environment is unfriendly:

- **REE (Buy, TP €18.50).** We maintain our Buy recommendation on the stock. Aside from a total return that we think attractive for its risk profile, the company has a growing RAB, offers high visibility and has a low gearing (debt/EBITDA of 3.4x for 2017E) and a low pay-out ratio (71% for 2017E).
- **ENG (Hold, TP €24.00):** We maintain our Hold recommendation. The stock offers some value, but we believe that there are better alternatives in the sector. Its leverage is high (above 5x 2017E even restating equity method contribution) as is its pay-out ratio (81% in 2017E) and momentum is likely to remain weak until doubts about its international strategy are dispelled, something that may take some time.
- **REN (Hold, TP €2.73).** We downgrade the stock to Hold. Its total return offers mixed results (11% for the historic ERP vs 5% for the implicit) whereas the outcome of the special tax is both unpredictable and asymmetric. Unpredictable because of a pending ruling from the Constitutional Court, and asymmetric because, whereas a victory would increase our TP by 0.13/share (5%), losing the case may perpetuate the tax, which would reduce our TP by €0.50/share or 18% of the current TP). We think REE offers higher upside with lower risk.

VALUATION

We are cutting our target prices for the three Iberian networks as shown below. The reasons for these cuts are: (1) an increase in the discount rates applied, in a context of higher bond yields; and (2) higher opex (long-term) due to a more inflationary environment.

Figure 3. Iberian Networks – New vs Old Target Prices and Total Return

(€/share)	TP	Previous	Change	CP	Upside	Total Return
ENG	24.01	26.00	-7.7%	23.15	3.7%	9.8%
REE	18.49	20.85	-11.3%	17.18	7.6%	11.3%
REN	2.73	3.00	-9.1%	2.62	4.1%	10.7%

Source: Santander Investment Bolsa estimates.

In Figure 4, we have broken down the impact of each factor in the TP revision. For REN, the impact of higher rates on the WACC is partly mitigated by an automatic increase in the allowed returns, given that these are calculated from bond yields. In the case of the Spanish companies, although the link between bond yields and allowed returns also exists, it is less automatic because the allowed returns are: (1) revised only at the beginning of the regulatory period (every six years); and (2) based on the moving average of bond yields in the 24 months prior to the start of the new regulatory period (July 2018-June 2020 for ENG and May 2017-April 2019 for REE).

Figure 4. Iberian Networks – Target Price Cut Breakdown

(€/share)	ENG	REE	REN
Previous TP	26.0	20.9	3.01
Old WACC	4.5%	4.9%	4.7%
New WACC	4.7%	5.2%	4.9%
Impact of change of WACC (€)	-0.9	-0.9	-0.2
Impact of change of WACC (%)	**-3.4%**	**-4.4%**	**-6.1%**
Other* (€)	-1.1	-1.4	-0.1
Other* %	-4.4%	-6.9%	-3.3%
New TP	**24.0**	**18.5**	**2.73**
Change	**-7.8%**	**-11.3%**	**-9.4%**

Note: * Other is mainly opex.
Source: Company data and Santander Investment Bolsa estimates.

We are now applying a normalised bond yield of 4% in Spain (REE and ENG) and of 5.0% in Portugal (REN), to which we add a historical risk premium of 4% for both markets.

Had we applied current bond yields (instead of normalised) and current implicit equity risk premiums (ERPs) (instead of historic ones), we would have come to pretty similar outcomes (Figure 3). It is worth mentioning that, according to our estimates, the implicit ERP is lower in Portugal than in Spain. We think this is because Portuguese bond yields have adjusted more quickly than Spanish ones, as shown by the fact that the expected return (ER = 10Y bond + ERP) is higher in Portugal than in Spain (8.4% vs 7.6%).

Figure 5. Iberian Networks – TPs at Historic vs Implicit Equity Risk Premiums

	Historic			Implicit			Change
(€/share)	TP	10Yb	ERP	TP*	10Yb	ERP	vs Historic
ENG	24.01	4.0%	4.0%	24.24	1.7%	5.9%	1.0%
REE	18.49	4.0%	4.0%	18.73	1.7%	5.9%	1.3%
REN	2.73	5.0%	4.0%	2.59	4.0%	4.4%	-5.2%

* TP resulting from discounting the same cash flows at the current implicit rate instead of at the historic rate.
Source: Company data and Santander Investment Bolsa estimates.

Figure 6 shows the main hypothesis used in our WACC calculation. Given that the assets of these companies have a defined regulatory life, and that the debt must be fully repaid before the end of the life is reached, their cash flows cannot be discounted at a fixed WACC. The discount rate will vary as a result of the financial structure of the company each year (rolling WACC). This means that, although we are maintaining certain assumptions unchanged throughout the entire asset life (like the RFR, the ERP, the unlevered beta (Bu) and the unlevered cost of equity (Ku)), others vary depending on the financial structure (levered beta or Bl, E/EV, D/EV, and, eventually, the Ke and the WACC). This is the reason why the financial structure described in the table below does not match with that of our TP (the former is the average of the period, whereas the one of our TP is that at the end of 2017).

Figure 6. Iberian Networks – WACC Calculation

	ENG	REE	REN
10Y bond	4.0%	4.0%	5.0%
ERP	4.0%	4.0%	4.0%
Bu	0.35	0.50	0.50
Ku	5.4%	6.0%	7.0%
Bl*	1.09	0.70	1.25
Ke (IRR of the equity)	**8.4%**	**6.8%**	**10.0%**
Kd	3.7%	3.0%	3.4%
E/EV*	35%	64%	33%
D/EV*	65%	36%	67%
WACC (IRR of the EV)	**4.7%**	**5.2%**	**4.9%**

*Average levered Beta; E/EV and D/EV
Source: Company data and Santander Investment Bolsa estimates.

Figure 7 shows our valuation of the Iberian Networks (using normalised bonds and the historic risk premium) and the most relevant parameters of these valuations (Ke and WACC) as well as the multiples at which the stocks would be trading at current market prices and the multiples implicit in our valuations.

Figure 7. Iberian Networks – Valuation Comparison

ENG

		@ TP		IRR (@ Mkt Price)		
	€mn	Ke	WACC	EV	Equity	Duration
EV	**8,354**	**8.4%**	**4.7%**	**9.1%**	**5.0%**	**11.7**
Net debt (2017E)	-4,873					
ECF	**3,481**					
Peripheral assets	1,850					
Tariff deficit	400					
Contingencies & other	0					
Present value (2017E)	**5,731**					
Nº of shares	238.7					
Present value (€/Sh)	**24.01**					
Pending dividend	1.42					
Intrinsic value	**25.43**					
Current price	23.15					
Upside to TP	**3.7%**					
Total Return	**9.8%**					

@ TP	**2017E**	**2018E**	**2019E**
EV/EBITDA	10.1	10.5	10.6
P/E	14.6	15.1	15.1
Dividend Yield	6.1%	6.4%	6.7%
@ Market Price	**2015E**	**2016E**	**2017E**
EV/EBITDA	9.2	9.2	9.2
P/E	12.9	13.2	13.1
Dividend Yield	6.3%	6.6%	7.0%

REE

		@ TP		IRR (@ Mkt Price)		
	€mn	Ke	WACC	EV	Equity	Duration
EV	**14,925**	**6.8%**	**5.2%**	**7.6%**	**5.5%**	**12.0**
Net debt (2017E)	-5,140					
ECF	**9,785**					
Peripheral assets	304					
Tariff deficit	0					
Contingencies & other	-85					
Present value (2017E)	**10,004**					
Nº of shares	541.1					
Present value (€/Sh)	**18.49**					
Pending dividend	0.62					
Intrinsic value	**19.11**					
Current price	17.18					
Upside to TP	**7.6%**					
Total Return	**11.3%**					

@ TP	**2017E**	**2018E**	**2019E**
EV/EBITDA	10.1	10.5	10.6
P/E	14.6	15.1	15.1
Dividend Yield	6.1%	6.4%	6.7%
@ Market Price	**2015E**	**2016E**	**2017E**
EV/EBITDA	9.2	9.2	9.2
P/E	12.9	13.2	13.1
Dividend Yield	6.3%	6.6%	7.0%

REN

		@ TP		IRR (@ Mkt Price)		
	€mn	Ke	WACC	EV	Equity	Duration
EV	**3,532**	**10.0%**	**4.9%**	**10.8%**	**4.6%**	**9.9**
Net debt (2017E)	-2,535					
ECF	**997**					
Peripheral assets	261					
Tariff deficit	328					
Contingencies & other	-129					
Present value (2017E)	**1,457**					
Nº of shares	534.0					
Present value (€/Sh)	**2.73**					
Pending dividend	0.17					
Intrinsic value	**2.90**					
Current price	2.62					
Upside to TP	**4.1%**					
Total Return	**10.7%**					

@ TP	**2016E**	**2017E**	**2018E**
EV/EBITDA	7.5	7.3	7.2
P/E	13.9	10.6	10.0
Dividend Yield	6.3%	6.3%	6.3%
@ Market Price	**2016E**	**2017E**	**2018E**
EV/EBITDA	7.8	7.6	7.5
P/E	13.4	10.2	9.6
Dividend Yield	6.5%	6.5%	6.5%

Source: Santander Investment Bolsa estimates.

Moreover, given the high degree of uncertainty and controversy about bond yields, in terms of how far and how fast they should rise, we have analysed the sensitivity analysis of our Iberian networks' TPs to changes in both the cost of equity and WACC.

Figure 8. Iberian Networks – Sensitivity of TPs to Changes in the ERP and WACC

		ENG			REE			REN
ERP	**TP**	**Change**	**ERP**	**TP**	**Change**	**ERP**	**TP**	**Change**
6.9%	26.04	8.5%	5.3%	21.46	16.1%	8.5%	2.96	8.5%
7.4%	25.31	5.4%	5.8%	20.38	10.2%	9.0%	2.88	5.5%
7.9%	24.64	2.6%	6.3%	19.40	4.9%	9.5%	2.80	2.6%
8.4%	**24.01**	**0.0%**	**6.8%**	**18.49**	**0.0%**	**10.0%**	**2.73**	**0.0%**
8.9%	23.42	-2.4%	7.3%	17.65	-4.5%	10.5%	2.66	-2.5%
9.4%	22.87	-4.7%	7.8%	16.88	-8.7%	11.0%	2.60	-4.8%
9.9%	22.36	-6.9%	8.3%	16.17	-12.5%	11.5%	2.54	-7.0%
		ENG			**REE**			**REN**
WACC		**Change**	**WACC**	**TP**	**Change**	**WACC**	**TP**	**Change**
3.2%	30.87	28.6%	3.7%	23.98	29.7%	3.4%	3.84	40.7%
3.7%	28.35	18.1%	4.2%	21.96	18.8%	3.9%	3.44	26.0%
4.2%	26.07	8.6%	4.7%	20.14	8.9%	4.4%	3.07	12.4%
4.7%	**24.01**	**0.0%**	**5.2%**	**18.49**	**0.0%**	**4.9%**	**2.73**	**0.0%**
5.2%	22.13	-7.8%	5.7%	16.99	-8.1%	5.4%	2.42	-11.4%
5.7%	20.42	-15.0%	6.2%	15.62	-15.5%	5.9%	2.13	-22.0%
6.2%	18.85	-21.5%	6.7%	14.37	-22.3%	6.4%	1.86	-31.7%

Source: Company data and Santander Investment Bolsa estimates.

This, aside from allowing investors to assess a company's value based on their personal views on interest rates, allows us to look at sensitivity to different aspects of these interest rates: the cost of the equity and the cost of the debt. It is worth highlighting that, whereas TPs are very sensitive to changes in WACC, their sensitivity to changes in the ERP is much more limited. This is because these three companies, like all networks, have high debt levels.

This is very interesting because we think that, to a large extent, the debate about rising rates should be mainly focused on the ERPs instead of on the whole WACC. This is because we believe the cost of debt (Kd) may be more resilient to rising rates than it would seem. The yields at which the bonds issued by these companies trade in the secondary market suggest that they can still issue new bonds at yields substantially lower than all of the following:

(1) their average cost of debt (which implies that the average cost of debt should continue to fall in the coming years);

(2) the sovereign bonds of their respective countries;

(3) the Kd (IRR for the debt) that we are assuming in our valuations (3% for ENG and REE and 3.4% for REN).

This is a phenomenon that may continue in the coming years if, as we think, the expected rise in interest rates proves a long and slow process. In other words, even if the ERP increases, the networks' WACCs could remain at low levels thanks to the Kd inertia.

Figure 9. Iberian Networks – Kd, Corporate and Sovereign Bonds Compared

	ENG	REE	REN
Corporate bond yields (secondary market)	**1.5%**	**1.2%**	**2.0%**
Corporate bond maturity*	May-28	Apr-26	Feb-25
Years to maturity	11.3	9.2	8.0
Current equivalent sovereign bond yield	1.8%	1.3%	3.3%
Spread	-0.3%	-0.1%	-1.3%
Current 10Y sovereign bond yield	1.7%	1.7%	4.0%
Equivalent rate at which corporate could issue	**1.4%**	**1.5%**	**2.7%**
Average cost of debt as of 3Q-2016	2.4%	3.0%	3.4%
Kd (in valuation)	**3.0%**	**3.0%**	**3.4%**

Note. *We have used a long-dated (c10Y) liquid issue in each case.
Source: Company data and Santander Investment Bolsa estimates.

CHANGES TO EARNINGS ESTIMATES

Figure 10 shows our changes in earnings estimates for the different companies. These, in broad terms have consisted of minor adjustments to our previous forecasts. As we explained, our target price revision is due more to discount rates and inflation (and their compound effect in the long run) than to changes in cash flows.

Figure 10. Iberian Networks – Earnings Revision, 2016E-19E

	2016E			2017E			2018E			2019E		
(€ mn)	New	Old	Chg	New	Old	Chg	New	Old	Chg	New	Old	Chg
ENG												
Revenues	1,206	1,208	-2	1,354	1,163	191	1,336	1,141	195	1,333	1,119	214
EBITDA	880	880	0	979	829	150	954	802	152	944	774	170
EBIT	605	594	11	661	554	107	646	538	108	646	521	125
Net profit	414	403	11	427	387	40	419	389	30	421	380	41
Capex	900	138	762	250	175	75	246	171	75	305	150	155
Debt	4,873	4,256	617	5,668	4,041	1,627	5,491	3,869	1,622	5,390	3,681	1,709
REE												
Revenues	1,946	1,946	0	1,974	1,974	0	2,022	2,006	16	2,067	2,034	33
EBITDA	1,475	1,475	0	1,519	1,516	3	1,577	1,559	18	1,632	1,598	34
EBIT	1,010	1,010	0	1,039	1,038	1	1,081	1,067	14	1,121	1,091	30
Net profit	658	658	0	696	694	2	727	717	10	756	735	21
Capex	784	784	0	650	600	50	700	650	50	750	700	50
Debt	5,098	5,098	0	5,140	5,090	50	5,232	5,135	97	5,365	5,234	131
REN												
Revenues	742	738	4	753	742	11	762	744	18	760	742	18
EBITDA	474	470	4	483	473	10	490	474	16	486	471	15
EBIT	258	254	4	269	249	20	280	244	37	289	241	48
Net profit	105	99	6	138	102	35	146	103	43	153	104	49
Capex	170	180	-10	338	180	158	170	180	-10	170	0	170
Debt	2,467	2,414	53	2,535	2,358	177	2,433	2,295	138	2,336	2,051	285

Source: Company data and Santander Investment Bolsa estimates.

We would make some additional comments here:

ENAGÁS

The change in estimates is because, since our last report, the company has invested more than €700mn in reinforcing its position in some subsidiaries: two LNG plants in Spain (BBG and Sagass), a pipeline in Peru (TGP) and another LNG plant in Chile (Quintero), which we had not included before (we only include financial investments once they have been made). Quintero will now be fully consolidated from 2017 (previously it was consolidated by the equity method), given that after acquiring an additional 40% for US$400mn, ENG has a 60% stake in the plant. This is the main reason for our earnings revision, since other adjustments have been minimum.

Our new estimates also assume the termination of the Peruvian project GSP (see pages 12-13) and the removal of its equity contribution from the P&L (we were expecting €13mn in 2017E, €23mn in 2018E and 2019E and €30mn in 2020E with no dividends expected before 2021E). We include a provision of around €21mn in 2016E in order to cover the time value of the US$483mn that we estimate the company will have had immobilised for three years.

Our estimates are pretty much in line with those ENG presented in its strategic plan and reiterated recently. In our view, the fact that the company has reiterated its targets in spite of the GSP termination, can be explained by the fact that the numbers did not include the contribution from green-field projects such as GSP (or Transgas), which in any case would have made only a modest contribution before 2020.

Figure 11. ENG – Strategic Plan 2016-20 vs Our Estimates

	ENG			SAN		
(€ mn)	**CAGR**	**2016**	**2020**	**CAGR**	**2016**	**2020**
Regulated revenues	-0.7%	1,130	1,119	-0.7%	1,136	1,119
EPS	2.0%	415	456	3.3%	414	485
DPS	5.0%	1.39	1.68	5.0%	1.39	1.68
Dividends from subsidiaries		65	140		83.2	100
Cumulative		**Avg**	**Total**		**Avg**	**Total**
FFO		700	3,500		700	3,498
Dividends from subsidiaries		110	550		99	493
WC *		50	250		0	0
Capex		210	1,050		211	1,056
Dividends (distributed)		355	1,775		355	1,775
Discretional cash flow		185	925		133	667

* WC improvements are thanks to recoveries of the tariff deficit that, for simplification in our SOTP, we have deducted from the debt.
Source: Company data and Santander Investment Bolsa estimates.

REE

In the case of REE our adjustments are the result of an increase of €50mn per annum for 2017-19 in capex in transmission in Spain, since our previous estimates now look too conservative. This makes our capex assumptions pretty much aligned with REE's investment plan. This is also the case of the rest of the targets of its strategic plan, which as described below, are very much in line with our numbers. This is not surprising, given REE's high earnings visibility.

Figure 12. REE – Strategic Plan 2014-19 vs Our Estimates

(€ mn)	**REE**	**SAN**
Capex transmission + telecom	3,575	3,584
EPS	5.0%	6.1%
DPS	7.0%	7.0%
Average net debt/EBITDA	3.5x	3.5x

Source: Company data and Santander Investment Bolsa estimates.

Unlike the case for ENG, in which the revenues have been approved, the electricity tariff for 2017 has not yet been cleared, so therefore there is no final figure for transmission revenues in 2017. That said, we do not expect the final figure to force us to make significant revisions to our estimated revenues.

REN

Our estimates for REN now include the recent acquisition of a 42.5% stake in Electrogas in Chile for US$180mn. This acquisition, which was announced a few months ago, has just materialized, once the rest of Electrogas's shareholders decided not to exercise their pre-emptive rights. However, this does not affect our TP for REN, because, as in the case of ENG and REE, we have valued the equity method subsidiaries at book value.

Our EBITDA estimates are slightly above those of REN's strategic plan. We are expecting returns slightly above those presented in the plan due to recent increase of the Portuguese sovereign bond yield, which should increase REN's allowed returns slightly above the current ones. We have also added the contribution from Electrogas' net profit under the equity method (around €18mn-€19mn per annum over 2017E-20E).

Figure 13. REN – Strategic Plan 2015-18, Targets for 2018 and SAN Estimates

	REN				
(€ mn)	**Low**	**High**	**Average**	**SAN**	**Diff**
Electricity	125	140	133	145	12
Gas	50	60	55	43	-12
Total capex	175	200	188	188	0
RAB (€ bn)	3.5	3.5	3.5	3.4	0
EBITDA	450	460	455	490	35
Net profit	120	130	125	146	21
Net debt (€ bn)	2.5	2.5	2.5	2.4	0
DPS 2015-18 (€)	0.171	0.171	0.171	0.171	0

Source: Company data and Santander Investment Bolsa estimates.

NOT PARTICULARLY POSITIVE NEWS FLOW

It is evident that the sector is now out of favour as a result of change of sentiment regarding interest rates, inflation and economic growth. However, it is also true that the news flow generated by the three companies has not been precisely positive (especially in ENG's case). We believe that if this news had appeared at a time when sentiment towards the networks was different, it would probably have had no impact on prices. In our view, the underperformance is more a result of macroeconomic expectations than specific issues, but the latter have provided a good excuse to sell.

These specific issues are: (1) in ENG, the termination of the GSP concession; (2) in REE, the announcement of local taxes on transmission companies; and (3) for REN, the initiation of its international expansion.

ENG – GSP HAS A GREATER IMPACT ON SENTIMENT THAN ON VALUE

In a filing sent to the CNMV, ENG admitted that the financial close of GSP will not take place before its deadline (January 23rd 2017), which would lead to the termination of the concession. GSP (Gasoducto Sur Peruano) is a consortium to build a pipeline in Peru (linking the Camisea fields with the southern coast of Peru) formed by Odebrecht (55% stake), ENG (25%) and the local construction group Graña y Montero (20%).

Although the project is considered of national interest by the Peruvian government, the banks involved declined to finance the concession unless Odebrecht left the consortium, after the Brazilian company admitted that it had used bribery in order to win concessions in many countries. The fact that Odebrecht was unable to sell its stake on time led the consortium to miss its deadline, which led to the termination of the concession.

Once the concession is declared terminated, the Peruvian government has 12 months to put it out to tender again. At the first auction, the government will request a price equal to 100% of the net book value of the concession. If this auction is declared void, it would call a second one, in which it would request 85% of the concession's book value, and could if necessary hold a third one for 72.25% of the book value. If, for whatever reason, the auctions are all void, something that we believe is fairly unlikely, the government will pay the original consortium 72.25% of the book value of the concession as compensation.

In August 2016 Odebrecht signed a contract with ENG and Graña y Montero whereby its equity was subordinated to that of ENG and Graña y Montero. This means that Odebrecht will only start to be compensated once ENG and Graña y Montero have recovered 100% of the net value of their respective stakes in the concession.

The floor valuation of 72.5% of the book value of the concession, together with the subordination of Odebrecht, led ENG to issue a note in which it stated:

- That it expected the recovery of the funds committed to the project in a maximum of three years. This covers the equity of the project (US$268mn) plus the guarantees given to the banks and the Peruvian state (amounting to US$215mn).
- That it maintained the targets presented in its 2016-20 Outlook in terms of net profit and DPS (CAGR 2015-20 of 2% and 5%, respectively).

Negligible quantitative impact

We expect the GSP termination to have a negligible impact on our SOTP valuation for ENG, since we had included GSP at book value:

- We have assumed that, as the company expects, ENG will recover the amount invested (US$483mnmn including the guarantees) in three years' time. This means that the loss should be limited to the time value of the US$483mn during three years (around US$29mn or €28mn).

  The fact that the book value is an audited figure, and that ENG calculates the updated figure every month, makes us confident there should be no surprises in the final book value. The S&P report saying that the termination of GSP does not affect ENG's rating provides additional comfort.

- Although it is true that there is a negative impact on the company's multiples (we were expecting an equity method contribution of €13mn in 2017E; €23mn in 2018E and 2019E; and €30mn in 2020E and a dividend of €40mn by 2021E), this has no effect on the SOTP in which GSP is at book value. In any case, we believe multiples not to be an accurate tool for assessing the value of non-going concern companies like ENG, whose concessions have a limited life span.

Qualitative impact: international expansion is not risk free, but this is not new

Some investors argue that GSP demonstrates that ENG's international expansion is not risk-free. We do not disagree: there is no such thing as risk-free expansion, more so if it is international. This is one of the reasons why we would have preferred to see ENG concentrate on its domestic operations (reducing debt or increasing dividends, if capex is not needed).

However: (1) risk in expansion is not new; (2) the quantitative impact is small, according to our estimates and; (3) as the subordination of Odebrecht's stake highlights, at least its implementation has been fairly cautious.

Although we believe that GSP has damaged consensus' opinion of ENG's international expansion and that this negative sentiment is likely to remain. Even if we do not like ENG's international expansion, we see no reason to change the way we value its equity method subsidiaries. We believe these subsidiaries did not deserve to be valued at a premium to book value; but do not deserve a discount either.

REE – LOCAL TAXES: MUCH ADO ABOUT NOTHING

There have been a number of media reports in recent days about Spanish Supreme Court ruling that allows municipalities to tax utilities for their use of public space in transmission and distribution of electricity.

Several Spanish financial media reports estimated the potential impact of the ruling on REE at €200mn, although admitted immediately afterwards that the final impact would be zero, given that these taxes would be included in access tariffs.

The €200mn annual impact was reached by multiplying the 42,000km of REE's networks by €12,000/km/year and by 40%, which is the proportion of these lines that the sources estimated used public space (the remaining 60% are on land already expropriated).

We estimate an impact of around €32mn. On the one hand, the €12,000/km tax is only for the very high voltage lines (420KV), while lower voltage lines pay much less (€3,000/km). According to REE, €7,000-€8,000km would be a more representative figure for a blended line than €12,000. On the other hand, according to REE, only around 10% (not the 40% mentioned) of its lines use public space. Given REE's long track record of credibility, we find no reason to trust the media more than the company.

Although we disagree with the amounts, we definitely agree with the thesis that the taxes, if eventually imposed, would be included in access tariffs. In our opinion, the argument is very simple: taxes are an additional non-controlling cost imposed on a regulated activity, which, therefore, should be included in REE's opex allowances and subsequently passed through to clients in order to preserve the "fair remuneration" allowed by law. Moreover not including these taxes in the access tariffs would create a dangerous precedent, which would encourage municipalities and regional governments to impose heavy levies on utilities in the hope that they will be paid exclusively by the companies instead of taxpayers (and hence have no negative impact on votes).

The news on the local taxes seems to be much ado about nothing. However, in the current environment, any source of potential uncertainty is taken as a good excuse to sell the shares.

REN – INITIATES ITS INTERNATIONAL EXPANSION

REN has just completed the acquisition of 42.5% of Electrogas for US$180mn from Enel Chile. Electrogas has a 165km reversible natural gas pipeline in Chile, linking the Quintero regasification plant with Santiago de Chile and the port of Valparaiso. It also has a 20km diesel oil pipeline. REN says the pipeline has a long-term PPA and take-or-pay clauses with its main offtakers. The latter include electricity companies like Endesa, Colbún and AES Gener, the main local natural gas distributors, Metrogas and GasValpo, and the state-owned holding company ENAP.

REN finalised the acquisition of Electrogas after the current shareholders (Colbún with 42.5% and ENAP with 15%) decided not to exercise their pre-emptive rights.

In our opinion:

- **Quantitatively** there is no much we can say at this stage, given that we lack enough information to estimate a fair value for Electrogas and the value creation/destruction the transaction represents. In any case, this acquisition is not big enough to move the needle and we have no initial reason to affirm that it is value destructive. Therefore, we value Electrogas at REN's invested capital, as it is in the cases of ENG and REE (with no premium and no discount).
- **Qualitatively,** as with REE and ENG, we would prefer REN to concentrate on its domestic business and on reducing debt and/or increasing dividends when possible. This is particularly true in an environment in which, due to tough competition, returns from international infrastructure assets are under pressure.

REN is initiating its international expansion at a time when networks are out of favour and just after ENG's international expansion has suffered its first reversal. We think this is unlikely to be good for its stock price momentum.

Figure 15. Enagás – Financial Statements, 2012-20

Profit & Loss (€ mn)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenue	1,199	1,308	1,224	1,222	1,206	1,354	1,336	1,333	1,373
Gross margin	1,199	1,308	1,224	1,222	1,206	1,354	1,336	1,333	1,373
Opex	-265	-280	-284	-321	-326	-375	-382	-390	-408
Opex growth	-1.8%	5.8%	1.4%	13.1%	1.5%	15.0%	2.0%	2.0%	4.7%
EBITDA	**934**	**1,028**	**940**	**901**	**880**	**979**	**954**	**944**	**965**
% change	**5.5%**	**10.0%**	**-8.6%**	**-4.2%**	**-2.3%**	**11.3%**	**-2.6%**	**-1.1%**	**2.3%**
Depreciation	-316	-359	-350	-299	-275	-318	-308	-297	-311
Subsidies & other	0	0	0	0	0	0	1	2	3
EBIT	619	669	590	602	605	661	646	646	654
% change	5.6%	8.1%	-11.8%	2.1%	0.5%	9.3%	-2.3%	0.0%	1.2%
Net financials	-76	-104	-94	-45	-68	-106	-96	-92	-32
Recurrent profit	543	565	495	557	537	555	550	554	622
% change	4.3%	4.1%	-12.3%	12.5%	-3.6%	3.3%	-0.9%	0.8%	12.2%
Non-recurrent	0	0	0	0	0	0	0	0	0
Pre-tax	543	565	495	557	537	555	550	554	622
Taxes	-163	-161	-88	-144	-124	-119	-119	-120	-123
Tax rate %	**30%**	**28%**	**18%**	**26%**	**23%**	**21%**	**22%**	**22%**	**20%**
Minorities	0	-1	-1	-1	0	-9	-12	-13	-14
Net profit	**380**	**403**	**407**	**413**	**414**	**427**	**419**	**421**	**485**
% change	4.1%	6.2%	0.9%	1.5%	0.2%	3.3%	-1.9%	0.6%	15.0%
Cash Flow Statement (€ mn)	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
EBIT	619	669	590	602	605	661	646	646	654
Depreciation	316	359	350	299	275	318	308	297	311
Capitalisation	0	0	0	0	0	0	0	0	0
Other	0	-17	-12	0	0	0	0	0	0
Operating cash flow	**934**	**1,011**	**928**	**901**	**880**	**979**	**954**	**944**	**965**
Interest	-98	-117	-110	-106	-110	-106	-153	-149	-145
Taxes	-163	-161	-190	-144	-124	-119	-119	-120	-123
Deferred taxes	60	-38	0	0	0	0	0	0	0
Other	-15	-1	0	-3	0	0	0	0	0
Net operating cash flow	**582**	**569**	**557**	**673**	**579**	**855**	**771**	**772**	**785**
Capex	-387	-475	-146	-132	-95	-250	-246	-305	-120
Financial invest/divestments	-180	-56	-491	-326	-805	0	0	0	0
Working capital	-136	-125	-81	-23	-150	0	0	0	0
FCF	**15**	**38**	**-80**	**215**	**-321**	**605**	**525**	**467**	**665**
Dividends	-237	-280	-307	-313	-315	-332	-348	-366	-384
Change in financial structure	-222	-242	-387	-98	-636	273	177	101	281
Debt	**178**	**-970**	**604**	**-10**	**636**	**-273**	**-177**	**-101**	**-281**
Cash	-52	1,126	-198	327	0	0	0	0	0
Other	96	86	-18	-220	0	0	0	0	0
Balance	0	0	0	-1	0	0	0	0	0
Balance Sheet (€ mn)	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Tangible & intangible assets	5,754	5,882	5,840	5,808	5,628	6,435	6,373	6,380	6,189
Long-term financials	182	183	741	1,191	1,956	1,901	1,859	1,817	1,830
Deferred	42	72	72	73	73	73	73	73	73
Working assets	626	721	508	455	605	875	875	875	875
Cash	1,480	353	552	225	225	458	458	458	458
Assets	**8,083**	**7,211**	**7,712**	**7,752**	**8,487**	**9,742**	**9,638**	**9,604**	**9,426**
Equity	2,005	2,126	2,246	2,377	2,476	2,569	2,640	2,696	2,796
Minorities	0	14	14	14	14	36	38	49	51
Provisions	175	177	163	167	167	167	167	167	167
Other	497	494	391	357	357	357	357	357	357
Gross debt	5,113	4,144	4,606	4,596	5,232	6,260	6,083	5,982	5,701
Working liabilities	293	257	292	241	241	353	353	353	353
Liabilities	**8,083**	**7,211**	**7,712**	**7,752**	**8,487**	**9,742**	**9,638**	**9,604**	**9,426**

Source: Company data and Santander Investment Bolsa estimates.

Figure 16. Enagás – Key Data, 2012-20E

FY to December 31 (€ mn)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Financial ratios									
Net debt	3,634	3,790	4,054	4,237	4,873	5,668	5,491	5,390	5,109
Debt to equity	181%	177%	179%	177%	196%	218%	205%	196%	179%
Debt to EBITDA (x)(	3.9	3.7	4.3	4.8	5.6	5.9	5.9	5.8	5.4
Interest coverage (%)	9.6	8.8	8.5	9.5	8.0	6.0	6.3	6.3	6.7
Payout ratio	70%	75%	76%	76%	80%	81%	87%	91%	83%
Average equity	2,005	2,139	2,260	2,392	2,490	2,606	2,678	2,745	2,847
Invested capital	5,456	5,747	5,574	5,571	5,541	6,506	6,444	6,452	6,261
Avg invested capital adjusted	5,456	5,747	5,574	5,571	5,541	6,506	6,444	6,452	6,261
ROE (%) (average equity)	18.9%	19.0%	18.1%	17.4%	16.7%	16.6%	15.9%	15.6%	17.3%
ROCE (%)	7.9%	8.3%	8.7%	8.0%	8.4%	8.0%	7.9%	7.9%	8.4%
Per Share Data (€)	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Nº of shares (‘000s)	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7
Average nº of shares (‘000s)	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7
EPS	1.59	1.69	1.70	1.73	1.73	1.79	1.76	1.77	2.03
% change	4.1%	6.2%	0.9%	1.5%	0.2%	3.3%	-1.9%	0.6%	15.0%
Normalised EPS	1.59	1.69	1.70	1.73	1.73	1.79	1.76	1.77	2.03
% change	4.1%	6.2%	0.9%	1.5%	0.2%	3.3%	-1.9%	0.6%	15.0%
Pure cash EPS	2.82	3.14	3.11	2.77	2.71	3.12	3.06	3.02	3.12
% change	5.4%	11.3%	-1.1%	-10.8%	-2.4%	15.2%	-1.9%	-1.1%	3.2%
CFPS	2.91	3.19	3.17	2.98	2.89	3.12	3.04	3.01	3.33
% change	4.7%	9.6%	-0.7%	-6.0%	-3.2%	8.2%	-2.5%	-1.1%	10.7%
DPS	1.11	1.27	1.30	1.32	1.39	1.46	1.53	1.60	1.68
% change	12.1%	13.8%	2.7%	1.5%	5.0%	5.0%	5.0%	5.0%	5.0%
BVPS	8.40	8.90	9.41	9.96	10.37	10.76	11.06	11.29	11.71
Share Price (€/sh)	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Latest	13.66	17.11	24.87	26.00	24.13	**23.15**	-	-	-
High	13.83	17.37	25..302	27.89	27.08	24.47	-	-	-
Low	10.00	13.66	16.85	23.01	22.33	22.45	-	-	-
Average	11.76	16.01	21.46	25.52	25.08	23.45	-	-	-
Valuation (on Latest Price)	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Market cap	5,527	5,527	5,527	5,527	5,527	5,527	5,527	5,527	5,527
Net debt	3,634	3,790	4,054	4,237	4,873	5,668	5,491	5,390	5,109
Provisions	0	0	0	0	0	0	0	0	0
Financial investments	0	14	14	14	14	36	38	49	51
Adjustments (tariff deficit)	-1,768	-1,768	-1,768	-1,768	-1,768	-1,850	-1,850	-1,850	-1,850
EV	-125	-125	-216	-350	-400	-400	-400	-400	-400
EV/EBITDA (x)	**7,268**	**7,438**	**7,611**	**7,660**	**8,246**	**8,980**	**8,805**	**8,716**	**8,437**
EV/EBIT (x)	**7.8**	**7.2**	**8.1**	**8.5**	**9.4**	**9.2**	**9.2**	**9.2**	**8.7**
EV/invested capital (x)	11.8	11.1	12.9	12.7	13.6	13.6	13.6	13.5	12.9
P/E (x)	1.3	1.3	1.4	1.4	1.5	1.4	1.4	1.4	1.3
Normalised P/E (x)	14.6	13.7	13.6	13.4	13.4	12.9	13.2	13.1	11.4
Pure cash P/E (x)	14.6	13.7	13.6	13.4	13.4	12.9	13.2	13.1	11.4
P/CF (x)	**8.2**	**7.4**	**7.5**	**8.3**	**8.6**	**7.4**	**7.6**	**7.7**	**7.4**
P/BV (x)	7.9	7.2	7.3	7.8	8.0	7.4	7.6	7.7	6.9
FCF yield	2.8	2.6	2.5	2.3	2.2	2.2	2.1	2.1	2.0
Yield	0.3%	0.7%	-1.4%	3.9%	-5.8%	11.0%	9.5%	8.4%	12.0%

Source: Company data and Santander Investment Bolsa estimates.

Figure 17. REE – P&L Main Data, 2012-20E

Profit & Loss (€ mn)	2012	2013	2014E	2015	2016E	2017E	2018E	2019E	2020E
Transmission revenue	1,613	1,715	1,698	1,675	1,683	1,698	1,719	1,750	1,781
N+2	0	0	0	62	53	59	71	71	71
System operation	40	40	56	56	56	56	56	56	56
Adif	0	0	7	84	91	97	102	104	106
Pumping	0	0	0	0	0	0	0	0	0
Other revenue	103	4	86	63	63	64	75	86	88
Revenue	**1,755**	**1,758**	**1,847**	**1,939**	**1,946**	**1,974**	**2,022**	**2,067**	**2,102**
Gross margin	1,686	1,691	1,787	1,891	1,897	1,925	1,970	2,014	2,047
Opex	-419	-424	-427	-466	-458	-446	-435	-423	-430
Opex growth	2.8%	1.1%	0.7%	9.2%	-1.7%	-2.6%	-2.6%	-2.6%	1.5%
Other	32	34	25	33	36	40	41	41	14
EBITDA	**1,299**	**1,302**	**1,385**	**1,458**	**1,475**	**1,519**	**1,577**	**1,632**	**1,630**
% change	**6.9%**	**0.2%**	**6.4%**	**5.3%**	**1.1%**	**3.0%**	**3.8%**	**3.5%**	**-0.1%**
Depreciation	-405	-417	-441	-490	-485	-501	-517	-532	-532
Subsidies & other	-34	13	5	20	20	21	21	22	22
EBIT	**860**	**899**	**949**	**989**	**1,010**	**1,039**	**1,081**	**1,121**	**1,120**
% change	1.9%	4.5%	5.6%	4.2%	2.1%	2.9%	4.1%	3.7%	-0.1%
Net financials	-179	-166	-96	-159	-132	-112	-112	-113	-124
Recurrent profit	680	733	854	830	877	927	970	1,008	996
% change	-0.5%	7.7%	16.4%	-2.8%	5.8%	5.7%	4.5%	4.0%	-1.2%
Non-recurrent	0	0	0	0	0	0	0	0	0
Pre-tax	680	733	854	830	877	927	970	1,008	996
Taxes	-188	-203	-134	-223	-219	-232	-242	-252	-249
Tax rate %	**28%**	**28%**	**16%**	**27%**	**25%**	**25%**	**25%**	**25%**	**25%**
Minorities	0	0	-1	-1	0	0	0	0	0
Net profit	**492**	**530**	**718**	**606**	**658**	**696**	**727**	**756**	**747**
% change	**6.9%**	**7.7%**	**35.5%**	**-15.6%**	**8.6%**	**5.7%**	**4.5%**	**4.0%**	**-1.2%**

Cash Flow Statement	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
EBIT	860	899	949	989	1,010	1,039	1,081	1,121	1,120
Depreciation	405	417	441	490	485	501	517	532	532
Capitalisation	15	0	-5	-8	-44	-49	-49	-49	-22
Other	**1,280**	**1,315**	**1,385**	**1,470**	**1,452**	**1,491**	**1,549**	**1,604**	**1,630**
Operating CF	-165	-167	-170	-172	-152	-128	-130	-132	-128
Interest	-109	-167	-227	-163	-219	-232	-242	-252	-249
Taxes	-197	209	-498	197	-53	-59	-71	-71	-71
Accelerated depreciation	-8	-8	0	-24	0	0	0	0	0
Net operating CF	**801**	**1,183**	**490**	**1,308**	**1,027**	**1,072**	**1,106**	**1,149**	**1,182**
Capex	-706	-596	-496	-448	-500	-600	-600	-600	0
Fin. invest/divestments	0	0	-462	0	-234	0	0	0	0
Working capital	0.0	71.0	-95.0	0.0	-50.0	-50.0	-100.0	-150.0	-150.0
FCF	**96**	**658**	**-563**	**860**	**243**	**422**	**406**	**399**	**1,032**
Dividends	-299	-319	-344	-405	-434	-465	-497	-532	-569
Changes in fin. structure	-204	339	-907	455	-192	-43	-92	-133	463
Debt	204	-339	907	-380	192	43	92	133	-463
Cash	0	0	0	-87	0	0	0	0	0
Other	0	0	0	12	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0

Balance Sheet	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Tangible & intang. assets	8,289	8,513	9,032	9,003	9,091	9,268	9,479	9,724	9,342
Long-term financials	66	66	72	120	374	391	408	428	431
Other	132	35	34	33	33	33	33	33	33
Working assets	687	591	1,120	1,055	1,108	1,167	1,238	1,309	1,381
Cash	40	215	299	387	387	387	387	387	387
Assets	**9,215**	**9,420**	**10,558**	**10,598**	**10,993**	**11,246**	**11,546**	**11,882**	**11,575**
Equity	1,987	2,207	2,529	2,745	2,969	3,200	3,430	3,654	3,832
Minorities	4	18	23	15	15	15	15	15	15
Provisions	65	84	106	85	85	85	85	85	85
Other	1,130	1,090	1,036	1,129	1,109	1,088	1,066	1,045	1,022
Gross debt	4,913	4,663	5,799	5,419	5,611	5,653	5,745	5,878	5,415
Working liabilities	1,116	1,358	1,065	1,205	1,205	1,205	1,205	1,205	1,205
Liabilities	**9,215**	**9,420**	**10,558**	**10,598**	**10,993**	**11,246**	**11,546**	**11,882**	**11,575**

Source: Company data and Santander Investment Bolsa estimates.

Figure 18. REE – Main Multiples, 2012-20E

FY to December 31 (€ mn)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Financial ratios									
Net debt	4,873	4,541	5,409	4,906	5,098	5,140	5,232	5,365	4,902
Debt to equity	245%	204%	212%	178%	171%	160%	152%	146%	127%
Debt to EBITDA (x)	3.8	3.5	3.9	3.4	3.5	3.4	3.3	3.3	3.0
Interest coverage (%)	7.2	7.8	9.4	9.2	11.1	13.6	14.1	14.4	13.1
Pay-out ratio	65%	65%	57%	72%	71%	71%	73%	75%	75%
Average equity	1,992	2,225	2,552	2,761	2,985	3,216	3,446	3,670	3,848
Invested capital	6,798	6,607	7,980	7,673	7,834	8,091	8,395	8,734	8,445
Avg adj. invested capital	6,634	6,702	7,293	7,826	7,754	7,963	8,243	8,564	8,589
ROE (%) (average equity)	9.3%	9.5%	11.0%	9.1%	9.7%	9.6%	9.6%	9.6%	9.8%
ROCE (%)	25.9%	25.3%	30.3%	23.0%	23.0%	22.6%	21.9%	21.3%	20.0%

Per Share Data (€)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Nº of shares ('000s)	541.1	541.1	541.1	541.1	541.1	541.1	541.1	541.1	541.1
Average nº of shares ('000s)	541.1	541.1	541.1	541.1	541.1	541.1	541.1	541.1	541.1
EPS	0.91	0.98	1.33	1.12	1.22	1.29	1.34	1.40	1.38
% change	6.9%	7.7%	35.5%	-15.6%	8.6%	5.7%	4.5%	4.0%	-1.2%
Normalised EPS	0.91	0.98	1.33	1.12	1.22	1.29	1.34	1.40	1.38
% change	6.9%	7.7%	35.5%	-15.6%	8.6%	5.7%	4.5%	4.0%	-1.2%
Pure cash EPS	1.66	1.75	2.14	2.02	2.11	2.21	2.30	2.38	2.36
% change	6.5%	5.5%	22.4%	-5.4%	4.4%	4.7%	3.9%	3.6%	-0.7%
CFPS	1.72	1.69	2.06	1.93	2.00	2.10	2.18	2.26	2.32
% change	12.4%	-1.7%	22.2%	-6.6%	4.1%	4.7%	4.0%	3.7%	2.4%
DPS	0.59	0.64	0.75	0.80	0.86	0.92	0.98	1.05	2.07
% change	6.9%	7.5%	18.0%	7.0%	7.0%	7.0%	7.0%	7.0%	97.0%
BVPS	3.67	4.08	4.67	5.07	5.49	5.91	6.34	6.75	7.08

Share Price (€/sh)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Latest	7.98	11.01	17.35	19.05	17.67	**17.18**	-	-	-
High	8.43	11.01	17.76	20.21	20.28	17.71	-	-	-
Low	5.96	7.98	10.93	16.79	16.23	16.40	-	-	-
Average	7.25	9.38	14.61	18.30	18.38	17.05	-	-	-

Valuation (on Latest Price)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Market cap	9,293	9,293	9,293	9,293	9,293	9,293	9,293	9,293	9,293
Net debt	4,873	4,448	5,500	5,032	5,224	5,266	5,358	5,491	5,028
Provisions	65	84	106	85	85	85	85	85	85
Financial investments	-304	-304	-304	-304	-304	-304	-304	-304	-304
Adjustments (tariff deficit)	4	18	0	0	0	0	0	0	0
EV	**13,932**	**13,539**	**14,594**	**14,106**	**14,297**	**14,340**	**14,432**	**14,565**	**14,102**
EV/EBITDA (x)	**10.7**	**10.4**	**10.5**	**9.7**	**9.7**	**9.4**	**9.2**	**8.9**	**8.6**
EV/EBIT (x)	16.2	15.1	15.4	14.3	14.2	13.8	13.3	13.0	12.6
EV/invested capital (x)	2.1	2.0	2.0	1.8	1.8	1.8	1.8	1.7	1.6
P/E (x)	18.9	17.5	12.9	15.3	14.1	13.4	12.8	12.3	12.4
Normalised P/E (x)	18.9	17.5	12.9	15.3	14.1	13.4	12.8	12.3	12.4
Pure cash P/E (x)	**10.4**	**9.8**	**8.0**	**8.5**	**8.1**	**7.8**	**7.5**	**7.2**	**7.3**
P/CF (x)	10.0	10.2	8.3	8.9	8.6	8.2	7.9	7.6	7.4
P/BV (x)	4.7	4.2	3.7	3.4	3.1	2.9	2.7	2.5	2.4
FCF yield	1.0%	7.1%	-6.1%	9.3%	2.6%	4.5%	4.4%	4.3%	11.1%
Yield	**3.4%**	**3.7%**	**4.4%**	**4.7%**	**5.0%**	**5.3%**	**5.7%**	**6.1%**	**12.1%**

Source: Company data and Santander Investment Bolsa estimates.

Figure 19. REN – P&L, 2012-20E

Profit & Loss (€ mn)	2012	2013	2014E	2015	2016E	2017E	2018E	2019E	2020E
Transmission revenue	585.1	560.8	554.3	522.3	534.1	547.9	560.1	560.2	551.5
Other revenue	226.2	228.0	201.4	297.0	208.0	204.8	201.9	199.3	144.2
Revenue	**811.3**	**788.8**	**755.7**	**819.3**	**742.1**	**752.7**	**762.1**	**759.6**	**695.7**
Gross margin	638.4	626.6	612.9	596.7	583.5	594.1	603.5	601.0	587.3
Opex	-109.8	-97.6	-93.6	-93.7	-95.6	-97.5	-98.9	-100.4	-101.9
Opex growth	8.5%	-11.1%	-4.1%	0.1%	2.0%	2.0%	1.5%	1.5%	1.5%
Other	-16.6	-7.6	-14.1	-13.7	-13.9	-14.1	-14.3	-14.5	-14.7
EBITDA	**512.0**	**521.4**	**505.2**	**489.3**	**474.0**	**482.5**	**490.2**	**486.0**	**470.7**
% change	**10.1%**	**1.8%**	**-3.1%**	**-3.1%**	**-3.1%**	**1.8%**	**1.6%**	**-0.9%**	**-3.2%**
Depreciation	-197.4	-201.2	-202.6	-209.3	-216.1	-213.3	-210.2	-197.1	-184.0
EBIT	**314.6**	**320.2**	**302.5**	**280.0**	**257.9**	**269.2**	**280.0**	**288.9**	**286.6**
% change	11.1%	1.8%	-5.5%	-7.4%	-7.9%	4.4%	4.0%	3.2%	-0.8%
Net financials	-136.0	-142.2	-113.8	-98.6	-78.4	-51.1	-50.5	-49.5	-45.9
Recurrent profit	178.6	178.0	188.7	181.5	179.5	218.1	229.5	239.4	240.7
% change	-0.7%	-0.3%	6.0%	-3.8%	-1.1%	21.5%	5.2%	4.3%	0.5%
Non-recurrent	-3.8	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax	174.8	177.4	188.7	181.5	179.5	218.1	229.5	239.4	240.7
Taxes	-54.7	-56.7	-76.0	-65.4	-74.7	-80.5	-83.6	-86.2	-86.4
Tax rate %	*31.3%*	*32.0%*	*40.3%*	*36.0%*	*41.6%*	*36.9%*	*36.4%*	*36.0%*	*35.9%*
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	**120.1**	**120.7**	**112.7**	**116.1**	**104.8**	**137.6**	**145.9**	**153.2**	**154.3**
% change	*-8.2%*	*0.5%*	*-6.6%*	*3.0%*	*-9.7%*	*31.3%*	*6.0%*	*5.0%*	*0.7%*
Cash Flow Statement	**2012**	**2013**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Cash flow	**190.0**	**355.9**	**239.6**	**409.0**	**324.7**	**333.3**	**335.5**	**328.6**	**313.6**
% change	-36.2%	87.4%	-32.7%	70.8%	-20.6%	2.6%	0.7%	-2.0%	-4.6%
Working capital	-228.6	24.0	-45.0	-79.0	-70.0	0.0	0.0	0.0	0.0
Capex	-201.5	-188.0	-128.0	-275.0	-170.0	-170.0	-170.0	-170.0	0.0
Financial invest & other	8.9	6.7	8.9	6.3	5.5	-140.3	28.3	29.0	29.8
FCF	**-231**	**199**	**75**	**61**	**90**	**23**	**194**	**188**	**343**
Dividends	**-89.7**	**-89.7**	**-90.9**	**-91.3**	**-91.3**	**-91.3**	**-91.3**	**-91.3**	**-91.3**
Rights issue	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0
Other	0.0	0.0	-20.0	0.0	0.0	0.0	0.0	0.0	0.0
Chg in financial structure	321.0	-108.9	35.4	30.0	1.1	68.3	-102.4	-96.3	-252.0
Balance Sheet	**2012**	**2013**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Fixed assets	3,891	3,877	3,838	3,869	3,823	3,780	3,739	3,712	3,528
Long-term financials	129	114	106	25	30	222	246	270	295
Other long term	267	311	323	359	359	359	359	359	359
Working assets	337	591	543	274	344	344	344	344	344
Cash	61	168	114	64	64	64	64	64	64
Assets	**4,686**	**5,061**	**4,925**	**4,590**	**4,619**	**4,768**	**4,751**	**4,748**	**4,589**
Equity	1,028	1,080	1,136	1,161	1,175	1,221	1,276	1,337	1,400
Minorities	0	0	0	0	0	0	0	0	0
Provisions	111	131	132	129	129	129	129	129	129
Other	444	479	445	103	117	151	182	214	244
Gross debt	2,735	2,680	2,604	2,542	2,543	2,611	2,509	2,413	2,161
Working liabilities	370	692	608	655	655	655	655	655	655
Liabilities	**4,686**	**5,061**	**4,925**	**4,590**	**4,619**	**4,768**	**4,751**	**4,748**	**4,589**

Source: Company data and Santander Investment Bolsa estimates.

Figure 20. REN – Main Multiples, 2012-20E

Financial Ratios (€ mn)	2012	2013	2014E	2015	2016E	2017E	2018E	2019E	2020E
Net debt	**2,512**	**2,439**	**2,436**	**2,466**	**2,467**	**2,535**	**2,433**	**2,336**	**2,084**
Debt to equity	244%	226%	215%	212%	210%	208%	191%	175%	149%
Debt to EBITDA (x)	4.9	4.7	4.8	5.0	5.2	5.3	5.0	4.8	4.4
Interest coverage (%)	3.57	3.48	4.12	4.70	5.65	6.48	6.60	6.58	6.64
Payout ratio	75%	76%	81%	79%	87%	66%	63%	60%	147%
ROE (%) (average equity)	11.6%	11.5%	10.2%	10.1%	9.0%	11.5%	11.7%	11.7%	11.3%
ROCE (%)	6.1%	6.3%	6.0%	5.6%	5.1%	5.2%	4.8%	5.0%	5.1%

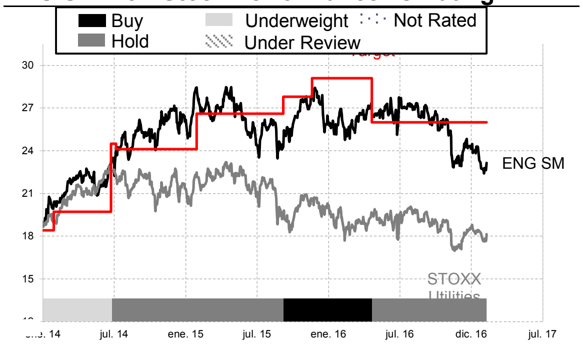
Per Share Data (€)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Nº of shares ('000s)	534	534	534	534	534	534	534	534	534
Avge. nº of shares ('000s)	534	534	534	534	534	534	534	534	534
EPS	0.22	0.23	0.21	0.22	0.20	0.26	0.27	0.29	0.29
% change	*-8.2%*	*0.5%*	*-6.6%*	*3.0%*	*-9.7%*	*31.3%*	*6.0%*	*5.0%*	*0.7%*
CFPS	0.58	0.59	0.57	0.60	0.59	0.61	0.62	0.61	0.59
% change	*0.6%*	*1.4%*	*-2.5%*	*4.4%*	*-1.4%*	*3.8%*	*1.5%*	*-1.9%*	*-3.9%*
DPS	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.43
% change	*0.0%*	*1.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*149.0%*
BVPS	1.92	2.02	2.13	2.17	2.20	2.29	2.39	2.50	2.62

Share Price (€/sh)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Latest	1.96	2.26	2.26	2.78	2.70	**2.62**	-	-	-
High	2.27	2.66	2.66	2.89	2.75	2.73	-	-	-
Low	1.88	1.69	1.98	2.23	2.35	2.54	-	-	-
Average	2.06	2.17	2.42	2.63	2.59	2.61	-	-	-

Valuation (on Latest Price)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Market cap	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399
EV	3,816	3,773	3,725	3,673	3,674	3,643	3,540	3,444	3,192
EV/IC (x)	1.0	1.1	1.0	1.0	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	**7.5**	**7.2**	**7.4**	**7.5**	**7.8**	**7.5**	**7.2**	**7.1**	**6.8**
EV/EBIT (x)	12.1	11.8	12.3	13.1	14.2	13.5	12.6	11.9	11.1
P/E (x)	11.6	11.6	12.4	12.1	13.4	10.2	9.6	9.1	9.1
Normalised P/E (x)	11.3	11.5	12.4	12.1	13.4	10.2	9.6	9.1	9.1
Pure cash P/E (x)	3.3	3.3	3.3	3.2	3.3	3.0	2.9	3.0	3.1
P/CF (x)	4.5	4.5	4.6	4.4	4.4	4.3	4.2	4.3	4.5
P/BV (x)	1.4	1.3	1.2	1.2	1.2	1.1	1.1	1.0	1.0
FCF Yield	-16.5%	14.2%	5.4%	4.4%	6.4%	1.6%	13.8%	13.4%	24.5%
Yield	**6.4%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**16.2%**

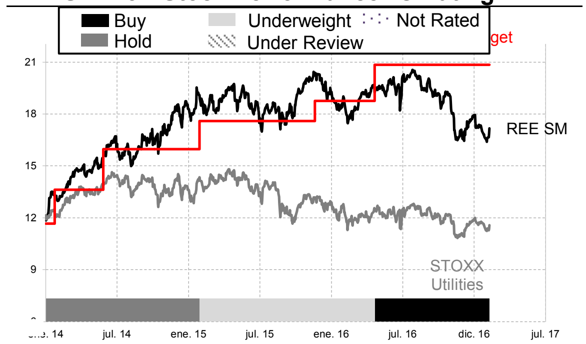
Source: Company data and Santander Investment Bolsa estimates.

ENG SM – 3Y Stock Performance vs Rating



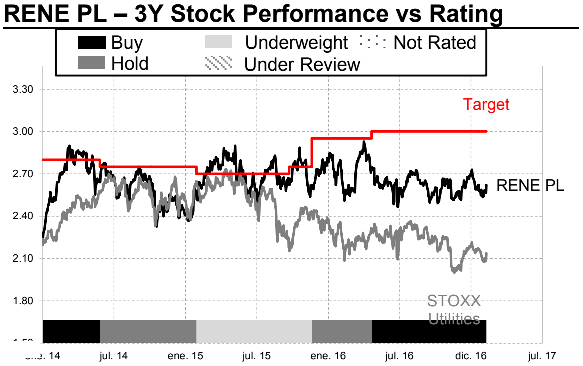
Source: FactSet and Santander Investment Bolsa.

REE SM – 3Y Stock Performance vs Rating



Source: FactSet and Santander Investment Bolsa.

RENE PL – 3Y Stock Performance vs Rating



Source: FactSet and Santander Investment Bolsa.

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		% of Companies	
Rating	**Definition**	**Covered with This Rating**	**Provided with Investment Banking Services in the Past 12 Months**
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Hold	Upside of 10%-15%.	29.58	11.27
Underweight	Upside of less than 10%.	14.79	4.93
Under Review		0	0

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(*) Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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