

## Equities

10 May 2012 | 11 pages

# European Utilities Daily

## Today's Highlights

- **UK ENERGY - UK Energy Bill** — Yesterday the UK government outlined its legislative program for the coming session of Parliament and confirmed that an Energy Bill would be laid before Parliament in this session.
- **IBERDROLA - Term loan and revolving credit agreement for an aggregate amount of €1bn (may be increased up to €1.2bn)** — Iberdrola announced today a financial transaction consisting of a term loan amounting to €536m (3 year, IBE can request a one-year extension on the first anniversary, and another one-year extension on the second anniversary) and a revolving credit facility amounting to €464m (5 year).

Figure 1. Market Data

	Current	1wk Change	YTD
<b>Baseload Power (€/MWh – except UK £/MWh)</b>			
UK 2012	50.75	-3.43%	10.09%
French 2013	49.80	-0.40%	-1.87%
German 2013	49.55	-1.20%	-4.71%
Spanish 2013	49.35	-1.30%	-4.17%
Nordic 2013	37.80	-2.83%	-6.78%
Italian 2013	73.11	-3.17%	-3.10%
<b>Natural Gas (p/th)</b>			
UK Q1 2013	71.05	-3.4%	3.9%
UK Oct 1yr 2012	64.25	-3.7%	3.3%
Dutch TTF Q1 2013	66.18	-3.6%	7.5%
Dutch TTF Year 2013	62.64	-3.4%	5.1%
<b>Coal (\$/t)</b>			
ARA (CIF) 2012	105.76	-1.6%	-8.8%
<b>Oil (\$/barrel)</b>			
Brent 1 Month Fwd	113.20	-5.4%	1.0%
<b>Carbon (close price €/t)</b>			
EUA 2012	6.79	-10.3%	2.9%
EUA 2013	7.20	-10.6%	0.0%
10yr Gilt (%)	1.82	-7.1%	-9.8%
10yr EuroBund (%)	1.44	-6.9%	-22.1%
10yr US Treasury (%)	1.84	-4.5%	-2.1%

Source: Bloomberg, Platts, Datastream

- Best Ideas
- Daily
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- Industry Overview

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## Today's Highlights

### UK ENERGY - UK Energy Bill

Yesterday the UK government outlined its legislative program for the coming session of Parliament and confirmed that an Energy Bill would be laid before Parliament in this session. The Energy Bill will give legislative force to the proposed Electricity Market Reform proposals, which have three elements. First, the replacement of the ROC renewable energy support mechanism with a Contract for Difference Feed-in-tariff mechanism. Second, the introduction of a capacity payment mechanism for generations, and third, the introduction of emission performance standards for new power stations.

#### COMMENT

It is expected that the Energy Bill itself will be drafted as an "enabling bill" i.e. the Bill will have few details on the measures themselves but will give power to the Secretary of State to implement reforms. For the detail of how the individual measures are actually to be introduced we must wait for DECC's next technical update which is scheduled to be published by the end of May.

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#### Recommendation

Rating	Buy
Risk	
Target Price	€4.7
Current Price	€3.415

### IBERDROLA (IBE.MC; €3.42; 1) - Term loan and revolving credit agreement for an aggregate amount of €1bn (may be increased up to €1.2bn)

Iberdrola announced today a financial transaction consisting of a term loan amounting to €536m (3 year, IBE can request a one-year extension on the first anniversary, and another one-year extension on the second anniversary) and a revolving credit facility amounting to €464m (5 year). The initial aggregate amount of the Financial Transaction (€1bn) may be increased up to €1.2bn upon request of Iberdrola International. The interest rate applying to the loan is Euribor +150bps, the one applying to the credit facility is Euribor +140bps, both of them annual and adjustable based on the variations of the credit rating of Iberdrola.

#### COMMENT

IBE continues to get financing at competitive prices (IBE's average cost of debt FY11 4.6%). This transaction will reinforce its healthy liquidity situation €9.3bn by the end of 2011.

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### CENTRICA (CNA.L; £3.12; 2) - Q1 IMS pre-market tomorrow

#### Recommendation

Rating	Neutral
Risk	
Target Price	300p
Current Price	311.6p

Centrica will release their Q1 IMS pre-market tomorrow. This will be Centrica's first market up date since their FY results on 23 February. We expect the following areas to be of key focus:

- An update on residential gas and electricity demand. Demand in Q1 2011 was very low due largely to warm weather, and this carried on throughout the year. 2012 also started warm however a three week cold period in February should have provided some support.

- At their FY results Centrica reported that churn rates in residential energy had fallen markedly as a result of the suspension of door step selling by 5 of the big 6 retail suppliers. It will be interesting to see if this trend has continued and if so the size of the positive impact on margins.
- A feature of Centrica's FY2011 results was the modest progress of its Home Services business against previous targets. Centrica cited weak consumer spending and competition as the cause. They are now targeting 10% yoy operating profit growth in this business and the Q1 performance will be closely watched to see if they are still on track.
- We also expect an update on the progress of the 3 upstream acquisitions, and the likely impact on net debt and finance costs for the year. 2 of the 3 deals (Statoil and Statfjord) completed on 30th April.
- UK spark spreads have recovered a little so far this year but remain very low. Centrica has outlined plans to reorganise parts of its gas power portfolio but further measures are possible.
- There has been media comment that Centrica may withdraw from its 20% JV with EDF (EDF.PA; €15.92; 2) to build new nuclear in the UK. Whilst we would strongly argue that Centrica should indeed sell its stake we would be surprised if they do so before they see what deal is available from the UK government to support new nuclear, which is expected at the end of the year

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## Best Ideas — Europe

**Conviction** - Best Ideas captures our analysts' Most Preferred and Least Preferred calls. Calls are relative to each sector and use a 3 month horizon.

**Best Ideas: a global database** – Citi has launched the European selections in our global Best Idea database. This tool allows investors to filter Citi analysts' highest conviction ideas and an Excel-based filter is now on Citi's GEO (Global Equities Online) homepage.

**Top relative calls in Europe** - Below we detail our MP and LP names for the utilities sector.

**Figure 2. Most Preferred Stocks**

	Stock	Rating	Target Price	Current Price
SVT.GB	Severn Trent	Buy (1)	16.85	16.46
SRG.IT	Snam Rete Gas	Buy (1)	4.25	3.46

Source: Citi Investment Research and Analysis

**Figure 3. Least Preferred Stocks**

	Stock	Rating	Target Price	Current Price
A2.IT	A2A	Sell (3)	0.63	0.4495
RWEG.DE	RWE	Sell (3)	28.00	32.16

Source: Citi Investment Research and Analysis

**Figure 4. Other Recommendations**

Acciona	Neutral (2)	64.00	46.00	We rate Acciona Neutral (2), with a target price of €64/share. In our view, the main drivers of Acciona's equity story will be: (1) Renewables. With the integration of the Endesa Renewable assets into Acciona Energia already agreed, Acciona has become the second largest wind developer in the world. (2) Non-core assets. We expect active management of its portfolio of assets, including the divestment of non-core activities.
CEZ	Buy (1)	935.00	710.00	We rate CEZ Buy. The stock is trading at a higher dividend yield than the sector and at discount earnings multiples to its peers, which we believe is unjustified. However, the lack of earnings growth in the medium term and the regulatory uncertainty cap the absolute upside, in our view.

Source: Citi Investment Research and Analysis

**Figure 5. Upcoming Results Dates**

Date	Company	Event
10-May-12	RWE	Interim report for the first quarter of 2011 with analyst conference call
10-May-12	EDF	Sales (1st Quarter 2012)
10-May-12	CEZ	Non-audited consolidated financial results of CEZ group for 1st Quarter 2012
10-May-12	GAM	1Q Results
10-May-12	ENEL	1Q Results
10-May-12	A2A	1Q Results
10-May-12	Iberdrola	1Q Results
10-May-12	EDP	1Q Results
11-May-12	Centrica	Interim Management Statement
11-May-12	Centrica	AGM
11-May-12	Acciona	1Q Results
15-May-12	IP	Annual General Meeting
16-May-12	SSE	Preliminary Results

Source: Citi Investment Research and Analysis

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**Figure 6. Upcoming Events**

Date	City	Event
7-10 May 12	US	Veolia Roashow
15 May 12	Paris	Antonella Bianchessi (Analyst Marketing)
23 May 12	London	Sustainable Mining Reverse Roadshow
31 May / 1 Jun 12	London	Severn Trent Roadshow
5-7 Jun 12	US	Manuel Palomo (Analyst Marketing)
6/7 Jun 12	Milan & Rome	Utilities Trip
15 Jun 12	Benelux	Utilities Symposium

Source: Citi Investment Research and Analysis

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**Figure 7. Global Utilities Team Contacts** *For informational purposes only*

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##### Data current as of 31 Mar 2012

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