

Preview Note

28 April 2017

Buy

Recommendation unchanged

Share price: EUR 3.08

closing price as of 27/04/2017

Target price: EUR 3.50

Target Price unchanged

Upside/Downside Potential 13.6%

Reuters/Bloomberg EDP.LS/EDP PL

Market capitalisation (EURm) 11,269

Current N° of shares (m) 3,657

Free float 58%

Daily avg. no. trad. sh. 12 mth 5,868

Daily avg. trad. vol. 12 mth (m) 14,149.00

Price high/low 12 months 2.57 / 3.22

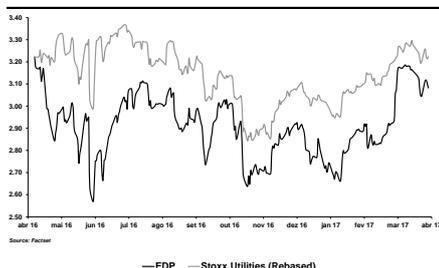
Abs Perfs 1/3/12 mths (%) 5.08/12.32/-1.31

Key financials (EUR)

	12/15	12/16e	12/17e
Sales (m)	15,517	15,672	15,829
EBITDA (m)	3,924	3,765	3,834
EBITDA margin	25.3%	24.0%	24.2%
EBIT (m)	2,443	2,295	2,312
EBIT margin	15.7%	14.6%	14.6%
Net Profit (adj.)(m)	913	900	923
ROCE	6.0%	5.6%	5.6%
Net debt/(cash) (m)	18,026	17,215	16,843
Net Debt Equity	1.5	1.3	1.3
Net Debt/EBITDA	4.6	4.6	4.4
Int. cover(EBITDA/Fin.int)	4.7	4.5	5.0
EV/Sales	2.1	1.9	1.9
EV/EBITDA	8.1	8.0	8.0
EV/EBITDA (adj.)	8.1	8.0	8.0
EV/EBIT	13.1	13.2	13.2
P/E (adj.)	13.3	11.8	12.2
P/BV	1.4	1.2	1.2
OpFCF yield	21.8%	9.8%	12.3%
Dividend yield	6.0%	6.2%	6.2%
EPS (adj.)	0.25	0.25	0.25
BVPS	2.37	2.43	2.49
DPS	0.19	0.19	0.19

Shareholders

China Three Gorges 21%; Capital Group Companies 10%;
Oppidum 7%; Senfora 4%; BCP Group 2%; Sonatrach 2%;
Qatar Investment 2%; José de Mello Group 2.00%;

**Analyst(s)**

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1Q17 results preview

The facts: EDP will disclose the 1Q17 results on May 3rd after the market close. Afterwards the company will hold a conference call with analysts at 17h (GMT).

Our analysis: For the 1Q17 we expect consolidated EBITDA to have decrease by 11% YoY to approximately EUR 1bn negatively affected by i) a lower contribution from the liberalized activities (an outstanding 1Q16 compares with a dry 1Q17) and ii) a 19% fall in EDP Brasil's EBITDA partially affected by the capital gain booked in the 1Q16 following the sale of of the small hydro power plants Pantanal (EUR 61m). The other business segments should remain broadly stable: LT contracted generation -2% YoY; renewables -1% YoY (for further details please refer to our preview note published yesterday) and regulated networks +5% YoY.

EUR m	1Q16	1Q17e	YoY
EBITDA	1,130	1,009	-11%
LT Contracted Generation	133	130	-2%
Renewables	379	375	-1%
Liberalised Activities Iberia	205	115	-44%
Regulated Networks Iberia	234	245	5%
Brazil	185	150	-19%
Others & Adjustments	-6	-6	0%
Depreciation & Provisions	-369	-370	0%
EBIT	761	639	-16%
Financial Results	-180	-200	11%
Other Financials	-8	0	n.m
EBT	573	439	-23%
Taxes	-152	-88	-42%
Extraord. Contribution	-59	-62	5%
Minority Interests	-100	-87	-13%
Net Profit	263	202	-23%

Below the EBITDA line we highlight that the value of the depreciation is anticipated to be almost flat as the extension of the asset's useful life (at EDPR level) should offset the higher depreciation from the increase in capacity.

Despite the lower average tax rate forecasted, the net profit is estimated to decrease by 23% YoY to EUR 202m, reflecting the reduction in EBITDA.

Conclusion & Action: The YoY comparisons are demanding due to an exceptional 1Q16 and a weak 1Q17, namely due to weather conditions and to the market environment in the liberalized activities. We reiterate our positive view on the company.

EDP : Summary tables

PROFIT & LOSS (EURm)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Sales	16,103	16,294	15,517	15,672	15,829	15,987
Cost of Sales & Operating Costs	-12,759	-12,652	-11,593	-11,907	-11,995	-12,136
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	3,344	3,642	3,924	3,765	3,834	3,851
EBITDA (adj.)*	3,344	3,642	3,924	3,765	3,834	3,851
Depreciation	-1,477	-1,397	-1,465	-1,485	-1,517	-1,549
EBITA	1,867	2,245	2,459	2,280	2,317	2,302
EBITA (adj)*	1,867	2,245	2,459	2,280	2,317	2,302
Amortisations and Write Downs	-55.0	-52.1	-16.0	15.0	-5.0	-5.0
EBIT	1,812	2,192	2,443	2,295	2,312	2,297
EBIT (adj.)*	1,812	2,192	2,443	2,295	2,312	2,297
Net Financial Interest	-737	-572	-832	-830	-772	-687
Other Financials	0.0	0.0	0.0	0.0	0.0	1.0
Associates	34.0	15.1	-24.0	-3.0	5.0	5.0
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	1,109	1,636	1,587	1,462	1,545	1,616
Tax	-188	-311	-278	-271	-309	-323
<i>Tax rate</i>	<i>17.0%</i>	<i>19.0%</i>	<i>17.5%</i>	<i>18.5%</i>	<i>20.0%</i>	<i>20.0%</i>
Discontinued Operations	0.0	-61.5	-62.0	-61.5	-61.5	-61.5
Minorities	-188	-223	-334	-230	-252	-267
Net Profit (reported)	733	1,040	913	900	923	964
Net Profit (adj.)	733	1,040	913	900	923	964
CASH FLOW (EURm)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Cash Flow from Operations before change in NWC	2,453	2,774	2,790	2,662	2,758	2,845
Change in Net Working Capital	12.0	-493	1,642	-273	-22.3	-22.5
Cash Flow from Operations	2,465	2,281	4,432	2,389	2,736	2,822
Capex	-1,933	-1,873	-1,788	-1,350	-1,350	-1,350
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	532	408	2,644	1,039	1,386	1,472
Dividends	-676	-676	-676	-695	-695	-695
Other (incl. Capital Increase & share buy backs)	845	116	-2,309	466	-319	-334
Change in Net Debt	700	-152	-341	810	373	444
NOPLAT	1,286	1,590	1,771	1,664	1,676	1,665
BALANCE SHEET & OTHER ITEMS (EURm)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Net Tangible Assets	20,316	20,523	22,774	22,639	22,472	22,273
Net Intangible Assets (incl. Goodwill)	9,324	9,134	8,914	8,914	8,914	8,914
Net Financial Assets & Other	1,943	1,569	1,695	1,644	1,644	1,644
Total Fixed Assets	31,583	31,226	33,383	33,197	33,030	32,831
Inventories	280	266	204	204	204	204
Trade receivables	2,307	2,120	1,997	2,230	2,253	2,275
Other current assets	5,851	6,646	5,708	5,708	5,708	5,708
Cash (-)	-2,629	-2,614	-1,245	-1,985	-2,357	-2,802
Total Current Assets	11,067	11,647	9,154	10,127	10,522	10,989
Total Assets	42,650	42,873	42,537	43,324	43,552	43,820
Shareholders Equity	8,446	8,682	8,670	8,876	9,104	9,372
Minority	3,083	3,288	3,452	4,154	4,154	4,154
Total Equity	11,529	11,970	12,121	13,030	13,258	13,526
Long term interest bearing debt	15,969	16,401	15,654	16,000	16,000	16,000
Provisions	388	486	506	506	506	506
Other long term liabilities	1,360	806	806	795	795	795
Total Long Term Liabilities	17,717	17,692	16,966	17,301	17,301	17,301
Short term interest bearing debt	4,192	3,897	3,617	3,200	3,200	3,200
Trade payables	9,212	9,314	9,832	9,793	9,793	9,793
Other current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	13,404	13,211	13,449	12,993	12,993	12,993
Total Liabilities and Shareholders' Equity	42,650	42,873	42,537	43,324	43,552	43,820
Net Capital Employed	30,809	30,945	31,460	31,546	31,401	31,225
Net Working Capital	-774	-281	-1,923	-1,651	-1,629	-1,606
GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
<i>Sales growth</i>	<i>-1.5%</i>	<i>1.2%</i>	<i>-4.8%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>
EBITDA (adj.)* growth	-7.8%	8.9%	7.7%	-4.1%	1.8%	0.4%
<i>EBITA (adj.)* growth</i>	<i>-13.5%</i>	<i>20.2%</i>	<i>9.6%</i>	<i>-7.3%</i>	<i>1.6%</i>	<i>-0.6%</i>
<i>EBIT (adj.)* growth</i>	<i>-15.5%</i>	<i>21.0%</i>	<i>11.4%</i>	<i>-6.1%</i>	<i>0.7%</i>	<i>-0.6%</i>

EDP : Summary tables

GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Net Profit growth	-27.6%	41.9%	-12.2%	-1.4%	2.5%	4.5%
EPS adj. growth	-27.6%	41.9%	-12.2%	-1.4%	2.5%	4.5%
DPS adj. growth	0.0%	0.0%	0.0%	2.7%	0.0%	0.0%
EBITDA (adj)* margin	20.8%	22.4%	25.3%	24.0%	24.2%	24.1%
EBITA (adj)* margin	11.6%	13.8%	15.8%	14.5%	14.6%	14.4%
EBIT (adj)* margin	11.3%	13.5%	15.7%	14.6%	14.6%	14.4%
RATIOS	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Net Debt/Equity	1.5	1.5	1.5	1.3	1.3	1.2
Net Debt/EBITDA	5.2	4.9	4.6	4.6	4.4	4.3
Interest cover (EBITDA/Fin.interest)	4.5	6.4	4.7	4.5	5.0	5.6
Capex/D&A	126.2%	129.2%	120.7%	91.8%	88.7%	86.9%
Capex/Sales	12.0%	11.5%	11.5%	8.6%	8.5%	8.4%
NWC/Sales	-4.8%	-1.7%	-12.4%	-10.5%	-10.3%	-10.0%
ROE (average)	8.8%	12.1%	10.5%	10.3%	10.3%	10.4%
ROCE (adj.)	4.5%	5.4%	6.0%	5.6%	5.6%	5.6%
WACC	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
ROCE (adj.)/WACC	0.7	0.9	0.9	0.9	0.9	0.9
PER SHARE DATA (EUR)***	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Average diluted number of shares	3656.5	3656.5	3656.5	3656.5	3656.5	3656.5
EPS (reported)	0.20	0.28	0.25	0.25	0.25	0.26
EPS (adj.)	0.20	0.28	0.25	0.25	0.25	0.26
BVPS	2.31	2.37	2.37	2.43	2.49	2.56
DPS	0.19	0.19	0.19	0.19	0.19	0.19
VALUATION	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
EV/Sales	1.8	1.9	2.1	1.9	1.9	1.9
EV/EBITDA	8.5	8.6	8.1	8.0	8.0	7.8
EV/EBITDA (adj.)*	8.5	8.6	8.1	8.0	8.0	7.8
EV/EBITA	15.2	13.9	13.0	13.3	13.2	13.1
EV/EBITA (adj.)*	15.2	13.9	13.0	13.3	13.2	13.1
EV/EBIT	15.7	14.2	13.1	13.2	13.2	13.1
EV/EBIT (adj.)*	15.7	14.2	13.1	13.2	13.2	13.1
P/E (adj.)	13.3	11.3	13.3	11.8	12.2	11.7
P/BV	1.2	1.4	1.4	1.2	1.2	1.2
Total Yield Ratio	6.9%	5.7%	6.2%	6.2%	6.2%	
EV/CE	1.0	1.1	1.1	1.0	1.0	1.0
OpFCF yield	5.4%	3.5%	21.8%	9.8%	12.3%	13.1%
OpFCF/EV	1.9%	1.3%	8.3%	3.4%	4.5%	4.9%
Payout ratio	92.3%	65.1%	74.1%	77.2%	75.3%	72.0%
Dividend yield (gross)	6.9%	5.7%	6.0%	6.2%	6.2%	6.2%
EV AND MKT CAP (EURm)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Price** (EUR)	2.67	3.22	3.32	2.89	3.08	3.08
Outstanding number of shares for main stock	3656.5	3656.5	3656.5	3656.5	3656.5	3656.5
Total Market Cap	9,763	11,767	12,143	10,582	11,269	11,269
Net Debt	17,532	17,684	18,026	17,215	16,843	16,398
<i>o/w Cash & Marketable Securities (-)</i>	<i>-2,629</i>	<i>-2,614</i>	<i>-1,245</i>	<i>-1,985</i>	<i>-2,357</i>	<i>-2,802</i>
<i>o/w Gross Debt (+)</i>	<i>20,161</i>	<i>20,298</i>	<i>19,271</i>	<i>19,200</i>	<i>19,200</i>	<i>19,200</i>
Other EV components	1,140	1,719	1,757	2,510	2,510	2,510
Enterprise Value (EV adj.)	28,435	31,169	31,925	30,307	30,622	30,178

Source: Company, Caixa-Banco de Investimento estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) = EBITDA (or EBITA) -/+ Non Recurrent Expenses/Income and where EBIT (adj.) = EBIT -/+ Non Recurrent Expenses/Income - PPA amortisation

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

Sector: Utilities/Conventional Electricity

Company Description: EDP is an integrated utility and it is the largest producer and sole distributor of electricity in Portugal. EDP has an important foothold in Spain and is also present in Brazil holding a 51% stake in the listed company EDP Brasil. The most important strategic targets of the group are to grow in "clean" generation capacity and to decrease debt. In June 2008 the company made the IPO of its renewable unit (EDP Renováveis) and currently controls 77.5% of EDPR.

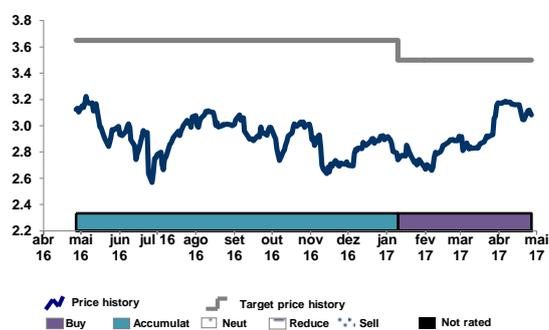
Recommendation history for EDP

Date	Recommendation	Target price	Price at change date
10-jan-17	Buy	3.50	2.74
06-jan-16	Accumulate	3.65	3.17
16-jan-15	Neutral	3.60	3.40

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Caixa-Banco de Investimento continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.

Current analyst: Helena Barbosa (since 19/06/2003)



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Since 18 October 2004, the Members of ESN are using an Absolute Recommendation System (before was a Relative Recommendation System) to rate any single stock under coverage. Since 4 August 2008, the ESN Rec. System has been amended, with a time horizon of 12 months (it was 6 months). Since 1 April 2015, the ESN Rec. System has been adjusted (Hold replaced with Neutral and expected return bands was modified). Caixa Banco de Investimento is a Member of ESN, therefore uses the same Recommendations System of ESN. The ESN Recommendation System is Absolute. It means that each stock is rated on the basis of a total return, measured by the upside potential (including dividends) over a 12 months' time horizon.

The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: Buy, Accumulate, Neutral, Reduce and Sell (in short: B, A, N, R, S).

Meaning of each rating or recommendation:

- Buy: the stock is expected to generate a total return of over 15% during the next 12-month time horizon;
- Accumulate: the stock is expected to generate a total return of 5% to 15% during the next 12-month time horizon;
- Neutral: the stock is expected to generate a total return of -5% to +5% during the next 12-month time horizon;
- Reduce: the stock is expected to generate a total return of -5 to -15% during the next 12-month time horizon;
- Sell: the stock is expected to generate a total return below -15% during the next 12-month time horizon;
- Rating Suspended: the rating is suspended due to a capital operation (take-over bid, SPO, ...) where the issuer or a related party of the issuer is or could be involved or to a change of analyst covering the stock;
- Not Rated: there is no rating for a company being floated (IPO) by the issuer or a related party of the issuer.

ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.



The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy (B)**, **Accumulate (A)**, **Neutral (N)**, **Reduce (R)** and **Sell (S)**.

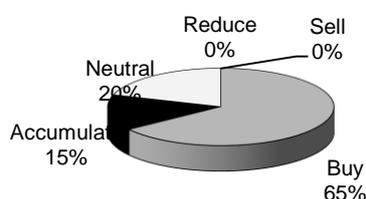
Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 15%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12 months time horizon
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -15%** during the next 12 months time horizon
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Certain flexibility on the limits of total return bands is permitted especially during higher phases of volatility on the markets

Caixa Banco de Investimento Ratings Breakdown



For full ESN Recommendation and Target price history (in the last 12 months) please see ESN Website [Link](#)

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