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Macquarie
Equities Research

The Global Utilities Specialist

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Stock:	MVV1 GR
Name:	MVV Energie
Price:	€22.20 (at 13:35, 15 May 12 GMT)
Market Cap (m):	€1,463
Market Cap (m):	US$1,879
Current valuation (DCF):	€23.90
12mth price target:	€24.00
Recommendation:	Neutral
Volatility index:	

Event

- 1H11/12 EBIT declined by 12% YoY to €180m and slightly missed our expectations (€181m). Management expects ~€220m EBIT (-9%) for FY11/12, which represents the low end of the initial guidance range. Moreover, management does not expect to reach "record EBIT levels in the last two years" in "this and the next years." We reiterate our Neutral rating.

Impact

- **1H earnings decline mostly relates to one-offs:** The adjusted EBIT decline of 12% (€24m) in 1H (Oct 2011 - March 2012) included two one-offs: 1) Outage cost of the GKK plant (€10m) and 2) extraordinarily mild weather conditions (€8m). Adjusting for both leaves an earnings decline of ~€6m (4%), which comes from lower realized clean dark spreads as well as cost related to the insolvency of the Petroplus refinery in Ingolstadt. These negative effects were partially offset by higher energy supply margins.
- **FY11/12 to come in at the low end of initial guidance**: Management specified the **FY11/12 guidance at ~€220m adjusted EBIT** (-9% YoY), which is the *low end of the initial guidance* ("single-digit decline"). We have slightly cut our estimates from €226m to now €222m, which incorporates the full impact of the negative climate effect and the Petroplus insolvency.
- **Cautious medium-term outlook on the back of bearish CDS assumptions:** Management's new near-term outlook reflects 1) cost related to the investment program, such as start-up cost and 2) the clean dark spread forward curve, which is currently in backwardation. This outlook is slightly disappointing for us: Adjusted EBIT levels in the last two years were €243m and €242m, respectively. For **FY2012/13**, we expect a slight EBIT recovery to €236m, which is mainly due to the absence of the abovementioned one-offs and consistent with management's guidance. However, our estimates for **FY2013/14** of €240m do imply that management will nearly reach last years' record earnings levels already. Our estimates already include start-up cost for new assets (e.g. ~€6m for Plymouth), but we are more positive on the development of CDS, given delays of new builds of conventional plants and retirements of older, inefficient units.
- **We reiterate our overall view**: We reiterate our overall view on the stock (see our note "Back to reasonable territory", April 20, 2012): 1) MVV benefits from *resilient earnings in the near term*, thanks to its broadly diversified mix of operations, and we see a range of ~€230-240m for adjusted EBIT in the next three years. 2) Growth investments should drive adjusted EBIT further to nearly €280m in 2014/15E. 3) An overhang from major minority shareholders is a key risk for the share price in the short-term. 4) Valuation looks high, but we think a PER premium is justified given the stability of earnings in the near term and investment-driven growth in the medium term.

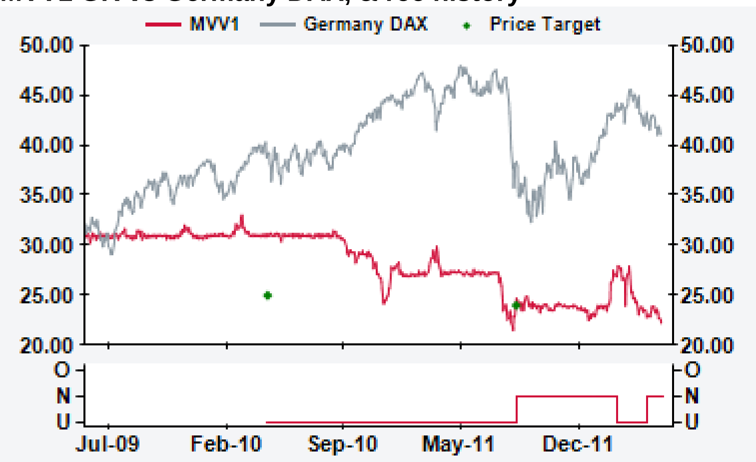
Action and recommendation

- All in all, 1H11/12 results and management's new near-term outlook came in slightly disappointing. We see, however, no material implications to our estimates and valuation. We regard the company as generally attractive, given the resilience of earnings and long-term capex-driven growth. In our view, stock trades at a reasonable valuation level, so we reiterate our Neutral rating.

September		2011A	2012E	2013E	2014E
Sales revenue	m	3,590.5	3,660.6	3,827.8	3,998.0
Reported profit	m	117.2	95.5	97.2	97.9
Adjusted profit	m	108.5	95.5	97.2	97.9
EPS adj		1.65	1.45	1.47	1.48
EPS adj growth	%	13.9	-11.9	1.7	0.7
PE adj	x	13.5	15.3	15.1	15.0
Total DPS		0.90	0.90	0.90	0.90
Total div yield	%	4.1	4.1	4.1	4.1
Price/book	x	1.3	1.3	1.2	1.2

*All values are in EUR unless otherwise stated.
Source: Company data, Macquarie Research, May 2012.

MVV1 GR vs Germany DAX, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, May 2012
(all figures in EUR unless noted)

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