

Preview Note

24 July 2017

Neutral

Recommendation unchanged

Share price: EUR 13.52

closing price as of 21/07/2017

Target price: EUR 13.80

Target Price unchanged

Upside/Downside Potential 2.1%

Reuters/Bloomberg GALP.LS/GALP.PL

Market capitalisation (EURm) 11,204

Current N° of shares (m) 829

Free float 60%

Daily avg. no. trad. sh. 12 mth 1,417

Daily avg. trad. vol. 12 mth (m) 15,336.99

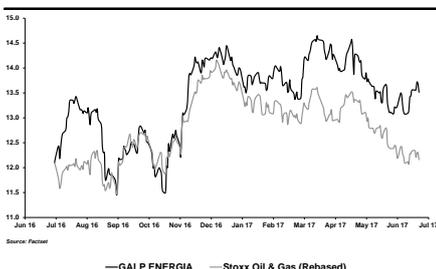
Price high/low 12 months 11.45 / 14.65

Abs Perfs 1/3/12 mths (%) 2.50/-4.66/7.69

Key financials (EUR)	12/16	12/17e	12/18e
Sales (m)	13,142	14,735	15,583
EBITDA (m)	1,410	1,793	2,159
EBITDA margin	10.7%	12.2%	13.9%
EBIT (m)	771	948	1,192
EBIT margin	5.9%	6.4%	7.7%
Net Profit (adj.)(m)	483	428	414
ROCE	8.0%	9.1%	11.0%
Net debt/(cash) (m)	1,869	2,050	2,201
Net Debt Equity	0.3	0.3	0.3
Net Debt/EBITDA	1.3	1.1	1.0
Int. cover(EBITDA/Fin.int)	13.8	19.8	22.4
EV/Sales	1.0	0.9	0.9
EV/EBITDA	9.7	7.4	6.2
EV/EBITDA (adj.)	9.7	7.4	6.2
EV/EBIT	17.7	14.0	11.2
P/E (adj.)	24.4	26.2	27.1
P/BV	2.4	2.2	2.2
OpFCF yield	-0.8%	0.3%	2.8%
Dividend yield	3.7%	3.7%	3.7%
EPS (adj.)	0.58	0.52	0.50
BVPS	6.01	6.03	6.03
DPS	0.50	0.50	0.50

Shareholders

Amorim Energia 33%; Parpública 7%;



Analyst(s)

Carlos Jesus
carlos.jesus@caixabi.pt
+351 21 389 6812

2Q17 results preview: supportive downstream oil

The facts: Galp will release its 2Q17 results on July 31 before the market opening in Lisbon. We anticipate EBITDA RCA of EUR 464m and net income RCA of EUR 149m (consensus stands at EUR 451m and EUR 141m, respectively).

Our analysis: According to the quarter's trading update (published on July 17), working interest production reached 89.9 kboed, with liquids accounting for 78 kbpd. This represented a rise from the output of the first three months of the year, which stood at 88 kboed and 76.9 kbpd of oil. Net entitlement was of 88.1 kboed (86.2 kboed in 1Q17), with Brazil amounting to 81.8 kboed. The qoq rise in production was supported by the start of the first replicant (unit 7 in Lula) and the ramp up of FPSO 6 (which reached plateau on July after only eleven months since starting operations). On the other hand, maintenance in FPSO 3 and works in FPSO 1 limited production growth in the quarter.

Production performance from Brazil remains robust, with strong initial flow rates (c. 30 kboed per well) and limited loss of output in older wells (more on flow rate performance in the Brazilian pre-salt in our Company Update of Galp published on December 15, 2016 entitled "DNA Analysis"). We expect a qoq decline in EBITDA RCA in E&P as higher volumes were not enough to compensate lower oil prices.

Processed raw materials in Galp's refining system were up significantly both qoq and yoy to 30 million boe in the quarter, with product sales to direct clients reaching 2.3 million tons and overall sales standing at 4.7 million tons. Seasonality and the Easter effect (celebrated in April) contributed for the better performance and should, according to our estimates, support consolidated EBITDA. We anticipate a final refining margin of \$5.6 per barrel in Q2 from \$5.1 in Q1 and \$4.6 in 2Q16.

In the G&P business we expect a recovery of margin from the previous quarter as the piped gas sourcing problems from Algeria experienced in the first three months of the year didn't affect Q2.

Below EBIT we anticipate positive net financials supported by contributions from changes in the value of the euro against other currencies and the mark-to-market of product transactions. The implied tax rate is expected to be lower than the previous quarter as the contribution to consolidated EBITDA from the R&M business is higher. Net income on a RCA basis should reach EUR 149m (EPS of EUR 0.18).

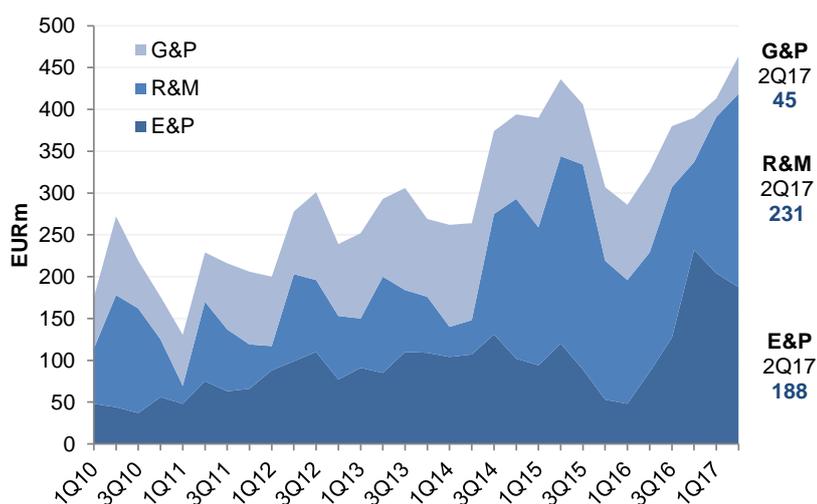
Conclusion & Action: Strong contribution from downstream oil should have supported consolidated EBITDA RCA in the second quarter of the year. Seasonality and the Easter effect are anticipated to have helped the performance in R&M in terms of product sales, with refining margin also expected to have provided a push to operating results both qoq and yoy. Crude production was up against the previous quarter, but was affected by maintenance works in units operating in BM-S-11. Importantly, flow rates in the Brazilian pre-salt remain high and spud-to-plateau time periods show improvements, further highlighting the competitive advantages of the region versus other offshore basins across the world. We also expect a return to normality in G&P after the piped gas sourcing problems experienced in the first three months of the year.

2Q17 results estimates

RCA figures (EURm)	2Q16	1Q17	2Q17e	YoY	QoQ	6M17e	6M16
EBITDA	337	419	464	37.6%	10.6%	883	630
E&P	86	204	188			392	134
R&M	143	187	231			418	291
G&P	97	22	45			67	187
Depreciations	-144	-194	-197			-391	-295
Provisions	-8	-5	-5			-10	-13
EBIT	185	220	261	41.2%	18.8%	481	322
Net financials	15	-12	14			2	18
Associates	24	32	32			64	45
Investments	0	0	0			0	0
Taxes	-79	-123	-130			-253	-118
Minority interests	-12	-18	-28			-46	-21
Net income	133	99	149	12.4%	51.0%	248	247
EPS	0.16	0.12	0.18			0.30	0.30

Source: CaixaBI Equity Research

EBITDA RCA (1Q10 – 2Q17)



Source: CaixaBI Equity Research

Galp Energia : Summary tables

PROFIT & LOSS (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Sales	19,620	17,903	15,517	13,142	14,735	15,583
Cost of Sales & Operating Costs	0.0	0.0	0.0	0.0	0.0	0.0
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	1,141	1,314	1,564	1,410	1,793	2,159
EBITDA (adj.)*	1,141	1,314	1,564	1,410	1,793	2,159
Depreciation	494	504	547	637	825	947
EBITA	1,635	1,818	2,111	2,047	2,618	3,106
EBITA (adj)*	1,635	1,818	2,111	2,047	2,618	3,106
Amortisations and Write Downs	57.0	35.0	22.0	2.0	20.0	20.0
EBIT	590	774	996	771	948	1,192
EBIT (adj.)*	590	774	996	771	948	1,192
Net Financial Interest	-144	-102	-119	-102	-90.4	-96.3
Other Financials	-8.0	-27.0	-36.0	-9.0	0.0	0.0
Associates	63.7	60.0	84.0	85.0	127	120
Other Non Recurrent Items	12.3	-16.0	-14.0	-14.0	0.0	0.0
Earnings Before Tax (EBT)	514	689	911	731	985	1,216
Tax	-168	-254	-295	-289	-526	-707
<i>Tax rate</i>	<i>32.7%</i>	<i>36.9%</i>	<i>32.4%</i>	<i>39.5%</i>	<i>53.4%</i>	<i>58.1%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-55.3	-67.0	-51.0	-61.0	-139	-203
Net Profit (reported)	310	373	639	483	428	414
Net Profit (adj.)	310	373	639	483	428	414
CASH FLOW (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Cash Flow from Operations before change in NWC	916	971	1,168	1,099	1,304	1,476
Change in Net Working Capital	-47.0	-236	1,132	28.6	101	-15.3
Cash Flow from Operations	869	735	2,300	1,128	1,405	1,461
Capex	-960	-1,104	-1,283	-1,218	-1,373	-1,151
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-90.9	-369	1,017	-90.4	31.5	310
Dividends	-239	-287	-344	-413	-413	-413
Other (incl. Capital Increase & share buy backs)	-150	311	-574	1,055	197	-48.1
Change in Net Debt	-480	-345	99.0	552	-184	-151
NOPLAT	428	561	722	559	687	864
BALANCE SHEET & OTHER ITEMS (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Tangible Assets	4,565	5,052	5,213	5,910	6,566	6,879
Net Intangible Assets (incl. Goodwill)	1,778	1,668	1,540	354	354	354
Net Financial Assets & Other	1,759	1,578	1,875	2,042	2,042	2,042
Total Fixed Assets	8,102	8,298	8,628	8,307	8,963	9,275
Inventories	1,846	1,210	873	869	899	932
Trade receivables	2,263	2,501	1,372	1,597	1,170	1,205
Other current assets	10.0	42.0	727	633	198	23.1
Cash (-)	-1,503	-1,144	-1,131	-1,033	-1,037	-1,037
Total Current Assets	5,622	4,897	4,103	4,132	3,304	3,197
Total Assets	13,724	13,195	12,731	12,439	12,267	12,473
Shareholders Equity	5,161	5,004	4,773	4,980	4,996	4,998
Minority	1,255	1,420	1,414	1,563	1,563	1,563
Total Equity	6,416	6,424	6,187	6,543	6,559	6,561
Long term interest bearing debt	3,304	3,361	3,059	2,578	2,669	2,745
Provisions	154	185	419	429	429	429
Other long term liabilities	1,014	1,089	1,051	731	731	731
Total Long Term Liabilities	4,472	4,635	4,529	3,738	3,830	3,906
Short term interest bearing debt	374	303	493	325	417	493
Trade payables	2,453	1,819	1,485	1,734	1,438	1,491
Other current liabilities	10.0	15.0	38.0	97.9	22.5	22.5
Total Current Liabilities	2,837	2,137	2,016	2,157	1,878	2,007
Total Liabilities and Shareholders' Equity	13,725	13,196	12,732	12,439	12,267	12,473
Net Capital Employed	9,758	10,217	10,077	9,573	9,769	9,922
Net Working Capital	1,656	1,892	760	731	631	646
GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
<i>Sales growth</i>	<i>6.0%</i>	<i>-8.8%</i>	<i>-13.3%</i>	<i>-15.3%</i>	<i>12.1%</i>	<i>5.8%</i>
EBITDA (adj.)* growth	10.5%	15.2%	19.0%	-9.8%	27.2%	20.4%
<i>EBITA (adj.)* growth</i>	<i>17.1%</i>	<i>11.2%</i>	<i>16.1%</i>	<i>-3.0%</i>	<i>27.9%</i>	<i>18.7%</i>
<i>EBIT (adj.)* growth</i>	<i>-2.0%</i>	<i>31.2%</i>	<i>28.7%</i>	<i>-22.6%</i>	<i>23.0%</i>	<i>25.8%</i>

Galp Energia : Summary tables

GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Profit growth	-13.9%	20.4%	71.3%	-24.4%	-11.4%	-3.3%
EPS adj. growth	-13.9%	20.4%	71.3%	-24.4%	-11.4%	-3.3%
DPS adj. growth	20.0%	20.0%	20.0%	20.0%	0.0%	0.0%
EBITDA (adj)* margin	5.8%	7.3%	10.1%	10.7%	12.2%	13.9%
EBITA (adj)* margin	8.3%	10.2%	13.6%	15.6%	17.8%	19.9%
EBIT (adj)* margin	3.0%	4.3%	6.4%	5.9%	6.4%	7.7%
RATIOS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Debt/Equity	0.3	0.4	0.4	0.3	0.3	0.3
Net Debt/EBITDA	1.9	1.9	1.5	1.3	1.1	1.0
Interest cover (EBITDA/Fin.interest)	7.9	12.9	13.1	13.8	19.8	22.4
Capex/D&A	-174.3%	-204.8%	-225.5%	-190.6%	-162.5%	-119.1%
Capex/Sales	4.9%	6.2%	8.3%	9.3%	9.3%	7.4%
NWC/Sales	8.4%	10.6%	4.9%	5.6%	4.3%	4.1%
ROE (average)	5.9%	7.3%	13.1%	9.9%	8.6%	8.3%
ROCE (adj.)	5.3%	6.5%	9.6%	8.0%	9.1%	11.0%
WACC	10.0%	10.0%	10.0%	0.0%		
ROCE (adj.)/WACC	0.5	0.7	1.0	n.m.		
PER SHARE DATA (EUR)***	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Average diluted number of shares	829.0	829.0	829.0	829.0	829.0	829.0
EPS (reported)	0.37	0.45	0.77	0.58	0.52	0.50
EPS (adj.)	0.37	0.45	0.77	0.58	0.52	0.50
BVPS	6.23	6.04	5.76	6.01	6.03	6.03
DPS	0.29	0.35	0.41	0.50	0.50	0.50
VALUATION	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
EV/Sales	0.6	0.5	0.7	1.0	0.9	0.9
EV/EBITDA	10.6	7.2	7.2	9.7	7.4	6.2
EV/EBITDA (adj.)*	10.6	7.2	7.2	9.7	7.4	6.2
EV/EBITA	7.4	5.2	5.4	6.7	5.1	4.3
EV/EBITA (adj.)*	7.4	5.2	5.4	6.7	5.1	4.3
EV/EBIT	20.4	12.3	11.4	17.7	14.0	11.2
EV/EBIT (adj.)*	20.4	12.3	11.4	17.7	14.0	11.2
P/E (adj.)	31.9	18.7	13.9	24.4	26.2	27.1
P/BV	1.9	1.4	1.9	2.4	2.2	2.2
Total Yield Ratio	2.9%	4.9%	4.6%	3.7%	3.7%	3.7%
EV/CE	1.5	1.1	1.5	1.9	1.8	1.7
OpFCF yield	-0.9%	-5.3%	11.4%	-0.8%	0.3%	2.8%
OpFCF/EV	-0.8%	-3.9%	9.0%	-0.7%	0.2%	2.3%
Payout ratio	77.1%	76.8%	53.8%	85.4%	96.4%	99.6%
Dividend yield (gross)	2.4%	4.1%	3.9%	3.7%	3.7%	3.7%
EV AND MKT CAP (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Price** (EUR)	11.92	8.43	10.72	14.19	13.52	13.52
Outstanding number of shares for main stock	829.0	829.0	829.0	829.0	829.0	829.0
Total Market Cap	9,878	6,989	8,887	11,764	11,204	11,204
Net Debt	2,175	2,520	2,421	1,869	2,050	2,201
<i>o/w Cash & Marketable Securities (-)</i>	<i>-1,503</i>	<i>-1,144</i>	<i>-1,131</i>	<i>-1,033</i>	<i>-1,037</i>	<i>-1,037</i>
<i>o/w Gross Debt (+)</i>	<i>3,678</i>	<i>3,664</i>	<i>3,552</i>	<i>2,903</i>	<i>3,087</i>	<i>3,238</i>
Other EV components	0	0	0	0	0	0
Enterprise Value (EV adj.)	12,053	9,509	11,308	13,633	13,253	13,405

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: Oil & Gas Producers/Integrated Oil & Gas

Company Description: Galp Energia is an integrated multi-energy operator, with three main business areas: E&P, R&M and G&P. The company is one of the most exposed E&P players to the Brazilian pre-salt, with stakes at several high profile fields in that area. But it is also present in the giant gas findings offshore Mozambique, increasing diversification to its portfolio. The anticipated production growth going forward is one of the strongest in the industry, being the main investment driver in the company.

Recommendation history for GALP ENERGIA

Date	Recommendation	Target price	Price at change date
15-Dec-16	Neutral	13.80	14.10
17-Mar-16	Accumulate	12.40	11.55
28-Jul-15	Buy	12.70	10.31
07-Apr-15	Buy	12.20	10.92

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: Carlos Jesus (since 06/12/2006)



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Portuguese State (Parpública) has qualified participations in the following companies: Inapa and Galp Energia.

Portuguese State (Parpública) has non-qualified but relevant participations in the following companies: Portugal Telecom and Nos

The supervisory board chairman of CaixaBI is non-executive member of Galp Energia's board.

CaixaBI reports (equity research reports) are available in our website www.caixabi.pt by request.

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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;

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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;

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ESN Recommendation System

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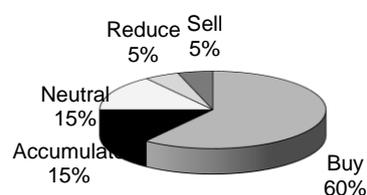
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- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12 months time horizon
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12 months time horizon
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Caixa Banco de Investimento Ratings Breakdown



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Date and time of production: 24 July 2017: 18:02 CET

First date and time of dissemination: 24 July 2017: 18:07 CET

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Members of ESN (European Securities Network LLP)



Banca Akros S.p.A.

Viale Eginardo, 29
20149 MILANO
Italy
Phone: +39 02 43 444 389
Fax: +39 02 43 444 302



Caixa-Banco de Investimento

Rua Barata Salgueiro, nº 33
1269-057 Lisboa
Portugal
Phone: +351 21 313 73 00
Fax: +351 21 389 68 98



CM - CIC Market Solutions

6, avenue de Provence
75441 Paris
Cedex 09
France
Phone: +33 1 53 48 81 93



equinet Bank AG

Gräfrstraße 97
60487 Frankfurt am Main
Germany
Phone: +49 69 - 58997 - 212
Fax: +49 69 - 58997 - 299



GVC Gaesco Beka, SV, SA

C/ Marques de Villamagna 3
28001 Madrid
Spain
Phone: +34 91 436 7813



Investment Bank of Greece

32 Aigialeias Str & Paradissou,
151 25 Maroussi,
Greece
Phone: +30 210 81 73 383



NIBC Bank N.V.

Nieuwezijds Voorburgwal 162
P.O.Box 235
1000 AE Amsterdam
The Netherlands
Phone: +31 20 550 8500
Fax: +31 20 626 8064



OP Corporate Bank plc

P.O.Box 308
Teollisuuskatu 1, 00013 Helsinki
Finland
Phone: +358 10 252 011
Fax: +358 10 252 2703

