

EDP

BUY

Preparing Renewables IPO

RECOMMENDATION UPGRADED TO BUY FROM HOLD

CURRENT PRICE: €4.10

TARGET PRICE: €5.15

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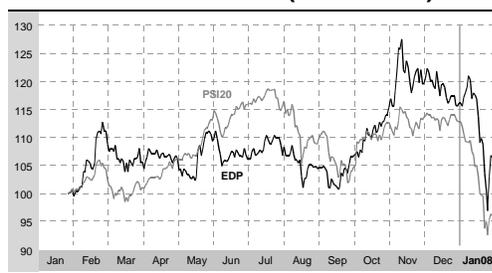
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- We are upgrading EDP to Buy from Hold in the wake of EDP's announcement that it is starting preparations for the IPO of its renewable energy arm (Neo+Horizon – N+H). **Buy EDP** on the back of:

- (1) **26% upside potential** implicit in target price.
- (2) **Higher correlation between EDP's and Iberdrola Renovables' (IBR) share prices**, following IPO announcement. Based on IBR's market cap (€21.2bn) and assuming N+H's portfolio is 40% of IBR's, we arrive at a valuation for N+H of €8.5bn (€9.4bn in our SOTP). **This implies upside potential of 19%**. Also, given EDP's relative performance vs IBR since the latter's IPO in December, **we see room for EDP to outperform IBR by 10%**.
- (3) **Exposure to green energy**. Over 50% of EDP's EV comes from clean energy: 28% from renewables and at least 25% from hydro capacity. The IPO could boost the visibility of this part of the business.
- (4) **Low risk**. Some 60% of EDP's conventional generation portfolio is protected from rising CO₂ emission costs and declining margins in Iberian generation, via CMECs. We see this as a clear positive in the coming years, due to expected oversupply in Iberia and rising input costs.

Relative Performance (12 Months)



Source: JCF.

Company Data, January, 28, 2008

	EDP.LS / EDP PL	(€mn)	2005	2006	2007E	2008E	2009E
Reuters/Bloomberg code	EDP.LS / EDP PL						
Market cap (€ mn)	14,991.8	EBITDA	2,047.5	2,305.4	2,790.9	3,203.2	3,578.5
Outst shares (mn)	3,656.5	% change	–	12.6	21.1	14.8	11.7
Website	www.edp.pt	Net income	1,071.1	940.7	1,002.8	972.6	1,099.9
Free float (%)	43.0	% change	–	-12.2	6.6	-3.0	13.1
Avg daily vol (€ mn)	80.8	EPS (€)	0.20	0.22	0.23	0.27	0.30
12-month range (€)	3.73-4.91	EV/EBITDA (x)	13.8	12.2	10.1	8.8	7.9
Performance (%)	-1M -3M -12M	P/E (x)	20.4	19.0	17.6	15.4	13.6
Absolute	-7.9% -5.7% 6.5%	GDY (%)	2.4	2.7	3.0	3.4	3.8
Relative to PSI-20	8.3% 9.6% 10.9%	FCF yield (%)	5.3	3.6	11.4	-8.3	2.3

Source: Reuters, Bloomberg.

Source: Company data and Banco Santander de Negócios Portugal estimates.

SOTP VALUATION

Figure 1. EDP – SOTP Valuation, YE2008E

(€mn)	Stake (%)	EV of		% of EDP's EV	Implicit 2008E EV/EBITDA (x)	Methodology
		100%	EDP's Stake			
Iberia						
Generation and supply ¹	100.0	13,982.3	13,982.3	41.7	9.8	DCF
Distribution	100.0	5,312.9	5,312.9	15.9	8.1	DCF
Gas	100.0	1,629.9	1,629.9	4.9	8.9	DCF
Renewable energy ²	100.0	9,376.2	9,376.2	28.0	20.8	SOTP, DCF
Energias do Brasil	62.4	4,189.2	2,614.0	7.8	5.2	Target price US\$21.32/share ⁴
Financial investments	–	–	953.6	2.8	–	–
Edinfor	40.0	–	46.0	–	–	Book value
REN	30.0	–	106.8	–	–	BSNP target price: €4.00/share
CERJ	8.0	–	39.2	–	–	50% BV net of unrealised losses
BCP	2.4	–	353.8	–	–	BSNP target price €3.00/share
Sonaecom	8.0	–	112.2	–	–	BSNP target price €3.85/share
Turbogás	40.0	–	158.4	–	–	€500 EV/kWh, assuming 25% D/E
Tejo Energia	11.1	–	20.0	–	–	Book value
Others	–	–	117.2	–	–	Book value
Holding costs	–	–	-357.8	-1.1	5.0	2008E EV/EBITDA of 5x
Enterprise value	–	–	33,511.3	100.0	–	–
YE2007E net financial debt ³	–	–	-12,102.5	–	–	–
Adjustment to net debt	–	–	-759.0	–	–	–
Adjusted minorities ⁵	–	–	-813.6	–	–	–
Uncovered pension fund and medical liabilities	–	–	-1,224.9	–	–	–
Equity value	–	–	18,646.3	–	–	–
Number of shares (mn)	–	–	3,656.5	–	–	–
Own shares (mn)	–	–	-12.7	–	–	–
Value per share (€)	–	–	5.12	–	–	–
Rounding	–	–	0.03	–	–	–
Target price (€/share)	–	–	5.15	–	–	–

(1) Ex renewables. (2) Including 40% stake in equity accounted project of 1,200MW wind capacity to be developed in Portugal. (3) Adjusted for €449mn of dividends to be paid in 1H08E. (4) Per Santander Investment Securities. (5) Equity value of minorities adjusted for 37.6% of Energias do Brasil's EV, already deducted above. Source: Company data and Banco Santander de Negócios Portugal estimates.



Important Disclosures

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Grupo Santander has received compensation for investment banking services from EDP in the past 12 months.

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KEY TO INVESTMENT CODES*

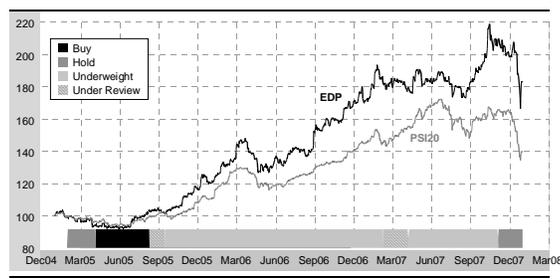
Rating	Definition	% of Companies as of Jan 2008	
		Covered with This Rating	Provided with Investment Banking Services in Past 12M
Buy	Upside of more than 15%.	42.39	45.28
Hold	Upside of 10%-15%.	10.87	7.55
Underweight	Upside of less than 10%.	33.70	30.19
Under Review		13.04	16.98

(*) 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.

LOCAL OFFICES

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3Y STOCK PERFORMANCE VS RATING



Source: JCF and Banco Santander de Negócios Portugal.

EDP

CURRENT PRICE: €4.10
TARGET PRICE: €5.15

Buy

EDP evolved from Portugal's incumbent electricity distributor and the leading generator in Portugal (44% of EV) to a major player in the Iberian scenario in the last seven years, grabbing a 20% share in electricity generation (Spain accounts for c12% of EV). On top of this, EDP operates in Brazil's electricity generation and distribution markets, through its 62% stake in Energias do Brasil (8% of EV) and has recently expanded its wind-energy operations to the US, France and Poland, becoming the fourth-largest wind player worldwide (28% of EV). In Iberia, 60% of EDP's conventional generation portfolio is protected from low prices and rising costs through CMECs – the value-neutral equilibrium mechanism established to compensate EDP for the early termination of PPAs.

Financial Data: P&L, Balance Sheet and CF Statement, 2004-09E

P&L Account (€mn)	2004	2005	2006	2007E	2008E	2009E	CAGR 06-09E (%)
Total revenues	0.0	8,584.4	8,984.5	9,698.0	10,356.5	11,040.2	7.1
YoY change (%)	-	-	4.7	7.9	6.8	6.6	-
COGS	0.0	-5,813.2	-6,191.4	-6,421.4	-6,669.3	-7,030.1	-
Gross profit	0.0	14,397.6	15,175.9	16,119.4	17,025.8	18,070.3	-
As % of revenues	-	167.7	168.9	166.2	164.4	163.7	-
Personnel expenses	0.0	-546.0	-585.1	-630.2	-665.2	-676.7	-
Other op expenses	0.0	11,804.1	12,285.4	12,698.3	13,157.4	13,815.1	-
EBITDA	0.0	2,047.5	2,305.4	2,790.9	3,203.2	3,578.5	22.8
YoY change (%)	-	-	12.6	21.1	14.8	11.7	-
As % of revenues	-	23.9	25.7	28.8	30.9	32.4	-
EBIT	0.0	1,136.1	1,253.0	1,772.9	2,077.8	2,323.0	22.8
YoY change (%)	-	-	10.3	41.5	17.2	11.8	-
As % of revenues	-	13.2	13.9	18.3	20.1	21.0	-
Net interest expenses	0.0	-364.0	37.9	-387.8	-505.0	-542.8	-
Extraordinary items	0.0	492.0	4.8	152.5	0.0	0.0	-
Pre-tax profits	0.0	1,264.1	1,295.7	1,537.6	1,572.8	1,780.2	11.2
YoY change (%)	-	-	2.5	18.7	2.3	13.2	-
Taxes	0.0	-152.2	-278.7	-410.2	-465.8	-527.2	-
Tax rate (%)	-	12.0	21.5	26.7	29.6	29.6	-
Minority interests	0.0	-40.9	-76.3	-124.6	-134.4	-153.1	-
Net profit	0.0	1,071.1	940.7	1,002.8	972.6	1,099.9	5.3
YoY change (%)	-	-	-12.2	6.6	-3.0	13.1	-
Adj. Net profit	733.1	787.9	850.4	972.6	1,099.9	1,224.0	-
Balance Sheet (€mn)	2004	2005	2006	2007E	2008E	2009E	CAGR 06-09E (%)
Fixed assets	0.0	18,318.0	19,758.0	23,919.1	26,087.4	27,627.5	-
Goodwill	-	-	-	-	-	-	-
Inventories	0.0	219.2	229.0	247.2	264.0	281.4	-
Trade receivables	0.0	1,585.5	1,593.4	1,719.9	1,836.7	1,958.0	-
Cash & equivalents	0.0	861.1	869.0	869.0	869.0	869.0	-
Total assets	0.0	24,033.0	25,407.1	30,080.9	32,512.8	34,371.1	-
Shareholders' equity	0.0	4,823.4	5,527.3	5,835.0	6,358.7	6,955.8	-
LT financial debt	0.0	8,600.7	8,625.0	10,994.5	13,262.3	14,023.9	-
ST financial debt	0.0	1,983.6	1,528.0	1,528.0	1,528.0	1,528.0	-
Trade payables	0.0	4,685.3	5,865.8	7,712.8	7,214.4	7,556.3	-
CF Statement (€mn)	2004	2005	2006	2007E	2008E	2009E	CAGR 06-09E (%)
Op cash flow	0.0	2,219.9	2,007.9	2,576.9	2,804.2	3,118.1	-
Chg in working capital	0.0	0.0	-17.9	1,334.3	-762.0	23.7	-
Capex	0.0	-1,429.2	-1,456.5	-2,198.7	-3,293.7	-2,795.6	-
Dividends	0.0	0.0	-363.9	-401.4	-448.9	-502.8	-
Free cash flow	0.0	790.7	533.6	1,712.5	-1,251.6	346.2	-

Source: Company data and Banco Santander de Negócios Portugal estimates.

Per Share Data, 2006-09E

(€)	2006	2007E	2008E	2009E
EPS	0.22	0.23	0.27	0.30
% chg	7.5	7.9	14.4	13.1
Adj EPS	0.22	0.23	0.27	0.30
% chg	7.5	7.9	14.4	13.1
DPS	0.11	0.12	0.14	0.15
% chg	10.0	12.0	12.0	12.0
CFPS	0.55	0.70	0.77	0.85
% chg	-9.5	28.3	8.8	11.2
FCFPS	0.15	0.47	-0.34	0.09
% chg	-32.5	221.0	-173.1	-127.7
Div payout	51.0	53.0	51.9	51.4
% chg	2.3	3.8	-2.1	-1.0

Source: Company data and BSNP estimates.

Market Ratios, 2006-09E

(x)	2006	2007E	2008E	2009E
P/E	19.0	17.6	15.4	13.6
EV/sales	3.1	2.9	2.7	2.6
EV/EBITDA	12.2	10.1	8.8	7.9
EV/EBIT	22.5	15.9	13.6	12.1
P/CF	7.5	5.8	5.3	4.8
P/BV	2.7	2.6	2.4	2.2
FCF yield	3.6	11.4	-8.3	2.3
GDY	2.7	3.0	3.4	3.8

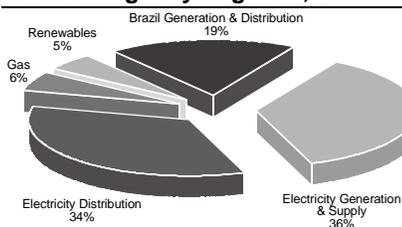
Source: Company data and BSNP estimates.

Financial Ratios, 2006-09E

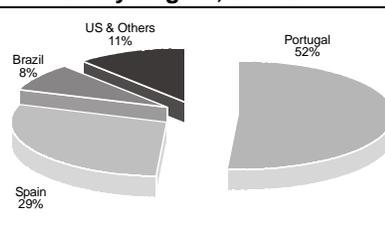
(%)	2006	2007E	2008E	2009E
ROE	18.2	17.7	16.0	16.5
ROCE	5.3	7.3	7.7	7.7
D/E	1.9	1.8	1.6	1.5
D/EBITDA (x)	5.4	4.4	3.9	3.5
Int cover	60.8	-7.2	-6.3	-6.6

Source: Company data and BSNP estimates.

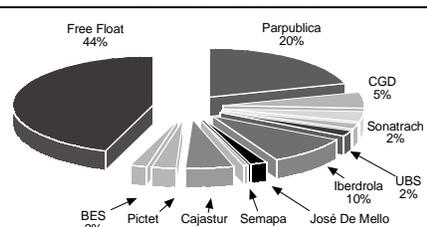
Gross Margin by Segment, 2006



EV by Region, 2008E



Shareholder Structure



Source: Company data and Banco Santander de Negócios Portugal estimates.