



16 May 2008

## EDP

## BUY

Utilities / Portugal

Previous: Buy

Price (€)	4.02	Performance	Size	Index Weight	Time View	Price Target (€)	4.90
52W High:	5.00	1M: (1.1%)	Mkt Cap (€mn): 14,699	PS120: 16.1%	Short Term: Neutral	Previous Price Target (€):	4.90
52W Low:	3.54	3M: (3.9%)	Avg Vol 5D (th): 8,129	DJES UTILITIES 2.6%	Long term: Positive	Potential Return:	18.1%
1 Year ago:	3.94	YTD: (10.1%)	Free-Float: 45%	DJES STOXX 600 0.2%			

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Closing prices as of May 15, 2008.

## Green light for EDP Renováveis

EDP yesterday announced the terms of EDP Renováveis' IPO. Highlights are as follows:

- ▶ Issuing of 225.427.952 new shares, representing up to 25% of EDP Renováveis share capital (post-capital increase), including a greenshoe option worth 29.403.646 shares for institutional and retail customers;
- ▶ Bookbuilding will start on May, 19 and last up to May, 30, with the price announcement on June 2 and the listing of the shares scheduled for June 4 (first stage subscription period will end on May, 26);
- ▶ EDP Renováveis' price range was set between €7.40 and €8.90 per share, implying an Enterprise Value range of €7.0-8.0bn for the company as a whole (the combined offer range stands at €1.7-2.0bn, including greenshoe).

### Our view

The EV set for EDP Renováveis (EDPR) is below our own valuation (€9.3bn) as well as the average valuations presented by the investment banks members of the syndicate - according to press, those valuations indicated an average EV of €9.6bn, of which the highest stood at €12bn and the low at €8.3bn. In our view, the IPO of EDPR can represent an interesting opportunity for investors, considering that the price range suggests an implied discount at 15-25% vis-à-vis analysts' valuations. Bearing that in mind, and acknowledging the quality of the assets that comprise EDPR portfolio, as well as its growth strategy, we think the operation presents a good investment opportunity, as it could provide an interesting entry point for investors.

In terms of multiples, at the EV/EBITDA08 multiple for EDPR stands between 15.8x and 19.1x multiple for the €7.40 - €8.90 price range. Iberdrola Renováveis currently trades at a 17.5x EV/EBITDA08 multiple. Both companies are quite similar, not only in terms of market exposure (Europe, USA) but also regarding their very ambitious expansion plans for the next couple of years: EDPR plans to install up to 1.400MW of renewables capacity per annum, slightly below that of Iberdrola Renovables (2.000MW per annum).

In our view, EDP opted for a surprisingly low valuation of its EDPR subsidiary to make sure the deal succeeds in a context of volatile markets. However, we think the market will be quick to re-assess EDPR's fundamental value, as acknowledged by all of its IPO valuations. Therefore, we think there are two ways for investors to grab the value creation opportunity entailed in this IPO: directly but also through EDP, which will benefit from the increased visibility of its Renewables unit (EDP will still control 75% of EDP Renováveis). That said, we are retaining our BUY recommendation on EDP and recommending shareholders to reinforce their positions on any potential weakness.

### EDP Renováveis – Relative Valuations

	Last Price	EV/EBITDA			EV/MW
		2008E	2009F	2010F	2008E
EDP Renováveis @ Low End	7.40	15.8	9.6	7.0	1.30
EDP Renováveis @ High End	8.90	19.1	11.6	8.4	1.56
Iberdrola Renovables @ consensus	4.40	17.5	13.4	10.6	2.26

Source: Banif Banco de Investimento, Thomson Financial, Bloomberg. Closing prices as of May, 15 2008.

### EDP Sum-of-the-Parts

	EV	EV/EBITDA 08E	EV/MW 08E	Per Share	(%) of EV	Remarks
<b>Iberian Generation &amp; Supply *</b>	<b>13.009</b>	<b>11,1</b>	<b>1,05</b>	<b>3,6</b>	<b>39%</b>	
Portugal - Generation & Supply	10.835					
Liberalized	6.278	33,97	1,88	1,5	18,9%	20 year DCF
PPA NPV	5.317	6,69	0,76	1,5	16,0%	PPA NPV, after taxes
Residual Value Payment	-760					Price adjustment regarding the introduction of CMEC's
Spain - Generation & Supply	2.175	6,0	0,67	0,6	6,6%	10 year DCF
<b>Iberian Distribution</b>	<b>5.706</b>	<b>8,9</b>		<b>1,6</b>	<b>17%</b>	
Portugal - Distribution	3.991	7,8		1,1	12,0%	10 year DCF
Portuguese regulatory receivables (after tax)	274			0,1	0,8%	Book value, after taxes
Spain - Distribution	1.285	16,2		0,4	3,9%	10 year DCF
Spanish regulatory receivables (after tax)	155			0,0	0,5%	Book value, after taxes
<b>Renewables</b>	<b>9.342</b>	<b>22,2</b>	<b>1,78</b>	<b>2,6</b>	<b>28%</b>	
Renewables @ DCF	9.515	22,6	1,82	2,6	28,7%	20 year DCF
Renewables @ Capacity Multiples	9.168	73,4	1,75	2,5	27,7%	EV/MW €1.75mn x 2008E Gross capacity (MW)
<b>Natural Gas</b>	<b>1.495</b>	<b>7,5</b>		<b>0,4</b>	<b>5%</b>	
Portugal - Portgás	198	8,4			0,6%	10 year DCF
Spain - Naturgás	1.297	12,7			3,9%	10 year DCF
<b>Brazil (EdB)</b>	<b>2.632</b>	<b>9,4</b>	<b>n.a.</b>	<b>0,7</b>	<b>8%</b>	
Generation	960	3,5	1,47	0,3	3%	10 year DCF
Distribution	1.673	12,8	n.a.	0,5	5%	10 year DCF
<b>Core Business</b>	<b>32.185</b>			<b>8,8</b>	<b>97%</b>	
Edinfor (40%)	55					Latest deal Implied value (LogicaCMG)
REN (5%)	88					Banif IB price target (€3.30 per share)
BCP (2.34%)	223					Banif IB price target (€2.10 per share)
Sonaecom (7.96%)	147					Banif IB price target (€5.06 per share)
Turbogás (40%)	175					12x P/E 2008E
Setgás (19.8%)	21					12x P/E 2008E
CEM (22%)	104					12x P/E 2008E
Deca (21%)	77					12x P/E 2008E
Other	52					12x P/E 2008E
<b>Financial Stakes and Other Assets</b>	<b>943</b>			<b>0,3</b>	<b>3%</b>	
<b>Enterprise Value</b>	<b>33.129</b>	<b>12,6</b>		<b>9,1</b>	<b>100%</b>	
<b>Net Debt 08E</b>	<b>-12.844</b>					Adjusted for Minorities Net Debt
<b>Provisions for social benefits</b>	<b>-1.260</b>					After tax value for pension liabilities
<b>Minorities 08E</b>	<b>-1.103</b>					Adjusted for EdB Minority Interests
<b>Equity Value</b>	<b>17.923</b>					
Number of Shares (m)	3.657					
<b>Value per Share (€)</b>	<b>4,90</b>					

Source: Banif-Banco de Investimento, company reports.

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### EDP – 12 months rating history

Date	Fundamental Rec.	Price Target	Closing Price
02-05-2007	Neutral	€ 3,86	€ 4,01
04-05-2007	Neutral	€ 3,86	€ 4,01
23-07-2007	Neutral	€ 3,86	€ 4,22
30-07-2007	Neutral	€ 3,86	€ 4,18
17-03-2008	Buy	€ 4,90	€ 3,69
04-05-2007	Buy	€ 4,90	€ 4,15

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