

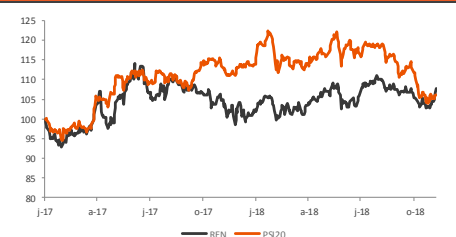
REN

 Recommendation: **Accumulate**
Share details (EUR)

Current price	2.44
Target price	2.77
Beta	0.83
52w max	2.67
52w low	2.32
1y return (%)	4.03
3m return (%)	-1.85
Market cap (mn)	1,630.6
Free float	53.4%
Avg daily volume (30d)	581,875.60

Financial highlights (EUR million)

	2017	2018E
Revenue	748	718
EBITDA	488	485
EBIT	266	245
Net profit	126	108
Net debt	2,768	2,654
EPS	0.19	0.16
DPS	0.171	0.171

Price graph (2017=100)


Recommendation	Date	PT
Accumulate	09/11/18	2.77
Accumulate	15/05/18	2.83

Main shareholders

State Grid of China	25%
Oman Oil	12%
Lazard Asset Management	7%

Note: data as of 9/11/2018

Source: Bloomberg; BiG Research; Company Data

REN – REDES ENERGETICAS NACIONAIS
No great surprises on 9-month results
9 Month 2018 Results Overview

REN reported results relative to the 9 months of 2018, with EBITDA increasing 3.8% to EUR 378.4 mn, beating BiG Research's estimate of EUR 367 mn - due to higher than estimated recovery of amortizations (EUR 16 mi reported vs. EUR 11 mi estimate) and remuneration of fully amortized assets (EUR 159 mi vs. EUR 156 mi est.). Our estimates of D&A were below reported (EUR 176 mn vs. EUR 161 mn est.) and thus net profit (EUR 91 mn vs. EUR 96 mn est) and recurrent net profit (EUR 113 m vs. EUR 122 mn est) reported were below our estimates. In the 9 months of 2018, non-recurrent items include the extraordinary energy levy sector (EUR 25.4 mn) and one-off gains relative to the sale of the LPG business (EUR 3.8 mn after tax) in the 3rd quarter.

Overall, earnings were relative in line with expectations and do not present great surprises, with Portugás driving the largest percentage of the EBITDA and RAB growth.

Outlook for FY Results

For the full year 2018 results, we forecast a consolidated EBITDA of EUR 485 mn and a net profit of EUR 108 mn.

(EUR mn)	1Q18	6M18	9M18	%YoY	12M18E	%YoYE
EBITDA	128	252	378	3.8%	485	-0.5%
Financial Result	-17	-27	-44	2.3%	-62	1.7%
Net Profit	13	53	91	2.3%	108	-13.9%
Recurrent Net Profit	38.40	78.40	112.5	2.3%	130	-16.0%

Source: BiG Research; Company Data

Valuation

We updated our valuation model to incorporate our lower expectations of rate of return (RoR) for the next years. Thus our target price is revised downwards to EUR 2.77 per share, which represents an upside of 13% to the current price. We maintain our recommendation to accumulate.

WACC		Valuation (SOTP)		
Ke	9%	EV (EUR mn)	%EV	
Rf	2%	Electricity Transmission (DCF)	2,719	60%
MRP	8%	Gas Transportation (DCF)	1,142	25%
Beta	0.8	Gas Distribution/Portugás (DCF)	440	10%
Kd	3%	Electrogas (Book Value)	169	4%
Tax Rate	29%	Other Assets*	34	1%
Debt/EV	64%	Total EV	4,504	100%
WACC	4.4%	Net Debt (at YE18)	2,654	
		Equity Value	1,850	
		# shares outstanding (mn)	667	
		Target Price Per Share (EUR)	2.77	

Source: BiG Research; Bloomberg; Company Data

* Includes Holding, Telecom and Consultancy Services (valued through DCF) plus Financial Stakes (valued at book value excluding REE valued at market value)

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Key Financial Data

(EUR mn)	2017A	2018E	2019E	2020E	2021E	2022E
Income statement						
Revenues	748	718	708	712	717	739
EBITDA	488	485	459	455	457	445
o.w. Electricity Transmission	356	332	308	308	313	304
o.w. Gas Transportation	142	121	122	118	114	110
o.w. Gas Distribution (Portgás)*	9	44	45	46	46	46
o.w. Other	-19	-12	-16	-16	-16	-16
D&A	222	240	215	211	208	196
EBIT	266	245	244	244	249	249
Financial Results	-61	-62	-59	-59	-57	-57
Income Tax	53	53	54	54	56	56
ESEC	26	25	26	25	25	25
Net Profit	126	108	106	106	112	112
Earnings Per Share	0.19	0.16	0.16	0.16	0.17	0.17
Balance Sheet						
Fixed Assets	4,310	4,183	4,134	4,097	4,067	4,060
Current Assets	605	719	791	849	909	931
Current Liabilities	1,128	603	885	898	602	602
Net Debt	2,768	2,654	2,583	2,525	2,464	2,442
Shareholder's Equity	1,429	1,423	1,415	1,407	1,405	1,403
Cash Flow Statement						
Net Income	126	108	106	106	112	112
(+) Depreciation	222	240	215	211	208	196
(-) Change in NWC	-69	0	0	0	0	0
(=) Operating Cash Flow	279	348	321	317	320	308
(-) Capex	-156	-120	-135	-145	-145	-172
Electricity Transmission	135	90	100	110	110	111
Gas Transportation	14	10	10	10	10	36
Gas Distribution (Portgás)	6	20	25	25	25	25
(=) Investing Cash Flow	-156	-120	-135	-145	-145	-172
(+/-) Increase/Decrease of Debt	315	0	0	0	0	0
(+/-) Increase/Decrease of Equity	133	0	0	0	0	0
(-) Dividends Paid	-91	-114	-114	-114	-114	-114
(=) Financing Cash Flow	357	-114	-114	-114	-114	-114
Other	-306	0	0	0	0	0
Net increase/decrease in cash and cash equivalents	51	114	71	58	61	22
Cash and cash equivalents at beginning of period	11	61	176	247	305	366
Cash and cash equivalents at end of period	61	176	247	305	366	388
Operating and financial indicators						
Revenue growth	1%	-4%	-1%	1%	1%	3%
EBITDA margin	65%	68%	65%	64%	64%	60%
Profit margin	17%	15%	15%	15%	16%	15%
DPS	0.171	0.171	0.171	0.171	0.171	0.171
Payout	90%	105%	108%	108%	102%	102%
ROE	8.8%	7.6%	7.5%	7.5%	8.0%	8.0%
Net debt/EBITDA (x)	5.7	5.5	5.6	5.5	5.4	5.5

Source: BiG Research; Company Data

* 2017 data relative to Gas Distribution/Portgás only consolidates three months.

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 - Buy, expected absolute return above 15%;
 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;

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PSI20 Notes in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75,0%
Keep/Neutral	0	0,0%
Reduce/Sell	1	25,0%
Total	4	100,0%

Trading Ideas in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61,1%
Stop Loss	6	33,3%
In Place	1	5,6%
Total	18	100,0%

Pair Trades in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

Source: BiG Research

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