GERMANY

MVV1 GR Underperform
Price 12 Jan 11 €27.22

12-month target € 25.00
12-month TSR % -4.8
Valuation € 25.26
- DCF (WACC 9.6%, beta 0.9, ERP 5.0%, RFR 4.0%, TGR 1.0%)
GICS sector Utilities
Market cap €m 1,794
30-day avg turnover €m 0.2
Market cap US$m 2,320
Number shares on issue m 65.91

Investment fundamentals
Year end 30 Sep 2010A 2011E 2012E 2013E
Revenue m 3,398.2 3,416.0 3,525.5 3,636.7
EBIT m 234.6 240.0 252.4 238.6
Reported profit m 190.0 200.0 210.0 220.0
EPS rep € 2.11 1.32 1.80 1.67
EPS rep growth % 1.67
EPS adj € 1.44 1.65 1.80 1.67
EPS adj growth % -2.4 2.1 1.67
PER rep x 12.9 20.5 15.1 16.3
PER adj x 18.8 16.5 15.1 16.3
Total DPS € 0.90 0.90 1.00 1.00
Total div yield % 3.3 3.3 3.7 3.7

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, January 2011
(all figures in EUR unless noted)

MVV Energie
Strategic progress in a difficult environment

Event
- Management has presented its annual report 2009/10 and details of its “€20-30m” by FY12/13 cost cutting program. For FY10/11, management expects a stable adjusted EBIT of ~€239m.
- MVV has also been awarded a new €250m waste-to-energy plant in Plymouth (UK), which is expected to come on stream in 2014.

Impact
- Cost cutting offset by margin pressure: We are slightly disappointed by management’s EBIT outlook, given that cost savings (~€10m) and the absence of one-off charges (~€20m) should lead to a substantial EBIT improvement. However, management highlighted substantial pressure on generation margins as well as lower supply margins in the gas business after a strong FY2009/10. In total, we leave our adjusted EBIT estimate at €245m for 2010/11, even though we had not anticipated these cost savings.
- Plymouth: This project represents 17% of MVV’s growth capex budget of €1.5bn for 2010-20. However, we expect ROIC to undershoot group WACC in the first years of operation and be only marginally value-creating over the entire lifetime.

Earnings and target price revision
- We have made only marginally positive adjustments to our estimates (see Figure 3) and confirm our DCF-based target price of €25.

Price catalyst
- 12-month price target: €25.00 based on a DCF methodology.
- Catalyst: 1) potential changes of the shareholder structure, 2) evolution of power, gas and waste prices, 3) political newsflow / CHP subsidies, 4) execution of cost saving program

Action and recommendation
- Management may have presented some positive news, given the cost savings program and the acquisition of Plymouth but we see Plymouth as only marginally value enhancing and the evolution of clean dark spreads and gas supply margins should almost entirely offset the cost cutting initiative.
- Even despite the recent share price decline, the stock trades at a small premium to our DCF-based target price of €25. Moreover, the 2010/11 PER of 16.5x doesn’t look attractive compared with the sector average of 11.2x.
- We continue seeing a potential share overhang due to EnBW’s asset disposal program, although the acquisition of the 45% stake in EnBW by the State of BW might delay the overall process.
- We reaffirm our Underperform rating on the stock.

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Volatility index definition* This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 15–25% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only.

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

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