MVV Energie
GSZ unmasking its stake after warm 1Q11/12

Event
- GDF Suez (GSZ) has surprisingly revealed a 6.3% stake in MVV. We believe this adds GSZ to the list of potential sellers. For the publication of 1Q11/12 results on February 15, 2012, we expect a notable earnings decline, driven by unusually warm weather and the turbine damage at GKK.

Impact
- Unmasking of GSZ’s 6% stake: We believe GDF Suez bought this stake a couple of years ago. We regard it as unlikely that GSZ aims to keep the stake (market value €100m) at this level, and see it as a potential seller rather than a buyer.
- Mild weather and GKK plant outage: We estimate that mild weather conditions in 1Q (Oct-Dec 2011) had a negative impact of ~€5.5m on MVV’s adj. EBIT. The GKK power plant outage in Kiel likely triggered further (operating) one-off costs of €9m.
- Group adjusted EBIT to fall 18% YoY to €75m: We expect adjusted EBIT to fall ~18% (-€16m) YoY to €75m for the quarter. Adj. net profit is likely to be down ~11%, after sharing some of the burden with minority shareholders.
- Change in full-year outlook unlikely: Management’s full-year outlook (single-digit decline in adjusted EBIT; Macq: -7% YoY to €226m) already incorporates the cost related to the GKK plant outage but also normalized weather conditions. According to management, weather effects can have an impact of -/+ €10m on full-year adjusted EBIT. Given very cold weather conditions in 2Q so far, we see a reasonable chance for it to recover most of the 1Q decline and don’t expect a revision of the full-year 2011/12 outlook.

Earnings and target price revision
- No change

Price catalyst
- 12-month price target: €24.00 based on a DCF methodology.
- Catalyst: Commodity prices & generation spreads, changes in shareholder structure, operating performance.

Action and recommendation
- GDF Suez’s announcement raises questions about its further intentions with this shareholding. We believe it probably has to be added to the list of potential sellers rather than buyers.
- 1Q11/12 adjusted EBIT likely to be down 18% on the back of warm weather and a power plant outage. Thanks to the current cold weather in Germany, we believe MVV can still achieve its full-year targets.
- The stock trades close to our target price, so we see little reason to buy it now. We reiterate our Neutral stance.

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**GERMANY**

**MVV1 GR**

<table>
<thead>
<tr>
<th>Close Price* 7 Feb 12</th>
<th>Neutral</th>
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<tbody>
<tr>
<td>12-month target</td>
<td>€ 24.00</td>
</tr>
<tr>
<td>12-month TSR</td>
<td>% +2.4</td>
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<td>Valuation</td>
<td>€ 24.33</td>
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**GICS sector Utilities**

<table>
<thead>
<tr>
<th>Market cap</th>
<th>€m 1,602</th>
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</thead>
<tbody>
<tr>
<td>30-day avg turnover</td>
<td>€m 0.1</td>
</tr>
<tr>
<td>Market cap</td>
<td>US$m 2,121</td>
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<tr>
<td>Number shares on issue</td>
<td>m 65.91</td>
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</table>

**Investment fundamentals**

<table>
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<tr>
<th>Year end 30 Sep</th>
<th>2011A</th>
<th>2012E</th>
<th>2013E</th>
<th>2014E</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>m 3,590.5</td>
<td>3,660.6</td>
<td>3,998.0</td>
<td></td>
</tr>
<tr>
<td>Reported profit</td>
<td>m 117.2</td>
<td>98.3</td>
<td>98.7</td>
<td>102.6</td>
</tr>
<tr>
<td>EPS rep</td>
<td>€ 1.78</td>
<td>1.49</td>
<td>1.50</td>
<td>1.56</td>
</tr>
<tr>
<td>EPS rep growth</td>
<td>% -15.7</td>
<td>-16.1</td>
<td>0.4</td>
<td>3.9</td>
</tr>
<tr>
<td>EPS adj growth</td>
<td>% 13.9</td>
<td>-9.4</td>
<td>0.4</td>
<td>3.9</td>
</tr>
<tr>
<td>PER rep</td>
<td>x 13.7</td>
<td>16.3</td>
<td>16.2</td>
<td>15.6</td>
</tr>
<tr>
<td>Total DPS</td>
<td>€ 0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
</tr>
<tr>
<td>Total DPS growth</td>
<td>% 0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total div yield</td>
<td>% 3.7</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
</tr>
</tbody>
</table>

**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, February 2012 (all figures in EUR unless noted)

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8 February 2012
Macquarie Capital (Europe) Limited

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GDF Suez unmasking its 6.3% shareholding

GDF Suez reported control over a 6.3% stake in MVV Energie today. This breaks down into:

- 3.4% due to the expiry of a financial derivatives contract; and
- 2.9%, which GSZ already had under direct control. This was below the 3% threshold that triggers publication of a stake according to German law.

The publication of the 6.3% stake reduces MVV’s free float to 12.2%, accordingly.

According to press articles, GDF Suez was one of the bidders for the 16% stake that the City of Mannheim finally sold to Rheinenergie in 2007. We assume that GSZ bought the direct and indirect stakes at this time. Hence we regard today’s publication – triggered by the expiry of the derivatives contract – as simply the unmasking of a shareholding that already existed for a long time. This means GSZ has acted as a pure financial investor so far.

**Signalling effect of the publication:** We believe that the publication of GSZ’s stake also has a signalling effect, because having a small shareholding with a market value of ~€100m has little rationale for GSZ going forward. If GSZ wanted to increase its stake, it could easily get in touch with the other MVV shareholders, especially EnBW (15%) and Rheinenergie (16%). This would certainly not require a publication of GSZ’s stake. **We therefore believe that GSZ is considering selling its 6% stake** – and would be a potential seller if the price is attractive.

### 1Q11/12 numbers beaten by mild winter and power plant outage

The table above shows our 1Q11/12 estimates for adjusted EBITDA, EBIT and net profits (i.e., before IAS 39 valuation effects). Our key assumptions are:
• **Mild weather conditions**: For generation & infrastructure, we expect a marginal EBIT decline of 3% to €36m, with lower volumes in district heating and the natural gas pipelines. However, higher network fees (e.g., due to the elimination of the general efficiency target by the German network regulator, BNA) is likely to have offset most of the volume effect. **Strategic investments**, which bundles several municipal participations, is likely to have seen a 15% EBIT decline to €17m. In total, we estimate that mild weather conditions had a negative impact of ~€5-6m on MVV’s 1Q11/12 EBIT.

• **One-off costs due to the GKK plant outage**: The GKK power plant outage in Kiel is likely to have triggered (operating) one-off costs of €9m, according to our estimates and management's guidance. In addition, we expect a slight deterioration in the realized dark spreads. As a result, the **Trading & Portfolio management** division should record a €10m EBIT decline to €4m.

**All in all, we forecast group adjusted EBIT to fall 18% to €75m**: The main factor is the above-mentioned power plant outage, which accounts for more than half of this decline (55%).

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**Fig 4  Full-year guidance likely to be confirmed**

<table>
<thead>
<tr>
<th></th>
<th>FY 2010/11A</th>
<th>FY 2011/12E</th>
<th>+/- %</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(15 Dec 2011)</td>
</tr>
<tr>
<td>Adjusted EBIT</td>
<td>242</td>
<td>226</td>
<td>-6.7%</td>
<td>slight (single-digit) decline</td>
</tr>
<tr>
<td>Net profit</td>
<td>117</td>
<td>98</td>
<td>-16.1%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data, Macquarie Research, February 2012

**Change in full-year outlook unlikely**: Management has targeted a slight (i.e., single-digit) decline in adjusted EBIT for FY2011/12 (Macq: -7% to €226m). This target has already incorporated the cost related to the power plant outage in Kiel but also normalized weather conditions. According to recent management statements, weather effects can have an impact of +/- €10m on MVV’s full-year adjusted EBIT. Given very cold weather conditions in 2Q so far, we see a reasonable chance that MVV can recoup most of the 1Q decline. We therefore don’t expect a revision of the full-year 2011/12 outlook.
Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return <3% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >10% Neutral – expected return 0% to 10% Underperform – expected return <0%

Macquarie First South - South Africa
Outperform – expected return >10% Neutral – expected return from -10% to +10% Underperform – expected return <10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return <5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return <5% below Russell 3000 index return

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 25–30% 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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Financial definitions
All "Adjusted" data items have had the following adjustments made:

Add back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revaluations, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epsowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

9.96% 33.45%
65.60% 44.53% 20.55% 50.20%
54.55% 22.47% 6.94% 5.27% 10% to +10%
10.53% of stocks covered are investment banking clients
10.96% of stocks covered are investment banking clients
for US coverage by MCUSA, 10.53% of stocks covered are investment banking clients
for US coverage by MCUSA, 10.96% of stocks covered are investment banking clients
for US coverage by MCUSA, 0.44% of stocks covered are investment banking clients

Macquarie Research

MVV Energie

Important disclosures:

Recommendation proportions – For quarter ending 31 December 2011

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<th>AU/NZ</th>
<th>Asia</th>
<th>RSA</th>
<th>USA</th>
<th>CA</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outperform</td>
<td>56.59%</td>
<td>65.60%</td>
<td>54.55%</td>
<td>44.53%</td>
<td>75.28%</td>
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<tr>
<td>Neutral</td>
<td>33.45%</td>
<td>20.55%</td>
<td>38.96%</td>
<td>50.20%</td>
<td>22.47%</td>
</tr>
<tr>
<td>Underperform</td>
<td>9.96%</td>
<td>13.85%</td>
<td>6.49%</td>
<td>5.27%</td>
<td>2.25%</td>
</tr>
</tbody>
</table>

*(for US coverage by MCUSA, 10.53% of stocks covered are investment banking clients)*

*(for US coverage by MCUSA, 10.96% of stocks covered are investment banking clients)*

*(for US coverage by MCUSA, 0.44% of stocks covered are investment banking clients)*

8 February 2012
Macquarie Research

MVV Energie

8 February 2012

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