

23 RWE – Martin Brough, BUY, close €17.5, €25 tgt, 43% upside

- RWE is **cheap**. It trades on **just 3.5x 2019E EBITDA** after stripping out the market value of its innogy stake, after an excessive sell-off over German coal phase-out fears.
- We see sources of upside potential to our target:
  - Securing **compensation** for the closed 3GW of capacity at the same rate as the 2015 deal would **add €3/share** to our tgt. We have assumed no compensation and 3GW of lignite closures.
  - There is **further upside potential** from possible further rises in power prices. As power prices increase from the roll-over of hedges from €27/MWh in 2019E to €36/MWh in 2022E, **cashflows should increase by €300m pa** (even after higher carbon allowance costs).
- **Carbon reform still leaves structural surplus of allowances** to 2030, meaning the traded carbon price is now more likely to drop than rise. We therefore prefer fossil over clean generators.
- **RWE is still attractive even after innogy's profit warning**. It presents innogy as an investment so the financial impact is via lower likely dividend revenues from innogy, diluting the effect of innogy's lower future profits.
  - We have maintained our RWE DPS estimates despite the likely lower innogy distribution: the medium-term cashflow outlook is still attractive.
- Catalysts: clarity on German coal closure policy, any compensation for closures, higher power prices or securing a control premium for an innogy transaction could all provide upside.

**Related DB Research:**

[RWE: Value hit from innogy warning \(Brough\)](#)

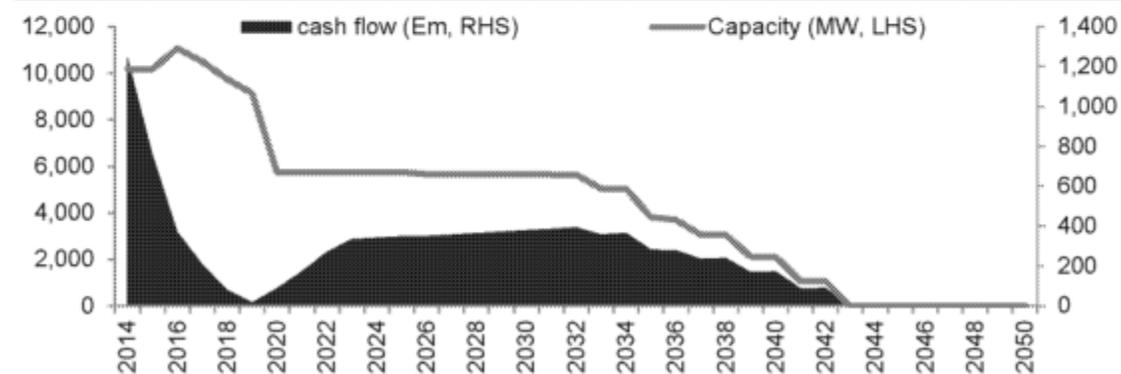
[Utilities 2018 Outlook: Five Trades \(Brough\)](#)

**Stripping out innogy stake, RWE is very cheap (figures in EURm, unless otherwise stated)**

|  |            |
|--|------------|
| RWE share price (E/share)                      | 17.4       |
| RWE market value                               | 10,709     |
| RWE provisions less net cash and investments   | 7,148      |
| RWE market EV                                  | 17,857     |
| Innogy share price (E/share)                   | 33         |
| Value of RWE's innogy equity stake             | 14,082     |
| Value of RWE EV less innogy stake              | 3,775      |
| RWE 2019E EBITDA ex innogy                     | 1,062      |
| <b>Implied EV/EBITDA for RWE ex innogy (x)</b> | <b>3.6</b> |

Source: Deutsche Bank

**Cashflows (EURm) should rebound from 2019**



Source: Deutsche Bank, estimates