

ENBW AG – STRONG BUY

# EnBW AG – A company with good energy

This company was selected on the basis of **Jyske Quant (V)**. Jyske Quant (v) is a model that rates corporate bonds based on a string of factors. In that way, the model comes up with a total score that indicates whether the bond is currently a good investment or not relative to the market.



*This is a complex product*

EnBW AG's € 7.375% 2072 hybrid issue is introduced as a new Quant Winner. Having a score of 6.9 it is one of the highest scoring utility companies in Jyske Quant (corporate bonds) and with a yield of 4.1% we find it a most attractive investment.

**Business profile:**

EnBW (Energie Baden-Württemberg) AG is Germany's third largest utility company with a dominant position in South Western Baden-Württemberg. EnBW AG's primary business area is production and sale of electricity and, further to sale in the wholesale market, the company supplies almost 6 million retail customers. The company's energy production is one of the least polluting in Germany as nuclear and hydro power account for more than 50%. It is also one of four utility companies which are joint owners of the German power grid, thus handling energy distribution.

**We see the following investment case:**

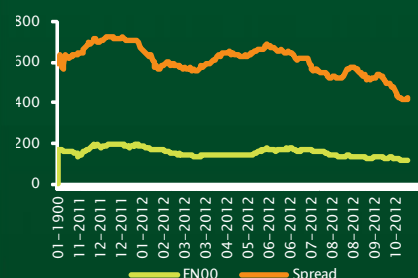
- Quant score of 6.9 and an attractive yield;
- good business profile with stable earnings from activities subject to regulation;
- solid liquidity and stable debt;
- strong management backed by the group of owners.

Bond information		
Quant score	6.9	ISIN XS0674277933
Rating	BBB-	Coupon 7.4%
Yield to worst	4.1%	Ranking Sr. Subordinated
Price	111.75/112.75	Maturity 2072
Min. Piece	€5,000	Expected call 02-04-2017

**Recommendations**

Sector	Utilities
Issue	ENBW 7.375% 2072
Currency	Euro
Risk	Very High

**Spread chart**



Jyske Markets, Vestergade 8-16  
DK - 8600 Silkeborg

Martin Sværdborg  
Corporate Bond Analyst  
+45 89 89 76 86  
msv@jyskebank.dk

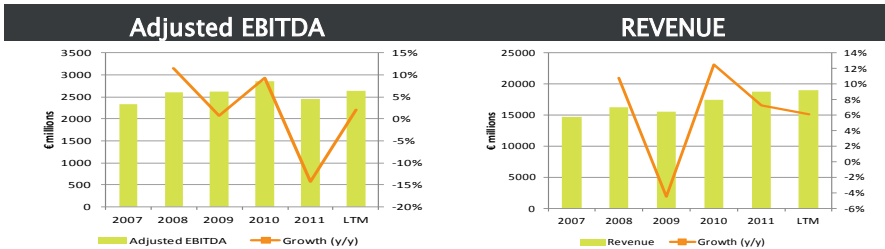
**Peter Andersen**  
Assisting Analyst:  
+45 89 89 71 34  
peter.andersen@jyskebank.dk

**Investment research**

**Translation:**  
Translation Services

**Disclaimer:**  
Please see the last pages.

**Good business profile**

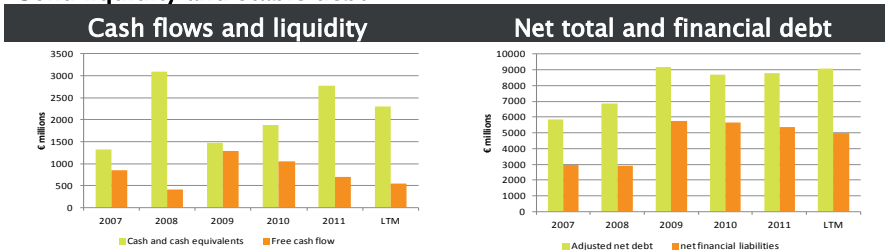


Source: EnBW & Jyske Bank

We find that EnBW has an attractive business profile for the following reasons:

- its energy production is among the most environmentally friendly of its kind in Germany, resulting in low exposure to the rising CO<sub>2</sub> prices;
- 6 million German retail customers buy more than a quarter of the company’s energy production, which contributes to the company’s protection against the volatile wholesale market.
- In excess of 20% of revenue are generated by distribution of electricity, which is a very stable business area.

**Solid liquidity and stable debt**



Source: EnBW & Jyske Bank

EnBW’s net debt is stable at around EUR 9bn, since the company’s ongoing reduction of its financial debt partially offsets the rising provision for pension.

Annualised FCF constitutes EUR 500 – 700m, and the company’s level of liquid assets in Q2’12 came to EUR 2.3bn. A bank facility of another EUR 2bn is also made available to EnBW. All in all, we therefore assess the company’s liquidity as solid.

**Strong management backed by the group of owners**

The management of EnBW has launched a number of measures to ensure the company profitability and credit quality in future:

- it has selected EUR 1.5bn in non-core activities to be sold and, so far, the first EUR 500m have already been sold;
- it is in the process of implementing its "FOKUS" efficiency programme which serves to provide EUR 750m a year;

- strongly supported by the shareholder group, a share issue was launched in July with proceeds in the amount of EUR 822m, emphasising the owners' significant backing of the company.

**Phasing out of nuclear power in Germany**

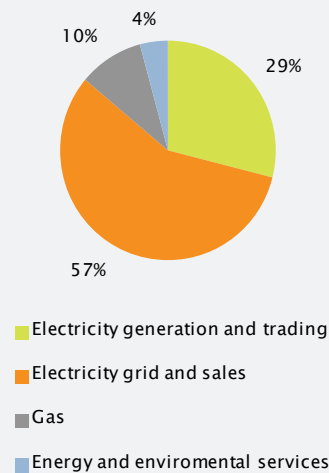
In the summer of 2011, the German government decided to phase out nuclear power up to 2022. As a result of this decision, EnBW was ordered to close two of its four nuclear power plants and the remaining plants must close between 2018 and 2022. EnBW's clear strategic target is to maintain a production profile with the lowest possible CO<sub>2</sub> emission.

**Overview**

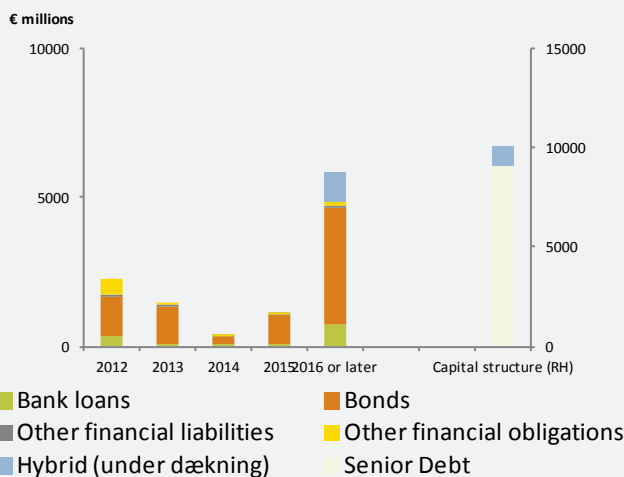
**Company profile**

EnBW (Energie Baden-Württemberg) AG is Germany's third largest utility company with a dominant position in South Western Baden-Württemberg. EnBW AG's primary business area is production and sale of electricity and, further to sales in the wholesale market, the company supplies almost 6 million retail customers. The company's energy production is one of the least polluting in Germany as nuclear and hydro power account for more than 50% of its energy production. It is also one of four utility companies which are joint owners of the German power grids, thus handling energy distribution.

**Revenue by segment**



**Earnings by segment (EBITDA)**



**Net debt and net leverage**



**Covenants**

- EnBW AG may opt for a postponement of the coupon payment under certain circumstances.
- Call options: first call date 2 April 2017@100, and subsequently every five years.
- yield after the first call date: 5-year euro swap + 5.4%.
- issue of new debt: no restrictions.
- Etc.

**Investment case**

- Quant score of 7.2 and an attractive yield.
- Good business profile with stable earnings from activities subject to regulation.
- Solid liquidity and stable debt.
- Strong management backed by the owner group.

**Price triggers**

- A marked improvement of the group's operational performance.
- Faster-than-expected sale of assets and, hence, debt reduction.

**Risk factors**

- considerable deterioration of operations resulting in lower-than-expected margins and cash flows.

**Disclaimer & Disclosure**

Jyske Bank is supervised by the Danish Financial Supervisory Authority.

The research report is based on information which Jyske Bank finds reliable, but Jyske Bank does not assume any responsibility for the correctness of the material nor any liability for transactions made on the basis of the information or the estimates of the report. The estimates and recommendations of the research report may be changed without notice. The report is for the personal use of Jyske Bank's customers and may not be copied.

This report is an investment research report.

**Conflicts of interest**

Jyske Bank has prepared procedures to prevent and preclude conflicts of interest thus ensuring that research reports are being prepared in an objective manner. These procedures have been incorporated in the business procedures covering the research activities of Jyske Markets, a business unit of Jyske Bank.

Jyske Bank's corporate-bond analysts may not hold positions in the instruments for which they prepare research reports. If an analyst takes over for the responsible analyst in connection with illness, business travels, etc. this analyst cannot trade in the relevant corporate bond on the day of publication of the research report and the following day. Jyske Bank may, however, hold positions, have interests in or business relations with the companies that are analysed. The research report has not been presented to the company prior to its release. Analysts receive no payment from persons interested in individual research reports.

Read more about Jyske bank's policy on conflicts of interest at [www.jyskebank.dk/terms](http://www.jyskebank.dk/terms).

**Jyske Bank's corporate bond recommendations - current breakdown**

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

#### Financial models

Jyske Bank models the expected development of the analysed company's income statement and balance sheet. A number of key figures for the company is calculated on the basis of these models, and the key figures are compared with those of comparable companies and the company's past performance. From this we infer the spread at which the bonds will trade for the period ahead. The recommendation and the price target are moreover adjusted for the expected news flow and the market sentiment based on knowledge of the industry and company-specific circumstances. Jyske Bank's recommendations take into account the expected development in the corporate-bond market, the various sectors and company-specific circumstances.

#### Risk

Investment in this corporate bond is associated with risk. The risk can be measured directly via the spread at which the bond trades relative to a 'risk free' investment with the same maturity. The spread reflects the probability of default, the recovery rate, and the liquidity of the corporate bond. Movements in the credit market, the sector and/or news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk on the corporate bond is stated as Very Low, Low, Medium, High or Very High and is relative to the high-yield market for corporate bonds. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing.

If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

#### Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements. In addition, there may be prepared research reports on special themes specifically for the company or research reports where the company is part of the special theme. These research reports are published on an ad-hoc basis.

See the front page for the initial date of publication of the report.

The prices stated are the latest prices quoted by Jyske Bank before the publication of the research report, unless otherwise stated.

#### Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return within the next twelve months. A BUY recommendation or a Strong BUY recommendation is based on expectations that investment in the bond will generate a return above that of the general corporate-bond market. On the other hand, a SELL recommendation implies that we expect investment in the bond to generate a return below that of the general corporate-bond market.

Since our recommendations are relative and risk-adjusted, it is possible to compare our recommendations across sectors and risk categories. In addition, the potential is stated in absolute terms via our return target.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors. It is not certain that the bond will yield the stated expected future return/s. The stated expected future returns exclusively express our best assessment.

---

## Contacts for institutional customers

Morten Storgaard Andersen  
+45 89 89 76 78

Senior Account Manager  
MSA@jyskebank.dk

Carsten Dam Hyldal  
+45 89 89 76 74

Senior Account Manager  
Hyldal@jyskebank.dk