

Dong Energy - BUY

Another divestment

DONG has sold its stake in Stadtwerke Lübeck

We restate our BUY recommendation for all three issues after DONG's announcement today that its 25.1% stake of Stadtwerke Lübeck has been sold to STAWAG (Stadtwerke Aachen). DONG has on several occasions confirmed that this stake has been put up for sale. DONG receives a price of DKK 315m for the stake and the transaction yields a profit in relation to the book value of DKK 176m.

The target of DONG's divestment programme will soon be attained

In the new strategy plan published by DONG in February the divestment of non-core activities was included for an amount of at least DKK 10bn as an element in the plan combined with a savings programme and an equity issue with proceeds of DKK 6bn-8bn. DONG's plan was that DKK 10bn should be attained over 2013-14. With today's sale, DONG reached DKK 9bn in Q2 and the first two weeks of Q3. (see table overleaf). The largest sale was a 25.7% stake in the Swedish hydro power business Kraftgården AB, which generated DKK 4.5bn. The Polish wind turbines were sold at a price of DKK 1.8bn and the gas-fired power plant at Statoil's Mongstad refinery at DKK 1.7bn. The Q1 financial statements also included a power transmission network for the wind turbines at London Array booked under Assets for sale. This transmission network is under completion, and DONG has booked the value at approx. DKK 2.2bn. When this sale has been implemented - presumably in H2 - DONG's total divestment will be above DKK 11bn.

The divestment programme will have a moderate effect on EBITDA

The power transmission network has of course not yet contributed to DONG's earnings, and income from minority items of Kraftgården and Stadtwerke

Issue	Rec.	Risk	Price	Yield	Bid Spread	Bid Spread Target	Bid Price target	Exp. 12M Return	Rating*
€5,5% 3005	BUY	Low	105,50	2,6%	324	197	103	3,0%	BBB-
€6,25% 3013	BUY	Medium	102,00	6,0%	451	422	102,75	7,0%	BB+
€4,875% 3013	BUY	Medium	99,88	4,9%	441	392	101	6,3%	BB+

Note: When on strong buy, buy or hold the offer price/yield is shown. When on sell the bid price/yield is shown.

**Composite rating. Source: Bloomberg

This is a complex product

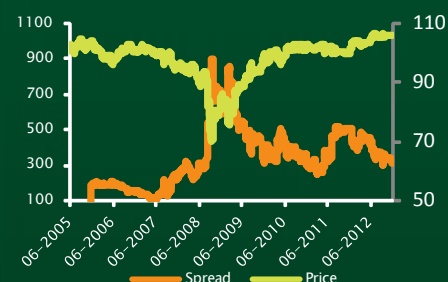


Recommendations:

- BUY: €5.5% 3005 - XS0223249003
- BUY: €6.25% 3013 - XS0560190901
- BUY: €4.875% 3013 - XS0943371194

DKK mio.	2011R	2012R	2013E
Rev.	56.842	67.243	70.605
EBITDA	13.780	8.632	13.415
Adj. Leverage	2,2	4,6	2,5

€5.5% 3005



Source: Jyske Bank & Bloomberg

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Please see the last pages.

Lübeck are not included in EBITDA. From the assets divested only the Polish and Danish wind turbines and the gas-fired power plant at Mongstad which has contributed to DONG's EBITDA. Based on the total sales price (EV) of these assets of DKK 4.26bn and a valuation of around 8x EBITDA, "divested EBITDA" is estimated at around DKK 0.5bn.

Assets put up for sale end-Q1 (Financial statements, note 13)				DKK	3,552m
comprise:					
Offshore power transmission (UK)	WP	Q3 2013	Regulatory requirements		
Polish wind parks	WP	Q2 2013	Approved	600	Profit on sale
Stadtwerke Lübeck	S&D	Q3 2013	Awaits approval from authorities	176	Profit on sale
do not comprise:					
Danish wind turbines	WP	Q2 2013	Awaits approval from authorities	760	Sales price, profit: DKK 453m
Swedish hydro power	WP	Q2 2013	Approved	4,500	Sales price, profit: DKK 1,530m
Energiverk Mongstad, Norway	TP	Q3 2013	Awaits approval from authorities	1,700	Sales price, loss: DKK 160m
Assets divested or intended to be divested				DKK	11,288m
Divested				DKK	9,075m
Intended to be divested				DKK	2,213m
				Debt:	776

Source: The company, JB

The purpose of divestments, issue of new hybrids and the coming capital increase is not least to defend DONG's present rating. In this respect DONG's ambition of a net-bearing debt (NIBD) in relation to EBITDA below 2.5x is rather important.

Q1 2013 LTM	DKKm	Divestment	50% of 13 Hybrids	DKKm	Capital increase	DKKm
Revenue	68.7			68.7		68.7
EBITDA	9.7	-0.5		9.2		9.2
NIBD	34.5	-11.0		23.5	-7.0	16.5
50% of 05 Hybrid	2.3		4.5	6.8		6.8
Adjusted NIBD	36.8			30.3		23.3
NIBD / EBITDA	3.8			3.3		2.5

Partial analysis which does not include CAPEX and Cash flow for the year

Source: The company, JB

If DONG had before the end of Q1 implemented the divestments, the two new hybrid issues and the capital increase, DONG would have been able to live up to the internal target of NIBD/EBITDA of 2.5x or below. The above calculation does not take into account further investments and cash flow in the rest of 2013, but it shows the extent to which divestments and capital increase benefit the key figure. DONG have indicated that the target can be attained at end-2014 which must be considered very likely, due to the debt reduction and the improvement of EBITDA which will be the result of the implementation of new projects.

Overview

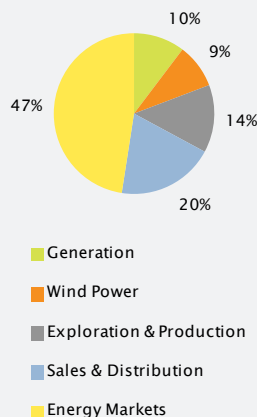
Company profile

DONG Energy A/S is an integrated energy group which procures, produces, distributes and trades energy and associated products in Northern Europe. The company is a market leader in the Danish energy market where DONG accounts for 54% and 35% of the Danish power and heat production, respectively. Growth is still expected to come from continued expansion in other Northern European energy markets.

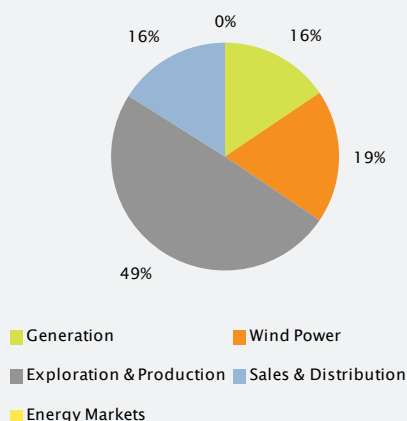
The Danish state is still a major shareholder (80%) and an IPO does not appear to be on the programme until after 2015.

The company has clear ambitions to be a leader within clean and reliable energy. The target is to reduce CO2 emission to 15% of the current level over the next 30 years through a transformation of the production into renewable energy.

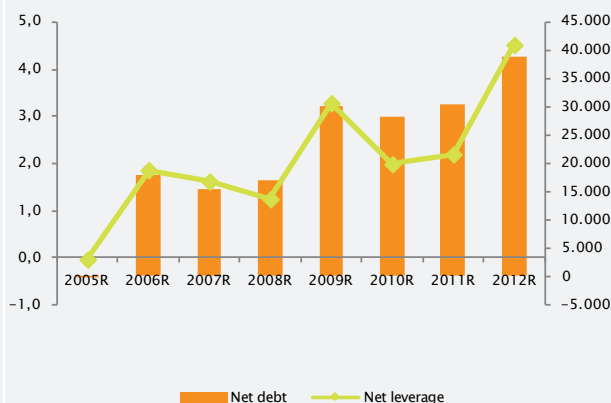
Revenue by segment



Earnings by segment (EBITDA)



Net debt and net leverage



Fundamental valuation

- S&P has a BBB+ rating for Dong Energy with a negative outlook, while Moody's rating is Baa1.
- This rating reflects the company's strong position in Denmark and the support from the Danish state.
- The company aims to maintain its BBB+ /Baa1 credit rating as a minimum.

Investment case

- Turnaround of the company is expected to restore profitability and improve the return in the coming years.
- The flagging profitability within gas and the focus on growth have increased net debt somewhat over the past year.
- A capital increase, sale of non-core activities as well as improved profitability are to reduce the leverage to the level below 2.5x in 2014.

Price triggers

- Upgrade of the credit rating by the international credit-rating agencies.
- Very cold and long winter with high energy consumption and resultant high power prices.
- New finds, for instance in the North Sea.
- New large orders within the wind area.
- Increased monetarisation of the company's knowledge within green energy.

Risk factors

- Large investment programme, particularly within offshore wind energy, involves technological, operational and regulatory risks.
- A high share of production from mature fields in the North Sea.
- Investment programme may not deliver the expected return.
- Fluctuating energy prices and particularly the development in the spread between the oil and gas price.
- Diversification to other geographical markets than Denmark reduces the risk but also exposes the company to other regulatory regimes, although they are all EU countries.

Income statement (DKK mio.)	2010R	2011R	2012R	2013E	2014E
Revenue	54.616	56.842	67.243	70.605	74.136
EBITDA	14.135	13.780	8.632	13.415	14.456
EBIT	8.120	6.110	-3.481	4.942	5.560
Net finance costs	1.595	282	1.353	1.991	1.939
Net income	4.499	2.892	-4.021	4.376	5.369
Balance Sheet (DKK mio.)	2010R	2011R	2012R	2013E	2014E
Short term debt	4.699	5.512	5.632	5.632	5.632
Long term debt	35.194	37.044	51.900	51.054	50.827
Total debt	39.893	42.556	57.532	56.686	56.459
Liquidity	11.767	12.256	18.500	23.007	23.680
Net debt	28.126	30.300	39.032	33.679	32.779
Tangible assets	80.685	94.510	96.307	97.834	98.938
Intangible assets	2.751	2.729	2.425	2.425	2.425
Equity	47.793	49.788	42.959	52.978	57.015
Share of equity	34,8%	32,3%	26,9%	34,5%	36,5%
Total assets	137.339	154.073	159.594	153.409	156.192
Cash Flow (DKK mio.)	2010R	2011R	2012R	2013E	2014E
Funds From Operations (FFO)	13.771	12.367	12.327	14.656	15.906
Cash flow from operations (CFO)	14.260	10.809	9.174	14.966	16.814
CAPEX	14.793	19.338	20.004	10.000	10.000
Free cash flow before interests expenses (FCF)	-533	-8.529	-10.830	4.966	6.814
Net finance costs	-1.122	-4.918	-13.026	2.489	2.424
Free cash flow after net finance costs	589	-3.611	2.196	2.477	4.390
Redemption / amortization of debt	0	0	0	2.123	4.312
Credit metrics	2010R	2011R	2012R	2013E	2014E
EBITDA margin	25,9%	24,2%	12,8%	19,0%	19,5%
Adjusted EBITDA margin	26,0%	24,3%	12,9%	19,1%	19,6%
EBIT margin	14,9%	10,7%	-5,2%	7,0%	7,5%
Adjusted EBIT margin	14,9%	10,8%	-5,1%	7,0%	7,5%
EBITDA/Financial expenses	7,6	10,8	4,8	5,4	6,0
Adjusted EBITDA/Financial expenses	7,6	10,8	4,8	5,4	6,0
CFO/Financial expenses	7,6	8,5	5,1	6,0	6,9
Adjusted CFO/Financial expenses	7,7	8,5	5,1	6,0	7,0
FCF/Financial expenses	-0,3	-6,7	-6,0	2,0	2,8
Total debt/EBITDA	2,8	3,1	6,7	4,2	3,9
Net debt/EBITDA	2,0	2,2	4,5	2,5	2,3
Adjusted net debt/EBITDA	2,0	2,2	4,6	2,5	2,3
CFO/Total debt	35,7%	25,4%	15,9%	26,4%	29,8%
Adjusted CFO/Total debt	35,9%	25,5%	16,0%	26,5%	29,8%
FCF/Total debt	-1,3%	-20,0%	-18,8%	8,8%	12,1%
Net debt/Equity	0,6	0,6	0,9	0,6	0,6
CFO/Revenue	26,1%	19,0%	13,6%	21,2%	22,7%
FCF/Revenue	-1,0%	-15,0%	-16,1%	7,0%	9,2%
Capex/Revenue	27,1%	34,0%	29,7%	14,2%	13,5%
Quarterly expectations	Q2-12R	Q2-13E	Change (%)		
Revenue	15.377	14.026	-8,8%		
EBITDA	4.690	2.890	-38,4%		
Net debt	42.685	34.230	-19,8%		
EBITDA margin	30,5%	20,6%	-990 bp.		
Net leverage	3,2x	4,3x	1,1x		

Source: Jyske Bank & Dong Energy A/S.

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Jyske Bank's corporate bond recommendations - current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

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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.

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

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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 and tax-related circumstances since returns after costs and tax-related circumstances 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.

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