

Dong Energy

Focus on costs

Still focus on profitability improvement

We restate our BUY recommendation for DONG's three hybrid issues following the release of quarterly results showing that DONG continues its development in the right direction. The Q2'13 results from DONG showed a moderate advance in EBITDA to DKK 3.1bn compared with DKK 3.0bn in Q2'12. This advance was generated despite the difficult quarter for E&P when DONG was hit by technical problems on several oil and gas fields. EBITDA for the E&P division therefore declined by DKK 0.6bn in Q2'13, which almost eliminated the advance reported by the other segments. The cash flow strengthened to DKK 2.4bn (DKK 1.8bn) boosted by the better earnings and lower operating investments. Over the quarter, DONG wrote down the gas-fired power plant in Holland (DKK 1.0bn) – still weak profitability, the Siri fields (DKK 0.9bn) – a new crack in the platform's subsea structure and the Norwegian gas transmission network Gassled (DKK 0.4bn) – following the Norwegian authorities' tariff reductions from 2016.

Reduction of debt

After the quarter's comprehensive sale of non-core activities, DONG reduced its interest-bearing debt and improved its financial leverage (net interest-bearing debt/EBITDA) to 3.7x from 4.0x at year-end. If adjusted for write-downs in Q3'12 of DKK 2.9bn on German gas storage contracts and the Dutch LNG terminal – write-downs which due to accounting adjustments affected EBITDA – the financial leverage would have been 2.8x. This level change will be visible in connection with the release of the Q3 results when the Q3'12 figures are no longer included in the figures for the past 12 months.

This is a complex product

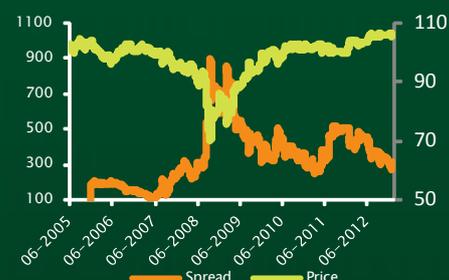


Recommendations:

- 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

Jyske Markets
Vestergade 8 –16
DK – 8600 Silkeborg

Analyst:
Jens Houe Thomsen
Senior Corporate Bond Analyst
+45 89 89 76 88
jht@jyskebank.dk

This investment research report is for professional investors only.

Disclaimer:
Please see the last pages.

Issue	Rec.	Risk	Price	Yield	Bid Spread	Bid Spread Target	Bid Price target	Exp. 12M Return	Rating*
€5,5% 3005	BUY	Low	105,50	2,4%	272	149	103	3,0%	BBB-
€6,25% 3013	BUY	Medium	104,00	5,7%	393	374	104	6,1%	BB+
€4,875% 3013	BUY	Medium	101,50	4,5%	388	344	101,75	5,2%	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

DONG maintained its expectations

Despite the production difficulties which DONG and the company's partners (Mærsk, Statoil and BP) experience in a number of fields, with a decline in production in Q2'13 of 25%, DONG still anticipates that the total oil and gas production will increase from 2012 to 2013. This will not least be boosted by the increased stake of the production of the Ormen Lange fields. In addition, DONG maintained its financial forecast of this year and the next:

- EBITDA at DKK 13bn–14bn;
- Net investments of DKK 30bn in 2013–14;
- Net interest-bearing debt/EBITDA of 2.5x at end-2014.

We expect that DONG will manage to be up to its own expectations. Since the balance-sheet date, additional spin-offs were implemented, further hybrid capital of DKK 3.7bn has been issued, (equity content 50%) which will reduce the debt and strengthen the rating agencies' calculation of equity capital. Sustained cost-cutting measures will increase profitability and DONG's management and owners are still working to attract more owners through an expansion of the equity capital. All in all, we believe that through all these measures DONG is well on the way to regain its scope of action.

Overview

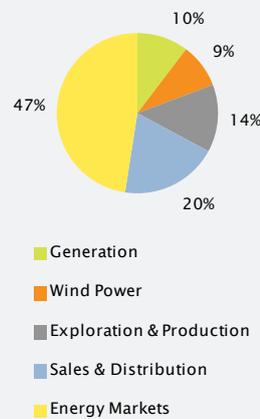
Company profile

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.

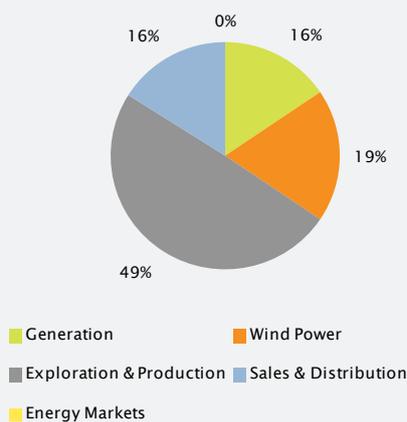
The Danish state is still a major shareholder (80%) and an IPO does not appear to be on the programme until after 2015.

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.

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.

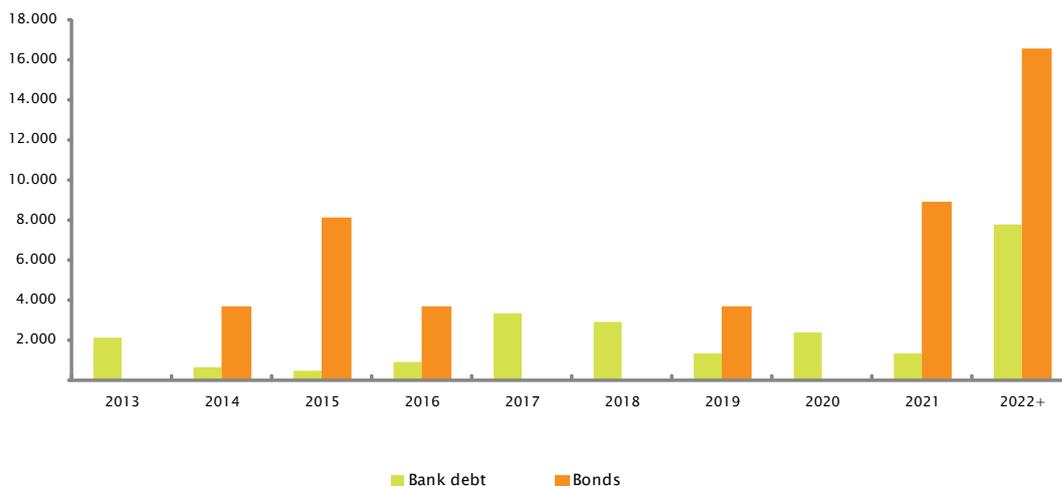
Conflicts of interest

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.

Debt maturity profile



Source: Jyske Bank & Dong Energy A/S.

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 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.

Investment Centre North

Toldbod Plads 1
DK – 9000 Aalborg

Investment Centre MidWest

St. Torv 1
DK – 7500 Holstebro

Investment Centre SouthWest

Torvet 21
DK – 6700 Esbjerg

Investment Centre East Jutland

Østergade 4
DK – 8000 Århus C

Investment Centre Triangle Region

Hjulgagervej 8 F
DK – 7100 Vejle

Jyske Bank (Schweiz) AG

Tel.: +41 44 368 7373

Berben's Effectenkantoor B.V.

Tel: +31 (0)495 456000

PBC Hamburg

Tel.: +49 40 309 510 24

Investment Centre Copenhagen

Vesterbrogade 9
DK – 1780 Copenhagen V

Investment Centre Zealand

Nørregade 6
DK – 4100 Ringsted

Investment Centre Funen

Mageløs 8
DK – 5100 Odense C

Investment Centre Silkeborg

Vestergade 8-10
DK – 8600 Silkeborg

Jyske Bank (France)

Tel.: +33 493 39 39 00

Jyske Bank (Gibraltar) Ltd

Tel.: +350 20072782

Private Banking Copenhagen (PBC)

Tel.: +45 89 89 62 32