

## Dong Energy - BUY

# New shareholders

*This is a complex product*



## Higher than expected capital increase positive for DONG

We maintain our BUY recommendation for DONG's issues following the news about an upcoming capital increase of DKK 11bn. We expect that the continued improvement of the profitability will support a further narrowing of the spread. Cost reductions, implementation of large projects like Anholt and London Array and a significant reduction of debt following divestment of assets worth DKK 10bn as well as DKK 11bn from the upcoming capital increase are all factors which will ensure a measurable strengthening of the profitability in the coming years.

## Rating not likely to be changed in near future

We do not expect the news about the capital increase to result in a change of the company's rating, which is Baa1 with Moody's and BBB+ with S&P and Fitch. Moody's has a 'Stable outlook' while both S&P and Fitch have a negative outlook. Apart from a likely change of the two negative outlooks, we do not expect any changes of DONG Energy's ratings. In their comments, the rating agencies have emphasised that the ratings are based on an assumption that the Danish state, as majority shareholder, would ensure that the announced capital injection of DKK 6-8bn would be raised. An assumption which was backed by the fact that the Danish finance minister in a press release confirmed the broad political support.

## Significant strengthening of capital base and key figures

The capital increase will give DONG Energy DKK 11bn from Goldman Sachs (DKK 8bn), ATP (DKK 2.2bn) and PFA (DKK 0.8bn). If the existing shareholders should have any interest in buying further shares, it will take place at the same valuation of DONG Energy at DKK 31.5bn. SEAS has been mentioned in the press as being interested in maintaining a stake above 10%. If so, this would increase the proceeds for DONG Energy by about DKK 900m.

Issue	Rec.	Risk	Price	Yield	Bid Spread	Bid Spread Target	Bid Price target	Exp. 12M Return	Rating*
€5.5% 3005	BUY	Low	104,75	2,6%	305	150	102,5	3,3%	BBB-
€6,25% 3013	BUY	Medium	104,50	5,6%	400	390	103,75	5,3%	BB+
€4,875% 3013	BUY	Medium	101,75	4,5%	396	375	101,25	4,4%	BB+

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

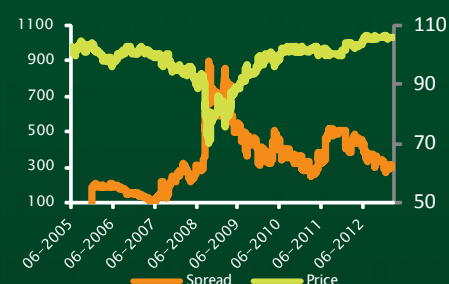
\*\*Composite rating. Source: Bloomberg

## Recommendations:

BUY: €5.5% 3005 - XS0223249003  
 BUY: €6.25% 3013 - XS0943370543  
 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	2.2

## €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

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

At the moment the agreement on the capital increase is non-binding, but it is still expected to be completed before the end of the year. The final agreement is pending the new shareholders' due diligence, approval of the finance committee, approval of the existing shareholders and approval of the competition regulators. We do not expect the outstanding formalities to give rise to any problems.

The parties plan an IPO of DONG Energy before 2017 and if the IPO has not been completed before the release of the 2017 financial statements, the Danish state is under an obligation to buy back the shares at a price not yet disclosed.

## Overview

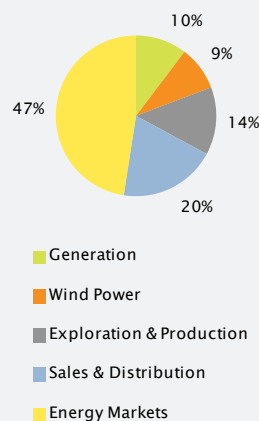
### Company profile

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.

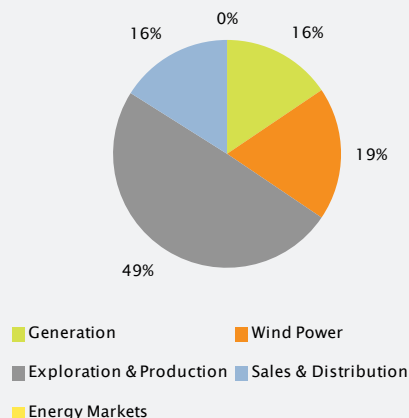
The Danish state is still a major shareholder (80%) and an IPO does not appear to be on the programme until after 2015.

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.

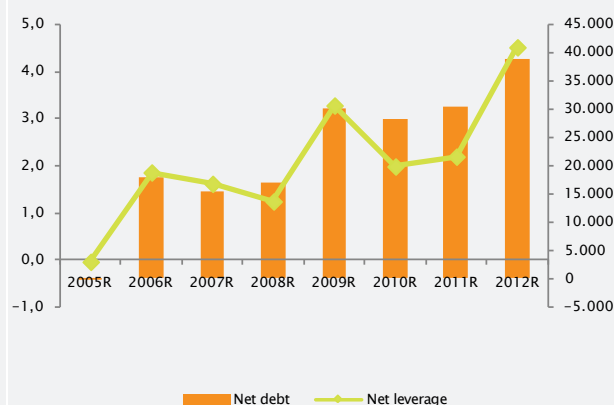
### Revenue by segment



### 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.

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## 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.

**Investeringscenter Nord**

Toldbod Plads 1  
9000 Aalborg  
Tlf: 89 89 30 23

**Investeringscenter Midtvest**

St. Torv 1  
7500 Holstebro  
Tlf: 89 89 06 60

**Investeringscenter Sydvest**

Torvet 21  
6700 Esbjerg  
Tlf: 89 89 98 31

**Investeringscenter Østjylland**

Østergade 4  
8000 Århus C  
Tlf: 89 89 96 55

**Investeringscenter Trekantsområdet**

Hjulmagervej 8 F  
7100 Vejle  
Tlf: 89 89 80 75

**Jyske Bank (Schweiz) AG**

Tlf: +41 44 368 7373

**Berben's Effectenkantoor B.V.**

Tlf: +31 (0)495 456000

**PBC Hamburg**

Tlf: +49 40 309 510 24

**Investeringscenter København**

Vesterbrogade 9  
1780 København V  
Tlf: 89 89 10 49

**Investeringscenter Sjælland**

Nørregade 6  
4100 Ringsted  
Tlf: 89 89 10 45

**Investeringscenter Fyn**

Mageløs 8  
5100 Odense C  
Tlf: 89 89 93 40

**Investeringscenter Silkeborg**

Vestergade 8-10  
8600 Silkeborg  
Tlf: 89 89 86 66

**Jyske Bank (France)**

Tlf: +33 493 39 39 00

**Jyske Bank (Gibraltar) Ltd**

+350 20072782

**Private Banking Copenhagen (PBC)**

Tlf: +45 89 89 62 32