

Dong Energy - BUY

A robust quarter

This is a complex product



Dong Energy delivers fair Q3 results, revises up its outlook and holds out a leverage of 2.5x at year-end.

We restate our BUY recommendation for Dong Energy's issues after robust Q3 results. The impairment loss on the Norwegian fields Oselvar and Ula totalling DKK 1.8bn before tax and DKK 0.4bn after tax was the largest negative element in the interim report. The results showed the expected improvement of the Wind Power business after both Anholt and London Array are in full operations. Customers & Markets showed improvement, and Dong expects break-even in 2013.

Dong Energy revises up its own full-year EBITDA outlook by DKK 0.5bn to EBITDA in the level of DKK 13.5–14.5bn, and the management expects the leverage to fall to 2.5x already by end-2013 against previously 2014.

Impressive turnaround near its end

The interim results reflected the impressive speed with which Dong Energy's development has been turned around over the past twelve months and not least since the financial action plan was announced in February. Of the planned DKK 10bn divestments, Dong Energy has now reached DKK 9.3bn. Of the planned DKK 1.2bn cost reductions, Dong Energy has now reached DKK 1.1bn and the plans to raise DKK 6–8bn in new share capital will be more than fulfilled through the capital increase of DKK 11bn.

Capital increase under preparation

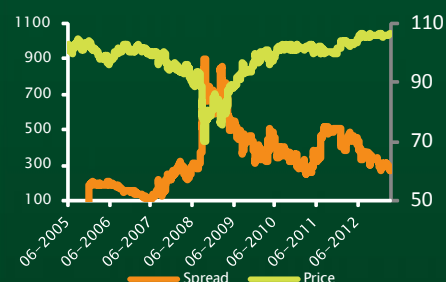
As expected, no news was reported about the capital increase. At today's conference call, the management repeated that the capital increase is expected to be completed by year-end. The capital increase is pending approvals and the new investors' due diligence. We do not expect any problems to arise and we expect further details to be released over the coming month.

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

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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	2,1%	254	150	102,5	2,4%	BBB-
€6,25% 3013	BUY	Medium	107,75	5,2%	353	350	106,5	4,8%	BB+
€4,875% 3013	BUY	Low	104,75	3,7%	328	300	103,75	3,9%	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

Overview

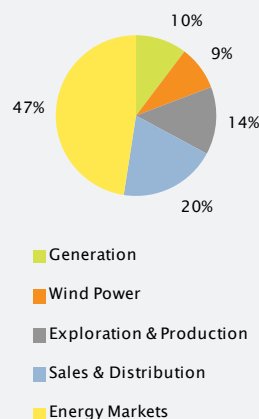
Company profile

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.

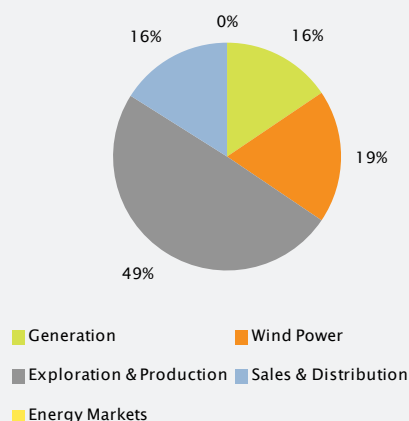
The Danish state is still a major shareholder (80%) and an IPO does not appear to be on the programme until after 2016.

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.

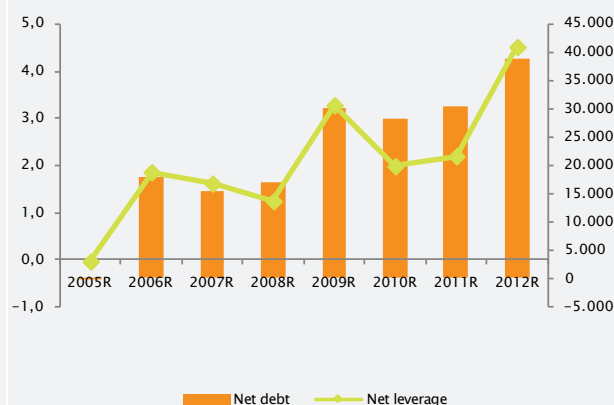
Revenue by segment



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.

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