

E.ON

Utilities

2007-12-18

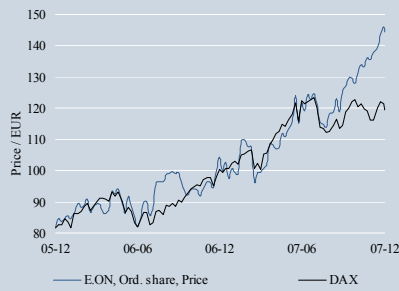
Applied disclosures can be found in the appendix

Buy

Fair Value EUR150.00

Price EUR144.54 (Closing price as of 2007-12-17)

Price and rel. Performance



Market Data

Reuters	EONG.DE
Bloomberg	EOA GR
Market cap €bn	94.4
Free float %	100.0

Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues bn	67.8	69.0	77.0
Net profit bn	4.9	6.5	5.7
Adj. EPS	6.65	8.30	8.94
PER	13.8	17.4	16.2
EV/EBIT	6.8	11.0	10.4
EBIT mgn. %	10.1	11.7	12.5

EPS CAGR 06-09e: 18 %

Next Events

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NEGOTIATIONS ON JUSHNO-ROSSKOJE STILL ONGOING

INVESTMENT CASE AND PERFORMANCE TRIGGER

E.ON is benefiting from the long term need for repowering and market consolidation in Europe. The declaration of financial targets until 2010 has also provided confidence toward management's commitment for further growth and an improving capital structure. The €60bn investment plan also supports E.ON's position in the current debate about rising power and gas prices. E.ON's aims to expand its gas upstream activities, which are focused on the participation in the Siberian gas field Jushno-Rosskoje, where negotiations with Gazprom appear to be extremely difficult. As E.ON is still one of the most attractively valued companies in the utilities sector, we confirm our **buy** rating.

FACTS

___ According to an interview with Gazprom's deputy head, Alexander Medwedew, E.ON and Gazprom have not yet found an agreement regarding E.ON's participation in the Siberian gas field Jushno-Rosskoje. "E.ON has difficulties in finding interesting strategic assets for Gazprom in return for a stake in Jushno-Rosskoje," said Medwedew.

ASSESSMENT

___ This statement is inconsistent with yesterday's announcement of E.ON, saying that general agreements have been found, assets for a swap had been identified and both parties are currently in a valuation process.

___ Obviously we cannot expect a solution to these protracted negotiations in the short term. This reflects E.ON's stance of not giving away strategic assets too easily and being very cautious in helping Gazprom to build up a position on the European downstream market.

VALUATION

___ Based on our 2008 EBITDA estimates, E.ON trades with a 22% discount to its peers (EV/EBITDA of 7.2 vs. 9.3). On the 2008e PER, the discount amounts to some 7%.

E.ON - P&L (Cost of Sales)

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	56,399.0	67,759.0	69,025.5	76,986.5	84,270.4
Cost of goods sold	-45,332.0	-55,866.2	-51,408.1	-60,348.0	-65,433.4
Gross profit	11,067.0	11,892.8	17,617.4	16,638.5	18,837.1
Selling costs	-3,852.0	-4,341.0	-4,831.8	-6,158.9	-6,741.6
Administrative costs	-1,528.0	-1,774.0	-1,932.7	-2,155.6	-2,359.6
Other operating income/expenses (net)	764.0	1,088.0	-2,790.0	1,310.0	1,400.0
EBITDA	9,254.0	10,343.0	11,412.9	13,166.8	15,070.3
EBIT	6,451.0	6,865.8	8,062.9	9,634.0	11,135.9
Interest result	-736.0	-687.0	-850.0	-2,500.0	-2,630.7
Other Financial income / expenses	-45.0	-164.0	0.0	0.0	0.0
Financial result	-174.0	203.0	200.0	-1,400.0	-1,480.7
Participation result	607.0	1,054.0	1,050.0	1,100.0	1,150.0
Profit or loss on ordinary activities	6,277.0	7,068.8	8,262.9	8,234.0	9,655.2
Extraordinary profit or loss	931.0	-1,936.0	1,140.0	121.0	121.3
EBT	7,208.0	5,132.8	9,402.9	8,355.0	9,776.5
Taxes	-2,276.0	323.0	-2,347.2	-2,283.0	-2,566.6
Profit / loss for the year (cont. operations)	4,932.0	5,455.8	7,055.7	6,072.0	7,209.9
Discontinuing operations (net)	3,035.0	127.0	0.0	0.0	0.0
Minority	-553.0	-526.0	-533.9	-341.9	-347.0
Net profit	4,379.0	4,929.8	6,521.8	5,730.1	6,862.9
+/- Net profit adjustments	-797.2	-544.0	-1,101.6	-82.3	-82.5
Adjusted net profit	3,581.8	4,385.8	5,420.2	5,647.8	6,780.4

Key ratios and figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER	12.9	13.8	17.4	16.2	13.2
P/BV	1.0	1.3	2.0	1.9	1.7
Dividend yield %	3.4	3.0	2.3	2.7	2.9
EV/Sales	0.7	0.7	1.3	1.3	1.2
EV/EBITDA	4.2	4.5	7.8	7.6	6.6
Sustainable FCF yield %		21.0	12.7	12.8	14.6
Data per share					
EPS (reported)	6.66	7.48	9.99	9.07	11.11
adj. EPS	5.45	6.65	8.30	8.94	10.98
Dividend	2.75	3.35	3.90	4.15	4.30
Book value per share	67.65	72.57	73.63	75.14	83.72
Growth rates %					
Sales	14.9	20.1	1.9	11.5	9.5
EBITDA	-5.8	11.8	10.3	15.4	14.5
EBIT	-1.3	6.4	17.4	19.5	15.6
Net profit	1.0	12.6	32.3	-12.1	19.8
adj. EPS	-2.7	22.1	24.8	7.7	22.9
Margins %					
Gross	19.6	17.6	25.5	21.6	22.4
EBITDA	16.4	15.3	16.5	17.1	17.9
EBIT	11.4	10.1	11.7	12.5	13.2
Net profit	7.8	7.3	9.4	7.4	8.1
Expense ratios %					
Depreciation to sales (Cost of sales)	-5.2	-4.7	-4.5	-4.6	-4.6
Tax rate	31.6	-6.3	25.0	27.3	26.3
Other ratios					
Interest cover	205.6	63.1	nm	nm	nm

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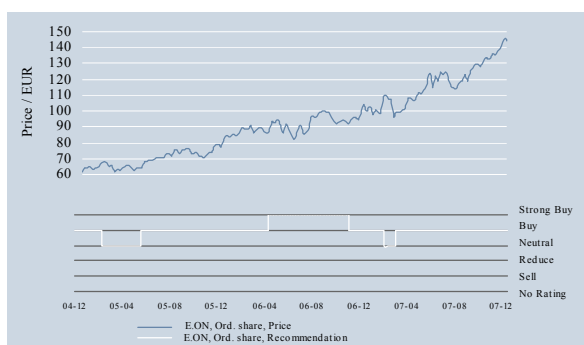
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Previous report with differing recommendation published at 2007-02-28.

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Buy	165	44.6	32	57.1
Neutral	145	39.2	19	33.9
Reduce	24	6.5	0	0.0
Sell	0	0.0	0	0.0
No rating	16	4.3	1	1.8

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