

Enel

Further. Faster – reorganization to rerate the stock

Reorganization – Endesa breakup to lower cash leakage and increase visibility

Based on a recent interview in FT, we believe the new CEO will shake up the strategy. In this context, we see the reorganization of Latam as priority: these activities could be stripped out of Endesa and transferred to the holding. Then, accelerating the integration process within Latam would appear a natural step; on this basis, Enersis could consolidate all the other subsidiaries. To avoid a surge in leverage, Enel could turn Endesa into a large Iberian yield-co and sell a stake. We believe such a process could complete within 12m, would be value-enhancing and bring three advantages: (1) increase the exposure to growth areas, (2) lower the Latam cash leakage, (3) simplify the perimeter without impact on leverage.

Potential new structure unlocks growth opportunities – capex up €9bn by 2019

Such reorganization, divestments in Eastern EU and the rationalization of maintenance expenditures would provide the tools to accelerate growth. During 2015-19, we estimate the ability to increase growth capex by €9bn – mostly in regulated activities and renewables in emerging markets and US. The company could also raise payout (although more slowly vs previous expectations) whilst maintaining net debt / EBITDA <2.5x. During the coming 5y, our new forecasts imply 6% EPS CAGR.

Increasingly regulated: >70% by 2019. Further re-rating on the horizon

On the back of the plan just depicted, Enel would become the first integrated utility to upgrade growth capex. Also B/S would be the strongest amongst peers and the exposure to regulated/contracted activities would steadily increase. By 2019, the share of profits from networks, renewables and contracted capacity would exceed 70%.

Valuation: unjustified discount. Still a Buy ahead of the likely strategic shift

We implement the asset-reorganization and the step up in growth capex. On this basis, Enel would trade on a 2017 EV/EBITDA of 6x and PE of c11x. We reiterate our Buy as we expect multiple expansion on the back of (1) simplification of the portfolio, (2) step up in the earnings power & dividends whilst maintaining a solid B/S, and (3) the rising share of regulated/contracted profits. Our €5.15ps rests on a peers' multiple-approach, up from €4.90ps to bring in line with peer values.

Equities

Italy
Electric Utilities

12-month rating **Buy**

12m price target **€5.15**
Prior: €4.90

Price **€4.18**

RIC: ENEI.MI BBG: ENEL IM

Trading data and key metrics

52-wk range	€4.46-2.30
Market cap.	€39.3bn/US\$53.0bn
Shares o/s	9,403m (ORD)
Free float	69%
Avg. daily volume ('000)	46,378
Avg. daily value (m)	€193.3
Common s/h equity (12/14E)	€37.6bn
P/BV (12/14E)	1.0x
Net debt / EBITDA (12/14E)	2.2x

EPS (UBS, diluted) (€)

	From	To	% ch	Cons.
12/14E	0.33	0.32	-1.80	0.32
12/15E	0.34	0.34	2.03	0.34
12/16E	0.36	0.35	-0.38	0.35

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Highlights (€m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	79,514	84,889	82,475	80,383	80,406	81,106	82,473	84,240
EBIT (UBS)	11,366	7,735	9,944	9,375	9,115	9,092	9,283	9,699
Net earnings (UBS)	3,924	3,455	3,119	3,053	3,229	3,337	3,531	3,828
EPS (UBS, diluted) (€)	0.42	0.37	0.33	0.32	0.34	0.35	0.38	0.41
DPS (€)	0.37	0.24	0.13	0.13	0.13	0.17	0.18	0.19
Net (debt) / cash	(39,021)	(43,210)	(37,735)	(34,188)	(33,952)	(34,046)	(34,268)	(34,089)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	14.3	9.1	12.1	11.7	11.3	11.2	11.3	11.5
ROIC (EBIT) %	11.6	8.1	10.3	9.8	9.2	9.0	8.9	9.0
EV/EBITDA (core) x	5.5	5.1	4.9	6.0	6.1	6.1	6.0	5.7
P/E (UBS, diluted) x	9.3	7.4	8.6	12.9	12.2	11.8	11.1	10.3
Equity FCF (UBS) yield %	12.4	14.4	16.4	9.4	9.4	8.6	8.6	10.0
Net dividend yield %	9.6	8.7	4.6	3.2	3.1	4.1	4.2	4.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €4.18 on 27 Jun 2014 16:33 BST

Investment Thesis

Enel

Investment case

We believe Enel is about to turn around its strategy via a new structure, new priorities and new objectives. We try to anticipate how and why. In our view, such shift would happen in two steps: (1) Higher economic interest in Latam - The reorganization of Latam and Iberian activities, together with divestments in Eastern Europe will change the perimeter and allow Enel to increase the economic interest in the growth areas of the group, whilst providing a simpler portfolio of assets to analyse, (2) Higher growth capex - The larger ownership of Latam activities, the proceeds from potential disposals and the rationalization in maintenance expenditures would allow management to increase investments in regulated activities, which would account for >70% of profits by 2019. In our judgement, all of this would deliver (i) c5% bottom line growth pa to 2019, and (ii) multiple expansion, as Enel still trades 10-20% below peers. We therefore have a Buy rating on the stock.

Upside scenario

An upside scenario would include: (1) closure of 1/3 of the thermal fleet, (2) capacity payments on remaining thermal plants, (2) a 10% re-rating in emerging FX, (3) CO2 prices climbing to €15/t, and (4) a 75 bps drop in refinancing costs. All this would lead to a €0.45 EPS by 2017E, and a €7.1 implied fair value at 15.9x PE.

Downside scenario

A downside scenario would include: (1) ongoing regulatory turmoil in Italy and Spain, (2) a 10% deterioration in emerging FX, and (3) an increase in refinancing costs. All this would lead to a €0.36 EPS by 2017E, and a €4.8 implied fair value at 13.5x PE.

Upcoming catalysts

A significant catalyst would be the announcement of further disposals or reorganisations, especially:

- (1) Disposal of the Slovakian business that would help the FCF and B/S transformational story to gain momentum.
- (2) Acquisitions in LatAm
- (3) Endesa reorganisation

12-month rating

Buy

12m price target

€5.15

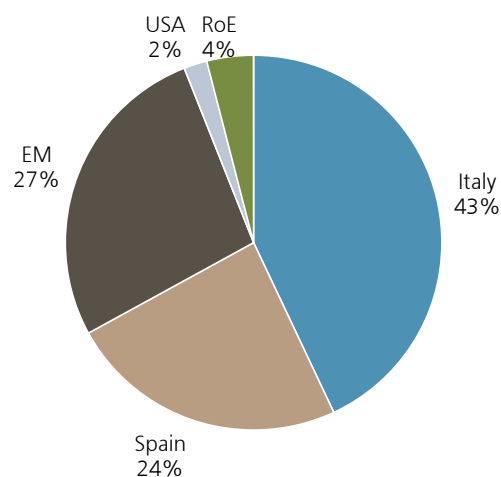
Business description

Enel is an integrated utility with large exposure (c65% of EBITDA) to Italy and Spain where it operates power generation (conventional and renewables), supply and distribution. Set up as a traditional Italian business, Enel expanded into eastern Europe (Slovakia and Russia) in 2006-07, and then into Spain and LatAm in 2008 via the transformational acquisition of Endesa. Enel has 61m clients globally and generates more than 250TWh of electricity. About 45% of EBITDA is from power networks while some 15% is from renewables.

Industry outlook

Early in December-13, we turned more constructive on Utilities, on the back of three main factors: (i) EPS to bottom in 2014E, and to show mid-single digit growth thereafter, (ii) The sector is increasingly regulated – power generation is c10% of EPS by 2016E – and hence more defensive, (iii) Dividends look attractive and covered by FCF. We point out that, as the defensiveness of Utilities is on the rise, a lower for longer BY scenario would be very beneficial.

EBITDA by region (% , 2013)



EBITDA by business line (€m, %, 2013)

Division	2014E	%
GEM	1,343	9%
Markets - Italy	962	6%
Networks - Italy	3,946	25%
Green Power	1,845	12%
International	1,140	7%
G&S - Spain	1,613	10%
Distribution - Spain	1,622	10%
Co. structure - Spain	-32	0%
Endesa LatAm	3,102	20%
Services / Other	100	1%
Disposals adjustment	-150	-1%
EBITDA	15,491	100%

Source: UBS

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Why read this report

We believe Enel is about to turn around its strategy thanks to a new structure, new priorities and new objectives. We try to anticipate how and why, and we conclude that such shift will enhance value and rerate the stock. Our analysis was mainly inspired by a thorough interview recently released by Mr Starace in the FT. In our view, such shift would happen in two steps.

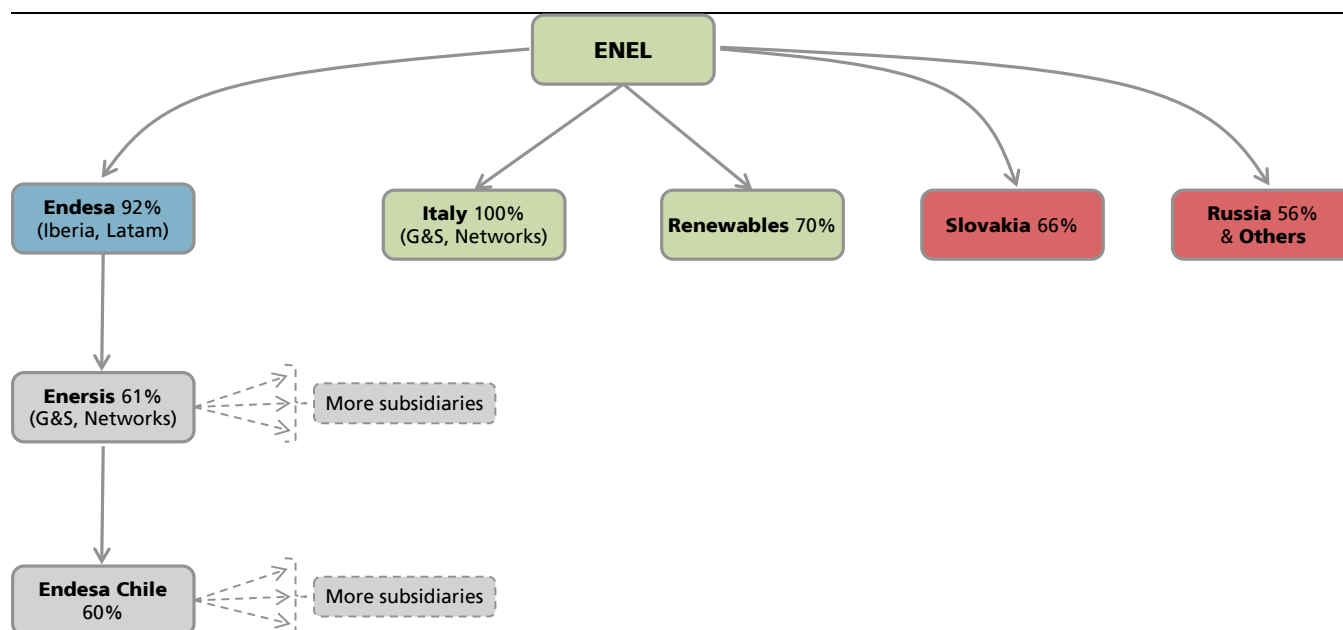
- **Higher economic interest in Latam.** The reorganization of Latam and Iberian activities, together with divestments in Eastern Europe will change the perimeter and allow Enel to increase the economic interest in the growth areas of the group, whilst providing a simpler portfolio of assets to analyse.
- **Higher growth capex.** The larger ownership of Latam activities, the proceeds from disposals and the rationalization in maintenance expenditures would allow management to increase investments in regulated/contracted activities and renewables, which would account for >70% of profits by 2019.

In our judgement, all of this would deliver (i) 6% bottom line growth pa to 2019, and (ii) multiple expansion, as Enel still trades 10-20% below peers. While we aren't materially shifting our views of growth or upside presently, we do see the growth as being of higher quality and lower risk, and now view the company as less of a bond proxy and more of a bottom-up, self-help story

Reorganization lowers cash leakage and increases visibility

Currently, Enel owns ten listed subsidiaries, has a minority line in the P&L of about €1.3bn and only owns a mere 34% economic interest in Endesa Chile, which owns and runs most of the power generation activities in South America. The current corporate structure can be seen in Figure 1. In the appendix we dedicate a whole page, just to show the web of Latam subsidiaries.

Figure 1: Enel – current perimeter is complicated and implies large cash leakage, especially in Latam

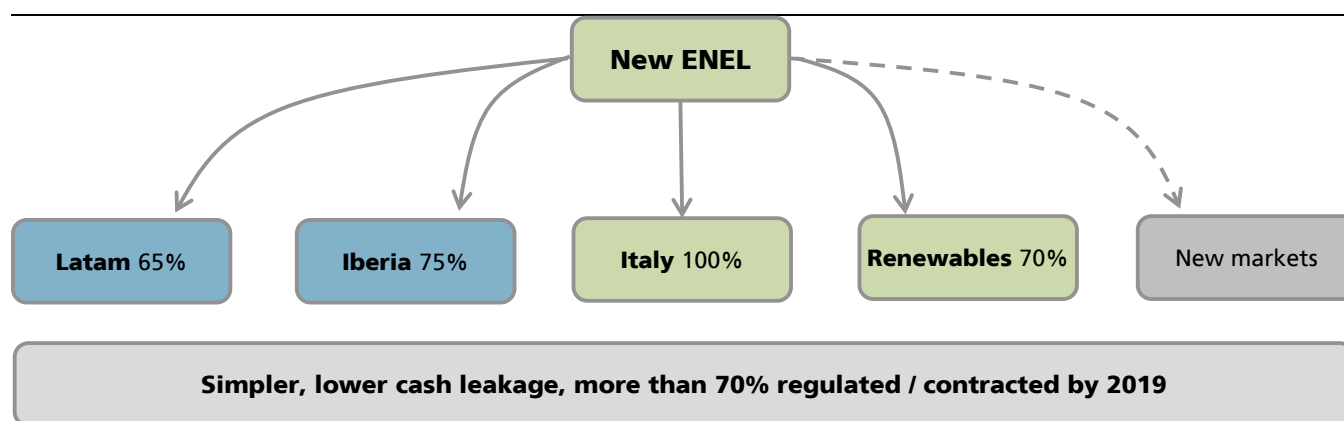


Source: UBS Research

Given his recent interview, we believe the new CEO, Mr Starace, will shake up the strategy. Specifically, we see the reorganization of Latam as priority: these activities could be stripped out of Endesa and transferred to the holding level. Then, we would expect the integration process within Latam to accelerate, to allow Enel to reach a 65% control of these activities. To avoid a surge in leverage, Enel could turn Endesa into a large Iberian yield-co and sell a stake. The process could complete within 12m, would be EPS neutral, and bring three advantages: (1) increase the economic interest in growth areas, (2) lower the Latam cash leakage, (3) simplify the perimeter without impact on debt structure. Upon completion, the organization of Enel would appear simpler and more effective, as seen in Figure 2.

Why these specific steps? The re-organisation of LatAm activities has been on the agenda at Enel since 2009, as repeatedly said in the official venues by previous CEO Conti, but could not be implemented due to B/S constraints. The idea of reducing minorities in LatAm and integrating them into Enersis was already detailed at the March 2014 strategy presentation. The Endesa break-up appears to us the most logical solution to gain maximum exposure to LatAm activities. Finally, the idea of an Iberian yield co follows a strong recent trend observed in the US and replicated by Spanish company Abengoa. The rationalisation of maintenance capex was detailed in the FT interview. The intent to reorganise the company was also hinted at in the interview.

Figure 2: New perimeter would imply closer control on every division and allow to step up capex in growth areas



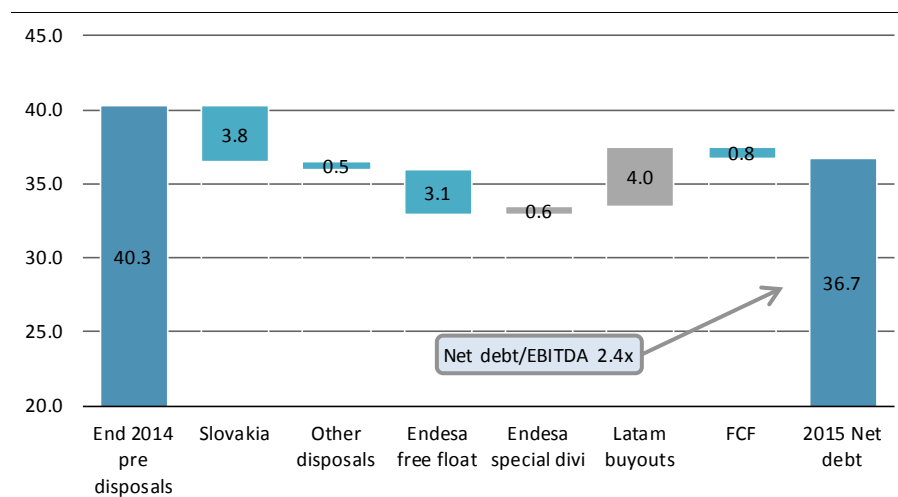
Source: UBS Research

New structure unlocks growth opties: capex €9bn by 2019

Such a reorganization would provide a solid growth platform, which would allow the company to step up growth, based on

- **Larger ownership of Latam.** We would expect Enel to achieve the control of 65% of Latam activities, through (i) a special dividend paid by Endesa in Enersis shares and (ii) ongoing buyouts within Latin America; in our model, we implement all of this and estimate it will cost €€4bn.
- **Stronger B/S.** Following the divestments of Slovakia and other equity stakes (including 17% in Endesa-Iberia, to a single buyer or in the market), we would expect 2015 net debt to drop to €36.7bn. This would lower 2015 net debt / EBITDA to 2.4x.

Figure 3: Net debt (2015) would fall to c€35bn, granting a solid B/S (€bn)



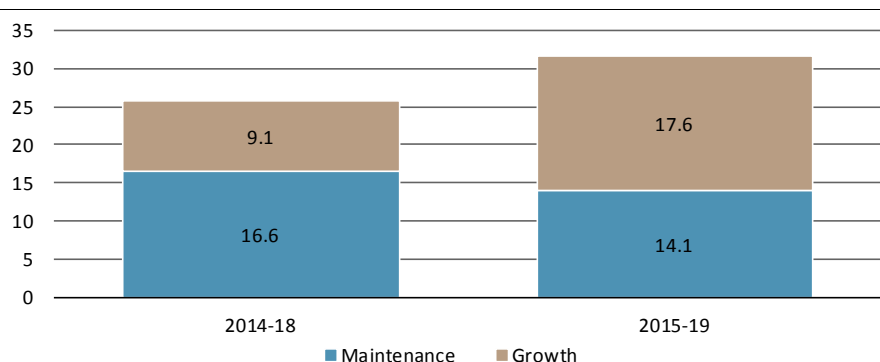
Source: UBSe

Growth capex to almost double vs previous plan

When management presents its new 5-year strategy plan (Mar-2015), we expect growth capex to surge by €9bn vis a vis the previous plan. This would almost double growth capex, thanks to the combination of two factors.

- **Maintenance savings**, which would be triggered by a new functional organization (for instance, grouping the 8 distribution activities under a sole head, to deploy best practices everywhere). This could be worth €2.5bn
- **Additional projects**. Enel could press ahead at full steam with investments in EGP (renewables) and Latam (contracted generation and networks).

Figure 4: Enel – growth capex could almost double in the next plan (€bn)

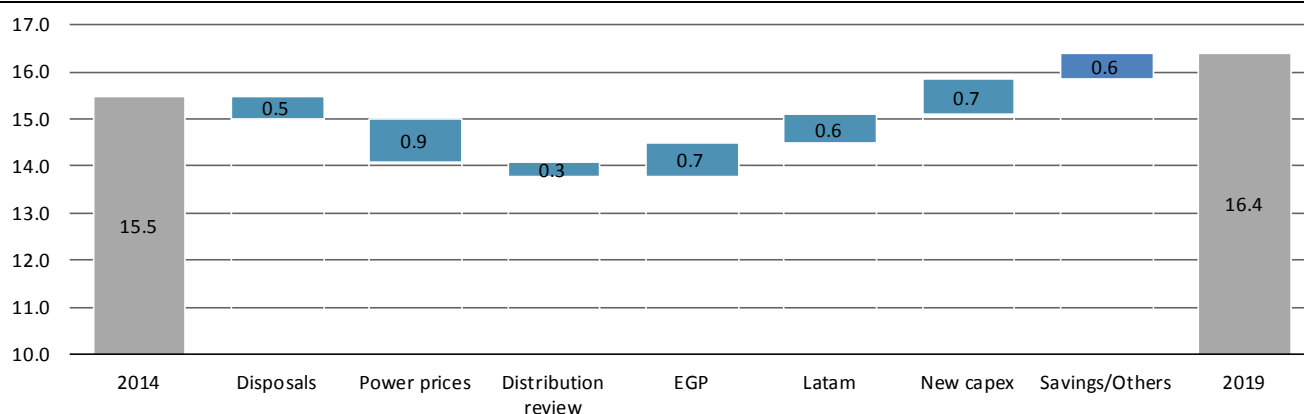


Source: UBSe

Higher earnings growth prospects: +6% CAGR to 2019

Better cost control and – most of all – higher development capex could allow Enel to deliver attractive – and visible – growth through to 2019. On our estimates, EBITDA would show only a limited growth during 2015-16. Indeed, (1) disposals, (2) the ongoing decline in achieved power prices and (3) the review in domestic distribution would slightly more than offset the growth from (i) renewables, (ii) Latam, and (iii) cost savings. Yet, operating growth should accelerate as of 2017 as (a) generation would have bottomed and (b) development capex will accelerate, mostly in regulated assets such as renewables, networks or contracted capacity. Figure 5 shows the development in EBITDA during 2014 and 2019.

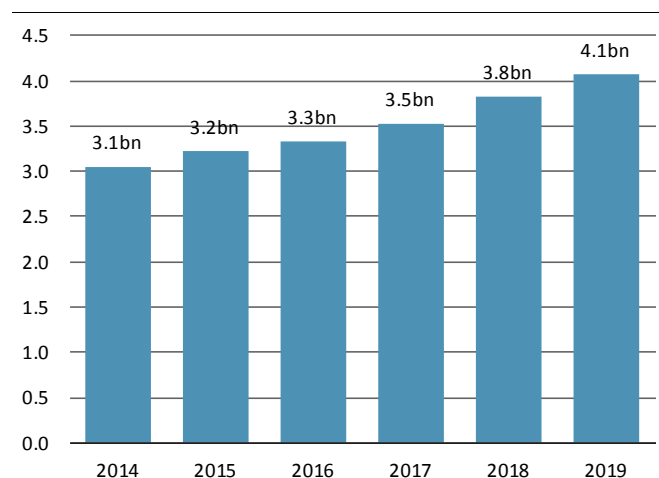
Figure 5: Enel – EBITDA evolution during 2014 and 2019 (€bn)



Source: UBSe

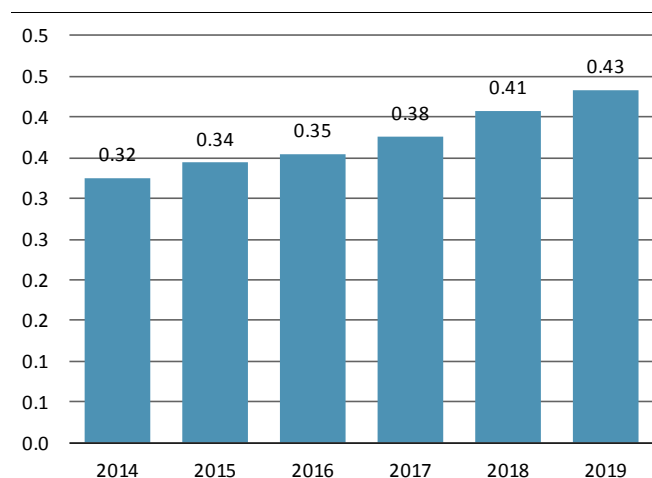
Below the line, we estimate that the increase in D&A will be more than offset by falling financial expenses (in 2013 Enel had an average cost of debt of 4.9%, which we expect to drop meaningfully; we cautiously assume 4.1% by 2019), and lower tax rates (Spanish reform, and more exposure to Latam/US vis a vis Italy). All in all we estimate EPS to grow by 6% pa through to 2019.

Figure 6: Enel net income forecast (€bn)



Source: UBSe

Figure 7: Enel EPS forecast – CAGR to 2019 at +6% (€)

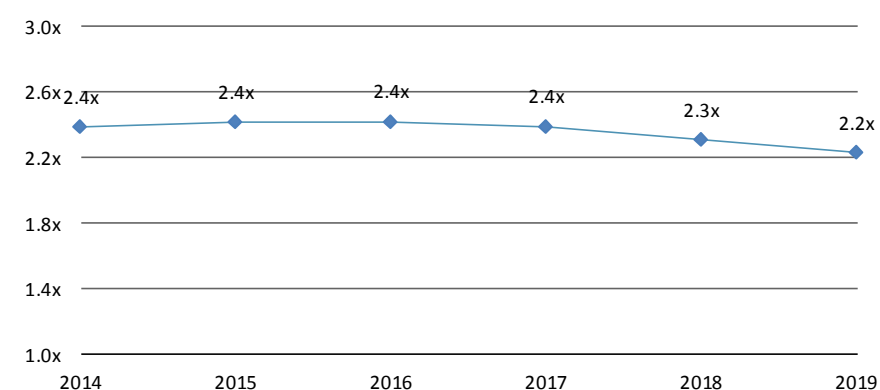


Source: UBSe

Dividends to grow faster than earnings, thanks to higher payout

Throughout the period, we estimate that Enel will maintain its net debt / EBITDA below 2.5x, whilst upgrading growth prospects and increasing the exposure to lower risk, regulated or semi-regulated activities. This could eventually lead to a rating upgrade – from currently BBB.

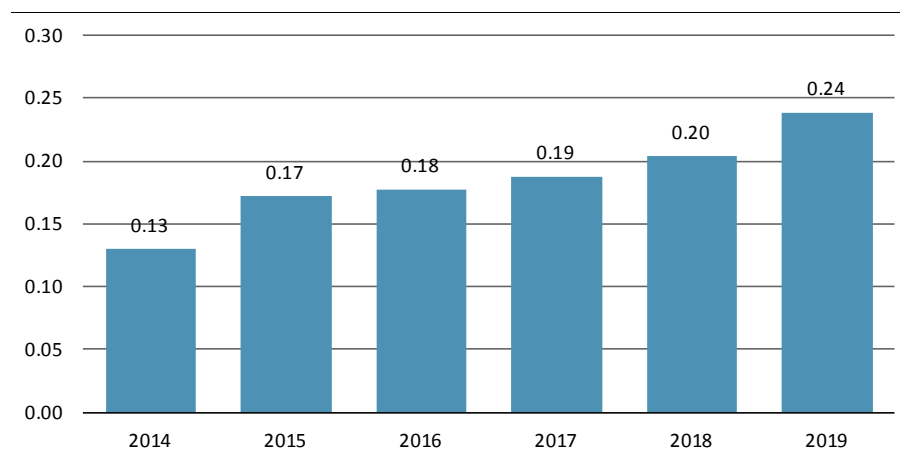
Figure 8: Enel – net debt to EBITDA remains one of the strongest in peer group



Source: UBSe

Currently, Enel pays just 40% of its profits out as dividends. This was a decision taken at the height of the crisis, as a deleveraging measure. As leverage is now under control, we expect the new CEO to reiterate the promise made in March 2014 (by the previous CEO) to step up payout to 50% as of 2015. Figure 9 shows the DPS evolution of Enel, on our forecasts.

Figure 9: Enel DPS evolution (declared, €)

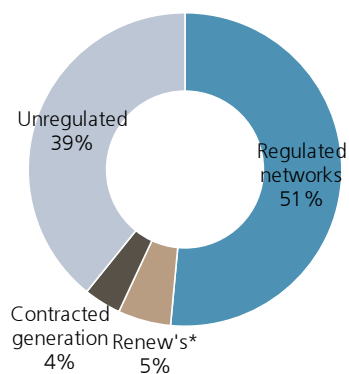


Source: UBSe; Note: 55% payout in 2019

Increasingly regulated: >70% by 2019

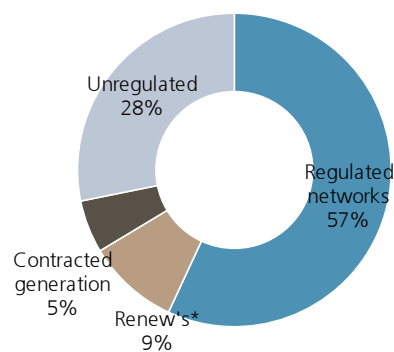
On the back of the plan just depicted, Enel would become the first integrated utility to up its growth capex. Also B/S would be the strongest in the peer group and the exposure to regulated/contracted activities would steadily increase. By 2019, the share of profits from networks, renewables and contracted capacity would exceed 70%, we estimate.

Figure 10: Enel EBITDA split 2014



Source: UBSe; *: only regulated or contracted renewables included here

Figure 11: Enel EBITDA split 2019

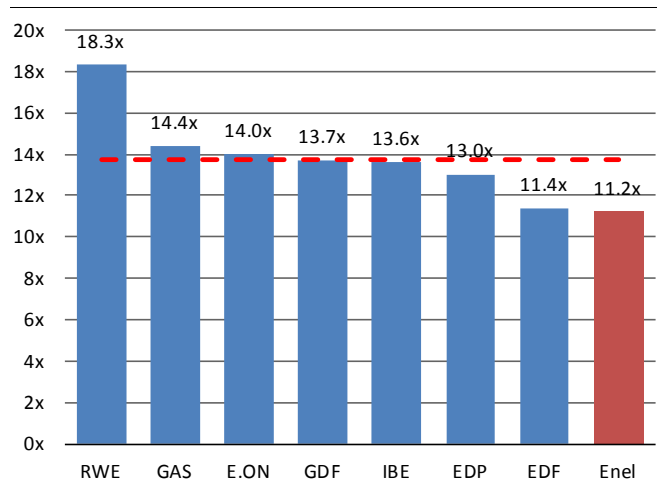


Source: UBSe; *: only regulated or contracted renewables included here

More growth, more regulated. Expect multiple expansion

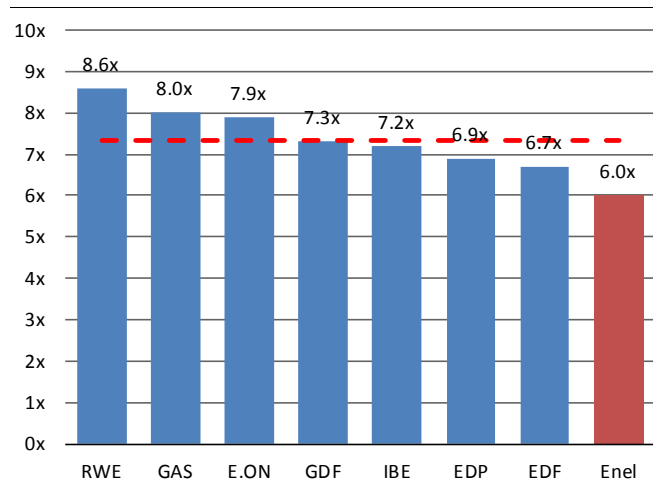
On our new estimates – we implement the asset-reorganization and the step up in growth capex – Enel would trade on a 2017 EV/EBITDA of 6x and a PE of c11x. We reiterate our Buy as we expect multiple expansion on the back of (1) the simplification of the portfolio, (2) the step up in the earnings power and dividends whilst maintaining a solid BS and FCF-neutrality over the period, and (3) the rising share of regulated/contracted profits.

Figure 12: PE vs peers 2017



Source: UBSe

Figure 13: EV / EBITDA vs peers 2017



Source: UBSe

Re-rating to peers levels would lead to €5.15ps

Currently Enel trades at almost 20% discount to peers, which we cannot justify. Indeed, BS seems to be in a better shape than any of these other companies, growth prospects are higher and the asset mix has a good quality. If we re-rated Enel in line with sector average – taking 2017 average PE of 13.7x and 2017 EPS of €0.38 – then the stock would re-rate to €5.15ps. We don't really see why this wouldn't be the case. This is how we set our new PT.

Figure 14: Enel – PT based on re-rating to peers average (€)

Peers avg PE 2017	13.7x
EPS 2017	0.38
Equity value (€)	5.15

Source: UBSe

Key financials

Figure 15: Enel key financials (€m)

	2013	2014	2015	2016	2017	2018	2019	2014-19
Generation, Energy mgmt	1,176	1,343	1,174	889	788	778	749	-11%
Green Power	1,787	1,845	1,893	2,156	2,354	2,496	2,562	7%
Markets - Italy	866	962	975	977	980	970	960	0%
Networks - Italy	4,008	3,946	4,026	3,738	3,790	3,843	3,898	0%
Slovakia, Russia, Other Int'l	1,405	1,140	623	645	668	691	714	-9%
G&S - Spain	1,646	1,613	1,560	1,446	1,296	1,316	1,326	-4%
Distribution - Spain	1,607	1,622	1,642	1,663	1,683	1,694	1,705	1%
Co. structure - Spain	(31)	(32)	(32)	(32)	(33)	(33)	(33)	NM
LatAm	3,461	3,102	3,316	3,513	3,552	3,630	3,741	4%
Others	1,086	(50)	26	215	403	590	777	NM
EBITDA	17,011	15,491	15,203	15,210	15,481	15,976	16,400	1%
Depr. & Amort.	(7,067)	(6,116)	(6,088)	(6,118)	(6,198)	(6,278)	(6,358)	
EBIT	9,944	9,375	9,115	9,092	9,283	9,699	10,042	
Net Financials	(2,813)	(2,675)	(2,587)	(2,439)	(2,322)	(2,238)	(2,175)	
Equity method income	86	155	95	96	98	99	101	
EBT	7,217	6,855	6,623	6,749	7,059	7,560	7,968	
Income taxes	(2,437)	(2,502)	(2,384)	(2,362)	(2,435)	(2,593)	(2,717)	
Minority interests	(1,545)	(1,300)	(1,010)	(1,050)	(1,093)	(1,139)	(1,176)	
Net Income	3,235	3,053	3,229	3,337	3,531	3,828	4,075	6%
EPS (reported)	0.34	0.32	0.34	0.35	0.38	0.41	0.43	6%
Dividends	1,248	1,221	1,614	1,668	1,766	1,914	2,241	
DPS paid	0.13	0.13	0.17	0.18	0.19	0.20	0.24	12%
Capex	6,170	6,136	6,259	6,790	7,150	7,011	7,048	
Net Debt (Enel def)	39,900	36,950	36,714	36,808	37,030	36,851	36,549	
Net debt / EBITDA	2.3x	2.4x	2.4x	2.4x	2.4x	2.3x	2.2x	
Economic Net Debt (UBS def)	53,015	47,065	45,829	45,923	46,145	45,966	45,664	
Economic Net Debt / EBITDA	3.1x	3.0x	3.0x	3.0x	3.0x	2.9x	2.8x	
FFO	10,302	9,169	9,317	9,455	9,729	10,106	10,433	
FFO / Net Debt	19%	19%	20%	21%	21%	22%	23%	
EV / EBITDA	5.1x	6.0x	6.1x	6.1x	6.0x	5.8x	5.6x	
PE	9.8x	12.9x	12.2x	11.8x	11.2x	10.3x	9.7x	
Dividend yield (%)	4.1%	3.1%	4.1%	4.2%	4.5%	4.8%	5.7%	
Op CF yield	23%	15%	15%	16%	16%	17%	18%	

Source: UBSe

Appendix – reorganization fractionally accretive

Figure 16: Enel – earnings impact of changes in perimeter (post tax)

	eur m
Enersis transfer accretion	64
Enersis 5% stake accretion	37
Change in ownership of stakes within Latam	66
Endesa disposal dilution	-130
Accretion (dilution) before reinvestment	36

Source: UBSe

Figure 17: How to transfer Enersis into Enel (special divi in Enersis shares)

Endesa	
Stake in Enersis	61%
Enersis shares (m)	982
Shares owned by Endesa (m)	599
Enersis share price (usd)	16.6
Enersis mkt cap (usd bn)	16.3
Stake owned by Endesa = to be paid to Enel as divi (usd bn)	9.9
Cash divi to minorities (usd bn, 8%)	0.9
Upside	
Enersis net income 2015 (eur m) - E-Chile at 60%	965
8% additional of Enersis under direct control (eur m)	77
Cost	
Endesa pays cash divi of 8% (usd bn)	0.9
int rate on cash divi paid	3.0%
Pre tax cost of debt (usd m)	26
Post tax cost of debt (usd m)	18
Post tax cost of debt (eur m)	13
Accretion post tax (eur m)	64

Source: UBSe

Figure 18: Enel acquires 4% in Enersis

Cost to acquire Enersis (usd m)	750
Cost to acquire Enersis (eur m)	555
Additional income (eur m)	48
Additional cost at 3% Kd (eur m)	17
Post tax additional cost at 3% Kd (eur m)	12
Accretion post tax	37

Source: UBSe

Figure 19: Further rationalization in Latam

Cost to acquire additional Latam equity stakes (usd bn)	4.8
Cost to acquire additional Latam equity stakes (eur bn)	3.5
int expense on the acquisition (eur m)	211
Energis Post tax int expense on the acquisitions (eur m)	159
Enel Post tax int expense on the acquisitions (eur m)	103
Target stakes net income (usd m)	876
Target stakes net income (eur m)	649
Additional net income for Energis (40%, eur m)	260
Additional net income for Enel (40% * 65%, eur m)	169
Accretion post tax	66

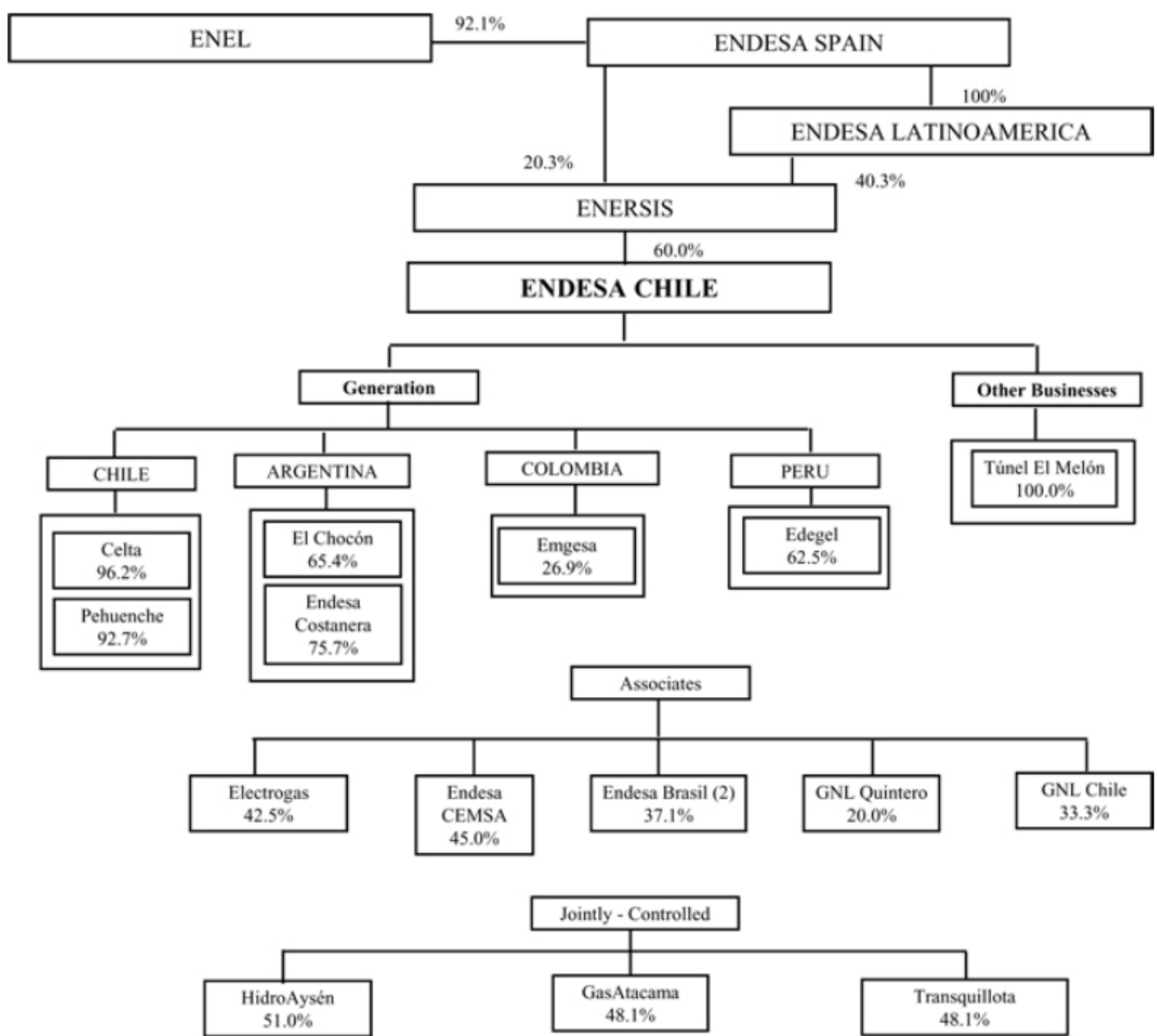
Source: UBSe

Figure 20: Enel sells 17% in Endesa

Endesa group net income 2015 (eur)	1.80bn
Minus Energis net income deconsolidated (eur)	0.58bn
Minus int expense on cash special divi	13
Endesa Iberia net income 2015 (eur)	1.21bn
Endesa mkt cap	30,182
Endesa mkt cap post cash special divi	29,541
Endesa mkt cap post cash special div and Energis shares	22,176
Endesa Final PE	18.4
Endesa transaction PE	15.0
Stake sold	17%
Proceeds (eur)	3.1bn
Net income deconsolidated	205
Kd savings	108
Post tax Kd savings	75
Dilution	130

Source: UBSe

Figure 21: Enel's corporate structure as of end-2013



Source: Enersis – NB: Excludes transactions announced in 2014, such as the Coelce deal

Enel (ENEI.MI)

Income statement (€m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Revenues	79,514	84,889	82,475	80,383	-2.5	80,406	0.0	81,106	82,473	84,240
Gross profit	17,717	16,738	17,011	15,491	-8.9	15,203	-1.9	15,210	15,481	15,976
EBITDA (UBS)	17,717	16,738	17,011	15,491	-8.9	15,203	-1.9	15,210	15,481	15,976
Depreciation & amortisation	(6,351)	(9,003)	(7,067)	(6,116)	-13.5	(6,088)	-0.5	(6,118)	(6,198)	(6,278)
EBIT (UBS)	11,366	7,735	9,944	9,375	-5.7	9,115	-2.8	9,092	9,283	9,699
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	96	88	86	155	80.2	95	-38.7	96	98	99
Net interest	(3,024)	(3,003)	(2,813)	(2,674)	4.9	(2,587)	3.3	(2,439)	(2,322)	(2,238)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	8,438	4,820	7,217	6,855	-5.0	6,623	-3.4	6,749	7,059	7,560
Tax	(3,080)	(2,745)	(2,437)	(2,502)	-2.7	(2,384)	4.7	(2,362)	(2,435)	(2,593)
Profit after tax	5,358	2,075	4,780	4,353	-8.9	4,239	-2.6	4,387	4,624	4,967
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(1,210)	(1,210)	(1,545)	(1,300)	15.9	(1,010)	22.3	(1,050)	(1,093)	(1,139)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	4,148	865	3,235	3,053	-5.6	3,229	5.8	3,337	3,531	3,828
Net earnings (UBS)	3,924	3,455	3,119	3,053	-2.1	3,229	5.8	3,337	3,531	3,828
Tax rate (%)	36.5	57.0	33.8	36.5	8.1	36.0	-1.4	35.0	34.5	34.3
Per share (€)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
EPS (UBS, diluted)	0.42	0.37	0.33	0.32	-2.1	0.34	5.8	0.35	0.38	0.41
EPS (local GAAP, diluted)	0.44	0.09	0.34	0.32	-5.6	0.34	5.8	0.35	0.38	0.41
EPS (UBS, basic)	0.42	0.37	0.33	0.32	-2.1	0.34	5.8	0.35	0.38	0.41
Net DPS (€)	0.37	0.24	0.13	0.13	0.0	0.13	-2.1	0.17	0.18	0.19
Cash EPS (UBS, diluted) ¹	1.09	1.32	1.08	0.98	-10.0	0.99	1.6	1.01	1.03	1.07
Book value per share	4.09	3.88	3.80	3.99	5.1	4.17	4.3	4.34	4.53	4.73
Average shares (diluted)	9,402.72	9,402.72	9,402.72	9,402.72	0.0	9,402.72	0.0	9,402.72	9,402.72	9,402.72
Balance sheet (€m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Tangible fixed assets	80,592	83,115	81,050	81,869	1.0	82,820	1.2	84,252	85,944	87,397
Intangible fixed assets	39,075	35,970	33,229	32,429	-2.4	31,649	-2.4	30,889	30,149	29,429
Investments	14,172	14,032	14,305	10,555	-26.2	11,001	4.2	11,001	11,001	11,001
Other assets	0	0	0	0	-	0	-	0	0	0
Total fixed assets	133,839	133,117	128,584	124,853	-2.9	125,470	0.5	126,142	127,094	127,827
Net working capital	(17,745)	(12,443)	(12,060)	(8,771)	27.3	(6,605)	24.7	(4,411)	(2,186)	104
Cash	17,481	19,272	15,907	15,907	0.0	15,907	0.0	15,907	15,907	15,907
Short term debt	(4,799)	(3,970)	(2,529)	(2,529)	0.0	(2,529)	0.0	(2,529)	(2,529)	(2,529)
Long term debt	(51,703)	(58,512)	(51,113)	(47,566)	6.9	(47,330)	0.5	(47,424)	(47,646)	(47,467)
Preferred shares	0	0	0	0	-	0	-	0	0	0
Net (debt) / cash	(39,021)	(43,210)	(37,735)	(34,188)	9.4	(33,952)	0.7	(34,046)	(34,268)	(34,089)
Other debt-deemed liabilities	(15,125)	(15,967)	(18,124)	(18,098)	0.1	(18,491)	-2.2	(18,545)	(18,642)	(18,790)
Provisions & non-debt deemed liabs	(7,831)	(8,648)	(8,047)	(8,047)	0.0	(8,047)	0.0	(8,047)	(8,047)	(8,047)
Total equity	54,117	52,849	52,618	55,750	6.0	58,374	4.7	61,093	63,951	67,004
Minority interests	(15,650)	(16,387)	(16,898)	(18,198)	-7.7	(19,208)	-5.6	(20,258)	(21,351)	(22,489)
Common s/h equity	38,467	36,462	35,720	37,552	5.1	39,166	4.3	40,835	42,600	44,514
Operating invested capital	94,091	97,994	94,172	97,481	3.5	99,817	2.4	102,683	105,861	108,883
Total capital employed	108,263	112,026	108,477	108,036	-0.4	110,817	2.6	113,684	116,861	119,883
Cash flow (€m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
EBIT (UBS)	11,366	7,735	9,944	9,375	-5.7	9,115	-2.8	9,092	9,283	9,699
Depreciation & amortisation	6,351	9,003	7,067	6,116	-13.5	6,088	-0.5	6,118	6,198	6,278
Net change in working capital	568	(37)	(1,251)	(639)	48.9	(355)	44.4	(327)	(304)	(310)
Net interest	(3,024)	(3,003)	(2,813)	(2,674)	4.9	(2,587)	3.3	(2,439)	(2,322)	(2,238)
Tax paid	(3,080)	(2,745)	(2,437)	(2,502)	-2.7	(2,384)	4.7	(2,362)	(2,435)	(2,593)
Other operating	96	88	86	155	80.2	95	-38.7	96	98	99
Operating cash flow	12,277	11,041	10,596	9,830	-6.7	9,971	-1.8	10,178	10,517	10,935
Tangible capital expenditure	(7,742)	(7,331)	(6,170)	(6,136)	0.6	(6,259)	-2.0	(6,790)	(7,150)	(7,011)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Equity free cash flow	4,535	3,710	4,426	3,694	-16.5	3,713	0.5	3,388	3,367	3,924
Net (acquisitions) & disposals	342	743	1,500	3,750	150.0	(446)	-	0	0	0
Equity dividends paid	(3,517)	(2,229)	(1,248)	(1,248)	0.0	(1,221)	2.1	(1,614)	(1,668)	(1,766)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Net other cash flows	0	0	0	0	-	0	-	0	0	0
Cash flow (inc)/dec in net debt	1,360	2,224	4,678	6,197	32.5	2,046	-67.0	1,773	1,699	2,158
FX / non cash items	6,251	(6,413)	797	(2,650)	-	(1,810)	31.7	(1,867)	(1,921)	(1,979)
Balance sheet (inc)/dec in net debt	7,611	(4,189)	5,475	3,547	-35.2	236	-93.3	(94)	(222)	179

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. ¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Enel (ENEI.MI)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	8.8	29.7	8.3	12.9	12.2	11.8	11.1	10.3
P/E (UBS, diluted)	9.3	7.4	8.6	12.9	12.2	11.8	11.1	10.3
P/CEPS	3.6	2.1	2.6	4.3	4.2	4.2	4.0	3.9
Equity FCF (UBS) yield %	12.4	14.4	16.4	9.4	9.4	8.6	8.6	10.0
Net dividend yield (%)	9.6	8.7	4.6	3.2	3.1	4.1	4.2	4.5
P/BV x	0.9	0.7	0.8	1.0	1.0	1.0	0.9	0.9
EV/revenues (core)	1.2	1.0	1.0	1.2	1.2	1.1	1.1	1.1
EV/EBITDA (core)	5.5	5.1	4.9	6.0	6.1	6.1	6.0	5.7
EV/EBIT (core)	8.7	11.1	8.4	10.0	10.2	10.3	10.1	9.3
EV/OpFCF (core)	8.4	10.7	7.7	9.2	9.5	9.6	9.4	8.8
EV/op. invested capital	1.0	0.9	0.9	1.0	0.9	0.9	0.9	0.8
Enterprise value (€m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	36,538	25,723	26,950	39,303	39,303	39,303	39,303	39,303
Net debt (cash)	44,629	42,948	39,900	36,950	36,714	36,808	37,030	34,179
Buy out of minorities	15,684	15,650	16,387	16,898	17,160	17,159	17,159	17,159
Pension provisions/other	1,476	1,510	773	262	1	1	1	1
Total enterprise value	98,327	85,831	84,010	93,413	93,178	93,271	93,493	90,642
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	98,327	85,831	84,010	93,413	93,178	93,271	93,493	90,642
Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	8.4	6.8	-2.8	-2.5	0.0	0.9	1.7	2.1
EBITDA (UBS)	1.4	-5.5	1.6	-8.9	-1.9	0.0	1.8	3.2
EBIT (UBS)	1.0	-31.9	28.6	-5.7	-2.8	-0.3	2.1	4.5
EPS (UBS, diluted)	-10.9	-11.9	-9.7	-2.1	5.8	3.3	5.8	8.4
Net DPS	33.6	-36.6	-44.0	0.0	-2.1	32.2	3.3	5.8
Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	22.3	19.7	20.6	19.3	18.9	18.8	18.8	19.0
EBITDA margin	22.3	19.7	20.6	19.3	18.9	18.8	18.8	19.0
EBIT margin	14.3	9.1	12.1	11.7	11.3	11.2	11.3	11.5
Net earnings (UBS) margin	4.9	4.1	3.8	3.8	4.0	4.1	4.3	4.5
ROIC (EBIT)	11.6	8.1	10.3	9.8	9.2	9.0	8.9	9.0
ROIC post tax	7.4	3.5	6.9	6.2	5.9	5.8	5.8	5.9
ROE (UBS)	10.4	9.2	8.6	8.3	8.4	8.3	8.5	8.8
Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	2.2	2.6	2.2	2.2	2.2	2.2	2.2	2.1
Net debt / total equity %	72.1	81.8	71.7	61.3	58.2	55.7	53.6	50.9
Net debt / (net debt + total equity) %	41.9	45.0	41.8	38.0	36.8	35.8	34.9	33.7
Net debt/EV	39.7	50.3	44.9	36.6	36.4	36.5	36.7	37.6
Capex / depreciation %	127.9	83.8	102.0	114.2	115.4	124.0	128.2	123.5
Capex / revenue %	9.7	8.6	7.5	7.6	7.8	8.4	8.7	8.3
EBIT / net interest	3.8	2.6	3.5	3.5	3.5	3.7	4.0	4.3
Dividend cover (UBS)	1.1	1.6	2.5	2.4	2.6	2.1	2.1	2.2
Div. payout ratio (UBS) %	89.6	64.5	40.0	40.9	37.8	48.4	47.2	46.1
Revenues by division (€m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	79,514	84,889	82,475	80,383	80,406	81,106	82,473	84,240
Total	79,514	84,889	82,475	80,383	80,406	81,106	82,473	84,240
EBIT (UBS) by division (€m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	11,366	7,735	9,944	9,375	9,115	9,092	9,283	9,699
Total	11,366	7,735	9,944	9,375	9,115	9,092	9,283	9,699

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+23.2%
Forecast dividend yield	3.1%
Forecast stock return	+26.3%
Market return assumption	5.6%
Forecast excess return	+20.7%

Statement of Risk

Enel has high leverage after acquiring 92% of Endesa in 2008. It has exposure in Italy, Spain, Slovakia, Russia and LatAm via Endesa. A fall in currencies, or a worsening economic outlook in any of these regions would affect Enel. Similar to its peers, Enel has exposure to commodity, interest rates, sovereign risks as well as corporate activities.

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UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	33%
Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2014.

1: Percentage of companies under coverage globally within the 12-month rating category. 2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Limited: Alberto Gandolfi; Hugo Liebaert.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Enel ^{2, 4, 6}	ENEI.MI	Buy	N/A	€4.23	26 Jun 2014

Source: UBS. All prices as of local market close.

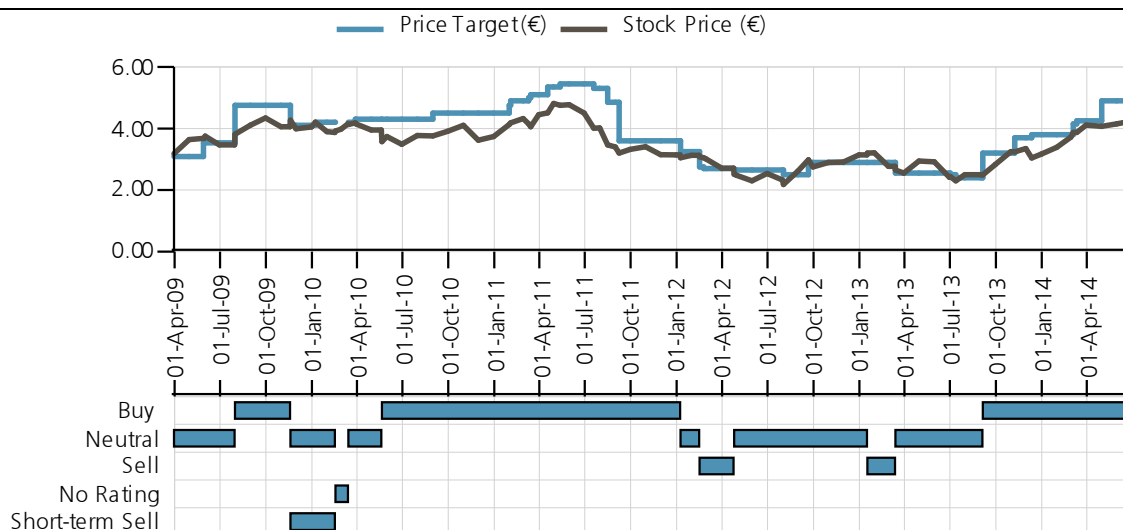
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Enel (€)



Source: UBS; as of 26 Jun 2014

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