

# MVV Energie

Utilities

Buy

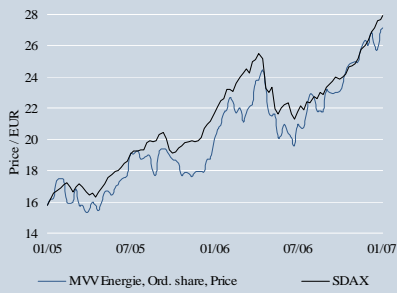
Fair Value EUR30.00

1 February 2007

Price EUR27.12 (Closing price as of 01/30/2007)

Applied disclosures can be found in the appendix

## Price and rel. Performance



## Market Data

Reuters	MVVGn.DE
Bloomberg	MVV GR
Market cap €bn	1.5
Free float %	18.8

## Key Data

Yr. end	2005	2006e	2007e
Revenues m	1,957.59	2,276.12	2,557.04
Net profit m	33.99	50.01	83.94
Adj. EPS	0.63	1.58	1.51
PER	30.4	14.7	18.0
EV/EBIT	15.1	14.1	12.2
EBIT mgn. %	7.9	8.5	8.8

EPS CAGR 04-08e: 40 %

## Next Events

Analysts' conference	05 February 2007
Quarterly results	14 February 2007

Matthias Heck, CEFA  
 +49 (0) 69/71 34 - 52 03  
 matthias.heck@oppenheim.de  
 Oppenheim Research GmbH, Frankfurt

Hartmut Moers, CEFA  
 +49 (0) 69/71 34 - 56 44  
 hartmut.moers@oppenheim.de  
 Oppenheim Research GmbH, Frankfurt

## 17.8% CUT IN DISTRIBUTION FEES

### INVESTMENT CASE AND PERFORMANCE TRIGGER

The 17.8% cut in MVV's distribution fees in Mannheim appears to be high at a first glance. However, this should only trigger below €5m lower earnings, which is covered by our conservative assumptions. All in all, our fundamental case for MVV remains unchanged, with cost cutting compensating for regulatory pressure and growth in the non-regulated divisions. We confirm our estimates and fair value and also reaffirm our Buy rating on the stock.

### FACTS

The German network regulator BNA yesterday cut MVV's electricity distribution fees by 17.8%.

MVV management said the company has been well prepared for regulation and this high cut has already been anticipated in current retail prices for electricity, so prices remain stable until end of FY 2006/07.

### ASSESSMENT

This cut is only vs. MVV's filing. MVV and BNA haven't disclosed the y-o-y-impact of this cut. It should be lower than 17.8%.

MVV's statement backs our assumption that cuts in network fees are already anticipated in the current retail tariffs and don't trigger a further reduction in revenues and earnings. In contrast, this cut should have a negative impact on network revenues to small and medium-sized enterprises (SMEs).

	Sales TWh	Network fees 05/06e (€m)	Cut 12months	thereof 06/07e
Group retail + SME	8.7	227.6	17.8%	
Mannheim retail + SME	2.9	76.7	13.7	10.2
thereof Mannheim retail	1.6	41.4	7.4	5.5
<b>thereof Mannheim SME</b>	<b>1.35</b>	<b>35.3</b>	<b>6.3</b>	<b>4.7</b>

We estimate distribution fees of €228m pa for MVV, thereof €76m in Mannheim. €35m should relate to SME clients, so even a 17.8% cut should only lead to €6.3m lower revenues and income on a 12month basis and €4.7m for 9months in FY 2006/07.

In our model, we continue to anticipate €1.5m total regulatory impact for the fiscal year 2006/07. We keep these estimates unchanged.

### VALUATION

The stock has 11% upside to our unchanged fair value of €30. It also trades with a 6% discount on the European utilities sector in terms of EV/EBITDA 07e.

**MVV Energie - P&L (Total Costs)**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
<b>Sales</b>	<b>1,651.5</b>	<b>1,957.6</b>	<b>2,276.1</b>	<b>2,557.0</b>	<b>2,673.2</b>
Invent. changes & intern. prod. Assets	47.5	64.5	26.5	40.0	40.0
Cost of material	-1,040.8	-1,233.4	-1,372.6	-1,581.1	-1,628.4
Personnel costs	-250.1	-294.5	-280.1	-283.8	-287.6
Other operating income/expenses (net)	-180.8	-208.6	-288.0	-370.2	-389.0
<b>EBITDA</b>	<b>227.3</b>	<b>285.6</b>	<b>361.9</b>	<b>362.0</b>	<b>408.2</b>
Depreciation	-167.5	-130.2	-169.0	-136.7	-141.4
<b>EBIT</b>	<b>59.8</b>	<b>155.3</b>	<b>192.9</b>	<b>225.3</b>	<b>266.8</b>
Interest result	-63.9	-67.5	-73.0	-70.5	-69.0
Participation result	-18.6	2.2	8.1	8.5	8.9
<b>Profit or loss on ordinary activities</b>	<b>-22.7</b>	<b>90.0</b>	<b>128.0</b>	<b>163.2</b>	<b>206.7</b>
<b>EBT</b>	<b>-22.7</b>	<b>90.0</b>	<b>128.0</b>	<b>163.2</b>	<b>206.7</b>
Taxes	-14.8	-38.9	-64.4	-65.3	-82.7
<b>Profit / loss for the year (cont. operations)</b>	<b>-37.5</b>	<b>51.1</b>	<b>63.6</b>	<b>97.9</b>	<b>124.0</b>
Minority interest	-6.0	-17.1	-13.6	-14.0	-14.4
<b>Net profit</b>	<b>-43.5</b>	<b>34.0</b>	<b>50.0</b>	<b>83.9</b>	<b>109.6</b>
+/- Adjustments	69.7	-1.8	37.9	0.0	0.0
<b>Adjusted net profit</b>	<b>26.1</b>	<b>32.2</b>	<b>87.9</b>	<b>83.9</b>	<b>109.6</b>

**Key ratios and figures**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
<b>Valuation</b>					
PER	27.9	30.4	14.7	18.0	13.8
P/BV	1.2	1.6	1.8	2.0	1.8
Dividend yield %	5.2	3.9	3.4	3.3	3.7
EV/Sales	1.5	1.2	1.2	1.1	1.0
EV/EBITDA	10.6	8.2	7.5	7.6	6.7
Sustainable FCF yield %	5.4	10.8	8.5	10.3	10.5
<b>Data per share</b>					
Weighted avg. number of shares	50.70	50.70	55.13	55.77	55.77
EPS (reported)	-0.86	0.67	0.90	1.51	1.97
adj. EPS	0.52	0.63	1.58	1.51	1.97
Dividend	0.75	0.75	0.80	0.90	1.00
Book value	12.02	12.28	13.13	13.83	14.90
Sustainable FCFPS	0.2	1.6	1.0	1.5	1.6
<b>Growth rates %</b>					
Sales		+18.5	+16.3	+12.3	+4.5
EBITDA		+25.6	+26.7	+0.0	+12.8
EBIT		+159.8	+24.2	+16.8	+18.4
Net profit		nm	+47.1	+67.9	+30.5
adj. EPS		+23.1	+148.3	-4.5	+30.5
<b>Margins %</b>					
Gross	+39.9	+40.3	+40.9	+39.7	+40.6
EBITDA	+13.8	+14.6	+15.9	+14.2	+15.3
EBIT	+3.6	+7.9	+8.5	+8.8	+10.0
Net profit	-2.6	+1.7	+2.2	+3.3	+4.1
<b>Expense ratios %</b>					
Personnel cost to sales	+15.1	+15.0	+12.3	+11.1	+10.8
Cost of material to sales	+63.0	+63.0	+60.3	+61.8	+60.9
Depreciation to sales (Total Cost)	+10.1	+6.7	+7.4	+5.3	+5.3
Tax rate	-65.3	+43.2	+50.3	+40.0	+40.0
<b>Other ratios</b>					
Interest cover	nm	nm	nm	nm	nm