MVV Energie

Buy

Utilities

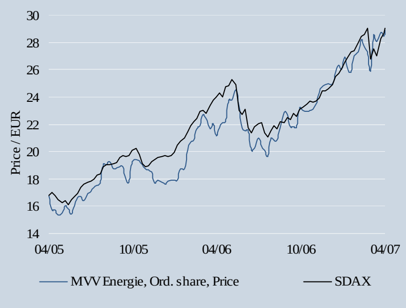
Fair Value EUR32.00

5 April 2007

Price EUR28.85 (Closing price as of 04/02/2007)

Applied disclosures can be found in the appendix

Price and rel. Performance



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12 month high/low €			28.85/19.60
Rel.%	1m 2.9	3m -0.3	12m 13.0
Abs.%	1m 11.6	3m 8.9	12m 36.7

Reuters	MVVGn.DE
Bloomberg	MVV GR
Market cap EURbn	1.6
Number of shares m	55.8
Free float %	18.8
Daily turnover shares	42,110

Next Events

Rel. Sector +

STORY ON TRACK

MVV benefits from cost cutting in the regulated business (€29m efficiency program Focus), which should clearly over-compensate cuts in network fees. The performance of MVV's non-regulated activities is driven by both price and volume increases. Despite negative one-offs, MVV's 2006/07 results will still increase some 6%. On an adjusted basis, an increase of 27% should be recorded. Including the full effects of the German tax reform, we now arrive at a fair value of €32.0. In a blue-sky scenario, we would even arrive at an additional upside of €7, i.e., a fair value of €39.0. We reaffirm our **buy** rating.

6% EBIT GROWTH DESPITE ONE-OFF BURDENS

Despite historical warm weather conditions (20% decline in district heating consumption expected) and further negative one-offs in 2006/07, we still expect a 6% slight EBIT increase. On an adjusted basis, MVV would even generate 27% EBIT growth in 2006/07e.

TAX REFORM RAISES FAIR VALUE BY €2.0

The German corporate tax reform 2008 (approved on March 14) includes a cut in the average tax rate from 39% to 29.8%. MVV should just marginally be affected by compensatory items, so we expect a reduction in MVV's tax rate from 40% to 31%. Our fair raises €2.0 to €32.0.

CAPITAL INCREASE ENVISAGED

The city of Mannheim intends to sell up to 16% in MVV to "strategic partner", e.g. Mainova, GEW or Dong. The final evaluation of such a step depends on terms of the partnership. However, the planned capital increase of up to 18.2% will be delayed until the strategic partner is found.

FURTHER UPSIDE OF €7.0 TO OUR FAIR VALUE

Our fair value of €32 still doesn't include potential upside of cost reductions in Kiel (+€1), higher power generation margins (+€2) and acquisitions of further Stadtwerke (up to +€4).

Key Changes

EBT %	07e:	-13.2	08e:	+0.9
EPS %	07e:	-15.4	08e:	+1.0
FV %				+6.7

Key Data

€ (Yr. end: 09/30)	2005	2006	2007e	2008e	2009e
Sales m	1,957.59	2,276.12	2,588.39	2,759.09	2,849.46
EBIT m	155.33	192.90	203.67	266.96	276.56
Net profit m	33.99	50.01	70.98	109.69	136.87
Oper. CF m	277.86	209.48	356.36	308.74	358.25
Adj. EPS	0.63	1.58	1.27	1.97	2.45
Dividend	0.75	0.80	0.90	1.00	1.05
PER	25.8	13.1	22.7	14.7	11.8
Div. yield %	4.6	3.6	2.8	3.1	3.5
EV/EBITDA	8.6	7.3	9.9	7.8	7.3
Price to book	1.3	1.6	2.1	2.0	1.8
EBIT margin %	7.9	8.5	7.9	9.7	9.7
ROCE %	6.6	8.0	8.0	10.3	10.7
Sust. FCF yield %	10.1	8.0	8.6	9.4	13.2

EPS CAGR 06-09e: 40 %   ROE: 07e: 10 %   Eq. ratio 07e: 30 %

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

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