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Wind

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Q-Series®: Global Wind Power Sector

Are the skies clear again for wind power?

■ Improved economics should propel the next pick-up in investment

We expect wind sector activity to revive from H1 10 on substantially improved economics as (1) turbine prices should be c20% cheaper than in 2008; (2) financing costs are back to pre-crisis levels; and (3) political support remains solid.

■ Introducing the proprietary UBS global wind market model and KGI

We have developed a proprietary model for the global wind market. It suggests that new additions should grow by 15% per year (33-44GW annual new additions) in 2010-12. We expect the global wind turbine average selling price (ASP) to decline by 7% to €0.81m/MW in 2010 (European all-in capex/MW €1.2m), and to increase by 4% per year in 2011-12.

■ Now is the right time to overweight equipment suppliers versus operators

The recent underperformance of wind equipment stocks suggests that short-term expectations are appropriate now. We believe the time has now come to buy wind turbine stocks, ahead of the up-cycle in H1 10. We are cautious on operators as their share prices seem to be discounting several years of accelerated pipeline execution.

■ Vestas, Gamesa, EDP and China High Speed are our top picks

We raise Vestas and Gamesa to Buy (from Neutral). Our top pick in the operator segment is EDP (parent company). We initiate coverage on EDF Energies Nouvelles with a Neutral. China High Speed is our equipment top pick in China.

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All share prices and valuations based on closing prices of 12 October 2009.

We would like to thank Zofia Biernat for her assistance.

Executive Summary

Improved economics to propel the next cycle

Despite lower wholesale power prices, we believe that the drop in wind turbine prices (c20% in 2008-10), normalising financing costs and continued political support will propel the next investment cycle for wind farms. Wind farm IRR/WACC spreads are attractive in most large markets, which is the key prerequisite for a strong cycle. Hence, the key question is *when* rather than *if* the next cycle kicks off. After six months of underperformance and disappointment about the delayed pick-up in new orders, now is the time to overweight wind turbine producers, in our view. Even though one needs to be patient until H1 10, when we expect a substantial pick-up in new orders (mainly driven from the US), we are not concerned about the strength of the next cycle, given improved wind farm economics and strong regulatory support.

For wind operators, investments should accelerate throughout 2012, primarily from large utilities and listed wind power producers. Regionally, we expect strong acceleration in the US and China. For Europe, we expect a less explosive development, given that some key markets (Spain, Germany) are already approaching 'wind maturity'. Global returns for wind developers remain at c10%. Beyond 2012, we expect a 50-100bp contraction, especially in Europe.

Despite near-term turbine oversupply, ahead of the next up-cycle, we prefer equipment manufacturers to wind farm operators, based on two reasons:

- **Manufacturers:** We think the market has turned overly negative on medium-term perspectives in the absence of new orders. As we remain positive on 2011/12 earnings and revenues growth, we consider the current lows to be attractive entry points.
- **Operators:** With the exception of EDP (parent company), we believe these stocks are already discounting the value creation from the capex of the coming up-cycle. We believe earnings will grow strongly. But at earnings multiples of c30x 2010E, these appear to be discounted upfront.

Our top picks are **Vestas** and **Gamesa**, which we raise to Buy (from Neutral) and **China High Speed** (Buy). Please note that for Vestas, we expect a profit warning on 27 October. Our cautious stance on wind farm developers is mainly valuation driven. Our most favoured developer/operator is **Energias de Portugal (EDP)**, which owns 77.5% in EDP Renováveis (EDPR).

Table 1: UBS global wind coverage

Company name		PT new	PT old	Rating new	Rating old	Share price	Upside %	PE			EV/EBITDA		
								2009E	2010E	2011E	2009E	2010E	2011E
Equipment manufacturers													
China High Speed	HKD	22.3		Buy		16.3	36.8	21.6	16.1	13.9	14.4	10.6	9.0
Vestas	DKK	410	390	Buy	Neutral ST Sell	318.5	28.7	17.7	17.3	13.2	10.0	8.6	6.8
Gamesa	EUR	17	14.5	Buy	Neutral	13.58	25.2	26.4	15.3	13.6	9.6	9.1	6.4
Hansen	GBX	140p	150p	Neutral		124.25	12.7	33.8	-315.5	46.2	10.1	8.6	6.3
Xinjiang Goldwind	CNY	32		Neutral		26.61	20.3	26.6	21.9	18.3	17.8	14.1	10.5
Dongfang Electric	HKD	46		Buy		42.45	8.4	21.0	18.2	15.5	-1.9	-1.4	-1.6
Gurit	CHF	620		Neutral		650	-4.6	13.0	17.1	13.5	9.7	6.6	5.3
Suzlon Energy	INR	60		Sell		86.7	-30.8	26.5	13.4	7.2	10.7	9.2	6.3
Nordex	EUR	10.2	7.5	Sell		11.8	-36.4	34.3	25.7	16.9	13.1	11.4	8.0
Wind farm operators													
Terna Energy	EUR	9.4		Buy		6.92	35.8	26.3	20.5	13.4	16.6	14.0	11.2
Acciona	EUR	112		Buy		92.5	21.1	3.4	21.3	17.5	15.2	9.0	8.3
Infigen Energy	AUD	1.6		Buy		1.45	10.3	7.9	60.9	42.6	9.0	9.1	8.5
EDF En. Nouvelles	EUR	41		Neutral	N.R.	37.49	9.4	31.0	25.4	20.4	14.9	11.8	10.6
Energias de Port.	EUR	3.6	3.45	Buy		3.187	13.0	12.4	11.9	11.7	8.9	8.5	8.2
EDP Renováveis	EUR	7.3	7.5	Sell	Neutral	7.5	-2.7	44.2	38.5	29.0	16.3	13.9	11.8
Iberdrola Renov.	EUR	3.4	3.1	Sell		3.32	2.4	36.7	29.0	27.2	14.5	12.0	10.9
Other companies with wind exposure													
Fluor Corporation	USD	66		Buy		48.49	36.1	12.2	13.0	12.1	6.8	7.2	6.7
Manitowac	USD	11		Neutral		10.17	8.2	-2.0	50.5	20.4	3.2	3.6	7.2
FPL Group Inc.	USD	56		Neutral		53.3	5.1	12.8	11.6	10.9	8.4	7.8	7.1
PG&E Corporation	USD	46	42	Buy		41.56	10.7	13.2	12.5	11.4	8.6	8.2	7.5
General Electric	USD	13		Neutral		16.33	-20.4	18.7	20.3	14.9	31.3	31.5	19.3

Source: UBS estimates

UBS versus consensus

We are more cautious on near-term growth, but the buy side already seems to share our view

Generally speaking, we are more ***cautious than the Street on near-term growth*** due to a slow recovery of the project financing market. Short-term top-line growth of non-Chinese wind turbine manufacturers is likely to suffer from low order backlog levels. On the other hand, we are probably ***slightly more bullish than consensus on the stabilisation of wind turbine prices***, due to capacity adjustments of turbine manufacturers and the recovery of commodity prices.

The following table summarises our estimates versus consensus for our global wind coverage universe. On average, we are more cautious on sales growth. However, based on our conversations with the buy side, we believe investors are already more cautious than the Street average suggests. As consensus is still going down, there is a certain time lag effect. We are more bearish than the street on wind operators, mostly as we think the share prices of pure wind players are already wholly discounting the positive news from the coming up-cycle.

Table 2: UBS versus consensus*

	2009E Sales (m)		2010E Sales (m)		2011E Sales (m)		2009E EPS		2010E EPS		2011E EPS	
	UBSe	vs cons.	UBSe	vs cons.	UBSe	vs cons.	UBSe	vs cons.	UBSe	vs cons.	UBSe	vs cons.
China High Speed	542	1%	697	3%	826	-3%	0.1	5%	0.1	1%	0.1	-4%
Dongf. Electric	3,396	8%	3,581	12%	3,939	9%	0.2	0%	0.2	-7%	0.2	-8%
EDP Renováveis	749	-7%	1,048	-2%	1,333	-1%	0.1	-6%	0.2	4%	0.3	5%
Energias de Portugal	12,440	-3%	12,567	-7%	13,175	-8%	0.3	3%	0.3	3%	0.3	-2%
Gamesa	3,254	0%	3,510	-6%	4,207	-3%	0.5	-18%	0.9	14%	1.0	-7%
Hansen Trans.	630	4%	687	-6%	848	-11%	0.1	46%	0.1	-8%	0.1	-13%
Iberdrola Renovables	2,285	5%	2,662	1%	3,026	-4%	0.1	-3%	0.1	-3%	0.1	-3%
Nordex	1,200	0%	1,337	-8%	1,590	-15%	0.3	-16%	0.5	-29%	0.7	-34%
Suzlon	3,499	-3%	3,675	-5%	4,557	-4%	0.0	3%	0.1	-2%	0.2	12%
Terna Energy	77	15%	106	31%	148	26%	0.2	32%	0.3	55%	0.4	47%
Vestas	6,759	1%	7,491	-3%	9,056	-3%	2.4	-1%	2.5	-15%	3.3	-13%
Xinjiang Goldwind	1,171	-1%	1,317	-5%	1,435	-10%	0.2	76%	0.2	58%	0.2	81%

Source: IBES, Reuters, UBS estimates
*in local currency

Introducing the proprietary UBS wind market model

Global new additions should grow by 3%/15%/16% in 2009/2010/2011 (-8%/16%20% excluding China)

Our new proprietary global market model is driven by the IRR/WACC spread on a country-by-country basis. In most key markets, that spread remains attractive, despite the recent drop in power prices and cost of substitutes. After the crisis year 2009, for which we estimate 'only' 3% y/y growth in global new installations to 29GW, we forecast accelerated market growth by 15% to 33GW in 2010 and 16% to 38.6GW in 2011, respectively. Excluding China, which is dominated by local suppliers, global new additions should be down 8% in 2009, up 16% in 2010 and up 20% in 2011. The wind turbine revenue pool should grow to €32bn, from €26bn in 2009.

US is key swing factor

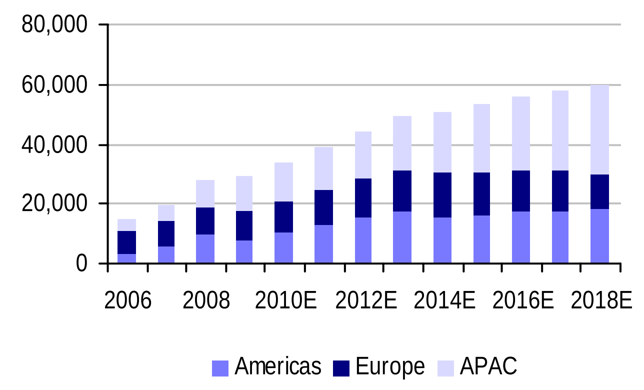
In the next three years, the US market will be the key swing factor: After a substantial drop in 2009, momentum in new installations should pick up sharply in H2 10. We forecast growth of 40% y/y in 2010 to 9GW and another 20% in 2011 to 11GW. Due to saturation and grid connection constraints in the US and developed Europe, we expect slowing momentum in capacity additions from 2012 onwards, while cumulative capacity should keep growing by >10% per year. We expect the share of wind power in global electricity generation to increase to 3% in 2013 and 5% in 2018, from 2% in 2009.

Introducing the new KGI – wind turbine price per MW

Following a drop by 19% over 2008-10, the global wind turbine ASP should stabilise

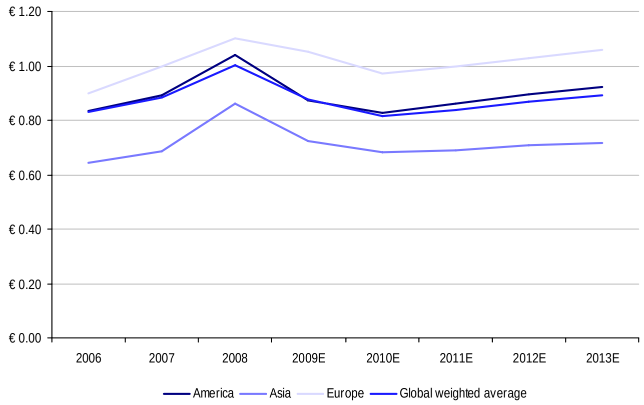
We have established a proprietary key global indicator (KGI) for the wind turbine price per MW, based on commodity costs, component prices, manufacturing costs and the negotiating power of wind turbine manufacturers. After a 13% y/y drop to €0.87m/MW in 2009 (ranging from €0.72m to €1.05m/MW across the regions), we expect another 7% decline in 2010, due to the time lag between order intake and shipment of the turbines. However, the turbine price should bottom out next year as (1) commodities (mainly steel) have already recovered substantially from the trough level, (2) turbine manufacturers outside China have made significant capacity adjustments, and (3) order intake should pick up in H1 10. For 2011/12, we expect an increase in the global ASP by 4% each year. The turn-key IC/MW (including shipment and installation costs) should decrease by 14% to €1.12m (ranging from €0.96m to €1.30m across the regions) in 2009 and decline by another 5% in 2010. For 2011/12, we expect an increase by 3%/4% y/y. Hence, even by 2012, the IC/MW should be 12% below the 2008 peak level, which implies improved wind farm economics.

Chart 1: UBS wind power market model – new additions (MW)



Source: UBS estimates

Chart 2: UBS KGI – wind turbine price per MW (€m)



Source: UBS estimates

Table 3: Key estimates for the global wind power market

	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Cumulative capacity (MW)	74,052	94,004	122,158	151,259	184,587	223,198	266,969	316,161	368,143	423,795	482,720	543,441	605,818
y/y growth in capacity (%)		*27%*	*30%*	*24%*	*22%*	*21%*	*20%*	*18%*	*16%*	*15%*	*14%*	*13%*	*11%*
New additions (MW)	15,425	19,791	28,191	29,101	33,328	38,611	43,772	49,192	51,982	55,652	58,926	60,720	62,377
y/y growth in new additions (%)		*28%*	*42%*	*3%*	*15%*	*16%*	*13%*	*12%*	*6%*	*7%*	*6%*	*3%*	*3%*
Wind % of electricity generation	0.7%	0.8%	1.1%	1.8%	2.1%	2.4%	2.8%	3.2%	3.6%	4.0%	4.4%	4.7%	5.1%
Wind turbine ASP (€m/MW)	0.80	0.87	1.00	0.87	0.81	0.84	0.87	0.89	0.91	0.93	0.95	0.97	0.99
Turn-key IC per MW installed (€m)	1.08	1.12	1.25	1.09	1.05	1.07	1.10	1.11	1.14	1.16	1.18	1.21	1.23
Wind turbine revenue pool (€m)	12,334	17,307	28,221	25,453	27,140	32,435	38,069	43,934	47,354	51,712	55,849	58,701	61,509

Source: UBS wind power market model

(Tail) Winds of change in the US

With 2-3 quarters delay, the US market should eventually pick up again

The recent political push and the drop in turbine prices should lead to a bounce in US wind additions. During 2010-12, we expect growth to accelerate, with annual additions of 9-13GW per year versus 6.7GW in 2009E. This would imply a CAGR of 25% in annual new additions over 2009-12E. The US Treasury/DOE stimulus (i.e., cash grants) and a normalisation in the project financing market should lead to new turbine orders in H1 10, resulting in a pick-up in shipments in H2 10. This is 2-3 quarters later than we initially expected, but we are not in doubt about US wind farm economics in general, which is the key point. Power purchase prices should stay around US$60/MWh in many regions, resulting in c10% project IRR. The price level for wind electricity should be supported by the federal Renewable Portfolio Standard (RPS), which should be finalised in H1 10. Beyond 2013, electricity grid bottlenecks are likely to be a brake on growth. The share of wind power in total electricity generation should grow to 5% in 2013 and 8% in 2020, from 2% in 2009. This implies that wind should contribute some two-thirds of the potential 2020 RPS target.

China to remain an almost closed shop for imports

Despite the positive market outlook, China offers limited value generation for international turbine manufacturers, due to regulatory hurdles and intense competition

We calculate that around 9-12GW of incremental capacity will be installed in China every year over 2009-13E. We expect the NDRC (National Development and Reform Commission) to raise the 2020 target to 100GW (from 30GW) when it releases the new energy stimulus plan. However, we believe turbine oversupply has already emerged, as local utilisation rates are below 50%. We believe international turbine manufacturers will have a hard time defending their market shares (27% in 2008). The government concession segment, which accounts for 60% of the total Chinese market, is hardly accessible at all for foreign manufacturers. There is a ray of hope for the international players, though: Thanks to the new performance-oriented feed-in tariff scheme, the wind cost/MWh is more important than the cost/MW, which could help the foreign tier-1 players (which have more reliable wind turbines). As foreign producers have localised turbine manufacturing and component sourcing, they should not suffer from a structural cost disadvantage versus their Chinese peers. However, competition will likely be intense, and the fight for market share might be at the expense of very low profit margins. Overall, China offers limited value-generation potential for international players over the next few years. On the other hand, we think it will take another five years before Chinese producers become a severe threat to tier-1 producers in the western markets.

Improving economics are discounted in operator stocks

Wind operators' shares already seem to be discounting investments until 2014-15

Despite the fall in power prices, industry fundamentals for wind developers have improved during the past six months. Turbine costs have dropped by about 20% compared with equipment ordered in 2007-08, financing costs have broadly returned to pre-crisis levels, and capex visibility in the US and China has improved materially.

We expect wind developers to show high double-digit growth rates, on aggregate. However, from a market perspective, we think these stocks have risen too much and already discount value creation from investments until 2014-15. Wind developers globally currently trade on a 2010E EV/MW multiple of €1.5m, which is a >30% premium to replacement cost. This appears excessive, in our view.

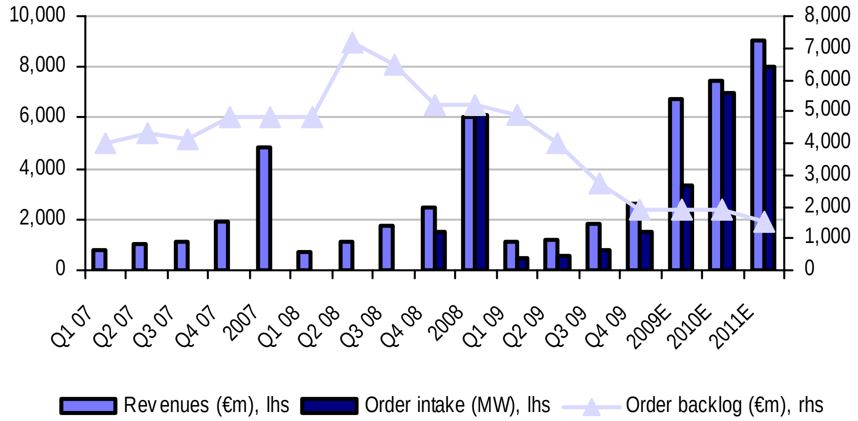
With the exception of EDP and EDF Energies Nouvelles, we would be cautious on the space. EDP (parent company) is a peculiar case: Its wind subsidiary trades at the high end of the range of wind developers and accounts for one-third of the parent company's value. If we valued the core EDP business ex wind at 8x PE 2009E, the implied value of wind assets discounted in EDP would be €1.16m/MW, below the replacement cost.

Key stock picks

Vestas (Upgrade to Buy, PT DKr410)

We raise Vestas to Buy (from Neutral) and remove our short-term Sell rating, as we think the share price now reflects the short-term challenges. We think the buy side is well aware of (1) the risk of a FY 09 profit warning; (2) the potentially very low order backlog at year-end 2009 (UBSe €1.9bn); and (3) the downside to 2010 consensus earnings estimates. Despite these challenges, Vestas remains well positioned to benefit strongly from the next US cycle, which should become visible in H1 10. We think Vestas is the best pick to play the expected increase in order momentum in early 2010. FCF should turn positive again as capex will likely be down y/y and the swing in NWC should already be concluded in 2009. The release of 2010 targets and the potential profit warning on 27 October might be a good entry point. We raise our PT by 5% to DKr410 (from DKr390), which is the average of UBS VCAM (DKr452) and the 20x sector average PE 2010E (DKr370).

Chart 3: Vestas revenues, order intake and backlog trend



Source: Vestas, UBS estimates

Gamesa (Upgrade to Buy, PT €17)

Gamesa enjoys visible volume growth in 2010/11, thanks to its multi-year contracts with utility partners, which do not suffer from financing constraints. Through its relationship with IBE R (30% of sales UBSe), Gamesa has exposure to the US market, which looks set to grow from H2 10. The multi-year contracts should limit the downside to ASP and gross margins. We do not expect substantial adjustments to these contracts, as prices are already attractive from the customers' perspective. Also, Gamesa has tight cost control and flexible capacity management, which should facilitate EBIT margin growth. We raise our PT by 17% to €17 (from €14.5), the average of UBS VCAM (€18.6) and the increased 20x sector average PE 2010E (€15.7), including the discontinued wind farm profits.

Energias de Portugal (Buy, Dec-10 PT €3.6ps)

Our top wind developer is EDP (parent company): Wind activities account for one-third of our sum-of-the-parts value, while the rest of the business is predominantly regulated. If we valued EDP ex wind at a mere 8x PE 2009E, we would be left with a value for the wind activities of €1.13m/MW, below replacement cost. The stock is set to grow book value by 60% to 2015, on our estimates. Currently, EDP trades on a mere 12.5x 2010E PE, which falls to 8.3x if subsidiary EDPR is excluded. We reiterate our Buy rating with a €3.6 price target, which we derive from a SOTP model.

China High Speed Transmission (Buy, PT HK$22.3)

We believe China High Speed Transmission (CHST) could expand its market share in China from the current 50% to over 80% in the next three years, taking market share from both domestic and international wind gearbox manufacturers. CHST's average wind gearbox price is 30% below the prices of international peers due to its competitive cost structure and strong pricing power. CHST is our top pick in the China wind equipment sector.

Risk overview

Table 4: Upside and downside risks for the wind power sector

	Upside risks	Downside risks
Equipment manufacturers	Quick pick-up in turbine orders	US market does not pick up as expected
	Further regulatory stimulus in the US, Europe	Ongoing tight project financing markets
	Increase in oil/gas price	Reduced government incentives in key markets
Wind farm developers/operators	Quick recovery of wholesale power prices	Ongoing tight project financing markets
	Further drop in wind turbine prices	Slow execution of project pipeline
	Rapid normalisation of credit markets	Reduced government incentives in key markets

Source: UBS

Forthcoming industry catalysts

- For all wind power stocks, the UN Climate Change Conference in Copenhagen (7-18 December 2009) should boost sentiment.
- For the wind equipment stocks, the long-awaited pick-up in new orders in H1 10 should drive the shares. Also, we expect the end of the consensus downgrade cycle in Q4 09.
- For the wind operator stocks, we see two main positive catalysts. First, the US legislation should clarify longer-term production targets (RPS); this will be a key driver for capacity growth and revenues per unit. Second, most operators have yet to contract turbines for 2011-12. We would expect several contracts to be announced in the next 2-3 quarters. Prices for turbines could be a mild positive. On the negative side, though, we do not think the downward earnings estimate revisions have stopped, and we would expect a continuation throughout 2010.

Valuation

Relative value analysis

Substantial multiple expansion ytd

We run two peer groups for (1) wind equipment manufacturers, and (2) wind farm developers/operators. It can be seen that developers trade on higher earnings multiples, which we think is only partially justified given the time lag in earnings during a period of high capacity growth. Overall, there has been significant multiple expansion year to date, as earnings estimates have continued to go down while share prices have picked up sharply from their lows. Besides the overall market performance, this can be attributed to regulatory support and increased medium-term expectations for the US wind market.

Equipment suppliers trade on lower multiples

We think further short-term multiple expansion based on 2009/10 estimates is unlikely, but wind equipment suppliers in particular should benefit from strong earnings momentum in 2011. Looking 12 months ahead, the current 2011E PE ratios of substantially below 20x are likely to be considered attractive by the market, as the growth story should gain further momentum. Therefore, we believe wind equipment stocks should perform well during H1 10.

Table 5: Relative value analysis – wind equipment manufacturers

	EV/Sales			EV/EBITDA			EV/EBIT			PE			P/B			EV/IC		
	'09	'10	'11	'09	'10	'11	'09	'10	'11	'09	'10	'11	'09	'10	'11	'09	'10	'11
China High Speed	3.3x	2.4x	2.0x	14.4x	10.6x	9.0x	17.8x	13.2x	11.3x	21.6x	16.1x	13.9x	4.2x	3.5x	3.0x	4.6x	3.8x	3.3x
Clipper	0.4x	0.4x	0.41x		7.3x	6.5x		10.5x	6.6x		13.3x	6.4x						
Gamesa	0.9x	0.9x	0.7x	9.6x	9.1x	6.4x	13.5x	12.3x	8.4x	22.7x	19.7x	13.6x	2.1x	2.7x	2.2x	1.9x	2.0x	2.3x
Hansen Transm.	1.6x	1.4x	1.1x	16.7x	10.3x	8.2x	24.5x	17.8x	13.4x	33.8x	25.6x	17.9x	2.4x	1.4x	1.3x	2.8x	1.4x	1.3x
Nordex	0.6x	0.6x	0.5x	13.1x	11.4x	8.0x	19.5x	16.8x	11.2x	34.3x	25.7x	16.9x	2.3x	2.1x	1.9x	2.6x	2.2x	2.0x
REpower		0.6x	0.5x		9.9x	6.6x		11.9x	8.1x		19.7x	13.5x		2.2x	1.9x			
Suzlon Energy	1.1x	1.1x	0.9x	12.2x	11.5x	8.6x	16.1x	16.4x	11.8x	35.6x	22.6x	11.8x	2.8x	1.5x	1.3x	2.0x	1.2x	1.1x
Vestas	1.3x	1.2x	0.9x	10.0x	8.6x	6.8x	13.0x	12.3x	9.2x	17.7x	17.3x	13.2x	2.6x	2.4x	2.1x	3.4x	2.6x	2.3x
Xinjiang Goldwind	3.2x	2.6x	2.4x	17.8x	14.1x	10.5x	20.3x	17.2x	12.8x	26.6x	21.9x	18.3x	7.7x	6.1x	4.9x	14.1x	10.7x	9.2x
Average	1.6x	1.2x	1.0x	13.4x	10.3x	7.8x	17.8x	14.3x	10.3x	27.5x	20.2x	13.9x	3.4x	2.7x	2.3x	4.5x	3.4x	3.1x
Median	1.2x	1.1x	0.9x	13.1x	10.3x	8.0x	17.8x	13.2x	11.2x	26.6x	19.7x	13.6x	2.6x	2.3x	2.0x	2.8x	2.2x	2.3x

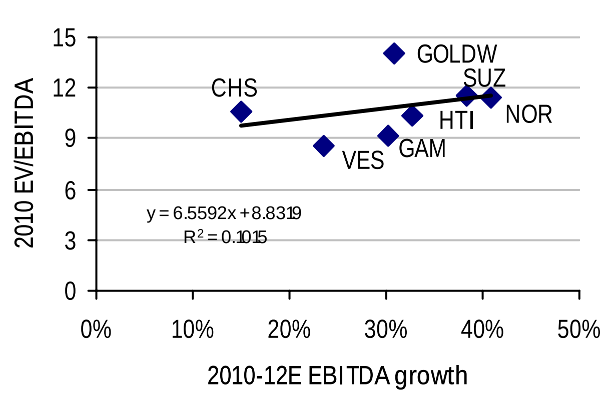
Source: UBS estimates

Table 6: Relative value analysis – wind farm developers/operators

	EV/Sales			EV/EBITDA			EV/EBIT			PE			P/B			EV/IC		
	'09	'10	'11	'09	'10	'11	'09	'10	'11	'09	'10	'11	'09	'10	'11	'09	'10	'11
EDF EN	4.5x	4.5x	4.4x	14.9x	11.8x	10.6x	21.1x	17.5x	15.9x	31.0x	25.4x	20.4x	2.2x	2.0x	1.9x	2x	1x	1x
EDP Renov.	12.6x	10.9x	9.5x	16.3x	13.9x	11.8x	32.4x	27.9x	22.5x	44.2x	38.5x	29.0x	1.3x	1.2x	1.2x	1.1x	1.1x	1.0x
FPL Group	2.3x	2.3x	2.2x	8.4x	7.8x	7.1x	12.9x	11.8x	10.8x	12.8x	11.6x	10.9x	1.7x	1.5x	1.3x	1.3x	1.2x	1.1x
Iberdrola Renov.	8.2x	7.4x	7.0x	14.5x	12.0x	10.9x	27.2x	21.6x	20.2x	36.7x	29.0x	27.2x	1.2x	1.2x	1.1x	1.0x	1.0x	1.0x
Infigen Energy	6.5x	6.3x	6.0x	7.6x	9.5x	8.9x	17.1x	23.4x	23.5x	17.0x	65.7x	59.0x	1.0x	1.4x	1.4x	0.6x	0.7x	0.7x
PNE Wind	1.5x	1.7x		21.3x	12.4x		29.8x	13.4x		28.1x	6.3x	4.3x	1.4x	1.2x				
Terna Energy	8.0x	7.8x	7.1x	16.6x	14.0x	11.2x	20.3x	17.4x	14.2x	26.3x	20.5x	13.4x	1.5x	1.1x	0.8x	1.7x	1.2x	1.0x
Theolia	2.0x	1.8x	0.6x	10.1x	7.1x	2.3x	23.4x	14.5x	4.2x			14.3x	.9x	.8x	1.3x			
Average	5.7x	5.3x	5.2x	13.7x	11.1x	9.0x	23.0x	18.4x	15.9x	28.0x	29.1x	21.9x	1.3x	1.3x	1.2x	1.2x	1.1x	1.0x
Median	5.5x	5.4x	6.0x	14.7x	11.9x	10.6x	22.2x	17.4x	15.9x	28.1x	27.2x	18.4x	1.3x	1.2x	1.3x	1.2x	1.1x	1.0x

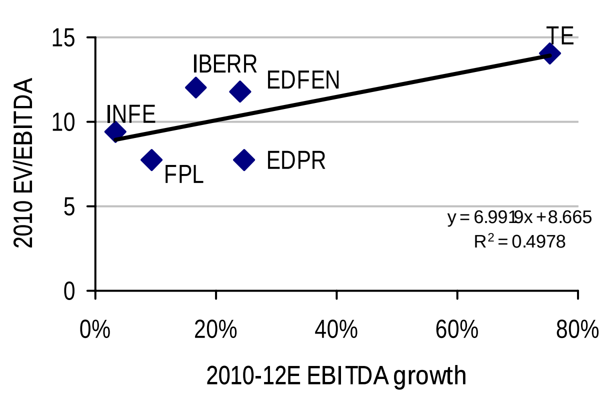
Source: UBS estimates

Chart 4: 2010 EV/EBITDA (x) vs 2010-12E EBITDA growth–manufacturers



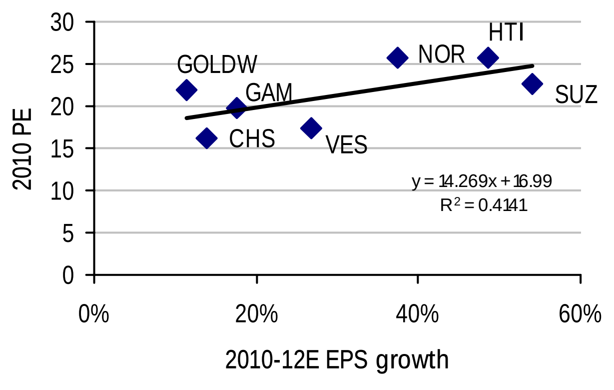
Source: UBS estimates

Chart 5: EV/EBITDA (x) 2010 vs EBITDA growth 2010/11E–operators



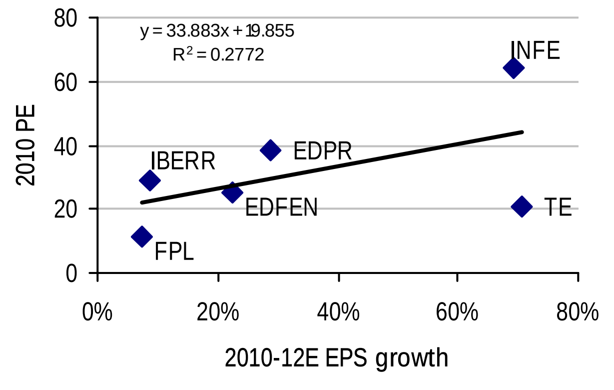
Source: UBS estimates

Chart 6: 2010E PE (x) vs 2010-12E EPS growth - manufacturers



Source: UBS estimates

Chart 7: PE 2010E vs EPS growth 2010/11E - operators



Source: UBS estimates

UBS VCAM analysis of equipment producers

The following table shows the implied long-term assumptions for sales growth and EBIT margins based on the current share prices. We use the UBS VCAM Goal Seeker, which incorporates our detailed forecasts for the years 2009-11. For the value creation horizon thereafter (12 years for European stocks, 17 years for Chinese stocks), the model produces the implied sales growth and EBIT margins, all else being constant, at today's share prices. For our Buy-rated stocks, it can be seen that our explicit forecasts for the next fives years are more aggressive than what is discounted in today's share prices.

Table 7: UBS VCAM – what is discounted in today's share prices versus UBSe?

	Implied LT sales growth	UBSe 2009-13E	Implied LT EBIT margin	UBSe 2009-13E
Vestas	2.2%	15.0%	6.4%	10.1%
Gamesa	4.7%	13.5%	5.7%	7.6%
Nordex	8.3%	14.6%	5.0%	4.1%
Hansen Transmissions	5.7%	17.3%	14.2%	11.6%
Suzlon	17.7%	15.6%	10.7%	8.0%
China High Speed	8.6%	20.7%	14.8%	17.7%
Dongfang Electric	7.8%	9.9%	5.8%	4.7%
Xinjiang Goldwind	3.8%	11.7%	14.9%	17.5%

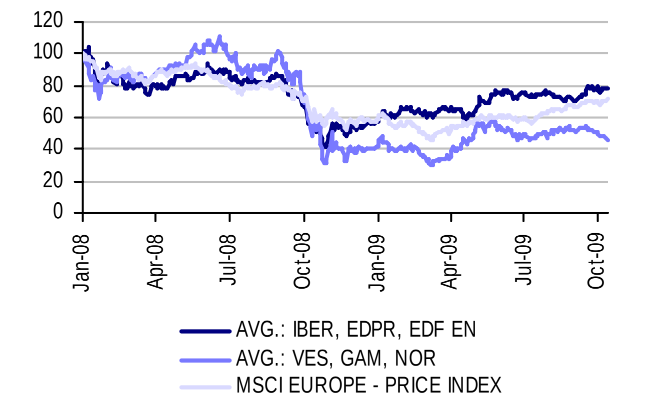
Source: UBS VCAM

Share performance and earnings momentum

The stocks of European wind turbine manufacturers started to underperform in Q3 08, when the impact of the crisis on the sector became visible. There was a period of strong share performance in March/April 2009, when the silver lining on the project financing horizon began to shine. The performance was also driven by bullish comments from market leader Vestas regarding new big-ticket US orders, which have not materialised yet, though. The underperformance over the summer suggests that too bullish expectations on a short-term pick-up of new turbine orders should have been adjusted by now. This is why we think that, despite our view that new order momentum will not accelerate not before H1 10, the short-term downside risk is limited. Also, we think the negative trend in consensus EPS should trough in Q4 09, which suggests that a good entry point is just ahead.

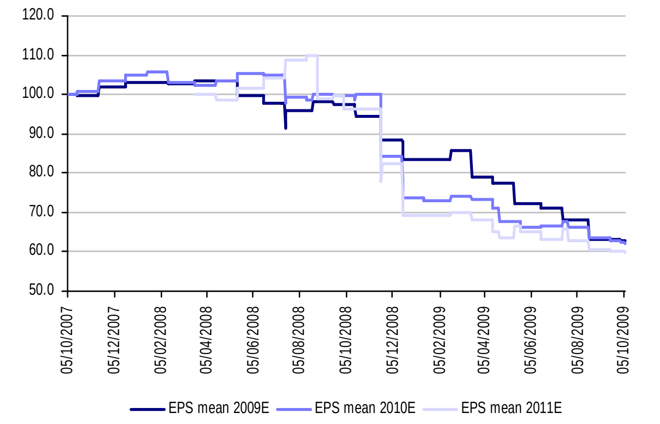
Underperformance of European suppliers should come to an end

Chart 8: Turbine manufacturers have underperformed since Sep-08



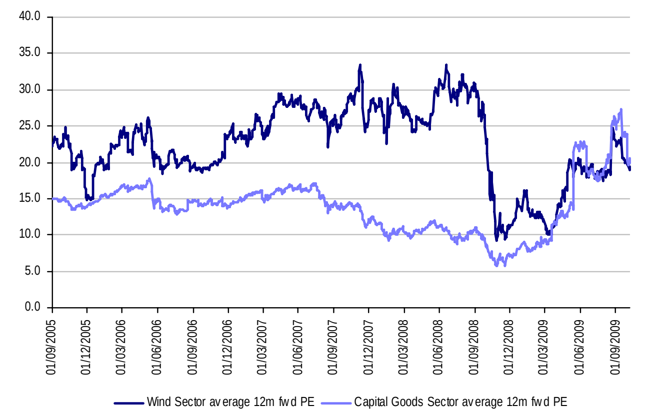
Source: Thomson Financial Datastream (Jan 2008=100)

Chart 9: Consensus EPS for turbine manufacturers still declining



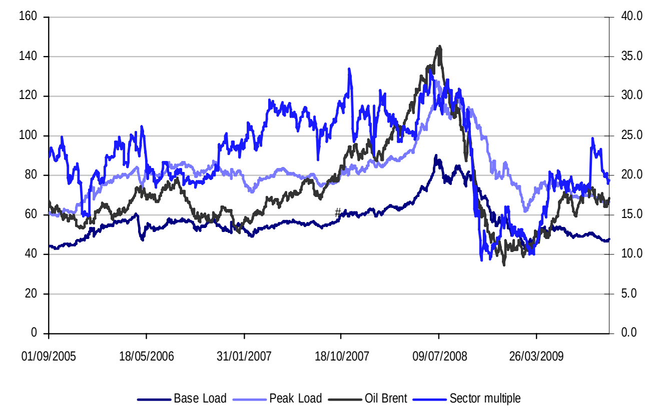
Source: Thomson Financial Datastream (Oct 2007 = 100)

Chart 10: No premium for wind manufacturers vs capital goods



Source: Thomson Financial Datastream

Chart 11: Power prices at 2006/07 level, but PE multiple not yet

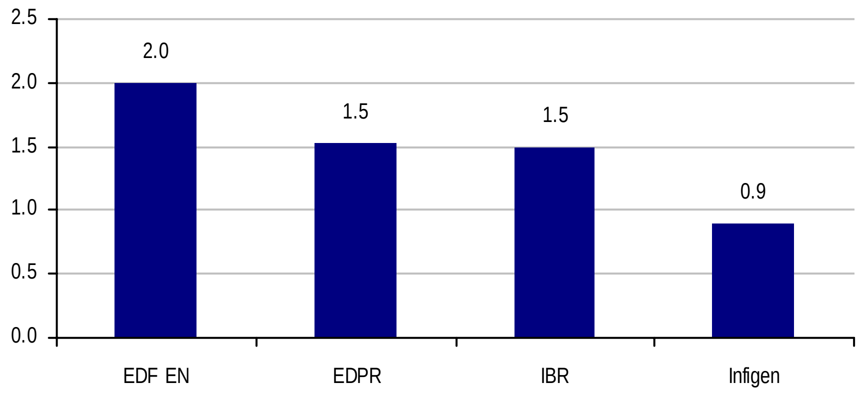


Source: Reuters, Thomson Financial Datastream
Note: Sector multiple is 12m PE for turbine manufacturers (RHS)

Operators: Strong re-rating, despite double-digit earnings estimate cuts

Wind operators have outperformed turbine suppliers substantially ytd. Currently, they are trading at a 2010E EV/MW multiple of about €1.5m/MW. This is a 25% premium to replacement cost, and suggests that these stocks already discount a large part of their forecast growth.

Chart 12: Key wind operators trade at 25% above replacement cost (2010E EV/MW, €m)



Source: UBS estimates

The share price development of the two main wind farm operators in Europe, Iberdrola Renovables and EDP Renováveis, has been negatively correlated with consensus earnings revisions.

UBS wind power market model

How the model works

IRR-WACC spread determines growth in each country

With this Q-Series® report, we introduce our proprietary UBS wind power market model. Its goal is to predict the annual new installations of wind turbines by country, measured in MW, for the next 10 years. The annual new installations drive the incremental value creation of the wind farm operators (utilities) and determine the possible sale of new wind turbines.

The key determinant of future new installations is the achievable spread of

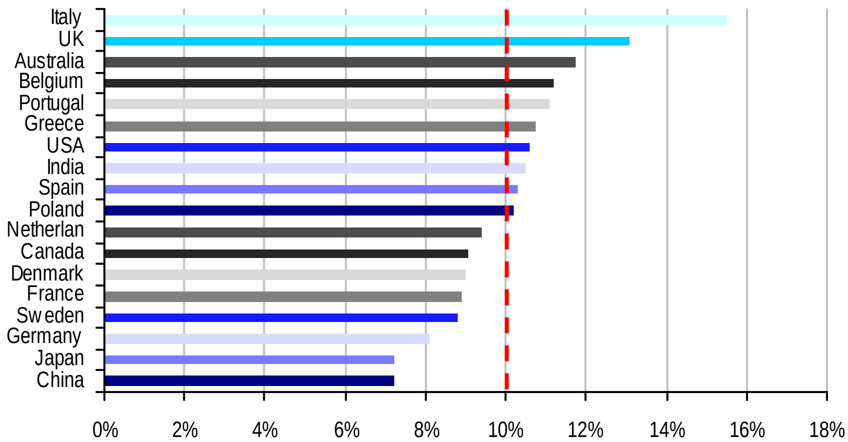
IRR (on the project, after tax) over WACC.

IRR drivers are wind electricity selling prices, capex/MW and O&M cost

We think this is fairly intuitive, as there will only be investments in new wind farms if there is economic profit to achieve. The larger the spread, the higher the growth rate in annual new installations should be, assuming there are no regulatory restrictions, such as caps imposed by governments. The key input factors for our country-by-country model are:

- **Wind electricity selling prices:** This is typically either a pre-determined feed-in tariff or a long-term purchase price agreement plus government incentives.
- **Investment cost per MW:** Wind turbine capex data is based on our KGI, the wind turbine price/MW, plus shipment and installation costs.
- **O&M costs:** O&M costs vary by country and are typically correlated with labour costs. Over the life cycle of a wind farm, O&M costs account for c40% of total costs.
- **Country-specific WACC:** Cost of capital data is drawn from UBS VCAM for each country. We apply a long-term average risk-free rate. The average WACC is around 7%.

Chart 13: Project IRR (post tax, pre interest) 2009E



Source: UBS Wind Power Market Model

We apply the following growth assumptions for new installations, depending on the IRR-WACC spread in each year. For the years 2009 and 2010, we assume the spread needs to be 150bp higher than usual, in order to reflect the current constraints in the project financing market.

Table 8: Annual new installations only grow if there is a positive IRR-WACC spread

Growth of new additions	-40%	-30%	-20%	-10%	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
IRR-WACC 2009/10E	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
IRR-WACC 2011E+	-2.0%	-1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%

Source: UBS Wind Power Market Model.
Note: Growth of new additions refers to y/y growth of annual installations.

Global market forecast, 2009-13E

Pick-up in the course of 2010, strongest momentum in 2011E

US is key swing factor for 2010 growth; we expect 33GW global additions (+15% y/y)

Given regulatory support and healthy IRR-WACC spreads, we think the US will be the key swing factor for global new installations in 2010. We forecast new installations of 33.3GW next year, implying 15% growth y/y. It is noteworthy that despite the credit crunch, we believe 2009 installations should grow 3% y/y to 29.1GW, thanks to spill-over effects in the US and ongoing strong installation activity in China. On an ex-China basis, new installations should be down 8% y/y in 2009 and up 16% y/y in 2010.

2010 will be very back-end loaded, due to the low 2009 backlog; order intake 2009 ytd is down 50% y/y

According to our estimates, the equipment makers' order intake was down c50% y/y for the first nine months 2009. As several key players do not disclose order intake in detail, we have to estimate the industry average. Even though we expect a pick-up in the new order run-rate in H1 10, the turbine makers will enter 2010 with a fairly low order backlog, which covers c30% of the of 2010E consensus revenues. Hence, a sharp pick-up of new orders is required to achieve y/y growth in new additions. We are confident to see that pick-up in the course of H1 10, since most of the large wind farm developers have not yet secured enough turbines to meet their 2010 installation targets.

2011 installations should grow 15% y/y (19% ex China) in a normalising financing environment

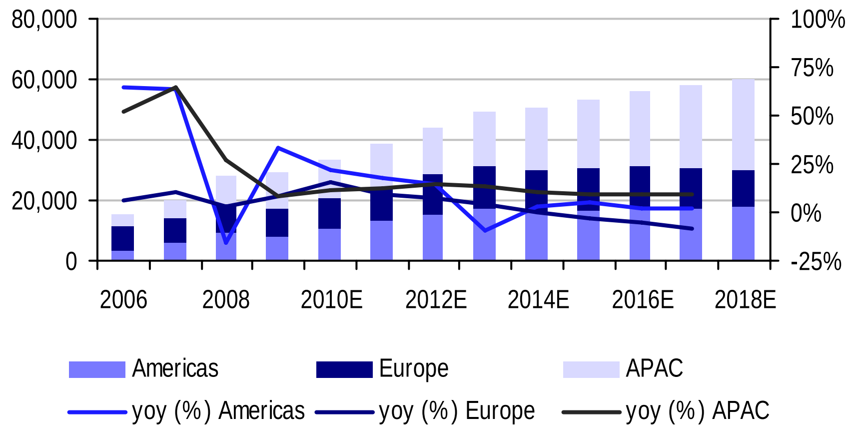
We expect 2011 to be a strong year for many markets, as it should be the first full year in a more or less normalised financing environment. We forecast 38.6GW new installations (+16% y/y, +20% ex China). The US should be the key growth market, driven by the cash grant deadline at year-end 2011. We assume that the majority of the key markets should experience growth, as projects that are currently put on hold should be reactivated. We expect growth in Chinese annual installations to stall due to the high number of wind farms on the ground that are not (yet) grid connected. In absolute terms, China and the US will race for the world's largest national market. In 2009, China should be the world's largest market for the first time.

Growth momentum should decelerate starting 2012

Momentum in new additions should decelerate, but installed base keeps growing at double-digit rates

From 2012 onwards, we expect annual growth in new installations to decline, as we expect the growth momentum in China and the US to decrease, while the large European markets (Spain, Germany, France, Italy and the UK) should enter the stage of 'maturity'. We flag that *cumulative* installations should keep growing >10% per annum, but the momentum in additions is likely to slow, even though it should remain well above non-renewable electricity sources. This is also related to the base effect (i.e., wind becoming a significant part of the total power mix). Even with slowing growth in new additions, wind power should have the highest share of power generation capacity additions in Europe and the US. Hence, we expect the wind share in total electricity generation to continue growing at 10-20% per year. We think repowering, i.e., the replacement of old wind turbines, will not become a significant market until 2017. Out of the 151GW installed, only 8GW were installed before 1997.

Chart 14: Annual new installations by region (MW) and y/y growth (%)



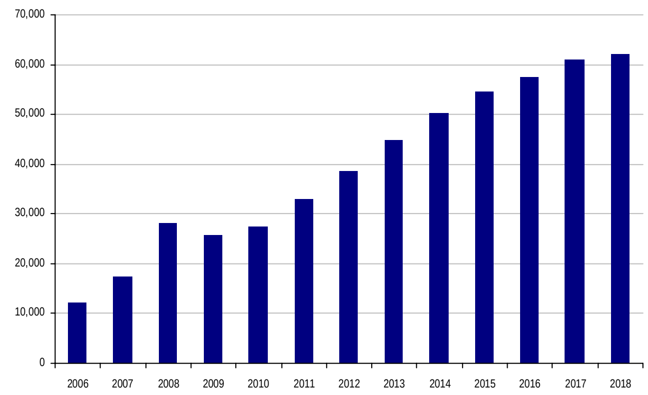
Source: UBS wind power market model

The revenue opportunity for wind turbine manufacturers

Turbine revenue pool should double to €50bn until 2014

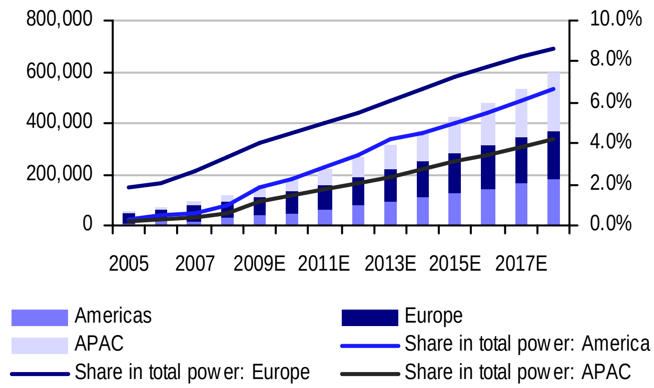
Assuming the globally weighted ASP of a wind turbine is €0.89m (US$1.4m)/MW in 2009, the total revenues pool in the wind turbine market is €25.5bn (US$38bn). As we forecast an ASP decline per MW in 2010, the revenue pool should grow by only 6% next year, which is below the projected 14% growth in MW installed. It should double to €50bn until 2014.

Chart 15: Wind equipment revenue opportunity (€m)



Source: UBS Wind Power Market Model

Chart 16: Cumulative capacity (MW) and share in electricity



Source: UBS Wind Power Market Model

Table 9: New wind additions in key markets (MW), 2006-18E

	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
USA	2,454	5,244	8,358	6,686	9,361	11,233	12,918	14,210	11,368	11,368	11,368	11,368	11,368
Canada	776	386	526	789	907	1,134	1,418	1,701	1,800	1,800	2,070	2,381	2,738
Belgium	26	75	88	92	102	122	140	161	177	186	186	168	151
Denmark	12	8	71	75	86	107	134	161	185	203	214	214	192
France	810	888	1,200	1,320	1,452	1,597	1,757	1,845	1,845	1,845	1,660	1,494	1,195
Germany	2,233	1,667	1,665	1,665	1,748	2,010	2,212	2,322	2,438	2,438	2,194	1,975	1,580
Greece	173	125	115	138	179	251	339	441	441	397	357	321	289
Ireland	250	59	208	208	208	208	208	208	208	208	208	208	208
Italy	417	603	1,010	1,212	1,212	1,212	1,212	1,212	1,212	1,212	1,212	1,212	1,212
Netherlands	356	210	499	250	299	374	449	516	568	597	597	537	429
Poland	69	143	160	216	313	470	681	954	954	954	954	954	954
Portugal	694	434	679	543	570	599	599	599	599	599	569	540	513
Spain	1,587	3,100	1,739	1,652	1,817	1,908	1,908	1,717	1,546	1,391	1,252	1,127	1,014
Sweden	62	217	236	236	260	312	358	394	414	414	372	335	268
UK	634	427	869	1,304	1,564	2,033	2,033	2,033	2,033	2,033	2,033	2,033	2,033
Australia	88	176	615	769	615	707	955	1,289	1,676	2,178	2,723	3,404	4,084
China	1,334	3,287	6,246	8,974	10,000	10,714	11,429	12,143	12,143	12,143	12,143	12,143	12,143
India	1,840	1,617	1,810	1,448	1,520	1,901	2,281	2,851	3,563	4,276	5,131	6,158	7,389
Japan	260	229	356	374	411	514	617	740	888	1,021	1,175	1,351	1,486
Total	14,076	18,895	26,450	27,950	32,626	37,408	41,648	45,498	44,058	45,264	46,419	47,922	49,248
Total ex China	12,742	15,608	20,204	18,976	22,626	26,693	30,219	33,355	31,915	33,120	34,275	35,779	37,105

Source: UBS estimates, EWEA, GWEC

US market
Accelerating and profitable growth

There remains room to grow, despite the hurried pace of renewable deployment in the past decade

Capacity growth to accelerate in the next three years. The recent political push should lead to a bounce in US wind additions. We expect growth to accelerate during 2010-12, with annual additions of 9-13GW per year versus c7GW in 2009E. This would imply a CAGR of 25% in annual new additions when compared with 2009 and, should be supported by the effects of the US Treasury stimulus (i.e., cash grants) and a normalising credit market. Beyond 2013, network bottlenecks and a maturing market should imply stable annual additions. The share of wind power in total electricity generation should grow from 25% in 2009, to 5% in 2013, and then again to 8% by 2020.

Project IRRs at c10%; end game may be fully regulated rate-base returns. In 2008, more than 40% of wind additions had some merchant exposure. We expect this to quickly decline as we would expect a large predominance of regulated PPA (power purchasing agreement) contracts. Currently, PPA prices average US$60-65/MWh and imply project IRRs of c10%. Longer term, a fully regulated return on assets could be the end game, as this would reduce the risk profile of investments and the cost of funding. Lower risks should also translate in lower returns, which could settle at about 8-9%, on a project, unlevered basis.

Legislation remains supportive. Although the initial excitement has cooled, the political support for wind activities is still very strong. The introduction of cash grants should cover 30% of investments, which should stimulate the activity level from H1 10. We think a federal renewable portfolio standard (RPS) is likely to be set at 12% for 2020 (adjusted for energy efficiency). The expected final passage should remove uncertainty for wind electricity buyers under PPAs, in particular for those in states without state-level RPS. This would require a target wind capacity of c150GW, on our calculations.

We continue to anticipate sizeable growth

We forecast a 15% drop in annual wind additions in 2009, followed by a 40% jump in 2010 as states ramp up again on achieving RPS goals

Following extensive discussions with wind developers, industry experts and turbine manufacturers, we anticipate annual capacity additions to accelerate during 2010-13, and peak at +14GW in 2013. This compares with less than 7GW added in 2009.The table below summarises our forecasts and compares them with the proposed federal RPS targets and overall electricity generation.

Table 10: UBS, EIA and SNL forecasts of additional wind generation

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
UBS estimates													
Cumulative Capacity (MW)	25,237	31,923	41,283	52,516	65,433	79,642	91,010	102,377	113,744	125,111	136,479	147,846	159,213
Annual Capacity Additions		6,686	9,360	11,232	12,917	14,209	11,367	11,367	11,367	11,367	11,367	11,367	11,367
% Change in Annual Capacity Additions		-20%	40%	20%	15%	10%	-20%	0%	0%	0%	0%	0%	0%
SNL estimates (only announced projects)													
Cumulative Capacity (MW)	25,805	39,157	58,154	76,621	87,031	91,319	98,818	100,192					
Annual Capacity Additions		13,352	18,997	18,467	10,411	4,288	7,499	1,374					
US Aggregate Data (2008)													
Total Capacity (GW)	1,001	1,099	1,111	1,121	1,127	1,160	1,195	1,215	1,237	1,262	1,291	1,319	1,346
Total Generation (Mn MWh)	3,948	3,750	4,217	4,250	4,283	4,315	4,348	4,381	4,414	4,447	4,479	4,512	4,618
Wind Generation (Mn MWh)	43	78	101	129	160	195	223	251	279	307	335	363	391
Wind Fleet-wide Avg. Capacity Factor	28%												
Implied % of Total (UBS est.) - EIA Generation													
Wind Generation as % of US Total	1.08%	2.09%	2.40%	3.03%	3.75%	4.53%	5.13%	5.73%	6.32%	6.90%	7.47%	8.04%	8.46%
Wind Capacity as % of US Total	2.52%	2.90%	3.72%	4.69%	5.81%	6.87%	7.61%	8.42%	9.19%	9.91%	10.57%	11.21%	11.83%
HR 2454 RPS Targets					6%	6%	10%	10%	13%	13%	17%	17%	20%
With Efficiency @ 40%					3.6%	3.6%	5.7%	5.7%	7.8%	7.8%	9.9%	9.9%	12.0%
Overall % of RPS assumed met with wind					104%	126%	90%	101%	81%	88%	75%	81%	70%

Source: SNL, EIA, and UBS estimates

Legislative update – political support remains strong

Although some grey areas remain, we would stress two milestones that have already been approved and implemented.

- **Cash grants** of $1bn have been approved and started to be allocated to wind operators during Q3 09.
- **PTC and ITC** benefits have been extended for five years until 2012

American Recovery and Reinvestment Act

ARRA bill extended US wind ITC/PTC subsidies through 2012

ARRA is an act converted into law on 17 February 2009, and is part of a broader US stimulus package introduced to reinvigorate the economy. The package extended the PTC and ITC benefits until 2012. As part of the act, the US government introduced 'loan guarantees': these are amounts set aside by the US government as a 'default protection guarantee' to stimulate lending from the banks. This is basically a fund that would cover defaults of wind operators up to US$4bn, although this is still a work in progress.

Waxman-Markey Renewable Energy Standards

Final RPS not to be set until H1 10

The Waxman-Markey bill (HR 2454), passed by Congress on 26 June, incorporates a Renewable Energy Standard, which mandates specific percentages of qualified load from utilities serving more than 4TWh to be sourced from either renewable resources or through energy efficiency measures. The bill is likely to be modified further as it moves through the Senate and through a reconciliation committee with passage not expected until 1H 10 at the earliest. There remains an outside possibility that an independent renewable energy standard bill could be passed independently of HR 2454, including a carbon cap-and-trade programme, accelerating the potential for a bill to be signed into law soon.

Table 11:How the Waxman-Markey RPS compares with UBS's installations forecast

	2012	2013	2014	2015	2016	2017	2018	2019	2020
HR 2454 RPS Targets	6%	6%	10%	10%	13%	13%	17%	17%	20%
With efficiency at 40%	4%	4%	6%	6%	8%	8%	10%	10%	12%
% of RPS assumed met with wind	104%	126%	90%	101%	81%	88%	75%	81%	70%

Source: HR 2454, UBS estimates

Even though the federal RPS will not accelerate new additions in the medium term, it should remove the uncertainty for buyers of renewable electricity under PPA contracts. Currently, some buyers are reluctant to lock in 10-20 year PPAs due to limited visibility. Hence, the final passage should be a catalyst for new wind farm projects.

Cash grants to improve structuring of project financing

Cash grants should facilitate new capacity additions starting H2 2010

The DOE/Treasury cash grants should facilitate the financing of new projects. In the first two rounds, US$1.0bn were granted to developers. Even though grants are only paid to projects that are already on the ground, the money should free up cash and facilitate the development of new, additional wind farms. Since we expect financing and turbine sourcing agreements to be closed in H1 10, we anticipate strong installation activity from H2 10. We believe the target budget of US$3.0bn will be used up already in H1 10, but given that it should not be considered a hard cap, we believe the government will not cut off the pipeline of applications. US$1bn of additional grants should facilitate US$3bn of total investments, which is equivalent to 2GW of new capacity. Given the end-2010 deadline for the initiation of new projects under the cash grant scheme, we expect 2011 to be an even stronger year for turbine shipments/installations.

Table 12: Cash grants awarded to wind farm developers ($m)

Company	Grant amount
Iberdrola Renovables	286.3
EDP	47.7
E.ON AG	121.9
Bull Creek Wind	91.4
Barton Windpower	93.4
Barton Chapel Wind	72.6
First Wind Holdings	74.7
EverPower Renewables	42.2
Total	830.2

Source: CITC

Returns to remain at c10% in the coming years

The introduction of cash grants (ITCs) complements – and to a large extent replaces – the fiscal credit scheme of PTCs. Cash grants imply that the US Treasury will cover 30% of wind investments. This should circumvent the recent credit constraints and support the development of wind farms, especially from foreign utilities.

We believe there is a substantial opportunity in rate-base renewable growth, in addition to the traditional IPP PPA model

In 2008, some 40% of wind additions had some exposure to merchant power prices. With commodities falling and the risk appetite of lenders shrinking, we expect most developers to adopt PPA agreements (power purchase agreements). Currently, PPA revenues on new projects are around US$60/MWh, on our estimates. This still leads to project IRRs of c10%. Longer term, we think the end game will envisage fully regulated returns under a rate-base scheme. This would lower the risk profile of such activities and should therefore also imply a reduction in returns to 8-9%.

Table 13: Typical US DCF model

	2009	2010	2011	…	2028	Salvage
Capacity (MW)	100	100	100	…	100	
Investment costs ($/kW)	1,802	1,802	1,802	…	1,802	
Investment costs (€/kW)	1,260	1,260	1,260	…	1,260	
Depr life (years)	20	20	20	…	20	
Load factor (%)	34.0%	34.0%	34.0%	…	34.0%	
O&M costs ($m / MW)	0.053	0.054	0.055	…	0.077	
O&M costs (€m / MW)	0.037	0.037	0.038	…	0.054	
USD / Eur	1.43	1.43	1.43	…	1.43	
PPA price ($/MWh)	60.0	61.2	62.4	…	87.4	
PTC ($/MWh)	20.0	20.4	20.8	…	-	
Regulated Price (€/MWh)	55.9	57.1	58.2	…	61.1	
(€m)						
PPA Revs	12	13	13	…	18	
PTC revs	4	4	4	…	-	
Revenues	**17**	**17**	**17**	**…**	**18**	
O&M	4	4	4	…	5	
EBITDA	**13**	**13**	**14**	**…**	**13**	
Depr.	6	6	6	…	6	
EBIT	**7**	**7**	**7**	**…**	**7**	
IRR (post-tax, pre interest)	**10.6%**					
EV / kW	**1,560**					

Source: UBS estimates

Status quo – from boom to bust and *vice versa*

Despite of a host of issues that the wind sector has been facing in 2009, we continue to believe that the US is positioned to continue to aggressively build out wind power. In recent years, the industry has experienced staggering growth (see table below) as states have continued to enact RPS (renewable portfolio standards) targets and investor-owned utilities have begun to develop wind organically. The intermittent growth seen in recent years is a reflection of the regulatory uncertainties regarding fiscal tax credits, known as PTCs (production tax credits).

Regulation changes make capacity additions very volatile

Regionally, most of the developments are concentrated in Texas and on the West Coast. We expect an increase in investments in the Midwest/Heartland region.

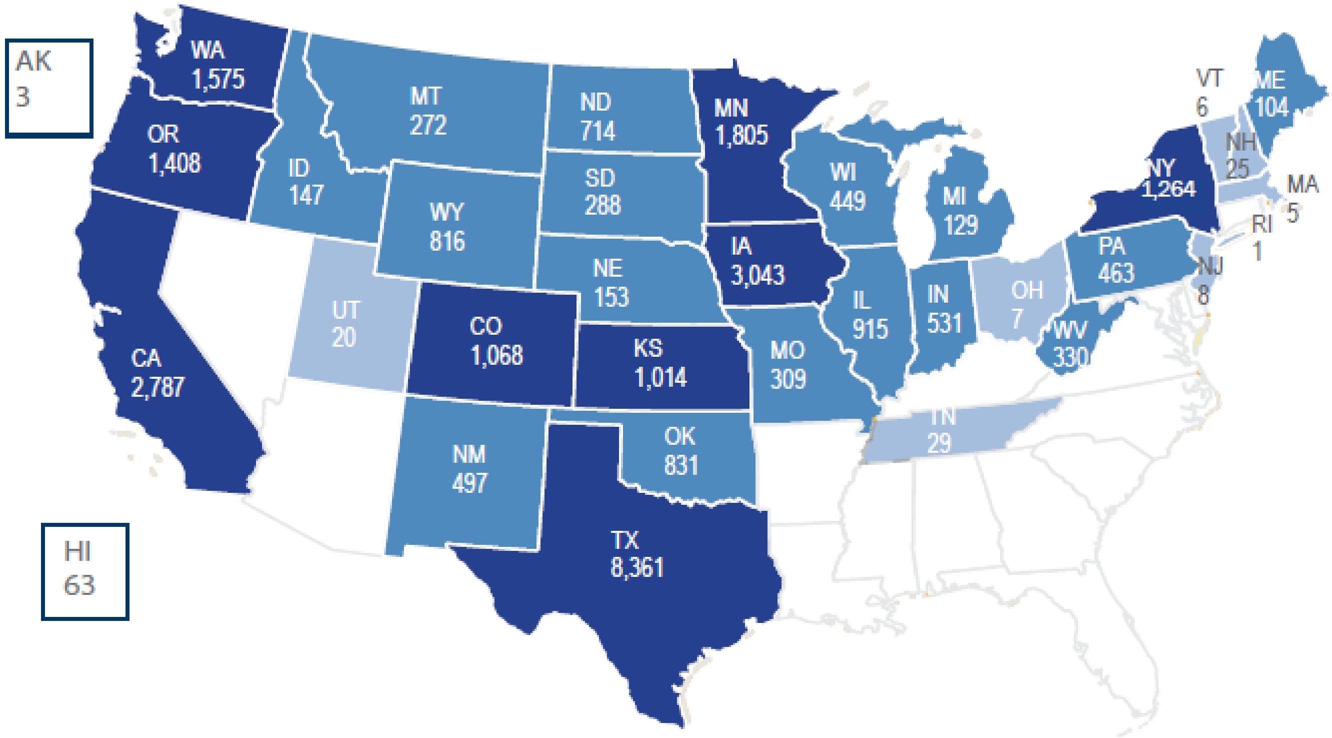
We expect incremental build to be focused on the Midwest/Heartland region

Table 14: US wind capacity and generation, 1995 – Q2 09

	Cumulative capacity (MW)	Additions (MW)	%Change	Generation (MWh)	% Change
Q2 09	29,440	1,210	0	NM	NM
Q1 09	28,229	2,860	0	NM	NM
2008	25,369	8,546	1	42,772,855	0
2007	16,823	5,248	0	34,437,176	0
2006	11,575	2,426	0	26,589,146	1
2005	9,149	2,420	0	17,410,465	0
2004	6,729	372	0	13,366,494	0
2003	6,357	1,672	0	9,465,537	0
2002	4,685	412	0	10,483,761	1
2001	4,273	1,694	1	6,086,106	0
2000	2,579	67	0	5,289,654	0
1999	2,512	659	0	4,309,350	1
1998	1,853	142	0	2,877,422	NM
1997	1,711	8	0	NM	NM
1996	1,703	NM	0	NM	NM
1995	1,703	NM	NM	NM	NM

Source: AWEA, SNL

Figure 1: Current wind capacity (MW) by state

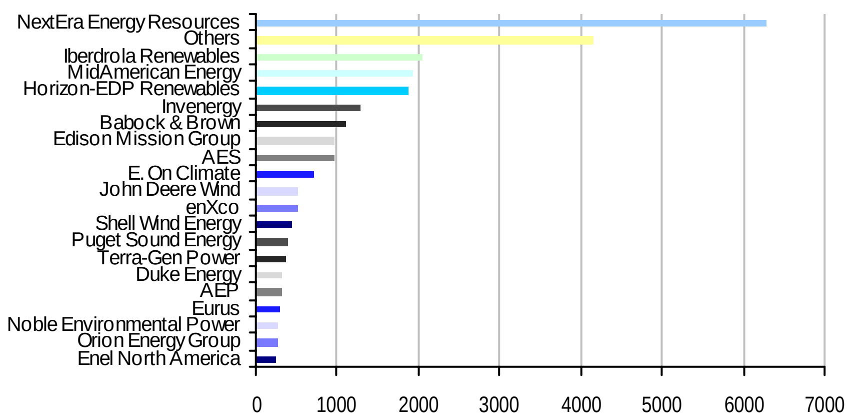


Source: AWEA (2nd Quarter 2009 Market Report)

Sector remains concentrated among a few larger players

The US wind industry remains relatively concentrated among a few larger developers, of which NextEra Energy Resources (subsidiary of FPL Group) remains the clear leader. We have provided a summary of the current industry participants in Chart 17. For the coming 3-5 years, we expect large utilities to dominate the scene, as smaller IPPs could continue to struggle to raise funding.

Chart 17: Top 20 wind owners, by capacity (MW)



Source: AWEA

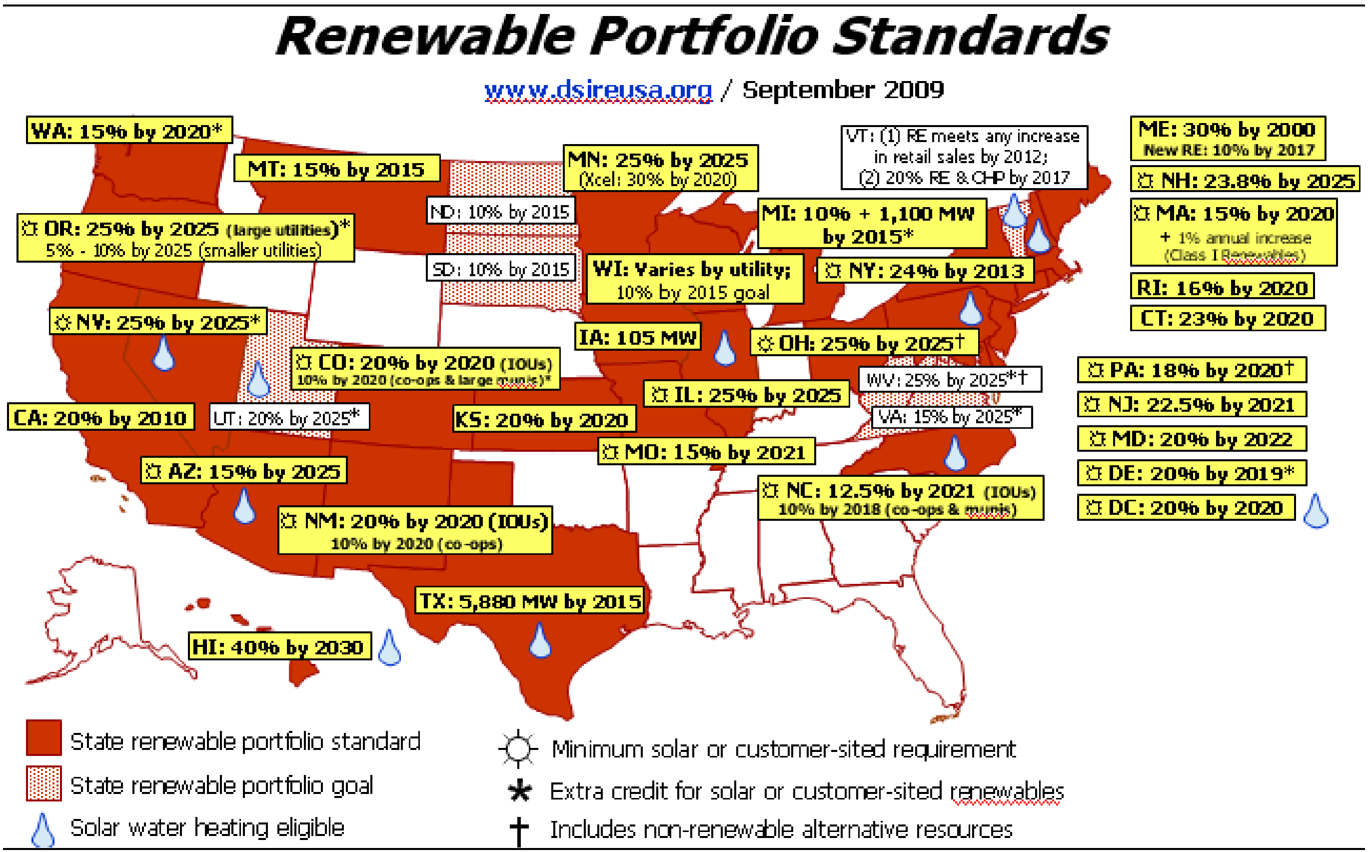
State RPS provide platform for growth

State RPS targets are the reason behind large scale renewable deployment

Renewable portfolio standards (RPS) set the amount of renewable output that local utilities have to supply to their customers. RPS are the main driver behind wind capacity additions and, in turn, of unit revenues. As more states introduce renewable targets, the size of the wind industry is set to continue to grow. We believe RPS will be primarily met from wind, because other alternatives, such as solar (both thermal and PV) remain relatively unattractive economically.

Although a final decision may not be made before H1 10, we would expect a federal RPS at 12% by 2020 (ex energy efficiency). Assuming wind will contribute 8%, this would imply a total output of 391TWh from wind activities, or a capacity installed of 150GW, versus 25GW at end-2008.

Figure 2: Renewable portfolio standards (RPS) by state



Source: DSIRE (DOE), North Carolina Solar Center

ITC available to utilities now; long-term renewal of PTC

Utilities can now apply for ITCs; the US government extended the life of ITC/PTCs by 5 years for wind projects

A key lever to improve the economics for both the merchant and PPA scenarios developed involves the benefit of either the federal production or investment tax credits (PTC or ITC), respectively. Utilities and developers alike can elect to use either a federal PTC, which is a cUS$20/MWh tax credit, or the ITC, which effectively ascribes a 30% upfront tax credit on projects. In the US government's stimulus package earlier this year, ITC credits were formally extended to utilities, as well as extending the life of PTCs for five-years (to 2012). Such an extended time horizon should support longer-term investment decisions by wind developers.

Merchant wind economics

According to Lawrence Berkley National Laboratory, c23% of wind power capacity operates with some degree of merchant exposure and 43% of capacity additions in 2008 had merchant exposure. Given the new commodity scenario and the reduced risk appetite from banks, we think merchant projects will reduce significantly.

Furthermore, returns from merchant investments have clearly underperformed PPA-based returns. Indeed, using several nodes around the US, we calculate current IRRs on purely merchant facilities are likely in the 4.5-5.5% range. In the following table we summarize typical returns in the Northern Illinois region.

Table 15: UBS wind project economics model – Northern Illinois Hub Merchant Pricing

	2010	2011	2012	2013
Northern Illinois - Offpeak ($/MWh)	24.6	24.8	25.8	27.8
REC ($/MWh)	5	5	5	5
PTC ($/MWh)	20	20.4	20.8	21.2
EV ($)/kW				1,702
IRR(post tax, pre interest)				5%

Source: Platts, UBS estimates

PPA-based projects

UBS model links PPA prices to IRRs

The vast majority of wind projects to date have been developed through PPA ‘take-or-pay’ agreements between utilities and third-party developers. We have denoted that most PPA contracts are set at a price per MWh that allows achieved IRRs of c10% for wind developers. The Lawrence Berkeley National Laboratory maintains a database of PPA prices for publicly disclosed wind projects, from which a summary is provided in Table 16. Over the past few years, publicly disclosed PPA prices for wind projects have demonstrated a clear upward trend, likely in tandem with rising costs of turbines and more stringent RPS.

Table 16: Average PPA price for those projects publicly-disclosed

Year	1998-99	2000-01	2002-03	2004-05	2006	2007	2008
Projects Encompassed	14	20	28	23	13	22	25
Total MW	624	805	1,648	1,331	757	2,938	1,769
Capacity-Weighted Avg. Price (2008 $/MWh)	$34.20	$34.86	$30.85	$32.10	$47.65	$43.17	$51.51

Source: Lawrence Berkley National Laboratory Wind Project Database

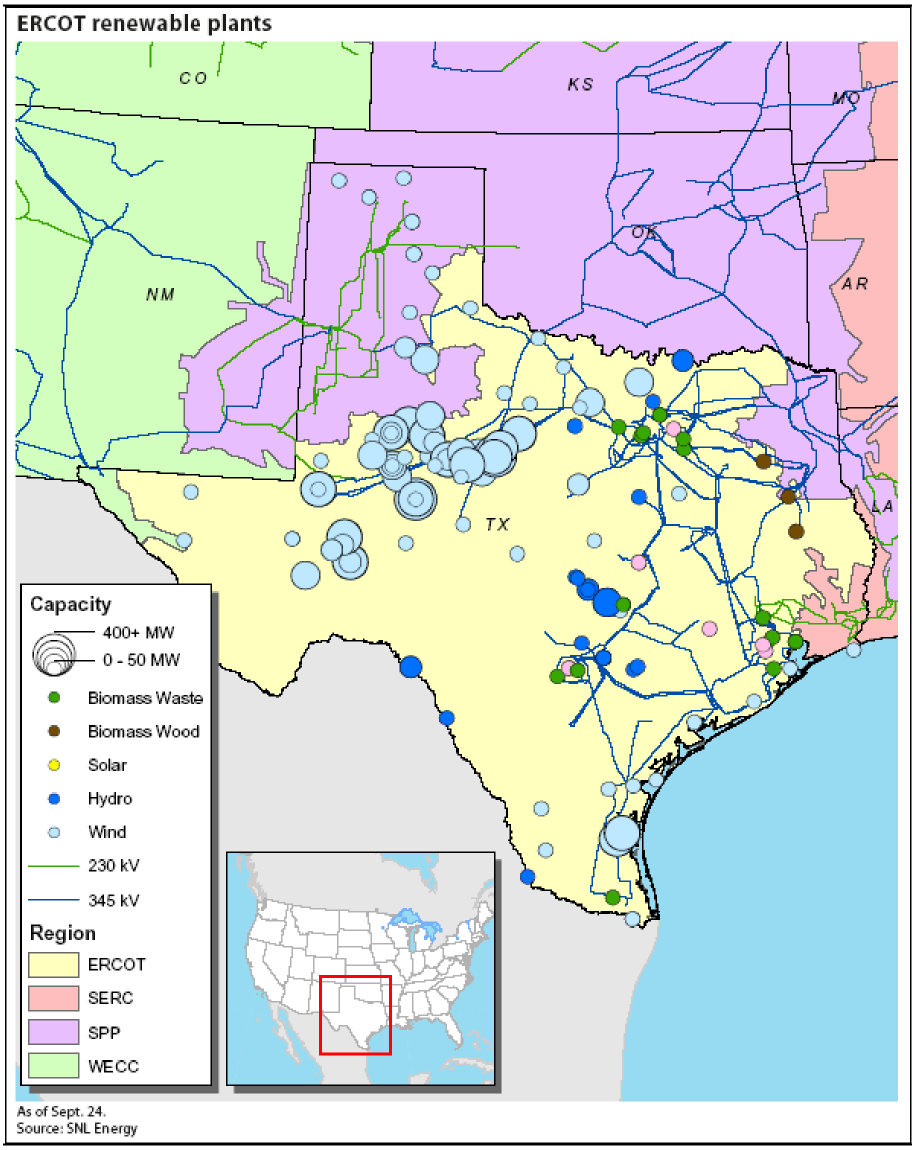
Transmission constraints and wind concentration

A key medium-term bottleneck that should not be under-estimated

One grey area in the US growth story relates to the adequacy of the transmission network to cope with booming wind capacity additions. Without a proper development of the power grid, we would expect network failures, possibly on a five-year horizon. Indeed, the unpredictability of wind and its large volatility require a strong and capillary network.

As demonstrated in Texas, where wind resources remain relatively clustered geographically, sudden unpredicted shifts can cause near power outages as system operators struggle to replace wind power. To compensate for these added costs, we have heard in industry discussions of the potential to have wind developers pay additional fees to compensate for the added stress it places on overall grid resources. In the longer term, we believe the inherent flexibility of gas-fired generation should further bolster the move towards gas generation across the US.

Figure 3: Renewable projects in Texas, illustrating geographic concentration



Source: SNL Energy

A central limiting issue to the further deployment of wind in the US relates to the transmission bottleneck in the grid. AWEA estimates there is up to 300GW of proposed wind that has yet to be developed. The primary issue with large interconnection queues seems to relate to the relatively low costs of entry to apply for permits. This has caused filings for "placeholder" projects that do not even exist on the drawing board yet. The industry has been responding gradually and has, of late, been implementing more stringent filing requirements. Further brewing issues include citing issues, given the numerous regulatory approvals required, and the ultimate cost allocation of transmission projects.

300GW interconnection queue is not a reliable indicator for future installations

With customer bills having steadily increased over the past decade, regulators are loathe to take on further increases in rates, for which customers may ultimately not see any immediate benefit. Currently, the cost of incremental transmission to interconnect renewables is generally spread across regional transmission operators (RTO), which results in widespread cost dispersion across the country. As the renewable development has become more of a reality, so has the criticism of the fairness of this widespread cost allocation mechanism. In particular, eastern states (from Maine to the south) have voiced opposition. Resolution of the topic may help push along transmission development. The cost of developing a new transmission system is considerable, as demonstrated in the table below. We have heard from industry contacts that the Corker amendment to the latest Senate energy bill remains particularly contentious, with Senator Bingaman adding language to the bill providing for high standards for FERC (Federal Energy Regulatory Commission) to prove to authorise widespread cost allocation.

Cost allocation has become an important issue

Table 17: Cost of new transmission

Voltage (kV)	Cost per Mile ($ Mn / mile)	Capacity (MW)
230	2.077	500
345	2.539	967
500	4.328	2,040
765	6.578	5,000

Source: Edison Foundation, AEP

China: High potential, but almost a closed shop for international suppliers

Overview

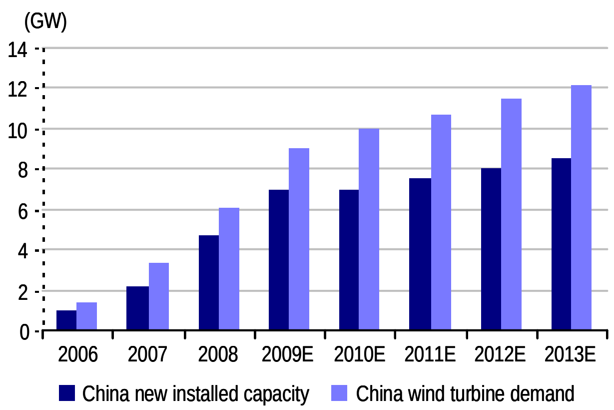
China's cumulative installed wind power capacity was 8.4GW in 2008 (7% of global installed capacity), generating 13,079GWh of electricity, or 0.4% of national power. UBS Asia utilities analyst Stephen Oldfield's report *Raise near-term demand growth forecast*, 8 September 2009, included our utilities team's forecasts for on-grid connected new wind capacity. Based on a 70% grid conversion rate, we calculate that around 9-12GW of incremental capacity will be installed every year in 2009-13E, a 24% CAGR, and that cumulative installed capacity will be 108GW by 2020E (grid-connected capacity only). We expect the rapid development to be largely driven by: (1) increasing concern over carbon emissions; (2) cost advantages over other types of renewable energy; (3) abundant wind resources at low utilisation rates; and (4) favourable policy support. Assuming Rmb5,500m/MW capacity, we estimate the annual market revenue for wind power equipment suppliers will reach Rmb38.5bn by 2020.

China wind power installed capacity to grow at 23% CAGR by 2020E, driven by environment concerns, cost advantages, unutilised wind resources and policy support

The Standing Committee of the 11th National People's Congress approved a draft climate change resolution on 28 August 2009. The resolution states that China will adhere to the basic framework set up in the UN's Framework Convention on Climate Change and the Kyoto Protocol. It underlines China's commitment to energy saving and emission reductions by promoting energy-efficient technologies and products, and exploiting renewable and 'clean' energy.

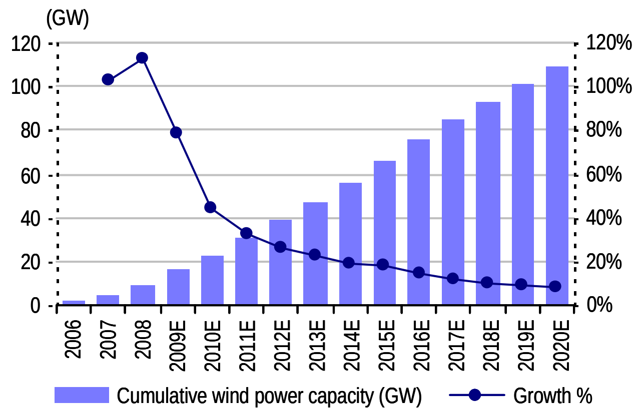
Recent climate change resolution underlines China's commitment to wind development

Chart 18: China new installed wind power capacity



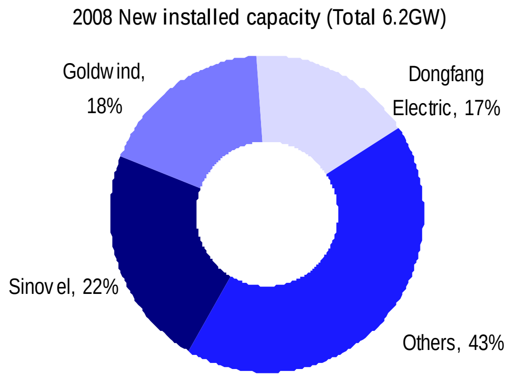
Source: China Electric Power Yearbook, UBS estimates

Chart 19: China cumulative wind power capacity



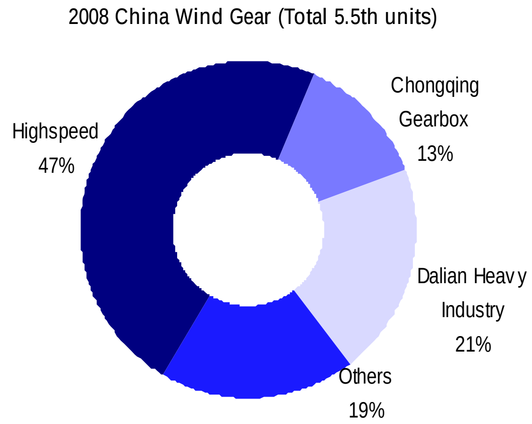
Source: China Electric Power Yearbook, UBS estimates (grid-connected)

Chart 20: Market share of key wind turbine manufacturers



Source: Company data, UBS estimates

Chart 21: Market share of key wind gear manufacturers

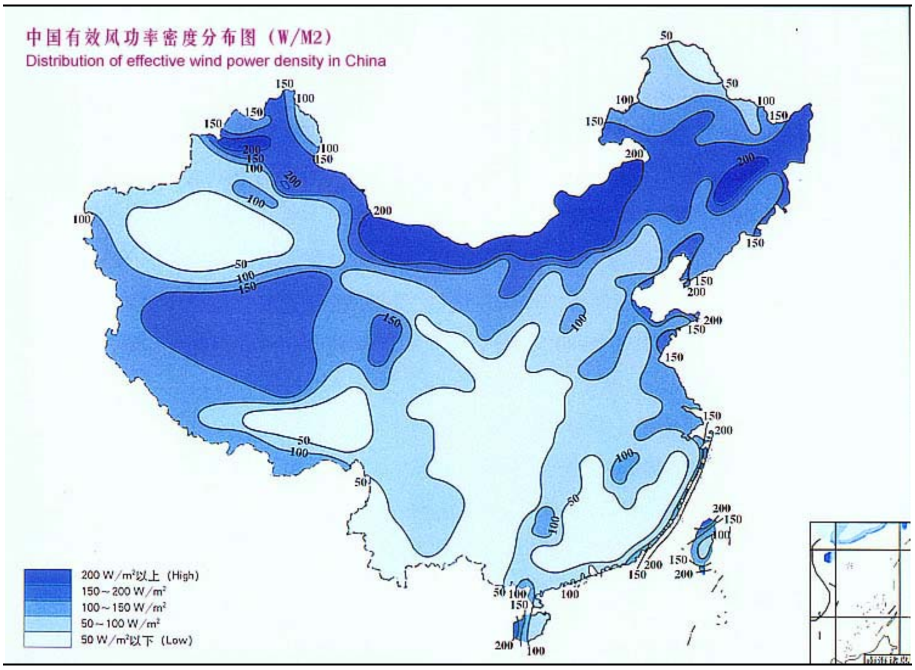


Source: Company data, UBS estimates

China has rich wind energy resources, with significant development potential. According to the National Meteorological Bureau's third general investigation on wind resources, at a height of 10 metres, the theoretically exploitable wind resource is 4,350GW, and the technically exploitable wind resource could be 297GW. The data suggests that, including the 750GW offshore wind resources, China's total exploitable wind resource could exceed 1,000GW. However, as at end-2008, the cumulative grid connected wind power capacity was just 8.4GW, representing a utilisation rate of just 1%.

China's utilisation rate below 1% suggests significant potential for the wind power sector

Figure 4: Distribution of effective wind power density in China



Source: National Meteorological Bureau

Regulation: Favourable, but becoming more restrictive

China has built up an effective legal framework and favourable policies to support wind power

In the past 10 years, China's government has played a pivotal role in boosting the development of the wind power industry. The introduction of the Renewable Energy Law in 2006 and its accompanying implementation regulations provided a legal framework and policy direction for the industry's development in China. Measures include concession programmes, pricing, a cost-sharing mechanism, mandatory grid connection/purchase, as well as the localisation of turbine contents, tax reduction, special funding and other incentives. We believe these measures will sustain accelerated wind power development in the long term.

Table 18: Key policies for wind power development

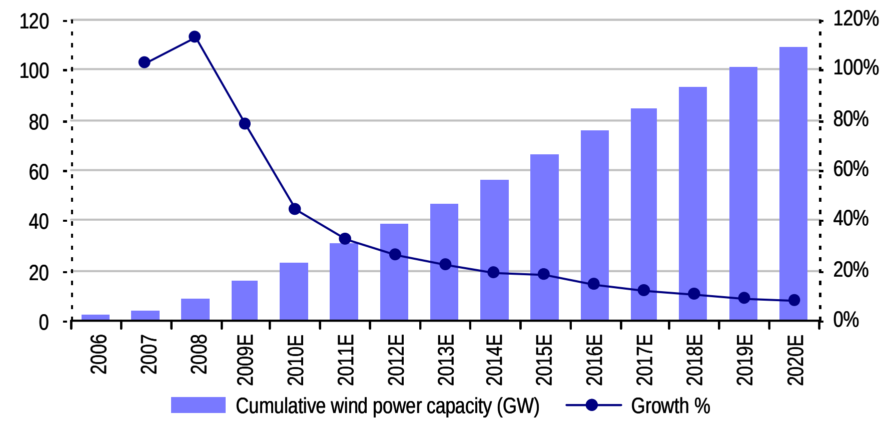
Subject	Authority	Name of policies	Year	Key points
Feed-in tariff	NDRC	Notice on Improving On-grid Tariff Policy of Wind Power	2009	Based on the wind resource and construction difficulty, the feed-in tariffs can be set at 0.51/0.54/0.58/0.61Rmb/KWh
Subsidy to manufacturers	NDRC	Provisional Management Method of Wind Generation Equipment Industrialisation	2008	The first 50 wind turbines of over 1MW produced by domestic brands (with over 51% Chinese investment) will be rewarded with a Rmb600/kW subsidy from the government
VAT reduction	MOF	Notice on Value-added Taxation of Comprehensive Utilisation of Resources and other Products	2008	Wind power generators receive an instant rebate (50% on VAT paid)
Import tariff	MOF	Notice on Adjustments of Import Tariffs for Large Wind Power Turbine, Key Components and Raw Materials	2008	Ended tariff exemptions for importing turbines less than 2.5MW, and began tariff rebates for importing key components and raw materials of wind turbines not less than 1.2MW
Energy mix standard	NDRC	Renewable Energy Mid- and Long-Term Development Plan	2007	Power generators' non-hydro renewable electricity production must account for 1% and 3% of their total electricity output by 2010 and 2020, respectively
Special fund	MOF	Provisional Management Method for Renewable Energy Development Special Fund	2006	Provides grants to research projects and subsidies covering interest on loans to eligible renewable energy development projects
Cost sharing	NDRC	Provisional Management Method of Allocation of Renewable Energy Tariff Premium Added	2007	Grid companies must pay wind power tariffs to wind farms. The difference between wind power tariffs and coal-fired electricity tariffs, collected and shared at a flat rate from each end customer, is paid twice a year to grid companies by the government.
	NDRC	Provisional Administrative Measures on Pricing and Cost sharing for Renewable energy Power Generation	2006	
	People's Congress	Renewable Energy Law	2006	
Mandatory grid connection and electricity purchase	NDRC	Management Method for Power Grid Enterprises' Purchasing of Renewable Energy Electricity	2007	Grid companies have obligations to build transmission lines to connect wind sites and purchase all the electricity generated from wind
	People's Congress	Renewable Energy Law	2005	
Localisation of turbine contents	NDRC	Notice on Wind Power Generation Facility Construction and Management Requirements	2005	70% of turbine components must be produced domestically
Proceeds from CDM	NDRC	Management Method of Clean Development Mechanism Program Operation	2005	Approved CDM carbon projects can sell emission reduction credits
Concession programme	State Council	State Council's Decision on Reform of Investment System	2004	For wind farms of over 50MW capacity, NDRC decides the turbine manufacturers and wind farm operators through bidding and rewards the concession programme.

Source: NDRC, MOF, State Council

We expect China to raise 2020 target for wind installed capacity to 100GW—a 23% CAGR

In 2007, the National Development and Reform Committee (NDRC) set targets of 5GW and 30GW cumulative installed wind power capacity by 2010 and 2020, respectively. In the light of the rapid increase in wind power demand, in March 2008, the NDRC increased the 2010 target to 10GW. However, 8.4GW cumulative capacity had been connected to grid by the end of 2008. We expect the NDRC to further raise the target to 100GW for 2020 when it releases the new energy stimulus plan in H2 09. In the above mentioned report, *Raise near-term demand growth forecast*, the UBS Asia utilities team forecast China's grid-connected wind power capacity to grow to 108GW in 2020, representing a 24% CAGR for 2008-20E.

Chart 22: China grid-connected wind power capacity



Source: China Electric Power Yearbook, UBS estimates

There is a variance between the data from the Chinese Wind Energy Association (CWEA) and the China Electricity Council (CEC). According to a clarification by the State Electricity Regulatory Commission (SERC), the CEC's announced installed capacity is smaller than that disclosed by the CWEA because off-grid capacity (20-30%) is not counted in CEC statistics. To avoid confusion, we define the CEC data as grid-connected capacity, and the CWEA data as installed capacity. We use the latter for China's wind turbine demand and expect a fall in the grid connection ratio due to grid constraints.

We use installed capacity instead of grid-connected capacity to calculate wind turbine demand

UBS forecast and regional development

Based on the UBS utilities team's forecasts for on grid-connected new capacity, assuming a grid connection ratio of 0.7, we calculate 9-12GW incremental capacity will be installed every year in 2009-13E, while the supply could expand faster and result in rising net exports.

We estimate 9-12GW of new installed capacity in 2009E-13E

Table 19: China's wind turbine market

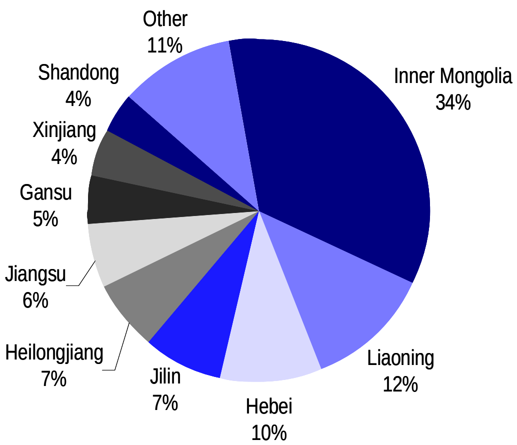
(MW)	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Global new installed capacity	15,127	19,776	27,261	30,812	38,000	41,200	48,200	56,300
Change, y/y		31%	38%	13%	23%	8%	17%	17%
China new grid-connected capacity	1,014	2,126	4,189	7,000	7,000	7,500	8,000	8,500
Change, y/y		110%	123%	48%	0%	7%	7%	6%
Grid connection ratio	0.76	0.63	0.78	0.78	0.70	0.70	0.70	0.70
China wind turbine demand	1,334	3,376	6,077	8,974	10,000	10,714	11,429	12,143
Change, y/y		153%	80%	48%	11%	7%	7%	6%
% of China in global	9%	17%	22%	29%	26%	26%	24%	22%
China wind turbine supply	1,334	3,389	6,245	9,319	10,915	11,892	12,476	13,162
Change, y/y		154%	84%	49%	17%	9%	5%	5%
Net exports		12	168	345	915	1,177	1,048	1,019

Source: WWEA, China Wind Energy Association, company data, UBS estimates

Wind farms are concentrated in wind-rich areas, such as north, northeastern, northwestern China and the southeastern coastal regions. In 2008, the installed capacity in Inner Mongolia exceeded 3,700MW, accounting for 34% of the total, followed by Liaoning, Hebei, Jilin, Heilongjiang, Jiangsu, Gansu and Xinjiang. The number of provinces with wind farms has increased to 25 in 2008 from 16 in 2006. We expect increased contributions from Xinjiang and Zhejiang in the near future.

Northern China has great potential for wind power development, and we expect increasing contributions from Xinjiang and Zhejiang in the near term

Chart 23: Regional distribution of new installed capacity 2008 (MW)



Source: China Renewable Energy Association

In 2008, the National Energy Bureau selected seven locations with the best wind resources as a blueprint for the build-up of 10GW wind farms in each selected province by 2020. It also outlined plans for 1GW-class wind farms.

Blueprint for exponential growth in wind farms

Table 20: China aims to build large-scale wind farms

Province	10GW-class wind farm base	1GW-class wind farm base
Gansu	Gansu 10GW class wind base	Jiuquan wind base
Inner Mongolia	Eastern Inner Mongolia 10GW class wind base	Siwangziqi 1GW wind base
		Baotou 1GW wind base
		Wutelaqi 1GW wind base
		Huitengxile 1GW wind base
	Western Inner Mongolia 10GW class wind base	Tongniao 1GW wind base
		Chifeng 1GW wind base
		Ximenghuitengliang 1GW wind base
Hebei	Hebei 10GW class wind base	Chengde 1GW wind base
		Zhangjiakou 1GW wind base
Xinjiang	Xinjiang 10GW class wind base	
Jiangsu	Jiangsu 10GW class wind base	
Jilin	Northeast 10GW class wind base	Baicheng 1GW wind base
Liaoning		Fuxin 1GW wind base

Source: National Energy Bureau

Local supplier base has expanded rapidly

In July 2008, Premier Wen Jiabao made his 'seven suggestions' speech on the wind power sector development. His main theme was caution on the over-expansion of wind power capacity, which he said should be compatible with grid capability. We view this as an implicit warning of potential oversupply.

China government warns of potential oversupply of wind power

In the past six months, nearly all of the leading wind turbine manufacturers - including foreign companies that have a presence in China - have announced capacity expansion plans. If all are realized, the total capacity should be more than double China's turbine demand for the next five years. We believe turbine oversupply has already emerged, which should lead to intensified competition and a utilisation rate below 50%.

Announced capacity expansion of wind turbine more than double the expected demand and lower than half the utilisation

Table 21: Capacity of wind turbine manufacturers

(MW)	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Sinovel	225	800	1,500	3,300	3,500	3,500	3,500	4,000
Goldwind	522	563	2,625	4,500	3,525	4,500	4,500	4,500
Dongfang Electric	1,200	1,200	1,200	3,000	3,000	3,000	3,000	3,000
XEMC	-	200	200	800	1,000	1,500	1,500	1,500
Windey	200	400	400	650	1,000	1,000	2,000	2,000
Shanghai Electric	-	100	200	719	1,438	2,438	2,550	2,550
Mingyang	-	2	200	1,000	1,800	1,800	1,800	2,000
Foreign and JV producers	1,170	2,700	2,800	3,100	3,300	3,500	3,500	3,500
Other domestic producers	316	707	1,902	3,259	3,879	3,952	3,949	3,947
Total	3,633	6,671	11,027	20,328	22,442	25,189	26,299	26,997
Change, y/y	*0*	*84%*	*65%*	*84%*	*10%*	*12%*	*4%*	*3%*

Source: Company data, UBS estimates

Table 22: Supply breakdown of wind turbine manufacturers

(MW)	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Sinovel	75	680	1,403	2,640	2,800	2,835	2,870	3,200
Goldwind	445	830	1,132	1,653	1,967	2,101	2,147	2,460
Dongfang Electric	9	222	1,053	1,580	2,106	2,369	2,633	2,633
XEMC	-	8	120	560	650	675	675	675
Windey	20	65	233	293	450	450	800	800
Shanghai Electric	-	23	179	450	791	1,219	1,148	1,148
Mingyang	-	2	174	500	720	720	720	800
Foreign and JV producers	706	1,348	1,381	1,180	1,102	1,186	1,178	1,170
Other domestic producers	79	212	571	464	330	336	306	277
Total	1,334	3,389	6,245	9,319	10,915	11,892	12,476	13,162
Change, y/y		*154%*	*84%*	*49%*	*17%*	*9%*	*5%*	*5%*

Source: Company data, UBS estimates

Project return and its key drivers

More efficient operations could improve the returns of wind farms and equipment manufacturers

We believe that China's wind market (wind farm operators and wind power equipment manufacturers) is still at an early stage of development, and that the government is encouraging and providing incentives to enterprises to help improve operational efficiency and returns.

Concession tendering to prevail

More than half of the new capacity construction and operation concessions awarded by tender

To reduce wind power generation costs, expand the scale of wind power production and develop domestic manufacturing, the NDRC began awarding concessions for wind power projects through a tender process in 2003. By June 2009, the NDRC had conducted six rounds of tendering for concession projects with a total bidding capacity of 11GW in 74 wind farms. This accounts for over 50% of new capacity. We expect this to continue to be the main way that wind farms are developed in China.

Table 23: Comparison between concession and non-concession projects

	Concession projects	Non-concession projects
Installed capacity	>50MW	<50MW
On-grid tariff	Bidding price for 30,000 full-load hours	NDRC approves a fixed price for 30,000 full-load hours
Operators	Selected through public tendering by NDRC	Operators can build and operate wind farms with local government permission
WTG suppliers	Selected through public tendering by NDRC	Selected by local government or operators
Preparation work	Conducted and co-ordinated by NDRC or its local branches	Conducted by operators or local government
Transmission line between wind farm and grid	Invested and constructed by power grid company	Invested and constructed by operators
Localisation rate of turbine contents	70%, assembled in China	70% after 2005
Government guarantee	The grid company must assign a power purchase agreement to the operator and purchase all the electricity generated by the wind projects; the local government is responsible for the construction of road access to the wind farms	No guarantee

Source: UBS
Note: WTG=Wind turbine generator

(1) Pricing of on-grid tariff

The on-grid tariff of electricity generated from wind farms is critical to the IRR of concession projects, thus affecting the pricing of wind power equipment. The trend of on-grid tariff pricing has evolved from being one of free competition to being government controlled.

(2) Government preset the on-grid tariff to avoid excessive price competition

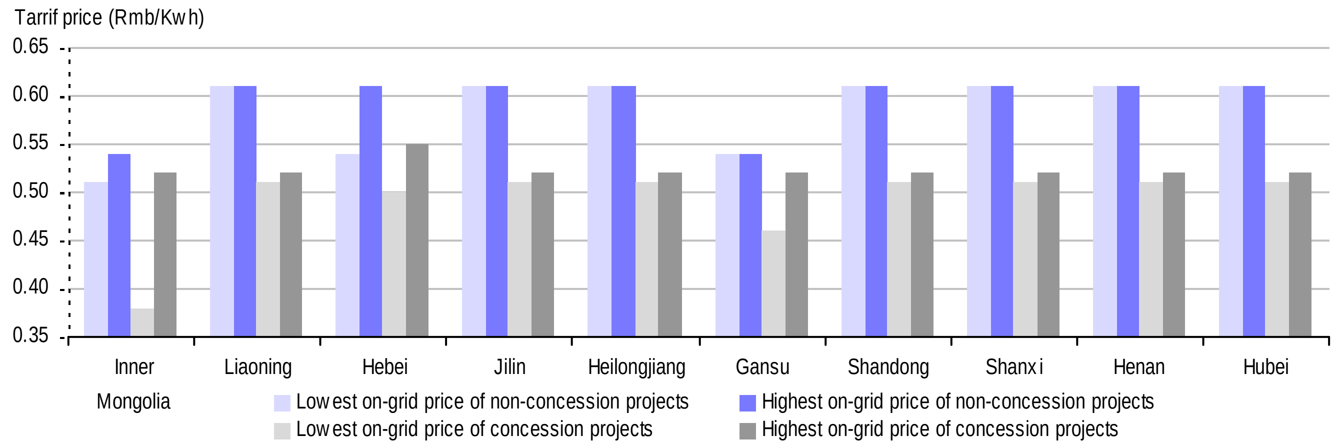
In July 2009, the NDRC put into operation the Notice on Improving On-grid Tariff Policy of Wind Power. This introduced four benchmark on-grid tariff levels according to wind resources and construction conditions, and stipulated that onshore wind projects built after 1 August 2009 should adopt the local benchmark tariff. We believe this milestone could effectively constrain excessive price competition, and ensure reasonable returns for wind farms and wind power equipment manufacturers.

Table 24: Evolution of wind power pricing mechanism

Stage	Pricing mechanism	Content of pricing mechanism	Example
1990-1998	Pricing by one-on-one negotiation	When the wind farm was funded by foreign grants, the price paid was only to cover the maintenance cost	Dabancheng wind farm – price was less than Rmb0.3/KWh, almost the same as that for thermal power
1998-2003	Government approved price	The price was approved by local government and then reported to central government. Prices varied across regions	Zhangbei wind farm – price was low at thermal power price; Kuocangshan wind farm – price was high at Rmb1.2/KWh
2003-2005	Accepted bidding price, or government approved price	The price of wind farms with capacity less than 50MW was approved by local government, larger scale was decided by concession tendering	Huitengxile wind farm – bidding price was Rmb0.382/KWh; Bayin Xile wind farm – approved price was Rmb0.51/KWh
2006-July 2009	Bidding price approved by government	Price is determined by tendering and then approved by the government	Beiqinghe wind farm – price was Rmb0.5216/KWh
Aug 2009-	Fixed price pre-set by government	Based on wind resource and construction costs, prices should be in line with benchmark feed-in wind tariffs set by the NDRC	NA

Source: China Wind Power Report 2007, NDRC

Chart 24: Comparison of on-grid tariff between concession projects and non-concession projects



Source: China Wind Power Report 2008, NDRC

Wind farm costs and returns

Wind farm costs to decrease and IRR could improve from current 7%

Based on data from the China Wind Energy Association, we estimate a wind farm's initial investment costs (wind turbine and installation) will average Rmb9m/MW in 2009, around 70% of which is the wind turbine cost. The cash cost of operation and maintenance (O&M) is around Rmb150k/MW per year. Assuming a tariff of Rmb0.56/Kwh, utilisation of 2,000 hours, and a WACC of 6%, we estimate the current IRR of a wind farm project to be around 7%, excluding returns from CDM income. We believe the IRR should improve alongside the decline in turbine costs.

Table 25: Investment returns of China wind farms

Capacity (MW)	50
Investment costs incl. VAT (Rmb m/MW)	9.00
Plant life (years)	20.00
Load factor - base case	23%
O&M costs (Rmb m /MW)	0.15
Total investment (Rmb m)	450.00
Production (MWh)	100,740
Final price (Rmb/MWh)	560.00
IRR (post tax, pre interest)	7.0%
Discount rate (WACC)	6%
EV/ MW	14.38

Source: UBS estimates

Pricing, costs and margins of turbine manufacturers

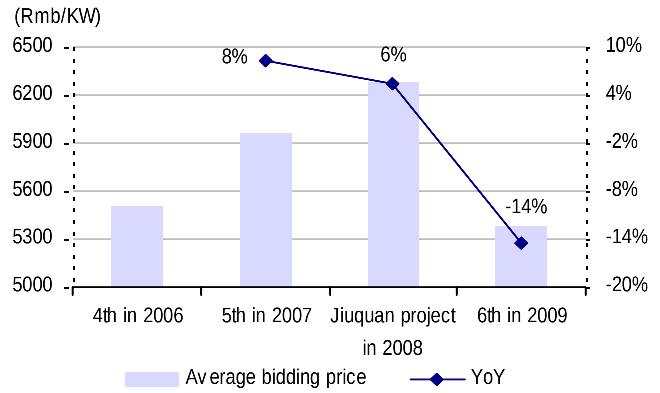
Wind turbine pricing could face a further 5% decline

Domestic turbine prices increased about 8% per year from 2006 to 2008, but declined 14% during the recent concession tendering process. We attribute this to intensified competition and cheaper raw materials. We believe turbine prices still face around 5% downside risk in China, due to the likely further intensification of competition and raw material cost declines in the near future.

Price gap between domestic and overseas manufacturers to narrow

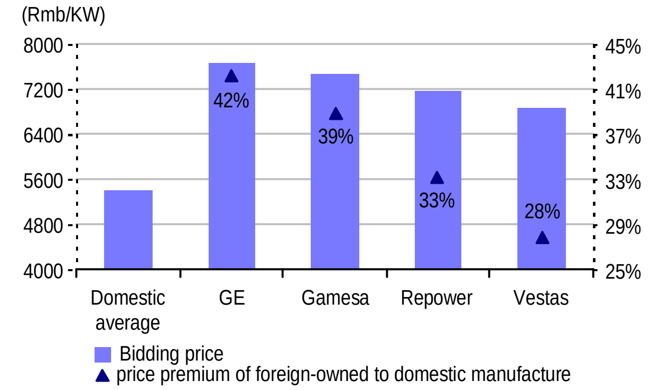
Foreign turbine prices were 30-40% higher than those produced by domestic manufacturers in the sixth round of concession projects, because foreign manufacturers procured a large proportion of components from their supply chains outside China. We expect the price gap to narrow in next three years as more components are likely to be procured in China.

Chart 25: Average quotation of WTG in concession projects



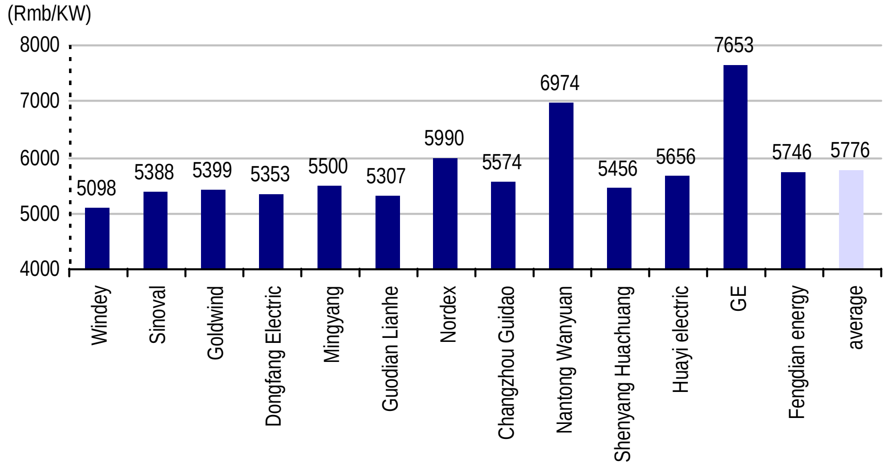
Source: UBS

Chart 26: Price comparison of domestic and foreign turbines



Source: UBS

Chart 27: Turbine prices in sixth concession tendering in 2009



Source: Company data, UBS estimates

Challenging market for foreign manufacturers

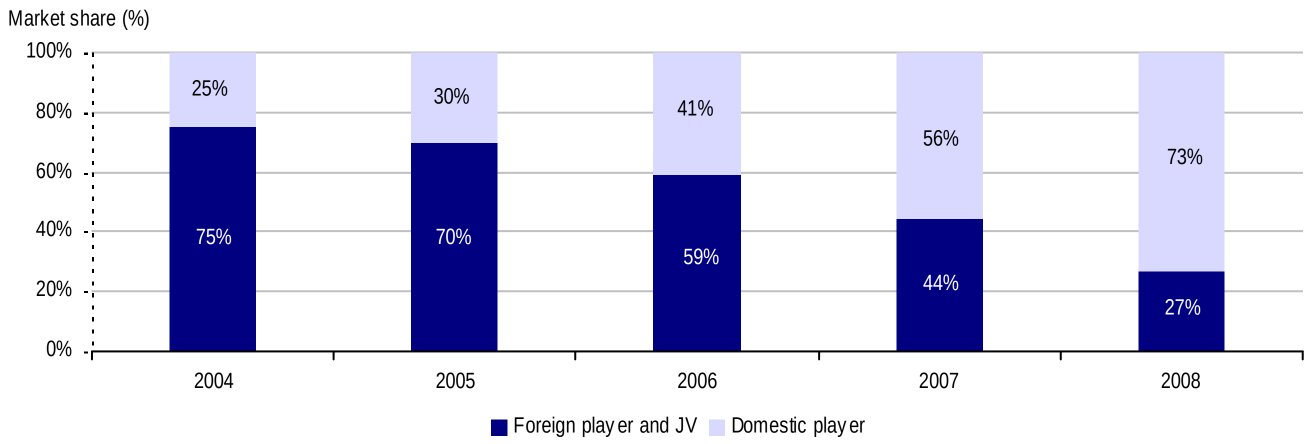
Only c40% of the Chinese market is accessible for foreign players

Despite the attractive prospects of the Chinese market, we believe international turbine manufacturers will have a hard time to defend their market shares. In the past few years, domestic manufacturers have outpaced the expansion of foreign rivals. In 2008, domestic manufacturers made up 73% of the added capacity. The government concession segment, which accounts for 60% of the total Chinese market, is hardly accessible at all for foreign manufacturers. They were excluded from the bidding process at an early stage.

Higher reliability is a selling argument, but margins should remain low

There is a ray of hope for the international players, though: Thanks to the new performance-oriented feed-in tariff scheme, the wind cost/MWh is more important than the cost/MW, which could help the foreign tier-1 players, which have more reliable wind turbines. As foreign producers have localised turbine manufacturing and component sourcing, they should not suffer from a structural cost disadvantage versus the Chinese domestic players. However, competition should be intense, and the fight for market share might be at the expense of very low profit margins. Overall, we believe the Chinese market will offer limited value-generation potential for international players over the next few years.

Chart 28: Market share of foreign and domestic wind turbine manufacturers in China

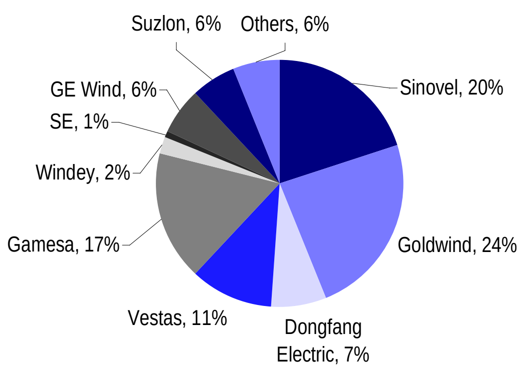


Source: China Wind Power Report 2007, China Wind Power Report 2008

In 2008, the top three wind turbine generator manufacturers in China were Sinovel, Goldwind, and Dongfang Electric, representing 22%, 18%, and 17% of the annual installed capacity, respectively. But the sixth round of concession projects in 2009 sent a strong signal to the top three about the potential threat from second-tier manufacturers. In the 2009 5,250MW concession, the market share of the top three fell to 82% from 99% in the 2008 Jiuquan 3,800MW concession, and represented a breakthrough for Windey, XEMC and Mingyang.

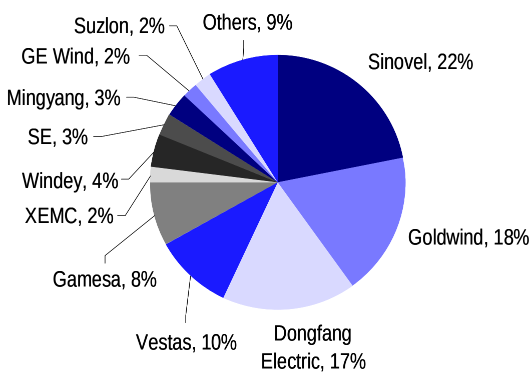
Sinovel, Goldwind and Dongfang Electric remain the top three in China, but face a threat from second-tier manufacturers

Chart 29: China WTG industry market structure in 2007 (in terms of annual installed capacity)



Source: Company data, UBS estimates

Chart 30: China WTG industry market structure in 2008 (in terms of annual installed capacity)



Source: Company data, UBS estimates

With recent announcements of capacity expansion from turbine manufacturers and component suppliers in China, we expect competition to intensify in the next three years. Although entry barriers are not low in terms of technology and capital expenditure, we think the traditional large manufacturers of heavy machinery and electrical equipment will be able to enter the market more easily. In the medium term, there should be international expansion of the domestic manufacturers. However, due to the existing quality/technology gap, this should take another 5 years or even longer. So far, the willingness of European and US utilities to buy Chinese turbines is low. The situation should be different in the component space, where China High Speed should have short-term success.

Intense competition ahead

Europe – robust growth in 2011/12E

Overall forecast and situation in key countries

Solid growth until 2012, before saturation kicks in

We expect moderate growth of 8% in Europe in 2010, which should accelerate to 16% y/y in 2011. In 2012, we expect 10% growth in new additions, but we anticipate a clear saturation trend thereafter, despite an increasing offshore activity level. We think the UK and Germany will be the key drivers among the large markets. With 10.2GW new installations in 2010E, Europe contributes 30% to the expected global installations.

- In the **UK**, phase 1 of the London Array offshore project, which is scheduled for installation in 2011, should be a sizeable contributor (630MW). Overall, we expect 1.6GW new additions in 2010, growing to 2.0GW in 2011.
- **Germany** will remain a more fragmented market. Thanks to the increased feed-in tariff (FIT) since 1 January 2009 (€92/MWh for the first five years), we think new installations should grow, despite a fairly high onshore saturation. Offshore installations could start in 2011/12, but are unlikely to be a material contributor to the overall market in the near term. The change in the federal government should not lead to changes in the FIT regulation. We expect 1.8GW installed in 2010 and 2.0GW in 2011.
- **Spain**, another top-three European market, suffers from regulatory uncertainty after 2010. The cumulative 20GW target by 2010 for wind power should be achieved as planned. Visibility is limited beyond 2010. We believe the Spanish government will continue to subsidise new wind power, and IRRs should be lower than in the recent past. We forecast 1.8/1.9GW in 2010/11.
- Among the 'rising stars' should be those eastern European countries, that have increased their political efforts to comply with the 20%-by-2020 renewable energy target set by the EU. We think **Poland** will be a key driver in CEE. We should have full clarity on the country breakdown of the EU renewable electricity targets for 2020 by 30 June 2010. This is the due date for the member states to submit their national action plans to the EU (i.e., the split between renewables in electricity generation, transport and heating/cooling). Outside the EU, **Turkey** should be the largest wind power market.

The European offshore opportunity

Offshore wind farms – increasing political commitment, but most difficult to finance

In 2009, there is 1.5GW of offshore wind power installed globally, mostly in European seas. More than 3GW are in advanced stages of development. More than 50GW are in early-stage development. Some EU countries have aggressive offshore targets, which are driven by the EU renewable energy target for 2020: the UK 33GW, Germany 10GW, Belgium 2GW, the Netherlands 6.5GW, France 6GW and Portugal 3.5GW. We think the UK will be Europe's main offshore market. Up to 30% of new installations until 2013 could be installed in the sea. Key challenges remain the high (partly uncertain) installation costs of €2.0-3.0m/MW (instead of €1.3m onshore), the grid connection and technology risks. Short term, the most important restriction is financing, as banks have become risk-averse and are not able to grant big-ticket project loans.

This is why our expectations for offshore projects in the next 2-3 years are very cautious. We believe the share of offshore installations will remain below 10%

of total new additions. Outside Europe, offshore projects should be of even lower importance, given lower onshore saturation and grid connection issues. There should be some showcase projects in Asia, but they are unlikely to be not relevant for global installations.

We think offshore installations will be no higher than 10% of total additions

Table 26: European offshore projects for execution 2009-11E

	Project	Country	Turbines	Foundation	Developer / Owner	Distance to shore (km)	Total MW
Due online 2009							
	Alpha Ventus	Germany	Multibrid 5.0	Tripod	EWE/E.on/	43	30
			Repower 5.0	Jacket	Vattenfall		30
	Robin Rigg	Scotland	Vestas 3.0	Monopile	E.on	9	180
	Rhyl Flats	Wales	Siemens 3.6	Monopile	RWE	8	90
	Horns Rev 2	Denmark	Siemens 2.3	Monopile	Dong	30	209
	Sprogø	Denmark	Vestas 3.0	Monopile	Sund & Baelt	2	21
	Gunfleet Sands	England	Siemens 3.6	Monopile	Dong	8	173
	Gasslingegrun	Sweden	WinWind 3.0	Gravity	VindparkVanern Drift AB	3.5	30
Total 2009							763
Due online 2010							
	Thanet	England	Vestas 3.0	Monopile	Vattenfall	12	300
	Côte d'Albâtre	France	Multibrid 5.0	Tripod	Enertrag/Prokon N	6-11	105
	Bard Offshore 1	Germany	Bard 5.0	Tripod	Bard	90	400
	Rødsand 2	Denmark	Siemens 2.3	Gravity	E.on		207
	Belwind phase	Belgium	Vestas 3.0	Monopile	Colruyt, PMV, SH	47	165
Total 2010							1,177
Due online 2011							
	Baltic 1	Germany	Siemens 2.3	Monopile	E.on		207
	Greater Gabba	England	Siemens 3.6	Monopile	SSE/RWE	23	504
	Nordergrunde	Germany	Repower 5.0	-	Energiekontor	15	90
	Sheringham Shoal	England	Siemens 3.6	-	Statoil Hydro/ Statkraft	17-23	317
Total 2011							1,118
Total 2009-2011							3,058

Source: Wind Service Holland, August 2009

Cross-checks to our forecasts

We have conducted three 'sanity-checks' to our model from a top-down perspective. These are:

Based on our forecasts, global wind penetration would increase to 5% in 2018E, from 1% today

- **Wind power penetration by country, i.e., wind power as % of total electricity generation.** This check is based on real estimated electricity generation, not on nameplate capacity. We think that in larger electricity markets, wind could contribute up to 20% in the next 10 years, without causing major problems in terms of grid integration. However, grid investments will be necessary to connect wind power production regions with the places of consumption. Based on our forecasts, the share of wind power in global electricity consumption should rise from 1.8% in 2009E to 3.2% in 2013E and 5.2% in 2018E. Among the big markets, the US should have the most notable increase from 2% currently to 5.4% in 2013E and 10.0% in 2018E. In Europe, wind power penetration should increase from 4% currently to 6.1% in 2013E and 8.6% in 2018E. Among the large European markets, Spain should have the highest wind penetration of 18.1% by 2018E, followed by the UK (13.5%), Germany (12.0%) and Italy (9.3%). The wind share in France should only be 6.4% in 2018E (from 2% currently) as the country has a very high reserve margin. In China, despite its leading position in new installations, the share of wind power should increase to 3.5% in 2018E, from 1% currently. This underlines that there could be upside to our forecasts, if China accelerates the build-out of the grid infrastructure. In APAC, Australia should have the highest wind share in 2018E at 10.7%.

Table 27: Wind share in total electricity generation by country 2008-18E

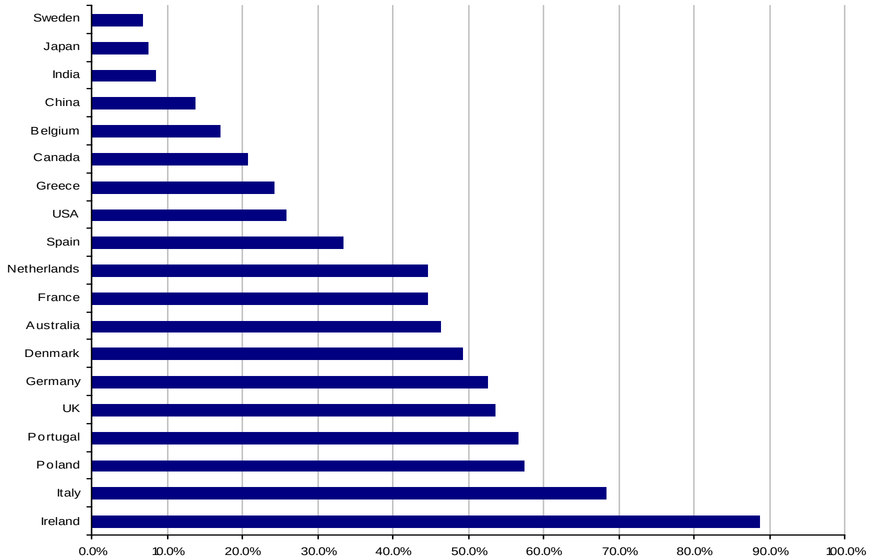
	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
US	1.2%	2.4%	3.0%	3.8%	4.6%	5.4%	6.4%	7.3%	8.2%	9.1%	10.0%
Canada	0.8%	1.5%	1.9%	2.3%	2.9%	3.4%	4.1%	4.7%	5.5%	6.2%	7.0%
Rest of Americas	0.2%	0.3%	0.3%	0.4%	0.5%	0.7%	1.0%	1.3%	1.6%	2.0%	2.4%
Americas	0.9%	1.8%	2.3%	2.9%	3.5%	4.1%	4.9%	5.6%	6.3%	7.1%	7.8%
Belgium	0.9%	1.1%	1.3%	1.5%	1.7%	2.0%	2.3%	2.6%	2.9%	3.1%	3.3%
Denmark	18.7%	20.8%	21.1%	21.4%	21.9%	22.2%	22.5%	22.9%	23.3%	23.6%	23.8%
France	1.2%	1.9%	2.4%	3.0%	3.6%	4.1%	4.7%	5.3%	5.7%	6.1%	6.4%
Germany	6.9%	7.9%	8.3%	8.8%	9.3%	9.8%	10.4%	10.9%	11.3%	11.7%	12.0%
Greece	4.3%	5.1%	5.7%	6.6%	7.7%	9.2%	10.6%	11.8%	12.8%	13.6%	14.3%
Ireland	10.5%	12.5%	14.4%	16.3%	18.1%	19.8%	21.5%	23.1%	24.7%	26.2%	27.7%
Italy	2.2%	3.3%	4.1%	4.8%	5.5%	6.2%	6.8%	7.5%	8.1%	8.7%	9.3%
Netherlands	4.2%	5.1%	5.6%	6.2%	6.8%	7.6%	8.4%	9.1%	9.8%	10.4%	10.7%
Poland	0.6%	0.8%	1.2%	1.7%	2.5%	3.5%	4.4%	5.3%	6.2%	7.0%	7.8%
Portugal	12.0%	16.0%	18.4%	20.9%	23.3%	25.6%	27.9%	30.1%	32.1%	33.9%	35.5%
Spain	11.7%	13.4%	13.9%	14.4%	15.1%	15.6%	16.3%	16.9%	17.4%	17.8%	18.1%
Sweden	1.3%	2.0%	2.3%	2.8%	3.2%	3.7%	4.2%	4.7%	5.1%	5.4%	5.6%
UK	2.0%	3.1%	4.2%	5.4%	6.7%	7.9%	9.1%	10.2%	11.4%	12.4%	13.5%
ROE	0.5%	0.6%	0.7%	0.8%	0.9%	1.1%	1.4%	1.7%	1.9%	2.2%	2.5%
Europe	3.3%	4.0%	4.5%	5.0%	5.5%	6.1%	6.7%	7.2%	7.7%	8.2%	8.6%
Australia	1.4%	3.2%	3.8%	4.4%	5.0%	5.8%	6.7%	7.6%	8.6%	9.7%	10.7%
China	0.4%	1.1%	1.5%	1.9%	2.2%	2.5%	2.8%	3.1%	3.3%	3.4%	3.5%
India	2.0%	3.2%	3.3%	3.4%	3.5%	3.7%	3.9%	4.1%	4.3%	4.4%	4.6%
Japan	0.4%	0.4%	0.5%	0.5%	0.6%	0.7%	0.7%	0.8%	0.9%	1.0%	1.0%
Rest of APAC	0.2%	0.2%	0.2%	0.3%	0.4%	0.6%	0.9%	1.4%	2.0%	2.7%	3.6%
APAC	0.6%	1.1%	1.4%	1.7%	2.0%	2.2%	2.5%	2.8%	3.1%	3.3%	3.5%
ROW	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.5%	0.7%	0.9%	1.1%
Total	1.1%	1.8%	2.1%	2.4%	2.8%	3.2%	3.6%	4.1%	4.5%	4.8%	5.2%

Source: UBS wind power market model

- **Investments in wind power capacity as % of total electricity generation investments over the next 10 years.** The total power capacity by country is the sum of incremental demand increase and replacement of 25% of existing power generation capacity (i.e., we assume an average life cycle of 40 years

Wind power should have the highest share of added/replaced capacity globally, outpacing thermal plants for other power sources). Wind power capacity should remain well below total additions, as investments in base-load power will be necessary. However, we expect wind to have the highest share of all new power generation capacity. For example, wind power installations in the US accounted for 42% of total new/replaced electricity capacity in 2008. In the EU, the respective number is even 43%. We estimate that 21% of new/replaced capacity in the US will be wind (2009-18E). In several large European markets, such as Germany, France, Italy, Spain, Poland and the UK, wind power has a c40% or even higher share in total capacity additions/replacements until 2018. Given the high growth of electricity consumption in China, wind should account for 14% of total additions/replacements only.

Chart 31: Wind share in total expansion/replacement power gen capacity, 2008-18E



Source: UCTE, UBS Wind Power Market Model

- **How our forecasts fit to government targets for wind power.** We believe several key countries are well on track to meet or even exceed the cumulative targets set by their respective government. In China, it is likely that the government will raise the 30GW-by-2020 to 100GW. This seems to be exceeded even if there is no further growth in annual new installations from 2010 onwards. We forecast 126GW cumulative installations by 2018. In the US, the current federal RPS proposal (House version) suggests that c150GW (UBSe) of wind capacity could be required by 2020, which means that 9-14GW would have to be installed per year.

Implications for the global supply/demand balance of wind turbines

Overcapacity in 2010, and no bottlenecks foreseeable in 2011

According to our own research, the global top 10 manufacturers of wind turbines have a cumulative production capacity of 48GW in 2010. This is c40% higher than our demand forecast, i.e., the utilisation rate should be around 70%. Despite the pick-up in demand y/y, the average utilisation rate should remain flat, due to ongoing capacity additions, in particular in China. The astonishing low utilisation rate of Chinese manufacturers suggests that competition for

Chinese projects will be very intense, i.e., suppliers' margins are likely to be very low. For the time being, the Chinese manufacturers will hardly be able to penetrate the mature markets in Europe and the US, given the quality concerns of utilities and financing banks. Taking into account the tier-1 manufacturers only (Vestas, GE, Gamesa, Enercon, Siemens), their average utilisation rate should be 75% in 2010E, versus 73% in 2009E. This is slightly below the cycle average, but not at a level that should trigger price 'wars'. Since expansion capex in 2010 should be no higher than in 2009 because of time lag effects, utilisation rates should pick up to 80% in 2012E. Still, there should not be any supply constraints in the wind turbine market, taking into account both the global average utilisation and the tier-1 suppliers only. Given the overall moderate utilisation level in the capital goods space through 2010, we do not see supply bottlenecks for key components at least until 2011.

Table 28: Manufacturers production and capacity trend (MW)

	Real output (MW)								Capacity (MW)								Capacity utilisation (MW)							
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Vestas	4,239	4,503	5,581	5,919	7,006	8,413	9,495	10,536	5,000	6,000	7,000	7,500	10,000	10,000	12,000	13,000	85%	75%	80%	79%	70%	84%	79%	81%
GE Wind	2,326	3,283	5,239	4,500	6,000	7,400	9,000	10,200	4,000	5,000	6,000	6,000	7,000	10,000	11,000	11,500	58%	66%	87%	75%	86%	74%	82%	89%
Gamesa	2,346	3,047	3,373	3,390	3,900	4,623	5,202	5,747	2,500	3,500	4,000	4,000	4,500	5,000	6,000	6,500	94%	87%	84%	85%	87%	92%	87%	88%
Enercon	2,316	2,769	2,806	2,700	2,700	2,700	3,000	3,300	2,500	3,000	3,500	3,500	3,500	4,000	4,500	4,500	93%	92%	80%	77%	77%	68%	67%	73%
Suzlon	1,157	2,082	2,526	2,000	2,450	3,450	3,500	3,800	1,500	2,500	3,500	4,800	5,500	5,500	5,500	5,500	77%	83%	72%	42%	45%	63%	64%	69%
Siemens	1,103	1,397	1,947	1,500	1,700	1,900	2,500	3,000	1,300	1,600	2,500	3,000	3,000	3,000	3,000	3,500	85%	87%	78%	50%	57%	63%	83%	86%
Sinovel	75	671	1,403	2,640	2,800	2,835	2,870	3,200	225	800	1,500	3,300	3,500	3,500	3,500	4,000	33%	84%	94%	80%	80%	81%	82%	80%
Acciona	426	873	1,290	1,035	1,200	1,200	1,200	1,200	NA	2,325	2,325	2,625	2,625	2,625	2,625	2,625	NA	38%	55%	39%	46%	46%	46%	46%
Goldwind	416	830	1,132	1,653	1,967	2,101	2,147	2,460	552	1,563	2,625	4,500	3,525	4,500	4,500	4,500	75%	53%	43%	37%	56%	47%	48%	55%
Nordex	505	676	1,075	1,205	1,389	1,605	1,835	2,009	700	1,200	1,500	1,500	1,800	2,000	2,500	3,000	72%	56%	72%	80%	77%	80%	73%	67%
Dongfang	9	222	1,053	1,580	2,106	2,369	2,633	2,633	1,200	1,200	1,200	3,000	3,000	3,000	3,000	3,000	1%	19%	88%	53%	70%	79%	88%	88%
Total	15,425	19,791	28,191	29,101	33,328	38,611	43,772	49,192	20,201	27,885	36,744	45,123	48,106	53,146	58,682	63,206	68%	68%	75%	64%	68%	71%	72%	74%
Tier-1 *)	12,330	14,999	18,946	18,009	21,307	25,036	29,197	32,784	15,300	19,100	23,000	24,000	28,000	32,000	36,500	39,000	83%	81%	82%	73%	75%	76%	80%	83%

*) Tier-1 producers are Vestas, GE Wind, Gamesa, Enercon, Siemens

Source: UBS estimates

Financing situation is improving gradually

Several challenges to overcome, despite gradual improvement

Long-term project financing remains the key short-term bottleneck for the wind market. Despite a substantial drop in credit spreads from the peak in Q4 08, the availability of large-scale project loans is a key challenge for project developers. The number of commercial banks involved in large wind farm financing has shrunk from some 40 to 10. The decision-making processes now takes up to several months, instead of a few days to weeks before the crisis. Loans in excess of €100m are still very difficult to obtain, as syndication is almost impossible. Also, the equity/debt ratio is now around 25%/75% rather than 15%/85% before the crisis. There is some gradual improvement, but it is fair to say that banks remain much more cautious than they used to be before the Lehman collapse. Banks are now much more focused on the quality and reliability of the turbine suppliers, which is beneficiary to the tier-1 manufacturers. Project IRR requirements are c100bp higher now, in particular for high-leverage deals. Also, smaller project developers face much more challenges than tier-1 green utilities, even though there are exceptions to this. State-owned development banks (such as EIB, KfW and EKF) step in the market to overcome the funding gap, in some cases as a club deal partner.

In the US, the cash grants from the DOE/Treasury are effective to replace the tax equity investors, which were important under the PTC subsidy scheme. However, as they are paid for existing wind farms only bridge financing is still needed for new projects. As a positive, the end-2010 deadline for the

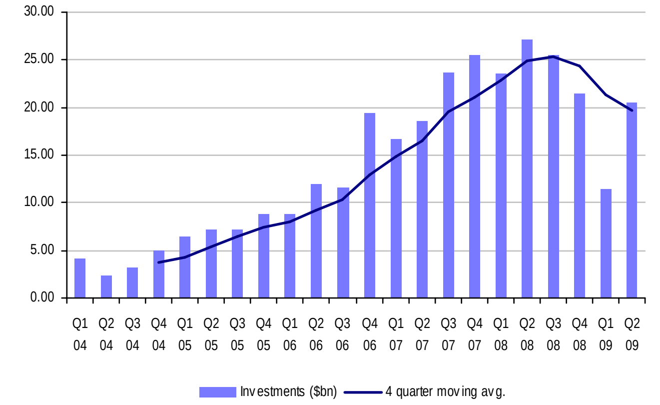
Treasury/DOE cash grants (implying the project has to be initiated until year-end) is a very strong incentive to accelerate the structuring of projects.

Overall, we believe that it will take at least until summer 2010 before the project financing situation has ‘normalised’ again. Hence, the vast majority of new wind farm investments should be conducted by large (green) utilities, rather than small project developers with weaker balance sheets. Also, it is likely that the average project size goes down until the availability of big-ticket loans is back to normal. This is the key reason why we remain very cautious regarding the development of offshore wind farms in the next 2-3 years.

Financing constraints will last at least until H1 2010

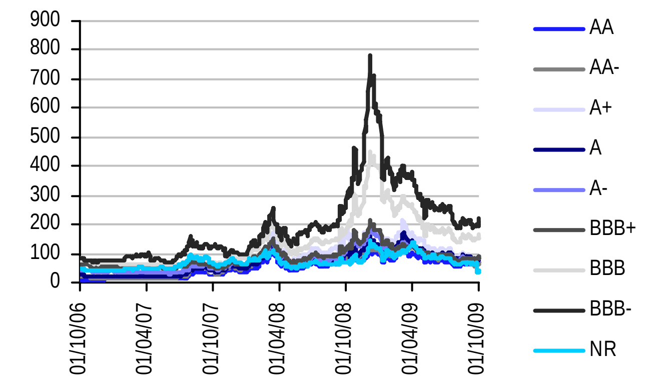
According to New Energy Finance, investments in clean energy assets (including wind, solar, bio-energy, hydro and geothermal) accounted for US$31.9bn in H1 09, which is down 37% y/y. New Energy Finance expects US$95-115bn of total investments in 2009 (including primary deals and M&A transactions) versus US$155bn in 2008.

Chart 32: Investments in clean energy assets (US$bn)



Source: New Energy Finance

Chart 33: Euro credit spreads (10-year maturity)



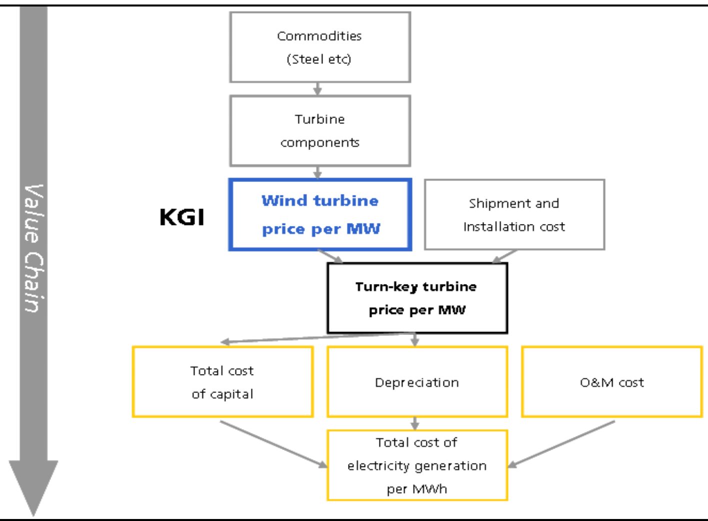
Source: Markit

KGI: Turbine price per MW

Definition

We define our KGI (key global indicator) for wind power as the wind turbine price per MW. It is the globally weighted average price excluding shipment and installation costs. The KGI is based on a mainstream 1.5-3.0MW wind turbine for immediate delivery (spot). We believe the price per MW is the key driver for the economics of a wind farm, as it determines the total cost of capital and depreciation. These two are the key components of the total cost of wind electricity per kWh. O&M costs are a fairly small part of overall costs, and in contrast to thermal power plants (coal, CCGT), there are no fuel costs in wind power.

Figure 5: The wind turbine price is the key determinant of electricity generation costs



Source: UBS

How we model the KGI

The input for the historical and current price per MW is derived from the channel checks of our local wind power analysts, and company reports and announcements. To forecast the price per MW, we consider the following factors:

- **Commodity costs** (steel, cast iron, copper), which we assume to be passed on to the operators (the majority of wind turbine selling contracts have indexing provisions for commodities). We incorporate UBS's price forecasts for steel and copper.

- **Component prices**, including the profit margin of the component suppliers (as a function of their negotiating power). A new supply bottleneck in components seems unlikely to us until 2011. Hence, we think component prices should gradually come down until 2010 and stabilise thereafter. According to our analysis, the lowest excess capacity is available in bearings. Unless there is a sharp recovery of the capital goods sector in 2011, bearings capacity should be sufficient to meet demand.

- **Other manufacturing costs** (e.g., labour, depreciation): We take into account wage increases, innovation in production processes and technology, and increases in productivity.

- **Pricing power** of the wind turbine manufacturers, which is a function of the supply/demand balance. This is being considered through our estimate of the turbine manufacturers' operating profit margin.

Taking all of the above into account, we derive the expected price of a wind turbine per MW of nominal capacity. We weight our regional forecasts for the Americas, Asia and Europe according to the expected new installations. Our forecasts run until 2013 and are used as input for the individual company models.

Table 29: Wind turbine price per MW by region

Turbine price per MW (million)	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
America	$1.10	$1.30	$1.45	$1.27	$1.20	$1.25	$1.30	$1.34
y/y change		18%	12%	-12%	-6%	4%	4%	3%
Equivalent in €m	€ 0.83	€ 0.89	€ 1.04	€ 0.87	€ 0.83	€ 0.86	€ 0.89	€ 0.92
Commodity costs in $m	$0.35	$0.43	$0.48	$0.37	$0.37	$0.39	$0.41	$0.42
Other component costs in $m	$0.45	$0.52	$0.55	$0.52	$0.48	$0.48	$0.49	$0.50
Other manufacturing costs in $m	$0.23	$0.26	$0.29	$0.29	$0.27	$0.29	$0.30	$0.31
Operating profit margin in $m	$0.07	$0.09	$0.13	$0.09	$0.08	$0.09	$0.10	$0.11
Asia	$0.85	$1.00	$1.20	$1.05	$0.99	$1.00	$1.03	$1.04
y/y change		18%	20%	-13%	-6%	1%	3%	1%
Equivalent in €m	€ 0.64	€ 0.69	€ 0.86	€ 0.72	€ 0.68	€ 0.69	€ 0.71	€ 0.72
Commodity costs in $m	$0.29	$0.36	$0.43	$0.33	$0.33	$0.35	$0.37	$0.38
Other component costs in $m	$0.35	$0.40	$0.45	$0.40	$0.37	$0.37	$0.37	$0.37
Other manufacturing costs in $m	$0.13	$0.16	$0.20	$0.21	$0.21	$0.21	$0.22	$0.22
Operating profit margin in $m	$0.08	$0.08	$0.12	$0.11	$0.08	$0.07	$0.07	$0.07
Europe	€ 0.90	€ 1.00	€ 1.10	€ 1.05	€ 0.97	€ 1.00	€ 1.03	€ 1.06
y/y change		11%	10%	-5%	-8%	3%	3%	3%
Equivalent in $m	$1.19	$1.46	$1.54	$1.53	$1.41	$1.45	$1.50	$1.54
Commodity costs in €m	€ 0.27	€ 0.32	€ 0.35	€ 0.31	€ 0.28	€ 0.29	€ 0.31	€ 0.32
Other component costs in €m	€ 0.37	€ 0.40	€ 0.43	€ 0.42	€ 0.39	€ 0.40	€ 0.40	€ 0.41
Other manufacturing costs in €m	€ 0.19	€ 0.20	€ 0.22	€ 0.23	€ 0.23	€ 0.23	€ 0.23	€ 0.24
Operating profit margin in €m	€ 0.07	€ 0.08	€ 0.10	€ 0.09	€ 0.07	€ 0.08	€ 0.09	€ 0.09
Global weighted average	€ 0.83	€ 0.89	€ 1.00	€ 0.87	€ 0.81	€ 0.84	€ 0.87	€ 0.89
y/y change		7%	13%	-13%	-7%	3%	4%	3%
Equivalent in $m	$1.09	$1.29	$1.40	$1.27	$1.18	$1.22	$1.26	$1.30

Source: UBS estimates

Turbine prices to stabilise in 2010E

Another 7% decline expected in 2010 on time lag effects, but stabilisation thereafter on higher capacity utilisation and increasing commodity prices

Mainly due to the drop in commodity prices, the average turbine price per MW has come down by 11% from the peak in summer 2008. Also, we believe operating margins have shrunk by 300bp from the peak. The current global ASP per MW is €0.87m (US$1.28m), ranging from €0.65m for low-end Chinese turbines to €1.0m for high-end European/US models.

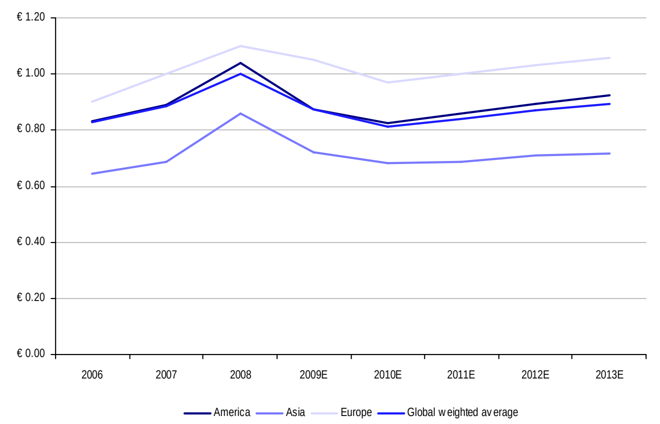
Since commodity prices have stabilised or even increased from the trough on, we think the biggest part of the price drop is already behind us. Hence, except for the time lag effect of existing contracts, which should lead to a further ASP decline of 7% y/y in 2010, wind farm operators should not hope for further price declines. On the other hand, as we don't see any supply restrictions in 2010, we think the EBIT margin of the turbine manufacturers is likely to remain below the cycle average.

The next commodity cycle could drive turbine prices up again, even though another period of bottleneck pricing does not seem possible again for the turbine makers. This is in contrast to the period 2007 until mid-2008.

The turn-key IC/MW is the price of a wind turbine including shipment and installation costs. Due to the very tight construction and transport market until early 2008, non-turbine costs peaked in H1 08 and have since then dropped by 15-20%. We forecast a stabilisation in 2010 and a moderate increase thereafter. The average turn-key IC was €1.3m/MW in 2008 (US$1.8m) and should decline to €1.1m (US$1.5m) in 2010. From 2011 onwards, we estimate an annual increase of 4%.

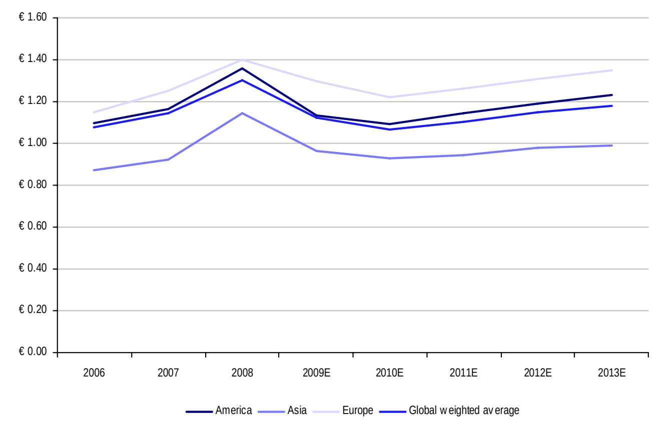
Turn-key IC per MW to stabilise around €1.1m per MW (global average); European IC/MW should decline to €1.2m/MW

Chart 34: Wind turbine price per MW (€m)



Source: UBS estimates

Chart 35: Turn-key invested capital per MW (€m)

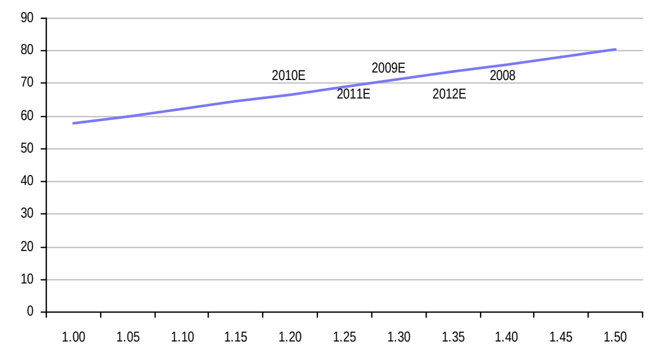


Source: UBS estimates

The concept of cost per MWh

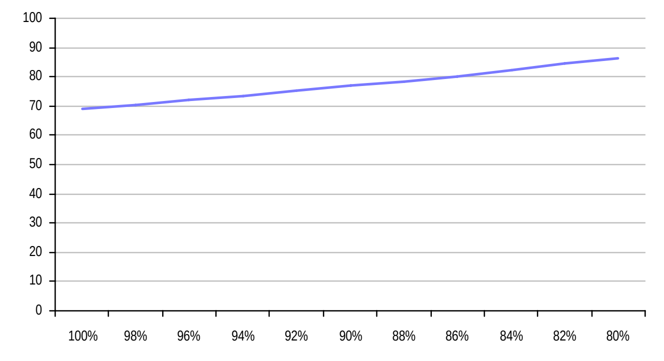
Turbine manufacturers flag to investors and clients that the cost per MWh is the decisive factor for the competitiveness of wind power, rather than the IC per MW of nominal capacity. We agree on this view, as a cheap yet unreliable turbine could result in higher cost per MWh over the lifetime than a more expensive turbine with almost 100% uptime. Our model captures the industry average. A very reliable turbine should have a higher price per MW than our ASP forecasts suggest, and a low-quality product should be sold at a discount. The following charts illustrate (1) the impact of the turbine price on wind electricity generation costs for new projects and (2) the impact of the uptime on electricity generation costs.

Chart 36: Generation cost (€/MWh) versus IC/MW (€m)



Source: UBS estimates, based on 30% load factor

Chart 37: Generation cost (€/MWh) versus uptime (%)



Source: UBS estimates, based on IC/MW of €1.25m and 30% max. load factor

How do the costs of substitutes influence wind turbine prices?

Wind turbines are not priced at the cost of substitutes, but there is an indirect correlation between gas and wind turbine prices

We think it would not be adequate to forecast wind turbine prices based on the estimated costs of substitutes, for a simple reason: If there is perfect competition in the wind turbine market, the marginal production cost of a wind turbine will determine its market price. The substitute pricing model only works in a tight supply environment, as it had been practised in 2006-H1 08. However, price increases for wind turbines might coincide with increasing costs of substitutes. This is because prices for commodities (steel, copper) are correlated with fuel costs (oil, gas, coal) over the economic cycle. Hence, in unconstrained markets, the correlation between wind turbine prices and costs of substitutes is driven by correlated commodity prices rather than by a substitution-driven fundamental correlation. Nevertheless, demand for wind power is correlated with the costs of its substitutes. Hence, there is an indirect correlation between wind turbine prices and the costs of substitutes through the supply/demand balance for wind turbines. If costs of substitutes (mainly CCGT) increase due to a rise in fuel costs or carbon allowance prices, this drives demand for wind turbines and, therefore, should have a positive impact on wind turbine prices, and *vice versa*. This is reflected in the pricing power factor in our KGI model.

The recent drop in CCGT costs jeopardises wind demand in those markets without fixed feed-in tariffs. Short term, there is a decoupling of gas and oil prices, due to oversupply of gas. In a coupled oil/gas environment, wind power would be competitive with CCGT at an oil price of US$100/bbl (without subsidies), assuming an average load factor of 27% and IC/MW of €1.2m.

Table 30: Cost of wind power and substitutes 2010E (€/MWh)

(€/MWh)	Wind	CCGT	Coal	Nuclear
Fuel cost	0.0	41.7	25.6	5.2
Carbon	0.0	5.5	11.3	4.7
O&M	12.7	3.9	5.2	9.2
Depreciation	25.4	2.7	5.4	7.6
Cost of capital (7% real, pre tax)	35.5	7.4	19.7	35.1
Full cost	73.5	61.1	67.1	61.9

Source: UBS estimates

Trends in wind farms economics

IRR at c10%; industry value grows by €13bn pa

Wind power production is a subsidised industry, which yields average global internal rates of return (IRR) of about 10% on a project (pre-interest) basis, on our estimates. Countries with the highest IRRs include the UK and Italy, where returns rise in mid-double-digits. From an absolute perspective, we estimate that each MW added generates €0.31m of equity value, on average. Globally, each year, we expect some 43GW of wind additions during 2010-15. Thus each year the wind industry should grow its equity value by about €14bn.

Key economic drivers

Wind farm economics rest on five main drivers. Typically, whenever the combination of these yields to IRR spreads over WACC in excess of 200bps, wind developers decide to develop their projects.

- **Revenues per unit**: These depend on the subsidies granted and the regional power prices, and vary from €60/MWh in the US (including fiscal subsidies) to as much as €180/MWh in Italy.
- **Load factors**: Since wind farms' costs are almost entirely fixed, operating leverage to generated volumes is high. Load factors are at about 24% throughout continental Europe and can be as high as 30-35% in the UK and the US.
- **O&M cost**: Operating costs are mostly fixed and tend to be €35-40k/MW installed.
- **Investment cost per MW**: This is the largest input cost in a wind investment (80-85%) and is therefore a prime driver of profitability. Particularly as – contrary to typical RAB-regulated activities – IC/MW is basically disconnected from revenues per unit.
- **Discount rate**. We think discount rates are at 6.5-7.5%. These vary by region, depending on three main drivers: (1) stability of the top line: feed-in tariffs countries would have a lower risk profile than pool-plus-premium regions, (2) country risk: Anglo-Saxon countries and the more developed regions tend to enjoy a lower regulatory risk, and (3) leverage, which varies by operators and can range from 50% to 80% debt to EV.

Project IRRs at c10% globally

We estimate most IRR projects to yield c10% over their 20-year useful life. This appears attractive to us. Accounting for leverage, we could see equity returns of about in the mid-teens. With discount rates averaging 7%, the implied IRR-to-WACC ratios are at about 1.4-1.5x, which is in line with what the main wind developers are targeting.

The following table shows a typical wind model, with average revenues per unit, load factors and IC/MW in Europe and the US. Even though we run country-by-country models, this could be used as a shortcut to assess the attractiveness of wind investments for companies such as IBR, EDPR, Acciona and EEN.

Table 31: Typical DCF model, blending global assumptions

	2010	2011	2012	…	2029	Salvage
Capacity (MW)	100	100	100	…	100	
Investment costs (€/kW)	1,200	1,200	1,200	…	1,200	
Debt / EV	60.0%					
int expense	6.00%	6.00%	6.00%	…	6.00%	
Plant life (years)	20	20	20	…	20	
Load factor	27.0%	27.0%	27.0%	…	27.0%	
Revs / unit growth pa	1.75%	1.75%	1.75%	…	1.75%	
Opex growth pa	1.75%	1.75%	1.75%	…	1.75%	
O&M costs (€/MW)	0.035	0.036	0.036	…	0.049	
Final Price (€/MWh)	72.5	73.8	75.1	…	100.8	100.8
Revenues (€ m)	17	17	18	…	24	
O&M	4	4	4	…	5	
EBITDA (€ m)	**14**	**14**	**14**	**…**	**19**	
Depr.	6	6	6	…	6	
EBIT (€ m)	**8**	**8**	**8**	**…**	**13**	
Int expense	4	4	4	…	4	
EBT	**3**	**4**	**4**	**…**	**9**	
tax rate	*30.0%*	*30.0%*	*30.0%*	…	*30.0%*	
taxes	1	1	1	…	3	
Net income (€ m)	**2**	**2**	**3**	**…**	**6**	
Equity FCF	- 41	7	7	…	10	
NOPAT	5	6	6	…	9	
Cash Flow (post-tax, pre interest)	-109	12	12	…	15	29
Project IRR (post-tax, pre interest)	**10.2%**					
Discount rate	7.1%					
EV / kW (€)	**1,515**					
Equity value / kW (€)	315					
IRR / WACC	1.5					

Source: UBS estimates

Such a model allows us to draw some key conclusions regarding the profitability and value creation potential of wind farms.

- **Returns:** A typical wind project could lead to a 10% project IRR (17% equity IRR).
- **Enterprise and equity values per MW**: The DCF in Table 35 shows an EV/MW of €1.52m, which implies that every megawatt built adds some €0.31m of value.
- **Earnings per MW**: On average, for every 1000MW of wind developed, EBITDA can grow by about €150m, while net income could grow by about €40m.

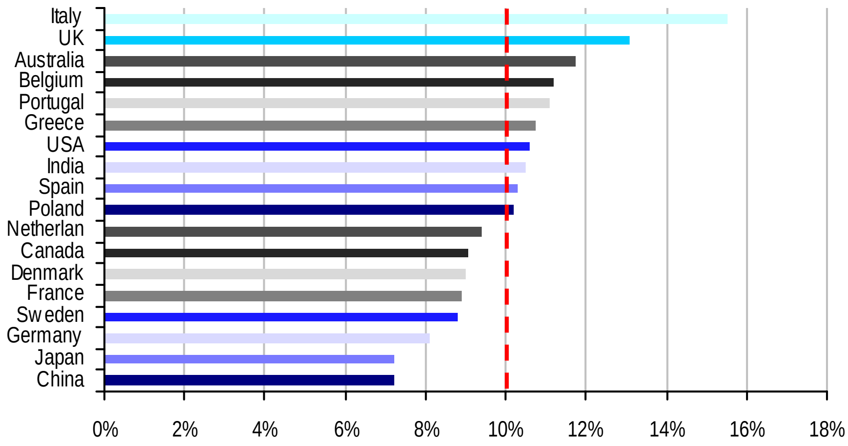
Future investments should show marginally lower returns

We note that our analysis refers to a typical 2010 project. Future projects will likely have a marginally lower return as (1) subsidies are likely to be lowered as the market becomes mature, and (2) better wind locations in terms of load factors tend to be occupied first.

Regional IRR overview

The following chart ranks IRRs by country, and shows a global straight average of 10.1%.

Chart 38: Project IRR ranking – Average at 10.1%



Source: UBS estimates

Wind operator industry is worth €180bn (EV)

By the end of 2009, we estimate a total installed wind capacity installed of 151GW. At the current €1.2m/MW replacement cost, the global wind business is worth about €189bn, on our numbers. By 2015, we expect the industry to amount to 424GW, which would make it worth some €576bn (at €1.36m/MW, in constant currency terms).

Table 32: Global wind industry worth €180bn today and €540bn by 2015E (in real terms)

	2009	2015E
Global wind capacity (GW)	151	424
Replacement cost (€m/MW, in real terms in 2009 money)	1.20	1.36
EV global wind industry (€bn, in real terms in 2009 money)	181	576

Source: UBS estimates

During 2009-15, we estimate average annual wind capacity additions of 43GW per year. At a standard equity value per MW of €0.31m, we assume that the wind industry would create some €14bn of equity value per year.

Table 33: Global wind industry to grow equity value by €14bn per year

Average wind additions per year to 2015E (GW)	43
Equity value added per MW (€m)	0.31
Equity value added per year (€bn)	13.5

Source: UBS estimates

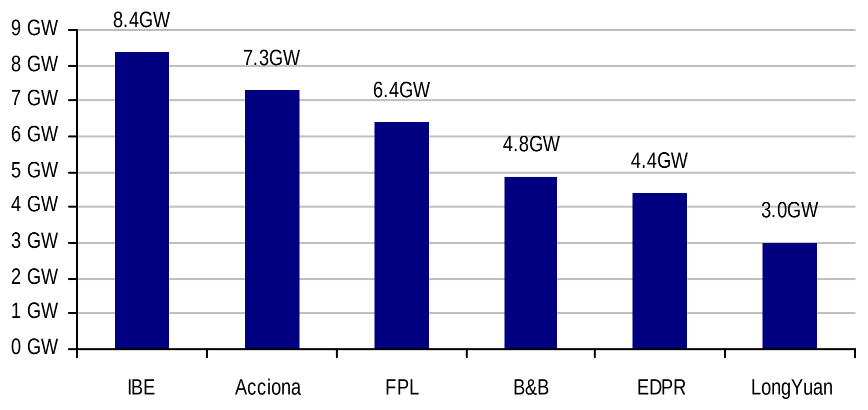
Wind pipelines: European companies dominate

Large-cap listed wind developers account for about one-third of the global wind market. Cumulatively, the pipeline of the top 10 operators amounts to c190GW. Some 7 players are European, and have been early movers in this industry.

Top six players are one-third of the global wind market

In 2008, the global wind installed capacity amounted to 122GW, c30% of which comes from the top six players.

Chart 39:Top six players are a third of the global wind market



Source: UBS estimates

Pipeline developments implies polarisation in wind development

During the credit crunch, smaller developers have struggled to raise debt to fund their wind projects. Thus, investments from this segment have slowed down materially, while larger developers have been able to borrow from their parent companies (EDRP, IBR) or issue bonds directly. In addition, during the past three years, large developers have expanded their development teams and upgraded their pipelines. Currently, the pipelines of the main ten wind developers accounts to almost 200GW. This equates to the global capacity additions we estimate for the next five years.

Table 34: Top 10 players have 189GW of project pipelines

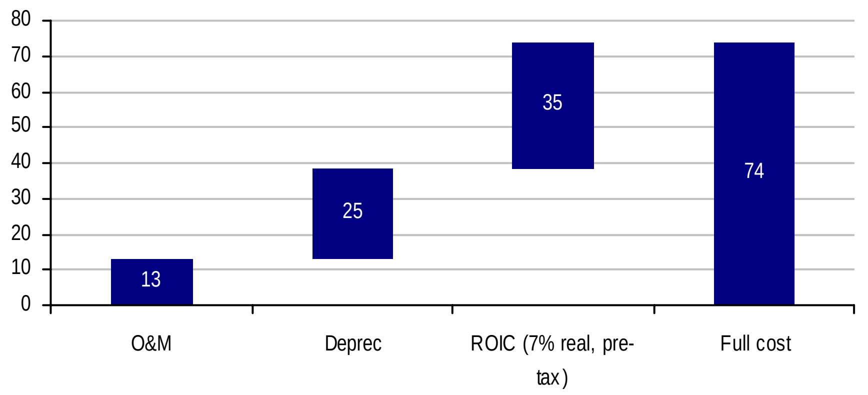
	GW
Iberdrola Renovables	55
FPL	28
EDPR	28
Acciona	19
Enel Green Power	17
EDF Energy Nouvelle	14
EON	11
Endesa	7
AES	6
Infigen	4
Total	189

Source: Company data, UBS estimates

Wind viable if oil prices exceed cUS$100/bbl

For a typical wind farm with IC/MW of €1.2m and a real pre-tax ROIC of 7%, we estimate a full generation cost of €74/MWh in real terms. This implies that wind activities should not be competitive with typical thermal plants unless oil prices reach US$100/bbl.

Chart 40: Wind new entrant costs, 2010 (€/MWh)



Source: UBS estimates

In the following table we show that, as at 2010E, the costs of wind production remains at a >20% premium to thermal plants. Given the uncertainties surrounding the European Emission Trading Scheme and the higher investment costs, we expect a decline in the addition of coal-fired capacity. Most of the new entrant plants in Europe are gas-fired combined cycle turbines (CCGTs). On our analysis, at an oil price of US$100/bbl, the new entrant costs of a wind plant would equal the costs of a gas plant. Put simply, wind would not be economic at an oil price below US$100/bbl. And even then, a surge in oil prices could indicate a pick-up in overall industrial activity and a widespread increase in raw material costs. Thus, this could push turbine costs higher and require an even higher oil price to make wind economic.

Table 35: New entrant costs by technology, 2010E

(€/MWh)	Wind	CCGT	Coal	Nuke
Fuel cost	0.0	41.7	25.6	5.2
Carbon	0.0	5.5	11.3	4.7
O&M	12.7	3.9	5.2	9.2
Depreciation	25.4	2.7	5.4	7.6
ROIC	35.5	7.4	19.7	35.1
Full cost	73.5	61.1	67.1	61.9

Source: UBS estimates

Valuing wind parks

DCF from existing assets; EVA for the pipeline

Two-step approach

As with any capital-intensive industry where assets have a long economic life, the most reliable valuation technique remains a discounted cash flow model, in our opinion. We take a two-step approach. First, we value the existing operating assets over their economic life (assuming some salvage value). Second, we value the economic value added – expressed in equity value per MW installed – from the pipeline. A key variable in the latter component is the number of years of profitable investments to value.

We decided to value five years of profitable investments, owing to three contrasting reasons. The first one supports the valuation of the pipeline, while number two and three are reasons why we would not get carried away

(1) **Visible growth:** Given that wind energy is a booming growth story, we would consider it a mistake not to value no value from future investments

(2) **The market does not normally value future investments:** Most stocks do not discount any value from future growth capex, not even when investments are visible and low risk, such as regulated infrastructure utilities like Snam Rete Gas, Terna, Enagás or Red Eléctrica.

(3) **Regulatory risk increases:** The further out we value the pipeline, the larger the regulatory risk becomes. As the wind market matures, we would expect a reduction in implied returns. Valuing the pipeline at a constant IRR would underestimate the regulatory risk and overestimate the valuation of a wind developer, in our view.

DCF from existing assets – how to normalise earnings

To properly value the cash flows generated by wind assets operating in 2010, we believe two main normalisations have to be implemented

- **Volumes:** As wind developers have been adding new capacity throughout the year, 2010 volumes do not express the real output potential. To estimate this, we use the MW installed at the end of the year and apply a standard load factor.
- **Prices:** The value of pool-plus-premium regulatory schemes depends on a mid-cycle power price. We therefore do not use the current depressed spot prices.
- **Work in progress:** By year-end, some 25% of capital expenditure has been spent to develop assets in the following years. This should be added back as a financial asset.

The following table shows the typical DCF for IBR, the largest wind developer globally.

Table 36: IBR – DCF from 2010 Operating assets is worth €2.9ps

	0	1	2	...	16	16
	2010	**2011**	**2012**	**...**	**2026**	**Salvage**
Normalized Spanish power price (€/MWh)	55.0	–	–	...	–	
Inflation	1.75%	1.75%	1.75%	...	1.75%	
WACC	7.00%	7.00%	7.00%	...	7.00%	
tax rate	31.0%	31.0%	31.0%	...	31.0%	
€ million	**2010**	**2011**	**2012**	**...**	**2026**	**Salvage**
Op cash flow pre-tax (normalized)	1,883	1,918	1,953	...	2,507	
Cash taxes	-584	-595	-606	...	-777	
NOPAT = Op cash flow	**1,299**	**1,323**	**1,348**	**...**	**1,730**	**2,004**
Disc cash flows	1,299	1,237	1,177	...	586	2,004
Enterprise value	17,310					
Work in progress	824					
Debt & Liabilities	6,087					
Equity value (€m)	12,047					
Equity value per share (€ps)	2.9					
	19.7					
Salvage value assumptions						
IC / MW to end 2010 (€m/MW)	1.25					
Assets in 2010	12,308					
Invested capital 2010 (€m)	15,385					
Equity book value 2010 (€m)	10,122					

Source: UBS estimates

Valuing pipelines = equity value per MW

To value the pipeline of these players, we need to derive the average equity value added per MW invested. On average, we calculate this at €0.31m/MW. In other words, each 1000MW built creates some €315m of equity value. We value five years of future investments. The following table shows the example of IBR: adding 9.5GW over 2011-15 would create some €2.3bn of value added (NPV) or €0.5ps.

Table 37: IBR – Valuing 5 years of investments would add €0.5ps of value

	2011	2012	2013	2014	2015
At Equity / MW multiple of	€0.315m	€0.321m	€0.326m	€0.332m	€0.338m
MW added pa	1,800	1,850	1,800	1,850	1,850
Cumulative value added from pipeline	€567m	€593m	€587m	€614m	€625m
Cost of equity	9.0%	9.0%	9.0%	9.0%	9.0%
Discounted value added from pipeline	€520m	€499m	€453m	€435m	€406m
Cumulative value added (disc to Dec-2009)	€520m	€1019m	€1473m	€1907m	€2313m
per share (€ps)	0.12	0.24	0.35	0.45	0.55

Source: UBS estimates

Wind IRRs – key sensitivities

The decline in turbine prices is a structural positive for wind farm developers. We estimate that each €100/kW drop in turbine prices adds about 100bp to project IRRs. Put differently, a €100/kW reduction in turbine prices would offset a €5/MWh fall in revenues per unit, on our numbers.

IRR sensitivity to turbine costs

A €100/kW drop in turbine costs could expand the project IRRs of a wind developer by about 100bp, on our numbers.

Table 38: Wind project IRR sensitivity to turbine costs (IC / kW, €)

Base case	1100	1150	1200	1250	1300	1350	1400
10.2%	11.9%	11.3%	10.8%	10.2%	9.8%	9.3%	8.9%

Source: UBS estimates

IRR sensitivity to revenues per unit

We estimate that a €5/MWh drop in power prices would be offset by a €100/kW reduction in turbine prices. In other words, if revenues per unit fell by €5/MWh, project IRRs would shrink by 100bps, on our estimates.

Table 39: Wind project IRR sensitivity to Revenues per unit (€/MWh)

Base case	70.0	75.0	80.0	85.0	90.0	95.0	100.0
10.2%	9.2%	10.2%	11.3%	12.3%	13.3%	14.3%	15.3%

Source: UBS estimates

Wind operator regulation

Three types of incentive schemes

Currently, wind operators are remunerated under three main schemes, which we list by order of increasing operational risk.

- **Feed-in tariff:** This scheme foresees a fixed tariff, normally set to allow internal rates of returns of c10%. Currently, most feed-in tariffs have revenues per unit of at least €75/MWh.
- **Power purchase agreements (PPA):** These agreements are typical of the US market. PPA revenues per unit are set as a bilateral agreement between wind developers and power suppliers. Once the initial price is set, this is normally adjusted for inflation for 15-20 years.
- **Power prices plus subsidies:** Wind farms are not viable for oil prices below US$100/bbl. This is why some regulatory schemes foresee a subsidy (also known as 'premium') that is added to the merchant power prices.

Spain

The output produced by Spanish wind farms either receives a fixed tariff or enjoys a premium on top of the liberalised wholesale price. Royal Decree 436/2004 and Royal Decree 661/2007 implemented these schemes. Wind parks operating under the old scheme will have up to 2012 to switch to the new regime. Upon construction of a wind park, the power producer would have to elect the scheme under which it will be remunerated. Said decision can be revised every 12 months.

- **Fixed price:** Under RD 436/2004, the fixed tariff is defined as a percentage of the final tariff (80-90% during useful life). Under the new regulation (RD 661/2007), the fixed price was set at €75/MWh in 2008, and annually updated by inflation less 0.25% (0.5% beyond 2012). This set-up can be revisited in 2010 and would then take effect in January 2012.
- **Wholesale plus premium:** RD 436/2004 granted a premium – over and above pool prices – equal to c40% of the average final electricity tariff. If a wind power producer decided to sell its output under the new 'pool plus premium' scheme, in 2008 it would have received the pool price plus a €30/MWh premium. Since this scheme is more volatile, the regulator introduced a system of cap/floor to let achieved prices remain within bands of €73-87/MWh. Each year beyond 2008, premium, cap and floor are

updated by (CPI – X)[1]. Premium and X-factors (but not cap/floor) can be revised retrospectively at the 2010 revision. Changes would take effect on all parks, starting in January 2012.

Portugal

- **Old system:** Portuguese wind farms are remunerated under a feed-in tariff system. Each wind park receives a licence by the government and is entitled to sell electricity at a price of c€85/MWh (assuming load factor at 3,000 hours), which varies depending on the load factor achieved. This starting price is updated by inflation for 15 years, and then drops at the market level.

- **New system:** Wind farms licensed from 2006 onwards would be subject to a similar scheme, but under a starting price of c€74/MWh (average load factor 3,000 hours).

United States

RPS targets demand that a percentage of the power supplied comes from renewable sources. Therefore, a power supplier can either produce that quota itself, or purchase it from a third-party renewable producer. Renewable producers sell most of their output under power purchase agreements (PPAs). Prices depend on the supply/demand of renewable sources, and may also be driven by the commodity evolution in states with a liberalised generation market. Once an initial price is set (currently US$60/MWh), this is then updated by inflation for 15-20 years. These contracts vary depending on the state, and may include or exclude green certificates, known as RECs (renewable energy certificates). Most regulated contracts include RECs, which have a value of US$6-22/MWh.

In 2009, the US government introduced cash grants (ITCs), which cover up to 30% of the initial investment in a park, and are effectively a cheque written directly by the US Treasury.

ITCs complement and, to some extent, replace fiscal incentives known as production tax credits (PTCs). PTCs are equivalent to US$20/MWh, last for 10 years (from the park starting operations) and are annually updated by inflation.

US wind operators can enjoy an extra fiscal benefit, thanks to an accelerated depreciation scheme (MACRS). This allows them to depreciate 95% of the value of the park over five years, and creates a deferred tax liability.

Other schemes

- **France – feed-in tariff:** The French system works with a typical feed-in tariff. The 2006 regulation foresees a starting price of €82/MWh, which is updated by inflation for 10 years. During the years 11-15, the price continues to vary in line with inflation, provided that load factors do not exceed 2,400 hours (27%). From year 16, wind farms would sell at market price.

- **Belgium – green certificates:** Regulation is based on a green certificate scheme, according to which utilities have to supply a percentage of their

[1] X-factor is 0.25% through to 2012, 0.5% thereafter.

output via green sources. In Wallonia, said quota will reach 10% by 2010 (7% in 2007). In Flanders, the quota is comprised between 3% and 5% (2007-10). The system foresees caps and floors of €65-100/MWh in Wallonia, and €80-125/MWh in Flanders.

- **Poland – green certificates:** Regulation obliges utilities to purchase a specific amount from clean sources (5% in 2007, rising to 10% by 2010) and subsidises wind farms via green certificates (GC). In 2007, the value of a GC was c€50/MWh.
- **Germany – feed-in tariff:** Wind park owners are remunerated with €92 per MWh for the first five years of operation. After that, the FIT is potentially reduced, depending on the wind conditions at the specific site, and paid for another 15 years.
- **Greece – feed-in tariff:** Wind farm operators receive a fixed price of €80 per MWh over 20 years, adjusted for inflation. On top, there are direct subsidies upfront, which cover roughly one-third of total capex.
- **China – feed-in-tariff:** The Chinese government introduced a new staggered FIT scheme in 2009. For details, see the China section in this report.

Equipment manufacturers

Global Equity Research

UBS Investment Research

Vestas Wind Systems

Denmark

Industrial, Diversified

12-month rating	Buy *Prior: Neutral*
12m price target	DKr410.00/US$81.65 *Prior: DKr390.00/US$77.67*
Short-term rating	Removed *Prior: Sell*
Price	DKr319.00/US$63.53

RIC: VWS.CO BBG: VWS DC

Upgrade to Buy, despite short-term issues

■ There is upside on a 12M basis, despite our cautious view until H1 10

We upgrade Vestas to Buy (from Neutral) and remove our short-term Sell rating, as we think the share price reflects the short-term challenges now. We think the buy side is well aware of (1) the risk of a FY09 profit warning on 27 October; (2) the very low order backlog at year-end 2009 (UBSe €1.9bn); and (3) the downside to 2010 consensus. Despite these challenges, Vestas remains well positioned to benefit strongly from the next US cycle, which should become visible in H1 10. Due to its spot exposure, order momentum should be strongest in the peer group.

■ US shipments should pick up strongly from H2 10

Even though we do not expect a massive pick-up in new orders before H1 10 (in contrast to the company), we do believe in the US market in H2 10-2012 and Vestas' ability to gain market share at the expense of non-tier 1 manufacturers. Also, the new US facility should improve Vestas' cost position once fully ramped in H2 10. In 2011, we estimate 35% of total production will be installed in the US. Finally, 2010 FCF should bounce y/y on lower capex and NWC stabilisation.

■ 27 October could be a good buying opportunity

We have aligned our top-line forecasts to the new UBS wind power market model. We have cut our 2009/10/11E EPS by 2%/18%/20%. Our new 2010/11E EPS are 16%/14% below consensus, but we think the buy side is already more cautious than the brokers. The release of 2010 targets and the potential profit warning on 27 October might be a good entry point.

■ Valuation – price target raised to DKr410

We raise our PT by 5% to DKr410 (from DKr390), which is the average of UBS VCAM (DKr452) and the increased sector average 20x PE 2010E (DKr370). At PT, it would trade on 16.9x 2011E PE, below the historic 12m forward PE (20x).

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	4,861.00	6,035.00	6,758.88	7,490.54	9,056.43
EBIT (UBS)	443.00	668.00	662.37	704.11	914.70
Net Income (UBS)	291.00	511.00	476.91	504.78	662.62
EPS (UBS, €)	1.57	2.76	2.41	2.48	3.25
Net DPS (UBS, €)	0.00	0.00	0.00	0.50	0.65

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-1.9	11.1	9.8	9.4	10.1
ROIC (EBIT) %	0.7	49.9	26.2	20.9	25.2
EV/EBITDA (core) x	29.3	14.9	10.0	8.6	6.8
PE (UBS) x	1.5	24.2	17.7	17.3	13.2
Net dividend yield %	0.0	0.0	0.0	1.2	1.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of DKr319.00 on 13 Oct 2009 21:39 BST

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Trading data (local/US$)

52-wk range	DKr424.00-191.00/US$79.61-32.55
Market cap.	DKr65.0bn/US$12.9bn
Shares o/s	204m (ORDA)
Free float	100%
Avg. daily volume ('000)	1,514
Avg. daily value (DKrm)	557.7

Balance sheet data 12/09E

Shareholders' equity	€3.24bn
P/BV (UBS)	2.6x
Net Cash (debt)	(€0.06bn)

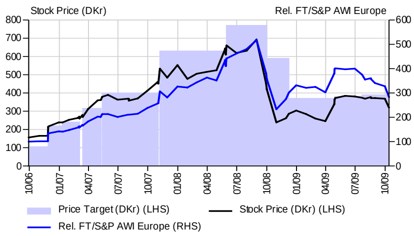
Forecast returns

Forecast price appreciation	+28.5%
Forecast dividend yield	1.2%
Forecast stock return	+29.7%
Market return assumption	6.1%
Forecast excess return	+23.6%

EPS (UBS, €)

	12/09E			12/08
	From	To	Cons.	Actual
H1	0.49	0.49	-	0.53
H2E	1.89	1.86	-	2.23
12/09E	2.45	2.41	*2.45*	
12/10E	3.02	2.48	*2.91*	

Performance (DKr)



Source: UBS

Table 40: UBS VCAM Valuation Summary for Vestas [VWS.CO]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	662	704	915	1,116	1,252	1,388	1,543	1,704	1,869	2,035
D&A*	200	302	328	374	411	467	524	585	648	712
Capex	-980	-375	-634	-730	-591	-667	-749	-835	-925	-1,018
Chg. in wkg. cap.	-708	-110	-54	-74	-166	-196	-197	-207	-216	-222
Tax (operating)	-185	-197	-256	-313	-351	-389	-432	-477	-523	-570
Other	-22	-22	-47	-41	-41	-46	-49	-52	-54	-56
Free Cash Flow	-1,033	303	252	332	515	557	640	717	798	882
growth		*NM*	*-16.7%*	*31.7%*	*55.3%*	*8.1%*	*14.9%*	*12.0%*	*11.3%*	*10.5%*

Valuation	
PV of explicit cash flow	4,851
PV of terminal value (yr. 15)	6,850
Enterprise Value	11,701
% terminal	*59%*
Associates & other	21
- Minority interests	0
Surplus cash**	85
- Debt***	289
Equity value	11,518
Shares outstanding	203.7
Equity per share (DKr/sh)	420.77
Cost of equity	8.75%
Dividend yield	1.30%
1-year Price Target (DKr/sh)	452.15

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	10.0%	5.0%	2.5%
EBIT margin	10.0%	9.0%	8.0%
Capex/sales	5.0%	4.8%	4.0%
ROIC	16.9%	15.3%	12.7%

Valuation-Implied Metrics			
Fiscal year	2009E	2010E	1-yr Fwd.
EV / EBITDA	13.6x	11.6x	12.0x
EV / EBIT	17.7x	16.6x	16.9x
FCF Yield	NM	2.6%	NM
P / E (PV)	24.2x	22.8x	23.1x
P / E (Target)	26.0x	24.5x	24.8x

WACC	
Risk free rate	3.22%
ERP	4.5%
Beta	1.23
Debt / equity***	3.1%
Marg. tax rate	28.0%
Cost of equity	8.75%
Cost of debt	5.82%
WACC	8.62%

Terminal Assumptions	
VCH (years)	15
Impl. FCF gr.	2.5%

Figures in € m, unless noted otherwise.

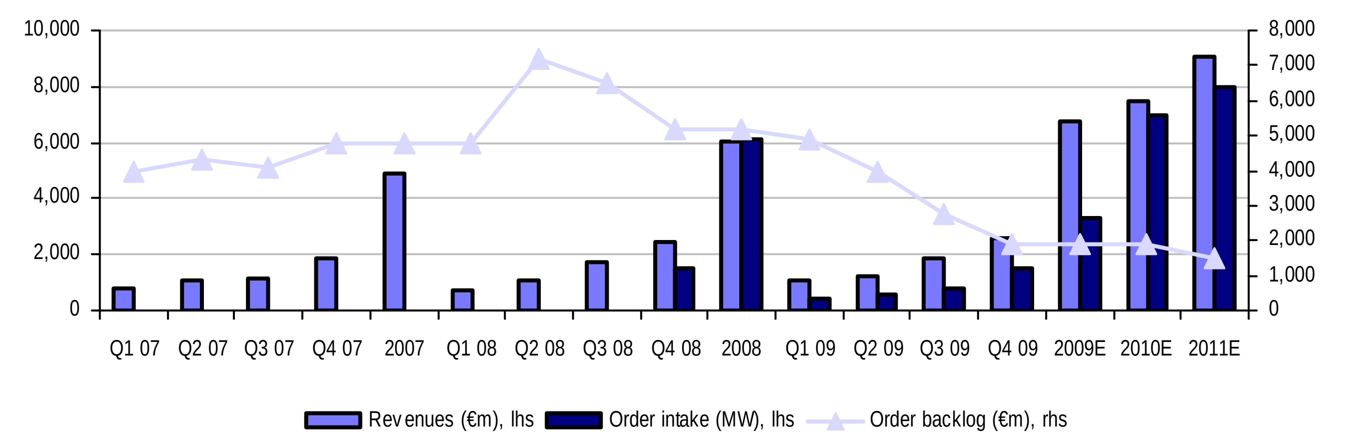
* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

Chart 41: Revenues, order intake and backlog trend



Source: Vestas, UBS estimates

Vestas Wind Systems

Income statement (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	2,363.20	3,582.60	3,854.30	4,861.00	6,035.00	6,758.88	12.0	7,490.54	10.8	9,056.43	20.9
Operating expenses (ex depn)	(2,763.00)	(3,575.10)	(3,526.70)	(4,280.00)	(5,232.00)	(5,896.51)	12.7	(6,484.66)	10.0	(7,813.64)	20.5
EBITDA (UBS)	(399.80)	7.50	327.60	581.00	803.00	862.37	7.4	1,005.88	16.6	1,242.79	23.6
Depreciation	(110.70)	(123.20)	(127.00)	(138.00)	(135.00)	(200.00)	48.1	(301.77)	50.9	(328.09)	8.7
Operating income (EBIT, UBS)	(510.50)	(115.70)	200.60	443.00	668.00	662.37	-0.8	704.11	6.3	914.70	29.9
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	(40.50)	(42.40)	(39.60)	0.00	46.00	0.00	-	(3.03)	-	5.60	-
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	(551.00)	(158.10)	161.00	443.00	714.00	662.37	-7.2	701.09	5.8	920.30	31.3
Tax	28.30	(33.30)	(50.00)	(152.00)	(203.00)	(185.46)	-8.6	(196.30)	5.8	(257.68)	31.3
Profit after tax	(522.70)	(191.40)	111.00	291.00	511.00	476.91	-6.7	504.78	5.8	662.62	31.3
Abnormal items (post-tax)	(0.30)	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	1.20	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	(521.80)	(191.40)	111.00	291.00	511.00	476.91	-6.7	504.78	5.8	662.62	31.3
Net Income (UBS)	(521.50)	(191.40)	111.00	291.00	511.00	476.91	-6.7	504.78	5.8	662.62	31.3
Tax rate (%)	-	-	31.06	34.31	28.43	28.00	-1.5	28.00	0.0	28.00	0.0
Pre-abnormal tax rate (%)	-	-	31.06	34.31	28.43	28.00	-1.5	28.00	0.0	28.00	0.0

Per share (€)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	(2.98)	(1.09)	0.63	1.57	2.76	2.41	-12.5	2.48	2.6	3.25	31.3
EPS (UBS)	(2.98)	(1.09)	0.63	1.57	2.76	2.41	-12.5	2.48	2.6	3.25	31.3
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.50	-	0.65	31.3
Cash EPS	(2.35)	(0.39)	1.36	2.32	3.49	3.43	-1.8	3.96	15.5	4.86	22.8
BVPS	4.86	3.76	7.31	8.23	10.62	16.38	54.3	17.87	9.1	20.47	14.6

Balance sheet (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	468.90	466.40	489.90	638.00	1,030.00	1,707.23	65.8	1,765.44	3.4	2,010.12	13.9
Net intangible fixed assets	140.90	155.80	477.50	506.70	644.00	746.81	16.0	761.36	1.9	822.53	8.0
Net working capital (incl. other assets)	785.70	955.10	471.90	47.00	374.00	1,079.83	188.7	1,187.58	10.0	1,239.34	4.4
Other liabilities	(167.40)	(234.50)	(258.60)	(300.00)	(263.00)	(263.00)	0.0	(263.00)	0.0	(263.00)	0.0
Operating invested capital	1,228.10	1,342.80	1,180.70	891.70	1,785.00	3,270.87	83.2	3,451.38	5.5	3,808.99	10.4
Investments	13.00	15.00	17.00	19.00	21.00	23.00	9.5	25.00	8.7	27.00	8.0
Total capital employed	1,241.10	1,357.80	1,197.70	910.70	1,806.00	3,293.87	82.4	3,476.38	5.5	3,835.99	10.3
Shareholders' equity	851.60	658.20	1,280.10	1,524.70	1,966.00	3,235.91	64.6	3,639.73	12.5	4,169.82	14.6
Minority interests	(0.10)	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total equity	851.50	658.20	1,280.10	1,524.70	1,966.00	3,235.91	64.6	3,639.73	12.5	4,169.82	14.6
Net debt / (cash)	389.60	699.60	(82.40)	(614.00)	(160.00)	57.96	-	(163.36)	-	(333.83)	104.4
Debt deemed provisions	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	1,241.10	1,357.80	1,197.70	910.70	1,806.00	3,293.87	82.4	3,476.38	5.5	3,835.99	10.3

Cash flow (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	(510.50)	(115.70)	200.60	443.00	668.00	662.37	-0.8	704.11	6.3	914.70	29.9
Depreciation	110.70	123.20	127.00	138.00	135.00	200.00	48.1	301.77	50.9	328.09	8.7
Net change in working capital	160.71	(118.80)	668.50	190.00	(367.00)	(714.83)	94.8	(109.75)	-84.6	(53.75)	-51.0
Other (operating)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	(239.09)	(111.30)	996.10	771.00	436.00	147.54	-66.2	896.13	507.4	1,189.03	32.7
Net interest received / (paid)	(40.50)	(42.40)	(39.60)	0.00	46.00	0.00	-	(3.03)	-	5.60	-
Dividends paid	0.00	0.00	0.00	0.00	0.00	0.00	-	(100.96)	-	(132.52)	31.3
Tax paid	28.30	(33.30)	(50.00)	(152.00)	(203.00)	(185.46)	-8.6	(196.30)	5.8	(257.68)	31.3
Capital expenditure	(80.00)	(156.60)	(194.80)	(317.00)	(690.00)	(980.04)	42.0	(374.53)	-61.8	(633.95)	69.3
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	0.90	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Share issues	0.00	0.00	0.00	0.00	0.00	800.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	(330.39)	(343.60)	711.70	302.00	(411.00)	(217.96)	-47.0	221.32	-	170.48	-23.0
FX / non cash items	361.39	33.60	70.30	229.60	(43.00)	0.00	-	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	31.00	(310.00)	782.00	531.60	(454.00)	(217.96)	-52.0	221.32	-	170.48	-23.0
Core EBITDA	(399.80)	7.50	327.60	581.00	803.00	862.37	7.4	1,005.88	16.6	1,242.79	23.6
Maintenance capital expenditure	(80.00)	(156.60)	(194.80)	(317.00)	(690.00)	(980.04)	42.0	(374.53)	-61.8	(633.95)	69.3
Maintenance net working capital	(50.39)	(130.43)	(162.18)	(157.65)	(157.65)	(157.65)	0.0	(157.65)	0.0	(157.65)	0.0
Operating free cash flow, pre-tax	(530.19)	(279.53)	(29.38)	106.35	(44.65)	(275.31)	516.7	473.71	-	451.19	-4.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Denmark

Industrial, Diversified

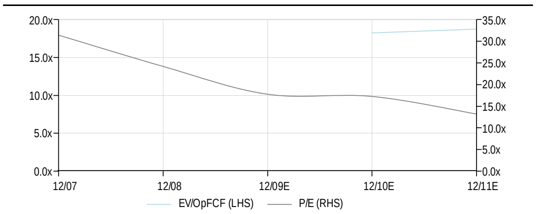
12-month rating	Buy
12m price target	DKr410.00
Short-term rating	Removed

Vestas Wind Systems

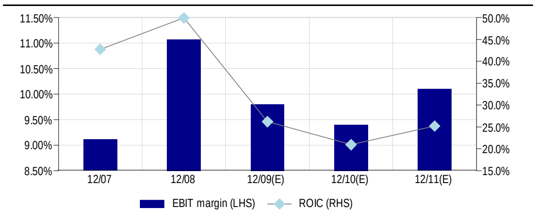
Company profile

Vestas is the world's largest manufacturer of wind turbines, with a c20% market share. The company holds the top 3 positions in most of the key regional markets, such as the US, China and Europe. Vestas' main competitors are GE, Gamesa, Enercon, Suzlon, Siemens, and Nordex.

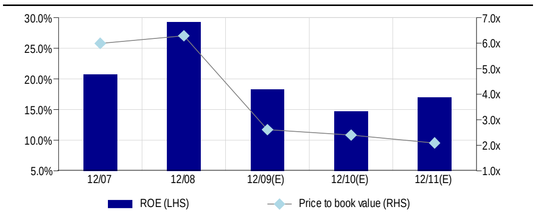
Value (EV/OpFCF & P/E)



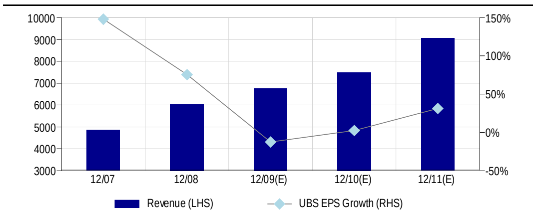
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	1.3	31.4	24.2	17.7	17.3	13.2
P/E (UBS)	1.5	31.4	24.2	17.7	17.3	13.2
P/CEPS	3.7	21.3	19.1	12.5	10.8	8.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	1.2	1.5
P/BV	3.2	6.0	6.3	2.6	2.4	2.1
EV/revenue (core)	1.1	1.7	2.0	1.3	1.2	0.9
EV/EBITDA (core)	29.3	14.6	14.9	10.0	8.6	6.8
EV/EBIT (core)	NM	19.2	17.9	13.1	12.3	9.2
EV/OpFCF (core)	NM	NM	NM	NM	18.3	18.7
EV/op. invested capital	3.0	8.2	8.9	3.4	2.6	2.3

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	9,135.51	12,371.53	8,726.98	8,726.98	8,726.98
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	(614.00)	(387.00)	(51.02)	(52.70)	(248.59)
+ pension obligations and other	2.00	2.00	2.00	2.00	2.00
- non-core asset value	(17.00)	(21.00)	(23.00)	(25.00)	(27.00)
Core enterprise value	8,506.51	11,965.53	8,654.96	8,651.28	8,453.38

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	19.8	26.1	24.2	12.0	10.8	20.9
EBITDA (UBS)	45.0	77.4	38.2	7.4	16.6	23.6
EBIT (UBS)	99.7	120.8	50.8	-0.8	6.3	29.9
EPS (UBS)	-	147.8	75.6	-12.5	2.6	31.3
Cash EPS	49.6	70.4	50.6	-1.8	15.5	22.8
Net DPS	-	-	-	-	-	31.3
BVPS	3.7	12.6	28.9	54.3	9.1	14.6

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	1.9	12.0	13.3	12.8	13.4	13.7
EBIT / revenue	-1.9	9.1	11.1	9.8	9.4	10.1
Net profit (UBS) / revenue	NM	6.0	8.5	7.1	6.7	7.3

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	0.7	42.8	49.9	26.2	20.9	25.2
ROIC post tax	-	28.1	35.7	18.9	15.1	18.1
Net ROE	-11.9	20.8	29.3	18.3	14.7	17.0

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	-	-	NM	-
Dividend cover (UBS EPS)	-	-	-	-	5.0	5.0
Div. payout ratio (%, UBS EPS)	-	-	-	-	20.0	20.0
Net debt / EBITDA	1.3	NM	NM	0.1	NM	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	2.7	4.7	4.5	2.7	2.2	2.5
Revenue / fixed assets	4.7	4.6	4.3	3.3	3.0	3.4
Revenue / net working capital	5.5	NM	60.4	10.2	7.0	7.9

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	NM	0.2	NM	NM	0.7	0.5
Capex / revenue (%)	5.6	6.5	11.4	14.5	5.0	7.0
Capex / depreciation	1.6	2.3	5.1	4.9	1.2	1.9

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	15.8	(40.3)	(8.1)	1.8	(4.5)	(8.0)
Net debt / (net debt + equity)	13.6	(67.4)	(8.9)	1.8	(4.7)	(8.7)
Net debt (core) / EV	4.2	(7.2)	(3.2)	(0.6)	(0.6)	(2.9)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of DKr319.00 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research

Gamesa

Upgrade to Buy, new PT €17 (from €14.5)

■ Volume growth and cost control should drive earnings

Gamesa should enjoy visible volume growth starting in H2 10, thanks to its multi-year contracts with utility partners, which do not suffer from financing constraints. In our view, the relationship with IBE R (30% of sales UBSe) should remain solid as contracts are still attractive to both parties, despite the CEO replacement. Also, Gamesa has tight cost control and flexible capacity management, which should facilitate a stable EBIT margin in 2010 and an increase in 2011.

■ Amendment of wind farm deal with IBE R is good news, in our view

A few weeks ago, Gamesa and IBE R announced to put their JV on hold until June 2011, which enables Gamesa to sell wind farm assets independently until then. Hence, there should be profits and cash flows from the Energía unit rather than solely development costs. We believe the amendment is good news, as it does not question Gamesa's exit, but facilitates visible value creation until the closing.

■ We now forecast 13%/33% EBIT growth y/y in 2010/11E

We have aligned our top-line forecast to our new market model, which results in lower growth rates for 2010/11E. We have cut 2010/11E EBIT by 13%/16%, but still assume 13%/33% growth y/y in 2010/11. Since we account for potential wind farm sales until June 2011 under discontinued operations, the related profits are not included in EPS. We estimate net profit from wind farm sales of €0.2 per share in 2010/11 each. Our new 2010/11E EPS are 9%/5% below consensus, respectively.

■ Valuation – price target raised to €17

We raise our PT by 17% to €17 (from €14.5), the rounded average of UBS VCAM (€18.6) and the increased sector average 20x PE 2010E (€15.7), including the discontinued wind farm profits. We switch back from cap goods to wind sector multiples, as 2011+ growth perspectives should become visible soon.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	3,274.00	3,646.20	3,254.43	3,510.36	4,206.68
EBIT (UBS)	250.00	207.61	224.10	252.26	336.59
Net Income (UBS)	220.00	155.11	145.28	167.78	243.76
EPS (UBS, €)	0.90	0.64	0.60	0.69	1.00
Net DPS (UBS, €)	0.23	0.20	0.15	0.17	0.30

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	12.2	5.7	6.9	7.2	8.0
ROIC (EBIT) %	-	15.2	13.9	16.3	27.5
EV/EBITDA (core) x	-	19.7	9.6	9.1	6.3
PE (UBS) x	17.3	40.4	22.6	19.5	13.4
Net dividend yield %	2.2	0.8	1.1	1.3	2.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €13.48 on 13 Oct 2009 21:39 BST

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Global Equity Research

Spain

Industrial, Diversified

12-month rating	Buy
	Prior: Neutral
12m price target	€17.00/US$25.21
	Prior: €14.50/US$21.50
Price	€13.48/US$19.98

RIC: GAM.MC BBG: GAM SM

Trading data (local/US$)	
52-wk range	€20.07-8.04/US$27.42-10.14
Market cap.	€3.28bn/US$4.86bn
Shares o/s	243m (ORD)
Free float	40%
Avg. daily volume ('000)	1,731
Avg. daily value (€m)	25.7

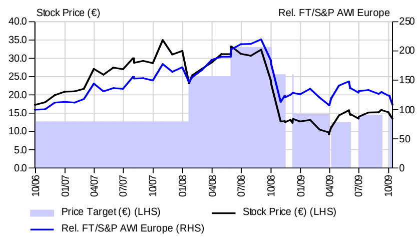
Balance sheet data 12/09E	
Shareholders' equity	€1.58bn
P/BV (UBS)	2.1x
Net Cash (debt)	(€0.43bn)

Forecast returns	
Forecast price appreciation	+26.2%
Forecast dividend yield	1.3%
Forecast stock return	+27.5%
Market return assumption	6.4%
Forecast excess return	+21.1%

EPS (UBS, €)

	12/09E			12/08
	From	To	Cons.	Actual
H1E	0.33	0.33	-	0.13
H2E	0.27	0.26	-	0.50
12/09E	0.60	0.60	*0.63*	
12/10E	0.85	0.69	*0.78*	

Performance (€)



Source: UBS

Table 41: UBS VCAM valuation summary for Gamesa [GAM.MC]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	224	252	337	387	426	484	530	577	625	674
D&A*	90	87	105	127	146	169	189	210	232	255
Capex	-146	-176	-252	-266	-243	-303	-329	-356	-383	-410
Chg. in wkg. cap.	-559	225	71	-63	-56	-82	-71	-76	-80	-84
Tax (operating)	-44	-63	-84	-95	-102	-121	-132	-144	-156	-168
Other	12	-8	-21	-19	-17	-19	-21	-22	-24	-25
Free Cash Flow	-424	318	155	72	153	128	165	189	214	242
growth		*NM*	*-51.1%*	*-54.0%*	*113.3%*	*-15.9%*	*28.9%*	*14.0%*	*13.5%*	*12.9%*

Valuation	
PV of explicit cash flow	1,628
PV of terminal value (yr. 15)	2,518
Enterprise Value	4,146
% terminal	*61%*
Associates & other	465
- Minority interests	6
Surplus cash**	154
- Debt***	568
Equity value	4,192
Shares outstanding	243.3
Equity per share (€/sh)	17.23
Cost of equity	9.10%
Dividend yield	1.19%
1-year Price Target (€/sh)	18.59

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	10.0%	5.0%	3.0%
EBIT margin	7.4%	6.8%	6.2%
Capex/sales	4.5%	4.0%	3.1%
ROIC	12.3%	11.6%	10.6%

Valuation-Implied Metrics			
Fiscal year	2009E	2010E	1-yr Fwd.
EV / EBITDA	13.2x	12.2x	12.4x
EV / EBIT	18.5x	16.4x	16.9x
FCF Yield	NM	7.7%	3.4%
P / E (PV)	28.9x	25.0x	25.8x
P / E (Target)	31.1x	27.0x	27.9x

WACC	
Risk free rate	3.22%
ERP	4.5%
Beta	1.31
Debt / equity***	15.8%
Marg. tax rate	26.5%
Cost of equity	9.10%
Cost of debt	5.92%
WACC	8.45%

Terminal Assumptions	
VCH (years)	15
Impl. FCF gr.	2.9%

Figures in € m, unless noted otherwise.

* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

Gamesa

Income statement (€m)	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	2,390.00	3,274.00	3,646.20	3,254.43	-10.7	3,510.36	7.9	4,206.68	19.8
Operating expenses (ex depn)	(2,098.50)	(2,993.00)	(3,602.79)	(3,017.48)	-16.2	(3,223.41)	6.8	(3,827.76)	18.7
EBITDA (UBS)	324.50	330.00	298.41	314.19	5.3	339.60	8.1	442.02	30.2
Depreciation	(62.70)	(80.00)	(90.80)	(90.09)	-0.8	(87.35)	-3.0	(105.43)	20.7
Operating income (EBIT, UBS)	261.80	250.00	207.61	224.10	7.9	252.26	12.6	336.59	33.4
Other income & associates	16.00	32.00	1.70	2.00	17.6	0.00	-	0.00	-
Net interest	(51.20)	(79.00)	(50.10)	(45.00)	-10.2	(28.57)	-36.5	(11.57)	-59.5
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	226.60	203.00	159.21	181.10	13.8	223.69	23.5	325.02	45.3
Tax	(28.50)	20.00	(2.20)	(35.82)	1528.2	(55.91)	56.1	(81.26)	45.3
Profit after tax	198.10	223.00	157.01	145.28	-7.5	167.78	15.5	243.76	45.3
Abnormal items (post-tax)	112.70	0.00	165.20	(20.00)	-	47.74	-	0.00	-
Minorities / pref dividends	1.90	(3.00)	(1.90)	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	312.70	220.00	320.31	125.28	-60.9	215.52	72.0	243.76	13.1
Net Income (UBS)	200.00	220.00	155.11	145.28	-6.3	167.78	15.5	243.76	45.3
Tax rate (%)	*12.58*	*0.00*	*1.38*	*19.78*	1331.3	*24.99*	26.4	*25.00*	0.0
Pre-abnormal tax rate (%)	*12.58*	*0.00*	*1.40*	*20.00*	1331.9	*24.99*	25.0	*25.00*	0.0

Per share (€)	12/06	12/08	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	1.29	0.90	1.32	0.51	-60.9	0.89	72.0	1.00	13.1
EPS (UBS)	0.82	0.90	0.64	0.60	-6.3	0.69	15.5	1.00	45.3
Net DPS	0.16	0.23	0.20	0.15	-25.4	0.17	15.4	0.30	74.4
Cash EPS	1.08	1.23	1.01	0.97	-4.3	1.05	8.4	1.44	36.9
BVPS	4.46	5.16	6.17	6.49	5.1	5.01	-22.8	6.04	20.5

Balance sheet (€m)	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	301.10	278.70	331.20	387.56	17.0	475.73	22.8	622.70	30.9
Net intangible fixed assets	507.30	519.40	447.50	447.50	0.0	447.50	0.0	447.50	0.0
Net working capital (incl. other assets)	1,100.90	907.60	1,070.60	1,436.21	34.1	646.06	-55.0	547.13	-15.3
Other liabilities	(209.10)	(309.50)	(520.80)	(370.80)	-28.8	(370.80)	0.0	(370.80)	0.0
Operating invested capital	1,700.20	1,396.20	1,328.50	1,900.47	43.1	1,198.49	-36.9	1,246.54	4.0
Investments	27.50	68.10	115.40	115.40	0.0	115.40	0.0	115.40	0.0
Total capital employed	1,727.70	1,464.30	1,443.90	2,015.87	39.6	1,313.89	-34.8	1,361.94	3.7
Shareholders' equity	1,084.80	1,256.60	1,501.30	1,578.22	5.1	1,219.16	-22.8	1,469.69	20.5
Minority interests	0.70	2.30	6.50	6.50	0.0	6.50	0.0	6.50	0.0
Total equity	1,085.50	1,258.90	1,507.80	1,584.72	5.1	1,225.66	-22.7	1,476.19	20.4
Net debt / (cash)	642.20	205.40	(63.90)	431.15	-	88.23	-79.5	(114.26)	-
Debt deemed provisions	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	1,727.70	1,464.30	1,443.90	2,015.87	39.6	1,313.89	-34.8	1,361.94	3.7

Cash flow (€m)	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	261.80	250.00	207.61	224.10	7.9	252.26	12.6	336.59	33.4
Depreciation	62.70	80.00	90.80	90.09	-0.8	87.35	-3.0	105.43	20.7
Net change in working capital	175.80	270.40	130.00	(515.61)	-	251.95	-	98.92	-60.7
Other (operating)	(54.60)	3.00	(23.50)	0.00	-	0.00	-	0.00	-
Operating cash flow	445.70	603.40	404.91	(201.42)	-	591.55	-	540.94	-8.6
Net interest received / (paid)	(51.20)	(79.00)	(50.10)	(45.00)	-10.2	(28.57)	-36.5	(11.57)	-59.5
Dividends paid	(39.60)	(38.93)	(55.70)	(48.66)	-12.6	(36.32)	-25.4	(41.93)	15.4
Tax paid	(14.80)	20.00	(2.20)	(35.82)	1528.2	(55.91)	56.1	(81.26)	45.3
Capital expenditure	(143.10)	(127.69)	(27.70)	(146.45)	428.7	(175.52)	19.8	(252.40)	43.8
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	69.80	29.00	103.00	(18.00)	-	47.74	-	(.00)	-
Share issues	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	266.80	406.79	372.21	(495.35)	-	342.98	-	153.78	-55.2
FX / non cash items	185.27	30.01	(102.91)	0.30	-	(0.06)	-	48.70	-
Balance sheet (inc)/dec in net debt	452.07	436.80	269.30	(495.05)	-	342.92	-	202.49	-41.0
Core EBITDA	324.50	330.00	298.41	314.19	5.3	339.60	8.1	442.02	30.2
Maintenance capital expenditure	(64.27)	(82.00)	(93.07)	(92.34)	-0.8	(89.53)	-3.0	(108.07)	20.7
Maintenance net working capital	(26.66)	(19.91)	(20.61)	(31.98)	55.2	(12.22)	-61.8	(9.75)	-20.2
Operating free cash flow, pre-tax (OpFCF)	233.58	228.09	184.73	189.87	2.8	237.85	25.3	324.20	36.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Spain

Industrial, Diversified

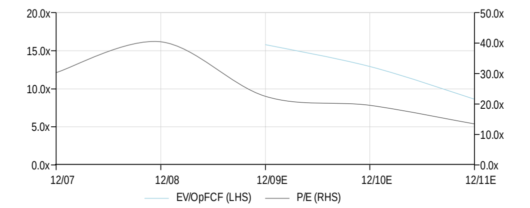
12-month rating	Buy
12m price target	€17.00

Gamesa

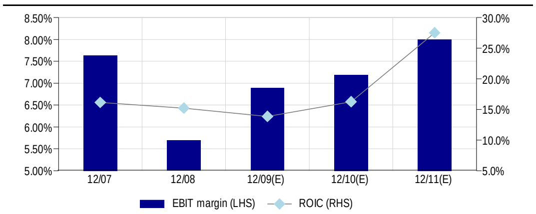
Company profile

Gamesa is a leading player in the fast-growing wind energy business. With a market share of 15%, Gamesa holds a top 3 position globally. Its activities include all the steps of the wind industry value chain: wind turbine manufacturing and wind farm development and sale. Its key markets include Spain, the US, China, Italy and Portugal.

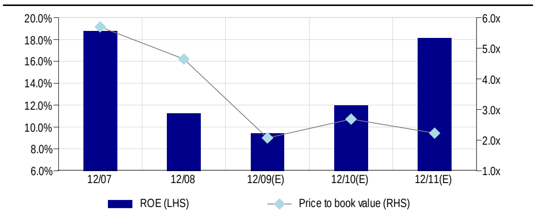
Value (EV/OpFCF & P/E)



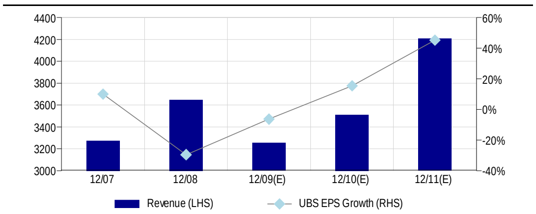
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	15.7	30.3	19.6	26.2	15.2	13.4
P/E (UBS)	17.3	30.3	40.4	22.6	19.5	13.4
P/CEPS	13.2	22.2	25.5	13.9	12.9	9.4
Net dividend yield (%)	2.2	0.8	0.8	1.1	1.3	2.2
P/BV	3.8	5.3	4.2	2.1	2.7	2.2
EV/revenue (core)	-	2.1	1.6	0.9	0.9	0.7
EV/EBITDA (core)	-	21.3	19.7	9.6	9.1	6.3
EV/EBIT (core)	-	28.1	28.3	13.4	12.2	8.3
EV/OpFCF (core)	-	NM	NM	15.8	12.9	8.7
EV/op. invested capital	-	4.5	4.3	1.9	2.0	2.3

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	6,673.43	6,269.78	3,278.44	3,278.44	3,278.44
+ minority interests	1.50	4.40	6.50	6.50	6.50
+ average net debt (cash)	423.80	70.75	183.63	259.69	(13.01)
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(68.10)	(465.40)	(465.40)	(465.40)	(465.40)
Core enterprise value	7,030.63	5,879.53	3,003.16	3,079.23	2,806.52

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	18.6	37.0	11.4	-10.7	7.9	19.8
EBITDA (UBS)	2.7	1.7	-9.6	5.3	8.1	30.2
EBIT (UBS)	0.0	-4.5	-17.0	7.9	12.6	33.4
EPS (UBS)	0.8	10.0	-29.5	-6.3	15.5	45.3
Cash EPS	3.6	14.2	-18.0	-4.3	8.4	36.9
Net DPS	-7.9	41.3	-11.5	-25.4	15.4	74.4
BVPS	23.9	15.8	19.5	5.1	-22.8	20.5

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	14.9	10.1	8.2	9.7	9.7	10.5
EBIT / revenue	12.2	7.6	5.7	6.9	7.2	8.0
Net profit (UBS) / revenue	9.8	6.7	4.3	4.5	4.8	5.8

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	16.1	15.2	13.9	16.3	27.5
ROIC post tax	-	16.1	15.0	11.1	12.2	20.6
Net ROE	-	18.8	11.2	9.4	12.0	18.1

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	6.3	3.2	4.2	5.0	8.8	29.1
Dividend cover (UBS EPS)	3.7	4.0	3.2	4.0	4.0	3.3
Div. payout ratio (%, UBS EPS)	28.2	25.0	31.4	25.0	25.0	30.0
Net debt / EBITDA	2.6	0.6	NM	1.4	0.3	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	2.1	2.7	2.0	2.3	3.4
Revenue / fixed assets	-	4.1	4.6	4.0	4.0	4.2
Revenue / net working capital	2.3	3.5	4.5	3.1	4.0	9.6

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	0.8	0.9	0.9	0.8	0.9	1.0
Capex / revenue (%)	4.9	3.9	0.8	4.5	5.0	6.0
Capex / depreciation	1.8	1.6	0.3	1.6	2.0	2.4

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	16.3	(4.3)	27.3	7.2	(7.8)
Net debt / (net debt + equity)	-	14.0	(4.4)	21.5	6.7	(8.4)
Net debt (core) / EV	-	6.0	1.2	6.1	8.4	(0.5)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €13.48 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Germany

Advanced Industrial Equipment

12-month rating	Sell *
	Unchanged
12m price target	€10.20/US$15.13
	Prior: €7.50/US$11.12
Price	€11.57/US$17.16

RIC: NDXGk.DE BBG: NDX1 GR

UBS Investment Research

Nordex AG

Doubts remain even when demand picks up

- **Market prospects are improving, but Nordex faces structural challenges**

We believe Nordex will benefit from its solid market positions in the UK, France, Italy and Turkey. However, the company suffers from several structural challenges versus the tier-1 manufacturers: (1) scale disadvantage in manufacturing, sourcing and distribution; (2) despite reliable products, Nordex's balance sheet might not be considered strong enough by financing banks for large projects; and (3) customer concentration (smaller developers) erodes Nordex's potential customer base

- **US market entry in times of intense competition will be difficult**

Nordex is establishing an assembly plant in the US, which should be operational from Q3 10 (a blade factory should be on stream in 2012). This US$100m investment bears high risks, given intensified competition and the strong foothold of GE, Vestas and Gamesa. Even though a high-potential opportunity, we are not yet convinced of the success of this major strategic step, as Nordex's US customer base is still small.

- **Top-line forecasts cut to reflect UBS wind power market model**

We have reduced our 2010/11E revenues substantially by 12%/22% to incorporate our market model and to reflect our view that market share gains are unlikely for Nordex. However, we expect tighter cost management than previously, which supports earnings. Our 2009/10/11E EPS have changed by +20%/+4%/-25%. Our new 2010/11E EPS are 24%/29% below consensus, while 2009E is in line.

- **Valuation – Raise PT to €10.2 (from €7.5), reiterate Sell rating**

We raise our PT by 36% to €10.2(from €7.5), which is the average of UBS VCAM (€11.2) and the increased sector average 20x PE 2010E (€9.2). We have switched back to wind peer multiples rather than capital goods, as visibility on 2010+ double-digit growth should improve over the next few quarters.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	747.50	1,135.70	1,200.09	1,336.76	1,590.33
EBIT (UBS)	40.10	63.00	37.82	46.54	68.95
Net Income (UBS)	48.90	47.60	22.98	30.69	46.68
EPS (UBS, €)	0.75	0.71	0.34	0.46	0.70
Net DPS (UBS, €)	0.00	0.00	0.00	0.00	0.14

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	5.5	3.2	3.5	4.3
ROIC (EBIT) %	-	44.5	13.4	13.1	18.1
EV/EBITDA (core) x	-	16.4	12.8	11.2	7.8
PE (UBS) x	-	30.5	33.7	25.2	16.6
Net dividend yield %	-	0.0	0.0	0.0	1.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €11.57 on 13 Oct 2009 21:39 BST

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Trading data (local/US$)	
52-wk range	€15.19-7.26/US$20.75-9.14
Market cap.	€0.77bn/US$1.14bn
Shares o/s	66.7m (ORD)
Free float	58%
Avg. daily volume ('000)	272
Avg. daily value (€m)	3.3

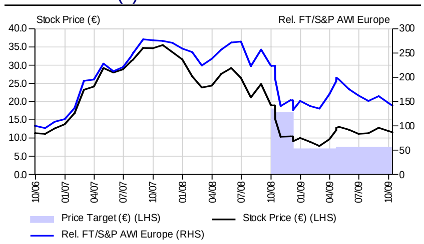
Balance sheet data 12/09E	
Shareholders' equity	€0.34bn
P/BV (UBS)	2.2x
Net Cash (debt)	(€.00bn)

Forecast returns	
Forecast price appreciation	-11.8%
Forecast dividend yield	0.0%
Forecast stock return	-11.8%
Market return assumption	6.3%
Forecast excess return	-18.1%

EPS (UBS, €)

	12/09E			12/08
	From	To	Cons.	Actual
Q1	0.01	0.01	0.01	0.09
Q2	0.03	0.03	0.03	0.10
Q3E	0.10	0.08	0.12	0.23
Q4E	0.20	0.23	0.23	0.30
12/09E	0.34	0.34	*0.41*	
12/10E	0.46	0.46	*0.64*	

Performance (€)



Source: UBS

* Exception to core rating bands; See page145

Table 42: UBS VCAM valuation summary for Nordex [NDXGk.DE]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	43	49	69	85	98	116	129	144	159	175
D&A*	18	22	28	33	37	44	49	55	60	66
Capex	-72	-74	-72	-74	-73	-79	-83	-86	-89	-91
Chg. in wkg. cap.	-10	21	-25	-30	-51	-59	-63	-67	-71	-75
Tax (operating)	-13	-15	-21	-26	-29	-35	-39	-43	-47	-52
Other	-2	-4	-8	-8	-7	-8	-8	-9	-9	-10
Free Cash Flow	-36	-0	-28	-20	-24	-20	-14	-7	3	14
growth		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*429.8%*

Valuation	
PV of explicit cash flow	19
PV of terminal value (yr. 15)	678
Enterprise Value	696
% terminal	*97%*
Associates & other	8
- Minority interests	3
Surplus cash**	74
- Debt***	86
Equity value	690
Shares outstanding	66.8
Equity per share (€/sh)	10.32
Cost of equity	8.89%
Dividend yield	0.00%
1-year Price Target (€/sh)	11.24

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	10.0%	5.0%	2.5%
EBIT margin	5.0%	5.0%	5.0%
Capex/sales	2.6%	2.3%	2.1%
ROIC	10.6%	10.1%	9.7%

Valuation-Implied Metrics			
Fiscal year	2009E	2010E	1-yr Fwd.
EV / EBITDA	11.4x	9.9x	10.2x
EV / EBIT	16.3x	14.3x	14.8x
FCF Yield	NM	NM	NM
P / E (PV)	24.9x	21.4x	22.1x
P / E (Target)	27.1x	23.3x	24.1x

WACC	
Risk free rate	3.22%
ERP	4.5%
Beta	1.26
Debt / equity***	11.1%
Marg. tax rate	30.0%
Cost of equity	8.89%
Cost of debt	5.72%
WACC	8.40%

Terminal Assumptions	
VCH (years)	15
Impl. FCF gr.	3.8%

Figures in € m, unless noted otherwise.

* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

Nordex AG

Income statement (€m)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	308.90	513.60	747.50	1,135.70	1,200.09	*5.7*	1,336.76	*11.4*	1,590.33	*19.0*
Operating expenses (ex depn)	-	(312.20)	(531.10)	(763.00)	(1,129.10)	(1,161.98)	*2.9*	(1,288.83)	*10.9*	(1,519.11)	*17.9*
EBITDA (UBS)	-	11.80	29.70	54.10	78.90	56.11	*-28.9*	68.65	*22.3*	96.67	*40.8*
Depreciation	-	(11.70)	(13.10)	(14.00)	(15.90)	(18.29)	*15.0*	(22.11)	*20.9*	(27.71)	*25.3*
Operating income (EBIT, UBS)	-	0.10	16.60	40.10	63.00	37.82	*-40.0*	46.54	*23.1*	68.95	*48.1*
Other income & associates	-	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	-	(2.90)	(3.80)	(1.10)	1.00	(5.00)	-	(2.73)	*-45.5*	(2.25)	*-17.4*
Abnormal items (pre-tax)	-	(5.40)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	(8.20)	12.80	39.00	64.00	32.82	*-48.7*	43.82	*33.5*	66.70	*52.2*
Tax	-	0.00	(0.20)	8.90	(14.50)	(9.84)	*-32.1*	(13.13)	*33.5*	(20.02)	*52.5*
Profit after tax	-	(8.20)	12.60	47.90	49.50	22.98	*-53.6*	30.69	*33.5*	46.68	*52.1*
Abnormal items (post-tax)	-	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	0.00	0.20	1.00	(1.90)	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	-	(8.20)	12.80	48.90	47.60	22.98	*-51.7*	30.69	*33.5*	46.68	*52.1*
Net Income (UBS)	-	(4.42)	12.80	48.90	47.60	22.98	*-51.7*	30.69	*33.5*	46.68	*52.1*
Tax rate (%)	-	*0.00*	*1.56*	*0.00*	*22.66*	*29.98*	*32.3*	*29.97*	*0.0*	*30.02*	*0.2*
Pre-abnormal tax rate (%)	-	*0.00*	*1.56*	*0.00*	*22.66*	*29.98*	*32.3*	*29.97*	*0.0*	*30.02*	*0.2*

Per share (€)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	(0.15)	0.21	0.75	0.71	0.34	*-51.7*	0.46	*33.5*	0.70	*52.1*
EPS (UBS)	-	(0.08)	0.21	0.75	0.71	0.34	*-51.7*	0.46	*33.5*	0.70	*52.1*
Net DPS	-	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.14	-
Cash EPS	-	0.13	0.42	0.96	0.95	0.62	*-35.0*	0.79	*27.9*	1.11	*40.9*
BVPS	-	1.08	2.27	4.05	4.80	5.15	*7.1*	5.61	*8.9*	6.30	*12.5*

Balance sheet (€m)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	21.30	27.80	35.20	78.80	132.51	*68.2*	183.93	*38.8*	227.78	*23.8*
Net intangible fixed assets	-	23.60	22.60	28.80	39.70	39.70	*0.0*	39.70	*0.0*	39.70	*0.0*
Net working capital (incl. other assets)	-	11.70	(20.10)	27.80	168.70	237.01	*40.5*	213.99	*-9.7*	190.37	*-11.0*
Other liabilities	-	(15.30)	(19.70)	(28.90)	(66.90)	(66.90)	*0.0*	(66.90)	*0.0*	(66.90)	*0.0*
Operating invested capital	-	41.30	10.60	62.90	220.30	342.32	*55.4*	370.72	*8.3*	390.95	*5.5*
Investments	-	9.80	7.20	4.60	8.20	8.20	*0.0*	8.20	*0.0*	8.20	*0.0*
Total capital employed	-	51.10	17.80	67.50	228.50	350.52	*53.4*	378.92	*8.1*	399.15	*5.3*
Shareholders' equity	-	63.50	146.30	270.40	321.10	344.06	*7.2*	374.70	*8.9*	421.42	*12.5*
Minority interests	-	0.00	2.20	1.40	3.30	3.30	*0.0*	3.30	*0.0*	3.30	*0.0*
Total equity	-	63.50	148.50	271.70	324.40	347.36	*7.1*	378.00	*8.8*	424.72	*12.4*
Net debt / (cash)	-	(12.40)	(130.70)	(204.20)	(95.90)	3.16	-	0.92	*-71.0*	(25.57)	-
Debt deemed provisions	-	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	51.10	17.80	67.50	228.50	350.52	*53.4*	378.92	*8.1*	399.15	*5.3*

Cash flow (€m)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	0.10	16.60	40.10	63.00	37.82	*-40.0*	46.54	*23.1*	68.95	*48.1*
Depreciation	-	11.70	13.10	14.00	15.90	18.29	*15.0*	22.11	*20.9*	27.71	*25.3*
Net change in working capital	-	(17.50)	58.90	(26.30)	(168.50)	(68.31)	*-59.5*	23.02	-	23.62	*2.6*
Other (operating)	-	(6.60)	(21.10)	(7.60)	43.50	0.00	-	0.00	-	0.00	-
Operating cash flow	-	(12.30)	67.50	20.20	(46.10)	(12.20)	*-73.5*	91.67	-	120.29	*31.2*
Net interest received / (paid)	-	(2.90)	(3.80)	(1.10)	1.00	(5.00)	-	(2.73)	*-45.5*	(2.25)	*-17.4*
Dividends paid	-	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Tax paid	-	(0.40)	(1.50)	(2.70)	(5.20)	(9.84)	*89.2*	(13.13)	*33.5*	(20.02)	*52.5*
Capital expenditure	-	(8.80)	(19.10)	(28.50)	(72.30)	(72.01)	*-0.4*	(73.52)	*2.1*	(71.56)	*-2.7*
Net (acquisitions) / disposals	-	0.00	0.20	4.20	2.10	0.00	-	0.00	-	0.00	-
Other	-	-	1.60	12.40	(11.50)	0.00	-	0.00	-	0.00	-
Share issues	-	69.50	71.80	75.80	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	40.30	116.70	80.30	(132.00)	(99.04)	*-25.0*	2.29	-	26.44	*1054.5*
FX / non cash items	-	-	1.60	(6.80)	23.70	(0.02)	-	(0.04)	*119.1*	0.05	-
Balance sheet (inc)/dec in net debt	-	-	118.30	73.50	(108.30)	(99.06)	*-8.5*	2.25	-	26.49	*1079.3*
Core EBITDA	-	11.80	29.70	54.10	78.90	56.11	*-28.9*	68.65	*22.3*	96.67	*40.8*
Maintenance capital expenditure	-	(12.05)	(13.49)	(14.42)	(16.38)	(18.84)	*15.0*	(22.77)	*20.9*	(28.54)	*25.3*
Maintenance net working capital	-	(0.46)	(1.59)	(0.84)	3.32	5.37	*61.7*	4.68	*-12.9*	3.97	*-15.1*
Operating free cash flow, pre-tax	-	(0.71)	14.62	38.84	65.84	42.64	*-35.2*	50.56	*18.6*	72.09	*42.6*

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Germany

Advanced Industrial Equipment

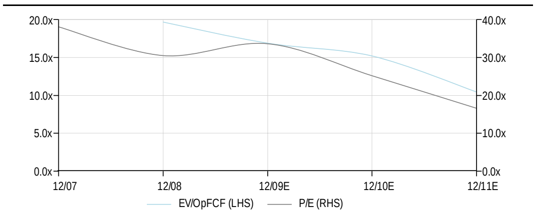
12-month rating	Sell *
12m price target	€10.20

Nordex AG

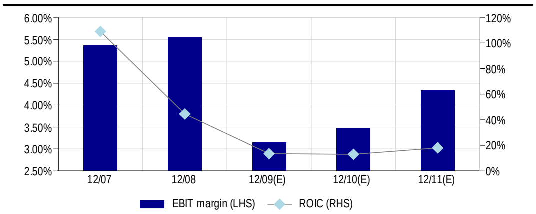
Company profile

Nordex is the world's ninth-largest manufacturer of wind power generators, holding a 3.4% global market share (2007). The company focuses on the multi-megawatt segment and is expanding its international footprint. Nordex has production facilities in Germany and China and is currently establishing a new plant in the US. The company's key markets are France, UK, Italy, Germany, China and the US.

Value (EV/OpFCF & P/E)

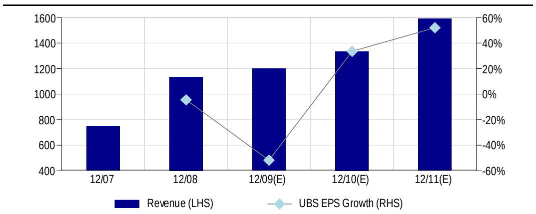


Profitability



ROE v Price to book value

Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	38.1	30.5	33.7	25.2	16.6
P/E (UBS)	-	38.1	30.5	33.7	25.2	16.6
P/CEPS	-	29.6	22.9	18.7	14.6	10.4
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	1.2
P/BV	-	7.0	4.5	2.2	2.1	1.8
EV/revenue (core)	-	2.3	1.1	0.6	0.6	0.5
EV/EBITDA (core)	-	31.3	16.4	12.8	11.2	7.8
EV/EBIT (core)	-	NM	20.6	19.0	16.5	10.9
EV/OpFCF (core)	-	NM	19.7	16.9	15.2	10.5
EV/op. invested capital	-	NM	9.2	2.6	2.2	2.0

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	1,865.10	1,452.21	771.55	771.55	771.55
+ minority interests	1.80	2.35	3.30	3.30	3.30
+ average net debt (cash)	(167.45)	(150.05)	(46.37)	2.04	(12.33)
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(4.60)	(8.20)	(8.20)	(8.20)	(8.20)
Core enterprise value	1,694.85	1,296.31	720.28	768.69	754.32

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	45.5	51.9	5.7	11.4	19.0
EBITDA (UBS)	-	82.2	45.8	-28.9	22.3	40.8
EBIT (UBS)	-	141.6	57.1	-40.0	23.1	48.1
EPS (UBS)	-	NM	-4.5	-51.7	33.5	52.1
Cash EPS	-	129.7	-0.9	-35.0	27.9	40.9
Net DPS	-	-	-	-	-	-
BVPS	-	77.9	18.8	7.1	8.9	12.5

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	7.2	6.9	4.7	5.1	6.1
EBIT / revenue	-	5.4	5.5	3.2	3.5	4.3
Net profit (UBS) / revenue	-	6.5	4.2	1.9	2.3	2.9

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	NM	44.5	13.4	13.1	18.1
ROIC post tax	-	NM	34.4	9.4	9.1	12.7
Net ROE	-	23.5	16.1	6.9	8.5	11.7

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	NM	-	7.6	17.1	NM
Dividend cover (UBS EPS)	-	-	-	-	-	5.0
Div. payout ratio (%, UBS EPS)	-	-	-	-	-	20.0
Net debt / EBITDA	-	NM	NM	0.1	0.0	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	20.3	8.0	4.3	3.7	4.2
Revenue / fixed assets	-	13.1	12.4	8.3	6.8	6.5
Revenue / net working capital	-	NM	27.5	8.3	8.0	11.0

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	1.0	1.0	1.1	1.1	1.0
Capex / revenue (%)	-	3.8	6.4	6.0	5.5	4.5
Capex / depreciation	-	2.0	4.5	3.9	3.3	2.6

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	(75.5)	(29.9)	0.9	0.2	(6.1)
Net debt / (net debt + equity)	-	NM	(42.6)	0.9	0.2	(6.5)
Net debt (core) / EV	-	(9.9)	(11.6)	(6.4)	0.3	(1.6)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €11.57 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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* Exception to core rating bands; See page145

UBS Investment Research

Gurit

Global Equity Research

Switzerland	
Chemicals, Specialty	
12-month rating	Neutral *Unchanged*
12m price target	CHF620.00/US$605.62 *Unchanged*
Price	CHF661.00/US$645.67
RIC: GUR.S BBG: GUR SW	

Headwinds today, tailwinds tomorrow

■ Opportunities in wind energy market to good too become negative

While facing difficulties in order intake due to the credit shortage and project postponements in 2009, we think Gurit could benefit from attractive growth rates in the wind energy market from 2010. We expect Gurit to grow its divisional wind sales (c65% of total sales) by a 15% CAGR 2010-12E. However margin enhancement could be negatively affected by increasing pricing pressure.

■ Increasing pricing pressure and limited negotiating power are concerns

In our estimates (EBIT margin 2009-11E 4.7-7%) we give the company the benefit of the doubt in terms of increased cost efficiency/productivity. However, margin pressure due to declining ASP at key customers, caused by rising competition, may be passed through to suppliers, such as Gurit. Therefore, pricing pressure and limited negotiating power are key concerns and could hurt its P&L.

■ EBIT margin of 8-10% from 2010/11 too optimistic in our view

Gurit guides for FY 09 (unspecified) significantly lower sales (UBSe -19%, of which wind division -10%) with an underlying EBIT margin of c5%. Positive transaction effects due to a weak sterling and Canadian dollar versus the euro support the EBIT margin by 90-120bp we think. The company expects an EBIT margin of 8-10% (UBSe 6.6-7% 2010-11E) from 2010/11, assuming a top-line recovery.

■ Valuation: DCF- based PT of CHF620; valuation uncompelling

The stock trades on 6.7x 2010E EV/EBITDA and 17.2x PE, a 12% discount on EV/EBITDA and a 4% premium on PE to its closest listed peer, Hexcel. Gurit offers significantly lower EBIT margins than Hexcel.

Highlights (CHFm)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	448.82	456.21	367.73	409.86	474.22
EBIT (UBS)	(1.99)	23.96	17.22	27.18	33.23
Net Income (UBS)	(4.54)	14.33	9.88	17.77	22.49
EPS (UBS, CHF)	(9.81)	30.79	21.11	37.97	48.05
Net DPS (UBS, CHF)	6.58	13.00	15.00	11.40	14.40

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	4.4	5.3	4.7	6.6	7.0
ROIC (EBIT) %	4.5	7.9	9.1	21.0	23.7
EV/EBITDA (core) x	10.9	10.8	9.8	6.8	5.4
PE (UBS) x	-27.9	26.2	31.3	17.4	13.8
Net dividend yield %	4.2	1.6	2.3	1.7	2.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of CHF661.00 on 13 Oct 2009 21:39 BST

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Trading data (local/US$)

52-wk range	CHF785.00-250.00/US$694.07-215.76
Market cap.	CHF0.31bn/US$0.30bn
Shares o/s	0.42m (BEAR)
Free float	88%
Avg. daily volume ('000)	1
Avg. daily value (CHFm)	0.9

Balance sheet data 12/09E

Shareholders' equity	CHF0.15bn
P/BV (UBS)	2.0x
Net Cash (debt)	CHF0.03bn

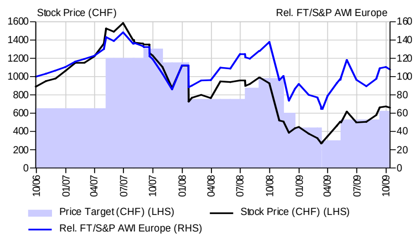
Forecast returns

Forecast price appreciation	-6.2%
Forecast dividend yield	1.7%
Forecast stock return	-4.5%
Market return assumption	5.6%
Forecast excess return	-10.1%

EPS (UBS, CHF)

	12/09E		12/08
	UBS	Cons.	Actual
H1	10.56	-	10.44
H2E	10.56	-	20.35
12/09E	21.11	*36.10*	
12/10E	37.97	*38.05*	

Performance (CHF)



Source: UBS

Gurit

Income statement (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	578.80	301.08	381.30	448.82	456.21	367.73	-19.4	409.86	11.5	474.22	15.7
Operating expenses (ex depn)	(493.17)	(277.79)	(348.43)	(429.42)	(419.15)	(337.63)	-19.4	(368.33)	9.1	(422.02)	14.6
EBITDA (UBS)	85.64	23.29	38.10	19.41	37.06	30.09	-18.8	41.53	38.0	52.20	25.7
Depreciation	(47.66)	(13.24)	(13.48)	(21.39)	(13.10)	(12.87)	-1.8	(14.35)	11.5	(18.97)	32.2
Operating income (EBIT, UBS)	37.98	10.05	24.62	(1.99)	23.96	17.22	-28.1	27.18	57.8	33.23	22.3
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	(3.60)	1.17	(1.70)	(2.91)	(2.88)	(3.50)	21.4	(2.50)	-28.6	(2.00)	-20.0
Abnormal items (pre-tax)	(8.00)	0.00	2.92	5.50	3.99	18.80	371.2	0.00	-	0.00	-
Profit before tax	26.38	11.22	25.84	0.60	25.07	32.52	29.8	24.68	-24.1	31.23	26.5
Tax	(10.73)	(2.49)	(7.27)	0.36	(8.03)	(9.11)	13.4	(6.91)	-24.1	(8.75)	26.5
Profit after tax	15.66	8.73	18.57	0.96	17.04	23.42	37.4	17.77	-24.1	22.49	26.5
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	0.11	1.31	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	15.76	10.03	18.57	0.96	17.04	23.42	37.4	17.77	-24.1	22.49	26.5
Net Income (UBS)	20.96	(0.97)	15.65	(4.54)	14.33	9.88	-31.0	17.77	79.8	22.49	26.5
Tax rate (%)	40.66	22.20	28.13	-	32.03	28.00	-12.6	28.00	0.0	28.00	0.0
Pre-abnormal tax rate (%)	39.34	120.25	31.71	-	32.03	28.00	-12.6	28.00	0.0	28.00	0.0

Per share (CHF)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	3.02	21.80	40.63	2.08	36.62	50.04	37.4	37.97	-24.1	48.05	26.5
EPS (UBS)	4.02	(2.10)	34.25	(9.81)	30.79	21.11	-31.4	37.97	79.8	48.05	26.5
Net DPS	24.00	24.00	13.00	6.58	13.00	15.00	15.4	11.40	-24.0	14.40	26.3
Cash EPS	13.15	26.66	63.74	36.45	58.95	48.62	-17.5	68.62	41.2	88.58	29.1
BVPS	1,080.34	1,009.32	742.32	668.13	540.13	327.28	-39.4	347.85	6.3	382.08	9.8

Balance sheet (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	216.95	170.39	115.16	130.07	91.29	86.42	-5.3	87.07	0.8	88.10	1.2
Net intangible fixed assets	235.91	225.99	171.83	162.91	117.56	3.10	-97.4	2.60	-16.1	2.10	-19.3
Net working capital (incl. other assets)	124.54	132.58	68.13	85.32	68.67	59.68	-13.1	70.37	17.9	80.67	14.6
Other liabilities	(36.44)	(52.90)	(27.81)	(24.30)	(25.08)	(25.00)	-0.3	(25.00)	0.0	(25.00)	0.0
Operating invested capital	540.96	476.06	327.31	354.00	252.44	124.19	-50.8	135.04	8.7	145.87	8.0
Investments	13.22	6.78	3.30	3.50	0.14	0.14	0.0	0.14	0.0	0.14	0.0
Total capital employed	554.18	482.84	330.61	357.50	252.58	124.33	-50.8	135.18	8.7	146.01	8.0
Shareholders' equity	453.74	423.91	311.77	309.03	251.31	153.17	-39.1	162.79	6.3	178.81	9.8
Minority interests	2.20	(0.10)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total equity	455.94	423.81	311.77	309.03	251.31	153.17	-39.1	162.79	6.3	178.81	9.8
Net debt / (cash)	93.15	54.57	16.01	45.52	(1.77)	(32.00)	1710.1	(30.90)	-3.4	(36.23)	17.2
Debt deemed provisions	5.08	4.45	2.83	2.95	3.05	3.17	4.0	3.29	4.0	3.43	4.0
Total capital employed	554.18	482.84	330.61	357.50	252.58	124.33	-50.8	135.18	8.7	146.01	8.0

Cash flow (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	37.98	10.05	24.62	(1.99)	23.96	17.22	-28.1	27.18	57.8	33.23	22.3
Depreciation	47.66	13.24	13.48	21.39	13.10	12.87	-1.8	14.35	11.5	18.97	32.2
Net change in working capital	(15.46)	18.04	63.00	(11.86)	14.52	9.00	-38.0	(10.69)	-	(10.30)	-3.7
Other (operating)	1.51	5.43	3.63	(13.50)	(15.10)	0.00	-	0.00	-	0.00	-
Operating cash flow	71.69	46.76	104.73	(5.95)	36.48	39.09	7.2	30.83	-21.1	41.90	35.9
Net interest received / (paid)	(3.60)	1.17	(1.70)	(2.91)	(2.88)	(3.50)	21.4	(2.50)	-28.6	(2.00)	-20.0
Dividends paid	(11.18)	(11.06)	(11.04)	(5.94)	(3.03)	(6.05)	99.6	(7.02)	16.1	(5.34)	-24.0
Tax paid	(10.73)	(4.99)	(4.10)	(3.65)	(6.49)	(9.11)	40.3	(6.91)	-24.1	(8.75)	26.5
Capital expenditure	(30.10)	(16.44)	(31.34)	(42.82)	(8.57)	(9.00)	5.1	(15.50)	72.2	(20.50)	32.3
Net (acquisitions) / disposals	(6.52)	5.92	14.43	24.89	19.37	0.00	-	0.00	-	0.00	-
Other	(7.89)	3.85	3.26	9.51	2.45	18.80	666.4	0.00	-	0.00	-
Share issues	0.00	(0.83)	(0.75)	12.06	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	1.67	24.38	73.50	(14.82)	37.33	30.23	-19.0	(1.10)	-	5.32	-
FX / non cash items	(16.15)	14.20	(34.93)	(14.69)	9.96	0.00	-	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	(14.49)	38.58	38.57	(29.51)	47.29	30.23	-36.1	(1.10)	-	5.32	-
Core EBITDA	85.64	23.29	38.10	19.41	37.06	30.09	-18.8	41.53	38.0	52.20	25.7
Maintenance capital expenditure	(17.36)	(10.54)	(13.35)	(15.71)	(15.97)	(12.87)	-19.4	(14.35)	11.5	(16.60)	15.7
Maintenance net working capital	(4.58)	(3.81)	(2.95)	(2.18)	(2.14)	(1.79)	-16.5	(1.81)	1.4	(2.13)	17.4
Operating free cash flow, pre-tax	63.69	8.94	21.81	1.52	18.95	15.44	-18.5	25.37	64.3	33.48	32.0

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

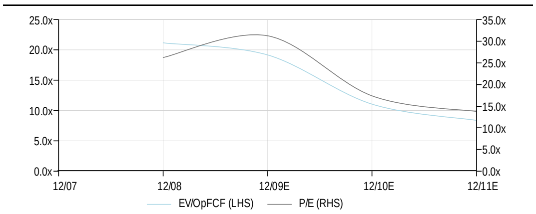
Gurit

12-month rating	Neutral
12m price target	CHF620.00

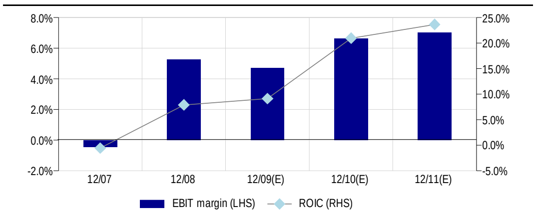
Company profile

Gurit has successfully transformed itself from an industrial conglomerate into an integrated composite and polymer producer focused on high-growth markets such as wind, aerospace, and marine. Its largest customers are Vestas, Gamesa and EADS (Airbus). The company holds a leading position in composites, where it competes with Cytec and Hexcel.

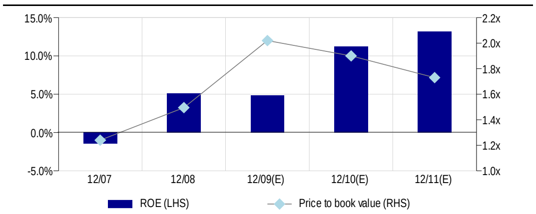
Value (EV/OpFCF & P/E)



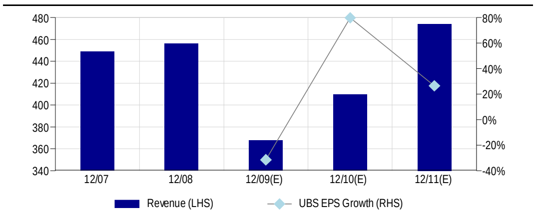
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	NM	NM	22.2	13.2	17.4	13.8
P/E (UBS)	-27.9	<-100	26.2	31.3	17.4	13.8
P/CEPS	23.5	34.3	13.7	13.6	9.6	7.5
Net dividend yield (%)	4.2	0.5	1.6	2.3	1.7	2.2
P/BV	0.8	1.9	1.5	2.0	1.9	1.7
EV/revenue (core)	1.2	1.4	0.9	0.8	0.7	0.6
EV/EBITDA (core)	10.9	31.7	10.8	9.8	6.8	5.4
EV/EBIT (core)	26.2	NM	16.7	17.2	10.3	8.5
EV/OpFCF (core)	18.3	NM	21.2	19.2	11.1	8.4
EV/op. invested capital	1.2	1.8	1.3	1.6	2.2	2.0

Enterprise value (CHFm)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	585.56	377.93	309.35	309.35	309.35
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	30.76	21.88	(16.89)	(31.45)	(31.45)
+ pension obligations and other	2.95	3.05	3.17	3.29	3.43
- non-core asset value	(3.29)	(1.65)	0.00	(0.14)	(0.14)
Core enterprise value	615.98	401.21	295.63	281.05	281.18

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-3.1	17.7	1.6	-19.4	11.5	15.7
EBITDA (UBS)	-29.6	-49.1	91.0	-18.8	38.0	25.7
EBIT (UBS)	-	-	-	-28.1	57.8	22.3
EPS (UBS)	-	-	-	-31.4	79.8	26.5
Cash EPS	28.0	-42.8	61.7	-17.5	41.2	29.1
Net DPS	-27.6	-49.4	97.7	15.4	-24.0	26.3
BVPS	-11.2	-10.0	-19.2	-39.4	6.3	9.8

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	10.5	4.3	8.1	8.2	10.1	11.0
EBIT / revenue	4.4	-0.4	5.3	4.7	6.6	7.0
Net profit (UBS) / revenue	2.2	NM	3.1	2.7	4.3	4.7

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	4.5	NM	7.9	9.1	21.0	23.7
ROIC post tax	-	-	5.4	6.6	15.1	17.0
Net ROE	2.5	(1.5)	5.1	4.9	11.2	13.2

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	8.3	4.9	10.9	16.6
Dividend cover (UBS EPS)	-	-	2.4	1.4	3.3	3.3
Div. payout ratio (%, UBS EPS)	-	-	42.2	71.0	30.0	30.0
Net debt / EBITDA	1.2	2.3	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	1.0	1.3	1.5	2.0	3.2	3.4
Revenue / fixed assets	1.1	1.5	1.8	2.5	4.6	5.3
Revenue / net working capital	4.2	6.2	6.4	6.2	6.8	6.7

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	1.4	NM	0.8	0.9	0.9	1.0
Capex / revenue (%)	7.4	9.5	1.9	2.4	3.8	4.3
Capex / depreciation	1.1	2.0	0.7	0.7	1.1	1.1

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	14.8	14.7	(0.7)	(20.9)	(19.0)	(20.3)
Net debt / (net debt + equity)	12.9	12.8	(0.7)	(26.4)	(23.4)	(25.4)
Net debt (core) / EV	11.0	5.0	5.5	(5.7)	(11.2)	(11.2)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of CHF661.00 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research

Hansen Transmissions

At risk of breaching its covenants by Q3 10

■ Shares expected to move sideways, despite weak FY 10 expectations

We maintain our Neutral rating but trim our price target to 140p from 150p, reflecting our reduced estimates. We continue to believe that Hansen's share price is somewhat disconnected from fundamentals. Against this background, we think investors should hold the shares rather than sell them, although the stock trades at a substantial premium to its stand-alone value, on our numbers.

■ Dilution of Suzlon stake – a forgone conclusion?

Given Suzlon's ongoing tough operating performance, significant liquidity concerns and the fact that it might suffer due to oversupply in the wind turbine market, our Suzlon analysts no longer rule out a dilution of Suzlon's stake in Hansen to bridge funding gaps. Suzlon is still evaluating its options, which may or may not lead it to partly or entirely sell its 61.28% stake in Hansen.

■ FY 10E EBITDA cut by half; at risk of breaching its covenants by Q3 10

After weak Q1 10 results, we have lowered our FY 10-12E top line by 3-8%, assuming a 4% sales drop in FY 10 (versus guidance of flat sales at best), but double-digit growth in FY 11-14E. We expect Q2 margins to remain at depressed Q1 levels, but to recover from Q3 due to improved capacity utilisation. Overall, we have cut our FY 10-12E EBITDA line by 15-51%, translating into 21-88% cuts at the EBIT line and 25-100% EPS cuts. According to our estimates, Hansen could be at risk of breaching its CY 09 covenant of 3.0x net debt/EBITDA by Q3 10 (UBSe 3.4x), and its CY 10 covenant of 2.5x by the end of FY 10 (UBSe 4.3x), which could affect earnings.

■ Valuation: PT implies a 22% premium to our fundamental value of 115p

We value Hansen based on the mid-point of UBS VCAM (115p) and an assumed takeover bid of 165p, this year's peak.

Highlights (€m)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	421.48	609.17	584.03	679.29	850.65
EBIT (UBS)	42.31	63.87	7.00	38.76	89.09
Net Income (UBS)	31.30	45.04	(3.00)	19.82	59.72
EPS (UBS, €)	0.06	0.07	(.00)	0.03	0.09
Net DPS (UBS, €)	0.00	0.00	0.00	0.00	0.04

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	-	10.5	1.2	5.7	10.5
ROIC (EBIT) %	-	11.3	0.9	4.8	10.9
EV/EBITDA (core) x	-	14.7	22.6	13.1	7.9
PE (UBS) x	-	34.0	<-100	46.2	15.3
Net dividend yield %	-	0.0	0.0	0.0	2.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of 127p on 14 Oct 2009 19:34 EDT

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Global Equity Research

Belgium	
Industrial, Diversified	
12-month rating	Neutral * *Unchanged*
12m price target	140p/US$2.23 *Prior: 150p/US$2.39*
Price	127p/US$2.03

RIC: HSNT.L BBG: HSN LN

Trading data (local/US$)	
52-wk range	165p-75/US$2.82-1.10
Market cap.	£0.85bn/US$1.36bn
Shares o/s	670m (ORD)
Free float	29%
Avg. daily volume ('000)	737
Avg. daily value (£m)	1.0

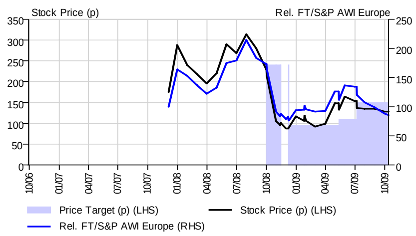
Balance sheet data 03/09E	
Shareholders' equity	€0.58bn
P/BV (UBS)	1.6x
Net Cash (debt)	(€0.21bn)

Forecast returns	
Forecast price appreciation	+10.0%
Forecast dividend yield	0.0%
Forecast stock return	+10.0%
Market return assumption	5.5%
Forecast excess return	+4.5%

EPS (UBS, €)

	03/10E			03/09
	From	To	Cons.	Actual
Q1	0.01	(0.01)	0.01	0.02
Q2E	0.01	(0.01)	0.01	0.02
Q3E	0.01	(.00)	0.02	0.01
Q4E	0.01	0.01	0.01	0.02
03/10E	0.05	(.00)	*0.03*	
03/11E	0.07	0.03	*0.09*	

Performance (p)



Source: UBS

* Exception to core rating bands; See page145

Hansen Transmissions

Income statement (€m)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	210.56	285.39	335.56	421.48	609.17	584.03	-4.1	679.29	16.3	850.65	25.2
Operating expenses (ex depn)	(191.45)	(239.36)	(287.03)	(363.34)	(523.85)	(540.09)	3.1	(598.46)	10.8	(717.05)	19.8
EBITDA (UBS)	20.49	47.14	51.93	61.11	93.71	48.03	-48.7	85.59	78.2	139.55	63.0
Depreciation	(10.85)	(11.80)	(12.95)	(18.81)	(29.84)	(41.03)	37.5	(46.83)	14.1	(50.46)	7.8
Operating income (EBIT, UBS)	9.64	35.35	38.98	42.31	63.87	7.00	-89.0	38.76	453.6	89.09	129.8
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	(7.18)	(4.80)	(4.82)	(7.79)	(1.73)	(10.98)	533.1	(12.73)	16.0	(11.76)	-7.6
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	2.46	30.55	34.16	34.52	62.14	(3.98)	-	26.03	-	77.32	197.1
Tax	(1.24)	(10.87)	(9.86)	(3.22)	(17.10)	0.98	-	(6.21)	-	(17.60)	183.5
Profit after tax	1.22	19.68	24.30	31.30	45.04	(3.00)	-	19.82	-	59.72	201.4
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	1.22	19.68	24.30	31.30	45.04	(3.00)	-	19.82	-	59.72	201.4
Net Income (UBS)	1.22	19.68	24.30	31.30	45.04	(3.00)	-	19.82	-	59.72	201.4
Tax rate (%)	50.28	35.57	28.85	9.32	27.51	0.00	-	23.85	-	22.76	-4.6
Pre-abnormal tax rate (%)	50.28	35.57	28.85	9.32	27.51	0.00	-	23.85	-	22.76	-4.6

Per share (€)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	0.00	0.04	0.05	0.06	0.07	(.00)	-	0.03	-	0.09	201.4
EPS (UBS)	0.00	0.04	0.05	0.06	0.07	(.00)	-	0.03	-	0.09	201.4
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.04	-
Cash EPS	0.02	0.06	0.08	0.09	0.11	0.06	-49.2	0.10	75.3	0.16	65.3
BVPS	0.18	0.21	0.24	0.82	0.87	0.87	-0.5	0.90	3.4	0.99	9.9

Balance sheet (€m)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	139.36	140.09	189.87	343.15	529.13	644.78	21.9	645.75	0.2	643.65	-0.3
Net intangible fixed assets	9.52	9.30	8.56	8.96	11.27	12.60	11.8	14.79	17.4	16.43	11.0
Net working capital (incl. other assets)	30.01	39.44	101.53	98.63	223.78	188.34	-15.8	199.74	6.1	221.99	11.1
Other liabilities	(19.34)	(23.47)	(33.17)	(34.20)	(53.68)	(53.68)	0.0	(53.68)	0.0	(53.68)	0.0
Operating invested capital	159.55	165.37	266.78	416.54	710.50	792.03	11.5	806.60	1.8	828.39	2.7
Investments	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	159.55	165.37	266.78	416.54	710.50	792.03	11.5	806.60	1.8	828.39	2.7
Shareholders' equity	119.29	138.80	162.03	547.12	583.82	580.82	-0.5	600.64	3.4	660.37	9.9
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total equity	119.29	138.80	162.03	547.12	583.83	580.81	-0.5	600.63	3.4	660.35	9.9
Net debt / (cash)	37.58	23.10	101.67	(132.73)	124.10	208.65	68.1	203.40	-2.5	165.47	-18.6
Debt deemed provisions	2.68	3.47	3.08	2.16	2.57	2.57	0.0	2.57	0.0	2.57	0.0
Total capital employed	159.55	165.37	266.78	416.54	710.50	792.03	11.5	806.60	1.8	828.39	2.7

Cash flow (€m)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	9.64	35.35	38.98	42.31	63.87	7.00	-89.0	38.76	453.6	89.09	129.8
Depreciation	10.85	11.80	12.95	18.81	29.84	41.03	37.5	46.83	14.1	50.46	7.8
Net change in working capital	(7.03)	(11.86)	(62.43)	(3.63)	(127.33)	34.57	-	(21.46)	-	(39.36)	83.4
Other (operating)	0.28	0.91	2.03	(2.78)	(0.73)	0.87	-	10.06	1056.3	17.10	70.0
Operating cash flow	13.74	36.20	(8.47)	54.71	(34.35)	83.47	-	74.19	-11.1	117.30	58.1
Net interest received / (paid)	(7.18)	(4.80)	(4.82)	(7.79)	(1.73)	(10.98)	533.1	(12.73)	16.0	(11.76)	-7.6
Dividends paid	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Tax paid	(1.61)	(4.34)	(4.67)	(0.78)	(1.93)	0.98	-	(6.21)	-	(17.60)	183.5
Capital expenditure	(14.32)	(12.17)	(62.44)	(171.01)	(225.51)	(158.00)	-29.9	(50.00)	-68.4	(50.00)	0.0
Net (acquisitions) / disposals	(6.83)	0.00	0.00	(1.45)	0.00	0.00	-	0.00	-	0.00	-
Other	-	(6.83)	(3.71)	(1.28)	(8.85)	(.00)	-100.0	0.00	-	0.00	-
Share issues	71.79	0.00	0.00	360.06	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	55.09	8.05	(84.11)	232.45	(272.37)	(84.53)	-69.0	5.25	-	37.93	622.7
FX / non cash items	-	6.43	5.54	1.95	15.54	(0.02)	-	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	-	14.48	(78.57)	234.40	(256.83)	(84.55)	-67.1	5.25	-	37.93	622.7
Core EBITDA	20.49	47.14	51.93	61.11	93.71	48.03	-48.7	85.59	78.2	139.55	63.0
Maintenance capital expenditure	(10.85)	(11.52)	(15.60)	(2.40)	(0.99)	(10.00)	912.1	(10.00)	0.0	(45.00)	350.0
Maintenance net working capital	(3.52)	(5.93)	(31.21)	(1.82)	(63.66)	17.29	-	(10.73)	-	(19.68)	83.4
Operating free cash flow, pre-tax	6.12	29.70	5.11	56.90	29.06	55.31	90.4	64.86	17.3	74.87	15.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Belgium

Industrial, Diversified

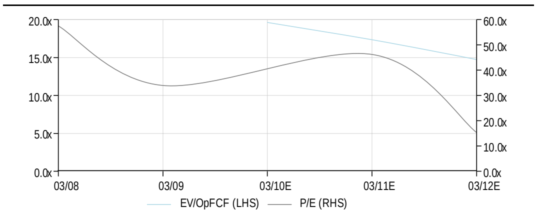
12-month rating	Neutral *
12m price target	140p

Hansen Transmissions

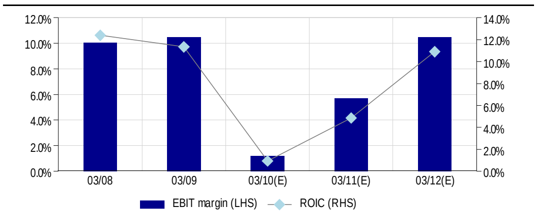
Company profile

Hansen is a leading independent Belgian manufacturer and supplier of industrial and wind turbine gearboxes, focusing on the multi-MW segment. It has almost doubled its wind turbine gearbox production capacity to 7,100MW since 2004, and aims to double capacity again by FY 12, including two new sites in India (5,000MW) and China (3,000MW). Hansen has strong R&D operations to maintain its technological leadership and employs more than c1,900 staff globally. Hansen was acquired by Suzlon Energy in 2006 and floated in December 2007, diluting Suzlon's stake to 71.3% and then to 61.3% after selling 10% to Ecofin.

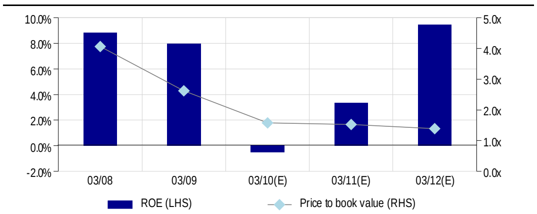
Value (EV/OpFCF & P/E)



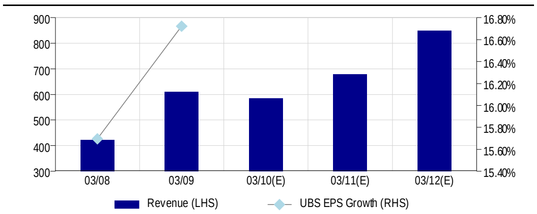
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	57.6	34.1	NM	46.3	15.4
P/E (UBS)	-	57.6	34.0	<-100	46.2	15.3
P/CEPS	-	36.0	20.4	24.1	13.7	8.3
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	2.6
P/BV	-	4.1	2.6	1.6	1.5	1.4
EV/revenue (core)	-	4.6	2.3	1.9	1.7	1.3
EV/EBITDA (core)	-	32.1	14.7	22.6	13.1	7.9
EV/EBIT (core)	-	NM	21.5	NM	29.0	12.4
EV/OpFCF (core)	-	NM	NM	19.6	17.3	14.7
EV/op. invested capital	-	5.7	2.4	1.4	1.4	1.3

Enterprise value (€m)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	1,972.43	1,377.79	915.36	915.36	915.36
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	(15.53)	(4.31)	166.38	206.02	184.43
+ pension obligations and other	2.62	2.36	2.57	2.57	2.57
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	1,959.52	1,375.84	1,084.31	1,123.96	1,102.36

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	-	25.6	44.5	-4.1	16.3	25.2
EBITDA (UBS)	-	17.7	53.3	-48.7	78.2	63.0
EBIT (UBS)	-	8.5	51.0	-89.0	NM	129.8
EPS (UBS)	-	15.7	16.7	-	-	NM
Cash EPS	-	20.8	21.2	-49.2	75.3	65.3
Net DPS	-	-	-	-	-	-
BVPS	-	NM	6.7	-0.5	3.4	9.9

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	-	14.5	15.4	8.2	12.6	16.4
EBIT / revenue	-	10.0	10.5	1.2	5.7	10.5
Net profit (UBS) / revenue	-	7.4	7.4	NM	2.9	7.0

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	-	12.4	11.3	0.9	4.8	10.9
ROIC post tax	-	11.2	8.2	0.9	3.7	8.4
Net ROE	-	8.8	8.0	(0.5)	3.4	9.5

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	-	5.4	NM	0.6	3.0	7.6
Dividend cover (UBS EPS)	-	-	-	-	-	2.5
Div. payout ratio (%, UBS EPS)	-	-	-	-	-	40.0
Net debt / EBITDA	-	NM	1.3	4.3	2.4	1.2

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	-	1.2	1.1	0.8	0.8	1.0
Revenue / fixed assets	-	1.5	1.4	1.0	1.0	1.3
Revenue / net working capital	-	4.3	3.8	2.9	3.5	4.1

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	-	1.3	0.5	7.9	1.7	0.8
Capex / revenue (%)	-	NM	NM	27.1	7.4	5.9
Capex / depreciation	-	9.1	7.6	3.9	1.1	1.0

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	-	(24.3)	21.3	35.9	33.9	25.1
Net debt / (net debt + equity)	-	(32.0)	17.5	26.4	25.3	20.0
Net debt (core) / EV	-	(0.8)	(0.3)	15.3	18.3	16.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of 127p on 14 Oct 2009 19:34 EDT Market cap(E) may include forecast share issues/buybacks.

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* Exception to core rating bands; See page145

UBS Investment Research

Suzlon Energy

Liquidity risks and low order book visibility

- **We are negative due to liquidity concerns and risks in the core business**

We rate Suzlon Sell on significant liquidity concerns, low visibility provided by the backlog, and still prevailing risks of breaches of debt covenants. The poor performance of the company quarter after quarter (Q1 10 loss of Rs4.3bn) has also not helped the business case. In our view, the Hansen sale is a foregone conclusion and we also do not rule out dilution to bridge funding gaps.

- **Wind turbine business is core for Suzlon**

Suzlon Energy is the world's fifth-largest wind turbine manufacturer and has made two acquisitions in Europe: (1) gear box manufacturer Hansen in 2006; and (2) REpower in 2007. Based on our proprietary surveys conducted in Q2 of calendar year 2009, Suzlon has retained its goodwill with its customers and is not considered inferior in terms of product quality, after-sales service and communication with the customer. However, it may suffer due to oversupply in the wind turbine market.

- **We have lowered our MW sales/EPS estimates after the Q1 10 loss**

Following the quarterly loss and the low visibility provided by the backlog, we have lowered our FY 10/11E EPS from Rs5.63/10.1 to Rs3.8/7.4, respectively, on lower sales and operating margins. We have also lowered our MW sales estimates for FY 10 (by 200MW to 2,000MW) and FY 11 (by 500MW to 2,450MW).

- **Valuation – we retain ourSell rating**

Our PT (DCF based) is Rs60 per share. At our PT, the stock would trade at 15.8x FY 10E and 8.1x FY 11E EPS. This discount to peers is warranted, in our view, owing to greater liquidity worries and lower returns.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	136,794.30	262,587.90	225,349.04	261,586.20	330,337.54
EBIT (UBS)	15,488.20	18,316.40	14,860.10	19,980.45	30,812.04
Net Income (UBS)	10,305.50	6,316.70	6,015.73	11,528.09	21,454.15
EPS (UBS, Rs)	7.00	4.20	3.84	7.36	13.70
Net DPS (UBS, Rs)	1.14	1.14	1.14	1.14	1.14

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	16.7	7.0	6.6	7.6	9.3
ROIC (EBIT) %	25.6	12.7	7.3	9.7	14.8
EV/EBITDA (core) x	-	12.2	11.5	8.6	5.8
PE (UBS) x	-	35.6	22.6	11.8	6.3
Net dividend yield %	-	0.8	1.3	1.3	1.3

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs86.70 on 13 Oct 2009 23:38 BST

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Global Equity Research

India

Industrial, Diversified

12-month rating	Sell *Unchanged*
12m price target	Rs60.00/US$1.29 *Unchanged*
Price	Rs86.70/US$1.87

RIC: SUZL.BO BBG: SUEL IB

Trading data (local/US$)	
52-wk range	Rs136.80-33.30/US$2.91-0.64
Market cap.	Rs125bn/US$2.69bn
Shares o/s	1,438m (ORD)
Free float	10%
Avg. daily volume ('000)	14,397
Avg. daily value (Rsm)	1,354.7

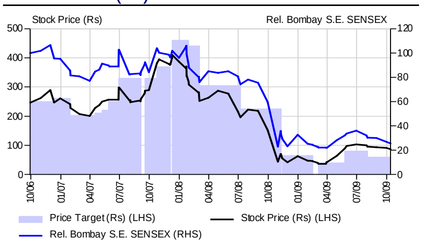
Balance sheet data 03/10E	
Shareholders' equity	Rs91.1bn
P/BV (UBS)	1.5x
Net Cash (debt)	(Rs106bn)

Forecast returns	
Forecast price appreciation	-30.8%
Forecast dividend yield	1.3%
Forecast stock return	-29.5%
Market return assumption	12.1%
Forecast excess return	-41.6%

EPS (UBS, Rs)

	03/10E		03/09
	UBS	Cons.	Actual
Q1E	-	-	0.00
Q2E	-	-	0.00
Q3E	-	-	0.00
Q4E	-	-	0.00
03/10E	3.84	*4.18*	
03/11E	7.36	*8.54*	

Performance (Rs)



Source: UBS

Suzlon Energy

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	19,454.72	38,839.00	79,991.80	136,794.30	262,587.90	225,349.04	-14.2	261,586.20	16.1	330,337.54	26.3
Operating expenses (ex depn)	(14,529.58)	(29,618.00)	(66,658.30)	(118,412.50)	(238,540.10)	(204,192.91)	-14.4	(234,091.97)	14.6	(291,746.72)	24.6
EBITDA (UBS)	4,925.14	9,221.00	13,333.50	18,381.80	24,047.80	21,156.13	-12.0	27,494.23	30.0	38,590.82	40.4
Depreciation	(423.80)	(715.90)	(1,718.00)	(2,893.60)	(5,731.40)	(6,296.03)	9.9	(7,513.78)	19.3	(7,778.78)	3.5
Operating income (EBIT, UBS)	4,501.34	8,505.10	11,615.50	15,488.20	18,316.40	14,860.10	-18.9	19,980.45	34.5	30,812.04	54.2
Other income & associates	201.50	474.90	830.50	2,645.50	1,817.50	2,744.92	51.0	2,883.32	5.0	3,425.87	18.8
Net interest	(458.25)	(647.70)	(2,763.40)	(5,969.40)	(9,012.10)	(7,625.07)	-15.4	(6,067.51)	-20.4	(5,691.54)	-6.2
Abnormal items (pre-tax)	3.00	0.00	0.00	0.00	(3,951.90)	0.00	-	0.00	-	0.00	-
Profit before tax	4,247.59	8,332.30	9,682.60	12,164.30	7,169.90	9,979.96	39.2	16,796.26	68.3	28,546.37	70.0
Tax	(391.14)	(568.10)	(1,034.60)	(1,988.30)	(2,881.20)	(3,088.32)	7.2	(4,207.24)	36.2	(5,707.11)	35.6
Profit after tax	3,856.45	7,764.20	8,648.00	10,176.00	4,288.70	6,891.64	60.7	12,589.01	82.7	22,839.26	81.4
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	(20.25)	(10.20)	(7.70)	129.50	(1,923.90)	(875.90)	-54.5	(1,060.93)	21.1	(1,385.11)	30.6
Net income (local GAAP)	3,836.20	7,754.00	8,640.30	10,305.50	2,364.80	6,015.73	154.4	11,528.09	91.6	21,454.15	86.1
Net Income (UBS)	3,833.20	7,754.00	8,640.30	10,305.50	6,316.70	6,015.73	-4.8	11,528.09	91.6	21,454.15	86.1
Tax rate (%)	*9.21*	*6.82*	*10.69*	*16.35*	*40.18*	*30.95*	*-23.0*	*25.05*	*-19.1*	*19.99*	*-20.2*
Pre-abnormal tax rate (%)	*9.22*	*6.82*	*10.69*	*16.35*	*25.91*	*30.95*	*19.5*	*25.05*	*-19.1*	*19.99*	*-20.2*

Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	2.94	6.99	5.99	7.00	1.57	3.84	144.0	7.36	91.6	13.70	86.1
EPS (UBS)	2.94	6.99	5.99	7.00	4.20	3.84	-8.7	7.36	91.6	13.70	86.1
Net DPS	0.30	1.15	1.16	1.14	1.14	1.14	0.7	1.14	0.0	1.14	0.0
Cash EPS	3.26	7.63	7.18	8.97	8.02	7.86	-2.0	12.16	54.7	18.66	53.5
BVPS	27.44	18.90	24.29	54.12	54.16	58.15	7.4	64.37	10.7	76.92	19.5

Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	3,078.60	6,408.60	23,088.50	42,952.60	59,688.86	59,428.42	-0.4	53,902.78	-9.3	48,064.69	-10.8
Net intangible fixed assets	0.00	0.00	17,643.20	13,923.10	72,699.87	72,699.87	0.0	72,699.87	0.0	72,699.87	0.0
Net working capital (incl. other assets)	8,363.95	19,929.90	32,251.80	34,790.20	68,479.50	80,159.12	17.1	78,037.93	-2.6	94,469.71	21.1
Other liabilities	0.00	0.00	(1,624.90)	(2,058.90)	(2,058.90)	(2,058.90)	0.0	(2,058.90)	0.0	(2,058.90)	0.0
Operating invested capital	11,442.55	26,338.50	71,358.60	89,607.00	198,809.32	210,228.51	5.7	202,581.67	-3.6	213,175.36	5.2
Investments	77.62	76.00	155.70	31,418.00	245.47	245.47	0.0	245.47	0.0	245.47	0.0
Total capital employed	11,520.17	26,414.50	71,514.30	121,025.00	199,054.80	210,473.98	5.7	202,827.15	-3.6	213,420.84	5.2
Shareholders' equity	7,889.23	27,172.71	35,110.80	81,013.30	81,682.44	91,091.17	11.5	100,826.34	10.7	120,500.19	19.5
Minority interests	67.45	99.70	166.10	10,268.80	12,190.90	13,066.80	7.2	14,127.73	8.1	15,512.84	9.8
Total equity	7,956.70	27,272.40	35,276.90	91,281.10	93,873.60	104,158.54	11.0	114,954.89	10.4	136,014.05	18.3
Net debt / (cash)	3,563.47	(857.90)	36,237.40	29,743.90	105,181.20	106,315.44	1.1	87,872.26	-17.3	77,406.79	-11.9
Debt deemed provisions	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	11,520.17	26,414.50	71,514.30	121,025.00	199,054.80	210,473.98	5.7	202,827.15	-3.6	213,420.84	5.2

Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	4,501.34	8,505.10	11,615.50	15,488.20	18,316.40	14,860.10	-18.9	19,980.45	34.5	30,812.04	54.2
Depreciation	423.80	715.90	1,718.00	2,893.60	5,731.40	6,296.03	9.9	7,513.78	19.3	7,778.78	3.5
Net change in working capital	(5,484.66)	(13,261.51)	(12,589.10)	(5,371.60)	(35,041.50)	(12,909.21)	-63.2	693.84	-	(18,215.77)	-
Other (operating)	822.20	2,272.10	897.70	3,226.00	1,352.20	1,229.59	-9.1	1,427.35	16.1	1,783.99	25.0
Operating cash flow	262.68	(1,768.41)	1,642.10	16,236.20	(9,641.50)	9,476.50	-	29,615.42	212.5	22,159.04	-25.2
Net interest received / (paid)	(458.25)	(647.70)	(2,763.40)	(5,969.40)	(9,012.10)	(7,625.07)	-15.4	(6,067.51)	-20.4	(5,691.54)	-6.2
Dividends paid	(396.24)	(1,646.90)	(1,673.80)	(1,713.46)	(1,713.46)	(1,792.92)	4.6	(1,792.92)	0.0	(1,780.30)	-0.7
Tax paid	(391.14)	(568.10)	(1,034.60)	(1,988.30)	(2,881.20)	(3,088.32)	7.2	(4,207.24)	36.2	(5,707.11)	35.6
Capital expenditure	(1,849.79)	(4,058.02)	(22,160.00)	(23,167.70)	(22,466.66)	(6,035.59)	-73.1	(1,988.14)	-67.1	(1,940.69)	-2.4
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	65.12	1.62	(79.70)	155.70	(245.47)	0.00	-	0.00	-	0.00	-
Share issues	625.75	2,006.08	2.49	116.30	0.00	116.80	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	(1,962.73)	(6,206.53)	(25,236.41)	(13,685.16)	(44,142.89)	(6,203.67)	-85.9	18,442.93	-	10,465.27	-43.3
FX / non cash items	252.25	10,627.90	(11,858.89)	20,178.66	(31,294.41)	5,069.43	-	0.25	-100.0	0.20	-20.2
Balance sheet (inc)/dec in net debt	(1,710.48)	4,421.37	(37,095.30)	6,493.50	(75,437.30)	(1,134.24)	-98.5	18,443.18	-	10,465.47	-43.3
Core EBITDA	4,925.14	9,221.00	13,333.50	18,381.80	24,047.80	21,156.13	-12.0	27,494.23	30.0	38,590.82	40.4
Maintenance capital expenditure	(1,849.79)	(4,058.02)	(22,160.00)	(23,167.70)	(22,466.66)	(6,035.59)	-73.1	(1,988.14)	-67.1	(1,940.69)	-2.4
Maintenance net working capital	(5,484.66)	(13,261.51)	(12,589.10)	(5,371.60)	(35,041.50)	(12,909.21)	-63.2	693.84	-	(18,215.77)	-
Operating free cash flow, pre-tax	(2,409.31)	(8,098.53)	(21,415.60)	(10,157.50)	(33,460.36)	2,211.33	-	26,199.93	1084.8	18,434.36	-29.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

India

Industrial, Diversified

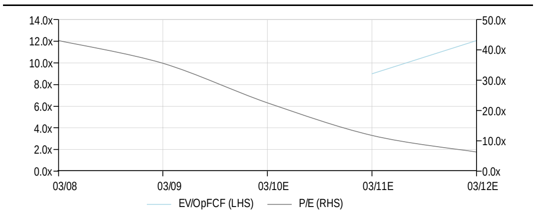
12-month rating	Sell
12m price target	Rs60.00

Suzlon Energy

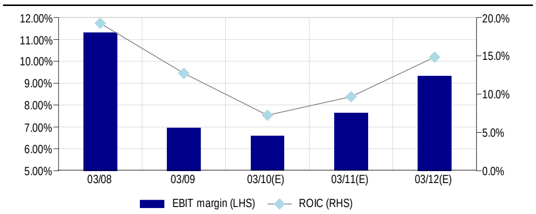
Company profile

Suzlon Energy is the world's fifth largest wind turbine manufacturer and the largest in Asia. Suzlon offers integrated wind power solutions, including consultancy, manufacturing, project execution, and operations and maintenance services. Suzlon has made two acquisitions in Europe: 1) gear box manufacturer Hansen Technologies in 2006; and 2) turbine manufacturer Repower in 2007.

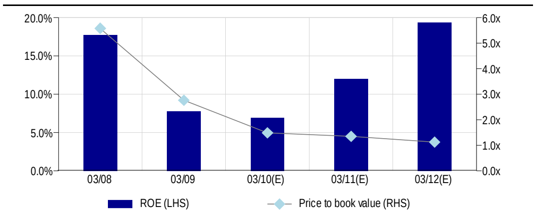
Value (EV/OpFCF & P/E)



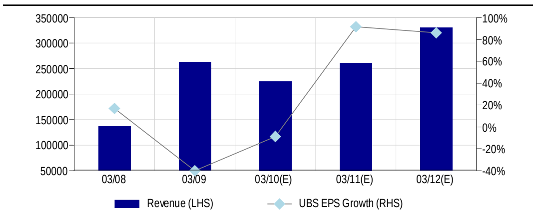
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	43.1	NM	22.6	11.8	6.3
P/E (UBS)	-	43.1	35.6	22.6	11.8	6.3
P/CEPS	-	33.7	18.7	11.0	7.1	4.6
Net dividend yield (%)	-	0.4	0.8	1.3	1.3	1.3
P/BV	-	5.6	2.8	1.5	1.3	1.1
EV/revenue (core)	-	3.3	1.1	1.1	0.9	0.7
EV/EBITDA (core)	-	24.3	12.2	11.5	8.6	5.8
EV/EBIT (core)	-	28.8	16.1	16.4	11.8	7.2
EV/OpFCF (core)	-	NM	NM	NM	9.0	12.1
EV/op. invested capital	-	5.5	2.0	1.2	1.1	1.1

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	434,280.7	215,126.0	124,644.6	124,644.6	124,644.6
+ minority interests	10,268.80	12,190.90	13,066.80	14,127.73	15,512.84
+ average net debt (cash)	32,990.65	67,462.55	105,748.3	97,093.85	82,639.53
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(31,418.00	(245.47)	(245.47)	(245.47)	(245.47)
Core enterprise value	446,122.1	294,534.0	243,214.3	235,620.8	222,551.5

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	99.7	71.0	92.0	-14.2	16.1	26.3
EBITDA (UBS)	95.6	37.9	30.8	-12.0	30.0	40.4
EBIT (UBS)	94.6	33.3	18.3	-18.9	34.5	54.2
EPS (UBS)	67.8	16.9	-40.0	-8.7	91.6	86.1
Cash EPS	71.1	24.9	-10.6	-2.0	54.7	53.5
Net DPS	46.1	-1.1	-0.7	0.7	0.0	0.0
BVPS	44.7	122.8	0.1	7.4	10.7	19.5

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	18.8	13.4	9.2	9.4	10.5	11.7
EBIT / revenue	16.7	11.3	7.0	6.6	7.6	9.3
Net profit (UBS) / revenue	13.9	7.5	2.4	2.7	4.4	6.5

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	25.6	19.2	12.7	7.3	9.7	14.8
ROIC post tax	-	16.1	9.4	5.0	7.3	11.9
Net ROE	37.7	17.7	7.8	7.0	12.0	19.4

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	7.2	3.0	2.2	2.3	3.8	6.0
Dividend cover (UBS EPS)	6.1	6.1	3.7	3.4	6.4	12.0
Div. payout ratio (%, UBS EPS)	18.2	16.3	27.0	29.8	15.6	8.4
Net debt / EBITDA	1.5	1.6	4.4	5.0	3.2	2.0

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	1.8	1.7	1.8	1.1	1.3	1.6
Revenue / fixed assets	3.5	2.8	2.8	1.7	2.0	2.7
Revenue / net working capital	3.6	4.3	5.3	3.1	3.4	3.9

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	NM	NM	NM	0.1	1.3	0.6
Capex / revenue (%)	18.4	16.9	8.6	2.7	0.8	0.6
Capex / depreciation	8.8	8.0	3.9	1.0	0.3	0.2

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	45.6	36.7	NM	NM	87.2	64.2
Net debt / (net debt + equity)	31.3	26.9	56.3	53.9	46.6	39.1
Net debt (core) / EV	-	7.4	22.9	43.5	41.2	37.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs86.70 on 13 Oct 2009 23:38 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

China

Industrial, Diversified

12-month rating	Buy *Unchanged*
12m price target	HK$22.30/US$71.94 *Unchanged*
Price	HK$16.24/- (ADR)

RIC: 0658.HK BBG: 658 HK

UBS Investment Research
China Transmission

Riding the boom in wind power

■ Key beneficiary of wind power development in China

We have a Buy rating on China High Speed Transmission Equipment (CHST) and a price target of HK$22.30. We expect China's cumulative installed wind power capacity to grow at a CAGR of 24% from 9GW in 2008 to 108GW in 2020. We believe CSHT could expand its market share from the current 50% to over 80% in the next three years, taking share from both domestic and international wind gearbox manufacturers.

■ Strong earnings due to capacity expansion and property recovery

Some 70% of revenue comes from wind gearbox business. The remainder comes from gearboxes used in the cement and steel rolling sectors, which are related to property and China's fixed asset investments. We expect CHST to record earnings growth of 22%/33%/16% in 2009/10/11 by tripling its wind gearbox capacity, ramping up its locomotive gear production, and on a property sector recovery.

■ Stable margin due to cost pass-on capability

CHST's wind gearbox price is at a c30% discount to the prices of international peers due to its competitive cost structure and strong pricing power. We believe its dominant market share gives CHST strong bargaining power and allows it to pass on volatile steel costs to customers, thus helping it to maintain stable margins.

■ Valuation: Buy, HK$22.30 price target

CHST is our top pick in the China wind equipment sector, given its dominant market share and the mild competition in the gearbox business. We derive our price target using DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume WACC of 10.98%, and terminal sales growth of 5%. Our PT implies 23x 2010E PE, a 10% discount to its global peer Hansen Transmissions, which we consider reasonable.

Highlights (Rmbm)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	1,904.82	3,439.22	5,140.80	7,049.93	8,353.04
EBIT (UBS)	222.98	545.43	951.59	1,295.53	1,495.69
Net Income (UBS)	292.57	692.42	829.08	1,110.45	1,285.71
EPS (UBS, Rmb)	0.27	0.56	0.67	0.89	1.03
Net DPS (UBS, Rmb)	0.08	0.25	0.23	0.31	0.36

Profitability & Valuation	5-yr hist av.	12/07	12/09E	12/10E	12/11E
EBIT margin %	-	15.9	18.5	18.4	17.9
ROIC (EBIT) %	-	21.3	25.7	28.7	28.9
EV/EBITDA (core) x	-	17.4	14.3	10.6	9.0
PE (UBS) x	-	20.0	21.5	16.0	13.9
Net dividend yield %	-	2.2	1.6	2.2	2.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of HK$16.24 on 13 Oct 2009 23:38 BST

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Trading data (local/US$)	
52-wk range	HK$20.20-4.70/---
Market cap.	HK$19.5bn/US$0.00bn
Shares o/s	1,200m (ORD)/48.0m (ADR)
ADR ratio	1 ADR:25 ORD
Free float	73%
Avg. daily volume ('000)	6,981/-
Avg. daily value (HK$m)	123.0/-

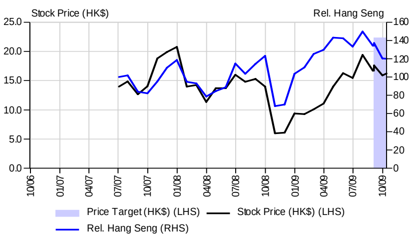
Balance sheet data 12/09E	
Shareholders' equity	Rmb4.25bn
P/BV (UBS)	4.2x
Net Cash (debt)	(Rmb0.52bn)

Forecast returns	
Forecast price appreciation	+37.3%
Forecast dividend yield	1.9%
Forecast stock return	+39.2%
Market return assumption	10.7%
Forecast excess return	+28.5%

EPS (UBS, Rmb)

	12/09E		12/08
	UBS	Cons.	Actual
H1E	0.33	-	0.22
H2E	0.33	-	0.38
12/09E	0.67	-	
12/10E	0.89	-	

Performance (HK$)



Source: UBS

Table 43: UBS VCAM valuation summary for China Transmission [0658.HK]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	952	1,296	1,496	1,678	1,794	2,214	2,475	2,765	3,085	3,438
D&A*	227	309	375	440	506	550	606	666	732	802
Capex	(1,020)	(820)	(820)	(820)	(820)	(856)	(924)	(996)	(1,070)	(1,146)
Chg. in wkg. cap.	(129)	(236)	(146)	(145)	(115)	(317)	(206)	(229)	(254)	(282)
Tax (operating)	(128)	(188)	(224)	(252)	(269)	(326)	(365)	(408)	(455)	(507)
Other	(51)	(57)	(39)	(41)	(36)	(45)	(50)	(56)	(62)	(68)
Free Cash Flow	(149)	304	641	861	1,060	1,219	1,536	1,743	1,976	2,237
growth		*NM*	*110.9%*	*34.3%*	*23.1%*	*15.0%*	*26.0%*	*13.5%*	*13.4%*	*13.2%*

Valuation	
PV of explicit cash flow	14,524
PV of terminal value (yr. 20)	9,005
Enterprise Value	23,529
% terminal	*38%*
Associates & other	623
- Minority interests	4
Surplus cash**	1,762
- Debt***	2,292
Equity value	23,618
Shares outstanding	1,317.4
Equity per share (HK$/sh)	20.33
Cost of equity	11.54%
Dividend yield	1.85%
1-year Price Target (HK$/sh)	22.30

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	11.6%	10.8%	5.0%
EBIT margin	18.0%	17.9%	17.3%
Capex/sales	6.0%	5.0%	4.0%
ROIC	24.4%	27.7%	24.1%

Valuation-Implied Metrics			
Fiscal year	2009E	2010E	1-yr Fwd.
EV / EBITDA	20.0x	14.7x	16.1x
EV / EBIT	24.7x	18.2x	19.9x
FCF Yield	NM	1.3%	0.7%
P / E (PV)	28.5x	21.3x	23.2x
P / E (Target)	31.2x	23.3x	25.4x

WACC	
Risk free rate	5.80%
ERP	5.0%
Beta	1.15
Debt / equity***	11.8%
Marg. tax rate	25.0%
Cost of equity	11.54%
Cost of debt	8.40%
WACC	10.98%

Terminal Assumptions	
VCH (years)	20
Impl. FCF gr.	1.9%

Figures in Rmb m, unless noted otherwise.

* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

China Transmission

Income statement (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	-	1,184.31	1,904.82	3,439.22	5,140.80	49.5	7,049.93	37.1	8,353.04	18.5
Operating expenses (ex depn)	-	-	(994.31)	(1,597.82)	(2,748.61)	(3,961.94)	44.1	(5,445.15)	37.4	(6,482.52)	19.1
EBITDA (UBS)	-	-	190.00	306.99	690.61	1,178.86	70.7	1,604.78	36.1	1,870.52	16.6
Depreciation	-	-	(57.08)	(84.01)	(145.19)	(227.28)	56.5	(309.25)	36.1	(374.83)	21.2
Operating income (EBIT, UBS)	-	-	132.92	222.98	545.43	951.59	74.5	1,295.53	36.1	1,495.69	15.5
Other income & associates	-	-	(1.82)	84.45	204.38	11.40	-94.4	11.40	0.0	11.40	0.0
Net interest	-	-	(32.26)	2.79	14.68	(4.12)	-	(7.63)	85.0	6.12	-
Abnormal items (pre-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	98.84	310.23	764.48	958.86	25.4	1,299.30	35.5	1,513.21	16.5
Tax	-	-	(3.51)	(17.90)	(71.83)	(129.45)	80.2	(188.40)	45.5	(226.98)	20.5
Profit after tax	-	-	95.32	292.32	692.65	829.41	19.7	1,110.90	33.9	1,286.23	15.8
Abnormal items (post-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	(4.58)	0.25	(0.24)	(0.33)	38.4	(0.44)	35.5	(0.52)	16.5
Net income (local GAAP)	-	-	90.74	292.57	692.42	829.08	19.7	1,110.45	33.9	1,285.71	15.8
Net Income (UBS)	-	-	90.74	292.57	692.42	829.08	19.7	1,110.45	33.9	1,285.71	15.8
Tax rate (%)	-	-	3.56	5.77	9.40	13.50	43.7	14.50	7.4	15.00	3.4
Pre-abnormal tax rate (%)	-	-	3.53	5.70	9.52	13.64	43.3	14.61	7.1	15.10	3.3

Per share (Rmb)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	-	0.15	0.27	0.56	0.67	19.7	0.89	33.9	1.03	15.8
EPS (UBS)	-	-	0.15	0.27	0.56	0.67	19.7	0.89	33.9	1.03	15.8
Net DPS	-	-	0.06	0.08	0.25	0.23	-6.8	0.31	33.9	0.36	15.8
Cash EPS	-	-	0.24	0.35	0.67	0.85	26.1	1.14	34.4	1.33	17.0
BVPS	-	-	0.44	2.59	3.11	3.41	9.8	4.07	19.3	4.79	17.7

Balance sheet (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	-	866.84	1,405.36	2,361.94	3,134.66	32.7	3,625.41	15.7	4,050.58	11.7
Net intangible fixed assets	-	-	29.88	54.85	61.21	63.83	4.3	65.71	2.9	67.06	2.0
Net working capital (incl. other assets)	-	-	132.48	438.09	1,163.27	1,303.30	12.0	1,545.27	18.6	1,694.16	9.6
Other liabilities	-	-	(2.16)	(12.22)	(348.56)	(348.56)	0.0	(348.56)	0.0	(348.56)	0.0
Operating invested capital	-	-	1,027.04	1,886.08	3,237.86	4,153.24	28.3	4,887.84	17.7	5,463.25	11.8
Investments	-	-	12.51	22.24	622.94	622.94	0.0	622.94	0.0	622.94	0.0
Total capital employed	-	-	1,039.55	1,908.31	3,860.80	4,776.18	23.7	5,510.78	15.4	6,086.19	10.4
Shareholders' equity	-	-	527.00	3,104.55	3,731.09	4,248.92	13.9	5,069.19	19.3	5,966.25	17.7
Minority interests	-	-	4.23	3.32	3.56	3.56	0.0	3.56	0.0	3.56	0.0
Total equity	-	-	531.23	3,107.87	3,734.64	4,252.48	13.9	5,072.75	19.3	5,969.81	17.7
Net debt / (cash)	-	-	508.32	(1,199.55)	126.16	523.70	315.1	438.03	-16.4	116.39	-73.4
Debt deemed provisions	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	1,039.55	1,908.31	3,860.80	4,776.18	23.7	5,510.78	15.4	6,086.19	10.4

Cash flow (Rmbm)	-	-	12/09	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	-	132.92	222.98	545.43	951.59	74.5	1,295.53	36.1	1,495.69	15.5
Depreciation	-	-	57.08	84.01	145.19	227.28	56.5	309.25	36.1	374.83	21.2
Net change in working capital	-	-	(135.70)	(81.18)	(422.84)	(140.03)	-66.9	(241.97)	72.8	(148.89)	-38.5
Other (operating)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	54.31	225.81	267.77	1,038.83	288.0	1,362.81	31.2	1,721.63	26.3
Net interest received / (paid)	-	-	(32.26)	2.79	14.68	(4.12)	-	(7.63)	85.0	6.12	-
Dividends paid	-	-	(86.12)	(34.79)	(87.57)	(290.18)	231.4	(388.66)	33.9	(450.00)	15.8
Tax paid	-	-	(3.51)	(17.90)	(71.83)	(129.45)	80.2	(188.40)	45.5	(226.98)	20.5
Capital expenditure	-	-	(428.95)	(647.04)	(1,107.00)	(1,020.00)	-7.9	(820.00)	-19.6	(820.00)	0.0
Net (acquisitions) / disposals	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	(139.38)	(362.57)	11.07	-	10.95	-1.1	10.88	-0.7
Share issues	-	-	347.71	2,304.74	21.93	(21.07)	-	98.48	-	61.34	-37.7
Cash flow (inc)/dec in net debt	-	-	(166.40)	1,694.22	(1,324.59)	(414.92)	-68.7	67.55	-	302.99	348.5
FX / non cash items	-	-	-	13.65	(1.12)	17.37	-	18.12	4.3	18.65	2.9
Balance sheet (inc)/dec in net debt	-	-	-	1,707.88	(1,325.71)	(397.55)	-70.0	85.67	-	321.65	275.4
Core EBITDA	-	-	190.00	306.99	690.61	1,178.86	70.7	1,604.78	36.1	1,870.52	16.6
Maintenance capital expenditure	-	-	(20.00)	(20.00)	(20.00)	(20.00)	0.0	(20.00)	0.0	(20.00)	0.0
Maintenance net working capital	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	-	-	170.00	286.99	670.61	1,158.86	72.8	1,584.78	36.8	1,850.52	16.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

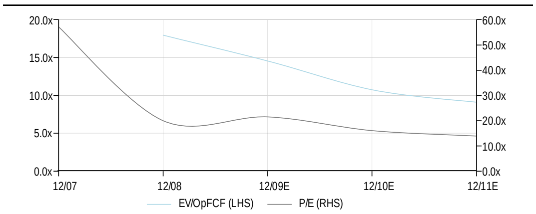
China Transmission

12-month rating	Buy
12m price target	HK$22.30

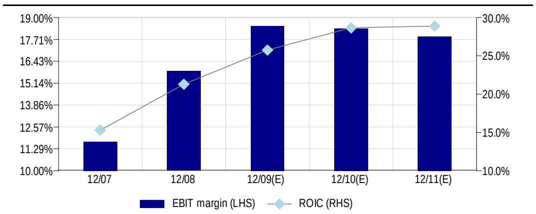
Company profile

China High Speed Transmission is a leading mechanical transmission equipment producer in China with a history dating back to 1969. It is a major supplier of mechanical transmission equipment for wind turbines in China. It has a broad product mix, catering to wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining. Wind Gear transmission equipment is a major revenue contributor and key revenue driver. The company was listed on the Hong Kong Stock Exchange in 2007.

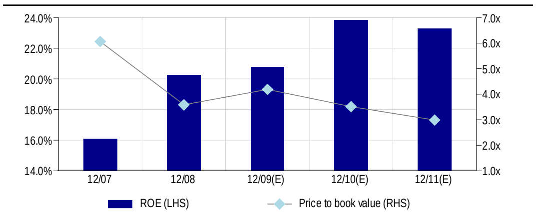
Value (EV/OpFCF & P/E)



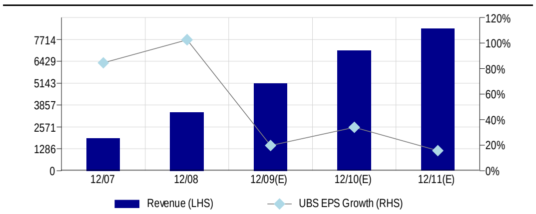
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	57.2	21.2	22.7	17.0	14.7
P/E (UBS)	-	57.2	20.0	21.5	16.0	13.9
P/CEPS	-	44.4	16.6	16.9	12.5	10.7
Net dividend yield (%)	-	0.5	2.2	1.6	2.2	2.5
P/BV	-	6.1	3.6	4.2	3.5	3.0
EV/revenue (core)	-	9.3	3.5	3.3	2.4	2.0
EV/EBITDA (core)	-	57.8	17.4	14.3	10.6	9.0
EV/EBIT (core)	-	NM	22.1	17.7	13.1	11.2
EV/OpFCF (core)	-	NM	17.9	14.6	10.7	9.1
EV/op. invested capital	-	NM	4.7	4.6	3.8	3.3

Enterprise value (Rmbm)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	18,095.10	13,188.08	17,166.38	17,166.38	17,166.38
+ minority interests	3.32	3.56	3.56	3.56	3.56
+ average net debt (cash)	(345.61)	(536.70)	324.93	480.87	277.21
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(22.24)	(622.95)	(622.95)	(622.95)	(622.95)
Core enterprise value	17,730.57	12,032.00	16,871.93	17,027.86	16,824.21

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	60.8	80.6	49.5	37.1	18.5
EBITDA (UBS)	-	61.6	125.0	70.7	36.1	16.6
EBIT (UBS)	-	67.8	144.6	74.5	36.1	15.5
EPS (UBS)	-	84.5	102.7	19.7	33.9	15.8
Cash EPS	-	45.8	90.5	26.1	34.4	17.0
Net DPS	-	44.1	NM	-6.8	33.9	15.8
BVPS	-	NM	20.2	9.8	19.3	17.7

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	16.1	20.1	22.9	22.8	22.4
EBIT / revenue	-	11.7	15.9	18.5	18.4	17.9
Net profit (UBS) / revenue	-	15.4	20.1	16.1	15.8	15.4

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	15.3	21.3	25.7	28.7	28.9
ROIC post tax	-	14.4	19.3	22.2	24.5	24.5
Net ROE	-	16.1	20.3	20.8	23.8	23.3

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	-	NM	NM	-
Dividend cover (UBS EPS)	-	3.3	2.2	2.9	2.9	2.9
Div. payout ratio (%, UBS EPS)	-	29.9	45.0	35.0	35.0	35.0
Net debt / EBITDA	-	NM	0.2	0.4	0.3	0.1

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	1.3	1.3	1.4	1.6	1.6
Revenue / fixed assets	-	1.6	1.8	1.8	2.0	2.1
Revenue / net working capital	-	14.7	9.0	7.8	8.3	8.0

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	1.3	1.2	1.2	1.2	1.2
Capex / revenue (%)	-	NM	NM	19.8	11.6	9.8
Capex / depreciation	-	7.7	7.6	4.5	2.7	2.2

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	(38.6)	3.4	12.3	8.6	2.0
Net debt / (net debt + equity)	-	(63.0)	3.3	11.0	8.0	1.9
Net debt (core) / EV	-	(1.9)	(4.5)	1.9	2.8	1.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of HK$16.24 on 13 Oct 2009 23:38 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

China

Electric Components & Equipment

12-month rating	Buy *Unchanged*
12m price target	HK$46.00/US$5.94 *Unchanged*
Price	HK$42.70/US$5.51

RIC: 1072.HK BBG: 1072 HK

UBS Investment Research

Dongfang Electric

Late mover, ranked second

■ Second-largest turbine producer in China

We have a Buy rating on Dongfang Electric (DEC) and a HK$46.00 price target. DEC is one of the top three power equipment manufacturers in China, and has diversified its business into the thermal, wind, hydro, and nuclear power manufacturing markets. Despite its late entry to the wind turbine market, DEC has secured 22% market share and ranks second among peers. We expect the revenue portion from wind turbine sales to rise from 10% in 2008 to 34% in 2011.

■ Strong leverage on vertical integration and long-term customers

We believe the advantages that could sustain DEC's leading position in China's wind turbine market are vertical integration, its long-term relationship with customers, and the well-timed launch of its mainstream products.

■ Achieving growth through wind/nuclear expansion

We expect DEC to deliver earnings growth of 231% (recovering from the significant abnormal loss from the earthquake in 2008)/15%/18% in 2009/10/11 due to a ramp-up of wind turbine and nuclear sales. However, we believe over-investment in the past five years has triggered downturn of thermal power capacity expansion.

■ Valuation: Buy, HK$46.00 price target

We derive our price target using DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 10.31%, and a terminal growth rate of 5%. Our price target implies 20x 2010E PE, slightly lower than the average of global wind power equipment companies.

Highlights (Rmbm)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	24,099.13	27,171.34	32,237.89	36,200.48	39,819.61
EBIT (UBS)	2,424.62	1,101.21	1,444.17	1,651.08	1,947.56
Net Income (UBS)	2,224.48	2,015.42	1,573.95	1,806.84	2,126.99
EPS (UBS, Rmb)	2.72	2.45	1.78	2.05	2.41
Net DPS (UBS, Rmb)	0.24	0.02	0.45	0.51	0.60

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	4.1	4.5	4.6	4.9
ROIC (EBIT) %	-	(20.9)	(19.9)	(31.5)	(38.1)
EV/EBITDA (core) x	-	-2.3	-1.9	-1.3	-1.6
PE (UBS) x	-	10.4	21.1	18.4	15.6
Net dividend yield %	-	0.1	1.2	1.4	1.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of HK$42.70 on 13 Oct 2009 23:38 BST

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Trading data (local/US$)	
52-wk range	HK$47.50-10.86/US$6.13-1.40
Market cap.	HK$7.26bn/US$0.94bn
Shares o/s	170m (ORD)
Free float	50%
Avg. daily volume ('000)	1,943
Avg. daily value (HK$m)	74.2

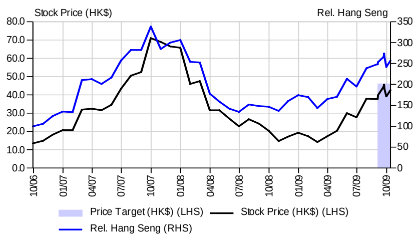
Balance sheet data 12/09E	
Shareholders' equity	Rmb3.64bn
P/BV (UBS)	9.1x
Net Cash (debt)	Rmb8.82bn

Forecast returns	
Forecast price appreciation	+7.7%
Forecast dividend yield	1.3%
Forecast stock return	+9.0%
Market return assumption	10.7%
Forecast excess return	-1.7%

EPS (UBS, Rmb)

	12/09E		12/08
	UBS	Cons.	Actual
H1E	0.94	-	0.92
H2E	0.94	-	1.53
12/09E	1.78	*1.59*	
12/10E	2.05	*1.79*	

Performance (HK$)



Source: UBS

Table 44: UBS VCAM valuation summary for Dongfang Electric [1072.HK]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	1,444	1,651	1,948	2,125	2,241	2,849	3,174	3,533	3,928	4,364
D&A*	473	667	845	1,012	1,178	770	839	914	995	1,082
Capex	(2,140)	(1,941)	(1,805)	(1,773)	(1,773)	(1,027)	(1,105)	(1,188)	(1,276)	(1,371)
Chg. in wkg. cap.	(1,940)	(584)	(556)	(546)	(596)	(1,276)	(919)	(1,008)	(1,105)	(1,211)
Tax (operating)	(209)	(239)	(292)	(319)	(336)	(427)	(476)	(530)	(589)	(655)
Other	(152)	(119)	(109)	(101)	(117)	(127)	(138)	(149)	(162)	(175)
Free Cash Flow	(2,523)	(565)	31	397	596	762	1,375	1,571	1,791	2,035
growth		*NM*	*NM*	*1196.9%*	*50.1%*	*27.9%*	*80.5%*	*14.2%*	*13.9%*	*13.7%*

Valuation	
PV of explicit cash flow	11,323
PV of terminal value (yr. 20)	12,054
Enterprise Value	23,377
% terminal	*52%*
Associates & other	280
- Minority interests	189
Surplus cash**	8,868
- Debt***	221
Equity value	32,115
Shares outstanding	862.4
Equity per share (HK$/sh)	42.24
Cost of equity	10.34%
Dividend yield	1.44%
1-year Price Target (HK$/sh)	46.00

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	8.8%	8.7%	5.0%
EBIT margin	6.0%	6.5%	6.0%
Capex/sales	1.9%	1.8%	1.7%
ROIC	61.4%	44.4%	25.5%

Valuation-Implied Metrics			
Fiscal year	2009E	2010E	1-yr Fwd.
EV / EBITDA	12.2x	10.1x	10.7x
EV / EBIT	16.2x	14.2x	14.8x
FCF Yield	NM	NM	NM
P / E (PV)	20.9x	18.2x	19.0x
P / E (Target)	22.7x	19.8x	20.7x

WACC	
Risk free rate	5.80%
ERP	5.0%
Beta	0.91
Debt / equity***	0.8%
Marg. tax rate	25.0%
Cost of equity	10.34%
Cost of debt	7.70%
WACC	10.31%

Terminal Assumptions	
VCH (years)	20
Impl. FCF gr.	3.7%

Figures in Rmb m, unless noted otherwise.

* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

Dongfang Electric

Income statement (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	-	22,433.76	24,099.13	27,171.34	32,237.89	18.6	36,200.48	12.3	39,819.61	10.0
Operating expenses (ex depn)	-	-	(19,653.00)	(21,374.04)	(25,647.27)	(30,320.59)	18.2	(33,882.63)	11.7	(37,027.15)	9.3
EBITDA (UBS)	-	-	2,780.76	2,725.09	1,524.08	1,917.29	25.8	2,317.85	20.9	2,792.46	20.5
Depreciation	-	-	(333.77)	(300.47)	(422.86)	(473.12)	11.9	(666.77)	40.9	(844.89)	26.7
Operating income (EBIT, UBS)	-	-	2,446.99	2,424.62	1,101.21	1,444.17	31.1	1,651.08	14.3	1,947.56	18.0
Other income & associates	-	-	191.07	228.31	681.15	364.10	-46.5	461.75	26.8	561.75	21.7
Net interest	-	-	143.97	101.08	144.95	184.07	27.0	174.31	-5.3	200.22	14.9
Abnormal items (pre-tax)	-	-	0.00	0.00	(1,535.52)	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	2,782.02	2,754.01	391.79	1,992.34	408.5	2,287.13	14.8	2,709.54	18.5
Tax	-	-	(324.98)	(343.02)	122.74	(288.89)	-	(331.63)	14.8	(406.43)	22.6
Profit after tax	-	-	2,457.05	2,410.99	514.53	1,703.45	231.1	1,955.50	14.8	2,303.11	17.8
Abnormal items (post-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	(187.96)	(186.52)	(34.63)	(129.50)	274.0	(148.66)	14.8	(176.12)	18.5
Net income (local GAAP)	-	-	2,269.08	2,224.48	479.90	1,573.95	228.0	1,806.84	14.8	2,126.99	17.7
Net Income (UBS)	-	-	2,269.08	2,224.48	2,015.42	1,573.95	-21.9	1,806.84	14.8	2,126.99	17.7
Tax rate (%)	-	-	11.68	12.46	0.00	14.50	-	14.50	0.0	15.00	3.4
Pre-abnormal tax rate (%)	-	-	11.70	12.35	0.00	14.44	-	14.45	0.1	14.95	3.5

Per share (Rmb)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	-	2.78	2.72	0.58	1.78	205.8	2.05	14.8	2.41	17.7
EPS (UBS)	-	-	2.78	2.72	2.45	1.78	-27.2	2.05	14.8	2.41	17.7
Net DPS	-	-	0.11	0.24	0.02	0.45	1980.0	0.51	14.8	0.60	17.7
Cash EPS	-	-	3.19	3.09	2.96	2.32	-21.7	2.80	20.8	3.37	20.1
BVPS	-	-	27.39	14.93	12.23	4.12	-66.3	5.72	38.9	7.62	33.2

Balance sheet (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	-	2,279.07	2,650.00	3,582.75	5,270.70	47.1	6,557.52	24.4	7,525.54	14.8
Net intangible fixed assets	-	-	64.04	108.20	111.66	90.19	-19.2	77.35	-14.2	69.68	-9.9
Net working capital (incl. other assets)	-	-	(1,453.73)	(1,416.27)	(8,374.14)	(6,209.12)	-25.9	(7,277.06)	17.2	(8,191.24)	12.6
Other liabilities	-	-	(886.18)	(2,725.08)	(4,496.48)	(4,496.48)	0.0	(4,496.48)	0.0	(4,496.48)	0.0
Operating invested capital	-	-	3.20	(1,383.15)	(9,176.22)	(5,344.72)	-41.8	(5,138.68)	-3.9	(5,092.49)	-0.9
Investments	-	-	254.87	387.22	353.41	353.41	0.0	353.41	0.0	353.41	0.0
Total capital employed	-	-	258.07	(995.93)	(8,822.81)	(4,991.32)	-43.4	(4,785.27)	-4.1	(4,739.09)	-1.0
Shareholders' equity	-	-	4,656.42	2,538.56	2,079.63	3,635.94	74.8	5,049.28	38.9	6,724.56	33.2
Minority interests	-	-	667.19	860.60	188.93	188.93	0.0	188.93	0.0	188.93	0.0
Total equity	-	-	5,323.61	3,399.16	2,268.55	3,824.86	68.6	5,238.21	37.0	6,913.49	32.0
Net debt / (cash)	-	-	(5,065.54)	(4,395.09)	(11,091.36)	(8,816.18)	-20.5	(10,023.48)	13.7	(11,652.58)	16.3
Debt deemed provisions	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	258.07	(995.93)	(8,822.81)	(4,991.32)	-43.4	(4,785.27)	-4.1	(4,739.09)	-1.0

Cash flow (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	-	2,446.99	2,424.62	1,101.21	1,444.17	31.1	1,651.08	14.3	1,947.56	18.0
Depreciation	-	-	333.77	300.47	422.86	473.12	11.9	666.77	40.9	844.89	26.7
Net change in working capital	-	-	(6,649.65)	(3,098.67)	4,914.34	(2,165.02)	-	1,067.94	-	914.17	-14.4
Other (operating)	-	-	(33.81)	151.52	1,702.07	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	(3,902.70)	(222.07)	8,140.48	(247.72)	-	3,385.79	-	3,706.63	9.5
Net interest received / (paid)	-	-	143.97	101.08	144.95	184.07	27.0	174.31	-5.3	200.22	14.9
Dividends paid	-	-	(1,387.31)	(90.00)	(196.08)	(393.49)	100.7	(451.71)	14.8	(531.75)	17.7
Tax paid	-	-	(418.60)	(397.13)	(186.42)	(288.89)	55.0	(331.63)	14.8	(406.43)	22.6
Capital expenditure	-	-	(519.94)	(736.59)	(1,663.71)	(2,139.60)	28.6	(1,940.76)	-9.3	(1,805.25)	-7.0
Net (acquisitions) / disposals	-	-	354.00	0.72	1.05	0.00	-	0.00	-	0.00	-
Other	-	-	-	(921.18)	(543.93)	234.60	-	313.09	33.5	385.63	23.2
Share issues	-	-	0.00	0.00	1,297.39	375.85	-71.0	58.22	-84.5	80.04	37.5
Cash flow (inc)/dec in net debt	-	-	(1,440.26)	(2,265.17)	6,993.74	(2,275.18)	-	1,207.30	-	1,629.09	34.9
FX / non cash items	-	-	-	1,594.72	(297.46)	0.00	-	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	-	-	-	(670.45)	6,696.27	(2,275.18)	-	1,207.30	-	1,629.09	34.9
Core EBITDA	-	-	2,780.76	2,725.09	1,524.08	1,917.29	25.8	2,317.85	20.9	2,792.46	20.5
Maintenance capital expenditure	-	-	(50.00)	(50.00)	(50.00)	(50.00)	0.0	(50.00)	0.0	(50.00)	0.0
Maintenance net working capital	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	-	-	2,730.76	2,675.09	1,474.08	1,867.29	26.7	2,267.85	21.5	2,742.46	20.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

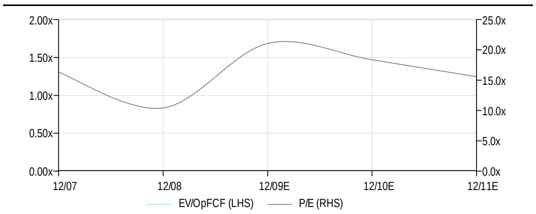
Dongfang Electric

12-month rating	Buy
12m price target	HK$46.00

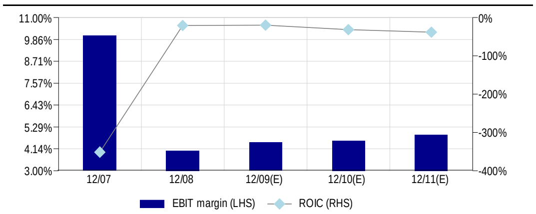
Company profile

Dongfang Electric is one of the top-three power equipment manufacturers in China. It operates businesses in the thermal, wind, hydro, and nuclear power markets. The company entered the wind power market in 2004. It was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in 1994 and 1995, respectively.

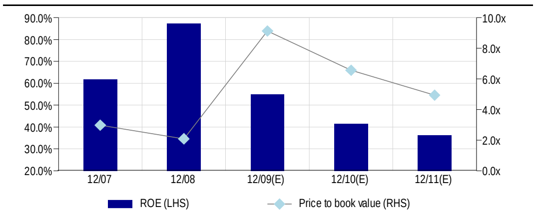
Value (EV/OpFCF & P/E)



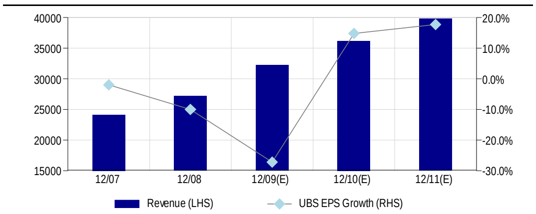
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	16.3	43.8	21.1	18.4	15.6
P/E (UBS)	-	16.3	10.4	21.1	18.4	15.6
P/CEPS	-	14.4	8.6	16.2	13.4	11.2
Net dividend yield (%)	-	0.5	0.1	1.2	1.4	1.6
P/BV	-	3.0	2.1	9.1	6.6	4.9
EV/revenue (core)	-	0.1	NM	NM	NM	NM
EV/EBITDA (core)	-	1.1	-2.3	-1.9	-1.3	-1.6
EV/EBIT (core)	-	1.3	NM	NM	NM	NM
EV/OpFCF (core)	-	1.2	NM	NM	NM	NM
EV/op. invested capital	-	NM	0.7	0.5	0.6	0.9

Enterprise value (Rmbm)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	7,257.01	4,284.99	6,394.23	6,394.23	6,394.23
+ minority interests	860.60	188.93	188.93	188.93	188.93
+ average net debt (cash)	(4,730.32)	(7,743.23)	(9,953.77)	(9,419.83)	(10,838.03
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(296.44)	(279.75)	(279.75)	(279.75)	(279.75)
Core enterprise value	3,090.85	(3,549.06)	(3,650.36)	(3,116.42)	(4,534.62)

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	7.4	12.7	18.6	12.3	10.0
EBITDA (UBS)	-	-2.0	-44.1	25.8	20.9	20.5
EBIT (UBS)	-	-0.9	-54.6	31.1	14.3	18.0
EPS (UBS)	-	-2.0	-10.0	-27.2	14.8	17.7
Cash EPS	-	-3.0	-4.1	-21.7	20.8	20.1
Net DPS	-	117.9	-91.1	NM	14.8	17.7
BVPS	-	-45.5	-18.1	-66.3	38.9	33.2

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	11.3	5.6	5.9	6.4	7.0
EBIT / revenue	-	10.1	4.1	4.5	4.6	4.9
Net profit (UBS) / revenue	-	9.2	7.4	4.9	5.0	5.3

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	NM	NM	NM	NM	NM
ROIC post tax	-	NM	NM	NM	NM	NM
Net ROE	-	61.8	87.3	55.1	41.6	36.1

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	11.3	NM	4.0	4.0	4.0
Div. payout ratio (%, UBS EPS)	-	8.8	0.9	25.0	25.0	25.0
Net debt / EBITDA	-	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	NM	NM	NM	NM	NM
Revenue / fixed assets	-	9.4	8.4	7.1	6.0	5.6
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	1.1	1.3	1.3	1.4	1.4
Capex / revenue (%)	-	3.1	6.1	6.6	5.4	4.5
Capex / depreciation	-	2.5	3.9	4.5	2.9	2.1

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	-	NM	NM	NM	NM	NM
Net debt (core) / EV	-	NM	NM	NM	NM	NM

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of HK$42.70 on 13 Oct 2009 23:38 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

China

Electric Components & Equipment

12-month rating	Neutral *Unchanged*
12m price target	Rmb32.00/US$4.69 *Unchanged*
Price	Rmb26.95/US$3.95

RIC: 002202.SZ BBG: 002202 CH

UBS Investment Research

Goldwind

Aspires to be a one-stop solution provider

■ Track record of over 10 years in turbine supply

We have a Neutral rating on Xinjiang Goldwind Science & Technology (Goldwind) and a Rmb32.00 price target. Goldwind entered the wind turbine market in 1998, supplying quality products and services. It has since built strong customer relationships and has achieved profitability. The entry of traditional electric equipment manufacturers reduced Goldwind's market share by 6 pct pts to 18% in 2008. However, we think the stable quality of Goldwind's turbines should help the company regain market share of more than 20% in the long term.

■ Positioned to be a one-stop solution provider

Goldwind plans to switch from a turbine manufacturer to a wind service provider. Its unique 'build-to-sale' business model decreases the risk of independent power producers' (IPP) investments in wind farms and opens up more earnings streams. In addition, Goldwind aims to provide wind technology consulting services and to supply key components. This, combined with its intellectual property, should help Goldwind to maintain the highest margin among peers, in our view.

■ Strong earnings growth

We expect Goldwind to grow earnings by 55%/22%/20% in 2009/10/11 on stable margins, ramping up large turbine sales and increasing wind farm sales. Goldwind is exploring the overseas market to mitigate upcoming competition in China.

■ Valuation: Neutral, Rmb32.00 price target

We believe Goldwind's share price has factored in most of the growth catalysts. We derive our price target using DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume WACC of 7.90%, and terminal sales growth of 5%. Our price target implies 26x 2010E PE, in line with the average of A-share wind power equipment companies.

Highlights (Rmbm)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	3,103.03	6,457.81	11,114.63	13,315.94	14,503.68
EBIT (UBS)	631.41	921.03	1,747.27	2,037.12	2,654.19
Net Income (UBS)	629.58	914.52	1,398.43	1,700.56	2,032.78
EPS (UBS, Rmb)	1.26	0.91	1.00	1.21	1.45
Net DPS (UBS, Rmb)	0.06	0.28	0.31	0.37	0.44

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	14.3	15.7	15.3	18.3
ROIC (EBIT) %	-	65.0	69.2	62.4	71.3
EV/EBITDA (core) x	-	40.6	18.1	14.3	10.6
PE (UBS) x	-	32.5	27.0	22.2	18.6
Net dividend yield %	-	0.9	1.1	1.4	1.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rmb26.95 on 13 Oct 2009 23:38 BST

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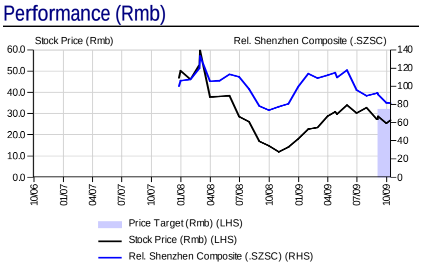
Trading data (local/US$)	
52-wk range	Rmb36.15-11.01/US$5.30-1.61
Market cap.	Rmb37.7bn/US$5.53bn
Shares o/s	1,400m (ORDA)
Free float	43%
Avg. daily volume ('000)	24,213
Avg. daily value (Rmbm)	752.0

Balance sheet data 12/09E	
Shareholders' equity	Rmb4.85bn
P/BV (UBS)	7.8x
Net Cash (debt)	Rmb2.13bn

Forecast returns	
Forecast price appreciation	+18.7%
Forecast dividend yield	1.2%
Forecast stock return	+19.9%
Market return assumption	8.5%
Forecast excess return	+11.4%

EPS (UBS, Rmb)	12/09E		12/08
	UBS	Cons.	Actual
Q1E	0.14	-	0.08
Q2E	0.29	-	0.07
Q3E	0.29	-	0.08
Q4E	0.29	-	0.69
12/09E	1.00	*1.00*	
12/10E	1.21	*1.22*	

Performance (Rmb)



Source: UBS

Table 45: UBS VCAM valuation summary for Goldwind [002202.SZ]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	1,747	2,037	2,654	2,807	3,393	3,486	3,610	3,731	3,849	3,963
D&A*	246	450	601	744	781	367	360	349	337	321
Capex	(1,091)	(828)	(788)	(257)	(257)	(367)	(360)	(349)	(337)	(321)
Chg. in wkg. cap.	(2,362)	(1,078)	(624)	(231)	(1,169)	(526)	(541)	(560)	(579)	(596)
Tax (operating)	(192)	(234)	(332)	(393)	(509)	(511)	(529)	(547)	(564)	(581)
Other	(140)	(66)	(36)	(14)	(70)	(43)	(45)	(46)	(48)	(49)
Free Cash Flow	(1,792)	280	1,476	2,656	2,168	2,406	2,494	2,577	2,658	2,736
growth		*NM*	*426.7%*	*79.9%*	*-18.4%*	*11.0%*	*3.7%*	*3.3%*	*3.1%*	*2.9%*

Valuation	
PV of explicit cash flow	22,512
PV of terminal value (yr. 20)	13,981
Enterprise Value	36,493
% terminal	*38%*
Associates & other	64
- Minority interests	362
Surplus cash**	3,318
- Debt***	1,533
Equity value	37,979
Shares outstanding	1,268.5
Equity per share (Rmb/sh)	29.94
Cost of equity	8.06%
Dividend yield	1.18%
1-year Price Target (Rmb/sh)	32.00

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	5.5%	5.4%	5.0%
EBIT margin	17.3%	16.0%	14.2%
Capex/sales	1.4%	1.3%	1.2%
ROIC	30.8%	28.5%	21.7%

Valuation-Implied Metrics			
Fiscal year	2009E	2010E	1-yr Fwd.
EV / EBITDA	18.3x	14.7x	15.7x
EV / EBIT	20.9x	17.9x	18.8x
FCF Yield	NM	0.8%	NM
P / E (PV)	30.0x	24.6x	26.2x
P / E (Target)	32.0x	26.3x	28.0x

WACC	
Risk free rate	3.20%
ERP	5.0%
Beta	0.97
Debt / equity***	4.4%
Marg. tax rate	25.0%
Cost of equity	8.06%
Cost of debt	5.60%
WACC	7.90%

Terminal Assumptions	
VCH (years)	20
Impl. FCF gr.	1.8%

Figures in Rmb m, unless noted otherwise.

* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

Goldwind

Income statement (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	-	1,530.28	3,103.03	6,457.81	11,114.63	72.1	13,315.94	19.8	14,503.68	8.9
Operating expenses (ex depn)	-	-	(1,196.80)	(2,459.77)	(5,477.51)	(9,121.78)	66.5	(10,829.01)	18.7	(11,248.41)	3.9
EBITDA (UBS)	-	-	333.48	643.26	980.30	1,992.86	103.3	2,486.93	24.8	3,255.27	30.9
Depreciation	-	-	(5.00)	(11.85)	(59.27)	(245.59)	314.4	(449.81)	83.2	(601.08)	33.6
Operating income (EBIT, UBS)	-	-	328.48	631.41	921.03	1,747.27	89.7	2,037.12	16.6	2,654.19	30.3
Other income & associates	-	-	0.77	17.78	283.39	103.16	-63.6	223.26	116.4	75.74	-66.1
Net interest	-	-	(11.90)	(22.57)	(41.76)	(39.15)	-6.2	(43.42)	10.9	(44.87)	3.3
Abnormal items (pre-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	317.35	626.62	1,162.66	1,811.27	55.8	2,216.95	22.4	2,685.07	21.1
Tax	-	-	2.22	8.08	(125.87)	(199.24)	58.3	(254.95)	28.0	(335.63)	31.6
Profit after tax	-	-	319.57	634.70	1,036.79	1,612.03	55.5	1,962.00	21.7	2,349.43	19.7
Abnormal items (post-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	0.04	(5.12)	(122.27)	(213.60)	74.7	(261.45)	22.4	(316.65)	21.1
Net income (local GAAP)	-	-	319.61	629.58	914.52	1,398.43	52.9	1,700.56	21.6	2,032.78	19.5
Net Income (UBS)	-	-	319.61	629.58	914.52	1,398.43	52.9	1,700.56	21.6	2,032.78	19.5
Tax rate (%)	-	-	*0.00*	*0.00*	*10.83*	*11.00*	1.6	*11.50*	4.5	*12.50*	8.7
Pre-abnormal tax rate (%)	-	-	*0.00*	*0.00*	*14.03*	*11.14*	-20.6	*12.66*	13.6	*12.76*	0.8

Per share (Rmb)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	-	3.20	1.26	0.91	1.00	9.2	1.21	21.6	1.45	19.5
EPS (UBS)	-	-	3.20	1.26	0.91	1.00	9.2	1.21	21.6	1.45	19.5
Net DPS	-	-	1.00	0.06	0.28	0.31	9.2	0.37	21.6	0.44	19.5
Cash EPS	-	-	3.25	1.28	0.97	1.17	20.6	1.54	30.8	1.88	22.5
BVPS	-	-	0.43	2.06	2.66	3.46	30.0	4.37	26.2	5.45	24.7

Balance sheet (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	-	147.63	404.24	1,258.30	2,052.63	63.1	2,383.19	16.1	2,525.85	6.0
Net intangible fixed assets	-	-	12.13	80.51	501.84	571.64	13.9	631.68	10.5	681.96	8.0
Net working capital (incl. other assets)	-	-	326.13	425.14	344.64	538.08	56.1	572.24	6.3	868.91	51.8
Other liabilities	-	-	(32.17)	(75.09)	(107.61)	(107.61)	0.0	(107.61)	0.0	(107.61)	0.0
Operating invested capital	-	-	453.72	834.80	1,997.17	3,054.74	53.0	3,479.50	13.9	3,969.10	14.1
Investments	-	-	2.70	57.44	140.15	26.17	-81.3	26.17	0.0	26.17	0.0
Total capital employed	-	-	456.42	892.24	2,137.32	3,080.91	44.1	3,505.67	13.8	3,995.27	14.0
Shareholders' equity	-	-	599.92	2,883.25	3,730.30	4,848.73	30.0	6,121.13	26.2	7,633.24	24.7
Minority interests	-	-	4.86	65.66	361.74	361.74	0.0	361.74	0.0	361.74	0.0
Total equity	-	-	604.76	2,948.90	4,092.05	5,210.48	27.3	6,482.88	24.4	7,994.99	23.3
Net debt / (cash)	-	-	(148.34)	(2,056.66)	(1,954.73)	(2,129.57)	8.9	(2,977.21)	39.8	(3,999.73)	34.3
Debt deemed provisions	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	456.42	892.24	2,137.32	3,080.91	44.1	3,505.67	13.8	3,995.27	14.0

Cash flow (Rmbm)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	-	328.48	631.41	921.03	1,747.27	89.7	2,037.12	16.6	2,654.19	30.3
Depreciation	-	-	5.00	11.85	59.27	245.59	314.4	449.81	83.2	601.08	33.6
Net change in working capital	-	-	(213.73)	(156.05)	(125.72)	(193.44)	53.9	(34.16)	-82.3	(295.67)	765.5
Other (operating)	-	-	12.30	24.13	(227.97)	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	132.05	511.34	626.61	1,799.42	187.2	2,452.77	36.3	2,959.60	20.7
Net interest received / (paid)	-	-	(11.90)	(22.57)	(41.76)	(39.15)	-6.2	(43.42)	10.9	(44.87)	3.3
Dividends paid	-	-	(108.12)	(122.93)	(100.73)	(428.16)	325.1	(520.66)	21.6	(622.38)	19.5
Tax paid	-	-	2.22	8.08	(125.87)	(199.24)	58.3	(254.95)	28.0	(335.63)	31.6
Capital expenditure	-	-	(102.54)	(369.80)	(950.93)	(1,091.20)	14.8	(828.17)	-24.1	(788.41)	-4.8
Net (acquisitions) / disposals	-	-	10.23	(1.03)	(324.57)	0.00	-	0.00	-	0.00	-
Other	-	-	-	96.89	488.68	3.53	-99.3	(38.19)	-	(240.91)	530.8
Share issues	-	-	0.00	1,791.00	83.22	148.16	78.0	92.50	-37.6	101.72	10.0
Cash flow (inc)/dec in net debt	-	-	(57.15)	1,890.98	(345.35)	193.37	-	859.87	344.7	1,029.11	19.7
FX / non cash items	-	-	-	17.34	243.42	(18.52)	-	(12.23)	-34.0	(6.60)	-46.1
Balance sheet (inc)/dec in net debt	-	-	-	1,908.32	(101.93)	174.84	-	847.64	384.8	1,022.52	20.6
Core EBITDA	-	-	333.48	643.26	980.30	1,992.86	103.3	2,486.93	24.8	3,255.27	30.9
Maintenance capital expenditure	-	-	(50.00)	(50.00)	(50.00)	(50.00)	0.0	(50.00)	0.0	(50.00)	0.0
Maintenance net working capital	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	-	-	283.48	593.26	930.30	1,942.86	108.8	2,436.93	25.4	3,205.27	31.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

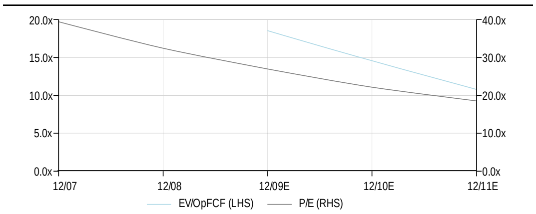
Goldwind

12-month rating	Neutral
12m price target	Rmb32.00

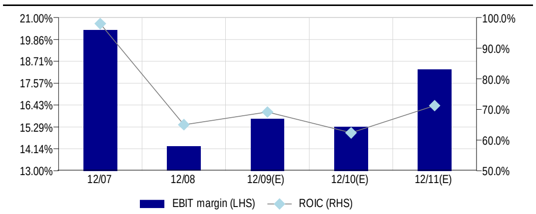
Company profile

Xinjiang Goldwind Science & Technology (Goldwind) is a leading wind turbine manufacturer in China. It also develops, constructs, and operates wind farms. It supplies various kinds of wind turbines, ranging from 750KW to 1.5MW, and has 2.5MW, 3MW and 5MW class wind turbines in the R&D phase. In December 2007, Goldwind was listed on the Shenzhen Stock Exchange.

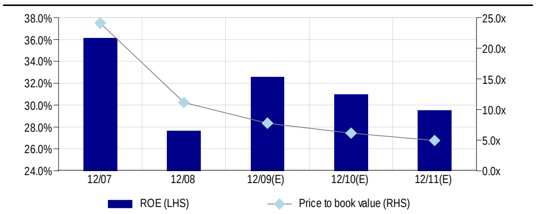
Value (EV/OpFCF & P/E)



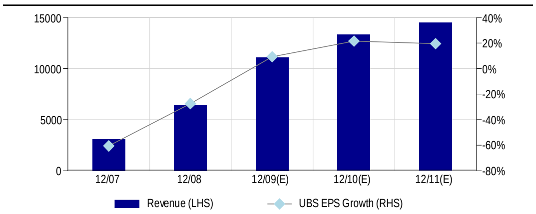
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	71.0	32.5	27.0	22.2	18.6
P/E (UBS)	-	39.4	32.5	27.0	22.2	18.6
P/CEPS	-	38.7	30.5	22.9	17.5	14.3
Net dividend yield (%)	-	0.1	0.9	1.1	1.4	1.6
P/BV	-	24.1	11.1	7.8	6.2	4.9
EV/revenue (core)	-	NM	6.2	3.2	2.7	2.4
EV/EBITDA (core)	-	>100	40.6	18.1	14.3	10.6
EV/EBIT (core)	-	NM	NM	20.6	17.4	13.0
EV/OpFCF (core)	-	NM	NM	18.5	14.6	10.8
EV/op. invested capital	-	NM	NM	NM	NM	9.3

Enterprise value (Rmbm)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	69,500.00	41,583.60	37,730.00	37,730.00	37,730.00
+ minority interests	65.66	361.74	361.74	361.74	361.74
+ average net debt (cash)	(1,102.50)	(2,005.70)	(2,042.15)	(2,553.39)	(3,488.47)
+ pension obligations and other	0.01	0.01	0.01	0.01	0.01
- non-core asset value	(57.44)	(140.15)	(26.17)	(26.17)	(26.17)
Core enterprise value	68,405.73	39,799.51	36,023.43	35,512.19	34,577.11

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	102.8	108.1	72.1	19.8	8.9
EBITDA (UBS)	-	92.9	52.4	103.3	24.8	30.9
EBIT (UBS)	-	92.2	45.9	89.7	16.6	30.3
EPS (UBS)	-	-60.6	-27.4	9.2	21.6	19.5
Cash EPS	-	-60.5	-24.1	20.6	30.8	22.5
Net DPS	-	-94.4	NM	9.2	21.6	19.5
BVPS	-	NM	29.4	30.0	26.2	24.7

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	20.7	15.2	17.9	18.7	22.4
EBIT / revenue	-	20.3	14.3	15.7	15.3	18.3
Net profit (UBS) / revenue	-	20.3	14.2	12.6	12.8	14.0

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	NM	65.0	69.2	62.4	71.3
ROIC post tax	-	NM	55.9	61.5	54.5	62.2
Net ROE	-	36.2	27.7	32.6	31.0	29.6

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	28.0	28.4	NM	NM	NM
Dividend cover (UBS EPS)	-	22.7	3.3	3.3	3.3	3.3
Div. payout ratio (%, UBS EPS)	-	4.4	30.6	30.6	30.6	30.6
Net debt / EBITDA	-	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	4.8	4.6	4.4	4.1	3.9
Revenue / fixed assets	-	9.6	5.8	5.1	4.7	4.7
Revenue / net working capital	-	8.4	19.8	33.0	29.5	23.5

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	0.9	1.0	1.1	1.2	1.2
Capex / revenue (%)	-	11.9	14.7	9.8	6.2	5.4
Capex / depreciation	-	NM	NM	4.4	1.8	1.3

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	(71.3)	(52.4)	(43.9)	(48.6)	(52.4)
Net debt / (net debt + equity)	-	NM	NM	(78.3)	(94.7)	NM
Net debt (core) / EV	-	(1.6)	(5.0)	(5.7)	(7.2)	(10.1)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rmb26.95 on 13 Oct 2009 23:38 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Germany

Advanced Industrial Equipment

12-month rating	Neutral *Unchanged*
12m price target	€60.00/US$88.97 *Unchanged*
Price	€65.62/US$97.96 (ADR)

RIC: SIEGn.DE BBG: SIE GR

UBS Investment Research

Siemens

Ambitious target in wind power

■ A small share of overall business, yet a material growth driver

Siemens orders in renewables (mainly wind) will likely account for 6% of group orders in 2009E. We expect this number to grow to c10% by 2012 (€5bn and €8.5bn). Revenues amounted to €3bn in 2009E and we forecast €4.6bn by 2012 (c5% of group revenues) as Siemens has been awarded large offshore wind contracts which will start to be delivered around 2011/12. Margins were 5% in 2006 and have rapidly improved to 11.6% in 2008. We forecast 13.6% in 2009E. We forecast 24% earnings growth CAGR 2007-13E, of which 12% over 2010-13E.

■ Number one in offshore segment, due to early-mover advantage

Siemens expects offshore and mid-wind to drive future growth, on the back of its #1 position in offshore and #3 position in high and mid-wind. It believes it is #3 in the Americas, #6 in Europe and lower than #8 in Asia Pacific. Siemens believes the offshore market (excluding floating turbines) could be significant and amount to a total potential of c70GW, and that only 1.5% of this potential is installed today.

■ Global #3 position is ambitious target by 2012

Siemens has strong ambitions in the wind market, targeting #3 position worldwide in the overall wind market by 2012. They also intend to increase the volume of service on on & off shore wind farms, in order to get a regular stream of revenues at generally higher than divisional average profitability, with a focus on taking long-term service contracts.

■ Valuation: Neutral, €60 PT

Our PT is based on 0.75x EV/sales, 12x our trough 2010E EV/EBIT and 16x EPS.

Highlights (€m)	09/07	09/08	09/09E	09/10E	09/11E
Revenues	72,448.00	77,327.00	76,869.38	73,960.22	77,517.56
EBIT (UBS)	5,373.50	4,282.69	5,560.51	4,045.56	6,208.13
Net Income (UBS)	4,437.17	2,315.32	4,096.43	3,321.78	4,891.58
EPS (UBS, €)	4.89	2.49	4.75	3.84	5.66
Net DPS (UBS, €)	1.60	1.60	1.60	1.60	1.60

Profitability & Valuation	5-yr hist av.	09/08	09/09E	09/10E	09/11E
EBIT margin %	4.4	5.5	7.2	5.5	8.0
ROIC (EBIT) %	11.6	15.0	19.8	13.5	20.0
EV/EBITDA (core) x	8.4	10.4	7.6	9.3	7.0
PE (UBS) x	17.2	33.1	13.8	17.1	11.6
Net dividend yield %	2.2	1.9	2.4	2.4	2.4

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of €65.62 on 13 Oct 2009 21:39 BST

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Trading data (local/US$)	
52-wk range	€66.45-35.52/US$98.00-44.54
Market cap.	€58.6bn/US$87.4bn
Shares o/s	892m (ORD)/892m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	100%
Avg. daily volume ('000)	3,708/110
Avg. daily value (€m)	222.6/9.3

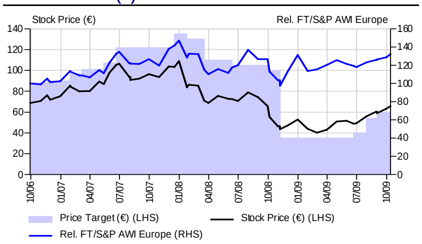
Balance sheet data 09/09E	
Shareholders' equity	€28.0bn
P/BV (UBS)	2.0x
Net Cash (debt)	(€11.1bn)

Forecast returns	
Forecast price appreciation	-8.6%
Forecast dividend yield	2.4%
Forecast stock return	-6.2%
Market return assumption	6.3%
Forecast excess return	-12.5%

EPS (UBS, €)

	09/09E		09/08
	UBS	Cons.	Actual
Q1E	1.57	1.40	1.28
Q2E	1.20	1.11	0.78
Q3E	0.89	1.35	1.79
Q4E	1.16	1.09	(1.33)
09/09E	4.75	*4.80*	
09/10E	3.84	*4.65*	

Performance (€)



Source: UBS

Siemens

Income statement (€m)	09/04	09/05	09/06	09/07	09/08	09/09E	% ch	09/10E	% ch	09/11E	% ch
Revenues	75,167.00	75,445.00	87,325.00	72,448.00	77,327.00	76,869.38	-0.6	73,960.22	-3.8	77,517.56	4.8
Operating expenses (ex depn)	(68,750.23)	(69,012.44)	(81,632.35)	(63,581.40)	(70,126.77)	(68,371.02)	-2.5	(67,155.14)	-1.8	(68,544.65)	2.1
EBITDA (UBS)	6,416.77	6,432.56	5,692.65	8,866.60	7,200.23	8,498.35	18.0	6,805.08	-19.9	8,972.90	31.9
Depreciation	(3,344.00)	(3,426.00)	(3,012.00)	(3,493.09)	(2,917.55)	(2,937.84)	0.7	(2,759.52)	-6.1	(2,764.78)	0.2
Operating income (EBIT, UBS)	3,072.77	3,006.56	2,680.65	5,373.50	4,282.69	5,560.51	29.8	4,045.56	-27.2	6,208.13	53.5
Other income & associates	905.23	937.44	1,488.35	496.08	(913.37)	724.87	-	804.55	11.0	875.21	8.8
Net interest	254.00	241.00	202.00	(8.41)	122.00	(380.15)	-	(158.81)	-58.2	(168.30)	6.0
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	4,232.00	4,185.00	4,371.00	5,861.17	3,491.32	5,905.24	69.1	4,691.29	-20.6	6,915.03	47.4
Tax	(661.00)	(979.00)	(1,005.00)	(1,192.00)	(1,015.00)	(1,628.80)	60.5	(1,180.51)	-27.5	(1,825.00)	54.6
Profit after tax	3,571.00	3,206.00	3,366.00	4,669.17	2,476.32	4,276.43	72.7	3,510.78	-17.9	5,090.03	45.0
Abnormal items (post-tax)	0.00	(810.00)	(54.00)	(628.15)	3,409.62	146.09	-95.7	(475.17)	-	(397.18)	-16.4
Minorities / pref dividends	(166.00)	(148.00)	(206.00)	(232.00)	(161.00)	(180.00)	11.8	(189.00)	5.0	(198.45)	5.0
Net income (local GAAP)	3,405.00	2,248.00	3,106.00	3,809.02	5,724.94	4,242.52	-25.9	2,846.61	-32.9	4,494.41	57.9
Net Income (UBS)	3,405.00	3,058.00	3,160.00	4,437.17	2,315.32	4,096.43	76.9	3,321.78	-18.9	4,891.58	47.3
Tax rate (%)	*15.62*	*23.39*	*22.99*	*20.34*	*29.07*	*27.58*	-5.1	*25.16*	-8.8	*26.39*	4.9
Pre-abnormal tax rate (%)	*17.69*	*27.26*	*26.99*	*22.48*	*31.41*	*27.45*	-12.6	*27.41*	-0.1	*28.25*	3.1

Per share (€)	09/04	09/05	09/06	09/07	09/08	09/09E	% ch	09/10E	% ch	09/11E	% ch
EPS (local GAAP)	3.82	2.52	3.49	4.19	6.16	4.92	-19.2	3.29	-32.9	5.20	57.9
EPS (UBS)	3.82	3.43	3.55	4.89	2.49	4.75	90.6	3.84	-19.0	5.66	47.3
Net DPS	1.25	1.35	1.45	1.60	1.60	1.60	0.0	1.60	0.0	1.60	0.0
Cash EPS	7.56	7.28	6.93	8.73	5.63	8.15	44.8	7.04	-13.6	8.86	25.9
BVPS	30.10	30.38	33.08	31.93	28.79	32.40	12.5	34.06	5.1	37.66	10.6

Balance sheet (€m)	09/04	09/05	09/06	09/07	09/08	09/09E	% ch	09/10E	% ch	09/11E	% ch
Net tangible fixed assets	10,682.60	12,011.53	12,072.00	10,555.00	11,258.00	11,248.12	-0.1	11,232.90	-0.1	11,294.15	0.5
Net intangible fixed assets	8,990.00	12,037.00	13,019.00	17,120.00	21,417.00	21,263.51	-0.7	21,259.65	0.0	21,275.18	0.1
Net working capital (incl. other assets)	10,209.42	12,644.00	14,535.00	6,137.00	(3,443.00)	954.46	-	782.66	-18.0	2,835.61	262.3
Other liabilities	(4,585.00)	(5,246.00)	(4,508.00)	(2,683.00)	(3,259.00)	(3,343.00)	2.6	(3,343.00)	0.0	(3,343.00)	0.0
Operating invested capital	25,297.02	31,446.53	35,118.00	31,129.00	25,973.00	30,123.10	16.0	29,932.21	-0.6	32,061.94	7.1
Investments	5,508.00	5,557.00	4,518.00	12,770.00	14,954.00	16,440.54	9.9	16,825.08	2.3	17,280.29	2.7
Total capital employed	30,805.02	37,003.53	39,636.00	43,899.00	40,927.00	46,563.63	13.8	46,757.29	0.4	49,342.23	5.5
Shareholders' equity	26,855.02	27,116.53	29,473.00	28,996.00	26,774.00	27,962.49	4.4	29,428.07	5.2	32,540.07	10.6
Minority interests	529.00	656.00	702.00	631.00	606.00	653.50	7.8	667.50	2.1	678.95	1.7
Total equity	27,384.02	27,772.53	30,175.00	29,627.00	27,380.00	28,615.99	4.5	30,095.57	5.2	33,219.02	10.4
Net debt / (cash)	(971.00)	4,314.00	5,360.00	11,492.00	9,186.00	11,144.64	21.3	9,858.73	-11.5	9,320.21	-5.5
Debt deemed provisions	4,392.00	4,917.00	4,101.00	2,780.00	4,361.00	6,803.00	56.0	6,803.00	0.0	6,803.00	0.0
Total capital employed	30,805.02	37,003.53	39,636.00	43,899.00	40,927.00	46,563.63	13.8	46,757.29	0.4	49,342.23	5.5

Cash flow (€m)	09/04	09/05	09/06	09/07	09/08	09/09E	% ch	09/10E	% ch	09/11E	% ch
Operating income (EBIT, UBS)	3,072.77	3,006.56	2,680.65	5,373.50	4,282.69	5,560.51	29.8	4,045.56	-27.2	6,208.13	53.5
Depreciation	3,344.00	3,426.00	3,012.00	3,493.09	2,917.55	2,937.84	0.7	2,759.52	-6.1	2,764.78	0.2
Net change in working capital	(177.00)	(465.00)	(789.00)	1,103.00	4,198.00	(3,535.46)	-	171.81	-	(2,052.95)	-
Other (operating)	(1,492.00)	(2,088.00)	(348.00)	(2,730.00)	(4,916.00)	(194.54)	-96.0	(195.55)	0.5	(256.76)	31.3
Operating cash flow	4,747.77	3,879.56	4,555.65	7,239.60	6,482.23	4,768.35	-26.4	6,781.34	42.2	6,663.20	-1.7
Net interest received / (paid)	254.00	241.00	202.00	(8.41)	122.00	(380.15)	-	(158.81)	-58.2	(168.30)	6.0
Dividends paid	(1,079.00)	(1,220.00)	(1,319.00)	(1,443.00)	(1,600.00)	(1,565.00)	-2.2	(1,556.04)	-0.6	(1,569.40)	0.9
Tax paid	(661.00)	(979.00)	(1,005.00)	(1,192.00)	(1,015.00)	(1,628.80)	60.5	(1,180.51)	-27.5	(1,825.00)	54.6
Capital expenditure	(2,764.00)	(3,544.00)	(3,970.00)	(3,751.00)	(3,721.00)	(2,609.95)	-29.9	(2,740.44)	5.0	(2,841.56)	3.7
Net (acquisitions) / disposals	1,193.00	(1,769.00)	(175.00)	(6,699.00)	5,926.00	(55.00)	-	0.00	-	0.00	-
Other	379.23	(494.56)	683.35	(1,329.07)	(144.75)	684.96	-	140.38	-79.5	279.58	99.2
Share issues	4.00	(46.00)	(108.00)	868.00	(3,858.00)	134.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	2,074.00	(3,932.00)	(1,136.00)	(6,314.88)	2,191.48	(651.58)	-	1,285.92	-	538.52	-58.1
FX / non cash items	(74.00)	(1,353.00)	90.00	182.88	114.52	(1,307.06)	-	0.00	-	(.00)	-
Balance sheet (inc)/dec in net debt	2,000.00	(5,285.00)	(1,046.00)	(6,132.00)	2,306.00	(1,958.64)	-	1,285.92	-	538.52	-58.1
Core EBITDA	6,416.77	6,432.56	5,692.65	8,866.60	7,200.23	8,498.35	18.0	6,805.08	-19.9	8,972.90	31.9
Maintenance capital expenditure	(3,511.20)	(6,577.20)	(3,162.60)	(3,667.75)	(3,063.42)	(3,084.73)	0.7	(2,897.50)	-6.1	(2,903.02)	0.2
Maintenance net working capital	(12.97)	(15.99)	(121.08)	(82.98)	215.61	83.93	-61.1	89.08	6.1	27.49	-69.1
Operating free cash flow, pre-tax	2,892.60	(160.63)	2,408.97	5,115.87	4,352.42	5,497.55	26.3	3,996.66	-27.3	6,097.38	52.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Germany

Advanced Industrial Equipment

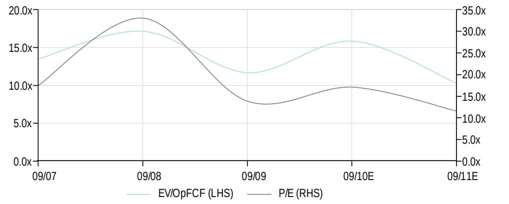
12-month rating	Neutral
12m price target	€60.00

Siemens

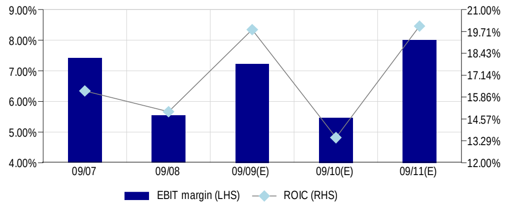
Company profile

Siemens is one of the world's largest industrial conglomerates, with revenues of €77 billion in 2008. Siemens has fourteen divisions and two financing activities, Financial Services and Real Estate. Its portfolio comprises: (1) successful processes such as Automation and Drives, Healthcare, and Power Generation; (2) strong businesses such as Siemens Power Transmission and Distribution; (3) recovering businesses, such as Building Technologies and Mobility; (4) less well-defined businesses such as Industry Solutions and Other Operations; and (5) struggling businesses such as IT Solutions and Lighting.

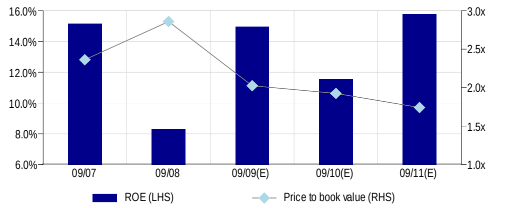
Value (EV/OpFCF & P/E)



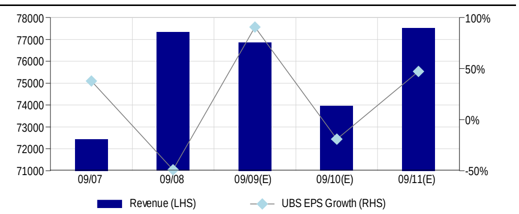
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
P/E (local GAAP)	19.6	20.6	13.6	13.4	20.0	12.6
P/E (UBS)	17.2	17.5	33.1	13.8	17.1	11.6
P/CEPS	8.6	9.8	14.6	8.1	9.3	7.4
Net dividend yield (%)	2.2	1.9	1.9	2.4	2.4	2.4
P/BV	2.1	2.7	2.9	2.0	1.9	1.7
EV/revenue (core)	0.7	1.0	1.0	0.8	0.9	0.8
EV/EBITDA (core)	8.4	7.8	10.4	7.6	9.3	7.0
EV/EBIT (core)	16.7	12.8	17.4	11.6	15.7	10.1
EV/OpFCF (core)	22.1	13.5	17.2	11.7	15.9	10.3
EV/op. invested capital	1.9	2.1	2.6	2.3	2.1	2.0

Enterprise value (€m)	09/07	09/08	09/09E	09/10E	09/11E
Average market cap	76,309.11	73,457.54	58,551.39	58,551.39	58,551.39
+ minority interests	3,480.00	3,213.00	3,213.00	3,213.00	3,213.00
+ average net debt (cash)	1,353.00	(953.00)	1,005.64	(280.27)	(818.79)
+ pension obligations and other	1,270.42	3,275.94	5,773.88	6,162.69	6,162.69
- non-core asset value	(13,449.00	(4,294.70)	(4,294.70)	(4,294.70)	(4,294.70)
Core enterprise value	68,963.53	74,698.78	64,249.21	63,352.10	62,813.58

Growth (%)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
Revenue	-0.6	-17.0	6.7	-0.6	-3.8	4.8
EBITDA (UBS)	10.5	55.8	-18.8	18.0	-19.9	31.9
EBIT (UBS)	19.8	100.5	-20.3	29.8	-27.2	53.5
EPS (UBS)	14.3	37.8	-49.0	90.6	-19.0	47.3
Cash EPS	7.3	26.1	-35.6	44.8	-13.6	25.9
Net DPS	9.8	10.3	0.0	0.0	0.0	0.0
BVPS	4.7	-3.5	-9.8	12.5	5.1	10.6

Margins (%)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
EBITDA / revenue	8.8	12.2	9.3	11.1	9.2	11.6
EBIT / revenue	4.4	7.4	5.5	7.2	5.5	8.0
Net profit (UBS) / revenue	4.4	6.1	3.0	5.3	4.5	6.3

Return on capital (%)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
EBIT ROIC (UBS)	11.6	16.2	15.0	19.8	13.5	20.0
ROIC post tax	-	12.6	10.3	14.4	9.8	14.4
Net ROE	12.4	15.2	8.3	15.0	11.6	15.8

Coverage ratios (x)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
EBIT / net interest	-	NM	-	15.5	NM	NM
Dividend cover (UBS EPS)	2.7	3.1	1.6	3.0	2.4	3.5
Div. payout ratio (%, UBS EPS)	36.8	32.7	64.3	33.7	41.6	28.3
Net debt / EBITDA	0.6	1.3	1.3	1.3	1.4	1.0

Efficiency ratios (x)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
Revenue / op. invested capital	2.7	2.2	2.7	2.7	2.5	2.5
Revenue / fixed assets	3.4	2.7	2.6	2.4	2.3	2.4
Revenue / net working capital	53.1	21.3	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
OpFCF / EBIT	0.8	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	4.4	5.2	4.8	3.4	3.7	3.7
Capex / depreciation	1.0	1.1	1.3	0.9	1.0	1.0

Capital structure (%)	5Yr Avg	09/07	09/08	09/09E	09/10E	09/11E
Net debt / total equity	15.6	39.6	34.3	39.9	33.5	28.6
Net debt / (net debt + equity)	13.5	28.4	25.5	28.5	25.1	22.3
Net debt (core) / EV	3.2	2.0	(1.3)	1.6	(0.4)	(1.3)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €65.62 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Americas

Industrial, Diversified

12-month rating	Neutral *Unchanged*
12m price target	US$13.00 *Unchanged*
Price	US$16.39

RIC: GE.N BBG: GE US

UBS Investment Research

General Electric Co.

Wind: Solid long-term growth story for GE

■ Solid Long-term prospects, but near-term likely challenging for GE Wind

GE generates the lion's share of its wind sales in the US, and we are cautious on US wind turbine demand, given uncertainty related to government policy. Until (or unless) the federal government establishes a clear energy policy (cap and trade, tax credits, etc), we believe there is a disincentive to invest in US wind capacity, and we believe the policy uncertainty also limits funding availability. We do expect some benefit from US stimulus funding, but believe the near-term benefit is likely to be modest, and uncertainty over government policy is a bigger factor.

■ GE has a leading wind business

GE's is the second-largest global wind turbine supplier, with c19% total market share in 2008 and c44% market share in the US. The wind business contributed cUS$6bn in revenue in 2008, but represents only 3% of total GE sales. Therefore, while we see good long-term growth prospects for wind, the business is likely to remain too small to move the needle for GE over the next few years.

■ GE's wind focus is threefold: bigger turbines, offshore, and services

GE's primary strategic initiatives for wind include developing larger onshore turbines, building an offshore wind turbine product (to enable further growth in Europe) and to grow the service business as GE's installed base increases (cUS$250m service revenue expected in 2009 [by company or UBS?]). Regionally, China is another focus, and GE currently has some of its wind manufacturing and engineering located in China.

■ Valuation: Neutral, US$13 price target

Our 2009 and 2010 EPS estimates are US$0.90 and US$0.80, respectively. Our price target is based on c15x our 2009E EPS. We have a Neutral rating on GE.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	173,633.00	182,515.02	155,731.41	147,382.29	146,404.50
EBIT (UBS)	28,180.00	21,840.92	10,251.32	9,442.58	15,878.37
Net Income (UBS)	22,480.00	18,013.85	9,487.77	8,442.89	11,617.23
EPS (UBS, US$)	2.20	1.78	0.90	0.80	1.10
Net DPS (UBS, US$)	1.12	1.24	0.61	0.40	0.55

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	15.5	12.0	6.6	6.4	10.8
ROIC (EBIT) %	5.2	3.6	1.7	1.7	3.3
EV/EBITDA (core) x	21.3	20.6	32.0	32.5	19.5
PE (UBS) x	18.7	15.7	18.3	20.6	15.0
Net dividend yield %	2.7	4.4	3.7	2.4	3.4

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$16.39 on 13 Oct 2009 19:38 BST

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Trading data	
52-wk range	US$20.85-6.66
Market cap.	US$173bn
Shares o/s	10,560m (COM)
Free float	99%
Avg. daily volume ('000)	19,551
Avg. daily value (US$m)	285.9

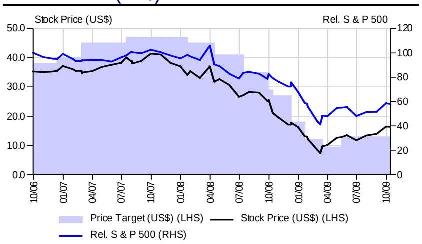
Balance sheet data 12/09E	
Shareholders' equity	US$114bn
P/BV (UBS)	1.5x
Net Cash (debt)	(US$474bn)

Forecast returns	
Forecast price appreciation	-20.7%
Forecast dividend yield	2.4%
Forecast stock return	-18.3%
Market return assumption	5.9%
Forecast excess return	-24.2%

EPS (UBS, US$)

	12/09E		12/08
	UBS	Cons.	Actual
Q1	0.26	0.26	0.44
Q2E	0.26	0.26	0.54
Q3E	0.19	0.20	0.45
Q4E	0.18	0.24	0.36
12/09E	0.90	*0.97*	
12/10E	0.80	*0.91*	

Performance (US$)



Source: UBS

General Electric Co.

Income statement (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	152,866.00	162,570.30	163,198.00	173,633.00	182,515.02	155,731.41	-14.7	147,382.29	-5.4	146,404.50	-0.7
Operating expenses (ex depn)	(122,094.00)	(130,498.74)	(126,892.00)	(135,175.00)	(149,182.10)	(135,237.09)	-9.3	(127,184.57)	-6.0	(119,233.23)	-6.3
EBITDA (UBS)	30,772.00	32,071.56	36,306.00	38,458.00	33,332.92	20,494.32	-38.5	20,197.73	-1.4	27,171.27	34.5
Depreciation	(8,385.00)	(8,538.00)	(9,158.00)	(10,278.00)	(11,492.00)	(10,243.00)	-10.9	(10,755.15)	5.0	(11,292.91)	5.0
Operating income (EBIT, UBS)	22,387.00	23,533.56	27,148.00	28,180.00	21,840.92	10,251.32	-53.1	9,442.58	-7.9	15,878.37	68.2
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	(979.00)	(1,432.00)	(1,836.00)	(2,035.00)	(2,153.00)	(1,354.00)	-37.1	(1,400.00)	3.4	(1,300.00)	-7.1
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	21,408.00	22,101.56	25,312.00	26,145.00	19,687.92	8,897.32	-54.8	8,042.58	-9.6	14,578.37	81.3
Tax	(3,661.00)	(3,779.61)	(3,870.00)	(3,421.00)	(1,029.00)	987.91	-	700.32	-29.1	(2,661.14)	-
Profit after tax	17,747.00	18,321.95	21,442.00	22,724.00	18,658.92	9,885.23	-47.0	8,742.89	-11.6	11,917.23	36.3
Abnormal items (post-tax)	0.00	(1,955.00)	163.00	(317.00)	(689.00)	(215.00)	-68.8	0.00	-	0.00	-
Minorities / pref dividends	(928.00)	(13.95)	(908.00)	(244.00)	(645.07)	(397.46)	-38.4	(300.00)	-24.5	(300.00)	0.0
Net income (local GAAP)	16,819.00	16,353.00	20,697.00	22,163.00	17,324.85	9,272.77	-46.5	8,442.89	-8.9	11,617.23	37.6
Net Income (UBS)	16,819.00	18,308.00	20,534.00	22,480.00	18,013.85	9,487.77	-47.3	8,442.89	-11.0	11,617.23	37.6
Tax rate (%)	17.10	17.10	15.29	13.08	5.23	0.00	-	0.00	-	18.25	-
Pre-abnormal tax rate (%)	17.10	17.10	15.29	13.08	5.23	0.00	-	0.00	-	18.25	-

Per share (US$)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	1.61	1.54	1.99	2.17	1.71	0.87	-49.0	0.80	-9.0	1.10	37.6
EPS (UBS)	1.61	1.72	1.98	2.20	1.78	0.90	-49.8	0.80	-11.1	1.10	37.6
Net DPS	0.80	0.88	1.00	1.12	1.24	0.61	-50.8	0.40	-34.4	0.55	37.6
Cash EPS	2.42	2.54	2.87	3.21	2.92	1.86	-36.3	1.81	-2.8	2.16	19.3
BVPS	10.47	10.35	10.90	11.24	10.18	10.74	5.5	11.09	3.3	11.61	4.7

Balance sheet (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Cash and equivalents	15,328.00	9,011.00	14,275.00	15,747.00	48,187.00	48,700.76	1.1	85,059.75	74.7	122,698.22	44.2
Other current assets	196,027.00	93,236.00	90,248.00	97,111.00	89,970.00	92,865.82	3.2	86,469.93	-6.9	87,239.22	0.9
Total current assets	211,355.00	102,247.00	104,523.00	112,858.00	138,157.00	141,566.58	2.5	171,529.69	21.2	209,937.43	22.4
Net tangible fixed assets	63,334.00	67,528.00	74,966.00	77,895.00	78,530.00	68,183.40	-13.2	59,298.10	-13.0	49,708.54	-16.2
Net intangible fixed assets	83,240.00	81,726.00	86,433.00	97,294.00	96,736.00	97,419.60	0.7	100,219.60	2.9	101,619.60	1.4
Investments / other assets	392,578.00	421,841.00	431,317.00	507,290.00	484,346.00	477,477.88	-1.4	413,005.74	-13.5	335,641.88	-18.7
Total assets	750,507.00	673,342.00	697,239.00	795,337.00	797,769.00	784,647.46	-1.6	744,053.12	-5.2	696,907.45	-6.3
Trade payables & other ST liabilities	48,534.00	46,771.00	48,361.00	51,012.00	54,915.00	46,693.91	-15.0	46,354.39	-0.7	47,753.47	3.0
Short term debt	157,694.00	158,156.00	172,153.00	195,101.00	193,695.00	183,029.03	-5.5	138,874.91	-24.1	84,852.03	-38.9
Total current liabilities	206,228.00	204,927.00	220,514.00	246,113.00	248,610.00	229,722.94	-7.6	185,229.30	-19.4	132,605.50	-28.4
Long term debt	212,670.00	212,281.00	260,804.00	319,015.00	330,067.00	339,420.00	2.8	339,420.00	0.0	339,420.00	0.0
Other long term liabilities	204,405.00	138,726.00	96,029.00	106,646.00	105,480.00	93,376.00	-11.5	93,376.00	0.0	93,376.00	0.0
Total liabilities	623,303.00	555,934.00	577,347.00	671,774.00	684,157.00	662,518.94	-3.2	618,025.30	-6.7	565,401.50	-8.5
Equity & minority interests	127,204.00	117,408.00	119,892.00	123,563.00	113,612.00	122,128.52	7.5	126,027.82	3.2	131,505.95	4.3
Total liabilities & equity	750,507.00	673,342.00	697,239.00	795,337.00	797,769.00	784,647.46	-1.6	744,053.12	-5.2	696,907.45	-6.3

Cash flow (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net income	16,819.00	16,353.00	20,697.00	22,163.00	17,324.85	9,272.77	-46.5	8,442.89	-8.9	11,617.23	37.6
Depreciation	8,385.00	8,538.00	9,158.00	10,278.00	11,492.00	10,243.00	-10.9	10,755.15	5.0	11,292.91	5.0
Net change in working capital	12,438.00	5,685.00	715.00	8,959.00	8,524.00	1,682.09	-80.3	6,056.37	260.1	629.80	-89.6
Other (operating)	(932.00)	7,065.00	76.00	4,522.00	10,500.15	(16,270.40)	-	4,000.00	-	0.00	-
Net cash from operations	36,710.00	37,641.00	30,646.00	45,922.00	47,916.00	5,227.45	-89.1	29,554.41	465.4	23,839.94	-19.3
Capital expenditure	(7,273.00)	(8,414.00)	(9,851.00)	(9,410.00)	(5,035.00)	(2,808.00)	-44.2	(669.85)	-76.1	(1,103.34)	64.7
Net (acquisitions) / disposals	(18,703.00)	(11,498.00)	(11,652.00)	(17,215.00)	(23,124.00)	5,391.00	-	(4,000.00)	-	(2,000.00)	-50.0
Other changes in investments	(12,438.00)	(15,137.00)	(29,899.00)	(45,799.00)	(11,866.00)	15,462.72	-	60,472.15	-	77,363.85	-
Cash from investing activities	(38,414.00)	(35,049.00)	(51,402.00)	(72,424.00)	(40,025.00)	18,045.72	-	55,802.30	209.2	74,260.51	33.1
Increase/(decrease) in debt	11,824.00	8,790.00	43,598.00	53,379.00	19,688.00	(11,819.97)	-	(44,154.11)	-	(54,022.89)	-
Share issues / (repurchases)	3,993.00	(4,844.00)	(8,554.00)	(12,319.00)	(1,249.00)	484.00	-	0.00	-	0.00	-
Dividends paid	(8,278.00)	(9,352.00)	(10,420.00)	(11,492.00)	(11,567.00)	(12,708.00)	9.9	(9,276.80)	-27.0	(4,843.60)	-47.8
Other cash from financing	(2,945.00)	(713.00)	(1,394.00)	(1,356.00)	18,609.00	(2,143.00)	-	0.00	-	0.00	-
Cash from financing activities	4,594.00	(6,119.00)	23,230.00	28,212.00	25,406.00	(26,486.97)	-	(53,730.91)	102.9	(59,166.49)	10.1
Cash flow chge in cash & equivalents	2,890.00	(3,527.00)	2,474.00	1,710.00	33,297.00	(3,213.80)	-	31,625.80	-	38,933.96	-
FX / non cash items	(226.00)	(2,790.00)	2,790.00	(238.00)	(857.00)	3,727.56	-	4,733.20	-	(1,295.50)	-
Bal sheet chge in cash & equivalents	2,664.00	(6,317.00)	5,264.00	1,472.00	32,440.00	513.76	-	36,359.00	-	37,638.46	-

	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Core EBITDA	30,772.00	32,071.56	36,306.00	38,458.00	33,332.92	20,494.32	-38.5	20,197.73	-1.4	27,171.27	34.5
Maintenance capital expenditure	(8,385.00)	(8,538.00)	(9,158.00)	(10,278.00)	(11,492.00)	(10,243.00)	-10.9	(10,755.15)	5.0	(11,292.91)	5.0
Maintenance net working capital	12,438.00	5,685.00	715.00	8,959.00	8,524.00	1,682.09	-80.3	6,056.37	260.1	629.80	-89.6
Operating free cash flow, pre-tax	34,825.00	29,218.56	27,863.00	37,139.00	30,364.92	11,933.41	-60.7	15,498.94	29.9	16,508.17	6.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

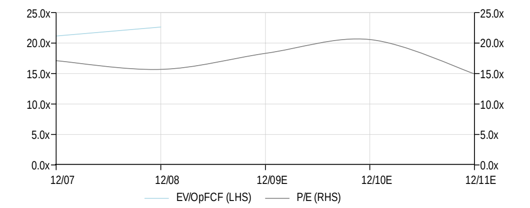
General Electric Co.

12-month rating	Neutral
12m price target	US$13.00

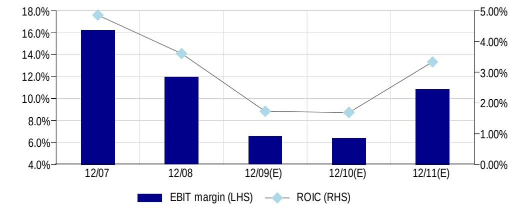
Company profile

General Electric is a global diversified manufacturing, technology, and services company. The company has operations in the following markets: aircraft engines; commercial and consumer finance; consumer products; equipment management; industrial products and systems; medical imaging; power systems; specialty materials; television network broadcasting; and transportation systems. In 2008, it had annual revenue of roughly $183 billion, with approximately 40% of segment revenue generated from the company's finance businesses and 60% from the industrial businesses.

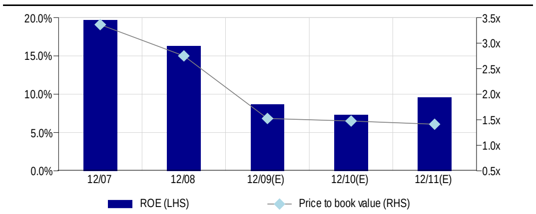
Value (EV/OpFCF & P/E)



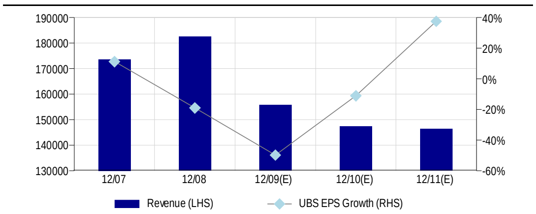
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	19.4	17.4	16.3	18.7	20.6	15.0
P/E (UBS)	18.7	17.2	15.7	18.3	20.6	15.0
P/CEPS	12.7	11.8	9.6	8.8	9.1	7.6
Net dividend yield (%)	2.7	3.0	4.4	3.7	2.4	3.4
P/BV	3.3	3.4	2.8	1.5	1.5	1.4
EV/revenue (core)	4.5	4.5	3.8	4.2	4.5	3.6
EV/EBITDA (core)	21.3	20.5	20.6	32.0	32.5	19.5
EV/EBIT (core)	28.8	27.9	NM	NM	NM	NM
EV/OpFCF (core)	22.7	21.2	22.6	NM	NM	NM
EV/op. invested capital	1.5	1.4	1.1	1.1	1.2	1.1

Enterprise value (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	388,764.2	288,083.5	173,085.3	173,085.3	173,085.3
+ minority interests	8,004.00	8,947.00	8,340.00	8,340.00	8,340.00
+ average net debt (cash)	390,054.0	390,054.0	474,661.6	474,661.6	347,404.4
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	786,822.2	687,084.5	656,087.0	656,087.0	528,829.8

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	6.7	6.4	5.1	-14.7	-5.4	-0.7
EBITDA (UBS)	8.2	5.9	-13.3	-38.5	-1.4	34.5
EBIT (UBS)	7.5	3.8	-22.5	-53.1	-7.9	68.2
EPS (UBS)	9.1	11.2	-19.0	-49.9	-11.1	37.6
Cash EPS	9.3	12.1	-9.0	-36.3	-2.8	19.3
Net DPS	9.8	12.0	10.7	-50.8	-34.4	37.6
BVPS	9.2	3.1	-9.4	5.5	3.3	4.7

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	21.0	22.1	18.3	13.2	13.7	18.6
EBIT / revenue	15.5	16.2	12.0	6.6	6.4	10.8
Net profit (UBS) / revenue	11.9	12.9	9.9	6.1	5.7	7.9

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	5.2	4.9	3.6	1.7	1.7	3.3
ROIC post tax	-	4.2	3.4	1.7	1.7	2.7
Net ROE	18.9	19.7	16.4	8.7	7.3	9.6

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	18.1	13.8	10.1	7.6	6.7	12.2
Dividend cover (UBS EPS)	2.0	2.0	1.4	1.5	2.0	2.0
Div. payout ratio (%, UBS EPS)	50.2	50.8	69.4	68.1	50.3	50.3
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	0.3	0.3	0.3	0.3	0.3	0.3
Revenue / fixed assets	1.1	1.0	1.0	0.9	0.9	0.9
Revenue / net working capital	1.7	3.9	4.5	3.8	3.4	3.7

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	1.3	1.3	1.4	1.2	1.6	1.0
Capex / revenue (%)	5.1	5.4	2.8	1.8	0.5	0.8
Capex / depreciation	0.9	0.9	0.4	0.3	0.1	0.1

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	78.5	81.2	82.0	80.6	77.0	71.0
Net debt (core) / EV	49.42	49.6	56.8	72.3	72.3	65.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$16.39 on 13 Oct 2009 19:38 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Americas

Heavy Machinery

12-month rating	Neutral * *Unchanged*
12m price target	US$11.00 *Unchanged*
Price	US$10.02

RIC: MTW.N BBG: MTW US

UBS Investment Research

The Manitowoc Company, Inc

A potential tailwind for cranes...

■ We believe sales to wind markets represent about 5% of crane sales

Although cranes (roughly 60% of total sales) tend to be a late cycle end market (lag general construction equipment by 1-2 years), we believe demand for wind cranes has been a solid growth driver for MTW and could help to offset significant declines in crane demand from other end markets over the next few years.

■ MTW continues to focus on cost and debt reduction goals

In its Q2 release, MTW noted: 'We have implemented specific actions that will eliminate approximately US$365 million in cost out of our businesses annually, with approximately US$240 million of those cost reductions to be realized this year.' MTW also has a debt reduction target of US$450m for 2009. We believe these actions could position MTW very well for the next cycle.

■ We maintain our estimates

We maintain our 2009, 2010 and 2011 EPS estimates of US$0.45, US$0.20 and US$0.50, respectively.

■ Valuation: Neutral (CBE), US$11 price target

Our US$11 price target is based on a 50-60% premium to a 15x normalised market multiple on 2011E EPS, discounted at a 10% cost of capital. While we like MTW's strong positioning in the global crane and food service equipment markets, our rating reflects our view that near-term upside is limited, given integration challenges from the Enodis acquisition and increased investor focus on liquidity/balance sheet strength.

Trading data	
52-wk range	US$14.13-2.42
Market cap.	US$1.31bn
Shares o/s	130m (COM)
Free float	97%
Avg. daily volume ('000)	1,410
Avg. daily value (US$m)	10.7

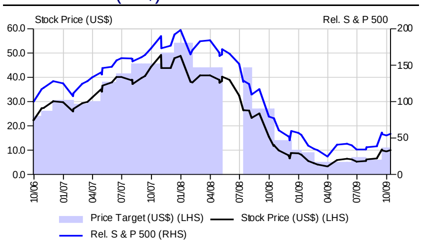
Balance sheet data 12/09E	
Shareholders' equity	US$0.65bn
P/BV (UBS)	2.0x
Net Cash (debt)	(US$2.04bn)

Forecast returns	
Forecast price appreciation	+9.8%
Forecast dividend yield	0.8%
Forecast stock return	+10.6%
Market return assumption	5.9%
Forecast excess return	+4.7%

EPS (UBS, US$)

	12/09E		12/08
	UBS	Cons.	Actual
Q1	0.18	0.18	0.78
Q2E	0.19	0.19	0.99
Q3E	0.06	0.07	0.71
Q4E	0.02	0.02	0.03
12/09E	0.45	*0.47*	
12/10E	0.20	*0.21*	

Performance (US$)



Source: UBS

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	4,005.10	4,705.60	3,826.41	3,383.23	3,297.57
EBIT (UBS)	503.90	572.90	238.92	184.83	231.27
Net Income (UBS)	340.98	328.55	58.73	26.23	64.98
EPS (UBS, US$)	2.67	2.50	0.45	0.20	0.50
Net DPS (UBS, US$)	0.08	0.08	0.08	0.08	0.08

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	8.1	12.2	6.2	5.5	7.0
ROIC (EBIT) %	22.3	22.2	7.2	6.7	8.5
EV/EBITDA (core) x	8.3	5.4	3.2	3.5	7.1
PE (UBS) x	19.3	11.3	22.2	49.7	20.1
Net dividend yield %	0.7	0.3	0.8	0.8	0.8

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$10.02 on 13 Oct 2009 19:38 BST

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* Exception to core rating bands; See page145

The Manitowoc Company, Inc

Income statement (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	1,964.10	2,254.11	2,933.40	4,005.10	4,705.60	3,826.41	-18.7	3,383.23	-11.6	3,297.57	-2.5
Operating expenses (ex depn)	(1,797.19)	(2,041.79)	(2,557.30)	(3,414.10)	(4,035.20)	(3,397.28)	-15.8	(2,993.48)	-11.9	(2,862.12)	-4.4
EBITDA (UBS)	166.91	212.33	376.10	591.00	670.40	429.13	-36.0	389.75	-9.2	435.45	11.7
Depreciation	(57.23)	(65.60)	(73.70)	(87.10)	(97.50)	(190.21)	95.1	(204.92)	7.7	(204.18)	-0.4
Operating income (EBIT, UBS)	109.69	146.73	302.40	503.90	572.90	238.92	-58.3	184.83	-22.6	231.27	25.1
Other income & associates	(3.14)	2.63	0.95	7.05	(10.36)	6.10	-	4.00	-34.4	0.00	-
Net interest	(56.90)	(52.97)	(43.10)	(36.35)	(46.70)	(185.36)	296.9	(149.97)	-19.1	(135.00)	-10.0
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	49.66	96.38	260.25	474.61	515.85	59.66	-88.4	38.85	-34.9	96.27	147.8
Tax	(9.45)	(22.62)	(83.75)	(133.63)	(187.30)	(2.64)	-98.6	(12.63)	378.8	(31.29)	147.8
Profit after tax	40.20	73.77	176.50	340.98	328.55	57.03	-82.6	26.23	-54.0	64.98	147.8
Abnormal items (post-tax)	(1.07)	(7.87)	(10.30)	(4.40)	(156.40)	(722.10)	361.7	0.00	-	0.00	-
Minorities / pref dividends	0.00	0.00	0.00	0.00	0.00	1.70	-	0.00	-	0.00	-
Net income (local GAAP)	39.14	65.89	166.20	336.58	172.15	(663.37)	-	26.23	-	64.98	147.8
Net Income (UBS)	40.20	73.77	176.50	340.98	328.55	58.73	-82.1	26.23	-55.3	64.98	147.8
Tax rate (%)	*19.04*	*23.46*	*32.18*	*28.16*	*36.31*	*4.42*	-87.8	*32.50*	635.2	*32.50*	0.0
Pre-abnormal tax rate (%)	*19.04*	*23.46*	*32.18*	*28.16*	*36.31*	*4.42*	-87.8	*32.50*	635.2	*32.50*	0.0

Per share (US$)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	0.36	0.54	1.32	2.64	1.31	(5.10)	-	0.20	-	0.50	147.8
EPS (UBS)	0.37	0.60	1.41	2.67	2.50	0.45	-81.9	0.20	-55.3	0.50	147.8
Net DPS	0.07	0.07	0.07	0.08	0.08	0.08	0.0	0.08	0.0	0.08	0.0
Cash EPS	0.91	1.16	2.04	3.43	3.28	1.91	-41.7	1.78	-7.1	2.07	16.4
BVPS	4.83	4.49	6.29	10.96	10.02	5.02	-49.8	5.82	15.8	8.44	45.0

Balance sheet (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Cash and equivalents	178.66	231.82	191.20	386.10	180.70	192.43	6.5	147.03	-23.6	330.98	125.1
Other current assets	667.30	721.56	951.50	1,189.50	1,953.60	1,119.81	-42.7	1,020.79	-8.8	1,045.98	2.5
Total current assets	845.96	953.38	1,142.70	1,575.60	2,134.30	1,312.24	-38.5	1,167.82	-11.0	1,376.97	17.9
Net tangible fixed assets	357.57	353.92	398.90	468.90	728.80	721.89	-0.9	718.17	-0.5	705.19	-1.8
Net intangible fixed assets	606.21	569.46	622.10	672.20	2,899.50	2,171.20	-25.1	2,137.60	-1.5	2,104.00	-1.6
Investments / other assets	118.40	85.02	55.80	154.70	302.80	189.00	-37.6	189.00	0.0	189.00	0.0
Total assets	1,928.14	1,961.78	2,219.50	2,871.40	6,065.40	4,394.33	-27.6	4,212.60	-4.1	4,375.16	3.9
Trade payables & other ST liabilities	581.08	670.88	931.30	1,061.50	1,435.80	925.80	-35.5	840.64	-9.2	862.30	2.6
Short term debt	71.61	19.37	4.10	13.10	182.30	195.80	7.4	195.80	0.0	195.80	0.0
Total current liabilities	652.68	690.25	935.40	1,074.60	1,618.10	1,121.60	-30.7	1,036.44	-7.6	1,058.10	2.1
Long term debt	512.24	474.00	264.30	217.50	2,473.00	2,037.00	-17.6	1,837.00	-9.8	1,637.00	-10.9
Other long term liabilities	244.29	254.20	245.30	229.40	672.70	581.70	-13.5	581.70	0.0	581.70	0.0
Total liabilities	1,409.21	1,418.45	1,445.00	1,521.50	4,763.80	3,740.30	-21.5	3,455.14	-7.6	3,276.80	-5.2
Equity & minority interests	518.93	543.33	774.50	1,349.90	1,301.60	654.03	-49.8	757.46	15.8	1,098.36	45.0
Total liabilities & equity	1,928.14	1,961.78	2,219.50	2,871.40	6,065.40	4,394.33	-27.6	4,212.60	-4.1	4,375.16	3.9

Cash flow (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net income	39.14	65.89	166.20	336.58	172.15	(663.37)	-	26.23	-	64.98	147.8
Depreciation	57.23	65.60	73.70	87.10	97.50	190.21	95.1	204.92	7.7	204.18	-0.4
Net change in working capital	(32.49)	(19.01)	57.30	(199.60)	(303.80)	164.29	-	13.85	-91.6	195.19	1309.5
Other (operating)	(6.92)	(5.65)	(3.10)	19.80	526.00	720.60	37.0	0.00	-	0.00	-
Net cash from operations	56.96	106.84	294.10	243.88	491.85	411.73	-16.3	245.00	-40.5	464.35	89.5
Capital expenditure	(28.93)	(39.82)	(57.30)	(103.00)	(140.30)	(86.80)	-38.1	(80.00)	-7.8	(70.00)	-12.5
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other changes in investments	8.97	28.23	(63.30)	(83.60)	(2,284.90)	148.70	-	0.00	-	0.00	-
Cash from investing activities	(19.96)	(11.59)	(120.60)	(186.60)	(2,425.20)	61.90	-	(80.00)	-	(70.00)	-12.5
Increase/(decrease) in debt	(11.48)	(38.68)	(257.00)	(51.30)	1,926.30	(413.00)	-	(200.00)	-	(200.00)	-
Share issues / (repurchases)	6.69	10.83	30.20	27.60	8.50	(0.70)	-	0.00	-	0.00	-
Dividends paid	(7.53)	(8.45)	(8.60)	(9.50)	(10.40)	(10.40)	0.0	(10.40)	0.0	(10.40)	0.0
Other cash from financing	104.95	(1.82)	0.00	157.10	2.50	(24.30)	-	0.00	-	0.00	-
Cash from financing activities	92.63	(38.12)	(235.40)	123.90	1,926.90	(448.40)	-	(210.40)	-53.1	(210.40)	0.0
Cash flow chge in cash & equivalents	129.63	57.12	(61.90)	181.18	(6.46)	25.23	-	(45.40)	-	183.95	-
FX / non cash items	1.84	(3.96)	21.28	13.72	(198.94)	(13.50)	-99.4	0.00	-	0.00	0.0
Bal sheet chge in cash & equivalents	131.48	53.16	(40.62)	194.90	(205.40)	11.73	-	(45.40)	-	183.95	-
Core EBITDA	166.91	212.33	376.10	591.00	670.40	429.13	-36.0	389.75	-9.2	435.45	11.7
Maintenance capital expenditure	(28.93)	(39.82)	(57.30)	(103.00)	(140.30)	(86.80)	-38.1	(80.00)	-7.8	(70.00)	-12.5
Maintenance net working capital	86.22	50.68	20.20	128.00	517.80	194.01	-62.5	180.16	-7.1	183.68	2.0
Operating free cash flow, pre-tax	224.21	223.19	339.00	616.00	1,047.90	536.34	-48.8	489.91	-8.7	549.13	12.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Americas

Heavy Machinery

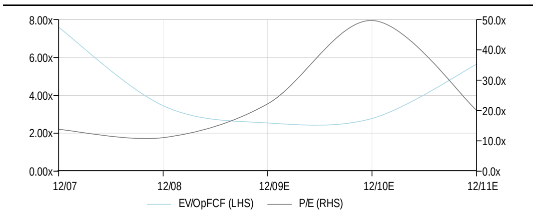
12-month rating	Neutral *
12m price target	US$11.00

The Manitowoc Company, Inc

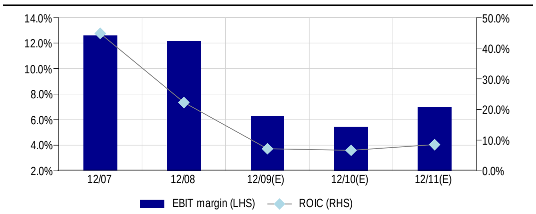
Company profile

Manitowoc manufactures cranes and foodservice equipment. By region, 45% of 2008 sales were derived from operations in the Americas, with 41% from Europe, the Middle East, and Africa, and 11% from Asia-Pacific.

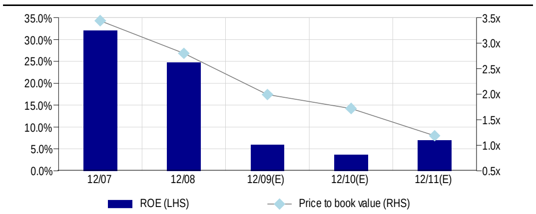
Value (EV/OpFCF & P/E)



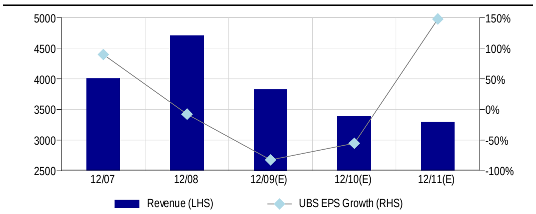
Profitability



ROE v Price to book value



Growth (UBS EPS)



* Exception to core rating bands; See page145

Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	48.2	14.3	21.5	NM	49.7	20.1
P/E (UBS)	19.3	14.1	11.3	22.2	49.7	20.1
P/CEPS	9.7	11.0	8.6	5.2	5.6	4.8
Net dividend yield (%)	0.7	0.2	0.3	0.8	0.8	0.8
P/BV	2.6	3.4	2.8	2.0	1.7	1.2
EV/revenue (core)	1.0	1.2	0.8	0.4	0.4	0.9
EV/EBITDA (core)	8.3	7.9	5.4	3.2	3.5	7.1
EV/EBIT (core)	10.7	9.3	6.3	5.7	7.4	13.4
EV/OpFCF (core)	7.7	7.6	3.5	2.5	2.8	5.6
EV/op. invested capital	2.4	4.2	1.4	0.4	0.5	1.1

Enterprise value (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	4,645.13	3,556.23	1,306.12	1,306.12	1,306.12
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	(39.15)	(39.15)	(39.15)	(39.15)	1,693.79
+ pension obligations and other	76.30	103.90	97.40	97.40	97.40
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	4,682.28	3,620.98	1,364.37	1,364.37	3,097.32

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	26.4	36.5	17.5	-18.7	-11.6	-2.5
EBITDA (UBS)	45.1	57.1	13.4	-36.0	-9.2	11.7
EBIT (UBS)	56.9	66.6	13.7	-58.3	-22.6	25.1
EPS (UBS)	88.4	89.7	-7.5	-82.2	-55.3	147.8
Cash EPS	49.4	68.0	-4.5	-41.7	-7.1	16.4
Net DPS	1.7	7.1	6.7	0.0	0.0	0.0
BVPS	34.5	74.3	-8.6	-49.8	15.8	45.0

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	10.8	14.8	14.2	11.2	11.5	13.2
EBIT / revenue	8.1	12.6	12.2	6.2	5.5	7.0
Net profit (UBS) / revenue	4.3	8.5	7.0	1.5	0.8	2.0

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	22.3	44.9	22.2	7.2	6.7	8.5
ROIC post tax	-	32.2	14.2	6.8	4.5	5.7
Net ROE	17.8	32.1	24.8	6.0	3.7	7.0

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	5.4	13.9	12.3	1.3	1.2	1.7
Dividend cover (UBS EPS)	14.8	NM	NM	5.6	2.5	6.2
Div. payout ratio (%, UBS EPS)	14.0	2.7	3.2	17.7	39.7	16.0
Net debt / EBITDA	0.8	NM	3.7	4.8	4.8	3.4

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	2.5	3.6	1.8	1.1	1.2	1.2
Revenue / fixed assets	2.6	3.7	2.0	1.2	1.2	1.2
Revenue / net working capital	31.9	54.0	14.6	10.8	18.1	18.1

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	1.4	1.2	1.8	2.2	2.7	2.4
Capex / revenue (%)	1.9	2.6	3.0	2.3	2.4	2.1
Capex / depreciation	0.7	1.2	1.4	0.5	0.4	0.3

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	55.6	(11.5)	NM	NM	NM	NM
Net debt / (net debt + equity)	24.2	(13.0)	65.5	75.7	71.3	57.8
Net debt (core) / EV	12.50	(0.8)	(1.1)	(2.9)	(2.9)	54.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$10.02 on 13 Oct 2009 19:38 BST Market cap(E) may include forecast share issues/buybacks.

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Wind farm developers and operators

UBS Investment Research

Iberdrola Renovables S.A.

Discounts investments to 2015 - Sell

■ Stock discounts five years of profitable growth

We calculate that Iberdrola Renovables' share price currently discounts value creation on investments until 2015 (>9GW). This is also reflected in a 2010 PE of 30x. We consider this too optimistic.

■ Expect equity issuance in 2010?

The company's ambition to resume 2GW of annual wind additions, together with gearing constraints from the parent company might lead Iberdrola Renovables to raise equity in 2010. We would expect this could be in the range of 5% of the market cap. This would not be a structural negative, but would bring overhang on the stock.

■ Stock trading at c25% premium to replacement cost

Iberdrola Renovables' should be able to step up its investments, to capture the booming profile of the industry. However, we also think that at the current valuation, the Street is overlooking regulatory, commodity and overhang risks.

■ Risk/reward profile not attractive – Sell (DCF/EVA-derived Dec-10 PT of €3.4ps)

In a market where no stock trades on DCF, we find it challenging to justify a PE of 30x, nor can we accept paying upfront for investments to 2015. We do not question the company's earnings growth, but we think this is already discounted in its share price.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	953.00	2,030.30	2,284.94	2,661.88	3,026.45
EBIT (UBS)	346.90	709.60	677.17	890.73	1,061.46
Net Income (UBS)	118.20	390.10	386.38	484.49	563.62
EPS (UBS, €)	0.03	0.09	0.09	0.11	0.13
Net DPS (UBS, €)	0.02	0.00	0.03	0.03	0.05

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	35.0	29.6	33.5	35.1
ROIC (EBIT) %	-	4.4	3.7	4.5	5.1
EV/EBITDA (core) x	-	17.0	14.8	12.5	11.1
PE (UBS) x	-	43.1	36.3	28.9	24.9
Net dividend yield %	-	0.0	0.8	1.0	1.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €3.32 on 12 Oct 2009 21:40 EDT

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Global Equity Research

Spain

Electric Utilities

12-month rating	Sell *Unchanged*
12m price target	€3.40/US$5.05 *Prior: €3.10/US$4.60*
Price	€3.32/US$4.93

RIC: IBR.MC BBG: IBR SM

Trading data (local/US$)	
52-wk range	€3.58-2.00/US$5.06-2.51
Market cap.	€14.0bn/US$20.8bn
Shares o/s	4,224m (ORD)
Free float	20%
Avg. daily volume ('000)	6,375
Avg. daily value (€m)	20.7

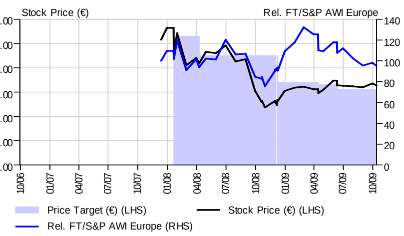
Balance sheet data 12/09E	
Shareholders' equity	€11.5bn
P/BV (UBS)	1.2x
Net Cash (debt)	(€5.09bn)

Forecast returns	
Forecast price appreciation	+2.4%
Forecast dividend yield	1.0%
Forecast stock return	+3.4%
Market return assumption	6.4%
Forecast excess return	-3.0%

EPS (UBS, €)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	-	-	0.03	-
Q2E	-	-	0.04	-
Q3E	-	-	-	-
Q4E	-	-	-	-
12/09E	0.09	0.09	*0.09*	
12/10E	0.11	0.11	*0.12*	

Performance (€)



Source: UBS

Valuation

Table 46: IBR – DCF from 2010 Operating assets is worth €2.9ps

	0	1	2	…	16	16
	2010	**2011**	**2012**	**…**	**2026**	**Salvage**
Normalized Spanish power price (€/MWh)	55.0	–	–	…	–	
Inflation	1.75%	1.75%	1.75%	…	1.75%	
WACC	7.00%	7.00%	7.00%	…	7.00%	
tax rate	31.0%	31.0%	31.0%	…	31.0%	
€ million	**2010**	**2011**	**2012**	**…**	**2026**	**Salvage**
Op cash flow pre-tax (normalized)	1,883	1,918	1,953	…	2,507	
Cash taxes	-584	-595	-606	…	-777	
NOPAT = Op cash flow	**1,299**	**1,323**	**1,348**	**…**	**1,730**	**2,004**
Disc cash flows	1,299	1,237	1,177	…	586	2,004
Enterprise value	17,310					
Work in progress	824					
Debt & Liabilities	6,087					
Equity value (€m)	12,047					
Equity value per share (€ps)	2.9					
	19.7					
Salvage value assumptions						
IC / MW to end 2010 (€m/MW)	1.25					
Assets in 2010	12,308					
Invested capital 2010 (€m)	15,385					
Equity book value 2010 (€m)	10,122					

Source: UBS estimates

Table 47: IBR – Valuing 5 years of investments would add €0.5ps of value

	2011	2012	2013	2014	2015
At Equity / MW multiple of	€0.315m	€0.321m	€0.326m	€0.332m	€0.338m
MW added pa	1,800	1,850	1,800	1,850	1,850
Cumulative value added from pipeline	€567m	€593m	€587m	€614m	€625m
Cost of equity	9.0%	9.0%	9.0%	9.0%	9.0%
Discounted value added from pipeline	€520m	€499m	€453m	€435m	€406m
Cumulative value added (disc to Dec-2009)	€520m	€1019m	€1473m	€1907m	€2313m
per share (€ps)	0.12	0.24	0.35	0.45	0.55

Source: UBS estimates

Financials

Table 48: IBR – P&L (€m)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2008-13
Revenues	2,030	2,285	2,662	3,026	3,293	3,712	4,110	4,547	13%
Op. Expenses	(845)	(989)	(1,031)	(1,105)	(1,179)	(1,258)	(1,341)	(1,419)	
Spain	674	601	715	802	775	895	963	1,047	6%
US	165	286	384	470	565	647	732	823	31%
UK	96	171	226	288	347	406	480	558	33%
RoW	62	104	138	175	222	283	353	438	36%
Other renewables	26	25	52	66	81	96	113	131	29%
PPM - Other	72	104	111	116	119	121	123	125	11%
Adjustments	90	5	5	5	5	5	5	5	NM
EBITDA	1,186	1,296	1,630	1,921	2,114	2,454	2,769	3,128	16%
Depr. & Amort.	(476)	(619)	(740)	(860)	(981)	(1,094)	(1,214)	(1,337)	
EBIT	710	677	891	1,061	1,133	1,359	1,555	1,791	14%
Fin. Result (incl. EMI)	(127)	(108)	(179)	(235)	(311)	(353)	(385)	(409)	
EBT	582	569	711	826	821	1,006	1,170	1,382	
Income taxes	(185)	(176)	(221)	(256)	(255)	(312)	(363)	(428)	
Minority interests	(7)	(6)	(6)	(7)	(7)	(7)	(7)	(7)	
Net Income	390	386	484	564	560	687	800	946	12%
EPS	0.09	0.091	0.115	0.133	0.133	0.163	0.189	0.224	

Source: UBS estimates

Iberdrola Renovables S.A.

Income statement (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	-	1,537.00	953.00	2,030.30	2,284.94	12.5	2,661.88	16.5	3,026.45	13.7
Operating expenses (ex depn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	-	-	843.00	563.90	1,185.50	1,295.67	9.3	1,630.44	25.8	1,921.07	17.8
Depreciation	-	-	(357.50)	(217.00)	(475.90)	(618.50)	30.0	(739.70)	19.6	(859.61)	16.2
Operating income (EBIT, UBS)	-	-	485.50	346.90	709.60	677.17	-4.6	890.73	31.5	1,061.46	19.2
Other income & associates	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	-	-	(100.70)	(150.30)	(127.40)	(108.50)	-14.8	(179.44)	65.4	(235.04)	31.0
Abnormal items (pre-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	384.80	196.60	582.20	568.67	-2.3	711.29	25.1	826.43	16.2
Tax	-	-	(119.10)	(67.20)	(184.90)	(176.29)	-4.7	(220.50)	25.1	(256.19)	16.2
Profit after tax	-	-	265.70	129.40	397.30	392.38	-1.2	490.79	25.1	570.23	16.2
Abnormal items (post-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	(10.00)	(11.20)	(7.20)	(6.00)	-16.7	(6.30)	5.0	(6.62)	5.0
Net income (local GAAP)	-	-	255.70	118.20	390.10	386.38	-1.0	484.49	25.4	563.62	16.3
Net Income (UBS)	-	-	255.70	118.20	390.10	386.38	-1.0	484.49	25.4	563.62	16.3
Tax rate (%)	-	-	30.95	34.18	31.76	31.00	-2.4	31.00	0.0	31.00	0.0
Pre-abnormal tax rate (%)	-	-	30.95	34.18	31.76	31.00	-2.4	31.00	0.0	31.00	0.0

Per share (€)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	-	0.06	0.03	0.09	0.09	-1.0	0.11	25.4	0.13	16.3
EPS (UBS)	-	-	0.06	0.03	0.09	0.09	-1.0	0.11	25.4	0.13	16.3
Net DPS	-	-	0.01	0.02	0.00	0.03	-	0.03	28.1	0.05	61.2
Cash EPS	-	-	0.15	0.08	0.21	0.24	16.0	0.29	21.8	0.34	16.3
BVPS	-	-	0.17	2.55	2.63	2.72	3.5	2.81	3.3	2.91	3.6

Balance sheet (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	-	4,135.30	9,695.50	12,925.60	14,557.10	12.6	15,909.82	9.3	17,120.62	7.6
Net intangible fixed assets	-	-	148.70	5,238.10	5,238.10	5,238.10	0.0	5,238.10	0.0	5,238.10	0.0
Net working capital (incl. other assets)	-	-	(2,398.40)	(141.60)	(738.50)	(738.50)	0.0	(738.50)	0.0	(738.50)	0.0
Other liabilities	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating invested capital	-	-	1,885.60	14,792.00	17,425.20	19,056.70	9.4	20,409.42	7.1	21,620.22	5.9
Investments	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	1,885.60	14,792.00	17,425.20	19,056.70	9.4	20,409.42	7.1	21,620.22	5.9
Shareholders' equity	-	-	718.50	10,783.80	11,110.08	11,496.46	3.5	11,875.35	3.3	12,303.73	3.6
Minority interests	-	-	75.80	134.60	141.80	147.80	4.2	154.10	4.3	160.72	4.3
Total equity	-	-	794.30	10,918.40	11,251.88	11,644.26	3.5	12,029.45	3.3	12,464.45	3.6
Net debt / (cash)	-	-	470.80	1,509.20	3,745.00	5,089.72	35.9	6,086.88	19.6	6,945.47	14.1
Debt deemed provisions	-	-	620.50	2,364.40	2,428.32	2,322.72	-4.3	2,293.09	-1.3	2,210.30	-3.6
Total capital employed	-	-	1,885.60	14,792.00	17,425.20	19,056.70	9.4	20,409.42	7.1	21,620.22	5.9

Cash flow (€m)	-	-	12/07	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	-	485.50	346.90	709.60	677.17	-4.6	890.73	31.5	1,061.46	19.2
Depreciation	-	-	357.50	217.00	475.90	618.50	30.0	739.70	19.6	859.61	16.2
Net change in working capital	-	-	(2,398.40)	(141.60)	(738.50)	(738.50)	0.0	(738.50)	0.0	(738.50)	0.0
Other (operating)	-	-	184.40	8,853.13	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	(1,371.00)	9,275.42	447.00	557.17	24.6	891.94	60.1	1,182.57	32.6
Net interest received / (paid)	-	-	(100.70)	(150.30)	(127.40)	(108.50)	-14.8	(179.44)	65.4	(235.04)	31.0
Dividends paid	-	-	(35.90)	(63.93)	0.00	(105.60)	-	(135.23)	28.1	(218.02)	61.2
Tax paid	-	-	(119.10)	(67.20)	(184.90)	(176.29)	-4.7	(220.50)	25.1	(256.19)	16.2
Capital expenditure	-	-	(849.00)	(8,882.30)	(3,706.00)	(2,250.00)	-39.3	(2,092.42)	-7.0	(2,070.41)	-1.1
Net (acquisitions) / disposals	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	(11.20)	(7.20)	(6.00)	-16.7	(6.30)	5.0	(6.62)	5.0
Share issues	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	-	(2,485.70)	100.50	(3,578.50)	(2,089.22)	-41.6	(1,741.96)	-16.6	(1,603.71)	-7.9
FX / non cash items	-	-	-	(1,138.90)	1,342.70	744.50	-44.6	744.80	0.0	745.12	0.0
Balance sheet (inc)/dec in net debt	-	-	-	(1,038.40)	(2,235.80)	(1,344.72)	-39.9	(997.16)	-25.8	(858.59)	-13.9
Core EBITDA	-	-	843.00	563.90	1,185.50	1,295.67	9.3	1,630.44	25.8	1,921.07	17.8
Maintenance capital expenditure	-	-	(357.50)	(217.00)	(475.90)	(618.50)	30.0	(739.70)	19.6	(859.61)	16.2
Maintenance net working capital	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	-	-	485.50	346.90	709.60	677.17	-4.6	890.73	31.5	1,061.46	19.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Spain

Electric Utilities

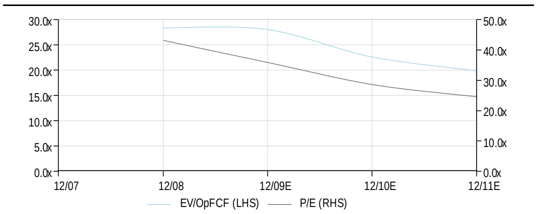
12-month rating	Sell
12m price target	€3.40

Iberdrola Renovables S.A.

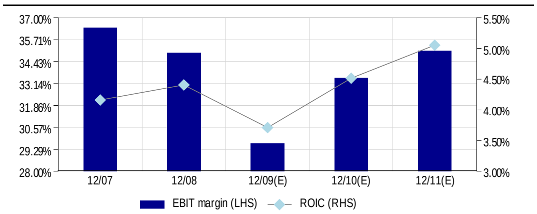
Company profile

Iberdrola Renovables is the global leader in renewables, primarily wind farms. Its wind installed capacity at the end of 2008 was c8.4GW. The company operates mainly in Spain (c40%), the US (c40%), and the UK (10%).

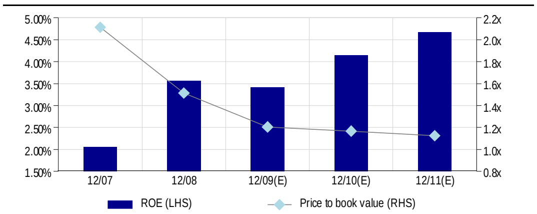
Value (EV/OpFCF & P/E)



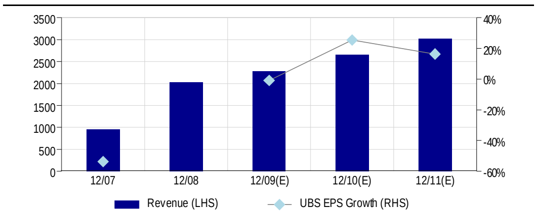
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	NM	43.1	36.3	28.9	24.9
P/E (UBS)	-	>100	43.1	36.3	28.9	24.9
P/CEPS	-	68.0	19.4	14.0	11.5	9.9
Net dividend yield (%)	-	0.3	0.0	0.8	1.0	1.6
P/BV	-	2.1	1.5	1.2	1.2	1.1
EV/revenue (core)	-	NM	9.9	8.4	7.6	7.0
EV/EBITDA (core)	-	43.4	17.0	14.8	12.5	11.1
EV/EBIT (core)	-	NM	28.4	28.3	22.8	20.0
EV/OpFCF (core)	-	NM	28.4	28.3	22.8	20.0
EV/op. invested capital	-	2.9	1.3	1.1	1.0	1.0

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	22,781.76	16,824.34	14,023.88	14,023.88	14,023.88
+ minority interests	134.60	141.80	147.80	154.10	160.72
+ average net debt (cash)	990.00	2,627.10	4,417.36	5,588.30	6,516.17
+ pension obligations and other	564.00	564.00	564.00	564.00	564.00
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	24,470.36	20,157.24	19,153.04	20,330.28	21,264.77

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	-38.0	113.0	12.5	16.5	13.7
EBITDA (UBS)	-	-33.1	110.2	9.3	25.8	17.8
EBIT (UBS)	-	-28.5	104.6	-4.6	31.5	19.2
EPS (UBS)	-	-53.8	NM	-1.0	25.4	16.3
Cash EPS	-	-45.3	158.4	16.0	21.8	16.3
Net DPS	-	78.1	-	-	28.1	61.2
BVPS	-	NM	3.0	3.5	3.3	3.6

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	59.2	58.4	56.7	61.3	63.5
EBIT / revenue	-	36.4	35.0	29.6	33.5	35.1
Net profit (UBS) / revenue	-	12.4	19.2	16.9	18.2	18.6

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	4.2	4.4	3.7	4.5	5.1
ROIC post tax	-	2.7	3.0	2.6	3.1	3.5
Net ROE	-	2.1	3.6	3.4	4.1	4.7

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	2.3	5.6	6.2	5.0	4.5
Dividend cover (UBS EPS)	-	1.8	-	3.7	3.6	2.6
Div. payout ratio (%, UBS EPS)	-	54.1	-	27.3	27.9	38.7
Net debt / EBITDA	-	2.7	3.2	3.9	3.7	3.6

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	0.1	0.1	0.1	0.1	0.1
Revenue / fixed assets	-	0.1	0.1	0.1	0.1	0.1
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	-	NM	NM	NM	NM	NM
Capex / depreciation	-	NM	7.8	3.6	2.8	2.4

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	14.0	33.7	44.3	51.3	56.5
Net debt / (net debt + equity)	-	12.3	25.2	30.7	33.9	36.1
Net debt (core) / EV	-	4.0	13.0	23.1	27.5	30.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €3.32 on 12 Oct 2009 21:40 EDT Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research

EDP Renovaveis

Pricey quality – downgrade to Sell

■ Structurally in a strong position

EDP Renováveis (EDPR) is a well run company which should keep adding 1.4-1.5GW per year over 2009-13. This should provide a sustainable growth pattern, at estimated IRRs of c10%.

■ Valuation went too far - stock discounts five years of investments

EDPR's share price is discounting value creation from c7GW of future investments, on our analysis. Also, the stock is trading on 33x its 2010E earnings. We think this is excessive: while we expect earnings to grow, we would not entirely pay for it upfront.

■ Equity issuance likely in 2010?

The negative outlook imposed on the parent company by S&P and the ambition of the subsidiary to step up US capex could lead the company to implement to a rights issue in 2010. We would expect this to amount up to 5% of the market cap. This would not be a structural negative, but it would likely result in stock overhang.

■ Downgrade to Sell – DCF/EVA-derived Dec-10 PT of €7.3ps

Our DCF from 2010E operating assets stands at €5.2 per share. Including five years of profitable investments, our valuation reaches €7.3 per share, which is just below the current share price. We downgrade the stock to Sell to Neutral.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	319.00	581.40	749.25	1,048.11	1,332.57
EBIT (UBS)	104.35	231.62	256.49	407.06	560.97
Net Income (UBS)	131.03	102.02	128.70	196.43	261.85
EPS (UBS, €)	0.18	0.12	0.15	0.23	0.30
Net DPS (UBS, €)	0.00	0.00	0.00	0.00	0.05

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	39.8	34.2	38.8	42.1
ROIC (EBIT) %	-	3.3	2.8	3.8	4.7
EV/EBITDA (core) x	-	16.6	17.7	13.8	11.5
PE (UBS) x	-	50.6	50.1	32.8	24.6
Net dividend yield %	-	0.0	0.0	0.0	0.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €7.39 on 13 Oct 2009 21:39 BST

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Global Equity Research

Portugal

Electric Utilities

12-month rating	Sell
	Prior: Neutral
12m price target	€7.30/US$10.82
	Prior: €7.50/US$11.12
Price	€7.39/US$10.95

RIC: EDPR.LS BBG: EDPR PL

Trading data (local/US$)	
52-wk range	€7.75-3.45/US$11.41-4.41
Market cap.	€6.42bn/US$9.51bn
Shares o/s	869m (ORD)
Free float	23%
Avg. daily volume ('000)	792
Avg. daily value (€m)	5.7

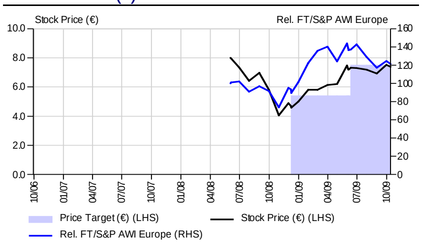
Balance sheet data 12/09E	
Shareholders' equity	€5.20bn
P/BV (UBS)	1.2x
Net Cash (debt)	(€3.40bn)

Forecast returns	
Forecast price appreciation	-1.2%
Forecast dividend yield	0.0%
Forecast stock return	-1.2%
Market return assumption	6.3%
Forecast excess return	-7.5%

EPS (UBS, €)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	-	-	0.06	-
Q2E	-	-	0.02	-
Q3E	-	-	-	-
Q4E	-	-	-	-
12/09E	0.17	0.15	*0.16*	
12/10E	0.19	0.23	*0.22*	

Performance (€)



Source: UBS

Valuation

Table 49: EDPR – DCF from 2010 Operating assets is worth €5.2ps

	0	1	2	…	17	17
	2010	**2011**	**2012**	**…**	**2027**	**Salvage**
Normalized Spanish power price (€/MWh)	55.0	–	–	…	–	–
Inflation	1.75%	1.75%	1.75%	…	1.75%	1.75%
WACC	6.75%	6.75%	6.75%	…	6.75%	6.75%
tax rate	30.0%	30.0%	30.0%	…	30.0%	30.0%
€ million	**2010**	**2011**	**2012**	**…**	**2027**	**Salvage**
Op cash flow (normalized)	**955**	974	994	…	1,311	
Cash taxes	-287	-292	-298	…	-393	
NOPAT = Op cash flow	**669**	**682**	**696**	**…**	**918**	**994**
Disc cash flows	669	639	610	…	302	327
Enterprise value	8,701					
Work in progress	529					
Debt & Liabilities	4,656					
Equity value (€m)	4,573					
Equity value per share (€ps)	5.2					
Salvage value assumptions						
IC / MW to end 2010 (€m/MW)	1.25					
Assets in 2010	7,248					
Invested capital 2010 (€m)	9,060					
Equity book value 2010 (€m)	4,933					

Source: UBS estimates

Table 50: EDPR – Valuing 5 years of investments would add €2.0ps of value

	2011	**2012**	**2013**	**2014**	**2015**
At Equity / MW multiple of	€0.315m	€0.321m	€0.326m	€0.332m	€0.338m
MW added pa	1,525	1,475	1,400	1,300	1300
Cumulative value added from pipeline	€480m	€473m	€457m	€431m	€439m
Cost of equity	9.0%	9.0%	9.0%	9.0%	9.0%
Discounted value added from pipeline	€441m	€398m	€353m	€306m	€285m
Cumulative value added (disc to Dec-2009)	€441m	€839m	€1191m	€1497m	€1782m
per share (€ps)	0.51	0.96	1.37	1.72	2.04

Source: UBS estimates

Financials

Table 51: EDPR P&L (€m)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2008-13
Revenues	581	749	1,048	1,333	1,617	1,887	2,161	2,425	27%
Op. Expenses	(143)	(189)	(239)	(290)	(340)	(388)	(434)	(501)	
Iberia	306	338	487	596	704	787	869	934	
US	139	208	285	380	469	564	658	752	
RoE	11	21	44	75	113	158	209	249	
Others	(18)	(7)	(8)	(8)	(9)	(9)	(10)	(11)	
EBITDA	438	560	809	1,043	1,278	1,498	1,727	1,924	28%
Depr. & Amort.	(206)	(304)	(402)	(482)	(560)	(637)	(709)	(777)	
EBIT	232	256	407	561	717	862	1,017	1,146	30%
Fin. Result (incl. EMI)	(73)	(82)	(144)	(213)	(279)	(326)	(364)	(391)	
EBT	161	174	263	348	438	536	653	755	
Income taxes	(49)	(36)	(57)	(76)	(96)	(119)	(146)	(170)	
Minority interests	(8)	(9)	(10)	(10)	(11)	(12)	(13)	(14)	
Net Income	104	129	196	262	330	405	494	571	31%
EPS	0.12	0.15	0.23	0.30	0.38	0.46	0.57	0.65	

Source: UBS estimates

EDP Renovaveis

Income statement (€m)	-	-	-	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	-	-	319.00	581.40	749.25	28.9	1,048.11	39.9	1,332.57	27.1
Operating expenses (ex depn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	-	-	-	229.89	438.00	560.20	27.9	808.82	44.4	1,042.73	28.9
Depreciation	-	-	-	(125.54)	(206.39)	(303.71)	47.2	(401.76)	32.3	(481.76)	19.9
Operating income (EBIT, UBS)	-	-	-	104.35	231.62	256.49	10.7	407.06	58.7	560.97	37.8
Other income & associates	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	-	-	-	32.10	(72.76)	(82.34)	13.2	(143.85)	74.7	(213.08)	48.1
Abnormal items (pre-tax)	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	-	136.45	158.85	174.15	9.6	263.21	51.1	347.89	32.2
Tax	-	-	-	(3.05)	(48.98)	(36.42)	-25.6	(57.07)	56.7	(75.60)	32.5
Profit after tax	-	-	-	133.40	109.87	137.73	25.4	206.14	49.7	272.29	32.1
Abnormal items (post-tax)	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	-	(2.36)	(7.85)	(9.03)	15.0	(9.71)	7.5	(10.44)	7.5
Net income (local GAAP)	-	-	-	131.03	102.02	128.70	26.2	196.43	52.6	261.85	33.3
Net Income (UBS)	-	-	-	131.03	102.02	128.70	26.2	196.43	52.6	261.85	33.3
Tax rate (%)	-	-	-	*2.24*	*30.83*	*20.91*	-32.2	*21.68*	3.7	*21.73*	0.2
Pre-abnormal tax rate (%)	-	-	-	*2.24*	*30.83*	*20.91*	-32.2	*21.68*	3.7	*21.73*	0.2
Per share (€)	-	-	-	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	-	-	0.18	0.12	0.15	26.2	0.23	52.6	0.30	33.3
EPS (UBS)	-	-	-	0.18	0.12	0.15	26.2	0.23	52.6	0.30	33.3
Net DPS	-	-	-	0.00	0.00	0.00	-	0.00	-	0.05	-
Cash EPS	-	-	-	0.36	0.35	0.50	40.2	0.69	38.3	0.85	24.3
BVPS	-	-	-	2.13	5.81	5.96	2.5	6.18	3.8	6.48	4.9
Balance sheet (€m)	-	-	-	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	-	-	4,835.40	7,052.80	8,598.26	21.9	10,059.40	17.0	11,097.65	10.3
Net intangible fixed assets	-	-	-	1,423.37	1,611.40	1,611.40	0.0	1,611.40	0.0	1,611.40	0.0
Net working capital (incl. other assets)	-	-	-	(575.21)	(231.85)	(321.85)	38.8	(321.85)	0.0	(321.85)	0.0
Other liabilities	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating invested capital	-	-	-	5,683.56	8,432.36	9,887.82	17.3	11,348.96	14.8	12,387.20	9.1
Investments	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	-	5,683.56	8,432.36	9,887.82	17.3	11,348.96	14.8	12,387.20	9.1
Shareholders' equity	-	-	-	1,528.67	5,067.45	5,196.15	2.5	5,392.58	3.8	5,654.43	4.9
Minority interests	-	-	-	184.47	82.75	91.78	10.9	101.49	10.6	111.93	10.3
Total equity	-	-	-	1,713.14	5,150.20	5,287.94	2.7	5,494.08	3.9	5,766.36	5.0
Net debt / (cash)	-	-	-	3,218.36	2,083.57	3,401.29	63.2	4,656.30	36.9	5,461.54	17.3
Debt deemed provisions	-	-	-	752.06	1,198.59	1,198.59	0.0	1,198.59	0.0	1,159.30	-3.3
Total capital employed	-	-	-	5,683.56	8,432.36	9,887.82	17.3	11,348.96	14.8	12,387.20	9.1
Cash flow (€m)	-	-	-	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	-	-	104.35	231.62	256.49	10.7	407.06	58.7	560.97	37.8
Depreciation	-	-	-	125.54	206.39	303.71	47.2	401.76	32.3	481.76	19.9
Net change in working capital	-	-	-	(575.21)	(231.85)	(321.85)	38.8	(321.85)	0.0	(321.85)	0.0
Other (operating)	-	-	-	1,647.89	39.70	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	-	1,302.56	245.85	238.36	-3.0	486.97	104.3	720.88	48.0
Net interest received / (paid)	-	-	-	32.10	(72.76)	(82.34)	13.2	(143.85)	74.7	(213.08)	48.1
Dividends paid	-	-	-	0.00	0.00	0.00	-	0.00	-	(39.29)	-
Tax paid	-	-	-	(3.05)	(48.98)	(36.42)	-25.6	(57.07)	56.7	(75.60)	32.5
Capital expenditure	-	-	-	(1,670.13)	(523.00)	(1,849.17)	253.6	(1,862.90)	0.7	(1,520.00)	-18.4
Net (acquisitions) / disposals	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	-	(7.85)	(9.03)	15.0	(9.71)	7.5	(10.44)	7.5
Share issues	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	-	-	(340.88)	(406.74)	(1,738.61)	327.4	(1,586.56)	-8.7	(1,137.52)	-28.3
FX / non cash items	-	-	-	-	1,541.54	420.88	-72.7	331.55	-21.2	332.28	0.2
Balance sheet (inc)/dec in net debt	-	-	-	-	1,134.80	(1,317.73)	-	(1,255.00)	-4.8	(805.24)	-35.8
Core EBITDA	-	-	-	229.89	438.00	560.20	27.9	808.82	44.4	1,042.73	28.9
Maintenance capital expenditure	-	-	-	(125.54)	(206.39)	(303.71)	47.2	(401.76)	32.3	(481.76)	19.9
Maintenance net working capital	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	-	-	-	104.35	231.62	256.49	10.7	407.06	58.7	560.97	37.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Portugal

Electric Utilities

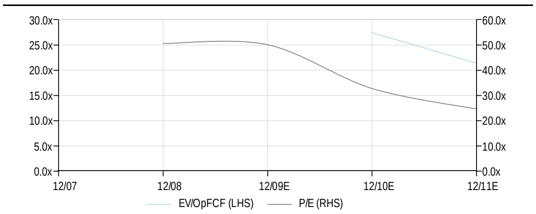
12-month rating **Sell**

12m price target €7.30

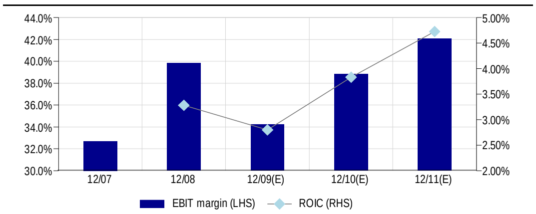
EDP Renovaveis

Company profile

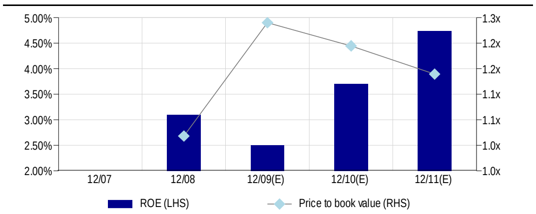
Value (EV/OpFCF & P/E)



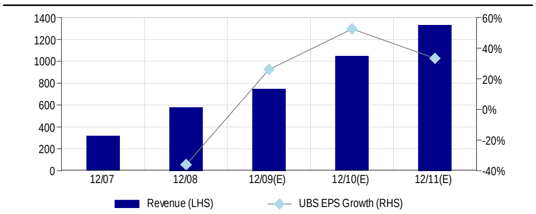
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	-	50.6	50.1	32.8	24.6
P/E (UBS)	-	-	50.6	50.1	32.8	24.6
P/CEPS	-	-	16.7	14.9	10.8	8.7
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.6
P/BV	-	-	1.0	1.2	1.2	1.1
EV/revenue (core)	-	-	NM	NM	NM	9.0
EV/EBITDA (core)	-	-	16.6	17.7	13.8	11.5
EV/EBIT (core)	-	-	NM	NM	27.5	21.4
EV/OpFCF (core)	-	-	NM	NM	27.5	21.4
EV/op. invested capital	-	-	1.0	1.1	1.1	1.0

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	-	5,120.46	6,415.78	6,415.78	6,415.78
+ minority interests	184.47	82.75	91.78	101.49	111.93
+ average net debt (cash)	3,218.36	2,083.57	3,401.29	4,656.30	5,461.54
+ pension obligations and other	1.21	1.16	1.16	1.16	1.16
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	-	7,287.93	9,910.01	11,174.73	11,990.41

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	-	82.3	28.9	39.9	27.1
EBITDA (UBS)	-	-	90.5	27.9	44.4	28.9
EBIT (UBS)	-	-	122.0	10.7	58.7	37.8
EPS (UBS)	-	-	-35.9	26.2	52.6	33.3
Cash EPS	-	-	-1.1	40.2	38.3	24.3
Net DPS	-	-	-	-	-	-
BVPS	-	-	172.7	2.5	3.8	4.9

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	72.1	NM	74.8	NM	NM
EBIT / revenue	-	32.7	39.8	34.2	38.8	42.1
Net profit (UBS) / revenue	-	41.1	17.5	17.2	18.7	19.7

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	-	3.3	2.8	3.8	4.7
ROIC post tax	-	-	2.3	2.2	3.0	3.7
Net ROE	-	-	3.1	2.5	3.7	4.7

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	3.2	3.1	2.8	2.6
Dividend cover (UBS EPS)	-	-	-	-	-	6.7
Div. payout ratio (%, UBS EPS)	-	-	-	-	-	15.0
Net debt / EBITDA	-	NM	4.8	6.1	5.8	5.2

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	-	0.1	0.1	0.1	0.1
Revenue / fixed assets	-	-	0.1	0.1	0.1	0.1
Revenue / net working capital	-	-	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	-	NM	NM	NM	NM	NM
Capex / depreciation	-	NM	2.5	6.1	4.6	3.2

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	NM	41.1	65.5	86.3	96.6
Net debt / (net debt + equity)	-	67.8	29.1	39.6	46.3	49.1
Net debt (core) / EV	-	-	28.6	34.3	41.7	45.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €7.39 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research

EDF Energies Nouvelles

French breeze

■ Initiating with aNeutral rating and €41 price target

EDF Energies Nouvelles (EDF EN) is a global top 10 developer and operator of wind and other renewable energy farms, with 1,743MW net capacity in operation. It targets 4GW capacity by 2012, which we think the company can exceed by 10%. It has a 17GW pipeline, mostly wind, but solar is becoming more important.

■ Macroeconomic environment has improved substantially ytd…

Several macro trends over have been favourable for EDF EN the past 12 months: (1) the c20% drop in wind turbine prices should boost IRRs by 150bp; (2) financing costs for new wind farms are back to their pre-crisis level; and (3) the cash grants in the US should stimulate new additions in the US. These positive trends are accompanied by largely stable wind electricity selling prices.

■ …yet value creation until 2012E seems already reflected in the share price

We expect EDF EN to install 0.6-0.8GW of new wind and solar capacity annually until 2013. We see its solar expansion strategy as an attractive add-on to its wind business, as IRRs could be even higher due to the drop in solar panel prices. The market seems to assign €0.3m per MW to the capacity build-out until 2012, which we think is exactly fair. Hence, we do not see material upside to the share price.

■ Valuation – our PT is based on a SOP model

Based on our SOP model, (plant-by-plant DCFs for existing assets and an EV of €0.3m per MW for the pipeline until 2012E), the fair value stands at €2.9bn (€37.5 ps). At 9% equity return, the SOP suggests a €41 PT. On 13x EV/EBITDA 2010E at PT, the shares would trade in line with its European peers IBER and EDPR.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	560.51	1,006.63	1,041.36	1,243.77	1,432.23
EBIT (UBS)	95.46	158.55	223.67	318.51	395.39
Net Income (UBS)	51.36	69.56	93.75	114.39	142.26
EPS (UBS, €)	0.83	0.90	1.21	1.47	1.83
Net DPS (UBS, €)	0.26	0.27	0.36	0.44	0.55

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	15.8	21.5	25.6	27.6
ROIC (EBIT) %	-	8.2	7.2	7.9	8.1
EV/EBITDA (core) x	-	15.4	14.9	11.8	10.6
PE (UBS) x	-	40.3	31.2	25.5	20.5
Net dividend yield %	-	0.7	1.0	1.2	1.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €37.67 on 13 Oct 2009 21:39 BST

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Global Equity Research

France

Electric Utilities

12-month rating	Neutral
	Prior: Not Rated
12m price target	€41.00/US$60.80 -
Price	€37.67/US$55.85

RIC: EEN.PA BBG: EEN FP

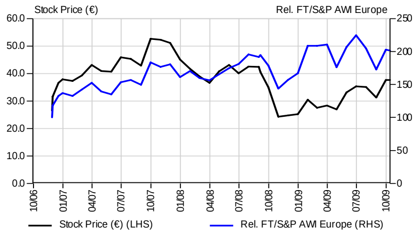
Trading data (local/US$)	
52-wk range	€37.75-19.79/US$55.85-24.92
Market cap.	€2.92bn/US$4.33bn
Shares o/s	77.6m (ORD)
Free float	24%
Avg. daily volume ('000)	109
Avg. daily value (€m)	3.8

Balance sheet data 12/09E	
Shareholders' equity	€1.34bn
P/BV (UBS)	2.2x
Net Cash (debt)	(€2.19bn)

Forecast returns	
Forecast price appreciation	+8.9%
Forecast dividend yield	1.0%
Forecast stock return	+9.9%
Market return assumption	5.8%
Forecast excess return	+4.1%

EPS (UBS, €)	12/09E			12/08
	From	To	Cons.	Actual
H1E	-	0.54	-	0.44
H2E	-	0.67	-	0.55
12/09E	-	1.21	*1.05*	
12/10E	-	1.47	*1.33*	

Performance (€)



Source: UBS

EDF Energies Nouvelles

Income statement (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	-	334.80	560.51	1,006.63	1,041.36	3.4	1,243.77	19.4	1,432.23	15.2
Operating expenses (ex depn)	-	-	(287.29)	(462.35)	(893.19)	(838.35)	-6.1	(896.55)	6.9	(980.73)	9.4
EBITDA (UBS)	-	-	91.79	137.40	219.86	317.55	44.4	471.60	48.5	594.73	26.1
Depreciation	-	-	(30.12)	(41.94)	(61.31)	(93.89)	53.1	(153.09)	63.1	(199.33)	30.2
Operating income (EBIT, UBS)	-	-	61.67	95.46	158.55	223.67	41.1	318.51	42.4	395.39	24.1
Other income & associates	-	-	2.43	12.05	4.12	(3.00)	-	0.00	-	0.00	-
Net interest	-	-	(25.52)	(35.40)	(48.71)	(85.00)	74.5	(142.23)	67.3	(177.87)	25.1
Abnormal items (pre-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	38.59	72.10	113.97	135.67	19.0	176.28	29.9	217.52	23.4
Tax	-	-	(10.77)	(18.43)	(37.12)	(33.92)	-8.6	(52.88)	55.9	(65.26)	23.4
Profit after tax	-	-	27.82	53.68	76.85	101.75	32.4	123.39	21.3	152.26	23.4
Abnormal items (post-tax)	-	-	(0.34)	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	(5.57)	(2.32)	(7.29)	(8.00)	9.7	(9.00)	12.5	(10.00)	11.1
Net income (local GAAP)	-	-	21.91	51.36	69.56	93.75	34.8	114.39	22.0	142.26	24.4
Net Income (UBS)	-	-	22.25	51.36	69.56	93.75	34.8	114.39	22.0	142.26	24.4
Tax rate (%)	-	-	27.90	25.56	32.57	25.00	-23.2	30.00	20.0	30.00	0.0
Pre-abnormal tax rate (%)	-	-	28.46	26.02	32.02	24.46	-23.6	30.00	22.7	30.00	0.0

Per share (€)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	-	0.35	0.83	0.90	1.21	34.8	1.47	22.0	1.83	24.4
EPS (UBS)	-	-	0.36	0.83	0.90	1.21	34.8	1.47	22.0	1.83	24.4
Net DPS	-	-	0.11	0.26	0.27	0.36	34.3	0.44	22.0	0.55	24.4
Cash EPS	-	-	0.84	1.50	1.69	2.42	43.4	3.45	42.6	4.40	27.7
BVPS	-	-	10.80	11.34	16.35	17.29	5.7	18.40	6.4	19.79	7.6

Balance sheet (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	-	897.16	1,303.32	2,260.78	3,353.92	48.4	4,127.70	23.1	4,997.85	21.1
Net intangible fixed assets	-	-	44.79	81.92	117.54	117.54	0.0	117.54	0.0	117.54	0.0
Net working capital (incl. other assets)	-	-	47.82	175.87	542.14	502.22	-7.4	521.38	3.8	539.66	3.5
Other liabilities	-	-	(102.95)	(266.14)	(332.39)	(333.83)	0.4	(335.85)	0.6	(337.74)	0.6
Operating invested capital	-	-	886.81	1,294.97	2,588.07	3,639.85	40.6	4,430.77	21.7	5,317.32	20.0
Investments	-	-	59.69	70.08	120.67	120.67	0.0	120.67	0.0	120.67	0.0
Total capital employed	-	-	946.50	1,365.05	2,708.74	3,760.52	38.8	4,551.45	21.0	5,437.99	19.5
Shareholders' equity	-	-	709.36	745.33	1,267.96	1,340.77	5.7	1,427.04	6.4	1,534.98	7.6
Minority interests	-	-	12.76	11.98	223.06	231.06	3.6	240.06	3.9	250.06	4.2
Total equity	-	-	722.12	757.31	1,491.02	1,571.83	5.4	1,667.10	6.1	1,785.04	7.1
Net debt / (cash)	-	-	224.39	607.74	1,217.72	2,188.70	79.7	2,884.35	31.8	3,652.95	26.6
Debt deemed provisions	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	946.50	1,365.05	2,708.74	3,760.52	38.8	4,551.45	21.0	5,437.99	19.5

Cash flow (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	-	61.67	95.46	158.55	223.67	41.1	318.51	42.4	395.39	24.1
Depreciation	-	-	30.12	41.94	61.31	93.89	53.1	153.09	63.1	199.33	30.2
Net change in working capital	-	-	12.86	(11.25)	(199.00)	39.92	-	(19.16)	-	(18.28)	-4.6
Other (operating)	-	-	24.51	51.27	67.88	1.44	-97.9	2.02	40.4	1.88	-6.9
Operating cash flow	-	-	129.16	177.41	88.74	358.91	304.5	454.46	26.6	578.33	27.3
Net interest received / (paid)	-	-	(25.52)	(35.40)	(48.71)	(85.00)	74.5	(142.23)	67.3	(177.87)	25.1
Dividends paid	-	-	(3.52)	(10.98)	(19.02)	(20.94)	10.1	(28.13)	34.3	(34.32)	22.0
Tax paid	-	-	(7.60)	(3.34)	(21.15)	(33.92)	60.4	(52.88)	55.9	(65.26)	23.4
Capital expenditure	-	-	(317.21)	(476.16)	(907.39)	(1,187.02)	30.8	(926.87)	-21.9	(1,069.48)	15.4
Net (acquisitions) / disposals	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	(107.98)	(170.54)	(11.00)	-93.5	(9.00)	-18.2	(10.00)	11.1
Share issues	-	-	514.90	1.13	536.88	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	-	182.88	(455.33)	(541.18)	(978.97)	80.9	(704.65)	-28.0	(778.60)	10.5
FX / non cash items	-	-	-	71.98	(68.80)	8.00	-	9.00	12.5	10.00	11.1
Balance sheet (inc)/dec in net debt	-	-	-	(383.35)	(609.99)	(970.97)	59.2	(695.65)	-28.4	(768.60)	10.5
Core EBITDA	-	-	91.79	137.40	219.86	317.55	44.4	471.60	48.5	594.73	26.1
Maintenance capital expenditure	-	-	(30.87)	(42.99)	(62.85)	(96.23)	53.1	(156.92)	63.1	(204.32)	30.2
Maintenance net working capital	-	-	(0.38)	(2.89)	(7.84)	(6.85)	-12.7	(7.32)	7.0	(7.78)	6.2
Operating free cash flow, pre-tax	-	-	60.54	91.52	149.17	214.47	43.8	307.35	43.3	382.63	24.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

France

Electric Utilities

12-month rating Neutral

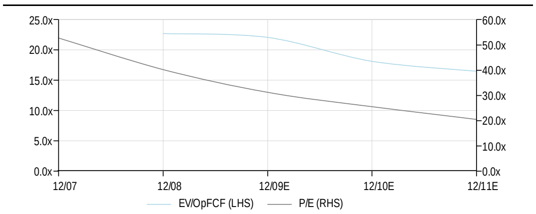
12m price target €41.00

EDF Energies Nouvelles

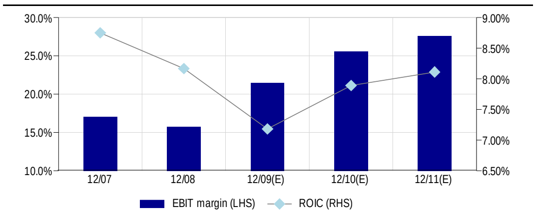
Company profile

EDF EN is a global top-10 developer and operator of wind farms. Its main markets comprise France (including overseas departments), Italy, Greece, the UK and the US, through its subsidiary enXco. As at 30 June 2009, EDF EN had 1,743MW of net capacity in operation (2,547MW gross capacity), of which 1,565MW was wind power. Solar photovoltaic (PV) farms are a strategic growth area. The vast majority of electricity is sold under predetermined prices, either through regulated feed-in tariffs or power purchase agreements (PPAs). Electricité de France (EDF) owns 50% of EDF EN's shares.

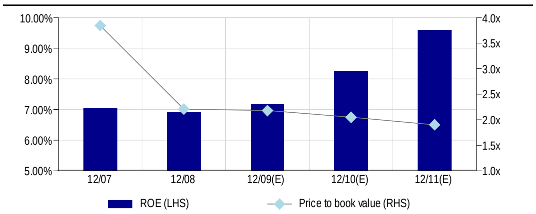
Value (EV/OpFCF & P/E)



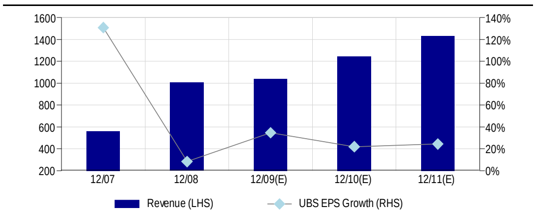
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	52.7	40.3	31.2	25.5	20.5
P/E (UBS)	-	52.7	40.3	31.2	25.5	20.5
P/CEPS	-	29.0	21.4	15.6	10.9	8.6
Net dividend yield (%)	-	0.6	0.7	1.0	1.2	1.5
P/BV	-	3.8	2.2	2.2	2.0	1.9
EV/revenue (core)	-	5.8	3.4	4.5	4.5	4.4
EV/EBITDA (core)	-	23.5	15.4	14.9	11.8	10.6
EV/EBIT (core)	-	NM	21.4	21.2	17.5	16.0
EV/OpFCF (core)	-	NM	22.7	22.1	18.1	16.5
EV/op. invested capital	-	3.0	1.7	1.5	1.4	1.3

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	2,866.77	2,479.90	2,921.67	2,921.67	2,921.67
+ minority interests	12.37	117.52	227.06	235.56	245.06
+ average net debt (cash)	416.06	912.73	1,703.21	2,536.52	3,268.65
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(70.08)	(120.67)	(120.67)	(120.67)	(120.67)
Core enterprise value	3,225.12	3,389.48	4,731.27	5,573.08	6,314.71

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	67.4	79.6	3.4	19.4	15.2
EBITDA (UBS)	-	49.7	60.0	44.4	48.5	26.1
EBIT (UBS)	-	54.8	66.1	41.1	42.4	24.1
EPS (UBS)	-	130.8	8.4	34.8	22.0	24.4
Cash EPS	-	78.2	12.2	43.4	42.6	27.7
Net DPS	-	136.4	3.8	34.3	22.0	24.4
BVPS	-	5.1	44.1	5.7	6.4	7.6

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	24.5	21.8	30.5	37.9	41.5
EBIT / revenue	-	17.0	15.8	21.5	25.6	27.6
Net profit (UBS) / revenue	-	9.2	6.9	9.0	9.2	9.9

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	8.8	8.2	7.2	7.9	8.1
ROIC post tax	-	6.5	5.6	5.4	5.5	5.7
Net ROE	-	7.1	6.9	7.2	8.3	9.6

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	3.0	3.3	2.6	2.2	2.2
Dividend cover (UBS EPS)	-	3.2	3.3	3.3	3.3	3.3
Div. payout ratio (%, UBS EPS)	-	31.4	30.1	30.0	30.0	30.0
Net debt / EBITDA	-	4.4	5.5	6.9	6.1	6.1

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	0.5	0.5	0.3	0.3	0.3
Revenue / fixed assets	-	0.5	0.5	0.4	0.3	0.3
Revenue / net working capital	-	8.6	4.7	3.5	4.4	4.7

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	1.0	0.9	1.0	1.0	1.0
Capex / revenue (%)	-	NM	NM	NM	NM	NM
Capex / depreciation	-	NM	NM	NM	6.1	5.4

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	81.5	96.0	NM	NM	NM
Net debt / (net debt + equity)	-	44.9	49.0	62.0	66.9	70.4
Net debt (core) / EV	-	12.9	26.9	36.0	45.5	51.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €37.67 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research

Terna Energy

Attractive play in the Greek wind market

Global Equity Research

Greece

Electric Utilities

12-month rating	Buy *Unchanged*
12m price target	€9.40/US$13.94 *Unchanged*
Price	€6.70/US$9.94

RIC: TENr.AT BBG: TENERGY GA

■ A leading wind farm operator in Greece

Terna Energy (TE) has 149MW of wind farms in operation and another 84MW under construction, all in Greece. The key value driver is the development of the pipeline, as TE holds >651MW of electricity production licences. The recent win of the Socialists in the national elections should be good news for operators of green energy plants, as far as the licensing of new wind farm projects is concerned.

■ All eyes on construction permits in H2 09 – a potential share price catalyst

In order to meet guidance of 450MW cumulative installations by H1 10, TE has to obtain c220MW of new construction licenses (the final bureaucratic hurdle) until end-2009. Management expects 200-250MW of new licences in the next 4-5 months. We think this is quite optimistic, and our scepticism seems consensual. Having said that, the upcoming building permits could be a catalyst for the shares.

■ Despite strong recent performance, the pipeline value is not yet reflected

Currently, net cash and prepayments made to turbine suppliers account for €1.8 per share, and the value of wind farms running and under construction is €3.6 per share (at €1.7m EV/MW, which is conservative, given the high load factor of 30%). Hence, at the current share price, the market values TE's pipeline at €1 per share (€0.1m/MW). We think €4 per share (€0.4m/MW) would be adequate.

■ Valuation – DCF-based €9.4 price target

Our price target of €9.4 is based on a DCF model. We recently cut our 2009-11E EPS by 8-17% to reflect the slight delays in the licensing process in our model. It now assumes 435MW to be installed by December 2010.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	60.22	73.70	77.14	105.69	148.07
EBIT (UBS)	20.57	21.90	31.14	47.85	73.32
Net Income (UBS)	14.34	24.00	27.25	36.72	49.17
EPS (UBS, €)	0.17	0.22	0.25	0.34	0.45
Net DPS (UBS, €)	0.06	0.08	0.09	0.12	0.16

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	29.7	40.4	45.3	49.5
ROIC (EBIT) %	-	8.9	8.2	8.2	7.3
EV/EBITDA (core) x	-	16.9	16.6	12.8	10.8
PE (UBS) x	-	27.3	26.9	19.9	14.9
Net dividend yield %	-	1.3	1.3	1.8	2.3

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of €6.70 on 13 Oct 2009 21:39 BST

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Trading data (local/US$)	
52-wk range	€6.92-2.97/US$10.22-3.75
Market cap.	€0.73bn/US$1.09bn
Shares o/s	109m (ORD)
Free float	25%
Avg. daily volume ('000)	72
Avg. daily value (€m)	0.4

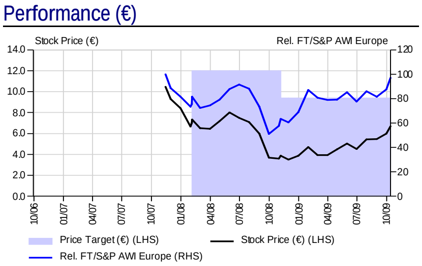
Balance sheet data 12/09E	
Shareholders' equity	€0.50bn
P/BV (UBS)	1.5x
Net Cash (debt)	€0.04bn

Forecast returns	
Forecast price appreciation	+40.3%
Forecast dividend yield	1.3%
Forecast stock return	+41.6%
Market return assumption	8.3%
Forecast excess return	+33.3%

EPS (UBS, €)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	0.07	0.06	0.05	0.05
Q2E	0.07	0.06	0.03	0.05
Q3E	0.07	0.06	0.07	0.05
Q4E	0.07	0.06	0.07	0.05
12/09E	0.26	0.25	*0.19*	
12/10E	0.34	0.34	*0.22*	

Performance (€)



Source: UBS

Terna Energy

Income statement (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	-	41.66	60.22	73.70	77.14	4.7	105.69	37.0	148.07	40.1
Operating expenses (ex depn)	-	-	(26.79)	(33.36)	(44.90)	(38.32)	-14.6	(45.39)	18.4	(54.45)	20.0
EBITDA (UBS)	-	-	16.33	26.86	28.80	38.82	34.8	60.30	55.4	93.62	55.3
Depreciation	-	-	(3.54)	(6.29)	(6.90)	(7.68)	11.3	(12.45)	62.2	(20.30)	63.1
Operating income (EBIT, UBS)	-	-	12.79	20.57	21.90	31.14	42.2	47.85	53.7	73.32	53.2
Other income & associates	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	-	-	(3.34)	(1.67)	10.30	4.71	-54.2	1.11	-76.4	(7.76)	-
Abnormal items (pre-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	9.45	18.90	32.20	35.85	11.3	48.96	36.6	65.56	33.9
Tax	-	-	(1.97)	(4.56)	(8.20)	(8.60)	4.9	(12.24)	42.3	(16.39)	33.9
Profit after tax	-	-	7.49	14.34	24.00	27.25	13.5	36.72	34.8	49.17	33.9
Abnormal items (post-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	0.05	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	-	-	7.53	14.34	24.00	27.25	13.5	36.72	34.8	49.17	33.9
Net Income (UBS)	-	-	7.53	14.34	24.00	27.25	13.5	36.72	34.8	49.17	33.9
Tax rate (%)	-	-	20.79	24.12	25.47	24.00	-5.8	25.00	4.2	25.00	0.0
Pre-abnormal tax rate (%)	-	-	20.79	24.12	25.47	24.00	-5.8	25.00	4.2	25.00	0.0

Per share (€)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	-	0.09	0.17	0.22	0.25	13.5	0.34	34.8	0.45	33.9
EPS (UBS)	-	-	0.09	0.17	0.22	0.25	13.5	0.34	34.8	0.45	33.9
Net DPS	-	-	0.00	0.06	0.08	0.09	13.5	0.12	34.8	0.16	33.9
Cash EPS	-	-	0.14	0.24	0.28	0.32	13.0	0.45	40.8	0.64	41.3
BVPS	-	-	0.39	3.19	4.07	4.59	12.6	5.42	18.2	7.78	43.4

Balance sheet (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	-	115.87	178.80	266.70	485.09	81.9	740.16	52.6	1,360.32	83.8
Net intangible fixed assets	-	-	0.77	1.47	1.55	1.63	5.0	1.71	5.0	1.79	5.0
Net working capital (incl. other assets)	-	-	(1.31)	16.02	30.49	(22.57)	-	(43.81)	94.1	(58.47)	33.5
Other liabilities	-	-	(0.54)	0.00	(0.14)	(0.22)	57.1	(0.96)	336.4	(1.46)	52.1
Operating invested capital	-	-	114.79	196.30	298.60	463.92	55.4	697.10	50.3	1,302.18	86.8
Investments	-	-	0.94	0.93	0.93	0.93	0.0	0.93	0.0	0.93	0.0
Total capital employed	-	-	115.73	197.23	299.53	464.85	55.2	698.03	50.2	1,303.11	86.7
Shareholders' equity	-	-	42.73	349.13	445.03	501.32	12.6	592.76	18.2	850.19	43.4
Minority interests	-	-	(0.07)	(0.50)	(0.90)	(0.48)	-46.9	(0.86)	79.6	(1.37)	59.2
Total equity	-	-	42.66	348.64	444.13	500.84	12.8	591.90	18.2	848.82	43.4
Net debt / (cash)	-	-	72.98	(193.35)	(144.60)	(35.99)	-75.1	106.12	-	454.29	328.1
Debt deemed provisions	-	-	0.09	41.95	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	115.73	197.23	299.53	464.85	55.2	698.03	50.2	1,303.11	86.7

Cash flow (€m)	-	-	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	-	12.79	20.57	21.90	31.14	42.2	47.85	53.7	73.32	53.2
Depreciation	-	-	3.54	6.29	6.90	7.68	11.3	12.45	62.2	20.30	63.1
Net change in working capital	-	-	(5.68)	(8.57)	(4.70)	50.67	-	20.10	-60.3	11.34	-43.6
Other (operating)	-	-	(3.51)	0.56	(5.20)	0.08	-	0.74	825.0	0.50	-32.4
Operating cash flow	-	-	7.14	18.85	18.90	89.57	373.9	81.14	-9.4	105.46	30.0
Net interest received / (paid)	-	-	(3.34)	(1.67)	10.30	4.71	-54.2	1.11	-76.4	(7.76)	-
Dividends paid	-	-	(3.54)	(6.29)	(6.90)	(7.68)	11.3	(12.45)	62.2	(20.30)	63.1
Tax paid	-	-	1.33	2.14	0.00	(2.34)	-	(3.18)	35.9	(3.81)	19.7
Capital expenditure	-	-	(28.44)	(69.80)	(84.10)	(225.98)	168.7	(267.44)	18.3	(640.37)	139.4
Net (acquisitions) / disposals	-	-	(0.04)	(.00)	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	(5.04)	4.10	60.27	1370.0	54.27	-9.9	203.34	274.6
Share issues	-	-	0.00	289.87	(1.20)	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	-	(21.69)	228.06	(58.90)	(81.45)	38.3	(146.54)	79.9	(363.44)	148.0
FX / non cash items	-	-	-	38.28	10.15	(27.16)	-	4.43	-	15.28	244.7
Balance sheet (inc)/dec in net debt	-	-	-	266.33	(48.75)	(108.61)	122.8	(142.11)	30.8	(348.17)	145.0
Core EBITDA	-	-	16.33	26.86	28.80	38.82	34.8	60.30	55.4	93.62	55.3
Maintenance capital expenditure	-	-	(0.50)	(1.18)	(1.80)	(3.50)	94.4	(4.50)	28.6	(4.50)	0.0
Maintenance net working capital	-	-	(0.01)	(0.50)	(0.75)	(1.00)	33.3	(1.00)	0.0	(1.00)	0.0
Operating free cash flow, pre-tax	-	-	15.82	25.18	26.25	34.32	30.7	54.80	59.7	88.12	60.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Greece

Electric Utilities

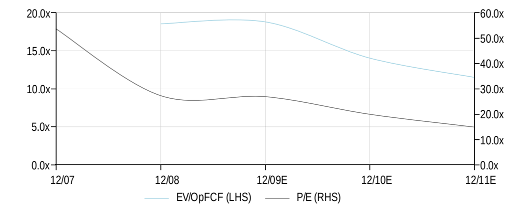
12-month rating	Buy
12m price target	€9.40

Terna Energy

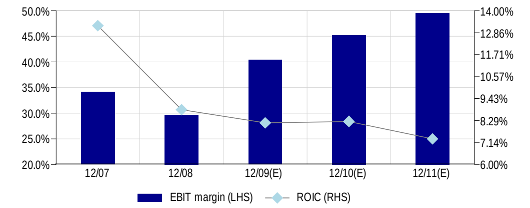
Company profile

Terna Energy is a leading operator of renewable electricity generation capacity in Greece, benefiting from a highly attractive regulatory framework. The company enjoys more than 20-year visibility on cash flows from its licence portfolio which is gradually being installed. TE's goal is to have a total of 1.6 GW renewable capacity in place by 2012 (mainly wind power), thereof 1.2 GW in Greece and the remainder in the Balkan region and China. The 2012 target is 1.7x covered by 0.5 GW of approved projects and another 2.1 GW in different stages of licencing. As per today, c119 MW of wind farms are in operation.

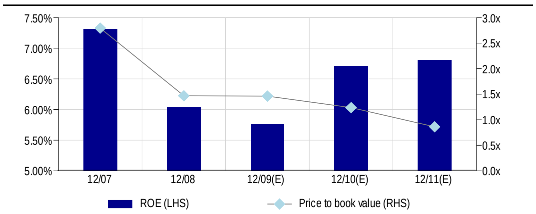
Value (EV/OpFCF & P/E)



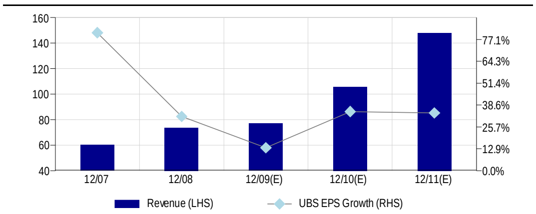
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	53.6	27.3	26.9	19.9	14.9
P/E (UBS)	-	53.6	27.3	26.9	19.9	14.9
P/CEPS	-	37.3	21.2	21.0	14.9	10.5
Net dividend yield (%)	-	0.6	1.3	1.3	1.8	2.3
P/BV	-	2.8	1.5	1.5	1.2	0.9
EV/revenue (core)	-	NM	6.6	8.4	7.3	6.9
EV/EBITDA (core)	-	34.2	16.9	16.6	12.8	10.8
EV/EBIT (core)	-	NM	22.2	20.7	16.1	13.8
EV/OpFCF (core)	-	NM	18.6	18.8	14.0	11.5
EV/op. invested capital	-	5.9	2.0	1.7	1.3	1.0

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	975.98	654.11	732.51	732.51	732.51
+ minority interests	2.00	2.00	2.00	2.00	2.00
+ average net debt (cash)	(60.19)	(168.98)	(90.29)	35.07	280.21
+ pension obligations and other	1.00	1.00	1.00	1.00	1.00
- non-core asset value	(0.93)	(0.93)	(0.93)	(0.93)	(0.93)
Core enterprise value	917.85	487.20	644.29	769.65	1,014.79

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	44.5	22.4	4.7	37.0	40.1
EBITDA (UBS)	-	64.5	7.2	34.8	55.4	55.3
EBIT (UBS)	-	60.8	6.5	42.2	53.7	53.2
EPS (UBS)	-	81.1	31.9	13.5	34.8	33.9
Cash EPS	-	77.3	18.1	13.0	40.8	41.3
Net DPS	-	-	39.7	13.5	34.8	33.9
BVPS	-	NM	27.5	12.6	18.2	43.4

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	44.6	39.1	50.3	57.1	63.2
EBIT / revenue	-	34.2	29.7	40.4	45.3	49.5
Net profit (UBS) / revenue	-	23.8	32.6	35.3	34.7	33.2

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	13.2	8.9	8.2	8.2	7.3
ROIC post tax	-	10.0	6.6	6.2	6.2	5.5
Net ROE	-	7.3	6.0	5.8	6.7	6.8

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	12.3	-	-	-	9.5
Dividend cover (UBS EPS)	-	3.0	2.9	2.9	2.9	2.9
Div. payout ratio (%, UBS EPS)	-	33.1	35.0	35.0	35.0	35.0
Net debt / EBITDA	-	NM	NM	NM	1.8	4.9

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	0.4	0.3	0.2	0.2	0.1
Revenue / fixed assets	-	0.4	0.3	0.2	0.2	0.1
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	1.2	1.2	1.1	1.1	1.2
Capex / revenue (%)	-	NM	NM	NM	NM	NM
Capex / depreciation	-	NM	NM	NM	NM	NM

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	(55.4)	(32.5)	(7.2)	17.9	53.4
Net debt / (net debt + equity)	-	NM	(48.1)	(7.7)	15.2	34.8
Net debt (core) / EV	-	(6.6)	(34.7)	(14.0)	4.6	27.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of €6.70 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research

Energias de Portugal

Book value should grow c60% over 08-15E

■ **Organic investments to increase book value by 60% over 2008-15E**

During 2008-15, we estimate EDP will invest more than €20bn, about twice its market cap. About two-thirds of this capex will organically expand the wind business. This would trigger a 60% increase in equity book value, during that timeframe, on our estimates.

■ **Incredible value dislocation – cheapest way into European renewables**

Stripping out wind activities, EDP trades on a core 2010E PE of 8.1x, which we find irrational as 85% of EBITDA is regulated or subsidised. Put differently, EDP discounts €1.13m/MW for its wind assets, or a c30% discount to its wind peers.

■ **Two measures to lower leverage – EDPR and Energias do Brasil**

Following the negative outlook set by S&P, we think management could possibly act on two fronts: (1) lower exposure to Energias do Brasil possibly via a stake placing or an asset disposal, and (2) a capital increase at EDPR. This would potentially lower net debt/EBITDA to below 4x.

■ **Three reasons we reiterate our Buy (DCF-based Dec-10 PT of €3.6ps)**

Our positive stance rests on three reasons (1) EDP is a structural growth story, (2) the stock ex-renewables trades at a 30% discount to regulated utilities, and (3) during the next 12months, we expect positive newsflow to reduce leverage.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	11,010.80	13,894.10	12,227.60	13,231.95	13,727.76
EBIT (UBS)	1,560.30	1,930.80	1,960.34	2,116.27	2,205.44
Net Income (UBS)	907.30	1,100.20	918.38	970.10	964.34
EPS (UBS, €)	0.25	0.30	0.25	0.26	0.26
Net DPS (UBS, €)	0.11	0.13	0.14	0.15	0.16

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	13.3	13.9	16.0	16.0	16.1
ROIC (EBIT) %	7.8	9.3	8.2	8.4	8.2
EV/EBITDA (core) x	9.4	9.0	9.0	8.7	8.6
PE (UBS) x	12.3	11.6	12.5	11.8	11.9
Net dividend yield %	3.7	3.6	4.5	4.8	5.1

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €3.13 on 13 Oct 2009 21:39 BST

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Global Equity Research

Portugal

Electric Utilities

12-month rating	Buy *Unchanged*
12m price target	€3.60/US$53.38 *Prior: €3.45/US$51.16*
Price	€3.13/US$46.20 (ADR)

RIC: EDP.LS BBG: EDP PL

Trading data (local/US$)	
52-wk range	€3.20-2.30/US$47.60-28.35
Market cap.	€11.4bn/US$16.9bn
Shares o/s	3,657m (ORD)/366m (ADR)
ADR ratio	1 ADR:10 ORD
Free float	53%
Avg. daily volume ('000)	8,877/1
Avg. daily value (€m)	26.7/0.1

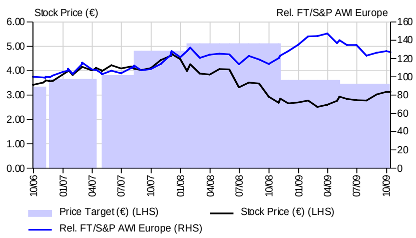
Balance sheet data 12/09E	
Shareholders' equity	€6.83bn
P/BV (UBS)	1.7x
Net Cash (debt)	(€14.4bn)

Forecast returns	
Forecast price appreciation	+15.2%
Forecast dividend yield	4.6%
Forecast stock return	+19.8%
Market return assumption	6.3%
Forecast excess return	+13.5%

EPS (UBS, €)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	0.06	0.06	0.07	(0.07)
Q2E	0.06	0.06	0.06	(0.07)
Q3E	0.06	0.06	0.06	(0.07)
Q4E	0.06	0.06	0.06	(0.07)
12/09E	0.26	0.25	*0.25*	
12/10E	0.27	0.26	*0.26*	

Performance (€)



Source: UBS

Sum of the parts

Table 52: EDP Sum of the parts

	€m	€ps	%	Methodology	Implied 2010 multiple
NPV PPA contracts	3,731	1.0	11%	Discounted Cash Flow	
Residual value post-PPA	1,772	0.5	5%	Discounted Cash Flow	
Contracted generation - Portugal	**5,503**	**1.5**	**17%**		EV / EBITDA 6.5x
Liberalized Generation - Portugal (incl 2GW new hydro)	2,514	0.7	8%	EV / kW multiples	EV / kW € 996
Liberalized Generation - Spain	1,288	0.4	4%	Discounted Cash Flow	EV / kW € 394
Liberalized generation - Iberia	**3,803**	**1.0**	**12%**		
Electricity distribution - Portugal	4,827	1.3	15%	Discounted Cash Flow	EV / EBITDA 8.3x
Electricity distribution - Spain	777	0.2	2%	Discounted Cash Flow	EV / EBITDA 8.8x
Gas distribution - Iberia	1,740	0.5	5%	EBITDA multiple	EV / EBITDA 9.0x
Networks - Iberia	**7,344**	**2.0**	**23%**		EV / EBITDA 8.5x
Renewables	**11,012**	**3.0**	**34%**		EV / kW € 1519
Brazil	**3,652**	**1.0**	**11%**	EBITDA multiple	EV / EBITDA 6.5x
Supply - Iberia	**691**	**0.2**	**2%**	EV / EBITDA	EV / EBITDA 6.0x
Sonaecom (8%)	60	0.0		Market value	
BCP (2.94%)	142	0.0		Market value	
REN (5%)	35	0.0		Transaction / Mkt value	
Other Investments (net)	318	0.1		Book value	
Financial assets	**555**	**0.2**	**2%**		
Enterprise value	**32,558**	**8.9**			EV / EBITDA 9.4x
Adj. Net Debt	16,615	4.5		Adj for Tax equity investor	
Pensions (post-tax)	1,348	0.4		UBS	
Minorities	1,378	0.4		UBS	
Equity Value (ex div)	13,217	3.61			P / E 13.6x
Shares		3657			

Source: UBSe

Financials

Table 53: EDP P&L (€m)

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2008-13
Regulated generation	849	862	852	761	755	650	564	559	-5%
Liberalized power & gas	394	495	425	409	444	524	599	711	6%
Renewables	438	560	809	1,043	1,278	1,498	1,727	1,924	28%
Networks	940	831	862	892	909	918	932	946	0%
Brazil	562	508	562	580	654	750	785	817	6%
Others	(28)	(31)	(31)	(32)	(32)	(33)	(33)	(34)	3%
EBITDA	3,155	3,225	3,479	3,653	4,008	4,308	4,573	4,922	6%
EBITDA Margin (%)	22.7%	26.4%	26.3%	26.6%	27.2%	27.9%	28.6%	29.6%	
Depr. & Amort.	(1,224)	(1,265)	(1,363)	(1,448)	(1,535)	(1,621)	(1,705)	(1,786)	
EBIT	1,931	1,960	2,116	2,205	2,472	2,687	2,868	3,136	7%
Fin. Result (incl. EMI)	(426)	(554)	(649)	(725)	(792)	(846)	(892)	(927)	
EBT	1,505	1,406	1,467	1,480	1,681	1,842	1,976	2,209	
Income taxes	(284)	(366)	(360)	(363)	(412)	(451)	(484)	(541)	
Disc. Activities	(8)	0	0	0	0	0	0	0	
Minority interests	(121)	(122)	(138)	(153)	(169)	(187)	(208)	(226)	
Net Income	1,092	918	970	964	1,099	1,203	1,284	1,441	2%
EPS	0.30	0.25	0.27	0.26	0.30	0.33	0.35	0.39	
DPS	0.13	0.14	0.15	0.16	0.17	0.18	0.18	0.19	
Net Income (adj.)	681	918	970	964	1,099	1,203	1,284	1,441	12%
EPS (adj.)	0.19	0.25	0.27	0.26	0.30	0.33	0.35	0.39	12%

Source: UBSe

Energias de Portugal

Income statement (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	7,000.87	9,677.00	10,349.80	11,010.80	13,894.10	12,227.60	-12.0	13,231.95	8.2	13,727.76	3.7
Operating expenses (ex depn)	(5,151.66)	(7,629.50)	(8,044.40)	(8,382.50)	(10,739.20)	(9,002.26)	-16.2	(9,753.18)	8.3	(10,074.82)	3.3
EBITDA (UBS)	1,849.21	2,047.50	2,305.40	2,628.30	3,154.90	3,225.34	2.2	3,478.77	7.9	3,652.94	5.0
Depreciation	(835.48)	(911.40)	(1,052.40)	(1,068.00)	(1,224.10)	(1,265.00)	3.3	(1,362.50)	7.7	(1,447.50)	6.2
Operating income (EBIT, UBS)	1,013.72	1,136.10	1,253.00	1,560.30	1,930.80	1,960.34	1.5	2,116.27	8.0	2,205.44	4.2
Other income & associates	(98.68)	527.30	250.10	286.30	516.40	28.00	-94.6	28.98	3.5	29.99	3.5
Net interest	(308.51)	(399.30)	(207.40)	(545.80)	(942.70)	(582.43)	-38.2	(677.76)	16.4	(755.17)	11.4
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	606.53	1,264.10	1,295.70	1,300.80	1,504.50	1,405.92	-6.6	1,467.49	4.4	1,480.26	0.9
Tax	(188.80)	(152.20)	(265.90)	(280.80)	(283.80)	(365.54)	28.8	(359.53)	-1.6	(362.66)	0.9
Profit after tax	417.73	1,111.90	1,029.80	1,020.00	1,220.70	1,040.38	-14.8	1,107.95	6.5	1,117.60	0.9
Abnormal items (post-tax)	0.00	0.00	(12.80)	0.00	(8.40)	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	60.00	(40.90)	(76.30)	(112.70)	(120.50)	(122.00)	1.2	(137.85)	13.0	(153.26)	11.2
Net income (local GAAP)	477.73	1,071.00	940.70	907.30	1,091.80	918.38	-15.9	970.10	5.6	964.34	-0.6
Net Income (UBS)	477.73	1,071.00	953.50	907.30	1,100.20	918.38	-16.5	970.10	5.6	964.34	-0.6
Tax rate (%)	31.13	12.04	20.52	21.59	18.86	26.00	37.8	24.50	-5.8	24.50	0.0
Pre-abnormal tax rate (%)	33.92	12.04	20.52	21.59	18.86	26.00	37.8	24.50	-5.8	24.50	0.0

Per share (€)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	0.16	0.29	0.26	0.25	0.30	0.25	-16.0	0.26	5.6	0.26	-0.6
EPS (UBS)	0.16	0.29	0.26	0.25	0.30	0.25	-16.6	0.26	5.6	0.26	-0.6
Net DPS	0.07	0.10	0.10	0.11	0.13	0.14	12.0	0.15	7.0	0.16	7.0
Cash EPS	0.44	0.54	0.55	0.54	0.63	0.59	-6.2	0.63	6.8	0.66	3.4
BVPS	1.84	1.28	1.24	1.53	1.74	1.86	6.7	1.98	6.7	2.09	5.7

Balance sheet (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	13,728.96	13,891.40	15,082.00	18,669.00	21,126.00	23,075.21	9.2	24,845.35	7.7	26,104.41	5.1
Net intangible fixed assets	2,872.06	3,508.80	3,647.00	5,222.00	5,842.00	5,842.00	0.0	5,842.00	0.0	5,842.00	0.0
Net working capital (incl. other assets)	251.69	(723.80)	(3,648.00)	(5,299.30)	(3,303.10)	(4,232.69)	28.1	(4,025.93)	-4.9	(3,998.30)	-0.7
Other liabilities	(944.61)	(269.20)	(388.00)	(376.00)	(376.00)	(376.00)	0.0	(376.00)	0.0	(376.00)	0.0
Operating invested capital	15,908.09	16,407.20	14,693.00	18,215.70	23,288.90	24,308.52	4.4	26,285.41	8.1	27,572.12	4.9
Investments	1,660.12	1,810.80	1,997.00	1,774.00	1,064.00	1,064.00	0.0	1,064.00	0.0	1,064.00	0.0
Total capital employed	17,568.22	18,218.00	16,690.00	19,989.70	24,352.90	25,372.52	4.2	27,349.41	7.8	28,636.12	4.7
Shareholders' equity	6,713.78	4,686.60	4,532.44	5,589.00	6,365.00	6,826.31	7.2	7,284.50	6.7	7,701.09	5.7
Minority interests	807.89	1,287.80	987.00	946.00	2,182.00	2,304.00	5.6	2,441.85	6.0	2,595.11	6.3
Total equity	7,521.67	5,974.40	5,519.44	6,535.00	8,547.00	9,130.31	6.8	9,726.35	6.5	10,296.20	5.9
Net debt / (cash)	8,521.77	10,400.40	9,400.00	11,741.00	13,972.00	14,408.31	3.1	15,789.16	9.6	16,506.02	4.5
Debt deemed provisions	1,524.77	1,843.20	1,770.56	1,713.70	1,833.90	1,833.90	0.0	1,833.90	0.0	1,833.90	0.0
Total capital employed	17,568.22	18,218.00	16,690.00	19,989.70	24,352.90	25,372.52	4.2	27,349.41	7.8	28,636.12	4.7

Cash flow (€m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	1,013.72	1,136.10	1,253.00	1,560.30	1,930.80	1,960.34	1.5	2,116.27	8.0	2,205.44	4.2
Depreciation	835.48	911.40	1,052.40	1,068.00	1,224.10	1,265.00	3.3	1,362.50	7.7	1,447.50	6.2
Net change in working capital	(20.59)	(296.40)	(17.40)	(302.60)	(1,093.30)	(570.41)	-47.8	(206.75)	-63.8	(27.64)	-86.6
Other (operating)	(30.84)	(33.30)	41.70	597.50	521.80	122.00	-76.6	137.85	13.0	153.26	11.2
Operating cash flow	1,797.78	1,717.80	2,329.70	2,923.20	2,583.40	2,776.93	7.5	3,409.86	22.8	3,778.56	10.8
Net interest received / (paid)	(308.51)	(399.30)	(207.40)	(545.80)	(942.70)	(582.43)	-38.2	(677.76)	16.4	(755.17)	11.4
Dividends paid	(270.00)	(337.97)	(365.65)	(365.65)	(402.22)	(457.07)	13.6	(511.92)	12.0	(547.75)	7.0
Tax paid	(188.80)	(152.20)	(265.90)	(280.80)	(283.80)	(365.54)	28.8	(359.53)	-1.6	(362.66)	0.9
Capital expenditure	(1,257.79)	(1,427.20)	(1,423.50)	(4,700.30)	(3,618.20)	(3,214.21)	-11.2	(3,132.64)	-2.5	(2,706.57)	-13.6
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	(1,246.71)	486.40	258.00	(1,693.60)	387.50	1,406.00	262.8	(108.87)	-	(123.26)	13.2
Share issues	1,208.03	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	(266.01)	(112.47)	325.25	(4,662.95)	(2,276.02)	(436.31)	-80.8	(1,380.85)	216.5	(716.86)	-48.1
FX / non cash items	(1,050.56)	(1,766.15)	675.15	2,321.95	45.02	0.00	-	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	(1,316.57)	(1,878.63)	1,000.40	(2,341.00)	(2,231.00)	(436.31)	-80.4	(1,380.85)	216.5	(716.86)	-48.1
Core EBITDA	1,782.62	2,047.50	2,305.40	2,628.30	3,154.90	3,225.34	2.2	3,478.77	7.9	3,652.94	5.0
Maintenance capital expenditure	(832.00)	(911.40)	(1,052.40)	(1,068.00)	(1,224.10)	(1,265.00)	3.3	(1,362.50)	7.7	(1,447.50)	6.2
Maintenance net working capital	7.55	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	958.17	1,136.10	1,253.00	1,560.30	1,930.80	1,960.34	1.5	2,116.27	8.0	2,205.44	4.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Portugal

Electric Utilities

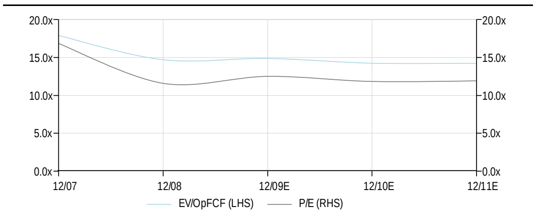
12-month rating	Buy
12m price target	€3.60

Energias de Portugal

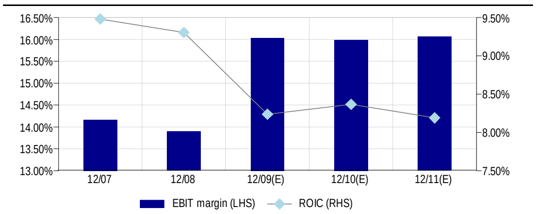
Company profile

EDP is the incumbent electricity company in Portugal, with c65% of generation capacity and 90% of distribution. EDP also operates in Spain, generation, distribution and supply activity via HC Energia. It has a relevant position in the gas sector via Naturgas (Spain) and Portgas (Portugal). The company is exposed to Brazilian electricity sector (generation, distribution and supply) through its 65% stake in Energias do Brasil. EDP has developed a large wind business, with presence mostly in Iberia and US. Currently, this accounts for about 1/3 of EBITDA.

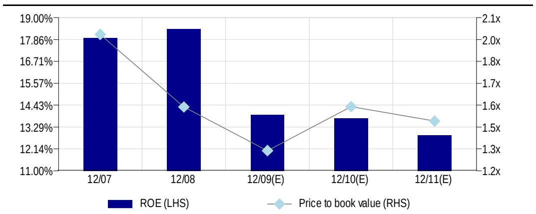
Value (EV/OpFCF & P/E)



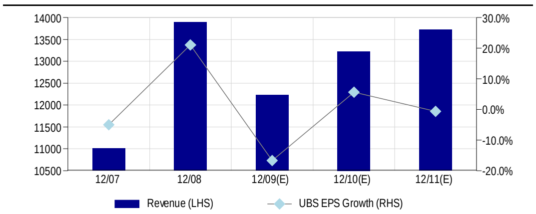
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	13.0	16.9	11.7	12.5	11.8	11.9
P/E (UBS)	12.3	16.9	11.6	12.5	11.8	11.9
P/CEPS	5.4	7.7	5.5	5.3	4.9	4.8
Net dividend yield (%)	3.7	2.6	3.6	4.5	4.8	5.1
P/BV	1.8	2.7	2.0	1.7	1.6	1.5
EV/revenue (core)	2.2	2.5	2.0	2.4	2.3	2.3
EV/EBITDA (core)	9.4	10.6	9.0	9.0	8.7	8.6
EV/EBIT (core)	16.7	17.9	14.7	14.9	14.3	14.2
EV/OpFCF (core)	16.2	17.9	14.7	14.9	14.3	14.2
EV/op. invested capital	1.3	1.7	1.4	1.2	1.2	1.2

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	15,248.93	12,712.90	11,426.68	11,426.68	11,426.68
+ minority interests	966.50	1,564.00	2,243.00	2,372.92	2,518.48
+ average net debt (cash)	10,570.50	12,856.50	14,190.16	15,098.74	16,147.59
+ pension obligations and other	1,713.70	1,833.90	1,833.90	1,833.90	1,833.90
- non-core asset value	(554.66)	(554.66)	(554.66)	(554.66)	(554.66)
Core enterprise value	27,944.97	28,412.64	29,139.07	30,177.58	31,371.99

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	14.3	6.4	26.2	-12.0	8.2	3.7
EBITDA (UBS)	10.7	14.0	20.0	2.2	7.9	5.0
EBIT (UBS)	14.6	24.5	23.7	1.5	8.0	4.2
EPS (UBS)	12.3	-5.0	21.1	-16.6	5.6	-0.6
Cash EPS	6.1	-1.7	17.5	-6.2	6.8	3.4
Net DPS	7.4	10.0	13.6	12.0	7.0	7.0
BVPS	-2.5	23.3	13.9	6.7	6.7	5.7

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	24.2	23.9	22.7	26.4	26.3	26.6
EBIT / revenue	13.3	14.2	13.9	16.0	16.0	16.1
Net profit (UBS) / revenue	8.6	8.2	7.9	7.5	7.3	7.0

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	7.8	9.5	9.3	8.2	8.4	8.2
ROIC post tax	-	7.4	7.5	6.1	6.3	6.2
Net ROE	14.9	17.9	18.4	13.9	13.7	12.9

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	3.6	2.9	2.0	3.4	3.1	2.9
Dividend cover (UBS EPS)	2.4	2.2	2.4	1.8	1.8	1.6
Div. payout ratio (%, UBS EPS)	43.3	44.5	41.7	56.0	56.8	61.1
Net debt / EBITDA	4.5	4.5	4.4	4.5	4.5	4.5

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	0.6	0.7	0.7	0.5	0.5	0.5
Revenue / fixed assets	0.5	0.5	0.5	0.4	0.4	0.4
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	21.7	NM	26.0	26.3	23.7	19.7
Capex / depreciation	2.1	4.4	3.0	2.5	2.3	1.9

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	63.8	67.7	68.7	67.9	68.4	68.2
Net debt (core) / EV	46.1	37.8	45.2	48.7	50.0	51.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €3.13 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Americas	
Electric Utilities	
12-month rating	Neutral *Unchanged*
12m price target	US$56.00 *Unchanged*
Price	US$53.01

RIC: FPL.N BBG: FPL US

UBS Investment Research

FPL Group Inc.

Too Hot Already?

- **FPL is purest, albeit least preferred avenue to play renewable theme**

We believe FPL, a 50% regulated utility and 50% merchant generator, remains the single purest way to play the wind growth theme in the US. With ~25% of the entire wind pipeline, it remains the single largest operator of wind assets in the US. However, we believe at this time its premier positioning in the industry is more than adequately reflected in the stock's current valuation by our estimate.

- **Mgmt anticipates 1,000MW/yr build, down from previous expectations**

Down from its previous expectations of 1,000-2,000MW annually, mgmt expects to go add c1,000MW/yr. We believe there remains a possibility for earnings to face difficulty growing beyond 2011 as the benefit of the convertible ITCs abate (CITCs improve CF and EPS in initial years).

- **Near-term focus will remain firmly placed on rate case out at FP&L**

With news headlines about potential unethical behaviour at the FL PSC and comments from Florida Governor Crist threatening the commission over the upcoming vote to increase rates for FP&L, we believe investors will remain focused on the regulated side of the business (for once.) We note the real potential that the case could get delayed into 2010, and believe FL commissioners are likely to continue to face explicit pressure from the Governor Crist to limit the increase.

- **Maintaining our $56 12-month price target; see near-term weakness**

We maintain our $56 12-month price target, and expect near-term weakness to continue ahead of a final vote (expected 21 December) of the FL PSC for the FP&L's rate case. Our valuation is derived using an average of DCF and SOP.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	15,263.00	16,265.38	16,887.44	17,811.23	18,764.42
EBIT (UBS)	2,283.00	2,680.38	2,987.51	3,469.31	3,780.46
Net Income (UBS)	1,398.00	1,545.00	1,698.14	1,888.66	2,030.30
EPS (UBS, US$)	3.48	3.84	4.18	4.60	4.91
Net DPS (UBS, US$)	1.64	1.78	1.89	2.01	2.13

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	14.5	16.5	17.7	19.5	20.1
ROIC (EBIT) %	10.0	10.7	10.2	10.5	10.2
EV/EBITDA (core) x	8.3	8.1	8.3	7.7	7.0
PE (UBS) x	14.8	15.4	12.7	11.5	10.8
Net dividend yield %	3.5	3.0	3.6	3.8	4.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$53.01 on 13 Oct 2009 19:38 BST

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Trading data

52-wk range	US$60.05-37.49
Market cap.	US$21.4bn
Shares o/s	404m (COM)
Free float	100%
Avg. daily volume ('000)	722
Avg. daily value (US$m)	40.3

Balance sheet data 12/09E

Shareholders' equity	US$12.8bn
P/BV (UBS)	1.7x
Net Cash (debt)	(US$19.2bn)

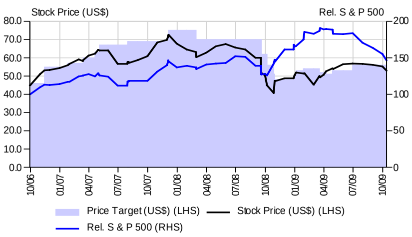
Forecast returns

Forecast price appreciation	+5.6%
Forecast dividend yield	3.7%
Forecast stock return	+9.3%
Market return assumption	5.9%
Forecast excess return	+3.4%

EPS (UBS, US$)

	12/09E		12/08
	UBS	Cons.	Actual
Q1	0.90	0.90	0.76
Q2	0.99	0.99	0.93
Q3E	1.43	1.43	1.25
Q4E	0.86	0.90	0.90
12/09E	4.18	*4.22*	
12/10E	4.60	*4.74*	

Performance (US$)



Source: UBS

FPL Group Inc.

Income statement (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	10,522.00	11,846.00	15,710.00	15,263.00	16,265.38	16,887.44	3.8	17,811.23	5.5	18,764.42	5.4
Operating expenses (ex depn)	(7,790.49)	(8,935.00)	(12,097.00)	(11,645.00)	(12,143.00)	(12,262.25)	1.0	(12,537.03)	2.2	(12,972.96)	3.5
EBITDA (UBS)	2,731.51	2,911.00	3,613.00	3,618.00	4,122.38	4,625.19	12.2	5,274.20	14.0	5,791.46	9.8
Depreciation	(1,198.00)	(1,440.00)	(1,336.00)	(1,335.00)	(1,442.00)	(1,637.68)	13.6	(1,804.90)	10.2	(2,011.00)	11.4
Operating income (EBIT, UBS)	1,533.51	1,471.00	2,277.00	2,283.00	2,680.38	2,987.51	11.5	3,469.31	16.1	3,780.46	9.0
Other income & associates	165.17	367.25	37.46	245.00	77.00	96.00	24.7	46.00	-52.1	46.00	0.0
Net interest	(489.00)	(593.00)	(706.00)	(762.00)	(813.00)	(933.97)	14.9	(1,093.95)	17.1	(1,230.18)	12.5
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	1,209.68	1,245.25	1,608.46	1,766.00	1,944.38	2,149.54	10.6	2,421.35	12.6	2,596.29	7.2
Tax	(291.14)	(263.69)	(375.31)	(368.00)	(399.38)	(451.40)	13.0	(532.70)	18.0	(565.99)	6.2
Profit after tax	918.54	981.56	1,233.15	1,398.00	1,545.00	1,698.14	9.9	1,888.66	11.2	2,030.30	7.5
Abnormal items (post-tax)	6.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	924.54	981.56	1,233.15	1,398.00	1,545.00	1,698.14	9.9	1,888.66	11.2	2,030.30	7.5
Net Income (UBS)	918.54	981.56	1,233.15	1,398.00	1,545.00	1,698.14	9.9	1,888.66	11.2	2,030.30	7.5
Tax rate (%)	*24.07*	*21.18*	*23.33*	*20.84*	*20.54*	*21.00*	2.2	*22.00*	4.8	*21.80*	-0.9
Pre-abnormal tax rate (%)	*24.07*	*21.18*	*23.33*	*20.84*	*20.54*	*21.00*	2.2	*22.00*	4.8	*21.80*	-0.9

Per share (US$)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	2.55	2.54	3.11	3.48	3.84	4.18	8.9	4.60	10.2	4.91	6.5
EPS (UBS)	2.54	2.54	3.11	3.48	3.84	4.18	8.9	4.60	10.2	4.91	6.5
Net DPS	1.33	1.42	1.50	1.64	1.78	1.89	6.2	2.01	6.2	2.13	6.2
Cash EPS	5.85	6.27	6.47	6.81	7.42	8.20	10.6	9.00	9.7	9.76	8.4
BVPS	20.44	21.57	25.32	27.38	29.78	31.55	5.9	34.40	9.0	39.82	15.7

Balance sheet (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Cash and equivalents	225.00	530.00	620.00	290.00	535.00	546.21	2.1	562.87	3.0	580.05	3.1
Other current assets	2,302.00	4,457.00	4,359.00	3,489.00	4,842.00	4,943.50	2.1	5,094.23	3.0	5,249.76	3.1
Total current assets	2,527.00	4,987.00	4,979.00	3,779.00	5,377.00	5,489.72	2.1	5,657.10	3.0	5,829.82	3.1
Net tangible fixed assets	21,226.00	22,463.00	24,507.00	28,652.00	32,411.00	36,077.32	11.3	40,516.42	12.3	45,929.42	13.4
Net intangible fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Investments / other assets	4,580.00	5,554.00	6,485.00	7,692.00	7,006.00	7,099.00	1.3	7,192.00	1.3	7,285.00	1.3
Total assets	28,333.00	33,004.00	35,971.00	40,123.00	44,794.00	48,666.03	8.6	53,365.52	9.7	59,044.24	10.6
Trade payables & other ST liabilities	2,531.00	4,704.00	3,751.00	3,340.00	4,438.00	4,435.69	-0.1	4,453.93	0.4	4,493.00	0.9
Short term debt	1,717.00	2,563.00	2,742.00	2,418.00	3,253.00	3,648.97	12.2	4,157.20	13.9	4,631.74	11.4
Total current liabilities	4,248.00	7,267.00	6,493.00	5,758.00	7,691.00	8,084.65	5.1	8,611.14	6.5	9,124.74	6.0
Long term debt	8,027.00	8,039.00	9,591.00	11,280.00	13,833.00	15,516.81	12.2	17,678.03	13.9	19,695.92	11.4
Other long term liabilities	8,521.00	9,199.00	9,959.00	12,350.00	11,592.00	12,236.86	5.6	12,963.27	5.9	13,742.15	6.0
Total liabilities	20,796.00	24,505.00	26,043.00	29,388.00	33,116.00	35,838.32	8.2	39,252.43	9.5	42,562.81	8.4
Equity & minority interests	7,537.00	8,499.00	9,928.00	10,735.00	11,678.00	12,827.71	9.8	14,113.09	10.0	16,481.43	16.8
Total liabilities & equity	28,333.00	33,004.00	35,971.00	40,123.00	44,794.00	48,666.03	8.6	53,365.52	9.7	59,044.24	10.6

Cash flow (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net income	924.54	981.56	1,233.15	1,398.00	1,545.00	1,698.14	9.9	1,888.66	11.2	2,030.30	7.5
Depreciation	1,198.00	1,440.00	1,336.00	1,335.00	1,442.00	1,637.68	13.6	1,804.90	10.2	2,011.00	11.4
Net change in working capital	550.00	84.00	(1,063.00)	(239.00)	(41.00)	(103.81)	153.2	(132.49)	27.6	(116.46)	-12.1
Other (operating)	(33.00)	(763.00)	1,013.00	1,116.00	226.00	551.86	144.2	633.41	14.8	685.89	8.3
Net cash from operations	2,639.54	1,742.56	2,519.15	3,610.00	3,172.00	3,783.87	19.3	4,194.47	10.9	4,610.72	9.9
Capital expenditure	(2,017.00)	(2,533.00)	(3,739.00)	(5,019.00)	(5,236.00)	(5,505.00)	5.1	(6,445.00)	17.1	(7,625.00)	18.3
Net (acquisitions) / disposals	93.00	69.00	20.00	700.00	(611.00)	0.00	-	0.00	-	0.00	-
Other changes in investments	52.00	299.00	(88.00)	(260.00)	39.00	0.00	-	0.00	-	0.00	-
Cash from investing activities	(1,872.00)	(2,165.00)	(3,807.00)	(4,579.00)	(5,808.00)	(5,505.00)	-5.2	(6,445.00)	17.1	(7,625.00)	18.3
Increase/(decrease) in debt	(286.00)	838.00	1,681.00	1,253.00	3,317.00	2,079.77	-	2,669.46	-	2,492.43	-
Share issues / (repurchases)	110.00	639.00	330.00	46.00	41.00	220.00	-	220.00	-	1,220.00	-
Dividends paid	(467.00)	(544.00)	(593.00)	(654.00)	(714.00)	(768.43)	7.6	(823.27)	7.1	(881.96)	7.1
Other cash from financing	(39.00)	(10.00)	(22.00)	10.00	6.00	0.00	-	0.00	-	0.00	-
Cash from financing activities	(682.00)	923.00	1,396.00	655.00	2,650.00	1,531.35	-42.2	2,066.18	34.9	2,830.47	37.0
Cash flow chge in cash & equivalents	85.54	500.56	108.15	(314.00)	14.00	(189.79)	-	(184.35)	-	(183.82)	-
FX / non cash items	10.46	(195.56)	(18.15)	(16.00)	231.00	201.00	-	201.00	-2.9	201.00	-0.3
Bal sheet chge in cash & equivalents	96.00	305.00	90.00	(330.00)	245.00	11.21	-	16.65	-	17.18	-
Core EBITDA	2,731.51	2,911.00	3,613.00	3,618.00	4,122.38	4,625.19	12.2	5,274.20	14.0	5,791.46	9.8
Maintenance capital expenditure	(2,017.00)	(2,533.00)	(3,739.00)	(5,019.00)	(5,236.00)	(5,505.00)	5.1	(6,445.00)	17.1	(7,625.00)	18.3
Maintenance net working capital	550.00	84.00	(1,063.00)	(239.00)	(41.00)	(103.81)	153.2	(132.49)	27.6	(116.46)	-12.1
Operating free cash flow, pre-tax	1,264.51	462.00	(1,189.00)	(1,640.00)	(1,154.62)	(983.62)	-14.8	(1,303.28)	32.5	(1,950.00)	49.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Americas

Electric Utilities

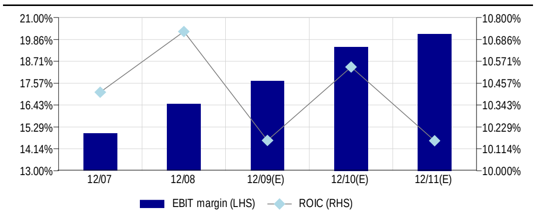
12-month rating	Neutral
12m price target	US$56.00

FPL Group Inc.

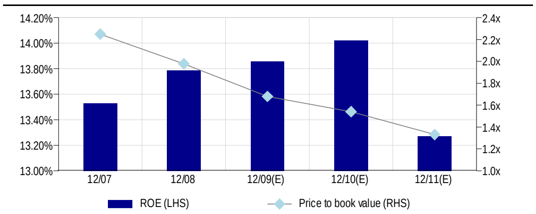
Company profile

FPL Group owns: 1) Florida Power & Light, a regulated utility with capacity of about 22,500 MW that serves over 4.5 million customers along the eastern seaboard and the southern portion of Florida; 2) NextEra (formerly FPL Energy), an independent power producer with over 16,900 MW of generation assets in the northeast, mid-atlantic, central, and western US focusing on wind generation; and 3) FPL FiberNet, which provides fiber-optic services and cable on a wholesale basis to telecommunications-related businesses in Florida. FPL is based in Miami.

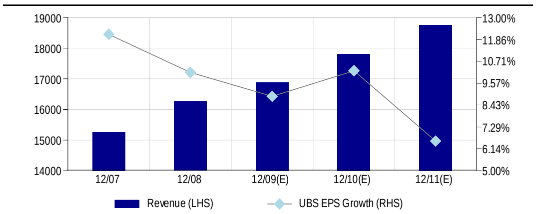
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	14.7	17.7	15.4	12.7	11.5	10.8
P/E (UBS)	14.8	17.7	15.4	12.7	11.5	10.8
P/CEPS	6.8	9.0	7.9	6.5	5.9	5.4
Net dividend yield (%)	3.5	2.7	3.0	3.6	3.8	4.0
P/BV	1.8	2.3	2.0	1.7	1.5	1.3
EV/revenue (core)	2.0	2.3	2.0	2.3	2.3	2.2
EV/EBITDA (core)	8.3	9.8	8.1	8.3	7.7	7.0
EV/EBIT (core)	14.1	15.5	12.4	12.9	11.8	10.8
EV/OpFCF (core)	NM	NM	NM	NM	NM	NM
EV/op. invested capital	1.4	1.6	1.3	1.3	1.2	1.1

Enterprise value (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	24,900.84	23,821.58	21,429.66	21,429.66	21,429.66
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	11,467.50	11,467.50	18,125.89	20,500.50	20,500.50
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(900.00)	(2,083.00)	(1,016.00)	(1,109.00)	(1,202.00)
Core enterprise value	35,468.34	33,206.08	38,539.55	40,821.17	40,728.17

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	12.2	-2.8	6.6	3.8	5.5	5.4
EBITDA (UBS)	8.2	0.1	13.9	12.2	14.0	9.8
EBIT (UBS)	10.5	0.3	17.4	11.5	16.1	9.0
EPS (UBS)	9.3	12.1	10.1	8.9	10.2	6.5
Cash EPS	5.3	5.2	8.9	10.6	9.7	8.4
Net DPS	8.1	9.3	8.5	6.2	6.2	6.2
BVPS	9.6	8.1	8.8	5.9	9.0	15.7

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	24.9	23.7	25.3	27.4	29.6	30.9
EBIT / revenue	14.5	15.0	16.5	17.7	19.5	20.1
Net profit (UBS) / revenue	8.6	9.2	9.5	10.1	10.6	10.8

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	10.0	10.4	10.7	10.2	10.5	10.2
ROIC post tax	-	8.2	8.5	8.0	8.2	7.9
Net ROE	13.0	13.5	13.8	13.9	14.0	13.3

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	3.5	3.3	3.4	3.3	3.2	3.1
Dividend cover (UBS EPS)	2.0	2.1	2.2	2.2	2.3	2.3
Div. payout ratio (%, UBS EPS)	50.5	47.1	46.4	45.3	43.6	43.4
Net debt / EBITDA	3.6	3.8	4.1	4.1	4.1	4.2

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	0.7	0.7	0.7	0.6	0.5	0.5
Revenue / fixed assets	0.6	0.6	0.5	0.5	0.5	0.4
Revenue / net working capital	27.6	18.3	23.6	16.9	15.8	14.8

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	NM	NM	NM	NM	NM	NM
Capex / revenue (%)	25.7	NM	NM	NM	NM	NM
Capex / depreciation	2.5	3.8	3.6	3.4	3.6	3.8

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	56.4	56.1	59.4	59.9	60.7	59.6
Net debt (core) / EV	40.58	32.3	34.5	47.0	50.2	50.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$53.01 on 13 Oct 2009 19:38 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Americas

Electric Utilities

12-month rating	Buy
	Prior: Neutral
12m price target	US$46.00
	Prior: US$42.00
Price	US$41.56

RIC: PCG.N BBG: PCG US

UBS Investment Research

PG&E Corporation

Premier Utility is Set to be Ideal Play-Buy

■ PCG -- best US utility pick for playing renewables

At this time, we believe PCG represents an ideal avenue for utility investors looking to play the renewable theme. While the company owns only hydro-electric generation at this point, it has ambitious renewable growth plans, with a 250 MW-solar self-build PV program, among other wind, PV, and transmission ambitions likely to be announced in the coming years.

■ 33% executive order signed; while veto on legislation, good progress

CA's governor recently enacted a 33% RPS by 2020, despite of vetoing a legislative proposal to do the same (which incorporated limits to imports to meet the state's goal). In spite of failure to pass legislation, we believe this step forward formalizes a long talked-about state goal.

■ Legacy power contract roll-off helps mitigate rate impact to customers

We believe the substantial roll-off of legacy hedges among other factors mitigates overall rate increases, with PG&E estimating the 2011 net rate hike impact associated with its pending GRC filing will be <1%.

■ Pushing our PT to $46 as upgrading to Buy

We believe PG&E's stock is particularly attractive at 11.3x 2011E EPS, vs. its peer group of 10.9x, in spite of its substantially lower risk profile. With its cost-of-capital mechanism proposal likely to be resolved in the near term and the CPUC's DRA already a party to the proposal, we anticipate an agreeable outcome. Our price target is derived via DCF and incorporates a 7.7% WACC and 2.5% terminal growth rate.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	13,237.00	14,628.00	13,715.48	14,229.94	14,782.26
EBIT (UBS)	2,307.00	2,337.00	2,640.58	2,885.16	3,173.70
Net Income (UBS)	1,006.00	1,081.00	1,189.04	1,282.30	1,432.58
EPS (UBS, US$)	2.78	2.95	3.15	3.33	3.65
Net DPS (UBS, US$)	1.44	1.56	1.68	1.81	1.96

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	28.0	16.0	19.3	20.3	21.5
ROIC (EBIT) %	-	7.7	7.9	8.2	8.6
EV/EBITDA (core) x	-	9.0	8.6	8.2	7.5
PE (UBS) x	-	13.1	13.2	12.5	11.4
Net dividend yield %	1.9	4.0	4.0	4.4	4.7

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$41.56 on 13 Oct 2009 19:38 EDT

Trading data

52-wk range	US$41.86-30.45
Market cap.	US$15.3bn
Shares o/s	369m (COM)
Free float	100%
Avg. daily volume ('000)	752
Avg. daily value (US$m)	30.2

Balance sheet data 12/09E

Shareholders' equity	US$10.2bn
P/BV (UBS)	1.5x
Net Cash (debt)	(US$12.5bn)

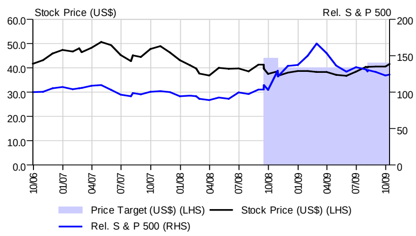
Forecast returns

Forecast price appreciation	+10.7%
Forecast dividend yield	4.3%
Forecast stock return	+15.0%
Market return assumption	5.9%
Forecast excess return	+9.1%

EPS (UBS, US$)

	12/09E			12/08
	From	To	Cons.	Actual
Q1	-	0.66	0.66	0.62
Q2	-	0.83	0.83	0.80
Q3E	-	0.90	0.92	0.83
Q4E	-	0.76	0.75	0.70
12/09E	-	3.15	*3.16*	
12/10E	-	3.33	*3.40*	

Performance (US$)



Source: UBS

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PG&E Corporation

Income statement (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	11,080.00	11,703.00	12,539.00	13,237.00	14,628.00	13,715.48	*-6.2*	14,229.94	*3.8*	14,782.26	*3.9*
Operating expenses (ex depn)	(7,365.00)	(7,937.00)	(8,547.00)	(9,160.00)	(10,640.00)	(9,214.32)	*-13.4*	(9,363.64)	*1.6*	(9,518.97)	*1.7*
EBITDA (UBS)	8,580.00	3,766.00	3,992.00	4,077.00	3,988.00	4,501.17	*12.9*	4,866.29	*8.1*	5,263.29	*8.2*
Depreciation	(1,497.00)	(1,735.00)	(1,708.00)	(1,770.00)	(1,651.00)	(1,860.58)	*12.7*	(1,981.13)	*6.5*	(2,089.60)	*5.5*
Operating income (EBIT, UBS)	7,083.00	2,031.00	2,284.00	2,307.00	2,337.00	2,640.58	*13.0*	2,885.16	*9.3*	3,173.70	*10.0*
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	(797.00)	(583.00)	(738.00)	(762.00)	(728.00)	(871.18)	*19.7*	(976.97)	*12.1*	(1,060.75)	*8.6*
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	6,286.00	1,448.00	1,546.00	1,545.00	1,609.00	1,769.40	*10.0*	1,908.19	*7.8*	2,112.95	*10.7*
Tax	(2,466.00)	(544.00)	(554.00)	(539.00)	(528.00)	(580.36)	*9.9*	(625.89)	*7.8*	(680.37)	*8.7*
Profit after tax	3,820.00	904.00	992.00	1,006.00	1,081.00	1,189.04	*10.0*	1,282.30	*7.8*	1,432.58	*11.7*
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	3,820.00	904.00	992.00	1,006.00	1,081.00	1,189.04	*10.0*	1,282.30	*7.8*	1,432.58	*11.7*
Net Income (UBS)	3,820.00	904.00	992.00	1,006.00	1,081.00	1,189.04	*10.0*	1,282.30	*7.8*	1,432.58	*11.7*
Tax rate (%)	*39.23*	*37.57*	*35.83*	*34.89*	*32.82*	*32.80*	*0.0*	*32.80*	*0.0*	*32.20*	*-1.8*
Pre-abnormal tax rate (%)	*39.23*	*37.57*	*35.83*	*34.89*	*32.82*	*32.80*	*0.0*	*32.80*	*0.0*	*32.20*	*-1.8*

Per share (US$)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	8.96	2.34	2.76	2.78	2.95	3.15	*6.9*	3.33	*5.6*	3.65	*9.5*
EPS (UBS)	8.96	2.34	2.76	2.78	2.95	3.15	*6.9*	3.33	*5.6*	3.65	*9.5*
Net DPS	0.00	1.23	1.32	1.44	1.56	1.68	*7.7*	1.81	*8.0*	1.96	*8.0*
Cash EPS	12.48	6.83	7.51	7.67	7.46	8.09	*8.5*	8.48	*4.8*	8.96	*5.7*
BVPS	21.41	19.35	22.50	24.20	26.36	27.00	*2.4*	28.87	*6.9*	30.86	*6.9*

Balance sheet (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Cash and equivalents	972.00	713.00	456.00	345.00	219.00	252.00	*15.1*	204.65	*-18.8*	135.77	*-33.7*
Other current assets	5,436.00	5,267.00	5,411.00	5,166.00	6,184.00	5,901.09	*-4.6*	5,986.95	*1.5*	6,202.31	*3.6*
Total current assets	6,408.00	5,980.00	5,867.00	5,511.00	6,403.00	6,153.09	*-3.9*	6,191.60	*0.6*	6,338.08	*2.4*
Net tangible fixed assets	18,989.00	19,955.00	21,785.00	23,656.00	26,261.00	28,135.42	*7.1*	29,784.97	*5.9*	31,306.09	*5.1*
Net intangible fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Investments / other assets	9,143.00	8,139.00	7,151.00	7,481.00	8,196.00	8,196.00	*0.0*	8,196.00	*0.0*	8,196.00	*0.0*
Total assets	34,540.00	34,074.00	34,803.00	36,648.00	40,860.00	42,484.51	*4.0*	44,172.57	*4.0*	45,840.17	*3.8*
Trade payables & other ST liabilities	5,570.00	6,064.00	6,580.00	5,850.00	6,369.00	5,555.05	*-12.8*	5,640.30	*1.5*	5,728.98	*1.6*
Short term debt	1,348.00	868.00	1,670.00	873.00	1,257.00	1,452.11	*15.5*	1,590.39	*9.5*	1,748.82	*10.0*
Total current liabilities	6,918.00	6,932.00	8,250.00	6,723.00	7,626.00	7,007.15	*-8.1*	7,230.69	*3.2*	7,477.80	*3.4*
Long term debt	7,323.00	6,976.00	6,697.00	8,171.00	9,321.00	11,058.88	*18.6*	12,112.03	*9.5*	13,318.57	*10.0*
Other long term liabilities	11,380.00	12,696.00	11,793.00	12,949.00	14,284.00	13,983.96	*-2.1*	13,461.68	*-3.7*	12,663.17	*-5.9*
Total liabilities	25,621.00	26,604.00	26,740.00	27,843.00	31,231.00	32,049.99	*2.6*	32,804.40	*2.4*	33,459.53	*2.0*
Equity & minority interests	8,919.00	7,470.00	8,063.00	8,805.00	9,629.00	10,434.51	*8.4*	11,368.18	*8.9*	12,380.64	*8.9*
Total liabilities & equity	34,540.00	34,074.00	34,803.00	36,648.00	40,860.00	42,484.51	*4.0*	44,172.57	*4.0*	45,840.17	*3.8*

Cash flow (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net income	3,820.00	904.00	992.00	1,006.00	1,081.00	1,189.04	*10.0*	1,282.30	*7.8*	1,432.58	*11.7*
Depreciation	1,497.00	1,735.00	1,708.00	1,770.00	1,651.00	1,860.58	*12.7*	1,981.13	*6.5*	2,089.60	*5.5*
Net change in working capital	670.00	301.00	126.00	(556.00)	(840.00)	(531.05)	*-36.8*	(0.61)	*-99.9*	(126.68)	*20803.9*
Other (operating)	(3,637.00)	(494.00)	(159.00)	201.00	388.00	245.00	*-36.9*	0.00	-	0.00	-
Net cash from operations	2,350.00	2,446.00	2,667.00	2,421.00	2,280.00	2,763.58	*21.2*	3,262.83	*18.1*	3,395.49	*4.1*
Capital expenditure	(1,559.00)	(1,804.00)	(2,402.00)	(2,769.00)	(3,628.00)	(3,735.00)	*2.9*	(3,630.69)	*-2.8*	(3,610.71)	*-0.6*
Net (acquisitions) / disposals	35.00	39.00	17.00	21.00	26.00	0.00	-	0.00	-	0.00	-
Other changes in investments	(1,888.00)	367.00	(42.00)	82.00	(50.00)	(50.00)	-	(50.00)	-	(50.00)	-
Cash from investing activities	(3,412.00)	(1,398.00)	(2,427.00)	(2,666.00)	(3,652.00)	(3,785.00)	*3.6*	(3,680.69)	*-2.8*	(3,660.71)	*-0.5*
Increase/(decrease) in debt	(1,317.00)	977.00	(108.00)	295.00	1,133.00	1,932.98	-	1,191.44	-	1,364.96	-
Share issues / (repurchases)	(216.00)	(1,945.00)	17.00	175.00	225.00	250.00	-	350.00	-	350.00	-
Dividends paid	(90.00)	(350.00)	(456.00)	(496.00)	(546.00)	(633.53)	*16.0*	(698.64)	*10.3*	(770.12)	*10.2*
Other cash from financing	(1.00)	48.00	3.00	35.00	(35.00)	(495.04)	-	(472.29)	-	(448.51)	-
Cash from financing activities	(1,624.00)	(1,270.00)	(544.00)	9.00	777.00	1,054.42	*35.7*	370.51	*-64.9*	496.34	*34.0*
Cash flow chge in cash & equivalents	(2,686.00)	(222.00)	(304.00)	(236.00)	(595.00)	33.00	-	(47.35)	-	231.12	-
FX / non cash items	0.00	(37.00)	47.00	125.00	469.00	0.00	-	0.00	-	(300.00)	-
Bal sheet chge in cash & equivalents	(2,686.00)	(259.00)	(257.00)	(111.00)	(126.00)	33.00	-	(47.35)	-	(68.88)	-
Core EBITDA	8,580.00	3,766.00	3,992.00	4,077.00	3,988.00	4,501.17	*12.9*	4,866.29	*8.1*	5,263.29	*8.2*
Maintenance capital expenditure	(1,497.00)	(1,735.00)	(1,708.00)	(1,770.00)	(1,651.00)	(1,860.58)	*12.7*	(1,981.13)	*6.5*	(2,089.60)	*5.5*
Maintenance net working capital	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	7,083.00	2,031.00	2,284.00	2,307.00	2,337.00	2,640.58	*13.0*	2,885.16	*9.3*	3,173.70	*10.0*

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Americas

Electric Utilities

12-month rating Buy

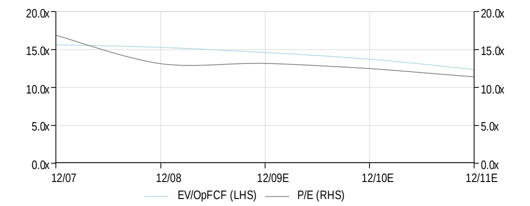
12m price target US$46.00

PG&E Corporation

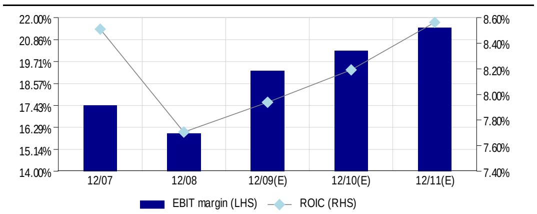
Company profile

PG&E Corporation operates principally through its regulated utility, Pacific Gas & Electric, which provides both electric and gas transmission and distribution services, in addition to electric generation. The T&D business serves 5.1 million electric and 4.3 million gas customers in central and northern California, covering an area of approximately 70,000 square miles. The company also operates a generation fleet of 6,300 MW, consisting mostly of hydroelectric and nuclear power.

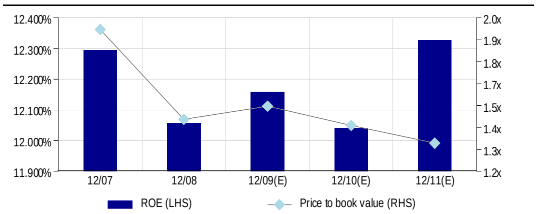
Value (EV/OpFCF & P/E)



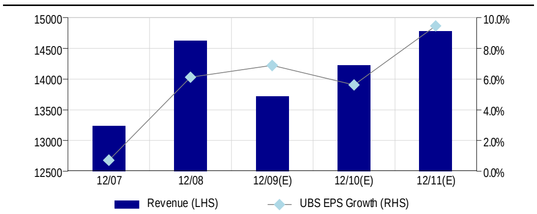
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	16.9	13.1	13.2	12.5	11.4
P/E (UBS)	-	16.9	13.1	13.2	12.5	11.4
P/CEPS	4.6	6.1	5.2	5.1	4.9	4.6
Net dividend yield (%)	1.9	3.1	4.0	4.0	4.4	4.7
P/BV	1.8	1.9	1.5	1.5	1.4	1.3
EV/revenue (core)	-	2.7	2.4	2.8	2.8	2.7
EV/EBITDA (core)	-	8.8	9.0	8.6	8.2	7.5
EV/EBIT (core)	-	15.6	15.3	14.6	13.7	12.4
EV/OpFCF (core)	-	15.6	15.3	14.6	13.7	12.4
EV/op. invested capital	-	1.3	1.2	1.2	1.1	1.1

Enterprise value (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	16,490.75	13,780.72	15,335.64	15,335.64	15,335.64
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	8,557.00	9,781.00	11,560.99	13,130.38	13,130.38
+ pension obligations and other	10,995.00	12,168.00	11,672.96	11,200.68	10,752.17
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	36,042.75	35,729.72	38,569.60	39,666.69	39,218.19

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	6.1	5.6	10.5	-6.2	3.8	3.9
EBITDA (UBS)	3.0	2.1	-2.2	12.9	8.1	8.2
EBIT (UBS)	-0.9	1.0	1.3	13.0	9.3	10.0
EPS (UBS)	8.6	0.7	6.1	6.9	5.6	9.5
Cash EPS	10.9	2.1	-2.8	8.5	4.8	5.7
Net DPS	-	9.1	8.3	7.7	8.0	8.0
BVPS	21.9	7.6	8.9	2.4	6.9	6.9

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	41.4	30.8	27.3	32.8	34.2	35.6
EBIT / revenue	28.0	17.4	16.0	19.3	20.3	21.5
Net profit (UBS) / revenue	13.1	7.6	7.4	8.7	9.0	9.7

Return on capital (%)	5Yr Avg	12/08	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	8.5	7.7	7.9	8.2	8.6
ROIC post tax	-	5.5	5.2	5.3	5.5	5.8
Net ROE	23.0	12.3	12.1	12.2	12.0	12.3

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	4.1	3.0	3.2	3.0	3.0	3.0
Dividend cover (UBS EPS)	-	1.9	1.9	1.9	1.8	1.9
Div. payout ratio (%, UBS EPS)	-	51.8	52.9	53.3	54.5	53.8
Net debt / EBITDA	1.6	2.2	2.7	2.8	2.8	2.9

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	0.5	0.5	0.4	0.4	0.4
Revenue / fixed assets	-	0.6	0.6	0.5	0.5	0.5
Revenue / net working capital	-	NM	NM	NM	41.1	36.1

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	17.3	20.9	24.8	27.2	25.5	24.4
Capex / depreciation	1.3	1.6	2.2	2.0	1.8	1.7

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	51.7	51.1	53.1	55.1	55.3	55.6
Net debt (core) / EV	-	23.7	27.4	30.0	33.1	33.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$41.56 on 13 Oct 2009 19:38 EDT Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Australia	
Electric Utilities	
12-month rating	Buy *Unchanged*
12m price target	A$1.60/US$1.41 *Unchanged*
Price	A$1.50/US$1.32

RIC: IFN.AX BBG: IFN AU

UBS Investment Research

Infigen Energy

Still calls Australia home

■ Value creation from Australian reinvestment

Infigen Energy (IFN) is currently one of our top picks in the Australian utilities sector. The key near-term share price catalyst is value realisation from the upcoming sale of the US business. Once that has been achieved, investors may focus on the additional value created from reinvestment in Australia.

■ IFN focus remains on Australian opportunities

IFN currently has c1,600MW of operational capacity in the USA (64%), Australia (29%), Germany (5%) and France (2%). With its USA business up for sale, IFN wants to reinvest the capital from that business into growing the Australian business, which currently has 180MW of capacity under construction.

■ EBITDA growth of 5% per year over the next two years

We are forecasting FY 10 EBITDA of A$265m, slightly above consensus of A$260m. We expect EBITDA growth of c5% per year over the next two years.

■ Valuation - A$1.82

Our sum-of-the-parts valuation is A$1.82, based on replacement costs of A$2.8m/MW for France, Germany and Australia, and A$1.8m/MW for the US. We set our price target at a discount to this, at A$1.60, to reflect uncertainty around the timing and price of the US business sale.

Trading data (local/US$)	
52-wk range	A$1.51-0.62/US$1.33-0.39
Market cap.	A$1.24bn/US$1.09bn
Shares o/s	826m (ORD)
Free float	68%
Avg. daily volume ('000)	3,483
Avg. daily value (A$m)	4.7

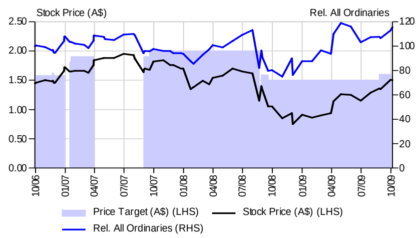
Balance sheet data 06/10E	
Shareholders' equity	A$0.91bn
P/BV (UBS)	1.4x
Net Cash (debt)	(A$2.50bn)

Forecast returns	
Forecast price appreciation	+6.7%
Forecast dividend yield	6.0%
Forecast stock return	+12.7%
Market return assumption	9.0%
Forecast excess return	+3.7%

EPS (UBS, A$)

	06/10E		06/09
	UBS	Cons.	Actual
H1E	-	-	0.063
H2E	-	-	0.000
06/10E	0.023	*0.025*	
06/11E	0.025	*0.047*	

Performance (A$)



Source: UBS

Highlights (A$m)	06/08	06/09	06/10E	06/11E	06/12E
Revenues	229.50	337.00	400.09	417.26	428.91
EBIT (UBS)	(19.70)	127.21	107.23	105.82	116.68
Net Income (UBS)	(83.98)	55.81	19.57	21.78	36.05
EPS (UBS, A$)	(0.109)	0.064	0.023	0.025	0.043
Net DPS (UBS, A$)	0.145	0.090	0.090	0.090	0.090

Profitability & Valuation	5-yr hist av.	06/09	06/10E	06/11E	06/12E
EBIT margin %	-	37.7	26.8	25.4	27.2
ROIC (EBIT) %	-	3.6	3.1	3.1	3.5
EV/EBITDA (core) x	-	7.6	9.5	8.9	8.3
PE (UBS) x	-	17.0	66.6	59.8	34.9
Net dividend yield %	-	8.2	6.0	6.0	6.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of A$1.50 on 06 Oct 2009 23:38 BST

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Table 54: IFN sum of the parts valuation

	Equity MW	Value Per MW For FX	Value Per MW (A$(	Exchange Rate	Total (A$M)
France	62	1.6	2.8	0.58	171
Germany	129	1.6	2.8	0.58	356
Australia	461		2.8	1.0	1,291
US	1,066	1.5	1.8	0.82	1,950
Management fees and corporate					(160)
	-				-
Total	1,718		2.10		3,608
Net debt					(1,244)
Class A interests					(896)
					-
Equity value					1,468
Securities on issue					805
Value per security					1.82

Source: UBS estimates

Infigen Energy (IFN.AX)

MARKET INFORMATION

Rating:	**Buy**
Price (as of 13-Oct-09): (A$)	1.48
Price Target (12 months): (A$)	**1.60**
Shares outstanding: (m)	825.9
Market Capital (A$ m):	1,222.3
Avg. daily turnover (A$ m):	5.1
Year end:	June
Website:	www.bbwindpartners.com
Major Shareholders:	Babcock & Brown

COMPANY DESCRIPTION

Babcock & Brown Wind Partners (BBW) is a specialist wind energy generation investment fund. BBW is a triple-stapled investment fund with an investment strategy to grow security-holder wealth through management of its initial portfolio and through the acquisition of additional wind energy generation assets (globally). BBW's portfolio of wind farms is in Australia and the US, with non-core assets in Europe. BBW is now internally managed following its break away from Babcock & Brown (BNB).

INVESTMENT SUMMARY

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Net profit [reported]	300.10	19.57	21.78	36.05
Net profit [adjusted]	55.81	19.57	21.78	36.05
EPS [reported]	0.345	0.023	0.025	0.043
EPS [adjusted, diluted]	**0.064**	**0.023**	**0.025**	**0.043**
EPS Growth (%)	-	(64.9)	11.3	71.5
PER [adjusted]* (x)	**17.0**	**65.7**	**59.0**	**34.4**
Dividend	0.090	0.090	0.090	0.090
Payout ratio, [EPS adj.] (%)	*140*	*400*	*359*	*209*
Dividend Yield [Net]* (%)	**8.2**	**6.1**	**6.1**	**6.1**
Shares [period-avg, basic] (m)	851.7	825.9	825.9	825.9
Book value per share	*1.047*	*1.047*	*1.047*	*1.085*
Price to Book (x)*	*1.0*	*1.4*	*1.4*	*1.4*
Equity Free Cash Flow Yield (%)	*(18.8)*	*12.6*	*13.9*	*15.5*
Franking (%)	0	0	0	0

KEY RATIOS

	2009	**2010E**	**2011E**	**2012E**
Profitability (%)				
Revenue growth	*46.8*	*18.7*	*4.3*	*2.8*
EBITDA margin	*>75*	*66.3*	*67.0*	*67.7*
EBIT margin	*37.7*	*26.8*	*25.4*	*27.2*
Effective tax rate	*0.0*	*0.0*	*0.0*	*0.0*
Return on Inv Cap (post-tax)	*3.6*	*3.1*	*3.1*	*3.5*
Return on Equity	*5.7*	*2.2*	*2.4*	*4.0*
Capital Structure				
Net Debt / EBITDA (x)	*4.4*	*4.9*	*4.5*	*4.0*
Net Debt / Common equity (%)	*>100*	*>100*	*>100*	*>100*
Net Debt / Core EV (x)*	*1.2*	*1.0*	*1.0*	*1.0*
Capex / Depreciation (x)	*2.9*	*0.1*	*0.1*	*0.1*
EBIT / Net Interest (x)	*1.2*	*1.2*	*1.3*	*1.4*

PROFIT AND LOSS

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Revenue	337.00	400.09	417.26	428.91
EBITDA [adjusted]	**285.21**	**265.23**	**279.62**	**290.48**
Depreciation & Amortisation	(158.00)	(158.00)	(173.80)	(173.80)
EBIT [adjusted]	**127.21**	**107.23**	**105.82**	**116.68**
Net interest	(107.20)	(87.67)	(84.04)	(80.63)
Income from associates	0.00	0.00	0.00	0.00
Other non-operating items	0.00	0.00	0.00	0.00
Profit before tax [adj]	**20.01**	**19.57**	**21.78**	**36.05**
Tax on pre-abnormal profit	35.80	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00
Dividends (preferred)	0.00	0.00	0.00	0.00
Net Profit [adjusted]	**55.81**	**19.57**	**21.78**	**36.05**
Abnormal Gain/(Loss) after Tax	244.29	0.00	0.00	0.00
Net Profit [reported]	**300.10**	**19.57**	**21.78**	**36.05**

PROFIT AND LOSS [HALF YEAR]

(A$ m)	**1H 09**	**2H 09**	**1H 10E**	**2H 10E**
Revenue	0.00	0.00	0.00	-
EBITDA [adjusted]	**246.09**	**80.46**	**-**	**-**
Depreciation & Amortisation	(77.30)	(80.46)	-	-
EBIT [adjusted]	**0.00**	**0.00**	**-**	**-**
Net interest	0.00	0.00	0.00	-
Income from associates	0.00	0.00	0.00	0.00
Other non-operating items	0.00	0.00	-	-
Profit before tax [adj]	**57.01**	**0.00**	**-**	**-**
Tax on pre-abnormal profit	0.00	0.00	0.00	-
Minority Interests	0.00	0.00	0.00	-
Dividends (preferred)	0.00	0.00	-	-
Net Profit [adjusted]	**54.56**	**0.00**	**-**	**-**
Abnormal Gain/(Loss) after Tax	0.00	0.00	0.00	0.00
Net Profit [reported]	**0.00**	**0.00**	**-**	**-**

BALANCE SHEET

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Cash & equivalents	409.00	409.00	409.00	409.00
Accounts receivable	90.00	90.00	90.00	90.00
Inventory	0.00	0.00	0.00	0.00
Fixed assets	3,396.00	3,222.20	3,031.02	2,839.84
Intangibles	419.00	395.59	395.59	395.59
Investments	0.00	0.00	0.00	0.00
Other assets	84.10	64.10	240.83	341.36
Total Assets	**4,398.10**	**4,180.89**	**4,166.44**	**4,075.80**
Accounts payable	84.00	84.00	84.00	84.00
Short & long term debt	3,004.00	2,906.89	2,892.44	2,801.80
Provisions & other	400.00	280.00	280.00	280.00
Preferred securities	0.00	0.00	0.00	0.00
Total liabs & pref shares	**3,488.00**	**3,270.89**	**3,256.44**	**3,165.80**
Minorities	0.00	0.00	0.00	0.00
Common equity	910.00	910.00	910.00	910.00
Total liabilities & equity	**4,398.00**	**4,180.89**	**4,166.44**	**4,075.80**
Net cash / (debt)	**(2,595.00)**	**(2,497.89)**	**(2,483.44)**	**(2,392.80)**

ENTERPRISE VALUE*

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Market capital	930.90	1,222.30	1,222.30	1,222.30
Net debt / (cash) [avg]	1,244.00	1,289.41	1,260.94	1,170.30
Estimated share buy backs	0.00	0.00	0.00	0.00
Minorities	0.00	0.00	0.00	0.00
Pension provisions	0.00	0.00	0.00	0.00
Total Enterprise Value	**2,174.90**	**2,511.71**	**2,483.24**	**2,392.60**
(Non-core assets)	0.00	0.00	0.00	0.00
Core Enterprise Value	**2,174.90**	**2,511.71**	**2,483.24**	**2,392.60**
Core EV Ratios				
EV / Sales	*6.5*	*6.3*	*6.0*	*5.6*
EV / EBITDA	*7.6*	*9.5*	*8.9*	*8.2*
EV / EBIT	*17.1*	*23.4*	*23.5*	*20.5*
EV / OpFCF [post-tax]	*8.1*	*10.1*	*9.5*	*8.8*
EV / Invested Capital	*0.6*	*0.7*	*0.7*	*0.7*

DIVISIONAL BREAKDOWN

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Total Revenue	**337.00**	**400.09**	**417.26**	**428.91**
EBIT	**127.21**	**107.23**	**105.82**	**116.68**

CASH FLOW

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Operating income [EBIT, UBS]	127.21	107.23	105.82	116.68
Depreciation & Amortisation	158.00	158.00	173.80	173.80
Net change in working capital	0.00	0.00	0.00	0.00
Other (operating)	0.00	0.00	0.00	0.00
Pre-tax op cash flow	**285.21**	**265.23**	**279.62**	**290.48**
Interest (paid) / received	(107.20)	(87.67)	(84.04)	(80.63)
Tax paid	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Operating cash flow	**178.01**	**177.57**	**195.58**	**209.85**
Capital expenditure	(455.80)	(15.80)	(17.38)	(17.38)
Free cash flow	**(277.79)**	**161.77**	**178.20**	**192.47**
Net (acquisitions) / disposals	(70.00)	0.00	0.00	0.00
Dividends paid (Common)	(78.20)	(78.20)	(78.20)	(75.48)
Shares issued/(repurchased)	0.00	0.00	0.00	0.00

*Source: UBS estimates, * Historical valuations are based on an average share price for the period. Current & future valuations are based on a share price of A$1.48 on 13-Oct-2009*

Global Equity Research

Americas

Heavy Construction

12-month rating	Buy *Unchanged*
12m price target	US$66.00 *Unchanged*
Price	US$48.02

RIC: FLR.N BBG: FLR US

UBS Investment Research

Fluor Corporation

A tailwind for Fluor

■ Buy rating reflects our view that Fluor could beat expectations

We maintain our Buy rating on Fluor, reflecting our view that Fluor could beat earnings expectations in both 2009 and 2010, based on a still robust backlog and solid booking opportunities in an elevated capital spending environment, supported by a healthy balance sheet with excess cash.

■ Meaningful exposure to UK offshore wind

Fluor's main wind project currently is the Greater Gabbard offshore wind farm in the UK (part of the Round 2 programme). It has 500MW capacity, and the original booking was US$1.8bn. In context, total bookings in 2008 were US$24bn, making this single project roughly 8% of total bookings. We believe Fluor is well positioned to win work under the Round 3 offshore wind programme in the UK, under which 25GW in total is expected to be built.

■ Maintaining our 2009 and 2010 EPS estimates

We maintain our 2009 and 2010 EPS estimates of US$3.95 and US$3.70, respectively. The next key catalyst would be earnings and guidance that beat expectations.

■ Valuation: Buy, US$66 price target

Our US$66 target is based on a 16-17x PE multiple (10-30x historical range) applied on our 2010 cash-adjusted EPS estimate (US$3.70 - US$0.05 = US$3.65) + US$5/share of excess cash: 16-17 * US$3.65 + US$5 = US$66.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	16,691.00	22,325.90	22,301.10	21,934.92	24,021.56
EBIT (UBS)	608.60	999.13	1,140.23	1,062.89	1,140.65
Net Income (UBS)	410.29	671.94	714.97	669.77	743.18
EPS (UBS, US$)	2.25	3.66	3.95	3.70	4.10
Net DPS (UBS, US$)	0.40	0.51	0.84	0.94	1.00

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	2.9	4.5	5.1	4.8	4.7
ROIC (EBIT) %	22.8	40.6	40.0	31.7	29.5
EV/EBITDA (core) x	13.0	10.6	6.7	7.1	6.6
PE (UBS) x	22.3	18.3	12.2	13.0	11.7
Net dividend yield %	1.2	0.8	1.7	1.9	2.1

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$48.02 on 13 Oct 2009 19:38 BST

Trading data	
52-wk range	US$58.21-29.56
Market cap.	US$8.64bn
Shares o/s	180m (COM)
Free float	99%
Avg. daily volume ('000)	800
Avg. daily value (US$m)	41.7

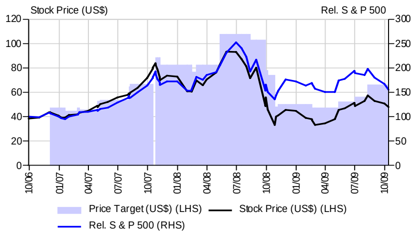
Balance sheet data 12/09E	
Shareholders' equity	US$3.18bn
P/BV (UBS)	2.7x
Net Cash (debt)	(US$0.14bn)

Forecast returns	
Forecast price appreciation	+37.4%
Forecast dividend yield	2.0%
Forecast stock return	+39.4%
Market return assumption	5.9%
Forecast excess return	+33.5%

EPS (UBS, US$)

	12/09E		12/08
	UBS	Cons.	Actual
Q1	1.13	1.12	0.74
Q2E	0.93	0.93	0.85
Q3E	0.90	0.90	1.01
Q4E	0.98	0.91	1.06
12/09E	3.95	*3.86*	
12/10E	3.70	*3.58*	

Performance (US$)



Source: UBS

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Fluor Corporation

Income statement (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	9,380.28	13,161.09	14,078.50	16,691.00	22,325.90	22,301.10	*-0.1*	21,934.92	*-1.6*	24,021.56	*9.5*
Operating expenses (ex depn)	(9,013.41)	(12,764.72)	(13,574.73)	(15,935.59)	(21,163.47)	(20,992.83)	*-0.8*	(20,706.75)	*-1.4*	(22,699.91)	*9.6*
EBITDA (UBS)	366.87	396.37	503.77	755.41	1,162.43	1,308.27	*12.5*	1,228.17	*-6.1*	1,321.65	*7.6*
Depreciation	(89.21)	(104.12)	(126.16)	(146.81)	(163.31)	(168.04)	*2.9*	(165.28)	*-1.6*	(181.00)	*9.5*
Operating income (EBIT, UBS)	277.65	292.25	377.61	608.60	999.13	1,140.23	*14.1*	1,062.89	*-6.8*	1,140.65	*7.3*
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	3.51	7.38	4.33	40.45	54.67	17.01	*-68.9*	28.00	*64.6*	39.00	*39.3*
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	281.16	299.62	381.94	649.05	1,053.79	1,157.25	*9.8*	1,090.89	*-5.7*	1,179.65	*8.1*
Tax	(89.82)	(72.31)	(118.54)	(238.76)	(364.33)	(404.49)	*11.0*	(392.72)	*-2.9*	(436.47)	*11.1*
Profit after tax	191.33	227.32	263.41	410.29	689.46	752.76	*9.2*	698.17	*-7.3*	743.18	*6.4*
Abnormal items (post-tax)	0.00	0.00	0.00	123.00	49.77	0.00	-	0.00	-	(28.40)	-
Minorities / pref dividends	0.00	0.00	0.00	0.00	(17.52)	(37.79)	*115.7*	(28.40)	*-24.8*	0.00	-
Net income (local GAAP)	191.33	227.32	263.41	533.29	721.71	714.97	*-0.9*	669.77	*-6.3*	714.78	*6.7*
Net Income (UBS)	191.33	227.32	263.41	410.29	671.94	714.97	*6.4*	669.77	*-6.3*	743.18	*11.0*
Tax rate (%)	*31.95*	*24.13*	*31.04*	*36.79*	*34.57*	*34.95*	*1.1*	*36.00*	*3.0*	*37.00*	*2.8*
Pre-abnormal tax rate (%)	*31.95*	*24.13*	*31.04*	*36.79*	*34.57*	*34.95*	*1.1*	*36.00*	*3.0*	*37.00*	*2.8*

Per share (US$)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	1.16	1.31	1.48	2.93	3.93	3.95	*0.3*	3.70	*-6.3*	3.94	*6.7*
EPS (UBS)	1.16	1.31	1.48	2.25	3.66	3.95	*7.7*	3.70	*-6.3*	4.10	*11.0*
Net DPS	0.32	0.40	0.30	0.40	0.51	0.84	*65.6*	0.94	*11.6*	1.00	*6.7*
Cash EPS	1.72	1.95	2.26	3.19	4.70	4.92	*4.7*	4.66	*-5.3*	5.16	*10.7*
BVPS	7.97	9.42	9.90	13.02	14.66	17.72	*20.8*	20.55	*16.0*	23.55	*14.6*

Balance sheet (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Cash and equivalents	604.52	789.02	976.05	1,714.39	2,107.89	2,503.55	*18.8*	3,056.11	*22.1*	3,532.56	*15.6*
Other current assets	2,118.80	2,319.21	2,347.54	2,345.11	2,560.77	2,629.31	*2.7*	2,493.43	*-5.2*	2,691.43	*7.9*
Total current assets	2,723.31	3,108.22	3,323.59	4,059.50	4,668.66	5,132.86	*9.9*	5,549.54	*8.1*	6,223.99	*12.2*
Net tangible fixed assets	527.81	581.54	692.13	784.39	799.84	842.57	*5.3*	896.64	*6.4*	955.85	*6.6*
Net intangible fixed assets	162.23	193.02	221.27	263.06	279.13	291.02	*4.3*	291.02	*0.0*	291.02	*0.0*
Investments / other assets	556.21	691.66	637.88	689.23	676.09	667.77	*-1.2*	667.77	*0.0*	667.77	*0.0*
Total assets	3,969.56	4,574.45	4,874.87	5,796.18	6,423.72	6,934.22	*7.9*	7,404.96	*6.8*	8,138.63	*9.9*
Trade payables & other ST liabilities	1,634.04	2,009.34	2,033.77	2,552.87	3,029.03	3,049.11	*0.7*	3,017.53	*-1.0*	3,215.11	*6.5*
Short term debt	129.94	330.00	372.50	307.22	133.58	2.10	*-98.4*	2.10	*0.0*	2.10	*0.0*
Total current liabilities	1,763.98	2,339.34	2,406.27	2,860.09	3,162.61	3,051.22	*-3.5*	3,019.63	*-1.0*	3,217.21	*6.5*
Long term debt	347.65	92.02	17.69	17.70	17.72	139.44	*686.8*	139.44	*0.0*	139.44	*0.0*
Other long term liabilities	522.14	512.53	720.45	643.92	572.31	565.78	*-1.1*	565.78	*0.0*	565.78	*0.0*
Total liabilities	2,633.77	2,943.89	3,144.40	3,521.72	3,752.64	3,756.43	*0.1*	3,724.85	*-0.8*	3,922.43	*5.3*
Equity & minority interests	1,335.79	1,630.56	1,730.47	2,274.46	2,671.08	3,177.79	*19.0*	3,680.11	*15.8*	4,216.19	*14.6*
Total liabilities & equity	3,969.56	4,574.45	4,874.87	5,796.18	6,423.72	6,934.22	*7.9*	7,404.96	*6.8*	8,138.63	*9.9*

Cash flow (US$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net income	191.33	227.32	263.41	533.29	721.71	714.97	*-0.9*	669.77	*-6.3*	714.78	*6.7*
Depreciation	89.21	104.12	126.16	146.81	163.31	168.04	*2.9*	165.28	*-1.6*	181.00	*9.5*
Net change in working capital	(380.06)	205.65	(41.59)	430.15	273.39	(64.13)	-	104.30	-	(0.42)	-
Other (operating)	19.96	(128.41)	(51.86)	(205.24)	(206.05)	0.00	-	0.00	-	0.00	-
Net cash from operations	(79.55)	408.68	296.12	905.01	952.36	818.87	*-14.0*	939.35	*14.7*	895.36	*-4.7*
Capital expenditure	(23.67)	(143.43)	(234.73)	(223.84)	(251.12)	(218.18)	*-13.1*	(219.35)	*0.5*	(240.22)	*9.5*
Net (acquisitions) / disposals	(33.00)	0.00	0.00	7.00	(12.50)	0.00	-	0.00	-	0.00	-
Other changes in investments	(1.13)	(15.71)	(3.09)	(569.59)	286.15	0.00	-	0.00	-	0.00	-
Cash from investing activities	(57.80)	(159.13)	(237.82)	(786.43)	22.53	(218.18)	-	(219.35)	*0.5*	(240.22)	*9.5*
Increase/(decrease) in debt	209.89	(129.94)	0.00	(22.78)	(173.64)	0.00	-	0.00	-	0.00	-
Share issues / (repurchases)	61.69	92.37	31.77	47.68	13.38	0.00	-	0.00	-	0.00	-
Dividends paid	(53.48)	(68.67)	(52.86)	(70.40)	(89.93)	(150.30)	*67.1*	(167.44)	*11.4*	(178.69)	*6.7*
Other cash from financing	(8.08)	74.14	139.48	79.22	20.51	0.00	-	0.00	-	0.00	-
Cash from financing activities	210.03	(32.10)	118.38	33.72	(229.68)	(150.30)	*-34.6*	(167.44)	*11.4*	(178.69)	*6.7*
Cash flow chge in cash & equivalents	72.67	217.45	176.68	152.30	745.21	450.39	-	552.55	-	476.45	-
FX / non cash items	35.34	(32.95)	10.35	586.03	(351.70)	(54.73)	*-40.9*	(.00)	*25.4*	0.00	*-13.8*
Bal sheet chge in cash & equivalents	108.02	184.50	187.03	738.34	393.51	395.66	-	552.55	-	476.45	-
Core EBITDA	366.87	396.37	503.77	755.41	1,162.43	1,308.27	*12.5*	1,228.17	*-6.1*	1,321.65	*7.6*
Maintenance capital expenditure	(104.43)	(213.21)	(274.06)	(284.24)	(299.61)	(218.18)	*-27.2*	(219.35)	*0.5*	(240.22)	*9.5*
Maintenance net working capital	(380.06)	205.65	(41.59)	430.15	273.39	(64.13)	-	104.30	-	(0.42)	-
Operating free cash flow, pre-tax	(117.62)	388.81	188.13	901.32	1,136.21	1,025.96	*-9.7*	1,113.12	*8.5*	1,081.01	*-2.9*

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Americas

Heavy Construction

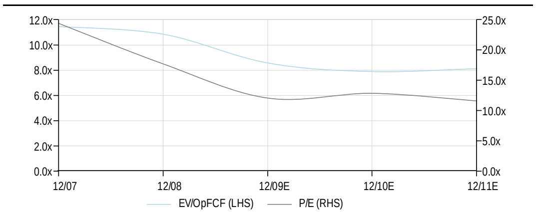
12-month rating	Buy
12m price target	US$66.00

Fluor Corporation

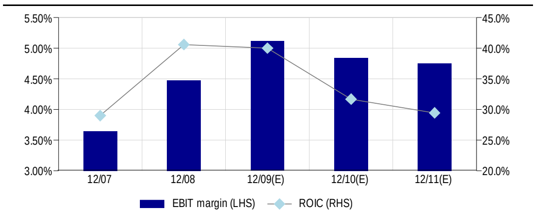
Company profile

Fluor Corporation provides engineering, procurement, construction, operations and maintenance, and project management services globally, operating in five segments: Oil and Gas, Industrial and Infrastructure, Government, Global Services, and Power. Fluor is the largest publicly traded U.S. engineering and construction company, was founded in 1912 and is headquartered in Irving, Texas.

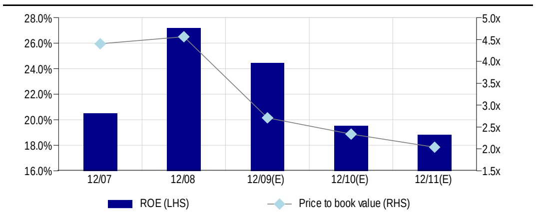
Value (EV/OpFCF & P/E)



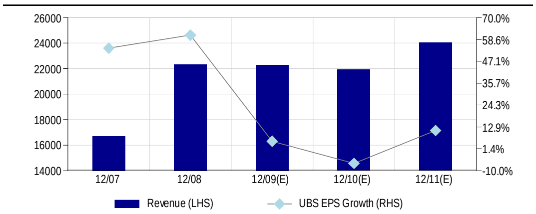
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	21.6	19.6	17.0	12.2	13.0	12.2
P/E (UBS)	22.3	25.5	18.3	12.2	13.0	11.7
P/CEPS	15.1	18.0	14.2	9.8	10.3	9.3
Net dividend yield (%)	1.2	0.7	0.8	1.7	1.9	2.1
P/BV	3.4	4.4	4.6	2.7	2.3	2.0
EV/revenue (core)	0.5	0.6	0.6	0.4	0.4	0.4
EV/EBITDA (core)	13.0	13.7	10.6	6.7	7.1	6.6
EV/EBIT (core)	16.9	16.9	12.3	7.7	8.3	7.7
EV/OpFCF (core)	NM	11.4	10.8	8.6	7.9	8.1
EV/op. invested capital	3.8	4.9	5.0	3.1	2.6	2.3

Enterprise value (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	9,957.66	12,087.54	8,635.88	8,635.88	8,635.88
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	357.56	238.11	146.42	141.54	141.54
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	10,315.22	12,325.66	8,782.30	8,777.43	8,777.43

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	17.3	18.6	33.8	-0.1	-1.6	9.5
EBITDA (UBS)	21.6	50.0	53.9	12.5	-6.1	7.6
EBIT (UBS)	23.1	61.2	64.2	14.1	-6.8	7.3
EPS (UBS)	20.3	54.0	60.8	5.4	-6.2	11.0
Cash EPS	18.3	41.4	47.2	4.7	-5.3	10.7
Net DPS	5.6	36.1	25.4	65.6	11.6	6.7
BVPS	18.4	31.5	12.6	20.8	16.0	14.6

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	3.8	4.5	5.2	5.9	5.6	5.5
EBIT / revenue	2.9	3.6	4.5	5.1	4.8	4.7
Net profit (UBS) / revenue	2.0	2.5	3.0	3.2	3.1	3.1

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	22.8	29.0	40.6	40.0	31.7	29.5
ROIC post tax	-	18.3	26.6	26.0	20.3	18.6
Net ROE	17.1	20.5	27.2	24.4	19.5	18.8

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	4.3	5.8	7.5	4.8	4.0	4.2
Div. payout ratio (%, UBS EPS)	24.5	17.2	13.4	21.0	25.0	24.0
Net debt / EBITDA	0.8	0.4	0.1	0.1	0.1	0.1

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	7.8	8.0	9.1	7.8	6.5	6.2
Revenue / fixed assets	15.8	17.0	21.0	20.2	18.9	19.7
Revenue / net working capital	12.6	11.9	14.2	12.0	9.5	8.7

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	0.5	1.5	1.1	0.9	1.0	0.9
Capex / revenue (%)	1.1	1.3	1.1	1.0	1.0	1.0
Capex / depreciation	1.2	1.5	1.5	1.3	1.3	1.3

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	24.6	14.3	5.7	4.5	3.8	3.4
Net debt / (net debt + equity)	18.9	12.5	5.4	4.3	3.7	3.2
Net debt (core) / EV	5.62	3.5	1.9	1.7	1.6	1.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$48.02 on 13 Oct 2009 19:38 BST Market cap(E) may include forecast share issues/buybacks.

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Global Equity Research

Spain

Heavy Construction

12-month rating	Buy *Unchanged*
12m price target	€112.00/US$166.08 *Unchanged*
Price	€91.00/US$134.94

RIC: ANA.MC BBG: ANA SM

UBS Investment Research

Acciona

Defensive business mix and undervaluation

■ We reiterate our Buy rating

Acciona remains among our top picks among the so called Spanish contractors. We highlight the company's strong management track record and the shares' undervaluation. We acknowledge though that performance should be linked to the potential re-rating of renewables, but we are not concerned about regulation changes.

■ Defensive business mix

Post the Endesa deal, c80% of Acciona's EV stems from renewable assets that are cash generative, decreasing Acciona's operating risk profile. Management will hold a strategic review in the end of Q4 09. We expect disclosure to improve going forward. We see further restructuring options that could serve as catalysts for the stock, although visibility on timing is reduced.

■ No major changes in regulation expected

We do not expect any major changes in thermoelectric and wind regulation in Spain. This said, we expect most of the growth going forward to come from other markets (Canada and US mainly).

■ Valuation: SOTP-based €112ps price target unchanged

On our estimates Acciona trades at a c25% discount to UBSe NAV versus an average holding discount in Europe of c20%. Additionally the stock offers a c4% dividend yield.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	7,952.80	12,665.10	6,650.91	7,188.84	7,550.03
EBIT (UBS)	935.40	1,677.60	542.26	758.58	873.33
Net Income (UBS)	975.20	463.60	182.01	276.30	336.06
EPS (UBS, €)	15.35	7.30	2.86	4.35	5.29
Net DPS (UBS, €)	2.89	3.65	3.83	4.02	4.23

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	9.3	13.2	8.2	10.6	11.6
ROIC (EBIT) %	7.2	5.8	2.2	3.6	4.0
EV/EBITDA (core) x	9.5	8.8	15.1	8.9	8.3
PE (UBS) x	7.3	19.1	31.8	20.9	17.2
Net dividend yield %	2.2	2.6	4.2	4.4	4.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €91.00 on 13 Oct 2009 21:39 BST

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Trading data (local/US$)	
52-wk range	€99.10-55.45/US$143.69-69.46
Market cap.	€5.78bn/US$8.58bn
Shares o/s	63.5m (ORD)
Free float	42%
Avg. daily volume ('000)	190
Avg. daily value (€m)	17.3

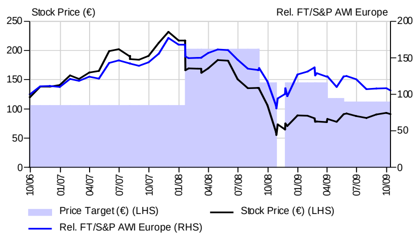
Balance sheet data 12/09E	
Shareholders' equity	€5.88bn
P/BV (UBS)	1.0x
Net Cash (debt)	(€8.17bn)

Forecast returns	
Forecast price appreciation	+23.1%
Forecast dividend yield	5.4%
Forecast stock return	+28.5%
Market return assumption	6.4%
Forecast excess return	+22.1%

EPS (UBS, €)

	12/09E		12/08
	UBS	Cons.	Actual
Q1	-	2.35	-
Q2E	-	16.51	-
Q3E	-	-	-
Q4E	-	-	-
12/09E	2.86	*3.84*	
12/10E	4.35	*4.17*	

Performance (€)



Source: UBS

Acciona

Income statement (€m)	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	6,272.43	7,952.80	12,665.10	6,650.91	-47.5	7,188.84	8.1	7,550.03	5.0
Operating expenses (ex depn)	(5,312.78)	(6,545.40)	(9,838.50)	(5,528.65)	-43.8	(5,792.26)	4.8	(5,974.90)	3.2
EBITDA (UBS)	959.65	1,407.40	2,826.60	1,122.26	-60.3	1,396.58	24.4	1,575.13	12.8
Depreciation	(329.43)	(472.00)	(1,149.00)	(580.00)	-49.5	(638.00)	10.0	(701.80)	10.0
Operating income (EBIT, UBS)	630.22	935.40	1,677.60	542.26	-67.7	758.58	39.9	873.33	15.1
Other income & associates	1,082.35	273.00	108.00	158.29	46.6	0.00	-	0.00	-
Net interest	44.31	(89.40)	(1,040.00)	(490.00)	-52.9	(350.00)	-28.6	(380.00)	8.6
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	1,756.88	1,119.00	745.60	210.56	-71.8	408.58	94.0	493.33	20.7
Tax	(368.29)	(123.40)	(178.00)	(15.16)	-91.5	(118.49)	681.8	(143.07)	20.7
Profit after tax	1,388.59	995.60	567.60	195.40	-65.6	290.09	48.5	350.27	20.7
Abnormal items (post-tax)	0.00	0.00	0.00	1,550.00	-	0.00	-	0.00	-
Minorities / pref dividends	(18.48)	(20.40)	(104.00)	(13.39)	-87.1	(13.79)	3.0	(14.21)	3.0
Net income (local GAAP)	1,370.11	975.20	463.60	1,732.01	273.6	276.30	-84.0	336.06	21.6
Net Income (UBS)	1,370.11	975.20	463.60	182.01	-60.7	276.30	51.8	336.06	21.6
Tax rate (%)	20.96	11.03	23.87	7.20	-69.8	29.00	302.9	29.00	0.0
Pre-abnormal tax rate (%)	21.06	11.12	24.53	7.20	-70.7	29.00	302.9	29.00	0.0

Per share (€)	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	21.56	15.35	7.30	27.25	273.6	4.35	-84.0	5.29	21.6
EPS (UBS)	21.56	15.35	7.30	2.86	-60.7	4.35	51.8	5.29	21.6
Net DPS	2.32	2.89	3.65	3.83	5.0	4.02	5.0	4.23	5.0
Cash EPS	26.74	22.77	25.38	11.99	-52.7	14.39	20.0	16.33	13.5
BVPS	68.04	76.48	69.08	92.50	33.9	92.83	0.3	93.89	1.1

Balance sheet (€m)	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	5,481.44	16,007.00	22,854.00	14,019.99	-38.7	14,836.95	5.8	15,369.19	3.6
Net intangible fixed assets	1,778.88	8,105.00	3,962.00	3,962.00	0.0	3,962.00	0.0	3,962.00	0.0
Net working capital (incl. other assets)	998.11	4,531.00	2,195.00	2,775.71	26.5	2,664.50	-4.0	2,773.35	4.1
Other liabilities	(469.12)	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating invested capital	7,789.31	28,643.00	29,011.00	20,757.70	-28.4	21,463.45	3.4	22,104.54	3.0
Investments	8,064.83	1,486.00	1,892.00	1,892.00	0.0	1,892.00	0.0	1,892.00	0.0
Total capital employed	15,854.14	30,129.00	30,903.00	22,649.70	-26.7	23,355.45	3.1	23,996.54	2.7
Shareholders' equity	4,324.00	4,860.00	4,390.00	5,878.46	33.9	5,899.03	0.3	5,966.56	1.1
Minority interests	309.11	1,596.00	1,929.00	1,915.61	-0.7	1,901.82	-0.7	1,887.61	-0.7
Total equity	4,633.11	6,456.00	6,319.00	7,794.07	23.3	7,800.85	0.1	7,854.18	0.7
Net debt / (cash)	9,428.27	17,804.00	17,897.00	8,168.63	-54.4	8,867.60	8.6	9,455.37	6.6
Debt deemed provisions	1,792.75	5,869.00	6,687.00	6,687.00	0.0	6,687.00	0.0	6,687.00	0.0
Total capital employed	15,854.14	30,129.00	30,903.00	22,649.70	-26.7	23,355.45	3.1	23,996.54	2.7

Cash flow (€m)	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	630.22	935.40	1,677.60	542.26	-67.7	758.58	39.9	873.33	15.1
Depreciation	329.43	472.00	1,149.00	580.00	-49.5	638.00	10.0	701.80	10.0
Net change in working capital	(121.71)	(1,566.73)	277.00	(580.71)	-	111.21	-	(108.85)	-
Other (operating)	49.20	1,818.73	(273.00)	567.32	-	(125.00)	-	94.65	-
Operating cash flow	887.14	1,659.40	2,830.60	1,108.87	-60.8	1,382.79	24.7	1,560.93	12.9
Net interest received / (paid)	44.31	(89.40)	(1,040.00)	(490.00)	-52.9	(350.00)	-28.6	(380.00)	8.6
Dividends paid	(150.07)	(183.66)	(231.96)	(243.56)	5.0	(255.73)	5.0	(268.52)	5.0
Tax paid	(368.29)	(123.40)	(178.00)	(15.16)	-91.5	(118.49)	681.8	(143.07)	20.7
Capital expenditure	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	(7,720.71)	(3,113.00)	(3,152.00)	(1,885.00)	-40.2	(1,468.75)	-22.1	(1,248.25)	-15.0
Share issues	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	(7,307.62)	(1,850.06)	(1,771.36)	(1,524.84)	-13.9	(810.18)	-46.9	(478.91)	-40.9
FX / non cash items	324.62	(6,525.67)	1,678.36	11,253.21	570.5	111.21	-99.0	(108.85)	-
Balance sheet (inc)/dec in net debt	(6,983.00)	(8,375.73)	(93.00)	9,728.37	-	(698.97)	-	(587.76)	-15.9
Core EBITDA	959.65	1,407.40	2,826.60	1,122.26	-60.3	1,396.58	24.4	1,575.13	12.8
Maintenance capital expenditure	(188.17)	(238.58)	(379.95)	(199.53)	-47.5	(215.67)	8.1	(226.50)	5.0
Maintenance net working capital	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax (OpFCF)	771.48	1,168.82	2,446.65	922.73	-62.3	1,180.92	28.0	1,348.63	14.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Spain

Heavy Construction

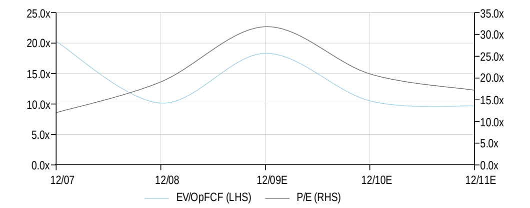
Acciona

12-month rating	Buy
12m price target	€112.00

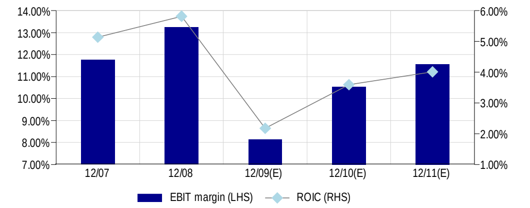
Company profile

Acciona is the result of the 1996 merger of two complementary contractors: Entrecanales and Cubiertas. Following the disposal of part of its telecom interests in January 2003, the company re-oriented its strategy, investing in logistics and energy. Currently, Acciona's energy renewable business accounts for around 80% of the group's valuation, which implies a significant regulatory risk, given the exposure to wind farm regulation. Acciona recently agreed to sell its 25% stake in Endesa. It had previously sold its 15% stake in rival FCC.

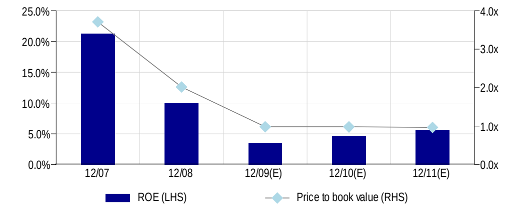
Value (EV/OpFCF & P/E)



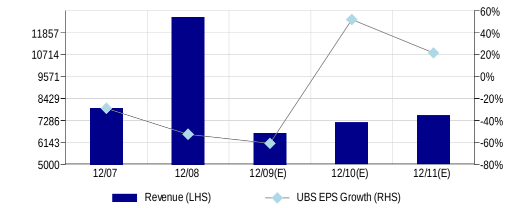
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	10.9	12.0	19.1	3.3	20.9	17.2
P/E (UBS)	7.3	12.0	19.1	31.8	20.9	17.2
P/CEPS	NM	8.1	5.5	7.6	6.3	5.6
Net dividend yield (%)	2.2	1.6	2.6	4.2	4.4	4.6
P/BV	1.6	2.4	2.0	1.0	1.0	1.0
EV/revenue (core)	1.4	3.0	2.0	2.5	1.7	1.7
EV/EBITDA (core)	9.5	16.9	8.8	15.1	8.9	8.3
EV/EBIT (core)	14.6	25.4	14.8	NM	16.4	14.9
EV/OpFCF (core)	12.2	20.3	10.1	18.3	10.5	9.7
EV/op. invested capital	1.0	1.3	0.9	0.7	0.6	0.6

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	11,735.27	8,853.19	5,783.05	5,783.05	5,783.05
+ minority interests	1.00	1.00	1.00	1.00	1.00
+ average net debt (cash)	13,466.01	17,850.50	13,032.81	8,518.12	9,161.48
+ pension obligations and other	1.00	1.00	1.00	1.00	1.00
- non-core asset value	(1,486.00)	(1,892.00)	(1,892.00)	(1,892.00)	(1,892.00)
Core enterprise value	23,717.28	24,813.69	16,925.86	12,411.17	13,054.53

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	19.8	26.8	59.3	-47.5	8.1	5.0
EBITDA (UBS)	37.4	46.7	100.8	-60.3	24.4	12.8
EBIT (UBS)	37.2	48.4	79.3	-67.7	39.9	15.1
EPS (UBS)	-	-28.8	-52.5	-60.7	51.8	21.6
Cash EPS	-	-14.8	11.4	-52.7	20.0	13.5
Net DPS	24.3	24.3	26.3	5.0	5.0	5.0
BVPS	16.5	12.4	-9.7	33.9	0.3	1.1

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	14.2	17.7	22.3	16.9	19.4	20.9
EBIT / revenue	9.3	11.8	13.2	8.2	10.6	11.6
Net profit (UBS) / revenue	8.1	12.3	3.7	2.7	3.8	4.5

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	7.2	5.1	5.8	2.2	3.6	4.0
ROIC post tax	-	4.6	4.4	2.0	2.6	2.8
Net ROE	12.8	21.2	10.0	3.5	4.7	5.7

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	10.6	1.6	1.1	2.2	2.3
Dividend cover (UBS EPS)	-	5.3	2.0	0.7	1.1	1.3
Div. payout ratio (%, UBS EPS)	-	18.8	50.0	133.8	92.6	79.9
Net debt / EBITDA	8.2	NM	6.3	7.3	6.3	6.0

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	0.7	0.4	0.4	0.3	0.3	0.3
Revenue / fixed assets	0.9	0.5	0.5	0.3	0.4	0.4
Revenue / net working capital	3.2	2.9	3.8	2.7	2.6	2.8

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	1.2	1.2	1.5	1.7	1.6	1.5
Capex / revenue (%)	4.1	0.0	0.0	0.0	0.0	0.0
Capex / depreciation	0.8	0.0	0.0	0.0	0.0	0.0

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	64.8	78.6	80.3	58.2	60.1	61.3
Net debt (core) / EV	51.6	56.8	71.9	77.0	68.6	70.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €91.00 on 13 Oct 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

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■ Statement of Risk

Please see the risk section in the Executive Summary.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	44%	39%
Neutral	**Hold/Neutral**	40%	35%
Sell	**Sell**	15%	27%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	0%

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.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Acciona	ANA.MC	Buy	N/A	€92.45	14 Oct 2009
China High Speed Transmission Equipment	0658.HK	Buy	N/A	HK$16.24	14 Oct 2009
Dongfang Electric	1072.HK	Buy	N/A	HK$42.70	14 Oct 2009
EDP Renovaveis	EDPR.LS	Neutral	N/A	€7.40	14 Oct 2009
Energias de Portugal[2, 4, 5b, 16]	EDP.LS	Buy	N/A	€3.18	14 Oct 2009
Fluor Corporation[4, 6a, 6b, 6c, 7, 16]	FLR.N	Buy	N/A	US$48.02	13 Oct 2009
FPL Group Inc.[2, 4, 5b, 6a, 6c, 7, 16]	FPL.N	Neutral	N/A	US$53.01	13 Oct 2009
Gamesa	GAM.MC	Neutral	N/A	€13.57	14 Oct 2009
General Electric Co.[2, 4, 5b, 6a, 6b, 6c, 7, 8, 16, 18]	GE.N	Neutral	N/A	US$16.39	13 Oct 2009
Gurit[4, 5b, 13]	GUR.S	Neutral	N/A	CHF675.00	14 Oct 2009
Hansen Transmissions International NV[5b, 20]	HSNT.L	Neutral (CBE)	N/A	127p	14 Oct 2009
Iberdrola Renovables S.A.	IBR.MC	Sell	N/A	€3.29	14 Oct 2009
Infigen Energy[3a, 3b, 4, 5a, 13]	IFN.AX	Buy	N/A	A$1.50	14 Oct 2009
Nordex AG[5b, 20]	NDXGk.DE	Sell (CBE)	N/A	€11.69	14 Oct 2009
PG&E Corporation[2, 4, 5b, 6a, 16]	PCG.N	Neutral	N/A	US$41.56	13 Oct 2009
Siemens[4, 5b, 14, 15, 16]	SIEGn.DE	Neutral	N/A	€69.00	14 Oct 2009
Suzlon Energy	SUZL.BO	Sell	N/A	Rs85.45	14 Oct 2009
Terna Energy	TENr.AT	Buy	N/A	€6.75	14 Oct 2009
The Manitowoc Company, Inc[16, 20]	MTW.N	Neutral (CBE)	N/A	US$10.02	13 Oct 2009
Vestas Wind Systems[16]	VWS.CO	Neutral	Sell	DKr329.00	14 Oct 2009

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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