

Acciona

Valuation Methodology:

We value Acciona with a sum of the parts for the different areas of the company. We value the company's most important division, Energy Generation, with explicit DCF models for different technologies and geographical locations. We value the Nordex stake at market value, the Concessions at book value plus adjusted net debt, Real Estate at a discount to its reported Gross Asset Value. The Water division is valued on an EV/EBITDA multiple plus the ATLL recovery value. Construction and Services areas are valued on an average of EV/EBITDA multiples based on the valuation of listed peers and DCFs. The Asset Management unit is valued at an average of EV/EBITDA and EV/AuM multiples.

DCF assumptions for Acciona valuation

	Explicit forecast period (years)	Terminal value	Risk Free	WACC	Terminal Growth
Wind Spain	35 years	no	4.0%	6.2%	
Other Spain	35 years	no	4.0%	6.2%	
Wind Rest of Europe	35 years	no	4.4%	6.6%	
Wind US	35 years	no	4.0%	6.4%	
Wind Latam	35 years	no	6.5%	8.0%	
Wind Rest of World	35 years	no	5.4%	7.2%	
Solar International	35 years	no	5.5%	7.5%	
Construction& Ind	10 years	yes	4.6%	7.6%	0.0%
Services	10 years	yes	4.3%	7.0%	1.0%

Source: Haitong Research for estimates

Risks to Fair Value:

Interest Rate Risk – Most of Acciona's EV is from the Energy Generation Division. As assets with stable long-term cash flows the valuation is sensitive to interest rate movements and an increase in the bond yields can lead to lower valuations.

Regulatory Risk – Acciona's renewable energy assets have income partially determined by regulation. Adverse changes in regulation can lead to material losses for the company.

Power Price Risk – together with regulation, the profitability of Acciona's energy portfolio in Spain also depends on power prices, which in turn depend on the generation mix (including hydro levels) and commodity prices. A reduction in power prices caused by other factors than hydro production could reduce results for this business area.

Financial risk – Despite being in a more comfortable position than in the 2012/2013 period, Acciona's leverage is still significant and above what we consider to be comfortable levels. Adverse business conditions similar to the 2012/2013 period can again stress the company's balance sheet.

Altri

Valuation Methodology:

We value Altri through a Sum-of-the-Parts methodology wherein the pulp division is valued via a DCF and Forestry is valued at the 2017 Book Value, with a 25% discount. We use an average WACC of 9% and a terminal growth rate of 1.0% for the pulp production segment.

Risks to Fair Value:

Primarily exposed to raw materials (mainly wood) and pulp price fluctuations. The company is also exposed to energy regulation as it produces energy through renewable sources (mainly wood) benefiting from cogeneration subsidized tariffs. In addition, the company is exposed to demand volatility. The main upside risk is higher pulp prices or USD strength vs. Euro.

Atresmedia

Valuation Methodology:

We value A3M using a discounted free cash flow (DCF) model for the group's business areas (TV and Radio). We are discounting the FCF over a 10-year period, with an average WACC of 9%. We assume a recovery in the TV Ad market to the average of last 10Y, but we no longer assume a recovery to the previous peak. For the terminal value calculation we have assumed only nominal growth in line with long term CPI with G of 1%. For the FV calculation we take into consideration our expected dividend payments to occur in 2018E.

Risks to Fair Value:

A3M is a pure Spanish player with high operational gearing and is highly sensitive to macroeconomic changes either positively or negatively. A change in the outlook for the Spanish economy could have a potential impact on its top line and hence on the stock price. Additional risks we see are: i) Changes in audience share as a result of programming decisions; ii) M&A activity; and iii) Regulatory changes that could change competition (i.e. increasing it by promoting the deployment of cable and thus allowing better development of Internet TV, or promoting the return of advertising to TVE); as upside the company could be more efficient on costs than we assume and the TV advertising market may grow at a faster pace than we anticipate.

Cellnex**Valuation Methodology:**

We value Cellnex with a DCF-based SoTP for each of the countries where Cellnex is present. We model the cash flows explicitly until 2050 to be able to capture the effects of long-term issues: the reduction in anchor tenant contracts pricing, the end of Atlantia concession in Italy or the normalization of the group's tax rate. We use a terminal growth rate of 1%, in line with inflation and based on the cash flow growth of the last years of explicit modelling.

Risks to Fair Value:

One of the main assumptions in our estimates is our belief that over the long run anchor tenant contracts pricing shall decrease, converging partially to the level of pricing of secondary tenants; a full price convergence would naturally lead to negative effects on the valuation. Under our forecasts we also assume no additional M&A expansion/CAPEX beyond what has been announced by the company. Any sizeable deal could also have implications for our FV given the risk of synergy potential, overpaying for the assets, integration risks, etc.

The arrival of 5G as the next generation of mobile networks could trigger some significant changes in network structures, with one of the possibilities being lower needs for tower rentals as 5G will imply denser networks thus with more proximity to end users. Cellnex has been positioning itself for this transition building knowledge in small cells technology and also making some small acquisitions to prepare itself for this possible shift. While we believe this poses a potential risk, it is at this stage difficult to quantify the implications for Cellnex's business model; we assume the company will be able to adapt to this transition and its tower rental business will remain as the group's key activity.

Corticeira Amorim**Valuation Methodology:**

We value COR through a DCF in which we assume margins improvement to continue supported by the improving yield the company can get from cork. We use a WACC of c.8% and a terminal growth rate of 2%.

Risks to Fair Value:

We think the main risk to COR is sourcing. The plantation of the cork oak tree is limited to Mediterranean countries, with most of the planted area being in Portugal. The long time it takes before the bark of cork tree can be taken for the first time (25 years) is a key limitation in terms of access to the raw material. Although trees are not cut in the process, any infestation on the trees, fires or limitations to the stripping could cause a sizable problem to COR.

Cork could go out of fashion as happened in the past and pose a problem to sales of product and lead it to need to develop new applications.

Other type of wine stoppers could become fashionable again and increase the competition with cork.

Although the industry is quite fragmented, new players could buy COR competitors and become more aggressive in the sourcing of wood, leading to an increase in the raw material price.

The company sells an important part of its cork stoppers in the US so a depreciation of USD vs. Eur poses risks to margins.

Limited free float and weak daily liquidity of the shares may lead to large swings in the share price.

CTT

Valuation Methodology:

We value CTT through a SoP. We use a DCF methodology for CTT ex bank and one for the Postal Bank. We assume its debt to equity target will remain 0% and discount our 8-year cash flows at a cost of equity of 8.5%. Our growth in perpetuity is -1%. For the postal bank we use a 11% CoE.

Risks to Fair Value:

- i) CTT's main business is in structural decline with Mail volumes having dropped at a CAGR of c. 6% between 2010 and 2017. Trends could be worse than our assumptions, which are now -6% from 2018 onwards.
- ii) CTT's Express & Parcels business is still small compared to the rest of its business and CTT has yet to prove it can leverage on its potential.
- iii) Competition is still very low in Mail, although this area would likely need substantial investments and other distributors may in the future try to address this market, which could affect CTT's profitability.
- iv) Express & Parcels in Spain has a low level of profitability and its market share of a low single digit may not be sizeable enough to generate profits.
- v) Ecommerce penetration in Portugal and Spain is still low and there is a risk that the Iberian population does not embrace this rising activity and therefore the Express & Parcels business may not reach its full potential.
- vi) Regulation risk, as the Mail activity is regulated and Anacom may change the way pricing is regulated and this could affect CTT's capacity to increase prices. The concession renewal could be a risk for 2020, although CTT's assets do not revert to the state. Also cost cutting could be dependent on regulator authorization to close branches.
- vii) The Postal Bank is a new activity and may pose a risk due to capital requirements and the challenging banking environment in Portugal.
- viii) Acquisition of 321 Crédito increases the macro risks to which CTT is exposed. The potential NPLs coming from this activity are higher than from mortgages and this could negatively impact Banco CTT and force further capital injections.

DIA

Valuation Methodology:

We have changed the way we set our FV post L1's takeover bid, which we believe has a strong likelihood of being successful. The Eur0.67/sh bid from L1 is higher than the Eur0.56/sh we get through our sum-of-the-parts valuation and thus we retain L1's bid. Our fundamental valuation is still based on a SOTP enterprise value that we adjust for: i) net debt (including factoring, working capital related adjustments and 50% of CDSI net debt); ii) provisions; and iii) financial investments. Components of the enterprise value are valued through a DCF with Euro-denominated cash flows, translated from local currency at forward rates calculated based on the inflation differential to the Euro-zone, discounted at a WACC that reflects risks in each country.

Risks to Fair Value:

1. **L1 takeover bid:** Our FV assumes L1's offer will be approved by the regulator and that the offer is successful, which implies a minimum acceptance level of 50% of the free float, no opposition from anti-trust authorities in the EU and Brazil and that no equity is issued prior to the conclusion of the offer. The main risk to the offer could be the level of acceptance but we think investors would only skip the offer if they had a better alternative in terms of risk reward.
2. **Liquidity risk:** Dia has managed to get a refinancing agreement with its lenders that grant it funding up to the end of May. However a longer term refinancing solution is largely dependent on a capital increase that still needs to be approved by Dia's shareholders. Letterone, which is the leading shareholder with a c29% stake in Dia, has committed to back a Eur500m capital increase if its takeover bid succeeds and we think this has reduced Dia's liquidity risks.
3. **Iberia:** Dia is in a very tough competitive position in Iberia and its operating turnaround will involve a sizeable effort in terms of opex/capex. This should impact its FCF in the initial stage and the results are quite uncertain as they are largely dependent on how the competition reacts.

4. **Emerging markets:** We assume a gradual improvement of the operating margins due to higher scale and a gradual dilution of startup costs; we see both upside and downside risks to our forecasts. Currency volatility in Argentina and Brazil is also a risk.
5. **Franchising:** Dia might be forced to pass on to its franchisees a bigger share of its profits due to the improvement in the economic backdrop in Iberia and the potential pooling of franchisees' interests to demand better commercial terms. The margin drop in Iberia might also require a higher support to franchisees.

Ebro Foods

Valuation Methodology:

For Ebro in our DCF, we used a Wacc of 7% and a g of 1%. We model until 2023 and assume a long-term margin of 14.5% supported by the growth in capex to improve operational efficiency. The average margin of the last 6Y stood at 15%.

Risks to Fair Value:

Potential deterioration in Ebro's brands owing to inadequate positioning or inability to differentiate its products, namely vs private labels;

The volatility of raw material prices (rice and Durum wheat), abundance and quality of the harvests, weather conditions, and import/export restrictions;

Volatility of the Usd-Eur exchange rate, which is negative for Ebro when the Eur appreciates;

Consolidation of suppliers and/or retail companies; overpaying for acquisitions.

Cost inflation in their supply and logistics chain

EDP

Valuation Methodology:

We value EDP via a SOTP. We use a DCF methodology for the Iberian business areas, carrying out a separate DCF analysis for each area and sub-area, with the following assumptions:

DCF assumptions for EDP valuation

	Explicit forecast period	Terminal value	Terminal growth rate	Risk Free	WACC
Liberalized Generation&Supply Iberia	15 years	yes	0.0%	4.3%	6.9%
LT Contracted Generation	15 years	yes	0.0%	4.5%	6.6%
Electricity Distribution in Portugal	15 years	yes	0.5%	4.5%	5.7%
Electricity Distribution in Spain	15 years	yes	0.5%	4.0%	5.4%

Source: Haitong Research for estimates

Listed subsidiaries EDP Renováveis (EDPR PL, NEUTRAL, FV Eur8.0) and Energias do Brazil (ENBR3 BZ, BRL15.6, not rated) are valued at market prices.

However, due to the offer from CTG and the uncertainty associated with the several outcomes going forward, we decided to calculate our FV as a weighted average of our estimate of EDP's value under each scenario with the probability we estimate such scenario might have.

Risks to Fair Value:

1. **Regulatory Risk** - changes in regulation are a major risk for some of EDP's businesses: i) allowed revenues and remuneration levels for electricity and gas distribution activities in Portugal, Spain and Brazil are set by local energy regulators; ii) electricity tariff changes in Portugal, Spain and Brazil are set by local energy regulators and influence the speed of recovery of past tariff deficits; iii) governments can introduce taxes on electricity generation activities, like Spain did recently; iv) renewables remuneration schemes depend on legislation set by governments; v) an extension of nuclear plants' operating lives in Spain would have a negative impact on EDP owing to its expected impact on power prices.
2. **Interest Rate Risk** - given their relatively stable and capital intensive businesses, utilities usually have high leverage ratios, thus being more sensitive to increases in interest rates. EDP has leverage ratios above the sector average, thus meaning an increase in interest rates would have an even higher negative impact, even if the remuneration of electricity distribution in Portugal is currently linked to Portuguese 10 year public debt yields.

3. **Currency Risk** – EDP has meaningful operations in Brazil and in the US. A significant devaluation of BRL vs EUR and/or USD vs EUR could have negative impacts on its accounts.
4. **Commodity Risk** – Oil, gas, coal and CO2 influence the costs of thermal generation technologies, which in turn influence electricity prices. If commodity prices go up and for some reason electricity prices don't reflect that, generation profitability may be reduced.
5. **Power Price Risk** – this is related to commodities prices and also to hydro plants production, which in turn depend upon rainfall levels. *Ceteris paribus*, in dry years power prices tend to go up while in wet years they tend to go down. The final impact on profitability depends on the generation mix.
6. **Growth Risk in Renewables** – The attractiveness of growth opportunities may vanish and become lower than WACC. The company strategy includes growth through a self-funding model which is dependent on market conditions, and if not fulfilled may lead to lower growth plans. Support from governments is also not guaranteed and any change in renewable targets may affect long-term growth.
7. **Offer Risk** – We are setting our FV as the weighted average of the possible outcomes following the offer from CTG. Any change in the conditions of the offer, or offer conditions not being met, such FV and corresponding recommendation may prove incorrect.

EDPR

Valuation Methodology:

Our DCF valuation for EDP Renováveis points to a SOTP value of Eur8.00 per share. We value each of the main markets separately and value the installation pipeline from 2018 on separately.

DCF assumptions for EDPR valuation

	Explicit forecast period (years)	Terminal value	Risk Free	WACC
Portugal	35 years	no	4.5%	6.4%
Spain	35 years	no	4.0%	6.1%
Rest of Europe	35 years	no	4.4%	6.5%
North America	35 years	no	4.0%	7.0%
Latam	35 years	no	9.2%	10.0%

Source: Haitong Research for estimates

Risks to Fair Value:

1. **Interest rate risk** – In a capital intensive industry, sudden increases in interest rates could affect growth capacity and free cash flow. A worse risk perception of the parent, which has been providing debt to EDPR, would also be a risk.
2. **Operational risk** - O&M activities may prove more challenging as wind farms get older. As EDPR has internalized part of this, the improvements may not be sustained. Load factors on wind farms are uncertain and volatile, which may affect free cash flow generation and ultimately the dividend target of the company.
3. **Regulation and off taker risk** – Each wind farm owned by EDPR has a remuneration scheme that depends on the legislation set by the respective government, which is subject to change.
4. **Growth risk** – The attractiveness of the growth opportunities may vanish and become lower than WACC. The company strategy includes growth through a self-funding model which is dependent on market conditions and if not fulfilled may lead to lower growth plans. Support from governments is also not guaranteed and any change in renewable targets may affect long-term growth.
5. **Commodity risk** – Oil and gas prices set an important benchmark for renewables energy investment. If oil prices decrease more, renewable energy will be perceived as less competitive and it might affect future investment in the sector.
6. **Technology risk** – The markets in which the company operates and the assets the company owns are subject to rapid changes in their competitive position due to changes in technology innovation.
7. **Counter-bid risk** – The offer price could be revised or there could be competing offers, which could lead to a more positive view on the company.

Enagás

Valuation Methodology:

We value Enagás via a SOTP, using a DCF methodology for the two largest business areas Regulated Business in Spain and GNL Quintero, carrying out a separate DCF for each area with the following assumptions:

DCF assumptions for Enagás valuation

	Explicit forecast period	Terminal value	Terminal growth rate	Risk Free	WACC
Regulated Business in Spain	20 years	yes	0.0%	4.0%	5.3%
GNL Quintero	30 years	no		5.5%	6.6%

Source: Haitong Research for estimates

Other financial (associates) positions of Enagás are valued through an average of DDM and transaction values (when available).

Risks to Fair Value:

- Regulatory Risk** – Most of the revenues of the TSOs are determined by regulation and as such a change in the regulatory frameworks or parameters is the biggest risk faced by the companies. The current regulatory period in Spain ends in 2020 and there is the risk of lower Returns on Assets as the yields are currently lower than when the current regulatory parameters were set, in 2013/2014. Currently, part of the revenues in Spain consist of a component linked to the volumes of gas transported (RCS). However, for the next regulatory period (from 2021 to 2026) and afterwards, we believe that the regulator may go for a different approach, so we have calculated an adjusted RAB for Enagás, and applied a ROR similar to that of similar risk areas, like electricity transmission, and abandoning the RCS component. However, the final approach from the regulator could be different, which could have a significant impact on the value of the stock.
- Interest rate risk** – Since low risk, high dividend yield companies are considered bond substitutes, a valuation is sensitive to moves in the yields of the bond markets. A rise in the prevailing interest rates would likely lead to lower valuations for the shares of the TSOs.
- Overinvestment risk** – According to our estimates the companies will have to be very efficient to be able to get IRRs above the cost of capital on new projects. In this environment, the temptation to grow can lead to value destroying over-investment.

Ence

Valuation Methodology:

We value Ence through a Sum-of-the-Parts methodology, where the pulp and the biomass segments are valued via a DCF and forestry assets to be divested are being valued at 75% of reported Book Value. We use a WACC of 8.6% and a terminal growth rate of 1.0% for the pulp segment. For the biomass energy projects, we are including the new projects under construction (and the needed capex). We use a DCF of 7.1% for these assets, as they have a lower risk profile than the pulp assets.

Risks to Fair Value:

The Pontevedra licence extension was recently approved and we don't foresee that the situation could be reversed. Ence is primarily exposed to raw materials (mainly wood) and pulp price fluctuations. The changes in forex may also have an effect as the company's costs are mostly in Euros while Pulp is priced in USD. Ence is also exposed to energy regulation as it produces energy through renewable sources (mainly wood) benefiting from cogeneration subsidized tariffs. Biomass projects are subject to regulation risk.

Endesa

Valuation Methodology:

We value Endesa via a SOTP. We use a DCF methodology for the major business areas, carrying out a separate DCF analysis for each area with the following assumptions:

DCF assumptions for Endesa valuation

	Explicit forecast period	Terminal value	Terminal growth rate	Risk Free	WACC
Generation&Supply Mainland	15 years	yes	0.0%	4.0%	7.1%

DCF assumptions for Endesa valuation

Generation&Supply Non Mainland	15 years	yes	0.0%	4.0%	6.0%
Regulated Networks Iberia	15 years	yes	0.5%	4.0%	5.7%
Renewables	35 years	no		4.0%	6.4%

Source: Haitong Research for estimates

Risks to Fair Value:

1. **Regulatory Risk** – operating lives for nuclear plants in Spain depend on regulatory and political decisions. Besides that, if the return on regulated assets is set at lower rates than we anticipate, the FV may go down.
2. **Commodity Risk** – Oil, gas, coal and CO2 influence the costs of thermal generation technologies, which in turn influence electricity prices. If commodity prices go up and for some reason electricity prices don't reflect that, generation profitability may be reduced.
3. **Power Price Risk** – this is related to commodities prices and also to hydro plants production, which in turn depend upon rainfall levels. *Ceteris paribus*, in dry years power prices tend to go up while in wet years they tend to go down. The final impact on profitability depends on the generation mix.

Euskaltel

Valuation Methodology:

We arrive at our valuation for Euskaltel through a DCF model where all of the group's operations are combined. We are using FY18E Net Debt levels in our SoP and as a consequence we incorporate in our FV the dividends to be paid during 2018E.

Risks to Fair Value:

In our assumptions for Euskaltel we assume that the Spanish macro environment will remain favourable and therefore this should act as a supportive factor for demand for Euskaltel services. Any macroeconomic setback could impact our estimates and valuation. In our assumptions we take into consideration our assumption that the step up in competition in the low end segment of the market will trigger some reactions from market leaders. Therefore we expect more difficulties for all operators in pursuing some of the strategies followed in recent quarters of increasing prices in exchange for improved levels of service. In terms of competition we assume that Euskaltel's main competitor will continue to be Telefónica, with Vodafone and Orange continuing their progress in fibre deployments in the regions covered by the group. The company is also expanding into new territories; in our assumptions we assume that these investments should enable the company to achieve some customer growth; our valuation could be impacted by the degree of success of these plans.

Galp

Valuation Methodology:

We derive Galp's FV based on a sum-of-the-part Enterprise Value with separate DCF valuations for E&P, R&M and G&P. We deduct net debt and liability for retirement benefits and add investments in associates valued at a combination of book value and DDM.

Risks to Fair Value:

4. International economic outlook, affecting the demand for oil & gas and thus the company's sales and operating margins;
5. International reference crude oil and natural gas prices: reductions in reference oil prices could negatively affect Galp's profitability, the valuation of its assets and its plans for capital investment including projected capital expenditures related to exploration and development activities;
6. FX Movements, especially the USDEUR, as most of its cash flows are either denominated in or pegged to the USD, while Galp reports results in Euro;
7. Regulatory risk, as local governments might change price regulations, taxation laws, place restrictions on production, etc;
8. Environmental risk, as Galp is subject to local regulations regarding air emissions and climate change, energy efficiency, water discharges and surface water pollution, among others;
9. Operating risks related to the exploration and exploitation of oil and gas, with reference to production, equipment and transportation risks, natural hazards and other uncertainties, which are to some extent beyond the control of the company and could potentially affect its reputation and capacity to sustainably

conduct its business. Exploratory activities also entail economic risk, as Galp faces stiff competition while bidding for exploratory blocks, which usually require sizeable investments with little visibility on returns;

10. Oil and gas reserves estimates, the accuracy of which depends on a number of factors, assumptions and variables, some of which are beyond Galp's control; revisions by independent appraisers, Galp's partners in the exploration blocks, or extended well tests by Galp itself could affect Galp's stock price;
11. Execution risks: The company's drilling campaigns take place in remote areas, where infrastructure is scarce or non-existent and where knowledge of the exploration regions is limited. The failure to show positive results, even temporarily, could negatively impact investor sentiment toward the company.

Iberdrola

Valuation Methodology:

We value Iberdrola via a SOTP. We use a DCF methodology for major business areas carrying out a separate DCF for each area, with the following assumptions:

DCF assumptions for Iberdrola valuation

	Explicit forecast period (years)	Terminal value	Terminal growth rate	Risk Free	WACC
Generation&Supply Spain	25 years	yes	0.0%	4.0%	6.8%
Networks Spain	15 years	yes	0.5%	4.0%	5.4%
Liberalized UK	15 years	yes	0.0%	4.0%	7.0%
Networks UK	15 years	yes	0.0%	4.0%	5.8%
Renewables US	35 years	no		4.0%	6.2%
Networks US	15 years	yes	0.5%	4.0%	5.8%
Renewables Hydro Spain	25 years	yes	0.0%	4.0%	6.3%
Renewables Spain	35 years	no		4.0%	6.1%
Renewables UK Onshore	35 years	no		4.0%	6.3%
Renewables UK Offshore	35 years	no		4.0%	6.7%
Renewables Brazil	35 years	no		11.0%	11.4%
Renewables Mexico	35 years	no		6.5%	7.9%
Renewables ROW Onshore	35 years	no		5.5%	7.6%
Renewables ROW Offshore	35 years	no		3.5%	5.9%
Generation&Supply Mexico	35 years	no		6.5%	8.3%
Networks Brazil	15 years	yes	2.5%	11.0%	11.0%
Generation&Supply Brazil	15 years	yes	2.5%	11.0%	11.8%

Source: Haitong Research for estimates

In the renewables area the installation pipeline is valued separately from installed capacity. DCFs for renewables area only refer to installed capacity as of FY18E. Listed subsidiary Avangrid (AGR US, USD47.9, not rated) is valued at its market price as of 25/10/2018.

Risks to Fair Value:

1. **Regulatory Risk** – changes in regulation are a major risk for some of Iberdrola's businesses: i) allowed revenues and remuneration levels for electricity and gas distribution activities in Spain, the UK, US and Brazil and Brazil are set by local energy regulators; ii) electricity tariff changes in Spain and Brazil are set by local energy regulators and influence the speed of recovery of past tariff deficits; iii) governments can introduce taxes on electricity generation activities, like Spain did some years ago; iv) renewables remuneration schemes depend on legislation set by governments, v) working life of certain technologies, like nuclear in Spain depends not only on technical issues but also on political decisions.
2. **Interest Rate Risk** – given their relatively stable and capital intensive businesses, utilities usually have high leverage ratios, thus being more sensitive to increases in interest rates. Iberdrola has relatively high leverage ratios, thus meaning an increase in interest rates would have an even higher negative impact, although the remuneration of electricity distribution activities is usually linked to public debt yields of the respective markets.
3. **Currency Risk** – Iberdrola has large operations outside the Eurozone, namely in the US and UK, and, on a minor scale, in Brazil and Mexico. A significant devaluation of GBP or USD vs EUR could have negative impacts on its accounts, although the company tries to have a partial balance between cash-flow currency and funding currency of those cash-flows.
4. **Commodity Risk** – Oil, gas, coal and CO2 influence the costs of thermal generation technologies, which in turn influence electricity prices. If commodity prices go up and for some reason electricity prices don't reflect that, generation profitability may be reduced.

5. **Power Price Risk** – this is related to commodities prices and also to hydro plants production, which in turn depend upon rainfall levels. *Ceteris paribus*, in dry years power prices tend to go up while in wet years they tend to go down. The final impact on profitability depends on the generation mix.
6. **Growth Risk in Renewables** – The attractiveness of growth opportunities may vanish and become lower than the WACC. The company strategy includes growth through a self-funding model which is dependent on market conditions, and if not fulfilled may lead to lower growth plans. Support from governments is also not guaranteed and any change in renewable targets may affect long-term growth.

Ibersol

Valuation Methodology:

We value Ibersol through a single discounted cash flow methodology to reach our enterprise value estimate for Ibersol's operations. We use estimates until 2024 and from then on we forecast to perpetuity with a long-term growth rate of 1.5%. To discount our free-cash flow estimates we use a WACC of 8.8%.

Risks to Fair Value:

Upside/downside risk related to the evolution of private consumption in the markets where Ibersol is present; ii) increasing competition in Iberia that would put pressure on prices and margins; iii) faster than expected appearance of competitors' brands in Angola; iv) Political instability in Africa affecting economic growth; v) the shares have a low level of liquidity; vi) FX risk with c.6% revenues in Angola; vi) operational risk on the integration with Eat out Group; vii) franchisee relationship risk.

Inditex

Valuation Methodology:

We set our fair value for Inditex through a DCF with explicit Euro-denominated cash flow estimates up to FY27e, average rolling WACC of 9.4% and terminal growth of 2.0%. We reach an enterprise value to which we add net cash and financial investments, and deduct minorities and provisions for pensions and other liabilities to derive a target equity value.

Risks to Fair Value:

1. Growing e-commerce adoption is leading to growing competition and could reduce Inditex's long-term growth opportunity.
2. Change in the competitive environment with the entrance of new competition as the company's attractive growth profile may attract newcomers trying to replicate Inditex's business model or lead incumbents in each market to accelerate growth, increasing competition for Inditex.
3. The highly competitive clothing environment in Europe may shift as a result of different strategies from the clothing retailers to respond to consumer retrenchment, with price wars, increased advertising, consolidation, etc.
4. Input inflation costs such as cotton price, labour costs, fuel prices and inflation rates on sourcing countries, mainly the emerging ones.
5. Political, economic and financial instability mainly in emerging markets where Inditex either has stores or manufacturing capacity.
6. Unexpected trade restrictions, such as changes in tariffs, quotas and exports/imports restrictions may impact Inditex's ongoing operations.
7. Becoming unfashionable or not being able to gauge fashion trends and changing consumer preferences, especially when entering into new markets.
8. Currency volatility: On the sourcing side, Inditex is mostly exposed to exchange rate fluctuations between the Euro and the US Dollar, the Turkish Lira, the Chinese Yuan and the Moroccan Dirham. On the revenues side, Inditex is mostly impacted by fluctuations of the US Dollar, Mexican Peso, Russian Ruble, Chinese Yuan, Japanese Yen and UK Pound Sterling.

Indra

Valuation Methodology:

We derive Indra's FV through a DCF model. We are using YE18E Net Debt for our valuation and our WACC rate used in our DCF models is 9.2%. Our estimates run until 2027E and then we calculate a terminal value for assets where we assume a 2% growth rate in perpetuity.

Risks to Fair Value:

The base case for our valuation is the continuation of Indra's operational turnaround which we believe shall lead to further improvements in the margin and revenue performances. Naturally a step back in this trajectory would lead to downside risk for our valuation. Also an important contribution to our FV is the synergies from the Tecnoacom acquisition. The materialization of these synergies is subject to execution risks, but the company itself indicated that the delivery on these synergies is progressing better than expected.

Jerónimo Martins

Valuation Methodology:

The valuation methodology we use to derive JM's fair value is based on a sum-of-the-parts enterprise value, from which we deduct net debt, minorities and financial investments to derive a target value. The larger components of the enterprise value and Hebe are valued through a DCF with cash flows in local currency and a local discount rate, with the final value being translated to Eur at the spot rate. In the case of Ara we value it at a target EV/Sales for year-end.

Risks to Fair Value:

1. Competitive environment in Portugal, which may shift as a result of different strategies from the retailers to respond to consumer retrenchment, with possible price wars, increased advertising, consolidation moves, etc.;
2. Economic outlook in Poland, as deviations may occur from the expected growth profile of the Polish economy and its respective consumption outlook;
3. Competitive environment in Poland, since the attractive growth profile of the economy may attract newcomers or lead incumbents to accelerate their growth, thus representing increased competition for Biedronka;
4. New operation in Colombia, with little guidance provided by management and a business plan that still has to be fine-tuned, could bring surprises to JM's P&L in the early years;
5. Currency volatility: JM is exposed to exchange rate fluctuations of the Polish Zloty and Colombian peso against the Euro.

Logista

Valuation Methodology:

We value Logista using a discounted free cash flow model ("DCF"). We are discounting the FCF over a 7-year period (2018-24E). For discounting cash flows we use a discount rate (WACC) of 7.5% and a long term growth "g" of 0% to calculate the terminal value. We do not include in our valuation the Net Cash position of the company (Eur1.7bn, as the average of FY 17) since this is cash linked largely to the WC activity of the company (in particular it comes from tax liability collections), and hence it is not free-cash subject to be distributed to shareholders. Instead, we calculate the interest received on this cash (interest is ECB interest + 0.75%) and discount it at the WACC rate.

Risks to Fair Value:

Tobacco Regulation and education against tobacco: There is a worldwide trend whereby governments are enforcing measures against tobacco, which to a greater or lesser extent causes tobacco consumption to fall.

Client concentration risk: Some 80% of Logista's historical sales come from the big 4 manufacturers, namely PMI (35%), JTI (17%), BAT (14%) and ITG (14%). Also the fact that Logista is owned by one of the big four tobacco manufacturers (Imperial Tobacco Group) and works as the distribution agent for all of them may create conflicts of interest, hence limiting LOG's geographic expansion (although we have no evidence that this has happened in the past).

Illicit sales: The proliferation of illicit tobacco sales represents a threat for Logista's revenues since this tobacco is not distributed through official channels. A strong increase in RSP and taxes can lead to increased sales of illicit tobacco. An example here would be Australia.

Tax increases: Eventual tax increases not offset by an increase in RSP can cause a one-off decrease in Ec. Sales for Logista via devaluation of inventories. If tax increases but the RSP stays the same, it would be an implicit RSP decrease (from the manufacturer and wholesaler perspective). This happened in 2017 in France and Italy when a tax increase was not followed by a sufficient increase in RSP by manufacturers, resulting in inventory losses for Logista.

Strong fall in tobacco volumes could end up hurting Logista's profitability: Manufacturers have historically protected their margins (with some exceptions) by increasing RSP, while Logista has protected its margins by increasing its tariff when volumes drop. We are not sure to what extent Logista and manufacturers can protect margins by continuous price increases if volumes continue falling. Would manufacturers take all the hit? Or would they put pressure on Logista to share the risk?

Lower payable days on government taxes could trigger shifts in WC affecting FCF generation, since the amount of taxes withheld by Logista are significant (some Eur4.5bn in FY 17 which has been stable over the last few years). This has not happened during recession years when the government had budgetary constraints, and hence we do not expect this to happen in the now more stable environment.

MásMóvil

Valuation Methodology:

We value the company's assets through a 10-year DCF model. For the terminal value calculation we use an 8.0% WACC rate and a 2% terminal growth rate. In our SoP we use YE19E Net Debt and to reach our estimated Equity Value we add the value of the reported figure for the convertible bonds issued by the group as we are assuming that these convertibles will be fully converted into new shares as the strike price implied in these instruments is well below the shares' current market price. This also explains the fact that for the FV calculation we use the fully diluted number of shares and not the current outstanding number of shares.

Risks to Fair Value:

The main risks to our FV is the group's capacity to keep increasing its market share in the Spanish market; we assume moderation in this growth going forward, but a harsher response from competition could limit the group's capacity to increase its presence in the market. MásMóvil has limited size vs its larger competitors and on top of that much higher leverage. However, we do not think these are major limitations in the group's valuation. We believe the competitive environment in Spain shall remain fairly stable but a radical change in this assumption would represent a risk for MásMóvil. Additionally the company has committed to make significant fibre investments to grow its presence in the convergent segment; failing in this objective would affect the group's valuation.

Mota Engil

Valuation Methodology:

For our valuation we use a sum of the parts (SOTP). We value Africa using a WACC of 10.4% and long-term growth of 3%. For Latam we assume a WACC of 10.7% with 2% growth. For Europe construction we use a WACC of 9.2% with 2% long-term growth. For the Environment and Services we use 1.2x RAB for EGF while for the rest of the business - waste collection - we use 7x EV/EBITDA. For Lineas we value it at Eur91m, which was the book value at 1H17. The rest of the financial stakes, Angolan bonds and stakes in concessions are being valued at 80% of book value, although we adjust for some of the impact of minorities on companies.

Risks to Fair Value:

Currency volatility, as EGL is exposed mainly to the USD and PLN. Fluctuations in the value of the Euro against other currencies may have an adverse effect on EGL's financial position; ii) An increase in interest rates could have a negative impact on EGL's financial position as we believe the company is significantly exposed to interest rate risk; iii) Access to credit markets is needed for the company to carry out its capex plan. Therefore a worsening of credit market conditions could have an effect; iv) Execution risks; v) Competition from other Engineering & Construction peers may affect margins; vi) New orders may be delayed or cancelled which may pose a risk to earnings; and vii) we also highlight the risk of delays in new projects.

Naturgy

Valuation Methodology:

We value Naturgy via a SOTP. We use a DCF methodology for the major business areas, carrying out a separate DCF analysis for each area, with the following assumptions:

DCF assumptions for Naturgy valuation

	Explicit forecast period	Terminal value	Terminal growth rate	Risk Free	WACC
Gas Distribution Spain	15 years	yes	1.0%	4.0%	5.4%
Gas Distribution Latam	15 years	yes	2.5%	8.3%	9.2%

DCF assumptions for Naturgy valuation

Electricity Distribution Spain	15 years	yes	0.5%	4.0%	5.4%
Electricity Distribution Moldova	15 years	yes	2.0%	12.5%	14.2%
Electricity Distribution Latam	15 years	yes	2.0%	6.0%	7.5%
Electricity Generation Spain Liberalized	25 years	yes	0.0%	4.0%	6.8%
Electricity Generation GPG	35 years	no		6.6%	8.8%
Electricity Generation Renewables Spain	35 years	no		4.0%	6.1%
GPG and Renewables Pipeline	35 years	no		5.8%	8.4%
Gas Infrastructure	15 years	no		4.0%	5.7%
Gas Wholesale	15 years	yes	0.0%	4.0%	8.4%

Source: Haitong Research for estimates

Future investments in renewables are valued separately from current installed capacity.

Risks to Fair Value:

- Regulatory Risk** – changes in regulation are a major risk for some of Naturgy’s business areas: i) allowed revenues and remuneration levels for electricity and gas distribution activities in Spain, Argentina, Brazil, Mexico, Chile, Panama and Moldavia are set by local energy regulators; ii) electricity tariff changes in Spain are set by local energy regulators and influence the speed of recovery of past tariff deficits; iii) governments can introduce taxes on electricity generation activities, like Spain did recently; iv) renewables remuneration schemes depend on legislation set by governments, v) decision about extension of nuclear plants’ operating lives in Spain will likely have a small impact on Naturgy.
- Interest Rate Risk** – given their relatively stable and capital intensive businesses, utilities usually have high leverage ratios, thus being more sensitive to increases in interest rates. Naturgy has relatively high leverage ratios, thus meaning an increase in interest rates would have an even higher negative impact, although the remuneration of electricity distribution activities is usually linked to public debt yields of the respective markets.
- Currency Risk** – Naturgy has large operations outside the Eurozone, namely in countries like Argentina, Brazil, Mexico or Chile (and a number of small operations in other emerging markets). A significant devaluation of emerging currencies vs EUR could have negative impacts on its accounts.
- Commodity Risk** – Oil, gas, coal and CO2 influence the costs of thermal generation technologies, which in turn influence electricity prices. If commodity prices go up and for some reason electricity prices don’t reflect that, generation profitability may be reduced. On top of that, Naturgy has a large division operating on gas midstream, whose earnings depend, on a large part, on the evolution of natural gas prices.
- Power Price Risk** – this is related to commodities prices and also to hydro plants production, which in turn depend upon rainfall levels. *Ceteris paribus*, in dry years power prices tend to go up while in wet years they tend to go down. The final impact on profitability depends on the generation mix.
- Growth Risk in Renewables** – The attractiveness of growth opportunities may vanish and become lower than WACC. The company strategy includes growth through a self-funding model which is dependent on market conditions, and if not fulfilled may lead to lower growth plans. Support from governments is also not guaranteed and any change in renewable targets may affect long-term growth.

Navigator

Valuation Methodology:

We value Navigator through a DCF, using a WACC of 7.9% for the whole company and apply a long-term growth rate of 0%. We are including the new investments already announced, and in the case of Mozambique we assume they are valuation Neutral (as we include the capex of new projects in the cash flow).

Risks to Fair Value:

Navigator is primarily exposed to price risks of raw materials (mainly wood) and final products (pulp and paper). The company is exposed to energy regulation as it is an important renewable energy producer benefiting from the cogeneration subsidized tariffs. Fine paper demand in Europe is also a risk for Navigator, but the company sells a premium product and we believe it is more efficient than its competitors. Therefore, we think volume risk has a lower impact than price risk.

NOS

Valuation Methodology:

Our valuation of NOS is based on a SoP model wherein we value each of the company's units separately. We note that we are using a discount rate of 7.5% following the reduction in the cost of debt of the company and the lower risk associated with Portuguese bond yields. We have included in our valuation/estimates what we believe will be the likely impacts from the additional spending on football TV rights based on our expectations, as well as the financial stakes NOS holds in premium sports channel Sport TV and Dreamia BV, a JV for the production of several Pay-Tv channels.

Risks to Fair Value:

Our valuation assumes that going forward the pricing environment in the Portuguese Telco market will keep improving as operators will strive to pass on the increased costs with sports content to final consumers. We assume as well that CAPEX, although dropping from the values of the last few years, should remain above the levels of €330m/pa; a more conservative CAPEX assumption would lead to a positive impact on our FV. As we had indicated, our valuation is impacted by the expected costs of football rights. However, these impacts are based on our assumptions which, considering the limited amount of information we have on these contracts, could lead to some impacts on the FV.

Prosegur

Valuation Methodology:

For our valuation we use a sum-of-the-parts (SOTP) in which we analyse PSG's businesses in Europe and Latam separately. We have carried out DCFs for the European and Latam security businesses, applying WACCs of 7.1% and 10.1%, respectively.

Risks to Fair Value:

Currency volatility, as PSG is very exposed to LatAm currencies, particularly the Brazilian real and Argentine peso. Fluctuations in the value of the Euro against other currencies may have an adverse/positive effect on PSG's financial position and results; Economic activity in Spain and Portugal and LatAm markets could affect demand for corporate and residential security services; and increased competition, which could put margins under pressure. We also see the IPO of the cash unit increasing the risk that Prosegur is seen as a holding company and it risks trading at a discount to its subsidiary.

Red Electrica

Valuation Methodology:

We value Red Eléctrica through a SOTP, using a DCF methodology for the main business areas and carrying out a separate DCF for each area, with the following assumptions:

DCF assumptions for Red Eléctrica valuation

	Explicit forecast period	Terminal value	Terminal growth rate	Risk Free	WACC
Transmission Spain	35 years	yes	0.0%	4.0%	5.3%
International	15 years	yes	1.0%	6.0%	6.7%
Telecom	15 years	yes	0.0%	4.0%	6.1%

Source: Haitong Research for estimates

Core electricity transmission activity in Spain is included under the name Transport Spain (here the WACC incorporates an unlevered Beta of 0.4, in line with European Utilities). The stake in REN is valued at market prices as of 23/01/2019.

Risks to Fair Value:

- Regulatory Risk** – Most of the revenues of the TSOs are determined by regulation and as such a change in the regulatory frameworks or parameters is the biggest risk faced by the companies. The current regulatory period in Spain ends in 2019 and there is the risk of lower Returns on Assets as the yields are currently lower than when the current regulatory parameters were set, in 2013/2014. We incorporate into our estimates a RoR of 5.58% for electricity transmission in Spain, in line with recent proposals from the CNMC (Spanish energy regulator) for the 2020/25 period and 6% afterwards, but final values may be different. The future regulatory treatment of pre-1998 assets could be different from the scenario we considered from 2023 onwards, which would have an impact on the value of the stock.
- Interest rate risk** – Since low risk, high dividend yield companies are considered bond substitutes, a valuation is sensitive to moves in the yields of the bond markets. A rise in the prevailing interest rates would likely lead to lower valuations for the shares of the TSOs.

3. **Overinvestment risk** – According to our estimates the companies will have to be very efficient to be able to get IRRs above the cost of capital on new projects. In this environment, the temptation to grow can lead to value destroying over-investment.

REN

Valuation Methodology:

We value REN through a SOTP, using a DCF methodology for the most important business areas, and carrying out a separate DCF for each area with the following assumptions:

DCF assumptions for REN valuation

	Explicit forecast period (years)	Terminal value	Terminal growth rate	Risk Free	WACC
Electricity Transmission Portugal	35 years	yes	0.0%	4.5%	5.5%
Gas Transport Portugal	25 years	yes	0.0%	4.5%	5.5%
Gas Distribution Portugal	15 years	yes	0.5%	4.5%	5.5%
Electrogas	25 years	yes	0.5%	5.5%	6.7%

Source: Haitong Research for estimates

The stake in Red Eléctrica is valued at market prices as of 23/01/2019.

Risks to Fair Value:

1. **Regulatory Risk** – Most of the revenues of the TSOs are determined by regulation and as such a change in the regulatory frameworks or parameters is the biggest risk faced by the companies. The Electricity Transmission regulatory period runs until 2020, but in gas transport and distribution a new period starts in 2019. We do not expect major changes, but the final outcome could be less favorable.
2. **Interest rate risk** – Since low risk, high dividend yield companies are considered bond substitutes, a valuation is sensitive to moves in the yields of the bond markets. A rise in the prevailing interest rates would likely lead to lower valuations for the shares of the TSOs.
3. **Fiscal Risk** – The continued uncertainty regarding the end of the extra tax on energy assets has been weighing on REN's valuation. This tax represented around Eur26m per year on a 2017 net income of Eur126m so the impact on results is substantial. Following recent changes in law we expect it to evolve in tandem with the Portuguese electricity system debt, so forecast a progressive reduction over the coming years, with a zero value from 2025 onwards.

Repsol

Valuation Methodology:

We derive Repsol's FV based on a SOTP EV with DCF valuations for Upstream, Downstream and Corporate center. We adjust reported net debt for, preference shares, NPV of financial leases and the perpetual bond to reach an equity valuation. We add back the value of the equity stake held in Naturgy (30% stake, valued at market price) and of the remaining equity stakes, at a target P/E multiple.

Risks to Fair Value:

1. International economic outlook, affecting the demand for oil and gas and thus the company's operating margins;
2. International reference crude oil and natural gas prices: reductions in reference oil prices negatively affect Repsol's profitability, the valuation of its assets and its plans for capital investment including projected capital expenditures related to exploration and development activities. Ultimately, the change of long term expectations for crude oil and natural gas prices could lead to capital impairments;
3. Movements in exchange rates, especially that of the US dollar to Euro, as most of Repsol's operating cash flows are either denominated in or pegged to the US dollar, while Repsol reports results in Euro;
4. Regulatory risk, as local governments might change price regulations or taxation laws, place restrictions on production, nationalize more of Repsol's operations, etc.
5. Political risk, as part of Repsol's oil and gas reserves are located in countries that are or could be politically unstable. For instance in Libya, production was interrupted for several quarters due to the civil war in that country.
6. Environmental risk, as Repsol is subject to local regulation regarding air emissions and climate change, energy efficiency, water discharges and surface water pollution, among others;
7. Operating risks related to exploration and exploitation of oil and gas, with reference to production, equipment and transportation risks, natural hazards and other uncertainties, which are to some extent

beyond the control of the company and could potentially affect its reputation and capacity to sustainably conduct its business. Exploratory activities also entail economic risk, as Repsol faces stiff competition while bidding for exploratory blocks which usually require sizeable investments of unclear return;

8. Oil and gas reserves estimates, the accuracy of which depends on a number of factors, assumptions and variables, some of which are beyond REP's control.

Semapa

Valuation Methodology:

We value Semapa by summing up the equity values of its components: Navigator, the cement segment, ETSA and the PV of holding costs and applying a holding discount of 10%. The components are valued via DCF models with a WACC of 7.9% for Navigator, 9.3% for Cement, and 8% for environment, applying a long-term growth rate of 1% (cement and environment).

Risks to Fair Value:

Through Navigator it is primarily exposed to price risks of raw materials (mainly wood) and final products (pulp and paper). The company is exposed to energy regulation as it is a strong renewable energy producer benefiting from the cogeneration subsidized tariffs. Fine paper demand in Europe is also a risk, but the company sells a premium product and we believe it is more efficient than its competitors. Therefore, we think volume risk has a lower impact than price risk. The cement sector's major risks are related to the construction markets in Portugal and Africa and Brazil. Cement demand is widely expected to increase in Africa, but is now in a period of weak demand in countries like Tunisia where Semapa has a plant. In Portugal there has been a recovery recently, but public spending needs to come back for this recovery to gain momentum. The exposure to Brazil through Supremo also presents a risk due to FX exposure, and the current environment in Brazil needs to improve or Semapa will not have a positive free cash flow operation in that market. Cement prices also represent a major risk for that segment, as cement is its only product. The shares average daily volume is relatively small and that illiquidity is an additional risk to the share price evolution.

Sonae

Valuation Methodology:

The valuation methodology used to derive Sonae's fair value is based on a sum of the fair values for each of the holding's equity stakes, from which we deduct net debt at holding, equity swap and financial investments to derive a target equity value, and to which we finally apply a 10% holding discount and divide by adjusted shares outstanding to reach the fair value. We treat Sonae's equity swap as net debt, given its interest cost, while deducting the shares held as collateral from total shares outstanding. We value most of the retail operations through separate DCFs. Max Mat and Sonae FS are still small operations that we value through EV/EBITDA multiples. Sonae Sierra's valuation is NAV 2017 adjusted for the present value of tax outflows, and further adjusted to reflect its European peers' trading at a premium or discount, and mark-to-market of the stakes in listed Sonae Sierra Brasil. We value the indirect stake in NOS at its current share price.

Risks to Fair Value:

1. Economic outlook in Portugal, as the current recovery is very dependent on tourism and international investment in real estate;
2. Competitive environment in retail in Portugal, which may shift as a result of different strategies from the retailers to respond to Sonae MC's ongoing expansion into proximity, with possible price wars, increased advertising and consolidation moves. Also the market leader in Spain Mercadona will start operations in Portugal from 2019, which could have some market impact;
3. Economic and competitive outlook in retail in Spain, which should be a determinant for the expansion strategy and profitability for Sonae's specialized retail operation;
4. The deal between SportZone and JD Sports in Iberia closed in 1Q18 and our estimates and valuation assume smooth integration between the operations of both sporting-goods retailers. However, one cannot rule out that this process takes longer than we expected and there is also risk to the restructuring charges and synergies that we assume.

Sonaecom

Valuation Methodology:

Our valuation for SNC is composed of its IT unit, which we value through a DCF model; the Online & Media business which we value through an EV/EBITDA18E multiple and we also take into consideration SNC's stake in NOS of 26.07%, which we value at NOS' market price. Following the acquisition of certain assets in

the IT space, we incorporate them in our SoP at their invested capital since we do not have visibility on their financial profile at this stage. We estimate Sonaecom to have a net cash position of Eur 215m at the end of 2018E, which we include in our SoP, and finally we apply a 30% holding discount to Sonaecom given the low liquidity of the company's shares and because it is not the primary vehicle for exposure to NOS, the group's main asset. We also take into consideration in our FV the dividends to be paid by SNC in 2018E.

Risks to Fair Value:

The main risks to our FV are the market price of NOS, since that is the main component of Sonaecom's equity value as well as the holding discount we use. We have kept that stable at 30% which is consistent with the historical average of the discount to Sonaecom's NAV, which is currently at 30%.

Telecinco

Valuation Methodology:

We value TL5 using a discounted free cash flow (DCF) model for the group's business areas (TV and others). We are discounting the FCF over a 10-year period, with an average WACC of 9%. We assume a recovery in the TV Ad market to the average of the last 10Y. For the terminal value calculation we have assumed nominal growth in line with CPI with G of 1%.

Risks to Fair Value:

TL5 is a pure Spanish player with high operational gearing and highly sensitive to macroeconomic changes either positively or negatively. A change in the outlook for the Spanish economy could have a potential impact on its top line and hence on the stock price. Additional risks we see are: i) Changes in audience share as a result of programming decisions; ii) M&A activity; and iii) Regulatory changes that could change competition (i.e. increasing it by promoting the deployment of cable and thus allowing better development of Internet TV, or promoting the return of advertising to TVE). As upside the company could be more efficient on costs than we assume and the TV advertising market may grow at a faster pace than we anticipate.

Telefónica

Valuation Methodology:

We value each of Telefónica's units through a local currency DCF model and then arrive at a value through a Sum of the Parts. We apply different WACC rates depending on the geography and risks of each unit and we have changed some of those assumptions. We use YE18E Net debt and financial stakes are valued at market prices. We also take into consideration the NPV of the tax credits held by the company.

Risks to Fair Value:

We assume in our forecasts that TEF's domestic operations' OIBDA growth will continue to be capped by the strong impact expected from content costs and also competition in the low end of the market. If the company is able to find additional sources of OPEX savings, this could lead to an improvement in our prospects for the Spanish unit. The valuation of the units outside Spain (excluding Germany) are all subject to the FX volatility; significant moves in currency can have a material impact on the contribution of these businesses.

Tecnicas Reunidas

Valuation Methodology:

We value TRE via a DCF which assumes an EBIT CAGR of 10.5% over 2017-21E. Our WACC assumption is 10%, based on TRE's low leverage and a growth rate in perpetuity of 1%. We assume a recovery in amount of new orders in the coming years, but our perpetuity is built assuming revenues stabilize at c. Eur4.2bn which is c. 2% below 2018E revenues. Our long-term margins point to EBIT of 3.4% (in line with the 2013-2018 average EBIT margin of 3.3%).

Risks to Fair Value:

The key risks we see are the performance of oil prices, which may lead to clients cancelling or delaying projects. These could lead to a lower-than-expected order intake, or project cancellation. Increased competition from other oil services players is another risk that may put margins at risk. Additionally, we include industry-specific risks (regulatory risk and execution risk) and management risk. Execution risk is associated with EPC contracts, which are signed on a "turnkey" basis. Other risks are inherent, such as: New entrants risk; Supplying and outsourcing risk and FX risk. Better-than-expected margins and higher than expected new awards could be sources of upside risk.

Vidrala

Valuation Methodology:

We value Vidrala using a DCF methodology with the cash flows we estimate that the company will generate for the period 2018E-2024E. We use a WACC of 7.0% and g of 1%. The acquisition of Santos Barosa is now combined inside Vidrala and is no longer added as a separate value. Synergies of the deal are now being included in the improvement of margins we assume for Vidrala in the coming years.

Risks to Fair Value:

i) changes in the economic outlook and consumption prospects in Western Europe, which could have an impact on glass market growth. This in turn could affect Vidrala's utilization rates and, as a consequence, our earnings estimates; (ii) a significant increase in energy costs as they represent c.20% of total 2015 operational costs; (iii) the fluctuations on the EURGBP would impact the financial results of the UK operations which represent c.30% of 2018E total sales.

Viscofan

Valuation Methodology:

We value Viscofan using a discounted cash flow method. We estimate cash flows that the company will generate for the period 2019E-2025E and discount them using a WACC of 7.5% and a long-term growth rate of 2%.

Risks to Fair Value:

Viscofan's main risks are: (i) Competition risk, mainly if the markets enter a pricing war for market share; (ii) US dollar and BRL exchange rates, due to the high level of operations outside the Euro Zone; (iii) a significant increase in raw material and energy prices which could affect margins; and iv) increasing global health concerns regarding the secondary effects of processed meat consumption. Upside risks are stronger-than-expected margins as growth dilutes fixed costs and higher-than-expected volume growth.