Centrica Plc. (CNA)

HOLD: GBp 43

Equity Research Division 16th December 2020

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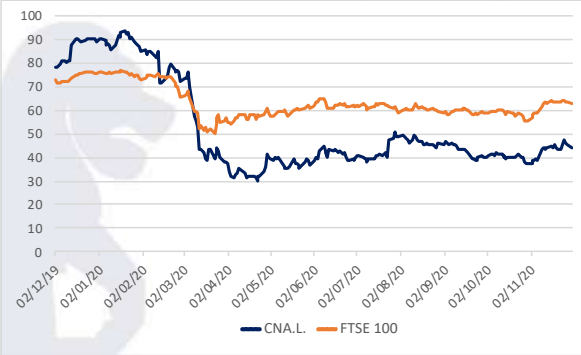
Basic Information	
Last Closed Price	GBp 44.12
12M Target Price	GBp 43.00
+/- Potential	-2.53%
Bloomberg Ticker	CNA: LN
GICS Sector	Utilities
GICS Sub-Industry	Multi-Utilities

12 Month Price Performance (Bloomberg)



Company Description

Centrica Plc. is an energy and services company that operates in the UK, Ireland and North America. Its core activities are energy supply, in-home servicing, home solutions, energy optimization and Exploration & Production mainly within Spirit Energy.

Key Financials	
Market Cap	£2.68B
Basic Shares O/S	£5.84B
52-Wk High	GBp95.32
52-Wk Low	GBp29.10
Fiscal Year End	31-Dec-2019

(£GBp M)	FY18A	FY19A	FY20E	FY21E
Gross Profit	4253	6879	3598	3785
EBITDA	1929	4669	2279	2397
Gr Rate (%)	*15.58*	*142.04*	*-51.19*	*5.18*
EBIT	1532	4137	1854	1950
Margin (%)	*5,16*	*15,42*	*7,73*	*7,73*
Net Income	242	-1103	1369	1443

Key Executives	
Chris O' Shea	Chief Executive Officer
John Ford	Chief Financial Officer

2020 interim results Highlights

- Began process to simplify the company: selling of Direct energy and Spirit energy
- Net Debt reduction (£-0.4B)
- Operating profit drop due to Covid-19 and weather conditions

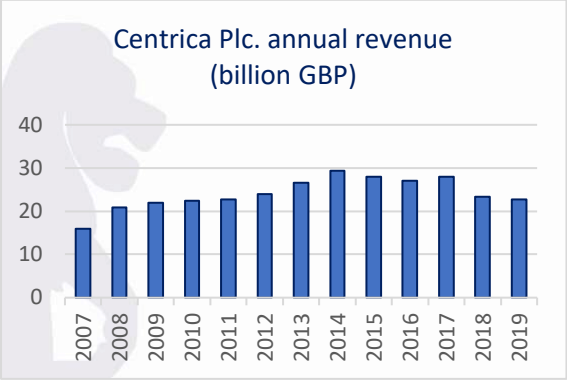
Summary

Centrica Plc. is one of the most vertically-integrated energy companies in the world. Its operations cover all the steps of the value chain: from upstream (development and extraction of raw materials) to downstream (energy distribution), including energy generation. However, in the last semester the company has been taking steps towards its goal of selling its participation in upstream companies: Direct Energy business was sold, and the process of exiting Spirit Energy has begun. In this way, the focus can shift entirely on energy distribution in the UK and Ireland, improving customer care and simplifying the structure of the company. This would allow the company to have more stable financial statements over the following years. Furthermore, the management has decided to pursue the long-term goal of reducing Net Debt, which we have highlighted as a problem in the financial analysis: in the first semester it was down by £0.4B. Along with warmer weather than usual (which very much affects energy consumption due to its seasonality), Centrica Plc. has also been affected by the Covid-19 pandemic, which led to a sharp decrease in energy consumption and commodity prices, leading to a drop of 14% in operating profits. Overall, however, Centrica Plc. showed to be more resilient than its competitors.

Our valuation

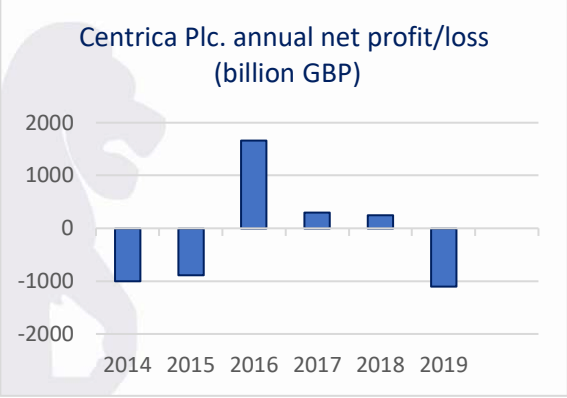
After having performed the valuations, our recommendation is an "HOLD", concluding that Centrica's shares are correctly priced by the market.We performed an asset-side DCF analysis, which is the most used for utility companies due to the high capital expenditures in this sector. The forecasted price is 43 GBp. To check for our results, we performed a market multiples analysis and we have also considered a positive outcome of the investment due to an appreciation of the UK Pound. The average price suggested by the different multiples was 51 GBp, which suggested a "BUY", but, opting for a more conservative approach, we opted for giving less weight to this analysis given the high volatility and the imbalances that the Covid-19 pandemic may have generated. In addition, while the markets have already incorporated the Covid-19 effect in their pricing, the accounting values are still affected by the economic effects of the current pandemic.

Figure 1. Annual Revenue



Source: Minerva Investment Management Society

Figure 2. Annual Net Profit/Loss



Source: Minerva Investment Management Society

Figure 3. Energy Consumption by region

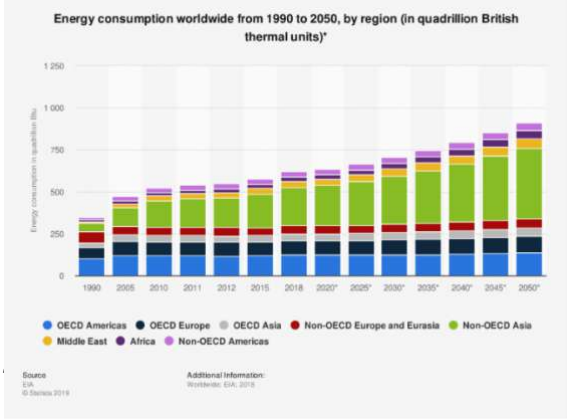
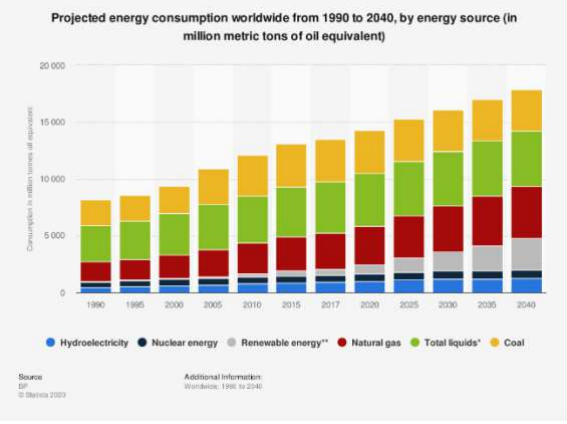


Figure 4. Projected energy consumption



Source: Statista

Company Overview

Centrica Plc. is a leading international energy services and solutions provider. It is under a process of resizing to achieve a more efficient structure and focusing on two divisions: Centrica Consumer and Centrica Business. Indeed, the firm has announced plans to exit its stake in oil and gas Exploration & Production and nuclear power generation represented by the Upstream Division. Last summer, it has reached an agreement to sell Direct Energy (North America segment) to Nrg Energy for $3.625 billion.

Centrica Upstream Division is composed of two segments. The first one is Spirit Energy which is the result of a joint venture launched in 2017 with Stadtwerke München (SWM), a German energy and infrastructure company. Spirit Energy operates mainly in North-West Europe's basins and its core business is Exploration & Production (E&P). The second one is Centrica Storage Limited whose main activities are gas production and processing from the Rough gas field in the southern North Sea on behalf of Centrica Plc.

Centrica Consumer division is focused on energy supply, in-home servicing and home solutions. Energy supply and in-home servicing are provided by British Gas and Local Heroes in the UK, by Direct Energy in North America and by Board Gàis Energy in Ireland. Centrica Plc. also offers smart home products and end to end solutions for households in the UK & Ireland, including connected home devices, softwares and services.

Centrica Business division conducts different activities: it supplies energy and services to customers in the UK through British gas and to customers in North America through Direct Energy. Centrica Business Solutions brand furnishes industrial and commercial customers with tools to manage their energy usage while Energy Marketing & Trading provides risk management and wholesale market access for the Group.

Industry Outlook

Key Highlights

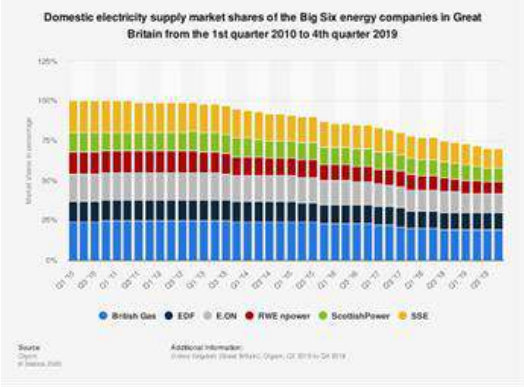
- Transition to a lower-carbon energy system
- The growing importance of renewable energy
- Covid-19 impact
- Technology constantly developing

Energy consumption is expected to reach 910.7 quadrillion Btu (British thermal units), it is envisaged to grow in emerging economies, like non-OECD Asian countries, while it will remain stable in developed economies. This demand will be increasingly covered by energy generated from renewable sources, replacing oil and coal consumption. This trend follows the process of decarbonization which will influence the energy industry over the next years, supported by higher coal prices and policies encouraging a shift to lower-carbon energy sources. Also, the use of coal within the industry will be eroded by gas, in particular electricity production.

Covid-19 is having a determinant impact on the energy sector. In fact, oil consumption may not completely return to its previous levels, opening up the opportunity for a more significant usage of more sustainable energy sources. The pandemic has also led to many behavioral changes that may persist even when this crisis is over.

For instance, smart working has been adopted by several companies and seems it will remain a stable option. This should lead people to stay less in company offices in favor of staying home. Another factor that will be significant for the energy industry is the continuous technological evolution, in the energy generation from renewable sources. Regarding the consumption of electricity, we could say that the technology used is in constant development from smart grids to the implementation of IoT (Internet of Things) in different services.

Figure 5. Domestic electricity energy market



Source: Statista

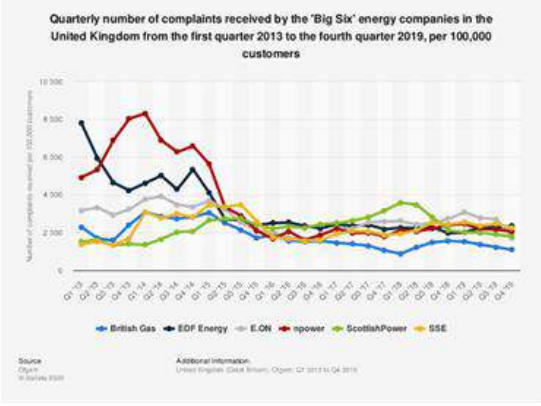
****British Gas is the subsidiary of Centrica Plc***

Weaknesses

High Scale-up Investments – Considering the geographical expansion ambitions of the company, the establishment of new offices and locations in new countries requires an important investment program in new technologies. However, the company, especially in the current situation, does not have the financial resources to meet these objectives. In this regard, the management is facing some difficulties to bring together its own goals with financial planning.

Lack of horizontal integration - While, as aforementioned, the firm has had in the past a successful vertical integration throughout M&A deals, Centrica Plc presents very few horizontal diversifications of the products available for the customers, which makes the firm vulnerable to the activity of competitors as far as the serving alternative products is concerned. As a matter of fact, the disclosed results of the company show that, except for its core business, Centrica Plc has not experienced success in other non-core business segments.

Figure 6. Quarterly number of complaints 2013-2019



Source: Statista

****British Gas is the subsidiary of Centrica Plc***

SWOT Analysis

Strengths

Successful M&A player – In the last years the company registered a sequence of successful M&A operations aimed at increasing the integration of the operations of Centrica Plc. As a matter of fact, Centrica Plc is now able to control every single step of its operations and has a complete supply chain.

Strong Brand Portfolio – One of the key successful features of the company is the ability to distribute highly innovative products making use of different brands to commercialize energy services, achieving a leadership position in the sector, as shown in Figure 5.

High workforce skills and level of customer satisfaction – Thank to updated training and learning programs, employees in Centrica Plc are highly skilled and motivated, pushing up the rates above the customer satisfaction, due to the low number of complaints received by customers, as shown in Figure 6.

Opportunities

New sustainability policies – The recent trend of shifting economies towards a new model of sustainability represents an opportunity for Centrica Plc to use its technological advantage to develop and promote new products in order to build new businesses and establish new revenue sources. In addition, the company can exploit government trade agreement and procurement contracts to advance the initial phase of the new product categories development.

Market evolution - The energy market over the last few years has been experiencing a process of concentration of the players operating in the sector, reducing the economy of scale advantage. Moreover, many new emerging markets are basing their centerpiece for the development of internal economies on energy and alternative energy systems which are sustainable and renewable. For these reasons, considering the expansionary spirit of Centrica Plc, many emerging economies have to be taken into consideration for future investments, especially Asian countries.

Threats

Competitive market – The stable nature of profits in the sector pushed many players to enter the market, putting pressure on the company's margins. The latter have also been affected by the growing bargaining power of local distributors that can obtain better contractual conditions and higher margins.

Technological trend – The sector in which Centrica Plc operates is characterized by continuous innovation. For this reason, a vivid and relevant risk relates to possible development of new technologies that can disrupt the market and cause operational problems for the company. Eventually, it is relevant to remark that Centrica Plc has always been a company that follows the market trend rather than enforcing it since the firm always proposes products that react to the new updates of the market.

Lawsuits – Operating in different markets and jurisdictions obliges Centrica Plc to have constant monitoring of the local laws and rules. This is emphasized in the energy market, continuously subject to change in regulation, also because of the evolution of the technology employed.

Figure 7. Profitability rations

Profitability ratios					
	2016	2017	2018	2019	Ind. av
ROA	8%	1%	1%	-6%	4.50%
ROE	58.44%	8.84%	6.13%	-61.45%	14.10%
ROIC	8.78%	8.13%	10.19%	36.15%	5.10%
ROCE	10.84%	10.03%	12.58%	44.63%	6.20%

Source: Minerva Investment Management Society Estimates

Figure 8. DuPont analysis

DuPont analysis				
	2016	2017	2018	2019
Asset turnover	1.330	1.317	1.440	1.171
Debt to Equity	6.68	5.03	4.21	9.11
Profit margin	6.13%	1.08%	0.82%	-4.86%

Source: Minerva Investment Management Society Estimates

Figure 9. Income margins

Income Margins					
	2016	2017	2018	2019	Ind. av.
EBITDA margin	7.26%	5.96%	6.50%	20.59%	12.53%
Profit margin	6.13%	1.08%	0.82%	-4.86%	6.13%

Source: Minerva Investment Management Society Estimates

Figure 10. Liquidity

Source: Minerva Investment Management Society Estimates

Figure 11. Liquidity

Liquidity				
Ratios	2016	2017	2018	2019
Current Ratio	1.18	1.23	1.03	0.93
Quick Ratio	1.13	1.17	0.98	0.89

Source: Minerva Investment Management Society Estimates

Figure 12. Leverage

Debt to Equity ratio	2017	2018	2019
Centrica plc	5.03	4.21	9.11
EDF	4.77	4.38	4.44
Engie	1.86	2.76	3.31
National Grid	2.12	2.25	2.43

Source: Minerva Investment Management Society Estimates

Financial Analysis

The financial statement analysis has been conducted computing ratios and other measures to assess liquidity, solvency and profitability compared with industry average. Also, some ratios have been computed from a selected number of peers in order to better interpret the figures. The comparable companies are: EDF, Engie and National Grid.

Profitability:

Centrica Plc.'s ROA shows a slow decrease between 2016 and 2018, going from 8% to 1% and then to -6% in 2019, because of a contraction in profit margins, while ROE experiences a drop between 2016 and 2018 (from 58,44% to 6.13%), and became negative in 2019. The return of asset value has been slightly lower than the industry average of 4.5% (csimarket.com) in the last 3 years, but it can still be considered satisfying.
Also ROE is slightly lower than the industry average of 14.1% (Damodaran) in 2017 and 2018, while in 2016 and 2019 we highlight two outstanding values: ROE is, respectively, over 3 times the industry average and negative.

Performing a DuPont analysis, it is possible to understand the main drivers of these changes. For what concerns the asset turnover, its value is constant throughout the years analyzed, excluding its role in the fluctuations of ROE. The first drop, from 2016 to 2017, can be linked to both a drop in net profit margin and debt/equity, while in 2019 it becomes negative because of negative profits. On the other hand, both ROIC and ROCE are higher than industry average and in particular of the company's WACC for all the years analyzed, meaning that the company creates value for its investors and has a competitive advantage in the sector.

EBITDA margin shows no particular trend between 2016 and 2018, but its value is relatively lower than the industry average: Centrica EBITDA margin is on average 6.57% while the Energy sector average is 12.53%. However, in 2019 the company experiences an anomalous increase to 20.59%.
Profit margin decreases throughout all 4 years and eventually becomes negative in 2019.

Liquidity:

The cash position of Centrica Plc. as of 2019 is £1737M. To analyze the liquidity position of the company the current and quick ratios have been considered. The current ratio has been computed as current assets on current liabilities.

As shown in Figure 11, this ratio assumed satisfactory values in the 2016-2018 period being slightly above 1. However, in 2019 it declined to 0.93.

Since a ratio over 1 signals that the company's current assets exceed its current liabilities, the 2019 value may indicate that the company is not very liquid. This is also reflected in the quick ratio value (0.89) which is computed excluding inventory from current assets.

Leverage:

To assess the Solvency of Centrica Plc. the Debt to Equity, Proprietary and interest coverage ratios have been analyzed. As reported in Figure 12, the Debt to Equity ratio reported in the 2016-2019 years is very high, always exceeding 4. Going in details, in 2019 it increased dramatically to 9.11, signaling a steep increase in debt funding. This is of particular concern since companies operating in the same industry as Centrica Plc., such as EDF, Engie and National Grid, reported values of Debt/Equity ratio between 2.43 and 4.44, substantially lower than Centrica Plc.'s one. This is also reflected in the Proprietary ratio which shows the percentage of Equity with respect to Total Assets. This ratio has experienced an upward trend in the 2016-2018 period but declined settling at 9.9% in 2019. This finding suggests that the company capital structure is not balanced, which means that it heavily relies on debt financing. Notwithstanding the high levels of debt, the interest coverage, which is calculated as EBIT on interest expense, assumes very satisfactory levels. An interest coverage ratio indicates how easily a company can pay expenses on its outstanding debt. Generally, a value higher than 1.5 is deemed good and considering that Centrica Plc. interest coverage currently is at 3.84, it is possible to affirm that the firm can easily face its interest expenses.

The financial analysis highlighted some critical aspects. Firstly, the profitability ratios are below the industry average for most of the years analyzed and are forecasted to decrease even more in the next two years due to the Covid-19 pandemic. However, the main concerns regard the leverage, which is particularly high for an energy utility company, and liquidity. However, in the current low interest rate environment, this finding signals a favorable cost of debt achieved by the company on the markets. Regarding the latter, both the current ratio and the quick ratio are showing that the company is not liquid enough, which is extremely risky considering the negative forecasts for the entire industry.

Figure 13. Computed Results

Cost of equity	8.90%
Cost of debt	1.75%
Weights Equity	0.44
Weights Net Debt	0.56
WACC	4.73%
WACC after 2024	3.84%
Tv growth rate	1.78%

data in £ millions	
PV explicit forecast	6188
TV	76612
PV TV	60807
Enterprise Value	66995
Surplus Assets	106
Debt	4803
Cash	1597
NCI	583
Equity Value	63312
N° of shares (in millions)	1460
Share Price Target GBp	43

Source: Minerva Investment Management Society Estimates

Valuation

Valuation Price Target: GBp 43
Our analysis followed two main approaches:

- an intrinsic valuation regarding the DCF model (FCFF)
- a relative valuation with market multiples of comparable companies

Free Cash Flow to Firm Approach

In the set of the different evaluation methods, we chose the DCF asset side model since it is typically preferred in the Utilities sector. This model allows to estimate Centrica Plc. value considering the high capital expenditure needed to carry out its operations that leads a company to highly exploit the use of external financing sources.
Analyzing the various steps, we started by computing the cost of equity, which is based on the following assumptions:

- Risk Free Rate (1.78%): we used last available 30-year GB Government Bond yield plus the UK Credit Risk Spread (Source: Thomson Reuters Eikon);
- Equity Risk Premium (6.56%): it represents the premium an investor will require investing in the stock rather than in the risk-free security (Source: Thomson Reuters Eikon);
- Beta Levered (1.086): it represents the risk specifically attached to the company, comparing the performance of the market with the performance of the company.

Beta Computation: Beta is a coefficient that expresses how much the return of the security is captured by the return of the market portfolio; in brief, we consider the systematic risk of the security. For its computation we used the market model introduced by W. Sharpe, which describes the coefficient as the ratio between the covariance of market index returns and stock returns, and the variance of the market index in a given estimation window. We put in comparison the security's return with those of the FTSE 100 Index, which was considered the Market Index. In doing so, we applied, as required by the model, an OLS regression between the streams of returns of the stock and market index. We considered two different return's frequencies and estimation windows:

- 3 year-weekly
- 5 year-monthly

To assess the most reliable and significant regression we considered the regression line with higher Adjusted R2. This factor measures how much of the security returns (dependent variable Y) is explained by movements of the market index (independent variable X), in terms of variance. In other words, for higher values of Adjusted R2, more of the stock returns variance is captured by the market variability of stocks' returns. In our case, the higher Adjusted R2 was associated with a 5 year-weekly estimation window.

Then, we computed the WACC of the company based on the following assumptions:

- Weight of Equity (0.44) and weight of Net Debt (0.56): we considered the market values of the weights of the equity and debt with respect to the enterprise value (Source: Bloomberg);
- Cost of debt (1.75%): it has been computed as the weighted average of the yields on Centrica Plc's outstanding Bonds;
- Tax Rate (19%): UK tax rate for Centrica Plc. tax bracket.

Our assumptions for the computation of the WACC changed from the explicit forecast time horizon to long-run. In fact, we believe that after 2024 the company will reach an optimal capital structure and its Beta will converge to 1. Moreover, the EBIT growth rate for the explicit forecast period has been estimated with a fundamentals' analysis as the product of the return on capital and the reinvestment rate. The long-term growth rate, instead, has been assumed to be equal to the risk-free rate.

Figure 14. Comparables' Multiples

Comparables	Current EV/EBITDA	2021 EV/EBITDA	Current EV/EBIT	2021 EV/EBIT	Current EV/SALES	2021 EV/SALES	Current P/E	2021 P/E	Current P/BV	2021 P/BV
National Grid PLC	12.14	11.79	21.24	18.09	4.28	4.20	22.02	16.65	1.79	1.61
SSE PLC	15.29	11.99	17.57	17.94	3.64	3.41	13.41	17.02	2.76	3.00
Orsted A/S	26.16	21.70	47.21	35.66	8.59	7.94	30.79	45.71	5.09	5.46
Severn Trent PLC	12.50	13.60	21.62	23.17	6.66	6.81	37.01	20.62	4.71	4.86
RWE AG	8.37	6.61	6.96	12.71	1.59	1.37	29.43	17.90	1.20	1.35
Snam Rete Gas SpA	12.66	12.84	19.83	19.78	10.55	10.29	14.46	13.74	2.51	2.42
Enagas SA	10.18	9.72	16.08	14.25	8.18	8.30	11.84	12.00	1.69	1.71
Ascopiave SpA	22.21	18.01	38.84	38.81	6.90	7.23	20.81	17.93	0.91	0.94
Centrica PLC	**3.26**	**4.35**	**5.97**	**11.67**	**0.25**	**0.33**	**8.10**	**9.61**	**2.75**	**2.09**

Source: Minerva Investment Management Society Estimates

Market Multiples Approach

Having obtained the DCF valuation, we checked and compared our forecasts derived through the DCF analysis, performing a market multiple analysis. The purpose of the method is to double-check the target price we identified with the FCFF approach. Hence, we collected data for market multiples of a set of comparables as shown in Figure 14.

We decided to use both equity and asset side multiples, with more attention to the asset side multiples because they are the most suitable for this sector.

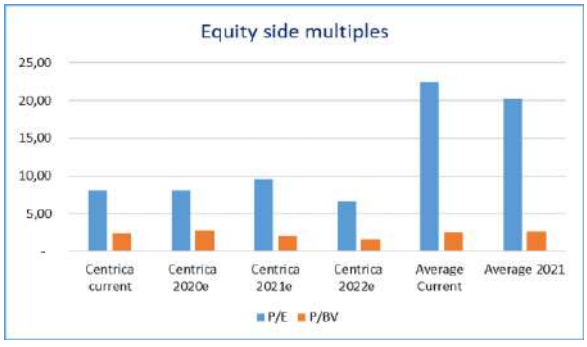
For what concerns the equity side multiples, we considered P/E and P/BV. As shown in Figure 15, we can see that, compared to the average, the current and future estimates of P/E multiple is lower than the average one, suggesting that the investors are paying fewer earnings compared to the comparable companies. This is an indicator that would suggest buying stocks of the company, which is probably undervalued for Brexit uncertainty and recent regulation changes that depressed the market value of the company. However, if we consider P/BV multiple, the evidence shows the company has P/BV multiples that are roughly in line with the average. This fact may suggest a clue to maintain the holdings in the stock.

If, instead, we have a look at asset-side multiples (EV/EBITDA, EV/EBIT and EV/Sales), as shown in Figure 16, we can see the evidence shows a unique signal of undervalued multiples compared to the average peers' ones. This effect can be explained by two possible levers: an overvaluation of the denominator (parameter of reference) or a depression of the EV, as estimated by the analysts. In any case, all the 3 multiples are highly undervalued against the average, a clue that invites investors to take into consideration a strong increase in their holdings of Centrica Plc. stock.

However, in order to deepen our analysis and investigate the causes of these results, once we obtained the multiples of the comparables' set, from the asset side multiples we yield EV, and we have adjusted it to obtain the implied equity values of Centrica Plc. Eventually, dividing the equity value by the number of diluted outstanding shares of Centrica Plc we obtained the set of prices implied by each multiple. In Figure 17 we report the results of our computations in order to set a range of implied share prices for each figure.

From the chart, we can note that the multiples are subject to high volatility, given the large difference between the minimum and maximum value. However, focusing on the DCF target price and current share price, we can see that both are very close to the average price suggested by the multiples considered in the analysis. In particular, while the DCF is more conservative and closer to the current share price, the average implied price per share obtained through multiples is higher, suggesting a buy recommendation, in line with what has been said before. This difference is due to the conservative forecasts used in our analysis which consider a slow recovery in 2020 and 2021 and higher growth in 2022, while we can expect that the multiples already discounted the Covid-19 pandemic effect and look forward to the future with a more optimistic approach.

Figure 15. Equity side multiples

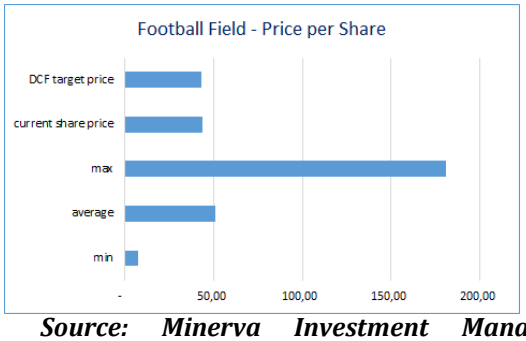


Source: Minerva Investment Management Society Estimates

Figure 16. Asset Side Multiples

Source: Minerva Investment Management Society Estimates

Figure.17 Football Field



Source: Minerva Investment Management Society Estimates

Investment Risks

Regulation & Compliance - The business operations are subject to the rules and regulations of the Gas and Electricity Markets Authority (GEMA) in UK, while it is subject to the European Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) in Europe. In addition, since it operates also in North America, it is subject to the rules and laws of the relevant local regulatory authorities. The monopolistic nature of the markets in which Centrica Plc operates requires a simultaneous compliance to all the current regulations which are becoming as time goes by more stringent and moving towards more sustainability and lower impact on the environment. Moreover, the different nature of the law systems makes compliance a key role in shaping the way the company operates in the different countries.

Brexit Uncertainty – Brexit may represent a material risk for Centrica Plc in the case in which the UK government fails to agree a trade deal with the EU. Indeed, although the default price cap has been in force in the UK market for 12 months, there is regulatory pressure in the Consumer Energy Supply market in UK. Overall, this risk may cause possible erosion of profit margins due to higher costs because of further small meter and energy efficiency obligations.

Covid-19 Pandemic – The outbreak of Covid-19 Pandemic has affected in different ways the company and the uncertainty of future developments about the diffusion and infection of the virus obliged the management to reconsider the future evolution of operations. Among the others, Covid-19 imposed Centrica Plc to delay some restructuring projects and being more conservative by depositing provisions for health care and long-term sustaining of the services. Moreover, Covid-19 changed the way the company interfaces with customers and suppliers, by, for example, interrupting door-to-door sales and determining a shift toward smart working.

Environment and Climate Change – As operator in the energy sector, Centrica Plc is specifically claimed for the setup of operational changes that considers the environmental impact of its operations. For this reason, the company set out a commitment to be net zero in 2050 and "2030 Responsible Business Ambitions", both aimed to reduce emissions, lower carbon future, and adopt a decarbonized energy system. By the way, this radical and structural transformation not only requires a massive amount of investments, but also a relevant structural change in the way energy is produced and distributed, with potential repercussions on the market positioning and competitive power with the other market players.

Appendix:

Income statement

Millions of £	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Operating revenue	28,023	29,686	22,674	23,990	25,233	26,541	27,916	29,363
Operating cost of sale	23,981	25,433	15,795	20,391	21,448	22,560	23,729	24,959
Gross profit	**4,042**	**4,253**	**6,879**	**3,598**	**3,785**	**3,981**	**4,187**	**4,404**
Operating costs	2,373	2,324	2,210	1,319	1,388	1,460	1,535	1,615
EBITDA	**1,669**	**1,929**	**4,669**	**2,279**	**2,397**	**2,521**	**2,652**	**2,789**
Depreciation, amortisation, impairments and write-downs	343	397	532	425	447	470	494	520
EBIT	**1326**	**1532**	**4137**	**1854**	**1950**	**2052**	**2158**	**2270**
Net finance cost	344	412	255	165	170	166	164	228
Gross Income From Continuing Operations	**982**	**1,120**	**3,882**	**1,690**	**1,781**	**1,886**	**1,994**	**2,041**
Net Extraordinary items	840	545	4986	-	-	-	-	-
EBT	**142**	**575**	**-1,104**	**1,690**	**1,781**	**1,886**	**1,994**	**2,041**
Taxation on profit/(loss)	161	333	1	321	338	358	379	388
Net Income	**303**	**242**	**-1,103**	**1,369**	**1,443**	**1,528**	**1,615**	**1,653**

Balance Sheet

Millions of £	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
ASSETS								
NET FIXED ASSETS								
Property, plant and equipment	4,132	4,124	3,133	3484	4378	5317	6058	6838
Goodwill	2,650	2,736	2,578	2,689	2,689	2,689	2,689	2,689
Other intangible assets	1,676	1,720	1,455	1,549	1,495	1,441	1,387	1,333
Interests in joint ventures and associates	1,699	1,661	1,306	889	889	889	889	889
Total Net Fixed Assets	**10,157**	**10,241**	**8,472**	**8,611**	**9,451**	**10,336**	**11,023**	**11,749**
NON-CASH WORKING CAPITAL								
Net Accounts Receivables	4,755	5,662	4,993	4,421	4,651	4,892	5,145	5,412
Inventories	409	459	431	359	378	397	418	439
Retirement benefit assets	-	223	56	56	56	56	56	56
Derivative financial instruments assets	1,390	1,678	1,813	1,785	1,785	1,785	1,785	1,785
Current tax assets	289	187	115	221	232	244	257	270
Deferred tax assets	568	532	553	640	673	708	744	783
Net Accounts Payables	-5,579	-6,398	-5,685	-5,167	-5,435	-5,717	-6,013	-6,325
Derivative financial instruments liabilities	-1,020	-1,566	-2,145	-2,117	-2,117	-2,117	-2,117	-2,117
Current tax liabilities	-336	-360	-339	-370	-389	-409	-430	-452
Deferred tax liabilities	-173	-384	-151	-260	-273	-288	-302	-318
Provisions for other liabilities and charges	-2,699	-2,602	-2,238	-2,220	-2,220	-2,220	-2,220	-2,220
Total Non-Cash Working Capital	**-2,396**	**-2,569**	**-2,597**	**-2,652**	**-2,660**	**-2,669**	**-2,678**	**-2,687**
SURPLUS ASSETS	**-**	**-**	**106**	**1289**	**990**	**690**	**390**	**-**
Total Assets	**7,761**	**7,672**	**5,981**	**7,248**	**7,781**	**8,358**	**8,736**	**9,062**
LIABILITIES AND SHAREHOLDERS' EQUITY								
NET FINANCIAL POSITION								
Current bank overdrafts, loans and other borrowings	707	374	857	854	854	854	854	854
Non-current bank loans and other borrowings	5,591	4,380	4,486	4,638	4,798	4,668	4,601	6,761
Retirement benefit obligations	886	302	219	522	522	522	522	522
Cash and cash equivalents	-3,100	-1,575	-1,597	-2,001	-2,913	-4,162	-5,641	-5,002
Provisions for other liabilities and charges	249	243	221	1,269	1,461	2,815	4,294	1,177
Total Net Financial Position	**4,333**	**3,724**	**4,186**	**5,281**	**4,721**	**4,697**	**4,629**	**4,312**
SHAREHOLDERS' EQUITY								
Share capital	348	354	360	360	360	360	360	360
Share premium	2,121	2,240	2,330	2,345	2,345	2,345	2,345	2,345
Retained earnings	1,180	725	-869	-618	-137	372	911	1,462
Other equity	-950	-174	-609	-703	0	0	0	0
Total Equity	**2,699**	**3,145**	**1,212**	**1,384**	**2,568**	**3,077**	**3,616**	**4,167**
Non-controlling interests	**729**	**803**	**583**	**583**	**491**	**583**	**491**	**583**
Total shareholders' equity and non controlling interests	**3,428**	**3,948**	**1,795**	**1,967**	**3,059**	**3,660**	**4,107**	**4,750**
Total Liabilities and Shareholders' equity	**7,761**	**7,672**	**5,981**	**7,248**	**7,781**	**8,358**	**8,736**	**9,062**

Valuation

GB Millions	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
EBIT	1,326	1,532	4,137	1,763	1854	1950	2052	2158
-Taxes on EBIT	252	291	786	335	352	371	390	410
-Capex	482	926	781	139	839	886	687	726
-Δ non cash WC	542	-173	-28	-55	-8	-9	-9	-9
+ D&A	343	397	532	425	447	470	494	520
FCFF	**393**	**885**	**3,130**	**1,768**	**1117**	**1173**	**1478**	**1551**
discount factor				0.95	0.91	0.87	0.83	0.79
PV FCFF				**1,689**	**1,019**	**1,021**	**1,228**	**1,231**

Cumulative PV FCFI	**66,995**
-MV debt	**4,803**
+Cash	**1,597**
+Surplus assets	**106**
-NCI	**583**
MV Equity	**63,312**
n.shares ('000)	**1,460**
Price target	**43**
Price 20.11.2020	**43.73**

Disclaimer