



Red Eléctrica Corporacion, S.A. (RDEIY)

Updated July 31st, 2022 by Nate Parsh

Key Metrics

Current Price:	\$9.78	5 Year CAGR Estimate:	7.7%	Market Cap:	\$10.5 B
Fair Value Price:	\$8.70	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/10/23 ¹
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	01/24/23 ²
Dividend Yield:	5.4%	5 Year Price Target	\$11.10	Years Of Dividend Growth:	5 ³
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Red Electrica is the parent company for a group of subsidiary companies, which are involved in joint operation with each other and other operators. The parent company's registered office is located in Madrid, Spain. The group's principal activities are: electricity transmission, and system operation and management of the transmission network for the Spanish electricity system. The company also operates outside of Spain under the subsidiary, Red Eléctrica Internacional, S.A.U. and the company has telecommunication operations to third parties in Spain through Red Eléctrica Infraestructuras de Telecomunicación. Lastly, the company develops and builds electricity infrastructure and facilities through their subsidiaries, Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) and Interconexión Eléctrica FranciaEspaña, S.A.S. (INELFE). The \$10+ billion market capitalization company is listed on the Spanish automated quotation system as part of the selective IBEX-35 index under the ticker 'REE.MC' and it is listed in the U.S. on the over-the-counter market under the ticker RDEIY. Two ADR shares equal one share of the underlying company.

On July 27th, 2022 Red Electrica released second quarter results for the period ending June 30th, 2022. Pre-tax profit fell 0.1% for the quarter while revenue was up by 2.1% year-over-year. Operating expenses increased 10.3%, mostly due to higher costs of supplies and other expenses once again. However, this was a deceleration on a sequential basis. We continue to expect a modest increase in the business performance for 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.92	\$0.98	\$1.33	\$1.12	\$1.18	\$1.24	\$1.31	\$1.44	\$1.38	\$1.41	\$1.45	\$1.85
DPS	\$0.56	\$0.64	\$0.50	\$0.68	\$0.71	\$0.48	\$0.54	\$0.59	\$0.59	\$0.60	\$0.53	\$0.68
Shares⁴	539	541	541	539	539	540	540	542	542	542	542	542

Red Electrica's earnings-per-share rose relatively consistently throughout the last decade, with an average growth of around 5% annually. Earnings-per-share only declined in two years in the past decade which was in 2015 and 2020. During the last financial crisis, The Great Recession in 2008-2009, Red Electrica was still able to grow its earnings despite a declining market by over 15% points that year.

We expect growth from renewable energy sales and replacement of aging infrastructure to drive an average annual growth rate of 5% points annually through the next half decade to 2027, which is more in-line with peers. We expect the company to produce earnings-per-share of \$1.85 by 2027.

The company paid an interim dividend of \$0.15 USD per ADR share payable January 7th, 2022 and then a final dividend of \$0.37 on July 18th, 2022. Dividends to U.S. shareholders fell for the first time on a year-over-year basis since 2017, but this was due to the negative impact of currency exchange rates.

¹ Estimated ex-dividend date

² Estimated dividend date

³ In local currency

⁴ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.2	12.4	13.8	17.2	15.2	15.1	14.9	7.0	7.5	7.7	6.7	6.0
Avg. Yld.	5.9%	5.0%	3.6%	4.0%	4.6%	4.7%	4.8%	5.3%	5.7%	5.6%	5.4%	6.1%

Shares of Red Eléctrica have increased 1% since our May 15th, 2022 report. Red Eléctrica's average price-to-earnings ratio has deviated significantly in the past decade around an average of 12.1, but sits at nearly 7 now. We feel a target multiple of 6x earnings, which is more in-line with other names in the sector, is more appropriate. If shares were to trade at this P/E target by 2027, then valuation would reduce annual returns by 2.3% over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	61%	65%	38%	61%	60%	39%	41%	41%	43%	43%	37%	37%

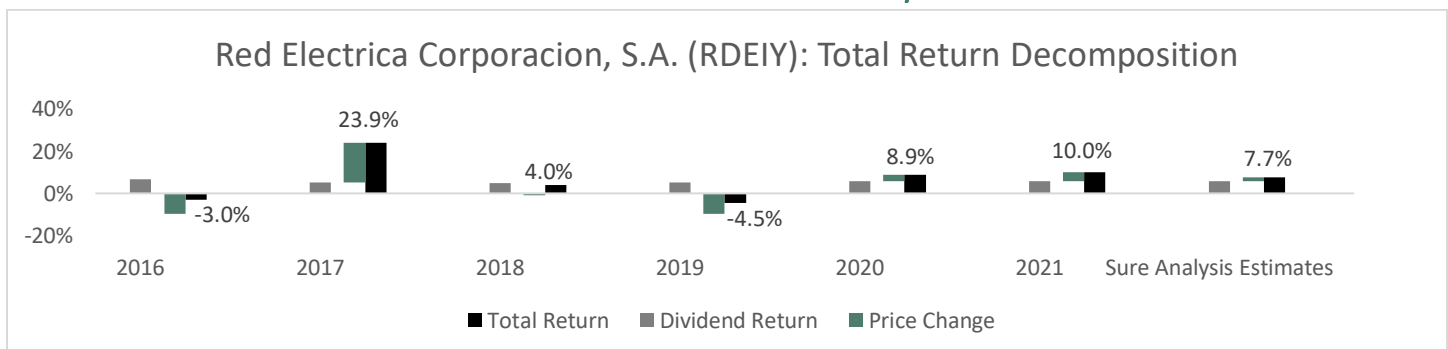
Since 2009, when the company first introduced their semi-annual dividend, it has grown a significant amount. Red Eléctrica's dividends-per-share have grown substantially well in the last decade, in 2009 the company offered only \$0.37 per share to shareholders via dividend, and now it offers \$0.53 per share. Red Eléctrica's payout ratio has declined over the last decade as earnings growth has become more stable. We expect that the company will raise dividends at the same rate as earnings going forward.

Utilities generally have lower competitive risks, because of the regulations that are put on them. Since utility companies are essential in each given area they operate in, the companies tend to outperform the broad market in the case of a recession, which takes away some risk when investing in utility companies. An advantage that Red Eléctrica has is that the group of subsidiaries which operate under the parent company, Red Eléctrica, have a very wide range of operations, so instead of paying to use infrastructure the company is more likely to have resources to lower costs of operations. Spain has a reputation for producing renewable energy. The country is consistently at the top of European countries for their rich renewables market and Red Eléctrica is no exception. Moving forward the company has a large focus on capital expenditures in renewable energy sources and producing green energy.

Final Thoughts & Recommendation

Red Eléctrica is expected to produce annual returns of 7.7% through 2027, down from our prior estimate of 8.5%. This projected return stems from a 5% earnings growth rate and a starting dividend yield of 5.4%, offset by a small headwind from multiple compression. We continue to rate shares as a hold due to projected returns. Income investors might be attracted to Red Eléctrica for its well-covered dividend and the likelihood that the name would provide some geographic diversification to their portfolio.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,257	2,335	2,456	2,152	2,139	2,198	2,301	2,247	2,268	2,311
Gross Profit	2,192	2,272	2,400	2,122	2,129	2,205	2,330	2,276	2,302	2,355
Gross Margin	97.1%	97.3%	97.7%	98.6%	99.5%	100.3%	101.2%	101.3%	101.5%	101.9%
D&A Exp.	521	553	586	543	558	583	568	589	626	618
Operating Profit	1,175	1,195	1,274	1,097	1,110	1,164	1,270	1,204	1,168	1,138
Operating Margin	52.1%	51.2%	51.9%	51.0%	51.9%	52.9%	55.2%	53.6%	51.5%	49.2%
Net Profit	633	703	955	672	705	759	832	800	709	805
Net Margin	28.0%	30.1%	38.9%	31.3%	33.0%	34.5%	36.2%	35.6%	31.3%	34.9%
Free Cash Flow	78	814	(789)	962	711	771	760	589	954	1,241
Income Tax	242	270	179	247	235	250	274	264	222	239

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	12,037	13,008	12,839	11,587	11,153	13,098	12,883	14,176	15,798	15,834
Cash & Equivalents	53	297	364	423	266	684	878	368	593	1,783
Acc. Receivable	17	29	35	15	16	18	12	83	53	68
Inventories	70	62	56	46	42	48	40	48	43	30
Goodwill & Int.	31	120	133	130	142	186	277	826	850	816
Total Liabilities	9,403	9,936	9,735	8,569	8,066	9,387	9,038	10,160	11,503	11,661
Accounts Payable	319	278	243	440	318	412	359	349	566	433
Long-Term Debt	6,562	6,625	7,052	5,925	5,650	6,545	6,341	7,242	8,170	8,251
Total Equity	2,628	3,047	3,076	3,001	3,069	3,711	3,844	3,935	4,226	4,111
LTD/E Ratio	2.50	2.17	2.29	1.97	1.84	1.76	1.65	1.84	1.93	2.01

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.4%	5.6%	7.4%	5.5%	6.2%	6.3%	6.4%	5.9%	4.7%	5.1%
Return on Equity	25.4%	24.8%	31.2%	22.1%	23.2%	22.4%	22.0%	20.6%	17.4%	19.3%
ROIC	7.2%	7.4%	9.6%	7.0%	8.0%	8.0%	8.1%	7.5%	6.0%	6.5%
Shares Out.	539	541	541	539	539	540	540	542	542	542
Revenue/Share	2.09	2.16	2.27	1.99	1.98	2.04	2.13	2.08	2.10	2.14
FCF/Share	0.07	0.75	(0.73)	0.89	0.66	0.71	0.71	0.55	0.89	1.15

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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