

## DESK NOTE

24.03.2025

### RWE Aktiengesellschaft (RWE GR) – *Activist Pressure*

#### *And Follow-up Cost-cutting Measures Can Boost The Stock*

**Conclusive Summary:** We recommend buying the stock at \$28.50, supported by a high probability that RWE's management will implement shareholder-friendly cost-cutting initiatives and buybacks.

The recent acquisition of a 5% stake by Elliot Advisors and their push for enhanced shareholder returns serve as a strong catalyst for the stock's upside. While the company trades at a premium relative to its peers, this valuation is justified by its **strong financial position**—Net Debt to Equity of 26% compared to the industry average of 95%—and its **superior profitability**, with a 25% EBITDA margin and 12% net profit margin, exceeding industry averages of 18% and 8%, respectively. **RWE's attempt to aggressively transition to green energy hurts its margins**, with CAPEX spending at 18% of revenue—double the industry average. From a valuation perspective, if management does not implement the shareholder-focused measures advocated by Elliot Advisors, we estimate the stock to be fairly valued at ~\$32, with limited upside potential. However, **if management follows through on cost reductions and shareholder returns, we anticipate the stock reaching \$40**. We assign a 70% probability to the latter scenario and a 30% probability to the former, resulting in a **weighted average price target of \$38**. We suggest buying RWE GR at \$28.50 due to the favorable risk-reward profile at those prices.

**Competitive Position:** one of Europe's largest power producers and a leader in the transition to renewable energy, competing with major European utilities like Enel, Iberdrola, Engie, and Ørsted, as well as global renewable players such as NextEra Energy and Brookfield Renewable. **Its strengths include a robust renewable energy pipeline, advanced energy trading capabilities, and geographic diversification across Europe, the U.S., and Asia-Pacific**. However, RWE faces challenges from high capital expenditure requirements, regulatory uncertainties, and increasing competition in the renewable energy space. Despite these risks, its aggressive expansion in offshore wind, battery storage, and hydrogen positions it as a key player in the global energy transition.

**Valuation:** Using a blended multiple valuation (EV/Rev, EV/EBITDA, P/E), **we reach a blended target price (TP) of \$40, +37% above current levels**. RWE stock is trading at ~30% multiple premium to peers. The stock is trading at its 5-year mean multiples, indicating some room for multiple upside, consistent with the investment thesis laid out. **We suggest adding RWE stock around \$28.50**.

Ticker: RWE GR

Previous day close price: \$32.09

Price range (52w.): \$27.76 - \$36.35

Reason for note: Activist Investor Stake

Target price: \$38 (+18% upside from current)

Recommendation: **Buy @ \$28.50**

**Description:** RWE AG, headquartered in Essen, Germany, is a leading international energy company focused on renewable and climate-friendly power generation. Operating across Europe, the USA, and expanding into Asia-Pacific, RWE is engaged in power generation, energy trading, and emerging hydrogen technologies. **Revenue Streams:**

- **Offshore Wind (5%)** – Develops and operates offshore wind farms, selling electricity.
- **Onshore Wind / Solar (10%)** – Manages wind, solar, and battery storage projects.
- **Flexible Generation (5%)** – Includes hydro, biomass, and gas-fired power plants.
- **Supply & Trading (81%)** – Energy commodity trading, risk management, and long-term supply agreements.
- **Phaseout Technologies (3%)** – Manages lignite mining, nuclear decommissioning, and receives government compensation for coal phaseouts.

RWE is expanding into hydrogen production, battery storage, and hydrogen-ready gas plants to support its renewable transition. Its energy trading arm drives profitability through market optimization and risk management.

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Target Multiple Next 12 Months		Financial Metric	Target EV	Net Debt	Target MCap	Shares	Target Price	Weighting
EV/Rev	1.5	24,611	36,916	9,220	27,696	743.55	\$37.25	
EV/EBITDA	8.0	5,101	40,812	9,220	31,592	743.55	\$42.49	
P/E	18.0	2.21				743.55	\$39.87	
Positive Scenario Target							\$40.00	70%
Neutral Scenario Target							\$32.00	30%
Blended Target							<b>\$37.60</b>	100%

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### Post Earnings Preview:

RWE	Expected Next Report Date		Next FY End		Review Date
RWE AG	5/15/2025	Bef-mkt	12/31/2025		3/24/2025
Targets	DPRG	38.00	Street	42.42	
Current Price/ Upside	32.09	18.4%		29.8%	
<b>Earnings Q Review</b>					
Last Q Report					
Last Close	3/20/2025		Quarterly		
32.09	Q4	2024:A	Q4	Prev Quarter	Year Ago
	Comparable	% Surprise	As reported		
Sales, \$ mil.	8,485	--	8,485	4,742	7,609
			growth	78.9%	11.5%
EBITDA, \$ mil.	1,704	11.88%	1,704	2,077	-1,661
			growth	-18.0%	NA
Net Income, \$ mil.	1,235	17.41%	1,235	-429	570
			growth	NA	116.8%
EPS, \$	1.66	31.14%	1.66	-0.57	0.77
			growth	NA	116.9%
<b>Valuation</b>	Current	-1STD	Average 2Y	+1STD	%STD
EV to Forward 12M Sales	1.45	0.92	1.12	1.32	166%
EV to Forward 12M EBITDA	7.02	5.38	6.03	6.67	155%
Price to Forward 12M EPS	14.78	11.08	12.55	14.01	152%
EV/Sales	Overpriced				
EV/EBITDA	Overpriced				
PE	Overpriced				
<b>Total Rating on Valuation</b>	<b>Overpriced</b>				

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