Mota-Engil

Construction

Managing EM risk

(Re-initiation of coverage with a € 3.90/sh YE15 Price Target and a Buy Recom.)

Buy

High-Risk

5th December 2014

Portugal

- **Mota Engil (ME) stock price has been on a roller coaster** with sentiment shifting from excitement to disappointment, reacting to the IPO process of MEA, mega new orders and earnings releases showing hefty operating growth but missing cash generation. The plunge of oil prices raises concerns on the pace of new awards in oil revenue dependent countries and the impact in working capital as national budgets enter deficit zone. ME has an outstanding track record in managing this kind of risks and we believe the group is in a defining moment. The African business alone was 2/3s of EBITDA13, Europe some 24% followed by Latam.

- **ST concerns on CF and BS leverage:** Group ND/EBITDA13 of 3.3x (inc. leasing&factoring) compares with 4.8x assuming the proportional stake in main assets or 4.6x by the average European peer. In the last 4 years, OCF after capex was € 110mn/year average. As a result of this year's WK trends, CF should be on the red but expectedly recovering through WK control and a 13% EBITDA CAGR13-20 driven by Africa and Latam. A resumption of a secondary offer of MEA and a capital increase as initially planned could cut group ND/EBITDA to 2.2x.

- **We value ME through a SOP setting a YE15 Price Target of € 3.90/share** including a 10% holding discount. We assume a DCF for operating assets ex-MEA at € 1.6bn EV implying an EV/EBITDA15^F of 6.8x and MV for the 80% stake in MEA (€ 3.5/ME share). The initial IPO price range valued MEA at € 4.5-5.7 per ME share, showing considerable optionality to our ME fair value. Our scenario analysis sets a € 2.3 – 6.8 fair value range reminding us of the impact of ME's leverage and the nature of its portfolio of activities. **We resume our coverage with a Buy stance** in face of the fundamental upside, optionality in MEA, potential deleverage ahead through asset sales and possible capital increase in MEA to fund growth and strong order intake flow, tempered by CF-related risks and leverage.

Mota-Engil vs. PSI20 vs. MSCI Small Cap Index

Source: Bloomberg.

Stock data

Price (4rd Dec.):	3.13	Price Target (YE15):	3.90
# shares (mn):	205	M. Cap (€ mn) / F. Float:	641 / 42%
Reuters/Bloomberg:	MOTA.LS/EGL PL	Avg. Daily Vol. [€'000]:	3 945
Major Shareholders:	Mota Family (56.4%); Amber Capital (2.1%)		

Estimates	2011	2012	2013	2014^F	2015^F	2016^F	2017^F
PE Adj.	19.2	15.7	12.7	11.9	9.0	5.6	4.5
Dividend yield	3.5%	3.5%	3.5%	3.9%	4.2%	5.6%	8.9%
FCFE Yield	3.5%	18.9%	n.s.	n.s.	5.8%	n.s.	13.7%
FCFF Yield	7.6%	5.5%	4.5%	n.s.	11.7%	8.7%	18.0%
PBV	2.0	2.0	1.8	1.7	1.6	1.3	1.1
EV/EBITDA (1)	6.7	6.9	5.4	4.6	4.0	3.2	2.9
EV/Sales (1)	0.9	0.9	0.9	0.8	0.7	0.5	0.5

(1) EV is fixed with current market cap and MV of remaining items.

Historical Recommendation

Date	Recommendation
18-Sep-12	Neutral
28-May-14	Restricted

Source: BPI Equity Research.

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BPI vs. Consensus

Company:	Mota-Engil SGPS SA
Sector:	DJES Cns&Mat

Valuation monitor

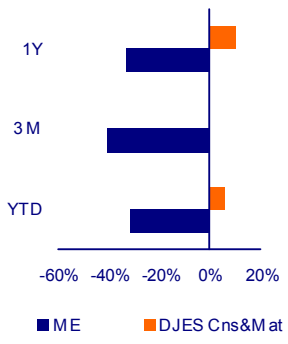
Relative Valuation	2014	2015	2016
EV/EBITDA			
BPI	4.6	4.0	3.2
Consensus	n.s.	n.s.	n.s.
Sector	10.2	9.1	8.2
P/E			
BPI	11.9	9.0	5.6
Consensus	0.0	0.0	0.0
Sector	19.5	17.1	14.7
PBV			
BPI	1.7	1.6	1.3
Consensus	n.s.	n.s.	n.s.
Sector	2.3	2.1	2.0
Dividend yield			
BPI	3.9%	4.2%	5.6%
Consensus	0.0%	0.0%	0.0%
Sector	2.7%	2.8%	3.1%

P&L and B\S monitor

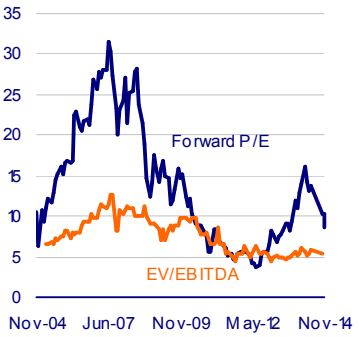
BPI estimates/Consensus	2014	2015	2016
Revenues	-3%	3%	12%
EBITDA	2%	15%	25%
EBIT	0%	22%	38%
Net Profit	-17%	1%	14%
Net Debt	-9%	13%	26%
Profitability monitor			
EBITDA Margin			
BPI	18.6%	21.6%	27.2%
Consensus	18.3%	18.7%	21.7%
EBIT margin			
BPI	11.9%	14.3%	18.7%
Consensus	11.9%	11.7%	13.6%
Net Profit margin			
BPI	2.4%	3.1%	5.0%
Consensus	2.8%	3.1%	4.4%
Key leverage ratios			
Net Debt/EV			
BPI	57%	71%	75%
Consensus	66%	66%	65%
Net Debt/EBITDA			
BPI	2.7	2.9	2.4
Consensus	3.0	2.9	2.4

Stock Momentum

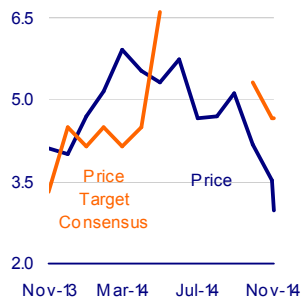
Price Performance



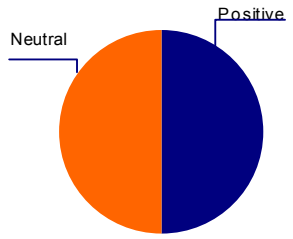
Forward P/E and EV/EBITDA



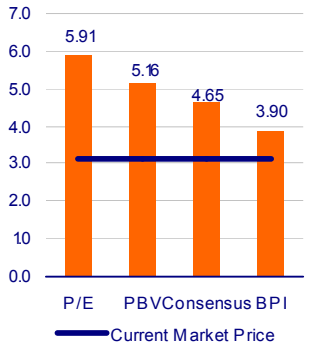
Market Price Rating (€)



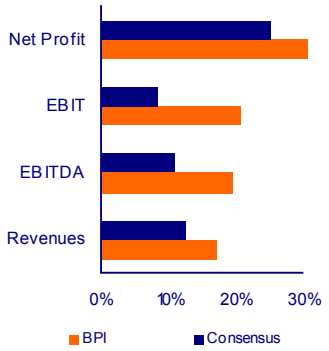
Market Recommendations



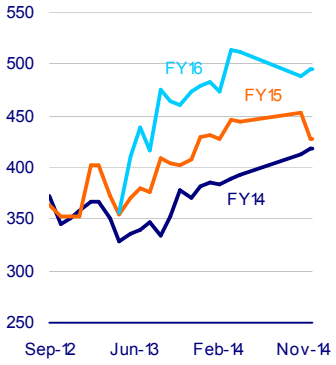
Fair Value Comparison (€)



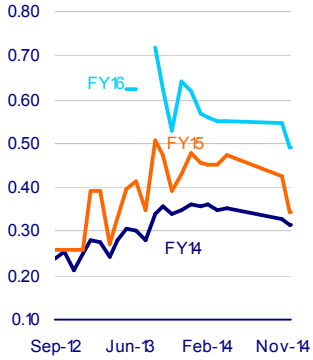
CAGR 2013-16



EBITDA Consensus (€mn)



EPS Consensus (€)

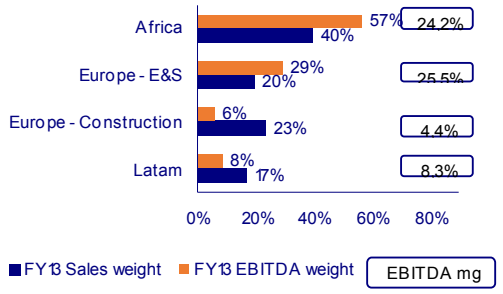


Source: Factset, Bloomberg and BPI Equity Research.

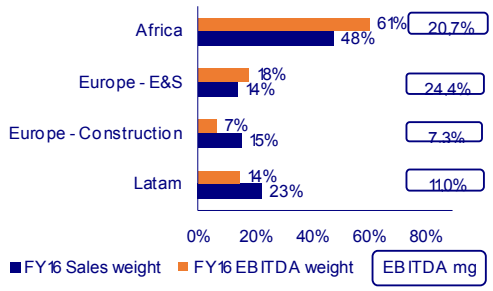
BPI

Mota-Engil at a Glance

FY13 Pro-forma Sales and EBITDA weight (1)

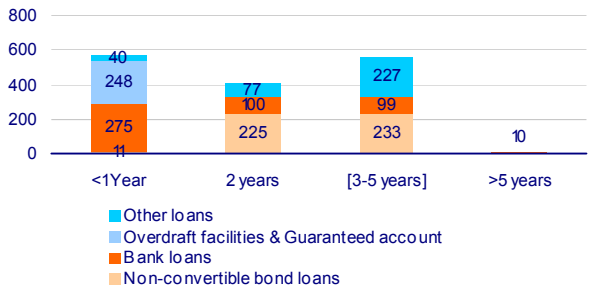


FY16F Sales and EBITDA weight



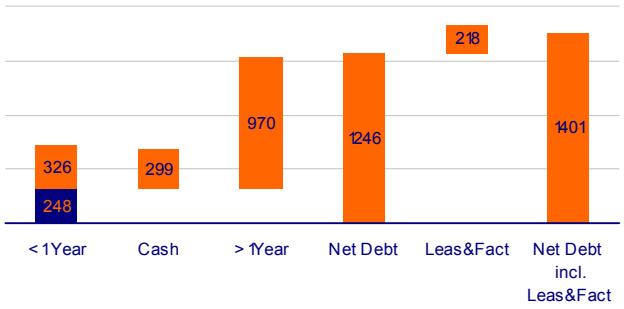
(1) Assuming full consolidation of EGF(acquired in 2H14) and ex intragroup. Source: ME and BPI Equity Research.

Debt maturity profile at 9M14 (€ mn)



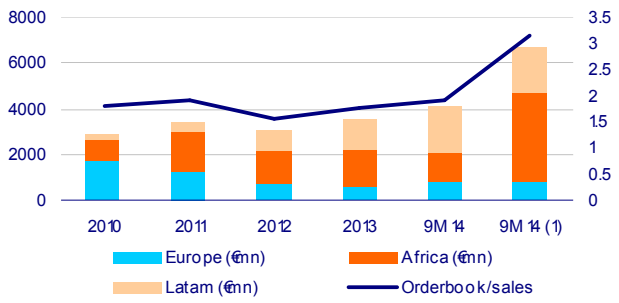
Source: ME.

Net debt as of 9M14 (€ mn)



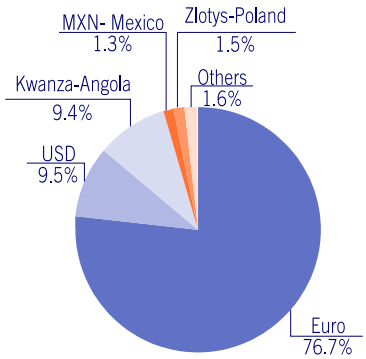
Source: ME.

Construction Backlog evolution (€ bn)



Source: ME.

Debt by currency (YE13)



Source: ME.

CONTENTS

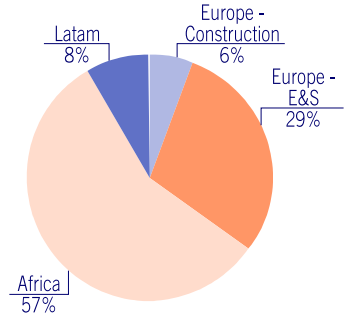
BPI

INVESTMENT CASE

A unique exposure to Latam and African markets

Mota Engil (ME) is a Portuguese construction and infrastructure group, but its European base represented only 24% (c.35% proforma) of 2013 EBITDA o.w. 7% in construction (6% proforma including EGF). The listed African unit (MEA) represented 2/3s (57% proforma) of EBITDA13 leaving Latam with a 10% slice (8% proforma). MEA has a unique exposure to the Sub-Saharan African region that should see significant investment in infrastructure in the upcoming years. MEA holds a pipeline of c. USD 10bn/€ 8bn vs. € 1bn of MEA reported sales in 2013. In Latam, ME operates in Peru, Mexico, Brazil and Colombia where the public infrastructure investment is also paramount, with an orderbook of € 2bn, equivalent to 4x of FY13 sales. We estimate EBITDA CAGR13-16 of +13% vs. +5% of its European counterparts consensus.

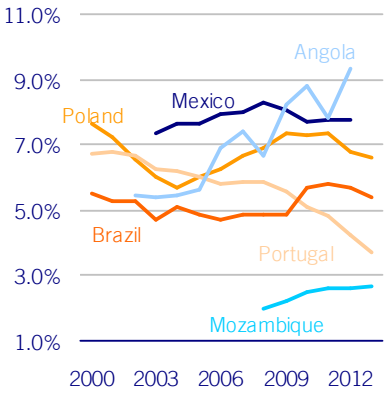
FY13 EBITDA Proforma (1)



(1) Assuming full consolidation of EGF.
Source: ME and BPI Equity Research.

ME stock price has been on a roller coaster with sentiment shifting quickly in reaction to prospects of an IPO of MEA, then its postponement, then important announcements fuelling the order intake and mixed earnings releases showing hefty operating growth but disappointing cash generation. More recently, the plunge of oil price brought old concerns regarding the ability of oil revenue-dependent countries to keep the investment pace and honour the debts with contractors. We continue to be impressed by ME's ability to grow and manage a wide portfolio of activities scattered over the African continent and spreading into Latam where competition has been traditionally fierce. Portugal and Central Europe have been scaling down and ME has been taking the opportunity to reinforce the bet abroad and send its skilled workforce to reinforce the teams in Africa and Latam.

Construction as a % of GDP



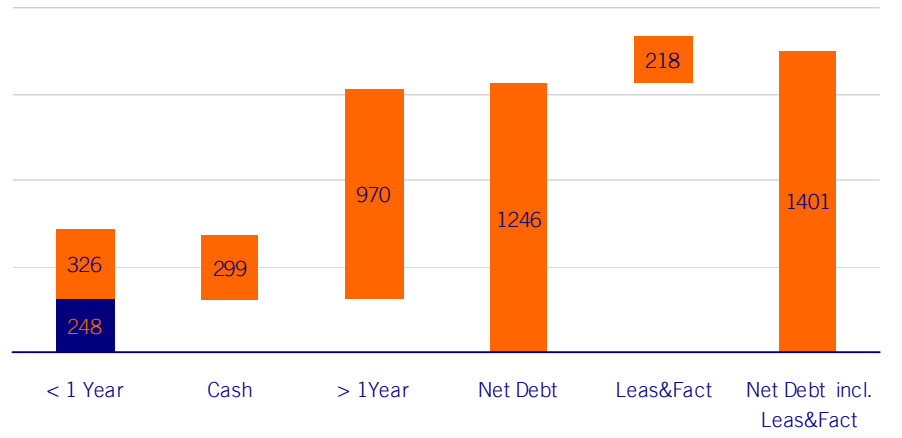
Source: OCDE, INE, CBIC.

We share, however, market concerns about cashflow generation and consequently leverage. With a consolidated ND/EBITDA of 3.3x at YE13 (including leasing&factoring) or 3.2x for YE14^{F}, we estimate that assuming a proportional consolidation of the main assets would increase the ratio to 4.8x for YE13 (vs European peers average of 4.6x ND/EBITDA13). Here we are adding back debt from the concession business (60% Ascendi, that should be mostly non-recourse), Indaqua (water business, 45% stake) and Martifer (37.5% stake). On the full-consolidation perimeter, the 3.3x ratio is a bit demanding. Inside this perimeter there are capital intensive activities related with the ports concessions and environment concessions. ME also states that of the total € 1 246mn Net debt as of 9M14, € 859mn was allocated to the operating activities (2.1x EBITDA annualized) with the balance presumably related with the equity stakes and other assets. In the last 4 years, ME's operating cash flow after capex was on average € 110mn/ year. As a result of this year's WK trends, CF should be on the red at minus € 12mn but expectedly recovering thereafter projecting a +23% CAGR13-20 driven by a 13% EBITDA CAGR13-20 on increased contribution from Africa and Latam and WK stabilization.

Refinancing needs should not be a problem

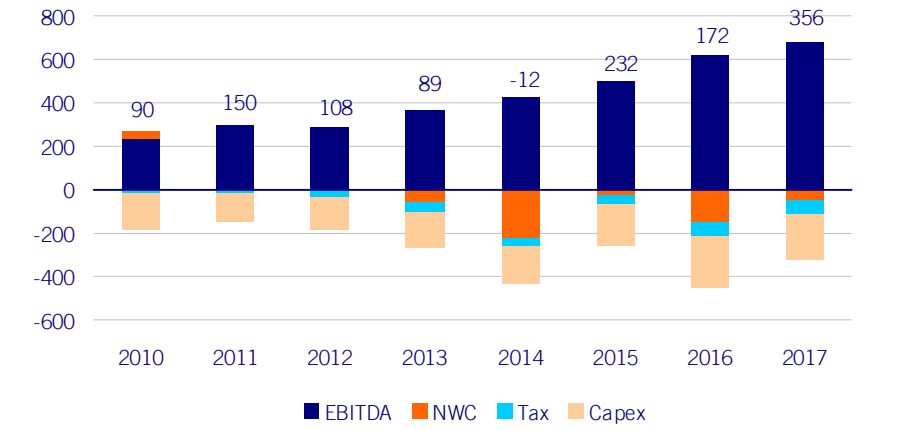
ME has € 326mn/21% of gross debt maturing in 1 year or € 575mn/37% if included the € 248mn of Overdraft facilities & guaranteed accounts) vs a € 508mn liquidity position (€ 299mn cash + € 209mn undrawn credit lines) as of 9M14.

Net debt as of 9M14 (€ mn)



Source: ME.

Operating Cash Flow after capex (€ mn)



Source: ME and BPI Equity Research.

ME is a growth story, not a dividend play. In any case, the group has been following a pay out policy of 50-75% implying currently a DY15 of 4.2% that is clearly at the top of the class. The upstream of cash from Africa and Latam unites should be limited considering their growth stage with important investment in fixed assets and working capital. We highlight that it is ME's expectation to resume the secondary offering of MEA (c 20% worth € 0.2bn) and a capital increase at MEA (initially expected to be over € 170mn). These funds would cut consolidated ND/EBITDA down to 2.2x although this exercise would ignore the lower stake on generated EBITDA. MEA should follow the parent's payout policy from 2015 and we recall that ME Angola, 51% held by MEA, is already paying out 75% of results.

We value ME through a SOP setting a YE15 Price Target of € 3.90/share including a 10% holding discount. We assume (1) a DCF for the most relevant operating assets (Europe including construction and E&S and Latam) ex-MEA that we estimate are worth € 1.6bn (EV) implying an EV/EBITDA15^{F} of 6.8x (proforma contribution of EGF); (2) market value for the 80% stake in MEA (ME's listed subsidiary in charge of the African business) worth € 3.5 per ME share (or € 725mn); (3) DDM and

investment BV of certain assets under the equity consolidated Ascendi (concessions) totalling € 221mn (after a 10% discount) (4) Net debt adjusted for Leasing&factoring of € 1.5bn (YE15) and (5) Financial investments mostly related with the stake in the Angolan investment bank BAI (€ 40mn), investment property (€ 55mn) and other dispersed stakes in construction and E&S.

The MEA initial IPO price range indicated an equity valuation for ME's stake of between € 0.9bn and € 1.17bn equivalent to € 4.5-5.7 per ME share. The upside to the low end price range would add the equivalent to 32% of the current ME stock price. At current prices, MEA trades at 3.9x EBITDA15^{F}. We believe that the expected sluggish topline evolution for FY15 (with the end of the Nacala project in 3Q14) is not impacting LT growth expectations by the market. At this point, the focus is working capital investment and collection of receivables in an environment of lower oil prices, directly affecting national budgets and thus the ability to cope with payments to contractors. We estimate that the current MEA stock price discounts an average € 200mn/year WK deterioration through 2020, all else constant, vs our base-case estimate of c€ 70mn/year in 2014-18. The fair value of MEA is critical at this point to the formation of expectations for ME's intrinsic value. There will always be a discussion about whether to consider the MV of the stake in ME's NAV or fair value reached by DCF or another valuation technique. The argument is spiced up by the low free-float of MEA and the possibility of investors to trade ME and MEA depending on the relative under/over valuation perceived.

OPEC Fiscal budget breakeven oil prices

	(Usd/barrel; 2013)	Share of OPEC exports
Qatar	58	2.3%
Kuwait	66	8.2%
Angola	94	6.6%
UAE	98	10.5%
Saudi Arabia	98	29.9%
Libya	112	3.8%
Venezuela	113	6.8%
Ecuador	121	1.4%
Iraq	122	9.6%
Nigeria	124	9.4%
Algeria	124	3.2%
Iran	144	8.3%

Source: APIC.

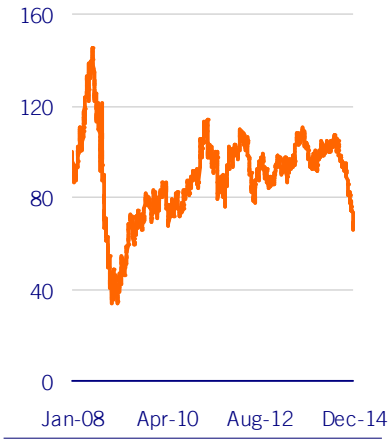
MEA valuation - Sensitivity analysis (€ mn)

	100% Equity MEA	EV/ EBITDA15^{F}	80% Equity MEA(1)	€/ME sh	ME FV €/sh (2)
Current Price	906	3.9	725	3.54	3.9
IPO low range	1160	5.0	928	4.53	4.8
IPO Avg.	1311	5.7	1049	5.13	5.4
IPO High Range	1462	6.3	1170	5.72	5.9

(1) ME stake in MEA; (2) Including 10% holding discount.

Source: BPI Equity Research.

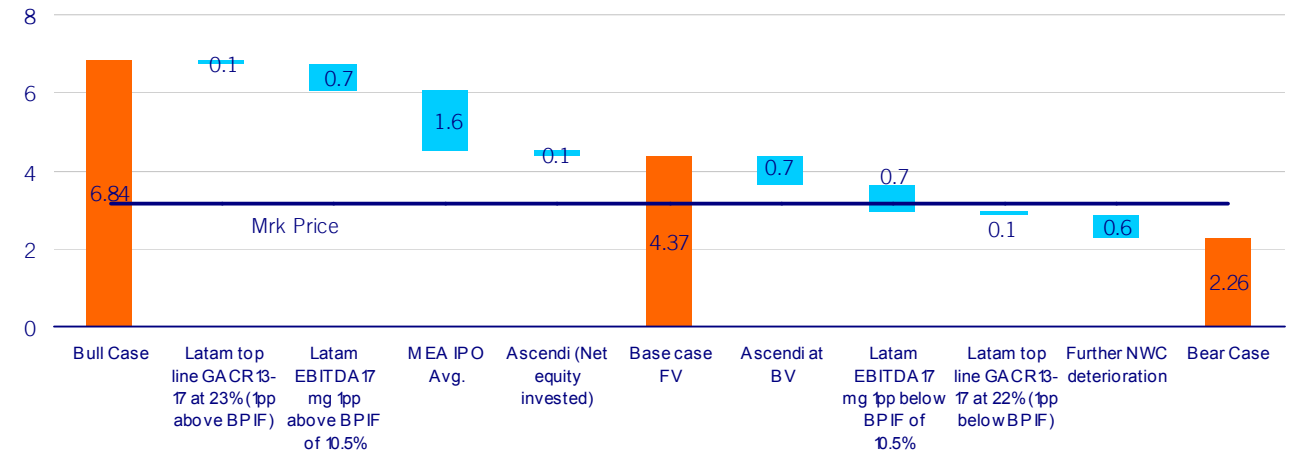
Oil Price (USD)



Source: Bloomberg.

We have run two sensitivity analysis to our base case scenario varying critical variables to our valuation. Under these scenarios, we reach a valuation range between € 2.26/sh and € 6.84 reminding us of the impact of the relevant leverage of ME and the nature of its portfolio of activities, namely construction.

Sensitivity Analysis (€/share)



Source: BPI Equity Research.

Working capital is a key concern and potential trigger

The next earnings season will be paramount for ME as it should feed the market with a new reading of the working capital evolution already corrected of the usual negative intra annual seasonality. The market is eager to understand the impact that the oil price could have in both future NWC evolution and order intake. As such, we expect volatility ahead in response to any newsflow related with the financial closing of projects in the tender pipeline and level of receivables in oil-dependent countries. The recent stock price plunge should change the risk/return perception of the market, though.

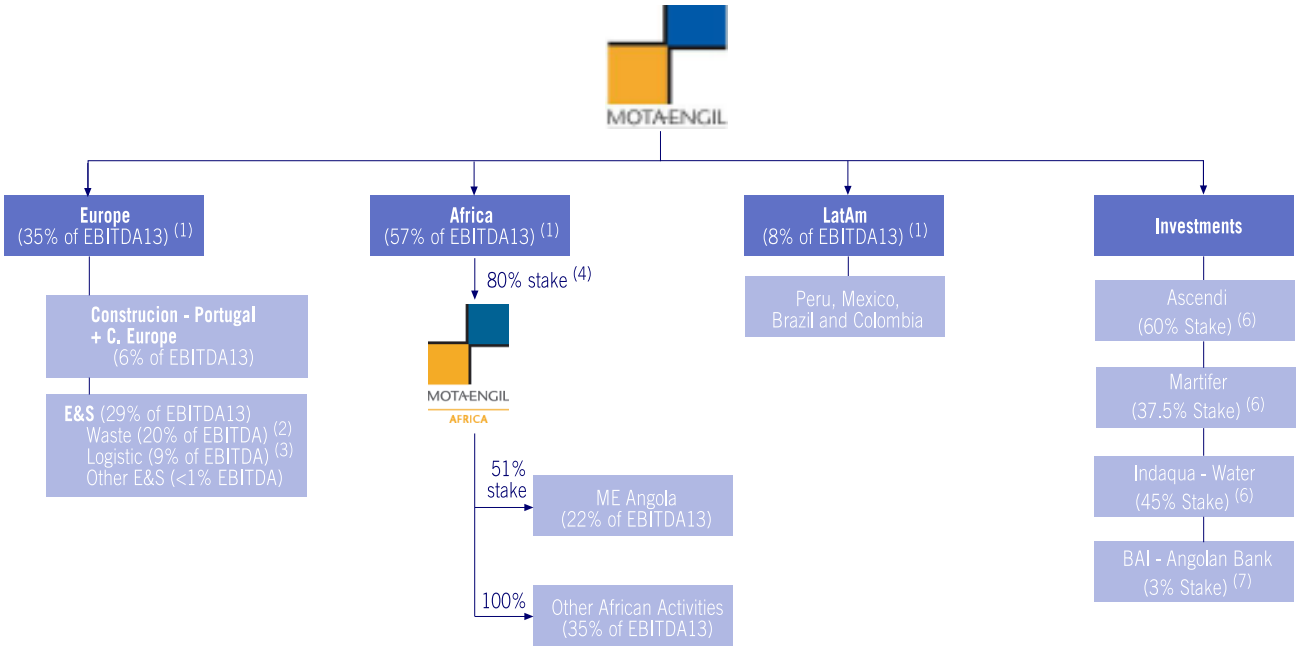
Defining moment

Ascendi is a relevant asset (c€ 1/sh) where very little information about financials is available. A deal involving a third party transaction or a decision by ME to provide the market with enough information about financials would be more than welcome at this point. The situation of Martifer is also relevant as it can be a source of equity consumption, even if we believe ME will hardy inject further cash. The final regulatory remuneration decision regarding EGF (a recent acquisition of a waste management holding in Portugal for € 142mn) is also a material milestone for the investment case. We have cautiously assumed immediate value destruction but a lot of details are still missing, which could change our initial "quantitative" opinion about the deal. On the construction business, the growth story is enticing, but aforementioned risks related with WK investment reminds us of the growth curse. On the flip side, ME has indeed a long track record in managing this kind of risks and growth. The recent ramp up in several markets is a defining moment as well as the expected resumption of the secondary offering and capital increase of MEA to fund growth ahead.

In face of the fundamental upside, optionality in MEA, potential deleverage ahead through asset sales and expectations of a capital increase in MEA, drop in the cost of financing (namely at MEA) as well as a consolidation of the recovery in Europe and good ST expectations about the order intake lead us to resume our coverage with a Buy recommendation.

MOTA ENGIL GROUP

Mota Engil (ME) is a construction and infrastructure group playing in a wide range of activities associated with the design, construction, management and operation of infrastructures in such different areas as Engineering and Construction (in Europe, Africa and Latam), Environment and Services such as Waste, Water, Ports and Logistics (mainly in Portugal but with increasing international exposure) and Transport Concessions (through a 60% stake in ASCENDI group).



(1) EBITDA pro-forma weight considering full consolidation of EGF (acquired in 2H14) and ex intragroup (Eur 2mn)
(2) 61.5% stake in SUMA and 59.2% stake in EGF (Full consolidated)
(3) 63.1% stake in Tertir (Full consolidated)
(4) MEA is listed in Amsterdam stock market
(5) Sonangol and other Angolan investors bought a 49% stake in ME Angola in 2010
(6) Equity consolidated
(7) Available for sale

Source: ME and BPI Equity Research.

65% FY13 EBITDA from EM and growing

ME's activity is divided into three different main geographies: (1) Europe (43% of FY13 sales on a pro-forma basis assuming the full consolidation of EGF acquired in 2H14 and 35% of consolidated pro forma EBITDA), (2) Africa (40% of Sales and 57% of EBITDA), through the 80%-controlled listed player MEA and (3) Latam (17% of revenues and 8% of EBITDA).

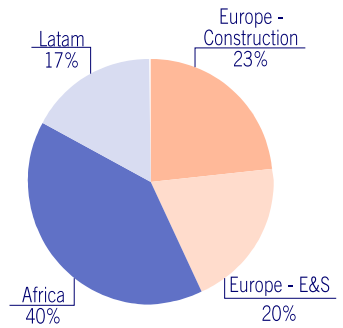
Other investments (equity consolidated or available for sale) encompass, among others: (1) a 60% stake in equity-consolidated ASCENDI, a concession company operating several highways in Portugal, Mozambique, Mexico and Brazil, (2) a 37.5% stake in equity-consolidated Martifer, a Portuguese Metallic and Solar construction company going through a deep restructuring and deleveraging process.

Martifer is listed in the Portuguese stock market with a € 20mn market cap, (3) a 45% stake in equity-consolidated Indaqua, a Portuguese Water treatment company and (5) a 3% stake in BAI - Banco Angolano de Investimentos, accounted as available for sale in MEA balance sheet for € 40mn.

€ 4.1bn backlog, 75% in EM

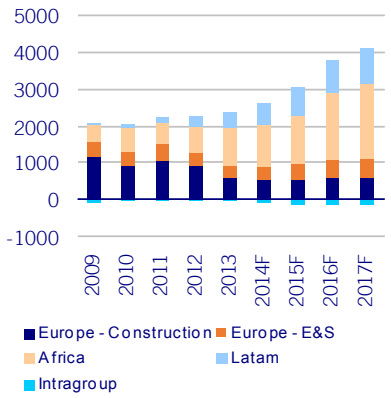
ME has a strong exposure to fast-growing Emerging Markets (EM), that together represent over 75% of total group backlog. Africa represents a € 1.3bn backlog as of 9M14 equivalent to 1.2x of sales vs. € 2bn in Latam or 4x of sales. We recall that the African orderbook as of 9M14 does not include the USD 3.5bn (€ 2.6bn) contract awarded in June14 to MEA by Sundance Resources, as the miner excepts to secure the financial closing of the project by the end of 2015. EM should drive double digit growth in the upcoming years at both top line (+12% CAGR13-17 ex consolidation of EGF) and EBITDA (+14% CAGR13-17).

FY13 Sales proforma (1)

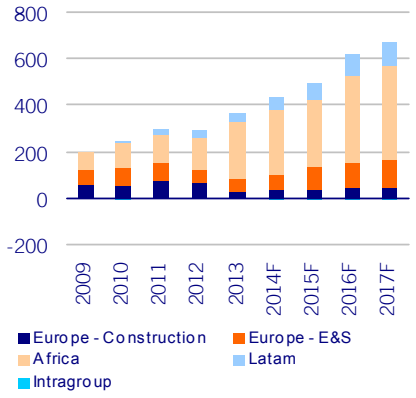


(1) Assuming full consolidation of EGF - E&S company acquired in 2H14.
Source: ME and BPI Equity Research.

Sales Evolution (€ mn)

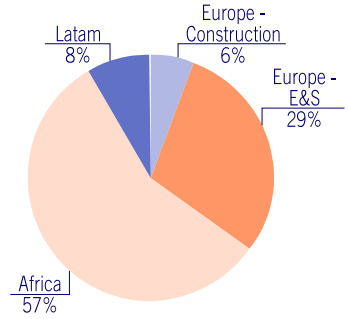


EBITDA Evolution (€ mn)



Source: ME and BPI Equity Research.

FY13 EBITDA proforma (1)

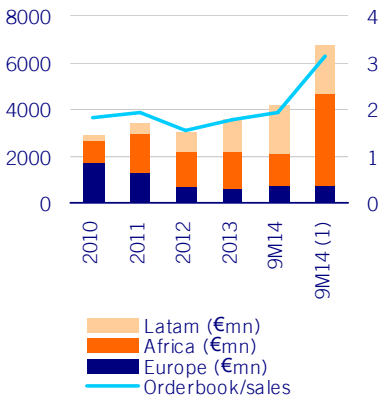


(1) Assuming full consolidation of EGF - E&S company acquired in 2H14.
Source: ME and BPI Equity Research.

Non-recourse is non-recourse?

Infrastructure companies' balance sheets invariably bring to the table the debate over recourse and non-recourse debt. Typically, ring-fenced projects such as concessions are project financed (non-recourse debt) and have higher than average debt capacity, sometimes with ND/EBITDA well above 10x, backed by the project's stable and relatively more predictable cash-flows. The debt attached usually follows the CF duration and shareholders of the projects typically finance their entry through equity injections assumed as corporate debt. During the construction phase, the bridge loans are assumed as corporate debt, later on financed through non-recourse financing. Recent events increased concerns over the effective meaning to risk of recourse and non-recourse financing. The idea is theoretically sound: non-recourse debt means that should the sponsored project fail, there is no liability to the sponsor beyond the equity injected, i.e., there is no contamination to the corporate balance sheet. Amidst financial restructuring of distressed projects, there have been instances when the sponsors saw guarantees being executed, effectively contaminating their balance sheets. In other cases, equity injections take place as the owner believed it would make more economic sense to support the project, allegedly in return for future profitability. But investors concerns heightened particularly when accounting reclassifications move recourse debt into non-recourse or vice-versa, leaving the perception that in some case the risk can effectively shift

Construction Orderbook



Source: ME and BPI Equity Research.

across perimeters. Another issue resides with available cash in the BS, as it is often the case that project finance and certain financing arrangements require minimum levels of available liquidity to increase the level of comfort in debt service coverage ratios, that cannot be used by companies constituting, in essence, restricted cash.

ND/EBITDA at 3.6x in 9M14...

ME's Net debt (ND) as of 9M14 stood at € 1.25bn, with an annualized 3.0x EBITDA, or € 1.46bn including Leasing &Factoring, implying 3.6x EBITDA. ME mentioned that ND allocated to operating activities stood at € 859mn (2.1x EBITDA), with the balance presumably financing primarily equity-accounted assets such as ASCENDI. We note that ND allocated to operating activities is not a criterion to distinguish recourse and non-recourse debt and as such we assume all consolidated debt is with recourse to the group. The same does not apply to debt at the equity-consolidated subsidiaries' level, where in the case of ASCENDI a relevant part should be without recourse to ASCENDI and consequently to ME.

Proportional consolidation angle shows higher leverage at 4.8x

On a proportional basis, though, i.e. assuming a proportional consolidation of the portfolio (fully and equity consolidated stakes), the ND/EBITDA 13 ratio would stand at 4.4x or 4.8x including leasings, which compares with 2.7x and 3.3x including leasings reported at group level at YE13. Comparisons across companies are misleading due to the different business mix, consolidation methods and asset durations. In any case, as a reference, European peers have an average consolidated ND/EBITDA of 4.6x. Interest coverage ratios (EBIT/Net interest expense) have been hovering around 3x at the consolidated level of ME.

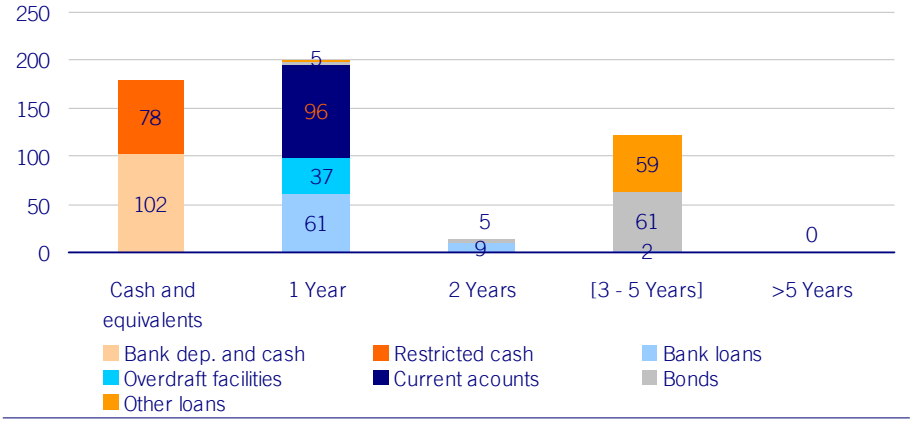
MEA leverage

As of YE13 MEA Net debt reached € 149mn (0.6x EBITDA) vs € 186mn in 9M14 (0.6x annualized EBITDA) or € 240mn including leasing and Factoring (0.8xEBITDA). For YE14 we are expecting MEA to reach € 174mn Net debt (0.6x EBITDA) or € 228mn incl. Leas&Fact (0.8x EBITDA).

Net debt stood at € 157mn in 1H14 (last detailed available information), o.w. gross debt of € 337mn and cash and equivalents of € 180mn - (0.6x annualized EBITDA). The cash position includes € 78mn of restricted cash in Mauritius and Malawi not immediately available under contracts with financial institutions. From the € 337mn gross debt 20%/€ 66mn matures in one year (until 1H15) or 59%/ € 200mn if we include the € 133mn overdraft facilities and current accounts usually renewed every year.

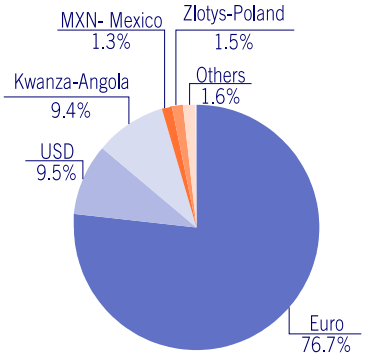
MEA average cost of debt stands at c.9%: (1) € 75mn MEA bond (maturing in 2018) paying Euribor 6M+ 6.75%, (2) € 44.8mn of commercial paper (maturing in 2015) paying Euribor 3M+6.35% and (3) bank loans (€ 73mn as of 1H14) paying an average of 11.06% (range between 5.57% and 38.75%).

MEA liquidity position and debt maturities as of 1H14 (€ mn)



Source: ME.

ME Debt by currency



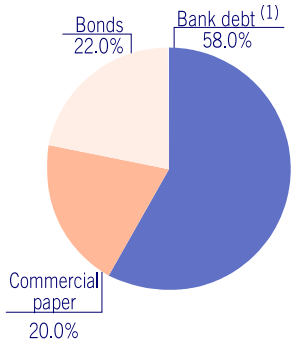
Source: ME.

ME Cost of debt influenced by geographic exposure

The current average cost of debt stands at 6.5% ex Factoring and Leasing costs. The average remaining life of outstanding debt is 3 years as of September 2014, with c€ 326mn debt (as of 9M14) maturing in less than 1 year (21% of gross debt) or € 575mn if considered the € 248mn of Overdraft facilities & Guaranteed accounts. ME had a liquidity position of € 508mn o.w. € 299mn cash and € 209mn undrawn credit lines.

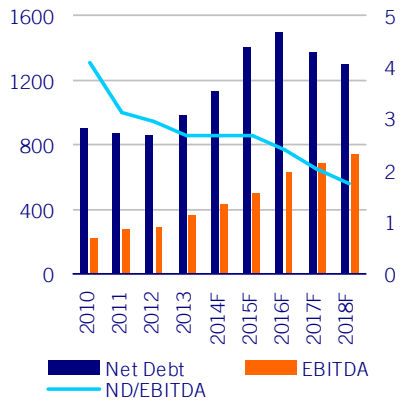
In the past years ME has been diversifying its financing sources by decreasing the dependence from bank debt (78% of total debt in 2012 to 58% in 1H14) with some recent bonds issues. The debt raised outside Europe and in foreign currencies has increased but Euro denominated debt still reaps the lion's share with 77% of total, according to our estimates. Less than 25% of FY13 EBITDA was Euro denominated, c67% denominated in USD proxy (including Angolan Kwanzas) and 10% from Latam currencies (mainly from activity in Peru, Mexico, Brazil and Colombia). ME has been working on improving the matching of debt and CF currencies.

ME Financing sources

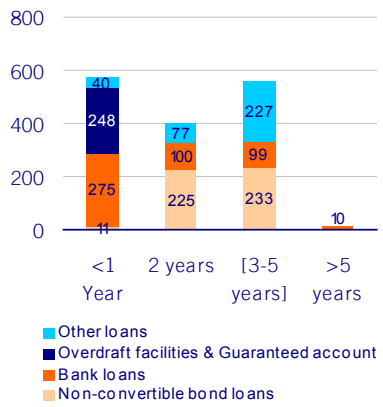


(1) 35 different banks including 7 Portuguese banks, Angolan, Brazilian and other European banks.
Source: ME.

ME ND and EBITDA evolution (€ mn)



ME Debt maturities (€ mn)



Source: ME and BPI Equity Research.

ME's debt more resilient than stock price

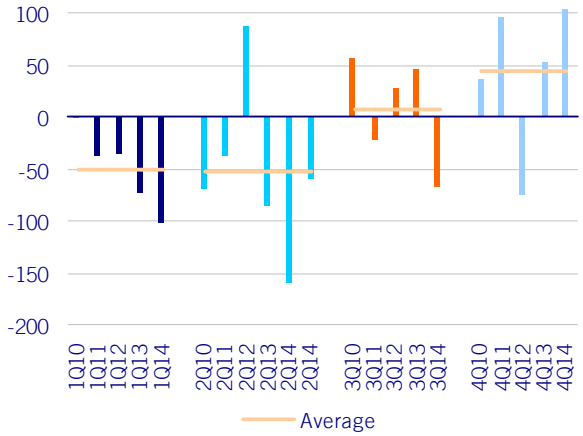
ME holding has currently 5 bond issues outstanding, the biggest of which amounting to € 175mn issued in March 13 and maturing in March 16 with a fixed coupon of 6.85%. The remaining 4 issues are <€ 40mn each. The bond is trading in the market 4.6% above par and with an implicit yield of 3.1% vs. 0.24% from Portuguese treasury bonds at 1 year and 2.78% at 10Y, signalling a quiet behaviour by bondholders as opposed to the recent sell off witnessed in the equity. The low liquidity of the bond makes the signalling a weak indicator, though.

Growth impact in BS... WK hypothesis

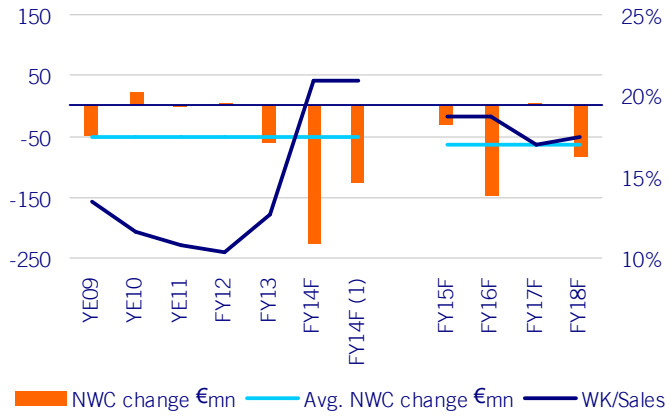
A key question mark resides with the impact that the strong growth in EM will exert on ME's BS. Since 2009 the WK consumption has been on average c.€ 50mn/year or between 10% and 13% of sales. Recent evidence shows a material WK investment to adapt the structure and tackle new projects. ME, on the other hand, mentions that new African projects will have important prepayments that could actually bring a net WK cash inflow. Aside from structure related investments (equipments, buildings, quarries, etc) ME also faces collection delays given the big exposure to the public sector, in Africa for instance.

The total WK in FY13 reached € 294mn equivalent to 13% of total sales. In 9M14, WK deterioration was above previous years at € 330mn, o.w. c€ 100mn related with Poland (regulation forcing earlier payment to suppliers), € 67mn in Africa and an important contribution from Latam. We expect a recovery towards YE of € 104mn to € 521mn (21% sales). WK should remain higher than before (around 18-20% of sales) driven by expected organic growth ahead and sales mix (higher growth from the markets showing worse WK trends, namely EM)..

NWC change by quarter (€ mn)



Working Capital



(1) Ex one-off effect in C. Europe.

Source: ME and BPI Equity Research.

EM paying late

70% of MEA revenues (30% of ME consolidated revenues) have origin in the public sector (MEA Orderbook 61% public) and the majority of these projects are backed by supranational entities (such as European Union) or developments agencies (such as the Development Bank of South Arica) mitigating the risks of delayed or default payments.

Angola's oil-driven economy heightens risks

The delays of collections in Angola (c.40% of MEA FY13 EBITDA and c25% of consolidated EBITDA) are well known. The delays gained visibility back in 2009, with USD135mn reported equivalent to 25% of Angolan revenues. The lower oil price hampered the ability of the Angolan budget to cope with the levels of investments and consequently normal payable periods. At this respect, the situation began to normalize with the oil price recovery in the following years. The Oil sector represents almost half of Angolan total output (43% in 2012) and c.75% of tax revenues.

As of YE13, overdue receivables from Africa represent c€ 0.6bn that compares with total trade receivables of MEA of € 0.7bn. The sale of 49% of ME Angola to Sonangol was a milestone in the group's strategy back in 2010 that we believe improved the strategic positioning of the group, combining ME's long standing presence in the country (since the 60's) and a strong local group both boosting order intake potential and reducing "country risk" in all its manifestations including collection periods. On the other hand, ME Angola committed to a payout policy (currently around 75%) to the minority shareholder, which to a certain extent is a trade off.

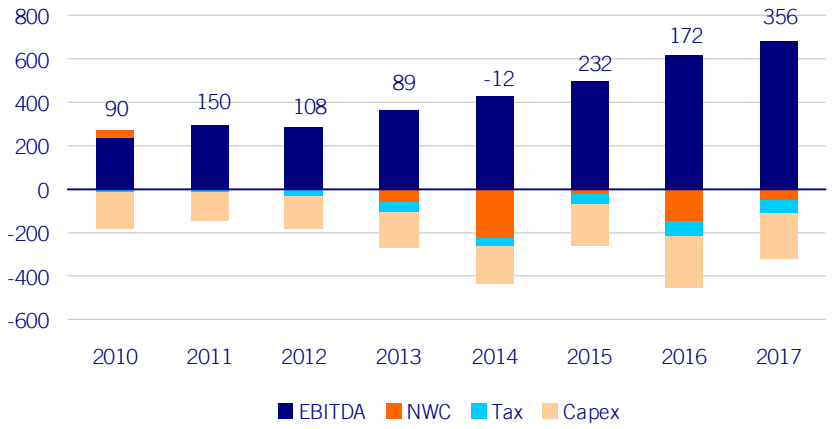
€ 788mn receivables due at end 2013

Stepping back to WK, we highlight that at YE13, ME had outstanding receivables due of € 788mn out of € 1bn total clients receivables in its BS, and c€ 307mn due for over 12 months. Africa accounted for € 751mn receivables (clients), implying a ratio over FY13 revenues of 64% vs the consolidated group ratio of 40%.

Operating CF hiccup in FY14

In the last 4 years, ME's operating cash flow after capex was on average € 110mn/ year. As a result of this year's WK trends, CF should be on the red at minus € 12mn but expectedly recovering thereafter projecting a +23% CAGR13-20 driven by a 13% EBITDA CAGR13-20 on increased contribution from Africa and Latam and WK stabilization.

Operating Cash Flow after capex (€ mn)



Source: ME and BPI Equity Research.

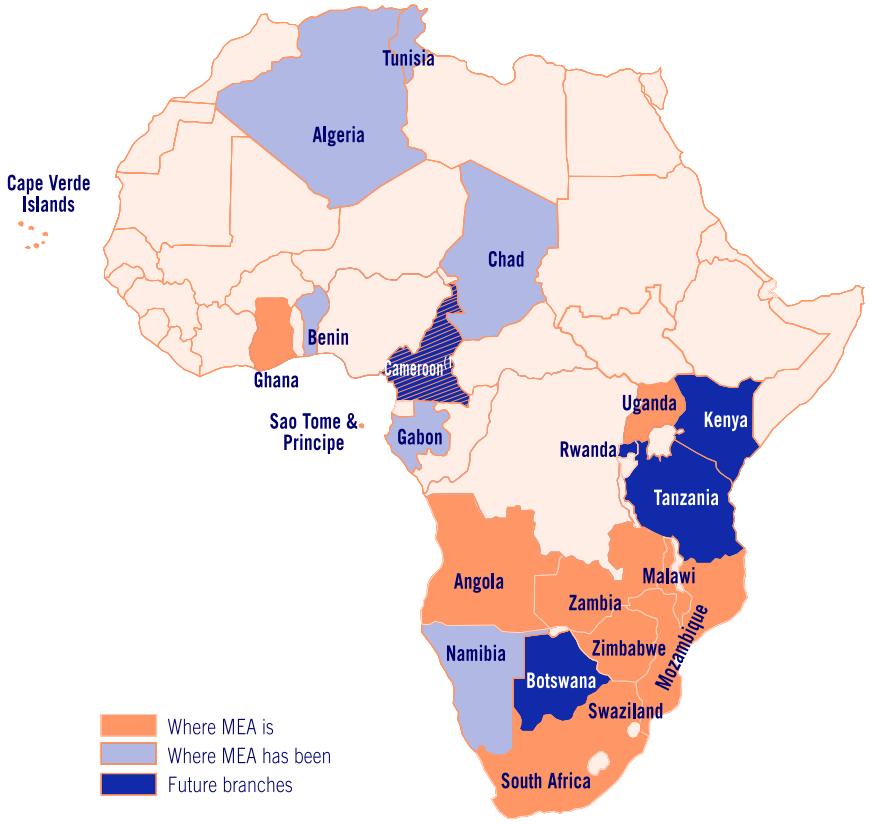
Africa/MEA (40% of FY13 Sales pro-forma; 57% of EBITDA)

MEA - 68 years of African DNA

ME's African operations are combined under the umbrella of the listed player Mota Engil Africa (MEA). MEA operates in 10 countries grouped under 4 main regions: Angola (50% of FY13 Revenues), Southern African Development Community-SADC (47% of FY13 Revenues), West Africa (1%) and East Africa (<1%). MEA intention is to expand its presence to other countries such as Cameron, Kenya, Tanzania, Rwanda etc. MEA also has a 3% stake in BAI - Banco Angolano de Investimentos (€ 40mn BV as of YE13).

According to ME, its subsidiaries (including MEA) should be self-sufficient in terms of operations and financing but the parent will continue to support the operating units in cases where scale or special skills are required. ME operates in Africa since its foundation in Cabinda - Angola in 1946. The company is 100% exposed to the Sub-Saharan African region (Ex. South Africa) with a strong track record in five main countries: Angola, Mozambique (since 1993), Malawi (since 1990), Cape Verde (since 1995) and Sao Tome & Principe (since 2005).

MEA Activity

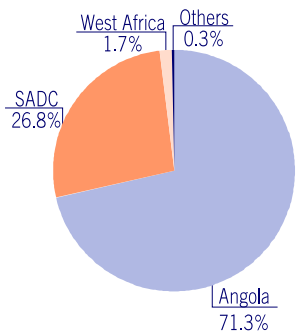


(1) MEA has recently signed a EPC contract with Sundance Resources.

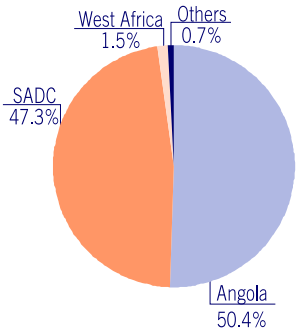
Source: MEA.

While historically Angola has been the main market (71% of FY Revenues and 69% of EBITDA) the start of the Nacala railway project in Malawi (2012) and the emergence of new projects in others SADC countries changed the revenues/EBITDA mix.

MEA FY11 Revenues

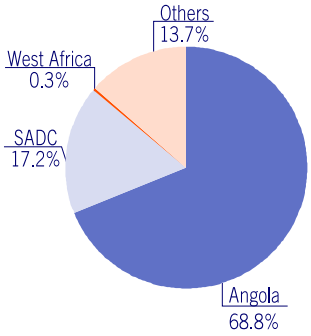


MEA FY13 Revenues

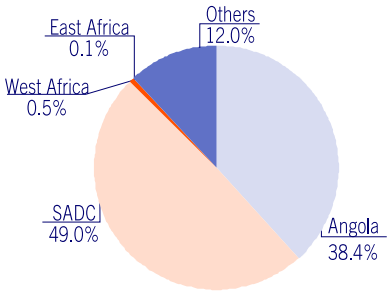


Source: ME.

MEA FY11 EBITDA



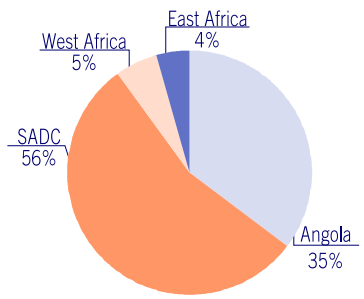
MEA EBITDA FY13



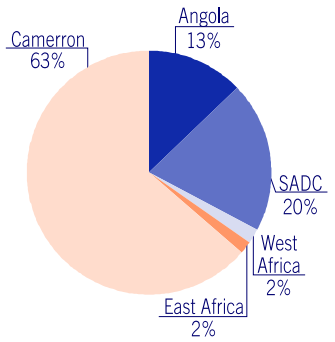
Source: ME.

MEA total orderbook reached € 1.3bn in 9M14 (1.2x of Sales). However, this orderbook does not include the USD 3.5bn (€ 2.6bn) contract awarded in June14 to MEA by Sundance Resources for the EPC (Engineering, procurement and Construction) of a 580km railway project (including also deep water port) in Cameroon. Sundance expects to secure the financial closure of the project by late 2015. The fall of iron ore prices should be a headwind to the mining project economics. The possibility of Sundance farming out a stake to enable the financing should not be ruled out. In addition, MEA has a c.USD 10bn pipeline that shoul boost the order backlog over the comming month.

MEA orderbook as of 1H14 (€ 1.5bn)



MEA orderbook as of 1H14 incl Sundance project (€ 4.1bn)

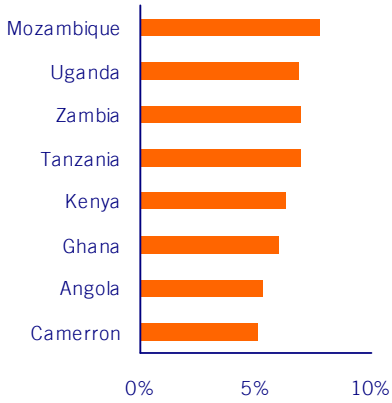


Source: ME.

African growth opportunities

The African growth play is not new to anyone. The African continent, and particularly the Sub-Saharan region (SSA), offers strong macro prospects with a GDP CAGR14-19 above 5% for the counties where MEA is more exposed to, and a rising population and economies requiring critical Infrastructures (Highways, Railways, power generation etc...). The programme for Infrastructure Development in Africa - PIDA (led by the African Union Commission (AUC), New Partnership for Africa's Development (NEPAD) and the African development bank) envisage a USD 360bn investment in infrastructure development between 2010-40 o.w. USD 68bn until 2020 in 51 specific projects across energy, transport, water resources and other sectors. MEA, as a relevant African construction player, should be able to grab part of these projected investments. Moreover, we recall that Presidential elections in Angola should favour some order-intake increase in the short term despite the oil price weakness and consequently negative impact in the country's budget.

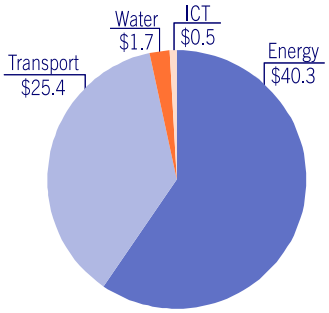
GDP CAGR2014-19 of countries where MEA is present



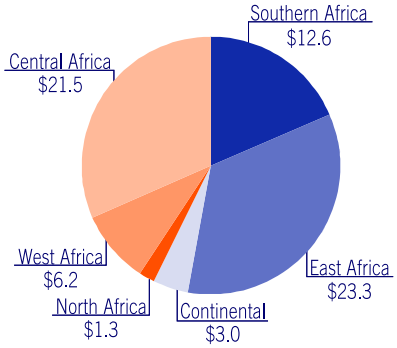
Source: IMF- Economic Outlook 2014.

Total Investment of PIDA's Action Plan

Sector ($bn)



Region ($bn)



Source: PIDA.

Sub-Saharan Africa - Some comparative indicators

	Country	GDP (USD bn)	GDP pc (USD)	Population (mn)	Real GDP Growth (14-13)
1.	Nigeria	521.8	3 082	169	8%
2.	South Africa	350.8	6 621	53	3%
3.	**Angola**	**124.2**	**5 964**	**21**	**10%**
4.	Kenya	55.0	1 316	42	5%
5.	**Ghana**	**47.8**	**1 871**	**26**	**7%**
6.	Ethiopia	46.0	518	89	11%
7.	Tanzania	33.3	719	46	7%
8.	Cotê d'Ivoire	32.1	1 332	24	3%
9.	DR of Congo	29.9	388	77	7%
10.	Cameroon	29.3	1 331	22	4%
11.	**Zambia**	**26.8**	**1 845**	**15**	**8%**
12.	**Uganda**	**22.9**	**623**	**37**	**7%**
13.	Gabon	19.3	12 326	2	3%
14.	Equatorial Guinea	15.6	20 605	1	6%
15.	**Mozambique**	**15.3**	**593**	**26**	**8%**

Note: Countries where MEA is present are painted.

Source: IMF (WEO October 2014).

18% Topline CAGR14-18^F

In the past 3 years, MEA posted a 30% and 38% CAGR growth in Revenues and EBITDA respectively on the back of a strong increase in Angola (+10%) and SADC (+74%) coupled with high margins in Angola (between 19% and 21%) and in SADC (from 14% in 2011 to 25% in 2013), which benefited from the Nacala railway project in Malawi (completed in 3Q14). In 2014-18^F, we are assuming a CAGR of 18% and 12% on sales and EBITDA respectively, built over an expected tender pipeline worth over USD 10bn (pre-qualified). Apart from the order intake debate, the sustainability of margins is paramount to the valuation of MEA. We assume a progressive ease of consolidated EBITDA mg from 24.2% in FY13 to c.20% in 2018^F (in line with management guidance), which is still way above any standard we know in Europe or even Latam (8.3% EBITDA mg in FY13 for ME).

A look at MEA USD 10bn pipeline

MEA reported a total USD 10bn tender pipeline o.w. USD 7bn from pending bids (waiting financial closing) and USD 3bn from pre-qualification tenders. Of the USD 7bn, USD 3.5bn concerns the Sundance project (details below). Excluding that, the USD 3.5bn balance relates with (1) East Africa: 46% or USD 1.6bn in Uganda, Kenya, Tanzania and Rwanda (2) West Africa: 26% or 0.9bn in São Tome & Principe, Ghana and Cameroon (3), SADC: 14% or USD 0.5bn in Mozambique, Malawi, Zambia and Zimbabwe and (4) Angola: 14% or USD 0.5bn.

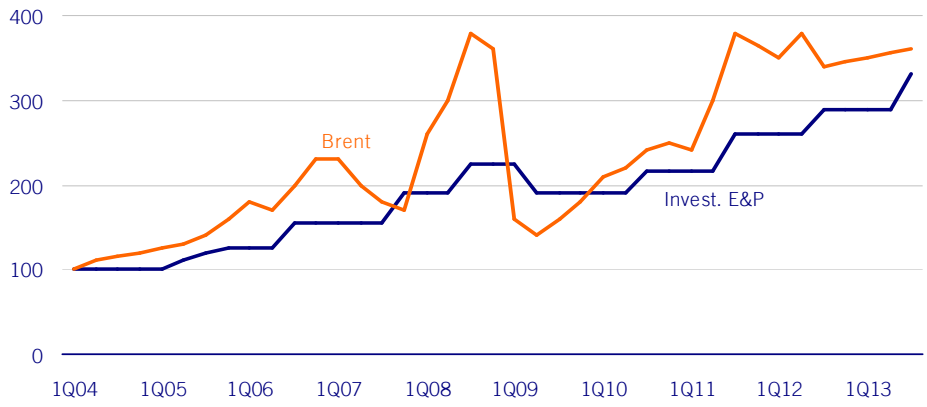
Pipeline may be affected by slump in commodity prices

The dependence of national budgets from oil or natural resources in general are a relevant constraint or risk across several of those geographies. We stand out Angola - 14% of pipeline - with 46% of GDP related with the Oil Sector. Ghana (6% of GDP) and Cameroon (8%) are included in West Africa pipeline (26% of total). On a sector basis, and excluding Sundance project, the majority (72% or USD 2.5bn) of MEA pipeline relates with Infrastructure works (Roads, Railways etc..), 26% or

USD 0.9bn from Civil construction and only 2% or USD 0.07bn directly related with mining (incl. Oil) projects. According to the company only the Sundance project is directly related with mineral extraction the remaining are dams, hospitals, airports etc… not directly related with Oil. The point, however, is not as much the nature of the project as it is the ability to financing it and the economic outlook that is the basis for carrying out the investment.

Without surprise, the historical evolution of the investment in the Oil Sector E&P is positively correlated with the Oil prices, which is one of the reasons behind current concerns on possible delays of works, impossibility of reaching financial closing in some projects and a general potential for payment delays to contractors in the regions more dependent on oil as a revenue for the economy.

Change in E&P investment, prices and costs



Source: Institute Français du Pétrole (IFP).

African countries dependence from oil sector

	% of ME EBITDA13	% Orderbook YE13	GDP Contribution					
			Oil	Electricity, gas, water	Agriculture	Const.	Manufacturing	Others
Angola	26%	13%	46%	0%	10%	8%	7%	29%
SADC	33%	26%						
Mozambique			0%	4%	33%	3%	12%	48%
Malawi			0%	1%	31%	3%	10%	55%
Zambia			0%	3%	18%	29%	8%	42%
Zimbabwe			0%	4%	13%	4%	14%	65%
West Africa	0%	2%						
São tome & Principe			0%	2%	23%	8%	7%	61%
Ghana			6%	1%	21%	13%	6%	52%
Cameron			8%	1%	23%	6%	15%	48%
East Africa	0%	0%						
Uganda			0%	4%	24%	15%	9%	48%
Kenya			0%	0%	30%	5%	10%	55%
Tanzania			0%	2%	29%	9%	9%	51%
Others Africa	8%							

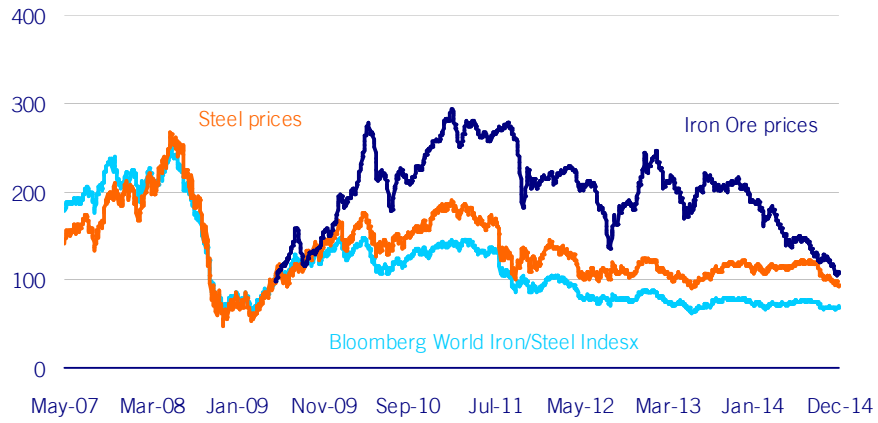
Source: African economic outlook and ME.

BPI

The USD 3.5bn Sundance Project

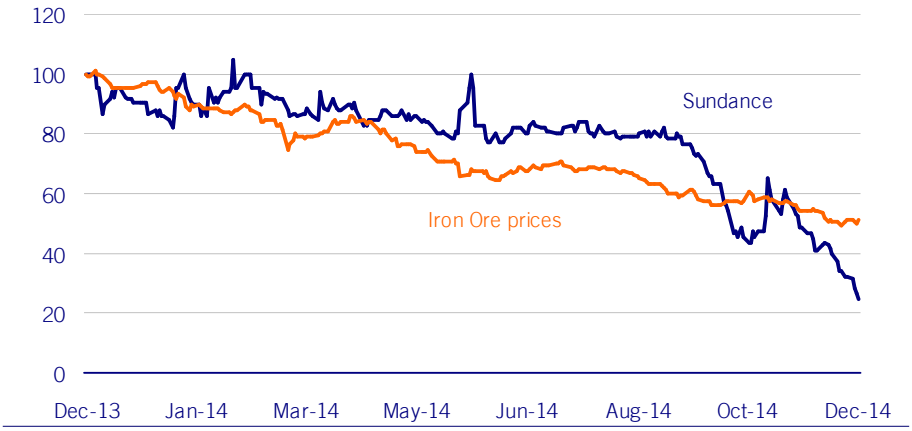
MEA was awarded the construction of a 580km railway line and a deep water port terminal by Sundance. The Australian group started the feasibility studies of the project in June 2007 (final feasibility study in April 11) and in the end of 2012 signed the 35-year concession for the exploration of the iron ore mine. Previously, Sundance pointed as mid-2015 for the financial close of the project but is now targeting the closing by late 2015. The feasibility study of stage I points to an operating cost of USD 21.2/ tonne (one of the lowest of any iron ore operation in the world according to the company). Capital development costs for the initial stage of the operation are estimated to be USD 4.7bn (USD 133/ton). At that time (April 11) the Iron Ore price was c. USD 180/ton and now is 61% below at USD USD 71/ton. Moreover Moody's has recently (Dec14) downgraded the rating of some companies with direct exposure to Iron ore production (namely the Australian Atlas Iron) due to expectation that Iron ore fundamentals will remain weak at least until 2016. Needless to say that after some initial excitement regarding this award to MEA/ME, odds of a soon financial closing are more remote judging from the mentioned economics of the project. The potential for a farm out could be a way out but general concerns on the iron ore exploration context at this stage should cast doubts on a ST solution, in our view. If we are wrong about this, then it can really be an exciting driver for MEA and ME alike.

Iron ore and steel price (rebased)



Source: Bloomberg.

Sundance sh price vs. Iron ore price (rebased)



Source: Bloomberg.

Ring fencing MEA

ME stated that financial flows between ME parent and MEA are almost exclusively related with upstream of dividends that should start in 2015 with MEA likely following the dividend policy of its parent company (payout between 50%-75%). There are no intercompany loans and the only financial flow relates with some WK concerning services provided by the parent.

Leveraging on its logistics foothold

MEA has a differentiating **logistics infrastructure** with high level of integration: warehouse and precast factories in Angola and Malawi as well as several quarries, aggregate plants and a significant level of equipment (>4.5k pieces of heavy equipment) that decrease the need of subcontractors which is crucial in some remote and challenging areas of Africa. The scale is also present in **human resources** (14,600 workers o.w. c.9% expatriates - mainly form Portugal), while the company has been making a strong call on its **track record** concerning the timely execution of the works. The long standing presence in Angola, in particular, built **local relationships** (with private and public clients) that should remain key in future tender processes allied to the group's track record. Actually, the 2010 sale of 49% of ME Angola to Sonangol - Angola's state oil company, BPA, Finicapital and Globalpactum for USD 350mn, is a fine example of the strategic position of MEA. The price had an implicit EV/EBITDA of c.4x to which should be added tax benefits through 2016.

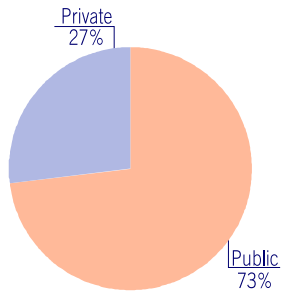
Competition to remain fierce but tender pipeline should be accomodative

Brazilian and Chinese players have been tough competitors in MEA's home markets, with the Chinese competing more on the financing and cost-side as opposed to MEA's reliance on track record and permanent presence. South African players are emerging players, gradually increasing their exposure to MEA's markets.

Exposure to public sector is a risk to live with

The **high exposure to public sector** (69% of FY13 revenues and c.60% or backlog) is a key risk, visible on WK and potentially when political risk heightens. MEA has been increasing the weight of private projects - MEA pipeline as of Sep14 is moslty (73%) from private clients. MEA works with some large companies such as Vale, Rio Tinto, Total, Galp, Arcelor Mittal etc. However, the growth opportunity in Africa should continue to be vastly public-financed meaning that this is a risk to live with in Africa and one that MEA has been managing across economic cycles.

MEA - Pending bids as of Sep14 (€ USD 7bn)



Source: MEA.

MEA - Listed in Euronext Amsterdam

In November 2013, together with the presentation of 3Q13 results, ME announced the intention to list its African unit - MEA, in an European stock market together with a capital increase reserved to ME's shareholders. ME also announced the payment of a dividend in kind equivalent to 20% of MEA (rights detached in 17 Jan14) that was "paid" with the recent listing of MEA, after which ME was left with an 80% stake.

ME's initial intention was to list MEA in London, trading in the main market for listed securities on the London Stock Exchange. The operation would encompass a Direct sale to institutional investors of a 20% stake and a 15% capital increase. The operation was called off in July amidst market volatility and eventually advanced in November for a "technical listing" in Amsterdam (free float requirements) with an initial technical price of € 11.5/sh, close to the low end range set for the July

IPO. In fact, the price range had been set between GBP 9.20-11.60/sh or € 11.6-14.6/sh implying an equity value pre capital increase of € 1.16bn/1.46bn and a 6.6x/8.1x EV/EBITDA13. MEA is now listed in the stock market with 80% in the hands of ME, c.14% in the hands of Mota family resulting from the dividend in kind of 20% of MEA and c6% free-float. At the "ex-dividend" date, Mota family had a 67.8% stake in ME, subsequently selling 11.3% in Feb14 trough an ABB at € 4.65/sh. ME management continues to assess the possibility of a capital increase at MEA, which in the initial IPO was expected to reach between € 173mn and € 219mn. The issue of bonds at MEA level is also a possibility to reduce the current MEA average cost of debt of c.9%.

MEA: Stock trading at 22% discount to low end of IPO range... but low free float

The current market price of MEA (€ 9.06/sh) stands 22% below the low end price range of the initial IPO (€ 11.6 - € 14.6/sh). In our SoP, we are using the current market value of MEA (€ 9.06/sh or € 906mn market cap for 100%) although we recognize that MEA's low free float (6% if excluded the stake of Mota's family in MEA) could be a reason for not accurately reflecting its intrinsic value. For the bull's in Africa, our approach may seem too conservative, but we also argue that with MEA listed, the market should take care of asymmetric expectations between ME and MEA. In other words, should there be more relative upside in MEA, then investors in general will move into MEA, and vice-versa.

ME could trade at between € 4.8 and € 5.9 assuming MEA initial IPO price range

According to our estimates, if we plug MEA's price range of the postponed IPO in our ME SoP, ME's fair value would be at between € 4.8 and € 5.9 (including 10% discount), with the 80% stake in MEA worth the equivalent to between € 4.5 and € 5.7 per ME share.

ME not a clear leveraged play in MEA

Another point in the analysis is the leveraged position in MEA investors may replicate through ME. This is obviously an imperfect strategy given the many other business units held by ME, but it deserves some consideration. From another perspective, even if a bullish view in MEA would recommend under certain circumstances to play it through ME, one must take in consideration the higher risk embedded in such a position. In any case, all else constant and at current stock prices, a 10% move in MEA would imply a 11.6% change in ME, which does not seem to make a strong case for using ME as a leveraged vehicle to play MEA.

ME Angola deal valued the operation at c4x EBITDA back in 2010

ME sold 49% of ME Angola (50% of MEA FY13 revenues) in 2010 for USD 350mn, with an implicit c4x LTM EV/EBITDA. The fairness of the deal must be assessed in light of some add-ons namely the tax exemption until 2018 (difficult to make a direct connection given that the deal was not done with the State directly) as well as some rights over real estate rents that were left our of the deal. Besides, as we mentioned above, the step-in of a strong partner - Sonangol - which is also one of the main private clients of ME Angola, reinforces order intake capacity and decreases perceived "country-risk". The deal also led to a commitment by ME Angola to pay out 50% of earnings to the minority shareholders (49% of share capital) in the first two years of the partnership and 75% thereafter (since 2014 on FY13 results).

MEA trades at 3.8x EBITDA 14^F and 3.9x 15^F

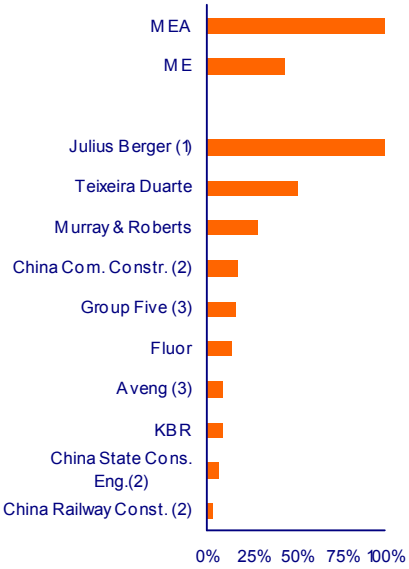
At the current market price, MEA is trading at 3.8x/3.9x EV/EBITDA14/15^F vs 4.8X/5.0x at the low end of the IPO range and 6.1x/6.3x at the high range. The main Construction/Infrastructure listed players with exposure to SSA are trading at 6.0x/4.8x EV/EBITDA14/15 or 5.0x/4.5x if we use the weighted average of each player's exposure to SSA markets. However, the analysis has shortcomings (as always seems to be the case), mostly due to the geographic exposure profile, considering MEA's exclusive exposure to SSA and in particular to its home market - Angola.

Peer group trades at a premium...

Listed peers most directly comparable to MEA encompass South African construction players that typically operate in the South African market, which is more mature than the rest of SSA, and outside Africa, namely Australia, with the exception of Julius Berger that is a pure Nigerian player. The group also encompasses Group five and Avenge (both with a <16% exposure to SSA ex South Africa) and Murray & Roberts with a 29% exposure to SSA but is mostly South Africa exposed. Among those listed outside Africa, we highlight Teixeira Duarte (the 2nd biggest Portuguese construction player with significant exposure to Angola and Mozambique in Construction and in food and auto retail as well as hotels), China Com. Construction (17% of FY13 revenues in SSA) and Fluor (13%).

This peer group trades at 6.0x/4.8x EV/EBITDA14/15 or 5.0x/4.5x if we weight each player for its exposure to SSA markets.

Constructions & Engineering listed palyers - Exposure to SSA (% of FY13 Revenues)



Source: Companies and BPI Equity Research.

SSA Construction & Enginnering Companies

	Listed Country	Market Cap (€mn)	% of FY13 in SSA	Total Sales FY13 (€mn)	Total Sales in SSA(€mn)	EV/ EBITDA 14	EV/ EBITDA 15	PER 14	PER 15	ND/ EBITDA 14	ND/ EBITDA 15	EBITDA mg 13	Sales CAGR 13-16	EBITDA CAGR 13-17
Mota Engil														
MEA[1]	Amsterdam	986	100%	1009	1009	3.8	3.9	9.3	8.1	0.6	0.2	24%	22%	15%
ME[1]	Portugal	608	44%	2314	1009	4.6	4.0	11.9	9.0	2.7	2.7	16%	17%	20%
Peers														
Julius B.	Nigeria	362	100%[2]	962	962	2.9	2.8	6.7	7.7	n.a.	n.a.	11%	5%	9%
TD	Portugal	324	51%	1630	836	8.1	7.5	5.4	6.3	5.3	4.8	11%	4%	15%
M & R	South Africa	643	29%	2694	786	3.5	3.1	8.3	7.1	-1.1	-1.2	7%	-1%	1%
China CC	China	14774	17%[3]	34833	5944	10.9	9.9	7.2	6.7	4.1	4.2	8%	9%	14%
Group Five	South Africa	230	16%[4]	958	152	1.5	1.4	7.1	6.7	-2.8	-3.0	6%	8%	9%
Fluor	US	7983	13%	22217	2977	6.1	5.6	14.8	13.1	-1.3	-1.4	5%	0%	4%
Aveng	South Africa	498	9%[4]	3788	330	2.7	2.1	10.2	6.7	-0.1	0.3	3%	-1%	24%
KBR	US	2039	8%	6354	508	10.9	4.2	n.s.	13.3	-7.1	-3.1	7%	-3%	-6%
China SCE	China	17735	6%[3]	89667	5739	5.7	5.0	5.9	5.1	1.3	1.2	6%	17%	11%
China RC	China	13965	4%[3]	59713	2150	7.3	6.8	7.7	7.1	1.8	1.9	5%	9%	12%
Average		**5855**		**22282**	**2038**	**6.0**	**4.8**	**8.1**	**8.0**	**0.0**	**0.4**	**7%**	**5%**	**9%**
Avg weighted						**5.0**	**4.5**	**7.2**	**7.6**	**1.3**	**1.4**	**9%**	**4%**	**9%**

(1) BPI Estimates; (2) only Nigeria; (3) Africa, Middle East and South Asia; (4) Ex South Africa.

Source: Companies, Bloomberg and BPI Equity Research.

BPI

...but MEA is a margin outlier...

MEA stands out for its much higher EBITDA margin level reaching 24% in FY13 (avg. 22.5% in FY11-13) vs a range of 3% to 11% of the peer group, with the only pure payer in Africa (Julius Berger, Nigeria) being able to reach double digit margins (11%). The different geographic mix should be a determinant reason for the difference, but the type of projects and clients should also help to understand the gap. We get the reasons for MEA to sustain superior margins over an extended period, but also believe that lack of installed construction capacity to cope with the huge potential flow of projects should gradually adjust in light of the attractive volumes and margins achievable by players such as MEA. The difficult point, though, is to anticipate the period over which margins will normalize. We assume margins just above 20% until the end of the decade.

...and with superior growth: 22% CAGR 13-16 vs 4% peers

Looking at the peer group growth prospects from consensus, only the Chinese group China State CE should see double digit revenues and EBITDA CAGR 13-16 (17% and 11%) vs MEA 22% and 15% respectively according to our estimates. On average, the peer group shows 4% revenues and 9% EBITDA CAGR. The analysis/ comparison shortcomings mentioned above are still applicable in this case, but it nevertheless is a surprising result.

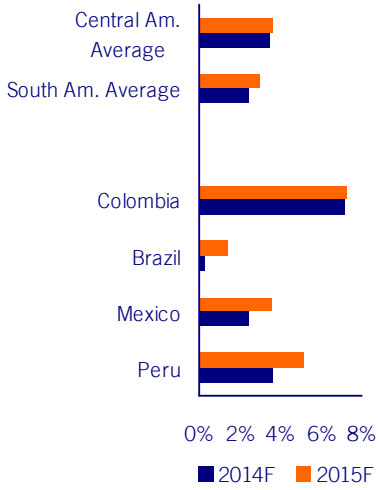
MEA's comfortable BS pre-capital increase

Leverage wise, MEA should be in a comfortable position (0.6x ND/EBITDA14F) depending on the growth level it will face. The capital increase would certainly be a leverage to pursue more aggressively the opportunities ahead and control risks the WK may impose. The peer group is very heterogeneous and together with the different geographic mix renders the comparison close to useless.

Latam (17% of FY13 Sales pro-forma; 8% of EBITDA)

Mota-Engil has been present in Latin America since 1998, having started up its activity in Peru and then extended its presence to Mexico (2008), Brazil (2009) and Colombia (2011). ME does not provide revenues breakdown by country but we estimate that Mexico and Brazil should represent c.50% of sales followed by Peru and Colombia. Along with the African unit, ME Latam has been one of the major growth vectors of the company with sales and EBITDA CAGR11-13 of 26% and 29%. The main target projects in this region include roads, railways, mining infrastructures, ports, waste collection and Oil&Gas infrastructures.

Projected Real GDP Change in Latam



Source: IMF.

Peru: ME started its activity in Peru with the acquisition of Translei (then renamed ME Peru in 2010) and currently owns the concession of the port of Paita (the second largest in the country). Between 2012-2021 the Government expects to invest USD 21bn in transport infrastructures including several roads, subways and port terminals.

Mexico: The presence of ME in Mexico started with the construction in 2008 of Autopista Perote-Xalapa (now an asset under Ascendi umbrella). In 2013, the Mexican government presented a USD 316bn six-year plan to invest in new roads, railways, telecoms infrastructure and overhauling ports o.w. USD 48bn should be spent between 2014-2018. In Sept14 a ME led-consortium was awarded with the construction and operation of a 30-year concession contract encompassing the

105km highway section Tuxpan-Ozuluama on the 'Autopista Tuxpan-Tampico' that involves an investment of about € 290mn. ME holds a 40% stake in the consortium and a € 220mn design and build contract will be handed to ME Mexico. ME also signed a contract to develop hotels and apartments in the Pacific coast state of Nayarit valued at USD 1.5bn (€ 1.33bn) not included in backlog. The group will develop the project during the next 10 years starting 2015 together with local partners and in partnership with Fonatur (Fondo Navioanl de Fomento al Turismo).

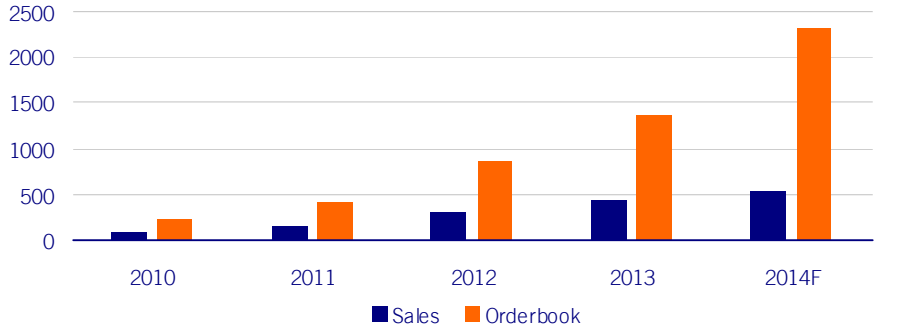
Brazil: In Brazil ME is present since 2009 through the concession Rondon-Leste (under Ascendi umbrella) and in 2012 increased its presence in the country through the acquisition of a majority (50%) stake in ECB - Empresa construtora do Brazil for € 19.4mn. The Brazilian plan for Logistic and Transportation includes more than USD27bn to build 40,000km of highways and railways for the period 2012-2023. The market is intensively competitive with the top 19 players owning c.65% of the market.

Colombia: ME Colombia was established in 2011 and has a partnership with Odinsa (a major local toll road operator) to compete for the tender of several road construction/concession projects. Colombia is one of the most attractive economies in Latin America, with a GDP of USD 369bn and real GDP growth of 4.3/4.5% in 2013/2014. The Colombian government has been increasing its investment in core infrastructures and the Fourth-Generation (4G) Concession Plan presented in 2013 is an example of it. The 4G Concession Plan aims to upgrade 8,000kms of roads and attain 3,500kms of four-lane highway before the end of the decade with a budget of USD 26bn in 2014-2019. The plan includes more than 30 actions, mainly focused on roads but also involving other areas, such as ports and railways. In May, ME /Odinsa consortium has been awarded the construction and management of the first PPP under the new 4G Concession Plan - a 41km road linking Bolombo and La Pintada - Conexión Pacífico 2, implying a Eur 350mn investment. The consortium is composed of ME (10%), Odinsa (25%), Mincivil (21,15%), Construcciones El Condor (21,15%), Termotécnica Coindustrial (13,5%) and Icein SAS (9,20%).

Latam unit to grow at 19% CAGR13-20

For ME's Latam division we are forecasting a 19% and 23% sales and EBITDA CAGR13-20 supported by a € 2bn orderbook (+49% yoy) representing 4x of sales and compares to the € 1.3bn African orderbook. The flow of new awards has been particularly intense in Mexico and Colombia. During 2013 ME's Latam order intake reached € 0.9bn (2.1x of FY13 sales) and € 1.5bn in 9M14 (4x 9M14 sales). In its Strategic plan dated from end August 2012, ME said it aimed Latam revenues to represent 31% of its >€ 3.2bn consolidated top line target for 2015 or >€ 864mn vs. our € 780mn estimate. At EBITDA, ME had guided to 25% of group EBITDA (>€ 450mn EBITDA target, 13% margin) or c.€ 113mn vs our estimate of € 93mn (10% margin).

Latam: Sales and Orderbook Evolution (€ mn)



Note: 9M14 Orderbook reached € 2bn.
Source: ME and BPI Equity Research.

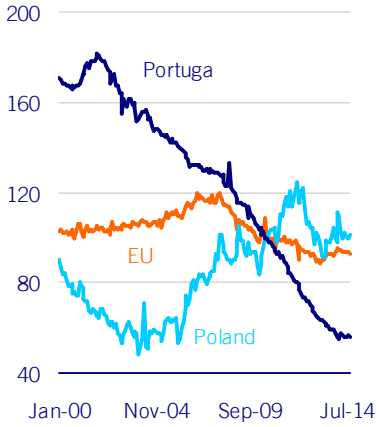
Europe (43% of FY13 Sales pro-forma; 35% of EBITDA)

ME's Europe unit encompasses Construction activities in Portugal and C. Europe - mainly Poland and Czech Republic, and Environment & Services, i.e., Waste, Ports and Water segments in the Portuguese market.

Construction (23% of FY13 Sales pro-forma; 6% of FY13 EBITDA)

ME is the leader of the Engineering & Construction segment in Portugal and is also present in other Central European markets with a special focus in Poland. Between 2009-13, the European construction activity of ME dropped at a 16% CAGR rate (o.w. we estimate a -16% in Portugal and -2% in C. Europe) penalized by public budget constraints and a general drop in public infrastructure investments. ME's orderbook in this region dropped from € 1.7bn in 2010 to € 0.6bn in FY13. For the upcoming years we are estimating a 3% CAGR13-20 with an average order intake of € 0.8bn/year vs. € 640mn average in the last 2 years. After the 2013/14 negative effect from some problematic contracts in Poland (conclusion of some underperforming contracts), underlying margins should recover to just above 7%, benefiting from a recovery in C.Europe and lower competition in Portugal. ME has confirmed that margins in Portugal have been remarkably high (>13% in 2012 - last reported year) due to the current low competition in domestic market and expects the return to more "normalized" levels with the progressive recovery of the sector in the upcoming years.

Production in construction (1)



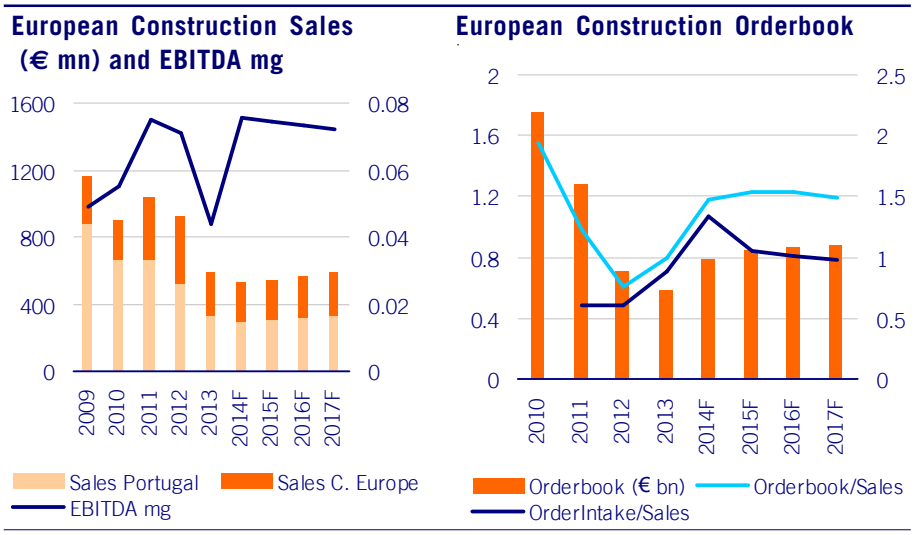
Source: Eurostat.

The Portuguese Priority Investment Plan in Infrastructures (PPIP) encompasses an investment goal of € 5.1bn between 2014-18 o.w. 61% will be financed by EU funds, 28% by the Portuguese State budget and 11% by private companies. 55% of this investment will be focused on railway projects, 30% on maritime works and 15% on roads. We estimate a € 3.1bn order intake in 2014-18 for ME's European construction business (c.55% Portugal /45% C. Europe in Sales between 14-18F). In relative terms, the Portuguese order intake would be 3x covered by the PPIP.

Portuguese Priority Investment Plan in Infrastructures

Period	2014-18
Amount	€ 5.1bn
o.w.	
Railways	55%
Maritime	30%
Roads	15%

Source: ME.

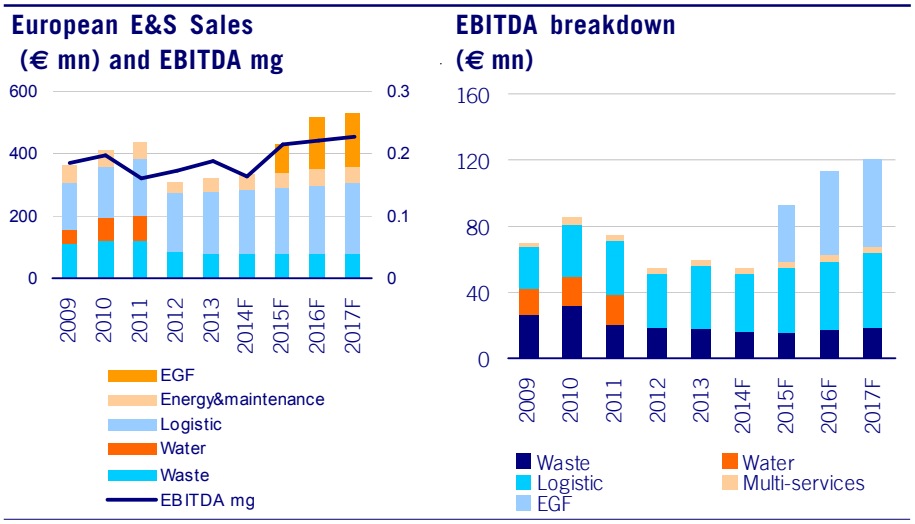


(1) 2013 breakdown estimated by BPI.

Source: ME and BPI Equity Research.

Environment & Services (20% of FY13 Sales pro-forma; 29% of FY13 EBITDA)

n E&S ME operates mainly in Waste collection & treatment and Ports/logistics management. The company recently acquired EGF - the Portuguese market leader in waste treatment and recycling, which will increase significantly its exposure to the Portuguese E&S sector from 16% of ME FY13 EBITDA to 29% proforma including EGF.



(1)Assuming consolidation of EGF from 1H15 onwards. Source: ME and BPI Equity Research.

Waste - SUMA

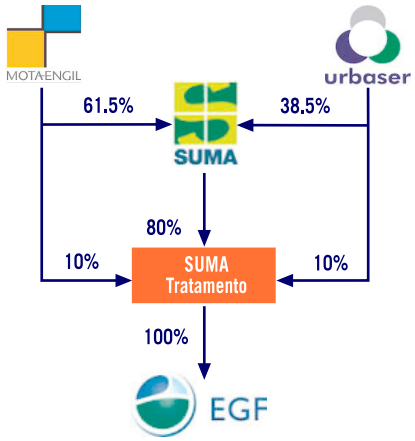
ME, through SUMA (61.5% ME/ 38.5% Urbaser), is Portugal's leader in the privatised waste management market. The main activities within this business segment are solid urban waste and industrial waste collection and treatment, urban cleaning and used oils recycling. The waste business enjoys some stability due to the medium/long term contracts with municipalities, high rate of success in contracts renewals and SUMA's leading position in the sector. We are forecasting a 2%

CAGR13-20 at top line (affected by expected decreases in 2014 and 2015 due to cost cutting at several municipalities) and an average 22% margin for the period in line with the 25% historical average margin.

Waste - EGF

A ME's consortium (59.2% ME/40.8% Urbaser) was awarded in September 14 the privatization of EGF. The deal is still pending the no-opposition by the Portuguese Competition Authority's and should be closed in 1H15. ME's consortium paid € 147mn for 95% of EGF's equity. The Debt of EGF (€ 158.5mn) was already refinanced (non-recourse to ME's consortium) and equity stake was financed at the consortium level through a € 59mn MLT corporate loan and a € 88mn non-recourse MLT loan. The implicit EV paid for 100% reached € 411mn, taking into account the € 103mn minority interest from municipalities that hold different stakes in each of EGF's 11 concessions, representing a 6.2x EV/EBITDA13 or a 9.0x PE13.

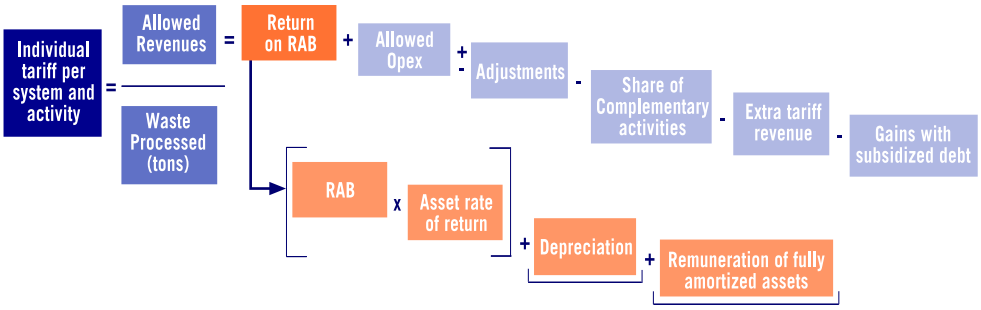
EGF Consortium structure



Source: ME.

EGF is the Portuguese market leader in waste treatment and recycling activities serving 6.4mn inhabitants - 68% mrk share in municipal solid waste business, with all its concessions (11) having a 20 year length (until 2034). 65% of EGF revenues are regulated (current cost plus basis system) and a new regulatory model will be implemented from 2016 onwards based on a RAB return model. The return (RoR) is set by the regulator (ERSAR) for each regulatory period (between 3-5 years) and ME expects pre-tax RoR to be around 8% for a preliminary RAB around € 300mn and with annual capex in the first two years to reach € 30mn, dropping to c€ 15mn in the following years.

EGF new regulatory framework



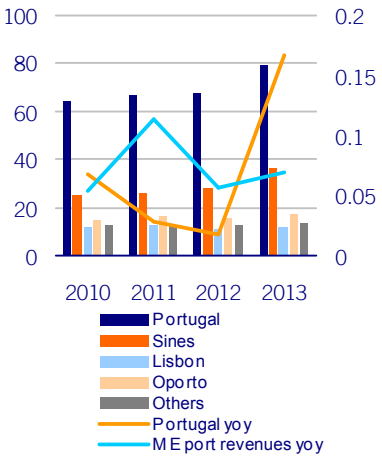
Source: ME.

In FY13 EGF had € 173mn of revenues (vs. € 30mn from SUMA and € 320mn from the entire E&S unit of ME) and a € 66mn EBITDA (vs. € 18mn from SUMA and € 60mn from the entire E&S unit of ME). EGF and SUMA operate in highly complementary activities and together will cover all Portuguese regions enabling operating improvements that could allow efficiency gains and synergies. ME expects costs synergies to reach € 3.8mn/year (6% of EGF EBITDA or 4.5% of EGF+SUMA EBITDA) representing a € 33mn NPV impact according to our estimates or 23% of the equity paid for the 95% stake in EGF (3% of our equity valuation of ME).
With this acquisition ME has now the scale and expertise to increase its international presence (mainly in Africa and Latam). We are valuing EGF through a DCF-APV assuming an 8% RoR and a departing RAB of € 300mn, 2% CAGR increase in non-regulated activities and discounting CFs at a 7.4% Ra (cost of assets). Our valuation points to an EV of € 383mn for YE14 (€ 371mn YE15) including synergies, vs. € 411mn paid by ME's consortium (6.0x EBITDA), and implying an Equity IRR of 10%.

Logistic/Ports

ME heads the Portuguese ports operations market, with concessions in the main Portuguese ports, and also provides transport integration services with the carriage of goods by railway through its subsidiary CargoRail/Takargo. The increase in Portuguese exports has been helping this unit performance with top line CAGR09-13 of +7% and a +4% in 9M14. For 2013-20 period we are estimating a 3% CAGR and an average EBITDA mg for the period of 19% vs. 18.2% historically. In 4Q13, ME sold a 36,875% stake in Tertir (company that aggregates Ports concessions and represents most of the unit's business) for Eur 59mn implicitly valuing 100% at € 160mn in line with. our estimate for the entire Logistics unit.

Portuguese Port Traffic (mn tons)



Source: IMTT and ME.

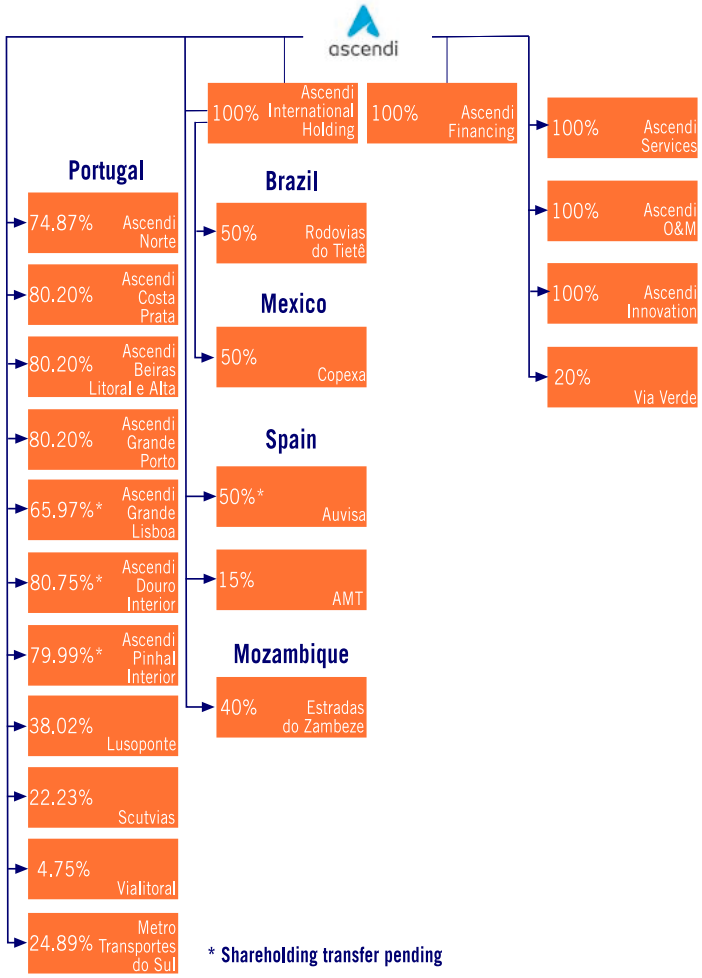
Water - Indaqua (equity consolidated)

Indaqua (Eur 68mn FY13 revenues, € 23mn EBITDA and c.€ 150mn ND) is a water treatment and distribution company currently holding 6 concessions for between 25 and 50 years serving c.216,000 customers. Indaqua was fully consolidated by ME until 2012. In 4Q12, ME sold a 5% stake to BES (now Novo Banco) reducing its stake to 45% and de-consolidated it. During this year, and according to the press, the German company Talanx acquired c.50% stake of Indaqua from Soares da Costa and MonteAdriano. Mota Engil continues to hold a 45% stake while the remaining 5% stake is presumably in the hands of Novo Banco. We value Indaqua stake at BV or € 21.1mn as of 9M14.

Motorway Concessions - Ascendi

Ascendi is a concession company focused in the operation and maintenance of transport infrstructures such as highways and bridges. Ascendi is present in 5 countries with stakes in 16 different concessions (2,892km) o.w. 11 in Portugal (1,541km), 2 in Spain (156km), 1 in Mexico (60km), 1 in Brazil (415km) and 1 in Mozambique (701km). Due to a shareholder agreement with ES concessoes (40% stake in Ascendi) ME consolidates its 60% stake through the equity method (Eur 20mn contribution in FY13, Eur 25mn in FY12 and Eur 9.5mn in 1H14, -19% yoy).

Ascendi structure



Source: Ascendi.

The information on Ascendi is limited but at YE13 the book value of the asset portfolio reached € 4.44bn with an equity book value of € 209mn (still highly impacted by the accounting of interest swaps contracts) implying a € 4.23bn of liabilities. According to ME, the total equity investment by Ascendi reached € 1.03bn as of YE13, o.w. € 0.62bn financed with debt at the JV holding level suggesting a Net Equity investment of € 414mn (€ 248mn for the 60% stake of ME). In our valuation of Ascendi, we are using the reported Net Equity investment

Ascendi (€ mn)

Equity investment	1 034
Portuguese road conc.	800
Bridges - Lusoponte	96
Brazilian concessions	57
Mexican Concessions	81
Net Debt	620
Net equity investment	414
ME (60%)	248

Source: ME and BPI Equity Research.

for Lusoponte, Brazilian and Mexican Concessions (assuming a proportional distribution of the Eur 0.6bn of holding Net debt by each concession) while for the Portuguese road concessions we are using an in-house DDM model to factor-in the recent renegotiation with the Portuguese State. Our DDM model yields a Eur 315mn equity value for Ascendi's stakes in the Portuguese roads (2% below the reported net equity value) with a 10.9% equity IRR. Our valuation for Ascendi totals € 368mn, including a 10% discount on our valuation to factor embedded risk in our estimates due to the lack of information. ME's 60% stake is consequently valued at € 221mn or 11% below reported net equity investment at YE13.

Ascendi

(€ mn)	Gross Equity investment	Net Debt [1]	Net Equity investment	BPI Valuation
Portuguese road concessions	800	480	320	315
Bridges - Lusoponte	96	58	38	38
Brazilian concessions	57	34	23	23
Mexican Concessions	81	49	32	32
Total	1 034	620	414	408

(1) Assuming proportional distribution of the ND.

Source: ME and BPI Equity Research.

We recall that 40% of Ascendi is held by ES Concessoes (owned by Novo Banco) and according to the press the bank accounted in its books c.€ 150mn for this stake, implying € 375mn for 100% of the equity. The intention of Novo Banco/ES Concessoes regarding its current position in Ascendi is not known but we guess should decide for the sale of it, with the press advancing that several infrastructure funds have shown their interest. The entry of new partners at either the concessions or Ascendi's level is not ruled out.

Martifer (1% of Equity target)

ME has a 37.5% stake in the listed Portuguese construction company focused in Metallic construction and solar projects. Martifer announced in the end of November that it has decided to focus the Group's activity in Metallic construction (steel structures, Aluminium and glass façades, Oil & Gas infrastructures and Naval Industry) and sell its 55% share in Martifer Solar. Martifer has not clarified whether the group is already negotiating the sale of these assets but it would be crucial to avoid an otherwise likely capital increase. Martifer ended 3Q14 with a ND of Eur 296mn, after de-consolidating Martifer Solar debt. Out of the total € 301mn gross debt as of September, € 98mn matures in less than 1 year, € 34mn in 1-3 years, € 112mn in 3-5 years and the remaining beyond 5 years. In 1H14 Martifer undertook a € 28mn capital increase at its Metallic construction unit subscribed by Martifer's main shareholders (I'm SGPS - 43.97% and ME-38.35%) in the proportion of its stake in Martifer meaning that, according to our calculations, ME injected c.€ 13mn. After it Martifer diluted its stake in Metallic construction division from 100% to 75%.

Ambition 2.0: > € 450mn EBITDA by 2015

In 2012 ME presented its strategic plan - Ambition 2.0, with a >€ 3.2bn target for consolidated revenues and >€ 450mn at EBITDA level. In the meantime we believe that the company was surprised by the worse than expected operating results in Europe (-16% in FY12 revenues and -27% in FY13 - ME target implies a 22% CAGR13-15 at European top line vs. -11% in 9M14) and by the better than expected results from Africa (after a 27% increase in FY12 revenues and +28% in FY13 ME target implies a -1% CAGR13-15 at African top line vs. +19% in 9M14). All in all our 2015 estimates (excluding the consolidation of the recent acquired EGF) are below company's target at top line target still aligned at EBITDA (>€ 450mn) mainly due to better than expected margins from African business - 22%F in FY15 still below the 25.3% reported in 1H14. ME is preparing its new Strategic plan that should be presented during 2H15.

ME 2015 Targets

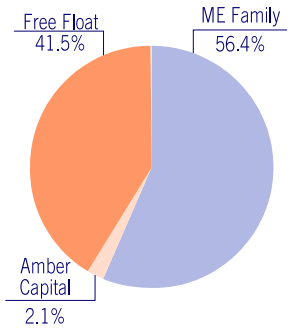
	ME			BPI (1)	
	mn	CAGR 12-15	CAGR 13-15	€ mn	CAGR 13-15
Revenues	**>3 200**	**13%**	**18%**	**2 974**	**13%**
Europe	1344	3%	22%	884	-1%
Africa	992	11%	-1%	1310	9%
Latam	864	40%	42%	780	35%
EBITDA	**>450**	**16%**	**11%**	**467**	**14%**
Europe	144	7%	30%	99	7%
Africa	194	12%	-11%	291	9%
Latam	113	50%	78%	78	48%
	%	vs. FY12	vs.FY13		vs.FY13
EBITDA mg	**14%**	**1.2pp**	**-1.6pp**	**16%**	**0.0pp**
Europe	11%	1.1pp	1.3pp	11%	1.8pp
Africa	20%	0.8pp	-4.7pp	22%	-2.0pp
Latam	13%	2.4pp	4.7pp	10%	1.7pp

(1) excluding intra groups and EGF. Source: ME and BPI Equity Research.

Shareholder structure

The current shareholders structure of ME is composed by Mota Family (56.41% stake) and by Amber capital (2.09%). In February 2014 ME sold (through an ABB placement) its 5% treasury shares (currently has no own shares) together with its main shareholder that placed an 11.3% stake - both placements made at € 4.65/sh. The placement intention was to reinforce ME's balance sheet (c.€ 52mn cash-in) to better tackle the growth opportunities and to enlarge and diversify its shareholder base by improve liquidity and free float.

Shareholder Structure



Source: ME.

VALUATION AND RECOMMENDATION

We are reinitiating the coverage of ME after being restricted on the name since May with the last update of estimates dating from January this year.

Comparing to previous estimates, we are revising 2014-16F topline by an average 5% (ex- consolidation of EGF) mainly impacted by a 15% increase in African estimates backed by the recent strong unit performance (+19% in 9M14), more visibility with the publication of detailed accounting of MEA and its strong pipeline (USD 10bn - >8x FY14F revenues or USD 6.5bn ex Sundance project > 5x FY14F revenues). On the remaining activities ex Africa we cut our 2014-16 topline estimates by 3% mainly due to a 6% cut in Latam, which despite the strong orderbook in the region (>4x sales)) has been showing a slower delivery pace in the P&L.

EBITDA 2004-2016 estimates increased by an average of 9% mainly backed by (1) an 18% increase in African estimates maintaining our previous LT margin estimate around the c.20% threshold targeted by the company vs. 24.2% reported in FY13 and (2) a 12% increase in Europe due to the recent better than expected margins in construction (7.5% in 9M vs. BPIF of 7.6% for FY14 down to 7.2% in 2016) partially compensated by a 12% drop in Latam EBITDA14-16 due to top line revision and a slightly lower margin.

Change in Estimates

	2014	2015	2016	2014	2015	2016	2014	2015	2016
Revenues	**2480**	**2858**	**3566**	**2534**	**2877**	**3074**	**-2%**	**-1%**	**16%**
Europe	861	884	917	861	886	915	0%	0%	0%
Africa	1176	1310	1805	1113	1246	1385	6%	5%	30%
Latam	543	780	989	670	870	907	-19%	-10%	9%
Holding	-100	-115	-144	-110	-124	-133	-9%	-7%	8%
EBITDA	**425**	**459**	**571**	**396**	**445**	**490**	**7%**	**3%**	**17%**
Europe	94	99	104	80	89	97	18%	11%	7%
Africa	289	291	373	248	267	296	17%	9%	26%
Latam	49	78	104	70	91	100	-31%	-15%	4%
Holding	-8	-8	-10	-2	-3	-3	212%	197%	245%
EBITDA mg.	**17.1%**	**16.1%**	**16.0%**	**15.6%**	**15.4%**	**15.9%**	**1.5pp**	**0.6pp**	**0.1pp**
Europe	11.0%	11.2%	11.4%	9.3%	10.1%	10.6%	1.7pp	1.1pp	0.7pp
Africa	24.6%	22.2%	20.7%	22.3%	21.4%	21.4%	2.3pp	0.8pp	-0.7pp
Latam	9.0%	10.0%	10.5%	10.5%	10.5%	11.0%	-1.5pp	-0.5pp	-0.5pp
Holding	7.6%	7.1%	7.1%	2.2%	2.2%	2.2%	5.4pp	4.9pp	4.9pp

Note: BPI estimates ex EGF consolidation.

Source: BPI Equity Research.

We value ME through a SOP with a DCF for the most relevant operating assets (Europe including construction and E&S and Latam), market value for the 80% stake in MEA (ME's listed subsidiary in charge of the African business) and DDM and investment BV of certain assets under the equity consolidated Ascendi (concessions).

ME's valuation (€ mn)

		EV/EBITDA		
	EV	14F	15F	16F
MEA				
MEA EV (1)	917	3.8x	3.9x	3.0x
YE15 Net Debt (2)	-54			
Fin Investments	44			
Equity	**906**			
# shares	100			
€/sh	9.06			
ME stake before capital increase	80%			
MEA Equity Attrib. to ME	**725**			
€ per ME share	**3.54**			
Other business ex MEA				
Europe	1 041	6.4x	6.2x	6.7x
Construction	183	4.6x	4.5x	4.4x
E&S inc. EGF	858	7.0x	6.8x	7.6x
Latam	618	12.7x	7.9x	6.0x
Holding costs	-44			
Total EV ex MEA	**1 616**	**8.0x**	**6.8x**	**6.5x**
Net Debt YE15 ex MEA	-1348			
Ascendi/Concessions (60%)	221			
Martifer (37.5%)	8			
Provisions	-65			
Leasing and Factoring adj.	-164			
Financial Inv.	149			
Minorities	-247			
Equity value ex MEA	**168**			
€ per ME share	**0.8**			
Total Equity	**893**			
# shares (mn)	205			
YE15 Fair Value (€/sh)	**4.37**			
Discount	10%			
YE15 Price Target (€/sh)	**3.90**			

(1) Ex 49% ME Angola; (2) Adj. by off-balance debt and Angola.

Source: BPI Equity Research.

At current prices, the equity stake in MEA is worth € 0.7bn or € 3.5 per ME share. The MEA initial IPO price range indicated an equity valuation for ME's stake of between € 0.9bn and € 1.17bn equivalent to € 4.5-5.7 per ME share. The upside to the low end price range would add the equivalent to 32% of the current ME stock price. At current prices, MEA trades at 3.9x EBITDA15F. We believe that the expected sluggish topline evolution for FY15 (with the end of the Nacala project in 3Q14) is not impacting LT growth expectations by the market. At this point, the

focus is working capital investment and collection of receivables in a environment of lower oil prices, directly affecting national budgets and thus the ability to cope with payments to contractors.

We estimate that the current MEA stock price discounts an average € 200mn/year WK deterioration through 2020, all else constant, vs our base-case estimate of c€ 70mn/year in 2014-18. This should also be the main reason behind fall witnessed since the technical IPO of MEA priced at € 11.50 to the current € 9/share. In a second line of thought, near term growth should also be a concern as a context of lower commodity prices is particularly harsh for investments related with natural resources to reach financial closing and indirectly for other infrastructure investments to get budget support in countries that are oil-revenues dependent.

The fair value of MEA is critical at this point to the formation of expectations for ME's intrinsic value. There will always be a discussion about whether to consider the MV of the stake in ME's NAV or the fair value. The argument is spiced up by the low free-float of MEA and the possibility of investors to move from one to another depending on the relative under/over valuation perceived.

We presented the SoP of ME considering MEA on a standalone basis using the current debt perimeter established by ME. As of 9M14, MEA showed a 0.8x ND/EBITDA annualized vs. our estimate for ME at YE14^{F} of 3.2x. However, the MEA balance sheet should have been the product of a capital allocation decision by the parent. This is useful to correctly assess the intrinsic equity value contribution of each business. Instead of saying that MEA contributes with € 3.5 per each share of ME, we could adjust the MV of ME's 80% equity stake by assuming the same ND/EBITDA of the parent company (this would theoretically transfer value from MEA into the remaining units while obviously being neutral in terms of total group valuation). If we do so, MEA contribution would actually be € 0.8 per share of ME by factoring an assumption of € 0.74bn net debt at YE15 using a 3.2x ND/EBITDA ratio, instead of € 54mn reflected in our base-case (including leasings and adjusted for the 51% stake held in ME Angola) based on the actual accounts of MEA.

The **European business** (c24% group EBITDA 13) is composed of the construction unit in Portugal and Central Europe and Environment & Services, mostly in Portugal. The **construction** unit is responsible for c9% of consolidated group EBITDA in FY14^{F}. We value through DCF (9.4% WACC) at € 183mn EV (11% of total ex-MEA) with an implicit EV/EBITDA15^{F} of 4.5x for an EBITDA CAGR 13-20 of 5%.

The **Environment & Services** unit includes the recently acquired EGF (waste value chain) in Portugal. We value the business ex-EGF at € 477mn (WACC of 8.2%) showing an implicit 8.2x EV/EBITDA 15^{F}. In addition, ME consortium (59.2% ME) announced in November it paid € 142mn for 95% of EGF (5% balance to be likely bought from municipalities) valuing 100% of the EV at € 411mn. EGF FY13 EBITDA represented over 50% of the combined E&S activities (proforma). EGF will be mostly regulated (RAB based) from 2016 onwards, expectedly with a RoA of 8% pre-tax. The synergies from the business (€ 3.8mn/year or c 5.8% of EGF EBITDA) should imply a PV of € 33mn according to our estimates. Even so, we estimate with the preliminary data reported some value destruction, which does not account for potential new business ahead and possible outperformance of regulatory standards to be disclosed by the regulator. The initial RAB should be around € 300mn (vs EV paid of € 411mn). We value the EV with synergies at € 381mn as

of YE15 (6.7% WACC) adopting the RAB system as mentioned, yielding a 5.5x EV/EBITDA15^F or 7.6x 16^F as we assume the new regulation to impose a cut to revenues when is implemented in 2016. REN, a fully regulated transmission company in Portugal, trades at 7x EBITDA15^F and 6.5x 16^F. Our RAB-based DCF implies a value erosion of nearly 7% and an equity IRR of 10%. Overall, the E&S unit contributes with € 858mn to our SoP (3% CAGR ex EGF) representing 53% of the group EV ex-MEA and showing an implicit 6.8x EV/EBITDA15^F (including EGF).

The **Latam construction** unit commands 10% of FY13 group EBITDA and should see topline growing at a 19% 13-20F CAGR. Our DCF (9.6% weighted WACC) sets a € 618mn EV valuation or 38% of total EV ex-MEA, implying a 7.9x EBITDA 15^F (6.0x EBITDA16).

Overall we assume an EV target for YE15 of € 1.6bn ex-MEA, implying a 6.8x EV/EBITDA15^F. If we add the EV of MEA at market value (€ 0.9bn) we would be assuming a total EV of € 2.5bn, with an implicit EV/EBITDA 15^F of 5.1x.

Our Price Target for YE15 is set at € 3.90/share and includes a 10% holding discount. For purposes of the SoP we also assume a Net debt adjusted for Leasing&factoring of € 1.5bn (YE15) and add the value of financial investments that are mostly related with the concession business Ascendi (€ 221mn including a 10% discount on combined DDM and investment BV approach), the stake in the Angolan investment bank BAI (€ 40mn), investment property (€ 55mn) and other dispersed stakes in construction and E&S. .

ME stock price has been on a roller coaster with sentiment shifting quickly in response to prospects of an IPO of MEA, then its postponement, then important announcements fuelling the order intake and mixed earnings release continuing to show hefty operating growth but disappointing cash generation. More recently, the plunge of oil price brought old concerns regarding the ability of oil-dependent countries to continue to invest at the recent pace and honour the debts with contractors.

We continue to be impressed by ME's ability to grow and manage a wide portfolio of activities scattered over the African continent and spreading into Latam where competition has been traditionally fierce. Portugal and Central Europe have been scaling down and ME has been taking the opportunity to reinforce the bet abroad and send its skilled workforce to reinforce the teams in Africa and Latam.

We share, however, market concerns about cashflow generation and consequently leverage. With a consolidated ND/EBITDA of 3.3x at YE13 (including leasing&factoring) or 3.2x for YE14^F, we estimate that assuming a proportional consolidation of the main assets would increase the ratio to 4.8x for YE13. Here we are adding back from the concession business (60% Ascendi, that should be mostly non-recourse), Indaqua (water business, 45% stake) and Martifer (37.5% stake). On the full-consolidation perimeter, the 3.3x ratio is a bit demanding. Inside this perimeter there are capital intensive activities related with the ports concessions and environment concessions. ME also states that of the total € 1246mn Net debt as of 9M14, € 859mn was allocated to the operating activities (2.1x EBITDA annualized) with the balance presumably related with the equity stakes and other assets.

ME is a growth story, not a dividend play. In any case, the group has been following a pay out policy of 50-75% implying currently a DY15 of 4.2% that is clearly at the top of the class. However, this seems more a result of the stock price weakness. The upstream of cash from activities should be limited considering the growth stage with important investment in fixed assets and working capital. We estimate at the consolidated level an annual cash consumption before dividends in 2014-17^F of € 8mn but including a higher € 101mn erosion in FY14 and € 212mn in FY15. As such, taking our estimates at face value, an estimated € 321mn of dividends in the period will assume more leverage. We highlight that it is ME's expectation to resume the secondary offering of MEA (c 20% worth € 0.2bn) and a capital increase at MEA (initially expected to be over € 170mn). These funds would cut consolidated ND/EBITDA down to 2.2x although this would ignore the lower stake on generated EBITDA. MEA should adopt a similar payout policy from 2015 and we recall that ME Angola, 51% held by MEA, is already paying out 75% of results.

Sensitivity analysis

71% simple upside assuming MEA's low end price range of the postponed IPO

At current market price, MEA (+19% and 14% Sales and EBITDA CAGR13-17^F) is trading at an implicit 3.9x EBITDA15^F. If we assume the low price range of interval defined for the postponed IPO, MEA would be valued at € 1.16bn (100% equity) or 5.0x EBITDA15^F adding 23% to the contribution of MEA to ME's SoP and resulting in a 71% simple upside. Assuming the top end of the range, MEA equity value would be assumed at € 1.46bn - 6.3xEBITDA15^F and ME fair value would imply a 109% simple upside to fair value.

MEA valuation - Sensitivity analysis (€ mn)

	100% Equity MEA	EV/ EBITDA15^F	80% Equity MEA[1]	€/ME sh	ME FV €/sh [2]
Current Price	906	3.9	725	3.54	3.9
IPO low range	1160	5.0	928	4.53	4.8
IPO Avg.	1311	5.7	1049	5.13	5.4
IPO High Range	1462	6.3	1170	5.72	5.9

(1) ME stake in MEA; (2) Including 10% holding discount.

Source: BPI Equity Research.

NAV Scenario - Operating activities ex MEA trading at 5.8x EBITDA15F

Departing from the current ME and MEA stock prices, our NAV suggests that the market is currently valuing non-MEA portfolio at a negative equity value. As we explained above, the allocation of the debt is paramount to assess the valuation of the different assets, but despite the high leverage of ME, this still seems an excessive reaction by the market.

On an EV basis, the exercise yields an implicit 5.8x EV/EBITDA 15^F covering the operating activities ex-MEA.

NAV (€ mn)

		EV/EBITDA		
		14F	15F	16FF
EV MEA	917	3.8	3.9	3.0
MEA	906			
80% MEA	725			
€ per ME share	3.54			
EV Ex MEA (by difference)	1 363	6.7	5.8	5.5
Net Debt+adj (1)	-1 447			
Equity	-85			
per ME share	-0.4			
Mrk Cap	641			
# shares (mn)	205			
Mrk Price (€)	3.13			

(1) inlcludes Fact&Leasing, Fin. Investments, Provisions and Min.

Source: BPI Equity Research.

Sensitivity to Fx

According to our estimates in 2013, 25% of ME EBITDA was Euro denominated, c67% denominated in USD proxy (including Angolan Kwanzas) and 10% from Latam currencies (mainly from activity in Peru, Mexico, Brazil and Colombia) while in terms of debt the majority (77%) is Euro denominated increasing the concerns on FX fluctuations.

According to our estimates, a 5% devaluation of the euro against USD (and USD proxies as Angolan Kwanzas) would have a 4% positive impact in 2015-17 Sales and EBITDA of MEA (+2% at ME consolidated level) and would represent a 10% increase in ME FV and vice versa. While a 5% devaluation of the euro against the Latam currency basket (Peru, Mexico, Brazil and Colombia) would have a 4% positive impact in 2015-17 Sales and EBITDA of Latam (+1% at ME consolidated level) and would represent a 2% increase in ME FV and vice-versa.

From Bull to Bear

We have run two sensitivity analysis to our SoP valuation base case scenario varying some critical variables to our valuation. Under these scenarios, we reach a valuation range between € 2.26/sh and € 6.84 reminding us of the impact of the relevant leverage of ME and the nature of its portfolio of activities, namely construction.

"Bull Case" Scenario: 57% upside to base case, yielding a 118% simple upside to FV

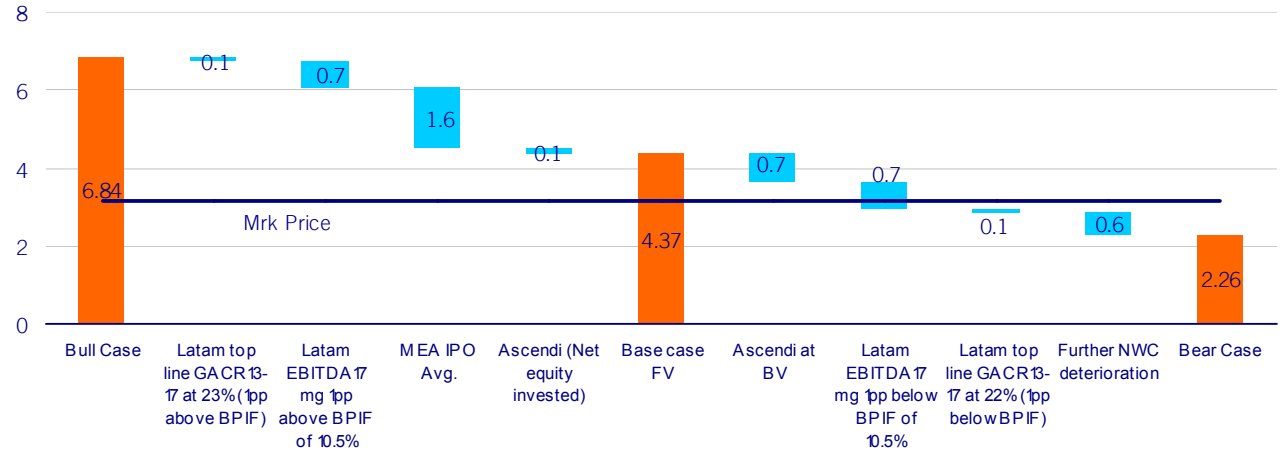
In the so called "Bull case" scenario we assumed: **(1) Ascendi** valuation in line with the reported Net equity investment (€ 414mn or € 248mn for ME's 60% stake in the company) vs our valuation of € 368mn or € 221mn for ME (10% discount on the NAV as described throughout the report) **(2) MEA** valuation at the average price range set in the postponed IPO **(3) Latam LT EBITDA** mg at 11.5% (1pp above base case) - valuing Latam at 7.8x EBITDA15F and **(4) Latam top line CAGR13-17F at 23%** (+4pp vs our base case)

"Bear Case" Scenario: 48% downside to base case, yielding a 28% simple downside to FV

In the so called "Bear case" scenario we assumed: **(1) Ascendi** valuation at the BV

reported by the subsidiary or € 70mn as of 9M14, **(2) Latam LT EBITDA** mg at 9.5% (1pp below base case) - valuing Latam at 6.0x EBITDA15^F, **(3) Latam top line CAGR 13-17^F at 21%** (1pp below base case) and **(4) an additional € 127mn NWC consumption in 2015** putting total NWC during the next year at € 148mn vs. € 126mnF for this year (ex-one off in Poland). We recall that in 2009 the Angolan government cancelled/ delayed some payments to its suppliers (including ME) likely as a result of the impact in the national budget of a strong decrease in Oil prices. The amount of those payables reached c.USD 135mn (o.w. 40% received in 2010) and represented c. 25% of ME Angolan sales in 2009. Assuming the same proportion to 2014 (€ 507mn forecasted revenues from Angola) the additional NWK deterioration in a "similar scenario" could reach c. € 127mn (used in this bear case scenario).

Sensitivity Analysis (€/share)



Note: Base Case FV before 10% holding discount. Source: BPI Equity Research.

Re-initiating coverage with a Buy

The next earnings season will be paramount for ME as it should feed the market with a new reading of the working capital evolution already corrected of the usual negative intra annual seasonality. The market is eager to understand the impact that the oil price could have in both future NWC evolution and order intake. As such, we expect volatility ahead to any newsflow related with the financial closing of projects in the tender pipeline and level of receivables in oil-dependent countries.

After the recent stock price plunge we are more confident on the story. Apart from the shared concerns we described above that we often hear from investors, we would also add that a key trigger would be a third party transaction involving Ascendi or at least more information about its financials. The situation of Martifer is also relevant as it can be a source of equity consumption, even if we believe ME will hardy inject further cash. The final regulation of EGF is also a material milestone for the investment case. We have cautiously assumed immediate value destruction but a lot of details are still missing, which could change our initial "quantitative" opinion about the deal. On the construction business, the growth story is enticing, but aforementioned risks related with WK investment reminds us of the growth curse. On the flip side, ME has indeed a long track record in managing this kind of risks and growth. The recent ramp up in several markets is a defining moment as well as the expected resumption of the secondary offering and capital increase of MEA.

In face of the fundamental upside, optionality in MEA, potential deleverage ahead through asset sales and a possible capital increase in MEA, as well as expected ST order intake announcements lead us to resume our coverage with a Buy recommendation.

Estimates breakdown (mn)

	2011	2012	2013	2014F	2015F	2016F	2017F
Revenues	**2176**	**2243**	**2314**	**2480**	**2945**	**3723**	**4091**
Europe	1479	1238	908	861	974	1080	1118
Construction	1041	927	588	530	545	568	591
E&S	438	311	320	331	428	512	528
Africa	575	729	1009	1176	1310	1805	2024
Latam	148	314	426	543	780	989	1114
Holding	-26	-37	-29	-100	-119	-150	-165
EBITDA	**296**	**287**	**363**	**425**	**493**	**620**	**676**
Europe	148	119	86	94	133	154	163
Construction	78	66	26	40	40	42	43
E&S	70	54	60	54	93	113	121
Africa	128	137	244	289	291	373	408
Latam	22	33	36	49	78	104	117
Holding	-2	-2	-2	-8	-9	-11	-12
EBITDA mg.	**13.6%**	**12.8%**	**15.7%**	**17.1%**	**16.7%**	**16.7%**	**16.5%**
Europe	10.0%	9.6%	9.4%	11.0%	13.7%	14.3%	14.6%
Construction	7.5%	7.1%	4.4%	7.6%	7.4%	7.3%	7.2%
E&S	16.0%	17.2%	18.7%	16.4%	21.6%	22.0%	22.8%
Africa	22.2%	18.7%	24.2%	24.6%	22.2%	20.7%	20.1%
Latam	15.0%	10.6%	8.3%	9.0%	10.0%	10.5%	10.5%
Holding	6.5%	4.4%	8.0%	7.6%	7.4%	7.4%	7.3%

Source: BPI Equity Research.

Peer groups - multiples screen

		PER		EV/EBITDA		Div Yield	
	Country	14	15	14	15	14	15
Vinci	France	9.6	11.8	6.7	6.6	4.9%	4.0%
ACS	Spain	14.1	10.7	5.8	5.3	3.9%	3.9%
Eiffage	France	11.5	10.4	7.9	7.6	2.9%	3.1%
Balfour Beatty	UK	17.8	13.1	7.8	6.9	4.3%	4.1%
FCC	Spain	n.s.	n.s.	9.0	8.3	0.0%	0.0%
Bilfinger Berger	Germany	13.0	10.5	6.1	5.0	3.3%	5.0%
Ferrovial	Spain	37.6	31.7	12.4	11.8	4.1%	4.4%
Acciona	Spain	31.0	20.2	8.3	7.6	0.0%	0.0%
Carillion	UK	9.9	9.5	n.a.	n.a.	5.2%	5.3%
OHL	Spain	4.8	6.5	5.6	5.0	2.8%	2.8%
Sacyr	Spain	17.1	14.5	7.6	6.9	0.0%	0.0%
YIT	Finland	10.4	9.3	11.5	10.1	4.7%	6.8%
Avg		**16.1**	**13.5**	**8.1**	**7.4**	**3.0%**	**3.3%**
ME		**11.9**	**9.0**	**4.6**	**4.0**	**3.9%**	**4.2%**

Source: Factset and BPI Equity Research.

P&L

(€ mn)	2011	2012	2013	2014F	2015F	2016F	2017F	CAGR 13-17F
Revenues	**2176**	**2243**	**2314**	**2480**	**2945**	**3723**	**4091**	**13%**
EBITDA	**296**	**287**	**363**	**425**	**493**	**620**	**676**	**12%**
EBITDA adj.	**296**	**287**	**363**	**425**	**493**	**620**	**676**	**12%**
EBITDA adj. mg.	13.6%	12.8%	15.7%	17.1%	16.7%	16.7%	16.5%	
Europe	10.0%	9.6%	9.4%	11.0%	13.7%	14.3%	14.6%	
Depreciation&others	-127	-116	-120	-153	-166	-193	-208	15%
EBIT	**169**	**171**	**243**	**272**	**327**	**428**	**467**	**12%**
EBIT adj.	**169**	**171**	**243**	**272**	**327**	**428**	**467**	**12%**
Net financial results	-80	-82	-106	-123	-145	-172	-177	14%
Income tax	-19	-37	-47	-36	-43	-65	-67	9%
Others/Associates	1	22	-1	-22	5	11	15	
Minority Interests	-38	-33	-38	-38	-73	-88	-96	
Net Profit reported	**33**	**41**	**51**	**54**	**71**	**114**	**142**	**16%**
Net Profit adj.	**33**	**41**	**51**	**54**	**71**	**114**	**142**	**16%**

Balance Sheet

(€ mn)	2011	2012	2013	2014F	2015F	2016F	2017F	CAGR 13-17F
Net Intangibles	443	252	267	255	241	225	208	-6%
Net Fixed Assets	565	613	691	742	1100	1174	1204	15%
Net Financials	371	404	354	356	361	372	387	2%
Inventories	242	269	311	333	396	501	550	15%
ST Receivables	1461	1565	1526	1803	1974	2358	2520	13%
Other Assets	207	225	265	265	265	265	265	0%
Cash & Equivalents	235	272	360	200	200	200	200	-14%
Total Assets	**3524**	**3599**	**3773**	**3954**	**4537**	**5096**	**5336**	**9%**
Equity & Minorities	**415**	**436**	**559**	**650**	**735**	**863**	**993**	**15%**
MLT Liabilities	**1024**	**881**	**1035**	**1052**	**1068**	**1085**	**1104**	**2%**
o.w. Debt	672	491	748	748	748	748	748	0%
ST Liabilities	**2086**	**2282**	**2179**	**2252**	**2734**	**3148**	**3239**	**10%**
o.w. Debt	567	632	584	584	862	936	866	10%
o.w. Payables	478	526	488	523	621	785	863	15%
Equity+Min. + Liabilities	**3524**	**3599**	**3773**	**3954**	**4537**	**5096**	**5336**	**9%**

Cashflow

(€ mn)	2011	2012	2013	2014F	2015F	2016F	2017F
+ EBITDA	296	287	363	425	493	620	676
- Chg in Net W.C.	-2	3	-61	-226	-30	-149	-50
- Income Taxes	-19	-37	-47	-36	-43	-65	-67
= Operating Cash Flow	**275**	**253**	**255**	**162**	**420**	**407**	**559**
- Growth Capex	-77	-95	-105	-109	-111	-137	-95
- Replacement Capex	-48	-50	-61	-65	-78	-98	-108
- Net Fin. Inv.	0	0	0	0	-306	0	0
= Cash Flow after Inv.	**150**	**108**	**89**	**-12**	**-73**	**172**	**356**
- Net Fin. Exp.	-80	-82	-106	-123	-145	-172	-177
- Dividends Paid	-23	-21	-21	-58	-66	-80	-116
+/- Equity	0	0	0	0	0	0	0
Other	-38	149	-83	34	6	7	7
=Change in Net Debt	**-10**	**-154**	**121**	**159**	**279**	**74**	**-70**
Net Debt (+)/Net Cash (-)	**1004**	**850**	**972**	**1131**	**1410**	**1483**	**1413**

Growth, per share data and ratios

	2011	2012	2013	2014F	2015F	2016F	2017F
Sales growth	9%	3%	3%	7%	19%	26%	10%
EBITDA Adj. growth	25%	-3%	26%	17%	16%	26%	9%
EPS Adj. growth	-10%	22%	24%	7%	33%	60%	24%
Avg. # sh (mn)	205	205	205	205	205	205	205
Basic EPS	0.16	0.20	0.25	0.26	0.35	0.56	0.69
EPS Adj. Fully diluted	0.16	0.20	0.25	0.26	0.35	0.56	0.69
DPS	0.11	0.11	0.11	0.12	0.13	0.17	0.28
Payout	61%	64%	52%	50%	50%	50%	50%
ROCE (after tax)	13.4%	10.2%	13.4%	13.9%	11.7%	13.6%	14.9%
ROE	9.2%	12.8%	14.8%	14.9%	18.4%	25.4%	26.7%
Gearing (ND/EV)	51%	43%	49%	57%	71%	75%	72%
Net Debt/EBITDA	3.4	3.0	2.7	2.7	2.7	2.4	2.1

Source: Company data (2010, 2011, 2012) and BPI Equity Research (F).

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Investment Ratings and Risk Classification (Total return in 12-18 months):

	Low Risk	Medium Risk	High Risk
Buy/CoRe Buy	>15%	>20%	>30%
Neutral	>5% and < 15%	>10% and <20%	>15% and < 30%
Reduce	>-10% and < 5%	>-10% and < 10%	>-10% and < 15%
Sell	< -10%	< -10%	< -10%

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Investment Ratings Statistics

As of 28th November BPI Equity Research's investment ratings were distributed as follows:

CoRe Buy	9%
Buy	25%
Neutral	41%
Reduce	13%
Sell/Accept Bid	5%
Under Revision/Restricted	7%
Total	100%

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