The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Turmoil in Russia Drags Down Earnings at Germany's E.ON

By The Moscow Times

August 10, 2014



FRANKFURT — E.ON, Germany's biggest utility, is expected to report a 14 percent drop in first-half core earnings next week, hit by subdued demand for energy in Europe, low wholesale power prices, and a weakening economy and currency in Russia.

Earnings before interest, tax, depreciation and amortization, or EBITDA, are forecast to have fallen to 4.9 billion euros ($6.6 billion), according to the average forecast of analysts compiled by the Reuters news agency.

Having invested 6 billion euros in Russia since 2007, E.ON is now the largest foreign investor in the country's electricity market, owning 9.6 gigawatts, or more than 4 percent, of total electrical power generating capacity.

While Russia accounted for just over 7 percent of E.ON's EBITDA last year, it is still the company's single most important foreign market and a vital source of supplies, as

the company gets 30-40 percent of its natural gas from Russia.

Yet tensions between Russia and the West are rising over Moscow's interference in eastern Ukraine, and sanctions imposed by both sides are already taking their toll on companies in Germany, Russia's biggest trading partner. E.ON is no exception.

"The weak Russian economy and the falling ruble are certainly not making things easier for E.ON," said Thomas Deser, senior portfolio manager at Frankfurt-based Union Investment, E.ON's seventh-largest shareholder.

He estimated that E.ON's EBITDA in Russia declined by nearly a third in the first six months of this year.

The Russian ruble has fallen more than 7 percent against the euro so far this year, reducing the value of local earnings when translated back into Europe's main currency.

Political Risks

"We expect the focus to be essentially on political risks in Russia," said Exane BNP Paribas' Benjamin Leyre, the top-rated analyst for E.ON according to Reuters' StarMine analysis, adding that news on potential M&A deals and statements about earnings prospects beyond 2014 were also key.

The sanctions imposed by the West and Russia have so far excluded gas supplies, with E.ON being among the energy companies to lobby in Brussels and through their governments to ensure that things would stay that way, according to EU sources speaking on condition of anonymity because they were not authorized to speak to journalists. E.ON declined to comment Friday.

The lobby efforts highlight the mutual dependency between both players, as Europe gets about a third of its gas, oil and coal from Russia, which receives about $250 billion a year in return.

It is this delicate relationship that reduces the risk of gas supplies becoming the subject of future sanctions, said Torsten Graf, fund manager at MainFirst and holder of about 800,000 euros worth E.ON shares.

"I am not carefree, but I don't think that there will be a massive escalation," he said. "Both sides would harm themselves."

See also:

Germany's Rheinmetall Cuts Earning Forecast After Russia Deal Nixed

Original url:
https://www.themoscowtimes.com/2014/08/10/turmoil-in-russia-drags-down-earnings-at-germanys-eon-a38164