

Extended Abstract

The Master Final Work entitled *Equity Research GALP Energia SGPS SA: Expected Cash Flow Approach* consists of an award-winning Equity Research on GALP S.G.P.S., SA. The document was used in the CFA Institute Research Challenge 2020, obtaining a 1st place at the Local level and a 2nd place at Regional level. The report follows the CFA Institute format and only public information until 18/10/2020 was considered.

In addition to the standard format chosen, the document has one additional chapter, that all together form the Master Final Work. The said chapter explores further on how to define the price target, by using the **expected cash flow approach**. Between using sensitivity analysis and different price scenarios together with a mathematical methodology to define probabilities, another piece of information is provided to help investors make an investment decision.

GALP is the leading Portuguese integrated oil company. It operates throughout the whole fossil fuel value chain, from extracting fossil fuel, to transporting and refining it and finally commercializing the different by-products. GALP is a relevant player in the upstream and market leader in the downstream, in the markets the company operates.

The company was valued with a Sum-of-the-Parts approach, where a FCFF DCF was made to each business unit, reflecting all the idiosyncrasies of each BU. The result was then summed up, the adjustments were made to the resulting sum, yielding a final price target of 12.1€/sh. To support this valuation, other methods were also used, such as a FCFF DCF (for the company as a whole), FCFE DCF, the APV and the DDM. Relative valuation was also performed, but ultimately discarded as it presented results that were outliers. The whole valuation was subject to stress tests and sensitivity analysis in some key variables to the company, in order to address risk. In addition, the risks the company is subject to is thoroughly explained in the report.

All financial statements that serve as starting point for the valuation were forecasted based on a set of assumptions that are presented in the report, together with the reasoning behind them.

It is also important to mention that the report was finalized on January 15th, 2020. However, an updated research snapshot was made, to include new information, reflecting the impacts of the COVID-19 pandemic. This update reflects information from March 2020.