

Utilities

EDF

Price EUR12.51

Higher cost at Cigeo? Not really news

Fair Value EUR18 (+44%)

NEUTRAL

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	23.8 / 12.4
Market Cap (EURm)	24,011
Ev (BG Estimates) (EURm)	86,705
Avg. 6m daily volume (000)	2 285
3y EPS CAGR	-14.8%

The French agency in charge of radioactive waste management, Andra, provided yesterday the French state with a costing report regarding the long-term management project of the radioactive waste produced by nuclear facilities in France (*Cigéo*). Cost estimates are clearly above nuclear operators' estimates, putting pressure again on EDF, CEA and Areva's balance sheets and on future cash outflows. Negative.

	1 M	3 M	6 M	31/12/14
Absolute perf.	-4.5%	-25.8%	-37.2%	-45.2%
Utilities	-1.4%	-3.1%	-8.2%	-7.1%
DJ Stoxx 600	-4.4%	-6.2%	-12.5%	-0.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	72,874	75,765	76,950	78,169
% change		4.0%	1.6%	1.6%
EBITDA	17,279	17,343	16,356	16,498
EBIT	7,984	8,689	7,709	7,289
% change		8.8%	-11.3%	-5.5%
Net income	4,464	3,417	2,826	2,764
% change		-23.5%	-17.3%	-2.2%

	2014	2015e	2016e	2017e
Operating margin	11.0	11.5	10.0	9.3
Net margin	6.1	4.5	3.7	3.5
ROE	11.0	8.3	6.8	6.6
ROCE	3.4	3.7	3.2	2.9
Gearing	139.8	147.2	157.9	166.4

(EUR)	2014	2015e	2016e	2017e
EPS	2.40	1.84	1.52	1.49
% change	-	-23.5%	-17.3%	-2.2%
P/E	5.2x	6.8x	8.2x	8.4x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.25	1.25	1.25	0.99
Div yield (%)	10.0%	10.0%	10.0%	7.9%
EV/Sales	1.1x	1.1x	1.2x	1.2x
EV/EBITDA	4.7x	5.0x	5.6x	5.8x
EV/EBIT	10.1x	10.0x	11.9x	13.1x

ANALYSIS

- **What is in the news today?** Cost estimates of the French Cigéo project remain at the centre of a debate between both **nuclear operators** which will finance this long-term management radioactive waste project (*EDF, CEA & Areva with EDF financing 80%*) and the French agency in charge of radioactive waste management, **Andra**. Indeed; yesterday, after market, **Andra** provided the French state with a costing report regarding the project, contradicting the cost estimates made by nuclear operators. Andra's latest cost simulation on the Cigéo project is closer to **EUR30bn** while the operators' cost simulation is closer to **EUR20bn**.
- **A word on the Cigéo project:** The Cigéo project is designed to ensure **long-term management of the radioactive waste** produced by nuclear facilities in France, in accordance with the Environmental Code. This waste is now packaged and stored by nuclear operators that produced them in specific and secure facilities, under their responsibility. Andra has conducted research on storage in deep geological formations for over 20 years including at the underground laboratory Meuse / Haute-Marne. The project is now coming to the end of the phase of preliminary design. Studies of the detailed design will be conducted in 2016-2017 to develop the creation authorisation application. **Subject to authorisation, the construction of the storage facility could start in 2020.** The financing of this project is supported in full by nuclear operators (*EDF, CEA and Areva*), with the French Court of Auditors estimating that the cost of storage is in the order of **1% to 2%** of the total cost of electricity generation throughout the operating life of a reactor. Back in 2015, the project was estimated between **EUR15bn and EUR36bn with the operators working on a benchmark cost assumption closer to EUR17bn.**
- **Negative for EDF & Areva, but not really news:** This report is clearly negative for all nuclear operators, and most specifically for EDF and Areva (*quoted companies with minority shareholders*), but this risk of project cost revaluation is not new and was already highlighted in our initiation of coverage report on EDF back in February 2015. While the provisions of the group on the Cigéo project are based on a total project cost closer to **EUR20bn** than to **EUR30bn (EUR17-20bn)**, in our model we already integrated the negative impact on provisions from a rise in project costs closer to the higher range of the cost estimates, implying our EUR18 FV already integrates such an impact. Higher cost estimates than the current Andra report will however have a further negative impact on our FV.

VALUATION

- At the current share price EDF is trading at 5.6x its 2016e EBITDA and offers a 10% yield.
- Neutral, FV @ EUR18/share

NEXT CATALYSTS

- February 16th 2016: EDF - 2015 earnings

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Distribution of stock ratings

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