

## Utilities

## EDF

Price EUR11.87

Lower than expected impact of Cigeo costs on the group's provisions

Fair Value EUR18,5 vs. EUR18 (+56%)

NEUTRAL

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	23.8 / 11.9
Market Cap (EUR)	22,792
Ev (BG Estimates) (EUR)	85,986
Avg. 6m daily volume (000)	2 332
3y EPS CAGR	-14.8%

Last Friday after market, in a letter sent to the Chairman and CEO of EDF, the Chairman of Areva and the General Administrator of CEA, the Ministry of Ecology and Sustainable Development and Energy attached a Ministerial order concerning the cost associated with the Cigéo project. The new cost set by this order stands at EUR25bn under economic conditions in 2011 and is to substitute the estimates benchmark of EUR20.8bn on which the EDF group based its 2014 and interim 2015 accounts. This substitution has a positive impact on our FV as we were assuming a higher adjustment. Positive.

	1 M	3 M	6 M	31/12/14
Absolute perf.	-7.6%	-29.4%	-42.5%	-48.0%
Utilities	-4.9%	-6.6%	-13.4%	-10.2%
DJ Stoxx 600	-8.3%	-8.6%	-17.5%	-3.7%

## ANALYSIS

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	2,917	2,826	2,764
% change		-34.7%	-3.1%	-2.2%

	2014	2015e	2016e	2017e
Operating margin	11.0	11.5	10.0	9.3
Net margin	6.1	3.9	3.7	3.5
ROE	11.0	7.1	6.9	6.7
ROCE	3.4	3.7	3.2	2.9
Gearing	139.8	150.3	161.0	169.6

(EUR)	2014	2015e	2016e	2017e
EPS	2.40	1.57	1.52	1.49
% change		-34.7%	-3.1%	-2.2%
P/E	4.9x	7.6x	7.8x	8.0x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.25	1.25	1.25	0.99
Div yield (%)	10.5%	10.5%	10.5%	8.4%
EV/Sales	1.1x	1.1x	1.2x	1.2x
EV/EBITDA	4.6x	5.0x	5.6x	5.7x
EV/EBIT	10.0x	9.9x	11.8x	13.0x

- A new Cigeo cost set by the Ministry of Ecology and Sustainable Development and Energy:** Last Friday after market, in a letter sent to the Chairman and CEO of EDF, the Chairman of Areva and the General Administrator of CEA, the Ministry of Ecology and Sustainable Development and Energy attached a Ministerial order concerning the cost associated with the Cigéo project. The new cost set by this order stands at EUR25bn under economic conditions of 2011 and is to substitute the estimates benchmark of EUR20.8bn on which the EDF group based its 2014 and interim 2015 accounts. Taking into account this cost will therefore result in an increase of around EUR800m in provisions (EUR0.43/share impact) for long-term radioactive waste management for future expenses relating to Cigéo deep storage in EDF's consolidated accounts at the end of 2015. This increase in provisions is set to have a negative impact of around EUR500m post tax on net income group share in 2015 (-12.5% vs. our previous estimates). The group mentioned that EDF's Board of Directors would determine the impact of this provision on the dividend to be proposed at the General Shareholder's Meeting, based on 2015 consolidated financial statements.
- Impact for EDF?** While this adjustment is clearly negative for EDF as it will negatively alter the group's balance sheet compared with 2014, it has a positive impact on our FV as we were assuming a higher adjustment (EUR3bn negative impact on the group's provisions based on a Cigéo cost of EUR36bn). Readjusting our assumptions for Cigéo provisions (based on an SOTP, and a Dividend Yield & P/E model) prompts us to raise our FV from EUR18 to EUR18.5/share. As for dividend payment for 2015 we continue to assume EUR1.25/share and do not expect any negative adjustment in share terms, at least not based on this assumption change (non-cash effect). However, we were already assuming a decline in 2017 to EUR1/share based on earnings deterioration compared with 2014-15.
- Additional cost reductions in the pipe?** Over the weekend, the CFDT union announced that the group is working on a plan aimed at cutting 4,000 posts by 2018 (without compulsory redundancies), thereby reducing the group's workforce by 2.5%. No further details were unveiled, except that EDF is planning to set out this plan next Thursday. Based on the group's current average full wage charges (around EUR75k/employee/year) this could imply a positive impact of up to EUR300m on the group's costs structure by 2019 (+1.7% positive impact on EBITDA). Given the lack of details, we have not factored a positive impact from this plan into our model, although it is clearly positive.

## VALUATION

- At the current share price, EDF is trading on 5.5x 2016e EBITDA and offers a 10.3% yield
- Neutral, FV @ EUR18.5

## NEXT CATALYSTS

- 14th February 2016: EDF - 2015 earnings

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## Analyst :

Xavier Caroen  
33(0) 1.56.68.75.18  
xcaroen@bryangarnier.com

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
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