

6th January 2016

Utilities

Engie

Price EUR15.75

The new organisation is now in place

Fair Value EUR19 (+21%)

BUY

The French integrated utilities unveiled yesterday its new organisation is now well in place. The group is now made up of 24 business units created to serve the territories better, 5 Métiers in charge of specific fields of expertise and supporting the development of the Business Units, and a new head office to ensure global cohesion. Such a move is in line with recent changes implemented at other French utility groups such as Veolia or Suez. Positive.

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	20.0 / 14.0
Market Cap (EURm)	38,356
Ev (BG Estimates) (EURm)	81,061
Avg. 6m daily volume (000)	6 060
3y EPS CAGR	0.5%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-1.4%	8.6%	-5.8%	-18.9%
Utilities	-1.4%	0.8%	-4.1%	-4.9%
DJ Stoxx 600	-3.2%	0.2%	-6.4%	4.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	74,686	80,241	80,118	80,047
% change		7.4%	-0.2%	-0.1%
EBITDA	12,358	11,515	11,810	11,918
EBIT	6,574	6,540	6,696	6,647
% change		-0.5%	2.4%	-0.7%
Net income	3,125	2,737	2,849	2,981
% change		-12.4%	4.1%	4.6%

	2014	2015e	2016e	2017e
Operating margin	8.8	8.2	8.4	8.3
Net margin	4.2	3.4	3.6	3.7
ROE	5.6	5.0	5.2	5.4
ROCE	4.5	4.2	4.2	4.1
Gearing	53.2	56.6	59.3	61.5

(EUR)	2014	2015e	2016e	2017e
EPS	1.11	1.02	1.09	1.13
% change	-	-7.8%	6.3%	3.6%
P/E	14.2x	15.4x	14.5x	14.0x
FCF yield (%)	8.0%	4.1%	3.3%	3.9%
Dividends (EUR)	1.00	1.00	1.00	1.00
Div yield (%)	6.3%	6.3%	6.3%	6.3%
EV/Sales	1.2x	1.0x	1.0x	1.0x
EV/EBITDA	7.0x	7.0x	6.9x	6.9x
EV/EBIT	13.2x	12.4x	12.1x	12.4x

ANALYSIS

- What does this new organisation imply?** The group is now made up of **24 business units** created to serve the territories better, **5 Métiers in charge of specific fields of expertise** and supporting the development of the Business Units, and a **new head office** to ensure global cohesion. Such a transformation aims at maintaining a closer relation with the group's regions and customers, and is in line with recent changes implemented at other utility groups such as Veolia or Suez. A single brand name will be used in all regions, and through all businesses: **Engie**; which should simplify the group's commercial approach.
- 2016, a transition year for the group, again:** Integrated European utilities stocks will continue to see very limited earnings growth generation this year, due to capacity closures, lower commodity prices, timid power/gas demand evolution and disposals. In our models, we expect Engie to be the **only integrated stock we cover to generate positive EBITDA growth (+2.6% vs. 2015e)** while we expect a further decline coming from **EDF; E.ON & RWE (respectively -5.7%, -10.2% and -11.8%)**. Lower power prices as well as lower commodity prices will continue to alter growth coming from new projects and new commissioning; yet all in all we expect positive earnings growth thanks notably to the restart of the Doel 3 and Tihange 2 Belgian nuclear reactors.
- Upside on estimates/consensus from the new cost reduction programme:** The potential new cost-cutting programme for 2016-18 (*current Transformation plan is ending this year*) could drive up our earnings estimates by around 4-6% given, in our model, we currently assume a small annual contribution in line with E.ON and RWE beyond their respective programmes (*less than EUR100m/year*). We believe the announcement of a new cost reduction programme in the range of EUR1bn over 2016-18 could be a fair assumption. Such an announcement will be made during Q1-16.
- Buy reiterated, with FV still at EUR19/share:** We stick to our Buy rating with no change in our estimates and FV. The dividend is in our view safe despite not being fully covered, as the group has sufficient cash and as the group can alter its growth capex envelope.

VALUATION

- At the current share price the stock is trading at 6.88x its 2016e EBITDA and offers a 6.35% yield
- Buy, FV @ EUR19/share

NEXT CATALYSTS

- February 25th 2016: 2015 earnings

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