

Utilities

Engie

Price EUR15.06

E&P disposal in the pipeline?

Fair Value EUR19 (+26%)

BUY

| | |
|----------------------------|-------------|
| Bloomberg | GSZ FP |
| Reuters | GSZ.PA |
| 12-month High / Low (EUR) | 20.0 / 14.0 |
| Market Cap (EURm) | 36,663 |
| Ev (BG Estimates) (EURm) | 79,369 |
| Avg. 6m daily volume (000) | 5 998 |
| 3y EPS CAGR | 0.5% |

According to Reuters, citing daily energy trade publication *Enerpresse*, the French group is considering a possible sale of part or all of its E&P business to reduce notably its direct exposure to merchant activities. We see such a move as positive, yet struggle to see the rationale of the timing given we assume the group could get more from this business unit once uncertainties on Brent and gas prices are lower. Positive.

ANALYSIS

- What is in the press today?** According to Reuters, citing daily energy trade publication *Enerpresse*, the French group is considering a possible sale of part or all of its hydrocarbon exploration and production (E&P) operations to reduce its direct exposure to merchant activities. **Engie declined to comment on the report** but had already mentioned it is reviewing strategically all its non/less profitable assets following the massive swing in commodity prices.
- A few words on the group's E&P business:** E&P business is part of the **Global Gas & LNG business unit** of the group (2015e sales of EUR6.3bn and 2015e EBITDA of EUR1.48bn) and is composed of gas production which represents **two thirds of the 60Mboe** annual gas and oil production (40Mboe) while oil production only represents one third (20Mboe). The group currently owns **70%** of E&P International following the acquisition (through a capital increase) of a **30%** minority stake in this business (excluding the 22.5% equity stake in E.F. Oil & Gas Limited) by **China Investment Corporation (CIC)** fund in August 2011. Back then (2010 metrics), this business generated **EUR2.2bn** of revenues and **EUR1.4bn** of EBITDA (63% EBITDA margin) with the transaction valuing Engie E&P business at an **EV of EUR8.1bn** (5.7x EV/EBITDA implied multiple). But back in 2011, Brent was **USD111/barrel** while the TTF gas price was **EUR26/MWh** vs. respectively **USD32/barrel** and **EUR15/MWh** today. In our model, we assume for 2015, the EBITDA of the E&P business will be closer to **EUR600-650m compared with 2014 at EUR1.2-1.3bn** (the group is still benefiting from its hedging position on the gas production business explaining the limited drop despite the massive drop in commodity prices) yet is set to further decline in 2016 and 2017 as hedging positions will suffer from the strong drop in gas prices. As a reminder, the group does not hedge its oil price exposure (one third of its volumes or 20Mboe), except for 2015, where volumes were covered ahead of the March drop. **In our SOTP we currently value the E&P business (at 100%) at less than EUR6bn.**
- A positive move if made at the right price:** Such a move is clearly positive for the group as: **1/** it is in line with its mid- to long-term strategy to reduce its exposure to merchant activities to the profit of regulated/non-merchant activities; and as **2/** it will reinforce the group's balance sheet before financing new renewables projects (solar notably where the group is lagging other European peers) and infrastructure projects in both Europe (strong need for new interconnections between EU countries by 2020) and emerging markets. Such a disposal is therefore clearly credible, yet we struggle to see the rationale of the timing, with such strong uncertainties on both Brent and Gas prices especially given we assume the group is sufficiently strong (financially) to pass through this difficult cycle.

| | 1 M | 3 M | 6 M | 31/12/14 |
|----------------|-------|-------|--------|----------|
| Absolute perf. | -4.9% | -0.8% | -12.7% | -22.5% |
| 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 | 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 | 13.5x | 14.7x | 13.8x | 13.4x |
| FCF yield (%) | 8.3% | 4.3% | 3.5% | 4.1% |
| Dividends (EUR) | 1.00 | 1.00 | 1.00 | 1.00 |
| Div yield (%) | 6.6% | 6.6% | 6.6% | 6.6% |
| EV/Sales | 1.1x | 1.0x | 1.0x | 1.0x |
| EV/EBITDA | 6.9x | 6.9x | 6.7x | 6.8x |
| EV/EBIT | 12.9x | 12.1x | 11.9x | 12.2x |



VALUATION

- At the current share price Engie is trading at 6.8x its 2016e EBITDA and offers a 6.6% yield.
- Buy, FV @ EUR19/share

NEXT CATALYSTS

- February 25th 2016: Engie - 2015 earnings

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| | |
|---------|--|
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