

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	23.8 / 10.2
Market Cap (EURm)	19,777
Ev (BG Estimates) (EURm)	81,500
Avg. 6m daily volume (000)	2 506
3y EPS CAGR	-23.0%

EDF has reported 2015 operating performance in line with expectations while showing a miss for its net income due to higher than expected exceptionals. The 2015 dividend cut was a surprise as the market was expecting a cut in 2016 and not this year (-). As for outlook, 2016 guidance is in line with market expectations (+) and 2018 guidance was confirmed (+) even if we struggle to see how EDF will deliver it given the extent of uncertainty on French power prices. At the current price we think most of the fears on EDF are already priced in. We remain positive.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.2%	-28.4%	-48.6%	-24.1%
Utilities	-1.1%	-7.8%	-12.0%	-7.7%
DJ Stoxx 600	-2.4%	-12.9%	-16.7%	-12.0%

## ANALYSIS

- Main 2016 metrics:** EBITDA came out at **EUR17.6bn**, up **1.9%** compared with last year and up **3.9%** when excluding the 2012 tariff catch-up effect. Consensus was at **EUR17.45bn**, in line with our expectations (*EUR17.4bn*). Most of this solid operating performance came from **1/** solid nuclear generation (*production target exceeded*), **2/** the continued development of the group in renewables, **3/** the successful finalisation of the Libyan gas contract arbitration with a 2015 EBITDA positive impact of **EUR855m** and **4/** the **1.4%** opex decrease (first opex decrease in 5 years). EBIT after exceptionals (EUR3.6bn due to impairments on thermal assets, to increase in CIGEO provisions and to RAG adjustment) came out at **EUR4.28bn**, down 46.4% compared with last year, while net income (group-share) declined by **68%** to **EUR1.2bn** whereas we were expecting **EUR1.4bn**. Excluding exceptionals, net income was flat at **EUR4.8bn**. Net financial debt increased by **EUR3.2bn to EUR37.4bn**, in line with expectations. The 2015 dividend has been cut from **EUR1.25 to EUR1.1** with an option for payment in shares for the final dividend (the French government will take this option, allowing the group to save a further EUR900m). **Consensus was still at EUR1.25/share for 2015.**
- What to retain from this publication? 1/** initial 2015 guidance was beaten, at the EBITDA level (+), **2/** the underperformance in the group's net income performance compared with both consensus and BG estimates was due to the higher level of exceptionals and not to a poorer operating performance, **3/** 2016 guidance (EBITDA between EUR16.3 & EUR16.8bn) **is in line with market expectations**, implying very limited negative earnings adjustments to expect (+), **4/** with the 2015 first opex reduction, and with the higher level of annual departure, **it is fair to assume cost reductions will continue over the 2016-18 period (+)**, **5/** the dividend cut is clearly a negative signal (-), and reflects the difficult financial equation the group had and has to work with (lower margin combined with still important investments), yet with an **implied yield >12%** it is fair to assume this cut was expected by the market. **6/** risks linked to Hinkley Point remain high. Only a cancellation of this project could avoid a capital increase (-).
- Conclusion:** It is important to note that 2015 operating performances were good, especially compared with other European integrated utilities. The group's financial equation remains clearly under pressure, especially with the far lower French power prices, yet we see the cut in dividend, and in capex, combined with further opex reductions as positive levers that will allow the group to further optimise its balance sheet. **We stick to our EUR14.5 FV, which still implies 41% upside.**

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	72,874	75,765	76,950	78,165
% change		4.0%	1.6%	1.6%
EBITDA	17,279	17,411	16,514	16,141
EBIT	7,984	5,211	7,867	6,932
% change		-34.7%	51.0%	-11.9%
Net income	4,464	4,043	2,725	2,103
% change		-9.4%	-32.6%	-22.8%

	2014	2015e	2016e	2017e
Operating margin	11.0	6.9	10.2	8.9
Net margin	6.1	5.3	3.5	2.7
ROE	11.0	9.6	6.5	5.0
ROCE	3.4	2.4	3.3	2.9
Gearing	139.8	142.7	153.1	160.0

(EUR)	2014	2015e	2016e	2017e
EPS	2.40	2.11	1.42	1.10
% change	-	-12.2%	-32.6%	-22.8%
P/E	4.3x	4.9x	7.2x	9.4x
FCF yield (%)	NM	0.4%	NM	1.5%
Dividends (EUR)	1.25	1.25	1.04	0.84
Div yield (%)	12.1%	12.1%	10.1%	8.2%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.4x	4.7x	5.2x	5.5x
EV/EBIT	9.6x	15.6x	10.9x	12.8x



## VALUATION

- At the current share price, EDF trades at 5.2x its 2016e EBITDA and offers a 10.1% yield
- Buy, FV @ EUR14.5

## NEXT CATALYSTS

- Conference call @ 08.45am CET (+33(0)1 76 77 22 22)



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