25th February 2016

Construction & Building Materials

Eiffage

Price EUR61.85

Dividend: 25% increase to EUR1.50 following eight years of stability

Fair Value EUR71 (+15%) **BUY**

Bloomberg	FGR FP
Reuters	FOUG.PA
12-month High / Low (EUR)	63.9 / 47.8
Market Cap (EUR)	5,903
Ev (BG Estimates) (EUR)	20,923
Avg. 6m daily volume (000)	289.4
3y EPS CAGR	17.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.9%	10.0%	23.6%	3.9%
Cons & Mat	-3.5%	-9.9%	-0.4%	-9.0%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	13,987	13,281	13,717	13,953
% change		*-5.0%*	*3.3%*	*1.7%*
EBITDA	2,035	2,181	2,281	2,381
EBIT	1,347	1,371	1,471	1,571
% change		*1.8%*	*7.4%*	*6.8%*
Net income	275.0	308.6	381.1	470.1
% change		*12.2%*	*23.5%*	*23.3%*

	2014	2015e	2016e	2017e
Operating margin	9.6	10.3	10.7	11.3
Net margin	2.5	3.0	3.6	4.3
ROE	11.8	11.7	13.0	14.2
ROCE	4.7	4.4	4.8	5.1
Gearing	428.7	366.7	324.4	279.7

(EUR)	2014	2015e	2016e	2017e
EPS	3.09	3.28	4.01	4.95
% change	-	*6.2%*	*22.3%*	*23.3%*
P/E	20.0x	18.9x	15.4x	12.5x
FCF yield (%)	12.5%	6.2%	5.6%	7.3%
Dividends (EUR)	1.20	1.20	1.20	1.20
Div yield (%)	1.9%	1.9%	1.9%	1.9%
EV/Sales	1.5x	1.6x	1.5x	1.5x
EV/EBITDA	10.4x	9.6x	9.1x	8.6x
EV/EBIT	15.8x	15.3x	14.1x	13.0x

Eiffage has reported decent 2015 results with lfl sales down a slight 1.3%. However EBIT margin was pretty strong at 10.3% (+70bps), with the combination of lower profitability for contracting but a strong performance by the concession business. Attributable net profit rose 13.5%, thanks to a 15% reduction in the cost of the debt. The order book was solid and up 1.2% excluding BPL, but top line growth in contracting is set to fall slightly in 2016. However, net earnings will continue to increase significantly. 25% increase in the dividend to EUR1.50.

ANALYSIS

- In 2015, Eiffage was penalised by its exposure to the French Construction market. The 4.4% lfl decline in contracting revenues in France mostly explained the slight decline in consolidated revenues at -1.3% lfl. Sales were EUR13.9bn, above our estimates but we were conservative here, and 1% above IBES consensus. EBIT rose 6% to EUR1431, 4% above our estimates.
- EBIT margin for the Contracting division was under pressure in 2015, by more than we expected actually, with a 30bp decline at 3.0%. Construction (incl. property) margin was resilient at 3.9% (-30°bps) and the energy division strong with a 20bps improvement at 3.7%, but infrastructure have was affected by a very difficult roadworks market in France, with the metal business impacted by the oil and gas slowdown. As such Infrastructure margin was down 70bp to 1.7%
- The concessions business was very strong. This was due to the continuous improvement of APRR EBITDA margin (+110bps at 71.8%), lower depreciation related to the concession life extension and healthy improvement in other concessions EBIT (+25% at EUR142m).
- Due to the positive impact of APRR/Eiffarie refinancing and lower debt (FCF is up 30% at EUR482m), financial results fell cEUR100m, with the cost of net debt down 15%. This should be the case in 2016 as well, albeit to a lesser extent. Net profit was solid at EUR312m, up +13.5%.
- The outlook is correct with an order book down 2.8% y/y but up 1.2% excluding BPL. This represents 12 months of revenues. 2016 top line is set to drop slightly but earnings should improve massively, thanks to further low interest charges and margin improvement, notably in contracting thanks to cost control efforts. In addition, we understand that the cycle trough in construction is behind us in France, while residential sales are strong. Roadworks should stabilise and civil works should benefit from the attribution of Ile de France infrastructures projects. Traffic increase in 2016 YTD is similar to the trend at the end of last year, which is promising (in Q4, y/y traffic was up 2.9%). Finally, we understand the group is keen to be more active on the M&A side.
- In all, management seems to be fairly confident in the future. Hence the proposal of a significantly higher dividend per share at EUR1.50, up 25% y/y vs EUR1.20 previously. The last increase in the dividend was seen after 2007 results.

Key figures

2015	Revenues	l-f-l %	EBIT	Margin%	~Delta in bps
Construction	3514	-5.8	136	3.9	-30
Infra	4374	-6.1	75	1.7	-70
Energy	3578	7.5	132	3.7	20
CONTRACTING	11466	-	343	3.0	-30
CONCESSIONS	2443	2.8	1106	45.3	385
Total	**13909**	**-1.3**	**1431**	**10.3**	**70**

Source : Company Data; Bryan Garnier & Co. ests.

VALUATION

- EUR71 derived from a SOTP

NEXT CATALYSTS

- AGM on 20th April 2016 and APRR Q1 revenues on 19 April 2016

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