

## Engie

Price EUR14.16

Not that easy to let go

Fair Value EUR19 (+34%)

BUY

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	19.9 / 13.8
Market Cap (EURm)	34,471
Ev (BG Estimates) (EURm)	77,177
Avg. 6m daily volume (000)	6 117
3y EPS CAGR	0.5%

According to French newspaper "Les Echos", the French government has decided that Gerard Mestrallet should stay on as non-executive chairman at Engie, for two years after passing the role of chief executive to Isabelle Kocher. Kocher, currently Deputy CEO & COO, was confirmed in her position by Mestrallet, yet this move implies she will lose flexibility and direct decision impact, at least compared with what was firstly planned. **Negative.**

## ANALYSIS

- What is in the press today?** According to French newspaper "Les Echos", the French government has decided that **Gerard Mestrallet** should stay on as non-executive chairman at Engie, **for two years** after passing the role of chief executive to Isabelle Kocher. Kocher, currently Deputy CEO & COO, was confirmed in her position by Mestrallet, however, he did not say exactly what role she would have and whether he, who holds both the chief executive and the chairman role, would stay on. The news suggests Isabelle Kocher would only hold the chief executive role. A change in Engie's status will be needed to dissociate the functions of chairman and CEO and to extend the age limit for the chairman, currently fixed at 67 years. **These two changes will then be put to vote at the next board meeting (24th February) and validated at the next general assembly of shareholders which is scheduled on 3rd May. The French government, which still owns 33% of the group, will vote in favour of these changes.**
- What to retain from this news?** As we just mentioned above, Kocher, currently Deputy CEO & COO was confirmed in her position by Mestrallet, yet this move implies she will lose flexibility and direct decision impact, at least compared with what was initially planned. Back in 2014, various rumours indicated that Gerard Mestrallet pushed for the nomination of Isabelle Kocher as next CEO to the detriment of Jean-François Cirelli, who was evicted from the group, to facilitate his extension as chairman of the group.
- Conclusions:** Fully transforming the group in such conditions will be hard in our view, as the fresh blood, represented by Isabelle Kocher and the new CFO Judith Hartmann, will have their hands tied to pilot the group in such a difficult market environment. **Negative.**

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.0%	-12.4%	-19.3%	-13.3%
Utilities	-2.0%	-8.3%	-10.2%	-4.3%
DJ Stoxx 600	-7.8%	-13.5%	-17.6%	-10.1%

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	12.7x	13.8x	13.0x	12.6x
FCF yield (%)	8.9%	4.5%	3.7%	4.4%
Dividends (EUR)	1.00	1.00	1.00	1.00
Div yield (%)	7.1%	7.1%	7.1%	7.1%
EV/Sales	1.1x	1.0x	1.0x	1.0x
EV/EBITDA	6.7x	6.7x	6.6x	6.6x
EV/EBIT	12.6x	11.8x	11.6x	11.8x

## VALUATION

- At the current share price, the stock is trading at 6.6x its 2016e EBITDA and offers a 7.1% yield
- Buy, FV @ EUR19

## NEXT CATALYSTS

- 25th February 2016: 2015 earnings

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