

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	19.9 / 13.1
Market Cap (EURm)	34,338
Ev (BG Estimates) (EURm)	76,633
Avg. 6m daily volume (000)	6 322
3y EPS CAGR	5.4%

Like other French utilities, Engie is set to post its 2015 earnings next week (25<sup>th</sup> February morning). 2015 operating metrics will, as expected, be impacted by lower European power prices and lower brent prices. Important impairments (below EUR10bn) are set to be booked, yet contrary to RWE, we do not see the EUR1/share dividend payment at risk. We do not expect bullish guidance for 2016.

## ANALYSIS

- Our earnings expectations for 2015?** We anticipate Engie will post 2015 EBITDA just below its **EUR11.45-12.05bn guidance**, when integrating the negative weather effect (*less positive than expected compared with last year*). Our EBITDA estimate stands at **EUR11.39bn**, reflecting a **7.8%** YoY decline compared with last year. Most of the earnings deterioration is set to come from **Energy Europe (EBITDA down 7.6% to EUR1.9bn)** and most importantly to **Global Gas & LNG business unit (EBITDA down 30% to EUR1.48bn)** due to the strong drop in Brent & gas prices, and to the crisis affecting Engie LNG business. Our EBIT for 2015 stands at EUR6.42bn (we do not integrate at this level the impairments) while our NRI (Engie new definition) estimates stands at **EUR2.48bn (again, without integration the EUR5-10bn impairments the group is set to book in its 2015 accounts)**. It is important to notice the group did change its NRI definition and now integrates the Belgium nuclear tax. This **EUR2.48bn NRI** needs to be compared with 2014 results (adjusted with new definition) of **EUR2.73bn**. Group's net debt is set to slightly increase compared with last year, by **EUR1.1bn to EUR28.6bn**, leading to a net debt/EBITDA ratio of **2.5x** in line with group's upper range guidance.
- What to expect beyond 2015?** We do not anticipate bullish guidance for 2016 as the group will continue to suffer from the lowering of European power prices (*despite being protected by its hedging policy*) and from the uncertainties on LNG business. Energy Europe business unit will be positively impacted by the restart of D3/T2 Belgian nuclear reactors, as well as by new restructuring efforts. All in all, we expect group's EBITDA to grow by **2.8% to EUR11.7bn** with most of the earnings growth being driven by **Energy Europe business unit (+19% to EUR2.29bn)** and by **Energy Services (+5% to EUR1.28bn)**. We continue to expect a negative earnings growth contribution from Global Gas & LNG business (*-12% to EUR1.3bn*). **We anticipate Engie will unveil an EBITDA guidance at EUR11.5-11.9bn for 2016**. As for the EBIT we forecast a >2% growth, while on the NRI we anticipate a **7.2% growth**, which will not lead to a dividend growth as we still anticipate the distribution of a EUR1/share dividend.
- What to expect from management during this publication?** We expect from the management more clarification on **1/its 2016-18 new Perform Plan contribution**. Rumors in the press are speaking of a **EUR2.8bn** amount for the period, without mentioning if it's a gross or net EBITDA impact target. We hope also to get more information on both origin of this new costs reduction and its destination (*by business unit*). **2/** We expect the group will clarify its position on Suez, and on potential other acquisitions it could made to reduce its direct exposure to merchant activities. **3/** More details also on the disposals program as well as the capex program will be well appreciated.
- Conclusion:** Compared with other European integrated utilities, Engie is set to post a relatively good operating performance, especially as the group suffered from brent prices decline and from LNG disruption. As for 2016, most of the earnings growth is set to come from restructuring and from restart of nuclear facilities. We only anticipate "real" EBITDA growth in 2017. 2015 metrics will be released Thursday 25<sup>th</sup> before market opening (FR : +33 (0)1 76 77 22 24).

## VALUATION

- At current share price the stock is trading at 7.3x its 2016e EBITDA while offering a 7.1% yield
- Buy, FV @ EUR19

## NEXT CATALYSTS

- February 25<sup>th</sup> 2016: 2015 earnings publication

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.4%	-14.4%	-18.8%	-13.6%
Utilities	-1.6%	-10.6%	-13.0%	-8.2%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-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	11,395	11,717	11,824
EBIT	6,574	6,420	6,603	6,553
% change		-2.3%	2.8%	-0.8%
Net income	2,728	2,481	2,650	2,741
% change		-9.1%	6.8%	3.4%

	2014	2015e	2016e	2017e
Operating margin	8.8	8.0	8.2	8.2
Net margin	3.7	3.1	3.3	3.4
ROE	4.9	4.5	4.8	4.9
ROCE	4.5	4.1	4.1	4.0
Gearing	53.2	55.4	58.3	60.8

(EUR)	2014	2015e	2016e	2017e
EPS	0.94	0.99	1.06	1.10
% change	-	5.2%	7.2%	3.6%
P/E	15.0x	14.2x	13.3x	12.8x
FCF yield (%)	8.9%	4.3%	3.5%	4.1%
Dividends (EUR)	1.00	1.00	1.00	1.00
Div yield (%)	7.1%	7.1%	7.1%	7.1%
EV/Sales	1.2x	1.0x	1.1x	1.1x
EV/EBITDA	7.0x	6.7x	7.3x	7.3x
EV/EBIT	13.1x	11.9x	12.9x	13.2x



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