

Suez

Price EUR16.98

Suez - 2015 earnings preview: looking for external growth!

Fair Value EUR19 (+12%)

BUY-Top Picks

Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	19.0 / 15.1
Market Cap (EURm)	9,211
Ev (BG Estimates) (EURm)	19,904
Avg. 6m daily volume (000)	1 329
3y EPS CAGR	18.6%

Suez is set to be the first French environmental services group to post 2015 earnings, ahead of Veolia, which will post the next day. We do not see major disappointment risks for 2015 metrics, but anticipate cautious guidance for EBITDA growth as usual, excluding M&A deals. Investors are mainly set to focus on this theme in our view, especially as it is the basis of the 2017 EBITDA target. We continue to prefer Suez over Veolia, in view of its more attractive valuation and the prospect of more buoyant newsflow.

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	-5.5%	-0.3%	-1.7%
Utilities	-2.2%	-10.4%	-11.3%	-7.7%
DJ Stoxx 600	-2.0%	-14.3%	-14.4%	-10.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	14,321	14,956	15,283	15,823
% change		4.4%	2.2%	3.5%
EBITDA	2,643	2,647	2,764	2,954
EBIT	1,255	1,258	1,304	1,443
% change		0.3%	3.6%	10.7%
Net income	320.9	442.8	475.5	555.8
% change		38.0%	7.4%	16.9%

	2014	2015e	2016e	2017e
Operating margin	8.8	8.4	8.5	9.1
Net margin	2.2	3.0	3.1	3.5
ROE	4.6	6.4	6.9	8.0
ROCE	6.7	7.4	7.5	8.2
Gearing	105.8	117.4	125.2	130.4

(EUR)	2014	2015e	2016e	2017e
EPS	0.62	0.82	0.88	1.03
% change	-	33.0%	7.4%	16.9%
P/E	27.4x	20.6x	19.2x	16.4x
FCF yield (%)	6.1%	NM	1.2%	2.2%
Dividends (EUR)	0.65	0.65	0.65	0.71
Div yield (%)	3.8%	3.8%	3.8%	4.2%
EV/Sales	1.1x	1.3x	1.3x	1.3x
EV/EBITDA	6.1x	7.5x	7.3x	7.0x
EV/EBIT	12.9x	15.8x	15.5x	14.3x

ANALYSIS

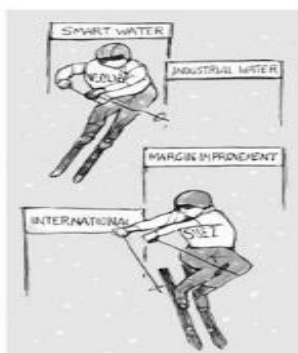
- Our earnings expectations for 2015?** We expect the group to deliver its EBITDA guidance of >2% lfl growth to **EUR2.65bn**, as we assume +2.1% lfl. On a YoY basis, EBITDA is set to be flat. Most of EBITDA growth is set to come from a positive Compass contribution and from the water business unit. Our EBIT estimate stands at **EUR1.26bn** while our net reported income forecast stands at **EUR401m**. Net debt should be negatively affected by a FX effect, by higher capex and by cash out linked to the Sembita minorities' purchase, leading to a net debt/EBITDA ratio of **3x**, at the high end of the group's guidance range.
- What to expect beyond 2015?** Given the lack of industrial rebound observed in Europe over Q4 2015 and over the first months of Q1 2016, we believe management's speech and the group's budget should be based on almost no recovery in industrial production in the region and therefore no rebound in treated waste volumes. Our model currently forecasts **0.5%** in organic growth for volumes, although thanks to new UK EfW capacities (*Cornwall, Poznan, West London, Merseyside*) we assume a total of **+1.6%** in volumes for the year, with part of this growth not fully impacting the group's EBITDA as all four new UK projects are off-balance sheet. We also expect the group to communicate on a traditional cost-cutting contribution of **EUR125m** but admit that given the lack of visibility on an industrial recovery, **this target could be revised up**. In all, these two elements combined with positive indexation effects from regulated water assets in the US and Chile, should lead to positive YoY EBITDA growth of >4% to **EUR2.76bn**. The smart consensus is currently standing at **EUR2.7bn**. We expect the group to post EBIT of **EUR1.3bn** and net adjusted income (BG def.) of **EUR475m** (+7.4%).
- What to expect from management during this publication?** **1/**An update on the M&A potential in Europe and in Latam. **2/**An update on the Compass programme, and on the additional potential this could provide, **3/**An update on the group's development in waste recovery (2016 target to reach 2m tons recovered for 1m ton eliminated). **4/**an update on a potential deal with Cofely and Engie.
- Conclusion:** We expect a cautious message from Suez' management during this publication, implying again that most of the earnings growth potential will stem from cost reductions and M&A. At the current share price, the group's valuation remains more attractive than Veolia's, especially in view of potentially positive newsflow. We are sticking to our Buy rating with a FV unchanged at **EUR19/share**.

VALUATION

- At the current share price, Suez trades at 19.2x its 2016e EPS and offers a 3.8% yield
- Buy, FV @ EUR19

NEXT CATALYSTS

- February 24th 2016: 2015 earnings (conference call @ 8.30am : **UK: +44 (0)20 3427 1918**)



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NEUTRAL ratings 0%

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