

Sector View

Utilities

2015 power consumption boosted by auto & metal sectors as well as climate

	1 M	3 M	6 M	31/12/15
Utilities	-2.6%	-5.9%	-8.1%	-2.6%
DJ Stoxx 600	-8.5%	-11.2%	-15.6%	-8.5%

*Stoxx Sector Indices

According to French grid operator RTE, French power consumption rose >2% YoY (incl. climate effect) and 0.5% organically to 476.3TWh last year, helped by greater usage of air conditioning systems and a slight recovery in both the auto and metal sectors in France. As already unveiled by EDF, nuclear output was important, still representing 76% of French power production, while renewables continued to take market share from fossil fuel assets, and more precisely from coal assets.

Companies covered

ALBIOMA	BUY	EUR20
Last Price	EUR12,99	Market Cap. EUR387m
E.ON	BUY	EUR10,2
Last Price	EUR9,26	Market Cap. EUR18,529m
EDF	BUY	EUR14,5
Last Price	EUR11,56	Market Cap. EUR22,197m
ENGIE	BUY	EUR19
Last Price	EUR14,32	Market Cap. EUR34,873m
PENNON GROUP	NEUTRAL	800p
Last Price	889p	Market Cap. GBP3,666m
RWE	NEUTRAL	EUR9,8
Last Price	EUR12,3	Market Cap. EUR7,454m
SUEZ	BUY	EUR19
Last Price	EUR17,195	Market Cap. EUR9,331m
VEOLIA ENVIRONNEMENT	NEUTRAL	EUR22,5
Last Price	EUR22,36	Market Cap. EUR12,597m
VOLTALIA	BUY	EUR13
Last Price	EUR9,51	Market Cap. EUR249m

ANALYSIS

- A quick look back at the main electricity statistics for 2015:** According to French grid operator, RTE, French power consumption rose **0.5%** to **476.3TWh** in 2015, boosted by increased demand in the car manufacturing and metallurgic sectors, compared with last year. Including the climate effect, which had a beneficial impact on power consumption (warmer than average temperatures but colder temperatures compared with last year), final power consumption increased by **2.2%** to **475.4TWh**. Power consumption **by industrials** (15% of net final power consumption) **remained stable** compared with last year, with the auto and metal sectors driving up volumes consumed (+5% and +5.6% respectively) while the chemical, steel and paper industries contributed negatively (respectively -1.3%, -2.3% & -4.1%). Consumption from **private households, small companies and professionals** (all connected to the distribution network, and not to the transmission network as is the case for industrials) was slightly up at **+0.6%**.
- Increasing renewables usage, to the detriment of coal:** Like everywhere in Europe, renewable energies continued to develop in France with a strong rise in installed capacity to the detriment of coal assets. French installed power capacity remained almost stable at 129G.3W (+584MW) with nuclear still representing **63GW or 49%**, while the share of thermal assets in total capacity declined by **1.5pp to 17.4%** with installed capacities representing **22.5GW**. Most of the **1.4GW** negative adjustment was made in coal fired assets, which now represent only **3GW** of installed power capacity. The installed base of gas assets remained stable. The 584MW increase in total French power capacity therefore stemmed from additional renewables installations, **with +1GW from wind and +895MW from solar**. All combined (excluding hydro), renewables now represent **14%** of the French power grid, and **6.7%** of French power production. Back in 2010, renewables represented only **2.7%** of production.
- Nuclear, still important:** As mentioned above, nuclear still represents an important share of French power production (67%) despite the ramp-up of renewable energies. EDF's difficulties do not so much concern the volumes it is able to produce and sell on the market, but more which market it is able to sell on. In such a limited growth consumption environment, higher installed power capacities (net positive) means a stronger part of nuclear output is set to be exported outside France, sometimes at prices lower than the French average (Germany principally). According to RTE, last year's spot price in central western Europe converged **19%** of the time, as in 2014. In our view, a greater coupling between countries in the region will not help EDF we think as it could further boost power exportations (91.3TWh exported from France last year, with a net positive balance of 61.7TWh). **No indications were given for 2016 on the total power consumption expected by the French grid operator, but on an average climate basis we assume no real growth given the very limited economic rebound expected this year.**

VALUATION

- At the current share price, the utilities sector is trading at 7.6x 2016e EBITDA and offers a 4.4% yield.

NEXT CATALYSTS

- 16th February – EDF // 2015 earnings

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NEUTRAL ratings 0%

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