

Veolia Environnement

Price EUR21.32

Veolia 2015 earnings preview - A more classical year

Fair Value EUR22,5 (+6%)

NEUTRAL

| | |
|----------------------------|-------------|
| Bloomberg | VIE.FP |
| Reuters | VIE.PA |
| 12-month High / Low (EUR) | 22.9 / 16.6 |
| Market Cap (EURm) | 12,008 |
| Ev (BG Estimates) (EURm) | 19,687 |
| Avg. 6m daily volume (000) | 2 131 |
| 3y EPS CAGR | 78.4% |

Veolia is due to report its 2015 earnings a day after Suez, on Thursday 25th February (morning). Since the group already communicated both unofficial 2015 net income and a 2018 net income target during its December Investor Day, we assume newsflow on the investment case should be quite limited. As for Suez, we believe management should be cautious on industrial recovery in Europe this year, limiting earnings growth potential. At the current share price we continue to prefer Suez over Veolia. We remain Neutral with a FV unchanged at EUR22/share.

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|--------|--------|----------|
| Absolute perf. | 1.4% | -4.3% | 3.2% | -2.5% |
| 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 | 23,880 | 24,970 | 25,495 | 26,148 |
| % change | | 4.6% | 2.1% | 2.6% |
| EBITDA | 2,164 | 2,960 | 3,151 | 3,341 |
| EBIT | 414.1 | 1,292 | 1,398 | 1,564 |
| % change | | NM | 8.2% | 11.9% |
| Net income | 123.1 | 548.6 | 548.9 | 698.9 |
| % change | | NM | 0.1% | 27.3% |

| | 2014 | 2015e | 2016e | 2017e |
|------------------|------|-------|-------|-------|
| Operating margin | 4.6 | 5.4 | 5.5 | 6.0 |
| Net margin | 1.0 | 2.5 | 2.4 | 2.9 |
| ROE | 1.3 | 6.2 | 6.2 | 7.8 |
| ROCE | 5.8 | 8.0 | 8.0 | 8.5 |
| Gearing | 86.5 | 98.9 | 98.1 | 95.5 |

| (EUR) | 2014 | 2015e | 2016e | 2017e |
|-----------------|-------|-------|-------|-------|
| EPS | 0.22 | 0.98 | 0.98 | 1.24 |
| % change | - | NM | 0.1% | 27.3% |
| P/E | 97.4x | 21.8x | 21.8x | 17.1x |
| FCF yield (%) | 1.8% | 6.5% | 5.4% | 5.9% |
| Dividends (EUR) | 0.70 | 0.73 | 0.76 | 0.89 |
| Div yield (%) | 3.3% | 3.4% | 3.6% | 4.2% |
| EV/Sales | 0.6x | 0.8x | 0.8x | 0.8x |
| EV/EBITDA | 6.5x | 6.7x | 6.2x | 5.9x |
| EV/EBIT | 34.1x | 15.2x | 14.1x | 12.6x |



ANALYSIS

- Our earnings expectations for 2015?** We expect Veolia to post **EBITDA of EUR2.96bn**, up **7.1% YoY** and **6.9% LFL**. Most of this solid EBITDA growth is set to stem from the Convergence programme, as well as from growth in the Rest of Europe and outside Europe. Activities in France are likely to remain under pressure, due to the highly competitive environment in the waste business, as well as the limited inflation in water business contracts. As for net income (*Veolia def.*) we estimate the group will easily reach its **EUR500m** target for 2015, at **EUR590m** (during its investor day in December, the group mentioned it could deliver **EUR550m** at least. Net debt is set to increase by **>EUR500m** compared with last year to **EUR8.8bn**, although due to the change in the definition of EBITDA and solid growth in this EBITDA, the group's leverage ratio is set to decline from 3.5x to 3.0x.
- What to expect beyond 2015?** As already mentioned above, given that we do not anticipate a recovery in industrial production in Europe this year, we see very limited growth in waste volumes treated in the region, to the detriment of the group's EBITDA margin in the waste business. In our model we currently assume a **0.7%** increase in volumes on a worldwide basis for 2016, as well as a further decline in commodities and in recycled materials, as in 2015. As for the water division, only the signature of new contracts and development with industrials can drive up sales and margin. In all, we expect the group to post EBITDA of **EUR3.15n**, up **6.4%** YoY and up **5.6%** thanks to the positive contribution of the new Convergence programme for 2016-2018 (EUR600m gross impact, EUR500m net). As for net income we expect a +10% YoY rise to **EUR650m**, but flat growth once adjusted for hybrid costs and restructuring efforts. As for net debt, we anticipate stable growth, despite a rise in capex and the dividend.
- What to expect from management during this publication?** **1/** an update on changes in commodities prices and recycled materials prices, and therefore the impact on the group's margin, **2/** an update on the Transdev-CDC deal, and on the calendar effect. **3/** An update on the order book and sales growth potential with industrials, in both the waste and water businesses. **4/** An update on the group's strategy to expand in nuclear business.
- Conclusion:** At the current share price we continue to favour Suez over Veolia (for its valuation notably) as we anticipate more positive newsflow. We are sticking to our Neutral rating with our FV unchanged at **EUR22.5/share**.

VALUATION

- At the current share price, Veolia trades at 22x its 2016e EBITDA and offers a 3.6% yield
- Neutral, FV @ EUR22.5

NEXT CATALYSTS

- February 25th 2016: 2015 earnings (conference call @ 3.00pm)

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| | |
|---------|---|
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