

Veolia Environnement

Price EUR21.18

2015 earning - first take: Good, although bang in line!

Fair Value EUR22,5 (+6%)

NEUTRAL

Bloomberg	VIE FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 16.8
Market Cap (EURm)	11,932
Ev (BG Estimates) (EURm)	19,611
Avg. 6m daily volume (000)	2 113
3y EPS CAGR	78.4%

Veolia has posted solid 2015 earnings, helped by a strong cost-reduction contribution and by a positive FX effect. Net recurring income was perfectly in line with our estimates at EUR580m (BG at EUR589m) as was the 2015 dividend proposal (EUR0.73/share). Management reached its 2015 targets easily, although this was no surprise. For 2016, the overall tone is quite cautious (on macro) as expected, putting the new cost-cutting programme even more at the centre of the group's earnings growth strategy. We appreciate the case, yet continue to think most of the equity story is already well priced in by market. Neutral, FV @ EUR22.5.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.3%	-2.4%	16.6%	-3.1%
Utilities	-5.8%	-11.0%	-3.5%	-10.1%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

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	96.8x	21.7x	21.7x	17.0x
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	0.7x
EV/EBITDA	6.5x	6.6x	6.2x	5.9x
EV/EBIT	33.9x	15.2x	14.0x	12.5x

ANALYSIS

- Main 2015 metrics:** 2015 EBITDA came out at **EUR3bn**, slightly ahead our **EUR2.96bn** estimate, reflecting 11.3% YoY growth (+5.3% LfL) thanks to a solid cost-cutting contribution (EUR223m). Most of the earnings growth came from European activities, excluding France (+9.1% YoY), and from Water France. Veolia posted current EBIT of **EUR1.31bn**, in line with our **EUR1.29bn** estimate for the year, reflecting **25.5%** YoY growth. Net recurring income (Veolia definition) also surged as anticipated, to **EUR580m**, in line with our **EUR589m** adjusted estimate. Like Suez, the group suffered harshly from the deterioration in commodities prices and from a less favourable contractual indexation. Net debt came out at **EUR8.17bn**, below the 2014 level and below our **EUR8.8bn** estimates, leading the group to a **2.7x** leverage ratio. As for the dividend, the amount distributed by the group rose in line with EPS, by 4% to **EUR0.73/share**, in line with our estimate. This dividend will be paid 100% in cash, as promised by management. It is worth mentioning that post tax ROCE strongly increased last year, to **6.8%**, compared with 5.5% in 2014 and 5% in 2013. As a reminder the group aims to further raise it, to 9% by 2-3 years.
- What to retain from this publication?** As for 2016, the group mentioned, like Suez yesterday, that global macro conditions remain difficult, with very limited inflation (*deflation?*) and sluggish economic growth. Yet thanks to further cost-cutting, Veolia aims to generate **EUR650m** in FCF, and **EUR600m** in net recurring income, while in our model we target **EUR648m**. As for 2018, the group confirmed its **EUR1bn** FCF generation and its **EUR800m** net income targets, thanks to a minimum EBITDA growth of 5%/year between 2016 and 2018. The group reiterated its target to reduce its costs base by at least EUR600m.
- Conclusion:** The 2015 performance was quite impressive, as expected, with the group reaching its targets easily. 2016 global outlook is cautious, at least when excluding new restructuring programmes, and 2016 operational guidance implies net recurring income slightly below our estimates. **At this stage we confirm our Neutral rating, with FV unchanged at EUR22.5/share. This is good, but bang in line.**

VALUATION

- At current share price Veolia is trading at 22.2x its 2016e EPS
- Neutral, with FV @ EUR22.5

NEXT CATALYSTS

- Analyst meeting at 3.00pm CET

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