BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

8th March 2016

Utilities

Engie

Rise of the phoenix?

Fair Value EUR17 vs. EUR19 (price EUR14.01) **BUY**

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	20 / 13
Market capitalisation (EURm)	34,118
Enterprise Value (BG estimates EURm)	78,070
Avg. 6m daily volume ('000 shares)	6 298
Free Float	59.4%
3y EPS CAGR	-21.7%
Gearing (12/15)	61%
Dividend yields (12/16e)	7.14%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	69,883	71,674	68,368	69,445
EBIT(EURm)	-3,243	6,329	5,756	6,041
Basic EPS (EUR)	-1.96	1.05	0.98	1.04
Diluted EPS (EUR)	2.04	0.99	0.92	0.98
EV/Sales	1.03x	1.09x	1.16x	1.15x
EV/EBITDA	6.4x	7.2x	7.7x	7.6x
EV/EBIT	NS	12.3x	13.8x	13.2x
P/E	6.9x	14.1x	15.3x	14.3x
ROCE	6.8	4.3	3.9	4.1

In this report we analyse the commitments made by the group at its 2015 earnings presentation and try to predict what the group could look like depending on whether additional disposals are made or not. We find three times more upside than downside assuming group's transformation is done. Buy.

- **2016, a transition year, as in 2015…**: 2015 was not a great year for the group, which faced the massive drop in power, oil and gas prices, on top of more company-specific issues (*Yemen, Brazil…*). Compared with 2011 (*restated for the deconsolidation of Suez*), the group's EBITDA has dropped more than **23%** and around **14%** on a lfl basis, despite the **EUR17bn** in growth capex invested over the period. 2016 is set to be another year without growth, as the group's hedging policy for power and commodities prices will continue to offset growth from new projects. Engie's 2016 EBITDA guidance implies a *"-4%/+1.2%"* growth target.
- **The transformation plan is key for equity story**: Instead of suffering from the energy transition, Engie aims **to play an active role in it**. To do so, significant investments are necessary to reposition the group in greener power generation assets, while non-strategic assets disposals are needed to finance this growth. On top of this change in mix, additional restructuring efforts are to be implemented (*EUR1bn*), as well as an entire management/business reorganisation. **The aim is to make its structure more flexible, lighter and closer to final customers.**
- **Rise of the phoenix?** Assuming Engie manages to deliver its targets implies higher earnings growth potential, lower sensitivity to changes in commodities and potential rerating (*more regulated*). The question mark concerns the group's ability to achieve this, on time, and on good terms. We have tried to predict what Engie could look like in 2025 assuming all goes well, while forecasting what it could look if it fails to sell off its non-strategic assets. **Our pure DCF-based analysis gives a range of EUR13-EUR18/sh, implying three times more upside than downside assuming group's transformation is done.**
- **Still positive**: We have adjusted our model to include 2015 earnings and the new dividend distribution policy, as well as disposals of US and Asian thermal assets. Engie will survive whatever the scenario (*disposals or not*), but we assume more value creation from an entire transformation. **We cut our FV from EUR19 to EUR17 yet confirm the Buy rating (*multi-criteria*).**

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Company description

Engie develops its businesses (power, natural gas, energy services) around a model based on responsible growth to take on the major challenges of energy's transition to a low-carbon economy: access to sustainable energy, climate-change mitigation and adaptation and the rational use of resources. The Group provides individuals, cities and businesses with highly efficient and innovative solutions largely based on its expertise in four key sectors: renewable energy, energy efficiency, liquefied natural gas and digital technology. Engie employs 154,950 people worldwide and achieved revenues of EUR70bn in 2015.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	81,278	74,686	69,883	71,674	68,368	69,445
Change (%)	*-16.2%*	*-8.1%*	*-6.4%*	*2.6%*	*-4.6%*	*1.6%*
Adjusted EBITDA	13,046	12,358	11,261	10,820	10,223	10,554
EBIT	(7,724)	6,574	(3,243)	6,329	5,756	6,041
Change (%)	*-208%*	*-%*	*-149%*	*-%*	*-9.1%*	*5.0%*
Financial results	(1,754)	(1,876)	(1,547)	(1,477)	(1,387)	(1,440)
Pre-Tax profits	(9,478)	4,698	(4,790)	4,852	4,369	4,601
Exceptional	(14,965)	(587)	(9,568)	0.0	0.0	0.0
Tax	(620)	(1,588)	(324)	(1,743)	(1,442)	(1,518)
Profits from associates	513	441	473	468	517	558
Minority interests	(152)	(669)	496	(625)	(625)	(635)
Net profit	(9,737)	2,441	(4,618)	2,484	2,302	2,448
Restated net profit	3,440	2,728	4,950	2,484	2,302	2,448
Change (%)	*-10.2%*	*-20.7%*	*81.5%*	*-49.8%*	*-7.3%*	*6.3%*
Cash Flow Statement (EURm)						
Operating cash flows	12,148	8,750	10,383	9,339	9,049	8,952
Change in working capital	(186)	(1,221)	1,163	32.6	89.3	(88.8)
Capex, net	(7,508)	(7,080)	(6,459)	(7,300)	(5,000)	(5,050)
Financial investments, net	178	1,933	215	0.0	0.0	0.0
Dividends	(4,694)	(3,720)	(3,107)	(2,502)	(2,502)	(1,795)
Other	(3,415)	(44.0)	(395)	2,525	(2,662)	(2,667)
Net debt	29,800	27,511	27,727	25,666	26,781	27,340
Free Cash flow	4,640	2,961	237	1,989	1,649	2,470
Balance Sheet (EURm)						
Tangible fixed assets	65,037	64,032	56,988	54,632	55,370	56,102
Intangibles assets	27,983	28,791	26,037	26,037	26,037	26,037
Cash & equivalents	8,691	8,546	9,183	11,244	10,129	9,570
current assets	44,145	46,760	50,271	51,270	50,371	50,724
Other assets	13,755	17,176	18,179	18,212	18,151	18,171
Total assets	159,611	165,305	160,658	161,394	160,059	160,603
L & ST Debt	39,914	38,321	39,155	39,155	39,155	39,155
Others liabilities	71,742	77,457	78,424	79,143	78,021	77,967
Shareholders' funds	47,955	49,527	43,079	43,097	42,883	43,481
Total Liabilities	159,611	165,305	160,658	161,394	160,059	160,603
Capital employed	107,473	104,588	99,296	97,500	98,149	98,969
Ratios						
Operating margin	(9.50)	8.80	(4.64)	8.83	8.42	8.70
Tax rate	37.50	33.80	(6.76)	33.00	33.00	33.00
Net margin	4.23	3.65	7.08	3.47	3.37	3.53
ROE (after tax)	6.43	4.88	10.15	5.13	4.80	5.08
ROCE (after tax)	4.21	4.53	6.80	4.35	3.93	4.09
Gearing	58.37	53.21	61.48	57.60	60.56	61.37
Pay-out ratio	103	145	(51.04)	94.87	71.67	67.40
Number of shares, diluted	2,357	2,357	2,357	2,357	2,357	2,357
Data per Share (EUR)						
EPS	(4.13)	1.04	(1.96)	1.05	0.98	1.04
Restated EPS	1.34	0.94	2.04	0.99	0.92	0.98
% change	*-14.2%*	*-29.9%*	*116%*	*-51.3%*	*-7.8%*	*6.8%*
EPS bef. GDW	(4.13)	1.04	(1.96)	1.05	0.98	1.04
BVPS	20.35	21.01	18.28	18.28	18.19	18.45
Operating cash flows	2.90	0.0	0.0	2.97	5.87	0.0
FCF	1.97	1.26	0.10	0.84	0.70	1.05
Net dividend	1.50	1.50	1.00	1.00	0.70	0.70

Source: Company Data; Bryan, Garnier & Co ests.

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1. Investment Case

Why the interest now?

The reason for writing now

We have revisited Engie's investment case following the group's 2015 earnings, and more importantly, following the brief presentation of its transformation plan. The group intends to reduce its exposure to more polluting technologies and merchant activities by becoming a strong player in the energy transition. In this report we analyse the commitments made by the group during its 2015 earnings presentation, and try to predict how it could look dependent on whether additional disposals are made or not.

Cheap or Expensive?

Valuation

We continue to value Engie via an SOTP and a dividend yield model. We have integrated 2015 results into our model as well as the **EUR5.5bn** in disposals and the **EUR1bn** net cost cutting programme. We estimate the group could be worth **EUR13/share** assuming no further disposals are made, while it could be worth **EUR18/share** assuming the full transformation phase is completed. **We find three times more upside than downside assuming group's transformation is done.**

When will I start making money?

Catalysts

The group should provide investors more details on its transformation plan during workshop sessions in Q2 2016. We hope to obtain further details on **the cost-cutting programme** and on the potential growth markets the group is willing to expand.

What's the value added?

Difference from consensus

We currently stand **1-2%** above consensus on 2016 EBITDA and **1-2%** below 2017 EBITDA.

Could I lose money?

Risks to our investment case

We have identified: **1/** a further decline in commodities prices (*oil and gas*), affecting both the E&P and Energy Europe businesses, **2/** a further depreciation in the BRL vs. EUR, **3/** the unexpected shutdown of Belgium nuclear facilities.

2. The rise of the phoenix?

Following the group's 2015 earnings presentation, investors now have a clearer view on Engie's mid/long term strategy as well as a better view on its financial targets and dividend distribution policy. In such a difficult environment and in the integrated utilities sector, it is fair to say this is no longer a common occurrence. EDF recently cut its 2015 dividend from **EUR1.25/share to EUR1/share**, without giving more details on future dividends, while RWE decided to suspend the 2015 payment due to poor market conditions. Even E.ON, which has a stronger balance sheet than RWE, indicated that visibility on the 2016 dividend is not clear.

Engie's new strategy is clear: **1/**to focus more on regulated markets (*85% of EBITDA by 2018 vs. 50% today*) and on renewables, **2/**to reduce its direct exposure to coal-fired thermal assets (*currently 12% of gross installed capacities following the disposal of US and Asian thermal assets*) in favour of gas-fired thermal assets, which emit half the amount of CO2, **3/**expanding its geographical footprint in asset-light businesses, with lower profitability but with similar or higher ROCE compared with more traditional capital intensive business models. This transition is mainly set to be driven by the implementation of a new cost-cutting programme (L*ean 2018, a three-year operational cost-cutting programme*) with an expected net contribution of **EUR1bn** to the group's EBITDA, and by the disposal of non-strategic assets, which could generate a net cumulated positive impact of **EUR15bn** on the group's net debt. The cost-cutting programme should allow the group to offset (*some of*) the headwinds affecting its traditional power generation and E&P businesses models, while disposals should enable the group to finance the share of its growth capex programme (*EUR15b, over 2016-18*) not financed by operating cash flow.

This "forced" transition (*in view of the energy transition imposed by the European government*) obviously comes at a price for shareholders on top of the **>65%** share price decline since December 2007. Indeed the group has cut its **EUR1/share** dividend to **EUR0.7/share** for 2016 & 2017 (*2017 & 2018 payment*), after having already cut it from **EUR1.5/share** to **EUR1/share** in 2014. Despite this cut, the strategic plan announced by the group during its 2015 earnings presentation went down fairly well with investors, who viewed these announcements as the start of a new era at Engie. The old GDF Suez is to disappear and to give birth to an entity that is more economically geared towards the new energy world. **The question mark therefore concerns whether or not this phoenix will rise and take flight.**

We have reduced our Fair Value of EUR19/share to EUR17/share following our negative EPS adjustments

In this report, we have updated our model to include 2015 metrics and more importantly, the group's strategic plan. We have also identified the different growth areas the group could focus on, while highlighting **we find three times more upside than downside assuming group's transformation is done.** We have reduced our Fair Value of **EUR19/share** to **EUR17/share** following our negative EPS adjustments (*2016-18 average*), which still implies upside of **>20%** relative to the recent share price.

The group has no choice now but to commit to its strategic plan, which should allow it to return stronger than before, and more importantly, to become a major player in the European energy transition.

3. Engie's strategic plan in a nutshell

During its 2015 earnings presentation, Engie unveiled its new strategic plan to the financial market and investors. This plan aims to complete the group's transition started in 2015, following its name change from GDF Suez to Engie.

The **first pillar of this plan** is the extension of the **cost-cutting programme** started by the group in 2012. The Perform 2015 programme, which aimed to optimise the group's global cost structure by **EUR1.9bn** (*EUR3.5bn gross contribution*) over the 2012-15 period, came to an end last year and allowed the group to offset some of the massive headwinds caused by the decline in commodities prices. While the Perform 2015 cost-cutting programme focused more on global G&A, we understand the new programme (*Lean 2018*) will focus mainly on purchasing (*45% of the EUR1bn target*), energy and corporate structures, and downstream activities. Assuming this programme is fully implemented, it should allow the group to reduce its operating cost structure base (*excluding personnel costs*) by around **2%** compared with the group's 2015 fixed cost base.

The **second pillar** is the group's **business transformation** itself, a transformation that should allow Engie to become a genuine player in the energy transition in mature markets rather than a victim of it. The group's transformation (*which has no name, so we will call it the rise of the phoenix!*) aims to progressively (*by 2018*) increase Engie's EBITDA exposure to regulated/contractual activities, while reducing its C02 emissions and increasing its exposure to the energy services businesses. Helped by the new cost-cutting programme (*1st pillar*) and by significant non-strategic disposals (*3rd pillar*), this transformation should be made without disturbing Engie's relatively good financial situation (*net debt/EBITDA ≤ 2.5x and "A" credit rating*). Recent comments from credit agencies concerning the group's indications for its transformation were quite positive, with Moody's considering the plan as positive for the group's credit quality. This business transformation will be possible thanks to **a significant growth capex budget,** aimed at progressively repositioning Engie in less capital intensive business models, and more importantly, in business models less exposed to commodities. For the 2016-18 period, Engie stated it intends to spend **EUR22bn on gross capex**, **EUR7bn** of which on maintenance (*Energy Europe and Infrastructure mainly*) and **EUR15bn** on growth capex. This implies an annual growth capex envelope of **EUR5bn** vs. around **EUR3.8-4bn** on average over the past three years, which should logically allow the group to accelerate its organic EBITDA/EBIT growth over coming years, assuming this growth capex is well allocated.

Since the group's financial equation is set to remain under pressure until 2018 as it will continue to suffer from its **three year** rolling hedging policy for power prices and from its **two/three year** hedging policy for gas prices, disposals are needed to finance some of this **EUR15bn** growth capex programme. **Disposals** are therefore the **third pillar** of the group's transformation plan as **1/** these should further accelerate change in the group's power mix and its regulated/non-regulated mix, while **2/** financing new investments specifically dedicated to new growth areas (*renewables, energy services, infrastructure…*). During its 2015 earnings presentation, the group's CEO mentioned that out of the **EUR15bn** in targeted disposals, **EUR5.5bn** had already been closed at end February 2016 following the sale of **13GW** in thermal assets (*mostly coal*) to US and Qatari investment funds. To reach its target, Engie still needs to sell off around **EUR9.5bn** in non-strategic assets by 2018. We estimate this programme should allow the group to maintain its net debt/EBITDA leverage ratio target of **2.5x** over 2016-18, while fully financing its gross capex programme. In the end, thanks notably to lower dividend payments, the group should keep around **EUR0.7-1bn** for financing small/mid-size acquisitions.

3.1. The first pillar: further costs cutting

3.1.1. A good track record after all

The previous transformation plan, "Perform 2015" was unveiled by the group during its 2012 Investor Day, back when "GDF Suez" was still consolidating "Suez Environnement". The aim was to have a positive cumulative net impact on the group's net recurring income of **EUR900m**. **This target was reached a year ahead of schedule**, leading the group to increase its target **to >EUR1bn** for 2015.

Savings efforts mainly concerned SG&A and procurement, as well as decreasing the cost of gross debt, thanks to active management of interest rate risk and diversified access to bond markets. When comparing 2015 with 2011 (*restated from Suez's deconsolidation*) we see most of the efforts were made in purchasing and on other operating expenses while personnel costs strongly increased, linked notably to the group's expansion in the energy services market (*more labour intensive than traditional business*). Since 2011, the group's operating profit has dropped by **26%**, while sales only fell by **8%**. The Perform 2015 cost reduction programme only partially offset the massive margin squeeze Engie suffered over the period.

Fig. 1: Engie – P&L evolution decomposition

Metrics in value (EURm)	2006	2007	2008	2009	2010	2011	2011 rest.	2012	2013	2014	2015	2015 vs 2011
Sales	**44 289**	**47 475**	**67 924**	**79 908**	**84 478**	**90 673**	**75 843**	**97 038**	**87 898**	**74 686**	**69 883**	**-7,9%**
Purchasing	(21 010)	(21 289)	(35 879)	(41 406)	(44 672)	(46 695)	(43 255)	(52 177)	(50 396)	(44 160)	(39 308)	-9,1%
Personal costs	(7 641)	(8 142)	(9 679)	(11 365)	(11 755)	(12 775)	(9 112)	(13 234)	(11 615)	(9 779)	(10 168)	11,6%
Other operating expenses	(9 457)	(10 956)	(12 429)	(13 607)	(5 899)	(17 226)	(11 468)	(17 188)	(13 853)	(11 000)	(11 163)	-2,7%
Other operating products						2 116	1 867	2 194	2 077	1 764	1 617	-13,4%
D&A, provisions	(1 685)	(1 913)	(3 714)	(5 183)	(5 899)	(7 115)	(5 936)	(7 113)	(6 426)	(4 797)	(5 007)	-15,7%
Implied operating profit (excluding JVs & associates)	**4 497**	**5 175**	**6 224**	**8 347**	**16 253**	**8 978**	**7 939**	**9 520**	**7 685**	**6 714**	**5 854**	**-26,3%**
in % of sales												
Purchasing	47,4%	44,8%	52,8%	51,8%	52,9%	51,5%	**57,0%**	53,8%	57,3%	59,1%	**56,2%**	-
Personal costs	17,3%	17,1%	14,2%	14,2%	13,9%	14,1%	12,0%	13,6%	13,2%	13,1%	14,6%	-
Other operating expenses	21,4%	23,1%	18,3%	17,0%	7,0%	19,0%	**15,1%**	17,7%	15,8%	14,7%	**16,0%**	-
Other operating products	0,0%	0,0%	0,0%	0,0%	0,0%	-2,3%	-2,5%	-2,3%	-2,4%	-2,4%	-2,3%	-
D&A, provisions	3,8%	4,0%	5,5%	6,5%	7,0%	7,8%	7,8%	7,3%	7,3%	6,4%	7,2%	-

Source: Company Data; Bryan, Garnier & Co ests.

When looking at the group's 2015 financial communication we understand that the Perform 2015 programme contributed positively by around **EUR900-950m** to opex reduction (*Engie did not communicate the total net impact of the entire cost-cutting programme to make comparison easier with the new cost-cutting programme*). This implies that the plan enabled the group to offset **40%** of the entire market deterioration that mainly affected businesses exposed to merchant activities. The other Perform 2015 contributions (*lower financial charges or other lines below EBITDA contributions*), enabled the group to outperform its net income target one year ahead of schedule. Besides this, the group implemented an additional cost-cutting programme entitled the "Quick Reaction Plan" that allowed it to make further cost savings (*E&P & Energy Europe mainly*).

Fig. 2: Engie – Perform plan contribution to EBITDA (EURm)

	2012	2013	2014	2015e	Cumulated
Perform EBITDA gross	**750**	**950**	**900**	**250**	**2 850**
o/w Opex gross	450	650	700	250	2 050
o/w Others gross	300	300	200	0	800
Costs inflation	(700)	(400)	(200)	0	(1 300)
Perform EBITDA net	**50**	**550**	**700**	**250**	**1 550**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 3: Engie – 2011-15 Bridge

EBITDA 2011-15 Bridge	
2011 Engie EBITDA (excluding Suez & with associates)	**14 787**
FX (*excluding Suez*)	(54)
Perimeter (*excluding Suez*)	(1 341)
Opex reduction net from Perform 2015 program	**900**
Implied Market evolution, commodities impact, COD	(3 031)
2015 Engie EBITDA (*excluding Suez & with associates*)	**11 261**
Change over the period	-23,8%

Source: Company Data; Bryan, Garnier & Co ests.

3.1.2. An ambitious new program

Details of the cost-cutting programme are quite limited so far. We hope to obtain more information during the group's "workshop" sessions in Q2 2016 (*no official date*). **However, we already know that:**

- The plan, named "Lean 2018", targets a positive net impact of **EUR1bn** on the group's EBITDA, representing **9%** of 2015 EBITDA, and **<2%** of G&A, other opex and purchasing costs.

- **100%** of this cost reduction programme is to stem from opex reductions (G&A, opex and purchasing), while the previous plan's contributions came from G&A, other opex, **and from items below EBITDA** (*as well as from capex optimisation and working capital, affecting the group's cash*).

- The implied **EUR1bn** contribution, on an annual basis (*EUR330m/year*) is **50% higher** than the annual cut in opex contributed by Perform 2015 (*EUR225m/year*).

- This impact on the group's EBITDA is net of opex inflation, and is set to stem for **57%** from G&A and **43%** from other opex. Cost optimisation in purchasing is set to represent **45%** of the total.

- The cost-cutting programme includes no changes in scope. **This implies a lower net contribution to the group's EBITDA when disposals are included.**

We consider this plan fairly ambitious since it is **double the size of the previous one**, and **is not the first cost-cutting programme implemented by the group**. While a new plan could be easier to manage since it is already part of the group's culture, we also believe that additional costs savings could be harder to find.

In our model, we assume the group is able to achieve 90% of its plan

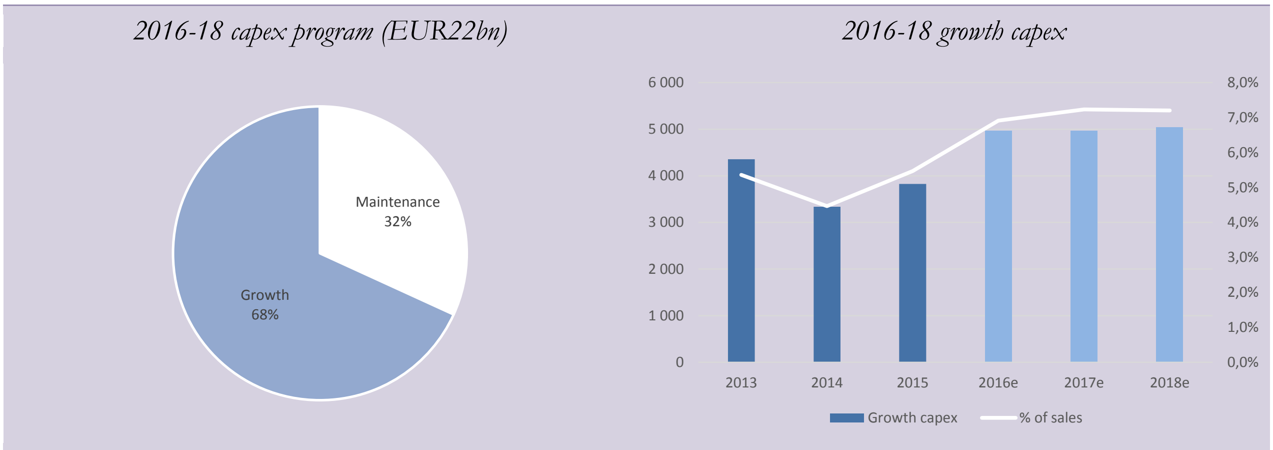
In our model, we assume the group is able to achieve **90%** of its plan, based on a scenario of no further disposals. In contrast, we assume it will achieve **80%** if the remaining **EUR9.5bn** in disposals are finalised during the period as potential synergies, or volume effects linked to the size of the group could be reduced.

We expect to obtain more details during **Q2 2016**, especially concerning the contribution by business unit.

3.2. The second pillar: transformation mix

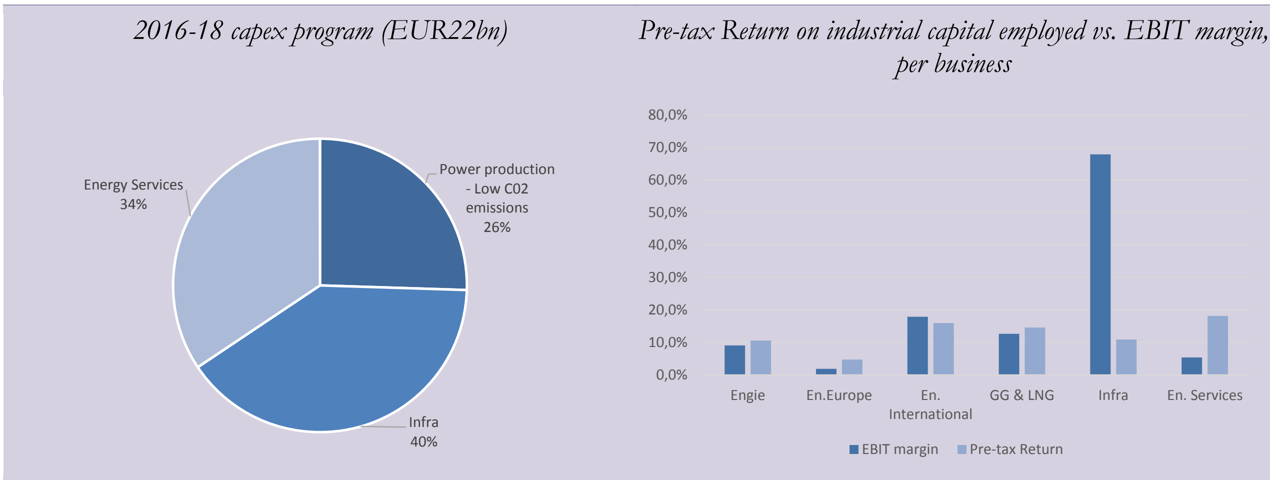
To adapt itself to the new world, Engie unveiled it will spend **EUR22bn** on gross capex over the next three years, with **EUR7bn** dedicated to maintenance and **EUR15bn** dedicated to growth. Below is a summary of the three main markets/businesses in which the group has strong ambitions. Note importantly, that the group aims to allocate a higher share of its capex envelope to **1/** lower capital intensive businesses such as energy services and **2/** regulated businesses which offer more stability in IRR & ROCE during the different cycles.

Fig. 4: Engie – 2016/18 Capex program (EURbn)



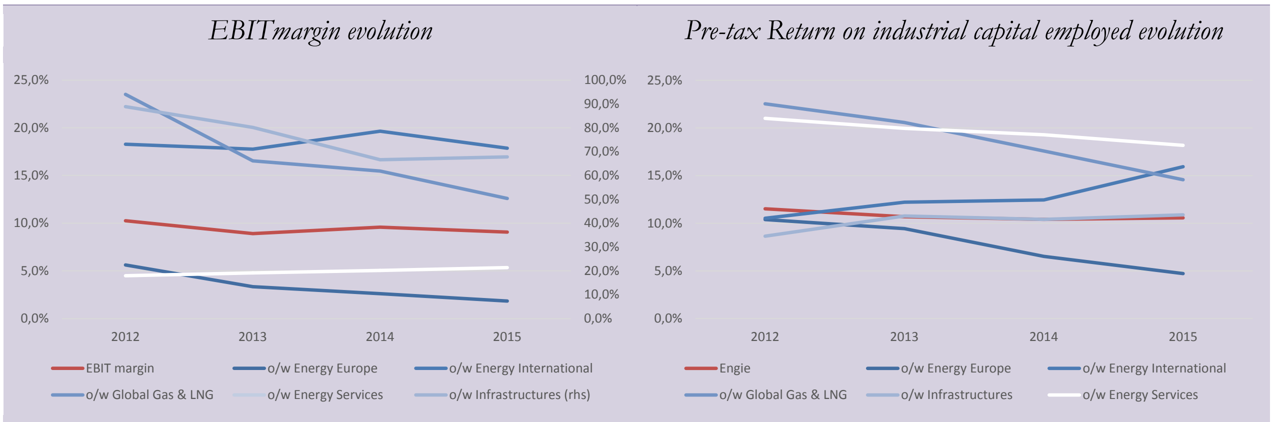
Source: Company Data; Bryan, Garnier & Co ests.

Fig. 5: Engie – Growth capex allocation by business & 2015 Return by business



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 6: Engie – 2012-15 EBIT margin vs. Return by business



Source: Company Data; Bryan, Garnier & Co ests.

3.2.1. More energy services, more digital

As explained above, Engie aims to further invest in the energy services world. The group already generates **EUR16bn** of sales annually (*less than EUR11bn back in 2006*), o/w **93%** in Europe and aims to further expand its footprint internationally, notably via small acquisitions of entities either exposed to a specific market or to a specific technology. More than half of the group's revenues generated in this market stems from services, while installations represent **38%** and engineering only **4%.** Growth potential from this market is quite important, especially in mature markets where industrials, and municipalities are targeting a reduction/optimisation of energy bills due to financial constraints or to regulations.

The recent acquisition of **OpTerra Energy Services**, a US company which designs and implements customised projects that help public and private-sector clients reduce energy consumption and costs, should clearly strengthen Engie's aim to offer new and differentiated energy services to current and prospective customers in the US. The deal (*EV estimated at EUR120m for total sales of EUR250m*) is set to reinforce the group's presence outside Europe, and especially in the US where Engie remains quite small in the business despite the recent acquisition of **Ecova** and **Retroficiency**. We believe similar deals will follow, allowing Engie to reinforce its leadership position as a global player in this market, ahead of EDF (*Dalkia France*) and Veolia (*Dalkia International*).

Digitalisation of the industry (*via expansion in smart metering, allowing better control of final energy consumption in particular*) is clearly a key driver for the group even if it will have an increasingly negative impact on traditional power generation activities (*better control of energy consumption could lead to lower usage of power generation assets or lower gas consumption*). Without giving further details on this strategy, Engie unveiled during its 2015 earnings presentation, that it will dedicate **EUR1.5bn** to emerging digital technologies. We assume growth will mainly stem from small acquisitions.

Note importantly that further development in this market would reduce the group's operating margin (*Energy Services generates an EBIT margin of 5-6% vs. 8-9% for the group*) but would positively impact the group's IRR and ROCE as lower capital employed is required.

3.2.2. More regulated & more renewables

M&A in Latam?

A part of the group's transformation could involve **Tractebel Enegia**, the largest Brazilian private power generator, **68.7%-**owned by Engie. Recent comments made by the entity's CFO (*29th February*) lead us to believe that M&A deals could come from Engie's Latam business unit. The CFO mentioned that there is a large number of assets on sale in the country's power sector, as development costs have risen and credit has become scarce and expensive. Without mentioning which type of business the group is currently looking at, **Tractebel's CFO Eduardo Sattamini** told investors the company is carefully assessing opportunities to buy assets. As a reminder, Tractebel contributes around **7-8%** of Engie's EBITDA and **10-11%** of the group's net reported income, and generates around **EUR155m** net of dividends per year for the group. Most of its business stems from power generation linked to hydro generation (*79% of 7GW of installed capacities*) and from renewables. Assuming Tractebel invests in Brazilian entities could make sense for Engie if this concerns the renewables sector and/or regulated markets. Last year, **Tractebel Energia** invested around **BRL0.9/1bn** (*EUR300m*)

Infrastructure projects in Europe?

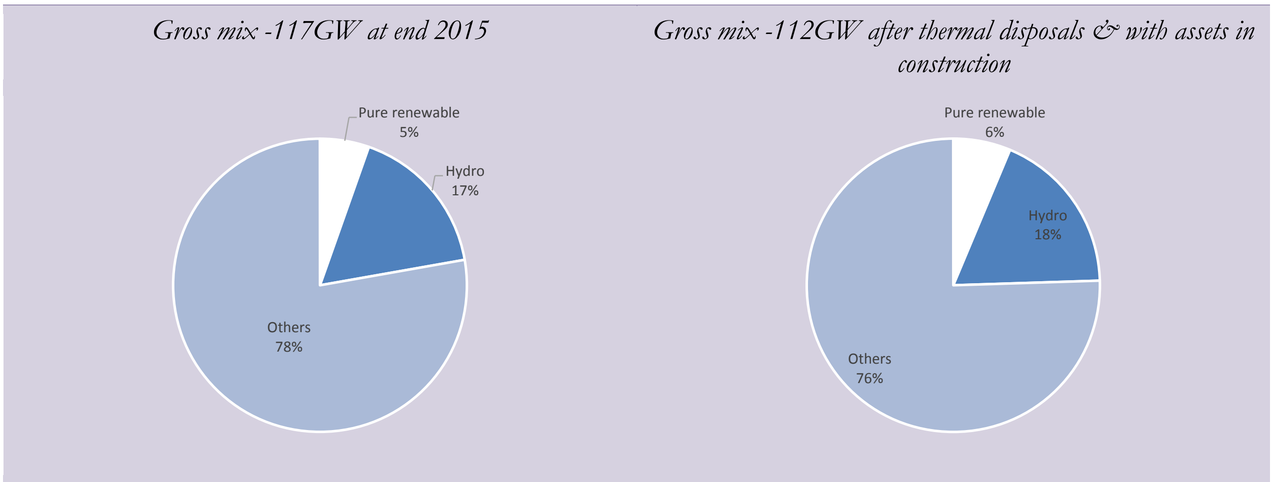
The group intends to further reinforce its presence in infrastructure, which offers quite good earnings growth potential, and more importantly, which offers **IRR protection** compared with more traditional merchant activities. Only limited details were unveiled by the group as to its real ambitions in this market, but given its natural exposure to gas it makes sense to believe that most of the infrastructure projects would focus on LNG, biogas and European gas connection projects. Since the gas market is also facing massive oversupply like oil and other commodities markets, it is fair to question the group's aim to further expand LNG capacities, unless most of earnings concerned long term contracts.

More renewables is key

Compared with other European integrated utilities, Engie has quite solid installed capacities in pure renewables, despite having very limited exposure to solar assets. At end-2015, out of **117GW** in gross installed power capacity, pure renewables (*excluding hydro*) represented **6.3GW** or **5.4%.** However, when looking at the list of assets in construction, this share is closer to **10%**, implying that renewables (*excluding hydro*) account for around **6%** of the group's total capacity, or **7GW,** excluding the US and Asian thermal assets and after taking into account the capacity currently in construction.

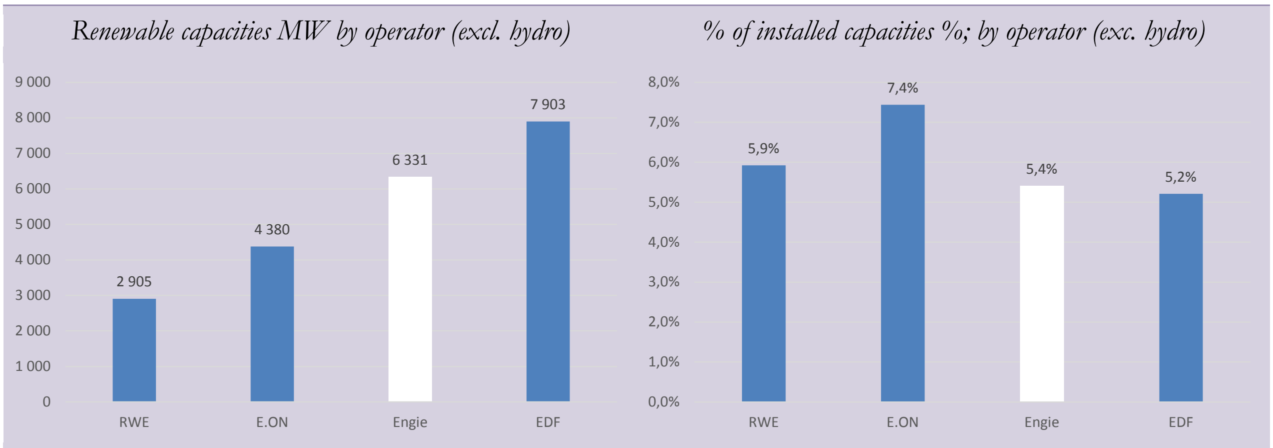
With the recent acquisition of **SolaireDirect,** we anticipate a strong rebound in capex dedicated to the solar market, to which the group still has very limited exposure. Following the massive reduction in solar panel costs in recent years, PV solar technology is becoming quite attractive for both investors and governments willing to further develop renewables in their power grid. In Chile or in Morocco for instance, solar technology is already close to grid parity. Since these markets are regions targeted by **SolaireDirect,** we assume this growth should contribute positively to the group's energy transition. **As a reminder, out of 6.3GW in solar and wind capacity, only 0.6GW is solar at present**.

Fig. 7: Engie gross installed capacities – mix (2015)



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 8: Integrated utilities BG coverage – exposure to renewables (excluding hydro) 2015



Source: Company Data; Bryan, Garnier & Co ests.

The group did not give more details on the amount it aims to spend directly on renewables, but mentioned it will spend, **EUR3.8bn** of its **EUR15bn gross capex programme** on low emission C02 power generation projects out to 2018. We assumed more than a third of this envelope could be dedicated to renewables, and to solar energy in particular.

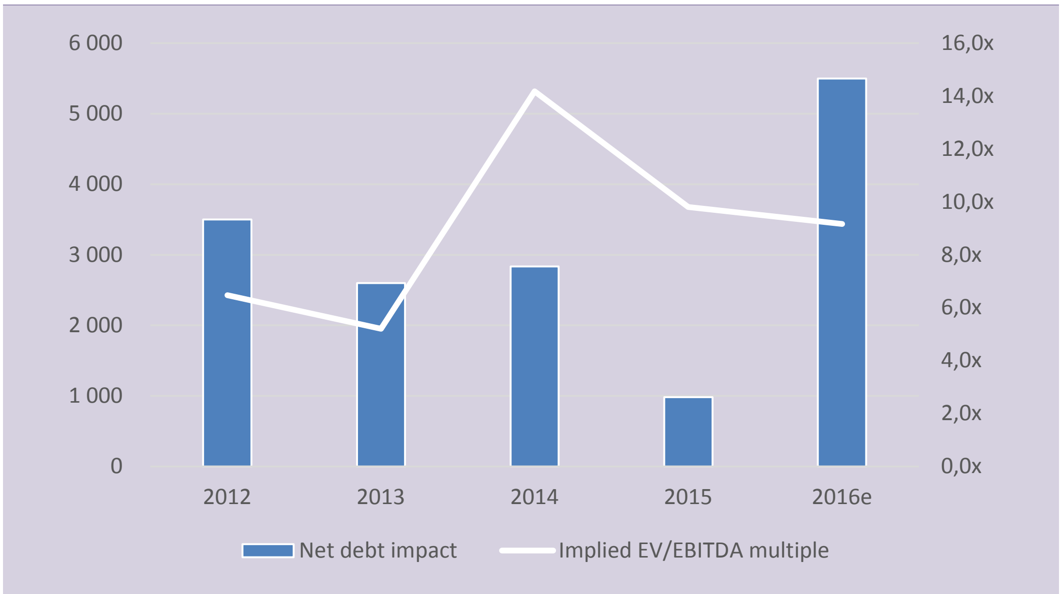
3.3. The third pillar: non-strategical assets disposals

The group indicated it aims to sell off **EUR15bn** in assets over 2016-18, to finance part of its growth capex (*50%, BGe*) and to maintain its **net debt/EBITDA leverage ratio** under the **2.5x** limit. A third of this amount had already been signed at end of February, implying that Engie "only" has to dispose of **EUR9.5bn** in assets. We assume these disposals could reduce the group's EBITDA by a further **EUR1.3-1.5bn**, on top of the **EUR600m** negative impact from US and Asian thermal assets.

3.3.1. EUR5.5bn already signed at end February

At its 2015 earnings presentation on 24th February, Mr. Mestrallet announced that the group had just signed the sale of **13GW** in thermal assets in the US and Asia which should reduce the group's net by around **EUR5.5bn** in 2016 compared with 2015 (*20%*). These disposals went ahead at attractive multiples despite the decline in the **clean dark spread** for such assets over the past five years, making us believe the group could be able to achieve similarly attractive multiples for its next disposals. A look at the past four years shows that Engie was able to recover more than **EUR10bn**, implying EV/EBITDA multiples of around **8-9x**. When including the new disposals expected for 2016 (*closing of the US and Asian thermal assets disposal is expecting in the middle of H2 2016*), this amount rises to **EUR15.5bn**, and the average implied multiple comes **closer to 9x**.

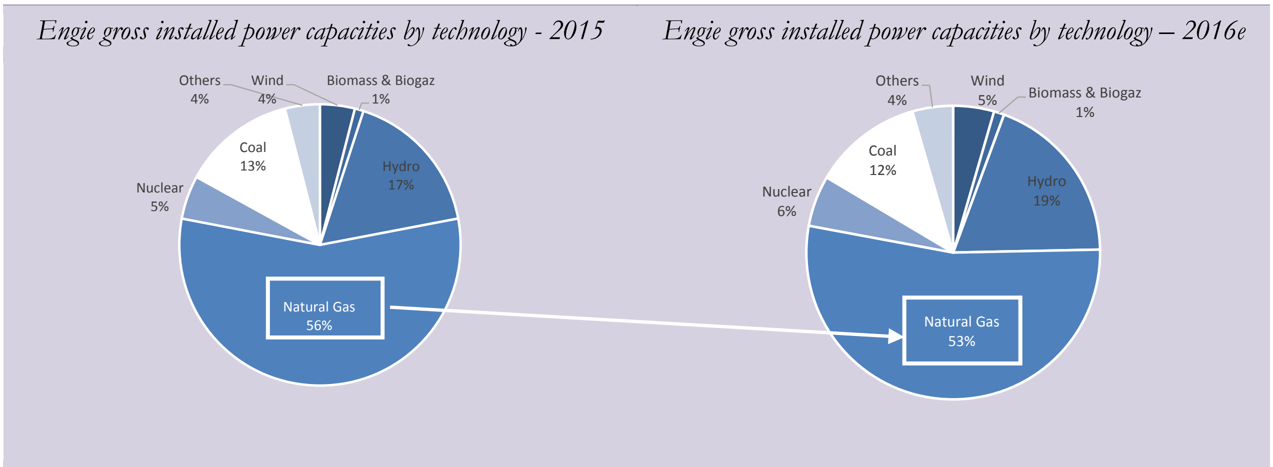
Fig. 9: Engie – Disposals with implied multiples (BGe - EURm)



Source: Company Data; Bryan, Garnier & Co ests.

With the disposal of **US and Asian** thermal assets, Engie is set to reduce its gross installed power capacities by **>10%** to around **104GW** and automatically reduce its direct exposure to coal thermal assets from **13%** in 2015 to **12%**, while reducing its direct exposure to natural gas assets from **56%** to **54%**. This is far from the group's objective to reduce its CO_2 emissions, but is a good start. It is worth noting that the disposal of these assets is set to have a negative **EUR600m** full year impact on the group's EBITDA, implying **EUR150m** for 2016 EBITDA as we expect closing in Q4.

Fig. 10: Engie – Gross power mix before & after US & Asian thermal assets sale



Source: Company Data; Bryan, Garnier & Co ests.

3.3.2. Still EUR9.5bn to sell…

To achieve its **EUR15bn asset disposal** target by 2018, Engie still needs to sell off around **EUR10bn** in non-strategic assets, either by selling its entire position in specific assets or by selling minority stakes in what we can call "assets in line with the group's strategy, but not part of the group's transformation". We have identified assets for both categories and clearly believe the group can easily achieve its 2018 target.

Selling non-strategic assets

In the following list, we have identified non-strategic assets that Engie could be ready to dispose of over the next two years: **E&P, coal thermal assets & gas thermal assets.** After the disposal of US and Asian thermal assets, out of **104GW** in gross installed capacity *(at 100%),* the group still has **55.5GW** in gas assets (*its first technology*) and **12.5GW** in coal assets. We estimate the least strategic power generation assets could represent up to **13 GW** of gross capacity (*8.8GW net*), or **12.5%** of the total.

Fig. 11: Engie coal assets we see as non-strategical

Business Line	Country	Plant name	Fuel	Contractual position	% Net Owner.	Capa. MW 100%	Capa. MW Net owner.
BEE	GERMANY	FARGE	Coal	MERCHANT	100%	350	350
BEE	GERMANY	WILHELMSHAVEN	Coal	MERCHANT	52%	731	380
BEE	GERMANY	ZOLLING	Coal	MERCHANT	100%	472	472
BEE	NETHERLANDS	GELDERLAND	Coal	MERCHANT	100%	592	592
BEE	NETHERLANDS	ROTTERDAM	Coal	MERCHANT	100%	731	731
BEE	ITALY	VADO LIGURE	Coal	MERCHANT	50%	591	296
BEE	POLAND	POLANIEC	Coal	MERCHANT	100%	184	184
BEE	POLAND	POLANIEC	Coal	MERCHANT	100%	1 190	1 190
BEI	**AUSTRALIA**	**HAZELWOOD**	**Coal**	**MERCHANT**	**72%**	**1 554**	**1 119**
BEI	**AUSTRALIA**	**LOY YANG B**	**Coal**	**MERCHANT**	**70%**	**953**	**667**
BEI	INDIA	THAMMINAPATNAM PHASE I	Coal	MERCHANT	88%	269	237
BEI	**UK**	**RUGELEY B**	**Coal**	**MERCHANT**	**75%**	**1 026**	**770**

Total	**80.8%**	**8 644**	**6 988**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 12: Engie gas assets we see as non-strategical

Business Line	Country	Plant name	Fuel	Contractual position	% Net Owner.	Capa. MW 100%	Capa. MW Net owner.
BEI	**SINGAPORE**	**SENOKO**	**Natural gas**	**MERCHANT**	**30%**	**2 723**	**817**
BEI	THAILAND	GLOW IPP	Natural gas	MERCHANT	66%	713	468
BEI	AUSTRALIA	PELICAN POINT	Natural gas	MERCHANT	72%	479	345
BEI	AUSTRALIA	SYNERGEN	Natural gas	MERCHANT	72%	368	265
Total					**44.2%**	**4 283**	**1 895**

Source: Company Data; Bryan, Garnier & Co ests.

By using similar multiples as those seen on recent sector disposals, we estimate the group could recover a combined amount of up to **EUR3-3.5bn** net or around **one third** of the remaining **EUR9.5bn** it is targeting.

Selling minority stakes in Electrabel or in E&P businesses

The other assets Engie could reduce its exposure to are more strategic than the ones we have mentioned above. The group's exposure to **Belgian nuclear assets** (*Electrabel*) makes sense in our view, especially after renegotiations with the Belgian government, while we still consider the **LNG and upstream gas business** as core to Engie's strategy. However, given the group's stressed financial situation and strong need for cash, we believe selling a part of these assets could make sense for the group. At present, Engie still owns **100%** of Electrabel and **70%** of the E&P business.

The group could therefore sell off Electrabel or place a share on the market, which would definitely create value, especially when looking at our valuation of this business unit in our SOTP. Assuming Electrabel is valued at around **7x** its current EBITDA (*versus less than 2x in our SOTP*) could imply an EV at **100%** of around **EUR2.5-3bn**. Assuming the group sells a **30%** stake would imply a positive impact on the group's net debt of up to **EUR900m**.

As for the E&P business, which negatively impacted the group's operating profit and balance sheet over the 2014-15 period due to the massive and unexpected decline in commodities prices (*gas, coal, oil…*), we assume Engie could receive up to **EUR4-5bn** assuming its entire **70% stake** in this business is sold. As a reminder, the E&P business is part of the **Global Gas & LNG business unit** (*6% of sales and 14% of EBITDA*) and is composed of gas production, which represents around two thirds of the 53Mboe annual gas and oil production (*33Mboe*), while oil production only represents one third (*20Mboe*). The group currently owns **70%** of E&P International following the acquisition via a capital increase of **a 30% minority stake in this business,** excluding the 22.5% equity stake in E.F. Oil & Gas Limited by China Investment Corporation (*CIC*) fund in August 2011. Back then (**2010 metrics**), this business generated **EUR2.2bn** in revenues and **EUR1.4bn in EBITDA** (*63% EBITDA margin*) with the transaction valuing Engie's E&P business on EV of **EUR8.1bn** *(implied EV/EBITDA multiple of 5.7x*). However, back in 2011, Brent crude was trading at **USD111/barrel** while the TTF gas price was **EUR26/MWh** vs. respectively **USD35/barrel and EUR14/MWh** today.

We anticipate a further decline in 2016 and 2017 as hedging positions will suffer from the strong drop in gas prices. As a reminder, the group does not hedge its oil price exposure (*one third of its volumes or 20Mboe*), except for in 2015, where volumes were covered ahead of the March drop. For gas production, the group has a three year hedging policy, meaning the massive drop observed since 2014 (*>-40%*) will affect the group's 2016 and 2017 earnings.

Questions over the timing of the disposal of this business unit are logical, but given the strong cash need and the group's strategy to rapidly reduce its direct exposure to merchant activities, we believe this move could make sense. Assuming the group reduces its position from **70% to 0%** would imply a net negative impact on the group's EBITDA of around **EUR1.1-1.2bn** (*average EBITDA estimates for 2016-17*) and almost no impact on **group's NRI.**

Rumours of a potential deal with Centrica for the disposal of some E&P assets were also mentioned by the press, confirming the strong interest for such assets even after the oil and gas price falls.

As such, we believe the group could easily reduce its net debt by around EUR9-10bn in line with its target to reduce net debt by an additional EUR9.5bn by 2018.

Fig. 13: Engie – Potential disposals (EURm)

Business units	EBITDA impact	NRI impact	EV @ 100% (BASE)	Engie disposal	Impact on net debt - BASE	Multiples
Coal & Thermal assets - Merchant	380	100	5 020	68,7%	3 450	13x
Electrabel	0	0	4 000	30%	1 200	8,0x
E&P	1 100	<100	7 143	70%	5 000	5,1x
Total	**1 480**	**150**			**9 650**	**6,5x**

Source: Company Data; Bryan, Garnier & Co ests.

4. A look on the financial equation

We compare two scenarios in this section. The first one assumes Engie does not sell more than its US and Asian thermal assets, limiting the growth capex envelope the group will be able to allocate thanks to its operating activities. The second one assumes Engie will be able to sell up to **EUR15bn** in assets, as targeted.

4.1. Scenario 1: No more disposals

In this scenario, we assume no further disposals are made, except the ones already announced by the group. This scenario implies that Engie's financial equation will come under pressure since cash flow from operations would not suffice to finance the entire **EUR15bn** in growth capex. We estimate that respecting the net debt/EBITDA leverage ratio of **≤ 2.5x** would imply a cut in the gross capex envelope of **EUR6bn** to **EUR9bn**. We also assume that dividend guidance is respected.

As for the **EUR1bn** costs reduction program, we assume the group will be able to achieve **90%** of it over the 2016-18 period, and assume for 2019-20 an annual net contribution of **EUR100m/year** on group's EBITDA. Like for **scenario 2** we assume the closures of the all Belgium nuclear sites, at current official closing date (*Doel 3 in 2022, Tihange 2 in 2023, and Doel 1, 2 & 4 and Tihange 1 in 2025*).

Below is a summary of the group's metrics within this scenario. Our 2016 net debt integrates **EUR5.5bn** from disposals of US & Asian thermal assets.

Fig. 14: Engie – Scenario 1 – Main metrics

	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Sales	**69 883**	**71 674**	**68 368**	**69 445**	**70 340**	**71 225**	**72 201**	**73 382**	**73 631**	**74 657**	**73 916**	**74 994**
EBITDA	**11 261**	**10 820**	**10 223**	**10 554**	**10 692**	**10 882**	**10 976**	**10 764**	**10 558**	**10 667**	**10 115**	**10 232**
EBIT	6 325	6 329	5 756	6 041	6 123	6 230	6 359	6 063	5 879	6 006	5 467	5 549
EBIT margin	9,1%	8,8%	8,4%	8,7%	8,7%	8,7%	8,8%	8,3%	8,0%	8,0%	7,4%	7,4%
Net income	(4 618)	2 484	2 302	2 448	2 532	2 644	2 769	2 586	2 481	2 572	2 215	2 247
Adjusted net income	**2 455**	**2 339**	**2 157**	**2 303**	**2 387**	**2 499**	**2 624**	**2 441**	**2 336**	**2 427**	**2 070**	**2 102**
EPS Adjusted	1,04	0,99	0,92	0,98	1,01	1,06	1,11	1,04	0,99	1,03	0,88	0,89
Dividend	1,00	1,00	0,70	0,70	0,70	0,70	0,70	0,70	0,70	0,70	0,70	0,70
Operating cash flow *(with financial charges)*	**9 591**	**6 793**	**6 699**	**6 603**	**6 711**	**6 869**	**6 922**	**6 617**	**6 575**	**6 542**	**6 299**	**6 165**
Capex *(without cash from disposals)*	**(6 459)**	**(7 300)**	**(5 000)**	**(5 050)**	**(4 000)**	**(4 000)**	**(4 040)**	**(4 080)**	**(4 121)**	**(4 162)**	**(4 204)**	**(4 246)**
o/w Maintenance	(2 634)	(2 333)	(2 333)	(2 333)	(2 200)	(2 200)	(2 222)	(2 244)	(2 000)	(2 020)	(2 040)	(2 061)
o/w Growth Capex	(3 338)	(4 967)	(2 667)	(2 717)	(1 800)	(1 800)	(1 818)	(1 836)	(2 121)	(2 142)	(2 164)	(2 185)
FCF	**3 132**	**(507)**	**1 699**	**1 553**	**2 711**	**2 869**	**2 882**	**2 537**	**2 453**	**2 379**	**2 095**	**1 918**
Net debt	27 727	25 666	26 781	27 340	26 745	25 997	25 239	24 833	24 511	24 268	24 306	24 525
Net debt evolution	216	(2 061)	1 115	559	(595)	(748)	(758)	(406)	(322)	(243)	38	219
Net debt/EBITDA	**2,46x**	**2,37x**	**2,62x**	**2,59x**	**2,50x**	**2,39x**	**2,30x**	**2,31x**	**2,32x**	**2,27x**	**2,40x**	**2,40x**

Source: Company Data; Bryan, Garnier & Co ests.

Our DCF-based scenario gives us a value of **EUR13/share** for Engie, which implies **7%** downside to latest share price.

Fig. 15: Engie – DCF - Scenario 1 - EURm

	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	Perpetuity
Revenues - Core business	**71 674**	**68 368**	**69 445**	**70 340**	**71 225**	**72 201**	**73 382**	**73 631**	**74 657**	**73 916**	**74 994**	**75 894**
Revenue Growth Rate	-	-4,61%	1,58%	1,29%	1,26%	1,37%	1,64%	0,34%	1,39%	-0,99%	1,46%	**1,2%**
Operating Margin	8,18%	7,66%	7,90%	7,86%	7,86%	7,89%	7,33%	7,00%	7,03%	6,33%	6,31%	**5,0%**
EBIT (*excluding JVs & Associates*)	**5 861**	**5 239**	**5 483**	**5 529**	**5 597**	**5 700**	**5 382**	**5 155**	**5 245**	**4 677**	**4 729**	**3 795**
Adjustment for provisions	0	0	0	0	0	0	0	0	0	0	0	0
(-) Taxes on EBIT	(1 934)	(1 729)	(1 809)	(1 825)	(1 847)	(1 881)	(1 776)	(1 701)	(1 731)	(1 543)	(1 561)	(1 252)
(+/-) Movements in working capital	33	89	(89)	(90)	(86)	(94)	(161)	(46)	(100)	25	(110)	(111)
(+) Depreciation and amortization	4 274	4 261	4 319	4 376	4 458	4 421	4 391	4 366	4 346	4 332	4 365	4 000
(-) Capital Expenditures	(7 300)	(5 000)	(5 050)	(4 000)	(4 000)	(4 040)	(4 080)	(4 121)	(4 162)	(4 204)	(4 246)	(4 000)
(-) Intangibles	0	0	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	**934**	**2 861**	**2 854**	**3 991**	**4 122**	**4 106**	**3 756**	**3 652**	**3 598**	**3 287**	**3 177**	**2 431**
Cumulative WACC	1,07	1,13	1,21	1,29	1,37	1,46	1,56	1,66	1,77	1,88	2,00	2,13
Discounted Free Cash Flow	877	2 521	2 361	3 100	3 006	2 811	2 414	2 203	2 038	1 748	1 586	

Source: Company Data; Bryan, Garnier & Co ests.

Our DCF is based on a LT growth rate of **1.2%** only as we assume only around **EUR2.2bn** of growth capex per year (*on average*), compared with an average of **EUR4-4.5bn/year** historically. We assume a higher LT growth rate for the scenario number 2 (*1.7%*) as the group will spend more growth capex during the same period.

Fig. 16: Engie – DCF valuation per share Scenario 1

WACC used	**6,39%**
Valuation	
PV of Free Cash Flows	24 665
PV of Terminal Value	46 840
Value of Operating Assets	**71 504**
Financial assets with Suez	**11 668**
o/w Suez Environment stake (33.7% @ market value)	2 858
o/w Financial assets at Book value	4 188
o/w Other associates exc. SEV	4 622
2015 net debt	**(27 727)**
Net cash from 2016 disposals not integrated into 2015 net debt	5 382
Re-integration of hybrid @ 100% debt (2013 & 2014 hybrids)	(3 700)
Pensions & other provisions	**(18 836)**
o/w Pensions	(5 785)
o/w nuclear decommissioning and last cores	(9 220)
o/w Site reconstitution	(1 474)
o/w others	(2 357)
Minority interest (@ market value - 2016 - 12x PE)	**(7 500)**
Total implied Equity value	**30 792**
Number of shares (net of own shares)	2 357
Equity value per share	**13,1**
Current share price	14,0
Up/Downside	-6,8%

Source: Company Data; Bryan, Garnier & Co ests.

4.2. Scenario 2: Disposals target is being achieved

In this scenario, we assume the group is able to sell off further assets (*EUR9.5bn positive impact on net debt*) as expected. The scenario implies that Engie's financial equation is good since the group's cash flow from operations will not be sufficient to finance the entire **EUR15bn** growth capex envelope. We estimate that respecting its net debt/EBITDA leverage ratio of **≤ 2.5x** over the short to middle term, yet will go above this target by 2021 due notably to the shutdown of Belgium nuclear facilities.

As for the **EUR1bn** costs reduction program, we assume the group will be able to achieve **80%** of it over the 2016-18 period (*lower ability to reduce costs when disposals are being made, lower volumes effects on some costs*), and assume for 2019-20 an annual net contribution of **EUR100m/year** on group's EBITDA. Like for scenario 1 we assume the closures of the all Belgium nuclear sites, at official closing date (*Doel 3 in 2022, Tihange 2 in 2023, and Doel 1, 2 & 4 and Tihange 1 in 2025*).

Below is a summary of the group's metrics within this scenario. Our 2016 net debt integrates **EUR9.9bn** from disposals of US & Asian thermal assets and E&P business, while our 2017 net debt integrates **EUR4.7bn** from disposals of merchant gas and coal thermal assets and from the sale of **30%** of Electrabel. We also assume over **the 2016-26 period** a higher leverage ratio as the group will reduce its exposure to non-merchant activities to the profit of regulated and renewables. This business are usually more financial geared than merchant businesses.

Fig. 17: Engie – Scenario 2 – Main metrics (EURm)

	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Sales	**69 883**	**71 724**	**66 032**	**67 619**	**68 718**	**69 795**	**70 972**	**72 361**	**72 828**	**74 081**	**73 576**	**74 900**
EBITDA	**11 261**	**10 826**	**9 049**	**9 581**	**9 748**	**9 975**	**10 128**	**9 815**	**9 645**	**9 790**	**9 274**	**9 433**
EBIT	6 325	6 335	5 182	5 818	5 866	6 002	6 071	5 571	5 400	5 544	5 026	5 146
EBIT margin	9,1%	8,8%	7,8%	8,6%	8,5%	8,6%	8,6%	7,7%	7,4%	7,5%	6,8%	6,9%
Net income	(4 618)	2 422	1 971	2 299	2 258	2 281	2 259	1 882	1 752	1 826	1 458	1 496
Adjusted net income	**2 455**	**2 277**	**1 826**	**2 154**	**2 113**	**2 136**	**2 114**	**1 737**	**1 607**	**1 681**	**1 313**	**1 351**
EPS Adjusted	1,04	0,97	0,77	0,91	0,90	0,91	0,90	0,74	0,68	0,71	0,56	0,57
Dividend	1,00	1,00	0,70	0,70	0,70	0,70	0,70	0,50	0,50	0,50	0,50	0,50
Operating cash flow (with financial charges)	**9 591**	**6 035**	**5 689**	**5 852**	**5 865**	**5 950**	**5 976**	**5 588**	**5 494**	**5 523**	**5 149**	**5 168**
Capex	**(6 459)**	**(7 300)**	**(6 500)**	**(6 565)**	**(5 000)**	**(5 000)**	**(5 000)**	**(4 000)**	**(4 000)**	**(4 000)**	**(4 000)**	**(4 040)**
o/w Maintenance	(2 634)	(2 333)	(2 333)	(2 333)	(1 777)	(1 777)	(1 777)	(1 422)	(1 422)	(1 422)	(1 422)	(1 436)
o/w Growth Capex	(3 338)	(4 967)	(4 167)	(4 232)	(3 223)	(3 223)	(3 223)	(2 578)	(2 578)	(2 578)	(2 578)	(2 604)
FCF	**3 132**	**(1 265)**	**(811)**	**(713)**	**865**	**950**	**976**	**1 588**	**1 494**	**1 523**	**1 149**	**1 128**
Net debt	27 727	21 462	20 425	23 291	24 585	25 800	26 995	27 585	27 800	27 994	28 558	29 151
Net debt evolution	216	(6 265)	(1 037)	2 866	1 294	1 215	1 195	590	215	193	565	593
Net debt/EBITDA	**2,46x**	**1,98x**	**2,26x**	**2,43x**	**2,52x**	**2,59x**	**2,67x**	**2,81x**	**2,88x**	**2,86x**	**3,08x**	**3,09x**

Source: Company Data; Bryan, Garnier & Co ests.

Our DCF-based scenario gives us a value of **EUR18/share** for Engie, which implies **>28% upside** to latest share price.

Fig. 18: Engie – DCF - Scenario 2 - EURm

	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	Perpetuity
Revenues - Core business	**71 724**	**66 032**	**67 619**	**68 718**	**69 795**	**70 972**	**72 361**	**72 828**	**74 081**	**73 576**	**74 900**	**76 173**
Revenue Growth Rate	-	-7,94%	2,40%	1,63%	1,57%	1,69%	1,96%	0,65%	1,72%	-0,68%	1,80%	1,7%
Operating Margin	8,18%	7,06%	7,78%	7,67%	7,69%	7,63%	6,76%	6,42%	6,46%	5,76%	5,78%	5,5%
EBIT (*excluding JVs & Associates*)	**5 867**	**4 665**	**5 260**	**5 273**	**5 369**	**5 412**	**4 891**	**4 675**	**4 782**	**4 236**	**4 326**	**4 190**
Adjustment for provisions	0	0	0	0	0	0	0	0	0	0	0	0
(-) Taxes on EBIT	(1 936)	(1 539)	(1 736)	(1 740)	(1 772)	(1 786)	(1 614)	(1 543)	(1 578)	(1 398)	(1 428)	(1 383)
(+/-) Movements in working capital	(663)	(95)	12	(31)	(22)	(32)	(96)	(33)	(27)	(36)	(31)	(32)
(+) Depreciation and amortization	4 274	3 722	3 626	3 748	3 841	3 926	4 006	4 005	4 005	4 005	4 044	4 000
(-) Capital Expenditures	(7 300)	(6 500)	(6 565)	(5 000)	(5 000)	(5 000)	(4 000)	(4 000)	(4 000)	(4 000)	(4 040)	(4 000)
(-) Intangibles	0	0	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	**243**	**253**	**597**	**2 250**	**2 416**	**2 521**	**3 187**	**3 105**	**3 183**	**2 807**	**2 872**	**2 775**
Cumulative WACC	1,06	1,13	1,20	1,28	1,36	1,44	1,53	1,63	1,73	1,84	1,96	2,08
Discounted Free Cash Flow	228	224	497	1 762	1 780	1 747	2 078	1 904	1 836	1 524	1 466	

Source: Company Data; Bryan, Garnier & Co ests.

Our DCF is based on a LT growth rate of **1.7%** higher than for **the scenario 1** as we assume higher growth capex spent annually (***EUR3.2bn** vs. **EUR2.3bn** for scenario 1 on average over 2016-26*). Our LT Operating margin is also **55bp higher in our scenario 2 vs. our scenario 1** as the group will reposition itself toward more profitable business than in first scenario 1.

Fig. 19: Engie – DCF valuation per share Scenario 2

WACC used	**6,39%**
Valuation	
PV of Free Cash Flows	15 046
PV of Terminal Value	59 182
Value of Operating Assets	**74 229**
Financial assets with Suez	**11 668**
o/w Suez Environment stake (33.7% @ market value)	2 858
o/w Financial assets at Book value	4 188
o/w Other associates exc. SEV	4 622
2015 net debt	**(27 727)**
Net cash from 2016 disposals not integrated into 2015 net debt	15 082
Re-integration of hybrid @ 100% debt (2013 & 2014 hybrids)	(3 700)
Pensions & other provisions	**(18 836)**
o/w Pensions	(5 785)
o/w nuclear decommissioning and last cores	(9 220)
o/w Site reconstitution	(1 474)
o/w others	(2 357)
Minority interest (@ market value - 2016 - 12x PE)	(8 400)
Total implied Equity value	**42 316**
Number of shares (net of own shares)	2 357
Equity value per share	**18,0**
Current share price	14,0
Up/Downside	28,1%

Source: Company Data; Bryan, Garnier & Co ests.

4.3. Our position

We believe Engie's new strategy will allow the group to adapt to the new world by being more flexible, more profitable, but also by being less exposed to commodities/merchant activities. The group will have a lower size, yet will be more geared to the high growth potential market of the sector, while less dependent to external factors.

As Veolia which entered into an important transformation phase years ago (*3 phases: 1/disposals, 2/massive restructuring and 3/growth*) we assume Engie's investment case looks quite similar. When looking at the Veolia's share price performance over the 2009-16 period and when looking at the operating performance of the group now we assume upside on Engie could be quite attractive.

5. Our FV

We continue to value Engie through a combination of two methods: **1/** a SOTP, which gives us a FV of **EUR16/share** and **2/**a Dividend Yield model which gives us a FV of **EUR18/share**. Our **EUR17/share** FV (*down vs. EUR19/share previously*) is based on a **50-50 combination** of these two methods.

Our **EUR17/share FV** is then not based on the value range we deducted from our two scenarios on Engie, scenarios we valued through DCF only as that was the only method to value the long term growth potential of both strategies, and so to compare them.

5.1. SOTP

Our SOTP assumes the entire **EUR15bn** disposal program is being completed (*scenario* 2) at good multiples, which will allow Engie to finance entirely on the short term its growth capex envelop.

Fig. 20: ENGIE – SOTP

Divisional breakdown	Value (EURm)	Implied EV/EBITDA 2016E	EBITDA 2017e	Method	Value per share	% of implied EV
Energy Europe (excluding associates)	4 226	3,1x	1 365	DCF	1,8	6%
Energy International (excluding associates)	21 764	8,0x	2 724	DCF	9,2	32%
Global Gas & LNG (excluding associates)	1 594	6,0x	266	DCF	0,7	2%
Infrastructures (excluding associates)	28 687	8,2x	3 495	RAB + DCF	12,2	42%
Energy Services (excluding associates)	13 281	9,9x	1 336	DCF	5,6	19%
Others	(1 023)	7,5x	(136)	EV/EBITDA multiple - 7.5x 2016	(0,4)	-1%
Total implied Entreprise value	**68 529**	**7,6x**	**9 049**	**-**	**29,1**	**100%**
Financial assets with Suez	11 668				5,0	
o/w Suez Environment stake (33.7% @ market value)	2 858			Market value	1,2	
o/w Financial assets at Book value	4 188			BV - 2015	1,8	
o/w Other associates exc. SEV	4 622			BV - 2015	2,0	
				-		
Net debt end 2015	**(27 727)**				**(11,8)**	
Net cash from 2016 disposals not integrated into 2015 & 2016 net debt	15 082				6,4	
Re-integration of hybrid @ 100% debt (2013 & 2014 hybrids)	(3 700)				(1,6)	
Pensions & other provisions	**(18 836)**			**BV - 2015**	**(8,0)**	
o/w Pensions	(5 785)			BV - 2015	(2,5)	
o/w nuclear decommissioning and last cores	(9 220)			BV - 2015	(3,9)	
o/w Site reconstitution	(1 474)			BV - 2015	(0,6)	
o/w others	(2 357)			BV - 2015	(1,0)	
Minority interest (@ market value - 2016 - 12x PE)	(8 400)			BV - 2015	(3,6)	
Dividend to be paid in 2016	1 178				0,5	
Total implied Equity value	**37 794**				**16,0**	
Number of shares (net of own shares)	2 357					
Equity value per share	**16,0**					
Current share price	14,21					
Up/Downside	13%					

Source: Company Data; Bryan, Garnier & Co ests.

5.2. Dividend Yield model

We use this valuation method to reflect the strong visibility investors have on **2016-18 dividends**, compared with other integrated utilities (*EDF, RWE, E.ON*). The **EUR0.7/share** dividends the group will pay in 2018 and in 2019 are in both scenarios, not altering group's financial situation. The net **debt/EBITDA leverage target ratio** is respected over the period, as well as the usual pay-out ratio sector target (*65-75%*). We then assume it makes sense to use this valuation to reflect the short term return for shareholders, while the SOTP method reflect the value of longer return (*DCF valuation for some assets*).

Fig. 21: ENGIE – Dividend Yield model

Yield used to value Engie - 2016	**5,00%**
Yield used to value Engie- 2017	4,50%
2016 Engie dividend	1,00
2017 Engie dividend	0,70
Implied FV - average	**17,8**
Current share price	14,2
Upside / Downside	25%

Source: Company Data; Bryan, Garnier & Co ests.

6. Financial estimates

Our model is based on Engie at current perimeter (*with the disposals of US and Asian thermal assets – Scenario 1*) even if our **EUR17/share FV** is valuing the group's transformation following the disposal of additional assets (*Scenario 2*). Our estimates are then in line with group's guidance and with consensus.

6.1. Simplified Profit & Loss Account & CFS

Simplified Profit & Loss Account (EURm)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016e**	**2017e**
Revenues	90 673	97 038	81 278	74 686	69 883	71 674	68 368
Change (%)	7,3%	7,0%	-16,2%	-8,1%	-6,4%	2,6%	-4,6%
Adjusted EBITDA	**16 093**	**17 026**	**13 046**	**12 358**	**11 261**	**10 820**	**10 223**
EBIT	9 684	7 133	-7 724	6 574	-3 243	6 329	5 756
Change (%)	2,0%	-26,3%	-208,3%	ns	-149,3%	ns	-9,1%
Financial results	-2 605	-2 756	-1 754	-1 876	-1 547	-1 477	-1 387
Pre-Tax profits	7 541	4 810	-9 478	4 698	-4 790	4 852	4 369
Exceptionals	706	-2 387	-14 965	-587	-9 568	0	0
Tax	-2 119	-2 054	-620	-1 588	-324	-1 743	-1 442
Profits from associates	462	433	513	441	473	468	517
Minority interests	-1 418	-1 205	-152	-669	496	-625	-625
Net profit	**4 004**	**1 551**	**-9 737**	**2 441**	**-4 618**	**2 484**	**2 302**
Restated net profit	3 455	3 831	3 440	2 728	4 950	2 484	2 302
Change (%)	-18,6%	10,9%	-10,2%	-20,7%	81,5%	-49,8%	-7,3%

Cash Flow Statement (EURm)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016e**	**2017e**
Operating cash flows	13 838	13 606	12 148	8 750	10 383	9 339	9 049
Change in working capital	-426	-995	-186	-1 221	1 163	33	89
Capex, net	-8 898	-9 177	-7 508	-7 080	-6 459	-7 300	-5 000
Financial investments, net	279	162	178	1 933	215	0	0
Dividends	-4 363	-2 117	-4 694	-3 720	-3 107	-2 502	-2 502
Other	116	906	-3 415	-44	-395	2 525	-2 662
Net debt	**37 601**	**44 050**	**29 800**	**27 511**	**27 727**	25 666	26 781
Free Cash flow	**4 940**	**4 429**	**4 640**	**2 961**	**237**	1 989	1 649

Source: Company Data; Bryan, Garnier & Co ests.

6.2. Balance Sheet

Balance Sheet (EURm)	2011	2012	2013	2014	2015	2016e	2017e
Tangible fixed assets	78 703	90 121	77 730	65 037	64 032	56 988	54 632
Intangibles assets	40 713	44 588	35 743	27 983	28 791	26 037	26 037
Cash & equivalents	11 296	14 675	9 149	8 691	8 546	9 183	11 244
current assets	39 812	48 833	43 576	44 145	46 760	50 271	51 270
Other assets	13 907	15 194	14 387	13 755	17 176	18 179	18 212
Total assets	**184 431**	**213 411**	**180 585**	**159 611**	**165 305**	**160 658**	**161 394**
L & ST Debt	47 239	56 588	47 472	39 914	38 321	39 155	39 155
Others liabilities	75 078	93 893	73 368	71 742	77 457	78 424	79 143
Shareholders' funds	62 114	62 930	59 745	47 955	49 527	43 079	43 097
Total Liabilities	**184 431**	**213 411**	**180 585**	**159 611**	**165 305**	**160 658**	**161 394**
Capital employed	132 395	151 340	126 735	107 473	104 588	99 296	97 500

Source: Company Data; Bryan, Garnier & Co ests.

6.3. Ratios & Data per share

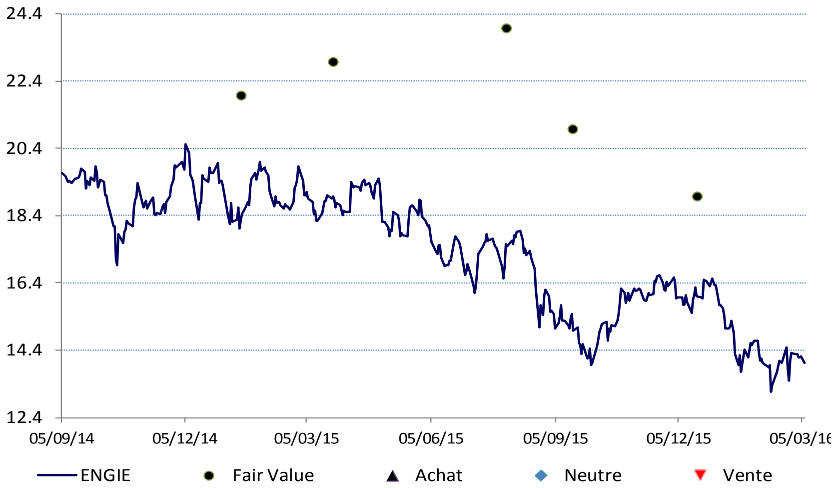
Ratios	2011	2012	2013	2014	2015	2016e	2017e
Operating margin	**11,2%**	**10,7%**	**7,4%**	**-9,5%**	**8,8%**	**-4,6%**	**8,8%**
Tax rate	25,4%	28,1%	42,7%	37,5%	33,8%	-6,8%	33,0%
Net margin	5,0%	3,8%	3,9%	4,2%	3,7%	7,1%	3,5%
ROE (after tax)	6,0%	4,3%	5,8%	6,4%	4,9%	10,2%	5,1%
ROCE (after tax)	5,0%	4,3%	4,3%	4,2%	4,5%	6,8%	4,3%
Gearing	51%	52%	67%	58%	53%	61%	58%
Pay-out ratio	77,3%	83,2%	219,7%	102,8%	144,8%	-51,0%	94,9%
Number of shares, diluted	2 188	2 221	2 271	2 357	2 357	2 357	2 357

Data per Share (EUR)	2011	2012	2013	2014	2015	2016e	2017e
EPS	1,94	1,80	0,68	-4,13	1,04	-1,96	1,05
Restated EPS	2,61	1,50	1,57	1,34	0,94	2,04	0,99
% change		-42,5%	4,2%	-14,2%	-29,9%	116,2%	-51,3%
EPS bef. GDW	1,94	1,80	0,68	-4,13	1,04	-1,96	1,05
BVPS	28,40	28,33	26,31	20,35	21,01	18,28	18,28
Operating cash flows	5,6	0,0	0,0	2,9	0,0	0,0	3,0
FCF	1,4	2,2	1,9	2,0	1,3	0,1	0,8
Net dividend	**1,50**	**1,50**	**1,50**	**1,50**	**1,50**	**1,00**	**1,00**

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

Engie



Ratings		
Date	**Ratings**	**Price**
17/07/14	BUY	EUR19.96
29/04/14	end of coverage	EUR19.625
06/06/13	BUY	EUR15.28

Target Price	
Date	**Target price**
18/12/15	EUR19
17/09/15	EUR21
30/07/15	EUR24
24/03/15	EUR23
15/01/15	EUR22
17/07/14	EUR23
11/04/14	EUR0
08/01/14	EUR20
06/06/13	EUR19

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Stock rating

BUY Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 00% NEUTRAL ratings 0% SELL ratings 00%

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