

3rd March 2016

Utilities

**Albioma**

Price EUR12.65

**Upside risks prevail**

Fair Value EUR16 vs. EUR20 (+26%)

**BUY**

Bloomberg	ABIO.FP
Reuters	ABIO.PA
12-month High / Low (EUR)	19.6 / 11.9
Market Cap (EUR)	377
Ev (BG Estimates) (EUR)	1,016
Avg. 6m daily volume (000)	25.80
3y EPS CAGR	6.2%

We have updated our model to include the latest FX rate, Brazilian power prices and project commissioning date, leading us to downgrade our 2016-17 EPS. The group is facing significant headwinds in its new Brazilian activities, but confirmed its aim to further expand its thermal capacities in the country. The 2023 target to double 2013 net income to >EUR60m thanks to the progressive commissioning of new projects was also reiterated. To reflect the negative adjustments in the short term, we have cut our FV from EUR20 to EUR16, but confirm our Buy rating. Upside risk intact.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.6%	-15.6%	-15.4%	-15.4%
Utilities	-4.4%	-9.6%	-3.0%	-6.9%
DJ Stoxx 600	1.9%	-11.2%	-3.6%	-6.8%

**ANALYSIS**

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	354.0	375.6	427.0	447.3
% change		6.1%	13.7%	16.0%
EBITDA	120	126	147	160
EBIT	76.1	73.6	87.8	99.4
% change		-3.3%	19.3%	24.9%
Net income	30.2	25.7	33.5	45.4
% change		-14.8%	30.1%	38.0%

	2015	2016e	2017e	2018e
Operating margin	21.5	19.6	20.6	22.2
Net margin	8.5	6.8	7.8	10.1
ROE	7.4	6.3	8.0	10.6
ROCE	4.7	4.4	4.5	5.2
Gearing	131.6	155.6	192.4	187.5

(EUR)	2015	2016e	2017e	2018e
EPS	1.04	0.88	1.15	1.56
% change	-	-14.8%	30.1%	38.0%
P/E	12.2x	14.3x	11.0x	8.1x
FCF yield (%)	1.7%	NM	NM	NM
Dividends (EUR)	0.57	0.57	0.58	0.78
Div yield (%)	4.5%	4.5%	4.5%	6.2%
EV/Sales	2.6x	2.7x	2.8x	2.7x
EV/EBITDA	7.6x	8.0x	8.1x	7.7x
EV/EBIT	12.0x	13.8x	13.5x	12.4x

- Adjustments to our model:** We have updated our model to include the latest FX rate, Brazilian power prices and project commissioning dates, and this has prompted us to reduce our 2016 and 2017 EPS estimates **by more than 20%**. For 2016, we assume a recovery in the group's French thermal assets (*no more malus & production recovery*) while integrating a **50%** probability of a positive catch-up effect from renegotiations with EDF on the Bois-Rouge thermal asset (*storage of combustion by-products*), following amendments made to the Albioma Le Gol contract. Our 2016 EBITDA now stands at **EUR126m, up 5.5%** compared with last year, while our net recurring income estimate stands at **EUR26m, down 15%** compared with 2015. As a reminder, Albioma is targetting EBITDA of **EUR122-130m** and NRI at **EUR25-30m**. For dividends, we assume the group will maintain its **EUR0.57/share dividend**, despite being above the 50% payout ratio target (64%).
- FV down from EUR20 to EUR16:** Our negative short term adjustments (*no real impact on the group's 2023 EBITDA once most of the EBITDA rise between now and 2023 is driven by new commissionings*) lead us to cut our FV (*SOTP & DCF based*) from **EUR20 to EUR16 per share**. The delay in TAC La Reunion commissioning from end-2016 to end-2017 has taken a toll on our altered 2016 EBITDA, as has the integration of lower FX change. **Our new FV still implies 26% upside to the latest share price.**
- Conclusion:** Despite these negative adjustments to short term estimates, we reiterate our Buy rating on Albioma. The group, which just entered in Brazil, is facing important negative FX and power prices swings (*spot*), making the traditional Albioma more exposed to the global economy than before. We remain convinced that opportunities in Brazil are quite important for the group, and assuming a very strict selection, Albioma could make the most of a lower BRL to accelerate its expansion in the country more cheaply. Opportunities from energy transition in French overseas department could also positively alter our estimates and reinforce the group's exposure to "regulated" assets. Buy, with FV down from EUR20 to EUR16.

**VALUATION**

- At the current share price, Albioma trades at 5.2x its 2016e EBITDA and offers a 10.1% yield
- Buy, FV @ EUR16

**NEXT CATALYSTS**

- April 27<sup>th</sup> 2016: Q1-16 sales

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