7th March 2016

Utilities

Engie

Price EUR14.01

Rise of the phoenix?

Fair Value EUR17 vs. EUR19 (+21%) BUY

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	20 / 13
Market Cap (EURm)	34,118
Ev (BG Estimates) (EURm)	78,070
Avg. 6m daily volume (000)	6 298
3y EPS CAGR	-21.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.0%	-12.3%	-6.8%	-14.2%
Utilities	-2.7%	-7.0%	-2.1%	-6.9%
DJ Stoxx 600	4.0%	-7.8%	-3.2%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	69,883	71,674	68,368	69,445
% change		*2.6%*	*-4.6%*	*1.6%*
EBITDA	11,261	10,820	10,223	10,554
EBIT	-3,243	6,329	5,756	6,041
% change		*NS*	*-9.1%*	*5.0%*
Net income	4,950	2,484	2,302	2,448
% change		*-49.8%*	*-7.3%*	*6.3%*

	2015	2016e	2017e	2018e
Operating margin	-4.6	8.8	8.4	8.7
Net margin	7.1	3.5	3.4	3.5
ROE	10.2	5.1	4.8	5.1
ROCE	6.8	4.3	3.9	4.1
Gearing	61.5	57.6	60.6	61.4

(EUR)	2015	2016e	2017e	2018e
EPS	2.04	0.99	0.92	0.98
% change	-	*-51.3%*	*-7.8%*	*6.8%*
P/E	6.9x	14.1x	15.3x	14.3x
FCF yield (%)	0.7%	6.0%	5.0%	7.5%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	7.1%	7.1%	5.0%	5.0%
EV/Sales	1.0x	1.1x	1.2x	1.2x
EV/EBITDA	6.4x	7.2x	7.7x	7.6x
EV/EBIT	NS	12.3x	13.8x	13.2x

We publish this morning a report on Engie on which 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.

ANALYSIS

- **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*).**

VALUATION

- At current share price the stock is trading at 7.3x its EBITDA 2016e and offers a 7% yield
- Buy, FV cut from **EUR19 to EUR17/share**

NEXT CATALYSTS

- April 29th 2016: Q1-16 earnings

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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.

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