

## EDF

Price EUR12.24

The curtain goes up

Fair Value EUR13,5 (+10%)

BUY

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	22.4 / 9.2
Market Cap (EURm)	23,502
Ev (BG Estimates) (EURm)	86,294
Avg. 6m daily volume (000)	2 997
3y EPS CAGR	-25.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.5%	2.6%	-28.3%	-9.8%
Utilities	2.3%	1.0%	-6.2%	-3.6%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	75,006	75,527	76,716	77,948
% change		0.7%	1.6%	1.6%
EBITDA	17,601	16,427	15,794	16,321
EBIT	4,280	7,397	6,313	6,270
% change		72.8%	-14.7%	-0.7%
Net income	4,231	2,613	1,900	1,884
% change		-38.2%	-27.3%	-0.8%

	2015	2016e	2017e	2018e
Operating margin	5.7	9.8	8.2	8.0
Net margin	5.6	3.5	2.5	2.4
ROE	10.5	6.5	4.8	4.8
ROCE	2.0	3.0	2.6	2.6
Gearing	167.6	177.5	188.3	189.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.30	0.95	0.94
% change		-42.8%	-27.3%	-0.8%
P/E	5.4x	9.4x	12.9x	13.0x
FCF yield (%)	NM	NM	NM	10.1%
Dividends (EUR)	1.10	0.96	0.74	0.74
Div yield (%)	9.0%	7.8%	6.1%	6.0%
EV/Sales	1.1x	1.1x	1.2x	1.1x
EV/EBITDA	4.7x	5.3x	5.7x	5.5x
EV/EBIT	19.4x	11.7x	14.2x	14.3x

Last Friday the Board of Directors unveiled a new plan which aims to adapt the group to a low power price environment. Most of the announced measures were already well known by investors except 1/ the EUR300m increase in the costs cutting programme, 2/the EUR4bn capital increase o/w the French government is likely to finance EUR3bn and 3/ the delay in the final decision on Hinkley Point. Others indications (assets rotation programme, life-time extension of nuclear sites in the group's accounts, cut in net capex) were almost already integrated into our model. Our model still gives us a EUR13.5 FV. Buy.

## ANALYSIS

- What is new?** The Board of Directors announced: **1/** A reduction in operational expenditure of a further **EUR300m** on top of the **EUR700m** target already announced by the group. This new 2019 objective implies EDF is aiming to reduce by **EUR1bn** its operating expenditure compared to 2015. No further indications were given on how the group will manage to do this. **2/** A capital increase project via a market operation for an amount of **EUR4bn**, o/w the French government will support **EUR3bn** (75%). No further indications were given on the price and on the timing though. We estimated a potential 2016-18 EPS dilution effect of **6-7%** on average assuming no discount to the latest price, and of **8-9%** assuming a **10%** discount (*12-13% with 30% discount*). We assume this capital increase will be made with preferred rights. EDF also indicated officially its intention to propose an option to pay the dividend related to fiscal years 2016 and 2017 in shares implying in total that the group is likely to receive around **EUR6-7bn** over the next two years. **3/** As for the **Hinkley Point project** in the UK, the French Economy Minister Emmanuel Macron said EDF would make a final decision in September.
- What was not known?** **1/** the net investments reduction of **EUR2bn** in 2018 compared to 2015. Net investments should reach **EUR10.5bn** in 2018. This target was already announced by the group and integrated into our model. **2/** the **EUR10bn** assets disposal plan by 2020. In our model we have no disposals given the lack of visibility on timing and assets disposed. The plan as expected includes a change in RTE's equity capital, thermal power generation assets outside of France and minority stakes. **3/** We see the group's decision to extend the depreciation period for its nuclear plants this year as really new as it was mentioned several times in recent months past months as being a short term decision. The ASN will still need to get individual approval to the group for all concerned reactors. In our model we were already taking into account this life time extension for 2016 yet may have to adjust in function of official timing. We expect a positive impact on 2016 EPS consensus from this announcement given around **50%** of consensus on EDF was not taking into account the life time extension.
- Conclusion:** As we expected, the French government had to react to help EDF to adapt to the new low power price environment. The cut in operating expenses is clearly a positive signal as it implies the French government is "authorizing" EDF to adapt its cost structure despite being a public company. The EUR4bn capital increase combined dividend payment in shares should help the group reduce its leverage ratio from **2.5x to 2.1x** and to reduce its gearing ratio from **>180%** to around **160%**. It should give the group more financial flexibility to invest in its "Grand Carénage program", in renewables and potentially in Hinkley Point UK project. **At this stage we confirm the Buy rating with a FV unchanged at EUR13.5 per share.**

## VALUATION

- At the current share price, EDF is trading at 5.3x its 2016e EBITDA and offers a 7.8% yield
- Buy, FV @ EUR13.5

## NEXT CATALYSTS

- May 10<sup>th</sup> 2016: Q1-16 earnings



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BUY ratings 72%

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