

26th April 2016

Utilities

Engie

Price EUR14.04

Q1 2016 preview: thank you Electrabel!

Fair Value EUR16,5 (+18%)

BUY

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	19.5 / 13.1
Market Cap (EUR)	34,179
Ev (BG Estimates) (EUR)	78,104
Avg. 6m daily volume (000)	5 972
3y EPS CAGR	-21.7%

We expect Engie to post positive LfL EBITDA growth this Friday, despite a negative YoY contribution from the E&P business, a negative climate effect and a still declining intrinsic performance in the Energy Europe business due to falling power prices. This LfL growth is expected to stem from a positive scope effect with the restart of Belgian nuclear reactors, as well as from the Lean 2018 cost-cutting programme. We expect a positive share price reaction given that the group should post EBITDA growth in the middle of the group's guidance range.

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.5%	-1.0%	-13.6%	-14.0%
Utilities	2.4%	1.1%	-7.4%	-3.8%
DJ Stoxx 600	3.5%	3.1%	-8.1%	-5.2%

ANALYSIS

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%

- **Our Q1 estimates:** As for its quarterly publication, Engie is set to report sales, EBITDA, current operating income, CCFO, capex and net debt metrics and nothing else. Given the ongoing deterioration in the energy market in Europe, combined with the stronger euro vs. most foreign currencies compared with Q1, we forecast a yoy decline in the group's EBITDA and COI by of **2.5%** and **1.8%** respectively to **EUR3.480bn** and **EUR2.380bn**. Excluding the negative FX effect, the group's operating performance looks a bit "sexier" as it implies flat EBITDA growth and **1.9%** LfL growth respectively. Most of this earnings growth is likely to have been driven by the positive contribution from **Belgium nuclear (+EUR100m)** and by the **Lean 2018** cost-cutting programme (+EUR125m). We expect the group to post net debt of **EUR28bn** helped by a positive FX impact notably.

	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

- **What to expect from this publication?** We assume that management's message on the 2016 outlook will remain similar to that of the 2015 earnings presentation in February 2016, given that most macro metrics and commodity prices have remained unchanged during this short period. Most investors will focus on the group's asset rotation programme, and on the strategic changes announced during the recent earnings presentation. However, since the group is to organise "Workshop sessions" before the end of June, we expect most answers to be given during this event.

(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	14.4x
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

- **Conclusion:** During 2016, the group should benefit from a positive scope effect from Belgian nuclear assets (*restart of D3/T2*) as well as from new commissioning and the cost-cutting programme. The fairly respectable Q1 performance that we expect to be in the middle of the group's EBITDA growth guidance for 2016 (-4.4%/0%) should be well appreciated by investors. We are sticking to our Buy rating with an unchanged FV at **EUR16.5**. We see upside from the group's strategic transformation compared with the current share price.

VALUATION

- At the current share price Engie is trading at 7.2x its 2016e EBITDA and offers a 7.1% yield
- Buy, FV @ EUR16.5

NEXT CATALYSTS

- 29th April: Q1 earnings publication
- H1 2016: Engie "Investor Day"

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