

Engie

Price EUR14.42

Q1 metrics: EBITDA up LfL thanks to Electrabel

Fair Value EUR16,5 (+14%)

BUY

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	18.9 / 13.1
Market Cap (EURm)	35,105
Ev (BG Estimates) (EURm)	79,029
Avg. 6m daily volume (000)	6 004
3y EPS CAGR	-21.7%

As expected the group reported this morning positive earnings growth thanks primarily to Energy Europe which benefits from the restart of nuclear power plants. All in all EBITDA is down 1.7% YoY but up 2.3% LfL to EUR3.5bn while EBIT growth is positive on both YoY and LfL basis. The group did suffer from negative FX effect (BRL) and from negative weather effect, yet benefited from restart of nuclear power production and from Lean 2018 program. Net debt remained under control while 2016 targets were reiterated. Buy confirmed with FV unchanged at EUR16.5/share.

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.3%	-1.0%	-10.4%	-11.7%
Utilities	4.9%	1.7%	-4.5%	-1.5%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

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	7.1x	14.5x	15.8x	14.8x
FCF yield (%)	0.7%	5.9%	4.9%	7.3%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	6.9%	6.9%	4.9%	4.9%
EV/Sales	1.0x	1.1x	1.2x	1.2x
EV/EBITDA	6.5x	7.3x	7.8x	7.7x
EV/EBIT	NS	12.5x	13.9x	13.4x

ANALYSIS

- Main Q1-16 metrics:** Total Q1-16 sales came out at **EUR18.9bn, down 14.3% YoY** and down **13.3% on a LfL basis**. The group is not giving more details on the sales split by business unit yet we understand most of the sales drop is coming from France, Latam and Africa/Asia and from commodities prices exposed entities. EBITDA is down **1.7% YoY to EUR3.5bn yet is up 2.5%** on a LfL basis and up 5% when excluding FX and climate headwinds. Performance from Current Operating Income (COI) is even more sexier with a flat YoY growth to **EUR2.4bn and a 5.9% LfL growth**. Both operating metrics reported are bang in line with our expectations (*respectively EUR3,480m and EUR2,380m*). CCFO was negatively impacted by change in WCR, a negative impact which is set to progressively reverse during the rest of the year. Net debt remained under control despite this negative WCR impact and despite slight rise in gross capex (*+EUR200m to EUR1.4bn*) and declined by **EUR700m to EUR27bn**, helped by favourable FX effect (*-EUR400m*) and by disposals (*-EUR400m*).
- What to retain from this publication?** **1/**Group's operating performance is bang in line with expectations. Most of the earnings growth is coming from restart of nuclear assets in Belgium (**around EUR100m**) and from costs reduction program (**EUR100m**) yet this is not a surprise. With this Q1-16 performance the group is close to the middle range of its EBITDA growth guidance for 2016 (-4.4%/0%), guidance which has been confirmed with other targets. **2/**The net debt stabilization is clearly positive and should reassure investors. **3/**Brazilian situation seems to improve compared with last year with GSF being up from **79% to 88%**, yet power prices remain **10x** lower than one year ago and then affected group's operating performance in the region compared with last year. **4/**the group indicated its workshop session will be organised in Paris on June 28th.
- Conclusion:** We expect a positive share price reaction today especially after yesterday share price performance (*-1.2% vs. flat CAC 40*) and given the more positive commodities prices (*Brent mainly*) evolution expected today. At this stage we confirm the Buy rating with FV unchanged at EUR16.5/share.

VALUATION

- At current share price Engie is trading at 7.3x its 2016e EBITDA and offers a 6.9% yield
- Buy, FV @ EUR16.5

NEXT CATALYSTS

- Q1-16 Conference call @
- June 28th 2016: Workshop sessions on new strategy in Paris

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