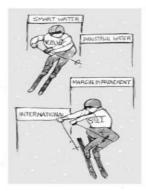
Utilities

Suez

Price EUR16.10

Bloomberg

Reuters SEVI.PA 19.0 / 15.1 12-month High / Low (EUR) Market Cap (EURm) 8,762 Ev (BG Estimates) (EURm) 20,808 Avg. 6m daily volume (000) 1 258 3y EPS CAGR 4.1% 6 M 31/12/15 1 M 3 M Absolute perf. 2.8% -4.0% -8.8% -6.7% Utilities 3.4% 0.8% -6.5% -2.8% DJ Stoxx 600 3.6% 2.4% -7.6% -5.1% YEnd Dec. (EURm) 2015 2016e 2017e 2018e Sales 15,135 15,444 16,031 16,459 2.0% 3.8% % change 2.7% **EBITDA** 2,751 2,690 2,907 3,092 **EBIT** 1,381 1,315 1,477 1,590 % change -4.8% 12.3% 7.6% Net income 559.8 435.7 557.4 631.5 27.9% -22.2% 13.3% % change 2015 2016e 2017e 2018e Operating margin 9.1 8.5 9.2 9.7 3.7 2.8 3.5 3.8 Net margin 8.2 6.5 8.2 9.2 8.0 7.3 8.0 8.6 ROCE 133.7 138.3 137.0 Gearing 121.6 (EUR) 2015 **2016**e 2017e 2018e **EPS** 1.04 0.81 1.04 1.17 % change -22.2% 27.9% 13.3% P/E 15.5x 19.9x 15.5x 13.7x FCF yield (%) 2.9% 0.5% 2.8% 7.0% Dividends (EUR) 0.70 0.79 0.65 0.65 Div yield (%) 4.0% 4.0% 4.3% 4.9% EV/Sales 1.3x 1.3x 1.3x 1.3x EV/EBITDA 7.4x 7.7x 7.3x 6.9x EV/EBIT 14 7x 15 8x 14 4x 13.5x



Q1 metrics: flat LfL EBIT growth, as expected. 2016 guidance confirmed despite poor year start

Fair Value EUR18,5 vs. EUR19 (+15%)

BUY

This morning Suez posted poor Q1 sales and operating performance as expected. Sales were up +0.5% YoY thanks to the International division while EBIT came out at -4.6% to EUR253m whereas we were forecasting EUR258m. As expected, the start of the year is difficult for the group, especially compared with Veolia. We expect a growth recovery over the next nine months. 2016 guidance was confirmed as well as the 2017 EBITDA target. We anticipate a negative share price reaction this morning but still see upside to the 2016-18 consensus. Buy, FV @ EUR18.5 unchanged.

ANALYSIS

SEV FP

- Main Q1 metrics: Total Q1 sales came out at EUR3.55bn, up 0.5% YoY and up 1.5% LfL with most of the sales growth coming from International business (+9.5% LfL) while the Water Europe division reported flat LfL growth (+0.3%) helped by positive sales growth in Spain and in Chile (+1.7% LfL) despite a decline in water volumes compared with Q1 2015 due to to highly unfavourable weather conditions in the summer period. As expected, the Waste Europe business (renamed Recycling and Recovery Europe) incurred a negative sales performance (-1.9% LfL and -2.4% YoY) due to the negative effect from the secondary raw materials prices drop. Most of the sales decline in this business came from French activities (-5.4% LfL) while the UK and Benelux/Germany posted positive LfL sales growth. In such a poor growth environment, the group posted Q1 EBITDA of EUR574m down 3.9% YoY and flat on a LfL basis below both our figures and consensus expectations (respectively EUR591m and EUR587m) and EBIT of EUR253m down 4.6% YoY and up 0.6% organically leading to a 40bp EBIT margin decline to 7.1% compared with last year.
- 2016 and 2017 targets confirmed: Despite this poor expected performance, management is confident in its ability to generate higher earnings growth during the rest of the year than during Q1. 2016 guidance to post organic sales growth greater than or equal to 2% and organic EBIT growth greater than organic revenue growth was confirmed. Cash flow and net debt targets were also confirmed for 2016. The group's target to generate EBITDA of EUR3bn thanks to M&A (at 50%) by 2017 was also confirmed even if management did not give additional indications on any deals in its press release. If 2017 numbers need to be revised down, we assume this will be done during the H1 2016 earnings presentation.
- Conclusion: This is a poor start to the year for the group as expected, and Veolia is likely to report
 higher EBITDA and EBIT LfL growth thanks to the contribution from cost-cutting notably. As such,
 we expect the share price to react negatively this morning but still see upside on 2016-18
 consensus thanks notably to M&A. Buy, FV @ EUR18.5 unchanged.

VALUATION

- At the current share price Suez is trading at 7.7x its 2016e EBITDA and offers a 4% yield
- Buy, FV @ EUR18.5

NEXT CATALYSTS

Conference call at 08.30am CET (UK: +44(0)20 3427 1919)

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Stock rating

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.

NEUTRAL

Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL

Negative opinion for a stock where we expect an unfavourable 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 downside 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.

Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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