

## Sector View

## Utilities

	1 M	3 M	6 M	31/12/15
Utilities	1.1%	4.1%	-4.2%	-3.6%
DJ Stoxx 600	0.7%	4.7%	-5.2%	-5.9%

\*Stoxx Sector Indices

## Companies covered

<b>ALBIOMA</b>	<b>BUY</b>	<b>EUR16</b>
Last Price	EUR13,7	Market Cap. EUR408m
<b>AMOEB</b>		
Last Price	EUR30,53	Market Cap. EUR164m
<b>E.ON</b>	<b>BUY</b>	<b>EUR10</b>
Last Price	EUR8,877	Market Cap. EUR17,763m
<b>EDF</b>	<b>BUY</b>	<b>EUR13,5</b>
Last Price	EUR11,3	Market Cap. EUR21,698m
<b>EDP RENOVAVEIS</b>	<b>NEUTRAL</b>	<b>EUR7,5</b>
Last Price	EUR6,57	Market Cap. EUR5,731m
<b>ENGIE</b>	<b>BUY</b>	<b>EUR16,5</b>
Last Price	EUR13,97	Market Cap. EUR34,021m
<b>PENNON GROUP</b>	<b>SELL</b>	<b>825p</b>
Last Price	820,5p	Market Cap. GBP3,385m
<b>RWE</b>	<b>NEUTRAL</b>	<b>EUR9,5</b>
Last Price	EUR11,97	Market Cap. EUR7,237m
<b>SUEZ</b>	<b>BUY</b>	<b>EUR18,5</b>
Last Price	EUR16,645	Market Cap. EUR9,062m
<b>VEOLIA</b>	<b>NEUTRAL</b>	<b>EUR22</b>
Last Price	EUR21,555	Market Cap. EUR12,143m
<b>VOLTALIA</b>	<b>BUY</b>	<b>EUR13</b>
Last Price	EUR9,05	Market Cap. EUR237m

## Toward a greener world?

During our 1<sup>st</sup> Utilities/Renewables conference organised in Paris in early April, we focused investors' attention on two high-growth potential markets that could change the structure of traditional utilities market: recycling and renewables. These two markets are strongly favoured by the main mature countries' governments, to promote a greener environment. In France, for instance, the *Energy transition Law* is set to draw up rules and targets that are likely to favour development of recycling as well as further expansion of renewables within the grid. Stocks exposed to this market should definitely benefit from these trends, with positive implications for EPS growth.

## ANALYSIS

- What to retain from 1<sup>st</sup> Round-table (recycling):** Over the coming years, recycling is set to represent a stronger place in worldwide waste market, yet market change is set to take time as in some countries, such as France, no real legal constraints exist to favour/oblige this shift (*contrary to UK*). France is lagging other European countries somewhat on the municipal waste market, with less than **20%** of treated volumes being recycled, vs. **25%** on average for EU-27 implying potential upside for Suez, Veolia and S  ch   Environnement. Margins could potentially be negatively impacted, but we assume margin in value should grow at a higher pace thanks to higher volumes. Most of the environmental services groups are looking to expand on niche markets where profitability and entry barriers are higher and try to develop direct partnership with industrials to recycle directly at the origin. At this stage, in our BG utilities universe, Suez is slightly bigger than Veolia on recycling and as clearer ambitions. **Near term, we do not expect a lot from this market, but longer term we definitely anticipate positive impact on groups' earnings.**
- What to retain from 2<sup>nd</sup> Round-table (renewables):** France is late compared with other European countries (*Spain, Italy, and Germany*) in terms of installed capacities and % of exposure to renewables. The French energy transition law aims at further developing solar and wind (*additional 3GW of solar and wind cumulated every year*) thanks to new tariff mechanisms. In our BG utilities universe, **Engie, Voltalia and EDF should benefit from it.** As for international, the growth is mainly set to come from solar technology, which is expected to become one of the most competitive energies in the world (*EUR30-40/MWh*). We anticipate that most of the large utilities building up exposure to renewables will have to invest in solar projects. We expect a lot from EDPR's investor day in May.
- Main elements to retain from some of 1/1 & 1/few meetings?**
  - Albioma:** Strategy to reduce exposure to biomass/coal assets to the profit of full biomass assets remains unchanged. The group has strong growth potential in French overseas departments where the French "energy transition law" will oblige departments to incorporate more renewables to the grid, while the recent signature with EDF of amendments to its Bois-Rouge PPA confirms group's business model in these regions is not at risk. As for Brazil, management highlighted that such a high rates environment is negative as it is complicating their strategy to expand their presence in the market. Acquisition will be cheaper than some years ago, yet IRR of the project in real will be lower. As a reminder, Brazil is set to represent **40%** of group's 10 years capex envelop yet represent as of today less than **5%** of group's EBIT. **We are still positive with a Buy rating of EUR16/share.**
  - EDF:** Group's operating performance this year is set to remain solid (*inside European integrated utilities sector*) yet by 2017 EDF will no longer benefit from its hedging policy and will then suffer from a strong decline in French power prices. Further restructuring (*on top of the EUR700m 2015-18 plan*) could be announced shortly as part of group's financing plan (*press article are now talking about EUR1bn, yet without mentioning if it on top of the EUR700m target or if this target is replacing previous one*). We expect positive market reaction assuming more details on this plan are announced and assuming disposals are being announced too. **We are buying EDF for valuation reason mainly and for the positive catalysts we anticipate on short term. FV @ EUR13.5/share.**



- **Engie:** Group's transformation phase is underway. Speech from **Thierry Lepercq** (*CEO of SolaireDirect, recently acquired by Engie*) summarizes quite well the new strategy of the group: a group more exposed to renewables offering smart solutions to its final customers to optimize power consumptions. To finance it, further disposals will be needed (*still EUR10bn missing*), to the profit of group's margin and group's exposure to regulated assets. More information should be divulged during workshop sessions the group will organise at end of June. **Buy, with FV @ EUR16.5.**
- **Suez:** Few details were unveiled on economic situation in Europe, yet message remained clear: growth is set to be limited in 2016. Earnings growth are then only set to come from regulated assets (20% of group's EBITDA), restructurings and from M&A. The group is still looking actively opportunities to expand its footprint either in southern Europe, on a niche market or in emerging markets, yet will not expand at all price. Assuming a deal is not really engaged over coming months would imply the group will have to change its 2017 EBITDA "ambition" (*EUR3bn*) during its H1-16 earnings presentation. At current share price we still assume market is not pricing any deal, making the case quite attractive as there is a free option on it. **Buy, FV @ EUR17.5.**
- **Veolia:** Global message on economic environment in Europe is quite similar to Suez comments: growth is set to remain quite timid in the region, for both waste (*no industrial recovery*) and water business (*no inflation, pricing pressure*). Earnings growth will continue to come from costs reduction program and from international. At current share price we see very limited upside. We also see very limited catalysts on the investment case. **We confirm our Neutral rating with FV still at EUR22/share.**
- **Votalia:** During its intervention at the second round table, group's CEO confirmed the group will further develop in Brazil but also in other emerging markets where higher load factors allow renewables to be competitive (*without subventions*) with traditional technologies. Development within solar world is also a target for the group. **We remain positive with FV at EUR13/share despite its strong exposure to Brazil (>80% of EBIT).**

#### VALUATION

- At current share prices, the entire utilities sector (SX6P) is trading at 14.9x its 2016e earnings and offer a 5% 2016e yield
- We have no Utilities top pick for Q2-16.

#### NEXT CATALYSTS

- April 26<sup>th</sup> 2016: E.ON investor day
- April 27<sup>th</sup> 2016: Albioma Q1-16 sales
- April 29<sup>th</sup> 2016: Engie Q1-16

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