

11th May 2016

Utilities

EDF

Price EUR11.66

A poor start to the year but 2016 targets reiterated

Fair Value EUR13.5 (+16%)

BUY

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	22.4 / 9.2
Market Cap (EURm)	22,379
Ev (BG Estimates) (EURm)	85,171
Avg. 6m daily volume (000)	3,042
3y EPS CAGR	-25.6%

EDF posted poor Q1 2016 sales yesterday after market due to unfavourable weather and FX effects and most importantly, due to the end of Yellow and Green regulated tariffs in France. Activities in the UK were also affected by stronger competition in power and gas sales. Despite this poor year start, 2016 operating targets were reiterated as was the 2018 target. We are making no change to our estimates and maintain our FV at EUR13.5/share. We continue to believe that at the current share price, most downside risk is already well priced in.

	1 M	3 M	6 M	31/12/15
Absolute perf.	14.6%	7.5%	-21.5%	-14.1%
Utilities	2.6%	5.7%	-5.5%	-4.0%
DJ Stoxx 600	1.3%	6.7%	-10.6%	-8.1%

ANALYSIS

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%

- Main Q1 metrics:** Yesterday after market EDF posted poor Q1 sales, in line with expectations. Total sales declined by **6.7%** YoY and **6%** organically to **EUR21.4bn** with most of the decline coming from businesses outside of France (*UK and other International*). In France, sales were down **4.8%** LfL due to the impacts of increased competition in such a low price environment and mild weather. In the UK, sales dropped by **9.8%** LfL, due to the impact of the lower number of residential customer accounts on power and gas sales while sales in the Other International segment declined by **7.2%** LfL due to negative price and weather effects in Belgium as well as to the end of the concession agreement in Asia. 2016 guidance for French nuclear output was revised down by **2TWh** due notably to hotter than anticipated temperatures and higher outages with limited impact on the group's guidance though. Most of the value decline in the group's sales stemmed from the French activities with the group suffering from poor market conditions.

	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

- What to retain from this publication?** **1/** Q1 figures were affected by increased competition in France (*due to the opening of Yellow and Green markets*) and in the UK, as well as a disadvantageous weather effect. **2/** 2016 targets to generate **EBITDA** between **EUR16.3 and EUR16.8bn** while maintaining a **net debt/EBITDA** ratio below **2.5x** were confirmed, **3/** as was the 2018 target for positive FCF after dividends. **4/** All details already unveiled by the group to adapt its cost base and cash equation were also reiterated (*net capex envelope of EUR10.5bn in 2018, net reduction of EUR1bn in group's opex excluding fuel*). **5/** During the conference call management made few comments on the carbon floor tax and on the Areva integration, due notably to the lack of visibility on both elements.

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.30	0.95	0.94
% change		-42.8%	-27.3%	-0.8%
P/E	5.1x	9.0x	12.3x	12.4x
FCF yield (%)	NM	NM	NM	10.6%
Dividends (EUR)	1.10	0.96	0.74	0.74
Div yield (%)	9.4%	8.2%	6.4%	6.3%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.7x	5.2x	5.6x	5.4x
EV/EBIT	19.2x	11.5x	14.0x	14.1x

- We stick to our Buy rating:** We are making no change to our estimates and **EUR13.5 FV** despite this poor start to the year. We agree visibility on the investment case remains limited due to the Hinkley Point project, the Areva integration and the end of regulated tariffs. However we see very positively the recent announcements by the French government to allow further cost-cutting, to reduce cash consumption and most importantly, to implement a carbon floor tax. Investor mistrust is justified but at the current share price we assume most downside risk is already priced in. **Our mark-to-market model still yields a FV of EUR13.5 implying 18% upside. Buy.**

VALUATION

- At the current share price EDF is trading at 5.2x its 2016e EBITDA
- Buy, FV @ EUR13.5

NEXT CATALYSTS

- July 29th 2016: H1 2016 results

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