EDF

Price EUR11.59

EDF defends its "Grand Carénage" maintenance capex program

Fair Value EUR13.5 (+17%) **BUY**

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	22.4 / 9.2
Market Cap (EURm)	22,245
Ev (BG Estimates) (EURm)	85,037
Avg. 6m daily volume (000)	2 989
3y EPS CAGR	-25.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	11.1%	-20.2%	-14.7%
Utilities	-3.3%	1.9%	-8.7%	-6.0%
DJ Stoxx 600	-4.4%	2.3%	-12.4%	-8.7%

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%*

	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

(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	8.9x	12.2x	12.3x
FCF yield (%)	NM	NM	NM	10.7%
Dividends (EUR)	1.10	0.96	0.74	0.74
Div yield (%)	9.5%	8.3%	6.4%	6.4%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.7x	5.2x	5.6x	5.4x
EV/EBIT	19.1x	11.5x	14.0x	14.1x

The French newspaper *Les Echos* wrote an article this morning on EDF and its "Grand Carénage" maintenance capex program, which is set to raise security at all 58 French reactors, and most importantly to expand the lifespan of EDF French nuclear fleet beyond the current 40 years. Strongly needed by EDF as it will further delay the potential decommissioning of most of its French nuclear asset base. At current power prices, this program is not economically viable. The carbon floor tax could set up a new deal for the EDF, however.

ANALYSIS

- **A quick word on "Grand Carénage" program:** This maintenance program (2014-25) which is set to raise security at all 58 French reactors closer to new EPR stanit will cost an estimated **EUR50-55bn** and implies an annual capex of c.**EUR5-5.5bn** (we estimate annual operating CF at c. EUR12bn).
- **Impact on EDF?** With this program, the group is securing the use its nuclear fleet in France, while providing work for most of its French employees over the next ten years, which should please the French government. Thanks to this program, the group will extend the lifespan of its nuclear fleet by at **least 10 years** (*from 40 to 60 years officially, yet as ASN only provides 10 years lifespan extension, the group will only be able to raise it to 50 years*). It will boost EBIT and net margin (lower depreciation), while reducing the provisions linked to the nuclear dismantling and nuclear storage in its balance sheet (higher discounted period). Our **EUR13.5 FV** is already integrating this capex program, and its positive impact on group's P&L and BS as well as the negative tax retrofit payment it will have to cash-out due to the lower depreciation. Besides this, our model is marked-to market, assuming we do not model a power price recovery in France over the short term.
- **Only higher power prices could make this maintenance program economically viable**: Yet the viability of this project is strongly linked to French power prices curve, as this massive capex program is not exposed to regulated tariffs implying all spending by the group is not protected by a tariff formula as for all regulated assets (*gas, power or water*). According to **Dominique Minière**, EDF executive director in charge of nuclear and thermal fleets the new cash cost of EDF nuclear fleet will be closer **to EUR30-40/MWh** after the investments while full economical cost will be closer to **EUR55/MWh**. These indications imply at current power prices (*EUR30/MWh*) that this program is not economically viable (*on both cash and P&L*) and could put further pressure on EDF's cash flow generation equation over the period. Investing in such a massive capex program makes no sense for the group, excect if it betting on a potential power price recovery. The implementation of a **carbon floor tax in France** and potentially in Europe could clearly help the group explaining why French government is pushing for such mechanism implementation as soon as in 2017. As a reminder we estimated EDF share price could more than double, assuming this mechanism pushes French forward power prices back above EUR40/MWh.
- **Conclusion**: EDF has no choice but to defend this program, given that it will raise the intrinsic value of its assets while conforting its dominant position inside French energy mix. Given the determination of the French government to support EDF's strong franchise in nuclear industry while saving jobs, we estimate this carbon tax will be implemented. We remain a buyer of EDF with FV unchanged at EUR13.5/share, as we assume most of negative newsflow is already priced in and, most importantly, as we estimate majorities' interests are aligned with minorities's despite the future French Presidential elections.

VALUATION

- At current share price, the stock is trading at 5.2x its 2016e EBITDA and offers a 8.3% yield
- Buy, FV @ EUR13.5

NEXT CATALYSTS

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