

There is only upside left

Fair Value EUR16,8 (+24%)

BUY

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	17.9 / 13.1
Market Cap (EURm)	32,913
Ev (BG Estimates) (EURm)	76,704
Avg. 6m daily volume (000)	6 274
3y EPS CAGR	-21.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	0.6%	-17.1%	-17.2%
Utilities	-7.2%	-3.1%	-8.4%	-8.9%
DJ Stoxx 600	-9.4%	-5.5%	-13.1%	-13.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	69,883	70,944	67,779	68,851
% change		1.5%	-4.5%	1.6%
EBITDA	11,261	10,806	10,235	10,575
EBIT	-3,243	6,315	5,768	6,063
% change		NS	-8.7%	5.1%
Net income	4,950	2,516	2,348	2,507
% change		-49.2%	-6.6%	6.8%

	2015	2016e	2017e	2018e
Operating margin	-4.6	8.9	8.5	8.8
Net margin	7.1	3.5	3.5	3.6
ROE	10.2	5.2	4.9	5.2
ROCE	6.8	4.4	4.0	4.2
Gearing	61.5	57.8	60.6	61.2

(EUR)	2015	2016e	2017e	2018e
EPS	2.04	1.01	0.93	1.00
% change		-50.7%	-7.1%	7.2%
P/E	6.6x	13.4x	14.5x	13.5x
FCF yield (%)	0.7%	5.9%	5.3%	7.9%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	7.4%	7.4%	5.2%	5.2%
EV/Sales	1.0x	1.1x	1.1x	1.1x
EV/EBITDA	6.3x	7.1x	7.6x	7.4x
EV/EBIT	NS	12.1x	13.5x	12.9x

Engie invited analysts and investors for a “workshop” session yesterday during which the management team presented us more details of its transformation plan already unveiled in February 2016. On top of numerous data unveiled during the presentation, we were positively surprised by the very confident tone coming from management. The group seems well on track to implement this plan thanks notably to its new organisation. At the current share price we only see upside, even if the group is unable to fully adapt to the new energy world. Buy, with FV @ EUR16.8.

## ANALYSIS

- **Engie gave more colour to its “3D” strategy (Decarbonisation, Decentralisation, Digitalisation)**, along with its transformation plan, already unveiled in February 2016. **More than 80% of the company’s current installed capacity stems from low CO2 energies, 21% of which renewables.** Through strong investments (*EUR2.8bn of capex will be dedicated to these energies by 2018, around 25% of the overall capex envelop*) and the current pipeline out to 2021 (*11GW of renewables and 7GW of gas*), **Engie aims to increase the share of its low CO2 power generation businesses to more than 90% of its 2018 EBITDA.** Through B2T (*Business-to-Territories*) and B2B micro grids and B2C off-grid solutions, **Engie is betting on decentralised energy generation**, with long-term growth – after 2018 – to be potentially driven by autonomous micro-grids and low-cost energy storage. **Customer solutions (which includes B2B/B2C/B2T solutions)** should represent **43%** of Engie’s capital expenditure by 2018 while a mid-to-high single digit CAGR in EBITDA is expected by 2018. **As for digitalisation, various initiatives have been launched** through the company’s different businesses. In the B2C segment, the share of digital sales has notably been increased by 50% over the past 18 months. **Three pillars** should support this new digital focus (**mobility, big data and Internet of Things**) while **Engie Tech** aims at creating a **new innovative ecosystem** notably through the EUR115m Engie new ventures fund.
- **No change in the group’s 2016-18 financial targets:** The main short to mid term targets were reiterated: **1/** for 2016, the group’s target is still to generate between **EUR10.8 and EUR11.4bn** of EBITDA while distributing **EUR1/share dividend** and while maintaining a net debt/EBITDA ratio  $\geq$  **2.5x**; **2/** for 2017 and 2018, the group’s target is still to distribute a **EUR0.7/share** dividend in cash (*5.3% dividend yield implied*) while generating **85%** of its EBITDA from contracted/regulated activities vs. **70%** in 2015 and while disposing of around **EUR15bn** in assets (*o/w EUR5.8bn already closed or about to be closed*). The **EUR1bn Lean 2018 costs saving target** for 2016-18, o/w **45%** to stem from procurement, was also reiterated. As a reminder this plan is based on the current Engie perimeter and implies a **+50%** increase on a yearly basis compared with Perform 2015.
- **We find no downside even if the transformation is not fully completed:** As of now we keep our model unchanged and still value Engie at **EUR16.8/share**. As a reminder in our recent report on Engie (*Rise of the phoenix? – 08/03/2016*) we estimated Engie could be worth **EUR18/share** assuming the full transformation is completed (*EUR15bn in disposals, 85% EBITDA from regulated, net debt reduction – DCF valuation*), implying **36%** upside, whereas it could only be worth **EUR13/share** assuming no more transformations (*on top of existing assets disposals*) are implemented. We therefore assume at the current share price, that Engie’s investment case offers very limited downside making us comfortable with our Buy rating.

## VALUATION

- At the current share price Engie is trading at 7.1x its 2016e EBITDA and offers a 7.4% 2016e yield
- Buy, FV @ EUR16

## NEXT CATALYSTS

- 28th July 2016: H1 2016 earnings

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