

Sector View

Environmental Services

	1 M	3 M	6 M	31/12/15
Utilities	-4.4%	-3.8%	-4.8%	-8.6%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

*Stoxx Sector Indices

Companies covered

AMOEBA

Last Price EUR26,96 Market Cap. EUR161m

PENNON GROUP SELL 830p vs.825p

Last Price 807p Market Cap. GBP3,330m

SUEZ BUY EUR17.5 vs18,5

Last Price EUR13,885 Market Cap. EUR7,559m

VEOLIA ENVIRONNEMENT BUY vs.NEUTRAL EUR23 vs.22

Last Price EUR19,265 Market Cap. EUR10,853m



Haste makes waste, it's upside time!

Ahead of the H1-16 results (and after the FY15/16 results for Pennon), we update our models and review our investment case on environmental services companies. Despite the still challenging macro environment, we remain confident of the resilience of the companies' margins and the cost-reduction measures being implemented. We upgrade our rating on Veolia from Neutral to Buy and maintain our Buy rating on Suez as we believe current and potential additional cost-cutting measures could, at least, partly offset macro headwinds and M&A shortfall for Suez. We also maintain our Sell rating on Pennon.

ANALYSIS

- We take the opportunity of this note to transfer the coverage of Veolia Environnement and Suez to Pierre-Antoine Chazal.
- **As expected, the beginning of the year has been tough for environmental services companies.** All the three stocks we cover suffered from tepid European industrial production recovery, low inflation in the Eurozone, the drop in energy and raw materials prices as well as commercial pressure in their respective water businesses. This leads us to lower our estimates on their traditional activities. **Mid-term targets could be at risk at different levels (FY-18e top line for Veolia, FY-17e EBITDA, which includes M&A, for Suez).**
- **Despite this challenging environment and unsupportive macro outlook, we remain confident of the resilience of the companies' margins.** Both Suez and Veolia will mainly rely on their cost-reduction measures in the years to come (EUR600m over 2016-2018 for Veolia vs. EUR300m over 2016-2017 for Suez). **We believe Suez is likely to announce additional cost-cutting measures in its upcoming H1-16 results** as the macro outlook has deteriorated. As for Pennon, we still expect solid EBITDA growth thanks to the Viridor business's ramp-up.
- **We upgrade Veolia to Buy & maintain our ratings on Suez (Buy) and Pennon (Sell):** As we now consider cost-cutting part of Veolia's DNA and as we appreciate the company's new financial flexibility, we upgrade **Veolia from Neutral to Buy** and increase our FV to EUR23 (vs. EUR22). We maintain our **Buy rating on Suez (FV down to EUR17.5 vs. EUR18.5)** as we believe additional costs measures which could be implemented could partly offset a too short M&A timing in order to reach the **FY-17e EUR3bn EBITDA ambition**. We remain confident of management's strong commitment to increase EPS growth and we see substantial upside to our valuation through various topics. As for Pennon, after updating our model, we continue to find downside, justifying our Sell rating.

VALUATION

- At current share price the water & waste management sector is trading at **10.3x** its 2017e EBITDA and offers a 2017e yield of **4.3%**.
- We upgrade on rating on Veolia to Buy (FV @ EUR23); we keep our Buy rating on Suez (FV @ EUR17.5) & keep our Sell rating on Pennon (FV @ 830p)

NEXT CATALYSTS

- 28th July – Suez // H1-16 earnings
- 01st August – Veolia // H1-16 earnings
- 06st September – Pennon // Q1-2016/17 Trading statement

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Analyst :
Pierre-Antoine Chazal
33(0) 1.56.68.75.06
pachazal@bryangarnier.com

Sector Team :
Xavier Caroen

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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