

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	21.3 / 9.2
Market Cap (EURm)	22,146
Ev (BG Estimates) (EURm)	85,113
Avg. 6m daily volume (000)	2,612
3y EPS CAGR	-25.3%

EDF reported resilient results this morning with Group's EBITDA reaching EUR8.9bn down 0.7% organically but 3% above consensus' expectations. Besides, the company appears to speeding up its transformation plan as shown by the extension to 50 years of c. 50% of company's nuclear assets and the sale of half of its stake in grid operator RTE at an attractive valuation. We confirm our Buy rating and maintain our FV to EUR13.8. Positive.

## ANALYSIS

- Main H1-16 metrics:** H1-16 revenues reached **EUR36.7bn**, down 4.6% organically. Group's EBITDA reached **EUR8.9bn** down 0.7% organically but **3% above consensus expectations**. The 2.8% organic decline in France (as a consequence of the decline in the electricity prices and the end of Yellow and Green regulated tariffs) and the **8.9%** organic decline in the UK have been offset by the strong performance in Italy (+36.2% organically on the back on margins recovery from renegotiations of the Libyan gas contracts) and in the Group's International division (+11.6%). Net income excluding non-recurring items amounted to **EUR2,968m**, up **1.4%** YoY. This has been notably spurred by the **EUR310m positive impact inherent to the extension to 50 years of the depreciation of company's nuclear reactors**. We estimate this should concern around 29GW of installed capacities out of Group's current 63GW nuclear capacities (excluding Fessenheim). Full-year impact on net income should reach c. EUR600m. Net financial debt reached **EUR36.2bn** while net debt/EBITDA ratio is at **2.1x**, in line with EDF's objective (2.0x-2.5x).
- On top of this resilient set of results, **the Group is speeding up its transformation plan** with **1/** Final Investment Decision on Hinkley Point C **2/** exclusive negotiations started for the sale of 50% of company's stake in grid operator RTE which could be completed by Q1-17 and whose impact on our FV could reach **EUR1.6 per share 3/** progress of discussions related to the compensation package over the closure of the Fessenheim plant. As for Areva's acquisition, the group indicated the signature of binding agreements between both groups will occur before the end of November 2016 (EV of EUR2.5bn for 100% with EDF still expected to take 51% to 75%).
- Outlook confirmed:** As expected, EDF confirmed its objectives for 2016 (which has been updated on 19<sup>th</sup> July and now includes the expected tariff adjustment as well as the revision of the nuclear output target) with **1/** EBITDA between **EUR16.3bn and EUR16.8bn 2/** Net financial debt/EBITDA ratio between **2x and 2.5x and 3/** Payout ratio of net income excluding non-recurring items between **65% and 75%**. The target to generate positive FCF post dividend and excluding investments on Linky was also confirmed.
- Conclusion:** H1-16 operating metrics are reassuring despite the difficulties the group is facing in France following the opening of the Green and Yellow regulated tariffs to competition making us comfortable with our 2016 estimates (low range of group's guidance). **All together, all news combined are quite positive for the investment case.** Conference call starts at 9.00 am.

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.0%	-11.1%	-7.5%	-19.0%
Utilities	8.2%	0.0%	1.7%	-1.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

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	16,164	15,822	16,349
EBIT	4,280	7,135	6,341	6,299
% change		66.7%	-11.1%	-0.7%
Net income	4,231	2,437	1,918	1,903
% change		-42.4%	-21.3%	-0.8%

	2015	2016e	2017e	2018e
Operating margin	5.7	9.4	8.3	8.1
Net margin	5.6	3.2	2.5	2.4
ROE	10.5	6.1	4.9	4.9
ROCE	2.0	2.9	2.6	2.6
Gearing	167.6	178.8	188.7	190.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.21	0.96	0.95
% change	-	-46.6%	-21.3%	-0.8%
P/E	4.8x	9.1x	11.5x	11.6x
FCF yield (%)	NM	NM	NM	11.3%
Dividends (EUR)	1.10	0.91	0.75	0.75
Div yield (%)	10.0%	8.2%	6.8%	6.8%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.6x	5.3x	5.6x	5.4x
EV/EBIT	19.1x	11.9x	13.9x	14.0x



## VALUATION

- At current share price, EDF is trading at **5.3x** its 2016e EV/EBITDA multiple.
- Buy, FV @ **EUR13.8**

## NEXT CATALYSTS

- 8<sup>th</sup> November 2016: Q3-16 earnings

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