

25th July 2016

Utilities

**Engie**

Price EUR15.06

H1 2016 preview: negative lfl EBITDA growth expected due to one-off items

Fair Value EUR16,8 (+12%)

BUY

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	17.9 / 13.1
Market Cap (EUR)	36,675
Ev (BG Estimates) (EUR)	79,522
Avg. 6m daily volume (000)	6 223
3y EPS CAGR	-21.1%

Engie is set to report its H1 2016 results on 28th July after trading. We expect the company to report a 2.8% lfl decline for the period, particularly since the Q2 2015 figure was positively impacted by long-term gas supply contract renegotiations for c. EUR300m. This is likely to be partly offset by the tailwind from Belgian nuclear volumes as well as by new commissioning and the ongoing Lean 2018 cost-savings programme. We expect the group to confirm guidance for the year including its EUR10.8bn-EUR11.4bn EBITDA target.

#### ANALYSIS

- Our H1 2016 estimates:** We expect Engie to post H1 2016e EBITDA of **EUR5.748bn** implying a 6.1% decline year-on-year (from EUR6.122bn in H1 2015) and a **2.8% lfl decline**. This 2.8% decline is mainly explained by the positive EUR300m one-off impact reported in Q2 2015 linked to long-term gas supply contract renegotiations. Adjusted for this impact, H1 2016e EBITDA would have risen 2.1% lfl, according to our estimates. We expect EBITDA to be positively impacted by **Belgian nuclear volumes** (+EUR200m impact in H1 2016), **new commissioning** (+EUR80m), the **Lean cost-saving programme** (+EUR250) and a slightly positive weather impact (+EUR21m); these effects being partly offset by currency (Brazilian real mainly) and commodities prices headwinds. We nevertheless expect the negative impact from E&P volumes to be rather limited in H1 2016 (c. EUR-50m) as the planned shutdown in Norway will only occur in H2 2016 (EUR300m negative impact expected for the full-year). We expect **the group's EBIT and net income** (company definition) **to reach EUR3.5bn and EUR1.5bn respectively**. **Net debt should reach EUR27.3bn** (vs. EUR27bn in Q1 2016 and EUR26.8bn in H1 2015) in line with company's objective to maintain **net debt/EBITDA ratio below 2.5x**. **We expect disposals already closed** (US merchant hydro assets and 50% of TEN transmission line) **to reduce net debt by c. EUR1.4bn** over the period (EUR0.4bn in Q1 2016 and EUR1bn in Q2 2016).
- What to expect from this publication ?** As a reminder, a month ago, Engie hosted an "Investor Workshop" where the company gave more details on its new strategic focus as well as on its asset rotation programme. As a consequence, **we do not expect any significant new announcements during H1 2016 results**. Some additional updates would be well-appreciated especially on the disposals programme (E&P, Australian assets) or on the LNG business (Cameroon project put on hold).
- Conclusion: We expect Engie to confirm its FY 2016e guidance** including full-year EBITDA before disposals of **between EUR10.8bn and EUR11.4bn**, recurring net income between EUR2.4bn and EUR2.7bn and a EUR1 dividend per share. **We are at the low-end of guidance** both for EBITDA (EUR10.8bn) and recurring net income (EUR2.5bn) **We are maintaining our Buy recommendation and our EUR16.8 Fair Value** since we assume, at the current share price, that Engie's investment case offers **very limited downside**.
- Conference-call @ 6:00pm CET: +44 (0)20 3427 1918**

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.3%	5.6%	4.4%	-7.7%
Utilities	2.3%	2.8%	3.8%	-0.9%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

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	7.4x	15.0x	16.1x	15.0x
FCF yield (%)	0.7%	5.3%	4.7%	7.1%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	6.6%	6.6%	4.6%	4.6%
EV/Sales	1.1x	1.1x	1.2x	1.2x
EV/EBITDA	6.6x	7.4x	7.9x	7.7x
EV/EBIT	NS	12.6x	14.0x	13.4x



#### VALUATION

- At the current share price, Engie is trading at 7.4x its 2016e EV/EBITDA multiple and offers a 6.7% yield.
- Buy, FV @ EUR16.8

#### NEXT CATALYST:

28th July: H1 2016 results

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