29th July 2016

Utilities

Engie

Price EUR14.86

H1-16 EBITDA down 3% LfL as expected; 2016 guidance confirmed

Fair Value EUR16,8 (+13%) **BUY**

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	17.9 / 13.1
Market Cap (EUR)	36,176
Ev (BG Estimates) (EUR)	79,023
Avg. 6m daily volume (000)	6 126
3y EPS CAGR	-21.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.9%	3.1%	2.1%	-9.0%
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	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	7.3x	14.8x	15.9x	14.8x
FCF yield (%)	0.7%	5.3%	4.8%	7.2%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	6.7%	6.7%	4.7%	4.7%
EV/Sales	1.1x	1.1x	1.2x	1.2x
EV/EBITDA	6.6x	7.3x	7.8x	7.6x
EV/EBIT	NS	12.5x	13.9x	13.3x

Yesterday after market, Engie posted poor H1-16 EBITDA and net income growth, impacted by a negative comparison base and the ongoing decline in power and commodity prices. As expected, the first semester of the year will be more negatively impacted than the second, allowing the group to feel comfortable with its 2016 targets. The group's strategic change seems well advanced, making us comfortable with our Buy rating. Positive.

ANALYSIS

- **Main H1-16 metrics**: H1-16 sales came out at **EUR33.5bn**, down **13%** YoY and down **12%** LfL with most of the underperformance coming from depressed commodity prices. EBITDA came out in line with expectations at **EUR5.65bn** (*BG at EUR5.75bn*) reflecting a **4.1%** LfL decline compared with last year, vs. **+2.3%** posted in Q1-16. Most of the EBITDA decline came from Latam *(-12.5% YoY)*, E&P *(-16%)* and most importantly from GEM-LNG business (*negative EBITDA contribution*) which more than offset the rise in nuclear volumes. Despite this significant margin deterioration, the group was able to post an **11.3% YoY** rise in net profit to **EUR1.24bn** thanks to **1/** lower impairment charges, **2/** positive perimeter effects and **3/** lower financial charges. Net recurring income (*Engie definition*) is, however, down **7%** to **EUR1.5bn,** in line with group's annual guidance. Net debt is down **EUR1.7bn** despite dividends, mainly thanks to the **EUR1.2bn** cash-in generated by the sale of the hydro merchant US activities and thanks to favourable FX effect, putting net debt/EBITDA ratio under the **2.5x** limit at **2.41x**.
- **What to retain from this publication: 1/**H1-16 EBITDA is affected by a negative base effect on the LNG business compared with last year, but this will not affect H2-16 earnings; **2/**Of the **EUR15bn** growth capex program, Engie has already spent **EUR2.1bn** while **EUR9bn** is commited to future projects, implying **EUR4bn** of capex remains earmarked for unknown projects. **3/**Lean 2018 program contributed positively to **EUR200m** on EBITDA, in line with the group's annual target of **EUR500m**. **4/**2016 targets have been confirmed despite this poor start to the year. As a reminder, the group still targets **EBITDA** of **EUR10.8-11.4bn** and a **NRI** at **EUR2.4-2.7bn,** implying H2-16 EBITDA growth of **0%** at the low-end of the guidance and at **+12%** at high-end.
- **Conclusion**: Given the ongoing transition phase the group is currently working on, 2016 metrics do, in our view, not reflect the growth potential of the group for long term investors. However, comments by management on costs-cutting, disposals and capex growth plans were reassuring, making the transformation more credible. At this stage, we keep our 2016-17 estimates unchanged as well as our **EUR16.8/share FV,** reflecting **12%** potential upside. As a reminder, our base case scenario, which assumes all group's targets will be reached by 2018, implies **EUR18/share FV** for Engie. **Buy.**

VALUATION

- At the current share price, Engie trades at **7.3x** its 2016e EBITDA and offers a **6.7%** yield
- Buy, FV @ EUR16.8

NEXT CATALYSTS

- November 10th 2016: Q3-16 earnings

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