

21st July 2016

Utilities

Suez

Price EUR14.15

Early signs of strategic shift

Fair Value EUR17.5 (+24%)

BUY

Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	18.3 / 12.9
Market Cap (EUR)	7,703
Ev (BG Estimates) (EUR)	18,788
Avg. 6m daily volume (000)	1,274
3y EPS CAGR	-2.0%

Suez announced yesterday both the sale of its 18.55% stake in Spanish water company Aguas de Valencia (for c. EUR40m) and the creation of a new joint-venture in hazardous waste in China. More than the financial impact, both these transactions are early signs of a strategic shift: from Southern Europe to Asia, notably China, and from traditional environmental services activities to more value-added businesses, such as hazardous waste.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.3%	-14.3%	-11.6%	-18.0%
Utilities	2.2%	1.3%	7.7%	-1.1%
DJ Stoxx 600	0.9%	-2.8%	5.7%	-6.8%

ANALYSIS

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	15,135	15,456	16,066	16,557
% change		2.1%	3.9%	3.1%
EBITDA	2,751	2,653	2,791	2,932
EBIT	1,381	1,287	1,355	1,459
% change		-6.8%	5.3%	7.7%
Net income	559.8	402.8	463.9	527.1
% change		-28.1%	15.2%	13.6%

- Stake sale in Aguas de Valencia:** Suez sold its 18.55% stake in Aguas de Valencia to Fomento Urbano de Castellon, which is also buying the 14.5% stake owned by Criteria (which previously bought it from Suez) and now owns 97.35% of Aguas de Valencia. **The overall amount of the transaction is EUR70m inc. EUR39m for Suez.** Suez bought a 33.05% stake in Aguas de Valencia from Saur back in 2008 for EUR135m but has failed to obtain full control of the company since then. **The operation by itself is fairly neutral for Suez** as Aguas de Valencia was only consolidated at the financial income level with a low single-digit contribution.

- JV in hazardous waste in China:** in the meantime, Suez announced the creation of a joint-venture with Chinese Fulong Environmental Company and Wall-Mark **that will focus on the development of industrial hazardous waste treatment in China.** The JV will develop a waste treatment plant with an overall capacity of 30,000 tons per year in Foshan, China. According to the agreement, capital investment reaches EUR68m with a 50% share for Suez.

- Conclusion: more than the financial impact, both these transactions highlight the early signs of a strategic shift for Suez as the company appears to be focusing** (like Veolia), **on more value-added businesses** (such as hazardous waste which represented around EUR550m of revenues for Suez in 2015) **in fast-growing areas** (Suez's target includes 6-8% average annual growth in its international business between 2016 and 2018), **while struggling to expand its activities in Southern Europe** such as Spanish Aguas de Valencia and Italian ACEA. Suez has a 12.4% stake in environmental company ACEA, which is also 51%-owned by the city of Rome. Over the past few months, it has been said that the new mayor of Rome, Virginia Raggi, could install new management within the Italian utility and could ask ACEA to invest more to improve services rather than being profit-driven, which could potentially infringe on Suez's future net margins (in 2015, ACEA had a positive EUR22m contribution).

	2015	2016e	2017e	2018e
Operating margin	9.1	8.3	8.4	8.8
Net margin	3.7	2.6	2.9	3.2
ROE	8.2	5.9	6.8	7.7
ROCE	8.0	7.3	7.5	8.0
Gearing	121.6	124.2	129.0	132.0

VALUATION

(EUR)	2015	2016e	2017e	2018e
EPS	1.04	0.75	0.86	0.98
% change	-	-28.0%	15.2%	13.6%
P/E	13.6x	18.9x	16.4x	14.5x
FCF yield (%)	3.3%	5.6%	4.5%	5.2%
Dividends (EUR)	0.65	0.65	0.65	0.66
Div yield (%)	4.6%	4.6%	4.6%	4.7%
EV/Sales	1.2x	1.2x	1.2x	1.2x
EV/EBITDA	6.9x	7.1x	6.9x	6.6x
EV/EBIT	13.6x	14.6x	14.1x	13.3x

- At the current share price, Suez is trading on 2016e EV/EBITDA of 7.1x.

- Buy, FV of EUR17.5

NEXT CATALYSTS

- 28th July: H1 2016 results

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