

## Suez

Price EUR14.47

Strong international growth to support the company's guidance for 2016

Fair Value EUR17.5 (+21%)

BUY

Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	18.0 / 12.9
Market Cap (EURm)	7,875
Ev (BG Estimates) (EURm)	18,938
Avg. 6m daily volume (000)	1,262
3y EPS CAGR	-0.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.2%	-10.0%	-14.3%	-16.2%
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	15,135	15,550	16,191	16,685
% change		2.7%	4.1%	3.0%
EBITDA	2,751	2,681	2,848	2,977
EBIT	1,381	1,286	1,380	1,471
% change		-6.9%	7.3%	6.6%
Net income	559.8	431.0	513.1	567.0
% change		-23.0%	19.0%	10.5%

	2015	2016e	2017e	2018e
Operating margin	9.1	8.3	8.5	8.8
Net margin	3.7	2.8	3.2	3.4
ROE	8.2	6.1	7.3	8.0
ROCE	8.0	7.2	7.6	8.0
Gearing	121.6	118.1	122.4	125.4

(EUR)	2015	2016e	2017e	2018e
EPS	1.04	0.77	0.92	1.02
% change		-25.8%	19.1%	10.5%
P/E	13.9x	18.7x	15.7x	14.2x
FCF yield (%)	3.3%	4.8%	4.5%	5.0%
Dividends (EUR)	0.65	0.65	0.65	0.68
Div yield (%)	4.5%	4.5%	4.5%	4.7%
EV/Sales	1.3x	1.2x	1.2x	1.2x
EV/EBITDA	6.9x	7.1x	6.8x	6.6x
EV/EBIT	13.8x	14.7x	14.0x	13.3x

Following yesterday's H1 2016 results, we have updated our model to include the increase in cost-savings measures and the expected increase in stake in ACEA. We have also slightly reviewed our estimates for 2016/2017/2018 reflecting a tougher than expected environment in the water business but a stronger than expected performance in the International division, which should support the company's guidance and organically increase Suez' EBIT by 2.8% in 2016. In all, we are maintaining our Buy recommendation and our FV at EUR17.5 per share.

## ANALYSIS

- Estimates update:** Following the company's H1 2016 results reported yesterday, we have updated our model to include our new assumptions. We now expect **2016e EBITDA to reach EUR2,681m (+1.1% vs. our previous estimats)**, EUR2,848m in 2017e (+2.0% vs. our previous estimate) and EUR2,978 in 2018e (+1.5% vs. our previous estimate). We expect **higher growth in the International division** (+9.7% and +7.5%, organically in 2016 and 2017 vs. +6.7% and +6.8% before) following the company's strong performance and the division's solid backlog. **This should spur the company's EBITDA for 2016 and beyond and then more than offset the continuous decline in Water Europe** for which we now expect 2016e EBITDA to drop 1.3% to EUR1,290m vs. our previous estimates due to **lower volumes, notably in France** (-1.0% expected YoY vs. -0.5% before), and still weak tariffs increases. **We are making virtually no changes to our estimates for the Waste Europe division** (EBITDA at EUR771m for 2016e vs. EUR772m before) as weak volumes and the EUR30m expected impact from electricity prices broadly offset the new cost-reduction measures announced.
- A new catalyst:** On top of the **additional EUR30m in cost-measures** announced yesterday (to EUR180m in 2016), Suez announced it aims to **speed up its transformation plan** the details of which should be unveiled during Q3 2016 results, which could imply **positive momentum** on the stock as well as a potential rerating following the poor performance YTD (-16.2%). **We understand from management that mobility and formation actions could be taken** without any additional details disclosed for now.
- Increased stake in ACEA:** The company finally announced that it has **put aside its EUR3bn EBITDA ambition for 2017** – as expected – due to the lack of potential targets to be acquired. However, **Suez intends to increase its share in Italian environmental services company ACEA to 23.3%** (vs. 12.5% before) – which has been integrated in our model – **through a capital increase that could amount to c. EUR265m** according to our estimates. **This leads to a 1.9% negative impact on our 2016e adjusted EPS but a 1.5% positive impact on our 2017e metrics.** The transaction is expected to be completed by Q3 2016.
- Conclusion:** Despite the still challenging macro-environment, Suez has been able to generate solid organic growth (+2.2% in H1-16) principally through an outstanding performance in its international business. **We believe this should underpin** - along with the additional cost-cutting measures also announced - the **company's ability to deliver its guidance** to organically increase 2016 EBIT by at least 2.0% (we stand at 2.8%). **All in all, we are maintaining our Buy recommendation and our FV at EUR17.5 per share.**



## VALUATION

- At the current share price, Suez is trading at **7.1x its 2016e EV/EBITDA** multiple
- Buy, FV @ EUR17.5**

## NEXT CATALYSTS

- 27th October: Q3 2016 results

[Click here to download document](#)

**Table 1: New estimates (2015-2018e)**

	-	New	Old	Estimates change (%)	New	Old	Estimates change (%)	New	Old	Estimates change (%)
<b>Revenues</b>	<b>15,135</b>	<b>15,550</b>	<b>15,456</b>	<b>0.6%</b>	<b>16,191</b>	<b>16,066</b>	<b>0.8%</b>	<b>16,685</b>	<b>16,557</b>	<b>0.8%</b>
o/w Water Europe	4,677	4,720	4,728	(0.2%)	4,825	4,824	0.0%	4,960	4,950	0.2%
o/w Waste Europe	6,357	6,345	6,357	(0.2%)	6,552	6,579	(0.4%)	6,638	6,665	(0.4%)
o/w International	3,997	4,382	4,267	2.7%	4,711	4,559	3.3%	4,984	4,837	3.0%
<b>EBITDA</b>	<b>2,751</b>	<b>2,681</b>	<b>2,653</b>	<b>1.1%</b>	<b>2,848</b>	<b>2,791</b>	<b>2.0%</b>	<b>2,977</b>	<b>2,932</b>	<b>1.5%</b>
o/w Water Europe	1321	1290	1,307	(1.3%)	1,338	1,337	0.1%	1,373	1,371	0.2%
o/w Waste Europe	766	771	772	(0.1%)	819	824	(0.6%)	854	870	(1.9%)
o/w International	797	751	705	6.5%	822	762	7.9%	881	822	7.2%
<b>EBIT reported</b>	<b>1,381</b>	<b>1,286</b>	<b>1,287</b>	<b>(0.1%)</b>	<b>1,380</b>	<b>1,355</b>	<b>1.8%</b>	<b>1,471</b>	<b>1,459</b>	<b>0.8%</b>
Net income reported	407	452	449	0.7%	534	511	4.5%	588	575	2.3%
<b>EPS reported</b>	<b>0.76</b>	<b>0.81</b>	<b>0.83</b>	<b>(2.5%)</b>	<b>0.96</b>	<b>0.95</b>	<b>1%</b>	<b>1.05</b>	<b>1.07</b>	<b>(1.6%)</b>
Dividend	0.65	0.65	0.65	0.0%	0.65	0.65	0%	0.68	0.69	(0.8%)

Source : Company Data; Bryan Garnier & Co. ests.

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