

Veolia Environnement

Price EUR19.39

H1 2016 preview: cost-saving measures set to underpin medium-term EBITDA guidance

Fair Value EUR23 (+19%)

BUY-Top Picks

Bloomberg	VIE.FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EURm)	10,924
Ev (BG Estimates) (EURm)	18,635
Avg. 6m daily volume (000)	1,936
3y EPS CAGR	27.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.7%	-7.9%	-8.8%	-11.3%
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	24,965	24,927	25,821	26,471
% change		-0.2%	3.6%	2.5%
EBITDA	2,997	3,135	3,336	3,516
EBIT	1,060	1,419	1,551	1,685
% change		33.9%	9.3%	8.7%
Net income	380.2	559.3	679.6	786.7
% change		47.1%	21.5%	15.8%

	2015	2016e	2017e	2018e
Operating margin	4.5	5.7	6.0	6.4
Net margin	1.8	2.5	2.9	3.2
ROE	4.0	5.7	6.8	7.7
ROCE	6.4	8.2	8.7	9.2
Gearing	82.6	83.2	82.5	79.7

(EUR)	2015	2016e	2017e	2018e
EPS	0.68	0.99	1.21	1.40
% change	-	47.1%	21.5%	15.8%
P/E	28.7x	19.5x	16.0x	13.9x
FCF yield (%)	9.7%	NM	6.1%	7.2%
Dividends (EUR)	0.73	0.85	0.87	0.99
Div yield (%)	3.8%	4.4%	4.5%	5.1%
EV/Sales	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	5.9x	5.9x	5.6x	5.3x
EV/EBIT	16.8x	13.1x	12.0x	11.0x

Veolia Environnement is due to report H1 2016 results next week on 1st August before trading. We expect a poor sales performance in H1, in line with the Q1 performance, as the company is set to have suffered from unfavorable weather in the US, FX headwinds and (like Suez), a still challenging market environment (no recovery in European industrial production and low inflation in mature markets). However, we expect Veolia to post 4.9% organic growth in H1 2016 EBITDA, in line with its 5% medium-term objective. The main driver for the company's margin resilience remains its 'Convergence' cost-saving programme (EUR600m forecasted over 2016-2018). We maintain our Buy recommendation and our FV of EUR23.

ANALYSIS

- What to expect from Veolia Environnement's H1 2016 publication? We expect Veolia to report a poor sales performance for H1 2016 at EUR11.922bn down 3.2% on the H1 2015 figure at EUR12.318bn. This 3.2% decrease should be attributed equally to FX headwinds and an organic decline notably due to an unfavorable weather effect in the US (weighing on the company's energy business), a weak performance in industrial waste in the US and the previously announced downsizing of Veolia Water Technologies (EUR125m negative impact over the semester). Like Suez, Veolia is still suffering from a rather challenging macro environment with low inflation in mature markets (negatively impacting the water business) and flattish industrial production in Europe (negatively impacting the waste business). We expect revenues in France to be broadly flat over the period, in line with the Q1 2016 performance. However, we expect Veolia's H1 2016 EBITDA to reach EUR1.574bn, up 2.8% YoY (EUR1,531m posted in H1 2015) notably thanks to a EUR100m positive contribution from the Convergence cost-savings programme. We believe Veolia will be on track to achieve its objective of 5% annual organic growth in EBITDA between 2016 and 2018 (we estimate H1 2016 organic growth of 4.9%). We expect the company's current EBIT to decrease year-on-year to EUR700m (from EUR712m) as the H1 2015 figure included an EUR38m provision reversal. Finally, we expect the bottom line to be negatively impacted, on a reported basis, by 1) a c.EUR65m capital gain realised in H1 2015; 2) a mid-single digit decline in financial income due to reimbursement of the EUR345m shareholder loan to Transdev. Adjusted net income (only adjusted for the EUR65m capital gain, not for the EUR38m provision reversal) should therefore reach EUR282m (vs. EUR256m in H1 2015).**
- Targets expected to be confirmed.** Finally, we expect Veolia's 2016 targets to generate organic growth (for both revenues and EBITDA), to reach EUR650m of FCF and to post current net income of at least EUR600m to be confirmed (we stand at EUR620m).

- Conference call @ 8.30 am CET: +44 (0)2033679454**

VALUATION

- At the current share price, Veolia Environnement is trading at 5.9x its 2016e EBITDA
- Buy, FV @ 23

NEXT CATALYSTS

- 3rd November 2016: Q3 2016 results



Table 1: Veolia's H1-16 key metrics

Veolia - P&L summarized	H1-16e	H1-15
Revenues	11,922	12,318
EBITDA	1,574	1,531
EBITDA margin	13.2%	12.4%
Renewal expenses	(142)	(141)
OFA reimbursement	(82)	(82)
D&A	(698)	(686)
Associates	47	53
Others	0	38
Current EBIT	700	712
Financial results	(252)	(184)
Taxes	(114)	(125)
Minorities	(52)	(82)
Current net income, Group share	282	321
Adjusted net income, Group share	282	256

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

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