

28th July 2016

Utilities

Veolia Environnement

Price EUR19.58

EUR3.3bn contract concluded in industrial water in China

Fair Value EUR23 (+17%)

BUY-Top Picks

Bloomberg	VIE.FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EURm)	11,028
Ev (BG Estimates) (EURm)	18,739
Avg. 6m daily volume (000)	1,918
3y EPS CAGR	27.4%

Veolia announced this morning that it has concluded a EUR3.3bn contract with China's largest refiner for management of the entire water cycle for its Yanshan petrochemical complex. The contract could represent a c. 10% increase in the company's industrial water segment revenues, according to our estimates. Positive.

ANALYSIS

- **Veolia announced this morning it has been chosen by Sinopec, Asia's largest refiner, to operate the entire water cycle for its Yanshan petrochemical complex.** Veolia will work at optimising water consumption at the site and then increasing the water recycling rate. **The contract is worth c. EUR3.3bn over its 25-year duration (c. EUR130m per year, representing a c.10% increase in the industrial water segment revenues).** The contract will be completed by a dedicated joint-venture between Veolia and Yanshan Petrochemical, which will employ more than 800 people, and **will be consolidated** by the French company.
- **This confirms and even strengthens Veolia's strategy to increase the share of industrial customers in its portfolio (44% as of 2015) notably in the Oil & Gas segment (10% CAGR in the segment expected between 2015 and 2018 for overall revenues of c. EUR2bn).** This also significantly reinforces Veolia's presence and ambition in Asia and notably in China. **In 2015, Veolia posted consolidated revenues in China for c. EUR500m, out of which c. EUR195m came from water activities and c. EUR140m came from Oil & Gas customers.** We expect Veolia (as well as Suez) to continue to expand their respective footprints in this area as **regulations are becoming more and more draconian**, especially regarding industrial water discharge, which should prevent both companies from any potential short-term macro downturn.

- **Positive.**

VALUATION

- At the current share price, Veolia is trading at **6.0x its 2016e EV/EBITDA multiple.**
- **Buy, FV @ EUR23**

NEXT CATALYSTS

- 1st August: H1 2016 results

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	1 M	3 M	6 M	31/12/15
Absolute perf.	8.4%	-7.9%	-10.1%	-10.5%
Utilities	12.8%	1.0%	1.8%	-0.6%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

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	28.9x	19.7x	16.2x	14.0x
FCF yield (%)	9.6%	NM	6.0%	7.2%
Dividends (EUR)	0.73	0.85	0.87	0.99
Div yield (%)	3.7%	4.3%	4.4%	5.1%
EV/Sales	0.7x	0.8x	0.7x	0.7x
EV/EBITDA	6.0x	6.0x	5.6x	5.3x
EV/EBIT	16.9x	13.2x	12.1x	11.1x



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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