

Veolia Environnement

Price EUR19.86

H1-16 results – first take: strong costs-cutting drove EBITDA increase, as expected
Fair Value EUR23 (+16%)
BUY-Top Picks

Bloomberg	VIE.FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EURm)	11,188
Ev (BG Estimates) (EURm)	18,900
Avg. 6m daily volume (000)	1,924
3y EPS CAGR	27.4%

Veolia posted this morning H1-16 results that came slightly above consensus expectations with company's EBITDA reaching EUR1,580m (vs. consensus at EUR1,575m and BG at EUR1,574m) principally spurred by strong costs-savings achieved (EUR121m over the semester) and despite the still challenging macro environment. The 20% stake disposal of Transdev should be positively received as the valuation appears rather attractive. Buy rating and EUR23 FV maintained.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.7%	-7.4%	-10.5%	-9.2%
Utilities	3.9%	1.0%	0.5%	-1.3%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

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	29.4x	20.0x	16.4x	14.2x
FCF yield (%)	9.5%	NM	5.9%	7.1%
Dividends (EUR)	0.73	0.85	0.87	0.99
Div yield (%)	3.7%	4.3%	4.4%	5.0%
EV/Sales	0.7x	0.8x	0.7x	0.7x
EV/EBITDA	6.0x	6.0x	5.7x	5.4x
EV/EBIT	17.1x	13.3x	12.2x	11.2x

- Main H1-16 metrics:** Revenues reached **EUR11,956m** down **2.9%** organically notably due the unsupportive impact of lower energy prices, the downsizing of **Veolia Water Technologies** and poor performance in the US (-9.4%). In France, revenues are rather stable (-0.2%) despite the decline in waste revenues (-1.6%). Globally, waste volumes remain resilient with a 1.3% positive impact spurred by **strong growth, as expected, in hazardous waste (+4.2%)**. **Group's EBITDA reached EUR1,580m**, broadly in line with consensus' expectations (EUR1,575m), with a **3.2% organic growth** boosted by EUR121m achieved in costs-savings and good commercial development. **EBITDA margin is up to 13.2%** from 12.4%. **In France, EBITDA declined by 10.7%** organically mainly due to the fall in price of scrap metal and a 2015 non-recurring item. Current net income, excluding capital gains, reached **EUR301m** up **15.7%** YoY and **5% higher than consensus' expectations**, driven mainly by the strong EBIT growth and lower than expected cost of debt. **Net financial debt reached EUR8,678** down 6.0% YoY with a c. EUR350m FX tailwind.
- Disposal of 20% of Transdev:** In parallel, Veolia announced an agreement have been reached with French State-owned bank CDC for **the disposal of a 20% stake in Transdev** (out of Veolia's current stake at 50%). The 20% stake is valued at EUR220m, which implies a **c. 20% premium vs. current Transdev's book value** (EUR466m for the 50% owned by Veolia). The operation is expected to be **completed by the end of the year**. Both Veolia and the CDC will then look for a new shareholder for the remaining 30% hold by Veolia. At the end of a two-year period, Veolia could exercise its put option with CDC at the same valuation. We expect this operation to be **positively received** by investors as **1/ the valuation appears rather attractive 2/** this is a long-lasting story. **The impact on Veolia's current EPS and net income** (guidance at EUR600m for 2016e) **is neutral** as both Veolia's metrics do not include Transdev's contribution (EUR46m in 2015) and any potential capital gain.
- Conclusion:** While the 3.2% organic growth in EBITDA appears a bit disappointing regarding Veolia's mid-term objective (5.0%), **we appreciate the resilience of the company's margins** (EBITDA up 80bp) **as well as the company's strong ability to deliver costs-savings. The 20% disposal of Transdev should be well-received by investors. Finally, the Group confirms its FY-16 objectives** with **1/** Revenues and EBITDA growth **2/** Net Free Cash Flow before divestments and acquisitions of at least EUR650m **3/** Current net income of at least EUR600m.
- Buy rating and FV at EUR23 maintained.**

VALUATION

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

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Analyst :
Pierre-Antoine Chazal
33(0) 1.56.68.75.06
pachazal@bryangarnier.com

Sector Team :
Xavier Caroen

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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