BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

9th September 2016

Utilities

Engie

The twelve labours of Engie

Fair Value EUR16.5 vs. EUR16.8 (price EUR14.67) **BUY**

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	16.6 / 13.1
Market capitalisation (EURm)	35,726
Enterprise Value (BG estimates EURm)	72,890
Avg. 6m daily volume ('000 shares)	5 430
Free Float	59.4%
3y EPS CAGR	-17.7%
Gearing (12/15)	61%
Dividend yields (12/16e)	6.82%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	69,883	65,541	63,898	64,900
EBIT(EURm)	-3,243	6,237	6,018	6,287
Basic EPS (EUR)	-1.96	1.08	1.06	1.13
Diluted EPS (EUR)	2.04	1.08	1.06	1.13
EV/Sales	1.06x	1.11x	1.14x	1.12x
EV/EBITDA	6.6x	6.7x	6.9x	6.7x
EV/EBIT	NS	11.7x	12.1x	11.6x
P/E	7.2x	13.6x	13.8x	12.9x
ROCE	6.8	4.4	4.3	4.5

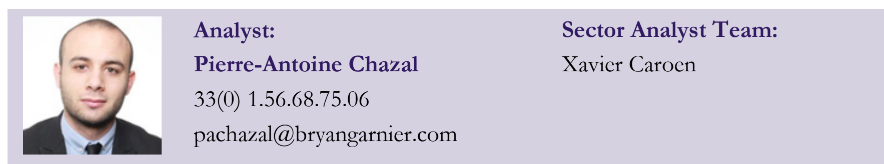
Following the H1-16 results and June's Investor Workshop, we have reviewed our model notably to reflect Engie's brand new business organisation. We have identified twelve tasks and challenges that have been faced or have to be faced by the company in the years to come. Completing these challenges will lead to a very different company by 2018 and should imply a potential rerating due to the company's increased focus on regulated and contracted activities. We confirm our Buy rating and slightly lower our FV to EUR16.5 (vs. EUR16.8) following adjustments we made in our model.

- We take the opportunity of this note to transfer coverage of Engie to Pierre-Antoine Chazal.

- **Twelve tasks to be undertaken…** During June's Investor Workshop, Engie gave more colour to its **transformation plan**. We have identified **twelve tasks that have been faced or have to be faced by the company in the years to come.** Some are already well under way (enhanced brand recognition, 40% of the disposals programme already completed or about to be completed, strong visibility on the company's dividends) while other structural ones should be sped up in the months and years to come (development in renewables, reduced exposure to commodities, building of a customers' solutions franchise).

- **… to become stronger:** all in all, we believe **the successful completion** of all these tasks and Engie's transformation plan would lead to a **significantly different company by 2018** and **would trigger a potential rerating** on the stock following the **company's increased focus on contracted and regulated activities** as well the expected reduced exposure to commodities.

- **Buy, FV at EUR16.5:** We maintain our **Buy rating** as we remain confident of Engie's ability to deliver its transformation plan. We value Engie through a SOTP valuation which implies a **FV of EUR16.5**. Note that our DCF-based valuation implies a **EUR17.0** equity value per share once the transformation plan is completed (vs. **EUR13.5** without any further disposals), i.e. **two times more upside** (c. 16%) **than downside** (c. 8%).



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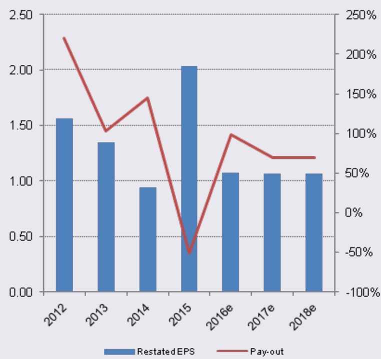


Company description

Engie develops its businesses (power, natural gas, energy services) around a model based on responsible growth to take on the major challenges of energy's transition to a low-carbon economy: access to sustainable energy, climate-change mitigation and adaptation and the rational use of resources. The Group provides individuals, cities and businesses with highly efficient and innovative solutions largely based on its expertise in four key sectors: renewable energy, energy efficiency, liquefied natural gas and digital technology. Engie employs 154,950 people worldwide and achieved revenues of EUR70bn in 2015.

Simplified Profit & Loss Account (EURm)	2013	2014	2015	2016e	2017e	2018e
Revenues	81,278	74,686	69,883	65,541	63,898	64,900
Change (%)	*-16.2%*	*-8.1%*	*-6.4%*	*-6.2%*	*-2.5%*	*1.6%*
Adjusted EBITDA	13,046	12,358	11,261	10,852	10,597	10,946
EBIT	(7,724)	6,574	(3,243)	6,237	6,018	6,287
Change (%)	*-208%*	*-%*	*-149%*	*-%*	*-3.5%*	*4.5%*
Financial results	(1,754)	(1,876)	(1,547)	(1,462)	(1,383)	(1,390)
Pre-Tax profits	(9,478)	4,698	(4,790)	4,775	4,635	4,896
Exceptionals	(14,965)	(587)	(9,568)	0.0	0.0	0.0
Tax	(620)	(1,588)	(324)	(1,600)	(1,483)	(1,567)
Profits from associates	513	441	473	480	490	499
Minority interests	(152)	(669)	496	(600)	(606)	(612)
Net profit	(9,737)	2,441	(4,618)	3,175	3,152	3,330
Restated net profit	3,440	2,728	4,950	3,175	3,152	3,330
Change (%)	*-10.2%*	*-20.7%*	*81.5%*	*-35.9%*	*-0.7%*	*5.6%*
Cash Flow Statement (EURm)						
Operating cash flows	12,148	8,750	10,383	9,630	8,335	9,373
Change in working capital	(186)	(1,221)	1,163	754	(446)	285
Capex, net	(7,508)	(7,080)	(6,459)	(7,017)	(5,188)	(5,304)
Financial investments, net	178	1,933	215	5,618	0.0	0.0
Dividends	(4,694)	(3,720)	(3,107)	(2,392)	(2,395)	(1,677)
Other	(3,415)	(44.0)	(395)	(2,467)	(2,467)	(2,467)
Net debt	29,800	27,511	27,727	24,355	26,070	26,144
Free Cash flow	4,640	2,961	237	8,231	3,147	4,069
Balance Sheet (EURm)						
Tangible fixed assets	65,037	64,032	56,988	53,972	54,781	55,626
Intangibles assets	27,983	28,791	26,037	26,037	26,037	26,037
Cash & equivalents	8,691	8,546	9,183	12,555	10,840	10,766
current assets	44,145	46,760	50,271	18,099	18,069	18,088
Other assets	13,755	17,176	18,179	47,017	46,518	46,810
Total assets	159,611	165,305	160,658	157,680	156,245	157,326
L & ST Debt	39,914	38,321	39,155	39,155	39,155	39,155
Others liabilities	71,742	77,457	78,424	75,925	74,980	75,557
Shareholders' funds	47,955	49,527	43,079	42,600	42,110	42,614
Total Liabilities	159,611	165,305	160,658	157,680	156,245	157,326
Capital employed	107,473	104,588	99,296	94,089	94,800	95,692
Ratios						
Operating margin	(9.50)	8.80	(4.64)	9.52	9.42	9.69
Tax rate	37.50	33.80	(6.76)	33.51	32.00	32.00
Net margin	4.23	3.65	7.08	3.93	3.98	4.19
ROE (after tax)	6.43	4.88	10.15	5.33	5.33	5.63
ROCE (after tax)	4.21	4.53	6.80	4.41	4.32	4.47
Gearing	58.37	53.21	61.48	55.10	59.26	58.79
Pay out ratio	103	145	(51.04)	98.56	69.84	65.17
Number of shares, diluted	2,357	2,357	2,357	2,395	2,395	2,395
Data per Share (EUR)						
EPS	(4.13)	1.04	(1.96)	1.08	1.06	1.13
Restated EPS	1.34	0.94	2.04	1.08	1.06	1.13
% change	*-14.2%*	*-29.9%*	*116%*	*-47.3%*	*-1.1%*	*6.8%*
EPS bef. GDW	(4.13)	1.04	(1.96)	1.08	1.06	1.13
BVPS	20.35	21.01	18.28	17.79	17.58	17.79
Operating cash flows	2.90	0.0	0.0	4.02	3.48	3.91
FCF	1.97	1.26	0.10	3.44	1.31	1.70
Net dividend	1.50	1.50	1.00	1.00	0.70	0.70

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

Table of contents

1. Investment Case....4

2. The twelve labours of Engie....5

3. Disposals programme well on-track....8

4. A reduced exposure to commodities.... 12

5. Ensure a solid pace in renewables.... 15

6. Building a customers' solutions franchise.... 18

7. Bring Belgian nuclear back to normal.... 21

8. A new cost-savings programme.... 25

9. The Suez stake: a non-issue.... 28

10. A sound dividend policy.... 30

11. Mobility, Big Data and the IoT.... 32

12. A brand new business organisation.... 34

12.1. North America.... 34

12.2. Latin America.... 35

12.3. Africa/Asia.... 36

12.4. Benelux.... 37

12.5. France.... 39

12.6. Rest of Europe.... 40

12.7. Infrastructures Europe.... 41

12.8. GEM & LNG.... 42

12.9. E&P.... 42

12.10. Other.... 43

13. Leveraging new brand recognition.... 45

14. A new management team: passing on the baton.... 47

15. Our estimates.... 49

16. Our valuation.... 50

Price Chart and Rating History.... 53

Bryan Garnier stock rating system.... 55

Please see the section headed "Important information" on the back page of this report.

1. Investment Case

Why the interest now?

The reason for writing now

Following the H1-16 results and June's Investor Workshop, **we review our model** notably to reflect Engie's **new business organisation**. With more details on the company's **transformation plan**, we have identified **twelve tasks and challenges that have been faced or have to be faced by the company** in the years to come. Completing these challenges would lead to a **significantly different company in 2018** for which we expect therefore a **potential rerating** due to the increased focus on **regulated and contracted activities** and the inherent **reduced exposure to commodities**.

Cheap or Expensive?

Valuation

We value the company through a **SOTP** valuation, which implies a FV of **EUR16.5**, c. 12.5% above current share price. A DCF-based valuation implies an equity value per share of **EUR17.0 once the transformation plan is over** (disposals and capex programme) vs. **EUR13.5** per share assuming no further disposals are completed.

When will I start making money?

Catalysts

We believe **new disposals could be announced before the end of the year** (Australian and Polish thermal assets, E&P business or Belgian inter-municipalities) which would confirm **our confidence of Engie's ability to reach its EUR15bn disposals target** by 2018.

What's the value added?

Difference from consensus

We do not integrate the EUR15bn disposals targeted by the company: we only consider the EUR5.8bn disposals already announced. **We only integrate EUR17.5bn of capital expenditures** between 2016 and 2018 as we believe further disposals will be necessary to fully fund the EUR22bn capex programme while respecting the 2.5x net debt/EBITDA level. All in all, we adopt **rather cautious assumptions** but appreciate the **exhaustiveness and consistency** of Engie's transformation plan.

Could I lose money?

Risks to our investment case

We have identified the following **risks**: **1/ a further decline in commodity prices** which would affect both the E&P business and the traditional power generation business; **2/ the fierce competition** in key areas targeted by the company notably in the renewables universe in Latin America; **3/** the large number of challenges that have to be faced by the company all at the same time; **and 4/** any potential **unexpected shutdowns in the Belgian nuclear reactors.**

Please see the section headed "Important information" on the back page of this report.

2. The twelve labours of Engie

Following June's Investor Workshop as well as Engie's H1-16 results, **we have reviewed the company's investment case and updated our model** on Engie notably to reflect the company's new organisation (ten reporting business segments vs. five before).

During this investor day, Engie gave more colour to **its "3D" new strategy** (Decarbonisation, Decentralisation and Digitalisation) along with its **transformation plan** which had already been unveiled in February 2016.

All in all, we have identified twelve tasks and challenges that should be addressed and overcome by Engie over the short-to-medium term:

1) **The already started scope's reshuffle** based on both the disposals of non-strategic assets (thermal assets, merchant activities, E&P) and the bolt-on acquisitions of new businesses (OpTerra Services in the USA, SolaireDirect and Maia Eolis in the renewable universe);
2) **The reduced exposure to commodities** through the increased focus on more regulated and contracted activities as well as through the EUR22bn capex programme over the 2016-2018 period;
3) **The continued development in the renewable sector** with a solid pace of new commissioning to be achieved between 2016 and 2018 (and even beyond considering current Engie's pipeline) but also a **fierce competition** in key areas targeted by the group;
4) **The development of a new customers' solutions franchise** (services and supply) which should represent c. 43% of the EUR12bn growth capex to be spent in the years to come;
5) **The recovery of the Belgian nuclear activity** which suffered last year from several outages and inherent low load factors;
6) **The EUR1bn cost-reduction programme** aiming at being completed between 2016 and 2018 (EUR500m in 2016 and EUR250m in both 2017 and 2018) in order to support the company's future margins;
7) **The management of the Suez stake**. A potential buyout of Suez had been very much in the news a few months ago (Engie currently owns 33.7% of Suez), though we believe this is very unlikely to happen in the short-to-medium term;
8) **The preservation of the visibility on the company's dividends** which have been set at EUR1 per share for 2016 and EUR0.7 per share for 2017 and for 2018;
9) **The success of the group's digitalisation**, as about EUR1.5bn is expected to be spent in this area in the next couple of years including the creation of Engie Tech which aims at creating a new innovative ecosystem through the EUR115m Engie new ventures fund;
10) **The new business organisation** which has been set up and which now relies on ten business reporting segments instead of five previously;
11) **The improvement in the recognition of the company's new name**: Engie vs. GDF Suez;
12) **The new management team** put in place with Isabelle Kocher replacing Gérard Mestrallet as Engie's CEO.

All these challenges and new measures will finally pave the way to a **significantly different company in 2018**. **The complete redesign of the company's portfolio** should lead Engie towards **three main expected directions** with three main mid-term objectives:

Please see the section headed "Important information" on the back page of this report.

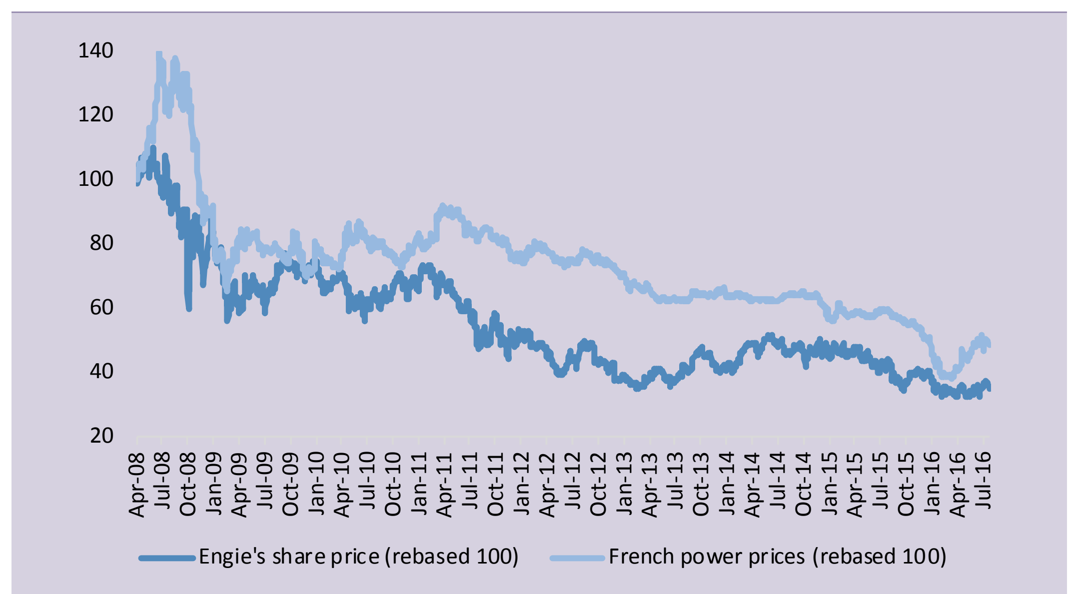
1) The company expects that the **focus on more regulated and contracted activities** will lead these businesses to represent at least **85% of the company's EBITDA by 2018** (vs. about 70% today);
2) With its **increased presence the renewables universe**, Engie expects its **low CO_2 activities** to represent more than **90% of its EBITDA by 2018**;
3) Finally, Engie is targeting **50% EBITDA growth by 2018** of its **customers' solutions** "metier", spurred by both a solid organic increase and bolt-on acquisitions.

We believe Engie will be able to address almost all of these challenges successfully. **Some of these are already progressing well** with, notably, 40% of the disposals programme completed as of today and nuclear volumes back to more normal levels in the first half of the year.

The key issue will be to manage all of these "labours" almost <u>concurrently</u> by 2018.

We believe this **transformation plan** could trigger a **rerating of the stock** which strongly suffered from the drop in power and commodity prices (oil and gas) over the past few years. **We calculated that the correlation between Engie's share price evolution and French power prices since 2008, is higher than 0.8**. **While the electricity price has declined by c. 53% over the period, Engie's share price has dropped by c. 73%.**

Fig. 1: A high correlation between Engie's share price and French forward power prices



Source: DataStream, Bryan Garnier.

We believe Engie will be progressively more and more immune to market prices as the disposal of the exploration and production division will significantly reduce the exposure to oil and gas prices while the increase in the share of regulated and contracted businesses should reduce its exposure to power price fluctuations. **We are confident of Engie's ability to address all twelve challenges.** In our valuation model, we remain, however, **conservative** regarding the disposals programme as **we only integrate the disposals completed** or about to be completed, i.e. EUR5.8bn out of the expected EUR15bn announced by the group.

Please see the section headed "Important information" on the back page of this report.

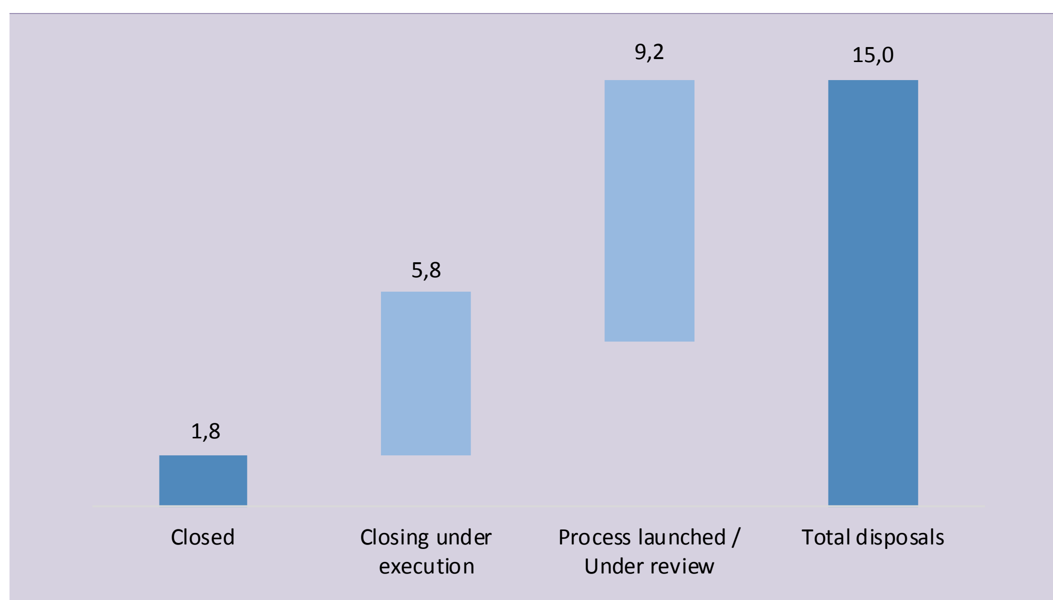
We expect the group's **EBITDA to reach a low point in 2017** (to EUR10.6bn vs. EUR10.8bn expected for 2016 and EUR11.3bn reached in 2015) following notably the EUR600m impact coming from the North American and Asian disposals. **The confidence we have in Engie's ability to deliver successfully its transformation plan on top of the medium-term expected improvements in some of the group's activities** (stabilisation in supply market shares, nuclear back to more common levels, potential rise in market power prices, supportive renewables policy in France) lead us to **maintain our Buy rating**.

Our new model implies a **FV at EUR16.5** (i.e. a c.12.5% upside vs. Engie's current share price) based on **a SOTP valuation**. We estimate Engie could be worth up to **EUR17.0** per share, based on a **DCF valuation**, assuming the group successfully completes its transformation plan vs. **EUR13.5** per share assuming no further disposals are made. This leads to an **16% potential upside** vs. the current share price vs. "only" an **8% downside** if the transformation plan is not completed.

3. Disposals programme well on-track

One of the key elements of Engie's transformation is the **expected asset rotation programme**. Engie is targeting **EUR15bn of disposals between 2016 and 2018** which should support the company's new strategy, notably through the funding of its EUR15bn growth capex plan while maintaining its net debt/EBITDA ratio below 2.5x. As of today, **c. EUR5.8bn of these disposals have already been completed** or about to be completed with the sale of part of the company's US activities (merchant hydro assets, thermal assets), coal assets in Asia (Paiton and Meenakshi power plants) and 50% of the TEN transmission line in Chile. This implies that about **40% of the 3-year target has already been completed, or almost completed**, which indicates to us the EUR15bn final objective can be achieved.

Fig. 2: EUR5.8bn disposals already completed or about to be completed



Source: Engie

The key focuses regarding the disposals programme **will now be**:

1) **The next assets for disposal**;
2) **The valuation reached** by Engie for these assets;
3) **The impact** on Engie's **key metrics** and the inherent company's **downsizing.**

In our previous report dated March 2016, we highlighted that the **"best candidates" for disposals** would be Engie's "high CO_2" merchant assets as well as the E&P International business unit, still 70% owned by Engie. The partial sale of the Belgian company Electrabel could also be an option (a potential IPO has been very much in the news for several months). The EUR5.8bn of disposals already "completed" have been realised at an average **2015 P/E ratio of c. 33x and a c. 9.0x 2015 EV/EBITDA multiple**. We estimate **the combined disposals of the US assets and Asian coal power plants will reduce the company's EBITDA by c. EUR600m** (EUR500m for the US assets and EUR100m for the Asian plants) **on a full-year basis, i.e. c. 5% of the company's 2015 EBITDA**.

Please see the section headed "Important information" on the back page of this report.

Out of the remaining c. 15GW of coal assets, we believe **the non-strategic Australian and Polish assets will be the first of many to be disposed of** (assuming Engie is able to sell notably the highly-polluting Hazelwood coal-fired power plant). **Aggregating Australian coal and natural gas assets as well as the c. 1,700MW Polish Polaniec power plant would represent more than 5GW for potential disposal, i.e. a bit more than 4% of Engie's overall installed capacities.** We believe the Polaniec power plant could be worth **between EUR300m and EUR500m** which would imply a EUR175-300 per KW valuation. **As for the Australian assets, we believe a EUR1.2bn-EUR1.8bn valuation could be achieved**, which would imply a c. EUR300-500 per KW valuation, in line with figures reached for the US thermal assets' disposal (c. EUR378 per MWh). We assume Simply Energy, the Australian electricity supplier 72% owned by Engie (the remaining 28% being owned by Japanese Mitsui), will not be put up for sale at this stage as services and supply remain strategic activities for the group.

All combined, the **Polish and Australian asset sales would imply another EUR1.1-1.8bn additional reduction in net debt for Engie**, according to our estimates and assuming Engie's average stake in the Australian assets is 70%.

Fig. 3: Likely Australian and Polish assets for disposal

Plant	Country	Main fuel	Contractual Position	Capacity MW	Net ownership
Hazelwood	**Australia**	**Coal**	**Merchant**	**1,554**	**72%**
Loy Yang B	**Australia**	**Coal**	**Merchant**	**953**	**70%**
Kwinana	Australia	Natural gas	Non-Merchant	123	49%
Pelican Point	Australia	Natural gas	Merchant	479	72%
Synergen	Australia	Natural gas	Merchant	368	72%
Polaniec	**Poland**	**Coal**	**Merchant**	**1,391**	**100%**
Polaniec	Poland	Biomass & Biogas	Merchant	342	100%

Source: Engie; Bryan, Garnier & Co ests.

The **Exploration and Production (E&P) division** is also still expected to be sold by Engie. We believe the division could be valued at c. **EUR5-5.5bn**, in line with our SOTP valuation, which would imply a **4.3x-4.8x 2016e EV/EBITDA multiple** and **an EUR3.5-3.9bn valuation for the 70% stake** owned by Engie (the remaining 30% stake is still owned by China Investment Corporation). This also appears to be bang in line with the acquisition of Epuk Group (E.ON's UK upstream oil and gas assets) by Premier Oil earlier this year: USD6.4-7.1 per bbl. of proven and probable reserves vs. USD6.7 per bbl. for the E.ON/Premier Oil deal. **The EUR5-5.5bn valuation would represent a c. 30%-35% discount vs. the 2011 operation** when CIC bought its 30% stake (for c. EUR2.3bn). **This decline is mainly explained by the sharp decline in commodity prices since then**. E&P's H1-16 EBITDA has decreased by more than 15% yoy following the c. EUR200m negative impact coming from both the drop in Brent (-19% yoy in H1-16) and NBP (-9.3% yoy in H1-16) prices. **For FY-16e, we expect the division's EBITDA to decrease sharply by c.24% yoy to EUR1,155m** despite the positive impact expected from the Lean 2018 cost-savings which are, however, unlikely to be enough to offset the **unsupportive price environment** on top of the **decrease in volumes** which should reach 56Mboe (vs. 59 in 2015) following the **planned shutdown** this summer of the Norge platform **in Norway**.

Please see the section headed "Important information" on the back page of this report.

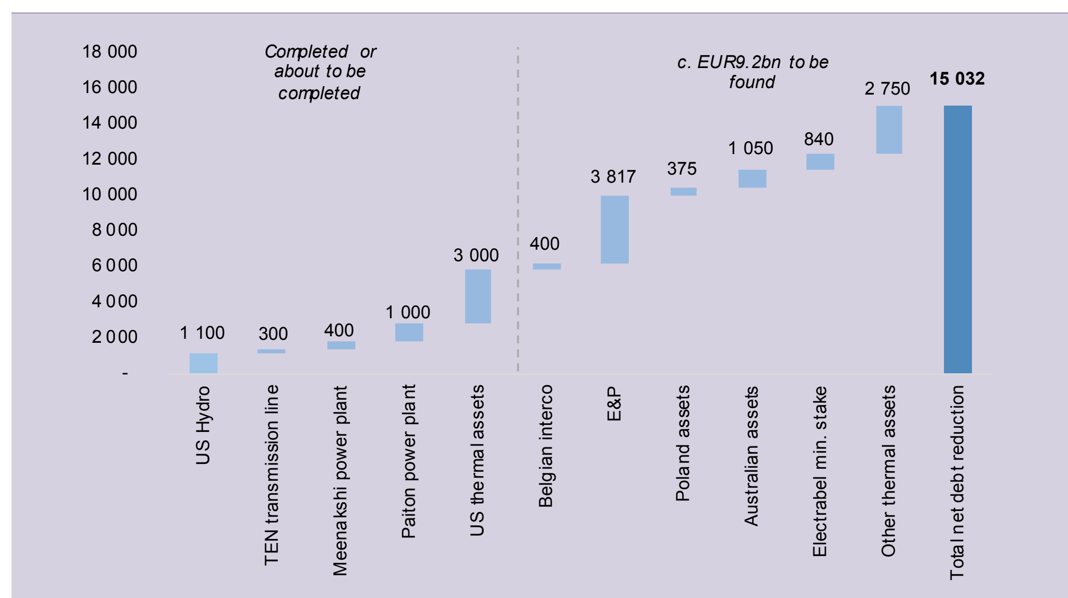
All combined, the disposals of the E&P, Australian and Polish assets could therefore enable Engie to receive up to EUR4.6-5.7bn. Around EUR3-4bn still remains to be found by the company. We believe this could be a mix of various divestments which could include:

1) **A further divestment in all the merchant coal-fired assets** which represent installed capacities of "only" **2.9GW** as we do not include the Polaniec and the Australian power plants already mentioned or the UK's Rugeley B power plant and the Dutch Gelderland power plant which have already been closed by Engie in the last few months.
2) **A potential IPO of Electrabel** (i.e. a minority stake sale), which has been very much in the news for several months now. Assuming a 6x EV/EBITDA multiple and considering a EUR700m normative EBITDA for the company, this would imply **an EUR800-900m additional cash-in for a 20% secondary offering**.
3) **Other merchant international assets** which could include hydro and "other ENR" assets in Belgium (3,581MW), natural gas assets in Italy (3,390MW but "only" 1,170MW fully consolidated by Engie), hydro and natural gas assets in Spain (65MW for hydro and c. 2GW), the First Hydro asset in the UK (c. 2GW) as well as Luxembourg's and the Netherlands' natural gas assets (3,412MW). **Hence, a total of more than 12GW of installed capacities could potentially be disposed of** (c. 10% of Engie's overall installed capacities).

While being marginal regarding the EUR15bn target for disposal, **we believe the sale of the Wallonia's remaining inter-municipal companies** ("Ores Assets") **25% owned by Engie, could be completed by the end of this year.** This should add another **c. EUR400m** of net debt reduction for Engie which would value Ores Assets at c. **8x 2015 EV/EBIT.** Contrary to other potential disposals, **this would not have any downsizing impact on Engie's figures** following the past classification of Engie's stake in Ores Assets in "Assets available for sale".

All combined, we believe these respective disposals should ensure Engie's EUR15bn target.

Fig. 4: Assumed disposals programme to be completed by Engie (EURm)



Source: Bryan, Garnier & Co ests.

Assuming similar multiples for thermal assets as the ones reached for previous disposals (i.e. 8x-9x EV/EBITDA multiple), **we estimate the overall downsizing of EBITDA of the additional disposals to be around EUR1.7bn**. In our model, we only include US disposals as well as the sale of the two Asian thermal power plants which have an aggregated impact of c. EUR600m on EBITDA on a full-year basis.

Fig. 5: EUR1.7bn of EBITDA downsizing with additional disposals

	Net debt impact (EURm)	Assumed EBITDA impact (EURm)
Belgian inter-municipalities	400	**0**
E&P	3,817	**1,100**
Poland assets	375	**50**
Australian assets	1,050	**200**
Electrabel min. stake	840	**0**
Other thermal assets	2,750	**300**
Total	**9,232**	**1,650**

Source: Bryan, Garnier & Co ests.

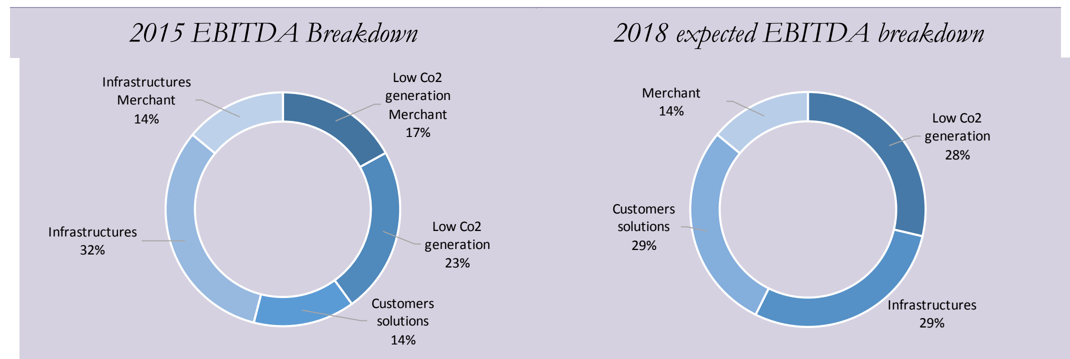
Please see the section headed "Important information" on the back page of this report.

4. A reduced exposure to commodities

The disposals programme should support the key element in Engie's transformation plan: **the expected reduced exposure to commodity prices**. Since 2014, Engie has sharply bore the brunt of depressed power prices, notably in France and Belgium, on top of the decline in oil and gas prices which directly impacted the company's E&P and LNG businesses. **For 2016, Engie expects oil and gas prices to have a EUR300m negative impact on its 2016e EBITDA** while the H1-16 figure already includes a EUR193m headwind.

Engie expects therefore that **more than 85% of its 2018e EBITDA will come from contracted and regulated activities vs. 69% today**. **Note that this objective excludes merchant power generation, E&P and LNG supply and sales in its definition.**

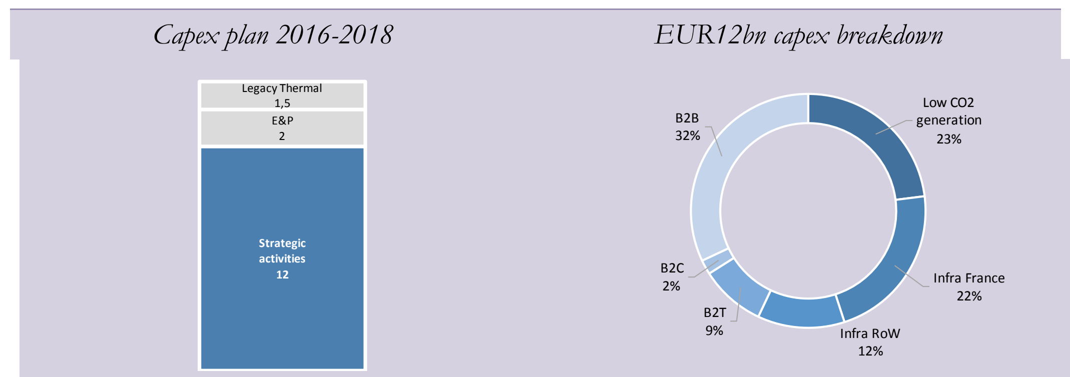
Fig. 6: From 69% to 85% of regulated/contracted activities



Source: Engie; Bryan, Garnier & Co ests.

This should be supported by the **strong capex programme** expected to be implemented over the 2016-2018 period. **EUR22bn is expected to be spent between 2016 and 2018**, of which **EUR15bn is growth capex**, the remaining EUR7bn being maintenance capex. Around **EUR12bn of growth capital expenditures is expected to be spent on the group's strategic activities**: EUR5.2bn in customer solutions (including principally EUR3.8bn in the B2B segment, which could include potential bolt-on acquisitions), EUR4.1bn in global networks and EUR2.8bn in low CO_2 activities. The remaining EUR3bn should be roughly equally split between the E&P division and the group's thermal assets.

Fig. 7: EUR12bn growth capex to be spent on strategic businesses by 2018



Source: Engie; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

Notably, we expect Engie's reduced exposure to commodities to be fostered by strong investments' ambitions in the company's **infrastructures and renewables businesses**.

Infrastructures: we believe the Infrastructures division will be one of the key areas to invest in as the business implies **strong predictability in both EBITDA and cash-flow generation** while the **French regulatory framework appears rather stable. Overall, we expect annual capex to reach c. EUR1.6bn, on average, between 2016 and 2018, for the whole division**. We believe the potential first regulatory framework to be implemented in **gas storage activities** could support Engie's ambition in the area – through the company's subsidiary **Storengy.** The new framework could be known in the coming months (end-2016 or beginning-2017, we expect). This follows recent concerns over the security of supply which could have been infringed upon by falling gas demand and inherent depressed market prices. We understand that, under a regulated system, as implemented in Italy, Spain, and Belgium, Storengy would still auction off storage capacity at the start of the year but would receive additional payments from the government if the auction results did not cover the costs.

Renewables: for now, **renewables' installed capacities** (wind, solar, biomass and biogas) **represent around 5%** (6.3GW) **of the company's overall portfolio**, as of 2015. When adding hydro assets, this significantly increases to c. 22% (26GW). The recent disposals in the US and Asia increase the pure renewables share (wind, solar, biomass and biogas) to a bit more than **6%**. **The acquisitions of French renewables companies SolaireDirect and Maia Eolis** should support the company's objectives in the area both at the international level, with SolaireDirect, and in France, with Maia Eolis.

In our model, we only integrate EUR17.5bn of capital expenditures over the 2016-2018 period as the EUR5.8bn of disposals we take into account in our model would not be enough to support the EUR22bn capex objective while maintaining the net debt/EBITDA ratio below 2.5x. We therefore expect capital expenditures to reach c. EUR7bn in 2016 (growth and maintenance together) and to decrease in 2017 and 2018 to EUR5.2bn and EUR5.3bn respectively. **Assuming the EUR15bn disposals programme is achieved, we expect 2016-2018 capital expenditures to reach EUR18-19bn** as capex from E&P (around EUR2bn) and from thermal assets (EUR2bn), both to be divested would no longer be included.

In order to assess the potential impact of the transformation plan on the company's valuation, we **consider two scenarios:**

Scenario 1: no further disposals completed (i.e. net disposals equal to EUR5.6bn) while capital expenditures reach EUR17.5bn. In our DCF-based valuation, we use a 1.10 beta, a 1.4% long-term growth, an 8.0% long-term operating margin and a 50% debt ratio.

Scenario 2: we assume all the disposal programme has been completed (EUR14.9bn net disposals impact) while capital expenditures reach EUR18.5bn. We use a lower beta (1.05) but a higher debt ratio (55%) to reflect the new profile of the company geared towards infrastructures and regulated activities. As we consider higher capex (notably in renewables and in services), we slightly increase our long-term growth rate by 20bps but lower our long-term operating margin to 7.5% (vs. 8.0%) as we assume new capex will be mainly dedicated to services which are dilutive on the company's margins.

We deduce from these two scenarios and from our DCF valuation that the transformation plan could lead to a significant rerating (EUR13.5 equity value per share in the first scenario vs.

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EUR17.0 equity value per share in the second scenario) given **1/**the new profile of the company (more contracted/regulated activities) which should drive the discount rate down and **2/**a higher growth profile due to increased capital expenditures in renewables and services.

Fig. 8: EUR17 implied equity value per share once transformation plan is over

DCF valuation	Net disposals	Capex 2016-2018	Beta	LT growth	Equity Value per share	Upside/Downside
Scenario 1	5,618	17,509	1.10	1.4%	13.5	-8,0%
Scenario 2	14,910	18,515	1.05	1.6%	**17.1**	16,5%

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

Please see the section headed "Important information" on the back page of this report.

5. Ensure a solid pace in renewables

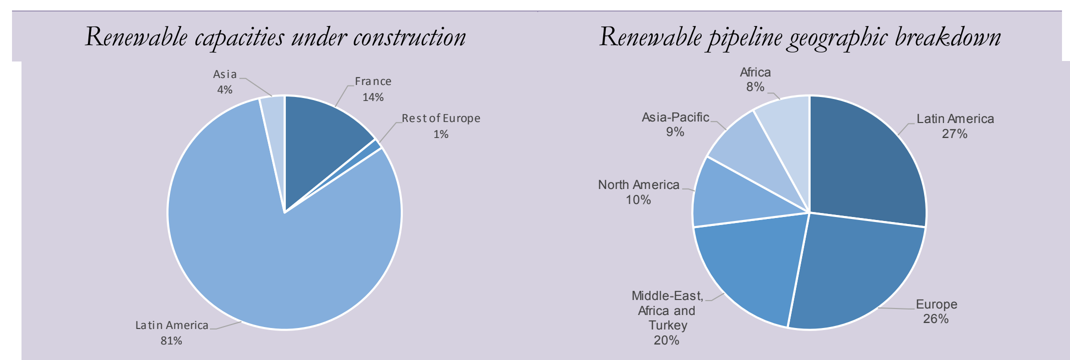
At the end of last year, Engie confirmed the words of the French Minister for Energy **: we will no longer invest in coal-fired assets**. The group has notably abandoned its controversial Ada Yumurtalik power plant in Turkey (1,320MW) and its 600MW embryonic Thabametsi project in South Africa. Note, however, that **Engie will continue with its coal projects currently under construction**: the Moroccan Safi power plant (1,386MW, the Brazilian Pampa Sul plant (324MW) and the Chilean IEM1 project (338MW). The 415MW Ulan-Bator coal project in Mongolia is also expected to be followed through.

This confirms the company's significant **strategy shift from legacy thermal businesses to renewables**. We believe **Engie will rely on both a solid pace of new renewables' assets commissioning and bolt-on acquisitions** in order to ensure its ambitions in the area: **more than 90% of the group's EBITDA is expected to come from low CO_2 activities in 2018.**

In 2015 and 2016, **French renewable companies SolaireDirect and Maia Eolis bought by Engie** (previously 49% owned by Engie) will bring **additional renewables capacities** to the group (399MW in operation and 175MW under construction from SolaireDirect and 246MW, now fully consolidated, from Maia Eolis) and enhance Engie's ambitions in strategic areas (France for Maia Eolis and South Africa, India, Chile, Mexico and Thailand for SolaireDirect).

As of today, **around 1.4GW of renewable capacities are under construction** (hydro capacities included) with c. 175MW having been brought by SolaireDirect. 95% of these capacities are in two main areas: France and Latin America (Brazil and Chile). **The company's overall renewable pipeline is, however, far more diversified** with 47% of the 11GW (by 2021) coming from outside Europe and Latin America. **Currently, around half of Engie's new projects are renewables projects**.

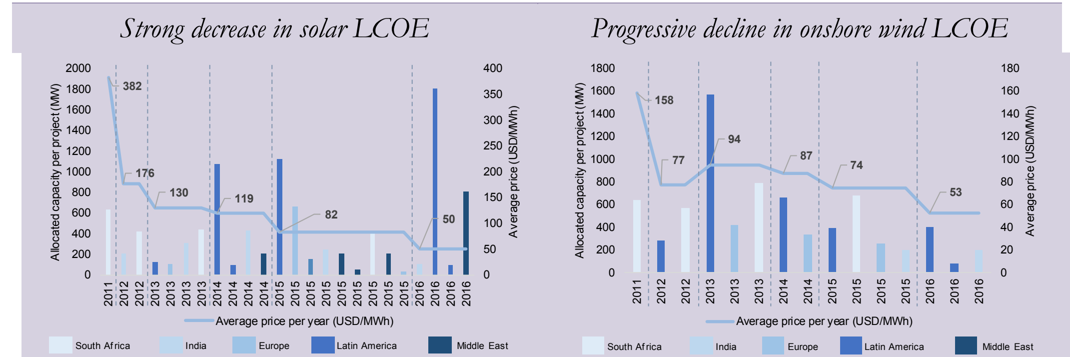
Fig. 9: Strong focus on Europe and Latin America



Source: Engie; Bryan, Garnier & Co ests.

We believe Engie's renewables' strategy makes sense. **Latin America** (pipeline of c. 3GW) as well as the **Middle East, Africa and Turkey** (pipeline of c. 1.1GW) appear to be the right areas to invest in, through **very supportive climates, enhanced load factors and the inherent decrease in solar PV and onshore wind costs.** Since 2013, solar PV LCOE (*Levelized Cost Of Energy*) in Latin America has dropped by **57.5%** between 2013 and 2016 – from USD106 per MWh to USD45 per MWh – as a result of auctions in the area over the last five years. The same trend can be noticed in the Middle East with a c. **82%** decrease in solar PV LCOE between 2014 and 2016, to **USD30 per MWh.** In Europe, this figure reaches c. **42%** between 2013 and 2015.

Fig. 10: Solar PV and onshore wind auctions price evolution (2011-2016)



Source: Engie; Bryan, Garnier & Co ests.

In Brazil, Engie aims at investing c. BRL8bn (c. EUR2bn) over the next five years, with a large part being dedicated to renewables, we believe. **The investment peak should be reached this year** with c. EUR550m to be invested by Engie Brasil Energia (formerly Tractebel Energia) while 2017 and 2018 capex should respectively reach c. EUR480m and EUR525m. Engie recently said it will take part in the coming tendering rounds for new solar and wind projects while working on attracting photovoltaic panel manufacturers to Brazil to reduce costs further. For now, Engie Brasil Energia **has three renewable assets under construction** (to be operated by 2018) **representing c.460MW for an estimated investment of around EUR600m**. All three assets will benefit from solid **PPA contracts (20 years)** in line with Engie's strategy to focus on contracted and regulated activities.

Fig. 11: Brazilian renewable projects under construction

Plant	Main fuel	Installed capacities	Term	Average price (BRL/MWh)	Start of construction	Start of operation	Estimated investment (EURm)
Campo Largo	Wind	327 MW	**20 years**	139.3	2016	2018	425
Santa Monica	Wind	97 MW	**20 years**	188.5	2014	2016	115
Assu V	PV	37 MW	**20 years**	303	2017	2018	55

Source: Engie Brazil; Bryan, Garnier & Co ests.

This has to be combined with the 3,750MW **Jirau hydro project** (40% owned by Engie). Here again, around 72% of the 2,205MW assured energy will be contracted under a 30-year PPA. The company also has **four more projects currently under development** in the east of Brazil for installed capacities of c. **1.1GW**, which notably includes the 600MW Santo Agostino Wind Complex. Despite the crisis which is affecting the whole country and in particular the energy sector (PLD price down c. 62% yoy on 3-month rolling average basis), **we believe Engie's strategy in Brazil is rather well thought-out** as it will rely on contracted and regulated assets (99% of Engie's assets in Brazil are mostly contracted) which will offer **strong visibility** on future cash-flows. Additionally, the sector is set to benefit from the increased opening of the market to private sector players following the recent announcement from Brazil's government to reduce the size and functions of Centrais Electricas Brazileras, the state-controlled energy holding company. We believe the key challenge to be managed by Engie will be the fierce competition in the area (Latin America). Last August, Engie left empty-handed from the largest ever electricity auction in Chile in which renewable energy accounts for more than 50%. This fiercer competition as well as improvements in financing costs led **solar and wind prices to reach their lowest level ever with USD29.1 per MWh and USD38.1 per MWh respectively.**

Please see the section headed "Important information" on the back page of this report.

In France, Engie aims at increasing its solar and wind capacities by c. 16% per year between 2015 and 2021. As of today, the group has c. 5.9GW of renewables capacities installed in France (including hydro capacities) with 1.5GW of wind capacities and 600MW of solar capacities. The company expects to more than double its projects' development rate which should support an impressing acceleration in both the solar (+24% of average annual growth in capacities expected between 2015 and 2021) and wind businesses (+12% CAGR targeted over the same period). This **necessarily implies a strong and rapid pace of new renewables commissioning in the country with 265MW of new solar capacities installed per year and 245MW new wind capacities installed per year** – still between 2015 and 2021. **This trend should lead the group to reach c. 9GW of renewables installed capacities in 2021**, assuming constant hydro capacities.

Fig. 12: 16% CAGR targeted in wind and solar capacities (MW) between 2015 and 2021

Source: Engie; Bryan, Garnier & Co ests..

In order to reach these targets, Engie should be able to rely on the two recent acquisitions (SolaireDirect and Maia Eolis) and a **rather supportive French government policy**. In spring 2016, the French government unveiled its new multi-year investment programme (*Programmation Pluriannuelle des Investissements – **PPI***) which set the path to follow in terms of renewable energy in France. **Solar PV is expected to triple between 2015 and 2023**, from 6GW to between 18GW and 20GW, while **wind capacities are expected to double**, from 11GW today to between 22GW and 26GW. This path should be ensured by the strong visibility indicated by the calendar of tenders, notably regarding the solar activity. **Six tenders, for 500MW each, are already forecasted between 2016 and 2019**.

Please see the section headed "Important information" on the back page of this report.

6. Building a customers' solutions franchise

Over the next three years, more than **EUR5bn** of capital expenditures is planned to be dedicated to Engie's **customers' solutions** "metier". The "metier" regroups both **services** activities and Engie's **supply** business. In services, Engie is present all along the value chain from design, installation and maintenance of equipment to the management of energy and long-term multi-technical or facilities management.

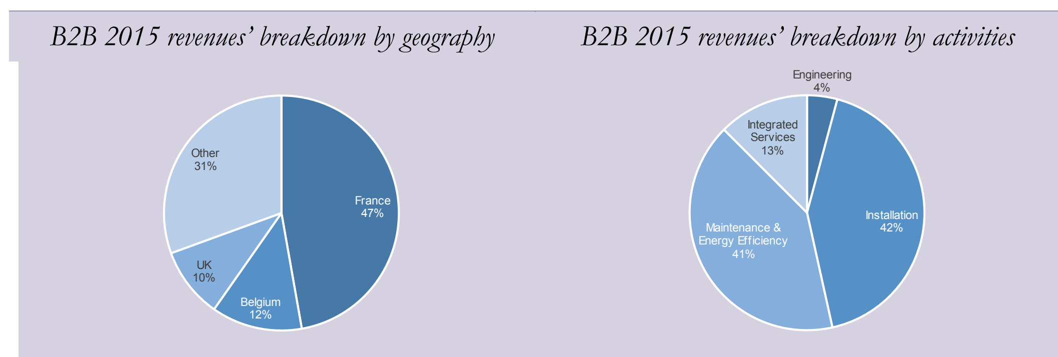
Four main activities are present, mainly under the *Cofely* brand, with **1/ engineering**; **2/ installations** (works); **3/maintenance and energy efficiency**; **and 4/ integrated services** (Facility Management and Business Process Outsourcing).

The EUR5bn will be spread out between the B2B, the B2C and the B2T segments:

- EUR3.8bn in **B2B** (Business-to-Business) customers' solutions;
- EUR0.2bn in **B2C** (Business-to-Consumers) customers' solutions;
- EUR1bn in **B2T** (Business-to-Territories) customers' solutions.

The B2B segment is the biggest segment of the business with about EUR14.4bn of revenues in 2015 for c. EUR0.8bn of EBITDA. The business is much more diversified that it was before with France representing c. 47% of the segment's revenues vs. 60%-70% about ten years ago. However, of the EUR14.4bn of revenues reached in 2015, more than **EUR13bn has been realised in Europe**. The recent acquisitions in Latin America (Chile) and North America (USA) should enhanced the RoW contribution within the segment.

Fig. 13: B2B customers' solutions: about 20% of Engie's 2015 revenues

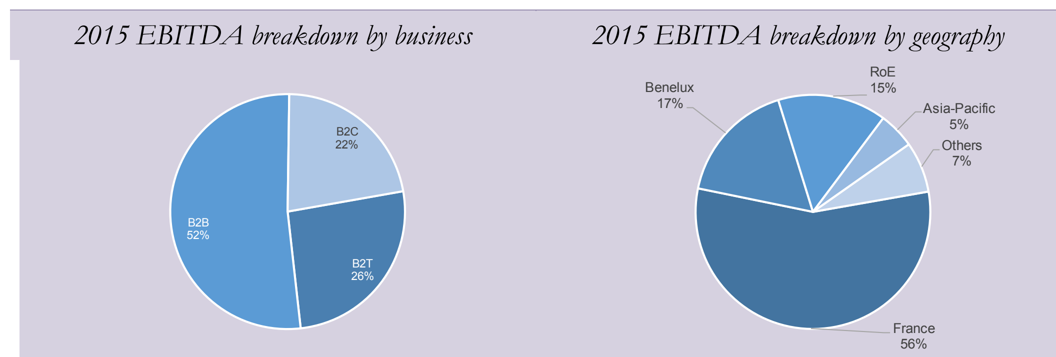


Source: Engie; Bryan, Garnier & Co ests.

In 2015, customers' solutions represented about **EUR1.6bn** of EBITDA with more than 55% coming from France. This represents about **14%** of the overall group's EBITDA. Of these EUR1.6bn, c. **EUR1.2bn** has been generated by **services** (the former Energy Services business division) while the remaining **EUR0.4bn** has been generated by **supply activities** (mainly from France and Belgium).

Please see the section headed "Important information" on the back page of this report.

Fig. 14: Customers' solutions overview



Source: Engie; Bryan, Garnier & Co ests.

Engie expects its customers' solutions' EBITDA to grow by more than 50% between 2015 and 2018, which would imply the "metier's" EBITDA to reach c. EUR2.4bn in 2018. According to the company, this should come **from both organic growth** and **bolt-on acquisitions**. Engie's objective is to bring customers' solutions EBITDA contribution close to **20%** of the overall group's EBITDA (vs. 14% today). We understand from the company that about **EUR2bn should be dedicated to mid-size acquisitions in the customers' solutions business**. A normative 7.5x EV/EBITDA implied that a potential **EUR270m EBITDA contribution could be added** thanks to the EUR2bn envelope (which should represent around one third of the expected growth). In our model, **we do not include any potential acquisitions** (except the already completed acquisition of OpTerra) and **forecast a customers' solutions EBITDA close to EUR1.95bn in 2018**.

Over the last three years, acquisitions in services had brought **c. EUR1.6bn** of additional revenues to the company with an increased focus on the USA (acquisitions of Green Charge Networks in 2016, OpTerra in 2015 and Ecova in 2014), in Germany (Lahmeyer and HGS in 2014), in APAC (TSC Group in 2015 and Keppel FMO in 2014) and in Latam (Energia del Sur and IMA in Chile, both in 2015). **We understood from Engie's investor day that about an additional EUR2bn could be spent in acquisitions in the customers' solutions area by 2018**. This should help Engie's objective of more than **doubling revenues from its international energy efficiency business by 2020**.

Fig. 15: Bolt-on acquisitions to support international development

Company	Country	Business	Acquisition year	Estimated rev. (EURm)
OpTerra	**USA**	**Services integration & Energy performance**	**2016**	**250-275**
TSC Group	Australia	Services integration & Energy performance	2015	100-150
IMA	Chile	Services integration & Energy performance	2015	60-70
Ecova	**USA**	**Services integration & Energy performance**	**2014**	**130-150**
Lahmeyer	**Germany**	**Engineering**	**2014**	**130-150**
Keppel FMO	Singapore	Services integration & Energy performance	2014	50-75
HGS	Germany	Networks & industrial utilities	2014	30-60

Source: Engie; Bryan, Garnier & Co ests.

We believe this increased focus on **customers' solutions** (services and supply) will lead to **two main effects** with **1/**a **dilutive impact** on the **EBITDA margin** and **2/**an **accretive impact** on **ROCE**.

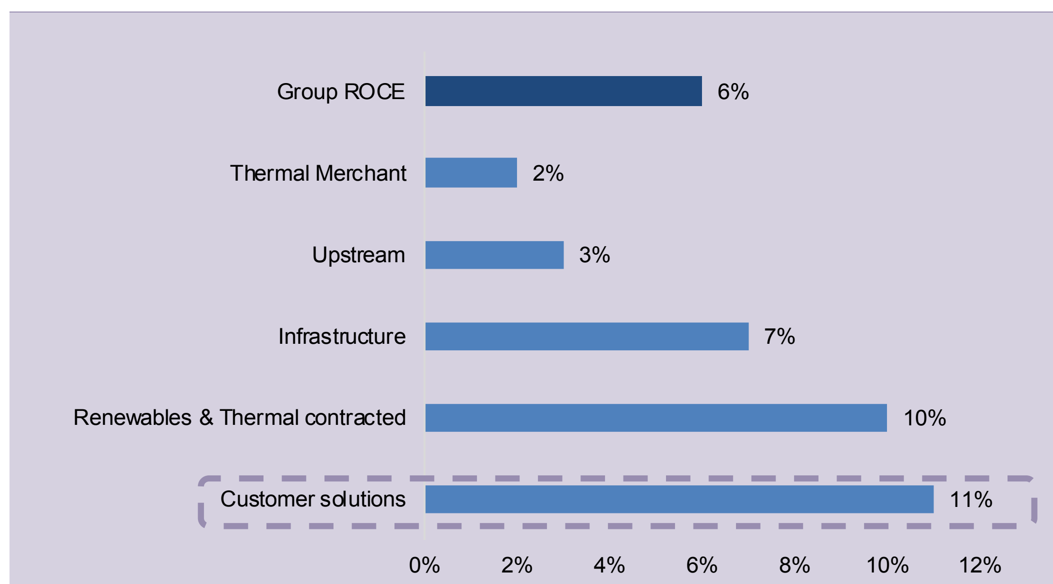
1/ A dilutive impact on the EBITDA margin: the services' EBITDA margin is lower than the group's average EBITDA margin. **In 2015, Engie's services business reached a 7.7% EBITDA margin** (including a c.**5.5% EBITDA margin** for the **B2B** business) vs. 16.1% for Engie and 18.6%

Please see the section headed "Important information" on the back page of this report.

for Engie excluding services. Supply EBITDA margins are also usually between 2% and 7%. Assuming a 7-8% overall EBITDA margin for the customers' solutions "metier" *(supply and services businesses' combined)*, **the business implies a 400-500bps EBITDA margin dilution for the group** (c. 16.5-17.0% EBITDA margin for the Group *including* the "metier" vs. 21.0-22.5% EBITDA margin for the group *excluding* the "metier").

2/ An accretive impact on ROCE: customer' solutions has the highest ROCE among Engie's defined "metiers" with **11%** (vs. c. 10% for low-CO_2 activities, c. 7% for infrastructures and c. 6% at the group's level). **A large part of the customer' solutions business** (facility management, engineering, installation, maintenance and operation) **is low capital intensive**. We consider than only the networks and industrial utilities business is highly capital intensive. We believe **capital expenditures allocated to the business should slightly increase in the years to come** due to developments in decentralised equipment and in district networks. Assuming Engie succeeds in reaching EUR2.4bn for its customer' solutions business and assuming this "metier" represents c.20% of the group's EBITDA, **we believe this could increase the group's ROCE by 50bps-80bps between 2015 and 2018.** This could be even higher following the disposals of the E&P business on top of group's thermal merchant assets whose ROCEs are far below group level (3% for E&P and 2% for thermal merchant assets).

Fig. 16: 2015 ROCE by Engie's defined "metier"



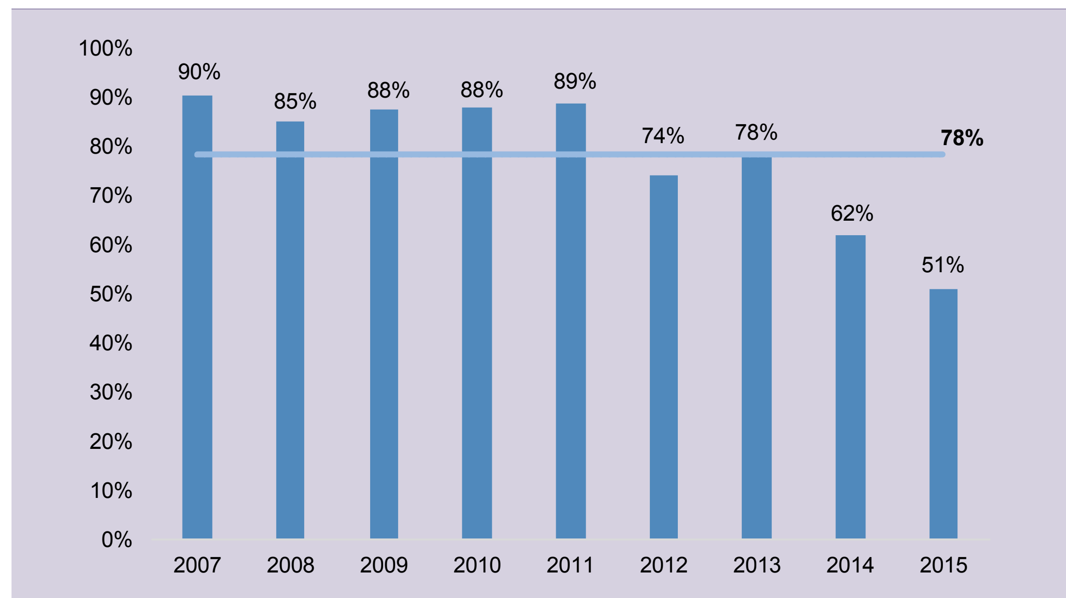
Source: Engie; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

7. Bring Belgian nuclear back to normal

2015 was an annus horribilis for Electrabel following outages at its Doel 3 and Tihange 2 nuclear reactors (actually, from end March 2014 to mid-December 2015). Engie's nuclear plants overall availability reached only **51%** in 2015 (vs. 62% in 2014), **far from its usual levels of around 85-90%.**

Fig. 17: Engie's nuclear plants availability evolution between 2008 and 2015



Source: Engie; Bryan, Garnier & Co ests.

We believe **Belgian nuclear will be back to more normal levels in 2016** and beyond, in line with the good results achieved in the first-half of the year (availability reaching 86% vs. 56% in H1-15). **We assume the nuclear availability rate to reach 80% in 2016** and beyond which would imply an **additional output of around 18TWh in 2016 vs. 2015 and an additional EBITDA of c. EUR400m** on a year-on-year basis (assumed a c. EUR20-25m increase per each additional TWh produced sensitivity). All in all, **we expect Benelux EBITDA to increase by more than 80% in 2016** (vs. 2015) as we expect this strong additional volumes' contribution to more than offset the expected decrease in the division's achieved nuclear price. We also assume the progressive end of the Asset Swap Transaction Agreement between Electrabel and Germany's E.ON to have a rather marginal impact in 2016.

All in all, we believe the Benelux division will finally find a more normal pace over the years to come with largely **enhanced visibility** assuming **1/** more standard levels of the plants' availability rates, **2/**the agreement regarding the 10-year extension of Doel 1 and Doel 2, **and 3/** the agreement reached related to the nuclear contribution over Doel 3, Doel 4, Tihange 2 and Tihange 3. In exchange for the 10-year extension of D1 and D2, Engie will have to invest about **EUR700m** in upgrades while paying an **annual EUR20m** compensation from 2016. Regarding the nuclear contribution, **EUR130m are due for 2016** (vs. EUR200m in 2015) and 34% of the nuclear margin (EBIT proxy) will be due for 2017 and beyond with a **EUR150m** floor for 2017, 2018 and 2019. Note that the overall contribution has to be split according to the respective shares in the respective plants concerned. We assume Electrabel's share to reach **90%** in 2016 and beyond. Finally, Engie will have to pay **EUR20m in 2016** (having already paid EUR100m in 2015) in order to settle a dispute over unused industrial sites.

Please see the section headed "Important information" on the back page of this report.

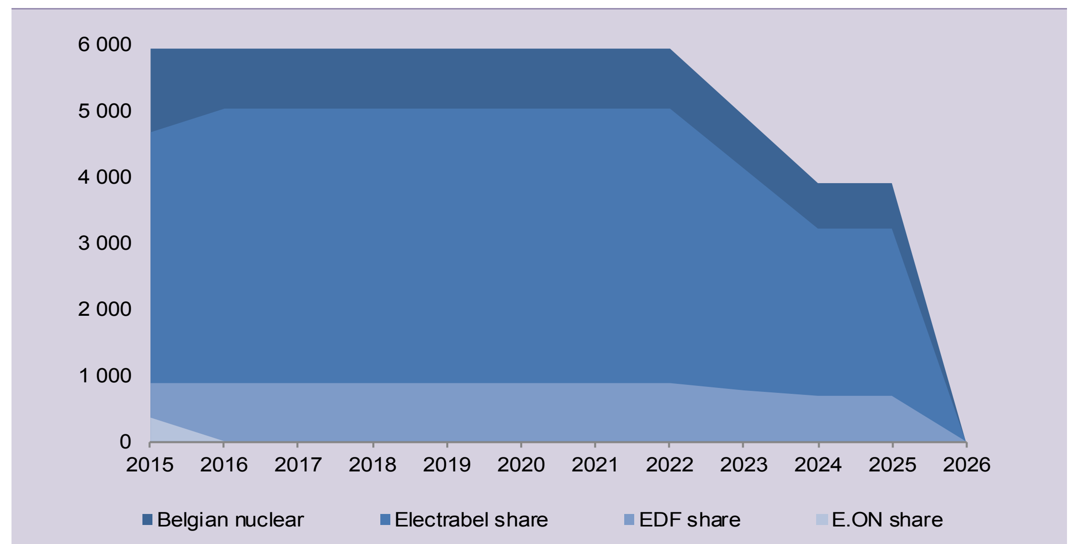
Fig. 18: Agreements related to D1/D2 extension and nuclear contribution

Agreement reached on nuclear contribution	2015	2016e	2017e	2018e
Nuclear contribution - Electrabel share	166	117	135	135
Settlement of disputes	100	20	0	0
Annual contribution D1/D2	0	20	20	20

Source: Engie; Bryan, Garnier & Co ests.

Nuclear plants' closures should start in 2022 with Doel 3 **and then continue in 2023** (Tihange 2) **and 2025** (Doel 1, Doel 2, Doel 4, Tihange 1 and Tihange 3).

Fig. 19: Evolution of Electrabel's share in Belgian nuclear (2015-2026)



Source: Engie; Bryan, Garnier & Co ests.

In addition, Electrabel aims at progressively **increasing its share of renewables** in order to partly offset the upcoming decline in nuclear output. As of end 2015, Engie's onshore wind installed capacities in Belgium reached 212MW. **Electrabel's objective is to reach 400MW of wind capacities by 2020 with c. 40MW of new capacities installed per year, on average**. We remain voluntarily cautious in our model as we only integrate the 79MW wind capacity currently under construction (61MW for 2016 and 18MW for 2017). In order to support this target, Electrabel aims at investing about **EUR400m (about EUR4m investment for each 2MW wind turbine)** in wind capacities **over the next five years.** Note that the 200MW additional wind capacities should "only" bring **0.5TWh of additional annual output**, assuming a 25.7% load factor (4500MWh output for a 2MW wind turbine).

We tried to estimate **how much new renewables capacities would be needed in Belgium in order to compensate for the end of Electrabel's nuclear plants**. We assume that **1/**no nuclear plant would be running in Belgium in 2026; **2/**consumption would be stable between 2015 and 2026 at 87TWh (*we use annual output + imports*); **3/** we integrate the ongoing new offshore wind projects that should bring offshore capacities to c. 2.3GW; **and 4/** we assume a 50% normalised load factor for biomass (vs. 55% in 2015) and a decreased load factor for fossil fuels (30% vs. 38% in 2015). This leads to a 2026 expected output of c. 41TWh, well below the 87TWh consumption expected level. We integrate **new interconnectors in Belgium** which should add about 3GW of capacity through: **1/** the Nemo Link project, between the UK and Belgium, for 1GW; **2/** the ALEGrO interconnector between Belgium and Germany **and 3/**new interconnectors projects and improvements in both the northern and the southern borders of Belgium. Assuming the same load factor as in 2015, this should

Please see the section headed "Important information" on the back page of this report.

add c. 39TWh. **With no new capacities between 2015 and 2026, about 7TWh would be needed to meet the country's demand**. We assume these new capacities to will be from renewables (biomass, wind and solar) which would be commissioned following the same output breakdown as in 2015.

This implies that about 3.8GW of new capacities are needed in Belgium by 2026 to meet the expected demand. This represents about 0.4GW of additional capacities per year between 2016 and 2026 hence a c. 5% average annual growth in renewables capacities over the period, a path which appears do-able and credible in our view.

Fig. 20: About 3.8GW of new renewables capacities needed by 2026

		Without new capacities	With new capacities
	2015	**2026e**	**2026e**
Output	65.6	40.7	47.9
Imports	21.0	39.1	39.1
Additional output needed (TWh)	-	7.2	-
Consumption (output + imports)	**86.6**	**87.0**	**87.0**
o/w Imports	*24%*	*45%*	*45%*
Output (TWh)	**2015**	**2026e**	**2026e**
Fossil fuel	25.2	19.9	19.9
Nuclear	24.6	0.0	0.0
Hydro	1.4	1.4	1.4
Wind	2.9	2.9	4.7
Offshore wind	2.5	8.1	8.1
Solar	3.0	3.0	4.9
Biomass	6.0	5.5	9.0
Total	65.6	40.7	47.9
Installed capacities (MW)	**2015**	**2026e**	**2026e**
Fossil Fuel	7,555	7,555	7,555
Nuclear	5,919	0	0
Hydro	1,442	1,442	1,442
Wind	1,462	1,462	2,394
Offshore wind	712	2,300	2,300
Solar	3,185	3,185	5,216
Biomass	1,248	1,248	2,044
Total	21,523	17,192	20,951
Implied Load Factor (%)	**2015**	**2026e**	**2026e**
Fossil fuel	38%	30%	30%
Nuclear	47%	-	-
Hydro	11%	11%	11%
Wind	23%	23%	23%
Offshore wind	40%	40%	40%
Solar	11%	11%	11%
Biomass	55%	50%	50%
Total	35%	27%	26%
Max. import capacity (MW)	**3,500**	**6,500**	**6,500**
Implied load factor (%)	68,6%	68,6%	68,6%

Additional output needed (TWh)	7.2
Implied additional capacities needed (MW)	**3,759**
Implied load factor on new capacities needed (%)	22.0%
Implied additional capacities needed per year (MW)	**376**
Implied average annual growth in new capacities (%)	**5.1%**

Source: FEBEG; Elia; Bryan, Garnier & Co ests.

We believe new interconnectors and the 5.1% implied growth in new renewables capacity will be able to offset the progressive loss of nuclear output (from 43.4TWh in 2016e to 0TWh in 2026e). **Therefore, in our model, we assume nuclear plants close on the official dates,** i.e. (Doel 3 in 2022, Tihange 2 in 2023, and Doel 1,2 and 4 as well as Tihange 1 in 2025).

All in all, **we appreciate the improved visibility on the division, particularly with regard to nuclear assets.** This improved situation could eventually pave the way to the sale of a minority stake in Electrabel in the months or years to come, as previously mentioned. Additionally, **we believe the development of Electrabel in the renewables segment, mainly in wind capacities, is a well thought-out move**. The only fly in the ointment could be nuclear provisions following a potential underfunding as well as regulatory uncertainties on the topic. As of end 2015, **Electrabel's nuclear provisions amounted to EUR8.4bn** with EUR3.6bn dedicated to dismantling the nuclear facilities and EUR4.7bn dedicated to the back-end of the nuclear fuel cycle. **This represents about EUR0.6 and EUR0.8 per nuclear MW installed**, respectively. This appears to be less than the German companies' ratios (EUR0.8 and EUR0.9 for RWE and EUR1.1 and EUR0.6 for E.ON Germany) but far higher than EDF's ratio (EUR0.3 and EUR0.3 for EDF France and EUR0.8 and EUR0.4 for EDF Energy) which appears more at risk than Engie/Electrabel. **Engie disclosed that any 100bps change in the nuclear provisions' discount rate** (currently standing at 4.8% including a 2.0% inflation rate) **would lead to a EUR1bn change in the provision amount**. **We estimate this 100bps sensitivity would lead to a EUR0.4 positive or negative impact** – depending on the rate's direction – **on our fair value.**

Please see the section headed "Important information" on the back page of this report.

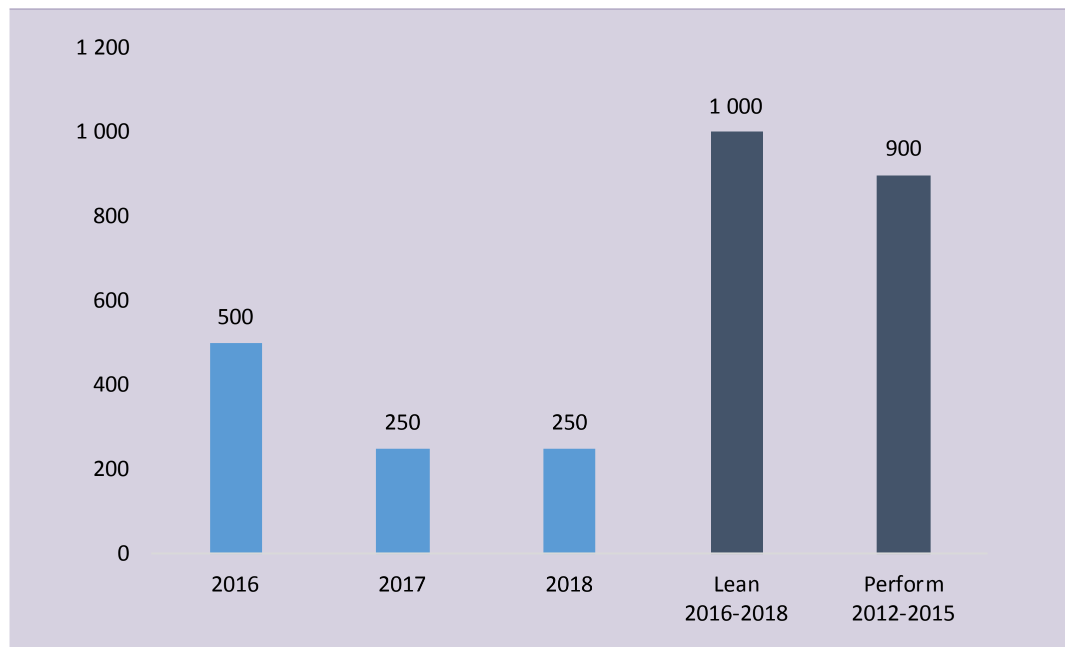
8. A new cost-savings programme

The asset rotation programme will be supported by a **new cost-savings programme (Lean 2018)** whose **EBITDA impact on opex after** inflation (net of the c. EUR300m implementation costs) **is expected to reach EUR1bn between 2016 and 2018** – EUR500m for 2016 and EUR250m for 2017 and 2018. This is **48%** higher than the **previous Perform plan** on a yearly basis (EUR1bn over three years for Lean 2018 vs. EUR900m over four years for Perform 2015).

Engie should benefit from its **solid track record in cost-cutting** (its previous objective was to reach a cumulative net impact on the company's net recurring income of EUR900m, which was reached a year ahead of schedule). **The Perform 2015** plan notably enables the group to increase its Services EBITDA by 20% in three years as well as improving the business EBIT margin by 80bps.

We estimate the new Lean 2018 plan represents around 4% of Engie's overall addressable cost base which amounts to about EUR23-24bn (around EUR60bn of the operating cost base, which has to be reduced by c. EUR35-40bn representing energy costs and infrastructure costs, is either non-addressable or passed-through). We estimate the cumulative EUR1bn of savings achieved over the period to represent **c. 9%** of the company's 2018e EBITDA.

Fig. 21: 48% higher cost-savings per year vs. previous plan



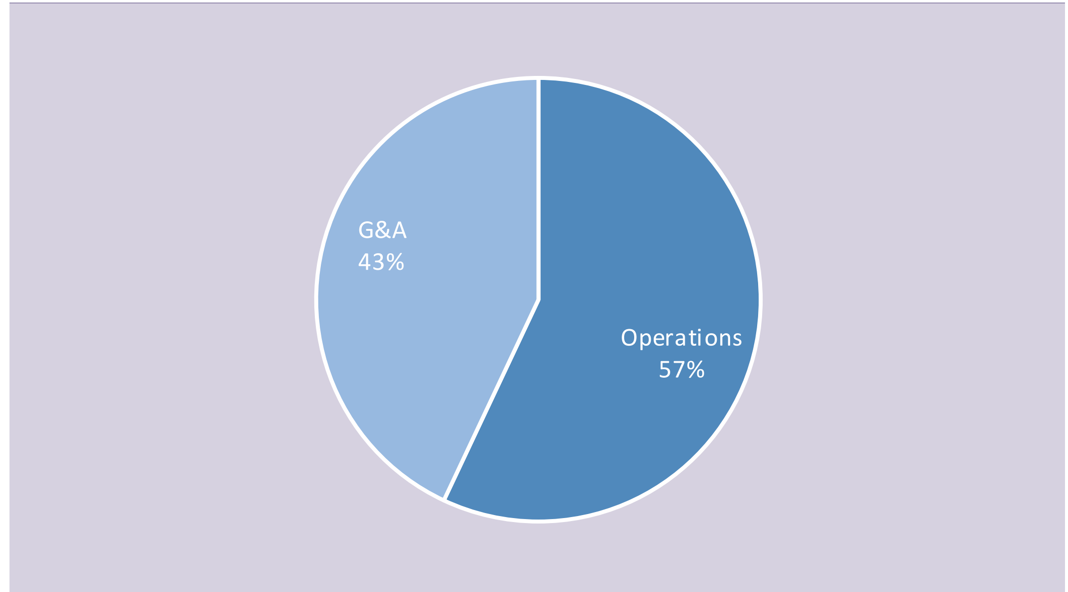
Source: Engie; Bryan, Garnier & Co ests.

Around EUR570m of the expected savings are expected to come from **other operational expenditures** (lower O&M costs through notably predictive maintenance, restructuring of low-margin service activities on top of new mothballing and closures of lower-performing power plants, etc.) while the remaining EUR430m should be found at the **G&A level** (cuts in consulting costs, real estate rationalisation, etc.).

Cost optimisation in procurements as well as the reduction in the supplier base is expected to represent about 45% of the EUR1bn.

Please see the section headed "Important information" on the back page of this report.

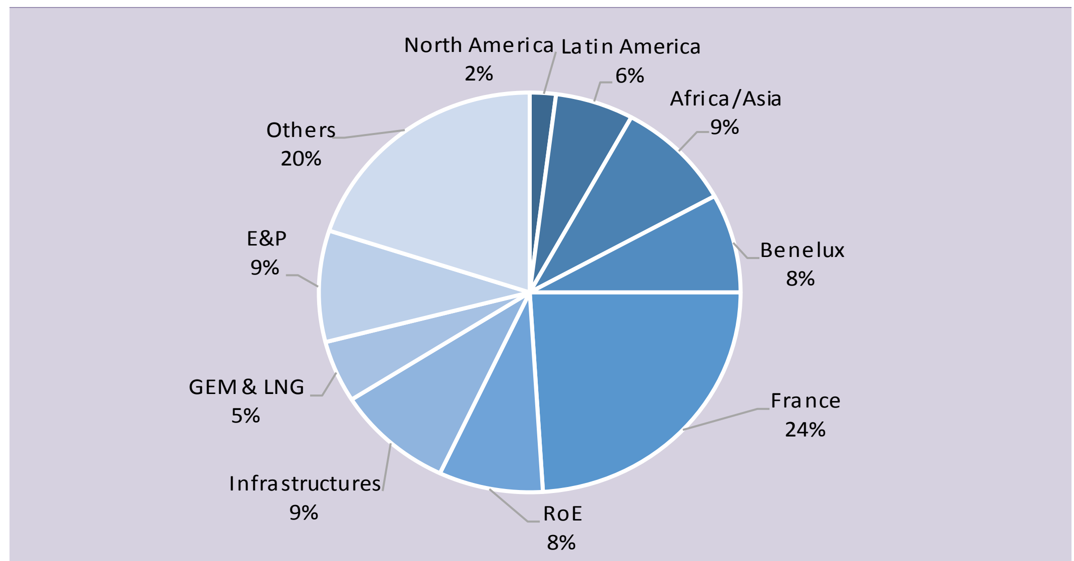
Fig. 22: EUR1bn cost-savings expected breakdown (2016-2018)



Source: Engie; Bryan, Garnier & Co ests.

In the H1-16 results, **Engie achieved EUR200m of cost-savings**, broadly **in line** with its full-year objective (EUR500m) as **the plan is expected to be back-loaded** with a progressive ramp-up throughout the year. Achieved and identified savings represent around 60% of the overall EUR1bn plan, which appears rather reassuring considering the three-year duration. We expect G&A savings to catch up in the second half of the year following its 31% contribution in H1-16 (vs. 40% expected for the whole plan). **Engie provides a detailed contribution per business unit only for the first-half of the year** (we do not know the contribution per BU for 2016-2018). The main objective of the company remains to align the cost base with its strategy through tailor-made efforts and intensity per business. In our model, **we assume the breakdown will be similar to that unveiled by the company at the time of the H1-16 results** with a bigger contribution concerning France (24% of the total), Others (20% of the total), E&P (9% of the total), Infrastructures (9% of the total) and Africa/Asia (9% of the total).

Fig. 23: Lean 2018 – BG's expected contribution per business unit



Source: Engie; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

In our model and in our current scenario – which includes "only" EUR5.8bn of disposals – **we assumed 100% of the cost-savings programme will be completed by 2018**. We still believe this figure could be lower in the case of additional disposals (completed between 2016 and 2018) as it could bear the brunt of a negative volumes effect. As a reminder, **Lean 2018 includes no change in scope** which would imply a lower net contribution to Engie's EBITDA when disposals are included.

Please see the section headed "Important information" on the back page of this report.

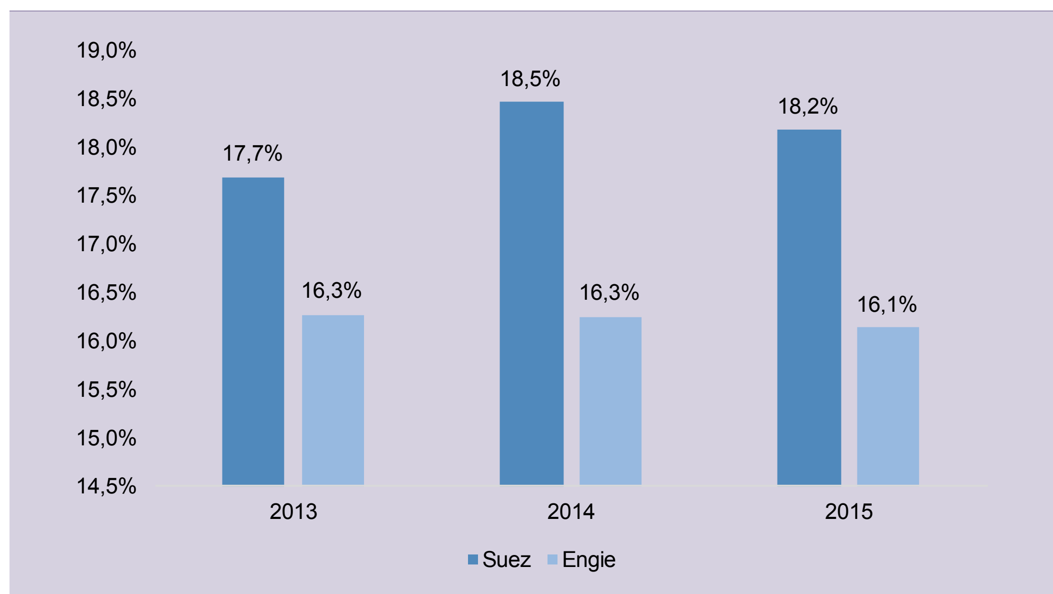
9. The Suez stake: a non-issue

Despite having been very much in the news over the past few months, **we believe Engie is unlikely to increase its current stake in French environmental company Suez**. Currently, Engie owns a **33.7% stake** in Suez following the company's IPO in 2008. Since the end of the shareholder agreement between Engie (GDF Suez at that time), Albert Frères, the CDC, Areva, CNP Assurances and Sofina in July 2013, **Suez is now consolidated under the equity method in Engie's financial accounts**.

Why has it been very much in the news? While progressively divesting from its legacy thermal business, the acquisition of Suez would have **strengthened Engie's ambitions in its customers' solutions activities,** notably towards municipalities and territories ("B2T")– which represents about 45% of Suez's revenues.

In addition, the acquisition of Suez would have been **accretive for Engie in terms of the EBITDA** margin with an 18.2% EBITDA margin reached in 2015 for Suez vs. 16.1% for Engie. **Around 20% of Suez's EBITDA comes from regulated activities** (in Chile and the United States) which would also be in line with Engie's new strategy to focus on contracted and regulated activities with secured and stable margins and cash-flows.

Fig. 24: Suez's EBITDA margin about 200bps higher than Engie's



Source: Engie; Suez; Bryan, Garnier & Co ests.

We, however, believe such a move is unlikely to happen in the short-to-medium term notably as **both companies are strongly committed to their respective transformation plan** for now. Suez is even aiming at speeding up its transformation plan whose details should be unveiled during the Q3-16 results. The potential acquisition would clearly be viewed as a **step backwards** following both companies' efforts to strengthen their **respective commercial developments** through new business organisations and the ongoing homogenisation of their structure.

Please see the section headed "Important information" on the back page of this report.

Despite being accretive on the EBITDA margin, **the acquisition's impact appears actually rather marginal once both entities are consolidated**. The takeover would only increase the EBITDA margin by around 20bps in 2016 and 30bps in 2017 (higher margin for Suez in 2017 due to increased volumes coming from new capacities). The impact on the consolidated EBIT margin (higher capex for Suez) and consolidated net margin (higher minorities for Suez) would, however, be negative for both 2016 and 2017 figures (c.40bps negative impact at both the EBIT margin and at the net margin levels). **The net debt impact would also be unfavourable** for Engie with the 2016e net debt/EBITDA ratio reaching c. 2.6x vs. current levels of 2.4x - and the company's objective of 2.5x.

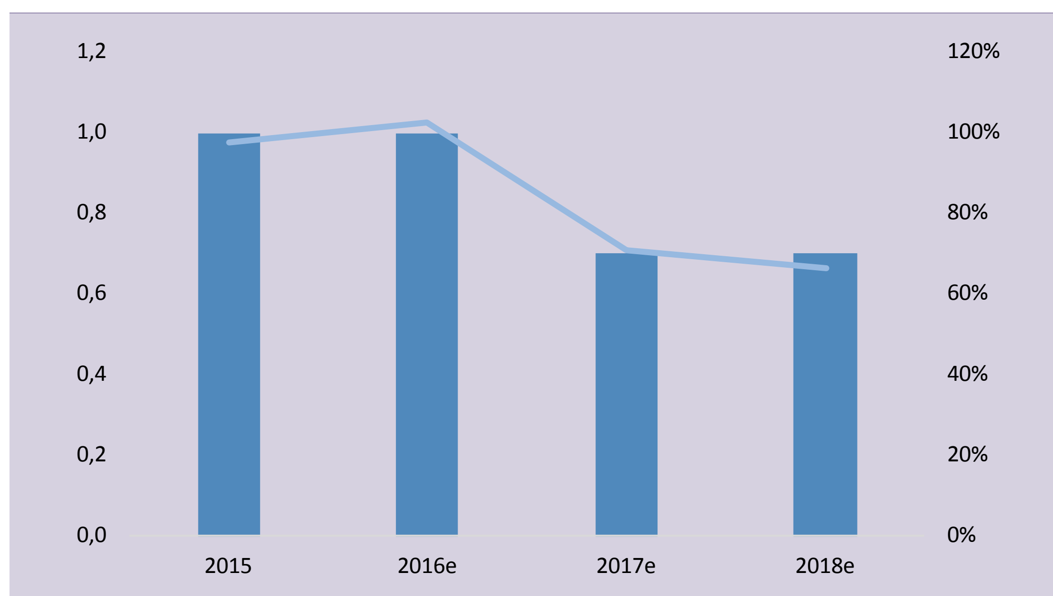
Please see the section headed "Important information" on the back page of this report.

10. A sound dividend policy

During its FY-15 results, Engie announced **its new dividend policy** for 2016, but also for 2017 and 2018 which provides, in our view, a **strong visibility for investors**. As a reminder, for 2016, Engie plans to pay a EUR1 per share dividend, in line with its 2015 payment - and its previous dividend policy. **For 2017 and 2018, the dividend will be reduced to EUR0.7 per share.**

We believe **this is a sound decision** as the EUR1 per share level would not have been very sustainable, considering the ongoing transformation plan and the EUR22bn capex programme over the next three years. After a c. 98% pay-out ratio in 2015 (on recurring EPS post hybrid coupons), we estimate this figure will be increased to c. 102% in 2016 assuming a 0.98 2016e recurring EPS post-hybrid coupon. **Implied levels for 2017 and beyond are far more comfortable with a 65-70% implied payout ratio. In our model, we assume the dividend guidance is achieved for 2016, 2017 and 2018.**

Fig. 25: New dividend policy and implied payout ratio (BG estimates)



Source: Engie; Bryan, Garnier & Co ests.

More than the absolute level of both the dividend and the company's payout ratio, **we appreciate the visibility offered to investors. In the European integrated utilities universe, we consider that only the Italian company Enel offers a rather similar visibility on its future dividends** (EUR0.18 per share in 2016 and an increase in the payout ratio by five percentage points every year to reach 65% in 2018).

We looked at seven integrated utilities i.e. French Engie and EDF, German E.ON and RWE, Spanish Iberdrola and Endesa and Italian Enel. Four of these companies are in our coverage universe (Engie, EDF, E.ON and RWE). **We compared consensus expectations for the DPS for each of these companies for 2016, 2017 and 2018**. Unsurprisingly, expectations for Engie came in bang in line with the company's guidance (EUR1 for 2016 and EUR0.72 for 2017 and 2018, expected by the consensus).

Please see the section headed "Important information" on the back page of this report.

We then computed the implied **standard deviations** regarding these consensus' expectations. It appears that **for three companies, the average standard deviation over the 2016-2018 period stands below 0.05: Enel, Iberdrola and Engie**.

Fig. 26: Consensus' expectations for dividends per share (2016-2018)

	2016e				2017e				2018e			
	High	Low	Median	Average	High	Low	Median	Average	High	Low	Median	Average
Engie	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**0.70**	**0.70**	**0.72**	**1.02**	**0.70**	**0.70**	**0.72**
EDF	1.10	0.70	0.95	0.94	1.10	0.50	0.75	0.77	1.10	0.50	0.70	0.72
EON	0.52	0.25	0.38	0.37	0.50	0.20	0.38	0.38	0.50	0.25	0.38	0.38
RWE	1.00	0.00	0.40	0.31	0.66	0.00	0.40	0.33	0.71	0.00	0.40	0.33
Iberdrola	0.34	0.27	0.29	0.29	0.33	0.28	0.30	0.30	0.36	0.27	0.32	0.31
Endesa	1.29	1.03	1.20	1.19	1.31	0.93	1.12	1.13	1.37	0.88	1.15	1.15
Enel	0.18	0.16	0.18	0.18	0.22	0.18	0.20	0.20	0.25	0.20	0.23	0.23

Source: Thomson Reuters; Bryan, Garnier & Co ests.

Fig. 27: Average standard deviation for consensus DPS expectations (2016-2018)

	2016e	2017e	2018e	Average
Enel	0.00	0.01	0.02	**0.01**
Iberdrola	0.01	0.01	0.02	**0.02**
Engie	**0.00**	**0.08**	**0.07**	**0.05**
EON	0.07	0.07	0.07	**0.07**
Endesa	0.05	0.09	0.12	**0.09**
EDF	0.12	0.18	0.17	**0.16**
RWE	0.27	0.21	0.22	**0.23**

Source: Thomson Reuters; Bryan, Garnier & Co ests.

This clearly confirms our view of the **strong visibility** offered by Engie regarding its dividend policy, which is not a luxury **1/** in our current Utilities universe **and 2/** considering important changes to come for the company through the ongoing transformation plan. **Over 2016-2018, Engie's dividend yield is bang in line with the sector's average for 2017e and 2018e** (5.1% for Engie vs. 5.0% for the sector in 2017e and 5.0% vs. 5.1% for the sector in 2018e).

Fig. 28: Dividend yield expected over 2016-2018

Dividend Yield	2016e	2017e	2018e
Enel	4.5%	5.0%	5.8%
Iberdrola	5.0%	5.1%	5.3%
Engie	**7.0%**	**5.1%**	**5.0%**
E.ON	4.5%	4.6%	4.5%
Endesa	6.5%	6.1%	6.3%
EDF	8.3%	6.7%	6.2%
RWE	2.1%	2.2%	2.3%
Average	**5.4%**	**5.0%**	**5.1%**
Median	**5.0%**	**5.1%**	**5.3%**

Source: Thomson Reuters; Bryan, Garnier & Co ests.

11. Mobility, Big Data and the IoT

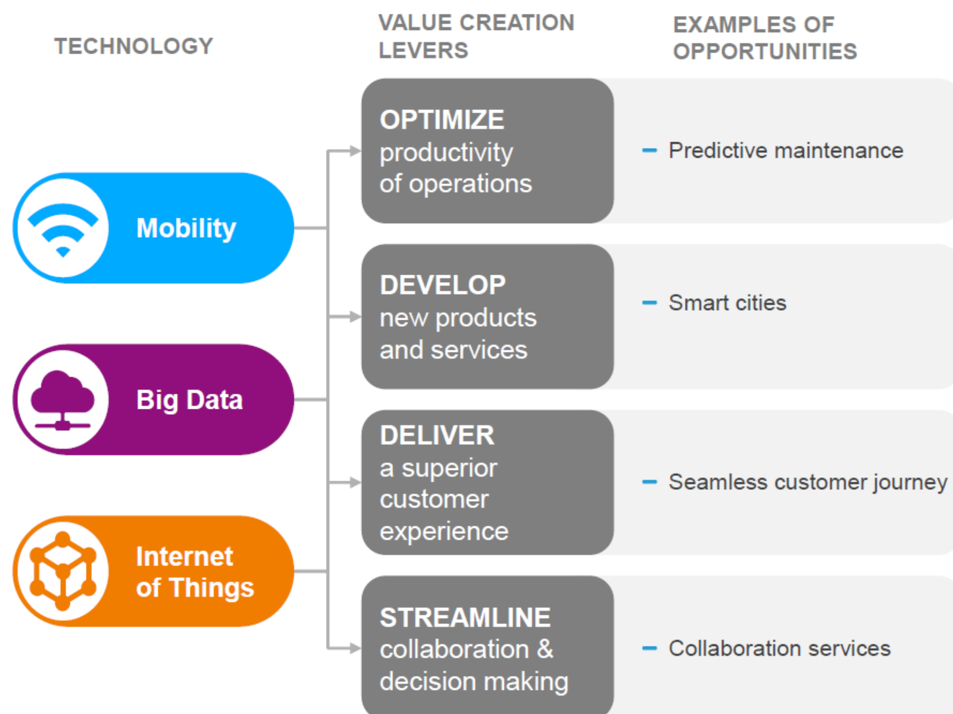
Engie expects its business and growth ambitions to be partly spurred by **innovation** on top of the ongoing **innovative ecosystem the company aims at building** over the next couple of years. The digitalisation of the company appears important enough to be included in the company's "3D" new strategy (Decarbonisation, Decentralisation, Digitalisation). The company's main objective is to benefit from **intertwining and synergies between Energy and Digital**.

Engie is notably targeting **four main areas** in which **significant value-added** could be found **through innovation**:

- Decentralised, renewable, energy generation, load management and storage;
- Smart homes;
- Cities of tomorrow and urban mobility;
- Digital control and energy efficiency.

Three pillars should support this new digital focus with **Mobility** (providing mobile services to the company's consumers and employees), **Big Data** (ability to examine and analyse large volumes of data) **and the Internet of Things** (interconnection between people and objects).

Fig. 29: A new digital focus support by three main pillars



Source: Engie

Additionally, the **Engie New Ventures investment fund** was launched in May 2014 in order to **back innovative start-ups**. The current **EUR115m endowment** aims at taking minority stakes in start-ups whose activities are linked to Engie's. As of 2015, Engie New Ventures has already invested

in **eight start-ups** among them French IoT company Sigfox, UK load shedding company Kiwi Power and a drones company Redbird.

All in all, about EUR1.5bn is expected to be spent by Engie in digital technologies through a mix of **1/**investments in new companies with Engie New Ventures, **2/**new partnerships with incubators, **3/**research & technology and **4/**worldwide partnerships with other companies. A few months ago, Engie announced two partnerships with Kony – in order to speed up the development of mobile apps for Engie's customers and employees - and Fjord (Accenture's subsidiary) – in order to redesign Engie's retail operations and to transform the digital experience for the company's customers - in quick succession.

We do not believe this will significantly impact the company's investment case over the short-term, despite the relatively high amount expected to be spent in this area (EUR1.5bn) across the company's reporting business segments. We expect part of this amount to be spent on small-to-medium size acquisitions. **The overall digital approach is however positive in our view** as it aims at strengthening two key elements of the company's new strategy with **expected synergies to be reached in low CO_2 activities** on top of **increased solutions to be potentially marketed to residential and business customers**. In our view, this also implies **a new state of mind** within the company and clearly move toward newer solutions and newer technologies…fostering and **making more concrete the company's overall transformation**.

Please see the section headed "Important information" on the back page of this report.

12. A brand new business organisation

As previously mentioned, through its transformation plan, **Engie has reshuffled its reporting business units. The group is now organised around 24 business units split into 10 reporting segments** (vs. five before): North America, Latin America, Africa/Asia, Benelux, France, Europe excluding France & Benelux, Infrastructures, GEM & LNG, E&P and Other.

This aims at fostering **a new local and decentralised approach** through region-centred operating segments and a more **customer-oriented organisation.** We remain, however, rather sceptical regarding **the complexity of the new structure** with pure geographical divisions (*France, North America, etc.*) being mixed with pure business divisions (*E&P, LNG, etc.*). The Benelux division regroups, for instance, all the company's nuclear assets (including the company's drawing rights in France) while relationships between the different reportable segments add even more ramifications.

Fig. 30: 2015 EBITDA breakdown between old and new reporting BU (EURm)

2015 EBITDA Breakdown	Energy International	Energy Europe	Global Gas & LNG	Infrastructures	Energy Services	Others	Total
North America	593	0	0	0	40	0	**633**
Latin America	1,561	0	0	-2	3	0	**1,562**
Africa/Asia	1,236	0	0	0	22	-21	**1,237**
Benelux	0	283	0	0	162	0	**445**
France	0	583	0	4	687	0	**1,274**
Rest of Europe	144	216	0	0	199	0	**559**
Infrastructures	0	0	0	3,381	0	0	**3,381**
GEM & LNG	17	210	-31	0	0	0	**196**
E&P	0	0	1,514	0	0	0	**1,514**
Other	45	334	142	19	114	-182	**472**
Total	**3,596**	**1,626**	**1,625**	**3,402**	**1,227**	**-203**	**11,273**

Source: Engie; Bryan, Garnier & Co ests.

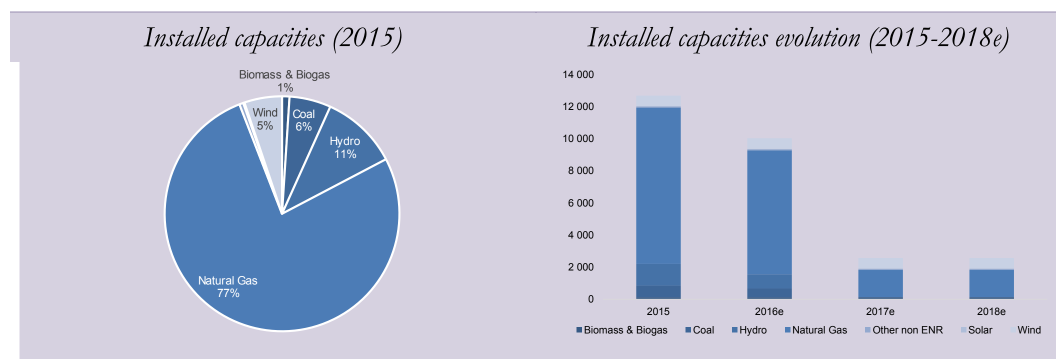
12.1. North America

The North America division includes power generation and energy services as well as natural gas and electricity sales activities in the US, Canada and Puerto Rico. Note that the Mexican assets, which were part of the North America sub-division before, are now part of the Latin America division. In 2015, the division generated c. **EUR3.7bn of sales** and **EUR633m of EBITDA** (17.2% EBITDA margin), accounting then for c. **6%** of the group's EBITDA. In 2015, installed capacities of the division reached **12,688MW** with around 75% being natural gas capacities. In February 2016, Engie announced it had signed an agreement regarding **the sale of c. 10GW** of its North American capacities (8.7GW of thermal assets and 1.2GW of hydro assets) **for c. EUR4.1bn** (we estimate c.EUR3bn for thermal assets and c. EUR1.1bn for hydro assets).

These disposals are in line with the company's new strategy aiming at focusing on more contracted and regulated businesses, the 10GW assets sold being merchant power generation capacities.

Please see the section headed "Important information" on the back page of this report.

Fig. 31: Installed capacities – North America



Source: Engie; Bryan, Garnier & Co ests.

Following these disposals, **we expect installed capacities to decrease to 10,033MW in 2016 and 2,572MW in 2017**, as we assume the main impact will be in 2017. We therefore expect **the division's EBITDA to decrease sharply to EUR229m in 2017** down from EUR633m in 2015 and EUR564m in 2016, according to our estimates. **The direct impact on EBITDA from these disposals should reach EUR500m**, according to the company's management, implying therefore an **8.2x EV/EBITDA multiple**. We assume the impact should be 25%/75% over 2016 and 2017 respectively. We expect this will be partly offset by the positive impact from **acquisitions** realised at the beginning of the year (OpTerra Energy Services and Green Charge Networks) which could bring an **additional EUR40m of EBITDA** between 2016 and 2017, according to our estimates.

Fig. 32: BG estimates (2015-2018e) – North America (EURm)

North America - Key metrics	2015	2016e	2017e	2018e
Sales	3,672	3,356	1,273	1,294
EBITDA	**633**	**586**	**229**	**238**
EBITDA margin	17,2%	17,5%	18,0%	18,4%
COI	332	502	191	199
Capex	283	168	64	65

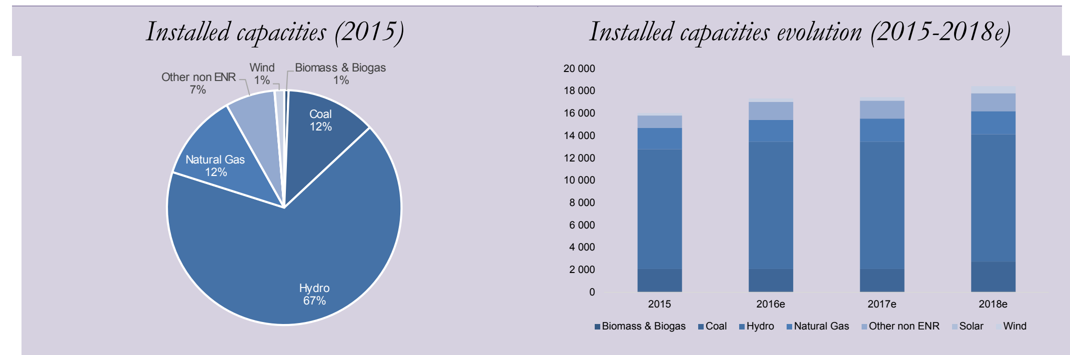
Source: Engie; Bryan, Garnier & Co ests.

12.2. Latin America

The Latin American division groups the activities of the Brazil business unit and the Latin America business unit which includes assets in Argentina, Chile, Mexico and Peru. The division is involved in power generation, gas chain businesses and energy services. In 2015, the division generated **EUR4, 197m of sales for a EUR1, 563m EBITDA** (37% EBITDA margin) i.e. **14%** of the overall group's EBITDA. In 2015, the division's installed capacities reached **16,025MW** with 10,715MW of hydro capacities. The c. **2,400MW under construction** should boost installed capacities to **18,436MW** by 2018. Brazil is by far the main contributor to the division's EBITDA with the country's contribution reaching EUR811m in 2015 (vs. EUR334m for Chile, EUR289m for Peru and EUR129m for Mexico).

Please see the section headed "Important information" on the back page of this report.

Fig. 33: Installed capacities – Latin America



Source: Engie; Bryan, Garnier & Co ests.

We expect the division to suffer from significant FX headwind in 2016 (EUR85m at the EBITDA level) as well as from the **adverse market prices environment** (Brazilian PLD prices currently at BRL101.3 per MWh on a 3-month rolling average basis vs. BRL264.1 one year ago). We, however, expect a **strong rebound in 2018e** (+7.2% of revenues' growth and +6.4% of EBITDA growth vs. 2017) thanks to **new commissioning** in Brazil (+1,423MW of new installed capacities), Peru (+610MW) and Chile (+344MW).

Fig. 34: BG estimates (2015-2018e) – Latin America (EURm)

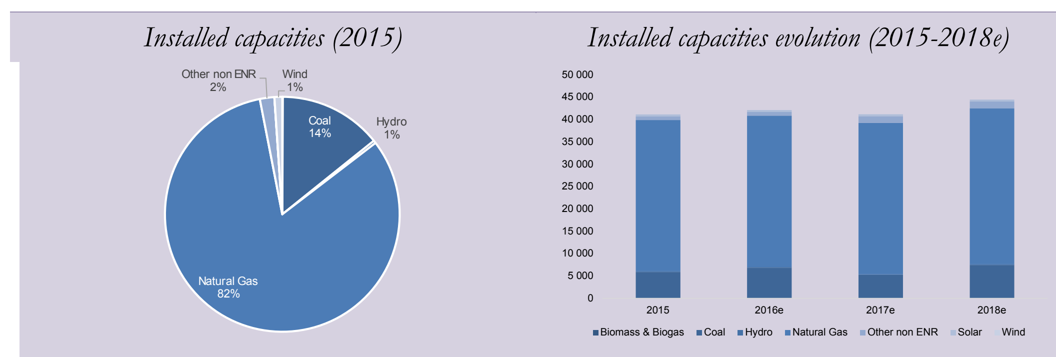
Latin America - Key metrics	2015	2016e	2017e	2018e
Sales	4,197	3,954	3,937	4,222
EBITDA	**1,563**	**1,663**	**1,781**	**1,895**
EBITDA margin	37,2%	42,1%	45,2%	44,9%
COI	1,175	1,266	1,385	1,471
Capex	1,140	1,166	768	823

Source: Engie; Bryan, Garnier & Co ests.

12.3. Africa/Asia

The Africa/Asia division regroups various activities including power generation and sales, gas distribution and sales, energy services and water desalination in the Middle East. The division is actually the aggregation of four operating segments with China, Asia-Pacific (Australia, New Zealand, Thailand, Singapore, Indonesia and Laos), Africa (Morocco and South Africa) and MESCAT (Middle East, South and Central Asia and Turkey). In 2015, the division generated **EUR4, 244m of revenues for EUR1, 237m of EBITDA** (29% EBITDA margin) representing therefore c. **11%** of Engie's EBITDA. Thailand, through the GLOW listed subsidiary, is the main contributor to the division (EUR453m). In 2015, the division's installed capacities reached **41,125MW** (including 33,854MW in natural gas capacities and 5,826MW in coal capacities) while 5,354MW are under construction. Engie announced at the beginning of the year that it agreed **to sell its Paiton** (2GW in Indonesia) **and Meenakshi** (0.3GW plus 0.7GW under construction, in India) coal-fired power plants for **EUR1bn** and **EUR400m** respectively. Both disposals should reduce the division's EBITDA by c. **EUR100m** (we assume a 25%/75% impact spread over 2016 and 2017, just like the disposals in the USA) while installed capacities should reach **44,444MW in 2018**.

Fig. 35: Installed capacities – Africa/Asia



Source: Engie; Bryan, Garnier & Co ests.

Fig. 36: BG estimates (2015-2018e) – Africa/Asia (EURm)

Africa/Asia - Key metrics	2015	2016e	2017e	2018e
Sales	4,244	4,300	4,186	4,367
EBITDA	**1,237**	**1,220**	**1,245**	**1,272**
EBITDA margin	29,1%	28,4%	29,7%	29,1%
COI	972	966	984	999
Capex	257	516	335	349

Source: Engie; Bryan, Garnier & Co ests.

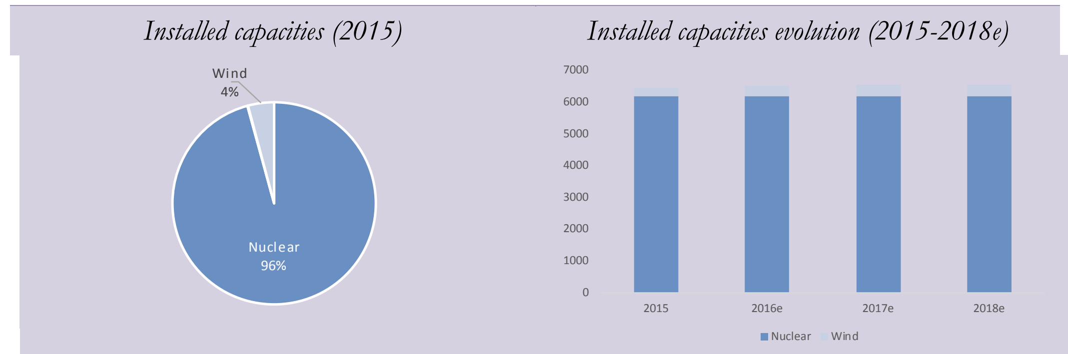
We expect the division's 2016 figures to be negatively impacted by **1)** the lower availability of coal-fired Australian assets (notably the Hazelwood power plant), **2)** FX headwinds (EUR25m for both the THB and AUD, at the EBITDA level) **and 3)** a negative scope effect related to disposal of the Paiton and Meenakshi plants. These should be gradually offset by **a solid pace of new commissioning** with Az Zour North (882MW, natural gas, Kuwait) and Avon (670MW, open-cycle turbine power plants, South Africa) in 2016 and Mirfa (1.6GW, natural gas, UAE) in 2018. We expect, therefore, the division's sales to increase by c. 4.3% in 2018 (vs. 2017) bringing in its wake the division's EBITDA which should reach **EUR1,272m up 2.1% yoy**, according to our estimates. Note that **we do not include any potential disposals of Engie's Australian assets** (the Hazelwood and Loy Yang B coal assets have been mentioned) which have been very much in the news over the past few months. **We believe a disposal would be well-received by investors** as it will strengthen Engie's new strategy (both Hazelwood and Loy Yang B are "high CO_2 assets" strongly exposed to market prices), **though we have doubts over Engie's ability to benefit from a generous valuation for these assets.**

12.4. Benelux

The Benelux division regroups Engie's activities in the area. It includes power generation (**nuclear and renewables capacities**), energy services activities and natural gas and electricity sales activities. Note that the division actually includes all Engie's nuclear-related assets, including thus drawing rights at French Chooz and Tricastin nuclear plants). In 2015, the division generated **EUR8,732m** of revenues and **EUR445m** of EBITDA (a 5% EBITDA margin), i.e. less than 4% of the group's overall EBITDA margin. Installed capacities reached **6,471MW** in 2015 with **6,197MW** being nuclear

assets (the remainder being wind capacities). We expect installed capacities to slightly increase to 6,550MW in 2018 following new wind capacities to be commissioned.

Fig. 37: Installed capacities – Benelux

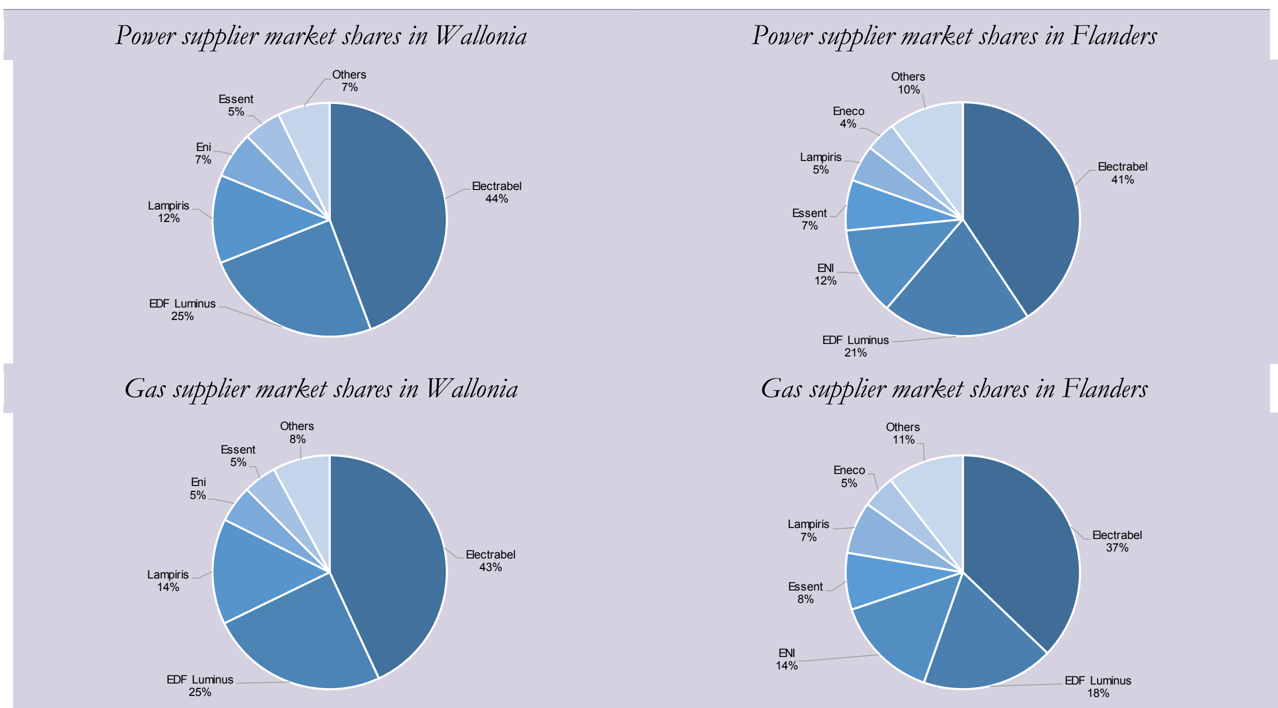


Source: Engie; Bryan, Garnier & Co ests.

We expect the division's EBITDA to improve significantly in 2016 due to the increase in nuclear plants availability. We believe **nuclear plants availability will be back to more normal levels** (80%) after been hurt by several outages last year (availability at 51% last year). **This should positively impact the division's 2016e EBITDA by c. EUR400m.** All in all, **we expect the division's EBITDA to increase by EUR393m to EUR838m** as the increase in nuclear volumes should be partly **offset by the decrease in power prices** and the still highly competitive environment in the B2C market.

Engie/Electrabel is still the leading power and gas supplier in Belgium, by far, with around **40% market share**. The company's decrease in market shares has slowed over the last few months making us believe a low point could have been reached in the segment.

Fig. 38: Average 40% market share for Electrabel in Belgium



Source: CWaPE, VREG and CREG

Fig. 39: BG estimates (2015-2018e) – Benelux (EURm)

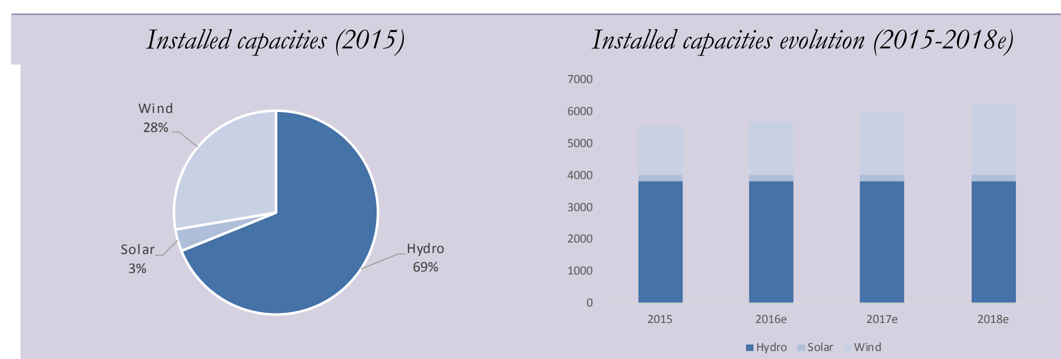
Benelux - Key metrics	2015	2016e	2017e	2018e
Sales	8,732	8,708	8,568	8,582
EBITDA	**445**	**838**	**728**	**686**
EBITDA margin	5,1%	9,6%	8,5%	8,0%
COI	91	484	380	338
Capex	600	392	386	386

Source: Engie; Bryan, Garnier & Co ests.

12.5. France

The France division groups four different business divisions: **1/** France B2B which includes energy sales and services for buildings, industry and the territories, **2/** France B2C which includes sales of energy and related services to individuals, **3/** France Renewable Energies which includes the renewable power generation assets of Engie (excluding SolaireDirect), **and 4/** France Networks which designs, finances, builds and operates decentralised energy production and distribution facilities. In 2015, the division reported **EUR20,248m of revenues and EUR1, 274m of EBITDA** (hence a 6.3% EBITDA margin) which represents a bit more than **11%** of Engie's overall EBITDA. **Renewables** installed capacities reached **5,542MW** (including hydro capacities which accounted for c. 68% of the sub-division's capacities) in 2015 and should reach 6, 247MW in 2018 following a strong pace of new commissioning as **we expect 250-300MW of additional capacities per year between 2016 and 2020,** in line with France's multi-year investment programme (*PPI*). The France Renewables Energies sub-division generated **EUR365m of EBITDA** in 2015 for c. EUR900m of revenues. **We expect new commissioning to boost renewables' earnings** which should also start benefiting from the acquisition of French wind power company Maia Eolis earlier this year.

Fig. 40: Installed capacities – France



Source: Engie; Bryan, Garnier & Co ests.

As for its supply activities, Engie is still suffering from **depressed gas and electricity prices** as well as from **fiercer competition in the B2B segment** – on top of the end of regulated tariffs for business customers since the beginning of the year. We therefore expect a **continuous decline in Engie's market share** in the B2B segment which is likely to infringe on the division's EBITDA over the 2016-2018 period. This should, however, be more than offset by the **Lean 2018 cost-savings programme whose impact could reach c. EUR240m on the division's EBITDA between 2016 and 2018**, according to our estimates.

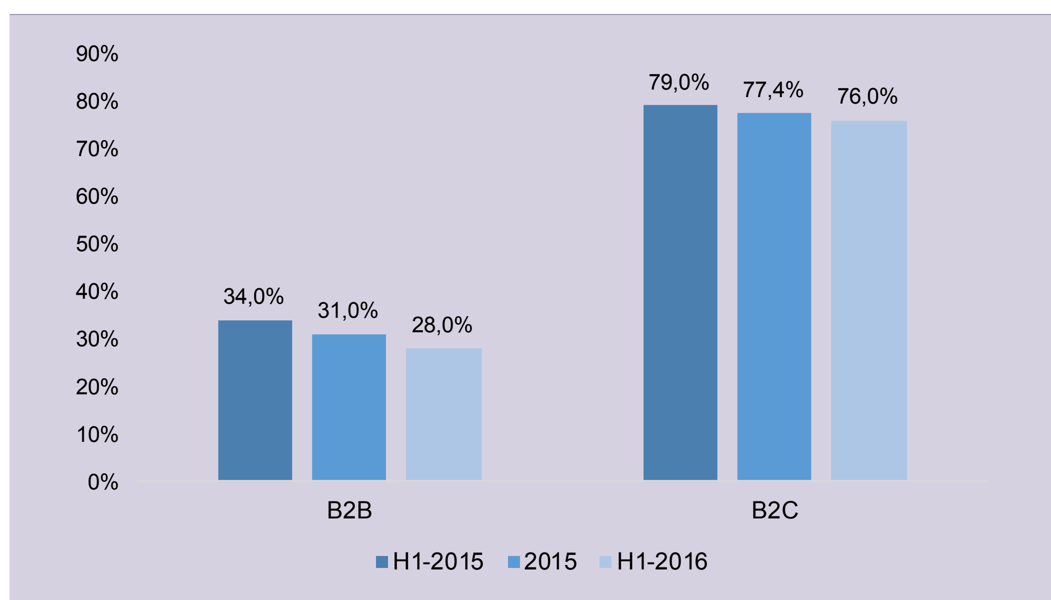
Please see the section headed "Important information" on the back page of this report.

Fig. 41: BG estimates (2015-2018e) – France (EURm)

France - Key metrics	2015	2016e	2017e	2018e
Sales	20,248	19,435	19,510	19,626
EBITDA	**1,274**	**1,324**	**1,406**	**1,472**
EBITDA margin	6,3%	6,8%	7,2%	7,5%
COI	709	735	815	877
Capex	886	1,166	585	589

Source: Engie; Bryan, Garnier & Co ests.

Fig. 42: Quick decline in French gas supply market share



Source: Engie; Bryan, Garnier & Co ests.

12.6. Rest of Europe

The Rest of Europe division, actually dubbed "Europe excluding France and Benelux" regroups Engie's specific activities in the **UK** (management of renewables assets and the portfolio of distribution assets, supply of energy services) and in **Northern, Southern and Eastern Europe** (sales of gas and electricity, energy services, renewable assets, etc.). The group is notably involved in the supply segment in Italy and in the infrastructures business in Romania. In 2015, the division's revenues amounted to EUR8, 492m while **EBITDA reached EUR559m,** implying therefore a 6.6% EBITDA margin. The UK was the main contributor with **EUR216m of EBITDA** while Romania's EBITDA (the infrastructures activities mainly on top of c. 100MW of wind farms installed) reached EUR160m. **The division's installed capacities reached 4,778MW in 2015 with 1,579MW of wind assets** (Germany, Italy, Poland, Portugal, Portugal, Romania, UK), **2,328MW of hydro assets** (First Hydro in the UK with 2,088MW and Pfreimd in Germany with 137MW, mainly) and **664MW of natural gas** capacities. As of H1-16, the division has "only" 10MW – wind - under construction.

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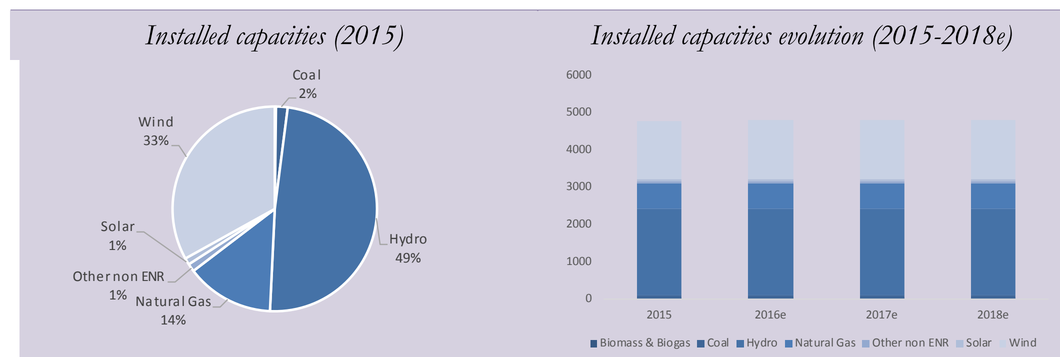
Fig. 43: Installed capacities – Europe, excluding France and Benelux



Source: Engie; Bryan, Garnier & Co ests.

For 2016, we expect the division's EBITDA to decrease slightly yoy following negative scope (disposal of the supply activity in Hungary) and FX effects and the **fall in gas distribution tariffs in Romania** (reduction by c. **14%** of the average distribution tariff according to Romanian ANRE, the local energy regulatory authority).

Fig. 44: BG estimates (2015-2018e) – RoE (EURm)

France - Key metrics	2015	2016e	2017e	2018e
Sales	8,492	8,319	8,749	8,875
EBITDA	**559**	**543**	**569**	**594**
EBITDA margin	6,6%	6,5%	6,5%	6,7%
COI	341	304	304	326
Capex	290	333	350	355

Source: Engie; Bryan, Garnier & Co ests.

12.7. Infrastructures Europe

The Infrastructures Europe division is roughly the same as it was within Engie's previous organisation as it still includes **GRDF** (gas distribution networks), **GRTgaz** (gas transportation), **Elengy** (LNG terminals in France and Germany, mainly) and **Storengy** (gas storage). In 2015, the division generated revenues of EUR3,027m while **EBITDA reached EUR3,381m**. Cumulative Regulated Assets Base **(RAB) reached EUR23.3bn in 2015**. We expect the RAB will increase and reach **EUR23.5bn in 2016 and EUR23.9bn in 2018** following notably **the EUR1.6bn of capital expenditures** we forecast over 2016, 2017 and 2018.

We expect the division's EBITDA to decrease slightly in 2016 due to an expected fall in tariffs for distribution (from 6.0% in 2015 to 5.0% since July 2016) which should negatively impact the division's EBITDA by c. EUR75m, according to our estimates**. For 2017 and beyond, we integrate the decrease in transmission tariffs** (from 6.5% to 5.25%) **as well as the full-year impact of the above mentioned decrease in distribution tariffs** (6.0% in 2015, 5.5% in 2016 and 5.0% in 2017). **We leave the remuneration rate for Elengy** (LNG terminals) **unchanged at 8.5%.** This should be partly offset by the Lean 2018 programme which should bring a positive EUR90m tailwind over the 2016-2018 period.

Please see the section headed "Important information" on the back page of this report.

Fig. 45: BG estimates (2015-2018e) – Infrastructures (EURm)

France - Key metrics	2015	2016e	2017e	2018e
Sales	3,027	3,088	3,149	3,212
EBITDA	**3,381**	**3,366**	**3,317**	**3,390**
EBITDA margin	111.7%	109.0%	105.3%	105.5%
COI	2,054	2,038	1,963	2,009
Capex	1,550	1,583	1,615	1,647
Regulated Asset Base (EURbn)	**23.3**	**23.5**	**23.7**	**23..9**

Source: Engie; Bryan, Garnier & Co ests.

12.8. GEM & LNG

The GEM (Global Energy Management) & LNG division regroups two different businesses: **1)** the management and the optimisation of the group's portfolio of physical and contractual assets as well as the sales of energy to major industrial customers (the former Energy Management & Trading subdivision used to be included in the Energy Europe old segment) **and 2)** the management of a long-term supply contract portfolio and interests in LNG infrastructures as well as the operation of an LNG fleet. Note that GTT (a subsidiary 40.4% owned by Engie but fully consolidated by the company) is now part of the "Others" division. In 2015, the division generated **EUR11, 320m of revenues** for a **EUR196m EBITDA** (a 1.7% EBITDA margin) which represents less than **2%** of the company's overall EBITDA.

For 2016, we expect the company to suffer greatly from a **challenging environment** (**limited arbitrage opportunities** in the LNG market, depressed gas prices, **supply disruption** still ongoing in Yemen and Egypt) which should drag the **LNG EBITDA into negative territory** while the overall **division's EBITDA should reach EUR58m** according to our estimates. Note that the 2015 figure is inflated by a **EUR300m one-off** related to the successful renegotiation of long-term gas contracts (midstream activities).

Fig. 46: BG estimates (2015-2018e) – GEM & LNG (EURm)

GEM & LNG - Key metrics	2015	2016e	2017e	2018e
Sales	11,320	9,104	9,286	9,471
EBITDA	**196**	**58**	**73**	**89**
EBITDA margin	1,7%	0,6%	0,8%	0,9%
COI	110	(35)	(22)	(8)
Capex	57	73	28	28

Source: Engie; Bryan, Garnier & Co ests.

12.9. E&P

The E&P business division brings together Engie's exploration, production, development and operation of oil and gas fields. In 2015, the division generated revenues of EUR2, 242m with **EBITDA reaching EUR1, 514m** (67.5% EBITDA margin) i.e. c.**13%** of the company's EBITDA. In 2015, "2P" reserves (proven and probable reserves) and production reached **699Mboe** (vs.

Please see the section headed "Important information" on the back page of this report.

759Mboe in 2014) and **59.1Mboe** (vs. 55.5Mboe in 2014) respectively**. The reserves replacement ratio** (new 2P reserves over production) **has significantly decreased over the past few years** from 90% over the 2011-2013 period to 82% over 2012-2014 to only 18% over 2013-2015. The division is still significantly impacted by **depressed oil and gas prices while volumes should decrease in 2016** and reach **56Mboe** (vs. 59Mboe in 2015, down 5.2% yoy) following the planned shutdown this summer of the Norge platform in Norway. **We therefore expect the division's EBITDA to decrease sharply by more than 23% yoy** to EUR1, 155m in 2016 despite the **positive impact expected from the Lean 2018** cost-savings (**we expect a c. EUR90m positive impact spread over 2016 and 2018** including EUR45m in 2016).

As previously mentioned, **the division is still considered as non-strategic for Engie** which is still looking for a buyer for its **70% stake** in E&P International (the 30% remaining stake being owned by China Investment Corporation since 2011).

Fig. 47: BG estimates (2015-2018e) – Exploration & Production (E&P) (EURm)

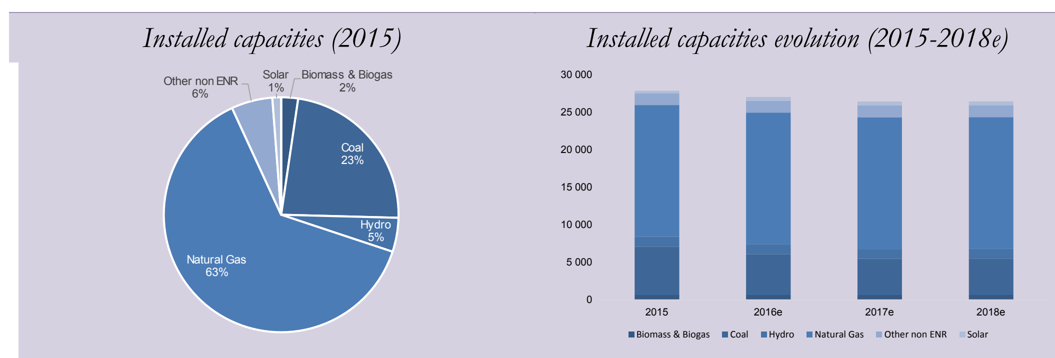
E&P - Key metrics	2015	2016e	2017e	2018e
Sales	2,242	1,678	1,685	1,692
EBITDA	**1,514**	**1,155**	**1,104**	**1,138**
EBITDA margin	67,5%	68,8%	65,5%	67,3%
COI	546	417	381	415
Capex	1,027	864	632	635

Source: Engie; Bryan, Garnier & Co ests.

12.10. Other

The "Other" division regroups five different "activities" including **1/ Thermal Generation Europe** (thermal power generation activities in Europe), **2/Tractebel Engineering** (engineering company 100% owned by Engie), **3/ GTT** which is specialised in the design of cryogenic membrane containment systems for sea transportation and storage of LNG (the subsidiary is 40.4% owned by Engie but fully consolidated by the company), **4/** the group's holding and corporate activities, **5/** solar power company **SolaireDirect** (96.6% owned by Engie following last year's acquisition) and **6/** the contribution of the **associate Suez** (French environmental company in which Engie has a 33.7% stake). In 2015, the division generated EUR3, 709m of revenues and **EUR472m of EBITDA** (12.7% EBITDA margin). **Installed capacities reached 27, 899MW in 2015 including 337MW for SolaireDirect**. Coal and gas capacities represent 86% of the division's overall capacities.

Fig. 48: Installed capacities - Other



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Source: Engie; Bryan, Garnier & Co ests

We expect capacities to decrease in 2016 following the closures of the Rugeley B and Gelderland coal power plants (decrease by 1.1GW in 2016 and 513MW in 2017). **We believe the Generation Europe sub-division could be up for sale almost entirely as it mainly includes European thermal assets** (natural gas and coal in Belgium, France, Germany, Italy, the Netherlands, Poland, Portugal, Spain and the UK) which are **greatly exposed to market prices**.

Despite a strong positive impact expected from Lean 2018 (a EUR210m tailwind for 2016-2018 including EUR105m for 2016), **we expect the division's EBITDA to decline sharply in 2016** following plants' closures and unsupportive exposure to market prices. **Note that we expect the division to be negatively impacted by two main non-recurring items**: 1/ a EUR180m provision reversal which occurred in 2015 and 2/ a EUR45m one-off due to the EUR130m Chongqing Water stake reevaluation in 2015 by Suez.

Fig. 49: BG estimates (2015-2018e) – Other (EURm)

E&P - Key metrics	2015	2016e	2017e	2018e
Sales	3,709	3,600	3,554	3,561
EBITDA	**472**	**101**	**145**	**172**
EBITDA margin	12,7%	2,8%	4,1%	4,8%
COI	(4)	(351)	(306)	(279)
Capex	1,150	756	427	427

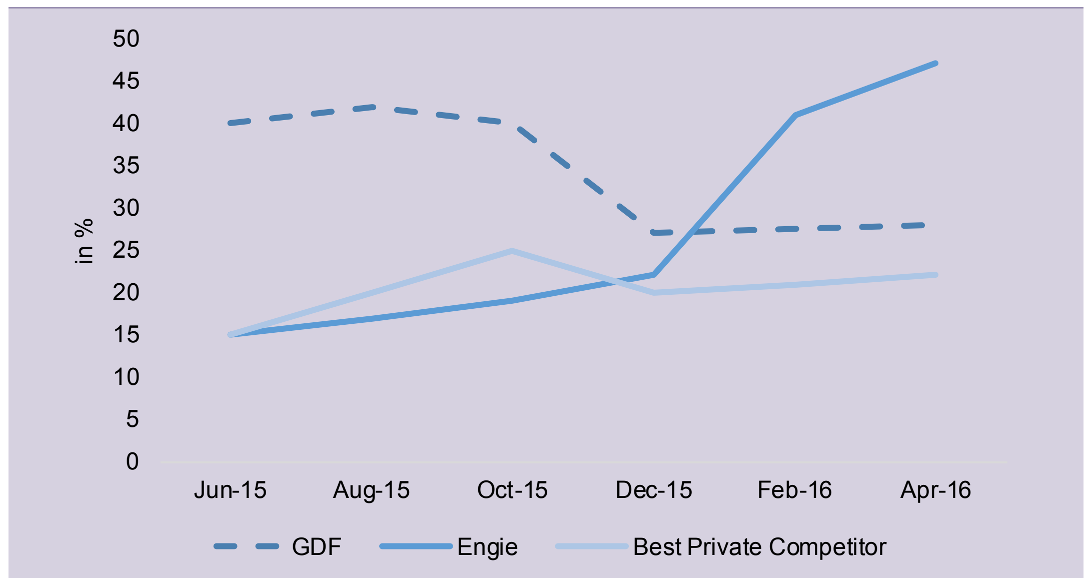
Source: Engie; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

13. Leveraging new brand recognition

In 2015, **GDF-Suez was rebranded Engie**. The company is spending about **EUR90m** in rebranding in the years to come (EUR47m already spent in 2015, the remainder should be broadly equally spent between 2016 and 2017). Since 2015, **the recognition of the brand** appears to be improving with a greater recognition of Engie vs. GDF, according to the last survey provided by the company's management during June's investor workshop.

Fig. 50: Enhanced brand recognition



Source: Engie, Investors Workshop June 2016.

We therefore consider that brand recognition, by itself, is no longer a significant issue for Engie. **The key "labour" or challenge for the company will be to leverage this new brand recognition successfully**.

We believe this rebranding supports three main objectives:

1/ highlighting the company's new strategy on top of its ongoing transformation towards less thermal generation and more services, infrastructures and renewables generation. This also underlines **Engie's international profile** with 64% of the company's 2015 revenues coming from outside France and 90% of company's 2015 installed capacities being abroad (enhanced figures following Engie's acquisition of International Power in 2012).

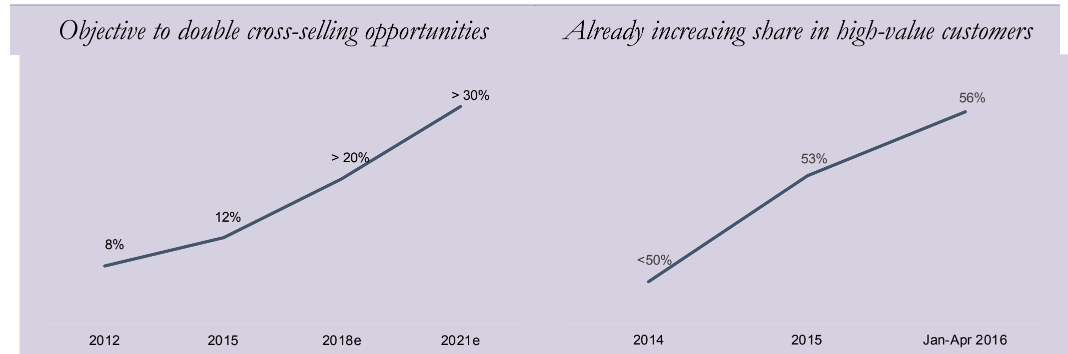
2/unifying all the group's brands under the same umbrella in the short-to-medium term. We believe brands such as Cofely or Electrabel will have the same fate as Dalkia with Veolia or Degrémont and La Lyonnaise des Eaux with Suez. Since 2015, Engie has already rebranded some of its owned entities, notably its listed entities as Brazilian Tractebel Energia has become Engie Brasil Energia, Chilean E-CL has become Engie Energia Chile and Peruvian Enersur has become Engie Energia Peru.

3/developing commercial synergies across the group, on top of an **enhanced visibility**. This should clearly strengthen Engie's objective to focus on the customers' solutions businesses and especially on **more value-added customers**, a strategy which should help Engie to develop its

Please see the section headed "Important information" on the back page of this report.

embryonic **cross-selling policy** (energy customers with at least one services contracts). **The group expects to more than double the share of cross-selling amongst its energy retail customers by 2021** through, notably, the development of more value-added solutions.

Fig. 51: More cross-selling opportunities through Engie's rebranding



Source: Company Data; Bryan, Garnier & Co ests

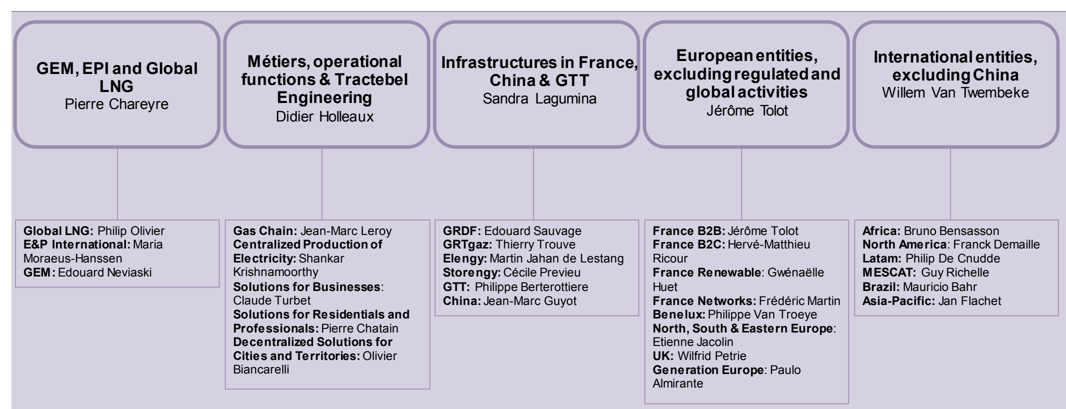
Please see the section headed "Important information" on the back page of this report.

14. A new management team: passing on the baton

Engie's management is undeniably evolving along with the company's strategy and the ongoing implementation of the transformation plan. **Over the past few months, we have counted about 10 key moves at the company's top management level.**

In January 2016, Engie unveiled its **new structure and organisation** as well as the management in charge of each of the **24 newly defined business units**.

Fig. 52: Engie's new organisation and operational management, as of Jan. 2016



Source: Engie

In May 2016, Engie announced that it had split the roles of chairman and CEO with **Gérard Mestrallet** becoming chairman and **Isabelle Kocher**, former COO and CFO of the company, becoming CEO of Engie. Gérard Mestrallet is supposed to remain chairman until mid-2018 following the two-year extension of his past mandate. The nomination of Kocher as the Engie's new CEO comes 18 months after that of **Judith Hartmann** as the company's new CFO.

Four senior managers have been newly appointed Executive Vice Presidents and join the company's Executive Committee, now composed of ten members:

- **Paulo Almirante**, newly appointed: Executive VP in charge of supervision of the Generation Europe; Brazil; North, South and Eastern Europe; MESCAT business units;
- **Pierre Chareyre:** Executive VP in charge of supervision of GEM, Global LNG, E&P International and Latin America business units;
- **Pierre Deheunynck**, newly appointed: Executive VP and head of company's human resources;
- **Judith Hartmann**, CFO in charge of supervision of the UK and North America business units;
- **Didier Holleaux**: Executive VP in charge of supervision of the gas chain, centralised production of electricity, decentralised solutions for cities and territories, solutions for businesses, solutions for residential and professional customers "metiers", in charge of supervision of the Tractebel and Asia Pacific business units;
- **Sandra Lagumina:** Executive VP in charge of supervision of the Elengy, GRDF, GRTgaz, Storengy, China and GTT business units;
- **Yves Le Gélard**, newly appointed: Executive VP, Chief Digital Officer;

Please see the section headed "Important information" on the back page of this report.

- **Thierry Lepercq,** newly appointed: Executive VP, co-founder of SolaireDirect, in charge of supervision of the research & technologies and innovation;
- **Pierre Mongin:** Executive VP, General Secretary in charge of supervision of the Africa, Benelux, France Networks and France B2C business units;
- **Jérôme Tolot:** Executive VP in charge of the Accelerate Task Force (whose objective is to accelerate the company's transformation) and supervision of the France Renewable Energy and France B2B business units.

However, **Willem Van Twembeke**, former VP in charge of International operations, has been asked to assume new operational responsibilities starting at the end of 2016.

We additionally find seven other moves within Engie's top management, over the past few months:

- **Sébastien Arbola** has been appointed CEO of the MESCAT business unit (effective in September 2016) ;
- **Ana Busto** has been appointed Engie Senior VP Brand and Communications;
- **Valérie Bernis** has left her function of Executive VP in charge of Communications, Marketing and Environmental and Societal Responsibility;
- **Sergio Val** has been appointed Deputy CFO in charge of Investor Relations, M&A and Capital Markets;
- **Antoine de La Faire** has been appointed Director of Strategy replacing then **Edouard Sauvage** who becomes CEO of GRDF (and replacing Sandra Lagumina, now in charge of Infrastructures in France, China and GTT);
- **Pierre Deheunynck** has been appointed VP of Engie Human Resources and therefore replaces Henri Ducré.

We believe **the "transition" phase is still ongoing** at the top management level and is likely to **last until 2018 with the planned departure of Gérard Mestrallet**, still the company's Chairman. However, **we have been "positively surprised by the absence" of Gérard Mestrallet during June's Investor Workshop** highlighting that he may be progressively **passing on the baton to Isabelle Kocher, in line with the company's strategic shift.**

Please see the section headed "Important information" on the back page of this report.

15. Our estimates

We expect EBITDA to reach a low point in 2017 at EUR10.6bn, especially as **we integrate in our model the disposals already announced of the US assets and thermal assets in Asia**, whose downsizing impact should mainly occur in 2017. As previously mentioned, **2016 should be penalized by a strong decline in E&P** EBITDA (from EUR1.5bn of EBITDA in 2015 to EUR1.1bn in 2016, according to our estimates) due to both volumes and price headwinds and **poor performance in the LNG and the Other divisions**. The **Lean 2018** programme should, however, enable Engie to post rather resilient margins as we expect a 50bps increase in EBITDA margin in 2016e vs. 2015. All in all, **we stand at the low end of the 2016 guidance provided by the Group for EBITDA** (we stand at EUR10.85bn vs. guidance at EUR10.8bn-EUR11.4bn) and **at the mid-range for the company's net recurring income** (we stand at EUR2.6bn vs. guidance at EUR2.4bn-EUR2.7bn). **We remain confident of Engie's ability to pay future dividends in line with its guidance** (EUR1.0 per share in 2016 and EUR0.7 per share for both 2017 and 2018).

BG estimates – Key figures (EURm)	2015	2016e	2017e	2018e
Revenues	69,883	65,541	63,898	64,900
YoY growth	-	*(6.2%)*	*(2.5%)*	*1.6%*
COGS	(54,483)	(50,830)	(49,642)	(50,248)
Other operating expenses	(11,163)	(10,469)	(10,207)	(10,367)
Other operating incomes	1,617	1,517	1,479	1,502
Current Operating Income (COI)	5,854	5,757	5,528	5,787
Profit/loss at equity accounted companies	473	480	490	499
EBIT	**6,327**	**6,237**	**6,018**	**6,287**
EBIT margin (%)	9,1%	9,5%	9,4%	9,7%
D&A (+)	4,740	4,415	4,379	4,459
Adjustments (+)	207	200	200	200
EBITDA	**11,274**	**10,852**	**10,597**	**10,946**
YoY growth	-	*(3.7%)*	*(2.3%)*	*3.3%)*
EBITDA margin (%)	16,1%	16,6%	16,6%	16,9%
Net income, Group share, reported	(4,616)	2,575	2,546	2,717
Net recurring income	**2,589**	**2,575**	**2,546**	**2,717**
Recurring EPS	1.08	1.08	1.06	1.13
Recurring EPS post hybrid coupon	**1.02**	**1.01**	**1.00**	**1.07**
Dividend per share	**1.00**	**1.00**	**0.70**	**0.70**
Implied payout ratio	97.9%	98.6%	69.8%	65.2%
Net debt	(27,727)	(24,355)	(26,070)	(26,144)
Net debt/EBITDA	**2.5x**	**2.2x**	**2.5x**	**2.4x**
Capital expenditures	(7,240)	(7,017)	(5,188)	(5,304)
Disposals, net of acquisitions	(541)	(5,618)	0	0

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

16. Our valuation

Our valuation is based on a **SOTP valuation**. We do not yet include the EUR15bn worth of potential disposals which could be completed in the years to come. **We only include disposals already closed or about to be closed**. We exclude Suez's contribution within the EBITDA of the "Other" division as Suez is already included in the financial assets. **This leads to an EUR16.5 FV.**

Business unit	Assets value (EURm)	Implied 2017e EV/EBITDA multiple	2017e EBITDA (EURm)	Method	WACC used	Beta used	Value per share (EUR)
North America	1,861	8,1x	229	DCF	5.7%	1.00	0.8
Latin America	14,638	8,2x	1,781	DCF	6.2%	1.15	6.1
Africa/Asia	9,737	7,8x	1,245	DCF	6.7%	1.30	4.1
France	9,868	7,0x	1,406	DCF	5.7%	1.00	4.1
Benelux	4,844	6,7x	728	DCF	5.7%	1.00	2.0
RoE	4,410	7,8x	569	DCF	5.8%	1.05	1.8
Infrastructures	26,999	8,1x	3,317	2017e RAB + multiple	-	-	11.3
o/w Infra (exc. Storage)	*23,685*	*8,3x*	*2,844*	*2017e RAB*	-	-	*9.9*
o/w Storengy	*3,314*	*7,0x*	*473*	*7x 2017e EV/EBITDA multiple*	-	-	*1.4*
E&P	5,453	4,9x	1,104	DCF	6.3%	1.20	2.3
GEM & LNG	759	10,4x	73	DCF	6.3%	1.20	0.3
Others (exc. SEV contribution)	-211	6,0x	-35	6x 2017e EV/EBITDA multiple	-	-	-0.1
Total Enterprise Value	**78,358**	**7,5x**	**10,417**	**-**	**-**	**-**	**32.7**
Financial assets	**11,204**	**-**	**-**	**-**	**-**	**-**	**4.7**
o/w Suez Environnement (33.7% at market value)	*2,444*	-	-	*Market Value*	-	-	*1.0*
o/w Financial assets at book value	*4,188*	-	-	*Book Value*	-	-	*1.7*
o/w other associates exc. SEV	*4,572*	-	-	*Book Value*	-	-	*1.9*
Net debt end 2015 - Company def.	**-27,727**	**-**	**-**	**Book Value**	**-**	**-**	**-11.6**
Net cash from 2016 disposals, not included into 2015 net debt	**5,618**	**-**	**-**	**-**	**-**	**-**	**2.3**
Re-integration of hybrid @ 100% debt	**-3,700**	**-**	**-**	**-**	**-**	**-**	**-1.5**
Pensions & other provisions	**-18,836**	**-**	**-**	**Book Value**	**-**	**-**	**-7.9**
o/w Pensions	*5,785*	-	-	*Book Value*	-	-	*2.4*
o/w nuclear decommissioning and last cores	*8,373*	-	-	*Book Value*	-	-	*3.5*
o/w site reconstitutions	*1,474*	-	-	*Book Value*	-	-	*0.6*
o/w others	*3,204*	-	-	*Book Value*	-	-	*1.3*
Minority interests	**-5,673**	**-**	**-**	**Book Value**	**-**	**-**	**-2.4**
Equity Value	**39,244**	**-**	**-**	**-**	**-**	**-**	**16.4**
# shares	*2,395*						
Implied Fair Value rounded (FV) - EUR	**16.5**						

Source: Bryan, Garnier & Co ests.

As a reminder, the theoretical **DCF-based valuation** (not included in our FV computation) which we use in order to capture the company's long-term growth potential better (and to compare the two scenarios we mentioned) implies a potential **16%** upside to **EUR17.0 per share** once Engie's transformation is complete vs. **EUR13.5 per share** (**8%** downside) if no further disposals are made by the group.

In the first scenario, no more disposals have been completed while capital expenditures reach EUR17.5bn. In our DCF-based valuation, we use a **1.10** beta, a **1.4%** long-term growth, an **8.0%** long-term operating margin, a **6.0%** WACC and a **50%** debt ratio.

Fig. 53: Scenario 1 – DCF - EURm

EURm	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	Perp.
EBIT exc. Associates	**5,757**	**5,528**	**5,787**	**5,914**	**6,007**	**6,101**	**6,189**	**6,105**	**6,022**	**6,115**	**6,076**	**5,722**
NOPAT	3,828	3,759	3,935	4,021	4,085	4,149	4,208	4,152	4,095	4,158	4,132	3,891
D&A	4,415	4,379	4,459	4,510	4,572	4,633	4,698	4,754	4,813	4,883	4,917	4,990
Capex	(7,017)	(5,188)	(5,304)	(5,729)	(5,808)	(5,888)	(5,748)	(5,828)	(5,909)	(5,892)	(5,884)	(4,990)
Change in WC	754	(446)	285	219	212	212	231	162	167	259	14	188
Free Cash Flow	**1,980**	**2,504**	**3,375**	**3,022**	**3,061**	**3,106**	**3,388**	**3,240**	**3,166**	**3,407**	**3,179**	**4,079**
Discounted Free Cash Flow	1,980	2,362	3,003	2,536	2,423	2,319	2,387	2,153	1,984	2,014	1,773	

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

Fig. 54: Scenario 1 – DCF valuation per share - EURm

PV Free Cash Flows	24,934
PV Terminal Value	46,477
Value of Op. Assets	**71,412**
Financial assets	11,204
2015 net debt	(27,727)
Net cash from disposals	5,618
Re-integration of hybrid	(3,700)
Pensions & other provisions	(18,836)
Minority interests	(5,673)
Total implied Equity Value	**32,297**
# of shares	2,395
Equity value per share - EUR	**13.5**

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

In our second scenario, we assume all the disposal programme has been completed (EUR14.9bn net disposals' impact) while capital expenditures reach EUR18.5bn. We use a lower beta (**1.05**) but a

higher debt ratio (**55%**) to reflect the new profile of the company geared towards infrastructures and regulated activities (hence a **5.5%** WACC). As we consider higher capex (notably in renewables and in services), we slightly increase our long-term growth rate by **20bps** but lower our operating margin (from 8.0% to **7.5%)** as we assume a large part of the new capex will be dedicated to services which are dilutive on the group's margin.

Fig. 55: Scenario 2 – DCF - EURm

EURm	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	Perp,
EBIT exc. Associates	**5,757**	**5,178**	**4,730**	**4,853**	**4,943**	**5,033**	**5,118**	**5,030**	**4,944**	**5,033**	**4,991**	**5,218**
NOPAT	3,828	3,521	3,216	3,300	3,361	3,423	3,480	3,421	3,362	3,422	3,394	3,548
D&A	4,415	4,379	3,798	3,847	3,905	3,964	4,025	4,079	4,134	4,201	4,233	4,303
Capex	(7,017)	(5,749)	(5,749)	(5,045)	(5,121)	(5,198)	(5,056)	(5,132)	(5,210)	(5,190)	(5,179)	(4,303)
Change in WC	754	(483)	(284)	216	210	209	228	159	164	256	11	131
Free Cash Flow	**1,980**	**1,668**	**982**	**2,318**	**2,354**	**2,397**	**2,677**	**2,526**	**2,450**	**2,689**	**2,458**	**3,679**
Discounted Free Cash Flow	1,980	1,580	882	1,972	1,898	1,831	1,938	1,733	1,593	1,656	1,435	

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

Fig. 56: Scenario 2 – DCF – Valuation per share - EURm

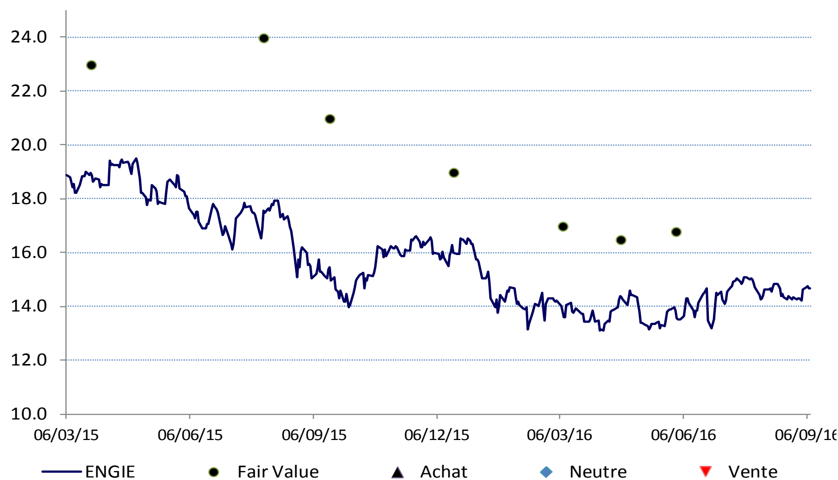
PV Free Cash Flows	18,499
PV Terminal Value	51,743
Value of Op. Assets	**70,242**
Financial assets	10,804
2015 net debt	(27,727)
Net cash from disposals	14,910
Re-integration of hybrid	(3,700)
Pensions & other provisions	(18,836)
Minority interests	(4,698)
Total implied Equity Value	**40,995**
# of shares	2,395
Equity value per share - EUR	**17.1**

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

Please see the section headed "Important information" on the back page of this report.

Price Chart and Rating History

Engie



Ratings		
Date	**Ratings**	**Price**
17/07/14	BUY	EUR19.96

Target Price	
Date	**Target price**
31/05/16	EUR16.8
20/04/16	EUR16.5
08/03/16	EUR17
18/12/15	EUR19
17/09/15	EUR21
30/07/15	EUR24
24/03/15	EUR23
15/01/15	EUR22
17/07/14	EUR23

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Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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