

2016 nuclear output and EBITDA guidance revised down

Fair Value EUR13,6 vs. EUR13,8 (+26%)

BUY

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	17.1 / 9.2
Market Cap (EURm)	21,693
Ev (BG Estimates) (EURm)	84,786
Avg. 6m daily volume (000)	2 007
3y EPS CAGR	-25.3%

EDF announced yesterday after market that it was again lowering its 2016 nuclear output target from 395-400TWh to 380-390TWh, thereby prompting the group to update its 2016 EBITDA guidance from EUR16.3-16.8bn to EUR16.3-16.6bn. 2017 nuclear output is expected to be between 390-400TWh whereas we were initially expecting 415TWh. After factoring these new parameters into our model, we have lowered our 2016 and 2017 EBITDA estimates by 1.2% and 2.0% respectively, and adjusted our FV to EUR13.6 (vs. EUR13.8bn). Buy rating maintained.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.4%	-6.3%	-0.2%	-20.6%
Utilities	-0.4%	-3.3%	-1.9%	-6.5%
DJ Stoxx 600	0.3%	1.0%	-0.2%	-6.8%

ANALYSIS

- 2016 nuclear output targets revised down again...** EDF announced yesterday evening that it was lowering its 2016 nuclear output target due to the additional safety control needed, which will lead planned refuelling outages to be extended, notably for the Tricastin 1 and 3 reactors. Nuclear output is now expected to be between **380-390 TWh** vs. **395-400TWh** initially. As for **2017**, the group expects nuclear output to be in the range of **390-400TWh**.
- As a reminder, two months ago, the company already revised down this objective from **408-412TWh to 395-400TWh** still due to additional controls needed to demonstrate that some components, mainly steam generators can operate in a fully safe mode.
- 2016e EBITDA target also revised down...** Due to these extended outages, the group revised down its 2016e EBITDA target from EUR16.3-16.8bn to **EUR16.3-16.6bn**. Note that this objective includes the **retrospective tariffs** order, which should be published by the end of Q3 2016 following the decision by the State Council on 15th June 2016. We previously estimated that the tariff catch-up effect could boost the group's EBITDA by around **EUR800m**, assuming the impact is fully integrated into the group's 2016 accounts.
- 2016 and 2017 model adjustments:** We have factored in the new 2016 and 2017 nuclear output targets and now stand at **390TWh** for 2016 and **400TWh** for 2017. We have therefore notched down our 2016e and 2017e EBITDA expectations by **1.2%** and **2.0%** respectively and now stand at **EUR16bn** (vs. EUR16.2bn initially) and EUR15.5bn (vs. EUR15.8bn initially).
- Conclusion:** The news is clearly **negative** as nuclear output forecasts have been revised down twice in about two months. The adjustments we have made to both nuclear output and EBITDA expectations – for 2016 and 2017 – lead us to slightly **decrease our FV to EUR13.6** (vs. EUR13.8 initially). **Buy recommendation maintained.**

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	75,006	75,527	76,716	77,948
% change		0.7%	1.6%	1.6%
EBITDA	17,601	15,977	15,502	16,349
EBIT	4,280	6,947	6,021	6,299
% change		62.3%	-13.3%	4.6%
Net income	4,231	2,312	1,704	1,903
% change		-45.4%	-26.3%	11.7%

	2015	2016e	2017e	2018e
Operating margin	5.7	9.2	7.8	8.1
Net margin	5.6	3.1	2.2	2.4
ROE	10.5	5.8	4.4	4.9
ROCE	2.0	2.8	2.5	2.6
Gearing	167.6	179.6	190.6	191.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.15	0.85	0.95
% change	-	-49.4%	-26.3%	11.7%
P/E	4.7x	9.4x	12.7x	11.4x
FCF yield (%)	NM	NM	NM	11.6%
Dividends (EUR)	1.10	0.87	0.69	0.75
Div yield (%)	10.2%	8.1%	6.4%	6.9%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.6x	5.3x	5.7x	5.4x
EV/EBIT	19.0x	12.2x	14.6x	13.9x

VALUATION

- At the current share price, EDF is trading at **5.2x** its 2016e EBITDA and offers a 8.4% yield
- Buy, **FV @ EUR13.6**

NEXT CATALYSTS

- 8th November:** Q3 2016 results

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