

Eiffage

Price EUR70.20

Nice interim figures, decent outlook : difficult to be disappointed.

Fair Value EUR77 vs. EUR73 (+10%)

BUY

Bloomberg	FGR FP
Reuters	FOUG.PA
12-month High / Low (EUR)	71.2 / 54.3
Market Cap (EUR)	6,885
Ev (BG Estimates) (EUR)	21,176
Avg. 6m daily volume (000)	352.5
3y EPS CAGR	18.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.1%	5.9%	7.5%	17.9%
Cons & Mat	4.2%	3.5%	10.6%	5.2%
DJ Stoxx 600	0.5%	-1.1%	2.9%	-6.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	13,909	13,810	14,066	14,341
% change		-0.7%	1.8%	2.0%
EBITDA	2,074	2,132	2,209	2,326
EBIT	1,431	1,547	1,619	1,731
% change		8.1%	4.7%	6.9%
Net income	312.0	399.2	444.9	541.5
% change		27.9%	11.4%	21.7%

	2015	2016e	2017e	2018e
Operating margin	10.3	11.2	11.5	12.1
Net margin	3.3	4.2	4.6	5.5
ROE	13.2	14.5	14.4	15.3
ROCE	5.1	5.4	5.7	6.2
Gearing	351.2	292.5	251.7	209.3

(EUR)	2015	2016e	2017e	2018e
EPS	3.37	4.16	4.64	5.59
% change	-	23.5%	11.5%	20.5%
P/E	20.8x	16.9x	15.1x	12.6x
FCF yield (%)	7.4%	6.2%	7.7%	10.5%
Dividends (EUR)	1.50	1.50	1.50	1.50
Div yield (%)	2.1%	2.1%	2.1%	2.1%
EV/Sales	1.5x	1.5x	1.5x	1.4x
EV/EBITDA	10.4x	9.9x	9.4x	8.7x
EV/EBIT	15.0x	13.7x	12.9x	11.7x



Difficult to be disappointed by the fine earnings at end-June, combined with confident comments from management on the group's outlook. H1 2016 current EBIT rose to EUR677m (3.5% above consensus*) representing a 10.4% margin, up 140bps y/y, with improvement in almost all businesses. The order book was solid, up 1.6% at more than EUR12bn. Guidance is positive, with margin improvement expected in most divisions, while the decline in financial charges should be higher than initially guided. Still a Buy.

H1 2016 performance

EURm	Sales	y/y %	EBIT	EBIT mrg	Δbps
Constr. ex-property development	1400	4.1	40	2.9	11
Property development	329	7.7	24	7.3	42
Infra	1925	-3.8	-40	-2.1	7
Energy	1623	-9.5	49	3.0	23
APRR	1116	5.6	537	48.1	396
Others concessions/PPP	104	1.9	79	75.9	-94
Revenues	6497	-1.6	677	10.4	140

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

*Consensus figures from Financial Inquiry

ANALYSIS

- H1 2016 revenues were down 2% lfl at EUR6497m. The decline was mostly due to a poor comparison basis, with the high-speed rail line BPL contribution (infrastructure division) down cEUR120m Y/Y, since the project is almost completed. Besides, Eiffage Energy benefited last year from EUR170m in revenues from the Cestas solar plant. Otherwise, sales would have been slightly up by approx. 3% according to our calculation. **Outlook is fine:** management reiterated its guidance for a "slight decline in activity" in 2016 but the order book is fine, up 1.6% (4.7% excluding BPL), which means 2017 should definitely be a year of top-line growth in our view. In addition, Eiffage mentioned the "ongoing stabilisation of volumes" in the French roadworks business, while construction is doing good, especially property development (reservations up 14%). Summer APRR traffic trends are similar than H1 volumes (adjusted from various non-recurrent effects though).
- Current operating margins improved in almost every business in H1. Infrastructure profitability was flat though, as the metal and roadworks environments were still difficult in France in H1, while APRR benefited from EUR35m less depreciation. **Outlook is positive:** Construction, Energy and Infrastructure should report better operating margins for the full year, to the same extent as H1 for the first two divisions. Infrastructure should benefit from the improvement in profitability in Metal (positive contribution expected vs breakeven previously). We have upgraded our current EBIT estimates by approx. 3% in 2016.
- The decline in financial charges was impressive in H1 (-EUR67m) but most of it stemmed from APRR/Eiffarie. As the refinancing started in H2 last year, Eiffage has made only minor changes to its FY guidance with a EUR60m fall in financial charges expected versus EUR50m previously. We have upgraded our EPS estimates by approx. 4% for 2016 with a fairly similar impact on our valuation.

VALUATION

- EUR77 vs EUR73 FV derived from an updated SOTP, based on our new forecasts.

NEXT CATALYSTS

- Q3 sales of APRR on 20 October 2016; Q3 sales of Eiffage on 7th November 2016.

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