

21st October 2016

Utilities

ENGIE

Price EUR13.38

France said to drop carbon tax project

Fair Value EUR16,5 (+23%)

BUY

Bloomberg	ENGI FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.6 / 12.9
Market Cap (EURm)	32,572
Avg. 6m daily volume (000)	5 384

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.1%	-10.4%	-7.0%	-18.1%
Utilities	-0.3%	-5.7%	-4.5%	-6.8%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

	2015	2016e	2017e	2018e
P/E	6.6x	12.4x	12.6x	11.8x
Div yield (%)	7.5%	7.5%	5.2%	5.2%

ANALYSIS

- According to French newspaper *Les Echos*, the **French government is likely to drop its initial plan to introduce a carbon tax**. The project is said not to be included in the 2016 budget update currently being discussed by the government. The measure is also said to be too complicated to put in place and might be unconstitutional. **A final decision is expected in mid-November**.
- As a reminder, earlier this year, French Energy minister, Ségolène Royal, announced that a French carbon floor could come into force as early as **January 2017**. A figure of around **EUR30/tonne** for carbon prices had been initially put forward in order to **promote switching from coal to gas in France**.
- We previously stated that **EDF's strong exposure to non CO2 emitting technologies** (nuclear, hydro and other renewables in France) **would have made it the most positively impacted** by such a mechanism. Assuming a EUR30/tonne carbon price floor was implemented in France, **this would have implied a near doubling in our restated 2018e EPS for EDF**, on our estimates.
- As for **Engie**, we estimated a **much lower impact with a c. 0.8% EPS increase for a EUR1/MWh increase in power prices** (triggered by the carbon floor implementation). However, the tax could have made the company's gas-fired power plants **less competitive** than similar plants in other European countries as **France initially planned to introduce this carbon floor unilaterally**.
- **Conclusion:** we knew that this measure was highly **sensitive to the French political context** as 2017 will be an electoral year (coal plants would have been hurt by the measure with potential job cuts). This explains why the implementation of the carbon tax was not included in our model. **However, as we flagged this measure to be a potential earnings growth driver, this about-turn is clearly negative for EDF and to a lesser extent for Engie.**

VALUATION

- At the current share price, Engie is trading at **6.4x** its 2016e EV/EBITDA multiple
- **Buy, FV @ EUR16.5**

NEXT CATALYSTS

- **10th November 2016:** Q3 2016 results

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Pierre-Antoine Chazal, pachazal@bryangarnier.com



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BRYAN, GARNIER & CO

London	Paris	New York	Munich	New Delhi
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