

Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	18.0 / 12.9
Market Cap (EURm)	7,983
Ev (BG Estimates) (EURm)	19,047
Avg. 6m daily volume (000)	1 139
3y EPS CAGR	-0.8%

Following the company's solid 9M-16 results reported yesterday, we made slight adjustments to our estimates for 2016 and beyond. We have increased our 2016 and 2017 EBIT forecasts by respectively 0.5% and 1.2%, notably to reflect the EUR40m additional savings to be implemented. These are offset by the slightly lower growth we expect in the international division and by a different phasing in waste-to-energy facilities' commissioning we modelised. All in all, we remain confident in the company's ability to reach its FY16e guidance as our 2016e revenues and EBIT organic growth stands at 2.3% and 2.4% respectively (vs. guidance at 2.0%+ for revenues and higher than revenues' growth for EBIT). Buy rating confirmed and FV at EUR17.5 reiterated.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.9%	0.5%	-12.1%	-18.0%
Utilities	-0.8%	-7.0%	-4.7%	-7.4%
DJ Stoxx 600	0.5%	0.1%	-1.6%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	15,135	15,550	16,191	16,685
% change		2.7%	4.1%	3.0%
EBITDA	2,751	2,681	2,848	2,977
EBIT	1,381	1,286	1,380	1,471
% change		-6.9%	7.3%	6.6%
Net income	559.8	431.0	513.1	567.0
% change		-23.0%	19.0%	10.5%

	2015	2016e	2017e	2018e
Operating margin	9.1	8.3	8.5	8.8
Net margin	3.7	2.8	3.2	3.4
ROE	8.2	6.1	7.3	8.0
ROCE	8.0	7.2	7.6	8.0
Gearing	121.6	118.1	122.4	125.4

(EUR)	2015	2016e	2017e	2018e
EPS	1.04	0.77	0.92	1.02
% change	-	-25.8%	19.1%	10.5%
P/E	13.6x	18.3x	15.4x	13.9x
FCF yield (%)	3.3%	4.9%	4.6%	5.1%
Dividends (EUR)	0.65	0.65	0.65	0.68
Div yield (%)	4.6%	4.6%	4.6%	4.8%
EV/Sales	1.3x	1.2x	1.2x	1.2x
EV/EBITDA	7.0x	7.1x	6.8x	6.6x
EV/EBIT	13.9x	14.8x	14.1x	13.4x

## ANALYSIS

- Following the company's **solid 9M-16 results** yesterday, we have made slight adjustments to our forecasts for 2016 and beyond. We now expect **FY16e revenues** to reach **EUR15,427m** down **0.8%** vs. our initial estimates as we expect lower growth in the international division – following the end of a construction contract in Asia which negatively impacted the business in Q3-16 – partly offset a lower CLP headwind (but a higher GBP one) and stronger than expected growth in new water services. Our **2016e EBITDA and EBIT** estimates are almost unchanged at **EUR2,676m** (down **0.2%** vs. our previous estimates) and **EUR1,292m** (up **0.5%**) respectively. We assumed lower than expected concession charges in the water business (due to the end of Lille contract) and revised upward the contribution from new waste facilities in 2016 as commissioning occurred in Q3-16 vs. Q4-16 in our initial forecasts.
- We have also integrated the **EUR40m additional savings** unveiled by the company. We assumed a 80%/20% breakdown over 2017 and 2018. **Our 2017e EBITDA estimates came at EUR2,866m up 0.6%** vs. our previous expectations as new savings implemented would notably be offset by lower growth expected in the Europe/Latam subdivision following recent losses in contracts which have not been replaced since then and lower 2017 contribution, **on a year-on-year basis**, from waste-to-energy commissioning in the UK.
- All in all, **we remain confident in the company's ability to reach its FY16e guidance** which includes a 2% organic growth in revenues and an organic growth in EBIT higher than the one in revenues (i.e. at least 2%). Following our adjustments, **our organic growth estimates for full-year revenues and EBIT stand at 2.3% and 2.4% respectively.**
- Buy rating confirmed and FV at EUR17.5 maintained.**

Table 1: change in estimates 2016e-2018e (BG estimates)

	New			Old		
	2016e	2017e	2018e	2016e	2017e	2018e
<b>Revenues</b>	<b>15 427</b>	<b>16 064</b>	<b>16 535</b>	<b>15550</b>	<b>16191</b>	<b>16685</b>
o/w Water	4772	4875	4986	4720	4825	4960
o/w Waste	6241	6444	6529	6345	6552	6638
o/w International	4311	4641	4916	4382	4711	4984
<b>EBITDA</b>	<b>2 676</b>	<b>2 866</b>	<b>2 994</b>	<b>2681</b>	<b>2848</b>	<b>2977</b>
o/w Water	1288	1344	1374	1290	1338	1373
o/w Waste	768	824	860	771	819	854
o/w International	751	829	891	751	822	881
<b>EBITDA margin</b>	<b>17,3%</b>	<b>17,8%</b>	<b>18,1%</b>	<b>17,2%</b>	<b>17,6%</b>	<b>17,8%</b>
o/w Water	27,0%	27,6%	27,6%	27,3%	27,7%	27,7%
o/w Waste	12,3%	12,8%	13,2%	12,2%	12,5%	12,9%
o/w International	17,4%	17,9%	18,1%	17,1%	17,4%	17,7%
<b>EBIT</b>	<b>1292</b>	<b>1396</b>	<b>1489</b>	<b>1286</b>	<b>1380</b>	<b>1471</b>
EBIT margin	8,4%	8,7%	9,0%	8,3%	8,5%	8,8%

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



#### VALUATION

- At current share price, the stock trades at **7.1x** its 2016e EV/EBITDA multiple
- **Buy, FV @ EUR17.5**
- **Risks to our rating:** **1**/stronger regulatory headwind in the French water business (inherent to the Brottes law); **2**/strong dependence to climate in the water business; **3**/further decrease in raw materials and power prices which would negatively impacted the waste business **and 4**/no significant recovery in the European industrial production hence in waste volumes treated.

#### NEXT CATALYSTS

- **March 1<sup>st</sup> 2017:** FY-16 results

*[Click here to download document](#)*

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