

EDF

Price EUR9.78

Positive adjustments following recent hike in power prices

Fair Value EUR14,6 vs. EUR13,6 (+49%)

BUY

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	15.5 / 9.2
Market Cap (EUR)	20,632
Ev (BG Estimates) (EUR)	83,851
Avg. 6m daily volume (000)	1 772
3y EPS CAGR	-15.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.1%	-15.5%	-14.8%	-27.9%
Utilities	-4.9%	-7.8%	-6.1%	-10.6%
DJ Stoxx 600	-5.0%	-2.7%	-0.9%	-10.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	75,006	75,527	77,629	79,506
% change		0.7%	2.8%	2.4%
EBITDA	17,601	15,789	16,548	17,611
EBIT	4,280	6,759	7,067	7,561
% change		57.9%	4.6%	7.0%
Net income	4,231	2,186	2,405	2,749
% change		-48.3%	10.0%	14.3%

	2015	2016e	2017e	2018e
Operating margin	5.7	8.9	9.1	9.5
Net margin	5.6	2.9	3.1	3.5
ROE	10.5	5.5	6.1	6.9
ROCE	2.0	2.8	2.8	3.0
Gearing	167.6	180.5	185.5	182.5

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.09	1.20	1.37
% change	-	-52.1%	10.0%	14.3%
P/E	4.3x	9.0x	8.2x	7.1x
FCF yield (%)	NM	NM	2.9%	17.6%
Dividends (EUR)	1.10	0.83	0.90	1.00
Div yield (%)	11.2%	8.5%	9.2%	10.2%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.6x	5.3x	5.2x	4.8x
EV/EBIT	18.8x	12.4x	12.2x	11.3x

Following EDF's downward revision to its 2016 nuclear output last week and the recent increase in French power prices (French 1Y forward prices reached their highest level since January 2013), we have reviewed our model for EDF. We now assume a price of EUR37 per MWh for 2017 and beyond (vs. EUR30 before). To be on the safe side and integrate recent developments in the company's nuclear fleet, we have also reduced our 2016 and 2017 nuclear output forecasts from 390TWh to 380TWh and from 400TWh to 390TWh respectively and slightly increased our beta. These adjustments prompt us to increase our FV by c. 7% to EUR14.6. Buy recommendation maintained.

ANALYSIS

- French power prices have increased sharply over the past few weeks. France power baseload forward 1-month notably crossed the EUR100 per MWh level while France forward prices 1-year ahead reached EUR49.2 per MWh, the highest level since November 2012.



- Why such an increase? In October, the French nuclear watchdog ASN told EDF to conduct safety tests on five nuclear reactors due to higher carbon concentrations found in other similar reactors. Back in June, the ASN had already asked EDF to carry out similar tests on 18 nuclear reactors. Combining these tests to be carried out on top of planned maintenance, we found that 19 reactors out of 58 are currently unavailable, i.e. about 30% of EDF's nuclear capacities (20GW out of 63GW) and 15% of French overall installed capacities (c. 130GW).

Table 1: 19 reactors currently unavailable

Reactor	Unavailability start	Unavailability end	Capacities (MW)
CATTENOM 4	31/10/2016	06/11/2016	1,300
PENLY 2	27/08/2016	10/11/2016	1,330
CHINON 3	08/10/2016	11/11/2016	905
ST LAURENT 2	03/09/2016	12/11/2016	915
PALUEL 1	09/04/2016	13/11/2016	1,330
CRUAS 2	15/10/2016	14/11/2016	915
GRAVELINES 1	20/08/2016	19/11/2016	910
CIVAUX 2	10/09/2016	30/11/2016	1,495
DAMPIERRE 3	24/09/2016	30/11/2016	890
CATTENOM 3	24/09/2016	20/12/2016	1,300
BUGEY 4	27/08/2016	31/12/2016	880
GRAVELINES 2	17/09/2016	31/12/2016	910
TRICASTIN 4	22/10/2016	31/12/2016	915
TRICASTIN 3	07/05/2016	31/12/2016	915
TRICASTIN 1	13/08/2016	31/12/2016	915
FESSENHEIM 2	13/06/2016	31/03/2017	880
GRAVELINES 5	09/04/2016	31/03/2017	910
BUGEY 5	27/08/2015	31/05/2017	880
PALUEL 2	16/05/2015	31/08/2017	1,330

Source : EDF; Bryan Garnier & Co. ests.

- Concerns have therefore been raised over France's ability to match power demand during the winter - as nuclear still represents about 75% of the country's power generation - pushing up forward prices. As shown in the table above, 15 reactors are however expected to be available before the end of December 2016 and therefore be ready for the winter season. The sudden hike in 1-month forward (from EUR75.6 per MWh one week ago to c. EUR120 per MWh today) has also been driven by lower than average temperature forecasts for this week with concerns over



the ability to match the expected immediate increase in power demand.

Table 2: Temperatures set to drop more than 5° C below usual seasonal levels

Day	05/11/2016	06/11/2016	07/11/2016	08/11/2016	09/11/2016	10/11/2016	11/11/2016
Reference temperatures	10,1	10	9,8	9,7	9,5	9,4	9,3
Forecast deviations	(0,7)	(2,9)	(4,7)	(5,3)	(4,9)	(3,6)	(2,6)

Source : RTE, as of 04/11/2016

- **Impact on EDF?** We have integrated the recent increase in French power prices by plugging an **EUR37/MWh** price - for 2017 and beyond - reflecting current forward prices 2-year's ahead. In our view: **1/this better reflects the current market trend** as forward prices 1-year ahead appear to be highly impacted by the very short-term issues described above; and **2/this therefore appears to be less volatile when determining our FV.**
- Following EDF's announcement last Friday related to lower than expected nuclear output for 2016, **we have cut our output expectations from 390TWh to 380TWh** and are now at the low-end of the new guidance (378-385TWh). **To be on the safe side and in order to integrate recent developments over the company's nuclear fleet** (five more reactors to be halted in December 2016 due to safety checks and to restart by mid January 2017, as announced by the company in October), **we have also reduced our 2017 nuclear output forecasts from 400TWh to 390TWh.** We similarly stand at the low-end of the guidance provided by the company last September (390-400TWh).
- All in all, **we decrease our 2016e estimates by 1.1% at the EBITDA level and by c. 5% at the EPS level.** We are now below EDF's new guidance for 2016 (EUR16.0-16.3bn at the EBITDA level). We have however increased our **EBITDA** expectations by **6.7%** and **7.7%** for 2017e and 2018e respectively. Our **EPS** expectations are increased by **30.7%** and **33.9%** - for 2017e and 2018e respectively – as our assumptions for D&A and financial results remain unchanged.

Table 3: Change in our estimates (EURm)

Estimates	New			Old			Var (%)		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
EBITDA	15,789	16,548	17,611	15,977	15,502	16,349	(1.2%)	6.7%	7.7%
EBIT	6,759	7,067	7,561	6,947	6,021	6,299	(2.7%)	17.4%	20.0%
EPS	1.38	1.49	1.66	1.45	1.14	1.24	(4.8%)	30.7%	33.9%

Source : Bryan Garnier & Co. ests.

VALUATION

- We have also slightly **adjusted our beta for EDF's French nuclear business** (from 1.05 to 1.15) in order to highlight the **operational and financial risks** inherent to the unavailability of various nuclear reactors as well as the **weak visibility** provided by the company and **ongoing uncertainties** over the overall political context in France and over the ARENH mechanism.
- All these adjustments have prompted us to increase our **FV from EUR13.6 to EUR14.6** per share implying a c. **49% theoretical upside.** Note the **high sensitivity of our theoretical FV to the power price plugged for 2017 and beyond.** At constant 2017 nuclear output, an EUR50 per MWh price would imply an EUR22 per share theoretical FV vs. a c. EUR5 per share theoretical FV for an EUR20 per MWh price.

Table 4: FV sensitivity to 2017e nuclear output and French power prices for 2017 & beyond

FV sensitivity	EUR20/MWh	EUR30/MWh	EUR35/MWh	EUR37/MWh	EUR40/MWh	EUR45/MWh	EUR50/MWh
370TWh	4,1	10,0	12,9	14,0	15,7	18,6	21,4
380TWh	4,4	10,3	13,2	14,3	16,0	18,9	21,7
390TWh	4,7	10,6	13,5	14,6	16,3	19,2	22,0
400TWh	5,0	10,9	13,8	14,9	16,6	19,5	22,3
410TWh	5,3	11,2	14,1	15,2	16,9	19,8	22,6

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

- At the current share price, the stock is trading on 2016e EV/EBITDA of **5.3x**

NEXT CATALYSTS

- **8th November:** Q3 2016 revenues [Click here to download](#)



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