

Suez

Price EUR14.15

Reorganisation in China

Fair Value EUR17,5 (+24%)

BUY-Top Picks

| | |
|----------------------------|-------------|
| Bloomberg | SEV FP |
| Reuters | SEVI.PA |
| 12-month High / Low (EUR) | 18.0 / 12.9 |
| Market Cap (EUR) | 7,986 |
| Ev (BG Estimates) (EUR) | 19,048 |
| Avg. 6m daily volume (000) | 1 141 |
| 3y EPS CAGR | 0.0% |

NWS Holding announced this morning that it has reached an agreement with Suez regarding their 50/50 JV in SFH, the Chinese water subsidiary of Suez. Under this agreement, NWS and Suez will group together their respective waste and wastewater businesses in a unique subsidiary. Following the operation, Suez will own a 58% stake in the new structure, which will be fully consolidated by the group. Positive for Suez.

ANALYSIS

- **Suez has reached an agreement with NWS Holding for the restructuring of their 50/50 joint-venture in the water business, SFH (Sino-French Holding).** Under this agreement, NWS and Suez will group together their respective waste and wastewater businesses in SFH as a unique subsidiary. **Following the operation, Suez will own a 58% stake in the new structure,** the remaining 42% being held by NWS. The operation is expected to close by the end of the year.
- **Both companies will inject their respective effective interests of 24 business entities into SFH.** NWS will also make a cash contribution of about **EUR50m** for the expanded business portfolio and market footprint.
- As a reminder, SFH was consolidated by the equity method while waste activities, 100% owned by Suez, were fully consolidated by the group. **Following the operation, both activities will be fully consolidated by Suez.** However, **no accounting details have been disclosed by the group.**
- **We estimate that Suez generates around EUR1bn in revenues in China on a yearly basis.** About **EUR400m** were fully consolidated by the group in FY2015. Considering 2015 figures, we estimate the operation would add about **EUR70m** to the company's revenues, **EUR40m** to the company's EBITDA and **EUR30m** to the company's EBIT, **on a full-year basis.** We however consider the impact to be rather **marginal** at the company's net income level.
- **Positive for Suez,** although more financial and accounting details are awaited, as it enables the company to **strengthen its activities in China where the Group already has a strong footprint in the fast-growing hazardous waste and industrial water segments.** We also believe **the Chinese market is quite resilient** as it is currently driven by harsher environmental regulations implying that a macro downturn would not hugely impact the company's businesses in the area. Over the first nine months of the year, Suez reported around **25% organic growth** in its Asian sub-division's revenues, well above the 6-8% organic growth target for its overall international division.

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|--------|----------|
| Absolute perf. | -3.7% | -1.4% | -12.1% | -18.0% |
| Utilities | -3.7% | -6.8% | -6.5% | -8.7% |
| DJ Stoxx 600 | -2.2% | -1.3% | -1.8% | -8.3% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|------------------|--------|--------|--------|--------|
| Sales | 15,135 | 15,427 | 16,064 | 16,535 |
| % change | | 1.9% | 4.1% | 2.9% |
| EBITDA | 2,751 | 2,676 | 2,866 | 2,994 |
| EBIT | 1,381 | 1,292 | 1,396 | 1,489 |
| % change | | -6.4% | 8.1% | 6.6% |
| Net income | 559.8 | 435.3 | 526.0 | 581.4 |
| % change | | -22.2% | 20.8% | 10.5% |

| | 2015 | 2016e | 2017e | 2018e |
|------------------|-------|-------|-------|-------|
| Operating margin | 9.1 | 8.4 | 8.7 | 9.0 |
| Net margin | 3.7 | 2.8 | 3.3 | 3.5 |
| ROE | 8.2 | 6.1 | 7.4 | 8.1 |
| ROCE | 8.0 | 7.3 | 7.7 | 8.1 |
| Gearing | 121.6 | 118.0 | 121.7 | 124.1 |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|-----------------|-------|--------|-------|-------|
| EPS | 1.04 | 0.78 | 0.94 | 1.04 |
| % change | - | -25.0% | 20.8% | 10.5% |
| P/E | 13.6x | 18.2x | 15.0x | 13.6x |
| FCF yield (%) | 3.3% | 4.9% | 5.0% | 5.4% |
| Dividends (EUR) | 0.65 | 0.65 | 0.65 | 0.70 |
| Div yield (%) | 4.6% | 4.6% | 4.6% | 5.0% |
| EV/Sales | 1.3x | 1.2x | 1.2x | 1.2x |
| EV/EBITDA | 7.0x | 7.1x | 6.8x | 6.6x |
| EV/EBIT | 13.9x | 14.7x | 13.9x | 13.2x |

VALUATION

- At the current share price, the stock trades at **7.1x** its 2016e EV/EBITDA multiple
- **Buy, FV @ EUR17.5**

NEXT CATALYSTS

- **1st March:** FY16 results

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| | |
|---------|---|
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