

Veolia Environnement

Price EUR19.72

9M 2016 results – first take: tepid performance, as expected

Fair Value EUR23,5 (+19%)

BUY

Bloomberg	VIE FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.9 / 18.1
Market Cap (EURm)	11,107
Ev (BG Estimates) (EURm)	18,527
Avg. 6m daily volume (000)	1 783
3y EPS CAGR	27.0%

Veolia unveiled its 9M 2016 results this morning. Revenues of EUR17,708m were down 3% yoy while EBITDA reached EUR2,206m, slightly below the consensus figure, up 5.1% at constant FX with strong cost-savings more than offsetting the expected adverse impact in the company's French water business. Veolia adjusted downward its full-year guidance at the revenue level (stable vs. growth) while the rest of the guidance was unchanged. Buy rating and FV at EUR23.5 confirmed, pending more information during the conference call @ 8:30am.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.8%	-0.9%	-8.1%	-9.8%
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	24,965	25,080	26,116	26,801
% change		0.5%	4.1%	2.6%
EBITDA	2,997	3,147	3,386	3,554
EBIT	1,060	1,404	1,584	1,713
% change		32.5%	12.8%	8.1%
Net income	378.7	528.1	696.1	784.9
% change		39.4%	31.8%	12.8%

	2015	2016e	2017e	2018e
Operating margin	4.5	5.6	6.1	6.4
Net margin	1.8	2.4	2.9	3.2
ROE	4.0	6.3	7.1	7.8
ROCE	6.4	6.4	7.0	7.4
Gearing	82.6	79.8	77.8	74.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.68	0.93	1.23	1.39
% change	-	37.9%	31.8%	12.8%
P/E	29.2x	21.1x	16.0x	14.2x
FCF yield (%)	9.6%	1.8%	7.8%	9.0%
Dividends (EUR)	0.73	0.85	0.84	0.97
Div yield (%)	3.7%	4.3%	4.3%	4.9%
EV/Sales	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	6.0x	5.9x	5.4x	5.1x
EV/EBIT	17.0x	13.2x	11.5x	10.6x

ANALYSIS

- Main 9M 2016 metrics:** 9M 2016 revenues reached **EUR17,708m**, down **3%** yoy as the company bore the brunt of the adverse FX impact, unresponsive energy prices, the fall in industrial services revenues in the US and the expected downsizing of construction activities (SADE and Veolia Water Technologies). **9M-16 EBITDA reached EUR2,206m** (+5.1% at constant exchange rate vs. +5.6% in H1-16) slightly below consensus expectations (at EUR2,219m). The group was notably penalised by impairment of receivables in the water business (Brottes law impact) and an adverse price impact. As expected, the main EBITDA growth driver was the company's cost-savings programme with a **EUR175m** contribution over the first nine months of the year. Veolia expects the 2016 contribution of the programme to reach between **EUR220m** and **EUR240m** and therefore to confirm its advance vs. initial savings target (EUR600m over a 3-year period hence EUR200m per year). Current EBIT reached **EUR979m** (up 4% yoy and 7.3% at constant exchange rates) in line with expectations (at EUR976m) and current net income stood at **EUR421m**, slightly above consensus expectations (at EUR414m), on the back of a lower cost of debt. Excluding capital gains, current net income reached **EUR388m** up 21.5% at constant exchange rates. As a reminder, **the contribution from Transdev is not included in the company's current net income as is the expected capital gain** related to the 20% disposal announced during H1 2016 results.
- Momentum appears to be more favourable in the waste business** with Q3 2016 Waste EBITDA in France slightly improving and resilient volumes (+0.8% YTD). **The water business is however still challenging** with unfavorable weather conditions, notably in France, which negatively impacted volumes (-1.7%). At a constant exchange rate, the Rest of World division was up 1.9% mainly due to strong growth in Asia (increase in energy volumes, new incinerators volumes and cost-savings).
- The group slightly adjusted downwards its full-year guidance at the revenues level.** Revenues, at constant exchange rates, are now expected to be stable overall (vs. growth before). The rest of the guidance was unchanged with **1/EBITDA** growth (at constant FX); **2/**at least EUR650m of FCF (before divestments and acquisitions) **and 3/current** net income of at least **EUR600m**.
- Additionally, Veolia confirmed its outlook for the 2016-2018 period** previously unveiled at the 2015 Investor Day. The group expects a progressive increase in revenue growth to achieve average annual revenue growth between 2% and 3%. **Average annual EBITDA growth is expected at around 5% per year and current net income is expected to be greater than EUR800m in 2018.** Cost-savings are expected to reach **more than EUR600m** over the period (vs. EUR600m initially) while net free cash flow is expected to reach EUR1bn in 2018.

VALUATION

- At the current share price, the company trades at **5.9x** its 2016e EV/EBITDA multiple
- Buy, FV @ EUR23.5**

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Analyst :
 Pierre-Antoine Chazal
 33(0) 1.56.68.75.06
pachazal@bryangarnier.com

Sector Team :
 Xavier Caroen

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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