

# Veolia Environnement

Price EUR16.39

EBITDA growth remains the key driver (report published today)

Fair Value EUR22 vs. EUR23.5 (+34%)

BUY

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | VIE.FP      |
| Reuters                    | VIE.PA      |
| 12-month High / Low (EUR)  | 22.9 / 16.2 |
| Market Cap (EUR)           | 9,234       |
| Ev (BG Estimates) (EUR)    | 16,654      |
| Avg. 6m daily volume (000) | 1 986       |
| 3y EPS CAGR                | 10.1%       |

Following the tepid 9M-16 performance recently posted by Veolia, we reviewed our model in order to integrate the lower than expected growth in revenues. We, however, believe the market has negatively overreacted since the 9M-16 publication. The EBITDA generation remains strong and the valuation is attractive, in our view. Buy rating maintained with FV lowered to EUR22.0 (vs. EUR23.5).

## ANALYSIS

- Veolia posted a **tepid Q3-16 performance** with revenues down 3.2% yoy. This led the group to **revise downward its full-year revenue guidance** (*from growth to stable*) which drove the poor performance of the stock since the 9M-16 publication (-16% vs. -6% for the Stoxx 600 Utilities).
- **Undeniably, growth has been weak over the past couple of years. Revenues have grown only once over the past seven quarters** on the back of, notably, a challenging environment in the French water business, unsupportive energy prices and difficulties in selected end-markets (Oil & Gas, Mining) and geographies (the USA, Australia).
- **We, however, believe the market has negatively overreacted.** Despite the unsupportive macro environment, **the EBITDA generation remains resilient** and should continue with its 4% to 5% organic cruising speed in the next couple of years. **Self-help measures are still being implemented with a quicker path than initially expected** and should remain the main EBITDA and EPS drivers by 2018.
- Despite the negative adjustments we made to our estimates (-1.9%/-2.7%/-2.9% at the EBITDA level for 2016e, 2017e and 2018e respectively) in order to reflect this lower-than-expected growth, **we maintain our buy rating with a lowered FV at EUR22.0 per share** (vs. EUR23.5 before). We still appreciate the attractive dividend yield as well as the **strong EBITDA growth potential**, spurred on by the savings implemented, and believe the recent derating implies a rather **attractive valuation** (22% discount vs. historical FY2 EV/EBITDA multiple).

|                | 1 M    | 3 M    | 6 M    | 31/12/15 |
|----------------|--------|--------|--------|----------|
| Absolute perf. | -16.7% | -18.1% | -18.0% | -25.0%   |
| Utilities      | -7.4%  | -12.9% | -11.6% | -15.5%   |
| DJ Stoxx 600   | -0.2%  | -2.0%  | 1.3%   | -7.3%    |

| YEnd Dec. (EURm) | 2015   | 2016e  | 2017e  | 2018e  |
|------------------|--------|--------|--------|--------|
| Sales            | 24,965 | 24,578 | 25,587 | 26,185 |
| % change         |        | -1.5%  | 4.1%   | 2.3%   |
| EBITDA           | 2,997  | 3,086  | 3,293  | 3,452  |
| EBIT             | 1,315  | 1,364  | 1,521  | 1,646  |
| % change         |        | 3.7%   | 11.5%  | 8.2%   |
| Net income       | 580.0  | 606.0  | 692.4  | 777.0  |
| % change         |        | 4.5%   | 14.3%  | 12.2%  |

|                  | 2015 | 2016e | 2017e | 2018e |
|------------------|------|-------|-------|-------|
| Operating margin | 4.5  | 5.5   | 5.9   | 6.3   |
| Net margin       | 1.8  | 2.1   | 3.0   | 3.2   |
| ROE              | 4.0  | 6.1   | 6.8   | 7.4   |
| ROCE             | 6.4  | 6.3   | 6.7   | 7.1   |
| Gearing          | 82.6 | 81.1  | 79.4  | 76.6  |

| (EUR)           | 2015  | 2016e | 2017e | 2018e |
|-----------------|-------|-------|-------|-------|
| EPS             | 1.03  | 1.07  | 1.22  | 1.37  |
| % change        | -     | 4.0%  | 14.3% | 12.2% |
| P/E             | 15.9x | 15.3x | 13.4x | 11.9x |
| FCF yield (%)   | 11.5% | 2.4%  | 8.7%  | 10.2% |
| Dividends (EUR) | 0.73  | 0.81  | 0.89  | 0.97  |
| Div yield (%)   | 4.5%  | 5.0%  | 5.4%  | 5.9%  |
| EV/Sales        | 0.6x  | 0.7x  | 0.6x  | 0.6x  |
| EV/EBITDA       | 5.4x  | 5.4x  | 5.0x  | 4.8x  |
| EV/EBIT         | 12.3x | 12.2x | 10.8x | 10.0x |

## VALUATION

- At current share price, Veolia trades at **5.4x** its 2016e EV/EBITDA multiple and at **5.0x** its 2017e EV/EBITDA multiple.
- Following the recent derating of the stock (-16% since the company's 9M-16 publication), we believe Veolia's current implied **valuation is attractive** with a c. **22% discount** vs. the company's historical EV/EBITDA multiple and a c. **18% discount** vs. the company's historical FY2 P/E multiple.
- At current share price, the company's dividend yield reached **5.0%/5.4%/6.0%** for 2016e/2017e/2018e respectively vs. **3.9%/4.0%/4.2%** on average for the environmental services sub-sector.
- Buy, **FV @ EUR22.0** (vs. EUR23.5 previously), implying a c. **34% theoretical upside** vs. company current share price.

## NEXT CATALYSTS

- **February 2017: FY16 results**

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