

16th December 2016

Utilities

## Veolia Environnement

Price EUR15.67

Decrease in tariffs in Veolia's biggest water contract in France

Fair Value EUR22 (+40%)

BUY

Bloomberg	VIE.FP
Reuters	VIE.PA
12-month High / Low (EUR)	22.7 / 15.5
Market Cap (EURm)	8,828
Avg. 6m daily volume (000)	2 289

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.4%	-22.1%	-18.9%	-28.3%
Utilities	5.5%	-4.6%	-3.5%	-10.8%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

  

	2015	2016e	2017e	2018e
P/E	15.2x	14.6x	12.8x	11.4x
Div yield (%)	4.7%	5.2%	5.7%	6.2%

### ANALYSIS

- The **SEDIF** (Syndicat des Eaux d'Ile De France) **announced yesterday that drinking water prices will be lowered by EUR0.10 per m<sup>3</sup>** (from EUR1.47 per m<sup>3</sup> to EUR1.37 per m<sup>3</sup>) **as from January 2017** in the area it covers. This follows the past 18% decrease in tariffs back in 2011.
- As a reminder, **the SEDIF covers about 150 municipalities located on the outskirts of Paris**, which implies the supply of c. **4m customers**. **Veolia is the operator of the market** since 1923. In 2010, the contract was renewed for 12 years.
- According to French news site BFM Business, **this decrease in tariffs will only be endured by Veolia** whose remuneration is around EUR1 per m<sup>3</sup>.
- We assumed Veolia's contract represents around 13% of the company's water revenues in France hence c. **EUR400m of revenues per year**. Considering Veolia's remuneration at EUR1 per m<sup>3</sup>, this decrease in tariffs would imply a c. **10% cut in Veolia's remuneration hence a c. EUR40m headwind at the revenues' level as from 2017**.
- This confirms the **negative momentum for both Suez and Veolia in their respective French water businesses** with contracts' renegotiations implying **decreased prices**, in line with the low inflation environment, and the **Brottes law** implying significant headwind at the EBITDA level (we assumed a c. EUR25m headwind for Veolia in FY16).

### VALUATION

- At the current share price, Veolia trades at **4.8x** its 2016e EV/EBITDA multiple
- **Buy, FV @ EUR22.0** per share

### NEXT CATALYSTS

- **23rd February 2017**: FY16 results

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### Distribution of stock ratings

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NEUTRAL ratings 0%

SELL ratings 28%

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