

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	13.7 / 9.2
Market Cap (EUR)	20,585
Ev (BG Estimates) (EUR)	82,708
Avg. 6m daily volume (000)	1 948
3y EPS CAGR	-25.8%

Following last week's unveiling of very disappointing 2017 EBITDA guidance (EUR13.7-14.3bn), we have completely rebuilt our power price model for France and the UK. Our 2017e/2018e estimates are significantly revised downward, so is our FV, now standing at EUR10.4 per share. We downgrade EDF to neutral due to the ongoing low visibility we have on the company's earnings, the upcoming capital increase, which should negatively weigh on the stock and the risks we see in nuclear provisions. In all, we would favour Engie over EDF due to the recently increased visibility on the stock notably following recent nuclear provisions announcement and upcoming disposals likely to act as positive catalysts.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.4%	-10.7%	-12.7%	-28.1%
Utilities	6.9%	-4.4%	-4.0%	-10.2%
DJ Stoxx 600	6.0%	5.4%	10.4%	-1.7%

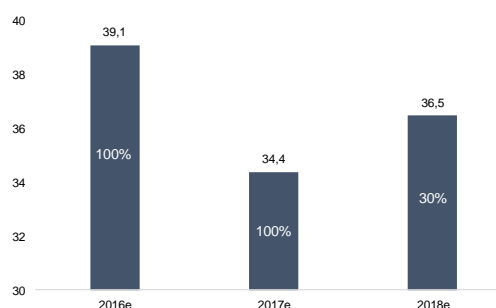
YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	75,006	74,664	72,961	73,843
% change		-0.5%	-2.3%	1.2%
EBITDA	17,601	16,009	14,062	15,632
EBIT	4,280	6,979	4,581	5,677
% change		63.1%	-34.4%	23.9%
Net income	4,231	2,924	1,230	1,864
% change		-30.9%	-57.9%	51.5%

	2015	2016e	2017e	2018e
Operating margin	5.7	9.3	6.3	7.7
Net margin	5.6	3.9	1.7	2.5
ROE	10.5	5.6	1.5	3.1
ROCE	2.0	2.8	2.0	2.4
Gearing	167.6	165.5	162.8	164.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.27	1.46	0.61	0.93
% change		-36.0%	-57.9%	51.6%
P/E	4.3x	6.7x	15.9x	10.5x
FCF yield (%)	NM	NM	NM	8.8%
Dividends (EUR)	1.10	0.87	0.37	0.56
Div yield (%)	11.3%	9.0%	3.8%	5.7%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.6x	5.2x	5.9x	5.4x
EV/EBIT	18.7x	11.9x	18.1x	14.8x

## ANALYSIS

- Last week, EDF unveiled its **2017e EBITDA guidance** (between EUR13.7bn and EUR14.3bn), which was **9% to 13%** below consensus expectations and which implies a **11% to 16%** yoy decrease vs. the 2016e unchanged company EBITDA guidance (**EUR16.0-16.3bn**). The main reasons for this decrease were the **expected decrease in French and UK power prices** as well as higher ARENH volumes subscriptions for 2017. Since this announcement, the stock has clearly been under pressure (-12.9% vs. +1.2% for the Stoxx 600 Utilities).
- We have completely rebuilt our power price model** and slashed our estimates for both the French and UK business divisions. EDF does not disclose its hedging policy, but we estimate a standard 3-year rolling policy would imply a c. **EUR4.5/MWh decrease in the company's achieved French and UK power prices in 2017 vs. 2016**. We additionally assume that ARENH volume subscriptions will have a c. **EUR300m negative impact on the company's 2017e EBITDA**, based on a 50TWh subscribed volumes' assumption for 2017. In all, **we now expect 2016e/2017e/2018e EBITDA to reach EUR16.0bn/EUR14.1bn/EUR15.6bn** respectively. After a significant drop in 2017, we expect a substantial rebound in 2018 notably given the current level of forward prices.

**Table 1:** BG assumptions for French power prices (2016e-2018e) – EUR/MWh

- We have also integrated the expected disposal of a 49.9% stake in grid operator RTE** which should bring up to **EUR4.2bn cash-in for EDF in 2017**. This is the only expected disposal we have integrated in our model. All in all, **our FV** – based on an equally weighted valuation of three methods (SOTP, P/E ratio, Div. yield) – **now stands at EUR10.4 per share**, implying therefore a limited **7% theoretical upside** vs. current company's share price.

**Table 2:** BG key estimates (2016e-2018e)

	2016e	2017e	2018e
<b>EBITDA</b>	<b>16,009</b>	<b>14,062</b>	<b>15,632</b>
o/w France	11,063	9,027	10,383
o/w UK	1,665	1,568	1,583
EBIT	6,979	4,581	5,677
Net income	2,924	1,230	1,864
<b>EPS</b>	<b>1.46</b>	<b>0.61</b>	<b>0.93</b>
DPS	0.87	0.37	0.56

Source : Bryan Garnier &amp; Co. ests.

- Downgrade to neutral:** despite the recent strong derating (-12.9% performance since the profit



warning), we downgrade EDF to Neutral due to the high earnings volatility and the ongoing low visibility we have on the company's earnings (nuclear outages, hedge policy not disclosed by the company), as shown by the three profit warnings over the last five months. In addition, momentum appears rather poor in our view with the upcoming EUR4bn capital increase (scheduled for March 2017) likely to negatively weigh on the stock on top of the uncertainty related to 2017 French presidential elections. Finally, we see risks that nuclear provisions may be increased as EDF's used discount rate (4.4%) still appears uncorrelated to the market environment. The company's reference document unveiled that a 20bps decrease in the discount rate would imply a c. EUR1.2bn increase in provisions as well as a c. EUR600m headwind at the pre-tax income level. As a reminder, last week, the discount rate used by Engie for its Belgian nuclear provisions has been revised downward by 130bps from 4.8% to 3.5%.

**Table 3: Nuclear provisions – sensitivity to discount rate**

Nuclear provisions France - sensitivity to discount rate					
	Amount in the balance sheet	Balance sheet provisions		Pre-tax income	
		+ 0,20%	-0,20%	+ 0,20%	-0,20%
<b>Back-end nuclear cycle expenses</b>					
⇒ Spent fuel management	10,391	(168)	177	140	(149)
⇒ Long-term radioactive waste management	8,254	(400)	448	337	(376)
<b>Decommissioning and last cores</b>					
⇒ Decommissioning of nuclear power plants	14,930	(496)	522	122	(131)
⇒ Last cores	2,555	-62	65	-	-
<b>Total</b>	<b>36,130</b>	<b>(1,126)</b>	<b>1,212</b>	<b>599</b>	<b>(656)</b>

Source : Company – 2015 Reference Document

- As for the dividend, our 2017e EPS estimate and our unchanged 60% payout ratio imply a mere **3.7% yield**, well below sector standards. As a reminder, EDF'd dividend policy implies a 55-65% payout ratio for 2016 and an **option for scrip dividends for both FY16 and FY17. This would imply further dilution at the EPS level.**
- **In all, we would favour Engie (Buy, FV @ EUR14.8) over EDF (Neutral, FV @ EUR10.4).** We believe Engie's visibility has clearly been improved over the past few weeks following the company's recent announcement over Belgian nuclear provisions. The "no-growth" scenario for 2016-2018 has been priced-in by the market and the consensus has already started to revise downward its initial estimates. **We now expect Engie to keep delivering its transformation plan with the awaited E&P assets' disposal still remaining the main short-term positive catalyst on the stock.**

#### VALUATION

- At the current share price, the stock trades at **5.2x** its 2016e EV/EBITDA multiple.
- **Neutral, FV @ EUR10.4** per share

#### NEXT CATALYSTS

- **14th February 2017:** FY-16 results

[Click here to download document](#)



**Analyst :**  
 Pierre-Antoine Chazal  
 33(0) 1.56.68.75.06  
[pchazal@bryangarnier.com](mailto:pchazal@bryangarnier.com)

**Sector Team :**  
 Xavier Caroen

# Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

## Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

## Distribution of stock ratings

BUY ratings 54,9%

NEUTRAL ratings 35,2%

SELL ratings 9,9%

# Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at [www.bryangarnier.com](http://www.bryangarnier.com)

<b>London</b>	<b>Paris</b>	<b>New York</b>	<b>Munich</b>	<b>New Delhi</b>
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
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			<b>Geneva</b>
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
				Regulated by the FINMA

#### **Important information**

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available.