

**ENGIE**

Price EUR11.98

FV lowered to EUR14.8 following the update on nuclear provisions – first take

Fair Value EUR14,8 vs. EUR15,6 (+24%)

BUY

Bloomberg	ENGI FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.5 / 11.3
Market Cap (EURm)	29,163
Ev (BG Estimates) (EURm)	69,645
Avg. 6m daily volume (000)	5 822
3y EPS CAGR	-20.6%

Engie announced this morning it has received the CNP's opinion regarding the revaluation of the discount rate used for the company's nuclear provisions. The discount rate has been revised downwards from 4.8% to 3.5%. As a consequence, nuclear provisions have been revised upwards by EUR1.8bn. This has led us to decrease mechanically our FV from EUR15.6 to EUR14.8 per share. We additionally expect this update to lead to a c. EUR130m headwind at the net income level. Buy recommendation maintained.

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.2%	-16.6%	-15.2%	-26.6%
Utilities	3.2%	-6.7%	-6.7%	-11.7%
DJ Stoxx 600	4.8%	3.4%	6.3%	-3.3%

**ANALYSIS**

- Engie announced this morning that it has received the **opinion of the Commission for Nuclear Provisions (CNP) concerning the revaluation of provisions for its Belgian nuclear power plants**. As a reminder, the revision process for these nuclear provisions is conducted every three years.
- As expected, **the discount rate has been revised downwards by 130bps from 4.8% initially to 3.5%**. It includes an unchanged inflation rate of 2.0% and a real interest rate of 1.5% vs. 2.8% initially.
- This has led nuclear provisions to increase by EUR1.8bn to c. EUR10.2bn**. This appears to be slightly higher than the initial sensitivity provided by the company (EUR1.1bn impact for a 100bps variation in the discount rate).
- According to the other sensitivity provided during Q3 2016 results by Engie, **this 130bp change in the discount rate would have a c. EUR120-130m negative impact at the net income level**.
- Due to increased provisions in our SOTP, **we have mechanically lowered our FV by EUR0.8 per share to EUR14.8 per share** which still implies a c. 24% upside vs. the current company share price.
- Buy recommendation maintained.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	69,883	65,666	64,457	65,535
% change		-6.0%	-1.8%	1.7%
EBITDA	11,261	10,794	10,593	10,881
EBIT	-3,243	6,182	5,900	6,095
% change		NS	-4.6%	3.3%
Net income	2,589	2,409	2,334	2,443
% change		-6.9%	-3.1%	4.7%

	2015	2016e	2017e	2018e
Operating margin	-4.6	9.4	9.2	9.3
Net margin	3.7	3.7	3.6	3.7
ROE	10.2	5.0	4.9	5.1
ROCE	6.8	4.3	4.1	4.2
Gearing	61.5	55.5	60.0	60.2

(EUR)	2015	2016e	2017e	2018e
EPS	2.04	1.01	0.97	1.02
% change		-50.7%	-3.1%	4.7%
P/E	5.9x	11.9x	12.3x	11.7x
FCF yield (%)	0.8%	28.3%	10.9%	13.5%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	8.4%	8.4%	5.8%	5.8%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	6.8x	6.5x	6.6x	6.4x
EV/EBIT	NS	11.3x	11.8x	11.4x

**VALUATION**

- At the current share price, the stock trades at **6.3x** its 2016e EV/EBITDA multiple
- Buy, FV @ EUR14.8.**

**NEXT CATALYSTS**

- March 2<sup>nd</sup>**: FY16 results

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BUY ratings 55,6%

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