

ENGIE

Price EUR12.20

Improved visibility following nuclear provisions announcement

Fair Value EUR14,8 (+21%)

BUY

Bloomberg	ENGI.FP
Reuters	ENGIE.PA
12-month High / Low (EUR)	16.5 / 11.3
Market Cap (EUR)	29,710
Ev (BG Estimates) (EUR)	70,164
Avg. 6m daily volume (000)	5 804
3y EPS CAGR	-20.6%

As expected, Engie announced yesterday the increase in its nuclear provisions by EUR1.8bn due to a 130bp decrease in the discount rate, which mechanically led us to adjust downward our FV to EUR14.8 per share. As a consequence, we have lowered our EPS forecasts as from 2017e by c. 5% in order to reflect higher dismantling provisions and higher financial charges. In all, we believe that this announcement was already priced-in by the market and that it paradoxically improves visibility on the stock. We now expect the company to keep delivering its transformation plan with new disposals awaited (E&P particularly). Buy recommendation maintained.

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.1%	-13.2%	-11.9%	-25.3%
Utilities	4.4%	-4.5%	-4.3%	-10.6%
DJ Stoxx 600	5.9%	5.5%	9.4%	-2.3%

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	2,204	2,313
% change		-6.9%	-8.5%	5.0%

	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	4.6	4.8
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	6.0x	12.1x	12.5x	12.0x
FCF yield (%)	0.8%	27.7%	10.7%	13.3%
Dividends (EUR)	1.00	1.00	0.70	0.70
Div yield (%)	8.2%	8.2%	5.7%	5.7%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	6.6x	6.5x	6.6x	6.4x
EV/EBIT	NS	11.4x	11.9x	11.5x

ANALYSIS

- Yesterday morning, a few minutes before the market opened, **Engie announced that it had received the opinion of the Commission for Nuclear Provisions (CNP) regarding the revaluation of the company's nuclear provisions for its Belgian nuclear fleet.**
- As expected, **the discount rate used for these provisions has been lowered by 130bps to 3.5%** (inflation rate unchanged at 2.0% and real interest rate at 1.5% vs. 3.8% before). As a consequence, **nuclear provisions have been increased by EUR1.8bn.** This led us to mechanically **lower our FV to EUR14.8 per share yesterday morning.** This still implies **theoretical upside** of c. **20%** vs. the current company share price.
- Note that the EUR1.8bn increase implies higher sensitivity than that initially announced by Engie (EUR1.1bn change in nuclear provisions for a 100bp change in the discount rate) mainly due to undisclosed new industrial assumptions and despite the fact that **the CNP report takes into account the 10-year extension of Doel 1 and Doel 2.**
- At the P&L level, **we lower our recurring EPS forecasts as from FY 2017 (by 5.6% and 5.3% in 2017e and 2018e notably)** due to higher dismantling provisions leading to higher financial charges (due to the negative impact of unwinding the discount on provisions), and based on the sensitivity provided by Engie during Q3 2016 results: **a EUR100m negative impact for a 100bp decrease in the nuclear provisions discount rate.** Our recurring EPS expectations now stand at EUR1.01 per share/EUR0.92 per share/EUR0.97 per share for 2016e/2017e/2018e respectively.
- **We believe this announcement was already priced-in by the market** – as shown by yesterday's stock performance (+1.9% vs. CAC40 at +0.9%). In all, **it paradoxically improves the visibility we have on the stock as the two previous short-term negative catalysts are now behind us** (update on nuclear provisions and downward revisions to consensus estimates). **We now expect the company to keep delivering its transformation plan with new disposals awaited** (particularly the exploration & production assets for which Neptune Oil & Gas Ltd' interest has recently been reported). **Buy recommendation maintained.**

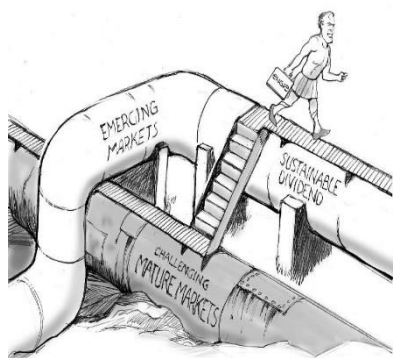
VALUATION

- At the current share price, the stock trades at **6.4x its 2016e EV/EBITDA** multiple.
- **Buy, FV @ EUR14.8**

NEXT CATALYSTS

- **Further disposals** including notably the exploration & production (E&P) assets, the Polaniec power plant in Poland, the remaining thermal assets in Australia (notably the Loy Yang B and the Kwinana power plants) or the port project in northern Chile and the IEM2 power plant project, also in Chile
- **2nd March 2017:** FY 2016 results

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