

## Eiffage

Price EUR62.94

## Reverse Roadshow feedback

Fair Value EUR78 (+24%)

BUY

We met with the Eiffage top managers Christian Cassayre (CFO) and Xavier Ombrédanne last Monday on our reverse roadshow. Everything is not rosy, but there are numerous positive factors: the Grand Paris project, which should feed the majors order books in the next decade; roadworks in France, stabilizing after more than 5 years of recession and a likely improvement in margins. Higher rates will mostly impact the concessions DCF, while risk to refinancing is limited. Besides, inflation is positive for the toll roads top line and their cash costs are mostly fixed now. We stick with our Buy.

## ANALYSIS

- Le Grand Paris project will provide a very decent amount of work for the next 10 years. The equivalent of EUR3bn of work have been attributed so far and between EUR1.5bn to EUR2.0bn is expected to be attributed each year for the decade. Next attributions are expected in H1 2017 and work should really kick-off in 2018 onwards. Besides, some related works will be implemented around the Grand Paris projects. Cumulated works around EUR3.5bn to EUR4bn per annum are possible. The work for the Grand Paris per se (tunnels, underground stations) is complex. Hence the competition is limited to the majors, more or less. However, the risk is limited, as the contractors are not involved in the conception - the Grand Paris design offices deliver the plans. Therefore, any additional and unexpected works will be re-billed. Hence, margins should not stand above average here – especially during the initial phases of a project.
- Toll roads new EUR1bn stimulus might be approved but of course nothing is certain, especially as a new government will be in place in 2017. In any case, it is supported by some local authorities, which are ready to pay for some interchanges. The amount will be limited anyway for APRR, around EUR200m-EUR250m, vs EUR500m for the two previous plans.
- Toll road traffic has been especially strong this year (3.8% in 9M 2016) and it is unlikely to see a similar trend next year, especially as the comparison base will be more difficult. Admittedly, heavy trucks traffic continues to stand below pre-crisis levels.
- The roadworks decline has been limited this year (URSIF discloses a -1.2% YTD decline at end October for the whole industry) and Eiffage expect a stabilization next year, combined with, maybe, a bit less competition. The environment has changed, though: the local authorities are not given orders much in advance now and the roadworks order book over one year is more limited. Other infrastructure sales are underpinned by the well-oriented offshore wind sector which has taken over the oil & gas. In Energy, the group believes it can reach around 4.5% of operating margin in the long term, also 4% is more likely this year (vs 3.7% in 2015). The Energy branch of Eiffage is well placed to benefit from the EdF Grand Carénage project (EUR50bn), which has started (although schedule of execution in uncertain).
- Finally, the risk of high interest rates has not been swept away, but Eiffage underlines that APRR has issued in the last couple of years bonds at very attractive yields and will repay next January EUR1bn at 5%. There is of course a refinancing risk on two bonds of EUR500m each to be paid in January 2018 and January 2019, but they are pretty expensive (around 5%). In any case, an interest rate increase of some basis points will not strongly impact earnings.
- The share price has been under strong pressure though with investors started to point out the risk of higher rates on DCF. The risk exists of course, but is likely to be compensated by inflation though tolls increase. Besides, inflation is actually good for toll roads, as the players have made significant efforts to lower the variable part of the cash costs, in particular though automatization (96% today...).

## VALUATION

- EUR78 derived from a SOTP

## NEXT CATALYSTS

- Eiffage is due to release its FY 2016 results at the end of February 2017, after market

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Bloomberg	FGR FP
Reuters	FOUG.PA
12-month High / Low (EUR)	71.8 / 55.4
Market Cap (EURm)	6,173
Ev (BG Estimates) (EURm)	20,512
Avg. 6m daily volume (000)	296.4
3y EPS CAGR	19.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.0%	-11.0%	-5.5%	5.7%
Cons & Mat	3.3%	0.6%	6.1%	6.7%
DJ Stoxx 600	5.1%	0.8%	2.1%	-3.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	13,909	13,835	14,091	14,448
% change		-0.5%	1.9%	2.5%
EBITDA	2,074	2,149	2,227	2,348
EBIT	1,431	1,564	1,637	1,753
% change		9.3%	4.7%	7.1%
Net income	312.0	407.1	453.0	551.3
% change		30.5%	11.3%	21.7%

	2015	2016e	2017e	2018e
Operating margin	10.3	11.3	11.6	12.1
Net margin	3.3	4.3	4.7	5.6
ROE	13.2	14.8	14.6	15.5
ROCE	5.1	5.5	5.8	6.3
Gearing	351.2	291.4	249.9	207.2

(EUR)	2015	2016e	2017e	2018e
EPS	3.37	4.24	4.72	5.69
% change	-	25.9%	11.3%	20.5%
P/E	18.7x	14.8x	13.3x	11.1x
FCF yield (%)	8.3%	7.0%	8.8%	11.9%
Dividends (EUR)	1.50	1.50	1.50	1.50
Div yield (%)	2.4%	2.4%	2.4%	2.4%
EV/Sales	1.5x	1.5x	1.4x	1.4x
EV/EBITDA	10.1x	9.5x	9.1x	8.4x
EV/EBIT	14.6x	13.1x	12.3x	11.2x



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