

VINCI

Price EUR62.33

Reverse Roadshow feedback

Fair Value EUR74 (+19%)

BUY

Bloomberg	DG FP
Reuters	SGEF.PA
12-month High / Low (EUR)	69.7 / 56.9
Market Cap (EURm)	37,227
Ev (BG Estimates) (EURm)	47,970
Avg. 6m daily volume (000)	1 513
3y EPS CAGR	7.9%

We met with Vinci CFO Christian Labeyrie last Monday on our reverse roadshow. We understand 2017 should be a year of improvement for Vinci, with the combination of toll revenues growth and Construction margin improvement. Of course, traffic on motorways is unlikely to be as dynamic as 2016, but tolls hike will be implemented in February. On the contrary, the comparison base in Contracting will be favourable, after various woes (oil&gas, France) have impacted 2016. All in all, at the current share price, this supports our positive stance on the stock.

ANALYSIS

- 2016 was an exceptional year for traffic, with volumes up 3.1% y/y on the 9M at end September. Heavy vehicle traffic is still slightly below the pre-crisis level (3.1% below Q4 2007). Vinci Autoroutes has benefited from various supports: Spanish macro recovery (explained c30% of ASF traffic growth), low oil prices, rail market share decline vs road (car-sharing, buses), indirect impact of terrorist attacks (travellers avoid public transport). In 2017, traffic growth at 1.0% to 1.5% looks reasonable for Vinci (we are more optimistic today with a 2.4% increase. Our SOTP would be down EUR3 with 1.5% growth in 2017, still tapering to 1% on the long term).
- Tariffs will increase in February 2017: c1.2% for ASF and c0.5% for Cofiroute and Escota, based on formula and an inflation at 0.36%. If the new EUR1bn stimulus plan currently under negotiation is validated, that would imply a bit less than EUR500m of additional capex for Vinci Autoroutes, offset by c0.3% to c0.4% additional tariffs increase between 2018 and 2020. This new plan has still to be agreed by the regulator (Arafer) and validated by the French Council of State. Of course, we do not know if the plan can be signed before April, while a new government can decide to review it. Finally, it worth noting the Arafer has recently published a preliminary report regarding the compensation of the 2015 tariff freeze, but has not provided any opinion on the fairness of the compensation. However, the regulator has warned it will come back with a deeper analysis of the concession returns. This might delay the negotiation on the stimulus plan, in our view.
- Operating margin in the contracting businesses. 2016 has been a difficult year for Vinci Contracting business. Oil & gas woes have penalised it in some countries of Africa sensitive to oil prices and the Oil Majors of course. Vinci sales in Africa have declined, as well as operating margin; while revenues from subsidiary like Entreprouse have been significantly reduced. This, of course, combined with difficulties in France for Construction, has penalised the margin of Vinci Construction (2.1% in 2015 vs 4% to 5% historically – and 1.4% in H1 2016, down 10bps.). In 2017, this division will benefit from easier comparison base in the oil&gas segment and from the reorganisation of France (where the size of Vinci has maybe not been an advantage here, we think). However, the construction market environment in France is better for infrastructures/non-residential in Paris and the largest cities, but remains difficult and competitive in the rest of France. Residential is well-oriented though, but represents less than 10% of Vinci revenues. Roadworks are stabilizing.
- All in all, these various comments support our positive stance on the stock. We recognise some investors are likely to sell the stock if interest rates increase, but we think it can be compensated by stronger inflation (positive impact on tariffs, limited impact on cash costs, of which 44% only are fixed today). Besides, c60% of the gross debt is fixed and Cofiroute has recently launched a EUR1.3bn bond with coupon between 0.375% and 0.75%.

VALUATION

- FV EUR74 derived from a SOTP.

NEXT CATALYSTS

- FY 2016 results due to be released on 7th February 2017.

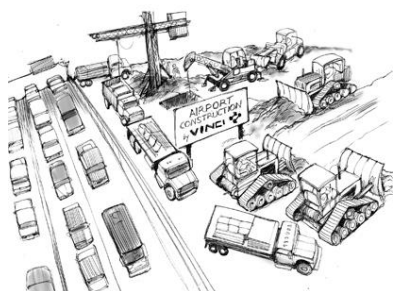
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	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.0%	-9.3%	-5.8%	5.4%
Cons & Mat	3.3%	0.6%	6.1%	6.7%
DJ Stoxx 600	5.1%	0.8%	2.1%	-3.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	38,518	37,930	38,844	40,218
% change		-1.5%	2.4%	3.5%
EBITDA	5,664	5,836	6,145	6,369
EBIT	3,758	4,036	4,344	4,582
% change		7.4%	7.6%	5.5%
Net income	2,109	2,299	2,516	2,655
% change		9.0%	9.4%	5.5%

	2015	2016e	2017e	2018e
Operating margin	9.8	10.6	11.2	11.4
Net margin	5.4	6.2	6.6	6.7
ROE	13.9	14.5	14.9	14.8
ROCE	7.4	7.9	8.6	9.0
Gearing	81.5	71.9	59.0	46.8

(EUR)	2015	2016e	2017e	2018e
EPS	3.58	3.90	4.27	4.50
% change	-	8.8%	9.4%	5.5%
P/E	17.4x	16.0x	14.6x	13.8x
FCF yield (%)	8.2%	7.7%	8.1%	8.8%
Dividends (EUR)	1.84	2.07	2.27	2.39
Div yield (%)	3.0%	3.3%	3.6%	3.8%
EV/Sales	1.3x	1.3x	1.2x	1.1x
EV/EBITDA	8.7x	8.2x	7.6x	7.1x
EV/EBIT	13.0x	11.9x	10.7x	9.8x



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BUY ratings 72%

NEUTRAL ratings 0%

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