



Multi-Utilities & Unregulated Power | [Full-year results](#) | France |

Engie

Equity story clearly repositioned

Buy

Price 24/02/16 **€13.5**
12m target **€16.5**
Upside to TP **22.4%**
12m f'cast div **€1.00**
12m TSR **29.8%**

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Sector stance

Underweight
Preferred stock
ENEL, Suez, Enagas, E.ON
Least preferred stock
SSE, Centrica

Investment trigger

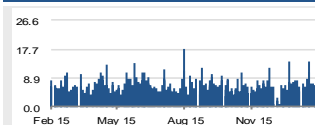
Portfolio reshuffle
Corporate action
Cost reduction programme

Share price performance



Source: SG Cross Asset Research/Equity

Volume



Source: SG Cross Asset Research/Equity

Results in line, 2016 guidance a bit low Engie's FY15 results were in line overall with consensus: €11.3bn EBITDA (1.2% below consensus), COI of €6.3bn (2.3% below consensus) and net recurring income (incl. nuclear tax) of €2.6bn (0.1% above consensus). The company took €8.7bn in impairments, half of which in E&P and LNG, and most of the rest in merchant power generation. The company guided for 2016 EBITDA of €10.8-11.4bn and net recurring income (incl. nuclear tax) of €2.4-2.7bn at normal temperatures and commodity prices at end-2015. The Bloomberg consensus (28 days) is currently at the top of the range (respectively €11.3bn and €2.7bn) and is likely to adjust.

Equity story clearly repositioned Engie committed to a €0.7/sh dividend for 2017-2018: 30% below its €1.0/sh floor for 2015-2016, and representing a c.65-70% payout ratio on our estimates. We believe that this is consistent with the repositioning equity story: the 2016-2018 plan presented aims to accelerate the company's effort to refocus its portfolio on regulated and contracted core business, which should account for 85% of EBITDA by 2018, whilst retaining some growth drivers. Beyond the €1bn opex savings effort, Engie plans €15bn of disposals over the period. It already announced €5.5bn of disposals (US generation and 3GW of Asian coal) and expects limited EPS dilution from the programme, something we believe is supported by a potentially accretive E&P disposal. Whilst this should improve credit metrics, it also leaves €15bn of development capex to spend on the group's key growth areas (Energy Services, renewables and infrastructure). This is likely to include some M&A; however, management has ruled out a deal with Suez.

We reiterate our Buy Engie benefits from better positioning than peers in terms of the energy transition underway. Whilst the company's disposal plan comes with some implementation risks, it also harbours upside potential by crystallizing better value than what is currently priced in Engie's market valuation. The stock trades on an adj. P/E17e of 13.8x and EV/EBITDA17e of 7.6x, and offers an SGe de-risked 5.2% dividend yield for 2017. We see some valuation upside potential and reiterate our Buy rating on the stock (TP €16.5).

Valuation, catalysts & risks to price target, rating & recommendation See page 2.

Share data			
RIC ENGIE.PA, Bloom ENGI FP			
52-week range	19.9-13.1		
EV 15 (€m)	75,932		
Mkt cap. (€m)	32,919		
Free float (%)	56.1		
Performance (%)	1m	3m	12m
Ordinary shares	-6.5	-16.7	-29.9
Rel. Eurofirst 300	-1.0	-2.0	-14.1

Financial data	12/14	12/15e	12/16e	12/17e	Ratios	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	74.7	72.2	69.9	70.1	P/E (x)	15.8	12.7	12.3	13.8
EBIT margin (%)	9.0	8.2	8.7	8.0	FCF yield (/EV) (%)	3.8	2.8	2.6	3.1
Rep. net inc. (€bn)	2.44	0.42	2.67	2.42	Dividend yield (%)	5.3	7.4	5.2	5.2
EPS (adj.) (€)	1.21	1.06	1.10	0.98	Price/book value (x)	0.94	0.70	0.71	0.71
Dividend/share (€)	1.00	1.00	0.70	0.70	EV/revenues (x)	1.19	1.05	1.09	1.08
Payout (%)	83	94	64	72	EV/EBIT (x)	14.1	13.1	12.9	14.0
Interest cover (x)	3.58	3.85	3.89	3.75	EV/IC (x)	0.9	0.8	0.8	0.8
Net debt/equity (%)	51	53	52	49	ROIC/WACC (x)	0.6	0.7	0.6	0.5

EPS CAGR 14-17e: -6.78%

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ENGIE FY15 RESULTS

		FY14	FY15e		FY15	yoy	VS Cons
		Pro forma	SGe	Cons (ZF)	Published	%	%
REVENUES	(€m)	74,686	72,156	74,322	69,883	(6.4%)	(6.0%)
EBITDA	(€m)	12,133	11,328	11,395	11,262	(7.2%)	(1.2%)
ENERGY INTERNATIONAL	(€m)	3,716	3,759	3,644	3,589	(3.4%)	(1.5%)
ENERGY EUROPE	(€m)	2,020	1,648	1,759	1,612	(20.2%)	(8.3%)
GLOBAL GAS&LNG	(€m)	2,225	1,702	1,589	1,625	(27.0%)	2.3%
INFRASTRUCTURES	(€m)	3,274	3,453	3,425	3,402	3.9%	(0.7%)
ENERGY SERVICES	(€m)	1,127	1,240	1,217	1,227	8.9%	0.8%
OTHER	(€m)	(229)	(474)	(238)	(194)	(15.3%)	(18.5%)
COI	(€m)	7,156	6,435	6,473	6,326	(11.6%)	(2.3%)
NI Group Share	(€m)	2,437	424		(4,617)	(289.5%)	
Recurring NI - ENGIE NEW DEF	(€m)	2,725	2,639	2,586	2,588	(5.0%)	0.1%
Net Capex	(€bn)	5.7	4.6				
Net Debt		@31Dec14	@31Dec15e	@31Dec15e	@31Dec15		
	(€bn)	27.5	27.1	28.1	27.7	0.2	(0.4)

Source: SG Cross Asset Research/Equity

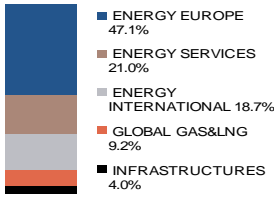
How we value the stock

Our €16.5 TP is derived from an SOTP, with DCF valuations for the generation activities using a pre-tax WACC of 7.8% and 6.8% for Energy Services. We value Supply Activities at 8.0x 2015e EV/EBITDA, Infrastructure at 1.1x 2016e RAB, and E&P at \$13.8/boe of proven reserves (or \$7.8/boe of 2P reserves). Listed entities are valued at market prices and unlisted minorities and associates at 16x P/E.

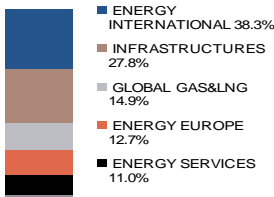
Events, catalysts & risks to price target, rating & recommendation

Engie's investor workshop in June 2016 should provide more granularity on the company's reorganisation, cost savings and growth potential. The key risks to our recommendation and target price relate to the commodity environment and the implementation of any restructuring plan to be announced. A further deterioration in Belgian power, oil and gas prices, forex and/or emerging market growth prospects would impact earnings in line with the sensitivities detailed above (e.g.: oil: -10\$/bbl = -2.4% EPS18e; Power: -1€/MWh = -1.4% EPS18e; Group tax: +1% = -1.9% EPS18e; net cost savings: -€100m = -2.6% EPS18e). Such further deterioration could potentially force Engie to make its disposals at lower valuations than we have assumed in our SOTP. Finally, a lower-than-expected contribution from growth capex would similarly put additional pressure on our earnings estimates and valuation.

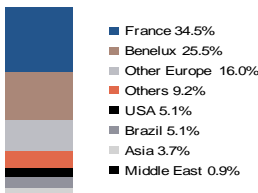
Sales/division 14



EBIT/division 14



Sales/region 14



Major shareholders (%)

Groupe Bruxelles Lambert (GBL)	2.4
Treasury stock	1.8
Sofina	0.4

Engie

Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	2,250	2,253	2,413	2,413	2,435	2,438	2,441	2,444
Share price (average)	26.8	24.2	18.3	16.4	19.0	13.5	13.5	13.5
Average market cap. (SG adjusted) (1)	60,205	54,458	44,254	39,482	46,327	32,880	32,919	32,959
Restated net debt (-)/cash (+) (2)	-41,969	-46,103	-45,743	-40,643	-42,996	-43,523	-43,904	-43,529
Value of minorities (3)	10,551	8,210	8,210	8,210	8,210	8,210	8,210	8,210
Value of financial investments (4)	9,431	8,680	8,680	8,680	8,680	8,680	8,680	8,680
Other adjustment (5)	0	0	0	0	0	0	0	0
EV = (1) - (2) + (3) - (4) + (5)	103,294	100,091	89,527	79,655	88,852	75,932	76,353	76,018
P/E (x)	16.1	15.0	12.2	13.6	15.8	12.7	12.3	13.8
Price/cash flow (x)	4.9	3.8	3.8	3.6	5.3	3.6	4.2	4.1
Price/free cash flow (x)	141	17.5	14.7	10.0	27.0	29.4	32.3	23.3
Price/book value (x)	0.97	0.87	0.74	0.82	0.94	0.70	0.71	0.71
EV/revenues (x)	1.22	1.10	1.09	0.98	1.19	1.05	1.09	1.08
EV/EBITDA (x)	6.9	6.1	6.3	6.2	8.2	7.2	7.4	7.6
Dividend yield (%)	5.6	6.2	8.2	9.2	5.3	7.4	5.2	5.2
Per share data (€)								
SG EPS (adj.)	1.66	1.62	1.51	1.20	1.21	1.06	1.10	0.98
Cash flow	5.43	6.28	4.80	4.56	3.58	3.74	3.23	3.27
Book value	27.6	27.9	24.8	19.9	20.3	19.2	19.0	19.0
Dividend	1.50	1.50	1.50	1.50	1.00	1.00	0.70	0.70
Income statement (€m)								
Revenues	84,477	90,673	81,960	81,278	74,685	72,156	69,905	70,078
Gross income	15,086	16,525	14,623	13,208	11,245	10,725	10,532	10,185
EBITDA	15,086	16,525	14,623	13,208	11,245	10,725	10,532	10,185
Depreciation and amortisation	-6,293	-7,547	-6,200	-6,062	-4,526	-4,785	-4,453	-4,553
EBIT	8,793	8,978	8,423	7,146	6,719	5,940	6,079	5,633
Impairment losses	-1,468	-532	-2,387	-14,947	-1,037	-3,029	0.00	0.00
Net interest income	-2,222	-2,607	-2,341	-1,754	-1,876	-1,545	-1,564	-1,503
Exceptional & non-operating items	2,170	1,238	112	-18.0	450	-250	-180	-180
Taxation	-1,913	-2,119	-1,885	-620	-1,588	-621	-1,558	-1,458
Minority interests	-1,010	-1,418	-839	-61.0	-669	-567	-633	-593
Reported net income	4,614	4,002	1,565	-9,741	2,440	424	2,666	2,415
SG adjusted net income	3,650	3,608	3,441	2,840	2,857	2,593	2,672	2,388
Cash flow statement (€m)								
EBITDA	15,086	16,525	14,623	13,208	11,245	10,725	10,532	10,185
Change in working capital	-258	-426	-1,325	-53	-1,221	805	-308	-50
Other operating cash movements	-2,496	-2,261	-1,931	-1,798	-1,273	-2,227	-2,063	-1,866
Cash flow from operating activities	12,332	13,838	11,367	11,357	8,751	9,303	8,161	8,270
Net capital expenditure	-11,916	-10,747	-8,514	-7,508	-7,081	-8,185	-7,141	-6,854
Free cash flow	416	3,091	2,853	3,849	1,670	1,118	1,020	1,416
Cash flow from investing activities	3,300	6,600	4,100	2,410	2,775	2,500	2,500	2,500
Cash flow from financing activities	-7,584	-13,457	-5,966	1,155	-2,689	-3,073	-2,783	-2,375
Net change in cash resulting from CF	-3,868	-3,766	987	7,414	1,756	545	737	1,542
Balance sheet (€m)								
Total long-term assets	132,717	149,902	127,861	105,812	109,999	111,041	111,374	111,320
of which intangible	40,347	44,588	35,743	27,462	28,791	27,351	25,984	24,685
Working capital	2,881	1,761	2,730	3,063	4,109	3,304	3,612	3,662
Employee benefit obligations	0	0	0	0	0	0	0	0
Shareholders' equity	62,205	62,930	59,745	47,971	49,527	46,733	46,471	46,367
Minority interests	8,513	17,340	6,056	5,688	6,432	6,432	6,432	6,432
Provisions	12,989	14,431	14,221	14,066	16,402	17,222	18,083	18,987
Net debt (-)/cash (+)	-34,229	-37,728	-34,770	-28,262	-28,324	-27,924	-27,332	-25,935
Accounting ratios								
ROIC (%)	5.7	5.0	3.8	7.1	4.4	5.5	4.3	4.0
ROE (%)	7.5	6.4	2.6	-18.1	5.0	0.9	5.7	5.2
Gross income/revenues (%)	17.9	18.2	17.8	16.3	15.1	14.9	15.1	14.5
EBITDA margin (%)	17.9	18.2	17.8	16.3	15.1	14.9	15.1	14.5
EBIT margin (%)	10.4	9.9	10.3	8.8	9.0	8.2	8.7	8.0
Revenue yoy growth (%)	5.7	7.3	-9.6	-0.8	-8.1	-3.4	-3.1	0.2
Rev. organic growth (%)	5.7	7.3	-9.6	-0.8	-8.1	-3.4	-3.1	0.2
EBITDA yoy growth (%)	7.7	9.5	-11.5	-9.7	-14.9	-4.6	-1.8	-3.3
EBIT yoy growth (%)	5.3	2.1	-6.2	-15.2	-6.0	-11.6	2.3	-7.3
EPS (adj.) yoy growth (%)	-23.3	-2.7	-6.7	-20.1	0.2	-11.8	3.0	-10.7
Dividend growth (%)	2.0	0.0	0.0	0.0	-33.3	0.0	-30.0	0.0
Cash conversion (%)	40.3	71.3	74.1	86.2	66.4	45.7	57.7	67.2
Net debt/equity (%)	48	47	53	53	51	53	52	49
FFO/net debt (%)	26.1	25.6	22.7	26.7	18.1	19.7	16.9	16.6
Dividend paid/FCF (%)	800.5	107.7	26.9	91.9	165.7	217.9	203.3	120.7

Source: SG Cross Asset Research/Equity

APPENDIX

COMPANIES MENTIONED

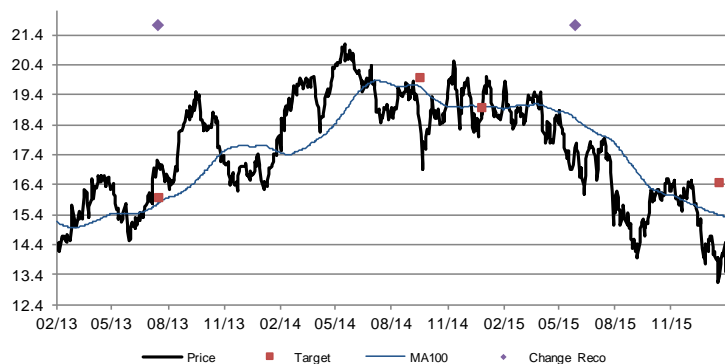
Centrica (CNA.L, Sell)
E.ON (EONGn.DE, Buy)
Enagas (ENAG.MC, Buy)
Enel (ENEI.MI, Buy)
Engie (ENGIE.PA, Buy)
Groupe Bruxelles Lambert (GBLB.BR, Hold)
SSE (SSE.L, Sell)
Suez (SEVI.PA, Buy)

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Historical Price: Engie (ENGIE.PA)



2013/2014	Change	2015/2016	Change
09/08/13	New Rating: Hold	19/01/15	New Target: 19.0
09/08/13	New Target: 16.0	22/06/15	New Rating: Buy
10/10/14	New Target: 20.0	11/02/16	New Target: 16.5

Source: SG Cross Asset Research/Equity

SG EQUITY RESEARCH RATINGS on a 12 month period

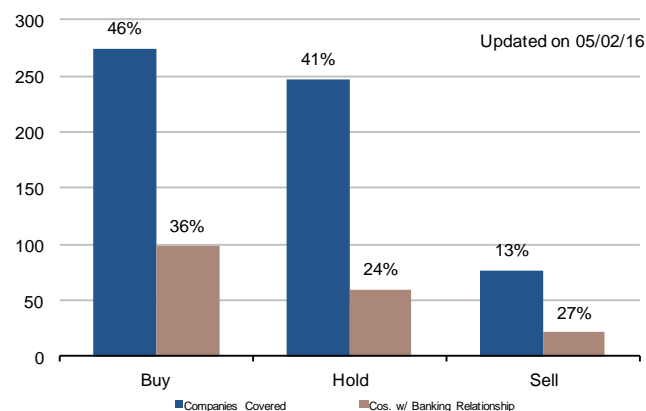
BUY: absolute total shareholder return forecast of 15% or more over a 12 month period.

HOLD: absolute total shareholder return forecast between 0% and +15% over a 12 month period.

SELL: absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

Equity rating and dispersion relationship



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OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

NEUTRAL: sector expected to perform in-line with the relevant broad market benchmark over the next 12 months.

UNDERWEIGHT: sector expected to underperform the relevant broad market benchmark over the next 12 months.

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Source: SG Cross Asset Research/Equity

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Enagas	SG acted as joint bookrunner in Enagas' bond issue (EUR, 10yr)
Enagas	SG acted as passive bookrunner for Enagas's bond issue (8y EUR).
Enel	SG makes a market in Enel warrants
Engie	SG acted as a lead structuring advisor in Engie's bond tender offer.
Engie	SG acted as passive joint bookrunner in GDF Suez's bond issue.

SG and its affiliates beneficially own 1% or more of any class of common equity of Engie, Suez.

SG or its affiliates expect to receive or intend to seek compensation for investment banking services in the next 3 months from Enagas, Enel, Engie, Groupe Bruxelles Lambert, Suez.

SG or its affiliates had an investment banking client relationship during the past 12 months with Enagas, Engie.

SG or its affiliates have received compensation for investment banking services in the past 12 months from Enagas, Engie.

SG or its affiliates managed or co-managed in the past 12 months a public offering of securities of Enagas, Engie.

SG received compensation for products and services other than investment banking services in the past 12 months from Centrica, E.ON, Enagas, Enel, Engie, Groupe Bruxelles Lambert, SSE, Suez.

SGAS had a non-investment banking non-securities services client relationship during the past 12 months with Centrica, E.ON, Engie.

SGAS received compensation for products and services other than investment banking services in the past 12 months from Centrica, E.ON, Engie.

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