| Multi-Utilities & Unregulated Power | 12m target downgrade | France |

Engie

A new world, a new name... a new dividend policy?

Buy

Price 08/02/16	**€13.9**
12m target	**€16.5**
Upside to TP	**18.9%**
12m f'cast div	**€1.00**
12m TSR	**26.0%**

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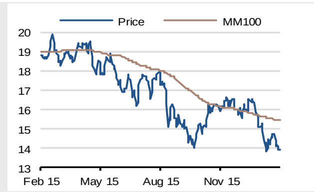
Sector stance
Underweight

Preferred stock
ENEL, Suez, Enagas, EON

Least preferred stock
SSE, Centrica

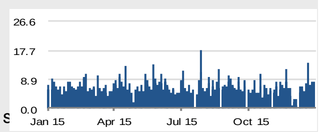
Investment trigger
Portfolio reshuffle
Corporate action
Cost reduction programme

Share price performance



Source: SG Cross Asset Research/Equity

Volume



This is a new world with oil at $30/bbl... Renewed commodity pressure is hitting Engie's E&P, LNG and European generation profitability outlooks: the low point should be reached in 2017 as the hedges unfold, under our marked-to-market estimates. As a result, we are cutting our (key) adjusted 2018e EPS -24%, and it is now c.11% below consensus. ... **but Engie is coming up with much more than a new name...** We expect management to react swiftly, stepping up restructuring and accelerating the implementation of its strategy to rotate out of the volatile earnings of mature power markets – and potentially of the cyclical E&P. Here we show how a potential c.€20bn disposal program would refocus Engie on its regulated infrastructure core and semi-regulated international PPAs.

... and a 30% DPS cut would reposition it for growth... Limited balance sheet capacity essentially gives Engie two choices: whether to refocus on its regulated core, cut capex and keep its €1 DPS (a lower-growth option), or else cut its DPS to €0.7 and reallocate the freed capacity (together with disposal proceeds) to fund growth (potentially through Suez). It is our view that Engie should not wait to do so and we assume a 30% cut to DPS for 2016, the first full year under Isabelle Kocher's tenure as new CEO.

This still implies upside potential With a 30% dividend cut, Engie would offer a de-risked 2016e dividend yield of 5.0%. Despite better asset quality, the stock is trading only in line with its integrated peers on our new marked-to-market estimates. We see valuation upside potential and reiterate our Buy on an updated (lower) TP of €16.5/share (prev. €19).

How we value the stock Our €16.5 TP is derived from a 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 a 2016e EV/EBITDA of 8.0x, Infrastructure at 1.1x 2015e RAB, and E&P at $13.8/boe of proven reserves. We value listed entities at market prices and unlisted minorities and associates at 16x EPS. With the 12m dividend of €1.00, this implies a TSR of 26%.

Events, catalysts & risks to price target, rating & recommendation The company strategy update at the FY results on 25 February should be a key catalyst. Risks to TP: deterioration in commodities, FX and/or EM growth prospects; a worse than expected regulatory review outcome for gas infrastructure, and/or contribution from growth capex (more details p32).

Share data			
RIC ENGIE.PA, Bloom ENGI FP			
52-week range			19.9-13.8
EV 15 (€m)			76,883
Mkt cap. (€m)			33,871
Free float (%)			56.1
Performance (%)	**1m**	**3m**	**12m**
Ordinary shares	-7.8	-12.8	-25.7
Rel. Eurofirst 300	1.3	6.0	-9.9

Financial data	12/14	12/15e	12/16e	12/17e
Revenues (€bn)	74.7	72.2	69.9	70.1
EBIT margin (%)	9.0	8.2	8.7	8.0
Rep. net inc. (€bn)	2.44	0.42	2.67	2.42
EPS (adj.) (€)	1.21	1.06	1.10	0.98
Dividend/share (€)	1.00	1.00	0.70	0.70
Payout (%)	83	94	64	72
Interest cover (x)	3.58	3.85	3.89	3.75
Net debt/equity (%)	51	53	52	49
Previous EPS (changed 11/2/16)		1.02	1.27	1.26

Ratios	12/14	12/15e	12/16e	12/17e
P/E (x)	15.8	13.0	12.7	14.2
FCF yield (/EV) (%)	3.8	2.7	2.5	3.0
Dividend yield (%)	5.3	7.2	5.0	5.0
Price/book value (x)	0.94	0.72	0.73	0.73
EV/revenues (x)	1.19	1.07	1.11	1.10
EV/EBIT (x)	14.1	13.3	13.0	14.2
EV/IC (x)	0.9	0.8	0.8	0.8
ROIC/WACC (x)	0.6	0.7	0.6	0.5
EPS CAGR 14-17e: -6.78%				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Engie

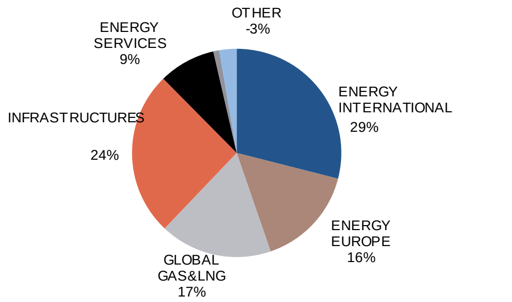
Valuation (€m)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Nb. of shares basic year end/outstanding	2,250	2,253	2,413	2,413	2,435	2,438	2,441	2,444
Share price (average)	26.8	24.2	18.3	16.4	19.0	13.9	13.9	13.9
Average market cap. (SG adjusted) (1)	60,205	54,458	44,254	39,482	46,327	33,830	33,871	33,912
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	76,883	77,305	76,971
P/E (x)	16.1	15.0	12.2	13.6	15.8	13.0	12.7	14.2
Price/cash flow (x)	4.9	3.8	3.8	3.6	5.3	3.7	4.3	4.2
Price/free cash flow (x)	141	17.5	14.7	10.0	27.0	30.2	33.2	23.9
Price/book value (x)	0.97	0.87	0.74	0.82	0.94	0.72	0.73	0.73
EV/revenues (x)	1.22	1.10	1.09	0.98	1.19	1.07	1.11	1.10
EV/EBITDA (x)	6.9	6.1	6.3	6.2	8.2	7.3	7.4	7.7
Dividend yield (%)	5.6	6.2	8.2	9.2	5.3	7.2	5.0	5.0
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	0
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	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	-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

Contents

Engie at a glance

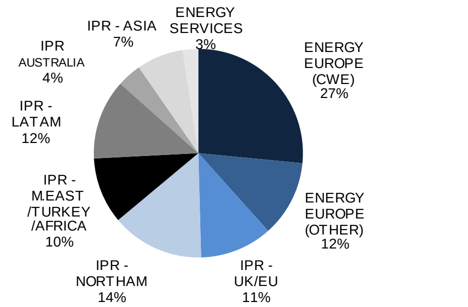
Engie's 2014 EBITDA per division



Source: company, SG Cross Asset Research/Equity

Energy Europe represented less than a third of GDF Suez's group EBITDA in 2014

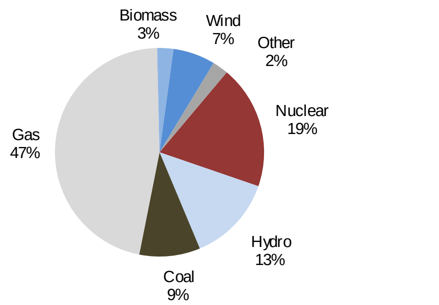
Engie's 2014 net generation capacity



Source: company, SG Cross Asset Research/Equity

29% of GDF Suez's net capacity was located in emerging countries in 2014

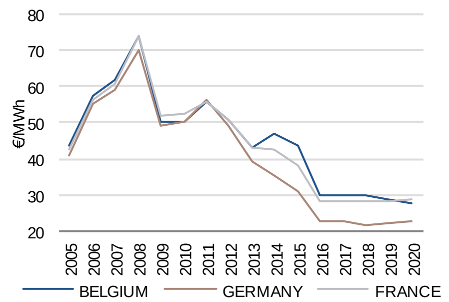
Energy Europe 2014 net generation capacity



Source: company, SG Cross Asset Research/Equity

Energy Europe's generation fleet is less CO2 intensive than most peers

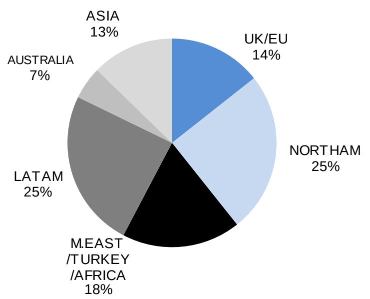
Central European power prices (Baseload)



Source: SG Cross Asset Research/Equity

Central European power markets have been deteriorating rapidly

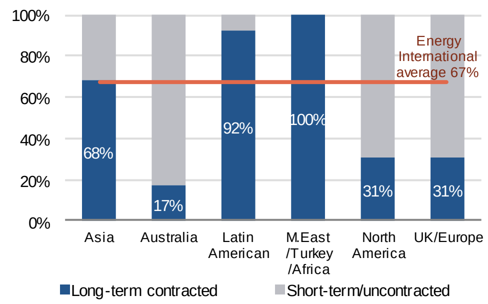
Energy International net generation capacity*



Source: SG Cross Asset Research/Equity
* For 2014

About half of Energy International's net capacity is located in emerging countries

Energy International generation portfolio



Source: SG Cross Asset Research/Equity

Two-thirds of Energy International's gross capacity is operated under long-term contracts

Engie within the sector and the market

Equity strategy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Underweight

Burdened by better cyclical news – European Utilities has been one of the worst performers this year. The sector continues to offer a high dividend yield (4.8%). Nevertheless, the P/E ratio is still close to its ten-year high. Better cyclical newsflow in the euro area and a weaker euro is not likely to help the sector relative to cyclical sectors and exporters. Underweight reiterated.

Further details on our Equity Strategy can be found in the report: The Big Picture: Another sunny year ahead for European equities, add some oil

SRI


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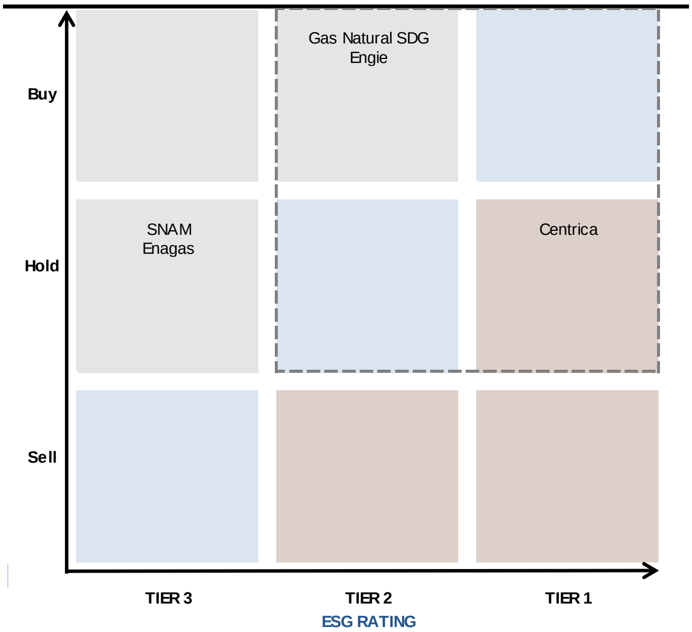
Our ESG numerical rating (with 100 being the highest score) is based on a four-step rating methodology that includes: (i) identifying material ESG factors and associate weightings by sector; (ii) providing key performance indicators of company evaluation; (iii) calculating a quantitative ESG rating (based on Sustainalytics data); and combining SG equity and ESG ratings to identify top picks. ESG ratings are grouped into three equal tiers (Tiers 1, 2 and 3) with Tier 1 containing the companies with the highest ESG numerical scores. ESG numerical ratings should not be considered fundamental ratings of any kind and are completely separate from SG's equity and credit ratings.

Themes & indicators

Corporate Governance	Business Ethics	"Climate Change"/ Emissions Reduction	Human Resources Management
Disclosure of Directors' remuneration	Business-ethics related controversies or incidents	Carbon intensity of energy mix	Percentage of employees covered by collective bargaining agreements
Board independence	Customer-related controversies or incidents	Programmes and targets to reduce energy/water use by customers	Trend in lost-time incident rate
Board diversity		Programmes and targets to increase renewable energy use	Number of fatalities
Non-audit fees relative to audit fees		%primary energy use from renewables	Employee-related controversies or incidents
Governance-related controversies or incidents		Sustainability-related products & services	

Source: SG Cross Asset Research/SRI, Sustainalytics

SG Environment, Social and Governance Rating



Source: SG Cross Asset Research/SRI
Please see our 15 February 2013 report, SRI – Beyond Integration for an explanation of ESG ratings and scores

Valuation

Sector valuation on 08 February 2015

Company	Curr	Share price	Rating	Target Price	TSR 12m	Mkt cap (m)	EV (m)	EV / EBITDA FY16e	FY17e	EBITDA CAGR 15-17e	P/E FY16e	FY17e	EPS CAGR 15-17e	Dividend yield (%) FY16e	FY17e	DPS CAGR 15-17e	Payout 15e
Drax	GBP	2.64	Hold	2.70	4.2%	1,401	2,049	11.5x	11.1x	-9.1%	58.1x	47.1x	-26.8%	0.9%	1.1%	-27.0%	50%
Fortum	EUR	12.39	Hold	13.00	17.0%	11,007	7,260	8.5x	9.8x	-13.9%	21.7x	23.3x	-17.3%	8.9%	8.9%	0.0%	142%
Saeta Yield	EUR	8.20	Buy	12.00	54.8%	669	1,459	9.0x	8.6x	0.0%	17.9x	17.3x	10.9%	8.4%	8.5%	-0.1%	180%
Verbund	EUR	10.95	Hold	11.50	8.7%	3,802	9,048	11.7x	12.8x	-9.1%	17.3x	20.4x	-19.1%	2.7%	2.7%	-13.4%	49%
Generation wavg.						**16,879**	**19,818**	**9.5x**	**10.5x**	**-11.9%**	**23.6x**	**24.4x**	**-17.3%**	**6.8%**	**6.8%**	**-5.3%**	**115%**
ENGIE	**EUR**	**13.88**	**Buy**	**16.50**	**26.0%**	**33,863**	**77,297**	**7.4x**	**7.7x**	**-2.9%**	**12.7x**	**14.2x**	**-4.1%**	**5.0%**	**5.0%**	**-16.3%**	**94%**
EDF	EUR	12.01	Buy	14.00	27.0%	23,128	96,766	5.6x	6.2x	-4.3%	7.3x	10.2x	-23.6%	10.4%	10.4%	0.0%	62%
Enel	EUR	3.55	Buy	4.80	39.5%	33,344	90,615	6.0x	5.7x	2.8%	10.9x	9.8x	9.0%	5.1%	6.1%	16.4%	53%
Iberdrola	EUR	6.24	Buy	6.70	11.8%	38,950	77,659	9.9x	9.4x	5.5%	16.5x	14.9x	4.7%	4.5%	4.9%	4.7%	73%
Gas Natural SDG	EUR	16.50	Buy	22.50	41.9%	16,519	37,657	7.1x	6.8x	0.1%	11.0x	10.0x	6.3%	5.7%	6.2%	6.3%	62%
Endesa SA	EUR	16.92	Hold	18.50	9.3%	17,918	24,043	7.9x	7.8x	-2.0%	16.1x	16.3x	-2.5%	6.2%	6.1%	-2.5%	100%
EDP	EUR	3.08	Hold	3.10	6.7%	11,260	33,496	9.1x	8.5x	1.2%	12.4x	11.6x	-1.3%	6.0%	6.0%	0.0%	68%
E.ON	EUR	9.51	Buy	10.50	15.7%	18,554	50,218	7.9x	7.4x	-2.2%	13.9x	11.6x	6.9%	5.3%	5.8%	4.9%	70%
RWE	EUR	12.83	Hold	12.00	-2.6%	7,887	43,328	7.7x	6.2x	-0.5%	12.1x	8.6x	-10.9%	3.9%	4.7%	9.5%	27%
EVN	EUR	10.00	Buy	13.00	34.2%	1,798	2,753	4.7x	4.3x	0.8%	11.7x	11.3x	1.2%	4.2%	4.2%	0.0%	49%
Centrica	GBP	1.96	Sell	1.75	-4.7%	12,760	22,969	7.5x	7.6x	-5.6%	13.8x	13.7x	-8.1%	6.1%	6.1%	0.0%	71%
SSE	GBP	13.92	Sell	13.20	1.3%	18,147	30,857	10.8x	11.1x	4.1%	13.9x	14.3x	-1.4%	6.6%	6.8%	2.7%	89%
Integrated wavg.						**234,129**	**587,659**	**7.8x**	**7.7x**	**0.2%**	**12.9x**	**12.6x**	**-1.0%**	**5.8%**	**6.1%**	**1.9%**	**72%**
Terna	EUR	4.71	Hold	4.20	-6.7%	9,432	16,643	12.0x	11.9x	-4.1%	19.5x	18.5x	-6.3%	4.2%	4.2%	0.0%	69%
Snam	EUR	4.94	Buy	4.70	0.2%	17,281	31,163	12.5x	12.5x	-5.8%	18.3x	18.1x	-10.9%	4.9%	4.9%	0.0%	70%
Red Electrica	EUR	73.88	Hold	78.20	10.5%	9,994	15,735	10.3x	10.0x	3.5%	15.4x	14.7x	6.8%	4.6%	5.0%	7.0%	73%
Enagas	EUR	26.19	Buy	28.50	13.9%	6,250	9,531	10.5x	10.6x	-2.6%	14.0x	14.2x	2.7%	5.3%	5.6%	5.0%	75%
Redes Energeticas Nacionais	EUR	2.66	Hold	2.65	5.9%	1,423	3,620	7.8x	7.7x	-2.9%	13.0x	11.9x	2.0%	6.4%	6.4%	0.0%	80%
United Utilities	GBP	9.23	Hold	9.40	6.0%	8,186	16,089	12.7x	12.0x	4.8%	20.8x	18.1x	3.8%	4.2%	4.3%	2.2%	81%
Pennon Group	GBP	8.58	Hold	8.10	-1.7%	4,598	7,363	12.2x	11.8x	7.8%	20.9x	18.8x	10.1%	4.2%	4.5%	7.2%	90%
Severn Trent	GBP	21.40	Hold	21.20	2.8%	6,586	12,986	12.1x	12.0x	2.5%	22.9x	21.5x	-1.3%	3.8%	3.9%	2.2%	79%
National Grid*	GBP	9.59	Sell	7.90	-13.1%	47,076	72,825	10.0x	9.9x	5.4%	16.6x	16.2x	4.4%	4.7%	4.8%	3.8%	79%
Regulated wavg.						**110,825**	**185,956**	**11.0x**	**10.8x**	**2.0%**	**17.6x**	**16.9x**	**1.0%**	**4.6%**	**4.8%**	**3.1%**	**77%**
Veolia Environnement	EUR	6.72	Buy	6.90	3.3%	5,862	10,837	8.8x	8.3x	9.3%	30.3x	28.4x	24.0%	0.9%	1.0%	24.0%	28%
EDP Renovaveis SA	EUR	1.71	Buy	2.35	37.7%	8,535	15,313	7.2x	N.A.	N.A.	12.7x	N.A.	N.A.	2.1%	N.A.	N.A.	29%
Enel Green Power	EUR	16.63	Buy	18.50	15.2%	8,981	19,446	7.5x	7.2x	5.3%	18.9x	16.2x	11.4%	3.9%	4.2%	3.8%	79%
Suez Environnement	0.00	0.00	0.0	0.00	0.0%	35,406	66,364	7.8x	7.6x	7.1%	20.9x	20.9x	19.3%	2.7%	3.1%	12.9%	57%
Growth wavg.						**58,784**	**111,959**	**7.8x**	**6.5x**	**6.0%**	**20.3x**	**17.9x**	**15.8%**	**2.6%**	**2.6%**	**10.8%**	**53%**
Sector weighted avg.						**420,617**	**905,392**	**8.7x**	**8.5x**	**1.0%**	**15.6x**	**15.0x**	**1.2%**	**5.1%**	**5.3%**	**3.2%**	**72%**

Source: SG Cross Asset Research/Equity, Bloomberg. FY15e represents fiscal year ending 31 March 2015 for SSE, NG, PNN, SVT and UU.

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Investment summary

This is a new world, one with oil at $30/bbl ...

Oil prices have halved over the past year, bringing down the whole energy/commodities complex. The renewed commodity pressure is hitting Engie's E&P, LNG and European generation profitability outlook: the group's earnings low point should be reached in 2017 as hedges unfold under our marked-to-market estimates. As a result our adjusted 2018e EPS is down -24% and c.11% below consensus. We analyse in detail Engie's main earnings sensitivities (see table on next page): +/-2.4% for each +/-$10/bbl variation in the oil price, and +/-1.4% for each +/-€1/MWh in power. As the 2015 results are coming watch out for the group tax rate (due to be lower as the E&P is loss-making), net cost savings and impairments to be announced.

But Engie should come up with more than a new name

We expect the company to react swiftly, stepping up restructuring and accelerating the implementation of its strategy to rotate out of the volatile earnings of mature power markets and potentially of the cyclical E&P. We expect E&P's contribution to Engie's cost savings to be material (40% of EBITDA and 22% of net income impact) and we assume a cumulative net impact on Engie's earnings of €400m over 2016-2018. Regarding the expected portfolio rotation, recently widely flagged in the press, we look in detail at potential disposal candidates and we estimate the proceeds could reach c.€20bn if implemented. This would refocus the company on its regulated infrastructure core and semi-regulated international PPAs. (We do not value the shares on this outcome however.)

And a 30% DPS cut would reposition it for growth

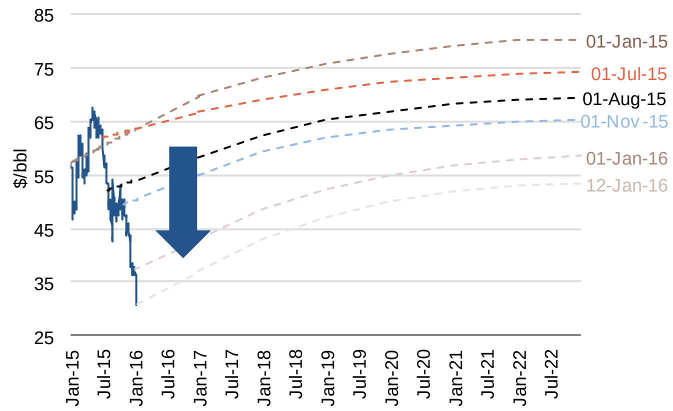
While the proceeds from disposals could be partially used to pay down some of its debt, the effect on its tight credit metrics will depend on both the scope of the disposals and achieved prices, and be limited by the consequent loss of cash flows. As such here we provide a detailed analysis of the company's credit metrics at constant scope: its limited balance sheet capacity gives Engie essentially two choices: either to 1) refocus on its regulated core, cut capex and keep its €1 DPS (a lower-growth option); or 2) to cut its DPS to €0.7 and reallocate the freed capacity (together with remaining disposal proceeds) to fund growth. The possibility of a deal with Suez (outlined in our note 'Engie looking at Suez control: Multiple options to consider') makes strategic sense. In this we are updating our financial analysis of 'Energy Services for shares' scenario and believe that the AMF could grant an exemption for a mandatory full takeover. If Engie is mulling its growth options, we believe it should not delay in cutting its DPS, and we assume a 30% cut in 2016, the first full year of Isabelle Kocher's tenure as new CEO.

However, that still implies upside potential

With our 30% dividend cut assumption, Engie still offers a de-risked 2017 dividend yield of 5.0% (and a riskier one of 7.2% if it does not cut the dividend). This good yield should provide some downside protection to the share price in our view. While the stock is trading on a 13% premium to its European integrated utility peers on an adjusted PE17e (14.2x vs 12.6x) on our new marked-to-market estimates, it is only in line on EV/EBITDA17e (7.7x vs 7.7x). Yet we expect consensus estimates throughout the sector will decline in line with the recent commodity price deterioration. In our view, Engie offers better strategic positioning and asset quality than its peers. As such we believe that it should trade at a premium in the current environment.

IT'S A NEW WORLD: ONE OF LOW AND VOLATILE COMMODITIES

Brent oil price deterioration continued (w/ forward curves)



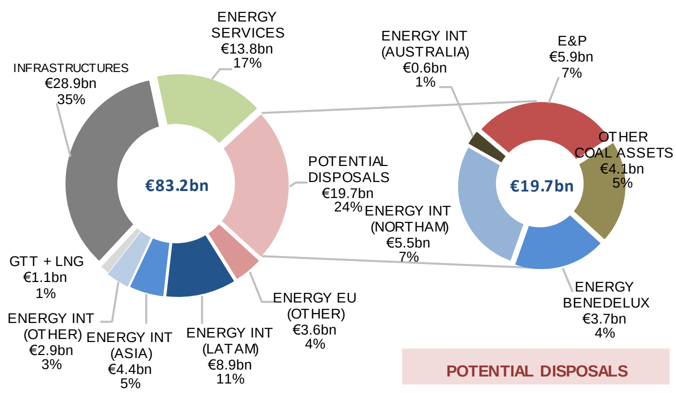
Our main commodity assumptions and sensitivities

		2015e	2016e	2017e	2018e
BASE CASE	(FWD curve on 07Feb16)				
Brent oil	$/bbl	53.7	32.5	43.2	46.5
Belgium power	€/MWh	43.7	29.8	29.6	29.9
Group tax rate	%	10.2%	30.4%	30.2%	31.0%
Cost savings	€m		500	1,000	1,500
ADJ. EPS (SG)	**€/sh**	**1.06**	**1.10**	**0.98**	**1.07**
SENSITIVITIES	(ADJ.EPS Change)				
OIL -10$/BBL	%		1.9%	(2.9%)	(2.4%)
POWER -1€/MWh	%		1.2%	(1.0%)	(1.4%)
GROUP TAX +1%	%		(0.2%)	(1.9%)	(1.9%)
NET COST SAVINGS +€100m	%		2.4%	1.9%	2.6%
IMPAIRMENT +€1bn (NON E&P)	%		4.0%	2.7%	2.4%
IMPAIRMENT +€1bn (E&P)	%		2.7%	1.2%	1.0%

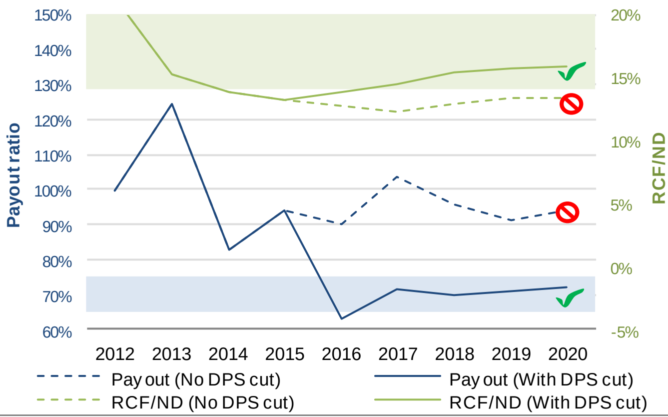
Source: SG Cross Asset Research/Equity, Bloomberg

ENGIE SHOULD REACT SWIFTLY: RESTRUCTURE AND CUT THE DIVIDEND BY 30% TO REPOSITION

Portfolio restructuring: Potential disposals



A dividend cut would be necessary



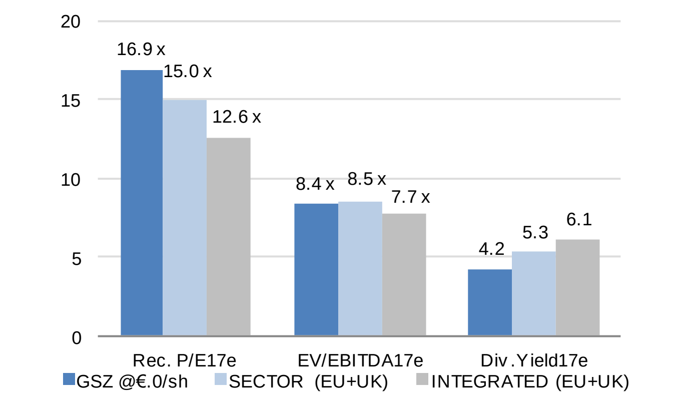
Source: Company data, SG Cross Asset Research/Equity

OUR MARKED TO MARKET ESTIMATES ARE BELOW CONSENSUS, YET WE STILL SEE VALUATION UPSIDE

SGCIB vs consensus (Bloomberg 08 February 2016)

(€m, €/sh)		2015e	2016e	2017e	2018e
EBITDA (SG)	(ENGIE def)	11,328	11,091	10,688	11,123
EBITDA (consensus)		12,100	11,549	11,787	11,991
SG vs consensus		**-6.4%**	**-4.0%**	**-9.3%**	**-7.2%**
EBIT (SGCIB)	(ENGIE def)	6,435	6,602	6,149	6,432
EBIT (consensus)		7,200	6,365	6,535	6,646
SG vs consensus		**-10.6%**	**3.7%**	**-5.9%**	**-3.2%**
ADJ. EPS (SG)	(SG def)	1.06	1.10	0.98	1.07
ADJ. EPS (consensus)		1.30	1.09	1.17	1.21
SG vs consensus		**-17.8%**	**0.6%**	**-16.1%**	**-11.2%**
DPS (SG)		1.00	0.70	0.70	0.75
DPS (consensus)		1.00	1.00	1.01	0.97
SG vs consensus		**0.0%**	**-30.0%**	**-30.4%**	**-22.6%**

Valuation multiples at our €16.5 target price



Source: company data, SG Cross Asset Research/Equity, Bloomberg

Buy reiterated, TP downgrade to €16.5/share

Engie deserves a premium to its commodity-exposed peers when looking at our updated, 'marked to market' metrics. Were the company to cut its dividend by 30% sooner than we expect (i.e. at the 2015 results presentation in two weeks time instead of during the 2016 results), we would expect the move to be welcomed by the market, which already prices the stock on a 7.2% dividend yield. Furthermore, we believe the company's presentation and implementation of its cost savings and more importantly portfolio restructuring plans should be a positive catalyst on the name over the coming months. We reiterate our Buy recommendation but we are downgrading our TP from €19 to €16.5, in line with our updated SOTP.

Our TP would put Engie on an adjusted P/E17e of 16.9x, an EV/EBITDA17e of 8.4x and a 2017e dividend yield of 4.2%, which implies 19.6% upside potential and a 26.8% 12m TSR.

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It's a new world

Commodity prices deteriorated further ...

The entire commodity complex saw another dramatic drop in 2015, with commodities undermined by concerns over the Chinese slowdown, and for oil, the surprising resilience of shale production in a low-price environment. The final blow came when Saudi Arabia confirmed it would continue its strategy to favour market share over pricing through the removal of production ceilings. At $34/bbl on 7 February 2016, Brent was down a rather dramatic 41% from its 1 January 2015 level. The other energy commodities were not left unscathed, with gas (TTF) down 33%, coal (API2) down 43%, and French and German baseload power down 24% and 30%, respectively, over the same period.

... as have our estimates

Integrated utilities will suffer. We expect the profitability of European integrated utilities to be materially impacted – on their generation activities, where the full impact will be gradually felt as their hedges roll off up to 2018, and on their hydrocarbon activities as well. Regarding Engie, we materially downgrade our commodity assumptions, which are now marked to market as of 7 February 2016 (see the table overleaf for our main commodity assumptions).

For Engie, most of the pain is in E&P and LNG... While the lower oil price could mean a potential expansion of the group's mid-stream gas activities (oil-indexed long-term contracts being in the money before price reviews re-normalise margins), we expect Global Gas and LNG activity to suffer particularly from the oil price drop – our new 2016-18 EBITDA estimates are down c.35-50% since August.

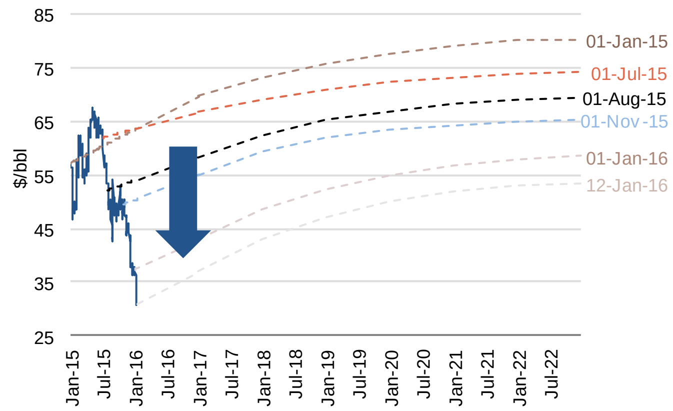
...and to a lesser extent in Generation Europe. Regarding European generation activity, here we estimate the impact has been lower, having cut our 2016-18 EBITDA estimates for this division just 5-15%. We put this down to various factors: 1) we estimate the group net generation at c.100TWh in Europe; 2) outright power prices in Europe have fallen by less than the oil price over the period; and 3) while the fixed-cost Belgium nuclear and French hydro units have seen their profitability materially decline and dark spreads (baseload coal-fired generation margin) have somehow deteriorated, peak power prices and spark spreads (baseload gas-fired generation margin) have fared better overall and potentially helped increase the profitability of some of Engie's CCGTs.

We expect some capex cuts/lower growth... Still, this represents a material deterioration for a group that had limited balance sheet flexibility to maintain its dividend, as we highlighted in our report "An attractive yield at the core of Europe" back in June. This, combined with heightened difficulties in emerging markets (notably Brazil), led us to assume lower capex spending and growth from the Energy International division. We believe Engie is likely to resort to more AssetCo/OpCo project structuring going forward. (see p.22 for more). This also translates into lower expected D&A and increased net income from associates (now included in Engie's new EBITDA definition).

... and we are cutting our estimates and dividend expectations. As a result of these changes, we lower our 2018 EBITDA forecast 21%, resulting in an EBIT decrease of 26%, and thanks to a lower effective group tax rate (more on this overleaf), an adjusted net income reduction of 28%. As detailed in the dedicated section, we now assume a DPS cut from €1.0 to €0.70 from 2016 onwards.

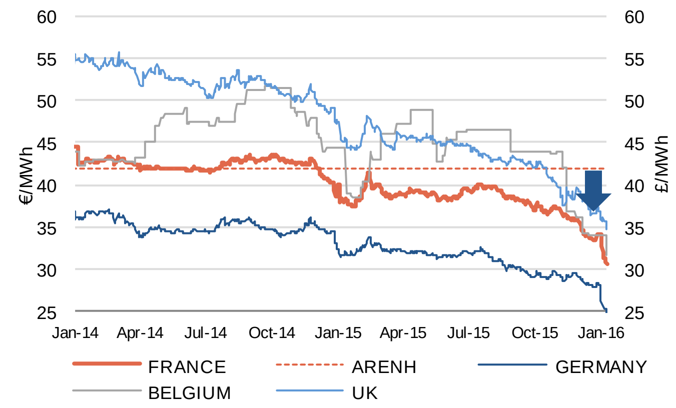
COMMODITY PRICES HAVE DETERIORATED FURTHER

Brent oil and forward curves



Source: SG Cross Asset Research/Equity, Bloomberg

European base-load power price



Source: SG Cross Asset Research/Equity, Bloomberg

WE LOWER OUR COMMODITY PRICE ASSUMPTIONS...

Our new commodity assumptions (forward curves on 7 February 2016)

		2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
GLOBAL COMMODITIES										
Crude oil	$/bbl	111.7	108.7	99.4	53.7	32.5	43.2	46.5	48.8	50.6
Coal	$/t	103.2	89.1	78.4	54.7	38.1	37.9	38.4	37.3	37.8
CO2	€/t	8.0	4.8	6.0	7.2	6.9	6.8	6.9	7.1	7.2
LSFO	$/t	953	918	838	482	290	388	417	438	454
FO	$/t	672	613	557	271	164	219	235	246	256
LOCAL COMMODITIES										
GAS										
TTF	€/MWh	26.7	26.6	24.4	20.1	14.2	14.2	14.4	14.6	14.9
NBP	p/Th	63.6	66.0	63.9	51.0	32.9	30.1	34.7	35.3	36.0
POWER - BASELOAD										
Germany	€/MWh	49.3	39.1	35.1	30.9	22.6	22.4	21.7	22.1	22.4
France	€/MWh	50.6	43.2	42.4	38.1	28.2	28.0	27.9	28.2	28.7
Belgium	€/MWh	50.8	42.9	46.9	43.7	29.8	29.6	29.9	28.7	27.6
UK	£/MWh	50.0	50.5	50.2	46.5	36.0	32.9	37.5	38.3	38.9

Source: SG Cross Asset Research/Equity

... AND OUR ESTIMATES

Engie – SG forecasts, updated vs previous

(€m, €/sh)		2015e	2016e	2017e	2018e	2019e	2020e
EBITDA (Old)	(ENGIE def)	11,658	12,705	13,019	14,114	14,942	15,437
EBITDA (New)	**(ENGIE def)**	**11,328**	**11,091**	**10,688**	**11,123**	**11,300**	**11,107**
% ch.		-2.8%	-12.7%	-17.9%	-21.2%	-24.4%	-28.1%
EBIT (Old)	(ENGIE def)	6,720	7,610	7,638	8,278	8,817	9,066
EBIT (New)	**(ENGIE def)**	**6,435**	**6,602**	**6,149**	**6,432**	**6,543**	**6,232**
% ch.		-4.2%	-13.2%	-19.5%	-22.3%	-25.8%	-31.3%
Adj. EPS (Old)	(SG def)	1.02	1.27	1.26	1.41	1.53	1.62
Adj. EPS (New)	**(SG def)**	**1.06**	**1.11**	**0.98**	**1.07**	**1.13**	**1.11**
% ch.		3.9%	-12.7%	-22.5%	-24.1%	-26.1%	-31.4%
DPS (Old)		1.00	1.00	1.00	1.05	1.10	1.15
DPS (New)		**1.00**	**0.70**	**0.70**	**0.75**	**0.80**	**0.80**
% ch.		0.0%	-30.0%	-30.0%	-28.6%	-27.3%	-30.4%

Source: SG Cross Asset Research/Equity

Our 2018e adjusted EPS is 11.2% below consensus. In the table overleaf, we compare our estimates with Bloomberg consensus. Our 2018 forecasts are a respective 7.2% and 3.2% below on EBITDA and EBIT. On the adjusted EPS line, it is difficult to know what definition the consensus uses, which limits the relevance of such comparisons. As an indication, our 2018e adjusted EPS (i.e. excluding material one-offs but also weather, and including nuclear tax and hybrid coupon) is 11.2% below the Bloomberg adjusted consensus, while our estimate of Engie's reported adjusted EPS (i.e. excluding material one-offs only) is just 1.8% lower.

In a volatile environment: our main sensitivities

The commodity price environment has proven volatile, to say the least, over recent weeks. As such, and given some uncertainties, we list below a number of key sensitivities. The headline numbers are looking at the 2018 horizon in order to allow the hedges to roll off.

Oil: +/-$10/bbl = +/-2.5% EPS

We assume here a change in the 2016-20 oil forward curve of +/-$10/bbl and look at Engie's exposure in E&P. Our model accounts for the 75% gas/25% gas production split, the partial oil indexation of the gas sold, and the hedges on the oil sales. Finally, we assume a 95% transfer price and a c.60% average upstream tax rate, and take out the 30% of minorities existing in the business. On the cost base, we account for a partial oil indexation of the extraction costs and the indirect one regarding logistics, services and headcount with a lag effect. As such, we estimate Engie's adjusted EPS sensitivity to oil prices in E&P at c.3% for each $10/bbl movement in the oil price outlook at current FX levels, including tax effects.

Power prices: +/-€1/MWh = +/-1.4% EPS

We assume here a change in the 2016-20 power prices forward curve of +/-€1/MWh and look at Engie's exposure to European generation. This includes both baseload power and peak, and does not assume any change in the fuel prices (i.e. this is a sensitivity analysis for the entire generation fleet's margin). Our model accounts for hedges and the Belgium nuclear tax. The resulting adjusted earnings sensitivity for the European generation is c.1.5% for each €1/MWh power price movement.

Watch out for ...

The following sensitivities should be carefully noted. Either we believe that the consensus is unlikely to have fully considered these aspects, or the headline numbers need to be properly analysed before using them, mostly due to tax reasons.

Group tax rate: +/-1.0% = +/-1.9% EPS

This is an area of potential positive surprise as we head into the results. Our understanding is that most in the consensus constituents do not have a detailed calculation of Engie's tax rate. While this is usually fine (it is usually impossible to have a proper estimate of the group taxes with the information provided), we believe that the impact of the sharp movement in oil prices on the group's tax could have been underestimated. We estimate that the E&P profitability has moved into negative territory, something which (due to the activity's higher tax rate) should have a material impact on the overall tax rate (lowering it). Modelling the E&P and Belgium nuclear taxes separately, we expect the group tax rate to decrease to c.29% over the next few years: every 1% difference versus consensus expectations potentially representing a c.2% improvement in adjusted earnings.

OUR ESTIMATES ARE BELOW CONSENSUS…

SG vs consensus (Bloomberg 8 February 2016)

(€m, €/sh)		2015e	2016e	2017e	2018e	2019e	2020e
EBITDA (SG)	**(ENGIE def)**	**11,328**	**11,091**	**10,688**	**11,123**	**11,300**	**11,107**
EBITDA (consensus)		12,100	11,549	11,787	11,991	12,026	13,880
SG vs consensus		-6.4%	-4.0%	-9.3%	-7.2%	-6.0%	-20.0%
EBIT (SGCIB)	**(ENGIE def)**	**6,435**	**6,602**	**6,149**	**6,432**	**6,543**	**6,232**
EBIT (consensus)		7,200	6,365	6,535	6,646	7,724	8,408
SG vs consensus		-10.6%	3.7%	-5.9%	-3.2%	-15.3%	-25.9%
Adj. EPS (SG)	**(SG def)**	**1.06**	**1.10**	**0.98**	**1.07**	**1.13**	**1.11**
Adj. EPS (consensus)		1.30	1.09	1.17	1.21	1.30	1.71
SG vs consensus		-17.8%	0.6%	-16.1%	-11.2%	-13.1%	-35.1%
Adj. EPS (SG)	**(ENGIE def)**	**1.15**	**1.21**	**1.10**	**1.18**	**1.24**	**1.22**
Adj. EPS (consensus)		1.30	1.09	1.17	1.21	1.30	1.71
SG vs consensus		-11.5%	11.3%	-5.9%	-1.8%	-4.4%	-28.5%
DPS (SG)		**1.00**	**0.70**	**0.70**	**0.75**	**0.80**	**0.80**
DPS (consensus)		1.00	1.00	1.01	0.97	1.04	1.20
SG vs consensus		0.0%	-30.0%	-30.4%	-22.6%	-23.1%	-33.3%
Payout (SG)		**94%**	**64%**	**72%**	**70%**	**71%**	**72%**
Payout (consensus)		77%	92%	86%	80%	80%	70%

Source: SG Cross Asset Research/Equity, Bloomberg

IN A VOLATILE ENVIRONMENT: OUR MAIN SENSITIVITIES

Sensitivities to adjusted earnings (SG definition)

			2015e	2016e	2017e	2018e	2019e	2020e
BASE CASE								
Brent oil	$/bbl		53.7	32.5	43.2	46.5	48.8	50.6
Belgium power	€/MWh		43.7	29.8	29.6	29.9	28.7	27.6
Group tax rate	%		32.9%	30.4%	30.2%	31.0%	30.6%	30.0%
Cost savings	€m			500	1,000	1,500	1,500	1,500
Adj. EPS (SG)	**€/sh**	**(SG def)**	**1.07**	**1.11**	**0.98**	**1.07**	**1.13**	**1.11**
SENSITIVITIES		**ADJ.EPS Change**						
OIL -$10/BBL	€/sh			0.00	(0.03)	(0.03)	(0.02)	(0.02)
	%			0.3%	(3.0%)	(2.5%)	(2.3%)	(2.2%)
POWER -€1/MWh	€/sh			(0.00)	(0.01)	(0.01)	(0.02)	(0.02)
	%			(0.4%)	(1.0%)	(1.4%)	(1.5%)	(1.5%)
GROUP TAX +1%	€/sh			(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
	%			(1.7%)	(1.9%)	(1.9%)	(1.9%)	(1.9%)
NET COST SAVINGS +€100m	€/sh	(NB: cumulative over 2016-18)		0.01	0.02	0.03	0.03	0.03
	%			0.8%	1.9%	2.6%	2.6%	2.7%
IMPAIRMENT +€1bn (NON E&P)	€/sh			0.03	0.03	0.03	0.02	0.02
	%			2.4%	2.7%	2.4%	2.2%	2.2%
IMPAIRMENT +€1bn (E&P)	€/sh	(NB: 60% tax rate / 30% minorities)		0.01	0.01	0.01	0.01	0.01
	%			1.2%	1.2%	1.0%	0.8%	0.7%

Source: SG Cross Asset Research/Equity

Net cost savings: +/-€100m = +/-2.6% EPS

The main issue on cost savings is knowing what exactly will feed into the company's earnings: As such, looking at the net cost savings (post pass-through) should enable us to avoid this problem. However, we believe that a substantial amount of Engie's savings will be extracted from its Global Gas division. As such, one has to separate these savings from the rest, even on a net basis, as they will be subject to a higher tax rate and contain 30% of minorities. Our sensitivity here is straightforward: assuming €100m in cumulative cost savings (net of implementation costs and pass-through), equally distributed over 2016-18, and taxed at 34%, every additional €100m of such net cost savings would increase Engie's adjusted earnings by c.3%.

Our estimates assume total net cumulative savings of c.€0.9bn over 2016-18 (EBITDA impact), representing c.€0.4bn in additional net income, with the Global Gas division accounting for c.20% of the savings over the period (post taxes and minorities).

Impairments: +/-€1.0bn = +/-2.4% EPS if non E&P; +/- 1.0% EPS if E&P

The dramatic drop in commodity prices is likely to lead to another multi-billion euro impairment from Engie in the FY15 results. Just two years after the company's c.€15bn impairment, it is difficult to judge how much can be scrapped from its books. As such, this is an area of uncertainty in the results, where Engie is likely to maximise the kitchen sinking: front-loading the P&L pain into 2015 helps the EPS outlook thanks to the resulting lower D&A. As with the cost savings, we need to be careful to dissociate the highly taxed (and with minorities) E&P from the rest of the business. Assuming a ten-year initial remaining life for the assets to be impaired, we estimate the impact of a €1bn impairment at +1.0% on EPS if it comes from E&P assets, and a naturally higher 2.4% if it comes from other parts of the group, which are subject to a regular corporate tax.

We still expect a material impairment to be made and assume €2bn for the Global Gas & LNG business, and another €2bn impairment for the rest of the business.

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It's a new name

Engie: a change in the continuity

While 2015 will have seen the company change its name from GDF Suez to Engie, and Isabelle Kocher is due to take the helm as CEO in May, we do not expect a disruptive change in the company's strategy. Les Echos reported on 5 February that Gerard Mestrallet would have secured the backing of the government (which still owns 33% of the shares) to remain BoD chairman for the next two years. If validated by the board on 24 February and approved at the AGM on 3 May, the next two years are likely to finalise a transition that began in 2011, when Kocher was appointed CFO of the group. The strategy to rebalance out of the volatile earnings of the mature electricity markets, which are structurally under pressure, is unlikely to be reversed. If anything, the recent evolution of the commodity markets could accelerate the move, and Engie is likely to react in three steps:

Step 1: Restructure

Faced with the structural decline of the European generation markets, Engie has been making efforts to cut costs for a number of years, launching its "Perform 2015" plan in 2012, and more recently its "Quick Reaction plan" last year. However, the pressure from commodities has only increased, as the oil price has been tumbling for the past 12 months. As such, we expect Engie to renew its productivity efforts.

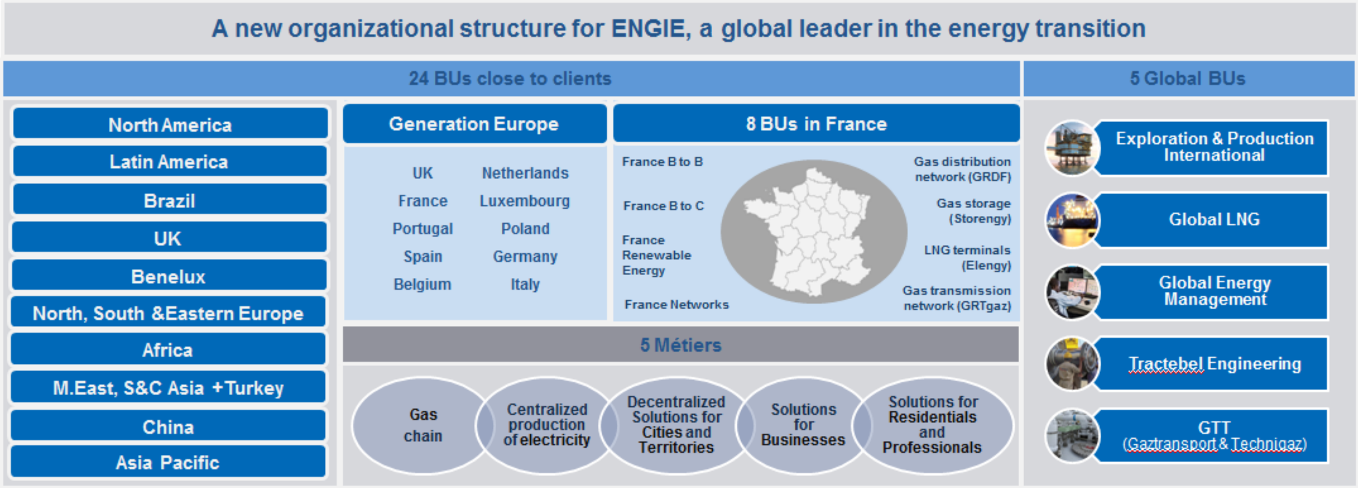
The reorganisation should help. In 2015 Engie has been working on a new internal organisation (which will be presented in detail at an investor day in Q2 2016). As can be seen on the chart on the next page, it has reorganised itself around 24 business units (mostly geographical ones, but also five global ones by metier and a sub-division of France per activity) and five types of activities (Gas, Generation, Services to Municipalities, Services to Businesses and Services to Residentials). Whilst we remain doubtful as to whether this represents a simplification, Engie believes it will help it to adapt better to the energy transition by bringing it closer to the clients in a decentralised energy future. Yet shaking the organisation also enables it to improve resource allocation: centralising supply at the regional levels, commercial efforts, human resources. An example of this could be the move of the company's Latin American headquarters from Brazil to Chile as reported by El Diaria Financiero on 17 January 2016.

And the E&P contribution should be material. Whilst a significant contribution of the Perform 2015 plan was from the optimisation and mothballing of large part of the company's thermal generation fleet in Europe, we believe that E&P should prove a material contributor to the company's cost savings efforts over the next few years. In a world of $30/bbl oil, exploration expenses have been cut materially, lowering the cost of dry wells in the process. Whilst fairly small, extraction costs are energy-intensive and the fuel and reinjection are directly correlated to the oil price. But the lion's share of the savings come from the disappearance of the logistics bottleneck created when the oil price hovered over the $100/bbl level disappears: O&G companies have already started to renegotiate their service contracts in 2015, and this is likely to continue in the current environment.

We assume €0.9bn net savings over 2016-2018. These cumulative net savings represent 1.4% of Engie's opex over a three-year period and therefore seem achievable in our view, especially given the strong expected contribution from the Global Gas & LNG business (40% of the total). Post tax and post minorities, this represents c.€0.4bn of additional net income (of which c.20% from Global Gas & LNG).

THE REORGANISATION SHOULD HELP EXTRACT NEW SAVINGS

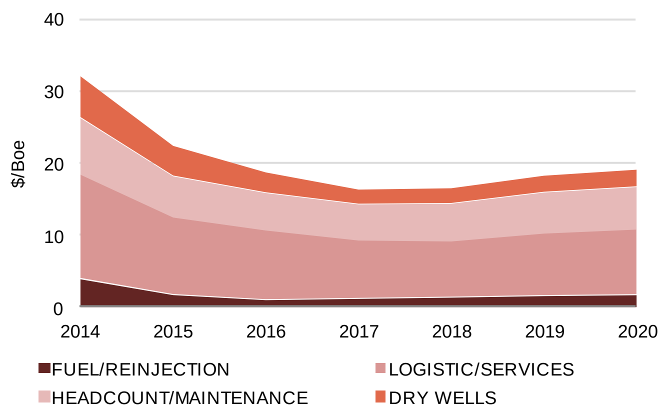
Engie's new organisation



Source: SG Cross Asset Research/Equity

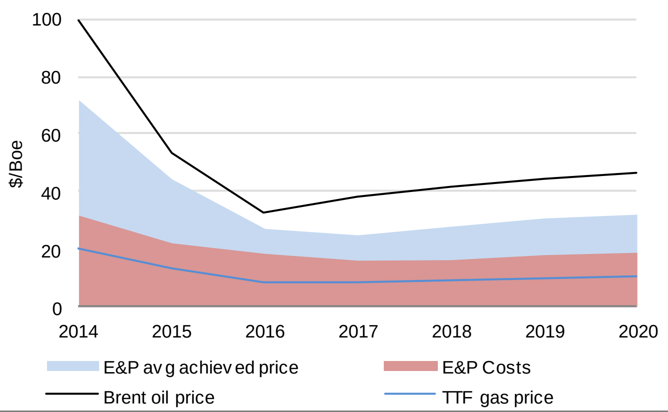
AND THE E&P'S CONTRIBUTION SHOULD BE MATERIAL

E&P production cost outlook (SGe)



Source: SG Cross Asset Research/Equity

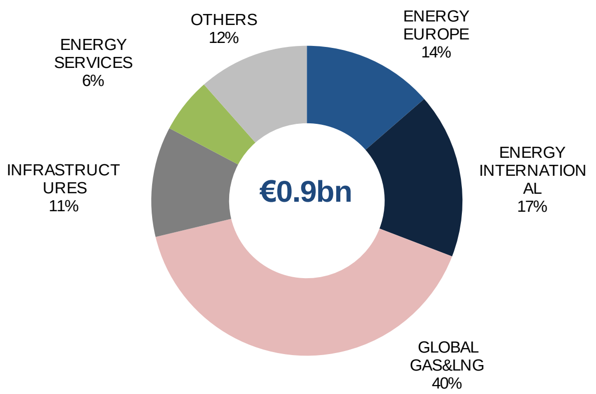
Oil and gas prices outlook and E&P profitability (SGe)



Source: SG Cross Asset Research/Equity

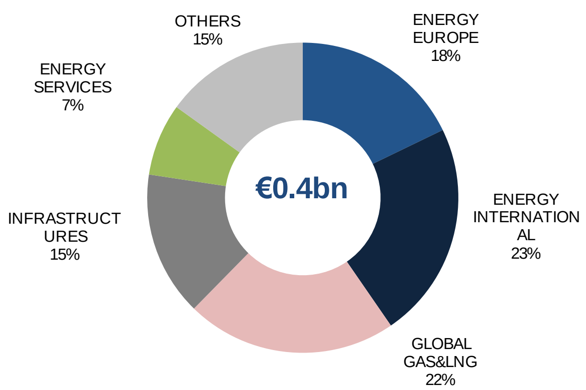
WE ASSUME €0.9BN OF NET SAVINGS WILL BE ACHIEVED OVER 2016-2018

2016-2018 cumulative net EBITDA contribution (SGe)



Source: SG Cross Asset Research/Equity, Bloomberg

2016-2018 cumulative net income contribution (SGe)



Source: SG Cross Asset Research/Equity

Step 2: Regroup

At its investor day back in December 2012, Engie clearly laid out its strategy to rotate its portfolio out of the mature markets and into the faster-growing emerging markets, LNG and Energy Services. However, disposals of generation assets in mature markets have been somehow limited, with the sale of a 28% stake in the company's Australian power generation, and of 50% of its Portuguese power generation assets and some US assets (Astoria and Choctaw CCGTs) in 2013 being among the most notable transactions.

The further deterioration in commodity prices has clearly not helped in Europe, the US and Australia, which all remain buyers' markets. However, in 2015 Engie showed clear signs that it wants to accelerate on this front. There have been numerous press reports of potential disposals being prepared by the company, including:

US generation. *Sparkspread* alleged in September that Engie was preparing the disposal of part of its c.11GW thermal fleet in North America (see our note "Another look at US thermal disposal?" for further information on the assets). On 25 January 2016, Les Echos alleged that the company would have received offers ranging from €3.7-4.6bn and we believe that an announcement is to be expected soon on this front.

Asian coal. Bloomberg alleged on 18 August that Engie plans to sell more than $1 billion of stakes in Asian coal-fired power plants. This would include its 40.5% stake in PT Paiton Energy in Indonesia (2,035MW gross, 824MW net) and its 74% stake in the smaller Meenakshi plant in India (907MW gross, 796MW net, 70% of which is under construction).

Belgian nuclear. A stake sale or partial IPO of Electrabel has been alleged numerous times in the press over the last year: on 7 December 2015, Engie's CEO Gerard Mestrallet confirmed that the option had been looked at, but said that as yet nothing had been decided. Whilst a number of uncertainties on the Belgian nuclear meant that such an operation was not feasible in 2015, these have mostly been cleared over the recent months. An agreement has finally been signed with the Belgian government on both the nuclear tax and the 10-year life extensions of Doel1 and Doel2, and Doel3 and Tihange2 have finally restarted. As such, we believe Engie has resumed its work on a partial spin-off of Electrabel (potentially combined with the other Benedelux generation assets) which could be announced in the coming months.

Coal assets in general: Australia? Back in October last year, and a few weeks ahead of the Paris COP 21 environmental conference, Engie communicated that it would no longer invest in new coal assets around the world (confirming a statement made earlier by Segolène Royale on BFMTV). We estimate Engie's net coal capacity at 12GW worldwide, with every unit being a likely disposal candidate in the very near term. As such we would flag Engie's Australia activities, which mostly consist of coal-based generation (2,507MW gross, 1,786MW net). Whilst the current regulations have been fairly benign towards coal, these are assets at risk and we would expect Engie to be looking at disposing of its 72% remaining stake soon.

E&P. Enerpresse alleged on 12 January 2016 that Engie was considering the sale of its E&P activity. Engie owns 70% of this activity since it sold a 30% stake to China Investment Corporation (CIC) for €2.3bn back in 2011. Once again, we are in a buyer's market, potentially at the bottom. However we would note that this would also contribute to exiting volatile earnings, and recent transactions have been overall in line with our $7.8/bbl valuation of 2P reserves: E.ON sold its UK North Sea reserves to Premier Oil for c.$8.5/2P net (corrected for the value of the two-year E.ON procurement hedge provided with the disposal).

ENGIE's EV and generation capacity: key divisions and potential disposals

DIVISION	ACTIVITY	EV	EV /EBITDA	EBITDA	NET GENERATION CAPACITY Hydro	Wind	Biomass	Other Renew	Nuclear	Natural Gas	Coal	Other Non Renew	TOTAL NET	TOTAL CONSO	COMMENT
		€m	x	€m	MW	MW	MW	MW	MW	MW	MW	MW	MW	MW	
ENERGY FRANCE	GENERATION	2,996	6.0 x	499	2,295	885	-	82	1,210	1,403	-	788	6,663	8,589	
	SUPPLY	1,331	8.0 x	166											
	KEY ACCOUNTS	85	8.0 x	11											
ENERGY BENEDELUX	GENERATION	2,744	2.7 x	1,009	1,318	414	240	5	4,546	5,973	2,590	689	15,774	16,363	Partial stake sale / IPO ?
	SUPPLY	867	8.0 x	108											
	KEY ACCOUNTS	44	8.0 x	6											
ENERGY SOUTH&EAST EUROPE	GENERATION	1,348	3.7 x	362	88	569	343	10	-	6,829	1,831	-	9,670	9,816	
	SUPPLY	650	8.0 x	81											
	KEY ACCOUNTS	51	8.0 x	6											
CENTRAL ENERGY MGT&TRADING		(667)	8.0 x	(83)											
ENERGY EUROPE - OTHERS		(1,093)	8.0 x	(137)											
ENERGY INTERNATIONAL	LATIN AMERICA														
	TRACTEBEL ENERGIA	5,478	6.5 x	841	5,155	402	55	2	-	131	795	41	6,580	8,893	
	ENERSUR	1,842	5.5 x	338	153	-	-	-	-	565	77	753	1,548	2,506	
	ECL	2,029	6.9 x	295	40	48	-	4	-	336	692	166	1,285	2,424	
	NON LISTED	461	4.0 x	116											
	NORTH AMERICA	5,475	6.6 x	828	1,363	264	123	10	-	8,455	872	69	11,154	11,243	Press allegations of US thermal fleet sale
	UK/EUROPE	2,904	7.9 x	366	1,566	35	-	-	-	2,169	770	97	4,636	5,913	
	M.EAST/TURKEY/AFRICA	174	1.7 x	103	-	191	-	-	-	8,599	1,281	378	10,448	10,657	Alleged potential Indian coal sale (0.8GW
	ASIA														
	GLOW	4,066	8.6 x	471	-	-	21	1	-	1,369	542	-	1,933	3,064	
	NON LISTED	1,110	7.7 x	144	71	-	-	-	-	817	824	143	1,855	1,937	Alleged Indonesian coal sale(0.8GW)
	AUSTRALIA	577	3.4 x	168	-	33	-	-	-	670	1,786	-	2,489	3,523	Remaining 72% stake ?
	OTHER	1,085	8.0 x	136											
GLOBAL GAS & LNG	E&P	5,857	11.4 x	512											Press allegations of potential sale
	LNG	20	8.0 x	2											Sector trading on 8.0x
	GTT	814	4.8 x	170											
INFRASTRUCTURES	TRANSMISSION	8,576	7.5 x	1,143											
	DISTRIBUTION	15,868	9.5 x	1,665											
	LNG TERMINALS	1,234	5.2 x	236											
	STORAGE	3,242	6.2 x	525											
ENERGY SERVICES		13,764	10.6 x	1,296	48	16	63	10	-	1,277	15	271	1,701	1,701	Report of potential deal Engie/Suez
OTHER		308													
GROUP		**83,240**	**7.9 x**	**10,532**	**12,096**	**2,856**	**844**	**124**	**5,756**	**38,592**	**12,074**	**3,394**	**75,736**	**86,629**	

Source: SG Cross Asset Research/Equity

Step 3: Distribute or redevelop? ... in Suez?

Disposals could generate €20bn of proceeds. As seen above, Engie seems to be preparing for a material restructuring of its asset portfolio. Over the coming months (or years), as it refocuses on its core regulated infrastructure and semi-regulated international IPP activities, the group could sell its generation assets in mature markets: in North America, Australia and in its European generation (potentially a stake in Electrabel). Energie could potentially add to this the remainder of its coal power plants worldwide and its E&P activities. Whilst there are clearly some execution risks and the markets are difficult for sellers of commodity-exposed assets, we estimate that the sale of these assets could create as much as c.€20bn of proceeds. This amount could increase to c.€33bn were Engie to sell its Energy Services business as well, a scenario which we detail further below.

Asset core: more regulated, but lower growth. Were Engie to execute these disposals, the group would become mostly re-regulated, centred around its French infrastructures, international IPP (mostly on PPAs) and some renewables (those on CfD types of subsidies). The recent deterioration in the economic outlook for the emerging markets (together with increasing competition in the IPP business) would leave this asset core with moderate growth potential in the medium term, with Engie resorting more to AssetCo/OpCo structuring for its international projects. Whilst embedding more growth potential, the remaining parts of Engie's portfolio (Energy Services, LNG and the renewables on "market+subsidy" mechanisms) would would still create some volatility in group earnings. Still, such a restructuring would improve overall earnings quality and cut out the structural risk faced by historical generation assets in mature markets. We believe this would be welcomed by the market.

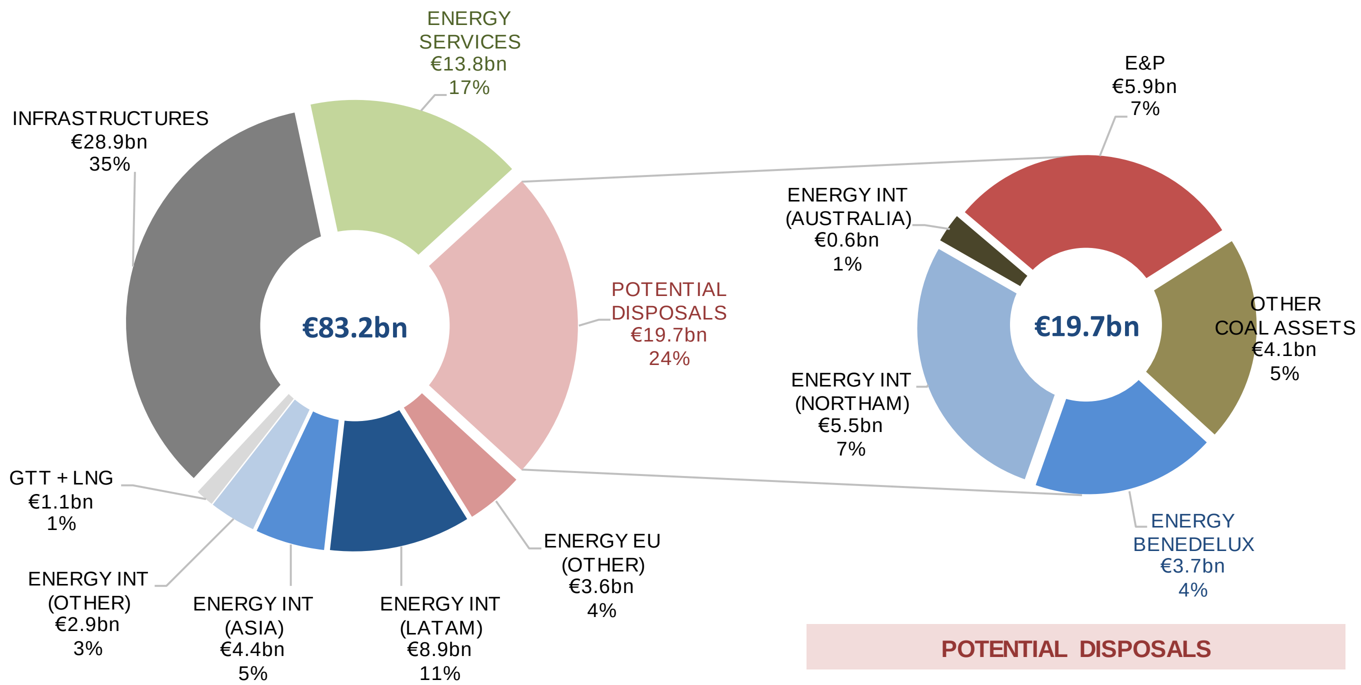
Engie could distribute... A slower-growing but more regulated profile is fairly typical of dividend plays and we believe the market would find a dividend policy based on a high payout ratio range acceptable, and potentially welcome the transformation. Historically positioning itself as a growth story, Engie has been met with scepticism in the market when its earnings were hit by both the structural decline of European generation markets and falling commodities. Despite clear cash coverage, its dividend was not deemed sustainable as the payout rose above the 90% mark. As a result the stock has been trading on above-sector dividend yields over the past few years. Assuming the current €1.0/share dividend floor is kept, it would trade on a 7.2% dividend yield for 2016e versus a sector average of 5.4%. Engie could choose to end this high dividend versus growth conundrum by refocusing on its more regulated but slower-growing assets, and use part of its disposal proceeds to repay some debt. Yet the question would remain what to do with the still material proceeds that would be left over: these could either fund some special dividends or potential acquisitions.

Or redevelop

Even after paying down some debt, Engie would likely to be left with substantial proceeds from its disposals (assuming they are all executed swiftly). Whilst distributing them through a special dividend is an option, we believe that Engie would be more likely to look at reallocating this capital through acquisitions. The more cyclical Energy Services, LNG and renewables (where the volatile earnings come from the assets under "market+subsidy" mechanisms) do not seem to be on the list of assets under review in Engie's portfolio reshuffle. This might indicate that Engie is not ready to fully refocus on regulated and semi-regulated activities and wants to keep a growth element in its strategy.

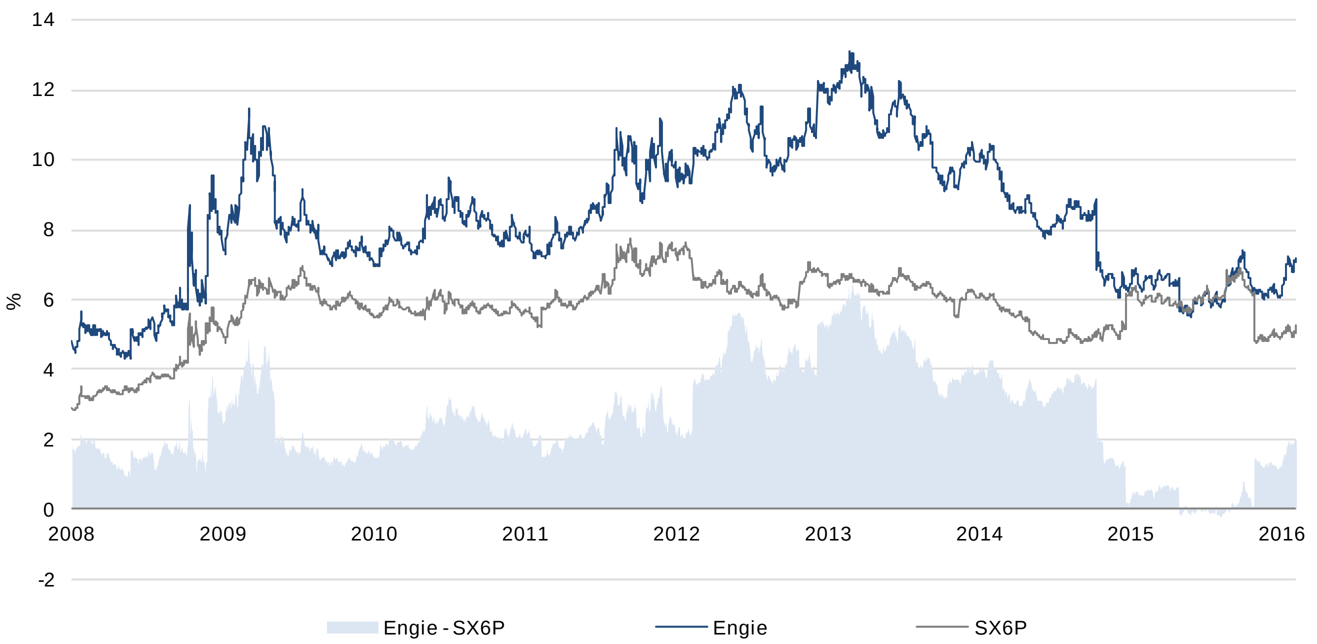
ASSETS DISPOSALS COULD REPRESENT c.€20BN OF EV, AND UP TO €35BN IF ENERGY SERVICES WERE SOLD

ENGIE's EV: key divisions and potential disposals



Source: SG Cross Asset Research/Equity

Engie dividend yield versus utilities sector



Source: SG Cross Asset Research/Equity, Bloomberg

Engie has highlighted the growth potential of these activities as key to the company's future and could well want to accelerate in these domains. Whilst the LNG profitability is under pressure and such assets seldom come to the market (Shell bought both the Respol LNG assets and more recently BG), Engie's potential M&A ambitions could be focused on IPP (e.g. AES for its Latin American assets), renewables (e.g. last year's acquisition of SolaireDirect) and Energy Services where it has been fairly active in Europe and abroad.

What about Suez?

Back in November last year L'Expansion claimed that Engie was considering regaining control of Suez, sending the latter's shares up c.5%. As we wrote at the time ('Engie looking at Suez control: Multiple options to consider'), we do not believe in a takeover of Suez. Whilst it would be earnings-enhancing (we estimated by c.7% on 2017 earnings, based on a 30% buyout premium to Suez's share price at the time), it would 'reverse' history and be at odds with the recent rebranding done by both companies (GDF Suez became Engie and Suez a standalone only earlier this year). Furthermore, it would be difficult to understand why Engie did not extend its shareholder agreement in 2013, and voted against the doubling of its own voting rights at last year's AGM. Furthermore, a full takeover would potentially reduce Suez's market valuation in Engie's SOTP.

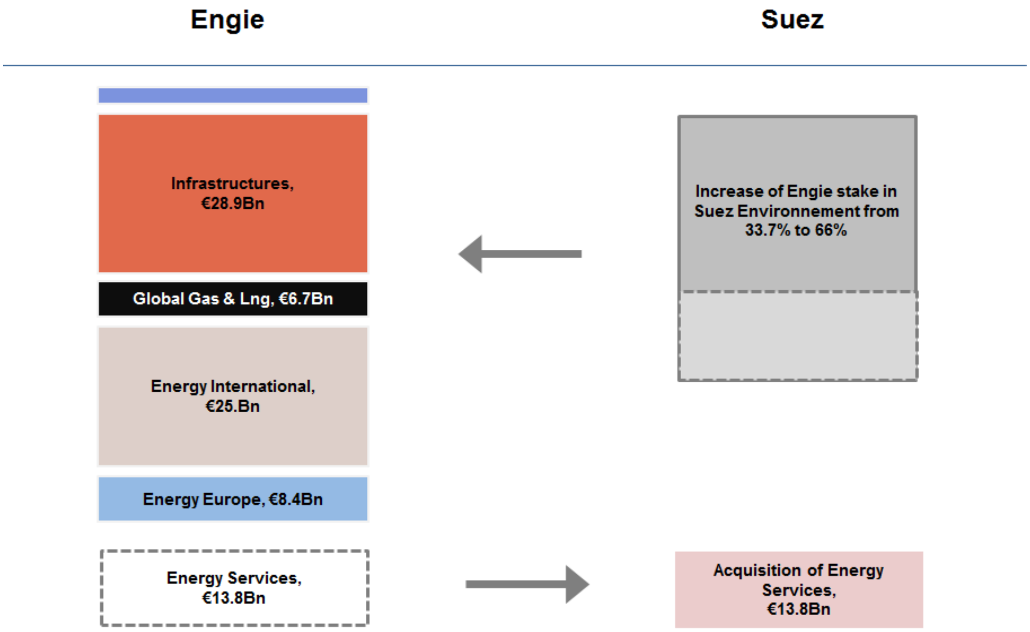
However, we highlighted that there could be another way, one which could bring more benefit to the parties: the acquisition by Suez of Engie's Energy Services, through a payment in shares. We value Engie's Energy Services at €13.8bn, and based on an assumed 2.5x ND/EBITDA gearing, estimate that Engie's stake in Suez could increase from 33.7% to c.66%, transferring effective control in the process. However, there would be good grounds for Engie to be exempted from a full takeover on Suez under the AMF rules (see paragraph 3 of the article 234.9 next page) subject to Suez board approval. Retaining a c.34% float on Suez would enable Engie to keep a higher market valuation for Suez.

On the day Engie denied 'having appointed banks or having presented such a plan to its board' to Bloomberg. Yet this falls short of a generic denial of any such scenario being considered. Indeed, there could be some upside for both parties. Assuming a 30% premium to Suez's closing price of €16.6/share last Friday, we estimate that the transaction would be overall neutral for Engie's 2017 earnings and 1.5% accretive for Suez. However, this is excludes any potential synergies from such a deal. Furthermore, it would provide a strategic third leg to Suez's cross-selling proposition via a complete turnkey contract offer (water+ waste +energy) at a time when the energy/environment services convergence is finally happening. Last but not least, it would provide Engie with a growth relay as it would bring its balance sheet capacity to help (and materially accelerate) Suez lead the environment services consolidation.

If Engie plans to keep its Energy Services division, we believe that such a deal would make strategic sense. However, this would leave Engie with its historical dividend versus growth conundrum unless it revises its dividend policy (see next chapter).

ENGIE COULD TAKE BACK CONTROL OF SUEZ IN ORDER TO ACCELERATE GROWTH IN ENERGY SERVICES

Potential structure of an acquisition by Suez of Engie's Energy Services



Source: SG Cross Asset Research/Equity

AND WE BELIEVE THE AMF RULES SHOULD ALLOW A FULL TAKEOVER EXEMPTION

Extract from the AMF's takeover code (AMF translation for information purposes)

Article 234-9

"The cases in which the AMF may grant a waiver are as follows:

1° Transmission by way of gift between natural persons, or distribution of assets by a legal person in proportion to the rights of its members.

2° Subscription to a capital increase by a company in recognised financial difficulty, subject to the approval of a general meeting of its shareholders.

3° Merger or asset contribution subject to the approval of a general meeting of shareholders.

4° Merger of asset contribution subject to the approval of a general meeting of shareholders, combined with an agreement between shareholders of the companies concerned establishing a concert party.

5° Reduction in the total number of equity securities or voting rights in the target company.

6° Holding of a majority of the company's voting rights by the applicant or by a third party, acting along or in concert.

(Pursuant to the decision of 27 June 2014) 6°bis Holding of a majority of the company's share capital by the applicant or by a third party, acting alone or in concert, further to an offer made following the normal procedure referred to in Chapter II of this Title.

7° Resale or other comparable disposal of equity securities or voting rights between companies or persons belonging to the same group. […]."

Source: SG Cross Asset Research/Equity, AMF

Is it a new DPS policy?

In preparing a major portfolio reshuffle and restructuring programme, Engie could review its dividend policy. We believe it could still keep its €1.0/share dividend floor. Ultimately this will depend on its strategic positioning and whether the company wants to keep positioning itself as a growth story or a dividend play. Given the uncertainty on the scope, timing and exit prices of potential disposals to come, the analysis below is done at current scope.

Engie could maintain its €1.0/share DPS

DPS cash coverage equation could be kept balanced. As can be seen in the table on the next page, Engie could continue to cover its dividend in cash for years to come. An operational cash flow low point of €8.2bn in 2016-2017 means the company would need to reduce capex materially (as we have done in our outlook), yet the dividend cash coverage equation would still work as long as IT conducts yearly disposals of €2.5bn per annum.

Credit metrics are tight but disposals could help. As we show on the next page, despite a material cut in our capex spending outlook to offset the renewed pressure from lower commodities, Engie's credit metrics remain quite tight. Whilst the FFO/ND stabilises at the lower end of S&P's 20-30% range, the post dividend RCF/ND metric used by Moody's clearly remains below the rating agency's "mid to high teens" target range for the company's current rating. As we have seen Engie is potentially looking at material disposals: the proceeds of which could be used to pay down some debt and support the company's metrics. However these would also impact the company's cash flows and potential improvements would depend on the ultimate scope of the disposals.

But this would mean a low growth equity story

With a payout above 90% (on SG's underlying adjusted earnings: including nuclear tax, hybrid coupon and weather adjustments) and limited investment capacity (apart from disposal proceeds reallocation after some debt paydowns), Engie would need to reposition its equity story. A repositioning on a re-regulated core such as the French gas infrastructures, international PPAs and renewable on CfD frameworks could justify a higher payout range to the market. Once the company had generated some flexibility on its credit metrics by paying down some debt, it could then redistribute the remaining proceeds from disposals in the form of special dividends. This would be the market's preferred option in our view.

Nevertheless, as we flagged before, we doubt that Engie would discard or dispose of its main growth options: Energy Services and an LNG business that is now reaching the bottom of the cycle. As such, by keeping its €1.0/share dividend floor Engie would risk repeating its historical conundrum: selling a growth story and a high dividend distribution at the same time. We believe the market would be unlikely to react any differently from the past: this could impair the short-term stock rerating potential in our view.

HIGHLY CASH GENERATIVE, ENGIE COULD KEEP ITS DIVIDEND AT €1.0/SHARE

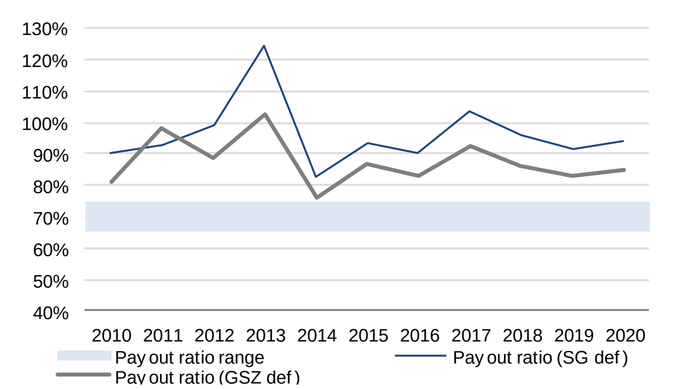
Sensitivity: cash flow and payouts on a flat €1.0/share DPS outlook

		2012	2013	2014	2015	2016	2017	2018	2019	2020
DPS	**€/sh**	1.50	1.50	1.00	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
ADJ.EPS (ENGIE def)	€/sh	1.69	1.46	1.32	1.15	1.21	1.08	1.16	1.21	1.18
Belgium nuclear tax	€/sh	(0.12)	(0.11)	(0.17)	(0.06)	(0.04)	(0.06)	(0.06)	(0.05)	(0.05)
Pre Tax Hybrid coupon	€/sh	-	(0.02)	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Other (e.g. Court orders, Weather)	€/sh	(0.06)	(0.12)	0.10	0.04	-	-	-	-	-
ADJ.EPS (SG def)	**€/sh**	**1.51**	**1.21**	**1.21**	**1.06**	**1.11**	**0.97**	**1.05**	**1.09**	**1.06**
PAYOUT (ENGIE def)	%	89%	103%	76%	87%	83%	92%	86%	83%	85%
PAYOUT (SG def)	**%**	**99%**	**124%**	**83%**	**94%**	**90%**	**104%**	**96%**	**91%**	**94%**
OPERATING CASH FLOW	**€m**	**11,367**	**11,357**	**8,751**	**9,303**	**8,197**	**8,241**	**8,513**	**8,643**	**8,791**
GROSS CAPEX	€m	(8,514)	(7,508)	(7,081)	(8,185)	(7,141)	(6,854)	(7,309)	(7,329)	(7,419)
DISPOSALS	€m	4,100	2,410	2,775	2,500	2,500	2,500	2,500	2,500	2,500
DIVIDEND	€m	(767)	(3,539)	(2,767)	(2,437)	(2,440)	(2,443)	(2,446)	(2,449)	(2,451)
DIVIDEND (MINORITIES)	€m	(869)	(812)	(750)	(636)	(710)	(665)	(690)	(706)	(608)
HYBRID COUPON	€m	-	-	(67)	(145)	(145)	(145)	(145)	(145)	(145)
EQUITY/HYBRID ISSUES (/BUY BACK)	€m	(359)	1,724	2,000	-	-	-	-	-	-
CASH FLOW TO NET DEBT	**€m**	**4,958**	**3,632**	**2,861**	**400**	**261**	**635**	**424**	**515**	**667**

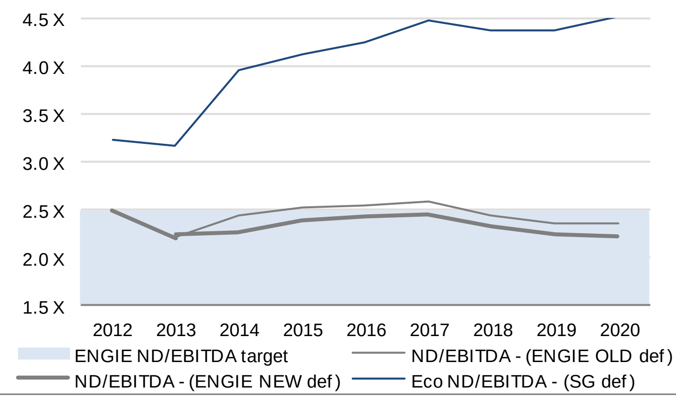
Source: SG Cross Asset Research/Equity

TIGHT CREDIT METRICS AND A HIGH PAYOUT WOULD IMPLY A LOW GROWTH STRATEGY ...

Payout ratio outlook

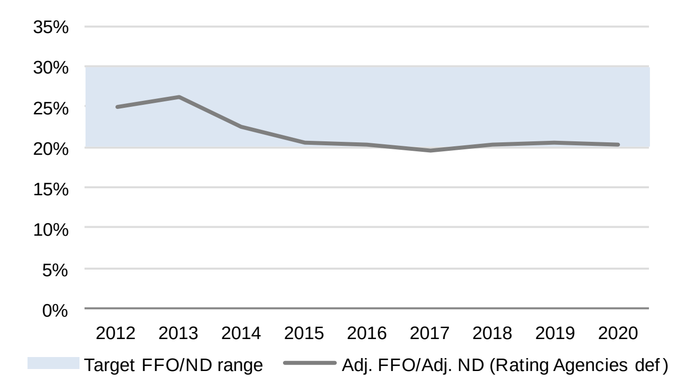


Net debt/EBITDA outlook

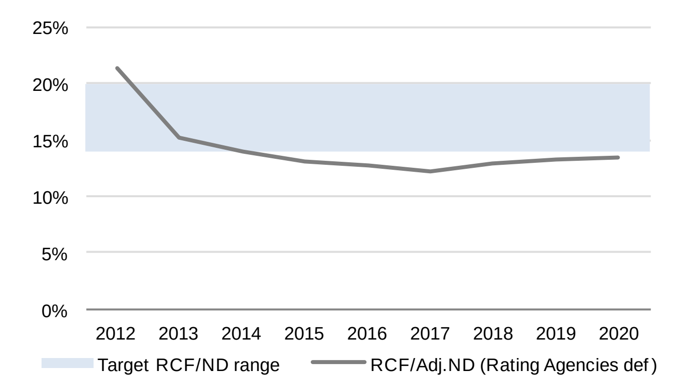


Source: Company data, SG Cross Asset Research/Equity estimates

FFO/Net debt outlook



RCF /Net debt outlook



Source: Company data, SG Cross Asset Research/Equity estimates

Instead a 30% DPS cut would reposition for growth

Hit successively by the structural decline in the European generation business and the cyclical decline in energy commodities, Engie sent signals throughout 2015 that it was preparing for a major restructuring; one that goes beyond looking for additional operational efficiencies and reassesses the company's overall strategy (or accelerates its implementation). The expected major portfolio repositioning could generate as much as c.€20bn of disposals proceeds for the company. Benefiting from a clear first-mover advantage in the field of Energy Services, we somehow doubt the company would consider an exit from this activity in order to reposition itself as a purer lower growth yet more regulated dividend stock.

As such, we believe that Engie is likely to look at reallocating these proceeds and going back down the M&A route. The company could look at consolidating its position in European gas infrastructure, consider the acquisition of IPP and renewable competitors in chosen geographies, or accelerate in the energy services domain. In this context, we believe that the scenario of a combination of Engie's Energy Services with Suez has strong strategic rationale and should not be discounted despite the company's denials.

Irrespective of whichever M&A-led growth path Engie would choose to go for, we believe the company would need to reposition its equity story and dividend policy proposition. If there is growth, the market is likely to require a normalisation of the distribution policy, one that allows for the corresponding level of investments. At current scope and assuming recurring yearly disposals of €2.5bn (which we believe are a normalised asset rotation activity for Engie), we estimate that a 30% dividend cut would "reset" the company's payout ratio on underlying earnings (SG def) into a normalised range of 65-75% whilst securing the credit metrics into the current rating bands (especially the post dividend RCF/ND).

We make this our base case: Dividend 2016e of €0.70/share

There are political elements to Engie's dividend policy, both from the French state's 33.3% ownership and the likely prolongation of Gerard Mestrallet's appointment as Chairman of the company for the next two years. As such we do not expect a cut to the 2015 dividend to be announced at the coming full-year results. However, unlike at EDF, while the French state may have a stake in Engie, it does not control Engie's main drivers, and dividend cuts have happened in the past (the last in 2014 when it was cut from €1.50/share to €1.0/share).

We believe the recent dramatic deterioration in energy commodity prices and the coming strategic acceleration provide a unique opportunity to reposition Engie's dividend policy. It is indeed a new world and Engie has a new name; it could also quite feasibly opt for a new dividend policy. This would put to rest the recurring debate in the market and help switch the focus to Engie's key attributes in the energy transition which is just starting. As a result, despite the current dividend policy guaranteeing a €1.0/share floor until 2016 (including the final DPS16 payment made in 2017), we assume that Engie will cut its dividend by 30% one year earlier to €0.70/share.

... YET WE THINK THAT IT MAY DECIDE TO CUT THE DIVIDEND TO €0.7/SHARE ...

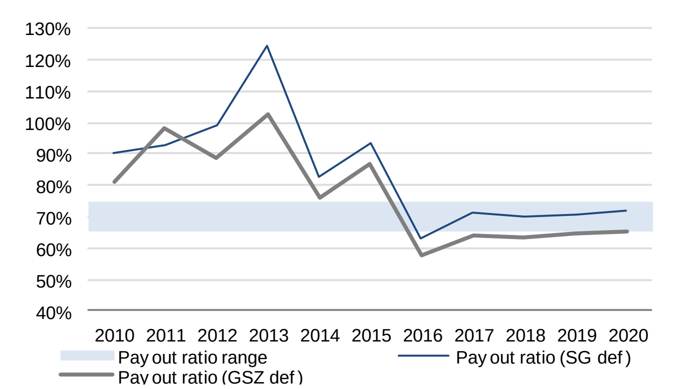
Our base case: We assume a 30% DPS cut for 2016

		2012	2013	2014	2015	2016	2017	2018	2019	2020
DPS	**€/sh**	1.50	1.50	1.00	**1.00**	**0.70**	**0.70**	**0.75**	**0.80**	**0.80**
ADJ.EPS (ENGIE def)	€/sh	1.69	1.46	1.32	1.15	1.21	1.10	1.18	1.24	1.22
Belgium nuclear tax	€/sh	(0.12)	(0.11)	(0.17)	(0.06)	(0.04)	(0.06)	(0.06)	(0.05)	(0.05)
Pre Tax Hybrid coupon	€/sh	-	(0.02)	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Other (e.g. Court orders, Weather)	€/sh	(0.06)	(0.12)	0.10	0.04	-	-	-	-	-
ADJ.EPS (SG def)	**€/sh**	**1.51**	**1.21**	**1.21**	**1.06**	**1.11**	**0.98**	**1.07**	**1.13**	**1.11**
PAYOUT (ENGIE def)	%	89%	103%	76%	87%	58%	64%	63%	64%	65%
PAYOUT (SG def)	**%**	**99%**	**124%**	**83%**	**94%**	**63%**	**72%**	**70%**	**71%**	**72%**
OPERATING CASH FLOW	**€m**	**11,367**	**11,357**	**8,751**	**9,303**	**8,204**	**8,272**	**8,574**	**8,732**	**8,905**
GROSS CAPEX	€m	(8,514)	(7,508)	(7,081)	(8,185)	(7,141)	(6,854)	(7,309)	(7,329)	(7,419)
DISPOSALS	€m	4,100	2,410	2,775	2,500	2,500	2,500	2,500	2,500	2,500
DIVIDEND	€m	(767)	(3,539)	(2,767)	(2,437)	(2,074)	(1,710)	(1,773)	(1,898)	(1,961)
DIVIDEND (MINORITIES)	€m	(869)	(812)	(750)	(636)	(710)	(665)	(690)	(706)	(608)
HYBRID COUPON	€m	-	-	(67)	(145)	(145)	(145)	(145)	(145)	(145)
EQUITY/HYBRID ISSUES (/BUY BACK)	€m	(359)	1,724	2,000	-	-	-	-	-	-
CASH FLOW TO NET DEBT	**€m**	**4,958**	**3,632**	**2,861**	**400**	**635**	**1,398**	**1,157**	**1,155**	**1,272**

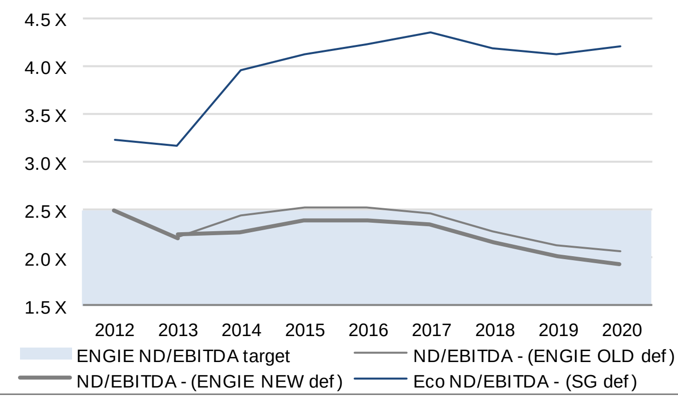
Source: SG Cross Asset Research/Equity

...STABILISING CREDIT METRICS AND REPOSITIONING FOR GROWTH

Payout ratio outlook

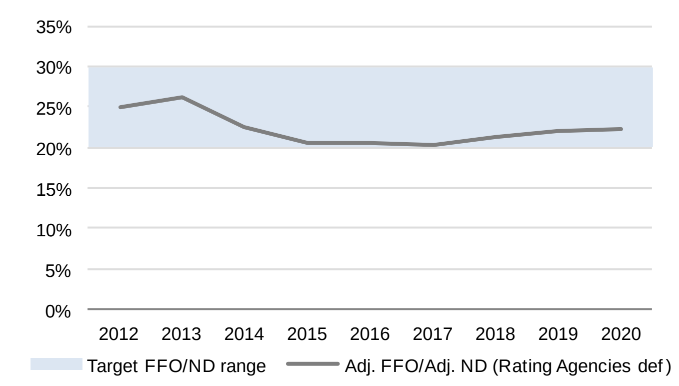


Net debt/EBITDA outlook

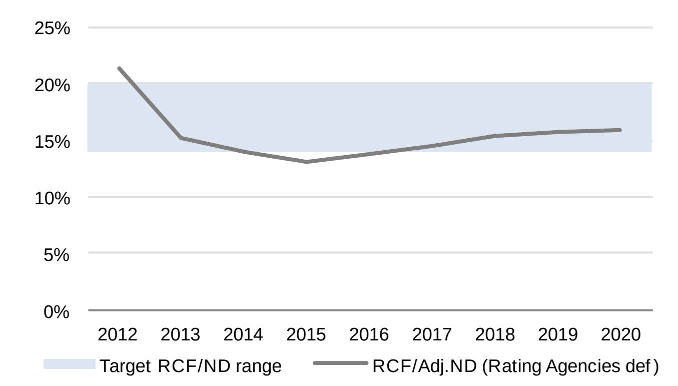


Source: Company data, SG Cross Asset Research/Equity estimates

FFO/Net debt outlook



RCF /Net debt outlook



Source: Company data, SG Cross Asset Research/Equity estimates

Buy reiterated, TP downgrade to €16.5/share

This is a new world, one with oil at $30/bbl

The dramatic drop in the oil price has brought down the whole energy commodities complex. As an integrated utility, Engie's exposure is mostly in E&P and LNG, and to a lesser extent in European generation. Still our updated 2018 adjusted earnings estimates (marked to market on 7 February) – are down -24% and sit -11% below the Bloomberg consensus. The earnings low point of €0.98/share on this model is reached in 2017 as the company's hedges roll off.

But Engie is adapting, and is better positioned than peers

Now boasting a new name (Engie), and soon a new CEO (Isabelle Kocher), we believe that Engie will react swiftly to the deterioration in its operational environment. Rather than a strategic change, we believe that Engie will accelerate the implementation of the current strategy. Continuing efforts on operational efficiency and finalising the rotation of its portfolio away from the volatile earnings of the mature power markets and potentially from the cyclical E&P market. Such a c.€20bn disposal programme would refocus the group on its regulated infrastructures and semi-regulated international PPAs. Already a leader in energy services, the group could leverage on the convergence with environmental services by reintegrating Suez. This would potentially accelerate both companies' growth and consolidate their positions.

True, we believe it should cut its DPS to €0.70/share ...

As we highlighted back in June, Engie's ability to absorb further shocks without revising its dividend policy was limited. The deterioration in the business environment leaves the company two choices, whether to: 1) to reduce capex, growth and refocus on its regulated and semi regulated activities, a choice that would raise questions over the pertinence of its LNG, and more importantly, energy services activities; or 2) cut the dividend and reallocate the freed balance sheet capacity (and disposal proceeds) to fund growth (potentially but not exclusively through Suez). We believe that Engie is likely to want to redevelop the growth element of its equity story. Whilst its dividend policy guarantees a €1.0/share floor until 2016, we believe Engie should not wait to do so and we assume a 30% cut on the 2016 DPS.

... but this still means valuation upside potential: Buy, TP €16.5

On the basis of our 30% dividend cut, Engie would still offer a de-risked 2017 dividend yield of 5.0% (and a riskier one of 7.2% if it were not to cut the dividend). This should provide some downside protection to the share price in our view. However, on our new marked-to-market estimates, the company trades on a 13% premium to its European integrated utility peers, on an adjusted PE17e of 14.2x (vs 12.6x), but in line on EV/EBITDA17e (7.7x vs 7.7x)

Note that we also expect consensus estimates throughout the sector to decline in line with the recent commodity price deterioration. Also note that Engie offers better strategic positioning and asset quality than peers, in our view. As such we believe that it should trade at a premium in the current environment.

Finally, we believe that the company's presentation and implementation of its cost savings and more importantly portfolio restructuring plans should be a positive catalyst on the name over the coming months. We reiterate our Buy recommendation but downgrade our TP from €19 to €16.5, in line with our updated SOTP.

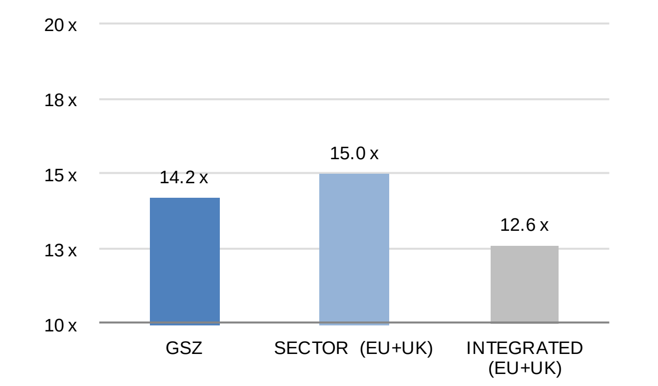
Our TP would put Engie on an adjusted P/E17e of 16.9x, an EV/EBITDA17e of 8.4x and a 2017e dividend yield of 4.2%, which implies 19.6% upside potential and a 26.8% 12m TSR.

Engie valuation multiples (price at 8 February 2016: €13.9/share)

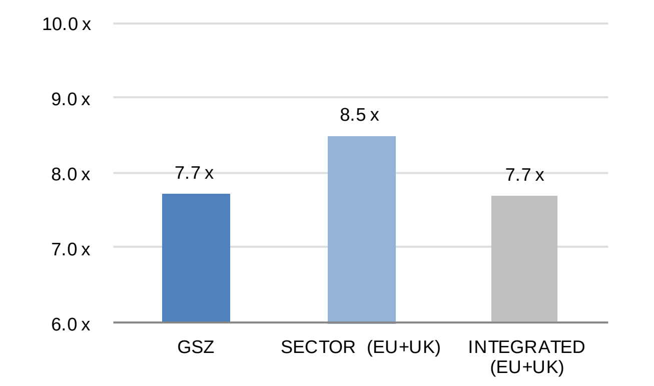
	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Sales (€m)	81,960	81,278	74,685	72,156	69,905	70,078	72,259	71,800	71,191
EBITDA (€m)	14,623	13,208	11,245	10,725	10,532	10,185	10,561	10,694	10,465
EBIT (€m)	8,428	7,150	6,719	5,940	6,079	5,633	5,853	5,918	5,575
Rec net income (€m)	3,850	3,440	3,124	2,794	2,957	2,678	2,895	3,042	2,999
Rec EPS (€)	1.51	1.21	1.21	1.06	1.10	0.98	1.07	1.13	1.11
DPS (€)	1.50	1.50	1.00	1.00	0.70	0.70	0.75	0.80	0.80
P/E (SG def) (x)	12.1	13.6	11.5	13.0	12.7	14.2	13.0	12.3	12.5
P/CF (x)	3.7	3.4	3.8	3.6	4.1	4.1	4.0	3.9	3.8
P/BV (x)	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (SG def) (x)	6.2	6.2	6.7	7.3	7.4	7.7	7.4	7.3	7.5
EV/EBIT (SG def) (x)	11.0	11.7	11.2	13.3	13.0	14.2	13.6	13.4	14.3
Div yield (%)	8.2	9.1	7.2	7.2	5.0	5.0	5.4	5.8	5.8

Source: SG Cross Asset Research/Equity

P/E 17e: Engie vs the sector

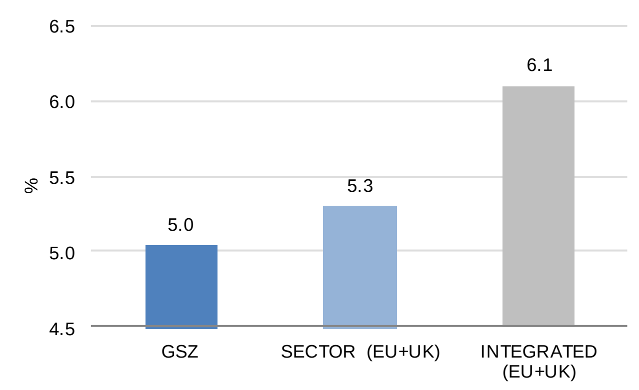


EV/EBITDA 17e: Engie vs the sector

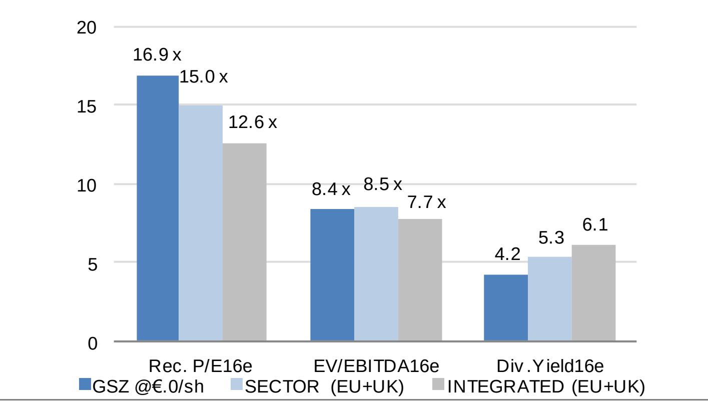


Source: SG Cross Asset Research/Equity

2017e dividend yield: Engie vs the sector



Valuation multiples at our €16.5 TP



Source: SG Cross Asset Research/Equity

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

The presentation of the company strategy update (portfolio restructuring and cost savings plan) at the full-year results on 25 February 2016 should be a key catalyst. 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 a further deterioration could potentially force Engie to make its disposals at lower valuations than we have assumed in our SOTP. Finally, a worse-than-expected regulatory review outcome for gas infrastructure (i.e. a 1% decrease in the RoR) and/or contribution from growth capex would similarly put additional pressure on our earnings estimates and valuation.

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.

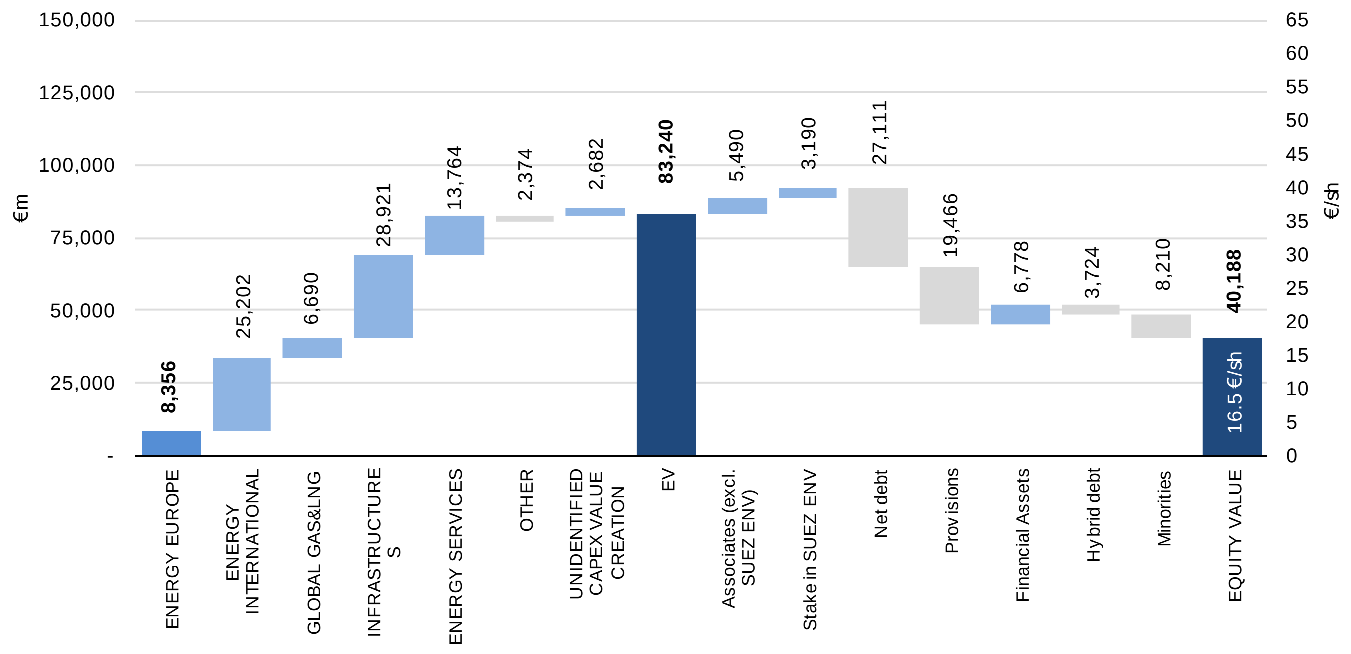
SOTP

Engie: Sum-of-the-parts

			EV	EV/EBITDA	EBITDA	Method
			€m	x	€m	
ENERGY EUROPE	€m	2016	8,356	4.1 x	2,029	DCF
ENERGY INTERNATIONAL	€m	2016	25,202	6.6 x	3,804	DCF / Market value on 08-Feb-16 for listed entities
GLOBAL GAS & LNG	€m	2016	6,690	9.8 x	685	Multiple
INFRASTRUCTURE	€m	2016	28,921	8.1 x	3,569	1.1x RAB Multiple
ENERGY SERVICES	€m	2016	13,764	10.6 x	1,296	DCF
OTHER	€m	2016	(2,374)	2.8 x	(852)	Multiple
UNIDENTIFIED CAPEX VALUE CREATION	€m	2016	2,682		-	DCF
GROUP			**83,240**	**7.9 x**	**10,532**	
Associates (excl. SUEZ ENV)	€m	2015	5,490	16.0 x		P/E
Stake in SUEZ ENV	€m	08-Feb-16	3,190			Market value on 08-Feb-16 (Sh. Price of 16.4 EUR/share)
Net debt	€m	2015	(27,111)			-
Provisions	€m	2015	(19,466)			-
Financial Assets	€m	2015	6,778			-
Hybrid debt	€m	2015	(3,724)			-
Minorities	€m	2015	(8,210)			Market value of listed entities on 08-Feb-16, Others at 16x P/E
EQUITY VALUE	**€m**		**40,188**			
Shares	mn	2015	2,437			
EQUITY VALUE	**€/sh**		**16.5**			

Source: SG Cross Asset Research/Equity

Engie: Sum of the parts



Source: SG Cross Asset Research/Equity

Addendum

EBITDA and EBIT per division: old vs new definitions

Engie – EBITDA by division

(€m)	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
OLD DEFINITION											
ENERGY INTERNATIONAL	2,534	4,225	4,327	3,817	3,471	3,526	3,804	4,156	4,512	5,082	5,091
ENERGY EUROPE	4,809	4,078	4,180	3,303	1,886	1,658	2,029	1,831	1,697	1,465	1,398
GLOBAL GAS&LNG	2,080	2,386	2,377	2,097	1,871	1,438	685	641	924	860	871
INFRASTRUCTURES	3,223	2,991	3,049	3,348	3,273	3,447	3,569	3,337	3,443	3,552	3,615
ENERGY SERVICES	923	1,005	1,018	1,072	1,137	1,281	1,296	1,326	1,343	1,371	1,403
SUEZ ENVIRONNEMENT	2,339	2,513	-	-	-	-	-	-	-	-	-
OTHER	(333)	(360)	(328)	(429)	(394)	(625)	(852)	(1,105)	(1,358)	(1,636)	(1,913)
TOTAL EBITDA	**15,575**	**16,838**	**14,623**	**13,208**	**11,245**	**10,725**	**10,532**	**10,185**	**10,561**	**10,694**	**10,465**
NEW DEFINITION											
ENERGY INTERNATIONAL				4,029	3,716	3,759	4,044	4,362	4,748	5,325	5,356
ENERGY EUROPE				2,906	2,020	1,648	2,019	1,822	1,689	1,457	1,396
GLOBAL GAS&LNG				2,028	2,225	1,702	879	787	1,070	1,006	1,017
INFRASTRUCTURES				3,334	3,274	3,453	3,576	3,344	3,450	3,560	3,623
ENERGY SERVICES				1,041	1,127	1,240	1,254	1,282	1,297	1,323	1,354
SUEZ ENVIRONNEMENT				106	118	152	173	197	228	266	276
OTHER				(398)	(342)	(626)	(853)	(1,106)	(1,359)	(1,637)	(1,915)
TOTAL EBITDA				**13,046**	**12,138**	**11,328**	**11,091**	**10,688**	**11,123**	**11,300**	**11,107**

Source: company, SG Cross Asset Research/Equity estimates

Engie – EBIT by division

(€m)	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
OLD DEFINITION											
ENERGY INTERNATIONAL	1,741	2,754	2,931	2,635	2,541	2,524	2,746	3,015	3,260	3,743	3,666
ENERGY EUROPE	3,300	2,370	2,494	1,362	837	517	893	669	504	308	232
GLOBAL GAS&LNG	961	1,164	1,119	934	1,033	486	(126)	(232)	(9)	(130)	(214)
INFRASTRUCTURES	2,071	1,793	1,805	2,062	1,982	2,153	2,220	1,958	2,012	2,061	2,098
ENERGY SERVICES	598	655	660	707	790	888	886	899	900	912	929
SUEZ ENVIRONNEMENT	1,025	1,039	-	-	-	-	-	-	-	-	-
OTHER	(443)	(550)	(581)	(550)	(463)	(628)	(540)	(676)	(813)	(975)	(1,136)
TOTAL EBIT	**9,253**	**9,225**	**8,428**	**7,150**	**6,719**	**5,940**	**6,079**	**5,633**	**5,853**	**5,918**	**5,575**
NEW DEFINITION											
ENERGY INTERNATIONAL				2,937	2,745	2,762	2,989	3,225	3,500	3,990	3,935
ENERGY EUROPE				1,423	913	578	955	732	567	371	297
GLOBAL GAS&LNG				973	1,064	517	(93)	(199)	24	(96)	(179)
INFRASTRUCTURES				2,069	1,994	2,166	2,233	1,971	2,025	2,074	2,112
ENERGY SERVICES				708	791	890	887	900	901	913	930
SUEZ ENVIRONNEMENT				106	118	152	173	197	228	266	276
OTHER				(553)	(464)	(629)	(541)	(677)	(814)	(976)	(1,137)
TOTAL EBIT				**7,663**	**7,161**	**6,435**	**6,602**	**6,149**	**6,432**	**6,543**	**6,232**

Source: company, SG Cross Asset Research/Equity estimates

Income statement

Engie – Summary Profit & Loss (OLD DEFINITION)

(€m)	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Sales	84,477	90,673	81,960	81,278	74,685	72,156	69,905	70,078	72,259	71,800	71,191
EBITDA (Old def)	**15,086**	**16,525**	**14,623**	**13,208**	**11,245**	**10,725**	**10,532**	**10,185**	**10,561**	**10,694**	**10,465**
Depreciation /Other	(6,291)	(7,547)	(6,195)	(6,058)	(4,526)	(4,785)	(4,453)	(4,553)	(4,707)	(4,776)	(4,890)
EBIT (Old def)	**8,795**	**8,978**	**8,428**	**7,150**	**6,719**	**5,940**	**6,079**	**5,633**	**5,853**	**5,918**	**5,575**
Financial result	(2,222)	(2,607)	(2,341)	(1,754)	(1,876)	(1,545)	(1,564)	(1,503)	(1,424)	(1,353)	(1,278)
Non-current result	702	706	(2,275)	(14,965)	(587)	(3,279)	(180)	(180)	(180)	(180)	(180)
PBT	7,275	7,077	3,812	(9,569)	4,256	1,117	4,335	3,950	4,249	4,385	4,117
Tax	(1,913)	(2,119)	(1,885)	(620)	(1,588)	(621)	(1,558)	(1,458)	(1,570)	(1,588)	(1,482)
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-
Minorities	(1,010)	(1,418)	(839)	(61)	(669)	(567)	(633)	(593)	(615)	(629)	(542)
Share in Net Income Associates	264	462	482	513	441	495	523	516	578	625	658
Net Income - Group Share	4,616	4,002	1,570	(9,737)	2,440	424	2,666	2,415	2,643	2,793	2,750
Adjustment	(562)	(588)	2,280	13,177	684	2,371	290	262	253	249	250
Recurring Net Income	**4,054**	**3,414**	**3,850**	**3,440**	**3,124**	**2,794**	**2,957**	**2,678**	**2,895**	**3,042**	**2,999**
Shares	2,197	2,233	2,284	2,359	2,367	2,437	2,440	2,443	2,446	2,449	2,451
Stated EPS (€)	2.10	1.80	0.68	(3.91)	1.00	0.11	1.03	0.93	1.02	1.08	1.06
Recurring EPS (€)	1.85	1.53	1.69	1.46	1.32	1.15	1.21	1.10	1.18	1.24	1.22
DPS (EUR)	**1.50**	**1.50**	**1.50**	**1.50**	**1.00**	**1.00**	**0.70**	**0.70**	**0.75**	**0.80**	**0.80**
Payout (DPS/Rec EPS)	**81%**	**98%**	**89%**	**103%**	**76%**	**87%**	**58%**	**64%**	**63%**	**64%**	**65%**
SG definition											
Belgium nuclear tax	(140)	(118)	(274)	(271)	(397)	(155)	(139)	(144)	(135)	(131)	(132)
Pre Tax Hybrid coupon				(38)	(118)	(145)	(145)	(145)	(145)	(145)	(145)
Other (e.g. Weather)	(262)	312	(130)	(287)	248	99	-	-	-	-	-
Recurring Net Income (SG def)	**3,652**	**3,608**	**3,446**	**2,844**	**2,857**	**2,593**	**2,672**	**2,388**	**2,616**	**2,766**	**2,723**
Recurring EPS (SG def) (€)	**1.66**	**1.62**	**1.51**	**1.21**	**1.21**	**1.06**	**1.10**	**0.98**	**1.07**	**1.13**	**1.11**
Payout (DPS/Rec EPS (SG def))	90%	93%	99%	124%	83%	94%	64%	72%	70%	71%	72%

Source: company, SG Cross Asset Research/Equity estimates

Engie –Summary Profit & Loss (NEW DEFINITION)

(€m)	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Sales	84,477	90,673	81,960	81,278	74,685	72,156	69,905	70,078	72,259	71,800	71,191
EBITDA	**15,086**	**16,525**	**14,623**	**13,046**	**12,138**	**11,328**	**11,091**	**10,688**	**11,123**	**11,300**	**11,107**
Depreciation /Other	(6,291)	(7,547)	(6,195)	(5,383)	(4,977)	(4,893)	(4,489)	(4,539)	(4,691)	(4,757)	(4,874)
EBIT	**8,795**	**8,978**	**8,428**	**7,663**	**7,161**	**6,435**	**6,602**	**6,149**	**6,432**	**6,543**	**6,232**
Financial result	(2,222)	(2,607)	(2,341)	(1,754)	(1,876)	(1,545)	(1,564)	(1,503)	(1,424)	(1,353)	(1,278)
Non-current result	702	706	(2,275)	(14,965)	(587)	(3,279)	(180)	(180)	(180)	(180)	(180)
PBT	7,275	7,077	3,812	(9,056)	4,698	1,612	4,858	4,466	4,827	5,010	4,774
Tax	(1,913)	(2,119)	(1,885)	(620)	(1,588)	(621)	(1,558)	(1,458)	(1,570)	(1,588)	(1,482)
Net Income (continuing operations)	5,362	4,958	1,927	(9,676)	3,110	991	3,300	3,008	3,258	3,422	3,292
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-
Minorities	(1,010)	(1,418)	(839)	(61)	(669)	(567)	(633)	(593)	(615)	(629)	(542)
Share in Net Income Associates	264	462	482	-	-	-	-	-	-	-	-
Net Income - Group Share	**4,616**	**4,002**	**1,570**	**(9,737)**	**2,441**	**424**	**2,666**	**2,415**	**2,643**	**2,793**	**2,750**
Adjustment	(562)	(588)	2,280	13,177	683	2,371	290	262	253	249	250
Recurring Net Income (excl. Hybrid)	**4,054**	**3,414**	**3,850**	**3,440**	**3,124**	**2,794**	**2,957**	**2,678**	**2,895**	**3,042**	**2,999**
Shares	2,197	2,233	2,284	2,359	2,367	2,437	2,440	2,443	2,446	2,449	2,451
Stated EPS (€)	**2.10**	**1.80**	**0.68**	**(3.91)**	**1.00**	**0.11**	**1.03**	**0.93**	**1.02**	**1.08**	**1.06**
Recurring EPS (incl. Hybrid) (€)	**1.85**	**1.53**	**1.69**	**1.46**	**1.32**	**1.15**	**1.21**	**1.10**	**1.18**	**1.24**	**1.22**
DPS (€)	**1.50**	**1.50**	**1.50**	**1.50**	**1.00**	**1.00**	**0.70**	**0.70**	**0.75**	**0.80**	**0.80**
Payout (DPS/Rec EPS)	81%	98%	89%	103%	76%	87%	58%	64%	63%	64%	65%
SG definition											
Belgium nuclear tax	(140)	(118)	(274)	(271)	(397)	(155)	(139)	(144)	(135)	(131)	(132)
Pre Tax Hybrid coupon	-	-	-	(38)	(118)	(145)	(145)	(145)	(145)	(145)	(145)
Other (e.g. Weather)	(262)	312	(130)	(287)	248	99	-	-	-	-	-
Recurring Net Income (SG def)	**3,652**	**3,608**	**3,446**	**2,844**	**2,857**	**2,593**	**2,672**	**2,388**	**2,616**	**2,766**	**2,723**
Recurring EPS (SG def) (€)	**1.66**	**1.62**	**1.51**	**1.21**	**1.21**	**1.06**	**1.10**	**0.98**	**1.07**	**1.13**	**1.11**
PAYOUT											
Payout policy range - LOW					65%	65%	65%				
Payout policy range - HIGH					75%	75%	75%				
Payout (on GDF Suez Rec.NI def)	81%	98%	89%	103%	76%	87%	58%	64%	63%	64%	65%
Payout (on GDF Suez Rec.EPS def)	81%	98%	89%	103%	76%	87%	58%	64%	63%	64%	65%
Payout (on SGCIB Rec EPS def)	**90%**	**93%**	**99%**	**124%**	**83%**	**94%**	**64%**	**72%**	**70%**	**71%**	**72%**

Source: company, SG Cross Asset Research/Equity estimates
(NB: New definition of EBITDA from 2013 includes NI from associates, concession renewal expenses, provisions, share-based payments (cash), but dry wells are now capitalised)

Balance sheet

Engie – Summary balance sheet (€m)

(€m)	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Intangible assets	40,347	44,588	35,743	27,462	28,791	27,351	25,984	24,685	23,450	22,278	21,164
Tangible assets	78,703	90,120	77,730	63,112	64,032	66,514	68,214	69,460	70,943	72,317	73,605
Financial assets	13,667	15,194	14,388	15,238	17,176	17,176	17,176	17,176	17,176	17,176	17,176
Non-current assets	**132,717**	**149,902**	**127,861**	**105,812**	**109,999**	**111,041**	**111,374**	**111,320**	**111,569**	**111,771**	**111,945**
Debtors	21,334	23,135	21,305	21,057	21,558	20,164	19,535	19,583	20,193	20,065	19,894
Inventories	3,870	5,435	5,131	4,973	4,891	4,427	4,289	4,299	4,433	4,405	4,368
Other	13,728	16,078	13,586	13,460	18,860	18,860	18,860	18,860	18,860	18,860	18,860
Cash and liquid assets	13,009	18,860	12,702	10,630	9,997	10,397	10,989	12,386	13,541	14,695	15,965
Current Assets	**51,940**	**63,508**	**52,724**	**50,120**	**55,306**	**53,848**	**53,673**	**55,129**	**57,027**	**58,025**	**59,087**
TOTAL ASSETS	**184,657**	**213,410**	**180,585**	**155,932**	**165,305**	**164,890**	**165,047**	**166,449**	**168,597**	**169,796**	**171,032**
Share capital	62,205	62,930	59,745	47,971	49,527	46,733	46,471	46,367	46,402	46,447	46,482
Minorities	8,513	17,340	6,056	5,688	6,432	6,432	6,432	6,432	6,432	6,432	6,432
Total equity	**70,717**	**80,270**	**65,801**	**53,659**	**55,959**	**53,165**	**52,903**	**52,799**	**52,834**	**52,879**	**52,914**
Provisions	12,989	14,431	14,221	14,066	16,402	17,222	18,083	18,987	19,937	20,934	21,980
Interest bearing LT-Debt	38,179	43,375	36,855	28,576	28,024	28,024	28,024	28,024	28,024	28,024	28,024
Others	17,663	19,234	15,799	12,888	13,423	16,035	16,668	17,261	17,876	18,505	19,048
Non-current liabilities	**68,830**	**77,040**	**66,875**	**55,530**	**57,849**	**61,281**	**62,775**	**64,272**	**65,837**	**67,463**	**69,052**
Provisions	1,480	1,751	1,511	2,032	2,137	2,137	2,137	2,137	2,137	2,137	2,137
Interest bearing ST-Debt	9,059	13,213	10,617	10,316	10,297	10,297	10,297	10,297	10,297	10,297	10,297
Creditors	14,835	18,387	16,679	16,398	18,799	17,746	16,671	16,680	17,228	16,756	16,368
Others	19,735	22,749	19,102	17,997	20,264	20,264	20,264	20,264	20,264	20,264	20,264
Current Liabilities	**45,109**	**56,100**	**47,909**	**46,743**	**51,497**	**50,444**	**49,369**	**49,378**	**49,926**	**49,454**	**49,066**
EQUITY & LIABILITIES	**184,657**	**213,410**	**180,585**	**155,932**	**165,305**	**164,890**	**165,047**	**166,449**	**168,597**	**169,796**	**171,032**

Source: company, SG Cross Asset Research/Equity estimates

Cash flow

Engie – Summary of cash flow

(€m)	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
OPERATING CASH FLOW	**12,332**	**13,838**	**11,367**	**11,357**	**8,751**	**9,303**	**8,161**	**8,270**	**8,572**	**8,731**	**8,903**
Industrial capex	(9,291)	(8,897)	(7,954)	(6,936)	(5,791)	(7,741)	(6,697)	(6,409)	(6,865)	(6,885)	(6,975)
Financial capex	(2,625)	(1,850)	(560)	(572)	(1,290)	(444)	(444)	(444)	(444)	(444)	(444)
Disposals	3,300	6,600	4,100	2,410	2,775	2,500	2,500	2,500	2,500	2,500	2,500
Dividend (previous year)	(3,330)	(3,328)	(767)	(3,539)	(2,767)	(2,437)	(2,074)	(1,710)	(1,773)	(1,898)	(1,961)
Dividends from Minorities	(588)	(1,035)	(869)	(812)	(750)	(636)	(710)	(665)	(690)	(706)	(608)
Hybrid coupon	-	-	-	-	(67)	(145)	(145)	(145)	(145)	(145)	(145)
Equity /hybrid issues /(buy-back)	814	931	(359)	1,724	2,000	-	-	-	-	-	-
Other	(4,480)	(10,025)	(3,971)	3,782	(1,172)	-	-	-	-	-	-
Decrease (increase) in net debt	**(3,868)**	**(3,766)**	**987**	**7,414**	**1,689**	**400**	**592**	**1,397**	**1,155**	**1,154**	**1,270**
Free cash flow (core capex only)	3,041	4,941	3,413	4,421	2,960	1,562	1,464	1,860	1,707	1,846	1,928
Free cash flow (total capex)	416	3,091	2,853	3,849	1,670	1,118	1,020	1,416	1,263	1,402	1,484

Source: company, SG Cross Asset Research/Equity estimates

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APPENDIX

COMPANIES MENTIONED

BG Group (BG.L, Hold)
Centrica (CNA.L, Sell)
Drax (DRX.L, Hold)
E.ON (EONGn.DE, Buy)
EDF (EDF.PA, Buy)
EDP Renovaveis SA (EDPR.LS, Buy)
Electrabel (nocode88, No Reco)
Electrica (nocode061, No Reco)
Enagas (ENAG.MC, Buy)
Endesa SA (ELE.MC, Hold)
Enel (ENEI.MI, Buy)
Enel Green Power (EGPW.MI, Buy)
Energias de Portugal (EDP.LS, Hold)
Engie (ENGIE.PA, Buy)
Euro Resources (EURR.PA, No Reco)
EVN (EVNV.VI, Buy)
Fortum (FUM1V.HE, Hold)
Gas Natural SDG (GAS.MC, Hold)
Gaztransport & Technigaz (GTT.PA, Hold)
Iberdrola (IBE.MC, Buy)
National Grid (NG.L, Sell)
Natixis (CNAT.PA, Buy)
Norsk Hydro (NHY.OL, No Reco)
Pennon Group (PNN.L, Hold)
Red Electrica (REE.MC, Hold)
Redes Energeticas Nacionais (RENE.LS, Hold)
Royal Dutch Shell (RDSb.L, Buy)
RWE (RWEG.DE, Hold)
Severn Trent (SVT.L, Hold)
SNAM (SRG.MI, Buy)
Southern Natural Gas Company (SO.N, No Reco)
SSE (SSE.L, Sell)
Suez (SEVI.PA, Buy)
Terna (TRN.MI, Hold)
United Utilities (UU.L, Hold)
Veolia Environnement (VIE.PA, Hold)
Verbund (VERB.VI, Hold)

ANALYST CERTIFICATION

The following named research analyst(s) hereby certifies or certify that (i) the views expressed in the research report accurately reflect his or her or their personal views about any and all of the subject securities or issuers and (ii) no part of his or her or their compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report: **Vincent Ayral, Roland Kaloyan, Yannick Ouaknine**

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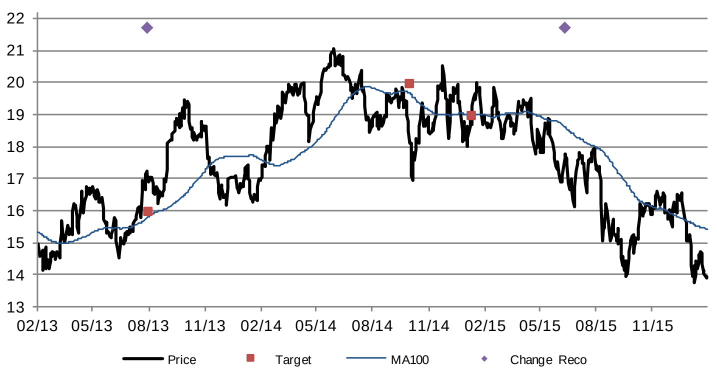
Historical Price: Engie (ENGIE.PA)



Source: SG Cross Asset Research/Equity

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		

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.

Sector Weighting Definition on a 12 month period:

The sector weightings are assigned by the SG Equity Research Strategist and are distinct and separate from SG equity research analyst ratings. They are based on the relevant MSCI.

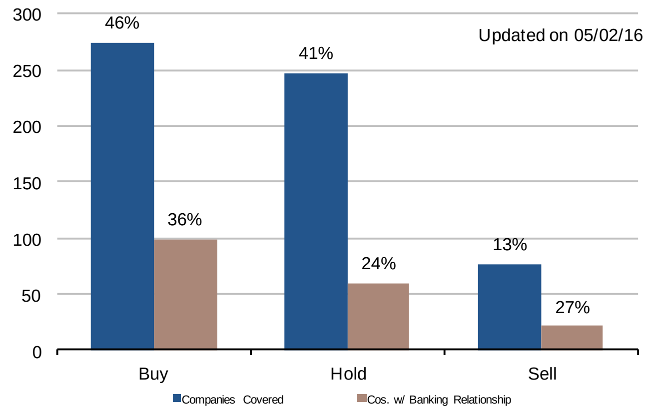
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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.

The Preferred and Least preferred stocks are selected by the covering analyst based on the individual analyst's coverage universe and not by the SG Equity Research Strategist.

Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

All pricing information included in this report is as of market close, unless otherwise stated.

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IMPORTANT DISCLOSURES

BG Group	SG is acting as financing joint mandated lead manager with Royal Dutch Shell PLC for the acquistion of BG Group PLC.
EDF	SG is acting as financial advisor in the potential acquisition of Areva NP by EDF.
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
Energias de Portugal	SG acted as joint bookrunner in EDP's bond issue.
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.
Euro Resources	SG acted as a dealer manager in Iamgold tender offer on Euro Ressources
European Gas Limited	SG is acting as global coordinator in EGL's IPO.
Gas Natural SDG	SG acted as joint bookrunner in Gas Natural's hybrid bond issue
Royal Dutch Shell	SG is acting as financing joint mandated lead manager with Royal Dutch Shell PLC for the acquistion of BG Group PLC.
Royal Dutch Shell	SG acted as a joint lead manager in Royal Dutch Shell's bond issue.
Severn Trent	SG acted as Joint dealer manager in Severn Trent's tender offer.
SNAM	SG acted as a joint bookrunner in SNAM's bond issue (EUR 8yr).
Terna	SG acted as joint bookrunner in Terna's bond issue (EUR, 7yr)
Veolia Environnement	SG acted as global coordinator in Veolia Environnement's bond issue (EUR Long 12y)
Veolia Environnement	SG acted as joint bookrunner in Veolia Environnement's tender offer (ISIN:FR0010750489, FR0010918490, FR0010474239)
Veolia Environnement	SG acted as joint bookrunner in the Veolia Environnement's block trade sold by Groupama.

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SG or its affiliates had an investment banking client relationship during the past 12 months with BG Group, EDF, European Gas Limited, Enagas, Energias de Portugal, Engie, Euro Ressources, Gas Natural SDG, Royal Dutch Shell, SNAM, Severn Trent, Terna, Veolia Environnement.
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SGAS had a non-investment banking non-securities services client relationship during the past 12 months with BG Group, Centrica, Drax, E.ON, EDF, EDP Renovaveis SA, Engie, Gas Natural SDG, National Grid, Natixis, Norsk Hydro, RWE, Veolia Environnement.
SGAS received compensation for products and services other than investment banking services in the past 12 months from BG Group, Centrica, Drax, E.ON, EDF, EDP Renovaveis SA, Engie, Gas Natural SDG, National Grid, Natixis, Norsk Hydro, RWE, Veolia Environnement.

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