

Engie EPS (DJSTOXX:EPS PA)

BUY

Share Price (as at close: 15/11/2018) €13.9

Target Price €17.0

Upside to TP 21.9%

Market Cap (€'m) 177.5

Net Cash (€'m) 11.3

Enterprise Value (€'m) 166.2

Shares in Issue (m) 12.8

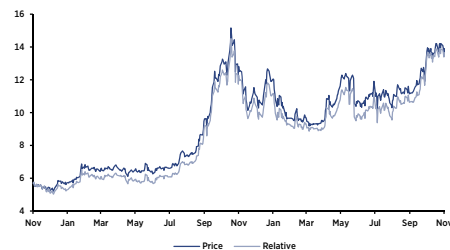
Free Float (%) 27.7%

Average Daily Volume (000, -3m) 11.0

12 month high/low 14.6628 c/9.1976 c

(%)	1m	3m	12m
Absolute	-0.4	+35.0	-5.2
FTA relative	+0.4	+46.2	+2.0

Price & price relative (-2 year)



Source: Datastream

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Continued progress in Q3s

Engie EPS continues to show progress with its Q3 statement. While there is still much to do in Q4, the potential revenue around the year end, particularly from microgrid projects, should see a significant uptick. One project may be delayed slightly and we reflect this in revised numbers although the timing effect is minimal and as such our target price remains unchanged at €17.0.

13% underlying revenue growth in Q3

Engie EPS has announced its Q3 numbers which show revenue at €2.9m or €7.5m and up 13% on the basis used prior to the adoption of IFRS 15. Growth has come from a number of sources including the commissioning of 24MW storage systems in Europe. The company continues to make progress with microgrids and smart island projects and expects to recognize revenue from projects in Italy, Singapore and the Comoros Islands around the year end.

Potential slight delay in Comoros project

The Comoros project creates potential forecast sensitivity with an external delay likely to put completion back slightly. This has nothing to do with Engie EPS's execution but is related to local activity. We think it sensible to assume that related revenue (c.€5m) will now be reported in FY 19 on an IFRS 15 basis. Our FY 18 revenue falls to €14.9m from €20.3m and EBTIDA goes to -€2.2m from breakeven. This reverses in FY 19 and revenue rises to €83.0m from €77.4m and EBITDA to €18.5m from €16.6m. With only a quarter's timing difference the impact on our DCF based valuation is negligible.

Backlog now at €77.5m

The value of backlogs now stands at €77.5m with €6m of this at final order stage for EPC based contracts and €71.5m represented by power purchase agreement sales for which financing is being structured. Pipeline now stands at €179m also up 12% compared with the first nine months of 2017 despite more than €55m of this being converted to backlog in H2 18. The company ended the period with cash of €18.5m up from €4.2m in December 2017 and net cash was €13.5m up from net debt of €12.3m. This was primarily driven by the €30.3m capital raise completed in August and the €10m repayment of the EIB loan.

We continue to value the company at €17.0

We value the company using a DCF model with a WACC of 12% to get a target price of €17.0. The key risks to our valuation are failure to gain traction in target markets, competitor response and minority disenfranchisement.

Year end	Revenue	EBIT	PBT	Tax	EPS (FD)	PER	EV/EBITDA	Div Yield
December	(€'m)	(€'m)	(€'m)	(%)	(c)	(x)	(x)	(%)
2016A	7.1	-6.8	-6.9	0.6	-87.6	-15.9	-27.8	0.0
2017A	9.9	-6.0	-6.7	12.1	-72.6	-19.1	-33.0	0.0
2018E	14.9	-4.0	-5.1	0.0	-39.8	-34.9	-59.7	0.0
2019E	83.0	16.9	16.3	25.0	95.9	14.5	8.5	0.0
2020E	105.0	29.8	28.8	25.0	169.2	8.2	4.9	0.0

Source: Company data, CFE Research estimates

Figures exclude exceptional items

Financial model

Income Statement (€'m)

Year end December	2016A	2017A	2018E	2019E	2020E
Goods	6.7	9.5	14.5	82.6	104.6
Services	0.4	0.4	0.4	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Group revenue	7.1	9.9	14.9	83.0	105.0
Goods	1.4	-3.4	5.7	28.0	41.0
Services	0.4	0.4	0.4	0.4	0.4
Grants and other income	0.2	0.0	0.0	0.0	0.0
Other	-8.8	-3.0	-10.1	-11.5	-11.6
Adjusted operating profit	-6.8	-6.0	-4.0	16.9	29.8
Associates and other income	0.0	0.0	0.0	0.0	0.0
Adjusted EBIT	-6.8	-6.0	-4.0	16.9	29.8
Finance Costs	0.0	-0.7	-1.1	-0.5	-1.0
Adjusted PBT	-6.9	-6.7	-5.1	16.3	28.8
Exceptional items	-1.7	-3.1	0.0	0.0	0.0
Reported PBT	-8.5	-9.8	-5.1	16.3	28.8
Reported tax	0.0	0.8	0.0	-4.1	-7.2
Adjusted tax rate	0.6%	12.1%	0.0%	25.0%	25.0%
Reported PAT	-8.6	-9.0	-5.1	12.2	21.6
Minority interests	0.0	0.0	0.0	0.0	0.0
Discontinued businesses	0.0	0.0	0.0	0.0	0.0
Earnings attributable to shareholders	-8.6	-9.0	-5.1	12.2	21.6
Shares in issue (m)	7.9	8.2	12.8	12.8	12.8
Average weighted capital (FD) (m)	7.9	8.2	12.8	12.8	12.8
Adjusted EPS (FD) (c)	-87.6	-72.6	-39.8	95.9	169.2
Reported EPS (FD) (c)	-108.6	-110.5	-39.8	95.9	169.2
DPS (payable) (c)	0.00	0.00	0.00	0.00	0.00

Source: Company data, CFE Research estimates

Performance Metrics

Year end December	2016A	2017A	2018E	2019E	2020E
Revenue growth (%)	505.9	39.7	50.5	457.2	26.5
Adjusted EBITDA growth (%)	n.a.	n.a.	n.a.	n.a.	71.1
Adjusted EBIT growth (%)	n.a.	n.a.	n.a.	n.a.	76.8
Adjusted PBT growth (%)	n.a.	n.a.	n.a.	n.a.	76.4
Adjusted EPS growth (%)	n.a.	n.a.	n.a.	n.a.	76.4
DPS payable growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted EBITDA margin (%)	-79.0	-47.7	-17.5	22.1	29.9
Adjusted EBIT margin (%)	-96.2	-60.6	-26.9	20.3	28.4
Interest cover (x)	150.7	8.0	3.7	31.5	29.7
Net cash/(debt)/adjusted EBITDA (x)	0.2	2.6	-4.3	-0.8	-0.2
Net cash/(debt)/equity (%)	-19.6	-850.3	42.2	-38.8	-8.1
Net working capital/revenue (%)	13.7	75.2	69.3	60.6	60.2
Operating cashflow conversion (%)	63.4	159.9	137.1	-128.0	62.2
Return on assets employed (%)	-104.2	-41.5	-24.9	30.8	45.1
Return on equity (%)	-126.2	-408.8	-19.0	31.5	35.7

Source: Company data, CFE Research estimates

Cashflow Statement (€'m)

Year end December	2016A	2017A	2018E	2019E	2020E
Operating profit	-6.8	-6.0	-4.0	16.9	29.8
Depreciation and amortisation	1.2	1.3	1.4	1.5	1.7
Other non-cash movements	0.2	0.2	0.0	0.0	0.0
Change in working capital	1.1	-5.1	-2.9	-40.0	-12.9
Other cash movements	0.0	0.0	0.0	0.0	0.0
Operating cashflow	-4.3	-9.6	-5.5	-21.6	18.5
Taxation paid	0.0	0.0	0.0	-4.1	-7.2
Finance costs	0.0	0.0	-1.1	-0.5	-1.0
Investment income	0.0	0.0	0.0	0.0	0.0
Capitalised intangibles	0.0	0.0	0.0	0.0	0.0
Capital expenditure (net)	-0.3	-0.1	-0.2	-0.2	-0.2
Free cashflow	-4.7	-9.7	-6.7	-26.4	10.2
Other investing activities	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals (net)	-5.0	-2.6	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Shares issued/(repurchased)	1.4	0.0	30.3	0.0	0.0
Other financial	-1.4	1.1	n.a.	0.0	0.0
Movement in net cash/(debt)	-9.6	-11.3	23.6	-26.4	10.2
Net cash/(debt) b/fwd	8.6	-1.1	-12.3	11.3	-15.1
Movement in net cash/(debt)	-9.6	-11.3	23.6	-26.4	10.2
Net cash/(debt) c/fwd	-1.1	-12.3	11.3	-15.1	-4.9

Source: Company data, CFE Research estimates

Balance Sheet (€'m)

Year end December	2016A	2017A	2018E	2019E	2020E
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible fixed assets	4.8	6.3	6.3	6.3	6.3
Tangible fixed assets	0.8	0.8	-0.5	-1.9	-3.4
Net working capital	1.0	7.4	10.3	50.3	63.2
Assets employed	6.5	14.5	16.1	54.7	66.1
Other assets/(liabilities)	0.0	0.0	0.0	0.0	0.0
Net cash/(debt)	-1.1	-12.3	11.3	-15.1	-4.9
Pension deficit	0.0	0.0	0.0	0.0	0.0
Deferred tax	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	-0.7	-0.7	-0.7	-0.7
Net assets	5.5	1.4	26.7	38.9	60.5
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders funds	5.5	1.4	26.7	38.9	60.5

Source: Company data, CFE Research estimates

Valuation Metrics

Year end December	2016A	2017A	2018E	2019E	2020E
EV / Revenue (x)	21.9	15.7	10.4	1.9	1.5
EV / Adjusted EBITDA (x)	-27.8	-33.0	-59.7	8.5	4.9
EV / Adjusted EBIT (x)	-22.8	-25.9	-38.8	9.2	5.2
PER (x)	-15.9	-19.1	-34.9	14.5	8.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	-2.8	-5.8	-4.0	-15.8	6.1
NAV/Share (c)	69.4	17.8	208.9	304.8	474.0

Source: Company data, CFE Research estimates

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Engie EPS (EPS FP)	BUY from HOLD	21/08/18

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