



| Electric Utilities | 12m target downgrade | France | @ Go to SG website

Engie EPS

Pushing our estimates back one year; but company likely to bulk up in the future

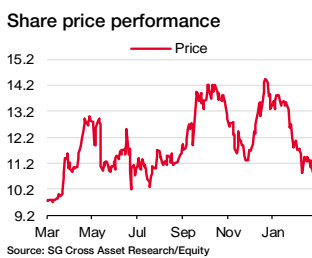
Buy			
Price 25/03/19	€10.65		
12m target	€18.0		
Upside to TP	69.0%		
12m f'cast div	€0.00		
12m TSR	69.0%		
Main changes since last report			
Target (€)	↓ 18.0	(21.00)	
EPS 19e (€)	↓ -0.380 (1.06)	-135.9%	
EPS 20e (€)	↓ 0.665 (1.61)	-58.7%	
EPS 21e (€)	1.33	nc	
new vs (old)		nc: no change	

We have pushed back our sales and earnings forecasts by one year, resulting in sharp cuts to our 2019/20 EPS estimates due to delays on the Armonia project in Palau. That said, Engie EPS has cited a record number of very large-scale tender offers in microgrids and solar plus storage, which will lead it to create a joint offer and step up its integration with Engie Solar. The company will unveil a new strategic plan in the coming months as it paves the way to bulk up significantly over the next few years. We derive our target price from a DCF.

What's the situation in Palau? In October 2018 Engie EPS announced that it had been awarded the largest microgrid project in the world from the Palau Republic (project Armonia). The contract was a 30-year power purchase agreement (PPA) involving the construction of 35MW in photovoltaic power/45MW in power storage, with total billings expected to be c.€60m. Work was due to begin at the end of 2018 and service was slated to commence in late 2019. Like most PPAs, the contract had to be guaranteed by the sovereign entity – in this case, the Republic of Palau. The nation's lower house of parliament approved the guarantee (unanimously), but the senate did not. To win the senate's approval, the government decided that the fastest and most efficient approach would be to launch a new tender in an effort to demonstrate that Engie EPS was the best choice. It is our understanding that the tender period, which was initially supposed to close in late March, might be extended several weeks or even months. We therefore find it prudent to strip numbers related to the Palau project out of our 2019 valuation model and to significantly cut our sales forecast from €79m to €35m. Work on several large projects will however get underway in 2019, including a large project in Mexico, and we think the company will be close to breakeven at the operating level this year.

What about the 2020 targets? Management now believes it will be hard to meet its initial €100m sales target in 2020, so we have decided to push our forecast back one year to 2021. Meanwhile, Engie EPS cited a record number of very large tender offers (for several hundred MW) in solar power and power storage in a number of countries. This will require it to create a joint offer and stronger integration with Engie Solar, whereby Engie EPS will have to define how it will share responsibility, sales, profits, governance, etc. The company will unveil a new strategic plan in the next few months, as it paves the way to grow significantly in the coming years.

We have lowered our target price from €21 to €18 to reflect our estimates downgrade Our TP is derived from a DCF, with the following unchanged assumptions: a WACC of 9.0%, a normalised EBITDA margin of 26% and perpetuity growth of 3%.



Perf. (%)	1m	3m	12m	ytD
Share	-9.7	-5.8	9.1	-10.9
Rel. index*	-9.7	-19.6	2.4	-20.3
Rel. sector**	-12.7	-16.6	-8.5	-20.0
* MSCI World (\$)				
** MSCI World Utilities (\$)				

RIC EPS.PA, Bloom EPS FP	
52-week range	14.5-9.72
EV 19 (€m)	113
Mkt cap. (€m)	112
Free float (%)	29.5
No. shares o/s (m)	11
Avg vol. 3m (No. shares)	9,339

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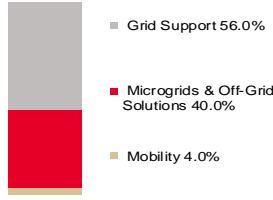
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Financial data	12/18	12/19e	12/20e	12/21e	Ratios	12/18	12/19e	12/20e	12/21e
Revenues (€m)	15.7	35.0	65.0	90.0	P/E (x)	NM	NM	16.0	8.0
Rev. yoy growth (%)	57.0	NM	85.7	38.5	FCF yield (/EV) (%)	-5.0	-9.3	-0.8	3.7
EBIT margin (%)	NM	NM	9.2	13.9	Dividend yield (%)	0.0	0.0	0.0	0.0
Rep. net inc. (€m)	-2.20	-4.00	7.00	14.0	Price/book value (x)	7.06	8.62	5.60	3.30
EPS (adj.) (€)	-0.21	-0.38	0.67	1.33	EV/revenues (x)	7.33	3.24	1.72	1.16
EPS yoy growth (%)	47.8	-81.8	275.0	100.0	EV/EBIT (x)	NM	NM	18.6	8.36
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	8.1	6.2	4.4	3.2
Dividend yoy growth (%)	NA	NA	NA	NA	ROIC/WACC (x)	-5.3	-2.3	2.3	3.6
Payout (%)	0	0	0	0	Net Debt/EBITDA (x)	1.57	NM	NM	NM

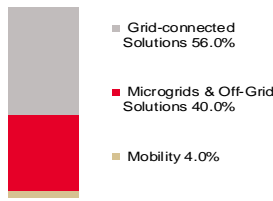
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Engie EPS

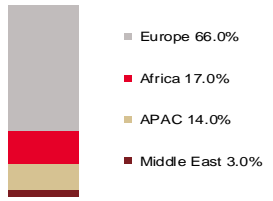
Sales/division 18



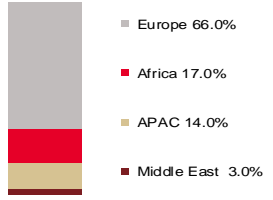
EBIT/division 18



Sales/region 18



EBIT/Region 18



Major shareholders (%)

Engie	60.5
Free Float	29.5
Founders & Management	10.0

Valuation (€m)	12/14	12/15	12/16	12/17	12/18	12/19e	12/20e	12/21e
No. of shares basic year end/outstanding	5.17	7.88	8.03	8.44	10.5	10.5	10.5	10.5
Share price: avg (hist. yrs) or current			5.31	8.58	11.6	10.7	10.7	10.7
Average market cap. (SG adjusted) (1)	NA	51	43	72	122	112	112	112
Restated net debt (-)/cash (+) (2)	1	9	-1	-12	7	-1	0	8
Value of minorities (3)	0	0	0	0	0	0	0	0
Value of financial investments (4)	0	0	0	0	0	0	0	0
Other adjustment (5)	0	0	0	0	0	0	0	0
EV = (1) - (2) + (3) - (4) + (5)	NA	42	44	85	115	113	112	104
P/E (x)	NA	NM	NM	NM	NM	NM	16.0	8.0
Price/cash flow (x)	NA	NM	NM	NM	23.5	NM	13.8	7.3
Price/free cash flow (x)	NA	NM	NM	NM	94.0	NM	1,121	20.8
Price/book value (x)	NA	4.09	7.68	50.4	7.06	8.62	5.60	3.30
EV/revenues (x)	NA	70.1	5.98	8.47	7.33	3.24	1.72	1.16
EV/EBITDA (x)	NA	NM	NM	NM	NM	NM	11.2	6.1
Dividend yield (%)	NA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Per share data (€)								
SG EPS (adj.)	-0.33	-0.98	-1.08	-0.40	-0.21	-0.38	0.67	1.33
Cash flow	-0.91	-1.10	-0.41	-1.30	0.49	-0.38	0.77	1.46
Book value	0.097	1.57	0.69	0.17	1.64	1.24	1.90	3.23
Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income statement (€m)								
Revenues	1.60	0.60	7.30	10.0	15.7	35.0	65.0	90.0
Gross income	-1.60	0.50	3.20	4.00	4.70	12.0	32.0	45.0
EBITDA	-1.60	-3.10	-4.00	-1.70	-4.60	-2.00	10.0	17.0
Depreciation and amortisation	0.00	-4.60	-4.50	-1.70	-4.70	-2.50	-4.00	-4.50
EBIT	-1.60	-7.70	-8.50	-3.40	-9.30	-4.50	6.00	12.5
Impairment losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net interest income	0.00	0.00	-0.10	-3.80	7.10	0.50	1.00	1.50
Exceptional & non-operating items	0.00	-2.90	0.00	-2.60	0.00	0.00	0.00	0.00
Taxation	-0.10	0.00	0.00	0.80	0.00	0.00	0.00	0.00
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported net income	-1.70	-10.6	-8.60	-9.00	-2.20	-4.00	7.00	14.0
SG adjusted net income	-1.70	-7.70	-8.60	-3.30	-2.20	-4.00	7.00	14.0
Cash flow statement (€m)								
EBITDA	-2	-3	-4	-2	-5	-2	10	17
Change in working capital	-3	-3	1	-6	3	-3	-3	-3
Other operating cash movements	0	-3	0	-3	7	1	1	2
Cash flow from operating activities	-5	-9	-3	-11	5	-4	8	15
Net capital expenditure	0	-1	-5	-3	-4	-6	-8	-10
Free cash flow	-5	-10	-9	-13	1	-10	0	5
Cash flow from investing activities	0	0	0	0	0	0	0	0
Cash flow from financing activities	3	19	0	2	30	0	0	0
Net change in cash resulting from CF	-2	9	-9	-12	32	-10	0	5
Balance sheet (€m)								
Total long-term assets	0	2	6	7	9	11	15	19
of which intangible	0	1	5	6	8	9	12	15
Working capital	0	2	2	8	5	7	10	13
Employee benefit obligations	0	0	0	1	4	4	6	6
Shareholders' equity	1	12	6	1	17	13	20	34
Minority interests	0	0	0	0	0	0	0	0
Provisions	0	0	0	0	0	0	0	0
Net debt (-)/cash (+)	1	9	-1	-12	7	-1	0	8
Accounting ratios								
ROIC (%)	80.0	-284.9	-113.3	-23.1	-47.8	-20.4	20.3	32.1
ROE (%)	NM	-164.3	-96.1	-260.9	-23.5	-26.4	42.4	51.9
Gross income/revenues (%)	-100.0	83.3	43.8	40.0	29.9	34.3	49.2	50.0
EBITDA margin (%)	-100.0	-516.7	-54.8	-17.0	-29.3	-5.7	15.4	18.9
EBIT margin (%)	NM	NM	NM	NM	NM	NM	9.2	13.9
Revenue yoy growth (%)	23.1	-62.5	NM	37.0	57.0	NM	85.7	38.5
Rev. organic growth (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA yoy growth (%)	33.3	-93.8	-29.0	57.5	NM	56.5	NM	70.0
EBIT yoy growth (%)	33.3	NM	-10.4	60.0	NM	51.6	NM	NM
EPS (adj.) yoy growth (%)	32.0	-197.3	-10.7	62.9	47.8	-81.8	275.0	100.0
Dividend growth (%)	NA	NA	NA	NA	NA	NA	NA	NA
Cash conversion (%)	nm	131.2	98.8	nm	62.4	nm	-15.0	31.2
Net debt/equity (%)	NM	NM	16	NM	NM	11	NM	NM
FFO/net debt (%)	242.9	35.6	NM	NM	NM	NM	NM	NM
Dividend paid/FCF (%)	NM	NM	NM	NM	NM	NM	NM	NM

Source: SG Cross Asset Research/Equity

Report completed on 26 Mar. 2019 3:01 CET

APPENDIX

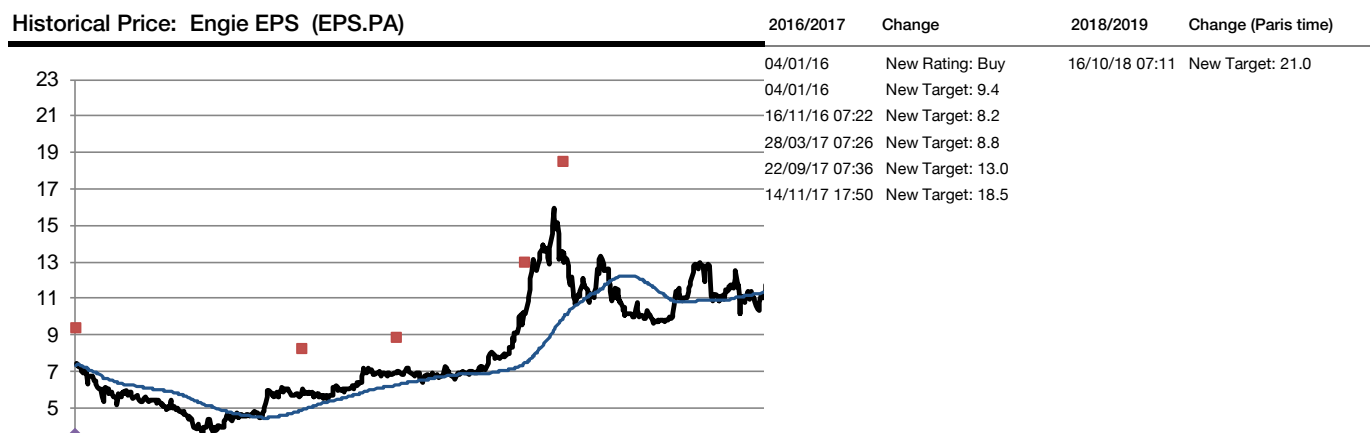
COMPANIES MENTIONED

Engie (ENGI FP, Buy)
Engie EPS (EPS FP, Buy)

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Source: SG Cross Asset Research/Equity

VALUATION METHODOLOGY AND RISKS TO RATING, RECOMMENDATION AND PRICE TARGET

Valuation Methodology Engie EPS

Our target price is derived from a DCF, with a WACC of 9.0% (beta of 2.0x), a normalised EBITDA margin of 26% and a perpetuity growth rate of 3.0%. We base our TP on DCF valuation as there are no listed peers for Engie EPS.

Risks

Downside risks: 1) Longer sales cycle (usually spans between one and two years) can deteriorate balance sheet/cause debt levels to increase if there are not enough revenues to fund operations; 2) End-customer resistance to technological changes. Large-scale electrical storage is a brand-new technology, and some utilities (the main clients) might be reluctant to adopt to it; 3) Engie EPS operates in far-away places (Somalia, Comoros islands, Pacific islands, South America), and might be impacted by adverse weather conditions (tropical storms, etc.) when installing its electrical equipment.

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.

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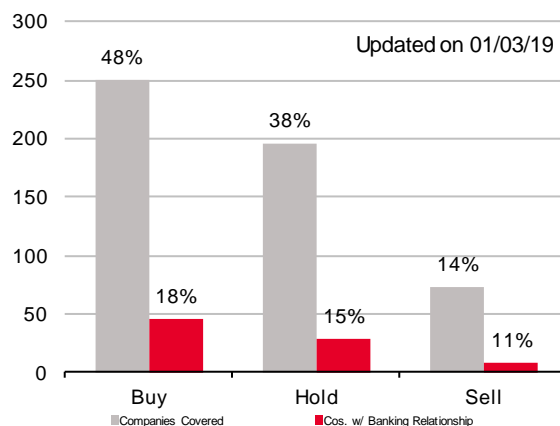
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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

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

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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- Engie SG acted as joint lead manager in the Engie bond issue (7 yr EUR500m, 15 yr 500m)
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