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Engie EPS

More and more large electricity storage projects, competition remains limited

Buy

Price 04/11/19	€7.4
12m target	€14.0
Upside to TP	89.2%
12m f'cast div	€0.00
12m TSR	89.2%

Main changes since last report

Target (€)	14.0	nc
EPS 19e (€)	-0.634	nc
EPS 20e (€)	-0.407	nc
EPS 21e (€)	-0.227	nc

nc: no change

At a roadshow in Paris organised by SG, Engie EPS confirmed that there is currently a growing number of large projects. Final approval for the Guam project – the largest electricity storage project in the world – is expected in 1Q20 and should be a powerful catalyst for the share price and Engie EPS's visibility. We are not changing our DCF-based target price of €14.

On 4 November Engie EPS met with investors in Paris at a roadshow organised by Société Générale. Giuseppe Artizzu (Executive Director, Global Strategy & Marketing) and Giovanni Ravina (Chief Innovation Officer) were there to represent the company. In our view, the key takeaways were:

Has an acceleration in large electricity storage projects been confirmed? In the past two years, the number of very large projects (more than 200-300 MW for the storage part) has steadily risen across the globe: 1) the constant drop in lithium-ion battery prices, a direct consequence of mass production for the automobile industry, has made the solar + storage combination increasingly competitive vs conventional electricity generation in a growing number of areas; 2) in addition to being useful for renewable energy electricity production, storage capacity has become a necessity for countries to stabilise their grids.

Competition remains relatively limited despite the excellent prospects for electricity storage for grids. Right now, the main competitors are primarily vertically integrated groups, similar to Engie EPS. Few companies have what it takes to combine: 1) a low cost of capital (typical for utilities); 2) execution capacity abroad; 3) renowned technological expertise. The group with the closest business model to Engie EPS is Fluence, created in January 2018 by merging the electricity storage divisions of AES (US) and Siemens. Enel, Iberdrola, and more traditional companies like Wartsilä/Greensmith Energy are also competitors.

Engie EPS is currently participating in 5-6 major calls for tender (SGe: Hawaii, South Africa, Abu Dhabi, India, Morocco, Australia, etc.). Management believes it has sufficient production capacity to be able to take on another contract of similar size to Guam. The Guam project should get the final green light in 1Q20, with sales booked over 2020 and 2021. As a reminder, Engie EPS's share is SGe €80-100m, with commissioning in June or July 2022.

Our €14 target price is based on a DCF model with a 9% WACC, 16% annual sales growth over 2022-2029e, a 20% normalised EBITDA margin, and 3% growth to perpetuity.

Share price performance



Perf. (%)	1m	3m	12m	ytD
Share	39.9	20.1	-47.5	-38.1
Rel. index*	35.4	14.8	-53.7	-49.7
Rel. sector**	43.1	15.0	-56.3	-48.1

* MSCI World (\$)

** MSCI World Utilities (\$)

RIC EPS.PA, Bloom EPS FP

52-week range	14.5-5.02
EV 19 (€m)	98
Mkt cap. (€m)	94
Free float (%)	39.5
No. shares o/s (m)	13
Avg vol. 3m (No. shares)	10,900

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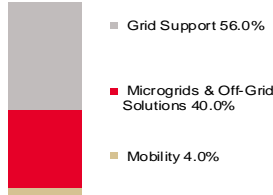
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Financial data	12/18	12/19e	12/20e	12/21e	Ratios	12/18	12/19e	12/20e	12/21e
Revenues (€m)	15.7	20.0	40.0	65.0	P/E (x)	NM	NM	NM	NM
Rev. yoy growth (%)	57.0	27.4	100.0	62.5	FCF yield (/EV) (%)	-4.1	-10.3	-7.0	-0.7
EBIT margin (%)	NM	NM	NM	NM	Dividend yield (%)	0.0	0.0	0.0	0.0
Rep. net inc. (€m)	-2.20	-8.10	-5.20	-2.90	Price/book value (x)	7.06	10.5	23.6	94.5
EPS (adj.) (€)	-0.21	-0.63	-0.41	-0.23	EV/revenues (x)	8.98	4.92	2.70	1.69
EPS yoy growth (%)	47.8	-203.5	35.8	44.2	EV/EBIT (x)	NM	NM	NM	NM
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	9.9	5.8	5.0	5.3
Dividend yoy growth (%)	NA	NA	NA	NA	ROIC/WACC (x)	-5.3	-4.2	-2.1	-1.0
Payout (%)	0	0	0	0	Net Debt/EBITDA (x)	1.57	NM	NM	6.16

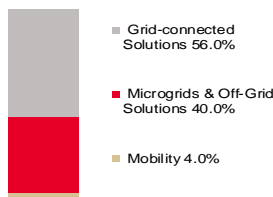
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Engie EPS

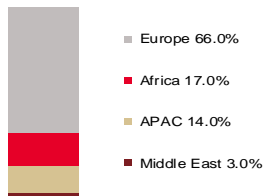
Sales/division 18



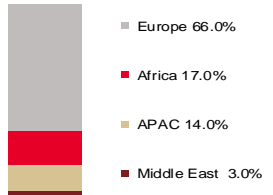
EBIT/division 18



Sales/region 18



18



Major shareholders (%)

Engie	60.5
Free Float	39.5

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	12.8	12.8	12.8	12.8
Share price: avg (hist. yrs) or current		6.43	5.31	8.58	11.6	7.40	7.40	7.40
Average market cap. (SG adjusted) (1)	NA	51	43	72	148	94	94	94
Restated net debt (-)/cash (+) (2)	1	9	-1	-12	7	-4	-13	-15
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	141	98	108	110
P/E (x)	NA	NM	NM	NM	NM	NM	NM	NM
Price/cash flow (x)	NA	NM	NM	NM	23.5	NM	NM	19.7
Price/free cash flow (x)	NA	NM	NM	NM	94.0	NM	NM	NM
Price/book value (x)	NA	4.09	7.68	50.4	7.06	10.5	23.6	94.5
EV/revenues (x)	NA	70.1	5.98	8.47	8.98	4.92	2.70	1.69
EV/EBITDA (x)	NA	NM	NM	NM	NM	NM	NM	43.9
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	-0.63	-0.41	-0.23
Cash flow	-0.91	-1.10	-0.41	-1.30	0.49	-0.49	-0.22	0.38
Book value	0.097	1.57	0.69	0.17	1.64	0.70	0.31	0.078
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	20.0	40.0	65.0
Gross income	-1.60	0.50	3.20	4.00	4.70	5.00	11.0	15.5
EBITDA	-1.60	-3.10	-4.00	-1.70	-4.60	-5.00	-1.00	2.50
Depreciation and amortisation	0.00	-4.60	-4.50	-1.70	-4.70	-3.00	-4.00	-5.00
EBIT	-1.60	-7.70	-8.50	-3.40	-9.30	-8.00	-5.00	-2.50
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	-0.10	-0.20	-0.40
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	-8.10	-5.20	-2.90
SG adjusted net income	-1.70	-7.70	-8.60	-3.30	-2.20	-8.10	-5.20	-2.90
Cash flow statement (€m)								
EBITDA	-1.60	-3.10	-4.00	-1.70	-4.60	-5.00	-1.00	2.50
Change in working capital	-3.00	-2.50	0.80	-6.00	2.70	-1.10	-1.60	2.70
Other operating cash movements	-0.10	-3.10	-0.10	-3.00	7.10	-0.10	-0.20	-0.40
Cash flow from operating activities	-4.70	-8.70	-3.30	-10.7	5.20	-6.20	-2.80	4.80
Net capital expenditure	0.00	-1.40	-5.20	-2.70	-3.90	-4.00	-5.00	-6.00
Free cash flow	-4.70	-10.1	-8.50	-13.4	1.30	-10.2	-7.80	-1.20
Cash flow from investing activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flow from financing activities	3.10	18.7	0.00	1.50	30.3	0.00	0.00	0.00
Net change in cash resulting from CF	-1.60	8.60	-8.50	-11.9	31.6	-10.2	-7.80	-1.20
Balance sheet (€m)								
Total long-term assets	0.20	1.60	5.70	7.00	9.40	11.0	14.0	16.0
of which intangible	0.10	0.80	4.80	6.30	8.00	9.00	11.0	12.0
Working capital	-0.10	2.40	1.60	7.60	4.90	6.00	7.60	4.90
Employee benefit obligations	0.30	0.00	0.00	0.70	4.20	4.00	4.20	4.50
Shareholders' equity	0.50	12.4	5.50	1.40	17.3	9.00	4.00	1.00
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net debt (-)/cash (+)	0.70	8.70	-0.90	-12.3	7.20	-4.00	-13.4	-15.4
Accounting ratios								
ROIC (%)	80.0	-284.9	-113.3	-23.1	-47.8	-37.9	-19.2	-8.7
ROE (%)	NM	-164.3	-96.1	-260.9	-23.5	-61.6	-80.0	-116.0
Gross income/revenues (%)	-100.0	83.3	43.8	40.0	29.9	25.0	27.5	23.8
EBITDA margin (%)	-100.0	-516.7	-54.8	-17.0	-29.3	-25.0	-2.5	3.8
EBIT margin (%)	NM	NM	NM	NM	NM	NM	NM	NM
Revenue yoy growth (%)	23.1	-62.5	NM	37.0	57.0	27.4	100.0	62.5
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	-8.7	80.0	NM
EBIT yoy growth (%)	33.3	NM	-10.4	60.0	NM	14.0	37.5	50.0
EPS (adj.) yoy growth (%)	32.0	-197.3	-10.7	62.9	47.8	-203.5	35.8	44.2
Dividend growth (%)	NA	NA	NA	NA	NA	NA	NA	NA
Cash conversion (%)	nm	131.2	98.8	nm	62.4	126.3	nm	32.0
Net debt/equity (%)	NM	NM	16	NM	NM	44	335	NM
FFO/net debt (%)	242.9	35.6	NM	NM	NM	NM	NM	13.6
Dividend paid/FCF (%)	NM	NM	NM	NM	NM	NM	NM	NM

Source: SG Cross Asset Research/Equity

Report completed on 5 Nov. 2019 20:47 CET

APPENDIX

COMPANIES MENTIONED

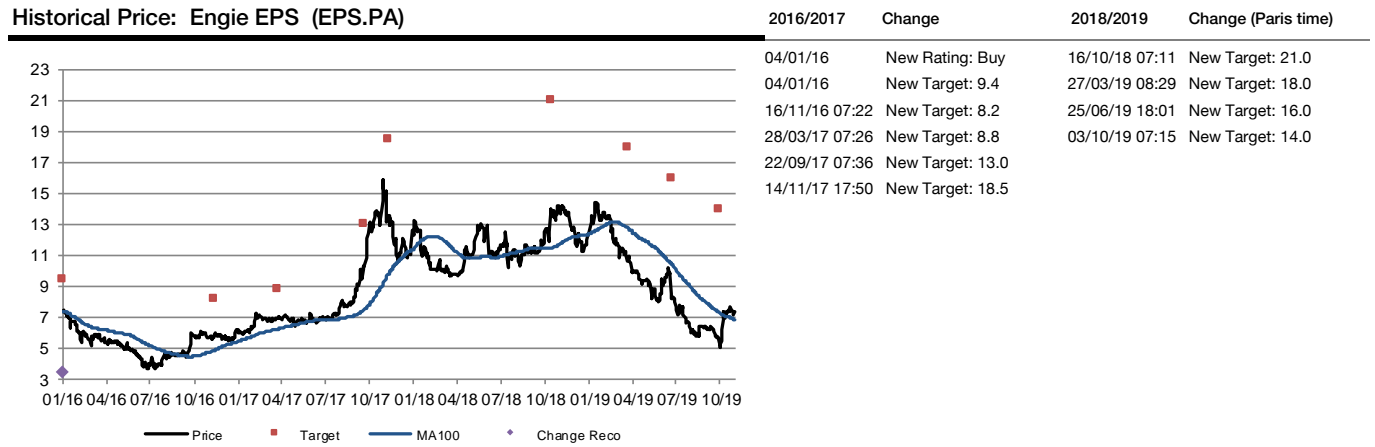
AES Corporation (AES UN, No Reco)
 Enel (ENEL IM, Buy)
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 Engie (ENGI FP, Buy)
 Engie EPS (EPS FP, Buy)
 Iberdrola (IBE SQ, Buy)
 Siemens (SIE GY, Buy)
 Siemens Financieringmaatschappij (nocode0338, No Reco)
 Wärtsilä (, No Reco)

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Historical Price: Engie EPS (EPS.PA)



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 1.7x), a normalised EBITDA margin of 20% and a perpetuity growth rate of 3.0%.

Risks

Our Buy rating could be at risk if: (1) end-customers resist technological changes such as hydrogen-based and lithium-ion battery storage, which can be coupled with solar or wind electricity generation; (2) severe weather conditions, geopolitical risk, FX risks, etc. occur in Africa & the Pacific Islands, where Engie EPS has a significant portion of its project pipelines; (3) potential changes in the sales cycle extend beyond one or two years.

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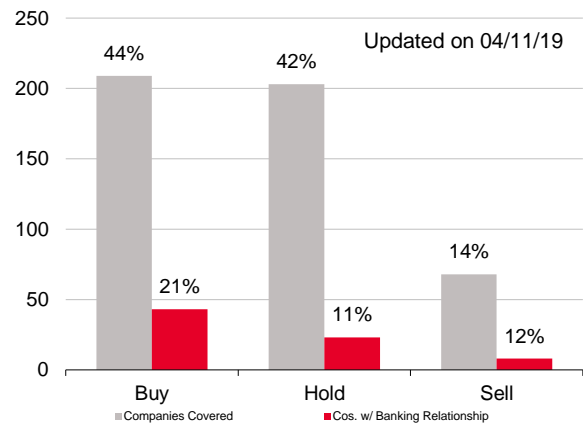
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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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