

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

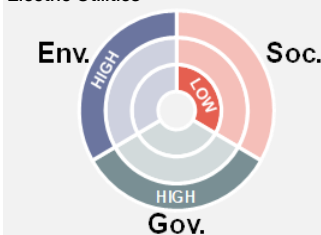
Engie EPS

‘V2G’: a new milestone in the growth of Engie EPS

Buy			
Price 14/09/20	€10.8		
12m target	€14.0		
Upside to TP	29.6%		
12m f'cast div	€0.00		
12m TSR	29.6%		
Main changes since last report			
Target (€)	↑ 14.0	(10.00)	
EPS 20e (€)	-0.736		nc
EPS 21e (€)	-0.392		nc
EPS 22e (€)	0.157		nc
new vs (old)			nc: no change

Sector ESG materiality meter (@link)

Electric Utilities



Sector exposure to E & S factors



Share price performance



EV 20 (€m) 154

Mkt cap. (€m) 138

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The launch of the ‘V2G’ pilot project in partnership with FCA and Terna is a reminder of Engie EPS’s capabilities in the area of electrical mobility – the company is better known for its work on microgrids and electricity storage. At this stage, we are not adding any revenues to our 2020-2022 estimates, but in 3-4 years’ time (i.e. in step with the expansion of electric vehicle fleets), this new product could represent a substantial source of additional revenues. We raise our DCF-based target price to €14 from €10.

What exactly is ‘V2G’ (Vehicle-to-Grid)? At the FCA factory in Mirafiori in Turin last week, FCA, Terna and Engie EPS unveiled their V2G electric mobility pilot project. The project is a collaborative effort between the three companies and uses innovative technology to test a bidirectional recharging system capable of both charging a vehicle and sending power back to the grid. Engie EPS was tasked with the construction of the charging stations, which are designed to transform what is typically a cost (a parked vehicle) into a benefit, particularly suited for companies that run fleets of vehicles. The potentially large number of vehicles parked in the same location means the grid can benefit from ‘aggregated’ services from a single point of interconnection.

How will the V2G scheme develop over time? Phase 1 involves the construction of 32 V2G columns at the Mirafiori site, capable of connecting 64 vehicles as a testbed for the technology and the logistics of the storage area. By the end of 2021, the project will be extended to interconnect up to 700 electric vehicles, which will make it the largest facility of its kind ever built in the world. The roll-out of this second phase will be mainly dictated by cost-effectiveness, with the twin goals of providing services to Terna’s power grid and ensuring a positive economic result for FCA and Engie EPS.

What is the situation in Guam and Hawaii ? These two large projects should bring more than €100m in combined revenues. In Guam, we should have a final decision from the local authorities very soon regarding the appeal lodged by another bidder. In Hawaii, the parent company Engie is currently in negotiations with Hawaiian Electric to agree on terms for the PPA (Power Purchase Agreement).

Our target price rises to €14 from €10 as we roll over our DCF-based model by one year The main assumptions of our model are unchanged: WACC 9%, normalised EBITDA margin 16.0%, 2023-2031e growth of +15% p.a., growth to perpetuity +3.0% p.a.

Financial data	12/19	12/20e	12/21e	12/22e	Ratios	12/19	12/20e	12/21e	12/22e
Revenues (€m)	20.2	13.0	40.0	80.0	P/E (x)	NM	NM	NM	68.9
Rev. yoy growth (%)	28.7	-35.6	NM	100.0	FCF yield (/EV) (%)	-5.0	-2.9	-3.7	0.0
EBIT margin (%)	NM	NM	NM	3.8	Dividend yield (%)	0.0	0.0	0.0	0.0
Rep. net inc. (€m)	-14.6	-9.40	-5.00	2.00	Price/book value (x)	49.3	NM	NM	NM
EPS (adj.) (€)	-1.02	-0.74	-0.39	0.16	EV/revenues (x)	6.08	11.9	4.04	2.05
EPS yoy growth (%)	-75.7	27.7	46.8	140.0	EV/EBIT (x)	NM	NM	NM	54.6
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	7.5	11.9	10.1	8.2
Dividend yoy growth (%)	NA	NA	NA	NA	ROIC/WACC (x)	-7.3	-4.9	-2.3	-0.5
Payout (%)	0	0	0	0	Net Debt/EBITDA (x)	NM	NM	NM	3.64

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Our DCF model

DCF assumptions

Valuation (€m)		Weighted average cost of capital (%)	
Enterprise value	199	Risk-free rate (10 years)	-0.20
of which estimates (%)	28%	Market risk premium	6.30
of which terminal value (%)	72%	Beta	1.53
		Cost of capital	9.44
Net debt (-)/cash (+)	-16	Cost of debt after tax	2.25
Minority interests	0	WACC	9.0
Equity-accounted associates	0	Normalised revenue growth (%)	15.00
Marketable securities	0	Normalised EBITDA margin (%)	10.00
Other adjustments	-4	Normalised cash conversion rate (%)	90.90
Estimated equity value	178		
DCF SG: Equity value/share(€)	14.0		

Source: SG Cross Asset Research/Equity

DCF: calculating free cash flow

€m	Estimates (5 years)					Normalised estimates (6 years)					
	12/21	12/22	12/23	12/24	12/25	12/26	12/27	12/28	12/29	12/30	12/31
Revenue (€m)	40.0	80.0	92.0	105.8	121.7	139.9	160.9	185.0	212.8	244.7	281.4
EBIT (€m)	-4.0	3.0	9.2	10.6	12.2	14.0	16.1	18.5	21.3	24.5	28.1
Amortization	3.0	4.0	5.5	6.3	7.3	8.4	9.7	11.1	12.8	14.7	16.9
Tax	0.0	0.0	-1.4	-1.6	-1.8	-2.1	-2.4	-2.8	-3.2	-3.7	-4.2
Capex	-4.0	-6.0	-5.5	-6.3	-7.3	-8.3	-9.6	-11.0	-12.7	-14.6	-16.8
Change in WCR	-1.0	-1.0	-0.9	-1.0	-1.2	-1.3	-1.5	-1.8	-2.0	-2.3	-2.7
Other cash movements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-6.0	0.0	7.0	8.0	9.2	10.6	12.2	14.0	16.2	18.6	21.4
Discount factor	0.92	0.84	0.77	0.71	0.65	0.60	0.55	0.50	0.46	0.42	0.39
Discounted free cash flow	-5.5	0.0	5.4	5.7	6.0	6.3	6.7	7.1	7.5	7.9	8.3

Source: SG Cross Asset Research/Equity

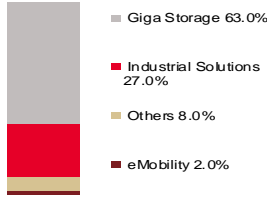
Sensitivity analysis

WACC		7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
Growth to perpetuity (%)	1.5%	16.1	14.3	12.8	11.5	10.4	9.5	8.6
	2.0%	17.3	15.3	13.7	12.2	11.0	9.9	9.0
	2.5%	18.8	16.5	14.6	13.0	11.6	10.5	9.5
	3.0%	20.7	17.9	15.7	14.0	12.4	11.1	10.0
	3.5%	23.0	19.7	17.1	15.0	13.3	11.8	10.6
	4.0%	25.9	21.9	18.8	16.3	14.3	12.6	11.3
	4.5%	29.8	24.7	20.9	17.9	15.6	13.6	12.1

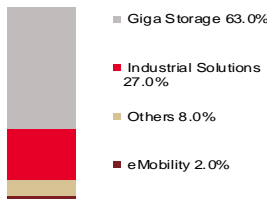
Source: SG Cross Asset Research/Equity

Engie EPS

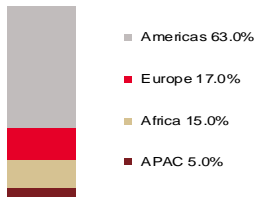
Sales/division 19



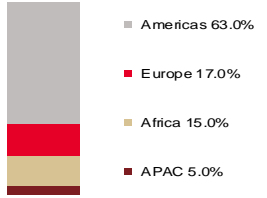
EBIT/division 19



Sales/region 19



19



Major shareholders (%)

Engie	60.5
Free Float	39.5

Share price performance

Perf. (%)	1m	3m	12m	ytd
Share	3.8	44.4	69.8	20.0
Rel. index*	3.7	37.7	67.4	24.9
Rel. sector**	6.3	47.5	84.9	34.5

* MSCI World (\$)

** MSCI World Utilities (\$)

Valuation (€m)	12/15	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
No. of shares basic year end/outstanding	7.88	8.03	8.44	12.8	12.8	12.8	12.8	12.8
Share price: avg (hist. yrs) or current	6.47	5.30	8.58	11.6	8.88	10.8	10.8	10.8
Average market cap. (SG adjusted) (1)	51	43	72	148	113	138	138	138
Restated net debt (-)/cash (+) (2)	9	-1	-12	7	-9	-16	-24	-26
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	1
EV = (1) - (2) + (3) - (4) + (5)	42	44	85	141	123	154	162	164
P/E (x)	NM	NM	NM	NM	NM	NM	NM	68.9
Price/cash flow (x)	NM	NM	NM	101.8	NM	NM	NM	27.6
Price/free cash flow (x)	NM	NM	NM	NM	NM	NM	NM	NM
Price/book value (x)	4.12	7.67	50.4	7.06	49.3	NM	NM	NM
EV/revenues (x)	70.7	5.97	8.47	8.98	6.08	11.9	4.04	2.05
EV/EBITDA (x)	NM	NM	NM	NM	NM	NM	NM	23.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Per share data (€)								
SG EPS (adj.)	-0.98	-1.08	-0.40	-0.58	-1.02	-0.74	-0.39	0.16
Cash flow	-1.10	-0.41	-1.30	0.11	-0.51	-0.33	-0.23	0.39
Book value	1.57	0.69	0.17	1.64	0.18	-0.55	-0.94	-0.78
Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income statement (€m)								
Revenues	0.60	7.30	10.0	15.7	20.2	13.0	40.0	80.0
Gross income	0.50	3.20	4.00	4.70	5.30	3.30	11.0	22.0
EBITDA	-3.10	-4.00	-1.70	-4.60	-5.70	-5.70	-1.00	7.00
Depreciation and amortisation	-4.60	-4.50	-1.70	-1.90	-7.80	-3.00	-3.00	-4.00
EBIT	-7.70	-8.50	-3.40	-6.50	-13.5	-8.70	-4.00	3.00
Impairment losses	0.00	0.00	0.00	-2.70	0.00	0.00	0.00	0.00
Net interest income	0.00	-0.10	-3.80	3.10	-0.30	-0.70	-1.00	-1.00
Exceptional & non-operating items	-2.90	0.00	-2.60	-2.60	-1.60	0.00	0.00	0.00
Taxation	0.00	0.00	0.80	0.00	0.80	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	-10.6	-8.60	-9.00	-8.70	-14.6	-9.40	-5.00	2.00
SG adjusted net income	-7.70	-8.60	-3.30	-6.10	-13.0	-9.40	-5.00	2.00
Cash flow statement (€m)								
EBITDA	-3.10	-4.00	-1.70	-4.60	-5.70	-5.70	-1.00	7.00
Change in working capital	-2.50	0.80	-6.00	2.70	-1.30	2.20	-1.00	-1.00
Other operating cash movements	-3.10	-0.10	-3.00	3.10	0.50	-0.70	-1.00	-1.00
Cash flow from operating activities	-8.70	-3.30	-10.7	1.20	-6.50	-4.20	-3.00	5.00
Net capital expenditure	-1.40	-5.20	-2.70	-3.90	0.10	-1.00	-4.00	-6.00
Free cash flow	-10.1	-8.50	-13.4	-2.70	-6.40	-5.20	-7.00	-1.00
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	18.7	0.00	1.50	30.3	0.00	0.00	0.00	0.00
Net change in cash resulting from CF	8.60	-8.50	-11.9	27.6	-6.40	-5.20	-7.00	-1.00
Balance sheet (€m)								
Total long-term assets	1.60	5.70	7.00	9.40	10.2	9.10	11.1	14.5
of which intangible	0.80	4.80	6.30	8.00	7.00	6.00	7.00	9.00
Working capital	2.40	1.60	7.60	4.90	6.20	4.00	5.00	6.00
Employee benefit obligations	0.00	0.00	0.70	4.20	4.80	4.00	4.50	5.00
Shareholders' equity	12.4	5.50	1.40	17.3	2.30	-7.00	-12.0	-10.0
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 (+)	8.70	-0.90	-12.3	7.20	-9.30	-16.1	-23.6	-25.5
Accounting ratios								
ROIC (%)	-284.9	-113.3	-23.1	-33.4	-65.5	-43.9	-20.4	-4.3
ROE (%)	-164.3	-96.1	-260.9	-93.0	-149.0	NM	NM	NM
Gross income/revenues (%)	83.3	43.8	40.0	29.9	26.2	25.4	27.5	27.5
EBITDA margin (%)	-516.7	-54.8	-17.0	-29.3	-28.2	-43.8	-2.5	8.8
EBIT margin (%)	NM	NM	NM	NM	NM	NM	NM	3.8
Revenue yoy growth (%)	-62.5	NM	37.0	57.0	28.7	-35.6	NM	100.0
Rev. organic growth (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA yoy growth (%)	-93.8	-29.0	57.5	NM	-23.9	0.0	82.5	NM
EBIT yoy growth (%)	NM	-10.4	60.0	-91.2	NM	35.6	54.0	NM
EPS (adj.) yoy growth (%)	-197.3	-10.7	62.9	-44.6	-75.7	27.7	46.8	140.0
Dividend growth (%)	NA	NA	NA	NA	NA	NA	NA	NA
Cash conversion (%)	131.2	98.8	nm	89.2	51.1	51.7	150.0	0.0
Net debt/equity (%)	NM	16	NM	NM	404	NM	NM	NM
FFO/net debt (%)	35.6	NM	NM	20.8	NM	NM	NM	23.5
Dividend paid/FCF (%)	NM	NM	NM	NM	NM	NM	NM	NM

Source: SG Cross Asset Research/Equity

Report completed on 15 Sep. 2020 16:08 CET

APPENDIX

SUBJECT COMPANIES

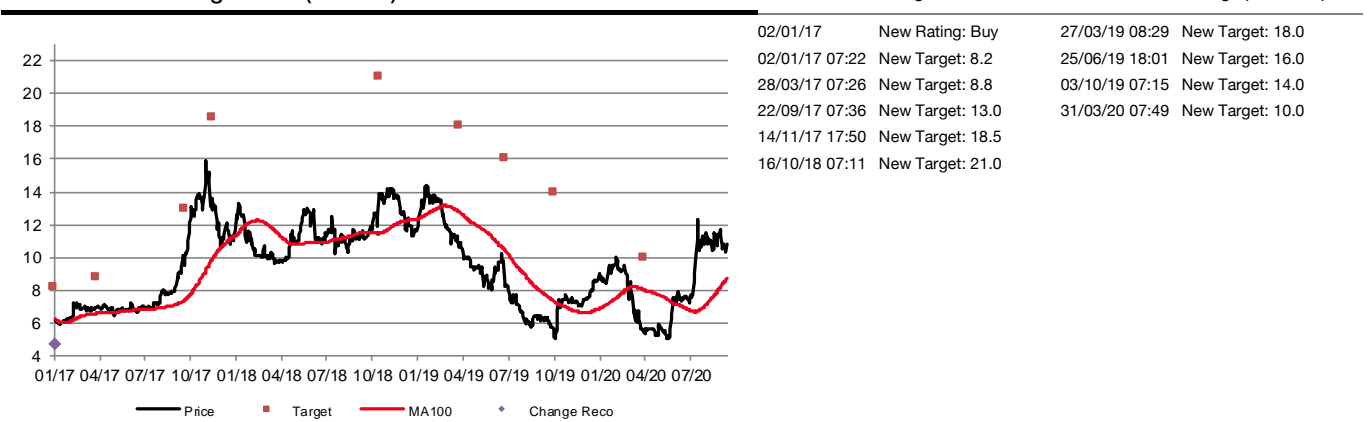
Engie EPS (EPS.PA, Buy)

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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%, a normalised EBITDA margin of 16%, a 2023-2031 growth rate of 15% and a perpetuity growth rate of 3.0%.

Risks

1) Length of the sales cycle (usually spans between one and two years) is reflected through the use of a rather high 9.0% WACC; 2) Development of Hydrogen-based electricity storage, thanks to large incentives from Governments, might jeopardize Lithium-Ion battery storage going forward; 3) Execution risks. Engie EPS has won/is currently winning large contracts in remote islands (Guam, Hawaii, Comoros, etc) where meteorological conditions can be challenging (tropical storms, typhoons, floods, etc.).

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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.

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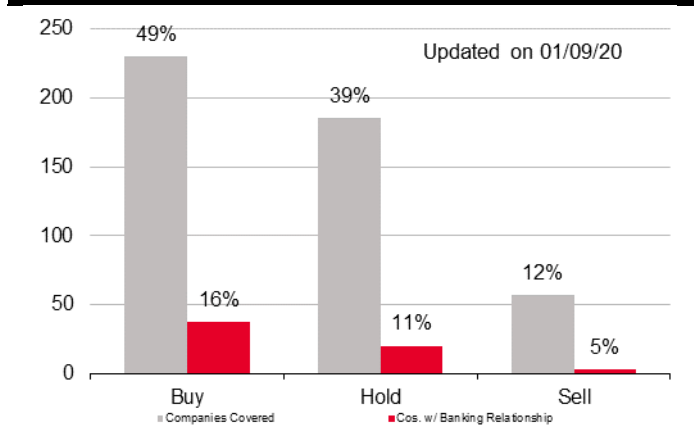
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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

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Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

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