

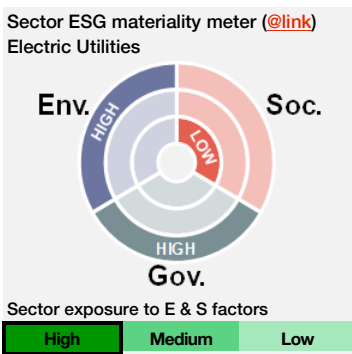
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# Engie EPS

Surprise – Change in main shareholder looks likely

<b>Buy</b>			
Price 23/09/20	€10.65		
12m target	€14.0		
Upside to TP	31.5%		
12m f'cast div	€0.00		
12m TSR	31.5%		
<b>Main changes since last report</b>			
Target (€)	14.0		nc
EPS 20e (€)	-0.736		nc
EPS 21e (€)	-0.392		nc
EPS 22e (€)	0.157		nc
			nc: no change

While 1H figures were close to our forecasts, the big news yesterday was that main shareholder Engie is considering exiting. This comes as a real surprise, with whoever buys Engie's 60% stake likely being obliged to bid for 100% control. We are not changing our estimates pending the conference call scheduled for Friday morning at 8:00 am.



**Why is Engie planning to sell its 60% stake?** In January 2018 Engie purchased a stake in Engie EPS at €9.50/share. Wednesday's announcement is all the more surprising since it comes on the heels of several major contract wins, in Guam (300MWh), Hawaii (240MWh) and more recently New England (50MWh) following joint bids from Engie EPS and Engie Solar, Engie's solar division. These three projects represent more than \$130m in sales (for Engie EPS) in the coming years and should continue to be developed jointly by the two companies. While Engie might indeed sell its stake, it reiterated its ongoing financial support for Engie EPS until a potential transaction is closed (see [link](#) FT 24/09/20, summary of announcement). Engie also said it is still actively developing its own battery storage solutions worldwide, particularly for renewable energy storage. Thus, in battery storage the group is pursuing the same strategy it used for hydrogen energy storage, i.e. purely internal development. This strategy caused the group to abandon hydrogen energy storage a few months ago.

Share price performance



EV 20 (€m) 152  
Mkt cap. (€m) 136

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**What was the 1H revenue trend?** The 1H figures allow us to confirm our FY estimates: revenues of €5.0m (SG FY 2020e €13m), EBIT of -€6.5m (SG 2020e -€15m), net profit of -€6.5m (SG 2020e -€14.6m), net debt at end-June of €17.8m (SG 2020e €16.1m). The backlog fell 30% to €23.8m as orders were gradually fulfilled. The pipeline grew by 130% compared with 30 September 2019 to €806m, with more than \$130m of contracts secured, a figure that includes projects in Guam, Hawaii and New England. The Public Auditor of Guam is expected to issue a decision regarding the challenge brought by a rival bidder.

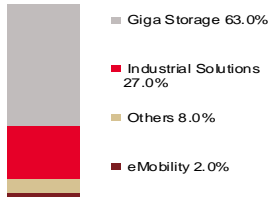
**Valuation: our €14 target price is calculated using a DCF** based on a WACC of 9%, 2023-2031 revenue growth of 16%/year, a normalised EBITDA margin of 16% and perpetuity growth of 3%.

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	68.0
Rev. yoy growth (%)	28.7	-35.6	NM	100.0	FCF yield (/EV) (%)	-5.0	-3.0	-3.8	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	11.7	3.99	2.02
EPS yoy growth (%)	-75.7	27.7	46.8	140.0	EV/EBIT (x)	NM	NM	NM	54.0
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	7.5	11.7	10.0	8.1
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

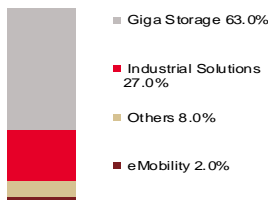
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**Engie EPS**

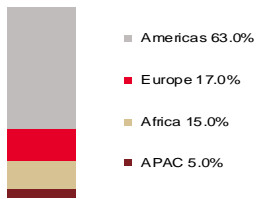
**Sales/division 19**



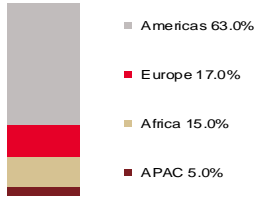
**EBIT/division 19**



**Sales/region 19**



**19**



**Major shareholders (%)**

Engie	60.5
Free float	39.5

**Share price performance**

Perf. (%)	1m	3m	12m	ytd
Share	-4.9	39.4	81.1	18.3
Rel. index*	-2.2	39.3	83.0	25.9
Rel. sector**	-2.6	43.9	105.6	34.7

\* 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	10.7	10.7	10.7
Average market cap. (SG adjusted) (1)	51	43	72	148	113	136	136	136
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	152	160	162
P/E (x)	NM	NM	NM	NM	NM	NM	NM	68.0
Price/cash flow (x)	NM	NM	NM	101.8	NM	NM	NM	27.2
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	11.7	3.99	2.02
EV/EBITDA (x)	NM	NM	NM	NM	NM	NM	NM	23.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Per share data (€)</b>								
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
<b>Income statement (€m)</b>								
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
<b>Cash flow statement (€m)</b>								
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
<b>Balance sheet (€m)</b>								
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
<b>Accounting ratios</b>								
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 24 Sep. 2020 22:56 CET

## APPENDIX

### COMPANIES MENTIONED

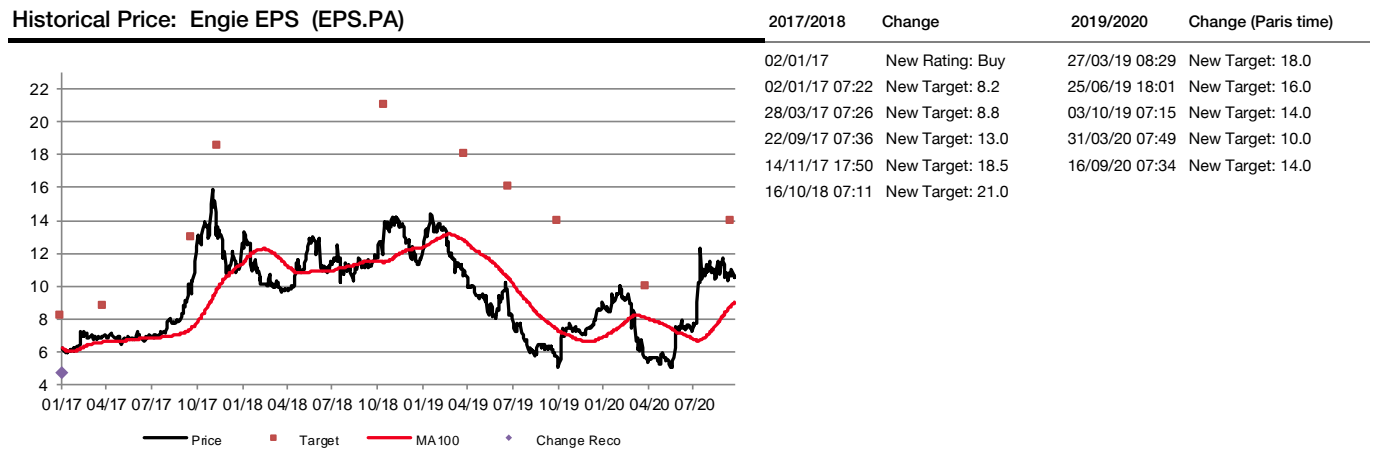
Engie (ENGI FP, Buy)  
Engie EPS (EPS FP, Buy)

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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); 2) End-customer resistance to technological changes; 3) Execution risks.

**SG EQUITY RESEARCH RATINGS** on a 12 month period

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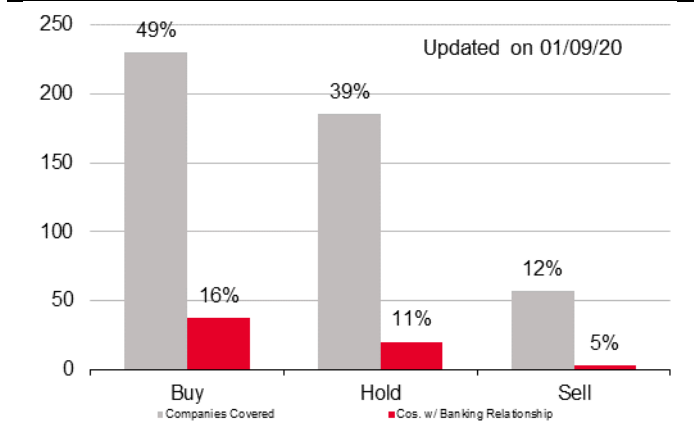
**OVERWEIGHT:** sector expected to outperform the relevant broad market benchmark over the next 12 months.

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Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

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