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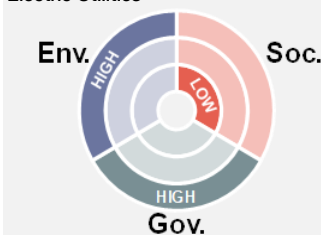
# Engie EPS

## Major agreement with Fiat Chrysler Automobiles in electric mobility

<b>Buy</b>	
Price 11/11/20	€9.6
12m target	€14.0
Upside to TP	45.8%
12m f'cast div	€0.00
12m TSR	45.8%
<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

Sector ESG materiality meter (@link)

Electric Utilities



Sector exposure to E & S factors



Share price performance



EV 20 (€m) 139  
Mkt cap. (€m) 123

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By no means a symbolic gesture, the JV Engie EPS is creating with Fiat Chrysler will represent a substantial portion of the group's revenues over the coming years. By developing particularly innovative services with FCA, EEPS is again demonstrating that it is a major player in the energy transition in Europe. Our valuation is based on a DCF calculation.

Below are the key takeaways from the 12 November conference call and our contact with the company.

**What does the FCA deal entail?** EEPS and FCA have signed a protocol of agreement to create a joint venture in electric mobility. The JV will offer a complete range of products and solutions for electric vehicle owners, starting with residential, commercial and public recharging infrastructure, and including green energy offerings that will allow clients to recharge at home or at any public recharging station in Europe by purchasing a subscription at a fixed monthly rate. The agreement with FCA may be expanded to include other carmakers, such as PSA.

**A range of innovative services** FCA and EEPS hope the monthly rate will make using an electric vehicle as easy as possible. The rate will depend on the number of kilometres driven annually. It will also cover the delivery and installation of an Easy Wallbox charger.

**What does it mean financially for EEPS?** All of the agreements should be finalised by end-2020, and the JV – to be fully consolidated by EEPS – will launch in 1Q21. The company is not yet giving a sales forecast but did say that the JV will be EEPS's second-largest business after Giga Storage for electric grids. It is important to note that the company's revenue guidance is unchanged (2022: €100m, 2025: €400m), but EEPS emphasised that the figures do not include any revenue from the JV. Our estimates for potential revenues, detailed on p.2, are not yet factored into our forecasts. However, they show that the new business has the potential to generate significant revenues. FCA will be in charge of financing operations and marketing the products and services. EEPS will contribute its technological know-how and IP portfolio.

**DCF-based valuation unchanged** Our assumptions include a WACC of 9%, 2023-2031 revenue growth of 15% p.a., 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	61.3
Rev. yoy growth (%)	28.7	-35.6	NM	100.0	FCF yield (/EV) (%)	-5.0	-3.2	-4.1	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	10.7	3.66	1.86
EPS yoy growth (%)	-75.7	27.7	46.8	140.0	EV/EBIT (x)	NM	NM	NM	49.5
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	7.5	10.7	9.1	7.4
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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## Estimating the JV's revenue potential

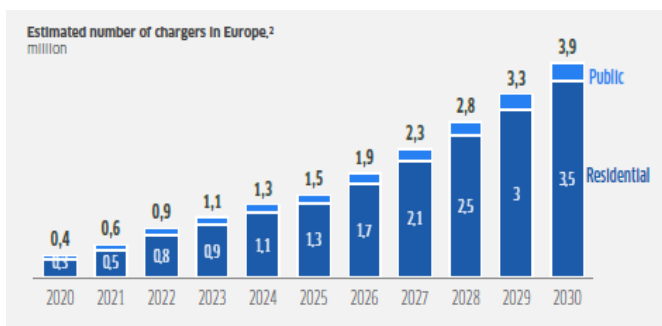
We have attempted to gauge what level of revenues might be generated from the sale of Easy Wallbox chargers and monthly charging subscriptions, based on the following factors.

### Sales of charging stations – Key assumptions:

- Amount invested in charging stations: see table below
- FCA's market share in Europe is 5.7% in passengers cars (used in our calculations), and 12% with light commercial vehicles'.
- Conversion rate (share of FCA EV buyers who decide to purchase an Easy Wallbox): 50%. It should be noted that EEPS' management, based on McKinsey data, estimates that 80-90% of charges will be made at home, therefore a wallbox will be needed and our 50% conversion rate might be seen as conservative.

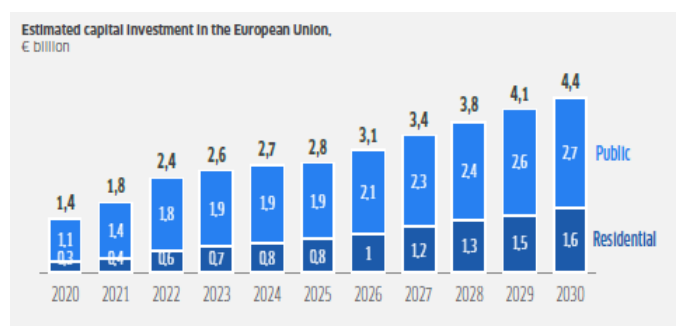
For example, in 2022, 50% of a 5.7% share of a €2.4bn market = €68m.

Forecast trend in the number of charging stations in Europe (million)



Source: Bloomberg New Energy Finance, Engie EPS

Forecast trend in investments in charging stations in Europe (€m)



Source: Engie EPS

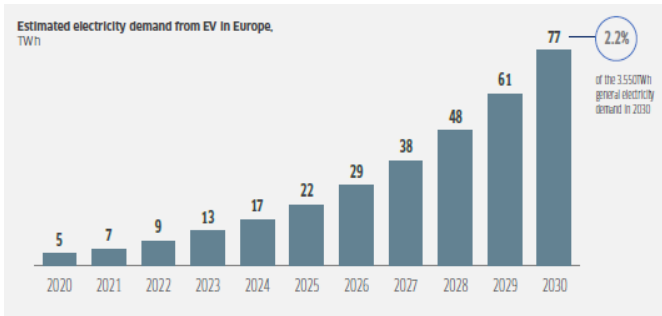
**Sales of charging subscriptions** – Here we use the same assumptions, but because FCA and EEPS are less well known as electricity suppliers, we have assumed a conservative conversion rate of only 15%.

For example, in 2022, 15% of a 5.7% share of a €2.3bn market = €20m.

By adding the two products together (charging stations + monthly subscriptions), we estimate that the JV could generate revenues of €68m + €20m = €88m in 2022. It is worth mentioning that the current €100m revenues guidance in 2022 is essentially driven by Giga Storage and EEPS has already won \$130m in tenders in the US for Giga Storage.

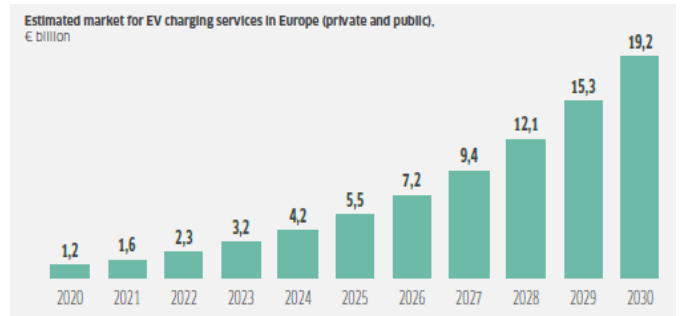
In subsequent years, the numbers would be €101m in 2023, €113m in 2024, etc.

**Forecast trend in electricity demand for EVs in Europe (TWh)**



Source: Bloomberg New Energy Finance

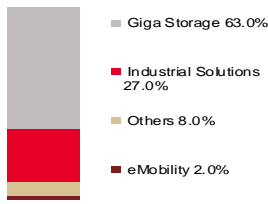
**Forecast trend in electricity demand for EVs in Europe (€bn)**



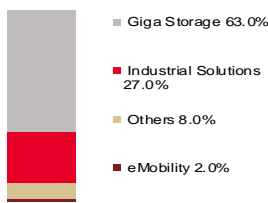
Source: Bloomberg New Energy Finance

**Engie EPS**

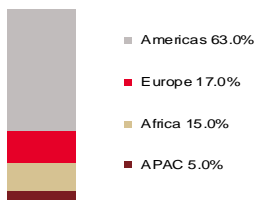
**Sales/division 19**



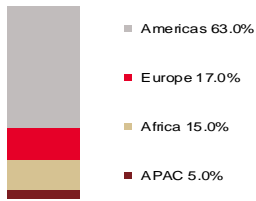
**EBIT/division 19**



**Sales/region 19**



**19**



**Major shareholders (%)**

Engie	60.5
Free float	39.5

**Share price performance**

Perf. (%)	1m	3m	12m	ytd
Share	1.1	-12.7	30.8	6.7
Rel. index*	9.1	-21.2	21.6	3.0
Rel. sector**	8.2	-21.0	28.2	7.6

\* 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	9.60	9.60	9.60
Average market cap. (SG adjusted) (1)	51	43	72	148	113	123	123	123
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	139	146	149
P/E (x)	NM	NM	NM	NM	NM	NM	NM	61.3
Price/cash flow (x)	NM	NM	NM	101.8	NM	NM	NM	24.5
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	10.7	3.66	1.86
EV/EBITDA (x)	NM	NM	NM	NM	NM	NM	NM	21.2
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 12 Nov. 2020 21:59 CET

## APPENDIX

### COMPANIES MENTIONED

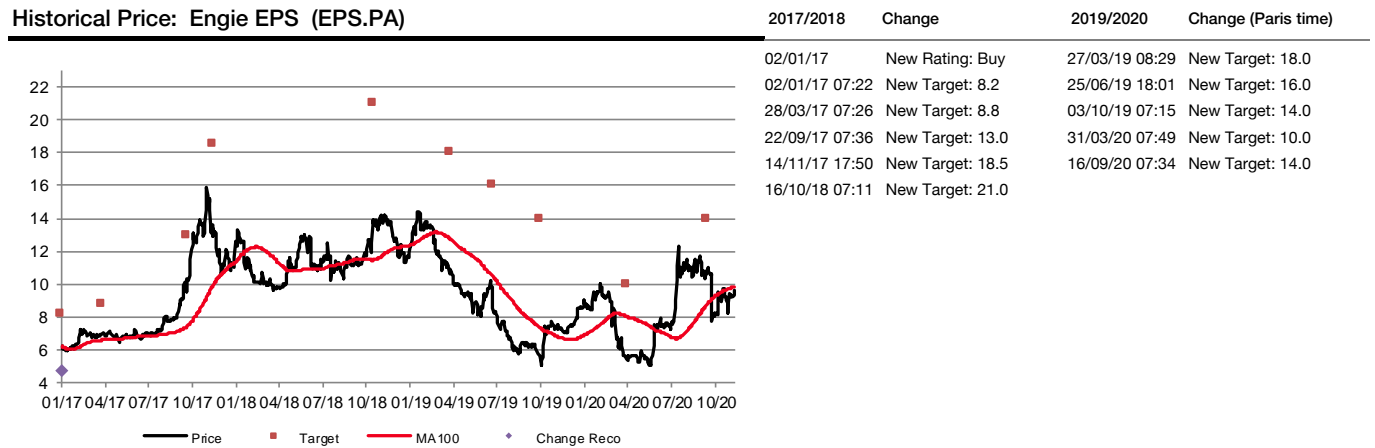
Engie (ENGI FP, Buy)  
Engie EPS (EPS FP, Buy)  
FCA (FCA IM, Buy)  
PSA Group (UG FP, Buy)

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### Historical Price: Engie EPS (EPS.PA)



### 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.

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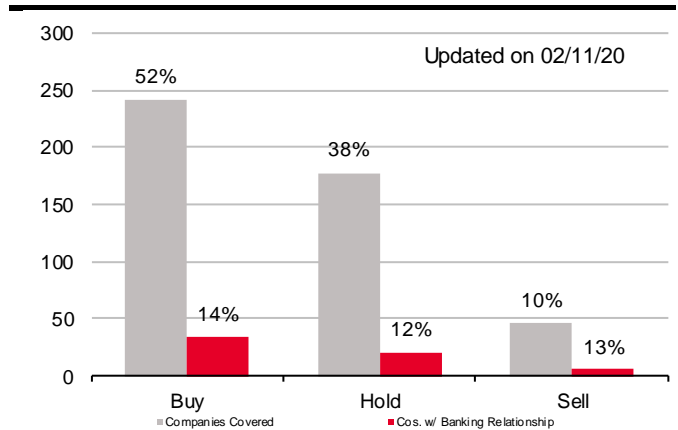
**OVERWEIGHT:** sector expected to outperform the relevant broad market benchmark over the next 12 months.

**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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