

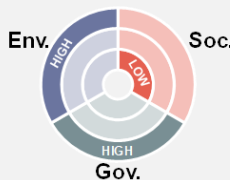
| Electric Utilities | [12m target upgrade](#) | France | [@ Go to SG website](#)

Engie EPS

Large contract signed with Terna, entering the frequency regulation market

Buy			
Price 10/12/20	€12.2		
12m target	€16.0		
o/w ESG overlay	10%		
Upside to TP	31.1%		
12m f'cast div	€0.00		
12m TSR	31.1%		
Main changes since last report			
Target (€)	↑ 16.0	(14.00)	
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](#))



Sector exposure to E & S factors

High	Medium	Low
Improving	Stable	Declining

Share price performance



EV 20 (€m) 172
Mkt cap. (€m) 156

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With this new contract, EEPS not only confirms that it has cutting-edge technology and a dynamic sales team, but they also secured a substantial amount of future revenue. Their recent announcements (refocusing on hydrogen-based storage solutions, the joint venture with Fiat-Chrysler, etc.) also confirm that EEPS, despite its currently small size, should be one of the main listed actors in the European energy transition. We raise our DCF-based target price from €14 to €16 on the back of a WACC revised from 9.0% to 8.5% due to the strong improvement in visibility on the coming years along with a positive ESG score.

What is the contract with Terna? As part of the modernisation of the Italian electricity grid, notably to reduce instability created by the growing share of renewable energy, and within the framework of the “Fast Reserve” project, EEPS is to supply approximately 75 MW of storage capacity for the projects Terna awarded to Engie Italia and FCA on 10 December. After a particularly competitive call for tender (1,327 MW bid for 250 MW attributed), Engie EPS and Engie came out ranked number one among the companies considered, with a 28.5% share of the bids awarded.

Two-thirds of the project will be stationary storage where EEPS technology will be integrated in a gas power plant (Leini, northern Italy), a wind farm (Salemi, Sicily), and an industrial brownfield (Nera Montoro, southern Italy) in order to add new sources of flexibility to stabilise the Italian grid.

A world première: the Vehicle-to-Grid (V2G) system The remaining 25 MW are to be supplied through the V2G system in FCA’s Mirafiori complex in Turin. This storage capacity consists of 700 batteries, most of which are aboard new electric Fiat 500s. EEPS will also use “second life” batteries from Fiat 500s, which will thus be reused rather than discarded at the end of their lifespan.

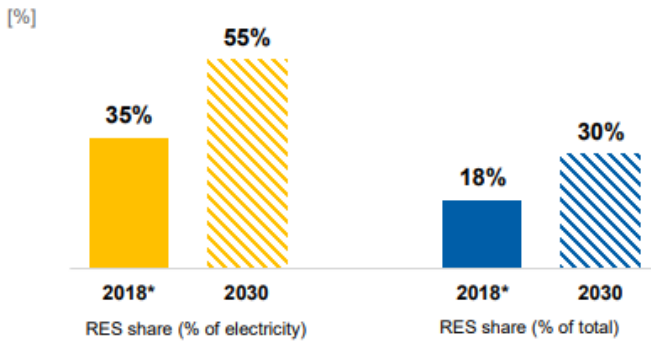
A significant contract This contract, to be delivered at the start of 2023, represents revenue of €30-40m for Engie EPS, with sales booked in 2021 (SGe c 70%) and 2022 (SGe c.30%). However, out of caution, we are not changing our 2021-2022 estimates yet: the start-up of a very large contract in Guam has been delayed by legal action from a competitor, so we prefer to wait until the work actually begins before revising our forecast.

Target price upgraded from €14 to €16 on the back of a lower WACC (from 9.0% to 8.5%) to account for better visibility on 2021 and 2022 revenue and especially positive ESG criteria: electricity storage, circular economy, etc. The other parameters in our DCF model remain the same: 2023-2031e sales growth of 15%/year, 16% normalised EBITDA margin, 3% growth to perpetuity.

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	77.9
Rev. yoy growth (%)	28.7	-35.6	NM	100.0	FCF yield (/EV) (%)	-5.0	-2.6	-3.3	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	13.2	4.49	2.27
EPS yoy growth (%)	-75.7	27.7	46.8	140.0	EV/EBIT (x)	NM	NM	NM	60.6
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	7.5	13.2	11.2	9.1
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

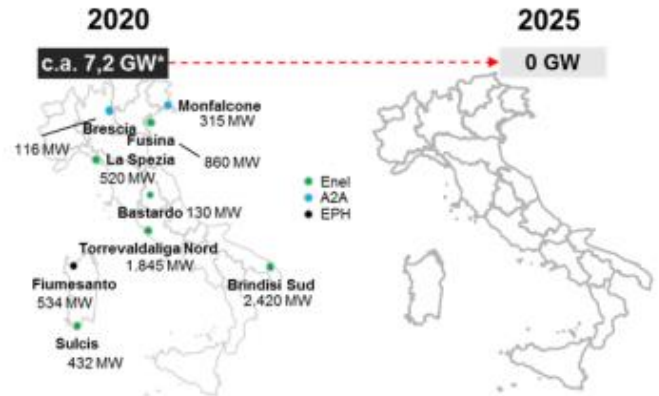
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Italy: share of renewables (RES) in electricity production/total energy production



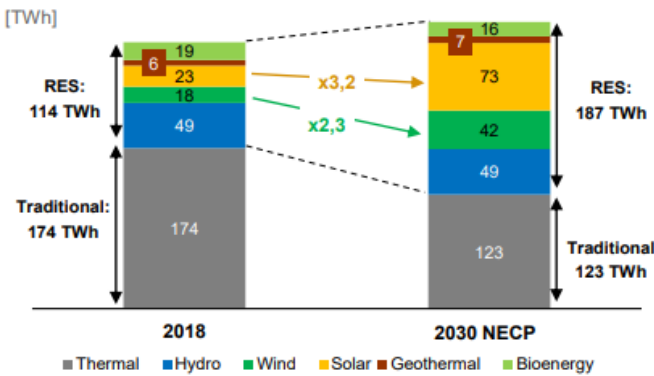
Source: Gestore Servizi Energetici/Terna

Italy: closing coal plants by 2025



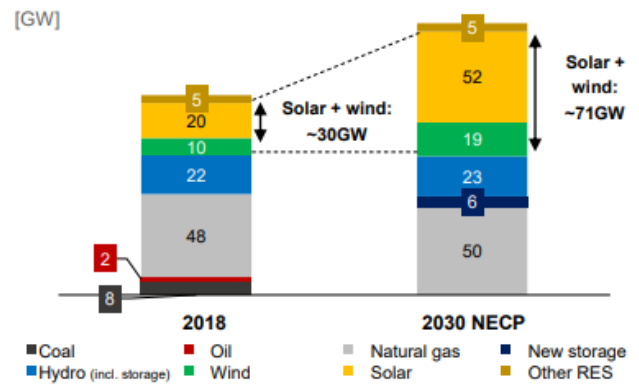
Source: Gestore Servizi Energetici/Terna

Italy: sources of electricity production in 2018 and 2030 (RES = renewables)



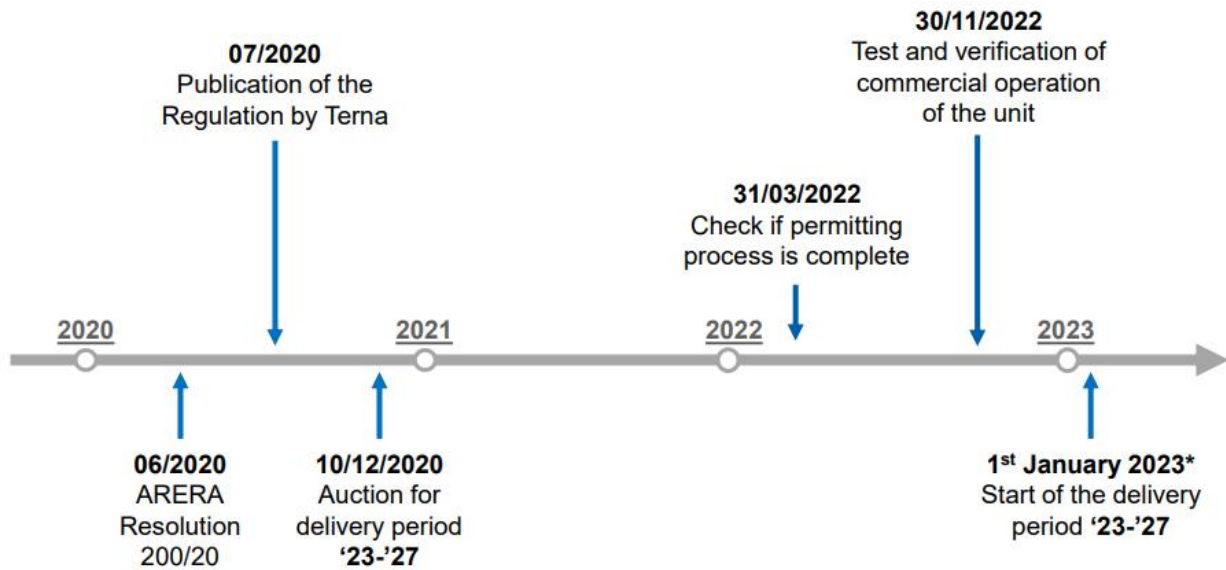
Source: Gestore Servizi Energetici/Terna

Italy: installed capacity in 2018 and 2030



Source: Gestore Servizi Energetici/Terna

Key stages of the “Fast Reserve” pilot project



Source: Terna

DCF

DCF assumptions

Valuation (€m)		Weighted average cost of capital (%)	
Enterprise value	224.4	Risk-free rate (10 years)	-0.20
<i>o/w estimates (%)</i>		Market risk premium	6.00
<i>o/w terminal value (%)</i>		Beta	0.00
		Cost of capital	8.98
Net debt (-)/cash (+)	-0.7	Cost of debt after taxes	2.25
Minority interests	0.0	WACC	8.54
Equity-accounted associates	0.0	Normalised sales growth (%)	15.00
Marketable securities	0.0	Normalised EBIT margin (%)	10.00
Other adjustments	14.0	Normalised cash conversion rate (%)	93.00
Estimated equity value	204.3	Average cash conversion rate (%)	3.00
SG DCF: equity value/share (€)	16.0		

Source: SG Cross Asset Research/Equity

DCF: free cash flow calculation

(€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
Sales (€bn)	40.0	80.0	92.0	105.8	121.7	139.9	160.9	185.0	212.8	244.7	281.4
Sales growth (%)	207.69%	100.00%	15.00%	15.00%	15.00%						
EBIT (€bn)	-4.0	3.0	9.2	10.6	12.2	14.0	16.1	18.5	21.3	24.5	28.1
EBIT margin (%)	-10.00%	3.75%	10.00%	10.00%	10.00%						
Amortisation	3.0	4.0	5.5	6.3	7.3	8.4	9.7	11.1	12.8	14.7	16.9
Taxes	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	-5.3	-6.1	-7.0	-8.0	-9.3	-10.6	-12.2	-14.1	-16.2
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
	-6.0	0.0	7.2	8.3	9.5	10.9	12.6	14.4	16.6	19.1	22.0
Discount factor	0.92	0.85	0.78	0.72	0.66	0.61	0.56	0.52	0.48	0.44	0.41
Discounted free cash flow	-5.5	0.0	5.6	5.9	6.3	6.7	7.1	7.5	7.9	8.4	8.9

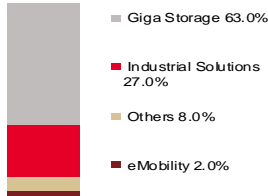
Source: SG Cross Asset Research/Equity

Sensitivity analysis

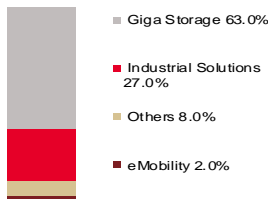
		7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%
Growth to perpetuity (%)	1.5%	18.47	16.36	14.59	13.09	11.79	10.67	9.68
	2.0%	20.02	17.60	15.60	13.91	12.47	11.24	10.16
	2.5%	21.92	19.09	16.78	14.87	13.26	11.89	10.71
	3.0%	24.29	20.90	18.20	16.00	14.17	12.64	11.33
	3.5%	27.33	23.16	19.93	17.35	15.25	13.51	12.05
	4.0%	31.37	26.06	22.09	19.01	16.55	14.54	12.88
	4.5%	36.99	29.92	24.86	21.07	18.13	15.78	13.87

Source: SG Cross Asset Research/Equity

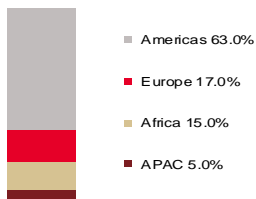
Sales/division 19



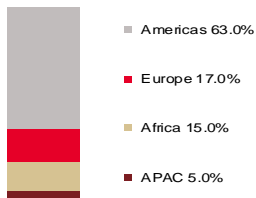
EBIT/division 19



Sales/region 19



19



Major shareholders (%)

Engie	60.5
Free Float	39.5

Share price performance

Perf. (%)	1m	3m	12m	ytd
Share	27.6	14.6	62.7	35.6
Rel. index*	22.4	4.3	54.7	30.8
Rel. sector**	30.9	9.2	71.8	46.4

* MSCI World (\$)

** MSCI World Utilities (\$)

Engie EPS

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	12.2	12.2	12.2
Average market cap. (SG adjusted) (1)	51	43	72	148	113	156	156	156
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	172	179	182
P/E (x)	NM	NM	NM	NM	NM	NM	NM	77.9
Price/cash flow (x)	NM	NM	NM	101.8	NM	NM	NM	31.2
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	13.2	4.49	2.27
EV/EBITDA (x)	NM	NM	NM	NM	NM	NM	NM	26.0
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 vov 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

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APPENDIX

SUBJECT COMPANIES

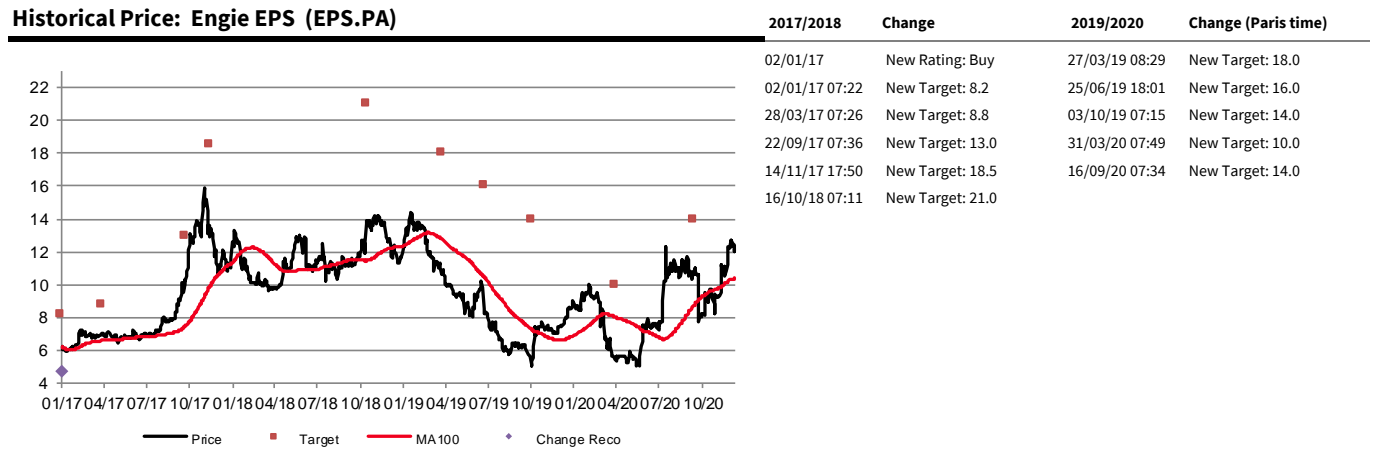
Engie EPS (EPS FP, Buy)

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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 8.5%, a normalised EBITDA margin of 16%, a 2023-2031 growth rate of 15% and a perpetuity growth rate of 3.0%.

Risks

Downside risks: 1) Length of the sales cycle (usually spans between one and two years) could mean that the company needs a capital increase to fund cash needs; 2) Hydrogen: a brand -new technology, encounters customer resistance in market acceptance, and hinders company from achieving its sales goals; 3) Since this is a start-up, it could face execution risks in terms of sales, product development, proper staffing to achieve its strategic plans.

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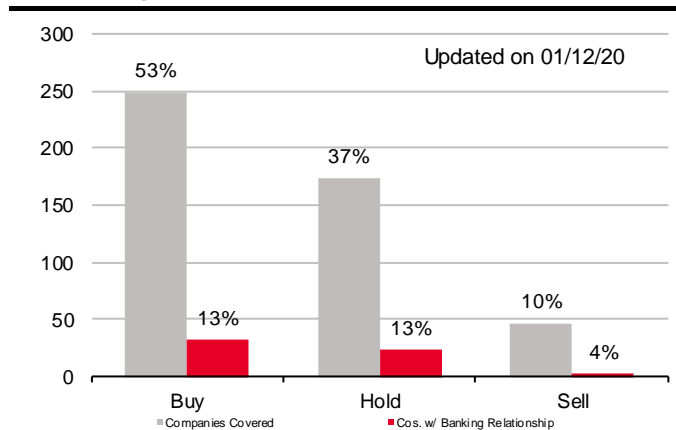
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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.

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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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