

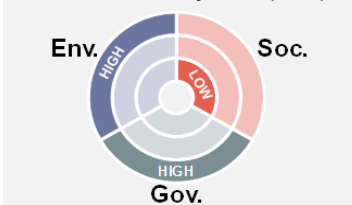
| Electric Utilities | [12m target upgrade](#) | France | [@ Go to SG website](#)

Engie EPS

Positive news flow expected in 1Q

Buy	
Price 03/02/21	€16.15
12m target	€19.0
o/w ESG overlay	10.0%
Upside to TP	17.6%
12m f'cast div	€0.00
12m TSR	17.6%
Main changes since last report	
Target (€)	↑ 19.0 (16.00)
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) 222
Mkt cap. (€m) 206

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We are raising our DCF-derived target price from €16 to €19 to integrate better visibility on sales in 2021 and 2022 thanks to the large contracts signed with FCA and Terna. In the nearer term, we think that the share price should also be buoyed by the company's Technology Day on 18 February and by the 1Q21 IPO plans for Stem, a US company that specialises in power grid energy storage (see below). Buy recommendation maintained.

What is the additional sales potential for the FCA and Terna contracts? **1) FCA:** the JV was officially signed on 26 January. Management has not yet provided sales forecasts but said that e-mobility would be EEPS's second business after power grid energy storage. Importantly, management has not changed its sales guidance (2022^e €100m, 2025^e €400m), but EEPS did specify that these figures did not include sales generated by the JV. However, our calculation of potential sales provided in our [13 November 2020 note](#) but not yet integrated in our estimates shows that the revenue from this new business could be quite substantial, i.e. around 100m for the JV (Engie EPS 50%) in 2023e (charger sales + electricity subscriptions); **2) Terna:** this contract (see our [14 December note](#)) which is slated for delivery at the beginning of 2023 should represent sales of €30m to €40m for Engie EPS, with revenues booked in 2021 (SGe approx. 70%) and 2022 (SGe approx. 30%). As for FCA, out of caution we are not including these figures in our 2021-2022 estimates yet: the start-up of the very large contract in Guam has been delayed by legal action from a competitor, so we prefer to wait until the work has actually begun before revising our estimates.

At the Technology Day on 18 February EEPS should present its future technological positioning in the wake of new patents filed by the group and other innovations, with in particular the convergence between energy storage and e-mobility.

For the upcoming IPO (1Q21) of Stem (www.stem.com/investors), a US company that like EEPS operates in power grid energy storage, they provided **interesting peer valuation information** (see below), with median EV/sales currently at **11.8x for 2021 (EEPS 5.7x)** and **10.7x for 2022 (EEPS 2.9x)**.

TP upgraded from €16 to €19 as we reduced our WACC from 8.5% to 7.7% to take into account better visibility on 2021 and 2022 and given particularly positive ESG criteria: electricity storage, circular economy, etc. The other DCF parameters remain the same: 2023-2031e sales growth of 15%/year, normalised EBITDA margin: 16%, 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	NM
Rev. yoy growth (%)	28.7	-35.6	NM	100.0	FCF yield (/EV) (%)	-5.0	-2.0	-2.6	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	17.1	5.75	2.90
EPS yoy growth (%)	-75.7	27.7	46.8	140.0	EV/EBIT (x)	NM	NM	NM	77.4
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	7.5	17.1	14.4	11.6
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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2022-2030 estimates – Power grid energy storage market to growth by a factor of more than 25x

Renewables

Lowest Cost Generation



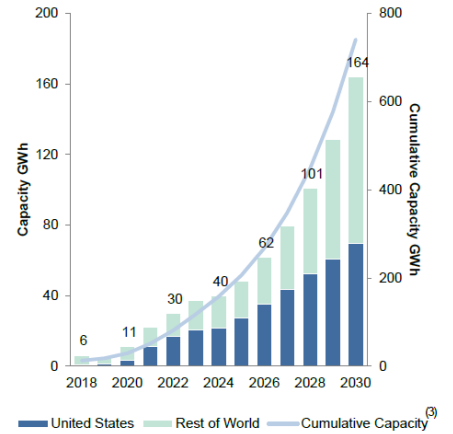
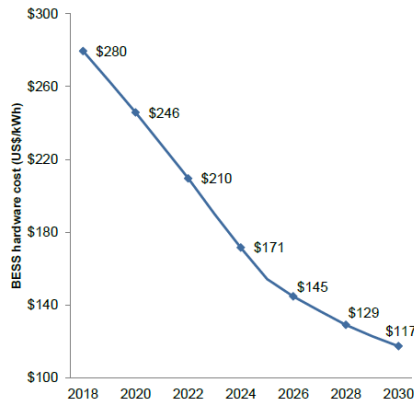
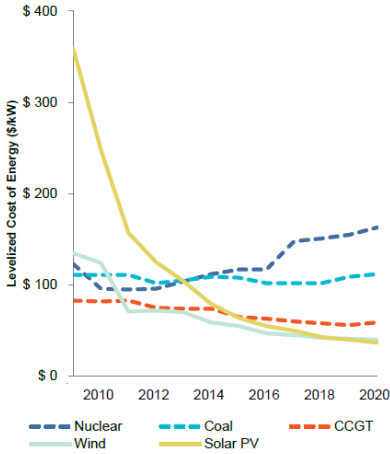
Battery Hardware

Rapid Cost Reductions



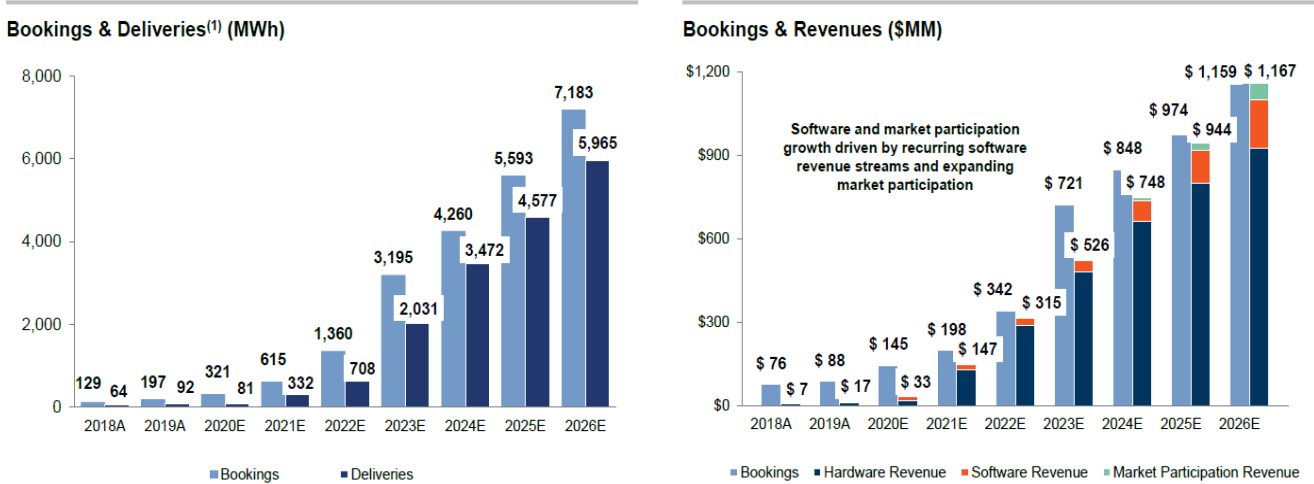
Storage Market

25x Growth⁽¹⁾
Market Opportunity
\$1.2 Trillion⁽²⁾



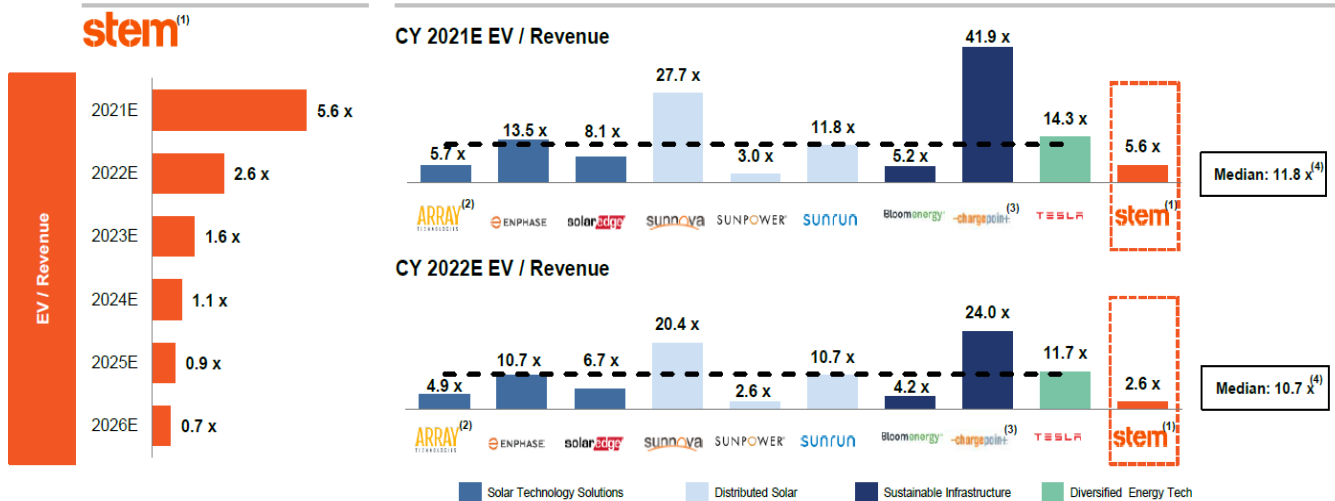
Sources: Stem, Bloomberg New Energy Finance, Wood Mackenzie, Lazard LCOE

Stem: 2021-2026 forecasts for order intake and sales



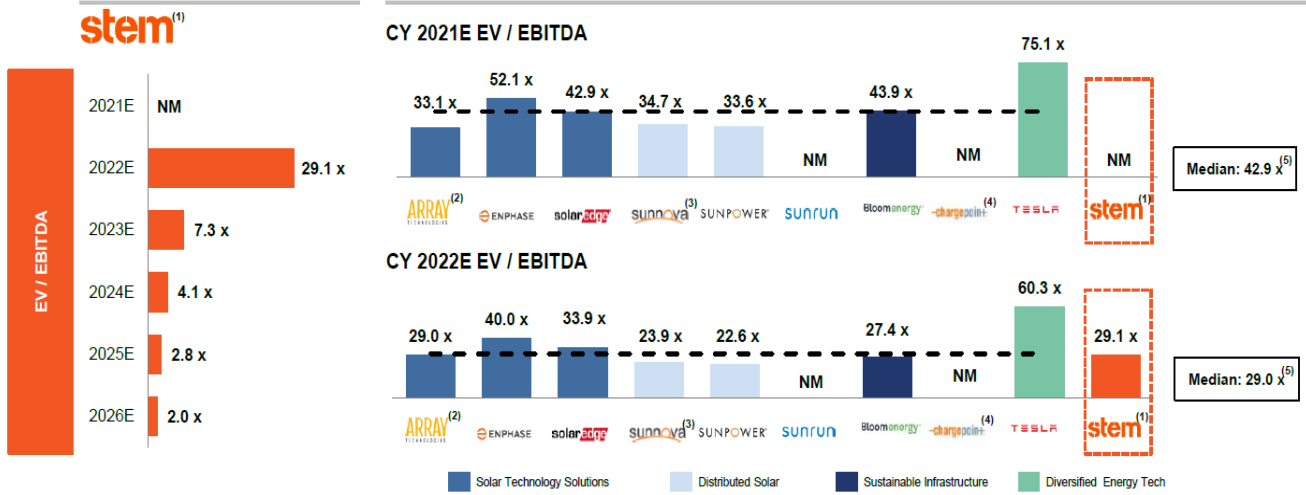
Source: Stem

Power grid energy storage – Median EV/sales 2021e and 2022e multiples for peers of Stem and EEPS



Sources: Stem, Bloomberg, IBES

Power grid energy storage – Median EV/EBITDA 2021e and 2022e multiples for peers of Stem and EEPS



Sources: Stem, Bloomberg, IBES

DCF

DCF assumptions

Valuation (€m)		Weighted average cost of capital (%)	
Enterprise value	279	Risk-free rate (10 years)	-0.10
o/w estimates (%)	23%	Market risk premium	5.60
o/w terminal value (%)	77%	Beta	0.00
		Cost of capital	8.02
Net debt (-)/cash (+)	-16	Cost of debt after tax	2.25
Minority interests	0.0	WACC	7.7
Equity-accounted associates	0.0	Normalised sales growth (%)	15.00
Marketable securities	0.0	Normalised EBIT margin (%)	10.00
Other adjustments	-4	Normalised cash conversion rate (%)	94.50
Estimated equity value	259		
SG DCF: equity value per share (€)	19.0		

Source: SG Cross Asset Research/Equity

DCF: calculating free cash flow

(€m)	Estimates (5y)					Normalised estimates (6y)					
	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
EBIT (€bn)	-4.0	3.0	9.2	10.6	12.2	14.0	16.1	18.5	21.3	24.5	28.1
Amortisation/depreciation	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	-0.7	-0.8	-1.0	-1.1	-1.3	-1.5	-1.7	-2.0	-2.3
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	7.3	8.4	9.7	11.1	12.8	14.7	16.9	19.5	22.4
Discount factor	0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51	0.48	0.44
Discounted free cash flow	-5.6	0.0	5.9	6.2	6.7	7.1	7.6	8.1	8.7	9.2	9.9

Source: SG Cross Asset Research/Equity

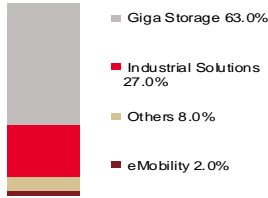
Sensitivity analysis

	WACC	6.2%	6.7%	7.2%	7.7%	8.2%	8.7%	9.2%
	1.5%	21.6	18.9	16.7	14.8	13.2	11.9	10.7
	2.0%	23.9	20.6	18.0	15.9	14.1	12.6	11.3
	2.5%	26.7	22.7	19.7	17.2	15.1	13.5	12.0
Growth to perpetuity (%)	3.0%	30.4	25.4	21.7	19.0	16.4	14.4	12.8
	3.5%	35.4	29.0	24.2	20.7	17.9	15.6	13.8
	4.0%	42.7	33.8	27.6	23.1	19.7	17.0	14.9
	4.5%	54.3	40.7	32.2	26.3	22.1	18.8	16.2

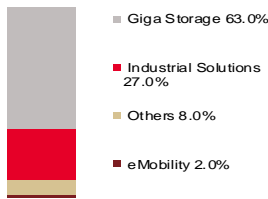
Source: SG Cross Asset Research/Equity

Engie EPS

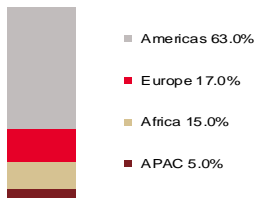
Sales/division 19



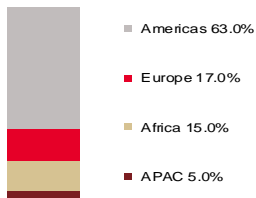
EBIT/division 19



Sales/region 19



19



Major shareholders (%)

Engie	60.5
Free Float	39.5

Share price performance

Perf. (%)	1m	3m	12m	ytd
Share	23.8	73.7	68.8	23.8
Rel. index*	15.4	70.2	61.4	89.3
Rel. sector**	15.9	89.5	90.3	91.3

* 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	16.2	16.2	16.2
Average market cap. (SG adjusted) (1)	51	43	72	148	113	206	206	206
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	222	230	232
P/E (x)	NM	NM	NM	NM	NM	NM	NM	NM
Price/cash flow (x)	NM	NM	NM	101.8	NM	NM	NM	41.2
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	17.1	5.75	2.90
EV/EBITDA (x)	NM	NM	NM	NM	NM	NM	NM	33.2
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

Report completed on 4 Feb. 2021 21:52 CET

APPENDIX

SUBJECT COMPANIES

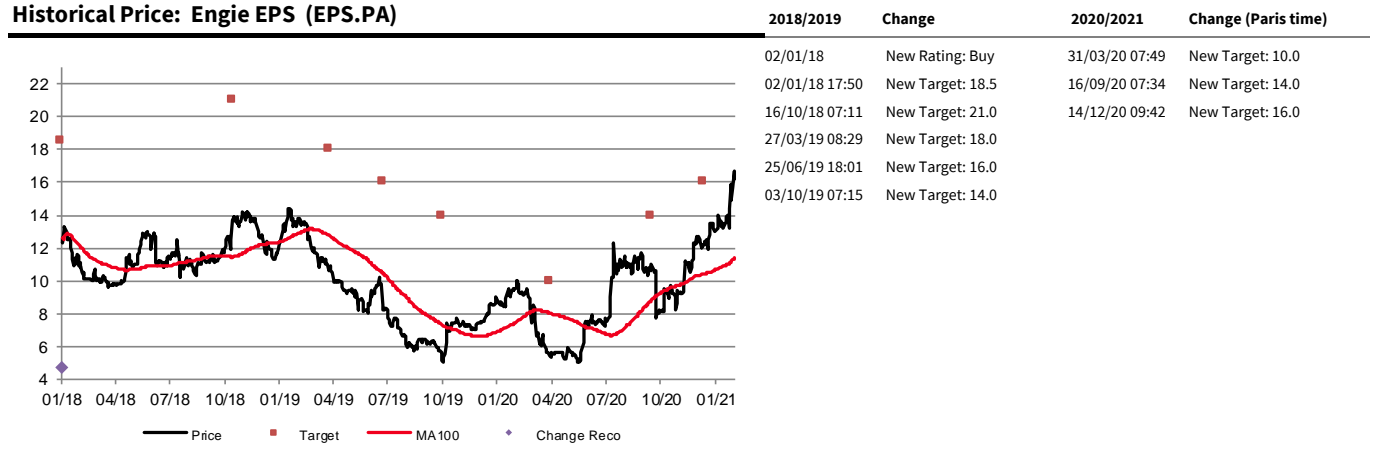
Engie EPS (EPS FP, Buy)

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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 7.7%, 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; 4) Delays in the start of large contracts (Guam, Hawaii) due to transport difficulties induced by the pandemic; 5) Lockdowns in Northern Italy where the company has plants in Torino and Milano.

SG EQUITY RESEARCH RATINGS on a 12 month period

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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The sector weightings are assigned by the SG Equity Research Strategist and are distinct and separate from SG equity research analyst ratings. They are based on the relevant MSCI.

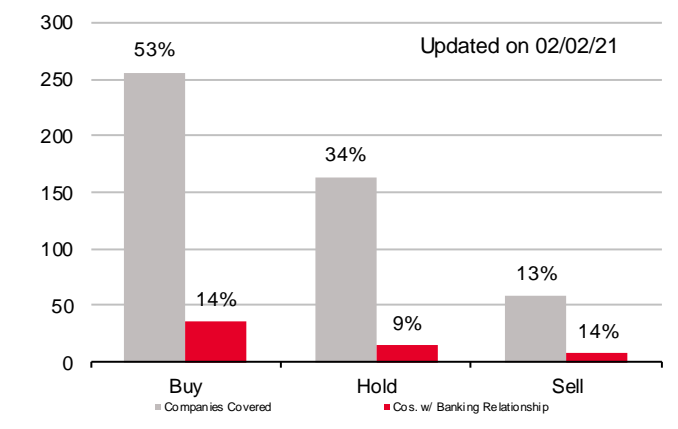
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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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