



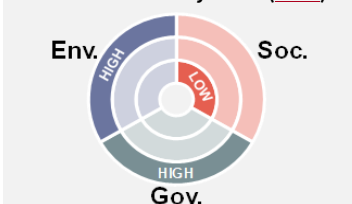
| Electric Utilities | 12m target upgrade | France | @Go to SG website

Engie EPS

Further upgrade to our 2021-2022 forecasts and target price

Buy	
Price 09/04/21	€18.14
12m target	€25.0
o/w ESG component	10.0%
Upside to TP	37.8%
12m f'cast div	€0.00
12m TSR	37.8%
Main changes since last report	
Target (€)	↑25.0 (19.00)
EPS 21e (€)	↑-0.235 (-0.392) +40.1%
EPS 22e (€)	↑1.33 (0.157) +748.1%
EPS 23e (€)	1.64 nc
new vs (old)	nc: no change

Sector ESG materiality meter (@link)



Sector exposure to E & S factors

High	Medium	Low
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Company ESG momentum

Improving	Stable	Declining
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Share price performance



EV 21 (€m) 260
Mkt cap. (€m) 232

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The past 12 months have seen an abundance of positive news, including strong pipeline growth and the set-up of an ambitious JV with Stellantis. Consequently, we are significantly increasing our 2021-2022 estimates and DCF-based target price. EEPS has emerged as a major player in the European energy transition, something which we don't think is reflected in the current valuation multiples.

What developments have occurred in the project pipeline? EEPS has indicated that the market has been particularly active, with numerous calls for offers, particularly in North America, Europe and Australia. As at 30 March 2021, the order book/number of contracts secured reached a value of \$173m and 700MWh, and the project pipeline was up 46% over at the same stage, at €1,004m. In particular, we note that the total value of new projects added to the pipeline works out at more than €600m and that almost all of this came from outside Engie group. In view of these prospects, the Cosio Valtellino production site in Lombardy has been extended to more than 7,000 m² to provide a production capacity of 2.5GWh per year. Meanwhile, due to the strong market demand, EEPS has doubled its production capacity for residential recharging solutions, from 500 easyWallbox units per week in 2020 to 1,000 units per week in March 2021. A further increase to 1,500 per week is expected to be achieved by May 2021.

Our FY21 revenue estimate remains unchanged at €40m but we now expect EBITDA to be marginally positive (vs a loss previously). However, for FY22e, we are raising our revenue estimate from €80m to €120m and expect EBITDA to reach €26m (vs €7m). Free2Move eSolutions, the JV with Stellantis, the second-largest European automaker with a 25% market share, should have a major positive impact on EEPS's revenues and is already set to become the group's second-largest business after power grid energy storage. This entity produces and sells recharging infrastructure to individuals and companies and offers monthly recharging subscriptions as well as energy management solutions that will enable customers to reduce the overall cost of owning a vehicle. We would also underline that: 1) our estimates are subject to a large number of moving parts, with notably uncertainty over the actual start-up date in Guam, possible closures of production sites in Northern Italy due to the pandemic, the pace of the ramp-up of the recharging solutions business, etc; 2) given the balance sheet situation at end-2020 (negative equity capital), a capital increase seems likely over the coming months, possibly (SG scenario) with the arrival of a new shareholder to buy up Engie's stake (see [report](#)).

Our target price rises from €19 to €25 as a result of our forecast upgrades. Our DCF valuation is derived from the following inputs: WACC 7.7%, normative EBIT margin 16.0%, 2026-2031 sales growth 13% p.a. and growth to perpetuity 2.5% p.a.

Financial data	12/20	12/21e	12/22e	12/23e	Ratios	12/20	12/21e	12/22e	12/23e
Revenues (€m)	11.1	40.0	120	160	P/E (x)	NM	NM	13.6	11.0
Rev. yoy growth (%)	-45.3	NM	NM	33.3	FCF yield (/EV) (%)	-6.7	-1.7	6.4	7.9
EBIT margin (%)	NM	NM	15.8	16.9	Dividend yield (%)	0.0	0.0	0.0	0.0
Rep. net inc. (€m)	-14.9	-3.00	17.0	21.0	Price/book value (x)	NM	NM	116	12.2
EPS (adj.) (€)	-1.17	-0.23	1.33	1.64	EV/revenues (x)	12.1	6.49	2.09	1.50
EPS yoy growth (%)	-14.5	79.9	NM	23.5	EV/EBIT (x)	NM	NM	13.2	8.87
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	9.2	13.7	10.4	8.3
Dividend yoy growth (%)	NA	NA	NA	NA	ROIC/WACC (x)	-9.1	-1.1	-3.0	-16.7
Payout (%)	0	0	0	0	Net Debt/EBITDA (x)	NM	14.1	0.65	0.14

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DCF

DCF assumptions

Valuation (€m)		WAAC (%)	
Enterprise value	369.2	Risk-free rate (10y)	-0.2
o/w estimates (%)	31%	Market risk premium	5.6
o/w terminal value (%)	69%	Beta	1.5
		Cost of capital	8.0
Net debt (-)/cash (+)	-19.7	Post-tax cost of debt	2.2
Minorities	0.0	WACC	7.7
Associates	0.0	Normalised sales growth (%)	13.0
Marketable securities	0.0	Normalised EBIT margin (%)	16.0
Other adjustments	-4.9	Normalised cash conversion (%)	84.5
Est. value of shareholders' equity	344.6		
SGe DCF: equity per share (€)	25.0		

Source: SG Cross Asset Research/Equity

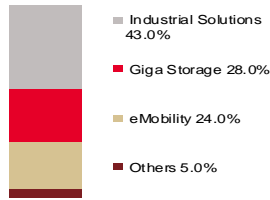
DCF calculation

(€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
Revenues (€bn)	40.0	120.0	160.0	180.8	204.3	230.9	260.9	294.8	333.1	376.4	425.4
EBIT (€bn)	-2.0	19.0	27.0	18.1	20.4	23.1	26.1	29.5	33.3	37.6	42.5
Amortisation	4.0	7.0	9.0	10.8	12.3	13.9	15.7	17.7	20.0	22.6	25.5
Tax	0.0	0.0	-3.0	-2.7	-3.1	-3.5	-3.9	-4.4	-5.0	-5.6	-6.4
Capex	-7.0	-10.0	-13.0	-10.8	-12.3	-13.9	-15.7	-17.7	-20.0	-22.6	-25.5
Change in WCR	0.7	0.0	-1.0	-2.8	-3.2	-3.6	-4.0	-4.6	-5.2	-5.8	-6.6
Other cash movements	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total cash flow	-4.3	16.0	20.0	12.6	14.2	16.0	18.1	20.5	23.2	26.2	29.6
Discount factor	0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51	0.47	0.44
Discounted FCF	-4.0	13.8	16.0	9.3	9.8	10.3	10.8	11.3	11.8	12.4	13.0

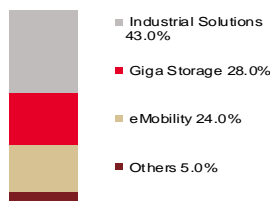
Source: SG Cross Asset Research/Equity

Engie EPS

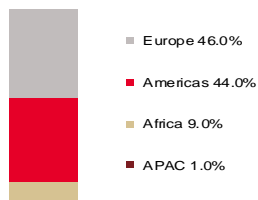
Sales/division 20



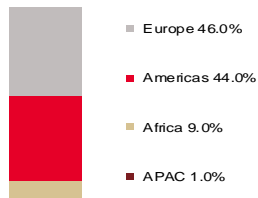
EBIT/division 20



Sales/region 20



EBIT/region 20



Major shareholders (%)

Engie	60.5
Free Float	39.5

Share price performance

Perf. (%)	1m	3m	12m	ytd
Share	1.9	32.4	220.5	39.0
Rel. index*	-0.4	22.4	122.0	96.8
Rel. sector**	-2.9	29.0	181.1	108.8

* MSCI World (\$)

** MSCI World Utilities (\$)

Valuation (€m)	12/16	12/17	12/18	12/19	12/20	12/21e	12/22e	12/23e
No. of shares basic year end/outstanding	8.03	8.44	12.8	12.8	12.8	12.8	12.8	12.8
Share price: avg (hist. yrs) or current	5.30	8.58	11.6	8.88	8.95	18.1	18.1	18.1
Average market cap. (SG adjusted) (1)	43	72	148	113	114	232	232	232
Restated net debt (-)/cash (+) (2)	-1	-12	7	-9	-20	-28	-17	-5
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	2	3
EV = (1) - (2) + (3) - (4) + (5)	44	85	141	123	134	260	251	240
P/E (x)	NM	NM	NM	NM	NM	NM	NM	11.0
Price/cash flow (x)	NM	NM	101.8	NM	NM	136.2	9.6	8.0
Price/free cash flow (x)	NM	NM	NM	NM	NM	NM	16.5	14.5
Price/book value (x)	7.67	50.4	7.06	49.3	NM	NM	116	12.2
EV/revenues (x)	5.97	8.47	8.98	6.08	12.1	6.49	2.09	1.50
EV/EBITDA (x)	NM	NM	NM	NM	NM	nm	9.6	6.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Per share data (€)								
SG EPS (adj.)	-1.08	-0.40	-0.58	-1.02	-1.17	-0.23	1.33	1.64
Cash flow	-0.41	-1.30	0.11	-0.51	-0.40	0.13	1.88	2.27
Book value	0.69	0.17	1.64	0.18	-0.92	-1.17	0.16	1.49
Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income statement (€m)								
Revenues	7.30	10.0	15.7	20.2	11.1	40.0	120	160
Gross income	3.20	4.00	4.70	5.30	3.75	16.0	48.0	64.0
EBITDA	-4.00	-1.70	-4.60	-5.70	-8.35	2.00	26.0	36.0
Depreciation and amortisation	-4.50	-1.70	-1.90	-7.80	-5.60	-4.00	-7.00	-9.00
EBIT	-8.50	-3.40	-6.50	-13.5	-14.6	-2.00	19.0	27.0
Impairment losses	0.00	0.00	-2.70	0.00	0.00	0.00	0.00	0.00
Net interest income	-0.10	-3.80	3.10	-0.30	-0.090	-1.00	-2.00	-3.00
Exceptional & non-operating items	0.00	-2.60	-2.60	-1.60	0.00	0.00	0.00	0.00
Taxation	0.00	0.80	0.00	0.80	-0.20	0.00	0.00	-3.00
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported net income	-8.60	-9.00	-8.70	-14.6	-14.9	-3.00	17.0	21.0
SG adjusted net income	-8.60	-3.30	-6.10	-13.0	-14.9	-3.00	17.0	21.0
Cash flow statement (€m)								
EBITDA	-4.00	-1.70	-4.60	-5.70	-8.35	2.00	26.0	36.0
Change in working capital	0.80	-6.00	2.70	-1.30	3.50	0.70	0.00	-1.00
Other operating cash movements	-0.10	-3.00	3.10	0.50	-0.29	-1.00	-2.00	-6.00
Cash flow from operating activities	-3.30	-10.7	1.20	-6.50	-5.14	1.70	24.0	29.0
Net capital expenditure	-5.20	-2.70	-3.90	0.10	-3.90	-7.00	-10.0	-13.0
Free cash flow	-8.50	-13.4	-2.70	-6.40	-9.04	-5.30	14.0	16.0
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	0.00	1.50	30.3	0.00	0.00	0.00	0.00	0.00
Net change in cash resulting from CF	-8.50	-11.9	27.6	-6.40	-9.04	-5.30	14.0	16.0
Balance sheet (€m)								
Total long-term assets	5.70	7.00	9.40	10.2	12.0	17.1	24.0	29.0
of which intangible	4.80	6.30	8.00	7.00	9.30	13.0	16.0	18.0
Working capital	1.60	7.60	4.90	6.20	2.70	2.00	2.00	3.00
Employee benefit obligations	0.00	0.70	4.20	4.80	4.90	6.00	7.00	8.00
Shareholders' equity	5.50	1.40	17.3	2.30	-11.8	-15.0	2.00	19.0
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 (+)	-0.90	-12.3	7.20	-9.30	-19.7	-28.1	-17.0	-5.00
Accounting ratios								
ROIC (%)	-113.3	-23.1	-33.4	-65.5	-70.2	-8.8	-23.0	-128.4
ROE (%)	-96.1	-260.9	-93.0	-149.0	NM	NM	NM	200.0
Gross income/revenues (%)	43.8	40.0	29.9	26.2	33.9	40.0	40.0	40.0
EBITDA margin (%)	-54.8	-17.0	-29.3	-28.2	-75.6	5.0	21.7	22.5
EBIT margin (%)	NM	NM	NM	NM	NM	NM	15.8	16.9
Revenue vov growth (%)	NM	37.0	57.0	28.7	-45.3	NM	NM	33.3
Rev. organic growth (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA yoy growth (%)	-29.0	57.5	NM	-23.9	-46.5	NM	NM	38.5
EBIT yoy growth (%)	-10.4	60.0	-91.2	NM	-8.1	86.3	NM	42.1
EPS (adj.) yoy growth (%)	-10.7	62.9	-44.6	-75.7	-14.5	79.9	NM	23.5
Dividend growth (%)	NA	NA	NA	NA	NA	NA	NA	NA
Cash conversion (%)	98.8	nm	89.2	51.1	64.4	nm	84.2	81.5
Net debt/equity (%)	16	NM	NM	404	NM	NM	NM	26
FFO/net debt (%)	NM	NM	20.8	NM	NM	3.6	141.2	NM
Dividend paid/FCF (%)	NM	NM	NM	NM	NM	NM	NM	NM

Source: SG Cross Asset Research/Equity

Report completed on 12 Apr. 2021 7:18 CET

APPENDIX

SUBJECT COMPANIES

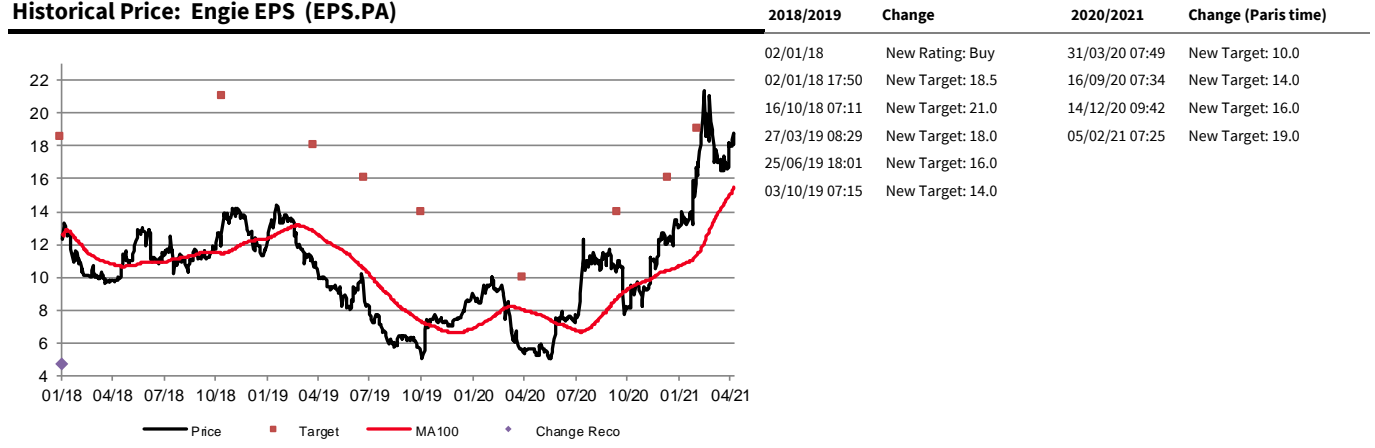
Engie EPS (EPS FP, Buy)

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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 2026-2031 growth rate of 13% and a perpetuity growth rate of 2.5%.

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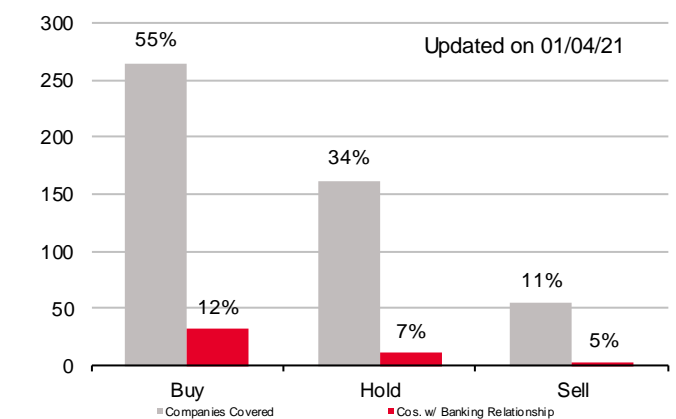
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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

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