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Engie EPS

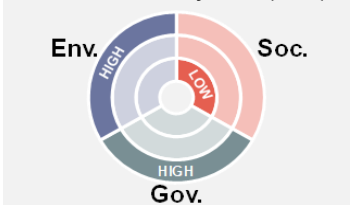
Takeover by TCC marks a new stage in the development of EEPS

Buy	
Price 21/04/21	€17.34
12m target	€25.0
o/w ESG component	10.0%
Upside to TP	44.2%
12m f'cast div	€0.00
12m TSR	44.2%
Main changes since last report	
Target (€)	25.0 n/c
EPS 21e (€)	-0.235 n/c
EPS 22e (€)	1.33 n/c
EPS 23e (€)	1.64 n/c
	nc: no change

The link-up with TCC represents a new stage in the history of the group, which will benefit from a highly optimised supply chain and access to the Asian markets which were previously considered unattainable by the company. The offer price is in our view essentially aimed at keeping the company listed, which is almost a repeat of the situation seen at the beginning of 2018 when Engie entered into the company's share capital. Our estimates and DCF-based target price remain unchanged.

What are the terms and conditions of the transaction? Taiwanese company TCC (see page 2 for description) has offered to purchase the 60.5% stake held by Engie at a price of €17.10/share, which implies an EV of €240m. The company is to be renamed NOAH on completion of the transaction which is expected to take place this summer.

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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Why at this valuation level? We believe that the price of €17.10/share, which is below the last listed share price, aims to: 1) facilitate the exit of Engie, which entered EEPS's share capital in January 2018 at a price of €9.50/share; 2) keep EEPS listed, something management clearly wanted, notably to keep the group attractive to its management and employees, through the granting of incentives such as stock options. This scenario seems to be a repeat of the situation seen in January 2018 when Engie arrived at a price that certain investors believed was too low at the time (see our [report of 26 January 2018](#)).

The synergy potential seems strong, especially in terms of the supply chain and access to the Asian markets We would emphasise that 30% of the cost of the storage solutions made by EEPS is represented by Li-ion batteries and the remaining 70% is accounted for by software and electronic controls. In this context, the most obvious synergies look set to be derived from access to TCC's logistics platform in terms of semi-conductors, batteries, cathodes, etc. TCC is also Taiwan's leading manufacturer of Li-ion batteries (it notably supplies Dyson), and is currently investing heavily in its production capacities in this area. In addition, EEPS will be in a much better position to capture part of the very fast-growing electric vehicles market in Asia, notably through the JV with Stellantis, and to satisfy local needs for electricity storage solutions. We also note that TCC operates in high energy-consuming industries (cement, chemicals) and has ambitious plans to develop renewable energy infrastructures.

Our target price, which was recently raised from €19 to €25, remains unchanged. Our DCF takes in the following inputs: WACC 7.7%, normative EBIT margin 16.0%, 2026-2031 growth 13% p.a., growth to perpetuity 2.5% p.a.

Share price performance



EV 21 (€m) 250
Mkt cap. (€m) 221

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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	13.0	10.5
Rev. yoy growth (%)	-45.3	NM	NM	33.3	FCF yield (/EV) (%)	-6.7	-1.7	6.7	8.3
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	111	11.7
EPS (adj.) (€)	-1.17	-0.23	1.33	1.64	EV/revenues (x)	12.1	6.24	2.00	1.43
EPS yoy growth (%)	-14.5	79.9	NM	23.5	EV/EBIT (x)	NM	NM	12.7	8.50
Dividend/share (€)	0.00	0.00	0.00	0.00	EV/IC (x)	9.2	13.1	10.0	7.9
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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Taiwan Cement Corporation (TCC) – Company profile

Little known to the public, TCC is a former state-owned company which was privatised in 1954 and became listed on the Taiwan stock exchange in 1962. Having played a major role in transforming Taiwan into a modern economy in the 1960s and 1970s, TCC is now positioned in three markets: Cement, its historical business, but also Energy and Environment. Under the guidance of its chairmen, Leslie Koo and then Chang An-Ping, TCC is in the process of transforming from a cement company into a supplier of ecological solutions aimed at protecting the environment. Over the course of its history, TCC has constantly sought out new energy solutions, with the aim of moving to circular economy model focusing on ‘zero pollution and zero waste by 2050’.

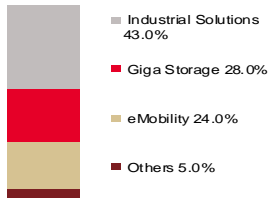
TCC is now a diversified company, listed in Taiwan with a market capitalisation of \$10bn. Aside from cement, TCC is present in battery production, environmental services, logistics and infrastructure. The group has in recent years been particularly active in the area of renewable energy and electricity storage and has already carried out more than \$1bn of acquisitions in the EMEA region.

TCC share price performance over five years

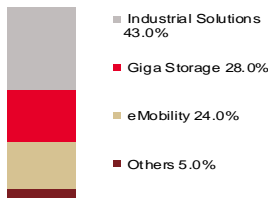


Source: Bloomberg

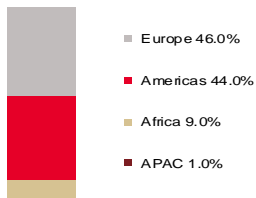
Sales/division 20



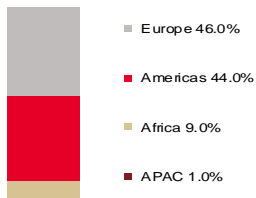
EBIT/division 20



Sales/region 20



EBIT/region 20



Major shareholders (%)

Engie	60.5
Free Float	39.5

Share price performance

Perf. (%)	1m	3m	12m	ytd
Share	5.1	24.3	217.6	32.9
Rel. index*	23.5	44.5	180.9	131.1
Rel. sector**	20.4	48.0	241.1	140.3

* MSCI World (\$)

** MSCI World Utilities (\$)

Engie EPS

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	17.3	17.3	17.3
Average market cap. (SG adjusted) (1)	43	72	148	113	114	221	221	221
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	250	240	229
P/E (x)	NM	NM	NM	NM	NM	NM	13.0	10.5
Price/cash flow (x)	NM	NM	101.8	NM	NM	130.2	9.2	7.6
Price/free cash flow (x)	NM	NM	NM	NM	NM	NM	15.8	13.8
Price/book value (x)	7.67	50.4	7.06	49.3	NM	NM	111	11.7
EV/revenues (x)	5.97	8.47	8.98	6.08	12.1	6.24	2.00	1.43
EV/EBITDA (x)	NM	NM	NM	NM	NM	nm	9.2	6.4
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	-2	-5	-6	-8	2	26	36
Change in working capital	1	-6	3	-1	4	1	0	-1
Other operating cash movements	0	-3	3	1	0	-1	-2	-6
Cash flow from operating activities	-3	-11	1	-7	-5	2	24	29
Net capital expenditure	-5	-3	-4	0	-4	-7	-10	-13
Free cash flow	-9	-13	-3	-6	-9	-5	14	16
Cash flow from investing activities	0	0	0	0	0	0	0	0
Cash flow from financing activities	0	2	30	0	0	0	0	0
Net change in cash resulting from CF	-9	-12	28	-6	-9	-5	14	16
Balance sheet (€m)								
Total long-term assets	6	7	9	10	12	17	24	29
of which intangible	5	6	8	7	9	13	16	18
Working capital	2	8	5	6	3	2	2	3
Employee benefit obligations	0	1	4	5	5	6	7	8
Shareholders' equity	6	1	17	2	-12	-15	2	19
Minority interests	0	0	0	0	0	0	0	0
Provisions	0	0	0	0	0	0	0	0
Net debt (-)/cash (+)	-1	-12	7	-9	-20	-28	-17	-5
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

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APPENDIX

SUBJECT COMPANIES

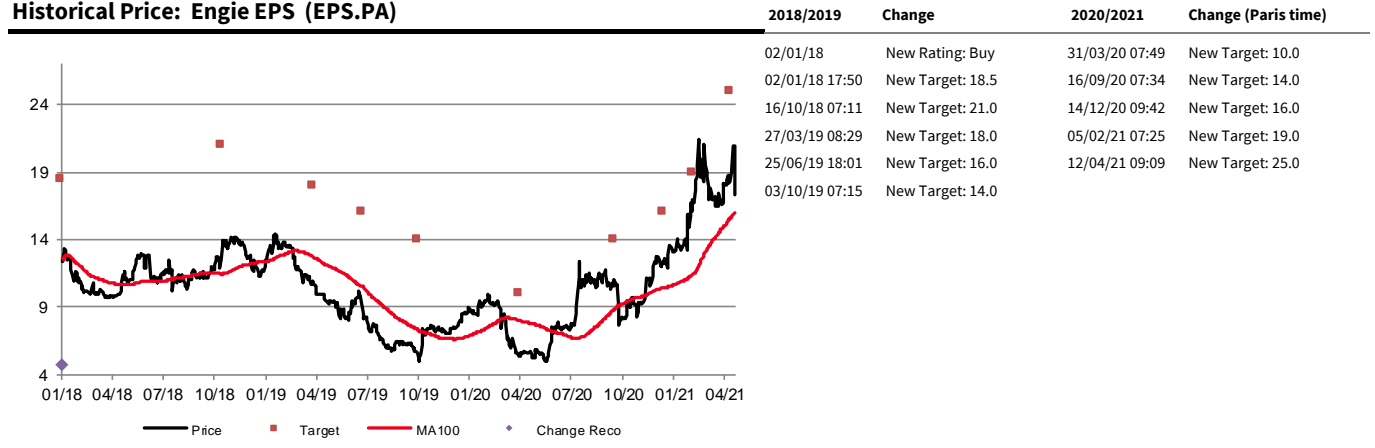
Engie EPS (EPS FP, Buy)

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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 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.

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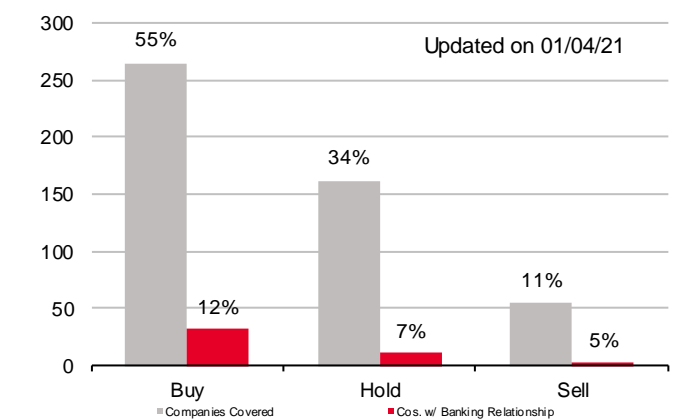
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

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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