

## Equities

13 June 2012 | 16 pages

# GDF Suez (GSZ.PA)

## Earnings momentum turnaround and robust risk profile. Buy.

- **GDFSuez relative share price performance** — has almost perfectly tracked movements in the company's 5-year CDS and consensus EPS revisions over the last 4 years.
- **We show that in the past the biggest company-specific reason** — for any expansion of GDFSuez's CDS has been newsflow related to the Belgian and French regulatory frameworks in electricity / nuclear and gas, respectively. With worst case outcomes already in place – proposal for near doubling of Belgian nuclear tax and a French gas tariff freeze - we expect the situation to at least stabilize from here and could even surprise on the upside – plausibly some Belgian nuclear life extensions and drop in oil price creating headroom in French gas supply margins. So we expect GDFSuez's risk profile to be a supportive factor for the share price going forward.
- **First earnings upgrade in 3 years** — as we update our estimates to take into consideration the buyout of the International Power minorities and the associated balance sheet measures as well as latest macro (GDP, cost of financing, FX) and commodity assumptions. As we said in our November '11 report [Overpriced Risks, Underappreciated Opportunities. Buy](#). 2012 should be a turnaround year for GDFSuez's earnings momentum and hence become a supportive factor for the stock.
- **Cash flow coverage of dividends** — also set to continue to improve, hitting >1.7x by 2015 on our estimates with discretionary FCF pre dividends paying back fully the GDFSuez market cap in 6 years. Although cash flow and dividends have surprisingly played little role in GDFSuez's stock performance in recent times, we believe a sustainable dividend yield of currently >9% vs. the corporate 10-year bond yield at ~3% is a strong buy signal.
- **We re-iterate our Buy rating on GDFSuez** — On our new €22.5 per share price target the stock offers >35% potential upside and would yield >6.5% on a sustainable basis.

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (12 Jun 12)	€16.65
Target price	€22.50
	from €25.00
Expected share price return	35.2%
Expected dividend yield	9.0%
<b>Expected total return</b>	<b>44.2%</b>
Market Cap	€38,645M
	US\$48,212M

### Price Performance (RIC: GSZ.PA, BB: GSZ FP)



### GDF Suez (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	84,484.0	90,674.0	74,589.0	77,415.2	80,002.1
Net Income (€M)	4,119.3	3,533.1	4,191.7	3,830.1	4,429.6
Diluted EPS (€)	1.88	1.59	1.83	1.65	1.91
Diluted EPS (Old) (€)	1.88	1.59	1.59	1.62	1.86
PE (x)	8.8	10.5	9.1	10.1	8.7
EV/EBITDA (x)	5.7	5.8	6.1	6.2	5.8
DPS (€)	1.50	1.50	1.50	1.53	1.61
Net Div Yield (%)	9.0	9.0	9.0	9.2	9.6

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GSZ.PA: Fiscal year end 31-Dec						Price: €16.65; TP: €22.50; Market Cap: €38,657m; Recomm: Buy					
Profit & Loss (€m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	84,484	90,674	74,589	77,415	80,002	PE (x)	8.8	10.5	9.1	10.1	8.7
Cost of sales	-11,755	-59,470	na	na	na	PB (x)	0.6	0.6	0.6	0.6	0.6
Gross profit	72,729	31,204	na	na	na	EV/EBITDA (x)	5.7	5.8	6.1	6.2	5.8
Gross Margin (%)	86.1	34.4	na	na	na	FCF yield (%)	4.4	8.6	-0.3	13.2	13.1
<b>EBITDA</b>	<b>14,696</b>	<b>16,093</b>	<b>16,886</b>	<b>16,926</b>	<b>18,010</b>	Dividend yield (%)	9.0	9.0	9.0	9.2	9.6
EBITDA Margin (%)	17.4	17.7	22.6	21.9	22.5	Payout ratio (%)	80	94	82	93	84
Depreciation	-5,601	-6,885	-6,797	-7,159	-7,165	ROE (%)	7.5	6.4	6.5	5.9	6.8
Amortisation	-300	-230	-200	0	0	<b>Cashflow (€m)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<b>EBIT</b>	<b>8,795</b>	<b>8,978</b>	<b>9,889</b>	<b>9,766</b>	<b>10,845</b>	EBITDA	14,696	16,093	16,886	16,926	18,010
EBIT Margin (%)	10.4	9.9	13.3	12.6	13.6	Working capital	-258	-426	-1,713	301	275
Net interest	-2,221	-2,605	-2,775	-2,873	-2,794	Other	-3,530	-3,594	-4,869	-4,943	-5,267
Associates	264	462	396	411	425	<b>Operating cashflow</b>	<b>10,908</b>	<b>12,073</b>	<b>10,305</b>	<b>12,284</b>	<b>13,019</b>
Non-op/Except	702	706	-150	-150	-150	Capex	-9,292	-8,898	-10,425	-7,189	-7,947
<b>Pre-tax profit</b>	<b>7,540</b>	<b>7,541</b>	<b>7,360</b>	<b>7,155</b>	<b>8,327</b>	Net acq/disposals	1,517	715	0	0	0
Tax	-1,913	-2,119	-2,490	-2,482	-2,899	Other	-9	279	0	0	0
Extraord./Min.Int./Pref.div.	-1,010	-1,418	-776	-939	-1,095	<b>Investing cashflow</b>	<b>-7,784</b>	<b>-7,904</b>	<b>-10,425</b>	<b>-7,189</b>	<b>-7,947</b>
<b>Reported net profit</b>	<b>4,617</b>	<b>4,004</b>	<b>4,094</b>	<b>3,734</b>	<b>4,334</b>	Dividends paid	-3,918	-4,363	-3,431	-3,552	-3,730
Net Margin (%)	5.5	4.4	5.5	4.8	5.4	<b>Financing cashflow</b>	<b>-3,985</b>	<b>-4,324</b>	<b>-6,206</b>	<b>-6,425</b>	<b>-6,523</b>
Core NPAT	4,119	3,533	4,192	3,830	4,430	<b>Net change in cash</b>	<b>-861</b>	<b>-155</b>	<b>-6,326</b>	<b>-1,330</b>	<b>-1,452</b>
<b>Per share data</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Free cashflow to s/holders</b>	<b>1,616</b>	<b>3,175</b>	<b>-120</b>	<b>5,095</b>	<b>5,072</b>
Reported EPS (€)	2.11	1.80	1.79	1.61	1.87						
Core EPS (€)	1.88	1.59	1.83	1.65	1.91						
DPS (€)	1.50	1.50	1.50	1.53	1.61						
CFPS (€)	4.99	5.44	4.51	5.29	5.61						
FCFPS (€)	0.74	1.43	-0.05	2.19	2.18						
BVPS (€)	27.64	27.94	27.39	27.47	27.73						
Wtd avg ord shares (m)	2,188	2,221	2,287	2,322	2,322						
Wtd avg diluted shares (m)	2,188	2,221	2,287	2,322	2,322						
<b>Growth rates</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Sales revenue (%)	5.7	7.3	-17.7	3.8	3.3						
EBIT (%)	5.4	2.1	10.1	-1.2	11.0						
Core NPAT (%)	-10.6	-14.2	18.6	-8.6	15.7						
Core EPS (%)	-10.5	-15.5	15.2	-10.0	15.7						
<b>Balance Sheet (€m)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Cash & cash equiv.	11,296	14,675	7,051	7,949	8,678						
Accounts receivables	21,334	23,135	19,031	19,752	20,412						
Inventory	3,870	5,435	4,471	4,640	4,795						
Net fixed & other tangibles	84,344	95,583	96,660	96,851	97,639						
Goodwill & intangibles	40,347	44,588	46,505	46,505	46,505						
Financial & other assets	23,467	29,992	27,570	27,996	28,385						
<b>Total assets</b>	<b>184,658</b>	<b>213,408</b>	<b>201,288</b>	<b>203,694</b>	<b>206,415</b>						
Accounts payable	14,835	18,387	15,125	15,698	16,223						
Short-term debt	7,543	13,213	13,213	13,213	13,213						
Long-term debt	39,695	43,372	43,372	43,372	43,372						
Provisions & other liab	51,867	58,166	53,843	54,887	55,843						
<b>Total liabilities</b>	<b>113,940</b>	<b>133,138</b>	<b>125,554</b>	<b>127,171</b>	<b>128,651</b>						
Shareholders' equity	62,205	62,930	63,593	63,775	64,379						
Minority interests	8,513	17,340	12,141	12,748	13,385						
<b>Total equity</b>	<b>70,718</b>	<b>80,270</b>	<b>75,734</b>	<b>76,523</b>	<b>77,764</b>						
<b>Net debt</b>	<b>35,942</b>	<b>41,910</b>	<b>49,534</b>	<b>48,636</b>	<b>47,907</b>						
Net debt to equity (%)	50.8	52.2	65.4	63.6	61.6						

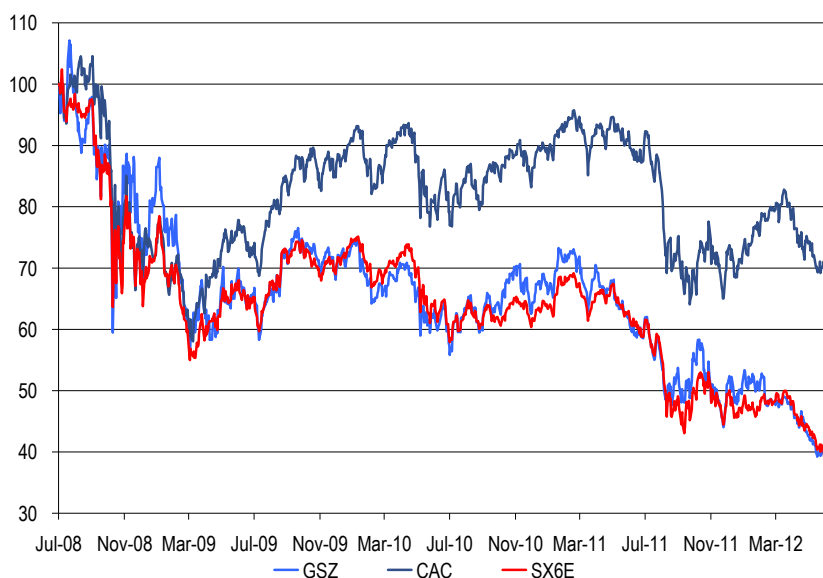
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 For definitions of the items in this table, please click [here](#).

## Lessons from looking back

Since the start of the European economic and financial crisis (H2 '08), GDFSuez has lost 50% of its value, exactly matching the performance of the broader Eurozone Utilities Index (SX6E) and significantly underperforming the 20% value reduction in the broader French CAC Index, as show in figure 1 below.

GDFSuez performance in-line with peers...

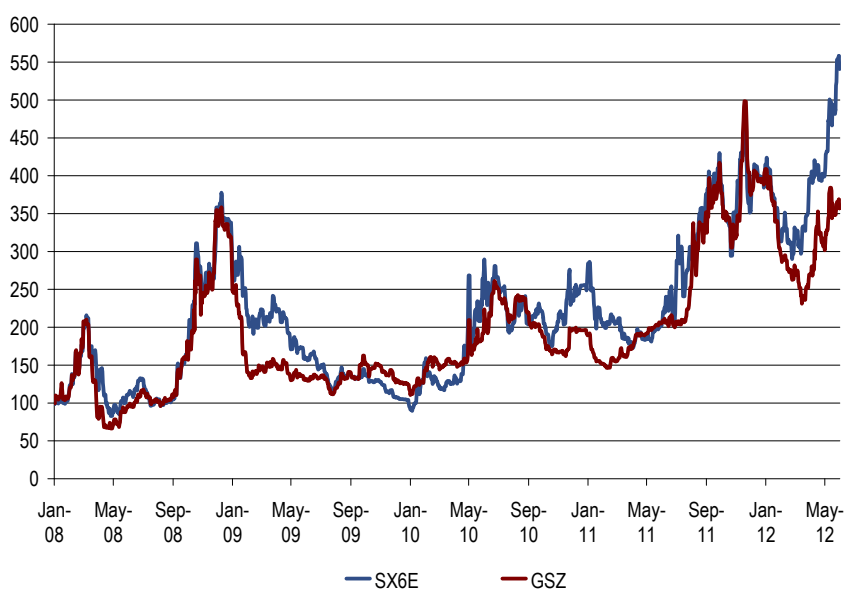
Figure 1. Share price performance ex dividend – GDFSuez vs. CAC40 vs SX6E (indexed to 100)



Source: Bloomberg and Citi Estimates

...as very strong risk profile vs peers...

Figure 2. 5 year CDS – GDFSuez vs weighted average of SX6E Utilities (indexed to 100)



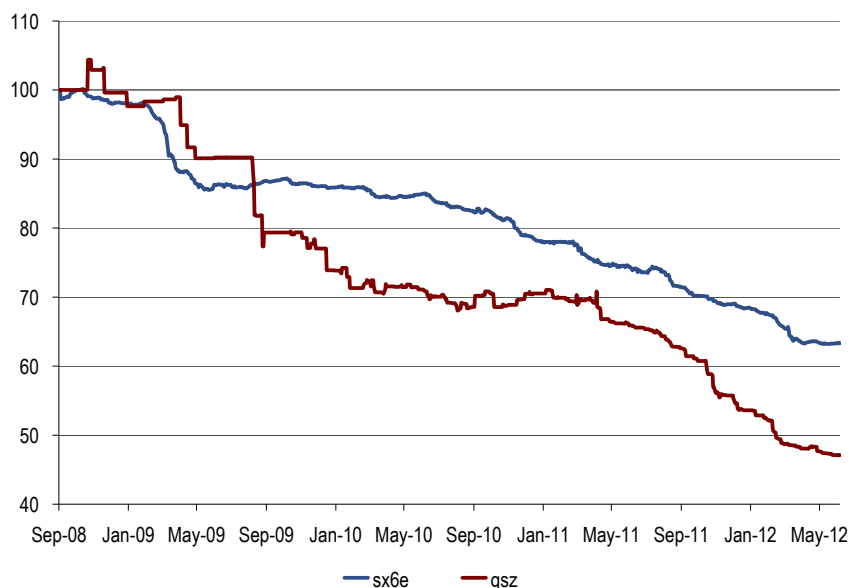
Source: Bloomberg, Citi Investment Research and Analysis

...was offset by weaker earnings momentum (EPS) vs peers.

Over the same time period, the credit markets have evaluated GDFSuez's profile to be of lower risk than that of the broader Eurozone Utilities sector. This is evident by comparing the 5-year CDS for GDFSuez against the weighted (using their index weights) average of the 5 year CDS of the utilities in the SX6E index. In July 2008 the broader sector was deemed to be 2.9x as risky as GDFSuez, as measured by 5 year CDS (38bps vs 113bps). Today that has risen to 4.5x as risky (135bps vs 613bps)

On the earnings front (EPS), GDFSuez has disappointed more than the broader sector vs analysts expectations. As figure 3 below shows the market has cut GDFSuez 12m forward EPS estimates to 47% of original expectations as of end of summer in 2008, whereas for the SX6E the cut has been to 63% of original expectations, i.e. a 16% relative EPS underperformance by GDFSuez.

Figure 3. 12month forward EPS expectations – GDFSuez vs SX6E (indexed to 100)

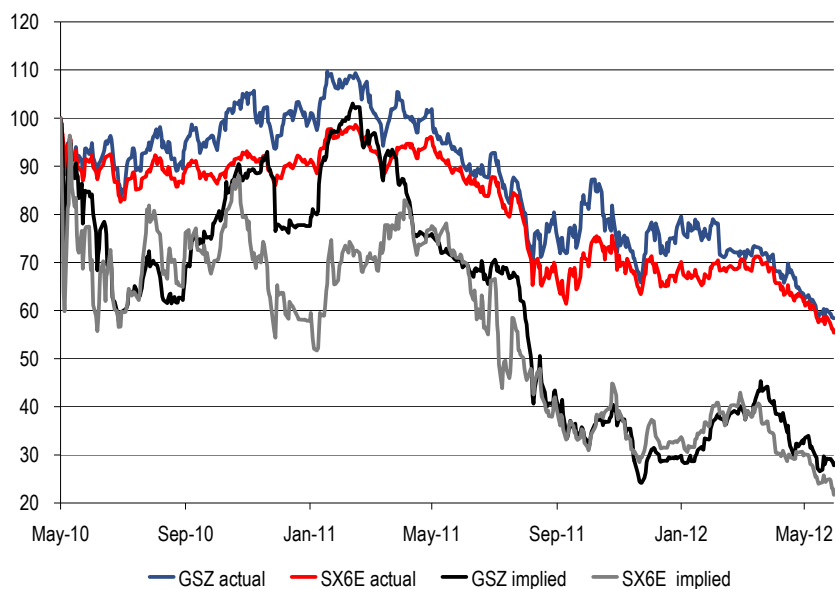


Source: Bloomberg, Citi Investment Research and Analysis

Moves in 5-year CDS and consensus EPS almost perfectly explain the relative performance of GDFSuez vs its peers over the last 3-4 years (90% correlation)

If we use the relative moves in CDS as a proxy for the moves we should see in applied earnings multiples or WACC and use the 12month forward EPS expectations as a proxy for sustainable earnings power / cash generation capacity we can derive an implied performance for GDFSuez and the SX6E over that time period. Figure 4 below plots that implied value against the actual performance. The correlation is very high at 90%.

Figure 4. GDFSuez and SX6E – actual vs. EPS/CDS implied performance – 90% correlation



Source: Datastream, Citi Investment Research and Analysis

Based on the above, we believe that the market in the last 2+ years has traded the Eurozone utilities sector in general and GDFSuez in particular based entirely on (i) credit risk and (ii) consensus earnings revisions. GDFSuez's strong ranking on the first point has been evenly matched by its low ranking on the second point, thus causing the stock's relative performance to be identical to that of the sector.

## Expectations from looking ahead

We've established in the earlier section that the core drivers that appear to be affecting the GDFSuez share price performance are market perceptions of risk, as measured by the 5-year CDS, and market perceptions of earnings momentum, as measured by year-forward consensus EPS revisions.

In this section we analyse our forecasts for these drivers, but also examine if these drivers are indeed an accurate representation of the stock value.

### Risk profile

#### Drivers

Over the past 4.5 years the 5-year GDFSuez CDS has expanded relative to a weighted blended average of the 5-year CDSes of the companies comprising the SX6E at 36% of the time. Of the instances that such expansion was sizeable or persistent, 40% of the time it related to newsflow or speculation around French gas or Belgian electricity / nuclear regulation, with the remainder 60% timed around periods of M&A speculation (eg. International Power), results reporting or French macro dynamics.

Looking ahead, we expect the Belgian and French electricity and gas regulatory situation to be a reduced area of concern in the future. On the French gas supply situation this is based on (i) the encouraging comments made by the French Minister of Environment about the underlying upward momentum on energy prices (electricity and gas) and (ii) our expectations of a flattish oil price curve, which should eliminate the need of continuous tariff adjustments experienced over the past few years. On the Belgian electricity front, the members of the coalition government have already approved an increase of the nuclear industry tax to €550m p.a., which has not been legislated yet, but with regards to the company's risk profile there is only upside if in fact the law does not get enacted. We expect by year-end developments on these two fronts to support our views.

Furthermore, the acquisition of the International Power minorities has substantially used up GDFSuez's financial headroom and we therefore expect speculation about any other M&A to die down.

This leaves concerns over the French sovereign debt as the main pool of possible negative drivers for GDFSuez's CDS. Our economists however are forecasting France's long-term (2-3 years) credit rating to be cut by 1 notch to AA from AA+. Vs a 2 notch downgrade to BBB- for Italy and Spain, an 1 notch downgrade to AA, AA-, AA+ and AA+ from Austria, Belgium and Finland and Netherlands, respectively and no change for Germany and the UK at AAA.

#### Citi view – Risk profile to remain supportive

Obviously, global and panEuro macro and credit events will play a role on the level of CDS for all corporates, including GDFSuez. In the context of company specific drivers though and in a sector relative perspective we struggle to find reasons for GDFSuez's CDS to expand more than peers. We therefore argue that by year-end that should be a supportive rather than destabilizing driver for the stock performance.

**Risk profile (CDS performance) likely to remain a supportive valuation factor as regulatory visibility set to improve by year-end**

## Earnings momentum

### Drivers

We have updated our earnings estimates to take into consideration the now approved acquisition of the International Power 30% minorities. We have also accounted for the measures to safeguard the balance sheet that GDFSuez has announced that it plans to take post that transaction (disposals, scrip dividend option). Finally, we have adjusted our forecasts for our latest macro and commodity assumptions. As a result our FY12E EPS rises by 16.1% but from 2013 onwards on average the increase is constrained to ~2% as the balance sheet repair measures and the negative effect of power hedges rolling over substantially offset the accretion from the transaction.

Figure 5. GDFSuez – new vs old earnings estimates

	2012E	2013E	2014E	2015E
New EBITDA (€m)	17,316	17,356	18,440	20,121
Old EBITDA (€m)	17,127	17,926	19,399	21,285
% change	1.10%	-3.18%	-4.94%	-5.47%
New COI (€m)	9,889	9,766	10,845	12,502
Old COI (€m)	9,795	10,402	11,563	13,465
% change	0.96%	-6.11%	-6.20%	-7.15%
New adjusted EPS (€)	1.83	1.65	1.91	2.33
Old adjusted EPS (€)	1.59	1.62	1.86	2.32
% change	15.09%	1.85%	2.68%	0.04%

Source: Citi Investment Research and Analysis

In figure 6 that follows we show the main assumptions we use in determining our GDFSuez earnings forecasts and also (in the last column of the table) how these compare with the assumptions that are currently built in our models for GDFSuez's peer group. It transpires that for GDFSuez our assumptions are in-line to more cautious than what we use for the peer group, predominantly due to the timing of the update in the context of an ongoing deteriorating operating environment for these companies.

Figure 6. Core assumptions used in our GDFSuez model

	2012E	2013E	2014E	2015E	vs peer group
<b>Commodities</b>					
Achieved Central Europe baseload price (€/MWh)	54.3	54.4	49.6	54.9	pessimistic
Oil price (\$/bbl)	115.0	99.0	100.0	100.0	in-line
Premium of LTC over spot gas post renegotiations (€/MWh)	9.5	2.0	2.0	2.0	pessimistic
Achieved Texas spark spread (\$/MWh)	13.0	15.0	16.0	16.0	in-line
Achieved PJM spark spread (\$/MWh)	15.0	16.0	17.0	17.0	in-line
Achieved UK clean spark spread (£/MWh)	12.6	5.8	4.8	10.5	in-line
Achieved UK clean dark spread (£/MWh)	19.5	16.5	13.5	17.5	in-line
<b>Regulation</b>					
France gas supply profitability (€m)	56	219	187	272	N/R
France gas transmission & distribution allowed returns vs. current levels (bps)	0	-75	-75	-75	in-line
Belgian nuclear tax for industry (€m)	550	550	550	550	in-line
<b>Operations</b>					
Electricity produced in Europe excl. International Power	169	177	183	187	pessimistic (load factors)
Electricity produced by the International Power assets	333	364	375	376	in-line
E&P output (mboe)	55	59	63	65	in-line
Achieved current EV/EBITDA multiple for disposals (x)	7.5	7.5	7.5	N/R	Not comparable
<b>Macro</b>					
USD / EUR	1.26	1.26	1.3	1.33	in-line
EUR / GBP	1.25	1.27	1.27	1.27	in-line
BRL / EUR	2.48	2.4	2.41	2.43	in-line
EU inflation	2.5%	1.8%	1.3%	1.1%	in-line
EU GDP growth	-0.6%	-0.7%	0.9%	1.2%	in-line

Source: Citi Investment Research and Analysis

International Power minorities buy-out, commissioning of projects currently under construction and low financing / refinancing costs support our view from last year of 2012 being a turn-around year in GDFSuez's earnings momentum

## Citi view – Earnings momentum to turn positive

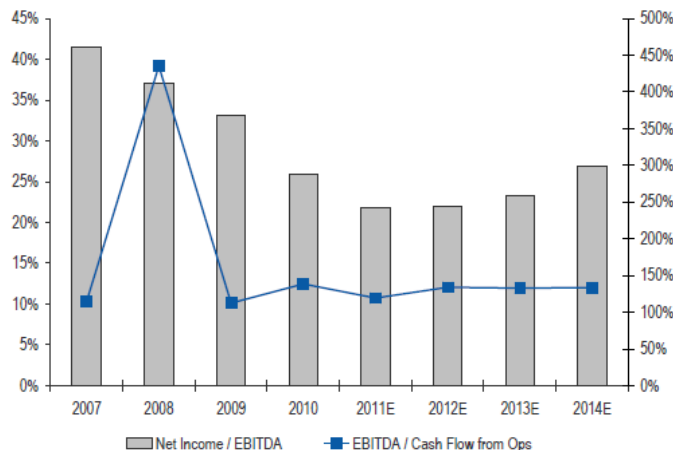
Most important for our argument in this report is that our earnings outlook for GDFSuez supports a view that earnings momentum should at least stabilize if not indeed turn positive helped by the full integration of International Power and the commissioning of the large asset base currently under construction.

We made this argument originally in our November 2011 report [GDF Suez \(GSZ.PA\) - Overpriced Risks, Underappreciated Opportunities. Buy](#), when we showed that the step up in growth investments over the past 4-5 years has been detrimental to EPS (EBITDA conversion to net income steadily declining) but that we believe the trend will start reversing from 2012, whilst at the same time cash flow generation for GDFSuez has remained robust (EBITDA conversion into Operating Cash Flow flat) and should continue show.

Figures 7 and 8 below show the cash flow and net income conversion rates for GDFSuez as per our November 2011 expectations and as of today. Although the absolute numbers involved have changed on the back of the full integration of International Power, the trend we highlighted has not – 2011 is the trough years in terms of net income conversion whilst cash flow conversion remains stable on our estimates.

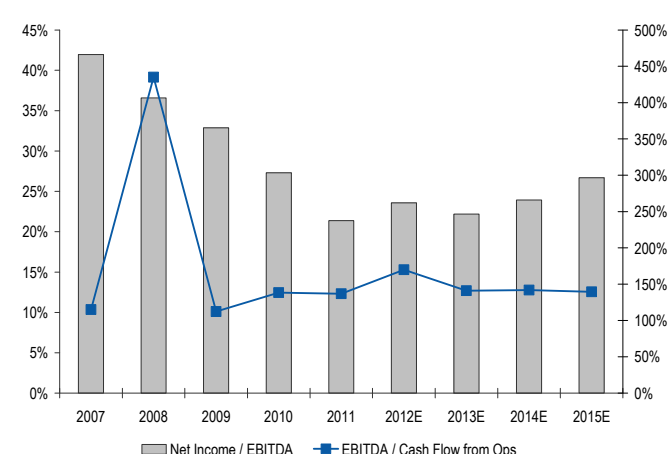
We therefore expect earnings momentum to revert to a positive driver for GDFSuez shares as earnings revisions stabilize and y-o-y earnings grow.

Figure 7. OpCF and NI conversion rates as expected in November 2011



Source: Company reports, Citi Investment Research and Analysis

Figure 8. OpCF and NI conversion rates as expected today



Source: Company reports, Citi Investment Research and Analysis



## Valuation

In p. 3-5 we have shown what has driven the GDFSuez share price in the last few years and in p. 6-8 we have analysed how and why we expect these drivers to develop in the coming years. In this final section we examine if these drivers (share price performance) are appropriately reflecting the value that we believe GDFSuez is generating and how we set our price target.

We have long argued that cash flow generation and not near-term EPS is a better determinant of value for a utility like GDFSuez. This is due to two main reasons:

- (i) **Accounting and business mix** – GDFSuez’s asset base incorporates amongst others an Environment company, an E&P company, a regulated gas T&D company, a European generation company and an International Power generation company, all of which could be standalone entities and most of which have at some stage been one. As a result the building blocks of GDFSuez’s P&L are unlike any of each peers, particularly when considering that different business types employ different accounting best practices. Therefore valuing the stock on a utility-comparable PE multiple is overly simplifying in our opinion.
- (ii) **Growth investments / capital replacement needs** – GDFSuez is one of the few European utilities that is still investing sizeable amounts in new growth projects. These projects can take up to 10 years from conception to commissioning. It is therefore difficult to compare on just a forward EPS basis companies that are in capital preservation mode with potentially declining / tailing off depreciation vs companies that are in investment mode. The same logic applies when we compare capital replacement needs as companies that are currently in capital preservation mode will either be faced with a declining asset base or with rising future capital requirements, both outcomes not captured by year-forward EPS.

It should therefore come as no surprise that we use DCF and SOP to determine our valuation for GDFSuez, not a target PE multiple. We set our SoTP based priced target (figure 10) at €22.5 per share which is equivalent to our group DCF with a 6.9% WACC.

At our price target GDFSuez would yield >6.5% (on the current €1.5 per share dividend) which compares with its 10-year bond yield of <3%. As the company moves from funding the dividends to shareholders via portfolio recycling (disposals) and debt increase towards funding dividends from discretionary cash flow generation (figure 9 below) we see no reason for the bond yield vs. dividend yield differential to be more than 350bps.

**Figure 9. Cash flow coverage of dividends growing each year and hitting >100 %in 2013**

	2011	2012E	2013E	2014E	2015E
Cash Flow From Operations	13,838	13,080	15,156	15,812	17,214
Interest expense	(1,765)	(1,973)	(2,070)	(1,991)	(1,942)
Maintenance and committed capex	(10,747)	(9,507)	(8,298)	(7,076)	(6,738)
Free Cash Flow pre uncommitted growth capex	1,326	1,600	4,788	6,745	8,534
Dividends incl. to minorities	(4,363)	(3,427)	(4,552)	(4,730)	(4,916)
FCF coverage of dividends (incl. to minorities)	30.4%	46.7%	105.2%	142.6%	173.6%

Source: Company Reports and CIRA Estimates

**Figure 10. GDFSuez New SoTP at €22.5 per share**

Division	Enterprise Value	Method	2013 EV/EBITDA
Energy France	4,644	DCF, assuming 0 (zero) value for regulated gas supply	4.2x
New International Power	38,467	at 390p Old IPR shares as per our price target prior to transaction	7.6x
Europe generation	12,830	DCF @ 7.0% WACC	5.1x
Global Gas & LNG	10,856		5.1x
E&P	4,724	On \$5/bbl 2015 reserves	
Supply	1,447	6x normalised EV/EBIT	
LNG	4,684	5x 2013 EV/EBIT	
Infrastructures	27,017		8.0x
Transmission	7,381	10% premium to 2012-end RAB	
Distribution	15,241	10% premium to 2012-end RAB	
Storage	2,500	€200/cm 2012-end	
LNG terminals	1,896	7x 2012 EV/EBITDA	
Energy Services	6,857	at 6.5x 2013 EV/EBITDA	6.5x
Environnement	20,339	At CITI price target	7.3x
Core Enterprise Value	121,009		6.9x
Financial assets / Equity Assets	12,375	Book value & market value estimates	
<b>Group Enterprise Value</b>	<b>132,644</b>		<b>7.7x</b>
Net debt	46,234	2012 year-end	
Provisions	17,800	2012 year-end	
Minorities	16,310	at fair value	
<b>Total EV adjustments</b>	<b>80,344</b>		
<b>GDFSuez target equity value</b>	<b>53,040</b>		
<b>per share</b>	<b>22.5</b>		

Source: Citi Investment Research and Analysis

The reduction in our price target primarily reflects the expected value destruction from the acquisition of the International Power minorities – valued at an unchanged 390p in our SoTP but acquired (and therefore debt assumed) for 418p. The lower long-term assumed profitability of the European generation business (lower power prices once hedges roll off and lower load factors from thermal plants) has also had a negative impact.

## GDF Suez

### Company description

GDF Suez is a utility with global presence in: electricity generation and supply, gas supply, oil and gas E&P, LNG, transmission and distribution, energy services and environment. It was created in July 2008 from the merger of Suez and GDF.

### Investment strategy

We rate GDF Suez Buy as we find the balanced mix of defensiveness and growth attractive. We estimate that it is trading in line with its peers, whereas we believe its strong balance sheet offers options that deserve a premium. Strong focus on shareholder returns shown by the high sustainable dividend yield is an added positive that should provide support.

### Valuation

We value GDF Suez at €22.5 per share using estimates at the bottom end of company guidance. We use a combination of DCF and multiples (premium to RAB, ROCE-WACC, EV/EBITDA, capacity) for our SOP.

### Risks

We identify these risks to our thesis and achievement of our target price: 1) government intervention - the French government owns a 35% stake in the company and has influence over key regulatory decisions, most notably the gas supply tariffs, 2) balance sheet utilisation - although the company has a visible project pipeline, its strong cash flow generation, relative to its peers, might tempt management to larger scale transactions, 3) commodities - although the company guidance is based on reasonable commodity assumptions, if the oil/gas and electricity prices carry on declining, we could see further derating of utilities like GDF Suez, 4) Integration of International Power assets

## Appendix A-1

### Analyst Certification

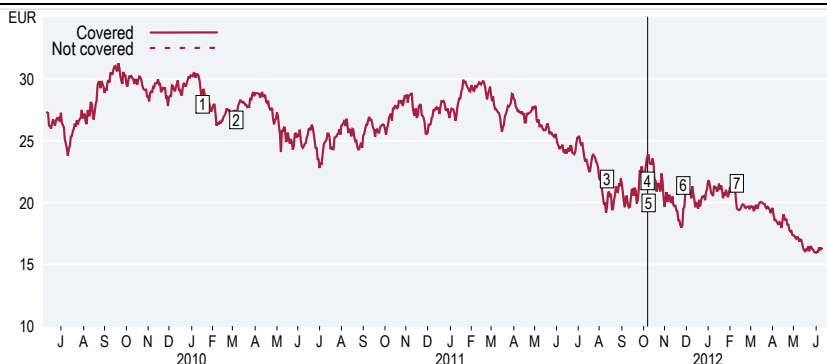
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#### GDF Suez (GSZ.PA)

##### Ratings and Target Price History Fundamental Research

Analyst: Sofia Savvantidou



	Date	Rating	Target Price	Closing Price
1	18-Jan-10	1M	*37.00	28.98
2	5-Mar-10	1M	*33.00	27.34
3	11-Aug-11	1M	*29.00	19.63

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	29.00	23.81
6	28-Nov-11	1	*26.00	19.53

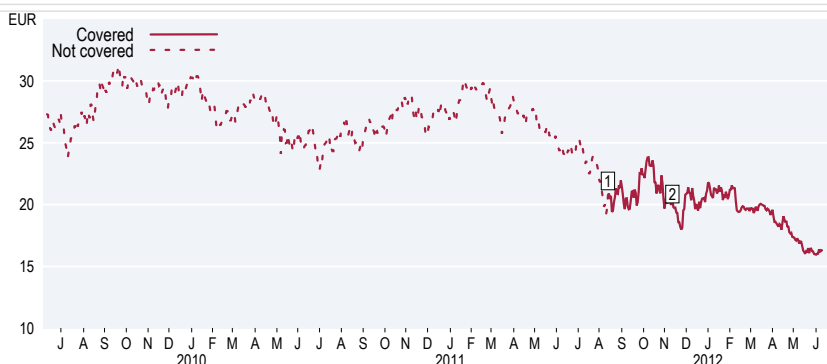
	Date	Rating	Target Price	Closing Price
7	10-Feb-12	1	*25.00	19.55

Rating/target price changes above reflect Eastern Standard Time

#### GDF Suez (GSZ.PA)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Sofia Savvantidou



	Date	Rating	Target Price	Closing Price
1	12-Aug-11	*ADD MP	-	20.76

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	11-Nov-11	*REM MP	-	20.50

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