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Forecast Change

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Reality check

A dose of caution to the hope driven bull case

Excitement about the growth potential of the two stocks should be tempered by the track record of consensus disappointment and a sluggish economic outlook. Execution on cost cutting should deliver an earnings bounce for Veolia although we see downside to consensus expectations for each stock. If this time is different and the companies meet consensus the shares could rally strongly in our view, although a degree of caution seems prudent in our view. We reestablish coverage on Veolia after a lengthy restriction, rated alongside Suez with a Hold.

Leveraged utility plays

As low margin, risky stocks, Suez and Veolia have traded as leveraged plays on the European utility sector rally over the last two years. The one year forward European utility sector P/E multiple has increased from c.10x at the start of 2012 to 14.7x currently, although Suez and Veolia have seen forward P/E multiples double. Consensus estimates predict a rapid earnings recovery for Veolia and double digit earnings growth for Suez. If the companies meet these expectations share prices could increase strongly, with potential upside to as high as E18/share based on average historic multiples.

Is this time going to be different?

Earnings for both companies have disappointed against consensus growth hopes in almost every year since the crisis hit in a classic jam tomorrow scenario. Despite this, based on Bloomberg consensus, a strong recovery is always just round the corner. The ingredients for growth again seem present, with management teams appearing confident that the worst is behind them and that restructuring and cost cutting plans have been, or are being, executed smoothly. This should, in our view, enable both companies to grow earnings, although history tells us to judge these estimates with a degree of caution.

Structural growth potential, but return attractions unclear

Share prices of both companies imply strong growth and a sustained improvement in returns. Veolia trades at a slight premium to equity book in spite of long-run returns on average below its cost of capital, and a loss in 2013. Suez has a better track record, with returns on average in-line with its cost of capital over the last decade, although trades at 1.6x book. There should be scope for these global players to grow, although water and waste markets are highly competitive in our view.

Valuation approach & risks

We reinstate coverage on Veolia with a Hold rating and E14.5/share target, slightly above the current share price. We increase our target price on Suez from E13.5/share to E14.0/share, broadly in-line with the current share price, retaining a Hold rating. We use a sum-of-the-parts based approach to value the companies, cross checked with a DCF and peer and historical multiples. The sensitivity of profits and valuations to small changes in margins makes both stocks risky. Key risks relate to waste volumes (linked to industrial production); delivery on cost cutting targets; and performance of investments. Suez has potential stock overhang risk.

Key Changes

Company	Target Price	Rating
VIE.PA	14.50(EUR)	Hold
SEVI.PA	13.50 to 14.00(EUR)	-

Source: Deutsche Bank

Companies Featured

Veolia Environnement (VIE.PA),EUR14.06			Hold
	2013A	2014E	2015E
DB EPS (EUR)	-0.45	0.14	0.34
P/E (x)	–	97.0	41.2
EV/EBITDA (x)	7.0	7.8	7.0

Suez Environnement (SEVI.PA),EUR14.03			Hold
	2013A	2014E	2015E
DB EPS (EUR)	0.66	0.48	0.57
P/E (x)	16.5	29.5	24.7
EV/EBITDA (x)	7.3	7.1	7.2

Source: Deutsche Bank

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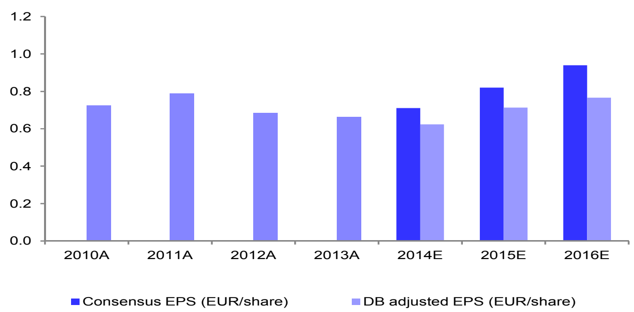
Outlook

While the bull case on Suez and Veolia initially sounds compelling, our analysis of the two companies makes us more cautious. Smooth delivery and positive economic headwinds are needed for the companies to meet consensus earnings expectations in our view. If consensus expectations are met there could be a further re-rating, although the shares trade above historical average multiples on DB estimates. We reinstate coverage on Veolia with a E14.5/share target price and Hold rating. We increase our Suez target price slightly from E13.5/share to E14.0/share, retaining a Hold rating.

A compelling bull case?

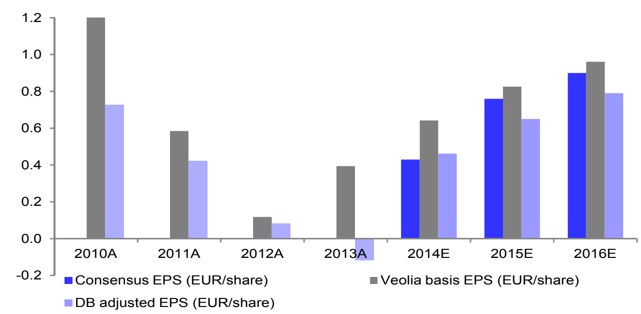
Cost cutting, restructuring, and a potential economic recovery may allow for strong earnings growth at Suez and a rapid earnings recovery at Veolia. Alongside a view that these companies should deliver structural growth this sounds like a compelling bull case. We are more cautious, although we still forecast c.10% p.a. earnings growth over 2014-16E for Suez and a several-fold increase for Veolia.

Figure 1: Double digit earnings growth for Suez?



Source: Deutsche Bank estimates; company data

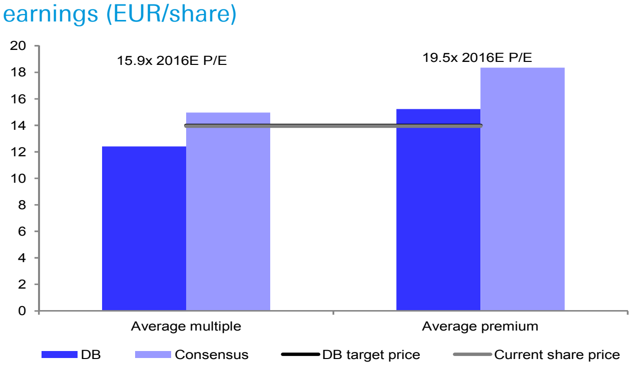
Figure 2: Rapid recovery for Veolia?



Source: Deutsche Bank estimates; company data

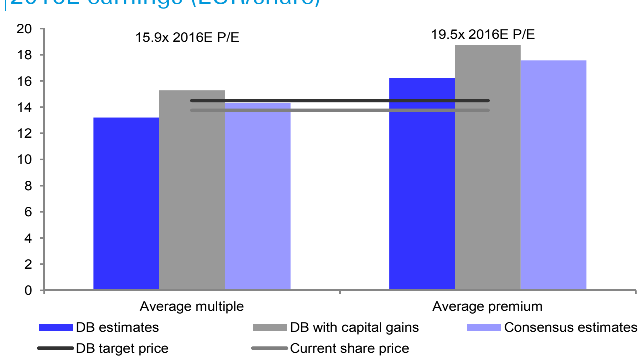
Looking ahead to 2016 and taking consensus at face value there could be significant upside with a one year forward view, if the shares of the two companies trade on average historical multiples. However, based on DB estimates the shares trade more closely to historical average levels.

Figure 3: Potential value of Suez looking ahead to 2016E earnings (EUR/share)



Source: Deutsche Bank estimates

Figure 4: Potential value of Veolia looking ahead to 2016E earnings (EUR/share)

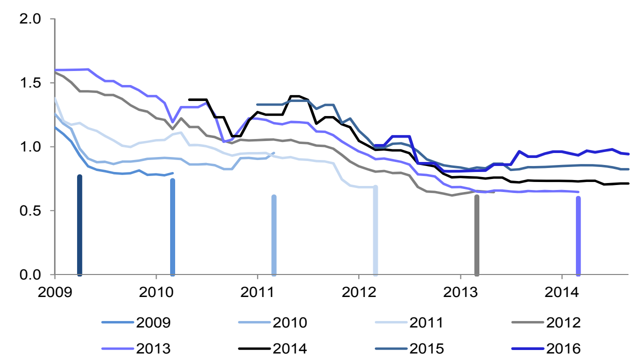


Source: Deutsche Bank estimates

Earnings and returns have disappointed in the past

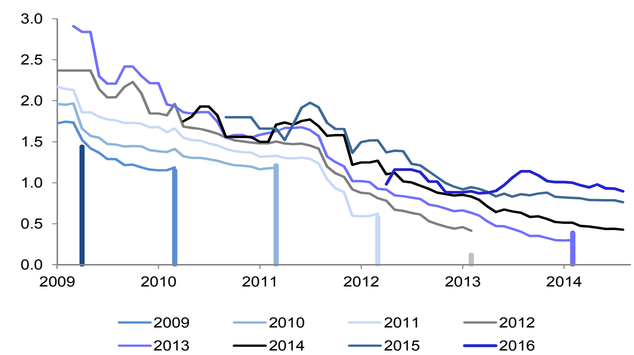
It may be that this time is different and the companies may deliver smoothly on cost cutting and restructuring plans, with improving industry dynamics. However, the historical track record of consensus over-optimism makes us worry about a bull case predicated mainly on strong growth potential.

Figure 5: Suez – consensus earnings growth versus gradual decline (EUR/share)



Source: Deutsche Bank; Bloomberg Finance LP

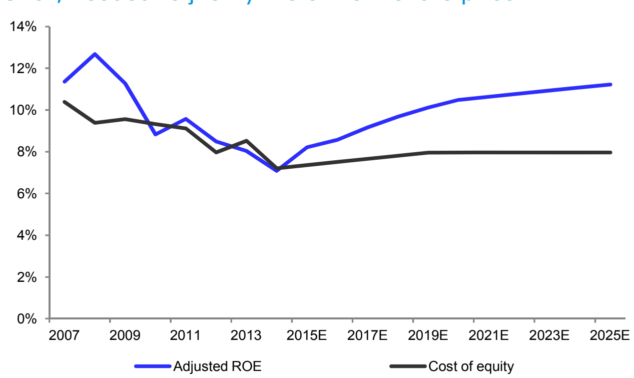
Figure 6: Veolia – consensus earnings growth versus earnings collapse (EUR/share)



Source: Deutsche Bank; Bloomberg Finance LP

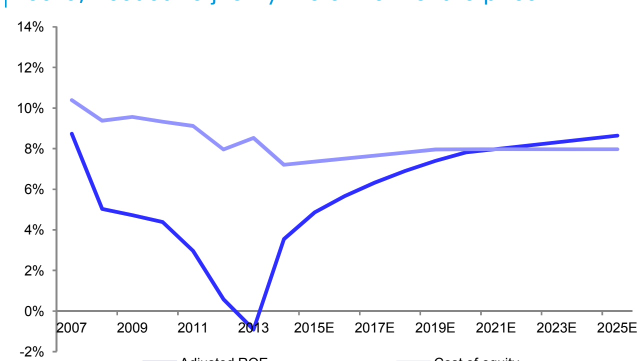
Share prices also appear to be discounting a significant improvement in returns. Over the long-run Suez has earned returns broadly in-line with its cost of equity, although its shares trade at c.1.6x book value and appear to discount an improvement to double digit book equity returns. Veolia has earned returns on average below its cost of equity and it made a loss in 2013, although its shares trade slightly above book discounting a strong improvement in returns to above cost of equity.

Figure 7: Illustrative returns on equity book value for Suez, needed to justify the current share price



Source: Deutsche Bank estimates

Figure 8: Illustrative returns on equity book value for Veolia, needed to justify the current share price



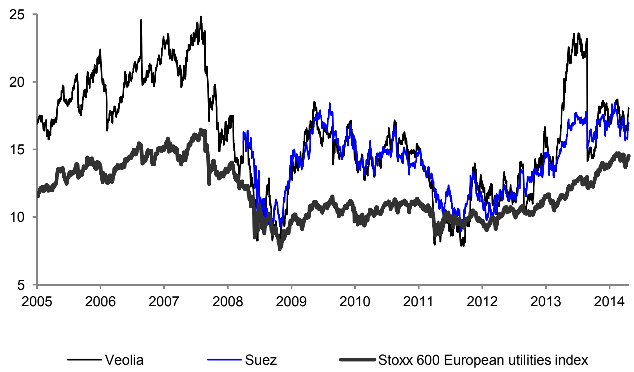
Source: Deutsche Bank estimates

Rising P/E multiples

Trading multiples have risen rapidly alongside the European utility sector and the stocks trade close to post crisis high one year forward P/E multiples. The two stocks trade on one year forward P/E multiples of 17.0x and 18.1x respectively based on consensus and 19.4x and 21.2x respectively based on DB estimates. This is well above the average long-run P/E multiple of 15.9x.

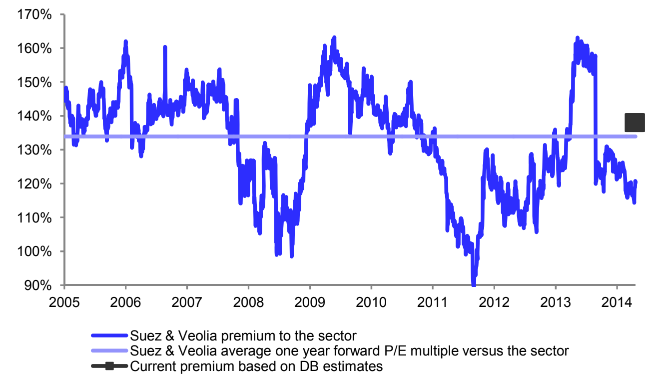
Looking at multiples relative to the sector and the stocks look less expensive. The stocks are trading on an average c.20% premium to the one year forward sector P/E based on consensus, compared to a long-run average of c.35%. This suggests a re-rating potential of 15% to an average sector premium, if consensus holds. However, DB estimates are below consensus and the stocks trade on almost a 40% premium to the sector based on our estimates, slightly above historical average levels.

Figure 9: P/E multiples have doubled for Suez and Veolia, although sector multiples have also increased



Source: Deutsche Bank estimates

Figure 10: Trading on a below average P/E premium to the sector ? Not based on DB estimates



Source: Deutsche Bank estimates

Valuation approach & risks

We use a sum-of-the-parts based approach to value Suez and Veolia, cross checked with a DCF and by comparing multiples to peers and historical trading levels. Our valuation work supports share price targets of E14.0/share and E14.5/share for Suez and Veolia respectively, although the share prices have been volatile in the past and it is hard to narrow a valuation of the shares down to a point estimate.

Our valuation of Suez corresponds to an adjusted 2015E EV/EBITDA multiple of 8.4x and 2015E P/E of 19.6x, dropping to 18.3x in 2016E. Our valuation of Veolia corresponds to an adjusted 2015E EV/EBITDA multiple of 7.7x and 2015E P/E of 22.2x dropping to 18.3x in 2016E. We value the stocks on the same 2016E P/E multiple based on DB estimates.

Key risks relate to waste volumes (linked to industrial production); delivery on costs cutting; and performance of investments. Every 1% change in waste volumes impacts our valuation of the stocks by c.5%. Suez also has stock overhang risk. Both stocks are low margin. The sensitivity of profits and valuations to small changes in margins makes the stocks risky.

The shares prices of both companies appear to factor in strong earnings growth, although the companies have missed consensus expectations in the past. If the companies fail to grow earnings there could be significant downside to current share prices. However, as we as discuss, there could be upside if consensus expectations are met or exceeded.

The bull case

The bull case on Suez and Veolia appears attractive at first glance. Cost cutting and a cyclical recovery may have the potential to deliver strong earnings growth and there are some scenarios, particularly for Veolia, where this growth could be very rapid. Both stocks tend to trade at a significant premium to the sector reflecting perceived structural growth opportunities. If consensus holds, average historical trading patterns suggest potentially significant upside to share prices with a one year view.

What is the bull case?

Bulls on the stocks are arguing that the combination of cost cutting; a cyclical rebound in waste volumes; and growth investments should drive a rapid rebound in earning for Veolia and strong double digit earnings growth for Suez.

Despite years of earnings disappointments, a stablisation of the economic outlook and self help could enable rapid earnings growth, with Veolia outlining a clear ambition to increase profits by 2015 and Suez targeting more measured by attractive growth profile. Furthermore, scope for structural growth in global water and waste markets combined with the status of the two companies as the two main global players could provide a robust long-run growth proposition.

Suez and Veolia trade significantly above sector multiples, trading on one year forward P/E multiples of c.17x and c.18x based on consensus. However implied multiples could decline rapidly if the companies deliver on growth expectations, providing a potential re-rating opportunity if multiples hold.

Leverage to an economic upturn

Industrial production is still significantly below peak levels, particularly in France. A recovery may be due at some point and this should lead to strong growth in earnings and cashflows through the link between industrial production and waste volumes. Every 1% change in waste volumes is worth around 5% on our valuations of the two stocks.

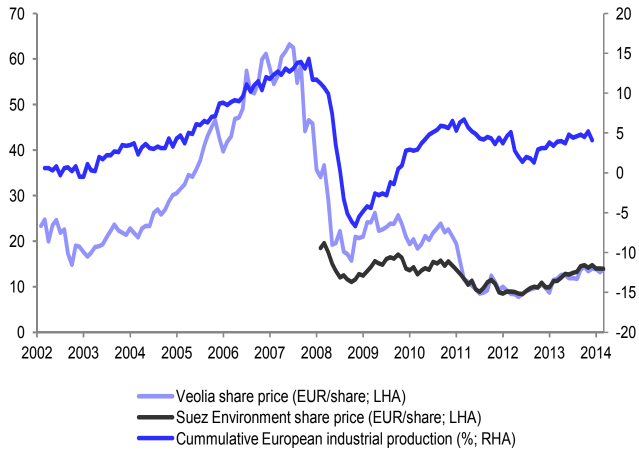
We show the correlation of the share prices to European and French industrial production respectively in Figure 12 and Figure 13, and the sensitivities of profits, earnings, and valuation in Figure 11. The shares have lagged the partial recovery in European industrial production, and have more closely tracked the moribund situation in France.

Figure 11: Waste volume sensitivities

	Suez Environnement	Veolia
1% change in waste volumes (pre-tax impact)	30	40
% of 2015E EBITDA	1.1%	1.7%
% of 2015E net income (post tax)	5.5%	7.2%
% impact on DB valuation	5.2%	4.9%

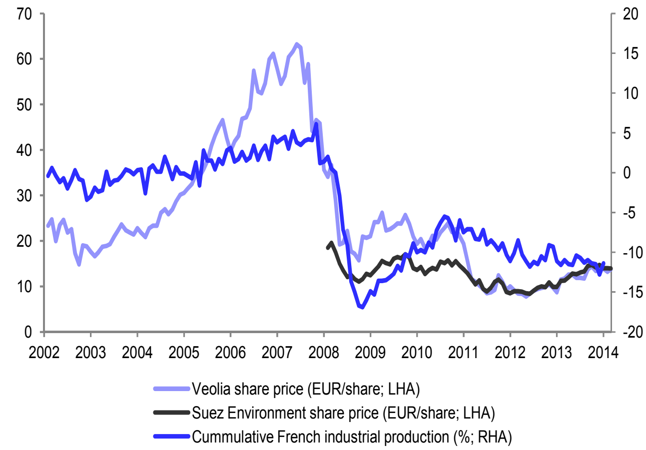
Source: Deutsche Bank estimates

Figure 12: Suez and Veolia share price performance versus cumulative European IP (long term)



Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 13: Suez and Veolia share price performance versus cumulative French IP (long term)



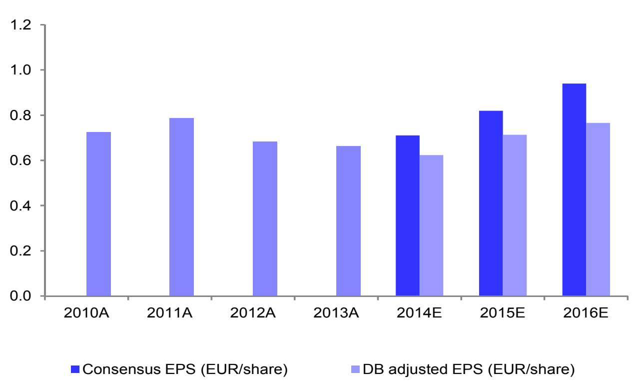
Source: Deutsche Bank estimates; Bloomberg Finance LP

Recovery potential

Suez has had a gradual decline in earnings over the last few years, while Veolia has seen underlying earnings collapse. However, consensus and DB projections forecast a return to growth over the next few years, driven by cost cutting and gradual improvements in the economic outlook.

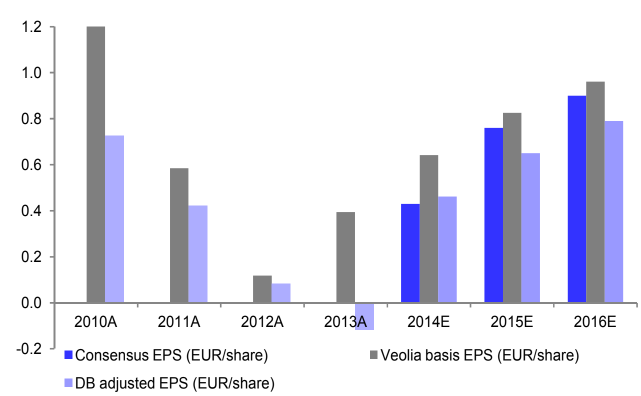
We forecast c.10% p.a. earnings growth over 2014-16E for Suez with consensus projections suggesting growth rates of c.15%. Veolia could see its adjusted earnings increases several-fold, based on DB and consensus estimates. Management targets for the dividend to be covered by earnings by 2015, with implies an increase in EPS to E0.7/share or higher. Management appears very confident Veolia will achieve this objective, although it may need to generate capital gains to hit its target in our view.

Figure 14: Suez adjusted EPS projections (EUR/share)



Source: Deutsche Bank estimates; company data

Figure 15: Veolia adjusted EPS projections (EUR/share)



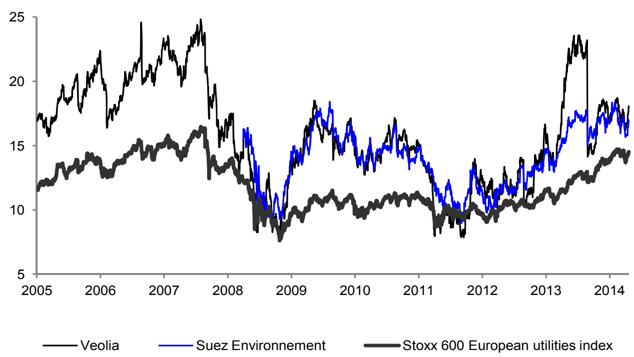
Source: Deutsche Bank estimates; company data

Trading at a below average premium based on consensus

Suez and Veolia have traded on very similar one year forward consensus P/E multiples since the crisis in 2008, and have normally traded at a significant premium to the sector. The stocks have traded on an average one year forward P/E multiple premium to the sector of c.35% since 2005, have traded at peak premia of over 60%.

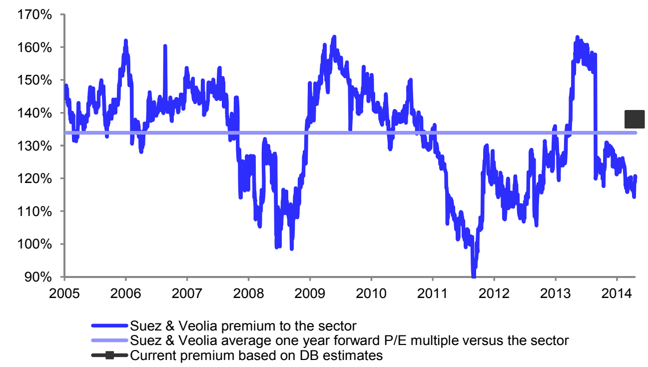
The stocks are currently trading on premia of c.20% based on consensus, and therefore there could be c.15% upside to share prices if the shares traded on an average premium to the sector (although absolute trading multiples are already above historical averages and DB estimates are below consensus). If consensus holds there could be an even greater re-rating opportunity over time if the stocks deliver on expectations for above sector average growth.

Figure 16: Consensus based one year forward P/E comparison



Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 17: Average one year forward P/E multiple relative to the European utility sector

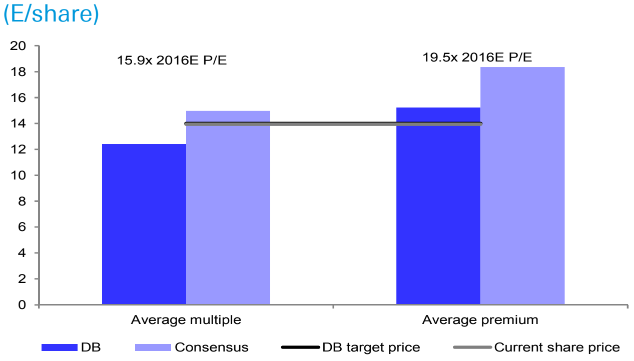


Source: Deutsche Bank estimates
Average before August 2008 based on Veolia only

Where could the shares trade in a year?

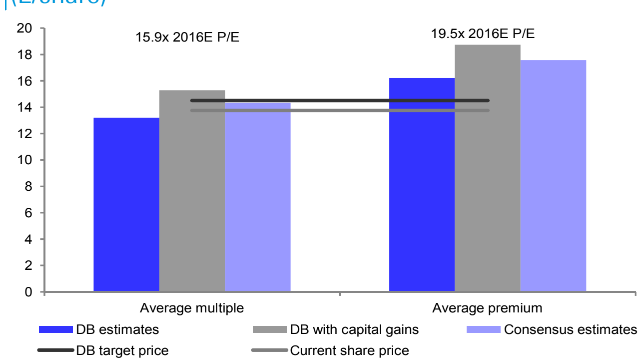
Figure 18 and Figure 19 show where the stocks could trade in a year's time, based on average absolute multiples, or premia to the sector. Assuming consensus holds and applying an average premia approach (19.5x 2016E P/E) suggests upside to c.E18/share for the two stocks.

Figure 18: Suez valuation ranges (one year forward view) based on historical average forward P/E multiples (E/share)



Source: Deutsche Bank estimates

Figure 19: Veolia valuation ranges (one year forward view) based on historical average forward P/E multiples (E/share)



Source: Deutsche Bank estimates

6 reasons for caution

While the bull case initially sounds compelling, our analysis makes us more cautious. Global water and waste markets are highly competitive, and while see scope for structural growth we are not sure that the companies will be able to earn returns meaningfully above their cost of capital.

Meanwhile consensus has overestimated earnings for years, making us cautious of a buy case based mainly on the scope for a rapid earnings recovery. Both companies trade on one year forward P/E multiples well above the long-run average absolute multiple of c.16x and we think there is potential downside to consensus earnings expectations, particularly for Suez.

A somewhat cautious fundamental starting point

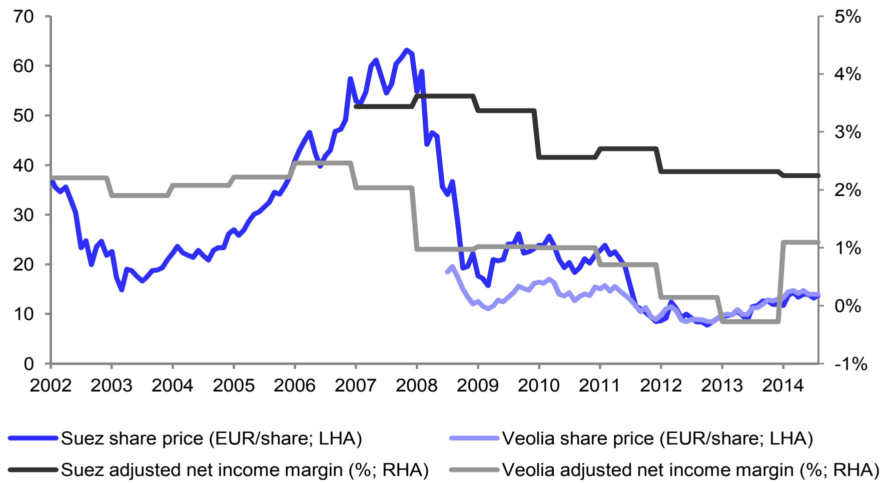
It is possible that if the companies deliver on consensus growth expectations, and investors remain willing to apply high multiples to forward looking earnings, that there could be significant upside to the share prices of the two companies. However, there are several reasons to be more cautious:

- **Track record and risk profile**: Both companies are very low margin and hence small changes in margins can have a significant impact on profits. This makes the stocks risky. Suez's profits has been more stable and it has a better track record in our view, although even pre-crisis failed to deliver much earnings growth. Veolia's profits have collapsed since the crisis and it has delivered returns on average below its cost of capital based on our estimates.
- **Global water and waste markets are competitive**: Although Suez and Veolia are the two main global water and waste players we worry that these markets are often very competitive and this could limit the scope for the companies to earn returns above their cost of capital.
- **Lots of one-offs and surprises**: The companies are complex, with one's ability to analyse business dynamics complicated by one-offs, particularly the treatment of exceptionals such as capital gains.
- **Cost cutting concern**: Cost cutting targets are large relative to net income, but small versus costs. There is the potential for a significant profit boost, but efforts could be offset by general cost inflation.
- **Consensus has been too optimistic for years**: Consensus has forecast strong earnings growth for years, which has not been delivered on - a worry for investment cases predicated on a strong earnings recovery.
- **High multiples needed to justify a bullish view**: The shares trade on high absolute multiples, based on DB estimates and consensus.

1) Track record and risk profile

Suez and Veolia are both low margin businesses and small changes in margins can have a significant impact on profits and valuation. Suez's underlying net income margin peaked at c.4% and has subsequently halved. Veolia's peaked at c.2% and it made an underlying loss in 2013 in our view. Veolia's share price has been particularly volatile, declining by c.90% since the peak in 2007.

Figure 20: Share price history and underlying net income margins (DB basis)

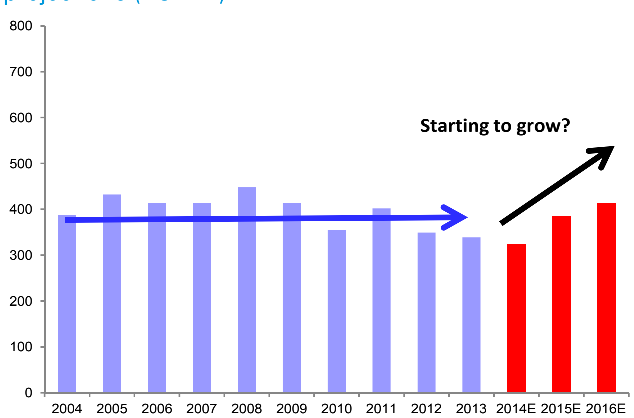


Source: Deutsche Bank estimates

Suez has the better track record of the two companies in our view. Suez has had a steady focus on efficiency and has encountered fewer operational challenges. Looking back, its adjusted net income has been more stable than one might expect and it has on average over the last 10 years earned returns broadly in-line with its cost of capital (see analysis in the section *Structural review*). However, even pre-crisis it failed to deliver much earnings growth.

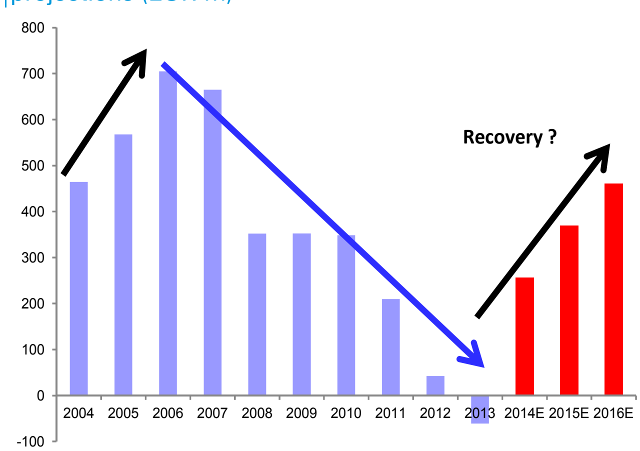
Veolia has faced more challenges and is only just starting to deliver significant cost cutting. Its profits have collapsed since the crisis started and it made underlying (pre exceptional) losses in 2013, based on DB estimates. Its average returns over the last ten years have been below its cost of capital.

Figure 21: Suez DB adjusted net income history and projections (EUR m)



Source: Deutsche Bank estimates; company data

Figure 22: Veolia DB adjusted net income history and projections (EUR m)



Source: Deutsche Bank estimates; company data

2) Global water and waste markets are competitive

Bulls argue the attractions of growing global waste and waste markets and the ability of Suez and Veolia as the two largest global water and waste businesses to benefit from this. However, we worry that water and waste market are often very competitive.

Water and waste concessions are often competitively bid. Although there will not necessarily be many global players bidding for contracts there are often many local players who may be just as well informed of the local business environment. There will be advantages for global groups, although we think that there is strong competition for many contracts, and there can sometimes be a winners' curse for the successful bidder.

Both companies have typically earned attractive returns from their cash cow French water businesses although French water concessions are now required by law to be subject to competitive tender and both companies have seen pressure on profits as contracts have been retendered.

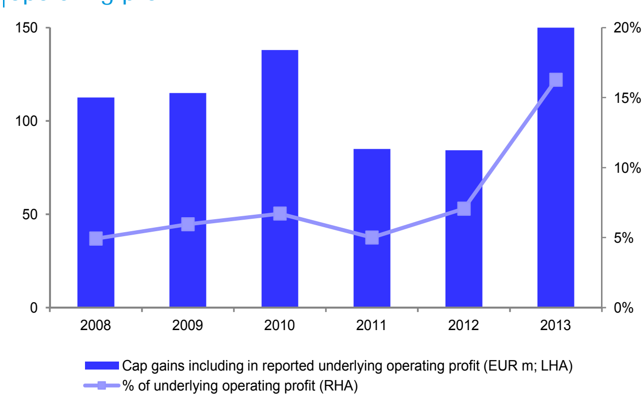
Waste businesses have been subject to disruptive influences because of the shift from landfill to recycling and incineration. This has created opportunities for investment, although has led to stranded landfill assets.

Veolia has highlighted its entry into oil and gas services as an opportunity with less competition, although this business activity is currently quite small.

3) Lots of one-offs and surprises

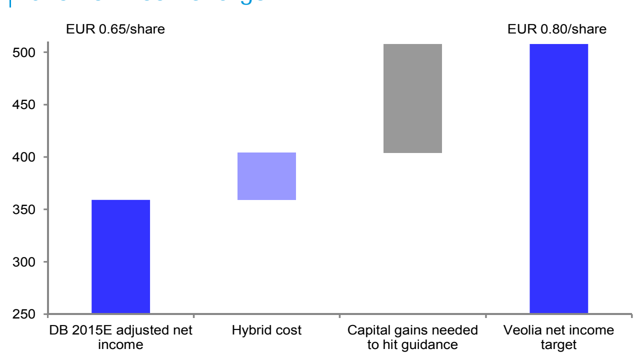
Both companies are complex to analyse with lots of one-offs across the P&L. This makes it harder to assess the earnings power of the underlying businesses. Although the companies both present adjusted profit metrics, these sometimes include one-offs, and they seem to have historically included positive one-offs more often than negative one-offs. Veolia has reported capital gains in its adjusted profits, but has had significant negative one-offs which are often stripped out. We think that capital gains may be needed for Veolia to hit its 2015 net income targets.

Figure 23: Veolia capital gains as a share of adjusted operating profit



Source: Deutsche Bank estimates; company data

Figure 24: Capital gains and hybrid transition to Veolia 2015 net income target?



Source: Deutsche Bank estimates

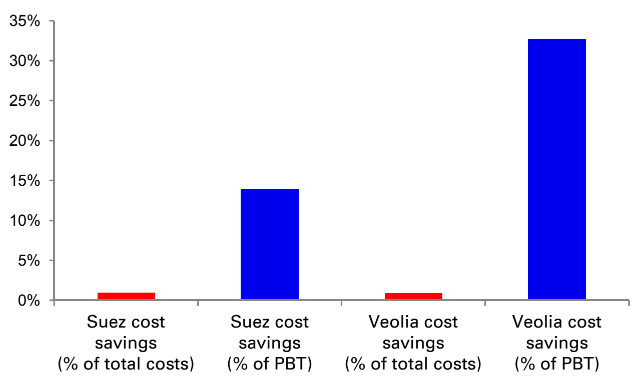
4) Cost cutting concern

On one hand the cost cutting potential at the two companies, particularly Veolia, is exciting. Look at the cost cutting targets of either company relative to net income and it is significant. Veolia's cost cutting target of c.E600m (consolidated) is equivalent to c.E0.7/share after tax, which could take Veolia's earnings towards E1/share if genuinely additive to profits. For Suez, the cost cutting upside is less compelling, but still significant.

However, our worry is that the cost cutting targets of both companies are small relative to the level of costs. Suez's cost cutting has averaged c.1% of costs over the last few years and is relative to underlying cost inflation rather than an absolute cut in costs. The company is clear that we should not expect to see all of the cost cutting in higher absolute profits, but it is a measure to keep the company efficient and respond to competitive pressures.

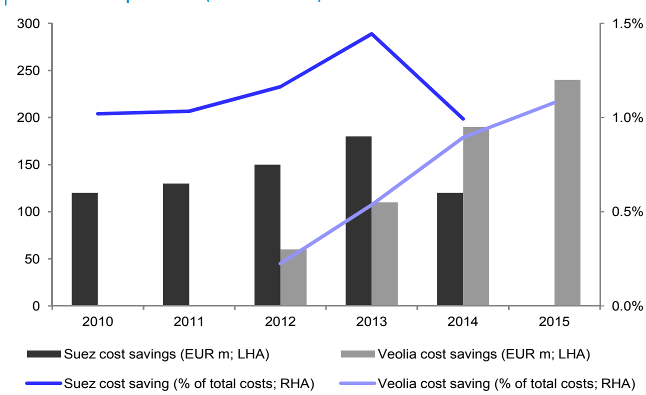
Veolia presents its cost cutting plans differently and argues that there is scope for cost cutting to add significantly to profitability. However, its cost cutting programme is still small relative to overall costs, reaching c.1.2% of costs in 2015. We worry that, as for Suez, this may be needed at Veolia to offset competitive pressures, rather than seeing the cost cutting fully feed through to the bottom line.

Figure 25: Suez and Veolia cost saving targets relative to costs and profits (2014E)



Source: Deutsche Bank estimates; company data

Figure 26: Suez and Veolia cost saving targets relative to costs and profits (2010-15E)

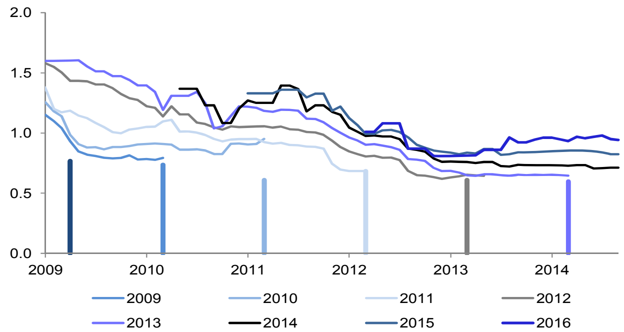


Source: Deutsche Bank estimates; company data;

5) Consensus has been too optimistic for years

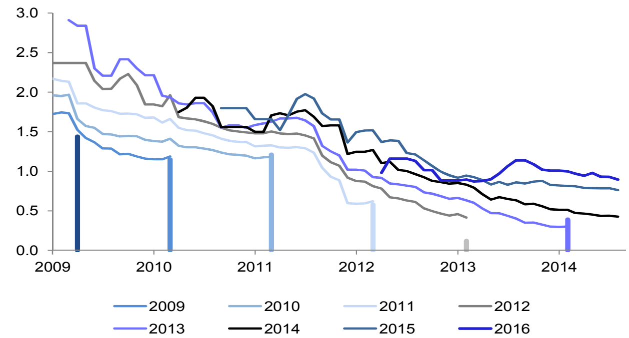
One of our biggest concerns is the consistent over-optimism of consensus, with analysts tending to overestimate earnings growth potential. While one can sympathise that economic performance of European economies has tended to disappoint relative to expectations over the last few years, consensus expectations have continued to factor in double digit ground every since the start of the crisis while outturn earnings have steadily declined for both companies. The disappointing trend is a worry when the bull case is predicated on earnings recovery and structural growth.

Figure 27: Suez – consensus earnings evolution and outturn (EUR/share)



Source: Deutsche Bank; Bloomberg Finance LP

Figure 28: Veolia – consensus earnings evolution and outturn (EUR/share)



Source: Deutsche Bank; Bloomberg Finance LP

6) High multiples

Suez and Veolia have tended to trade on high multiples. The stocks have usually traded at higher forward P/E multiples than the European utility sector. However, one year forward multiples are already high, particularly based on DB earnings estimates.

Figure 29 compared one year forward P/E multiples based on DB and consensus estimates, compared to the historical average and based on historical premia to the sector (i.e. taking the average premium of c.35% to the sector one year forward P/E multiple and applying this to the current one year forward sector P/E multiple of 14.7x.)

Suez trades on 17.0x 2015E based on consensus estimates and 19.4x based on DB earnings estimates. Veolia trades on 18.1x 2015E P/E based on consensus estimates and 21.2x based on DB estimates. These multiples are above the average historical one year forward P/E multiple of c.16x.

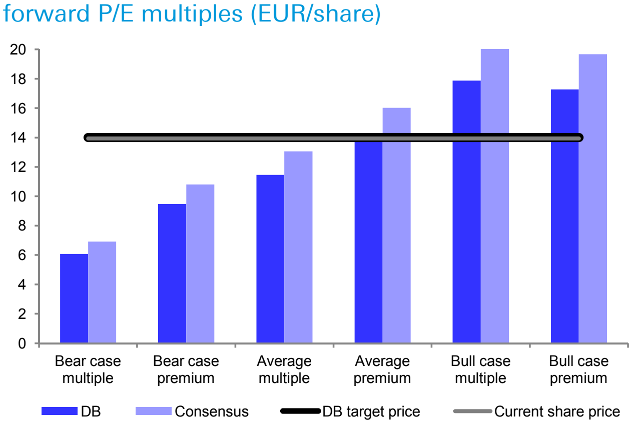
Below, we show valuation levels based on bear case, average, and bull case multiples analysis, based on DB and consensus earnings estimates.

Figure 29: One year forward P/E multiples versus long-run averages

Suez	
Based on DB EPS	19.4
Based on consensus EPS	17.0
Veolia	
Based on DB EPS	21.2
Based on DB EPS with capital gains	16.7
Based on consensus EPS	18.1
Long-run	
Long-term average (absolute)	15.9
Long-term average premium	19.5

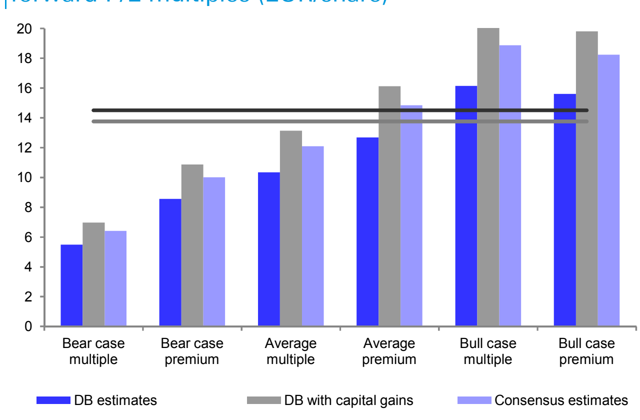
Source: Deutsche Bank estimates

Figure 30: Suez valuation analysis based on one year forward P/E multiples (EUR/share)



Source: Deutsche Bank estimates

Figure 31: Veolia valuation analysis based on one year forward P/E multiples (EUR/share)



Source: Deutsche Bank estimates

Structural review

Suez and Veolia are often viewed as companies with structural growth potential, but with highly cyclical earnings. Ultimately, in spite of the retrenchment over the last few years Suez and Veolia are business that will aim to grow and we think there is plenty of scope to invest. However, we are less convinced that new growth investments will deliver returns significantly above the companies' cost of capital given the highly competitive markets the companies operate in.

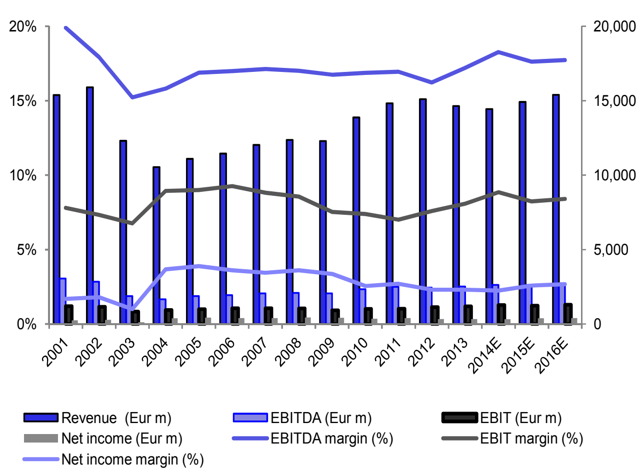
Historically, Suez's profits have been much more stable than Veolia's, and it has earned returns broadly in-line with its cost of capital. There have been many one-offs, but overall there have been slightly more one-off positives than negatives in our view. We think the company has a better track record than Veolia, although unlikely Veolia, even pre-crisis the company failed to deliver meaningful earnings growth. This is a bit of a worry.

Veolia's underlying earnings have been much more cyclical. It has faced greater operational challenges and is only just starting to deliver significant cost cutting. Its profits have collapsed since the crisis started and it made underlying (pre exceptional) losses in 2013, based on DB estimates. Its average returns over the last ten years have been below its cost of capital. Veolia fairly consistently incorporates positive one-offs in its underlying profit metrics, which we think is important for investors to realize.

Low margins; mixed track record on returns

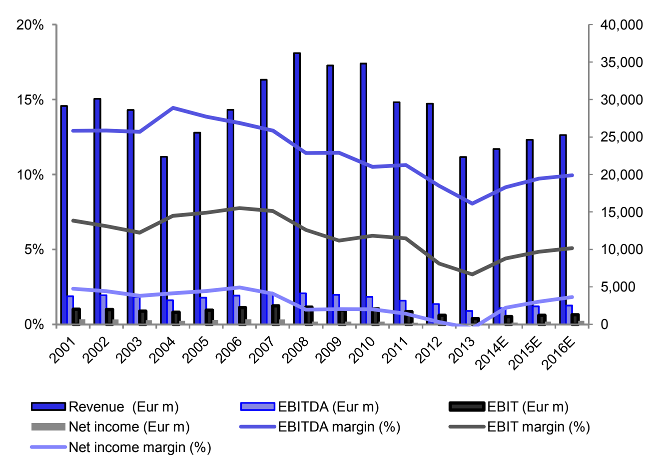
Suez and Veolia are both very low margin businesses. Figure 32 and Figure 33 show long-run revenue, underlying EBITDA, underlying net income, and margins. Even at the peak of the cycle both companies had very low margins. Suez's an adjusted net income margin peaked at c.4% and Veolia's peaked at c.2%. Subsequently Suez's margin has roughly halved while Veolia made underlying net income losses in 2013 based on our estimates.

Figure 32: Suez underlying profit and margin metrics



Source: Deutsche Bank estimates; company data

Figure 33: Veolia underlying profit and margin metrics



Source: Deutsche Bank estimates; company data

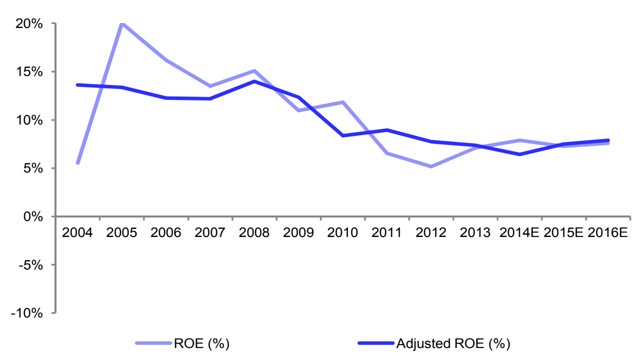
We show headline and DB estimated underlying returns on equity for the two companies in the Figure 34 and Figure 35. Headline returns compare reported net income with reported book values. Underlying returns compare adjusted net income with book values before one-offs.

We show returns over the last decade with 2004 as the starting point. This is generous as both companies had massive write-downs in the early 2000's, which reduced book values significantly and therefore lifted returns at the early part of the period charted. Both companies make a c.14% adjusted return in 2004 based on our estimates, although returns would have been around half this had it not been for the write-downs in the early 2000's.

Based on our analysis Suez has earned average returns over the last decade of c.11% on equity, broadly in-line with its cost of equity over the period. In 2013 it earned a return of c.8% on equity. We forecast a further decline in 2014 and then an improvement to c.9% by 2016. As we discuss the section *Valuation approach*, Suez trades on a c.65% premium to book value and the share price appears to discounting further improvements in returns, potentially to low double digit levels.

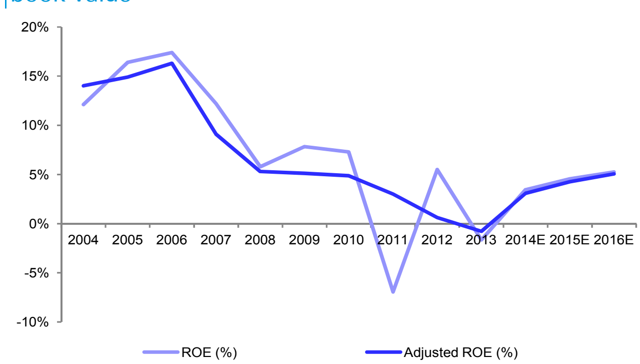
Veolia has made average returns of c.7% on equity, below its cost of equity in our view. Based on our estimates it made a negative return in 2013, although we model an increase in returns to c.6% by 2016. Veolia trades at a c.5% premium to its book value and hence the share price appears to discounting further improvements in returns to slightly above its cost of equity.

Figure 34: Suez headline and adjusted returns on equity book value



Source: Deutsche Bank estimates

Figure 35: Veolia headline and adjusted returns on equity book value



Source: Deutsche Bank estimates

One-offs and write-downs

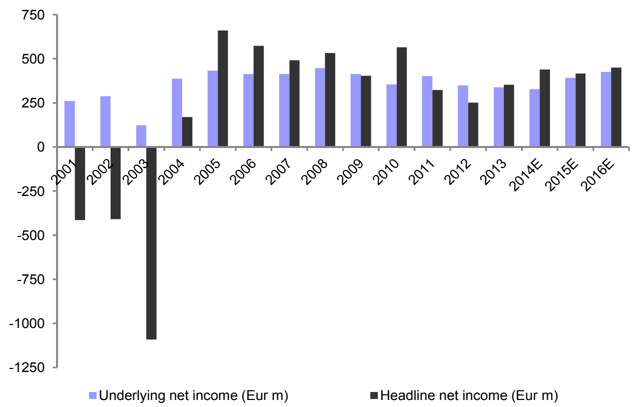
Aggregating all the one-offs is difficult for the two companies because of disclosure. However, Figure 36 and Figure 37 compare headline and DB adjusted net income for the two companies, stripping out reported one-offs. For Veolia we also show Veolia adjusted net income for comparison.

Both companies had significant write-downs in the early 2000's and if one includes these in ones analysis then it is fairly negative for both companies. However, concentrating on the last decade the companies have performed better, with Suez having net positive one-offs and Veolia having broadly as many one-off positives as negatives.

Although both companies present adjusted profit metrics, these sometimes include one-offs, and they seem to have historically included positive one-offs more often than negative one-offs. Veolia has consistently included capital gains in adjusted profit metrics (as we discuss below). If we compare outturn net income with Veolia adjusted net income over the past decade there is more than a E1bn gap.

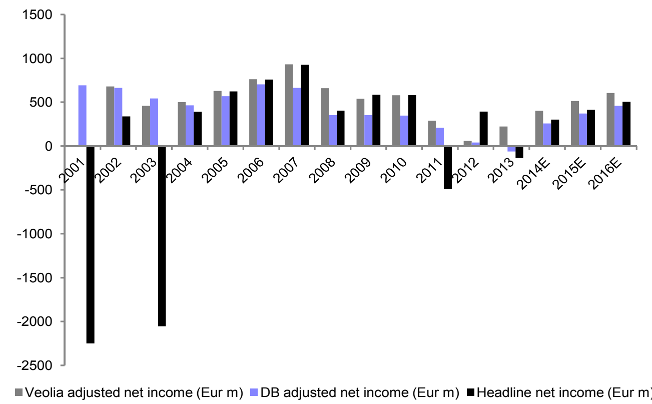
Our review of one-offs shows Suez in a more favourable light than Veolia, although the frequency of one-offs makes it harder to get a genuine sense of underlying profits for both companies in our view and means that investors should be cautious when looking at headline numbers.

Figure 36: Suez headline and DB adjusted net income from 2001 (EUR m)



Source: Deutsche Bank estimates

Figure 37: Veolia headline, Veolia adjusted, and DB adjusted net income from 2001 (EUR m)



Source: Deutsche Bank estimates

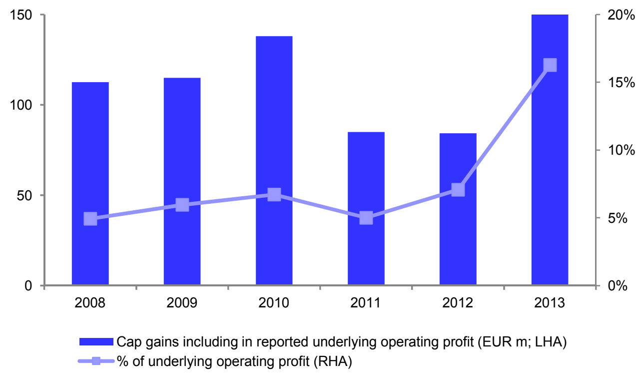
Capital gains represent a steady share of adjusted profits for Veolia

Veolia has consistently treated capital gains as underlying profit, but has often stripped out write-downs or losses on sale. In our view looking at profits before capital gains gives a more representative impression of the underlying earnings power of the business. In this note we show profits including capital gains, although DB adjusted earnings numbers strip out these gains.

Since the start of the financial crisis in 2008 between 5% and 16% of Veolia reported adjusted operating profit has come from capital gains (see Figure 38). Since 2008 'underlying' capital gains have averaged over E100m p.a.

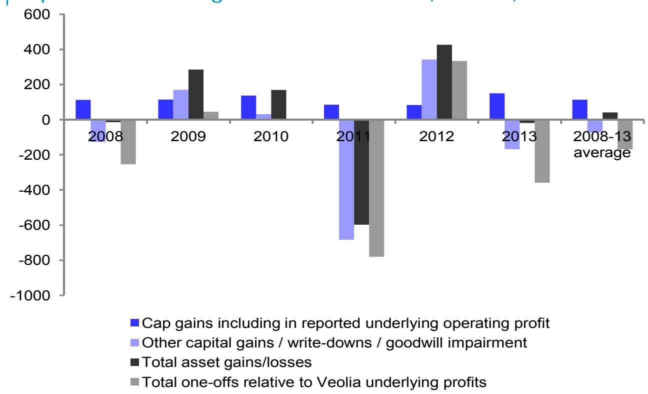
Veolia argues that it includes capital gains in its adjusted profits, because the company has a consistent ability to invest and generate gains. It appears that purely looking at asset gains / write-downs Veolia has made average net profits of c.E40m p.a. since 2008, although this is a lot less than the average gains reported in adjusted earnings of c.E115m p.a. Taking into account other one-offs, total one-offs have been broadly neutral for the company, so there is a material difference between adjusted profits presented by the company and unadjusted profits.

Figure 38: Capital gains as a share of adjusted operating profit



Source: Deutsche Bank estimates; company data

Figure 39: 'Underlying*' capital gains compared to total impact from changes in asset values (EUR m)



Source: Deutsche Bank estimates; company data *Veolia defined

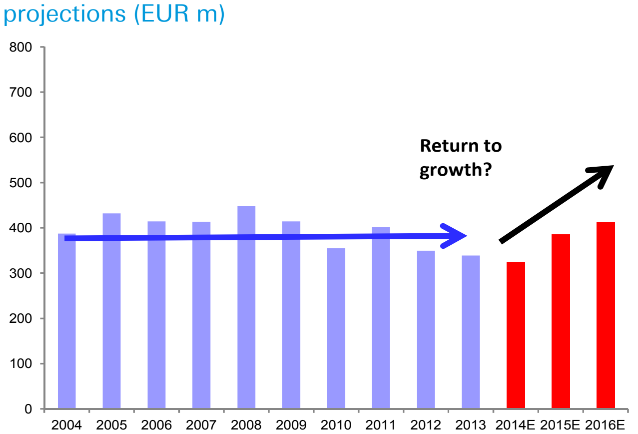
Cyclical earnings

Suez and Veolia have cyclical earnings, mainly due to the sensitivity of profits in the waste businesses to industrial production. We show historic and forward looking adjusted net income estimates in Figure 40 and Figure 41.

Veolia's earnings have been highly cyclical, growing strongly between 2004-07 and then collapsing during the years since the crisis. More of a surprise is the historic earnings profile for Suez. It had much less growth during 2004-07, but has had a much more modest decline since the crisis. Suez was much quicker to cut costs once the crisis hit, which may be why its profits have been less impacted. It has also had less operational challenges.

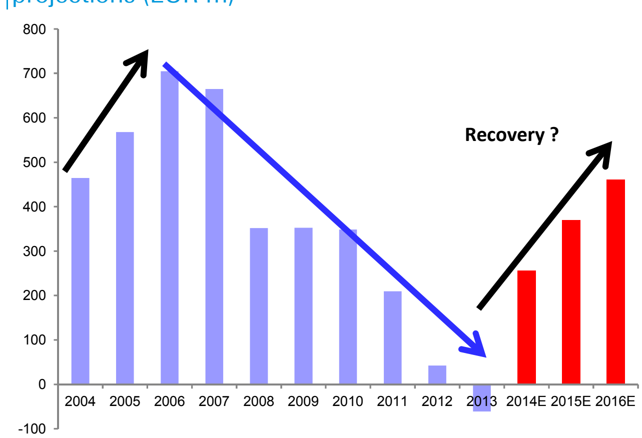
These factors suggest Suez may be less risky than Veolia, although the lack of earnings growth in boom years before the crisis is a bit of a worry. Over the next few years we expect a bigger rebound in earnings for Veolia because of its more aggressive cost cutting and its greater recovery potential.

Figure 40: Suez adjusted net income history and projections (EUR m)



Source: Deutsche Bank estimates; company data

Figure 41: Veolia adjusted net income history and projections (EUR m)



Source: Deutsche Bank estimates; company data

Structural growth

Both companies have a growth focus and aim to expand in global water and waste markets (and for Veolia to provide energy services internationally). We think that there could be scope for both companies to increase investment in the medium-term, with much of this targeted outside Europe.

Investment programmes have been slimmed down over the last few years and businesses disposed of to reduce financial leverage. However, Suez has now reduced its leverage to below targeted levels and has said it may make acquisitions. Veolia should reach its leverage target by 2015 and at that point may start to increase its investment plans.

Both companies have global businesses with plenty of scope to grow. What is less clear to us is how attractive the returns are from investments in global water and waste markets and the ability of the companies to earn returns significantly above their cost of capital.

While Suez and Veolia are the two main global players in these markets, water and waste concessions are often competitively bid. Although there will not necessarily be many global players bidding for contracts there are often many local players who may be just as well informed of the local business environment. For water and waste concessions there is sometimes be a winners' curse in our view for the successful bidder, although some concessions may be attractive, particularly in water, due to the low risk profile.

There has been significant shift in waste markets in Europe over the last decade with a shift from landfill to recycling and energy-from-waste. This has required significant investment and it is likely the process will also take place in other markets providing scope for Suez and Veolia to invest outside Europe.

However, the extent to which the shift in Europe has been positive or not is unclear, particularly for incumbent waste businesses, with landfill volumes being canabalised by newer technologies. Even for new investments the returns are unclear with recyclate prices have been competed downwards and in some cases intense competition between energy from waste plants.

Even in the UK where there is much hype around energy from waste plant investments we do worry that we may end up with overbuild and a collapse in merchant pricing (see the analysis on Viridor within our report *UK Water – Low risk returns* from 13 June).

With less of an incumbent position in markets outside Europe the risks to legacy assets from investment in competitive waste businesses may be lower, although the potential for above WACC returns is still not entirely clear.

Veolia recently has highlighted its entry into the oil and gas services sector as an opportunity to provide primarily water services, where it says there is less competition, although this market may face greater competition as the market grows.

In short, we are confident that Suez and Veolia can grow in the medium-to-long-term, but are less certain that the companies will earn returns significant above their cost of capital.

Waste volumes & industrial production

Suez and Veolia have cyclical characteristics, because of the impact on the profitability of their waste businesses from waste volumes, which are linked in part to industrial production. A 1% change in waste volumes has a c.5% impact on valuation for Suez and Veolia and a greater impact on near-term earnings, based on our estimates.

Analysing the relationship between waste volumes and industrial production is complicated by the lack of available data and differences in national markets. A strong recovery in industrial production could certainly provide a significant earnings boost, although a continuation of the current moribund economic outlook may prove more of a drag.

Waste volume sensitivity

The earnings and valuations of Suez and Veolia are very sensitive to assumptions on waste volumes. Waste businesses have a high proportion of fixed costs and spare capacity, which means that profits are highly sensitive to volumes.

We show a sensitivity of profits and valuations of the two companies in Figure 42. For Suez we estimate that a 1% change in waste volumes has a c.E30m impact on pre-tax profits, a c.6% impact on 2015E earnings and a c.5% impact on valuation (assuming the change is sustained). For Veolia we estimate that a 1% change in waste volumes has a c.E40m impact on pre-tax profits, a c.7% impact on 2015E earnings and a c.5% impact on valuation.

Small changes in waste volume growth can therefore have a significant impact on forecasts and valuation. We model broadly flat European waste volumes in 2014E and 0.5% p.a. growth in 2015 & 2016 for each company, c.1% cumulative growth over 2014-16E. A plausible set of outcomes could easily range +/-3% around this and hence there could be c.15% upside and downside risk to our valuation based on near-term waste volumes alone.

Figure 42: Waste volume sensitivities

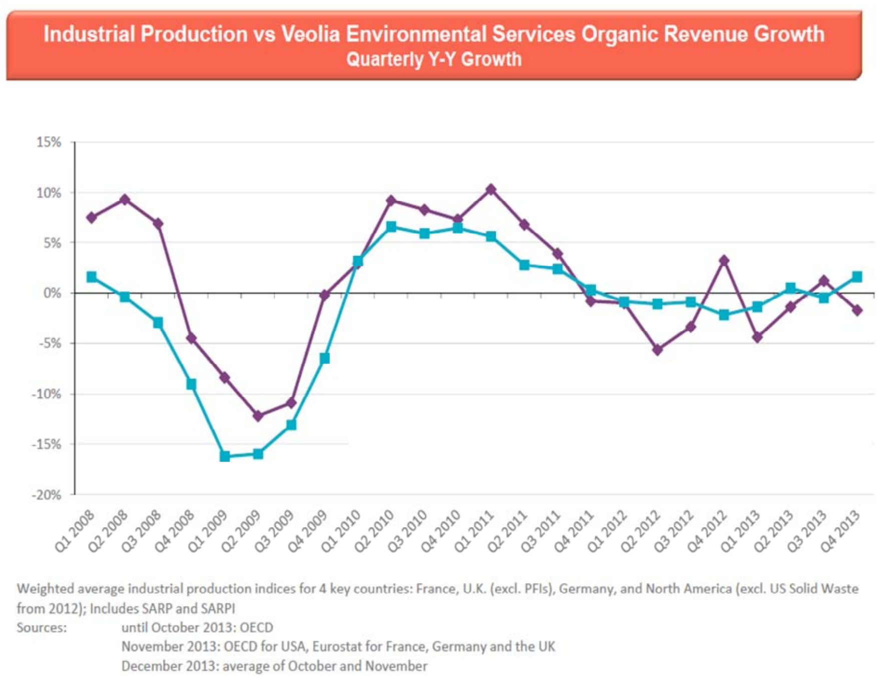
	Suez	Veolia
1% change in waste volumes (pre-tax impact; EUR m)	30	40
% of 2015E EBITDA	1.1%	1.7%
% of 2015E net income (post tax)	5.5%	7.2%
% impact on DB valuation	5.2%	4.9%

Source: Deutsche Bank estimates

Industrial production correlation

As we discuss later in this section, one can debate the precise relationship between industrial production and waste volumes, although it seems clear that there is a fairly strong correlation between waste volumes and industrial activity. Accordingly the revenues and profits of the waste businesses of Suez and Veolia tended to be highly correlated to industrial production. Figure 43 compares changes in industrial production with revenue growth in Veolia's waste business.

Figure 43: Veolia waste business organic revenue growth versus blended industrial production growth



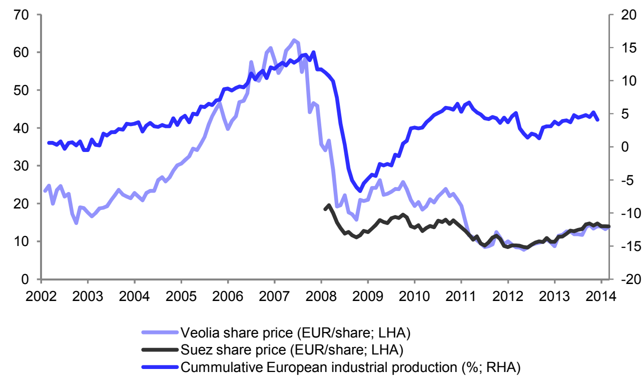
Source: Veolia

Figure 44 and Figure 45 show the long-run correlation of share prices with cumulative European industrial production and cumulative French industrial production respectively.

Whilst there have been periods of significant dislocation, the long-run correlation of share prices to industrial production (and hence waste volumes), is fairly high. The collapse in share prices after the credit crisis; the partial recovery of share prices in 2009 and early 2010; and the subsequent retrenchments were primarily driven by changes in waste volumes expectations in our view.

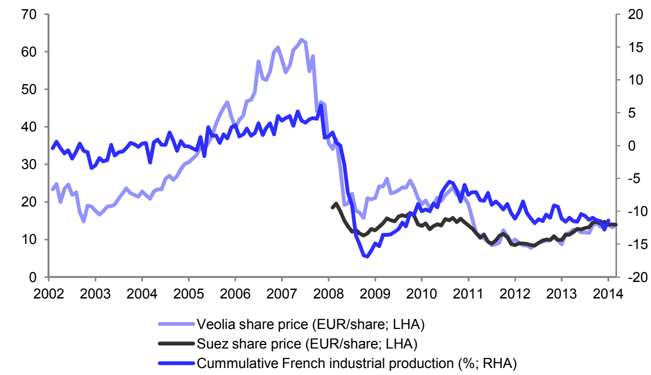
The shares have lagged the broad recovery in European industrial production since the crisis and appear to have more closely tracked the more moribund situation in France. This makes some sense given the high exposure of the companies to France.

Figure 44: Share price performance versus cumulative European industrial production (long term)



Source: Deutsche Bank estimates; Bloomberg Finance LP

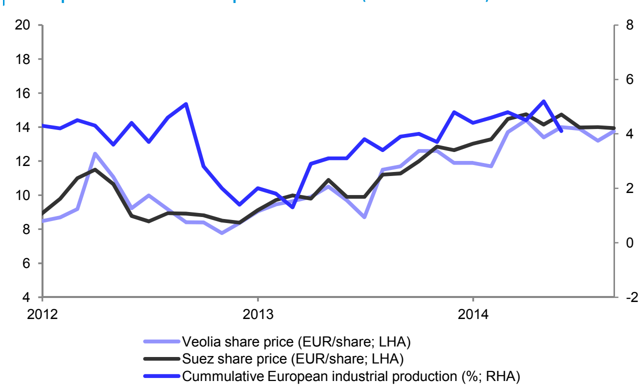
Figure 45: Share price performance versus cumulative French industrial production (long term)



Source: Deutsche Bank estimates; Bloomberg Finance LP

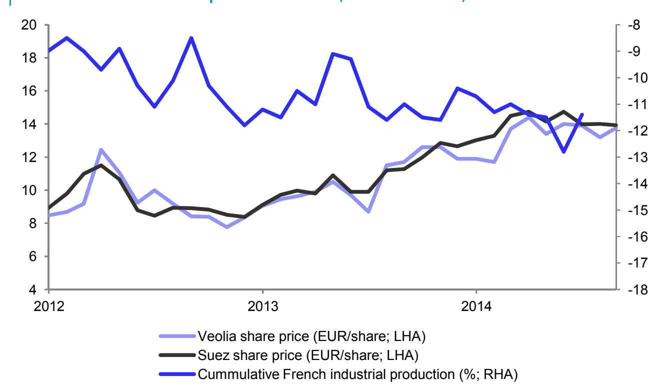
Figure 46 and Figure 47 show the short-term correlation of share prices with cumulative European and French industrial production. While the increase in share prices since the start of 2012 appears partly correlated to the improvement in European industrial production, the increase appears disconnected from the slow decline in French industrial production.

Figure 46: Share price performance versus cumulative European industrial production (short-term)



Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 47: Share price performance versus cumulative French industrial production (short-term)



Source: Deutsche Bank estimates; Bloomberg Finance LP

Waste volume evidence

There is a strong correlation between waste volumes and industrial production, although the precise relationship between industrial production and waste volumes is unclear. Suez and Veolia management argue that a X% change in industrial production on average corresponds to a X% change in waste volumes, although there can be meaningful differences, particularly between different countries.

Ttrying to analyse the relationship between waste volumes and industrial production in different countries is extremely difficult because the availability of data is extremely poor. We make some observations overleaf based on Eurostat data for Europe available until 2010, although the quality and duration of the data is not good enough to come to definitive conclusions.

Waste volumes trends vary per country

Based on the Eurostat data, over the time period where data is available, aggregate waste volumes in Europe grow (or shrunk) by c.1% less than industrial production on average. In our view this could be caused by productive efficiency gains, and appears to support the view that waste volume growth (or shrinkage) slightly less than industrial production.

However, there are significant differences between different countries. In the UK for example waste volumes have be declining more quickly relative to industrial production. In France waste volumes appear to have been more robust, although it is unclear whether this trend will be sustained, or whether France will start to see more sustained declines in waste volumes as we have seen in the UK.

Waste volume forecasts

Due to the correlation between waste volumes and industrial production, and the correlation of industrial production to GDP growth, we linked our waste volume forecasts to estimates of GDP growth. Figure 48 provides a summary of our GDP growth estimates and waste volume estimates.

As we have discussed, the precise relationship between waste volumes and industrial production is unclear and varies per country, although the assumption we use for modelling is the European waste volumes grow (or shrink) by 1% relative to industrial production. This is more conservative than the company's views of a 1:1 relationship on average.

Figure 48: GDP growth and waste volume growth estimates

	2014E	2015E	2016E
GDP growth			
Eurozone	0.8%	1.1%	1.1%
France	0.5%	1.0%	1.0%
Germany	1.5%	1.6%	1.6%
UK	3.1%	2.3%	2.3%
US	2.2%	3.1%	3.0%
Asia ex Japan	6.4%	6.7%	6.7%
Waste volume growth			
Suez waste volume growth Europe	-0.1%	0.5%	0.5%
Veolia waste volume growth Europe	0.2%	0.5%	0.5%
Veolia waste volume growth (Veolia group)*	0.5%	0.8%	0.8%

Source: Deutsche Bank estimates
**Based on consolidated business segments*

Financial targets

Veolia targets a rapid increase in net income by 2015, while Suez targets strong structural growth. We see scope for both companies to achieve their financial targets, although we think that currency effects may cause a disappointment in outturn profits for Suez relative to consensus. Based on our estimates, Veolia is dependent on capital gains to hit its 2015 profit targets.

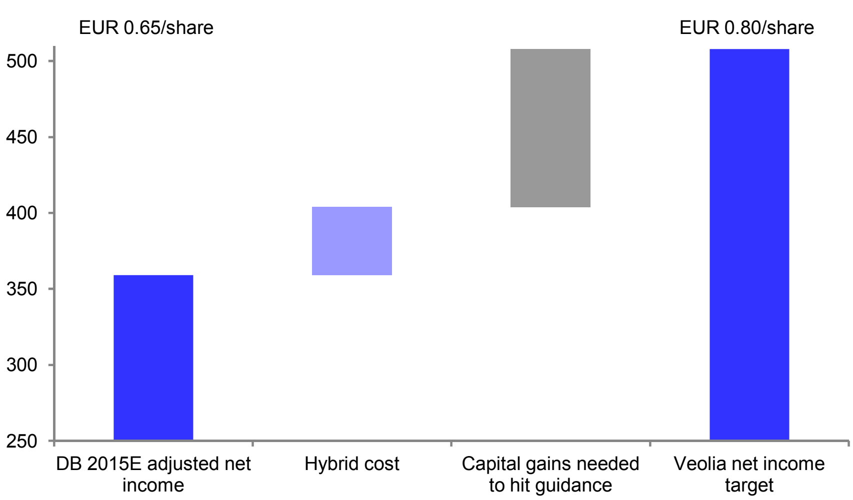
Suez has successfully de-leveraged and we think that there is scope for it to either increase organic investment or make targeted acquisitions. For Veolia we expect more disposals, although it appears broadly on track to reach its 3x leverage ratio over the next few years.

Veolia targets E500m of adjusted net income in 2015

Veolia aims to more than cover its E0.7/share dividend with earnings by 2015 and has communicated a target of E500m of adjusted net income before hybrid costs. As we discussed in the section *Structural review* Veolia includes capital gains in its definition of adjusted net income and therefore any capital gains would contribute to its target.

We forecast DB adjusted net income after hybrid costs and before on-offs of c.E350m in 2015, or c.E400m before hybrid costs. We think it is possible for Veolia to hit its 2015 target by generating c.E100m of capital gains. This is broadly in-line with the average level of underlying capital gains since 2008 so achievable in our view, although as we have discussed we think investors should strip out these gains when analysing underlying profit levels.

Figure 49: Capital gains and hybrid transition to Veolia 2015 net income target?



Source: Deutsche Bank estimates

Veolia – financial targets

Veolia has the following financial targets for 2014:

- c.10% growth in adjusted operating cashflow;
- Significant growth in adjusted operating income;
- Reduction in financial expensive;
- Significant growth in adjusted net income;
- DPS of E0.7/share.

We forecast c.19% growth in EBITDA in 2014, although around half of this is driven by the reconsolidation of Dalkia international. On an underlying basis we forecast growth of approximately 10% YoY, following a very challenging year in 2013. We forecast c.9% growth in adjusted operating income in 2014 and significant growth in adjusted net income, but from a very low base. We assume the dividend is paid partly in scrip.

Veolia has the following 2015 & medium-term financial targets:

- Cost reductions in 2015 of E750m cumulative (E600m based on the new consolidation basis);
- The dividend will be covered by net income and paid by free cash flow by 2015;
- Aim to hit E500m of adjusted net income in 2015, before hybrid costs;
- Adjusted leverage ratio of 3.0x;
- Medium-term organic revenue growth of 3%;
- Medium-term adjusted operating cash flow growth of >5% p.a.;
- Medium-term payout ratio in-line with historical levels.

We assume Veolia hits its cost cutting target, although, as we discussed in the prior section, we think capital gains may be needed to hit its adjusted net income and dividend coverage targets in 2015. We forecast adjusted leverage (adjusted net debt, adding back loans to JVs / operating cash flow before changes in working capital and OFA repayments) dropping to 3.1x in 2015E, broadly in-line with Veolia's 3.0x target.

In 2015 & 2016 we forecast around c.3% underlying revenue growth and c.5% EBITDA growth, broadly in-line with Veolia's target. Our forecasts reflect our assumptions of modest economic growth in Europe (c.1% GDP growth p.a. in France) and continued aggressive cutting.

Based on our earnings estimates we do not expect any growth in Veolia's dividend for the next few years. We believe that Veolia's adjusted earnings would have to exceed E1/share for it to consider an increase in the dividend. If we include capital gains in earnings we think Veolia could get close to this E1/share level by 2016. If it continues to grow earnings it may consider an increase in its dividend thereafter.

Suez – financial targets

Suez has the following financial targets for 2014:

- Organic EBITDA growth on a constant currency basis of at least 2%;
- 2014 cost cutting target of E125m;
- Free cash flow of c.E1bn;
- Dividend of at least E0.65/share;
- Net debt to EBITDA around 3x.

We expect Suez to meet its financial targets, although we expect negative currency effects to impact its reported results. We expect the company to deliver 2-3% organic growth in EBITDA, although we forecast broadly flat outturn EBITDA and a small decline in underlying earnings. We forecast free cash flow of just over E1bn.

We expect Suez to maintain its dividend of E0.65/share for the foreseeable future, which we model is paid in cash. The company targets a long-run payout ratio of c.65%, and thus we do not expect to see any dividend growth until earnings exceed E1/share. We do not expect this to happen within the next few years.

Cost cutting potential

On one hand the cost cutting potential at the two companies, particularly Veolia, is exciting. Look at the cost cutting targets of either company relative to net income and they could have a very significant impact.

However, we worry is that the cost cutting targets of both companies are small relative to the level of costs. Suez's cost cutting has averaged c.1% of costs over the last few years, and while this has helped mitigate the impact of the crisis it has not increased earnings. Veolia argues strongly that its cost cutting will boost profits, although cost cutting targets are still small relative to costs. We think cost cutting should deliver an earnings bounce for Veolia although we worry that some of the benefit may be offset by continuing competitive pressures.

Cost cutting potential

Suez has been cutting costs for years, with savings typically targeted at c.1% of costs. It aims to cut costs by a similar amount on an ongoing basis, although the company has been fairly clear that this target is relative to business as usual cost inflation and is not an absolute reduction in costs.

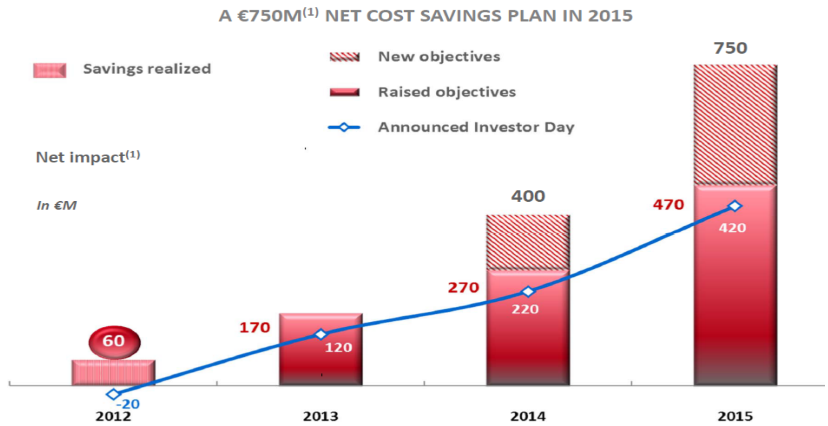
Suez has not seen an increase in its net income because of the cost cutting, although it has managed to navigate the crisis with much less of a decline in underlying net income that Veolia, which waited until later to launch its efficiency programme. Suez's earlier cost cutting may have contributed to the greater robustness in our view.

We show the cost cutting targets for Veolia in Figure 50. Veolia originally announced its cost cutting plan at its investor day in December 2011, with a target to cut costs by E420m by 2015. It subsequently increases its target twice, with a revised target announced in May 2014 to cut costs by E750m by 2015 (E600m, based on the new accounting treatment of JVs). The largest cuts are targeted in 2014 & 2015.

Veolia presents its cost cutting targets differently from Suez. The company argues that its cost cutting should be added to net income and therefore should help drive a significant increase in profits at the company. Cost cutting is an important part of the target to reach E500m of net income in 2015.

In some conversations with the company they have argued that if cost cutting is offset by competitive pressures, then the company will do more. If the company manages this there could be a significant benefit from the cost cutting, although the cost cutting process has been fairly slow so far, with limited benefit in 2012 & 2013 and cost cutting only starting to deliver meaningful improvements in the first half of 2014. This suggested it may not be easy to significantly increase cost cutting quickly.

Figure 50: Veolia's cost saving plan*



(1) Net of implementation costs, of which due to the new accounting treatment of joint ventures, ~80% will benefit adjusted operating income

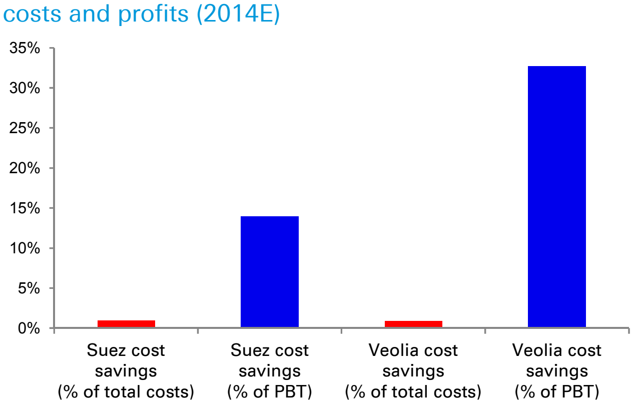
Source: Veolia
** As presented in May 2013. 2014 & 2015 targets unchanged. E178m achieved in 2013*

Cost cutting is small relative to total costs, but large compared to profits

Cost cutting programmes are very large compared to pre-tax profits, although are very small compared to overall costs, as we show in Figure 51 and Figure 52. Looking at the headline cost cutting targets relative to net income one may think that there is scope for efficiency programmes to lift earnings significantly, although we worry that some of the cost cutting may be offset by competitive pressures and cost inflation elsewhere in the businesses.

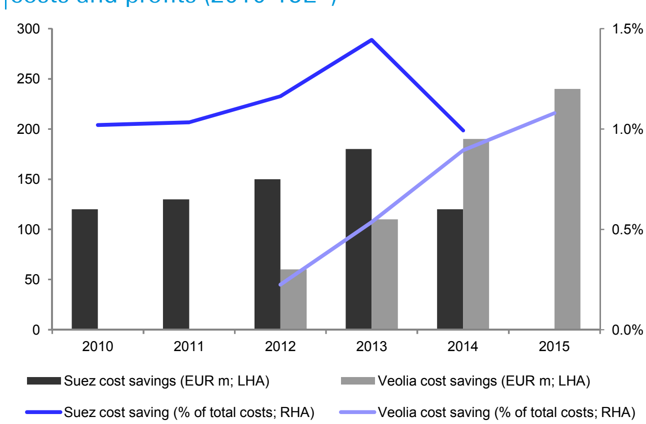
Cost cutting amounts to around 1% p.a. of the cost base for each company and hence we worry that it could be offset partly by general cost inflation. Growing the cost base at 2% p.a. is better than 3% p.a. but doesn't necessarily drive up profits if the rest of the industry is cutting costs at a similar pace and competitive pressures force these cuts to be passed on to end customers.

Figure 51: Suez and Veolia cost saving targets relative to costs and profits (2014E)



Source: Deutsche Bank estimates; company data

Figure 52: Suez and Veolia cost saving targets relative to costs and profits (2010-15E*)



Source: Deutsche Bank estimates; company data;

Could the companies do more?

Veolia has argued that there could be scope for it to go further on costs if current plans do not deliver the profit recovery targeted. We think this may be possible as the current cost cutting targets do not look particularly ambitious in our view.

However, its cost cutting targets already imply a significant step up in the run-rate of cost savings from those achieved in 2012 & 2013 to savings targeted in 2014 & 2015. Veolia's targets involved reducing costs by 0.2% in 2012 and 0.5% in 2013, rising to 0.9% of costs in 2014 and 1.1% in 2015. It may be possible to achieve much more than this, although the slow run-rate so far suggests it may not be easy.

How significant could additional cost cutting be?

Additional cost cutting could be very significant if executed quickly enough to more than offset broader competitive pressures. Cutting an additional 1% off the cost base quickly could add c.10% to EBITDA and capitalising the benefit could be worth E3/share for the stocks.

However, given the competitiveness of water and waste markets it is likely that competitors are also trying to cut costs and therefore industry effects to improve efficiency may end up being passed on to customers. The ability of the companies to significantly boost profitability through cost cutting may require them to move faster than their competitors and the ability to do this is not clear. We assume that Suez and Veolia continue to cut costs on an ongoing basis, although we assume that some of this is offset by competitive pressures.

Consensus caution

We think there is downside to consensus earnings estimates for Suez and Veolia (unless capital gains are factored in). Based on underlying earnings we forecast c.10-20% downside to 2015 & 2016 consensus earnings for the two companies.

Although DB earnings estimates are below consensus we still forecast strong earnings growth over the next few years. Our estimates are based on our modelling of the different business segments and estimates on waste volumes, cost cutting, ongoing margins pressures and growth investments. However, we are well aware that growth expectations have steadily disappointed over the last few years and as such we are accept that there are risks to our projections for strong earnings growth.

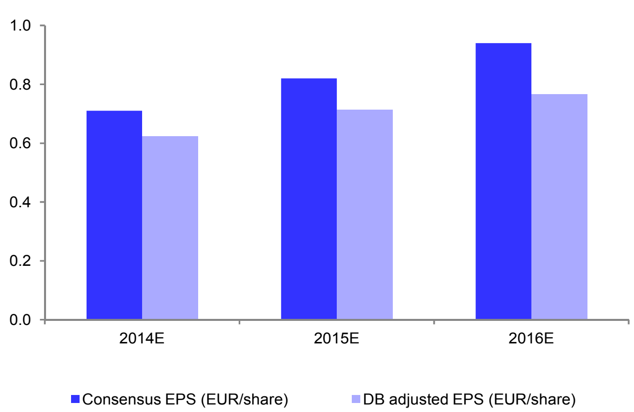
DB versus consensus

We show our earnings estimates versus consensus in Figure 53 and Figure 54. Our underlying earnings forecasts are c.10-20% below consensus in 2015 & 2016, although factoring in capital gains for Veolia (as the company reports its underlying profits) we think higher than consensus earnings may be achievable.

For Suez we think the difference between DB and consensus estimate partly reflects a basis effect. Consensus doesn't appear to have taken full account of negative currency effects, but also factors in stronger growth in later years.

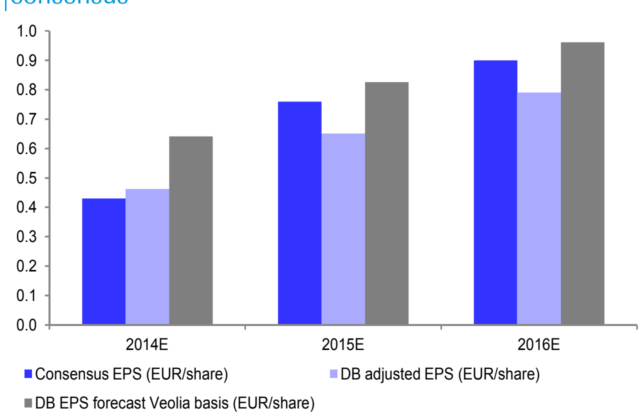
For Veolia our estimates are in-line with consensus in 2014 although consensus growth in 2015 appears much too optimistic in our view, unless consensus also takes into account capital gains. As we have discussed Veolia has reported on average over E100m p.a. of capital gains since the crisis in 2008. In our view it is likely that it continues to report capital gains going forward. Although we do not include this in DB adjusted earnings, we also show our estimates including these gains below. If other analysts factor in capital gains this may explain the difference between DB and consensus.

Figure 53: Suez – DB earnings estimates versus consensus



Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 54: Veolia – DB earnings estimates versus consensus



Source: Deutsche Bank estimates; Bloomberg Finance LP

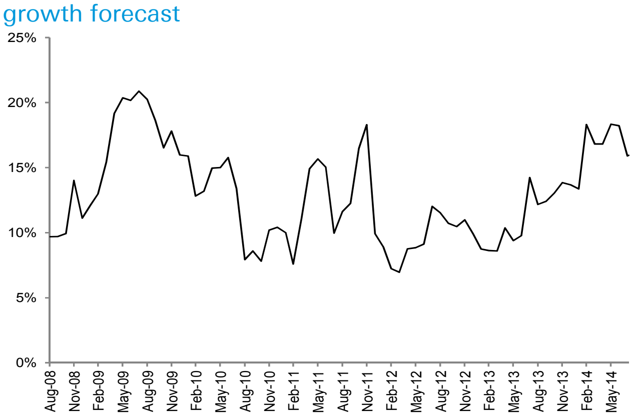
Consensus has proven too optimistic since the crisis

In Figure 55 and Figure 56 we show the three year forward CAGR earnings growth implied by consensus. In Figure 57 and Figure 58 we plot the evolution of consensus earnings expectations and show in bars the outturn level of earnings each year since 2009.

Suez has seen a gradual decline in earnings since 2009, while Veolia has seen a collapse. In spite of this consensus has fairly consistently priced in double digit earnings CAGR for both companies. For Suez growth rates have ranged from 10-20%. For Veolia, growth rates have increased as its earnings have declined - consensus has priced in a more and more rapid recovery.

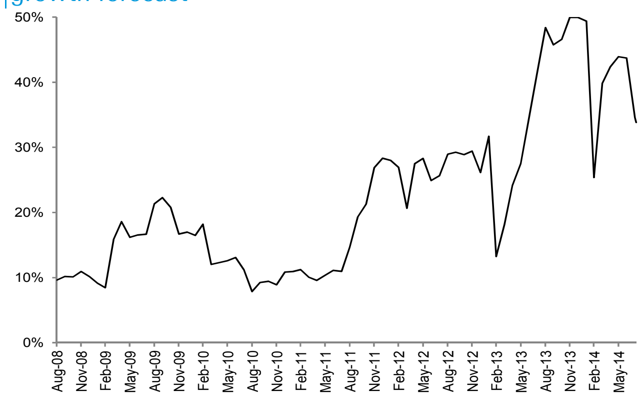
Although our DB earnings estimates forecast strong growth for both companies, the historical trends suggest there are downside risks.

Figure 55: Suez – consensus 3 year CAGR earnings growth forecast



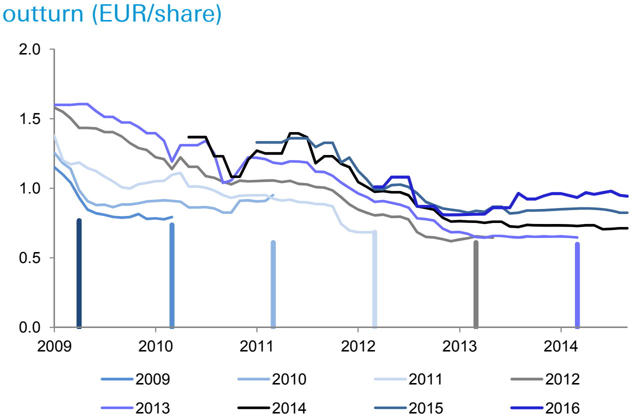
Source: Deutsche Bank; Bloomberg Finance LP

Figure 56: Veolia – consensus 3 year CAGR earnings growth forecast



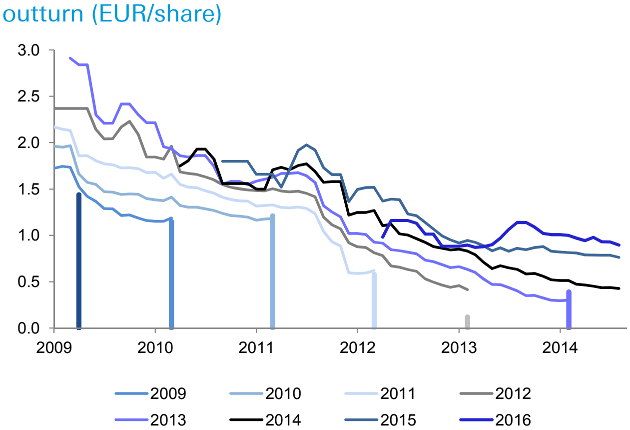
Source: Deutsche Bank; Bloomberg Finance LP

Figure 57: Suez – consensus earnings evolution and outturn (EUR/share)



Source: Deutsche Bank; Bloomberg Finance LP

Figure 58: Veolia – consensus earnings evolution and outturn (EUR/share)



Source: Deutsche Bank; Bloomberg Finance LP

Multiples analysis

Suez and Veolia trade on above historical average absolute P/E multiples, but broadly in-line with historical trading levels looking at EV/EBITDA and yield metrics. Comparing the stocks to the sector they have tended to trade on P/E multiples above the sector. Currently the stocks trade on a smaller premium than the historical average based on consensus, although not based on DB estimates. Looking at EV/EBITDA and yield metrics the relationship with the sector is broadly in-line with historical averages.

The two stocks trade on one year forward P/E multiples of 17.0x and 18.1x respectively based on consensus and 19.4x and 21.2x respectively based on DB estimates. This is above the average long-run P/E multiple of 15.9x.

The stocks are trading on an average c.20% premium to the one year forward sector P/E based on consensus, compared to a long-run average of c.35%. Using DB estimates the stocks trade on almost a 40% premium to the sector, slightly above historical average levels.

Rising P/E multiples; falling earnings estimates

Share prices of Suez, Veolia and the broadly European utilities sector have increased strongly over the last year, with multiples expanding rapidly. Earnings expectations appear to have stabilised this year, although are still meaningfully lower than a year ago.

We summarise the changes in one year forward P/E multiples and one year forward earning expectations based on consensus in Figure 59 and show charts overleaf in Figure 60 to Figure 65.

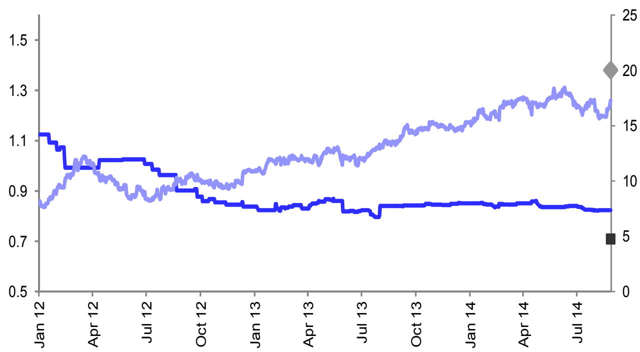
One year forward earnings expectations have declined significantly since the start of 2012. We have seen a reduction of 15% for Suez; 25% for Veolia; and 20% for the broader European utility sector. At the beginning of 2012 the one year forward consensus based P/E multiple was 9.5x, 8.7x and 9.1x respectively. Currently the multiples are 18.1x, 17.0x and 14.7x respectively.

Figure 59: One year forward P/E and earnings evolution based on consensus

	Veolia	Suez	European utilities sector
One year forward consensus based P/E			
01-Jan-12	8.7	9.5	9.7
01-Jan-13	10.9	12.1	10.4
01-Jan-14	14.1	15.0	12.2
Current	18.1	17.0	14.7
Change in one year forward consensus earnings expectations versus start 2012			
01-Jan-13	-16%	-21%	-8%
01-Jan-14	-20%	-12%	-18%
Current	-25%	-15%	-20%

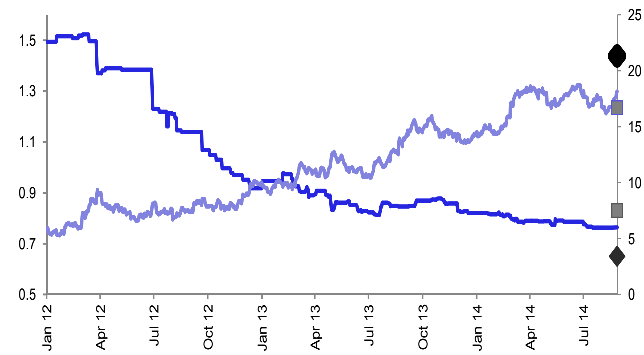
Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 60: Suez Environnement – 2015 consensus earnings estimates & consensus based 2015 P/E multiple



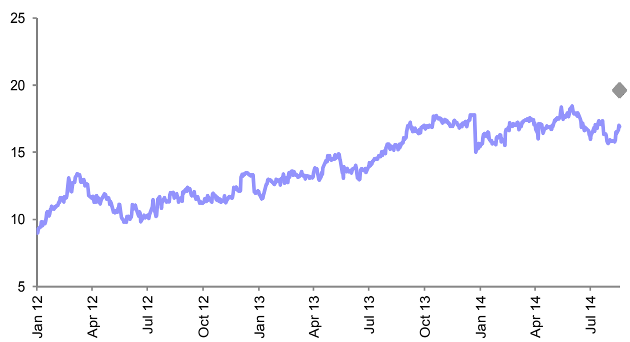
Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 61: Veolia – 2015 consensus earnings estimates & consensus based 2015 P/E multiple



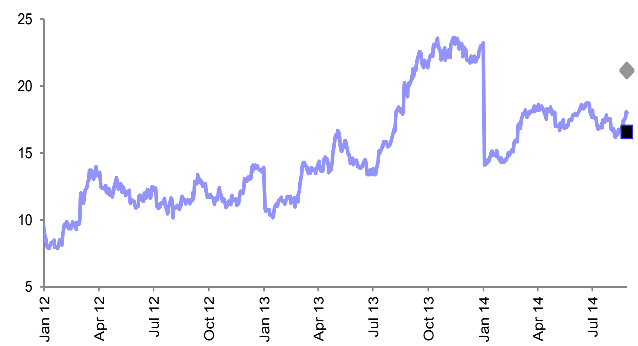
Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 62: Suez Environnement – one year forward consensus based P/E multiple evolution



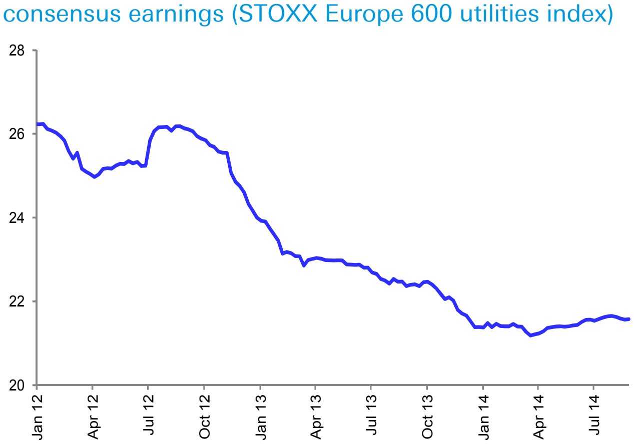
Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 63: Veolia – one year forward consensus based P/E multiple evolution



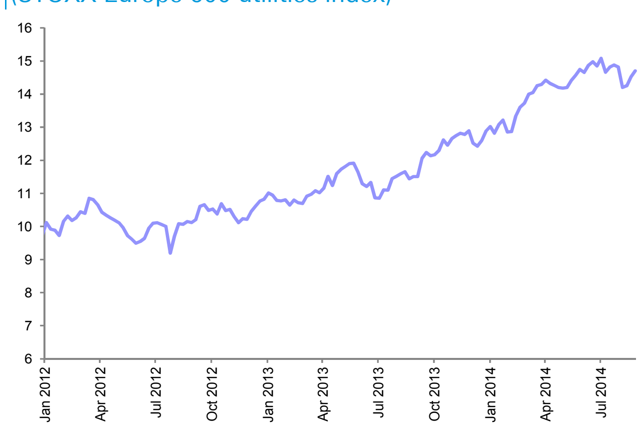
Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 64: European utility sector one year forward consensus earnings (STOXX Europe 600 utilities index)



Source: Deutsche Bank; Bloomberg Finance LP

Figure 65: European utility sector one year forward PE (STOXX Europe 600 utilities index)

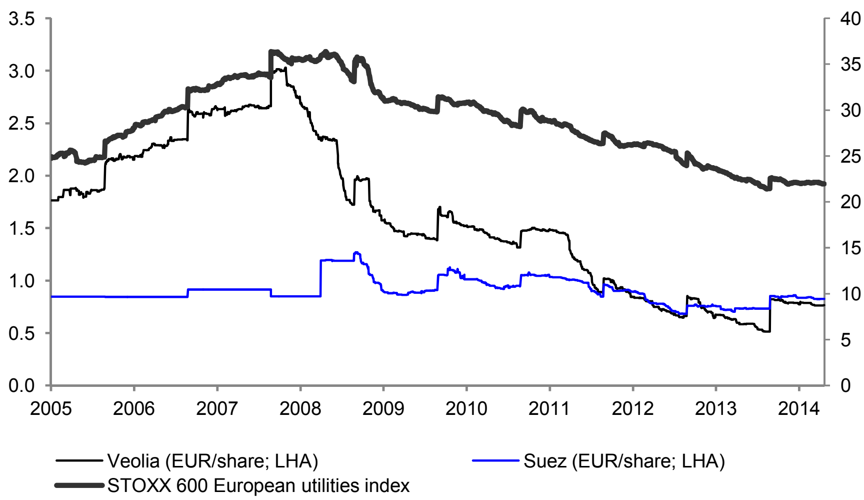


Source: Deutsche Bank; Bloomberg Finance LP

Long-run earnings and P/E multiple comparison

We compare one year forward consensus earnings expectations for Suez, Veolia and the sector in Figure 66. During the boom years from 2005-07 Veolia's earnings expectations increased a similar amount to the broader European utility sector, although post crisis have faced a much more rapid decline. Suez's earnings were much more stable in the boom years and have been more robust since the crisis.

Figure 66: Consensus one year forward earnings evolution comparison: Suez and Veolia versus European utilities STOXX 600 index



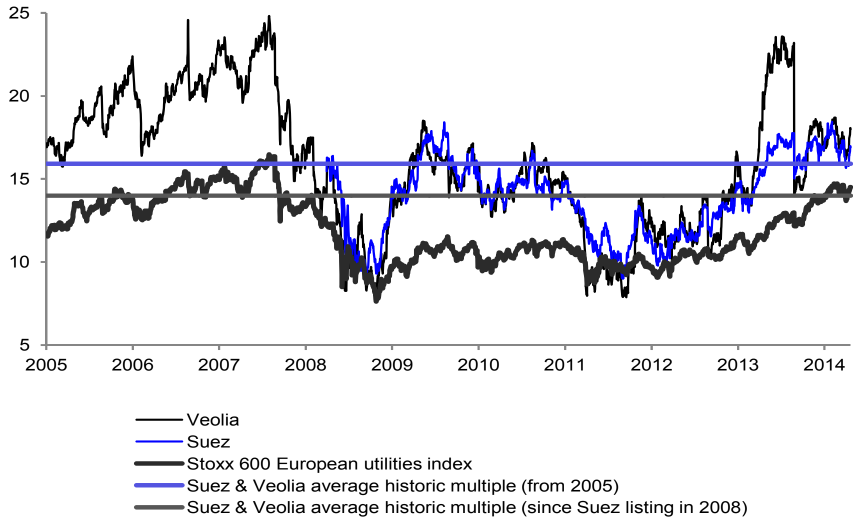
Source: Deutsche Bank estimates; Bloomberg Finance LP
Suez actual one year forward earnings shown prior to listing in August 2008

We show one year forward consensus based P/E multiples for Suez, Veolia and the sector in Figure 67. Suez and Veolia have traded on very similar one year forward consensus P/E multiples since the crisis in 2008. The exception was a period from August 2013 to year end when consensus 2014 earnings estimates for Veolia collapsed and its one year forward P/E multiple spiked.

Since 2005 the average one year consensus based forward P/E multiple for Suez and Veolia has been 15.9x, compared to the average for the European utility sector of 11.9x. Since the start of the crisis in 2008 the average multiple has been lower at 14.0x.

Suez and Veolia trade on consensus based one year forward P/E multiples of 17.0x and 18.1x respectively. Using DB estimates Suez trades on 19.4x and Veolia trades on 21.2x. The stocks are trading above long-run average multiples and significantly above the average multiples since 2008 using DB or consensus estimates.

Figure 67: Consensus based one year forward P/E comparison: Suez and Veolia versus European utilities STOXX 600 index

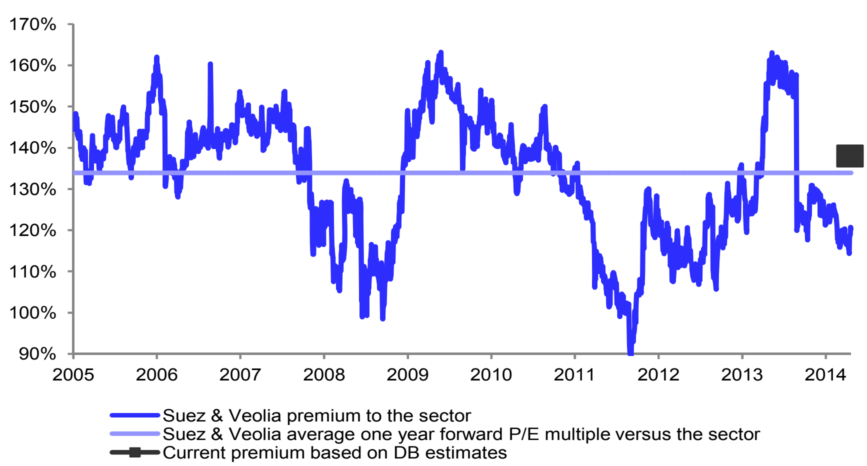


Source: Deutsche Bank estimates; Bloomberg Finance LP
**Average before August 2008 based on Veolia only*

We show the average premium of Suez and Veolia to the broader European utility sector in Figure 68. The stocks have almost always traded at a premium to the broader sector. The stocks traded at parity with the sector as the credit crisis hit in 2008 and as the sovereign crisis hit in 2011, but have traded as high as a 60% premium.

The stocks have traded on an average long-run sector P/E premium of c.35%. The current premium is c.20% based on consensus, and therefore the shares trade c.15% cheaply compared to the historical average premium to the utility sector based on consensus multiples. However, DB estimates are below consensus and based on our estimates the stocks trade slightly above the usual premium, trading on almost a 40% premium to the sector.

Figure 68: Average consensus based one year forward P/E multiple relative to the European utility sector



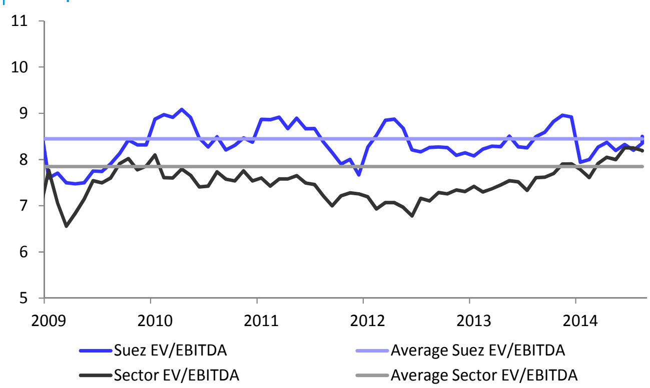
Source: Deutsche Bank estimates
Average before August 2008 based on Veolia only

Historical EV/EBITDA multiples

We chart one year forward EV/EBITDA multiples for the two stocks versus the sector below. Suez has on average traded on a c.0.5 point premium to the sector, and current trades on a slightly lower c.0.2 point premium. Veolia has on average traded at a c.0.5 point discount to the sector and currently trades at a slightly greater discount of c.1.0 point.

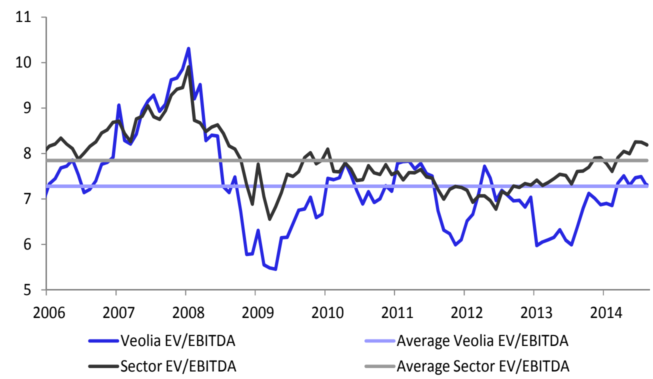
Veolia currently trades on a one year forward EV/EBITDA multiple of 7.5x and Suez currently trades on 8.5x. For both stocks this is in-line with the long-run average EV/EBITD multiple. The sector currently trades on 8.2x, slightly above the historical average of 7.8x.

Figure 69: Suez historical one year forward EV/EBITDA multiple evolution versus the sector



Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 70: Veolia historical one year forward EV/EBITDA multiple evolution versus the sector

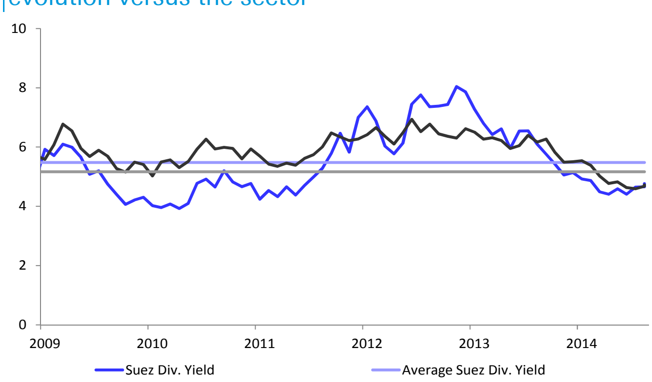


Source: Deutsche Bank estimates; Bloomberg Finance LP

Historical dividend yields

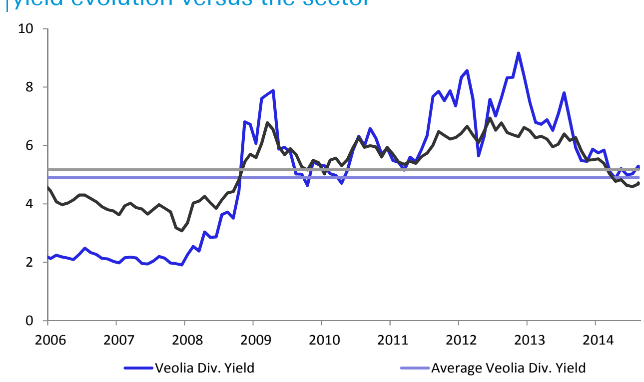
We chart one year forward dividend yields for the two stocks versus the sector below. Suez currently has a yield slightly below its long-run average and Veolia slightly above. Suez and Veolia have dividend yields of 4.8% and 5.2% respectively compared to the sector yielding 4.7%.

Figure 71: Suez historical one year forward dividend yield evolution versus the sector



Source: Deutsche Bank estimates; Bloomberg Finance LP

Figure 72: Veolia historical one year forward dividend yield evolution versus the sector



Source: Deutsche Bank estimates; Bloomberg Finance LP

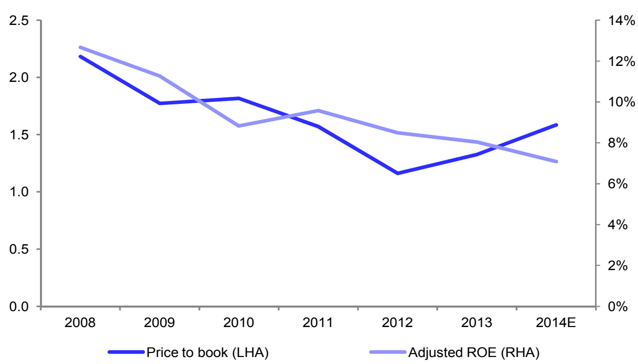
Historical price to book multiples

In the charts below we compare historical and current year price to book multiples with underlying returns on book value.

Suez traded on more than double book value after its listing in 2008, although its share price dropped sharply after the crisis and its multiple fell to slightly above book value in 2012, reflecting lower returns. The share price has recovered somewhat over the last two years and the shares now trade on c.1.6x book value. In 2014 we forecast the lowest underlying returns on book value since listing.

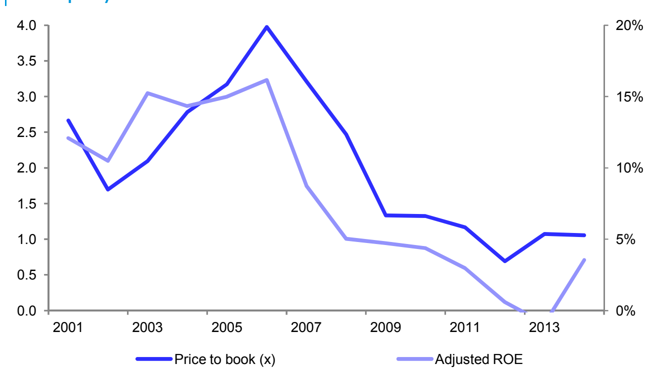
Veolia has a longer trading history than Suez. It reached a peak price to book multiple of c.4x pre-crisis, although its share price dropped by c.90% from peak to trough and it traded on only c.0.7x book in 2012. Subsequently the shares have bounced back somewhat and trade at a slight premium to book value. Its returns have dropped significantly since the crisis.

Figure 73: Suez price to book versus underlying return on equity



Source: Deutsche Bank estimates

Figure 74: Veolia price to book versus underlying return on equity



Source: Deutsche Bank estimates

Valuation & risks

We use a sum-of-the-parts based approach to value Suez and Veolia, cross checked with a DCF and by comparing multiples to peers and historical trading levels.

We use these metrics to assess value, although the ranges between historical trough and peak multiples are huge and the DCF based valuations of the two stocks are very sensitive to long-run assumptions. Our valuation work supports share price targets for Suez and Veolia of E14.0/share and E14.5/share respectively, although it is not easy to attach a point valuation estimate to the two stocks for these reasons. The shares prices may trade with a fairly wide range around our target prices.

Comparing the stocks to historical average multiples is a useful tool to assess value in our view, and to frame how the stocks are trading. The stocks could look cheap relatively to historical trading levels within a year if consensus earnings estimates hold, although DB estimates are below consensus and the shares trade broadly in-line with historical average P/E multiples based on DB estimates.

Sum-of-the-parts & DCF based valuations

We summarise below key elements of our sum-of-the-parts and DCF based valuation approaches. Particularly the DCF based approach is very sensitive to assumptions and there can be significant swings in value based on small changes in assumptions.

Sum-of-the-parts approach

We value key consolidated business segments using EV/EBITDA multiples, stripping out OFA income for Veolia and stripping out renewal provisions and associate income for Suez. We value associates, using a combination of P/E multiples, EV/EBITDA multiples and book values and take a consistent approach to value associates and minorities. Our choice of multiple depends partly on the business characteristics; partly on comparative multiple analysis and partly on our cross check against historical multiples.

DCF based approach

DCF based valuations for the two companies are very sensitive to long-run growth rates and assumptions on capex spend required to generate growth. Maintenance capex levels outlined by the companies are around half the levels we assume in the long-run model, although we assume that the companies grow net assets by 2-3% p.a. through to 2050, and we expect the companies to invest significantly more than maintenance capex for the foreseeable future.

We assume EBITDA growth of 4.0% and 4.5%, respectively, for Suez and Veolia through to 2020 as we assume that Veolia benefits from its greater focus on cost cutting. In the long-run we use similar assumptions for the two companies with 3.0% p.a. EBITDA growth over 2021-50 and 1% terminal growth. Our models assume both companies earn long-run returns above their cost of capital. We use a cost of equity of 8.0% for both companies, corresponding to a vanilla WACC of 6.1% for Suez and 5.9% for Veolia.

Figure 75: SOTP outcomes

Company / multiple	
Suez	
Group 2015E EV/EBITDA	8.4x
Group 2015E P/E	19.6x
Group 2016E P/E	18.3x
Veolia	
Group 2015E EV/EBITDA	7.7x
Group 2015E P/E	22.2x
Group 2016E P/E	18.3x

Source: Deutsche Bank estimates

Figure 76: DCF assumptions

Company	Suez	Veolia
EBITDA growth assumptions		
2017-20 p.a.	4.0%	4.5%
2021-50 p.a.	3.0%	3.0%
From 2050 p.a.	1.0%	1.0%
Other assumptions		
Capex (from 2017)	E1.6bn	E1.7bn
Asset life (years)	20	20
Capex growth (p.a.)	2.5%	2.5%
Cost of equity	8.0%	8.0%

Source: Deutsche Bank estimates

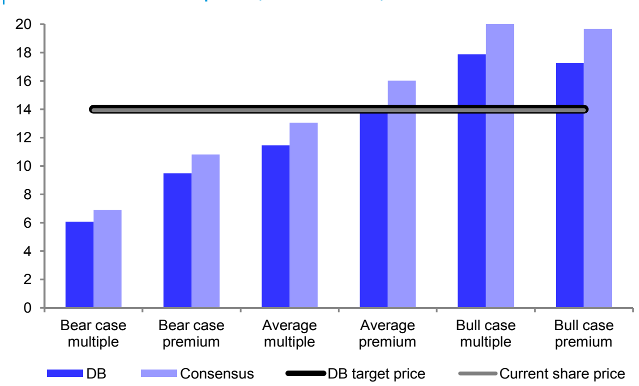
Valuations based on historical P/E multiples

One way to frame the valuations of the two companies is too look at multiples relative to historical trading levels, as we discussed in the *Multiples analysis* section of this report. In this section we analyse potential valuations of the shares based on average earnings multiples.

In Figure 77 and Figure 78 we show a range of valuations applying bear case, average, and bull case P/E multiples to DB based and consensus based one year forward earnings estimates. We show valuations based on absolute multiples and based on premia to European utility sector multiples. Bear case scenarios use the lowest multiple or premium and bull case the highest, since listing of the stocks.

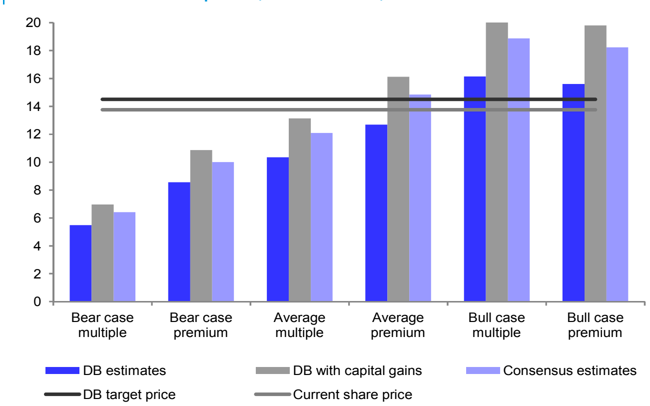
There is a huge range from bear to bull case multiples. At its low point Veolia traded on a one year forward P/E multiples of c.8x, but traded as high as c.25x at the peak. The stocks troughed at c.10% discounts to the sector multiple, but reached a 60% premium. The range of peak to trough multiples applied to current forward earnings projections range from less than E6/share to almost E20/share for the two stocks.

Figure 77: Suez valuation analysis based on one year forward P/E multiples (EUR/share)



Source: Deutsche Bank estimates

Figure 78: Veolia valuation analysis based on one year forward P/E multiples (EUR/share)



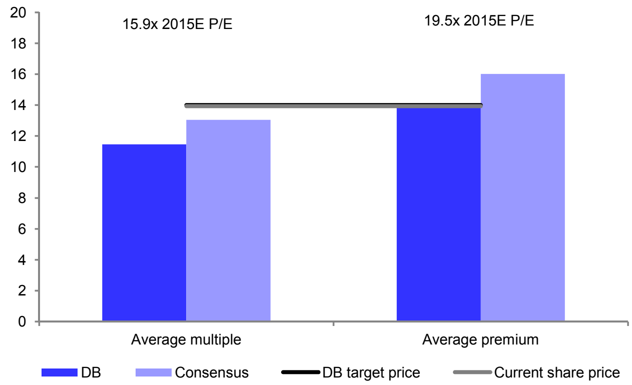
Source: Deutsche Bank estimates

Given the huge range in potential peak to trough multiples, looking at averages may be more helpful in assessing the position in the cycle (see Figure 79 and Figure 80 overleaf).

Suez trades more expensively than its average historical absolute multiple, which would imply a value of c.E12-13/share depending on the use of DB or consensus earnings estimates. It trades broadly in-line with its average premium, using DB estimates. Based on consensus estimates the stock trades on less of a premium than its historical average, which would imply potential upside to c.E16/share.

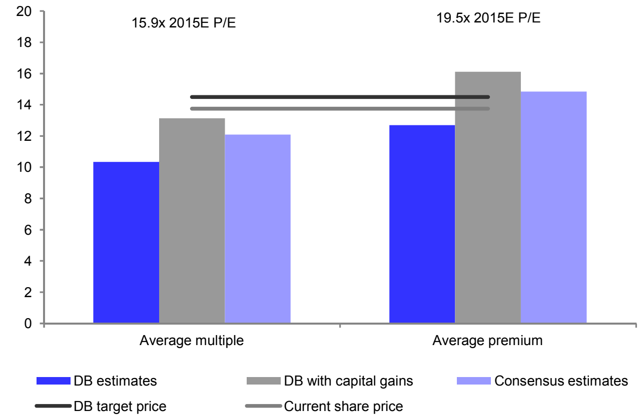
Veolia trades more expensively than its average absolute historical multiple, which would imply a value of c.E10-13/share, depending on the approach used. It trades above its average premium using underlying DB estimates, although there is upside to c.E15-16/share applying an average premium to consensus earnings, or taking into account capital gains on top of DB underlying earnings estimates.

Figure 79: Suez valuation based on one year forward P/E multiples, using average historical multiples (EUR/share)



Source: Deutsche Bank estimates

Figure 80: Veolia valuation based on one year forward P/E multiples, using average historical multiples (EUR/share)



Source: Deutsche Bank estimates

Extending our multiple analysis forward one year

We have extended our valuation analysis to look a year ahead, using the same approach as outlined above. We base our analysis on current DB and consensus earnings estimates for 2016 and assuming the broader utility sector trades on the same one year forward P/E multiple as current. Our analysis is illustrative.

Looking ahead a year, Suez's current share price implies 2016 earnings multiples below average absolute and relative historical levels based on consensus estimates. Implying an average absolute multiple to consensus 2016 earnings estimates could imply a valuation of c.E15/share, while using an average premium could imply a valuation of c.E18/share. If consensus holds this could mean a significant increase in the share price over the next year, based on average trading levels.

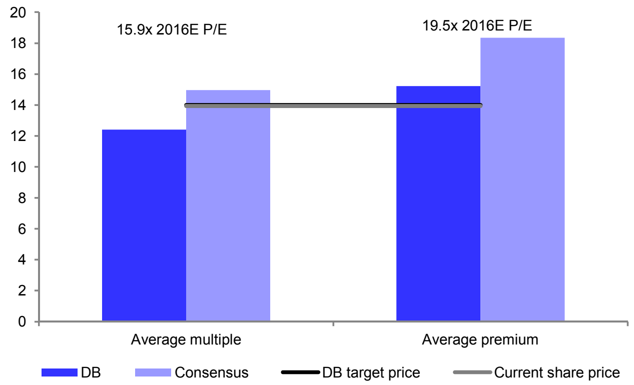
Based on DB estimates Suez's shares trade mid-way between an average absolute 2016E P/E multiple and an average premium. This could suggest upside to the share price using an average sector premium, or downside based on an average absolute historical multiples.

Veolia's current share price also implies 2016 multiples below average absolute and relative historical year ahead levels based on consensus, implying potential upside to c.E15/share applying an average absolute multiple or c.E18/share applying an average premium to 2016 consensus earnings (similar upside potential to Suez). Using DB estimates and factoring in capital gains could suggest slightly greater upside.

Using DB underlying earnings estimates the shares trade between an average absolute P/E multiple and an average premium looking ahead to 2016. However, the downside to an average absolute historical P/E multiple is limited and there is potential upside to c.E16/share applying an average premium to DB underlying earnings.

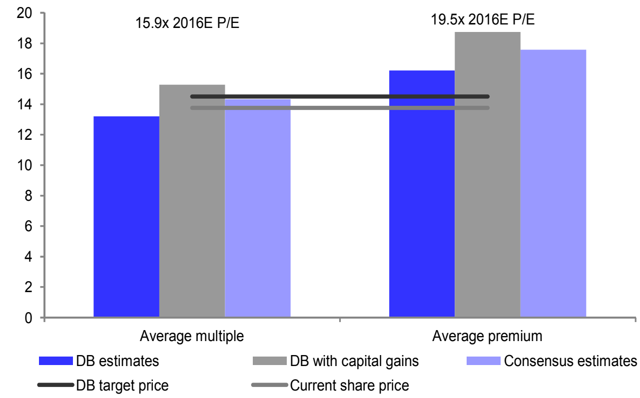
Although we have a Hold rating on Veolia's shares, we think there is potential upside to the share price over the next year, as implied by our E14.5/share target price.

Figure 81: Suez valuation based on forward P/E multiples, looking a year ahead (EUR/share)



Source: Deutsche Bank estimates

Figure 82: Veolia valuation based on forward P/E multiples, looking a year ahead (EUR/share)



Source: Deutsche Bank estimates

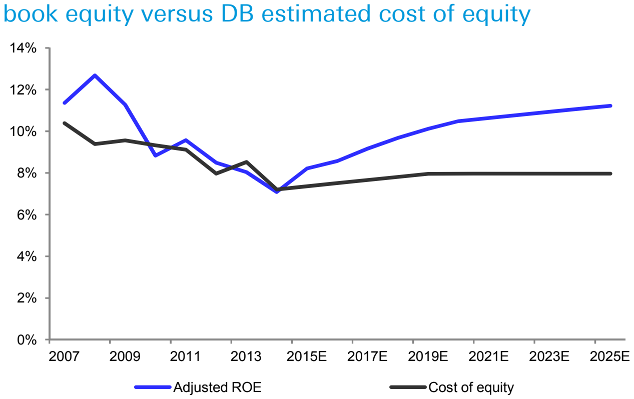
Implied returns

Another way of looking at returns is to compare return on equity book with book multiples. We show in Figure 83 and Figure 84 historical returns compared to the cost of equity, and our estimate of future returns required to justify our valuations of the stocks. We model a forward looking cost of equity for the stocks of c.8%, lower than in the past because of low base rates.

Suez trades at a c.1.6x book value and therefore its shares appear to be discounting an improvement in returns from current levels of broadly in-line with its cost of equity, to low double digit returns in the medium-term. Veolia trades slightly above its book value, and therefore its shares appear to be discounting an improvement in returns from significantly below its cost of equity currently, to slightly above in the medium-term.

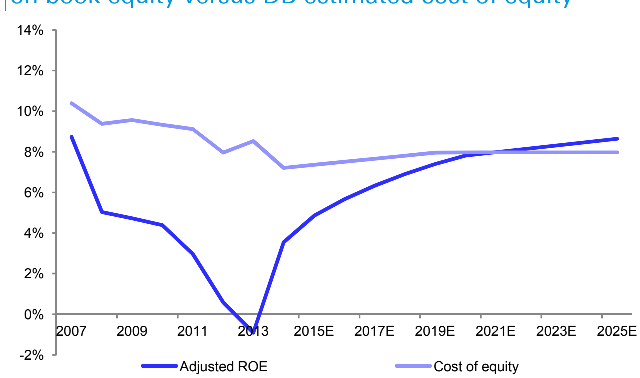
Shares prices appear to be discounting a normalization of returns to pre-crisis levels in the long-run. This may be a reasonable assumption, although appears optimistic in comparison to the 10 year average whereby Suez has earned returns broadly in-line with its cost of capital and Veolia has earned returns below its cost of capital. For more detail see the section *Structural review*.

Figure 83: Suez historical and implied adjusted return on book equity versus DB estimated cost of equity



Source: Deutsche Bank estimates

Figure 84: Veolia historical and implied adjusted return on book equity versus DB estimated cost of equity



Source: Deutsche Bank estimates

Risks

Suez and Veolia are both very low margin businesses and the sensitivity of profits and valuations to small changes in margin makes both stocks risky in our view.

Key risks relate to waste volumes (linked to industrial production); delivery on costs cutting; and performance of investments. Every 1% change in waste volumes impacts our valuation of the stocks by c.5% as we outlined in the *Waste volumes & industrial production section*.

Both stocks have a volatile trading history and the difference between applying peak and trough multiples could represent a 3x the value of the shares, as we discussed earlier in this section.

The shares prices of both companies appear to factor in strong earnings growth, although the companies have missed consensus expectations in the past. If the companies fail to grow earnings there could be significant downside to current share prices. However, as we have discussed, there could be upside if consensus expectations are met or exceeded.

There are risks around Suez's stock ownership. GDF Suez owns c.35% of the shares and could consider increasing or reducing its stake. A reduction in GDF's stake and consequent overhang of stock is the main risk in our view.

Model updated:28 August 2014

Running the numbers

Europe

France

Water

Suez Environnement

Reuters: SEVI.PA Bloomberg: SEV FP

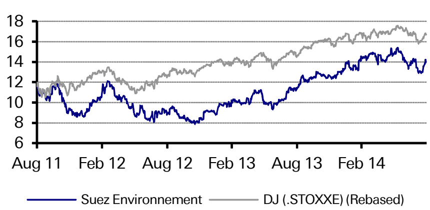
Hold

Price (29 Aug 14)	EUR 14.03
Target Price	EUR 14.00
52 Week range	EUR 11.28 - 15.42
Market Cap (m)	EURm 7,299
	USDm 9,612

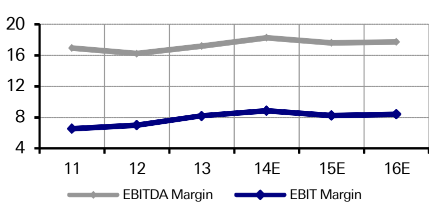
Company Profile

Suez Environnement is present in the fields of water management, wastewater treatment, water treatment engineering and in the fields of waste collection, sorting, pre-treatment, recycling, and waste treatment. It operates both on behalf of public entities and private sector players. The company operates throughout the world

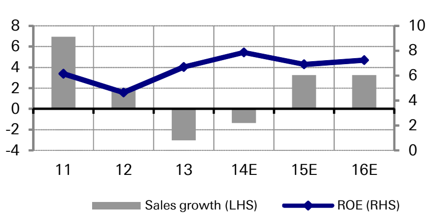
Price Performance



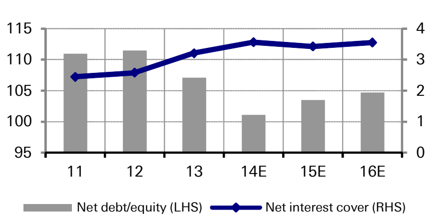
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (EUR)	0.79	0.68	0.66	0.62	0.71	0.77
Reported EPS (EUR)	0.59	0.45	0.64	0.79	0.71	0.77
DPS (EUR)	0.65	0.65	0.65	0.65	0.65	0.65
BVPS (EUR)	9.7	9.5	9.7	10.6	10.4	10.7
Weighted average shares (m)	510	510	510	520	540	540
Average market cap (EURm)	6,588	4,782	5,591	7,299	7,299	7,299
Enterprise value (EURm)	19,599	18,283	18,294	18,608	18,906	19,171
Valuation Metrics						
P/E (DB) (x)	16.4	13.7	16.5	22.5	19.7	18.3
P/E (Reported) (x)	22.0	21.0	17.0	17.7	19.7	18.3
P/BV (x)	0.92	0.96	1.34	1.32	1.34	1.31
FCF Yield (%)	4.8	18.7	5.0	8.0	3.4	4.2
Dividend Yield (%)	5.0	6.9	5.9	4.6	4.6	4.6
EV/Sales (x)	1.3	1.2	1.2	1.3	1.3	1.2
EV/EBITDA (x)	7.8	7.5	7.3	7.1	7.2	7.0
EV/EBIT (x)	20.2	17.3	15.3	14.6	15.4	14.8
Income Statement (EURm)						
Sales revenue	14,830	15,102	14,644	14,443	14,915	15,403
Gross profit	11,390	11,615	11,667	11,348	11,696	12,055
EBITDA	2,513	2,450	2,520	2,638	2,628	2,731
Depreciation	1,474	1,304	1,336	1,360	1,398	1,436
Amortisation	69	88	-13	0	0	0
EBIT	970	1,058	1,197	1,278	1,229	1,296
Net interest income(expense)	-397	-411	-374	-359	-359	-365
Associates/affiliates	37	22	31	6	0	0
Exceptionals/extraordinaries	126	-10	-18	-3	0	0
Other pre-tax income/(expense)	-12	-5	-29	-43	-10	-10
Profit before tax	687	633	777	873	860	921
Income tax expense	174	186	205	223	241	258
Minorities	227	218	250	220	210	225
Other post-tax income/(expense)	-24	-24	-24	-24	-24	-24
Net profit	299	228	329	412	386	413
DB adjustments (including dilution)	103	122	10	-88	0	0
DB Net profit	402	349	339	324	386	413
Cash Flow (EURm)						
Cash flow from operations	1,569	1,973	1,418	1,606	1,720	1,793
Net Capex	-1,253	-1,078	-1,138	-1,025	-1,460	-1,471
Free cash flow	316	895	280	581	260	322
Equity raised/(bought back)	20	0	0	111	0	0
Dividends paid	-281	-601	-212	-544	-550	-563
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	21	145	179	0	0	0
Net cash flow	77	439	247	149	-291	-241
Change in working capital	*-65*	*305*	*-122*	*-126*	*-55*	*-61*
Balance Sheet (EURm)						
Cash and other liquid assets	2,508	2,271	2,598	2,657	2,541	2,444
Tangible fixed assets	8,815	8,882	7,833	8,069	8,428	8,763
Goodwill/intangible assets	7,291	7,318	7,702	7,702	7,702	7,702
Associates/investments	2,594	2,682	3,016	2,767	2,757	2,747
Other assets	5,853	5,484	5,560	5,597	5,862	6,139
Total assets	27,061	26,637	26,708	26,791	27,290	27,796
Interest bearing debt	10,071	9,918	9,999	9,909	10,084	10,228
Other liabilities	10,173	9,859	9,800	9,709	9,918	10,135
Total liabilities	20,244	19,777	19,798	19,618	20,002	20,363
Shareholders' equity	4,946	4,864	4,963	5,526	5,642	5,773
Minorities	1,871	1,995	1,947	1,648	1,646	1,659
Total shareholders' equity	6,817	6,859	6,910	7,174	7,288	7,432
Net debt	*7,563*	*7,647*	*7,401*	*7,252*	*7,543*	*7,784*
Key Company Metrics						
Sales growth (%)	6.9	1.8	-3.0	-1.4	3.3	3.3
DB EPS growth (%)	8.6	-13.0	-3.1	-6.1	14.5	7.2
EBITDA Margin (%)	16.9	16.2	17.2	18.3	17.6	17.7
EBIT Margin (%)	6.5	7.0	8.2	8.8	8.2	8.4
Payout ratio (%)	110.9	145.7	101.0	82.0	91.1	84.9
ROE (%)	6.2	4.6	6.7	7.9	6.9	7.2
Capex/sales (%)	9.5	8.1	7.8	8.6	9.8	9.6
Capex/depreciation (x)	1.0	0.9	0.9	0.9	1.0	1.0
Net debt/equity (%)	110.9	111.5	107.1	101.1	103.5	104.7
Net interest cover (x)	2.4	2.6	3.2	3.6	3.4	3.5

Source: Company data, Deutsche Bank estimates

Suez – financial projections

We have slightly increased our earnings expectations primarily to reflect the Agbar transaction. We still see significant downside to consensus earnings projections.

Change in earnings estimates

We have increased our medium-term earnings estimates slightly. Our near-term increase slightly more, partly reflecting an adjustment to DB underlying net income to strip out exceptional financial charges. We show the changes in Figure 85.

Figure 85: Revised DB earnings estimates

Year	2013A*	2014E	2015E	2016E
Old EPS (EUR/share)	0.60	0.58	0.66	0.75
New EPS (EUR/share)	**0.66**	**0.62**	**0.71**	**0.77**
YoY growth	-3%	-5%	15%	9%
% change (new versus prior estimates)	11%	7%	8%	2%

Source: Deutsche Bank estimates
** Change in 2013 adjusted earnings estimate reflects revised assessment of exceptional items*

Financial projections

We show our adjusted P&L projections for Suez in Figure 86. We forecast a slight decline in EBITDA in 2014 reflecting primarily adverse currency movements. We forecast a c.6% decline under underlying earnings. From 2015 we forecast much stronger growth, with 2015 earnings also benefiting from the Agbar transaction, which we expect to be earnings enhancing.

Figure 86: Suez adjusted financial projections

Year		2013A*	2014E	2015E	2016E
Adjusted EBITDA	**EUR m**	**2535**	**2509**	**2628**	**2731**
% change	**%**	**-1.7%**	**-1.0%**	**4.7%**	**4.0%**
Adjusted EBIT	EUR m	1165	1149	1110	1145
% change	%	-6.9%	-1.3%	1229	1296
Adjusted PBT	EUR m	763	745	7.0%	5.4%
% change	%	-8.3%	-2.3%	860	921
Adjusted PAT	EUR m	362	348	15.4%	7.0%
% change	%	-2.9%	-4.0%	410	437
Adjusted PAT post hybrid	EUR m	339	324	17.7%	6.8%
% change	%	-3.1%	-4.3%	386	413
Adjusted EPS	**EUR m**	**0.66**	**0.62**	**18.9%**	**7.2%**
% change	**%**	**-3.1%**	**-6.1%**	**0.71**	**0.77**

*Source: Deutsche Bank estimates; *Restated*

We show our segmental projections in Figure 87. We forecast a small decline in group EBITDA in 2014 driven by currency weakness, particularly impacting international operations. Thereafter we forecast 4-5% p.a. EBITDA growth.

We forecast steady 3-4% p.a. growth in EBITDA from the water and waste businesses, with stronger growth from international operations. Every 1% increase in waste volumes adds c.E30m to EBITDA. We assume c.0.5% p.a. improvement in waste volumes in 2015 & 2016; as such around half the c.3-4% p.a. growth we forecast in the waste business is driven by industry volume growth. In the international business we forecast c.5% EBITDA growth, driven by faster growing international operations and new investment.

Figure 87: Suez adjusted segmental projections

Year		2013A*	2014E	2015E	2016E
Water Europe	EUR m	1226	1258	1304	1349
% change		0.2%	2.6%	3.6%	3.5%
Waste Europe	EUR m	790	779	808	835
% change		-0.4%	-1.4%	3.7%	3.4%
Water and waste international	EUR m	560	537	566	592
% change		15.2%	-4.1%	5.3%	4.6%
Other	EUR m	-41	-65	-50	-45
Adjusted EBITDA	**EUR m**	**2535**	**2509**	**2628**	**2731**
% change		**-1.7%**	**-1.0%**	**4.7%**	**4.0%**

*Source: Deutsche Bank estimates; *Restated*

Multiples and leverage

We show Suez's adjusted EV/EBITDA, P/E and dividend yield metrics in Figure 88. Suez trades on 8.5x 2015E DB adjusted EV/EBITDA and 19.5x DB adjusted 2015E P/E. It has a 5% 2015E dividend yield.

Figure 88: Suez summary adjusted multiples

Adjusted multiples	2013A	2014E	2015E	2016E
EV/EBITDA	8.4	8.6	8.5	8.2
P/E	16.5	22.4	19.5	18.2
Dividend yield	5.9%	4.7%	4.7%	4.7%

Source: Deutsche Bank estimates

We show Suez's leverage metrics in Figure 89. Suez has a target for net debt to EBITDA of c.3x. Based on our estimates its ratio will have dropped to 2.8x by year end. Therefore there may be scope for acquisition or additional investments.

Figure 89: Suez leverage metrics

Year	2013	2014E	2015E	2016E
Underlying EBITDA	2,520	2,509	2,628	2,731
Net debt	**7,189**	**7,040**	**7,331**	**7,572**
x EBITDA	**2.9**	**2.8**	**2.8**	**2.8**
Net debt including 50% of hybrid	7,564	7,465	7,806	8,047
x EBITDA	3.0	3.0	3.0	2.9
Net debt including 100% of hybrid	7,939	7,890	8,281	8,522
x EBITDA	3.2	3.1	3.2	3.1

Source: Deutsche Bank estimates

DB versus consensus

We compare our earnings estimates with consensus in Figure 90. Our forecasts are more than 10% below consensus. In our view consensus has not fully reflected expected current weakness and waste volume weakness in 2014, and this has a carryover impact in future years.

Figure 90: Suez - DB earnings projections versus consensus

Year	2014E	2015E	2016E
DB adjusted EPS (EUR/share)	0.62	0.71	0.77
Consensus EPS (EUR/share)	0.71	0.82	0.94
DB versus consensus	**-12%**	**-13%**	**-19%**

Source: Deutsche Bank estimates

Suez – valuation

We increased our Suez target price from E13.5/share to E14.0/share, partly to take into account the increase in sector multiples since our last update. Our valuation corresponds to an adjusted 2015E EV/EBITDA multiple of 8.4x and 2015E P/E of 19.6x (dropping to 18.3x in 2016E) based on DB estimates.

We retain a Hold rating on the shares. Although we see potential upside Suez's share price if it delivers on consensus expectations, we worry that there could be downside to consensus expectations, while the shares already trade on fairly high multiples.

Valuation approach

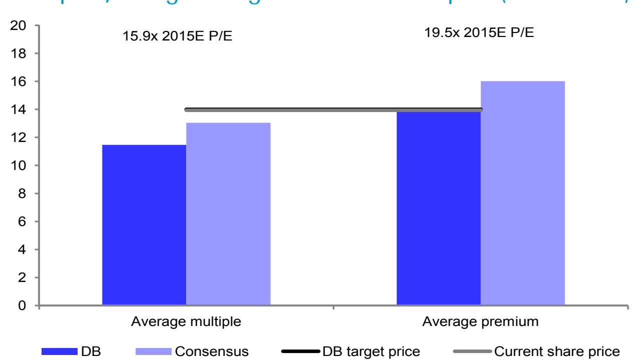
We value Suez using a sum-of-the-parts valuation approach but also cross check our valuation against a DCF and historical trading levels. One way to look at valuation is to look at forward P/E multiples relative to historical trading levels, as we discussed in the *Valuation & risks* section of this report.

We show in Figure 91 and Figure 92 valuations using average one year forward P/E multiples and potential valuation levels using the same approach but looking a year ahead, based on current DB and consensus expectations.

From today's standpoint Suez's shares look expensive based on one year forward DB earnings estimates although trades mid-way between an average absolute P/E multiple and an average premium based on consensus 2015 estimates. Looking ahead a year Suez's shares trade below average absolute and relative levels based on consensus 2016 estimates and mid-way between an average absolute P/E multiple and an average premium on DB estimates.

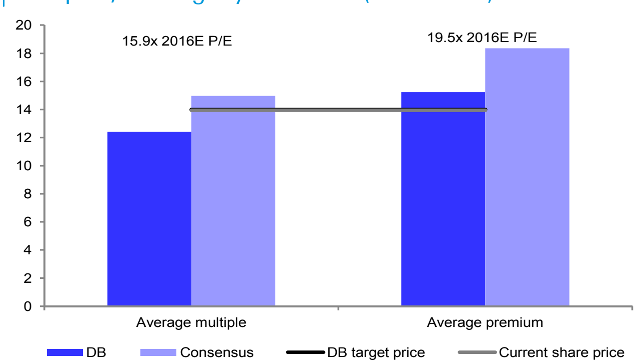
Assuming the share price reverts to average trading levels the share price could remain flattish over the next year based on DB estimates. If consensus holds the shares could well be trading at over E15/share in a year's time in our view if investors are willing apply at least the average absolute historical P/E multiple to forward consensus earnings.

Figure 91: Suez valuation based on one year forward P/E multiples, using average historical multiples (EUR/share)



Source: Deutsche Bank estimates

Figure 92: Suez valuation based on forward P/E multiples, looking a year ahead (EUR/share)



Source: Deutsche Bank estimates

Sum-of-the-parts valuation

Our sum-of-the-parts approach values the three main business segments on EV/EBITDA multiples, stripping out infrastructure renewals provisions and JVs and associates (see Figure 93).

We value Water Europe using a 2015E EV/EBITDA multiple of 8.1x; Waste Europe using a multiple of 8.5x (to reflect recovery hopes); and the international operations on a multiple of 9.0x (to reflect stronger growth potential).

We value JVs and associates using a 20x 2015E P/E multiple. We also value minorities using a 20x 2015E P/E multiple. We take into account E950m of hybrid debt and as assessment of the group's provisions when calculating our target equity value.

Figure 93: Suez sum-of-the-parts valuation

SOTP (EUR m)	Value (EUR m)	Value (EUR/share	% of EV	Adj EBITDA 2015E (EUR m)	Multiple
Water Europe	8,813	16.3	46%	1,088	8.1x EV/EBITDA
Waste Europe	6,449	11.9	34%	759	8.5x EV/EBITDA
Water & waste international	4,223	7.8	22%	468	9.0x EV/EBITDA
Other & Financial adjustments	(400)	(0.7	-2%	(50)	8.0x EV/EBITDA
Enterprise value	**19,085**	**35.3**	**100%**	**2,265**	**8.4x EV/EBITDA**
Net debt, including Hybrid	(7,990)	(14.8)	-42%		
Provisions	(1,801)	(3.3)	-9%		
Minorities	(4,193)	(7.8)	-22%		20x 2015E P/E
Financial holdings	659	1.2	3%		
Equity accounted associates	1,815	3.4	10%		20x 2015E P/E
Equity value	**7,575**	**14.0**	**40%**		**19.6x 2015E P/E; 18.3x 2016E P/E**
Number of shares (m)	540.2				
Equity value (EUR/share)	**14.0**				
Current price	13.9				
Upside	0%				

Source: Deutsche Bank estimates

DCF approach cross-check

We cross check our valuation using a DCF approach. We use very similar assumptions in our DCF approach for Suez as to Veolia, although we assume a slightly (0.5% p.a.) lower growth rate for Suez over the 2017-20 period. We make the following assumptions:

- Above inflation EBITDA growth driven partly by growing assets. We assume EBITDA growth rates as shown in the Figure 103.
- Capex of c.E1.6bn in 2017, growing by 2.5% p.a. thereafter.
- Vanilla WACC of 6.1%, based on a 8.0% cost of equity; a 4.0% long-run cost of debt; and c.48% economic leverage.

Figure 94: Suez DCF assumptions

EBITDA growth assumptions	
EBITDA growth rate (2017-20)	4.0%
EBITDA growth rate (2021-50)	3.0%
EBITDA growth rate (from 2050)	1.0%

Source: Deutsche Bank

Model updated:01 September 2014

Running the numbers

Europe

France

Water

Veolia Environnement

Reuters: VIE.PA | Bloomberg: VIE FP

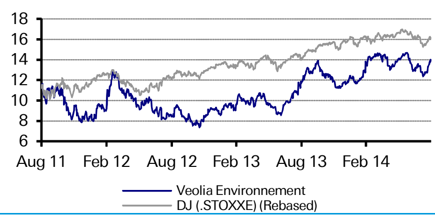
Hold

Price (29 Aug 14)	EUR 13.98
Target Price	EUR 14.50
52 Week range	EUR 11.22 - 14.70
Market Cap (m)	EURm 7,764
	USDm 10,225

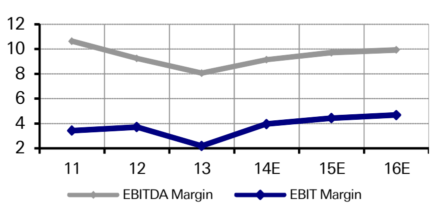
Company Profile

Veolia Environnement operates utility and public transportation businesses. The Company supplies drinking water, provides waste management services, manages and maintains heating and air conditioning systems, and operates rail and road passenger transportation systems.

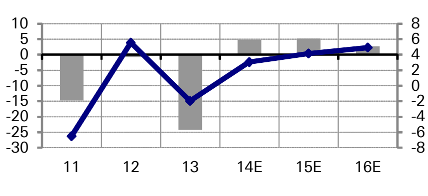
Price Performance



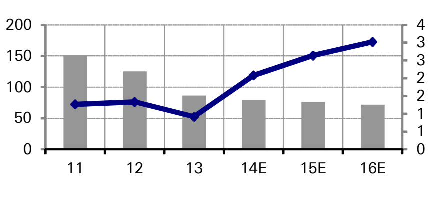
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (EUR)	0.37	0.03	-0.12	0.46	0.65	0.79
Reported EPS (EUR)	-0.99	0.78	-0.29	0.46	0.65	0.79
DPS (EUR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (EUR)	14.2	14.1	15.7	15.7	16.1	16.5
Weighted average shares (m)	496	507	524	556	569	583
Average market cap (EURm)	6,936	7,081	7,316	7,764	7,764	7,764
Enterprise value (EURm)	19,755	16,900	14,270	16,563	16,739	16,879
Valuation Metrics						
P/E (DB) (x)	38.2	538.3	nm	30.3	21.5	17.7
P/E (Reported) (x)	nm	18.0	nm	30.3	21.5	17.7
P/BV (x)	0.98	0.99	0.89	0.89	0.87	0.85
FCF Yield (%)	19.0	35.4	10.8	0.6	0.8	1.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	0.7	0.6	0.6	0.7	0.7	0.7
EV/EBITDA (x)	6.3	6.2	7.9	7.7	7.0	6.7
EV/EBIT (x)	19.4	15.4	29.1	17.9	15.3	14.3
Income Statement (EURm)						
Sales revenue	29,647	29,439	22,315	23,396	24,620	25,265
Gross profit	15,124	14,770	11,509	12,160	12,730	13,177
EBITDA	3,152	2,723	1,796	2,140	2,392	2,513
Depreciation	1,573	1,653	1,180	1,242	1,331	1,363
Amortisation	562	-25	126	-29	-32	-34
EBIT	1,017	1,095	491	927	1,093	1,184
Net interest income(expense)	-805	-822	-538	-446	-415	-392
Associates/affiliates	12	30	127	74	53	60
Exceptionals/extraordinaries	-2	386	27	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	210	659	-20	481	678	792
Income tax expense	539	159	128	168	227	253
Minorities	173	136	114	85	89	94
Other post-tax income/(expense)	0	0	-17	-45	-45	-45
Net profit	-490	394	-152	257	370	460
DB adjustments (including dilution)	671	-381	91	0	0	0
DB Net profit	182	13	-61	257	370	460
Cash Flow (EURm)						
Cash flow from operations	2,443	2,055	1,213	1,744	1,851	1,958
Net Capex	-1,124	450	-420	-1,699	-1,789	-1,840
Free cash flow	1,319	2,505	793	46	62	118
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-547	-547	-191	-246	-244	-251
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-284	1,489	1,004	424	185	189
Net cash flow	488	3,447	1,606	224	2	56
Change in working capital	*-41*	*103*	*-4*	*-46*	*-51*	*-68*
Balance Sheet (EURm)						
Cash and other liquid assets	6,244	5,548	4,274	3,498	2,500	2,057
Tangible fixed assets	13,117	11,357	6,260	13,263	13,655	14,068
Goodwill/intangible assets	7,077	5,938	4,206	4,206	4,206	4,206
Associates/investments	8,263	10,400	14,063	6,914	6,914	6,914
Other assets	15,705	11,370	7,439	7,870	8,355	8,653
Total assets	50,406	44,612	36,242	35,750	35,630	35,896
Interest bearing debt	21,089	17,002	12,626	11,626	10,626	10,126
Other liabilities	19,481	18,485	13,933	13,876	14,311	14,540
Total liabilities	40,571	35,486	26,559	25,502	24,937	24,666
Shareholders' equity	7,070	7,152	8,205	8,739	9,134	9,619
Minorities	2,765	1,974	1,478	1,510	1,559	1,611
Total shareholders' equity	9,835	9,126	9,683	10,248	10,693	11,230
Net debt	*14,846*	*11,454*	*8,351*	*8,127*	*8,125*	*8,069*
Key Company Metrics						
Sales growth (%)	-14.8	-0.7	-24.2	4.8	5.2	2.6
DB EPS growth (%)	-53.0	-92.9	na	na	40.8	21.5
EBITDA Margin (%)	10.6	9.2	8.0	9.1	9.7	9.9
EBIT Margin (%)	3.4	3.7	2.2	4.0	4.4	4.7
Payout ratio (%)	nm	0.0	nm	0.0	0.0	0.0
ROE (%)	-6.5	5.5	-2.0	3.0	4.1	4.9
Capex/sales (%)	9.0	8.0	5.5	7.3	7.3	7.3
Capex/depreciation (x)	1.8	1.5	1.2	1.5	1.5	1.5
Net debt/equity (%)	150.9	125.5	86.2	79.3	76.0	71.9
Net interest cover (x)	1.3	1.3	0.9	2.1	2.6	3.0

Source: Company data, Deutsche Bank estimates

Veolia – financial projections

Following the steady collapse in underlying earnings over the last few years we expect a strong recovery over 2014-16, driven primarily by cost rationalisation and gradually improving business dynamics. As always with Veolia, the picture is complicated by multiple one-offs (some of which are treated as one-offs by the company and some of which aren't) and consolidation adjustments.

We expect underlying DB adjusted earnings to increase from a E0.12/share loss in 2013 to E0.65/share by 2015. Using the same basis as Veolia to adjust profits (i.e. including positive capital gains) earnings could rebound to E0.83/share in our view, based on a typical level of capital gains. On this basis we think Veolia will meet its 2015 financial targets to cover its dividend with earnings.

Financial projections

We show our group adjusted P&L projections for Veolia below. We forecast mid-high single digit EBITDA growth over 2014-16, although headline EBITDA growth should be much stronger due to the reconsolidation of Dalkia international.

Figure 95: Veolia adjusted adjusted financial projections

Adjusted for one-offs (EUR m)		2013A	2014E	2015E	2016E
Revenue	€ m	22,315	23,396	24,620	25,265
Adjusted EBITDA	**€ m**	**1,796**	**2,140**	**2,392**	**2,513**
% change	%	(34.0)	19.1	11.8	5.0
Adjusted depreciation	€ m	1,053	1,213	1,299	1,329
Adjusted EBIT	€ m	743	927	1,093	1,184
% change	%	(37.7)	24.7	17.9	8.3
EBIT plus EI	**€ m**	**922**	**1,001**	**1,147**	**1,245**
% change		(22.8)	8.6	14.5	8.6
Financial charges	€ m	(576)	(346)	(315)	(292)
Tax	€ m	(75)	(168)	(227)	(253)
Equity income	€ m	127	74	53	60
Minorities	€ m	(114)	(85)	(89)	(94)
Adjusted net income	€ m	**105**	**402**	**515**	**605**
Hybrid charges	**€ m**	(17)	(45)	(45)	(45)
Number of shares	€ m	524	556	569	583
Adjusted EPS (Veolia basis)	**€ m**	**0.39**	**0.64**	**0.83**	**0.96**
% change	%	233.0	62.8	28.7	16.4
Adjusted EPS (DB basis)	**€ m**	**(0.12)**	**0.46**	**0.65**	**0.79**
DPS	%	0.70	0.70	0.70	0.70

Source: Deutsche Bank estimates

We show our segmental projections in Figure 96. The picture is complicated by consolidation adjustments, with Dalkia international de-consolidated in 2013 and then reconsolidated mid-way through 2015. Proactive was consolidated towards the end of 2013.

On an underlying basis we expect Veolia to generate mid-to-high single digit growth in EBITDA over the next few years, driven by cost cutting efforts and gradually improving business dynamics.

The water business has faced steady presume over the last few years due to contract renewals, although we expect profits to start to grow this year as cost cutting should more than offset competitive pressures. We forecast 4-5% p.a. EBITDA growth over the next few years from the water business. .

We forecast a bounce back in profits in the waste business in 2014, although this main reflects the easy comp in 2013, which suffered from a number of operational challenges.

We also forecast strong growth in the waste business in 2015 & 2016, which is probably the greatest uncertainty in our projections. Most of the growth we forecast is driven by cost cutting. We estimate that every 1% increase in waste volumes adds c.E40m to EBITDA. We assume c.0.5% p.a. improvement in waste volumes in 2015 & 2016; as such around a third of the growth we forecast in the waste business is driven by waste volumes.

We forecast strong growth in the Energy Services business, with Veolia expected to deconsolidate Dalkia France and reconsolidate Dalkia international now the transaction with EDF has closed. Dalkia International is a large business and as such the transaction means strong growth in EBITDA from this segment. On an underlying basis we expect this business to generate mid-single digit EBITDA growth.

Figure 96: Segmental projections

Year		2013A	2014E	2015E	2016E
Water	€ m	833	864	902	945
% change		-28.9%	3.7%	4.3%	4.8%
Waste	€ m	847	959	1,022	1,069
% change		-19.2%	13.3%	6.6%	4.6%
Energy services	€ m	229	402	556	589
% change		-58.0%	75.6%	38.5%	5.9%
Other	€ m	(112)	(85)	(88)	(90)
Adjusted EBITDA	**€ m**	**1,796**	**2,140**	**2,392**	**2,513**
% change		**-34.0%**	**19.1%**	**11.8%**	**5.0%**

Source: Deutsche Bank estimates

Multiples & leverage

We show Veolia's adjusted EV/EBITDA, P/E and dividend yield metrics in Figure 95. Veolia trades on 7.0x 2015E DB adjusted EV/EBITDA and a 20.2x DB adjusted 2015E P/E. It has 5.1% 2015E dividend yield.

Figure 97: Veolia summary multiples

	2013A	2014E	2015E	2016E
EV/EBITDA	7.9	7.7	7.0	6.8
P/E (DB basis)	NA	29.8	21.2	17.4
P/E (Veolia basis)	34.9	21.4	16.7	14.3
Dividend yield	5.1	5.1	5.1	5.1

Source: Deutsche Bank estimates

We show Veolia's leverage metrics in Figure 98. Veolia has an aim to reduce net debt to EBITDA to c.3x by 2015. Based on our estimates it will broadly achieve this with 3.1x net debt to EBITDA at the end of 2015.

Figure 98: Veolia leverage metrics

Year	2013	2014E	2015E	2016E
EBITDA	1,796	2,140	2,392	2,513
Net debt	8,177	7,953	7,951	7,895
x EBITDA	**4.6**	**3.7**	**3.3**	**3.1**
Net debt ex loans to JVs	5,644	7,420	7,418	7,362
x EBITDA	3.1	3.5	3.1	2.9
Net debt ex loans to JVs including 50% of hybrid	6,394	8,170	8,168	8,112
x EBITDA	3.6	3.8	3.4	3.2
Net debt ex loans to JVs including 100% of hybrid	7,144	8,920	8,918	8,862
x EBITDA	4.0	4.2	3.7	3.5

Source: Deutsche Bank estimates

DB versus consensus

We compare our earnings estimates with consensus in Figure 99. Our forecasts are broadly in-line with consensus in 2014, but significantly below in 2015 & 2016E comparing DB underlying earnings with consensus. Factoring in capital gains as Veolia does in its adjusted numbers would lift our estimates above consensus, particularly in 2014.

Figure 99: Veolia - DB earnings projections versus consensus

Year	2014E	2015E	2016E
DB adjusted EPS (EUR/share)	0.46	0.65	0.79
DB adjusted EPS (EUR/share - Veolia basis)	0.64	0.83	0.96
Consensus EPS (EUR/share)	0.43	0.76	0.90
DB adjusted EPS versus consensus	**7%**	**-14%**	**-12%**
DB adjusted EPS versus consensus – Veolia basis	**49%**	**9%**	**7%**

Source: Deutsche Bank estimates

Veolia – valuation

We reinstate coverage of Veolia with a E14.5/share target price and Hold rating. Our valuation corresponds to an adjusted 2015E EV/EBITDA multiple of 7.7x and 2015E P/E of 22.2x (dropping to 18.3x in 2016E, in-line with the 2016E P/E multiple we use to value Suez).

Although we see potential upside to the share price if Veolia delivers on consensus expectations, or investors are willing to view capital gains as underlying earnings and factor this in, we worry that there could be downside to consensus expectations on a pre-exceptional basis, and the shares already trade on fairly high multiples.

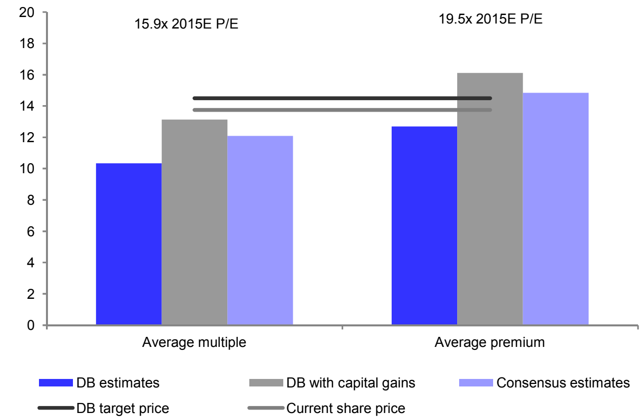
Valuation approach

We value Veolia using a sum-of-the-parts valuation approach but also cross check our valuation against a DCF and multiples relative to historical trading levels. As we illustrated for Suez, in Figure 91 and Figure 92 we show valuations using one year forward P/E multiples and potential valuation levels using the same approach but looking a year ahead.

From today's standpoint Veolia looks expensive based on 2015 DB earnings estimates unless one is willing to incorporate capital gains, which we think is an overly generous approach. Based on consensus the shares trade between an average absolute 2015E P/E multiple and an average premium. Looking a year ahead the shares trade between average absolute and relative levels based on DB 2016 earnings estimates, although trade at a discount to average multiples based on consensus or including capital gains in DB estimates.

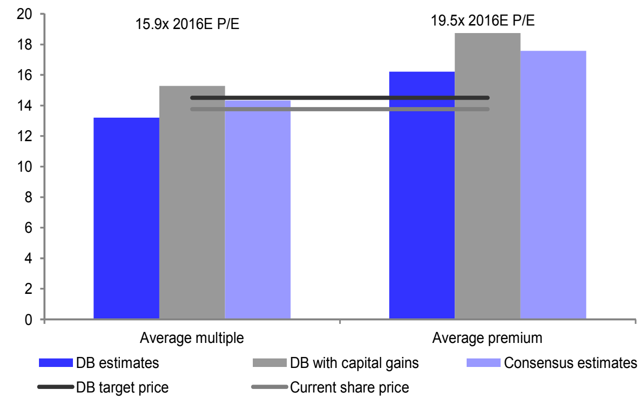
Assuming the share price reverts to average trading levels we think the share price could increase slightly based on DB underlying earnings estimates. If consensus holds or investors are willing to treat capital gains as underlying earnings the share price could increase to over E15/share in a year's time.

Figure 100: Veolia valuation based on one year forward P/E multiples, using average historical multiples (EUR/share)



Source: Deutsche Bank estimates

Figure 101: Veolia valuation based on forward P/E multiples, looking a year ahead (EUR/share)



Source: Deutsche Bank estimates

Sum-of-the-parts valuation

Our sum-of-the-parts approach values the three main business segments on EV/EBITDA multiples, stripping out income from operational financial assets and income from equity accounted assets (see Figure 102).

We value Water Europe using a 2015E EV/EBITDA multiple of 7.3x; Waste Europe using a multiple of 8.0x (to reflect recovery hopes); and Dalkia International on a multiple of 7.6x.

We value equity accounted JVs and associates equivalent to a 20x 2015E P/E multiple, stripping out Transdev. We value Chinese water concessions using an EV/EBITDA multiple of 10x, broadly in-line with Asian peers. We value Transdev at book value, given that Veolia has said that the approval of the value of Transdev has been made on a very conservative basis. We value other JVs and associates at 15x 2015E P/E.

We value discontinued operations at book value. We take into account E1500m of hybrid debt and as assessment of the group’s provisions when calculating our target equity value. We include loans to JVs and E1.9bn of operating financial assets, which we value at 2014E book value. We forecast 562.3m shares at year end, which is higher than as 2013 year end due to the scrip dividend and shares granted to employees.

Figure 102: Veolia sum-of-the-parts valuation

	EV (EUR m)	EUR ps	% EV	Adjusted EBITDA 2015E	Multiples
Total Water	5,740	10.2	34%	784	7.3x EV/EBITDA
Total Waste	7,710	13.7	45%	964	8.0x EV/EBITDA
Dalkia	4,215	7.5	25%	556	7.6x EV/EBITDA
Other businesses	(700)	(1.2)	-4%	-88	8.0x EV/EBITDA
Enterprise value	**16,964**	**30.2**	**100%**	**2,216**	**7.7x EV/EBITDA**
Net debt	(7,990)	(14.2)	-47%		
Hybrid debt	(1,500)	(2.7)	-9%		
Pensions	(855)	(1.5)	-5%		
Provisions	(1,283)	(2.3)	-8%		
Minorities	(1,785)	(3.2)	-11%		20x 2015E P/E
Operating financial assets	1,900	3.4	11%		
Loans to JVs	533	0.9	3%		
Other financial assets (ex loans to JVs)	524	0.9	3%		
Equity accounted assets & JVs	1,512	2.7	9%		20x 2015E P/E
Discontinued operations	108	0.2	1%		
Total balance-sheet adjustments	(8,836)	(15.7)	-52%		
Equity value	**8,128**	**14.5**	**48%**		**22.2x 2015E implied P/E; 18.3x 2016E implied P/E**
Current market cap	7,734				
Number of shares (m)	562.3				
Equity value (EUR/share)	**14.5**				
Current share price (EUR)	13.8				
Upside from current level in %	5%				

Source: Deutsche Bank estimates

DCF approach cross-check

We cross check our valuation using a DCF approach. We make the following assumptions:

- Above inflation EBITDA growth driven partly by growing assets. We assume EBITDA growth rates as shown in the Figure 103.
- Capex of c.E1.7bn in 2017, growing by 2.5% p.a. thereafter.
- Vanilla WACC of 5.9%, based on an 8.0% cost of equity; a 4.0% long-run cost of debt; and c.51% economic leverage.

Figure 103: Veolia DCF assumptions

EBITDA growth assumptions	
EBITDA growth rate (2017-20)	4.5%
EBITDA growth rate (2021-50)	3.0%
EBITDA growth rate (from 2050)	1.0%

Source: Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Veolia Environnement	VIE.PA	14.06 (EUR) 1 Sep 14	7,14,15,17
Suez Environnement	SEVI.PA	14.03 (EUR) 1 Sep 14	14,15

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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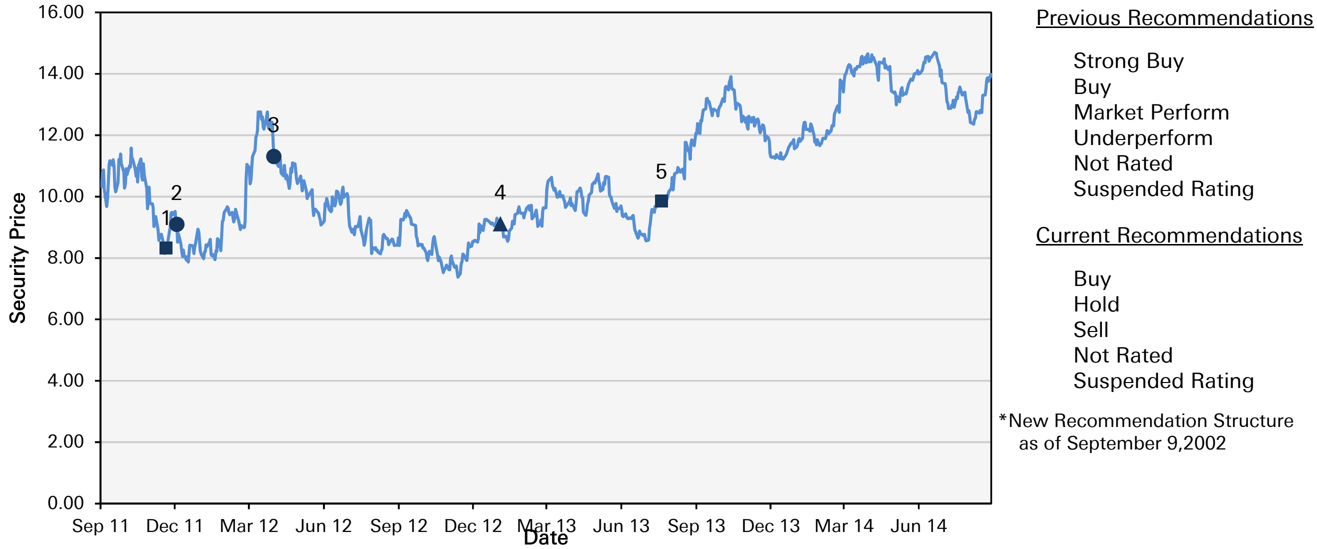
Historical recommendations and target price: Veolia Environnement (VIE.PA)

(as of 9/1/2014)



1. 24/11/2011:	Buy, Target Price Change EUR10.00	4. 07/01/2013:	Upgrade to Hold, Target Price Change EUR8.00
2. 07/12/2011:	Downgrade to Hold, EUR10.00	5. 24/07/2013:	Hold, Target Price Change EUR9.00
3. 04/04/2012:	Downgrade to Sell, EUR10.00		

Historical recommendations and target price: Suez Environnement (SEVI.PA)

(as of 9/1/2014)

1. 27/10/2011:	Downgrade to Hold, Target Price Change EUR13.00	4. 16/12/2013:	Hold, Target Price Change EUR13.00
2. 19/12/2011:	Hold, Target Price Change EUR11.00	5. 22/04/2014:	Hold, Target Price Change EUR14.00
3. 21/08/2012:	Hold, Target Price Change EUR9.00	6. 02/05/2014:	Hold, Target Price Change EUR13.50

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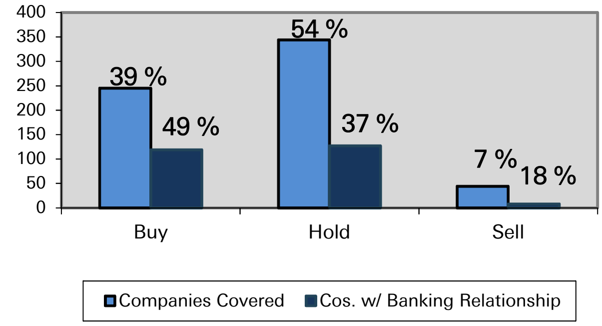

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