

Veolia Environnement SA

Europe Satellite*

Recommended since 22.04.2021

04.01.2022



Country FR	Market capitalization (bn) EUR 22.5	Perf. since reco. (%)
Sector Services publics	Free float 96.1%	Veolia Environnement SA 34.0
Factset VIE-FR	Closing price EUR 32.60	Sector 3.9
ISIN FR0000124141	ESG Risk score* 22.4 Medium risk	



Profile

Founded in 1853, French group Veolia specialises in providing environmental solutions to industrial customers and public authorities. Its operations span the full length of the value chain in water (supply of drinking water/wastewater treatment), waste management (collection, processing and energy/material recovery) and energy services (heating/cooling services and industrial process optimisation). The group has nearly 179,000 employees across all five continents. Its main comparables are UK operators Pennon Group, Severn Trent and United Utilities and US player Waste Management, Inc.

Strengths/opportunities

- A global leader with operations along the entire value chain.
- Growth in water and waste markets supported by the European Green Deal.
- Operational synergies from Suez acquisition.

Weaknesses/threats

- Sensitive to economic cycles through exposure to industrial businesses.
- Asset disposals and antitrust procedures in progress to pave the way for finalisation of Suez acquisition.

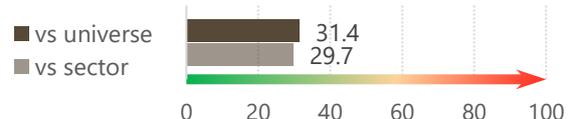
Investment case

- Veolia is finalising the acquisition of Suez, which will boost its sales by more than €10bn and its EBITDA by €2bn. The structure of the two groups means Veolia has been able to confirm synergies worth €500m. The group is optimising its product and service offering and its ability to capture new customers and expand in strategic segments, including in particular the regulated water sector in the US and Chile, water in Spain, industrial water, and hygiene in the UK and Australia.
- The European Green Deal includes a stated goal of “zero pollution”, with a particular focus on air, water and soil quality. With sustained and visible growth momentum in the water and waste management markets, Veolia is ideally placed to capitalise on these key challenges in the ecological transition.
- The group is a good generator of free cash flow, with the potential to generate €0.8-1.0bn a year on sales of c. €35bn. Impacts from the Suez acquisition are in keeping with the strategic plan unveiled in 2020: a combined RoCE of 8-9% and a target post-2021 net debt/EBITDA ratio of less than 3x. Veolia launched its new “Impact 2023” strategic plan, which places the emphasis on areas of expertise that mark Veolia out from the competition (energy efficiency, treatment of hazardous waste and soil decontamination) and the digital transformation of its business lines. The post Suez acquisition perimeter and associated objectives can clearly justify a 35-40 EUR value per share in our view.

Valuation

The share is trading at a fwd P/E of c. 20x and an EV/EBITDA ratio of 6.6x, equating to a >20% discount to peers average.

ESG risk vs. universe & sector (percentile)*



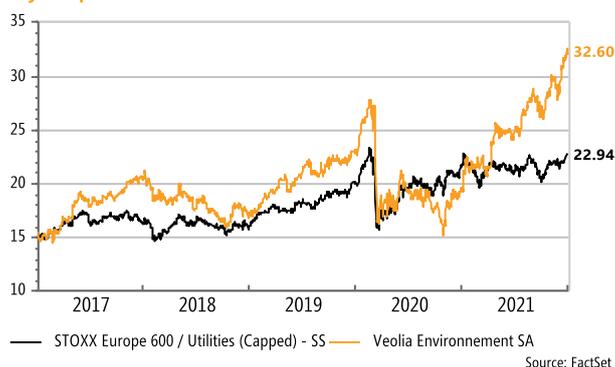
EUR	12/2020	2021e	2022e
Sales revenue (mio)	26 010	27 812	35 645
Sales growth	-4.3%	6.9%	28.2%
EBIT adjusted (mio)	1 125	1 771	2 732
% of sales	4.3%	6.4%	7.7%
Net income (mio)	109	777	1 103
Net income growth	-85.1%	614.4%	42.1%
FCF/Sales	3.0%	15.4%	2.3%
Net debt/Ebitda	5.1x	3.0x	2.8x
Dividend yield	2.1%	3.1%	3.5%
PE	125.0x	25.1x	20.1x
P/BV	2.2x	1.9x	2.1x

Factset estimates

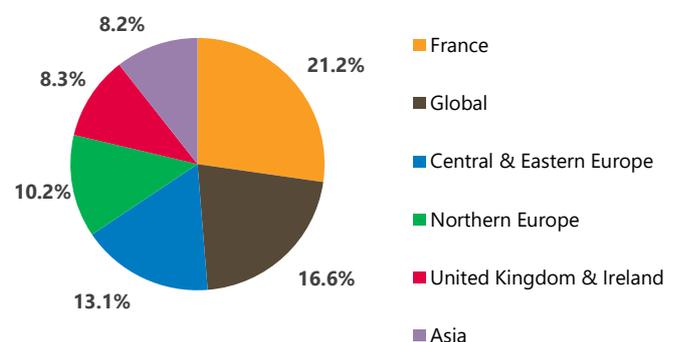
ESG - risks and key points

- Veolia is rated high risk for environmental, social and governance issues. However, its management of these issues is considered robust.
- Operation of water systems, incineration and waste sites give rise to a variety of environmental risks and health hazards.
- On the climate front, Veolia is working to a plan to cut CO2 emissions, notably by capturing methane emitted by its waste storage facilities.

5-year performance vs sector



Sales breakdown - 12/2020



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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