

UTILITIES

Veolia Environnement

Battle for Paris water contract: 1st round

- A EUR214m design/ construction contract
- Paris contract likely to be lost (impact EUR0.5 per share)
- Ile de France contract less at risk but cut in tariffs expected

■ A EUR214m design/construction contract

Veolia has just won two design / construction contracts for waste water treatment plants in the Paris area (EUR214m in revenues for Veolia Environnement spread over 2008-2012).

■ Paris seems to be lost – Ile de France region less at risk

Two contracts will be renegotiated in the next two years:

1) Water distribution in Paris by the end of 2009: according to our estimates, this represents EUR20m in EBITDA for Veolia (and EUR10m for Suez Environnement). The Mayor of Paris announced during the election campaign that water distribution will be given back to the municipality at the end of the contract. Although the Paris municipality will seek expertise from Veolia and SE, it seems clear that these two companies have very little chance of keeping their contract. The impact is of EUR0.5/ share for Veolia.

2) Water distribution and waste water treatment for the Ile-de-France region (suburbs of Paris) by the end of 2010: the chairman of the syndicate which manages this activity is a politician which is favourable to the private players. Nevertheless, the contract which represents EUR100m-150m in EBITDA for Veolia (according to our estimates) will be reopened to competition. We believe that Veolia has good chance of keeping it, but by accepting some tariff cuts as is generally the case for contracts renegotiated currently in France. If the contract were to be lost, the impact would be of EUR3 per share for Veolia.

In any event, although the impact of these two contracts is not huge in valuation terms, the "noise" surrounding these renegotiations is not favourable for Veolia and Suez Environnement.

■ We maintain a cautious stance

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Rating **3/Underperform**

Target price (6 months) **+6% EUR49.00**

Price (19/05/08) **EUR46.20**

Market capitalisation **EUR21.597bn**

Reuters: **VIE.PA** Bloomberg: **VIE FP**

Performances

	1 month	3 months	12 months
Absolute perf.	4.3%	-18.7%	-24.5%
Relative perf.	0.9%	-21.4%	-10.6%



To 31/12 (EUR)	2008E	2009E	2010E
Sales (m)	37241	40414	0
NAP, rest. (m)	1052	1179	0
Clean EPS	2.33	2.61	0.00
P/E bef. GW (x)	19.9	17.7	0.0
EV/EBITDA (x)	8.0	7.5	0.0
EV/EBITA (x)	13.8	12.8	0.0
FCF yield (%)	-3.0	-2.6	0.0
ROE (%)	13.7	14.6	0.0
Net yield (%)	3.0	3.3	0.0

Sector focus

Sector Top Picks Enagas, Suez

Least favoured Gas Natural, Theolia

BEST REGARDS,
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