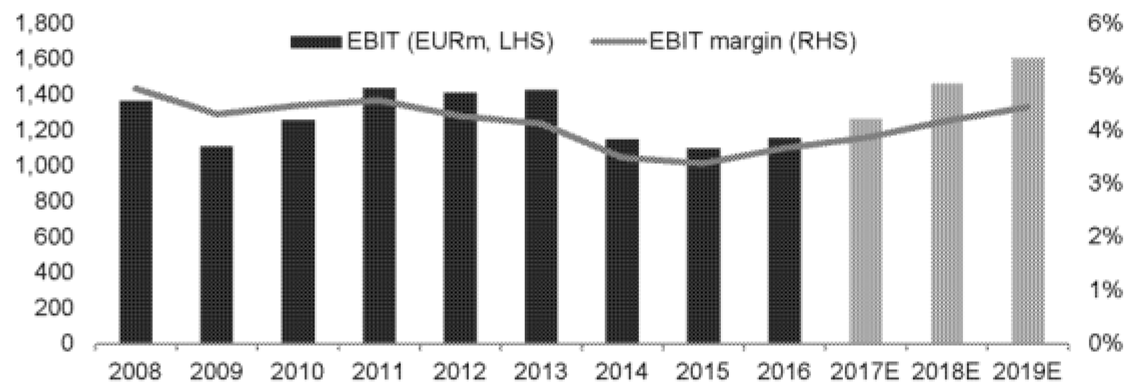
Deutsche Bank

33 Vinci – Guillermo Fernandez-Gao, BUY, close €86.7, €94.1 tgt, 9% upside

- Vinci is a large company (**market cap > €50bn**) with **substantial absolute cash generation potential** at €4.5bn FCF ex growth capex, implying a 9.3% yield (well above Ferrovial's at 4.5%).
  - Growth capex derives from stimulus programmes and construction of new assets (which is M&A-like in nature).
- **8% EBIT CAGR to 2019E** driven mostly by French construction market recovery boosting the late-cycle Contracting segment (c30% of value, growing at a 12% CAGR to 2019).
  - **Infrastructure** should be an important driver, spurred by meaningful contracts in railways (such as the Grand Paris Metro network).
- **Earnings visibility in Autoroutes division** (50% of Group valuation) due to resilient and predictable cash flows. We expect a 4.1% EBIT CAGR to 2019E – substantial for such mature assets
- **A takeover of ADP would be accretive from day one.** Even if we assume no synergies at all and a 30% takeover premium, EPS would increase by 11% in 2018E. This potential deal has seen escalating newsflow.
  - This would also help reduce Vinci's overexposure to the French economy. Domestic EBITDA would fall from 76% to 63% of the total (assuming ADP traffic mix, Int'l 84% of its total).
- Vinci trades on 16.5x P/E. Our target implies an adjusted FCF yield of 8.5%.
- Catalysts: FY 2017 Results on 07-Feb. We are 2% above consensus at EBIT level.

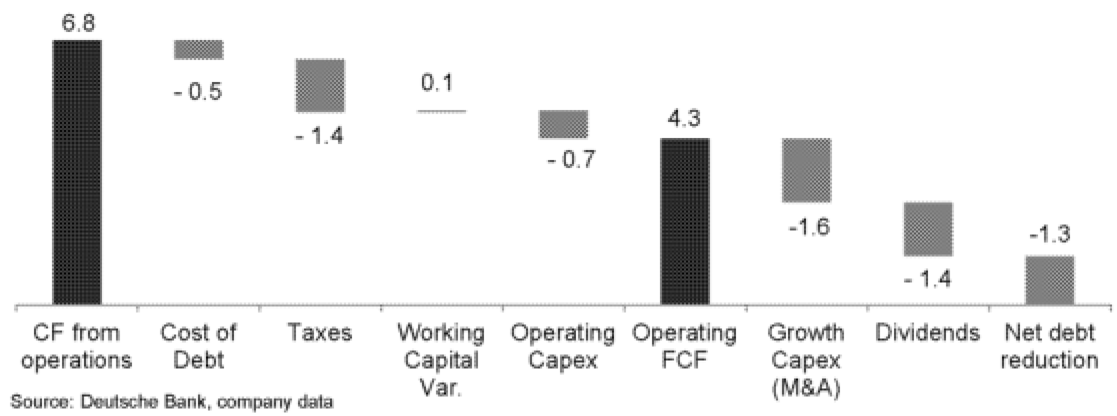
Related DB Research:
Vinci: How Vinci would look with ADP in it (Fernandez-Gao)
Transportation Outlook 2018: Going Places (Chu)

The Contracting segment is growing at a 12% EBIT CAGR to 2019E



Source: Deutsche Bank, company data

Impressive FCF generation (2018E, EUR bn) – a 9.3% yield ex growth capex



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