

6th January 2016

TMT

Capgemini

Price EUR83.42

Is Capgemini interested in acquiring Hexaware?

Fair Value EUR96 (+15%)

BUY

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	90.2 / 57.0
Market Cap (EURm)	14,363
Avg. 6m daily volume (000)	658.1

	1 M	3 M	6 M	31/12/14
Absolute perf.	-3.4%	3.1%	3.3%	40.2%
Softw.& Comp.				
SVS	-1.7%	13.2%	10.6%	24.9%
DJ Stoxx 600	-3.2%	0.2%	-6.4%	4.8%

	2014	2015e	2016e	2017e
P/E	20.0x	18.2x	15.1x	13.7x
Div yield (%)	1.4%	1.7%	1.8%	1.9%

ANALYSIS

- **Baring PE to sell its stake in Hexaware.** According to the *Economic Times*, Baring Private Equity Asia has initiated talks with Capgemini and private equity funds Blackstone and Carlyle to sell its 71% stake in the Indian IT Services company Hexaware Technologies. Listed in Mumbai, Hexaware generated in 2014 revenues of USD422.4m (+8.9%) and an operating margin of 16.8%, with 11,341 staff as of 30th September 2015. The company generates 81% of revenues in America, 14% in Europe and 5% in Asia Pacific, with a heavy exposure to Application Services (est. 87% of sales).
- **Fairly good potential strategic fit with Capgemini if a deal happens.** The *Economic Times* mentions the sale process could be initiated in January. If Capgemini wins such a deal - which is far from being done - we could find a fairly good fit with Hexaware: 1). On a strategic standpoint, Hexaware would raise the offshore leverage by c. 1-2ppt (to 55-56% from 54%) with an enhanced presence in India; 2). On a financial standpoint, converted in USD, Hexaware's market cap is around USD1.2bn, which values the company at est. 2015 EV/sales of 2.6x and EV/EBIT of 15x, and even with a 20-30% premium, we estimate Capgemini's end 2016 net gearing would rise to c. 35%.

VALUATION

- Capgemini's shares are trading at est. 10.4x 2016 and 8.9x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2015 was EUR1,464m (net gearing: -24%).

NEXT CATALYSTS

FY15 results on 18th February before markets open.

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Gregory Ramirez, gramirez@bryangarnier.com

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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