

Alten

Price EUR51.28

Q4 2015 sales: some clouds in the sky hardly justify current valuation

Fair Value EUR46 vs. EUR48 (-10%)

SELL vs. NEUTRAL

Bloomberg	ATE FP
Reuters	LTEN.PA
12-month High / Low (EUR)	54.6 / 35.9
Market Cap (EURm)	1,726
Ev (BG Estimates) (EURm)	1,690
Avg. 6m daily volume (000)	43.20
3y EPS CAGR	9.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.2%	8.7%	16.1%	-4.0%
Softw. & Comp.	-3.9%	-0.3%	2.2%	-4.9%
Ind. & Tech.	-1.1%	1.1%	1.1%	-1.1%
DJ Stoxx 600	-8.1%	-10.9%	-14.1%	-8.5%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	1,373	1,541	1,649	1,729
% change		12.2%	7.0%	4.9%
EBITDA	142	163	178	190
EBIT	118.0	149.0	166.0	177.0
% change		26.3%	11.4%	6.6%
Net income	89.0	102.0	109.0	118.0
% change		14.6%	6.9%	8.3%

	2014	2015e	2016e	2017e
Operating margin	9.6	9.8	10.0	10.3
Net margin	5.8	6.5	6.6	6.8
ROE	14.1	15.9	15.5	14.9
ROCE	17.1	17.3	18.3	19.5
Gearing	-5.0	-6.0	-14.0	-24.0

(€)	2014	2015e	2016e	2017e
EPS	2.65	3.03	3.25	3.49
% change	-	14.3%	7.3%	7.4%
P/E	19.4x	16.9x	15.8x	14.7x
FCF yield (%)	2.4%	5.3%	6.3%	7.1%
Dividends (€)	1.00	1.00	1.00	1.00
Div yield (%)	2.0%	2.0%	2.0%	2.0%
EV/Sales	1.2x	1.1x	1.0x	0.9x
EV/EBITDA	12.0x	10.4x	9.1x	8.1x
EV/EBIT	12.9x	11.1x	9.8x	8.7x

We have downgraded our recommendation from Neutral to Sell and cut our DCF-derived Fair Value from EUR48 to EUR46, after reducing our 2016-18 adj. EPS ests by 2-3% (-EUR1/share) and our mid-term lfl sales growth assumption from 6% to 5.5% (-EUR1). Yesterday evening Alten reported Q4 2015 sales globally in line with our ests. and we do not consider our FY15 op. margin est. (9.8%) threatened. Negative signals (Oil & Gas, Telecoms) have appeared, and we now expect the 2016 lfl growth rate to be similar to the 2015 level (+3.4%, < our 4.7% previous est). In our view, the absence of strong upside potential for op. margin (max. 10.5-11% in our view, vs. c. 13% for Altran by 2020) does not justify such high EV/EBIT multiples.

ANALYSIS

- Q4 2015 lfl growth 0.9ppt below guidance.** Q4 2015 sales rose 12.2% to EUR401.1m (+3.1% lfl), in line with our est. (EUR399.3m) but slightly below the implied company guidance (+4%, based on a +4% lfl scenario for H2 2015, while Q3 was up 4% lfl). 2015 sales rose 12.2% to EUR1,540.9m (+3.4% lfl). Q4 sales in France rose 1% to EUR205.6m (BG est.: EUR206.6m), with +26% in automotive, -7% in energy, +6% in aerospace, -20% in telecoms, -5% in rail, +20% in life sciences, and +1% in banking. International operations were up 5.5% lfl to EUR195.5m (BG est.: EUR192.7m), with +4.7% lfl in Germany, -0.3% lfl in Scandinavia, -3.5% in North America, +16.9% in the UK, +16.8% in Spain, +8.8% in Italy, -0.5% lfl in Belgium, -0.8% in the Netherlands, and +12.8% for the Others region. By industry, full-year lfl sales were up 16% in automotive, 1% in energy & life sciences (energy -3% o/w -1.5% in Oil & Gas, Life Sciences >+20%), +6% in aerospace (% at Airbus at the high-end of expectations), -10% in rail, -10% in telecoms and +5% in banking.
- No change in utilisation rates.** The Q4 utilisation rate stood at 92% (-0.4ppt vs. Q3 and +0.2ppt vs. Q4 2014). On 31st December 2015, headcount reached 20,400, o/w 18,000 engineers. Net staff hiring in Q4 amounted to 300, or slightly above the previous quarters (250-270). Feedback from the field has revealed no need to stop hiring at this stage, and managers continue to hire specific profiles ahead of projects.
- Fighting against uncertainty.** Alten considers that if the economic environment remains unchanged, it should achieve positive lfl sales growth in 2016, despite signs of a slowdown in France/Benelux, but acknowledges the lack of visibility. Embedded sales growth for 2016 is at 1.7-1.8% (+1% for France), which is pretty consistent with the level observed one year ago (+1-3%), with no increase in the "bench" and no surge of staff back from projects in January. Management considers it feasible that 2016 lfl growth comes out similar to the 2015 level (+3.4%). Oil & Gas (c. 10% of sales) was down 5% in Q4, and a 5-10% fall is expected for 2016. Automotive is poised to maintain growth way above 10%, still driven by France. In Aerospace, the same growth level is expected for 2016 (+6%). In Telecoms, Orange and Bouygues account for 3.5% of sales in France.
- Three new acquisitions.** The company announced three acquisitions, due to be consolidated from Jan. 2016: 1). One in Sweden specialised in life sciences (150 engineers, sales EUR7m, op. margin 5-7%); 2). One in Switzerland in engineering (50 engineers, sales EUR12m, op. margin >10%); 3). One in Italy (60 engineers, sales EUR8m, op. margin >10%). Several companies are in due diligence, particularly in Germany and the US, and some of them could be acquired before the end of Q1 2016. The acquisition multiples are those used by Alten, i.e. 6-7x EV/EBIT plus an earn-out.

VALUATION

- Alten's shares are trading at est. 9.8x 2016 and 8.7x 2017 EV/EBIT multiples.
- Net debt on 30th June 2015 was EUR18.1m (net gearing: 3%).

NEXT CATALYSTS

FY15 results on 23rd February after markets close.

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