

Altran Technologies

Price EUR11.30

Q4 2015 conference call feedback: Germany and Nokia provide tailwinds for 2016

Fair Value EUR13 (+15%)

BUY

Bloomberg	ALT FP
Reuters	ALTR.PA
12-month High / Low (EUR)	12.6 / 7.6
Market Cap (EUR)	1,987
Ev (BG Estimates) (EUR)	2,110
Avg. 6m daily volume (000)	269.5
3y EPS CAGR	15.7%

We reiterate our Buy rating following the conference call held yesterday: 1) The turnaround in Germany is on schedule and the country should be slightly profitable (c. 2%) in 2016 with lfl growth expected to return in Q2 2016 (helped by positive calendar effects); 2) The positive sales development does not call into question our op. margin ests., on track to deliver c. 13% in 2020; 3) Germany and the Nokia offshore deal provide tailwinds for lfl sales growth in 2016. As such, we are confident on a 5.3% lfl revenue growth scenario for 2016 (vs. +5% so far).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.9%	1.3%	3.5%	-8.4%
Softw. & Comp.	-3.9%	-0.3%	2.2%	-4.9%
DJ Stoxx 600	-8.1%	-10.9%	-14.1%	-8.5%

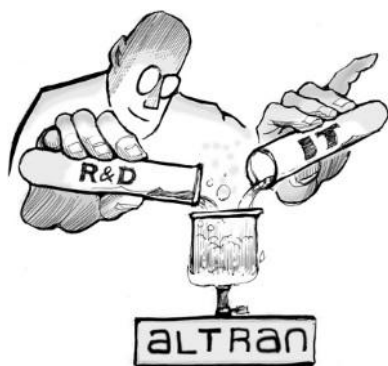
ANALYSIS

- Germany: turnaround on schedule, a return to growth from Q2 2016.** Management confirmed that Germany broke even in Q4 2015 as expected, despite an 18% lfl decline in sales. We calculate the Q4 cost base was cut by EUR6m (-10%) vs. Q3 without a severance plan while Altran entered the second stage of the turnaround by transforming the organisation (100 staff left in Q4). For 2016, Altran expects flat sales in Germany in H1 2016 (down 7-8% for Q1 2016 with 2% less billable days, up 6-7% in Q2 2016 with 5% more billable days), then follow the Q2 trend for H2 2016, thanks to 3 drivers: new contracts in the automotive sector, a less severe decline with Airbus than est. -15%/-20% for 2015, and growth in telecoms and life sciences. It forecasts the country will post an op. margin of c. 2% for 2016 (c. 1% for H1 2016), or almost the level we expected (c. 3%).
- Trends remain positive.** Q4 2015 was up "only" 3.1% lfl (vs. +5% in Q2 and +4.2% in Q3) due to EUR4m in one-off revenues in France in Q4 2014, which generated a 0.9ppt headwind to lfl growth. 2015 lfl sales growth excl. Germany (+7.8%) was way above the 4.5% CAGR Altran expects for 2015-20. After a blip in Q4 2015 (-13.6% lfl) due to Ericsson (furlough effect), Altran expects Scandinavia to return to growth in 2016. During the call, management stated that, based on "invoicing" rates (Spain, Italy, Portugal at 91-92% vs. an average 87.6% for the group), the op. margin excluding Germany should be at a high level in 2015. Taking into account Germany, we consider this consistent with the current operating margin consensus (9.5%) for FY 2015.
- Further details on the Nokia deal.** Altran will manage Nokia's network operations offshore in India (Noida and Chennai). The deal was signed in late 2015 and concerns 506 staff end-2015 - essentially taken from Nokia and several contractors. The contract is still ramping up and is not generating significant revenue at this stage. Management estimates that, including hirings, c. 600 staff will work on the deal by end-2016. We understand that it would ramp-up to add 0.5ppt of lfl sales growth by end 2016 (not full-year). Despite the ramp-up phase, management does not expect the Nokia deal to generate headwinds for operating margin in H1 2016.
- Top management team complete.** Altran announced several appointments at the management committee: Tim Bowe (ex-CEO North America and Foliage) becomes EVP America & Asia, Rob Vatter (ex-Atos) becomes CEO North America, Fabrice Boyer (ex-head of the US Medical Devices, Life Sciences & Automotive business unit) becomes CEO China (the joint-venture strategy in that country will be revisited in 2017), Keith Williams becomes Chief Technology Officer (CTO). All these appointments have been made to allow Altran to implement its "Altran 2020 Ignition" plan.

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	1,756	1,945	2,095	2,213
% change		10.8%	7.7%	5.6%
EBITDA	183	204	237	269
EBIT	132.0	158.0	180.0	208.0
% change		19.7%	13.9%	15.6%
Net income	106.0	121.0	142.0	163.0
% change		14.2%	17.4%	14.8%

	2014	2015e	2016e	2017e
Operating margin	9.4	9.5	10.2	11.0
Net margin	4.7	5.2	5.5	6.1
ROE	11.7	12.9	13.6	14.6
ROCE	15.8	14.6	17.6	20.1
Gearing	6.0	16.0	4.0	-6.0

(€)	2014	2015e	2016e	2017e
EPS	0.60	0.69	0.81	0.93
% change	-	15.0%	17.4%	14.8%
P/E	18.8x	16.4x	14.0x	12.2x
FCF yield (%)	5.4%	4.5%	6.0%	7.2%
Dividends (€)	0.15	0.20	0.25	0.30
Div yield (%)	1.3%	1.8%	2.2%	2.7%
EV/Sales	1.2x	1.1x	1.0x	0.9x
EV/EBITDA	11.1x	10.3x	8.5x	7.2x
EV/EBIT	12.3x	11.5x	9.4x	7.9x



VALUATION

- Altran's shares are trading at est. 9.4x 2016 and 7.9x 2017 EV/EBIT multiples.
- Net debt on 30th June 2015 was EUR221.4m (net gearing: 30%).

NEXT CATALYSTS

FY 2015 results on 10th March before the markets open.

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