

Atos

Price EUR77.45

Competing for the acquisition of Perot Systems?

Fair Value EUR94 (+21%)

BUY

Bloomberg	ATOFP
Reuters	ATOS.PA
12-month High / Low (EUR)	79.3 / 61.7
Market Cap (EURm)	7,998
Ev (BG Estimates) (EURm)	7,321
Avg. 6m daily volume (000)	368.2
3y EPS CAGR	25.8%

	1 M	3 M	6 M	31/12/14
Absolute perf.	0.0%	13.5%	12.5%	16.8%
Softw. & Comp.	-1.4%	19.4%	11.2%	27.7%
DJ Stoxx 600	-4.8%	5.7%	-5.5%	6.8%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	9,051	10,736	12,128	12,572
% change		18.6%	13.0%	3.7%
EBITDA	1,012	1,274	1,515	1,690
EBIT	440.0	577.0	665.0	915.0
% change		31.1%	15.3%	37.6%
Net income	447.0	593.0	734.0	908.0
% change		32.7%	23.8%	23.7%

	2014	2015e	2016e	2017e
Operating margin	8.0	8.5	8.9	9.8
Net margin	3.1	3.9	4.0	5.7
ROE	7.8	10.1	11.4	14.8
ROCE	25.4	24.6	30.6	46.6
Gearing	-29.0	-18.0	-24.0	-51.0

(€)	2014	2015e	2016e	2017e
EPS	4.31	5.66	6.96	8.59
% change	-	31.3%	23.0%	23.4%
P/E	18.0x	13.7x	11.1x	9.0x
FCF yield (%)	3.8%	5.1%	7.0%	8.0%
Dividends (€)	0.80	0.90	1.10	1.40
Div yield (%)	1.0%	1.2%	1.4%	1.8%
EV/Sales	0.8x	0.7x	0.6x	0.5x
EV/EBITDA	6.9x	5.7x	4.6x	3.4x
EV/EBIT	9.7x	8.0x	6.5x	4.6x

On 24th December 2015, Reuters reported that Atos was, along with Cognizant and NTT Data, one of the candidates hoping to acquire Perot Systems from Dell. Yesterday evening the *Economic Times* reported that TCS was also back in the race for such a deal. At this stage we believe it is too early to evaluate the potential accretion of such a deal for a potential acquirer due to the lack of available numbers. Although a deal may be highly accretive to EPS, we consider Atos is not the best placed for acquiring Perot: 1). Cognizant and TCS are comfortable with their respective USD3.1bn and USD2.4bn net cash positions; and 2). Atos would have a net gearing ratio close to 80-100% if it is the winner.

ANALYSIS

- Three candidates for Perot Systems?** On 24th December 2015, Reuters reported that Cognizant, NTT Data and Atos were competing to acquire Perot Systems, the IT management business of Dell, according to people familiar with the matter. According to Reuters, Dell is hoping Perot Systems would bring in more than USD5bn, in order to reduce its debt load following its agreement to acquire EMC for USD66bn by October 2016, subject to approval by EMC shareholders. Reuters mentioned that the auction for Perot Systems has taken longer than expected because the offers Dell has received so far have failed to meet its valuation expectations. As a consequence, Dell would be reconsidering which contracts it will pass on to Perot Systems to boost the sale process. Yesterday evening, the *Economic Times* reported that TCS was back in the race for a bid – initial talks ‘a shade below USD4bn’ had failed though -, while Cognizant and Atos would have made a bid at USD4.2bn and USD4.3bn, respectively, and we understand NTT Data gave up the race. Founded in 1988, Perot Systems was acquired by Dell in 2009 for USD3.9bn.
- Atos is not the best placed to win from a financial standpoint.** At first glance, on a financial standpoint, Cognizant and TCS would be the best placed to pay up to USD5bn for Perot in our view, as their net cash positions reached USD3.1bn and USD2.4bn, respectively, on 30th September 2015. On the other hand, Atos had a net cash position of EUR354m on 30th June 2015, while the future acquisitions of Unify and Equens will not affect Atos’s ability to make further purchases, but we believe this would require additional financing, including debt, in order to secure the deal. Finally, NTT Data, with c. JPY230bn net debt, is, in our view, unlikely to win.
- A lot of question marks regarding Perot Systems’ numbers.** Unfortunately, at this stage, there is a significant lack of information regarding Perot Systems’ numbers, as it is included in the Dell Services business, which generated revenues of USD8.4bn in the fiscal year ended on 31st January 2013 - the last reported by Dell before it was acquired by private equity funds. During the last fiscal year before it was acquired by Dell - 2008 - Perot Systems generated revenues of USD2.8bn with an operating margin of 6.7%. Some sources mentioned in the press indicate that Perot’s revenues would now be around USD3.1bn for an EBITDA margin of 15%. Obviously it is very challenging to rely to these figures and we prefer to stay cautious regarding a potential accretion of the deal if it is for Atos. Anyway, at first glance, it is likely that Atos, which would generate an est. 25% of its revenues in the US (vs. 17%), would reach a net gearing close to 80-100% even though the deal could be highly accretive in our view (more than 20% according to our ests).

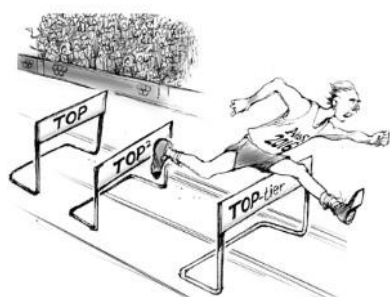
VALUATION

- Atos shares are trading at est. 6.5x 2016 and 4.6x 2017 EV/EBIT multiples
- Net cash position on 30th June 2015 was EUR354m (net gearing: -9%).

NEXT CATALYSTS

FY15 results on 24th February before markets open.

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BUY ratings 72%

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