

13th January 2016

Business Services

Sodexo

Price EUR88.82

Q1 revenue: Strong lfl revenue growth benefiting from the Rugby World Cup

Fair Value EUR88 (-1%)

NEUTRAL

Bloomberg	SW FP
Reuters	EXHO.PA
12-month High / Low (EUR)	95.3 / 71.0
Market Cap (EUR)	13,956
Ev (BG Estimates) (EUR)	14,333
Avg. 6m daily volume (000)	274.4
3y EPS CAGR	18.1%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-1.5%	15.1%	3.0%	9.3%
Travel&Leisure	0.3%	5.0%	1.1%	15.2%
DJ Stoxx 600	-3.5%	-5.1%	-11.7%	0.2%

YEnd Aug. (EURm)	08/14	08/15e	08/16e	08/17e
Sales	18,016	19,815	20,240	20,702
% change		10.0%	2.1%	2.3%
EBITDA	1,229	1,396	1,499	1,592
EBIT	966.0	1,143	1,236	1,323
% change		18.3%	8.1%	7.1%
Net income	480.8	700.0	721.3	775.2
% change		45.6%	3.0%	7.5%

	08/14	08/15e	08/16e	08/17e
Operating margin	5.4	5.8	6.1	6.4
Net margin	2.7	3.5	3.6	3.7
ROE	15.7	19.5	23.9	18.5
ROCE	25.6	28.6	30.0	31.1
Gearing	13.2	10.2	24.8	-2.4

(EUR)	08/14	08/15e	08/16e	08/17e
EPS	3.17	4.60	4.85	5.21
% change	-	45.4%	5.4%	7.5%
P/E	28.1x	19.3x	18.3x	17.0x
FCF yield (%)	3.9%	5.0%	4.4%	4.8%
Dividends (EUR)	1.80	2.20	2.43	2.61
Div yield (%)	2.0%	2.5%	2.7%	2.9%
EV/Sales	0.8x	0.7x	0.7x	0.7x
EV/EBITDA	11.7x	10.3x	9.8x	8.7x
EV/EBIT	14.9x	12.5x	11.9x	10.5x

Q1 consolidated revenue was slightly higher than anticipated reaching EUR5.57bn vs. EUR5.54bn, up 9.6% on reported. Strong lfl revenue growth up 4.7% vs. 3.9% from consensus and our expectation of 3.6%, o/w 50% coming from the RWC, i.e. 2.4% (our forecast was 1.5% and 1.6% for consensus). By segment, there was disappointment regarding Benefits & Rewards Services with lfl revenue growth of 5.3% (8% anticipated) and, in OSS, difficulties in the RoW with lfl growth down 4.2% (-2% anticipated), while NA is still strong, up 2.9%. Following Q1 revenue, Sodexo confirmed its expectation for 2015-16 of lfl revenue growth of around 3% and an increase in operating profit of around 8% excluding currency effects and before exceptional items.

ANALYSIS

- Strong lfl revenue growth in OSS (96.7% of consolidated revenue):** In OSS, total revenue reached EUR5,388m (consensus at EUR5,370m) up 10.3% on reported with lfl revenue growth of 4.7% and a positive currency effect of 5.6%. **Regarding lfl revenue growth**, the spread compared with the forecast was largely explained by the Rugby World Cup representing revenue of EUR131m and explaining 50% of the lfl revenue growth.
 - By geography, **NA** (45% of OSS revenue) was still sustained with lfl revenue growth of 2.9% (2.5% anticipated) while **RoW** (15% of OSS) was down 4.2% on a lfl basis largely impacted by the remote sites' activity (9% of OSS in 2015), lfl excluding remote sites was 6%. **Continental Europe** (28% of OSS) was up 1%, in line with our expectations and UK and Ireland (12% of OSS) was up 47.6% and 17.5% excluding the RWC which was still very strong especially in corporate services, up 21.3%.
 - By segment, Corporate Services (49.9% of OSS) was up 7.5% on lfl basis, o/w 2/3rds was explained by the RWC (Q1 2015 was up 6.1%), Health Care and Seniors (23.3% of OSS) was up 2.7% reflecting some improvement while Education (26.8% of OSS) was still challenging with lfl revenue growth of 1.2%.
- Disappointed on Benefits & Rewards Services:** in fact, total revenue reached EUR186m in line with our estimate of down 6% mainly due to negative currency effects of 14.4%, but with only 5.3% lfl revenue growth vs. 8% expected impacted by a decline in the number of beneficiaries under existing contracts in LatAm (lfl up 8.9%) and a still challenging economic environment in Europe and Asia (lfl up 1.1%).
- For fiscal 2016,** Sodexo's objective is for revenue growth of around 3% and an increase in operating profit of around 8% (excluding currency effects and before exceptional items). Our forecast is based on lfl revenue growth of 2.8% with an operating result of EUR1,236m before exceptionals (EBIT margin up 35bps at 6.1%). EBIT is expected to be EUR1,138m after EUR100m of exceptional items due to the new plan for simplification and standardisation. Remember that the measures taken should progressively generate annual savings of around EUR200m between now and 2018 when the full benefit will be realised. The implementation of these initiatives will result in exceptional costs over the next 18 months, which are estimated to be EUR200m.

VALUATION

- At the current share price, the stock is trading at 11.8x and 10.4x EV/EBIT 2016e and 2017e which compare with median historical of 10.8x and an CAGR EBIT2014-17 of 7.7%. EPS 2015e and 2016e are respectively capitalised 20.0x and 18.5x compared with an CAGR EPS2014-17 of 7.9%

NEXT CATALYSTS

- Conference call today at 8.30 am (Paris time)
- AGM on 26th January 2016
- H1 results on 14th April 2016



Analyst :
 Bruno de La Rochebrochard
 33(0) 1 56 68 75 88
 bdelarochebrochard@bryangarnier.com

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BUY ratings 58,5%

NEUTRAL ratings 32,3%

SELL ratings 9,2%

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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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