

Alten

Price EUR48.19

FY15 results a shade above expectations, cautiously optimistic outlook confirmed

Fair Value EUR46 (-5%)

SELL

Bloomberg	ATE FP
Reuters	LTEN.PA
12-month High / Low (EUR)	54.6 / 38.4
Market Cap (EURm)	1,622
Ev (BG Estimates) (EURm)	1,586
Avg. 6m daily volume (000)	48.60
3y EPS CAGR	9.6%

Yesterday evening Alten reported FY 2015 results a shade above our estimates and consensus projections, with an operating margin of 9.9%. Free cash flow margin was solid, up 3.3ppt to 6.8%, but net cash position was below our forecast probably due to the timing of acquisitions. The outlook statement for 2016 is cautiously optimistic in our view, while we consider our operating margin forecast (10%) is now bit conservative. We expect the share price to react positively to this announcement, but still consider the stock overvalued.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.6%	-0.7%	13.1%	-9.8%
Softw. & Comp.	-2.7%	-6.5%	8.1%	-6.6%
DJ Stoxx 600	-3.1%	-13.8%	-9.3%	-10.4%

ANALYSIS

- FY15 operating margin a shade above expectations.** For 2015, Alten has reported sales up 12.2% to EUR1,540.9m (+3.4% lfl), operating profit up 15.3% to EUR152.5m (9.9% of sales, +0.3ppt), EBIT of EUR147.1m (+25.2%) after EUR5.5m in non-recurring costs (restructuring and M&A-related costs), and net profit up 33.7% to EUR106.3m. These figures were slightly above our forecasts (EUR151.5m or 9.8% of sales) and the consensus (EUR150.7m or 9.8% of sales) for operating profit, slightly below our forecast (EUR148.5m) for EBIT and 6% ahead of our estimate (EUR100.1m) for net profit. NB. Excluding acquisitions made in 2014 (eight) and 2015 (eight, representing EUR102m in revenues on an annual basis), operating margin would have been 10%.
- Solid free cash flow.** While 2014 was disappointing on this front due to an unusual rise in WCR (DSOs were up by four days as several large customers had overdue payments), free cash flow was up 117% to EUR105.1m (free cash flow margin: 6.8%, vs. 3.5% in 2014), which was higher than the assumptions agreed with analysts one year ago (EUR80-100m) and seems to suggest DSOs were down by at least 4.5 days in 2015 in our view. The company managed to reach a net cash position of EUR17.5m on 31st December 2015, while we expected EUR35.7m (consensus: EUR1m).
- Two acquisitions in Italy and the US.** Since the beginning of 2016, Alten has acquired two companies representing EUR14m in revenues: 1) Nexse in Italy (founded in 2000, 120 staff, EUR9.5m revenues for 2014), specialised in multichannel, mobile and IoT application development for the Telecoms, Media and Automotive markets; 2) a US company.
- Cautiously optimistic outlook for 2016.** For 2016, management expects positive lfl revenue growth amidst ongoing economic uncertainty. Alten intends to keep delaying its dynamic acquisition strategy and organic growth drive in accordance with its 'satisfactory' operating margin policy. After Q4 2015 sales in late January, management said the company had started 2016 with 1.7-1.8% embedded revenue growth. We expect 3.5% lfl growth, and believe the consensus is around this level (3-3.5%). Finally, our operating margin forecast for 2016 (10%) now looks a bit conservative compared to the consensus figure (10.1%) in our view.

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	132.0	152.0	166.0	177.0
% change		15.2%	9.2%	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	18.2x	15.9x	14.8x	13.8x
FCF yield (%)	2.5%	5.6%	6.7%	7.5%
Dividends (€)	1.00	1.00	1.00	1.00
Div yield (%)	2.1%	2.1%	2.1%	2.1%
EV/Sales	1.2x	1.0x	0.9x	0.8x
EV/EBITDA	11.2x	9.7x	8.6x	7.5x
EV/EBIT	12.1x	10.4x	9.2x	8.1x

VALUATION

- Alten's shares are trading at est. 9.2x 2016 and 8.1x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR17.5m.

NEXT CATALYSTS

Analysts' meeting today at 10am CET / 9am BST / 4am EDT (Maison des Arts et Métiers, 9bis avenue d'Iéna).

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