TMT

Alten

Price EUR49.58

Feedback from analysts' meeting: growth likely to be front-end loaded in 2016

Fair Value EUR47 vs. EUR46 (-5%) **SELL**

Bloomberg	ATE FP
Reuters	LTEN.PA
12-month High / Low (EUR)	54.6 / 38.8
Market Cap (EUR)	1,669
Ev (BG Estimates) (EUR)	1,614
Avg. 6m daily volume (000)	48.70
3y EPS CAGR	7.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.0%	3.4%	22.6%	-7.2%
Softw.& Comp.	-4.9%	-7.4%	10.7%	-8.7%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,541	1,653	1,733	1,826
% change		*7.3%*	*4.8%*	*5.4%*
EBITDA	164	180	192	208
EBIT	147.0	168.0	180.0	195.0
% change		*14.3%*	*7.1%*	*8.3%*
Net income	110.0	116.0	124.0	136.0
% change		*5.5%*	*6.9%*	*9.7%*

	2015	2016e	2017e	2018e
Operating margin	9.9	10.1	10.4	10.7
Net margin	6.8	7.0	7.2	7.4
ROE	16.3	15.8	15.0	14.7
ROCE	16.7	17.2	18.4	20.0
Gearing	-3.0	-8.0	-18.0	-27.0

(€)	2015	2016e	2017e	2018e
EPS	3.26	3.44	3.70	4.03
% change	-	*5.5%*	*7.6%*	*8.9%*
P/E	15.2x	14.4x	13.4x	12.3x
FCF yield (%)	6.0%	6.3%	7.7%	8.0%
Dividends (€)	1.00	1.00	1.00	1.00
Div yield (%)	2.0%	2.0%	2.0%	2.0%
EV/Sales	1.1x	1.0x	0.9x	0.8x
EV/EBITDA	10.1x	9.0x	7.9x	6.8x
EV/EBIT	10.9x	9.6x	8.5x	7.3x

We reiterate our Sell rating following the analysts' meeting held yesterday. We have adjusted our DCF-derived Fair Value to EUR47 from EUR46 on upped adj. EPS ests. (+6% = +EUR3/share, as we have lowered our tax rate from 33-34% to 30-31%) offset by lower net cash ests. (-EUR2/share, due to the end 2015 position and earn-out payments). The key takeaways of the meeting were: 1) Confirmation of cautious optimism on sales and margins, 2) The strong free cash flow increase seen in 2015 makes another surge unlikely in 2016 in our view, 3) There is no intention of changing the business model.

ANALYSIS

- **Cautious optimism on growth confirmed**. Management is confident that Alten will deliver more lfl revenue growth in 2016 than the 3.4% posted for 2015. Acquisitions dented lfl growth in 2015 by 0.7ppt, implying that the level would have been 4.1%. Trends remain clearly positive in Automotive, Banking and Life sciences, but are soft in Aerospace and becoming worse in Telecoms, Rail and Energy. Given the more balanced number of billable days between H1 and H2 in 2016 compared to 2015 (125- 126 vs. 122.5-127.5), lfl revenue growth is likely to be front-end loaded this year.
- **Operating margin confirmed at least at 10% for 2016 and beyond**. In 2015, excluding the acquisitions made in 2014 (margin: 6% vs. 3% in 2014) and 2015 (margin: 8%), Alten's operating margin would have been at 10.5%, meaning that companies recently acquired generated a 0.6ppt headwind. Acquisitions margins should improve again but will not reach 10% yet this year. With two new acquisitions since January and an improvement expected even in Germany, Alten is likely to exceed 10% in 2016, with less seasonality between H1 and H2 than in previous years.
- **Free cash flow as a percentage of sales close to its optimum**. For 2015, free cash flow reached EUR93.4m (+127%), and the Free cash flow/sales ratio was up 3.1ppt to 6.1%. After 2014 which suffered from delayed payments from several large customers - DSOs were up 4 days to 98.5 days -, the trend was reversed in 2015, with DSOs down 5 days to 93.5 days, but here Alten benefited from a EUR5m payment in advance which positively impacted DSOs by 1 day.
- **2016 expected to be rich from an M&A standpoint**. Since January 2016, Alten acquired Nexse in Italy (EUR8m revenues, specialised in multichannel, mobile and IoT application development for the Telecoms, Media and Automotive markets) and a company in the US (EUR6.3m revenues). Management intends to acquire at least eight companies this year, while 4-5 deals - all outside France - are in advanced stage negotiations (letter of intent or binding offer).
- **No intention to change the model**. Alten will remain focused on value-added engineering skills (80% of revenues), while project management office, prototyping, manufacturing processes, training or technical documentation will remain non-core offerings sold under another brand. For six core countries in Europe, the goal is still to exceed 1,500 engineers each of them (3,000 for Germany), while Alten aims at gaining a significant market position in North America, Eastern Europe and Asia, as well as in offshoring as part of the globalisation of work packages. The company ambitions to reach 24,000 staff (o/w 21,500 engineers) by end 2019, vs. 20,400 staff (o/w 18,000 engineers) end 2015. As such and taking into account acquisitions, the operating margin is likely to be capped at 10-11%, unless it drops research tax credit certification.

VALUATION

- Alten's shares are trading at est. 9.6x 2016 and 8.5x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR17m (net gearing: -3%).

NEXT CATALYSTS

Q1 2016 sales on 28th April after markets open.

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