

Cappgemini

Price EUR72.65

FY15 results above expectations, cautious guidance, acquisition of Fahrenheit 212

Fair Value EUR96 (+32%)

BUY

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	90.2 / 64.8
Market Cap (EUR)	12,509
Ev (BG Estimates) (EUR)	14,107
Avg. 6m daily volume (000)	671.1
3y EPS CAGR	13.4%

This morning Cappgemini reported FY15 results and organic free cash flow above expectations. FY16 guidance is cautious, with +7.5%/+9.5% revenue growth at cc (+5.5%/+7.5% incl. fx) and an op. margin of 11.1-11.3%. The management has decided to increase the dividend to EUR1.35/share from EUR1.20 a year ago and launch a multi-year EUR600m share buy-back programme (o/w EUR150m allocated for 2016). Finally, it announced the acquisition of Fahrenheit 212 in Digital in North America. As such we deem the share price will not react positively on the back of this news.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.6%	-13.5%	-15.4%	-15.1%
Softw. & Comp.	-1.5%	-7.6%	0.6%	-8.4%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-10.1%

ANALYSIS

- FY15 results and organic free cash flow above expectations.** FY15 sales were up 12.7% (+1% lfl) to EUR11,915m (BG est.: EUR11,966m or +1.2% lfl, consensus: EUR11,916m or +1.3% lfl, company guidance: above +12%), operating margin was up 30.1% to EUR1,262m (10.6% of sales, +1.4ppt) or 2% above our ests. (EUR1,233m or 10.3%), 3% ahead of the consensus average (EUR1,228m or 10.3%), and 0.3ppt above company guidance (10.3%). EBIT was up 20% to EUR1,022m (BG est.: EUR1,054m; consensus: EUR1,056m) after EUR240m non-recurring costs (BG est.: EUR179m), while net profit was up 94% to EUR1,124m (BG est.: EUR1,161m) - taking into account a EUR476m non-cash profit from the reappraisal of deferred tax assets in the US. In Q4 15, sales were up 0.1% lfl to EUR3,271m. Organic free cash flow was way above expectations at EUR815m (+22%), while company guidance was "above EUR600m" (BG est.: EUR657m; consensus: EUR656m).
- FY15 details. By service line:** 1). Application Services: sales +6.3% lfl, op. margin 11.9% (+1.3ppt); 2). Other Managed Services: sales -10.9% lfl, op. margin 9.6% (+0.8ppt); 3). Sogeti: sales +0.3% lfl, op. margin 11.6% (+1.7ppt); 4). Consulting: sales +5.8% lfl, op. margin 9.1% (+0.9ppt). **By geography:** 1). France: sales +1.2% lfl, op. margin 8.1% (-0.3ppt); 2). UK: sales -13.9% lfl, op. margin 13.4% (+2.1ppt); 3). North America: sales +7.8% lfl, op. margin 14.9% (+2.3ppt); 4). Benelux: sales +0.1% lfl, op. margin 11.2% (+0.7ppt); 5). Rest of Europe: sales +7.4% lfl, op. margin 9.6% (+1ppt); 6). APAC & LatAm: sales +6.5% lfl, op. margin 4.2% (-1.9ppt).
- Acquisition of Fahrenheit 212.** Cappgemini also announced the acquisition of Fahrenheit 212, an innovation strategy and design firm based in New York and London. This deal will augment the capabilities of Cappgemini Consulting to provide new innovation, business transformation and digital customer experience solutions. This is a 'bolt-on' acquisition in line with Cappgemini's digital innovation growth strategy.
- Cautious FY16 guidance.** For FY16, taking into account a 2ppt fx headwind, the management expects 7.5-9.5% revenue growth at cc - i.e. 5.5-7.5% at current fx (BG est.: +9.1% or +4% lfl; consensus: +9.4% or +4.1% lfl) and an op. margin of 11.1-11.3% (BG est.: 11.2%; consensus: 11.1%). Organic free cash flow is expected to be above EUR850m, vs. our EUR892m estimate and the EUR876m consensus. Q4 15 bookings amount to EUR3,734m, up 7.5% on a year-on-year basis (book-to-bill: x, with x for FY15). The utilisation rate was up 3ppt in Application Services (85%), up 2ppt at Sogeti (84%) and up 1ppt in Consulting (70%). Finally, Cappgemini's offshore staff now represents 54% of the total headcount.

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	10,573	11,966	13,056	13,505
% change		13.2%	9.1%	3.4%
EBITDA	1,224	1,493	1,734	1,881
EBIT	853.0	1,054	1,229	1,386
% change		23.6%	16.5%	12.8%
Net income	672.5	786.6	954.0	1,057
% change		17.0%	21.3%	10.8%

	2014	2015e	2016e	2017e
Operating margin	9.2	10.3	11.2	11.9
Net margin	5.5	9.7	5.8	6.4
ROE	11.4	17.5	10.6	11.2
ROCE	19.2	18.4	13.7	15.5
Gearing	-23.9	24.1	12.2	-0.1

(EUR)	2014	2015e	2016e	2017e
EPS	4.16	4.58	5.52	6.07
% change	-	10.2%	20.4%	10.0%
P/E	17.5x	15.8x	13.2x	12.0x
FCF yield (%)	5.6%	5.2%	7.0%	8.2%
Dividends (EUR)	1.20	1.40	1.50	1.60
Div yield (%)	1.7%	1.9%	2.1%	2.2%
EV/Sales	1.1x	1.2x	1.0x	0.9x
EV/EBITDA	9.2x	9.4x	7.7x	6.6x
EV/EBIT	11.6x	11.4x	9.2x	7.8x



VALUATION

- Cappgemini's shares are trading at est. 9.2x 2016 and 7.8x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR1,767m (net gearing: 26%).

NEXT CATALYSTS

Conference call today at 8.30am CET / 7.30am BST / 2.30am EDT (France: +33 1 70 77 09 37; UK: +44 20 71 07 16 13; USA: +1 866 907 59 28).

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