

Cargemini

Price EUR75.87

FY15 conference call feedback: fears triggered by Cognizant's guidance were overdone

Fair Value EUR93 vs. EUR96 (+23%)

BUY

| | |
|----------------------------|-------------|
| Bloomberg | CAP FP |
| Reuters | CAPP.PA |
| 12-month High / Low (EUR) | 90.2 / 68.0 |
| Market Cap (EUR) | 13,063 |
| Ev (BG Estimates) (EUR) | 14,117 |
| Avg. 6m daily volume (000) | 679.1 |
| 3y EPS CAGR | 10.9% |

We reiterate our Buy rating but reduce our DCF-derived fair value to EUR93 from EUR96 as we shave our adj. EPS ests. by 3% on updated fx assumptions (GBP, USD, SEK and BRL). With 2.5-4.5% lfl revenue growth expected by Cargemini for FY16 and no concern in Financial Services in the short-term, we deem the concerns which arose from Cognizant's sales guidance last week were overdone.

ANALYSIS

- Cautious optimism on growth for 2016.** Cargemini indicated that Igate's contribution to FY16 growth would be 5ppt. As such, the 7.5-9.5% cc revenue growth guidance would translate into +2.5%/+4.5% lfl, which remains pretty in line with our previous forecast (+4% lfl - new BG est.: +3.5% lfl). The management does not see any sign of major slowdown in Financial Services, at least for H1 16. It considers the company is still on the trajectory to get +5%/+7% lfl by 2018-19, but Energy & Utilities (13% of sales) and Brazil (3% of sales) will be a burden for 2016. Despite Energy, lfl growth is expected to be at a mid single-digit level in North America, improving in mainland Europe, strong in Asia-Pacific, and positive in the UK (down on Government). Negotiations are active on the Aspire contract before its end planned for mid-2017, and the management feels confident that Cargemini remains a significant partner of the British HMRC beyond that date.
- No issue on operating margin and cash flow.** The operating margin guidance (11.1-11.3%) takes into account, as mentioned during the last investor day in May 2015, 0.3ppt incremental investment to fuel growth (invest in Digital & Cloud, leverage Igate's ITOPS in Business Services, resource supply-chain management, new competitiveness central department, attraction and retention plan for "hot skills", reskilling programme on new technologies). The operating margin improvement is unlikely to see significant seasonality change between H1 and H2 16. Most of the explanation for the free cash flow way above expectations for 2015 stemmed from Igate, which quickly improved its cash management processes end 2015.
- Igate's integration on track.** Igate's revenues are in line with Cargemini's own expectations. Some key milestones have been achieved, with the appointment of managers, the end of the Igate brand, the mutualisation of facilities (3,000 Cargemini staff will join 5,000 Igate staff in Mumbai by end Q1 16), joint marketing initiatives have been initiated, and the integration of IT and HR systems are on track. Part of cost synergies was already been delivered in 2015, but not more than expected as Cargemini, excl. Igate, delivered an op. margin of 10% in 2015. Identified synergies by 2018 have been confirmed, i.e. USD100-150m for revenue cross-selling, USD75-105m for efficiency gains.
- Digital & Cloud.** Digital & Cloud accounts for 22% of sales and grew 23% lfl in 2015. Due to the size effect, the management is confident to deliver at least +15% for 2016. All the Digital & Cloud services have been combined to offer a complete portfolio in order to leverage joint-initiatives between consulting, application and infrastructure services (like the Accenture Digital model). The ecosystem has been reinforced around partners (Salesforce, Amazon, IBM, Microsoft, NetSuite...). Acquisitions in Cloud & Digital will remain very focused (Oinio, Fahrenheit 212) and no big transaction is expected. Most of the portfolio and the capacity will be built organically.

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|--------|--------|----------|
| Absolute perf. | -3.1% | -8.8% | -12.2% | -11.4% |
| Softw. & Comp. | -0.4% | -6.2% | 1.9% | -7.0% |
| DJ Stoxx 600 | 0.1% | -13.3% | -15.3% | -10.1% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|------------------|--------|--------|--------|--------|
| Sales | 11,915 | 12,710 | 13,152 | 13,643 |
| % change | | 6.7% | 3.5% | 3.7% |
| EBITDA | 1,577 | 1,699 | 1,844 | 1,953 |
| EBIT | 1,022 | 1,209 | 1,364 | 1,473 |
| % change | | 18.3% | 12.8% | 8.0% |
| Net income | 798.3 | 925.1 | 1,026 | 1,104 |
| % change | | 15.9% | 10.9% | 7.6% |

| | 2015 | 2016e | 2017e | 2018e |
|------------------|------|-------|-------|-------|
| Operating margin | 10.6 | 11.2 | 11.9 | 12.3 |
| Net margin | 9.4 | 5.9 | 6.5 | 6.8 |
| ROE | 16.3 | 10.1 | 10.7 | 10.8 |
| ROCE | 17.2 | 12.6 | 14.2 | 15.6 |
| Gearing | 25.3 | 14.2 | 2.6 | -7.9 |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|-----------------|-------|-------|-------|-------|
| EPS | 4.65 | 5.35 | 5.89 | 6.34 |
| % change | - | 15.1% | 10.1% | 7.6% |
| P/E | 16.3x | 14.2x | 12.9x | 12.0x |
| FCF yield (%) | 6.4% | 6.6% | 7.6% | 8.0% |
| Dividends (EUR) | 1.40 | 1.50 | 1.60 | 1.70 |
| Div yield (%) | 1.8% | 2.0% | 2.1% | 2.2% |
| EV/Sales | 1.2x | 1.1x | 1.0x | 0.9x |
| EV/EBITDA | 9.4x | 8.3x | 7.2x | 6.3x |
| EV/EBIT | 11.7x | 9.9x | 8.5x | 7.4x |



VALUATION

- Cargemini's shares are trading at est. 9.9x 2016 and 8.5x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR1,747m (net gearing: 25%).

NEXT CATALYSTS

Q1 16 sales on 27th April before markets open.

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| | |
|---------|---|
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