8th February 2016

TMT

Ingenico Group

Price EUR102.55

What to expect from the FY15 earnings release and the analysts' day?

Fair Value EUR150 (+46%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	127.6 / 92.7
Market Cap (EUR)	6,255
Ev (BG Estimates) (EUR)	6,658
Avg. 6m daily volume (000)	320.5
3y EPS CAGR	22.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.6%	-6.9%	-15.2%	-12.0%
Softw.& Comp.	-5.9%	-6.6%	-3.0%	-8.0%
DJ Stoxx 600	-9.2%	-14.0%	-19.3%	-10.9%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,607	2,189	2,444	2,698
% change		*36.2%*	*11.7%*	*10.4%*
EBITDA	376	509	580	654
EBIT	323.5	443.3	507.2	573.3
% change		*37.0%*	*14.4%*	*13.0%*
Net income	207.3	277.7	327.9	381.8
% change		*34.0%*	*18.1%*	*16.4%*

	2014	2015e	2016e	2017e
Operating margin	20.1	20.3	20.8	21.3
Net margin	10.8	11.2	12.2	13.1
ROE	16.0	18.8	18.9	18.5
ROCE	11.8	17.5	20.4	23.5
Gearing	71.0	31.1	5.9	-14.0

(EUR)	2014	2015e	2016e	2017e
EPS	3.41	4.54	5.34	6.22
% change	-	*33.2%*	*17.7%*	*16.4%*
P/E	30.1x	22.6x	19.2x	16.5x
FCF yield (%)	3.9%	4.9%	5.5%	6.4%
Dividends (EUR)	1.00	1.40	1.71	2.02
Div yield (%)	1.0%	1.4%	1.7%	2.0%
EV/Sales	4.4x	3.0x	2.6x	2.2x
EV/EBITDA	18.6x	13.1x	10.9x	9.2x
EV/EBIT	21.7x	15.0x	12.5x	10.4x

Prior to upbeat newsflow in coming weeks (FY15 results and first 2016 targets on 18th February, followed by a strategic plan on 23rd March), we have set out our forecasts and are reiterating our investment case. Management's strategic plan should reassure the market and its initial guidance, both for 2016e and 2019/20e, should be understood as a worst-case scenario as usual. In the end, we expect the group to exceed its targets in view of its always-cautious financial communication, its excellent track-record in terms of execution and the constant change in the group's profile towards more recurring and better quality sales (notably thanks to its development in Payment Services). We advise investors to Buy the stock (FV of EUR150) to play the mid-term equity story.

ANALYSIS

- **2016 is not a cliff for the US Payment Terminal business.** Around 50% of POS devices still need the EMV upgrade (at end-2015, 90% of large US retailers and 35% of US small merchants were already equipped). We believe SMBs will be forced to migrate within two years because they will be more subject to fraud (but they won't be able to support this cost on their own) and they generally want to accept mobile payments in their shops (so they need NFC-compliant devices, i.e. EMV terminals). Ingenico expects double digit growth in the US in FY16 (vs. only +5% for VeriFone) because it is still capturing market share and tackling new verticals (it only works with 15% of the biggest retailers). As the average duration of an EMV migration is about four years, we believe the group has good visibility on its Payment Terminals business until 2017e (potential installed base of EMV terminals: 13m in the US and 22m in China). Thereafter, we see its mid-term growth at +5/6%, i.e. if there is no other big geography moving to EMV and with an average replacement cycle of 4/5 years.

Ingenico's payment positioning in the last geographies to have migrated to EMV standards

2015e	US	China
Rank	#2	#1
Market share	~30%	~35%

Source: Bryan Garnier & Co. ests.

The partnership with Intel (integration of payment acceptance into connected devices) **will generate sales as of this year** (revenues from licences and fees).

The rollout of its Telium Tetra OS (secure platform open to business applications) **should generate high volumes and a positive impact on margins as of H1 2016** (i.e. above 1m terminals).

The integration of GlobalCollect and its combination with Ogone are on track to deliver satisfying growth in H2. Despite losing 80% of volumes coming from GlobalCollect's first e-payment client in Asia (in favour of Worldpay by a cut in price), Ingenico has kept the currency management part (the most profitable of this contract) and the quick appointment of Mr Vacheron (former CFO) at the head of the ePayment division has been a strong and appropriate response.

- **What are the catalysts beyond 2017? 1/ In Payment Terminals,** Japan could shift to EMV before the Olympic Games of 2020 in order to accept international cards and to deal with fraud (card schemes could impose a deadline which is what they did in the US; there are around 3m POS terminals in Japan), but also India and Indonesia in the medium term. And if so, Ingenico could reasonably reach a 40% market share (i.e. about its world prime position of 44%) through partnerships or acquisitions of local distributors. **2/ its Payments Services business could take over** if the group made two acquisitions of EUR300m in sales each (at end-2015e, it has a net debt/EBITDA of 0.8x vs. a covenant of 3x, and a FCF/current EBIT of 70%). As such, Ingenico could have a balanced sales mix between Payment Terminals and Payment Services over the medium term (vs. 70/30% currently) and therefore a more recurring sales profile (65%e vs. 45% currently) with the associated operating leverage (pooling of its proprietary platforms). As a reminder, we expect e-commerce to expand strongly as of this year in Europe and North America (as it did in South-East Asia up to now). So, Ingenico's payment services (processing and collecting) should directly benefit from this driver.

Ingenico's profile in FY15 (sales and gross margin)

2015e	Payment terminals	Payment services
Sales breakdown	70%	30% (10% in store / 20% online)
Gross margin	48%	40%

Source: Bryan Garnier & Co. ests.

- **In our view, Ingenico currently has the most attractive commercial offering for merchants.** It is capable of providing an omnichannel turn-key payments solution: payment terminals, security, and transaction services (30% of its sales: in-store 10% and online 20%).
- **FY15 earnings results (18th February, after trading).** We forecast +13.2%e in sales organic growth in FY15, i.e. +8.2%e in Q4. See below our forecasts compared to the consensus. Since VeriFone has released its Q4, we believe Ingenico is likely to post a Q4 performance over the consensus (>+8%).

Management's track record (initial guidance vs. reported figures)

EURm	Q4 2015		FY15e			FY16e	
	BG est.	Cons.	BG est.	Cons.	Guidance	BG est.	Cons.
Revenue	583.1	584	2,189.2	2,190		2,444.2	2,412
Y/Y growth lfl	*8.2%*	*8%*	*13.2%*	*13%*	*12-13%*	*11.7%*	*11%*
EBITDA			509.0	506		580.5	562
Margin			*23.3%*	*23.1%*	*~23%*	*23.8%*	*23.3%*
Reported net income			243.6	251		297.2	290

Sources: Company consensus (22 analysts); Bryan Garnier & Co. ests.

During this FY release, the group should give its first 2016 guidance. We believe management could forecast double-digit organic sales growth (~+10%, despite the loss of volumes from GlobalCollect's 1st client that should weigh on topline growth until H1) with a traditionally cautious EBITDA margin target (>=21%). As usual, this should be understood as a worst-case scenario (at this stage of the year, Ingenico is always very/too cautious). In the end it should post a stronger organic sales growth (BG: +11.7%) and a still high level of EBITDA margin (BG: 23.8%).

Management's track record (initial guidance vs. reported figures)

Year	2012		2013		2014		2015e	
	Initial guidance	Reported figure	Initial guidance	Reported figure	Initial guidance	Reported figure	Initial guidance	BG est.
Revenue growth lfl	>=8%	14.5%	>=8%	13.5%	>=10%	19.1%	~10%	13.2%
EBITDA margin	>=18.3%	18.5%	>=18.5	20.4%	>=21%	23.4%	~21%	23.3%

Sources: Company Data; Bryan Garnier & Co. ests.

- **Analysts' day in London (23rd March).** At the event, Ingenico is to present its strategic plan. We believe it should give its mid-term guidance (2019/20e). We see a minimum of EUR3.2bn in sales and EBITDA margin guidance of >24%. It could also give an EBITDA to FCF conversion ratio (>50%) and a payout ratio (35%). In the end, we expect the group to exceed its targets (BG: EUR3.3bn in sales and 25.1% in EBITDA margin) in view of its always-cautious financial communication, management's excellent track-record in execution and the constant change in the group's profile towards more recurring and better quality sales.

Last strategic plan announced (initial guidance 2016 vs. our estimates in 2015 and 2016)

2016	1st Guidance 2016: Strategic plan announced early 2013	BG est 2015e: Plan reached 1 year in advance	BG est. 2016
Revenue (EURbn)	>2.2	2.2	2.4
EBITDA margin	>20%	23.3%	23.8%

Sources: Bryan Garnier & Co. ests.

VALUATION

- We maintain our **Buy rating** and **Fair Value of EUR150.**
- Over a 12m rolling fwd period (3 months in 2015e and 9 months in 2016e) **earnings growth is +27%e vs. a P/E of 20x.** The group's profitable growth is therefore not priced in.

NEXT CATALYSTS

- **FY15 earnings results:** on 18th February (after markets).
- **Analyst day:** on 23rd March (in London). *Click here to download*

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