19th February 2016

TMT

Ingenico Group

Price EUR103.85

FY15 earnings and FY16 guidance broadly in line with our estimates

Fair Value EUR150 (+44%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	127.6 / 94.1
Market Cap (EURm)	6,334
Ev (BG Estimates) (EURm)	6,586
Avg. 6m daily volume (000)	319.5
3y EPS CAGR	21.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.7%	-4.2%	-17.9%	-10.9%
Softw.& Comp.	-0.4%	-6.2%	1.9%	-7.0%
DJ Stoxx 600	0.1%	-13.3%	-15.3%	-10.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,607	2,197	2,453	2,708
% change		*36.7%*	*11.7%*	*10.4%*
EBITDA	376	508	577	647
EBIT	323.5	436.5	502.9	566.0
% change		*34.9%*	*15.2%*	*12.5%*
Net income	207.3	273.7	325.0	376.7
% change		*32.1%*	*18.7%*	*15.9%*

	2014	2015e	2016e	2017e
Operating margin	20.1	19.9	20.5	20.9
Net margin	10.8	10.8	12.1	12.9
ROE	16.0	15.2	16.3	16.3
ROCE	11.8	16.5	19.5	22.4
Gearing	71.0	16.7	-2.8	-19.0

(EUR)	2014	2015e	2016e	2017e
EPS	3.41	4.47	5.29	6.14
% change	-	*31.3%*	*18.4%*	*15.9%*
P/E	30.5x	23.2x	19.6x	16.9x
FCF yield (%)	3.9%	4.3%	5.4%	6.2%
Dividends (EUR)	1.00	1.30	1.65	1.95
Div yield (%)	1.0%	1.3%	1.6%	1.9%
EV/Sales	4.4x	3.0x	2.6x	2.2x
EV/EBITDA	18.9x	13.0x	10.9x	9.2x
EV/EBIT	21.9x	15.1x	12.5x	10.5x

Ingenico Group's FY15 earnings are broadly in line (better in revenue, in line in EBITDA, lower in net income, better in net debt) and management provided its first 2016 targets (in line with what we thought). As usual, at this stage of the year management is very/too cautious. In our view, it gave again a floor in terms of Y/Y pro forma sales growth at cc (~+10%) and EBITDA margin (~21%), but in the end it should post double-digit organic sales growth (BG: 2016e sales at +11.7% lfl) and a still-high level of margin (BG: EBITDA margin of 23.5%). We have shaved our FY16-17 EPS sequence by only -1% on average (forex impact). The group will give its 2020 targets on 23rd March. Buy rating and FV of EUR150 maintained.

ANALYSIS

- **FY15 results broadly in line.** On the top line, **revenue came out at EUR2,197.3m up 13.9% Y/Y in pro forma basis** (vs BG est: 2,189.2m i.e. +13.2% lfl; cons.: EUR2,190m; guidance +12/13% lfl), divided into 70% Payment terminals (+16%) and 30% Payment Services (+9%, and +11% restated from the already-known loss of the volume at GlobalCollect's 1st client). In terms of profitability, **EBITDA was at EUR508.0m** i.e. margin up 60bp Y/Y in pf at 23.1% (vs BG est: EUR509m i.e. margin of 23.3%; cons.: EUR506m i.e. 23.1%; guidance: ~23%), **adjusted EBIT at EUR436.5m** i.e. margin up 30bp in pf at 19.9% (vs BG est: EUR443.3m, i.e. margin of 20.3%), **and net profit at EUR234.**7m i.e. margin of 10.7% (vs BG est: EUR243.6m, i.e. net margin of 11.1%). **The FCF totalled EUR275.2m,** i.e. FCF/restated EBIT of 63.0% (vs. BG at 69.8%) **and net debt was only EUR252.1m,** i.e. a very low gearing and net debt/EBITDA of 16.7% and 0.5x respectively (vs BG est:EUR403.2m, i.e. gearing of 31% and net debt/EBITDA of 0.8x; cons.: EUR408.1m). **The group will distribute a dividend of EUR1.30/share** in cash or in shares, payout of 35% (vs. BG est: payout of 35%).

- **FY16 overview per division: 1/ In Payment Terminals,** China and the US should each generate a double-digit growth (POS devices still need the EMV upgrade). And note that the rollout of its Telium Tetra OS (secure platform open to business applications) should generate volumes and then a positive impact on margins (1m terminals could be reached at end-2016, i.e. 10% of the shipments). **2/ In Payment Services**, the integration of GlobalCollect and its combination with Ogone are on track to deliver satisfactory growth in H2 (i.e. high-single digit over the FY). Despite losing 80% of volumes coming from GlobalCollect's first e-payment client in Asia, Ingenico has kept the currency management part (the most profitable of this contract) and the appointment of Mr Vacheron (former CFO) at the head of this division has been a strong and appropriate response.

- **Ingenico Group provided its first 2016 targets. Management expects revenue to grow by ~10% on a comparable basis at constant exchange rates, with an EBITDA margin of ~21%** (a stepped-up focus on developing and bringing its ePayments and other offers to market). **As usual, at this stage of the year Ingenico Group is very cautious.** It gave again a floor in terms of Y/Y organic sales growth and EBITDA margin (we expected the group to provide an organic sales growth ~10% and EBITDA margin >=21%). **In the end, we believe the group is capable of generating revenue of EUR2,453.3m** (+11.7% on a pro forma basis at cc, cons. of +11%) and an EBITDA margin of 23.5% (vs. 23.8% before because of the forex impact; cons. of 23.3%). **We have shaved our EPS 2016-17e sequence by only 1% on average**.

- **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-2016e, we expect a net cash position vs. a covenant of 3x net debt/EBITDA, and a FCF/current EBIT of 69%). 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). Note that 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.

- **What to expect from the analysts' day in London (23rd March).** We believe Ingenico could provide a minimum of EUR3.2bn in FY20e sales with an 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: EUR3.5bn in sales and 24.8% 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.

VALUATION

- We maintain our **Buy rating** and **Fair Value of EUR150.**
- In FY16e, we expect **earnings growth of +25%e vs. a P/E of 19.6x over 2016e.** The group's transformation towards more recurring revenues is not yet priced in.

NEXT CATALYSTS

- **Analyst day:** on 23rd March (in London).
- **Q1 2016 revenue:** on 26th April (after trading)

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

2015	Payment terminals	Payment services
Sales breakdown	70%	30% (10% in store / 20% online)
Gross margin	47.5%	36.9%

Source: Bryan Garnier & Co.

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

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

Source: Bryan Garnier & Co. ests.

Main P&L items over Q4 2015e, FY15e and FY16e

EURm	Q4 15	BG est Q4 15	Cons. Q4 15	FY15	BG est FY15e	Cons. FY15	Guid. FY15	BG est FY16e (old)	BG est FY16e (new)	Cons. FY16
Revenue	591.3	583.1	584	2,197.3	2,189.2	2,190		2,444.2	2,453.3	2,412
Y/Y growth	10.7%	*8.2%*	*8%*	*13.9%*	*13.2%*	*13%*	*12-13%*	*11.7%*	*11.7%*	*11%*
EBITDA				508.0	509.0	506		580.5	576.5	562
Margin				*23.1%*	*23.3%*	*23.1%*	*~23%*	*23.8%*	*23.5%*	*23.3%*
Net income				234.7	243.6	251		297.2	293.5	290

Sources: Company consensus on 5th February (22 analysts); Bryan Garnier & Co. ests.

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

Year	2012		2013		2014		2015		2016e	
	Initial guid.	Reported	Initial guid.	Reported	Initial guid.	Reported	Initial guid.	Reported	Initial guid.	BG est.
Revenue growth lfl	>=8%	14.5%	>=8%	13.5%	~10%	19.1%	~10%	13.9%	~10%	11.7%
EBITDA margin	>=18.3%	18.5%	>=18.5	20.4%	~21%	23.4%	~21%	23.1%	~21%	23.5%

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

Last strategic plan announced (initial guidance 2016 vs. 2015 reported and our 2016e)

2016	1st Guidance 2016: (strategic plan announced early 2013)	2015 reported (plan reached 1 year in advance)	BG est. 2016
Revenue (EURbn)	>2.2	2.2	2.5
EBITDA margin	>20%	23.1%	23.5%

Sources: Bryan Garnier & Co. ests.

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BUY ratings 63.4%   NEUTRAL ratings 28.4%   SELL ratings 8.2%

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