

## Sector View

## Software and IT Services

## Cognizant warning on Financial Services: what implications for our stocks under coverage?

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	-7.4%	-10.1%	-5.1%	-11.8%
DJ Stoxx 600	-7.9%	-17.3%	-20.8%	-14.1%

\*Stoxx Sector Indices

## Companies covered

<b>ALTEN</b>	SELL	EUR46
Last Price	EUR45,41	Market Cap. EUR1,529m
<b>ALTRAN TECHNOLOGIES</b>	BUY	EUR13
Last Price	EUR9,993	Market Cap. EUR1,757m
<b>ATOS</b>	BUY	EUR93
Last Price	EUR63,71	Market Cap. EUR6,596m
<b>AXWAY SOFTWARE</b>	BUY	EUR30
Last Price	EUR22,19	Market Cap. EUR456m
<b>CAPGEMINI</b>	BUY	EUR96
Last Price	EUR73,59	Market Cap. EUR12,670m
<b>CAST</b>	BUY	EUR3,9
Last Price	EUR3,15	Market Cap. EUR51m
<b>DASSAULT SYSTEMES</b>	SELL	EUR63
Last Price	EUR64,37	Market Cap. EUR16,525m
<b>INDRA SISTEMAS</b>	SELL	EUR9,8
Last Price	EUR8,107	Market Cap. EUR1,331m
<b>SAGE GROUP</b>	NEUTRAL	570p
Last Price	574,5p	Market Cap. GBP6,200m
<b>SAP</b>	NEUTRAL	EUR74
Last Price	EUR65,98	Market Cap. EUR81,057m
<b>SOFTWARE AG</b>	BUY	EUR34
Last Price	EUR29,155	Market Cap. EUR2,303m
<b>SOPRA STERIA GROUP</b>	BUY	EUR115
Last Price	EUR91,2	Market Cap. EUR1,861m
<b>SWORD GROUP</b>	BUY	EUR28
Last Price	EUR23,56	Market Cap. EUR221m
<b>TEMENOS GROUP</b>	BUY	CHF52
Last Price	CHF43,35	Market Cap. CHF2,888m

Yesterday, Cognizant reported FY15 results and issued a cautious guidance range due to Financial Services and Healthcare. It warned of discretionary IT projects being pushed out and of slower growth in Q1 16 due to economic concerns. The lower end of the 10-14% FY16 sales growth guidance suggests an ongoing freeze if economic concerns continue. While strategic projects are not called into question, we cannot rule out longer sales cycles. The IT stocks in our coverage that are most exposed to this are Temenos, Axway, Sopra Steria, Capgemini, Software AG, and Atos.

## ANALYSIS

- Mounting risks in Financial Services.** Yesterday Cognizant posted FY15 results in line with consensus, but issued disappointing guidance. For Q1 16, it expects a slow start with sales guidance of USD3.18-3.24bn (consensus: USD3.32bn), up 9-11%; for FY16, sales could be up 10-14% (+11% and +15% at cc) to USD13.65-14.2bn (consensus: USD14.12bn). The difference between the low-end and the high-end of the guidance range for FY16 is USD550m or 4% of sales (USD60m or 2% of sales for Q1 16). Cognizant is cautious on two sectors: 1) in BFSI (Banking, Financial Services & Insurance, 40% of sales), Q1 16 is burdened by small discretionary projects in Banking, pushed out due to the economic uncertainty that prevails at present. At this stage, strategic transformation projects (including digital) have not been called into question. FY16 revenue growth guidance is large enough to anticipate whether or not these discretionary projects will actually be launched; 2) in Healthcare, Q1 16 faces a wait-and-see attitude from customers due to the consolidation of the industry following the implementation of the Affordable Care Act.
- Temenos is the most exposed to Banking, but risks should not be overstated.** Obviously, the IT stock that is most exposed to Financial Services is Temenos, with 100% of revenues generated with banks. Temenos' software products are not related to discretionary IT spending, but we cannot rule out that the current economic worries may delay some strategic banking transformation projects from one quarter to the next. At this stage, we doubt the risk of deal slippages increased significantly as a lot of banks have engaged a process of digital transformation, but we cannot rule out longer sales cycles in order to secure the return on investment of this type of projects. Axway has strong exposure too, with 41% of revenues in Financial Services, and Cast as well. On their hand, Software AG and SAP respectively generate 19% and 10% of their revenues in Financial Services, respectively. Finally, Dassault Systèmes and Sage are not exposed.
- Exposure to Financial Services in IT Services: limited risk.** In IT Services, exposure to Financial Services is 26% for Capgemini, 17-18% for Atos (15% excluding Worldline), an est. 27% for Sopra Steria (o/w 8% for Sopra Banking Software), and 17% for Indra. Assuming that 5-10% of Cognizant's revenues in Financial Services is at risk for FY16, we estimate the risk to total revenues is around 1-2% for Capgemini, 1-3% for Sopra Steria and c.1% for Atos – which is more exposed to "recurring" multi-year contracts than its peers. Sword is 34% exposed, but mainly in Wholesale Finance. In High-tech Consulting, 5-10% of Altran and Alten's revenues stem from this industry.

## VALUATION

- European Software: est. 14.7x 2016 and 12.9x 2017 EV/EBIT multiples.
- European IT Services: est. 9.2x 2016 and 8.3x 2017 EV/EBIT multiples.

## NEXT CATALYSTS

Temenos' FY15 results on 11<sup>th</sup> February after markets close (conference call at 6.30pm CET / 5.30pm BST / 12.30pm EDT (Europe: +44 20 71 92 80 00; USA: +1 866 966 13 96)).

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**Analyst :**  
 Gregory Ramirez  
 33(0) 1 56 68 75 91  
[gramirez@bryangarnier.com](mailto:gramirez@bryangarnier.com)

**Sector Team :**  
 Richard-Maxime Beaudoux  
 Thomas Coudry  
 Dorian Terral

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## Distribution of stock ratings

BUY ratings 61,2%

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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