

Sopra Steria Group

Price EUR89.79

FY15 results above guidance but in line with our expectations, FY16 guidance in line

Fair Value EUR115 (+28%)

BUY

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	112.0 / 68.9
Market Cap (EUR)	1,832
Ev (BG Estimates) (EUR)	2,378
Avg. 6m daily volume (000)	23.00
3y EPS CAGR	14.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.1%	-17.1%	-3.7%	-17.1%
Softw. & Comp.	-3.7%	-6.8%	8.2%	-6.7%
DJ Stoxx 600	-2.9%	-14.3%	-8.4%	-10.7%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	2,280	3,592	3,791	3,933
% change		57.5%	5.5%	3.8%
EBITDA	220	292	340	384
EBIT	148.2	161.3	230.9	273.7
% change		8.8%	43.2%	18.5%
Net income	129.9	142.6	174.9	204.4
% change		9.8%	22.7%	16.8%

	2014	2015e	2016e	2017e
Operating margin	8.5	6.8	7.7	8.5
Net margin	4.3	2.4	3.5	4.1
ROE	9.0	7.5	10.8	12.1
ROCE	10.1	11.5	13.3	15.2
Gearing	40.7	48.5	31.3	18.3

(€)	2014	2015e	2016e	2017e
EPS	6.61	6.97	8.54	9.97
% change	-	5.4%	22.5%	16.8%
P/E	13.6x	12.9x	10.5x	9.0x
FCF yield (%)	6.0%	NM	7.3%	11.1%
Dividends (€)	1.90	1.90	2.26	2.76
Div yield (%)	2.1%	2.1%	2.5%	3.1%
EV/Sales	1.0x	0.7x	0.6x	0.5x
EV/EBITDA	10.3x	8.1x	6.5x	5.4x
EV/EBIT	11.8x	9.8x	7.6x	6.2x

This morning Sopra Steria has reported FY15 results above company guidance but in line with our forecasts and the consensus. Free cash flow, at EUR49.3m, was above company guidance (nil), and net debt reached 1.8x EBITDA (yet still way below the covenant limit) despite EUR55.8m cashed out in restructurings. FY16 guidance is in line with our expectations, with the company expecting lfl sales growth above 2% with an op. margin above 7.5%, while FY17 ambitions have been reiterated. We expect the share price to react positively short-term.

ANALYSIS

- FY15 results above company guidance but in line with our expectations.** FY15 sales rose 141.9% (+2% lfl) to EUR3.584bn, in line with our forecast (EUR3.592bn) and the consensus average (EUR3.584bn), and also in line with the company's guidance (c. +2% lfl). Operating margin widened 27.2% to EUR245.5m or 6.8% of sales (-1.7ppt), while we expected EUR242.6m or 6.8% of sales (consensus: EUR239.8m or 6.7% of sales) and company guidance was for c. 6.5%. EBIT was up 3% to EUR152.6m (BG est. EUR161.3m; consensus: EUR163m) after EUR67.2m in restructuring costs (o/w EUR46.3m related to the integration of Steria), and net profit was down 14.1% to EUR84.4m (BG est.: EUR84.8m; consensus: EUR83.2m). Q4 2015 sales rose 6.3% (+0.9% lfl) to EUR970.6m.
- Free cash flow above expectations.** Net debt on 31st December 2015 was EUR530.8m, or slightly below our forecast (EUR545m) and the consensus (EUR542m), given positive free cash flow of EUR49.3m or 1.4% of sales - while company guidance was around zero - after EUR55.8m in cash-outs related to restructuring, EUR23.3m in cash-outs related to pensions, and a WCR change of EUR81.9m. The net debt/EBITDA ratio stood at 1.8x, up from 1.6x end 2014 but still way below the limit fixed by bank covenants (3x).
- FY15 details by Business Unit.** 1) France: sales of EUR1,364.3m (+1.7% lfl, with Q4 flat lfl), op. margin 7.5% (+1.4ppt pro forma), with Consulting & Systems Integration sales at EUR1,161.1m (+3.5% lfl, o/w +10% in Consulting and +7% in strategic accounts) with op. margin of 8.7% (+1.2ppt pro forma), and Infrastructure & Security Services sales at EUR203.2m (-7.8% lfl, o/w -10.3% in Infrastructure and +25% in Security) with op. margin of 0.3% (+1.4ppt pro forma) with significant action taken to improve profitability; 2) UK: sales EUR1,042m (-0.7% lfl, with Q4 up 1.7% lfl), op. margin 7.3% (-2.2ppt lfl); 3) Other Europe: sales EUR697.4m (+6.3% lfl - incl. growth in Germany and strong growth in Spain, Italy and Scandinavia -, with Q4 up 7.8% lfl), op. margin 2.7% (+1.7ppt pro forma), with Germany close to breakeven (vs. a EUR13.5m loss in 2014); 4) Sopra Banking Software: sales EUR282.4m (+2.5% lfl, with Q4 down 10% lfl), op. margin 9.1% (-3.3ppt); 5) Other Solutions: sales EUR198.3m (+3.2% lfl, with Q4 down 0.9% lfl), op. margin 11.6% (-1ppt).
- FY16 guidance in line with our forecasts and the consensus.** For FY16, management expects lfl revenue growth above 2% (BG est. +3.7%, consensus +3.1%), despite low growth in Q1, with op. margin above 7.5% (BG est. 7.7%, consensus: 7.6%), and a surge in free cash flow (BG est.: EUR134m or 3.5% of sales). FY17 targets have been confirmed, i.e. EUR3.8-4bn revenues and an op. margin of 8-9%. For FY17, we expect an op. margin of 8.5% with revenues of EUR3,933m.

VALUATION

- Sopra Steria's shares are trading at est. 7.6x 2016 and 6.2x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR530.8m (net gearing: 43%).

NEXT CATALYSTS

Analysts' meeting today at 9am CET / 8am BST / 3am EDT in Paris (Shangri-La Hotel - 10 avenue d'Iena).

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BUY ratings 62,2%

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