

Temenos Group

Price CHF42.10

FY15 operating profit in line; no surprise on FY16 guidance with strong visibility

Fair Value CHF53 vs. CHF52 (+26%)

BUY

Bloomberg	TEMN SW
Reuters	TEMN.SW
12-month High / Low (CHF)	52.0 / 29.3
Market Cap (CHF)	2,805
Ev (BG Estimates) (CHF)	2,939
Avg. 6m daily volume (000)	216.4
3y EPS CAGR	23.2%

We reiterate our Buy rating and revise our DCF-derived fair value to CHF53 from CHF52, as we increase our adj. EPS ests. by 1% and adjust our WCR assumptions. Yesterday evening, Temenos reported for FY15 a non-IFRS op. profit in line with expectations with sales 2% above our ests. FY16 guidance is in line with our forecasts, driven by strong visibility. We expect the share price to react positively.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.0%	-11.0%	18.6%	-19.0%
Softw. & Comp.	-9.6%	-12.2%	-6.5%	-13.5%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Dec. (US\$m)	2015	2016e	2017e	2018e
Sales	542.5	608.8	672.5	741.9
% change		12.2%	10.5%	10.3%
EBITDA	202	247	277	309
EBIT	156.6	197.5	225.6	255.8
% change		26.2%	14.2%	13.4%
Net income	115.7	154.0	179.4	206.8
% change		33.1%	16.5%	15.3%

	2015	2016e	2017e	2018e
Operating margin	28.9	32.4	33.5	34.5
Net margin	12.2	18.1	20.1	21.9
ROE	17.7	24.2	24.2	22.6
ROCE	22.3	29.0	36.1	45.6
Gearing	71.2	30.2	-3.0	-33.0

(US\$)	2015	2016e	2017e	2018e
EPS	1.58	2.20	2.57	2.96
% change	-	39.3%	16.5%	15.3%
P/E	27.4x	19.6x	16.9x	14.6x
FCF yield (%)	5.1%	5.6%	6.5%	7.6%
Dividends (US\$)	0.45	0.50	0.55	0.60
Div yield (%)	1.0%	1.2%	1.3%	1.4%
EV/Sales	5.8x	5.0x	4.3x	3.6x
EV/EBITDA	15.6x	12.2x	10.4x	8.6x
EV/EBIT	20.1x	15.3x	12.7x	10.3x

- FY15 results: profit in line, sales ahead of expectations.** On a non-IFRS basis, FY15 sees sales up 19.3% (est. +12% lfl) to USD559m, with total software licensing (licence/SaaS/subscription) up 45% (+20% lfl) to USD214m (with +31% lfl in Q4), Maintenance up 7% lfl and Services up 6% lfl. Non-IFRS operating profit was up 22.8% to USD157m or 28.1% of sales (+0.8ppt), and non-IFRS EPS was up 20.1% to USD1.73. Revenues were 2% ahead of our USD548.5m est. and consensus (USD547m) and 1% above the top-end of company guidance (USD536-553m, o/w USD202-206m on total software licensing), driven by stronger-than-expected licence sales. Non-IFRS operating profit was in line with our forecast (USD157m or 28.6% of sales) and consensus (USD156.6m or 28.6% of sales) and at the top-end of company guidance (USD153-158m or 28.5% of sales) with some investment to prepare 2016. Operating cash conversion remained strong, at 133% of EBITDA (target >100%), with DSOs down 27 days (target: 10-15 days) to 154 days - down 30 days excl. acquisitions.
- Other Q4 15 details.** 1). Performance in Q4 15 denoted strong momentum - new wins stood at 30, vs. 12 in Q4 14 - with Private Banking and Channels particularly strong, high levels of activity in Europe with large banks, Asia back to growth thanks to Wealth Management deals in mature countries, a solid build-up of key customer references in the US, and reduced dependence to emerging markets (22% of total software licensing vs. 46% in 2014); 2). Temenos believes it is gaining market share with strong win rates against all competition; 3). The Services gross margin was up 3.6ppt to 8.5% with a 24% contribution of Premium services to Service revenues, and partners are now involved in almost all implementations; 3). Multifonds, which was acquired in March 2015, exceeded financial targets for 2015 and has strong pipeline growth; 4). In the US, the company built a qualified pipeline of USD20m+ in H2 15.
- FY16 guidance in line with market expectations.** For FY16, on a non-IFRS basis, Temenos forecasts revenues up 7.5-11% at cc to USD594-614m, total software licensing up 10-15% at cc to USD234-245m, and an operating margin up c.2ppt to c.30% (USD180-185m based on opex up 7% lfl to USD422m). We expected, on a non-IFRS basis, revenues of USD609.5m (consensus: USD604.1m) and an operating profit of USD183.7m or 30.1% of sales (consensus: USD182.5m or 30.2% of sales). Management considers it has its highest revenue visibility ever (80%) and is not concerned by Cognizant's bearish comments on Banking: 1). The renovation of core banking systems remains a strategic imperative for banks, and is not discretionary spend; 2). Compared to 2008, banks are well capitalised.
- Revisiting medium-term targets.** Temenos now targets non-IFRS revenues up 10% per year (vs. +5%/+10% previously), total licensing up 15% per year (vs. up 15%+) and EPS up 15% per year. The non-IFRS operating margin is still expected to increase by 1-1.5ppt on average per year. Cash conversion is still expected to be above 100%, and DSOs to reduce by 10-15 days per year.

VALUATION

- Temenos' shares are trading at est. 15.3x 2016 and 12.7x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was USD267.2m (net gearing: 71%).

NEXT CATALYSTS

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BUY ratings 61.9%

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