

**Worldpay**

Price 313.00p

An aisle-end stock, but not a bargain (full report out today)

Fair Value 290p (-7%)

**NEUTRAL** Coverage initiated

Bloomberg	WPG LN
Reuters	WPG.L
12-month High / Low (p)	316.8 / 240.0
Market Cap (GBP)	6,260
Ev (BG Estimates) (GBP)	7,644
Avg. 6m daily volume (000)	10,147
3y EPS CAGR	33.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.0%	13.8%	ns	1.9%
Softw. & Comp.	-3.0%	1.8%	5.0%	-2.3%
DJ Stoxx 600	-7.4%	-8.9%	-13.1%	-6.4%

YEnd Dec. (GBPm)	2014	2015e	2016e	2017e
Sales	3,627	4,000	4,280	4,622
% change		10.3%	7.0%	8.0%
EBITDA	286	304	402	506
EBIT	296.3	335.0	376.6	422.5
% change		13.1%	12.4%	12.2%
Net income	91.7	126.1	233.8	273.9
% change		37.5%	85.5%	17.1%

	2014	2015e	2016e	2017e
Operating margin	8.2	8.4	8.8	9.1
Net margin	-1.4	-0.4	3.5	4.8
ROE	26.0	-2.2	17.8	21.7
ROCE	14.0	15.5	15.0	16.1
Gearing	-1,173	200.5	146.7	101.9

(p)	2014	2015e	2016e	2017e
EPS	5.71	6.30	11.69	13.70
% change	-	10.3%	85.5%	17.1%
P/E	54.8x	49.7x	26.8x	22.9x
FCF yield (%)	0.0%	NM	1.9%	3.7%
Dividends (p)	0.00	0.00	1.87	2.78
Div yield (%)	NM	NM	0.6%	0.9%
EV/Sales	2.3x	1.9x	1.8x	1.6x
EV/EBITDA	29.8x	25.1x	18.6x	14.4x
EV/EBIT	28.7x	22.8x	19.9x	17.3x

We are initiating Worldpay with a Neutral recommendation and a FV of 290p (downside of 7%). While its offer corresponds well to current demand from merchants, we estimate its recurring sales, the rising share of e-commerce in the mix and potential to improve EBITDA are already priced in. After gaining +30% since its IPO on 13th October 2015, the share harbours no upside even when looking just at EV/sales and EV/EBITDA multiples until 2016e (namely until the end of the plan to invest in the platforms). The share is trading on an average premium relative to peers of 22% for 2016e. *Research Report out today.*

**ANALYSIS**

- Worldpay is a fintech, namely a software company operating in the payments segment. Former UK division of Royal Bank of Scotland (sold in 2010 to Bain and Advent for EV of GBP2bn), the group's core business is **processing and acquiring payment transactions** (in-store in the UK and US, and e-commerce on a global scale). Its offering targets a wide range of merchants (from small/medium-sized merchants to large retailers).
- Based on the number of card transactions processed at merchants, **Worldpay is the no. 5 acquirer in the world** (market share of 5%e), the **no. 1 in Europe** (market share of 20%e, with uncontested leadership status in the UK, market share of 42%) and **no. 9 in the US** (market share of 3%e). **In e-commerce, we estimate it is the global leader** (market share of 6%e) and the **European no. 1** (market share of 20%e).
- We believe Worldpay's offers and technologies respond well to current issues at merchants, in both physical stores and in e-commerce. Indeed, merchants are looking for a multichannel solution enabling them to accept any payment type via any channel and in any currency and offering a secure and fluid purchasing experience. **However, it still has everything to prove** (current fundamentals are not impressive for the payments sector). **Despite our far from pessimistic estimates, the share is expensive** (even taking into account only EV/sales and EV/EBITDA multiples. We believe it will only be reliable to reason in PEG once investment in the platforms is complete, early 2017e. **The share is trading on an average premium of 22% vs. its peers in 2016e.**

**VALUATION**

- We are initiating coverage of Worldpay with a Neutral rating and a Fair Value of 290p (downside of 7%). **This latter is made up of an equi-weighted average between three valuation methods** (DCF at 317p, peer comparison at 285p, and sum of the parts at 268p).
- We advise investors to rather play the payments and security theme via Wirecard (Buy, FV EUR52, Q1 Top Pick), Worldline (Buy, FV of EUR29, Q1 Top Pick), and Ingenico Group (Buy, FV of EUR150).

**NEXT CATALYSTS**

- Full-year 2015 earnings: 8th March (before trading).

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