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8th March 2016

BG's Wake Up Call



| | Last close | Daily chg (%) | Chg YTD (%) |
|-------------------------|------------|---------------|-------------|
| Indices | | | |
| Dow Jones | 17073.95 | +0.40% | -2.01% |
| S&P 500 | 2001.76 | +0.09% | -2.06% |
| Nasdaq | 4708.25 | -0.19% | -5.97% |
| Nikkei | 16783.15 | -0.76% | -11.15% |
| Stoxx 600 | 340.926 | -0.26% | -6.80% |
| CAC 40 | 4442.29 | -0.32% | -4.20% |
| Oil /Gold | | | |
| Crude WTI | 37.93 | +5.54% | +1.96% |
| Gold (once) | 1267.88 | -0.25% | +19.34% |
| Currencies/Rates | | | |
| EUR/USD | 1.09835 | -0.21% | +1.11% |
| EUR/CHF | 1.0966 | +0.28% | +0.85% |
| German 10 years | - | +-% | +-% |
| French 10 years | - | +-% | +-% |
| Euribor | - | +-% | +-% |

Economic releases :

| Date | |
|---------|---|
| 8th-Mar | International Women's day. JP - GDP annualised 4Q (-1.1%A, -1.6%E) CNY - Trade Balance Feb.(32bn\$A, 51bn\$E) JP - Bankruptcies Feb. (4.47% A y/y) GB - BoE Cunliffe testify on Brexit at Parliament committee EUZ - GDP 4Q (1.5% q/q) |

Upcoming BG events :

| Date | |
|-----------------------|--|
| 10th-Mar/ 11th-Mar | BG TMT Conference |
| 15th-Mar | ABLYNX (BG Paris roadshow with CEO) |
| 18th-Mar | CNP (BG Paris roadshow with CEO, CFO) |
| 23rd-Mar | EIFFAGE (BG Luxembourg with IR) |
| 8th-Apr | VINCI (BGLuxembourg roadshow with CFO) |
| 12th-Apr | DBV TECH. (BG Paris roadshow with CEO) |

Recent reports :

| Date | |
|----------|--|
| 4th-Mar | CAMPARI : The wind in its sails |
| 19th-Feb | CASINO With hindsight: a real Catch-22! |
| 17th-Feb | LAFARGEHOLCIM Everything can't be that bad. |
| 11th-Feb | Pennon : At any price? |
| 2nd-Feb | French toll roads: safe harbour in difficult times |
| 1st-Feb | An aisle-end stock, but not a bargain |

List of our Reco & Fair Value : Please click here to download



ENGIE

BUY, Fair Value EUR17 vs. EUR19 (+21%)

Rise of the phoenix?

We publish this morning a report on Engie on which we analyse the commitments made by the group at its 2015 earnings presentation and try to predict what the group could look like depending on whether additional disposals are made or not. We find three times more upside than downside assuming group's transformation is done. Buy.

DIALOG SEMICONDUCTOR

NEUTRAL, Fair Value EUR38 (+15%)

Q4-15 beats, but Q1-16 revenue outlook disappointing. Looking to set up a share buy-back.

This morning, Dialog Semiconductor reports Q4-15 results above consensus estimates. Q4-15 sales at USD397m (up +20.1% seq.) were already known as the data was pre-released in January. For Q4-15, Underlying EBIT, which is the one comparable to consensus data, is USD105m and EPS came out at USD0.97, i.e. 9% above consensus expectations of EBIT at USD96.6m and EPS at USD0.89. However, for Q1-16, the company sees revenue in the range of USD230m to USD245m, which, at the mid-point (USD238m) is 7% below the current Street expectation of USD257m and 6% below our estimate at USD254m. Finally, the group adds that it is looking to put in place a share buy-back program. We keep our Neutral recommendation, waiting for the conference call to be held today at 10:30am.

RWE

NEUTRAL, Fair Value EUR9,8 (-14%)

2015 earnings: first take

RWE posted 2015 metrics ahead of expectations, notably explained by positive one-off effect; while releasing prudent 2016 guidance which reflects group's hedging policy for its outright power position. Yet market was already aware of that following the trading statement in February. 2016 is not set to be a growth year for the group (2017 is more likely), as for other sector peers. We continue to prefer E.ON over RWE. Neutral.

WORLDPAY

NEUTRAL, Fair Value 290p (-1%)

FY sales, EBITDA and restated EBIT broadly in line, but higher-than expected net loss

Worldpay has posted FY sales, EBITDA, and restated EBIT broadly in line with our estimates and that of the consensus, but net loss higher than expected (4th year of net loss). Management remains confident in its prospects over the medium term (net revenue growth of ~+9-11% CAGR over the medium to long term) which remains unchanged. 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). We maintain our Neutral rating and FV of 290p. Conference call today at 9:30 (UK time).

In brief...

SWORD GROUP, Final FY15 results fully in line with preliminary estimates; FY16 guidance confirmed

Utilities

Engie

Price EUR14.01

Rise of the phoenix?

Fair Value EUR17 vs. EUR19 (+21%)

BUY

We publish this morning a report on Engie on which we analyse the commitments made by the group at its 2015 earnings presentation and try to predict what the group could look like depending on whether additional disposals are made or not. We find three times more upside than downside assuming group's transformation is done. Buy.

ANALYSIS

- **2016, a transition year, as in 2015...:** 2015 was not a great year for the group, which faced the massive drop in power, oil and gas prices, on top of more company-specific issues (*Yemen, Brazil...*). Compared with 2011 (*restated for the deconsolidation of Suez*), the group's EBITDA has dropped more than **23%** and around **14%** on a lfl basis, despite the **EUR17bn** in growth capex invested over the period. 2016 is set to be another year without growth, as the group's hedging policy for power and commodities prices will continue to offset growth from new projects. Engie's 2016 EBITDA guidance implies a "-4%/+1.2%" growth target.
- **The transformation plan is key for equity story:** Instead of suffering from the energy transition, Engie aims **to play an active role in it**. To do so, significant investments are necessary to reposition the group in greener power generation assets, while non-strategic assets disposals are needed to finance this growth. On top of this change in mix, additional restructuring efforts are to be implemented (*EUR1bn*), as well as an entire management/business reorganisation. **The aim is to make its structure more flexible, lighter and closer to final customers.**
- **Rise of the phoenix?** Assuming Engie manages to deliver its targets implies higher earnings growth potential, lower sensitivity to changes in commodities and potential rerating (*more regulated*). The question mark concerns the group's ability to achieve this, on time, and on good terms. We have tried to predict what Engie could look like in 2025 assuming all goes well, while forecasting what it could look if it fails to sell off its non-strategic assets. **Our pure DCF-based analysis gives a range of EUR13-EUR18/sh, implying three times more upside than downside assuming group's transformation is done.**
- **Still positive:** We have adjusted our model to include 2015 earnings and the new dividend distribution policy, as well as disposals of US and Asian thermal assets. Engie will survive whatever the scenario (*disposals or not*), but we assume more value creation from an entire transformation. **We cut our FV from EUR19 to EUR17 yet confirm the Buy rating (*multi-criteria*).**

VALUATION

- At current share price the stock is trading at 7.3x its EBITDA 2016e and offers a 7% yield
- Buy, FV cut from **EUR19 to EUR17/share**

NEXT CATALYSTS

- April 29th 2016: Q1-16 earnings

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| | |
|----------------------------|---------|
| Bloomberg | GSZ FP |
| Reuters | GSZ.PA |
| 12-month High / Low (EUR) | 20 / 13 |
| Market Cap (EURm) | 34,118 |
| Ev (BG Estimates) (EURm) | 78,070 |
| Avg. 6m daily volume (000) | 6 298 |
| 3y EPS CAGR | -21.7% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|--------|-------|----------|
| Absolute perf. | -1.0% | -12.3% | -6.8% | -14.2% |
| Utilities | -2.7% | -7.0% | -2.1% | -6.9% |
| DJ Stoxx 600 | 4.0% | -7.8% | -3.2% | -6.6% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|------------------|--------|--------|--------|--------|
| Sales | 69,883 | 71,674 | 68,368 | 69,445 |
| % change | | 2.6% | -4.6% | 1.6% |
| EBITDA | 11,261 | 10,820 | 10,223 | 10,554 |
| EBIT | -3,243 | 6,329 | 5,756 | 6,041 |
| % change | | NS | -9.1% | 5.0% |
| Net income | 4,950 | 2,484 | 2,302 | 2,448 |
| % change | | -49.8% | -7.3% | 6.3% |

| | 2015 | 2016e | 2017e | 2018e |
|------------------|------|-------|-------|-------|
| Operating margin | -4.6 | 8.8 | 8.4 | 8.7 |
| Net margin | 7.1 | 3.5 | 3.4 | 3.5 |
| ROE | 10.2 | 5.1 | 4.8 | 5.1 |
| ROCE | 6.8 | 4.3 | 3.9 | 4.1 |
| Gearing | 61.5 | 57.6 | 60.6 | 61.4 |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|-----------------|------|--------|-------|-------|
| EPS | 2.04 | 0.99 | 0.92 | 0.98 |
| % change | | -51.3% | -7.8% | 6.8% |
| P/E | 6.9x | 14.1x | 15.3x | 14.3x |
| FCF yield (%) | 0.7% | 6.0% | 5.0% | 7.5% |
| Dividends (EUR) | 1.00 | 1.00 | 0.70 | 0.70 |
| Div yield (%) | 7.1% | 7.1% | 5.0% | 5.0% |
| EV/Sales | 1.0x | 1.1x | 1.2x | 1.2x |
| EV/EBITDA | 6.4x | 7.2x | 7.7x | 7.6x |
| EV/EBIT | NS | 12.3x | 13.8x | 13.2x |



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TMT

Dialog Semiconductor

Price EUR33.15

Q4-15 beats, but Q1-16 revenue outlook disappointing. Looking to set up a share buy-back.

Fair Value EUR38 (+15%)

NEUTRAL

| | |
|----------------------------|-------------|
| Bloomberg | DLG GR |
| Reuters | DLGS.DE |
| 12-month High / Low (EUR) | 53.3 / 24.4 |
| Market Cap (EURm) | 2,581 |
| Ev (BG Estimates) (EURm) | 2,123 |
| Avg. 6m daily volume (000) | 15.00 |
| 3y EPS CAGR | 18.4% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|--------|----------|
| Absolute perf. | 22.1% | -4.3% | -23.0% | 6.2% |
| Semiconductors | 4.6% | -8.4% | 2.6% | -3.2% |
| DJ Stoxx 600 | 4.0% | -7.8% | -3.2% | -6.6% |

| YEnd Dec. (USDm) | 2014 | 2015e | 2016e | 2017e |
|------------------|-------|-------|-------|-------|
| Sales | 1,156 | 1,355 | 1,468 | 1,693 |
| % change | | 17.2% | 8.4% | 15.3% |
| EBITDA | 286 | 359 | 387 | 455 |
| EBIT | 230.3 | 301.9 | 319.1 | 383.0 |
| % change | | 31.1% | 5.7% | 20.0% |
| Net income | 172.2 | 213.7 | 233.6 | 294.5 |
| % change | | 24.1% | 9.3% | 26.1% |

| | 2014 | 2015e | 2016e | 2017e |
|------------------|-------|-------|-------|-------|
| Operating margin | 19.9 | 22.3 | 21.7 | 22.6 |
| Net margin | 14.9 | 15.8 | 15.9 | 17.4 |
| ROE | 22.1 | 18.2 | 16.9 | 18.0 |
| ROCE | 36.8 | 41.7 | 45.5 | 55.0 |
| Gearing | -18.3 | -46.9 | -55.6 | -62.3 |

| (USD) | 2014 | 2015e | 2016e | 2017e |
|-----------------|-------|-------|-------|-------|
| EPS | 2.27 | 2.74 | 2.99 | 3.77 |
| % change | - | 20.5% | 9.3% | 26.1% |
| P/E | 14.6x | 12.1x | 11.1x | 8.8x |
| FCF yield (%) | 8.9% | 6.5% | 7.5% | 9.3% |
| Dividends (USD) | 0.00 | 0.00 | 0.00 | 0.00 |
| Div yield (%) | NM | NM | NM | NM |
| EV/Sales | 2.1x | 1.6x | 1.3x | 1.0x |
| EV/EBITDA | 8.6x | 5.9x | 5.0x | 3.7x |
| EV/EBIT | 10.7x | 7.0x | 6.0x | 4.4x |

This morning, Dialog Semiconductor reports Q4-15 results above consensus estimates. Q4-15 sales at USD397m (up +20.1% seq.) were already known as the data was pre-released in January. For Q4-15, Underlying EBIT, which is the one comparable to consensus data, is USD105m and EPS came out at USD0.97, i.e. 9% above consensus expectations of EBIT at USD96.6m and EPS at USD0.89. However, for Q1-16, the company sees revenue in the range of USD230m to USD245m, which, at the mid-point (USD238m) is 7% below the current Street expectation of USD257m and 6% below our estimate at USD254m. Finally, the group adds that it is looking to put in place a share buy-back program. We keep our Neutral recommendation, waiting for the conference call to be held today at 10:30am.

ANALYSIS

- This morning, Dialog Semiconductor reports Q4-15 results 9% above expectations.** The group reported sales of USD397 m, up +20.1% seq., which is not a surprise since the group pre-released the Q4-15 sales data in January (see our comment). Today, the group also reports Gross Margin of 46.1% and Underlying EBIT of USD105m which appears to be 8.7% above the Street's expectations at USD96.6m (BG ests. USD88.6m) and Underlying diluted EPS of USD0.97 is 9.0% above the Street's estimates at USD0.89 (BG ests. USD0.68). On a FY basis, revenue came out at USD1,355m, underlying operating profit is USD318m and FY15 underlying diluted EPS is USD3.02. At end Q4-15, the gross cash position was USD567m, thanks to operational cash generation of USD110m.
- As expected, Mobile business has been impacted by the smartphone slowdown, but Power conversion and Bluetooth continued to perform strongly.** While the Mobile Systems segment had been impacted by the general slowdown in the smartphone market and showed a sequential decline of -11% (+25% yoy) in Q4, the Power Conversion was up +15% seq. (+16% seq.) thanks to the ramp of Dialog's rapid charge solution. The Connectivity segment, including Bluetooth and DECT products, was slightly down by -3.4% seq. (+9% yoy).
- A Q1-16 revenue guidance 7% below consensus expectations.** For Q1-16, the company sees revenue in the range of USD230m to USD245m, which, at the mid-point (USD238m) points to a -40% decrease in sales and is 7% below the Street's expectation of USD257m and 6% below our estimate at USD254m. The gross margin guidance of a similar GM than what has been achieved in 2015 (2015 underlying GM 46.7%) is broadly in line with Street's expectations. In our view, the new group's guidance points to a continuous slowdown in volume, but no particular price pressure. Note that the first quarter is usually known to have a strong negative seasonal effect at Dialog, it has been down -33% sequentially on average over the last 3 years. The group did not change its previous FY16e guidance of a single digit growth (cons. at USD1,4bn, up +3.6%).
- The group has announced the appointment of Wissam Jabre as CFO.** In July 2015, Jean Michel Richard announced his departure for personal reasons after nine years as CFO at Dialog. Wissam Jabre will now have responsibility for the company's financial function. Previously, Jabre was Corporate Vice President of Finance at AMD since 2014 and held various executive positions at Freescale between 2003 and 2014. We also note that Dialog highlights its experience in various domain including Merger and Acquisition.
- In addition, the management also says it will seek permission at the next AGM to put in place a general framework for a share buyback program.** We note that the group has always refused to set up a dividend distribution explaining it was inconsistent for a group achieving a double-digit growth figure. However, the current slowdown could change CEO's opinion on dividend distribution.

VALUATION

- We maintain our Neutral recommendation, waiting for the conference call to be held later today (at 10:30am).
- Dialog's shares trade at a 2016e EV/Sales ratio of 1.8x and a 2016e P/E ratio of 16.2x.

NEXT CATALYSTS

- May 4th 2016, Q3 results



Fig. 1: Q4-15 Actual vs. Cons.

| [USDm] | BG ests. Q4 | Consensus Q4 | Q4 Actual | Actual vs. Cons. |
|----------------|-------------|--------------|-----------|------------------|
| Net revenue | 397 | 397 | 397 | 0.0% |
| % change (seq) | 20.1% | 20.1% | 20.2% | 6bp |
| Gross Margin | 46.3% | 46.9% | 46.1% | -80bp |
| Adj. EBIT | 89 | 97 | 105 | 8.7% |
| % of revenue | 22.3% | 24.3% | 26.4% | 212bp |
| Dil. EPS | 0.68 | 0.89 | 0.97 | 9.0% |

Sources: Company data; Bryan, Garnier & Co ests.

Fig. 2: Q1-16 guidance vs. estimates

| [USDm] | BG ests. Q1 | Consensus Q1 | Q1 Guidance | Guid. vs. Cons. |
|--------------------------|-------------|--------------|-------------|-----------------|
| Net revenue (mid-pt) | 254 | 257 | 238 | -7.4% |
| % change (seq vs. ests.) | -36.0% | -35.3% | -40.1% | -479bp |
| Gross margin | 46.0% | 46.5% | - | - |
| Dil. EPS | 0.47 | 0.43 | - | - |

Sources: Company data; Bryan, Garnier & Co ests.

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Utilities

RWE

Price EUR11.30

2015 earnings: first take

Fair Value EUR9,8 (-14%)

NEUTRAL

RWE posted 2015 metrics ahead of expectations, notably explained by positive one-off effect; while releasing prudent 2016 guidance which reflects group's hedging policy for its outright power position. Yet market was already aware of that following the trading statement in February. 2016 is not set to be a growth year for the group (2017 is more likely), as for other sector peers. We continue to prefer E.ON over RWE. Neutral.

ANALYSIS

- Main 2015 metrics:** EBITDA came out at **EUR7bn** down **1.6%** compared with 2014, and ahead of both consensus and our estimates (*EUR6.1bn and EUR6.4bn*). This is above group's guidance of **EUR6.1-6.4bn**, mainly due to the fact that in the context of the decision not to finish the German hard coal plant unit D in Hamm, RWE received insurance payments, among other things. Operating result came out at **EUR3.84bn**, down **4.5%** YoY, ahead of also our **EUR3.7bn** estimate and also ahead of group's 2016 target. Group's net income was negative at minus EUR170m while we anticipated a positive performance. Most of the difference comes from asset impairments on group's German and Dutch conventional power plants (*minus EUR2.1bn*) and write-off of deferred tax assets (*minus EUR0.9bn*). When adjusted from the non-recurring elements, the group's net income is ahead our EUR0.9bn estimates at **EUR1.1bn**. Net debt strongly declined compared with last year, from EUR31bn to **EUR25.1bn**, thanks notably to the disposal of **RWE DEA** (*EUR5.3bn positive impact on group's net debt*).
- What about 2016?** As for 2016 RWE mentioned that it is targeting to generate an EBITDA between **EUR5.2bn and EUR5.5bn** and an operating profit between **EUR2.8bn and EUR3.1bn** while we respectively expected **EUR5.5bn and EUR3.1bn**. We are then at the high range of the group's guidance. As expected, the group is reducing its short-term capex envelop and now targets to spend around EUR1.8bn for 2016 o/w EUR1.1bn for regulated gris business and up to EUR0.7bn for growth investments, mainly in renewables. In our model, we forecasted a YoY decline compared with 2015, yet to EUR2.2bn. This higher decline will negatively impact group's long-term growth on new segments.
- What to retain from this publication:** **1/** the suspension of the dividend payment to holders of common shares for fiscal 2015 (*EUR0.13/share for preferred shareholders*) (-); **2/** the extension of the costs reduction program by one year to 2018 with volumes stepped-up by another **EUR0.5bn** to a total net benefit to operating result of EUR2.5bn (+); **3/** the restructuring of RWE npower (UK) seems well on track, with the situation expected to stabilise in 2016. Yet according to the group the situation will be fully resolved by the end of 2018. Job cuts unveiled by the press were not confirmed; **4/** the group confirmed its strategy to carry out a capital increase (10%) at the **NewCo** by the end of the year (*Q4-16*), to fund future growth capex; **5/** without providing more details, management unveiled policy makers have sent "some promising signals" regarding solution for funding of nuclear provisions.
- Conclusion:** Most of 2015 metrics as well as 2016 targets **were already released by the group** in its trading statement on February 17th 2016. We already knew we were at the high end of group's guidance for 2016. Consensus on 2016 may have to adjust negatively, as us. Yet we assume most of the earnings deterioration for 2016 was already priced in. We hope to get more details on dividend distribution policy and on solution for funding nuclear provisions during the conference call at 12.30 pm (CET).

VALUATION

- At current share price RWE trades at 7.8x its 2016e EBITDA and offers a 4.8% yield
- Neutral, FV @ EUR9.8

NEXT CATALYSTS

- May 12th : Q1-16 earnings

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TMT

Worldpay

Price 291.90p

FY sales, EBITDA and restated EBIT broadly in line, but higher-than expected net loss

Fair Value 290p (-1%)

NEUTRAL

| | |
|----------------------------|---------------|
| Bloomberg | WPG LN |
| Reuters | WPG.L |
| 12-month High / Low (p) | 316.8 / 240.0 |
| Market Cap (GBPm) | 5,838 |
| Ev (BG Estimates) (GBPm) | 7,222 |
| Avg. 6m daily volume (000) | 9,791 |
| 3y EPS CAGR | 33.8% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | -3.3% | -1.9% | ns | -5.0% |
| Softw. & Comp. | 2.7% | -6.0% | 12.7% | -5.5% |
| DJ Stoxx 600 | 4.6% | -8.5% | -3.9% | -6.8% |

| 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 | 51.1x | 46.3x | 25.0x | 21.3x |
| FCF yield (%) | 0.0% | NM | 2.0% | 3.9% |
| Dividends (p) | 0.00 | 0.00 | 1.87 | 2.78 |
| Div yield (%) | NM | NM | 0.6% | 1.0% |
| EV/Sales | 2.2x | 1.8x | 1.7x | 1.5x |
| EV/EBITDA | 28.3x | 23.8x | 17.6x | 13.6x |
| EV/EBIT | 27.3x | 21.6x | 18.8x | 16.3x |



Worldpay has posted FY sales, EBITDA, and restated EBIT broadly in line with our estimates and that of the consensus, but net loss higher than expected (4th year of net loss). Management remains confident in its prospects over the medium term (net revenue growth of ~+9-11% CAGR over the medium to long term) which remains unchanged. 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). We maintain our Neutral rating and FV of 290p. Conference call today at 9:30 (UK time).

ANALYSIS

- Traps to avoid when analysing figures:** it seems essential to us to **calculate Worldpay's profitability on gross sales and not net sales**, which artificially boost its margin rate and make comparison with other European players in the sector inappropriate. Finally, we prefer to **look at the real EBITDA reported by the group rather than underlying EBITDA**. Worldpay tends to communicate on underlying EBITDA, but in our view, the numerous negative items that this excludes (cost of platform separation, reorganisation, costs linked to acquisitions: 26% of 2015 underlying EBITDA) should be adjusted for solely at the EBIT level (underlying EBIT). This is what the group's rivals do and what we have been used to for companies in the sector.
- FY 15 earnings:** Worldpay's gross revenue came in at **GBP3,963m, up 9.3% Y/Y and lfl not available (+6/7%e)**, compared to our GBP4,000m and consensus of GBP4,005.9m, and its net revenue at **GBP981.7m (+13.7% Y/Y, lfl not available)** vs. our GBP974.3m and consensus of GBP972.7m. **EBITDA reached GBP302.4m i.e. a margin of 7.6% -30bps Y/Y** (BG: GBP304.0m i.e. margin of 7.6%; cons.: GBP308.7m i.e. margin of 7.7%). Worldpay generated a **current EBIT of GBP340.5m i.e. margin of 8.6%, +40bps** (BG: GBP335.0m, margin of 8.4%; cons.: GBP334.7m, margin of 8.4%), and **EBIT of GBP166.9m i.e. a margin of 4.2%, +80bps** (BG: GBP159.0m, margin of 4.0%; cons.: GBP163.7m, margin of 4.1%). The group released a **net loss for the 4th consecutive year to -GBP29.8m** (BG: -GBP14.9m and consensus at -GBP4.9m, i.e. margin of -0.1%). **The FCF was GBP32.4m** (FCF/current EBIT ratio of only 9.5%) with **net debt of GBP1,425.3m** i.e. gearing of 212% (BG: GBP1,384.3m; cons.: GBP1,389.5m). The group won't distribute a dividend (we expect a 1st payment in 2017e, on 2016e results, with a payout of 25%e).
- Worldpay's fundamentals are not very impressive for the payments sector** (in terms of lfl sales growth as well as profitability and free cash flow), due to: **1/** its strong positions in physical merchants in the UK and the US (~80% of its 2015 sales), which are difficult markets, **2/** a lack of critical mass in the US, which prevents it from generating a strong leverage effect (fragmented market), **3/** investments in its proprietary platforms that have over-run for some years and are continuing to weigh on its figures (this should be the case until 2016e) and **4/** an ensuing low transformation rate for underlying EBIT into free cash flow (9.5% in 2015). **In contrast, the group's strengths lie in its: 1/** historically resilient organic sales growth (in line with the change in the number of electronic transactions and the high client retention rate), **2/** clear leadership position in physical payments in the UK (size effect enabling it to outperform local GDP growth), **3/** pioneering status in e-commerce with a leadership position in this high-growth market (in Europe and throughout the world) and **4/** focus on innovation and development (investment in the technological platforms, acquisitions and recruitment etc.), which should end up paying off over the medium term (operating leverage and then in terms of FCF).

VALUATION

- We maintain our Neutral rating and FV of 290p.** We consider that all potential good news is already in the current share price (recurring sales, rising share of e-commerce in the mix and improvement in EBITDA margin). The group still has much to prove since in 2015, it released a fourth-year of net losses.
- Despite our far from pessimistic estimates, the share is not cheap** (even taking into account only EV/sales and EV/EBITDA). We believe it will only be reliable to reason in PEG once investment in the platforms is complete, early 2017e.

NEXT CATALYSTS

- AGM:** 10th May, 2016.

Main financial items from 2014 to 2017e

| GBPm | 2014 (reported) | 2015 (reported) | BG 2015e | Cons. 2015 | BG 2016e | Cons. 2016 | BG 2017e | Cons. 2017 |
|---------------------------------|--------------------|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 3,626.6 | 3,963.0 | 4,000.0 | 4,005.9 | 4,280.0 | 4,253.7 | 4,622.4 | 4,590.3 |
| <i>Y/Y change</i> | 7.3% | 9.3% | 10.3% | 10.5% | 7.0% | 6.2% | 8.0% | 7.9% |
| <i>Y/Y change (fl)</i> | 9.2% | N/A | 7.0% | N/A | 7.0% | N/A | 8.0% | N/A |
| Net revenue | 863.4 | 981.7 | 974.3 | 972.7 | 1,072.1 | 1,070.0 | 1,179.7 | 1,175.6 |
| <i>Y/Y change</i> | 7.9% | 13.7% | 12.8% | 12.7% | 10.0% | 10.0% | 10.0% | 9.9% |
| EBITDA | 286.1 | 302.4 | 304.0 | 308.7 | 402.3 | 396.6 | 505.7 | 500.5 |
| <i>Margin</i> | 7.9% | 7.6% | 7.6% | 7.7% | 9.4% | 9.3% | 10.9% | 10.9% |
| Underlying EBITDA | 374.7 | 406.1 | 404.0 | 406.9 | 462.3 | 454.0 | 510.7 | 504.2 |
| <i>Margin</i> | 10.3% | 10.2% | 10.1% | 10.2% | 10.8% | 10.7% | 11.0% | 11.0% |
| EBIT | 125.0 | 166.9 | 159.0 | 163.7 | 261.1 | 252.9 | 353.2 | 336.7 |
| <i>Margin</i> | 3.4% | 4.2% | 4.0% | 4.1% | 6.1% | 5.9% | 7.6% | 7.3% |
| Underlying EBIT | 296.3 | 340.5 | 335.0 | 334.7 | 376.6 | 362.0 | 422.5 | 391.7 |
| <i>Margin</i> | 8.2% | 8.6% | 8.4% | 8.4% | 8.8% | 8.5% | 9.1% | 8.5% |
| Net profit | -50.0 | -29.8 | -14.9 | -4.9 | 149.5 | 139.7 | 222.6 | 207.7 |
| <i>Margin</i> | -1.4% | -0.8% | -0.4% | -0.1% | 3.5% | 3.3% | 4.8% | 4.5% |
| Rest. net profit | 91.7 | 138.4 | 126.1 | 139.2 | 233.8 | 221.9 | 273.9 | 251.8 |
| <i>Margin</i> | 2.5% | 3.5% | 3.2% | 3.5% | 5.5% | 5.2% | 5.9% | 5.5% |
| EPS (p) | -3.1 | -1.8 | -0.9 | -0.2 | 7.5 | 7.0 | 11.1 | N/A |
| Fully dil. rest. EPS (p) | 5.7 | 8.2 | 6.3 | 7.0 | 11.7 | 11.1 | 13.7 | 12.5 |
| FCF | 0.7 | 32.4 | -1.3 | -2.1 | 116.5 | 106.2 | 228.6 | N/A |
| <i>FCF/underlying EBIT</i> | 0.2% | 9.5% | -0.3% | -0.6% | 30.9% | 29.5% | 54.1% | N/A |
| Net debt | 2,254.1 | 1,425.3 | 1,384.3 | 1,389.5 | 1,232.1 | 1,274.4 | 1,044.7 | N/A |
| <i>Gearing</i> | -1,173.4% | 212.4% | 200.5% | N/A | 146.7% | N/A | 101.9% | N/A |

Sources: Company's consensus from 12 analysts (17/02/16); Bryan, Garnier & Co ests.

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Sword Group

Price EUR23.19

Final FY15 results fully in line with preliminary estimates; FY16 guidance confirmed**Fair Value EUR28 (+21%)****BUY**

| | |
|----------------------------|-------------|
| Bloomberg | SWP.FP |
| Reuters | SWP.PA |
| 12-month High / Low (EUR) | 25.3 / 19.3 |
| Market Cap (EUR) | 217 |
| Avg. 6m daily volume (000) | 8.60 |

ANALYSIS

- **FY15 results confirmed.** Yesterday evening, Sword confirmed FY15 preliminary results reported on 25th January: 1). Revenues were up 17.5% (+15.1% lfl) to EUR137.6m, with +18.4% lfl to EUR44m for Software and +13.6% lfl to EUR93.6m for IT Services; 2). EBITDA was up 14.3% to EUR21.6m or 15.7% of sales, with 28.4% for Software and 9.7% for IT Services.
- **FY16 guidance reiterated, adjusted for forex.** For FY15, management reiterates guidance, i.e. sales up at least 15% lfl, and an EBITDA margin of 15%. Taking into account the acquisition of AAA and excluding the disposals made during the year (Charteris CRS2 and Kenzan) and fx rates as of 1st March, Sword starts 2016 with a pro forma revenue base of EUR141m (down from EUR144.9m as of 1st January due to the depreciation of the British pound vs. the euro). As such, FY16 revenues would reach EUR162.1m (vs. EUR166.6m as of 1st January and our EUR166.7m forecast).

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | -4.6% | -5.3% | 4.9% | -4.6% |
| Softw.& Comp. | | | | |
| SVS | 2.7% | -6.0% | 12.7% | -5.5% |
| DJ Stoxx 600 | 4.6% | -8.5% | -3.9% | -6.8% |

| | 2014 | 2015e | 2016e | 2017e |
|---------------|-------|-------|-------|-------|
| P/E | 14.5x | 12.7x | 13.1x | 11.3x |
| Div yield (%) | 5.2% | 5.2% | 5.2% | 5.2% |

VALUATION

- Sword's shares are trading at est. 7.6x 2016 and 6.3x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR42.7m.

NEXT CATALYSTS

Analysts' meeting today at 10am CET / 9am BST / 4am EDT in Paris (Centre de conference Paris Trocadéro, 112 avenue Kléber).

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BG's Wake Up Call

Bryan Garnier stock rating system

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Stock rating

| | |
|---------|---|
| BUY | Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |
| NEUTRAL | Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |
| SELL | Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |

Distribution of stock ratings

BUY ratings 63.4%

NEUTRAL ratings 29.1%

SELL ratings 7.5%

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