

16th March 2016

Business Services

**Sodexo**

Price EUR95.59

**Major FM contract**

**Fair Value EUR88 (-8%)**

**NEUTRAL**

Bloomberg	SW FP
Reuters	EXHO.PA
12-month High / Low (EUR)	96.0 / 71.0
Market Cap (EURm)	15,020
Avg. 6m daily volume (000)	315.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.2%	6.7%	28.9%	6.0%
Travel&Leisure	4.5%	-7.0%	-1.2%	-9.2%
DJ Stoxx 600	5.9%	-5.2%	-4.4%	-6.8%
	08/14	08/15e	08/16e	08/17e
P/E	30.2x	20.8x	19.7x	18.3x
Div yield (%)	1.9%	2.3%	2.5%	2.7%

#### ANALYSIS

- The group announced that it has signed a 10-year contract with **Rio Tinto** to deliver integrated **FM services** in the company's extensive operations in **Australia's Pilbara area**. The contract represents an estimated total amount of **AUD2.5bn (c. EUR1.7bn)**, the largest contract signed by Sodexo proposing a large number of solutions in a challenging environment (Building and Grounds Maintenance, Accommodation and catering services, Cleaning services, Transport services, Property management, Project Management and Integration). The contract will start in H2 2016 with a progressive ramp-up and will contribute 0.9% to revenue growth on a FY year basis.
- For fiscal 2016**, Sodexo's target is for revenue growth of around 3% and an increase in operating profit of around 8% (excluding currency effects and before exceptional items). Our forecast is based on lfl revenue growth of 3% with an operating result of EUR1,238m before exceptionals (EBIT margin up 35bps at 6.1%). EBIT is expected to be EUR1,138m after EUR100m of exceptional items due to the new plan for simplification and standardisation. Remember that the measures taken should progressively generate annual savings of around EUR200m between now and 2018 when the full benefit will be realised. The implementation of these initiatives will result in exceptional costs over the next 18 months, which are estimated to be EUR200m.

#### VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBIT multiples of 12.3x and 10.9x which compare with a median historical level of 10.8x and an 2015-18 CAGR in EBIT of 7.9%. 2016e and 2017e EPS capitalise at respectively 20.9x and 19.3x compared with an 2015-18 CAGR in EPS of 8%

#### NEXT CATALYSTS

- HY 2015-16 results on 14th April

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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