

Altran Technologies

Price EUR10.95

FY15 analysts' meeting feedback: right on track

Fair Value EUR13 (+19%)

BUY

Bloomberg	ALT FP
Reuters	ALTR.PA
12-month High / Low (EUR)	12.6 / 8.4
Market Cap (EUR)	1,924
Ev (BG Estimates) (EUR)	1,980
Avg. 6m daily volume (000)	273.8
3y EPS CAGR	14.8%

We reiterate our Buy rating following the analysts' meeting held yesterday. While providing no detailed guidance for FY16, Altran is on track for the turnaround of the German business (breaking the business and repairing it), is on the right trajectory for its strategic plan (World Class Centers, industrialisation and offshoring), and still has room to improve free cash flow.

ANALYSIS

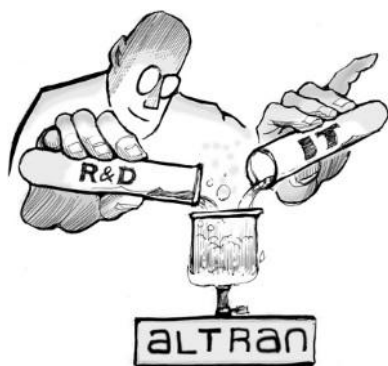
- In line with FY20 targets.** Management considers Altran is on track to deliver the targets set for the Altran 2020 Ignition strategic plan (4.5% lfl revenue CAGR and operating margin of 13%): 1) for sales, demand currently is boosted by Automotive, Aerospace/Defence and Life Sciences, altogether accounting for c. 50% of revenues. 2) Management looks comfortable with an operating margin of c. 10% for 2016, with softer seasonality in H1 vs. H2 compared with 2015. 3) Restructuring costs are projected to be below 1% of sales in 2016 (i.e. <EUR20m) and even lower from 2017 onwards. Altran has five World Class Centers up and running (Passive Safety, IoT Platforms, Life Science Process Excellence, Network Configuration, Industrial Analytics) and five others are to be set up in 2016 with the 10 of them expected to generate EUR100 revenues by end 2016. In Industrialisation and Offshoring ("Industrialised GlobalShore" in Altran's terminology), as of today, Altran has 2,700 staff in low-cost countries (vs. 2,200 end 2015) in India, Morocco, Portugal and Central & Eastern Europe, multiplying by 5.4x the headcount it had end 2014.
- German turnaround: at breakeven as expected.** In Germany, Altran is fully aligned with what management announced in early September 2015 according to a plan in four stages (aggressive cost-cutting in Q3 2015, labour efficiency in Q4, restored top line in H1 2016, renewed growth in H2). The country reached break-even in Q4 2015 (vs. losses of EUR2m in Q3 and EUR5m in Q2), with headcount stabilised (engineer staff est. -2% in Q1 2016 vs. -11% between Q4 2014 and Q3 2015) since all the staff concerned by restructuring left in Q4 (100 engineers + 80 SG&A staff), and the bench slashed by 50% (to 117 in Q4 from a peak of 235 in Q2, vs. 128 in Q4 2014). As mentioned in January, revenues are expected to be flat for H1 2016 (down in Q1 and up in Q2 due to calendar effects) with a return to modest growth in H2, and management is confident in posting an op. margin just above breakeven in 2016 taking into account some investments in growth. Altran also considers that once the turnaround is completed (a question of quarters) there is no reason the margin in Germany would not be one of the best in the group (double-digit). NB. The AÜG-related staff in Aerospace (i.e. time & materials: 100 engineers), which is at breakeven, has been carved out.
- Further room for improvement in free cash flow.** 1) The EUR26m in non-recurring costs booked in the P&L for 2015 were above expectations and included EUR17m in restructuring costs (o/w EUR10m for Germany), and a EUR7m provision for social risks in France related to litigation on overtime while an agreement with the main trade unions has been reached. 2) While the target for 2015 was to cut it to 80 days, Altran intends to keep reducing DSOs to 77.5 days, while excluding Germany it is even lower - which provides leeway for reaching a free cash flow equal to 7% of sales by 2020 -, although in France and Southern Europe DSO is close to the optimum level (e.g. France at 71 days).

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	-9.9%	6.6%	-11.3%
Softw.& Comp.	4.3%	-5.4%	10.5%	-6.4%
DJ Stoxx 600	5.8%	-8.2%	-7.2%	-8.8%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,945	2,088	2,203	2,326
% change		7.4%	5.5%	5.6%
EBITDA	208	236	268	306
EBIT	155.0	185.0	218.0	252.0
% change		19.4%	17.8%	15.6%
Net income	123.0	141.0	162.0	187.0
% change		14.6%	14.9%	15.4%

	2015	2016e	2017e	2018e
Operating margin	9.6	10.2	11.0	11.9
Net margin	5.2	5.7	6.5	7.1
ROE	12.6	13.6	14.8	15.7
ROCE	15.0	16.6	18.5	21.2
Gearing	18.0	6.0	-3.0	-14.0

(€)	2015	2016e	2017e	2018e
EPS	0.70	0.80	0.92	1.06
% change	-	14.3%	15.0%	15.2%
P/E	15.6x	13.7x	11.9x	10.3x
FCF yield (%)	4.1%	5.6%	7.4%	8.6%
Dividends (€)	0.20	0.25	0.30	0.30
Div yield (%)	1.8%	2.3%	2.7%	2.7%
EV/Sales	1.1x	0.9x	0.9x	0.8x
EV/EBITDA	9.9x	8.4x	7.1x	5.8x
EV/EBIT	11.1x	9.3x	7.8x	6.4x



VALUATION

- Altran's shares are trading at est. 9.3x 2016 and 7.8x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR143.8m (net gearing: 18%).

NEXT CATALYSTS

Q1 2016 sales on 28th April before markets open.

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