

## Altran Technologies

Price EUR11.60

## Feedback from investor roadshow in Paris

Fair Value EUR13 (+12%)

BUY

Bloomberg	ALTR.FP
Reuters	ALTR.PA
12-month High / Low (EUR)	12.6 / 9.2
Market Cap (EUR)	2,039
Ev (BG Estimates) (EUR)	2,095
Avg. 6m daily volume (000)	276.0
3y EPS CAGR	14.8%

We hosted a two-day investor roadshow in Paris last week with CEO Dominique Cerutti, CFO Olivier Aldrin and Senior EVP (for Europe) Cyril Roger. The key messages of the meetings, which support our Buy rating, are the following: 1). Altran's strategic move reflects heavy trends which are happening in R&D globally; 2). Accenture, Capgemini or IBM may emerge as Altran's biggest competitors along with Indian players five years from now; 3). Germany and SG&A costs are under control.

## ANALYSIS

- Heavy trends justifying Altran's move.** The management considers it has a 2- to 3-year window of opportunity to accelerate Altran's strategy. European players are either sticking to work packages (Alten) or specific industries (AVL, Bertrandt, ÅF, EDAG...), while Indian ones like HCL, Wipro, TCS or Infosys are competitive on costs but lack of domain expertise. With increasing competition on innovation - Google, Apple, Facebook and Amazon altogether spending more than R&D than them - large manufacturers redefine the frontier between core R&D and non-core R&D (model derivatives in Automotive, documentation in Healthcare...) - which may be outsourced. PSA's offshore R&D centre in Morocco and Nokia's offshore centre in India - both outsourced to Altran - are typical examples of the change which is happening. In some cases, co-investment with customers can be justified (Jaguar Land Rover on the CoherenSE software platform). Altran's assets and IP, packaged for being reused by customers from different industries, will be leveraged within its World Class Centers (5 WCC as of end 2015, 10 by end 2016, 15 by end 2017).
- More competition expected from Accenture, Capgemini or IBM.** Altran's 2020 strategy is supported by consulting firms such as Zinnov, which released reports on the Product Engineering and R&D Services market. Hfs Research ranks Altran as the No.1 in terms of revenues, followed by Alten, AVL, HCL, Akka and Bertrandt, and mentions Indian firms like Wipro, TCS, Cognizant, Tech Mahindra, Aricent and L&T are in the top 20 providers' list with revenues of USD500m-1bn. Among the IT 'giants', except Accenture (USD750m), Capgemini and IBM are below the radar, but Dominique Cerutti considers they are likely to be more aggressive in the years to come - Accenture is testing M&A opportunities, Capgemini has Sogeti High-Tech but may leverage Igate's Product Engineering Services business, IBM is still sleeping. One of these may be in the top 5 providers by 2020, along with three Indian companies and a European player which has to be Altran.
- Germany, USA and operating costs.** After having turned the country from EUR5m losses per quarter in Q2 15 to breakeven in Q4 15, the management sees no reason for Germany not to be one of the top performers with a double-digit op. margin by 2020. The new head of Germany (Mario Walenta) has his legitimacy from his ExCom member position. For 2016, the little downside on the targeted margin (0% or above, vs. 2-3% previously) should be considered as prudence, as growth will be sustainable from H2 16 only through gradual investments (campuses, etc). In addition, in order to reach EUR500m revenues in the US by 2020 (vs. EUR87.6m in 2015), at least 3-4 acquisitions will be necessary - some of them may be found in India (independent or 'captives'). Finally, at group level: 1) management is committed to cut restructuring costs well below 1% of sales, and is sitting on EUR40m cost savings on shared services if necessary; 2). Assets/IP are supposed to generate 5-6ppt more operating margin than the rest of the group; 3). SG&A costs are planned to increase at half the pace of revenues every year by 2020.

## VALUATION

- Altran's shares are trading at est. 9.8x 2016 and 8.3x 2017 EV/EBIT multiples.
- Net debt on 31<sup>st</sup> December 2015 was EUR138.3m (net gearing: 19%).

## NEXT CATALYSTS

Q1 16 sales on 28<sup>th</sup> April before markets open.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	15.7%	-5.9%	16.7%	-6.0%
Softw.& Comp.	10.6%	0.4%	14.7%	-3.5%
DJ Stoxx 600	10.3%	-1.4%	-2.5%	-5.8%

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	16.6x	14.5x	12.6x	10.9x
FCF yield (%)	3.9%	5.3%	7.0%	8.1%
Dividends (€)	0.20	0.25	0.30	0.30
Div yield (%)	1.7%	2.2%	2.6%	2.6%
EV/Sales	1.1x	1.0x	0.9x	0.8x
EV/EBITDA	10.5x	8.9x	7.5x	6.2x
EV/EBIT	11.7x	9.8x	8.3x	6.8x



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