

Cargemini

Price EUR77.98

Smooth sailing (Focus report released today)

Fair Value EUR93 (+19%)

BUY

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	90.2 / 69.0
Market Cap (EURm)	13,427
Ev (BG Estimates) (EURm)	14,479
Avg. 6m daily volume (000)	683.6
3y EPS CAGR	11.0%

The meetings held at our TMT conference were the chance for reiterating our positive investment case: the acquisition of Igate helps Cargemini to progress in the IT Services' "champions' league" and is catching up with the likes of Accenture and IBM, while being most of the time as competitive as Indian IT Services firms.

ANALYSIS

- Quarterly bookings at an all-time high since 2007.** In Q4 15, bookings reached a record level, never seen to our knowledge since Q4 07, at EUR3,734m. This highlights the company's positive sales momentum that justifies the implied 2.5-4.5% lfl revenue growth guidance (+7.5%/+9.5% at cc minus a 5ppt contribution from Igate) set for 2016. Growth is likely to continue to be steered by North America, Asia Pacific, Germany and Scandinavia, while France and Benelux are gradually improving.
- Brazil is an issue but not a major one.** Latin America (est. 3% of revenues) is likely to continue to be a burden to growth in H1 16. The most important impact to the revenue fall in Brazil in H2 15 stemmed from the weakness of the Brazilian real compared to the US dollar. Buying hardware and software in USD turned to be challenging as they became up to 40% more expensive than the year before in BRL. On the other hand, as Brazil has low profitability and its weight is decreasing in total revenues, it is becoming less dilutive to Cargemini's operating margin.
- No "step effect" to expect on Aspire.** The Aspire contract, which accounts for 4% of revenues, is set to expire in June 2017. The Head of IR, Vincent Biraud, confirmed there will be no "step effect" to revenues on it as the transition will take time as it is sensitive. The basic scenario is that Cargemini hopes by 2018 to keep half of the revenues currently generated with HMRC, i.e. 2%. Over 2015-18, the burden to Cargemini's lfl revenue growth would be a maximum 0.7ppt per year on average.
- The Digital strategy will continue to be supported by acquisitions.** After Oinio and Fahrenheit 212, other small deals can be made in the future in Digital, but Cargemini is unlikely to multiply them in order to avoid breaking their entrepreneurial spirit.

VALUATION

- Cargemini's shares are trading at est. 10.2x 2016 and 8.7x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR1,747m (net gearing: 25%).

NEXT CATALYSTS

Q1 16 sales on 27th April before markets open.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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