

Gemalto

Price EUR59.09

FY sales and PFO in line, rest. EPS 6.8% below our estimate – FY17 guidance PFO challenging

Fair Value EUR69 (+17%)

NEUTRAL

Bloomberg	GTO FP
Reuters	GTO.PA
12-month High / Low (EUR)	84.9 / 50.5
Market Cap (EUR)	5,259
Ev (BG Estimates) (EUR)	5,594
Avg. 6m daily volume (000)	419.8
3y EPS CAGR	14.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	1.7%	-5.1%	6.9%
Softw. & Comp.	-0.6%	-5.2%	10.4%	-5.7%
DJ Stoxx 600	3.0%	-8.8%	-6.3%	-7.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,465	3,122	3,338	3,539
% change		26.6%	6.9%	6.0%
EBITDA	359	345	528	633
EBIT	327.3	313.3	451.7	549.5
% change		-4.3%	44.2%	21.7%
Net income	269.8	226.3	339.8	412.5
% change		-16.1%	50.1%	21.4%

	2014	2015e	2016e	2017e
Operating margin	13.3	10.0	13.5	15.5
Net margin	9.0	4.2	8.9	10.5
ROE	9.2	5.4	10.8	12.1
ROCE	11.3	7.1	10.3	12.4
Gearing	-20.6	13.4	3.2	-7.4

(EUR)	2014	2015e	2016e	2017e
EPS	3.05	2.53	3.77	4.58
% change	-	-16.9%	49.0%	21.4%
P/E	19.4x	23.3x	15.7x	12.9x
FCF yield (%)	3.2%	3.2%	5.7%	7.3%
Dividends (EUR)	0.42	0.47	0.51	0.55
Div yield (%)	0.7%	0.8%	0.9%	0.9%
EV/Sales	1.9x	1.8x	1.6x	1.4x
EV/EBITDA	13.3x	16.2x	10.1x	7.9x
EV/EBIT	14.6x	17.9x	11.8x	9.2x



Gemalto has posted FY sales broadly in line with our estimate and that of the consensus but with lower than expected lfl growth. Payment, M2M, Security and e-Government showed growth but no improvement was seen in the SIM business and related services. Profit from operations (PFO) was in line with estimates but at the low-end of the vague “double digit growth” guidance (+10.4% reported). However, IFRS current EBIT, EBIT, net profit and restated EPS were significantly below our forecasts (by 2%, 18%, 27% and 7% respectively). Management gave its first annual PFO guidance, which is still vague, stating that it expects to generate a 1.5% point increase in adjusted gross margin, accelerating its PFO expansion towards its 2017 objective of over EUR660m. Pending the conference call today at 3pm (Paris time), we maintain our Neutral rating and FV of EUR69.

ANALYSIS

- FY earnings: revenue came in at EUR3,121.6m, up 27% Y/Y and 6.3% lfl (Q1 +7%, Q2 +14%, Q3 +4% and Q4 +2%),** i.e. roughly in line with our EUR3,137.5m and consensus of EUR3,119m but with weaker lfl growth than we expected (BG: +7.8%). This broke down into +18% in M2M, +12% in Payment & Identity (o/w +23% in Payments, +10% in e-Government, +3/4% in Security), but -15% in SIM and related services (o/w -17% in SIM, with -23% in Q4). Its organic top-line growth was negatively impacted by lower sales to mobile operators (the already known closure of the US mobile payment service Softcard) and lower SIM demand in LatAm and Asia (since Q3). **PFO reached EUR422.6m, up 10.4% but with a margin down 220bps Y/Y at 13.5%** (BG: EUR421.0m i.e. margin of 13.4%; cons.: EUR423m i.e. margin of 13.6%; guidance: double digit growth) because of SafeNet’s operating expenses level (higher than those of Gemalto), currency translation effects, which outweighed the absence of variable pay-out to management and employees related to PFO. After stock-based compensation, Gemalto generated a **current EBIT of only EUR313.3m (margin of 10.0%, -330bps)** vs. our EUR318.8m (margin of 10.2%) and **EBIT of EUR203.3m (margin of 6.5%, -450bps)** vs. our EUR249.2m (margin of 7.9%). The main difference with our expectations was higher-than-expected depreciation and amortization of intangibles resulting mainly from SafeNet and non-current operating charges during the period (acquisitions and restructuring of the Mobile Platforms & Services business and data centers). **IFRS net profit therefore decreased by 38% Y/Y to EUR136.9m,** i.e. a margin reduced by more than half at 4.4% (vs BG and consensus at EUR188m, i.e. margin of 6.0%). **The FCF was flat at EUR170m** (FCF/current EBIT ratio of 54%) with **net debt of EUR334.7m** i.e. gearing of 13% (vs. BG: EUR367.7m; cons.: EUR329m). The group will distribute a **dividend of EUR0.47/share** in cash (payout of 30.8%).
- Management’s FY16 guidance:** with positive trends in Enterprise, Government Programs, M2M and the US EMV ramp-up effort completed, **Gemalto expects to generate a 1.5% point increase in adjusted gross margin, accelerating its PFO expansion towards its 2017 objectives (i.e. >+10.4% in 2016).** However, the SIM business is still worrying: revenue derived from **SIM products represents less than 25% of total sales but is still about 30% of the group’s PFO.** We will be looking for more details about FY16 guidance at today’s conference call.
- What about the FY17 PFO target?** This guidance for **over EUR660m in PFO for next year is not unreachable but has never been so tight... It suggests a strong acceleration in the following two years, with a CAGR 2015/17 of at least 25%.** Even with the dynamics registered in payment, M2M, e-government and cybersecurity, the business lost in the SIM segment is always very profitable and momentum is clearly not encouraging. **We maintain our FY17e PFO at about EUR600m, i.e. almost 10% below management’s target.**

VALUATION

- 2015 restated EPS was 6.8% below our expectation.**
- Pending the conference call today at 3pm (Paris time), **we maintain our Neutral rating and Fair Value of EUR69** (SOTP of EUR71.9, DCF of EUR67.9, and 3-year historical multiples of EUR67.1).

NEXT CATALYSTS

- Q1 2016 sales:** on 29th April, 2016 (before trading).

2015 reported, consensus and BG estimates (old and new) for 2016/17e

EURm	2014 (reported)	2015 (reported)	BG 2015e	Cons. 2015	BG 2016e	Cons. 2016	BG 2017e	Cons. 2017
Sales	2,465.2	3,121.6	3,137.5	3,119	3,338.3	3,355	3,538.6	3,583
<i>Y/Y change</i>	3.4%	26.6%	27.3%	26.5%	6.0%	7.6%	6.0%	6.8%
<i>Y/Y change (fl)</i>	5.0%	6.0%	7.8%		6.0%		6.0%	
PFO	382.7	422.6	421.0	423	496.1	493	600.6	571
<i>Margin</i>	15.5%	13.5%	13.4%	13.6%	14.9%	15.0%	17.0%	16.1%
EBIT	270.2	203.3	249.2		398.3	11.9%	495.5	14.0%
<i>Margin</i>	11.0%	6.5%	7.9%		11.9%		14.0%	
Current EBIT	327.3	313.3	318.8		451.7		549.5	
<i>Margin</i>	13.3%	10.0%	10.2%		13.5%		15.5%	
Net profit	221.2	136.9	188.0	188	297.8	309	371.2	365
<i>Margin</i>	9.0%	4.4%	6.0%	6.0%	8.9%	9.2%	10.5%	10.2%
Attrib. net profit	220.7	134.1	187.4		297.6		371.0	
<i>Margin</i>	9.0%	4.3%	6.0%		8.9%		10.5%	
Rest. attrib. net profit	269.8	226.3	244.5		339.8		412.5	
<i>Margin</i>	10.9%	7.3%	7.8%		10.2%		11.7%	
Net debt	-493.4	334.7	367.7	329	87.8	96	-228.6	-80
<i>Gearing</i>	-20.6%	13.4%	14.4%		3.2%		-7.4%	

Sources: Bryan, Garnier & Co ests; Company's consensus (11/12/15).

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