23rd March 2016

TMT

Ingenico Group

Price EUR95.06

2020 targets unveiled

Fair Value EUR150 (+58%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	127.6 / 87.9
Market Cap (EUR)	5,798
Ev (BG Estimates) (EUR)	6,050
Avg. 6m daily volume (000)	270.0
3y EPS CAGR	21.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.5%	-15.7%	-9.9%	-18.4%
Softw.& Comp.	2.7%	-1.0%	15.9%	-3.3%
DJ Stoxx 600	2.6%	-4.6%	-1.8%	-7.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,607	2,197	2,453	2,708
% change		*36.7%*	*11.7%*	*10.4%*
EBITDA	376	508	577	647
EBIT	323.5	436.5	502.9	566.0
% change		*34.9%*	*15.2%*	*12.5%*
Net income	207.3	273.7	325.0	376.7
% change		*32.1%*	*18.7%*	*15.9%*

	2014	2015e	2016e	2017e
Operating margin	20.1	19.9	20.5	20.9
Net margin	10.8	10.8	12.1	12.9
ROE	16.0	15.2	16.3	16.3
ROCE	11.8	16.5	19.5	22.4
Gearing	71.0	16.7	-2.8	-19.0

(EUR)	2014	2015e	2016e	2017e
EPS	3.41	4.47	5.29	6.14
% change	-	*31.3%*	*18.4%*	*15.9%*
P/E	27.9x	21.3x	18.0x	15.5x
FCF yield (%)	4.2%	4.7%	5.9%	6.8%
Dividends (EUR)	1.00	1.30	1.65	1.95
Div yield (%)	1.1%	1.4%	1.7%	2.0%
EV/Sales	4.1x	2.8x	2.3x	2.0x
EV/EBITDA	17.4x	11.9x	10.0x	8.3x
EV/EBIT	20.3x	13.9x	11.4x	9.5x

Management has just provided its strategic plan, which will be detailed this morning in London. 2020 targets are: revenue of EUR4bn, EBITDA margin of 22-23%, EBITDA to FCF conversion rate of 45% as a floor, and payout ratio of 35%. Note that Ingenico's 2020 EBITDA target is higher than our estimate by 3.3% on average (in the range +1.0/+5.6%) whereas we were the highest of the consensus. Management's strategic plan should reassure the market, knowing that the group has always beaten its initial plans (always-cautious financial communication, excellent track-record in terms of execution). We maintain our Buy rating and FV of EUR150.

ANALYSIS

- **The group has just announced its strategic plan and will detail it this morning in London. 2020 targets are: 1/** double-digit annual lfl revenue growth (i.e. EUR3.5bn) and EUR500m from targeted acquisitions to reach EUR4bn revenue in 2020 (at 2015 exchange rates). In the Terminals business, Ingenico expects high single-digit average growth between 2015 and 2020 and in Payment Services, average growth is expected in the mid-teens (incl. ePayments at mid to high teen growth). **2/** EBITDA margin to reach 22-23% (+200/300bps when compared to preceding mid-term plan target). The group will continue with strict cost control to improve its operational leverage (efforts to develop and bring to market its offerings in ePayments and to roll out the new terminal product ranges in 2016, and operating expenses back to a more normal level from 2017 onward). **3/** floor for the EBITDA to FCF conversion rate at 45% (limiting Capex to 3/4% of revenue over the period). And 4/ commitment to maintaining the dividend policy, with a payout ratio of 35%.
- **How does this compare with what the consensus was expecting from Ingenico?** Note that our asumptions were based on organic figures. We believed Ingenico could provide a minimum of EUR3.2bn in FY20e sales vs. consensus at EUR3.4bn (we have EUR3.5bn in our model), and an EBITDA margin guidance of >=24% vs. consensus at 22.6% (we have 24.8% in our model). As such, if we translate management's EBITDA margin guidance into organic figures (EBITDA margins for acquisitions in Payment Services are often at 15%, GlobalCollect is a good example), the 22-23% would be at 23-24%. So this latter range has to be compared with what the consensus expected, namely 22.6% (including our 24%). We also expected that the group could give an EBITDA to FCF conversion ratio >50% and a payout ratio of 35%.
- **What if we put Ingenico's 2020 plan into our model?** Ingenico's 2020 EBITDA target is higher by 3.3% on average than our current estimate (in the range +1.0/+5.6%). In the end, we expect the group to exceed its targets in view of its always-cautious financial communication, management's excellent track-record in execution and the constant change in the group's profile towards more recurring and better-quality sales.
- **In our view, Ingenico currently has the most attractive commercial offering for merchants.** It is capable of providing an omnichannel turn-key payments solution: payment terminals, security, and transaction services (30% of its sales: in-store 10% and online 20%).
- **What catalysts beyond 2017? 1/ In Payment Terminals,** Japan could shift to EMV before the Olympic Games in 2020 in order to accept international cards and to deal with fraud (card schemes could impose a deadline which is what they did in the US; there are around 3m POS terminals in Japan), but also India and Indonesia in the medium term. If so, Ingenico could reasonably reach a 40% market share (i.e. about its world prime position of 44%) through partnerships or acquisitions of local distributors. **2/ its Payments Services** business could take over if the group made two acquisitions of EUR300m in sales each (at end-2016e, we expect a net cash position vs. a covenant of 3x net debt/EBITDA, and a FCF/current EBIT of 69%). As such, Ingenico could have a balanced sales mix between Payment Terminals and Payment Services over the medium term (vs. 70/30% currently) and therefore a more recurring sales profile (65%e vs. 45% currently) with the associated operating leverage (pooling of its proprietary platforms). Note that we expect e-commerce to expand strongly as of this year in Europe and North America (as it did in South-East Asia up to now). So, Ingenico's payment services (processing and collecting) should directly benefit from this driver.

VALUATION

- We maintain our **Buy rating** and **Fair Value of EUR150.** The group's transformation towards more recurring revenues is not yet priced in.

NEXT CATALYSTS

- **Capital Market Day:** today in London (at 8:30amUK time).
- **Q1 2016 revenue:** on 26th April (after trading). As a reminder, following VeriFone's Q1, we expect +8-9% for Ingenico's Q1 lfl sales growth (the loss of volumes from GlobalCollect's 1st client should weigh on topline services growth until H1).

Last strategic plan announced (initial guidance 2016 vs. 2015 reported)

2016	1st Guidance 2016: (strategic plan announced early 2013)	2015 reported (plan reached 1 year in advance)
Revenue (EURbn)	>2.2	2.2
EBITDA margin	>20%	23.1%

Source: Bryan Garnier & Co.

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