

Sector View

Software and IT Services

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	2.7%	-2.3%	15.8%	-3.3%
DJ Stoxx 600	1.1%	-8.1%	-1.9%	-8.4%

*Stoxx Sector Indices

Companies covered

ALTEN	SELL	EUR47
Last Price	EUR53,24	Market Cap. EUR1,792m
ALTRAN TECHNOLOGIES	BUY	EUR13
Last Price	EUR11,67	Market Cap. EUR2,052m
ATOS	BUY	EUR93
Last Price	EUR70,82	Market Cap. EUR7,332m
AXWAY SOFTWARE	NEUTRAL	EUR24
Last Price	EUR19,61	Market Cap. EUR403m
CAPGEMINI	BUY	EUR93
Last Price	EUR80,61	Market Cap. EUR13,880m
CAST	BUY	EUR3,9
Last Price	EUR3,55	Market Cap. EUR57m
DASSAULT SYSTEMES	SELL	EUR63
Last Price	EUR68,89	Market Cap. EUR17,686m
INDRA SISTEMAS	BUY	EUR11
Last Price	EUR10,38	Market Cap. EUR1,704m
SAGE GROUP	NEUTRAL	570p
Last Price	616,5p	Market Cap. GBP6,654m
SAP	NEUTRAL	EUR74
Last Price	EUR70,84	Market Cap. EUR87,027m
SOFTWARE AG	BUY	EUR38
Last Price	EUR33,26	Market Cap. EUR2,628m
SOPRA STERIA GROUP	BUY	EUR113
Last Price	EUR103,5	Market Cap. EUR2,116m
SWORD GROUP	BUY	EUR28
Last Price	EUR24,08	Market Cap. EUR225m
TEMENOS GROUP	BUY	CHF53
Last Price	CHF50,1	Market Cap. CHF3,386m

Accenture Q2 FY16 results: positive read-across for European IT Services companies

On Thursday last week Accenture reported Q2 FY16 results above guidance and the consensus, and raised FY16 guidance for the second time in a row, thanks to the Consulting division and a lower tax rate. Consulting continue to enjoy positive momentum despite the uncertain economic environment, as demand for digital transformation and IT cost rationalisation remains strong, at the expense of Outsourcing. We believe this publication generates a positive catalyst for Capgemini and Atos.

ANALYSIS

- Q2 FY16 sales and EPS above consensus.** For its Q2 (ending 29th Feb.), Accenture reported sales of USD7.95bn (+12% at cc or est. +10% lfl, vs. +10% at cc in Q1 FY16), or above the top-end of guidance (+6-9% at cc to USD7.5-7.75bn) and 3% ahead of the consensus (USD7.72bn), and, excl. gains from the disposal of Navitaire, diluted EPS was up 24% to USD1.34 (consensus: USD1.18) thanks to a lower tax rate. Consulting was up 18% at cc to USD4.29bn (vs. +15% in Q1 FY16), while Outsourcing was up 6% at cc to USD3.65bn (vs. +4%). North America was up 12% at cc (vs. +11%) with strong double-digit growth in the US, Europe was up 14% at cc (vs. +12%) with double-digit growth in the UK, Spain, Italy, Switzerland and Germany and high single-digit growth in France, and Growth Markets were up 10% at cc (vs. +6%) with strong double-digit growth in Japan and double-digit growth in China and India, and is even growing in Brazil. By industry, the best performers were Communication Media & Technology, Financial Services and Products (+13%), and Health & Public Services (+12%). New bookings were up 2% (+8% at cc) to USD9.55bn (3% above consensus) or a book-to-bill of 1.2x (+17.9% in Consulting to USD5.01bn - book-to-bill 1.17x) -, and down 11.2% in Outsourcing to USD5.54bn - book-to-bill 1.24x). Digital services were up 25%.
- FY16 sales guidance upped, further robust momentum in Consulting.** For FY16, sales are now expected to rise 8-10% cc (vs. 6-9% cc) (est. +6-8% lfl) (consensus: +8.8% at cc), while the company guidance has been fine-tuned to 14.6-14.7% from 14.6-14.8% for the op. margin and upped to USD5.21-5.32 (excl. gains from the sale of Navitaire) from USD5.09-5.24 on EPS, vs. consensus at USD5.21. Consulting continues to enjoy strong momentum driven by digital transformation and cost efficiency, but also and more recently, industry consolidation (M&A). This creates more demand in Digital, Cloud and Security (40% of revenues), but the rest of the business is also growing. This increased interest for new projects is happening at the expense of Outsourcing. However, due to the shift in demand towards digital transformation projects, Consulting benefits from better momentum than previously expected, at the expense of Outsourcing. For Q3 FY16 (May 2016), Accenture projects sales of USD8.1-8.35bn (+7%/+10% at cc) or in line with consensus (USD8.17bn or +8% at cc), Finally, Accenture's global delivery network now accounts for 73% of staff (+3ppt), with GDN headcount up an impressive 21% (vs. +2% for onshore).
- Positive read-across for European IT Services companies.** We consider this publication positive for Capgemini and Atos in the short term. It indicates: 1) Market conditions remain positive, driven by Digital, Cloud and Security, but the economic environment remains as volatile and uncertain as it was 3-6 months ago; 2) Market share gains thanks to Accenture's innovation and competitiveness, which is what Capgemini has been doing as well for a while and what Atos is now doing more actively than it used to - yet "non-digital" services may be under pressure; 3) Even demand for ERP remains solid. We forecast 3.5% lfl sales growth for Capgemini and +0.8% for Atos in 2016.

VALUATION

European IT Services companies: EV/EBIT multiples of 10.3x for 2016e and 9.0x for 2017e.

NEXT CATALYSTS

TCS' 2016 results and IBM's Q1 2016 results on 18th April after markets close.

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