

## Sopra Steria Group

Price EUR103.95

Flawless integration of Steria so far (FOCUS report released today)

Fair Value EUR113 (+9%)

BUY

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	112.0 / 68.9
Market Cap (EURm)	2,125
Ev (BG Estimates) (EURm)	2,571
Avg. 6m daily volume (000)	23.40
3y EPS CAGR	13.3%

The conference comforts our positive view: 1). The integration of Steria led to faster-than-expected synergies; 2). Free cash flow is improving; 3). The group is growing faster than its market; and 4). The operating margin is catching up with the best European players in IT Services. We consider the 8-9% operating margin target for 2017 is achievable.

## ANALYSIS

- Trends are improving.** 1). In France, the integration of Steria is on the home stretch, the I2S division is planned to post flattish sales in 2016 and strong growth and an operating margin of c. 5% in 2017, while in Consulting & Systems Integration, Sopra Steria intends to keep outperforming the French market; 2). In the UK, the group will try to expand beyond the government; 3). In Germany, Sopra Steria is well under way to raise profitability to reasonable standards by 2017; and 4). Banking Software has a window of opportunity ahead.
- EUR150m free cash flow by 2017 looks achievable.** Reaching EUR100m of FCF looks to be a fair assumption in 2016 as DSOs should continue to decrease, cash consumption of SSCL is expected to fall to zero, and WCR is likely to increase in line with 2015. For 2017, confidence was reiterated for delivering EUR150m FCF (est. 4% of sales) based on continuous WCR improvement and the complete integration of Steria.
- Confidence on synergies.** Cost synergies as of end 2015 were ahead of expectations, while the cost of implementation was in line with targets. Sopra Steria confirmed its goal for synergies of EUR62m by end 2016 for a total cost of EUR65m. In other words, the plan to deliver EUR62m synergies with Steria is not supposed to exceed expectations but that synergies were unlocked faster than initially planned. Restructuring costs related to Steria should only total an est. EUR10-15m for 2016.
- No pause on acquisitions.** We understand Sopra Steria paid EUR92m for acquiring Cimpa, or an est. 18x 2014 EBIT. The recent acquisition of a 75% stake in Cassiopæ will strengthen the Sopra Banking Software offering in real estate and specialised loans. Sopra Steria considers it can use up to EUR100-150m of cash every year for acquisitions.

## VALUATION

- Sopra Steria's shares are trading at est. 9.1x 2016 and 7.6x 2017 EV/EBIT multiples.
- Net debt on 31<sup>st</sup> December 2015 was EUR530.8m (net gearing: 43%).

## NEXT CATALYSTS

Q1 16 sales on 3<sup>rd</sup> May before markets open.

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## Distribution of stock ratings

BUY ratings 64,4%

NEUTRAL ratings 28,1%

SELL ratings 7,4%

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