

Worldpay

Price 291.90p

FY sales, EBITDA and restated EBIT broadly in line, but higher-than-expected net loss

Fair Value 290p (-1%)

NEUTRAL

| | |
|----------------------------|---------------|
| Bloomberg | WPG LN |
| Reuters | WPG.L |
| 12-month High / Low (p) | 316.8 / 240.0 |
| Market Cap (GBPm) | 5,838 |
| Ev (BG Estimates) (GBPm) | 7,222 |
| Avg. 6m daily volume (000) | 9,791 |
| 3y EPS CAGR | 33.8% |

Worldpay has posted FY sales, EBITDA, and restated EBIT broadly in line with our estimates and that of the consensus, but higher-than-expected net loss (4th year of net loss). Management remains confident in its prospects over the medium term (net revenue growth of ~+9-11% CAGR over the medium/long term) which remains unchanged. The share harbours no upside even when looking just at EV/sales and EV/EBITDA multiples until 2016e (namely until the end of the plan to invest in the platforms). We maintain our Neutral rating and FV of 290p. Conference call today at 9:30 (UK time).

ANALYSIS

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | -3.3% | -1.9% | ns | -5.0% |
| Softw. & Comp. | 2.7% | -6.0% | 12.7% | -5.5% |
| DJ Stoxx 600 | 4.6% | -8.5% | -3.9% | -6.8% |

| YEnd Dec. (GBPm) | 2014 | 2015e | 2016e | 2017e |
|------------------|-------|-------|-------|-------|
| Sales | 3,627 | 4,000 | 4,280 | 4,622 |
| % change | | 10.3% | 7.0% | 8.0% |
| EBITDA | 286 | 304 | 402 | 506 |
| EBIT | 296.3 | 335.0 | 376.6 | 422.5 |
| % change | | 13.1% | 12.4% | 12.2% |
| Net income | 91.7 | 126.1 | 233.8 | 273.9 |
| % change | | 37.5% | 85.5% | 17.1% |

| | 2014 | 2015e | 2016e | 2017e |
|------------------|--------|-------|-------|-------|
| Operating margin | 8.2 | 8.4 | 8.8 | 9.1 |
| Net margin | -1.4 | -0.4 | 3.5 | 4.8 |
| ROE | 26.0 | -2.2 | 17.8 | 21.7 |
| ROCE | 14.0 | 15.5 | 15.0 | 16.1 |
| Gearing | -1,173 | 200.5 | 146.7 | 101.9 |

| (p) | 2014 | 2015e | 2016e | 2017e |
|---------------|-------|-------|-------|-------|
| EPS | 5.71 | 6.30 | 11.69 | 13.70 |
| % change | - | 10.3% | 85.5% | 17.1% |
| P/E | 51.1x | 46.3x | 25.0x | 21.3x |
| FCF yield (%) | 0.0% | NM | 2.0% | 3.9% |
| Dividends (p) | 0.00 | 0.00 | 1.87 | 2.78 |
| Div yield (%) | NM | NM | 0.6% | 1.0% |
| EV/Sales | 2.2x | 1.8x | 1.7x | 1.5x |
| EV/EBITDA | 28.3x | 23.8x | 17.6x | 13.6x |
| EV/EBIT | 27.3x | 21.6x | 18.8x | 16.3x |



Traps to avoid when analysing figures: it seems essential to us to calculate Worldpay's profitability on gross sales and not net sales, which artificially boost its margin rate and make comparison with other European players in the sector inappropriate. Finally, we prefer to look at the real EBITDA reported by the group rather than underlying EBITDA. Worldpay tends to communicate on underlying EBITDA, but in our view, the numerous negative items that this excludes (cost of platform separation, reorganisation, costs linked to acquisitions: 26% of 2015 underlying EBITDA) should be adjusted for solely at the EBIT level (underlying EBIT). This is what the group's rivals do and what we have been used to for companies in the sector.

FY 15 earnings: Worldpay's gross revenue came in at GBP3,963m, up 9.3% Y/Y and lfl not available (+6/7%e) vs. our GBP4,000m and consensus of GBP4,005.9m, and its net revenue at GBP981.7m (+13.7% Y/Y, lfl not available) vs. our GBP974.3m and consensus of GBP972.7m. EBITDA reached GBP302.4m i.e. a margin of 7.6% -30bps Y/Y (BG: GBP304.0m i.e. margin of 7.6%; cons.: GBP308.7m i.e. margin of 7.7%). Worldpay generated a current EBIT of GBP340.5m i.e. margin of 8.6%, +40bps (BG: GBP335.0m, margin of 8.4% ; cons.: GBP334.7m, margin of 8.4%), and EBIT of GBP166.9m i.e. a margin of 4.2%, +80bps (BG: GBP159.0m, margin of 4.0%; cons.: GBP163.7m, margin of 4.1%). The group released a net loss for the 4th consecutive year to -GBP29.8m (BG: -GBP14.9m and consensus at -GBP4.9m, i.e. margin of -0.1%). The FCF was GBP32.4m (FCF/current EBIT ratio of only 9.5%) with net debt of GBP1,425.3m i.e. gearing of 212% (BG: GBP1,384.3m; cons.: GBP1,389.5m). The group won't distribute a dividend (we expect a 1st payment in 2017e, on 2016e results, with a payout of 25%e).

Worldpay's fundamentals are not very impressive for the payments sector (in terms of lfl sales growth as well as profitability and free cash flow), due to: **1/** its strong positions in physical merchants in the UK and the US (~80% of its 2015 sales), which are difficult markets, **2/** a lack of critical mass in the US, which prevents it from generating a strong leverage effect (fragmented market), **3/** investments in its proprietary platforms that have over-run for some years and are continuing to weigh on its figures (this should be the case until 2016e) and **4/** an ensuing low transformation rate for underlying EBIT into free cash flow (9.5% in 2015). **In contrast, the group's strengths lie in its:** **1/** historically resilient organic sales growth (in line with the change in the number of electronic transactions and the high client retention rate), **2/** clear leadership position in physical payments in the UK (size effect enabling it to outperform local GDP growth), **3/** pioneering status in e-commerce with a leadership position in this high-growth market (in Europe and throughout the world) and **4/** focus on innovation and development (investment in the technological platforms, acquisitions and recruitment etc.), which should end up paying off over the medium term (operating leverage and then in terms of FCF).

VALUATION

- We maintain our Neutral rating and FV of 290p.** We consider that all potential good news is already in the current share price (recurring sales, rising share of e-commerce in the mix and improvement in EBITDA margin). The group still has much to prove since in 2015, it released a fourth-year of net losses.
- Despite our far-from-pessimistic estimates, the share is not cheap** (even taking into account only EV/sales and EV/EBITDA). We believe it will only be reliable to reason in PEG once investment in the platforms is complete, early 2017e.

NEXT CATALYSTS

- AGM:** 10th May, 2016.

Main financial items from 2014 to 2017e

| GBPm | 2014 (reported) | 2015 (reported) | BG 2015e | Cons. 2015 | BG 2016e | Cons. 2016 | BG 2017e | Cons. 2017 |
|---------------------------------|--------------------|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 3,626.6 | 3,963.0 | 4,000.0 | 4,005.9 | 4,280.0 | 4,253.7 | 4,622.4 | 4,590.3 |
| <i>Y/Y change</i> | 7.3% | 9.3% | 10.3% | 10.5% | 7.0% | 6.2% | 8.0% | 7.9% |
| <i>Y/Y change (lfi)</i> | 9.2% | N/A | 7.0% | N/A | 7.0% | N/A | 8.0% | N/A |
| Net revenue | 863.4 | 981.7 | 974.3 | 972.7 | 1,072.1 | 1,070.0 | 1,179.7 | 1,175.6 |
| <i>Y/Y change</i> | 7.9% | 13.7% | 12.8% | 12.7% | 10.0% | 10.0% | 10.0% | 9.9% |
| EBITDA | 286.1 | 302.4 | 304.0 | 308.7 | 402.3 | 396.6 | 505.7 | 500.5 |
| <i>Margin</i> | 7.9% | 7.6% | 7.6% | 7.7% | 9.4% | 9.3% | 10.9% | 10.9% |
| Underlying EBITDA | 374.7 | 406.1 | 404.0 | 406.9 | 462.3 | 454.0 | 510.7 | 504.2 |
| <i>Margin</i> | 10.3% | 10.2% | 10.1% | 10.2% | 10.8% | 10.7% | 11.0% | 11.0% |
| EBIT | 125.0 | 166.9 | 159.0 | 163.7 | 261.1 | 252.9 | 353.2 | 336.7 |
| <i>Margin</i> | 3.4% | 4.2% | 4.0% | 4.1% | 6.1% | 5.9% | 7.6% | 7.3% |
| Underlying EBIT | 296.3 | 340.5 | 335.0 | 334.7 | 376.6 | 362.0 | 422.5 | 391.7 |
| <i>Margin</i> | 8.2% | 8.6% | 8.4% | 8.4% | 8.8% | 8.5% | 9.1% | 8.5% |
| Net profit | -50.0 | -29.8 | -14.9 | -4.9 | 149.5 | 139.7 | 222.6 | 207.7 |
| <i>Margin</i> | -1.4% | -0.8% | -0.4% | -0.1% | 3.5% | 3.3% | 4.8% | 4.5% |
| Rest. net profit | 91.7 | 138.4 | 126.1 | 139.2 | 233.8 | 221.9 | 273.9 | 251.8 |
| <i>Margin</i> | 2.5% | 3.5% | 3.2% | 3.5% | 5.5% | 5.2% | 5.9% | 5.5% |
| EPS (p) | -3.1 | -1.8 | -0.9 | -0.2 | 7.5 | 7.0 | 11.1 | N/A |
| Fully dil. rest. EPS (p) | 5.7 | 8.2 | 6.3 | 7.0 | 11.7 | 11.1 | 13.7 | 12.5 |
| FCF | 0.7 | 32.4 | -1.3 | -2.1 | 116.5 | 106.2 | 228.6 | N/A |
| <i>FCF/underlying EBIT</i> | 0.2% | 9.5% | -0.3% | -0.6% | 30.9% | 29.5% | 54.1% | N/A |
| Net debt | 2,254.1 | 1,425.3 | 1,384.3 | 1,389.5 | 1,232.1 | 1,274.4 | 1,044.7 | N/A |
| <i>Gearing</i> | -1,173.4% | 212.4% | 200.5% | N/A | 146.7% | N/A | 101.9% | N/A |

Sources: Company's consensus from 12 analysts (17/02/16); Bryan, Garnier & Co ests.

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| | |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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