

## Alten

Price EUR53.38

## Q1 16 sales above expectations, but AÜG in Germany tempers optimism

Fair Value EUR48 vs. EUR46 (-10%)

SELL

Bloomberg	ATE FP
Reuters	LTEN.PA
12-month High / Low (EUR)	55.2 / 40.3
Market Cap (EUR)	1,797
Ev (BG Estimates) (EUR)	1,763
Avg. 6m daily volume (000)	46.70
3y EPS CAGR	8.3%

We reiterate our Sell rating but raise our DCF-derived fair value to EUR48 from EUR46 as we have increased our adj. EPS ests. by 1% for 2016, 2% for 2017 and 3% for 2018. Yesterday evening Alten reported Q1 sales 3% above our ests. and 2% ahead of consensus, driven by a solid performance in North America, Spain and Italy. Management is now more confident it can exceed the 3.4% lfl growth rate reported for 2015 in 2016, but optimism is tempered by the negative effects of AÜG (Temporary Employment Act) in Germany, which may jeopardise growth in the country for 2-3 years.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	4.1%	13.1%	-0.1%
Softw. & Comp.	0.3%	2.0%	1.7%	-3.0%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

## ANALYSIS

- Q1 16 revenues above our forecast.** Q1 16 sales rose 10.2% to EUR421.3m (+5.5% lfl), or 3% above our est. (EUR409.4m, +3.1% lfl) and 2% above the consensus' average (EUR413.5m). France was up 2.3% lfl (+3.4% restated from sales reclassification to Africa in Oil & Gas) to EUR209.5m (BG est.: EUR207.3m), with Automotive +20%, Aerospace +2%, Telecoms slightly down, Oil & Gas -20%, and +0%/+4% elsewhere. International was up 9.2% lfl (+7.3% lfl restated from the reclassification) to EUR211.8m (BG est.: EUR202.1m), with on lfl basis -5.5% in Germany (-20% in Automotive), +0.9% in Scandinavia, +16.1% in North America, +10.5% in the UK, +24.1% in Spain, +15.7% in Italy, +7.1% lfl in Belgium, +2.7% in the Netherlands, and +58.5% for others. By industry: +25% Automotive +25%, Rail/Marine +2%, Aerospace +3% (Airbus +7%), in Defence/Security +9%, Energy & Life Sciences -3% (Oil & Gas -10%, Nuclear -5%), Telecoms 0%, Multimedia +7.5%, Finance & IT +13%.
- Stable utilisation rates, surge in net staff hiring.** The Q1 16 utilisation rate stood at 92.3% (+0.3ppt vs. Q4 15 and +0.2ppt vs. Q1 15). On 31<sup>st</sup> March 2016, the headcount reached 21,300 o/w 18,750 engineers. Net staff hiring in Q1 16 for billable engineers amounted to 392 (200 in France and 192 overseas), clearly ahead of the previous quarters (200-300) in order to address the demand.
- Update on acquisitions.** Since early January, Alten has made five acquisitions: Nexse (Italy, EUR8m sales, 13% margin, 64 staff, digital services), one in the US (EUR6m sales, 5% margin, 75 staff, automotive engineering), PVR Technologies (USA, EUR18m sales, 8-9% margin, 175 staff, CRO services in Life Sciences), ASM Technologies' ETSB division (USA/India, EUR17m sales, 8% margin, 650 staff o/w 550-570 serving the Indian market), and one in Germany (EUR10m sales, 7% margin, 75 staff, infotainment). Total sales acquired represent EUR61m for an est. aggregate margin of 8%.
- Mounting optimism on FY16 lfl sales growth, tempered by AÜG in Germany.** We raise our lfl sales growth ests. to 4.5% from 3.7% for 2016, to 5% from 4.8% for 2017, and to 6.1% from 5.4% for 2018. Management confirmed positive lfl growth in 2016. During the call, it was more optimistic than before, considering Alten will exceed the 3.4% lfl growth rate reported for 2015 instead of delivering a similar rate. Growth in 2016 will be distorted by calendar effects: +2.5 days in Q2 (+5ppt) and -2 days in H2 (-2.1ppt). That said, optimism is tempered by the negative effects of AÜG (Temporary Employment Act) in Germany, leading Alten to exit from R&D staffing contracts in Automotive in order to preserve the margin, and redeploy itself to work packages. Management considers sales in Germany may suffer for 2-3 years, and the speed of the turnaround will depend on the German carmakers' readiness to adopt the work package approach.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,541	1,690	1,788	1,896
% change		9.7%	5.8%	6.0%
EBITDA	164	183	198	214
EBIT	147.0	171.0	185.0	201.0
% change		16.3%	8.2%	8.6%
Net income	110.0	118.0	128.0	139.0
% change		7.3%	8.5%	8.6%

	2015	2016e	2017e	2018e
Operating margin	9.9	10.1	10.3	10.6
Net margin	6.8	7.0	7.1	7.4
ROE	16.3	16.1	15.4	14.8
ROCE	16.7	16.9	18.2	19.6
Gearing	-3.0	-5.0	-15.0	-24.0

(€)	2015	2016e	2017e	2018e
EPS	3.26	3.50	3.80	4.14
% change	-	7.4%	8.6%	8.9%
P/E	16.4x	15.3x	14.0x	12.9x
FCF yield (%)	5.5%	5.6%	7.0%	7.6%
Dividends (€)	1.00	1.00	1.00	1.00
Div yield (%)	1.9%	1.9%	1.9%	1.9%
EV/Sales	1.2x	1.0x	0.9x	0.8x
EV/EBITDA	10.9x	9.6x	8.5x	7.3x
EV/EBIT	11.7x	10.3x	9.1x	7.8x



## VALUATION

- Alten's shares are trading at est. 10.3x 2016 and 9.1x 2017 EV/EBIT multiples.
- Net cash position on 31<sup>st</sup> December 2015 was EUR17m (net gearing: -3%).

## NEXT CATALYSTS

- AGM on 24th May.
- Q2 sales on 27th July after markets closed.

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