

Altran Technologies

Price EUR12.81

Q1 16 conference call feedback: better growth momentum is fairly valued

Fair Value EUR13 (+2%)

NEUTRAL

Bloomberg	ALT FP
Reuters	ALTR.PA
12-month High / Low (EUR)	12.8 / 9.3
Market Cap (EURm)	2,251
Ev (BG Estimates) (EURm)	2,306
Avg. 6m daily volume (000)	261.9
3y EPS CAGR	15.6%

We reiterate our Neutral rating following the conference call held yesterday, although we raise our lfl revenue growth forecasts to 6.3% from 5% for 2016, to 6.3% from 5.6% for 2017, and to 6% from 5.6% for 2018. The sales growth acceleration seen in Q1 16 driven by France looks sustainable over the full year thanks to a strong pace of hiring, and the turnaround in Germany is confirmed, but we contend that, at this stage, all these positive elements are fairly valued.

ANALYSIS

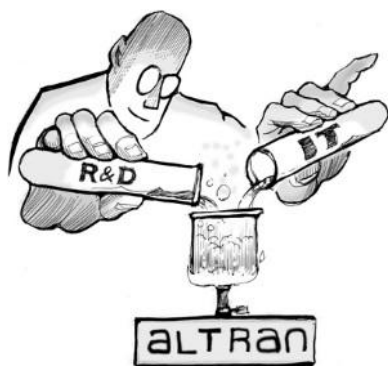
- Better growth is sustainable.** We raise our lfl sales growth forecasts to 6.3% from 5% for 2016, to 6.3% from 5.6% for 2017, and to 6% from 5.6% for 2018. Q1 16, with +6% lfl, does not look as an exceptional quarter in 2016. Admittedly, Q2 will be helped by two more working days but Q3 and Q4 will be penalised by one working day each. The +6.8% lfl reported for France in Q1 seems to give a fair picture of what the rest of 2016 will look like. It is driven by Airbus - which was up a strong double-digit in Q1, helped by two contracts of which one in systems engineering for the A350 aircraft -, Automotive and Life Sciences, and denotes clear market share gains. Germany is, as confirmed, set to be back to growth in Q2 16 - H1 16 should be flattish -, driven by a recovery in Automotive and further penetration in new industries (Telecoms, Life Sciences). Southern Europe is planned to keep growing double-digit, led by Spain. Benelux was down 2% lfl but acquisitions performed well. Scandinavia was down 9.5% lfl, but an action plan has been undertaken for reinvigorating the sales dynamic. Finally, the Nokia offshore network operations management contract (now c. 600 staff involved, vs. 506 end 2015) has started to contribute to revenues.
- Solid hiring pace ahead.** In Q1 16 Altran's net staff hiring was an outstanding 746, o/w 200 in France, 150 in Spain, 200 in Morocco (PSA contract), and the rest in Italy and India. 70% of this staff was hired on signed projects, and 30% ahead of projects. The invoicing rate flat year-on-year and down 0.9ppt quarter on quarter is due to the remaining staff in 'garden leave' in Germany following the restructurings undertaken last year and the time to train the 200 newly hired staff in Morocco - it takes 2-3 months before they start to be billable. For Q2, net staff hiring is expected to be good as well. Now 1,700 staff (+100 in Q1 16) - 6% of total headcount - are based in India. Including Morocco and Eastern Europe, offshore headcount amounts 2,800 (10% of total headcount), while the goal defined in the 'Altran 2020 Ignition' plan is to reach 10,000 by end 2020.
- Update on M&A: time to find the right targets.** In line with the strategy defined for the 'Altran 2020 Ignition' plan, management reiterated the firm intention to make acquisitions this year. The company is active on that point, but nothing will be pre-announced before it is closed. North America remains a top priority, and Altran intends to develop the business in the West coast, where there is a strong culture and ecosystem of software and product development - especially in emerging technologies.

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.7%	13.3%	14.8%	3.8%
Softw. & Comp.	0.3%	2.0%	1.7%	-3.0%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,945	2,108	2,238	2,372
% change		8.4%	6.2%	6.0%
EBITDA	208	238	272	310
EBIT	155.0	187.0	222.0	256.0
% change		20.6%	18.7%	15.3%
Net income	123.0	142.0	165.0	190.0
% change		15.4%	16.2%	15.2%

	2015	2016e	2017e	2018e
Operating margin	9.6	10.2	11.0	11.9
Net margin	5.2	5.7	6.5	7.1
ROE	12.6	13.7	15.0	15.8
ROCE	15.0	16.6	18.7	21.6
Gearing	18.0	6.0	-3.0	-14.0

(€)	2015	2016e	2017e	2018e
EPS	0.70	0.81	0.94	1.08
% change	-	15.7%	16.0%	14.9%
P/E	18.3x	15.8x	13.6x	11.9x
FCF yield (%)	3.6%	4.9%	6.4%	7.5%
Dividends (€)	0.20	0.25	0.30	0.30
Div yield (%)	1.6%	2.0%	2.3%	2.3%
EV/Sales	1.2x	1.1x	1.0x	0.9x
EV/EBITDA	11.5x	9.7x	8.2x	6.8x
EV/EBIT	12.9x	10.7x	9.0x	7.4x



VALUATION

- Altran's shares are trading at est. 10.7x 2016 and 9.0x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR138.3m (net gearing: 19%).

NEXT CATALYSTS

- AGM today.
- Q2 16 sales on 28th July before markets open.

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