

**Gemalto**

Price EUR59.88

**Organic sales decline in Q1 + poor momentum + 2017 PFO at risk = unattractive risk/reward**

Fair Value EUR69 (+15%)

**NEUTRAL**

Bloomberg	GTO.FP
Reuters	GTO.PA
12-month High / Low (EUR)	84.9 / 50.5
Market Cap (EUR)	5,337
Ev (BG Estimates) (EUR)	5,424
Avg. 6m daily volume (000)	433.4
3y EPS CAGR	25.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.2%	9.2%	-2.3%	8.3%
Softw. & Comp.	0.3%	2.0%	1.7%	-3.0%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,122	3,338	3,539	3,751
% change		6.9%	6.0%	6.0%
EBITDA	345	528	633	704
EBIT	313.3	451.7	549.5	611.4
% change		44.2%	21.7%	11.3%
Net income	226.3	339.8	412.5	450.0
% change		50.1%	21.4%	9.1%

	2015	2016e	2017e	2018e
Operating margin	10.0	13.5	15.5	16.3
Net margin	4.2	8.9	10.5	11.2
ROE	5.4	10.8	12.1	12.1
ROCE	7.1	10.3	12.4	13.8
Gearing	13.4	3.2	-7.4	-17.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.53	3.77	4.58	5.00
% change	-	49.0%	21.4%	9.1%
P/E	23.6x	15.9x	13.1x	12.0x
FCF yield (%)	3.2%	5.6%	7.2%	8.1%
Dividends (EUR)	0.47	0.51	0.55	0.59
Div yield (%)	0.8%	0.9%	0.9%	1.0%
EV/Sales	1.8x	1.6x	1.4x	1.3x
EV/EBITDA	16.4x	10.3x	8.1x	6.8x
EV/EBIT	18.1x	12.0x	9.3x	7.8x



**GTO has posted Q1 sales 1.8% below our estimate and in line with the consensus. We calculate an organic decline of 2.5% over the quarter (-0.3% at cc and -2.5% by also excl. the acquisition of Trüb). This means Government programmes, M2M, Enterprise and Payment did not offset the renewed underperformance of the SIM & related services business. Management has confirmed its vague 2016 guidance (+1.5% gross margin, accelerating its PFO expansion towards its 2017 objectives). The current year will be very back-end loaded (Softcard loss during Q2 last year) and there are still too many risks in SIM & related businesses, such that the 2017 PFO target of over EUR660m is clearly challenging (it implies at least a +25% CAGR 2015-17e vs. +10.4% in 2015). We maintain our Neutral rating and FV of EUR69, waiting for a more attractive risk/reward. Conf. call at 3pm.**

**ANALYSIS**

- **Q1 sales registered a decline in organic terms:** revenue came out at EUR691m, up 0.7% Y/Y and down 2.5% lfl (i.e. -0.3% at cc and -2.5% at cc and excl. Trüb) i.e. below our estimate of EUR703.4m (+2.5% Y/Y, we considered our forecast as a maximum) and in line with the company consensus of EUR687m (based on 15 analysts estimates). **1/ Mobile was down 20% Y/Y lfl at EUR258m** (vs. our EUR274.3m and cons. at EUR270m) with -22% for Embedded Software & Products (-34% for the SIM business due to the tail-end effect of Softcard and to lower demand in Latam and Asia; +12% for M2M) and -9% for Platforms & Services (also due to the closing of Softcard). **2/ Payment & Identity was up 13% lfl at EUR433m** (vs. our EUR424.2m and cons. at EUR413m) with +7% for ES&P thanks to the payments +12% but +8% excl. Trüb (EMV payment cards and issuance services in the US offset lower sales to banks in China), e-Government +34% but +26% excl. Trüb (deliveries of previously won projects), and +35% for P&S thanks to the acquisition of Safenet in enterprise & cybersecurity (+14%). **3/ Patents & Others was down 29% Y/Y at EUR0.4m** (vs. our EUR4.9m and cons. at EUR5m) with traditional irregularity.
- **Management reiterated its FY16 guidance:** with positive trends in Enterprise, Government Programs, M2M and the US EMV ramp-up effort completed, Gemalto expects to generate a 1.5% points increase in adjusted gross margin, accelerating its PFO expansion towards its 2017 objectives (i.e. >+10.4% in 2016). However, the SIM business is still worrying in our view: revenue derived from SIM products represents less than 25% of total sales but is still about 30% of the group's PFO (after -34% in Q1, there should be other double digit declines in the next quarters between -10% and -15% at best). We will be looking for more details about FY16 guidance at today's conference call.
- **What about the FY17 PFO target?** Philippe Vallée (COO, and new CEO as of 1st September) will have to take on 2017 guidance for over EUR660m in PFO for next year. This is very tight as it suggests a strong acceleration in the following two years, namely a CAGR 2015/17 of at least +25%. Even with the dynamics registered in payment, M2M, e-government and cybersecurity, the business lost in the SIM segment is always very profitable and momentum is clearly disappointing. We maintain our FY17e PFO at ~EUR600m, i.e. 9% below management's target.

**VALUATION**

- **We do not see a positive risk/reward** at the current price. **Momentum on the stock is challenging:** the current year is very back-end loaded, Olivier Piou will have to ensure a smooth succession with Philippe Vallée, we still see too many risks in the SIM and related services. As a result, we consider that the 2017 PFO guidance will be very hard to achieve.
- **We maintain our Neutral rating and FV of EUR69** (SOTP of EUR73.6, DCF of EUR65.1, and 3-year historical multiples of EUR69.5).

**NEXT CATALYSTS**

- **H1 revenue and earnings:** on 26th August (before trading).

2014 and 2015 reported, consensus and BG estimates for 2016 and 2017e

EURm	2014 (reported)	2015 (reported)	BG 2016e	Cons. 2016e	BG 2017e	Cons. 2017e
<b>Sales</b>	<b>2,465.2</b>	<b>3,121.6</b>	<b>3,338.3</b>	<b>3,276</b>	<b>3,538.6</b>	<b>3,496</b>
<i>Y/Y change</i>	3.4%	26.6%	6.0%	4.9%	6.0%	6.7%
<i>Y/Y change (fl)</i>	5.0%	6.0%	6.0%		6.0%	
<b>PFO</b>	<b>382.7</b>	<b>422.6</b>	<b>496.1</b>	<b>502</b>	<b>600.6</b>	<b>587</b>
<i>Margin</i>	15.5%	13.5%	14.9%	15.4%	17.0%	17.0%
<b>EBIT</b>	<b>270.2</b>	<b>203.3</b>	<b>398.3</b>		<b>495.5</b>	
<i>Margin</i>	11.0%	6.5%	11.9%		14.0%	
<b>Current EBIT</b>	<b>327.3</b>	<b>313.3</b>	<b>451.7</b>		<b>549.5</b>	
<i>Margin</i>	13.3%	10.0%	13.5%		15.5%	
<b>Net profit</b>	<b>221.2</b>	<b>136.9</b>	<b>297.8</b>	<b>284</b>	<b>371.2</b>	<b>354</b>
<i>Margin</i>	9.0%	4.4%	8.9%	8.7%	10.5%	10.1%
<b>Attrib. net profit</b>	<b>220.7</b>	<b>134.1</b>	<b>297.6</b>		<b>371.0</b>	
<i>Margin</i>	9.0%	4.3%	8.9%		10.5%	
<b>Rest. attrib. net profit</b>	<b>269.8</b>	<b>226.3</b>	<b>339.8</b>		<b>412.5</b>	
<i>Margin</i>	10.9%	7.3%	10.2%		11.7%	
<b>Net debt</b>	<b>-493.4</b>	<b>334.7</b>	<b>87.8</b>	<b>103</b>	<b>-228.6</b>	<b>-173</b>
<i>Gearing</i>	-20.6%	13.4%	3.2%		-7.4%	

Sources: Bryan, Garnier & Co ests; Company's consensus (27/04/16).

[Click here to download](#)



**Analyst :**  
Richard-Maxime Beaudoux  
33(0) 1.56.68.75.61  
rmbeaudoux@bryangarnier.com

**Sector Team :**  
Thomas Coudry  
Gregory Ramirez  
Dorian Terral

# Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

## Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

## Distribution of stock ratings

BUY ratings 57.6%

NEUTRAL ratings 33.8%

SELL ratings 8.6%

# Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at [www.bryangarnier.com](http://www.bryangarnier.com)

<b>London</b>	<b>Paris</b>	<b>New York</b>	<b>Munich</b>	<b>New Delhi</b>
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			<b>Geneva</b>
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
				Regulated by the FINMA

#### **Important information**

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available.