27th April 2016

TMT

Ingenico Group

Price EUR100.00

Strong Q1 sales. FY organic sales growth target upgraded and still cautious.

Fair Value EUR144 (+44%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	127.6 / 87.9
Market Cap (EUR)	6,099
Ev (BG Estimates) (EUR)	6,050
Avg. 6m daily volume (000)	254.3
3y EPS CAGR	15.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.5%	-6.5%	-4.4%	-14.2%
Softw.& Comp.	-0.5%	-0.5%	1.1%	-3.8%
DJ Stoxx 600	3.6%	2.4%	-7.6%	-5.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,197	2,453	2,708	2,948
% change		*11.7%*	*10.4%*	*8.9%*
EBITDA	508	577	647	716
EBIT	436.5	502.9	566.0	627.9
% change		*15.2%*	*12.5%*	*10.9%*
Net income	273.7	325.0	376.7	422.9
% change		*18.7%*	*15.9%*	*12.3%*

	2015	2016e	2017e	2018e
Operating margin	19.9	20.5	20.9	21.3
Net margin	10.8	12.1	12.9	13.5
ROE	15.2	16.3	16.3	15.9
ROCE	16.5	19.5	22.4	25.3
Gearing	16.7	-2.8	-19.0	-32.2

(EUR)	2015	2016e	2017e	2018e
EPS	4.47	5.29	6.14	6.89
% change	-	*18.4%*	*15.9%*	*12.3%*
P/E	22.4x	18.9x	16.3x	14.5x
FCF yield (%)	4.5%	5.7%	6.5%	7.2%
Dividends (EUR)	1.30	1.65	1.95	2.23
Div yield (%)	1.3%	1.7%	1.9%	2.2%
EV/Sales	2.9x	2.5x	2.1x	1.8x
EV/EBITDA	12.5x	10.5x	8.8x	7.4x
EV/EBIT	14.5x	12.0x	10.1x	8.5x

Ingenico Group has posted outstanding Q1 sales (+15% lfl, with growth across all regions) and upgraded its 2016 organic growth target (>=+10% vs. ~+10%), despite the difficult comparison base and the already known volume decline at one key GlobalCollect e-payment account in Asia Pacific. This publication should clearly reassure investors. We believe there is still room for further guidance upgrades during the year both in organic sales growth and EBITDA margin. Our FY estimates remain unchanged but we expect the consensus to make upward adjustments (we had the highest FY16 forecasts). We expect today's share price to be well in excess of EUR100. The strong profitable growth story is not yet fully valued. We maintain our Buy recommendation and FV of EUR144.

ANALYSIS

- **Better-than-expected Q1 organic sales growth: revenue came in at EUR552m, +11% Y/Y and +15% lfl** (vs. BG: EUR537.7m with +8-9% lfl; consensus: EUR535m with +9.0% lfl). This performance was all the more impressive in that the comparison base was high (+16.5% lfl in Q1 15). **This level of organic growth should reassure investors** as we believe that even the upgraded FY16 sales organic growth guidance is very cautious (>=10% vs. ~+10% before; BG est.: +11.7%). Q1 by division: **1/ Payment Terminals up 21% lfl at EUR388m** (vs. BG: EUR381.5m, +13.2%), fed by the EMV migration in the US (+27% Y/Y, incl. >+20% in mPOS) and China (+33%), and by particularly strong business in Europe-Africa (+17%, notably in the UK and Nordic countries thanks to higher security levels); **2/ Payment Services up 3% at EUR164m** (vs. BG: EUR156.2m, -3.0%), **i.e. +12% in-store and a decline of only 1% in epayments** (rapid operational progress after the already known decreasing volumes from GlobalCollect's first e-payment client in Asia Pacific). Ingenico still expects this latter division to return to double-digit growth in H2.
- **Ingenico has upgraded its FY organic sales growth guidance and there is room for further upward revisions.** Management **now expects revenue to grow above or equal to 10% lfl** (vs. ~+10% initially) **with still an EBITDA margin of ~21%** (a stepped-up focus on developing and bringing its ePayments and other offers to market). It reaffirmed its objectives for double-digit growth in the US (the EMV migration is not over), again a strong growth in Asia (notably in China where revenue growth will also be in double digits), business should hold steady during the year in Latam (growth in new markets offsetting the slowdown in Brazil), growth in Europe should return to a more normal level but will remain strong. Lastly, the ePayments division should return to double-digit growth in H2 thanks to operational progress initiated in late 2015. **As usual, at this stage of the year Ingenico Group is very cautious.** We clearly believe it gave again a floor in terms of Y/Y organic sales growth and EBITDA margin (the group probably integrated a worst-case scenario in Brazil).
- **What catalysts beyond 2017? 1/ In Payment Terminals,** Japan could shift to EMV before the Olympic Games in 2020 in order to accept international cards and to deal with fraud (there are ~3m POS terminals). We believe card schemes could impose a deadline to Japanese merchants in 2017 (the acquisition of Lyudia yesterday is a strong clue), but also India and Indonesia in the medium term. Ingenico could reasonably reach a 20-30% market share in the Japanese market by 2018 and 40% in 2020 (i.e. about its world position); **2/ In Payment Services,** business should ramp up through M&A deals (we estimate the group has fire power of EUR1.3-1.7bn to make acquisitions). As such, Ingenico's 2020 targets of EUR500m in sales stemming from acquisitions are totally reachable to make the whole group exposed to 60% in Payment Terminals and 40% in Payment Services (vs. 70/30% currently). As a result, it should benefit from more recurring sales (55%e vs. 45% currently) with the associated operating leverage (pooling of its proprietary platforms).

VALUATION

- We maintain our **Buy recommendation** and **Fair Value of EUR144.**
- In FY16e, we expect **earnings growth of 25.1%e vs. a P/E of 18.9x over 2016e.** The group's transformation towards more recurring revenues is not yet priced in.

NEXT CATALYSTS

- **H1 earning results:** 26th July (after trading).

Main P&L items over 2015 and 2016e

EURm	2015	BG 2016e	Consensus 2016e
Revenue	2,197.3	2,453.3	2,413
Y/Y organic growth	*13.9%*	*11.6%*	*10%*
EBITDA	508.0	576.5	519
Margin	*23.1%*	*23.5%*	*21.5%*
Attrib. net income	230.3	288.2	261

Sources: Company consensus on 21st April (20 analysts); Bryan Garnier & Co. ests.

Management's track record (initial guidance vs. reported figures)

Year	2012		2013		2014		2015		2016e	
	Initial guid.	Reported	Initial guid.	Reported	Initial guid.	Reported	Initial guid.	Reported	Initial guid.	BG est.
Revenue growth lfl	>=8%	14.5%	>=8%	13.5%	~10%	19.1%	~10%	13.9%	~10%	11.6%
EBITDA margin	>=18.3%	18.5%	>=18.5	20.4%	~21%	23.4%	~21%	23.1%	~21%	23.5%

Sources: Company Data; Bryan Garnier & Co. ests.

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