

14th April 2016

Business Services

Sodexo

Price EUR96.09

H1 2015-16 results: More or less in line with expectations

Fair Value EUR88 (-8%)

NEUTRAL

Bloomberg	SW FP
Reuters	EXHO.PA
12-month High / Low (EUR)	96.1 / 71.0
Market Cap (EUR)	15,099
Ev (BG Estimates) (EUR)	15,900
Avg. 6m daily volume (000)	326.9
3y EPS CAGR	7.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.7%	5.3%	26.0%	6.6%
Travel&Leisure	-0.5%	-5.1%	-0.1%	-8.9%
DJ Stoxx 600	0.2%	-0.5%	-4.3%	-6.2%

YEnd Aug. (EURm)	08/15	08/16e	08/17e	08/18e
Sales	19,815	20,157	20,628	21,413
% change		1.7%	2.3%	3.8%
EBITDA	1,396	1,476	1,562	1,677
EBIT	1,143	1,214	1,294	1,399
% change		6.2%	6.6%	8.1%
Net income	700.0	707.0	756.2	840.2
% change		1.0%	7.0%	11.1%

	08/15	08/16e	08/17e	08/18e
Operating margin	5.8	6.0	6.3	6.5
Net margin	3.5	3.5	3.7	3.9
ROE	19.5	23.6	18.2	19.1
ROCE	28.6	29.4	30.4	32.1
Gearing	10.2	25.8	-1.6	-7.1

(EUR)	08/15	08/16e	08/17e	08/18e
EPS	4.60	4.75	5.08	5.64
% change	-	3.1%	7.0%	11.1%
P/E	20.9x	20.2x	18.9x	17.0x
FCF yield (%)	4.6%	3.9%	4.3%	5.8%
Dividends (EUR)	2.20	2.37	2.54	2.82
Div yield (%)	2.3%	2.5%	2.6%	2.9%
EV/Sales	0.8x	0.8x	0.7x	0.7x
EV/EBITDA	11.1x	10.8x	9.6x	8.8x
EV/EBIT	13.5x	13.1x	11.6x	10.6x

Top line lfl growth slightly better than expectations at 3.7% vs. 3.5% from consensus driven by positive trend in North America in contract catering and some improvement in Benefits and Rewards Services up 6.3% on lfl vs. 5.5% anticipated. Nevertheless, after consolidated revenue of EUR10,596m up 6.7% on reported, operating result before exceptional was a bit lower than expected at EUR658m (consensus EUR668m) i.e. an operating margin flat at 6.2% vs. 6.4% anticipated. FY 2015-16 guidance confirmed with lfl revenue growth of around 3% with an increase in operating profit of around 8% excluding the currency effect and before exceptional items. Note that regarding currencies, management highlights that negative effect of BRL should continue in H2 while the positive effect of the US\$ should decline. Neutral confirmed.

ANALYSIS

- Better lfl revenue growth mainly driven by better trend in North America:** Total revenue reached EUR10,596m, up 6.3% on reported (consensus EUR10,476m) with lfl growth of 3.7% and positive currency impact of 2.9% mainly due to US\$/EUR was up over 11%. **On-site Services** was up 7.4% at EUR10,206m with lfl growth up 3.6% o/w 2.5% in Q2 after 4.7% in Q1 o/w 50% was due to RWC. Better lfl revenue growth mainly due to **NA** (45% of On-site Services) with lfl growth of 3.6% in H1 o/w 4.4% in Q2 after 2.9% in Q1 and some improvement in **Europe** (29%) with lfl revenue growth up 1.6% o/w 2.2% in Q2 after 1% in Q1. Regarding **Benefits and Rewards Services**, total revenue was up down 8.2% at EUR393m with lfl growth of 6.3% o/w 7.2% in Q2 and 5.3% in Q1. Currency negative impact reached 14.8% in Benefits and Rewards.
- Flat EBIT margin before exceptionals (+30bps excluding currencies):** Operating result was slightly lower than expected at EUR658m (consensus EUR668m) up 6.1% on reported with negative impact from currency of 1.8%. Flat margin at 6.2% vs 6.4% anticipated which should have been up 30bps excluding currency impact. Sustained **operating cash flow** amounted up 16.2% to EUR273m with free cash flow up 5.9% to EUR54m.
- For fiscal 2016,** Sodexo's objective is confirmed with revenue growth of around 3% and an increase in operating profit of around 8% (excluding currency effects and before exceptional items). Our forecast is based on lfl revenue growth of 2.8% with an operating result of EUR1,214m before exceptionals (EBIT margin up 35bps at 6.1%). EBIT is expected to be EUR1,114m after EUR100m of exceptional items (EUR37m in H1) due to the new plan for simplification and standardisation. Remember that the measures taken should progressively generate annual savings of around EUR200m between now and 2018 when the full benefit will be realised. The implementation of these initiatives will result in exceptional costs over the next 18 months, which are estimated to be EUR200m.

VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBIT multiples of 13.1x and 11.6x which compare with a median historical level of 10.8x and an 2015-18 CAGR in EBIT of 7.1%. 2016e and 2017e EPS capitalise at respectively 20.2x and 18.9x compared with an 2015-18 CAGR in EPS of 7.2%.

NEXT CATALYSTS

- Conference call at 8:30am (Paris time)
- Q3 revenue on 8th July

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