

15th April 2016

Business Services

**Sodexo**

Price EUR93.07

Some earning adjustments. Neutral confirmed.

Fair Value EUR88 (-5%)

NEUTRAL

Bloomberg	SW FP
Reuters	EXHO.PA
12-month High / Low (EUR)	96.1 / 71.0
Market Cap (EUR)	14,624
Ev (BG Estimates) (EUR)	15,449
Avg. 6m daily volume (000)	327.9
3y EPS CAGR	7.5%

In the last 6 months, Sodexo posted a strong performance, up nearly 25% in absolute terms benefiting from positive newflow, mainly i/ BellonSA's decision to increase its stake in Sodexo with the acquisition of around 2.2m shares no later than September 2016, ii/ a share buy-back program of EUR300m and iii/ NYSE Euronext's decision to include Sodexo in the CAC 40 index from 21<sup>st</sup> March. Inevitably, H2 newsflow should be less positive and, after some adjustments on our estimates, we are confirming our Neutral opinion with a FV of EUR88 and we estimate that the share price should trade in a EUR85-95 range for the next few months.

ANALYSIS

• **Some adjustments to our forecasts following H1 results and FY 2015-16 guidance simply confirmed:** Management confirmed its short-term guidance with lfl revenue growth of around 3% with around 8% growth in operating profit excluding currency effect and exceptional expenses.

- Challenging forex again in H2. Management highlighted that the negative impact of BRL should continue in H2, with no positive effect from US\$. In fact, based on our forecast, EUR/BRL should be negative by 13% in H2 after -27% in H1 (average EUR/BRL in H2 2015 was 3.50), EUR/US\$ negative by 2% and EUR/£ negative over 9%.
- Exceptional expenses should reach EUR100m, as anticipated and despite H1 exceptional of only EUR37m.
- Lfl growth still under pressure in some segments and areas: We are anticipating lfl revenue growth of 2.9% including RWC positive impact in Q1 compared with 2.8% previously. Some improvement in Q2 compared to Q1, but all in all volume in OSS is still under pressure especially in Remote site (9% of consolidated revenue) affected by low prices in oil, metal and minerals and no pickup could be anticipated in existing contracts. Nevertheless, significant contracts have been signed as with Rio Tinto (10y contract to deliver FM services in the company's extensive operations in Australian's Pilbara area for an estimated total amount of EUR1.7bn representing 0.9% to revenue growth when started). By geography, volume trend is improving in **NA** (45% of OSS) but still challenging in **Continental Europe** (29% of OSS) due to **France** (15%) always negative, Sodexo's losses market share.
- Operating margin should improve by 20bps, but no more: We have reduced our operating result by EUR32m to EUR1,182m i.e. an EBIT margin of nearly 6% vs. c. 5.8% last year, notably due to remote site and Benefit and Rewards impacted by Brazilian economic environment.

• **No new share buy-back program expected in the short term:** Last November, Sodexo announced a share buy-back with cancellation program during FY 2016 of EUR300m o/w ytd EUR237m was bought (EUR193m at the end of H1). Despite sustained operating cash flow (up 16.2%) in H1 and strong balance sheet with net debt of EUR926m i.e. a gearing of 26%, management confirmed that no new share buy-back could be anticipated in the short term. Actually, management wants to maintain its financial flexibility continuing bolt-on acquisitions in OSS or in Benefit and Rewards Services (digital) and share buy-backs will remain exceptional.

VALUATION

• At the current share price, the stock is trading on 2016e and 2017e EV/EBIT multiples of 13.1x and 11.2x which compare with a median historical level of 10.8x and an 2015-18 CAGR in EBIT of 6.9%. 2016e and 2017e EPS capitalise at respectively 20x and 18.1x compared with an 2015-18 CAGR in EPS of 7.4%.

NEXT CATALYSTS

- Q3 revenue on 8<sup>th</sup> July

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.1%	7.5%	24.1%	3.3%
Travel&Leisure	-1.2%	-1.2%	0.3%	-9.1%
DJ Stoxx 600	-0.2%	1.3%	-3.3%	-6.0%

YEnd Aug. (EURm)	08/15	08/16e	08/17e	08/18e
Sales	19,815	19,838	20,537	21,314
% change		0.1%	3.5%	3.8%
EBITDA	1,396	1,440	1,560	1,674
EBIT	1,143	1,182	1,293	1,397
% change		3.4%	9.3%	8.0%
Net income	700.0	693.1	765.0	850.6
% change		-1.0%	10.4%	11.2%

	08/15	08/16e	08/17e	08/18e
Operating margin	5.8	6.0	6.3	6.6
Net margin	3.5	3.5	3.7	4.0
ROE	19.5	22.9	18.2	19.1
ROCE	28.6	28.6	30.6	32.3
Gearing	10.2	26.3	-2.2	-7.7

(EUR)	08/15	08/16e	08/17e	08/18e
EPS	4.60	4.66	5.14	5.71
% change	-	1.2%	10.4%	11.2%
P/E	20.2x	20.0x	18.1x	16.3x
FCF yield (%)	4.8%	3.9%	4.7%	6.1%
Dividends (EUR)	2.20	2.33	2.57	2.86
Div yield (%)	2.4%	2.5%	2.8%	3.1%
EV/Sales	0.8x	0.8x	0.7x	0.7x
EV/EBITDA	10.7x	10.7x	9.3x	8.5x
EV/EBIT	13.1x	13.1x	11.2x	10.2x



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