

Sector View

Software and IT Services

Syntec Numérique analysts' meeting: growth intact for French IT

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	0.6%	-2.0%	9.9%	-4.5%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

*Stoxx Sector Indices

Companies covered

Company	Recommendation	Market Cap
ALTEN	SELL	EUR46
Last Price	EUR53,8	Market Cap. EUR1,811m
ALTRAN TECHNOLOGIES	NEUTRAL	EUR13
Last Price	EUR12,19	Market Cap. EUR2,143m
ATOS	BUY	EUR90
Last Price	EUR71,44	Market Cap. EUR7,396m
AXWAY SOFTWARE	NEUTRAL	EUR20
Last Price	EUR19,4	Market Cap. EUR399m
CAPGEMINI	BUY	EUR90
Last Price	EUR80,6	Market Cap. EUR13,878m
CAST	NEUTRAL	EUR3,6
Last Price	EUR3,43	Market Cap. EUR55m
DASSAULT SYSTEMES	SELL	EUR63
Last Price	EUR71,29	Market Cap. EUR18,302m
INDRA SISTEMAS	NEUTRAL	EUR10
Last Price	EUR9,991	Market Cap. EUR1,640m
SAGE GROUP	SELL	550p
Last Price	631,5p	Market Cap. GBP6,816m
SAP	NEUTRAL	EUR73
Last Price	EUR69,12	Market Cap. EUR84,914m
SOFTWARE AG	BUY	EUR39
Last Price	EUR34,63	Market Cap. EUR2,736m
SOPRA STERIA GROUP	BUY	EUR113
Last Price	EUR101,75	Market Cap. EUR2,080m
SWORD GROUP	BUY	EUR26
Last Price	EUR23,6	Market Cap. EUR221m
TEMENOS GROUP	NEUTRAL	CHF51
Last Price	CHF51,95	Market Cap. CHF3,610m

Yesterday the French association of IT companies Syntec Numérique held an analysts' meeting in Paris, and confirmed that 2016 market growth rates should accelerate slightly. CIO confidence is improving, led by transformation projects, digital, cloud, automation and offshoring. As this speech is in line with what IT firms have said recently, we expect no impact on the stocks we cover.

ANALYSIS

- 2016: confidence improving constantly.** Syntec/IDC has upped its 2016 forecasts for growth in the French IT market, to 2.6% from 2.4%, with +2.5% for IT Services (vs. +2.3%), +3.6% in B2B Software (vs. +3.6%) and +2% in High-tech Consulting (vs. +1.2%). This denotes a slight acceleration compared to 2015 (+2.2%, with +2% in IT Services, +3.4% in Software and +1.6% in High-tech Consulting) although France will continue to lag compared to other major countries (US +4.6%, Western Europe +3.2%, Asia-Pacific +5.8% - source IDC). As a whole, activity in the industry (RFPs, number/size of projects, bookings...) in Q1 has been on the right track, with 49% of respondents to the survey having a positive sentiment (vs. 9% negative). The CIO confidence index peaked at 122 in March 2015 (vs. 113 in October 2015), a level not seen since 2008. 80% of CIOs consider IT budgets will increase or be stable this year, compared to 67% a year ago, thanks to transformation projects. SMACS (Social/Mobile/Analytics/Cloud/ Security) are expected to account for 16% of the market (vs. 13% in 2015), up 18.2% to EUR6.8bn.
- IT Services improving, led by new projects.** In IT Services, Syntec/IDC forecasts a French market up 2.5% for 2016, with Consulting up 3.6% (vs. +3%), Systems Integration up 3.5% (vs. +2.5%), Staffing up 1.4% (vs. +1.5%), Training/Support up 0.7% (vs. +0.3%), Application Outsourcing up 2.8% (vs. +3.1%), and Infrastructure Outsourcing up 0.9% (vs. +0.1%) driven by the cloud. The survey shows increasing CIO confidence (56% of net positive answers), essentially driven by SMACS (est. 13% of the IT Services market in 2016, +17.9%) with Cloud/SaaS, Mobility and Big Data/Analytics expected to account for 20%, 10% and 11% of revenues, respectively. Offshoring reached 8.2% of the market in 2015 (vs. 7.7% in 2014). In High-tech Consulting (HTC), the recovery is confirmed, albeit still modest, with improving market conditions in Aerospace & Defence (Airbus, Thales), and all the industries are in good shape more or less except Telecoms. Offshoring in HTC accounted for 3% of the market in 2015 (vs. 2.6%) and is expected to rise to 5% two or three years from now. Finally, in B2B Software, Applications and Infrastructure are expected to be up 3.7% and 3.4%, respectively, SaaS revenues are projected to be up 23% and account for 14% of the market (vs. 12% in 2015), and SMACS are expected to be up 18.6% and account for 22% of the market.
- Reminder of our forecasts by company.** In IT Services, for 2016e, on a lfl basis, we forecast sales in France as follows: +1.3% (vs. +1.2% in 2015) for Capgemini, +1.2% (vs. +0.6%) for Atos excluding Worldline, and +1.7% (vs. +1.7%) for Sopra Steria excluding Solutions, while Indian pure players like TCS are gaining market share but from a low comparison base. In High-tech Consulting, on a lfl basis, we expect +2.1% (vs. +4.5% in 2015) for Altran and +1.6% (vs. +2.5%) for Alten. NB. We estimate revenue exposure to France for 2016e at 20% for Capgemini, 16% for Atos excluding Worldline, 46% for Sopra Steria excluding Solutions, 39% for Altran, and 49% for Alten.

VALUATION

- European Software companies: 14.7x 2016 and 14.3x 2017 EV/EBIT multiples.
- European IT Services companies: 10.5x 2016 and 8.3x 2017 EV/EBIT multiples

NEXT CATALYSTS

Infosys' FY16 results on 15th April before the Indian markets open.

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