

Sector View

TMT

Q1 2016 review and our TMT Top Picks for Q2: Atos and Wirecard

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	1.5%	-0.7%	14.7%	-3.6%
DJ Stoxx 600	-2.1%	-6.2%	-3.8%	-8.6%

*Stoxx Sector Indices

Companies covered

Company	Recommendation	Fair Value
ALTEN	SELL	EUR46 vs. 47
Last Price	EUR54,09	Market Cap. EUR1,821m
ALTRAN TECHNOLOGIES	NEUTRAL vs. BUY	EUR13
Last Price	EUR12,275	Market Cap. EUR2,158m
ARM HOLDINGS	BUY	1340p vs. 1310p
Last Price	1028p	Market Cap. GBP14,479m
ASML	SELL vs. BUY	EUR81 vs. 85
Last Price	EUR89,49	Market Cap. EUR38,779m
ATOS	BUY	EUR90 vs. 93
Last Price	EUR72,04	Market Cap. EUR7,458m
AXWAY SOFTWARE	NEUTRAL	EUR20 vs. 24
Last Price	EUR19,6	Market Cap. EUR403m
CAPGEMINI	BUY	EUR90 vs. 93
Last Price	EUR82,77	Market Cap. EUR14,251m
CAST	NEUTRAL vs. BUY	EUR3.6 vs. 3,9
Last Price	EUR3,57	Market Cap. EUR58m
DASSAULT SYSTEMES	SELL	EUR63
Last Price	EUR70,76	Market Cap. EUR18,166m
DIALOG SEMICONDUCTOR	BUY	EUR39 vs. 40
Last Price	EUR35,85	Market Cap. EUR2,791m
GAMELOFT	BUY	EUR7,2
Last Price	EUR7,42	Market Cap. EUR637m
GEMALTO	NEUTRAL	EUR69
Last Price	EUR63,46	Market Cap. EUR5,648m
ILIAD	NEUTRAL	EUR212
Last Price	EUR190	Market Cap. EUR11,150m
INDRA SISTEMAS	NEUTRAL vs. BUY	EUR10 vs. 11
Last Price	EUR9,986	Market Cap. EUR1,639m
INFINEON	BUY	EUR15
Last Price	EUR12,665	Market Cap. EUR14,329m
INGENICO GROUP	BUY	EUR144 vs. 150
Last Price	EUR99,15	Market Cap. EUR6,047m
SAGE GROUP	SELL vs. NEUTRAL	550p vs. 570p
Last Price	629,5p	Market Cap. GBP6,794m
SAP	NEUTRAL	EUR73 vs. 74

LOOKING BACK AT Q1 2016

In Q1 2016, the technology sector had a flattish performance in sluggish stock markets. Over the period, the DJ STOXX Europe Technology index fell 2% and outperformed the DJ STOXX Europe 600 index by 6ppt (-8%), due to stockmarket weakness in January and early February amid concerns over the Chinese economy, the banking sector and low oil prices. These concerns eased in mid-February, thus allowing a rebound in share prices.

During the period, the best performers were Software AG (+30%, higher than expected 2015 results and 2016 guidance), Gameloft (+23%, Vivendi's hostile takeover at EUR6, then raised to EUR7.2), Indra Sistemas (+18%, end-2015 net debt way below expectations) and Gemalto (+18%, FY15 sales and PFO in line with forecasts and 2017 PFO guidance maintained). The worst performers were Wirecard (-28%, following fraud allegations by Zatarra), STMicroelectronics (-21%, on the back of restructuring announcements and FX headwinds), Axway Software (-19%, FY15 results below expectations and FY18 ambitions needing clarification) and Ingenico Group (-13%, lost volumes from GlobalCollect's no. 1 client should weigh on top line growth until H1). Our sector Q1 Top Picks Worldline, Atos, and Wirecard were down respectively 5%, 8% and 28%.

NEW ESTIMATES, FAIR VALUES AND RECOMMENDATIONS

We have taken the opportunity to update our 2016-2018 forecasts and our DCF-derived Fair Values, essentially on new valuation criteria (risk-free rate of 1.6% vs. 2% previously, equity risk premium of 7% vs. 6.4% previously). Other factors include changes to our forward fx assumptions, marginal specific changes to our models, and the roll-over of our models to 2016 for all companies under coverage.

On this basis, we have adjusted our DCF-derived Fair Values for Alten (EUR46 vs. EUR47), ARM Holdings (1,340p vs. 1,310p), ASML (EUR81 vs. EUR85), Atos (EUR90 vs. EUR93), Axway Software (EUR20 vs. EUR24), Cast (EUR3.6 vs. EUR3.9), Capgemini (EUR90 vs. EUR93), Dialog Semiconductor (EUR20 vs. EUR40), Indra Sistemas (EUR10 vs. EUR11), Ingenico Group (EUR144 vs. EUR150), Sage Group (550p vs. 570p), SAP (EUR73 vs. EUR74), Software AG (EUR39 vs. EUR38), STMicroelectronics (EUR6.3 vs. EUR7), Sword Group (EUR26 vs. EUR28), and Temenos Group (CHF51 vs. CHF53).

Given the strong rebound that happened on the share prices since early February - related to the stock market and the end of concerns on the Banking sector and oil prices -, the lack of short-term market momentum that prevents us being more aggressive, and the lack of significant upside potential as of today, we downgrade our ratings on Altran Technologies (Neutral vs. Buy), Indra Sistemas (Neutral vs. Buy), Sage Group (Sell vs. Neutral), and Temenos Group (Neutral vs. Buy). In particular, since 10th February (the low point of the CAC40 index) the share price rebounds have been +19% for Altran Technologies, +26% for Indra Sistemas, +9% for Sage Group, +19% for Temenos Group.

In addition, in separate notes published today, we downgrade ASML to Sell from Buy and Cast to Neutral from Buy: 1). ASML: we believe the NT momentum is now fully priced while we see higher risks regarding sales of DUV and EUV tools on the LT, as a result, we now see an unattractive risk/reward on the stock and prefer to look away for better opportunities in the Semiconductor industry ; 2). Cast: the company reported yesterday evening FY15 results in line with our forecasts, but the management sees 2016 as another year of double-digit increase of operating expenses, leading to a stagnation of the operating profit.

WHAT WE EXPECT IN Q2 2016

For Software & IT Services, based on industry analysts' forecasts, we continue to anticipate stable growth or a slight slowdown in global IT spending for 2016, with estimated growth of 5-6% for software (vs. +6% in 2015), still driven by the now established SaaS model, and an estimate 3-4% for IT services (vs. +4%) driven by transformation projects in application services and IT consulting, while infrastructure services are likely to be flat due to the ramp-up of cost-efficient clouds. The main market drivers are still digital transformation (cloud, mobile, analytics/big data, social networks, security) and a moderately positive but increasingly volatile economic environment (stable growth in North America, modest improvement in Europe, volatility in emerging countries). In high-tech consulting, the market is expected to maintain a modest recovery thanks to better visibility in aerospace. More specifically for the stocks we cover, we expect Q1 2016 sales to follow trends forecast for each of the segments over the full-year. The economic environment is volatile and could translate into longer sales cycles, but we

Last Price	EUR70,04	Market Cap.	EUR86,044m
SOFTWARE AG	BUY		EUR39 vs. 38
Last Price	EUR34,705	Market Cap.	EUR2,742m
SOITEC	NEUTRAL		EUR0,5
Last Price	EUR0,57	Market Cap.	EUR132m
SOPRA STERIA GROUP	BUY		EUR113
Last Price	EUR103,15	Market Cap.	EUR2,109m
STMICROELECTRONICS	NEUTRAL		EUR6.3 vs. 7
Last Price	EUR4,92	Market Cap.	EUR4,482m
SWORD GROUP	BUY		EUR26 vs. 28
Last Price	EUR23,98	Market Cap.	EUR224m
TEMENOS GROUP	NEUTRAL vs. BUY		CHF51 vs. 53
Last Price	CHF52,65	Market Cap.	CHF3,659m
UBISOFT	BUY		EUR34
Last Price	EUR27,605	Market Cap.	EUR3,070m
WIRECARD	BUY		EUR52
Last Price	EUR33,93	Market Cap.	EUR4,193m
WORLDLINE	BUY		EUR29
Last Price	EUR22,995	Market Cap.	EUR3,037m
WORLDPAY	NEUTRAL		278p
Last Price	278p	Market Cap.	GBP5,560m

doubt Cognizant's sales warning for financial services announced on 8th February can really be extrapolated to other players as it seems to be company-specific in our view.

The payments sector should continue to benefit fully from EMV migration in the US, equipping emerging markets (notably in China), as well as rising demand for payment services outsourcing (notably e-commerce) and for security in electronic payments. **1) Ingenico Group (Buy – FV of EUR144, 100% of sales in payment)** has the best commercial multi-channel offer and we are still confident for Q1 2016 following VeriFone's comments. The group should post 8-9% organic sales growth in Q1 vs. FY guidance of ~+10% (26th April). **2) Wirecard (Buy – FV of EUR52, pure player in online payments)** should post FY15 organic sales growth of 24-25%, driven notably by south-east Asia, which should translate into 2015 EPS growth of 29.3% (7th April). Its Q1 organic sales growth should continue to accelerate (much the same way as growth in transaction volumes processed). **3) Worldline (Buy – FV of EUR29, 78% of 2016 sales in payment)** should now be fully considered as a PSP (#1 in Europe since the acquisition of Equens vs. #3 before). We expect the group to post 3-4% organic sales growth in Q1 (taking into account the termination of the public sector contract in the UK at the end of last year). **4) Gemalto (Neutral – FV of EUR69; less than 25% of its sales in payment)** should post lfl sales growth of 2.5% for Q1 (the Softcard negative impact will last until Q1). We believe there are still too many risks in the SIM and related services businesses. Shorter term, the CEO will have to ensure a smooth succession. **5) Worldpay (Neutral – FV 278p; 100% of its sales in payment)** is struggling in the US (half of group sales), such that the poor lfl top-line growth associated cannot create any leverage to its proprietary platform. We expect the group to post 6-7% organic sales growth in Q1.

For Video Games: by taking equity stakes in **Ubisoft (Buy – FV EUR34)** and **Gameloft (Buy – FV EUR7.2)**, Vivendi has encouraged investors to change the way they look at video games shares. For these two groups, speculation will be the main driver behind share prices in the next few months. As expected, Vivendi launched a hostile takeover bid for **Gameloft** (at EUR6.0 and then increased to EUR7.2 per share), however the group's mid-term outlook deserves more than EUR7.2 notably thanks to the ramp up of its advertising business (we estimate a fair offer in the range of EUR7.6-8.6). Regarding **Ubisoft**, the group is experiencing strong sales of its game *The Division* and *Far Cry Primal* is well received by gamers. We believe in a takeover bid if it is friendly. Note that our FVs reflect minimum prices in the case of takeover bids.

For Semiconductors, we expect global 2016 sales to grow slightly, by 2-3%, compared with 2015. During Q1 2016, we noted a rapid slowdown in the smartphone segment but we believe this market is now stabilising. PC sales also remain at a low level but we see no sign of further negative inflexion. At the beginning of Q2, visibility in the industry is improving compared with the particularly low levels seen in Q4 2015. This is mainly due to an improving situation in the automotive segment where inventory adjustments came to an end as expected. Q2 might be the quarter where momentum starts to improve in the industrial sector and the automotive segment gradually reaccelerates. This would be positive for **Infineon (Buy, FV EUR15)** and **STMicroelectronics (Neutral, FV EUR6.3)**. Regarding semi equipment makers, Q2 should be the quarter of the 10nm ramp-up at Logic IDM and foundries that is expected to trigger equipment orders. However, we believe that most of the positive impact from 10nm investments are already priced, and particularly for **ASML (Sell, FV EUR81)** which is unlikely to benefit from the adoption of multi-layer production in NAND as for other equipment manufacturers. Overall, we expect spending in wafer fab equipment to remain flat vs. 2015.

For Telecoms, after the break-down of negotiations between Orange and Bouygues Telecom, a stabilisation in the French market is still a long way ahead. Bouygues Telecom needs sustained customer growth in order to make its recovery dreams come true, and Numericable-SFR, which is still undergoing restructuring, needs to quickly regain momentum on the commercial side. The fight for customers will be tough as the wounded beasts are expected to be very aggressive, the price war will go on, and **Iliad (Neutral, FV EUR212)** and Orange are likely to suffer from collateral damages. In other European countries such as the UK and Italy, the markets reconfiguration following pending M&A operations should also be monitored closely.

CONCLUSIONS AND TOP PICKS

In software & IT services, while most of the "growth" stories are almost priced in after the stockmarket rebound that took place in February, we recommend buying specific earnings-enhancing stories based on M&A. As such, we are keeping Atos in our Top Pick list. 1) Atos is highly focused on the structurally stable managed services/BPO businesses and can only generate low, but improving, organic growth out to 2018. 2) The acquisition of Unify should help Atos generate an accretive impact on EPS of at least 15% as of 2017, while the Equens takeover project via subsidiary Worldline should enhance EPS by 4-5% as of 2018 in our view, 3) Atos has expanded over the decades via acquisitions and this method is now part of its DNA, and, since the arrival of Thierry Breton at the head of the group, Atos has been faultless in integrating its acquisitions and delivering synergies.

In Payments, we expect investors to show an increasing appetite for the rising momentum of



eCommerce. As such, **we are keeping Wirecard (Buy, FV EUR52) in our Q2 Top Pick list to benefit from** extremely good fundamentals (pure player in ePayment, exposure to South-East Asia) and a very attractive entry-point following the Zatarra story (EUR33.3). As a reminder, we expect organic sales growth of more than 20% in FY16e with EBITDA of EUR306.4m i.e. a margin of 30.1% (vs. an increased guidance range to EUR290-310m, which is still cautious in our view). **Wirecard's PEG has never been this appealing, with a PE of 18.2x vs. EPS growth of 40.7% in 2016e.**

In Video Games, 2016 should be buoyant for the French sector as a whole thanks to the speculation around Gameloft and Ubisoft. This main theme is set to drive the share prices in 2016e. However, and despite our buy ratings, we find it difficult to predict the exact timing of: 1) a fresh increase in the price offer for Gameloft, and 2) an increase in Ubisoft's capital by Vivendi and/or a friendly takeover bid for Ubisoft. As a result, **we are not including any video games players in our Q2 2016 Top Pick list.**

In Semiconductors, our three best picks in the industry are **ARM Holdings (Buy, FV 1,340p,)** **Infineon (Buy, FV EUR15)** and **Dialog Semiconductor (Buy, FV EUR39)**. However, while we expect a gradual improvement in momentum over Q2 2016, we see no strong catalysts to trigger an outperformance by a particular semi stock. As a result, **we are not including any Semiconductor players in our Q2 Top Pick list.**

In Telecoms, although a correction following the excessive reaction to the merger break-down is possible, we expect investors to remain prudent, waiting to see the players' reactions on the market and the impact of a likely renewed price war. We have not included **Iliad (Neutral, FV EUR212)** in our Top Pick list as the stock has already lost 15% between today and April 1st, and there is no way it can outperform its 31st March closing value before the end of Q2. We do not expect consolidation to be back on the table for many months.

NEXT CATALYSTS

Software & IT Services: Infosys' 2016 results on 15th April before the Indian markets open. TCS' 2016 results on 18th April after the Indian markets close. IBM's Q1 2016 results on 18th April after US markets close. Q1 2016 sales and results for European companies start on 19th April (Temenos).

Payments: Wirecard's FY earnings on 7th April (before trading), Worldline's Q1 sales on 20th April (after trading), Ingenico's Q1 sales on 26th April (after trading), Gemalto's Q1 sales on 29th April (before trading), and Worldpay's H1 earnings (late June/early July).

Video Games: Gameloft's FY sales on 28th April (after trading) and Ubisoft's FY sales the week of 9th May.

Semiconductors: TSMC's Q1 2016 results on 14th April, Soitec's FY sales on 18th April (after trading), ARM Holdings' and ASML Q1 results on 20th April, STMicroelectronics' Q1 results on 29th April, Infineon's Q2 results on 3rd May and Dialog's Q1 results on 4th May.

Telecoms: Iliad's Q1 revenues, expected in mid-May.

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