

## Temenos Group

Price CHF53.00

## Q1 2016 results way above expectations, FY16 guidance reiterated

Fair Value CHF52 vs. CHF51 (-2%)

NEUTRAL

Bloomberg	TEMN.SW
Reuters	TEMN.SW
12-month High / Low (CHF)	53.3 / 29.3
Market Cap (CHF)	3,683
Ev (BG Estimates) (CHF)	3,818
Avg. 6m daily volume (000)	227.9
3y EPS CAGR	19.3%

We are reiterating our Neutral rating and have raised our DCF-derived fair value from CHF51 to CHF52 following the 1% increase in our forecasts. Yesterday evening Temenos reported Q1 results way above expectations on strong licence sales and the number of implementation 'go-lives'. Management is confident it can deliver FY16 guidance. We expect a positive share price reaction in the short-term.

## ANALYSIS

- Q1 results way above expectations.** On a non-IFRS basis, Q1 2016 sales rose 26.6% (+14% lfl) to USD129.1m, with total software licensing (licence/SaaS/subscription) revenues up 18% lfl to USD38.9m, maintenance up 8% lfl, and services up 24% lfl following the number of software implementations gone live (26 vs. only 4 in Q1 2015). Non-IFRS operating profit was up 35.4% to USD22.2m or 17.2% of sales (+1.4ppt), and non-IFRS EPS was up 16.7% to USD0.21. These figures were way ahead of our forecasts (sales of USD119m, non-IFRS op. profit of USD17m or 14.3% of sales) and the consensus' average (sales of USD120.9m, non-IFRS op. profit of USD19.8m or 16.4% of sales). Non-IFRS opex were up 14% lfl, while the Services gross margin was up 1.4ppt to 2.6%. On a LTM basis, operating cash conversion remained strong, at 131% of EBITDA (target >100%), with DSOs down an impressive 32 days (vs. a full-year target of 10-15 days).
- Other Q1 details.** 1) The Q1 performance reflected further strong momentum - new wins stood at 19, up from 10 in Q1 15 - with strong growth in all regions (est. +48% in Europe driven by banks' focus on costs and digitisation, +51% in Middle-East & Africa, +39% in America, and +78% in Asia driven by Wealth), and Retail and Wealth leading the pack (nearly 100% win rate in Wealth); 2). The Services gross margin was up only 1.4ppt in the quarter due to a lower share of "premium" services (22% vs. 28% in Q1 15) as Temenos was directly involved in the 'go-live' implementations for some clients (subcontracting on behalf of the implementation partner).
- Management confident it can reach FY16 guidance.** For FY16, on a non-IFRS basis, Temenos still forecasts revenues up 7.5-11% at cc to USD594-614m, total software licensing up 10-15% at cc to USD234-245m, and an operating margin up c. 2ppt to 30% (USD180-185m) based on opex up 7% at cc to USD422m. Management is confident it can deliver guidance in view of the strong pipeline and increased visibility on revenues. As such, we have increased our forecasts by 1%. We are not significantly more bullish at this stage as we expect licence sales to drop in Q3 due to tough comps (Nordea) and services revenues are likely to be flattish over the next three quarters. While Temenos will continue to hire sales and pre-sales staff, we consider opex growth could slow from the +14% lfl reported in Q1 due to less 'go-lives' and easier comps on variable costs.
- Customer update on EFG.** The acquisition of private bank BSI (an Avaloq customer) by EFG (a long-standing Temenos customer) will provide additional revenues for Temenos. On 31st March, EFG announced that CHF100m of the CHF185m cost synergies planned for the merger would stem from the migration to the Temenos T24 core banking platform, which is to take place by the end of 2017. NB. EFG runs at half of BSI's IT costs for a similar sized bank.

## VALUATION

- Temenos' shares are trading at est. 20.1x 2016 and 16.9x 2017 EV/EBIT multiples.
- Net debt on 31st March 2016 was USD279.9m (net gearing: 73%).

## NEXT CATALYSTS

- TCF 2016 users' conference on 17-19th May in Barcelona (Spain).
- Q2 results on 21st July after markets close.

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## Distribution of stock ratings

BUY ratings 57,6%

NEUTRAL ratings 33,8%

SELL ratings 8,6%

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