21st April 2016

TMT

Worldline

Price EUR23.09

A strong start to the year and FY16 guidance maintained

Fair Value EUR29 (+26%) **BUY**

Bloomberg	WLN FP
Reuters	WLN.PA
12-month High / Low (EUR)	24.7 / 18.2
Market Cap (EURm)	3,050
Ev (BG Estimates) (EURm)	2,591
Avg. 6m daily volume (000)	85.50
3y EPS CAGR	11.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.4%	5.9%	5.3%	-3.3%
Softw.& Comp.	1.1%	4.7%	7.0%	-2.5%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,227	1,286	1,350	1,418
% change		*4.8%*	*5.0%*	*5.0%*
EBITDA	235	257	277	301
EBIT	174.9	200.6	217.4	238.2
% change		*14.7%*	*8.4%*	*9.6%*
Net income	122.9	141.7	154.4	169.1
% change		*15.3%*	*8.9%*	*9.6%*

	2015	2016e	2017e	2018e
Operating margin	14.3	15.6	16.1	16.8
Net margin	8.4	10.3	11.3	11.8
ROE	13.1	14.4	14.6	14.3
ROCE	29.0	31.7	35.8	41.6
Gearing	-41.0	-49.8	-58.3	-65.1

(EUR)	2015	2016e	2017e	2018e
EPS	0.91	1.05	1.14	1.25
% change	-	*15.3%*	*8.9%*	*9.6%*
P/E	25.4x	22.0x	20.2x	18.4x
FCF yield (%)	4.2%	3.7%	5.5%	6.0%
Dividends (EUR)	0.00	0.25	0.29	0.32
Div yield (%)	NM	1.1%	1.2%	1.4%
EV/Sales	2.2x	2.0x	1.8x	1.6x
EV/EBITDA	11.6x	10.1x	8.8x	7.6x
EV/EBIT	15.6x	12.9x	11.2x	9.6x

Worldline has posted better-than-expected Q1 sales (+6.5% lfl, i.e. 2% above expectations) from its three BUs (notably Merchant Services & Terminals), and reiterated its 2016 guidance (excl. Equens and KB acquisitions). A global clearance on the Equens and Paysquare transaction has been obtained from European antitrust authorities on two conditions, which have no material impact on the expected benefit. In our view, the group still has financial flexibility for other M&A operations. Worldline should now be fully considered as a PSP (77%e of its pro-forma sales derived from Payments with a scale effect), which is not reflected in its current multiples (EV/EBITDA of 9.1x). Buy – FV EUR29.

ANALYSIS

- **Q1 sales above expectations:** revenue came out at EUR298.8m, +4.3% Y/Y and +6.5% lfl (vs. BG est. of EUR293m i.e. +4.4% lfl; consensus of EUR294m i.e. +4.8% lfl). EUR11.7m was billed to end clients by Atos (~4% of Q1 revenue). By division: 1/ Merchants services & Terminals (35% of Q1 revenue) up 11.2% lfl thanks to accelerations in commercial acquiring (beneficial price/volume mix and strong commercial momentum) and the international deployment of payment terminals; 2/ Financing processing & Software licensing (34% of revenue) up 5% thanks to high volumes on processing platforms, strong license sales and the success of authentication services and mobile payment solutions in issuing processing; 3/ Mobility & e-transactional services (35% of revenue) up 3.5% thanks to the strong sales of the contact and consumer cloud services in France and in Connected Living in Germany and in France, as well as in the e-government collection (more than offsetting the impact of the termination of the public sector contract in the UK). Finally, the group generated EUR35.3m in FCF (+10.7% Y/Y, i.e. ahead its FY target), net cash of EUR362.3m and its backlog totalled EUR1.7bn (i.e. 1.4 years of revenue).
- **Update on the last two transactions:** 1/ a global clearance on the transaction with Equens and Paysquare (consolidation expected at the end of Q2) has been obtained from European antitrust authorities on two conditions that Worldline has accepted: disposal of the PaySquare business in Belgium (<10% of Paysquare's revenue i.e. <EUR4m, with an EBITDA margin below the average profitability i.e. below 15%), and granting licenses to the Poseidon software in Germany (acceptance software) on fair, reasonable and non-discriminatory terms for 10 years. These commitments have no material impact on the expected benefit of the transaction. 2/ the deal documentation regarding the transaction with KOMERČNÍ BANKA (consolidation expected during the summer) has been signed and the integration preparation work is well on track.
- **2016 guidance reiterated (excl. Equens and KB):** 3% lfl sales growth (underlying business growth of 8% and -5% from major e-government contract ends in 2016; BG est. +2.6%), an 80bp improvement in EBITDA margin to 20% (vs. BG est. 20.0%) and FCF of EUR135/140m (incl. the exceptional cash-out linked to the acquisition costs related to Equens of ~EUR12m). As a result, the 6.5% lfl sales growth in Q1 (underlying business growth of +9.5% and -3% from major e-government contract ends in 2016) shows that Worldline is well on track to reach its FY16 guidance. We estimate that H1 should stand at 4-6% to be consistent with the FY target of +3%.

VALUATION

- **Following the acquisition of Equens, Worldline is to become the no. 1 PSP in Europe** (77% of its pro-forma sales derived from payments with a scale effect, 78% of recurring revenues) vs. no. 3 before.
- **Worldline is currently trading at 2016e EV/EBITDA of 9.1x** (with the consolidation of Equens as of mid-May 2016 and the end of the French radar contract), i.e. **an unjustified discount of 24%** to payment processors evolving in the physical space (EV/EBITDA of 12x).
- **We maintain our Buy rating and FV of EUR29** (Equens, KB and the end of the French radar contract are integrated into our valuation, please see our simulation on page 2). At our FV, the share would be at 11.8x 2016e EV/EBITDA 2016e, which is perfectly consistent with its positioning.

NEXT CATALYSTS

- **AGM:** 26th May.
- **Q2 earnings:** 26th July. Worldline should provide all the elements for the consensus to integrate the last two acquisitions and therefore should update its FY guidance accordingly.

Simulation: Worldline with consolidation of Equens, KB and the end of the French radar contract

EURm	2016e	2017e	2018e	2019e
Revenue	1,454.2	1,617.1	1,694.3	1,775.4
EBITDA	284.1	321.4	348.7	374.5
Margin	19.5%	19.9%	20.6%	21.1%
Synergies	4.0	20.0	40.0	45.0
EBITDA after synergies	288.1	341.4	388.7	419.5
Margin	*19.8%*	*21.1%*	*22.9%*	*23.6%*
Implementation costs of	-16.0	-13.0	-11.0	-5
Reorganisation costs	-6.0	0	0	0
Current EBIT	207.3	252.3	295.6	335.9
Margin	*14.3%*	*15.6%*	*17.4%*	*18.9%*
EBIT	172.1	236.4	281.7	328.0
Margin	*11.8%*	*14.6%*	*16.6%*	*18.5%*
Financial income	-3.9	-2.5	-2.0	-1.5
Minority interests	-6.4	-15.2	-20.4	-26.1
Restated attrib. net income	139.0	163.1	189.1	212.3

Source : Bryan Garnier & Co. ests.

The impact of our simulation on our current EPS sequence would be: -2.3% in 2016e, +5.6% in 2017e, +11.8% in 2018e and +16.1% in 2019e. **Our FV of EUR29 is based on this simulation.**

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