

Gemalto

Price EUR56.80

Following the Q1 sales conf. call, we have cut our FY16-18e EPS sequence and FV

Fair Value EUR62 vs. EUR69 (+9%)

NEUTRAL

Bloomberg	GTO.FP
Reuters	GTO.PA
12-month High / Low (EUR)	84.9 / 50.5
Market Cap (EUR)	5,062
Ev (BG Estimates) (EUR)	5,142
Avg. 6m daily volume (000)	440.8
3y EPS CAGR	23.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.2%	2.6%	-0.4%	2.8%
Softw. & Comp.	-2.4%	-3.0%	-1.2%	-5.2%
DJ Stoxx 600	1.4%	-0.2%	-9.1%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,122	3,244	3,406	3,610
% change		3.9%	5.0%	6.0%
EBITDA	345	513	609	677
EBIT	313.3	438.9	529.0	588.5
% change		40.1%	20.5%	11.3%
Net income	226.3	329.7	396.7	432.8
% change		45.7%	20.3%	9.1%

	2015	2016e	2017e	2018e
Operating margin	10.0	13.5	15.5	16.3
Net margin	4.2	8.9	10.5	11.1
ROE	5.4	10.5	11.7	11.8
ROCE	7.1	10.0	12.1	13.4
Gearing	13.4	2.9	-7.5	-16.7

(EUR)	2015	2016e	2017e	2018e
EPS	2.53	3.66	4.41	4.81
% change	-	44.6%	20.3%	9.1%
P/E	22.4x	15.5x	12.9x	11.8x
FCF yield (%)	3.3%	6.1%	7.4%	8.3%
Dividends (EUR)	0.47	0.51	0.55	0.59
Div yield (%)	0.8%	0.9%	1.0%	1.0%
EV/Sales	1.7x	1.6x	1.4x	1.2x
EV/EBITDA	15.6x	10.0x	7.9x	6.6x
EV/EBIT	17.2x	11.7x	9.1x	7.6x



Following disappointing Q1 sales and the subsequent conference call, we have revised downwards our restated FY16-18e EPS sequence by 3.5% on average. Gemalto reiterated its “vague” FY16 guidance (+1.5% gross margin, accelerating its PFO expansion towards its 2017 objectives). The current year will be especially back-end loaded (Softcard loss during Q2 last year) and there are still too many risks in SIM & related businesses, such that the 2017 PFO target of over EUR660m is out of reach (it implies at least a +25% CAGR 2015-17e vs. +10.4% in 2015). We expect momentum to be unattractive as long as management maintains its 2017 PFO target. We are now more than 12% below this target (vs. 9% below before). We maintain our Neutral recommendation and have cut our FV from EUR69 to EUR62 (average of an SOTP, a DCF and historical multiples).

ANALYSIS

- **Gemalto reported a 2.5% lfl decline in Q1 sales organic. We see two main reasons for disappointment: 1/ the SIM business** was down 34% and at best, the trend in coming quarters is set to stand at -10-15% (end of the negative Softcard comparison base but still a double digit decline, lower demand in Latam and Asia, and no software upgrade this year); **and 2/ Payment sales increased by only 8% lfl** (EMV payment cards and issuance services in the US but sales to banks in China are starting to slow down).
- **We have revised downwards our 2016-18e EPS sequence.** We have reduce FY16 revenue from EUR3,338.3m to EUR3,243.8m (from +6.0% to +3.0% lfl), PFO from EUR496.1m to EUR483.3m (margin of 14.9%), current EBIT from EUR451.7m to EUR438.9m (margin of 13.5%), EBIT from EUR398.3m to EUR386.7m (margin of 11.9%) and attributable net profit from EUR297.6m to EUR288.5m (margin of 8.9%). **We have cut our restated EPS sequence by 3.5% on average over FY16-18e** (-3.0% in FY16e, -3.8% in FY17e and -3.8% in FY18e).
- **What about the FY17 PFO target now?** Philippe Vallée (COO, and new CEO as of 1st September) will have to take on guidance for over EUR660m in PFO for next year. This target looks increasingly tight from one publications to the next since it suggests a strong acceleration in the following two years, namely a 2015/17 CAGR of at least +25%. Even with the dynamics registered in payment, M2M, e-government and cybersecurity, the business lost in the SIM segment is still very profitable and momentum is clearly disappointing. **We now have a FY17e PFO at EUR580m (vs. EUR601m before), i.e. more than 12% below management’s target.**

VALUATION

- **We have cut our restated EPS sequence by 3.5% on average over FY16-18e:** -3.0% in FY16e, -3.8% in FY17e and -3.8% in FY18e.
- **We maintain our Neutral rating and cut our Fair Value from EUR69 to EUR62:** average between a sum of the parts (SOTP) of EUR63.2, a DCF of EUR60.9, and 3-year historical multiples of EUR61.4.
- **We do not see a positive risk/reward on the stock.** The current year is very back-end loaded, visibility is poor, Olivier Piou will have to ensure a smooth succession with Philippe Vallée, we still see too many risks in the SIM and related services business. **We expect momentum to be unattractive as long as management maintains its 2017 PFO target which is out of reach.**

NEXT CATALYSTS

- **AGM:** 19th May.
- **H1 revenue and earnings:** on 26th August (before trading).

2015 reported, consensus and BG estimates (new vs. old) for 2016 and 2017e

EURm	2015 (reported)	BG 2016e (old)	BG 2016e (new)	Cons. 2016e	BG 2017e (old)	BG 2017e (new)	Cons. 2017e
Sales	3,121.6	3,338.3	3,243.8	3,276	3,538.6	3,406.0	3,496
<i>Y/Y change</i>	26.6%	6.0%	3.9%	4.9%	6.0%	5.0%	6.7%
<i>Y/Y change (fl)</i>	6.0%	6.0%	3.0%	4.9%	6.0%	5.0%	
PFO	422.6	496.1	483.3	502	600.6	580.1	587
<i>Margin</i>	13.5%	14.9%	14.9%	15.4%	17.0%	17.0%	17.0%
EBIT	203.3	398.3	386.7		495.5	476.7	
<i>Margin</i>	6.5%	11.9%	11.9%		14.0%	14.0%	
Current EBIT	313.3	451.7	438.9		549.5	528.9	
<i>Margin</i>	10.0%	13.5%	13.5%		15.5%	15.5%	
Net profit	136.9	297.8	288.7	284	371.2	356.7	354
<i>Margin</i>	4.4%	8.9%	8.9%	8.7%	10.5%	10.5%	10.1%
Attrib. net profit	134.1	297.6	288.5		371.0	356.4	
<i>Margin</i>	4.3%	8.9%	8.9%		10.5%	10.5%	
Rest. attrib. net	226.3	339.8	329.7		412.5	397.0	
<i>Margin</i>	7.3%	10.2%	10.2%		11.7%	11.6%	
Net debt	334.7	87.8	80.0	103	-228.6	-228.7	-173
<i>Gearing</i>	13.4%	3.2%	2.9%		-7.4%	-7.5%	

Sources: Bryan, Garnier & Co ests; Company's consensus (27/04/16).

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