Sector View

Payments

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	-1.1%	3.7%	-4.2%	-5.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%
*Stoxx Sector Indices				

Companies covered		
GEMALTO	NEUTRAL	EUR62
Last Price	Market Cap.	
INGENICO GROUP	BUY	EUR144
Last Price	Market Cap.	
WIRECARD	BUY	EUR52
Last Price	Market Cap.	
WORLDLINE	BUY	EUR29
Last Price	Market Cap.	
WORLDPAY	NEUTRAL	278p
Last Price	Market Cap.	



Safran is officially entering the Morpho sale process

ANALYSIS

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- Philippe Petitcolin, Safran CEO, has started the process regarding its subsidiary specialized in security. According to numerous sources, candidates have to submit their offers during the second half of June to Lazard and Société Générale (advisory banks). Then, due diligence will open to give them access to more information. As a reminder, Morpho (revenue of EUR1.7bn and 8,600 employees) is courted by some French manufacturers (Atos, Gemalto and Oberthur) but also by Bpifrance (1st shareholder of Ingenico and in the share capital of Gemalto), some French funds (Eurazeo, Astorg, PAI, Wendel) and some foreign funds (KKR, CVC, Apollo, Carlyle and Bain Capital). The Japanese NEC, the Swedish HID and the German G&D would also be interested in this business. Philippe Petitcolin seems determined to refocus Safran on aerospace, and he expects to sell the whole of Morpho at 10x Ebitda (i.e. over EUR2bn).
- As a reminder, the French state owns 15.5% of the share capital and 24% of the voting rights, and two of its representatives on the board of directors are following the issue closely. The French authorities are sensitive to the profile of buyers of Morpho, which is quite logical in the current context (fight against terrorism, trafficking in arms, drugs and human beings...). And, of course, there are advanced technologies involved such as identification by iris, fingerprints or face recognition, and other biometric identity solutions. Note that Morpho only does 10% of its revenue in France, and only 1% with the French government. France is 15-20% of its industrial base and workforce. The French state is ready to put in place protection mechanisms so that jobs, technologies, research and intellectual property of sensitive activities do not leave the territory.
- We have begun to wrote on that subject in our BGeek last December following an article in La Lettre A (which is often well informed about the defence industry) saying that the declining profitability of Morpho was pushing Safran to consider the possibility of a sale. Not forgetting that Safran needs to cover its costs as it has made large investments to build its security division. So, this is more an officialisation than an information. In our view, a sale to a direct competitor would make sense. In embedded software & Products, 78% of the market is owned by 4 players (Gemalto 40%, Giesecke & Devrient 15%, Oberthur Technologies 15%, and Morpho 8%) and the remaining 22% breaks down between small local players (especially Asian groups such as Eastcompeace Technology, Watchdata, Datang Telecom Technology & Industry Group, Wuhan Tianyu Information Industry and Kona). Finally, note that the 10x EV/EBITDA multiple cited by Safran's CEO for Morpho is not far from the 9.4x we calculate for Gemalto in 2016e. In our view, Oberthur and Gemalto are the best placed in the race to acquire Morpho.

Player trends in each main vertical and their market shares

Sectors	Gemalto	Giesecke & Devrient	Oberthur	Morpho	TOP 4	Local
			Tech			players
Telecoms	$\checkmark\checkmark\checkmark$	$\checkmark \checkmark \checkmark$	$\checkmark\checkmark$	\checkmark		
eGovernment	$\checkmark \checkmark \checkmark$	\checkmark	\checkmark	$\checkmark \checkmark \checkmark$		
Banks	$\checkmark \checkmark \checkmark$	$\checkmark\checkmark$	$\checkmark \checkmark \checkmark$			
Enterprise	$\checkmark \checkmark \checkmark$					
M2M	\checkmark					
Total market	40%	15%	15%	8%	78%	22%
share						

✓✓✓ Excellent; ✓✓ Good; ✓ Weak

Source: Bryan, Garnier & Co ests.

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Analyst : Richard-Maxime Beaudoux 33(0) 1.56.68.75.61 rmbeaudoux@bryangarnier.com Sector Team : Thomas Coudry Gregory Ramirez Dorian Terral

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BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a
DUT	recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of
	elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock
	will feature an introduction outlining the key reasons behind the opinion.

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NEUTRAL ratings 0%

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BRYAN, GARNIER & CO

London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001 Tel +91 11 4132 6062
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	+91 98 1111 5119
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	Fax +91 11 2621 9062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Geneva
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			rue de Grenus 7
Financial Conduct Authority (FCA)	Autorité de Contrôle prudential et de			CP 2113 Genève 1, CH 1211
	resolution (ACPR)			Tel +4122 731 3263
				Fax+4122731 3243

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