

Sopra Steria Group

Price EUR102.00

Q1 16 sales above expectations, FY16 guidance revised upwards

Fair Value EUR121 vs. EUR113 (+19%)

BUY

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	112.0 / 78.2
Market Cap (EURm)	2,086
Ev (BG Estimates) (EURm)	2,529
Avg. 6m daily volume (000)	21.30
3y EPS CAGR	15.0%

We reiterate our Buy rating and raise our DCF-derived Fair Value to EUR121 from EUR113, as we increase our adj. EPS ests. by 3% (+EUR4/share) and raise our medium-term lfl sales growth assumption to +4.5% from +4% (+EUR4/share). This morning Sopra Steria reported Q1 16 sales above our forecast and the consensus average thanks to an impressive performance in France, despite some weakness in the UK. FY16 lfl revenue growth guidance is upped to +3-5% from more than +2%. We expect the share price to react positively short term.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.0%	1.4%	-3.0%	-5.8%
Softw. & Comp.	-1.5%	-0.6%	-1.6%	-4.6%
DJ Stoxx 600	2.4%	2.0%	-9.4%	-6.7%

ANALYSIS

- Q1 16 sales above expectations.** Q1 sales rose 4.7% (+3.3% lfl) to EUR913.2m or 2% above our EUR893.5m estimate and 1% ahead of thr consensus (EUR905m). France and Sopra Banking Software were above our estimates, while the UK, Other Europe and Other Solutions were below our forecasts. Compared to consensus, France was 7% above, Sopra Banking Software was in line, and the UK, Other Europe and Other Software were respectively 4%, 3% and 3% below. Headcount as of 31st March 2016 was 38,939 (o/w 16.9% 'x-shore'), up 489 vs. 31st December 2015.
- Q1 details.** 1). **France** was up 7.7% lfl to EUR387.7m (BG est.: EUR355.4m, consensus: EUR363.3m), with Consulting & Systems Integration up 9.5% to EUR337.4m with +10% on strategic customers, +20% in Consulting, a bench cut by 3ppt, and solid growth in Aerospace & Defence, Transport and Banking, and Infrastructure & Security Services (I2S) down 4.5% to EUR50.3m with Cybersecurity up double-digit; 2). **The UK** was down 2.3% lfl to EUR237.3m (BG est.: EUR244.4m, consensus: EUR247.4m); 3). **Other Europe** was up 3.7% lfl to EUR170.6m (BG est.: EUR176.7m, consensus: EUR176.1m) with double-digit growth in Italy and Benelux, a slight increase in Germany and some decline in Switzerland and Denmark; 4). **Sopra Banking Software** was flat lfl to EUR68.7m (BG est.: EUR64.9m, consensus: EUR69m) despite tough comps with licence sales to La Banque Postale in Q1 16; 5). **Other Solutions** were up 1.4% lfl to EUR48.9m (BG est.: EUR52.1m, consensus: EUR49.7m), with deal slippages on HR Software offset by +9.2% on Real Estate.
- Acquisition of LASCE Associates.** Sopra Steria announced the acquisition of LASCE Associates, for an undisclosed sum. Founded in Paris in 2003, with more than 60 consultants, EUR8m revenues (+40%) and an op. margin of 17%, this consulting firm is specialised in manufacturing and supply chain excellence. This deal increases the value of Sopra Steria's services and has potential synergies with Cimpa, which was acquired in 2015 from Airbus Group and provides PLM services.
- FY16 guidance revised upwards.** Sopra Steria upped FY16 lfl revenue growth guidance to +3-5% from more than +2%, while we expected +3% and the consensus was at +3.6%. The company still expects operating margin above 7.5% (BG est. and consensus' average so far: 7.7%), and a strong free cash flow increase (to c. EUR100m from EUR49.3m in our view). The management indicates: 1). I2S in France has sales improving revenue prospects for the coming quarters; 2). In the UK, the recovery in Banking is taking place progressively and is expected to yield gradual results; 3). Sopra Banking Software has a wealthy order pipeline, which should help drive growth for the rest of the year; 4). In Other Solutions, growth is expected to be better in H2 for HR solutions. Given the encouraging numbers reported for Q1, we increase our adj. EPS ests. by 3%.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	3,584	3,771	3,962	4,138
% change		5.2%	5.1%	4.4%
EBITDA	295	343	388	418
EBIT	152.6	252.4	294.6	324.3
% change		65.4%	16.7%	10.1%
Net income	150.9	182.2	211.8	230.1
% change		20.8%	16.2%	8.6%

	2015	2016e	2017e	2018e
Operating margin	6.8	7.8	8.5	8.9
Net margin	2.4	4.0	4.5	4.8
ROE	6.8	11.2	12.0	11.9
ROCE	11.0	11.6	13.1	14.0
Gearing	43.0	32.8	20.6	10.8

(€)	2015	2016e	2017e	2018e
EPS	7.38	8.89	10.34	11.23
% change	-	20.6%	16.2%	8.6%
P/E	13.8x	11.5x	9.9x	9.1x
FCF yield (%)	2.4%	5.2%	8.1%	9.0%
Dividends (€)	1.70	1.90	2.10	2.30
Div yield (%)	1.7%	1.9%	2.1%	2.3%
EV/Sales	0.7x	0.7x	0.6x	0.5x
EV/EBITDA	8.9x	7.4x	6.2x	5.4x
EV/EBIT	10.7x	8.6x	7.1x	6.2x



VALUATION

- Sopra Steria's shares are trading at est. 8.6x 2016 and 7.1x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR530.8m (net gearing: 43%).

NEXT CATALYSTS

AGM on 22nd June. H1 results on 28th July before markets open.

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