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2nd June 2016

## BG's Wake Up Call

### CAPGEMINI

BUY, Fair Value EUR97 vs. EUR96 (+14%)

*Feedback from Capital Markets Day*

We reiterate our Buy rating and fine-tune our DCF-derived fair value to EUR97 from EUR96 (on fx updates, especially EUR/USD and EUR/GBP) following the Capital Markets Day held yesterday in Munich (Germany). The positive key message from this event is that: 1). Management is increasingly confident on FY16 guidance and medium-term goals; 2). Capgemini is a bit ahead of schedule on synergies with Igate; 3). Acquisitions are at the agenda.

### In brief...

#### MUNICH RE, *The Ergo restructuring plan is not much attractive*

Munich Re has presented its restructuring plan for its primary insurance subsidiary Ergo, which is currently loss-making and has generated below cost of capital returns for year

#### NUMERICABLE SFR, *Acquisition of 49% stake of NextRadioTV completed*

SFR yesterday completed the announced acquisition of 49% of NextRadioTV, a French TV operator focusing on news and sports, with brands such as BFM, RMC and 01net.com

#### SOPRA STERIA GROUP, *Etienne du Vignaux appointed as CFO*

Yesterday evening, Sopra Steria announced the appointment of Etienne du Vignaux as CFO. Etienne du Vignaux is 43 years old and began his career in 1997 at Rhône-Poulenc.

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	17789.67	+0.01%	+2.09%
S&P 500	2099.33	+0.11%	+2.71%
Nasdaq	4952.25	+0.08%	-1.10%
Nikkei	16562.55	-2.32%	-10.92%
Stoxx 600	344.116	-0.96%	-5.93%
CAC 40	4475.39	-0.67%	-3.49%
<b>Oil /Gold</b>			
Crude WTI	48.9	0.00	+31.45%
Gold (once)	1210.07	-0.35%	+13.90%
<b>Currencies/Rates</b>			
EUR/USD	1.11725	+0.36%	+2.85%
EUR/CHF	1.10365	-0.28%	+1.49%
German 10 years	0.134	-8.61%	-78.94%
French 10 years	0.48	-1.28%	-51.06%
Euribor	-	+-%	+-%

### Economic releases :

Date	
2nd-Jun	ECB - rate decision 0.0%E unchanged ECB - Deposit facility (-0.4% E) US - Initial Jobless claims (270K E) US- DOE oil inventories

### Upcoming BG events :

Date	
7th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
8th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
13th-Jun	NOVARTIS (BG Paris roadshow with IR)
15th-Jun	GENMAB (BG Paris roadshow)
27th-Jun	IMERYYS (BG Luxembourg with CFO)

### Recent reports :

Date	
1st-Jun	Luxury goods Reduced visibility in the short term: be selective!
31st-May	SEB The kitchen is now bigger and well-equipped!
30th-May	SANOFI A more focused Sanofi is on the way
27th-May	Business Services : Worth being selective
23rd-May	SHIRE : A "rare" opportunity!
20th-May	CARREFOUR Tending towards premiumisation?

List of our Reco & Fair Value : Please click here to download



TMT

**Capgemini**

Price EUR85.02

**Feedback from Capital Markets Day**

Fair Value EUR97 vs. EUR96 (+14%)

**BUY**

Bloomberg	CAP.FP
Reuters	CAPP.PA
12-month High / Low (EUR)	90.2 / 69.0
Market Cap (EUR)	14,639
Ev (BG Estimates) (EUR)	15,678
Avg. 6m daily volume (000)	645.8
3y EPS CAGR	11.7%

We reiterate our Buy rating and fine-tune our DCF-derived fair value to EUR97 from EUR96 (on fx updates, especially EUR/USD and EUR/GBP) following the Capital Markets Day held yesterday in Munich (Germany). The positive key message from this event is that: 1). Management is increasingly confident on FY16 guidance and medium-term goals; 2). Capgemini is a bit ahead of schedule on synergies with Igate; 3). Acquisitions are at the agenda.

**ANALYSIS**

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.3%	9.3%	-2.4%	-0.7%
Softw. & Comp.	4.7%	3.1%	-2.2%	-0.8%
DJ Stoxx 600	0.8%	1.6%	-10.4%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,915	12,785	13,286	13,795
% change		7.3%	3.9%	3.8%
EBITDA	1,577	1,719	1,876	1,990
EBIT	1,022	1,229	1,396	1,510
% change		20.2%	13.6%	8.2%
Net income	798.9	939.5	1,049	1,131
% change		17.6%	11.6%	7.8%

	2015	2016e	2017e	2018e
Operating margin	10.6	11.3	12.0	12.4
Net margin	9.4	5.9	6.6	6.9
ROE	16.3	10.2	10.9	11.0
ROCE	17.2	12.8	14.5	16.0
Gearing	25.3	14.0	2.1	-8.6

(EUR)	2015	2016e	2017e	2018e
EPS	4.66	5.44	6.02	6.49
% change	-	16.8%	10.8%	7.8%
P/E	18.3x	15.6x	14.1x	13.1x
FCF yield (%)	5.6%	6.0%	7.0%	7.3%
Dividends (EUR)	1.35	1.50	1.60	1.70
Div yield (%)	1.6%	1.8%	1.9%	2.0%
EV/Sales	1.4x	1.2x	1.1x	1.0x
EV/EBITDA	10.4x	9.1x	7.9x	7.0x
EV/EBIT	13.0x	10.9x	9.3x	8.1x

- **Confidence in FY16 guidance.** Unsurprisingly, management reiterated FY16 guidance, i.e. sales up 7.5-9.5% at cc (up 2.5-4.5% lfl), a non-IFRS operating margin of 11.1-11.3% and a free cash flow above EUR850m. The strong double-digit decline in the Energy sector in the US is not expected to trigger significant restructuring, as many staff are on the sideline due to lack of contract and can be redeployed to more buoyant areas (High-tech, Automotive, Banking). In France, there is growth but management does not expect any acceleration going forward, while Sogeti's Application Services business is facing a significant re-skilling program over 2016-18. In Benelux, market conditions remain tough, but Capgemini is doing well in Digital & Cloud.

- **Medium-term levers remain intact.** Medium-term objectives are also unchanged, i.e. reaching 5-7% lfl revenue growth and a non-IFRS operating margin of 12.5-13% by the end of the decade. The achievement of these goals is not tributary to better economic conditions. On growth, Capgemini is already close to +5% excluding Brazil and Energy in the US. Digital & Cloud (22% of sales) grew by 28% in Q1 16 while management expected 20-25%, and a lot of initiatives have been launched (Applied Innovation Exchange, Digital Manufacturing) or reinforced (Cloud Choice, Cybersecurity, DCX), helped by the ecosystem of partners. The global account management program presented two year ago has been extended to 22 customers from 14. On the margin, all the levers to reach 12.5-13% remain unchanged (competitiveness, innovation, industrialisation), but service automation and industrialisation (up to machine learning and artificial intelligence) is becoming more than ever a top priority in areas where offshoring has reached maturity, is not possible or is irrelevant – essentially in application testing, managed services and BPO/BPS.

- **Synergies with Igate ahead of schedule.** This is not breaking news as management mentioned it with Q1 16 sales, but today it put some numbers on these synergies. When the acquisition of Igate was announced (April 2015), the goal was to generate over 3 years USD30-40m cost synergies from G&A cost optimisation, USD45-65m cost synergies from the operating model and USD100-150m revenue synergies. As of today, already USD40m G&A cost synergies have been delivered, while revenue synergies already amount USD60m (15 in Q4 15 + 45 in Q1 16), of which half were in Financial Services sector. The joint deal pipeline is above USD500m, with 7 deals above USD20m. Synergies on the operating model (people supply chain, etc) have started to be implemented, but will be visible on the P&L in H2 16 and 2017.

- **Update on the M&A strategy.** Management is not ready for a large acquisition before the integration of Igate has been completed and the acquisition-related debt has been retired, i.e. not before 2018-19. However, the company is ready for small acquisitions essentially focused on Cloud & Digital. Like for Oinio and Fahrenheit 212, the target would remain autonomous. That said, if a sizeable opportunity arises, the CFO Aiman Ezzat admits Capgemini could be more leveraged.

**VALUATION**

- Capgemini's shares are trading at est. 10.9x 2016 and 9.3x 2017 EV/EBIT multiples.
- Net debt on 31<sup>st</sup> December 2015 was EUR1,747m (net gearing: 25%).

**NEXT CATALYSTS**

H1 15 results on 27<sup>th</sup> July before markets open.

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## Insurance

**Munich Re**

Price EUR167.10

**The Ergo restructuring plan is not much attractive**

Fair Value EUR185 (+11%)

SELL

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	190.8 / 157.0
Market Cap (EURm)	26,912
Avg. 6m daily volume (000)	734.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	-8.9%	-12.4%	-9.5%
Insurance	2.3%	1.8%	-15.3%	-11.8%
DJ Stoxx 600	0.8%	1.6%	-10.4%	-5.9%

	2015	2016e	2017e	2018e
P/E	8.8x	10.8x	9.4x	8.7x
Div yield (%)	4.9%	4.9%	4.9%	4.9%

**ANALYSIS**

- Munich Re has presented its restructuring plan for its primary insurance subsidiary Ergo, which is currently loss-making and has generated below cost of capital returns for years.
- The aim is to invest c. EUR1bn up to 2020, mainly to modernise IT (inc. digitalisation). The plan is also to lower the cost base by c. EUR540m (c. EUR280m net) by 2020 (mainly by reorganising the sales force), leading to the loss of 1,800 jobs in Germany. A restructuring charge of EURO.3bn will be included in 2016 numbers (already included in Munich Re's revised net profit guidance of c. EUR2.3bn for 2016).
- Munich Re expects Ergo to contribute more than EUR500m to the group' results from 2021 at the latest. Taking into account the fact that Ergo's SCR is EUR5.2bn, the 5-year expected return is not higher than the cost of capital. Yet this is a lot of energy for a business that should remain below group's standards.
- We stick to our Sell recommendation on the stock: the dividend is solid but priced in, and earnings momentum remains poor (Ergo not exiting + challenging reinsurance environment).

**VALUATION**

- Based on our current estimates, our SOTP valuation is EUR185.

**NEXT CATALYSTS**

- Q2 numbers on 9<sup>th</sup> August.

[Click here to download](#)Olivier Pauchaut, [opauchaut@bryangarnier.com](mailto:opauchaut@bryangarnier.com)

TMT

**Numericable SFR**

Price EUR27.40

**Acquisition of 49% stake of NextRadioTV completed**

Fair Value EUR28.4 (+4%)

NEUTRAL

Bloomberg	NUM.FP
Reuters	NUME.PA
12-month High / Low (EUR)	46.5 / 27.0
Market Cap (EURm)	12,006
Avg. 6m daily volume (000)	260.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.2%	-21.1%	-20.9%	-18.2%
Telecom	1.4%	-2.8%	-12.2%	-7.1%
DJ Stoxx 600	0.8%	1.6%	-10.4%	-5.9%

	2015	2016e	2017e	2018e
P/E	18.9x	19.9x	15.7x	11.7x
Div yield (%)	19.7%	NM	NM	NM

**ANALYSIS**

- SFR yesterday completed the announced acquisition of **49% of NextRadioTV**, a French TV operator focusing on news and sports, with brands such as BFM, RMC and 01net.com. The proposed transaction values NextRadioTV at an EV of EUR741m. We estimate at +EUR300m the net debt impact of the transaction on SFR.
- Cross put/call agreement** with Alain Weil's News Participation at the Altice Content Luxembourg level is transferred from Altice to SFR. **The sale option granted by Alain Weil** for its 51% stake in NextRadio TV is also transferred to SFR.
- SFR will now **launch a number of new content services** among which SFR Sport 1 to 5 (broadcasting Premier League), and SFR News (with two new channels BFM Sport and BFM Paris). SFR Sport should be made available to other operators through a **wholesale offer**.
- Although we acknowledge some **editorial synergies** that make it possible to launch new services on **available distribution** platforms at **limited marginal costs**, and would help to **reduce churn**, we believe **value creation should remain limited** in a difficult French market for Pay TV. We see this transaction also as a way for Altice to **deleverage its holding entities and move cash up from its subsidiary**.

**VALUATION**

- We stick to our Fair Value of EUR28.4 with Neutral recommendation.

**NEXT CATALYSTS**

- SFR H1 results on August 9<sup>th</sup>.

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Thomas Coudry, [tcoudry@bryangarnier.com](mailto:tcoudry@bryangarnier.com)

TMT

**Sopra Steria Group**

Price EUR118.00

**Etienne du Vignaux appointed as CFO****Fair Value EUR130 (+10%)****BUY**

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	119.0 / 78.3
Market Cap (EURm)	2,413
Avg. 6m daily volume (000)	22.70

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.3%	17.5%	7.8%	9.0%
Softw.& Comp.				
SVS	4.7%	3.1%	-2.2%	-0.8%
DJ Stoxx 600	0.8%	1.6%	-10.4%	-5.9%
	2015	2016e	2017e	2018e
P/E	16.0x	13.2x	11.4x	10.5x
Div yield (%)	1.4%	1.6%	1.8%	1.9%

**ANALYSIS**

- **Yesterday evening, Sopra Steria announced the appointment of Etienne du Vignaux as CFO.** Etienne du Vignaux is 43 years old and began his career in 1997 at Rhône-Poulenc. In 2000, he joined Vivendi Telecom International, and in 2001 was appointed Deputy Director of the Fixed-Line & Internet division of Maroc Telecom, before joining SFR in 2005 as CFO of its Consumer division. In 2012, he was appointed Group CFO of SFR, which he left in 2015. He assumed his new role on 1st June 2016.
- **Reassuring news.** Since the resignation of Laurent Lemaire (formerly at Steria) in January 2016 to join Korian, Sopra Steria has had no CFO. However, since then, the CFO role was assumed by the deputy CFO – and former CFO of Sopra – François Lefebvre. Etienne du Vignaux was CFO at SFR when the CEO of its Consumer division was...Jean-Marc Lazzari, who is now CEO of Axway after being senior advisor for Sopra Steria's Chairman, Pierre Pasquier. The circle is complete.

**VALUATION**

- Sopra Steria's shares are trading at est. 9.7x 2016 and 8.0x 2017 EV/EBIT multiples.
- Net debt on 31<sup>st</sup> December 2015 was EUR530.8m (net gearing: 43%).

**NEXT CATALYSTS**AGM on 22<sup>nd</sup> June. H1 16 results on 28<sup>th</sup> July before markets open.[Click here to download](#)Gregory Ramirez, [gramirez@bryangarnier.com](mailto:gramirez@bryangarnier.com)

## BG's Wake Up Call

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### Stock rating

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 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.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside 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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BUY ratings 55.9%

NEUTRAL ratings 34.3%

SELL ratings 9.8%

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