8th June 2016

TMT

Ingenico Group

Price EUR108.60

Ingenico vs. VeriFone: clearly not the same story

Fair Value EUR144 (+33%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	127.6 / 87.9
Market Cap (EUR)	6,678
Ev (BG Estimates) (EUR)	6,629
Avg. 6m daily volume (000)	242.5
3y EPS CAGR	15.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.3%	15.2%	-10.5%	-6.8%
Softw.& Comp.	6.2%	5.0%	-1.3%	-0.7%
DJ Stoxx 600	4.4%	1.6%	-7.0%	-5.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,197	2,453	2,708	2,948
% change		*11.7%*	*10.4%*	*8.9%*
EBITDA	508	577	647	716
EBIT	436.5	502.9	566.0	627.9
% change		*15.2%*	*12.5%*	*10.9%*
Net income	273.7	325.0	376.7	422.9
% change		*18.7%*	*15.9%*	*12.3%*

	2015	2016e	2017e	2018e
Operating margin	19.9	20.5	20.9	21.3
Net margin	10.8	12.1	12.9	13.5
ROE	15.2	16.3	16.3	15.9
ROCE	16.5	19.5	22.4	25.3
Gearing	16.7	-2.8	-19.0	-32.2

(EUR)	2015	2016e	2017e	2018e
EPS	4.47	5.29	6.14	6.89
% change	*-*	*18.4%*	*15.9%*	*12.3%*
P/E	24.3x	20.5x	17.7x	15.8x
FCF yield (%)	4.1%	5.2%	6.0%	6.6%
Dividends (EUR)	1.30	1.65	1.95	2.23
Div yield (%)	1.2%	1.5%	1.8%	2.1%
EV/Sales	3.2x	2.7x	2.3x	2.0x
EV/EBITDA	13.6x	11.5x	9.7x	8.2x
EV/EBIT	15.9x	13.2x	11.1x	9.4x

As a first approach following VeriFone's Q2 and excluding company-specific difficulties in certain geographical areas, we expect 13-14% organic growth in Ingenico's Q2 sales (despite the loss of volumes from GlobalCollect's 1st client weighing on topline services growth until H1). We believe Ingenico is still the best investment vehicle to play the multi-channel payment and security themes. We maintain our Buy rating and FV of EUR144.

ANALYSIS

- **VeriFone released mixed Q2 2016 earnings at end-April (higher in revenue terms but short of expectations for earnings):** USD532m in non-GAAP revenue i.e. +9.8% Y/Y lfl, and USD0.47 in EPS (vs. Thomson Reuters consensus of USD530.1m and USD0.52 respectively, and guidance of USD530m and USD0.51-0.52 respectively). Q2 2016 top-line growth at cc by geographical area: North America worked out at +7.8% (mainly thanks to EMV migration and NFC adoption in the US); EMEA at +6.1%, Latin America +26.5% (in Brazil and Mexico in particular, it gained and, in some cases defended market share in the midst of escalated price competition); and Asia-Pacific at +8.3% (lower sales in China, as it is rebuilding its franchise and product portfolio, as expected). **As a first approach, following VeriFone's Q2 and excluding its company-specific difficulties in certain geographical areas, we expect 13-14% organic growth in Ingenico's Q2 sales** (despite the loss of volumes from GlobalCollect's 1st client weighing on topline services growth until H1).
- **In Q3 2016 (end-October), VeriFone expects non-GAAP revenue of USD515m with EPS of USD0.40, clearly below the Street (respectively USD551.7m and USD0.59).** This is justified by Q2 and some ongoing softness in its media sales, some delays in US EMV certifications for its SMB and multi-lane businesses and resulting H2 FY16 shift in its North America product mix, and also more intense competitive pricing dynamics and a slowdown in some emerging markets (notably in Latin America and Asia). **As such, the company has cut its guidance for FY16, reducing revenue from USD2,150-2,170m to USD2,100m (still projecting ~6% organic revenue growth for the year in North America) and EPS from USD2.21-2.24 to USD1.85** (cons. of USD2,157m and USD2.23 respectively). It is conducting a headcount restructuring, a review of underperforming businesses and reducing overall operating expense levels (it estimates that these activities in total will generate approximately USD30m of savings in 2017). **VeriFone's share price is likely to plummet today (-27.6% in after-hours trading), on lower Q3 revenue and EPS guidance compared with consensus expectations due to ongoing company-specific difficulties in some geographies.**
- **Ingenico already upgraded its FY organic sales growth guidance in Q1 but there is still room for further upward revisions during the year.** Management expects revenue to grow above or equal to 10% lfl (vs. our +14.3% lfl and consensus +10%) with an EBITDA margin of ~21% (vs. our 23.5% and consensus 21.5%). At the end of April, it confirmed its targets for double-digit growth in the US (the EMV migration is not over), further strong growth in Asia (notably in China where revenue growth will also be in double digits), while business should hold steady during the year in Latam (growth in new markets offsetting the slowdown in Brazil), growth in Europe should return to a more normal level but will remain strong. Lastly, the ePayments division should return to double-digit growth in H2 thanks to operational progress initiated in late 2015. As usual, at this stage of the year Ingenico is very cautious. **We clearly believe it gave again a floor in terms of Y/Y lfl sales growth and EBITDA margin** (the group probably integrated a worst-case scenario in Brazil).

VALUATION

- We maintain our **Buy recommendation** and **Fair Value of EUR144**.
- In FY16e, **we expect earnings growth of 25.1%e vs. a P/E of 20.5x over 2016e**. The group's transformation towards more recurring revenues is not yet priced in.

NEXT CATALYSTS

- **H1 earning results:** 26th July (after trading).

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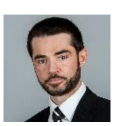

Analyst :
Richard-Maxime Beaudoux
33(0) 1.56.68.75.61
rmbeaudoux@bryangarnier.com

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA