24th June 2016

Sector View

Software and IT Services

Accenture Q3 FY16 results: neutral read-across for European IT Services companies

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	0.8%	0.1%	-0.9%	-3.2%
DJ Stoxx 600	1.0%	0.3%	-4.4%	-6.7%

*Stoxx Sector Indices

Companies covered

ALTEN		**SELL**	**EUR48**
Last Price	EUR54,69	*Market Cap.*	*EUR1,841m*
ALTRAN TECHNOLOGIES		**NEUTRAL**	**EUR13**
Last Price	EUR12,585	*Market Cap.*	*EUR2,212m*
ATOS		**BUY**	**EUR93**
Last Price	EUR81,84	*Market Cap.*	*EUR8,492m*
AXWAY SOFTWARE		**NEUTRAL**	**EUR20**
Last Price	EUR20,7	*Market Cap.*	*EUR431m*
CAPGEMINI		**BUY**	**EUR97**
Last Price	EUR86,97	*Market Cap.*	*EUR14,975m*
CAST		**NEUTRAL**	**EUR3,6**
Last Price	EUR3,35	*Market Cap.*	*EUR54m*
DASSAULT SYSTEMES		**SELL**	**EUR63**
Last Price	EUR69,15	*Market Cap.*	*EUR17,769m*
INDRA SISTEMAS		**NEUTRAL**	**EUR10**
Last Price	EUR9,783	*Market Cap.*	*EUR1,606m*
SAGE GROUP		**SELL**	**555p**
Last Price	623,5p	*Market Cap.*	*GBP6,730m*
SAP		**NEUTRAL**	**EUR73**
Last Price	EUR70,09	*Market Cap.*	*EUR86,106m*
SOFTWARE AG		**BUY**	**EUR40**
Last Price	EUR31,92	*Market Cap.*	*EUR2,522m*
SOPRA STERIA GROUP		**BUY**	**EUR130**
Last Price	EUR112,05	*Market Cap.*	*EUR2,291m*
SWORD GROUP		**BUY**	**EUR26**
Last Price	EUR24,7	*Market Cap.*	*EUR233m*
TEMENOS GROUP		**NEUTRAL**	**CHF52**
Last Price	CHF55,05	*Market Cap.*	*CHF3,827m*

Yesterday Accenture reported Q3 FY16 sales above consensus and EPS in line, while FY16 guidance has been fine-tuned slightly upwards for sales growth and EPS in order to reflect this quarter. Consulting has continued to enjoy strong momentum so far given healthy demand for digital transformation, at the expense of long-term Outsourcing contracts. In our view, this publication, which contains no major surprises, generates no significant catalysts for Capgemini and Atos.

ANALYSIS

- **Q3 FY16 sales above consensus and EPS in line**. For its Q3 FY16 (ending 31st May), Accenture has reported sales of USD8.43bn (+10% at cc or est. +8% lfl, vs. +12% at cc in Q2 FY16), slightly above the top-end of guidance (+7-10% at cc to USD8.1-8.35bn) and 2% ahead of the consensus figure (USD8.29bn), and diluted EPS up 8% to USD1.41 (consensus: USD1.41). Consulting was up 14% cc to USD4.62bn (vs. +18% in Q2 FY16), while Outsourcing was up 6% cc to USD3.81bn (vs. +6%). Consulting/Strategy showed a strong double-digit increase, Applications high single-digit, and Operations double-digit growth. Meanwhile, the Digital business (40% of sales) was up strong double-digit. North America was up 11% at cc (vs. +12%) with the eighth quarter of double-digit growth in the US, Europe was up 12% at cc (vs. +14%) with double-digit growth in the UK, Switzerland, Spain, Italy, Germany and France, and Growth Markets were up 6% at cc (vs. +10%) with double-digit growth in Japan and strong double-digit growth in China, India and Mexico, and modest growth in Brazil despite the current environment. By industry, the best performers were Products (+16%), and Financial Services and Health & Public Services (+12%). New bookings were up 7% to USD9.12bn (3% above consensus) or a book-to-bill of 1.08x (+9% in Consulting to USD4.93bn - book-to-bill 1.07x -, and +4% in Outsourcing to USD4.19bn - book-to-bill 1.10x).
- **FY16 guidance fine-tuned**. For FY16, sales are now expected to rise 9.5-10.5% at cc (vs. +8%/+10% at cc previously) (consensus: +9.8% at cc), while the company has fine-tuned its guidance to 14.6% from 14.6-14.7% for operating margin and to USD5.29-5.33 from USD5.21-5.32 for EPS (excl. gains from the sale of Navitaire), vs. consensus at USD5.32. Consulting continues to enjoy strong momentum, led by the ongoing shift in corporate IT spending priorities to the “new” at the expense of optimising the existing. For Q4 FY16 (August 2016), Accenture projects sales of USD8.25-8.5bn (+6%/+9% at cc) or in line with consensus (USD8.34bn or +7.1% at cc), Finally, Accenture’s global delivery network now accounts for 74% of staff (+3ppt), with GDN (global delivery network) headcount up 17% (vs. flat for onshore).
- **Neutral read-across for European IT Services companies**. As there is fundamentally no surprise in these results, we consider the publication neutral for Capgemini and Atos in the short term. It indicates that digital transformation remains the key growth driver, and Accenture’s investments in Digital, Cloud and Security have been the best way to gain market share so far. We consider that Capgemini is following the same path and that Atos has been catching up since 2014 - we forecast 3.8% lfl sales growth for Capgemini and +1.3% for Atos in 2016. Accenture’s management has not seen any sign of slowdown in digital transformation so far: the latter is a structural move which will fade out when companies will end their transformation programmes - although we may fear that “Brexit” could call some IT investments into question. The next stage of digital transformation is trending towards the Internet of Things, artificial intelligence, virtual agents, etc., and Accenture, Capgemini and Atos are investing in these areas - internally as well.

VALUATION

European IT Services companies: EV/EBIT multiples of 11.3x for 2016e and 9.4x for 2017e.

NEXT CATALYSTS

TCS’ Q1 FY17 results on 14th July. IBM’s Q2 16 results on 18th July after US markets close.

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BUY ratings 56,5% NEUTRAL ratings 34% SELL ratings 9,5%

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