

1st July 2016

TMT

Gemalto

Price EUR54.79

Oberthur and Gemalto still in the race to acquire Morpho, bids would be over EUR2bn

Fair Value EUR62 (+13%)

NEUTRAL

Bloomberg	GTO.FP
Reuters	GTO.PA
12-month High / Low (EUR)	83.1 / 49.8
Market Cap (EURm)	4,883
Avg. 6m daily volume (000)	435.3

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.3%	-15.7%	-0.9%	-0.9%
Softw.& Comp.				
SVS	-7.5%	-5.5%	-7.6%	-7.6%
DJ Stoxx 600	-5.1%	-2.3%	-9.8%	-9.8%

	2015	2016e	2017e	2018e
P/E	21.6x	15.0x	12.4x	11.4x
Div yield (%)	0.9%	0.9%	1.0%	1.1%

ANALYSIS

- **Safran held a board meeting yesterday in order to make a first short list among the tenders it received for Morpho** (its identity and security subsidiary). According to Les Echos, **five have been selected from two industrial groups** (Oberthur Technologies and Gemalto) **and three financial investors** (KKR in an alliance with the French entrepreneur Jacques Veyrat and Free CEO Xavier Niel; the consortium formed by Bain, Ardian and Predica; and the alliance of the funds CVC and Astorg). As a result, Carlyle and Eurazeo, Wendel associated with Goldman Sachs, PAI and Silverlake are no longer in the race. **Given the number of tenders, we are not surprised that these candidates offered more than the EUR2bn** raised several times in the newspapers by Safran CEO Philippe Petitcolin. Note that Apollo and Atos (initially named) have not bid. Safran's management has made no official comment yet. **A second betting round should occur only in the autumn (end September/end December).**
- As a reminder, **Morpho's business** is made of biometrics and smart cards, and the company generated **sales of ~EUR1.6bn and EBIT margin of 6%** (we have restated 2015 figure for the disposal of Morpho Detection in April 2016) i.e. half the size of Gemalto and half its EBIT margin level. **We believe a sale to a direct competitor would make sense, but it should be not so easy to integrate given the size and the profitability level...**

VALUATION

- **We reiterate our view: Oberthur Technologies and Gemalto** (Neutral, FV EUR62) **are the best placed in the race to acquire Morpho.** Indeed, they are industrial groups and they both have French roots (which is key as the French state holds 15.4% of Safran's share capital).

NEXT CATALYSTS

- **2nd betting round:** in the autumn.

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Distribution of stock ratings

BUY ratings 72%

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