

8th July 2016

Business Services

Sodexo

Price EUR97.37

9m revenue: In line on lfl and FY guidance confirmed

Fair Value EUR88 (-10%)

NEUTRAL

Bloomberg	SW FP
Reuters	EXHO.PA
12-month High / Low (EUR)	97.5 / 71.0
Market Cap (EUR)	14,970
Avg. 6m daily volume (000)	304.3

ANALYSIS

- **Organic growth in line with expectation:** total 9M revenue reached EUR15,709m (consensus EUR15,767m) up 3.7% on reported with lfl growth of 3.3% (2.5% excluding RWC) vs. 3.2% according to consensus after Q3 lfl revenue growth of 2.2% (2.7% in Q2 and 4.7% in Q1 including the contribution from the RWC).
- **No major change by segment or geography in On-site Services...:** OSS 9m revenue was EUR15,137m (consensus EUR15,161m) up 4.3% on reported with 3.2% on lfl (consensus 3.1%) i.e. 2.1% in Q3 after 2.5% in Q2 and 4.7% in Q1 (including RWC). By geography, no specific change on trends compared with previous quarter, with growth continuing to improve in NA (40% of OSS consolidated revenue) with lfl up 4% after 3.6% in H1, slight improvement in CE (29%) with lfl up 1.8% after 1.6% in H1, still negative trend in RoW (18%) down 3.9% (-4.4% in H1) largely impacted by remote sites which seems nevertheless to be stabilized. UK was up 18.1% after 27% in H1 with the impact of RWC.
- **...and disappointed on Benefits and Rewards:** With revenue of EUR576m, down 9.4% on reported after negative currency impacts of -15.3% but also lower lfl revenue growth up 5.7% in 9m after 6.3% in H1 i.e. which implies 4.1% in Q3. Consensus anticipation was 6.3% lfl revenue growth for 9m.
- **FY guidance confirmed:** Management confirmed its FY 2016 guidance i.e. lfl revenue growth of around 3% (our estimate is 2.9% and 3% from consensus) with around 8% growth in operating profit before forex and exceptional expenses related to the adaptation program (EUR100m) i.e. a margin improvement of 20bps.

VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBIT multiples of 13x and 11.1x compared with a median historical level of 10.9x and 2015-18 CAGR EBIT of 7.9%. 2016e and 2017e EPS capitalise at respectively 20.5x and 18.4x compared with a 2015-18 CAGR EPS of 8.5x.
- Share buyback program announced in November 2015 for EUR300m was completed in Q3.

NEXT CATALYSTS

- 9m revenue conference call at 8:30 am (Paris time)

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