

## Alten

Price EUR58.82

## Q2 2016 sales above our estimates; 2016 outlook reiterated

Fair Value EUR52 vs. EUR48 (-12%)

SELL

Bloomberg	ATE FP
Reuters	LTEN.PA
12-month High / Low (EUR)	58.8 / 40.4
Market Cap (EUR)	1,981
Ev (BG Estimates) (EUR)	1,933
Avg. 6m daily volume (000)	38.50
3y EPS CAGR	10.2%

We reiterate our Sell rating, but raise our DCF-derived fair value to EUR52 from EUR48 as we increase our adj. EPS ests. by 3% for 2016, 5% for 2017 and 6% for 2018. Yesterday evening, Alten reported Q2 2016 sales 3% above our forecasts with 10.6% lfl growth (+6.1% restated from calendar effects). Management is more confident than ever that it can deliver lfl revenue growth above 3.4% in 2016, and we estimate it at +6.3% (vs. +4.5%). We expect the share price to react positively near term.

## ANALYSIS

- Q2 2016 sales above our estimates.** Q2 2016 sales were up 17.7% to EUR449.2m (+10.6% lfl), or 3% above our est. (EUR434.1m), helped by a 4.5ppt tailwind related to the number of billable days (+2.5 days). Restated from calendar effects, lfl sales growth would have been +6.1%. In France, sales were up 9.4% (+7.4% lfl) to EUR213.3m (BG est.: EUR211.2m), with H1 +30% in Automotive, +4% in Aerospace, +7% in Finance/IT, +3% in Telecoms, -8% in Oil & Gas, -5% in Nuclear, +5% in Life Sciences. International operations were up 26.2% (+13.9% lfl) to EUR235.9m (BG est.: EUR222.9m), with, on a lfl basis, +0.5% in Germany, +14.5% in North America, +6.7% in Scandinavia, +24.7% in Spain, +19.3% in the UK, +15.1% in Belgium, +6.5% in the Netherlands, and +17.3% in Italy. By industry, in H1 on a lfl basis, Automotive was at +17%, Aerospace +5.5%, Energy/Life Sciences -2.2% (Oil & Gas -10%, Nuclear -7%, Life Sciences +17%), Telecoms slightly up, Finance/IT +18.3%, Defense +4.7%, and Rail/Marine +4%.
- Recruitment accelerating.** The utilisation rate in Q2 2016 was 92.1% (-0.2ppt vs. Q1 2016 and +0.1ppt vs. Q2 2015). On 30<sup>th</sup> June 2016, the headcount reached 22,900 (+1,600 in Q2), o/w 20,250 engineers (+1,500). Net staff hirings were 607 (100 in France, 507 abroad) which shows a clear acceleration compared to the 392 recruited in Q1 2016. what Alten expected and fully in line with net staff hiring of Q2 (250 engineers). Billable staff ratio is up 0.3ppt to 88.4% year-on-year.
- Update on acquisitions.** Alten announced the acquisition in Canada (Ontario) of a company that specialises in Telecom/IT networks with 30 engineers (EUR5m sales, 10% operating margin). The company has made 6 acquisitions year-to-date: 2 in Germany and Italy) for EUR20m sales and 135 engineers, 4 in North America and India for EUR46m sales and 965 engineers. Alten is reviewing several other potential targets, and does not rule out closing at least one deal by the end of Q3.
- 2016 outlook reiterated.** While the economic climate is improving for Alten, management anticipates lfl sales growth will accelerate in 2016 compared to the +3.4% reported for 2015. The acceleration of net staff hiring in H1 and the more aggressiveness on it makes us confident that Alten can exceed 6% lfl revenue growth in 2016. Due to the distribution of billable days this year (+2.5 in H1, -2.5 in H2), the operating margin is likely to be similar between H1 and H2, which means H1 may be up 1-1.5ppt to 10-10.5% while H2 may be down 0.5ppt in our view. In France, Alten estimates growth restated from calendar effects will stay at c. +4%. Brexit had no impact so far on the business, and in the UK Alten is mainly exposed to Oil & Gas. Germany is likely to keep suffering from the termination/transformation of AÜG contracts in Automotive - still 70% of sales in that industry are in that mode for Alten in Germany. Finally, the double-digit lfl growth seen in H1 in North America is sustainable for H2, driven by Automotive and Telecoms/IT.

	1 M	3 M	6 M	31/12/15
Absolute perf.	19.5%	8.1%	8.0%	10.1%
Softw.& Comp.	17.6%	6.1%	5.8%	3.4%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,541	1,718	1,845	1,976
% change		11.5%	7.4%	7.1%
EBITDA	164	188	206	225
EBIT	147.0	175.0	193.0	212.0
% change		19.0%	10.3%	9.8%
Net income	110.0	121.0	133.0	147.0
% change		10.0%	9.9%	10.5%

	2015	2016e	2017e	2018e
Operating margin	9.9	10.2	10.5	10.7
Net margin	6.8	7.0	7.2	7.4
ROE	16.3	16.3	15.9	15.4
ROCE	16.7	17.8	19.1	20.9
Gearing	-3.0	-7.0	-16.0	-26.0

(€)	2015	2016e	2017e	2018e
EPS	3.27	3.60	3.98	4.38
% change	-	10.1%	10.6%	10.1%
P/E	18.0x	16.3x	14.8x	13.4x
FCF yield (%)	5.0%	5.1%	6.5%	7.2%
Dividends (€)	1.00	1.00	1.00	1.00
Div yield (%)	1.7%	1.7%	1.7%	1.7%
EV/Sales	1.3x	1.1x	1.0x	0.9x
EV/EBITDA	12.0x	10.3x	8.9x	7.7x
EV/EBIT	12.9x	11.0x	9.6x	8.2x



## VALUATION

- Alten's shares are trading at est. 11.0x 2016 and 9.6x 2017 EV/EBIT multiples.
- Net cash position on 31<sup>st</sup> December 2015 was EUR17m (net gearing: -3%).

## NEXT CATALYSTS

H1 2016 results on 20<sup>th</sup> September after markets close.

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