

Atos

Price EUR79.14

H1 2016 results in line with our estimates, 2016 guidance raised

Fair Value EUR93 vs. EUR92 (+18%)

BUY

Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	83.1 / 62.7
Market Cap (EUR)	8,291
Ev (BG Estimates) (EUR)	7,424
Avg. 6m daily volume (000)	366.0
3y EPS CAGR	14.7%

We reiterate our Buy rating and have fine-tuned our DCF-derived fair value to EUR93 from EUR92 after lifting our adj. EPS ests. by 2% for 2016 and 1% for 2017. Yesterday evening, Atos reported H1 2016 results and free cash flow in line with our forecasts but slightly above the consensus average. 2016 guidance, which excludes Equens and KB SmartPay, is raised to revenues up 1.5-2% lfl and an op. margin of 9.2-9.5%. We expect the share price to react positively on the back of this publication.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.9%	1.5%	9.8%	2.2%
Softw. & Comp.	10.9%	6.6%	6.1%	2.6%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	10,686	11,776	12,200	12,478
% change		10.2%	3.6%	2.3%
EBITDA	1,334	1,537	1,684	1,767
EBIT	589.0	834.0	904.0	990.0
% change		41.6%	8.4%	9.5%
Net income	608.0	748.0	867.0	930.0
% change		23.0%	15.9%	7.3%

	2015	2016e	2017e	2018e
Operating margin	8.6	9.3	10.0	10.4
Net margin	4.0	5.2	5.7	6.2
ROE	9.9	13.3	13.2	12.9
ROCE	22.9	26.2	37.1	41.5
Gearing	-14.0	-20.0	-44.0	-53.0

(€)	2015	2016e	2017e	2018e
EPS	5.80	7.10	8.20	8.76
% change	-	22.4%	15.5%	6.8%
P/E	13.6x	11.1x	9.7x	9.0x
FCF yield (%)	4.8%	6.2%	7.4%	9.6%
Dividends (€)	0.90	1.10	1.40	1.55
Div yield (%)	1.1%	1.4%	1.8%	2.0%
EV/Sales	0.7x	0.6x	0.5x	0.4x
EV/EBITDA	5.8x	4.8x	3.6x	3.0x
EV/EBIT	8.4x	6.8x	5.0x	4.1x

• **H1 2016 results and free cash flow in line with our ests. but ahead of consensus.** For H1 2016, revenues were up 15.3% (+1.7% lfl) to EUR5.697bn or 1% above our forecast (EUR5,666m) and in line with consensus (EUR5,682m). Non-IFRS op. profit was up 23.1% to EUR444.4m or 7.8% of sales (+0.5ppt), or in line with our forecast (7.8%) and above the consensus (7.6%). Excluding the effect of pension plan optimisation in H1 2015, non-IFRS operating margin would have widened 1.3ppt. EBIT was up 64.2% to EUR324m (BG est.: EUR274.6m) after EUR97m restructuring costs (BG est.: EUR100m) and EUR51m of capital gains from the disposal of Visa Europe shares to Visa Inc, and attributable net profit was up 69.8% to EUR234m (BG est.: EUR181.1m). For Q2 2016, sales were up 1.8% lfl to EUR2,939m. Free cash flow was up 74.2% to EUR181m (incl. EUR71m from Worldline), or in line with our forecast (EUR180m) and 26% above consensus (EUR144m).

• **H1 2016 details. By business unit:** 1) Managed Services: sales +0.6% lfl to EUR3.221bn and op. margin up 1.2ppt to 8.7% (cloud + service automation); 2) Consulting & Systems Integration: sales +0.5% lfl to EUR1.584bn and op. margin up 0.1ppt (+0.7ppt ex-effect of pension plan optimisation) to 4.9%; 3) Big Data & Cyber-security: sales +12.8% lfl to EUR302m and op. margin up 0.1ppt to 14%; 4) After elimination of EUR26m in interco transactions with Atos, Worldline's sales were up 5.9% lfl to EUR589m with an op. margin up 1.9ppt to 15.6%. **IT Services by geography:** 1) on sales, the biggest contributor to growth was Germany (+4.9% lfl), followed by North America (+4.4% lfl), France (+3.4% lfl) and Other BUs (+2.2% lfl), while the UK and Benelux/Nordics were down 4.6% lfl and 5.5%; 2) in terms of margin, the improvement stemmed from Germany (+3.3ppt to 8.7%), North America (+2.3ppt to 10.1%) and France (+1.9ppt to 5.6%), whereas it lost 1.4ppt to 7.8% in Benelux/Nordics, 0.6ppt to 9.7% in the UK, and 0.7ppt to 5.7% in Other BUs.

• **Update on Unify.** The integration of Unify is ahead of plan on restructuring (871 departures in H1 vs. a full-year target of 792) and non-personnel cost savings (initial target: EUR50m). In the Software & Platforms business, which is for sale, the number of indirect sales partners was up 22% to 2,376, the number of cloud-based communication users rose 9% to 221,000 vs. an annual target of +20%, and the number of Circuit users reached 26,000 (end 2016 target: c. 500,000). The net loss in Software & Platforms stood at EUR31m, on track for a EUR10m profit for 2016.

• **2016 guidance raised.** Encouraged by H1 figures and a book-to-bill ratio of 1.11x over the first half (1.2x in Q2), Atos has raised 2016 guidance (excluding Equens and KB SmartPay) and now expects revenues up 1.5-2% lfl (vs. above +0.4%) or up at least 11% at cc (vs. up above 8%), a non-IFRS operating margin of 9.2-9.5% (vs. 9-9.5%), and free cash flow above EUR550m (vs. c. EUR550m) including a EUR135-140m contribution from Worldline after EUR12m in transaction costs related to the acquisition of Equens. Management expects a strong H2 with a very limited impact from Brexit given Atos' low exposure to discretionary IT spending in Financial Services in the UK.

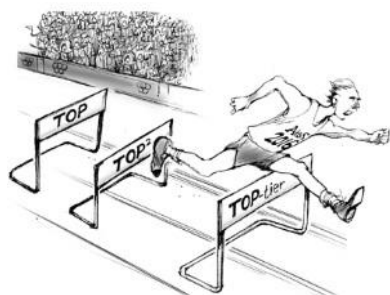
VALUATION

- Atos' shares are trading at est. 6.8x 2016 and 5.0x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR412m (net gearing: -10%).

NEXT CATALYSTS

Q3 2016 sales on 20th October before markets open.

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