

Cargemini

Price EUR83.32

H1 2016 results above expectations, 2016 guidance raised

Fair Value EUR95 (+14%)

BUY

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	89.0 / 69.0
Market Cap (EURm)	14,346
Ev (BG Estimates) (EURm)	15,384
Avg. 6m daily volume (000)	686.7
3y EPS CAGR	11.2%

This morning Cargemini reported H1 2016 results and free cash flow above expectations (op. margin was up 1.5ppt to 10.2%, vs. consensus at 9.8%), while organic free cash flow was positive. Given the H1 2016 performance, 2016 operating margin guidance is lifted to 11.3-11.5% from 11.1-11.3%. We expect the share price to react positively near term.

ANALYSIS

- H1 2016 results and free cash flow above expectations.** H1 2016 revenues rose 11.6% (+3.3% lfl) to EUR6,257m (BG est.: EUR6,269m or +3.4% lfl, consensus: EUR6,274m or +3.3% lfl), operating margin was up 31% to EUR638m (10.2% of sales, +1.5ppt) or 7% above our estimates (EUR597m/9.5%) and 3% ahead of the consensus (EUR615m/9.8%). EBIT was up 14% to EUR447m (BG est.: EUR482m; consensus: EUR492m) after EUR69m in restructuring and acquisition/integration costs (BG est. EUR60m) and EUR35m in amortisation of acquired intangibles, while net profit was up 26% to EUR366m (BG est.: EUR284m; consensus: EUR300m). In Q2 2016, Cargemini delivered sales up 3.8% lfl to EUR3,165m. Organic free cash flow improved by EUR117m to a positive EUR31m (vs. -EUR86m in H1 2015), whereas we were forecasting -EUR125m and the consensus was at -EUR36m.
- H1 2016 details. By service line:** 1) Other Managed Services (infrastructure management + BPO): sales +9.3% cc, op. margin 9.2% (+1ppt), 2) Application Services: sales +17.2% cc, op. margin 11.4% (+1.4ppt); 3) Technology & Engineering Services: sales +13.1% cc, op. margin 11.3% (+2.6ppt); 4) Consulting: sales +8.1% cc, op. margin 10.4% (+2.3ppt). **By geography,** performances were as follows: 1) France: sales +4.8% cc, op. margin 6.6% (+0.4ppt); 2) UK: sales +8.6% cc, op. margin 14.5% (+1.8ppt); 3) North America: sales +36.2% cc, op. margin 15.1% (+1.8ppt); 4). Rest of Europe: sales +6.9% cc, op. margin 8.9% (+1.1ppt); 5) APAC & LatAm: sales +10.3% cc, op. margin 3.8% (+0.6ppt). **By industry,** growth was led by Financial Services (+30.5% at cc due to the integration of Igate), then Manufacturing (+19.8% at cc), Telecom, Media & Entertainment (+17.1% at cc), and Consumer, Retail, Distribution & Transport (+14% at cc), while Government and Energy, Utilities & Chemicals were respectively up 1.7% and down 2.4% at cc.
- 2016 operating margin guidance raised.** For 2016, management has reiterated its goal to generate sales up 7.5-9.5% cc or an est. +2.5%/+4.5% lfl (BG est. and consensus: +3.8% lfl) and free cash flow above EUR850m (BG est.: EUR896m; consensus: EUR878m). However, it has raised non-IFRS operating margin guidance to 11.3-11.5% from 11.1-11.3% (BG est. and consensus: 11.3%). H1 2016 bookings amounted to EUR6,341m, up 21% cc. The utilisation rate was flat in Application Services (81%), up 1ppt in Technology & Engineering Services (83%) and flat in Consulting (71%). Finally, Cargemini's offshore staff now represents 55% of the total headcount.

VALUATION

- Cargemini's shares are trading at est. 10.7x 2016 and 9.2x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR2,278m (net gearing: 36%).

NEXT CATALYSTS

Conference call today at 8.30am CET / 7.30am BST / 2.30am EDT (France: +33 1 70 77 09 35; UK: +44 20 33 67 94 61; USA: +1 855 402 77 63).

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