

Cargemini

Price EUR82.65

H1 2016 results conference call feedback: tempered optimism

Fair Value EUR93 vs. EUR95 (+13%)

BUY

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	89.0 / 69.0
Market Cap (EUR)	14,231
Ev (BG Estimates) (EUR)	15,428
Avg. 6m daily volume (000)	692.4
3y EPS CAGR	11.4%

We reiterate our Buy rating, but reduce our DCF-derived fair value to EUR93 from EUR95 as we adopt a more cautious approach on the net pension provision - raising it by EUR330m due to fx and declining British interest rates. The op. margin guidance upgrade for 2016 (11.3-11.5% vs. 11.1-11.3%) reflects Cargemini's emphasis on industrialisation, innovation and offshoring, but this optimism is tempered by some caution on revenue growth in H2 from management amidst Brexit fears. As such, we shave our lfl revenue growth forecast for 2016 to 3.3% from 3.8%.

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.1%	-1.2%	-1.7%	-3.4%
Softw. & Comp.	17.6%	6.1%	5.8%	3.4%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

ANALYSIS

- Some caution on revenue growth over H2 due to Brexit.** Cargemini reiterated 2016 revenue growth guidance at cc (+7.5%/+9.5%, which implies +2.5%/+4.5% lfl) but does not anticipate at this stage an acceleration in lfl revenue growth for H2 compared to the +3.3% reported for H1, while consensus and our forecast was +3.8%. Management adopted a more cautious approach regarding Brexit. Although no slowdown has been noticed so far, it fears some customers in Financial Services in Europe - and particularly in the UK - decide to reduce discretionary spending in Q4 2016. Instead, it would have been more confident to deliver 0.5ppt additional growth over H2. In addition, growth in Q2 in North America has been hampered by almost a 40% revenue fall in Energy & Utilities (17-18% of US revenues), but it expects the situation will be back on track with Q4 regional revenues up mid-single digit lfl. France delivered outstanding growth in Q2 (+7.7% lfl) but has helped by calendar effects, so H2 is likely to be more in line with a low-to-mid single rate. In Q2 Asia Pacific, Germany and Nordic countries were up double-digit, but Germany, which has outperformed Europe for a while, is unlikely to sustain such a high growth rate going forward. NB. Digital & Cloud was up 32% in H1 and accounted for 28% of revenues.
- Margin drivers delivering in an impressive way.** H1 2016 results clearly showed how impressive Cargemini's operating levers are. The operating margin guidance increase is due to the constant improvement of the offshore leverage (55% of headcount vs. 48% thanks to the integration of lgate) and significant progress in that area in continental Europe (+4ppt to 37% with 31% in France, 60% in Germany, 73% in North America and 80% in the commercial sector in the UK), the confirmation of synergies with lgate ahead of schedule, the acceleration of the services industrialisation (testing, business services, migrating the resources supply chain through artificial intelligence), and the expansion of innovative offers especially in Digital & Cloud. The gross margin grew by 1.4ppt in H1 2016 and this indicator will be key for reaching 12.5-13% operating margin by 2018 or 2019. As expected, Cargemini invested 0.2ppt of its revenues in additional innovative offers in H1, it still expected a 0.3ppt for the full-year and further investment is expected for 2017 and beyond. The French margin is likely to improve significantly over H2. In Brazil, recent staff cuts (-500 over H1) are likely to be beneficial for the operating margin in that country for 2017.
- Other topics.** Fx in the UK and Canada impacted the net pension provision by EUR354m in H1, and further impact is likely for the full-year given Brexit and the long-term interest rate decline in the UK. In addition, M&A is still on the agenda, but as the management confirmed it during the capital markets day in June there will be small acquisitions essentially in Digital & Cloud. No bigger acquisition is projected before the integration of lgate will be completed, i.e. 2017-18.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,915	12,655	13,028	13,534
% change		6.2%	3.0%	3.9%
EBITDA	1,577	1,723	1,857	1,971
EBIT	1,022	1,231	1,399	1,513
% change		20.4%	13.7%	8.1%
Net income	798.7	948.9	1,042	1,122
% change		18.8%	9.8%	7.7%

	2015	2016e	2017e	2018e
Operating margin	10.6	11.4	12.1	12.5
Net margin	9.4	6.1	6.8	7.1
ROE	16.3	11.2	11.8	11.8
ROCE	17.2	13.4	14.9	16.4
Gearing	25.3	17.3	4.4	-7.1

(EUR)	2015	2016e	2017e	2018e
EPS	4.66	5.49	5.98	6.44
% change	-	18.0%	9.0%	7.7%
P/E	17.8x	15.1x	13.8x	12.8x
FCF yield (%)	5.8%	6.4%	7.2%	7.5%
Dividends (EUR)	1.35	1.50	1.60	1.70
Div yield (%)	1.6%	1.8%	1.9%	2.1%
EV/Sales	1.3x	1.2x	1.1x	1.0x
EV/EBITDA	10.1x	9.0x	7.8x	6.9x
EV/EBIT	12.7x	10.7x	9.2x	8.0x



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 EUR2,270m (net gearing: 36%).

NEXT CATALYSTS

Q3 16 sales on 26th october before markets open.

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