Ingenico Group

Price EUR109.85

Still a Buy from a medium/long term horizon but some uncertainties in the very short term

Fair Value EUR130 vs. EUR144 (+18%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	127.6 / 87.9
Market Cap (EURm)	6,755
Ev (BG Estimates) (EURm)	6,737
Avg. 6m daily volume (000)	277.7
3y EPS CAGR	14.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.4%	9.9%	2.8%	-5.7%
Softw.& Comp.	10.9%	6.6%	6.1%	2.6%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,197	2,388	2,649	2,883
% change		*8.7%*	*10.9%*	*8.8%*
EBITDA	508	525	609	692
EBIT	436.5	453.7	529.9	605.5
% change		*3.9%*	*16.8%*	*14.3%*
Net income	273.7	297.1	353.3	409.2
% change		*8.5%*	*18.9%*	*15.8%*

	2015	2016e	2017e	2018e
Operating margin	19.9	19.0	20.0	21.0
Net margin	10.8	11.2	12.3	13.4
ROE	15.2	14.9	15.6	15.8
ROCE	16.5	17.6	20.9	24.4
Gearing	16.7	-1.0	-16.8	-30.2

(EUR)	2015	2016e	2017e	2018e
EPS	4.47	4.84	5.76	6.67
% change	-	*8.3%*	*18.9%*	*15.8%*
P/E	24.6x	22.7x	19.1x	16.5x
FCF yield (%)	4.1%	4.7%	5.5%	6.3%
Dividends (EUR)	1.30	1.49	1.81	2.15
Div yield (%)	1.2%	1.4%	1.7%	2.0%
EV/Sales	3.2x	2.8x	2.4x	2.1x
EV/EBITDA	13.8x	12.8x	10.5x	8.7x
EV/EBIT	16.1x	14.8x	12.1x	10.0x

ING has posted mixed H1 2016 earnings (revenue below our forecasts, EBITDA margin slightly below and attrib. net profit in line). The group has maintained its FY 2016 targets (sales of >=+10%, EBITDA margin of ~21% and FCF/EBITDA of ~45%), notably because of Brazil (economic situation and high comps). We have cut our 2016-18 EPS sequence by 7.4% on average to be more conservative. As we were the highest of the consensus, our revision is more aggressive than the consensus is likely to be. We remain convinced that Ingenico is a Buy from a mid/long-term perspective (its 2020 strategic plan is achievable and it is one of the few players to have an omnichannel offer, which is the future of the payment industry), but we have to integrate a bit of uncertainty in the very short term (2016 should be a transition year). We maintain our Buy rating but lower our FV from EUR144 to EUR130.

ANALYSIS

- **H1 revenue came out at EUR1,133m, up +7% Y/Y and +12% lfl** (BG EUR1,159.8m with +14% lfl; consensus EUR1,159.8m with +12.6% lfl). Excluding Brazil, organic growth would have been +15%. **Lfl breakdown by geographies:** Europe-Africa +15%, APAC & ME +32%, Latam -14% (Brazil impact), North America +14% (US +20%), ePayments +1%. **Lfl breakdown by business:** Payment Terminals +15% (gross margin of 46.7%, -110bp: unfavourable product mix), and Payment Services +5% (gross margin of 35.3%, -290bp: consumer mix and rising expenditure to enhance its ePayments platforms) incl. a return to growth for ePayments in Q2. Regarding profitability, ING delivered **EBITDA of EUR244m i.e. margin down 210bp at 21.5%** (BG 22%; cons. 21.5%), adjusted EBIT of EUR184.4m i.e. margin down 230bp at 16.3% and **attrib. net profit stable Y/Y at EUR122.1m** (BG: EUR123m; cons.: EUR124m). **The financial position was sound** with FCF of EUR64m, net debt of EUR232m (gearing of 15%) and a net debt/EBITDA multiple of 0.5x.
- **Management has reiterated its FY 2016 guidance** for organic revenue growth above or equal to 10%, EBITDA margin of ~21% and FCF/EBITDA of ~45%. **It confirmed that: 1/** the ePayments division should return to double-digit growth in H2; **2/** it still expects double digit growth in the US over FY16 (i.e. ~+10%); **3/** it continues to gain market share with US largest retailers and tackle new verticals, the mPOS offer is ramping up; **4/** business should remain robust in Europe and Asia (notably in China); **5/** the potential slowdown at US distributors (they ordered strongly in Q3, Q4 and Q1) was already anticipated in FY guidance; and **6/** a worst-case scenario was already integrated for Brazil.
- **Although ING outperformed its FY guidance in its first half-year period despite a tough comparison base** (loss of volumes from GlobalCollect's 1st client weighing on topline services growth until H1), **we acknowledge that our FY assumptions are now too bullish in view of current uncertainties** (we were not betting on a worst-case scenario in Brazil, no real bottleneck in EMV certification in the US for Ingenico and were expecting some M&A deals by the end of this year). As a result, **we prefer to cut our estimates to feel more comfortable and integrate some lack of visibility on these latter topics, especially in the short term.** We now see lfl 2016 revenue growth of +12.1% (vs. +14.3% before, cons. 12%) and EBITDA margin of 22% (vs. 23.5% before, cons. 21.5%), i.e. close to the current consensus.

VALUATION

- **Overall, we have cut our 2016-2018e EPS sequence by 7.4% on average** (-8.6% in 2016e, -6.2% in 2017e, and -3.2% over 2018e). **As we were the highest of the consensus, our revision is obviously more aggressive than the consensus is likely to be**.
- **The share price is likely to come under pressure today but could offer a good entry point from a mid/long-term horizon perspective.** We maintain our **Buy rating** and lower our **Fair Value from EUR144 to EUR130** (average of a DCF valuation and peer comparison).

NEXT CATALYSTS

- **Q3 revenue:** 26th October 2016. *Click here to download*

Analyst :
Richard-Maxime Beaudoux
33(0) 1.56.68.75.61
rmbeaudoux@bryangarnier.com

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA