

Sopra Steria Group

Price EUR101.40

H1 2016 operating margin slightly above expectations; 2016 guidance reiterated

Fair Value EUR127 (+25%)

BUY

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	119.0 / 84.5
Market Cap (EURm)	2,076
Ev (BG Estimates) (EURm)	2,568
Avg. 6m daily volume (000)	28.00
3y EPS CAGR	14.3%

This morning, Sopra Steria reported H1 2016 results slightly ahead of expectations with an operating margin of 7.1%. Net debt, at EUR720m or 2.2x EBITDA, is above our forecast and consensus, due to acquisitions, WCR change and cash taxes. 2016 company guidance is reiterated, as well as 2017 objectives. We do not expect significant share price reaction in the short term.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.7%	-1.6%	-0.9%	-6.4%
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	3,584	3,733	3,896	4,070
% change		4.2%	4.3%	4.5%
EBITDA	295	340	382	412
EBIT	152.6	249.3	288.7	318.0
% change		63.4%	15.8%	10.1%
Net income	150.9	180.0	207.6	225.6
% change		19.3%	15.4%	8.7%

	2015	2016e	2017e	2018e
Operating margin	6.8	7.8	8.5	8.9
Net margin	2.4	4.0	4.5	4.7
ROE	6.8	11.0	11.8	11.7
ROCE	11.0	11.2	12.6	13.4
Gearing	43.0	36.4	24.3	14.4

(€)	2015	2016e	2017e	2018e
EPS	7.38	8.78	10.13	11.01
% change	-	19.1%	15.4%	8.7%
P/E	13.7x	11.5x	10.0x	9.2x
FCF yield (%)	2.4%	5.1%	7.9%	8.8%
Dividends (€)	1.70	1.90	2.10	2.30
Div yield (%)	1.7%	1.9%	2.1%	2.3%
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	8.8x	7.6x	6.4x	5.6x
EV/EBIT	10.6x	8.9x	7.4x	6.4x

- H1 2016 operating margin slightly above expectations.** For H1 2016, sales were up 6.3% (+5.4% lfl) to EUR1,878.8m, or 1% above our forecast (EUR1,853m) but in line with consensus (EUR1,870m). The operating margin was up 25% to EUR134.2m or 7.1% of sales (+1ppt), while we expected EUR129.3m or 7% of sales (consensus: EUR131.4m or 7% of sales). EBIT was up 56.1% to EUR103.2m (BG est. EUR108.1m; consensus: EUR104.2m) after EUR7.9m restructuring costs (vs. EUR30.4m in H1 2015), and net profit was up 100.7% to EUR54m (BG est.: EUR60.3m; consensus: EUR56m). Q2 2016 sales were up 7.4% (+7.8% lfl) to EUR965.6m.
- Net debt above expectations.** Net debt on 30th June 2016 was EUR719.6m, above our estimate (EUR650m) and consensus (EUR636m), given a free cash flow of -EUR100.6m or -5.3% of sales due to WCR change (EUR172.8m), acquisitions (EUR104.7m vs. BG est. EUR84m) and cash taxes (EUR33m, vs. EUR6.1m in H1 2015). The net debt/EBITDA ratio stands at 2.2x, up from 1.8x end 2015 but below the limit fixed by covenants (3x).
- H1 2016 details by Business Unit.** 1). France: sales EUR778.8m (+9.5% lfl, with Q2 +11.4% lfl), op. margin 8.6% (+0.6ppt), with Consulting & Systems Integration EUR677.6m (+11.5% lfl – strategic accounts up 13%, Consulting up 22%, high utilisation rate) and 9.8% (+0.2ppt), and Infrastructure & Security Services (I2S) EUR101.2m (-2.1% lfl, with -1.3% lfl in Q2) and 0.5% (+1ppt); 2). UK : sales EUR483.4m (-0.9% lfl, with Q2 +0.6% lfl), op. margin 7.3% (+0.9ppt) with Government (68% of UK sales) up 0.8% lfl and the commercial sector down 4% lfl; 3). Other Europe: sales EUR355.6m (+5.7% lfl, with Q2 +7.7% lfl), op. margin 4.4% (+3.8ppt), with Spain, Italy and Benelux up 10%+ lfl and Germany significantly improving its profitability (3.4%, vs. -4.5% in H1 2015); 4). Sopra Banking Software: sales EUR160.2m (+7.4% lfl, with Q2 +13.7% lfl), op. margin 4.3% (-2.9ppt) given strong investments in R&D (+EUR6m); 5). Other Solutions: sales EUR100.7m (+1.7% lfl, with Q2 +2% lfl), op. margin 9.2% (+0.4ppt), with some deals postponed to H2.
- 2016 guidance reiterated.** For 2016, management still anticipates +3%/+5% lfl revenue growth (BG est. +4.4%, consensus +3.7%) with an operating margin above 7.5% (BG est. 7.8%; consensus: 7.7%) and strong free cash flow improvement (BG est. EUR100m, vs. EUR49.3m in 2015). 2017 objective have been reiterated as well, i.e. revenues of EUR3.8-4bn and an operating margin of 8-9%. In France, the I2S business is expected to return to positive organic growth in 2017. On its side, Sopra Banking Software remains managed for delivering 10% operating margin for 2017.

VALUATION

- Sopra Steria's shares are trading at est. 8.9x 2016 and 7.4x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR719.6m (net gearing: 69%).

NEXT CATALYSTS

Analysts' meeting today at 9am CET / 8am BST / 3am EDT in Paris (Shangri-La Hotel - 10 avenue d'Iena).

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