

Gemalto

Price EUR58.21

Mixed H1 earnings, unattractive momentum as long as the FY17 guidance is maintained

Fair Value EUR62 (+7%)

NEUTRAL

Bloomberg	GTO.FP
Reuters	GTO.PA
12-month High / Low (EUR)	73.9 / 49.8
Market Cap (EUR)	5,233
Ev (BG Estimates) (EUR)	5,313
Avg. 6m daily volume (000)	380.1
3y EPS CAGR	23.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	4.9%	5.7%	5.3%
Softw. & Comp.	1.6%	4.9%	11.2%	3.8%
DJ Stoxx 600	0.3%	-1.9%	4.7%	-6.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,122	3,244	3,406	3,610
% change		3.9%	5.0%	6.0%
EBITDA	345	513	609	677
EBIT	313.3	438.9	529.0	588.5
% change		40.1%	20.5%	11.3%
Net income	226.3	329.7	396.7	432.8
% change		45.7%	20.3%	9.1%

	2015	2016e	2017e	2018e
Operating margin	10.0	13.5	15.5	16.3
Net margin	4.2	8.9	10.5	11.1
ROE	5.4	10.5	11.7	11.8
ROCE	7.1	10.0	12.1	13.4
Gearing	13.4	2.9	-7.5	-16.7

(EUR)	2015	2016e	2017e	2018e
EPS	2.53	3.66	4.41	4.81
% change	-	44.6%	20.3%	9.1%
P/E	23.0x	15.9x	13.2x	12.1x
FCF yield (%)	3.3%	5.9%	7.2%	8.1%
Dividends (EUR)	0.47	0.51	0.55	0.59
Div yield (%)	0.8%	0.9%	0.9%	1.0%
EV/Sales	1.8x	1.6x	1.5x	1.3x
EV/EBITDA	16.1x	10.4x	8.2x	6.9x
EV/EBIT	17.8x	12.1x	9.5x	7.9x



Gemalto posted mixed H1 earnings results, with sales and profit from operations (PFO) roughly in line with our estimates and those of the consensus but attributable net profit 20% below expectations. Management has confirmed its vague 2016 guidance (+1.5% gross margin, accelerating its PFO expansion towards its 2017 objectives). We expect momentum to be unattractive as long as management maintains its 2017 PFO target which is out of reach. Conf. call today at 3pm (Paris time).

ANALYSIS

- Mixed H1 earnings: revenue came in at EUR1,495.2m (-0.3% Y/Y; +0.5 lfl: Q1 -2.5% and Q2 +3%) vs. BG EUR1,480m and consensus EUR1,491m.** Sales broke down into Payment & Identity EUR937m (+14% lfl: Q1 +13% and Q2 +11%), Mobile EUR552m (-13% lfl incl. SIM at -26%: Q1 -20% incl. SIM at -34%, and Q2 -5% incl. SIM at -16% i.e. end of the negative Softcard comparison base but still a double digit decline, lower demand in Latam and Asia, and no software upgrade), and Patents & Others EUR1m (-92% lfl: Q1 -29% and Q2 -94%). **The gross margin was 39.0%** (vs BG: 39.1%; consensus: 39.3%), driven mainly by the Payment & Identity segment and in particular the Payment and Enterprise businesses. **PFO reached EUR171.7m, up 90bp to a margin of 11.5%** (vs BG: EUR170m, i.e. margin of 11.5%; cons.: EUR169m, i.e. margin of 11.3%) breaking down into P&I 12.6% (+340bps), Mobile 10.6% (-50bp) and Patents & Others -EUR5.4m (vs. a margin of 63% last year). After stock-based compensation, Gemalto generated a **current EBIT of EUR151m (margin of 10.1%)** vs our EUR150.3m (margin of 10.2%). Note that the group booked EUR14.1m in non-current operating charges during the period (from IT and facilities integration costs of SafeNet and Trüb and from the implementation of a new ERP). **IFRS attributable net profit came to only EUR57.7m, i.e. margin of 3.9%** (vs BG: EUR72.7m, i.e. margin of 4.9%; cons.: EUR72m, i.e. margin of 4.8%). The main difference with our expectations was the non-recurring loss relating to associates (impairment of -EUR16.9m on Goldpac Group in China). **The company generated a FCF of EUR64m (FCF/current EBIT of 42%) and a net debt of EUR334m** (gearing of 13%).
- Management has confirmed its vague 2016 guidance:** "to generate a +1.5% gross margin increase, accelerating its profit from operations expansion towards its 2017 objectives" (i.e. above the 10.4% growth reported last year).
- What are our current 2016 estimates?** We have a FY16 revenue of EUR3,243.8m (+3.0% lfl), PFO of EUR483.3m (margin of 14.9%), current EBIT of EUR438.9m (margin of 13.5%) and attributable net profit of EUR288.5m (margin of 8.9%).
- What about the FY17 PFO target?** Philippe Vallée (COO, and new CEO as of 1st September) will have to take on guidance for over EUR660m in PFO for next year. This target looks increasingly tight from one publication to the next since it suggests a strong acceleration in the following two years, namely a 2015/17 CAGR of at least +25%. Even with the dynamics registered in payment, M2M, e-government and cybersecurity, the business lost in the SIM segment (very profitable) has a poor momentum. **We have a FY17e PFO at EUR580m, i.e. more than 12% below the guidance.**

VALUATION

- Waiting for the conference call today at 3pm, we maintain our Neutral rating and FV of EUR62** (average between a SOTP, a DCF, and 3-year historical multiples).
- We do not see a positive risk/reward on the stock.** The current year is very back-end loaded, visibility is poor, Olivier Piou will have to ensure a smooth succession with Philippe Vallée (effective as of 1st September), we still see too many risks in the SIM and related services business, and we do not see a potential acquisition of Morpho as positive from a financial point of view (it would be expensive and not easy to integrate given its size and its profitability level: revenue of ~EUR1.6bn and EBIT margin of 6%). **We expect momentum to be unattractive as long as management maintains its 2017 PFO target which is out of reach.**

NEXT CATALYSTS

- Gemalto's Q3 revenue:** on 28th October (before trading). [Click here to download document](#)



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