Worldpay

Price 301.40p

H1 earnings results above expectations but not to extrapolate on H2

Fair Value 278p (-8%) **NEUTRAL**

Bloomberg	WPG LN
Reuters	WPG.L
12-month High / Low (p)	316.8 / 240.0
Market Cap (GBP)	6,028
Ev (BG Estimates) (GBP)	7,315
Avg. 6m daily volume (000)	7,448
3y EPS CAGR	32.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.5%	16.1%	9.4%	-1.9%
Softw.& Comp.	10.6%	10.3%	16.9%	3.1%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

YEnd Dec. (GBPm)	2015	2016e	2017e	2018e
Sales	3,963	4,240	4,580	4,946
% change		*7.0%*	*8.0%*	*8.0%*
EBITDA	302	392	496	562
EBIT	340.5	366.8	413.1	470.9
% change		*7.7%*	*12.6%*	*14.0%*
Net income	138.4	226.2	266.4	321.5
% change		*63.4%*	*17.8%*	*20.7%*

	2015	2016e	2017e	2018e
Operating margin	8.6	8.7	9.0	9.5
Net margin	-0.8	3.4	4.7	5.9
ROE	-4.4	17.5	21.7	23.7
ROCE	12.1	14.5	15.5	17.2
Gearing	212.4	158.2	112.1	71.7

(p)	2015	2016e	2017e	2018e
EPS	6.92	11.31	13.32	16.08
% change	-	*63.4%*	*17.8%*	*20.7%*
P/E	43.6x	26.7x	22.6x	18.7x
FCF yield (%)	0.5%	1.5%	3.7%	4.6%
Dividends (p)	0.00	1.78	2.69	3.65
Div yield (%)	NM	0.6%	0.9%	1.2%
EV/Sales	1.9x	1.7x	1.6x	1.4x
EV/EBITDA	24.6x	18.6x	14.4x	12.3x
EV/EBIT	21.9x	19.9x	17.3x	14.7x

Worldpay has posted H1 earnings results higher than expected, but not to extrapolate on H2. Overall, Worldpay's fundamentals are still not very impressive for the payments sector, above all in profitability and financial situation. Management remains confident in its prospects over the medium term (net revenue growth of ~+9-11% CAGR over the medium/long term) which remains unchanged. We see no upside even when looking just at EV/EBITDA until 2017e (i.e. until the end of its investments in platforms). We maintain our Neutral rating and FV of 278p. Conf. call at 8:00am.

ANALYSIS

- **Traps to avoid when analysing figures:** it seems essential to us to **calculate Worldpay's profitability on gross sales and not net sales**, which artificially boost its margin rate and make comparison with other European players in the sector inappropriate. Finally, we prefer **to look at the real EBITDA reported rather than underlying EBITDA**. Worldpay tends to communicate on underlying EBITDA, but in our view, the numerous negative items that this excludes (cost of platform separation, reorganisation, costs linked to acquisitions: 25.5% of 2015 underlying EBITDA and 16.4% in H1 16) should be adjusted for solely at the EBIT level (underlying EBIT). This is what the group's rivals do and what we have been used to for companies in the sector.

- **H1 2016 earnings: gross revenue of GBP2,135.6m** (+10.1% Y/Y, lfl not available) vs. our GBP2,075.7m and cons. of GBP2,059.5m, including net revenue of GBP539.7m (+15.9% Y/Y, +14%e at cc and lfl not available) vs. our GBP512.6m and cons. of GBP525.6m. The volume of transactions processed (which is the key indicator for PSPs in our view) rose by 10.5% to GBP217.1m. In terms of profitability, **EBITDA reached GBP182.3m** i.e. a **margin of 8.5%** +90bps Y/Y (BG: GBP169.2m i.e. margin of 8.2%; cons.: GBP178.4m i.e. margin of 8.7%). Worldpay generated a **current EBIT of GBP181.5m i.e. a margin of 8.5%, +10bps** (BG: GBP156.4m, margin of 7.5%; cons.: GBP162.3m, margin of 7.9%), and **EBIT of GBP121m** i.e. a margin of 5.7%, +180bps (BG: GBP99.2m, margin of 4.8%; cons.: GBP106m, margin of 7.9%), still penalised by the technological separation from RBS and reorganisation/restructuring costs (capex at 3.8% of gross sales). In all, its **net profit came in at GBP58.6m** (BG: GBP51.9m; cons.: GBP55.1m). The FCF was GBP82.9m (FCF/underlying EBIT of ~46%) with still a **huge net debt of GBP1,373.2m i.e. a gearing of 187%** (cons.: GBP1,408.1m).

- **For H2, Worldpay: 1/** expects the very strong Global eCom acquiring and treasury management performance seen in H1 to moderate to more normal growth levels in the remainder of the year; **and 2/** doesn't expect an incremental benefit to Worldpay UK from the reduction in interchange costs (these benefits mainly occurred in H2 2015 and H1 2016). **The company maitained its medium-term guidance**, namely **net revenue growth of ~9-11% CAGR** and **stronger operating leverage and cash flow from H2 2017 onwards**. Maiden interim dividend of 0.65p/share.

- **Worldpay's fundamentals are not very impressive for the payments sector** (in terms of lfl sales growth as well as profitability and free cash flow), due to: **1/** its strong positions in physical merchants in the UK and the US (~80% of its 2015 sales and 73% of H1 2016), which are difficult markets, **2/** a lack of critical mass in the US, which prevents it from generating a strong leverage effect (fragmented market), **3/** investments in its proprietary platforms that have over-run for some years and are continuing to weigh on its figures (this should be the case until H1 2017e) and **4/** an ensuing low transformation rate for underlying EBIT into free cash flow compared to European peers. **In contrast, the group's strengths lie in its: 1/** historically resilient organic sales growth (in line with the change in the number of electronic transactions and the high client retention rate), **2/** clear leadership position in physical payments in the UK (size effect enabling it to outperform local GDP growth), **3/** pioneering status in e-commerce with a leadership position in this high-growth market (in Europe and throughout the world) and **4/** focus on innovation and development (investment in the technological platforms, acquisitions and recruitment etc.), which should end up paying off over the medium term (operating leverage and then in terms of FCF).

VALUATION

- We maintain our **Neutral rating and our FV to 278p**. Despite our far-from-pessimistic estimates, the share is not cheap, even taking into account only EV/EBITDA (it trades at 18.6x in FY16e whereas in our SOTP it deserves 16.1x taking into account a 12.5% premium on the UK).

- We believe it will only be reliable **to reason in PEG once investment in the platforms is complete, namely as of 2018e**. The share is currently trading with an EV/EBITDA comparable to that of a pure-player in ecommerce whereas ecommerce is only 27% of its sales.

NEXT CATALYSTS

- **Advent International and Bain Capital have 564.5m shares, i.e. 8.2% of Worldpay share capital.** The lock-up period ended on 10th July. In our view, it is likely that these private equities **sell their entire stakes in H2.**

Main financial items from 2014 to 2017e

GBPm	2014 (reported)	2015 (reported)	BG 2016e	Cons. 2016e	BG 2017e	Cons. 2017e
Revenue	**3,626.6**	**3,963.0**	**4,240.4**	**4,302.6**	**4,579.6**	**4,650.4**
Y/Y change	*7.3%*	*9.3%*	*7.0%*	*8.6%*	*8.0%*	*8.1%*
Y/Y change (lfl)	*9.2%*	*5.6%*	*7.0%*	-	*8.0%*	-
Net revenue	**863.4**	**981.7**	**1,079.6**	**1,099.6**	**1,187.5**	**1,208.3**
Y/Y change	*7.9%*	*13.7%*	*10.0%*	*12.0%*	*10.0%*	*9.9%*
EBITDA	**286.1**	**302.4**	**392.2**	**393.6**	**495.5**	**492.5**
Margin	*7.9%*	*7.6%*	*9.3%*	*9.1%*	*10.8%*	*10.6%*
Underlying EBITDA	**374.7**	**406.1**	**452.2**	**455.3**	**500.5**	**509.2**
Margin	*10.3%*	*10.2%*	*10.7%*	*10.6%*	*10.9%*	*10.9%*
EBIT	**125.0**	**166.9**	**252.3**	**252.9**	**344.4**	**336.6**
Margin	*3.4%*	*4.2%*	*6.0%*	*5.9%*	*7.5%*	*7.2%*
Underlying EBIT	**296.3**	**340.5**	**366.8**	**362.3**	**413.1**	**400.4**
Margin	*8.2%*	*8.6%*	*8.7%*	*8.4%*	*9.0%*	*8.6%*
Net profit	**-50.0**	**-29.8**	**142.6**	**137.2**	**215.6**	**191.7**
Margin	*-1.4%*	*-0.8%*	*3.4%*	*3.2%*	*4.7%*	*4.1%*
Rest. net profit	**91.7**	**138.4**	**226.2**	**220.3**	**266.4**	**255.7**
Margin	*2.5%*	*3.5%*	*5.3%*	*5.1%*	*5.8%*	*5.5%*
EPS (p)	**-3.1**	**-1.8**	**7.1**	**6.9**	**10.8**	**10.3**
Fully dil. rest. EPS (p)	**5.7**	**8.2**	**11.3**	**11.0**	**13.3**	**12.8**
FCF	**0.7**	**32.4**	**92.3**	**-**	**221.4**	**-**
FCF/underlying EBIT	*0.2%*	*9.5%*	*25.2%*	-	*53.6%*	-
Net debt	**2,254.1**	**1,425.3**	**1,287.2**	**1,345.9**	**1,113.8**	**1,160.5**
Gearing	*-1,173.4%*	*212.4%*	*158.2%*	-	*112.1%*	-

Sources: Company's consensus (08/07/16); Bryan, Garnier & Co ests.

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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