

## 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%         |

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

|                | 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 |



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

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

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|         |   |
|---------|---|
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## Distribution of stock ratings

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NEUTRAL ratings 33.6%

SELL ratings 10.7%

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