

Altran Technologies

Price EUR13.56

H1 2016 analysts' meeting feedback: comfortable with steady margin improvement

Fair Value EUR15 vs. EUR14 (+11%)

BUY

Bloomberg	ALTR.FP
Reuters	ALTR.PA
12-month High / Low (EUR)	13.6 / 9.8
Market Cap (EUR)	2,383
Ev (BG Estimates) (EUR)	2,545
Avg. 6m daily volume (000)	211.5
3y EPS CAGR	16.3%

We reiterate our Buy rating and raise our DCF-derived fair value to EUR15 from EUR14 on fine-tuned medium-term WCR assumptions as a percentage of sales (0% vs. 1%). Although the turnaround in Germany requires a lot of attention due to short-term headwinds (transition to work packages from AÜG, fixing the Stuttgart branch) which have delayed it by one quarter, we consider Altran is firmly engaged in a linear operating margin improvement year after year until 2020.

ANALYSIS

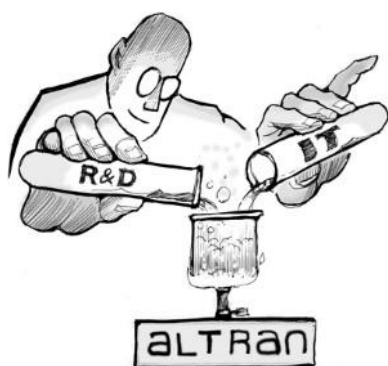
- Germany is a strong focus, fighting against headwinds.** Revenue prospects remain positive, especially in automotive (+6%, strong growth despite the exit of German carmakers from the staffing model and Volkswagen slashing its R&D budget), aeronautics (+10%), life sciences (+23%), energy, and industrial/electronics (+43%), while in telecoms Altran is up 5%. Out of the 1.1ppt operating margin improvement in H1 2016, 0.6-0.7ppt stemmed from calendar tailwinds (2-3 days), and 0.3-0.4ppt stemmed from operating improvement (SG&A). As calendar effects will reverse, the H2 2016 margin is set to suffer from headwinds, but operating improvement is expected to continue. For Germany management expects flattish sales and an operating profit around breakeven in 2016 (it was slightly loss-making in H1) given the transition to work packages from AÜG and some difficulties experienced in Stuttgart. It confirmed, Germany will be back to growth in H2 - albeit benefiting from calendar tailwinds - based on client wins and a promising sales pipeline.
- Update on 'Altran 2020 Ignition' plan.** Management remains firm on its aim to increase operating margin steadily year after year until 13% for 2020. On the pillars of the 'Altran 2020 Ignition' plan, the status: 1) on augmented value, out of the five up-and-running World Class Centres, Industrial Analytics (formerly Tessella) is ahead of schedule with a 17%+ margin, the others are small (of which two need to be reworked), and three other ones are to be launched by end 2016, the industrialisation programme is delivering well, an Altran Consulting brand has been launched to provide 2,000 "top gun" experts for strategic meetings with C-level executives; 2) on offshoring, with 4,000 engineers on board, Altran sees early success in semiconductors, automotive and telecoms, the goal still being to have 10,000+ engineers or 15% of revenues by end 2020; 3) on geographic expansion, the US is now the second largest country for Altran according to future reporting standards, which are expected to be put in place next year; 4) on operational excellence, senior management changes have been implemented recently in the US, and in Germany, Scandinavia, Belgium and the Netherlands and they are expected to restore a positive sales dynamic and improve profitability for the Northern Europe region.
- Free cash flow: not an issue, but needs to be monitored.** Strong lfl revenue growth and calendar tailwinds negatively impacted free cash flow in H1 2016 as it generated a high level of account receivables (WCR up EUR104m), but DSOs fell by 6.8 days year-on-year. Management remains confident in generating strong free cash flow in H2 2016, in the same vein as last year taking into account calendar effects. Now that the restructuring in Germany is close to completion, management is no longer closed to acquisitions in the country if an opportunity arises.

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.5%	5.6%	25.9%	9.8%
Softw. & Comp.	4.4%	9.3%	14.7%	7.6%
DJ Stoxx 600	2.3%	1.4%	3.5%	-4.5%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,945	2,127	2,320	2,482
% change		9.4%	9.1%	7.0%
EBITDA	208	237	277	317
EBIT	155.0	188.0	230.0	267.0
% change		21.3%	22.3%	16.1%
Net income	123.0	140.0	167.0	193.0
% change		13.8%	19.3%	15.6%

	2015	2016e	2017e	2018e
Operating margin	9.6	10.1	10.8	11.6
Net margin	5.2	5.7	6.5	7.1
ROE	12.6	13.9	15.4	16.1
ROCE	15.0	15.2	17.0	19.5
Gearing	18.0	19.0	7.0	-4.0

(€)	2015	2016e	2017e	2018e
EPS	0.70	0.80	0.95	1.10
% change	-	14.3%	18.8%	15.8%
P/E	19.4x	16.9x	14.3x	12.3x
FCF yield (%)	3.4%	4.6%	6.0%	7.0%
Dividends (€)	0.19	0.23	0.28	0.33
Div yield (%)	1.4%	1.7%	2.1%	2.4%
EV/Sales	1.3x	1.2x	1.1x	0.9x
EV/EBITDA	12.1x	10.7x	8.9x	7.4x
EV/EBIT	13.6x	11.9x	9.8x	8.1x



VALUATION

- Altran's shares are trading at est. 11.9x 2016 and 9.8x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR217.2m (net gearing: 28%).

NEXT CATALYSTS

Q3 2016 sales on 27th October before markets open.

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