6th September 2016

TMT

Ingenico Group

Price EUR91.89

Hit by temporary elements in the very short term

Fair Value EUR112 vs. EUR130 (+22%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	121.3 / 87.9
Market Cap (EURm)	5,651
Ev (BG Estimates) (EURm)	5,740
Avg. 6m daily volume (000)	265.5
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.3%	-15.3%	-2.0%	-21.1%
Softw.& Comp.	4.1%	9.4%	13.5%	7.8%
DJ Stoxx 600	2.7%	2.7%	2.6%	-4.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,197	2,278	2,474	2,694
% change		*3.7%*	*8.6%*	*8.9%*
EBITDA	508	456	520	593
EBIT	436.5	387.3	445.4	511.9
% change		*-11.3%*	*15.0%*	*14.9%*
Net income	273.7	251.1	294.8	344.3
% change		*-8.3%*	*17.4%*	*16.8%*

	2015	2016e	2017e	2018e
Operating margin	19.9	17.0	18.0	19.0
Net margin	10.8	9.7	10.8	11.9
ROE	15.2	12.7	13.4	14.1
ROCE	16.5	14.5	17.0	19.9
Gearing	16.7	5.3	-8.9	-21.9

(EUR)	2015	2016e	2017e	2018e
EPS	4.47	4.09	4.80	5.61
% change	-	*-8.5%*	*17.4%*	*16.8%*
P/E	20.6x	22.5x	19.1x	16.4x
FCF yield (%)	4.9%	4.7%	5.5%	6.4%
Dividends (EUR)	1.30	1.24	1.49	1.79
Div yield (%)	1.4%	1.3%	1.6%	1.9%
EV/Sales	2.7x	2.5x	2.2x	1.9x
EV/EBITDA	11.6x	12.6x	10.5x	8.7x
EV/EBIT	13.5x	14.8x	12.3x	10.1x

Ingenico has adjusted its guidance for H2 2016 due to the rapid and temporary market decline in the US caused by the change in EMV rules, and persistently difficult conditions in Brazil. We have adjusted our estimate to the lower end of Ingenico's guidance for FY16 (+7.1% lfl revenue growth and 20% in EBITDA margin) and are more cautious on FY 2017. Following these changes, we have therefore lowered our FV from EUR130 to EUR112. We are maintaining our Buy recommendation because we consider Ingenico as more diversified (both in geography and business) and more resilient than VeriFone.

ANALYSIS

- Ingenico has announced this morning an adjustment to its FY 2016 guidance to take "a more prudent approach": organic revenue growth >= 7% (vs. >=10% previously) and EBITDA margin >=20% (vs. c.21% previously). This adjustment is due to two elements: the rapid and temporary market decline in the US (change in EMV rules) and persistently difficult macroeconomic conditions in Brazil (the decline is anticipated to be greater than in H1). In all other geographies, as well as for the ePayments division, Ingenico will deliver excellent performances. The company highlighted the continued solid growth dynamics in Asia Pacific (particularly in China) and in Europe. Its ePayments division will also deliver strong growth in H2, enabling an acceleration in its transition to on-line and mobile services activity. Relaxing of the rules is temporary in the US, and Ingenico remains confident in the continued roll-out of EMV in this region, which should continue to progress in 2017 and beyond. According to management, this temporary situation in no way affects the fundamentals of its strategy and the targets for 2020 (i.e. revenue of EUR4bn, EBITDA margin of 22-23%, EBITDA to FCF conversion of 45% as a floor, and payout ratio of 35%).
- As for VeriFone, this adjustement has been explained by political and macro-economic factors in Latin America that adversely affected revenue during the quarter (mainly Brazil) and are expected to persist for at least the near term, and the pace of EMV terminalisation is not picking up at the rate the group was expecting, which has caused it to lower the outlook for H2 and provide more balanced views as its enters 2017. As a reminder, VeriFone's Q3 is equivalent to two thirds of Ingenico's Q2 (already published at the end of July). Ingenico expects double digit revenue growth for its online payment services in H2 (end of the unfavourable comparison base: loss of volumes from GlobalCollect's 1st client weighing until H1 2016) whereas VeriFone is only a hardware company. Of course, the EMV implementation is still experiencing bottlenecks (we know it since Ingenico's Q2 release) and the situation in Latin America is not easy to anticipate given the current specific political and economic situations, but Ingenico is very exposed to Europe and China, where topline growth is solid. This is why the adjustment in Ingenico's FY 2016 guidance is lower than that of VeriFone.
- To justify Ingenico's current share price in a reverse DCF calculate, we would have to assume 7% topline growth with a EBITDA margin of 16% (vs. FY16 guidance of +10% and ~21% respectively and 2020e targets of EUR4bn i.e. a CAGR of +10% lfl and EBITDA margin of 22-23%). Yes there are temporary difficulties in the short term, but we remain at Buy because we consider Ingenico as more diversified (both in geography and business) and more resilient than VeriFone.

VALUATION

- We have adjusted our estimate to the lower-end of Ingenico's guidance for FY16 (+7.1% lfl revenue growth and 20% in EBITDA margin) and are more cautious on FY 2017 (+8% lfl revenue growth and 21% in EBITDA margin).
- Following those changes, we have therefore lowered our FV from EUR130 to EUR112. We are making no change to our Buy recommendation.

NEXT CATALYSTS

- Conf. call today at 8am.

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