

Sector View

Software and IT Services

Accenture Q4 FY16 results: neutral read-across for European IT Services companies

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	3.2%	17.3%	11.3%	8.1%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%

*Stoxx Sector Indices

Companies covered

ALTEN	SELL	EUR54
Last Price	EUR62,7	Market Cap. EUR2,112m
ALTRAN TECHNOLOGIES	BUY	EUR15
Last Price	EUR13,495	Market Cap. EUR2,372m
ATOS	BUY	EUR102
Last Price	EUR95,24	Market Cap. EUR9,977m
AXWAY SOFTWARE	BUY	EUR28
Last Price	EUR27,9	Market Cap. EUR580m
CAPGEMINI	BUY	EUR94
Last Price	EUR87,48	Market Cap. EUR15,008m
CAST	NEUTRAL	EUR3,6
Last Price	EUR3,41	Market Cap. EUR55m
DASSAULT SYSTEMES	SELL	EUR64
Last Price	EUR77,07	Market Cap. EUR19,826m
INDRA SISTEMAS	NEUTRAL	EUR12
Last Price	EUR11,845	Market Cap. EUR1,944m
SAGE GROUP	SELL	600p
Last Price	734p	Market Cap. GBP7,926m
SAP	NEUTRAL	EUR79
Last Price	EUR80,74	Market Cap. EUR99,189m
SOFTWARE AG	BUY	EUR40
Last Price	EUR37,42	Market Cap. EUR2,956m
SOPRA STERIA GROUP	BUY	EUR125
Last Price	EUR103,15	Market Cap. EUR2,113m
SWORD GROUP	BUY	EUR31
Last Price	EUR27,11	Market Cap. EUR256m
TEMENOS GROUP	NEUTRAL	CHF54
Last Price	CHF61,3	Market Cap. CHF4,264m

Yesterday Accenture reported Q4 FY16 results in line with the consensus, while FY17 guidance (revenues up 5-8% at cc, or up 3-6% lfl) suggest no change in market dynamics compared to one year ago. Large transformation projects driven by Digital and Cloud are still the drivers for growth, and large global IT Services firms like Accenture are able to maintain growth momentum - unlike offshore players which have to pursue transformation. In our view, with no major surprises, the publication is neutral for Capgemini and Atos.

ANALYSIS

- Q4 FY16 results in line.** For its Q4 FY16 (ending 31st August), Accenture has reported sales of USD8.49bn (+9% at cc, vs. +10% at cc in Q3 FY16), at the top-end of guidance (+6-9% at cc to USD8.25-8.5bn) and in line with the consensus figure (USD8.44bn), and diluted EPS up 14% to USD1.31 (consensus: USD1.30). Consulting was up 13% cc to USD4.61bn (vs. +14% in Q3 FY16), while Outsourcing was up 6% cc to USD3.88bn (vs. +6%). Consulting/Strategy and Operations showed a double digit increase, and Applications mid-single digit growth. North America was up 10% at cc (vs. +11%) with double-digit growth in the US, Europe was up 8% at cc (vs. +12%) with double-digit growth in the UK, Switzerland, Spain, Italy and Germany, and high-single digit growth in France, and growth markets were up 9% at cc (vs. +6%) with double-digit growth in Japan. By industry, the best performers were Products (+18%), Health & Public Services (+11%) and Financial Services (+9%). New bookings were up 2% to USD8.99bn (4% below consensus) or a book-to-bill of 1.06x (+18% in Consulting - book-to-bill 1.04x -, and -12% in Outsourcing - book-to-bill 1.08x).
- FY17 guidance: no change in dynamics.** For FY17, sales are expected to rise 5-8% at cc (+3%/+6% excl. acquisitions), an op. margin of 14.7-14.9%, and an EPS of USD5.75-5.98 (consensus: USD5.82), including high-single digit growth in Consulting and mid- to high-single digit growth in Outsourcing. This also implies mid-single digit growth in Application Services, high-double digit growth in Operations, and strong double-digit growth in Digital & Cloud. For Q1 FY17 (Nov. 2016), Accenture projects sales of USD8.4-8.65bn (+5%/+8% at cc) or in line with consensus (USD8.58bn). Management expects the market to grow at a similar rate in FY17 as for FY16 (+2.5%) and considers Accenture will continue to gain market share while expecting no change in dynamics for the next four quarters. Large transformation projects are still on the agenda, including Financial Services (technology to cut costs), driven by Digital, Cloud and Security.
- Neutral read-across for European IT Services companies.** We consider the publication neutral for Capgemini and Atos in the short term. It indicates that digital transformation remains the key growth driver, and Accenture's investments in Digital, Cloud and Security have been the best way to gain market share so far - both Capgemini and Atos are doing the same. Global IT Services companies now differentiate from offshore competitors (TCS, Infosys, Cognizant...), which have to increase their exposure to Digital & Cloud and raise competitiveness in order to offset the loss of their growth momentum. As such, at this stage we remain comfortable with our lfl sales growth forecasts for 2016 and 2017 on Capgemini (+3.3% and +2.9%) and Atos (+1.7% and +1.9%).

VALUATION

European IT Services companies: EV/EBIT multiples of 11.4x for 2016e and 10.4x for 2017e.

NEXT CATALYSTS

TCS' Q2 FY17 results on 13th October after Indian markets close. Infosys' Q2 FY17 results on 14th October before Indian markets open. IBM's Q3 2016 results on 17th October after US markets close.

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SELL ratings 11,7%

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