

## Sector View

## TMT

	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

Company	Recommendation	Target Price
<b>ALTEN</b>	SELL	EUR54
Last Price	EUR63,49	Market Cap. EUR2,139m
<b>ALTICE</b>	BUY	EUR16,5
Last Price	EUR16	Market Cap. EUR17,509m
<b>ALTRAN TECHNOLOGIES</b>	BUY	EUR15
Last Price	EUR13,665	Market Cap. EUR2,402m
<b>ams</b>	NEUTRAL	CHF29
Last Price	CHF31,85	Market Cap. CHF2,338m
<b>ASML</b>	SELL	EUR81
Last Price	EUR97,29	Market Cap. EUR42,159m
<b>ATOS</b>	BUY	EUR102
Last Price	EUR95,16	Market Cap. EUR9,969m
<b>AXWAY SOFTWARE</b>	BUY	EUR28
Last Price	EUR28	Market Cap. EUR582m
<b>CAPGEMINI</b>	BUY	EUR94
Last Price	EUR87,14	Market Cap. EUR14,950m
<b>CAST</b>	NEUTRAL	EUR3,6
Last Price	EUR3,37	Market Cap. EUR54m
<b>DASSAULT SYSTEMES</b>	SELL	EUR64
Last Price	EUR77,01	Market Cap. EUR19,810m
<b>DIALOG</b>	BUY	EUR37
Last Price	EUR33,889	Market Cap. EUR2,639m
<b>GEMALTO</b>	NEUTRAL	EUR62
Last Price	EUR59,08	Market Cap. EUR5,311m
<b>ILIAD</b>	BUY	EUR212
Last Price	EUR185,3	Market Cap. EUR10,883m
<b>INDRA SISTEMAS</b>	NEUTRAL	EUR12
Last Price	EUR12	Market Cap. EUR1,970m
<b>INFINEON</b>	BUY	EUR17,5
Last Price	EUR15,315	Market Cap. EUR17,343m
<b>INGENICO GROUP</b>	BUY	EUR112
Last Price	EUR77,2	Market Cap. EUR4,747m
<b>MELEXIS</b>	SELL	EUR48
Last Price	EUR63,42	Market Cap. EUR2,562m
<b>NUMERICABLE SFR</b>	NEUTRAL	EUR28,7
Last Price	EUR26,325	Market Cap. EUR11,537m
<b>ORANGE</b>	BUY	EUR17,1
Last Price	EUR13,76	Market Cap. EUR36,602m
<b>SAGE GROUP</b>	SELL	600p
Last Price	728,5p	Market Cap. GBP7,867m
<b>SAP</b>	NEUTRAL	EUR79
Last Price	EUR80,85	Market Cap. EUR99,325m
<b>SOFTWARE AG</b>	BUY	EUR40
Last Price	EUR37,175	Market Cap. EUR2,937m
<b>SOITEC</b>	NEUTRAL	EUR0,5

## Q3 2016 review and our TMT Top Picks for Q4: Wirecard.

## LOOKING BACK ON Q3 2016

In Q3 2016, the TMT sector had an outstanding performance in bull stock markets amidst the post-Brexit rebound, declining interest rates and a favourable environment for M&A. Over the period, the DJ STOXX Europe Technology index was up 15% and outperformed the DJ STOXX Europe 600 index by 11%.

During the period, the best performers were Soitec (+52%, penny-stock and speculation about a wider adoption of the FD-SOI technology), Axway Software (+35%, H1 2016 results way above expectations), and STMicroelectronics (+33%, rerating and speculation about management transition). The worst performers were Ingenico Group (-26%, post-warning), Iliad (+1%, remained at a low point post Brexit impact before recovering following good Q2 results) and Cast (+2%, Q2 2016 results below expectations due to two deal slippages post-Brexit). Our sector Q3 Top Picks Wirecard (+17%: rebound after fraud allegations by Zatarra, acquisition of Citi Prepaid Card Services and some covering of short positions) was the best-performer of Bryan Garnier's Top Pick-list over the quarter. Note that we removed Infineon from the Top Pick list on 2nd August after the FQ3 2016 results (+7%, FQ3 results above expectations and supportive market environment).

## WHAT WE SEE FOR Q4 2016

The payments sector should continue to benefit fully from the major trend of a gradual disappearance in cash and checks in favour of electronic payments (mainly EMV cards). EMV migration in the US (small and mid-sized merchants still have to migrate) has witnessed a rapid and temporary market decline in the US caused by the change in EMV rules in July, and persistently difficult conditions in Brazil. However, Europe and China are experiencing solid growth, and there is a rising demand for payment services outsourcing (notably e-commerce) and for security in electronic payments. **1) Wirecard (Buy – FV of EUR58, pure player in online payments)** is now a global issuing and acquiring payment service provider (since the acquisition of Citi Prepaid Card Services, all continents are now covered). It should post FY16 organic sales growth of over 20% with a 30% Ebitda margin (driven notably by south-east Asia), which should translate into 2016 EPS growth of 38%. Its organic sales growth should continue to accelerate by the end of this year. **2) Ingenico Group (Buy – FV of EUR112, 100% of sales in payment)** has the best commercial multi-channel offer available today. To meet its FY 2016 guidance (>=+7% in lfl revenue growth and >=20% in Ebitda margin), the group has to generate a c.+2% organic top-line growth for Q3 and Q4 on average and a minimum of 18.5% in Ebitda margin over H2. **3) Worldline (Buy – FV of EUR31, 78% of 2016 sales in payment)** is at last fully considered as a PSP (it is #1 in Europe since the acquisition of Equens and KB vs. #3 before). We expect the group to post -1/0% organic sales growth in Q3 (VOSA and radar contracts losses) and +3% in Q4 (impact of the radar contract), namely almost +4% lfl over FY 2016. **4) Gemalto (Neutral – FV of EUR62; less than 25% of its sales in payment)** should again post weak lfl sales growth in Q3 (after 0.5% lfl in H1), still impacted by a decline of between 10% and 15% in the SIM (end of the negative Softcard comparison base but still a double digit decline, lower demand in Latam and Asia, and no software upgrade) and slowdown in payments (comparison base). Shorter term, we did not view the speculation surrounding Morpho as positive for Gemalto both if it was selected (we did not see it as accretive) or if Oberthur/Advent wins the deal (disappointment from the consensus, which is now official). **5) Worldpay (Neutral – FV 278p; 100% of its sales in payment)** is struggling in the US (half of group sales), such that the associated poor lfl top-line growth cannot create any leverage to its proprietary platform. We expect 7% organic sales growth and a 9.3% Ebitda margin at best over the FY, so its outperformance in H1 cannot be extrapolated to H2.

**For Software & IT Services**, based on industry analysts' forecasts, at this stage we are still anticipating stable growth or a slight slowdown in IT spending for 2016, with est. growth of 5-6% for Software (vs. +6% for 2015), still driven by the now established SaaS model, and est. growth of 3-4% for IT Services (vs. +4%) driven by digital transformation projects. In addition, the low interest rate environment remains favourable for both IT projects (a significant part is accounted in capex) and M&A (Oracle acquiring NetSuite for USD9.3bn, Micro Focus acquiring HPE's Software business for GBP6.6bn, CSC merging with HPE's Enterprise Services business for USD8.5bn). At this stage, most of the effects of Brexit are yet to be seen as the referendum's "no" vote had no immediate impact on IT spending, except in a few cases (Infosys was the collateral victim of the abandonment of the spin-off of Williams & Glyn from Royal Bank of Scotland), and, overall, the weakness of the British pound. That said, global and offshore IT Services companies largely exposed to application services (TCS, Infosys, Cognizant,

Last Price	EUR0,81	Market Cap.	EUR491m
<b>SOPRA STERIA GROUP</b>	<b>BUY</b>		<b>EUR125</b>
Last Price	EUR103,85	Market Cap.	EUR2,127m
<b>STMICROELECTRONICS</b>	<b>NEUTRAL</b>		<b>EUR6,5</b>
Last Price	EUR7,145	Market Cap.	EUR6,509m
<b>SWORD GROUP</b>	<b>BUY</b>		<b>EUR31</b>
Last Price	EUR26,75	Market Cap.	EUR252m
<b>TEMENOS GROUP</b>	<b>NEUTRAL</b>		<b>CHF54</b>
Last Price	CHF61,9	Market Cap.	CHF4,305m
<b>UBISOFT</b>	<b>BUY</b>		<b>EUR35</b>
Last Price	EUR33,6	Market Cap.	EUR3,776m
<b>u-blox</b>	<b>BUY</b>		<b>CHF255</b>
Last Price	CHF213,7	Market Cap.	CHF1,455m
<b>WIRECARD</b>	<b>BUY</b>		<b>EUR58</b>
Last Price	EUR45,59	Market Cap.	EUR5,633m
<b>WORLDLINE</b>	<b>BUY</b>		<b>EUR31</b>
Last Price	EUR27,005	Market Cap.	EUR3,569m
<b>WORLDPAY</b>	<b>NEUTRAL</b>		<b>278p</b>
Last Price	296,6p	Market Cap.	GBP5,932m

Wipro, Capgemini...), displayed some cautiousness by the end of this year in discretionary IT spending for banks in the UK and even in the US, pending the results of the presidential election in November.

**For Semiconductors**, the environment is mixed. The environment in the Smartphone market has improved with signs of a good start for the new Apple iPhone 7. We believe that Apple's smartphone shortage is due to 1/ higher than expected demand, 2/ battery problems with the Samsung Galaxy Note 7, and also 3/ the complexity of the assembly process, especially due to the waterproof feature, causing production slowdown. In addition to an attractive valuation, this explains mainly our recommendation on **Dialog (Buy, FV EUR37)**. Nevertheless, we see the positive impact as a short-term catalyst and expect a real rebound in the smartphone market to take place during mid-2017. The PC also shows signs of improving momentum but, again, it appears to be more a short-term effect than a LT rebound the market. Regarding the other semiconductor end-markets, in which the automotive and industrial sector falls, we note that momentum remains strong. Automotive production remains strong with January to July aggregated production of US+China+Europe up 7.4%. For Q4, momentum in automotive sales might be weaker but we remind that growth for semiconductor players mostly stem from content increase per car. In addition, the industrial sector remains healthy according to industry sources. In this context, we continue to favour companies having a footprint in these two market segments and that are attractively valued, namely **Infineon (Buy, FV EUR17.5)** and **u-blox (Buy, FV CHF255)**. Regarding semi equipment makers, Q3 was the second quarter of the 10nm ramp-up but we remain convinced that most of the positive impact from 10nm investments are already priced in, and particularly for **ASML (Sell, FV EUR81)**.

**For Telecoms**, the French market will remain under high promotional pressure, especially on the mobile side, but the worst case scenario we could have feared following the breakdown of consolidation talks should not happen. The Fixed market is showing some small signs of recovery and H2 should confirm that trends are globally improving. The CAPEX war will remain in full swing in fibre deployment and 4G coverage. Growth at **Iliad (Buy - FV EUR212)**, will continue, with EBITDA expected around +12% yoy in H2, the good trend in mobile services ARPU should continue, the expected launch of Freebox V7 over the quarter as well as the recent launch of a new bundled offer with CanalSat should help boost fixed ARPU and net adds. **SFR (Neutral - FV EUR28.7)** should still struggle commercially for several months, but we should see the first effects of Q2 price hikes and of further cost cutting initiatives, with a return to EBITDA growth expected at low single digit levels in Q3. **Altice (Buy - FV EUR16.5)** should benefit from the return of EBITDA growth at SFR, together with good results at the international level, especially in the US and in Portugal, both expected above 10% yoy EBITDA growth supported by on-going cost rationalisation plans. **Orange (Buy - FV EUR17.1)**, should keep on steaming ahead as the only all-around premium telecom provider on the French market, especially in a X-mas market driven by premium offers and subsidised handsets. Revenue growth in Africa should return to a level around 5% in Q3, and we expect high single digit growth in Spain's EBITDA in H2.

**For Video Games:** We are optimistic on fundamentals (no AAA game delays expected) and momentum for the Ubisoft share price. By taking equity stakes in **Ubisoft (Buy - FV EUR35)**, Vivendi has encouraged investors to change the way they look at the share. For this group, speculation will be the main driver behind the share price. We would therefore not be surprised if the share reflects a speculative premium (a takeover bid in 2017?). As a reminder, we estimate a fair offer in the EUR41-51 range (and EUR45-51 if Vivendi was the bidder).

#### CONCLUSIONS AND TOP PICKS

**In Payments**, we expect investors to show an increasing appetite for the rising momentum of eCommerce. As such, **we have maintained Wirecard (Buy, FV EUR58) on our Top Pick list to benefit from** extremely good fundamentals (pure player in ePayment, global reach, and exposure to South-East Asia) and further healthy momentum (reconnection with its fundamentals and US funds continuing to cover their short positions with the consolidation of Citi Prepaid Card Services). As a reminder, we expect organic sales growth of 20.3% in FY16e with EBITDA of EUR306.3m i.e. a margin of 30.1% (vs. an official guidance of EUR290-310m, but a more likely reachable EUR300-310m). **Wirecard's PEG is still very appealing, with a P/E of 25x vs. EPS growth of 38% in 2016e.**

**In Software & IT Services**, as many stocks had a surprisingly strong performance post-Brexit (Atos, Capgemini, SAP...) **without implying significant improvement in IT market conditions, we are reluctant to add a name in the Top Pick list for Q4 2016.**

**In Semiconductors**, following the good performance of the sector during Q3 (the SOX index was up 19% over the period) mainly thanks to the acquisition of ARM Holdings pulling the sector under spotlights, most of the stocks we cover are now close or above our FV except our long-term call, namely Infineon and u-blox. Regarding these two stocks, and with the visibility we have now, we see no very short-term catalysts that could impact significantly our investment cases in the short-term. As such, **we do not include any semiconductor stocks in our Q4 top-pick list.**

**In Telecoms**, we are not including any stocks in our Q4 Top pick list. Regarding Altice (Buy - FV



**EUR16.5**), we believe Q3 results should be good, confirming a rosy outlook in the US and ARPU improvement in France, but uncertainties remain in high-yield markets related to the Fed policy and the US presidential elections, as well as on a possible disappointment on the Altice exchange offer on SFR shares. Regarding **Iliad (Buy, FV EUR212)**, the entry point is not as good as it was a few months ago, the impact of the new deal with CanalSat will not be visible over Q4 and we do not expect significant communication about the Italian project over the quarter. As such, we see no specific catalyst for high short-term performance, besides the probable announcement of the Freebox v7 launch. **Orange (Buy - FV EUR17.1)** should maintain healthy commercial trends in France, with possible positive reactions following Q3 results: markets have now priced in the disappointment in French roaming revenues and Africa should return to growth level around 5%. Nevertheless we see no major catalyst in Q4 justifying adding it to our top pick list.

**In Video Games**, 2016 should be buoyant thanks to speculation surrounding Ubisoft. This main theme is set to drive the share price in 2016e. However, and despite our buy rating, we find it difficult to predict the exact timing of an increase in Ubisoft's capital by Vivendi and/or a formal takeover bid for the whole company (in 2017?). As a result, **we like the name but are not including it in our Q4 2016 Top Pick list.**

#### NEXT CATALYSTS

**Payments:** Worldline's Q3 sales on 19th October (after trading), Ingenico Group's Q3 sales on 26th October (after trading), Gemalto's H1 earnings on 28th October (before trading), Wirecard's Q3 sales on 16th November (before trading), Worldpay's 2016 earnings results in March 2017.

**Software & IT Services:** TCS' Q2 FY17 results on 13th October after the Indian markets close. Infosys' Q2 FY17 results on 14th October before the Indian markets open. IBM's Q3 2016 results on 17th October after US markets close. Q3 2016 sales and results for European companies start on 20th October (Atos, Software AG).

**Semiconductors:** Samsung's Q3 2016 results on 7th October. TSMC's Q3 2016 results on 13th October. Intel's Q3 2016 results on 18th October. Q3 2016 results for European companies start on 19th October with ASML, followed by ams (24th October, after market close), Melexis (26th October), STMicroelectronics (27th October), Dialog (3rd November) and Infineon (23rd November, FY16 results).

**Video Games:** Ubisoft's fiscal H1 earnings on 3rd November (after trading).

**Telecoms:** launch of Altice exchange offer on SFR minority shares expected first week of October. Orange Q3 results on 27th October, Iliad Q3 sales on 12th November (tbc), Altice and SFR Q3 results on 8th November.

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**R-M Beaudoux**

01 56 68 75 61

rmbeaudoux@bryangarnier.com



**T. Coudry**

01 70 36 57 04

tcoudry@bryangarnier.com



**G Ramirez**

01 56 68 75 91

gramirez@bryangarnier.com



**D. Terral**

01 56 68 75 92

dterral@Bryangarnier.com

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
				Regulated by the FINMA

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