

Gemalto

Price EUR52.35

Extremely low visibility + unattractive risk/reward = Sell rating maintained**Fair Value EUR50 (-4%)****SELL**

Bloomberg	GTO.FP
Reuters	GTO.PA
12-month High / Low (EUR)	65.5 / 49.8
Market Cap (EUR)	4,706
Avg. 6m daily volume (000)	380.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.3%	-10.3%	-12.6%	-5.3%
Softw.& Comp.				
SVS	-3.7%	0.6%	7.9%	4.6%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

	2015	2016e	2017e	2018e
P/E	20.7x	15.7x	14.4x	13.2x
Div yield (%)	0.9%	1.0%	1.1%	1.1%

ANALYSIS

- **Extremely low visibility: 1)** the group expects an acceleration of Q4 sales growth (compared to the -1% lfl in Q3) but only due to lower comps (-2% lfl in Q4 2015). Indeed, the SIM will continue to decline by 10-15% lfl over the next few quarters, and payments will be marked by soft market environment in Brazil and dual interface cards take-up in the US yet to be confirmed; **2)** there will be an increase of the Opex in H2 2016, and further investments to capture growth beyond 2017 (Mobile P&S, Enterprise, Government Programs); **3)** No M&A to expect in the short term; **4)** GTO does not want to give guidance on revenue and PFO for FY16 whereas we are at the end of October, and is not able to give visibility on the topline to justify its new PFO target of EUR500m-EUR520m in 2017.
- **Whereas the past two multi-year development plans were reached ahead of schedule** (that of 2009 given in October 2006 and that of 2013 given in November 2009), **the 2017 plan is now officially a significant failure** as the new management severely slashed it (from over EUR660m to between EUR500m and EUR520m). **The transition period continues to last long for GTO and we do not see any catalyst in the short or medium term...** Its two main segment (namely the SIM & related services and Payments businesses: respectively 32% and 27% of Q3 revenue) are experiencing difficulties, and we believe these new disappointments could lead short-sellers to attack the stock again.
- **The company will give a new mid-term plan at the end of next year.** The group generally provides targets over a three/four-year period. We believe the management should give a PFO guidance for 2021. **Bear in mind that the first years of a new plan are somewhat sluggish on average** in view of reorganisations, investments in operating expenses and/or M&A, followed by an acceleration when the business is not impacted by a tough environment in its key markets (today GTO's key markets are the SIM and Payments which are currently experiencing difficulties).

VALUATION

- **Risk/reward is unattractive** with a **lack of visibility on the company's key activities** (~60% of its sales) **and an even stronger competition** (the combined Oberthur Technologies and Morpho).
- **We maintain our Sell rating and FV of EUR50**, which is derived from a SOTP (the best way to value GTO's different activities). **We advise investors to closely monitor the EUR48/share threshold** because both the SIM and mobile Platforms & Services divisions would be valued at zero in our SOTP (other things being equal).

NEXT CATALYSTS

- **FY 2016 sales and earnings:** on 3rd March, 2017 (before trading).

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Distribution of stock ratings

BUY ratings 56.7%

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