

Alten

Price EUR58.62

Q3 2016 sales slightly above expectations; FY16 revenue growth guidance raised

Fair Value EUR57 vs. EUR54 (-3%)

NEUTRAL vs. SELL

Bloomberg	ATE FP
Reuters	LTEN.PA
12-month High / Low (EUR)	63.8 / 44.6
Market Cap (EUR)	1,975
Ev (BG Estimates) (EUR)	1,936
Avg. 6m daily volume (000)	32.10
3y EPS CAGR	13.4%

We upgrade our rating to Neutral from Sell and raise our DCF-derived fair value to EUR57 from EUR54 as we increase our adj. EPS ests. by 1% for 2016 and 3% for 2017-18. Yesterday evening, Alten reported Q3 2016 sales 2% above consensus. With 7.7% year-to-date lfl growth, management raised FY16 lfl revenue growth guidance to above 5.5% from above 3.4% - we now forecast +6.8% vs. +6.3%. In a scenario where Alten would drop its "research tax credit-approved" status for R&D work done on behalf of clients, we consider our fair value would gain EUR7-8 based on a 2ppt margin gain.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.7%	-0.3%	7.7%	9.8%
Softw. & Comp.	-3.0%	1.3%	7.5%	4.8%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

ANALYSIS

- Q3 2016 sales 2% above our estimates.** Q3 2016 sales were up 12.9% to EUR424.1m (+6.8% lfl), or 2% above our est. (EUR416.4m) and consensus (EUR417.7m). Excluding calendar effects (-1.2 day), they would have been up 8.3%. France was up 1.8% lfl to EUR197.2m (BG est.: EUR198.5m). International operations were up 24.7% (+12.2% lfl) to EUR226.8m (BG est.: EUR217.9m), with, on a lfl basis, +0.8% in Germany, +14.2% in North America, +9% in Scandinavia, +16.5% in Spain, +15.1% in the UK, +4.9% in Belgium, +2.2% in the Netherlands, +17.9% in Italy, and +64.3% in the Rest of World region. By industry, Automotive was at +7.5% (France +30%, Sweden and the UK +15%, Germany -11%), Aerospace +6%, Energy/Life Sciences -4% (Oil & Gas -10%, Nuclear down, Life Sciences +14%), Telecoms +3.6%, Finance/IT +15%, Defense flat, and Rail/Marine +5%.
- Recruitment still at a sustained pace.** The utilisation rate in Q3 2016 was 92.2% (+0.1ppt vs. Q2 2016 and -0.2ppt vs. Q3 2015). On 30th September 2016, the headcount reached 23,600 (+700 in Q3), o/w 20,900 engineers (+650). Net staff hirings were 570, which is basically in line with the 607 recruited in Q2 2016 (392 in Q1). Confidence of managers is strong, as one-third of hirings are made ahead of projects while staff attrition remains high at 22-23%. The billable staff ratio is up 1.5ppt to 88.6% on a year-on-year basis.
- Two new acquisitions.** Alten announced the acquisition in France of a company that specialises in Life Sciences with 190 engineers (EUR19m sales, 9% operating margin, to be paid at 6-7x EBIT or EUR10-12m), and in Romania of an IT services company with 185 engineers (EUR9m sales, operating profit at breakeven, to be paid at 0.3x sales or an est. EUR3m). Both companies will be consolidated in the P&L from January 2017. The 9 acquisitions made since early 2016 in aggregate represent revenues of EUR107m for 1,575 engineers. Alten is reviewing several other potential targets, and does not rule out closing at least one deal by the end of Q4.
- FY16 revenue growth guidance raised.** While the economic climate is improving for Alten, management raises lfl sales growth guidance to above 5.5% from above 3.4%. With 7.7% year-to-date lfl revenue growth, a sustained pace of net staff hiring, and a positive pricing environment except in Germany in Automotive - some customers accept hikes of 3-4% -, we are confident that Alten can exceed 6% lfl revenue growth in 2016, but management considers 7% a bit bullish. It reiterates its non-IFRS operating margin outlook (above 10%), but now considers that despite an even distribution of billable days this year between the two semesters, H2 is likely to be at or above 10.2% reported for H1 - initially it expected to land slightly below.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,541	1,729	1,897	2,035
% change		12.2%	9.7%	7.3%
EBITDA	164	189	212	232
EBIT	147.0	175.0	199.0	219.0
% change		19.0%	13.7%	10.1%
Net income	110.0	125.0	144.0	160.0
% change		13.6%	15.2%	11.1%

	2015	2016e	2017e	2018e
Operating margin	9.9	10.2	10.5	10.8
Net margin	6.8	6.9	7.3	7.5
ROE	16.3	16.9	17.0	16.5
ROCE	16.7	17.8	19.0	20.7
Gearing	-3.0	-5.0	-14.0	-24.0

(€)	2015	2016e	2017e	2018e
EPS	3.26	3.71	4.27	4.75
% change	-	13.8%	15.1%	11.2%
P/E	18.0x	15.8x	13.7x	12.3x
FCF yield (%)	5.0%	5.0%	6.4%	7.4%
Dividends (€)	1.00	1.00	1.00	1.00
Div yield (%)	1.7%	1.7%	1.7%	1.7%
EV/Sales	1.3x	1.1x	1.0x	0.9x
EV/EBITDA	11.9x	10.2x	8.8x	7.5x
EV/EBIT	12.9x	10.9x	9.3x	8.0x



VALUATION

- Alten's shares are trading at est. 10.9x 2016 and 9.3x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR61.8m (net gearing: 9%).

NEXT CATALYSTS

Q4 2016 sales on 25th January 2017 after markets close.

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Analyst :
 Gregory Ramirez
 33(0) 1 56 68 75 91
gramirez@bryangarnier.com

Sector Team :
 Richard-Maxime Beaudoux
 Thomas Coudry
 Dorian Terral

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London	Paris	New York	Munich	New Delhi
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
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