

Altran Technologies

Price EUR13.48

Q3 2016 sales roughly in line with expectations; outlook reiterated

Fair Value EUR15 (+11%)

BUY

Bloomberg	ALT FP
Reuters	ALTR.PA
12-month High / Low (EUR)	13.7 / 9.9
Market Cap (EUR)	2,369
Ev (BG Estimates) (EUR)	2,531
Avg. 6m daily volume (000)	211.8
3y EPS CAGR	15.9%

This morning, Altran reported Q3 2016 revenues 1% below our forecast and consensus, with growth momentum negatively impacted by calendar effects (1.4ppt headwind). Unsurprisingly, management considers 2016 will be another year of profitable growth. We expect the share price to show a slightly negative reaction in the short-term, given the slowdown of “economic growth” (+5.1% in Q3 vs. 6% in H1), which stems from a contextual business transition in Italy.

ANALYSIS

- Q3 2016 sales roughly in line with expectations, Italy weighing on “economic growth”.** Q3 2016 sales were up 1% to EUR500.9m (+3.7% lfl) or 1% below our estimate (EUR504.2m, +4.9% lfl) and the consensus' average (EUR504m). Restated for calendar effects (1 billable day less), lfl revenue growth would have been at +5.1% (“economic growth”), which is below the numbers reported for Q1 and Q2 (+6.2% and +6% respectively) mainly due to a contextual business transition in Italy (11% of sales).
- Q3 2016 details by geography.** France was up 4.6% lfl (+5.8% excluding calendar effects, driven by Automotive, Aerospace and Life Sciences), Southern Europe was up 5.9% lfl (+7.4% excluding calendar effects, driven by Spain & Portugal at +15.8% lfl, vs. Italy at +1.2% lfl), Northern Europe was up 0.6% lfl (+1.3% excluding calendar effects, with significant sequential improvement and turnaround on track in Germany, which is at -1.6% lfl, vs. Benelux at -7% lfl, the UK at +12.2% lfl, Scandinavia at +0.2% lfl and Switzerland at +1.3% lfl), and the Rest of World region (USA, India, China) was up 7.9% lfl (+8.8% excluding calendar effects, driven by India up 40.6% lfl, vs. the US at +5.1% lfl and China at +4.6% lfl).
- Headcount increase impacted by acquisitions, improving invoicing rate.** On 30th September 2016, headcount was 28,467 up 1,317 vs. 30th June 2016. We estimate that, excluding the acquisitions made in Q3 2016 (Synapse and Lohika), net staff hiring reached c. 420, vs. 469 in Q2 and 746 in Q1. The “invoicing” (i.e. utilisation) rate excluding Cambridge Consultants, Foliage and Tessella was 87.5% in Q3 2016, up 0.3ppt vs. Q3 2015 and Q2 2016.
- Outlook reiterated.** In its statement, management confirmed that 2016 will be another year of profitable growth for Altran. At this stage, we expect an operating margin of 10% for revenues up 6.3% lfl while our model has not included recent acquisitions yet (Benteler Engineering Services and Swell). Altran is just at the start of its “Altran 2020 Ignition” plan, which aims to generate at least EUR3bn in revenues (based on an average 4.5% lfl annual revenue growth and EUR500m revenues from acquisitions) and an operating margin of c. 13% in 2020. We estimate full-year sales from companies acquired since early 2016 (Synapse, Lohika, Benteler ES, Swell) at c. EUR150m.

VALUATION

- Altran's shares are trading at est. 11.8x 2016 and 9.9x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR217.2m (net gearing: 28%).

NEXT CATALYSTS

Conference call at 9am CET / 8am BST / 3am EDT (France: + 33 1 70 77 09 39; UK: + 44 20 33 67 94 61).

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