

Capgemini

Price EUR82.64

Q3 2016 sales slightly below our estimates; FY16 guidance confirmed

Fair Value EUR94 (+14%)

BUY

| | |
|----------------------------|-------------|
| Bloomberg | CAP FP |
| Reuters | CAPP.PA |
| 12-month High / Low (EUR) | 89.1 / 69.0 |
| Market Cap (EURm) | 14,178 |
| Ev (BG Estimates) (EURm) | 15,528 |
| Avg. 6m daily volume (000) | 582.7 |
| 3y EPS CAGR | 10.7% |

This morning Capgemini reported Q3 2016 sales slightly below our ests. and the consensus average, with more fx headwinds than we initially expected. Management reiterates FY16 guidance (revenue growth of 7.5-9.5% at cc or up 2.5-4.5% lfl, operating margin of 11.3-11.5%, free cash flow above EUR850m). We expect the share price to react a little negatively near term due to lfl revenue growth, but we estimate this was anticipated by investors as Indian IT services firms have already reported decelerating growth rates.

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | -5.7% | -1.1% | 5.0% | -3.5% |
| Softw. & Comp. | -2.4% | 4.0% | 9.9% | 6.3% |
| DJ Stoxx 600 | -0.7% | 0.6% | -1.0% | -6.2% |

ANALYSIS

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|------------------|--------|--------|--------|--------|
| Sales | 11,915 | 12,592 | 12,845 | 13,342 |
| % change | | 5.7% | 2.0% | 3.9% |
| EBITDA | 1,577 | 1,706 | 1,832 | 1,944 |
| EBIT | 1,022 | 1,185 | 1,370 | 1,482 |
| % change | | 15.9% | 15.7% | 8.1% |
| Net income | 797.5 | 967.6 | 1,022 | 1,100 |
| % change | | 21.3% | 5.7% | 7.6% |

| | 2015 | 2016e | 2017e | 2018e |
|------------------|------|-------|-------|-------|
| Operating margin | 10.6 | 11.4 | 12.1 | 12.5 |
| Net margin | 9.4 | 6.2 | 6.8 | 7.1 |
| ROE | 16.3 | 11.3 | 11.9 | 12.2 |
| ROCE | 17.2 | 13.6 | 14.4 | 15.9 |
| Gearing | 25.3 | 19.7 | 9.5 | 0.2 |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|-----------------|-------|-------|-------|-------|
| EPS | 4.62 | 5.58 | 5.82 | 6.26 |
| % change | - | 20.8% | 4.3% | 7.6% |
| P/E | 17.9x | 14.8x | 14.2x | 13.2x |
| FCF yield (%) | 5.7% | 6.2% | 6.9% | 7.3% |
| Dividends (EUR) | 1.35 | 1.50 | 1.60 | 1.70 |
| Div yield (%) | 1.6% | 1.8% | 1.9% | 2.1% |
| EV/Sales | 1.3x | 1.2x | 1.2x | 1.1x |
| EV/EBITDA | 10.1x | 9.1x | 8.1x | 7.3x |
| EV/EBIT | 12.6x | 10.9x | 9.5x | 8.5x |

• **Q3 2016 sales slightly below our estimates.** Q3 2016 revenues were down 0.6% (+2.1% lfl) to EUR3,019m, or 1% below both our ests. (EUR3,053m, +3% lfl) and 2% behind the consensus average (EUR3,071m, +3% lfl), including a 2.8ppt fx headwind (essentially GBP) while we expected these headwinds at 2.4ppt. Digital & Cloud revenues were up 25% lfl, and now account for 29% of year-to-date revenues. Energy & Utilities in North America, hardware resale in Brazil and HMRC generated headwinds to lfl revenue growth of -0.9ppt, -0.6ppt and -0.4ppt, respectively.

• **Q3 2016 details. By service line:** 1) Application Services (systems integration + application management): +4.4% at cc with France, Central Europe and Nordic countries above +10%; 2) Other Managed Services (infrastructure management + BPO): -3.3% at cc due to the UK and LatAm; 3) Technology & Engineering Services: +1.3% at cc, driven by North America and Rest of Europe; 4) Consulting: +3.1% at cc, led by Digital. **By geography,** performances were as follows: 1) North America: +0.4% at cc, with significant headwinds in Energy & Utilities (+3.7% lfl excluding this vertical); 2) UK: -1.5% at cc with +10% in the commercial sector, some decline at HMRC as expected, and no change in market demand linked to Brexit; 3) France: +4.6% at cc; 4) Rest of Europe: +5.4% at cc with +10% in Central Europe and Nordic countries; 5) Asia-Pacific & LatAm: +1.2% at cc with strong double-digit growth in Asia-Pacific and LatAm shrinking due to resale in Brazil. **By industry,** growth was led by Manufacturing (+12.6% at cc), then Financial Services (+6.5% at cc), Consumer & Retail (+3.1% at cc), and Telecom & Media (+2% at cc), while Energy & Utilities and Government were respectively down 7.3% and 7.5% at cc.

• **FY16 guidance confirmed.** Management reiterates FY16 guidance, i.e. sales up 7.5-9.5% at cc, i.e. an est. +2.5%/+4.5% lfl (BG est.: +3.3% lfl; consensus: +3.4% lfl), an operating margin of 11.3-11.5% (BG est.: 11.4%; consensus: 11.5%), and a free cash flow above EUR850m (BG est.: EUR892m; consensus: EUR897m). Q3 2016 bookings amounted to EUR2,792m, up 14% at cc on a year-on-year basis. In Energy & Utilities in North America, after several quarters of sharp decline, the revenue run rate is expected to stabilise in Q4 2016, but will still face tough comps until Q1 2017. The re-insourcing of the Aspire contract with HMRC is occurring as planned, will be completed by July 2017, and will create negative base effect throughout 2017 (-0.9ppt for Q4 2016, -1.3ppt for H1 2017, -1.1ppt for H2 2017). Finally, headwinds from resale in Brazil are expected to be limited in Q4 2016 and Q1 2017.

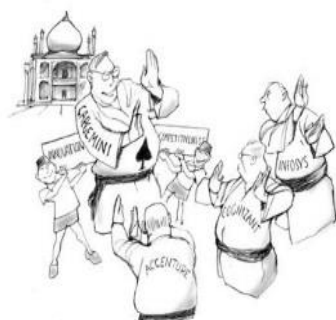
VALUATION

- Capgemini's shares are trading at est. 10.9x 2016 and 9.5x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR2,270m (net gearing: 36%).

NEXT CATALYSTS

Conference call today at 8.30am CET / 7.30am BST / 2.30am EDT (France: +33 1 70 77 09 36; UK: +44 20 33 67 94 57; USA: +1 866 907 59 25)

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| | |
|---------|---|
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