

Gemalto

Price EUR56.73

We have cut our estimates again to feel more comfortable for the next few years**Fair Value EUR60 vs. EUR62 (+6%)****NEUTRAL**

Bloomberg	GTO.FP
Reuters	GTO.PA
12-month High / Low (EUR)	65.5 / 49.8
Market Cap (EUR)	5,100
Ev (BG Estimates) (EUR)	5,240
Avg. 6m daily volume (000)	359.6
3y EPS CAGR	21.6%

We were not comfortable with our estimates prior to the Q3 revenue release (on 28th October, before trading), both for H2 2016e and FY 2017e. We have therefore reduced our 2016-18e EPS sequence by 6% on average (-6.4% in 2016e, -6.1% in 2017e and -5.3% in 2018e). We maintain our Neutral recommendation and have lowered our FV from EUR62 to EUR60. The stock is often a “value trap” and we advise investors to remain cautious as we expect the company to warn sooner or later.

ANALYSIS

- Gemalto is due to release its Q3 revenue on 28th October (before trading).** We have not yet received the consensus. To be consistent with the FY 2016 estimates we had, the company should have to post Q3 revenue of EUR819m (+7.1% lfl) which will be extremely difficult to achieve given that the SIM segment should drop by 10-15% and that the payment segment is set to slow down (high comps). For FY 2017, we had a PFO of EUR580.1m (+20% Y/Y, and 12% below the guidance), and note that to reach the company guidance of “over EUR660m” the PFO should have to increase by over 37% in 2017, which we consider totally impossible (the SIM market is difficult and the payment division is dilutive). As a result, **we have again cut our estimates to feel more comfortable both for 2016e and 2017e.**
- For 2016e, we now expect: 1/** revenue of EUR3,184m i.e.+2% Y/Y and +2.5% lfl (vs. EUR3,243.8m, +4.5% lfl); **2/** profit from operations of EUR475.2m i.e. +12.4% Y/Y and a margin of 14.9% (vs. EUR483.3m, +14.4% Y/Y) compared to the vague guidance of “accelerating its PFO expansion towards its 2017 objectives” meaning above the +10.4% growth reported last year; **3/** underlying EBIT of EUR430.7m i.e. a margin of 13.5% (vs. EUR438.9m); **and 4/** net profit of EUR264.9m i.e. a margin of 8.3% (vs. EUR288.7m). Thus, **we see Q3 revenue of EUR787.1m (+2.4% Y/Y and +3% lfl).**
- In 2017e, we now expect: 1/** revenue of EUR3,311.3m i.e.+4.0% lfl (vs. EUR3,406m, +5.0% lfl); **2/** PFO of EUR565.3m i.e. +19.0% Y/Y and a margin of 17.1% (vs. EUR580.1m, +20.0% Y/Y), namely ~14% below the company guidance of “over EUR660m”; **3/** underlying EBIT of EUR514.3m i.e. a margin of 15.5% (vs. EUR529.0m); **and 4/** net profit of EUR333.6m i.e. a net margin of 10.1% (vs. EUR356.7m).
- We expect the company to warn sooner or later: both on FY 2016e (vs. consensus) and FY 2017e (vs. the PFO guidance).** The appointment of the new CEO as of 1st September (Philippe Vallée, former COO) could help the group to do so by the end of this year.

VALUATION

- We have cut our 2016-2018 EPS sequence by 6% on average** (-6.4% in 2016e, -6.1% in 2017e and -5.3% in 2018e). As a result, **we have lowered our FV from EUR62 to EUR60** (average of 3 methods: a DCF of EUR61.0, a SOTP of EUR61.3 and 2-year historical multiples of EUR56.6). **The stock is often a “value trap”.**
- We advise investors to closely monitor the EUR52/share threshold because both the SIM and mobile Platforms & Services divisions would be valued at zero in our SOTP** (i.e. no risk in the Mobile segment).
- 2016 is very back-end loaded, visibility is poor, and we expect the company to warn regarding FY 2016e (vs. current consensus) and FY 2017e (vs. the PFO guidance).** And finally, short positions have been reduced (~6% declared but probably ~8% of the capital incl. positions under 0.5%) since a peak in October 2014 (21-22% of the capital incl. positions under 0.5%) but without a rally in the share price. As such, **we believe any disappointment could lead short-sellers to attack the stock again.**

NEXT CATALYSTS

- Gemalto Q3 revenue:** on 28th October (before trading).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.5%	-0.7%	-1.8%	2.6%
Softw.& Comp.	0.6%	9.8%	10.5%	6.6%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,122	3,184	3,311	3,477
% change		2.0%	4.0%	5.0%
EBITDA	345	499	592	652
EBIT	313.3	430.8	514.3	566.7
% change		37.5%	19.4%	10.2%
Net income	226.3	308.5	372.6	409.7
% change		36.3%	20.8%	10.0%

	2015	2016e	2017e	2018e
Operating margin	10.0	13.5	15.5	16.3
Net margin	4.2	8.3	10.1	10.9
ROE	5.4	9.8	11.1	11.4
ROCE	7.1	9.7	11.6	12.8
Gearing	13.4	5.2	-5.0	-14.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.53	3.43	4.14	4.55
% change	-	35.3%	20.8%	10.0%
P/E	22.4x	16.6x	13.7x	12.5x
FCF yield (%)	3.4%	4.9%	6.8%	8.0%
Dividends (EUR)	0.47	0.51	0.55	0.59
Div yield (%)	0.8%	0.9%	1.0%	1.0%
EV/Sales	1.7x	1.6x	1.5x	1.3x
EV/EBITDA	15.7x	10.5x	8.4x	7.1x
EV/EBIT	17.3x	12.2x	9.6x	8.2x



Consensus and BG estimates (new vs. old) for 2016 and 2017e

EURm	2015 (reported)	BG 2016e (old)	BG 2016e (new)	Cons. 2016e	BG 2017e (old)	BG 2017e (new)	Cons. 2017e
Sales	3,121.6	3,243.8	3,184.0	3,202	3,406.0	3,311.3	3,410
<i>Y/Y change</i>	26.6%	3.9%	2.0%	2.6%	5.0%	4.0%	6.5%
<i>Y/Y change (fl)</i>	4.0%	4.5%	2.5%		5.0%	4.0%	
PFO	422.6	483.3	475.2		580.1	565.3	
<i>Margin</i>	13.5%	14.9%	14.9%		17.0%	17.1%	
EBIT	203.3	386.7	379.4		476.7	463.2	
<i>Margin</i>	6.5%	11.9%	11.9%		14.0%	14.0%	
Current EBIT	313.3	438.9	430.8	439	529.0	514.3	525
<i>Margin</i>	10.0%	13.5%	13.5%	13.7%	15.5%	15.5%	15.4%
Net profit	136.9	288.7	264.9	284	356.7	333.6	354
<i>Margin</i>	4.4%	8.9%	8.3%	8.7%	10.5%	10.1%	10.1%
Attrib. net profit	134.1	288.5	264.7		356.4	333.3	
<i>Margin</i>	4.3%	8.9%	8.3%		10.5%	10.1%	
Rest. attrib. net	226.3	329.7	308.5	341.5	396.7	372.6	405
<i>Margin</i>	7.3%	10.2%	9.7%	10.7%	11.6%	11.3%	11.9%
Net debt	334.7	80.0	140.8	148	-228.7	-151.0	-22
<i>Gearing</i>	13.4%	2.9%	5.2%		-7.5%	-5.0%	

PFO (Profit From Operations) is an underlying EBIT before stock options

Sources: Bryan, Garnier & Co ests; Thomson Reuters consensus.

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Analyst :
Richard-Maxime Beaudoux
33(0) 1.56.68.75.61
rmbeaudoux@bryangarnier.com

Sector Team :
Thomas Coudry
Gregory Ramirez
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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