27th October 2016

TMT

Ingenico Group

Price EUR75.17

Good resilience in Q3 and momentum not very strong until H1 2017, but valuation too low

Fair Value EUR112 (+49%) **BUY**

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	121.3 / 70.1
Market Cap (EUR)	4,622
Ev (BG Estimates) (EUR)	4,706
Avg. 6m daily volume (000)	304.0
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.6%	-31.6%	-24.8%	-35.5%
Softw.& Comp.	-2.4%	2.6%	9.5%	5.3%
DJ Stoxx 600	0.5%	0.1%	-1.6%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,197	2,278	2,474	2,694
% change		*3.7%*	*8.6%*	*8.9%*
EBITDA	508	456	520	593
EBIT	436.5	387.3	445.4	511.9
% change		*-11.3%*	*15.0%*	*14.9%*
Net income	273.7	251.1	294.8	344.3
% change		*-8.3%*	*17.4%*	*16.8%*

	2015	2016e	2017e	2018e
Operating margin	19.9	17.0	18.0	19.0
Net margin	10.8	10.0	10.8	11.9
ROE	15.2	13.0	13.4	14.1
ROCE	16.5	14.5	17.0	19.9
Gearing	16.7	4.9	-9.2	-22.1

(EUR)	2015	2016e	2017e	2018e
EPS	4.47	4.09	4.80	5.61
% change	*-*	*-8.5%*	*17.4%*	*16.8%*
P/E	16.8x	18.4x	15.7x	13.4x
FCF yield (%)	6.0%	5.9%	6.8%	7.8%
Dividends (EUR)	1.30	1.27	1.49	1.79
Div yield (%)	1.7%	1.7%	2.0%	2.4%
EV/Sales	2.2x	2.1x	1.8x	1.5x
EV/EBITDA	9.6x	10.3x	8.6x	7.0x
EV/EBIT	11.2x	12.2x	10.0x	8.1x

ING posted a better-than expected set of Q3 sales (+7% lfl vs. cons. +3% and BG est. +2.5%), reflecting good resilience. Situation is mixed for payment terminals (strong in EMEA and APAC i.e. 85% of sales, but difficult and with high comps in the US and Brazil i.e. 15% of sales) and very good for payment services (both for in-store and ePayments). The group maintained its 2016 guidance, namely >=7% in lfl sales growth and >=20% in EBITDA margin. Even if the momentum is not very attractive until H1 2017, the EBITDA margin hypothesis we have to put into a reverse DCF to justify the current price is excessively low and illogical. Buy recommendation and FV of EUR112 maintained.

ANALYSIS

- **Better-than-expected Q3 sales: revenue came in at EUR570m**, up 4% Y/Y and **+7% lfl** (9 months: +10% lfl) vs. consensus of EUR551m up 3% lfl and BG ests. EUR546.5m up 2.5% lfl. **1) The situation is mixed for Payment Terminals at EUR384m up 2% lfl** (9 months: +10% lfl): strong in Europe & Africa +22% (replacement cycle for PCI V1 terminals was still strong) and APAC & Middle East +12% (mainly thanks to China and Telium Tetra deployment in Australia), but difficult and with high comps both in North America -31% (because of the US i.e. 10% of sales: change in EMV rules during the summer has masked the market share gains in some verticals and the solid perf. in Canada) and in Latam -24% lfl (because of Brazil i.e. 5% of sales: difficult macroeconomic conditions). **2) Payment Services outperformed at EUR186m up 18% lfl** (9 months: +9% lfl) thanks to in-store payments but above all e-Payments +22% (high flows from certain key customers, it benefitted from some outage at Worldpay's platform, and a favourable comparison basis).
- **FY16 guidance reiterated:** organic revenue growth >= 7% and EBITDA margin >=20% (vs. cons. 20.1%; BG est. 20.0%). Management foresees the following trends for the coming quarters. **1) By main geography:** a) after several quarters of exceptional growth in Europe-Africa, ING anticipates a slowdown in the PCI V1 replacement cycle; b) APAC & Middle East should continue to grow thanks to countries where ING has recently entered; c) sales declines in Latam should progressively stabilise; d) activity in North America should be further affected by unfavourable comps in Q4 and at the start of 2017. However, market share gains are expected in new segments in the US. **2) In ePayments:** ING expects a good level of growth (two thirds of the Payment Services division). **We maintain our 2016 forecasts**, namely revenue of EUR2,278.2m (+3.7% Y/Y and +7.1% lfl; consensus +7%) and EBITDA of EUR455.6m (margin of 20%; consensus 20.1%).
- **A 2017 guidance should be given at FY 2016 earnings release.** The management gave no guidance for FY 2017 as it is working on its budget. However, we know that **1)** the comparison basis will be unfavourable until the end of H1 2017 in the US and Brazil, but that H2 should benefit from better comps, the pick-up of the EMV migration in the US (BG est. +5% for FY 2017), a stabilization in Brazil, the start of EMV in Japan and ramp-up in new markets (Thailand, Vietnam, Indonesia…); **2)** ePayments should deliver a solid growth in line with the market over the FY (BG est. +15%). **As a result, we maintain our 2017 forecasts for the whole group:** lfl revenue growth of 8% with an EBITDA margin of 21.0% (+100bp Y/Y). The group should give its first guidance for FY 2016 results (23rd February).

VALUATION

- **To justify Ingenico's current share price in a reverse DCF over 10 years, we would have to assume a 7% top-line organic growth with an EBITDA margin of only 14.5%** (vs. FY16 guidance of >=7% and >=20% respectively). Such a top-line growth is cautious but not improbable, however the 14.5% is completely illogical as we know that 2016 EBITDA margin (20%) will be a floor in its mid-term plan (given the specific efforts made in 2016 to develop and bring to market its offerings in ePayments and to roll out its new terminal products).
- **We maintain our Buy recommendation and FV of EUR112**. The share is trading at **undemanding multiples**: EV/EBITDA of 10.2x in 2016e and 8.5x in 2017e, and P/E of 18.4x and 15.7x respectively.

NEXT CATALYSTS

- **FY16 earnings results:** on 23rd February, 2017 (after markets).

Main P&L items over 2015-2017e

EURm	2015	BG 2016e	Consensus 2016	Guidance 2016	BG 2017e
Sales	**2,197.3**	**2,278.2**	**2,285**		**2,474.5**
Y/Y change	*36.7%*	*3.7%*	*4%*		*8.6%*
Lfl change	*13.9%*	*7.1%*	*7%*	*>=7%*	*8.0%*
EBITDA	**508.0**	**455.6**	**462**		**519.6**
Margin	*23.1%*	*20.0%*	*20.1%*	*>=20%*	*21.0%*
EBIT	**380.8**	**345.3**	**-**		**404.4**
Margin	*17.3%*	*15.2%*	*-*		*16.3%*
Restated EBIT	**436.5**	**387.3**	**-**		**445.4**
Margin	*19.9%*	*17.0%*	*-*		*18.0%*
Net profit	**234.7**	**225.1**	**-**		**263.4**
Margin	*10.7%*	*9.9%*	*-*		*10.6%*
Adj. net profit	**273.7**	**251.1**	**-**		**294.8**
Margin	*12.5%*	*11.0%*	*-*		*11.9%*

Sources: Company consensus (from 23 analysts, 17/10/16); Bryan Garnier & Co. ests.

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