

Temenos Group

Price CHF67.25

Success breeds success

Fair Value CHF77 vs. CHF71 (+14%)

BUY

Bloomberg	TEMN.SW
Reuters	TEMN.SW
12-month High / Low (CHF)	67.6 / 41.4
Market Cap (CHFm)	4,679
Ev (BG Estimates) (CHFm)	4,792
Avg. 6m daily volume (000)	210.0
3y EPS CAGR	19.0%

We are reiterating our Buy recommendation and have increased our DCF-derived Fair Value to CHF77 (vs. CHF71) after taking into account a more favourable scenario for margins. We estimate that Temenos' high valuation is justified by annual EPS growth of almost 20% driven for years by a wave of IT modernisation at banks. In our view, the share is a growth stock *par excellence*.

ANALYSIS

- Market growing by 8% a year.** Faced with the boom in digital, the "client experience" trend and "uberisation" of the industry by the emergence of new rivals (fintech companies), banks are gradually starting to modernise their IT systems. These strategic plans are spread over four/five years on average, often implying the replacement of the core banking system by a vendor's software platform.
- A spiral of success.** Since 2015, Temenos has restored double-digit organic growth, driven by business with tier 1 and tier 2 banks, in a logical follow-up to good architectural choices and partnerships to integrate and extend the product offer, carried out over the past 5/10 years. We believe this growth is sustainable thanks to Temenos' rising ability to win business contracts worth at least USD5m (Nordea, Standard Chartered, Bank of Ireland...).
- Potential upgrade to guidance.** Following the signing with the Bank of Ireland, we expect Temenos to increase its 2016 estimates (sales up 7.5-11% lfl, non-IFRS EBIT margin of 30%). Beyond 2016, we estimate that profitability should benefit from the improvement in the services margin and a double-digit increase in software licencing sales.

VALUATION

- A high but justified valuation.** The Temenos share is trading on 2016e and 2017e EV/EBIT multiples of 23.7x and 20.2x. This demanding valuation is justified in our view since we forecast average EPS growth of almost 20% a year, and this is likely to be upgraded.
- Net debt on 30th June 2016 was USD288.4m (net gearing: 78%).

NEXT CATALYSTS

Q3 2016 results on 19th October after markets close.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	12.7%	29.6%	31.3%	29.5%
Softw.& Comp.	0.1%	12.2%	13.3%	6.7%
DJ Stoxx 600	-1.5%	2.2%	2.2%	-7.0%

YEnd Dec. (US\$m)	2015	2016e	2017e	2018e
Sales	542.5	620.5	684.1	757.3
% change		14.4%	10.3%	10.7%
EBITDA	212	253	283	316
EBIT	96.8	151.6	182.1	213.7
% change		56.7%	20.1%	17.4%
Net income	121.0	159.1	184.3	213.1
% change		31.5%	15.8%	15.6%

	2015	2016e	2017e	2018e
Operating margin	30.8	32.9	33.9	34.8
Net margin	12.2	18.3	20.5	22.3
ROE	17.7	24.8	24.9	23.1
ROCE	23.9	31.6	39.6	51.6
Gearing	71.2	24.9	-9.7	-39.8

(US\$)	2015	2016e	2017e	2018e
EPS	1.82	2.29	2.65	3.06
% change	-	26.0%	15.8%	15.6%
P/E	37.5x	29.8x	25.7x	22.2x
FCF yield (%)	3.5%	4.1%	4.5%	5.2%
Dividends (US\$)	0.45	0.50	0.55	0.60
Div yield (%)	0.7%	0.7%	0.8%	0.9%
EV/Sales	9.2x	7.8x	6.8x	5.9x
EV/EBITDA	23.6x	19.2x	16.6x	14.0x
EV/EBIT	30.0x	23.7x	20.2x	16.9x



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Distribution of stock ratings

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