Worldline

Price EUR26.47

We consider the current share price as a good entry point

Fair Value EUR31 (+17%) **BUY**

Bloomberg	WLN FP
Reuters	WLN.PA
12-month High / Low (EUR)	29.1 / 19.0
Market Cap (EUR)	3,498
Ev (BG Estimates) (EUR)	3,039
Avg. 6m daily volume (000)	72.10
3y EPS CAGR	11.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.5%	5.3%	15.3%	10.9%
Softw.& Comp.	-1.1%	16.9%	12.8%	6.6%
DJ Stoxx 600	-3.1%	5.4%	3.5%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,227	1,286	1,350	1,418
% change		*4.8%*	*5.0%*	*5.0%*
EBITDA	235	257	277	301
EBIT	174.9	200.6	217.4	238.2
% change		*14.7%*	*8.4%*	*9.6%*
Net income	122.9	141.7	154.4	169.1
% change		*15.3%*	*8.9%*	*9.6%*

	2015	2016e	2017e	2018e
Operating margin	14.3	15.6	16.1	16.8
Net margin	8.4	10.3	11.3	11.8
ROE	13.1	14.4	14.6	14.3
ROCE	29.0	31.7	35.8	41.6
Gearing	-41.0	-49.8	-58.3	-65.1

(EUR)	2015	2016e	2017e	2018e
EPS	0.91	1.05	1.14	1.25
% change	-	*15.3%*	*8.9%*	*9.6%*
P/E	29.1x	25.2x	23.1x	21.1x
FCF yield (%)	3.7%	3.2%	4.8%	5.2%
Dividends (EUR)	0.00	0.25	0.29	0.32
Div yield (%)	NM	0.9%	1.1%	1.2%
EV/Sales	2.6x	2.4x	2.1x	1.9x
EV/EBITDA	13.5x	11.8x	10.4x	9.1x
EV/EBIT	18.2x	15.1x	13.3x	11.5x

After losing 9% since its peak on 2nd September, we believe the current price is attractive enough to play positive momentum and more visibility in a couple of days. This should begin with the Q3 release on 19th October (the group should give FY guidance including the Equens/Paysquare and KB deals, in order for the consensus to officially integrate them into its model), and Atos' capital market day on 8th November). At 9.7x EV/EBITDA over 12 rolling months, we advise investors to target 12x. Then, in the coming months, the group has the means to sign a new acquisition to give even more upside to this multiple. We maintain our Buy recommendation and FV of EUR31.

ANALYSIS

- **Given the underperformance of the Worldline share in recent weeks** (-9% since its highest level on 2nd September), **we see the current price as very attractive** (upside of 17%).
- **2016e: 1)** Q1: 9.5% underlying revenue growth and -3% from the VOSA contract = +6.5% lfl; **2)** Q2: 8.6% underlying revenue growth and -3% from the VOSA contract = +5.6% lfl (comparison basis effect). This means +6% lfl over H1 2016; **3)** Q3: 7-8% underlying revenue growth, -3% from the VOSA contract and -5% from the radar contract= -1-0% lfl; **4)** Q4: 8% in underlying revenue growth and -5% from the radar contract = +3% lfl. This means 8% in underlying revenue growth over FY 2016 = +3.5% lfl over FY 2016. **So, Worldline is able to generate 7-8% underlying revenue growth. We do not expect any disappointment on margins** (as for Atos, management has an excellent track record on the operating level, and is good at cutting costs).
- **2017e: 1)** H1: 7% underlying revenue growth, – 5% from the radar contract = +2% lfl. **2)** H2: 7% underlying revenue growth - 0% (end of contract losses) = +7% lfl. **This points to 7% underlying revenue growth over the full year 2016, i.e. +4.5% lfl over FY 2017. As this is a fixed cost business, there will be an operating leverage (margin improvement).**
- **We strongly believe that WLN will give FY guidance including the Equens/Paysquare and KB deals during the next set of figures, namely Q3 revenue 2016 on 19th October. 1)** Q3 revenue will be the lowest growth of the year because of the first radar contract loss impact (BG estimate: EUR293.4m, -0.9% Y/Y lfl in Q3), however we expect Q4 to resume growth with +3% lfl; **2)** the consensus will at last integrate this into their models and this should drive EPS upwards and of course target prices (our FV of EUR31 already integrates these two deals).
- **Atos will hold an investor day on 8th November** to give mid-term guidance (2019 or 2020 in our view), which should include a part dedicated to Worldline. It should show organic revenue growth of 5-7% and a strong margin improvement (strong synergies from the Equens deal as of 2018).
- **What is not integrated into the current share price ? 1)** the next M&A deal (probably a platform from a bank subsidiary in Central Europe or Eastern Europe); **2)** the strong margin improvement we expect in 2018 and 2019 linked to the synergies from Equens.

Simulation: Worldline with consolidation of Equens and KB and the end of the French radar contract

EURm	2016e	2017e	2018e	2019e
Revenue	1,311.9	1,607.7	1,685.6	1,767.2
Lfl growth	*3.5%*	*4.5%*	*4.8%*	*4.8%*
EBITDA	261.8	320.6	348.0	374.0
Margin	*20.0%*	*19.9%*	*20.6%*	*21.2%*
Synergies	4.0	20.0	40.0	45.0
EBITDA after synergies	265.8	340.6	388.0	419.0
Margin	*20.3%*	*21.2%*	*23.0%*	*23.7%*
Current EBIT	201.0	251.7	295.1	335.6
Margin	*15.3%*	*15.7%*	*17.5%*	*19.0%*
EBIT	165.7	235.8	281.3	327.7
Margin	*12.6%*	*14.7%*	*16.7%*	*18.5%*
Restated attrib. net income	134.5	163.7	188.1	211.4

Source: Bryan, Garnier & Co ests.

Worldline's multiples based on our simulation

x	2016e	2017e	2018e
EV/Sales	2.4	1.8	1.7
EV/EBITDA	12.0	9.0	7.5
EV/current EBIT	15.9	12.1	9.8
P/E	26.6	21.8	19.0

Source: Bryan, Garnier & Co ests.

VALUATION

- **Our FV of EUR31 integrates the Equens/Paysquare and KB deals (upside of 17%)** but the consensus has yet to do this.
- Over 2016 the share is fully valued at 12x EBITDA (i.e. consistent with its positioning as a physical PSP), however **on 12 rolling months it is at only 9.7x (we see upside up to 12x). And, of course, it is even more attractive in 2017 at 9.0x.**
- **We believe Worldline could step up M&A activity again.** This could offer even higher leverage to EV/Ebitda (to target 12x).

NEXT CATALYSTS

- **Q3 revenue:** 19th October (after trading).
- **Atos' Capital Market Day:** 8th November.

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