

Worldline

Price EUR25.89

Positive momentum is just starting

Fair Value EUR32 vs. EUR31 (+24%)

BUY

Bloomberg	WLN.FP
Reuters	WLN.PA
12-month High / Low (EUR)	29.1 / 19.0
Market Cap (EURm)	3,422
Ev (BG Estimates) (EURm)	3,052
Avg. 6m daily volume (000)	75.70
3y EPS CAGR	15.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.0%	-0.3%	14.0%	8.5%
Softw. & Comp.	-0.8%	9.7%	8.7%	6.4%
DJ Stoxx 600	0.7%	1.9%	-1.6%	-6.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,227	1,312	1,608	1,686
% change		6.9%	22.6%	4.8%
EBITDA	235	262	341	388
EBIT	174.9	197.0	251.7	295.1
% change		12.6%	27.8%	17.2%
Net income	122.9	133.7	163.4	189.6
% change		8.8%	22.2%	16.0%

	2015	2016e	2017e	2018e
Operating margin	14.3	15.0	15.7	17.5
Net margin	8.4	11.5	9.5	11.3
ROE	13.1	16.1	13.9	14.8
ROCE	29.0	24.3	36.5	44.3
Gearing	-41.0	-39.4	-49.4	-58.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.91	0.99	1.21	1.40
% change	-	8.8%	22.2%	16.0%
P/E	28.4x	26.1x	21.4x	18.4x
FCF yield (%)	3.8%	4.1%	5.7%	6.8%
Dividends (EUR)	0.00	0.29	0.28	0.34
Div yield (%)	NM	1.1%	1.1%	1.3%
EV/Sales	2.5x	2.3x	1.8x	1.6x
EV/EBITDA	13.2x	11.6x	8.5x	7.0x
EV/EBIT	17.7x	15.5x	11.5x	9.2x



Worldline has posted Q3 sales at the high-end of our estimated range (between -1% and 0% lfl: we were at the bottom and the consensus at the top). Management gave the first contribution of Equens/Paysquare/KB for Q4, which was in line with the consensus simulation. We see positive momentum: Q3 revenue growth will be the lowest lfl performance of FY16, the consensus is at last set to integrate the latest acquisitions into its model and valuation, the 3-year plan for Worldline will be given at the Atos investor day (8th November), the Equens integration has started (synergies of EUR40m), and we see potential new M&A deals offering further upside to EV/EBITDA. Buy rating – FV raised from EUR31 to EUR32.

ANALYSIS

- Q3 sales were at the high-end of our estimated range of -1/0% lfl: revenue came out at EUR294.3m i.e. up 0.2% lfl (+4.1% lfl over the first 9 months) vs our est. of EUR290.9m (-0.9% lfl) and consensus of EUR294.2m (+0.2% lfl).** Q3 revenue growth is the lowest of the year because of two cumulated impacts (VOSA contract loss -3%, and radar contract loss -5%). **By division: 1) Merchants services & Terminals up 5% lfl at EUR101.6m (+7.9% for the first 9 months); 2) Financing processing & Software licensing up 4.4% lfl at EUR107.6m (+4.5% lfl for the first 9 months); 3) Mobility & e-transactional services down 9.3% lfl at EUR85.1Xm (-0.4% for the first 9 months),** impacted by the termination of both the radar contract and by the VOSA contract. **The FCF was at EUR111.3m (incl. EUR40.1m in Q3), and the backlog totalled EUR1.7bn (i.e. 1.4 years of revenue). In all, Q3 was in line with expectations and Worldline's standalone FY 2016 targets, namely >3% in lfl sales growth, +80bp in EBITDA margin and EUR135m-140m in FCF. The first estimated contribution from acquisitions in Q4 2016 are in line with expectations: c. EUR80m in revenue (vs. BG simulation EUR83m and cons. simulation EUR82m), c. EUR10m in EBITDA (vs. BG and cons. EUR12m), with a positive net contribution to the FCF.**
- What about the rest of 2016e?** Q4: 7-8% in underlying revenue growth and -5% from the radar contract = 2-3% lfl growth. 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 (management has an excellent track record on the operating level, and is good at cutting costs). **What about 2017e?** H1: 7% underlying revenue growth and -5% from the radar contract = +2% lfl. H2: 7% underlying revenue growth (end of contract losses) = +7% lfl. This points to 7% underlying revenue growth over the full year 2017, i.e. +4.5% lfl. As this is a fixed cost business, there should be operating leverage. **We have upgraded our EPS sequence by +4.1% on average (-5.7% in 2016, +5.9% in 2017 and +12.1% in 2018).**
- Momentum is positive: 1) Q3 revenue will be the lowest growth of the year, so we expect Q4 to resume growth with lfl growth of 2-3% (the end of the VOSA loss impact was in Q3 2016); 2) now that Worldline's management has given its FY guidance including Equens/Paysquare/KB, analysts will at last integrate them in their models. As a result, this should drive their EPS estimates upwards and of course their target prices (our FV already integrated these three deals); 3) Atos will hold an investor day on 8th November. to give its mid-term guidance (2019), which will include a part for Worldline. It should show lfl revenue growth of 5-7% (BG. +4.8%) and a strong margin improvement (significant synergies from the Equens deal as of 2018: EUR40m).**
- What is not integrated into the current share price in our view? 1) the next M&A deal (probably a platform from a bank subsidiary in Central or Eastern Europe); 2) the strong EBITDA margin improvement we expect in 2018 and 2019 we be linked to the synergies from the Equens deal (Worldline will provide the first answer during Atos investor day by giving 2019 targets).**

VALUATION

- We have adjusted upwards our FV from EUR31 to EUR32.** Our new FV is based on our official figures (vs. previously based on our simulation with Equens/Paysquare/KB).
- Over 2016 the share is almost fully valued at 11.6x EV/EBITDA (i.e. not far from being consistent with its positioning as a physical PSP), however over 12 rolling months it is at only 9.3x (we advise investors to target 12x).** And, of course, it is even more attractive in 2017e at 8.5x.
- Worldline could step up M&A activity again.** This could offer higher leverage on EV/EBITDA.

NEXT CATALYSTS

- **Atos 2016 investor day:** 8th November 2016.

Worldline including the acquisitions of Equens/Paysquare and KB from 2016e to 2019e

EURm	BG 2016e	Cons. 2016	BG 2017e	BG 2018e	BG 2019e
Revenue	1,311.9	1,315	1,607.7	1,685.6	1,767.2
<i>Lfl growth</i>	3.5%	3.5%	4.5%	4.8%	4.8%
Synergies	0	-	20.0	40.0	45.0
EBITDA after synergies	261.8	261	340.6	388.0	419.0
<i>Margin</i>	20.0%	19.8%	21.2%	23.0%	23.7%
Current EBIT	197.0		251.7	295.1	335.6
<i>Margin</i>	15.3%		15.7%	17.5%	19.0%
Synergy Implementation costs	-8		-20	-12	-5
EBIT	221.2		228.7	280.1	327.6
<i>Margin</i>	16.9%		14.2%	16.6%	18.5%
Restated attrib. net income	133.7		163.4	189.6	213.7

Sources: Bryan, Garnier & Co ests; company consensus based on analysts' simulations (14/10/16).

Worth noting regarding our estimates:

- **EUR40m run-rate OMDA savings from 2018** (50% in 2017 and 100% in 2018). Synergy implementation costs c. EUR40m from 2016 to 2018 (20% in 2016, 50% in 2017 and 30% in 2018).
- **Additional run-rate savings from 2021** through application platforms convergence for c. EUR15m p.a. (33% in 2019, 67% in 2020 and 100% in 2021). **Synergy implementation costs** c. EUR25m over 5 years (EUR5m p.a).
- **We have revised our EPS sequence by -5.7% in 2016e, +5.9% in 2017e +12.1% in 2018e and +16.9% in 2019e.**

Worldline's multiples including the acquisitions of Equens/Paysquare and KB over 2016-2018e

x	2016e	2017e	2018e
EV/Sales	2.3	1.8	1.6
EV/EBITDA	11.6	8.5	7.0
EV/current EBIT	15.5	11.5	9.2
P/E	26.1	21.4	18.4

Source: Bryan, Garnier & Co ests.

[Click here to download document](#)



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

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56.7%

NEUTRAL ratings 31.2%

SELL ratings 12.1%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

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
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
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
				Regulated by the FINMA

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available.