9th November 2016

TMT

Atos

Price EUR94.70

Feedback from Capital Markets Day: digital transformation entering stage 2

Fair Value EUR114 vs. EUR104 (+20%) **BUY**

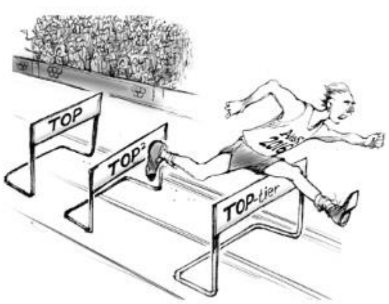
Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	97.8 / 62.7
Market Cap (EUR)	9,921
Ev (BG Estimates) (EUR)	9,188
Avg. 6m daily volume (000)	282.5
3y EPS CAGR	15.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.1%	7.1%	21.1%	22.3%
Softw.& Comp.	-5.0%	-1.8%	8.3%	1.3%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	10,686	11,719	12,322	12,670
% change		*9.7%*	*5.1%*	*2.8%*
EBITDA	1,334	1,536	1,719	1,816
EBIT	589.0	826.0	919.0	1,017
% change		*40.2%*	*11.3%*	*10.7%*
Net income	610.0	730.0	876.0	967.0
% change		*19.7%*	*20.0%*	*10.4%*

	2015	2016e	2017e	2018e
Operating margin	8.6	9.3	10.1	10.5
Net margin	4.0	5.1	5.7	6.3
ROE	9.9	13.2	13.5	13.6
ROCE	22.9	25.9	42.5	49.0
Gearing	-14.0	-17.0	-49.0	-58.0

(€)	2015	2016e	2017e	2018e
EPS	5.83	6.89	8.24	9.03
% change	-	*18.2%*	*19.6%*	*9.6%*
P/E	16.2x	13.7x	11.5x	10.5x
FCF yield (%)	4.0%	5.5%	6.5%	8.5%
Dividends (€)	0.90	1.10	1.40	1.55
Div yield (%)	1.0%	1.2%	1.5%	1.6%
EV/Sales	0.9x	0.8x	0.6x	0.5x
EV/EBITDA	7.0x	6.0x	4.4x	3.7x
EV/EBIT	10.2x	8.4x	6.1x	5.0x



We reiterate our Buy recommendation and raise our DCF-derived Fair Value to EUR114 from EUR104 as we raise our medium-term adj. EBIT margin assumption (11% vs. 10.5% = +EUR5/share) and lower our mid-term tax rate (20% vs. 26% = +EUR5), following the Investor Day held yesterday in Bezons. Levers for an op. margin of 10.5-11% in 2019 (vs. a pro forma of 9-9.3% for 2016) will be Systems Integration (+0.7ppt), Managed Services (+0.6ppt), Worldline (+0.6ppt) and Big Data & Cybersecurity (+0.15ppt). Lfl sales growth will benefit from a boost from all divisions, except Managed Services.

ANALYSIS

- **2019 ambitions unveiled**. As announced yesterday, Atos aims to deliver 2-3% lfl sales growth over 2017-2019 (i.e. an est. EUR12.7-13.1bn in 2019 from a pro forma base of c. EUR12m for 2016), a non-IFRS operating margin of 10.5-11% in 2019 (i.e. an est. EUR1.35-1.45bn) from an est. pro forma of 9-9.3% for 2016 (actual guidance: 9.2-9.5%), and a FCF/EBITA ratio of c. 65% in 2019 (i.e. an est. EUR870-940m) vs. an est. c. 50% for 2016 (>EUR550m). The levers to reach these targets will be: 1) consolidating leadership in Managed Services; 2) Catching-up in Systems Integration growth and profitability towards peers; 3) rolling out a sales process based on digital transformation offerings and industrialisation; 4) developing Worldline as a clear European leader in payments; 5) leveraging solutions in Big Data & Cybersecurity to sustain double digit growth.
- **Detailed targets by division**. 1) in Managed Services, the goal is a lfl sales CAGR of 0-1% (from c. EUR6.6bn in 2016) while improving the margin by 0.5-1ppt to an est. 10.5-11% (from c. 10%) driven by sales mix, automation and operating efficiency; 2) in Systems Integration, the goal is a lfl sales CAGR of 3-4% (from c. EUR3.2bn) - driven by digital and North America - while improving the margin by 2-2.5ppt to an est. 9.5-9.5% (from c. 7%) thanks to business mix (offshoring in India = 0.7-0.9ppt boost), productivity and industrialisation; 3) in Big Data & Cybersecurity, the goal is a lfl sales CAGR of 12%+ (from c. EUR660m) - driven by joint sales with other divisions and overseas expansion - while keeping a flat margin at c. 16%; 4) for Worldline, the goal is a lfl sales CAGR of 5-7% as of H2 2017 (from EUR1.5bn pro forma) while raising the EBITDA margin by 3.5-4ppt to an est. 22-22.5% (from c. 18.5% pro forma) and the FCF by 50% to EUR210-230m.
- **Unveiling the Digital Transformation Factory**. Digital offerings are expected to account for 13% of revenues in 2016, and Atos aims to reach c. 40% in 2019, thanks to four global offers: Atos Canopy Orchestrated Hybrid Cloud (c. EUR700m sales in 2016, est. EUR1.7bn in 2019), SAP HANA by Atos (c. EUR100m in 2016, est. EUR700m in 2019), Atos Digital Workplace (c. EUR200m in 2016, est. EUR1.3bn in 2019), and Atos Codex (business analytics and IoT solutions, c. EUR500m in 2016, est. EUR1bn in 2019). The migration of existing customers to hybrid cloud, SAP HANA or S/4HANA or to a 'digital workplace' will be a burden to growth but should be more than offset by new services, expanded scope and market share gains, while being accretive to the margin.
- **Use of cash, tax rate and pensions**. 1) Atos intends to maintain its dividend policy, with a 25-30% pay-out ratio, and there is no 'dogma' regarding share buy-backs and paying dividends in shares; 2) on acquisitions, management intends to maintain the same financial discipline it has had so far, Atos has headroom of EUR4bn for M&A, and we see Worldline and North America as the main acquisition priorities; 3) thanks to the ability to use Unify's tax loss carry forwards, Atos will reduce its tax rate below 20% (18% could be a 'fair' assumption); 4) on pensions, over 2017-19, Atos will continue to reduce annual service costs and stabilise annual cash-out around EUR95m per year.

VALUATION

- Atos' shares are trading at est. 8.4x 2016 and 6.1x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR412.3m (net gearing: -10%).

NEXT CATALYSTS

FY16 results on 22nd February 2017 before markets open.

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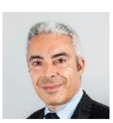

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