

## Compass Group

Price 1,326p

Feedback: Headwinds remain. FV lowered

Fair Value 1430p vs. 1450p (+8%)

NEUTRAL

Bloomberg	CPG LN
Reuters	CPG.L
12-month High / Low (p)	1,548 / 1,077
Market Cap (GBpm)	21,779
Ev (BG Estimates) (GBpm)	24,653
Avg. 6m daily volume (000)	3 659
3y EPS CAGR	12.4%

H2 was definitely lower than anticipated especially after a challenging Q4 in Europe and in the Offshore & Remote businesses. The first part of FY 2016-17 should remain on the same trend in these two segments, with management expecting a rebound in H2 with positive comps. In all, FY2016-17 lfl revenue growth should be at the bottom of the medium term target range i.e. 4-6% with limited margin improvement. Note that at the current exchange rate, forex will have a positive impact on the P&L account. After adjustments, our FV moves to 1430p. Neutral confirmed.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.7%	-11.3%	3.6%	12.9%
Travel&Leisure	2.2%	-2.2%	-6.9%	-15.6%
DJ Stoxx 600	-1.0%	0.2%	0.9%	-6.8%

## ANALYSIS

- Lower lfl revenue growth guided for FY 2016-17:** In fact, management guided on around 4% lfl revenue growth i.e. at the bottom of the medium term target 4-6% (our forecast was at 5.3%) after 5% in 2015-16. Moreover, Q1 will be on the same trend than Q4 2015-16 i.e. with lfl growth below 3% o/w around 0% in **Europe** (28% of consolidated revenue) and negative at around 5% in the **RoW** (16% of revenue). **North America** (56%) should remain robust, more or less on the same trend than last year.
- Strong currency effect on EBIT but limited EBIT margin improvement:** Having completed restructuring mesures for a total amount of £51m over the two year programme, margin should improve slightly vs. last year (we are expecting 5bps to 7.3% vs. 15bps previously). Note that the P&L account should largely benefit from the plunge in sterling against most of main currencies with an impact on EBIT of c.£200m (only translation effect).

YEnd Sept. (GBpm)	09/15	09/16	09/17e	09/18e
Sales	17,843	19,871	22,943	24,068
% change		11.4%	15.5%	4.9%
EBITDA	1,636	1,835	2,144	2,269
EBIT	1,287	1,435	1,674	1,776
% change		11.5%	16.6%	6.1%
Net income	878.0	1,002	1,162	1,245
% change		14.1%	15.9%	7.2%

	09/15	09/16	09/17e	09/18e
Operating margin	7.2	7.2	7.3	7.4
Net margin	4.9	5.0	5.1	5.2
ROE	45.0	39.8	34.0	27.6
ROCE	19.7	18.7	18.9	18.2
Gearing	133.5	114.0	87.7	58.3

(p)	09/15	09/16	09/17e	09/18e
EPS	52.83	60.29	69.90	74.93
% change	-	14.1%	15.9%	7.2%
P/E	25.1x	22.0x	19.0x	17.7x
FCF yield (%)	4.4%	5.6%	4.8%	5.1%
Dividends (p)	29.40	31.70	34.95	41.21
Div yield (%)	2.2%	2.4%	2.6%	3.1%
EV/Sales	1.4x	1.2x	1.1x	1.0x
EV/EBITDA	14.9x	13.4x	11.6x	10.8x
EV/EBIT	18.9x	17.2x	14.8x	13.7x

## Main changes

	2016			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	19 600	19 871	1,4%	22 487	22 943	2,0%	23 739	24 068	1,4%
EBITDA	1 807	1 835	1,6%	2 119	2 144	1,2%	2 251	2 269	0,8%
	9,2%	9,2%	2 bp	9,4%	9,3%	-7 bp	9,5%	9,4%	-6 bp
EBIT	1 424	1 435	0,8%	1 656	1 674	1,0%	1 765	1 776	0,7%
	7,3%	7,2%	-5 bp	7,4%	7,3%	-7 bp	7,4%	7,4%	-5 bp
EPS	58,82	60,29	2,5%	70,81	69,90	-1,3%	75,94	74,93	-1,3%

Source : Company Data; Bryan Garnier &amp; Co. ests.

- No new cash returned to shareholders can be anticipated: In fact, with net debt at c.£2.9bn notably impacted by forex of £395m, net debt to EBITDA reached 1.6x and no significant improvement can be anticipated in 2016-17 with net debt to EBITDA around 1.5x as announced by management (net debt should be slightly above £3bn at the end of 2016-17).

## VALUATION

- At the current share price, the stock is trading at 14.8x EV/EBIT 2016-17e and 13.7x 2017-18e vs. median historical of 12.5x and CAGR EBIT 2015-18e of 11%.
- Remember that our FV is derived from the average between a DCF and historical median multiple as the exit multiple on FY+3 (DCF=1,665 and exit multiple=1,192p)

## NEXT CATALYSTS

- AGM + IMS on 2nd February 2017

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