Sodexo

Price EUR97.70

Feedback conf. call: Headwinds but margin improvement confirmed

Fair Value EUR92 (-6%) **NEUTRAL**

Bloomberg	SW FP
Reuters	EXHO.PA
12-month High / Low (EUR)	107.7 / 80.3
Market Cap (EUR)	15,020
Ev (BG Estimates) (EUR)	15,433
Avg. 6m daily volume (000)	203.5
3y EPS CAGR	7.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	-6.8%	8.8%	8.4%
Travel&Leisure	4.2%	-1.9%	-6.0%	-16.3%
DJ Stoxx 600	0.9%	0.0%	1.8%	-6.9%

YEnd Aug. (EURm)	08/15	08/16	08/17e	08/18e
Sales	19,815	20,245	21,225	22,031
% change		*2.2%*	*4.8%*	*3.8%*
EBITDA	1,396	1,466	1,568	1,678
EBIT	1,143	1,203	1,292	1,391
% change		*5.2%*	*7.4%*	*7.7%*
Net income	700.0	721.2	787.5	853.8
% change		*3.0%*	*9.2%*	*8.4%*

	08/15	08/16	08/17e	08/18e
Operating margin	5.8	5.9	6.1	6.3
Net margin	3.5	3.6	3.7	3.9
ROE	19.5	20.3	21.5	21.9
ROCE	28.6	29.8	30.9	31.9
Gearing	10.2	11.2	9.3	3.4

(EUR)	08/15	08/16	08/17e	08/18e
EPS	4.60	4.77	5.21	5.64
% change	-	*3.6%*	*9.2%*	*8.4%*
P/E	21.2x	20.5x	18.8x	17.3x
FCF yield (%)	4.6%	3.3%	4.7%	5.4%
Dividends (EUR)	2.20	2.40	2.60	2.82
Div yield (%)	2.3%	2.5%	2.7%	2.9%
EV/Sales	0.8x	0.8x	0.7x	0.7x
EV/EBITDA	11.0x	10.5x	9.8x	9.0x
EV/EBIT	13.5x	12.8x	11.9x	10.9x

Q4 2015-16 was challenging especially in France, and the first part of FY 2016-17 should again face headwinds and lfl revenue growth will be under pressure. Nevertheless, operating is well managed, margins should improve again and financial results should benefit from debt restructuration. In all, after some adjustments, results looks well valued at the current price. Neutral confirmed.

ANALYSIS

- **2016-17 top line growth will remain under pressure…:** Following organic growth of 2.5% for FY 2015-16 including a positive effect from RWC of 0.6%, management guided on around 3% for FY 2016-17 which seems a bit aggressive to us taking into account current challenges. In fact, even if thet number includes positive calendar effects of 0.5-0.6% from a 53-week fiscal year in NA, comps will be hard in the first half bearing in mind notably that **RWC** contributed 2.4%pt to Q1 organic growth up 4.7% or business in **France,** which remains under pressure driven by Continental Europe organic growth in negative territory in Q4 (-1.6%). Moreover, the impact of Brexit on the **United Kingdom** (10% consolidated revenue) remains to be seen with growth depending on GDP growth and employment. As such, we have moved our forecast to 2.9% from 3.3% previously. Note that forex to date has a positive impact of c.2% on our forecast.

- **….but operating margin will continue to improve:** As in 2015-16, the Adaptation and simplification plan should continue to pay off. In fact, management is confident it can deliver operating profit growth of 8-9% i.e. a margin improvement of 20-30bps. This improvement should also be delivered in 2017-18. We are in line with this improvement.

Main changes to our forecasts

	2016			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	20 386	20 245	-0,7%	21 481	21 225	-1,2%	22 305	22 031	-1,2%
EBITDA	1 470	1 466	-0,3%	1 589	1 568	-1,3%	1 685	1 678	-0,5%
	7,2%	7,2%	3 bp	7,4%	7,4%	-1 bp	7,6%	7,6%	6 bp
EBIT	1 205	1 203	-0,2%	1 309	1 292	-1,3%	1 396	1 391	-0,3%
	5,9%	5,9%	3 bp	6,1%	6,1%	-1 bp	6,3%	6,3%	6 bp
EPS	4,75	4,77	0,4%	5,21	5,21	0,0%	5,71	5,64	-1,1%

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

- **Largely restructured debt will significantly lower finance costs as expected:** With the early redemption of USD316m at 5% and the recent bond issue of EUR600m with a coupon of 0.88%, the group has increased its debt maturity by c. one year to 7.5 and significantly reduced its average interest rate to 2.7% on pro forma FY 2016 (3.3% reported) from 3.8% in FY 2015. As such, taking into account a USD12m early redemption indemnity due in 2017 after USD23m in 2016, we estimate that finance costs could be reduced by EUR40m to EUR70m vs. EUR111m in 2016.

VALUATION

- At the current share price, the stock is trading on 2017e and 2018e EV/EBIT multiples of 11.9x and 10.9x compared with a median historical level of 10.9% and 2016-18 CAGR of EBIT of 7.2%.

- Management will propose a new share buyback programme of EUR300m. In view of this second programme in two years mainly due to limited cash allocated to M&A, with a larger pipeline today than for several years and two acquisitions closed since the beginning of the year, no exceptional returns should be anticipated next year.

NEXT CATALYSTS

- Q1 2016-17 revenue on 12th January 2017
- AGM on 24th January 2017

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