

## Sector View

## Software and IT Services

## Syntec Numérique analysts' meeting: still rosy prospects for French IT

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	-5.4%	-4.1%	5.3%	-0.2%
DJ Stoxx 600	-0.4%	-1.4%	1.1%	-7.5%

\*Stoxx Sector Indices

## Companies covered

Company	Rating	Target Price
<b>ALTEN</b>	NEUTRAL	EUR57
Last Price	EUR62,7	Market Cap. EUR2,112m
<b>ALTRAN TECHNOLOGIES</b>	BUY	EUR15
Last Price	EUR12,19	Market Cap. EUR2,143m
<b>ATOS</b>	BUY	EUR114
Last Price	EUR94,06	Market Cap. EUR9,854m
<b>AXWAY SOFTWARE</b>	BUY	EUR31
Last Price	EUR27,5	Market Cap. EUR572m
<b>CAPGEMINI</b>	BUY	EUR93
Last Price	EUR74,41	Market Cap. EUR12,766m
<b>CAST</b>	NEUTRAL	EUR3,3
Last Price	EUR3,37	Market Cap. EUR54m
<b>DASSAULT SYSTEMES</b>	SELL	EUR64
Last Price	EUR69,64	Market Cap. EUR17,915m
<b>INDRA SISTEMAS</b>	NEUTRAL	EUR12
Last Price	EUR9,573	Market Cap. EUR1,571m
<b>SAGE GROUP</b>	SELL	690p
Last Price	660,5p	Market Cap. GBP7,134m
<b>SAP</b>	NEUTRAL	EUR82
Last Price	EUR76,76	Market Cap. EUR94,300m
<b>SOFTWARE AG</b>	BUY	EUR40
Last Price	EUR32,75	Market Cap. EUR2,587m
<b>SOPRA STERIA GROUP</b>	BUY	EUR125
Last Price	EUR95,09	Market Cap. EUR1,948m
<b>SWORD GROUP</b>	BUY	EUR32
Last Price	EUR26,94	Market Cap. EUR254m
<b>TEMENOS GROUP</b>	BUY	CHF77
Last Price	CHF64,4	Market Cap. CHF4,481m

Yesterday the French association of IT companies Syntec Numérique held an analysts' meeting in Paris. Market growth expectations for 2016 have been revised upwards slightly (+2.8% vs. +2.6%) essentially thanks to a better-than-expected upturn in High-tech Consulting. The forecast for 2017 confirms the improvement in market conditions but denotes no frank acceleration ahead (+3%). We expect a limited impact on our stocks under coverage.

## ANALYSIS

- 2016 slightly above estimates thanks to High-tech Consulting.** Syntec/IDC has upped 2016 forecasts for the French IT market to +2.8% from +2.6% in April, with +2.5% (unchanged) for IT Services, +3.5% (vs. +3.6%) for B2B Software, and +2.8% (vs. +2%) in High-tech Consulting. Improvement was confirmed versus 2015 (+2.1%, with +2% in IT Services, +3.4% in B2B Software and +1% in High-tech Consulting), even though France is still lagging compared to major geographies (US +5.3%, Western Europe +2.8%, Asia Pacific +5.3% - source IDC). In IT Services, the improvement was driven by digital transformation, offshoring (+15.7%, vs. +14% in 2014) and, Systems Integration (+3.7%), Consulting (+3.9%) and Application Outsourcing (+3.7%) - while Application Development & Staffing and Infrastructure Outsourcing are expected to be up 1.5% and 0.5%, respectively. In Software, Applications and Infrastructure are expected to rise 4% and 2.9%, respectively. In High-tech consulting, the forecast was upped thanks to better market conditions in Aerospace.
- SMACS nurture growth.** Syntec's survey confirms a significant improvement in pipelines, even though there has been a slight downturn in bookings since March 2016, and the executive confidence index in October 2016 was close to its highest levels since March 2011 (vs. 122 in March 2016, 113 in October 2015 and 105 in October 2014). In addition, 84% of CIOs (vs. 79% one year ago) anticipate an increase in external IT spending, while 67% of CIOs see an acceleration in transformation projects (57% for IT infrastructure modernisation). Revenues related to SMACS (Social, Mobility, Analytics, Cloud, Security) are expected to rise 15% and account for 19% of the IT market. In IT Services, growth was led by volumes and offshoring now accounts for 8.4% of the market. In High-tech Consulting, offshoring now accounts for 3% of the market (vs. 2.4% in 2015).
- Slight acceleration expected for 2017.** For 2017, Syntec/IDC is banking on a market up 3%, with +2.6% in IT Services, +4% in Software, and +3.2% in High-tech Consulting. Software (+3.9% on Applications, +4.1% on Infrastructure) is likely to continue to benefit from SaaS (revenues projected up 21.6%), IT Services (+4.2% in Consulting, +3.8% in Integration, +1.4% in Staffing, +3.5% on Application Outsourcing, +0.3% in Infrastructure Outsourcing) are likely to benefit from SMACS (est. +15% to reach 14.5% of the IT Services market), and High-tech Consulting still sees improving market conditions and significantly improving backlogs.
- Reminder of our forecasts by company.** In IT Services, on a lfl basis, we cautiously forecast for 2017e for France: +3.4% (vs. +4.5% for 2016e) for Capgemini, +2.5% (vs. +3%) for Atos ex-Worldline, and +6.2% (vs. +7.4%) for Sopra Steria ex-Solutions. In High-tech Consulting, we expect +5% (vs. +6%) for Altran and +4.3% (vs. +3.4%) for Alten.

## VALUATION

- European IT Services stocks: est. 10.3x 2016 and 9.4x 2017 EV/EBIT multiples.
- European Software stocks: est. 16.3x 2016 and 14.3x 2017 EV/EBIT multiples.

## NEXT CATALYSTS

Sage's FY16 results on 30th November. Accenture's Q1 FY17 results on 21st December.

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SELL ratings 28%

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