

Worldline

Price EUR24.29

Ambitious but realistic mid-term plan

Fair Value EUR32 (+32%)

BUY

Bloomberg	WLN.FP
Reuters	WLN.PA
12-month High / Low (EUR)	29.1 / 19.0
Market Cap (EUR)	3,210
Ev (BG Estimates) (EUR)	2,840
Avg. 6m daily volume (000)	81.40
3y EPS CAGR	15.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.2%	-11.4%	-4.1%	1.7%
Softw. & Comp.	-5.1%	-2.3%	8.3%	1.2%
DJ Stoxx 600	-1.7%	-2.2%	0.7%	-8.7%

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	-42.0	-51.8	-60.1

(EUR)	2015	2016e	2017e	2018e
EPS	0.91	0.99	1.21	1.40
% change	-	8.8%	22.2%	16.0%
P/E	26.7x	24.5x	20.1x	17.3x
FCF yield (%)	4.0%	4.3%	6.1%	7.3%
Dividends (EUR)	0.00	0.29	0.28	0.34
Div yield (%)	NM	1.2%	1.1%	1.4%
EV/Sales	2.4x	2.2x	1.7x	1.5x
EV/EBITDA	12.3x	10.8x	7.9x	6.5x
EV/EBIT	16.5x	14.4x	10.7x	8.5x

Management has just provided its mid-term financial plan, which will be detailed today in Bezons. 2019 targets are: lfl revenue CAGR between 5% and 7%, EBITDA margin improvement of +350-400bp (compared to 2016 incl. Equens/Paysquare and KB as if they were consolidated as of 1st January 2016), and FCF between EUR210m and EUR230m. As we expected, the plan announced shows solid lfl revenue growth (we are at the low-end with our +4.8%) and a strong margin improvement as of 2018 thanks to synergies from the Equens/Paysquare/KB deals (the group could deliver more than that in our view). Management's strategic plan should reassure the market. We maintain our Buy recommendation and FV of EUR32.

ANALYSIS

- WLN has just announced its strategic plan and will detail it today in Bezons. **2019 targets are: 1) organic revenue CAGR between +5% and +7%** (vs. BG est. +4.8%). **2) EBITDA percentage improvement between +350bp and +400bp in 2019**, compared with 2016 as if Equens/Paysquare/KB were consolidated from 1st January 2016 (vs. BG +390bps compared to Equens/Paysquare and KB consolidated from 1st October 2016). **3) FCF of between EUR210m and EUR230m in 2019** (i.e. over +50% increase compared with 2016 objective).
- By business unit: 1) Financial Processing & Software Licensing** revenue is expected to grow organically close to mid-single digit, and EBITDA margin is expected to strongly improve over the 2017 to 2019 period from a low-twenties in 2016 to a high-twenties rate in 2019 (via the delivery at equensWorldline of c. EUR40m synergies in 2018, of which 50% are expected in 2017). **2) Merchant Services & Terminal** revenue is expected to grow organically at mid- to high- single digit (remaining the leading growth engine), and EBITDA margin is expected to gradually reach the rest of the BU's profitability levels, thanks to synergies starting in 2017). **3) Mobility & e-Transactional Services** is expected to grow organically within the average of the group over the 2017-2019 period, and EBITDA margin is expected at mid-teens levels (improving over the 2017-2019 period, thanks to gradual volume growth on maturing platforms).
- Note that all these targets are based on organic figures** (no new M&A deals). However, Worldline reaffirms its aim to constantly be and act as a strategic consolidator in the European payments industry. We estimate that the group has maximum fire-power of EUR1.5bn to make acquisitions. **As we expected, the plan announced shows solid lfl revenue growth** (we are at the low-end with our +4.8%) **and a strong margin improvement as of 2018 thanks to significant synergies from the Equens/Paysquare/KB deals** (WLN could deliver more than that in our view).
- Momentum should improve: 1)** Q3 revenue was the lowest growth of the year (+0.2% lfl), so we expect Q4 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 mid-term guidance (2019), analysts will at last integrate it into their models.
- What is not factored into the current share price in our view? 1)** the strong EBITDA margin improvement we expect in 2018 and 2019 linked to synergies from the Equens deal; **2)** the next M&A deal (probably a platform from a bank subsidiary in Central or Eastern Europe).

VALUATION

- We maintain our **Buy recommendation** and our **FV of EUR32**.
- Over 12 rolling months** (3 months of 2016 and 9 months of 2017e), **EV/EBITDA is at only 8.6x**. And, of course, it is even more attractive in 2017e at **7.9x**.
- Worldline could step up M&A activity again**. This could offer higher leverage on EV/EBITDA.

NEXT CATALYSTS

- Atos 2016 investor day:** today in Bezons (company's headquarters).



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).

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