

16th December 2016

TMT

Capgemini

Price EUR78.01

Taking over Axa Technologies Shared Services in India

Fair Value EUR95 (+22%)

BUY

Bloomberg	CAP FP
Reuters	CAPP.PA
12-month High / Low (EUR)	89.1 / 69.0
Market Cap (EUR)	13,384
Avg. 6m daily volume (000)	686.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.9%	-8.5%	-6.2%	-8.9%
Softw.& Comp.				
SVS	6.6%	-1.1%	13.0%	5.4%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

	2015	2016e	2017e	2018e
P/E	16.8x	14.0x	13.0x	12.0x
Div yield (%)	1.7%	1.9%	2.1%	2.2%

ANALYSIS

- **Yesterday French newspaper *Les Echos* reported that Capgemini had agreed with Axa to acquire Axa Technologies Shared Services**, for an undisclosed sum. On 7th November, *L'Agefi* reported that this division of Axa Tech, which is based in Bangalore (India) with a headcount of c. 1,000 out of the 3,500 Axa Tech headcount, was for sale and that the name of the acquirer would be announced by the end of this year. Axa Technologies Shared Services provides IT infrastructure services for Axa across 16 countries.
- **Rationale of the deal and potential impact to our model.** The rationale of this disposal for Axa is the lack of critical size in India, which led to strong staff attrition, lack of attractiveness, and high hiring/training costs. In this context, Capgemini would bring economies of scale thanks to its workforce of 92,000+ based in India (including in Bangalore). We estimate Capgemini's offshore leverage would rise to 56% (est. 50% in India) from 55% (est. 49% in India). Based on Indian average sales/head assumptions, we estimate such a deal would add several tens of million euros of sales to Capgemini, or an est. 0.3-0.7% of additional revenues in our view.

VALUATION

- Capgemini's shares are trading at est. 10.3x 2016 and 8.9x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR2.270bn (net gearing: 36%).

NEXT CATALYSTS

FY16 results on 16th February 2017 before the market open.

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