

ELIOR

Price EUR20.50

Feedback: On track with strategic plan

Fair Value EUR24 (+17%)

BUY-Top Picks

Bloomberg	ELIO.FP
Reuters	ELIO.PA
12-month High / Low (EUR)	21.0 / 16.8
Market Cap (EUR)	3,534
Ev (BG Estimates) (EUR)	5,218
Avg. 6m daily volume (000)	237.3
3y EPS CAGR	17.6%

Results perfectly in line with expectations but rather reassuring given the environment especially in France (48% of consolidated revenue). The strategic plan is delivering its first results and management remains confident it can deliver at least its objective. The short term outlook seems positive and profitability will accelerate during 2016-17. We made some positive adjustments to our forecasts. Buy confirmed.

ANALYSIS

- Confident in short and medium term objectives:** Despite the challenging environment especially in France, the Tsubaki plan has started to bear fruit (exit of poor-performing contracts representing EUR100m i.e. 1.7% of growth, disposal of non strategic assets i.e. EUR80m total revenue, retention rate, new business in France and UK, expansion in NA, development of new concepts or implementation of best practice). **For the year ahead**, management expects an acceleration in profitability with organic revenue growth of at least 3% excluding voluntary contract exits which is expected to be less than 100bps (our organic forecast is 2.3% after exits vs. 1.4% in 2015-16) with an EBITDA margin improvement of between 20 to 30bps (Management goal is resolutely at the top of the range). Net result will again register higher growth benefiting mainly from lower financial costs (around EUR50m after EUR63m in 2015-16 and EUR107m in 2014-15) and a lower tax rate of around 34% vs. 39% due to more results coming from abroad. **Our EPS 2016-17e growth is c. 20%.**

Main changes

	2016			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	5 866	5 896	0,5%	6 151	6 285	2,2%	6 496	6 636	2,2%
EBITDA	497	501	0,8%	551	551	-0,1%	604	617	2,1%
	8,5%	8,5%	2 bp	9,0%	8,8%	-20 bp	9,3%	9,3%	-1 bp
EBIT*	338	328	-3,1%	385	358	-6,9%	426	412	-3,3%
	5,8%	5,6%	-20 bp	6,3%	5,7%	-56 bp	6,6%	6,2%	-35 bp
EPS	0,99	1,05	6,6%	1,18	1,25	5,7%	1,34	1,47	9,9%

*including GW amortization of EUR13m in 2016 and EUR20m in 2017e and 2018e. Previously registered below EBIT.

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

- Free Cash flow should improve and acquisitions are still part of the strategy:** In 2015-16, free cash flow contracted by EUR15m due to acquisitions and mainly Preferred Meals (contract catering in Education in NA) consolidated only in Q4 with a negative impact on working capital. Excluding non-recurring items, the conversion rate from EBITDA would have been over 50% (51%) vs. 35% on reported and in line with 2020 management objective (between 45% and 50%). Acquisitions will remain part of the group's strategy notably in NA and the UK in contract catering. Up to now, acquisitions closed to date represent c. EUR250m of non consolidated sales in 2015-16. As expected, 2016-17e net debt should remain at around EUR1.7bn representing financial leverage of c.3.2x in 2016-17. Remember that management's target is for c.2.5x in 2020.

VALUATION

- At the current share price, the stock is trading at 9.5x EV/EBITDA 2016-17e and 8.3x 2017-18e compared with a CAGR for 2016-2019 EBITDA of 9.4%. Our EPS CAGR of 2016-2019 is 17.6% compared with P/E 2016-17e of 16.4x and 13.9x in 2017-18e.

NEXT CATALYSTS

- Q1 revenue on 27th January, 2017
- H1 results on 30th May, 2017

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.2%	-0.1%	0.5%	6.2%
Travel&Leisure	4.1%	0.1%	-4.6%	-13.6%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

YEnd Sept. (EURm)	09/16	09/17e	09/18e	09/19e
Sales	5,896	6,285	6,636	7,034
% change		6.6%	5.6%	6.0%
EBITDA	501	551	617	655
EBIT	328.0	357.8	411.5	493.2
% change		9.1%	15.0%	19.9%
Net income	168.0	215.8	253.6	294.7
% change		28.4%	17.6%	16.2%

	09/16	09/17e	09/18e	09/19e
Operating margin	5.6	5.7	6.2	7.0
Net margin	2.8	3.4	3.8	4.2
ROE	8.9	11.9	12.7	13.6
ROCE	6.0	6.3	7.1	8.3
Gearing	109.6	98.9	83.0	70.0

(EUR)	09/16	09/17e	09/18e	09/19e
EPS	1.05	1.25	1.47	1.71
% change	-	19.2%	17.5%	16.2%
P/E	19.5x	16.4x	13.9x	12.0x
FCF yield (%)	4.9%	4.9%	7.4%	7.4%
Dividends (EUR)	0.42	0.50	0.59	0.68
Div yield (%)	2.0%	2.4%	2.9%	3.3%
EV/Sales	0.9x	0.8x	0.8x	0.7x
EV/EBITDA	10.5x	9.5x	8.3x	7.6x
EV/EBIT	16.0x	14.6x	12.4x	10.1x



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