

## Ingenico Group

Price EUR72.45

Reassuring read-across from VeriFone's Q4 earnings on the US and Brazil

Fair Value EUR112 (+55%)

BUY

Bloomberg	ING FP
Reuters	INGC.PA
12-month High / Low (EUR)	118.5 / 69.7
Market Cap (EURm)	4,455
Ev (BG Estimates) (EURm)	4,539
Avg. 6m daily volume (000)	325.4
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.7%	-9.1%	-29.6%	-37.8%
Softw. & Comp.	1.7%	-2.9%	5.6%	3.5%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,197	2,278	2,474	2,694
% change		3.7%	8.6%	8.9%
EBITDA	508	456	520	593
EBIT	436.5	387.3	445.4	511.9
% change		-11.3%	15.0%	14.9%
Net income	273.7	251.1	294.8	344.3
% change		-8.3%	17.4%	16.8%

	2015	2016e	2017e	2018e
Operating margin	19.9	17.0	18.0	19.0
Net margin	10.8	10.0	10.8	11.9
ROE	15.2	13.0	13.4	14.1
ROCE	16.5	14.5	17.0	19.9
Gearing	16.7	4.9	-9.2	-22.1

(EUR)	2015	2016e	2017e	2018e
EPS	4.47	4.09	4.80	5.61
% change	-	-8.5%	17.4%	16.8%
P/E	16.2x	17.7x	15.1x	12.9x
FCF yield (%)	6.2%	6.1%	7.0%	8.1%
Dividends (EUR)	1.30	1.27	1.49	1.79
Div yield (%)	1.8%	1.8%	2.0%	2.5%
EV/Sales	2.1x	2.0x	1.7x	1.5x
EV/EBITDA	9.3x	10.0x	8.2x	6.7x
EV/EBIT	10.8x	11.7x	9.6x	7.8x

VeriFone has released better-than expected Q4 2016 earnings and made reassuring comments regarding EMV in the US and the situation in Brazil. For its fiscal year 2017, management gave disappointing detailed guidance, impacted by the recent decision by Visa and MasterCard to extend by three years the deadline for chip cards at automated fuel pumps in the US (to 1st Oct. 2020). Note that Ingenico is absolutely not exposed to the fuel pumps market. For several quarters now, the read across we can make is only on EMV in the US (except that related to fuel pumps) and on Brazil. VeriFone sees no deterioration on the contrary it expects an improvement and a normalisation in coming quarters. We maintain our Buy recommendation and FV of EUR112 on Ingenico (weak H1 but strong H2, valuation is low).

## ANALYSIS

- **VeriFone released better-than-expected Q4 2016 earnings at end-October:** USD468m in non-GAAP revenue i.e. -12.6% Y/Y lfl, and USD0.30 in non-GAAP EPS (guidance of USD460m and USD0.28-0.29 / Thomson Reuters consensus of USD461.3m and USD0.29). Management said **its revenue was consistent with its expectation of EMV-related demand in the US** (North America - 28.6% lfl), it also reported 16% growth in Services revenues (by acquisitions and organically), and it **saw good growth in EMEA (+4.2% lfl) and Latin America (+7.3% lfl)**. As a result, its FY16 non-GAAP revenue came out at USD2.006bn up 0.5% lfl, and its non-GAAP EPS at USD1.66 (vs. guidance of USD2bn and USD1.64-1.65 / cons. of USD1.999bn and USD1.65 respectively).
- Back in September, VeriFone lowered its outlook for Q4 and provided more balanced views on 2017 (consolidated revenues to be ~3% below FY16) because of Turkey, mainly Brazil in Latam (political and macro-economic factors) and a lower than expected pace of EMV terminalisation in the US (change in EMV rules for small and mid-sized merchants). **Now, management says: 1) it expects the speed of EMV, certifications and bottlenecks to improve in 2017 in the US, i.e. the beginning of a more normalised trend for coming quarters** (~30% of the market to upgrade by April 2018); 2) however, the group is specifically affected by Visa and Mastercard's announcement that they will delay the mandated date for implementing chip card payments at automated fuel pumps in the US by three years (from 1st Oct. 2017 to 1st Oct. 2020). Note that unlike VeriFone, Ingenico is not exposed to automated fuel pumps; 3) Turkey rebounded in Q4 and has a solid longer-term growth potential (two thirds of the market still need upgrades); 4) **Brazil achieved strong results and key certifications in mPOS**; and 5) it has pilots underway with distribution partners in Japan, it sold new value-priced products in Indonesia and Thailand, India offers potential from demonetization-related demand, and it expects meaningful top-line growth in China in FY17.
- **VeriFone gave more detailed guidance on its FY17 (end-Oct. 2017).** It now expects non-GAAP revenue of USD1.900bn-1.915bn (i.e. between -5.3% and -4.5% Y/Y vs. ~-3% previously) with EPS of USD1.35-1.39, namely below the Street (USD1.92bn and USD1.59 respectively) because it now takes into account the 3-year EMV delay at automated fuel pumps (not applicable to Ingenico). **For several quarters now, there is a genuine read-across from VeriFone's comments regarding the EMV migration in the US (except for fuel pumps) and the situation in Brazil. So, we are reassured by its statements** (please see 1) and 4) highlighted in bold type in the previous paragraph).
- **As a reminder, VeriFone's Q4 is equivalent to two thirds of Ingenico's Q3 2016** (already published at the end of October: lfl revenue at +7%). Ingenico guides on organic revenue growth >= 7% and EBITDA margin >=20% in 2016 (cons. 7.5% and 20.3% / BG est. 7.1% and 20.0%). **Management should give 2017 guidance on 23rd February** (FY16 release). **We know that: 1)** the comparison basis will be unfavourable until the end of H1 2017 in North America, Brazil and Europe-Africa; **but 2)** H2 should benefit from better comps, the pick-up of the EMV migration and market share gains in the US, a stabilisation in Brazil, the start of EMV in Japan, ramp-up in new markets (Thailand, Vietnam, Indonesia, India...); **3)** Eastern Europe should continue to grow (opportunities in Czech Republic, Poland...) **4)** APAC should grow double digit (mainly thanks to China); **and 5)** ePayments (two thirds of the Payment Services division) should deliver a solid growth in line with the market over the FY. **We maintain our 2017 forecasts:** lfl revenue growth of 8% (+5% for its overall geographies and +15% for e-payments) with an EBITDA margin of 21.0% (+100bp Y/Y).

## VALUATION

- **We maintain our Buy recommendation and FV of EUR112.** The share is trading at **undemanding**



**12 rolling months multiples:** EV/EBITDA of 8.3 and P/E of 15.2x.

- **To justify Ingenico's current share price in a reverse DCF over 10 years, we would have to assume a 5% top-line organic growth with an EBITDA margin of only 15.5%** (vs. FY16 guidance of  $\geq 7\%$  and  $\geq 20\%$  respectively). Such a top-line growth is cautious but not improbable, however the 15.5% is illogical as we know that 2016 EBITDA margin (20%) should be a floor in its mid-term plan (given the specific efforts made in 2016 to develop and bring to market its offerings in ePayments and to roll out its new terminal products).

#### **NEXT CATALYSTS**

- **FY16 earnings results:** on 23rd February, 2017 (after markets).

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