

## Sopra Steria Group

Price EUR101.70

Don't be afraid of the United Kingdom (full report released today)

Fair Value EUR125 (+23%)

BUY

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	119.0 / 84.5
Market Cap (EURm)	2,083
Ev (BG Estimates) (EURm)	2,663
Avg. 6m daily volume (000)	28.60
3y EPS CAGR	15.2%

We reiterate our Buy recommendation and our DCF-derived fair value of EUR125, leaving upside potential of 23%. While the shares have suffered from the company's exposure to the United Kingdom, we expect Sopra Steria to benefit from: 1) an improvement in organic growth; 2) over-estimated 'Brexit' risks; 3) capacity for future acquisitions; and 4) an attractive valuation.

## ANALYSIS

- Improving trends.** While the cost synergies linked to the acquisition of Steria are mostly behind us, in our view Sopra Steria's investment appeal now resides in its ability to maintain above-market growth. Whereas consulting and systems integration, banking software and the other solutions are driving growth, Germany and infrastructure services in France and the United Kingdom are seeing an improvement.
- Risks over-estimated in the United Kingdom.** We expect Brexit to have limited impact on Sopra Steria in the United Kingdom since 78% of sales there are recurring and 68% is generated with the government. We expect flat sales given stable government activity, a return to growth in banking and the business reconstruction under way in the rest of the commercial sector. Lastly, rising interest rates point to an eventual stabilisation, or even decline, in the pension fund liabilities.
- Significant capacity to reduce debt to finance acquisitions.** On our numbers, with the achievement of the synergies linked to Steria, free cash flow should reach an annual EUR150m by 2018, enabling Sopra Steria to reduce its gearing to zero by 2020. We have no concerns about the financing of future acquisitions (up to EUR100-150m per year), with EUR1bn of undrawn credit lines.

## VALUATION

- An attractive valuation.** Despite our projected EPS CAGR of 15% for 2015-18e, the shares are trading at EV/EBIT multiples of 9.2x 2016e and 7.8x 2017e, i.e. a 10% discount relative to the IT Services average in Europe
- Net debt on 30<sup>th</sup> June 2016 was EUR719.6m (net gearing: 69%).

## NEXT CATALYSTS

FY16 results on 27<sup>th</sup> February 2017 before markets open.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	10.4%	-3.5%	-7.9%	-6.1%
Softw. & Comp.	4.6%	-2.0%	10.0%	3.8%
DJ Stoxx 600	5.9%	5.5%	9.4%	-2.3%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	3,584	3,743	3,861	4,042
% change		4.4%	3.2%	4.7%
EBITDA	304	339	380	411
EBIT	152.6	238.5	279.7	310.2
% change		56.3%	17.3%	10.9%
Net income	151.0	180.1	209.7	231.8
% change		19.3%	16.4%	10.6%

	2015	2016e	2017e	2018e
Operating margin	6.8	7.7	8.5	8.9
Net margin	2.4	3.9	4.6	4.9
ROE	6.8	12.2	13.1	13.2
ROCE	11.0	11.4	12.8	14.0
Gearing	43.0	48.0	34.3	20.0

(€)	2015	2016e	2017e	2018e
EPS	7.39	8.78	10.21	11.29
% change	-	18.8%	16.3%	10.6%
P/E	13.8x	11.6x	10.0x	9.0x
FCF yield (%)	2.4%	4.8%	7.2%	9.5%
Dividends (€)	1.70	1.90	2.10	2.30
Div yield (%)	1.7%	1.9%	2.1%	2.3%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	8.6x	7.9x	6.7x	5.8x
EV/EBIT	10.6x	9.2x	7.8x	6.6x



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NEUTRAL ratings 34%

SELL ratings 10,5%

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