

21st March 2019

ELIOR

| Smart Industries
| Business Services

NEUTRAL

Fair Value EUR14.5(+15%)
Share price EUR12.60
EPS 3Y Cagr 13.8%

A sale price uncertain for the disposal of Areas which weigh on group share price

Elior enter into exclusive discussion with PAI Partners for a potential sale of Areas

Following market rumors concerning the sale of Areas, led by Morgan Stanley and BNP Paribas, that could be worth EUR1bn to EUR1.5bn, Management announced yesterday evening that it has entered recently into exclusive discussions with PAI Partners concerning the potential sale of its concession catering activities. Furthermore, Management in its press release indicate that at this stage “any indication as to the result of these discussions is premature”.

Elior’s concession catering activities generated EUR1.833m in total revenue in 2018 i.e. 27% of Elior’s consolidated revenue with EBITDA of about EUR196m representing 39% of the group’s EBITDA with a margin of 10.7%. This margin compares with 11.8% for SSP or 9.2% for Autogrill i.e. Elior’s two main competitors in concession catering which are respectively valued at 11.4x EV/EBITDA 2019e and 6.3x. Using an average multiple of 9x, we have estimated that Elior’s concession catering EV should reach between EUR1.5bn and EUR1.8bn.

A financial situation leaving limited room to manoeuvre

With Elior’s net debt of over EUR1.8bn at the end of September representing financial leverage of 3.6x (vs. 3.0x at the end of September 2017), results need to be sustained to generate sufficient operating cash flow to maintain capex close to EUR300m, a level needed to pursue investments in concessions and leave scope to pursue the M&A strategy, notably in NA in contract catering, which remains vital to reach critical mass and optimise results.

As a reminder, after Q1 revenue on 24th January up 3.5% in reported terms with organic growth of 1.8% o/w 0.2% in contract catering and 6.7% in concession catering, management confirmed that 2019 will be a year of stabilization, expecting organic revenue growth above 1% at constant accounting standards incl. impact from voluntary termination of underperforming contracts in Italy, external growth from acquisitions close to 1% and stable adjusted EBITA margin at 4.3% at constant perimeter and forex and strong growth in operating free cash flow.

Regarding top line growth and after better Q1 revenue than anticipated, we nevertheless highlight business uncertainties which remains notably in France bearing in mind that France generates 36% of concession catering revenue.

We have based our estimates on an organic revenue growth of 1.7%, and an EBITA margin of 4.3% flat vs. last year. Our 2019e net debt is at EUR1,844m after capex of EUR275m after EUR288m last year representing a financial leverage stable at 3.6x for a covenant of 4x at September 30 and 4.5x at March.

Market Data

Bloomberg / Reuters	ELIO FP/ELIO.PA
Market Cap.	EUR2,217m
E.V.	EUR4,036m
Free Float	63.1
Avg. Daily volume (6m)	379.5
12m high / low	17.7 / 11.3
Ytd Perf.	-3.5%

EURM	09/18	09/19e	09/20e	09/21e
Sales	6,694	6,867	7,061	7,294
% Change		2.6%	2.8%	3.3%
EBITDA	501.0	513.8	559.7	610.3
% Change		2.6%	8.9%	9.0%
EBIT	257.0	276.5	334.6	378.1
% Change		7.6%	21.0%	13.0%
Net Income	93.7	152.4	182.9	215.7
% Change		62.6%	20.0%	18.0%
ROE	0.03	0.10	0.11	0.11

	09/18	09/19e	09/20e	09/21e
EV/Sales	0.6x	0.6x	0.6x	0.5x
EV/EBITDA	8.1x	7.9x	7.0x	6.2x
EV/EBIT	15.7x	14.7x	11.8x	10.0x
EPS	0.84	0.87	1.05	1.24
% change		4.1%	20.0%	18.0%
P/E	15.0x	14.4x	12.0x	10.2x
Div Yield	2.7%	3.3%	3.3%	3.9%

Next Catalyst :

AGM on 22nd March
H1 results on 29th May
Last rating Change:

2018-3-29, A context and a valuation that sound to us attractive

Last FV Change:

2018-6-27, CMD: New short term adjustment in an environment not yet stabilized

Last Reports:

2019-1-24 Q1 2018-10: Above consensus EV guidance

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Distribution of stock ratings

BUY ratings 55.4%

NEUTRAL ratings 37.9%

SELL ratings 6.8%

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