



Business Services

25th April 2019

ELIOR

- Business Services
- Food Services

NEUTRAL

Fair Value	EUR14.5(+17%)
Share price	EUR12.78
EPS 3Y Cagr	13.8%

Current valuation leaves limited upside

Binding offer from PAI for Areas

Management finally announced yesterday that it has received a EUR1,542m binding offer from PAI for the acquisition of Areas, Elior's concession catering activities. Based on our estimates, the amount values Elior's concession catering at 2019e EV/EBITDA of 7.7x, which compares with the valuations of the group's two main competitors i.e. Autogrill and SSP of respectively 6.3x and 11.3x. As a reminder, using an average multiple of 9x, we estimated that Elior's concession catering EV should reach between EUR1.5bn and EUR1.8bn.

A deal that will give financial resources to pursue Contract Catering expansion

The sale proceeds are likely to be used to reduce Elior's leverage ratio to a range of 1.5-2x EBITDA. Assuming that the cash received is equivalent to the binding offer amount, net debt will move to EUR250m from EUR1,82bn at the end of September 2018. So, based on 2x financial leverage and taking into account an estimated free cash flow per annum of EUR100m in the next three years, management should have enough resources to acquire at least EUR750m in additional revenue, based on an acquisition EV/Sales multiple of 0.8x, which is the current guidance.

Implicit valuation for Contract Catering leaves limited upside

Following that disposal (the deal is expected to close during summer 2019), Elior will become a pure player in Contract Catering comparable to Compass Group and Sodexo excluding Benefits & Rewards Services. In 2019, we estimate that Elior's Contract Catering activities should generate EBIT of EUR193m representing a margin of 3.9%, which compares with 5% for Sodexo in OSS and 7.6% for Compass Group. Based on these numbers, Sodexo OSS activities and Compass group showed respective 2019e EV/EBIT multiples of 14.1x and 16.9x which compares with Elior's current market valuation of 13.5x. Note that to estimate Sodexo OSS valuation we have retained an EV/EBIT of 15x for Sodexo Benefits & Rewards Services vs. currently 20x for Edenred. With this scenario, Elior could improve its margin from acquisitions and increase purchasing power, bearing in mind that the size in Contract Catering remains one of the main drivers, which should have a positive impact on valuation. Nevertheless, if we anticipate a 2019 EBIT multiple from one point to 14.5x, the theoretical value of Elior would be EUR14.

In all, fairly limited upside, considering that we have not taken into account the time value, that there are a number of uncertainties concerning the finalization of the AREAS deal or the conditions of strengthening in Contract Catering and the positive impact on margin.

a Market Data

Bloomberg / Reuters	ELIO FP/ELIO.PA
Market Cap.	EUR2,279m
E.V.	EUR4,034m
Free Float	63.1
Avg. Daily volume (6m)	379.0
12m high / low	16.9 / 11.3
Ytd Perf.	-2.1%

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	8.2x	8.0x	7.2x	6.3x
EV/EBIT	15.9x	14.9x	12.0x	10.2x
EPS	0.84	0.87	1.05	1.24
% change		4.1%	20.0%	18.0%
P/E	15.2x	14.6x	12.2x	10.3x
Div Yield	2.7%	3.3%	3.3%	3.9%

Next Catalyst:

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:

2019-4-24, Binding offer from PAI for the Areas at the bottom of the estimated price range

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