



18th June 2019

SOPRA STERIA GROUP

- Technology
- Software & IT services

BUY

Fair Value	EUR156
Share price	EUR98.60
EPS 3Y Cagr	20.8%

Disposal of Sopra Steria Recruitment

Sopra Steria Recruitment is sold to Resource Solutions Group

This morning, Sopra Steria announced an agreement for the disposal of its Sopra Steria Recruitment business in the UK to Resource Solutions Group (RSG) - a recruitment company headquartered in Bristol - for an undisclosed sum. The closing of this deal should happen within the next few weeks. This business, which was founded in 1979 and inherited from Steria's acquisition of Xansa in 2007, specialises in recruitment services (consultancy, permanent recruitment, contracting, interim, onboarding, compliance, assessment) and has premises in Reading, Manchester, Edinburgh and Hemel Hempstead. In 2018, it posted revenues of EUR129m (3% of total revenues and 17% of UK revenues) and a net profit of EUR2m.

A non-core business with low profitability

Thanks to this disposal, Sopra Steria exits from a non-core business which delivers low profitability. Sopra Steria's strategic priorities in the UK are now focused on developing its digital and consulting offering, and strengthening its foothold in the private sector, particularly in financial services. We estimate Sopra Steria Recruitment's operating margin was in the low single-digits, while the group as a whole posted 7.5% in 2018 (5.7% for the UK alone). As such, this disposal will be, in our view, accretive to Sopra Steria's operating margin from 2019 onwards.

Disposal should be slightly accretive to the operating margin

This disposal will help Sopra Steria to reach or exceed FY19 guidance (revenues up 4-6% lfl, operating margin slightly above 7.5% with the improvement concentrated in H2, and free cash flow above EUR150m). At first glance, we deem the disposal of Sopra Steria Recruitment will be slightly accretive to the operating margin (est. +0.1ppt), while Sopra Steria still has to integrate the acquisitions of SAB (on Sopra Banking Software, EUR64.4m revenues in 2018 but with estimated low margins in 2018, to be closed in Q2 2019) and SDV-IT (Sparda-Datenverarbeitung, in Germany, to be closed later in H2 2019).

Market Data

Bloomberg / Reuters	SOP FP/SOPR.PA
Market Cap.	EUR2,025m
E.V.	EUR2,646m
Free Float	70.3%
Avg. Daily volume (6m)	39.10
12m high / low	EUR184.7 / EUR76.7
Ytd Perf.	22.3%

EURM	12/18	12/19e	12/20e	12/21e
Sales	4,095	4,390	4,602	4,824
% Change		7.2%	4.8%	4.8%
EBITDA	363.1	487.3	530.5	586.7
% Change		34.2%	8.9%	10.6%
EBIT	307.9	344.3	385.5	439.7
% Change		11.8%	12.0%	14.1%
Net Income	170.4	214.6	256.3	302.5
% Change		26.0%	19.4%	18.0%
ROE	0.09	0.12	0.13	0.14

	12/18	12/19e	12/20e	12/21e
EV/Sales	0.6x	0.6x	0.5x	0.4x
EV/EBITDA	7.3x	5.1x	4.3x	3.6x
EV/EBIT	8.6x	7.2x	6.0x	4.8x
EPS	8.29	10.41	12.39	14.62
% change		25.6%	18.9%	18.0%
P/E	11.9x	9.5x	8.0x	6.7x
Div Yield	1.9%	2.5%	3.3%	3.9%

Next Catalyst: H1 2019 results on 29th July before markets open.

Last rating Change:

[2018-10-24, Acquisition of Sword Apak: sign of confidence in Sopra Banking Software](#)

Last FV Change:

[2019-4-26, Q1 2019 sales above expectations; FY19 guidance confirmed](#)

Last Reports:

[2019-5-10, Plan to acquire 51% of the captive of Sparda banks](#)

Gregory Ramirez

33(0) 1 56 68 75 91

gramirez@bryangarnier.com

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BUY ratings 50.3%

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BRYAN, GARNIER & CO

London Bryan, Garnier & Co Ltd Beaufort House 15 St. Botolph Street London EC3A 7BB United Kingdom +44 207 332 2500	Paris Bryan, Garnier & Co Ltd 26 Avenue des Champs- Elysées 75008 Paris France +33 1 56 68 75 20	Munich Bryan, Garnier & Co. GmbH Widenmayerstrasse 29 80538 Munich Germany +49 89 2422 62 11	Zurich Bryan, Garnier & Co Theaterstrasse 4 8001 Zurich Switzerland +41 44 991 3300	New York Bryan Garnier Securities 750 Lexington Avenue 16th floor New York, NY 10022 United States +1 212 337 7000
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