



7th October 2019

Food Services

| Business Services

Top Picks: Edenred returns to our list before its CMD

Looking back to Q3 2019: Impact of mixed publications

After a clear outperformance in H1 (+40.5% in absolute terms and 22.4% in relative terms vs. DJ Stoxx), **Edenred** consolidated in Q3 after the publication of a H1 EBIT margin down 30bp on a reported basis, with a slight improvement of 10bp on a lfl basis where the consensus was expecting a 60bp improvement.

While the performance of the two leaders in the foodservice sector was comparable throughout H1, **Compass Group** posted a clear outperformance in Q3 compared to **Sodexo** with an absolute increase in euros of 11.5% vs. 0.1%. Indeed, despite better-than-expected H1 results, Sodexo's share price consolidation is mainly the result of an annual EBIT margin guidance (between 5.5% and 5.7%) now expected at the lower end of the range, i.e. flat compared to last year, mainly due to the action plans currently implemented which require investments. Remember that Compass group only publishes a trading update in Q3.

Regarding **Elior**, up 1.9% in absolute terms, the market is still very cautious after the publication of a further decline in organic growth in Q3, even if it was slightly less than expected.

What we see for Q4: no surprise expected from FY publications, but wait-and-see attitude should continue in contract catering

The publication of annual results of the two world leaders in foodservice, at the beginning of November for both **Sodexo** and **Compass Group**, should not bring any surprises. However, given the economic environment, it is difficult to anticipate very positive guidance and the current wait-and-see attitude should continue.

We remain cautious on **Elior** pending the publication of annual results at the beginning of December. Indeed, annual guidance was reviewed again post the Q3 publication, but still seems ambitious to us. Remember that by confirming negative organic revenue growth of 1% including the impact of -1% from voluntary contract exits in Italy, management aims to stabilize its adjusted EBITA margin at 3.6%, the CEO confirming that the turning point has been passed and is now on an upward trajectory bearing in mind that margin was down 40bp in H1.

Edenred back in our top picks list

As a reminder, after the publication of its Q3 CA on October 18, Edenred will hold a new CMD on October 23.

First of all, during Q3 revenue, there is no reason why management should not confirm: 1-its confidence that it can outperform medium-term targets growth (operating revenue, operating EBIT and FFO of more than 7%, 9% and 10% respectively); and 2- its 2019 EBIT guidance which has been set between EUR520m and EUR550m compared with last year's EBIT of EUR461m i.e. up between 12.8% and 19.3% with EBIT margin improvement in H2 compared with H1 (consensus at EUR543m).

BG Coverage

EDENRED | BUY - TOP PICKS | EUR50

COMPASS GROUP | NEUTRAL | 1900p

ELIOR | NEUTRAL | EUR14.5

SODEXO | NEUTRAL | EUR97

Last rating Change:

EDENRED - 01/07/2019

Top Picks: Edenred removed from our list after strong outperformance

EDENRED - 10/04/2019

French food retailers are slowly recovering from the Yellow Vests effect

EDENRED - 25/07/2018

Feedback CC: A growth story which sounds far from complete

EDENRED - 25/07/2018

Feedback CC: A growth story which sounds far from complete

Last FV Change:

EDENRED - 24/07/2019

Finding weaknesses in the business model remains a challenge!

COMPASS GROUP - 01/07/2019

Top Picks: Edenred removed from our list after strong outperformance

EDENRED - 03/04/2019

More bullish scenario in Digital & Payments

SODEXO - 09/11/2018

Feedback FY: Reassuring waiting the action plan to bear fruits. FV upgraded to EUR97

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Secondly, since the Fast Forward Plan was launched 2016 (last CMD), it is clear that medium term guidance have already been largely outpaced and could lead Management to adjust its objectives upwards.

As a reminder, bearing in mind that Edenred's market i.e. Employee Benefits, Fleet & Mobility Solutions and Corporate Payment Services, remains largely under-penetrated, we are convinced that the group will be able to maintain double-digit top-line growth with margin improvement. Growth will continue to be driven by:

- Leveraging digitization in products and sales channels to notably improve SME's customer base or to optimize cross selling between group products;
- Bringing digital innovation across all business lines via a global digital platform to propose new apps based on inhouse and partner capabilities (wallet service providers, leading e-commerce platforms or white label) to fit customer needs;
- The recent acquisition of CSI, which substantially expands Edenred's footprint in Corporate Payment by entering the largest and fast growing market in North America.

Next catalysts

Revenue & Results

- Edenred: Q3 Revenue on 18th October
- Sodexo: FY 2018/19 Results on 7th November
- Compass Group: FY 2018/19 Results on 26th November
- Elior: FY 2018/19 Results on 14th December

Other events

- Edenred:CMD on 23rd October (London)
- Edenred: Road Show Paris on 30th October with Bryan Garnier & Co.

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Stock rating

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