MARKET DIGEST

ALSTOM 2016/2017 RESULTS, BUY

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Alstom published this morning solid results, in line with expectations for Order Backlog and EBIT but 10% above consensus for the Net Profit, due to lower restructuring charges. The French company maintained its guidance for 2020, i.e. 5% organic growth and EBIT margin of 7%.

In 2016/2017 Alstom booked EURO 10bn of orders leading to an impressive backlog of EURO 34.8bn, which corresponds to around 5 years of turnover. Over the same period, sales were up 6% (5% organically), amounting to EURO 7.3 bn. The adjusted EBIT increased to EURO 421mn, 15% above last year, leading to an adjusted EBIT margin of 5.8%. With a strong cash flow generation during H1, Alstom managed to keep it in positive territory (EURO 182mn) at fiscal year-end. With an Equity position at EURO 3.7bn and a net debt of EURO 208mn, Alstom balance sheet is rock solid.

Product mix is well developing as Signaling, systems and services represented 57% of sales in 2016/17, in line with 2020 objective of 60%. Systems sales increased by 27% with progress of Riyadh and Guadalajara metro systems in Saudi Arabia and Mexico, urban systems deliveries in Brazil and Qatar, as well as infrastructure projects in the United Kingdom. Signaling sales growth of 19% was supported by the integration of GE Signaling and deliveries in the United Kingdom and in Canada.

Alstom is a unique pure play on the structurally growing rail market (rolling stock, signaling, solutions and services) with a focus on services and signaling businesses. It will benefit from large cities transportation policy changes. Alstom is well diversified worldwide; product mix is moving in the right direction, valuation is still attractive with a 2018E P/E of 14.5x and an EV/EBITDA 2018E of 9.6x.

We are keeping our Buy rating but upgrading our 12m target price to EURO 33 (vs EURO 30)

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