



TALARIA

CERTAINTY EMPOWERS YOU

Stock for a post COVID world

November 25, 2021

Amid the media and market frenzy surrounding well known growth stocks such as Amazon and Tesla, one of the many values of an active fund manager lies in its ability to find good opportunities for investors that diversify their holdings and aren't overly expensive – which is often the case only if they remain under the radar and out of the headlines.

One of our largest holdings is French multi-services company Sodexo. Their services encompass Catering and Facilities Management, while also providing Benefits and Rewards via 412,000 employees across 56 countries.

Its historical track record of steady growth and earnings reliability was interrupted by lockdowns which affected multiple parts of their business. This resulted in a significant derating alongside lower earnings thus allowing us the opportunity to acquire its shares at very attractive prices.

A recent strong set of FY21 results exceeded both earnings and cash flow guidance and alleviated many of these concerns.

“The combination of these cash flows and strong P/L momentum means the leverage ratios are quickly improving, with Sodexo already moving on the capital management front.”

For example, as part of the FY21 results, Sodexo announced a €1.20 final dividend and €0.80 special dividend from asset sale proceeds. This was also above consensus who were expecting < €1.00 DPS.

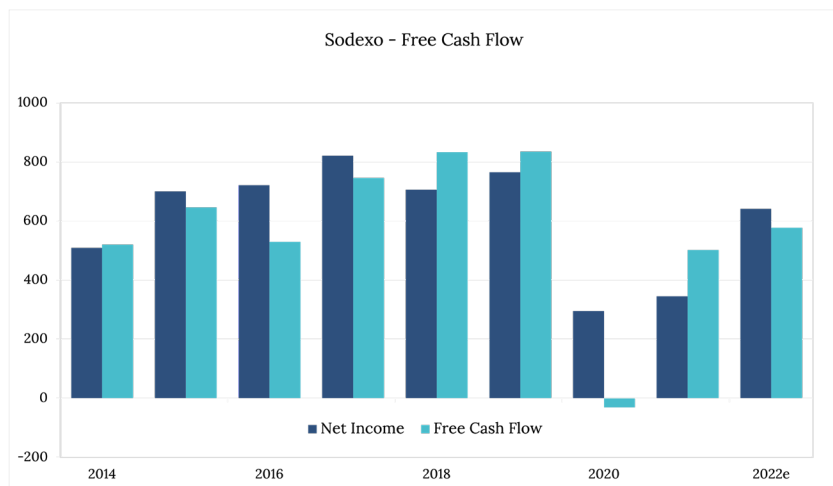
The company also provided reassuring FY22 EBIT guidance of ~€1bn and re-iterated longer-term sales/margin targets.

If we investigate this and assume FY22 guidance is achieved:

- And thereafter sales grow at a conservative 3-4% (versus long term growth rates of ~5% since 2006);
- Along with margins improving to just below 6% which is above FY19 levels, but below pre-COVID peaks of >6% achieved a few years ago;
- Then mid-high single digit EPS growth over the period looks achievable, allowing Sodexo to justify current multiples of ~15x EBIT (i.e. 18x P/E and EV/Sales ~0.8).

Under this scenario, share price outcomes ~€100 look likely versus current price of <€80.

As such, with meaningful tailwinds behind them as global cities re-open, and the controlling family looking to accelerate growth, Sodexo - one of the world's largest catering and facilities companies remains one of our largest holdings.



Source: Talaria, Company reports