

Sonda

Highlights From Investor Day; Acceleration and Margin Expansion Ahead, And Higher Capex - ALERT

Today Sonda hosted its first investor day, which took place in Chile, where the company presented its 3-yr plan for the 2019-2021 period, with an optimistic message to investors: margins and growth should improve in all operations, with EBITDA expanding at a 24% CAGR '19-21, nearly twice as JPMe, although also followed by more capex.

- Ready for next step: accelerating growth, expanding margins.** Sonda is guiding for 11% revenue CAGR'18-21 in constant currency (vs. 6% JPMe), doubling the company in five years. Also, for 18-21, margins should increase by 500bps (vs. 220bps JPMe), resulting in 24% EBITDA CAGR (vs. 13% JPMe). This marks substantial acceleration vs. zero to low single digit growth in previous years, and should happen gradually. All operations except for Chile are expected to gain share during this period. Capex should increase to \$360m for 2019-21, above the ~\$190m in 2016-18 and \$136m JPMe. Also, capex run-rate should be 5-6% of revs (vs. 3% JPMe).
- Focusing on four key verticals,** where Sonda has substantial expertise: (1) Retail, now responsible for 19% of revenues; (2) Financial Services, 16% revs; (3) Public Sector, 13% revs; and (4) Transportation, 7% revs. Other industries might be opportunistically attacked on a local level.
- Brazil: further gains from turnaround in 2019.** The operation faced deep transformation in its cost structure, presentation to the market and service portfolio, according to management. In 2019, the company will boost its commercial efforts. IDC forecasts the Brazilian IT services to grow at a 7% CAGR'19-21, and Sonda expects to grow above market at 12% rate, after two years of negative growth. The company sees opportunities in IaaS (infrastructure as a service), automation, analytics, digitalization, as well as increased government purchases of IT as a service and demand from the new data protection law. Margins are expected to reach 18%.
- Chile: growing with the market, keeping margins** IDC forecasts the market to grow at a 7% CAGR'19-21, which Sonda expects to follow, keeping ~15% EBITDA margins. The main focus would be financials, retail, transportation, health, mining and government. The conditions for the extension of the TranSantiago Project are not expected to significantly affect the projections.
- Key focus should be organic growth, with M&A potentially helping.** Sonda is aiming to achieve its growth guidance, and could use support from M&A, especially if it adds: (1) new capabilities; (2) time-to-market; (3) scale in countries where Sonda is small. The main countries for potential M&A are Colombia, Mexico and Peru, in our view. Also, the company is looking into M&A in some global technology hub, as well as potentially looking into opportunities outside LatAm.
- Public cloud not seen as a threat, but opportunity.** These services demand substantial management, which Sonda offers. Also, most clients adopt a hybrid approach, mixing public and private clouds, generating demand for Sonda.

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Underweight

SON.SN, SONDA CI

Price: Ch\$1,042.00

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LatAm TMT

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Table 1: Guidance for 2019-21

US\$, constant currency

	Market CAGR	Revenue CAGR	EBITDA CAGR	Margin 2021	Capex US\$m
Chile	n.a.	7%	8%	15%	n.a.
ex-Retail	7.2%	8%	8%	24%	n.a.
Brazil	6.6%	12%	61%	18%	n.a.
Mexico	6.2%	17%	46%	15%	n.a.
OPLA	n.a.	15%	n.a.	18%	n.a.
Colombia	8.6%	12%	31%	17%	n.a.
Consolidated	n.a.	11%	24%	16%	360

Source: Company reports and J.P. Morgan estimates.

Table 2: Details of key countries

	Market (US\$bn)	Datacenters	Employees	Clients
Chile	4.5	2	2,200+	700+
Brazil	31.4	3	9,000	720+
Mexico	14.2		1,400	250+
Colombia	5.5	1	2,000	270+

Source: Company reports and J.P. Morgan estimates.

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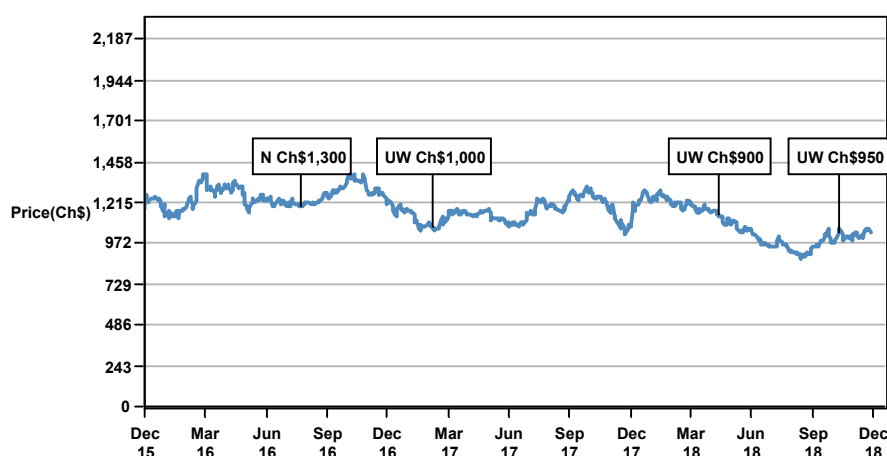
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Sonda (SON.SN, SONDA CI) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jan 21, 2014.

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