

Capita PLC

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Jefferies upgrades Capita to 'Buy' as it sees potential in software division following cut in full-year guidance

Analysts at broker Jefferies have upgraded Capita PLC (LON:CPI) to 'Buy' from 'Hold', saying there was a positive outlook for the firm's software division after the firm cut its full-year guidance in its half-year results.

The broker said that despite the fact that the FTSE 250 outsourcer's lowering of expected full-year profits had "removed investor euphoria", the group's software division had "attractive [free cash flow] characteristics...recently won a contract in India [and] can grow overseas".

READ: Capita lowers profit guidance and warns turnaround plan will take time They added that the firm's 10%+ underlying earnings (EBITDA) margin target for the end of the 2020 financial year "is conservatively struck" and could potentially move toward the "11% figure reported in [the 2017 financial year]".

"This is ahead of management's 10%+ target and our 10.5% forecast but consistent with the CEO's comment in April 2018 that "a leaner business should generate a margin similar to the past," the broker said.

Jefferies also cut its target price for Capita to 180p from 200p, saying that despite the positive outlook for the software division, they were still "cautious regarding the outlook for outsourcing turnover as attrition is likely to remain elevated (especially with local government) and we suspect the bid pipeline is mostly re-tenders where incumbent providers should have a 90% win rate".

In its half-year results on 1 August, Capita said it expected underlying profits to be between £250m-£275m for the full-year, compared to the £270m-£300m it estimated earlier in the year, while also reporting a 59% drop in underlying pre-tax profit to £80.5m for the six months ended June 30.

In mid-morning trading Thursday, Capita's shares were up 3.9% at 133.3p.

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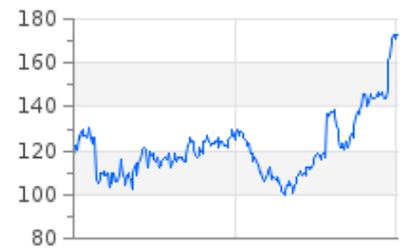
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Price: 172.95

Market Cap: £2.89 billion

1 Year Share Price Graph



October 2018 April 2019 October 2019

Share Information

Code: CPI

Listing: LSE

52 week High Low
179 98.66

Sector: Business & education services

Website: www.capita.co.uk

Company Synopsis:

Capita is the UK's leading business process outsourcing (BPO) and professional services company, offering back office administration and front office customer contact services to private and public sector organisations across the UK and Ireland.

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