



Keyware

Smart Cards-Security / Belgium



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Terminals positioning for recovery, Software already a strong contributor

Earnings/sales releases - 05/12/2017

■ Fact

Keyware released its Q3 17 results, with revenues reaching €4,763k, corresponding to 19.4% growth yoy. Terminals came in at €2,019k (-7% yoy), Authorisations at €2,136k (+17.5% yoy), while the recently created Software business unit came in at €608k, benefiting from a change in the consolidation perimeter.

The gross profit margin reached 53.1%, down 310bp yoy, and the operating margin came in at 5.3%, down 1030bp yoy. Profit before tax came in at €496k, leading to a net result of €328k. No results from associated companies were recorded during the quarter, as EasyOrder and Magellan are now fully consolidated.

■ Analysis

Terminals' revenues stabilising, at the expense of profitability

H1 17 had been marked by a strong negative trend in the Terminals business, down by over 15%. It is therefore a clear satisfaction to see that the revenues have been showing signs of stabilisation during the quarter, especially as they are a precursor for additional revenues.

However, the product mix hasn't been favourable to margins, with a higher share of lower-end devices which has had a negative impact on the gross margin, down by 1060bp compared to the same quarter last year and clearly below the company's normative levels. Moreover, it looks like the installed base is showing little progress, partly due to the lacklustre performance in Germany, where growth is much below expectations, to say the least, and might trigger a change in strategy with more of a focus on the Software business.

As a consequence, although the top-line is showing a positive inflection, the situation remains fragile and the recovery is far from being over. The inflection in the German business will reduce the pressure on the bottom-line, but the real driver will be the company's ability to re-establish a more favourable product mix, while the comparative figures could prove demanding in Q4.

Authorisations back on track, Software taking flight

We were pleased to see that the Authorisations' business performance in Q2 was only an air pocket, and that the business is now back to growth despite a demanding basis of comparison (+75% in Q3 16!). Margins have also improved sequentially (and stable yoy), constituting a notable satisfaction given the competitive landscape, and reflecting the strategic choices made during the past few years.

The other notable point was the consolidation of EasyOrder and Magellan, which have given birth to a healthy Software business. We are pleased to see that despite some products remaining in their early stages, and despite initial high

AlphaValue is contracted by Keyware to provide equity research on Keyware, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

Buy	Upside: 42.4%
Target Price (6 months)	€ 2.16
Share Price	€ 1.52
Market Cap. €M	32.9
Price Momentum	STRONG
Extremes 12Months	1.10 ▶ 1.74
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

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PERF	1w	1m	3m	12m
Keyware	8.88%	10.1%	5.78%	-11.1%
IT Hardware	-2.78%	-4.85%	-8.85%	8.15%
STOXX 600	0.68%	-2.17%	3.55%	14.2%

Last updated: 08/09/2017	12/15A	12/16A	12/17E	12/18E
Adjusted P/E (x)	2.80	8.48	7.86	7.73
Dividend yield (%)	0.00	1.11	0.00	0.00
EV/EBITDA(R) (x)	3.95	6.54	6.94	5.97
Adjusted EPS (€)	0.30	0.21	0.19	0.20
Growth in EPS (%)	131	-28.2	-8.95	1.71
Dividend (€)	0.00	0.02	0.00	0.00
Sales (€th)	12,491	18,721	19,440	21,324
EBIT margin (%)	25.0	17.0	14.4	14.3
Attributable net profit (€th)	5,182	3,101	2,906	2,898
ROE (after tax) (%)	24.9	12.4	11.1	10.3
Gearing (%)	15.3	16.3	27.1	25.9

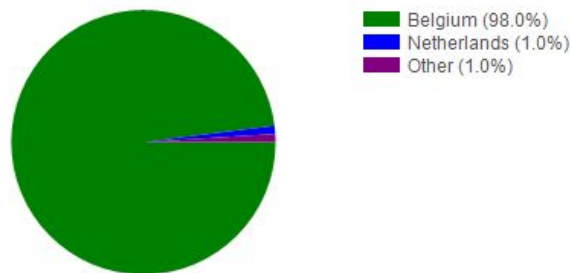
[Company Valuation](#) - [Company Financials](#)

D&A and start-up costs which weigh on profitability, the business is already accretive to earnings. In addition, the activity of Magellan is highly geared towards the year's end, which will allow the persisting difficulties in Terminals to be offset as it did during Q3: without the Software business, the gross margin would have come in at about 46%! The diversification is subsequently already paying off, and will deliver its full potential when the Terminals' recovery is further ahead in its cycle.

■ Impact

Moderate adjustments to our forecast. The consolidation of Magellan and EasyOrder will inflate our top-line expectations, but the already higher depreciations and amortisations run rate combined with the start-up costs will have a negative impact on profitability, although this will be partially offset by the effects of the share buy-back programme.

Sales by Geography



Consolidated P&L Accounts

		12/16A	12/17E	12/18E
Sales	€th	18,721	19,440	21,324
Change in sales	%	49.9	3.84	9.69
Change in staff costs	%	-4.64	32.9	1.99
EBITDA	€th	5,339	4,759	5,171
EBITDA(R) margin	%	28.5	24.5	24.3
Depreciation	€th	-268	-282	-309
Underlying operating profit	€th	5,071	4,477	4,862
Operating profit (EBIT)	€th	3,174	2,793	3,049
Net financial expense	€th	1,018	884	1,057
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			-750
Corporate tax	€th	-1,196	-1,000	-1,058
Equity associates	€th	105	230	600
Minority interests	€th			
Adjusted attributable net profit	€th	4,998	4,590	4,711
NOPAT	€th	3,655	3,364	4,003

Cashflow Statement

		12/16A	12/17E	12/18E
EBITDA	€th	5,339	4,759	5,171
Change in WCR	€th	-3,468	-2,040	-1,943
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	-1,000	-1,058
Exceptional items	€th			-750
Other operating cash flows	€th	-53.0		
Total operating cash flows	€th	1,818	1,718	1,420
Capital expenditure	€th	-311	-330	-363
Total investment flows	€th	-4,541	-10,181	-463
Net interest expense	€th	1,018	884	1,057
Dividends (parent company)	€th	-424	0.00	0.00
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	76.0	4,119	
Total financial flows	€th	2,787	8,518	-1,351
Change in cash position	€th	64.0	55.0	-393
Free cash flow (pre div.)	€th	2,525	2,271	2,115

Per Share Data

		12/16A	12/17E	12/18E
No. of shares net of treas. stock (year...	Th	21,212	21,637	21,637
Number of diluted shares (average)	Th	23,538	23,744	23,957
Benchmark EPS	€	0.21	0.19	0.20
Restated NAV per share	€			
Net dividend per share	€	0.02	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 1.84	35%	● Gemalto
NAV/SOTP per share	€ 2.28	20%	● Ingenico
EV/Ebitda	€ 3.04	20%	● Dassault Systemes
P/E	€ 3.04	10%	● Logitech International
Dividend Yield	€ 0.00	10%	
P/Book	€ 3.04	5%	
TARGET PRICE	€ 2.16	100%	

NAV/SOTP Calculation

Balance Sheet

		12/16A	12/17E	12/18E
Goodwill	€th	5,248	5,480	5,480
Total intangible	€th	5,398	6,289	6,208
Tangible fixed assets	€th	491	636	668
Financial fixed assets	€th	4,585	4,677	4,770
WCR	€th	19,236	21,276	23,219
Other assets	€th	2,056	1,994	1,934
Total assets (net of short term liab.)	€th	31,766	34,872	36,800
Ordinary shareholders' equity	€th	26,436	26,082	30,024
Quasi Equity & Preferred	€th			
Minority interests	€th			
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th			
Total provisions for risks and liabilities	€th	0.00	0.00	0.00
Tax liabilities	€th			
Other liabilities	€th			
Net debt (cash)	€th	5,330	8,790	6,775
Total liab. and shareholders' equity	€th	31,766	34,872	36,800

Capital Employed

		12/16A	12/17E	12/18E
Capital employed after depreciation	€th	29,710	32,878	34,865

Profits & Risks Ratios

		12/16A	12/17E	12/18E
ROE (after tax)	%	12.4	11.1	10.3
ROCE	%	12.3	10.2	11.5
Gearing (at book value)	%	16.3	27.1	25.9
Adj. Net debt/EBITDA(R)	x	1.00	1.85	1.31
Interest cover (x)	x	-4.98	-5.07	-4.60

Valuation Ratios

		12/16A	12/17E	12/18E
Reference P/E (benchmark)	x	8.48	7.86	7.73
Free cash flow yield	%	6.61	6.91	6.43
P/Book	x	1.44	1.26	1.10
Dividend yield	%	1.11	0.00	0.00

EV Calculation

		12/16A	12/17E	12/18E
Market cap	€th	38,172	32,888	32,888
+ Provisions	€th	0.00	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	5,330	8,790	6,775
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	8,585	8,677	8,770
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	34,917	33,001	30,893
EV/EBITDA(R)	x	6.54	6.94	5.97
EV/Sales	x	1.87	1.70	1.45

Analyst : Charles Bordes, Changes to Forecasts : 08/09/2017.