



Keyware

Smart Cards-Security / Belgium

Software continues to drive up the top-line

Earnings/sales releases - 30/08/2019

H1 resulted in another relapse in profitability, mainly related to the current transition phase. We actually believe that it is a matter of time before investments bear fruit at the bottom-line. The software division continued to show its potential, while the traditional activities slowed down.

Fact

Key H1 financial highlights

- Revenue down by -6.3% to €9,131m
- Gross profit came in at €5,752m, leading to a gross margin of 60.9% (+190bp yoy)
- EBITDA decreased by 22% to €1,525m, as a result of lower gross profit, as well as higher personnel and start-up (software) costs
- Profit before tax amounted to €542m (-18% yoy)
- Net profit up by +35% to €438m

Analysis

The figures confirm, once again, that the group's decision to become a software provider was the right thing to do. The H1 sales growth was only attributable to the Software division (+11.7% yoy to €1,477m), offsetting by the traditional segments which were more challenging.

The terminals business finished the half year with a decrease in absolute figures. The division's revenues were down by 13% to €3,517m, a substantial drop which follows already poor results in FY18. The reasons remain the same: a smaller number of contracts signed and an unfavourable product mix with cheaper terminals. Unfortunately for Keyware, these headwinds are likely to persist. It reflects the decreasing numbers of traditional retailers as they have been threaten by the growing numbers of online competitors.

For the first time, the authorisations division bore the cost of the terminal's underperformance. The division saw lower commissions and a decreasing number of contracts that generate authorisation income. The segment's sales were down by 5.5% to €4,137m.

While these traditional activities continue to be the company's bread and butter, the development in software is a major step into further diversification from terminals. The division's performance in H1 was actually mainly pushed up by EasyOrder. Keep in mind that this investment, as well as S-Token and Split, are at the beginning of the product life cycle, with significant potential for the coming years. However, the impact on the bottom-line remains uncertain in the short term, but being present in this type of market is today a necessity.

Impact

No major impact on our expectations for the moment, but we will keep a close eye on the software activities. We are confident that the investment to become a fintech specialist will continue to inflate the top-line. A return to profitability is expected in the medium term.



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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: 104%

Target Price (6 months)	€ 2.03
Share Price	€ 1.00
Market Cap. €M	22.4
Price Momentum	STRONG
Extremes 12Months	0.79 ▶ 1.25
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

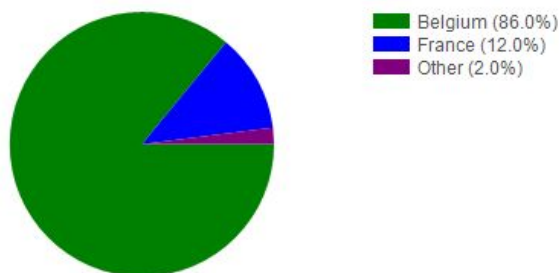

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PERF	1w	1m	3m	12m
Keyware	6.42%	3.11%	0.51%	-10.9%
IT Hardware	-2.28%	-8.96%	-6.06%	-6.11%
STOXX 600	0.65%	-2.17%	1.68%	-2.55%

Last updated: 04/07/2019	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	13.0	9.52	9.10	8.73
Dividend yield (%)	2.44	3.02	3.02	3.02
EV/EBITDA(R) (x)	7.60	5.63	5.10	4.59
Adjusted EPS (€)	0.09	0.10	0.11	0.11
Growth in EPS (%)	-26.6	10.5	4.64	4.18
Dividend (€)	0.03	0.03	0.03	0.03
Sales (€th)	19,635	20,597	21,421	22,827
EBIT margin (%)	1.34	1.53	2.01	2.55
Attributable net profit (€th)	626	951	965	1,072
ROE (after tax) (%)	2.28	3.38	3.23	3.32
Gearing (%)	18.6	12.0	7.29	3.00

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

Sales by Geography



Consolidated P&L Accounts

	12/18A	12/19E	12/20E
Sales	€th 19,635	20,597	21,421
Change in sales	% 4.83	4.90	4.00
Change in staff costs	% 18.2	5.14	0.00
EBITDA	€th 4,171	4,496	4,723
EBITDA(R) margin	% 21.2	21.8	22.0
Depreciation	€th -1,465	-1,380	-1,392
Underlying operating profit	€th 2,706	3,116	3,331
Operating profit (EBIT)	€th 1,109	1,616	1,731
Net financial expense	€th -178	-257	-352
of which related to pensions	€th	-3.58	-5.26
Exceptional items & other	€th		
Corporate tax	€th -305	-408	-414
Equity associates	€th 0.00		
Minority interests	€th		
Adjusted attributable net profit	€th 2,223	2,451	2,565
NOPAT	€th 1,894	2,184	2,335

Cashflow Statement

	12/18A	12/19E	12/20E
EBITDA	€th 4,171	4,496	4,723
Change in WCR	€th 1,100	-803	-903
Actual div. received from equity holdi...	€th 0.00	0.00	0.00
Paid taxes	€th 0.00	-408	-414
Exceptional items	€th		
Other operating cash flows	€th -261	-200	-150
Total operating cash flows	€th 5,010	3,085	3,256
Capital expenditure	€th -1,198	-618	-643
Total investment flows	€th -1,204	-618	-643
Net interest expense	€th -178	-257	-352
Dividends (parent company)	€th -659	-659	-659
Dividends to minorities interests	€th 0.00	0.00	0.00
New shareholders' equity	€th 192	-400	-400
Total financial flows	€th -3,789	-3,832	-2,143
Change in cash position	€th 17.0	-1,365	471
Free cash flow (pre div.)	€th 3,634	2,211	2,261

Per Share Data

	12/18A	12/19E	12/20E
No. of shares net of treas. stock (year...	Th 22,544	22,543	22,543
Number of diluted shares (average)	Th 23,499	23,453	23,453
Benchmark EPS	€ 0.09	0.10	0.11
Restated NAV per share	€		
Net dividend per share	€ 0.03	0.03	0.03

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.23	35%	■ Ingenico
NAV/SOTP per share	€ 1.98	20%	■ Amadeus IT Group
EV/Ebitda	€ 1.99	20%	■ EdenRed
P/E	€ 1.99	10%	
Dividend Yield	€ 1.55	10%	
P/Book	€ 1.99	5%	
TARGET PRICE	€ 2.03	100%	

NAV/SOTP Calculation

Balance Sheet

	12/18A	12/19E	12/20E
Goodwill	€th 7,993	8,393	8,435
Total intangible	€th 14,325	15,041	15,116
Tangible fixed assets	€th 2,050	2,153	2,260
Financial fixed assets	€th 156	150	150
WCR	€th 16,390	17,193	18,096
Other assets	€th 2,889	1,000	1,000
Total assets (net of short term liab.)	€th 35,810	35,536	36,623
Ordinary shareholders' equity	€th 27,592	28,625	31,069
Quasi Equity & Preferred	€th		
Minority interests	€th		
Provisions for pensions	€th	147	157
Other provisions for risks and liabilities	€th 138		
Total provisions for risks and liabilities	€th 138	147	157
Tax liabilities	€th 4,057	3,897	3,737
Other liabilities	€th		
Net debt (cash)	€th 4,023	2,868	1,660
Total liab. and shareholders' equity	€th 35,810	35,536	36,623

Capital Employed

	12/18A	12/19E	12/20E
Capital employed after depreciation	€th 32,921	34,536	35,623

Profits & Risks Ratios

	12/18A	12/19E	12/20E
ROE (after tax)	% 2.28	3.38	3.23
ROCE	% 5.75	6.32	6.56
Gearing (at book value)	% 18.6	12.0	7.29
Adj. Net debt/EBITDA(R)	x 0.96	0.64	0.35
Interest cover (x)	x 15.2	12.3	9.61

Valuation Ratios

	12/18A	12/19E	12/20E
Reference P/E (benchmark)	x 13.0	9.52	9.10
Free cash flow yield	% 13.1	9.86	10.1
P/Book	x 1.00	0.78	0.72
Dividend yield	% 2.44	3.02	3.02

EV Calculation

	12/18A	12/19E	12/20E
Market cap	€th 27,682	22,430	22,430
+ Provisions	€th 138	147	157
+ Unrecognised actuarial losses/(gains)	€th 0.00	0.00	0.00
+ Net debt at year end	€th 4,023	2,868	1,660
+ Leases debt equivalent	€th 0.00	0.00	0.00
- Financial fixed assets (fair value)	€th 156	150	150
+ Minority interests (fair value)	€th 0.00	0.00	0.00
= EV	€th 31,687	25,295	24,097
EV/EBITDA(R)	x 7.60	5.63	5.10
EV/Sales	x 1.61	1.23	1.12

Analyst : Laura Parisot, Changes to Forecasts : 04/07/2019.