



# Keyware

Smart Cards-Security / Belgium

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## From hardware to software

15/10/2018

### Change in EPS

2018 : € 0.18 vs 0.18	-0.63%
2019 : € 0.20 vs 0.22	-8.20%

We have upgraded our earnings forecast for FY18 due to the transition phase going well. Although the results have been affected by higher exceptional charges (significant terminal obsolescences and payment defaults by customers) in H1 18, we expect growth in operating profitability for the full FY18.

### Change in DCF

€ 2.17 vs 1.51	+43.9%
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Our DCF valuation is supported by the increase in our forecasts in the medium to long term. Indeed, we believe that the strategy to become more of a software group will be profitable. The company, currently in the middle of its transition phase, is facing significant costs linked to its two recent acquisitions (Magellan and EasyOrder) but we expect that this will be largely compensated by the software sales growth in the following years.



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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 : 71.4%

Target Price (6 months)	€ 1.98
Share Price	€ 1.16
Market Cap. €M	24.4
Price Momentum	<b>UNFAVORABLE</b>
Extremes 12Months	1.02 ▶ 1.60
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

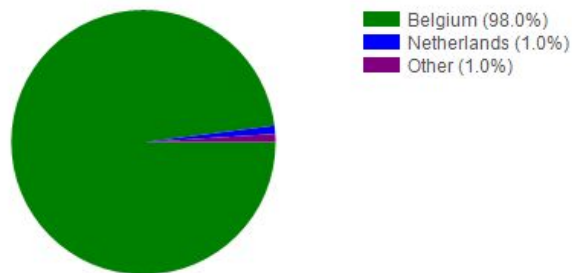

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PERF	1w	1m	3m	12m
Keyware	-0.43%	-0.46%	8.68%	-15.1%
IT Hardware	-4.57%	-2.84%	-4.38%	16.3%
SXXR Index	-4.59%	-4.69%	-6.19%	-5.43%

Last updated: 15/10/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	8.15	10.9	6.39	5.83
Dividend yield (%)	1.16	0.00	0.00	0.00
EV/EBITDA(R) (x)	5.11	7.01	3.70	3.70
Adjusted EPS (€)	0.21	0.13	0.18	0.20
Growth in EPS (%)	-28.2	-38.8	38.9	9.61
Dividend (€)	0.02	0.00	0.00	0.00
Sales (€th)	18,721	18,730	20,227	21,474
EBIT margin (%)	17.0	6.10	7.85	11.3
Attributable net profit (€th)	3,101	1,174	1,729	2,431
ROE (after tax) (%)	12.4	4.36	5.66	6.84
Gearing (%)	16.3	21.1	14.7	6.80

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## Sales by Geography



## Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€th	18,730	20,227	21,474
Change in sales	%	0.05	7.99	6.17
Change in staff costs	%	32.9	45.7	6.82
EBITDA	€th	5,097	7,178	6,553
<b>EBITDA(R) margin</b>	<b>%</b>	<b>27.2</b>	<b>35.5</b>	<b>30.5</b>
Depreciation	€th	-919	-2,023	-966
Underlying operating profit	€th	4,178	5,156	5,587
<b>Operating profit (EBIT)</b>	<b>€th</b>	<b>2,319</b>	<b>2,800</b>	<b>3,640</b>
Net financial expense	€th	-269	-329	-167
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	-854	-741	-1,042
Equity associates	€th	-22.0		
Minority interests	€th			
<b>Adjusted attributable net profit</b>	<b>€th</b>	<b>3,033</b>	<b>4,085</b>	<b>4,378</b>
NOPAT	€th	2,903	3,609	3,911

## Cashflow Statement

		12/17A	12/18E	12/19E
EBITDA	€th	5,097	7,178	6,553
Change in WCR	€th	-1,850	-2,000	-1,811
Actual div. received from equity holdi...	€th	400	0.00	0.00
Paid taxes	€th	0.00	-741	-1,042
Exceptional items	€th			
Other operating cash flows	€th	-230	-142	-186
Total operating cash flows	€th	3,417	4,296	3,514
Capital expenditure	€th	-696	-324	-644
Total investment flows	€th	-3,826	-324	-644
Net interest expense	€th	-269	-329	-167
Dividends (parent company)	€th	0.00	-659	-438
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	-174	-400	
Total financial flows	€th	3,144	-3,796	-4,665
Change in cash position	€th	2,735	176	-1,795
<b>Free cash flow (pre div.)</b>	<b>€th</b>	<b>2,452</b>	<b>3,643</b>	<b>2,703</b>

## Per Share Data

		12/17A	12/18E	12/19E
No. of shares net of treas. stock (year...	Th	20,804	19,793	19,793
Number of diluted shares (average)	Th	23,328	22,619	22,113
<b>Benchmark EPS</b>	<b>€</b>	<b>0.13</b>	<b>0.18</b>	<b>0.20</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.17	35%	■ Gemalto
NAV/SOTP per share	€ 2.18	20%	■ Ingenico
EV/Ebitda	€ 2.31	20%	
P/E	€ 2.07	10%	
Dividend Yield	€ 0.00	10%	
P/Book	€ 2.31	5%	
TARGET PRICE	€ 1.98	100%	

### NAV/SOTP Calculation

## Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€th	7,993	7,753	7,521
Total intangible	€th	14,672	14,232	13,805
Tangible fixed assets	€th	992	1,042	1,094
Financial fixed assets	€th	150		
WCR	€th	19,197	21,197	23,007
Other assets	€th	932	904	877
Total assets (net of short term liab.)	€th	35,943	37,374	38,783
<b>Ordinary shareholders' equity</b>	<b>€th</b>	<b>27,433</b>	<b>33,701</b>	<b>37,376</b>
Quasi Equity & Preferred	€th			
Minority interests	€th			
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th	230		
Total provisions for risks and liabilities	€th	230	0.00	0.00
Tax liabilities	€th	2,023		
Other liabilities	€th			
<b>Net debt (cash)</b>	<b>€th</b>	<b>6,257</b>	<b>3,673</b>	<b>1,407</b>
Total liab. and shareholders' equity	€th	35,943	37,374	38,783

## Capital Employed

		12/17A	12/18E	12/19E
Capital employed after depreciation	€th	35,011	36,470	37,906

## Profits & Risks Ratios

		12/17A	12/18E	12/19E
<b>ROE (after tax)</b>	<b>%</b>	<b>4.36</b>	<b>5.66</b>	<b>6.84</b>
ROCE	%	8.29	9.90	10.3
<b>Gearing (at book value)</b>	<b>%</b>	<b>21.1</b>	<b>14.7</b>	<b>6.80</b>
Adj. Net debt/EBITDA(R)	x	1.23	0.51	0.21
Interest cover (x)	x	17.0	15.7	33.5

## Valuation Ratios

		12/17A	12/18E	12/19E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>10.9</b>	<b>6.39</b>	<b>5.83</b>
Free cash flow yield	%	8.35	15.9	11.8
P/Book	x	1.07	0.68	0.61
<b>Dividend yield</b>	<b>%</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## EV Calculation

		12/17A	12/18E	12/19E
Market cap	€th	29,369	22,861	22,861
+ Provisions	€th	230	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	6,257	3,673	1,407
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	150	0.00	0.00
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	35,706	26,534	24,268
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>7.01</b>	<b>3.70</b>	<b>3.70</b>
EV/Sales	x	1.91	1.31	1.13

Analyst : Laura Parisot, Changes to Forecasts : 15/10/2018.