



Keyware

Smart Cards-Security / Belgium

Still in transition

Earnings/sales releases - 15/03/2019

The FY18 results reflected the activity's significant transition during the year. While sales increased, profitability was negatively impacted by start-up costs. However, we believe that the worst is over. The next results should show improvements year on year.

Fact

FY18 key financials:

- Group sales up by +4.8% to €905k
- EBITDA decreased by 14.7% to €3,178k
- Profit before tax amounted €626k (-54.6% yoy)
- Group net profit was down by 46.7% to €626k
- Cash and cash equivalent reached €3,520k (+5.9% yoy)
- Net financial debt decreased by 35.8% from €6,226k to €33,998k

Analysis

The increased sales during the year were largely attributable to the Software division, which contributed a full financial year in 2018, instead of only half a year in 2017 (+81.3% sales growth to €2,830k). The Revenues Authorisations division showed a +13.3% improvement in sales (€2,265k), offsetting the Revenues Payment Terminals division, which continued to be challenging (-15.2% to €5,880k).

The group's decision to change course from being a terminals' provider to a more fintech specialist, developing software for merchants and independents, is clearly bearing fruit. Over time, we expect that the Terminals division will no longer be the main revenue contributor, as demand continues to slow, and will be replaced by Software. The Authorisations division is still progressing and we expect that it will continue to do so. The number of transactions and their monetary value are increasing, directly benefiting the group.

On the profitability side, the company continued to face some difficulties. The EBITDA decrease (-14.7% yoy) is obviously due to the decreasing Terminals division but also to the Software division, which required significant investments in 2018. The integration of Magellan and EasyOrder (software) has pushed up costs, especially personnel charges and depreciations/amortisations, driving down the group's profit.

At first glance, Keyware's results can be negatively interpreted. Obviously, the company is currently meeting some problem areas, but these are actually due to the activity's significant transition. The group affirmed its intention to complete this transition phase in 2019. We believe that this may be slightly too ambitious, but there is no doubt that it is on the right track to reach its goals and return to profitability. The decreasing financial debt and the growing cash and cash equivalent are two important positive signs.

Impact

We will integrate the FY18 results and revise our forecast for the next three years. The Software division will continue to inflate our top-line expectations and we expect improvements in EBITDA, as the transition phase is starting to finish. The



Laura PARISOT

lthardware@alphavalue.eu

+33 (0) 1 70 61 10 50

cs.alphavalue.com

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: 102%

Target Price (6 months)	€ 2.01
Share Price	€ 1.00
Market Cap. €M	20.1
Price Momentum	GOOD
Extremes 12Months	0.79 ▶ 1.49
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

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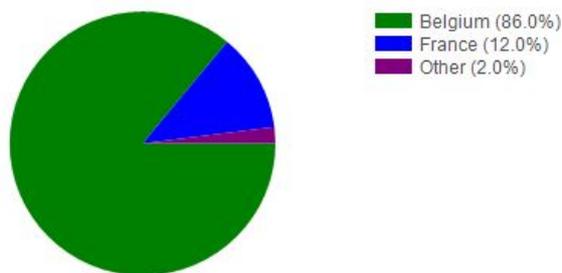
PERF	1w	1m	3m	12m
Keyware	-0.40%	-3.30%	1.63%	-33.4%
IT Hardware	2.63%	4.36%	6.55%	30.2%
STOXX 600	1.24%	4.34%	9.02%	0.95%

Last updated:	12/11/2018	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x)		11.3	8.93	6.06	5.99
Dividend yield (%)		2.13	2.44	3.01	3.01
EV/EBITDA(R) (x)		7.01	5.43	3.63	3.40
Adjusted EPS (€)		0.13	0.14	0.16	0.17
Growth in EPS (%)		-41.0	9.64	19.5	1.23
Dividend (€)		0.03	0.03	0.03	0.03
Sales (€th)		18,730	20,598	21,719	22,439
EBIT margin (%)		6.10	8.12	11.3	13.8
Attributable net profit (€th)		1,174	940	1,484	1,960
ROE (after tax) (%)		4.36	3.25	4.63	5.59
Gearing (%)		21.1	19.3	13.6	7.67

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

worst is now behind the group and a return to profitability is expected in the medium term.

Sales by Geography



Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€th	18,730	20,598	21,719
Change in sales	%	0.05	9.97	5.44
Change in staff costs	%	32.9	45.7	6.82
EBITDA	€th	5,097	5,470	6,008
EBITDA(R) margin	%	27.2	26.6	27.7
Depreciation	€th	-919	-1,442	-1,455
Underlying operating profit	€th	4,178	4,028	4,553
Operating profit (EBIT)	€th	2,319	1,672	2,453
Net financial expense	€th	-269	-329	-334
of which related to pensions	€th		0.00	-3.58
Exceptional items & other	€th			
Corporate tax	€th	-854	-403	-636
Equity associates	€th	-22.0		
Minority interests	€th			
Adjusted attributable net profit	€th	3,033	3,296	3,584
NOPAT	€th	2,903	2,820	3,190

Cashflow Statement

		12/17A	12/18E	12/19E
EBITDA	€th	5,097	5,470	6,008
Change in WCR	€th	-1,850	-2,389	-1,685
Actual div. received from equity holdi...	€th	400	0.00	0.00
Paid taxes	€th	0.00	-403	-636
Exceptional items	€th			
Other operating cash flows	€th	-230	-142	-186
Total operating cash flows	€th	3,417	2,537	3,502
Capital expenditure	€th	-696	-371	-434
Total investment flows	€th	-3,826	-371	-434
Net interest expense	€th	-269	-329	-334
Dividends (parent company)	€th	0.00	-659	-358
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	-174	-400	-600
Total financial flows	€th	3,144	-3,796	-5,349
Change in cash position	€th	2,735	-1,630	-2,281
Free cash flow (pre div.)	€th	2,452	1,837	2,734

Per Share Data

		12/17A	12/18E	12/19E
No. of shares net of treas. stock (year...	Th	20,804	19,785	18,210
Number of diluted shares (average)	Th	24,193	23,980	21,818
Benchmark EPS	€	0.13	0.14	0.16
Restated NAV per share	€			
Net dividend per share	€	0.03	0.03	0.03

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.25	35%	■ Ingenico
NAV/SOTP per share	€ 2.07	20%	
EV/Ebitda	€ 1.99	20%	
P/E	€ 1.72	10%	
Dividend Yield	€ 1.41	10%	
P/Book	€ 1.99	5%	
TARGET PRICE	€ 2.01	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	150	150
WCR	€th	19,197	21,586	23,271
Other assets	€th	932	904	877
Total assets (net of short term liab.)	€th	35,943	37,913	39,196
Ordinary shareholders' equity	€th	27,433	30,471	33,655
Quasi Equity & Preferred	€th			
Minority interests	€th			
Provisions for pensions	€th		100	138
Other provisions for risks and liabilities	€th	230		
Total provisions for risks and liabilities	€th	230	100	138
Tax liabilities	€th	2,023	1,863	1,703
Other liabilities	€th			
Net debt (cash)	€th	6,257	5,479	3,700
Total liab. and shareholders' equity	€th	35,943	37,913	39,196

Capital Employed

		12/17A	12/18E	12/19E
Capital employed after depreciation	€th	35,011	37,009	38,319

Profits & Risks Ratios

		12/17A	12/18E	12/19E
ROE (after tax)	%	4.36	3.25	4.63
ROCE	%	8.29	7.62	8.32
Gearing (at book value)	%	21.1	19.3	13.6
Adj. Net debt/EBITDA(R)	x	1.23	1.00	0.62
Interest cover (x)	x	17.0	12.2	13.8

Valuation Ratios

		12/17A	12/18E	12/19E
Reference P/E (benchmark)	x	11.3	8.93	6.06
Free cash flow yield	%	8.35	7.56	15.1
P/Book	x	1.07	0.80	0.54
Dividend yield	%	2.13	2.44	3.01

EV Calculation

		12/17A	12/18E	12/19E
Market cap	€th	29,369	24,294	18,137
+ Provisions	€th	230	100	138
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	6,257	5,479	3,700
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	150	150	150
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	35,706	29,724	21,825
EV/EBITDA(R)	x	7.01	5.43	3.63
EV/Sales	x	1.91	1.44	1.00

Analyst : Laura Parisot, Changes to Forecasts : 12/11/2018.