



Keyware

Smart Cards-Security / Belgium

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Initiation of coverage.

Initiation cov. - 15/06/2016

Keyware, created in 1996 and listed since 2000, is an independent Network Service Provider operating almost entirely in Belgium, with a current market cap of €34m. The company provides payment terminals and associated services to merchants, as well as the implementation of various payment schemes through these terminals, thanks to partnerships with the main acquirers operating in the country (Paysquare, Sixpay, Worldline, EMS...).

Keyware can be considered as the tip of an iceberg, as it provides the entry point (namely the payment terminal) to a complex chain of players which constitutes, in the end, the ecosystem of the electronic transaction industry. The dynamism of this industry is a deep-rooted trend in the European Union and in particular Belgium (with the notable exception of Germany, which still favours cash transactions), as a certain number of factors are driving up the number of electronic transactions, such as the rise of new types of payment solutions (smartphones and NFC through electronic wallets like Apple Pay, or electronic meal vouchers), the dynamism of e-commerce (+14.3% in Europe in 2014), or the increasing restrictions on the use of cash in transactions as a way of fighting the shadow economy.

The company benefits from an increasing installed base of terminals (c. 17,000 at 31 December 2015, +13% organically vs. the previous year), which represents most of its revenues through its Terminals business line. However, this installed basis will be leveraged in the Authorisations business, which provides acquiring services to the merchants. Here we see the biggest potential for operating profit upside, given the transition from a shared revenues model to a brokering model, whereby the company buys the transaction from the acquirer at a floor price and sells it on to the customer at a discretionary price, thus leading to a substantial rise in revenues for the same number of transactions. The end of the transition is expected by the end of 2018.

In addition, the company will see a mechanical increase in the number of transactions through its increasing installed basis of terminals. The challenge lies in the success of its own acquiring services, which generate higher margins compared to external providers such as EMS or Worldline. The trend is very positive, with own acquiring rising from 16.5% in 2010 to 77.1% in 2015.

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 : 65.5%
Target Price (6 months)	€ 2.52
Share Price	€ 1.52
Market Capitalisation €M	32.0
Price Momentum	UNFAVORABLE
Extremes 12Months	0.72 ▶ 2.09
Newsflow	Neutral
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

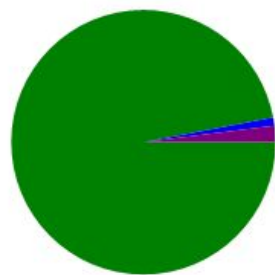
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PERF	1w	1m	3m	12m
Keyware	-16.5%	-18.8%	-21.9%	103%
IT Hardware	-4.58%	0.55%	-13.1%	-25.8%
STOXX 600	-7.43%	-4.23%	-7.00%	-17.7%

Last updated: 15/06/2016	12/14A	12/15A	12/16E	12/17E
Adjusted P/E (x)	5.12	2.80	6.99	5.85
Dividend yield (%)	0.00	0.00	1.32	1.32
EV/EBITDA(R) (x)	6.62	3.95	5.89	4.44
Adjusted EPS (€)	0.13	0.30	0.22	0.26
Growth in EPS (%)	18.9	131	-26.5	19.6
Dividend (€)	0.00	0.00	0.02	0.02
Sales (€th)	9,718	12,491	18,327	20,123
EBIT margin (%)	14.1	25.0	19.5	21.2
Attributable net profit (€th)	1,910	5,182	3,550	4,412
ROE (after tax) (%)	11.3	24.9	13.3	13.4
Gearing (%)	22.1	15.3	6.12	-4.55

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Sales by Geography



Belgium	(97.0%)
Netherlands	(1.0%)
Other	(2.0%)

Consolidated P&L Account

		12/15A	12/16E	12/17E
Sales	€th	12,491	18,327	20,123
Change in sales	%	28.5	46.7	9.80
Change in staff costs	%	2.03	3.45	5.13
EBITDA	€th	5,163	5,439	6,304
EBITDA(R) margin	%	41.3	29.7	31.3
Depreciation	€th	-251	-293	-322
Underlying operating profit	€th	4,912	5,146	5,982
Operating profit (EBIT)	€th	3,127	3,578	4,272
Net financial expense	€th	792	972	1,140
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	1,263	-1,000	-1,000
Equity associates	€th			
Minority interests	€th			
Adjusted attributable net profit	€th	6,967	5,118	6,122
NOPAT	€th	3,438	3,602	4,187

Cashflow Statement

		12/15A	12/16E	12/17E
EBITDA	€th	5,163	5,439	6,304
Change in WCR	€th	-5,042	-3,081	-2,591
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	-1,000	-1,000
Exceptional items	€th			
Other operating cash flows	€th	-1.00	1,100	1,100
Total operating cash flows	€th	120	2,458	3,813
Capital expenditure	€th	-380	-403	-443
Total investment flows	€th	-631	-503	-543
Net interest expense	€th	792	972	1,140
Dividends (parent company)	€th			-421
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	411		
Total financial flows	€th	577	-568	-474
Change in cash position	€th	66.1	1,387	2,796
Free cash flow (pre div.)	€th	532	3,027	4,510

Per Share Data

		12/15A	12/16E	12/17E
No. of shares net of treas. stock (year...	Th	21,064	21,064	21,064
Number of diluted shares (average)	Th	23,559	23,544	23,544
Benchmark EPS	€	0.30	0.22	0.26
Restated NAV per share	€			
Net dividend per share	€	0.00	0.02	0.02

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.35	35%	● Gemalto
NAV/SOTP per share	€ 2.43	20%	● Ingenico
EV/Ebitda	€ 2.98	20%	● Dassault Systemes
P/E	€ 3.04	10%	● Logitech International
Dividend Yield	€ 1.55	10%	
P/Book	€ 3.04	5%	
TARGET PRICE	€ 2.52	100%	

NAV/SOTP Calculation

Balance Sheet

		12/15A	12/16E	12/17E
Goodwill	€th	5,248	5,248	5,248
Total intangible	€th	5,448	5,428	5,410
Tangible fixed assets	€th	428	449	472
Financial fixed assets	€th	325	341	358
WCR	€th	17,693	20,774	23,365
Other assets	€th	3,066	2,974	2,885
Total assets (net of short term liab.)	€th	26,960	29,967	32,490
Ordinary shareholders' equity	€th	23,683	29,617	36,129
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	3,277	350	-3,639
Total liab. and shareholders' equity	€th	26,960	29,967	32,490

Capital Employed

		12/15A	12/16E	12/17E
Capital employed after depreciation	€th	23,894	26,993	29,605

Profits & Risks Ratios

		12/15A	12/16E	12/17E
ROE (after tax)	%	24.9	13.3	13.4
ROCE	%	14.4	13.3	14.1
Gearing (at book value)	%	15.3	6.12	-4.55
Adj. Net debt/EBITDA(R)	x	0.63	0.06	-0.58
Interest cover (x)	x	-6.20	-5.29	-5.25

Valuation Ratios

		12/15A	12/16E	12/17E
Reference P/E (benchmark)	x	2.80	6.99	5.85
Free cash flow yield	%	3.05	9.45	14.1
P/Book	x	0.74	1.08	0.89
Dividend yield	%	0.00	1.32	1.32

EV Calculation

		12/15A	12/16E	12/17E
Market cap	€th	17,430	32,017	32,017
+ 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	3,277	350	-3,639
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	325	341	358
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	20,382	32,026	28,020
EV/EBITDA(R)	x	3.95	5.89	4.44
EV/Sales	x	1.63	1.75	1.39

Analyst : Charles Bordes, Changes to Forecasts : 15/06/2016.