



Keyware

Smart Cards-Security / Belgium



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Authorisations somewhat offset terminals, better than expected cash generation

Earnings/sales releases - 24/11/2016

■ Fact

Keyware released its Q3 16 results, with revenues reaching €3,988k, corresponding to a 23.7% decrease sequentially but to a 10.1% growth yoy. Terminals came in at €2,170k (-16% yoy), and Authorisations at €1,818k (+75.3% yoy).

The gross margin reached 56.2%, up 200bp sequentially and down 900bp yoy on a comparable basis (i.e. due to the new Interchange Fee Regulation), and the operating margin at 15.6% (down 820bp yoy). Profit before taxes came in at €897k, for a net result of €532k, impacted by significant deferred tax charges.

The company announced on 30 September 2016 the acquisition of a 40% stake in Magellan SAS, for a total of €4m funded via shares (€1m) and debt (€3m). There is an option to acquire the remaining shares for a total of €6m between 1 January 2017 and 30 June 2018.

■ Analysis

Accelerating momentum

The positive momentum remains well established, as the top-line yoy growth doubled again for the second quarter in a row, crossing the symbolic double-digit mark. However, two trends can be identified.

First, the Terminals business showed again a major decrease after Q2 (although the slope is flattening), which could be considered as worrying if not for the impact of the GlobalPay deal last year, which inflated the 2015 figures: 2016 should therefore be considered as a transition year at the terminals level, especially as technical problems prevented some devices from being activated. This delay will mechanically benefit the coming quarters and should be incremented by the start of the German operations, which are likely to provide an important field of growth given the current low penetration of payment cards compared to the rest of the EU.


Second, we were rather positively surprised by the strength of the Authorisations business, which may allow the punctual relative weakness in terminals to be offset despite lower margins. The transition towards a brokering model (vs. the old kick-back model) is bearing fruit ahead of our estimates, which will lead to a major upgrade of our top-line estimates for this business unit.

Stronger cash flow generation and an acquisition

Another positive point in our view was the cash generation, which was much higher than our estimates. Despite a strong profitability, the recurring relative weakness of Keyware was its strong negative WCR variations (mostly due to the massive needs in trades & lease receivables), which negatively impacted the free cash flows, as well as the significant reduction in trade debts; it now appears that the company is managing its needs more efficiently, which is likely to lead to a

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| | |
|--------------------------|-----------------------|
| Buy | Upside : 70.7% |
| Target Price (6 months) | € 2.82 |
| Share Price | € 1.66 |
| Market Capitalisation €M | 34.9 |
| Price Momentum | UNFAVORABLE |
| Extremes 12Months | 1.19 ▶ 2.09 |
| Newsflow | Neutral |
| Bloomberg | KEYW BB Equity |
| Reuters | KEYW.BR |

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| PERF | 1w | 1m | 3m | 12m |
|-------------|--------|--------|--------|--------|
| Keyware | -9.02% | -12.3% | -11.4% | 36.6% |
| IT Hardware | 1.29% | -5.80% | -20.4% | -34.9% |
| STOXX 600 | 0.68% | -1.01% | -0.82% | -10.4% |

| Last updated: 24/11/2016 | 12/14A | 12/15A | 12/16E | 12/17E |
|-------------------------------|--------|--------|--------|--------|
| Adjusted P/E (x) | 5.12 | 2.80 | 7.92 | 5.88 |
| Dividend yield (%) | 0.00 | 0.00 | 1.21 | 1.21 |
| EV/EBITDA(R) (x) | 6.62 | 3.95 | 7.07 | 5.20 |
| Adjusted EPS (€) | 0.13 | 0.30 | 0.21 | 0.28 |
| Growth in EPS (%) | 18.9 | 131 | -29.4 | 34.7 |
| Dividend (€) | 0.00 | 0.00 | 0.02 | 0.02 |
| Sales (€th) | 9,718 | 12,491 | 18,192 | 21,190 |
| EBIT margin (%) | 14.1 | 25.0 | 18.3 | 20.1 |
| Attributable net profit (€th) | 1,910 | 5,182 | 3,464 | 4,929 |
| ROE (after tax) (%) | 11.3 | 24.9 | 14.1 | 17.3 |
| Gearing (%) | 22.1 | 15.3 | 16.4 | 11.1 |

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

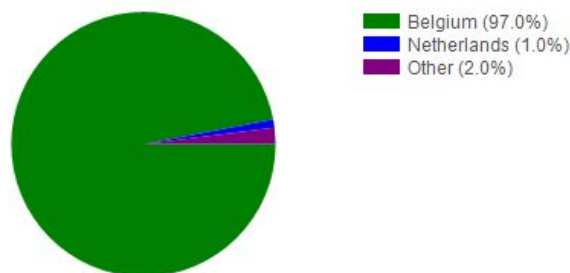
relative and absolute decrease and take off some of the pressure. In the end, in the first 9 months (dividend included), excluding the acquisition-related cash flows, Keyware was cash positive by more than €1.2m compared to a €600k loss at the same time last year.

Finally, the acquisition of Magellan can be considered as a bet on the future, but an already profitable one as the company is generating a profit. The acquisition will allow it to quickly expand the customer basis and is a continuation of the organic/external growth policy, while still allowing a dividend to be paid. In our view, we expect the company to buy the remaining stake, which is likely to lead to an increase in debt in the coming quarters, but the current growth and profitability leave a comfortable margin for further leverage in our view.

■ Impact

We will adjust our forecast to account for the lower Terminals sales but higher Authorisations revenues. The impact is likely to be negative on the EPS, as the margins are lower in Authorisations, but the much better than expected cash generation is actually likely to have a positive effect on the valuation.

Sales by Geography



Consolidated P&L Accounts

| | | 12/15A | 12/16E | 12/17E |
|---|------------|--------------|--------------|--------------|
| Sales | €th | 12,491 | 18,192 | 21,190 |
| Change in sales | % | 28.5 | 45.6 | 16.5 |
| Change in staff costs | % | 2.03 | 3.45 | 5.13 |
| EBITDA | €th | 5,163 | 5,035 | 6,246 |
| EBITDA(R) margin | % | 41.3 | 27.7 | 29.5 |
| Depreciation | €th | -251 | -255 | -297 |
| Underlying operating profit | €th | 4,912 | 4,780 | 5,949 |
| Operating profit (EBIT) | €th | 3,127 | 3,325 | 4,254 |
| Net financial expense | €th | 792 | 939 | 1,075 |
| 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 | | 200 | 600 |
| Minority interests | €th | | | |
| Adjusted attributable net profit | €th | 6,967 | 4,919 | 6,624 |
| NOPAT | €th | 3,438 | 3,546 | 4,764 |

Cashflow Statement

| | | 12/15A | 12/16E | 12/17E |
|---|------------|------------|--------------|--------------|
| EBITDA | €th | 5,163 | 5,035 | 6,246 |
| Change in WCR | €th | -5,042 | -2,874 | -3,331 |
| 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 | 1,000 | 1,000 |
| Total operating cash flows | €th | 120 | 2,160 | 2,915 |
| Capital expenditure | €th | -380 | -364 | -381 |
| Total investment flows | €th | -631 | -4,464 | -481 |
| Net interest expense | €th | 792 | 939 | 1,075 |
| Dividends (parent company) | €th | | -424 | -421 |
| Dividends to minorities interests | €th | 0.00 | 0.00 | 0.00 |
| New shareholders' equity | €th | 411 | 0.00 | |
| Total financial flows | €th | 577 | 2,521 | -941 |
| Change in cash position | €th | 66.1 | 217 | 1,493 |
| Free cash flow (pre div.) | €th | 532 | 2,735 | 3,609 |

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 | 0.21 | 0.28 |
| Restated NAV per share | € | | | |
| Net dividend per share | € | 0.00 | 0.02 | 0.02 |

Valuation Summary

| Benchmarks | Value | Weight | Largest comparables |
|--------------------|--------|--------|--------------------------|
| DCF | € 2.89 | 35% | ● Gemalto |
| NAV/SOTP per share | € 2.46 | 20% | ● Ingenico |
| EV/Ebitda | € 3.31 | 20% | ● Dassault Systemes |
| P/E | € 3.31 | 10% | ● Logitech International |
| Dividend Yield | € 1.65 | 10% | |
| P/Book | € 3.31 | 5% | |
| TARGET PRICE | € 2.82 | 100% | |

NAV/SOTP Calculation

Balance Sheet

| | | 12/15A | 12/16E | 12/17E |
|--|------------|---------------|---------------|---------------|
| Goodwill | €th | 5,248 | 5,834 | 5,834 |
| Total intangible | €th | 5,448 | 6,014 | 5,996 |
| Tangible fixed assets | €th | 428 | 552 | 580 |
| Financial fixed assets | €th | 325 | 341 | 358 |
| WCR | €th | 17,693 | 20,567 | 23,898 |
| Other assets | €th | 3,066 | 2,974 | 2,885 |
| Total assets (net of short term liab.) | €th | 26,960 | 30,449 | 33,717 |
| Ordinary shareholders' equity | €th | 23,683 | 25,383 | 31,739 |
| 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 | 5,066 | 1,978 |
| Total liab. and shareholders' equity | €th | 26,960 | 30,449 | 33,717 |

Capital Employed

| | | 12/15A | 12/16E | 12/17E |
|-------------------------------------|-----|--------|--------|--------|
| Capital employed after depreciation | €th | 23,894 | 27,475 | 30,832 |

Profits & Risks Ratios

| | | 12/15A | 12/16E | 12/17E |
|--------------------------------|----------|-------------|-------------|-------------|
| ROE (after tax) | % | 24.9 | 14.1 | 17.3 |
| ROCE | % | 14.4 | 12.9 | 15.5 |
| Gearing (at book value) | % | 15.3 | 16.4 | 11.1 |
| Adj. Net debt/EBITDA(R) | x | 0.63 | 1.01 | 0.32 |
| Interest cover (x) | x | -6.20 | -5.09 | -5.53 |

Valuation Ratios

| | | 12/15A | 12/16E | 12/17E |
|----------------------------------|----------|-------------|-------------|-------------|
| Reference P/E (benchmark) | x | 2.80 | 7.92 | 5.88 |
| Free cash flow yield | % | 3.05 | 7.85 | 10.4 |
| P/Book | x | 0.74 | 1.37 | 1.10 |
| Dividend yield | % | 0.00 | 1.21 | 1.21 |

EV Calculation

| | | 12/15A | 12/16E | 12/17E |
|---|----------|-------------|-------------|-------------|
| Market cap | €th | 17,430 | 34,861 | 34,861 |
| + 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 | 5,066 | 1,978 |
| + Leases debt equivalent | €th | 0.00 | 0.00 | 0.00 |
| - Financial fixed assets (fair value) | €th | 325 | 4,341 | 4,358 |
| + Minority interests (fair value) | €th | 0.00 | 0.00 | 0.00 |
| = EV | €th | 20,382 | 35,585 | 32,480 |
| EV/EBITDA(R) | x | 3.95 | 7.07 | 5.20 |
| EV/Sales | x | 1.63 | 1.96 | 1.53 |

Analyst : Charles Bordes, Changes to Forecasts : 24/11/2016.