



Keyware

Smart Cards-Security / Belgium



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Solid H1 despite a relative weakness in Terminals

Earnings/sales releases - 05/09/2016

Fact

Keyware released its Q2 16 results, with revenues reaching €5,230k, corresponding to 30.1% growth sequentially and 5.1% yoy. Terminals came in at €2,567k (-11.1% sequentially, -21.7% yoy), and Authorisations at €2,663k (+135.2% sequentially, +56.9% yoy).

Gross margin reached 54.2%, down 90bp on a comparable basis (i.e. due to the new Interchange Fee Regulation), and operating margin 20% (down 90bp yoy). Profit before taxes came in at €1,297k, for a net result of €1,116k.

The company also announced that it would distribute a dividend for the first time, for a total amount of €424k, corresponding to €0.02 per share. The dividend was paid on 24 August.

Analysis

The first half-year has been dynamic for Keyware, and showed an acceleration in growth weighted in Q2 (+5.1% yoy after the +2.6% recorded in Q1 16), which is very positive when it comes to the rest of the year.

The only annoying area lies in the Terminals business, which displayed some decrease both sequentially (-11.1%) and yoy (-21.7%) in the second quarter, when it had shown modest growth in Q1 16, leading to a negative H1 16 versus H1 15. It is true that the point of comparison was rather high, given the very strong Q2 15 caused by the GlobalPay asset deal (which led to a high number of contracts being signed), but the evolution of the business should be monitored carefully during H2 as it is the company's bread and butter. However, we are rather pleased to see that, despite the deceleration, the company managed to increase the division's gross margin by a substantial amount (+670bp sequentially, +1,030bp yoy).

On the other hand, the company delivered a rock solid performance in Authorisations, with massive growth and profitability. It is clear that the company's strategy (transition to a brokering model) is starting to pay off, as it benefited from an increase in kickbacks, but we are positively surprised to see that it delivered much sooner than we expected, although this good performance needs to be repeated in the coming quarters.

In the end, the impact on the bottom-line is pleasing, thanks to the control on costs. Despite the overall stable EBIT margin, the improvement is massive in the Authorisation business, with an over 1,000bp improvement both sequentially and yoy. Anyway, these metrics bode well for the future, a confidence reinforced by the payment of the first dividend ever, which clearly indicates that the management is very positive for the business's evolution.

Impact

We will upgrade our top-line estimates, although the decrease in the Terminals

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 : 51.5%
Target Price (6 months)	€ 2.94
Share Price	€ 1.94
Market Capitalisation €M	40.8
Price Momentum	STRONG
Extremes 12Months	0.73 ▶ 2.09
Newsflow	Positive
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

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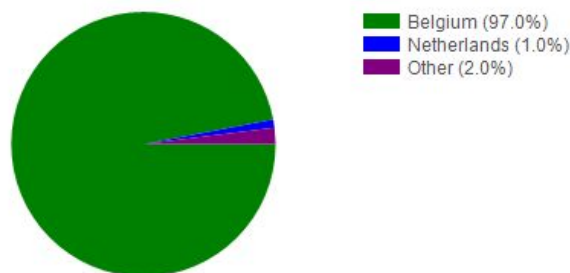
PERF	1w	1m	3m	12m
Keyware	2.59%	13.9%	7.67%	129%
IT Hardware	-0.75%	1.87%	2.94%	-8.36%
STOXX 600	2.16%	2.71%	2.73%	-0.71%

Last updated: 06/09/2016	12/14A	12/15A	12/16E	12/17E
Adjusted P/E (x)	5.12	2.80	8.41	7.14
Dividend yield (%)	0.00	0.00	1.03	1.03
EV/EBITDA(R) (x)	6.62	3.95	7.49	6.19
Adjusted EPS (€)	0.13	0.30	0.23	0.27
Growth in EPS (%)	18.9	131	-22.1	17.9
Dividend (€)	0.00	0.00	0.02	0.02
Sales (€th)	9,718	12,491	20,053	21,887
EBIT margin (%)	14.1	25.0	18.5	20.0
Attributable net profit (€th)	1,910	5,182	3,677	4,510
ROE (after tax) (%)	11.3	24.9	13.9	14.1
Gearing (%)	22.1	15.3	9.97	4.18

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

business is somewhat worrying and should be looked at closely, as it is the cornerstone of the company's business.

Sales by Geography



Consolidated P&L Account

		12/15A	12/16E	12/17E
Sales	€th	12,491	20,053	21,887
Change in sales	%	28.5	60.5	9.15
Change in staff costs	%	2.03	3.45	5.13
EBITDA	€th	5,163	5,744	6,603
EBITDA(R) margin	%	41.3	28.6	30.2
Depreciation	€th	-251	-293	-350
Underlying operating profit	€th	4,912	5,451	6,252
Operating profit (EBIT)	€th	3,127	3,705	4,370
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	5,423	6,392
NOPAT	€th	3,438	3,816	4,377

Cashflow Statement

		12/15A	12/16E	12/17E
EBITDA	€th	5,163	5,744	6,603
Change in WCR	€th	-5,042	-4,811	-3,579
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	800	
Total operating cash flows	€th	120	734	2,024
Capital expenditure	€th	-380	-441	-482
Total investment flows	€th	-631	-541	-582
Net interest expense	€th	792	972	1,140
Dividends (parent company)	€th		-424	-421
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	411		
Total financial flows	€th	577	-992	-474
Change in cash position	€th	66.1	-799	968
Free cash flow (pre div.)	€th	532	1,265	2,682

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	0.23	0.27
Restated NAV per share	€			
Net dividend per share	€	0.00	0.02	0.02

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.56	35%	● Gemalto
NAV/SOTP per share	€ 2.48	20%	● Ingenico
EV/Ebitda	€ 3.88	20%	● Dassault Systemes
P/E	€ 3.88	10%	● Logitech International
Dividend Yield	€ 1.85	10%	
P/Book	€ 3.88	5%	
TARGET PRICE	€ 2.94	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	22,504	26,082
Other assets	€th	3,066	2,974	2,885
Total assets (net of short term liab.)	€th	26,960	31,696	35,207
Ordinary shareholders' equity	€th	23,683	29,160	34,832
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	2,536	375
Total liab. and shareholders' equity	€th	26,960	31,696	35,207

Capital Employed

		12/15A	12/16E	12/17E
Capital employed after depreciation	€th	23,894	28,722	32,323

Profits & Risks Ratios

		12/15A	12/16E	12/17E
ROE (after tax)	%	24.9	13.9	14.1
ROCE	%	14.4	13.3	13.5
Gearing (at book value)	%	15.3	9.97	4.18
Adj. Net debt/EBITDA(R)	x	0.63	0.44	0.06
Interest cover (x)	x	-6.20	-5.61	-5.48

Valuation Ratios

		12/15A	12/16E	12/17E
Reference P/E (benchmark)	x	2.80	8.41	7.14
Free cash flow yield	%	3.05	3.10	6.57
P/Book	x	0.74	1.40	1.17
Dividend yield	%	0.00	1.03	1.03

EV Calculation

		12/15A	12/16E	12/17E
Market cap	€th	17,430	40,822	40,822
+ 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	2,536	375
+ 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	43,017	40,839
EV/EBITDA(R)	x	3.95	7.49	6.19
EV/Sales	x	1.63	2.15	1.87

Analyst : Charles Bordes, Changes to Forecasts : 06/09/2016.